



HSIL Limited
Q1 FY2022 Earnings Webinar

July 30, 2021



MANAGEMENT: **MR. R.B. KABRA - PRESIDENT AND CEO, BUILDING PRODUCTS**
MR. RAJESH KHOSLA - PRESIDENT AND CEO, AGI GLASPAC AND GARDEN
POLYMER
MR. OM PRAKASH PANDEY - CHIEF FINANCIAL OFFICER
MR. SANDEEP SIKKA – GROUP CHIEF FINANCIAL OFFICER

ANALYST: **MR. AMIT ZADE – ANTIQUE STOCK BROKING LIMITED**

Moderator:

Ladies and gentlemen, good day and welcome to HSIL Limited's Q1 FY22 Earnings Webinar. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need any assistance, please use the 'raise hand' option on your screen. Please note that this webinar is being recorded.

Joining us today on the webinar from management, are:

- Mr. R.B Kabra - President and CEO of Building Products
- Mr. Rajesh Khosla, President and CEO of AGI Glaspac and Garden Polymer
- Mr. OP Pandey, CFO and
- Mr. Sandeep Sikka, Group CFO

Before we begin, I would like to remind all participants that some of the statements made on today's call may be forward-looking in nature. For more details, please refer to the company's Earnings Presentation.

I would like to hand over the call to Mr. OP Pandey for his opening remarks. Post that we can open the floor for Q&A session. Over to you Pandey Ji.

OP Pandey:

Good evening everyone and welcome to the Q1 FY22 Earning Webinar of HSIL limited. I hope you and your family members are safe during the second wave of the pandemic.

We have already circulated our Earnings Presentation, which is available on our website, as well as on the stock exchange websites. I hope you have had the opportunity to go through the presentation and we would be happy to take any questions afterwards.

We will begin this call by providing you details of company's financial performance. And then I will hand over the call to Mr. Khosla and Mr. Kabra to share the details of the business divisions performance.

Quarter 1 of the fiscal year began on a mixed note. As Q1 of last year was severely impacted and washed out by the first wave of COVID-19, a sharp recovery is now visible on year-on-year basis across all the major metrics. However, with the advent of the second wave of COVID-19 during the quarter, sequential growth was impacted.

Among these conditions, I am pleased to report company deliver Total Income of Rs. 420 crores in the first quarter, a growth of 64% on year-on-year basis. Year-on-Year revenue growth was driven by higher volumes, improved realisations and a better product mix. We saw a significant recovery in demand for glass containers from pharma, wine and beer industries, compared to Q1 FY21.

We delivered EBITDA of Rs. 65 crores, registering a growth of 128% on a year-on-year basis with EBITDA margins of 15.4%. Margins improved on year-on-year basis as revenue visibility improved and despite top line impacted on quarter-on-quarter basis, margins were stable on a sequential basis. The strong operating margin profile is a result of our continuous focus on the process and cost optimization and investment in higher operational efficiencies in the business.

EBIT for the period was Rs. 33 crores with a EBIT margin of 7.9%. PAT stood at Rs. 11 crore with PAT margin of 2.7% in Q1 FY22, as compared to a loss of Rs. 17 crores in Q1 FY21.

A brief update on our two upcoming Greenfield projects. Construction of both the projects is on track and is expected to be completed by June 2022. Specialty glass packaging facility at Bhongir and capacity expansion of plastic pipes and fitting business at Sangareddy plant will boast of state-of-the-art facility, with the deployment of advanced equipment, automation and superior operational efficiency.

I would like to highlight that the macro-economic challenges due to the pandemic are still present and will shape up how fast and quickly the nation and the economy revives. But, as the vaccination program is gaining momentum and the state governments are easing lockdown restrictions, we at HSIL, are optimistic about the future outlook and revenue growth. We also remain confident of improving our margin profile owing to higher operational efficiencies at plants, supported by better product mix.

Now I would hand over the call to Mr Kabra to talk about Building Products Division.

RB Kabra: Thank you Mr. Pandey. Good afternoon to all who are attending this call. In Q1 FY22, Revenue from operations of Building Product was Rs. 123 crore registering a growth of 105% on year-on-year basis. In terms of macro-economic and business environment, we are better placed than Q1 of last year, which was wiped out by the first wave of COVID-19, as you all know.

As the quarters saw lockdowns across state, time to time, it resulted in lower demand from the construction and infrastructure sector, impacting negatively building product division. On a sequential basis, our capacity utilization levels across plants were lower, which resulted in higher production costs which affected the profitability. As the economy is opening up, we are expecting a consistent and improving demand for the products.

Now, I would hand over the call to Mr. Khosla to talk about Packaging Product Division.

Rajesh Khosla: Good evening everybody and thank you very much Mr. Kabra. Packaging product division was the major growth driver for the top-line and profitability during the quarter. Revenue from operation was Rs. 293 crores in Q1 FY22, registering a growth of 54% on year-on-year basis, and contributed 70% of the total revenue. The division saw increased volume demand for glass containers from the pharma, wine, beer industry on year-on-year basis. However, revenue declined on the sequential basis due to the muted demand as state wise lockdown impacted these segments drastically.

Despite the challenging macro environment, the packaging division has delivered strong EBIT margins of 13.3%. Glass container capacity utilization stood at 89% as compared to 63% in the same quarter last year.

Our focus on manufacturing excellence is a part of our core growth strategy and recently we received two national awards for our efforts and endeavors. (1) National Feathers Touch in association with Economic Times awarded 'AGI Glaspac' with the 'Best in Class Manufacturing Award' for glass manufacturing category. (2) We have also received the ISO 50001:2018 Certificate for strong energy management systems put in place across the manufacturing plants.

I would like to share an update with you that operating plants at higher efficiency level and lower operating costs require regular and timely maintenance. Therefore, in Q2 FY22, one of the furnace will be shut down for the scheduled rebuild of a refractory lining, a one time maintenance which happens in a 8-9 years' period.

Now looking ahead, quicker recovery in demand from the key industries is expected with the relaxation of lockdown restrictions. In addition, long term growth drivers of packaging divisions are: (1) we are catering to Consumer product whose per capita consumption is on the growth trajectory (2) for all these industries, be it pharma, alcohol, food, beverages, product premiumization is on the rising trend where customer preference is moving from plastic to glass packaging.

These factors will drive HSIL's Packaging division growth and HSIL is well positioned to remain a profitable market leader.

Thank you very much and we are now ready to take any questions.

Moderator: Thank you sir. We can now begin the Question and Answer session. Anyone who wish to ask the question can press the 'raise hand' option, which is present in your zoom application or you can also type in the question. I will read out the question to the management.

We have one question from Nikhil Gada. You can please unmute yourself and go ahead.

Nikhil Gada: Thanks for the opportunity. My first question is we are giving this capacity utilization number, is this a production capacity utilization or the sales utilization?

Sandeep Sikka: These are production linked utilization. All the capacity utilization are production linked only.

Nikhil Gada: In that context, when we are seeing this 54% growth in packaging, can you break it up in terms of how much was the volume and value growth?

- Sandeep Sikka:** Generally, we don't give a volume and value separately as a part of the disclosures. The selling price more or less remains same as such, no substantial increase on a quarter to quarter basis although, we are expecting that going forward because of price hikes, as there can be some, that is subject to our customers agreeing to it.
- Nikhil Gada:** Have we passed on any price hike as of now or it's still in the books because of the lockdown issues?
- Rajesh Khosla:** Now, this question is regarding the price increase or the price passed on to the customers Am I right like this? In the recent time, there has been an increase in the cost factor and what happens is whatever cost is increased on a permanent basis or on a long-term basis, those are being passed on to the customers and a lot of cost improvement things are being worked out by our efficiencies, effectiveness and productivity. Further, our discussions with the customers are going on. We have worked it out with some customers and with some customers, we will be getting it. But, on the number of customers, we are talking to because everything takes time as one to one negotiation happens and then the discussions are finalized. We have already finalized with a lot of customers and balance customer we will be finalizing soon, it's in process.
- Nikhil Gada:** If you don't mind me asking what would this hike be?
- Rajesh Khosla:** Till the time we finalize this with the customers everything remains confidential, even the numbers and even the name of the customers. I may like that this part can be excused on that pretext but certainly it is going to enough to cover up our extra costs which is going to happen and even increase our margin further.
- Nikhil Gada:** Sir, only reason for asking is that our margins in packaging have improved year over year. Definitely when we look at Q4, we were close to 18% which has gone down to 13%, I understand there is some impact of lockdown, but is there any other reason? Has also the power and fuel cost sort of impacted us? What I'm trying to understand here is that apart from any impact of RM inflation, is it that the increase in power costs has also impacted our margins for the quarter in packaging?
- Rajesh Khosla:** In fuel cost, there is a power cost and there is a hydrocarbon fuel costs. As far as power cost is concerned it has remained the same, but as far as hydro-carbon is concerned, there has been fluctuation up and down in that case. The major reason of less profit sequentially as compared to last year is more on the lockdown and less of the sales part which has entered in our inventory, there is nothing more than this.
- Sandeep Sikka:** I would like to add here is that over the last two to three years we have invested in development of various facilities, wherein we can use alternate fuels. Today, we are capable of using furnace oil, LPG, coal gas and normal natural gas. Wherever we feel, it is the best optimization, we have in-house capability to use the best mix which we can do.
- Rajesh Khosla:** We are one of the organization in the whole globe, not India alone but in the whole globe, which are using multiple type of the fuel at the drop of the hat. We can use petcoke. We can use furnace oil, we can use natural gas, we can use coal gas, we can use LPG, we can use HDL, and that too with a very short span of switching over from them. We have a very robust system by which the cost optimization are being worked out on a regular basis, once in 15 days and whatever is the best combination for our profitability, we work accordingly on that. So that way, we are on a very strong footing and even if there is a fluctuation in the world market, we are the last one to get impacted of that level compared to what other companies of the similar nature can get impacted.
- Nikhil Gada:** Thank you so much. So is it more of an aberration and will 17% margins sort of trajectory should continue?
- Sandeep Sikka:** So, if you see Q3 and Q4 of last financial year, we feel that we should be able to maintain in the range bound of that, but that will be based on current market conditions.
- Nikhil Gada:** One last question because of this planned shut-down that we are having, how much of sales we might lose end of quarter?

- Rajesh Khosla:** Nikhil, we are not going for a plant shutdown, we are going to have a furnace shutdown. Right now we have two furnaces in Bhongir Plant, and one of the furnace is under shutdown. It's a very planned shutdown because every 9 to 10 years or 8 to 9 years, this furnace has to be rebuilt and realigned. That stage has come now and we have to do that. Regarding the loss in sales, probably I think there is not going to be much loss in the sales because we have the inventories and from the inventory we will try to capture whatever the loss in production will be there. All these things are being planned accordingly.
- Nikhil Gada:** Got it sir. Thank you.
- Moderator:** Next question is from the line of Shreyas Virani. Please go ahead.
- Shreyas Virani:** Good afternoon. So, first quarter results are very well, we have just got the result in front of us now, there has been a drop in topline on quarter-on-quarter basis, right, I understand this is because of the pandemic. But going forward, if you could please share with us for the month of July, are we back to the normal sales pattern or are we still struggling because of the pandemic?
- Sandeep Sikka:** No, market have normalized. But other than this as we are already in the current quarter and we don't want to make this as unpublished price sensitive information, we are restrained to talk about the current quarter. We lost some turnover in the month of May and the recovery has been good in the month of June. Going forward we are confident that the way we recovered last year, in the same trajectory we should be able to recover now. Current market conditions look fine. But, this can be impacted if any other wave comes through. You know, that is outside what we are talking about, so for giving a guidance on a current figures, please excuse us, we can't do that as part of good governance.
- Shreyas Virani:** I do understand that. So I was just trying to figure out are we going to be hitting Rs. 600 crores quarterly that we did in the month of March or can you share just a broader outlook?
- Sandeep Sikka:** I think, the guidance here is based on the current market conditions. We are confident that what we did in Q3 and Q4 of the last financial year, we should be around that.
- Rajesh Khosla:** Mr. Sandeep, I may like to help you in that case. Our business needs to be understood, it is a little of cyclical nature. So, normally our Q3 and Q4, because of the demand cycle, are little higher than the Q1 and Q2.
- Shreyas Virani:** Excellent, appreciate it. One more question, as compared to our competitors Kajaria Ceramics, last year they posted Rs. 2,523 crores of sales and they had a bottom line of Rs. 301 crore whereas we had Rs. 1,860 and we had Rs. 88 crores of bottom line. We are doing 16.6% operating margins versus theirs of 19.2%. So, are they more efficient or what makes them so more attractive in terms of operating margins?
- Sandeep Sikka:** Shreyas, I think on one thing we need to update you is that we did a scheme of a demerger in the fiscal year 2019, effective from 1st April 2018, post which the major part of our business other than manufacturing of the building products and marketing and distribution of packaging products, is now part of a different entity. This split was already done. Today HSIL is more focused packaging product company although we have a building product division, which is purely manufacturing for the other company. The results of the competitors, which you are naming here are not comparable for our building product because that is just an OEM business here, we are more comparable now with the packaging product companies, because major turnover in HSIL today is coming from packaging product division.
- Rajesh Khosla:** In my address, I have already indicated that 70% of our revenue is from the packaging product division.
- Shreyas Virani:** So who are our competitors in the packaging product division, just to get a better understanding?
- Sandeep Sikka:** Listed companies like Haldyn Glass and Hindusthan National Glass are two primarily big companies. We are number two here in Glass packaging segment. In terms of capacity, number one is Hindusthan National Glass.
- Shreyas Virani:** There was a buyback last year, any possibility of another buyback?
- Sandeep Sikka:** We can't disclose anything which is not approved by the Board. But as per law, once a buyback is complete you can't have another buyback for another year. You can't do it actually.

- Moderator:** We will take the next question from the Mr. Nasir. You can unmute yourself.
- Zaki:** Congrats to the management on a reasonably healthy set of numbers despite the pandemic. Sir I have two questions one relating to the numbers and one a general question. You have indicated that the packaging product division did 89% capacity which is around Rs. 294 crores against Rs. 418 crores of the preceding quarter. So, is it that in preceding quarter we did more than 100% capacity utilization? Because if you also see the segment wise profits, it has dropped a little more than the proportionate way. So, do you think that the last quarter was an exceptional quarter in terms of margins?
- Sandeep Sikka:** Basically if you see, the normal production was happening. We generally operated our plants last month at around 90% capacity utilization. During the pandemic, plants were not closed but markets were closed. The liquor vendors were closed, the restaurants were closed and the disposal of material did not happen. We lost some turnover in the month of May but the production continues and we build up the inventories. This has come as a blessing in disguise. Now, we have a planned shutdown and we can use these inventories during those furnace shutdown period, deliver them and service our customers. The production continues and it is not that the Q4 is an exceptional period in terms of production. But Q4, as Mr. Khosla said it is generally Q3 and Q4 are exceptional because of the seasonality, the Beer season picks up and the liquor numbers are generally higher as such, but nothing varies in terms of the production we have a steady production schedule. I hope I answered your question.
- Rajesh Khosla:** Zaki, the production is mostly flat across the quarters, it is only the sales volumes that go little up little down on the basis of the cyclic nature of the business.
- Zaki:** So would it be safe to assume that the Q1 was a little squeezed quarter in terms of margins and sales?
- Rajesh Khosla:** Sales, it is already down. It's a known fact.
- Sandeep Sikka:** Yeah, when sales are down, there is still a operating costs. That is why the margins are also looking slightly down on the packaging.
- Zaki:** And what about the inventories sir, we have a figure of Rs. 67 crores on the inventory negative. So, what would that be, I mean, that is also a slightly standout kind of things?
- Sandeep Sikka:** This inventory will dilute in Q2, because we have a planned shut-down. One of the furnace tonnage will not be available and the current buildup in inventory will be used to dilute the inventories and service our customers.
- Zaki:** So, sir, would it be safe to assume that we will at least cover the sales of last year, I know it's also a forward-looking thing, but on a broad level building last year can be covered in terms of overall sales?
- Sandeep Sikka:** Based on the current market conditions, I can say yes, we are confident we can do that.
- Zaki:** And one more broad question sir is building product is constitutes 30% of our top line and I know the arrangement with SHIL, but at least it should not be EBITDA negative for HSIL sir, I mean, are you are you looking at that that aspect of the whole deal?
- Sandeep Sikka:** As per our arrangement, it will not be EBITDA negative. There is a margin which is a transfer pricing margin based on the report of an independent consultant. What happens is when a position like Covid comes through, where market gets closed, but, you cannot shut down the plants fully. There is an unabsorbed cost which as per the accounting standards, we cannot load onto the products. Let's say plants are designed to operate at 80%-90% capacity and production drops down, there are fixed costs relating to its which doesn't get loaded onto the product. These are exceptional period, wherein you see this aberrations, but over a period of time, when next quarters if they're normal quarters without any COVID impact, you will see the margins coming on, the EBIT margins coming out be good numbers.
- Zaki:** So, the building products is not EBITDA negative for HSIL?
- Sandeep Sikka:** No, it is not as per the plan. So, if you see our arrangement with HSIL, we have an EBIT margin of around ranging between 3.5% to 4.5% depending on various products. This is EBIT so we cover depreciation also. The corresponding EBITDA margins should be in range of around 10% to 12%.

- Zaki:** And I know one last thing, sir, we have introduced some very good bottles on our consumer/retail level. I also understand that there is some pressure on importing bottles from China, I mean, the fine glass kind of stuff. So how is the consumer bottles panning out? They are available on Amazon, the designers good? How how's that panning out, sir and does the China factor help HSIL in any way?
- Rajesh Khosla:** The market of retail is very small market as compared to B2B market. It's a very small market. But, it is a visible market, but still it is a small market. Now, the companies like HSIL, we have already entered the segment of the retail market and they are going very wide. Our team is now spreading their web to supply everywhere and to everything. But in China, the production has been high. And it has a very easy access, like somebody can go there, fill up the container, bring it and use their channels to supply. Believe me, and I'm telling you there is not much of the impact on the volume part of that. But yes, they are more visible to the normal people than to the industry numbers. We are not the same. And in the times to come the visibility of HSIL products will be much much higher as compared to what you're looking at today.
- Zaki:** Thank you, sir. Thanks a lot. And if I may ask one more thing sorry, is that we've added 154 TPD new project of specialized class or we are in the process of adding them, when would these become fully operational Q3 or Q4 of the current financial year sir?
- Sandeep Sikka:** We are expecting, this will get operationalized during quarter one of the next financial year. This is what we told on the last call also that it will happen during the next financial year. The project is already underway and machineries are coming in. We expect to commercialize this during quarter one, of next financial year.
- Zaki:** Thank you. So, thanks a lot.
- Moderator:** I'll read out the question from Anurag. How long the furnace will be down and for what? So, in terms of capacity, he needs to understand how much will be capacity reduction, 10%, 15% and how much that that would be at capacity level in the furnace shutdown?
- Rajesh Khosla:** This is a normal process in furnace life. In HSIL, furnace life is very healthy and very long life and approximately 9 to 10 years is the furnace life. After 9 to 10 years, the furnace needs to be rebuilt, and it takes approximately around 75 days time to rebuild the furnace, which is a very big exercise. During this time, we will be losing our production capacity, but we will not be losing our sales capacity. The inventories have been built up and those inventories will be diluted during this time to take care of that. If you are thinking from the sales point of view, probably there is not going to be the much loss of the capacity as compared to the last year. But if you are talking from production point of view, yes, we are going to lose some quantity and it will be approximately 45,000 to 46,000 tons in this rebuild time.
- Moderator:** Next question I will read out from Shiv Kochhar, he has asked if we have any plans to rebrand our company as packaging limited company?
- Sandeep Sikka:** Mr. Kochhar, we've taken your thoughts. We'll discuss this internally and nothing to confirm right now. But all the comments like this are always welcome. We'll discuss on this.
- Moderator:** We have another question from Nikhil. You can unmute yourself.
- Nikhil Gada:** I just wanted to understand how is Hindusthan National Glass is doing as of now and how is the competitive intensity from them basically?
- Sandeep Sikka:** It is difficult for us to make any comment on our competitors to be very frank. They are listed company and disclose their results on the BSE and NSE, or wherever they are listed. In terms of competitive pressure, we compete with them in the market, and our prices and their prices are almost same to our customers, because we reach out to almost a similar set of customers to large extent. So, not much differentiation exists on the pricing part as such a difference, it maybe around Rs. 200-300 per ton, and depending on customer to customer sometimes they can be higher, sometimes they can be lower. We don't like to comment on any of our competitors on the call. Excuse us for that.

- Nikhil Gada:** I will ask it in a different way. What I have heard is that they have not been doing so well and few of their furnaces are not operational. So, since we are already at close to 90% sort of utilization levels, any plans to just buyout some of the furnaces and you know, look at that kind of an opportunity.
- Sandeep Sikka:** I think nothing is available as such from their side or also from our side. If any opportunity comes you know, we'll evaluate based on the periphery.
- Moderator:** I will read out another question from Mr. Anurag. How much capacity is being added at Sangareddy plant and if further capacity needs to be added, can this plant support it or do we need to go for a new Greenfield facility?
- Rajesh Khosla:** I think this is about the Hyderabad Plant. I think in the previous question, Mr. Sandeep Sikka has informed that, with respect to our competitors, our pricing is same and we are trying to be more competitive from our internal efficiencies, effectiveness. And in this internal efficiency and effectiveness and productivity, one of the criteria is capacity utilization and capacity creation. As such, we have dedicated teams of R&D, we have a dedicated teams of Business Excellence, they are working day in day out on how to create the capacity with the present setup, and how to add the value. All these things are ongoing, and I hope so, in the time to come, there will be a lot of good news which is going to come up where we may increase our capacity, free up hidden capacities within our plants and also make it more effective and more profitable business.
- Sandeep Sikka:** Based on situation today, we are not putting up additional capacity in the Sangareddy plant. No new furnaces as such are being done, but we'll see how we can de-bottleneck the existing capacities.
- Moderator:** We'll take the next question from Anurag. Do we plan to extend our product range to value added products, since the margins are much better there?
- Sandeep Sikka:** We have this 154 ton new furnace, which is coming up and is primarily focusing on meeting the demands of various customers on the high end side, making value added products, the high end perfumery and pharma side. That is one initiative which we will be doing, as I said, that this one will be up and running during quarter one of the next financial year.
- Rajesh Khosla:** I would like to add more here, the Indian economy with the per capita income of \$2200 and it is going to go up in the times to come, it has been seen in the other economies that when the per capita income goes to \$3,000 or 4,000, there is this change in the consumption pattern of the consumers where they may like to have the better containers and high value added containers. And fortunately, AGI Glaspac is already equipped for manufacturing and already selling these high value-added products in the market and in the times to come they will be increased. One such activity we are doing is 154 ton furnace, which is going to produce almost 4,000 tons of material per month in the total value-added segment. Besides that there are other areas also in the existing business where we are already producing and supplying our value added products.
- Moderator:** I'll read out another question. We're not sure if it's appropriate question, but he is trying to understand the valuation of the company? And he asked Piramal Glass in the last quarter got an EV of almost \$1 billion in the largest ever transaction in the packaging company. He wants to know the valuation of our company.
- Sandeep Sikka:** I think the right valuation of the company is what you see on the stock exchanges. Piramal Glass has sold out. When you do a strategic deal, the valuations are different. And I think what you're asking is whether we are going to value added product and whether it is going to create a long-term value. We have already spoken about it that our first initiative on this is 154 ton furnaces and we'll see over a period of time how we build more value added products.
- Moderator:** We will take another question from Mr. Zaki. You can unmute yourself and go ahead.
- Zaki:** I would like to know what would be the debt level you'd be comfortable, by the end of the year and what is it now, that is long term as well as working capital. What is the comfortable level for you by the end of the year?

- Sandeep Sikka:** Today, we have a total debt of around Rs. 1,000 crore to Rs. 1,050 crore on the Company. And since we are investing into various things like relining of furnaces and the new capex which is coming out, in terms of the capacity expansion. We feel that by March-end the debt level should be in a range of around Rs. 1,250 crores to Rs. 1,400 crores. Since, the repayments are also happening every year, the current year repayment will be around Rs. 85 crores to Rs. 90 crores. Next year onwards, the repayments will build up. From March-23 onwards, debt level will start shrinking because of the higher repayment schedule, but, since we are making investments, the debt level will increase because we try to fund any long term project with a long term debt.
- Zaki:** So with the increased debt Sir, we will be able to maintain the EBITDA levels of last year or so?
- Sandeep Sikka:** We will also have incremental earnings and the cash flow generation which is there. We will first pay off short-term debts which are there with surplus cash because we don't have any subsidiary and we don't have any investments. Any cash which gets generated in the Company will go towards debt repayment.
- Zaki:** Is there any thought on demerging the building product division out of the company, so, that it remains a pure glass venture?
- Sandeep Sikka:** We keep evaluating various options. But unless anything which is confirmed by the Board, it is difficult to comment on that.
- Zaki:** But the thought process would be there with the management?
- Sandeep Sikka:** I have answered that, we keep evaluating.
- Moderator:** We'll take the next question from Aditya Zhavar. You can please go ahead.
- Aditya:** Thanks for the opportunity. I want to get a sense of the how much opportunity we have there to grow our topline? So, right now, with the current capacity we are doing approximately topline in the packaging segment like Rs. 400 crores or Rs. 450 crores So, but we are taking a good aggressive debt of Rs. 1,000 crores right and we are adding capacity which will be operational in next year, as you said, 154 ton new furnace. So, what could be the asset turnover in this area segment as you're saying it is a high margin product. So, as in last concall also you guided that the margin would be approx.. to 15% to 18% right. So, so, how much our topline can we grow with this additional capacity and I want to understand the market share that can be gained from this adding the new capacity? Thank you
- Sandeep Sikka:** There are two questions. First question you were saying that since we are reaching the capacity peak how we are going to increase the volumes. One option is better product mix and second is looking at industry allocation where you're only going to re-allocate because our realizations for different sectors are different. We can work around that. Third point is how we can de-bottleneck various plant facility to get better tonnage out of the plant. With 154 ton furnace, our focus is on high value segment and it is the first initiative and the market potential is huge. It can be service clients with higher realization, even in the export market. These are the initiatives which will help in the short to medium term range will help us with us maintain the trajectory. But over a period of time, you know the organization has to look to further put up capacities because the demand, we feel, will be good for a period of time for the packaging product especially on the glass side, however, we may our next two to three years may think of putting furnaces within existing plants or you know doing some other and there can be some other opportunities which will help us to grow.
- Aditya:** So Sir, with this new capacity, being operational within two years, can we double our top line in the packaging segment?
- Sandeep Sikka:** No, in two years, it will not be possible as this is a small furnace. Our existing rated capacity is 1,600 tons per day and this new furnace is just 154 tons per day, it's just 1/10th the size. It will increase the margins, and realizations can be higher by ~30 to 40% depending on product mix. It will lead to higher turnover impact.
- Moderator:** We'll take the next question from Shrey. You can unmute and go ahead.

- Shrey:** Sir, can you just help me understand the demand trends on the building product side, largely like sanitary and faucet and the pipes division and if you could just help us with the capacity utilizations in each of the plants for sanitary faucets and pipes?
- RB Kabra:** Yeah, in the sanitaryware we have two plants as you know, one in Bahadurgarh near Delhi and another in Telangana near Hyderabad, both plants put together have capacity utilization of around 80% in Q1 and for the faucet plant, the capacity utilization has been around 65%.
- Sandeep Sikka:** Pipe segment during Q1 had capacity utilization of around 54-55% as due to lockdown. We were not producing because the disposal of goods was not happening. But on an overall basis, we are confident that the demand from the real estate which we had seen last year coming very strongly, immediately after the COVID lock down. A similar pattern should happen in the current year also, which is based on the current market conditions as we are seeing. On the long-term basis, people are looking for new and better houses, because they're spending more times inside the house and they are looking at the opportunities, if they can get one more room inside a new room which they can convert into a sort of an office due to work from home concept and for some of the companies this is sort of a permanent feature. As we're discussing the market, we feel that a lot of transitions is happening in the market, people are looking for an upscale or buy new, looking for better opportunities and better facilities. Overall demand remains strong in the building side.
- Shrey:** And secondly, sir, Somany Home Innovation Limited (SHIL) has guided for about one and a half times the industry growth in the building product segment and they are also saying they are targeting Rs. 1,000 crores in the pipes division. So, just wanted to understand do you have the capacities to be able to service these requirements from the Somany Home Innovation Limited?
- Sandeep Sikka:** Based on our contracts, we have Annual contracts with them. One, we have sufficient capacities right now and wherever required we will build more capacities to service our client. But it is not SHIL, it's their wholly owned subsidiary Brilloca Limited, which is primarily buying from us, and they don't buy 100% of their material from HSIL, they buy from third party and other vendors, which are there. We meet only part of the demand.
- Shrey:** From what I understand is 70% of their building products demand is met by you?
- Sandeep Sikka:** Of sanitary wares segment and we have capacities in place to service them right now.
- Moderator:** This brings us to end of call and now, I will hand over the call to Mr. Sandeep Sikka for closing remarks. Over to you, sir, for any closing remarks.
- Sandeep Sikka:** Thank you, everybody who joined us today on the call. This quarter was a tough quarter, but we performed well as compared to last year. The situation now is much relaxed, in terms of the overall environment, what we had in May. Each one of us directly or indirectly had suffered somehow but today the Company, in terms of the overall capacity and its positioning with customer, we have performed well in the last year. We are confident that going forward, we should be on growth trajectory on a medium to long term range. This may require certain investments over a period of time, but we'll unlock a lot of potential which is there within the company and demonstrate growth on the top line and the bottom line. Thank you, everybody for joining us.
- Moderator:** On behalf of Antique Stock Broking, I would like to thank the team of HSIL Ltd for providing us this opportunity to host the call and also like to thank all the participants for joining. You may disconnect now. Thank you.

Notes:

1. This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings
2. Figures have been rounded off for convenience and ease of reference
3. No part of this publication may be reproduced or transmitted in any form or by any means without the prior written consent of HSIL Limited