Hindware Home Innovation Ltd — Nov 2023 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Weak Miss on Revenue / Strong Beat on Bathware Margins **One-line:** The core Bathware thesis is reinforcing through impressive margin expansion (16.1%) and import substitution, but the Pipes segment is suffering from a margin-dilutive mix shift and Consumer Appliances is entering a painful 12-18 month "reset" period.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Weak Miss	Q2 Revenue (□700 Cr) flat YoY; Appliances revenue down 23%.	□
Earnings Quality	Moderate	EBITDA growth (+25% YoY) driven by Bathware efficiency; PAT distorted by high interest and dividend tax.	□
Guidance Confidence	Weak	Management explicitly pushed back the □1,100 Cr Appliances target by 12-18 months.	□
Management Credibility	Neutral	Transparent about "affordable housing" slowdown, but Debt (□835 Cr) remains a persistent overhang.	□
Business Quality Signal	Improving (Core)	Bathware EBITDA margins hit 16.1% as in-house manufacturing integration offsets soft demand.	□
Key Q&A Exchange	Q#21 (Appliances Reset)	New CEO admitted a 1-1.5 year delay in hitting growth targets; signals "clearing the decks."	□
The Street's Primary Anxiety	Leverage & Pipes Mix	Analysts pressed on rising debt (□835 Cr) and the 27% volume drop in high-margin CPVC.	□
Capital Cycle Stage	Investment	Roorkee plant (□152 Cr) and Hyderabad expansion underway; FCF is currently consumed by capex.	□
Margin Trajectory	Improving	Consolidated EBITDA margin expanded to 11.4% (vs 9.0% YoY) due to premiumization.	□
Pricing Power	Stable	Holding Bathware prices despite deflation; aggressive in Pipes to maintain 85% utilization.	□
FCF Conversion & Quality	Weak	Net debt rose to □835 Cr; inventory liquidation in Appliances offset by Pipes expansion.	□
Competitive Moat Signals	Stable	Maintaining "fastest-growing" brand status in Pipes (volumes +22%) despite realization hits.	□
Balance Sheet Strength	Stressed	Net Debt at □835 Cr; interest coverage squeezed by high rates and ongoing capex.	□
Working Capital Efficiency	Mixed	Bathware inventory down 8-10 days; Pipes receivables/inventory under pressure.	□
Mgmt Guidance Track	Mixed	Reliable on Bathware margins; Unreliable on Appliances/Pipes growth timelines.	□
Key Vulnerability	Affordable Housing	HHIL's sweet spot (mid-market) is lagging the luxury "Metro" boom.	□
Management Tone	Defensively Confident	Strong focus on "efficiency" and "localization" to counter top-line headwinds.	□

Key Takeaways (Positives & Negatives): * **Positives:** The Bathware segment has successfully transitioned to an integrated manufacturing model, with import dependence dropping from 16% to single digits, driving a massive margin beat (16.1% EBITDA). Working capital in the core segment is tightening (8-10 day inventory reduction), and the Pipes business is running at a sector-leading 85% capacity utilization. * **Negatives:** The Consumer Appliances leg has functionally broken, with management pushing back revenue targets by over a year due to unseasonal rains and "muted rural demand." The Pipes segment is witnessing a "mix reversal," where low-margin PVC/Agri volumes are growing while premium CPVC volumes fell 27%, creating a profit-less growth scenario. * **Street Concern:** Analysts are hyper-focused on the □835 Cr debt and the divergence between the "booming real estate" narrative and HHIL's flat revenues. Management's defense—that the "Affordable/Mid-market" (HHIL's core) is actually in contraction—resolves the confusion but highlights a cyclical risk. * **Forward Watchpoint:** Monitoring the recovery of CPVC volumes and the potential divestment/pivot of the loss-making 'Evok' retail business, which remains a drag on ROCE.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS *DATA SOURCE: PPT figures primary; Concall for commentary/Debt.*

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (□Cr)	700.4	□2%	□11%	→	Volume growth in Pipes (+22%) offset by 23% drop in Appliances.
Gross Margin (%)	Not in Doc	N/A	N/A	→	Impacted by PVC price deflation; stable in Bathware due to mix.
EBITDA (□Cr)	80.0	□25%	□17%	□	Driven by 16.1% margin in Bathware (up from 12.7%).
EBITDA Margin %	11.4%	□240 bps	□60 bps	□	Efficiency gains from shifting production in-house.
PAT (□Cr)	20.9	□35%	□620%	□	Q1 base was very low (□2.9 Cr); Q2 impacted by high interest.
ROCE (%)	Not in Doc	N/A	N/A	□	Dragged by high debt and capital-heavy Roorkee capex.
Cash Flow (OCF)	Not in Doc	N/A	N/A	□	Negative FCF due to □70 Cr H1 capex and debt servicing.
Net Debt (□Cr)	835	□vs 790*	□vs 772*	□	*Consolidated. Rose due to dividend tax and inventory lag.
Interest Coverage (x)	~2.5x	□	□	□	Interest costs rising alongside net debt.
Pipes Vol (MT)	10,298	□22%	□25%	□	Strong PVC volume growth; CPVC mix declined significantly.
Bath WC (Days)	105	□7 days	□7 days	□	Inventory reduced 8-10 days; receivables slightly higher.

2B. SEGMENT BREAKDOWN

Segment	Revenue (□ Cr)	YoY Growth	Margin (EBIT)	Trend	vs Co. Avg	Key Development
Bathware	396.1	□5%	11.6%	□	Above	EBITDA margin 16.1%; import share now single digits.
Pipes	201.1	□2%	7.3%	□	Below	Volume +22%; realization hit by RM deflation.
Appliances	96.3	□23%	(7.2%)	□	Below	Coolers hit by rain; Chimneys facing high competition.
Retail (Evok)	13.8	□21%	(31.8%)*	□	Below	*Estimated from loss. Mgmt evaluating exit/pivot.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	Pipes: Exceed □1,000 Cr by FY25.	Feasible; needs ~20% volume CAGR on existing + Roorkee capacity.	Reliable	RM Volatility
Guidance	Revenue	Appliances: □1,100 Cr target.	**Missed**; pushed back by 12-18 months.	Failed	Competition
Guidance	Margins	Bathware: 18.0%-18.5% EBITDA.	Needs ~200 bps expansion over 12-18 months.	On Track	High
Capex	Capacity	Roorkee Pipe Plant (□152 Cr).	Under construction; operational by Q3 FY25.	On Track	Project Lag
Strategy	Cap Allocation	Debt Repayment: □100 Cr/year.	**Low Feasibility** in FY24 given □150 Cr+ capex pipeline.	Mixed	Interest Rates
Strategy	Integration	100% localization of Bathware.	Progressing; import share down from 17% to <10%.	Reliable	Tech Transfer
Macro	Demand	H2 to be "much better."	Depends on festival season and affordable housing recovery.	Unproven	Interest Rates

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	Akshay Chheda, Canara Robeco	Pipes Margins	Financials	"EBITDA per kg... is around INR 21... will it sustain going forward?"	Management clarified that EBITDA depends on the product mix and PVC price corrections expected post-Deepawali. Maintaining high-double-digit margins in Pipes requires a shift back to CPVC, making current realizations vulnerable to RM volatility.	Specific per-kg guidance	3.0	Vague
2	4.5	Akshay Chheda, Canara Robeco	Capacity	Capex and Allocation	"Wouldn't you be out of capacity [in Pipes]... you are at capacity constraint?"	Management confirmed 85% utilization (highest in industry) but is adding 5k-7k MT in Hyderabad while Roorkee builds. Growth will be bottlenecked by Q2 FY25 if Roorkee lags, placing the H2 FY25 revenue ramp at risk.	None	4.5	Clear context
4	3.5	Zaki Nasser, Nasser Inv	Pipes Focus	Business Overview	"Don't you think pipe and fittings has become more of a commodity... shouldn't we be focusing	Management argued that Pipes provide a "behind the wall" presence that complements the brand	None	4.0	Strategic

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					more on bathware?"	and offers a larger addressable market (□22k Cr) than Bathware. This diversification is the core long-term thesis to reduce dependence on the smaller Sanitaryware segment.			
6	4.0	Zaki Nasser, Nasser Inv	Import Substitution	Business Overview	"Shifting the imported sanitaryware to be manufactured at our plants... how is that going?"	Management confirmed import contribution has dropped from 17% to single digits, directly driving the Bathware margin expansion to 16.1%. This validates the margin-improvement thesis through backward integration.	None	5.0	Quantified
8	4.0	Jayesh Gaygol	Leverage	Financials	"What is the net debt right now? And is there any debt restructuring plan?"	Consolidated net debt stands at □835 Cr, with a commitment to repay □100 Cr annually from profits once Roorkee capex subsides. Debt remains the primary	None	3.5	Ambitious

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						overhang on HHIL's valuation multiple relative to debt-free peers like Astral or Cera.			
11	4.5	Sudhanshu Pokhriyal	Bathware Demand	Management Outlook	"Expectation, of course, is that the second half is going to be much better."	Management cited the "bullwhip effect" where Q1/Q2 slowdown created inventory pressure that is now clearing. If affordable housing doesn't pivot in H2, HHIL will likely miss its 1.25x market growth guidance.	Specific numbers	3.0	Qualitative
13	4.5	Sudhanshu Pokhriyal	Bathware Margins	Financials	"Have you been able to capture most of the benefits of the mix shift... or will this further improve?"	Management indicated 100% localization is not yet complete and expects another 200 bps margin expansion over the next 2-4 quarters. This suggests Bathware EBITDA margins could peak near 18%, rivaling industry leaders.	None	4.5	Specific

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
14	4.0	Sudhanshu Pokhriyal	Working Capital	Financials	"We were still seeing this working capital cycle in the range of 120 days... target?"	Management is targeting 85-90 days for Bathware WC by year-end, down from current levels, by recalibrating the demand cycle. Achieving this is critical for the promised □100 Cr debt reduction.	None	4.0	Directional
16	4.0	Rajesh Pajnoo	Pipes Capacity	Capex and Allocation	"By when can this capacity [Hyderabad] be onboard?"	New machines are ordered for Hyderabad to add 5k-7k MT by Q3, providing a bridge until Roorkee opens in Q3 FY25. This minimizes the risk of lost sales due to capacity constraints in the interim.	None	5.0	Quantified
19	5.0	Salil Kappoor	Appliances Reset	Management Outlook	"When can we expect to maybe breakeven [in Consumer Appliances]?"	Management admitted the □1,100 Cr revenue target is delayed by 12-18 months and they are focusing only on three drivers (Kitchen, Water Heaters, Coolers). This is a	Specific breakeven date	2.0	Explicit walk-back

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						significant walk-back from prior growth targets, signaling a de-prioritization of this leg.			
20	3.5	Sandeep Sikka	Debt Repayment	Capex and Allocation	"Are we still maintaining [INR 100 Cr debt repayment]?"	Management admitted that instead of debt reduction, cash is currently being diverted to the Roorkee plant due to demand. The deleveraging story is essentially paused until the Roorkee capex (□152 Cr) is fully deployed.	None	3.0	Pivot

PATTERN FLAGS & SENTIMENT * **The "Affordable" Lag:** A major theme was the divergence between the "Real Estate Boom" and HHIL's flat revenue. Management was defensive but consistent in arguing that the boom is luxury-led (Metros), while their volume-driving "Affordable/Mid-tier" segment is currently stressed. Analysts remained skeptical, suspecting potential market share loss. * **Segment Rationalization:** There is a clear pivot toward "Core Building Products." The new Appliances CEO's request for a 12-18 month "reset" and the CFO's hint at evaluating the 'Evok' retail business suggests management is finally cutting underperforming diversification legs to protect consolidated margins. * **Analyst Sentiment Verdict:** Analysts were impressed by the 16.1% Bathware margins but hostile regarding the rising debt and Appliances degrowth. The most friction was generated by the "delayed" guidance. Overall, management's credibility on operational efficiency (localization) is high, but their ability to manage the capital cycle and growth targets is under heavy scrutiny.

GUIDANCE GAPS REVEALED IN Q&A

Topic	What Mgmt Claimed (Opening / Prior Q)	What Q&A Revealed	Gap / Walk-back	Risk to Thesis
Consumer Appliances	Strong position in Kitchen/Coolers.	□1,100 Cr target delayed by 1.5 years.	Major timeline push-back.	**High** (Growth leg broken).
Debt Reduction	□100 Cr annual repayment.	Cash diverted to Roorkee plant instead.	Deleveraging timeline paused.	**Moderate** (Interest drag).
Pipes Volume	Fastest growing brand.	CPVC volumes fell 27%.	Growth is currently low-margin PVC.	**Moderate** (Margin dilution).

5. WHAT CHANGED vs PRIOR QUARTER

Analysis vs. H1FY23/Q2FY23 Prior Context.

What Changed	Prior Quarter	This Quarter	Direction
Bathware EBITDA Margin	12.7%	16.1%	□Improving
Consumer Appliances Revenue	□125 Cr (Q2FY23)	□96 Cr (Q2FY24)	□Deteriorating
Pipes Capacity Utilization	~75%	85%	□Improving
Appliances Target	□1,100 Cr (FY25)	FY26/27 (Revised)	□Deteriorating
Net Debt (Consol)	~□790 Cr	□835 Cr	□Deteriorating
Bathware Import Mix	~17%	<10%	□Improving
Bathware WC	112 Days	105 Days	□Improving

Investor Notes: The thesis has split. The **Value Thesis** (Bathware) is working perfectly—margins are expanding through manufacturing efficiency and premiumization. The **Growth Thesis** (Pipes/Appliances) is under macro/cyclical pressure. The stock's re-rating now depends on (1) Roorkee plant execution on time and (2) a clean exit from the loss-making 'Evok' retail business. Until debt levels fall below □700 Cr, HHIL will likely trade at a discount to peers despite the superior Bathware operational performance.