NEAPS/BSE ONLINE

23rd August, 2022

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

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

Dear Sir/Madam,

Sub: Transcript of the Earnings Conference Call held on 16th August, 2022

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, 16th August, 2022 for discussion of the financial results of the Company for the first quarter ended 30th June, 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)

Payal

Payal M Puri
(Company Secretary and V. P. Group General Counsel)
Name: **Payal M Puri**
Address: **301-302, 3rd Floor, Park Centra, Sector-30, Gurugram-122001**
Membership No.: **16068**

"Hindware Home Innovation Limited Q1 FY2023 Results Conference Call Transcript"

August 16, 2022

MANAGEMENT: **MR. RAKESH KAUL – WHOLE TIME DIRECTOR AND CEO, HINDWARE HOME INNOVATION LIMITED**

MR. RAJESH PAJNOO – CEO, PIPE BUSINESS

MR. SUDHANSHU POKHRIYAL - CEO, BATH BUSINESS

MR. SANDEEP SIKKA – GROUP CFO

MR. NAVEEN MALIK – CFO, HINDWARE HOME INNOVATION LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Hindware Home Innovation Limited Q1 FY2023 conference call hosted by Monarch Networth Capital. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Vinit Gala from Monarch Networth Capital. Thank you and over to you Sir.

Vinit Gala: Good afternoon everyone. At the outset I would like to thank the management for giving us the opportunity. On behalf of Monarch Networth Securities we welcome you all to the Q1 FY2023 results conference call of Hindware Home Innovation Limited.

Now I hand over the call to Mr. Naveen Malik, CFO, HHIL. Thanks and over to you Sir.

Naveen Malik: Thank you. Good evening ladies and gentlemen and a very warm welcome to Hindware Home Innovation Limited Q1 FY2023 earnings call.

Let me walk you through our financial performance post which the business CEOs will discuss the key highlights of their respective businesses. Figures we are discussing here are on consolidated basis and rounded up to the next level. I would like to remind all participants that some of the statements or comments made on today's call may be forward-looking in nature. These may include but are not necessarily limited to financial projections or other statements of the company's plans, objectives, expectations, or intentions. The company disclaims any obligation to update these forward-looking statements to reflect future events or developments. Kindly refer to slide #2 of the earnings presentation for a detailed disclaimer.

Now coming to performance. We are pleased with our performance for the quarter considering the challenging macroeconomic environment amidst. In the Q1 FY2023 while the company sustained its topline growth margins were moderate largely owing to the higher input and commodity prices. On a year-on-year basis our topline grew by 98% to Rs.678 crore on a consolidated basis. On an absolute profitability basis, consolidated EBITDA grew 292% and amounted to Rs.67 crore. Consolidated profit after tax after considering results from joint venture stood at Rs.11 crore in Q1 FY2023.

Coming to our segmental performance. The building products segment delivered yet another healthy performance during the quarter. In Q1 FY2023 revenue from operations stood at Rs.535 crore registering a growth of 102% year-on-year. EBIT grew 185% year-on-year to Rs.43 crore translating into a margin of 8%. It is important to understand that this decline in EBIT on a quarter-on-quarter basis resulted from a steep increase in prices of key inputs namely brass around 6% to 8% from Q3 FY22 onwards and around 15% to 20% in fuel and power in Q1 FY2023 for our bathware products. This increase due to a stressed macro environment erased gains derived from commencement of manufacturing operations post the acquisition of the building products division of AGI Greenpac Limited. We have undertaken calibrated price hikes to offset the impact of higher input prices in coming quarters.

Our fast-growing plastic pipe and fitting business reported sales of Rs.170 crore registering a growth of 96% in Q1 FY2023 on a year-on-year basis. Supported by solid fundamental and our resilient business model, the company has sustained a strong growth momentum over the past few years. Plastic pipes and fitting margins also impacted due to decrease in polymer prices around 14% to 16% in Q1 FY2023 while fuel and power increased by 10% to 12%.

Now coming to the Consumer appliances. Our Consumer appliances business reported revenue of Rs.129 crore and EBIT of Rs.2.8 crore during the quarter. The overall performance of the business was modest owing to rising input cost and macroeconomic challenges.

Our Retail business revenue stood at Rs.14 crore having grown 48% year-on-year while EBIT stood at Rs.0.12 crore in Q1 FY2023 translating into a margin of 1%.

Across our product portfolio in an endeavor to counter the sharp increase in input prices we have taken reasonable price increases of many products in our portfolio and may be compelled to continue to do so. At the same time we have continued to place a strong emphasis on launching innovative new products. Looking ahead, we will continue to focus our resources on producing a diverse range of smart, connected products that integrate innovation and aesthetics and provides value to our customers' lives and homes. We are optimistic about our future performance and are committed to our goal of delivering consistent revenue and profit growth.

Now I will give you update on the bathware products business also. Our sanitaryware and faucets continue to report industry leading growth in the review quarter contributing a solid performance with close to 20% revenue coming from new product debuts, the company is still growing at a faster pace across all the categories it competes in. This performance reflects our several strength primarily among these is our proven innovative capability both in product and design which has contributed to a diverse product portfolio. This combined with an increasingly strong awareness of our brands, and an ever-expanding distribution network has considerably helped to drive growth. We in fact have added 75 new distributors in the quarter under review.

A key point to highlight is the fact that this is the first time in the last 5-7 years wherein Q1 sales are comparable with Q4 sales which is a true reflection of the gaining momentum in our demand. EBIT margin declined however compared to the sequential preceding quarter and this was a result of the significant input price increases which we already discussed. Such steep increases in the prices of fuel and brass which are some of our key inputs over a short period have seldom been seen before. To counter this challenge, we are implementing reasonable price increases throughout our faucet and sanitary ware range, and these will take some time to fully reflect. The heightened input costs have tapered over the benefits of the commencement of manufacturing.

During the quarter, we launched a few marquee bathware products, including Easy Clean which is a self-cleaning basin and ellipse which is basin with space for utility item like toothbrush, toothpaste, etc. Our continuing focus is on driving profitable growth.

I would now like to hand over the call to Mr. Rajesh Pajnoo to take you all through the plastic pipe and fitting business. Over to you Mr. Rajesh.

Rajesh Pajnoo: Thank you, Naveen. Good evening to everyone and thank you for joining us for Q1 FY2023 earnings call.

During the quarter, our plastic pipes and fittings business reported sales of Rs.170 crore registering a growth of 96% on year-on-year basis. Since our brand is now well established and our products continues to deliver high quality, I am pleased to report that we are still as of today the fastest growing brands in India in pipes and fitting industry segment. In the review quarter, our polymer prices have decreased by 14% to 16% and also prices have gone up for our own fuel prices leading to a margin impact.

We continue to diversify into newer geographies in line with our company's accelerated growth strategy. Aligned to our strategic growth our expansion plan entails both Brownfield and Greenfield initiatives. Our Brownfield capacity expansion project at Isnapur facility in Hyderabad is progressing according to the schedule.

Furthermore, our Greenfield project to install a new manufacturing facility in the north that is we have selected place Roorkee is on track. During the period we introduced 200+ SKUs in this category. Additionally, we continue to witness a significant market demand for our overhead water storage tanks.

As we continue to grow and add new distributors to our pipes business, we continue to engage with plumbing consultants and plumbers to educate them about our diverse products offering.

I would now like to hand over the call to Mr. Rakesh Kaul to take you through consumer appliances and retail business. Over to you.

Rakesh Kaul: Thanks Mr. Pajnoo for handing over me this call. I want to say good evening to everyone and thank you for joining us for our Q1 FY2023 earnings call.

During the quarter there was a significant growth in the consumer appliances business to the tune of 92% over the first quarter of 2021-2022. It was driven by strong performances in the cooling and the kitchen segment. In the category of kitchen appliances we continue to maintain our focus on superior technologically driven products like patented technologies like MaxX Silence, Maxx Auto-Clean and we have now become the largest range of silent chimneys in the country amongst all the brands and we received a tremendous response from the consumers for these products. Our cooling products gained an attraction and grew by more than 200% in this quarter on the back of a good summer season and our sustained dominance in the kitchen and cooling category and e-commerce platforms also help us register a robust growth.

Towards the end of the quarter we did notice a slowdown in the consumer demands, additionally higher product costs and ongoing inflationary pressures, which create a little impact on consumer purchase in the area. While largely the raw material prices have stabilized towards the end of the Q1 the continuous rise over the last 12 to 14 months has actually helped in depressing the demand to some extent because of the huge price increases over the last 14 months. During the quarter we undertook prepared price hikes to help combat the impact of stubborn prices and this we believe will help lower pressure on our margins for the segment.

We continue to maintain a greater level of focus on the recently introduced fan categories where we have introduced more than 100 SKUs in the last nine months. This has helped us achieve triple digit growth in this category, which otherwise is a very competitive category. In the coming festive season we anticipate the consumer demand will swing favorably.

In the upcoming quarters we anticipate reaping the benefits of our continued focus on product innovation. As a result we are committed to introduce smart products to market in order to enhance the lives of our consumers and make a significant impact. In fact we have rebranded our Hindware appliances and some of our smart appliances.

In our consumer appliances areas we have now filed for more than 33 patents, and all this has been done in the past three-and-a-half years. We are dedicated to our goal of developing an attractive and innovative product portfolio. We introduced five new category items in Q1 FY2023 totaling over 14 SKUs across chimney, cooktops and water heaters in the smart segment. Currently we have an account of more than 1310+ distributors and modern retail shops across the country to meet expanding consumer demand and we have now touched a retail touch point number of 13000+.

Our retail business in Q1 also grew by 48%, despite the margin pressure the business remained positive for yet another quarter and reiterates our strategy of focusing on franchisee model much more strongly.

That concludes my opening remarks and I would like to ask Mr. Sudhanshu Pokhriyal to take over from me.

Sandeep Sikka: Sudhanshu for some reason has not joined the call yet and Mr. Naveen Malik has already spoken about the building product business, so we will just open the Q&A session here for the participants. Thank you.

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

We have the first question from the line of Mr. Vinit Gala.

Vinit Gala: Just wanted to understand on the pipes division can you quantify the EBITDA hit on account of inventory loss because of the polymer prices?

Sandeep Sikka: Your question if I can understand is that how much is the quantification on the EBITDA?

Vinit Gala: Because of the inventory loss.

Sandeep Sikka: In the Q1 FY 23, it is around Rs.7 crore which is due to the inventory thing, but in Q2 there will still be some carry because the entire inventory has not yet been consumed, we feel that from Q3 onwards it will get into the normalized mode with an assumption that PVC prices now should stabilize ranging between Rs.90 to Rs.100 a kg.

Vinit Gala: What is the kind of pricing that you are offering like we have taken a hit on the pricing as well is that what you have done?

Sandeep Sikka: I think Rajesh, can take this question.

Rajesh Pajnoo: Yes, understood that whenever the prices go up your item prices also go up and when the raw material prices come down the price rates you have to sell at a lesser price, you have to pass it on to the consumer, so we are selling at a lower price and that is why the inventory is hit by around 4%, it amounts to Rs.7 crore.

Vinit Gala: The breakup of volume growth that you are looking at, the reduction in pricing that we have done, so over the next couple of quarters, so what is the breakup of the volume growth?

Rajesh Pajnoo: The prices have come down by around 14% to 16% in the first quarter and there has been a differential of almost around 11% to 12%, the pricing has come down.

Vinit Gala: Okay and against that what is the kind of volume growth that you are anticipating?

Rajesh Pajnoo: We have grown Q1 last year also it is not actually comparable, so we have grown by around 90%. We feel that there is a little hit will be there in the second quarter, but prices are going to get stabilized, that is what has been given to understand. And definitely what happens with these prices is that the hit is more on the imports, and the raw materials that we are purchasing now is on the current prices so there is not much impact on that.

Sandeep Sikka: You can easily drive the trajectory that despite the pressure on the margin on the selling prices, this remains the best ever first quarter sales number like Q4 we did Rs.200 crore of sales and in the Q1 we have done Rs.170 crore of sales. Our long-term guidance, which already we made last year, which we made in May 2021 that in three to four years will be crossing Rs.1,000 crore in this business, I think we are moving on a path to that direction.

Moderator: We have the next question from the line of Varun Jain from Edelweiss.

Varun Jain: My question was related to the segment wise price hike, which we have taken for all the segments and also is there any expected price hike in the next few quarters and the raw material outlook for the next few quarters how do we see that?

Sandeep Sikka: I will primarily talk here about sanitaryware and faucets, there has been incremental input price increases because the natural gas prices and other fuel prices have already increased substantially, although now they are getting stabilized. In Q1 FY 23 in the sanitaryware, we had taken around 5% to 7% price hike on various SKUs and similarly on the faucets because the input brass prices also have increased sequentially from Q3 to Q4 and then Q1. We expect a few more price hikes to happen to normalize the overall cost impact. In the pipe segment,` Mr. Rajesh Pajnoo has already explained that it is a factor of upward and downward adjustment, our CPVC prices have more or less remained same so not much change as such. PVC prices to get adjusted on a regular basis as a whole also.

Varun Jain: What is your outlook for the raw materials in the coming few quarters?

Sandeep Sikka: We feel that the majority of the price hikes which have to happen now have happened and we are seeing that some downward movement has started, may be one or two quarters there should be some reduction in the input prices this is our view, but again contingent on a number of factors externally, how the whole market pan out, especially we get impacted by PVC price, fuel prices on sanitaryware, faucets and pipes and on the other thing, which is consumer products essentially copper, steel, so our prices, we are seeing that are now getting stabilized after last two quarters increase as such.

Varun Jain: If copper and steel prices reduce, do we also reduce prices like we do in pipes, is it like a pass-through margin or are the price increases sticky in that division?

Sandeep Sikka: Rakesh, can you take this on the consumer side?

Rakesh Kaul: Sorry, I could not hear the question properly.

Sandeep Sikka: The question was that with the increase in steel prices and now the price is getting stabilized what impact we will have on the selling prices of our products especially chimneys?

Rakesh Kaul: Thanks for the question. If you would see in the last three to four quarters we have continuously done price increases on these products led by the commodities increases what has happened over the past four quarters, but I have said at the same time that the prices have stabilized in fact in some cases the prices have actually come down also from the last quarter as well, so in consumer appliances business at least I do not see, unless and until the situation does not turn dramatically differently in the next quarter I do not see any further price increases happening in the next quarter or so, so the selling prices would remain what are there in the Q1.

Varun Jain: In case prices of your inputs go down in this segment do you roll back price increases or not?

Rakesh Kaul: If you would see, I think if there would be a price decrease in one or the other area, so we would also have to closely look at the freight part. We will have to look at the fuel part and the crude part as well, so there might be a decrease in some part of the business, but there is an increase in some part of the business. So overall I do not see any reason for any brand to lower its prices in the upcoming festive season, but I see the prices would remain stabilized for the next quarter at least at the current level.

Varun Jain: That is helpful. Thanks.

Moderator: We have the next question from the line of Nikhil Gada from Abbakus.

Nikhil Gada: My first question is please if you could help with the EBIT numbers for plastic price for the current quarter as well as the last year same quarter, please?

Sandeep Sikka: EBIT numbers you are asking?

Nikhil Gada: Yes, EBIT numbers for plastic prices and the same for sanitary ware and faucets.

Sandeep Sikka: EBIT for the quarter is at 5.2% versus Q4 at 9.7% and last year at 7.6% Q1FY22.

Nikhil Gada: Understand, EBIT is 5.2% for plastic pipes versus 7.6% year-over-year, okay.

Sandeep Sikka: Yes. For sanitaryware and faucets it is 13.3% for Q1 of this financial year versus 15.1% for Q4 and 7.3% on year-on-year basis in Q1.

Nikhil Gada: I do not know whether you have done this breakup, but how much would have been the addition in the margins because of this manufacturing now coming into the numbers for Q1 or if you can say ex of manufacturing in this current quarter what would have been the margins like, so we get a comparable picture as in how much has been the margin impact?

Sandeep Sikka: Basically, the manufacturing margin has been added to the numbers, but it gets camouflaged because of some input prices as we said around Rs.7 crore is an impact on the pipes, another Rs.6 crore is an impact on sanitaryware faucets because the input cost of material has increased in the subsequent quarter. If you see, Rs.13 crore is something which is directly coming from the impact of listing on the EBITDA, which you can see incrementally the margins will build up.

Nikhil Gada: If I add Rs.13 crore to the overall EBIT of the building products then that is something like a normalized EBITDA margin, is this what you are saying, right?

Sandeep Sikka: Yes. Very near to that. One more impact is there because in the slump sale we did not buy two land and buildings, there is a lease rental and then we pay lease instead of buying that land and building because they were very costly., We took it on a long-term lease, so that impact gets now dissected under the Ind-AS into the depreciation and interest.

Nikhil Gada: And what was that amount, Sir?

Sandeep Sikka: That is around Rs.3.5 crore to Rs.4 crore quarterly on the overall both sanitaryware faucets and pipes.

Nikhil Gada: So that explains the reason why the depreciation is higher because I think once this transfer was done you had said that mostly the depreciation on a quarterly basis would be around Rs.18 odd crore and it has come to close to Rs.22 crore.

Sandeep Sikka: I remember this question was being asked how much of the depreciation of AGI Greenpac will get accounted for here and we also spoke that there will be a lease rental on the top of it, but lease rental gets accounted into depreciation and interest.

Nikhil Gada: Understood, okay, got it and then just on the sticking to the plastic pipes business we do not really share the volume data, but if you can at least help us explain what has been the volume growth versus the realization growth for this particular quarter?

Sandeep Sikka: In terms of volume you are asking CPVC, UPVC?

Nikhil Gada: Yes, even that and if you can just give on a total volume basis.

Sandeep Sikka: We see the ratio of CPVC, year-on-year the volume growth is almost 100% and the production volumes, when we see on a sequential quarter is at par with Q4 and in terms of the value in terms of CPVC to UPVC is 44%.

Nikhil Gada: This is for this particular quarter, you are saying.

Sandeep Sikka: This is for this particular as compared to 34% which was a year back, we are doing a lot of high-end business here on the CPVC.

Nikhil Gada: Understood. Basically a bit confused over here because when we have seen a volume growth of 100% year-over-year and our CPVC mix has increased so much then the realizations are down, right, actually year-over-year?

Sandeep Sikka: We have given the number also that around Rs.7 crore is an impact on the EBITDA.

Nikhil Gada: No Sir I am talking about the realization because I assume CPVCs are a higher realization product, so in that case because the share has increased, and the realization should have been on the higher side right?

Sandeep Sikka: The CPVC prices you see have remained in the trend, there has not been decreased, but confusion has happened on the PVC price quarter-on-quarter.

Nikhil Gada: Okay. I will just take this offline and then just quickly on the consumer products part of the business Rakesh Ji mentioned that there would be no further price hike to be taken, but in terms of the margins we are back to positive territory and Q2 and Q3 remain our best quarters per se, so are we to say that we will go back to 8%, 9% sort of levels specifically in Q2, Q3, which we had seen somewhere in FY2021 in margins?

Rakesh Kaul: Yes, you are very right. I think we move to the positive territory in the sense because our EBITDA at 4.5% for standalone for consumer appliances business against the last year is -1.1% was a huge traction in terms of the margin increase. Again as I told you because of the cooling season getting picked up for us because if you remember the last year COVID had impacted this season and having said that we have got the momentum built in the upcoming festive season and we believe that our margins would be closer to what where the last year levels in Q3 for sure and sustained by ongoing consumer acceptance of our products and at the same time we also have a cautionary note to make that as long as the customer demands really picks up I do not see any reason why we would not come back to those margins that we attained last year in Q2 and Q3.

Nikhil Gada: Last year our Q2 margin was 6.2% in Q2 and 3.4% in Q3, so just from that margins prior to that were close to 9% to 10%, so that is the reason I am asking?

Rakesh Kaul: So as I told you because of the ongoing price hikes what we have done for the last three, four quarters and not us only the entire competition as such. The growth if you would see has muted to some extent or would be muted to some extent in Q2 and Q3, but having said that even if you see our growth versus the peers in Q1 we have almost a majority of the competitive brands we have registered a 2x growth percentage in Q1 against most of our competitors, so we believe the kitchen category is a very key category in Q2 and Q3 and we believe that we should be able to deliver what we delivered last year as well if not more than that.

Nikhil Gada: Understood, Sir and just to stick on that kitchen appliances point we have a few players now coming in someone like Crompton also now announcing specifically into chimneys and hobs they are planning to expand do you see there is a sort of category expansion that we can see in chimneys and hobs, or do you think that this can sort of impact us in terms of how our business has gone through?

Rakesh Kaul: Not really, while I respect the competition, but at the same time I must let you know which I have told you in the past also that we are a very, very strong number two player in the category of cooker hoods and among the top five players in the category of hobs, so we have clearly established ourselves with a 20% kind of a share in the category of cooker hoods. Having said that the penetration of cooker hoods or hobs in India is not even 1% so the chance of the market growth is humongous in a market like India, so I do not anticipate any competitive pressures with the introduction of some more competitive brands. I think it will only help in expanding the market and we are among the top two players we believe that we have enough ammunition with us in terms of our technologically proven products, our focus on smart appliances, our focus on building the India's first IoT chimney, building on India's largest range of silent chimneys, building on India's brilliant trade of Maxx Auto Clean chimneys which are not only consumer friendly but make the lives of the consumers easier. So we have enough in the technology pipeline to keep our consumer engaged with our larger kitchen appliances segment and I do not see any reason why we would not continue our robust growth in this category in the future as well.

Nikhil Gada: Lastly on the sanitaryware and faucets part of the business, there is a sort of a tactical shift that we are seeing in the numbers which are coming across for all the companies and we have definitely done even better than all of them, so specifically if you can highlight what has really worked for us and what is changing in this industry post COVID that we are seeing such kind of strong growth and secondly on this you mentioned that you have taken a couple of price hikes in this particular quarter as well and you might have to take one or two more, so when will the margins go back to the normalized levels from which quarter, so just on that?

Sandeep Sikka: Sudhanshu, I will request you to take this.

Sudhanshu Pokhriyal: Thanks first of all for the kind words. I think the market has been pretty buoyant post COVID and that is reflecting in every single player's number right now. Of course we have done well for multiple quarters and for us I think the gain has come because of our relentless focus on first of all on new products. We have actually introduced a lot of new products, for example in Q1 nearly 20% of our revenues have come from the new products which we have launched in the last five quarters. That is what we see, anything which has been launched in the previous year and in this year that contributes 20% of sales right now. Additionally we have been focusing extremely heavily on distribution expansion. We believe most of the companies have very limited distribution reach. We started off very similar to FMCG style distributors in sanitary ware and something which was unheard of in this business, and it is really worked for us our reach is now multifold in the last two years now. Similarly in faucets as well we have seen our reach expand multifold across the country that really helps us in a big way. You would have seen the efforts which we have done in terms of our re-launch of our brand. Entire brand identity has been changed. We are focusing a lot on the Italian collection. We are focusing a lot on iconic relationships like with IPL and also, we have a focus on "always being on air" with our brand in there. I think all these focuses have really helped us. Additionally we have created a separate team within our organization for the institutional business and that is also giving us disproportionate results. We were not focusing on that earlier as much as our company would desire. So I think all these aspects and the execution of all these strategies in the market has been far better than most of our competitors and that has given us relatively superior results over an extended period of time. I hope I answered your question.

Nikhil Gada: And Sir just on the margins if you can sort of guide us.

Sudhanshu Pokhriyal: Of course our margins have got impacted by the input prices which are actually shared with you earlier as well. We have taken commensurate price increases; however, it takes a little while because there is a bit of a lag effect on margins per se. We believe there are further price increases, which are expected as we go forward in the coming months. We believe Q2 will be better than Q1 and I think by Q3 we should be starting to clock absolutely I would say industry-leading margins.

Moderator: We have the next question from the line of Puneet Khanna from BOB Investment.

Puneet Khanna: Congratulations everyone for the great results. I have a specific question on bathware segment. I need some basic details in terms of the breakup of sanitary and faucets and the capacity utilization details from both the plants and the working capital how the inventory days and payable days so if you can throw some light on this please?

Sandeep Sikka: The overall sales are a bit low in the segmental reporting for the BPD of which Rs.170 crore of sales is related to pipes and the balance is towards the bath products. In terms of margins, we have already spoken extensively over the last few minutes. If we see the overall inventory working capital days, we have around 105 days of inventory in net working capital, which is there in the bathware product it has slightly increased we worked on it last year in reducing it, but with the acquisition of the building product manufacturing, the inventory which came along, has increased inventory slightly. I think in next the two or three quarters, we will work on it as we did last year to optimize it. In terms of the pipe segment again we have odd 100 days of inventory, , which includes our imported inventory also number of days is slightly higher on this, but we work on a very sharp things on debtor days is around 23 days for pipes and around 30 days for receivables as such in the bath products.

Puneet Khanna: But I specifically want sanitary and faucets breakup of building products?

Sandeep Sikka: So faucets now constitute around 35% of the bath products.

Puneet Khanna: Okay and can you please also tell the capacity side of the plant, capacity utilization for both the plants?

Sandeep Sikka: Our sanitaryware plant in this quarter worked at around 84% of utilization, faucets at around 57% we have still a lot of capacity in faucets to build up, on the pipe plant Rajesh can you just guide on this?

Rajesh Pajnoo: 85%.

Puneet Khanna: Can you just also give us the broad guideline of the estimate of FY2023 where the building and products will go in to touch upon?

Sandeep Sikka: Generally, we do not give short term this thing, but I think we have given that we should be able to maintain our momentum and grow 18% to 20% on an overall consolidated basis.

Moderator: We have the next question from the line of Deepak Poddar from Sapphire Capital.

Deepak Poddar: Sir I just wanted to understand you mentioned about this Rs.13 crore impact of the input cost right, so that effectively means that 2% manufacturing margin would have got added, if not for this higher input cost will that be a fair inference to me?

Sandeep Sikka: 2% to 2.5% was our guidance. It is very important to understand the entire material which we are selling in bath products business, which is sanitaryware faucet is not sourced in-house we were doing a lot of trading business even before the acquisition from the third party other than AGI, although in case of pipes almost 95% is sourced in-house, the impact which was there. Basically, it is very simple to say that whatever we were leaving in the contract with the AGI Greenpac now is getting accumulated here, but you are right if you do the math it is around 2% or 2.5%.

Deepak Poddar: So that effectively means may be 10.5% of a normalized EBITDA margin post this manufacturing integration right, assuming the cost impact gets covered by the price hikes and we are looking at

Sandeep Sikka: You are talking consolidated?

Deepak Poddar: Yes, consolidated.

Sandeep Sikka: These are the normal items which we have highlighted on the call today, it is easy for the investor community to understand the results, but I think a simple addition is there and as we grow the operating leverage also comes into the picture. I said generally Q1 has been good it has been equal to Q4 almost now. We see coming quarters also the growth momentum should maintain, so as the growth momentum comes in the operating leverage also comes into the picture.

Deepak Poddar: Correct, so overall, in the medium term, you did mention that may be 4% we expect manufacturing facility to add to the EBITDA margins right, on a medium-term basis, may be two, three years?

Sandeep Sikka: Yes, 4% for the products being manufactured, but other than this we also do the trading business so that is why it is getting marginalized, but overall delta we have given guidance of around 3% to 4% EBITDA margin addition.

Deepak Poddar: Fair enough, so this 14% - 15% that we are talking about, that is what we are seeing in by FY2025, that is what we are targeting 14% - 15% kind of EBITDA margin on a consolidated basis overall?

Sandeep Sikka: We have given two guidances. We said we will build efficiencies into the system and do the incremental margin expansion by around 2%, which was not including manufacturing. That guidance we gave last year and once the slump sale was done. So, we said overall 4% we should be able to add, and I think if everything works well maybe within the next 12 to 18 months you will start seeing it.

Deepak Poddar: We will start seeing the impact of this incremental margin?

Sandeep Sikka: Both the efficiency as well manufacturing.

Deepak Poddar: Both efficiency as well as manufacturing in 1.5 years?

Sandeep Sikka: Next two years, but we cannot avoid events which have happened like Q1, if there is a fall in a price of our input rising by 30% it is not under our control.

Deepak Poddar: Absolutely, understood and in terms of long-term guidance Rs.5000 crore revenue in three years that we have spoken about?

Sandeep Sikka: Pipes will be Rs.1000 crore plus and the consumer should be able to do 1200 plus and we will upbeat the market by 1.25 to 1.5x on the sanitaryware faucets and other allied products.

Moderator: We have the next line of Tushar R from Kamayakya Wealth Management.

Tushar R: My question is on the consumer appliances division so you have guided a number of Rs.1300 crore to Rs.1200 crore in coming year so considering the current scenario are we confident enough to change that number and considering the competitors are also increasing the capacity and competition is there in that division are we confident enough to achieve those numbers, the guided number?

Sandeep Sikka: So these numbers were given by us in May 2021 and we said in the next four years we will do it. I think we are confident, we will hold on to that those numbers as of date.

Tushar R: Fair enough. Sir, in this pipe division CPVC would be what percentage of the total sales in the pipe?

Sandeep Sikka: Percentage of total?

Tushar R: Total sales in the pipe division.

Sandeep Sikka: For Hindware building products, Rs.170 crore which is around 40%, CPVC component in the prices is that the question?

Rajesh Pajnoo: Is it CPVC to total value?

Sandeep Sikka: CPVC to total sales 44%.

Tushar R: Sir, my next question would be in the sanitaryware and faucets what percentage would be outsourced in the sanitaryware and also in the faucets?

Sandeep Sikka: Around 37% is getting outsourced right now in sanitaryware and faucets nearly 50% is outsourced, which are basically primarily non-brass items, plastic products, chrome plated plastic products.

Tushar R: In faucets other competitors are mentioned they are going in the range of 40% to 50% CAGR and they are planning to enter into that gold plated and colored faucets, so are you also planning in that line because that product has high realization and also higher asset turn?

Sudhanshu Pokhriyal: Yes, so we already have PVD products - these are colored faucets. We launched them in March 2022, and I mentioned that nearly 20% of our portfolio is basically currently coming from NPD, so one of the products which is a new product is the PVD portfolio the colored portfolio. We already have this range which is available in the market.

Tushar R: Last question, gas prices what would be the percentage of the total cost?

Sandeep Sikka: Generally, we do not disclose the overall costing as such.

Tushar R: Fair enough Sir. Thank you.

Moderator: We have the next question from the line of Rahul Picha from Multi Act.

Rahul Picha: Sir, I just wanted to know the debt number as of end of Q1?

Sandeep Sikka: Total debt of arrange between around Rs.630 crore to Rs.640 crore on a consolidated basis.

Rahul Picha: So this is gross debt, right this is before cash?

Sandeep Sikka: Yes.

Rahul Picha: I also wanted to know the inventory receivables and payables number for the Q1 end?

Sandeep Sikka: We have already disclosed, so you can see in the transcript just in the last to last question.

Rahul Picha: I think we have given the payable days and inventory days, but I just wanted the absolute numbers if that is possible?

Sandeep Sikka: Absolute numbers for?

Rahul Picha: Inventory, receivables and payables.

Sandeep Sikka: We can share it separately through our investor relation agency.

Rahul Picha: Last question is what was the volume growth or degrowth for the pipes business in this quarter Q-o-Q?

Sandeep Sikka: Rajesh you can take it.

Rajesh Pajnoo: Yes, we have grown by 75% volume growth than Q1 last year.

Rahul Picha: No Sir, I was asking Q-o-Q, so Q1 over Q4 last year?

Rajesh Pajnoo: Q1 FY23 was around 78% of Q4 last year. We had sold around 7,236 metric tonnes in Q1 FY 23 and then Q4 we processed 9,253 metric ton.

Rahul Picha: Q1 of this year?

Rajesh Pajnoo: Q1 this year is 7,236 metric ton.

Rahul Picha: Okay, the entire decline that is there in this quarter?

Rajesh Pajnoo: That is happening on price, yes.

Rahul Picha: Not on volume?

Rajesh Pajnoo: Absolutely, not on volume. We have almost processed, but we process in Q4.

Moderator: We have the next question from the line of Sreejith Sridhar from Retail Investor.

Sreejith Sridhar: Couple of questions in the pipe segment slide #17 I think you have mentioned that we would like to be the fifth largest player in five years' time to achieve that what is the volume and value that we need to process and just wanting to understand the delta from where we are what is it that we need to cover in terms of ground to reach that fifth spot and the second question is on the retail side I think Evok contributes 2% of the topline what is the capital allocation strategy would the management want to grow this business or what will be the way forward in terms of three years from now?

Sandeep Sikka: On the Evok side, this business we had this good business of Rs.190 crore for sales three years back with good contribution margins ranging almost 45%, but we used to lose a lot of money actually in terms of rental, so during the COVID period May 2020 we changed the strategy and we shut down almost eight to nine of our stores and we just have two stores today and we have just moved on to the franchise model and this is now profitable. At an appropriate time, we have already said that we may look to dispose of this business. Now it is profitable, it has a good margin, we will have the online website, which is evok.in, which has good traffic.We will see over a period of time how the overall things pan out. On the pipe side, as for many businesses which we try to do; it is our endeavor that we should be among the top five leaders over a period of time. Like kitchen we started the consumer business so within five years now we are almost #2 player on the kitchen chimneys or pipe, Rajesh has already spoken of we are one of the highest growth pipe companies as such. Rajesh you can extend this.

Rajesh Pajnoo: Yes. We are already here as the No.7 position as of today and we presume that we should be No.5 in the next five years, it may happen earlier also. As far as your question was concerned that regarding the value and volume, volume as of today is very, very difficult because you do not know what is going to happen five years down the line, when the raw material prices keep on changing in PVC, but definitely anywhere around 1600 plus will be clear cut number five player.

Moderator: We have the next question from the line of Sonal Minhas from Prescient.

Sonal Minhas: I have two clarificatory questions. First one is if I compare Q1 of this financial year to Q4 of last financial year I see an increase in other expenses and employees is it safe to say a large part of that is attributable to the manufacturing setup, which is coming so if I were to compare truly like what is actually the delta in the cost of operations the delta in overheads and the delta in employees is largely attributable to your manufacturing setup?

Sandeep Sikka: Yes, because similar figures will get decreased in the purchases. When we are buying from AGI Greenpac, we are buying finished products from them, the employee costs will be a part of the whole thing. Similarly, power, fuel, now since we are manufacturing it is an allocation between things and accordingly if you see on an apple-to-apple basis the purchase of stock gets adjusted.

Sonal Minhas: So it is basically matching whatever you are saving on the manufacturing is basically what we are getting the overhead plus the 2.5% loss in margins we have seen this quarter because of the raw material prices so roughly the equation adds up is what I just wanted to get a clarification on and the second follow on actually on this one was that I am not asking for the guidance, but do we expect to maintain hold on to our margins, EBITDA margins for this financial year compared to FY2022, 2021 or do we see that this year there will be a margin contraction given how the first quarter has panned out?

Sandeep Sikka: The margins of any business, how we see it is on a moving basis. If you see the sales has been good, all our guidance which has been good, but there are one or two quarters when there is some fluctuation, which is outside the control of the business it does impact. We do not give short term margin guidance as you are aware, but whatever we have given that we are working on various efficiencies Sudhanshu has spoken about it. We have proved in the last one year what we have spoken of in May 2021 we have demonstrated that, overall trajectory, what do you say the path of that margin trajectory will be maintained, but do not look like a quarter-to-quarter here, actually it is a path which we are working.

Sonal Minhas: I agree with that.

Moderator: We have the next question from the line of Vikash V from HealthX Services.

Vikash V: My first question is regarding of the HSIL transition right now this company is AGI Greenpac So in the Q4 the Slump sale transition is Rs.700 crore and we settled down in Rs.109 crore, so right now the position is the impact, or the number is reduced?

Sandeep Sikka: Basically, the settlement procedures are right now going on with the registration of land and other buildings as required and few of them have been done, and few are under processes. We have to still pay them around Rs.90 crore once all the settlement procedures are done, which we feel it should be done in the next few weeks, one or two weeks or may be even more. The land registration process, but we have taken control of all the plants as such, we are operating those plants and all the material movement and other thing settlement has been done.

Vikash V: Okay and the second question regarding of this building products, we have right now the 550 plus technicians is there in the pan-India whether we have some kind of possibility to add in women in this area?

Sandeep Sikka: Technicians you mean to say service?

Vikash V: Yes Services.

Sandeep Sikka: I think your question is more relating, because we service both in consumer as well as in sanitaryware, which segment are you talking about I think Sudhanshu you can take it.

Vikash V: Right now in the building products segment, which is slide #40 a service network of 550 technicians pan India covering 700 districts, it is a turnaround time of the 24 hours in metro and 48 hours in the upcountry market. The upcountry market is 48 hours it is too much as per my understanding, if women come to this picture, then one is the business aspects also another aspect of it is CSR?

Sudhanshu Pokhriyal: No, it is a great point.

Vikash V: Might be take two, three-year time, but possibility is there.

Sudhanshu Pokhriyal: No, definitely. I think it is a great point. As an organization, we focus on diversity, and we believe that having a diverse workforce really improves the productivity as well as the culture of the organization as such. For us what we have seen is that if you look at the service technicians are largely plumbers and people from that, if there are women plumbers who are willing to associate with us, we as an organization are more than welcome. We are always on hand to increase our service network. We have added a lot of franchisees in our network in the last one year. We believe that it can definitely be expanded. I cannot give you the number right now, but I can assure you there are many women plumbers already working among our franchisees currently as well. Unfortunately it is not a question which I usually expect in an investor call, but otherwise I would have had the number handy, but there are many women plumbers which are working with us in many parts of the country right now.

Moderator: We have the next question from the line of Nikhil Gada from Abbakus.

Nikhil Gada: Thanks for the follow up. Just on the guidance for FY2023 where we have mentioned that we might grow by 18% to 20%. Now when we look at a nine-month number, because Q1 is already done then the growth comes out to be only 3% to 4% across building products as well as consumer products so is it more of a conservative sort of guidance or do you think that we are going to see some amount of slowdown in the coming quarters?

Sandeep Sikka : This guidance was given last quarter because we always say that don't measure us on quarter-to-quarter basis. It is very difficult to justify anybody on the quarters and nobody can control the business on a quarter-to-quarter basis. But based on the last year whatever consolidated turnover we did, we had given guidance at 18% to 20% growth. Some of things do get impacted like, for pipes business, where the selling prices are coming down, despite the volume growth, we cannot talk conservatively. But, we can over achieve this and right now, we are holding on to that 18% to 20% growth momentum.

Nikhil Gada: Fair enough. Thank you.

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

Sandeep Sikka: Thanks all for being there on the call and being so participative. it is always our initiative to disseminate the underlying information, which is there, which we have been doing for last so many years in the transcript. Again this quarter was full of a number of activities, we had manufacturing added, and we had input price fluctuations, both upward and downward on various products, we have been able to answer most of your questions in the right perspective. Thank you for joining us on the call. Thanks again.

Moderator: Thank you. On behalf of Monarch Networth Capital that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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.
3.