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Sub: Transcript of the Earnings Call held on August 02, 2023 on Q1 FY24 Financial Results

Ref: Regulation 30 of SEBI LODR Regulations, 2015

Pursuant to Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached transcript of the Earnings Call held on Wednesday, August 02, 2023 on Q1 FY24 Financial Results.

A copy of the said transcript is uploaded on the website of the Company www.hil.in.

Kindly take the same on record.

Thanking You.

Yours faithfully,

For HIL Limited

Akshat Seth

Digitally signed by Akshat Seth
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Akshat Seth
Managing Director & CEO
DIN: 10039820

HIL Limited
Q1 FY24 Earnings Conference Call Transcript
August 02, 2023

Mit Shah: Good morning, ladies and gentlemen, and welcome to HIL Limited's Q1 FY24 Results Conference Call for Investors and Analysts. Today, we have with us Mr. Akshat Seth, Managing Director and CEO of the company, and Mr. Ajay Kapadia, Chief Financial Officer.

We will first have Mr. Akshat Seth, to make the opening remarks, and he will be followed by Mr. Ajay, who will take you through the financial perspectives. Before we begin this call, I would like to point out that certain statements made on today's call could be forward looking in nature and details in this regard are available in the earnings presentation, which has been shared with you earlier.

I would now like to invite Mr. Akshat Seth to present his views on the performance and the strategic imperatives that lie ahead. Thank you and over to you, sir.

Akshat Seth: Thank you, Mit. Good morning everyone and a very warm welcome to HIL's Quarter 1 FY24 Earnings Call. Thank you for taking the time to join us today, and I sincerely hope that all of you are doing well.

Today, in this call, we will share and cover two aspects. One is HIL's performance in the first quarter and how we are poised in the coming months and quarters. And second is to give you an overview of the initiatives underway to chart out a phase of fast-paced value-building growth that I spoke to all of you about in our last call.

At a consolidated level, HIL has reported a revenue of Rs. 1,016 crores, with a PBT of Rs. 74 crores. HIL India so at a stand-alone level has delivered its highest quarterly revenue at Rs. 722 crores, with a PBT of Rs. 100 crores.

Our performance during Q1 reflects HIL's inherent resilience and ability to win in a difficult market, in a soft demand regime and we saw that in India and also in Europe, HIL and Parador have outperformed its peers gaining market share across our various product categories. There were strong efforts done by the team on sourcing, cost management and value enhancement initiatives, which has ensured healthy margins and profitability across our individual segments and overall, for HIL.

While we continue to gain strength through our leader brands, our growth segments are scripting a fascinating story for HIL. A story that is changing the face of HIL towards being a comprehensive home and building products company and not just a roofing company. I would like to highlight that today; roofing contributes less than 30% of HIL's revenue.

And in today's call, I will focus on what are the segments which are driving this shift towards being a comprehensive building products company. And what are really the segments which, according to us, will be the drivers of growth as we go forward. Anticipating some questions and queries that you have, let me start with Parador today, and I will come to the HIL India story just after that.

At the heart of the repivoting that we are doing and the globalization effort at HIL is where Parador sits for us in our strategy. At Parador, we are driving a significant change agenda, short-term geopolitical headwinds aside.

Our recent onboarding of David Bradham, who we call Neel, as the CEO of Parador is a clear statement of our vision to make Parador one of the most valuable Interiors and Flooring brand globally. Neel comes with extensive experience of driving growth and scaling up businesses in the flooring industry across Europe, North America and the Asia Pacific.

In his former role, he has been associated with Flooring giants such as Mohawk, Interface and most recently, Milliken & Company, where he has played a variety of roles on both operations, commercial functions, and more recently as P&L leader for these businesses. In the early part of his career, he has also been an investment banker and a strategy consultant. And with him, we believe we have the firepower at the leadership level to drive this phase of growth for us at Parador.

Some of you have asked, what is really the aspiration at Parador? And our first milestone is to make Parador a EUR 500 million-plus global brand over the next three years to four years. The question then is, where will this growth come from? And there are basically three areas that we are pushing for. First is to deepen our market presence not just in Europe, where today our market shares are still below 5% in most of the segments, but also open up key markets in North America, Middle East and Asia. Our strong belief is even in the short run, this diversification of markets will help offset the weaker demand outlook in Europe.

The second area of growth will come from a more solid coverage of the commercial segment in addition to our traditional strength in retail and residential segments. Commercial for all of you typically accounts for 40% to 60% of the overall market in any geography that we operate in and represents for us an unaddressed part of the market.

The third source of growth will come from our continued focus on quality and innovation in products and design, and creating product lines, which can help command a price premium. For instance, in Modular One, we have a blockbuster product in resilient flooring that is both, sustainable and design forward.

To realize this growth ambition and the pockets that I just highlighted, the team is working on a major transformation agenda focused on first organization build, which is around people, capability and processes. Apart from the leadership at the top, other functions and their teams are being augmented to deepen market reach in prioritized markets. Sales acceleration is a key focus area and we have intensified our branding and marketing efforts and also the new product development.

Given the situation that we find ourselves in, it is also important that the team has maintained a sharp discipline on cost and value enhancement levers. Favorable raw material price evolution and proactive sourcing efforts have kept contribution margins for our products healthy. And the team continues to work on more initiatives for additional cost savings.

Working capital, cash management, are again an area of strong focus. In fact, as an example, I will state that inventory this year at the end of the quarter was about 20% lower than the same time last year, and that is because of some best planning and proactive work done by the team.

In summary, on Parador, we are confident on the mid to long-term prospects. I would go out and say that it is the hidden gem in HIL's portfolio for all of us to watch out for and see how that story unfolds in front of us.

I will now move to the HIL India part of the story and let me start with Roofing, where the season started off on a sluggish note from a demand perspective, and that impacted price sentiments in the market. But this is where HIL's strategic strength came into play. The strength of our brand, Charminar, our unparalleled market reach, and I would emphasize the word unparalleled in the context of the competition that we face. We are today present at nearly 20,000 outlets across the country. We cover more than 60% of Tehsils in the country and the Charminar brand is known for exceptional product quality.

On the strength of these assets in a difficult market, we have actually extended our market leadership in terms of both market share, where we are the clear number one, and also our ability to command a price premium over our peers. We registered a top line growth of 4% during the quarter, recording for us the highest ever Q1 sales volume, highest-ever Q1 revenue and also internally for us, highest ever production numbers for this quarter.

Going forward, we will remain steadfast on our objective of growing our market share by deeper market penetration. At the same time, the team will continue its laser sharp focus on cost management. As displayed in this quarter, robust profitability despite a weaker price regime is a trend that we would like to continue in coming quarters as well.

In Building solutions, we grew by 8% over last year. The successful expansion in the East and the seamless integration of 'FastBuild' business have been instrumental in augmenting our volumes. Birla Aerocon continues to be a truly premium brand and stands for quality in the markets that we serve. Efforts made by our technical sales team has also ensured that we command a price premium over competition in both, Blocks and Panels. In this quarter, we have served over 550 projects across the country and are sitting on an equally healthy and robust pipeline for projects in the coming months and quarters.

The strike in Chennai and short-term demand blip in North and West market constrained our growth in this quarter. However, as these factors subside and as our planned capacity expansions in Golan, Jhajjar and Hyderabad come on stream in quarter 2, we are confident of resuming an even higher growth and profitability trajectory. Further, we continue to scout for opportunities for both inorganic and organic capacity expansion possibly in the Southern region.

Putty, a part of the Polymer solutions cluster for us has faced competitive challenges. We have reduced our manufacturing costs by optimizing the recipe in the last 12 months. At the same time, we are actively exploring new markets to sustain our growth momentum. Construction Chemicals, the new segment that we introduced last year, is on a promising trajectory with plans to enrich our product assortment and capitalize on synergies with the broader operations to drive further success.

Before I conclude, I will spend a few minutes on another exciting part of the HIL portfolio. Over the last few years, we have been quietly scripting an impressive success story in the Pipes and Fitting segment. And let me share some reasons why we are so excited about it, and we feel proud of what has been achieved in this segment.

Since FY20, we have grown by about 32% CAGR versus an industry growth of anywhere between 8% to 10% during the same period. In this time, we have built a strategic launch pad to build a significantly more scaled-up business. Let me outline what these strategic levers are.

First and foremost, we today sit on a national footprint of manufacturing and distribution network, which allows us to serve practically every market in the country. We, today, have a comprehensive product portfolio, which spans more than 1,500 SKUs and offers certain unique technology like our TrueFiT™ technology that enables 100% leakproof joints and is a significant value proposition for the end consumers that we serve.

With the recent commissioning of the state-of-the-art multilayer Foam Core production line, we are amongst only a handful of players that offer underground drainage products. And in the coming months, you will see more innovations on the product side being shared with you as we expand our portfolio further.

The third dimension towards strategic muscle is a front-loaded capex in production capacity. With Industry 4.0, AI enablement and digitization, these production plants are at a level of sophistication, which is comparable to none in the industry.

Fourth, state-of-the-art R&D facility which provides in-house compounding and stabilizer development technology for us. Our R&D team has developed capabilities of product engineering with the help of FTIR and XRF methodologies.

And finally, we have a digitally enabled sales team and customer service function, which is delivering superior service to our end consumers and customers.

In quarter 1 too, we grew our volumes by 17% in Pipes and Fittings. Hidden within this story is nearly 37% growth in retail volumes in this period. The slowdown that the industry has witnessed on the project construction side was a drag, which is why the compounded volumes have grown at about 17%. I will highlight that our sales realization per metric ton in this segment is amongst the best in the industry, and it's driven by a carefully curated product mix. I feel leveraging our brand legacy, we are poised for significant growth in this segment, and this is another segment, which I will highlight that we should all watch out for within the HIL staple.

Overall, aligned with our growth plan, we remain resolute in making directed investments to enhance capabilities in research, production and business development. Simultaneously, we are taking proactive measures to rationalize cost structures and digitize manufacturing processes. These strategic actions are propelling us towards the HIL of tomorrow.

Before I conclude, I would like to express my deep gratitude to our outgoing Chief Financial Officer, Mr. Saikat Mukhopadhyay. Throughout his tenure, he has been an invaluable member of our team, providing strategic financial guidance and playing a pivotal role in driving our organization's success.

At the same time, I am pleased to share that Mr. Ajay Kapadia has stepped into the role of Chief Financial Officer, with a long tenure at HIL before him. We believe he has the right credentials to facilitate and accelerate the growth part that we are on both, in India and outside India.

To conclude, and I would apologize for a slightly longer opening remark from my side than usual. I thought it's important that all of you stakeholders share the excitement and energy that we feel about HIL's prospects and the confidence with which we are approaching the segments that we play in.

I will now request our CFO, Ajay, to provide a detailed overview of our financial performance during the quarter. And both of us will be available after that to answer any questions you may have. Thank you for your attention and time.

Ajay Kapadia: Thank you, Akshat. Good morning and thank you all for joining us on the call today. I would like to take this opportunity to provide an overview of our financial performance and operating highlights during Q1 FY24.

The first quarter has set the tone for the financial year with volume growth in all business segments in India. We have reported revenues of Rs. 1,016 crores during the quarter as against Rs. 1,085 crores in Q1 FY23.

Roofing Solutions business grew by 4% year-on-year to Rs. 466 crores. Despite sluggish demand, we continue to grow in volume and thereby further strengthening our market leadership position in the quarter and continue to enjoy customer loyalty. Higher fiber cost relative to Q1 last year has negatively impacted margins in this segment. This is now the new normal from a cost perspective, and it may take a few quarters to fully offset this by increasing prices. However, our margins in this segment are the highest amongst all Roofing players.

The Building Solutions business grew by 8% year-on-year during Q1 FY24, coming in at Rs. 134 crores. During the quarter, revenue and profits were negatively impacted on account of the ongoing strike at Chennai. We are hopeful that an amicable solution will be arrived very soon, and Chennai operations will be normalized. Margins in Blocks are lower during the quarter due to poor demand in the market, which led to lower price realization. However, we have been able to partially recover the negative impact by focusing on the development of alternate supply sources to keep our input costs lower. This situation is transient in nature, and we are confident of getting the margin back on track in coming months.

Polymer Solutions business, de-grew by 16% year-on-year on a revenue basis to Rs. 120 crores as compared to Rs. 143 crores in Q1 FY23. This is on account of lower resin price as compared to last year. This despite a 17% year-on-year growth in volumes of Pipes and Fittings. With stabilization of input costs and strong efforts in cost management, I am happy to report healthy operating margins, which is 3x of last year. We believe that we are in the right profitability zone in the segment and will seek to further improve with growing scale.

The Flooring Solutions that is Parador business de-grew by 20% year-on-year and stood at Rs. 294 crores in quarter 1 this year as compared to Rs. 365 crores in quarter 1 last year. Favorable raw material prices and proactive sourcing efforts have kept contribution margins healthy in this segment. The team is continuing to work on initiatives for additional cost savings. We continue to adapt to the current conditions, and our focus will be growing into Europe as well as globally.

EBITDA for the quarter stood at Rs. 91 crores as compared to Rs. 137 crores during the last year same quarter. The consolidated profit before tax is Rs. 74 crores. We took several steps to improve the efficiencies in operating processes, positive impact of sourcing efforts, cost management and value enhancement initiatives to minimize the impact of external factors. They are yielding sustainable improvements in operational KPIs.

Our focus on working capital optimization continued during the quarter. HIL India is debt free as on 30th June. Our debt at consolidated level stood at Rs. 294 crores. The total debt-to-equity ratio stands at 0.23. We are confident in our ability to grow our performance footprint and create healthy cash flows going forward.

Now I conclude my opening remarks and request the moderator to open the floor for questions. Thank you.

Moderator: The first question is from Viraj Kacharia from SiMPL. Please go ahead.

Viraj Kacharia: I just had a couple of questions on the Roofing side. First is, I think what you said in the opening remarks is the fiber cost is now at a new level and still under recovery in terms of the raw material cost inflation, correct me, if I heard it right? So, the question is basically if you can just provide, what is the extent of under recovery? And any perspective you can share in terms of the market share trends and the price premium which we used to have vis-a-vis competition. So that's question one.

Akshat Seth: Okay. So, to give you a context, the price increase that has happened in fiber is to the extent and compared to the last year is to the extent of anywhere between 22% to 24%. We have, in this quarter, managed to increase prices by nearly 3% in that zone, which means the percentage under recovery is about 60%. We expect no real change or movement or decline in the fiber cost. So, this is, as Ajay said, the new normal. From a price to catch up, we think it will take a few quarters. However, that gap will start closing in the coming quarter itself. So, we should start narrowing that gap in this period.

From a price premium point of view, as I said, given our brand strength and our leadership position, we have traditionally enjoyed a premium in the market. Our estimate is that premium is in the range of about 6% to 8%. And I would believe that should show up in the comparable profitability and margins compared to our peers when all the results are out.

Viraj Kacharia: So, the second question is largely in terms of the market dynamics or the competition dynamics in Roofing. One of the larger competitors had expanded capacity a couple of quarters back. And there was some aggression in terms of

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more volume-led sales, hence the pressure on prices. What is that you are seeing now in the marketplace, so is there now rationality among competition? And similarly, in terms of the demand environment as well. So, the under absorption of a 5% to 6% inflation, can that be now passed on in coming quarters? I mean is that how others also looking in the marketplace?

Akshat Seth: So, let me pick up the various threads you highlighted from an overall demand outlook perspective, if we go by the evidence of Q1 you are right, there is no real growth that we are seeing at an overall industry level. And that buoyance to an intensifying competition amongst the incumbents. And that played out in quarter 1 also in terms of the price regime and the ability to pass on the cost increase as price increases. That impact has been muted, as I said. So overall, we do not think that there will be a step change in the overall demand in the industry and hence, capacity additions happening find less basis at least from our perspective.

There will be players, and we will be amongst them who will be aiming to increase the market share, but we have enough flex on our capacity. So, we hope to increase those volumes without putting in additional capex in the plants that we have. On the ability to sort of pass on the price, the cost increase, as I said, the trend on a small note has started. Our expectation is it will take anywhere between six months to nine months for it to be fully absorbed. So that's where we stand from a market scenario perspective.

Viraj Kacharia: Okay. And the last part, again, on Roofing is, do we see any further new capacity being added in the market or any rationalization of existing capacity in the industry?

Akshat Seth: This increase or decrease or rationalization at the moment seems to be on the margins, they are not really affecting in any major way, the overall dynamics in the various regions that we play in. They are more on the margins and are not really affecting the larger play in the marketplace.

Viraj Kacharia: Okay. And if I can just squeeze in one more question. On the broader strategy, so in the opening remarks, we have seen addition in the senior management level, we got a person heading Parador. So, in terms of the broader capacity building either in terms of people or processes. Is that process by and large over? Are we still seeing gaps and any perspective you can give on that?

Akshat Seth: The principal answer is that, the process is never over. We are on a journey of continuous improvement. So, we will keep pushing the envelope on the work we do. But for the immediate milestones that we had set for ourselves around quarter 1 and halfway mark of the year, we are on track. The augmentation that was planned at the leadership level across both, India and in Europe is, by and large, in place.

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These augmentations also need a little bit of time to stabilize and be fully embedded in the system. But I can assure you that they have hit the ground running. And we feel greater momentum on our side as we go towards our larger vision over the next 2-3 years with this augmentation that has happened. But pushing the envelope on process, capability, capacity is something that is a continuous process. With this augmentation, I feel there is greater momentum behind that.

Moderator: Thank you. Next question is from the line of Dhananjay Mishra from Sunidhi Securities. Please go ahead.

Dhananjay Mishra: Good afternoon. Best of luck to the outgoing CFO and also congratulations to Ajayji for the appointment as CFO. My question is, if you could provide utilization level for this quarter in all the categories. And also, you said that fiber pricing is going to be the new normal and with 3% increase in price, we still have 60% under recovery in terms of price increase, we have seen in fiber. So, at what level, let's say, 5% to 6%, 7% price increase maybe 2%, 3% down the line, can we achieve the earlier margin we used to do in this Roofing segment?

Akshat Seth: Yes. So just answering the second question first. If we keep the cost structure same as what we observed in Q1 and we increased the price level by another 3% to 4%, we should largely be back on the margins that you have seen in the past. From a utilization point of view, in both Blocks and Roofing, we are in the high 90%. So, Roofing will be closer to the 100% mark. Panels and Boards is at about 80% utilization. And the rest of the segments are about 70% odd from a capacity utilization perspective.

Dhananjay Mishra: So, Pipe segment, we are still at 70%, right?

Akshat Seth: In fact, I would say that's a source of strength for us. As I said in my opening remarks, in Pipes, we have actually front-loaded the capacity build, so that we can grow quickly. Part of the reason why the growth has been fast is because we have not sort of been constrained on the capacity side. And that will remain a core part of our strategy. So, we get a lot of confidence by the fact that, we can ramp up quickly and we have the capacity to do it.

Dhananjay Mishra: Okay. And for next one to two years perspective, which product will be more focused area in terms of where do you see the growth coming in and where we need to build more capacity? Of course, you said this fiber, Roofing segment is going to be stagnant for, in terms of growth. But within Building solution and Polymer business and Flooring business, which will be the more focused area for you, where we see more growth coming in for the next one to two years perspective?

Akshat Seth: So, if you look at all our segments beyond Roofing, so Building solution, Pipes, Putty and Construction Chemical and Flooring. So, there are those four segments.

We expect to double our size in each one of them in the next three-odd years. You can apply the growth rates, but each one of them is important for achieving the larger vision we are going after. And will be the larger chunks of absolute growth that HIL registers in this period.

And in fact, if I go back to Viraj's question previously, a part of the reason why we have augmented the leadership team is to ensure, we can fire on all these cylinders simultaneously without compromising one for the other. In Roofing also, we feel there is, of course, not at the same clip as the other four segments, but there will be some opportunity to grow on the margins. Growth rate, I agree, will be lower than what we will experience in the other segments.

Dhananjay Mishra: And lastly, a few quarters back when Dhirup was there, so he was also talking about introducing some new product altogether to reach our 1 billon because listing products may not be sufficient to this 1 billion. So, have you worked on those lines that introducing some new product or any new business category altogether?

Akshat Seth: So, I am not sure, what is the timeline of the observation that you are making, but the most recent addition of a new product line is on Construction Chemicals, where we feel we have just about started, and the growth potential is tremendous. So if you ask me from a new perspective, that is the one that we will be focusing on. The other categories, we already have a presence, and the idea is to scale up to our true potential in each of those categories.

Moderator: Thank you. The Next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Thank you very much for the opportunity. First of all, I wanted to understand something on the seasonality part, generally is, the first quarter is the best quarter for us. So how is our trend in terms of seasonality over the years?

Akshat Seth: So, quarter 1 from a Roofing point of view is the most pronounced quarter. For other products, the seasonality effect is not that pronounced. Of course, quarter 2, given we are in the Building product segment and the impact of range has a play but that's true across all our product segments. So Q2 slightly softer, Q1 from a Roofing point of view is typically the biggest quarter.

Deepak Poddar: Correct. And Roofing stands to have a major contribution to our revenue, right? So, the overall sense of revenue, it gives a push, right?

Akshat Seth: Again, as I said in my opening remarks, less than 30% of our portfolio. And hence, I am not sure if we have to say that it's the most important part of the revenue pie.

Deepak Poddar: Understood. Fair enough. And sir, my second question is on EBITDA margin. I mean you did speak in terms of price points also catching up and so our margins can be back to earlier levels of a particular segment. But at the company level, what should be our aspirational margins that on a steady-state basis, we should be looking at?

Akshat Seth: And I am going back to something that we shared in our last call as well. At a steady state level, anything in the early teens, so 12% to 14% would be the first milestone for us to hit. And I am sharing our internal aspirations as well, and that's in the relatively short run. After that, maybe we discuss this question once more, but that at least the first milestone, we want to hit.

Deepak Poddar: And that is at the company level, we are talking 12% to 14% rate?

Akshat Seth: Company level operating margin, yes.

Deepak Poddar: And any timeline, I mean, short term, one to two years, could be a fair kind of timeline, that we will target?

Akshat Seth: That would be a fair timeline to be exact.

Moderator: Next question is from the line of Amit Vora, Individual Investor. Please go ahead.

Amit Vora: Good afternoon, gentlemen. Then, thanks for taking my question. The first question is related to Parador. So, the losses in this quarter also have expanded. When can we see -- or are you seeing any green shots there?

Akshat Seth: From a seasonality point of view, given the holiday season, Q2 is slightly soft, and it's always been like this. Q3 onwards is where we expect normal service to resume from two counts. One in the markets that are traditionally the home markets for us in Central Europe. Post the holiday season, there is a spurt in activity. So, we expect that to come into play.

Equally in the last three to six months, there has been a strong focus of diversifying beyond these home markets. We are sitting on a very healthy pipeline of order book from these markets, and those will start coming into play from Q3 onwards. So, we should start seeing the trend reversing in that period.

Amit Vora: When you say healthy order book, if you can put a number to that?

Akshat Seth: It's a difficult one, because I do not want to be taken out of context. But I will give a small flavor of the overall picture. I mentioned in my opening remarks that Commercial is a new segment that we are opening up. And Commercial today, we are sitting on a pipeline of orders. So please understand a pipeline would mean first, the order has to be booked, then there is a delivery time, when the revenue gets booked. But today, we are sitting on an order book of nearly EUR 75 million, which is today about 25%, 30% of our total business Commercial as a segment. And hence, that gives us a strong conviction on the prospects, Q3 and beyond for us.

Amit Vora: Understood. My second question is relating to the new appointment that you have mentioned in your presentation as well. So, if you can just give some background of the gentleman, I think, he's going to be taking care of the Parador operations?

Akshat Seth: That's right. So, as I mentioned, his name is David Bradham more popularly called Neel. He has nearly three decades of experience in the Flooring industry globally. Has worked with some of the largest players in this space on both, the Soft Flooring and the Hard Flooring side. So, you would be familiar with companies like Mohawk, Interface and Milliken, which was his most recent organization.

What is also very relevant is the diversity of experience he brings in. He has worked across geographies. So, he is an American, but has worked in North America, in Europe and in Asia Pacific. He is very familiar with India as a market, for instance. He has played a variety of roles in these organizations.

So, he has been on the operations side, on the commercial and sales side, and more recently was a P&L leader for an entire region for Milliken. Also, comes from an investment banking and strategy consulting background. So, we feel there is a well-rounded experience that he brings in and is the right leader to push for the EUR 500 million aspiration that I had mentioned in my opening remarks.

Amit Vora: Okay. I just have another two questions, then I'll jump back in the queue. One is on the in-principal approval for a EUR 10 million that you have taken an approval for infusing in Parador. And the second is you have sold some assets that you've mentioned in your notes. If you can just elaborate on these, then I jump back in the queue.

Akshat Seth: Okay. So, the first question is on Parador. Now this is just a provision that we have taken for possible short-term cash management, and there are essentially two elements. So, one is what I mentioned. Second, there will be some investments as we are seeding new markets and building our teams and capabilities in this market. There will be some investment that will be required to grow those markets. So essentially, it's in that nature. In terms of the asset sale, Ajay, may I request you to share the details?

Ajay Kapadia: Good morning, Amitji. This is basically an unproductive asset. We are unlocking our values by disposing off those assets and we can utilize this money in more productive ways in the business. As seen in the last 4 to 5 years, every year, we sell some of such assets and then plough back that money into the business.

Moderator: Thank you. Next question is from the line of Satish Kumar from InCred Capital. Please go ahead.

Satish Kumar: Yes. I have a question on Parador. How is the demand shaping up right now? I mean, in terms of Y-o-Y, I know it's a seasonally weak period, but how generally the demand is right now?

Akshat Seth: So overall demand scenario, again, we have to sort of look at it from the perspective of what's happening in Europe and this whole situation sort of started playing out last year, when the Ukraine war broke out. We've seen a period of high inflation, now followed by a period of high interest rates. And that has led to subdued consumer sentiment, which is playing out also in the Construction segment and so on.

So overall, in that market and in that geography, the demand scenario has been subdued compared to even what it was last year. But that said, the good news or at least the silver lining is one of the measures which was driving a lot of this activity, which is high inflation, which touched a peak of nearly 9% is now down to about the 6% mark.

The interest rate statement being made by central banks are more conciliatory in the last two terms. And we expect that situation to sort of ease out in coming quarters. What we are very bullish about is given the product portfolio we sit in and the universal applicability of that product portfolio, there are natural markets which offer a hedge to the demand scenario that we see in Europe. So North America, Middle East, and Asia are opportunities that we are tapping into, which will help offset the weakness that we see in the short run as far as Europe is concerned.

Moderator: Thank you. Next question is from the line of Alisha Mahawla from Envision Capital.

Alisha Mahawla: Hi, sir. Good afternoon. Thank you for the opportunity. Sir, firstly, just wanted to move that a couple of quarters back about a year, year and half back, we had set out on USD 1 billion revenue aspiration by FY26. Are we still holding on to that aspiration? Have we pushed it back or do we have a revised target?

Akshat Seth: Thank you, Alisha. So, on the record answer is, yes, we are holding on to it. The off the record answer is we are aiming higher. But let's keep that aside. I think a large part of that conviction and confidence comes from what we are doing with the Parador business where, as I stated earlier, there is a big transformational push that we are making across multiple fronts. There is a strong push being done in the Indian markets as well to tap the full potential of the business segments we operate in.

If you just do a simple math and leaving roofing aside, the simple aspiration is to double our revenue in each of the other segments that we play in. And that gets us closer to the USD 1 billion mark that you mentioned. There is, of course, some inorganic play that will also come into that story. But short answer to your question, we are firmly behind that aspiration and feel quite confident of achieving it in the timeframe you mentioned.

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Alisha Mahawla: That’s great. Just a clarification, you mentioned to an earlier participant that as a company, steady state margins to be at 12%, 14%. So, we're expecting those kinds of margins to come by FY26?

Akshat Seth: That's correct. If you recall, one of the themes that we keep talking about internally and we had shared with all of you last time is -- it's not just growth that we are after. We are after value-building growth. And hence, we have to fire on both these engines. There has to be a sustained and aggressive growth on the top line. Equally, it should make sense from a profitability point of view. So again, short answer, yes.

Alisha Mahawla: Sure. As the Roofing side, you could mention that the fibre cost is relatively higher, but we're also seeing some weakness in demand, and Q1 is seasonally the strongest quarter and the price hike taken has not been enough. Is there scope to take more price hikes in the remaining three quarters, keeping in mind that normally the price in Q1 is sort of what works for the rest of the year and the competitive intensity also? And in that case, how will the margins for the rest of the year be, similar to Q1?

Akshat Seth: Similar to Q1, slight improvement. I think there are some early signs that -- which are encouraging. For instance, start of Q2, month of July traditionally has been a period. And now I'm talking beyond the ambit of the first quarter. July typically experiences a drop of about 3% to 4% in market price, maybe 4% to 5%, and that's been the trend every year. I'm happy to say, in July, our attempt and maybe some other players would have replicated it is to not drop the prices. Now that itself is a good sign. If we manage to sustain and hold on, then there is some optimism about bridging the gap sooner rather than later.

Alisha Mahawla: Okay, sure. And is that the capex that we were doing on the building materials, on the pipe side is all coming or is share any other capex that's currently in the pipeline or that expense this year?

Akshat Seth: For this year, it's essentially on building solutions and where we are doing some capacity augmentation and reconfiguration. And there is some on the pipe side, but that's about it.

Alisha Mahawla: Was it the capex for the year?

Akshat Seth: Nearly what we had shared last time to the tune of about Rs. 150 crores this year.

Alisha Mahawla: Sure. And just one last question with respect to Parador, when we done the acquisition. You used to say that India was called as niche market. Plan was eventually to grow that business in India. But most of our commentary right now has been to focus on the international markets only. Is there market for that in India, a new scope of growing that business in India?

Akshat Seth: Let me clarify. I think my commentary is about looking at the various opportunities that are in front of us and be able to balance our focus across all of them. So, while international and what we do with Parador is a strong focus area, the realization of opportunity in the Indian space remains an equal focus for all of us.

The marriage of the two, which is Parador in India is something that we are working on. And by the time we come back for the next call, we would be able to share more detailed contours of that strategy here. But it is something which is in the works, and we are working actively to try and scale that into a meaningful business for us in India.

Moderator: Thank you. Next question is from the line of Chirag Shah from Nidara Capital. Please go ahead.

Chirag Shah: Good afternoon, sir. Congratulations on a good set of numbers. Sir, you mentioned that Roofing has seen a sluggish start in Q1. Is there any chance of spillover of revenue in Q2, a part of the revenue which we may have missed in Q1?

Akshat Seth: We are hopeful. Internally, what we are planning is to cover some of the lost ground in Q1 within Q2 and some maybe in the following months, but we are hopeful.

Chirag Shah: Okay. And sir, would you be able to give us the breakup of revenue in Blocks and Panels and Boards separately?

Akshat Seth: Yes, of course. So overall, from a Building Solutions perspective, we had mentioned that the revenue is about Rs. 134 crores, of which Rs. 77 crores come from Blocks and the rest comes from Panels and Boards.

Chirag Shah: Okay. And sir, would the margins be similar in the 12%, 13% EBITDA margins and margins would be in what range in these two segments?

Akshat Seth: So, blocks will be in the 10% range. For the rest, it's more in the 20% range.

Moderator: Thank you. Next question is from the line of Nikhil Gada from Abakkus Asset Managers. Please go ahead.

Nikhil: Gada: Yes. Hi, thanks for the opportunity. Sir, my first question is on the Parador part of the business. We have seen a decent improvement in gross margins. And generally, if we see historically, we have been in the range of 48% to 50% in Parador. So, is it fair to say that by the end of this year, let's say, Q4, we can reach those gross margins? And if we reach those levels, what kind of EBITDA margins can we see in the business?

Akshat Seth: Let me give a flavor of where the financials from a Parador perspective look like. At a contribution margin level and overall cost structure, I feel we are where we need to be. On raw material price, the price evolution and the solid work that the team has done on sourcing, diversifying their sourcing mix, etc., means that from a material cost perspective, again, we are in the right zone, where we need to push. The third place where we are in the right zone is on price realization. Despite the pressure that we have seen in the market, one major victory is that we have managed to hold on to our price levels.

So those are all the positives, and we seem to be in the right structure, right ratios there. You will see a big jump as revenues ramp up. A lot of that will start flowing down to the EBITDA level. So again, I do not think structurally, there is a lot that has to be done from the P&L perspective. The impact of revenue increase and scale up is something that you will start seeing.

Nikhil: Gada: And that is something you mentioned should be more visible from the third quarter onwards, right?

Akshat Seth: That is correct.

Nikhil: Gada: Understood. Sir, and just one clarification. When you mentioned that we have EUR 75 million of orders in the pipeline. Is this something which is executable in this particular year? And can you also highlight the margins that you do in the commercial business versus the retail at a gross margin level as well?

Akshat Seth: So again, I'm clarifying and that's why I was hesitant sharing that number. This is a lead pipeline. It has to be converted into orders and then those orders have to be serviced, okay? We are hopeful that a fair chunk of that gets translated, but you would apply the normal ratios of win ratio from leads to order. For those that get converted into orders, given we are sitting at the start of Q2, there is a fair chance that a lot of those will get converted to revenue this year. That said, we will also continuously keep adding to the lead pipeline as we go on.

In terms of profitability, in the long run at steady state, commercial should be more remunerative than the segments that we play in. But given we are entering that segment in many new geographies; we would hope to be at least at par with our current margin structure and gross margin with those commercial customers.

Nikhil: Gada: Got it, sir. Sir, just one question on the long-term aspiration in Parador where you are talking about if I just convert in India around Rs. 4,000 crores to Rs. 4,500 crores of visibility in revenue over the next 5 years. When we look at that number, we are talking about a CAGR growth of somewhere around 25%, which is definitely quite optimistic. So, if you can highlight when you want to achieve those kinds of revenues, which are the geographies, if you can break it up for us, how much would come from Europe, North America, Asia. That would be useful.

Akshat Seth: If you are okay, some of the finer details, we can share with you off-line. But the broad geographies in terms of where this growth will come from is what I highlighted, Europe, in general, will contribute about 50% of our portfolio in that scenario. And the remaining 50% has to come from North America, Middle East and two or three key geographies in Asia Pacific. The exact split across those countries will play out. I would expect North America to be the largest of that chunk, followed by the other two geographies.

Nikhil: Gada: I'll take this off-line sir. No problem. Just quickly on the pipes business, and specifically, can you give us a breakup on the EBIT numbers between pipes and putty for this quarter?

Ajay Kapadia: In pipes and in both the businesses, EBITDA margins are more or less same in the range of 6% to 7%.

Nikhil: Gada: And there was no element of inventory loss or...

Ajay Kapadia: No, not in this quarter.

Nikhil: Gada: Okay. And for FY24, what kind of margin guidance you would give for just the polymer solution business given that we are seeing a decent growth in that business?

Akshat Seth: We should be able to sustain the margins you've seen in quarter 1, which itself was a big jump from where we were last year. Depending on how you look at it, we have seen a 2.5 to 3 times jump as far as that profitability in turn for polymers. So, we are hopeful of sustaining that trend.

Nikhil: Gada: Got it. And just one last clarification, sir. Just on the Pipes capacity, can you highlight what is the current capacity we have? And what is the mix between PVC and CPVC currently?

Akshat Seth: So, from a capacity point of view, we are at about 70% utilization, so you have a sense of where we are. From a PVC & CPVC, depending on which month we hover between 40% to 45% CPVC and the rest is UPVC and other products.

Nikhil: Gada: And sir, out of the Rs. 150 crores, how much capex would be for pipes in FY24?

Ajay Kapadia: It's in the range of Rs. 40 crores to Rs. 50 crores in this year. This also includes some infrastructure-related capex in this segment.

Akshat Seth: If I may just highlight, the product mix is something that we feel the CPVC to rest is something that we feel is also a very carefully curated mix that we enjoy. And that mix gives us a better sense of profitability and that mix is probably very favorable compared with our peers in the industry.

Moderator: Thank you. Next question is from the line of Tushar Sarda from Athena Investments. Please go ahead.

Tushar Sarda: Thank you for the opportunity. You guided for doubling revenue in 3 years. So, is this going to be all organic in the 3 segments? Or this includes acquisitions?

Akshat Seth: It will include acquisitions. The exact extent will be hard to predict, but it may play out more in certain segments, less in others. But it definitely will include inorganic as well.

Tushar Sarda: So, what would be the organic growth in that case, if you can give guidance segment-wise?

Akshat Seth: As I said, that's a slightly difficult one, because you are aware, inorganic is sometimes a function of the opportunities out there. So, it's hard for me at this moment to say what part of this growth will be organically driven and what will be inorganically driven? If you put a gun on my head, I would...

Tushar Sarda: Guidance, I'm asking for guidance on organic growth in each of the segments. That should be relatively easy.

Akshat Seth: Which if I understand the question correctly, it's just one minus that of the inorganic, right?

Tushar Sarda: No, no, I'm asking, sir, for example, Parador what will be the organic growth, polymer solution, what will be the organic growth over the next 3 years and building solutions, what will be the organic growth?

Akshat Seth: Let me give you some flavor to it. My sense is of the growth story that we are charting out of doubling in each of these segments, roughly 60% to 70% should come through organic means and 30% should come from inorganic means, when we look at the overall picture for the next 3-odd years.

Tushar Sarda: Okay, I think that helps. Thanks. Thank you very much and all the best.

Akshat Seth: Thank you. I hope it answers your question.

Tushar Sarda: Yes, yes, it does. And I think you've explained your plans in great detail, so really appreciate that. Thank you so much.

Moderator: Thank you. Next question is from the line of Deep Gandhi from Astute Investment Management.

Deep Gandhi: Hi. My first question is you mentioned that in this quarter, you are in the Building Solutions. As you highlighted, Rs. 77 crores were from the block business. So was this number similar for even say FY23, 60-40. So, 60 from the panels and blocks in remaining for Boards and Panels? Was it similar in FY23 also?

Akshat Seth: It was roughly the same, although I would say the share of Panels and Boards has increased a little bit.

Deep Gandhi: Okay, sure. So, the next question I had was, so you had also announced some expansion here, I can almost 36,000 tons of expansion for panels, which in the annual report you had confirmed was commercialized. I wanted an update. So, is the boards capacity also commercialized, which was almost 30,000 tons, which you had announced in 2021 announcement, you can confirm that?

Akshat Seth: On the Panel side of the total 36,000, the first lot has been commercialized, and we'll start seeing those numbers from this month onwards. On Boards, the one in Hyderabad will again start coming on stream from this month onwards.

Deep Gandhi: And sir, just a continuation of this question, what kind of asset terms is possible you are expecting from both of this expansion? And when do you think you'll be able to reach the optimum utilization here?

Akshat Seth: So, asset terms that we would expect will be in the zone of 1.3 to 1.5. We should be able to start hitting in boards and panels in the short term. So maximum about 3-odd months for us to fully start running on this.

Moderator: Thank you. Next question is from the line of Bharat Sheth from Quest Investment Advisors. Please go ahead.

Bharat Sheth: Thanks for the opportunity. I just want to understand on this Parador business, when we are talking almost in our journey to $1 billion. So, 50% we are expecting from Parador and when we are talking about, say, 12% to 13% or 14% kind of margin journey. So how do we expect the Parador contribution on the margin side from 2 to 3 years perspective, when we reach or 3 to 4 years, say, EUR 500 million revenue. If you can give some color. And second, and we are talking of commercial vis-a-vis B2C. So, can it cannibalize our B2C business if same commercial people, I mean start selling to our customers, how do we want to differentiate. And third is, I mean, really, commercial is that high-margin business. Of course, it may give us a higher top line, but EBITDA would be a little under a lower side?

Akshat Seth: Okay. Thank you. So, on the margins, we would expect, again, as a first milestone for Parador margins to be double digits. So at least the 10% to 12% mark is what we are internally targeting in the overall blended margin structure that I shared with you. Your second question is commercial cannibalizing?

Bharat Sheth: B2C business.

Akshat Seth: Correct. The way it is structured, Bharat, in Europe and the developed markets is that there is less potential of cannibalization. What we call as non-commercial or residential is basically being used by customers as DIY and home users, whereas commercial is large projects, office space, residential, etc., being used. The channel is very different. And the way the dynamics work because in developed markets, there is a strong buying power that the large retail chains, etc., have there is a potential to not get caught in that and hence, command at least the same margin as in the existing business.

If I look at other companies, and I'm borrowing from the example that we were talking with Neel also, big companies like Interface, Milliken focus only on commercial because the margin structure there tends to be better than playing in the residential segment. That said, I'm also cautious that given we are making an entry into that segment, it may take a while for it to stabilize. But even at the start, we would be at least as good as our current margin structure. There is no question of eroding the margin structure at all.

Bharat Sheth: And sorry, I mean, further to that, I mean, will it be a different geography that we want to play or only in Europe. So, if you can give some color on that. And second, how will be the working capital structure will be vis-a-vis our retail business?

Akshat Seth: So, geographies, I mentioned, of course, Europe will be a big bullwork of the operations we have. At the same time, the idea is that the combination of North America, Middle East and two or three select markets in Asia Pacific, together are at least as large as Europe. And that is where the diversification will happen.

Bharat Sheth: So, you in commercial also, we are looking at those markets?

Akshat Seth: Yes. And the beauty of somewhere commercial market, and I'll give a couple of examples. For instance, a lot of the pipeline that we have developed in Middle East is through our relationship with architects in Europe and the key hubs in Europe. London, Milan, Paris are the three biggest hubs, because a lot of the specification that happens in markets like Saudi and UAE are through architects which sit in these places. And that is where we feel there is a natural advantage that we have with the made-in-Germany tag that we carry; the brand is known. It is something that we need to furnish and service that channel. So, there are nuances and dynamics around that. The short answer to your question is, in each of these geographies, we would want to carefully select the mix of commercial versus non-commercial. But I do not envisage a scenario where we do only one and not the other.

Moderator: Next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: Sir, firstly, on the point of the Roofing part, sir, structurally, if whatever you narrated over the meeting point, it is clear that this year, we -- even after the seasonality factors that come into play, there has been no reduction in the prices, which generally happens in the month of July. So, taking that into account, do we expect that the worst in terms of the cost of fiber part is over for the roofing segment? How structurally is correctly the roofing segment? And how is the demand, especially from the rural side because of this erratic monsoon behavior, as has been the case many times. So, if you could give some more color on the same.

Akshat Seth: So, let me try to cover the various trends you asked. On cost side, and that's the easier part perhaps, I do not think and maybe there was a hint of a suggestion from your side that will the cost of inputs go down? We do not think that is likely to happen. The cost level that we see is the new normal. There will be continued inflationary pressures on that. So, we will have to manage that bit. That's point number one. On pricing, you are right. In July, there is a positive sentiment on that. But whether that sentiment continues for the remaining 8 months is also highly dependent on how the demand situation holds.

So, for instance, if, for whatever reason, demand is weaker than what we anticipate in holding on to price levels or increasing price level will be tougher, if not impossible. Your last part on what is the general outlook on demand. So far, our feeling is despite what we have seen in short burst high volume, overall, the monsoon has been good.

And typically, in our product segment, the impact of a good monsoon is really felt in the next season. But a good monsoon is always a good sign and should play out in due course. There will be other demand factors that we will have to wait and watch and see how that plays out overall from a rural economy perspective. But this sentiment and the signs are positive. But we have to be cautiously optimistic given the experience of Q1.

Saket Kapoor: Okay. And if you look at the segmental results, when we take the stand-alone and the consolidation part, in the consolidation, there is a lot of hype in the Flooring segment, Flooring Solutions segment. So, what should be the likelihood of going ahead. Is the worst behind us in terms of the negative contribution from the segment going ahead? So just to sum up what is the indication from the first quarter in terms of the profitability going ahead? Is that tough being built now and we can very likely look for profitable journey going ahead?

Akshat Seth: As I said in response to an earlier question, I think we should expect, Q3 onwards to be a brighter spot and for some level of normal service to start returning. Q2, given its traditionally a soft period and lower even in our plans, there is lower production and lower sales. Q3 onwards is where we should expect a positive trajectory to be resumed.

Saket Kapoor: Right, sir. But what you mentioned about Q1, I missed Q1 being a big quarter for the Roofing segment. If we compare the current Q1 with last year, if you could give the like-to-like comparison between the demand and the inflation level. And also pan-India level, how has the inflation been for all the existing players, if you could give us competitive at or and an indication how Q1 was versus last year FY23.

Akshat Seth: It will be difficult and possibly not right on my part to give utilization levels for other players. For us, here is how we saw the market, we feel there has been sluggish demand. Now whether it is flat, slightly lower at an aggregate level, we'll have to wait for the industry figures to come out. In that scenario, we have grown by about 4% on a top line basis.

There has been some increase on the price side, about 2%, 2.5%, and the remaining is volume increase. So, we have experienced growth, but we also know this growth has come in a difficult market situation. And in a period like this, the brand strength, our channel reach and our market coverage really helped us in gaining this share. So, we also believe we have increased our market share in this period.

Saket Kapoor: And as a last point on the fiber part, you mentioned that there are no signs of the fiber price is even correcting going forward. So what factors are actually supporting the higher fiber prices. Is this the geopolitical part that is playing out? Because every commodity, every other aspect has not only corrected, but many of them have even come down to below pre-COVID levels. So what factors are actually contributing to this high trend upward? And what would be the trajectory for the coming years for sort of further fiber prices?

Akshat Seth: So, fiber and this is at a macro level, it's a supply constraint situation. There are very few sources of fiber globally. And most of those sources are also in geopolitically volatile geographies of the world. And hence, continued uncertainty in that segment also plays a part. But given fewer supply sources and not just for us in India globally, that means that there is a little bit of higher power in the hands of the suppliers. So that is factor number one.

Factor number two, even for these miners and suppliers, the limited ones that I mentioned, there has been an escalation of cost structure in their respective countries as well, which they have passed on to us. Unless there is a massive drop in the demand situation, I do not know where there will be a correction in the fiber prices. Does that answer your question?

Saket Kapoor: Yes, sir. That is what I was seeking, sir. This is because of the availability in few hands, that is the key reason why the same has not been getting corrected. We have no other mitigating step also in terms of.

Akshat Seth: Correct. So that is the biggest contributory factor to this.

Moderator: Next question is from the line of Sanjay Kumar from ithought PMS. Please go ahead.

Sanjay Kumar: Thanks for the opportunity. First on Pipes, 17% volume growth in Q1 which is very good. But when I look at competitors, they've grown by 27%, 28% and on the leaders at 36%. So why are we lagging behind despite having 30% unutilized capacity? And what is driving this demand for us, even the 17% volume growth?

Akshat Seth: Sure. So, two things. As I mentioned earlier, 17% also within that number is a 37% growth on the retail side for us. There is a drag on the project or commercial business that we do on Pipes. And that's why we see a blended number here. The second part of the story, which I had highlighted earlier is -- we are also carefully curating the portfolio so that it is a profitable portfolio above a certain threshold. In that piece, it is important to highlight that there is a big segment of Agri pipes, which is typically high volume, lower margin where we do not play.

And I would imagine a lot of the numbers that you are quoting are essentially being propelled by the growth in the Agri segment, where season -- quarter 1 is typically the season and if you look at year-on-year, that is where the growth comes from. Now it's a choice that we have taken, and which is why the numbers compare. So, if you do a like-to-like comparison in the segments we play in, I am confident we'll be amongst the top 2 or 3 players.

Sanjay Kumar: Right. Makes sense. And second, on flooring. So, sales continue to degrow by 20%. Can you give the breakup of growth in, say, non-Europe growth versus big growth in Europe? That will be the first part.

Akshat Seth: Sorry, if I may request Sanjay for you to repeat the question, I did not quite catch the question.

Sanjay Kumar: So, sales for flooring segment, de-grew by 20% roughly. Can you give the breakup of this degrowth of growth in non-Europe versus Europe?

Akshat Seth: Okay. So, I will share how we sort of do the division. There is our home segment is Central Europe, which is Germany and neighboring countries. There, the degrowth is about 8% to 9%. International, which today and traditionally for us was other European countries, so the Nordics, France, Spain, etc. There, the degrowth is to be at the extent of about 25%, 27%. The new markets that I spoke about are getting added to the portfolio, and you will see more significance in our pie in quarters to come. So Q3 onwards, you will start seeing all these other geographies playing a more pronounced role.

Sanjay Kumar: Right. Okay. And last quarter, you mentioned cost has stabilized, yet margins have deteriorated this quarter also. So please comment on the liquidity situation, given we have started posting cash losses adjusting for depreciation, and we're also infusing EUR 10 million. So, any thoughts on the liquidity and the cost structures?

Akshat Seth: So, here is a very almost a daily level monitoring on the cash inventory and the whole cash velocity situation. These are scenarios which are planned. And typically, in this part of the year, because we stock up inventory for taking production cuts, there is a certain way in which we manage the cash situation. So, none of this is a surprise. It is all as per plan and cash position is in line with how we had envisaged it at the start of the year. So, there is no real concern. The infusion that you mentioned is partly for this and is partly for the future investments that we need to do in the markets we are entering.

Sanjay Kumar: Nothing to be worried about?

Akshat Seth: Nothing to be worried about at all.

Sanjay Kumar: Okay. Finally, on roofing. In a tough environment, we did 17% margins, which is very commendable. You even spoke about positive impact of efforts on sourcing. From the data I have, I think we seem to be importing much more than we used to from South Africa. Is it a new supplier? Or is it Russia being routed through South Africa, if you could get into the details of the positive impact of the sourcing that you spoke about, that will be very helpful.

Akshat Seth: No. So, I think just referring back, Sanjay, to our previous question, the supply sources are limited as far as fiber is concerned. As a company, we always try and have a sourcing mix, which de-risks us in a worst-case scenario. So, month-on-month, quarter-on-quarter, you will see there will be some up and down from a single source or the other, but that is all as per the strategic sourcing plan that the teams here have drawn up. We do not want to be over reliant on one supplier or the other, point one. Second, we also should be able to capitalize on any short-term cost benefit that we might get. So, it's an interplay is almost being tracked on a weekly basis, and we choose our suppliers.

Sanjay Kumar: Okay. Can you comment on the Western suppliers as well, who do we buy our PVC and CPVC the sales from, because each player seems to have a sort of an agreement with one of the large players?

Akshat Seth: We do not have a PVC sourcing or anything else from Russia.

Sanjay Kumar: No. CPVC globally, if you could give the name of the supplier? Or is it confidential?

Akshat Seth: A lot of that we can speak to you offline some of this are proprietary to how our sourcing plans play out. All of these are essentially Asian suppliers.

Sanjay Kumar: Right. Perfect. If I could squeeze one, 30% inorganic, are you looking at global through Parador because you've jumped your guidance from EUR 400 million to EUR 500 million now? Or are you looking at inorganic in India?

Akshat Seth: Let's wait and watch for that space. We should leave some for future calls as well, right?

Moderator: Next question is from the line of Nikhi Upadhyay from SIMPL. Please go ahead.

Nikhil Upadhyay: Hi, good afternoon. Thanks for the opportunity. Just two questions. One on Parador. Akshat, you mentioned on the commercial side, we are a new player. But what is the total size of the commercial market where we were not present. And as of now, the demand or whatever we are getting, is it again in the Central Europe, which is the home market? Or is it across whole of Europe?

Akshat Seth: See, typically, any market you pick up, commercial will be anywhere between 40% to 60% of the total flooring market. So that's really the size of the pie. We are new, but it's not that we have not done commercially in the past. We have done it tactically and not in a strategic push, which is what we are changing.

In terms of geographies, the push from our side is, of course, we have to do a lot more commercial in our home base of European markets. But we are also opening up those opportunities in North America, in Middle East, in a couple of markets in Asia. So, the base in full bloom will look a lot more diversified from a geographical point of view than what it is today.

Nikhil Upadhyay: Sure. And just one last question. This is on the AAC blocks. We are a pretty old player in the market. And if I compare our margin profile, you mentioned we are around 10% to 12%. But if you compare another listed player, they have almost like 20%, 25% EBITDA margin in the business. While their scale and capacity-wise, is smaller than what we have, do you see the sense that this business can become significantly profitable?

Or anything you have -- you think what on the margin profile how this business can scale up? And just a subsequent question now. We always talked that 30% of the business or revenue is coming from Roofing, but our profitability is still highly dependent upon Roofing. Now as a management, what kind of a guiding pillars you are working on to as to diversify that margin or cash flow generation also getting diversified away from these?

Akshat Seth: Let me take that part of the question first. Small correction from my side, Roofing just being the largest segment, of course, the profit pool, there is still a big part of that, that comes from Roofing. However, profitability is interesting across our various other segments as well. So as the other segments scale up, you will see the diversification of the profit pool also being more balanced across the three other segments that I mentioned. So that's a question of how things scale up. And today, the relative size is such that your observation is actually correct. But as we ramp up, it will get corrected as a picture.

From a Building Solutions point of view, we look at it from an overall consolidated blend. Our feel is that, yes, there is maybe some margin headroom that is still available, and we are going after that. The competitor you have in mind, you would appreciate different companies, different cost structures and cost overheads that they bring in. So, I honestly would not be able to comment as a comparison with that competitor you have in mind.

Nikhil Upadhyay: Yes. No. The only thing was that do you think that this is a 10% kind of a business? Or do you think that even this business can scale up to, say, 14%, 15% kind of a margin profile? That's the only point I was trying to understand that. Like is the inherent nature of the business, 10%? Or do you think the inherent nature of the business is much more?

Akshat Seth: So, I'm with you. Inherent nature from a potential point of view, 14%, 15% is very much possible. In fact, if you see the margins that we delivered last year were actually in that range. The 10% this quarter has had some headwinds, which are transient in nature. And as we resume normal service on that, we will be back in the same zone that you are talking about.

Moderator: Next question is from the line of Miraj Shah from Arihant Capital. Please go ahead.

Miraj Shah: I just had one clarification. In one of the questions earlier, you mentioned in Parador side business, there is an order pipeline of almost EUR 75 million. But I just wanted to clarify this that the following line, you mentioned that this is some 25% to 50% of the total order pipeline. So, I just want to clarify this again. Is that only 25%, 30% of the total pipeline that you have? And it is in commercial, or have I understood it incorrectly somehow?

Akshat Seth: Let me restate this. In this year, of our total revenue for Parador, we are likely to have 25% to 30% coming from commercial. That is statement one. Where that 25% to 30% will come, that line of sight comes from the leads pipeline that we mentioned. That lead pipeline today stands at about 75 million. Now this 75 million of leads has to translate into orders, and these orders have to then translate into invoices. That is the natural journey that these leads will undertake.

Moderator: Thank you very much. Ladies and gentlemen, that was our last question for today. And we'll hand the conference back to the management for closing comments.

Akshat Seth: Thank you everyone. It's been a pleasure interacting with all of you over this call. We thank you for taking the time out and engaging with us today. We immensely value your continued interest and support for HIL. Meanwhile, if you have any further questions or clarifications, please feel free to reach out to our Investor Relations desk, and we promise to get back and revert to you quickly. Thank you so much.

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