Hindware Home Innovation Ltd — Nov 2022 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

The punchline. Read this first — it frames everything below.

Result: Beat on Revenue / Miss on Margins (Macro-driven) **One-line:** The long-term thesis of HHIL as a multi-category building products powerhouse remains intact, but the "margin expansion" story from the HSIL manufacturing acquisition is being temporarily deferred by a historic "double-whammy" of PVC inventory losses and spiked natural gas costs.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Revenue Beat / Margin Miss	16% YoY revenue growth; EBITDA margins compressed 80bps QoQ to 9.0%.	□
Earnings Quality	Moderate	Strong operating topline, but PAT impacted by □20 Cr PVC inventory loss and 1.9-2.0% interest rate hike.	□
Guidance Confidence	Strong	Re-affirmed 14-16% medium-term consolidated EBITDA target and leadership intent.	□
Management Credibility	Strong	High transparency in quantifying inventory losses (□25 Cr H1 total) and gas price impacts (□25 to □60).	□
Business Quality Signal	Stable	Fastest growing pipe brand (Truflo); Sanitaryware market share gains continue via 75+ new distributors.	□
Key Q&A Exchange	Q#3: Manufacturing Kicker	Mgmt admitted manufacturing benefits are currently "camouflaged" by fuel/RM spikes.	□
The Street's Primary Anxiety	Debt & PVC Volatility	Analysts concerned over □750 Cr net debt and continued PVC price softening post-Q2.	□
Capital Cycle Stage	Investment / Consolidation	Integrating AGI manufacturing assets while starting □180 Cr Roorkee Greenfield.	□
Margin Trajectory	Deteriorating (Short-term)	Down from 9.8% (Q1) to 9.0% (Q2) due to Gas (Bath) and PVC (Pipes).	□
Pricing Power	Stable	6-7% price hike taken in Sanitaryware (Nov 1) to pass through gas costs.	□
FCF Conversion & Quality	Distorted	Impacted by PVC inventory devaluation and acquisition-related working capital.	□
Competitive Moat Signals	Widening	Deepening influencer (plumber) loyalty programs; premiumization in chimneys (Silent range).	□
Balance Sheet Strength	Adequate	Net Debt ~□750 Cr; Mgmt committed to □200-250 Cr repayment in 18-24 months.	□
Working Capital Efficiency	Deteriorating	Inventory hit by price drops; debtor days stable at 30-40 days for building products.	□
Mgmt Guidance Track	Reliable	Consistently outgrowing industry; margin targets are directional "mid-term" goals.	□
Key Vulnerability	RM/Energy Volatility	Sensitivity to Brent-linked gas prices and global PVC resin supply.	□
Management Tone	Confident	Bullish on "white space" expansion and institutional growth.	□

Key Takeaways: * **Positives:** The company is successfully outgrowing the industry in Bathware (+16% YoY) and Pipes (+24% YoY) despite a subdued macro environment. Market share gains are structural, driven by a "FMCG-style" distribution push (75+ new distributors in Q2). The Truflo brand remains the fastest-growing pipe brand in India, with CPVC now contributing >50% of revenue, providing a margin cushion. * **Negatives:** Profitability is currently a "leaky bucket" due to external shocks. A □19-20 Cr inventory loss in the Pipes business and a massive spike in natural gas costs (from □25 to □60) in Bathware manufacturing have suppressed EBITDA. Net debt has scaled to ~□750 Cr, leading to a sharp rise in finance costs (□18 Cr/qtr). * **Street Concern:** Analysts are fixated on the "missing" 4% EBITDA margin expansion promised from the manufacturing acquisition. Management's response is that while the efficiencies are there, they are being masked by input cost inflation. The focus is now on the Nov 1 price hike (6-7%) to retrieve these margins. * **Forward Watchpoint:** Monitor the PVC price bottom. If resin prices stabilize in Q3, the inventory loss overhang disappears, revealing the core 12-14% Pipe EBITDA margin and the manufacturing-led Bathware expansion.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS PPT not available — numbers from concall for specific debt/inventory breakdown. PPT used for primary financial tables.

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (□Cr)	714.8	↑ 16%	↑ 5.4%	↑	Growth driven by Bathware (+16%) and Pipes (+24%).
Gross Margin (%)	Not in Doc	N/A	N/A	↓	Compressed by gas costs and PVC inventory losses.
EBITDA (□Cr)	64.3	↑ 11%	↓ 3.6%	□	Impacted by □19-20 Cr Pipes inventory loss in Q2.
EBITDA Margin %	9.0%	↓ 40 bps	↓ 80 bps	↓	Masked by input cost spikes; target remains 14-16%.
PAT (□Cr)	16.3	↓ 35%	↑ 50.9%	□	Recovery from Q1, though YoY hit by higher interest/dep.
ROCE (%)	Not in Doc	N/A	N/A	□	Long-term target of 18-24% confirmed in concall.
Cash Flow (OCF)	Not in Doc	N/A	N/A	□	Distorted by acquisition and inventory losses.
Net Debt / (Cash)	~750.0	N/A	↑ 17%	↓	Peak debt reached; targeting □200-250 Cr reduction.
Interest Coverage	~3.57x	N/A	↓	↓	Impacted by 2% rate hike and acquisition debt.
Working Capital (Days)	33 (Bath)	↑ 1.7%	↓ 5.7%	□	Bathware days improved; Pipes impacted by inventory.

2B. SEGMENT BREAKDOWN

Segment	Revenue (□ Cr)	YoY Growth	Margin (EBIT)	Trend	vs Co. Avg	Key Development
Bathware	379.0	16%	8.7%	↓	Inline	Added 75+ distributors; Nov 1 price hike (6-7%).
Pipes	196.9	24%	-0.04%	↓	Below	Hit by □19-20 Cr inventory loss; CPVC share >50%.
Consumer App.	125.3	12%	5.8%	↑	Below	Premium Silent chimneys; Air coolers up triple digits.
Retail (Evok)	13.7	-34%	-1.7%	↓	Below	Shifted to franchise-only model (34 stores).

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	□5,000 Cr+ in 3-4 years (by FY25/26).	Needs ~22% CAGR. Currently on track with H1 FY23 at □1,393 Cr.	Reliable	Demand slowdown.
Guidance	Margins	14-16% Consolidated EBITDA.	Needs ~600 bps expansion from current 9%. Unlikely in FY23.	Delayed	RM/Energy lag.
Guidance	Debt	Repay □200-250 Cr debt in 18-24 months.	Needs □25-30 Cr quarterly FCF. Dependent on margin recovery.	New Target	Interest rates.
Guidance	Capex	□180 Cr for Roorkee plant (12.5k MT).	Land bought; project spanning 18-24 months.	On Track	Project delays.
Strategy	Pipes Cap.	39,000 MT capacity by Q3-end.	Adding 2 new machines; currently at 37,000 MT.	Delivered	Low utilization.
Macro	PVC Price	Prices fell 42% in 6-7 months.	Ongoing risk; spot prices currently at □77-78/kg.	Unpredictable	Inventory hit.

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	4.0	Ritesh Shah, Investec	Synergies	Strategy	"What is the complete strategy when it comes to cross selling products... is there an overlap?"	Management explained that while channels are distinct (Sanitary vs Hardware), they leverage the common plumber influencer database and institutional teams (builders/ architects) to cross-sell. Synergies are back-end led (influencers) rather than front-end led (retail display), which protects brand positioning.	None	4.0	Clear Strategy
2	4.5	Ritesh Shah, Investec	Hurdle Rates	Capex	"What is the minimum hurdle rate that the company looks at while deploying incremental capital?"	The company targets a top 3-5 leadership position and a normalized ROCE of 15-18% for new segments with a 4-5 year payback. High hurdle rates for new categories ensure HHIL isn't just buying growth but building defensible scale.	None	3.5	Confirmed Targets
3	5.0	Nikhil Gada, Abakkus	Bath Margins	Financials	"What are the best possible margins we can achieve now that we have got the manufacturing	Management reiterated a 15-17% target for Sanitary/ Faucets, admitting current levels are hit by gas	None	4.0	Quantified headwinds

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					division in our fold?"	prices rising from □25 to □60. The "manufacturing kicker" is real but currently offset by fuel inflation, setting up a sharp margin rebound when gas prices cool.			
4	4.5	Nikhil Gada, Abakkus	PVC Losses	Financials	"Can you call out what has been the inventory losses for the second quarter and for the first half?"	Management quantified total H1 inventory losses at □25 Cr, with Q2 alone seeing □19-20 Cr. This is a non-recurring headwind that, once flushed, should see Pipes EBITDA return to double digits.	None	5.0	Specific quantification
5	4.0	Nikhil Gada, Abakkus	Debt Levels	Financials	"What would be the peak debt levels... and what kind of quarterly run rate we see in the finance cost?"	Net debt is near peak; management plans to repay □200-250 Cr over 24 months from internal accruals. High interest costs (□18 Cr/qtr) are the main overhang on PAT, but the deleveraging plan is concrete.	None	4.0	Specific timeline
6	3.5	Forum Makim, Equitree	Distribution	Business Overview	"Which will be our focus areas like metro or non-metro?"	Tier 3 and 4 markets are growing at double the rate of metros, though	None	4.0	Growth insight

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						Hindware maintains 100% brand awareness nationwide. Structural shift toward branded products in rural/semi-urban India is a multi-year tailwind for HHIL.			
7	4.0	Forum Makim, Equitree	Competition	Strategy	"What is the strategy exactly to maybe maintain or increase our market share in this tough environment?"	HHIL relies on its 60-year brand heritage and a superior service network of 650+ technicians as a moat against new entrants. Service capability is the "last mile" moat that competitors from other building material segments struggle to replicate.	None	4.0	Defensible moat
8	3.5	Sunny Gosar, MK Ventures	HSIL Update	Capex	"Status of our transaction with AGI Greenpac... is that completed?"	The transaction is largely settled with □50 Cr paid; land title transfers are in final formalities. This removes the administrative overhang of the manufacturing acquisition.	None	4.0	Closure Signal
9	3.0		Diversity	Governance			None	3.0	

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
		Vikash V, HealthX			"What is the ratio of the female and male technicians?"	Management admitted a <2% female ratio due to the manual nature of plumbing but is looking to encourage better balance. A peripheral but honest admission regarding ESG/ Workforce constraints.			Direct Admission
10	3.5	Puneet Khanna, BOB	Realizations	Financials	"Price increase impact at least for the sanitary and faucets business?"	Sanitaryware prices were hiked 13-14% and Faucets 12-13% over the last 12 months. Demonstrates high pricing power and ability to defend margins against cost inflation.	None	5.0	Quantified
11	4.0	Ritesh Shah, Investec	Sourcing Mix	Business Overview	"Percentage for our captive manufacturing versus outsourced will be for faucet and sanitaryware?"	Sanitaryware is 55% in-house, Faucets 45% in-house; 15% of Sanitaryware is imported from China. Integrated model provides flexibility to balance cost (outsourcing) with quality/ efficiency (in-house).	None	5.0	Specific Mix

PATTERN FLAGS & SENTIMENT * **The "Masked Margin" Narrative:** Analysts are clearly frustrated by the lack of margin expansion following the AGI acquisition. Management's stance is one of "macro-victimhood"

supported by data (PVC and Gas pricing), arguing that core operations are healthy but optics are poor. This concern will remain "live" until Q3/Q4 results show a 200-300 bps EBITDA expansion. * **Deleveraging vs. Growth:** There is tension between the company's aggressive growth plans (Roorkee plant) and the analyst community's desire for a cleaner balance sheet post-rate hikes. Management's commitment to repay □200+ Cr from cash flows is a pivot toward consolidation.

Analyst Sentiment Verdict: Analysts are **cautiously optimistic** on topline resilience but **skeptical** on the timeline for margin normalization. Management's credibility remains strong because they provided specific numbers for inventory hits (□20 Cr) and gas hikes, allowing analysts to "normalize" the performance in their models.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Opening) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | | :--- | :--- | :--- | :--- | :--- | | **Manufacturing Upside** | Immediate accretion expected. | Benefits currently "camouflaged." | Timing of margin expansion is pushed back by 2-3 quarters due to Gas costs. | Short-term EPS drag. | | **PVC Prices** | "Steady decline" (implies management) | Prices fell further post-Sept 30 (to □77). | Q3 may see residual inventory losses not fully captured in Q2 guidance. | Margin risk in Q3. |

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5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1 FY23)	This Quarter (Q2 FY23)	Direction
EBITDA Margin	9.8%	9.0%	↓
Pipes Inventory Loss	~□6-7 Cr	□19-20 Cr	↓
Net Debt	~□640 Cr	~□750 Cr	↓ (Increased)
Pipe Volume	7,318 MT	8,463 MT	↑
Finance Costs	□14.6 Cr (Implied H1/2)	□18.0 Cr	↓ (Increased)
Sanitaryware Pricing	Initial hikes taken.	6-7% hike on Nov 1 (Significant).	↑
Pipes EBIT	□7.7 Cr (4.5% margin)	-□0.1 Cr (Negative)	↓
CPVC Revenue Mix	High	>50% (Historic High)	↑
HSIL Settlement	Payment pending.	□50 Cr paid; near closure.	↑