

Date: March 4, 2020

To The Department of Corporate Services –CRD Bombay Stock Exchange Ltd P.J.Towers, Dalal Street MUMBAI – 400 001	To National Stock Exchange of India Limited 5 <sup>th</sup> Floor, Exchange Plaza Bandra (E), MUMBAI – 400 051
<b>Scrip Code: 509675/HIL; Through Listing Centre</b>	<b>Scrip Symbol: HIL: Through NEAPS</b>

Dear Sir / Madam,

**Sub: Transcript of Schedule of Analyst / Investor Call held on February 17, 2020.**

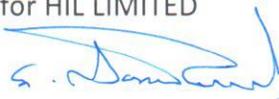
**Ref: Regulation 30(6) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations).**

In continuation to our letter dated February 10, 2020, Please find attached the Transcript of Analyst / Investor conference call held on February 17, 2020.

Pursuant to Regulation 46, the aforesaid intimation and Transcript of the Investor Call is also available in the Company's website i.e. [www.hil.in/investors](http://www.hil.in/investors).

You are requested to kindly take the same on record and acknowledge the receipt.

Thanking You  
for HIL LIMITED



G Manikandan  
Company Secretary &  
Financial Controller.



## HIL Limited

# Q3 & 9M FY20 Results Conference Call Transcript February 17, 2020

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**Moderator:** Good Day Ladies and Gentlemen and welcome to the HIL Limited Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Karl Kolah from CDR India. Thank you and over to you, Sir.

**Karl Kolah:** Thank you, Margaret. Good Afternoon Ladies and Gentlemen and welcome to HIL Limited's Q3 and 9M results conference call for investors and analysts. The call has been hosted to discuss the financial performance and share operating highlights of the company with you. Today, we have with us Mr. Dhirup Roy Choudhary – Managing Director and CEO of the company; Mr. K. R. Veerappan – CFO; Mr. G. Manikandan – Company Secretary and Financial Controller; and Mr. Ajay Kapadia – Head, M&A and Investor Relations.

Before we begin the call, I would like to highlight that some statements made on today's call could be forward-looking in nature and the details in this regard is available in the earnings presentation which has been shared with you. We would like to have Mr. Dhirup Roy Choudhary make the opening comments followed by Mr. Veerappan who will take you through the financial perspective.

I would like to invite Mr. Dhirup to present his views on the performance and the strategic imperatives that lie ahead. Over to you.

**Dhirup Choudhary:** Thank you, Karl. Good Afternoon Ladies and Gentlemen and a warm welcome to everyone to our Q3 & 9M FY'20 earnings conference call. I thank you for taking out the time to join us on this call.

Q3 has been a very challenging quarter for HIL in all perspectives. The economic slowdown witnessed by the country has affected the real estate sector, the most with 13% reduction in new project launches. The rural sector faced severe liquidity crisis and political disruptions. Sand availability and NGT bans in selected states continue to pose a slowdown to our business. Amidst all of these challenges, hike in both prices for fiber and some other critical raw materials aggravated the business situation. However, many of these headwinds were estimated by our management and steps were taken towards containment of business impact. Actions towards reducing cost and increasing operational efficiencies have resulted in a stable business performance.

Our consolidated revenue grew by 26.4% to Rs. 1960 crore this quarter and EBITDA stood at Rs. 208 crore.



We continue to expand our innovative, non-asbestos cement based roofing business, Charminar Fortune, which is a unique offering and the only one of its kind in the market. It continued to receive a positive response from a spread of institutions and Government customers. As you are aware, we have not brought this particular product to the rural sector as yet. Our R&D is continuously working towards further enhancing these products technical capabilities and making it more competitive.

Our building materials business, Birla Aerocon, holds a leadership position in the market and has maintained a robust revenue performance this quarter. The company is operating at more than 90% capacity utilization in regards to its segment. We are also planning to spend CAPEX on augmentation of the capacity as we consider it to be a judicious step towards growing its profitability. Further actions are being contemplated to enhance this business through systems selling encompassing complementary products and solutions.

Our hopes and actions to enhance polymer business remains robust. We continue to focus our efforts on branding and a wide bouquet of SKUs to strengthen our presence in the focus market.

After acquiring Parador about a year back, our major focus was towards financial and cultural integration which has been extremely smooth. On the business front, we wanted to improve the efficiency and profitability of this business while striving to enter newer markets in a much more conservative way. The major sales of Parador comes from Germany and Austria and amidst de-growth of flooring markets in these countries, we have achieved a high single digit growth in these countries. The company is now focused to penetrate in China, Spain, UK, and US amongst other markets by strengthening our sales capability and last-leg connect. The sales in China JV are growing quarter-on-quarter and it is an EBITDA breakeven in the first six months of the year. The implementation of Six Sigma and operational efficiencies throughout Parador has shown a significant improvement in cost reduction, thereby delivering significant improvement in operational profits.

HIL has embarked on a digital journey to enhance its operational connectivity and improved productivity. We are amongst the first manufacturing companies to implement end-to-end connected digital shop floor in India in our Chennai plant. This will be replicated in other factories in India as well as in Europe going forward. This lays the foundation for industry 4.0 by connecting all the machines on the shop floor and giving a real-time visibility of plant operations. Further, robotic process automation has been commenced in finance resulting in reduced manual interventions and further strengthening compliance.

In our very first attempt, I am happy to share that we have been ranked amongst the top 30 of India's Best Workplaces in Manufacturing 2020 by Great Places to Work Institution.

The new product innovation is being pursued with lot of vigor in Parador and I am happy to share that Parador has received Gold Award in European Product Design and Iconic Award for Innovative Architecture and Interiors.

Thank you very much for your patient hearing, I would now like to hand over the discussion to my CFO, Mr. K. R. Veerappan.

**K. R. Veerappan:**

Thank you, Dhirup. Good Afternoon Ladies and Gentlemen and thank you all for joining us on the call today. I would like to recap the financial and operating highlights of the business during nine months FY'20.

The roofing solutions business de-grew by 15% year-on-year due to slowdown in rural economy as indicated earlier. The building solutions segment grew at 1% and the polymer solution segment grew at 14% amidst challenges faced in the real estate sector. Our philosophy of cherry picking orders have paved very well towards controlling receivables and improving profitability. Immense focus on cost reduction has been the genesis behind a robust set of numbers delivered by your company in the last nine months. You would note that, we continue to deliver highest profitability amongst the competition.

The year-to-date consolidated EBITDA stood at Rs. 208 crore as compared to Rs. 212 crore for the same period last year. The consolidated PAT showed an 11% increase and stands at Rs. 82 crore.

While continuing to grow the HIL brand in India, we have spent Rs. 27 crore in advertisement and marketing activities during the first nine months of the year as against Rs. 34 crore in the same period last year. Going forward, our major focus on marketing spend will be on BTL activities around the product brands.

As already communicated, we have entered into a business transfer agreement towards the sale of our industrial insulation business, HYSIL for Rs. 80 crore being a non-core in nature. We will utilize this sale proceeds post tax towards prepayment of our long-term debt. Our efforts will continue to optimize working capital and reduce our debt going forward.

We reassure our investors once again that your company is taking the necessary steps to maximize the return of the investor while improving the profitability and sustainability of the organization at all levels. As you would note, the consolidated EPS on an YTD basis is up by 10% to Rs. 110 versus Rs. 99 last year.

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

**Moderator:** Thank you very much. We will now begin with the question and answer session. The first question is from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

**Baidik Sarkar:** Firstly, weakness in the roofing business perhaps that has threatened around the same period last year. Having completed more than half of Q4, how your channel placement and volume look on a YOY basis and in the same breath given how the fiber prices and cement prices have trended up. What is the outlook on margins and volumes for the year to come by? Are you seeing renewed competition?

Secondly, congrats again on the sale of your non-core business, HYSIL. If you could recoup your thoughts on the roadmap to deleveraging and how exactly are the timeframes within which you plan to do that and if I can request you to hazard a guess on the timelines for the sale of your land parcel if any?

Thirdly, the polymer business in spite of reasonable scale today continues to struggle in terms of earnings. Outlook for the same would help.

Lastly, growth in Parador in Q3 was flattish, was this a one-off phenomenon, your comments and outlook, along with the comment on how it will be looking in China given that China is an emerging market for you as far as Parador is concerned?

**Dhirup Choudhary:** Thank you Mr. Sarkar for your questions, all very relevant questions. Yes, the roofing market has seen real bad weathers, I must say last two quarters if not

more. January has seen reasonably lighter month. Though we have grown over last year similar times, we do hope that in Q4 which is supposed to be a stocking quarter for primary stocking, this will see an upside. We also definitely hope that next year should be more positive with good crops and some of the business policies that I believe Government should be taking now from a rural sector point of view. These are hopes and the hopes are very favorable at the moment. Prices are very very tough from a cost basis because fiber costs have gone up nearly 20% for us, on a YOY basis. Though the availability of the fiber is not an issue, but the cost of buying it plus the R&D composition that they work have led to quite a cost increase for us. Cement is also not low enough, it is very very volatile and it is higher than last year. This continues to push the bottom line, but we are hoping that we will be able to pass on something on the selling price. HIL today stands almost at Rs. 7 to Rs. 15 above our competitors in all the markets and that leadership position will never be lost for us. We have raised our prices in January a little bit and hope that we should be able to do this continuously for the rest of this quarter and thereby exit this quarter at a reasonable selling price. R&D is pushing the composition to use lesser and lesser of fibers so that we are able to make up for the huge cost that we have on fibers.

As about the roofing, on the leverage front, yes, HYSIL was a very good business for us and we are very proud of what they have achieved. But we did not see a forecast for ourselves for higher scales as it involves a lot of investment on technology to take it to the next leg and it has absolutely no synergy so far as our business is concerned, because HYSIL was mainly into the industries for the permanent solution. Therefore, this decision was taken.

I am very happy that HYSIL will get a very good home where they are going because they are one who would nourish this particular product and the people. We are also very happy that we have got more than 2x to our revenue on a standalone and I think that would help us in leveraging. The attention that your management has at all times to see how Indian loan that we have taken for Parador acquisition continues to come down and we are hoping that particular activity goes on.

Yet, there are some other non-core assets that are in the process. We will abreast you as soon as we reach that stage. We are also going to use some of these proceeds as we keep selling some of our non-core assets towards enhancing the business and growing the building solutions by adding more capacity. We believe building solution has reached a level where the EBITDA has definitely gone up to double figures and we hope that to go on further.

We are cherry picking our orders on building solutions also because some of the real estate customers do not pay in time and we do not want to land ourselves in problems on bad receivable, so that is a continuous effort that we are doing. Polymer business has been challenging, but I am very happy that the market is recognizing us and we are fighting amongst some big guys in the market. The modest growth that you see in polymer, again you must realize is without any big dealers who have come on trade because they normally would not like to come out of the big guys, but we are doing with smaller guys. Our main attention now is not focused on building big dealership, but rather going to plumbers and that activity is on fire. I can tell you and I am very hopeful that you would see, in the next six months, a definite upside much favorable to your expectations on polymer. We are working towards building the team in a big way also and enhancement in every aspect specific to areas where we want to focus and not go pan India. Putty is doing very well all in all. This business still has a lot that we need to do, but we are on it.

So far as Parador is concerned, yes, our biggest focus was not top line. I had mentioned that from the day one we would first work on the bottom line, to kick out cash from where it is stuck and I think to a great level that has been achieved. I think about the profitability, I think we have gone up by 50% over last year same time on Parador's EBITDA and we hope that now the network that we are trying to create on the sale side we will work on.

We are focusing on a lot of countries, like Spain, Middle East, United States and China of course we have the JV. The JV is continuously growing, but the base is very small, so you would not see it really in a big way till we have reached that leg. About 35 new POS have been created in China in different parts of the country. What China is going through at the moment is really tough in way of the virus and I have my full empathy and sympathies to the people who are suffering it, but I can tell you that none of our colleagues or our dealers or retailers has been affected with this virus. We are also doing major business through e-buying using digital network, so our business is therefore continuing in China and our product can be self-installed as you are aware. So therefore they do not require much of a human interface really. Yes, we will have to wait for another couple of months to see how this virus really stabilizes and comes down, but businesswise it is less impact to us because it is a small business at the moment. We also do not do too much procurement out of China, and therefore, China virus is not a critical aspect for a Chinese business going forward. I think I have covered all your questions.

**Baidik Sarkar:** Just a quick follow up, in terms of the pricing action we will be taking in the domestic roofing segment, is it fair to assume that the EBIT segment margins that we have seen for FY '20 would be a bottom or would you advise caution?

**Dhirup Choudhary:** Q4 should see an upside, to what extent I do not know, we will have to see because we are pushing enough. The last bit connect is helping us in getting a little more than our competitors. I must say last year was a very wonderful year for HIL. This was one of its kind but if you compare the profitability of HIL standalone over the history, this year even amidst all the tough weather that we are going through, we are second-highest on profitability. Roofing segment should try and milk as much. I am unable to give you a real number at this stage.

**Baidik Sarkar:** Can you hazard a guess on where your leverage position would likely to be in the next 12 months given the cash flows from HYSIL and operating cash flows to domestic business?

**Dhirup Choudhary:** Actually, we would bring it by about 50%-60% or more in the next one year.

**Moderator:** Thank you. The next question is from the line of Ritika Garg from Aequitas Investment. Please go ahead.

**Ritika Garg:** Sir, I wanted to know the fiber price, the fiber contracts that are reset are for what period of time?

**Dhirup Choudhary:** Ritika, the prices that we have is normally valid for a year, but we do not lose an opportunity to go back to them for a reduction in case we are able to strengthen our position, at the moment the suppliers are very strong.

**Ritika Garg:** Fiber makes up what percentage of my raw material cost?

**Dhirup Choudhary:** It is about 20%.

**Ritika Garg:** What is my capacity utilization and size?

**Dhirup Choudhary:** So pipes capacity utilization depends on the product mix, so in some of the products like column pipes and pressure pipes, we are very high, we are close to about 80%-82%. Some of the CPVC etc., overall mix if you ask me pipes and fittings we are at about 30% utilization at the moment.

**Ritika Garg:** Where do we see this in FY '21?

**Dhirup Choudhary:** I think you know you watch the next six months, Ritika, there has been some very very bottom steps we have taken. I am really hopeful that we should double our revenues here.

**Ritika Garg:** In Parador what is the kind of growth that we envisage for FY '21?

**Dhirup Choudhary:** Growth in Europe, and let me just remind all of us again that majority of revenue of Parador is localized in Europe, about 75% of the revenue comes from Europe. Europe is de-growing at the moment. There are lots of issues that Europe is facing through, all of us must be aware, therefore, even a growth in Parador is considerable. Therefore we are looking at outside Europe in a big way. I will caution all of us to have a little more patience on Parador. We should not expect a growth more than 7%-8% in Parador on the top line, but we will continuously see how to get the profitability up.

**Ritika Garg:** In Q3 there was an increase in employee costs in Parador, is that like a yearly phenomenon that takes place at the end of the year?

**Dhirup Choudhary:** I had mentioned this earlier, so I think it is exactly in line with what I had said. We are building the sales capability in some of the countries. We have brought in a new Sales Director in Parador. All that I had spelled out last time and the cost what you see is in line with that.

**Ritika Garg:** Sir, do we plan to reduce the Euro debt also?

**Dhirup Choudhary:** The answer is yes to you, but Euro debt is not my concern really because we are at less than 2% on that and that is really not hurting us. Mostly we want to reduce the Indian debt. I know my bankers will not be very happy hearing this, but that is an important part for us. We want to reduce that part more.

**Ritika Garg:** In FY '20 and FY '21, how much do we expect to reduce debt by, I think we reduced it by Rs. 30 crore in H1?

**Dhirup Choudhary:** I think I gave a little bit of glimpse in the last question by Mr. Sarkar that we should reduce our debt by 60% to 70% in year to year-and-a-half.

**Ritika Garg:** When do we hope to close the business transfer agreement for HYSIL by?

**Dhirup Choudhary:** This is in the process. There are some CPs that are needed to be made up specially the plant, the land has to be bifurcated, so HUDA has to be approached and all the rest, those are elements which takes time. They are not really fully in our hands because we do not want to sell the whole land. The land is important for us and we wanted to carve out only that much that is needed to be sold. So all of that would take around two to three months. I think we will get the money soon thereafter.

**Moderator:** Thank you. The next question is from the line of Amit Doshi from Care Portfolio Managers. Please go ahead.

**Amit Doshi:** Sir, you told that we have raised prices of asbestos sheet recently, so whether that will cover our raw material cost rise?

**Dhirup Choudhary:** I wish that was possible and it all depends on how our competitors look at the market and their own cost. I am surprised that they do not look at it as much as we do. We are really hopeful that part of it should get covered by the raise. I am not hopeful that the 100% will come through.

**Amit Doshi:** Sir, whether our competitors also have raised prices?

**Dhirup Choudhary:** I am not sure. This we need to ask with them but what we see from the market is they are not. So our differences are very high as I said about Rs. 7 to Rs. 15 per meter. Raising any price beyond that compromises volumes and therefore, we are working through a very close look at how much really we want to get volumes versus price, so this is a continuous effort. I do not think the competitors have raised price as much yet.

**Amit Doshi:** Sir, whether overall asbestos market is falling and what are our market sales, is it reduced?

**Dhirup Choudhary:** The total market I think over annualized basis should not go below 3.6 million metric tons, it was about 3.7 last year. Our market share always reduces in Quarter-2 and Quarter-3. This is a cyclic issue and we pick it up in Quarter-4 and Quarter-1 and therefore overall market share we will not allow it to reduce.

**Amit Doshi:** Sir, in case of building blocks, what is our revenue and what are our expansion plans?

**Dhirup Choudhary:** Building blocks, when you talk of building materials, we are talking about blocks, are you only asking blocks or panels?

**Amit Doshi:** Only blocks.

**Dhirup Choudhary:** Blocks at the moment, the revenue is about Rs. 156 crore on a nine monthly basis. We have grown by 10% over last year in the blocks. The profitability is definitely showing further up quite a lot. The blocks profitability has gone up by 46% over last year. We are almost at 90%-95% capacity utilization in blocks, therefore we are going for the digital bit in the blocks, so Industry 4.0 in the Chennai block plant was towards that, so that we can have more efficiency in the block plants and deliver more from the present CAPEX. CAPEX is very heavy in blocks because we had German machineries in Chennai, Jhajjar and Golan which are very heavy CAPEX. The Timmapur plant that we created with Chinese machinery and did our own augmentation in the engineering division at our HIL has been very well for us and the profitability is up very high. We are trying to repeat that when we are going for the CAPEX and therefore CAPEX will be further spent in blocks to gather momentum in this business.

**Amit Doshi:** Sir, you said Parador business grew by around high single digit, so whether that will continue in Q4?

**Dhirup Choudhary:** It will.

**Moderator:** Thank you. The next question is from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.

**Nikhil Upadhyay:** Good Afternoon and I should appreciate you on the performance which you have delivered in tough environment especially along the challenges which are existing in the market.

**Dhirup Choudhary:** Nikhil, Good Afternoon to you too and thank you for this wonderful comment because normally it does not come when the business is so bad. So I do not really feel I am eligible to take this compliment at this stage because Q3 has not been as good as what I wanted to deliver, but thank you still for boosting up our morale.

**Nikhil Upadhyay:** Sir, few questions one on the roofing solution business. Starting off if I look at our standalone gross margins and even sequentially considering the cost increases which we were talking of in asbestos, the gross margin has not fallen off significantly, so has it like the increase in the asbestos prices have been compensated by fall in prices in other raw materials as a result we are still around that 50% gross margins levels?

**Dhirup Choudhary:** Nikhil, very minute look by you, compliments for that. Yes we have taken a lot of actions towards reducing our cost base and Six Sigma, as I had mentioned about a year back, was one movement that has brought in huge. TPM is another movement, we have got now certified all our factories by TPM and therefore, the cost base is continuously coming down whereas efficiencies are going up. Our line in AC sheet, you believe it or not, have reached a level of 550 metric tons per shift per day in one line production which is a world record. No one else in fact, I will be tempted to see what our competitors do in India but I reckon that 500 itself will be a stretched target for them. So all of that calls for a big applause to our operations who are working continuously on this. The material cost have not fallen down, this is all compensated through our efficiencies.

**Nikhil Upadhyay:** So effectively if we look at it, with the price increases which you are mentioning and also we are entering a market where the season is a strong market in Q4, especially on the second point which we should see it in like. Most of the agricultural companies and the agricultural ecosystem companies are talking of a favorable or improvement in the market environment with better sowing and better reservoir levels, which means better income levels for the farmer. So do you think that the market at the ground level or at the rural level is probably improving some bit over what we had seen over the last nine months or what is your reading of the market?

**Dhirup Choudhary:** Probably is the right word and I highlight that, yes, our expectation is that it improves. This is the time when the primary stocking happens and the trick is very simple there. We have to keep raising our prices so that our partners understand that if they stock today they will be benefited than stocking tomorrow, so that trick has to work. But if our competitors keep on reducing prices then it does not give a favorable impression to the market. It all depends on how the complete ecology work around this. I am really hopeful they understand that their material costs are anyway going up severely for everyone, so if they are conscious on that and do not make negative bottom lines as did many of them. I am hoping to see the price rise and I am hoping the market should be better for us in Q4.

**Nikhil Upadhyay:** Secondly Sir the fall at the segmental level as I see so, if I go back in history in roofing like over last 16-20 quarters, now even in a challenging quarter like this when the growth has been impacted and overall RM cost has been bad, we have still done better than what we used to do historically. So do you think that now and I think lot of efforts which you have taken on the operational side and reducing the cost of operations, this is the worst case margin level the company can report and probably as the environment improves, we will keep on improving from over this irrespective of the price increases?

**Dhirup Choudhary:** Nikhil, I would love to say yes to you. The only concern or the black box that I have in front of me is fiber price. I will not know how the Russians and Kazaks react going forward but if that has more or less stabilized then I would say yes to your answer.

**Nikhil Upadhyay:** Secondly, Sir on polymers, the pipes part of the business, now in last two to three years we have done a lot of CAPEX. We have increased our capacities across the board in terms of the SKUs which we wanted to bring in. Are we at a point that we have the full bouquet of products? That is one. Secondly, if we look at in the market there has been some stress which has brewed up and some of the large companies are either facing bankruptcy or facing operational issues, so do you think that the market is accepting our product or the dealer level, distributor level is it giving us an option to increase our marketplace presence?

**Dhirup Choudhary:** Polymer is at the moment the focal point for me and I have no hesitation in saying my expectations from the polymer business would have been better than what we have delivered. Having said that, our actions are absolutely robust. We had a huge attrition if we go back six months in this business. We have brought in a new COO to drive this business, somehow we were not successful and therefore, we have decided to make a change there and I personally owning up this segment while we look for a new COO into this business. The last three months has been favorable. I am not saying I do any magic, but it is how you hold the team and groom them together. The whole team of polymer are efficient in the last four months and has been only four people left and that is a pleasing factor because that is where you train people and bring them in. We have an excellent product basket, but we do not have full because project orders require many more SKUs which we do not have. I am not at the moment looking at investing in CAPEX to develop them, so we are looking at sourcing them and packaging them to make up for the basket, but I think the SKUs we have is enough to drive this business forward. I asked for another six months from you because they are quite a few initiatives we have picked up, you would see polymer in a different league in the next six months.

**Nikhil Upadhyay:** Lastly, Sir, any new CAPEX plan in any of the businesses as of now or next one to one-and-a-half years?

**Dhirup Choudhary:** We are already adding a CAPEX in SBU-1 for the Fortune non-asbestos roofing plant. We did not have any dedicated line for Fortune. We had converted one of the lines in one of our factories in South, so now we will have a dedicated line. The necessity for that is as follows. Fortune at the moment, is a fantastic product. There is no failure in the market. Number two, funnel is developing very well so lots of new customers are coming into the fray and every one of them likes the product. The color variants that we have brought up in Fortune is wonderful, if you want any part of these pictures we can share with you to get you a feel or you could go and see the site. The product is at the moment priced around the steel sheets. As I had given you last time just an idea, it is about 2x to the asbestos roofing and the cost is high due to operational inefficiencies if I can say because we cannot make more than about 150 metric tons per day in a single line owing to autoclave technology that we have. Autoclaves have a restriction of number of quantity they can process in a day. So by having a new line in Faridabad, we would be having more trials to see how to come out of these constraints on autoclaves and look at a much more rigid formula to give Fortune a much more rigidity in the product. Today, the Fortune product miles up to the highest standards which is for non-asbestos, which calls for 350 kilograms per meter and we are at 400, so we are higher than IS. But our AC sheets are 550 as we see that is the IS for AC sheets or asbestos sheet. I want to see if we can deliver 550 LBC in non-asbestos roofing and those trials are necessitated and R&D has come out with 16 attempts that they have made. They

are all looking very positive. I think you would hear good news on the non-asbestos roofing solutions that we are trying to develop in-house.

- Nikhil Upadhyay:** Okay, but other than that no other CAPEX?
- Dhirup Choudhary:** Other than that it will be some CAPEX in the building solutions that we will add for blocks and panels and we would keep sharing as we come to that.
- Nikhil Upadhyay:** Sir, the overall quantum would be 100-120?
- Dhirup Choudhary:** Yes, we should try and keep it sub-100.
- Moderator:** Thank you. The next question is from the line of Sanjay Nandi from Ratnabali Investments. Please go ahead.
- Sanjay Nandi:** Sir, just one question from my end. In the walling section and in the roofing section, the cement is our main product and of late the cement prices are at its peak, so what is the procurement cost if you can just share in this particular quarter vis-a-vis last year like we can get the quantum of increase that has happened in this quarter and this outlook going forward?
- Dhirup Choudhary:** We are marginally about 7%-8% higher than last year same quarter on cement.
- Sanjay Nandi:** Is it possible to share the procurement cost like in percent basis if possible, Sir?
- Dhirup Choudhary:** I would recommend that we do not share these numbers because you will well appreciate your company wants to have an upstart vis-a-vis the competition, so I can only assure you we have the best relationship with UltraTech and their likes and we also have several local players in so far as different factories are concerned to get the maximum out of them and our procurement policy is rigid. We have also introduced Ariba which is a fantastic procurement tool which is giving us good stable returns on procurement costs so while not sharing the number, I can tell you we are definitely amongst the lowest.
- Moderator:** Thank you. The next question is from the line of Jigar Shah from ICICI Securities. Please go ahead.
- Jigar Shah:** Thank you for the opportunity. Firstly, on polymer business what would be the pipes and putty revenue breakup for Q3 and nine months?
- Dhirup Choudhary:** About 50% each.
- Jigar Shah:** By when do you expect to double the revenue in pipe segment going forward?
- Dhirup Choudhary:** Our aspiration is one year. But let us take one to one-and-a-half years just to be on the safe side.
- Jigar Shah:** What are the steps you are talking about? Any distribution increase? How do you plan to do the same from Rs. 30 crore you want to go to Rs. 60 crore in pipes, that is what you mentioned, or Rs. 60 crore would go to Rs. 120 crore?
- Dhirup Choudhary:** You are right, that is a number for quarter. What I am trying to tell you here are two aspects. Number one, we have pegged the price of our pipes equivalent to the best brands, so therefore our prices for pipes is not lower than the likes of Astral or Ashirwad in any of our segments, in any of our SKUs. We have pegged the quality

to be higher in our own way. I can say it is much higher than any of our competition and this is what the market also accepts. Where we are failing in pipes against the big guys is they have created the market over many years and the brand has been developed to a level where their synergies with big dealers have made the pull into the market. We are yet at a push level, and therefore, the pull has to come from plumbers and that is exactly what we are trying to do. We are doing far more with the plumbers than possibly some of our other competitors would be doing and that pull is going to help us to get this business up and other than that no compromise on quality. We would definitely improve on profitability by; it is a number game in pipes. The more you are able to sell, the better you are able to get price realization from your suppliers. Efficiencies are being looked at every stage. If you do a comparative and we have done it on the material cost, we are not too low from our competitors. So it is all about volume and once the volume picks up your profitability will pick up as well.

**Jigar Shah:** What would be the breakup in terms of different polymers like PVC, CPVC?

**Dhirup Choudhary:** I do not have those numbers sitting here, but we can always share that with you later.

**Moderator:** Thank you. The next question is from the line of Mahantesh Marilinga from FinQuest Securities. Please go ahead.

**Mahantesh Marilinga:** Sir, I just had a couple of questions, like the prices of the AC sheets are going up like on a similar level like the steel prices what they are looking at? For the customer who is seeing value what will we choose or they on par now or what is the price differential in similar category?

**Dhirup Choudhary:** I am not sure I understood your question, are you saying how does AC sheet compared to steel sheet?

**Mahantesh Marilinga:** Yes, the prices are increasing like one or two years back due to the GST cut. You benefited in a big way due to the price disparity between steel sheets and asbestos. Now since the prices are increasing, so what is the price differential and how is the demand in terms of steel sheets now? Are they shifting to steel sheets?

**Dhirup Choudhary:** There is still a big price differential between steel and AC. I think it is the utilization which is different, so they cater to different segments. If you look at steel sheets, they are preferred by institutional segment, they are preferred by very big hall roofs like warehouses etc. whereas for all the rural requirements where you talk of hens or the chickens or the cow sheds and for individual houses, AC sheet is preferred because they have the benefit of thermal being not so conductive on temperature as well as sound and longevity, our sheets live for 70 years, we say because our company is 70 years old. So all of those benefits definitely add to, so I am not seeing AC sheet volumes reducing from beyond this. There will be these ups and downs because of several market conditions, but we are hoping this business is definitely going to fill up on that.

**Mahantesh Marilinga:** Sir, coming to the last one or two quarters since the prices of the fiber has increased, what is the total quantum or the price hikes that you have taken vis-à-vis the raw material price increase?

**Dhirup Choudhary:** We have not been able to take a price hike in the last two quarters that is precisely our problem and the reason is we are already 15% to 17% higher in many markets than our competitors. If they are not able to raise their price, our gap is only growing and that will have a hit on the volume going forward, so we are having a

very close look at the volume versus realization. We are clear that if we reduce say Rs. 5 or Rs. 10 today, the volumes will be huge pouring in, but the profitability gets a hit, the brand gets a hit and that is not our strategy at all. So we have not been able to raise the price in last two quarters and the pressure on the materials have continued to go up and that is where you see contraction in the EBITDA margins.

**Mahantesh Marilinga:** Sir, in starting of the answer you mentioned 15% to 17% price rise in the raw material cost?

**Dhirup Choudhary:** 17% is the premium we have in the market on selling price of our product per meter over our competitors in many of the markets.

**Mahantesh Marilinga:** What about the competitors, Sir, they have been like maintaining the same price or how is that?

**Dhirup Choudhary:** They have reduced and I think their numbers would talk about that, so I would not like to talk about our competitors. They are very worthy and in their own way they run their business, but you should see their numbers and you would see really where they are going.

**Mahantesh Marilinga:** Like on the contrary of increasing the price, they reduced price you mean?

**Dhirup Choudhary:** Exactly from their numbers.

**Mahantesh Marilinga:** Sir, coming to this Coronavirus impact, like you had some road shows in China and all, has it impacted little bit on the flooring business?

**Dhirup Choudhary:** I mentioned this in the first part of my note and I would once again say Coronavirus will not pose any big threat to HIL.

**Mahantesh Marilinga:** Even in the flooring business?

**Dhirup Choudhary:** Even in the flooring business. It will have a dampening effect for a quarter or something but it will not pose a serious attempt and in any case China business is only a small fraction of the total flooring business at the moment.

**Moderator:** Thank you. The next question is from the line of Ritika Garg from Aequitas Investment. Please go ahead.

**Ritika Garg:** Sir, I wanted to know, what are the sales of Fortune as compared to the full roofing segment?

**Dhirup Choudhary:** Ritika, it is a small fraction at the moment. Fortune has done about 6000 metric tons so for this year as compared to 1300 metric tons that we did last year same time, so there is a continuous growth in Fortune volumes that we are able to see.

**Ritika Garg:** And in terms of revenue?

**Dhirup Choudhary:** In terms of revenue, it is definitely drawing double the price of AC sheet, but it is a small fraction of the roofing segment.

**Ritika Garg:** What percentage of our sales in pipes business is through plumbers?

- Dhirup Choudhary:** Majority, our B2B segment is less than 10% at the moment, so it is all through plumbers.
- Ritika Garg:** The entire thing is through plumbers?
- Dhirup Choudhary:** Yes.
- Ritika Garg:** What is our ad spend expected for FY '20?
- Dhirup Choudhary:** It will be in similar levels, Ritika, because as I mentioned we are not going to do big budget spending next year. We have done for the first two years after I came in for bringing the HIL into a different platform. We were known only as an asbestos company or a Hyderabad company. We wanted to bring it to an HIL level, so our alignment with CSK and Mr. Dhoni all the rest was towards building that. I think we have reached a level where now the brand pride has come up both with our employees and with our associate partners, and therefore, we will continue to spend as much as is needed in the BTL mainly for the product brands like Charminar and Birla Aerocon and Birla HIL pipes and putty, and minimal on ATL so the spend will be in similar level as this year.
- Ritika Garg:** Sir, nine months is Rs. 27 crore, so can I expect for the full year is going to be Rs. 36 crore?
- Dhirup Choudhary:** Yes, about Rs. 35-36 crore is a good estimation.
- Ritika Garg:** It would be in line for FY'21 as well?
- Dhirup Choudhary:** Yes, Madam.
- Moderator:** Thank you. The next question is from the line of Sreemant Dudhoria from Unifi Capital. Please go ahead.
- Sreemant Dudhoria:** Question on the fiber prices, Sir, given that the regions that supply and also the number of players that supply the fiber is getting fairly consolidated now. What we have seen in the past is there used to be annual revision in the prices. As the industry is getting consolidated, should we expect more than once the price hikes to be taken by the raw material suppliers, is that a fair assumption to make?
- Dhirup Choudhary:** I would not know how the future will work out for us, you are right it used to be an annual contract, but last year we have seen already three times the prices getting revised and part of it was due to the freight charges changes and part of it of course due to consolidation of now, two players against three players earlier. I would assume and this is just my assumption that they know that raising the prices of fiber too much would destroy this market completely and India is amongst the very few countries still in the world which added to asbestos sheet business and I do not think it will be to their interest therefore to destroy this market. Indian consumption would be about 30% of their total production or more, and therefore, I do not foresee there would be as irrational to raise or correct the prices as often as they have done this year and already the prices are almost 20% higher at the same like-to-like basis, that is my answer to your question.
- Sreemant Dudhoria:** In terms of the demand and supply for the fiber globally, is it possible to give a broad number how it is looking like?

**Dhirup Choudhary:** I think I will not be able to share this detail in greater comfort because we are not at their position. They would know it better but what I keep hearing India is a steady market for them, about 30%-35% of their total production is utilized in India, roughly about 350-400 metric tons of fibers, so that gives you a feel of the total market.

**Moderator:** Thank you. The next question is from the line of Mahantesh Marilinga from FinQuest Securities. Please go ahead.

**Mahantesh Marilinga:** Just a question on the fiber prices Sir, can you just give me the quantum of the price hikes taken by fiber players in the last two quarters?

**Dhirup Choudhary:** At about 20% is the price rise to us in the last one year.

**Mahantesh Marilinga:** Sir, also you are going for annual contract or it will be like short contracts now?

**Dhirup Choudhary:** It is an annual contract, whether they like to change it again in mid-term, I would not know because we are in their hands, honestly.

**Mahantesh Marilinga:** What is the near-term outlook, Sir, any idea?

**Dhirup Choudhary:** At the moment the prices are firm, I am hoping that the prices will not get reviewed again by them as I mentioned in my last answer to the last question that they also have to be conscious of the fact that the market will get destroyed if they do not block it here. It is like the golden egg and the chicken; you cannot have all the golden egg by killing the chicken.

**Mahantesh Marilinga:** Sir, apart from India which are the other major countries where the asbestos sheets are used?

**Dhirup Choudhary:** AC sheets are used in Indonesia, in Sri Lanka, in Bangladesh, in Russia of course, in China, but we do not have the numbers of China very clearly and there are some local players in China who still have an open bid mining in China, and some I think Cambodia and some other countries, but primarily these are the countries.

**Moderator:** Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to the management for closing comments.

**Dhirup Choudhary:** Thank you Margaret for addressing this very well for us. Thank you to all; it has been a pleasure interacting with all of you over this call. We thank you for taking time out and engaging with us today. We value your continued interest and support in your company, HIL. If you have any further questions or would like to know more about anything, kindly reach out to our investor relation desk.

I hope I have been able to answer your questions diligently and look forward to your continuing support. We once again commit that we will continue to grow investor value at all times in your company. Thank you very much.

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