TOGETHER, WE BUILD.

CK BIRLA GROUP

Ref: HIL/SE/2023-24/110

March 20, 2024

To
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 Analysts/Investors' Conference Call held on March 14, 2024 on business updates

Ref: Regulation 30 of SEBI LODR Regulations, 2015

Dear Sir/Madam,

In continuation to our letter dated March 11, 2024 and March 14, 2024, please find the attached transcript of Analysts/Investors' Conference Call held on Thursday, March 14, 2024 on business updates with respect to the acquisition approved by Board of Directors at their meeting held on March 11, 2024.

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

Kindly take the same on record.

Thanking you.

Yours faithfully,
For HIL Limited

NIDHI BISARIA Digitally signed by NIDHI BISARIA Date: 2024.03.20 12:23:03 +05'30'

Nidhi Bisaria
Company Secretary & Compliance Officer
Membership No.5634

HIL Limited

Business Update Conference Call Transcript
March 14, 2024

Mit Shah: Good afternoon everyone and welcome to the Call of HIL Limited's Management to Discuss the Recent Acquisition of Topline.

Joining us will be Mr. Akshat Seth – Managing Director and CEO of the Company, and Mr. Ajay Kapadia, Chief Financial Officer.

The call will commence with remarks from Mr. Akshat Seth, Covering the Key Highlights of the Acquisition, following which we will open the forum for a Q&A Session. I request you to limit your questions to the development specifically.

Before we begin, please note certain statements made on today's call could be forward-looking in nature and details in this regard are available on the 'invite' shared with you earlier.

Thank you. I like to invite Mr. Akshat Seth to make his Views.

Akshat Seth: Thank you, Mit and thank you everyone for joining in today.

I know it was at short notice, but it's important and a happy development at our side. We thought we should break away from the cycle of those quarterly result-driven conversations and start sharing some developments which will have a bearing, not just for the year in now, but for the long-term prospects of HIL and our various business segments. So, thank you again for joining us.

So, I'm happy to share that we have signed an agreement with Crestia Polytech for the acquisition of Topline. It's a popular brand in Pipes and Fittings in Eastern India. Along with Crestia, four other group companies, the total deal consideration is Rs.265 crore, that's the enterprise value on a debt-free, cash-free basis. The total estimated turnover of the group of companies that we are acquiring is about Rs.330 crore in FY24 with an estimated adjusted EBITDA in the range of about 9% to 10%. We would also like to highlight that this acquisition will be PAT-accretive.

The acquisition is a significant step for us at HIL and in our commitment to further accelerate the fast-growing Pipes and Fittings business. In my recent results call with you, we have been speaking about how Pipes and Fittings will be a key growth lever for us in the years to come and this step is in that direction.

This particular acquisition and company comes with a complementary portfolio of products, technologies and market footprint and will help us to significantly scale HIL's production capacity to three times the current and will straightaway double our revenue in this category.

So, this acquisition perfectly aligns with the ambition and is part of a well thought-out growth strategy for Pipes and Fittings. The combined synergies of the two organizations will broaden our product portfolio, our product offerings and SKUs will double from where we stood before this acquisition, manufacturing capacity and market reach. Overall, our ambition is to be at least five times our current size in this category over the next three years.

The acquisition also offers immense growth potential. As I said, it not only doubles our revenue but also enhances our production capacity threefold, which means there is more headroom for growth, especially in this strategically important Eastern region. We also gain access to Topline significant channel presence across 15 states. East, of course, is a stronghold for them. The company has built over the last few years significant government-oriented business. I will talk about it in a second.

Let me first talk about the product synergies that we get. So, this acquisition will enable our entry into large segments such as HDPE (High-Density Polyethylene), MDPE and Water Tanks. These are segments where we were not present in the past. These are large segments in the market, and we now have a meaningful play in those.

As I said, we will double our SKU offerings. It also creates access to patented technologies in water tanks and electrofusion fittings, which will position us amongst a handful of players in the country with access to their technology. It also enhances our presence in government projects. You would recall so far, we have not played in the government segment. Topline on the other hand is specified and approved to supply products in 12 states through various government departments, including the Jal Jeevan Mission, the Natural Gas Grid, and PM Ujjwala Scheme. This means if we step back that we will now be able to play in segments like agriculture, telecom and natural gas where either our presence was small or not at all in the past.

For this transaction, we will be paying Rs.125 crore. So, as I said, the total enterprise value is Rs.265 crore, of which Rs.125 crore is equity, the rest is debt. So, for this transaction, we will be paying Rs.125 crore to existing shareholders for purchase of 100% of equity shares and additionally, infuse Rs.35 crore, so an aggregate of Rs.160 crore, to repay unsecured loans. The rest of the Rs.105-110 crore will be the bank loans that we will bring over in the entities that we are assuming control of. This Rs.160 crore of infusion at HIL's level will be funded through a combination of internal accruals and borrowings, and we expect that this acquisition and all its related formalities will close in the next four to six weeks' time.

Those were the highlights of this deal and why we feel excited about it. Let me pause here and open it up for questions. Thank you so much.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Praveen Sahay from PL India. Please go ahead.

Praveen Sahay: The first question is, sir, in this acquisition, there are five entities. Is there any intercompany transactions as well because if I look at the revenue for each and every company, the consolidated is not equal to that? So is that a inter-company transaction also there?

Akshat Seth: There are some. Let me invite my colleague, Ajay, who is the CFO, to answer that question.

Ajay Kapadia: So, out of five entities, the manufacturing is done in four entities whereas one entity is mainly bundling the products and then supplys to the customers. So, one is the trading company and then the four are manufacturing companies.

Praveen Sahay: Which one is the trading company?

Ajay Kapadia: Topline Industries is the trading company.

Praveen Sahay: Second question is, sir, on the numbers only because in the press that's one of the acquisition detail documents, if I look at the numbers mentioned in the first serial number that is a Rs.265-odd crore as of 31st December '23. So, is that a calendar year '23, is that number Rs. 265-odd crore because if I look down in the same document for calendar year '23, I can see consolidated number is around Rs.221 crore for a total number?

Ajay Kapadia: This Rs.265 crore is basically nine months unaudited number. Rs.221 crore is FY23 full year audited numbers. FY23 is April'22 to March'23 number which is Rs.221 crore and is audited number, whereas April '23 to December '23 unaudited number is Rs.265 crore, this is for nine months.

Praveen Sahay: About the business, if I look at these companies manufacturing the HDPE, PVC piping, tank, containers, fittings, everything, so can you give some more color like a large portion of the business is coming from where like is it more on the HDPE or PVC piping, how is the business actually placed in? And secondly is where we are actually that these companies are selling, it's more on the project Jal Jeevan Mission projects or in the retail as well?

Akshat Seth: So, broadly speaking, the HDPE, MDPE portfolio is to the tune of about 60% to 65% for them. The Tank business accounts for about 15% of their revenue. The UPVC, CPVC accounts for another 20% of the portfolio. If you look at a split by the type of channel, the government channels account for about 40% to 45%, the B2C retail channel accounts for the remaining 50% to 55%.

Praveen Sahay: And also, if you can give a color on the geographical mix, largely in the eastern geography they are positioned themselves or sales is happening from outside as well?

Akshat Seth: They are selling products through the trade channel in 15 states. Have a very good distributor, dealer network in these states. The center of gravity of their sales are in the eastern part. So, Bihar, Jharkhand, West Bengal and neighboring states is, of course, their stronghold, eastern UP also.

Praveen Sahay: Also, if you can give some color, because already you had given the EBITDA margin of 9% to 10%, how has been the trajectory, is it a steady state margin for the company or is that something to look at improved or something like that?

Akshat Seth: So, as far as these standalone operations pre-acquisition are concerned, they have been consistently on that trajectory. We expect as the merger happens and synergies start kicking in, there will be benefited on the P&L of both our Birla HIL brands of pipes and also on Topline.

Moderator: We will take the next question from the line of Krisha Kansara from Molecule Ventures PMS. Please go ahead.

Krisha Kansara: So, my first question is on the capacity. So, post this acquisition, what would be our consolidated capacity in this pipe segment?

Akshat Seth: We will cross the 100,000 mark so we will be closer to 110,000 to 115,000 MTPA, from where we stand today is nearly three times as large. But the other interesting bit about the capacity pieces, you are aware that so far, we at Birla HIL had capacities in North at our Faridabad plant, in West at our Golan plant outside Surat and in South outside Hyderabad in Thimmapur, East was a missing element. With this acquisition, that gap gets closed. Our ability to serve the fast-growing markets of the East and Northeast grows manifold with this acquisition. So, it's not just the number and the capacity that we have but are now sort of closing all the gaps in the manufacturing footprint as well. What I will also highlight is apart from what the current stated capacity is, there is fair headroom for growing this capacity at the existing facilities as well.

Krisha Kansara: One question regarding this only. So, how are we planning to position this Topline brand along with our own brand? So, if you can just throw some light on part?

Akshat Seth: Of course, Topline will now become a brand within the HIL portfolio. We have managed a house of brands for a really long time across our various product categories. Within pipes, we have been selling our pipes under Birla HIL. Topline will be an additional brand in this portfolio for the short run of the next two to three years. We will keep this as a separate brand, grow it to its full potential. Of course, the brand will be endorsed by the Birla HIL association. But it will retain its unique identity and the rationale for that is the brand is fairly well known in the eastern markets. There is a good recall, there is a good channel connect and there is a good customer connect. We want to take it to its full potential over the next two to three years, and that headroom for growth is fairly significant in our assessment.

Krisha Kansara: So, you had given a sales guidance of close to Rs.1,600 crore for this segment by FY26 or FY27. So, I have two questions regarding this. So, was this guidance given considering this acquisition, that is #1? And #2 is do we plan to opt for inorganic growth in this segment even going forward?

Akshat Seth: So, the guidance is the goal post that we are aiming in fact what we are sharing, and we have shared in the run up is that guidance will only go North of the number that you are talking about. These are ways of getting to that ambition. These deals you cannot be sure of them till they are completed in all respects. So, I would keep the two conversations separate. If your question is, are we still on track for that Rs.1,600 crore and beyond? The answer is yes and with greater conviction. Will this help in that journey? 100% it will. Will it accelerate the journey? 100% it will. Will we be on the lookout for more such smart acquisitions? Absolutely. So, our march towards what we think is a rightful size in the market will come from a combination of a lot of work on the organic side, but also sensible inorganic moves like this one and like the ones we have done in the past.

Moderator: The next question is from the line of Kush Gangar from Care CMS. Please go ahead.

Kush Gangar: So, what would be the capacity utilization for this plant and what is capacity utilization at HIL standalone capacity?

Akshat Seth: Our current capacities are in the range of about 70%. So, this is the Birla HIL operations. At the acquired entity, these are in the range of about 40% to 50%.

Kush Gangar: And the acquisition seems to be quite reasonable in terms of price-to-sales considering 9% to 10% EBITDA margins. What was the reason for the existing promoters to sell out?

Akshat Seth: I think it's a question which is best answered by the existing sellers than us. You are aware that in a business like this, there are sort of tiers. As you move from one tier of growth to another, there is a significant demand of capital for investments in capacity, for investments in working capital, for investments in channel. The founders have built a solid platform which has a runway up to what we believe at least 1,000 crore. But the investments that are needed somewhere, a company like HIL in partnership with this brand can actually make it on a more accelerated track. So, that's at least our hypothesis, but the exact answer I think the sellers can give to you.

Kush Gangar: So, the existing promoters would continue with us?

Akshat Seth: They would not. It's a 100% acquisition. So, the operating team and the management team will continue, but the promoters will transition out.

Kush Gangar: You mentioned you want to take this business to 5x of the current size. Current size would be around Rs. 300 crore for our pipes business?

Akshat Seth: Our pipes business this year we should be in the zone of Rs. 350 to 400 crore without this acquisition. With this acquisition, we will already be Rs. 700+ crore that our existing piece at least five times is the aspiration. I think Krisha had also asked some number on what the goal post is. As we are going along somewhere we are also being ambitious on that goal post.

Kush Gangar: In terms of margin synergies, if you can help us in a bit detail and our aspirational target margins at our higher revenue figure, what can be the margins at that level and some synergy details?

Akshat Seth: See, for the combined entity, I can talk because soon there will be no advantage in talking about these standalone entities, for the combined entity as I have shared in the previous calls as well. For this segment, we are aiming to be in the teens, so double digit 12% to 14% is the first milestone operating margins that we need to hit. There will be a journey and a path to it, because we also anticipate in the short run there will be investments for us to scale up. So, for us the path will be first scale up and then the margins will also start showing up. Because you know in this business, scale has a significant impact on the margin structure as well. But in the short run also this particular acquisition gives us some great synergies. First and foremost, the scale, as I said, doubles up. That advantage will show up. Second, today for Birla HIL, nearly 20-25% of our sales are happening in East India. They were being served from our plants in the North and in the South. Immediately with this footprint coming in, there will be advantages on the logistic cost, there will be advantages on sourcing the raw material, there will be advantages on the people front given the team and the synergies there. So, we expect that impact to be start becoming visible in the short run itself, but overall, for this segment, the real picture will take a couple of years to emerge because in the short run we will be investing heavily to grow scale, grow counter share, grow market share. Our first milestone in that time period will be the numbers that I shared in the zone of 12% to 14% at an operating margin level.

Moderator: The next question is from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: A quick question with respect to eastern market. What is the size of this market according to you, how it is growing? And b), we have seen a lot of new capacities being set up by the leading players. So, how do you look at the competitive intensity, particularly for the eastern market?

Akshat Seth: See, these numbers will be up for debate in an overall market size of about 40,000,-45,000 crore as far as pipes and fittings is concerned. We understand that the whole East and Northeast cluster will easily be 25-30% of that. The overall all India market in the last few years and is expected to grow at about 9-10%. East will be an outperformer as far as that growth rate is concerned. So, I would expect low double digits there. So, 12-13% type of growth is what is expected. And the interesting bit is in East, there is a fair amount of government-related activity that is also driving investments in this. So, it's both a combination of the two, three projects happening and the residential demand. And that is why this market is interesting. There are also other things. If you look at I mean in recent quarters, you would have seen there is renewed interest as far as East market is concerned. There are bigger cousins who are setting up capacities or have announced capacities. Why we feel excited about this is somewhere it helps us leapfrog an organic development of a platform of this size is time-consuming. Somewhere it allows us to be ahead of the curve as far as addressing the East market is concerned.

Achal Lohade: This East and Northeast you mentioned, did I hear the number 25-30%?

Akshat Seth: On an aggregate for overall India markets, these are broad estimates.

Achal Lohade: The second question is are there many more such players who are in that Rs.200, 300 crore revenue bracket, which could come up as potential targets or you think that's very rare, it's more of large players now?

Akshat Seth: See, as we look at these potential partners, acquisitions, mergers, the filter for us is less on size but more on what this portfolio brings to us and how good the strategic fit is. So, when we scout for these opportunities, the net is cast wider. We will look at something which could be Rs.100 crore to much in excess of the Rs. 350 crore that we are talking about. But the important thing is how does it fit into our portfolio and what's the value at which we are able to acquire. So, I will focus more on that than on the specific current size of these assets.

Achal Lohade: I was just curious to know from your perspective, are there players, I mean one is obviously whether it fits the bill of requirements what you have, but in terms of the availability, are there many more such players or this is far less?

Akshat Seth: From an industry structure point of view in sub-150 crore you will have quite a few players, subscale and so on. But as you start going North of that, it starts becoming a rarified field. As we are now hitting closer to the 1,000 crore you will have a handful of players in that zone. The options in that size will become fewer.

Achal Lohade: And just one quick clarification with respect to the competitive scenario, particularly in the eastern market, have you seen intensity going up off late or things are as they were and probably that will intensify over next couple of years as those capacities come up?

Akshat Seth: So, where we stand today, it is possibly the competitive intensity is on the lesser side. However, it is intensifying and if I fast forward to the next three to four year picture you will expect fairly heated competition in this geography. The way we are seeing this opportunity, I'm sure everyone else have their analysts working on it and that raises their interest about that market. So, my expectation is that competitive intensity will increase from current levels, but standing where we are, maybe there is a window for the next two, three years where it is relatively better compared to other regions.

Moderator: The next question is from the line of Khush Gosrani from InCred. Please go ahead.

Khush Gosrani: Sir, could you give us what is the mix between agri pipes and non-agri pipes in Topline and even for the HIL?

Akshat Seth: At HIL, you are aware we are very heavily focused on CPVC and that's been one salient feature of our portfolio. We are amongst the very few players who have consistently been 40+%. And as a result, in agri we have been very less indexed on that; it's about 10% or so of our portfolio that agri will comprise. In Topline's portfolio, just allow us to come back on that. It's not a number that I recall immediately.

Khush Gosrani: Overall, what is the mix between Pipes and Fittings at Topline?

Akshat Seth: The Fitting bit will be at this moment is about 20-25% in that range. What is interesting and I have to highlight is the technology this company has on electrofusion fittings, I'm sure as observers of this industry there have been some recent acquisitions and valuations for the electrofusion part of the portfolio. This acquisition gives us a unique capability to play in that segment. It's a niche segment. There are only a handful of players playing in that. It's a better margin product. So far, the investments in that capability were recent as far as Topline is concerned and we expect to grow that part of the portfolio fairly aggressively. So, it's a USP of the portfolio that we have acquired, and I wanted to highlight that too.

Khush Gosrani: If I look at the press release that you have given, there is some confusion on my part. The total revenue, if I look at the Crestia, Topline, Aditya, Sainath and Aditya Industries is coming to somewhere around Rs. 600 crore. What is the structure over there at the one we have acquired?

Ajay Kapadia: There is intercompany sales. Some of the companies are into manufacturing of Pipes, some are into Fittings. So, they bundle all the products and then supply to the customers. These nine months that is from April 2023 to December 2023, the revenue is Rs.265 crore.

Khush Gosrani: Just the last question is on the margin side. So, you highlighted 12% to 14%, is that right, both combined for HIL?

Akshat Seth: No, no. We are saying at the moment the acquired entity is in the zone of 9% to 10%. As we mature in this business and as we grow scale in this business, that is the first milestone that we are aiming at.

Khush Gosrani: So, what would be the HIL margins right now?

Akshat Seth: So, this year we have done in the region of 7%+. And to your question on agri in the current portfolio, they are about 20% in agri.

Moderator: We will take the next question from the line of Nikhil Gada from Abakkus AMC. Please go ahead.

Nikhil Gada: So, just firstly, with this capacity which is 80-odd thousand and we may be around 30,000 plus, what is the maximum revenue that with this combined capacity we can achieve or is it that the Rs. 1,600-crore number you are saying is sort of achievable with the capacity that we have enough?

Akshat Seth: So, for us to achieve Rs. 1,600 crore odd if I'm talking about the 5X, which is roughly in the North of Rs. 2,000 crore, we will of course need to invest more in capacity. The current capacity in the acquired asset can take it to the Rs. 1,000-crore mark standalone for that. Our current capacity can take us to about Rs. 500 to 600 crore.

Nikhil Gada: But basically, this Rs. 1,600 crore combined is possible with the capacity that we have now?

Akshat Seth: There are nuances to it. There will be some organic investment that will be required and that will happen. What this does is the need for organic investment just immediately is pushed out. So, if we had not acquired it and we were pressing only on the organic lever, we would have had to invest earlier. This gives us a little more flexibility in that planning.

Nikhil Gada: In terms of this brand Topline and as you mentioned, it's predominantly towards the government part of the business, is there something of a strategy where you want to only restrict Topline to just the government part and focus to build Birla brand in PVC, CPVC and all the other areas purely because you being a stronger player in the eastern part?

Akshat Seth: So, one small correction. I do not think they are predominantly government oriented. As I said, 40% of their portfolio is through these government projects, which by the way are one, they are chunky. So, there is a predictability that you get, and they are also at good margins. The whole brand play and how we will sort of use both the brands in the portfolio, I would request a little more time for that to play out in the market. You can imagine this is slightly competitive and sensitive information. So, let it play out in the next few months.

Nikhil Gada: But it's fair to say that the focus would be at least on the retail front or on the PVC, CPVC side to push Birla more with the capacity that we have in place, right?

Akshat Seth: See, I think there are two or three aspects to the question that you are asking. We at HIL, as we look to grow our pipes and fittings business, we recognize and acknowledge that we need to play in as wide a market as possible, because otherwise the addressable market remains narrow and the ability to grow there will be range-bound. So, to that extent, if we were not playing in the government segment, which accounts for anywhere in the zone of 30% of total market, then that's a new segment we have opened up through this.

Similarly, there will be a few more segments from a product point of view. For instance, HDPE, MDPE, we did not have a presence, it opens up new addressable markets for us. So, first is that strategy of increasing the addressable market. Second is then how do we grow the share in this wider addressable market that we are going after. That will require investments in brand, actually require investment in product and innovation and more importantly will also require investments in building a channel which is performing at an exceptional level. So, all of those things will happen. What I'm distinguishing is the aspect of increasing the addressable market and then the second aspect of increasing the share in that addressable market.

There was a third aspect to your question, which is how will the brand, etc., play? While I will not answer this question, but I will layout the facts as it stands before us today. There is a way in which the Birla HIL brand has been created. As I have shared in our previous calls, apart from a huge amount of trust that the Birla brand brings with it, it is heavily focused on the premium end of the market where we are selling more of CPVC, we are focusing on higher realization, I had shared with you at about Rs.160-162 a Kg, we would be amongst the top quartile of realizations in the industry. So, there is a certain way that brand has been positioned and pitched in the market. There is a slightly different way in which the Topline brand has been built and developed over the last few years. We will want to marry the two and try and get the best of both worlds.

Nikhil Gada: If you can share some balance sheet details as well in terms of what is the gross block and the working capital currently in the acquired company? And you mentioned that Rs. 100 crore odd, so, this is the bank loan which is already there right in the company, or this is something they are going to raise?

Ajay Kapadia: Nikhil, the gross block is in the range of Rs. 150-155 crore and the working capital right now in the business is in the range of Rs. 25 crore.

Nikhil Gada: Just for the Rs. 100 crore, I did not get it clearly. So, of Rs. 260 crore, Rs. 160 crore is going to be for the equity and unsecured loans and the remaining Rs. 100 crore would be for?

Ajay Kapadia: Rs.110 crore we are taking over their existing debts.

Moderator: The next question is from the line of Madhur Rathi from Counter Cyclical Investments. Please go ahead.

Madhur Rathi: Sir, I wanted to understand, has the business been PAT positive for the past three years?

Ajay Kapadia: Yes. They are PAT positive in the year FY21 & FY22. In FY23, because of the sharp fall in resin prices they have shut down their PVC operations particularly for six months of the year. So, they were PAT negative in last financial year.

Madhur Rathi: My understanding was from this was the government business is very working capital like it puts clean on your working capital because you have seen in the industry player like Jain Irrigation where this supports significant losses from the government business. So, I wanted to understand how are you planning to tackle this problem for the government part of the business?

Akshat Seth: The question on losses or is the question on working capital?

Madhur Rathi: So, mainly it is regarding the working capital as well as losses in the government business of some of the industry peers. I wanted to get your sense on that perspective.

Akshat Seth: I'm talking on the evidence of this company. Let me not broaden it. They have had a balanced portfolio where at 40% of government, they have returned profits consistently. So, there is no concern around this segment being unprofitable, point #1. Point #2, yes, it requires working capital investment. A lot of times to bid for these projects, you need a certain balance sheet strength, you need a certain credentials to win and that is where we believe that with us being in the mix, our ability to bid for larger projects, our ability to win larger projects through Topline will grow significantly. So, somewhere there is latent potential that is sitting there. With their balance sheet, their ability to borrow, they could only bid on a certain size. Having said that, they are approved and specified in those states and in those projects. But there were certain limitations which with us coming in, there will be almost an immediate alleviation around that and offers us some interesting growth opportunity.

Moderator: We will take the next question from the line of Bharat Sheth from Quest Investment. Please go ahead.

Bharat Sheth: Now with this we will become a Pan-India player. Is that a fair understanding?

Akshat Seth: We are already a Pan-India player. As I said, we are serving all the markets and as I said East is already accounting for 20-25% of our sales. So, as far as go-to-market, our distributor partners and channel partners are concerned, we already have a Pan-India footprint. What we did not have was manufacturing in the East, which this acquisition helps us close that gap.

Bharat Sheth: With this acquisition, what will be our market share in the East India and when we were only distributing, so how this existing entity that we acquired was competing against us and what was their market share at that point of time, and now of course their EBITDA margin, as you say, is a little lower than our company. So, what is the roadmap to grow that margin?

Akshat Seth: Small correction. They are at par slightly better compared to us as far as the operating margin is concerned. So, they are no worse than us. As far as market share in the sector is concerned, I think the numbers are in front of you. At an all-India level, we are small. I think there is no denying that fact. We would request you to judge us on how our market share will look like in three years' time. And that is the whole story that is playing out. We want to grow to a level where the market share first is respectable, and second, at least aiming for double digit.

Bharat Sheth: You said also this acquired entity, Crestia has an electrofusion fitting capability, which is really USP, so how much that product is really contributing where the margin is also high and how do we really want to play out on that product on Pan-India?

Akshat Seth: So, that's one of the exciting parts of the story. A lot of that electrofusion-oriented capability and capacity was built in the last few months. They have started hitting the market. So, if you ask me, the revenue contribution this year is very small, but it is growing month-after-month. We believe we can grow that business alone to about Rs. 75 to 100 crore in the short run. The margins in that part of the segment are usually double of what we see in the traditional Pipes and Fittings as the overall category. So, it offers great growth potential and a profitable growth potential. Of course, work has to be done to realize that potential. There are players like Bentley, etc., and there are transactions that have happened recently. So, those are exciting stories that are playing out specifically only on electrofusion fittings.

Bharat Sheth: That Fitting is applicable in which kind of, I mean, work, if you can, because we are unknown to all this is what you are talking, electrofusion fitting, so if you can give a little more color, its application?

Akshat Seth: These are fittings that specifically go on the HDPE side, they are technical in nature but largely go in the HDPE part of the application.

Bharat Sheth: How much big is the market for that and who else are there in this business?

Akshat Seth: So, globally and these guys have some presence in India as well. Georg Fischer is the market leader. Then I mentioned this company called Bentley, which would be at the lower end of that spectrum, does about Rs. 120, 125 crore of sales. So, there may be a handful of players that play in that segment, there are a lot of people who may be trading and their own branding outsourced product. But core manufacturing and capabilities are only with a handful of players.

Moderator: The next question is from the line of Nikhil Upadhyay from SIMPL. Please go ahead.

Nikhil Upadhyay: Just two questions and I think this question was asked earlier also. But see, they have a big almost 40% from the government business, so if you have to understand their brand saliency in the eastern market at the retail level can you share something on like what is their market share in the eastern market? And secondly, during the call, we also discussed that there are many sub-150 crore kind of players. And if we look at their sales ex of government, it's still around Rs. 160, 170 crore. So, are they a large retail player in a way, or there are multiple larger players and then something on the retail side and their market share?

Akshat Seth: So, market share, again, if you do the math in terms of what is the market size and their own sort of revenue, they will be in low single digits. Retail, but that said they are a relevant player at least in the eastern market, so if you look at the states of Bihar, Jharkhand, West Bengal, Eastern UP, they have a good brand recall and they have a good channel presence. As I said, about 50% of their revenue comes through that. But market share as I said would be at all India or even at an eastern region in the low single digits.

Nikhil Upadhyay: At the retail level, if we compare our realization with their realization, what would be the kind of price difference?

Akshat Seth: See, it's not comparable because their portfolio is different. You remember I mentioned a lot of it is HDPE, a lot of it is water tank. So, it's not really the right comparison.

Nikhil Upadhyay: And lastly is on synergy. So, one thing which I understand with this manufacturing you release your capacity for North, West and South probably by 20-25%. But other than that, what kind of synergies can actually play out like I'm unable to understand like broad pointers other than this capacity release, what kind of synergies are we thinking can play out here because this is a more of a regional business with your capacities in there and your brand presence in there. So, at manufacturing level, I do not know how the synergies will play out for us. If you can just spend some time or help us understand.

Akshat Seth: I think let me take it one-by-one. So, first synergy is what are the new product segments that it allows us access and allows them access. You, as a follower of this industry, a lot of one metric that everyone follows is how many SKUs does a company have to offer to the market. And that immediately doubles up for us. That is a significant point of synergy. New products like HDPE, MDPE for us. The depth of PVC, CPVC offering on our side is again a synergistic play.

Then on the channels, elements like government, as I laid out the fact that it now comes under the HIL and the CK Birla portfolio, our ability to play at a larger canvas goes up, our ability to win larger project goes up. So, there is a direct synergy there.

Then the depth that they have in eastern market from a retail presence point of view is again a complement to our existing portfolio. We have been strong in the North and West. East is something that we have grown in recent years and quarters. It immediately gives us a stronger foothold there. Again, a point of synergy.

Then, there will be synergies on the cost side. It comes from freight, as you can appreciate even today, 20% to 25% of my sales happen in East, but I'm servicing it through my plants in South or in North. That gets addressed.

There is potential benefit on the sourcing side. When you are sourcing the same raw material at a much larger scale there are benefits that you derive out of it. So, there is a procurement cost advantage.

Teams come together and at a while shop floor and operating level there is exchange of best practices, there is exchange of efficiency and effectiveness metrics which allow us to be better versions of ourselves on both sides, I'm sure we will also have some learnings from them. So, that's again a benefit that will start flowing. And possibly also on the headcount side. So, there will be the usual suspects when two entities of similar size are coming together on the cost side that those benefits should start flowing. Does that clarify what you were looking for, Nikhil?

Nikhil Upadhyay: Yes, to some extent. See, what I was trying to understand is that on the product SKU side, I agree that the basket increases, but now if you build something or manufacture something in East and sell it in West, the reverse freight cost will again come into play for us. Because largest cost was the freight cost, which impacts the industry.

Akshat Seth: Let me give you an easy example. Today, all their Tank manufacturing is happening in Patna only. Now with the technology that we acquire and with the capability we acquire, it is easy for us to also augment tank capacity in our existing plants in the North, South and West and we can start serving local markets from there. So, this is something that is the work that we have to do at our end. The idea is not that we keep moving things from Patna to the rest of the country and so on. But with this asset, our ability to optimize that goes up manifolds.

Nikhil Upadhyay: What I was trying to understand is that you said our EBITDA margins on HIL standalone pipe business was around 6-7% this year.

Akshat Seth: 7%.

Nikhil Upadhyay: And we have also mentioned in a previous call, we are investing heavily in marketing to build the brand in the Pipe side. So, if we have to understand our pre-marketing margins, where that would be currently like are they close to 9-10%?

Akshat Seth: Correct. So, at this moment you can easily assume that what you are calling marketing, I will call it business build spend will easily to the tune of 250 to 300 basis points. That is where we stand today. That is likely to be the scale of investments over the next couple of years as well.

Moderator: The next question is from the line of Chirag from White Pine Investments. Please go ahead.

Chirag: First, a very basic clarification I want. You said working capital is Rs. 25 crore of this entity, right? I'm more interested in the receivables and inventory and any risk of any provisions that could come across given it's 60% is also B2C for them? So, have you done your due diligence on that side or how is that?

Ajay Kapadia: Yes, Chirag, we have done due diligence on that side, and we are only taking over receivables up to 90 days or inventories which are good in conditions.

Chirag: So, that has been sorted out. So, that is one. Second is just to understand, so for HIL brand or the Topline brand, who are the actual competitors, are these smaller players your main competitors, if you can just throw some light both for Topline brand today, who are your key? I know everybody is a competitor, in that sense, right from the biggies like Astrals and Supremes to the smaller ones. But from your perspective, from today as well as from 2-3 years out, who are genuinely your competitors or from who you are looking to win the business or gain market share?

Akshat Seth: See, it's an interesting and a difficult question, but maybe I will take the liberty of saying who are the people who inspire us. To that extent, they are the people that we track, follow, would want to emulate and would eventually want to beat. These will be the top four, five players in the industry starting from an Astral right up to Prince. There are good stories that they have charted out over the last couple of decades. For us as a younger brand and as a challenger brand, those are the goal posts to keep in mind. Otherwise, you are right, every micro market has a different dynamic and the brands for different product segments, there are differences that come into play. But when we look at what is the kind of model and scale that we would want to emulate, then these larger big brothers are the inspiration to follow.

Chirag: The second question was, while we talk a lot about margins, what is the thought process on return on capital employed or ROCE if I can use because industry again if you look at the listed player, the ROCE profiling occur all over the board, there are people who are in single digit to mid-teens and there are people who are consistently upwards of 25%, 30%. For a business like ours, how are you looking at return on capital for this combined entity, have you given a thought or it's still work-in progress?

Akshat Seth: I think the thought is the following. Chirag, I think we have been interacting for the last one year. And for everyone else on this call, the first and foremost objective is to build scale. So, while there are conversations, and rightly so around margins and return on capital and so on, we believe the path to profitability comes through scale and hence the single-minded number one focus is to win on counters, grow market share, grow the revenue profile. Having said that, the margins that I spoke about will lead us to return on capital and at a minimum level the threshold that we have even from our group, etc., perspective is to be nearer the 15% to 20% mark. Anything less than that, over this period will not be in the direction that we are setting for ourselves. But there is again I'm highlighting because we will keep interacting and we will keep meeting hopefully every second month.

Chirag: My question was because 15% margin is a very high threshold and I was worried, would you be compromising growth for that?

Akshat Seth: I'm saying 15% we will get to that level. Will we be there tomorrow? The answer is probably, 'no.'

Chirag: But it would be fair to assume as an aspirational objective when you achieve that revenue of Rs. 1,600 to 2,000 crore revenue is where you would like to settle at that number, is that the right way to look at it till that time it could be fluid?

Akshat Seth: Sorry, would you say that again, Chirag?

Chirag: For your revenue aspiration of Rs. 1,600 crore to 2,000 crore kind of a number that you indicated, the point where you are looking this 15% kind of margins, till that time it can stay fluid, and focus will be on the revenue?

Akshat Seth: I think the way I would answer is yes, all of these things should start looking in the right zone when we start hitting the Rs. 2,000 crore number, but most of them should start looking in the right zone, North of Rs. 1,500 crore.

Moderator: Ladies and gentlemen, that was the last question of the day. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Akshat Seth: Thank you, everyone for joining, joining in. It's been a pleasure interacting with all of you over this call. Again, appreciate all of you joining at a short notice and joining us on what we feel is an important milestone for us at HIL. As I shared about a year ago when I took over this role, actually two things I spoke about. One was we will be pushing hard on the growth agenda. News like this should give all of you the confidence and conviction that we are staying true to that commitment.

The second thing we said was we will grow the non-roofing, non-cementitious part of the business. With this acquisition, that part of the business will now become almost 25% of our portfolio and will inch towards the Rs. 1,000 crore mark, both are significant milestones.

So, thank you for joining for this important news. Please keep being interested in HIL, keep following us, keep sharing your inputs and thoughts. If there are any further questions or you would like to know more about this transaction or HIL in general, please reach out to our Investor Relations desk. Thank you so much and good afternoon, everyone.

Moderator: Thank you very much, sir. Thank you, members of the management. Ladies and gentlemen, on behalf of HIL Limited, that concludes this conference. We thank you for joining us and you may now disconnect your lines.
