"Somany Home Innovation Limited Q3 FY 2022 Earnings Conference Call"

February 11, 2022

MANAGEMENT: MR. RAKESH KAUL, WHOLE TIME DIRECTOR AND CEO
MR. SUDHANSHU POKHRIYAL, CEO, BATH BUSINESS
MR. RAJESH PAJNOO, CEO, PIPES BUSINESS
MR. SANDEEP SIKKA, GROUP CFO
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Moderator: Ladies and gentlemen, good day, and welcome to the Somany Home Innovation Limited Q3 FY 2022 Earnings Conference Call hosted by Monarch Networth Capital.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I'll now hand the conference over to Mr. Vineet Gala from Monarch Networth Capital. Thank you, and over to you, sir.

Vineet Gala: Thanks, Irene. Good afternoon, everyone. On behalf of Monarch Networth Capital, I would like to welcome you all on the Q3 FY'22 Earnings Call of Somany Home Innovations Limited. From the management side, we have with us, Mr. Rakesh Kaul, Whole Time Director and CEO of SHIL, Mr. Rajesh Pajnoo, CEO of the Pipes Business, Mr. Sudhanshu Pokhriyal, CEO of the Bath Business, Mr. Sandeep Sikka, the Group CFO, and Mr. Naveen Malik, the CFO of SHIL.

I now hand over the call to Mr. Gavin from CDR, India. Over to you Gavin.

Gavin Desa: Thank you, Vineet, and thank you for introducing the team. Just before we start, I'd like to mention that some of the statements made in today's discussions maybe forward-looking in nature. The actual results may vary as they are dependent on several external factors as well, and a statement to this effect has been included in the results presentation that has been shared with you earlier.

We will start the call with opening remarks from the management, following which we will have an interactive Q&A session.

I now invite Mr. Naveen Malik to open the call. Over to you, Naveen.

Naveen Malik: Thanks, Gavin. Good afternoon, ladies and gentlemen, and welcome to Somany Home Innovation Limited Q3 and 9M FY'22 Earnings Call. I am joined today by Mr. Rakesh Kaul, Whole Time Director and CEO, Somany Home Innovation Limited., Mr. Sudhanshu Pokhriyal, CEO, Bath Business, Mr. Rajesh Pajnoo, CEO, Pipes Business and Mr. Sandeep Sikka Group CFO.

Before we begin, I would like to mention that some statements made in today's discussion maybe forward-looking in nature. The actual outcome may vary as they are dependent on several external factors as well. The participants may make their own assessment before taking any decision.

I will be taking you all through the financial performance of the company, followed by which the respective business heads will take you through their respective businesses.

Before moving on, I would like to mention that for the purpose of a fair comparison, the figures discussed on the conference call for Q3 FY'21 and 9M FY'21 have been adjusted to exclude the contribution from the Water Heater business which was sold in a slump sale to Hintastica Private Limited, currently a 50:50 joint venture between Somany Home Innovation Limited and French multinational Groupe Atlantic.

Now coming to numbers. During the quarter, we delivered a healthy growth of 26% year-on-year in the consolidated revenue. EBITDA for the quarter was around ₹62 crore, registering a growth of 6% year-on-year. Profit after tax for Q3 FY'22 is around ₹36 crore, representing a growth of 7% year-on-year after adjusting the earlier period tax refund of ₹4.3 crore in the corresponding period of previous year. For 9M FY'22, consolidated revenue was recorded at ₹1,608 crore, registering a growth of 48% year-on-year. EBITDA for the period was ₹137 crore, registering a growth of 57% year-on-year.

Moving on towards segment performance. The Building Products division delivered a robust performance during the quarter. It recorded a revenue of ₹496 crore, registering a growth of 32% year-on-year. EBIT for the quarter was ₹46 crore, growing by 37% year-on-year. And EBIT margin for the quarter was 9.3% as compared to 9% for Q3 FY'21. These figures include a positive contribution from the Plastic Pipes and Fitting business. Sales for the Pipe business stood at ₹156 crore, registering a growth of 33% year-on-year.

The Consumer Appliances business witnessed a growth of 7% year-on-year, coming in at ₹131 crore, despite muted demand. EBIT for the segment was ₹4 crore, registering a de-growth of 72% year-on-year. This was a result of the inflated input cost as well as demand slowdown because of the Omicron scare. The business was impacted during the quarter, but we believe that the impact on the profitability is transient in nature and our focus to further improve the efficiency of our operation will help us drive growth in the coming quarter.

In Retail business, revenue grew by 23% year-on-year to ₹22 crore. EBIT stood at ₹2 crore having grown up by 80% year-on-year and was yet another profitable quarter for this business.

As a company, we continue to register growth and maintain profitability. We hope to drive business performance, backed by our strong brand Hindware, consistent and innovative product launches, and our robust retail and distribution network.

With that, I would like to call Mr. Rakesh Kaul to take you all through the Consumer Appliances business and the Retail business. Over to you, Rakesh.

Rakesh Kaul: Yes, thank you Naveen. Good afternoon everyone, and thank you for taking the time to join on today's call. I hope you are all keeping well during this pandemic.

As far as the SHIL standalone performance is concerned, the Consumer Appliances reported a muted growth of 7% this quarter year-on-year. This is after registering a CAGR growth of 31% over the last 4.5 years. And this muted growth was because of the higher base in Q3 FY'21, which also enjoyed the benefit of huge pent-up demand post the COVID-19 getting over, the first wave. Q3 FY'22, especially in the later half, saw a huge tapering in demand immediately after Deepawali, due to the Omicron scare, and also adversely impacted the consumer's sentiment. Beside e-commerce, which was an instrument of growth in this business also was under a huge down slide because of consumer reluctance to buy during the latter half of Q3. But on the back of our strong brand, Hindware, we were able to register a growth despite all these challenges recording a revenue of around ₹131 crore. The profitability of this segment, as Naveen reported, was impacted and was with an EBIT of ₹4 crore owing to the inflated raw material cost and other input cost which included very high ocean freight, which included a lot of changes in the input cost as well. This has been the trend in the industry for the past few quarters, but in Q3 FY'22 the impact on EBIT was much more pronounced.

We expect input cost to remain high at least for the next one-and-a-half quarters, post which they should stabilize. During the quarter, despite the slowdown, we launched 19 new products and remained committed to developing innovative products for our consumers and the new launches are an attestation of the same. We have also appointed a fairly huge number of distributors totaling up to 93 distributors across the country to capture the growing demand, and this was mainly on account of a stupendous growth of our business in fans which grew up 88%.

We have been also focusing on growing our Kitchen Appliances business, which is not only the biggest contributor to the Consumer Appliances business, but also enjoys a significant market share in the kitchen-hoods segment. We launched 16 new exclusive Kitchen Galleries across the country taking the total number of Kitchen Galleries to 140. This is to provide a great consumer touch-point accessible to our consumers where they can go through the entire range of Hindware Kitchen Appliances.

During this quarter, the possibility of a third wave and the consequent lockdowns and the scare of the Omicron variant dampened the consumer sentiment further. The slowdown was already visible post Deepawali, and hence concurrently high cost kept profitability under pressure. We are seeing a revival in trade sentiment for some of our categories and expect it to further improve with inventory off take as the Omicron fear abates and the COVID cases in the country decrease.

As far as the Retail and D2C business is concerned, the revenue grew by 23% year-on-year to ₹22 crore. EBIT was recorded at ₹2 crore, which was registering an 80% growth year-on-year, and margin stood at 8.4% up from 5.6% in Q3 FY'21. So, this is a significant milestone in the sense we continue to grow profitably in this business from previous quarters as well.

We launched around 200 new products during this quarter, expanding our product portfolio to cover a wide range of price points. Additionally, in line with our strategy for the business, we also added 10 new franchisee partner in the quarter taking the total to 39. So we continue to adopt an asset-light approach to grow this Retail business by focusing more on the franchisee business and the e-commerce business.

With that, I would like to conclude my remarks and hand over the call to Mr. Sudhanshu Pokhriyal. Over to you, Sudhanshu.

Sudhanshu Pokhriyal: Thank you, Rakesh. Good afternoon everyone, and a very warm welcome to all of you. Q3 FY'22 was a healthy quarter for the Building Products division. We witnessed robust growth in both revenue and profitability. There has been a steady increase in demand supported by consumer taking home improvement projects, combined with the increase in real estate demand on the back of low interest rate, government incentives and increasing sales.

I am happy to report that during the quarter we witnessed an increase in market share for both our sanitary and Faucet businesses. Our leadership in product design and salience, wide portfolio and robust distribution have enabled us to deliver industry-beating performance for many quarters now. Owing to these factors, we have delivered a healthy growth in revenue and profitability. We've been investing in strengthening our retail and distribution network at a pan India level to further penetrate the Tier 1 and Tier 2 markets, and to reach out to Tier 3 to Tier 5 markets. Even the institutional business has contributed significantly to the growth seen in the quarter.

We also have launched another range of product called Aspiro, which is both Sanitary and Faucet range, which has been well received and is expected to grow further in the coming quarters.

The consolidation of our brand teams has also led to positive impact on our margins and we plan to continue this strategy going forward to reap its benefits.

To conclude, I would like to reiterate that this quarter has been a positive one for the Building Products division and we aspire to continue on this healthy growth journey, increasing our market share and creating product aligned to the needs of the consumer.

I would now like to hand over the call to Mr. Rajesh Pajnoo, to take you all through the Plastic Pipes and Fittings businesses. Over to you, Rajesh.

Rajesh Pajnoo: Yes, thank you, Sudhanshu. Once again, welcome everyone to this Q3 and YTD 9M FY 22 earnings call. Our Plastic Pipes and Fittings business have grown by 33% year-on-year with a revenue of ₹156 crore for the quarter and continues to positively contribute to the Company's bottom line. In what has been a difficult environment for this space, our business has grown in revenue, volumes and market share on the back of the wide acceptance of our brand, and the quality of our products. Despite increased fluctuations in raw material prices, we have been able to grow the business. CPVC's contribution to the revenue has also increased during the quarter signaling a favorable mix of product sales, enabling us to enjoy better realization.

We constantly work with the plumbing community to create an ecosystem where both parties can help each other grow. It has proven to be an extremely effective strategy to enhance brand awareness. We continue to implement initiatives that help TRUFLO to create stronger brands with this influencer community.

In terms of the proposed transactions in which Brilloca Limited will acquire the manufacturing assets from HSIL, the Plastic Pipes and Fittings project have seen good progress. The pipes plant with expanded capacity is on track and expected to be commissioned in the first quarter of the next financial year. And also, the new overhead water storage tank production facility is going to commence in a month's time in Hyderabad. We are excited to start this new chapter of our journey and believe it will be a major step in helping make TRUFLO, one of the leading plastic pipes and fittings brands in the country.

We continue to grow at a good pace, backed by many factors both internal and external. As the raw material prices stabilize, we are confident of delivering a faster growth rate and better profitability.

I believe that concludes the opening remark, and I would like to ask the moderator to open the floor for question-and-answer session. Thank you, gentlemen.

Moderator: Our first question is from Dixit Doshi of Whitestone Financial Advisors. Please go ahead.

Dixit Doshi: Yes, thanks for the opportunity. Can you hear me?

Sandeep Sikka: Yes, we can hear you.

Dixit Doshi: Yes, so my question is regarding the Consumer Appliances business. If I see year-on-year, the margins have come off very sharply. So is it because of the transfer of the Water Heater business or as such the margins have come down. And how do you see the trajectory in margin in Consumer Appliances business?

Rakesh Kaul: Yes. Thank you so much for this question. First of all, I would reiterate that the margins from a comparable perspective have not come down as a gross margin percentage because of the Water Heater business getting transferred. It is primarily because in Somany Home Innovation Limited, we have a high margin business of Kitchen Appliances business. So, we suffered on account of very, very high ocean freight which went up to 350% more than the last year Q3, and also there was huge shortage of certain raw materials and electronic components for our IoT based products and smart products, so which further enhanced the price. So, I think the margin loss was primarily on account of the input prices, the ocean freight, the transportation, which substantially reduced the margin by almost 4.5% from the preceding quarter and almost 5.5% from the previous year's quarter.

Having said that, the buoyancy from an overall perspective if you could see, the competition landscape, majority of the brands, almost 80% to 85% of brands in this space suffered huge margin erosions in the last quarter, even established brands who have been there for 3 to 4 decades as well. Having said that, we believe that the sentiments and the buoyancy for our business, we continue to remain buoyant for our business, and we see that post the end of the Q4 we see demand getting revived considerably. One is on account of a seasonal category of air cooling which we believe that if the Omicron wave settles down now, we could see a full season coming ahead of us, which was not the case for the last 2 years. So, I see margins stabilizing and coming back to the Q2 level somewhere around the start of Q1 FY'22-'23. I hope I was able to answer that.

Dixit Doshi: In terms of growth in Consumer Appliance business, so obviously when we had a lower base, we were growing at 25%-30% plus. This quarter the growth was slightly down also because of the Omicron. But on a sustainable business 2, 3 years down the line, what kind of growth we can expect in Consumer Appliances?

Rakesh Kaul: I think in the past calls also we have given this benchmark that we want to be a substantial business, and in the next 2 to 3 years we would like this business to be around anywhere between ₹1,000 to ₹1,200 crore. That's what we are looking at. So, we would continue to grow, we would continue to target a growth of plus 30% in the coming years as well.

Dixit Doshi: Okay. That's it from my side. I will join back in the queue. Thanks.

Rakesh Kaul: Thank you so much.

Moderator: Thank you. Our next question is from Deepak Poddar of Sapphire Capital. Please go ahead.

Deepak Poddar: Yes, thank you very much sir for the opportunity. So sir, first I wanted to understand, like you had mentioned earlier as well about the price hike. But just wanted to understand what sort of price hike we have already taken and what sort of price hike would be due?

Sandeep Sikka: You're talking about Consumer business or Building Product business?

Deepak Poddar: Both.

Sandeep Sikka: Okay. Rakesh if you can answer on the Consumer side.

Rakesh Kaul: Yes. As far as the Consumer Appliances business is concerned, over the year we have taken three price hikes in Kitchen Appliances business. But unfortunately, in the cooling business, in the seasonal business which got impacted badly by the Delta Wave, despite the high input prices, the inventory and the trade was very high, and the trade was not amenable to carrying any further stock at a higher price. So, there our margin suffered much more because of the devastation of the season which was because of the COVID 2nd wave. However, having said that, we have increased our Kitchen Appliances prices and we are also intending to increase the seasonal products pricing very soon so as to cover up for the loss of margin in the last quarter.

Deepak Poddar: Okay. And any further price hike plans?

Rakesh Kaul: Yes, I think this quarter would see one price hike for sure; Q4.

Deepak Poddar: Okay. And can you quantify like in percentage term how much was the price hike? A range may do here.

Rakesh Kaul: I think as I told you, in all the categories we have not been able, because we are at various stages of growth in our categories. Some of our businesses are as young as 1.5 to 2 years old and some of our businesses are, at the most, 5 to 6-years old. So, basis on the strength of our businesses, for example, in Kitchen Appliances where we are very strong, and we are a number 2 player in the Kitchen Chimney segment, we could afford a higher price increase to the tune of around 8% to 10% this year so far.

Deepak Poddar: Okay, understood, understood. And what about the Building Product?

Rakesh Kaul: Yes, Sudhanshu?

Sudhanshu Pokhriyal: Yes, hi. So, we took systematically 3 price hikes in Sanitaryware and 2 price hikes in Faucet business. And both combined, if you see, it will be to the tune of about 20-odd-percent in Sanitaryware and 23% in Faucet. So 20% to 21% odd weighted average pricing have gone up during the course of the year.

Deepak Poddar: Okay, 20%. And any further price hike plan or the current price hike covers the input cost increase?

Sudhanshu Pokhriyal: No. As of now, there is no price hike in the current quarter. I won't be able to comment on subsequent to that as of now.

Deepak Poddar: Okay, okay. So, I understood on those price hike point. Now, by when do we see then our EBITDA margin if you see, normalizing, and even, I think, post this acquisition we were talking about 14% to 15% long-term margins. And now I think we are talking about 18% to 19% long-term margin, right?

Sandeep Sikka: Yes. The margin, over the last 6 to 9 months have been very erratic in terms of the input material, let it be the freight cost, let it be the increase in the natural gas prices. At every stage we have to see the market and then do a price hike. When we had given this guidance of incremental margin expansion, it was not linked to the volatility of the input prices. This is coming from the rationality which we do on the premium side of the business, in the product mix, using the operating leverage gearing, the cost of the leverage, bringing efficiencies into the business. The incremental margin guidance which we gave around 9 months back was linked to these factors, not to the volatilities of the market. So, the market shouldn't get confused on this, because these price hikes are linked to the input price which are there.

Deepak Poddar: Right, right. Yes, that's a fair point. You mean the things get settled down and your input cost kind of stabilizes.

Sandeep Sikka: Yes.

Deepak Poddar: So, that 18%, 19% guidance maybe in 4 years down the line still holds, right?

Sandeep Sikka: Yes. We have given medium to long term guidance and we are walking that path. As you see, we had not only given guidance on the margin, we had also given guidance on bringing effectiveness to working capital. We gave guidance that we'll try to work around bringing 20% efficiency. We have done a fair level of work there also, and few of the numbers will be visible to you as a part of the segmental reporting which we have reported.

Deepak Poddar: Okay, understood. And my final question is on gas pricing. Now that summer is also coming up. So, in summer generally gas prices go down. So, any kind of outlook we have on gas pricing and how do you see it?

Sandeep Sikka: Very difficult to judge the gas prices. If you see the natural gas price, it has almost gone 80%, to 90% in the last 4 months. And I think it will be a very wild guess, but internally, our guidance is that it should slightly mellow down given the fact that such a spurt has happened. But it will not come back to the same levels as it was, somewhere in ₹20, to ₹25. But it should stabilize in the range of ₹40 to ₹45. That's our internal thought but this is based on the current market conditions and subject to how the market operates.

Deepak Poddar: Okay. Stabilize at ₹40, ₹45, currently it is at what? ₹45 to ₹50?

Sandeep Sikka: Yes, because we operate in different states. In some states it's higher than ₹50 too.

Deepak Poddar: Okay. Fair enough. Yes, that's it from my side. All the very best. Thank you.

Moderator: Thank you. Our next question is from Sunny Gosar of MK Ventures. Please go ahead.

Sunny Gosar: Yes, thanks for taking my question. I have a couple of question. First of all, basically I would like to understand, typically what is the seasonality in the business, because last two year's quarterly performance has been disrupted by COVID waves and in some quarters by some pent-up demand. So, if you can give some color on typically in a steady-state which quarters are seasonally the strongest and which quarters are seasonally lean? And that's for, of course, basically Consumer Appliances and Building Products.

Sandeep Sikka: Sure, I'll give an over-arching answer on this. Let's talk first about the Bath products. Generally, based on the historical trends, we have seen that Q3 and Q4 generally constitute around 55% to 60% of the sales. And the first and the second quarter is 45% to 40% on the Bath product. But that's not the seasonality. On the Pipes side, Q2 due to the rainy season, gets slightly seasonal. On the Consumer product side, we have a steady-state business which for the Kitchen appliances part which keeps flowing. Water heaters, is a winter product and air cooling becomes the summer product. So, that's how we try to balance. And these are the seasonal products in the businesses. Rakesh, if you want to add on to this anything?

Rakesh Kaul: Yes, I think you are right. Primarily we have the sell-in season. So, from a revenue perspective, so we have a sell-in season and a sell-out season. For air cooling, Q4 becomes a big sell-in season, and Q1 becomes a big sell-out season. And similarly for water heaters, Q2 becomes good sell-in season and Q3 becomes a good sell-out season. As far as our new category of fans is concerned, largely most of the quarters behave like Kitchen Appliances except the Q3 which is little bit muted in terms of sell-in.

Sunny Gosar: Right. And considering whatever our salience is for each of these products, so would it be fair to say that in the Consumer Appliances side, typically Q3 and Q4 would be the largest quarters seasonally for us in a steady-state?

Rakesh Kaul: Yes, for Somany Home Innovation Limited, the current range around the products, you are right. Q3 and Q4 would be the largest in terms of sell-in opportunity. And Q1 would be big in terms of sell-out opportunity for the cooling business, though that will not reflect in the primary figures to that extent what the Q4 figure would report.

Sunny Gosar: Thanks. My second question is basically in the Consumer Appliances side in this quarter. So, will it be fair to assume that the biggest hit on the margins is largely due to the Kitchen Appliances segment and other segments have largely done well? Is that fair to assume?

Rakesh Kaul: I wouldn't say that's fair to assume. So though we really don't divide the segment margins. But Kitchen has been a larger percentage of our growth margins. Kitchen Appliances, primarily the margin would have suffered on account because a good percentage of Kitchen Appliances still come through the imported route. So, the ocean freight which was in 350% more than impacted the margins. But from a contribution perspective, Kitchen Appliances contributed to almost around 40% to 45% decrease in margins and the balance categories to 50% to 55%. This was part of the reduction of margins.

Sunny Gosar: Sure. And is it – like would you say that in terms of the margins, have we seen the worst in Q3 or there could be some more impact left even in Q4? Because you said that in Q1 we should get back to Q2 margins, but what is the outlook looking like for Q4?

Rakesh Kaul: Well, at prima facie it doesn't look that it can get worse, but it doesn't seem to be improving as of now. And besides, if you see, January was more of a demand death in terms of closure of the shops and so many disruptions and lockdowns across the country. So, the input prices certainly have not come down. Whether they will go up is a matter something which I cannot really comment upon. At this point of time, it looks like they might be. This is the price side, but we see demand reviving.

Sunny Gosar: Sure. And I have one last question, basically, can you comment on the debt levels as of December, 2021? I assume that we were at around about ₹75 crore, ₹80 crore of net debt as of September. What would that number be as of December?

Sandeep Sikka: The overall loans in SHIL is consolidated at around ₹100 crore. But apart from this, we have investments in mutual funds which is in Brilloca. So, Brilloca is today debt free. And as of 31st December we had around ₹50 crore in surplus money. And we use bank limits as of in SHIL. But the consolidated debt is in the range of ₹100 crore to ₹102 crore as of 31st December, 2021.

Sunny Gosar: Okay. Okay, thanks. Thanks for the detailed answer.

Moderator: Our next question is from Nikhil Gada of Abakkus AMC. Please go ahead.

Nikhil Gada: Yes. Hi sir, thanks for the opportunity. Sir, first just a quick check. I guess you mentioned that this current quarter margins, there was an impact of 4.5% quarter-on-quarter, and 5.5% year-over-year due to higher freight cost in Consumer Appliances. Did I hear it correctly?

Rakesh Kaul: Yes, freight cost was one of the components of the decrease in margins.

Nikhil Gada: Understood. Because where I was coming from is that, when I look at our standalone numbers, the gross margin impact is maybe close to 120 odd bps. And as you rightly in other expenses, the other expense component is quite high. So, what you are saying is making sense. But just a question on that front, that the price hikes that you mentioned in Kitchen Appliances especially which you mentioned to the tune of 8% to 10%, can you split it up in terms of when exactly date-wise we had taken this price hike?

Rakesh Kaul: So, we took one price hike somewhere in August, and the second price hike we could only take it on 5th December actually. If you see, for the month of December, largely some our margins came back. But the impact of October and November was very high, because October we were in the peak of season and majority of our products were coming in higher landed cost. But it was Deepawali and none of the competition dared to actually increase the price during that period, and the impact of Deepawali carried it on November. December was the second price hike which we did for the year. And by that time the demand there, the Omicron wave also came in, so the actual increase in margin which could have happen on December on account of full demand did not happen. The e-commerce chains also collapsed. The e-commerce in pursuance of the possible new draft rules rationalize their inventory, cut down on stocks. So, we did a much higher sell-out on e-commerce platforms to the tune of 124% but they bought in lesser stocks, and the primary revenue suffered on e-commerce as well. I think possibly I mean, I stick my neck out to say that e-commerce, for the first time, possibly de-grew in India, at least, in the Consumer Appliances category for the Q3.

So, again coming back to your question, the second price increase happened in first week of December, but the impact of that could not be felt because it was a very challenging month in terms of revenues.

Nikhil Gada: Understood. So, in that case at least, sequentially we can see Q4 to report a better EBIT margin numbers than Q3. But I believe Kitchen Appliances generally tend to have a very higher base in, let's say, Q2 and Q3, and Q4, I'm just guessing over here, Q4 the demand is a bit lower compared to Q2, Q3. Am I correct in that aspect?

Rakesh Kaul: Yes, absolutely you are right. While Q4 you might see Kitchen Appliances margins increasing, but the mix of products would be such that cooling could be higher or equal to Kitchen Appliances unlike the previous quarter. So, overall the margins will not increase from Q3, because the contribution mix of Kitchen Appliances will actually decrease in Q4. But yes, from a category perspective, we'll see an increase in margins of Kitchen Appliances.

Nikhil Gada: Understood, sir. And just lastly on Consumer Appliances then, I can ask one Building Product. I was of the understanding that a large part of our procurement we had switched to local vendors during, when COVID-1 happened. And I think you once again mentioned that we still do a lot of import procurement. So, could you give a number as to in the total mix of our Consumer business, out of 100 how much would still be imported?

Sandeep Sikka: Almost 70% of Sanitaryware is coming from HSIL, and you can assume balance 30%, out of which around 10% to 15% is imports and balance is sourced domestically. On the Faucet side, primarily on the domestic only, because we don't import much other than the premium brand, Queo.. You can assume 5% as imported on the Faucet.

Sudhanshu Pokhriyal: So, the combined level, we would be less than 10% of our total cost base would be procured from outside, Yes, but 15% to 16% on Sanitaryware and less than 5% on Faucets.

Nikhil Gada: Yes sir, I understand that. My question was more from the Consumer Appliances business.

Sandeep Sikka: Sorry, I thought you asked question on Building Products.

Nikhil Gada: No, no, sir.

Sandeep Sikka: So, I will request Rakesh to address this question please.

Rakesh Kaul: Yes, sorry I was not able to comprehend your question completely. Can you just please repeat it for me?

Nikhil Gada: Yes, sir. So, post COVID-1, I believe a lot of our procurement was done from a local vendor base because of the said issues that availability was always a problem. And you mentioned right now in your commentary that still we are doing procurement, import procurement which still remains a bit high. And that is why the freight cost has impacted us. So, just wanted to understand as in, how much of our procurement in Consumer Appliances still happens from imports.

Rakesh Kaul: A good question actually. I would like to divide this into categories and businesses, because we'll get a great reflection how we have moved supply chain from overseas to India. For example, our E-tail business which is a contributing factor of around 13% to 14% of the overall SHIL standalone revenues, we have moved the supply chain from last year, which was at 85% imports to 15% domestic, we have flipped it around and now we are at 86% domestic and 14% imports. That's virtually changed completely in terms of furniture and E-tail business. As far as the other businesses are concerned, cooling products and heating, we were largely contract manufactured in India. Kitchen Appliances was the only business which had a larger percentage around 80% to 85% which was imported. So, we also did an exclusive contract with one of our contract manufacturer somewhere in the middle of Q2, and he's built an exclusive manufacturing facility for Hindware only, given the kind of quantity and given the kind of share which we have in the category of kitchen-hoods and chimneys. So, the factory took a little bit time to stabilize, and it was stabilized only by the end of December. And you will see a lot of percentage, I believe that the supply chain for Kitchen Appliances in next 2 years could almost come down to as low as 15% to 20% from overseas. And balance 80% to 85% will be procured from this exclusive contract manufacturing site, and also some of the other contract manufacturing sites where we have started securing materials.

Nikhil Gada: Understood sir. Understood. And just on the Plastic Pipes division, in CPVC we have seen the market has seen now inflation in CPVC resin prices as well, and a lot of the vendors have increased prices. So, just wanted to understand, have we seen an impact on that front and how are we able to pass this on? And was there any inventory impact as well?

Sandeep Sikka: Rajesh, if you can take this, please? Mr. Rajesh, you are there?

Rajesh Pajnoo: Yes, yes, I am here. Am I audible?

Sandeep Sikka: Yes, yes, you are audible.

Rajesh Pajnoo: Okay. So, see this business PVC and CPVC basically everything is being passed to the consumer, whether it's an upward price trend or a downward price trend. So, always, maybe it may take some time, but the prices are being translated to the end user. But what has happened in the past two quarters, the CPVC availability has been an issue worldwide because of so many shut-downs and so many other things. There has been an increase in the price to the extent of 35% in CPVC pricing, and this has been translated to the consumer. In fact, we have been doing very well. We are the fastest growing PVC and CPVC manufacturing company in the country. And we have grown by almost around 60% YTD 9 months as far as the revenues are concerned. And as far as the volumes are concerned, we are the largest percentage-wise growth players.

Nikhil Gada: Understood sir. And did we have any negative inventory impact in this quarter?

Rajesh Pajnoo: No, not really, because we have not been able to get the CPVC portfolio. But of course, the other people have de-grown as far as volume is concerned. But they are very small. So, there has not been an inventory impact.

Nikhil Gada: Understood sir. Understood. Thank you for answering all my questions sir. I'll come back in the queue.

Rajesh Pajnoo: Thank you.

Moderator: Our next question is a follow-up question from Deepak Poddar of Sapphire Capital. Please go ahead.

Deepak Poddar: Yes, thank you, sir. Sir, I just want to understand both on the Consumer Appliances as well as on the Building Products. So, how do you see your volume growth overall in next year, FY'23? Some flavor.

Sandeep Sikka: Generally, we don't give guidance on the very near future. We have given some long-term guidance. I think what we can restate here is that we are walking that path and maybe 1 or 2 quarters disruption may come to what has come in Consumer business. But our strategy for the incremental growth is there, and broadly that guidance still holds, so, we are not walking back on that guidance. And that is all based on the current market condition as we speak. Generally, we don't give next 3 to 4 quarters guidance as such.

Deepak Poddar: Sir, no, a CAGR over next 2, 3, years? That will also kind of will help.

Sandeep Sikka: If you recall based on the market conditions, we had given this guidance in May that, in the next 4 years we see Pipe business growing to around ₹1,000 crore, Consumer business ranging around ₹1,200 crore. And we have also given guidance that our Bath products, (which are Sanitaryware, Faucet,) that it will beat the market by, at least, minimum of 1.25 times. I think if you see the numbers, we are there, you know as on date.

Deepak Poddar: Okay, okay, okay. Understood. Okay Yes, thank you very much.

Sandeep Sikka: Thank you.

Moderator: Thank you. Our next question is from Puneet Khanna of BOB Investment. Please go ahead.

Puneet Khanna: Hi, sir. Congratulations for the great numbers. I just want to know a couple of data points. One is, what is the breakup of Faucets and sanitaryware of the Building Product sales? Then the second is, what are the region-wise sales into Tier 1, Tier 2 market, and the B2B and B2C sales.

Sandeep Sikka: BPD and, sorry I couldn't get the last one?

Puneet Khanna: I want to know the Retail and Project channel sales?

Sandeep Sikka: Okay, the Projects industry. If you see Q3 the Faucet to Sanitaryware, Faucet is constituting between 30% to 35% contribution to the sales. And what was the other one?

Sudhanshu Pokhriyal: Sanitaryware.

Sandeep Sikka: For Sanitaryware and other products we do almost 70% retail business and 30% is the institutional business.

Puneet Khanna: Okay. And sir, I missed the section on the Pipe, what are the Pipes number?

Sandeep Sikka: Pipes, during the quarter, we did a sale of ₹156 crore as compared to last year of ₹117 crore. Overall registering a 32% growth, and for the 9 months we have done ₹400 crore as compared to last year of ₹249 crore. So, this was 60% growth.

Puneet Khanna: Okay. Thank you so much, sir.

Moderator: Our next question is from Chirag Fialoke of RatnaTraya Caps. Please go ahead.

Chirag Fialoke: Hi sir, can you just repeat the Pipes question, the Pipes numbers that you just shared? So, the last year the same 9-months number, what would that be for Pipes?

Sandeep Sikka: 9-months number is ₹249 crore.

Chirag Fialoke: ₹249 crore, got it. Okay. Thank you so much. Thank you for taking my question. So, sir, I just also wanted to disaggregate the Pipes EBIT versus the Sanitaryware EBIT. I think last couple of quarters you had given a guidance of 6.5% to 9% for the Pipes. Does that still remain similar or has there been a change in that?

Sandeep Sikka: Brilloca still buys almost 95% - 96% of products from HSIL. The manufacturing margins and other things, are still part of that business. But if you see on an overall business, we had around 8% EBIT during the quarter on the Pipes side. And if you see 9-months figure, it's around 7.5%. But you have to see this from a perspective of numerator, denominator also, because since there is a substantial price increase, which has been passed on, so, there is a growth in the absolute margin.

Chirag Fialoke: Margin is depressed.

Sandeep Sikka: Yes. Percentage is greater.

Chirag Fialoke: Understood. So, if I just take 8% to be Pipe this quarter, then Sanitaryware probably disaggregate out to be around 10% EBIT, is that broadly in the range?

Sandeep Sikka: Sanitaryware and other business will be around 12.5%.

Chirag Fialoke: 12.5% EBIT for Sanitaryware and 8% EBIT for Pipes for this quarter.

Sandeep Sikka: Yes.

Chirag Fialoke: But the Building Products division reported 9.3% overall?

Sandeep Sikka: Sorry?

Chirag Fialoke: The Building Products division overall reported 9.3%, is that correct?

Sandeep Sikka: Yes, you have to use that multiplication weights along with it.

Chirag Fialoke: Got it. So, 12% EBIT for Sanitaryware, and I would say around 8% for Pipes, is that right?

Sandeep Sikka: For the Pipes. And the average would be the number you are talking of.

Chirag Fialoke: Okay, thank you so much, sir.

Sandeep Sikka: You have to use weighted average here, not simple average.

Chirag Fialoke: Right sir. Thank you.

Moderator: Thank you. Our next question is from Vineet Gala of Monarch Networth Capital. Please go ahead, sir.

Vineet Gala: Thank you. Sir, currently in our Consumer division, we have a quarterly run rate of around ₹130-odd crore, so translating to annual run rate of about ₹500 crore, ₹520-odd crore. So, given the long term target we have on this segment, do we intend to add more categories in the future or we expect the current set of products to drive the growth, sir? If you could throw some light from a medium to long term basis?

Sandeep Sikka: Rakesh if you can take this?

Rakesh Kaul: Yes, sure thanks. If you would see in the past 5 to 6 years we've been in this business, what we are trying to do is, the whole idea is to be among the top 3 or top 5 brands in each of the category where we get into it in a span of 5 to 7 years. As a part of progression of this business to grow into a much sustainable and a bigger business, we do intend to be a multiproduct organization, so to say. But for that, we are very clear that any category where we are going to enter into is not just because we have created a distribution structure for ourselves, or the other categories and we just want to super-impose the new product onto that. We want to enter into any category when we have a clear, clear consumer proposition in terms of differentiation of product vis-à-vis the competition. So, we take that route, we do intensive consumer research from time to time. And any as such we find that the brand Hindware has a huge affinity on the extension part and the consumers would love to have us extend to the other categories. From time to time, we do take a call, and even as we are talking, we are taking a very close look at a couple of categories. Primarily, in the kitchen space, because we believe that we can dominate that space in the next 3 to 4 years. We're taking a closer look at some of the new categories in Kitchen Appliances. But right now, it won't be appropriate for me to talk about those. I hope I answered your question.

Vineet Gala: Fair enough sir, yes, it does. So also, sir, on the Water Heater segment, what is the status of the capacity expansion in our JV and if you could articulate the CAPEX plans there? How much have you already spent? How much further do we intend to spend?

Rakesh Kaul: Sandeep, you want me to take this?

Sandeep Sikka: Yes, please.

Rakesh Kaul: From a water heater plant, I think the plant is progressing to its completion and should be commissioned by June 2022, and should start full production somewhere in October 2022. As I've already told you, the Phase 1 will look at producing some 300,000 water heaters and Phase 2 will take it to 600,000 water heaters. The total CAPEX outlay for the project is ₹175 crore as of now and we have already issued POs worth around ₹66 crore to ₹67 crore to all the partners so far. The project is on its way to its completion and we believe that the whole idea is to have

India's first green water heater plant, and so, the state of the water heater plant will be a great one to cater to the consumer, latest consumer needs, and could become an avenue for doing exports to the SAARC countries as well in future. So, we are aligned for that.

Vineet Gala: Thank you, sir. That's it from my side.

Rakesh Kaul: Thank you.

Moderator: Thank you. Our next question is from Arpit Maheshwari as an Individual Investor. Please go ahead.

Arpit Maheshwari: Sir, my question is on the Retail business. Earlier it was a very small part of your business. But firstly, how this Retail segment is growing in like the next 5 to 10 years? And secondly, you have launched 200 products in the Retail category. So, which category of products are they, and what will be the margins in these products?

Rakesh Kaul: Yes, thanks for that question. While Retail, we did a lot of consolidation of this business, because if you remember earlier, it was part of the erstwhile HSIL Limited, where it was essentially Retail and we had our own stores, so to say, company-owned, company-operated, company-managed. Just after the COVID we did reorganization and tried to create a very asset-light business out of it, because the brand which we build in that category is called Evok. It is a fair resonance amongst the consumers across the country towards the higher end. Because one of the product propositions which we have is our solid wood furniture which is very distinct of brand and is well known across the country. We made it an asset-light business driven on two, three pillars. One of the pillars is basically to drive our brand and product which remain two of our biggest strengths. And we have extended this product and brand into the franchise outlets. In the span of, you can see, we have 129% growth in the franchisee business in Q3 over the last quarter, which has been significant. We have moved the franchisees up to 30 numbers. We hardly had any around when we reorganized our business. It's become an asset light business with very few manpower cost. The focus is on product development. The focus is on E-tail, because you know, we drive this business now through franchisee, and also the E-tail which is our own D2C E-commerce website called evok.in, which almost gets traffic of around 800,000 customers per month, and it can translate into almost 10 million a year. As far as the launching of the product is concerned, we want to be a very significant player in the furniture category. So, majority of the launches are in the furniture categories around recliners, around living, around dining as such. I hope I was able to answer your question. From a perspective of growth, I think, we have grown 23% year-on-year. So, we were trying to consolidate this business and make it asset-light so that it can grow profitably which we have been able to achieve profitable quarters except the COVID quarter for the last 5 quarters, and we believe that the further scale-up of this business will be run profitably as well.

Arpit Maheshwari: And sir, just as you have said that your focus is on the franchisee model. So, all this will be the contract manufacturing or you can do some part of self-manufacturing also in the furniture segment?

Rakesh Kaul: As of now, we are completely into contract manufacturing, but I must add out here since we have some of the exclusive products, so some of our manufacturers are very captive consumer based as such. So captive contract manufacturing. They exclusively manufacture for us, like the solid wood products which I talked to you about. Having said so, as we are scaling up our business while we will continue to be asset-light, and continue to focus on contract manufacturing and continue to focus on product development, continue to focus on building technology even in this category, I think that will remain the guidance for, at least, next 2 years.

Arpit Maheshwari: And sir, secondly, what will be the future of your Evok showrooms? Does it cater only to the furniture products or it will cater to all your retail portfolio in it?

Rakesh Kaul: As of now, Evok is a brand which we have for furniture, home furnishings category, and we believe that it has created a certain resonance amongst the consumers in this category. We will continue to build this brand in this category. And we believe that furniture online and offline and hyper local furniture will become a significant part of the overall furniture industry. Our estimation is that, in next 3 years hyper local, the omni-channel will contribute to almost 40% to 50% of the business, the industry. And we at Evok very firmly geared up. Let me tell you that we have started our first hyper local operation in Bangalore as of, couple of days back where the consumers can actually go and buy on evok.in, and the delivery will happen through the Bangalore stores. This gives the consumer the chance of feeling the product at the Bangalore store, ordering it online. So, a complete omni-channel feeling whereby which the delivery will happen at a faster scale. We intend to integrate all our franchisee partners across the country through this omni-channel loop, and build the business to a significant scale and, in fact, we are the first furniture marketers to have initiated this hyper local engine as such.

Arpit Maheshwari: Thank you so much. That's it from my side.

Rakesh Kaul: Thank you so much.

Moderator: Thank you. Our last question is from Aditi Kasbekar as an Individual Investor. Please go ahead.

Aditi Kasbekar: Thank you for giving the opportunity to ask the questions. I have got 2 questions. My first question is on the Consumer business excluding the water heater business. You've given us the revenue for Q3 in the footnote. Can you also give the EBIT number excluding water heater?

Sandeep Sikka: That earlier, segment-wise we have never disclosed that. We'd like to avoid this answer, to be very frank.

Aditi Kasbekar: Okay. Then my second question is on the -- so just before I go to the second question, so basically your segmental Consumer business EBIT that you've given, that is now completely excluding the water heater business, right?

Sandeep Sikka: Yes. Water heater is now since it is 50:50 JV, and the numbers of water heaters are only consolidated at PAT levels. If you see the results, so we have given that our share of 50% profit after tax gets consolidated and the bottom line as per the accounting standards.

Aditi Kasbekar: Got it, got it. So effectively this 3.4% EBIT margin is the one which is impacted because of all the reasons that you mentioned including your cost pressures and so on?

Sandeep Sikka: Yes.

Aditi Kasbekar: Understood. Okay. And my second question is on your Sanitaryware part of the business. What we've increasingly seen is, of course, there is a good amount of traction that's coming from the real estate cycle turning up and so on. But there are two parts to my question. First is that, along with this increasing demand there is also lots of new players who are planning to enter in this space. For example, I think Astral announced recently that they would want to get into the Sanitaryware space. So one, would like to understand what's your take on the competitive landscape as larger players from other building materials category sort of come into this space? That's first part of the question. And I think the second part of the question is, what is our capacity utilization currently? Because from the last call that you did sometime mid-January where we announced that we'll be acquiring HSIL's plant, what I remember is that we were pretty much operating at 100% capacity. Then in that case, where is the incremental growth going to come from? Are we planning to increase our vendor base, etc? Because generally, the way I understand Sanitaryware as a segment is very hard to scale up vendors very quickly if you have to scale up sales. So how do we plan to sort of balance between capacity utilization currently and how we will be sort of growing in that particular segment?

Sudhanshu Pokhriyal: Yes. Let me try to answer the second question first. Our Sanitaryware utilization was to the tune of 85% to 90% in Q3 and Faucet was to the tune of about 65%. Yes, so you are absolutely right. As the demand is increasing, we are working towards increasing our vendor base. We are definitely looking at strategic partnerships in Sanitaryware segment. And of course, there is imports which is done from China as well which we discussed, which is to the tune of about 15% within the Sanitaryware category itself. We, of course, have an opportunity to increase import in case we require to take care of the demand situation. However, yes, we are looking at increasing our domestic vendor base for Sanitaryware, while for Faucet, we believe we are adequately covered in terms of shared capacity utilization.

Aditi Kasbekar: If I can add one thing there, is it easy to do that? Like, is it that easy to increase the vendor base? Because from the way I understand it, that vendor base, while there is a vendor base, people who can really meet up to the quality standards aren't that many, right?

Sudhanshu Pokhriyal: I mean, it is kind of linked to your first question as well. Both Sanitaryware and Faucets businesses are extremely fragmented if you see the overall nature of the business. You have these categories where about 50% to 60% at an overall level which is organized and nearly 40% to 50% of the market is unorganized sector, and so, there are many, I would say unorganized sector players which are bordering in the area of getting into the organized sector business. There are lot of opportunities if you work with the vendor to develop them into a strategic vendor who can then completely convert into maybe an OEM at times or give a large part of their manufacturing to an organized player. Of course, your own techno commercial team, or quality team has to work with the vendor over a period of time to develop into this. I can assure you that we have successfully done this with many vendors in the last 1 to 2 years, and we believe that it is doable. Very rightly said by you, that it is not an easy task, but yes, it's a requirement of, with which, or requirement of the business which has to be addressed. So we believe that it is doable. We have been doing it.

Now, coming back to your first question, yes, we have heard announcement of two major players who were not into this category. One, of course, Astral and there are others as well who are trying to enter into category right now. But like I said, we believe that these categories are extremely segmented. We have multiple players, domestic as well as international. In the last, I would say, last 7 to 8 years, we have seen emergence of many international players who have tried to enter the category and, of course, taken some bit of market in the last 8 to 10 years. So yes, there would be intensive competition and the category would increase. But the sheer opportunity in the category, because only 50% to 60% of the total business in both Faucets and Sanitaryware is actually in the organized sector, there's a huge opportunity which exists because unorganized market is actually diminishing and that entire conversion into an organized sector will unleash huge demand. There is room for all the players, that's what we believe, and with the increased urbanization, increased incomes within the Indian consumer and, of course, the tendency of people staying at home, the culture of work from home increasing, the increase in spending on Indian homes, we believe it's not just volume, but also, there will be an upgradation which consumers are doing in their homes, especially in their bathrooms. So we don't see any problem in terms of demand. At an overall level, yeah, I believe that entry of more players in the category is only going to increase demand and increase the growth in the category.

Aditi Kasbekar: Understood. Understood. And do we really believe that having our own manufacturing is an advantage here, or do we think that, because you're also effectively increasingly going to rely on outsourced vendors. So the question is effectively what is the mode for us against this increasing competition? Or do we think that it's not really needed given that the pie itself is expanding?

Sudhanshu Pokhriyal: See, we have to divide the products into products which are, I would say, basic products and products which are, I would say, a little bit more, require more value addition, more premium products. How we look at this is that, as capacity utilization keeps on increasing and we have to rely more on outside vendors, we first try to manufacture more advanced level products or more value added products within our own manufacturing and take the more basic product from outside vendors. It's not just a simple thing that capacity is added, you give the same products outside. It's a bit of a mixed mapping which is done, and then, with that we are able to manage our capacities in a much better way. We believe that's the route we're going to take as well, as we go forward.

Aditi Kasbekar: Okay, understood. Thank you, sir.

Moderator: As there are no further questions I would now like to hand the conference over to the management for closing comments.

Sandeep Sikka: Yes, thank you. I'll just like to thank everybody who participated in the call today. I think Q3 was a bit volatile in terms of the macro-economic conditions. We feel that some volatility may continue during Q4, because Omicron also came and effectively the lockdowns happened more in the month of January. But we are very bullish on each of our businesses. Historically, we have demonstrated that in each business where we are present, we create a meaningful and sizeable value for that business. With that assurance, again, thanks to everybody for being on the call today, and we are always happy to answer any of your questions. If any question is left you can refer it to CDR, our partner on this, and we will be very happy to make a response on the same. Thank you very much.

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

Notes:

1. This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings.
2. Figures have been rounded off for convenience and ease of reference.
3.