HINDWARE HOME INNOVATION LIMITED

(Formerly Known as Somany Home Innovation Limited)
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NEAPS/BSE ONLINE

2nd June, 2022

The Corporate Relationship Department
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(BSE Scrip Code: 542905)

Listing Department
National Stock Exchange of India Limited
Plot No. C/1, Block-G
Exchange Plaza, 5th Floor,
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Mumbai – 400 051
(NSE Symbol: SHIL)

Dear Sir/Madam,

Sub: Transcript of the Earnings Conference Call held on 27th May, 2022

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the transcript of the Earnings Conference Call held on Friday, 27th May, 2022 for discussion of the financial results of the Company for the fourth quarter and year ended 31st March, 2022.

The transcript will also be available on the website of the Company i.e. www.shilgroup.com.

You are requested to take the above information on your record.

For **Hindware Home Innovation Limited**
(Formerly known as Somany Home Innovation Limited)

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(Formerly Somany Home Innovation Limited)

"Hindware Home Innovation Limited Q4 & FY22 Earnings Conference Call Transcript"

May 27, 2022

MANAGEMENT: **MR. RAKESH KAUL – WHOLE TIME DIRECTOR AND CEO, HINDWARE HOME INNOVATION LIMITED**
MR. RAJESH PAJNOO – CEO, PIPE BUSINESS
MR. SUDHANSHU POKHRIYAL – CEO, BATH BUSINESS
MR. SANDEEP SIKKA – GROUP CFO
MR. NAVEEN MALIK – CFO, HINDWARE HOME INNOVATION LIMITED

Moderator: Good day ladies and gentlemen and a very warm welcome to the Hindware Home Innovation Limited Q4 and FY22 Earnings Conference Call hosted by Monarch Networth 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.

I now hand the conference over to Mr. Vinit Gala from Monarch Networth Capital. Thank you and over to you sir.

Vinit Gala: Thank you. Good afternoon, everyone. On behalf of Monarch Networth Capital, I welcome you all to the Q4 and FY22 earnings call of Hindware Home Innovation Limited.

We are pleased to have the Senior Management Team of the Company represented by Mr. Rakesh Kaul – CEO and Whole-Time Director, Mr. Rajesh Pajnoo – CEO of the Pipes Business, Mr. Sudhanshu Pokhriyal – CEO of the Bath Business, Mr. Sandeep Sikka – Group CFO and Mr. Naveen Malik – CFO of Hindware Home Innovation Limited.

I would like to handover the call to Mr. Naveen Malik for his opening remarks. Over to you sir.

Naveen Malik: Thank you. Good afternoon, ladies, and gentlemen and a very well welcome to Hindware Home Innovation Limited's Q4 and FY22 earnings call. I am joined today by Mr. Rakesh Kaul – Whole-Time Director and CEO Hindware Home Innovation Limited, Mr. Sudhanshu Pokhriyal – CEO Bath Business, Mr. Rajesh Pajnoo – CEO, Pipe Business and Mr. Sandeep Sikka – Group CFO.

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. These may include but are not necessarily limited to financial projections or other statements of the 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 to Slide No. 2 of the earnings presentation for a detailed disclaimer.

Before I begin the discussion for our quarterly performance, I would just like to discuss two significant recent developments.

First, our Company, the erstwhile Somany Home Innovation Limited has been rebranded as Hindware Home Innovation Limited, aligning it with the mother brand Hindware and best leverage its impressive and hard-earned legacy. In line with this, Brilloca Limited, our wholly owned subsidiary, has been rebranded as Hindware Limited. The brand Hindware as you know is owned by Hindware Home Innovation Limited.

Secondly Hindware Limited acquired the Building Products Manufacturing Business of the erstwhile HSIL via slump sale for a total consideration of around Rs. 700 crore as of 31st March 2022. The transaction has been consummated from the closing hours of 31st March 2022. As you know our Building products business has delivered rapid growth over the last several quarters. This transaction offers several benefits. It helps our Building products business to secure control over manufacturing processes, it gives liberty to the management to align product placement with evolving customer needs. It also strengthens our competitive position and translate to better efficiencies. In addition to it, it integrates the entire value chain into a single entity, minimizes related party transactions and reduces compliance and administrative costs. Lastly but equally importantly, given erstwhile Brilloca's strong financial position and cash availability, the Company is optimally positioned to augment its manufacturing processes and technologies.

Let me now walk you through our financial performance, post which the business CEOs will discuss the key highlights of their respective businesses.

We are pleased with our performance for the quarter and the complete year, considering the challenging macro-economic environment amidst which we have to operate. For the complete financial year of FY22, in terms of top line we delivered a growth of 29% over FY21 with consolidated revenue from operations of Rs. 2,294 crore. Margin though was slightly benign, largely on the expected lines given the elevated input commodity inflation. In terms of absolute profitability, consolidated EBITDA grew 27% and amounted to Rs. 204 crore. Consolidated PAT, after considering results of JV, for the year stood at Rs. 202 crore, registering a growth of 268%. The reported PAT also include the exceptional items comprising recognition of fair value gain of Rs. 66.11 crore from its investment in HPL (Hintastica Private Limited), on account of loss of control of subsidiary and gain of Rs. 34.75 crore on account of slump sale of the water heater business undertaking by the Company to Hintastica Private Limited, a wholly owned subsidiary. As you are aware Groupe Atlantic France, a €2.2 Billion Euro Company with a dominant presence in manufacturing, developing, and distributing eco-friendly heating products and hot-water solutions, invested Rs. 68.3 crore for a 50% stake in the water heater business, subsidiary of Hindware Home Innovation Limited (at that time Somany Home Innovation Limited). The JV, Hintastica Private Limited is setting up a state-of-the-art water heater manufacturing facility in Telangana.

For Q4 while the Company sustained the top line momentum, margins were lower largely owing to the higher input and commodity prices. Supply chain disruption which got further accentuated as Russia-Ukraine war boost up the prices even further in turn exerting more pressure on the profitability. Consolidated revenue from the operations over the quarter stood at Rs. 686 crore registering a growth of 12% year-on-year. EBITDA for the quarter stood at Rs. 67 crore. PAT, after considering JV results, came in at Rs. 37 crore growing by 68% year-on-year. All these numbers are consolidated numbers.

Coming to segmental performance, the Building Products segment delivered yet another robust performance during the quarter and the year. Revenue from operations for FY22 stood at Rs. 1,795 crore, registering a stellar growth of 42%, EBIT for the full year stood at Rs. 158 crore, growing by 49%. For the quarter, the business delivered revenue growth of 20% year-on-year, with revenue coming in at Rs. 550 crore and EBIT at Rs. 57 crore.

For FY22 our young and fast-growing Plastic pipe and fitting business reported sales of Rs. 606 crore, registering a growth of 51% and for Q4 FY22 sales were at Rs. 205 crore, registering a growth of 36%. The business has maintained its strong growth momentum and over the past 2 years, the business has grown from Rs. 250 crore in FY19-20 to Rs. 606 crore in FY21-22, driven by strong fundamentals and our business strategy.

The Consumer Appliances business, during FY22 reported revenue of Rs. 431 crore, EBIT for the year stood at Rs. 6 crore. For the quarter the revenue stood at Rs. 121 crore, EBIT at a loss of Rs. 0.6 crore. Overall performance of business was subdued primarily on account of higher input costs and disruption in the quarter due to the third wave of COVID.

In the FY22 the Retail Business revenue stood at Rs. 67 crore, registering a growth of 15% with an EBIT of Rs. 4 crore over an EBIT loss of Rs. 8 crore last year. For Q4 FY22 revenue stood at Rs. 15 crore having grown 12% year-on-year while EBIT stood at Rs. 1 crore having grown by 16% year-on-year.

Despite the various challenges faced during the year, we have delivered a stellar reflection of our value proposition and effectiveness of our unique business model. While profitability for the quarter was under pressure, we are optimistic about our future performance. We remain committed and focused on our goal of delivering robust revenue and profitability growth and believe our brand salience, innovative products and strong 3 distinct distribution networks are well-placed towards achieving the same.

With that I would like to call Mr. Sudhanshu Pokhriyal to take you through the bath business. Over to you, Mr. Sudhanshu.

Sudhanshu Pokhriyal: Thank you Naveen. Good afternoon, everyone, and a very warm welcome to all of you.

Before discussing the performance of the year, I would like to talk a bit about the acquisition of the building product manufacturing business. This transaction ensures we have better control over the supply chain, provides us with requisite scale to deliver consistent growth going forward and you will see the contribution to our margins from Q1 FY23 onwards.

Our Sanitaryware and Faucet segment continues to outperform the market and registered one of the best performances during the year and the quarter. In FY22 revenue stood at about Rs. 1,190 crore registering growth of 38% and in Q4 FY22 revenue grew by about 12% year-on-year to Rs. 345 crore. We have been able to deliver strong quarter-on-quarter results on the back of new product innovations, strengthening our distribution network in Tier-II and Tier-III markets, enhance the brand salience, a booming the real estate and renovation market demand.

Going forward we believe we will be able to further strengthen our leadership position by continuing work on our strategy.

I would now like to handover the call to Mr. Rajesh Pajnoo to take you all through the plastic Pipes and Fittings business. Over to you, Rajesh.

Rajesh Pajnoo: Thank you Sudhanshu and good afternoon, everybody. In FY22, our Plastic Pipes and Fittings business reported the sales of Rs. 606 crore. registering a growth of 51% year-on-year and in Q4 FY22 business grew to Rs. 205 crore, registering a growth of the 36% year-on-year. I am happy to report that we continue to be the fastest growing brand in India in this segment owing to the widespread popularity of our brand and the high quality of our product.

Aligned with our Company's exponential growth strategy, we continue to tap into newer geography. Thus, the Board of Directors had approved an investment of ~Rs. 180 crore towards setting up a new manufacturing plant for the plastic pipes in Roorkee, Uttarakhand with an initial manufacturing capacity of 12,500 metric tons per annum.

Our capacity expansion at existing Isnapur plant that is in Telangana is expected to be completed by 31st December '22. With this our capacity will increase from 35,000 metric tons to 48,000 metric tons per annum.

In addition to the Pipes and Fittings business, following the successful foray in the North for the NCR market, we have also started a manufacturing overhead water tanks at our Telangana plant to cater to key southern states. The brand and products both continue to gain popularity across markets and we plan to gradually introduce this product category to other markets.

I would now like to handover the call to Mr. Rakesh Kaul to take you to consumer appliances and retail business. Over to you, Rakesh.

Rakesh Kaul: Thank you Mr. Pajnoo. Good afternoon, everyone and thank you for our Q4 and FY22 Earnings Call.

For FY22, Consumer Appliances business revenue came in at Rs. 431 crore and for the quarter our revenues stood at Rs. 121 crore. The quarter performance was largely subdued given the challenging operating environment. Elevated raw material prices and overall inflationary trend moderated the demand sentiments during Q4. E-commerce sales were also much lower during the quarter in line with the overall trend where in the e-commerce industry in general, actually, saw a dip in demand due to supply chain constraints, higher costs and lower demand.

We had undertaken price hikes in calibrated manner during the year and the quarter to counter the impact of higher input costs. However, we believe we will be able to see the benefits of this strategy over the coming quarters. We will continue to focus on introducing innovative led products in the market to ensure we cater to the increasing needs of our consumers.

We remain committed to our goal of building an exciting and innovative product portfolio. In Q4 FY22, we launched more than 12 new products with over 35 SKUs across chimneys, air coolers and fans. We have a presence across 1350+ distributors, dealers, and modern retail outlets to capture the growing consumer demand and our strong footprint of 12,500+ retail touch points helps us to connect with our consumers directly.

Our retail business of FY22 revenue grew by 15% to Rs. 67 crore and for the quarter, revenue grew by 12% to Rs. 15 crore. Despite the margin pressure, the business remained positive for yet another quarter and for the year and reiterates our strategy of focusing on franchising and e-commerce platforms.

That concludes the opening remarks. I would like to ask the moderator to open the floor for the questions and answers. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Puneet Khanna from BOB Investment.

Puneet Khanna: To begin with I want to understand a couple of things about the building products business, breakup of B2B and B2C sales for Q4, the Tier-I, Tier-II, Tier-III breakdown and also the capacity utilization since you also have now the manufacturing facility with Somany Homes and also what are the future plans for the growth of the building products business?

Sudhanshu Pokhriyal: So, we have had a pretty good year and we have outperformed all of our listed peers who ever have declared their results. We have had a pretty strong growth within retail as well as project segment. In fact, our strategy of spending on distribution, we have started with the distribution in sanitaryware in the business which is not usually the way the go to market is in sanitaryware industry and has really paid off. Our growth in both the projects as well as retail has been excellent. In fact we created our institutional team in Q4 of FY21 and that team has really started delivering us stupendous results in project business as well. At this point in time our contribution of our project business in fact is about 26%-27%. While 72% to 73% of our business is retail right now. So, absolutely a good response in both the segments. It’s not that only one segment is doing well, and other is not doing well thing. Secondly our guidance has been that we would be outperforming the market in both sanitaryware and in faucets we continue to hold the guidance. We believe we can outperform the market by 1.5 times over the market growth rate. We have done this in this year, and we have independently outperformed in this year, and we intend to do that in the coming year as well. As far as the capacity utilization is concerned what we have done is, we have expanded our vendor base. There are some few strategic vendors who we have appointed in both sanitaryware and faucets business as well as tiles business and also reduced our dependence on China in the last year which is what we had mentioned in our previous investor call as well. As far as our own plants are concerned, we are running upwards of 88%-90% in sanitaryware. But we have adequate capacity in faucet business right now. So, that’s the status. We intend to expand our vendor base for our sanitaryware business within India as well as in China and continue to source from there.

Puneet Khanna: How much in faucets?

Sandeep Sikka: Faucet is around 65%.

Puneet Khanna: What are the next year projections, what is the run rate you are targeting the growth FY23?

Sandeep Sikka: As a part of the management philosophy, we don't give the next year projections as such. I think Sudhanshu has spoken about the guidance that we should be able to grow by almost 1.5 times than the market. If you recall last year, we spoke about similar figures and then after the year you can see that we achieved those targets. So, apart from this, the one more important critical part of the game was that last year we had stated that we should be able to reduce the inventories also overall the net working capital. We have been able to do that. If you see on a consolidated basis, we have been able to reduce this by almost 25%-26%. But the better impact is there in the building products side where the figure is much better, that the reduction in the working capital is much higher.

Moderator: The next question is from the line of Rahul Picha from Multi Act Portfolio Management.

Rahul Picha: My question was related to the manufacturing undertaking. If I look at the disclosures for AGI Greenpac and discontinued operations classified there, we have a Rs. 26 crore operating profit in the manufacturing business while there is a one off of Rs. 38 crore GST refund. So, adjusted for that I think we have a loss on the manufacturing side this quarter. Can you just elaborate a bit on that and how that is likely to shape up going forward once it is combined with our Company?

Sandeep Sikka: A dwelling point to understand actually if you see last year, we had one big COVID event wherein most of the plants or many manufacturing facilities got impacted. Since our sourcing model from AGI Greenpac was on a cost-plus basis and as per the accounting standard during those periods when the plant closure happened the labor was not available. So, all the abnormal cost was retained in AGI Greenpac itself which impacted their profitability during Quarter 1. If you see those losses are to that account so if you see our old transcripts also our product acquisition formula which is a finished goods product acquisition was linked to a factor that whatever is the normal cost of production plus the markup. Now since we have acquired it and given the fact now we don't foresee any COVID in the near future, therefore we'll get a normalized number there. We have given guidance on an overall percentage to sales which is 2% to 3% addition to the EBITDA margins, on around 3% EBITDA margin should increase on an overall basis due to the acquisition of the manufacturing facility.

Rahul Picha: I understand the reason for loss in Q1 of FY22. My question was more on the fourth quarter wherein we have a segment profit of Rs. 26 crore, but I think there is a one-off income of Rs. 38 crore pertaining to GST and adjusting for that we have a I think loss in Q4 as well. So, just wanted some clarity here.

Sandeep Sikka: Normally going forward that loss won't be there. I don't have the data right now for AGI Greenpac on this call, maybe we can take that separately but going forward I've given you the broad guidance as to how we are sourcing.

Moderator: The next question is from the line Sonal Minhas from Prescient Capital.

Sonal Minhas: I had a question on the building material business, if we take out the pipe's contribution from the overall top line, I see that the balance building material business to my understanding has not grown that much quarter-on-quarter. Also, I think if I compare this to March last year, we were at roughly Rs. 310 crore which we grown to around Rs. 345 odd crore So, I hope my numbers are correct, but I think given the numbers are part of the disclosure, just wanted to understand from you like your comments on this.

Sandeep Sikka: **I**f you see on a quarterly basis we have grown by around 10% in sanitaryware and faucets. This is an overall view of what we did last year.

Sonal Minhas: Yes, from March to March you've grown by 10% and compared to December this year it has grown too.

Sandeep Sikka: On a full year of basis, we have grown at around 37.4%.

Sonal Minhas: My question was more around are you happy with the growth on the balance building material business? Are you seeing any challenges or there is a friction in the market? Just want to understand that if at all there is.

Sandeep Sikka: I would request if you can further clarify your question?

Sonal Minhas: So, if I take out the pipes business from the overall top line of the building products business.

Sandeep Sikka: Sudhanshu, would you like to answer?

Sudhanshu Pokhriyal: So, what happened is that in Q4 the COVID wave 3 impacted the Q4 numbers. I will not really read the 10% as any indication of the way the market is growing. In fact, like I said we are growing at 1.5 times market and market did not grow by 10% in Q4 FY22. So, as far as, are we satisfied with the growth of this business, I mean like I said earlier we are well beyond our guidance which and to the extent we are extremely satisfied. The overall growth of more than 37% for the whole year is extremely satisfactory. We intend to keep leading the market as we have given guidance.

Sonal Minhas: This means this year December quarter and this year March quarter, has the market grown because if I strip out the pipes business top line the balance business has grown from a top line of Rs. 341 crore to Rs. 345 crore which is largely, I think flattish. So, just wanted to understand this year December quarter to this year March quarter, have you seen market grow or this is just specific to you?

Sandeep Sikka: As Sudhanshu spoke about it, the December quarter was a normal quarter but March quarter was impacted in the month of January due to the restrictions during the third wave of COVID which didn't have that major impact but it had an impact in the market in terms of people not going out.

Sudhanshu Pokhriyal: Sequentially, Q4 did not grow over Q3 for us. At an overall level even in the market there was no growth.

Sonal Minhas: That's what I wanted to understand what was the reason for that particular, any subject to comment on that?

Sudhanshu Pokhriyal: It is largely because of the third wave of COVID which impacted retail demand at that time.

Sonal Minhas: You are seeing that phase off as we enter this particular quarter because we have already like in middle of this quarter, so how do you see the market now? So, this is more directionally around the market.

Sudhanshu Pokhriyal: The market is absolutely much better. I mean of course I cannot share any numbers but yes, it is much better at this point in time now.

Sonal Minhas: Just if I were to ask you a ballpark of a number for the consumer business. Like at what top line would this business actually be breaking even or let's say be at the profitability which you aspire it to be at if you could just throw some light on it because right now, I think we are probably like pretty much like breaking even or like its barely negative in terms of profitability. So, just want to understand what is the steady state margin for this particular business and what is the top line corresponding to that?

Sandeep Sikka: May I request Rakesh if you can take this.

Rakesh Kaul: It's only for the quarter that the margins are negative. It's not that in the past we not been profitable. We've been fairly profitable in the preceding quarters also. The primary reason for, from a run rate perspective even at this current run rate perspective since our business is also slightly seasonal, we cannot really compare the sequential performance of previous quarters because Quarter 3 and Quarter 2 happen to be much bigger quarters for Consumer Appliances business given the seasonality piece. From a run rate perspective even at the run rate what we are doing right now we can be profitable. The challenge for the Quarter 4 starting from the end of the Quarter 3 were massive price hikes in the entire industry, the ocean freight from imports moving from $800 to $9000 per container which astronomically increase the price. Despite taking price increases our margins dropped substantially by almost 4.6% in the quarter which impacted the profitability. From a run rate perspective, the margins would have been fine, and in which subsequently impacted the supply chain cost, the service cost, and the fixed cost as well. So, which impacted the overall profitability. From a run rate perspective, I believe that even at this level and with a growth which we are targeting this year we should be fairly profitable.

Sonal Minhas: If I were to just really zoom out 2-3 years, not asking for numbers like what is the margin that you aspire to run this business at? What is the corresponding asset turns that you basically expect or whatever the return on capital you expect to run this business at? Can you just help put some context because I think previous to the water-heater business we could understand and there was a linearity in the margins in the return profile. Now it is for us as investors and analysts I think its little difficult to put a finger on that where are the margins for this particular business heading in a steady state.

Rakesh Kaul: As far as the gross margins are concerned, our gross margins of the Company are hovering between if we deduct the on the Ind-AS are hovering between 35% or 36%. So, which suffered an erosion.

Sonal Minhas: So, it is a consumer products EBIT margin.

Rakesh Kaul: Yes. EBIT margins we are looking at around 7% to 8%.

Sonal Minhas: If you run this business is this aspirational to say that the consumer product business should have a return profile of roughly 25%-26% for it to qualify as a business which is in steady state because right now it is not. That is why I am just trying to like I think I understand where it is heading.

Rakesh Kaul: That is a good figure to target at.

Sonal Minhas: What top-line do you see this being achieved at?

Rakesh Kaul: From a top-line perspective I think we were in a growth phase. If you remove FY 21-22, we had a CAGR growth of more than 35% up till of FY 20-21 despite the COVID. So, primarily the business suffered on account of two reasons for the last 2 years. It was one of our key product categories of the cooling products. As you know COVID 1 and COVID 2 struck both in the Quarter 1 which constitutes to 65% of the yearly demand for this product. So, which was massively impacted. I think again I will reiterate that apart from this and apart from base escalation and few ocean freight and raw material prices even if you would have had a normal quarter for the cooling products, we would have been still at an EBIT of 7% to 8%. I think having said that, so we are having a magnificent summer right now. So, hopefully things will turn around for that. From a run rate perspective, we continue to look at desirable growth of 20% and 25%+ from at least this year, that is what we were looking at.

Moderator: The next question is from the line of Pritesh Chheda from Lucky Investments.

Pritesh Chheda: Just a clarification, so I understand that the balance sheets seem to have given the reflection of that asset that we have purchased, the asset from HSIL, the sanitaryware asset. Do the P&L also reflect the benefit of manufacturing?

Sandeep Sikka: No. If you see the notes to the accounts, the transaction got consummated after the close of business as of 31st March 2022. The assets transfer took place but all the profits which were there relating to those plants and on this manufacturing facility. They will start coming to us only with effect from 1st April 2022.

Pritesh Chheda: The margin change which was manufacturing margin will start getting reflected from next quarter, right?

Sandeep Sikka: This quarter itself like Q1 of this financial year.

Pritesh Chheda: What is the gross debt now in the balance sheet and the net debt number because now the balance sheet seems to be reflected in 3-4 places. The debt numbers should be helpful for us to know what is the gross and the net debt.

Sandeep Sikka: I appreciate your question. Basically, what had happened is till 31st March, 2022, out of Rs. 700 crore of consideration, we had paid only Rs. 109 crore and the balance is being paid off in Quarter 1. We expect that the closing debt based on the slump sale transaction if we compare it on 30th June 2022, we will have overall debt utilization ranging between Rs. 550 crore to Rs. 570 crore in the subsidiary which is Hindware Limited erstwhile Brilloca Limited. That will increase the debt, but we have given guidance that major part of this debt we should be able to pay off the next 2 to 3 years.

Pritesh Chheda: Why is the debt then reflecting something like Rs. 1,100 crore today? It is like say other financial liability, short-term borrowing, and long-term borrowings, then other financial liability in the non-current. All this totals up to about Rs. 1,100 crore.

Sandeep Sikka: So, what we are doing is we should not double count since the transaction has been given effect on 31st March 2022, as we acquired the asset so since the consideration is not paid. The unpaid consideration of about Rs. 600 crore is reflected in the other financial entity. So, that will convert into debt actually.

Pritesh Chheda: Perfect. What will be a total debt, your total debt will still be something like, Rs. 800 crore + Rs. 200 crore equal to Rs. 1,000 crore, right?

Sandeep Sikka: No, but what I am talking is the bank debt. Then there are other normal creditors, so you have to exclude normal creditors from the whole business. So, what the figure which I am giving you is relating to the bank interest bearing debt.

Pritesh Chheda: Including working capital and short term, long-term both, right?

Sandeep Sikka: Both of them together ranging between Rs. 550 to 560 crore of Hindware Limited.

Pritesh Chheda: My other two questions are, specifically on a category. So, how do you look at the sanitaryware category per se specifically, the marketplace there the market there? Second, I wanted to understand your thoughts on the growth rate of the chimney category because there also we are a fairly large market player.

Sandeep Sikka: So, I think for sanitaryware I will request Sudhanshu, and I will request Rakesh after that to answer the chimney part.

Sudhanshu Pokhriyal: Sanitaryware as a category getting a good demand right now and the market is growing in upwards of 10%-12% right now. As such there are no syndicated researches which are there the market which give the actual numbers. These are numbers which are coming as an estimate based on results which have been declared by listed companies and our own market interpretation. Overall level the market is growing at I would say a pretty healthy clip. In fact, because of the increase in input prices there has been some price increases which have also got passed on to the market to the consumer and it has actually taken been well by the consumers. Our rebranding exercise for Hindware in Hindware Italian collection which is ongoing right now has also really impacted and helped us in getting share in the sanitaryware category. In fact, last year we have launched many new products as well which were first in the category like a tankless water faucet and some touch free water faucets which were totally new, so the category has seen absolutely brilliant response from the consumers. You see, we are extremely positive on the sanitaryware category right now. We believe that we will continue to grow double digits and we will continue to outperform the market.

Pritesh Chheda: This 10% to 12% is volume growth rate you are mentioning too because there's already a 20%+ price hikes which have been taken?

Sudhanshu Pokhriyal: Yes. I am talking volume growth.

Pritesh Chheda: So, 10% to 12% and then whatever is the price hike we have to add that, right?

Sudhanshu Pokhriyal: Yes.

Pritesh Chheda: There is no disruption in demand as of now according to you.

Sudhanshu Pokhriyal: No.

Pritesh Chheda: In terms of availability of product line.

Sudhanshu Pokhriyal: We have reduced our dependence on China for sanitaryware, but we still have sub-10% contribution of volume coming from China. That is always a bit of a difficulty at times. We were able to secure a large part of that in Q1 of this year. Again, there have been some lockdowns which were announced in the last 30 odd days. So I really cannot comment exactly how much is the impact on subsequent supply chain. Like I mentioned in my previous answer, we have also developed a large number of local vendors which has really helped us even. We have in fact done some strategic tie-ups with some local vendors and through that we have ensured that there will not be any major supply disruptions. There may be some replacement of a specific brand or specific model due to China specific to domestic model. But per se I do not see a major disruption in the overall supply situation.

Pritesh Chheda: This volume growth which you mentioned but it seems that last year whether it is us or another listed Company, there is hardly any volume growth in the 20%+ revenue growth that you have shown. It must be hardly a single digit volume growth, so why is that the volume growth was so low last year.

Sandeep Sikka: If you see our results, we have a year-on-year growth of 37.4% on value terms in sanitaryware and faucets.

Pritesh Chheda: But that is including pipes, pure sanitaryware it will be about 23%-24%.

Sandeep Sikka: No, with pipe, so you see pipes growth is 51% and sanitaryware and faucets growth is 37.4%.

Pritesh Chheda: You gave the pipes number of Rs. 606 crore, right?

Sandeep Sikka: Yes.

Pritesh Chheda: Which has grown 50%. I have to reduce that from the building product to get the sanitaryware plus faucetware growth, right?

Sandeep Sikka: Yes.

Pritesh Chheda: So, that turns out to 23%.

Sandeep Sikka: No, what figure do you have?

Pritesh Chheda: Rs. 1,189 crore, pipes is Rs. 606 crore, segmental that you have reported Rs. 1,795 crore.

Sandeep Sikka: If you see on sanitaryware and faucets we did sales of Rs. 1,151 crore which last year was Rs. 837 crore.

Pritesh Chheda: This is including faucet?

Sandeep Sikka: This is sanitaryware and faucet, so this is including everything other than the pipes business. For Pipes, we did sales of Rs. 606 crore this year and last year was odd Rs. 400 crore.

Pritesh Chheda: I will check my numbers.

Sandeep Sikka: Actually, you have reduced the Rs. 600 crore on both the years, I think.

Pritesh Chheda: Maybe I would have done some error there.

Sudhanshu Pokhriyal: Our volume growth is extremely healthy in fact.

Sandeep Sikka: Sanitaryware and faucets in terms of volume growth, we are around 22% and the product mix another 3% and rest is the price increases.

Sudhanshu Pokhriyal: The price increases happened during the course of the year, so the complete impact of the price increase is not yet into the revenue.

Pritesh Chheda: Sir, my question on the chimney category?

Rakesh Kaul: I would like to answer that. In fact, we continue to be a dominant player in the category of larger kitchen appliances. In the sub segment of Consumer Appliances business, we are grown by 33% in the larger kitchen appliances which predominantly constitutes of kitchen chimneys. We are a very-very strong #2 player in this category with a 20% share and overall, we have and overall and in the category of e-commerce which contributes to 25% of the total volume of the business of this industry, we are a number clear #1 player of the 37% share as reported in the last year. So, as far as the outlook of the industry is concerned last year the industry reported anywhere between 15% to 18% of growth and we almost doubled that. I mean our growth is almost double of the industry growth as such. We continue to have one of the largest ranges of kitchen chimneys augmented by a very-very superior range of technologically enabled products. We were the first in the India to launch an IoT chimney, the first in India. We have the most silent chimney in the country which is 32% more silent than the most silent chimney actually by an Italian major. So, we continue to build our portfolio on the kitchen chimneys on the larger kitchen appliances in the back of our strong innovation. We have gotten more than 32 patents in the business so far which have been registered in the last 3.5 years and we continue to believe that our growth in this category of larger kitchen appliances will again be 2X of the market. We continue to believe that, and we are on that path of doing that as such.

Moderator: The next question is from the line of Nikhil Gada from Abakkus Asset Manager.

Nikhil Gada: My first question is regarding our building products division, the EBIT margins. If we see year-over-year, there has been some amount of correction in the margins. Can you please help me with the reason what has specifically happened?

Sandeep Sikka: So, if you see this overall growth in margins expansion has good for Sanitaryware, faucets and tiles. The EBIT margin has grown by almost 1.64%. There has been some drop in the margin on the pipes business because of the fluctuations.

Nikhil Gada: Could you please share the numbers as in what was the pipes margins in 4Q FY21 versus 4Q FY22?

Sandeep Sikka: I am giving you year-on-year rather than the quarter because quarter has been too much of a up and down.

Nikhil Gada: I need year-over-year itself for 4Q FY21.

Sandeep Sikka: Basically, last year this is when I am talking margins for sanitaryware, faucets as well as pipes. These are excluding the manufacturing margins. Basically, on an outsourcing basis from the third party, like last year we had an EBIT margin on pipes of 9.27% and this year we had on a yearly basis of 8.15%. So, if you see the overall sanitaryware and faucet EBIT margin expansion is there and on a net-net basis, we expanded it by another 164-basis point. As such, I will request Sudhanshu to talk about it, how we picked up in terms of the margin expansion. This includes various initiatives we have undertaken. One is definitely the increased volumes and better use of the operating leverage of distribution, and product mix.

Sudhanshu Pokhriyal: Yes, in the sanitaryware, faucet and tiles business our margins expanded by 1.64% for the year-to-year and it largely came because of an improved mix which of the products which we are selling in our portfolio. We have moved from a lot of basic products in the sanitaryware and faucet category to a higher end I would say more upgraded product. It is one pieces and wall mounts in the sanitaryware category and similarly diverter-based showers as well as higher end faucets in the faucet's category. One product mix improvement is a significant lever which has really helped us in terms of our improvement. Secondly, we have also done a lot of what we call a DTV work which is a design-to-value work wherein we have been able to reduce, mitigate some of the input price increases which have happened during the course of the year by re-designing our products, re-engineering our products as so to say. There have been let us say lightening of some of the products, we have been in terms of some specific design elements have been removed, improved so that the cost of goods for this product have actually come down substantially. So, this has really helped us in terms of improving our margins during the course of the year. Both these things of course, price increase have been taken to pass on whatever is the balance input margins. The price increases, input price increases have been far too, far too many but because of these initiatives around changing our product mix as well as doing design-to-value exercises; we have been able to in fact expand our margins which is not the case for most of the other organizations in our category right now.

Nikhil Gada: The 1.64% expansion in sanitaryware and faucets margins, this is 4Q FY22 versus 4Q FY21, right?

Sandeep Sikka: This is on roughly year-on-year, full year.

Nikhil Gada: Understood. The pipes margins that you gave, can you give it for FY22 versus FY21, the EBIT margins?

Sandeep Sikka: The figures which have given, I have given you financial year so basically it was last year at 9.27% and this year is 8.15%.

Nikhil Gada: Got it. Secondly in terms of our Consumer Appliances business, I think we have given a guidance of 7% to 8% EBIT margins. This is for FY23, or this is more from a long-term perspective?

Sandeep Sikka: So, this is more of a long-term perspective because we are building the business up. Right now, if you see this business got impacted due to the higher input prices and if you see industry per se also many players in the market in this sector, have faced these challenges but slowly and steadily, the pass on effect is happening and that pass on impact for the consumer goods is not that as fast as like in the pipes business which is a weekly adjustment. For sanitaryware and faucets, it has happened three-four times, we have increased the prices but for consumer we feel that price increases will happen over a period of time and that is why we will say that it is an 18 to 24 months' guidance.

Nikhil Gada: Understood but any near-term FY23 guidance because we have seen a very strong summer and definitely for FY21-22?

Sandeep Sikka: The only guidance we can give is that during Quarter 1, the temperatures were really high and we could do a good sale because of it.

Nikhil Gada: Lastly when I look at our balance sheet for consolidated; the inventory has seen a sharp spike up and the inventory days have gone up specifically and the overall working capital cycle when we look at, there has not been any major change post the acquisition of the manufacturing division. So, could you help me over there as in how we can go about this inventory days, reduction in inventory?

Sandeep Sikka: Basically, if you see it almost on a consolidating basis. Without considering the impact on a slump sale because although in the numbers which you are saying, when we acquired, when we pay Rs. 700 crore, we paid money around Rs. 322 crore towards inventory also which we acquired from them. Now we will rationalize the inventory, further pull it down. But if you see apple-to-apple basis, the inventory which was there on 31st March '21 without slump sale, without the acquisition versus the inventory as of 31st March, 2022 so it reduced from 114 days to 80 days, net working capital I am saying and if you adjust this on an overall basis, we have been able to do the major correction here.

Nikhil Gada: But this would sort of in terms of liquidation of the inventory, is there some stale stock that is there that will have to write-off or something like that or?

Sandeep Sikka: No write-offs as such. So, whatever it is there we have acquired the clean inventory from as a part of purchase consideration.

Nikhil Gada: This will sort of over the course of business; we will try to improve on this?

Sandeep Sikka: Yes.

Moderator: The next question is from the line of Sandesh Barmecha from Haitong Securities.

Sandesh Barmecha: It might be repetitive. What were the gross margins and EBITDA margins for pipes divisions specifically?

Sandeep Sikka: I have given the EBIT margins last year, so we do not disclose gross margins and the EBITDA margins. So, because the segmental reporting is an EBIT level, we have already disclosed EBIT level numbers for both sanitaryware & faucets and pipes separately.

Moderator: The next question is from the line of Rahul Picha from Multi-Act PMS.

Rahul Picha: My question was on the debt. A little while back you clarified on the debt for Brilloca. I wanted to understand on a consolidated level, when I look at the balance sheet right now, we have I think Rs. 140 odd crore of debt and if I look at the presentation and the disclosure that you have for pending consideration to be settled for the manufacturing business that we are taking over; I think Rs. 590 odd crore need to be paid. That would get added to the Rs. 140 crore that we have right now, right?

Sandeep Sikka: Yes.

Rahul Picha: And we would end up with around Rs. 725-730 crore of consolidated debt?

Sandeep Sikka: Not that because we will earn some profits also. It is not that we are getting 100% via debt. So, if you see we had said that the total acquisition size was odd Rs. 700 crore. We had almost around Rs. 100 crore in our kitty. So, incremental debt was Rs. 600 crore. The parent Company was using a debt of odd Rs. 130 crore-140 crore. I am giving broader numbers here. When I gave a figure of Rs. 550 crore to 560 crore as of 30th June, 2022 target bank utilization, which is both the term loan as well as the working capital plus apart from it, there will be another Rs. 140 crore of utilization in the parent Company. So, the total Rs. 700 crore of debt.

Rahul Picha: What will be the cost of this debt?

Sandeep Sikka: Most of this debt is getting contracted in term debt is at around 6.7%-6.8%. Working capital is cheaper by a percentage but interest rates are changing. So, I think with a quarterly reset this should increase by another 30-40 basis points.

Rahul Picha: For FY23 what is our target in terms of debt reduction?

Sandeep Sikka: What we have done is now there is an expansion. We feel that we should be spending odd Rs. 170 crore around on the CAPEX which will include the initial payments towards setting up the pipe plant. We are investing heavily into creating our branding on the retail stores and it is a massive expansion there. We will set up many stores and the visibility of the brand will be much higher. And then there is normal CAPEX which is linked to Sanitaryware and faucets plant wherein we will keep debottlenecking the facilities and further enhance the product portfolio. We feel that overall spend during financial year FY 22-23 will range somewhere between Rs. 150 to 175 crore in terms of CAPEX. As a matter of prudence any CAPEX which is there, we tend to borrow almost 70% of that as debt and if any surplus cash we generate, it goes and settle down the working capital. Basis the numbers, we have a target to earn money. We feel that overall debt should be in a range of Rs. 700 crore to Rs. 800 crore as such.

Rahul Picha: What is the amount that we will be spending on store expansion?

Sandeep Sikka: This is, these are spread across various categories. One on average if we feel that across businesses which we should be doing around Rs. 50 crore to Rs. 60 crore in terms of creating all these brand stores across the country.

Rahul Picha: What I have broadly understood is that right now we are at around Rs. 700 odd crore of debt and eventually by the end of the year after the CAPEX and investments that we plan to do we might end up at around Rs. 750 to 800 crore and over the next 2 to 3 years, we intend to bring it down significantly while this reduction is likely to be back ended because initially, we will be investing more, and the debt repayments might happen maybe in FY24 or FY25. Is that broad understanding, correct?

Sandeep Sikka: Yes, because since we do not have any more subsidiaries so whatever profit which we earn goes towards the reduction of the working capital and once the major chunk of working capital is paid then, we will start focusing on repayment of the loans.

Rahul Picha: Any targets that you have in mind for FY25 like the debt number that you are planning to get it down to by FY25?

Sandeep Sikka: We'll let you know over a period a of time. Right now, it is difficult for me to comment.

Moderator: The next question is a follow up from the line of Puneet Khanna from BOB Investment.

Puneet Khanna: How much price increase we have undertaken in building products over the period of last year and any price increase we are planning for the upcoming month? And also, since I want to understand the working capital as well. Can you bifurcate this is the sales days and the payable days and the inventory days we are sitting up on it.

Sandeep Sikka: If you see the full weighted average impact during the financial year for sanitaryware and faucets is odd 15% but if you see the price hikes, there has been four price hikes on the sanitaryware, another two to three price hikes on the faucets and this was SKU-by-SKU. But if you quantify this whether I think the overall price increase should be ranging between 25% to 30% of the impact if you take on a particular set of 7 days as compared to the 7 days of the previous financial year. But the impact of this will come in forthcoming quarters as such. As Sudhanshu already told like since the price hikes happened, spread over the year so the net impact is 15%. On the overall working capital side, if we see we have been able to bring down our receivables quite substantially for Hindware Limited. The last year, number of days of receivables was at odd 81 days so which right now is at 34 days for sanitaryware and faucets business. Inventory has remained there and inventory which I am talking is on a net-to-net basis without slump sell impact. The inventory is at around 63 days and even trade payables is at the similar value, 16 days. With the initiative as we are focusing more on the domestic sourcing so our ability to downsize the inventory will further enhance over a period of time. When we import, we have a higher lead time and we have to do for higher stock out, stocking at our warehouses.

Puneet Khanna: Just a clarification. Price increase average has been taken 25% to 30% across sanitary and faucets, right?

Sandeep Sikka: The average for the full year is around 15%. So, when I say 25% to 30%, it is the net impact so basically for any particular SKU on faucets, the price, the net selling price of the March '21 versus March '22 because even the input prices of brass increased substantially. So, that weighted average I am giving is for sanitaryware and faucet together ranging between 25% to 30%.

Moderator: The next question is a follow up from the line of Sandesh Barmecha from Haitong Securities.

Sandesh Barmecha: Just wanted to ask you on the pipe division itself. If you can give what was the geographical revenue mix for pipe divisions if possible?

Sandeep Sikka: Rajesh can you take that question.

Rajesh Pajnoo: See since we are just 3 years old into the market precisely, but we have been able to target PAN-India markets. Predominantly when it comes to CPVC category, we are very strong in Southern part of India, Northern part of India and Western to a certain extent, East it is a little bit new, we are yet to open because we have our capacity constraints at the moment otherwise geographically, we are there PAN-India.

Sandesh Barmecha: Great. First of all, congratulations on having a fabulous growth on the volume side. So, what kind of, where we will be targeting to increase our presence geographically over next 2 years?

Rajesh Pajnoo: You are asking about the pipe business?

Sandesh Barmecha: Yes, pipe business.

Rajesh Pajnoo: Yes, we would, we would definitely be trying to go deep into the rural markets because we targeted the urban initially and it would be mainly Central India and Eastern India otherwise, we have covered the whole country.

Sandesh Barmecha: If I may ask what kind of demand are we seeing in the first quarter specifically for pipes segment and so what would be our target for FY22, margins if you can provide?

Sandeep Sikka: Generally, we avoid giving the current year's numbers as such. Rajesh you can on overall basis comment, but we will avoid giving numbers.

Rajesh Pajnoo: Overall basis, see, we don't give the figures but overall, we are seeing a definitely a growth in the market and as such our products have been accepted, we are the fastest growing Company in this segment as of today, just in 3 years' time, we are growing at a CAGR of 54% and we see that the demands will be there and we will be doing better than others at the moment I can tell you.

Sandeep Sikka: So, if you recall last year, we had given guidance that in May '21 that in another 4 years our pipes business will around be Rs. 1,000 crore so we are holding onto that guidance right now.

Moderator: The next question is from the line of Sonal Minhas from Prescient Capital.

Sonal Minhas: I have a follow-on question. If all else was equal and I am just trying to put FY23 in perspective. Because of the debt increase on one side and the margin attribution to the manufacturing business coming on the other side. Can we believe that FY23 the margins would squeeze because of the manufacturing?

Sandeep Sikka: We will have addition to the EBIT margin because many people, they are comparing the margins of AGI Greenpac which got impacted with COVID margins. So, if you net off that since our model for sourcing from this was on a cost-plus basis at the EBIT level which was 4.5% for this working value for the sanitaryware & faucet and 3.5% for the pipes. That EBIT will definitely get added so it will value accretive, it is not that it will erode the EBIT value.

Moderator: Thank you. That was the last question. I now hand the conference over to Mr. Vinit Gala for closing comments.

Vinit Gala: We would like to thank the management of Hindware Home Innovation Limited for giving us the opportunity to host the call, also to all the participants for attending the call. Thank you and over to you sir.

Sandeep Sikka: Thank you. I thank everybody who are attending the call. I think it got disconnected in the middle for few seconds, but I hope we have been able to answer most of your queries. If you have any other queries you can get back to CDR India and we will be happy to respond to the same. Thank you very much.

Moderator: Thank you. Ladies and gentlemen on behalf of Monarch Networth Capital that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.

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.