

NEAPS/BSE ONLINE

21st February, 2023

**The Corporate Relationship Department
BSE Limited
Phiroze Jeejeebhoy Towers,
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Mumbai - 400 001
(BSE Scrip Code: 542905)**

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

Dear Sir/Madam,

Sub: Transcript of the Earnings Conference Call held on 14th February, 2023

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the transcript of the Earnings Conference Call held on Tuesday, 14th February, 2023 for discussion of the unaudited financial results of the Company for the third quarter and nine months ended 31st December, 2022.

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

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

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

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“Hindware Home Innovation Limited
Q3 & 9M FY23 Earnings Conference Call Transcript”

February 14, 2023



MANAGEMENT: **MR. RAJESH PAJNOO – CEO, PIPE BUSINESS**
 MR. SUDHANSHU POKHRIYAL, CEO, BATH BUSINESS
 MR. SANDEEP SIKKA – GROUP CFO
 MR. NAVEEN MALIK – CFO

Moderator: Ladies and gentlemen, good day, and welcome to Q3 and 9M FY23 Earnings Conference Call of Hindware Home Innovation Limited hosted by Phillip Capital PCG Desk.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded.

I now hand the conference over to Mr. Apurva Shah from Phillip Capital (India) Private Limited. Thank you, and over to you, sir.

Apurva Shah: Good evening everyone. On behalf of Phillip Capital (India) Private Limited, I welcome all of you to Q3 & 9M FY23 Earning Conference Call of Hindware Home Innovation Limited. We take this opportunity to thank the management of HHIL for giving us the opportunity to host this post earning conference call.

From management, we have with us today Mr. Rajesh Pajnoo – CEO, Pipe Business; Mr. Sudhanshu Pokhriyal – CEO, Bath Business; Mr. Sandeep Sikka – Group CFO; and Mr. Naveen Malik – CFO, Hindware Home Innovation Limited.

I now hand over the call to Mr. Gavin Desa from CDR India for further proceedings. Thank you, and over to you, Gavin.

Gavin Desa: Thank you, Apurva, and thank you for the introduction. Welcome, everyone, to this call. I would just like to add that statements made during this call may be forward-looking in nature and are subject to risks and uncertainties. The management of the Company does not take any responsibility for revising these in the interim or make any changes. I would now like to hand over to Mr. Naveen Malik to start beginning his opening remarks. Over to you, Naveen.

Naveen Malik: Good evening, ladies and gentlemen, and a very warm welcome to Hindware Home Innovation Limited's Q3 & 9M FY23 Earnings Call.

I am sure you would have seen the numbers and our presentation. Now, I will touch upon some key aspects of our overall performance and of our Consumer Appliance business post which Sudhanshu will share an update on the

Bathware Business and Rajesh will take you through the Plastic pipes and fittings business.

Our business performance should be considered in light of a challenging macro environment whereas demand has been subdued coinciding with the period of interest rate hikes and high inflation leading to slow down in consumers discretionary spend. We have achieved decent growth in Pipe business but inventory losses impacted margins.

Although our margins and profitability have been affected, our revenue performance remains healthy owing to our established brand and product acceptance. Our 9-month FY23 EBITDA increased by 40%, and we plan to further improve efficiencies by increasing local sourcing in our bathware and consumer business.

Further, Hintastica Pvt Ltd, the joint venture entity formed between our Company and Groupe Atlantic of France, has commenced manufacturing heating appliances at its advanced facility in Jadcherla, Telangana. We are optimistic that the commencement of the new manufacturing plant will enable us to strengthen our market share and further consolidate our position in the water heater segment.

I'd also like to talk about a change in the status of Hindware Limited announced on 3rd February 2023.

In order to incentivize and encourage certain employees who are critical for its business, the Board of Directors of Hindware Limited has approved the allotment of 9,00,000 partly paid-up equity shares or 1.8% of equity to members of its senior management team. Subsequent to the aforesaid allotment, the status of Hindware has been changed from wholly owned subsidiary to subsidiary of HHIL with effect from 3rd February, 2023.

The shares are issued at a valuation arrived by an independent valuer, will also be subject to lock-in, release and transfer restrictions as may be agreed between Hindware and the eligible subscribers.

Looking ahead, we continue to focus on expanding our product portfolio, improving our product mix, expanding our distribution reach, enhancing

operational efficiency and implementing cost rationalization initiatives. We remain confident about our performance and will achieve sustainable profit and revenue growth for all our stakeholders.

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

Sudhanshu Pokhriyal: Thank you, Naveen. Good evening and welcome everyone.

We are very encouraged by our performance for the quarter under review. In a period wherein market demand was muted, we achieved revenue growth of about 12% in Q3 and 33% for the 9M FY23, while of course, retaining our market share.

Despite the calibrated price increases, which we undertook across our product categories during the quarter under review to counter the effect of increasing input prices, we continued to see a decent customer offtake, which we believe reflects the success of our innovative launches and our strong brand resilience.

As a part of our growth focus, we've been strengthening our distribution network. In the year to date, we have added 123 new distributors and 29 in Q3 alone. We launched 186 new brand shops and 46 in Q3 alone, taking our total to nearly 425 operational brand stores for brand Hindware. We have expanded to many new Tier-4, Tier-5 towns basis our distribution expansion initiatives and enhanced our brand awareness through focused advertising and promotion, which I'm sure you witnessed during the quarter as well.

Our enhanced product mix and new product launches drove growth of our Bathware division. Higher input costs combined with an overall inflationary environment, however, saw growth lower than our expectations.

During the period under review, we have introduced various innovative products and designs such as Aspiro faucet range, PVD range of coloured faucets called Hues, more than 15 new models of EWC in one piece and wall mount types. Our NPDs which are launched in the last 21 months have contributed to more than 20% of our sales in this financial year. Our marketing campaigns across all platforms have strongly supported these launches.

Our growth strategy is multipronged. First of these is consistently expanding our distribution reach, and we believe there is still a significant opportunity in Tier-2 and Tier-3 series. Nearly 70% of our sales comes from non-metro towns. Secondly, our focus is to continue to expand and strengthen our faucets business and institutional business, while maintaining our position in the sanitaryware business. Our third area of emphasis is on strengthening our luxury brand 'Queo' through a vibrant media and promotional campaign. All these efforts are underlined by a strong influencer program, which also includes the plumber and architect loyalty program, which plays a significant role in product decisions of the end consumers.

We have taken strategic decisions to reduce imports and increase local sourcing to better safeguard us from the vagaries of international freight, foreign exchange, and international inflation. We believe this will help us to increase our efficiency, which will start reflecting in the coming quarters' performance. Although we do not have any significant capex plans over the next year as we are not setting up any Greenfield manufacturing plant. The capex we proposed to incur in the coming FY24 will be setting up more brand stores to drive market growth and also on efficiency capex to optimize our own manufacturing capacity to build higher ASP and higher margin products.

In the past 12 to 18 months, we saw a spurt of demand, which was pent up during covid. Currently, with the inflation in cost of land and cost of construction, we believe the demand is going to be muted for at least in the next 2 upcoming quarters. Additionally, home loan interest costs have increased, which is making customers a little more cautious while considering taking a decision to buy a home. Some big projects are definitely being launched because of the distinct shift, sector is undergoing from unorganized to organized sector. Additionally, we also see many new players coming into sanitaryware and faucet business as extended categories of their existing business as has been happening in the last 7 to 8 years.

In this environment, our diversified quality offering supported by a strong brand and a thrust on aggressively expanding our presence and reach will help us in our endeavor to drive profitable growth.

We believe we have brand strength, manufacturing excellence, quality, system/processes and the team to deliver robust results.

With that, I would like to call Mr. Rajesh Pajnoo to take you through the pipes business. Over to you, Rajesh.

Rajesh Pajnoo:

Thank you, Sudhanshu. Good evening everyone. Thank you for joining us.

I am glad to report that our pipes and fittings business continues to be the fastest growing in the segment with revenue up by 41% in 9M FY23 and 27% in Q3 FY23, on a year-on-year basis. EBITDA stood at Rs. 2 crores in quarter 3 and in 9 months FY23, it came to Rs. 20 crores.

Margin pressures persisted due to the decline in PVC raw material prices leading to huge inventory losses, which stood at around Rs. 17.5 crores this quarter. Since December 2022, as you all know, PVC prices have stabilized now and begun to rise. Further, should PVC prices remain at present levels or don't fall again, we expect no further inventory loss in Q4, which is already reflecting in our January performance and believe we are well-positioned to deliver early double-digit margin.

Despite the persisting macroeconomic challenges, we are happy to report that our business has witnessed encouraging volume growth in the last 2 quarters. This growth is driven by our CPVC pipes and fittings, which presently contribute close to 45%+ of the pipes business 9 months FY23 revenue.

Our focus on expanding distribution and reach continues. We currently have a network of over 290 active distributors, along with approximately 25,000 retailers.

Our expansion strategy, including both Brownfield and Greenfield initiatives, aligns with our planned objectives. Our Hyderabad plant's brownfield capacity expansion project commenced commercial production in January 2023 increasing our capacity to 48,000 MTPA. Additionally, our Greenfield project in Roorkee is progressing as planned with the new plant expected to commence operations in mid-FY25.

Considering the sale of around Rs. 200 crores, which we achieved in the past 2 quarter, we are hopeful of the growth construct for our pipes and fittings business. We, in fact, anticipate that the business may exceed the target of achieving Rs. 1,000 crores in sales well before its stated FY25 target.

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

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session.

The first question is from the line of Kaushal Shah from Dhanki Securities.

Kaushal Shah: I have two questions. One on the bathware segment. If you can maybe throw some more color on the drivers for the margin expansion that we've seen in Q3, that is one. And the second is on the pipe segment. As you mentioned in your opening remarks about the Rs. 17 crore inventory loss. So, that seems a little higher compared to some of the peer companies, particularly also given that your commentary in Q2 was that we're not expecting significant inventory loss. So, where do we see pipes, while the volume growth continues to be quite strong, but where do we see the margin trajectory going forward in the pipe segment?

Sandeep Sikka: I would request, Sudhanshu if you can take the question, what are the key drivers for the bath business ,followed by Rajesh, who can then throw some light on the pipes business..

Rajesh Pajnoo: I'll answer your second question, that's on the pipe side. Since we have already said what happened in the last quarter, the prices of PVC raw material moved from Rs. 126,000 to Rs. 99,000 per metric ton. It was almost around a 30% drop in prices in a single quarter, and we were carrying some inventory. So, that was the reason. And as I said that this now looks positive because market has gone up by a few rupees per kg. And also, we have realized its benefit in the market. And as I said already, we are on the right track and since January is already promising, the results are promising, and we don't see any inventory loss in quarter 4 now.

Kaushal Shah: Just one question related to that. You've obviously seen a realization drop. So, while volumes continue to be very strong in the pipe segment, do we expect that Q4 realizations also will rise because obviously PVC prices have increased.

Rajesh Pajnoo: Price have already started increasing, and we will realize it further as the prices of raw material go up. As I already said, it is already on the rise.

Kaushal Shah: And sir, some comments on the margins you did mention about targeting double-digit margins.

Rajesh Pajnoo: So, they will be somewhere around 10% of EBITDA.

Kaushal Shah: So, that will be for the next financial year, FY24?

Rajesh Pajnoo: Yes.

Sandeep Sikka: This is guidance on a broad basis for the next few quarters, basis the current inventory valuation and the current market conditions and assuming there shouldn't be any further substantial drop in import prices of PVC. That's what Mr. Rajesh Pajnoo is saying. Our short- to medium-term guidance is around double digits. And then in the future, as we move forward, the operating leverage will come into the picture and margin expansion will further increase by 1% or 2%.

Kaushal Shah: On the Bathware segment?

Sudhanshu Pokhriyal: In the Bathware segment, of course, we've had the gains which are coming to us now because of the fact that we are now a remerged Company along with our manufacturing. So, that's already a part of our financials right now. We've, of course, seen a further increase in our input costs, especially in the gas side. And in Q3, we've taken a price increase of about 6% in sanitaryware, and about 3% to 4% in faucets, which came about in the middle of quarter 3, so we have seen that gain coming towards perhaps only in 1 month in the month in quarter 3. However, we expect that to benefit us entirely in the Q4, so we believe that margin expansion will happen in quarter 4 of the financial year itself.

Additionally, what's also happening for us is that we are continuing to reduce our dependence on imports, which were a significant portion of our total outsourced products. We have started in-sourcing some of that, and we've also started converting into domestic sourcing for some of the sanitaryware requirements, which we've had. I think that also will have a significant impact on our overall profit margin expansion. Lastly, to improve our efficiencies, we

have taken up multiple Designed to Value (DTV) projects. Many of these projects are under execution. We believe that some of the benefits will start flowing through to us in quarter 4.

Moderator: The next question is from the line of Praveen Sahay from Prabhudas Lilladher.

Praveen Sahay: So, the first question is related to the Bathware segment. And just to add into the last participant's question. If I look at the PBT margin from last year same quarter it is on a lower side. And I believe because of the AGI Greenpac acquisition, this is on the lower side. So, by any chance, we will reach the PBT margin at that level of the last year?

Sandeep Sikka: If you see until 31st March 2022, the entire operation of building products was in two different companies and we have historically communicated the rationality of the acquisition. Now everything is in a single Company. We were historically buying from AGI on an arms' length basis and on independent valuation based pricing mechanism. Whatever the cost of production was there in the previous Company and the markup margin, that entire margin is now getting accumulated in Hindware. But the margins are not being clearly seen at the EBIT level on apple-to-apple basis as there has been a fluctuation in the raw material prices of PVC price fluctuation and we have spoken about the gas & the brass prices historically in Bathware business as well. The entire benefit of manufacturing that was in the other company is now is flowing out here.

The only difference is that the majority of the capex, was incurred before the acquisition in the other Company and with the acquisition, there was some increase in interest component. Since we have acquired this through our debt. There is an interest component, which we have given guidance to come down in the next 1 or 2 years with the profits we will earn. And ultimately, those margins will start flowing back.

Praveen Sahay: And because Q-on-Q also, we can see that the net banking debt has increased. So, last quarter, we did not consolidate entirely or there is incremental of Rs. 124 crores?

Sandeep Sikka: Generally, by the end of Q3, we accumulated some inventory as we are still buying a lot of inventory from China. And being the Chinese New Year in the month of Q4, inventory accumulation generally happens in the industry. By the

end of March, you will see some inventories coming down. And accordingly, with the realization, the bank debt will also come down.

Praveen Sahay: And the next question is related to consumer appliance business. There is a contraction in the margin. So, what's the basic reason for that?

Sandeep Sikka: If you see historically, we've also spoken about this. The market in which we operate is a highly fragmented market. Let it be kitchen chimneys, air coolers, and other categories. The industry has not been able to pass the overall increase in the input prices on to the consumer. You see many of the competitors, their margins have also shrunk. And in order to sell more volumes, we had to do more BTL activities on the ground, to incentivize distributors which is why we feel until some recovery happens in the market in the next 1 or 2 quarters, the current trends of the margin will continue. And thereafter, with the volumes picking up and also some easing happening on the input prices then the margin expansion should happen.

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

Nikhil Gada: Continuing with the previous participant's question, regarding the margins in the Consumer Appliances business, I believe that we were targeting the range on an EBIT level. We were targeting a range of close to 5% to 6% in the next couple of years. And now that we are seeing such kind of an impact in discretionary demand as well as the input prices still being on the higher side. Do you want to revisit that guidance? Or is there any change in the guidance for that specific margins, if you can highlight, please?

Sandeep Sikka: Generally, all these guidance are given based on the market conditions prevailing at that time. Like, we had historically given guidance on pipes and the consumer business. On the pipes business, we feel that we will be achieving those targets much faster than what we have committed by 2025. But on the consumer side, based on the current market condition today, we may feel that it may take another year or so to achieve those targets. But on the pipe side, we'll achieve a year ahead of it. On the margin side also, Nikhil, we feel that the problems may still be there in the economy on the macro side with the inflationary trends, rise in interest prices and lays-off in many IT sectors, the job losses are there, which may have a short-term impact on the

margins. But that's why we said in the next 1 or 2 quarters, we feel that margin pressure will be there and then it should start easing out.

Nikhil Gada: Sir, if I rephrase the question according to you, I'm just specifically asking for FY24, I'm not going to hold you for that. But just from your perspective, what kind of sustainable margin do you believe is achievable for FY24 in the current scenario.

Sandeep Sikka: You are talking of EBIT margin for consumer products?

Nikhil Gada: Yes.

Sandeep Sikka: I can talk about EBITDA margins here, broadly.

Nikhil Gada: Would so, sir.

Sandeep Sikka: EBITDA margins will range around 6% to 7% for the next financial year as a whole. But again, this have some variations in the quarter because few of our products are seasonal in nature. It is based on the current market condition and the current input prices trend. And this was relating to consumer products business only.

Nikhil Gada: Sir, just on the plastic pipe business, could you help us in terms of the inventory that we were carrying in 3Q in terms of finished goods and resins. Because just to sort of understand what led to this such high kind of inventory loss because obviously, you mentioned it, but definitely still very much similar to what we saw in 2Q as well. And in 3Q, we in fact saw some improvement in prices as well. So, a bit confused over there, please explain?

Sandeep Sikka: We cannot give on a quarter-to-quarter basis, but if you see on 31st of March, the total inventory in pipes was around Rs. 213 crore, which is right now at Rs. 182 crore. But there is a substantial volume increase also. But on a number of days basis, we reduced from 129 days to 85 days. The challenge in the market was that last year as the prices were rising, input material availability was a question. And with a sudden drop, the absorption of that pricing became a problem in the market.

Nikhil Gada: Fair enough. And sir, just quickly on the entire balance sheet perspective, we already have seen that the debt levels have increased by another Rs. 200-odd

crores broadly maybe because of working capital and also as we are expanding our business. Can you just give us a number in terms of what kind of peak debt levels from both long-term, short-term borrowings perspective, do we envisage at least for FY24 beyond which we don't see the absolute debt levels increasing.

Sandeep Sikka: If you see, there are two things. The overall input cycle cost has increased, as compared to last year for many of our products, like based on whatever sanitaryware we were sourcing last year, the input prices broadly, broadly would have increased by 15% to 20%.

On the pipe side, it is just inverse. We believe that there will be some reduction, the ballpark estimate is, we should be able to pay off debt that is ranging between Rs. 100 crore to Rs. 125 crore in the next year, based on the reduction in working capital and the profits which we are going to earn. Because we don't have a subsidiary, and we don't have any other investments. Whatever EBITDA we earn net of interest and the taxes, ultimately will go for the reduction of debt only.

Nikhil Gada: So, if I assume around Rs. 600 crores to Rs. 700-odd crores for FY24, that is something at a debt level that you should work with that is what you're guiding for?

Sandeep Sikka: Yes. But there will be some expansion like pipe expansion we have to do because it is fast growing.

Nikhil Gada: I'm asking including that number, so if you put sort of because I think we are doing some Rs. 180 crores in that.

Sandeep Sikka: Then we'll have to work out and maybe separately we can communicate this to you.

Nikhil Gada: Okay. And sir, just lastly on the working capital aspect as well, specifically for the bathware division, I think prior to the acquisition of the manufacturing or rather once we had done the manufacturing acquisition, you had said that between 12 to 18 months, we should see a normalization in working capital days. I know we are 9 months into it. But do you think in this next 6-odd months,

you believe that we will see the normalization in inventory and overall working capital cycle.

Sudhanshu Pokhriyal: Yes. We stand by that guidance and we believe there will be inventory reduction. What you're seeing currently is the enhanced inventory, as Mr. Sikka explained earlier, is because of seasonality, because of our dependence on imports right now and because of the fact that in Q4, we get the Chinese New Year. As I discussed earlier, we have all our plans to in-source as well as locally source some of our non-manufactured items as well as correction of inventory, the increase, which happened because of the acquisition there. So we stand by our guidance of anywhere between 12 to 18 months, we will see a normalization of inventory in the bathware.

Moderator: The next question is from the line of Vignesh Iyer from Sequent Investments.

Vignesh Iyer: Sir, I just want to know in quarter 3, what is the capacity utilization levels for sanitary & faucets (bathware) and pipes separately?

Sudhanshu Pokhriyal: 103% utilization for sanitaryware, 100% utilization, you can say. And then the faucet was underutilized to an extent to about 42%.

Rajesh Pajnoo: In Q3, actually, we saw a huge drop in prices, which I already mentioned. We had a value growth of 31%, but a volume growth of 100%. So, we had to produce all this on the same infrastructure. We were running at around 90% capacity utilization in Q3, and on an average 9 months basis, it is 78% utilization.

Vignesh Iyer: You mean blended we were running at 90% and pipes was 103% and faucet was around 43%, right if I am getting this right.

Sudhanshu Pokhriyal: Sanitaryware was about 103% or let's say, 100%, faucet was about 42% and pipes as Mr. Pajnoo said, 90% in quarter 3.

Vignesh Iyer: So, I wanted to know for the 9 months, what is the cumulative price hike taken for pipes, sanitaryware & faucet separately, if you could give?

Sandeep Sikka: On the pipe side, the adjustment to prices is on a day-to-day or a week to week basis. On the sanitaryware and faucets, Sudhanshu can answer.

Sudhanshu Pokhriyal: So, I just shared with you in the middle of Q3, we increased our sanitaryware prices by approximately 6% and faucets about 3%, and we had taken a price hike in May as well, which was to the tune of, if I remember correctly, 6%, 7%. So, I don't recall the exact number but give it to the tune of this 5% to 6%, I would say. So, the cumulative would be a little different because they are having at different points in time. So, from one point in time to another point in time, you can say about 10%, 12% in sanitaryware and about 8% to 9% or 7% to 9% in faucets.

Vignesh Iyer: So, now as you see the PVC prices are more or less stable at this level or it is better as things stand better for the Company. Are you seeing a pressure where we might have to roll back the hikes?

Sandeep Sikka: Is it for pipes?

Vignesh Iyer: Yes. It is for pipes.

Rajesh Pajnoo: Pipes, it's like if the prices increase and decrease proportionately with the same percentages. So, since we have gone down by around 42%. In Mid Nov.22, there is a correction and we have gone back up well by 8%. And we expect that in the next quarter, the prices are going to go up only and we'll be taking those hikes only, there will be no drop in price.

Moderator: The next question is from the line of Ankush Agrawal from Surge Capital.

Ankush Agrawal: So, I wanted to know, like employee stock that we have given the Hindware Limited level. So, what valuation have you given it up?

Sandeep Sikka: This is based on an independent valuation done by one of the big 4.

Ankush Agrawal: I wanted to know the absolute valuation.

Sandeep Sikka: That being an unlisted entity, we have not disclosed that, but it is done at an arm's length basis on an independent valuation basis.

Ankush Agrawal: So, in continuation to that, so what is the reason for doing it at the subsidiary level and not at a HHIL level? I mean is there a kind of plan to have the Hindware building materials business separately listed in the future?

Sandeep Sikka: There are different plans for different entities. One of the first steps is to give incentives to employees, in terms of the shares which have been allotted to key strategic people who will contribute directly to the growth of the businesses. We will review this and we are in the process that how we can do it for the other companies as well. As this is a very common trend now across the industry and the strategic employees are aligned with the business objectives. There are plans which we have historically spoken about that we will be raising growth capital at Hindware over a period of time, we'll see how the business emanates from there.

Ankush Agrawal: Secondly, sir, in the bathware business. So, what would be cumulative price hike we would have taken in the last 1.5 to 2 years broadly?

Sandeep Sikka: It should be on sanitaryware side more than 20% plus. And faucets also it should range between 18% to 22%.

Ankush Agrawal: So, sir, going ahead, once the inflation pressures or materials pressure cools off, so do you see a scenario wherein we will need to reduce prices? And if so, how do you see that affecting our growth? Because typically, growth is basically a mix of volume and price increase, but now in the future, you have to take price cuts. I mean there will be a pressure on the overall growth because the price that was there typically would not be there and the overall growth would just have to come from the volume side. So, any thoughts on that?

Sudhanshu Pokhriyal: Yes. So, see, it's not as straightforward as this. What happens is when I'm taking a 20% hike, my increase in my average selling price will not be to the tune of 20% because there's always a change in our mix because of some categories are more price sensitive, some categories within the sanitaryware side or within faucets side, more price sensitive than the other. So, some consumer segment downgrade, to make sure that the price hike doesn't come through.

So, similarly, when the inflationary pressure comes down or maybe even prices reduce, what generally happens is that as an organization, we tend to launch new models and we don't tend to reduce prices. So, I'm not saying this is a rule by itself, but generally, this is what happens and as you're building a future scenario, I'm giving you a most probable answer. Generally, what happens is

you launch new models. And these models are then, of course, taken in by those specific consumers who are more price sensitive. However, your popular models, which have increased prices, maybe continue to sell.

So, it's very difficult to really create a situation where you can really give a predictive model as to what exactly would be your ASP increase versus the volume increase in a scenario like this. But to answer your question about price reduction, Generally, we don't do that. We introduce new models. And because of innovation, we believe that our overall average selling price keeps on increasing.

Ankush Agrawal: Lastly, sir, what would be the overall capex for FY24 that we're looking at? If you can provide for individual segment that could also be fine, but also on an overall level.

Sandeep Sikka: On bathware, there can be some debottlenecking investments in sanitaryware as we are reaching full capacity. The idea is to outsource more. We also have in-house manufacturing of various high-value-added products in the factory. There should be some expenditure, which will be let's say, around Rs. 20 crore to Rs. 30 crore in the next financial year. We'll continue to invest in the development of various stores, for which we may spend another around Rs. 20 crore. Apart from this, the pipes project will start in terms of setting up of the capacity, which will be initially 12,500 MTPA in Roorkee, Uttarakhand, and further expandable. I think Rs. 70 crore to Rs. 80 crore of capex should happen in terms of releasing the orders and doing other things relating to that project.

Moderator: The next question is from the line of Zaki Nasser from Nasser Investment.

Zaki Nasser: First of all, congratulations on your new plant, which has come up for the consumer appliance for geysers per se. I would like to know whether these have already been introduced in the market. Or would there be a formal launch for the same? And what other products are in the pipeline, that is on the consumer front sir.

Number 2, would it be safe to assume that starting next financial year, you could start doing a run rate of Rs. 800 crores a quarter and end the year with 10-plus percent EBITDA margin.

Sandeep Sikka: On the new plant, I understand you're talking about the water heater plant. The plant is capable of doing around 6 lakh pieces. I'm assuming that the average price realization, which we generate is around Rs. 4,000 to Rs. 5,000 per product from this. But this is a good initiative in the sense that the market potential for this business is good. And we see that in the next 2-3 years, this capacity should be fully utilized. Initially, the entire material may not be sold in India. We might be exporting to other countries nearby SAARC region (except Pakistan). Regarding your second question, it's not clear. Can you just repeat the second question?

Zaki Nasser: Sir, considering this new plant launch and growth in your building products also, would it be safe to assume that you will clock a run rate of Rs. 800 crores combined per quarter from the next financial year onwards, with a double-digit EBITDA margin.

Sandeep Sikka: If you see, in this quarter, we had around Rs. 700 crore to Rs. 712 crore of consolidated turnover. And going forward, we feel that the numbers which we are talking about should be achieved easily. But we generally avoid giving nearby quarter guidance. We had given guidance on a medium to long-term range around 2 years back, and we are still holding on to it, and we have performed according to it. We have missed a few parts, especially relating to consumer business. But on the pipes, as I was saying, we may be reaching the targets much ahead of time. And on the Sanitaryware and Faucets, if you see the 9-month performance, we are there. But for the quarter, again, some flip offs, flip on happen. But we are holding on to the trajectory, which we had talked about last year.

Moderator: The next question is from the line of Nitesh Sangwan, an individual investor.

Nitesh Sangwan: I have a question on the consumer appliances business. Are there any leadership plans after Rakesh Kaul left?

Sandeep Sikka: There are teams and it's not that only one person is running the organization. We have a full set of teams, which runs the entire operation. And there is a committee that has been formed which is actually looking into the business. We are in the process of looking out for a new CEO, but it may take some time because generally the first position is strategic in nature. But, the business operations are going on. There's no issue with that.

Nitesh Sangwan: And any new product categories that are planned to be launched maybe not very near term, but maybe the next FY24? Any new segments that have been identified?

Sandeep Sikka: We keep evaluating various categories, but no new category has been approved by the Board as of now. The focus today is on three categories, one is the kitchen appliances, the second is the air-cooling systems, which is air coolers and fans, and third is our water heating /the heating solutions which that is a part of a JV today. These are the three categories in which we feel that still a lot of potential is there.

And apart from it, we launched kitchen fittings, which we source from our Italian partners and that business has also started taking shape now. We are there in three to four categories now and if anything new category is there, once approved by the Board, we will inform you accordingly.

Nitesh Sangwan: And lastly, the brand stores, can you explain a bit more, like is it a Company operated or franchising model, what are the products in a single brand store are available from Hindware?

Sudhanshu Pokhriyal: Yes. So, our brand stores which is the bathware products business. Our Hindware Brand, we kind of display all the sanitaryware and faucets products under this brand in that store. Under this model, the Company doesn't own the store, the dealer owns the store. The Company is a part of the capital investment, which is required to do up the store. And then the rest of the capital is actually brought in by the dealer themselves. So, there's a stake in the whole game from the dealer side as well. For certain size and above, we may give a promoter to the dealer to sell the products. But we don't give it to everybody. It depends on the size of the brand store, which is operational right. So, that's how it works.

Nitesh Sangwan: Yes. So, are these exclusive Hindware stores or like is it kind of like some small section might be just for the Hindware shop?

Sudhanshu Pokhriyal: Yes. So, generally, we try to get them exclusive, but a large number of dealers are multi-brand here, so we then may end up getting a part of the store as a Hindware store. So, we generally have nothing less than 500 to 600 square feet. That's a minimum requirement. And we even have stores as large as

5,000 square feet. So, depending on the size, which is available with the dealer, we make these decisions. We have various models and templates to which we execute a certain design of a brand store, depending on the size available with the dealer.

Nitesh Sangwan: And this counts that we are publishing the brand store count, is that for the exclusive one or combined?

Sudhanshu Pokhriyal: So, the brand store in itself is exclusive. It's just that at times it's a part of a large multi-brand setup, at times it's 100% exclusive. But the brand store in itself is exclusive. But if you're asking, is it a part of a multi-brand setup or exclusive set up, it's what the number I'm sharing is a combined number.

Moderator: The next question is from the line of Dhiral Shah from Phillip Capital PCG.

Dhiral Shah: Sir, I have few questions. Sir, where are we in terms of reduction in sourcing from China for our Bathware and Consumer division?

Sandeep Sikka: When you say where are, we you mean in terms of what are we doing about it.

Dhiral Shah: Yes. So, how much we have reduced the dependence on China?

Sudhanshu Pokhriyal: So, we are in the process of reduction as we speak. And for us, it's actually come down by about 25% over the previous year, and we plan to kind of bring it down by another 25%. So, we will be like over FY22, we will be like less than 50% of what we did in terms of imports from China. So, that's the plan. We will still be having maybe 9% to 10% of our total cost to goods coming out of an imported product, but it will be a substantial reduction over what we are doing currently.

Dhiral Shah: So, this includes for both the division, sir, Bathware and Consumer?

Sudhanshu Pokhriyal: No, no, what I'm talking about is basically Bathware.

Sandeep Sikka: On the consumer side, the initiatives have been launched. We have already identified 2-3 domestic vendors, and we are working very strategically with those who operate in our moulds, and the figure in terms of reduction is not substantial right now. But we have reduced around 10% to 15%. But our focus

is to further achieve those numbers over a period of time. Within the group, we have initiated many initiatives, which focus on Made in India approach. And it gives us the benefit of local sourcing as well as it also reduces inventory fluctuations especially when you are sourcing from China at the calendar year end, and we would have to source much of the material in advance because of the Chinese New Year.

Dhiral Shah: Okay. And sir, in the current environment, looking at the challenges which we have seen in our Consumer business and the high inventory in the Bathware segment, can you guide how much is our targeted working capital will be by March 2023 end?

Sandeep Sikka: March 2023, is too close for a figure. But, I think I can tell you next 12 to 18 months, our endeavor is to reduce this by 20% plus.

Dhiral Shah: And sir, no, absolutely, what would be our working capital cycle right now?

Sandeep Sikka: If you see, on a consolidated basis, the working capital cycle, is different for each business. Net working capital cycle for Bathware business is 122 days, and the pipes business is on 65 days. And consumer is another 140 days. But that is on a weighted average basis. The endeavor is to reduce this by 20% in the next 12 to 18 months.

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

Tushar Raghatate: Few questions on all of the divisions. The first question is on Pipe division. Have you flushed out all the high-cost inventory in the pipes?

Sandeep Sikka: So, Rajesh, can you take this?

Rajesh Pajnoo: Yes. We have almost consumed all that inventory because now since the prices have gone up, and Q4, we have started with a very low base of inventory and now all the inventory is coming at the current rates. And also, the selling prices have gone up now. So, that's why I said we won't be having any inventory loss in Q4.

Tushar Raghatate: Sir, my next question is on sanitaryware. So, it's been a decent time for the asset transfer. You had guided earlier for some margin expansion in the

sanitaryware business as we are transferring these assets. So, when can we expect that margin expansion to happen?

Sandeep Sikka: It's already happening. If you look at a sequential quarter, the margin expansion is already done. And I think you're talking about the acquisition of manufacturing and the margin expansion?

Tushar Raghatate: Yes, sir, you're correct.

Sandeep Sikka: I am reiterating the fact that whatever we had acquired as a manufacturer, the majority of the products were already being sourced from this Company from whom we bought the assets. Whatever gross margin they were making at the EBIT level, they are already accumulating here. It's on an apple-to-apple comparison, it is not visible because the other factors, such as the input raw material prices, the selling prices, and the other metrics have changed. But on a medium- to long-term basis, we've given the guidance and we still hold on. You can refer to a few of our transcripts, which we have in the last 1 or 2 quarters. It clearly shows how the trajectory would be.

Tushar Raghatate: Sir, in the Consumer Appliance division, in terms of the government increasing the duty on the chimneys, what implications it might have or not on chimneys?

Sandeep Sikka : Our focus is now to in-source more as that is our initiative. But in the short run, the input price material will start increasing from 1s April. We think the industry will then have to pass on the prices to the consumer because industry is already under pressure because of the shrinkage of the margin which other players in the consumer appliances are seeing. We'll have to pass this on to the consumers over a period of time.

Moderator: The next question is a follow up from the line of Nikhil Gada from Abakkus.

Nikhil Gada: Sir, just on the greenfield expansion in plastic pipes where you mentioned that we'll spend somewhere around Rs. 70 crores to Rs. 80 crores, so this is not the entire capex amount, right? So, just from that perspective, by when will this plan be commissioned?

Sandeep Sikka: So, Rajesh, if you can take this. So, I think the question was what will be the capex in financial year 2024. I think I answered that.

- Nikhil Gada:** Yes, you answered that. So, then from that perspective, how much will we incur in FY25, and I'm assuming then we'll start the plant in FY25, right?
- Sandeep Sikka:** Yes, because it's a greenfield plant. So, we'll do most of the ground activities in the next 12 months. Rajesh, if you can take this, please?
- Rajesh Pajnoo:** Yes. We have already filed our papers. So, we will be starting the construction of the plant maybe down the line in some 4 months from now. And then we may somewhere around mid of FY25 or maybe third quarter, we may culminate this project. And then we'll go for the production.
- Nikhil Gada:** So, basically, from Q3FY25, we should start seeing the products from the new plant, right?
- Rajesh Pajnoo:** Yes.
- Nikhil Gada:** And I'm assuming this Rs. 180 crore number is still the number that we're looking for the capex front in this quarter?
- Rajesh Pajnoo:** Yes. But earlier Mr. Sikka was just referring to when the question was asked for this year capex.
- Nikhil Gada:** No, sir, I understand. So, Rs. 80 crores we'll spend in FY24 and the remaining Rs. 100 crores in FY25, right?
- Rajesh Pajnoo:** Yes.
- Moderator:** The last question is a follow up from the line of Ankush Agrawal from Surge Capital.
- Ankush Agrawal:** Sir, can you provide me with the quarterly cash interest payment? And what is the lease rental for each quarter?
- Sandeep Sikka:** In the quarter 3, on the consolidated basis, interest on account of lease rental is Rs.4.46 crore. And in 9 months, it is Rs.13.68 crore.
- Ankush Agrawal:** What I was trying to understand is the actual quarterly cash interest outgoing on account of debt, and what is the leased rental that has been captured in the

interest and depreciation line items? So, I get a better sense of the clear EBITDA picture of the actual cash outgoing for the interest on debt.

Sandeep Sikka: Like in the quarter, the total consolidated interest is Rs. 22 crores. So, you have to subtract Rs. 7.29 crore from that. So, almost half of the interest.

Ankush Agrawal: Half interest is on account of debt and half is on account of lease rental?

Sandeep Sikka: No, I think your question is different. The lease rental that is accumulated in depreciation is Rs.9.62 crore and then the interest is Rs.4.46 crore for the quarter, the value for the 9 months is Rs.29.09 crore for depreciation and Rs.13.66 crore for interest.

Ankush Agrawal: Right. And sir, just a clarification on the presentation, when we give EBITDA numbers for each segment, I believe this is the reported accounting numbers not before Ind AS 116, right?

Sandeep Sikka: All the reported figures is as per the Ind AS financials.

Moderator: That was the last question. I now hand the conference over to the management for closing comments.

Sandeep Sikka: Thank you, everybody, for joining the call today. And I understand the results hereto, they have some elements like the fluctuation of input prices and other elements on the current macroeconomic conditions. Going forward, we have given guidance and we still hold on to that guidance. We will be in touch when we close the full financial year on 31st March 2023. Thank you very much.

Notes:

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