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CK BIRLA GROUP

Ref: HIL/SE/2023-24/79

November 8, 2023

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BSE Limited
P.J.Towers, Dalal Street
Mumbai – 400 001

Scrip Code: 509675

To
National Stock Exchange of India Limited
5th Floor, Exchange Plaza, Bandra (E),
Mumbai – 400 051

Scrip Symbol: HIL

Sub: Transcript of the Earnings Call held on November 2, 2023 on Financial Results for Q2FY24 & H1FY24
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 enclosed transcript of earnings call held on Thursday, November 2, 2023 on Q2FY24 & H1FY24 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.

Yours faithfully,

For HIL Limited

NIDHI BISARIA Digitally signed by NIDHI BISARIA Date: 2023.11.08 23:05:12 +05'30'

Nidhi Bisaria
Company Secretary & Compliance Officer
Membership No.5634

HIL Limited
Q2 & H1 FY24 Earnings Conference Call Transcript
November 02, 2023

Mit Shah: Good morning, ladies and gentlemen, and welcome to HIL Limited's Q2 and H1 FY24 Earnings Conference Call. Today we have with us, Mr. Akshat Seth, Managing Director and CEO; and Mr. Ajay Kapadia, CFO. We will first have Mr. Akshat Seth making the opening remarks, and he will be followed by Mr. Ajay, who will take you through the financial perspectives. Before we begin, I'd like to point out that certain statements made in today's call could be forward-looking in nature, and a disclaimer to this effect has been included in the presentation shared with you earlier.

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

Akshat Seth: Thank you, Mit, and a very warm welcome to HIL's Q2 and H1 FY24 Earnings Call. Today, in this call, we'll share with you HIL's performance in the second quarter and the first half of the year, and how are we poised in the short run and for the remaining part of the year. And we'll also talk about the initiatives underway to chart out a phase of fast-paced value-building growth for HIL.

At a consolidated level, the company reported a revenue of Rs. 723 crores, with a PBT loss of Rs. 25 crores. Within this, HIL India grew at a steady 4% year-on-year, with a revenue of Rs. 466 crores and a PBT of Rs. 19 crores during quarter 2.

All of you are aware, quarter 2 is always the lean quarter, both in India, given the rains and the monsoon, and in Europe with the vacation season. However, in this backdrop, our Q2 performance reflects the growing momentum for HIL in its key product segments and also the improving margin structure across the board.

In India, I'm happy to state we witnessed impressive volume growth in roofing, blocks, panels and pipes & fittings. Parador outperformed its peers in Europe amidst a weak demand regime. Strong efforts on sourcing, cost management and value enhancement initiatives have ensured we have made improvements in gross margins across the board.

Today, let me start the conversation by talking about the exciting story unfolding at our pipes and fittings segment.

We are, by some measure, the fastest-growing major brand in this segment, with our volumes over the last 3 years growing at 32% CAGR. You would appreciate that the industry in this period has grown at an average of about 8% to 9%. In this time, we have built a strategic launch pad to build a scaled business in this segment and some attributes that I would like to bring to your attention.

We, today, have a national reach with the pan-India manufacturing and distribution network. We now have a comprehensive product portfolio of 1,500-plus SKUs, which we are constantly adding. In fact, in H1, we have improved and increased this portfolio by more than 10%. Several of these products are unique. Our Truefit technology enables 100% leak-proof joints and enhances the value proposition for consumers. We have recently commissioned the state-of-the-art multilayer Foam core production line, which makes us one of very few players in India to offer that product and technology.

We have a production capacity, where the investments have been front loaded. These are state-of-the-art plants, which enabled with Industry 4.0, there is use of AI technologies and digitization. And these are plants, which are at a level of sophistication comparable to none in the Indian context.

We have state-of-the-art R&D facility, which enables in-house compounding and stabilizer development technology. Plus, we have a solid product engineering capability with the help of FTIR and XRS technologies. Digitization is a way of life for our sales team and for also connecting with our customers, our entire customer service and supply chain is enabled through these technologies. And these factors are the reasons why we feel confident about our prospects in this segment.

In quarter 2, we grew by 14% in volume terms. And just within the retail counters, our growth was 22%. This is in sharp contrast to many of the leading peers in this segment who grew with single-digit numbers. And many of you will appreciate, this was despite the headwinds on PVC prices, which began somewhere in September, culminating in a sharp decline in the first fortnight of October. However, we believe PVC and CPVC prices have largely bottomed out, and we expect healthy market volume growth in the double-digit zone in the coming quarter. In this buoyant market, we are confident of outpacing the market as we have done in recent quarters.

Our pipes and fitting realization is north of Rs. 162 per kg. This is the number for the quarter that's just gone by, and which places us amongst the top 3 players in the industry and better than many larger players. We have sustained a favourable 40% plus share of CPVC in our portfolio, which will also be amongst the best in the industry.

Driven by targeted cost initiatives, we are steadily increasing our profitability, and there has been a marked improvement in that compared to same time last year. With a strong brand legacy, superior product mix and a value focus, we are well positioned to create significant value by growing scale in this segment. So, volume growth and scale growth are the key mantra that we are following in this segment.

I'll move to Roofing. For our Roofing Solutions, our brand Charminar has shown a revenue growth of 10%, backed by volume growth of 8% and NSR growth of 2%. The strong brand equity of Charminar brand, together with an unparalleled market reach. Market reach which spans more than 21,000 outlets and a coverage, which extends to more than 60% tehsils in India. Now these are the strategic assets that drive this superior performance. We are the clear market leader with a 24% to 25% market share in first half of the year, and we command significant price premium over our peers.

Digital commerce and sales force automation are one of the many technology interventions that have become part of our DNA and delivering continuous improvement on our sales force productivity. In the coming 2 quarters, the remaining part of this year, we expect both volume and price growth leading to stronger margin performance. We will also be introducing some exciting new products in this segment to sustain our differentiated positioning.

In Building Solutions, our key segments, blocks and panel delivered robust volume growth despite seasonal demand headwinds and the strike at our Chennai plant. With these transient factors now behind us, both volume and realizations are on an upward trajectory. In this segment, we go by the brand name of Birla Aerocon, which continues to be a truly premium brand known for its quality and continued efforts made by our technical sales team, which drives this premium positioning in the market.

We have served during this quarter over 550 different projects and customers, and have a very healthy order pipeline for coming quarters. Further, we continue to scout for opportunities for both inorganic and organic capacity expansion to accelerate our growth trajectory.

Amidst erratic monsoons across the country, along with the reduction in prices driven by increased competitive intensity, the performance of our putty business was lower than expected. However, with some structural fine-tuning that we have done over the last few months, including realignment of the sales team and geographical expansion, has started yielding results, and we expect resumption of our usual growth journey in coming quarters. Efforts on recipe optimization and sourcing have meant a significant uplift in the profitability in putty compared to last year.

Our Construction Chemicals business, the newest kid on the block for us, is on a strong growth momentum as we continue to scale the business up month-on-month. We are continuously expanding our product assortment and growing our footprint in the underpenetrated South and East India. In a significant step-up, and a key milestone for us, we have started in-house production of one of our major product categories, tiles adhesives, at our Jhajjar unit. Overall, we expect the second half of this year to be the breakthrough period for this new business.

Let me move on to Parador, our business in Europe and rest of the world. At Parador, like I shared last time, we are driving a significant change agenda despite the short-term geopolitical headwinds. This process has gained a greater momentum with the joining of our new Parador CEO, Neel Bradham, in the second quarter. The push towards new markets, which includes Americas, Middle East and Asia, and the new commercial channel is on an accelerated path, aided further by a slew of new products and marketing campaigns that got launched in the quarter that has gone by.

While we aim for the long term, an immediate sales uplift remains an equal priority. I'm very happy to report the margin story remains very positive at Parador. And this has been due to proactive action by the team on materials, manpower and financing costs as well as our more efficient cash management practices.

Let me share some examples of the wins that have been achieved. On material cost, as a percentage of revenue, we are down to 54% versus 65% last year. We have refinanced the existing loan facilities to shave off financing cost by nearly 200 basis points. Measures have been put in place to optimize manpower costs in line with projected volumes. Inventory today for us is at an all-time low. We are nearly 25% lower than what we were at the same time last year. And further opportunities for reduction have been identified and are being actioned.

We are on track to realize nearly 2.5 million of cost savings this year. This is due to small initiatives across the board that have been launched. In short, apart from the volumes, overall P&L at Parador is in a strong, healthy territory. Largely due to weak market scenario, the sales volume at Parador during quarter 2 declined by about 23%, with the revenue declining by about 27% in euro terms and 18% in rupee terms.

As we speak, and we've just finished the month of October, we are witnessing the first signs of recovery in volume trajectory at Parador. Order intake for us is outpacing sales, including from the DIY channel in Germany. Macroeconomic factors have improved or have at least started showing first signs of improvement with inflation in Germany, for instance, coming down to its lowest level in 24 months.

Interest rates are also stable for now. All of these indicators give us reasonable confidence that we seem to be leaving behind the worst period for us as far as the demand outlook for Europe is concerned.

I will also reiterate that these short-term turbulences aside, the mid- to long-term prospects for Parador remains strong. We remain committed to make Parador a EUR 500 million-plus global brand over the next 3 to 4 years and are confident about achieving the same. It is most certainly the hidden gem in HIL portfolio to watch out for.

Before I conclude, I want to take a minute to give you all a sneak peek of what is happening behind the scenes at HIL, things that don't usually show up as headlines when we talk of financial performance, but those things are the ones that enable this performance and will determine our success quarter after quarter.

It's a sneak peek on how we are building HIL as a modern workplace. In our ways of working, in the last quarter, we have introduced the concept of agile teams. These are cross-functional, crack teams that come together for a finite period for initiatives that will either turbocharge our growth journey towards the $1 billion mark or will drive better profitability.

I'm particularly excited about teams working on new products, on building a strong institutional and government sales engine. There are teams working on net loss reduction across product segments and also in driving greater asset utilization. And interesting one is on establishing HIL as a green and responsible organization.

In addition, we are accelerating our journey to be a truly digital-first organization where technology is not only an enabler, is not only a source of sustainable differentiation, but is also driving new revenue streams. Driving this change is our recently rejuvenated leadership team. I'm grateful to them for reimagining HIL and for bringing this to life one step at a time. I'll use this platform to express my gratitude to the entire leadership team.

And from the entire HIL, Parador and CK Birla Group, my best wishes to all of you, your families and friends for the festive season. Happy Diwali to all of you.

I'll now request our CFO, Ajay, to provide a detailed overview of our financial performance during the quarter. Over to you, Ajay. Thank you.

Ajay Kapadia: Thank you, Akshat. Good morning, and thank you all for joining today's call. I would like to take this opportunity to present an overview of our financial performance and operational highlights for quarter 2 and H1 of financial year 2024. In quarter 2, we sustained positive volume growth in roofing, blocks and panel, and pipes & fittings businesses. We have achieved revenue of Rs. 723 crore as compared to Rs. 764 crore during the same quarter last year. In H1 FY24, revenue stood at Rs. 1,739 crore, with decline of 6% against Rs. 1,849 crore in H1 of last year.

EBITDA for the period stood at Rs. 99 crore versus Rs. 156 crore, a drop of 267 basis points in margin, mainly on account of increase in manpower cost due to increments and new hiring for the executive position. Roofing Solutions business grew by 7% year-on-year to Rs. 207 crore in quarter 2, grew by 3% to Rs. 665 crore in H1 FY24.

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 costs relative to quarter 2 last year has negatively impacted margins in this segment. However, our margins in this segment are the highest amongst all roofing players.

The Building Solutions business grew by 4% year-on-year to Rs. 128 crore in quarter 2 FY24. In H1, revenue stood at Rs. 262 crore, showing a robust growth of 6%. During the quarter, revenue and profits were negatively impacted on account of strike at Chennai in July and first quarter of August. Margins in blocks are lower during the quarter due to poor demand in markets, which led to lower price realization. However, we have been able to partially recover the negative impact by focusing on development of alternate supply sources to keep our input cost lower. We are confident of getting double-digit growth and better margins in coming months.

In Polymer Solutions, we remained stable year-on-year with revenue of Rs. 130 crore for quarter 2 with better operating margins. Revenue from operations came at Rs. 258 crore during H1, a decline by 6% as compared to Rs. 274 crore in H1 FY23. This is on account of lower resin prices as compared to last year. In pipes and fittings, we grew by 14% in volume and achieved a revenue of Rs. 85 crore during the quarter, a growth of 2%. We believe that we are in the right profitable zone in this segment and will seek to further improve with growing scale.

The Parador business within Flooring solutions declined by 18% year-on-year to Rs. 258 crore in Q2 FY24. H1 FY24 revenue were at Rs. 551 crore. Our team is actively working on cost savings initiatives and achieved year-on-year material cost reduction of 17% during the quarter.

At consolidated level, we have delivered Rs. 8 crore EBITDA during the quarter, a decrease from Rs. 20 crore in the same quarter last year. The profit before tax stood at a loss of Rs. 25 crore. The loss is mainly on account of lower revenue and higher interest cost in Flooring solutions business. As alluded by Akshat, 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. We are yielding sustainable improvements in operational KPIs.

Our focus on working capital optimization continued during the quarter and inventories are at lowest level. Our debt at consolidated level stood at Rs. 408 crore, of which we have repaid Rs. 49 crore in the first week of October. The total debt-to-equity ratio stands at 0.32 as on 30th September. Interest cost in Parador has increased substantially in last 1 year on account of increasing Euribor rate from negative to 4% plus, an increase in spreads from 180 basis points to 380 basis points. To reduce overall finance cost in Parador during the quarter, we have refinanced existing loans at our subsidiaries, which will result in reduction of finance costs by nearly 200 basis points. We are confident in our ability to grow our performance footprint and create healthy cash flows going forward.

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

Moderator: The first question is from the line of Nikhil Upadhyay from SiMPL.

Nikhil Upadhyay: Sir, my question is on Parador. Akshat, if we go back to our last quarter's commentary, you had mentioned that the gross margin of 44% seems to be very high and it could rationalize, but what we've seen this quarter is that it's expanded further. And if we look at in history prior to when the MDF and everything hit badly, Parador used to operate around 48%, 50% gross margin. So do you see that we can recover to our historical levels? Or is it like 45%, 46% should be the new base of gross margin? That is one.

And Additionally, also when we are looking at more commercial business from direct retail business, do you think that this is the level at which Parador should operate in future?

Akshat Seth: Nikhil, if I may interrupt this. Can you repeat the second part? I got the first part of the question.

Nikhil Upadhyay: The second part was -- see, as the mix we are trying to move towards more commercial sales as well, which Parador was not doing earlier. Would that be a little bit lower on the gross margin versus the pure retail sales? So, is it like 45%, 46% should be the base for Parador in future?

Akshat Seth: Okay. I got those 2 parts. Sorry, I interrupted.

Nikhil Upadhyay: Just last question. on the sales side now, it's like almost 5 quarters, we are looking at a drop in sales in Parador. And I know the external context of Europe is still was weak. But if you can just share what is the ground feeling, which you are getting? And also on the commercial, the efforts, which we were putting, how are they shaping up? Because last call, you had shared some order pipeline for -- inquiries, which we were looking at. So any developments on those 2 sides?

Akshat Seth: Let me try and get past the first part. So on gross margin, your observations are bang on. And our view is that coming back to the 48%, 50% level is possible, and that's what we are gunning for. So that definitely is on the horizon, number 1. Number 2, on commercial, the idea is that -- and there is empirical evidence to that aside, we should not be eroding our gross margins and our overall product margin through those channels. There are enough companies who play only in that segment and return good profit.

So just the nature of playing in those markets, the kind of products, the kind of selling is slightly different, but it should not come at a lower margin for us. So we do not expect that to be a factor in the margin play at all. Yes, 5 quarters of drop in sales, I am reasonably confident that by the time we do the next call, at least we would have bucked the trend and there should be a reversal on that front.

Largely, the volume drop has been on account of what's happening in the markets that we play in. Somewhere the comfort we draw is that the impact on us as Parador is lower than what the industry estimates are quoting. And these are reports that are coming out across all the associations and channels. So that's the silver lining. And that's the reality in which we operate in.

To your question, what is the outlook? I think, as I said, we are cautiously optimistic that the worst is behind us. And the reason we are saying that is on the back of what we have seen in the month of October. Those are, of course, not reflected in the numbers released so far, but early signs, both on what orders are coming to us, plus what the macroeconomic situation is looking like, is giving us that encouragement. And let me address both.

On the macroeconomic side, this is possibly the period where -- this is for Germany, the lowest inflation that they have hit in the last 24 months. The interest rates, which were being steadily increased this time around have been stable. So that trend of interest rate increase has now finally been paused.

In some of the retail counters, and we sell heavily in DIY and retail in Germany, the orders are and the sales numbers are now in line with what it was same time last year, which means the footfalls seem to be coming back to the stores, which is also a positive sign for us. This basis conversations and how some of the orders have been done for us.

Apart from Germany, a few other markets in Western Europe, which are key for us, for example, Nordics, seem to be now getting off the blocks. So orders have started coming in and so on and so forth. For us at Parador in October, our order intake was at a faster clip than the sales turnover itself, which also is a lead indicator of how the next few months are likely to pan out.

And finally, I think some effort and some initiatives that we had taken seem to be paying off in an environment where, over the last 4 to 6 months, our competitors were laying off people, reducing capacity, especially on the frontline side. The fact that we have stayed closer to our customers, we have not done anything of that sort is being appreciated and is being taken note by these customers, and that is where we feel we are first of the blocks as the recovery, first signs of recovery are coming in.

Now I'm also underlining that these are early signs, so we should still wait and watch, but I'm also contextualizing it as this is basis what we have seen in October. So we are cautiously optimistic that the worst is behind us as far as Parador is concerned.

Moderator: Next question is from the line of Keshav Garg from Counter Cyclical Investments.

Keshav Garg: Sir, my question is regarding the so called gem in our portfolio, Parador. Sir, the losses are really alarming. And sir, if I remember correctly, in the last call, it was mentioned that we are hoping to break even at the EBITDA level by the third quarter or the second half. Sir so where are we as regards the EBITDA breakeven?

And sir, secondly, at what level of losses will the management consider shutting down or disposing off this business because I think the blunder -- original blunder was committed when we went out and bought a high-cost structure asset in a saturated market. So what are your views on that?

Akshat Seth: I think my view is, one, somewhere, we are clearly not in agreement with the perspective you have on Parador. We do not think it was a blunder. We do not think it as a blunder. The profitability and what I had mentioned, I think we stay firm on the fact that quarter 3, we should be EBITDA positive. I don't think there is any reversion in that outlook. We are -- in fact, as we stand today, we are even more confident than we were a quarter ago on that outlook. So operating profit should be in the positive zone as far as quarter 3 is concerned.

To your question, and I think I have been clear in my opening remarks as well. We feel confident that the mid- to long-term prospects for Parador are extremely strong. There are, of course, headwinds in the short run, and these are not headwinds, which are to do with Parador itself as a company, but within the environment that it operates in.

The fact that we are diversifying not just in new markets, but also newer channels, will help in building more resilience in the P&L and driving the growth. I'm very happy at this stage that overall health of the books is extremely good. The only factor that needs to start kicking in is the volume factor.

And with real concerted effort, if -- a quarter ago, I think I remember, we had said that about EUR 13 million of our top line, we are EBITDA positive. We have brought that down to about EUR 12 million. Now those are the kind of efforts that should be appreciated. We need the volume support from the market and the support are starting to come, and we are ready to start rocking on that front. So we do not consider it as a blunder. We feel that this is something that will add a lot of value to the HIL portfolio and will help create a truly global brand for us.

Keshav Garg: Sir, that is encouraging to know that we are sticking with our breakeven guidance for the second half or the third quarter. Sir, I just want to understand so that what is the competitive advantage in Parador that we have, which gives you confidence that we can scale up this business to EUR 500 million over the next 4, 5 years? So because it's not that we are manufacturing at a low-cost destination like India and marketing in Europe with a well-established brand. So we are manufacturing in Europe for the European market, just like our competitors. So where is the competitive advantage?

Akshat Seth: So competitive advantage comes from 2 or 3 sources. First -- and let me get the easier part out. I think the fact that we -- there is a certain operating discipline that we have brought in since we have sort of taken over that company is driving unprecedented level of efficiencies in the system. So that is clearly one, which is where -- and the evidence of that is that in the last 3 to 6 months, all our competitors, whether it's MEISTER, Haro have laid off significant chunks of people, we have not resorted to that or we have not felt the need to resort to that because we've managed to take cost out.

Moderator: Next question is from the line of Tarbir Shahpuri from Nidara Capital.

Tarbir Shahpuri: My name is Tarbir Shahpuri. My question was regarding Parador. Actually, you said you are seeing maybe a volume pickup potentially in the European market. And that doesn't go in line with what we are seeing in the home sales out there because of the rate rises. So what are you seeing that is different compared to what's happening on the ground?

Akshat Seth: Sorry, would you say that again? The question was not clear.

Tarbir Shahpuri: I'm saying what we're seeing on the ground with the interest rates moving up, the home sales are actually stagnating, if not declining in most of Europe. So where are you seeing this volume uptick? And what are you seeing that's different than on the ground?

Akshat Seth: So again, there are 2, 3 things to remember. One, is diversification beyond Europe, and that is playing out well. So in fact, one of the brighter spots for us has been our sales in this quarter and the first half of the year to markets like North America. So that's 1 where, despite economic headwinds, the consumer sentiment is much better compared to what it is in Europe and volume uptick is happening there. In Europe itself, we cater to 3 parts of the market. One is the refurb or replacement market. Then there is the new residential that happens. Then there are the commercial projects.

Now on the commercial side, the activity is not that muted as it was -- as it is in the residential side, and that's where our efforts to diversify are also paying good dividends. So overall, that sentiment, especially also on the refurb market is coming back. So yes, construction activity is lower, and that is reflected in the low -- overall demand slump that has happened. However, it is coming back is what we are trying to share with you.

Tarbir Shahpuri: Understood. And if I can just shift the conversation back to the domestic market. On the panels segment that you guys are in, there is a new product that we've been seeing in the market called Greymax. Would you care to talk about that, if at all, is that possible?

Akshat Seth: It's not from our side. I don't think it's right for me to talk about a competitor's product, please.

Tarbir Shahpuri: No. I mean specifically, I am because the question I'm trying to ask you is the product seems to be making inroads into a lot of your segment. It is cheaper than apparently your product. So would you not even want to address that at all on the call?

Akshat Seth: See, we -- if I talk about our prospects on panel, so I do not have the details of the product you are talking about. That said, for us on the panel side, both on volume and on our price realizations, we have seen healthy increases both on quarter-on-quarter and year-on-year basis. So in this segment, we don't feel there is a competition or a stiff competition that is coming in from this.

Tarbir Shahpuri: You don't see any competitive intensity increasing or changing at all from your perspective?

Akshat Seth: No.

Moderator: Next question is from the line of Chirag Shah from White Pine Investments.

Chirag Shah: The first question is on Parador, and it's more to do with the Q-on-Q performance, if you can indicate what had been the volume and realization trend quarter-on-quarter? Y-o-Y we understand that the big effect issue is there. And quarter-on-quarter, I understand the seasonality, but despite that, if you can indicate how has been the volume and realization Q-on-Q?

Akshat Seth: So on price terms, we are largely in -- we are flat. We have not dropped prices. So we have sustained the price level. So at a quarter-on-quarter level, that remains flat. On a volume basis, we are -- second quarter is down compared to quarter 1 by about 10% to 11%.

Chirag Shah: Is this a normal trend -- 10% to 11% Q-on-Q drop seasonality is the normal trend or this is different than the normal.

Akshat Seth: It is in line, may be a couple of percentage points more than the usual norm. You are aware, quarter 2 is the summer vacation time and there is usually a demand slump. In fact, all plants, including us, we take our annual shutdowns in this period and do our maintenance. So production itself is planned to be lower. So at a normal level, what is 8% to 10% is looking like a 10% to 11% this time.

Chirag Shah: Okay. Second question is again on Parador. So we have this focus on beefing up the sales team, especially in the noncore market. You identified 2, 3 noncore markets or 4 core, so any status on that? And why would somebody join Parador? So what is the USP that you are offering to the front-end team over there?

So I understand Germany, you may be able to add people, for example, given your strength. Let's say, U.S. or some of the other regions that, that the focus is. If you can share what has been -- how last 3, 4 months have been on that side?

Akshat Seth: So the status on that, one, the teams have actually been beefed up. So for the rest of the market outside the DACH region, there has been a scale up on the sales team. In North America, we are putting our own resources, plus there are a few partners that we have onboarded to drive our market entry into that, and that is working well.

In terms of the USP, there are a few things, and let me take them one by one. And I think there was a question also from Keshav around this. The first is the product itself. Parador is known for the quality that it offers. So the quality of product is a big USP that we have.

Second, as a brand, we are probably one of very few brands globally, which offer a range of comprehensive flooring product. So if you look at typical manufacturers or brands, they are either engineered wood or only laminate or only resilient flooring. The fact that we have a comprehensive portfolio is a second big thing.

With quality, I'm also going with 2 other functional attributes. One is aesthetics and design is a calling card for Parador. So for the last 40, 45 years that we have been around, Parador as a brand is known for superior aesthetics and design attributes. So that remains a big thing.

Quality is the fact -- and I'll mention maybe just 1 more thing. The fact that we do our own manufacturing because this is the space which is ripe with a lot of consumer brands, which do not make flooring on their own. They have outsourced manufacturing. The fact that we have our own manufacturing is a big, big plus.

And that, too, in a place like Germany, which brings with it its own quality connotations is brilliant. In fact, the other day, we were doing a sales workshop last week in Germany. Our rejection at the consumer end is less than 0.2%. That is ridiculously impressive. And you do that across industries, that's a super benchmark to achieve.

And finally, I'm also addressing something that was asked earlier. As a single -- as a very important USP as to how scale-up will help us is because all of this scale up, up to EUR 350-odd million will come through our existing manufacturing capacities. So we don't really need to invest in more to do this scale up, which gives us huge amount of operating leverage. So those are a few things, Chirag. The Made in Germany representation for people in these external markets is a big plus, and that gets them attracted to the brand.

Chirag Shah: And which are the geographies where you have actually added sales team aggressively if you can -- or sales channels, not just teams because it's own as well as through distributor through -- which are the geography where you have really added sales channels aggressively?

Akshat Seth: So the more significant additions, and I will also talk where the results have started coming in. The more significant additions have been in the UK. Results still not visible in last quarter's numbers. We've added capacity in Spain, results are visible. In fact, Spain has been an outperforming market for us last quarter. We've added capacity in the Nordics. We've added capacity in the Middle East. And the last one is for North America.

Chirag Shah: So of the 5 regions -- or the locations that you indicated, Spain is where the result is visible, right? And rest you are expecting them to follow maybe next 2 quarters?

Akshat Seth: Correct. So, Nordics, I think you will see results this quarter itself because those orders have started flowing. Different stages of evolution for these markets mean that some will respond faster, some will take a little bit longer. But these are the places where we have invested in capacity.

Chirag Shah: And last question, if I can just -- so again, coming back to Parador. So given the geopolitical situation the way it is, right, what kind of cash support from parent, if required, Parador will need? And what is the budget that you have kept yourself. Now I understand, this is not in your hands. So I fully understand that. But given the way the situation is playing out geopolitically now, with more regions getting entangled in various geopolitical issues, there could be delay in your recovery plan. And Parador may need some cash support. So if you can shed some light and address those concerns, it would be helpful?

Akshat Seth: So I'll invite Ajay, but my broad answer to your question, Chirag, is that the support that was needed in H1, Ajay mentioned earlier in the call. For H2, we do not envisage any further support for Parador from -- coming in from the India side. And this is to sustain from an operational point of view.

Now if there is something that we plan to do in coming years from a growth perspective, which is over and beyond the normal, that will be different. But for now, at least in H2, which is the immediate horizon, we do not envisage or plan for any further support that will be needed there. Ajay, anything to add on that?

Ajay Kapadia: Yes. So Chirag, we have currently around EUR 7 million cash balance in Parador. And the good part in refinancing is we got 18 months moratorium. So there is no funds required for even repayment of debt for at least next 1.5 years.

Moderator: The next question is from the line of Harshit from RoboCapital.

Harshit: Sir, my question is related to what has been the changes in the price of asbestos quarter-on-quarter and year-on-year. If you can guide me on that?

Akshat Seth: You mean asbestos or our roofing products?

Harshit: Yes, for the asbestos product, what has been the changes in the price?

Akshat Seth: So for us, and I can't say that as a generalization for the market, for us. Compared to last year, we have grown our pricing and realization by about 2%. And compared to last quarter, and you understand the dynamics of this market. Q1 is the high season and Q2 is the low season. So there has been a drop of about 4% to 5% on the realization compared to previous quarter.

Harshit: Okay. If you could provide any forward pricing guidance on this, like what do you think will be the pricing ahead?

Akshat Seth: So I think what is also pertinent to note that overall at a H1 level, if I do a year-on-year, we are about 3% higher compared to last year.

Okay. And that's where the volume mix comes in. So keep that also in mind. In terms of the price outlook, we are confident and a lot of it is also driven by the lag effect of the increase in import and trying to recover it, a quarter-on-quarter increase of about 2% for the next 2 quarters is something that should be expected. So 2% to 3% is where we should be landing depending on Q3 and Q4.

Harshit: 2% to 3% will be the guidance for quarter-on-quarter?

Akshat Seth: That's right.

Harshit: And just a last question. What is the current price, like current price for this?

Akshat Seth: Current price for this would be in the range of about Rs. 10,000, Rs. 10,200 per metric ton at a blended all India level. But please remember that at a different regions and different states within a region behave differently. So this is a very gross level of aggregation.

Moderator: Next question is from the line of Rajat Setiya from to iThought PMS.

Rajat Setiya: So, my first question is about Construction Chemicals. How much revenue did we do in H1?

Ajay Kapadia: Yes, we did Rs. 21 crore revenue in Construction Chemicals in H1.

Rajat Setiya: And is tiles adhesive part of it, or is it separate?

Akshat Seth: It's part of it.

Rajat Setiya: Okay. So that's part of it. So how would you rate the progress of this vertical? Is it going as per the expectations?

Akshat Seth: Yes. This is going as per expectations -- I think H1 from a aggregate level, Ajay shared the number, but at an exit level, if I do we are clocking about Rs. 6 crores to Rs. 7 crores of revenue monthly, and that is rapidly ramping up. So, it is as per plan.

We knew that first half of the year, there is a fair amount of foundational activities in terms of getting the product assortment right, building the channel or getting the right sales team on, all of that has been done. H2, as I said, should be an interesting period and scale-up should happen because this is also the start of the season for that. The first signs from October are encouraging. And we shared some sort of latest exit numbers around that.

Rajat Setiya: Sure. Sure. And moving to putty, the competition still hurting us there or margins have been adjusted -- margin fall has been adjusted?

Akshat Seth: Yes, it remains a partly contested market. If you look at -- and where it really impacts is just the price realization. It is not just us but the whole industry. Our belief is that the industry from a pricing point of view has shrank by about 10% to 12% compared to same time last year, and that affects us as well. But our volume growth now seems to be on the right path. So quarter 2 was difficult also given the season. But quarter 3 onwards, we are hopeful that the volume trajectory should resume.

For us, somewhere the efforts of the last 12 months in driving down cost is paying off. So, actually from a profit profitability point of view, despite lower volumes compared to last year, we are much better on those parameters.

Moderator: Next question is from the line of Satish Kumar from InCred Capital.

Satish Kumar: Akshat, my question is on Parador. Normally, in Q3, we used to do EUR 38 million to EUR 40 million of revenue. Are we tracking that? Or we are well below that?

Akshat Seth: So my sense is we should be in that ballpark if the markets recover, we could be beating that kind of number or slightly lower, but we should be in that ballpark give or take 5% plus/minus.

Moderator: Next question is from the line of Nikhil Gada from Abakkus Asset Management.

Nikhil Gada: Sir, I have a couple of questions. Firstly, on Parador. You mentioned that we'll achieve EBITDA breakeven in 3Q. Any update on when we'll achieve PBT breakeven? Do you expect in second half to achieve PBT breakeven in fourth quarter?

Akshat Seth: Ajay?

Ajay Kapadia: I guess we may achieve PBT breakeven in Q4 or Q1 next year.

Nikhil Gada: Okay. Okay. And Ajay, to achieve this PBT breakeven, what would be the sales run rate which you will be looking at?

Ajay Kapadia: So to achieve this breakeven, we are expecting EUR 44 million, EUR 45 million revenue in a quarter.

Nikhil Gada: Okay. Fair enough. Got it. Secondly, sir, just coming on the roofing part of the business. Now you mentioned that we'll have to take this 2% to 3% quarter-on-quarter price hike to sort of gain back our margins. What we are seeing right now from the markets, everything, the rural demand has not been that great, and the rains have also been very iffy. So -- and especially the competition is also very high in this space. So how confident are you of this price hikes and still keeping our volumes intact?

Akshat Seth: We are reasonably confident on this. The effects of inconsistent rain, et cetera, at least our own observation on ground is somewhat less impacted by this. We feel rains on -- in balance have been okay. And we do not also witness a significant drag on the rural demand sentiment. So on a conservative level, I would say that factor is neutral.

On the pricing front, somewhere, it's also an inevitability, given the spot that happened on the raw material side. And by the time we hit end of Q3 the next cycle of raw material price negotiations, et cetera, will also start coming in on raw materials. So somewhere given where we are and given all the other players in the industry, I feel it's almost an inevitability that we'll have to pull back some of it. Otherwise, the margins, et cetera will go below what is sustainable level for us for most players.

Nikhil Gada: Sir I think it's already below the sustainable level, so from that perspective -- because if I look at the full year numbers for the last couple of years, we used to do 20% odd EBIT margins, right? And the way the run rate is going, we have almost shaved off close to 600, 700 bps. So from that perspective, the question was...

Akshat Seth: I agree. And that's the situation that faces all the players in the industry, probably a bit more for others. And that's why we feel there is a need at. Honestly, if you look at how the price increases have happened this year so far, it's not a bad trend. Otherwise, the decline that typically happens in quarter 2 is much more. So it's almost -- we are all playing catch-up to the cost increases that have happened. And what I'm projecting as a 2% to 3% increase is essentially in that trend.

Nikhil Gada: Got it, sir. Sir, just 1 last question from my side. With this Construction Chemicals and the other B2C part of the business that you are working on, we were planning on doing some aggressive marketing spend. Now given the current situation where we are facing pressure, both in Parador as well as to a certain extent in our India business as well, are we still going to go ahead with this kind of aggressive brand spend that you're planning? Or we will just wait for a better sort of a situation?

Akshat Seth: We will have to do that, and somewhere my request would be that we do not mix the -- here and now, the short run with what the long-term prospects are. A lot of these brand-build activities pay off over a slightly longer period of time. But unless we do those investments today, we will be having a similar conversation same time next year. So to avoid that, it is important that we continue on that path.

Nikhil Gada: Okay. Any number you would want to add to this, brand spent, how much will it time?

Akshat Seth: Let me just say that we'll have to be ahead of the curve as far as these new businesses are concerned, and I would add pipes and fittings also into that category. So pipes and fittings, Construction Chemicals, and putty as a collective needs almost ahead of the curve kind of marketing spend to drive traction and the volume growth that we are aspiring for.

Moderator: Next question is from the line of Jaynesh Shah, individual investor.

Jaynesh Shah: I've been relatively new to understand the company and looking at some of the attributes, the business attributes. And since -- looking at that the raw material prices in each of our business has been very, very volatile. Can you just give some understanding with regard to which are the key ones in a particular -- in each of the segments? And how are we sourcing these raw materials in each of the businesses?

Second question is with regard to the margin guidance, which you had given earlier to reach about like 10% to 12% or eventually in the range of around like a 12% to 14% range. Given the situation now we have, especially the challenging environment, which we have in Europe and many other, and in India as well in some of the businesses where the pricing pressure has been there?

How much should we look into the margin in terms of next 18 months? Or should we be having patience with regard to the achieving of those margins for a little longer in that sense.

And third question is on the net debt. I mean saying -- just if you can give -- share the net debt numbers? And given the kind of growth, which you are aspiring to reach $1 billion, what kind of a financing we have? I mean, either are we sufficiently capitalized to reach that kind of a business? Or are we required to raise capital, either in the form of debt or equity whichever over next 3 years or so?

Akshat Seth: Thank you, Jaynesh. Raw materials, 3 key ones to track for a company like us. There is the fiber, which is entirely imported. So there are 2 or 3 global suppliers, and we maintain a mix between them. The second is cement, local product sourced locally within 100, 200 kilometers radius of our plants.

And third, key raw material for us to watch out is the PVC resin, which is sourced as a combination of imported and Indian suppliers. These are the 3 raw materials whose price movement availability really affects us as a company and these are the 3 which attract disproportionate attention from all of us internally. On your margin, if we talk...

Jaynesh Shah: Sorry, Akshat, just to get some more clarity on the Parador. How are the sourcing being done at that end as well?

Akshat Seth: So Parador...

Jaynesh Shah: Yes, Raw material sourcing there.

Akshat Seth: Parador raw material depending on which products. So for us, Oakwood is one key raw material that we source. Most of it is sourced from certain grades of Oak within Europe. Then there is HCF, MDF, which are the underlays on the flooring sourced as a combination of -- from a combination of sources, within Europe, and come from Asia, but less -- in less quantities. So those would be the key raw materials if I have to take that out to 2 or 3...

Akshat Seth: PP & PU from China is -- and there is some specific grade that we also import from Japan. So that's for Parador.

Jaynesh Shah: Yes, right. Yes, on the margin side.

Akshat Seth: On the margin guidance for next year, so I'm talking about the next financial year, which sort of is the back end of your 18-month time horizon. Of course, as you said, patience is a great virtue, but internally, if I may share at a lower end of the spectrum that you defined, we should be hitting that zone next year.

And then the guidance that we shared last time for subsequent years remain intact. That is where we are all committed to getting to. So, we should be in that at least low end of the double-digit numbers next year. So, and then going beyond to that higher end of the 10%, 12%, 14% that we spoke about. From a net debt perspective, Ajay, do you want to comment?

Ajay Kapadia: Yes, as far as HIL India is concerned, we are targeting 2x growth in pipes and fittings, putty and Building Solutions business, where we see investment of around Rs. 400 crores to Rs. 500 crores in the next 3 years' time. Our cash generation on an average every year is in the range of Rs. 150 crores after payment of tax and dividend.

So that will be enough for meeting this capex. However, there is a timing difference in terms of borrowings, we may borrow in 1 year, but the repayment will happen in subsequent years. As far as Europe Parador is concerned we are running at 50% utilization level. And with the current capacity available, we will easily touch EUR 300 million to EUR 350 million top line.

Jaynesh Shah: Yes. And how about the working capital requirements? Are we -- I mean today, we're working on a very -- I mean, very efficient working capital, I mean, in the business -- across the business, I would say. But when we grow to the size, how do we see the working capital requirements going up or the working capital base changing over a period of next 2, 3 years when you're aspiring to grow 2x or 3x in size in that way?

Ajay Kapadia: So as far as working capital is concerned, the working capital requirement in Roofing and Building Solution business are not too much. Working capital percentage to revenue is at - around 10%, 11%, whereas Building Solution is in single digit. Pipes and fitting business require some sort of working capital since we have here multiple SKUs and we have depots.

So that requirement will be in the range of 15% to 20%. So, 2x growth in Pipes & fittings will require around 15% working capital, which is less than Rs. 100 crores. So -- and we have right now in India, our debt is in the range of Rs. 60 crores, which is working capital debt. And we have enough bandwidth available to borrow from the bank for this purpose.

Moderator: Next question is from the line of Rama Krishna from ZEN Wealth.

Rama Krishna: Just a couple of questions from my side. Firstly, with regards to Parador, I mean, during first quarter discussion in the conference call around Parador, you have mentioned from commercial, we have an order book of around EUR 75 million. So, what is the number at the end of second quarter? And you also mentioned that from Q3, we can start expecting part of you converting into revenues. So, if you can please share the thoughts over there? That is my first question.

Second thing is, if you can please share some insights on the Charminar Fortune brand in the non-asbestos segment? And finally -- and is the capex requirement, if you can please repeat that?

Akshat Seth: So to recap, on the first question on Parador, what I had mentioned was -- and that's why I was careful, it was the lead pipeline of EUR 75 million. It was not an order book. That lead pipeline, today, given some of them have converted, some have not fructified for us, we are at about the EUR 80 million, EUR 85 million mark as far as that lead pipeline today is concerned. So that should -- that's probably what you were looking for in order -- in your first question. From Charminar...

Rama Krishna: When will we start getting converting into revenues Q3, Q4 or next year? Part of the...

Akshat Seth: I think the usual norm is it takes about 3 months for a lead pipeline for the results, et cetera, to start coming in. If it is to do with the commercial projects, then there is a 3 to 5 months lead time -- Okay, let's stay with maybe 3 to 4 months type of lead time when we have to deliver the product, which is when it gets converted into revenue.

Rama Krishna: Sure.

Akshat Seth: On Charminar Fortune, overall, we continue to invest in that. There is a decent sales clip that is happening on that front. We've also had growth on the pricing front as far as that product is concerned. The offtake is limited to certain sections given the price disadvantage…

Akshat Seth: So Charminar Fortune, I was saying very quickly pass through volume, et cetera, the product from a functional attribute perspective is where we want it to be. So those are now in line with what -- and comparable to the core AC sheet products. Pricing is something where a differentiation still exists, which also sort of constrained the amount of demand in the market for a product like that at the moment. So that's where we stand on that. On the net debt situation or the capital requirement, Ajay, do you want to recap?

Ajay Kapadia: It's around Rs. 400 crores to -- Rs. 500 crores is the capex requirement in next 3 years. Apart from that, there are another Rs. 100 crores maintenance capex required.

Moderator: Next question is from the line of Sanjay Kumar from iThought PMS.

Sanjay Kumar: Commendable performance in piping, 22% volume growth in retail channel. I think Supreme has done 23%, Apollo has done 28%. So, what is the share of B2B channel and the retail channel, the breakup? And what would be our strategy here? Will we focus on retail or B2B in both?

Akshat Seth: So, we are roughly 75:25 between retail and projects. In terms of strategy, we will have to fire on both cylinders. I don't think we are big enough at the moment to choose 1 over the other. In fact, we will also have to add the third segment, which is critical here, which is the government channel. So, the B2G part is something that you should see from our side in the coming months. That's the third area that we are building.

Sanjay Kumar: Okay. Okay. And do we have the capacity going forward given the growth that we are building?

Akshat Seth: Yes, we do. We are currently at about 60%, 65% capacity utilization. We feel there is capacity in our current ones, and then there are some plans in pipeline to -- for both brownfield and greenfield expansion.

Sanjay Kumar: Perfect. Second, on Building segment, both sales growth and margin is very different from that of, say, big blocks numbers that came out recently. Big block grew 21% in Q2 with an EBITDA margin of 25%. Even if I try to adjust for the 26 days of Chennai plant shutdown, the gap seems to be wide. You have comments on this? And what was the contribution of Chennai plant to the Building segment?

Ajay Kapadia: Chennai plant contributes roughly 20% of total volume in blocks.

Sanjay Kumar: Okay. Okay, sir. And going forward, what would be the normalized margin and growth for this segment?

Akshat Seth: So, from a margin perspective, is that the question?

Sanjay Kumar: Yes. And the growth also, outlook for both growth and margins?

Akshat Seth: So see, from a margin -- from a volume perspective, we expect about 10% to 12% growth in the remaining part of the year. From a margin perspective, we are confident that by the time we exit in March, we should be in the 12% to 14% range as far as the operating margin is concerned.

Moderator: Thank you very much. I now hand the conference over to the management for closing comments.

Akshat Seth: Thank you to everyone for joining us. It's been a pleasure, as always, interacting with all of you over this call. We thank you for taking the time out. We thank you for your continued interest in HIL. And if there are any follow-up questions after this call, or you would like to know anything more about the company, please reach out to our Investor Relations desk.

Thank you so very much. And once again, best wishes for the festival season. Happy Diwali to all of you.