“Hindware Home Innovation Limited
Q4 & FY23 Earnings Conference Call”

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MANAGEMENT: **MR. SUDHANSHU POKHRIYAL – CEO, BATH BUSINESS**

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MR. SANDEEP SIKKA – GROUP CFO

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Moderator: Ladies and gentlemen, good day, and welcome to the Q4 & FY23 Earnings Conference Call for Hindware Home Innovation Limited hosted by Nuvama Wealth Research.

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

I now hand the conference over to Mr. Nikhil Shetty from Nuvama Group. Thank you, and over to you, sir.

Nikhil Shetty: Good day, everyone. On behalf of Nuvama Professional Client Group, I welcome you all to Q4 and FY23 Earnings Conference Call of Hindware Home Innovation Limited. We take this opportunity to thank the management of Hindware for giving us this opportunity to host their earnings conference call. From the management, we have with us today, Mr. Rajesh Pajnoo, CEO of Pipe Business, Mr. Sudhanshu Pokhriyal, CEO of Bath Business, Mr. Sandeep Sikka, Group CFO, and Mr. Naveen Malik, CFO Hindware Home Innovation Limited.

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

Gavin Desa: Thank you, Nikhil. Good day, everyone, and thank you for joining us on this call. I would just like to add to Nikhil's statements by saying that any statements made during this call may be forward-looking in nature and are subject to risks and uncertainties the management or the company does not take any responsibility to revise these in the interim or make any changes.

I would now like to hand over to Mr. Naveen Malik to start by giving his opening remarks. Over to you, Naveen.

Naveen Malik: Good evening, ladies and gentlemen, and a very warm welcome to Hindware Home Innovation Limited's Q4 & FY23 Earnings Call.

I hope you would have had the opportunity to go through our results presentation shared on stock exchange websites. I will initiate the call by taking you through our overall performance of the Company along with an update on our Consumer Appliance business. After this, Sudhanshu will share an update

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

Against the backdrop of a challenging macro environment, we delivered a resilient performance wrapping the year on a positive note. In FY23 our consolidated top-line grew by 25% and EBITDA margins improved from 8.9% to 9.8% y-o-y.

For Q4, the consolidated revenue grew by 12%, and EBITDA margins improved from 9.8% to 11.7% y-o-y. Our bathware business margins improved to 15.3% in Q4. For our plastic pipes and fittings, we reported double digit margin of 10.8%.

As discussed in earlier call, we are working towards reducing the net working capital days and the progress can be seen in Q4 results where both net working capital days and net bank debt have been reduced from Q3 FY 23. The total Bank Debt as on Q4 stands at Rs 712 crore.

Coming to our Consumer Appliances Business, Revenue grew 16% to Rs.~501 crore in FY23 with EBITDA of ~Rs 25 crore and reported a top-line of ~Rs. 128 crore in Q4FY23 with EBITDA of ~Rs 4 crore. The performance was impacted by the challenging macro operating environment such as elevated raw material prices and overall inflationary trend.

The Board of Directors proposed a dividend of 25% based on the equity shares' paid-up value. We are confident about our performance and of our ability to deliver sustainable value for all our stakeholders.

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

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

Once again, our bathware business has showcased exceptional growth, surpassing industry performance to maintain its market dominance. In FY23 & Q4, we have achieved strong revenue growth of 29% and 18% year-on-year, respectively. This outstanding performance is a testament to the growing customer loyalty, which our products enjoy.

As a part of our growth strategy, we focused on introducing innovative products to ensure we cater to the burgeoning needs of our consumers. To support our growth objectives, we worked on expanding our distribution network by adding new distributors, establishing new brand shops, expanding into various Tier 4, Tier 5 towns, reinforcing brand recognition through integrated marketing campaigns. I am sure you've seen our new campaign, which was live during the IPL this year.

We have also prioritized the development of our luxury brand Queo as we implemented a dynamic media and promotional campaign during the year backed by our influencer program that rewards the architects to influence consumer choices. We also have an influencer program for plumbers, which we believe is going to be a game changer for us.

In FY24, we intend to allocate our capital expenditures towards establishment of brand stores to drive market growth rate, as well as efficiency related investments to optimize our existing manufacturing capacities. These initiatives aim to improve the average selling price (ASP) of our products with improved margins.

Our unwavering dedication to driving growth remains steadfast, and we possess unwavering confidence in sustaining this momentum going forward. With our diverse range of high-quality products bolstered by a strong brand presence and a proactive approach to expanding our market share, we are well positioned to drive profitable growth.

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

Rajesh Pajnoo: Thank you, Sudhanshu. Good evening everyone. Thank you for joining us.

I am happy to report that our plastic pipes and fittings brand ‘TRUFLO’ maintained its position as the fastest-growing brand in its segment, receiving a 29% increase in revenue in FY23, 7% year-on-year growth in quarter 4 and a sequential growth of 11%. This growth was primarily driven by a strong brand connect, increasing customer loyalty and the successful launch of a second manufacturing plant. I am also pleased to share that the pipe segment achieved its highest ever sales, both in terms of revenues and volumes for the

year. We achieved these revenue numbers despite a steep fall in PVC prices, witnessed during the year.

EBITDA stood at INR24 crores in Q4 FY23 and INR44 crores in FY23, translating to margins of 11% and 6%, respectively. Operating margins were supported both by improved volumes as well as stabilizing input prices.

Our volume growth can be attributed to the remarkable performance of our CPVC products, which now account for over more than 45% of the total revenue, generated by our pipes business in FY23.

Our commitment to expanding our distributor network remains unwavering. At present, we boast of an extensive network of more than 280 active distributors, in addition to approximately 25,000 retailers.

In FY23, we expanded our product reach by introducing new products, resulting in a total offering of more than 2,000 SKUs. We actively engaged with plumbers and plumbing consultants and organized multiple training sessions for our channel partners and influencers. We plan to sustain these efforts in the upcoming quarters as we strive to strengthen our presence in the category.

During the period, we also forayed into PTMT Faucets and Accessories to provide customers with a one-stop solution for all their plumbing requirements. We also collaborated with Reliance Worldwide Corporation (RWC) to introduce and market multilayer composite pipes and push-to-connect fittings under the brand 'TRUFLO SharkBite'.

To align with our strategic objectives, our expansion plans encompass both brownfield and greenfield initiatives. The brownfield capacity expansion project at our Hyderabad plant commenced commercial production in January 2023, bringing our capacity to 48,000 metric tons. Simultaneously, our greenfield project in Roorkee is progressing as scheduled, and we anticipate the commencement of operation at the new plant by mid of FY25.

Our performance over the years gives us optimism that we will surpass the sales target of INR1,000 crores by the scheduled FY25 guidance.

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

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

We have the first question from the line of Pranav Mehta from Equirus Securities.

Pranav Mehta: Congratulations on good set of numbers. Sir, I wanted to understand the mix between sanitary and faucets in your overall bathware segment. Also wanted to understand how much import dependence of Chinese products do we have as of now? That was my first question.

Sudhanshu Pokhriyal: Yes. Our sanitaryware contributes to about 65% of our bathware business and faucets is about the balance, which is there. And for us, within our sanitaryware business, at an overall level, we are at about 16% to 18% contribution of Chinese imports, which has happened in the previous year. And we, as a strategy, have always indicated that we want to continue to reduce it, and we are working towards it, and we intend to bring it down as we go forward in the coming financial year.

Pranav Mehta: And sir, my next question was on price hikes taken in bathware. Was there any price hike taken in 4Q? And what would be the quantum of price hike taken in FY23 overall?

Sudhanshu Pokhriyal: We have not taken any price hike in Q4. We took the last price in Q3. In total, we took two price hikes, the one in Q1 and the other one, which was in Q3. Of the total level, we took about a price increase of about 5% to 7% in Q1. And another price hike between average of 6% to 7% in Q3. The price hike was higher in sanitaryware and lower in faucets in Q3. On a ballpark, you can say about 6% to 7% in Q3. But we have not taken another price hike in Q4. I hope that answers your question.

Pranav Mehta: And sir, any plans of taking any price hike in, let's say, 1Q or first half FY24?

Sudhanshu Pokhriyal: I do not foresee any price hike at this point in time. And I mean, of course, we cannot really predict exactly what happens in the foreseeable future.

Moderator: The next question is from the line of Kaushal Shah from Dhanki Securities.

Kaushal Shah: Sir, my question was on the margin in both the segments, bathware and pipes, we have seen a very good improvement in both the segments on EBITDA

margins. So, I wanted your thoughts on the sustainability of these margins. What were the drivers for the sharp improvement in Q4? And how do you see the trajectory over the next, let us say, four to six quarters?

Sandeep Sikka: Yes. if you see at a sequential quarter, Q3 to Q4 and also there was one big hit in the initial quarters, in Q1, Q2, relating to sanitaryware, which was linked to the increase in the gas price.

The total impact of that, which impacted our profitability in Q1 and Q2 was ~ INR10 crores to ~INR14 crores at that particular time. On one hand, even in the first 3 quarters, we had the increase in the input gas prices for sanitaryware, but on the other side, on the pipes business, there was a sudden drop in the PVC resin price. As everybody knew, the PVC resin price peaked out to INR160 and then dropped down to half. If you see on an overall, we lost odd ~INR50 crores-INR60 crores. And Q4, we will say was fairly normalized much more stable.

Going forward, we feel that with the growth, which we have given guidance that we should grow by 18% to 20%-21% in both the businesses.. We should be able to unlock around 1% to 1.5% overall EBITDA margin in the next 12 to 18 months period.

Kaushal Shah: And sir, on the working capital front, we have again seen a good improvement in both the segments. So, some thoughts on that side. I believe the improvement in inventory could be because of the price drop. So how do you see that moving forward?

Sandeep Sikka: We're doing a number of things internally. Sudhanshu spoke about it, one of them is the insourcing of the imported products to the Indian vendors. One is that because when we import from China due to the Chinese New Year, especially in Q3, Q4, we have to accumulate the inventory, once we are fully successful on this, then the inventory should come down.

Apart from this, we are looking at how other balance inventory can be rationalized, how we can renegotiate our credit terms with our vendors. So the overall net working capital cycle for the organization comes down.

Internally, we have a target of around 10%. If you recall, we had taken a similar target of 20% before we acquired the manufacturing entity, and we did around

more than 20%. But with the manufacturing entity bought out last year, it created additional inventory, we'll work on it. And I think we should be able to bring around 20% down in the next 18 - 24 months.

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

Nikhil Gada: Congrats on the turnaround. Sir, first question is regarding the margins that you have seen, especially in sanitaryware and faucets. So, you mentioned that there is no further price hike required. So, are we trying to say that whatever inflation that we saw across the raw materials and everything, it is more or less factored in, and we are at optimum gross margin levels?

Sandeep Sikka: If you see there was a price hike, there were input price increases, which happened during the first two quarters and starting from Q4 in the last financial year, especially on the gas. We still have some inventory which is produced linked to the higher gas prices, which we feel would get diluted in next one or two quarters. And since the prices have slightly come down, so we are not contemplating immediate price hikes in the near future. But, definitely, in this industry, there has been a continuous price hike on every year-on-year based on the normal inflationary rates. We feel unless there is a big fluctuation happening on the input prices, but the margin release will keep happening because all the current inventory production, which is happening at the lower input prices.

Nikhil Gada: And this is both for sanitaryware and faucet?

Sandeep Sikka: Yes.

Nikhil Gada: Sir, my second question, specifically is to Sudhanshu. Just wanted to have your understanding while the industry is doing really well, which we can see across the numbers from all the players. We are also seeing a lot of new players coming and expanding. And you also alluded that we need to add more brand stores to maintain the visibility. Can you give some qualitative comments on how you see this industry and this increased competitiveness to impact Hindware who is one of the leading brands?

Sudhanshu Pokhriyal: Yes, Nikhil, we have seen in the last one-year plans from many building material players, which are expanding into bathware business. We all know the names, so I'm not really getting it to them. But if you see in the last 12 months

also, we've not seen any significant impact at this point in time. Though, nearly for some of the players has been even close to two years now. They've not been able to make a significant impact. I'm not saying that they will not be, but I truly believe that this is a business which requires lot of investment, lots to things to build this business, to build the confidence among plumbers, among dealers and to get the whole mix of products right. It requires a bit more knowledge about your consumer, your influencer, your dealer, then perhaps what some of the people have. I mean at least shown in the last 24 months, you are asking my qualitative comment, I'm giving you my qualitative comment. Yes, so potentially, yes, they can come. And it sounds right, it can impact margins, it can impact market share for some of us. But very honestly, in the last 24 months, I have not really seen anybody getting it right at this point in time. So, I hope that tells you exactly what the situation is. I'm not saying that they won't get it right in the next 12 months. But at this point in time, that is the situation.

Nikhil Gada: And sir, one last question, if I may. Just on the faucets part. If we see for us as well as our nearest competitor, we have seen a tremendous growth. We are now close to around INR550 crores, INR600 crores, if my numbers are right in faucets. And the peer was also saying that they have seen a lot of market share capture from the smaller unorganized players. Is it the same with us or is it something which has worked differently for us in faucets that has helped us gained such beautiful growth?

Sudhanshu Pokhriyal: I think when you grow a market at 45%, 50%, that kind of range, 40%, 45%, then you don't gain only from the unorganized sector. I think you gained from even organized sector players. So, in my view, I think we have gained market share from organized as well as unorganized sector. We perhaps would be one of the fastest-growing faucet companies in the last 2 years, in fact. And I think the gain is coming from across the segment.

One of our new launches, which happened, which has been one of the largest launches in the history of Hindware, which in 1 year has done more than INR125 crores and been the talk of the town. And we believe such launches have really helped us gain not just from unorganized sector, but from organized sector players as well.

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

Praveen Sahay: Congratulations on a good set of numbers. So, first question is related to your bathware segment. If you can give me how much is the capacity in the sanitary and the faucet and how is the utilization as well as outsourcing contribution in both the segments?

Sudhanshu Pokhriyal: Yes. So, our capacity utilization has been very healthy for sanitaryware in the previous year, close to 90%+, ~91% - 92%. And however, the number for faucet has been lower for us at 45%-odd. That's a conscious part of our strategy where we were developing some outside vendors and working on improving our efficiencies.

So, at the overall level, we have about 2/3 of our overall requirement, which is actually coming from in-source product, an overall between sanitary and faucet. So, what we believe is that we should basically be looking at improving our capacity utilization in the coming year. For faucets, and that will start happening from quarter 3 onwards, all the new products which are getting developed and getting developed within our plant announced. And with that capacity utilization for our faucet plan will also start improving as we go into the second half of the year. As an answer to the previous question, we are also working on in-sourcing of a lot of Chinese products into India. As a part of that exercise, we are doing a bit of restructuring in our manufacturing product mix wherein some of our basic products are getting outsourced into domestic suppliers. While a lot of products which was being outsourced from China is basically getting insourced into our own manufacturing. So, this may have a short-term impact in Q1 and Q2 for us because of this changeover which is happening within our sanitaryware manufacturing plant. But over the long term, say, about 12 to 24 months. I believe this is a core part of our strategy to increase our margins and Mr. Sikka has talked to you about more than 100 to 200 basis points improvement. So, these are the changes which we are doing in our manufacturing, and like I said, in-house utilization will also improve. And should definitely also have a role to play in our improvement of our margins as well.

Praveen Sahay: So next question is related to the piping business. I can observe that on the Q-o-Q basis, your realization up by around 11%. So, what's the reason behind that? It's only because of the price fluctuation or also you can give the contribution of the CPVC in the overall business?

Rajesh Pajnoo: There are two factors behind it. In the first three quarters, there was a huge inventory loss. But in Q4, there was no inventory loss. And then also CPVC, we focused on CPVC. This was a strategic decision for Q4, and we have more growth in CPVC. So, both the things put together and we see the margin in CPVC.

Sandeep Sikka: Yes, I think what Rajesh was trying to say is that the contribution of our CPVC as a percentage to sales has been continuously expanding and as a result of which there is an overall increase in the selling price and that what you are seeing there.

Praveen Sahay: So, it's because of the contribution of CPVC increase and the realization improved because of that?

Sandeep Sikka: Yes. In Q4, CPVC component was 52% of our sales as compared to Q3 of 42%.

Moderator: The next question is from the line of Bharat Mani from Moneybee Investment Advisors.

Bharat Mani: So, my first question is what is the debt repayment schedule that you're looking ahead?

Sandeep Sikka: If you see we have one capex program, which is the expansion of our pipes division. And then Sudhanshu has spoken that we are doing some changes in the restructuring within our sanitaryware manufacturing, wherein we are trying to shift the single pieces or the larger pieces inside the factory rather than being imported. This will have long-term benefit. In the interim for one or two quarters because of the lower capacity utilization, numbers may go a little bit up and down, this is part of the core strategy, which we have to long term value creation. We may be spending odd INR100 crores to INR125 crores this year including new pipe plant spend. And we feel that with this, we should be able to repay odd 100 crores of debt in this financial year. And it can be higher also, if we are able to squeeze our working capital more than what we have planned.

Bharat Mani: So, for FY24, the capex, you put aside INR100 crores, INR125 crores and the debt that you'll try to repay is around INR100 crores, am I right?

Sandeep Sikka: Yes. Overall planned capex is around INR250 crores to INR300 crores. But since the pipe plant will not come within this financial year. a major chunk of that expense will be done next year. But majority of the sanitaryware spent, which is odd INR30 crores to INR40 crores in terms of making higher size pieces will be done this year itself.

Bharat Mani: So, in the pipe segment, the CPVC mix in quarter 4 is around 52%, as you said. So there has been a recovery in margins. But if I look at the peers, the margin is still on the lower side. So, could you just tell me why is that?

Rajesh Pajnoo: Yes. I would like to answer, see this we have been telling in quarter-on-quarter, but the margin cannot be compared with the competitors because this is our fourth year, which we have completed in the market. And for your information, what we have done is we have taken a strategic decision that we need to grow fast. And what is visible from the results as of today now we have the fastest-growing PVC pipe company. So, just for your information, yesterday, we have done the Bhoomi Poojan of our third plant. So, it means that in four to five years' time, we'll be constructing three plants, and we'll be growing very fast. Ours CAGR is more than 40%. So, for this, you need to have employees, you need to have employee expenses. So if you compare as an apple-to-apple then you will see that the fixed cost and all costs which are there related to factories, we are at par with the competitors. But when it comes to an employee cost, we are there 4% to 5% higher than them, which in due course of time, it cannot come down exponentially, but definitely a percent a year. So, I think down the line three, four years will be a par with competitors. This is a conscious call.

Bharat Mani: Okay. Yes. So, my last question is, so on the consumer appliance side. So, when do you expect a recovery in margins?

Sandeep Sikka: If you try to plot our earnings, both in terms of revenues as well as the earnings as compared to the rest of the players in the market, in terms of the sales revenue, I think we have done fairly well. We have 16% sales growth, although on a very small base. But in this industry, a majority of the players, they had to do a bargain between sales growth and the margins. And this I'm talking about broad comparison of similar companies in India. The industry has not been able to pass on because of the high level of fragmentation, there is no leader, and nobody has taken an initiative to take a substantial price increase. So, we

feel that another for one or two quarters, the pressure on this may continue. But we may continue with our sales growth because our initiatives and our thought is to capture the market first. Margins can always follow through. We are working to in-source many products from Import to India so that we can reduce the cost as well as our investments into working capital. We are already working with one or two vendors, for the last one year and have seen a fair level of success. We had given this guidance two years back, that we'll out-beat the market on sanitaryware and faucet, which we have demonstrated. We have also given guidance that by 2025, we should be INR1,000 crores plus on pipes. I think based on the current market scenario; we should be able to do much faster. And I think the market should appreciate one very critical point. Last year was a year of disruption for pipes, and a majority of them, they took a hit on the selling prices. Despite the de-growth in the selling price, we are able to maintain our growth on 20% to 25%+ . For the Consumer business now we are giving guidance which we have initially given that we'll do around INR1,100 crores to INR1,200 crores by 2025. Now, we feel that it may take another year or so to reach, by 2027, we should be INR1,000 crores plus on the consumer business. This is based on the current market conditions. And as the market conditions improve, I think we should definitely be able to accelerate the growth.

Moderator: The next question is from the line of Sandesh Barmecha from Haitong Securities.

Sandesh Barmecha: Just one question from my end, sir. Sir, is that correct that our faucet revenue in bathware has gone up from 30% in FY22 to 35% in FY23?

Sudhanshu Pokhriyal: What you're asking is what is our growth in faucet revenue?

Sandesh Barmecha: Yes. So, what I'm asking is, last time, you said the faucet share was around 30% in bathware and currently, there is 35%. So is the information right, sir?

Sudhanshu Pokhriyal : You're saying contribution?

Sandesh Barmecha: Yes, sir. The faucet revenue contribution.

Sandeep Sikka: Yes, we spoke about it. It is ranging around INR550 crores to INR600 crores.

Sudhanshu Pokhriyal: I think he's talking about contribution in the total business, as percentage sale.

Sandesh Barmecha: So, faucet revenue in bathware, has it gone from 30% in FY22 to 35% in FY23?

Sandeep Sikka: In Q4, it was around 37%. But on a yearly basis, it is still higher at 40% plus.

Sandesh Barmecha: Okay. So, would it imply that our faucet revenue has grown at almost 50% in FY23?

Sandeep Sikka: I think if you see our growth in faucet business has grown in FY23.

Sudhanshu Pokhriyal: It's approximately 40-odd percent.

Sandeep Sikka: 40-odd percent. Yes.

Sandesh Barmecha: So, what would be our revenue for faucet sir?

Sandeep Sikka: So similar, ranging between INR550 crores to INR600 crores.

Sandesh Barmecha: So we have clocked some very high rate in FY23, sir. So, what would be our guidance specifically for faucet in FY24, sir?

Sandeep Sikka: We are giving an overall guidance that we should be able to maintain our momentum of 18% to 21% sales growth. This goes as a mix of sanitaryware, faucet, accessories, everything together. We only giving you guidance, we'll like to avoid because the next question will come is what is for sanitaryware, what is for the accessories, it becomes extremely difficult to manage that business in that manner.

Moderator: The next question is from the line of Vinit Gala from Xylem Investment.

Vinit Gala: If you could help me with the inventory gain number in the pipes division for Q4 FY23 and for the entire year.

Rajesh Pajnoo: See Q4, it is almost negligible, very minute one but first three quarters, it is loss only.

Vinit Gala: So how much would that be, the loss?

Sandeep Sikka: Loss was around ~INR43 crores.

Vinit Gala: Also, sir, my second question is how are we placed with respect to the leadership in our consumer division? Where are we at?

Sandeep Sikka: We have a good leadership team for our the kitchen chimneys business, and we have spoken about it earlier as well. But for other businesses like water heaters, air coolers, the market shares are ranging between 4% to 5%, but target is we should get into 7% to 8% range in next two to three years' time. And the markets are highly fragmented here and that's it.

Vinit Gala: Sir, my question was with respect to a recent exit as far as the consumer leader is concerned. So are we looking out for someone to replace him?

Sandeep Sikka: We are in process of finalizing the CEO. And maybe I think by the end of this quarter or maybe in the middle of the next quarter, we will have a new person who will take charge of the entire position.

Moderator: The next question is from the line of Chirag Fialoke from RatnaTraya Capital.

Chirag Fialoke: Could you talk a little bit about the water heater business for this quarter both in terms of the top line development and the profitability? And how do you see that panning out?

Sandeep Sikka: Water heater is a growing sector, in which we are present in. Since, the commercial production is expected to start with the start of the season. This is with the joint venture with the French company Groupe Atlantic. We see that a lot of synergies would be coming through with the water heater plant because we are losing the major chunk of margin till date to our vendors and all that will get incorporated within the business now. As any factory will have first one or 2 years, as always tough in terms of loading of the factory, we are looking at various other options like exports from the plant, we are open to supply other brand business so that if we can manufacture for them. Our initiative is that we should load the plant fully, and this plant is capable of doing 600,000 pieces annually. And we are fairly optimistic that this will create a lot of value going on a medium to long-term range.

Chirag Fialoke: Just a follow-up. So, for this quarter, that business obviously created a loss. Could you just give us a couple of more details for quarter that we received?

Sandeep Sikka: The markets have been tough on the consumer business side because of the input price changes. We took initiative of diluting inventories & for that particular reason, we had to give higher discounts in the market so that we keep rotating our money rather than the money gets stuck because of the

seasonality of this business. As a result of this, you are seeing higher quantum of money going out of this business. But going forward, I think in the next season, it should be normal.

Moderator The next question is from the line of Harshil Shethia from AUM Fund Advisors, LLP.

Harshil Shethia: Sir, what kind of margins are we envisaging in FY24 in each of the businesses?

Sandeep Sikka: we have given a guidance on margins for sanitaryware, faucet, which is our bath business. We should see whatever we are doing in Q4 and don't hold us on a quarter-to-quarter basis because it's very difficult to operate the market on a quarter-to-quarter basis. But again, in 12 to 18 months, we should be able to unlock another 1% to 1.5% with all the initiatives which we are doing.

For the pipes business, Mr. Pajnoo has already spoken, there are some operating leverage benefits because right now, our focus is to accelerate, to spend and we have more people across the country to find the business. So, another around 1% is a feasibility from that side.

On the consumer business side, right now, the margin profile is pretty low i..e. 3% to 4% EBITDA margins we are working on. But that business has a potential to do around 10% EBITDA margin, once it gets fully stabilized. But I think in the interim, another 2% to 3% expansion on the consumer business side should also happen.

Harshil Shethia: Sir, on the capex that you mentioned of INR250 crores in the pipes and fitting business, you said INR125 around crores would be done in this year and the rest in the next year. How much will that take the total pipe capacity from 48,000 tons?

Sandeep Sikka: The total capex, INR250 crores is not relating to the pipes, pipes is odd-INR180 crores, plus some debottlenecking also happening on the existing pipe plants, wherein we are spending another INR30 crores, INR40 crores on that, is to build more machines into the system to improve capacity.

On the overall capacity, we have right now 48,000 tons. And once the plant in Roorkee start, we will have initial capacity there at around 12,500, but this can

be further scaled at a lower marginal cost to 25,000 tons, which should happen. The plant should be up and running by December or Q4 FY24 or Q1 FY25.

Moderator: The next question is from the line of Udit Gajiwala from YES Securities.

Udit Gajiwala: Congratulations on great set of numbers. So, like you mentioned that you don't foresee any price hikes in coming fiscal. So partly 18% to 20% will be something like a volume growth. So, could you explain that? Which regions? I mean, is Tier 2, Tier 3 that will be a focus or the market share gain will be in faucet largely more than sanitaryware. Could you just elaborate a bit more?

Sudhanshu Pokhriyal: Yes. So very rightly in terms of growth, the growth has to come from, of course, volume. And I think it also has to come from a lot from mix wherein we see a lot of changes happening in the market in terms of the kind of products which we are buying now. So that's happening in both sanitary and faucets. Like you very rightly said, that's what we expect. We expect higher growth from faucet than in sanitary. And within sanitary also we see the mix changing in favour of larger leases like Mr. Sikka has been saying, one piece as we call them or there are product categories and SKUs, we have a higher price per SKU, or per kg, whichever way you want to see. And that's what we believe that that's what's going to happen. And so very rightly, I think the growth is going to come largely because of change in mix and like I said, a higher growth in faucets than in sanitary. This also would be driven by a lot of new launches, which are scheduled, which are getting into the market right now. So, these will be the three, I would say, factor which will take the growth to a higher level.

Udit Gajiwala: And sir, secondly, you have said that in pipes, INR1,000 crores is quite achievable before your timeline. So, could you throw some light on what kind of volume growth are you anticipating for next two fiscals?

Rajesh Pajnoo: So, this year, we are optimistic that we will be somewhere close to INR1,000 crores. And with this, the volume growth if there is no substantial price drop then it will be somewhere around 18% volume growth, and value growth will be somewhere around 23% to 25%.

Moderator: The next question is from the line of Deepak Poddar from Sapphire Capital.

Deepak Poddar: Sir, just I have a small query. So, when you said in the bathware segment, you are looking to unlock about 1% to 1.5% EBITDA expansion over the next 12 to 18 months, right?

Sandeep Sikka: Yes.

Deepak Poddar: So that is over the base of fourth quarter margins, right?

Sandeep Sikka: Yes, Not annually. It is fourth quarter.

Deepak Poddar: And then what would the margins in fourth quarter in bathware segment, I think we have got the margins for building product, which includes plastic pipes and fittings as well.

Sandeep Sikka: You can get it in our Investor's presentation; it is 15.3% in quarter 4.

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

Ankush Agarwal: Sir, just a quick question on the overall debt scenario that you look at for, say, medium term now. This year, you have clarified, you're looking to reduce it by INR100 crores. But in the next three, four years, do you believe we as a company on an overall basis will become debt free or near debt free?

Sandeep Sikka: It is not our initiative to be debt free at all time. We strongly feel the company who is totally debt free doesn't have an adequate plan to grow. We'll always be at an optimal level of debt. And even if you see today, on the debt, there's almost 2x. Maybe we keep it in a range of 1x to1.5x.

If you understand our strategy, in the last 4 to 5 years, we have invested our capital for creating new channels in the market, and this is a first mover advantage of what we did 7 years back, the entire industry is trying to do it now, we'll take the benefit of that. Our initiatives and focus is that we've become a very core building product organization and going forward, we'll continue to make investments into this to create a fairly long-term value. We are not a short-term player. I know market likes a company to get debt free, but debt is the cheapest source of money, which you can utilize for building long-term value. Just to put an example, like we are borrowing right now at 8%. Initially, it was around 6%. And if our businesses are giving an ROCE of ranging from 18% to 20%, appropriate debt helps faster expansion of the business.

Ankush Agarwal: That makes sense. But the reason why I was asking this question was like a business that you operate in say, building materials like bathware and pipe. These are like high cash flow generating business. So even if you're investing, they still throw a lot of cash. So unless you are thinking about diversifying into a new business altogether, that is your expectation in terms of a new square foot that you're investing into the business that we will expand into a new business altogether and that is where the cash will flow because even for sustainable growth, investing in the same business like bathware, which is sanitaryware, faucets and pipes, I think you still have a lot of cash.

Sandeep Sikka: Yes. I think your question is very right and very apt in a sense that until and unless we do a new business as on date Board has not approved it. But I'll just put a caveat here that we keep evaluating other options for expanding our business horizons on the building products other than steel and cement. At an appropriate time, if an opportunity comes, we may look at it, but no commitment as on date. But definitely Hindware today don't have any operating subsidiary. So, most of the profits which are there, are retained and first utilize towards the repayment of the debt.

Moderator: The next question is from the line of Akshay Chheda from Canara Robeco Mutual Fund.

Akshay Chheda: So just one question. This is on the bathware side. Where is it that you are seeing the growth? Which geography, I mean is it Tier 1, metro, Tier 2, Tier 3? And where will be our focus going forward?

Sudhanshu Pokhriyal: Yes, Akshay, we are seeing growth across the markets, to be honest. We believe we are very strong in Tier 2, Tier 3, Tier 4, Tier 5, And we've been growing the business there. But it's pretty uniform overall with a little bit of a higher weightage towards the Tier 2, Tier 3, Tier 4, Tier 5, not in Tier 1. But it's not that Tier 1 is a very low number.

Moderator: The next question is from the line of Mehernosh Panthaki from Dhanki Securities.

Mehernosh Panthaki: I had a couple of questions. One is a follow-up question on your debt reduction plan. You said that you're targeting to reduce around INR100 crores in the next year. But if I recollect in the earlier con call, you had stated that we will require a loan for the new Roorkee expansion also which is around INR180 crores.

So, 70% will be taken in debt, which is supposed to be around INR120 crores. So, this INR100 crores debt reduction you're talking on the existing debt, or this is including after taking Roorkee debt and all?

Sandeep Sikka: Basically, what will happen is if you see it is a horizon of one year. Let's say, we are making X amount of money, Y amount of EBITDA and that this entire EBITDA after the payment of interest and other expense, taxes directly flow and reduce the working capital debt. The total capex, which we are looking at is spending INR100 crores, to INR125 crores. Generally, we take 70% of the loan. We don't use short-term funds for long term and just try to maintain that discipline. But the net result of that can be like we pay off INR100 crores of debt as such. The long-term debt will come down, but short term will get paid immediately.

Mehernosh Panthaki Okay. So, net to net, then INR100 crores reduction will be there despite taking a long-term debt?

Sandeep Sikka: Yes. That's what we are targeting.

Mehernosh Panthaki: And regarding PVC price margins, we have done 10.8%. And this is including no inventory loss during the quarter. In fact, there was a marginal inventory gain that was stated. Now if I see the recent PVC prices in, say, April and May, I think they have fallen by around INR10 further. So will that impact your margins, let's say, if not Q1 but in Q2 once we have to lower the prices and then sell in the market. So, would that impact your margins in, say, a couple of quarters, these PVC prices have come down because of that?

Rajesh Pajnoo: See, as you have rightly said, it's not INR10, it's around INR7, what has come down. But, there will not be an impact to the whole industry because now everybody is almost at the lowest part of the inventory, the inventories have come down. PVC inventories have come down heavily. And we don't anticipate that much of a loss. But if it continues to go down further, then definitely, there will be an impact. But the impact would be never the way it has happened last year because in PVC industry, what happens is everybody tries to stop because we have only 40% of the raw material indigenous. So, there is a voice and then have the availability issues. But now people are stopping very less. And since the worldwide market is not that great, we are able to get the raw material at the right time and within stipulated time. So, people are not keeping inventory. So, there won't be any impact as far as the inventory loss.

Moderator: Thank you, sir. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Sandeep Sikka: Thank you everybody, for joining the call. I think we have taken several initiatives over the last four - five years so that we expand our businesses and these times we have demonstrated many of our ventures which we did are fairly successful. We have demonstrated both in terms of revenues, EBITDA margins and the profitability. I think in the next two to three years is a time when most of these initiatives literally have a very huge growth potential because we now have those platforms in place and we can utilize those platforms for our growth. There are ample opportunities, which we have created and we have spoken about that now we have a first mover advantage in this entire industry because we started our initiatives around 7-8 years back, which other players are doing now. We are confident based on the current market condition that whatever we have said on the call today we should be able to achieve those targets. Thank you very much.

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