

Operator

Ladies and gentlemen, good day and welcome to the HSIL 3Q FY'14 Results Conference Call hosted by JM Financial Institutional Securities Limited. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode. There will be an opportunity to ask question at the end of today's presentation. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Jaisinh Suchak for JM Financial. Thank you and over to you, sir.

Jaisinh Suchak, Analyst

Thank you, Vivin. A very good afternoon to all our participants. It is a great pleasure that I welcome you to the 3Q FY'14 earnings call for HSIL. We have with us today, Mr. R B Kabra, President of Building Products Division and Mr. Anil Chandani, Senior Vice President, Corporate Finance for HSIL. The call will begin with a brief management discussion on performance for the quarter ended 31 December, 2013. This will be followed by an interactive Q&A session. I would like to now hand over the floor to Mr. Kabra for the opening remarks. Over to you, sir.

R B Kabra, President, Building Products Division

Thank you, Jaisinh. Good afternoon to all of you. First of all, I would like to thank you for sparing your time to join us on our -- this quarterly conference call, which we have been doing regularly for now last many quarters, except one when we all had to travel immediately after our Board meeting. So coming back to this quarter's performance, numbers have already been published and most of you must have seen the company's performance. This quarter has been a mixed performance and I call it mixed, because the building product has done well. In terms of sales -- the sales growth, the year-on-year quarter has been 16% largely -- but the good thing is that we have been able to increase our EBITDA margins and the profit margins in this business. And the absolute profit has gone up by 36% against the sale growth of 16% and that this is largely contributed because of the sale of from more and more high-end products and some cost control measures and the price increases which we have been having.

Building product, if you talk of growth of 16%, 2% growth is in terms of volume of sanitaryware and 17% volume growth in the faucets and balance is coming from the price increase and the product mix change. So that -- which has also contributed into the higher profitability, as I've just mentioned, because the mix of more and more high-end products and value-added product is increasing in the total sales.

Faucets, revenue in terms of total percentage to building product sale has gone up to 19%, which was less than 17% in Q2. And this has happened because of the market demand and good production in faucet plant as well as the good sales from the outsourced.

As we have mentioned in last -- two things that -- two conference calls that we are in the process of commissioning a large faucet plant, machines are in the process of installation and some are in the process of commissioning. And the plant will go in the commercial production early April of 2014, which is now two months away. The machines are under testing and trials, some machines have started producing also, but it's very little. So we cannot say anything for now, the commercial production will start some time April, early April. That is we are on track for that.

The faucet business has done well. In this quarter, the faucet sales has grown by 24%, 25% in terms of value and volume. Volume is 17%, the value is around 25%. Faucet market, as we have been telling is, larger than the sanitaryware market in the country in totality. And with this plant commissioning soon, we will be number two player in the country in the financial year '14, '15. The plant, the capacity ramp-up will start, and it reaches around 70% capacity utilization by September. And by March 15, it will reach its full capacity of 2.5 million pieces per year.

We are confident of selling all the volumes without any cancels, because currently we are outsourcing around 60% of this production capacity. So, we will continue to outsource still part of it, we will ship the 100% production with the plant. So the additional revenue from this faucet plant in the year '14, '15 should be around 100 crores, 150 crores.

And going forward, sanitaryware plant we still have the capacity utilization in this quarter has been around 85%. So, the work on the new Gujarat plant has still not started. We are on the drawing board, what can start. Anytime, we decide to go ahead, but since the

volume growth, we have to see for this Q4 as the whole year and then we will take the decision as to when to actually start work on the ground, because, as I already mentioned a year ago that we already have land allotted by Gujarat Industrial Development Corporation.

And once we start from the day we go ahead, it will be anywhere between 24 months to 30 months the plant to go into the commercial production. That much capacity we have today. So there will be no issue in terms of capacity available for the growth in next two to two and half years.

The glass business has been very slow in this quarter and this has been really unexpected, because normally Q3 and Q4 is the good quarter for the glass business. The sale to beer and sale to aerated water happens in Q3 and Q4, but this year, maybe the monsoon staying till late, the lifting by the aerated and beer people was very negligible in this quarter, because of which the volume were 25% down. And also affected the net realization, total sales was down by 28% in this quarter.

Of course, we have done a lot of things to control the fuel cost, to control the power consumption, to try some alternate fuels and also on the other cost majors, because of which the EBITDA margins in this quarter has gone up. The EBITDA margin in this quarter, in the glass business is 14%, which was around 8% in the Q2 and 12% in the Q3 of last year. So, we are confident that we will be able to not only sustain 14% EBITDA margin in Q4, but it should further improve, because we are still working on some of the majors and some of the majors -- the advantage in this quarter has been only -- for some, it has been for the November, December; for some, it has been only for December and some So going forward, we feel that the Q4 should be much better, losses should be much, much lower.

If the sale really remains well like, we had a good month in January, then probably there will be no losses in this business. But we are still to see whether the business is stabilizing fully or not. That will be seen only once we have passed through H1 of the next financial year, which is June quarter and September quarter of the next year.

The sale has been less, because of the various reasons. We've been telling lower sales growth in the consumer segment who had been our customers. We have not been able to pass on price increases to most of the customers, which has started happening now in Q4. The aerated water, we have got a price increase of 7%, and from the food and pharma customers, partly it has happened and it should be finished by end of February. The beer, we're still talking and liquor, we don't see price still coming in for next -- another two or three months.

But going forward yes, the trend has started of getting price increases. So, by end of March, except liquor, we should price increase from the aerated water, from food, from pharma and from the beer. So our working should improve, but all will depend on how the demand for the glass bottle sustains. Q4 normally is the best quarter for this business. So, this quarter will remain good, but then going forward we have to see that how the Q1 and Q2 remains of the next financial year.

And that we say that stabilization and the confidence that we will be able to maintain the profitability and improve the profitability gives us the confidence. We are on track in terms of -- I've mentioned to you a year ago that last year we commissioned a line, where we can sell value-added colored bottles. It has helped now, the capacity utilization has gone to 53%, which was around 23%, 24% in Q2. So, that is giving higher contribution, helping in reducing our losses and increasing EBITDA margins.

And the rest is mainly from the cost control measures and also, from I must say, maintaining the product mix and controlling various costs. So, this is what I have to say about this quarter performance. Now, we are open for any questions and answers.

Questions And Answers

Operator

Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Prateek Poddar from ICICI Prudential. Please go ahead.

Prateek Poddar, Analyst

Hi, good afternoon, sir. Hello? Am I audible?

R B Kabra, President, Building Products Division

Hello?

Prateek Poddar, Analyst

Yeah, am I audible?

R B Kabra, President, Building Products Division Prateek Poddar, Analyst

Okay. Good afternoon. Sir, just on the container glass, if you could just share some light as to what I could understand is, since this is a highly -- I mean, the operating leverage in this business is so high and if I see Y-o-Y, there's a decline in revenue by almost about 27%. So, EBIT margins are on the positive territory. So just throw some light as to what are they?

R B Kabra, President, Building Products Division

As I just mentioned that we have done a lot of work in terms of containing our fuel and power consumption. You have been hearing us in the conferences and we have been telling that the power and fuel cost, the glass business is the highest cost, it's around -- it used to be 30%, 32%, 33% and with the cost going up, it went up to 38%, 39% of the cost of production.

Now, we have done lot of work in reducing cost and then converting to alternate fuel, oil in place of LPG and some other gaseous fuels in place the oil we were using. So the oil cost has -- the cost of power -- and one more thing that we have started purchasing power through the power exchange in place of generating when there is no power available, because glass plant is a continuous process plant. So the exchange power is much cheaper than the generated power.

All that has helped with reducing the power and fuel cost by 5 percentage points -- 500 basis points. And that has gone straight to EBITDA. And a good thing about this is, this is that -- this has been achieved and this is going to remain for the lifetime of the business. So when the volumes turn positive, then this will be additional bonus to the business.

Prateek Poddar, Analyst

Was there an element of inventory liquidation this quarter?

R B Kabra, President, Building Products Division

This quarter, there has been no inventory liquidation, because as we mentioned the sales has not been good, but yes, Q4 there will be reduction in the inventory.

Prateek Poddar, Analyst

So, sir, I mean, in terms of capital employed, if I see Q-o-Q sequentially the capital employed has gone up in this container glass business?

R B Kabra, President, Building Products Division

Yeah, that is because of two reasons. Because, we have for this expansion, we had this ECB loans, so they are reinstated on the current dollar rupee conversion rate, so that is one. And second, the inventory has gone up. As we mentioned that Q2 had been poor, Q3 has been poor, now we have cut back production. And by end of August, we had cut back production in the plant. But still Q3, we could not sell what we produced, but Q4, as I mentioned is the best quarter. And this quarter we'll see going forward inventory reduction.

But the increase in the capital employed is largely inventory increase, number one. And number two, reinstatement of loans and the fixed assets at the prevailing rupee dollar ratio.

Prateek Poddar, Analyst

Fair enough. And sir, as we speak what would be the capacity utilization of our glass business?

R B Kabra, President, Building Products Division

Around 72%, 73%.

Prateek Poddar, Analyst

And if I'm not wrong, last year, this was running at 100%. I mean, last year same --?

R B Kabra, President, Building Products Division

Last year Q3, it was around 85%, 86%.

Prateek Poddar, Analyst

No, I was referring to Q4 of last year. So, basically, Q4 FY'13, we were running at 100%.

R B Kabra, President, Building Products Division

Yes.

Prateek Poddar, Analyst

Now we are running at 72%.

R B Kabra, President, Building Products Division

The whole of Q3, we run at 72%, 73%. Going forward, Q4 should improve a little better, because -- but we want to liquidate the inventory, so we may not increase the production as such. We will still continue to run the plant at a lower production and liquidate the inventory. But if you see this sales number in terms of capacity, it -- Q4 should be much better.

Prateek Poddar, Analyst

Fair enough. Sir, also could you give us the debt and net debt figures?

R B Kabra, President, Building Products Division

Total debt position, long-term plus working capital as on 31st December was 1,035 crores.
And the net debt would be?

R B Kabra, President, Building Products Division

This is net debt only.

Prateek Poddar, Analyst

1,035. And the gross debt is?

R B Kabra, President, Building Products Division

What is the difference? I could not understand gross and net?

Prateek Poddar, Analyst

I mean, net of cash, if you have any cash as of 31st.

Anil Chandani, Senior Vice President, Corporate Finance

No, its net of FDs, which we have. There are some ECB updates till the money is used in CapEx. So we have some money power embroidered [ph] into FDs, so 1,035 crores is net of those FDs.

Prateek Poddar, Analyst

Sir, could you just throw some light on how subsidiaries are performing as of now?

R B Kabra, President, Building Products Division

The subsidiary, there are three subsidiaries as you all know. One is that Barwood in UK, that is improving, but still not positive. Losses has substantially come down and this year and losses should be very, very negligible. The Garden Polymer, which makes the pet bottles, which we acquired two, two and half years ago is on the more or less similar levels of last year in terms of sales. But in terms of profitability, the margins has gone down by 2%. But by year end, it should be on the last year's level.

This quarter again it is booked for the bottle industry. So, I think by the year-end, it will be more or less at the same level and so is for our subsidiary HHRPL, which does this EVOK brand furniture and furnishing retail. Though there is a sales growth of around 12%, 13%, but the losses will remain more or less the same level like last year.

Prateek Poddar, Analyst

So, there won't be -- in absolute amount, there won't be any dip in the losses?

Anil Chandani, Senior Vice President, Corporate Finance Prateek Poddar, Analyst

And in terms of shutting down the furnaces, any further plans or right now the demand supply situation is balanced?

R B Kabra, President, Building Products Division

No, as I told you that Q4 remains very good and that the monsoon started late, the Q1 of the next year the demand also remains good from beer and the soft drink industry. So, any furnace shutting down, decision will be reviewed only some time April or May '14.

Prateek Poddar, Analyst

Okay. Thank you, sir. Thank you so much.

R B Kabra, President, Building Products Division

Thank you.

Operator

Thank you. The next question is from the line of Jaspreet Arora from Anand Rathi. Please go ahead.

Jaspreet Arora, Analyst

Hi, sir. Good evening.

R B Kabra, President, Building Products Division

Good evening, Jaspreet.

Jaspreet Arora, Analyst

Sir, just to reconvert [ph] on the figures you gave. Sir, you said in building products, the sanitaryware volume, you mentioned 2%, right?

R B Kabra, President, Building Products Division

Yes.

Jaspreet Arora, Analyst R B Kabra, President, Building Products Division

Value growth is 14%.

Jaspreet Arora, Analyst

All right. So balance is the realization, okay?

R B Kabra, President, Building Products Division

Realization and the product mix.

Jaspreet Arora, Analyst

Understood. And faucets, sir, you gave 17% volume and 25% value, right?

R B Kabra, President, Building Products Division

Yeah.

Jaspreet Arora, Analyst

All right. And what's the last thing, the traded value. How much would that have grown?

R B Kabra, President, Building Products Division

Which one?

Jaspreet Arora, Analyst

The traded segment within building products?

R B Kabra, President, Building Products Division

More or less the same, 16%.

Jaspreet Arora, Analyst

16, okay. In expansion in this segment, you mentioned Phase 1, 1.5 million to go live by April of this year, is that --?

R B Kabra, President, Building Products Division Jaspreet Arora, Analyst

Okay.

R B Kabra, President, Building Products Division

And by end of this year, we will reach to the 2.5 million, which is 2.1 lakh pieces a year, or up by month.

Jaspreet Arora, Analyst

Okay. So by March '15, the entire 2.5 million will be up and running?

R B Kabra, President, Building Products Division

Yeah. So, if you see in September, then we will be producing 125,000 pieces in September month.

Jaspreet Arora, Analyst

Okay, understood. Okay, that's there. And you mentioned the sanitaryware plant that will take some more time, because of the subdued demand conditions in this space, right?

R B Kabra, President, Building Products Division

No, no, because we are working more on the high value-added products and probably we are purposely going out of the product, which really is very thin on margins. So the capacity is getting freed up, because those product, the average realization maybe less than 30% in terms of value of the high-end products. We are concentrating more and more high-end products and leaving the product where we can't make enough money.

So, the capacity is getting free up, but we are still on the drying board and let's see we are in the process of making budget for the next two years that how we see the sales growth in terms of volume. And based on that, we take decision that when to start the vol.

Jaspreet Arora, Analyst

Understood. And once you start, you said, it'll take over 24 months to 30 months?

R B Kabra, President, Building Products Division

Yes.

Jaspreet Arora, Analyst R B Kabra, President, Building Products Division

7.

Jaspreet Arora, Analyst

Sorry, 7?

R B Kabra, President, Building Products Division

7, yeah.

Jaspreet Arora, Analyst

And in food and pharma, how much was the hike?

R B Kabra, President, Building Products Division

Anywhere between 7% to 8%.

Jaspreet Arora, Analyst

That's also happened, right?

R B Kabra, President, Building Products Division

Partly it has happened. With some of the customer, it is happened. And as I mentioned, by February end everything will be there.

Jaspreet Arora, Analyst

All right. And the other two you mentioned, beer, you're still talking and liquor not before three months?

R B Kabra, President, Building Products Division

Yes.

Jaspreet Arora, Analyst

Understood. Fair enough. If you just give the breakup of that you normally give of this degrowth in revenue or how much was the volume decline, how much was the price?

Now, the volume was 25% down.

Jaspreet Arora, Analyst

Okay.

R B Kabra, President, Building Products Division

And the revenue is down by 28 point some percent. So I think 3, 3.5 it has come because of the realization going down.

Jaspreet Arora, Analyst

Sure. And the utilization, you mentioned was around 73%?

R B Kabra, President, Building Products Division

The capacity utilization.

Jaspreet Arora, Analyst

Yeah, 73%?

R B Kabra, President, Building Products Division

Yeah.

Jaspreet Arora, Analyst

All right. Fair enough. And the EVOK, sir, you mentioned the losses will remain the same as last year?

R B Kabra, President, Building Products Division

Absolute amount, yes.

Jaspreet Arora, Analyst

Absolute amount. But if I refer to one of our -- means, some our previous, I think two quarters back. We were targeting to bring down the losses considerably. So is this the continued investment, which is making the situation or is this --?

R B Kabra, President, Building Products Division

We have not done much investment. This year, we will -- we are only opening two or so stores. Much investment has not been made.

Okay.

R B Kabra, President, Building Products Division

But one things is the sales growth we were expecting around 30%, 35%.

Jaspreet Arora, Analyst

Okay.

R B Kabra, President, Building Products Division

Sale growth in only 12%, 15%. So the contribution which we are expecting is not coming.

Jaspreet Arora, Analyst

Okay. Sir, in light of that, any thoughts on either shutting down or maybe restructuring some of the stores or that's still some time away?

R B Kabra, President, Building Products Division

We have done some work in the last few months, that we are right-sizing the store or downsizing whatever you call it, we call it right-sizing that we have lightly in some stores was 12,000 square feet and we think 9,000 was good on that location.

Jaspreet Arora, Analyst

Sure.

R B Kabra, President, Building Products Division

We are in the process of surrendering that extra area, so that the rent cost goes down.

Jaspreet Arora, Analyst

Okay.

R B Kabra, President, Building Products Division

And we had to shut two locations and moved to another locations, where the revenues are good. So all those things are happening.

Jaspreet Arora, Analyst R B Kabra, President, Building Products Division

As you all know, it's not doing too well for most of the people, except the grocery retail. It's a set of business taking time, because you see the mood also of the people about the economy also makes the difference in terms of spending.

Jaspreet Arora, Analyst

Right.

R B Kabra, President, Building Products Division

So, because of the various reasons the people are not too confident of the economy growth and whatever is happening, so maybe another few months, till the election takes place and people's mood become better.

Jaspreet Arora, Analyst

Okay.

R B Kabra, President, Building Products Division

Yeah.

Jaspreet Arora, Analyst

Understood. Thank you so much, sir. And all the best.

R B Kabra, President, Building Products Division

Thank you.

Operator

Thank you. The next question is from the line of Kamlesh Kotak from Asian Markets. Please go ahead.

Kamlesh Kotak, Analyst

Hello, good afternoon, sir.

R B Kabra, President, Building Products Division

Hello.

Sir, just can you give some idea about how the industry growth has been across sanitaryware, faucets and in that are how our growth has been outpacing the industry, is it a market share gain and what's your sense about the overall macro environment?

R B Kabra, President, Building Products Division

Yeah. The market growth, if you really see is (technical difficulty) building product industry. The growth has been -average growth is anywhere between -- average growth is 14%, 15%.

Kamlesh Kotak, Analyst

This for faucets or sanitaryware?

R B Kabra, President, Building Products Division

That is, I'm talking of building product segment, which you can talk of faucet, you can talk of tiles, you can talk of sanitaryware.

Kamlesh Kotak, Analyst

Yeah.

R B Kabra, President, Building Products Division

So the average growth is around 14%, 15%. Some people are growing 10%, may be some people are growing 18%. So we are -- we had like grown 16%. Faucet, our growth has been higher, because of the better production in our small plant what we have at Bhiwadi. And better outsourcing, earlier, I've been always mentioning that the faucet, we have been outsourcing large volumes and sourcing was a major issue, which has improved. So because of which our faucet volume has grown by 17% and in value terms, growth in this quarter has been around 25%, 26%. So that is higher than the industry average in faucet, but if you talk of the total Building Product segment is more or less in line with the what is happening in the countries.

Kamlesh Kotak, Analyst

And what's your sense about the growth going forward, sir?

R B Kabra, President, Building Products Division

Yes, the year-end estimates we gave that the Building Products revenues will be at anywhere between 18% to 20% and we are only on the target. Because of the Q3, we are 16% up, even for the nine months. Q4 always is the best quarter, so we should be ending the year anywhere between 18% to 20% growth.

Kamlesh Kotak, Analyst R B Kabra, President, Building Products Division

Yeah, we always, the CAGR has been -- for the last five years, the CAGR has been 20% plus only, so we target 20% growth.

Kamlesh Kotak, Analyst

Okay. So the demand is that sanguine as of now?

R B Kabra, President, Building Products Division

Tell me again.

Kamlesh Kotak, Analyst

The demand is strong enough for --?

R B Kabra, President, Building Products Division

Demand is strong and especially if you talk of Tier 2 and Tier 3 towns. There is no slowness in the demand, there is no slowness in the construction. It's okay. Some metro cities like not growing as much as we have decided to grow, but the demands on the Tier 2 and Tier 3 cities is there.

Kamlesh Kotak, Analyst

Okay. And sir, could you get some sense as to at the end of the year, when we have fully utilized faucets plants, how the contribution of faucets business will come to the total Building Products business, and how the same will have an impact on the

margin profile?

R B Kabra, President, Building Products Division

See, this year -- and like, I just mentioned, last year it was around 16%. And Q3 the contribution of the faucets has been around 19%. By the year-end, it will not change much, because the new plant will come only in production in the April. We talk of FY'14-'15, ratio [ph] of faucets should go up by around 2%, 3%, because largely what we would be doing is we'll be replacing the outsourcing which is costing for us.

Kamlesh Kotak, Analyst

Okay.

R B Kabra, President, Building Products Division

So, by year end maybe the faucets contribution in the total Building product growth -- total Building revenue is around 22%, 23%.

Kamlesh Kotak, Analyst

Okay. And on (inaudible) is it profitable enough as we have in Building Products other than faucets?

R B Kabra, President, Building Products Division

Building Product, if you talk on sanitaryware, there -- it has a higher EBITDA margin.

Kamlesh Kotak, Analyst

Right.

R B Kabra, President, Building Products Division

And also at the net level, it is higher, because most of the plants are old and depreciated. And just cost in that. But if you our traded business, which is outsourced business, it's around 30% of the total business we have in the Building Product.

Kamlesh Kotak, Analyst

Right.

R B Kabra, President, Building Products Division

The EBITDA margins are in a higher double-digit, but there is no interest, again, there is no depreciation. So, more or less it becomes at the thin level.

Kamlesh Kotak, Analyst

Right.

R B Kabra, President, Building Products Division

As of faucet margins, in terms of EBITDA level, it is lower than sanitaryware, but the capital turnover ratio is much higher in faucet, because sanitaryware the average realization if we talk of per kg or per ton, the faucets are five to six times higher. So the investment of, say, if I invest 140 crore in sanitaryware, my revenues will be around 200 crores. The investment of 100 crore in faucets plant that should generate revenue of around 200 crores, 250 crores. So if we talk of ROC, then it become more or less the same level.

Kamlesh Kotak, Analyst

Okay. So it won't impact our overall margins per se?

R B Kabra, President, Building Products Division Kamlesh Kotak, Analyst

And sir, could you help us in terms of how much the CapEx this year we've done and the guidance for the year and the year later?

R B Kabra, President, Building Products Division

So, the faucets plant is -- the CapEx is 100 crore. Most of it has been done, maybe 10 crore, 20 crore has to go till March. And that is the end of it. We don't have any major CapEx in the Building Products till we start working on the new sanitaryware plant in Gujarat, which (technical difficulty). But when the work starts, it will be around 140 crore over a period of 24 months to 30 months. And that the internal generations are going out for that kind of investment, we don't have any major investment lined up for the glass. There is already (inaudible) capacity at least looking to the current market situation for next may be one and a half year, two years and we don't see this -- don't improve, we don't see any investment going to the glass, except the maintenance CapEx, which is around 10 crore in the glass per year end 10 crore in the existing plant in the Building Products.

Kamlesh Kotak, Analyst

So next year, we should be able to have some debt reduction per se?

R B Kabra, President, Building Products Division

Yes.

Kamlesh Kotak, Analyst

Okay. Right, sir. And any -- how we have, in terms of the imported products vis-a-vis the total revenue, is it significant enough?

R B Kabra, President, Building Products Division

No, not really.

Kamlesh Kotak, Analyst

Okay. Fine, sir. Thank you very much, sir, that's it.

Operator

Thank you. The next question is from the line of Sunny Agrawal from Aditya Birla Money. Please go ahead.

Sunny Agrawal, Analyst

Good evening, sir.

R B Kabra, President, Building Products Division

Good evening.

Sunny Agrawal, Analyst

Sir, my question pertains to -- I mean, we keep on hearing that some state has banned the use of plastic bottles in food and pharma industry. So just want to know your view on that, when can you get on a pan-India basis and opportunity we see there in a

container glass business? And my second question pertains to the increase in gas prices, which are going to almost double from the 1st of April, as far as domestic gas producers are concerned, so any impact of that on our business?

R B Kabra, President, Building Products Division

Okay. So, to answer your first question, the banning of PET bottles for pharma, yes, there is a paper article. There are some organization which has requested government to ban PET bottles for pharma packaging.

Sunny Agrawal, Analyst

Yeah.

R B Kabra, President, Building Products Division

But no decision has yet been taken by the government. And internationally, many countries are still using PET bottles for the pharma, so I don't see. I don't know whether the government will still like to ban or they will not ban. But since you know we are in both the businesses, we make PET bottles also in small quantity and we are maybe the fifth largest manufacturer of PET bottles and we also make glass bottles.

So if the PET bottles for some region, in some state or some region, they stop using PET bottles, we have glass bottle to supply to them. But I don't see this happening very soon or maybe happens in one or two state, nationally, I don't see this happening, because the logistic cost when you are transporting, in addition in the PET bottles, the weight is lower, the logistic costs are lower.

But on the other side, the shelf life goes down, because India is a tropical country and the environment is hot in most of the regions and most of the time of the year, so glass is a more inert material which does not allow the ultra-violet rays to come to the contents of the bottle and the shelf life is higher.

So let's see how it goes, but we are in the both segments, so I think we don't get affected, number one. And coming to the gas prices, our only one plant at Bahadurgarh uses natural gas. And we already are getting at market price. This is all imported RNG gas, we are not getting this APM gas in any case.

Sunny Agrawal, Analyst

Okay.

R B Kabra, President, Building Products Division Sunny Agrawal, Analyst

Okay.

R B Kabra, President, Building Products Division

Which is to equivalent to around \$12, \$13. So we don't see this anything happening is impacting our gas prices in any way.

Sunny Agrawal, Analyst

Okay. Thanks a lot and all the best.

R B Kabra, President, Building Products Division

Thank you.

Operator

Thank you. The next question is from the line of Porinju Veliyath from Equity Intelligence. Please go ahead.

Porinju Veliyath, Analyst

Good evening, sir.

R B Kabra, President, Building Products Division

Good evening.

Porinju Veliyath, Analyst

Okay. Your portfolio managers based at Cochin, they are long-term investors in HSIL, a few year they have invested in this company. I appreciate the managements' effort building up and scaling up the business in a difficult environment, but I was looking at a macro level for the last five years. And I was just looking at one company, but I heard something like 7%, 8% holding, Cera Sanitaryware?

R B Kabra, President, Building Products Division

Which one?

Porinju Veliyath, Analyst

Cera.

Yeah.

Porinju Veliyath, Analyst

Now, the market value of that company is 1,000 crores. And we are a much bigger company, a much bigger tradition, management skills, and we have 600 crores.

R B Kabra, President, Building Products Division

Yeah.

Porinju Veliyath, Analyst

This is five years, the way things have moved Cera has moved 25 times in wealth creation. And we have just hardly grown one time. This, I am talking about market cap, basically.

R B Kabra, President, Building Products Division

Yes.

Porinju Veliyath, Analyst

I find the basic thing what has gone wrong, while Cera was -- they went on creating wealth for shareholders. We, HSIL went on building plants and accumulating debt?

R B Kabra, President, Building Products Division

Yeah.

Porinju Veliyath, Analyst

And we are -- even the current size of the company, even today's revenue in the size, we are much bigger.

R B Kabra, President, Building Products Division

Yes.

Porinju Veliyath, Analyst

And a much bigger brand.

R B Kabra, President, Building Products Division Porinju Veliyath, Analyst

Tradition and a lot of things and the presence all over the country. I am from Cochin in Kerala and I found something very interesting off late. When we go out to buy something, a tap or something related.

R B Kabra, President, Building Products Division

Yeah.

Porinju Veliyath, Analyst

Cera is there everywhere.

R B Kabra, President, Building Products Division

Yeah.

Porinju Veliyath, Analyst

And HSIL is declining in that presence and the brand value. So, I don't know if you just go on building plants and taking debt.

R B Kabra, President, Building Products Division

Yeah.

Porinju Veliyath, Analyst

I think it's not the right way to do things in today's world, in the dynamic economy.

R B Kabra, President, Building Products Division

Yeah.

Porinju Veliyath, Analyst

And the difficult economy and industry situation.

R B Kabra, President, Building Products Division

Yeah.

So, I think at some point of time, we should make a full stop for the CapEx, consolidate and I think we should focus more on making the presence better, because it's a very competitive world. I know it's a very tough world for you and for all of us.

R B Kabra, President, Building Products Division

Yeah.

Porinju Veliyath, Analyst

I think it's time to take some radical decisions and focus on wealth creation for all the shareholders.

R B Kabra, President, Building Products Division

Yeah. See, I appreciate your concern. And I'm no expert that how the equity market or this year market values the company, I'm no expert, so I cannot comment on that. There could be various external reasons, there could be internal reasons. In our case, if you talk of, I can give you only a few points for your consumption that we are as you rightly said, we are a much larger brand than Cera. Cera is around two-third of our size in terms of business.

Porinju Veliyath, Analyst

Okay.

R B Kabra, President, Building Products Division

Our profit margins are much higher in our building products business than Cera. And Cera is also listed company, they report quarterly results, we also report our quarterly results, which you can see, go to the stock exchange site and see their results and compare our margin, because segmental we are also reporting. What has happened, largely which is not only our doing, but the investment in the glass business of 500 -- the 400 crore which we did last year. That unfortunately is not generating any revenue, I must say, because the sales has not picked up and hardly partly has gone into the inventory and partly we have cutback the production.

Porinju Veliyath, Analyst

Okay.

R B Kabra, President, Building Products Division

Because of that, because of the glass business and it is not only our doing, because when we took the decision of putting up this fourth furnace, our own glass plants were running at 100% capacity. The EBITDA margins was 17%-18% to 19%-20%, which were looking sustainable, but other players also put up capacity at the same time.

Porinju Veliyath, Analyst R B Kabra, President, Building Products Division

And for them, like this number one player in the country Hindustan National Glass in the glass bottle business where we are, we put up two large plant of 600 tons each.

Porinju Veliyath, Analyst

Okay.

R B Kabra, President, Building Products Division

So because of suddenly the capacity in the country went up too high, and that has happened for them, because they also targeted by commissioning that their plants, two plants, six months separate. But we first got delayed and because of this more or less both these capacities came at the same time.

And at the same time, the demand in the consumer segment of the -- which use our bottle as their packaging material, which is liquor or which is food or which is pharma, their volume which were growing 8% to 10% and that is the kind of estimate they gave us, we -- their volume on growth has gone down. This is, for some, it is 3%, for some it is 4%, and some it is 2%. So because of this,

there is poor capacity in the country and when there is overcapacity we'll appreciate that the customers are not accepting any price increase.

Porinju Veliyath, Analyst

Okay. They are very powerful today.

R B Kabra, President, Building Products Division

Yeah, because suddenly it turn a buyers' market. So the last price increase we got was February 2012, okay. So now if you see -- the only thing we got of the capacity and now after the two years, we just got a price increase from the aerated water and now in the process of getting food and pharma. And meanwhile cost of everything has going up. You know how gas price has gone up, how fuel price has gone up, electricity prices in Andhra Pradesh went up by 35%. The rupee depreciated, one of the raw material for the glass is imported, soda ash. So we could not pass on the increased cost to the customer, which is now happening and we hope that going forward, as I just mentioned that the Q4 is always good, we are hopeful that this quarter will be very good, but till we see next two quarters that how the volume growth in terms of our customers off take.

Porinju Veliyath, Analyst

Okay.

R B Kabra, President, Building Products Division

We cannot say this. So we are not in a bad business, it is a hi-tech. See, sometimes there is a business hike, it can come and go. So, what I can only tell is that our margins are better than the number one in the country. Our losses are much lower than the number in the country, in terms of glass we are number two. In terms of our Building Products, we are

Porinju Veliyath, Analyst

Okay.

R B Kabra, President, Building Products Division

If you see tile business, people run anywhere between 8% to 12%, 13%. Cera last quarter was 14%. We have to see this quarter results, they have not yet published. Parryware is much lower than us. So, what we can do, the capacity at about expansion, what we did in glass that we put 475 ton capacity furnace at an investment of INR350 crore, INR370 crore.

Porinju Veliyath, Analyst

Okay.

R B Kabra, President, Building Products Division

Whereas our competitor put a 600 ton glass capacity at INR650 crores.

Porinju Veliyath, Analyst

Okay.

R B Kabra, President, Building Products Division

So, as a management, what we can do is that we use the money very wisely. But estimates some time go wrong because of the metro regions also.

Porinju Veliyath, Analyst

Okay.

R B Kabra, President, Building Products Division

So once this glass -- the volume stand up, I just mentioned that we have done lot of work as a management to control the fuel cost, to control the power cost, which in the long run when the volumes come, this is the permanent thing. Whatever fuel consumption, reduction we have achieved that is sustainable, that is going to continue.

Porinju Veliyath, Analyst

Okay.

R B Kabra, President, Building Products Division Porinju Veliyath, Analyst

Okay.

R B Kabra, President, Building Products Division

So, we have created capacity only after creating market, not that we're just building capacity randomly and then look for the market. That is not the case.

Porinju Veliyath, Analyst

Okay. Next, coming one, two years, do you expect, sir, this excess capacity getting observed by the consuming industry?

R B Kabra, President, Building Products Division

Yes, that is what we hope, that the economy should revive and the consumption should go up.

Porinju Veliyath, Analyst

Okay.

R B Kabra, President, Building Products Division

And again, the big question with everyone now is that, how the government is formed in the center, who will become the government, whether they will be industry friendly, how things will happen. So everybody is keeping finger crossed and everybody is looking for the May that how things happen.

Porinju Veliyath, Analyst

Okay, sir. Any visibility for the debt reduction possibilities in the coming days? Any --

R B Kabra, President, Building Products Division

Starting from the next financial. This financial year, three months, nothing is going to happen.

Porinju Veliyath, Analyst

Okay. And one more thing, I think it's a great value at 600 crores as an investor, as a fund manager. Now, so you guys are very rich, why don't you make some creeping acquisition from the market at these levels? I don't know why I'm in looking at, because at 600

crores, some small things could be done, of course, I don't know about a buyback of the

R B Kabra, President, Building Products Division

The company does not have money, because already leverage, so it doesn't make sense to the company as of now.

Porinju Veliyath, Analyst

We didn't take our -- do that conservative approach when we made CapEx with purely borrowed funds, maybe that's the way went wrong. Of course, it is easy to look back and criticize. I'm not going into that. So you are very hopeful maybe in next one, two years, our normal working conditions could emerge, and with better margins, they're going to show numbers.

R B Kabra, President, Building Products Division

Yes.

Porinju Veliyath, Analyst

Okay, sir. Thank you.

R B Kabra, President, Building Products Division

Thank you.

Operator

Thank you. The next question is from the line of Surya Narayan Nayak from Sun Capital Advisory. Please go ahead.

Surya Narayan Nayak, Analyst

Yeah, good evening, sir.

R B Kabra, President, Building Products Division

Good evening.

Surya Narayan Nayak, Analyst

Sir, my question is pertaining to the investments made in the glass division. Again, I mean as the predecessor has told that in spite of let's say, you're getting or witnessing if see thereof 20% in sanitary business. I mean, why the management has thought of investing in glass business, which is not doing well. And personally, I have visited one of the breweries. I have seen the company using used bottles, I mean, such now rinsing the used bottles and using them.

So I think the incremental growth in the container glass division will be very less. So in spite of that why the management was -- had went in container glass rather than investing in the sanitary business where you are telling that

R B Kabra, President, Building Products Division

Okay. There are two parts in your question that why are we investing in glass and not investing in sanitaryware or the Building Product business, okay. That is the first question, if I'm correct?

Surya Narayan Nayak, Analyst

Yeah, that is, I mean, partially, I mean I'm telling why am I asking, why you have -- very much biased towards glass in spite of listed getting good growth from the sanitary, that is one?

R B Kabra, President, Building Products Division

We are not biased in terms of glass. We are certainly biased in terms of -- in favor of the Building Product business. But to answer your question, what I'm telling you is that the Building Product business is not start of the money. Whatever money required for expansion of Building Product that gets the priority, okay. That is the reason that we have been able to maintain 20% CAGR in the Building Product business. We have been creating enough capacity whenever it requires. As I just mentioned that we are investing INR100 crore in the faucet plant. We acquired a faucet plant three years ago at an investment of around INR25 crore, we expanded our Bibinagar plant three years ago at an investment of INR60 crore, we expanded our Bahadurgarh plant last year at an investment of around INR15 crore.

So, whatever money is required for the Building Products division, whether for sanitaryware, whether for faucet, whether for increasing the trading, whether for upgrading the IT system that gets the priority, okay. But the thing -- like I just mentioned, we are already working on the putting up the third sanitaryware plant in the Gujarat for which we already acquired land.

Surya Narayan Nayak, Analyst

Yeah. You have acquired, but you are yet to take decision like when to --?

R B Kabra, President, Building Products Division

To take decision to start the work.

Surya Narayan Nayak, Analyst

Yeah. That is what --

R B Kabra, President, Building Products Division

Reason being that the volume growth as I mentioned that when we realized that if we sell more high-end pieces, the profitability is higher and more and more customers are moving towards the high-end ecstatically better-looking products.

Surya Narayan Nayak, Analyst R B Kabra, President, Building Products Division

So if I'm able to -- if my volume growth is only 3%, 4% a year despite my topline growing 20%, why should I invest in the capacity which I'm not available use it.

Surya Narayan Nayak, Analyst

So in spite of --

R B Kabra, President, Building Products Division

Pardon.

Surya Narayan Nayak, Analyst

I need to interrupt you, I mean in spite of that we have been witnessing in all the major international airports or domestic airports. All the airports are flooded with only international -- even five-star hotels and four-star hotels, they are only preferring for international brands like Toto and all, even American standards. So, why -- let's say, this thing has been witnessed for many years let's say last three to four years, I mean, why you have not taken a decision much before, I mean to introduce let's say high-end sanitaryware rather than delaying the decision.

Anil Chandani, Senior Vice President, Corporate Finance

Just for your information, we are in the high-end sanitaryware now for last more than eight years. Hindware -- say, we had only one brand called Hindware, okay. If you are aware of the history.

Surya Narayan Nayak, Analyst

Yeah, yeah.

R B Kabra, President, Building Products Division

Basically added another higher range with the Hindware Art, then we added another higher range called Hindware Italian Collection.

Surya Narayan Nayak, Analyst

Okay.

R B Kabra, President, Building Products Division

Now, Hindware Italian Collection is there now over the last seven year and the contribution in our sales now from the Hindware Art and Hindware Italian Collection is more than 52%.

Okay.

R B Kabra, President, Building Products Division

Okay. And then too further add -- because there are some people like, who have big bonuses or fed money, they will say, they only want imported brands, whether the quality of Indian product is better or not. There will always be market for any product in the country, India has a large population and now -- then we had this foreign subsidiary in UK and we have launched their product in India last year under the brand name of QUEO, which is competing with all the Totos and the Kohlers of the world in the imported segment, because Toto and (inaudible) and if you really ask me the ground turn, the truth is that these people for the hotels, for the food, they sell even cheaper than us.

Surya Narayan Nayak, Analyst

Okay.

R B Kabra, President, Building Products Division

I don't know whether you have access to financials these companies are not, which you must be having, if you are in this business, Kohler's accumulated losses are INR400 crore in six years when they are in countries. I don't have these kind of money available with me to fund these kind of expenses. They might be selling maybe half of their production cost, just to get penetration in the market. And they feel that if there is a visibility in the airport, there is a visibility in the hotels, they will be selling at half the price of their production cost, we do compete everywhere. But we walk out after we say that we cannot go below that, because we want to be in a profitable business.

Surya Narayan Nayak, Analyst

Okay.

R B Kabra, President, Building Products Division

And if you really see 20% CAGR in our line of business is not bad, so not that we are sleeping and are not doing anything.

Surya Narayan Nayak, Analyst

And sir, in container glass business actually I witnessed -- I came to know that certain breweries, they're using used bottles. I mean, there is a rinsing --

R B Kabra, President, Building Products Division

Coming to your this question, it's not a new thing.

Surya Narayan Nayak, Analyst R B Kabra, President, Building Products Division

The bottles are reused and it is not today, it has been since the beginning. Old bottles are collected, washed, even you forget the beer people or liquor people, even the Coke and Pepsi, which are the best of the hygiene standard.

Surya Narayan Nayak, Analyst

Yeah.

R B Kabra, President, Building Products Division

They pre-collect the bottles, if you go to the shop and he asks you to return the empty bottles back.

Surya Narayan Nayak, Analyst

Yeah.

R B Kabra, President, Building Products Division

And as per our discussion with them, they use bottle 21 to 22 trips before the bottle goes out of the use average. Some may break in three times or some may break in 50 times, but they say the average use of the bottle is 22 trips as they call it. But the population of bottles in the country is so large.

Surya Narayan Nayak, Analyst

But the point here is that sir, the industry as a liquor business as the industry hasn't seen growth volume, volume in the group let's say at maximum of let's say of 3% or 4% even the Pepsis and Cokes, they're also reporting lower volume growth. I mean this year -- last year coke has reported lower volume growth in India as well. I mean, globally it is the case, but in India as well as the volume has declined. So in spite of that what sort of let's say, volume you can expect going forward in aerated business?

R B Kabra, President, Building Products Division

Just to bring you up to-date, we commissioned our last furnace in May last year, which is May 2012, okay.

Surya Narayan Nayak, Analyst

Yeah.

R B Kabra, President, Building Products Division

And yeah, so it is now more or less 21 months and you'll see that it takes around 18 months to put away furnace. Okay.

R B Kabra, President, Building Products Division

So when we took our decisions, which was around three and half years ago to invest in this business, the glass volumes were

growing steadily anywhere between 10% to 12% for last four, five years before that, okay.

Surya Narayan Nayak, Analyst

Okay.

R B Kabra, President, Building Products Division

Our furnace is what running flat out at 100% capacity, still we were not able to supply to some of the customers. So that decision of this furnace of investing INR400 crore approximately was taken three and half years ago, when the markets were very, very strong. Now, I'm not a person, who can look into the future.

Surya Narayan Nayak, Analyst

Okay.

R B Kabra, President, Building Products Division

Suddenly the Indian economy was growing at 10%, now growing at 4.5%, whom to blame.

Surya Narayan Nayak, Analyst

No. My -- only I was drawing analysis between yours glass business with auto business. When the auto in spite of the lower volume in the OE business there is a replacement demand. So in every three years or so. So in your case in container glass, whether such kind of let's say replacement demand from the breweries will come in let's say, two years or three years, because last time we have seen a boom in 2010 or '09, '10 or so. So what is the sense you are giving to investors in case of replacement demand in the container glass in the brewery segment?

R B Kabra, President, Building Products Division

Not only breweries, everywhere -- actually the total demand as I mentioned, the volume growth in the glass business anywhere between and the various stock 8% to 12%. So I will say 4% and 5% has been the new demand and 2%, 3% has been the replacement demand always.

Surya Narayan Nayak, Analyst

Okay.

Because the total volume is also growing. So people need new bottles to fill, Coke and Pepsi cannot keep rotating their old bottles with rest of their life, because their business is also growing.

Surya Narayan Nayak, Analyst

Yes.

R B Kabra, President, Building Products Division

But the old bottles also break, as I mentioned to you that after 21 or 22 trips they have to replace the bottle. They have to get the new bottle, maybe for the beer, it rotates from six or seven times, because their handling may not be as good, that is the information we have from the industry.

Surya Narayan Nayak, Analyst

Okay.

R B Kabra, President, Building Products Division

And it is not that glass is not growing. Volumes are still growing for the country as a whole, but suddenly the capacity has grown much more than the demand growth, which was not expected by anybody that you will come down so much, but it's, as I mentioned into the business cycle. And maybe a year, year and a half there's again equilibrium between demand and supply, and then we will come back to the sustainable EBITDA margin of 18%, 19%.

Surya Narayan Nayak, Analyst

Your breweries, I mean, as you said earlier, if breweries will be also using PET bottles, then there will be -- you don't see any change in your growth story. So in that case --

R B Kabra, President, Building Products Division

Breweries are using PET bottles is technically impossible. I don't say that they can use or they cannot use, but first they do hot filling, okay.

Surya Narayan Nayak, Analyst

They are currently using partially.

R B Kabra, President, Building Products Division

The people who tried and they have -- they don't use bottles. They're actually not doing it. Somebody launched in India, and they have withdrawn those bottles now from the market.

Okay.

Operator

Excuse me Mr. Nayak, sorry to interrupt, sir. I request you to please --

Surya Narayan Nayak, Analyst

Just a last question if you can allow me, just a last question. Sir, you said, you are importing soda ash for the glass business. So why is it so when Tata Chemicals is having -- and BSL is having good capacity, why still we need to import, I mean, is that an import is very -- one of cheaper rate?

R B Kabra, President, Building Products Division

Yeah, let me answer this question. In India also you can get it from Tata Chemicals or GSTL or something from Nirma also.

Surya Narayan Nayak, Analyst

Yeah.

R B Kabra, President, Building Products Division

There are two, three players only, Nirma -- mainly use it for its own captive consumption. Effectively there are two player and they benchmark their prices, domestic prices, according to the dollar priority.

Surya Narayan Nayak, Analyst

Okay.

Anil Chandani, Senior Vice President, Corporate Finance

You will not find any difference between landed prices whether you import. In any case, we are buying from Tata subsidiary only.

R B Kabra, President, Building Products Division

So the landed price is still cheaper than the domestic prices, to answer your question. Despite the rupee depreciation.

Surya Narayan Nayak, Analyst

Okay.

Domestic players are quite intelligent or -- they increase their prices according to dollar.

Surya Narayan Nayak, Analyst

Okay. Okay, I only just now ask --

Anil Chandani, Senior Vice President, Corporate Finance

Tata Chemicals is not doing well.

Operator

Thank you. The next question is from the line of Anuj Sehgal from Manas Capital. Please go ahead.

Anuj Sehgal, Analyst

Yeah. I'll just continue from the last two questions. In the past, the management has said that once the two businesses, Building Products and container glass reach a turnover of thousand crores or so. You will think about demerging the businesses as again, where we stand on their own feet. Is there any thought on that because maybe in the next 12 to 18 months the businesses should get to that level.

And of course, what has happened in the past has happened, but given the fact that the Building Product business is a much better business, as much higher return on capital employed. Of course, you will get a better valuation of that business. So any thoughts on that?

R B Kabra, President, Building Products Division

Yes, I think we are still at what have said. We are still on that point and by that time may be we reach we will still seek advice of some of the experts in this line and how the market is there that find out for the glass, because it is not only separating. As the glass improves then there is no issue. If the glass does not improve may be delayed by a one year, because it has to sustain on its own, but we are there what we had mentioned.

Anuj Sehgal, Analyst

Thank you.

R B Kabra, President, Building Products Division

Thank you.

Operator

Thank you. The next question is from the line of (inaudible) from Lucky Investment. Please go ahead.

Hi, gentlemen. Sir, I am sure you get asked this a lot, but just going with the earlier participant, obviously, one business is fantastic and the second one is not. Any management thoughts on the demerger for a better value creation for the management and the shareholders.

R B Kabra, President, Building Products Division

I would say that the last gentlemen just before you asked the same question. And we have been telling that once these companies, this business reaches 1,000 crore plus, we will look at it. That we told two years ago. We are still at the same decision. But as I just mentioned, the large business just turned bad for the last two quarter. So we also see that it improves and it goes to sustainable levels, so maybe this can be delayed by another year or so. That's all.

Unidentified Participant

But then eventually it is (Technical Difficulty) Thank you, sir. That's all I want.

Operator

Thank you. Ladies and gentlemen, due to time restrictions that was the last question. I would now like to hand the conference over to Mr. Jaisinh Suchak for closing comments.

Jaisinh Suchak, Analyst

Thank you, Vivin. Behalf of JM Financial we would like to thank the management and all the participants for joining us on the call today. I will now hand over the floor to Chandani for the closing remarks. Over to you, sir.

Anil Chandani, Senior Vice President, Corporate Finance

Thank you gentlemen for sparing your valuable time with us and a good set of questions. Ultimately, we have to perform and make the business -- improve the business, especially the glass business. And we're working towards it. What we can do especially on cost front we are doing and we have been successful a bit. If market improves, so we'll automatically improve as such, you will see margin improvement. Everything depends on sales growth. So we request you all of you to drink more beer more, Coke and Pepsi. Thank you very much with all this. Thank you. Back to Jaisinh. Thank you very much.

Jaisinh Suchak, Analyst

Thank you, ladies and gentlemen, on behalf of JM Financial Institutional Securities Limited, that concludes the conference,