

February 5, 2018

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

**Sub: Transcript of Schedule of Analyst/Investor Call held on Thursday, January 25, 2018.**

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

In continuation to our letter dated January 22, 2018, please find attached the Transcript of Analyst/Investor conference call held on January 25, 2018.

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 take on record the above said information.

Thanking you  
For HIL LIMITED




G. Manikandan  
Company Secretary  
& Financial Controller.

## HIL Limited

### Q3 & 9M FY18 Earnings Conference Call Transcript

January 25, 2018

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**Moderator** Ladies and Gentlemen, Good Day and Welcome to the HIL Limited Q3 FY 2018 Results Conference call. As a reminder, all participants' lines will be in the listen only mode. 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 '\*' followed by '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Vikram Rajput from CDR India. Thank you and over to you, sir.

**Vikram Rajput** Thank you. Good afternoon, ladies and gentlemen. Welcome to HIL Limited's Q3 & 9M FY18 Conference Call for Investors and Analysts. The call has been hosted to discuss financial performance and share operating highlights of the Company with you.

I have with me on the call Mr. Dhirup Roy Choudhary – Managing Director & CEO of the Company; Mr. KR Veerappan – CFO; Mr. G. Manikandan – Company Secretary & Financial Controller and Mr. Ajay Kapadia – GM (Finance).

We will commence the call by comments from the management team post which we shall open the call for a Q&A session where the management will be glad to respond to any queries that you may have.

At this point I would like to highlight that some of the statements that may be made or discussed on the conference call may be forward-looking statements, the actual results may vary significantly from the statements made.

Now I would like to invite Dhirup to commence by sharing his thoughts on HIL's business performance and the strategic imperatives ahead. Over to you, Dhirup.

**Dhirup Choudhary** Thank you Vikram. Good Afternoon, Ladies and Gentlemen, a warm welcome everyone. I thank you for taking out the time to join us on this call.

I am happy to share the momentum in our overall performance. Q3FY18 PBT has doubled over Q3FY17. HIL is entering an era of sustainable growth with roofing, growing at 28% YoY and Building solutions, recording a 36% YoY growth during Q3.

For consecutive quarters we have demonstrated improvement in roofing solutions backed by initiatives to strengthen distribution and marketing network. The Charminar brand continues to stand for superior user attributes and lead the affordable roofing industry.

We had an eventful start to the year and we believe, we continue to hit the right milestones at the right time. As most of you are aware, we commenced commercial production of Green Roofing Solution, Non Asbestos corrugated Roofing Sheets at Kondapalli Plant, Andhra Pradesh. This revolutionary new range of cement based asbestos-free sheet, branded as “Charminar Fortune”, has been introduced post an in-depth analysis of the market and its requirements in the roofing segment. With this product, we are offering an alternate option to the institutional customers for durable roofing solution, superior to other roofing products available in the market in every manner. These have good dimensional stability, low drying shrinkage and excellent resistance to heat, sound, termite & fire. This new product fits in perfectly with our core competency.

Charminar, a leader in Fiber Cement Sheets, has also been recognized with the consumer Superbrand award for three consecutive years in its segment. Charminar Fortune is an apt brand extension. The company’s R&D team has worked relentlessly for years to come up with this product. The awareness about non-asbestos cement roofing products in the retail and institutional sectors is quite low owing to absence of a dependable solution. Our first priority is creating awareness about ‘Charminar Fortune’ amongst the prospective customers in the market and seed the product with big institutions. The institution market is completely vacated by us as on date. Owing to all its advantages over alternative products, we hope to see good traction for Charminar Fortune business in the coming quarters. This product will also cross borders and we have already applied for IP registration for the technology of this revolutionary product.

We have deployed one of the existing lines in our state-of-the-art Kondapalli manufacturing facility near Vijayawada for the manufacture of Charminar Fortune sheets. This 14-acre world-class facility has already bagged several prestigious awards. Our expert in-house Engineering Division (ED), together with our operations team and R&D has innovated a mechanism wherein the existing fibre cement sheets’ production lines, with some modifications, can cater to manufacturing non-asbestos fibre cement sheets as well.

We are also witnessing upsides from the building solutions segment, where our extensive product range finds preference within the community of architects, builder-developers and interior designers. Besides the solid usage proposition of Birla Aerocon branded products, our ability to support specific requirements of the trade on a solutions basis gives the business an edge. The growth trend here is also supported by enhanced customer relationships. AAC block remains impacted by RERA and demonetization; however we are seeing signs of recovery. By all our efforts, we have witnessed steady volumes with improvement in realizations in wet walling, where we control healthy market share. With GST bringing in transparency and the industry witnessing consolidation, branded players like us stand to benefit. Further improvement will be driven by emphasis on profitable orders; solutions based approach, increased uptake of smart putty and the branding under Birla Aerocon.

The blueprint in pipes & fittings is clearly laid out. We are on track to operationalize the plant in April 2018. Meanwhile we have been expanding our bouquet of products in this segment, developing B2B & B2C channels, moving closer to the plumbers, influencers and big builders to strengthen our relationships. These initiatives, when combined with the planned scale up and branding exercise, will help us garner meaningful pie of the market.

We have revealed earlier our focus on furthering our brand reach, connecting our brands to a wider customer base. I am happy to state, in the forthcoming season of the IPL, HIL will debut as a sponsor backing Chennai Super Kings (CSK). We think this would be the ideal proposal to bring salience to our Company and brands. M S Dhoni, one of the most adored cricketers & icon in sports field, will be supporting CSK in this branding. We believe, both Dhoni & HIL, stands for dependability & durability.

As part of our transformation while we have invested in products, diversification, cost optimization and so on, we have also taken concerted efforts towards augmenting our human capital, focusing on employee engagement and welfare front. The initiatives have borne fruit with meaningful improvement in attrition rate. As I look around, I think the HIL team is stronger than it has ever been both in terms of our individual capabilities and vigour and in terms of the ability to collaborate towards our shared vision.

Truly aligning to the CK Birla philosophy, HIL intends not only to be a business entity, but also a member of the local community in which it operates. HIL strives to build good relationship with representative of these communities. Through CSR activities HIL also intends to build the bond and a sense of solidarity with the environment and its problems. Recently, under the Swachh Bharat Abhiyan HIL initiated the construction of multiple home toilets in Kondapally, Faridabad and Kannigaiper. Further, HIL has renovated schools, owned up girl student classes, built sanitization facility and organized Dengue Awareness and Preventive Medicine camps in villages.

To sum up, the journey of HIL's transformation will always prioritise profitable growth. The industry has moved from the conventional cost arbitrage model to knowledge arbitrage. Over the years HIL has invested proactively in processes, products and human capital graduating to a knowledge arbitrage, providing customers the complete cultural eco-system comprising governance, values and quality. We have progressively strengthened our channel and are best placed to capture the sector tailwinds expected going forward. With Charminar Fortune, and the planned capex in pipes & fittings, the opportunity to grow ahead of the market is apparent. Our focus will be on scaling up the business by extending the reach and range of our offering. Our rich group legacy, superior R&D, strong product launch capabilities, Superbrands, 6,500-strong loyal dealer relationships, human capital efficiencies, world-class facilities with transparent operations and strong financial position are cornerstones of a sustainable platform for long term success. A consistent pursuit of operating discipline and a strong balance sheet will support our intent to chart an enhanced performance.

Thank you very much for your patient hearing. I would like to invite our CFO, Veerappan to take to the forum to share his perspectives on the financial review.

#### **KR Veerappan**

Thank you Dhirup. Good afternoon and thank you all for joining us on the call today. I will start by recapping the financial highlights for the quarter and nine months and then focus on providing you some flavour around the numbers and our journey forward.

HIL has sustained momentum and delivered strong financial performance with meaningful improvements in revenue, EBITDA and profit.

In 9M FY18, Revenues stood at Rs. 943 crore as against Rs. 845 crore in 9M FY17. In Q3 FY18, Revenues grew 32% to Rs. 282 crore as against Rs. 213 crore in Q3FY17. Please note, for the purpose of comparison total revenue and total expenditure are shown net of duties and taxes on sale of goods. Q3 sales, driven by roofing solutions delivered growth for the second consecutive quarter. 28% growth realised in roofing segment during Q3, YoY where affinity for Charminar brand continues to grow.

Strong contribution continues to come from Building Solutions with 36% YoY growth in Q3 and 22% YoY growth in 9M. We are seeing traction in Birla AEROCAN range given the emphasis on solutions based approach.

In 9M FY18, EBITDA stood at Rs. 113 crore as against Rs. 90 crore in 9M FY17, up 26% YoY. In Q3 FY18, EBITDA improved 166% YoY to Rs. 28 crore. Margins are

tracking expanded base of operation and improvement in product mix. Initiatives to optimise process and costs are yielding traction in terms of higher efficiencies. Further, pursuit of value-added product portfolio is adding to earnings profile.

In 9M FY18, PBT improved by 34% YoY to Rs. 89 crore which is 120% of last full year PBT. In Q3FY18 PBT improved by 102% YoY to Rs. 20 crore. This performance has been supported by growth in sales across board, where initiatives taken to drive higher productivities from operations are driving earnings. Emphasis on enhancing financial parameters have resulted in expansion of pre-tax earnings. Contained borrowings and continued optimal working capital management will allow transmission of growth realised into higher net profits going forward.

I am pleased to share that the Balance Sheet continues to be strong. Net Debt to Equity remains at 0.12x as on Dec 31, 2017 vs. 0.12x as on March 31, 2017. We have zero interest bearing debt since past 7 quarters. We have further optimised working capital intensity and Net Working Capital has come down to 6% of total revenue as against 12% of total revenue as on March 31, 2017.

Before I conclude I will underline the fact our business is headed in the right direction and our eyes are set on delivering consistently a profitable growth performance.

On that note I conclude my opening remarks. We would be happy to give you our perspective on any questions that you may have. I would request the operator on this call to open question and answer session. Thank you.

**Moderator** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session.

We will take the first question from the line of Dhananjay Mishra from Sunidhi Securities. Please go ahead.

**Dhananjay Mishra** Sir, few questions. My first question is regarding this green roofing solution. Sir, what kind of raw material apart from cement we will be using and where we are going to source this raw material and what kind of realization you are expecting vis-a-vis AC sheets?

**Dhirup Choudhary** This is an innovative product which has been designed by our R&D and for the sake of confidentiality as we have just applied for the IP even I do not know the exact constituents of this product. But I can only tell you that we are not using polymer-based fibers. We are going to use more or less the same constituent but replace the asbestos fiber with another set of fibers which are well available in India and the additives are designed by R&D to make this product as robust as our AC sheets.

**Dhananjay Mishra** Sir, how much investment till date including all R&D we have done to deliver this project?

**Dhirup Choudhary** You will be surprised that the investment is only about Rs. 13 crore as of now on CAPEX and we have only enhanced one line.

**Dhananjay Mishra** Okay, so our roofing capacity remains the same that is 11.5 Lacs MT, we have just changed the line, right? Or this is incremental capacity we have created?

**Dhirup Choudhary** Exactly.

**Dhananjay Mishra** Okay and sir margin would be better in this segment because of or it is in line with our AC margin?

- Dhirup Choudhary** Mr. Mishra, the margin is always dictated by selling price, since such a product is not in India we are trying to position it much ahead of our AC sheet in the institutional market and we believe that we should be able to get extremely good margins on this which should be better than the AC sheets.
- Dhananjay Mishra** Okay so very first year what is your target, I mean any target you have in terms of turnover we will do from this product?
- Dhirup Choudhary** I wish I could give that number to you Mr. Mishra but just bear with me for another quarter or two because we are seeding this product, we have tested the waters we are making the awareness well fed by the institutional segment because they do not even know such a product exist. So it will take us some time to seed this product but once we have seeded, the orders will come faster and many. So I am hopeful that the business will take shape in a better way in another quarter or two.
- Dhananjay Mishra** Okay. And sir, my second question if Mr. Veerappan can provide the volume number for asbestos sheet, this quarter vis-à-vis previous quarter also for nine months?
- KR Veerappan** The AC sheet volume this quarter we have done around 150,622 tons and last quarter we had done 121,857 tons so in volume terms we have grown 24%.
- Dhananjay Mishra** Okay. What is the number for the nine months?
- KR Veerappan** Nine months we have done 584,000 tons against 558,000 tons which is a 5% growth.
- Dhananjay Mishra** Okay and if we see the seasonality factor Q3 remains a weak quarter so do you think this trend will continue in Q4 as well?
- Dhirup Choudhary** I am confident we have picked up the momentum and I definitely see Mr. Mishra that those days where there was a degrowth in the roofing segment have been left behind.
- Dhananjay Mishra** Okay so I mean 8%, 9% kind of growth is not a big deal for next two, three years?
- Dhirup Choudhary** It will always be single digit growth for asbestos roofing and that is going to be anyone's guess.
- Dhananjay Mishra** And sir lastly what was the pipe segment contribution in this quarter in terms of value?
- Dhirup Choudhary** Okay so pipes has contributed about Rs. 14 crore to the volume this quarter.
- KR Veerappan** The top line revenue included in the others category it is around Rs. 14 crore.
- Moderator** Thank you. We have the next question from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.
- Pritesh Chheda** I just wanted to know on the profitability side what would be the EBITDA margin for roofing business and what would be the EBITDA margin for non-roofing business?
- KR Veerappan** So the EBITDA margin continues to be healthy, building solutions we are improving it has come into double-digit if that answers your question.
- Pritesh Chheda** What has come into double-digit?
- KR Veerappan** Building solutions.

- Pritesh Chheda** So your company level EBITDA margin for nine month is about 12%, so is it safe to assume that building products would be less than 12% and sorry roofing would be less than 12% and building products would be less 12%, that is how it is?
- KR Veerappan** No, roofing will be more than 12% and building at the YTD level it is nearing double-digit.
- Pritesh Chheda** Okay. And second question within the roofing what would be the contribution of asbestos based roofing?
- Dhirup Choudhary** Asbestos based roofing is the only major product that we have other than that we have the color coated sheet which contributes a small dimension.
- Pritesh Chheda** Okay so large part of that revenue is asbestos?
- Dhirup Choudhary** At the moment, yes.
- Pritesh Chheda** Lastly you gave out your growth in asbestos some indicative that that segment typically grows single digit. What can the building solutions business grow for us at what rate?
- Dhirup Choudhary** So the building solutions business has been witnessing a CAGR in excess of 20% historically in the last two years and I believe the momentum should continue so we have the traction around that.
- Pritesh Chheda** Okay any other distribution in the same?
- Dhirup Choudhary** Distribution for building solutions is quite different than the roofing solutions.
- Moderator** Thank you. We will take the next question from the line of Varun Ghia from Equitree Capital. Please go ahead.
- Varun Ghia** My question is with regards to the AAC blocks. Your current capacity is approximately 8.25 lakh cubic meter. So what are your expansion plan in the AAC bricks and what is the EBITDA margins earned?
- Dhirup Choudhary** So AAC block from a point of business let me just tell you Varunji at this moment we are awaiting a severe headwinds on account of RERA and this we believe is just about stabilizing or would take some more time, so new launches are not to be seen. So this is a business which we are sustaining only by virtue of our brand and we are still growing in this business. We have a capacity utilization of about 85% in this particular business. So there is still room for making the best out of our capacity and we would take the next decision to expand this once there is a little more consolidation in the market with demonetization and GST transparency I believe lot of consolidation would happen in this business. So we will wait for that.
- Varun Ghia** So EBITDA margins earned in this business?
- KR Veerappan:** Blocks is improving, it used to be very low single digit now it is nearing the double digit margin and as Dhirup had mentioned the focus is more in terms of solution strategy offering not just blocks but even the dry mix and whole package to the consumer and that is realizing into project and profitability in incremental projects for us which is helping us to improve the profitability substantially in the last two quarters.
- Varun Ghia** And currently your CAPEX plan includes this increasing the pipes and fittings capacity to 16,000 metric tons, right?

- Dhirup Choudhary** yes.
- Varun Ghia** So that is the only expansion plan currently?
- Dhirup Choudhary** That is the only CAPEX underway today, yes.
- Moderator** Thank you. We will take the next question from the line of Siddharth Rajpurohit from JHP Securities. Please go ahead.
- Siddharth Rajpurohit** Sir, I wanted the volume for the AAC blocks and fiber boards for the quarter and year-over-year?
- KR Veerappan** The AAC blocks we have sold 175,934 cubic meters against last year's same quarter 167,569 cubic meters which is a 5% volume growth. And the year-to-date level we have done around 506,000 cubic meters against 490,000 last year again a 3% volume growth.
- Siddharth Rajpurohit** Boards, sir?
- KR Veerappan** Boards not significant. On panels, we have done around 16,853 tons against 13,000 tons last year. So that is a significant growth in terms of volume growth 30% growth.
- Siddharth Rajpurohit** So what is the key driver for the building solution business growth?
- Dhirup Choudhary** So the key drivers you mentioned about building solution, I think the key drivers in building solution is the solution selling that we are trying to do. So we are trying to provide to them a complete package rather than just a product and that is adding to both the top line and bottom line as you are witnessing.
- Siddharth Rajpurohit** Anything that you are changing or seeing a change in trend in construction in India which will move towards more boards and more of ACC blocks is one which is well accepted. But is there a change in trend in construction anything that you see currently?
- Dhirup Choudhary** Honestly I am not very bullish about the board's market at all. I mean today we are talking about panels and boards in India is Rs. 400 crore market for the cement based and that is a field where we are in, in a small way and we do not see the organization putting in enough CAPEX into that particular area because I do not see them really coming out to be competitive against the other competitive products that are in the market like wood based . This is my view.
- Siddharth Rajpurohit** Can we assume that the steel prices are going up and broadly cement prices are stable so will we have some arbitrations more in terms of competitive strength in terms of say your competitor steel roofing?
- Dhirup Choudhary** I think you know what you see as a traction in the volume of roofing segment is partly owing to the same and you rightly pointed GST has been favorable to us. The total duties were about 28% before GST which has come down to 18% now. This 10% reduction has brought us now at par with the steel and I think that definitely is supporting the drive for this business and we definitely see that going forward as well.
- Siddharth Rajpurohit** How is our branding cost going to change now means what will be our branding cost now going forward?
- Dhirup Choudhary** So our marketing spend as such has not been very high initially because we have not been advocated much towards building that brand but going forward I see that HIL has to take a traction on that positively and therefore as I mentioned to you

earlier we have decided to join hands with CSK into branding in IPL because the brand recall is extremely important for the pipes and fittings business, for the Charminar Fortune business in institution and for anything else that HIL proposes to go in future for its growth trajectory. And I think that is what we will drive. On a percentage basis I think about 1% odd or maximum 1.5% to revenue is what I see as an increase in spending.

**Siddharth Rajpurohit** Okay. Finally can you just throw some light on how has been the response with our Charminar Fortune?

**Dhirup Choudhary** It is in the very primitive stage at this moment. We have started seeding this product last six months into various applications. We have sent this product up to 2,000 kilometers with various transshipments to see whether the breakage etc are within the range and we have found this product to be extremely stable so that is a very positive sign. The aesthetic of this product, the feel of the product and I am an engineer, I can tell you that from an engineering point this looks to be a very, very solid product. We have now started the commercial sale of it and we have got the initial few hundred metric tons from important customers and I think as that goes forward we will get to know more about how they feel about the product but overall very positive.

**Moderator** Thank you. We will take the next question from the line of Kritika Garg from Aequitas Investments. Please go ahead.

**Kritika Garg** Sir, what pipes margins do we expect?

**Dhirup Choudhary** This is quite considerably competitive product range and we are well aware that there are good names like Ashirvad and Astral and Supreme which are already there and has made good meaning for themselves. Good thing is that this particular market is growing at a very steep rate, and we have a product already which is very high on quality and once we are able to augment our complete range of products and are able to come to the market with the package, Kritika, we will be able to fight this out with any of the competition in a humble way and I believe that the margins they have is extremely high in early double figure. So I believe that this product should be able to fetch when it reaches a level of stability and higher numbers and good double figure numbers.

**Kritika Garg** It is a double-digit margin. And do we expect raw material cost to remain at the same level or do we expect them to increase?

**Dhirup Choudhary** Kritika, we have various types of raw materials, so may I know which one you are referring to at this moment?

**Kritika Garg** So I am referring to in the roofing solutions business?

**Dhirup Choudhary** Our biggest raw materials are two. One is the imported fibers and the other one is cement and cement is definitely firming up in India and we always have to fight out that particular lobby so that is an ongoing process and the fiber is well within our range so we have been able to do some good negotiations around it and they are quite considerable. So I think overall I do not see much of an enhancement on the material cost.

**Kritika Garg** In fiber we have long term contracts, right? And other expenses are up by 20% year-on-year, so what would that be attributable to?

**KR Veerappan** In advertisement as Dhirup mentioned that as an organization we have started spending a lot which was not present last year. Other expenses also include distribution expenses which has increased in line with the growth in volume.

- Kritika Garg** Sorry I did not get you. So there has been an increase in which expense?
- KR Veerappan** Advertisement.
- Kritika Garg** And sir can you tell us do we have any inorganic acquisitions in sight?
- Dhirup Choudhary** Kritika, with a clean balance sheet as ours and a hunger to grow, I think that is something that we are evaluating consistently though we are not very aggressive around that we will take our own time. I do not think we have anything at this moment worth speaking about but you would get to hear once we reach this stage.
- Moderator** Thank you. We will take the next question from the line of Karthik Swaminathan from Catamaran. Please go ahead.
- Karthik Swaminathan** My first question is around the geographical split of revenue for HIL? Can you tell me what is the split of contribution of revenue between North, South, East and West?
- Dhirup Choudhary** Karthik, those numbers are not immediately with me but I am sure I can tell you that North and East are the major contributors from a region base to our business. But we are evenly based throughout the country and with six factories for roofing and four for building solutions together with the pipes and fittings I think the company is well spread. We have 41 depots, 6,500 strong loyal first line dealers - many of them in their third generation. Its like a web network around the country so we are well poised for any growth if it happens in any other part of India.
- Karthik Swaminathan** And these 6,500 dealer relationship which you mentioned, are they exclusive or do they also stock the competitor's product?
- Dhirup Choudhary** No, I think most of them are only exclusive. In fact if you speak to them as I did, I went around I am about one year now to this company and I can tell you the first thing I did was to meet all of them who are the main ones. The only thing they say is even if you give me a cheaper priced product we will not go outside the brands of Charminar.
- Karthik Swaminathan** And on pricing what is the total pricing premium of Charminar versus a local manufacture in that in any area on average?
- Dhirup Choudhary** So Karthik, we are the trendsetter for prices. So as this particular business has a peak during the season which is between say March 3<sup>rd</sup> week to about July 1<sup>st</sup> week, 2<sup>nd</sup> week, that is the time the prices also go up because all material costs go up and the cement prices also go up. So there is quite a bit of firming up during then. And then it comes down a bit during the off season period. We are the trendsetters and I can tell you we enjoy anything between Rs. 7 to Rs. 15 per meter on our product over our competition.
- Karthik Swaminathan** Can you just help me with that in percentage terms how much percentage we will be getting higher over the competition?
- Dhirup Choudhary** About 5%.
- Karthik Swaminathan** And sir, just one last question. Who is the end customer of this product of the roofing sheets and the building blocks?
- Dhirup Choudhary** So the end customer, Karthik, for roofing sheet is the rural segment. It is the farmers for their cattle sheds, for their own houses, for the poultry farms and for various applications. For the building solutions of course, there is a variety of customers starting from small affordable buildings that are coming up against the Pradhan Mantri Yojana to the big scaling multiplexes and high rise buildings.

- Karthik Swaminathan** And out of these segments where would you have the maximum share?
- Dhirup Choudhary** On roofing it is all from rural sector.
- Karthik Swaminathan** Yes, sorry in the building solutions I mean?
- Dhirup Choudhary** Building Solutions I think we are quite evenly based on both about these markets.
- Moderator** Thank you. We will take the next question from the line of Naresh Katariya from Money Curves. Please go ahead.
- Naresh Katariya** My question first on AAC blocks. I understood from you that things are little slow on the real estate front but is this an industry where a national player has a lot of potential because I see lot of brands on the street which makes AAC blocks. So do we have good entry barrier or technology or something which differentiates that people will buy Birla Aerocon and not just any other AAC block?
- Dhirup Choudhary** About your question on AAC block I think the answer to your question lies in the fact that about 50% of this market is unorganized and amidst all the pressures that we have with the unorganized players we have been growing considerably over the last few years and this consistent growth has just slowed down because of some of the government initiatives but will soon firm up and pick up again. I do not think on a long run unorganized sectors would continue because the demonetization has shutdown many of the doors and GST transparency is severally hitting them.
- So at any stage on my table we have at least a couple of them on for sale. So this is a business which will go for dominant consolidation and we definitely do not see any bit of worry on that account. You may already be aware but just to remind you AAC blocks is aerated autoclaved concrete block whereas some of the other lower end players actually provide only AAC bricks which are not autoclave, so they are less resistant to the weight and are not so dependable. So I think from that point our product stands superior to the others.
- Naresh Katariya** I definitely also I am sure you have noticed that there is an acute sand shortage at multiple places and that helps AAC what I have been told by my market research that AAC have a good future because of sand shortage but I think on the street I see just too many players brands of AAC blocks in Chennai. Of course, Birla Aerocon is also there but Camcrete and so. There is lot of brands but yes, I am happy to hear that consolidation is happening on AAC.
- My second question is on the pipes expansion we are doing. Again it looks very promising but I see that suddenly lot of players have come into this field and want to expand into the pipe segment. So what would be our niche because it is quite small Rs. 40 crore, Rs. 50 crore and I think they are looking to grow it to several times may be Rs. 300 crore, Rs. 400 crore, Rs. 500 crore. So what would be our USP or technology or differentiation which will take us to such kind of growth?
- Dhirup Choudhary** It is a very interesting question, Nareshji. I had answered this last telecon last quarter but I will repeat it for your sake. This is a market which is growing at a very steep rate and the external survey that we did by one of the big four revealed that this market today is Rs. 8,500 crore which will grow to Rs. 16,000 crore in the next 5 years. So there is enough room for anyone who is trying to setup provided they have (a) the right brand (b) the right product (c) the right marketing sales network.
- So for us the key is we are not compromising with the quality of the product that we will come out with. What you see today as Rs. 40 crore last year topline is owing to that we did not have the entire stretch of products with us and therefore while we could still continue with the B2C sector where they buy loose pipes for projects it is always the set of pipes that goes in and we did not have SWR which is the type of

pipe which gets into the drainage and which comes first as a building comes up. So we always used to lose out because we did not have SWR.

So now we are coming out with a complete range of products and that is going to enhance our capability to serve the customers plus we are going for a big bang branding which should bring a good recall for the Birla Aerocon name. Birla name has been attached to Aerocon to get that significant bearing for a recall and the last kilometer touch with the plumbers and decision makers is something that is getting built at our end in a continual basis and I believe as the product comes right in the mid of April we would be able to see a good traction around this business.

**Naresh Katariya**

And the last question is on this IPL branding again very positive step. What is the amount we are spending if you can disclose kind of ballpark and will it be one quarter affair or will it be spread over a series of quarters the amount we will spend on IPL branding?

**Dhirup Choudhary**

So Nareshji, as I mentioned the total marketing spent will go up by about 1% to revenue and that should give you a feel around there. The numbers are confidential as we have signed with them and I am sorry I am not able to therefore share with you. So far as the whole progress is concerned we are going to brand for two years. So it is not a quarter, it is not a month it is a holistic view of how this branding exercise would be pursued by us as an organization to build HIL and our Birla Aerocon and Charminar brands around.

We are going to go with Mr. Dhoni and Mr. Raina and others to do a co-branding by way of videos and shoots. You can see us in the Chennai stadium with branding, you would see us giving man of the match award, you would see us doing a lot of ATL and BTL exercise around this for the next couple of years with CSK. Why CSK, because I think they are the champions and they stand by virtue of a huge fan follow and we believe that HIL in its own right are champions as well and Mr. Dhoni as a great brand draw. So I think all of that should give a very good holistic view for the marketing.

**Moderator**

Thank you. We will take the next question from the line of Praveen Sahay from Edelweiss. Please go ahead.

**Praveen Sahay**

I just wanted to know about the new product which we had launched the green roofing Charminar Fortune. So can you give some sense on the price differential versus asbestos roofing or with the steel roofing for this product?

**Dhirup Choudhary**

As already replied earlier this is just the initial base where we are taking on to seeding this product. We are feeling the market. I could have given you a price sense only if there was a product like this and a market price already established. So as I mentioned earlier there is not anything comparable to this in the market today. Let me however try to give you a sense that this we are trying to position in the institutional market and at the moment the institutional market has gone away from asbestos based products and therefore we do not have a market there for ourselves. What is there is basically the color coated sheets, steel sheets and then they go for RCC.

On a thumb rule I would say our asbestos roofing sheets and steel sheet and RCC would compare as though steel is about double the cost and RCC is about four times the cost of asbestos. So we are trying to position this product which is the non-asbestos cement base corrugated roofing between our asbestos and steel and thereby try to gain market shares out of the steel. That is our view. How it crystallizes as I mentioned give us another couple of quarters to get this settled.

**Praveen Sahay**

Can you give any sense on the institution market how big is that?

- Dhirup Choudhary** We have vacated this market and we are not there giving you the right numbers will be too premature. We are just about stepping into that market but ballpark figure would be Rs. 4,500 crore but that will include the RCC also.
- Praveen Sahay** And lastly, on this same product as you had given some sense on the pricing like but you are targeting institutional market and currently in the roofing we are actually more in the retail segment. So will that we are going to maintain our margin in that segment or with an institution sales we are expecting some correction?
- Dhirup Choudhary** Praveenji, I had mentioned this question and answered as we are definitely evaluating methods of positioning this properly both in the institutions in India as well as this will travel abroad, this product will go outside the border and we believe that the margins will be considerably equivalent or better than the AC sheets when the business matures.
- Moderator** Thank you. We will take the next question from the line of Mahantesh Marilinga from Finquest Advice Securities. Please go ahead.
- Mahantesh Marilinga** Sir, just I had some questions here. Sir, actually when if you have a topline growth of 19% what is the decline in other revenues for example in roofing and building solutions both grew at 28%, 36% so some particular revenue stream pull down the topline slightly?
- Dhirup Choudhary** Sorry, I could not catch your question, Mahanteshji, could you repeat?
- Mahantesh Marilinga** Actually the topline grew by 19% if I am not wrong this quarter?
- Dhirup Choudhary** 32% net of excise duty for comparison purpose.
- Mahantesh Marilinga** Okay I think I need to adjust that. And one more thing like the main reason for the margin expansion is the operating leverage or even the price increases?
- Dhirup Choudhary** It is both actually. Since the costs are going up every day, so that is something that has driven the selling price also up but mostly it is that we have increased the volumes while the fixed costs are reasonably stayed where it is so the margins have improved. And plus a lot of efficiency inside because my CFO addressed you that a lot has been done and we are streamlining this company by way of making it slimmer by way of working capital reduction, by way of various efficiencies that we have put in. Lot of cost saving drives are going on. So we want to bring this company to a shape where it is spirited to run and then we are going to run fast.
- Mahantesh Marilinga** And coming to the growth like was this housing for all scheme and interest subvention one of the reason for the pickup in housing sector and also that indirectly driving you?
- Dhirup Choudhary** Absolutely, there are positive levers and definitely attributing. GST I mentioned was another where the rates of both roofing came down by 10% and AAC block came down by about 6%. So both of them have added to the business.
- Mahantesh Marilinga** So what was the reduction can you come again?
- Dhirup Choudhary** The total tax in Excise duty and other taxes together for roofing was 28% before GST, now it is 18%. For AAC block it was 18%, now it is 12%. So about 10% reduction in roofing and 6% reduction in AAC block have helped the business to grow further in way of appeal from the consumer side the demands have gone up.
- Mahantesh Marilinga** And also are you seeing the current traction going on from the housing sector continuing for the near term? Any SOPs are there in the budget?

- Dhirup Choudhary** I hoping to see as much as you would possibly that the corporate taxes come down a bit and support the industry but we will have to wait and see when the budget comes. But I am very hopeful that the government will take actions towards bringing in more FDI into this sector and growing the infrastructure.
- Mahantesh Marilinga** Sir, and what is the outlook for the raw material price actually asbestos in the next one year?
- Dhirup Choudhary** Asbestos is very much within control we have long term contracts. I do not see that to be a warning factor for us.
- Mahantesh Marilinga** Sir, and you mentioned about the marketing cost going up by 1% of sales. I mean what was it before and what might it go in the next year?
- Dhirup Choudhary** This was about 1% to 2% earlier it will go up by another 1% that is about it.
- Mahantesh Marilinga** Okay close to 3% in this year?
- Dhirup Choudhary** It will be lesser than that, yes.
- Moderator** Thank you. We will take the next question from the line of Payal Malwani from WOVV Investments. Please go ahead.
- Payal Malwani** My question is sir, will the earnings momentum continue?
- Dhirup Choudhary** Yes, it will continue.
- Payal Malwani** And in that what will be your EBITDA and PAT guidance for the next year?
- Dhirup Choudhary** Payal, I hope I could tell you that because as per SEBI guidelines you are not supposed to. All I can tell you is do not go solely by Q3 performance. Q3 has been extremely good for us because Q3 last year was very subdued owing to the demonetization setting around that time. But go by a holistic nine months' performance of the company. I think the traction should continue in some way or the other.
- Payal Malwani** So can you give me an approximation of the number?
- Dhirup Choudhary** Very difficult to say, Payal. I mean we are at this stage we are not even firmed up our budget for next year. We will do that around February so very difficult but I can say that the growths will be reasonably good. You will be happy with the performance.
- Payal Malwani** Another one. Can you give me some trigger for the earnings growth in future? What could be the major triggers of earnings growth for the next year?
- Dhirup Choudhary** Okay so I think as we look at the growth levers for our company would be (a) the existing business has to grow profitably so you can see in the last two quarters our roofing segment which is about 70% of our total revenue has started to pick up on the growth and that I believe will continue. There is also this pipes and fittings business which is going to come up in a big way from the next financial year and I think with the total product range that we have now we should be able to grow this business substantially.
- Give us another two, three quarters to settle in this Fortune seeding and thereafter you would see non-asbestos roofing business to grow from the institutional segment and then of course the extensive branding that we are trying to do would bring

synergy to our growth profile and the brand recall and all of that will help this organization to grow substantially.

- Payal Malwani** Can you throw some light on the overall market share of this new product in your total portfolio?
- Dhirup Choudhary** On roofing asbestos roofing we are at about 22% market share, Payal. We have gained about 0.7% market share this year over what it was last year. On the AAC block I think as I mentioned about 50% of the market is unorganized, 50% is organized but we have about 18% market share there and pipes just a small size so we are just shaping up.
- Moderator** Thank you. We will take the next question from the line of Shekhar Singh from Excelsior Capital. Please go ahead.
- Shekhar Singh** Sir, just wanted to know like the gross margins in your building solutions business, is that higher than roofing gross margins?
- Dhirup Choudhary** No Shekhar, it is not.
- Shekhar Singh** Because I was under the impression that say at the operating level the margin for building solutions is lower but at the gross margin level they might be higher at their end?
- Dhirup Choudhary** No, in both stages they are lower than the roofing.
- Shekhar Singh** And why is that say is it like because the acceptability is pretty low right now and as the acceptability goes up your pricing power come in?
- Dhirup Choudhary** I think the net that the NSR as we say, it is net sales realization of the building products have come down over the year and that is something which is bothering the business I guess to that extent. Charminar has been doing very well owing to its brand over now 70 years and the technology, the product which is superior to anyone else. I think therefore as an organization we have taken the solutions route now and we are trying to build up the profitability of building solutions going in the solutions route.
- Moderator** Thank you. We will take the next question from the line of Saikiran Pulavarthi from RW Investment Advisors. Please go ahead.
- Saikiran Pulavarthi** I joined the call little late. Just want to understand the building solutions growth have been pretty healthy at 22% on a YTD basis. Can you just explain what has resulted in such a high growth and what was the main reasons behind it?
- Dhirup Choudhary** So in the solutions sector we are going with dry mix, we are going with putty, we are actually going to the last leg working with the builders in way of doing the mock ups for them and assisting them in way of grooving inside these products for the cables and all the rest of it. So the last leg handshake which I believe is helping this business immensely. So earlier we were only supplying blocks now we are doing the entire solution for them and setting up training institutes with big builders and everything that is required to be together with them to give them the comfort. And I think over the months we are building that relationship which is helping this business in a big way.
- Saikiran Pulavarthi** So in a way can I conclude that this momentum can sustain for few more years because you just started off the base and with the valuation what you can do quite a large because this momentum can sustain?

- Dhirup Choudhary** I would definitely see this sustaining.
- Saikiran Pulavarthi** And the last question from my side is on the pipes. I remember you guiding us that the Gujarat plant will be commissioning in the first quarter of FY19. Post that how do you see in terms of cost structures and the profitability impact in the initial stage of pipes products getting launched I understand that there will be some setup cost as well and the depreciation also coming in. Do you see that has a drag on the P&Ls of the next year or the momentum with which other businesses can sustain can take those costs comfortably in the P&L?
- Dhirup Choudhary** So Mr. Sai, I mentioned about the profitability I am expecting when it reaches steady state. Initially of course it will go through our net profitable route because we are setting up a new business and a product. Will this drag the overall company, I do not believe it should because this is going to remain a considerably smaller volume to the whole company's aspect.
- Moderator** Thank you. We will take the next question from the line of Varun Ghia from Equitree Capital. Please go ahead.
- Varun Ghia** I wanted to ask with regards to this joint venture Supercor Industries which has stopped. So is there any expenses which HIL has to borne or something?
- Dhirup Choudhary** No, the answer is no we have mostly provided for all and the asset which is there is much higher than our costs on board. So I think there will be after that there is no loss on that account.
- Moderator** Thank you. That was the last question in queue. I now hand the conference over to the management for their closing comments.
- Dhirup Choudhary** Thank you very much. It has been a pleasure interacting with all of you over the call. As I had said earlier we will be a transparent organization going quarter-to-quarter. We thank you for taking time and engaging with us today and we value your continued interest and support. If you have any further questions on this, we would like to know more about that and you can address that to our investor relation desk. Thank you very much.
- Moderator** Thank you. Ladies and gentlemen, on behalf of HIL Limited, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.

- ENDS -

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