

**NEAPS/BSE ONLINE**

22<sup>nd</sup> November, 2022

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

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

Dear Sir/Madam,

**Sub: Transcript of the Earnings Conference Call held on 15<sup>th</sup> November, 2022**

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the transcript of the Earnings Conference Call held on Tuesday, 15<sup>th</sup> November, 2022 for discussion of the financial results of the Company for the second quarter and half year ended 30<sup>th</sup> September, 2022.

The transcript will also be available on the website of the Company i.e. [www.hindwarehomes.com](http://www.hindwarehomes.com).

You are requested to take the above information on your record.

For **Hindware Home Innovation Limited**  
(Formerly known as Somany Home Innovation Limited)

Payal M Puri  
(Company Secretary and V. P. Group General Counsel)

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**“Hindware Home Innovation Limited  
Q2 & H1 FY23 Earnings Conference Call Transcript”**

**November 15, 2022**



**MANAGEMENT: MR. RAKESH KAUL – WHOLE TIME DIRECTOR AND CEO**  
**MR. RAJESH PAJNOO – CEO, PIPE BUSINESS**  
**MR. SUDHANSHU POKHRIYAL - CEO, BATH BUSINESS**  
**MR. SANDEEP SIKKA – GROUP CFO**  
**MR. NAVEEN MALIK – CFO**

**Moderator:** Ladies and gentlemen, good day and welcome to the Q2 & H1 FY23 Earnings Conference Call of Hindware Home Innovation Limited, hosted by Phillip Capital Private Client Group Desk. As a reminder, all participant lines will be in the listen only mode. 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. Apurva Shah from PhillipCapital Private Client Group Desk. Thank you and over to you sir.

**Apurva Shah:** Good morning everyone, on behalf of PhillipCapital Private Client Group Desk, I welcome all of you to the Q2 & H1 FY23 Earning Conference Call of Hindware Home Innovation Limited. We take this opportunity to thank the management of HHIL for giving us the opportunity to host this post earnings conference call.

From management we have with us today Mr. Rakesh Kaul, Whole Time Director and CEO, Mr. Rajesh Pajnoo, CEO Pipe Business. Mr. Sudhanshu Pokhriyal, CEO of Bath Business, Mr. Sandeep Sikka, Group CFO and Mr. Naveen Malik, CFO of 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, Apurva. Good day, everybody and thank you for joining us on this call. I just like to add that 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 now like to hand over to Mr. Naveen Malik to start by giving his opening remarks. Over to you Naveen.

**Naveen Malik:** Good morning ladies and gentlemen, and a very warm welcome to Hindware Home Innovation Limited's Q2 & H1 FY23 Earnings Call.

I will start the call by taking you through our financial performance for the quarter and half year ended 30th September 2022. Post which the business CEOs will take you through the key highlights of their respective businesses.

We are happy with our performance, especially considering the challenging inflationary environment we had to operate in. Despite a subdued demand environment, both our Building Products and Consumer Appliances businesses have registered healthy growth.

For the quarter, Consolidated Revenue from Operations came in at Rs. 715 crore, up 16% Y-o-Y. Consolidated EBITDA for the quarter stood at Rs. 64 crore, having grown by 11% Y-o-Y. Margins though were understandably under pressure because of higher raw material prices and subdued market sentiment. Consolidated PAT, after considering the results of JV, for the quarter stood at Rs. 16 crore. Figures are on a consolidated basis and rounded off.

For H1 FY23, consolidated Revenue from Operations stood at Rs. 1,393 crore, growing by 45% Y-o-Y. EBITDA stood at Rs. 131 crore, growing 75% Y-o-Y. PAT came in at Rs. 27 crore compared to Rs. 28 crore in H1 of last year (excluding exceptional gain Rs. 100.86 crore). Our strong brand recognition, innovative product offerings, and broad distribution network have all contributed to our growth. While the company maintained top-line growth during the period, margins as mentioned earlier were impacted by elevated input and commodity price disruptions across the globe.

Moving onto our segmental performance, Our Building Products Segment delivered yet another encouraging performance during the quarter. In Q2 FY23, Revenue from Operations stood at Rs. 576 crore, registering a growth of 19% Y-o-Y. Our diverse product offering, together with growing demand, has contributed to this healthy topline growth. EBIT stood at Rs. 33 crore. In H1 FY23, The Building Products business reported Revenue of ₹1,111 crore, registering a growth of 48% Y-o-Y. EBIT stood at ₹76 crore, up 38% on a Y-o-Y basis. It is pertinent to note that EBIT for the corresponding quarter and H1 of last year does not consider in-house manufacturing which commenced this financial year post the purchase of manufacturing assets from AGI Greenpac. To combat the impact of rising input prices and preserve our margins, we may consider revising our prices in the coming quarters.

Demand for our fast-growing Plastic Pipes and Fittings business remained steady underpinned by solid fundamentals and our resilient business model. We reported revenue worth Rs. 197 crore for the quarter while EBIT was adversely impacted by a fall in PVC prices.

In Q2 FY23, our Consumer Appliances business reported revenue of Rs. 125 crore, up 12% Y-o-Y and EBIT stood at Rs. 7 crore. In H1 FY23, segment revenue grew 42% Y-o-Y to Rs. 254 crore and EBIT stood at Rs. 10 crore. This performance has been achieved against a background of inflationary pressures, increased input costs, and a challenging macroeconomic environment. An enhanced focus on premiumisation combined with the benefit of price increases taken in the preceding quarter saw improved EBIT in Q2 FY23.

Our Retail business revenue stood at Rs. 14 crore in Q2 FY23.

Going forward, we remain focused on improving our operational efficiency and minimizing input costs by implementing prudent cost rationalization measures. We are confident about our future performance and committed to achieving our goal of delivering sustainable profit and revenue growths.

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

**Sudhanshu Pokhriyal:** Thank you Naveen. Good morning and welcome everyone.

Our bath business delivered yet another quarter of industry leading growth and continue to gain market share.

In Q2 FY23 revenue from operations stood at Rs. 379 crore registering a growth of 16% year-on-year. EBITDA stood at Rs. 48 crore registering a growth of 31% year-on-year. In H1 of FY23 the business reported revenue from operations of Rs. 743 crore registering a growth of 48% year-on-year and EBITDA stood at Rs. 96 crore, up 92% on a year-to-year basis. We've been able to deliver strong growth on the back of new product launches, distribution expansion and increased preference for our brand.

Towards driving revenue growth we continue to strengthen our distribution network we've added 75+ additional distributors in Q2 to take care of our white spaces. We are focused on launching new brand shops, and tap new markets and strengthen our brand pull.

Our bath ware division is experiencing an increase in key raw material prices as well as fuel and power prices since Q3 FY22, thus impacting our margins. Global volatility in input energy pricing, in part negated the benefit of moving the manufacturing business in-house following the acquisition of building product division of AGI Greenpac Limited.

While raw material prices are fluctuating they still continue to remain elevated, which may necessitate us to undertake future further price hikes in coming quarters to preserve our margins.

I'm happy to share that we launch a slew of innovative products and designs during the quarter. We will continue to complement these launches with strong marketing campaign across all platforms. Our few marquee bathroom products including easy clean, which is a self-cleaning basin and a basin with space for utility items such as toothbrush, toothpaste, etc. which were launched recently have been very well received by the consumers.

To conclude we have delivered a strong quarter for bath business during the quarter. We are seeing a good improvement in overall volume and realizations as well. We

continue to focus on driving growth and are confident of sustaining the same in the future.

I would like to now hand over the call to Mr. Rajesh Pajnoo to take you all through the performance of plastic pipes and fittings business. Over to you Rajesh.

**Rajesh Pajnoo:**

Thank you Sudhanshu. Good morning everyone. Thank you for joining us.

Despite a challenging environment, I'm glad to report that our pipes business register revenue from operations of Rs. 197 crore for the quarter, registering a growth of 24% year-on-year, EBITDA stood at Rs. 6 crore. In H1 FY23 the business reported revenue from operations of Rs. 367 crore registering a growth of 50% year-on-year. EBITDA stood at Rs. 18 crore up 12% on year-to-year basis.

Q2 continue to witness a steady decline in PVC prices, resulting in destocking by channel and inventory loss for most of the players across the country. But despite these challenges, I'm happy to report that we have seen a growth in volume over the past two quarters, largely owing to a higher share of CPVC pipes and fittings contributing over ~50% to the business revenue complemented by growth in volume.

In Q2FY23, we added more than 200 new products increasing the SKU we offer to more than 1500. During the quarter, we continue to connect with plumbers and conducted multiple training sessions for our channel partners and influencers. We will continue to engage in similar activities over the coming quarters as well as we look to consolidate our presence in this category.

While the challenges may linger in the near term, we will continue to work towards product innovation and widening of our distribution reach. Our expansion strategy is aligned with our planed objectives and include both brownfield and Greenfield initiatives. We are on schedule with our brownfield capacity expansion project at the Isnapur plant, Hyderabad with expected completion next month December 2022. Additionally, the Greenfield project in Roorkee Uttarakhand is progressing as planned with the purchase of the factory land already completed.

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

**Rakesh Kaul:**

Thank you, Mr. Pajnoo. Good morning everyone out here and thanks for joining this call. So, let me take you through the Q2 performance for our consumer appliances and our retail (EVOK) business at HHIL.

In Q2 FY23 our revenue from operations and consumer appliances Rs. 125 crore, registering a growth of 12% same quarter last year. EBITDA stood at Rs. 11 crore

registering a growth of 9% over the same quarter last year. In H1 FY22 business reported a healthy revenue from operations of Rs. 254 crore registering a growth of 42% and year-on-year. EBITDA at Rs. 16 crore, increased by 119% on an y-o-y basis.

Our continued investment in research and development has enabled us to register more than 33 patents and we have already got two patents provided to us in the inception of the company. We are devoted to creating a compelling and cutting-edge product portfolio with innovative features.

In Q2 FY23, we added new products, increase the SKUs, we offer across chimneys cooktops and water heaters and also expanded in our region metro, tier two, and tier three cities by opening up more than 133 distribution points across both the businesses. And also at the same time our increased focus on premiumization for product resulted in increased sales of our silent range of chimneys, and also the next quarter in the patent technology chimneys.

We have seen input prices moderating post to the last price hike in quarter one, which provided us the leeway to retrieve our margins and thus we did not take any price hikes during the last quarter.

During the quarter and H1, our retail business revenue came in at Rs. 14 crore and Rs. 28 crore, respectively.

Given the impact of inflation on the discretionary product categories like furniture the segment has been witnessing sales headwinds. Further our online, offline sales in this category has been modest in line with the overall muted demand environment. However, we've added four franchises in the quarter as of September 2022. We had a total of 34 franchises stores and our own stores.

We are optimistic about scaling up our revenues and believe the segment's margins will revert to previous levels and challenges surrounding raw material prices and inflation abate.

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

**Moderator:** Thank you. Ladies and gentlemen we will now begin the question-and-answer session. The first question is from the line of Ritesh Shah from Investec.

**Ritesh Shah:** I had a bit of a more generic question. First is basically what is the complete strategy when it comes to cross selling products across different divisions, is there an overlap in the distribution channel how should one understand this, that's the first question. And

the second question is what is the minimum hurdle rate that the company looks at while deploying incremental capital in any of the new segments.

**Sandeep Sikka:**

As you see today, we have three distinct distribution channels to the market. One is the traditional sanitaryware and faucets channel, which is more of a display channel. Today most of our products are premium products and they sell basis look and feel. People have to experience the product in the showroom. Another distribution channel which we have is the hardware channel, where most of our CPVC, PVC pipes sell. But this channel is run through the distribution model. Whereas the sanitaryware or faucets channel we run with a combination of a distribution and a dealer network model. Some of the hardware counters, do keep the sanitaryware products and primarily they try to sell low end segment because most of the hardware shops will not have that much area for the display for the products. But they are essentially hardware guys, they will have water tanks, but they will have low end sanitaryware, low end faucets display. As far as our kitchen segment is concerned, which is a very distinct channel. There may be some overlap in some of the building material shops like Sanitaryware, faucets, but these guys don't have kitchen, Chimneys, and hobs as display. But today as we run businesses, when you say overlap there is not much overlap today. In terms of your second question, how do we look at investing into these businesses historically.

**Ritesh Shah:**

Sir, can I interrupt sorry. I just had a follow up question on the first one, we have a pretty solid brand. How does the management think of basically cross selling products across different categories?

**Sudhanshu Pokhriyal:**

So, I just want to understand, what do you mean by cross selling because we are extending our brand right now to multiple categories and what do you mean by cross selling here?

**Ritesh Shah:**

Correct, So, what Mr. Sikka explained is there are three different channels that we have in the marketplace. My question is specifically, if a guy is buying faucetware from us, how do we compel him to buy a pipe, truflo pipe also from us, is there some strategy in place to cross sell either to a carpenter or a plumber or any other applicator?

**Sudhanshu Pokhriyal:**

Yes, now I understood your question. So, what we do is, we have between if you look at the pipes business as well as the sanitaryware and faucet business, the influencer is common which is a plumber. So, what we do is we share our plumber database. Not exactly same but we both have a very similar loyalty program for plumbers. So, actual there's a lot of synergy between both the divisions there. Similarly, if you look at the institutional buyers for example, there are people who are builders, who are architects, who recommend brands, when they take up a project, again our institutional team can go and actually recommend our water heater business as well, they also can recommend our pipe business as well. So, our institutional team is able to actually manage and use the cross selling of our products to the influencer segment, i.e. to the



architects and the builders. And finally, of course do the selling to them. So, that's how we use it right now, but if you see broadly like what Mr. Sikka said, that the large part of the business, let's say water heater for kitchen, or let's say for pipes, and sanitaryware, they sell from distinct retail outlets, which are very separate when you go into the market. So, the usage is actually happening more at the influencer level and at an institutional buyer level. I hope that's answers your question.

**Ritesh Shah:**

That's helpful. Sir second question was on capital allocation hurdle rates.

**Sandeep Sikka:**

This question has been asked to us, number of times over the last 6-7 years especially given the fact that we have ventured out into the two new business segments, the consumer products and the pipes business. We have a benchmark in our mind for sort of business which we do. One that we should become a leader in that business. When we say the leader in a highly fragmented market, we should be amongst the top five. And when it's not a fragmented market, we should be amongst the top three. If you see historically, in consumer products, we are the number two player in kitchen chimneys, hoods and hobs. And today, we have made a mark and with 6-7 years of our operations, we have been able to establish ourselves. Even in water heaters segment, we are right now amongst the top five or nearing top five. Even in the pipes segment if you see today, it's a highly competitive market, we are still the company which has the highest growth in the market. Although we started on a low base in 2018, it's still around four years or I'll say four-year young business base. Apart from the financial metrics we feel on a long term, a consistent ROCE ranging between 15% to 18% in a normalized market is something which we look at, but the leadership position is very critical for us and I hope I've answered your question.

**Ritesh Shah:**

Sure, sir. And just last question, we see actually working capital days have bumped up across business segments, if you can provide some color over there, it would be useful specifically for bathware and plastic pipes.

**Sandeep Sikka:**

Yes, if you go historically, we had given guidance last year that we will optimize our working capital by around 15% to 20%. And we did it, but if you see last till 31st March 2022, our operations were in two companies, like manufacturing was in AGI Greenpac and here we were doing the non-manufacturing part of the business from branding to sales, distribution, marketing, etc. After the consolidation, the inventory of even the manufacturing is now part of Hindware Limited and now we are working on it that how we can further reduce it. If you see there has been a substantial improvement on the debtor side which we have done in the last two years. We have really worked on it. And now we have been able to bring it around to almost 30 to 40 days for our building material products on an overall basis. On the next target, with the acquisition we have given historical guidance also, that we will be optimizing inventory going forward in next 12 to 18 months. There's an opportunity that we should be able to further reduce it by another 15% to 20%.

- Moderator:** The next question is from the line of Nikhil Gada from Abakkus AMC.
- Nikhil Gada:** My first question is on the margins, specifically for the building products and specifically for sanitaryware and faucets. Now this is a second quarter where after the manufacturing has come in that we are seeing margins in this range. Can you give us guidance, what are the best possible margins we can achieve now that we have got the manufacturing division in our fold in sanitaryware and faucets?
- Sandeep Sikka:** Thanks Nikhil. I understand your question about where it is coming from. If I just inverse your question, your key question is that, with the acquisition of manufacturing, how the margins behavior is. But one thing I'll just say for the whole business, we acquired this manufacturing on 1st of April 2022, the margins which are relating to manufacturing, they are accruing as a part of the overall P&L. But what is happening is, if you see last six months, input prices have been really very volatile, especially when we talk about sanitaryware. The gas input is the main cost, has increased substantially. And like last year, we used to get gas at odd Rs.20, Rs.25 which is now coming at odd Rs.60 to us. We feel that prices, we have taken a price hike in last one year which is ranging around 13% to 14% for the sanitaryware Products. We have now taken second or third round of price hikes now on the sanitaryware side. And we feel that to large extent we should be able to offset. But if you see we have continued our momentum in terms of growing more than the market as such which is very evident, from the sales number. I'll also request Sudhanshu to briefly talk about how the margins should pan out, going forward because we feel that giving the guidance on an absolute number right now it's a bit difficult Nikhil. But we feel that on a long term basis the whole thing will get normalized. We should be able to expand our margin which should be in the range of almost 15% to 17% on sanitaryware and faucets.
- Sudhanshu Pokhriyal:** We have already taken up the pricing in this quarter, though we're discussing quarter two right now but on 1st of November, we've hiked our prices on sanitaryware to the tune of 6% to 7%. So, I believe that in quarter three, we will start seeing that impact getting passed on in terms of margins. The largest component of hit which we have got on the margins is actually because of that, and all other prices at this point of time is stable. So, it would be taken care of, as Mr. Sikka said we can expect a significant improvement in margins as we go forward.
- Nikhil Gada:** Understood, got it sir. And sir on the pipes front, can you call out what has been the inventory losses for the second quarter and for the first half as a whole?
- Sandeep Sikka:** Yes, Nikhil. In the first half, we had inventory losses ranging between Rs. 6 to Rs. 7 crore and in quarter two, it is around Rs.19 to Rs.20 crore. But going forward, the prices has still come off what it was on 30th of September and I will request Mr. Rajesh Pajnoo, to further talk on this.

**Rajesh Pajnoo:** Nikhil there has been a continuous decline in the raw material prices of the PVC and CPVC has not been impacted by this. And it is happening over the last complete six to seven months, there has been a decline of around 42% in raw material prices. So, that is where the inventories have got hit across the spectrum of the industry. So, as Sikka told you that we had a total inventory loss of Rs. 25 crore and going further we just have to wait and see when there is a price correction in the raw material prices. Or otherwise, if it doesn't happen, definitely because past month also there has been post Q2, there has been a decline two times in the raw material prices. So, we are seeing some inventory losses if the correction doesn't happen in future.

**Sandeep Sikka:** This has given us a very good opportunity, the recent fall in prices. As a matter of a natural outcome of the whole process, our share of CPVC which is a high margin gain has increased substantially Now CPVC for quarter two in terms of value is more than 50% and it has grown over Q1 and it has grown even year-on-year versus Q2 of the last financial year substantially. We are seeing this new phenomenon, the higher acceptability of our product mix in the market and that's why you are seeing better growth, you're seeing good volume growth on the CPVC side. We are very confident about this business going forward, the price is one event, which has technically created a sort of disruption in the overall market sudden fall in the PVC prices .Going forward, business looks very robust based on the current market conditions.

**Nikhil Gada:** Got it sir. And just the third question is on the consumer products division. Now, while the margins have sort of come back, when we look at the growth over there, it's been a double digit growth but still on a low wage, we expected that the growth would have been much sharper. So, your views on that and how do we see the margins in this business from the next couple of years perspective now that we are sort of back to that run rate that we were looking for?

**Rakesh Kaul:** Yes you are right so we had a relatively modest double-digit growth, but if you remember one of our categories is a fan category which is undergoing a complete industry change because all the non-rated fans will get discontinued from 1st of January. And hence there is a huge, muted performance across the industry in the fans industry as such because the majority of the players are now trying to move to the rated fans. Hence there was a potential de-growth in the category of the fan. But overall, our kitchen appliances business and our air-cooling business have done very well. Our kitchen appliances has grown by 30% odd and the air-cooling business has grown by triple digits. While we have retained, while we come back to our EBIT margin in the vicinity of 7%. For this quarter, we believe in the medium to long term we should in double digits for sure. I hope that answers your question.

**Nikhil Gada:** And sir on the growth front do you think the second half would be similar to what we've seen in this second quarter in terms of growth?

**Rakesh Kaul:**

So, what has happened Nikhil is that there is huge inflationary pressure towards the mass and mass premium segment in the market right now. So, consumers are putting away their spend on discretionary products as such and our product category fall all under the discretionary part. So, what we've seen is a muted festival period recently. But going forward, we expect since the inflationary trend has normalized a little bit in the month of October against September, we do expect the demand revival to happen more towards the later half of the quarter three, and hopefully in quarter four, we can have a much more robust demand pattern coming in. But in the long run, which is six months from now and two quarters from now, we continue to believe that this business has much to offer to the entire organization as such.

**Nikhil Gada:**

Got it sir. And sir I just have one last question if I may. Lastly on the balance sheet front, we are seeing that the debt levels were on a quarter-on-quarter basis, I've seen a sharp increase especially on the plastic pipes front and also the finance cost on the P&L has seen an increase. So, can you help us guide in terms of what would be the peak debt levels that we might see from here onward, and what kind of quarterly run rate we see in the finance cost?

**Sandeep Sikka:**

If you see today, in the financial cost, there is an impact of two things. One is the overall interest rates for us as well as the markets when you try to compare this with last year, but if you are trying to compare finance cost with last year, definitely the increase is on three accounts. One is the increase in the interest rate, the effective increase has been around 1.9% to 2% in line with all the market trends of interest rates. Second, is the acquisition of the building products i.e. the plant and machinery which we have done for our manufacturing businesses, there is an interest cost for that acquisition for which the new loans have been taken. We had given guidance and with the profits which we are going to earn in next two to three years, a major part of this long term debt will get paid off. The third is that if you see there has been some increase on the inventory side, which we feel that will get diluted in next one or two quarters, and which will further reduce the overall interest as such. If you see for a quarter, we had on a consolidated basis and interest of odd Rs.18 crore, we feel that putting a number on a medium to long term range is difficult. But we would like to iterate that it will pay off some part of the loans which we feel that in next 24 months we should be able to pay up around Rs. 250 crore of debt from the surplus cash which we're going to generate in the business. Accordingly, the debt level will also come down and one element of more is that, if you remember in the slump sale, we had taken certain land and buildings especially in Bahadurgarh and Isnapur on a long-term lease rental. These rentals were approved by the shareholders of both companies as a part of the process of the slump sale. Hence, rentals, depreciation and interest also gets accrued to both depreciation and interest part under the Ind AS. This will continue but on the interest in loan side, we should be able to pay off around Rs 200 crore to Rs. 250 crore loans in the next 18 to 24 months from the profit accrual generated.

- Moderator:** The next question is from the line of Forum Makim from Equitree Capital.
- Forum Makim:** Sir, I wanted to know the contribution, the brand wise contribution for our sanitary and faucetware business like contribution from Hindware, Hindware Italian and premium brands like you.
- Sandeep Sikka:** If you see, our premium ratio which starts at the Hindware Italian is almost 50% of our overall portfolio. And for faucets, we are doing as a percentage of overall bath products of around 34% to 35%.
- Forum Makim:** Okay. And sir could you give us a breakup city wise like how much would metro cities be contributing, how much tier one, tier two and below would be contributing to our revenue?
- Sandeep Sikka:** If you see at the Hindware brand, the top nine cities, or top 7-8 metros are Bangalore Chennai, Delhi, Hyderabad, Kolkata, Mumbai and Pune which account for our 33% of sales and 67% goes to non-metro and similar trend is there on the six months for the year or YTD of this year.
- Forum Makim:** Sir where would Hindware as a brand be very strong like in which of these area?
- Sudhanshu Pokhriyal:** So, Hindware is a 60-year-old brand. And if you look at it from a marketing parameter standpoint, awareness level for the Hindware brand is at 100% level, so everybody knows about Hindware brand. It may change for various product categories. So, for example we are extremely strong, I would call us extremely strong for sanitaryware. I'll call us in the top three brands for faucets, similarly for every single product category in that sense. So, from a marketing standpoint, if you ask me in one word if you ask Hindware as a brand is an extremely strong brand.
- Forum Makim:** So, which will be our focus areas like metro or non-metro?
- Sudhanshu Pokhriyal:** So, we are growing at this point in time in the tier three, tier four market, at double the rate of metro market. That's also because the nature of growth is that the tier three, tier four markets are growing at a faster rate. So, I hope that answers your question.
- Forum Makim:** And sir would we also be selling our premium brands like Italian and Queo in these tier three and four markets?
- Sudhanshu Pokhriyal:** Yes, we have both Italian and Queo available in tier three and tier four markets as well. We have seen increased demand for premium products in Tier-3, Tier-4 markets right now.

- Forum Makim:** Okay sir. Sir also could you give me a breakup of like breakup between North, West, South and East is that possible?
- Sudhanshu Pokhriyal:** For sanitaryware and faucets business, the largest market is actually the North Market for us. And yes the second largest market will be South, third would be East and the smallest market is the Western part of India.
- Rajesh Pajnoo :** Yes, pipes and fittings business. The South is the largest market with 47% market share. North is a second number which is 30%, West is at 18% and East is 5%.
- Rakesh Kaul:** For consumer appliances, it would be a little bit slightly different, while we do get the figures from the e-commerce our e-commerce is a leading category in terms of contribution to the business followed by North, followed by East, followed by South, and followed by West. But if you put the e-commerce sales into each of these regions, then the North is the largest region for us.
- Forum Makim:** Right. So, in terms of a dealer addition, where are we more focused I was saying South is a little bit weak. So, are we adding more dealers on that side?
- Sudhanshu Pokhriyal:** For dealer addition the way we look at it is actually white spaces, so white spaces means in cities which are not having dealer right now. And we are basically targeting every single one town, OLP (one lakhs plus population) towns as we call them. So, we had in the beginning of the year a list of 60 odd towns where we were not available so we've gone ahead and opened a majority of our distributor or dealer in those towns and cities. And at this point, our coverage is actually expanding across the country. But I would still believe that our coverage is less in the Western part of India especially rural Maharashtra, Madhya Pradesh where the market still has to grow faster. But yes, overall expansion is happening across the country, it is not only one specific market is being expanded right now.
- Forum Makim:** Sir so we are seeing like a lot of increase in competition even from the five players that are entering the sanitaryware space and even existing players, the top three or four players who are going really strong on sanitary and faucetware, so what is the strategy exactly to maybe maintain or increase our market share in this tough environment and what gives you the confidence that we would be growing at 1.5 to two times the industry growth rate?
- Sudhanshu Pokhriyal:** Yes, so you're absolutely right, many of our other building material players have entered into sanitaryware and faucets business. And many of them believe that this is an adjacency, in terms of because it's in the building material. However, what we have seen is not an easy business to tap. One of the leading global company, took more than 10 years to even get to a reasonable revenue in India. And it's not easy even for companies which are into further categories, for example, pipes, and getting into

sanitaryware and faucet as this segment requires a lot of efforts especially on the side of service and consumer service. So, we believe customer service is a big competitive advantage which we have. Secondly, this is not a business which is solely done through plumbers. This business is largely a brand business, a consumer wants to buy a brand and wants to put it in his bathroom, and it's not a product which goes behind the wall. So, to create a brand, for a product, for a company which is not selling brand right now to consumer, it will take a long while. Thirdly, they have to invest in large brands, stores, and brand shops, where consumers can go and experience products/ Again for new competitors, it's not very easy for them to do that in a very, very short period of time. So, we believe that it's not very easy for all competition, which is coming in to actually establish themselves, in the market, but we welcome them all. It's great for the consumer at this point in time. And lastly, from our side, we are working on all these aspects and becoming an extremely strong lead on the brand side, be it on customer service side, be it on distributions side, be it on product innovation side. So, we are thinking ahead of them to make sure that we remain in the game and our last multiple quarter results in comparison to all the new players is a key indicator that we have been in business from the last strategy till now.

**Moderator:** The next question is from the line of Sunny Gosar from MK Ventures.

**Sunny Gosar:** My first question is on the status of our transaction with AGI Greenpac. So, we had some pending purchases from AGI left so is that completed or what's the status of that?

**Sandeep Sikka:** We had stated in the last call that we had to pay around odd Rs. 100 crore around to them, which till September we have already paid around Rs. 50 crore, one transaction relating to land transfer is already completed and the other is about to get completed. Within this quarter or the next month, we should be able to settle the entire thing. The businesses have been transferred, there is only certain formalities which are relating to the transfer of entire title deeds and other things that are getting completed now.

**Sunny Gosar:** Sure. And in terms of our net debt, we have come up to about Rs. 750 odd crore. So, can we assume that this is a peak number in terms of the absolute debt or do you think that debt can go up materially from here?

**Sandeep Sikka:** Debt won't go up materially from here. One we have already talked about this, that there should be some dilution on the inventory side which we are targeting. We have optimized our debtors. But, there is some expansion plans like we had declared for the Roorkee plant for the pipes business. The plant will get completed in 18 to 24 months from now, it's not that immediate, the spend will be there. The capex which ideally, we should do annually should be ranging between Rs. 60 to 70 crore. We are confident that the EBITDA numbers which are there appearing in Q2 and Q1, are not the normalized EBITDA, because of all the fluctuations in the input prices. But going

forward, we feel that EBITDA trajectories should get stabilized and with the surplus generation of cash we will start paying the debt.

**Sunny Gosar:** Sure. And in terms of the absolute capex, the company has spent about Rs. 70 odd crore in H1. So, what is the absolute capex outflow in FY23 and likely outflow in FY24?

**Sandeep Sikka:** On an average, if you see, on a yearly basis around Rs. 70 crore to Rs 80 crore, you can assume as a normalized capex, which will come through. This is again contingent on certain factors like some of the times, like right now we're driving our focus to open more visual distribution points for the sanitaryware business. The investment is also going through that, which is backed by the commitment from those people, our dealers, and distributors to further enhance the sale. It depends on the type of initiative which we are doing. But broadly, in terms of the main capex, which is there, we have already disclosed that there would be capex relating to Roorkee plant, which we will set up over a period of time, in next 18 to 24 months and we feel that the plant should come up in Q3/Q4 of FY24-25.

**Sunny Gosar:** Sure. And one last question, so freight rates have come off significantly globally. So, what's the likely benefit out of that, in terms of the imports on the consumer appliance side and has that already come in the second quarter or is there is benefit left to come through in the coming quarters?

**Sudhanshu Pokhriyal:** Yes, so that's a fair point wherein we've seen ocean freight has actually come down substantially. Of course, for all our current new imports, which are happening from this month or from the previous month, we are getting the benefit. Of course, we are also sitting on some inventory which came at when the freight rate was pretty high. So, I would expect that the benefits will actually come into our P&L only from Q4 onwards, I would not really expect this benefit to be accrued in Q3.

**Rakesh Kaul:** Sure. For the consumer appliances business also, we were sitting on an inventory in which the freight had come at a higher cost, particularly during the quarter one and towards the latter half of quarter four of previous year, and as articulated by Sudhanshu, we'll be seeing some definite growth on that area, in terms of margins towards the end of quarter three or early part of quarter four.

**Moderator:** The next question is from the line of Vikash Vijayvargiya from Healthx Services.

**Vikash Vijayvargiya:** Two of my questions are there, on the presentation page number #11 regarding the plastic pipe. So, existing capacity as per my knowledge is 35000 metric tonne is there, but volume Q2FY23 it shows 37,000 metric tonnes. Were there any announcement on that front or some kind of improvement is there?



- Rajesh Pajnoo:** See we have installed two new machines during this period. So, that is why it has gone to 37000 metric tonnes. And we are in the process of adding up machines. So, we presume that by this quarter end we'll be having a capacity of 39,000 metric tonnes.
- Vikash Vijayvargiya:** End of the Q3?
- Rajesh Pajnoo:** Yes, at the end of Q3.
- Vikash Vijayvargiya:** And another question is, in the presentation page number #20, your service network of the 650 technicians is there in pan India. What is the ratio of the female and male technicians?
- Sandeep Sikka:** It should be less than 2% because this field is still predominantly controlled by men, because it requires a lot of manual work. We are in touch with people so that we can encourage the female gender also to be part of this, but there are some constraints, like there are installations, there are manual lifting and other stuff, but the initiative is to bring more balance.
- Rajesh Pajnoo:** It's like, what happens is during the construction activity how plumbing activities happen in the shaft so people have to climb the shaft. So, from safety point of view and from manual labor which takes place, it's predominantly dominated by the male segment only.
- Vikash Vijayvargiya:** Improvement is possible in this?
- Rajesh Pajnoo:** It is very slight, very minor. Earlier, we hardly used to see anything, it was 0%, but now we can say it is 1% to 2%.
- Sudhanshu Pokhriyal:** We also run a plumber program, where in, an outside plumber is enrolled into a loyalty program, which we run. I'm telling, with our experience we've not even seen even 1% of the whole enrollment from there, to be from women. So, the general population which is actually in this field is predominantly male, so that's how only male have been working for us as plumbers.
- Moderator:** The next question from the line of Puneet Khanna from BOB Investments.
- Puneet Khanna:** So, first of all, I just wanted to ask about the sanitary and faucets business specifically, I want to know the volume growth for the quarter two and H1 basis that is my first question. The second question is the capacity utilization of sanitaryware and faucets plant and what is the production yield coming out of it for the plants?
- Sandeep Sikka:** Thanks for the question. Generally, this volume from sanitaryware is a sort of a misnomer because sanitaryware comes in different sizes and different forms. We don't

generally disclose, any number on the volume side, like on the faucet side again, the faucet types are very different like in a particular month, we may sell more of diverters in other months, or we may sell more of other things. Market takes it from the perspective of the sales value only. On the pipes segment, there is good volume growth which we have achieved, like we disclosed that on the CPVC side, there has been year-on-year versus 40% plus volume growth. Utilization has been more than 90% and on the faucets side, it's an odd-55%. But, on the overall if you see on the pipes, it's again more than 80%, so, we still have a capacity in-house but we are working on outsourcing model also for faucets.

**Puneet Khanna:** Sir on the volume side, can you tell us the price increase impact at least for the sanitary and faucets business?

**Sandeep Sikka:** In the last one year, on sanitaryware side, we have taken around 13% to 14% on sanitaryware and on the faucet side it is average of around 12% to 13% in the last 12 months.

**Puneet Khanna:** Okay. And can you tell us about the yield, what is the yield coming out of it for the sanitaryware plant and faucet plants?

**Sandeep Sikka:** Actually, it's too micro a question. To be very frank and generally we will not disclose this. And I would like to give it a pass.

**Moderator:** The next question is from the line of Pushkar Jain of Sequent Investments.

**Pushkar Jain:** I would just like to ask you, post this Rs. 50-crore payment more or less it is settled, what is the consistent ROE and ROCE that we are looking on a long term basis, given our equity securities changed a little bit?

**Sandeep Sikka:** We strongly feel that on a medium to long term range for our all businesses together, based on the market conditions from time to time but we are confident stretching ROCEs ranging 18% to 24% on an average in a normal market conditions for our combined business.

**Pushkar Jain:** Right, What is consistent margin that we have in mind for all businesses combined like at the consolidated level once the input cost pressure stabilizes and everything is back to normal?

**Sandeep Sikka:** We generally don't give any short-term target, but on a medium to long-term gain on a consolidated basis, we have stated that our EBITDA margin should be ranging between 14% to 16% on a consolidated basis.

**Moderator:** The next question is a follow up from the line of Ritesh Shah from Investec.

- Ritesh Shah:** Couple of questions. Sir first one is you indicated, a long-term ROCE that we chased for new businesses just wanted to get a sense, like after how many years of being into a particular operation or launching a new segment would you aspire for that number, is it the decision is 18 months, 24 months how should one look at that?
- Sandeep Sikka:** Ideally if we enter a new business, most probably the incubation period is around five years. If you see, like consumer business, it's a distinct vertical inside the company. Similarly, when you look at the pipes business, it's not that the same as sanitaryware and faucet team doing the business. It is a new team led by separate leadership and a separate distinct market distribution channels. There is a fixed cost to the business, we need to set up the entire supply chain, we need to set up the entire manning for controlling the business, be it sales and marketing teams or the foot soldiers to the market what is going to be the distribution and selling points. There is an operating cost, but if you see we are slightly delayed on few of our businesses because in last two years of the COVID impact. And now post COVID there was a spike in the shipping freight cost. And now the input price material has risen. The market has been disruptive over the last three years in some form or another. Otherwise, the momentum on the growth, the momentum on the margin situations was consistent as per the plan before all these restrictions came into the picture. That's why generally, we avoid giving anything on medium to short term, because you can't control anything but we have given guidance's fairly and we are still maintaining those guidance's for a medium to long term.
- Ritesh Shah:** Sir, if I have to just rephrase the question, if we are deploying certain capital upfront, what is the tenure which you would like to recoup the capital?
- Sandeep Sikka:** I've answered that, four to five years.
- Ritesh Shah:** Sure. My second question was specifically on the bath ware side, can you indicate what the percentage for our captive manufacturing versus outsourced will be for faucet and sanitaryware, separately please.
- Sudhanshu Pokhriyal:** So, about in-house manufacturing sanitaryware is about 55% and around 45% to 46% for faucets.
- Ritesh Shah:** I would presume this is on value terms?
- Sudhanshu Pokhriyal:** Yes, this is on value terms.
- Ritesh Shah:** Okay. And sir can you give some color on the balance sourcing that we have, the sort of arrangement that we have given the competitive intensity and the market is increasing. So, I would presume that the other players will also be sourcing via

outsourcing at the board. How should we understand the consistency in the supply chain and the margins which we give to our vendors over here?

**Sudhanshu Pokhriyal:** Yes, so we have about 15% of our sanitaryware which is actually imported from China. And the balance which is outsourced domestically is largely procured from focused five or six vendors which are based out of Gujarat and Rajasthan. While if you look at faucet again, we've got five or six vendors, which supply us, and they are strategic vendors. They supply us, the entire 55% outsourced material, which we buy domestically. There's hardly any import which happens in the faucets segment.

**Ritesh Shah:** And just last bookkeeping question, would it be possible for you to quantify what is the average cost of inventory of PVC that we are holding end of the quarter, I am just trying to get a sense of inventory loss if at all for the next quarter.

**Sandeep Sikka:** The loss quantification process is still continuing. Because the prices which was at around Rs.90 to Rs.100 for the PVC for this quarter end and is still coming down. The inventory which we have in our hand, we feel that some losses will still come through, because the current prices are in the range of around Rs.78 to Rs.77. The quantification right now is slightly difficult for us. But definitely, the market has also given guidance that there will be some losses to come through, because it's all depending on how these prices pan out.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand it over to the management for closing comments.

**Sandeep Sikka:** Well, thank you everybody for joining the call today. Markets are very volatile and it has been volatile as I spoke that, especially on the few of the product prices are increasing, few of the product prices are coming down like for the pipes the PVC prices are coming down. On the gas side, the prices are going up I really understand, it's for any analyst community they have to really go through the deeper into the data to really aspect the whole thing. The questions have been very, very logical and I hope we have been able to respond to all of them. Thank you again for joining the call.

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