Hindware Home Innovation Limited

Q2 & H1FY25 Earnings Conference Call

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MANAGEMENT: **MR. SUDHANSHU POKHRIYAL** – CEO, BATH BUSINESS
MR. RAJESH PAJNOO – CEO, PIPE BUSINESS
MR. NAVEEN MALIK – CEO & CFO – HINDWARE HOME INNOVATION LIMITED
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MODERATOR: **MR. MIRAJ SHAH** – ARIHANT CAPITAL MARKETS LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to Hindware Home Innovation Q2 & H1FY25 Conference Call. 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. Miraj Shah from Arihant Capital Markets Limited. Thank you, and over to you, sir.

Miraj Shah: Good evening, and welcome, everyone. On behalf of Arihant Capital Markets, we invite you to the Q2 and H1FY25 Earnings Conference Call of Hindware Home Innovation Limited. From the management today, we have Mr. Sudhanshu Pokhriyal, CEO of Bath Business; Mr. Rajesh Pajnoo, CEO of Pipe Business; Mr. Naveen Malik, CEO and CFO of Hindware Home Innovation Limited; and Mr. Sandeep Sikka, the Group CFO.

Kindly note that some of the remarks or observations made during today's call might be forward-looking such as financial projections or statements regarding the Company's plans, objectives, expectations, or intentions. The Company does not have any obligation to revise these forward-looking statements to reflect any future events or developments. For a comprehensive disclaimer, I request everyone to please refer to slide number two of the results presentation.

With that, I would now like to hand over the call to the management for their opening remarks, post which we'll open the floor for Q&A session. Thank you, and over to you, Naveen, sir.

Naveen Malik: Good evening, ladies and gentlemen, and thank you for joining us today for Hindware Home Innovation Limited Q2 & H1 FY25 Earnings Call.

We would like to highlight that Hindware Home Innovation Limited is currently undertaking a Rights Issue of equity shares. No discussions over this call may be construed to be an encouragement to shareholders to participate or otherwise in the said Issue. For detailed information, please refer to the Letter of Offer before making any investment decisions.

In continuance of this, kindly note that some remarks or observations made during today's call might be forward-looking. These may include but are not limited to financial projections or statements regarding the company's plans, objectives, expectations, or intentions. The company does not have any obligation to revise these forward-looking statements to reflect any future events or developments. For a comprehensive disclaimer, please refer to Slide No. 2 of the Result Presentation.

I will begin with a brief summary of our company’s performance over H1 and Q2FY25, after which our business CEOs will provide insights into the key highlights from their respective businesses.

Owing to sluggish demand environment, our performance during the quarter was subdued. On a consolidated basis, we reported a revenue of ₹630 crore for Q2 FY25 and an EBITDA of ₹40 crore. For H1 FY25, our revenue stood at ₹1230 crore, and EBITDA was at ₹95 crore.

I would like to call Mr. Sudhanshu Pokhriyal to take you through the bathware and consumer appliances business. Over to you, Sudhanshu.

Sudhanshu Pokhriyal: Thank you, Naveen. Good evening, and welcome, everyone. As Naveen mentioned, Q2 performance was impacted by challenging market conditions, including sluggish demand and rising costs within the ceramic industry. While overall demand remains subdued, we are encouraged by some positive momentum in the faucets category. The Bathware reported a revenue of INR360 crore for Q2 FY25 and EBITDA of INR34 crore. For H1, our revenue stood at INR686 crore and EBITDA was at INR76 crore. Our working capital cycle improved to 93 days during the quarter as against 101 days during Q1 of FY25. We are confident of improving it further during H2.

Moving to our Consumer Appliances segment, we reported revenue of INR83 crore for the quarter with an EBITDA of negative INR7 crore. And for H1 FY25, revenue stood at INR193 crore with EBITDA at negative INR4 crore. Going forward, we will continue to optimize our product mix and enhance operational efficiencies across the businesses while maintaining focus on effective working capital management.

In addition to it, we will continue to expand into new markets while building strong relationships with our key distributors in metros. Additionally, building large production in-house remains a key part of our strategy to improve cost efficiencies and drive greater value creation.

With that, I would like to call Mr. 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. For Q2 FY25, we reported a revenue of INR187 crore and an EBITDA of INR13 crore. For H1 FY25, our revenue stood at INR350 crore and EBITDA was INR24 crore. The challenging market conditions marked by volatile raw material prices impacted our revenue growth. TRUFLO continued strong volume growth and reported 11% year-on-year increase in H1 FY25.

On the back of its strong operational performance, efficient supply chain management, a robust distribution network and a strong brand equity, CPVC products accounted for 43% of the total sales during the said quarter and 38% for H1 FY25. Our working capital cycle improved to 74 days during the quarter as against 86 days during Q1 FY25. We are confident of improving it further during H2.

We are also diversifying our product offerings, introducing premium high-value products to meet our evolving customers' needs. We have launched foam core products for underground drainage applications this quarter and will introduce double wall corrugated pipes and fire sprinkler systems in the coming FY25. Further, construction of our Roorkee facility is progressing on schedule with plans of its operation by the end of FY25, i.e. Q4FY25.

To strengthen our market position, we are focused on expanding our distribution network, diversifying our product portfolio and optimizing price and incentives. We are also committed to enhancing brand awareness and bringing strong relationships with key stakeholders, including plumbing consultants and plumbers.

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

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

Our first question is from the line of Utkarsh Nopany from BOB Capital.

Utkarsh Nopany: Sir, my first question is regarding the overall performance of the Company. Like we have been taking a lot of restructuring initiatives in the past several quarters, but we are not seeing the fruit of those initiatives maybe because of the weak market condition. So just wanted a sense from you like by when we can expect our performance to improve, if you can give any timeline? And if you can also provide guidance on the margin front for each of our segments for second half of FY25 and FY26, sir?

Sandeep Sikka: Sudhanshu, you can start, followed up by Rajesh.

Sudhanshu Pokhriyal: In our Bathware business we've done a bit of restructuring. We have kind of merged our sanitary and faucet teams. And we have also done a bit of restructuring between our Consumer business and Bathware business, where our back-end operations have combined into a single operating unit. So for example, we used to run about 11-odd warehouses in Consumer business and 18-odd warehouses in Bathware business. And we're combining it into 11 consolidated warehouses, which are running both Bathware and Consumer business. Similarly, we ran 2 different service setups, so we've combined those service setups. So now there's only one service setup, which is catering to the entire Company. So multiple such initiatives have been taken care and are undergoing changes within the market. And it also impacted more than 350 jobs within the Company in both the divisions. So yes, because of that, the whole focus is basically to bring in efficiencies and pass it on to the P&L within the organization. Unfortunately, I think what has happened is that it has kind of coincided with, at the same time, the market conditions which has impacted our business. If you look at our H1 performance or even quarter performance, I think a large part of our reduction in our profitability is actually coming from the fact that there's a loss of sales, which has come. So once we start seeing growth back into our business, we believe our margin profile is going to be better than what we gave in the second half of last year. I think in the FY24, we were nearly close to a 16% EBITDA margin. We would be better than that as we go forward once we start getting growth back into our businesses. So that's the best I can give you at this point in time. So over to Pajnoo.

Rajesh Pajnoo: The first part of the question that you had asked was about the restructuring. In the Pipes division, there has not been any restructuring of late. But yes, definitely, quarter 2 has not been good. Quarter 1 was good but due to the sharp decrease in the prices of raw materials, quarter 2 has been struggling. On the volumes front, we have done very well. We have done better than the industry. We had a volume growth of 11% for H1. But value-wise, we were flat because of the down prices of the raw materials. But looking forward, the current month has been positive because there have been 2 revisions upwards for the raw materials. If this continues, on the margin side, we'll be performing better in H2, maybe around double-digit EBITDA.

Utkarsh Nopany: Sir, can you give some sense for each of the segments regarding the margin guidance, at least for FY26? What kind of margin are we looking for in each segment in FY26?

Sandeep Sikka: As Sudhanshu said, that on our Bathware business, last year, we were at around 16%. We feel that we should be able to expand our margins by around 200 basis points over the next 18-24 months as we build up the sales. As Sudhanshu said, a major chunk of the time, effort, energy during the current financial year has been on these internal restructurings wherein it's purely focused on bringing more efficiency in reducing cost, which had been historically built up. And even on the Pipes business, once both the plants are up and running, I think by March 2026, there also, we can see 1.5%-2% margin expansion of what we did last year. But in Pipes business, there is always a caveat of the input price fluctuation which has to be considered.

Utkarsh Nopany: So sir, you are saying that we are looking for 200 bps of margin improvement in Bathware in FY26 over FY24? So our margin guidance is around 18% for Bathware. Is it correct?

Sandeep Sikka: Yes. But this is based on current market conditions. So if the market conditions further deteriorate the macro numbers on macroeconomic stuff, that always comes with the caveat.

Utkarsh Nopany: Okay. Sir, my second question is on the Bathware segment. Like our Bathware revenue was down by 9% in this quarter even after a sharp contraction in our margin, which is not the case with our major listed peers. So can you please help us understand why we have lost market share and by when we can expect to address the decline in our market share without compromising on the margin?

Sudhanshu Pokhriyal: Yes, there's only 1 competitor which declared results. I think there is a difference between our sales versus theirs. I think over a long-term basis, we've been doing better, very similar numbers. But I think our focus was to improve our efficiencies, and we were like focusing on reducing our costs to improve our profitability. So yes, we have underperformed in this period with the other competitors which has declared the results. I don't think it's a permanent kind of a loss. I think it's a temporary blip because this shows in your primary sales. We deal with 400 distributors and these 400 distributors put the product in the market. The consumer demand from the outlets remains very similar. However, because of the internal changes which we have made, our primary dispatches to these customers have actually got impacted. I personally believe it would basically be a recovery more sooner than later. Very difficult to give a number, but I think we should be very close in terms of our growth in the balance of the year or it should be higher. And by the end of the year, we should be very close to the numbers of the competitor in this financial year. But again, like Sikka ji has said, very difficult for me to give you a number and number of days or number of quarters in which it will get equated. What I can assure you is that the moment we start getting a number which is on the positive growth, our margins will be far higher, and then our focus will come back on getting the growth back in the category.

Utkarsh Nopany: Just a follow-up question over here. Sir, like we have spoken to quite a large number of dealers across pan-India. And most of them mentioned that we have quite a good number of SKUs in comparison to our peers and our product quality is also good. But we are lagging behind in terms of sales service, and most dealers are not happy with the frequent change in our pricing policy.

So I wanted to know your views on it and like how we are targeting to tackle this issue going forward?

Sudhanshu Pokhriyal: So when you're saying pricing policy, so let me assure you that we have not changed our pricing policy for the last 4 years. What we have definitely changed is our schemes. When you're saying pricing policy, maybe perhaps you're talking about schemes, the market schemes which are run. So I think market schemes are very tactical generally. And to be very honest, when the market situations are not good, I mean, companies try out various schemes and we have also tried out some schemes. So it can happen that some of the schemes which we have run perhaps may not work with a certain type of dealers. So I take that as feedback. The feedback which you're getting, I also keep getting. I mean, I also talk in my capacity as a CEO to those dealers. And we keep changing those to align better to the market demand. From a pricing standpoint, in terms that how much is our MRP, how is it billed to the consumer, what is the margin for the dealer, what is the margin for the distributor, that has not really been changed for the last 4 years. In fact, we've done 1 change in October, where we have increased the margins in our faucets for our dealers. So I take your feedback, but very difficult to comment on this because the schemes are made at zonal level. The schemes which are run in, for example, Karnataka, Kerala, is very different from a scheme which is run in West Bengal and scheme which is run in North. I can only say that I can take this as feedback and improve on it.

Moderator: Our next question is from the line of Kaustav Bubna from BMSPL Capital.

Kaustav Bubna: Sir, I have 2 questions. The first one is, how did we go from INR400 crore to INR1,000 crore of debt from FY22 to FY24? Post FY22, the depreciation and interest has really gone up, which is preventing the Company from making good return on capital invested. So what is the 3-year plan to get ROCEs and ROEs back on track? And what type of ROCE, ROE should the investors expect in the long run? That's the first question.

Sandeep Sikka: If you see in March 2022, Hindware, per se, the subsidiary Company was a debt-free Company. But if you just have a little bit background to the demerger, which we did in 2018, the plants remained as part of a different Company, and we were buying products from a third party. Essentially, Hindware was a trading Company. And from the market, we are getting feedback there as substantial related-party transactions, which market was not liking. In order to streamline that, there was a slump sale transaction wherein all the manufacturing units, were sold by that Company to Hindware Limited and for which we contracted a debt. The year after that was good, but unfortunately, the markets have been very choppy over the last 4 to 6 quarters, as a result of which you are seeing the debt phenomenon going up. But once the markets are back and as I've already discussed, we have taken various initiatives internally also to optimize our cost, optimize our operations, build efficiencies, further reduce our supply chain costs and enhance efficiency on the manufacturing cost. Because of all this, I think, in the next 12 to 18 months it should start getting reflected into the P&L.

Kaustav Bubna: Alright. And my next question was in Maharashtra, there are a lot of redevelopment projects happening now and this could just trend well and continue going into the future. So just wanted to understand how are we, as a Company, exposed to Maharashtra? Is there any way you track

any data on how much are we capitalizing on this redevelopment trend in Maharashtra? And will that be a meaningful contributor to growth for us?

Sudhanshu Pokhriyal: Yes. So I think the redevelopment like what is happening in Mumbai, is happening just about everywhere. In fact, if you look at North, in Delhi and Gurgaon, basically, the earlier villas are basically converting into G+3, G+4 kind of dwellings where the number of bathrooms increase from 3 to 4 to 16 to 17. Of course, when you redevelop the entire apartment complex, the number of bathroom opportunity increases. How we address this is basically through our institutional segment. So the institutional segment in quarter 2 has contributed about 23% - 24% of our sales. We have a separate team, which basically is in contact with architects and the builders who are doing this work. And there is a regular process of specification, rate quotation and then finally a tie-up for an elongated period of time and then delivery. So there's a standard process. We have a BI tool called LeadSquared, wherein all these leads, which can come from a builder or can come from an architect, they get listed and then we kind of address these leads. So you're right. These are opportunities which we, of course, are a part of our plan. So generally, the kind of business which happens with us is, you can break it down into 3 types of work: one is renovation, simple renovation in existing places; the second is a totally new construction in large apartments; and the third is redevelopment, as you're saying. So we participate in all the 3 subsegments.

Kaustav Bubna: Correct. But what's your current exposure to Maharashtra as a Company?

Sudhanshu Pokhriyal: So Maharashtra for us is not a large market share business. Mumbai is not a large market share business. Rest of Maharashtra is a decent business for us. It will be in single digits, but I won't have the exact number handy right now. As a contribution of the total business, it will not be more than 6% to 7%.

Kaustav Bubna: Okay. And I don't mean to dwell on the past, but I mean, this is important. Many years ago, your Company was 1 Company, right? It was called Somany/Hindware Home Innovation? It was 1 Company which had all distribution, manufacturing, everything. Then you split the business into AGI and into Somany/Hindware Home Innovation, right? And you split distribution in one and manufacturing in one. Why did you do that? I mean, what was the sense of that? That is why we have this issue now of high depreciation and high fixed asset base. So I'm just trying to understand why this complicated structure? Why did that even take place in the first place? Rather than just separating your building material business into one and your consumer business into another?

Sandeep Sikka: If you go a little bit into the past, we were one Company by name of HSIL, Hindustan Sanitaryware Industries Limited. And we had 2 key businesses. One was the packaging business and second was our B2C business. The return on capital employed metrics of that time for the packaging business and our B2C business was very different. And the investors, by the end of any call, they always had a question that when I'm buying Hindware, I'm also buying the packaging material, which is a capital-intensive business, so as a result of which we had to do a demerger. But only thing is that demerger got done in 2 steps where in the first step, we took out the entire operations other than manufacturing. And then the part 2, all those factories were also transferred. So irrespective of the fact whether we did a demerger or not, the relevant

depreciation relating to these plants would have accrued to the balance sheet. So that was not helping.

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

Nikhil Gada: Sir, I did not get the exact reason for the loss in business; whether there was a loss in business in Bathware. Are you trying to say that because of the internal restructuring or is it just a complete sort of loss of market share in Bathware?

Sudhanshu Pokhriyal: No, I said that we've done a lot of restructuring in terms of cost savings, and I gave 3 points, and I can repeat that. One is, of course, the merging of my sanitaryware and faucet teams and there's a merger between my Consumer business and my Bathware business, the service team got merged basically, the sourcing teams got merged, my marketing, back-end finance teams, everything is getting merged as we speak. And our warehouses have got merged, not yet 100% complete. The whole completion will happen by the end of March because warehousing merging takes a bit of a time. So all these mergers have impacted more than 350 people in the organization in the last 6 months. Now that's 1 thing which happened. Unfortunately, in hindsight, when we look at it, we have done it in a period which was not a good period in terms of revenue growth. And yes, our reported numbers are much lower than the reported numbers of the other listed peers. But as I said, it's not a permanent loss of market share because it is showing in our primaries, but we deal with distributors, and distributor secondaries is 3% higher than what we are reporting right now. But still lower number, but we have a better secondary number right now. But it's a temporary loss because this will change the way we are operating in the whole market.

Nikhil Gada: Basically, it is a loss of business, right?

Sudhanshu Pokhriyal: In this period, yes. But it's not a permanent loss because we are changing the way we are operating in market and then we will come back with a revised cost structure. And with that bit of growth, we have given a guidance of higher margins in the coming financial year. That's what we answered in the first part earlier.

Nikhil Gada: We get that, so since this restructuring is still going on, do you think that second half is also going to get impacted?

Sudhanshu Pokhriyal: I think the bigger things are out of the way. The sales team restructuring is out of the way. The service team restructuring is out of the way. So a large part of my restructuring is out of the way. I don't think it's going to be having a very heavy impact. But like I said, markets operate with multiple factors. So the factors which are impacting is not only this, but the factor is also the market slowdown. So I mean, just before Diwali, usually it is a pretty buoyant season, but we've not really seen a very heavy demand coming in just before Diwali as well. So other factors being constant, yes, there are no more impact of my existing restructuring, which we are doing.

Nikhil Gada: Okay. And basically, so since you mentioned that demand has yet not picked up, so from that perspective, do you think that the second half would be sort of a flattish growth as well vis-a-vis the second half of last year? Or we might still be able to do some higher growth?

Sudhanshu Pokhriyal: No, with a lot of caution, there's a lot of difficulty. I can tell you that my own internal S&OP process where we forecast the second half of the year is basically looking at a flattish number only. Yes, you're right. Because these numbers, which you do forecast of is basically dependent a lot on the recent months impact. So yes, it is at least at this point, I'm showing only flattish numbers.

Nikhil Gada: So then in that case, since we have already seen, and I think assuming that the schemes will continue, this 9.5% or 10% EBITDA margin we have seen in second quarter, this is more or less something which we'll achieve in second half as well, right? Or you will see some improvement over there?

Sudhanshu Pokhriyal: No, I don't think, we were discussing, somebody asked us this question about schemes as well. So we ran higher schemes, but I don't think it has given us too much of an impact. What we have done is we've gone ahead and actually reduced our schemes since September mid in that period. And that, in my view, is going to definitely help us do better in terms of our margin structure as well as revenue as well because when you look at revenues, your revenues are also net of schemes. So I think both the numbers will get impacted because of reduction in schemes. Now how much will that impact volume? It depends on the market condition so that's the experiment which a typical business would do when the markets are tough.

Nikhil Gada: And sir, was there also some impact because of higher RM prices. Because what we have heard is also that there have been a sharp increase in brass price as well. And competition has sort of taken a price hike as well. So if you can sort of give some understanding on both these things. And have we also taken any price hikes?

Sudhanshu Pokhriyal: Yes. So one of the reasons why the other peer's number look better is because they took a price hike in the last month of quarter 2, while we have done that in quarter 3. So basically, in October, we have taken up a price hike on faucets, while Cera took it in the previous month. So that impacted their September month. So that's the other reason. And that's why I'm saying the share loss, which may seem right now may be a notional loss because they have done a month in advance, we've done a month later. The overall increase in pricing has been more than 11%, 12% on an aggregate basis. On a month-on-month basis, it was higher or lower. But from H1 to H1, it's an increase of about INR56 on INR502, so more or less like 10-odd percent increase in brass prices. However, not the entire increase has been passed on to the consumer. Typically, brass prices contribute to about 60% of the total cost. And we have been able to pass only 1%, 1.5% price increase to the market. We have not been able to take a higher price increase. The largest player in faucets is Jaquar who has not yet taken any price increase. So it's only Cera and Hindware which has done.

Nikhil Gada: We have done 1.5% is what you're saying in faucets.

Sudhanshu Pokhriyal: 1.5% average, yes.

Nikhil Gada: And sanitaryware, we have not done any price increase, right?

Sudhanshu Pokhriyal: No, we've not. We've not done on sanitaryware right now. I also have some good news on that in the sense that in sanitaryware, our manufacturing cost has actually come down by a significant

percentage. It's not yet reflected in our sales because it's reducing the cost of production, while my cost of goods, which is reported in the P&L is basically a weighted average on basis of my inventory. So I expect that to start reflecting in my P&L in the coming Q4 onwards. And basically, my cost of production has actually gone down by 8% to 10%, which is a substantial reduction. So that's the other thing which is expected. And that's why we've not taken up any price increase in sanitaryware.

Nikhil Gada: Got it. That's helpful. Sir, secondly, on plastic pipe business, since the new plant is going to get commissioned mostly in the fourth quarter, can you give some kind of a guidance on that new plant? How do we expect the ramp-up in 2026? And how much of an impact that can have on our margins? Because initially, we would have some impact in terms of fixed cost, etc., right?

Rajesh Pajnoo: Yes. As far as the Roorkee plant is concerned, we will be commercializing it may be around February or March and a part of it this year. The plant is coming up and it is fully equipped to handle the machines in the future. We have constructed the whole plant. And we'll be starting with 7 number of machines. The installed capacity at the beginning will be 12,500 metric tons, with at an average utilization of around 79% to 80%. We'll be producing around 11,276 metric tons along with increased sales. And the revenue would be somewhere around INR150 crore for the first year, approximately INR150 crore to INR160 crore with an approximate EBITDA of around 11%.

Nikhil Gada: This is for the plant you're saying?

Rajesh Pajnoo: Yes, for the new plant. The value, which I have said depends on the basic input prices. I'm talking of all these data based on the current market price of PVC.

Nikhil Gada: Sir, when you said 11%, you're talking about the full pipe business, right? Or you're just talking about the plant?

Rajesh Pajnoo: I'm talking about the Roorkee plant, the new plant.

Nikhil Gada: And the ramp-up, will it take 1 year, 2 years? What's your estimate on that?

Rajesh Pajnoo: Ramping up, up until now, basically, it all depends on the reciprocation of the market. Since as I told you, we have already constructed the complete plant. We are doing the complete automation. It is just a matter of response from the market that we have to add up the machine. That's all. And we can ramp up the production.

Nikhil Gada: Sir, just last couple of questions to Sikka ji. Sir, I think when we went into this exercise of rationalizing our costs, etc., we had given a figure of close to INR20 crore to INR25 crore of cost savings. However, it's been first half. I think this was something we started 6 to 8 months back. We have still not seen any sort of reduction in those numbers. Do we expect that to start happening from third quarter? And where are we on that?

Sandeep Sikka: There are 2 mathematics to it. One, as Sudhanshu said, that we have already optimized our manpower by laying off around 250-300 people. People have been asked to go in a systematic manner. And you will see in H2, the major chunk of that benefit flowing in. But at the same

time, we also have to add up some incremental cost, which is a normal inflationary increment, which gets passed on to the employee every year. It's a comparative number that we had, if we not done that, the numbers would have still been very high.

Nikhil Gada: So are we trying to say that this INR20 crore is sort of just going to remain flat rather than seeing a reduction?

Sandeep Sikka: Yes, because every year because for the remaining people, you will have to give some increment.

Nikhil Gada: Okay. And sir, lastly, working capital, we have seen some improvement, but that has largely been on the payable side, not so much on the inventory side or the receivable side. So is it because we have changed our credit policy or credit terms?

Sandeep Sikka: No. Actually, this is short-term stuff because if you see historically, we have continuously improved on the working capital side. Right now, the market conditions are not favorable and if the market conditions are not right, you don't store inventory for sale, because these decisions are not so short-term that you can simply manage inventory. However, we are keeping an eye on it to ensure that inventory doesn't balloon-up, and that debtors don't increase substantially. There is an internal target for this. And like we said, when you do a comparison over the last years, you will see those efficiencies building up over the next few months.

Nikhil Gada: And this INR250 crore rights issue would go completely into debt reduction or there are some expansion plans as is?

Sandeep Sikka: No, the object of the issues have been stated in the rights issue's letter of offer. Basically, if you see, it will prune off the debt as soon as the proceeds comes in.

Moderator: Our next question is from the line of Naitik Vakharia from NV Alpha Fund.

Naitik Vakharia: Sir, my first question is the warehouse consolidation that we are taking, it's between the faucets and sanitaryware warehouses, right?

Sudhanshu Pokhriyal: We have sanitary warehouses, faucet warehouses and then we have consumer business warehouses. The standalone Company, which is HHIL. So we're consolidating all 3.

Naitik Vakharia: So it's happening across all 3 businesses?

Sudhanshu Pokhriyal: Yes, yes. It's going to benefit me in my Consumer business and also in my Bathware – Sanitary and Faucets business as well.

Naitik Vakharia: Right. And so this effect, I mean, how long is it going to take for this entire consolidation to be done?

Sudhanshu Pokhriyal: We have done 3 warehouses already, and the balance, 8, are going to get over by Q4. This happens along with an implementation of transport management system and warehouse management system, where we are using all the technology tools in our warehouses now.

Naitik Vakharia: Right. So there should be a further impact on sales because by 4Q, I mean, this time, it will take more time to get completed?

Sudhanshu Pokhriyal: No. I don't think warehouse consolidation has had any impact on sales per se. Our mother warehouses – the main warehouses, which are basically part of our Kaharani, which is our faucet plant, which is the most complex warehouse because of the nature of the product because it's a small product with high value versus sanitaryware which is a bulky product with, let's say, the number of SKUs, number of pieces are far more easily manageable in a warehouse to that extent. So I think we've already done the faucet warehouse, which is the most tricky one in our opinion. The other warehouses are not so tricky. It's more a question of execution. You still have to execute it, but I don't think there will be a sale impact because of warehouse consolidation.

Naitik Vakharia: Okay. Got it, sir. And second, the decline in margins is primarily due to operating deleverage in the Bathware segment, as our sales have fallen, so is that the primary reason? Or there is an element of cost increase also there?

Sudhanshu Pokhriyal: No. So it's largely because of loss of revenue, loss of gross margin, of course, operating leverage and also because of the increase in the raw material prices, especially for faucets. Like I said, 10% increase, which has happened on the brass prices on average from the beginning of the year until now.

Naitik Vakharia: Right. Can you give me the revenue breakup of faucets and other sanitaryware?

Sudhanshu Pokhriyal: We are about 41%-42% faucets and the balance is sanitaryware in the BPD part of the business.

Naitik Vakharia: Got it, sir. And another thing you mentioned about some cost savings by 8% or 10%. So can you just throw some light on it? How are we doing that or what is leading to those cost savings?

Sudhanshu Pokhriyal: In the sanitaryware plant, which I said?

Naitik Vakharia: Yes, yes.

Sudhanshu Pokhriyal: Yes. So there's a lot of good work which is happening. The biggest cost in the sanitaryware plant is your power and fuel cost. And the biggest losses, which typically happen is because of pinholes or, let's say, poor product quality because of process, so which results in you breaking the product at the end of the whole product because it's a casting of a ceramic. So if there's a small blow hole, you have to kind of break the product and throw it away, which means that you lose on your fuel, you lose on your manpower and everything because you're doing at the end of the whole cycle. So we've done lots of good work around a Six Sigma project, which basically has increased what we call our first-time throughput. So first time right, basically, which was operating at about 76%. So if I'm casting 100 pieces, we were getting 76 pieces as the final output. Now that number has moved from that to about 84-85, so basically 8-odd percentage improvement. And we also do a bit of what we call refire. So some of it is refired. So with the refire, we basically have gone to 93%-93.5%, which means that we have less than 7% wastage. Now that's like world-class number, getting to 7% wastage. And that's really helped us in terms of reducing our cost, that's one. Second is, basically, we have gone ahead and done a lot of negotiations around our gas costs, gas prices, and that's really helped us. Third is not all machine

is of equal efficiency because some of our equipment is extremely old. So how you schedule your product and how do you associate a specific SKU to a specific kiln, which is basically where the high-cost power is used, kind of gives you a higher throughput and higher efficiency. So we've done a lot of process optimization, we've implemented Industry 4.0, which means a lot of sensors are put in our machines, which are throwing data for us to be able to take action around how to schedule our manufacturing of specific SKUs and specific machines. So a lot of work, process-related work, negotiations, like I said, and eliminating waste. These are the 3 broad categories, I would say, where we've worked to reduce our cost. I hope I answered your question. It's getting a little bit more technical now.

Moderator: Our next question is from the line of Naysar Parikh with Native Capital.

Naysar Parikh: What I wanted to understand is that, you mentioned, between Q1 and Q2, we are talking about manpower rationalization. And if you look at Bathware, your sales have gone up by 10% but still absolute margins have significantly gone down. I understand gas costs have gone up, but is that the only thing driving it?

Sandeep Sikka: Is it for building products you're talking about?

Naysar Parikh: Yes, I'm talking about Bathware products.

Sandeep Sikka: Okay. Sudhanshu, if you can take this.

Sudhanshu Pokhriyal: Yes. So if I'm getting your question right, I think you're talking about Q1 versus Q2 margins, right?

Naysar Parikh: Yes.

Sudhanshu Pokhriyal: Yes. So I think the biggest impact, which has come, like you rightly said, is in terms of gas prices and also in terms of a little bit of higher discounting and a bit of impact because of the mix in that. So that's the only reason why this has actually impacted us. This is not something which is going to kind of remain in Q3, Q4. That number is going to change as we go forward. It's basically product mix and discounting and increased pricing. These are the 3 key reasons which have basically impacted Q1 over Q2.

Naysar Parikh: So effectively, can you kind of quantify it in terms of what percent discount or something we are giving?

Sudhanshu Pokhriyal: I don't really have the exact numbers right now. Broadly, 50% of the gap is actually because of higher discounting and the balance is 25%, 25% because of the mix and increase on the costs.

Naysar Parikh: Okay, understood. And your peer, they have said that while sanitaryware tiles have declined, for them, faucetware grew by over 20%. So for you, how is it between faucetware, sanitaryware? Can you give what is the growth or decline in each of them?

Sudhanshu Pokhriyal: I don't think faucet is growing by 20% for the competitor. I mean, I've seen the numbers. I think it's a single-digit number. But I mean, I can tell you my numbers. We are negative double digit on sanitaryware. We are single-digit positive on faucets and double-digit positive on tiles. If I

break it down at channel level, I'm growing in projects business I have high single digits, while my retail business is negative.

Naysar Parikh: Understood. And what percentage would be tiles?

Sudhanshu Pokhriyal: Tiles at the total level, I think about mid-single digit percentage-wise contribution.

Naysar Parikh: And last question on the Consumer business. Q2 versus Q1, what is driving the losses that we are showing in this quarter in the Consumer business?

Sudhanshu Pokhriyal: So I think for us, we have not really seen demand pick up, especially in our kitchen business, which we have. If you see in Q1 versus Q2, your Q1 had a good growth coming because of extremely high temperature in Q1, and that drove our cooler business. While in Q2, there was no such support, which is coming on the Consumer side of the business. Because in the Consumer business, we have only the seasonal businesses in coolers and fans. While the kitchen business, which is an annual business, I mean, which is like a flat business throughout the year, that did not really pick up the way we thought it will. And I've seen, I think, what Elica's numbers as well, which is in a similar category in kitchen, which was negative in quarter 2. So that has impacted our overall margins there.

Moderator: Our next question that is from the line of Parikshit Gupta from Fair Value Capital.

Parikshit Gupta: So I mean, most of my questions have been answered already. I would just like to follow up on the Consumer business as the previous participant asked. So you mentioned the reason for business performance over Q1 and Q2. However, can you please help us with a guidance on this business going forward? We understand that in the Bathware segment, faucets being a quick replacement cycle and a low-price ticket item product, has more potential to grow when discretionary spending picks up. However, in the real estate cycle, we are still in the construction and the superstructure phase. So most of the sales that we can expect in building products would be for renovations. But given the fact that kitchen equipment, especially the portfolio that Hindware carries possibly targets to a segment which is a little over affordable. So with all of this context, can you please guide for the next couple of quarters sentiment-wise, if that's okay?

Sudhanshu Pokhriyal: Yes. In Consumer business, our priority at this point in time is to get this business in profitability. So that's our number one priority. If you see the last few quarters, the profitability is under stress. So we've shut down our EVOK business to get this business into profitability. And we believe there are still some categories which are, you say, underperforming in terms of margins. So for us, the steps which we have taken is basically we have cut out a lot of our categories, and retail SKUs where our margins are lower. We are cutting it out on a very aggressive basis. Like I shared, we have started merging the back-end operations. So one of the big costs which we had was in service. We merged the service operations for these two businesses, BPD and CAB. This means that, if the cost was INR100 each for both, the total cost is now INR125, and both businesses benefit from the INR125. As a result, the cost for each business reduces from INR100 to INR62.5. So that's the way we've kind of merged and kind of segregated our service cost, for example. Similarly, we are doing it for warehousing. Similarly, we are doing it for marketing. Similarly, we are doing it for a whole host of our back-end services. So like I said, for me, the

number one priority, which has been set to be by the Board is to get the Consumer business, first of all, in profitability. And that's what my focus is. So I would love to come back and give you a number, which is on the profitability side, that we should improve and it not be negative as we have at this point in time. That's number one priority. From a revenue side, I think our focus to drive profitability. We have a very healthy margin in the kitchen business. We have a 42%, 43% gross margin in the kitchen business. And we believe that if you focus on that and try to get more revenue out of that, it will also aid our profitability objective. So that's where my focus is. I'm not going to be focusing on our seasonal businesses as much as I'm going to focus on my kitchen business. So at this point in time, I think I can only give you this much guidance around the Consumer business. On a profitability side, we have 1 or 2 more quarters of stress, but we are very sure that the business will come out good in terms of profitability as well as revenue growth.

Parikshit Gupta: Is there any internal target for an EBITDA positive quarter? That would be my last question.

Sudhanshu Pokhriyal: I'm not, at this point in time, able to give you this answer. Sorry for this.

Moderator: Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing comments.

Sandeep Sikka: Thank you, everybody, for joining on the call today. I know given the results, the set of questions in your mind have been huge. But give us 1 or 2 quarters and as a team, we can assure you once we are back into the game in terms of the growth and other steps supported by the market and also the initiatives which we have discussed on this call, you will see a much healthier numbers going forward. Thanks again for joining us on this call.

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