CK BIRLA GROUP

HIL
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November 14, 2024

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| Mumbai – 400 001 | Mumbai – 400 051 |
| *Scrip Code: 509675* | *Scrip Symbol: HIL* |
| *Through: BSE Listing Centre* | *Through: NEAPS* |

**Sub: Transcript of Investors' Conference Call on Q2FY25 Financial Results**

**Ref: Regulation 30 of SEBI LODR Regulations, 2015**

Dear Sir/Madam,

In continuation to our letters dated November 5, 2024 and November 8, 2024, please find attached transcript of Investors' Conference Call held on November 8, 2024 on the unaudited standalone and consolidated financial results of the Company for the quarter and half year ended September 30, 2024.

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

Kindly take the same on record.

**For HIL Limited**

NIDHI BISARIA Digitally signed by NIDHI BISARIA Date: 2024.11.14 10:46:16 +05'30'

**Nidhi Bisaria**
**Company Secretary & Compliance Officer**
**Membership No. 5634**

Encls. As stated

# HIL Limited

## Q2 & H1 FY25 Earnings Conference Call

## November 08, 2024

**Mit Shah:** Thank you, Yashashri. Good afternoon, ladies and gentlemen, and welcome to HIL Limited's Q2 and H1 FY25 Earnings 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, CFO. We will first have Mr. Akshat Seth making his 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 details in this regard are available in the earnings presentation, which has been shared with you earlier.

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

**Akshat Seth:** Thank you, and good afternoon, everyone. Thank you for joining us today. I'm happy to talk through HIL's performance for the second quarter of the financial year 2025 and to provide an update on the progress we are making on our strategic plans.

We've concluded what by any standards would be called a tough quarter. So, we've concluded Quarter 2 FY25. For this year so far, we have maintained a consistent 7% to 8% growth momentum in a largely indifferent external environment, which has been marked by weaker macroeconomic and demand cues. At a consolidated level, the company reported a revenue of Rs. 774 crore with a PBT of Rs. 6 crore.

At a headline level, across our product categories, we have delivered category-leading volume growth and gained market share both in India and in Parador. With a slew of cost management measures, we have limited the impact of a weak price regime on profitability.

Let me walk you through the various segments and how it's panned out, but the themes are consistent to the headlines that I shared.

In Pipes and Fitting, we recorded strong volume growth of 63% year-on-year and revenue growth of 46% at a year-on-year basis and this significantly outpaces the market and peer performance. We have fully integrated our recent acquisition of Crestia and expected synergies are being realized. Specifically, at Crestia, we have accelerated the retail sales engine. On the other hand, in JJM and B2G sales, we expect a recovery from the low volumes of H1 with Government spending coming back on track in the second half of the year.

Q2 in the Pipes and Fitting segments witnessed a near 15% to 17% drop in resin prices from the peak of Q1, resulting in demand headwinds for the segment. We believe the resin prices have now stabilized with some bias towards upward movement seen in recent weeks. And as that sentiment firms up, we expect to see a revival in channel demand. This will also help restore profitability in the segment for us.

We continue to rapidly scale up our Construction Chemicals business, and we achieved a 29% year-on-year revenue growth in this segment. Specifically, the Tiling segment, which has been a core focus area for us, grew nearly 60% over last year. We are also introducing new products in the category to offer a more comprehensive product portfolio to our customers in the specific subsegment that we have chosen to play in the larger Construction Chemical space.

In Roofing Solutions, despite an estimated industry degrowth of about 10%, we managed to increase our market share by nearly 100 basis points. We expanded our footprint and directly serviced more than 11,000 stores and grew our partner base by 6% during the quarter. We continue to improve our market positioning by focusing on value-added products such as Ultra Cool sheets, roofing accessories to name a few.

On Building Solutions side, we are recording steady volume growth with Blocks growing by over 8% during the quarter. We will also be commissioning the second line at our Chennai plant in Quarter 3, which will double the capacity in that region for us and help us further grow our market share in the strategically important southern market.

This performance in India is in the context of lower Government spending, inclement weather conditions, weaker demand and adverse raw material price movements, especially in the case of PVC resin. All these factors contributed to a weaker pricing and margin regime for our products. However, sustained efforts around material and labour costs as well as working capital and inventory helped limit the impact of these factors.

For instance, in Building Solutions and in Construction Chemicals, we have expanded our margins despite lower pricing by about 250 to 350 basis points. Further ongoing initiatives on logistics and energy costs in partnership with external experts will deliver more value impact in the quarters to come.

At Parador, we grew our volumes by 12% and the revenue by 8% in a market which by all estimates has declined by nearly 10% in this period. This industry-beating performance is driven by share gain in our core European markets with new products, new customers, including the commercial segment and renewed sales and marketing efforts. We expect this momentum to become stronger as our geographical expansion to markets such as Americas come to fruition in the coming quarters. On cost side, we have undertaken a comprehensive exercise of lean optimization, particularly to address manpower cost. The impact of that will be visible in the months of quarter 3 and quarter 4, but that exercise is now fully concluded.

Apart from negotiating the current scenario at an overall HIL level, we have sustained our investments towards 'Reimagined HIL' with intensified efforts towards new products, reenergizing our brand, marketing and technology platforms and strengthening our teams. Some of these initiatives include our innovation and new product development engine, which is running at full steam with various new products that have been launched in the last few months. Importantly, we have a strong pipeline and hopefully, in the next quarterly meet that we have, we will be able to share a few interesting developments across the Pipes segment and also the Building Solutions segment in that conversation.

Our digitalization initiatives are leading to not only upgrading the core enterprise and data systems, but also building the platform for stronger customer management, data analytics and efficient operations. For instance, in Quarter 2, the key milestone was the go-live of our SAP S/4HANA upgrade and the launch of our lead management system, which is now serving to unify our B2B activities across our various product segments.

In this quarter, we have also undertaken a comprehensive value enhancement exercise with an external partner to identify and implement larger pools of value in our P&L. We expect full savings from this exercise to start becoming fully visible from FY26 onwards. In addition, we have also built a strong momentum in our manufacturing excellence initiative that will help drive productivity, efficiency and quality across all our operations.

As I've shared with this group in the past, over the last year, we have invested in our leadership and frontline teams in both India and at Parador, injecting agility and empowerment to win in our defined product markets. A key testament to HIL being ranked as number 12 in India amongst the Best Places to Work by the GPTW Institute for 2024. We have also been ranked number 41 in Asia and amongst the top 10 best places to work for millennials in the large company category.

Looking ahead, we are optimistic about the demand outlook for H2. While we anticipate a stronger performance in the coming quarters driven by increased volumes and sustained demand, we will continue to work towards margin improvement. Our several initiatives to control costs and optimize processes across our product segment will help us maintain competitive margins and resilience in the face of any volatile external environment.

With that, I'll conclude my remarks and hand the baton to Ajay to present a detailed overview of our financial performance for the quarter. Thank you, everyone, for your time and attention. Over to you, Ajay.

**Ajay Kapadia:** Thank you, Akshat, and good afternoon, everyone. I'm pleased to present an overview of our financial performance in and our personal highlights for the second quarter of FY25.

In a quarter marked by modest demand and heightened competition, we delivered steady results with volume growth across most of our major segments. Our consolidated revenues increased by 7% year-on-year to Rs. 774 crore for the quarter and 8% to Rs. 1,881 crore for the first half of the year.

Roofing Solutions segment declined by 3% year-on-year due to incessant rains generating revenues of Rs. 200 crore in quarter 2. This performance is in the context of 10% decline in volume for the industry. We continue to strengthen our position in the market and building further customer loyalty by channel engagement.

The Building Solutions segment perform steady in which volume growth in all categories reporting revenue of Rs. 131 crore growing by 3% in quarter 2 over last year.

In the Polymer Solutions business, we achieved a 27% year-on-year revenue growth amounting to Rs. 165 crore during the quarter. This growth was bolstered by our recent acquisition of Crestia in the Eastern region. Within this segment, the Pipes and Fittings business experienced a 63% increase in volume and 46% growth in revenue year-on-year reaching to Rs. 124 for the quarter.

Our Flooring Solutions represented by Parador brand grew by 8% year-on-year, generating revenue of Rs. 278 crore in this quarter. Despite ongoing market challenges, Parador's order booking remained robust. We have introduced several new products across categories to capture a larger market share and are focusing on overseas market as part of our strategic expansion.

The operating margin was impacted due to our “ahead of the curve” investments for Growth in people, technology and marketing activities as well as adverse price trend in the market. However, our continuous efforts on enhancing operational efficiencies, including improvements in sourcing cost management and value enhancement initiatives are yielding sustainable improvements in our margin performance.

Consolidated PBT for the quarter stood at Rs. 6 crore compared to a loss of Rs. 25 crore last year. This includes exceptional income on account of sale of assets. Our focus on working capital optimization remained a priority.

At the consolidated level, our total debt was Rs. 683 crore with debt-equity ratio stands at 0.53 as of September 30, 2024. We remain confident in our ability to expand our performance footprint and generate healthy cash flows.

That concludes my opening remarks. I now invite the moderator to open the floor for questions. Thank you.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. We'll take first question from the line of Aditya from Securities Investment Management. Please go ahead.

**Aditya:** Thank you for the opportunity. Sir, my first question is on Parador. Sir, in spite of revenue increasing by around 7% in H1, our losses have increased from Rs. 58 crore to

Rs. 72 crore. So, if you could just help us understand what is leading to higher losses in spite of revenue increasing because we have been undertaking these cost-saving initiatives since around, I think, the last 3 to 4 quarters, but no benefits seem to be accruing to us. So, if you just elaborate why the losses increased in spite of increase in revenue?

**Ajay Kapadia:** Thank you, Aditya, for your question. There are onetime costs we have taken in this quarter, which is basically a severance pay we have paid, which is Rs. 6 crore. Apart from that, we have increased our spend on people and the marketing side. Our salary cost has increased by Rs. 5 crore and the marketing spend, we have participated in more fairs and that has resulted into additional spend of Rs. 4 crore over last year same quarter. So, these are the calculated costs we have incurred, which will give results over the period of subsequent quarters.

**Akshat Seth:** A couple of things to highlight here. And your question was relative to the past. So, there are two things that you will start seeing from Q3 itself. So, I'm not making a long drawn forecast here. Compared to the optimization that we had done previously, this time, there are two very targeted interventions on the manpower costs that have been done, both on blue collared and on white collared. The idea was to reduce a little bit of capacity in the European markets. Now in order to do that restructuring, there was some onetime cost, which led to an uplift. However, from October onwards, you will see that as a saving in the P&L. So that's number one.

Number two, even on headcount, etc., so whatever was the increase because more team members were added back end of last year, all of that will be offset by this restructuring that has been done. Other than that, marketing, which seems like an escalated one will even out during the year because intentionally, given the places that we wanted to participate were all happening around the first half of the year. So, at a full year level, that picture will not be too different from how it was in the past. So, you will see the profitability or the levels that you have seen in the past to be restored from Q3 onwards.

**Aditya:** Understood. And sir, previously, we had mentioned that we'll achieve PBT breakeven at Parador when we reach a turnover of around 45 million. So, does that still hold true or because some of these increased investments, this breakeven level would be higher than our estimation?

**Akshat Seth:** So that statement holds true. In fact, some of the measures that we have taken will probably help pull it down a little bit. But the previous forecast in terms of 45 million, etc., seems to be right. There is no upward revision. In fact, if at all, there will be a downward revision to that number given the steps that have been taken.

**Aditya:** And what is the current debt level at Parador? And is this the peak debt? Or would we have to borrow more considering we are making losses currently in that business?

**Ajay Kapadia:** The debt level at Parador is EUR 31.9 million. We may have to give some support from India in this year considering the losses in the first 6 months, but that will not be too large number.

**Aditya:** Okay. Okay. And just one last question on Parador. So, if I look at the gross margins, they have come off both Q-o-Q and Y-o-Y. So, if you could just help us understand why is that?

**Akshat Seth:** Gross margin, if we look at the H1 numbers, they are about the same as it was last year. So, there is no real difference. As you can imagine, in quarter 2, there is a shutdown that we take. There is some inventory build-up that happens. So that creates a transient aberration. But at a H1 level, the material cost is about the same as it was last year. There's no appreciable change.

**Aditya:** Understood. Okay. Sir, next question is on the Roofing business. So, the revenue is almost flattish on a year-on-year basis, but the EBIT seems to have halved. So, if you could just help us understand why is that? And what is happening in the roofing industry, which is leading to such sharp contraction in margins?

**Akshat Seth:** So, a couple of things. There's been some pressure on pricing. So if you look at the same time last year, there's been a drop in the price realization in the zone of about 1% to 2%.

All of this is coupled by the fact that quarter 2 from a volume point of view was disappointing for the industry as a whole, which had some impact on the variable cost. So that's the second factor.

The third factor which impacted us is on the material cost where availability of certain grades of raw material was a challenge, which added to the cost in this period. So that's why there has been some erosion on the margin side in this quarter.

**Moderator:** Thank you. We'll take our next question from the line of Nitin Dharmawat from Aurum Capital. Please go ahead.

**Nitin Dharmawat:** Yes. So, my question is regarding the raw material pricing trend. How is that now? Is there any softening that we see now compared to what it was earlier? And second is about the demand, as you're saying that H2 may have some improvement. So do you see any visibility now since a few days are already gone in the third quarter. So, if you can share some insight into that, that will be helpful.

**Akshat Seth:** On raw material, is there any specific raw material you have in mind, or you were asking a general question?

**Nitin Dharmawat:** No, generally because we are into multiple divisions. So that's why I'm asking in general.

**Akshat Seth:** Sir I think there are 3 key raw materials for us that are worth talking about. On PVC side, quarter 1 was a sharp spike of about 13-14%. Quarter 2 was a sharp drop of 15-17%. Much of October, what we have seen going into Q3, we see that they seem to have bottomed out the prices, and there is indication of an upward trajectory from here on. In fact, this is public news. November 1st week, Reliance has increased prices over a couple of rounds.

So that's a trend plus there are indications around antidumping duty and BIS standards being applied for imports. So those are factors that are likely to push the prices up, which is a favourable sign as far as the demand outlook is concerned for quarter 3 and beyond.

The second raw material, which is of interest to us is cement. I'm sure all of you as you analyze the segment, cement had a subdued 12 to 18-month period. So, prices have been soft, which has been a relief for us in the first half of the year. How long will that soft pricing regime hold remain to be seen? Our expectation is that Q4 onwards, there should be some upward push towards it.

The third one is on fibre for us, where there has been almost a stable pricing regime. What is to be watched out is there are certain grades which then have an implication on the mix that we use. That was a challenge in Q2, likely to remain as such in Q3 as well. So that's the thing for us to manage. But in general, for each grade, the pricing is largely in a stable environment.

**Nitin Dharmawat:** And regarding the demand scenario?

**Akshat Seth:** Yes. So overall demand, I think we have entered H2 with a fair amount of optimism just given that H1 from a demand perspective was not exactly the most exciting time. A few factors which seem to be turning around. Much of H1, we saw Government spending to be on a weak ticket that there are signs that it will come back. Also, I think the noises from a budget reallocation, etc., perspective, are all in the right direction. So that is one big factor that we are looking out for.

The second positive factor is that while there were extended monsoons, but there have been widespread and good monsoon this year. So, there is a fair amount of optimism about rural demand kicking in. We are seeing first signs of it. So, we saw that in the festive season, etc., during the month of October. So that is another positive thing for us to keep a watch out for.

I think those are 2 factors. And then there is the general demand scenario. So, if there are rate cuts, etc., then there might be some more consumer spending that gets triggered because of that. So overall, we are optimistic depending on which segment from Q3 and most likely from Q4 onwards, there should be strong tailwinds on demand from these segments.

**Nitin Dharmawat:** Okay. So, this was about domestic. What about the international one with respect to Parador. So, if you can throw some light on that as well?

**Akshat Seth:** So, on Parador, the outlook and forecast from a Europe point of view is a slightly hazardous one, so I will refrain from making a forecast there. Our own business planning is assuming that the market sentiment will remain flat for the next 6 to 9 months, which is why we are looking at markets beyond Europe to drive growth. Our foray into places like North America and given recent developments on the change of regime, etc., all looking very promising.

There is still robust growth in those markets. But core European market, we are not expecting a bounce back anytime in the next 3 to 6 months. We expect that they are likely to remain flat to where they are. Equally, it's important to note that there is no sign, absolutely no sign that it will go south from where it currently is.

**Moderator:** We'll take our next question from the line of Marsal, an Investor. Please go ahead.

**Marsal:** Hello. See considering this Parador, if we take a strategic view on this one, last few quarters is consistently in the losses and losses are also substantially high. So, I think it may be the high time that the management should consider to take some strategic view on this one because HIL used to be a very blue chip company, its share price used to be around Rs. 4,000, Rs. 5,000 and Rs, 6,000. But after this like mega acquisition, HIL is like low capital and very cashless company.

**Akshat Seth:** If I may request. Can I interrupt? Your voice is not clear, and I'll request you to repeat your statement once more, please.

**Moderator:** Mr. Marsal, may I ask you to use your handset mode please.

**Marsal:** Yes. I'm on the handset. Am I audible, sir?

**Akshat Seth:** Yes. And if I may just request you to speak a little slower, we will be able to catch it better in that case.

**Marsal:** Okay. So, the point I'm drawing is that, HIL Limited strategically also like from the very beginning, it used to be like a very niche kind of company, having a small capital base and very good net profit and good cash profit. And like the return to the shareholder return to the equity used to be very, very fantastic in HIL. But since the acquisition of Parador means like gone are the days, even if you see, for example, this quarter also, the stand-alone EPS for the HIL is Rs. 80 per share. But if you see this consol, it's hardly Rs. 19 because the majority of profitability being eaten by Parador. And since Parador acquisition and which is sizable in terms of the value, in terms of amount invested and in terms of its operation also. So if you see segment results, for example, Parador is continuous in losses, Rs. 41 crore, Rs. 48 crore, Rs. 88 crore, Rs. 66 crore.

So, although management is trying very hard, have taken a lot of efforts like to turn around this company or this particular unit. But the results have not yielded due to like any shifting, maybe the market like this reaction or the course, whatever. And moreover, what you said just now to the first person that the reason for this quarter loss, like you spent about Rs. 14 crore, Rs. 15 crore item, but the loss is Rs. 48 crore here. So you said that INR 5 crore something has gone in salary. So, salary, you have like increased the bandwidth, so means that will be a permanent cost. So that will again recur in the next quarter.

So, the point I'm drawing is that like each turnover is about one-third of the total company. And this particular new item or Flooring Solution is not yielding any result to the shareholder, rather it's eating away the worth of the company. So maybe the company or the senior management should take a strategic decision to dispose of or to have any JV like partner into this one or do something in this one. Something drastic needs to be done so that this division turns around into at least EBITDA positive or it is breakeven level, sir.

**Akshat Seth:** So no, I appreciate the sentiment. I also assure you on behalf of the management team that we are watching the Parador situation with great amount of strategic long-term intent. So, we are trying not to offer any knee-jerk reaction to that situation. You are right. We, as a company, have always given good shareholder returns, and we are committed to doing that in future as well. But you would recognize that there are periods of investment so that the desire to give even more shareholder return can come in. This is one such period.

The Rs. 5,000 crore and Rs. 6,000 crore that you were talking about was actually post-acquisition of Parador and for the first 3 years of Parador acquisition, the results were really great. They have run into an external situation, which nobody saw coming. Having been in that situation, there is a clear path to recovery. I do hope that you and everyone else on this call recognize that despite the slow market environment, the company is now showing first signs of turnaround in terms of the volume growth and the revenue growth that they are registering.

There is at least in our mind a clear line of sight to profitability, and there is a lot of confidence that we take from a quarter or the first half of this year as to where Parador is headed and the prospects ahead. So, we are closely watching the situation. I completely appreciate the sentiment being offered. But a quarter like this only increases our confidence on the prospects of the company, not decreases it.

**Marsal:** Okay. Sir, like in continuation of this one, since you mentioned that the company is showing the sign of turnaround. But if I see the revenue for this Parador division is Rs. 278 crore something. So, if you analyze it's hardly Rs. 1,100 crore, which is slightly less than the yearly revenue for the year ended March 2024. So, revenue has not increased, number one.

Number two, I also recall that like after talking over the company, CEO, like I recall that you mentioned that you are taking a lot of efforts in terms of the market expansion in Middle East, in Europe, in America and China. So, can you throw some latest update that like where do we stand in terms of the market extension or expansion or like new orders being received? And what is the order in hand for Parador division as of now?

**Akshat Seth:** So those activities are moving along in the right direction. I would take a couple of examples. We have shared with this group that North America or US specifically is one area of focus. In the last 6 months, there has been a lot of groundwork that has been done to hit that market not just as a sales outpost, but to build a sustainable business there. So work is happening in getting the right team on ground, and there is some progress on that front. The work is also happening in creating a ground level presence on the marketing and brand side. So, in fact, you should watch out there is a big trade show or trade event that happens called BDNY, it's in New York beginning 10th and 11th of November. Please have a look. There are information available on both the Parador handles and on BDNY, which we are participating. So, there is more market-facing work that is happening in that market.

Third work is around creating product relevance. Every market you get into will have some specificity on what kind of products they want. That customization or adaptations of our own product lines is happening as we speak. Some of them are already done are being rolled out, more is in pipeline.

So, it's not an overnight activity where you say, okay, I want to go to New York or US and you take a flight and you are there. There is a lot of 360-degree work that needs to happen, and we are in good shape on many of those counts. And I'll offer 2 metrics for all of us to track. I have been sharing that new geographies is one area. This year, H1, all these geographies beyond Europe that we have started working on have registered a 40-41% growth in the first half of the year in terms of revenue.

Second, I've been saying that commercial segment is a new one for us, where again, this year, H1, we have grown by about 25-26%. Now these are 2 metrics to keep a watch out for because these are the growth engine for the company. So overall, the company has grown in revenue terms by about 7% to 8% in this period. These 2 segments, which are new, have grown with -- in the amount that I mentioned.

**Moderator:** We'll take our next question from the line of Varij Bangur from Brescon Ventures. Please go ahead.

**Varij Bangur:** Yes, hi. Thank you for the opportunity. I just wanted to know the breakup in the Polymer segment between, let's say, our organic pipe division, Crestia and Construction Chemicals and Putty. And the same numbers, if you can provide for the last year as well of the organic brand and Construction Chemicals as Crestia was not there?

**Ajay Kapadia:** Okay. Varij the last year revenue number Pipes and Fittings was Rs. 85 crore and the balance was Putty and CC. This year HIL number is Rs. 87 crore that is standalone. Putty and CC is around Rs. 41 crore and Rs. 38 crore is Top Line Pipes and Fittings number.

**Varij Bangur:** So I mean in the opening comments, you said that the Construction Chemicals and putty has grown by 29% year-on-year in revenue, right?

**Ajay Kapadia:** Yes.

**Varij Bangur:** Is it correct?

**Akshat Seth:** I was talking about Construction Chemicals segment, yes. Putty is a different one. But Putty has been in our portfolio for the last few years. Construction Chemical is what we started about 2 years ago. So that's the segment that I was talking about.

**Varij Bangur:** So last year, Rs. 85 crore was on organic pipe division and the total number was Rs. 130 crore. So, the non-pipe division was Rs. 45 crore. And this year, the same number is Rs. 41 crore. So, I mean, there is a de-growth in there. So even after Construction Chemicals has grown has grown 29%, is that like our Putty segment has degrown so much?

**Akshat Seth:** Putty segment has degrown and Putty segment has degrown essentially on account of nearly 9-10% price erosion that has happened and that I'm sure you are following with other big players. There are some big tectonic shifts happening in that industry between the big boys, somewhere on that particular segment, we are at the receiving end.

So, we have taken a call on balancing profitability concerns with volume and that's where the degrowth has happened. So, while the price itself has eroded by 9-10%, and that's a general industry trend, our profitability has not eroded by that much. So somewhere there is a trade-off that we are exercising there. We are moving in the right direction and it's to do with the putty movement.

**Varij Bangur:** And in Crestia, I mean, when we acquired it, it was at a run rate of Rs. 330 crore yearly. And this quarter, we have done Rs. 38 crore. So, is that the difference of seasonality so high? I mean, yearly, would that the run rate that would be maintained of Rs. 300 crore, Rs. 330 crore? Or would it be quite lower because of the price erosion or, let's say, the volume degrowth that we are witnessing, I assume in Crestia?

**Akshat Seth:** So somewhere you've answered part of the question. There is some seasonality. There is also a price drop, and the price drop compared to last year is significant on this front. But more importantly, the biggest factor at play is the fact that in much of H1 and in most of quarter 2, the B2G demand, which is to come from the JJM, and the government sector was largely absent. Now in Crestia's portfolio, that last year was accounting nearly 60% of their portfolio.

So, the good news on Crestia is that on the retail side, we have actually grown from where they were last year. But the lack of demand from the government segment is what hurt the prospects in quarter 2. However, we are clear that this is a transient phenomenon as the whole post-election thing was settling down, and we are now beginning to see uptick on that. So, it's a transient phenomenon. This is not the run rate that should be applied for the rest of the quarters.

**Varij Bangur:** Got it. And just a last question on our organic Pipes division. I mean, we have such a good brand. Our gross margins, I mean, our realizations are higher. We have placed our brand as a premium to, let's say, a lot of other players in the market. Our gross margins are also good. So, what is the difference I mean, between, let's say, the gross margin and the EBITDA margin line items, like they are so significantly high if you look at the competition. So, would this cost be termed as investments? And how many years would it take for our EBITDA margins, I mean, at last, our EBITDA margins has to copy the competition, right, even if it is in investment phase right now?

**Akshat Seth:** I don't think the answer should come in terms of years. It should come in terms of scale. And the moment we are crossing or touching the Rs. 1,000 crore mark is where some of the expectations that you have will start coming through. Even today, when there are months where we are at similar run rates, the profitability looks much better. This, as a business, rewards scale, and which is why the difference between us and the big boys you are comparing us with this. There is nothing else.

On the fixed cost, there are some investments that we are making, which are ahead of the curve. So, we are almost looking at our organization believing and knowing that we are almost Rs. 1,000 crore. So, we are acting in that direction. But the difference is scale.

**Moderator:** Thank you. We'll take our next question from the line of Sanjay Kumar from ithought PMS. Please go ahead.

**Sanjay Kumar:** Yes. On Parador, you keep saying Parador is the crown jewel. For us sitting in India as investors, it's a black box. We are unable to appreciate Parador to be very frank. Yes, a failure on our side, but I think it's also a failure on your side to not communicate it properly. So, it would be just an observation and feedback. So, it would be better if you could give more information on why you guys feel so confident of Parador, what you're doing. 20% alpha, market is down minus 10%, your volumes are up 20%. That's significant. So how did you achieve it? What are you doing to gain market share, be it geography-wise, US, Middle East and so on? And segment-wise, retail and commercial, the historical trends and how we are doing now. So, if you could give more information in the presentation and if possible, get Neel to attend this call and give his perspective. He's worked at Mohawk and Milliken. So, he might be the best person to address this. So that was just a feedback.

And second, so you mentioned BDNY exhibition where we had, I think, collaborated with Matter Surfaces. So, what is their role? Do we have partners for other markets as well? How big is the commercial flooring market in US and Middle East? Is these the 2 big markets that you're targeting for commercial flooring?

**Akshat Seth:** That's right. So, feedback taken. I think I can make 2 quick comments on that. One, we really appreciate your interest. Happy to sit separately and walk you through some of those drivers and also have an interaction with the team there and on ground. So, let's take that offline as a follow-up to this. Second, it's an invitation to you and to anyone else that if you are that part of the world traveling, please make a trip to our facility in Germany. You will get to see at close quarters what we are talking about and that I think can be the biggest unravelling of this black box that you talk of. So that's the second thing.

On BDNY and the partner that you are talking, thank you so much for quickly searching for it as we are talking through this. So, I appreciate that one. So, Matter has been our partner in US for the last few years. So, they are a reseller. They help us gain access to the market. But now as we are looking at that market, we will strengthen that relationship. So far, they were representing only one product. Now they will have the whole product portfolio and so on. So many of those relationships have been recast to be more ambitious. And yes, as we go to markets in various parts of the world, there are partners like these who helped us gain scale and gain size quickly. And there are more details around this go-to-market, which again, we can sort of talk about when we do a follow-up on this.

**Sanjay Kumar:** Sure. Just the size of the market in US and Middle East and how much market share you're targeting of these 2 markets?

**Akshat Seth:** So overall, the flooring market in US is about $25 billion annually in that ballpark. Our relevant products are anywhere between $12 billion to $14 billion. Within that commercial is easily in the zone of about 30% to 35% of that total market. So that's a rough again, ballpark of how the market is sized and contribute. Again, happy to share more details of which sub-segments within commercial because it's a very interesting play. The segments go from hospitality, which is hotels, etc., to multifamily condominiums, etc. So, there's a whole spectrum. It's a fascinating structure to the market, and there are very many different players that you need to have on your side to create a winning proposition. I think we are so small at this stage to be talking market shares in a market of that size. And what we are looking for internally, and I think that should give a sense of perspective that you are looking for, we are going to US with a clear intent that it should be the next Germany for us in the next 3- to 4-year time frame.

**Sanjay Kumar:** That's a huge statement, Akshat, all the best. Second, just confirmation. Q2 is seasonally the weakest quarter for all your segments, right?

**Akshat Seth:** That is correct. Including at Parador where the markets are largely shut for about 30 to 45 days in this period for summer vacations. I believe there was a comment by the previous speaker, so quarter 2 into 4 is not representative of the full year picture.

**Sanjay Kumar:** Got it. And third, how is the Polymer division coming up Piping, I think government spending has been very weak, of course, elections, monsoons and so on. So how has October been, November been, is government capex picking up? Any volume guidance for H2 just in the Pipes division?

**Akshat Seth:** So overall, I think not as much in October, but as we leave October and enter November, there are some bright spots on the angle. One I already mentioned, there is some uptick on the pricing side, which is a positive factor from a demand point of view. We've also had almost a 3, 4-month period where the channel has largely run out of stock. So, we expect this period where the channel should start stocking again. So that, again, will be a good sign.

On the government spending, two good things happened. I think in quarter 2, early part of quarter 2, when the budget got announced, for JJM, there is almost a 30% to 40% increase in outlay for this year compared to the actual spend of last year. The good news is that at the H1 mark, not even 25% or 30% of that was spent. So, we expect a flurry of activity in H2 and some of those contractors have now started becoming active.

So, states like West Bengal, which was dormant for H1 is now coming back. We are seeing some activity in Bihar. We are seeing activity in Assam. We are seeing activity in Rajasthan. UP is a state that we are watching also. So, I think it's beginning to happen, but you will appreciate that engines like these, if they have been stalled for some time, they also take a good 30-45-day period for it to be revving fully. So that has started. Is it at top speed? No, but we expect it to start hitting top speed soon. So yes, I think that's the story on B2G and on the channel side

**Moderator:** We'll take our next question from the line of Kavish Jain from Verdure Growth Partners LLP. Please go ahead.

**Kavish Jain:** Okay. So, what is our mix of asbestos and non-asbestos products? And what is the outlook on raw material availability for asbestos and margins? And further, can you throw some light on adoption rate, cost difference for similar product and any tailwind that supports non-asbestos products?

**Akshat Seth:** So overall Kavish, the only place where asbestos is involved as a raw material and is in our roofing product. And overall, our revenue exposure to such product is now less than 30% overall and declining. So, if you look at the trends of the last few years, it's come down and is coming down even further. We have, as a company, a product and a substitute which is asbestos-free. The product is a viable product. We are selling decent amounts of that. The headwind is around the cost of that, which is about 25% more costly, which in a price-sensitive product like that is a barrier too much for the demand to explode. We, as a company, are investing our time and energy in trying to bring that cost to a zone of indifference. And as we achieve a breakthrough on that, we will share it with the larger group here.

**Kavish Jain:** Okay. And what would be your 3 key monitorable or milestones for the success of Parador and how we are working towards it?

**Akshat Seth:** So, the 3 in that sequence is, first, we want to get the volume and the revenue growth on the right track. Second is, of course, EBITDA breakeven. And third is at a PBT level, we have to achieve breakeven. So those are the 3 parameters we are watching for or at least our work is cut out around those 3 milestones.

**Kavish Jain:** Okay. And just my last question. We are trying to position HIL Limited as a one-stop solution provider and an integrated player in the Building Material industry by diversifying into different segments. So, while this reduces risk, it also increases our complexity. So how are you ensuring that this diversification does not lead to a loss of focus or expertise in any segment? And how do you maintain operational efficiency across such a varied product portfolio?

**Akshat Seth:** So, the short answer to that, so you're right, the more layers we add, the more complexity it adds. But the answer, at least in our context is with the structure that we have adopted or have had for some time, we have a business unit structure where there are P&L owners for each of these product categories. These P&L owners are responsible end-to-end for both the top line and the profitability of the segments that they run, and they are fairly capable and experienced professionals who are driving it.

What that also means is that there is no cannibalization on the bandwidth, or the focus required to take each of these product categories to the rightful place in the market. So that helps and that also makes our structure scalable tomorrow, if there are 2 other segments that we may want to enter, we will replicate those structures that we have at the moment.

**Kavish Jain:** Okay. And what are your planned future actions or investments leading HIL in the direction of being an integrated player?

**Akshat Seth:** Kavish, maybe we do a follow-up on this because for this group, I've explained where the strategic direction is, but in a nutshell, if I may in 60 seconds describe, I think the key focus for us is the product segment that we are currently in, we grow scale. So, at the moment, we are not getting distracted by newer product segments, which are different from what we are doing today. So, the first and most important priority is to grow scale in the segments that we currently are number 1. Within our segments, there is a focus on premiumization of our product offerings and improving the margin structures that we are in. So those are 2 other priorities that we are chasing.

**Moderator:** We'll take our next question from the line of Sai Ganesh from Square 64 Capital Advisors. Please go ahead.

**Sai Ganesh:** Yes. I just wanted to know about the demand outlook and margin outlook for the roofing business for second half of the year.

**Akshat Seth:** So, from a demand outlook perspective, we are cautiously optimistic. Can you hear me?

**Sai Ganesh:** Yes, yes.

**Akshat Seth:** Yes. I'm talking about the Roofing Business. And our optimism stems from the fact that there are positive signs of uptick in the rural economy coming out of what has generally been a good monsoon this year. We saw the first glimpse of that during the October month, during the festival month, and there is generally a fair amount of buoyancy on that front. We expect that to translate to our volumes for roofing, not just in the second half of this year, but in the season for next year. So, quarter 1 of next year will also appears to be promising. So, what we are confident, or we are optimistic about is that there should be strong volume growth for us in the second half of the year.

**Sai Ganesh:** Outlook of the container price for fibre imports, outlook for that, how they are playing right now?

**Akshat Seth:** I mean I don't expect any volatility on that. There are scenarios that can play out, which can ease it further if the geopolitical tensions in some parts of the world ease out. Otherwise, it's at a stable level at the moment. There are no volatility that we have seen or we are expected to see in the coming couple of quarters.

**Sai Ganesh:** Okay. We got any inventory losses in Pipes segment in this quarter or the previous quarter?

**Akshat Seth:** Inventory losses. Yes, in quarter 2, there were some inventory losses because of the price reduction that happened.

**Ajay Kapadia:** Yes. It's in the range of around Rs. 4.5 to 5 crore.

**Sai Ganesh:** And margins on the Roofing in H2? Any guidance you can throw on that?

**Akshat Seth:** Yes, we expect an improvement over what we have seen in quarter 2, certainly driven by larger volumes. So, there is a fair amount of clarity on the improvement that is expected, and that's largely driven by the volume picture that I painted for you a short while ago.

**Moderator:** Thank you. We'll take our next question from the line of Khush Gosrani from InCred Asset Management. Please go ahead.

**Khush Gosrani:** Hi, sir. Thank you for the opportunity. Sir, could you highlight in the pipes business, what was the EBITDA per kg that you would have done?

**Akshat Seth:** Yes. Khush, just give us a few moments. We'll revert back on that number. It's not EBITDA per kg specifically is not something that, so let us work out and we'll share it with you.

**Khush Gosrani:** Sure. And how is the competitive intensity in your Building Solutions especially on the AAC Blocks because it seems that you have been able to grow the business, but the margins are flattish. So, if you could help us what has happened over here?

**Akshat Seth:** So, margins, yes, we have grown the business. And bucking the trend, so 2 things that have happened. One, volumes have grown. The pricing in this quarter was weak. Despite that, we have actually improved our profitability and the overall profitability for that segment has improved by almost 250 basis points.

Now in the past, we have been speaking about this that there was a difference between our profitability level and some of the other blocks players. And I had promised that we are taking several initiatives which will help us bridge that gap. Some of that result is starting to show.

This 250-basis point improvement has come through because there's been some concerted effort on our material cost and on our conversion cost. This is not the full picture yet. So we expect more gains to come through as we hit Q3 and Q4. So, I'm underlining that there has actually been an improvement of about 250 basis points in operating margin as far as Building Solutions is concerned.

**Khush Gosrani:** Sure. And coming to Parador, sir, what would be the revenue Ex of Europe, revenue contribution Ex of Europe in Parador and what it would have been in Q2 last year?

**Akshat Seth:** You're asking revenue contribution?

**Khush Gosrani:** Yes, revenue contribution out of Europe. So, if I exclude Europe from USA or the region, what it would have been in this quarter and what it would have been last quarter?

**Akshat Seth:** So nearly if you go back last year, almost 90% was Europe, of which 65% was just the Germany, Austria region and the remaining was other parts of Europe. That today is at around 85% of the total portfolio.

**Khush Gosrani:** Got it, sir. And how do you see the margins coming back to EBITDA breakeven. Will it happen by Q4, or it will be postponed to next year Q1, Q2? Would you like to share any guidance over here?

**Akshat Seth:** You're asking about Parador?

**Khush Gosrani:** Yes, Parador.

**Akshat Seth:** The indicative guidance is that Q3 and Q4, we should be in positive territory as far as EBITDA is concerned. Will that be enough to wipe out the deficit of H1? That remains to be seen. But stand-alone Q3 and Q4 should be in the positive territory on EBITDA.

**Khush Gosrani:** Sure. And this would become sustainable going forward because we have seen it last year happening also in Q3, Q4, it became positive. Q1 again, we saw it going back to red and Q2 again, it is in losses. So, do you feel that this could be sustainable going forward? You have done whatever cost measurements you have to do, and you see the state improving I agree, but the margins are the worrying state.

**Akshat Seth:** So your question is, do we see it sustainable? The answer is yes. We are less worried on the cost side because this round, we have taken out nearly 5.5 million to 6 million out of the cost base at an annualized level, which will be visible next year. So that will be a big help. Much of this is because on the white-collar side. There are positions that have been reduced. There are also capacity reduction on the blue collar side that has happened. So, the total impact of all of these initiatives put together, which have all been done in quarter 2 is to the extent of 5.5 million to 6 million on an annualized basis.

So, the short answer to your question is, yes, it looks sustainable. The real factor, again, I keep repeating the same thing is to keep looking at the volume and the top line number. If we sustain the volume top line momentum, then this is very much sustainable.

**Khush Gosrani:** Got it, sir. I'll collect offline for the EBITDA per kg for the Pipe.

**Ajay Kapadia:** EBITDA per kg for the pipe is around Rs. 1.5 for HIL organic business.

**Khush Gosrani:** Rs. 1.5, correct?

**Ajay Kapadia:** Yes. For this quarter.

**Khush Gosrani:** And what could it be for last year?

**Ajay Kapadia:** Last year, it was Rs. 8.

**Khush Gosrani:** Okay, got it.

**Akshat Seth:** And I think as we were describing, there are some onetime things that have happened this quarter. So, the inventory loss is one. And there were a couple of so the price drop that happened in this quarter also contributed to it. So those are the 2 big factors that were at play.

**Moderator:** Thank you. We'll take our next question from the line of Jiten Parmar from Aurum Capital. Please go ahead.

**Jiten Parmar:** Yes, good afternoon. So, my question, some of it got elevated in the last question. But still, I want to make some point and also ask some questions regarding Parador. Now we acquired this company in 2018. Obviously, a lot has gone wrong post that. We had COVID, we had European slowdown, but it's been 6 years.

Now, in the previous question, you said that henceforth, we should be EBITDA positive, and it should be sustainable. Now if that happens, it's fine. But if that still doesn't happen, does the management have a view that till what time we will get to this division before finally taking any decision on this? I mean how long rope will you give to Parador? That's my question.

**Akshat Seth:** If you are looking for a pointed answer on specific timelines, I'm sorry, I won't be able to share. That said, not just Parador, but every part of the portfolio, like all good companies, there is always a very objective view. And the third point I'll make is that as a group and as a company, and we've been around for over 75 years, we are operators, and we operate assets for the long run. We also hopefully have the experience to distinguish between what is externally driven situation and what is intrinsic to the asset situation and take calls accordingly.

So those are factors that in our mind as we take these decisions, and these are constant sort of portfolio assessment situations or evaluations that keep happening. Are we at a stage where we are taking any such hard calls on Parador? No. At this moment, we are focused on the turnaround story, and we are also encouraged by the first signs of results on that turnaround story.

**Jiten Parmar:** Great. Of course, as somebody who tracks the company and somebody who is invested, I would definitely want this to turn around. I mean, but just wanted from a shareholder perspective, wanted some clarity on how we are going to mitigate this risk. That's all I had. Thank you.

**Moderator:** Thank you. Next question is from the line of Niraj, an Individual Investor. Please go ahead.

**Niraj:** My only question is around Parador. We are saying that it's a turnaround story. Any rough tentative timelines by when we can expect to see some green shoots in this?

**Akshat Seth:** I think you'll have to define green shoots for me, please.

**Niraj:** Sorry, I didn't get you.

**Akshat Seth:** Niraj, my question and I'm asking in a slightly light-hearted manner. I will request you to define what will constitute green shoots for you?

**Niraj:** Basically, a turnaround in the business where we get that vision. We are on the right track, and we'll definitely be a profitable business. It will be a profitable business for us. And we are on that track.

**Akshat Seth:** Correct. And Niraj, you would appreciate and now this is my serious response with businesses like this and at some point, Parador is clocking close to EUR 200 million annually. It's not a small business, right? Turnaround is not an overnight thing. So, there is a period around which it will start looking better and improving. Green shoots for us, as I said, and I think there was a previous question, we first need to be on the fast track as far as revenue is concerned.

I feel in this first half, forget this quarter, first half, the fact that in a market which has been flat or declining, we have shown growth is a good sign, which means that we can fight the headwinds. All of that has not happened by chance or accident. It has happened because there are certain contrarian bets that we have taken. In an environment where people were pulling down capacity and pulling back people, we said, let's invest on new products.

Let's ensure that for our partners, there is a reliable supply base that we can provide. We also said that we should have a few good people who understand what it takes to turn around a business like that, and we invested in that. All of that happened last year. And some of these results that we should see today are the green shoots at least in our eyes.

Of course, we are hungry and greedy for more such green shoots to emerge and these green shoots to be full-bloomed trees in their own right. But that will take a little bit of time. It will not happen overnight. But my honest opinion, if you ask me, are we happy with where we are today? The answer is yes. There is a lot more distance to be covered that also we are mindful of.

**Moderator:** We'll take our next question from the line of Marsal, an Investor. Please go ahead.

**Marsal:** Yes. Mr. Seth, you just mentioned that about EUR 5 to 6 million were the savings like that you have done some sort of retainment or restructuring of the white collar and so on. So, I believe EUR 5 to 6 million is, right?

**Akshat Seth:** Yes, EUR 5 to 6 million of annualized savings and that will be fully seen in next year's financials.

**Marsal:** So, which will kick starting from the Q3 or it will start from the next year, like the fourth quarter?

**Akshat Seth:** It will start from Q3. Full year impact will be next year. But Q3 onwards, we will experience the impact of these reductions.

**Marsal:** So, like connected to this, like what was the total onetime expenses because this we could never find either in the press release or PPT wherever. So, you mentioned that the INR 5 to 6 million worth for the inventory onetime. So what was the other onetime, like, for example, like some VRS paid or some retainment combustion paid to employees for like whatever rest you have done or some other onetime. So, can you tell specifically for the Parador that, how much was the total onetime expenses during the September quarter?

**Akshat Seth:** Marsal, you can appreciate it's sensitive information. It's not right on my part to share it at this forum. We are happy to take that offline.

**Marsal:** Offline to whom we can reach, how we can reach to the numbers?

**Akshat Seth:** Yes. I think you can reach to our Investor Relations desk or through this platform. We'll be happy to address.

**Marsal:** Okay. And the second question is that regarding this Parador, what kind of revenue target you have taken for the Q3 and Q4? And what is the order backlog?

**Akshat Seth:** So Q3, Q4, overall, so, at an aggregate level, at a gross level for this year, we are hoping to be closer to the 150 million sales mark. We are today 150 million, yes.

**Marsal:** Okay. So, which should be around 10% growth Y-o-Y approximately?

**Akshat Seth:** Yes, in that zone.

**Marsal:** And then what is your target for the next financial year revenue?

**Akshat Seth:** So, I think from here on and also given all the other geographies that should kick in, we are looking in excess of about 15% growth for the next couple of years.

**Moderator:** Thank you. Ladies and gentlemen, we'll take that as the last question for today. We can take offline questions. You can reach out at the Investor Desk. I now hand the conference over to the management team for closing comments. Over to you.

**Akshat Seth:** Thank you. And as always, 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 value your interest and your support for HIL. And if you have any further questions or would like to know more about us, any part of our operations, please reach out to our Investor Relations Desk. Thank you so much.

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