NEAPS/BSE ONLINE

19th February, 2024

The Corporate Relationship Department
BSE Limited
Phiroze Jeejeebhoy Towers,
1st Floor, New Trading Ring,
Rotunda Building
Mumbai - 400 001
(BSE Scrip Code: 542905)

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

Dear Sir/Madam,

Sub: Transcript of the Earnings Conference Call held on 13th February, 2024

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 Tuesday, 13th February, 2024 for discussion of the financial results of the Company for the third quarter and nine months ended 31st December, 2023.

The transcript will also be available on the website of the Company i.e. www.hindwarehomes.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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"Hindware Home Innovation Limited
Q3 & 9M FY24 Earnings Conference Call"

February 13, 2024

MANAGEMENT:	**MR. SUDHANSHU POKHRIYAL** – CEO, BATH BUSINESS
	MR. RAJESH PAJNOO – CEO, PIPE BUSINESS
	MR. SALIL KAPPOOR – CEO – HINDWARE HOME INNOVATION LIMITED
	MR. SANDEEP SIKKA – GROUP CFO
	MR. NAVEEN MALIK – CFO – HINDWARE HOME INNOVATION LIMITED
MODERATOR:	**MR. NIKHIL SHETTY** – NUVAMA WEALTH

Moderator: Ladies and gentlemen, good day, and welcome to the Q3 & 9MFY24 Earnings Conference Call of Hindware Home Innovation Limited, hosted by Nuvama Wealth. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. You are requested to refer to the mention in this regards in the earnings presentation.

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. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nikhil Shetty from Nuvama Wealth. Thank you, and over to you, Mr. Shetty.

Nikhil Shetty: Thank you, good afternoon everyone. On behalf of Nuvama Wealth, we are delighted to hold the senior management of Hindware Home Innovation Limited. From the management side, we have Mr. Sudhanshu Pokhriyal, CEO of Bath Business; Mr. Rajesh Pajnoo, CEO of Pipe Business; Mr. Salil Kappoor, CEO of Hindware Home Innovation Limited; Mr. Sandeep Sikka, the Group CFO; and Mr. Naveen Malik, CFO of Hindware Home Innovation Limited.

We will start the call with the opening remarks from the management, then we'll move to the Q&A session. Thank you, and over to you, sir.

Naveen Malik: Good afternoon ladies and gentlemen, and welcome to Hindware Home Innovation Limited's Q3 & 9M FY24 Earnings Call.

I would like to provide a brief overview of our company's performance for the quarter, post which the business CEOs will share the key highlights of the respective businesses.

Despite the challenging macro environment, our performance for the quarter and nine months has been stable. While demand sentiment across categories and regions has been muted, the resilience of our business model and the strength of our brands have enabled us to continue delivering value. We are confident that as the market improves, our performance will further strengthen.

Hindware Home Innovation achieved a consolidated revenue of Rs 693 crore, with a consolidated EBITDA of Rs 61.3 crore in Q3 FY24. For the nine months ended December 2023, our consolidated revenue reached Rs 2,027 crore, while consolidated EBITDA stood at Rs 210 crore.

Our strategy for all businesses is to continue building our brands, expanding our reach, enhancing our operating and supply chain efficiencies, optimizing working capital, and augmenting margins.

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

Sudhanshu Pokhriyal: Thank you, Naveen. Good afternoon, everyone.

As you know, demand sentiment remained subdued due to challenges rising out of muted demand, inflation, and interest rates. Our Q3 revenues amounted to about INR402 crores, reaching INR1,160 crores for nine months. Despite market challenges, profitability and margin performance remains resilient with EBITDA at about INR55 crores and EBITDA margin of 13.6% for quarter three FY24. Margins for the Q3 could have been higher but for the additional marketing spend incurred during the quarter. I'll talk more a bit later in my commentary.

Customer response to our new offerings continues to remain encouraging as reflected in the increasing share of new products, which contribute to 24% to our sales in the first nine months for FY24. We're actively reducing our dependence on imports, focusing on manufacturing high-value items at our plants to boost margins and manage inventory levels. Working capital management remains a priority for us.

We continue to penetrate new markets, recognize untapped potential in Tier 3 and Tier 4 cities. We're actively expanding our distribution network to broaden our reach. Simultaneously, we're investing in strengthening our presence in Tier 1 and Tier 2 cities by opening more brand stores.

Our commitment to enhancing brand visibility remains steadfast. Like I mentioned earlier, we've invested in marketing and building on our cricket collaboration, we advertised throughout all 48 matches in World Cup during quarter three with an overall expenditure of ~INR7 crores plus.

Our working capital efficiency has also shown improvement with a decrease from 122 days in Q3 FY23 to 117 days in Q3 FY24.

Our endeavour continues to be to grow 1.25 times of the market in FY25. Our strategic initiative reflect our commitment to growth, innovation and delivering value to customers. With diversified offerings, a strong brand and aggressive expansion plan, we aim for profitable growth in the current environment.

I'd like to now hand over the call to Mr. Rajesh Pajnoo to take you all through plastic pipes and fitting business. Over to you, Rajesh.

Rajesh Pajnoo: Thank you, Sudhanshu. Good afternoon, everyone, and thank you for joining us.

Despite challenges such as sluggish demand and fluctuating raw material prices on a downward slide, our quarterly revenue reached at INR174 crores with INR531 crores in nine months FY24. Our Q3 EBITDA stood at INR13 crores with a margin of 7.7% and INR45 crores in nine months with a margin at 8.5%.

Margin pressure during the quarter were attributed to reduced realization. We're actively exploring measures to reduce our current working capital timeframe, ensuring greater efficiency and agility in our operations, while our effective inventory management, maintain control and stability.

Our market presence remains strong with CPVC pipes and fittings contributing over 40% to our revenue.

We actively engage with pumping consultants, plumbers, and conduct training sessions for our channel partners to strengthen our market presence. Currently, our network includes over 300 active distributors and approximately 30,000 retailers.

The construction of our new manufacturing plant in Roorkee, Uttarakhand, is underway, and we anticipate its operational launch in December of FY24-25, marking a significant milestone in our journey. We are diversifying our product portfolio with our introduction of high value-added items commencing with foam core, that is underground drainage, in Q1 FY25. Furthermore, we plan to manufacture double wall corrugated pipes and fittings and also fire sprinkler systems which will go till Q3 FY25.

In conclusion, Truflo remains committed to market expansion, enhanced brand awareness and pursuing profitable growth.

I would now like to hand over the call to Mr. Salil Kappoor to take you through Consumer Appliances and retail businesses. Over to you, Salil.

Salil Kappoor: Thank you, Rajesh. Good afternoon, everyone, and thank you for joining us for our Q3 & 9MFY24 earnings call.

Consumers businesses have been facing headwinds since at least last two quarters. And in midst of this, in Q3, our Consumer Appliances business revenue stood at about INR112 crores with nine- month revenue reaching INR314 crores. Our growth was subdued due to muted consumer demand and inflationary concerns.

Our Kitchen Appliance business remains resilient and continues to grow. Our chimneys continue their dominance on both the online platforms, Flipkart and Amazon. We are number one on Flipkart and number three, reducing the gap with number two, on Amazon. We are actively expanding our portfolio in Kitchen Appliances, adding more products doubling down on the overall portfolio where we are doing well and capitalizing on our strengths in this segment and concurrently, also working to streamline the product portfolio by focusing on select categories with the goal of increasing margins.

We have expanded our presence with the introduction of new kitchen galleries nationwide and have also boosted our distribution network to capture increasing demand. The setting up of several residential apartments is also an opportunity that we are looking at more from the B2B perspective.

Although post festive season experienced destocking, indicating weak consumer sentiment, we anticipate a recovery in the premium residential segment over the year.

In conclusion, we are using this macro consumer slowdown, trying to put few things in order. There are two themes that we are currently working on. The first one is our rationalization of the portfolio, where we are doubling down on the kitchen part where we are doing well. We're also exiting some non-performing and low-performing categories so that we can focus the resources on the areas that we are doing well. And the second theme is to put the business hygiene in place where cost, both product as well as operational, is under focus. We are putting some corrections there and also improving the efficiency on the operational front.

That concludes the opening remarks, and I would like to ask the moderator to open the floor for question-and-answer session. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session.

The first question is from the line of Praveen Sahay from Prabhudas Lilladher.

Praveen Sahay: Sir, first question is related to the Bathware segment. And in the Bathware segment, what we observed that the peers or even the smaller peers who has ventured out in this business are doing far better in terms of the growth. And looking at the nine-month numbers, their growth rate is better than ours. So is there a market share shift we are seeing in the Bathware segment?

Sudhanshu Pokhriyal: We have seen in the last 3-4 years, just about every tile company has got into Bathware segment in a notional way. And to the best of our understanding, none of them have achieved any significant revenue as of now. The way the market is structured, we already have some network and when you placeyour first product into the market, a primary dispatch happens and revenue gets booked in the books.

We have seen many companies, when you do initial revenues, you do it on zero volume, so your growth look very high. But not many companies have been able to follow up on similar growth. So to answer your question, yes, the competition has intensified across sanitaryware and faucet business because existing tile brands have come into this business.

However, we don't believe this business will be a building materials business. We believe this business will be a consumer business wherein brands are very important and basis the brand consumer buys the product. So I'm sure that we will see consumers coming to the bigger brands over a long-term period.

So to answer your question, yes, there is competition. We can't stop competition from happening. But yes, have they made a dent? Yes, initially they would have, but we don't believe in a larger scheme of things, with larger competition in mind, we have lost any share. We have actually performed better than all the other listed peers as well if you look at their last quarter results or you know even over the last 8 to 10 quarters, the answers is evident.

Praveen Sahay: Okay. Got it. And if any color on the segment like 5.5% of growth in the Bathware, how is sanitaryware, how the faucet has done?

Sudhanshu Pokhriyal: Yes. So for us, both our segments are positive. And of course, our faucetware business is actually doing far better. It's a low single digit for sanitaryware and double-digit for faucets.

Praveen Sahay: Okay. So double-digit for this quarter and even for nine months?

Sudhanshu Pokhriyal: Yes. This is static. What I'm saying is for the full year only. And in my view, we have seen muted demand as seen in the entire category. But if you look at the real estate sector, the real estate sector goes through a cycle.

In last two years we saw huge demand for this business, if you will recall, last two years, I mean, even our business grew by nearly 35s-39% in the previous two years. This year, we've seen a muted demand because of the real estate cycle.

What we see is an early-stage real estate cycle right now and for which demand for our products will come in the next financial year. So I personally believe this muted demand will start looking clearly positive as we enter the next year when construction gets into a cycle with sanitaryware and faucets gets installed.

Praveen Sahay: Sir, next question is related to the pipe business. As I see, our large peers has delivered a very good growth of double digit, whereas our number is in the decline on Y-o-Y side, and similarly, we had also seen that the EBITDA per kg number has also significantly down for a quarter. So what's the way forward? Like are we expected to come in the positive in the coming year. How is the volume shaping up? And are we getting impacted more versus large peers?

Rajesh Pajnoo: Okay. You have two parts to your question. One is what you said is the large peers, so it's only because almost everybody has reported their balance sheet. So only two companies, if you have gone through their transcript, have reported volume growth. The prices are at all-time low. So nobody talks about value.

if you see what they have indicated there is all this volume growth, whichever has come from new product categories, which have been introduced in the last three to four years only. So the categories like underground drainage, double wall corrugated, fire sprinklers, column pipe systems and also the volumes have come now on a very higher side from government space, that is huge, Jal Jeevan Mission project, which is going on, which is Prime Minister's Modi Ji's dream, Har Ghar Jal, and that's all HDPE pipe.

We are not into that category. We are just four years old into this market. This is our fifth year of operation. So when we entered into this market, we entered the plumbing category. This year, we'll be coming up in three of out of these four categories. So all these categories have shown growth in their volumes, where we are not present right now. Otherwise, if you see, the companies have show a decrease in volume. That is one thing.

Second is, we have a vision that, this quarter and then the next year, we will have a volume growth. If you see our YTD growth, that's almost around more than 11%. This is similar to all the peers. But yes as far as Q3 is concerned, we have degrown by around 4% of volume, and we look forward positively to next year where we will be marginally very high as far as our volume growth is concerned.

Praveen Sahay: Okay. Any color on the EBITDA per kg because there, we had seen a significant correction.

Rajesh Pajnoo: Yes. What happened in this industry is if the prices go up, that is the trend, you must be knowing, the prices go upwards. Once the resin prices go down, the price also comes down. So in last year, we were exactly in the same position, that is ending of quarter three where the raw material prices were at INR 91. Presently, it is INR 76, that is down by around 16%. When this happens, your average metric ton realization comes down. So that is the pressure on the net realization. We are hopeful that things will be positive in the future and then the realization will come up.

Praveen Sahay: Okay. So it's largely to do with the realization, which has come down that has impacted.

Rajesh Pajnoo: Absolutely correct, absolutely.

Praveen Sahay: Okay, okay. Got it. And the last question, sir, in the press release or in the presentation, you mentioned about the kitchen fitting business. So can you give some color on that? What is the industry size, competition and where we are in that segment?

Salil Kappoor: We are exploring the overall portfolio in the kitchen fitting segment. The overall market size is about INR7,000 crores to INR8,000 crores. our existing partners are already a well-established brand internationally. Though our partners were acquired by the global market leader , but now we have clarity in place that we will continue to drive this business in India .

Our plans are to increase the portfolio, and it's a good margin business and also fixing our overall kitchen strategy where we are doing well.

Praveen Sahay: Currently, we are not generating any revenue in this segment.

Salil Kappoor: We are. We are currently generating revenue, though not at a large scale, but we've already tested the waters, and it goes well with the brand because of the kitchen and other fittings. And there is a market and there is also synergy within the channels. Our existing team can take care of it. So therefore, we would like to scale it up going forward.

Moderator: The next question is from the line of Utkarsh Nopany from BOB Capital.

Utkarsh Nopany: Sir, my first question is on the plastic pipe segment. So as you mentioned that we are currently expanding our total portfolio range and planning to launch few products in the coming June quarter and December quarter. So I wanted a sense from you, going forward, do we expect to grow our pipe volume at a better pace than the leading player because our base is pretty low? Or do we expect to grow at par or at a lower rate going forward?

Rajesh Pajnoo: Yes. I'll answer this. See, what has happened in the past when the prices were stabilized, if you have seen in the last four years, in fact, percentage wise, at par with worldwide rates of PVC resin, we became the largest / fastest growing company in terms of percentage in the segment, which we still are. But at the moment, now the pressures from the prices are almost around 16% lower than last Q3.

What I said earlier was definitely we will grow, we are looking forward because as I said, this year itself, in the first quarter, our underground drainage machines have come, there will be trials, we'll apply for BIS licenses. And I think in the next Q1, we will be definitely able to sell these products.

And the other two categories which is double wall corrugated, the machines have been already ordered. I think, almost around Q3 of FY 2025, we'll be installing these machines, and we will have a direct commercial production, and also fire sprinkler systems which are now gaining lot of ground, if you have seen recently that the normal conversion from conventional GI piping systems is now converting to CPVC piping.

And the department is also giving approval for it. So, by this quarter three of the next year, we will be entering into this. So there will be definitely an incremental growth for these products, which were not there till now. We definitely assume a positive cadence of around 15% or more in the next financial year from the volume growth.

Utkarsh Nopany: Okay. Sir, but on relative basis, wanted a sense from you. Say, whatever may be the market condition, are we confident of clocking better volume growth than the leading players? Or we feel that because our base has become pretty high, it would be difficult to grow at a better rate?

Rajesh Pajnoo: We need to clarify this once that the piping sector is a very huge sector. There are around 11 categories of different products where companies are operating. So if we talk about Supreme and Astral, they are into all the 11 categories. We were there into four categories. And we will be entering into three categories in year FY25. So we will be into seven categories.

When we talk the comparison about apples to apples, definitely we'll be going at a very high speed which we have been doing in the past. But if it comes to the other categories, as I said, the Jal Jeevan Mission, that is the HDPE entire area. And as we all know that before elections, this is going to get completed. I don't think this will be a big category next year after the first quarter. So in totality, if you see we'll definitively be growing. I'm giving you a positive guideline for this but when we have to compare an apple to apple.

Utkarsh Nopany: Okay. Sir, my second question is on the retail segment. So I believe two quarters back, we mentioned that retail is not a core focus area for us, and we are evaluating alternative options. So have we arrived at some decision about it?

Sandeep Sikka: We had a Board meeting yesterday and in-principle, the Board has approved that we should aggressively work on all the options relating to this, whether it is an assets held for sale. I think you have to bear with us for maybe another quarter or so before we finally take it to the Board and get a final conclusion on this.

Utkarsh Nopany: Okay. And sir, lastly, on the capex part, can you give the guidance? What is our capex guidance for FY24 and FY25? And how much amount we are planning to spend on our Uttarakhand unit for our pipe plant?

Rajesh Pajnoo: Okay. It's like till now in Uttarakhand plant, since we have started late because we lost two months to heavy excessive rain, we have spent around INR14 crores till now in this current financial year. Next year, we intend to spend INR100 crores of investment in Uttarakhand because we will be commercially operating this plant by end of December next year. So we will be operating with a higher capacity of around 12,500 metric tons per annum. This will again add up to the sale. At the moment what is happening is, pipes only for the agricultural or SWR pipes, we're not able to sell in these market. We're only able to sell the other products, because we didn't have a manufacturing facility. And as the freight part in pipes is so high, you cannot transfer pipes at a larger volume to these places. So once this plant is operational, I'll come back to your question, we definitely have a chance to score better than our competitors.

Utkarsh Nopany: Yes, sir, I was looking for the total capex guidance for FY24 and FY25?

Sandeep Sikka: One big capex is relating to pipe plant, which is being set up in Roorkee and rest of the major capex is towards establishment of market retail outlets. Other than the pipe plant expansion, I think we will do CAPEX of around INR60 crores to INR70 crores in terms of the Bathware business.

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

Nikhil Gada: Sir, I just have a couple of questions. Firstly, on the sanitaryware and faucet's part or just Hindware overall, can you give us the A&P spend number for this particular quarter and what it was year-over-year and last quarter?

Sandeep Sikka: So you want exact sales number?

Nikhil Gada: A&P spend – advertisements and promotion spends.

Sudhanshu Pokhriyal: Yes. So we've spent around INR25-odd crores this quarter, which is about INR9 crores to INR10 crores higher than on an average what we do, right.

Nikhil Gada: So was it INR15 crores the same period last year, same quarter last year?

Salil Kappoor: I'm talking ballpark numbers,

Sandeep Sikka: And this is primarily on account of the fact that we had two big events in the last quarter, especially relating to the World Cup, and Sudhanshu, I would request that if you can talk about our efforts.

Sudhanshu Pokhriyal: Like you said, we got an opportunity to make our brand with people around, in 48 matches, one of the biggest opportunities of impact property of the quarter, and we took that opportunity. We were available across 48 matches in a very widely seen World Cup, nearly 4.5 crores to 5 crores people saw our ad for nearly 25 to 30 times in 48 matches. So that's where we spend that money, but yes, and I gave you the number as well.

Nikhil Gada: So if we sort of adjust for this, the extra INR10 crores, INR12 crores spend, then we are seeing the margins are broadly in line with the run rate that we have seen for the past couple of quarters, right? There is no change in product mix is what I'm trying to say. Any adverse product?

Sudhanshu Pokhriyal: Absolutely. We have absolutely no issue and I would also like to bring to your notice that for the nine-month period, our EBITDA margins improved by 200 basis points from 13.4% to 15.4%. If you remember, our guidance in the previous calls have always been about 100 basis points improvement.

But on a nine-month basis, even after doing this extra spend in this quarter, we are 200 basis point higher. So there is no adverse product mix. There is no margin pressure, in fact, we're on track for our localization initiative as well, which is bound to give us further gains as we go forward. We've been mentioning in every previous guidance calls as well.

Nikhil Gada: So safe to assume that the 16%, 16.5% run rate would continue from the coming quarters for Hindware?

Sudhanshu Pokhriyal: Maybe not 16.5%, but 16% for sure, yes.

Nikhil Gada: Okay. Fair enough. Secondly, sir, on the pipes business, while sir explained about the impact on volumes, is it only the realizations have fallen just purely because of the fall in PVC prices? Or there's also some product mix angle as well? And just in that the margin part, were there any inventory losses as well in this quarter?

Rajesh Pajnoo: As I said earlier also, purely the resin rate as on December 31 have fallen by 15%. That is from INR91 to INR76 and realization PVC has gone down from INR147 to INR125 which is exactly 15%. As far as last year is concerned, the industry had huge inventory losses, if you recall, and we took a cue from that. We have controlled our inventories this year. I can tell you that in this quarter only, we have booked an inventory loss of approximately INR1.5 crores, that's all, which was very huge last year.

Nikhil Gada: Okay, okay. So sir, do we expect, we did a commendable margin in the last quarter around 10%, 11%. So if we assume this sort of a realization run rate to continue, do you think we'll be going back to the double-digit margins? Or we also needed a volume spike up to go to those levels?

Rajesh Pajnoo: You're talking about pipes?

Nikhil Gada: Yes.

Rajesh Pajnoo: Yes, definitely. See, we are expecting that maybe around by March or something, we cannot give the guideline. But definitely, there will be a correction in the prices. So once that happens, automatically, your per metric tonne realizations goes up. That is one part. At the same time, when we are talking that we will enter into different categories next year, there will be an incremental growth which will come from those categories. And all those categories, since they are new into the Indian market, if you understand because there will be only four or five players who will be manufacturing, in fact only 3 players that is manufacturing in this category. So the GP margin of those products is on a higher side. We will definitely realize a better EBITDA in future.

Nikhil Gada: Got it. Sir, my next question is on the consumer part of the business. When do we see this business once again going to breakeven levels at EBITDA? We have seen a significant amount of time where the growth has also not come, and also the margins have sort of dwindled away. I understand the overall demand environment, but can you give some estimates by when can we see breakeven coming in this business? And what kind of growth do we expect in this business in the next couple of years?

Salil Kappoor: As I said earlier, we're working on some rationalization of portfolio and also correcting some things on the cost front, both operational and on the product side. These initiatives should lead to us getting to the positive EBITDA in a couple of quarters. As far as growth is concerned, we want to focus and double down on the kitchen area, where we are doing well both in online and offline now and we want to expand it further. And this should give us good growth going forward. And we will reduce our dependence and also exit certain categories which have not been doing well. That might have a temporary effect on the growth, but in the long run, focusing on the kitchen is the right strategy that we want to follow, and that is how we have planned.

Nikhil Gada: So if I understand what you mentioned, so in the next couple of quarters, we see EBITDA breakeven and the product rationalization should also get over in this next couple of quarters?

Salil Kappoor: Yes, yes. It should get over within the next couple of quarters.

Nikhil Gada: Okay. Sir, just one last question, especially for Sandeep ji. Sir, we look at now the nine- month net debt numbers, we are now closing INR1,000 crores, and we were planning to bring this debt levels down. Definitely, it has gone the other way. So any realistic number in terms of when do we see this debt level or any sizable correction in this debt numbers because even on the working capital part as well, we are not seeing any major improvement across categories?

Sandeep Sikka: We had given a sort of a statement at the start of the year that we should be able to run off the debt by about odd INR100 crores with the profits which we are earning. The whole market momentum has not moved the way we have planned the growth numbers are muted. But in terms of our EBITDA margin protection, I think we have been able to demonstrate it on the Bathware side.

I think give us another two quarters, we should be able to demonstrate on what we talked about because there is no other exit of the money. Whatever is Hindware earning, actually its being deployed towards reduction of the debt only. What I think our investors should bear with us for another quarter or so. Once the market momentum starts growing, the inventory liquidation will also start happening fast.

Definitely, there has been some increase in the debt on account of the incremental capex, which is relating to the pipes because it's very critical. Rajesh has already spoken about it that pipe business, we are not looking at what we are in the pipe business today. We are looking at a very aggressive pipe business doing almost INR2,000 crores plus in the next five years for which we will require some sort of an investment because it's not a business wherein outsourcing can happen. Rajesh has spoken about entering into newer categories around the core product. We feel, give us one or two quarters, I think some level of debt should come down, but most of the debt which we are now contracting is for a long-term growth. Had we not taken Roorkee plant, then that quantum of money would have definitely come down also.

Nikhil Gada: So I understand, sir. But then at least the working capital is something which you see.

Sandeep Sikka: I'm saying once the whole market momentum because some of the inventories are contracted in anticipation of growth. We were expecting Q3FY24 to be shown growth because generally it is a season when demand picks up. Q4FY24 are showing some good signs.

I think Q1, Q2 because we have seen historically, like whenever you have a muted period, after which, you get a good growth because some of the things, some of the investments which ordinary consumers have not made, then all of a sudden, it starts increasing. So we are bullish and forget about all these one or two quarters, wherein we have this muted growth. We are fairly bullish on the long-term growth.

Moderator: The next question is from the line of Anish Jindal from Dolat Capital.

Anish Jindal: Yes, so my question is for the tiles division, what is the price of natural gas sourced from Gujarat Gas at Morbi?

Sudhanshu Pokhriyal: We procure tiles from Morbi.We do not have a plant in Morbi right now. So I won't be able to tell you exact pricing of natural gas from Morbi.

Moderator: The next question is from the line of Chirag Fialoke from Ratnatraya Capital.

Chirag Fialoke: My first question is on the retail business. I understand that the guidance is that we are trying to sort of come to a conclusion on that business, but for the first three quarters, we've cumulatively had a loss of INR9 crores on that side, whereas the last whole year was just, I think, INR1-odd crores. So I just wanted to understand, is this, are we trying something there, which is why we are trying to sort of increase the investments on the opex side, or can you just give us a little bit more colour there? How much more do we expect to sort of lose on that business this year?

Salil Kappoor: The overall sales have come down. We haven't expanded the franchising network. And since the fixed costs have been always there, and there was no growth, there has been an impact, or a negative impact on the bottom line. But as we said now that we've already got the clearance, and we will be moving ahead in that direction.

Chirag Fialoke: Understood. So it was just fixed costs and the revenue going down, that's all we see, that's the only impact. There's nothing new that we are trying there.

Salil Kappoor: Yes, yes. There's nothing new.

Chirag Fialoke: Okay. Understood. My second question is on the sanitaryware component of the Building Products Division. Sequentially, there has been a little bit of a margin compression there also. Is that largely attributable to the incremental advertising costs? Or is there anything else, not on the pipe, just on the sanitaryware?

Sudhanshu Pokhriyal: Yes. So like I answered in the previous question, yes, that's purely on account for the advertising expense which we did. We shared the numbers. We nearly have 200 basis point impact because of the money we spend on advertising.

Chirag Fialoke: And a lot of that can be just attributed to only sanitaryware. Is that because you'll obviously sort of bifurcate those costs across divisions, but for sanitaryware itself, that the component was almost 200-plus basis points.

Sudhanshu Pokhriyal: Yes, it is, I mean we're talking about sanitary, faucet and tiles business combined together, that's what we call BPD. That's purely on account of BPD, yes.

Chirag Fialoke: But not including the pipes because the pipes has sort of another impact, right?

Sudhanshu Pokhriyal: Not including the pipes.

Moderator: The next question is from the line of Rusmik Oza from 9 Rays Equi research.

Rusmik Oza: Sir, my question was actually on the broader thing because in the first nine months, on a consolidated basis, we've done INR91 crores PBT in the Bathware business, but overall consol PBT is INR30 crores. Actually, we're losing some INR61 crores in the other businesses. So I guess the question was, we had around INR32 crores loss in the Consumer Appliance business also in the nine months. So any internal guidance or aim you have, what kind of ideal EBITDA margins and net margins you are aiming for in the, one, pipe business, and two, in the consumer appliances? Because as a shareholder, if I look at it on a INR2,000 crores revenue, our net margin is only 1.5%. So how do we move up this goal of EBITDA margin and net margin going forward? This is my concern and question.

Sandeep Sikka: First, let me answer on the pipe. So there are a number of initiatives which are on the pipes business. The fixed cost structure for pipes is still high. The pipes team is working on rationalization of certain costs. And as the volume builds up, certain costs relating to the production will come down. And also relating to the fixed cost of the business, things like the manpower cost will also get rationalized over a period of time. There, we have already given a double-digit 10% to 12% EBITDA coming through in the next 18, 24 months with all the investments which we are doing.

On the consumer side, I feel another two or three quarters will be required in terms of rationalizing the whole things, and we should be back to the market the way we were around 1.5 years back. Right now, this business is facing an extreme headwind not only for us, when you see the competitors and the peers also, a similar sort of numbers are coming from there also. But good part is that we have a core kitchen business today, which is now the focus area. And we are working on a strategy. given the fact that we are in this business for almost eight years now and we are charting the path that in next three quarters or we should make it a profitable business.

Rusmik Oza: Sir, just a follow-up on the same question. Sir, I assume you go to a double-digit, 10%, 12% EBITDA margin in the pipes, rationalize your Consumer Appliances business and try and improvise over there and as you all are taking initiatives to reduce the losses in the retail side. Any guidance you can give maybe the steady-state FY25 if things have seen normalized, then what kind of consolidated EBITDA margins and net margins you can look for or aim for going forward?

Sandeep Sikka: We avoid giving short term trend. But historically, we have given those long-term trends. If you see it on a combined basis both the entities together over the next 24 months, we should be in the range of around 13% to 14%..

Rusmik Oza: Okay. And obviously, you said about the net debt also, but maybe on 24 months, if you can just similarly give us a guidance at what kind of net debt are you comfortable with going forward?

Sandeep Sikka: With all the margins which we're earning other than the capex which we have announced, everything goes towards the debt reduction. I think from our side, we have built a robust business model. We have the first-mover advantage. The rest of the players are now experimenting in the market in terms of expanding the horizon for the brand. We feel that we should be able to continue our growth trajectory somewhere in the range of 15% to 17%. And EBITDA margin expansion I've given. And what I'm talking is not immediate quarters, but I'm talking a trajectory of say 2 to 3 years CAGR.

Rusmik Oza: Okay. And my last question, sir, cumulative, till date, what kind of investments we've done in the pipes, plastic pipes and fitting business till date? And going forward, what kind of further investments, I think Uttarakhand plant is there. If you can give us a little bit of, cumulative, by the end of next 24 months, what will be our total investments in the pipe business? And what kind of revenue potential can pipe business give by the next 24 months?

Sandeep Sikka: At our Hyderabad plant, we would have spent around, almost INR350 crores.

Rajesh Pajnoo: This financial year, we have spent almost around INR34 crores in Hyderabad and INR14 crores in Roorkee. And next year, we are planning to spend around INR100 crores in Uttarakhand, that is the Roorkee plant, wherein we'll be getting an additional capacity of approximately 13,000 metric tons.

Sandeep Sikka: So Rajesh, your question was what is the total investment in pipes at Hyderabad till now?

Rajesh Pajnoo: You are talking about the cumulative. I didn't hear your question.

Rusmik Oza: Sir, I wanted to understand till date in the last five years, what is the cumulative investments you have put into the pipes?

Rajesh Pajnoo: It's around INR340 crores.

Sandeep Sikka: It's not only linked to Hyderabad plant and the plant in the Roorkee. We may have to entail further smaller plants for the pipes in the west or in east going forward, which the Board has not approved today, but this is a broader plan. We are going to have a pan-India pipes business. Fittings we can continue from the Hyderabad plant.

Rusmik Oza: Yes. And a small clarification, sir. You had mentioned in between that you want to aim for the INR2,000 crores plus revenue in pipes business. By when can we achieve this figure of INR2,000 crores, sir?

Sandeep Sikka: This is a plan over the next 5 years.

Rusmik Oza: Next five years. Okay.

Moderator: The next question is from the line of Tushar Raghatate from Kamayakya Wealth Management.

Tushar Raghatate: Sir, on the investor presentation, you have mentioned that in Consumer Appliance business, like we have 180 exclusive brand stores. So in which region of India is that?

Salil Kappoor: We are spread all over the country with more concentration in north and east, moderate in west and a little lower in south, but we are across India, and we are also focusing on the larger cities during this expansion. Because we feel that the growth is going to come from select clusters all over the country, considering there has been a significant urbanization, which is already underway, and will also be a source that will drive the businesses in coming years. Keeping all that background in mind, we are driving our future growth of galleries, which further strengthen our visibility as well as retail presence of the kitchen business which is our core engine. So we will be doing this more in the cities and in Tier 2 and as I said, current presence is more in north and east, moderate in west and a little lower in south. I hope I have answered your question.

Tushar Raghatate: Fair enough. Sir, in terms of percentage of sales contribution from Tier 3, Tier 2 and Tier 1, what would that be?

Salil Kappoor: It is much higher from Tier 1. So, around 40% to 45% from Tier 1, 30% to 35% from Tier 2 and the rest from Tier 3.

Tushar Raghatate: And sir, you online-offline mix would be?

Salil Kappoor: Depends on businesses. In kitchen, we are about 35% to 37% online, and in our home appliance business, which is air coolers, we are almost about 45% to 50%.

Tushar Raghatate: Sir, your kitchen appliances business contribute what percentage of total Consumer Appliance business?

Salil Kappoor: 60% to 65%.

Tushar Raghatate: Just water heater business, what would that be?

Sandeep Sikka: That is a JV company actually.

Moderator: The next question is from the line of Darshil Jhaveri from Crown Capital.

Darshil Jhaveri: So a lot of my questions have been answered. So just wanted to just get a broad understanding of the market in the Bathware segment right now. You had a muted year right now. But has the overall market degrown and we have grown, what is kind of market story that we can see play out for FY25?

Sudhanshu Pokhriyal: Yes. You're asking me to project the future, so I'll sort of go with my view. I think what has happened in this previous year is that a lot of projects which kind of got held up during COVID and got impacted, in FY21 and FY22, got completed in FY23. We saw huge buoyancy in the market. And immediately after this, there was a period there were no launches as for the real estate market. And those launches, is what was supposed to get fructified in FY24, which got delayed quite a lot. In my view, we can see a lot of launches right now, but for them to really start using our products, and to actually buying them, it actually got delayed. So what I believe is in FY25, we'll see a huge buoyancy in the market. So that's one definite aspect of market demand, which is going to happen.

The other thing is that if you look at its segment-wise, we've also seen a huge buoyancy also in the upper part of the segment, like in terms of premium luxury kind of market. While the affordable housing, it has got impacted because of inflation itself in the market. There is a correction which is happening in the overall market structure in terms of what is affordable, what is mid-premium, what is premium, what is luxury. So this entire change is something which is happening right now. And because of the new launches getting delayed, there will definitely be an upswing in the demand as we go forward.

In the short term, you may see some impact because of the general elections because our markets are still cash based markets, and during general elections, there is generally a reduction in terms of committed expenses around renovation, interiors, and everything. But what we believe is that the post-general election, we will see a huge buoyancy in the market coming back, which is very evident in terms of the way the real estate market is structured.

Additionally, I think from a company perspective, we are extremely committed towards our cost reduction. So, like I mentioned in the previous question, we've got a nearly 200 basis point improvement in our margins. And we expect that we will take out another INR25-odd crore in the coming two, three quarters, which is basically come out of our fixed cost, which is definitely going to boost our bottom line as we go forward. So honestly, from my perspective, I see an extremely positive market sentiment as we go forward, be it on the top line, be it on the way the margins are structured right now. I hope I've answered your question.

Darshil Jhaveri: Yes, sir. So that helps a lot, sir. So even conservatively, we can see growth in the teens for sure, even if it maybe a bit lag coming in quarter 1. So is that a fair assumption that not a perfect win but teens to mid-teens seems fair, sir?

Sudhanshu Pokhriyal: I cannot give you any specific number in terms of the teens and mid-teens. We've always maintained, we'll grow 1.25 to 1.5x the market. And I believe that on a long-term basis, the market has grown. If you look at eight years CAGR, market has grown at anywhere between 8% to 10%. So yes, your numbers could be close to that or even better. In my view, it will be better because we believe we have gained share substantially in the last three years. We believe that our performance will continue.

Sandeep Sikka: As the market moves upward, I think there are two, three very key levers, which should boost our margins. One is definitely this year; we have been able to enhance our margins despite a very sluggish growth on the top line. Once we get a boost on the top line, the entire operating leverage starts coming.. Sudhanshu has already spoken that, we are looking at various cost reductions, including manpower costs and other costs, wherein we should save around INR20 crores, INR25 crores on annualized basis which will be implemented in the next one or two quarters, the impact of this alone can be in the range of 1% to 1.5% on the overall margin, plus the in-sourcing, which is another initiative which we are doing. We are trying to reduce cost and we're trying to insource more. So that also will give a boost. So there are a number of initiatives which are focused either on the growth or on the cost reduction or margin expansions.

Darshil Jhaveri: So just wanted to ask, one, in terms of marketing, so this year, we spend good on marketing, but I think another World Cup is coming in. So what was the marketing budget for FY24 and will it be on similar lines on FY25 because more events are also coming up?

Sudhanshu Pokhriyal: Yes. So we set about anywhere between 3.75% to 4% of our revenue on the marketing side. And the decision is based on the opportunity and the situation at that point in time. So quarter three being festive season, the World Cup happening in India gave us an opportunity of a very different nature. While the World Cup coming up in June, immediately after IPL, which we already sponsor, may not be a great opportunity also because World Cup is happening in America, right. So the decision making is not only basis that Cricket and World Cup will we advertise. It depends on so many other things. If I'm already doing a spend on IPL, which is preceding the World Cup and which I did last year as well, so I may not participate in this year's World Cup, the T20 World Cup which is happening in U.S. and not in India. So these decisions will happen very differently. So to answer your question, we spent about 4% on brand building. We will continue to spend that. Ideally, I would love to spend more, but at this point in time, as a strategic call, we've kept it at 4%. We believe this business is a consumer business and not a building material business. You can't compare it with cement business or other so-called building material business. This is a branded business. So I would actually love to spend more than 4% of this business, but currently, to answer to your question, we spent about 4% which is our budgeted marketing spend.

Darshil Jhaveri: That helps me a lot. So it gives me great clarity. And sir, just like last one, in our piping business, we are saying we have some higher fixed cost and manpower cost, which might get rationalized. But if I could turn in terms of utilizing, we are, I think, around 75% utilization, correct, sir, with our sales volume on our capacity. So like, how would be the delta between getting our operating leverage for better margins in pipes? That's just what I wanted to know.

Rajesh Pajnoo: The one you are talking about realization and that is better margins in terms of our products as well as the capacity utilization. If you see, we reportedly as of YTD, we are at around 78% capacity utilization, and even we have gone till around 85% in the last quarter. We are focusing more; the capacity will remain the same. We are in the process of adding up capacity. The industry runs at 65% average of capacity utilization because of the various moulds and prices being run on lesser number of operations. That is how this industry runs. As far as the margins are concerned, Mr. Sikka was already telling you we are working on it. If you see we are focusing more into the whole system, that is why the fixed cost work because the people who handle all these products go up. We are definitely sure once we process and the rates come up, these employee cost are going to come down. Mr. Sikka has given a guidance that in the next couple of years, we should be definitely bringing our employee costs by around 2%.

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Sandeep Sikka: I thank everybody who has joined in the call today. I hope we would have been able to answer most of your questions both on the market margins for each of the business segments. If still any questions are there, we'll be happy to take any further questions. Thanks again for joining us on the call.

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