Somany Home Innovation Limited

Q1 FY2022 Earnings Conference Call

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Management: **Mr. Rakesh Kaul – Whole Time Director and CEO, Somany Home Innovation Limited**

Mr. Rajesh Pajnoo- President, Pipes Business

Mr. Sudhanshu Pokhriyal - CEO, Bath Business

Sandeep Sikka - Group Chief Financial Officer

Naveen Malik - Chief Financial Officer, Somany Home Innovation Limited

Kenin Jain Good evening, everyone. We have the entire top management of Somany Home Innovation Ltd. We have from the finance team, Sandeep Sikka, the Group CFO and Naveen Malik, CFO, SHIL and other business heads. I think Q1 was a very challenging quarter for most of the Indian corporates. One thing is good that the second half of Q1 was good, and the economy has opened up and things look better. So, especially in view of Q1, if we look, I think the company has delivered an excellent trajectory on the top line sales front. On the margins front, I think the management will explain, but Sikka ji and Naveen ji, it would be pertinent if you can help us with as to what were the salient takeaways of Q1, how the trajectory for the Q2 and second half of FY22 look. We do understand that air cooler is an important segment of Q1, which saw a miss, but if you look at the other building products and the consumer appliances, I think we have delivered a very strong growth. I think our plastic pipe and fitting Truflo has also done a good trajectory.

So, keeping Q1 as a base, and in many companies, by and large, the long-term investor believed that the Q1 was an aberration. So, with this as a preface, I would request the management to spend initial 10-12 minutes on the opening preface, and then share the outlook as to how the second half of FY22 looks like. And after that how the outlook for FY23 and FY24 is. Over to you, sir. I would request all the participants to please be on mute so that we can do the efficient conduct of this call and it can be meaningful to everyone.

Naveen Malik Good afternoon, ladies and gentlemen, and welcome to the Somany Home Innovation Limited Q1 FY22 earnings call. I hope you are all safe and healthy. I would like to take you through our financial performance during the quarter under review, following which Mr. Rakesh Kaul, Mr. Sudhanshu Pokhriyal, and Mr. Rajesh Pajnoo will discuss the key highlights of their respective businesses.

Q1 FY22 was a very difficult quarter for the industry in general, on account of the second wave of the COVID-19 pandemic causing a devastating impact on many lives and forcing many states into lockdowns. SHIL registered healthy growth in Q1 FY22 despite the difficult environment, particularly in the early part of the quarter. Consolidated revenue from operations came in at ₹342 crore, registering a growth of 85% year-on-year. Revenue for the quarter was primarily impacted by the lockdown. EBITDA came in at ₹17 crore, having grown from an EBITDA loss of ₹14 crore in Q1 of FY21.

Sequentially, though, we witnessed current traction in EBITDA as well as margins owing to the lockdown and the higher raw material prices. Going ahead, we expect margins to improve on account of relaxation of lockdown and recent price hikes implemented by businesses to address the cost inflation. Profit after tax during the quarter came in at ₹103.6 crore as compared to a loss of ₹24.5 crore in quarter one of FY21. The reported profit after tax also includes the exceptional items comprising recognition of fair value net gain of ₹66.11 crore from its investment in Hintastica Private Limited (HPL), on account of loss of control of subsidiary and recording gain of ₹34.75 crore on account of slump sale of water heater business undertaking by the Company to HPL, then a wholly-owned subsidiary during the quarter ended 31 December 2020.

Just to clarify, the numbers which we're talking here are the consolidated numbers. Let me now walk you through our segmental performance. The revenue for the Consumer Appliances business was ₹67.6 crore registering a growth of 55% year-on-year. EBIT for Q1 FY22 stood at negative ₹5.1 crore and while it marked an improvement over the negative ₹8 crore in Q1 FY2021, it was significantly lower than the EBIT of ₹7.5 crore in the previous quarter.

Profitability for the segment was impacted by the advertising costs that were already committed to, in addition to loss of sales in the air cooler segment and the impact of lockdown. The Consumer Appliances business was severely impacted by the pandemic, but we have started to see promising signs of recovery from July onwards. We are confident that we will be back to seeing healthy growth in the coming quarters for the segment.

Moving on to the Building Products segment. Revenue for this division stood at ₹265.3 crore registering a growth of 98% year-on-year. EBIT came in at ₹15 crore for Q1 FY22, up from an EBIT loss of ₹9.5 crore in quarter one of last year. Turnover for the plastic pipes and fittings business stood at ₹87 crore in the quarter under review. The performance of Building Product Segments was impacted in April and May however, we saw good recovery in the business since June, which has only further improved in July. We expect to see this business back on its high growth trajectory very soon.

The revenue of the retail segment stood at ₹9.5 crore having grown 22% year-on-year.

Q1 FY22 was truly a difficult quarter for everyone. However, we remain bullish on our business prospects and are confident that we will bounce back to our growth trajectory soon. We continue to drive our business on the lines of innovation and aesthetics delivering products geared to improve consumers' lives. With its rich legacy, our brand Hindware will continue to move from strength to strength, delivering on its goals. We have already seen revival in our business divisions and expect normalcy to return very soon.

I would now request Mr. Rakesh Kaul to take you all through the Consumer Appliances and retail businesses. Over to you Rakesh.

Rakesh Kaul

Thank you, Naveen. A very good evening to everyone out here. First of all, I hope all of you are nice and safe. Your families are doing well too. We've seen the worst through hopefully the second wave of the pandemic. I'm sure that much efforts are being utilized nowadays to see that maximum population gets vaccinated, and hopefully we see through the coming quarters without any uncertainty regarding the pandemic. Let's give it our best shot.

The Consumer Appliance business had felt the maximum brunt of the second wave, with the demand being impacted badly. The primary reason for this decline was a loss of sales of the cooling products, driven by Air coolers and fans in quarter one, which is generally a very, very key selling season. In fact, 65% of the annual volumes of sell out of air coolers happens this quarter and more than six weeks in the quarter were badly impacted during this quarter, which have obviously damaged the consumer sentiment and also there was a significant reduction in demand. Also at the same time, since majority of the states – it was a state-specific lockdown, even e-commerce was not allowed to sell non-essential items and majority of our consumer appliances come under non-essentials, and hence, even e-commerce, which contributes a significant part of our business, was not able to deliver material to the consumer, hence, impacting the business further.

However, we take this as a one-off event and we believe that the Consumer Appliances Business will maintain its growth momentum and you all know that we've historically grown at a CAGR of 30% to 35%, driven by strong fundamentals. We believe that we can continue to maintain leadership positions at various categories on digital and even offline and like being number two in kitchen chimneys overall and being among the top five players in the air cooling segment. So, we intend to continue with that strengthening of our earlier CAGR growth.

We also strengthened our portfolio in the quarter one despite so much uncertainties in the business, We launched 15 new products, thereby emphasizing that we continue to be bullish about this business, and we continue to invest in this business. As far as the quarter one performance of FY22 was concerned, our revenue, as Mr. Naveen pointed out, grew by 55% y-o-y, which the possibility could have been much higher, if the air cooling products would have delivered, which did not deliver because of the pandemic. Also, as I mentioned, the second wave had severe impact on the quarterly performance of the business; however, we have seen an uptick in the business in the month of July with the opening of the economy towards the later part of June.

We expect Q2 FY22 to be significantly better than Q1 and helping us achieve the recent growth trend, which we have achieved in the past couple of years. As far as the retail segment is concerned, the performance of this business was also significantly impacted because of our large base of franchisee business and our stores, which are just two in number now. So, delivering a loss in EBIT level, though it was significantly much less of than what we did last year. And at the same time, this was after two consecutive quarters of delivering profitability in the Retail business. However, we are confident that we'll be able to report positive EBIT numbers in Q2 FY22 on continuation of the back of rationalizing cost, improving efficiencies, and as we have adopted our capital right business model for this business.

To conclude, I would like to reiterate that despite Q1 FY22 being significantly impacted, we expect to see our return to healthy growth rates in both Consumer Appliances business and Retail. I must admit that the on-ground situation is improving, as we are talking by the day. And we are also taking the requisite measures to improve our profitability significantly. At this stage, now, I would like to invite Mr. Pokhriyal to take you through the performance of the bath business. Thank you and over to you.

Sudhanshu Pokhriyal Thanks, Rakesh, and a very good afternoon to all of you. This is Sudhanshu Pokhriyal, I handle the BPD business. Q1 FY22 proved to be a very challenging time for all the businesses, especially in the month of May. We did however witnessed a sharp revival in our business. We witnessed this sort of robust revenue growth of 92% in Q1 FY22 over Q1 FY21. The recovery of the business was aided by increase in real estate demand and home improvement.

During the quarter, our efforts were focused on expanding our distribution network, and also improving in terms of our customer satisfaction. We on-boarded over 100 new channel partners in this quarter and kept them engaged by conducting multiple dealer meets, especially online, during the lockdown. We also undertook efforts to assist our dealer partners monitor their ongoing developments and manage their operations in a seamless manner. I'd like to reiterate that over the last three quarters, we have actually outperformed significanty y-o-y against our major competitors.

During the quarter we've also launched 9 new sanitaryware SKUs and 4 new faucet SKUs. In July, we had our mega launch of the touch free water closet. Again, learning from the COVID period requirement of the consumer and to aid this touch free water closet, we will be launching a 360-degree campaign on media, which will be hitting media now in the coming week. We are also actively marketing ourselves as a modern innovative design-led brand, increasing our presence on social media, continuing to strengthen our connect with the millennials. We are leveraging technology and innovation that we have at our disposal, we are increasing product consideration and awareness using beautiful design and thoughtful features as a bedrock for all our new launches. We've also refreshed our product displays and in-shop imagery across the stores. We increased our brand salience on the retail front.

In conclusion while, Q1 FY22 was a difficult quarter for us. We are happy with the recovery which we witnessed in June. This also gives us confidence in knowing that the business has regained its high growth momentum, post easing of restrictions. Going ahead, I am certain that the business will continue to deliver robust growth and help us carve out a larger pie of the market share.

Now let me invite Rajesh Pajnoo to take you through the plastic pipes and fittings business. Rajesh over to you.

Rajesh Pajnoo

Thank you, Sudhanshu, and good afternoon to everyone here. Thank you all for joining on this call. The plastic pipes and fittings division delivered excellent growth, despite the challenges and setbacks posed by Q1 FY22. Truflo has grown at a rate faster than that of the industry with sales more than doubling over Q1 FY21 and it has helped us further fortify our place, as the fastest growing pipes brand in the country. Our sales of ₹87 crores registered a growth of 109% year-on-year. Sequentially, the growth was impacted due to the second wave of pandemic and subsequent lockdowns.

During the quarter, we launched around 30 new SKUs, further expanding our offerings to consumers through our extensive network of around 201 active distributors. As mentioned on previous calls, we are undertaking steps towards establishing a strong connect with the influencer community to help us further accelerate our growth and enhance brand visibility. We believe these measures strengthen our place as one of the prominent players in the pipes industry. We continue to provide training to our channel partners and influencers to help them improve their skills through various certificate courses. Even in these tough times, this strategy of ours has borne fruit, reflected in our impressive growth during the quarter.

We also felt the effect of pandemic, but the inherent strength of our business helped us navigate this challenging phase and the subsequent recovery in June gave us the confidence that we will remain the fastest growing company in this segment. Thank you very much. And I would like to conclude the opening remarks. Good luck.

Kenin Jain

Thank you, Rajesh. I think his screen has got stuck. Who will be the next in line Sandeep?

Sandeep Sikka I think we can start with the Q&A now. And all the participants, who are interested in questions, they can raise their hand and you can take it.

Question-and-Answer Session

Kenin Jain This was a good opening remarks from all the business heads. I would request all the participant to kindly unmute and they can ask the questions and would request the rest of the participant to please be on mute so that we cull out the best efficiency. Over to investors.

Sandeep, what kind of a Capex are we planning over FY22, FY23? And essentially this is a pure asset light company and is the understanding right that this would not require material Capex going ahead?

Sandeep Sikka If you see that today, we are rightly poised on the asset utilization. Given the fact that post demerger this SHIL vertical doesn't have plants. In terms of the overall Capex at a group level, SHIL and Brilloca together, they will spend around ₹15 to 20 crore each, but broadly these expenses are on two parts; one is the development of showrooms in the market, where we develop lot of display centers along with our dealers and second and big investment is towards the moulds which is on the consumer side, where we design products, we patent a product and the design is ours, the mould is also ours.

Other than this, one investment, which we already disclosed to the market is on our water heaters, on a consolidated basis. But that is a 50:50 JV between SHIL and Groupe Atlantic. Although it will not be consolidated asset, but it will go as an item below profit and loss on a quarter-to-quarter basis. This is broadly the guidance on this. But going forward, we had spoken about this that when the need arises, and an appropriate time, let's say, kitchen business itself reaching ₹400-500 crores, at that particular time outsourcing may not be fully viable as such because the supply assurance is also becoming very critical today. In order to control various aspects and given the fact that there would be a critical mass, we may look at development of those assets or putting up the capacities at that particular time, but we can assure you that any further Capex, which we do will be more value-accretive in terms of the underlying measurement of return, ROCEs. But overall ROCEs, which right now, like in Q4, we had ROCE above 40%, but definitely, some ROCE fall will happen, but a lot of absolute value addition will happen on the EBITDA side. So the fall in the ROCEs will be treated off with the absolute EBITDA gain on the Profit and Loss.

Kenin Jain I have got one question, sir. Has the competitive intensity across unorganized segment taken a dent or this is an interim blip and every time whenever we say that unorganized will take a backseat, after two, three months, they come back with vengeance. So, how's the scenario this time basically?

Sandeep Sikka Market has evolved over last 12 to 15 months, if you see during the COVID times. The presence in online for the branded players is much stronger. The demand online, the visibility of the brands online has increased substantially because people sitting at home, in order to buy anything, first they have to look at the Google, they try to Google out anything and there the play of the branded things come into the picture. But India is a highly differentiated market. There are different demographic profiles. The purchasing power parities are different. Unorganized market will keep evolving over a period of time, but the opportunities which are there for a branded player today definitely has increased a lot because of higher visibility of products online.

We feel that this competitive pressure will continue over a period of time with India, because India has a different subset of underlying criteria, both in terms of earning capacities per capita GDP. Different people require different sorts of products, some based on utility, some based on branding. There is a huge opportunity for brands to evolve over a period of time and eat away into the unorganized player.

Kenin Jain We have a couple of questions in line. Mr. Amit Zade, you can unmute yourself.

Amit Zade Thank you for the opportunity. My question is regarding what kind of cost inflation are we seeing in sanitaryware and faucetware off late? And what kind of price hikes have we taken in both of these categories? Thank you.

Sandeep Sikka May I request Mr. Sudhanshu, if you can take this question please.

Sudhanshu Pokhriyal Hi, Amit. In terms of the input price hikes, we've of course seen price hikes, especially in brass for our faucet business, which over the last 12 months has actually increased by more than 50%. The Brass is currently trading at about ₹470 to 480, which was ₹223 last year July. So, massive price increase has happened. However, we have been beating prices and let me say to you – and of course there have been price increases in terms of gas prices have gone up, most of our utilities prices have also gone up. So what we've done is that over the last, I would say, since January of this year, we've been taking – in the last seven months, we have taken multiple price hikes. In the month of February, we had taken a price hike of about 3% in sanitaryware and about 5% in Allied product division like fitting, seat covers. And again, in the month of June, we've taken on the price hikes.

Kenin Jain Sudhanshu ji, the voice is feeble. You will have to take the mic near it for the better clarity, please. Yeah.

Sudhanshu Pokhriyal So, can you hear me better now?

Kenin Jain Yes, now it's far better.

Sudhanshu Pokhriyal Great. Sorry for you for that. So let me repeat. We took a price increase of about 3% in the month of February for our sanitaryware products and we took a price increase of about 5% for our APD and seat cover business. APD is the Allied product division, for example, which are plastic cisterns and concealed cisterns, which are made for our BPD business. Again, we took another price increase in the month of June, which was to the tune of 5% to 8% for our sanitaryware products, and between 8.5% to 10% for our plastic PVC cisterns and concealed cisterns products. So, we've taken a pretty significant price increase to pass on these increased input prices. In the faucet business, we have taken a price increase of 9.7% in Feb, March, and we are again taking a price increase, which is happening in Q2 right now, which will again be to the tune of about 9% to take care of this 50% increase in our brass prices. So, to answer your question, yes, there have been significant input price pressures on us and much of the price increase has been passed on to the consumers.

Amit Zade Yeah, thank you, sir, for that elaborate answer. My second question is, within the same space, so we are given to understand that one of our competition who is relying on China for their sanitaryware products is facing some supply chain disruption. So, are we seeing any increased traction to our products? And how are we placed to capitalize on that, sir?

Sudhanshu Pokhriyal So, what we believe is that a lot of our strategies are right now working very well in the market. Our increased traction in the market right now is because of that. We've launched a lot of innovative products. We've improved our customer service in the market. Our campaign, Thoughtful is Beautiful, is doing fantastically well. It's received fantastic response from the consumer. A large part of the traction is because of these efforts.

There are reports, I also saw the same report some time back, however, I believe that competitors are actually impacted pretty much equally from the impact because of Chinese imports. So, I don't think that is a key reason for us to do well, that's not my belief. What we believe is that a lot of our strategies have started working very, very well. So, I wouldn't really be able to put a finger to it as that we are doing well, because of them doing badly.

Amit Zade Understood. And sir, one last question, if I may. Sir, you have also said that in your opening remarks that we are gaining market share in last three quarters, so, sir, any color on, not on quarterly basis, but maybe FY21 closing, what could be our market share in the sanitaryware and faucet ware?

Sudhanshu Pokhriyal So, it's very difficult to put a number to this. There are no syndicated research which are published in this industry, which gives you the market shares. These are generally calculated after looking at an individual company's results. We believe our market shares are in the tune of 27%-28% in sanitaryware, about 8%-9% in faucets. So, I think, also because of COVID, this category growths have substantially changed from one quarter to the other. I think I would be in a position to answer this question much better in Q1 of next year. But I can tell you looking at results of various companies, we are doing far better than many of our competitors. So definitely there will be market share gains. Putting a number to it right now, I think would be premature.

Amit Zade Okay, sir. Thank you. Thanks for the opportunity, sir, and all the best.

Sudhanshu Pokhriyal Thank you. Thank you.

Kenin Jain Thanks, Amit. We have Nikhil Gada. Can you unmute yourself?

Nikhil Gada Yeah. Hi, sir. Thanks for the opportunity. So my first question is, when I look at our gross margin, sir, for Q1 FY22 and I compare it with Q1 FY21 and even Q1 FY20, we've still done decently on the gross margin level. But we are seeing a very sharp increase in employee expenses. Any specific reason, have we given some salary hikes or we have added new people in the system? Can you help me on that, please?

Sandeep Sikka If you see, definitely there are some rise, the salary hikes, because last year the hikes didn't happen because of the COVID thing, but we have done hikes as per the industry standards in those range. But apart from it, if we see the bigger chunk of an employee percentage you will see, it is definitely on account of the lower sales. When you have lower sales because of the COVID, salaries keep paying on, so on an overall basis the percentages, they increase. Nikhil, have I answered your question?

Kenin Jain Nikhil, are you there? I think we have lost him.

Nikhil Gada Hello.

Kenin Jain Yeah, Nikhil.

Nikhil Gada Sorry, sir. I just lost the audio. I did not get the answer. Can you please repeat it?

Sandeep Sikka So, you had two questions. One, was there any increase in the salary hike? So there was some salary hike which has been given across the company because last year our employees didn't get any hike and last one, due to amount of loss of sales due to the COVID, the employee cost as a percentage to overall sales look higher. These are the two reasons, which I can explain to you.

Nikhil Gada Got it, sir. In this, specifically in building materials, so some time back we had uploaded a presentation where we had mentioned that, we are planning to launch a separate vertical for faucets. So, just wanted to understand what is the strategy over here and why the specific reason to separately launch of vertical, just wanted to get your mind share on it.

Sandeep Sikka If you see sanitaryware is almost a ₹4500 crore market, faucet is touching around ₹9000 crore market. We have seen that when you verticalize a particular thing, the deeper focus comes into the play and once the deeper focus is there, the growth element starts playing into the whole picture and with the incentivization of people, incentivization of the teams do help us to achieve faster growth into the market.

Nikhil Gada So are we trying to say that we will have a separate distribution team and a separate branding and completely separate business?

Sandeep Sikka No, no, these are only a part of verticalization is there. The back end team, they all report to Mr. Sudhanshu. So, internally they were already segmented, we have put in more focus into it. Mr. Sudhanshu is leading the overall team there and everything reports into him only.

Sudhanshu Pokhriyal I can add to this. What we actually do is, I mean all our backend, all the brands are all common. It's just that faucet by nature is a more distribution led product in comparison to sanitaryware, which is largely a dealer led product. So, if you want distributors, to make a significant progress in this, we wanted to have a separate team, a separate vertical of distributors for faucet and that's what we have done.

Nikhil Gada Got it, sir.

Sudhanshu Pokhriyal Everything else is common, yeah.

Kenin Jain Next we have Mr. Chetan Gindodia.

Chetan Gindodia Hello, sir. Thank you for the opportunity. Sir, my question primarily is with respect to what are the trends that we are seeing with respect to overall demand in the building material segment, especially in the month of June and July now. So, in July, have we reached back to the March and April levels and how do you see the building material segment growth over FY22?

Sandeep Sikka Yes, I'll request Mr. Sudhanshu and Mr. Rajesh Pajnoo, if you can address. This is a market related question. I think you're the best guys to answer this.

Sudhanshu Pokhriyal So, I request Mr. Pajnoo, maybe you can take it first.

Rajesh Pajnoo Yeah, that's fine. See, there is traction and market has, particularly in June and July, they have started coming back to their normal course and it seems that especially with how we are looking at it is like Q3 and Q4 are going to be too good and too promising. The demand is going to be there, the projects are going to get completed and new projects are going to come there in the market, which have already been launched. So, we see that if nothing unforeseen comes in the way, we think the third and fourth quarter are going to be as good as they were in the previous year. Sudhanshu?

Sudhanshu Pokhriyal Yeah, I totally echo what Mr. Pajnoo is saying. But for of course, the impact, if at all of the third wave, if it comes, of course there's so much of news around that. Yeah, but for that, I think you're seeing steady demand and we will be back to pre-second wave numbers, if these averages continues, of course.

Chetan Gindodia Whether July is basically… are you saying July is back to what it was in month of March.

Sudhanshu Pokhriyal So, the demand, like I said we are going back to pre-COVID levels, yes.

Chetan Gindodia Okay. You're already seeing it going back to pre-COVID, okay.

Sudhanshu Pokhriyal Yeah, we are going very close to pre-COVID levels. Yeah.

Chetan Gindodia And, the same thing for consumer business as well?

Rakesh Kaul Yeah, hi, Chetan. Yeah, as far as the Consumer Appliances business is concerned, we are seeing a turnaround from the later part of the June month because overall the consumer facing businesses also got impacted, e-commerce as well, which has become a major significant contributor primarily because of non-delivery of non-essential items because of the state-wise lockdowns. Having said that, we were looking at July in certain categories, we are seeing a huge demand recovering back to the levels of definitely of around January, February, for sure, in the month of July.

Chetan Gindodia January, February. So basically, when you say January, February and not March, basically –

Rakesh Kaul No, no, when I say January, February, I meant Q4.

Chetan Gindodia Okay. Okay. So things are coming back to normal, early trends.

Rakesh Kaul There is so much of uncertainty around what is exactly the normal. But what I can say is that the demand is looking at the businesses looking back to the quarter before levels, that's what I can say. It's very difficult to say whether it's all normal, because as we are sensing around us, there is still a lot of fear around in the minds of the consumer for shopping out. Those fears are still there. So, I wouldn't say that things will return back to normal but the business is looking up in a different fashion. We, as businesses, have also customized ourselves to reaching out to consumers in a different fashion, whether it is through D2C channels or whether it was through the alternate channel route or the omni-channel route. So, we have also devised and customized our way of approach how to reach our consumers in a different manner and not just depend purely on when the shops are going to open full throttle and we achieve our pre-COVID level of business.

Chetan Gindodia My second question is at the company level, what is the total raw material cost increase? And what is the percentage price increase? I'm taking on a blended basis because there are too many segments, so I'm not asking segment wise, I'm saying at the company level. And in the second quarter, do we see full impact of the price increase and therefore, as you go back to fourth quarter levels in terms of revenue, whether we should assume EBITDA margins and profitability also coming back to fourth quarter or better?

Sandeep Sikka In terms of the overall increase in the input, raw material prices, and I'm talking basic raw material prices, like for pipes, it's the PVC resin; for faucet, it is brass, and also the fact that when we talk consumer product, we use plastic, steel, copper everything. On an average price hike, we can assume is somewhere around 30% as such, a part of it is passed on. And when I say 30% is a blended rate on an approximation basis, because then the weights also have to be assigned to each other, and this is year-on-year basis. And a lot of it has been recovered. I will say that some part of the recovery will still happen in Q2 and because prices are still firming up as such. These are the ranges I can advise you today on this, but these are ballpark numbers.

Chetan Gindodia Great, sir. Thank you, sir. I'll come back in queue.

Kenin Jain Next we have Mr. Dixit Doshi.

Dixit Doshi Yeah, can you hear me?

Sandeep Sikka Yeah, please.

Dixit Doshi Thanks for the opportunity. Just one question from my side, this Water Heater business we have transferred in slump sale basis to subsidiary. So, let's say last year, full year, our consumer business was ₹455 crore, so how much was this water business contributed in that sales?

Sandeep Sikka So broadly, I can answer your question in percentage, so if you net out water heater last year against this year, because this Q1 didn't had the water heater, so our consumer products business, which in the results, you see a growth of 50% that should be somewhere around 65%-66%.

Dixit Doshi Okay. And this JV will only manufacture or they will only do the sales part?

Sandeep Sikka They will do the full business manufacturing as well as sales. Apart from it, since the JV is with Groupe Atlantic, which is one of the very large French companies, they have their other bouquet of products, which we will introduce into India and not only that, we have now rights to sell our products into various SAARC countries that also increases and enhances our opportunity in the international markets.

Dixit Doshi Okay. And one last question. Once this COVID things settles down, let's say, two, three quarters down the line, what could be the steady-state EBIT margin at least in consumer and building product, if you can mention?

Sandeep Sikka If you see on a Q3, Q4 basis, our consolidated EBIT margins, they were in a range of somewhere around a 10%-11%. We have given a guidance that this will further enhance over a period of time going forward. We have given that EBITDA margins in a range of around 15% on an overall product portfolio in three to four years' time.

Kenin Jain Now, we have next in line Mr. Pritesh Chheda. Hi, Pritesh.

Pritesh Chheda Hello, sir. So, I have one question on aspirationally we wanted to control or bring down the working capital cycle. Now, with so many vertical heads, and each having its own demand, how do you foresee reduction in working capital cycle and who should be entrusted with the job of making sure that the working capital cycle aggregate at the company level reduces.

Sandeep Sikka These are three distinct verticals inside the organization because that is one key mantra, which we have learned for growth. If you see the success of our pipes, if you see the success of our consumer products in the market, because it is a separate verticalization. The inventory of one division has nothing to do actually with the inventory of the other division. Each of the businesses have their own set of targets in terms of bringing it down. In the month of March, we were having an average net working capital cycle of around 100-105 days, which we have given a guidance in the next two years, we are targeting that we should be able to bring down by 15%-20%. A part of the businesses are our growth businesses wherein the focus today is more on the growth side because we don't want to lose our sales just by optimizing the inventory.

I understand that, at the same time, we have to be optimized. The focus is there, and each business has a focus. It consolidates at a group level also in terms of consolidation, but each of the businesses work along very closely with respective support departments so that they optimize the inventory. But despite this inventories, and the receivables which we have, as we are growing substantially, our ROCEs, as I told you in March quarter, although this quarter is not comparable in the right context because of the COVID thing, was 40% plus.

Pritesh Chheda But at the aggregate so –

Sandeep Sikka Yeah, that is aggregate, I'm telling you.

Pritesh Chheda So my question was actually on the working capital only. When you say that few businesses are in growth mode, this has always been the case with our company for so long. So we have been continuously adding verticals of products.

Sandeep Sikka Yeah, yeah.

Pritesh Chheda If that's the case then, the 15%-20% reduction in working capital is at the company level after factoring your growth aspiration, or you would have a situation where eventually you might think through that, okay, I am growing, so there's no need to reduce the working capital. So, communication to shareholder is at aggregate, including all the growth aspirations that you have.

Sandeep Sikka Yes. when we are making a communication to the market, it's on a consolidated basis.

Pritesh Chheda Okay.

Sandeep Sikka But if you see, I'll answer your question in different manner. Let's say, if we are growing at 40%, like consumer business, so historically, the CAGR for last two to three years has been 35%, pipes has grown substantially given the small base, now it has become a critical mass, so their growth rate has been even 60%-70% plus. We lost some markets on BPD but now the recovery for the last two quarters has been pretty good. So, it's not a single lever that the focus is only on inventory reduction. You can reduce the inventory any day, any time, but the first focus is improving the sales, improving the growth. But at the same time, we try to control and see on a day to day basis how the inventories can also be optimized. That is why we are not giving an aggressive target to the market on an overall basis and this is spread out over next two years, actually. We're not saying that we will do everything in next quarters or something.

Pritesh Chhed My second question is on the sanitaryware side, there few players have talked about supply issues. Maybe they will be importing as well. So, are we facing any supply issue and how is our supply situation or structure set, how much is in-house manufacturing for us and how much is outsourced, and do we import anything?

Sandeep Sikka Sudhanshu, may I request you please.

Sudhanshu Pokhriyal Yeah, so we buy 70% of our sanitaryware from HSIL and about 20 odd percent -- in the previous years, 21 odd percent was coming from China, and about 9 odd percent from domestic suppliers of sanitary ware. As we've seen some unprecedented price increases from China, also because of tripling of ocean freight and there was a lot of uncertainty around our imports during the COVID period from China, so as a conscious strategy, we reduced our dependence on China and it's actually come down by nearly 6% to 7% in the last, I would say, five to six months. So our contribution of Chinese imports in our total business is less than 12%-13%, as we speak.

And we got delayed deliveries from China, but we got our deliveries. So, we had our issues in the earlier part of the quarter but in the later part of the quarter, around June, we got most of our deliveries. Thankfully, in May, anyway, we had a lockdown, so we did not really face that impact in a big way. So, to answer your question, yes, there were issues for us as well, but we were able to mitigate it, also, because of the fact that we got our deliveries in the month of June. There are hardly any major supply issues in the domestically procured or supplies because of HSIL supplies. So largely, I won't say we are like 100% okay, but we are 95% there, so just to answer your question.

Pritesh Chheda And where are we on the lost market share on the sanitaryware side? How are we looking at gaining it all?

Sudhanshu Pokhriyal Like we said, we have now for the last three quarters been growing faster than all our major competitors in sanitaryware business, and we've been able to do that because of a whole host of changes, which we've brought about. We're focusing a lot on innovation, innovative products. We've corrected our pricing in the market. Our schemes, the way we go to the market to our dealers, the way we settle their claims, the way we have been servicing them in terms of the commercial hygiene with the dealers, in terms of their product deliveries, OTIFs, On Time in Full, in terms of the orders, which they place. So, every single operational parameter for us has improved significantly in the last three quarters. And in my view, all these things combined have really helped us in terms of beating the market in sanitaryware and also in faucet business all the competitors, in both the businesses, in the last three quarters. And I mean, God willing, we would be in a position to do that in subsequent quarters as well.

Pritesh Chheda My last question is, at the business model front, since last few quarters, we are talking about scale increase at the company, total company level and corresponding operating leverage followed by margin expansion. Is there any change there on the path, any hiccups or challenge in achieving that path, as an aggregated company? And I usually get worried because our aggregated company is then subparts into for three or four different vertical, and I always get worried out three or four different verticals might have their need, which might jeopardize the aggregate company level path, so, processes.

Sandeep Sikka If you see, in an overall business today, there are three focused businesses and each of this business has a historical trajectory of growth. Although, Mr. Sudhanshu has talked about our sanitaryware and faucets also coming back because we're beating the market. Based on the current market situation, we don't feel there are hiccups today, but definitely with wave three something or other situation happens. May I request others to please, take it on mute please. Rajesh Ravi. Mr. Rajesh Ravi, please, if you can take it on mute please. Yeah, thank you, please. We are confident that the path is right, we have given a guidance to market which has been well communicated, both in terms of the margin expansion, both in terms of this. And if you see, historically whatever we spoke about, I'm not saying last one year or you can check our old records also from what we have spoken, the directionality of what we are doing and the directionality of what we have been speaking is almost the same. Only thing is that some parts of the businesses have got delayed due to the COVID impact. We lost on turnover last year. We lost some turnover this year. But other than this, actually, we are walking on the path and it's a well-defined path.

Pritesh Chheda Okay. Thank you and all the best to you gentlemen. Thank you very much.

Gavin Desa We take the next question from Deepak.

Deepak Yeah, thank you very much, sir, for the opportunity. Sir, I just wanted to understand like over the next two years, how do you see the revenue scale up in terms of maybe CAGR and some sort of aspirational margins? I understand you said 15% over the next three to four year, so something on next two years that you can throw some light? Yeah, that would be helpful. That is my question.

Sandeep Sikka This is a journey. Like if you see our EBITDA margins, consolidated EBITDA margin in Q3 and Q4, Q3 was somewhere around 11%, Q4 again 11.5%. And on a call, we have said that if the situation is normal, our margins should remain in this trend. There can be some flip on, flip offs due to the price changes, input raw material price changes and then delay in the pass on. But we internally working on various efficiencies, we are working on product mixes so that new product introductions like in consumer we had talked about the IoT products, and we expect the share of IoT products to increase, operating leverage we have spoken about, so that is a journey. And overall, in terms of how and where we are about to reach in four years, that guidance also is there in the market. If you see historically, I've also given a guidance in a sense that the historical track record of consumer business has been somewhere around 30%-35% CAGR over the last two to three years. Pipes have shown a growth. Now building product is also giving a growth. So, we feel that on an overall basis, on an all-company level, in next two years, we should have a CAGR of 20% plus based on the current market conditions.

Deepak Yeah, fair enough. And in terms of margins that you explained now, 15% in the next three to four years and maybe currently 11%-11.5% when situation normalizes, so next two years, maybe, somewhere in between 12%-13%?

Sandeep Sikka Yes, it is not that all of a sudden, we'll have 11% to 15%.

Deepak Correct.

Sandeep Sikka So, margins will keep expanding half percent on a quarter to quarter or 1% depending on how the market behaves but this is our directionality. And this is what the whole organization is working towards.

Deepak That's quite helpful. And that's it from my side. All the very best.

Gavin Desa Next, we have Sonal Minhas. Can you unmute and ask your question please?

Sonal Minhas Hi, sir. This is Sonal Minhas. Can you hear me?

Sandeep Sikka Yeah.

Sonal Minhas Yeah. Sir, directionally just wanted to understand like between the two businesses, the building products and the consumer, what is it we can actually aspire to achieve our EBIT margins in a steady state? And I have seen the business, the building product business, when it was a merged entity. Back then we were roughly around 16%-17% of EBIT margins for the building product business, so where should we be now because we are parking some margins in the manufacturing business. Correct me, sir, if I'm wrong there. That's one. And the second thing is on the consumer business, where if we are, let's say, hitting, at what top line, we should actually see margins stabilizing and what should be those margins?

Sandeep Sikka **F**irst question is on the building products, which is more on sanitaryware and faucets, I understand that. On a pre-demerger basis when we were part of HSIL, the consolidated EBITDA margins were somewhere around 20%, EBIT margins were slightly down. So, what we leave as a part of our contract from an outsourcing is ranging between 4%-4.5% on an EBIT level basis to HSIL. But, as we build the volume, the operating leverage does come into play, which will lead to the efficiencies both, on the employee cost, on the marketing efforts, which we do the supply chain cost. There we will be unlocking -- I'm not saying unlocking of 2% on a single head, so we have different cost heads, even a quarter percent, half percent in each one of them. It will lead to a substantial value addition on the bottom line.

As far as the answer to your questions on the consumer side is concerned, so consumer business got into a fairly good position in Q3-Q4. They had a good EBITDA margin and EBIT margins ranging somewhere between 8%-9%. Again, the buildup, the business has not fully been scaled. And also the fact that in March quarter also, we lost some air cooler turnover due to the COVID, which was there in Maharashtra and other places. So we feel when we have given a broader guidance of EBITDA on an overall 14%-15% in next three to four years, so we see that 2%-3% margin expansion happening on the consumer side also from the normalized situation.

Sonal Minhas Got it, sir. And, sir, just seeing the way things are right now, forget how COVID would be, the guidance that you've given for growth for the next one or two years is 20%, if I may just reiterate that would summarize to the previous person who was asking the question, just want to clarify that.

Sandeep Sikka 20% plus.

Sonal Minhas 20% plus CAGR, this is what you'd basically do?

Sandeep Sikka 20%, over next two years, two and a half years.

Sonal Minhas Okay. If I may just sneak in another question, if I'm allowed to.

Sandeep Sikka Yeah, please.

Sonal Minhas Sir, wanted to understand, basically, what would we be aspiring from the JV? And I don't think so that is going to hit your top line because of, I don't know shareholding, but from a very simple strategic perspective that what's the business plan for that business like, for, maybe, next one or two years? If you could just summarize, maybe one or two bullets there that would be helpful.

Sandeep Sikka I'll answer the first part of the question in a different manner and then I request Mr. Rakesh Kaul actually who runs this business to answer your second part, how the objectives of the business are going forward. If you see on consumer product, we developed this business right from 2015. Then we did an EBITDA level investment in three, four years of somewhere ranging between around ₹55 crores-60 crores. The first part is that by unlocking the value we have brought back the value onto the platform, given the fact that there is a substantial upside in terms of the valuation of the business when we did a JV versus what we had initially invested into it.

So, we got a good valuation and now we are redeploying that valuation to set up those facilities so that next level of valuation can be worked on, or we can work on building the business further stronger with bigger margins. That was a broader objective of doing this JV because we feel that once this JV starts production and achieves a particular size, there will be definitely expansion of gross margins in this business, and this will further lead to a very healthy product portfolio because there are other products in the portfolio of Groupe Atlantic which now we can introduce into India. Rakesh, although this was very short from my side, would you like to extend this please.

Rakesh Kaul Yeah, thanks, Mr. Sikka. So, yes, primarily when we moved into the JV with water heating business as Mr. Sikka has pointed out, the other categories, which are going to be a part of this JV is obviously going to be an electrical heating, and we have some very, very superior products in electrical heating from our partner. We have also recently introduced very high-end energy efficient heat pumps, for which the market in India is significantly increasing, because of better energy efficiency and not having water heaters in each of your individual bathrooms. And that's also this market, which we are looking up to with a lot of comfort because we believe that we have our strengths in those channels to reach out to.

As far as the business plan and the objectives are concerned, I think the primary focus in this category has been or for that matter for all the consumer appliances category is that we want to be among the top three to four players within seven to eight years of the launch of that category. An ambitious plan, given the fact that the leaders in the top three currently in each of these categories are players which have taken them three decades or two decades – sorry, even 20 odd years to reach to that level. The GFK report of 2021 says that we are in the top six in water heaters with volume, giving us an approximate market share of 7%. We believe in the next four to five years, our target is to be among the top three players to be in strong number three or number two player and achieve a stable state market share of between 13%-14%. So that's what we're looking in the next four or five years.

And also expanding our margins, at the same time through our in-house facility, which will come out in Hyderabad in the next 14 months and also stabilizing our product and innovation on IoT and innovation on connected appliances, smart plugs, which will set us apart from the competition. We believe there's a significant upside to this business in the coming years, given the fact that we have a strong partner with a strong technological background as well. I hope that answers your question.

Sonal Minhas Yes, that's it. Thank you. Thanks a lot.

Gavin Desa Thank you. The next question we will take from Shrey.

Shreyans Hi, thanks for the opportunity. So, this is Shreyans from Quest. So, just wanted to understand, sir, you mentioned that you would like to reduce your dependence in the building product. So am I getting it correctly that you would want to reduce your dependence on HSIL for your procurement?

Sandeep Sikka Sudhanshu, if you can answer please?

Sudhanshu Pokhriyal No, Shrey, what I said is that I want to reduce my dependence on China for sanitaryware products.

Shreyans Alright. So secondly, sir, sanitaryware, we were trying to gain our market shares back. So just wanted to break your sales into B2B and B2C, so just your thoughts on where is the higher growth opportunity that you're seeing and what are the steps that you're taking to achieve that?

Sudhanshu Pokhriyal Yeah, so, we get about 30% of our business from institutional business, and 70% of course, comes from retail, I believe that equal opportunity exists on both the segments; of course, they address very different consumer needs. Your B2B business is largely a new home construction with large business, large projects, while a retail sale is largely replacement demand or maybe a small home dwelling, which requires your bathroom products. So, there are equal opportunities on both sides, largely not just because of the fact that there is growth in demand in the home segment, also because of the fact that there is potential in the overall economy because there are upgradations, which are happening because people are spending more money in terms of the requirements for more premium bathroom. So, there are potential which exists in both the segments.

So, what we are doing, largely, from the retail side, so, first of all, what we're doing is, in terms of meeting a pull for the brand. So, what you see is, this campaign, "Thoughtful is Beautiful", which we rolled out first time in Q3, Q4 of the previous year, and what you will see again is the same exact campaign but next week. And the campaign is being, we're heading launch of a new product, which is in the touchless, one piece, as we call it in, it is a water closet product, which is in one piece. So a new one piece water closet will be launched, two models, which is being under the brand umbrella of "Thoughtful is Beautiful".

So, the number one thing we are doing is, of course, strengthening our brand Hindware to bring the consumers back into our fold of the brand Hindware. Second, like I said, as a consequence of ”Thoughtful”, we are looking at extremely new innovative products. To just name a few, touchless water closets is one such example, the only other product which existed in the market for touchless was from us only, which was at double the price at ₹27,000-28,000. We've actually brought the prices down through internal value addition to about ₹15,000-15,500 of two models. And we've got a fantastic response from the trade for these new launches. And it is like the touchless products are extremely in need for the consumer in these COVID-19 times as well.

The second part of our strategy is of course innovation. The third part of our strategy is distribution expansion. We believe that there are tons of outlets in the industry, which are, I would say, even if the products are reaching there, they are not reaching, it's not a quality reach, it's not a high quality reach. You don't have adequate representation of all our subcategories, all the kind of products which we want to sell. So, distribution activity, so we are working on distribution and network. We're increasing our brand stores, which provide a very high quality reach for our stores. And also, we are increasing our distributors, which will ensure basic availability of our products in the market. So that's the third thing, which we are doing.

And of course, on the fourth side, we are becoming extremely customer focused, which entails that high degree of customer service, high degree of focus on resolution of issues, complaints, and also high degree of product availability, focusing extremely on operational efficiency for business. So these are the four things that you are bringing about in our retail business.

On the institutional side of the business, what we're looking at is we've created a team of 100 people, we have expanded our team by double. We should have about 48 people in H1 of the previous year and before that, which were focused on institutional business. Now we have about 100 people who are actually focused on institutional business. So resource allocation on the institutional business has expanded substantially. We are able to reach much larger number of architects and influences, and through them, we are able to get larger business.

Of course, there are a lot of work happening, again, on operational efficiencies, in terms of automation in institutional business, the catalogs are getting digital, and because of digital catalogs, because of the fact that we are able to offer even earlier products, which perhaps have also been discontinued in the retail business, we can offer those at much attractive prices in the project business. A lot of such innovations are happening, which are giving us operational efficiencies and I would say competitive advantage over our competitors as well. So, these are the few things that you're doing, both the segments. I think opportunities exist in both the segments.

Shreyans All right. Sir, just last bit on the consumer appliances front, so you Mr. Sikka, I think mentioned that the JV is free to launch their own products as well, so just wanted to understand are any products going to be in line with what we already doing in the kitchen appliances side or the parent side with the technology that they have?

Sandeep Sikka Rakesh, please. Rakesh, you are on mute.

Rakesh Kaul Yeah. Yeah. So I think when Mr. Sikka talked about expanding the product lines, he only meant what is available in the Atlantic's global profile. And that is Atlantic is one of the world's three largest players in heating, ventilation and air conditioning. So, all the product lines what we talked about are strictly not conflicting with SHIL's product lineup as such. So, SHIL will continue to market the product lines, which we are currently marketing.

And as far as the JV is concerned, the focus will be largely on water heating, the electrical heating and the heat pumps, which we have already introduced into the country.

Shrey Sir, do you plan to get the products that are there globally into the Indian markets with the technology that they have?

Rakesh Kaul Yes, of course. I mean, as I just recently pointed out that we will launch electrical heating panels, which are towel warmers, products like towel warmers, products like ceramic heating, products like tankless shower panels, products like heat pumps, which range from 150 to goes up to 400 liters, which are highly energy efficient products. So, these are the products which are already available from their international product stable line. And while, we don't intend, the volumes for those products would be smaller at this point of time. So the route will be largely imported to start with, till the time we are able to get a scale on these product lines.

Shrey Sir, any timeline for that?

Rakesh Kaul Yeah, I mean electrical heating is going to get launched for this season for sure. And heat pumps, as I just said that we just launched before the second wave, and you will definitely see some more visibility around that product. As far as the other innovative products are concerned for tankless shower panels and other products, energy efficient products, we intend to launch next year, FY23.

Shrey Okay. Sir, and just last bit, so I assume that water heating was a high growing category for you in the consumer appliances space, now if that moves into the JV, would you like to talk about the guidance on the consumer appliances side because I think we've guided for about 30% CAGR.

Rakesh Kaul Yeah, I mean, I would like to retain that guidance, as given by our group CFO, primarily for the fact that even in Consumer Appliances business which sits out of SHIL, we have high growth categories like kitchen appliances where we are really grown from being no one in last five years to being a strong number two player in kitchen chimneys. Much remains to be added in terms of growth in kitchen hops, built-in products, footways disposals, built-in dishwashers, countertop microwave ovens. Also, we recently launched a very, very big category where the market opportunity is close to ₹11,000 crores, which is fans, where we are launching some of the state of the art products as well. And so, the opportunity is also there.

So, we are also in water purification, where we are at this point of time a fringe player, but the market opportunity to grow there is also substantial. So, I don't see by water heating business moving on to the joint venture, I don't see that the growth plans of SHIL will get suffered on that account.

Shrey All right, that helps. Thanks, and all the best.

Rakesh Kaul Thanks.

Gavin Desa Thank you. We take the next question from Puneet. Puneet, if you could identify yourself, please. Puneet has also texted his questions, so he just wants to know on the capacity utilization of building products and the breakup of retail and project channel and region wise of building products.

Sandeep Sikka I think this has been answered. We don't have a capacity figure now, that is done.

Gavin Desa We've taken all the chat questions. Sonal, you have a follow up question, your hand is raised.

Sonal Minhas If I'm allowed to, I can ask my questions.

Gavin Desa Yeah, please go ahead. Okay.

Sonal Minhas So just a question on the balance sheet. I just wanted to understand how are we servicing the debt. And like any plans or any business plan for the debt to be off the book or we will still have some working capital debt going further.

Sandeep Sikka So Brilloca today is debt free, almost, we have a small long-term debt. But our investment into mutual funds, which is a debt Mutual Fund, which is a surplus money is still higher, but SHIL has some debt. So, in next a year or so I think we will accumulate substantial cash on an overall basis, on a consolidated basis. So, if you see net debt on an overall basis will be very, very less.

Sonal Minhas Okay. And, sir, just asking a little bit of question on this one. So just try to understand that, let's say there are some more challenges at a macro level, maybe overhead or supply disruptions going further. At a very core level, like the leadership is here, just want to understand, there are companies who basically run for speed, or keeping the pace of sales, and the working capital or the channel basically becomes stuffed up and that shows up in the future years.

Whereas there's the other side, there is financial prudence where we say that listen, this is the demand for this quarter, I'm going to live it by the way things are. And we will respect the demand has actually gone down, but I will preserve my working capital going further and acknowledge whether the times are good or bad. So just want to know, like, philosophically, which side are we going and I think the gentleman before me asked a question around the working capital. So you've given guidance there, but what are we doing actually internally to actually bring that down? Just want to understand that.

Sandeep Sikka So I'll answer this question, first part, and then maybe request Mr. Rakesh Kaul. So if you see primarily, if we shift our vendor base from China to India in next two years, because when you do China, you have a Chinese New Year, you have transit time delays, you have a product build up time or the ordering time, the ordering, manufacturing time in China. So, you are able to cut down substantially your inventories and your ability to make your product more on just in time basis rather than you need to stock and then sell. So, this just by shifting the basis from China to India it can lead to a full capital efficiency.

Sonal Minhas But that has effect on margins, sir. So, that is the flip side of this trade off, right.

Sandeep Sikka It is not that. You see the freight cost and other things, everything is evolving today, so I cannot comment on the margin. I'm just commenting on the working capital today, right now.

Sonal Minhas I got it. Okay.

Sandeep Sikka Okay. Business is, actually if you see on a realistic basis, similarly as Sudhanshu also said that we are focusing on more Indian-based, as we're doing 20% from there. So, when we do 20%, we have to stock the inventory. These are some of the initiatives, which we are doing. We are also deploying a lot of digital technologies so that our S&OP processes are getting more and more robust over a period of time so that sourcing is more dependent on the time frames and the end markets, which we are trying to have. These are the initiatives, which internally we are doing. Rakesh, will you like to extend this?

Rakesh Kaul Yes, you have said it right, actually. So, as we evolve the business, yes, I think we have to look from the supply, the imports from two perspectives. One is from the range perspective that what is the designs on offer, and what is the range perspective and also from the sourcing ability perspective, as far as India is concerned. Look, I mean, without doubt, we know, in many of the categories, China is almost six to eight times bigger than India, in terms of the market sizes of the some of the categories where we are looking at currently, and majority of the categories that we're looking at.

So, obviously, given that scale, you will always have price benefits from that country, which was very, very clear earlier. But having seen in the past two years what has happened, particularly after the COVID and what all happened in the geopolitical tensions, we believe that not only does it make beneficial to look at building inward capabilities in India, one is to deter any external influence, which is beyond our hands, which is like relationships between the countries getting sour. And on the other hand, what we have also seen is that, as we are building capabilities in India, we are also seeing there are massive price fluctuations or increases on the other aspects, which was never a part of the scale, which means ocean freight, which means currency fluctuation.

So, I believe that, in given a space of two to three years, at least for the categories where Consumer Appliances businesses is in, largely our kitchen appliances, we believe that in two to three years, we'll be able to achieve -- within two years, we'll be able to achieve the price scale, which the Chinese manufacturers are giving. And once we achieve that, within the two years that price scale, the other benefits of ocean freight, currency fluctuations, go-to-market will definitely make our business much smoother and much more efficient. So, we'll get into a much more capital efficient model as well.

Having said this, I must also tell you and inform you that we recently started our local manufacturing for kitchen chimneys and kitchen hobs in NCR region. And we believe that in next three odd years, our import content for that larger kitchen appliances business will come down from the current 90% of kitchen appliances to around 15%-20%. At the same time, we are also very happy to tell you just within a span of 12 months, we have completely turned around the supply chain for our furniture retail business, where the dependence on imports was to the tune of 60% and 40% was imported. We flipped that around and now we are 85% domestic and 15% imported and you can already see in Q2 and Q3, the retail business which had never actually made money for the past 11 years has started to turn around. And we believe that it's time to scale up the business further because our go to market will also become efficient, given the fact that we will work on a lower inventory and faster to go to market strategies will help us in doing that. So, I see in the next two to three years economies of scale and other external factors making India production a much bigger and a better story.

Sonal Minhas Got it. Okay. Thanks a lot for your answer. Thank you.

Gavin Desa We have one question sent by chat is can you share the breakup of revenues between bath ware and pipes, and what is the growth outlook for these segments?

Sandeep Sikka I think growth outlook we have given for quarter one, ₹87 crores is a pipe sales. So segmental reporting, overall building product sales is already reported.

Gavin Desa The outlook?

Sandeep Sikka Outlook is already shared in the respective, yeah.

Unidentified Participant Can I ask one question?

Sandeep Sikka Yeah, please.

Unidentified Participant Yeah. So, just working on your thoughts on this FGV, Hindware JV, so what is the current contribution from that segment and how do we see the segment in the next two years?

Sandeep Sikka One, it is not a JV, it is a strategic marketing tie up and I would request Rakesh to answer please.

Rakesh Kaul Yeah, I mean, given the fact that FGV is among the top three players in the global arena, in the kitchen and furniture fittings business, along with a Hettich and Hafele. And they're also the primetime suppliers to some of the world's best and biggest players like Ikea. In India, we have a strategic arrangement with them and we signed this off just before COVID to a couple of months before COVID. And they've got a very superior range of products from which we source currently from their Italy and China factories. And there's a huge potential for this business, given the fact there's a lot of focus which has come into the kitchen space, particularly after the pandemic, and we see that, and also in our case, so this becomes a part of our kitchen appliances verticalization.

Where 30%-35% of our retail channels are already in the selling modular kitchens and modular furniture, so we see a good sync with that business. And the potential to grow this business significantly in the coming years is there. And FGV powered by Hindware, as a brand, has really started off well in the past two, three months. And we see that this business can easily grow at a CAGR of almost 50% -60% in the coming years.

Unidentified Participant What was the current contribution from the segment?

Rakesh Kaul Sorry.

Unidentified Participant Current contribution from the segment.

Rakesh Kaul So currently very low, because, as I told you, we just launched this business just a month before the pandemic first wave. And after that, we were just in the process of opening up with our distribution. So the current contribution to business is pretty insignificant, would be to the extent of 1%-2% to consumer appliances business. But I see it significantly growing in the coming years.

Unidentified Participant Thank you.

Rakesh Kaul Thank you so much.

Sandeep Sikka Gavin, do we have more questions?

End of Q&A

Gavin Desa We don't have. We have no more questions. We've addressed all issues. Mr. Sikka, if I could request you to make closing comments.

Sandeep Sikka Thank you, everybody. I think this was very interesting. I think the first time we had 100 plus people and we could only accommodate 100. Maybe next time, we will request Kenin for a bigger conference on Zoom. Good questions asked and we really love questions being asked. One point which I'd like to say is that whatever we are seeing today was also said a few years back. And today we have walked a path to large extent and the visibility of the path is much, more clearer. A few years back people asked us a number of questions whether it is the right decision to go into this, today we have proved to the market that we are a substantial player. We are emerging as one of the fastest growing organization, when we see into particular categories like pipes or maybe in some other segments and now with our sanitaryware also beating the market. So there is a substantial upside. there is a substantial potential, which we feel that we can unlock over a period of time. With all this, again, thanks to all of you. You have been very supportive. You have been appropriately pushing us also with the right set of questions. So thanks again. Thanks a lot.

Gavin Desa Thank you everybody for participating. We can close the call. Thank you.

Notes:
1. This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings.
2. Figures have been rounded off for convenience and ease of reference.