"Somany Home Innovation Limited
Q4 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Somany Home Innovation Limited (SHIL) Q4 FY2021 Earnings Conference Call hosted by Antique Stock Broking. 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Amit Zade from Antique Stock Broking. Thank you, and over to you, Sir!

Amit Zade: Thank you, Janis. Good afternoon everyone. On behalf of Antique Stock Broking, I would like to welcome all the participants on the 4Q FY2021 earnings call of Somany Home Innovation Limited. I would now hand over the call to Gavin from CDR India to introduce the management. Over to you, Gavin!

Gavin Desa: Thank you, Amit. Good day everyone and a warm welcome to you participating in SHIL's Q4 and FY2021 earnings call. We have with us today from the management, Mr. Rakesh Kaul, Whole time Director and CEO, Mr. Sudhanshu Pokhriyal, COO - Bath Fittings, Brilloca Limited, Mr. Rajesh Pajnoo, President Pipes, Brilloca Limited, Mr. Sandeep Sikka, Group CFO and Mr. Naveen Malik, CFO, SHIL.

Before we begin, I would like to mention that some statements made in today's discussion may be forward-looking in nature. The actual results may vary as they are dependent on several external factors as well. A statement to this effect has been included in the result presentation sent to you earlier. We shall start the call with the opening remarks for the management followed by an interactive Q&A Session. I would now request Mr. Naveen Malik to open the call. Over to you, Naveen!

Naveen Malik: Thank you, Gavin. Good afternoon and welcome to Somany Home Innovation Limited Q4 and FY2021 earnings call. I hope you and your family are safe in these difficult times. I will walk you through our financial performance over the quarter and year, following which Mr. Rakesh Kaul, Mr. Sudhanshu Pokhriyal and Mr. Rajesh Pajnoo will discuss the key highlights of businesses.

We have delivered a robust performance in Q4 FY2021. All our businesses have performed well as can be seen in the results.

Consolidated revenues from operations for Q4 amounted to Rs.613 crore, 68% higher on a year-on-year basis and 11% on sequential basis. Our continuous growth is largely driven by the strong performance across our businesses. EBITDA for the quarter stood at ~Rs.70 crore, higher by 181% on a year-on-year basis and 17% on a sequential quarter basis. EBITDA margin expanded by 460 bps on Y-o-Y basis and 60 bps on Q-o-Q, that is quarter-on-quarter basis, coming in at 11.4%. We have delivered higher operational profitability and margins despite higher ad spend and rising input costs. This is a reflection of both, the quality of our product portfolio and our intense focus on efficient operations. Profit before tax for the quarter amounted to ~Rs.56 crore, growing 19 times on a year-on-year basis and by 23% on sequential basis. The reported profit after tax (PAT) for the quarter is Rs.22 crore.

I would like to highlight that in Q4 FY2021, there were two tax incidences, which I will explain now.

Firstly, the tax includes income tax outgo of Rs.8.06 crore on the profit of Rs.34.75 crore realized on slump sale of our water heater undertaking, post equity infusion by Groupe Atlantic into Hintastica Private Limited, which is now a 50:50 joint venture between Somany Home Innovation Limited and Groupe Atlantic. If you would recall that during Q3 FY2021, the company had done slump sale of its water heater business undertaking to its wholly owned subsidiary, Hintastica Private Limited (HPL). You may also refer to note 4(b) to published financials in this regard.

Secondly, subsequent to Finance Act, 2021, the amortization of goodwill for the calculation of income tax is not allowed. The company had certain carrying amount of goodwill and based on Finance Act 2021, the deferred tax benefit of Rs.8.66 crore has been de-recognized in Q4 FY2021. You may also refer to note 8 to published financials in this regard.

Apart from above, our Q3 FY2021 PAT included a write back of earlier year tax of Rs.4.27 crore.

Without considering the aforesaid effect of these one-time taxes, the sequential growth is 17%, and Q4 FY2021 close to ~16 times of Q4 FY2020 PAT.

Now on an annual basis, the consolidated revenue from operations stood at Rs.1775 crore, registering a growth of 10% over FY2020 revenue, despite losing major turnover in months of April and May 2020 due to countrywide lockdown.

EBITDA for the year grew by 43% to Rs.161 crores. EBITDA margin came in at 9.1% having grown by 210 bps over the last year. If you recall, the company incurred losses during H1 FY2021 on account of lockdown post which our recovery has been swift. Our reported PAT is Rs.55 crore and post removing the one-time income tax charges and benefit as stated earlier, the like-to-like PAT growth is at 191%.

I understand the aforesaid calculations may be a little difficult to review at first go and accordingly, I would request you all to read our results along with the underlying notes as stated in the results.

The board of directors has recommended a dividend of 15% on paid up value of equity shares.

Cash flow from operations too has improved while consolidated debt has reduced by Rs.138 crore.

Moving on to the segmental financial performance, our Consumer Appliances business revenue amounted to Rs.141 crore registering a growth of 91% on a year-on-year basis but was lower on quarter-on-quarter basis, the reasons for which Mr. Kaul will elaborate on. EBIT for the segment came in at Rs.7.5 crore having grown from a negative EBIT of Rs.0.6 crore in Q4 last year. We would like to reiterate that our Consumer Appliance business is a new business vertical, which we have started in 2015-16. Since this was a distinct business division, the company made EBITDA level investments for the first 3-4 years. Now with the build-up of sales, the division is PBT positive with healthy gross margins. We expect these PBT margins to further improve over the next 2-3 years with accelerated pace of growth and operating leverage.

Now coming to Building Products. For the Building Product segment, the revenue stood at Rs.459 crore, reflecting a growth of 67% year-on-year basis and 22% quarter-on-quarter basis. EBIT for the segment stood at Rs.55 crore, increasing by 235% by year-on-year and 62% quarter-on-quarter.

Our Retail business delivered revenue of Rs.13 crore. It has come down by 20% year-on-year due to the closure of unfeasible stores in line with our strategy and focus on profitable growth. Sequentially too, the revenue has de-grown by 24% owing to Q3 being a seasonally strong quarter for this segment.

I would like to highlight a major development during the quarter, which pertains to the Joint Venture with Groupe Atlantic, a EUR 2.2 billion French multinational company with a dominant presence in the manufacturing, development, and distribution of eco-friendly heating products and hot water solutions.

Under the agreement, Groupe Atlantic has invested Rs.68.3 crore in Hintastica Private Limited (HPL), a wholly owned subsidiary of Somany Home Innovation Limited for a 50% stake. Hintastica Private Limited will set up a state-of-art facility in Telangana for manufacturing of water heaters, which will be sold under the brand name “Hindware Atlantic”. HPL will leverage Groupe Atlantic’s technical prowess and proven expertise in manufacturing as well as Somany Home Innovation Limited’s strength in marketing and distribution. The JV will not only will gives us the opportunity to market the product in SAARC countries, under this synergistic partnership, we will also sell other products from Groupe Atlantic’s portfolio. We believe that JV provides us a new growth avenue to further scale up our presence and growth in the consumer appliances business.

The current quarter has again seen various lockdowns across India and of late, in the last 3 weeks there has been some plateauing of cases. Based on our experiences last year and the current market conditions, our outlook remains positive, driven by confidence in our capabilities and position in our businesses.

We will continue to drive growth through the introduction of new and innovative products that exceed the customers’ expectations. There are understandably some constraints in the current quarter due to the pandemic, both from a demand and supply chain perspective. However, as the environment stabilizes, we are confident of continuing to deliver the growth. With that, let me now hand over the floor to Mr. Rakesh Kaul to take you all through the Consumer Appliances Business. Thank you and over to you Rakesh.

Rakesh Kaul: Thank you, Naveen, and good evening to all our partners. Good afternoon rather and a very warm welcome to all of you and I hope all of you and your loved ones are safe and healthy. I pray for the well being of all of you during these tough times.

Let me take you through the key developments in the consumer appliances and the retail businesses during the quarter and the year. I am pleased to say that we have continued to be one of the fastest growing companies in India in the consumer appliances segment and we have attained leadership positions across many product categories. The success is largely owing to our significant investments in resources, innovation & R&D prowess and our strong distribution reach.

As far as the subcategories are concerned, Kitchen Appliances continue to be the major growth driver for us under the consumer appliances business, accounting for almost 40% of the revenue. We are a clear number two value player in the kitchen chimney segment as far as the value business is concerned and while we have moved into the top five players in the kitchen hobs segment, again a very fast growing segments. In the air cooler segments, which although saw a lot of pullbacks in terms of a poor season and lockdowns, we continue to be now being among the top five brands of the country and the clear number two on e-commerce, which is contributing to almost one-fourth of the industry revenues as of now.

I would also like to spend just a few minutes elaborating on our focus on research and development on connected appliances. Let me tell you, with the greatest amount of pride, that now we have the largest range of IoT connected appliances products in India and when we say largest, we mean above the peer companies. We have the largest range of IoT enabled appliances in India and recently, just a couple of weeks back 'HINDWARE' was named among the top global companies in the Smart Homes Domain at Google I/O event, which is a very significant event of Google Global Events and during this Global Event, partners who have done a lot of work on the smart and connected homes, they are participants to this. And let me say with a great amount of satisfaction that "Hindware Appliances" was one of the brands to be present in the marquee global list out there.

We continue to strive to provide our consumers with intelligent and connected products that help make their lives easier and smoother. Our forte and our thought process always remains to transfer the power in the hands of the consumer and do the massification of technologies, because we believe that technology should not be the sole preserve of selected few, but should be going to the masses all across. The "Hindware Konnect app", which is a common, a single app rather than multiple apps for a single company or a single brand, so we have one single connect app, which serves as a common platform to connect control all of Hindware's IoT enabled products. We introduced new products and enhanced some existing ones on our roaster of IoT products during the year under review. An examples of this are our next generation models of the Hindware MaxX Autoclean kitchen chimneys, a patented technology, which is one step above in the auto-clean segment. The auto-clean segments, which is one of the fastest growing segments in the kitchen chimney segment. This MaxX Autoclean is three times more powerful than the ordinary heat auto-clean chimneys.

We also launched Spectra iPro and Acura iPro IoT enabled smart desert and personal coolers. The coolers while being predominantly commoditized products, which are very functional in nature. We are amongst of the first brands in the country to actually develop smart and connected products in this category because the aspiration of the consumer even if it is for a functional product is increasing day by day and hence, we also offer features such as Geo-fencing and Wi-Fi Direct and all Alexa-controlled features, even for commodity based products like air coolers. Innovation along with the research and development and consumer feedback continues to play very critical role in all our initiatives.

These initiatives reflect in the launch of i-Fold, India's first collapsible air cooler, where we have resolved majority of the consumers' problem when the summer season goes, where to place the air cooler The air cooler can be collapsed in a matter of one-and-a-half minute and can be placed even as a table, making it much easier for a consumer to store the air cooler at the end of the summer season. We also launched Food sanitizer Activo and Hindware Purge surface cleaner. These are all examples of our intention to help the consumer in these difficult times to make their workplaces and their homes more safe and secure.

Coming to the Q4 of FY2021, the performance during the quarter was strong. Our revenue grew by 91% on year-on-year basis, but understandably decline on the sequential basis given the fact that the kind of categories we are, Q3 is always seasonally the strongest quarter of the business. Besides Q3 also sees a very peak season for water heater sales because this is a peak winter season as well, so in Q4 the demand for water heater starts declining and demand for air cooler begins to go up. So Q1 sees a very high demand for air coolers in anticipation of the summer season. However, in Q4 FY2021 due to the second wave of the pandemic, the sentiments among the dealers and at distributors levels were subdued. The huge volatility and rising input price made them further averse towards building inventory in the Q4, which reflects lesser growth than we had actually projected for.

In Q1 of FY2022, we are feeling the brunt of the pandemic as most of the industries, with many states being forced into local lockdowns due to an alarming increase in the number of COVID cases. This has translated to subdued demand for most of April and entire month of May. Actually, there has been a lockdown for majority of the states and while e-commerce, which is significant growth driver for us in the consumer business, even the demand in the e-commerce sector has been affected due to different definitions of essentials, differing with states. Various states define essentials differently and under this purview many states have actually suspended the delivery of electrical appliances goods. That being said, this quarter has not seen any erosion in the business to the extent seen in last year's Q1 and we are hopeful of recovering quickly once the situation on the ground improves.

Coming to the Retail segment, which is now being largely driven by our e-commerce portal and the franchise business. I am happy to share that we have witnessed a second consecutive quarter of positive PBT in this business. This improvement vindicates the success about strategy of improving efficiencies and cost rationalization and also moving into the right business model. Furthermore, the decision to expand the business on a franchisee and online model over a capital-intensive approach is showing early signs of success.

We are confident of this approach and will continue its implementation in the coming quarters and expecting a gradual improvement in the performance.

So, that was about the Consumer Appliances as well as Retail business for SHIL standalone. I would now like to hand over the call to Mr. Pokhriyal to take you all through the sanitaryware and faucet business. Over to you, Sudhanshu!

Sudhanshu Pokhriyal: Thanks, Rakesh, and very good afternoon to all of you. I will take you all through the Q4 and FY2021 highlights for the sanitaryware and faucets business. Q4 FY2021 was positive quarter for us, which resulted in a sales growth of 41% year-on-year and 19% quarter-on-quarter on the back of our quality product portfolio and the pickup in the real estate and construction activities.

We expanded our offerings to include 45+ new sanitaryware products and about 120+ new faucet products during the year. Some of these like tankless water closet and contactless sensor faucets are exciting products, which have garnered a high degree of positive response from the market. We also launched the first tankless wall mounted water closet (EWC), which has a flush system with no cistern, in the industry. It basically utilizes the space intelligently and can be installed in a hassle-free manner without any wall breakage. This is the first of its kind in India and really an innovative product, which is very well appreciated by the industry.

It gives me a great pleasure to share with you that our high quality and innovative products have won us (Hindware), the ET Architecture and Design Best Brand in baths and sanitation for the year FY2020-21 award. Our distribution channel remains as robust as ever and we are constantly working on it enhancing it to gain a wider market with the differentiation. We discussed during the last call, we are working consistently to regain our lost ground by reestablishing our presence with many of our erstwhile channel partners. It is a process that will gradually evolve and help us deliver a stated objective to be a leading player in the business.

To boost our B2B business, we added a separate institutional vertical during the year to strengthen our engagement with the architect community. We are currently working with more than 1,000 architects.

We have been working towards enhancing the experience of our customers by providing them exceptional after-sales service through a vast retail channel. We have made good progress in this regard, and will continue to do so to ensure that our customers get the best products and the best service to support it. We have launched more than 55 new brands stores across India, further enhancing our brand visibility in FY2021. To engage customers and create demand, we rolled out a number of ads and brand campaigns. We launched the campaign "Thoughtful is Beautiful" during the quarter, which highlights the perfect combination of good looks and innovative features of our Hindware Italian Collection. We have also undertaken to harness social media campaigns to connect with the millennials in an endeavor to position our brand as a young, innovative, design-led and aesthetic one. This campaign is actually win us a quite a lot of accolades from our consumers as well as our channel partners.

I would like to now comment on the immediate outlook of the sanitaryware and faucets segment. While Q1 FY2022 commenced extremely positively in the first two weeks, the sharp increase in COVID cases leading to lockdown in several states has impacted demand starting third week of April onwards. We, however, continue to be positive on our opportunities and potential for our business until situation improves.

Let me now invite Mr. Rajesh Pajnoo to take you through the Plastic Pipes and Fittings business. Rajesh!

Rajesh Pajnoo: Thank you, Sudhanshu and good afternoon to everyone here. Thank you all for joining this call today with us. As I had discussed in the previous call also, the Plastic Pipes and Fittings business is relatively new business for the company, but our progress in this is space so far, having become the fastest growing player in the segment, gives us the confidence and belief of making a name for ourselves.

The performance for Q4 and FY2021, was in sync with this belief. We delivered a robust 146% sales growth year-on-year and 28% growth sequentially to Rs.151 crore in Q4 FY2021. We have mapped out an effective growth that has proven its efficacy so far and we are certain that we will continue to do so as we move into the coming quarters.

During the years, we have added many more SKUs, taking the total count to more than 1,100 SKUs and we now have more than 210 active distributors across India. New launches during the year like column pipes for borewell applications, underground sewage pipes, and overhead water tanks have all garnered positive responses owing to their quality. We are very excited about our potential product pipeline in the coming year.

Providing top quality product has ensured that the brand, Truflo by Hindware™ is a recognized name in the influencer community. We have been actively engaged with the influencer community in order to build and strengthen our network of channel partners through various campaigns. In this financial year, despite the pandemic times we connected with more than 70,000 plumbers via formal and informal and even providing them training under the Pradhan Mantri Vikas Yojana, the RPL certificate program, to enhance their skill. Partnership with the influencer community helps create good situation and has thus far proven to be an effective and sustainable strategy for our growth. As mentioned by my colleagues, the lockdown across various states have not only impacted our demand, but also created logistical constraints. Performance in ongoing quarter will understandably reflect the effects of these challenges. We continue to monitor the situation and are fully prepared to bounce back as soon as normalcy returns.

With that, thank you very much. I would like to conclude the opening remarks and request the moderator to open the floor for question and answer session. Thank you.

Moderator: The first question is from the line of Pritesh Chedda from Lucky Investments. Please go ahead.

Pritesh Chedda: Thank you for the opportunity. My question is what is our medium term target for the cash conversion cycle in the margin and obviously that directs us to the return ratios because the way we are operating today at about 8% to 10% margin and about 110 to 120 days of cash conversion, you know the scale up of our business will not may generate return ratios or may not generate cash flow, so what would be our medium term targets on this and I have one more associated question with this, which I will ask you later?

Sandeep Sikka: Thanks, I will answer this question. We have around three businesses that you would have seen like Consumer Appliances, Sanitaryware & Faucets, and the Pipes. So, three businesses have their distinct market reach and the way the market operates, and if you see on an average, we work around 100 to 105 days of overall the inventory or net working capital cycle, which in last call also, we gave a guidance that on medium term range, the plan is to bring it down by another 15 to 28 days, so may be around 2-3 years down the line, it depends. But all these things do get impacted by events like COVID. Again, the market is in sort of a stalemate where the shops are closed, the collections are getting affected and due to the deferment of the sales due to lockdown, inventory accumulation happens. So, what I am trying to say is based on the normalized market conditions, we expect 15-20 days improvement to happen in next 2 years on the overall working capital side on a consolidated basis for all the businesses together.

Pritesh Chedda: Margins and ROCE?

Sandeep Sikka: It is very difficult to give guidance on exact margins, but again, we have given guidance historically like in Q4 we used to see on consolidated basis we have an EBITDA margin of 11.2%. The margins may again dip in Q1 because of the lower sales due to lockdowns, but we feel that in 3-4 years' time, we should be able to build a consolidated EBITDA margin gain somewhere ranging between 14%-16%.

Pritesh Chedda: Sir, my second question is with respect to cash flow of this year, so I was unable to comprehend the cash flows. So if you look at the cash flow statement that we have reported, there are two line items, one is where it is mentioned the movement of working capital, which mentioned at about Rs.149.66 crore, which is the increase, decrease in trade and other liabilities, and one is short-term borrowing of Rs.136 crore. So these two line items when I am trying to correspond with the balance sheet, I am unable to understand. So if you could help because that Rs.149.66 crore seems to suggest that you have generated operating cash flow, but when I try to correlate with the balance sheet, I do not see any such line item?

Sandeep Sikka: Receivables while reporting in the cash flows includes a figure of somewhere around Rs.52 crore on an account of a slump sale of the water heater business. First, there was a settlement period which was to run and then there was payment period as per the slump sale agreement. So, the money as regard the above has come post March 31, 2021, in the month of May after the settlements have been done.

Pritesh Chedda: Sir, my other question is on the appliances business, I just wanted to understand what is the scale and stature of the distribution channel that we have now created because appliances is a diametrically opposite distribution versus the sanitaryware, so what is the scale of distribution that we have constructed versus the industry and what is the extent of e-commerce sales that we are doing? And my second question on that is, pipes and fittings, where we may not have one value add product offering to make unlike what we did in appliances, so what is a strategy there and what is the scale and size of business in pipes and the kitchen fitting or those furniture fittings that we are looking for the next three to four years?

Sandeep Sikka: I will answer this question in two parts. One part, I will answer and then I will request Mr. Rakesh Kaul to take the answer on the part two. So, this has been our strategy which we have well communicated in each of our calls that it was the strategy of the organization to build three different distribution channels to the market. One of the objective was to target the higher market size, like 10 years back we were targeting only sanitaryware, then we added faucets. We are number one player on sanitaryware, and we are now number two player in faucets. Then we started with the consumer products and the pipes business. In the consumer products, now we are number two player in the chimneys and as Rakesh told in the call also that our position is strengthening. Pipe is essentially sold through a hardware channel that is a third channel we have. The idea and objective is that once the channels have now been well established, it gives us a lot of leeway and lot of flexibility to introduce more and more products without having an incremental costs, so you use an operating leverage here to enhance your sales and enhance your margins. So that was broadly on the strategy side as to how we are working. This is not something new we are saying as we have been telling this to the entire investor community for last almost four years in a similar manner. Rakesh, I would request you to take up the question, how our expansion reach on the consumer side is there. Over to you!

Rakesh Kaul: Thanks, Sandeep. I think it is a very relevant question given the fact that you know India is a very diverse country and we have more than 18,000 pin codes and the kind of product categories we are into has essentially and historically been driven by distribution by the existing players. However, having said that you know we moved into a very different strategy five years down the line that we launched these consumer products and subsequently over a period of next four years we have launched close to six more categories within the Consumer Appliances business. So we were very clear from day one of the launch of the products based on consumer insights and global directions of the business that over a period of next one decade the consumer habits and the preferences of the consumer as far as the buying is concerned will change dramatically and be more digital first at least amongst the urban consumers. In fact it has changed more dramatically post COVID, this digital first approach to our strategy, which we started way back in 2016 has started giving us excellent results. While we believe that India is a huge diverse country with more than 4 crore shopkeepers and around 1,00,000 retail shops for the electrical appliances, we have moved prudently forward in the last four-and-a-half years, where we have created a retailer base of more than 10,500 retail outlets and we have close to 1,500 distributors serving those retail outlets and at the same time we have covered more than 1,700 towns in just a span of

5 years, this is possibly one of the fastest ever rollout of any consumer appliance brand in India in the electrical appliances segments. Adding to this our focus right from day one of the digital channels has given us enormously brilliant results, so much so that in the category of kitchen chimneys, we are a clear number one as far as the digital channels are concerned with a market share of approximately 35% and in the category of air coolers and water heaters as per GFK reports, we are clearly among the top two, top three players on each of these categories and we are growing rapidly in the area of water purifiers. What has helped us in the overall business is also the fact that the contribution of digital channels to the overall industry has really moved upward swiftly, for example, for a category of air coolers, which was insignificant on e-commerce four years back, today e-commerce contribution to air cooler is almost one-fourth of the total industry size and so for various categories where we are present in it is ranging between 17% to 30%. So our focus and our presence on e-commerce channels has given us the overall growth in the business and making us stronger on the e-commerce also helps us to make our brand and product much more visible, which helps our offline partners also because the demand around the brand increases because of the visibility you get while serving the consumers online. Also our focus on innovation and differentiation in various categories has helped the brand in the offline channels and going forward we will start what we call the hyperlocal approach where by which we will try and connect many of our distributors with our B2C E-commerce channel so that we can bring the offline distributors to be also a part of the growth story of E commerce. I hope that answers your question.

Pritesh Chedda: Sir, just a clarification, 10,500 retailers or 1,10,000?

Rakesh Kaul: No. I think when I said 1,00,000 retailers, it also talks about various other categories where we are not present, for example, we did not talk about mixer grinder, small domestic appliances, which have a retail base, so as far as the current appliances industry and the categories where we are present in we have reached a numerical reach of around 35%-40%.

Pritesh Chedda: Sir, the pipes and furniture fitting, what is the scale of business that you are looking in five years?

Rakesh Kaul : Kitchen and furniture fitting business fits in our larger kitchen appliances business, a larger percentage of 35% of our retail counters in the kitchen appliances business also are the hardware shops which are basically also selling the kitchen furniture and fittings business, and let me also tell you that we have like in our water heater business, we done a JV with one of the largest partners in the world HVAC i.e. Heating Ventilation and Air Conditioning. In kitchen furniture and fittings business we are also tied up with the world's third largest kitchen furniture and fittings company FGV, which though based out of Italy has presence in several countries across the globe. The size of the company is around USD 400 million and so we have got a well enabled and technologically much advanced partner which can help us grow faster in this category. From a retail channel perspective as I had mentioned that the 35% of our existing channel of kitchen appliances counters are hardware counters, which are one of the biggest sellers of the kitchen furniture and fittings business. The total industry size as of now is approximately around Rs.2,200 crore to Rs.2,500 crore, so that is the kind of market opportunity as of now.

Pritesh Chedda: I was asking what business do you think you will achieve in five years time in pipes and in furniture fittings?

Sandeep Sikka: We have already given guidance that in around 4 years we feel the pipe business will be Rs.1,000 crore plus in terms of revenues based on current market conditions.

Pritesh Chedda: And furniture fittings?

Sandeep Sikka: Fitting separately, we do not want to give a guidance as such, we have given a guidance on overall consumer business, which is ranging between Rs.1,300 crore to Rs.1,500 crore in next 4 years.

Moderator: Thank you. The next question is from the line of Dixit Doshi from Whitestone Financial. Please go ahead.

Dixit Doshi: Sir, firstly, can you give us the sales of pipes business for FY2021 full year and also if you can give for FY2020, how much it was?

Sandeep Sikka: So, we have given a quarter number, which is around Rs.151 crore, which has happened for the Q4 and this business is on a high growth trajectory and given the fact that we lost some turnover in the initial part of the Q1, so on a year-to-year basis if you see like Q3, the sales was Rs.117 crore and now it is Rs.151 crore, absolute number you are looking?

Dixit Doshi: Yes, absolute how much was the sales for full year FY2021?

Sandeep Sikka: So, full year FY2021 is Rs.400 crore of sales, which in the previous year was Rs.250 crore, that represents a growth of 60%.

Dixit Doshi: The second question is, on BPD business, so when we give a segment wise result, the BPD business had done an EBIT margin, I am talking about the EBIT margin of around 11% this quarter and around 9%-9.5% in Q3. Now before the de-merger, BPD business used to do around 14% EBIT margin and due to the transfer pricing whatever is the margin HSIL Limited is getting, we were assuming that this can be around 10%-11%, so given the lower base of pipes and fittings also we reached the 10%-11% margin, so what kind of margin we can do in BPD business once the pipes and fitting get even more sales?

Sandeep Sikka: We have been telling historically, it is very difficult for us to give a very immediate quarters guidance on what will be the number. From medium to long-term range, we have already clarified that pipes may be Rs.1,000 crore plus, building products is expected to continue to grow at almost 1.25-1.5x times the market size and we have strategy in place for that. Consumer Products continue to grow, and may be touching around Rs.1,300-1,500 crore range, and almost all the product baskets which we have and all the product categories which we are in, let it be consumer appliances or building product or pipes, so our EBITDA margin should be in the range of around 14%-16% in 3-4 years' time and you can see right now in Q4 the consolidated EBITDA margin is around 11.5%, and which we feel in the next 3-4 years, we should be able to build slowly additional margins into the business.

Dixit Doshi: Last question from my side, so we did the JV for water heater business anymore such tie-up or anything the plan in the future for any other products?

Sandeep Sikka: As we have said as a part of our strategy, now SHIL as a group is very uniquely placed in the market today. With all the investments, which we have done into creation of these verticals, let it be Consumer Appliance vertical, let it be the Pipes vertical which essentially sell through hardware channel, and also the building products. We keep talking to many players globally to bring their products into India. Rakesh has talked about the furniture fittings which is there with FGV. So we want to first test the waters with all these foreign partners and we will then evolve that how that business can be scaled up in over a period of time. We now have an environment, we have those capabilities, we have those skill sets inside the organization to superimpose more and more products on to our go to market channels so that our growth can be enhanced in times to come.

Dixit Doshi: So, is my understanding right that in this JV, whatever water heater will be manufactured, that will also be used for exports for Atlantic?

Sandeep Sikka: Basically, we feel that we can be able to use this entire manufacturing capacity to cater to India and as a part of the JV agreement now, SHIL can also service the SAARC countries as per the approved JV plan and if surplus capacity is there, then we can look at export market.

Dixit Doshi: Okay and one last question, on the retail business, so I assume that we have done a turnaround after shutting our owned stores and now the focus is more on a franchise model, and we tried to be positive in terms of profitability, so what would be the strategy going forward? Will we be maintaining the current franchise stores and more looking at online or we will be expanding these 20 of franchise stores also?

Sandeep Sikka: I would request Mr. Rakesh Kaul, may be if you can take this question, please?

Rakesh Kaul: Yes, thanks. You know after doing the restructuring of the business model for our retail business, so I think we no longer call it just a retail business, it is more of e-tail and franchise business model. We will continue to focus on building the brand because we have a very superior product range in the furniture segment and through the differentiation of our range we would like to expand to more franchisees in various cities across the country and also have a robust approach on our e-commerce website, which is evok.in. Let me tell you that we now witness almost a million unique visitors to our website and our revenues have increased by more than 50% over the last year for the e-commerce business and significantly increase in franchise business. Soon, we will integrate our e-commerce and franchise partners through the hyperlocal means which will entail faster deliveries and higher consumer satisfaction, which will entail that our ever growing franchise network across the country will also gain from the increase in our e-commerce business.

Moderator: Thank you. The next question is from the line of Jehan Bhada from Nirmal Bang. Please go ahead.

Jehan Bhada: Good evening. If I look at segment margins for Consumer Appliances, it has declined from around 9%-10% in the previous couple of quarters to around 5% in March. So any particular reason for that and going forward what will be the normalized margins for this segment?

Sandeep Sikka: Normalized margins, we have already answered this question. I have taken this question twice in the last two questions. Rakesh, I think if you can explain the Q4 rationality?

Rakesh Kaul: Yes, actually our margins of Q3 were basically the normalized margin and going forward, we will improve on the Q3 margins, and talking about Q4 we had the exit of the water heater seasonality which is highest in Q3 so that contributed to the depth in overall margin and besides we had a huge headwind in terms of huge price increases in raw materials and input prices in Q4. It significantly increased the prices of the final products particularly in the category of air coolers and kitchen appliances and larger part of this cost was transferred onwards. While we continued to try and maintain our margins where there was lag period in Q4 and the industry also did not respond kindly to the pre-season buying because of the huge increase in prices that put us under pressure on the margin front. However, having said that, it may be more of a temporary event till the time the supply chain situation stabilizes. At the same time, the traders and the distributors also did not do the pre-season buying at the agreed price because they waited that let the season come and we will buy at the increase prices, but when the selling season of cooling products actually started, the lockdown started happening in some parts of the country in the middle of March. These are the reasons attributable to a bit of erosion in the EBITDA as compared with Q3, not so much on the gross margin front., but having said that I think once the situation normalizes we will continue to take Q3 as a benchmark for margins.

Jehan Bhada: So we can assume that from September quarter onwards things should normalize?

Rakesh Kaul: Yes the ground situation should improve considerably by start of Q2 because unlike last year I think when we had challenges on the supply chain which is lesser case this time as compared with the lockdown last year, you would have seen the predominant challenges were actually from supply chain. But this time around when the unlock starts happening this time around, I think the challenges will be more from the demand side than the supply chain side, so going forward we will closely monitor that the demand and consumer sentiments and accordingly calibrate our approach to see that our margins and our EBITDA do not suffer in the forthcoming quarters.

Moderator: Thank you. The next question is from the line of Utkarsh Somani from Money D. Please go ahead.

Utkarsh Somani: My question is on the advertising part. What is the advertising budget?

Sandeep Sikka: Generally, as a group level concept, we try to have advertising budget of around 4%-5%, but the spending depends on the timings, which is an opportune time. So that is the broader guidance which we have given on advertisement costs on a group level.

Utkarsh Somani: Secondly my question is regarding Building Products division, so we get majority of our supply from HSIL, so are they facing any production issue currently?

Sandeep Sikka: There are no production issues from HSIL, which is now is now a vendor to us. We source on sanitaryware side almost 70% materials from them and faucets around 50%- 60% and side by side sourcing from the market also, but as on the sourcing side, there are no problems.

Moderator: Thank you. The next question is from the line of Anoop Nambiath from Equity Intelligence. Please go ahead.

Anoop Nambiath: Congratulations on a good set of numbers. So my question is to Mr. Rakesh Kaul. When we say that we have a reach of 10,500 retail outlets with respect to this Consumer Appliances business and when we say that we are targeting around Rs. 1,300-1,600 crore of revenue in the next two years, so I would just like to know the strategy with respect to the service aspect of this Consumer Appliances business going ahead. So, basically even if we go from an IoT perspective, through our app or even otherwise, unlike our other businesses we may to get the service infrastructure in place for the after-sale service to these appliances, that is what I understand. So what would be the way forward in this aspect and what is our current network and reach with respect to the service aspect of the business?

Rakesh Kaul: Thanks for that question. I think after-sales service is one of the top most pillars of this business actually and that contributes significantly to the consumer satisfaction, and we have been very clear from start that whenever we are expanding distribution into newer areas, before expanding distribution we should have the after sales service in place. So today when I just in the earlier question I talked about being present in 1,700 towns and more than 11,000 pin codes across the country, we have created a network of close to 400+ authorized service centers across 1,700 towns. So these 400 authorized service centers today are covering 11,000 pin codes and going forward I think in the next 3-4 years, our service centers count will be closer to 1,000 in order to service the kind of consumer reach which we are targeting. Also to tell you, apart from this, we have an app called Hindware Konnect app today, which has got a massive number of downloads on the consumers' mobile phones and today more than 4% of our monthly calls, calls relating to repair, installation and other services, we receive almost 4% of the service requests on the Hindware app, which is leading to increase of consumer satisfaction as in this case he does not actually have to pick up the phone and call to call service center and keep on waiting to explain the problem he or she is facing. This leads to better user experience and hence stronger the connect. So our expansion of service network into Tier 3, Tier 4 towns is a progressive one and we believe that in order to reach to next 5,000 pin codes in the next 3-4 years, we needed to have a coverage of another 400 odd service centers which we are hopeful of creating in next 4-5 years.

Anoop Nambiath: That is great. So just to understand our product differentiation or the service differentiation that we are offering with respect to consumer appliances with IoT enabled, so what exactly do you envision maybe going ahead, is it an entirely connected set of appliances wherein the end consumer does not even have to bother about say for example, water purifiers. If there is a service to be done, will be automatically scheduled and how is this entire mechanism, what is the process that you have put in place and what is the vision for this particular? So we all know that IoT is going to be the future and we are not yet there, but what is the vision for this particular segment that you have as a leading player, especially when somebody like a Google is appreciating you, there has to be some core differentiation from the part of the Company. So if you can just throw light on that?

Rakesh Kaul: The underlying thought of this organization is to be a thought leader in all the categories where we are present in, and then you see a thought leader you need to have a differentiated approach, and the thought leader does not talk to very select few customers at the top most layer of the society, we talk to the masses because India's more about mass. As I told you at the start, to a different question that you know we want to make technology available to masses, we don’t want the benefits of the technology to be sole preserve of select few, but in essence we want to make the lives of all of our consumers simpler, we want to ease the usage of the consumers, we want to transfer the power in the hands of the consumer. We have amply demonstrated how our connected appliances can actually transfer the power in the hands of the consumers and we have some very exciting products where we are very consumer centric. Let me give you example of water purifier. Now traditionally water purifier as a category needs intense after sales service and the consumers after one year or earlier have to replace the filters, whether the filters or the membrane are bad or not they need to be changed. At Hindware appliances we have launched a water purifier which has a real time filter indicator, which basically informs the consumer when the filters of his /her water purifier needs to be replaced rather than other brands where the lack of the same can be used by the local technician to further his commercial gains by making the consumer to get the consumables changed even when there is no need to. Hence based on usage and the size of the family, the filters life could vary accordingly and by letting the consumers know when they actually need to replace them we are transferring the power in the hands of the consumer and also adding to his savings. This is one of the few examples of which through our connected appliances we want to make the lives of our consumer easier and simpler. Hence consumer centricity has to be at the heart of everything we do at SHIL.

Moderator: Thank you. The next question is from the line of Manish Beria an Individual Investor. Please go ahead.

Manish Beria: Sir, good evening. So my first question is on your growth trajectory. So is this like the company will be growing very, very fast, so according to my calculation in 4-5 years' time probably you have to invest maybe like Rs.1,500 crore or something like that because the working capital requirement is like 100 days and also maybe sometimes even investment. So my question is clearly here like will you be able to reinvest back in the business from the cash flow that the business generates or you have to resort to some sort of debt?

Sandeep Sikka: If you go through the pure financial fundamentals, the debt is the cheapest cost of funding today because the debt which we have is coming at around 7% pre-tax and we are all taxpaying company, so post-tax is approximately is around 5%. The cost of equity is still very high, but given the fact that this vertical today is not capital intensive and the profits which have been generated. If we see our consolidated cash flows, we have stated that one big utilization of money has been towards repayment of the working capital limits, which is there. So it depends on the scenario, but we feel that wherever necessary, we will raise debt. For the long-term funding we will raise long-term debt and for a short-term funding we raise short-term debt, so that we are adequately leveraged and take the maximum benefit out of the tax opportunities or the tax advantages, which we may get and also use the lower cost of debt to create a much bigger valuation on the bottomline.

Manish Beria: The second question, I just got a feeling like the sanitaryware may be, we have lost market share before like 2-3 years because we were the biggest player. Just by your talk it seems like you have lost some market share there before there was some problem or some issue. So what was the issue there, I mean the sanitaryware? Now of course we are growing again, but maybe we have lost some distributor there or something like that so can you explain what was the issue really there?

Sandeep Sikka: I will request, Mr. Sudhanshu Pokhriyal who runs this business to take this question, please.

Sudhanshu Pokhriyal : In the last 5-6 years, I think we have seen extended competitive pressures in the sanitaryware and faucet business this was what we have seen especially from multinational companies as well as many of the Indian companies venturing into the sanitaryware area. For example, increase in competition from companies doing tiles, and now coming to sanitaryware. The increased competitive pressure within the sector actually impacted a bit in terms of, I would say the sanitaryware business as such and additionally we also forayed into our new faucets business, which happened in the last few years in a separate vertical This resulted in a bit of loss in some our channel partners, which we have now started getting back with our innovative products and increased marketing spend and of course, more channel friendly policies. So, I would not say it has an overall loss, but in some markets wherein some dealers who had association with some other organizations, which were in adjacent categories who ventured into sanitaryware, there were some impact in our sanitaryware business.

Manish Beria: Maybe if I can chip in for the last one, so you have been saying, I mean the innovation is the key thing forward for this company. So just wanted to know how much is our R&D spending each year and if there are any plans or any innovation that you have done very recently or you are going to come out with a new product that is more innovation based in next six months or 1-2 years' timeframe?

Sandeep Sikka: So, we are investing heavily in terms of our manpower costs in research, developing, new product development. The idea here is to make the life of consumers easy. R&D, which we are doing is not a sort of a capital intensive R&D, so as a percentage it will be very miniscule, but all the initiatives which Mr. Rakesh Kaul has spoken about, are to make these product more linked to digital initiatives, making product usage easy and making the life of consumer easy. Our investments are going towards these, and today, the spend on R&D is not that big. It is less than half a percent on the sales, but the initiatives are focused on creating a huge valuation as to how the consumer values the product in terms of its usage. I hope I answered your question?

Moderator: Thank you. Ladies and gentlemen due to time constraint, we will take that as a last question for today. I would now like to hand the conference over to Mr. Sandeep Sikka for closing comments. Over to you!

Sandeep Sikka: Thank you for participating in this earnings call. The year had its share of challenges but we are happy with the way we have combatted these and the growth we have achieved despite the constraints the economy and market presented. It was a year that tested us on many fronts, but one that showed the true strength of our team, our business model and our ability to deliver despite the odds. Hindware is a strong brand that has earned the confidence millions of consumers in India. We will look to build on our learnings from consumers, and leverage our strengths in R&D and distribution to further enhance this confidence as we straddle multiple categories. We are excited about the prospects of our businesses and believe that we are well primed to deliver strongly as the environment stabilises. Apart from the question, we may have missed taking few questions, if you have any queries, please do write back to us, or get in touch with Citigate, we will be delighted to answer all those questions. Thank you once again for the participation and look over to connecting with you again. Thank you very much.

Moderator: Thank you. On behalf of Antique Stock Broking that concludes this conference. Thank you all for joining. 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.