



HSIL Limited
Q3 FY2022 Earnings Conference Call

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MR. OM PRAKASH PANDEY - CHIEF FINANCIAL OFFICER - HSIL LIMITED

MR. SANDEEP SIKKA - GROUP CHIEF FINANCIAL OFFICER

ANALYST: MR. UMESH RAUT-DOLAT CAPITAL

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY2022 earnings conference call of HSIL Limited, hosted by Dolat Capital. 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 assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded.

Before we begin I would like to remind all participants that some of the statements or comments made on today's call may be forward-looking in nature. This may include but are not necessarily limited to financial projection or other statements of company's plans, objectives, expectations or intentions. The company disclaims any obligation to update these forward-looking statements to reflect future events or development. Kindly refer slide number 19 of the earnings presentation for a detailed disclaimer. I now hand the conference over to Mr. Umesh Raut from Dolat Capital. Thank you and over to you Sir!

Umesh Raut: Good evening everyone. On the behalf of Dolat Capital. We welcome you all for the Q3 FY2022 post results conference call of HSIL Limited. We are pleased to have senior management team from the company represented by Mr. R.B. Kabra, President & CEO, Building Products, Mr. Rajesh Khosla, President & CEO-AGI Glaspac and Garden Polymers; Mr. Om Prakash Pandey, CFO HSIL; Mr. Sandeep Sikka, Group CFO. I would like to hand over the call to management now for their opening remarks. Over to you Sir!

O P Pandey: Good evening everyone and welcome to the Q3 FY2022 earning call of HSIL Limited. I hope you and your family members are safe and healthy. I will read the disclaimer. The actual outcome may vary as they are dependent on several external factors as well. The participants may make their own assessment. We have already circulated our earnings presentation which is available on our website as well as on the stock exchange website. I hope you have had the opportunity to go through the presentation and we would be happy to take any question afterwards.

We will begin this call by providing you with the details of the recently announced slump sale of building product division followed by a discussion on the company's financial performance and then I will hand over the call to Mr. Kabra and Mr. Khosla to share the details of the business division's performance.

Our board of directors have approved the slump sale of assets and liabilities of the Building Product Division (BPD) of HSIL to Brilloca Limited, a wholly owned subsidiary of Somany Home Innovation Limited for a cash consideration of Rs.630 Crores subject to closing date adjustment. Sales proceed will be utilized towards prepayment of existing bank borrowings and will enable headroom for accelerated growth. This transaction has been carried out with the objective that HSIL shall completely focus on the growth of its packaging business and capitalize on both organic and inorganic opportunities.

In the past few years, the company has emerged as the most profitable glass packaging company in India. Our current market position and a well-defined growth strategy will help the company to unlock value for all the stakeholders.

Moving to the financial performance of the Company. In the third quarter, the company delivered a total income of Rs. 645 Crore a growth of 18% on year-on-year basis and 14% on a sequential basis. HSIL delivered strong revenue growth driven by increased demand for glass bottles in the beer and wine industries in the packaging product division and sustained demand momentum in the real estate sector driving building product division. We registered a strong year-on-year growth even when the comparative quarter in the last year has a high base due to pent up demand post COVID-19.

EBITDA for the quarter stood Rs. 96 Crore with EBITDA margin of 14.8%. Profitability margins were impacted in Q3 FY2022 due to the spurt in the input commodity prices. We expect the situation to normalize going forward, as these are passed on in the coming quarters. EBIT for the period was Rs. 61 Crore with EBIT margin of 9.4%, profit after tax stood at Rs. 28 Crores with PAT margin of 4.4%.

Now I would hand over the call to Mr. Kabra to discuss building product division.

R.B. Kabra:

Thank you Mr. Pandey. A very good afternoon to all who are here for attending this call. In Q3 FY2022 revenue from operations of the building products was Rs. 243 Crores, registering a growth of 35% on year-on-year basis. Revenue growth was primarily due to sustained demand in the real estate sector with supportive interest rates and EBIT for the period was Rs. 7 Crores.

Some of you are already aware but for the information of all I would like to mention that currently we are under the process of completing the slump sale which is expected to close with customary closing date adjustment on or before March 31, 2022 and subject to necessary approvals. Building product division operation post slump sale will be part of Brilloca Limited which is a wholly owned subsidiary of Somany Home Innovation Limited. This is brief about this business and since it is getting transferred. Now, this will get passed to the Brilloca. I would now hand over the call to Mr. Khosla to talk about the packaging product division.

Rajesh Khosla: Thank you Mr. Kabra. Good evening to all the participants. The packaging product division saw the growth in production, capacity utilization, sales volume and revenue. Revenue from operation was Rs. 398 Crores in Q3 FY2022, registering a growth of 10.2% on year-on-year basis and 29.2% on quarter-on-quarter basis. Revenue growth for the period was driven by the beer and wine industry.

The packaging products segment contributed 62% of the total revenue. EBIT margin stood at 15.2% in Q3 FY2022 compared to 17.6% in Q3 FY2021.

As mentioned earlier total fuel and power cost for glass container manufacturing has increased by 48% per metric ton on year-on-year basis for the quarter which has put the pressure on the margins. But we are expecting the revival of the margins due to strong operational efficiencies in the manufacturing process and plan to pass on the increased cost. Relining process of one of the furnace has been completed and glass container capacity utilization during the quarter was 92% as compared to 83% in the same quarter last year and 66% in the previous quarter.

Looking ahead, we are expecting incremental growth from a high value product segment as we will soon operationalize our specialty glass manufacturing unit at Bhongir, capable of producing 154 tons of glass per day. With the announced restructuring of the business, packaging product division will be the core operations of the company and supported by numerous favorable factors such as dedicated focus of the management, strong capital structure, new product offering, higher operational efficiency and improvement in macro-economic environment, all together will propel the next phase of growth in the company.

Thank you very much. Now we are ready for any questions.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. First question is from the line of Zakir Hassan, an individual investor. Please go ahead.

Zakir Hassan: We have been in fact looking forward to this transaction, where the building product division would be separated and I think congrats on a great decision, sir there was a press release two three days back where your Bhongir plant has started 154 tons per day and in that press release there was a mention of HSIL being able to achieve Rs.1700 Crores turnover in March 2023 with this new facility. So could you give a brief on that sir and my next question is, after this transaction gets completed, the sale of the building products, what would the net debt be on HSIL's book? Thank you.

Sandeep Sikka: I will answer the question on the net debt first. Today, we have a total debt of around Rs.1200 Crores in HSIL and Rs.630 Crores that we will get from Brilloca, will be utilized to prepay the debt.

But there are certain capital work-in-progress which is there, like we are trying to debottleneck certain capacities. Mr. Khosla will talk about it. Also other normal CAPEX which is there and also some relining which are coming up for the next financial year. Our debt may increase by another Rs.200 Crores to Rs.250 Crores over the next 12 to 18 months. But that will also lead to incremental sales coming from 154 ton furnace. We are also trying to debottleneck the capacities, which will also enhance the overall sales. I will request Mr. Khosla to throw light on the overall sales question which was the first question. I hope I answered your second question?

Rajesh Khosla:

As I understand your question, you want to know that the 154 ton furnace which is a specialty glass furnace has been started on Monday. The furnace of 154 ton has been fired on Monday. It is a process before we start the operations. It is a preheating of the furnace and it takes around 15 to 20 days for the preheating before the actual production starts coming. We expect that by mid of February the production will start coming and then it will take further around few weeks to stabilize the production and we hope so by the end of this financial year or early next financial year the right product is going to come out of the furnace.

Regarding the Rs.1700 Crores remark, yes it would because the new furnace is 154 ton furnace, which is going to produce almost 50,000 ton of the products of a high margin or a high value product, if we add the topline of these additional quantity, plus the extra quantity which we are going to utilize from our existing business the total topline shall be in close to Rs.1700 Crores or maybe more than Rs.1700 Crores. So this is the status as on date on the glass part.

Zakir Hassan:

Best wishes to your journey next year Sir. Just another add-on question Sir if time permits, at this very moment Hindustan National Glass has gone for NCLT, I do not know where there was some kind of a news bit or something where it is written that HSIL may be interested in bidding for it. I mean is there any truth in that?

Sandeep Sikka:

Market opportunities are huge for us in the glass both organic and inorganic. We keep looking at various opportunities, if this opportunity arises, it has to run through the process of IBC based on the public knowledge, we cannot assure on what timeframe, it will be available, how much will be price because it will be a bidding process under the IBC. Definitely, it makes a lot of synergy to us for this type of business because it gives us an ample opportunity to grow but at the similar time, we are also evaluating various other opportunities, that we can further enhance the sales, and do more value-added products like Rajesh talked about the new furnace, then we are putting some finishing line so that we can give more value to our customers, have more margins on the bottom line. That is the whole thought and the plan.

- Zakir Hassan:** But the thought would be there? Depending on how the opportunity pans out, the thought is there.
- Sandeep Sikka:** Thought is there, but this is all subject to necessary approvals.
- Zakir Hassan:** Of course. The next question is don't you think see once we have got down our debt to reasonable some Rs.600 Crores level, getting it back again to Rs.750 Crores to Rs.800 Crores I mean would the balance sheet be able to take such debt comfortably?
- Sandeep Sikka:** Most of these businesses which we do on the glass side are very high capital intensive businesses. You have to understand where the money is going. Major chunk of expenditure next year would be realigning of another furnace because that is very essential for the life of the furnace to properly run, upgrade then we are also investing to see how we can debottleneck the existing capacity, so that we can generate slightly higher tonnages. Right now we feel that by making some incremental investment rather than putting a whole plant, we can debottleneck the plant so all these investments will go towards this but this will definitely lead to incremental sales going forward. It is not that it is all the maintenance CAPEX. Idea is to enhance the sales, debottleneck capacities, improve efficiencies of the plant and generate better margin on the bottom line.
- Zakir Hassan:** Fantastic. Sir on the macro level are we getting that China plus one advantage out of whatever has happened lately and can you throw some light on the increased fuel cost. I think natural gas prices have started falling so could you just throw some light on that also? Thanks a lot.
- Rajesh Khosla:** Thank you very much for that and regarding the cost increase the quarter which started from October there has been an exponential increase in the prices of raw material, in the prices of fuel and this is a worldwide phenomenon. It is not related only to India, it is related all over the world. If you talk about the price movement of fuel prices, I am talking on quarter-to-quarter basis from Q2 to Q3, the prices of natural gas has gone up by more than 100%. What we used to buy at around Rs. 20 per SCM it has gone to Rs.44 or Rs.45 per SCM. The furnace oil has gone up by almost 9%, the LPG has gone by almost 16%, the coal has gone by around 7% to 8%, so the prices of all the fuel items are increasing and the bad part is it is exponential. The good part is all your customers, all your stakeholders they understand this phenomenon and it is a very good at our part that we have been able to optimize the use of fuel by using the right product mix and that is the reason the impact on us is very low. Part of the impact has already been passed on to the customers and the rest part of that is already under discussion where it will be passed on to the customers. So, our position looks to be quite positive in the times to come but always there is a time lag between the cost increase and the price settlement and it depends on industry to industry.

In our industry it can go up to one quarter to two quarter. So, we look forward for the next quarter where the results should be reflecting the compensation of the cost increase.

Zakir Hassan: About the China businesses I mean do you think we are getting advantage out of that China plus one strategy which is coming?

Rajesh Khosla: Regarding China, we were not much impacted earlier also with China because in a glass item it is a very localized type of business where the freight plays a very important role and sending the glass which is a basic material, it is not very effective so what happens is there were some special glasses which was imported like pharmaceutical and all which we will start manufacturing in 154 ton furnace and we hope to capture this market. Now freight containers rates are very, very high so we look forward that the advantage of this freight escalation will help us in realizing better prices in the local markets.

Zakir Hassan: If I may just say what is the depreciation impact on this moving the gross block into Somany Home I mean how much depreciation benefits the HSIL will get in the current year?

Sandeep Sikka: The total depreciation which is charged in the BPD for a quarter was around Rs.7.2 Crores, just annualize this maybe around Rs.29 Crores odd up to Rs.30 Crores of depreciation will get off the book.

Zakir Hassan: Thanks a lot for your patient answering. Best wishes for the new innings in HSIL to the entire management. Thank you Sir.

Moderator: Thank you. The next question is from Tanay from RT. Please go ahead.

Tanay: My question has already been answered. Thank you so much.

Moderator: Thank you. The next question is from the line of Dheer Kothari, an individual investor. Please go ahead.

Dheer Kothari: My question, is to Mr. Sikka, the depreciation benefit, what was the figure mentioned, I could not catch that?

Sandeep Sikka: Q3 depreciation for Building Product Division was around Rs.7 Crores

Dheer Kothari: You have annualized the figure?

- Sandeep Sikka:** The annualize impact should be somewhere around Rs.29 Crores to Rs.30 Crores.
- Dheer Kothari:** Now my main question is which I would like to understand post the slump sale what would be the movement in Debt at the gross level and the net level, if you could please explain?
- Sandeep Sikka:** We already answered this. I will respond to this again. We have a total debt of Rs.1200 Crores today and the slump sale, the value is Rs.630 Crores subject to closing date adjustments will use the net proceeds to pre-pay the debt. The debt will come down by around Rs. 630 Crores from 1200 Crores based on the current date valuation.
- Dheer Kothari:** There are some fresh additions also, like Rs.200 Crores will be added, rough estimate?
- Sandeep Sikka:** That I have already responded.
- Dheer Kothari:** Now my next point is what is your plan to raise capital because there were some capex involved also?
- Sandeep Sikka:** Generally, as the thumb rule 65% to 70% of long-term CAPEX should be long- term loans and balance 30% to 35% we should put it through internal accruals. We generate strong cash flows and internal accruals can be deployed towards creating further growth.
- Dheer Kothari:** One last question I had read somewhere the day the announcement came that the company post slump sale may go for outright sale of glass division also, is it correct?
- Sandeep Sikka:** No. I think nobody has communicated that.
- Dheer Kothari:** There was a report in ET to that effect.
- Sandeep Sikka:** No. I cannot respond to it. I have not seen it, but there is no plan as such to sell the glass business.
- Dheer Kothari:** Apart from glass, are there any other opportunities available in related products?
- Sandeep Sikka:** The glass itself has provided good opportunity, that will help us grow continuously for next few years, because glass is a sustainable material, it is classified as a green material as it can be 100% recycled and it is not harmful as such. We feel that on a sustainable basis this material has a good market potential to grow over the next few years. We will unleash our values, we will invest the money for the growth of this business going forward.
- Dheer Kothari:** A related question the latest trend I gather is specialty glass for solar panels. Am I correct?

Sandeep Sikka: Yes.

Dheer Kothari: Are you interested in that segment?

Sandeep Sikka: We will keep evaluating various options as such, but as of now, board has not approved anything, so I cannot respond to that.

Dheer Kothari: Thank you.

Moderator: Thank you. The next question is from the line of Pravin Sharma, an individual investor. Please go ahead.

Pravin Sharma: Good evening Sir. In the presentation it is written and it is actually a part of the mail also which has been sent to the shareholders that Bahadurgarh and Isnapur land and building has been kept on our books and it will be given on a rent or lease, long-term lease to Brilloca. So, what is the rationale of this? Why are not we transferring? Second is how much rent or lease do we expect from this on an annual basis?

Sandeep Sikka: If you see the rationality, this Bahadurgarh land which is there, this was the first plant setup. This land is in the Delhi NCR region, touching the Delhi border and circle rates for this land is quite high. Although, there is an industry on it today, but when we see as most of the industrial land today in order to make a viable project, you have to buy a cheap industrial land. Now the buyer is not interested in buying such a costly land and because the unlocking of this land may happen over 15-20 years ultimately because till that the plant is running there. On Isnapur land we had about 80 acres contiguous land parcel and the pipe plant is only 26 acres on that and we never wanted to disturb the contiguity of entire land parcel over a period of time. For these two reasons, these land and building have been given on lease and approximate lease rental is around Rs.15 Crores to Rs.16 Crores. As a part of the shareholder approval, the lease rentals have been negotiated for the next 10 years on the arms length basis and the valuation and it will be blessed by the shareholders as a part of the resolution.

Pravin Sharma: Sir, what is the closing debt, as of September 30?

Sandeep Sikka: The endeavor is that we should complete the transaction on or before March 31, 2022, but this is subject to various approvals because as part of this. We will require shareholder approvals. We will also require approvals from various other government authorities for transferring the operations from one company to another company because this is not an NCLT scheme of demerger as such.

Pravin Sharma: No, my question was the Rs.630 Crores would be on a closing date of September 30th 2021, correct?

Sandeep Sikka: Yes, Rs. 630 Crores is based on the valuation as on 30th September 2021 and any incremental CAPEX which is there or any changes in the working capital, will be adjusted on a cost to cost basis.

Pravin Sharma: So, that will be adjusted. Okay so that will be additional and coming on these specialty products what is the kind of margin broad margins this kind of product profile enjoys because this goes into high end industries like liquor, cosmetic, perfumery. So what is the typical ballpark margins?

Rajesh Khosla: If you read my statement, we have been getting EBIT margin of around 18% in Q3 FY2021 because Q3 FY2022 is not a right representation because of the cost of fuel increase, so obviously the EBIT margins of specialty products are much higher than this 18%.

Pravin Sharma: So, is it fair to assume around 25% or something in that range?

Rajesh Khosla: It may be close to 20% to 23% or maybe little more because the product is yet to be placed in the market and we will see the response but as such market is quite good and encouraging and expanding.

Pravin Sharma: In this market there is a gestation period which is quite long means in terms of sampling and other things or we typically find ready-made customers and ramp up is relatively faster?

Rajesh Khosla: First is regarding production, so production is not a problem, it will take only few weeks when you get the right quality of product from the furnaces. Regarding placement of the product in the market, there is a wide spectrum of the product which can be placed in the market and accepted in the market, so even if you are in the middle of the spectrum, in beginning still your product is saleable and there can be a little pressure on your margins, but as soon as you climb the ladder of the higher spectrum you will be getting the more of the cream of the market. Since we have invested a handsome money and we have taken a technology from the best of the companies in the world, so I do not think so there will be much of a challenge in the times to come to get the right product from our furnaces.

Pravin Sharma: But we have already started marketing of this?

- Rajesh Khosla:** Yes, we are already in the market beforehand also and in the sense we were not there for those products but we understand with these customers because of our product profile. So we are well placed, well accepted in the market, so there is not much challenge from that perspective.
- Pravin Sharma:** I am just curious, just to mention I was talking from there is a company called Haldyn Glass and they went into specialized glass also together with Heinz, they had a joint venture and they are not able to you know still roll out an acceptable product after three four years and my apprehension was from there.
- Rajesh Khosla:** All those lessons have been learnt from the past performance of these companies and all measures have been already taken.
- Pravin Sharma:** That is excellent. All the best. I think we are on a road of new journey and we see a very bright future. Thanks a lot. Good luck.
- Moderator:** Thank you. The next question is from the line of Nikhil Gada from Abakkus Capital. Please go ahead.
- Nikhil Gada:** Thanks for the opportunity. Sir, just in continuation to what the previous participant had asked regarding specialty packaging, are the client that we are going to I am assuming is going to be completely a 100% B2B and on an order basis, are the clients someone we already worked with or these are going to be completely a new set of clients that we will have to procure?
- Rajesh Khosla:** Say around 30% of the customers will be same, as we have been either serving or we have served earlier or we are already in touch, and almost 30% are those customers who we are knowing them but we have not dealt before but we know them very well and the balance 30% will be new customers for us, where our acceptability will be very large because they know us as a glass company, so it will be quite easy for us.
- Nikhil Gada:** All these customers would be in the cosmetics and perfumery?
- Rajesh Khosla:** No Sir. This plant will be producing cosmetic, perfumery, high end liquor, nail polish, vials for vaccine, food segment and specialty pharma segments and some of the even tableware segments. So, it is quite a big spectrum but yes perfumery and cosmetics will be top on the agenda.

- Nikhil Gada:** Since we are making such wide range of products from this plant, is it fair to assume that the peak capacity utilization that we can achieve would be in the range of 80%-90% or we can still achieve 95%?
- Rajesh Khosla:** It will take a little bit of time to reach to that level. It is the stabilization of processes and furnaces, but I am very sure in the first half of the next financial year we will be reaching a peak very soon.
- Nikhil Gada:** Just to complete this point, the asset turns I am assuming if I am not wrong, we have invested around Rs.250 odd Crores in this business and in terms of numbers I think what kind of asset turns it is it around 0.7x or 0.8x that we will achieve?
- Sandeep Sikka:** We can do ideally one (01) time.
- Nikhil Gada:** I said the investment was Rs.250-odd Crores right?
- Sandeep Sikka:** What happens is the realization here is very high so we expect that we can do from 0.9x to almost 1x.
- Nikhil Gada:** The Rs.250 odd Crores debt that you mentioned that it would increase apart from debottlenecking does it also include this capacity expansion of specialty packaging?
- Sandeep Sikka:** Part of this payment is still to be done, because we have just ignited the furnaces. All the 100% payment has not been done. Few payments will be done over a period of time and then another furnace is coming up for realigning next year so that includes that and also debottlenecking of the capacities.
- Nikhil Gada:** Sir, if you do not mind my asking how much payment would be pending in this?
- Sandeep Sikka:** I do not have right now.
- Nikhil Gada:** Second question, Khosla Sir had mentioned that we have taken some price increase in Q2 firstly wanted the quantum of that even the average increase and how much further price hike needs to be taken so that we get back to those 17.5%, 18% EBIT margin levels?
- Rajesh Khosla:** The price increase system with the customers are a little complex in nature because part of the customers we have some price variation formula, for part of the customer, it is one to one negotiation and part of the customer is some other mechanisms that we follow with that. So ultimately at the end of the day because this is a phenomenon which has happened to all the people around the world, so all the costs which has happened to all the glass industries will be finally passed on to the customers maybe in this quarter or may be early next quarter. So everything will be passed on. Going back to the same level, I think maybe in the Q4 of this year or Q1 of next year can be there.

- Nikhil Gada:** What would be the average price hike we might need to take?
- Rajesh Khosla:** Because the cost is very fluctuating, what has happened in the month of Q3 started it has incremental gone up now again the oil has jumped to \$90 or \$92 so the cost impact will be further there. I think up to December the total impact on the pricing part or on the cost part was close to around 14% to 15%. I hope so this much should be coming to all price increase.
- Nikhil Gada:** Just a largely on the building division, definitely a very great call in terms of transferring it to Brillloca just wanted to understand, I was under the assumption that we are doing a pipe expansion as well as we are going to add some amount of the glaze capacity and all in sanitaryware which was going to expand our capacity by 10% whether both these expansions are part of the Rs. 630 Crores or we will have to take over and above that amount?
- Sandeep Sikka:** There was an expansion that was underway so all the capital work in progress which was as on September 30th 2021 has been acknowledged so any incremental CAPEX which will be there or that will be paid off on a cost to cost basis post September 2021.
- Nikhil Gada:** What would be the gross block of the entire gross block as of now September 30?
- Sandeep Sikka:** You can see the segmental results. I think you can get it from there. I do not have right now.
- Nikhil Gada:** Because that also includes the working capital so that is the reason I am asking?
- Sandeep Sikka:** We can get back to you on this.
- Nikhil Gada:** Sir that will be all from my side. Thank you for answering all my questions.
- Moderator:** Thank you.
- Sandeep Sikka:** I think there are no more questions. Thanks everybody for joining us today. It was a wonderful call and we are always happy to answer your questions. If you still have more questions, you can always write back to us or you can get in touch with Churchgate and we will be always there to make an appropriate response to all your queries. Thanks for joining on this call today. Thank you.
- Moderator:** Thank you. On behalf of Dolat Capital that concludes this conference. Thank you for joining us. You may now disconnect your lines.



HSIL Limited
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Notes:

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