HIL
TOGETHER, WE BUILD.

CK BIRLA GROUP

August 8, 2022

To
BSE Limited
P.J.Towers, Dalal Street
Mumbai – 400 001

Scrip Code: 509675
Through: BSE Listing Center

To
National Stock Exchange of India Limited
5th Floor, Exchange Plaza, Bandra (E),
Mumbai – 400 051

Scrip Symbol: HIL
Through: NSE Digital Portal

Sub: Transcript of the Earnings Call held on August 2, 2022 on Q1 F23 Financial Results

Ref: Regulation 30 of SEBI LODR Regulations, 2015

Dear Sir,

Pursuant to Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find the attached transcript of the Earnings Call held on Tuesday, August 2, 2022 on Q1 F23 Financial Results.

A copy of the said transcript is uploaded on the website of the Company www.hil.in

Kindly take the same on record and disseminate on your website.

Thanking You.

Yours faithfully,

For HIL Limited
MAHESH MADHUKAR THAKAR

Digitally signed by MAHESH MADHUKAR THAKAR
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Mahesh Thakar
Company Secretary &
Head Legal

HIL Limited
Q1 FY23 Earnings Conference Call
August 02, 2022

Siddharth Rangnekar: Thank you. Good morning, everyone and welcome to HIL Limited Q1 FY23 earnings conference Call for investors and analysts.

Today we have with us Mr. Dhirup Roy Choudhary, Managing Director and CEO of the Company; Mr. Saikat Mukhopadhyay, CFO; Mr. Ajay Kapadia, Vice President, Finance and Accounts.

We will first have Mr. Dhirup Roy Choudhary making the opening comments and he would be followed by Mr. Mukhopadhyay who will bring out financial perspectives.

Before we begin, I wish to state that some of the statements made on today's call could be forward looking in nature and details in this regard are available in the earnings presentation, which has been shared with you and is also available on the Company's website.

I shall now call upon Mr. Roy Choudhary to present his views. Over to you, Dhirup.

Dhirup Roy Choudhary: Thank you, Siddharth. Good morning, everyone and a very warm welcome to HIL's Q1 FY23 earnings call. Thank you for taking the time to join us today and I sincerely hope that all of you are doing well. Before, I will share my views on the business performance, it gives me great pleasure to welcome Mr. Saikat Mukhopadhyay, our new CFO to the "*OneHIL*" family.

Coming to the business results, I am pleased to share that we started the financial year by delivering a healthy double-digit revenue growth. Our performance during the quarter reciprocates HIL's agility, nimbleness and boldness. During the quarter, we continued to face inflationary pressures in most of our business segments. These ripples were caused by the persistent inflation in key raw material costs, high freight rate and the ongoing geopolitical scenario in Europe.

Let me now take you through the individual performances of each of our business segments. The Roofing Solution business continues to deliver strong results in terms of volume and pricing. This was primarily driven by our team's efforts using digital connect and Last-Mile reach, our robust brand image, superior product offering and a deeper distribution reach. Due to our impeccable planning, operational efficiencies, market reach using BI tools and execution at the ground level, we could improve market share in the first quarter.

As I have alluded in my previous calls, our teams have been relentlessly working to plan for alternative raw materials and recipes in response to the ongoing inflation. The continuous cost optimization initiatives undertaken by our teams, together with the effective use of IoT 4.0, TPM and six sigma implementation in most of our plants helped in reducing the impact of ongoing volatility and limited the impact on profitability margins.

Our green Charminar Fortune product continues to garner interest in the market delivering superior volumes during the quarter. Overall, we remain confident of maintaining our position as the market leaders in Roofing segment and as supply bottlenecks for some of the key raw materials and inflation eases, we will come back to our profitability while maintaining our growth trajectory in this business.

Coming to Building Solutions business, our meticulous planning and strategic execution over the last year or so has helped us deliver the highest ever revenue and profitability during the quarter. We have now been able to penetrate the Tier 4, Tier 3 cities and cherry pick our orders proactively. We are widening our reach in the Eastern region, by acquiring the blocks facility near Cuttack, developing new facilities for Panels and Boards in Odisha and further enhancing capabilities and capacities of our existing plants by using digital efficiencies and automation. Our plants are 100% utilized and the new acquisition of Fastbuild in Odisha will immediately help us to profitably ramp up this business in Eastern geographies where we see a huge demand potential. The teams have streamlined their efforts on tightening the terms of trade in the channel. And as a result, we are expected to deliver profitability on a sustained basis in this business going forward.

Moving onto Polymer segment. The segment has been consistently delivering high growth rates, driven by the manifold increase of our reach and SKUs on offer. Our aspirations for the piping business remains very high and we continue to witness healthy utilizations across all our plants. However, a sharp fall in PVC resin price by almost 20% or more from the mid-quarter onwards impacted near term sales due to channel destocking and inventory losses, which has resulted into negative margins in pipes and fitting business in the last quarter. We are also witnessing a similar trend in current quarter, which will further put high pressure on our margins in this segment in Q2 FY23. However, we are confident that this business will jump back profitably from Q3 FY23 and we will continue to focus on expanding our business and product portfolio in the segment. Our aim to get this business up to a Rs. 1,000 crore remains intact.

Coming to Flooring Solutions business. Europe continues to face high headwinds onto the geopolitical situation where all Flooring company including PARADOR with a steep scarcity of raw material and doubling of raw material costs over the last few quarters. Our teams have taken determent efforts towards augmenting long-term supply contracts with key dependable raw material suppliers and innovating alternative products during the months, which have all supported towards, partially offsetting the impact of huge cost adversely and restricted demand.

The ongoing war between Russia and Ukraine has created an inflationary pressure in all European countries, which have thrown open a new challenge for us in way of negative consumer sentiments. The EU market continues to face gas and energy crisis and market sentiment continues to be weak, driven by fears of recession on the back of high inflation.

Our attempts of scaling up the business outside of the Germany-Austria, home market continues. I am pleased to share that we have been successful in doing so and have crafted a strong brand image in the European market. Spain and UK have continued to show better growth. Looking at the future growth profile in UK, we have incorporated a new legal entity in UK, while planning for further global expansions are still on the table.

Our joint venture in China has also recorded a modest revenue growth and we remain hopeful that things will ease post the pandemic situation in China figures out. Quarter 2 will remain challenging as is normal during summers in Europe, but we are confident to come back to our profitable growth as the current transition conditions eases.

HIL continues to remain a people's organization and once again, for the fourth consecutive year, Great Place To Work that have-certified us and we have been rated the best company in Cement and Building materials in India. Our business achievements are backed by the sterling contribution of our teams. Our growth, profitability and cash remains intact as we navigate through these tough times. Your committed teams to deliver your Company towards a $1 billion one-stop is building solutions provider by 2026.

On that note, I would like to invite our CFO, Saikat to give a more granular view on the financial performance during the quarter, and would happily come back to answer your questions, thereafter. Over to you, Saikat.

Saikat Mukhopadhyay: Thank you, Dhirup. A very good morning to everyone and thank you for joining us on this call today. I would like to take you also through the financials and operating highlights of the business during Q1 FY23.

The ongoing geopolitical tensions and the consequent headwinds affected the financial performance during the quarter. It is noteworthy that all our teams drove hard to offset this effect and these initiatives helped in delivering better than expected growth and margins.

We recorded consolidated revenue of Rs. 1,085 crore during the quarter, growing by approximately 10% as compared to Rs. 984 crore in Q1 FY22. EBITDA for the quarter de grew by 21% on a year-on-year basis, coming to Rs. 137 crore with margins at 12%. PAT for the quarter stood at Rs. 87 crore.

In Q1, the Roofing Solution business grew by 10% year-on-year, coming to Rs. 453 crore as compared to Rs. 412 crore in the corresponding quarter last year. We continue to have a higher market share in the Roofing business and this revenue growth is a testimony of that.

The Building Solutions business grew by 49% year-on-year and 8% quarter-on-quarter during Q1 FY23 coming at Rs. 124 crore. We have been able to recover the impact of high inflation in raw material prices in the segment by strategic pricing and cost rationalization mechanisms.

Polymer Solutions business grew by 31% year-on-year to Rs. 141 crore in Q1 FY23. It is our endeavor to cross the Rs. 1,500 crore revenue mark in the next 3 to 4 years, which will be driven by the introduction of new SKUs, increasing volumes and prudent pricing and obviously inorganic strategic initiatives.

The Flooring Solutions that is PARADOR business de grew by 4% year-on-year and stood at Rs. 365 crore during the quarter under review. We continue to adapt to the current conditions and our focus on growing into Europe as well as globally.

It is our constant effort to keep the cash focused approach in the business, which has supported once again to maintain a healthy balance sheet for us. We have successfully reduced the debt by Rs. 35 crore during the quarter and once again, we will be happy to note, we have become interest free debt free as far as India business is concerned. The debt at consolidated level stands at Rs. 253 crore on the total debt equity ratio is at 0.20.

With this, I would like to conclude my opening remarks. I request the moderator to open the floor for questions. Thank you.

Moderator: The first question is from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: Mr. Choudhary, good morning and congratulations on a strong quarter given the constraints of inflation around us. A couple of questions and in interest of time, I will lay them altogether. First up on Roofing, Mr. Choudhary, there was an indication that Roofing volumes might have been tad tepid towards the end of May and June. Just wanted your comments on how we performed on the volume front and given one month into Q2, how does the current quarter look like growth wise and margin wise? There were issues around high container transportation costs in Q4 and having in Q1 as well, so, any insights there would help.

Secondly, in PARADOR it was expected that our sourcing of HDF would probably come back by Q2. Any outlook on how the supply chain that is looking and is inflation in power costs in Germany should be seen as a headwind? Then when it comes to profitability, I am sorry, I missed it, did you mean we will return to profitability in PARADOR in Q2 or was it Q3?

Dhirup Roy Choudhary: Mr. Sarkar, many thanks. Your good words makes a lot of meaning to me and my team. Yes, situations are very difficult, but your team is fully on the job, and I can assure you that. Coming to Roofing and your questions on quantity, I think that was your first question. I think we did extremely well in Q1 on Roofing. In quantities, we have gained market share close to about 1% over last year Q1. And this consistent quantity drive down to the level has really worked well, our materials were dot at the place through BI mechanisms to people organizing and therefore stocking before even the season started and thereafter working throughout the season was impeccable.

Yes, you are right. May and June or rather, I would say towards the end of May and June did see a reflection of slowing down in the market and sadly for some of our competition they started becoming panicked because they haven't gained market share as they wanted in April, itself and therefore, there was a madness, I would say in trying to gather speed. And for the first time in my 5.5 years with this Company has seen prices getting lower in June and NSR getting lower during end of June, which is absolutely not required. And I think I would not be able to comment how they would maintain themselves, to rightly pricing cost issues but that's their decision.

I think we posted very healthy volumes of in excess of 375,000 metric tons in Q1 FY23, which I would say it was phenomenal. Q2 FY23 has started and it has started again with the same rules of material costs, the fiber cost that we get along with the sea freights are exorbitantly higher to last year same time. Cement is lowering a little bit, but it's still not anywhere comparable to last year and fly ash would be another critical element that we would face and already facing in Q2.

So, my two cents here would be Q2 FY23 will be again quite a challenging quarter for HIL. But in way of growth, volumes, market share, we will outshine everyone else, and amongst what is available in the market and the present situation, HIL results should be far better, is my reckoning. That's about your Roofing and let me come to PARADOR.

So, yes, PARADOR not relying exactly to your question but giving an overall and far better, let me first comment by saying that PARADOR made a sterling performance in many ways till a year before. I think we were going absolutely smooth in PARADOR in way of our settling on acquisition and thereafter moving towards more customer gain in different parts till maybe the second quarter of last financial year. Q1 last financial was about bumper performance by

PARADOR and that's making it even more to compare with the second quarter of this year.

However, last year we faced the material cost issue and availability issue of HDF / MDF, and all the concerns, which I have already talked about in my earlier calls. By Q4 last year or Q1 this calendar year, I thought we have been able to address all of that and therefore, we made an another very good quarter results in calendar year Q1 this year, or Q4 last financial year.

Everything seems to be coming back and we were again poised to ramp ourselves up but came this with geopolitical issue - Russia and Ukraine war. This definitely have created an inflationary pressure in all European countries, which have thrown open the new challenges for us in way of negative consumer sentiments, DIYs that dried out, consumers are not spending enough for renovations as it start with sales today in Europe. They have gone with vengeance for vacations and therefore, their spending for vacation has offset a lot of that savings.

And, we definitely see this market sentiments to continue to be weak, at least for another quarter or two. Your Company is well aware of the transient challenges being faced in ground and are taking bold steps to mitigate these by way of strategic customer acquisition, cost savings, efficiency enhancement and selecting key products to be sold to stay up with the business. We are confident that as the situation eases our growth profile and the overall fabric of getting PARADOR to 350 to 400 million Euro in the next 3 to 4 years stays absolutely resounding. I hope, I have answered both your questions.

Baidik Sarkar: You know, did you allude that Q2 might be a profitable quarter for PARADOR or did you mean that we should probably experience that by Q3 of this financial year?

Dhirup Roy Choudhary: So Q2 in PARADOR is always a weak quarter being summer and this year it will be definitely challenging. Q3, I am sure that situation will ease out, in many ways because the material costs will start coming down as the inventory builds up or as the demands go down. And I am very positive Q3 will be better.

Moderator: Next question is from the line of Shivan from JHP Securities. Please go ahead.

Shivan Sarvaiya: Sir, my question was on the Building Solutions business and specifically in the Boards and Panels part. So sir, could you give some understanding on the industry structure and what are the growth rates that the industry is seeing because when I look at this particular business and when I read certain industry reports, the sense that I get is that the industry is growing at say about early teens kind of growth rate. But when I look at the benefits of dry walling, the speed at which the building can be done, etcetera one would expect a much faster clip in the growth rate. So, sir, could you give some understanding on what's holding the growth rates back?

Dhirup Roy Choudhary: Shivan, you are absolutely dot right and I compliment your business knowledge in the market. This is a segment which is showing up and its furthermore favorable for HIL because over the last couple of years, a lot of efforts have been made in PIN code mapping, in heat maps, in BI tool that we are using to map really where the activities are and Tier 2, Tier 3 cities, we have actually migrated in many ways, from the Tier 1 big customers to a lot of these small customers in the deep pockets of the country. And I can tell you that we are very, very upbeat on this segment as well as you are.

Our constraint was capacity and we have not invested enough in this particular business because the profitability of this business was always lower single-digit and somehow I was not convinced that we should park our capital here by investing more till 6 months back. So last 6 to 8 months, you would have seen we have announced a new capacity in Orissa for Boards enhancement, for Panels and for AAC blocks.

So, Boards, we are augmenting our existing Roofing line because about 4 to 5 months in the year they are hardly utilized and we would make that capacity available for Boards. Panels we are setting up a brand new facility. We were also planned to set up a brand new greenfield for Blocks. But then came in a huge cost pressure on steel and everything and suddenly the project cost went to a different leg which was absolutely uneconomical for us and had stopped the placement of the new greenfield for AAC blocks and rather looked at alternative methods to still ramp up in East.

You are aware that we have, for our Blocks, four factories. One is in Jhajjar Haryana, one is in Golan in Gujarat, the other is in Hyderabad and the fourth one is in Chennai. We didn't have anything in East and therefore, there was definitely a need to set up a Blocks plant in East. The market in East is growing as well, and I think the market size is about 280,000-300,000 cubic meter and amongst the best-known people who are producing and brand, which is acceptable to consumers, Fastbuild comes as number one. And therefore, it was a good deal that we have been able to seal through with Fastbuild, now coming to our family. We would immediately after closing the deal, start moving our top line and bottom line from this plant. In the process also we would be able to take away one of our biggest competition in that zone and therefore we would be able to consolidate ourselves in this market. Fastbuild as a brand is also known very well and accepted by some of the B2B customers. So, that will help us immediately to ramp up after closing.

I think on a capacity front, they have 150,000 cubic meter, we have looked at that machine technology and everything. So we are well aware of what lies ahead. They are using about 60% of the capacity at the moment. And I think we should be able to ramp that up. So, overall, we are also increasing the capacities of our existing plants by automation and IoT 4.0 and let me assure you that we have committed to all of you that this business, which was about Rs. 270 crore a year before and last year we were about Rs. 400 crore. We will move to Rs. 750 to 800 crore in the next 3 to 4 years.

And I am not committing we will do more acquisitions and M&As. I am also not committing that we will pump in a lot of capex in this business. But I am commenting that the business will grow and we will look at alternative methods to grow this business profitably. I am happy that we have been able to work hard and bring this profitably above 10% now. I think Q1 was about 14% in this business, and I am confident that with all sales and processes that we have augmented now the business is sharp enough to deliver high profitability consistently for this business.

Shivan Sarvaiya: Okay. Sir. You said Rs. 750 crore to Rs. 800 crore in the next few years. So, when I look at the mix between AAC blocks and Boards and Panels, what would it be? Currently, I think it would be 60:40. Would that be the same mix when you look at 700 to 800 crore of top line?

Dhirup Roy Choudhary: Shivan, the only difference between maybe 4 years back and today is, we have merged this business so meticulously that most of our plants now deliver all the products together. So, there is a lot of commonality in cost structure and other thing which is helping both the businesses. So, I would not be too conscious about this mix though what you said it should remain that way, I would rather be looking at overall growth in this business profitably.

Shivan Sarvaiya: Okay. Sir. My last question regarding this business segment is that in the market, is there reception from the retail homebuilder for products like the dry walling solutions? Are you seeing that or these get mainly used in commercial spaces for partitions?

Dhirup Roy Choudhary: So, this is one business where I would stay away from a product sale and therefore the retail space. I would rather do a system sale which I had declared about 2.5 years back. We have strengthened up very, very high quality technical team across the country to work with influencers and try & get our whole solution impacted in the projects. And, that's the way we would continue to do this. So, we are getting a high margin by our connect with the customers that we want.

Shivan Sarvaiya: Sir, I missed the last part, if you could just.

Dhirup Roy Choudhary: So, we are continuing to build this business as a technology sale, as a system sale, and we will continue to do that. It will remain primarily a B2B for us as a strength.

Shivan Sarvaiya: Okay. But sir, you would be knowing the end use of the product, right? Is it going more into the commercial spaces or is it going more into the residential spaces? Do you have that kind of data?

Dhirup Roy Choudhary: Shivan, this product can get into all these. So, it's all about creatively looking at different regions and the strength of growth coming through, and we are doing that through the heat map. So, we are going into both commercial and residential as the need arises.

Shivan Sarvaiya: Okay. Sir, and one last question, if I may. Sir, we are getting into many segments. And in terms of Management bandwidth and in the pecking order of growth, where would the most amount of Management bandwidth be focused on?

Dhirup Roy Choudhary: Sivan, each of the segments are babies, which we want to garnish and grow. Therefore, it will be very difficult for us to pinpoint where our focus will be. But major growth you can expect will come from the Polymer segment as well as from PARADOR. So, that's an interesting segment to put a lot of energy and investments in, and we would continue to do that while continuing to strengthen our Roofing and Building materials because they are evergreen, and they are a solid profit providers, and we will continue to do that. So, Management bandwidth is being widened and that shouldn't come in between our growth profile.

Moderator: The next question is from the line of VP Rajesh from Banyan Capital Advisors. Please go ahead.

VP Rajesh: Hi, congratulations on a good set of numbers, too. My first question is regarding the Roofing business. I think you mentioned that there was some pricing weakness in Q1. So, did we lose market share or did we gain market share because of these pricing movements?

Dhirup Roy Choudhary: So, in Roofing, I mentioned and I am happy to repeat. We have gained market share in Q1, and we are #1 by far big numbers to the next level.

VP Rajesh: Okay. So then why would that player which is much smaller try to undercut on the pricing? Do they have added more capacity? Or is there any player in the industry who has entered, if you could give some color on that?

Dhirup Roy Choudhary: So, Q1 is the most potent quarter for Roofing, everyone knows that. Prices in Q1 for Roofing products are the highest in the year, and therefore, everyone would try to make the best of it. And I can only emphasize that if you have not done well in your homework, you would have lost a bit of your market appreciation in April. We got April very solid behind us. And as the market demand did not show up to the extent that possibly everyone wanted it to be in the later part of May and June, there was a certain panic in the market, and that's what I alluded to. But HIL maintained its posture, and we have been able to gain both market share and also done very well on our NSRs.

VP Rajesh: The second question is regarding PARADOR. I know you gave the commentary on the near term, but let's say, beyond this year, what kind of growth do you expect from PARADOR just on the organic business side by expanding in different geographies and in its core markets?

Dhirup Roy Choudhary: Sir, we are taking very, very active actions for growing this business. Our problem this quarter that is Q1 FY23 was because of a setback due to the geopolitical situation. I will repeat again, the sentiments are pretty low in Europe, in most of the countries in Europe, and we are seeing that every day. So, at the moment, therefore, the demands were muted. Summers are also the worst time in Europe from a demand perspective, and that is normal for every year. So, let's wait for Q3 to come and we are taking a good bit of actions to ramp up our sales in UK, as I mentioned, with the creation of a new company of PARADOR in UK. PARADOR China will also pick up. We are going to move very fast in Spain, France and Switzerland. So, these will be the countries that we'll be focusing specifically on. Three weeks, I have extensively personally traveled in all these countries to have a first-hand view of our brand positioning, our marketing and so far what we are doing is and how to posture PARADOR and what would be the levers for exciting PARADOR sales. I can tell you, I stay bullish. Our entire fabric is to grow PARADOR to more than double where it is today in the next 3 to 4 years, and we will completely move towards that direction.

Moderator: Next question is from the line of Amit Vora, an individual investor. Please go ahead.

Amit Vora: Yes. First of all, you have given a good heads-up in the previous quarter of what is to come. So, that has been really helpful to understand and make sure how things will be. I have a few questions. One is on the Roofing segment. I understand Q2, Q3 are softer, but just to understand, where is it on the raw material side? Is the competition facing some problems in terms of getting raw materials, going forward from Kazakhstan and Russia? That's one.

Second, Pipes, what would be our utilization level and the loss that we have reported in the segment? Is it majorly from one of the segment? Or, we can assume that it is from both putty and pipes.

The third question is on the new acquisition. Of course, you have shared that it is at 60% utilization, and it is doing around Rs. 25 crore of sales. With HIL's efficiency, what is it that we can achieve in this financial year post we completely take over, in terms of profitability and any target in terms of ROCE that we are looking at? And what it is currently? Yes, these are the three. Thank you very much.

Dhirup Roy Choudhary: We can spend the next whole day, Amit Ji on all these questions, but thank you very much for your kind words. Very, very interesting and important questions. First of all, about the clarity of as we give Amit Ji, this is your company. This is every one of yours' company. So, it is my job to be as transparent as possible to the extent we understand the business, and you will always hear that from us.

Coming to your specific questions on Roofing. I think the raw materials side, fiber, I heard from you that competitors are facing problems in fiber procurement. We are pretty safe on fiber procurement from where we buy. So, Brazil is our major supplier, and I think there is absolutely no problem in getting the fiber. The costs have gone up immensely and sea freights are the other bit, which has not softened between Brazil and India, which is continuously posing a headwind for us. So raw material on fiber is our biggest element of cost enhancements that we are seeing, and it will take some time for that to come under control. So, Q2 also, we will take that issue.

Cement is a normal process. Every year Q1, it's a high cement price, which we have seen even higher than last year. And it's slightly softening, but it's nowhere closer to last year in Q2 as well. So raw material pressures will affect us in Q2 as well. But Q3 onwards, we will once again be back is my appreciation on this. Whereas on the top line and on market share and on quantity, we go all out to secure ourselves far better than anyone else. That's on Roofing.

For Polymer, yes, the capacity utilization is about 55% to 60%, and we are growing quarter-on-quarter, year-on-year. And I think quite satisfactory in the last 12 months, the growth has been in order. We have brought in lots of SKUs today into this business and getting into newer markets. South and East have been the latest trenches that we have done. And from our top line, from our market presence, from our distributor that connects and building that distributor network, I think we are absolutely there.

Yes, PVC prices have caused a lot of problems to this market, and in general, also to the costs because we have lost at least about Rs. 7 crore to Rs. 8 crore in the quarter on account of lowering of PVC price, which was not anticipated to this level. Yes, there's a lot of learning that we are doing. Q2 also will be rough owing to a lot of material, which are in sea, and the costs will be hitting us. But, we have taken some alternative routes now and Q3 onwards, we will be able to stabilize this.

On the new acquisition on Fastbuild, it is a strategic acquisition that we have been able to do. We have been able to, therefore, compromise a potential big competitor who have been in that region had we set up our greenfield. We have got a fantastic brand and a good quality product through this acquisition, and also from day 1, we will make top line and bottom-line contributions in this business. So, they do about Rs. 25 crore top line. There are about Rs. 4.5-5 crore plus EBITDA at the present level. But, as I said, they utilize their capacity to about 60%. So, there's a good room for us to evolve this business up, improve the business up in both top line and bottom line, which we will do. Calculations on ROCE, it's too early to predict, but I would assume, 15-20% in the first year and then move forward.

Amit Vora: Okay. Rs. 4 crore EBITDA is what I heard, is that correct?

Dhirup Roy Choudhary: **Y**es, they are at Rs. 4.5 crore to 5 crore roughly on an annualized basis in the present scale that they are operating.

Amit Vora: At 60% utilization. So, there is definitely room for the HIL's efficiency in your leadership, we can just definitely take that up. Just one question, if I may squeeze through. Is the UK subsidiary that we have set up for PARADOR, is it in same line the way we have done it for China JV? Or what is the rationale and one more thing is the rationale for that? That's it. And then I will join back in the queue.

Dhirup Roy Choudhary: Again, a good question. So first, let me explain the rationale and then how that JV has been compute. So, the rationale is, UK, we see as a very, very good market for us. It's the market, which favors the last leg brand, and PARADOR can have a very, very fruitful business. We do about EUR 3 million to EUR 4 million business in Europe historically, which has grown to almost about EUR 6 million to EUR 7 million in the last one year, and we are hoping that this business will grow further in Europe.

The reason for setting up UK subsidiary is because with Brexit, there were tremendous problems in way of documentation, material movement and clearances. And, customers there are used to over the night delivery of products, and there are no big manufacturer of Flooring in UK. So, everyone basically sells outside from Europe and America into UK. So, we wanted to have a lead there by setting up our own inventory warehouse.

And so, this will be a 100% PARADOR company, so there won't be a JV there. We will set up our own sales teams. In fact, we have a small team, which we will improve further and utilize our base and our local company to channelize customer demands in the UK and the investment in UK will be far lesser than Euro 100,000, will not be at all a big investment.

Moderator: Next question is from the line of Vinit Shah from Shah Group. Please go ahead.

Vinit Shah: Hello. I want to ask regarding the outlook on the Pipe Solutions. So basically, in the market, such as aggressive players like Astral and Apollo, which has a great distribution already set in place. What is the right to win in that particular segment? And, can you please share about any capex plan in this segment?

Dhirup Roy Choudhary: Thank you, Mr. Shah. Pipes business is a very interesting business. There are big pies as we say there, and then there are lots of smaller players. The rationale of our huge momentum in pipes is because, first of all, it's a big market. The market is driven by three big pillars: one, a good quality product; number two, a great spread in the market, so retail presence; and number three, the brand. So, unlike any other product, this one is our brand pull business. So, we have all three, and over the months and years, we have developed ourselves to be on top of all three. So, we have the best product in the market on quality which compared with the likes of Ashirwad who are the #1 quality players in the market. Number 2 is, we are gaining strength in our retail and distributor network. So every month that our goals to be achieved.

Okay. So, that's the second part of it. And third is of course, there is no Birla brand of pipes, and that has a good pull into market. So, all of these are helping us to grow this market. We are moving now in a big way into B2B earlier it was only B2C. Earlier, it was only North and West. Now we are moving into South and East of the country. So, we are well on course to make this a big story.

Vinit Shah: Okay. And then, any plans regarding your future capex?

Dhirup Roy Choudhary: At the moment, as I said, our capacity utilization is 55-60%. There is good room to grow there, but we don't have any facility in East. We will definitely be conscious of that and see what we want to do about it because otherwise, the freight could be killing, spending the products from either our Golan factory or from Faridabad factory. So that we are conscious of that. We have not taken a call on an immediate capex in a big term. There will be small capex that we utilize for new SKU molds, etcetera, but in a big way, we haven't yet taken a call.

Moderator: Next question is from the line of Nikhil Gada from Abakkus Asset Managers. Please go ahead.

Nikhil Gada: Sir, just first couple of questions from a data perspective. If you can give the volume and value growth. Value growth we know, but volume growth for the Roofing as well as the PARADOR business for Q1?

Dhirup Roy Choudhary: Nikhil, PARADOR volume will be a very, very difficult work because there are too many SKUs of different varieties. I can only say that we have de grown on sales in quarter 1 on PARADOR because we had an extremely good quarter 1 last year. In volume terms for Roofing, we have grown by 6% over last year. And last year, quarter 1 was a very, very high-volume gain for Roofing, where we had crossed 350,000 metric tons. So going over that was a very big target, and we have been able to achieve that.

Nikhil Gada: And sir, when we say that we gained 1% market share, so then is it fair to assume that the industry might have grown at 3% to 4% or 4% to 5% sort of levels in this particular quarter?

Dhirup Roy Choudhary: Industry would have grown by about 3% to 4%, you're absolutely right, and we have grown by 6%.

Nikhil Gada: Understood, sir. And just secondly, sir, once again harping on this pipe part, but I think you mentioned Rs. 6 crore, Rs. 7 crore. Should we take that as the inventory loss for the PVC?

Dhirup Roy Choudhary: Take that as inventory loss, and there will be some more losses in Q2, which is pre-booked because the price at which we have ordered already for international circuits and the materials are on sea will land in quarter 2 or is already landing in quarter 2. So, there will be some more losses in quarter 2, but we will put a pack to that and look forward to a better quarter 3 again.

Nikhil Gada: And I believe that 70% to 80% of raw material, we import in PVC resins, right?

Dhirup Roy Choudhary: Yes. It is, again, depending on the posture we take. Yes, we have gone a little bit wrong, and that's where the losses are coming through. And, we could not anticipate it such a steep PVC price reduction by Reliance that has put us under the belt. We will be much more focused on this going forward.

Nikhil Gada: And sir, in general, for pipes, we generally see for raw material inventory of 30, 40 days?

Dhirup Roy Choudhary: We have a little more than that because, a), there are quite a few new SKUs, which are coming through; b) the shipping itself is 45 to 60 days. So yes, it's slightly more than that.

Nikhil Gada: Understood, sir. And, just last question from my end. I know it's a very difficult time right now and you already called out that Q2 would be weak. But, from a full year perspective, is it possible that we might be able to grow on a top line and still be able to maintain our margins on EBITDA level for FY23?

Dhirup Roy Choudhary: For Q2, number, a very clear answer, Q2, we will weaken on profitability, but the growth of course will continue. So, we will grow on top line and that's a commitment I have made already. Q2 will be weak on bottom line. I am conscious that Q3, we will have to come back and Q4 definitely will be far better. So, that's all I can say.

Nikhil Gada: I understood, Sir, just lastly, because you mentioned about the RM inflation still having an impact. Is it still very difficult to take price hikes in the market right now to sort of pass on this RM cost?

Dhirup Roy Choudhary: Let's talk of segment by segment. So, for Roofing, the price rise time was Q1, and we did quite a bit there. But, we could not pass on the entire cost price. So, we did approximately half of the cost rise we could pass on and half of it is, therefore, written into our profitability. Quarter 2 is not a time for price rise because normally, there is a split in price by about 5% in quarter 2 that happens over quarter 1 as the demands come down with the rain. That's typical of the price order of the Roofing.

We are trying to hold to our price of June as much as possible. So, we are trying to play a little different game. But again, it all depends on how the competitive market in this landscape phases out. If we see them really going mad on prices, then some time while we are leaders on prices, we will have to take a dip. So, I don't think price rise over quarter 1 is where even a fair expectation for Roofing.

On Building materials, yes, definitely. We have low capacity because we are 100% up there. And therefore, we will be very, very conscious to see how to increase the prices for Building materials. I would say, the entire cost rise of materials and building materials would be passed on so far as we are concern.

On Polymer, it's always a pass on as the PVC prices goes down. So, those have to be done. But, Polymer, when the PVC price goes down, it's picks up in three ways: one, the sentiment in the market was down there because no primary stocking happens, they are expecting a new price to be declared, which will be lower than that so, the demands go down. Number two, we are hit on whatever inventory that are there at the moment in hand; and also point number three, we are hit on inventories that are on ship. So that's what happens when the PVC price will go up, then the market will have a positive sentiment and then situation will be reversed.

So PARADOR, there has been 100% cost rise on key raw materials like HDF, etcetera, over the last one year. We are now seeing that with some out as the demand are coming down. We are seeing that we would be able to bring back some of the costs, though, they are still significantly higher. But we have to see really how the gas and energy prices and its implication on raw material suppliers pen out. We are keeping a very, very close look on that, but selling prices are also weakening in Europe because the demands are weakening, and therefore, it's a double edge sword that we are at the moment in. But, the team has already gathered in recognizing these risks, and there is a very, very clear charter on risk mitigation that we are doing and therefore, we will be far better than our competitors in those things. I can tell you that while we will lament a little bit still in the next 1 or 2 quarters.

Moderator: Next question is from the line of Satish Kumar, individual investor. Please go ahead.

Satish Kumar: Good morning, Dhirup Ji. Congratulations for this strong performance in another challenging quarter. And, my first question, in annual report, you mentioned we are entering Construction Chemicals in next financial year. So, what are the products we are using and that can you give us some details? Second question, are we manufacturing GFRP panels? If not, do we have any plan to enter into that market?

Dhirup Roy Choudhary: Thank you. Satish Ji, we had already talked about our entire blueprint of $1 billion, let's say, Rs. 7,000 crore by 2026, where Roofing will achieve, where building materials which achieve where Polymers and where flooring will be.

There was always a delta of Rs. 1,500 crore to Rs. 1,700 crore, which had to be gotten through other verticals. We have canvassed the entire market. We have looked at various products, which are complementary, which can be through the same route to market. And, Construction Chemicals came out to be the best amongst all that we have been able to view.

Of course, Paint was another big thing, but Paint needed a huge investment. And, at the moment, we have decided to go for Construction Chemical. Now Construction Chemicals will be consisting of waterproofing solutions, primer, distemper, and many such products. So, this is an interesting business because it's a brand play and a lot of things where there is a consumer pull to brand, and we would be able to bring in Birla, therefore, very constructively there.

Second is, it has a huge route to market, specifically and there was so many retail spots that we have about 26,000 active retail spots that we have around the country. We will expand that further. I told you last time, we will grow this to about 100,000 in the next year or two. Aggressive work is going on there.

On your question on whether we will be investing in our own manufacturing. At the moment, we are testing the market through outsourcing, and it's working well. Our target for Construction Chemicals in the first year itself is Rs. 25 crore organically, which we will do. If we are able to look and find a company which gives us the recipe for many more SKUs that are needed here. Construction Chemical needs about 150+ SKUs, if not more. So, R&D is working aggressively towards these.

We have in-home now about 40 to 45 SKUs. So, the rationale of buying a company, M&A would come with acquiring more SKUs and we are on the look for that. But, at the moment, we are doing roughly about Rs. 1 crore-plus every month already in the last 3 to 4 months, and we are hoping that we will be able to grow to at least Rs. 300 crore to Rs. 500 crore business in the next 5 years' time.

Satish Kumar: GFRP panels, sir. Are you manufacturing now?

Dhirup Roy Choudhary: I am unable to answer this question, sir. We would respect you to send us an email, we will get back to you.

Moderator: Next question is from the line of Alisha Mahawla from Envision Capital. Please go ahead.

Alisha Mahawla: Just need the clarification with respect to our Building Solutions segment. We were setting up some capacity in the East, and I know we have done an acquisition now. So, is that capacity come on board? Is it scrap? What is the status, if you could just share that?

Dhirup Roy Choudhary: Thank you. So we had three projects in East for which Rs. 82 crore of capex was approved by all of you. One was to enhance our Roofing manufacturing facility to make non-asbestos boards there. And I think that facility will come on board in the next 2 months' time. The second one was to have a complete brand-new Greenfield project for making panels. The facing sheet will go from this Roofing manufacturing capacity, and then we will do the sandwich, and we will finally make the Panel. So, that particular facility is coming up on speed. I think by the quarter 4, we will be able to start commercially in that. And, the third one is Blocks, and that facility. We decided to deter through a greenfield and have rather gone for a M&A there. Acquire the assets and business of Fastbuild. So, as soon as we are able to complete this deal, the closing should be faster than 60 days, and thereafter, the facility will be with us for both top line and bottom line.

Alisha Mahawla: So, for the current year, except the capacity that we have at Fastbuild, there is no incremental capacity to grow this segment because the panels is coming towards the end of the year?

Dhirup Roy Choudhary: Well, we have already seen that this business has grown in quarter 1, and it has also grown last quarter that is quarter 4. The business will continue to grow, and the reason to grow is, we are not only dependent on Odisha capacity. We are also looking at increasing our own capacity for panel and for blocks and for boards in the present capacity that we have across the country. So we have, as I already talked about, four blocks plants that are already there. We have two panel-manufacturing facilities, one in Hyderabad and one in Faridabad. And we have two board manufacturing facility, one in Faridabad and one in Hyderabad.

So all of that is going through additional capacity increase by automation and also IoT 4.0. So therefore, we will continue to expand the facilities, of course, through automation and look at inorganic that's in East, which we have already completed. And thereafter, there will be outsourcing that we would do. So, we are continuously in touch with companies from whom we can have our quality products made by our quality infusion and do contract manufacturing. So all of that is going to help.

Alisha Mahawla: Sure. And except Rs. 82 crore, there is no other capex that we are planning for the current year?

Dhirup Roy Choudhary: So, there is other capex. There are maintenance capex that we have, which is ongoing. I think this year, we will do about Rs. 150 crore capex in India. So that's very much what declared earlier also, and we continue to say the same.

Alisha Mahawla: Sure. And just one last question. In the Flooring, in the PARADOR business, if you can just give the geographical split. How much is coming from Germany and then from other geographies?

Dhirup Roy Choudhary: So Germany and Austria contributes about 50-55% of the business. Rest comes from outside. There was a halt to the outside business because of COVID. So, we have now concentrated a lot in the European countries because it's easy for material shifting as well as the brand realization. So, we are looking at Spain, France, Switzerland and UK to be very specific, as the four major locations within Europe. While our hopes in China still continue because that's a big market. You are aware that COVID is not allowing travel into China, and there are a lot of restrictions. So I am hoping that gets eased out very soon. I am sure we will be able to get good markets out of other European countries also to the expand.

Moderator: Thank you. Next question is from line of Marshal, individual Investor. Please go ahead.

Marshal: See, my question is majorly on the strategic and that how are we going to execute the strategy? Since we said that for PARADOR, we are going to have like a target of achieving Euro 400 million turnover. Currently, we are only at Euro 200 million only. So, this is not going to be achieved by just an inorganic way. I know that like this year, we have incorporated a new company in UK. So, my question is that how much turnover we are expecting from the UK? And then, to leap frog from Euro 200 million to Euro 400 million which other market are we trying to enter? Are we already covering the entire EU region?

Number two are we also starting to enter into some CIS country or you can say because the Germany is very good image in CIS countries. So can you please give some more like not in general, but a little bit specific. In next 3 to 4 years, how are we, that what are the major milestone and how are you going to educate it to leap from Euro200 million to Euro400 million for PARADOR?

Dhirup Roy Choudhary: Again, a very good question, and I can give take hours to explain this, but let me be brief. We are very, very clear on how we wish to grow in PARADOR. So, it's not just a dream, it's something that we are putting into practice since last almost 1.5-2 years. We have got a bit of a jolt in this growth process owing to first COVID, where travels were hugely restricted and thereafter, came in the material crisis last year and now the geopolitical. But that's not broken our intention to grow at all. Euro 140 million was PARADOR when we bought it about 2 years back. We have come to Euro 190 million at the moment, not Euro 200 million. And we will grow to Euro 350 million, not in excess of Euro 400 million. I said Euro 350 million to Euro 400 million, that's our goal and that we will achieve.

So in order to achieve that, what we are going to do is expand PARADOR operations first by sales and then we will look at manufacturing sales into Spain as our most important countries, France, Switzerland and United Kingdom.

These are the four around Germany that we will expand through. Other than this, there will be China, and we will look at United States. So, this is how the league will be for expansion that we have planned. And, what we are doing is, we are setting up joint ventures for our own subsidiaries in them one by one and then trying to grow. It's far easier to immediately invest a big sum like M&A and growth. But that's not the route we will follow because that's a lot of capex and lot of money that we don't want to take that kind of a route in a hurry.

So, we are doing it in a very systematic, but planned manner. PARADOR, when it went into China after we took over, we have only invested 100,000 EUR in China. And the JV was created where we have a 50% stake there. China is a very big middle-class consumer base, and they look for the European brands. So, I am conscious that as COVID relaxes there, we are going to once again have a very good ramp-up from China.

My estimate is, China will give at least Euro 30 to 40 million particularly for the top line. Then we will look at all these countries that we are looking at one by one we are trying to go into them. Our capacities in manufacturing for what we have in Germany and Austria will lead to roughly about Euro 250 million to Euro 260 million. And, beyond that, we will need new capacity. Products that are contemporary around flooring, so that we are able to have a packaging of products rather than only the flooring that PARADOR maintains. So all of that is being looked at as we speak to grow this.

Marshal: And are we also planning to enter the Scandinavian countries and Netherlands, for example, Poland or Czech Republic, which are the neighboring country of Germany and Austria?

Dhirup Roy Choudhary: So, the Netherlands and the Scandinavian countries, we are very much there. We supply to 80+ countries out of PARADOR. And, definitely, the Scandinavian countries are very much there. We do about close to Euro 3-4 million turnover there. They are primarily a wood product, so the engineered wood is what they buy. The margins is low there for specific reasons in that market. Therefore, that's not our priority country. And when we expand, we are not going to make sales growth in a big way into that country.

Marshal: And sir, like on the overall target, you mentioned that by 2026, we plan to have this turnover of about $1 billion. Currently, we are at $500 million. So like nicely explained about the PARADOR. So can you please also give your strategic view milestone, which you want to achieve and execute to increase our overall turnover from $500 million to $1 billion, say, by the next 4 years for the other three sectors?

Dhirup Roy Choudhary: Sure. So, Roofing is presently around Rs. 950 crore. We will grow roofing to roughly about Rs. 1,400 to 1,500 crore. That's my aspiration. How that will be grown as a), asbestos roofing, b), non-asbestos roofing, and c) we are also creatively looking at other products that can be sold through those routes to grow that market.

Your building materials, which is at the moment at about Rs. 400 crore will grow to about Rs. 700 to 750 crore, mostly by outsourcing because capex influx into that business will be restricted more because the asset turn is 1:1, 1:1.2 in that business. Polymer will grow to about Rs. 1,500 to 1,600 crore from Rs. 500 crore what we are today. And that will be the putty and pipes together. PARADOR will be Euro 350 million, and then the balance would come from additional verticals. Construction chemicals will be one, and then we are keeping our eyes and ears open for what next to do.

Marshal: And sir, are you also planning to launch some products like when is the Construction Chemical like something adhesive and all those things, because it also has a very good synergy with our existing business and which has a good margin also?

Dhirup Roy Choudhary: Yes. Construction Chemicals will be a broad basket. And, once we are able to figure out our route to market very well, that's exactly what we have started from April, and that's how the announcement was also made. We will be absolutely brought in that market, and everything that is favorable in that business will be done. It is a brand pull business. It is a very, very good profitable business. I think I am upbeat on that.

Marshal: And sir, this is a plywood business; all the companies in the plywood sector are doing fantastically. You can have all the listed company numbers. And so can we also plan to have like a technical study to say that should we also have a foray in the Plywood sector? Because I can see all the listed company are doing fantastically, and they are doing the expansion. And all the market getting consumed because, as you know, like this is all these housing sectors is booming, plywood also, sale will also get off take. So are we considering some sort of new vertical?

Dhirup Roy Choudhary: Thank you for your input, sir. Let me just once again relook at. But we have looked at HDF/MDF earlier, and we had found that it needs very high investments. And it is B2B primarily supplying to OEMs and while I completely accept last one year has been bumper for these companies. But historically, they haven't been doing well. And last one year, if that's a trend for future. We will be attracted to it. I have not seen that as too long. So again, it is a matter of assessment. I would love to talk to you separately to be your views on this but let me look at plywood once again.

Marshal: Sir, Polymer business margin loss in Q1. So, what about its perspective for the Q2? Do you able to get the benefit of the reduction in the price of RM?

Dhirup Roy Choudhary: Sir, I have already mentioned and I am happy to repeat that for polymer, we are in a little bit of a messy ground, quarter 1 has been bad on profits. Quarter 2 will also continue to be bad on profits, but we are going to return from quarter 3 on this.

Moderator: Next question is from line of Satish Kumar from InCred Capital. Please go ahead.

Satish Kumar: Sir, so I was asking regarding PARADOR. Do we say that the worst of the margins is behind us? Or is still there a some pain to go?

Dhirup Roy Choudhary: Give me one more quarter to answer that question, sir. We are still evaluating how this war is going to span out and what kind of dent it leaves behind to us. There's lots of concern in Europe at the moment on demand, on inflation. I don't think I have an answer very ready for you. We are completely ready for all that we have to face there as a team, but I don't think everything is behind us yet.

Dhirup Roy Choudhary: Thank you very much, everyone, for this wonderful interaction. I hope I have been able to clarify your concerns, and I hope I have been able to transparently paint the picture of what we are going through at the moment. There are very good stands taken by your organization towards our $1 billion goal, and I can only assure you the fabric stays absolutely intact. There are concerns that we are facing on profitability, which we will find a way around and deliver positively to you. We value your continued interest and support. If you have any further questions or would like to know anything more about your company, kindly reach out Investor Relations desk. Thank you, all. Bye-bye.