

PPFL/SE/2022-23/040

August 18, 2022

To,

BSE Limited
25th Floor, P.J Towers,
Dalal Street, Mumbai-400001

National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex,
Bandra (E), Mumbai -400051

Scrip Code: 542907

Scrip Code: PRINCEPIPE

Dear Sir/Madam,

Sub: Disclosure under Regulation 30 of Securities and Exchange Board of India (Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI LODR") – Transcript of Conference Call held on August 10, 2022.

In continuation to our letter No PPFL/SE/2022-23/031 dated August 05, 2022, please find enclosed herewith transcript of the Conference Call for Analyst and Investors held on August 10, 2022.

Kindly take the same on record.

Thanking You.

Yours faithfully,

For PRINCE PIPES AND FITTINGS LIMITED



Shailesh Bhaskar
Company Secretary & Compliance Officer

ACS: 36475

Enclosed: as above

PRINCE PIPES AND FITTINGS LIMITED

Mfg. & Exporters of UPVC, CPVC, PPR & HDPE Pipes, Fittings, Valves & Water Tanks

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Prince Pipes and Fittings Limited
Q1 FY2023 Earnings Conference Call

August 10, 2022



MANAGEMENT: **MR. PARAG CHHEDA – JOINT MANAGING DIRECTOR, PRINCE
PIPES AND FITTINGS LIMITED**
**MR. SHYAM SHARDA – CHIEF FINANCIAL OFFICER, PRINCE PIPES
AND FITTINGS LIMITED**
**MR. ANAND GUPTA – DEPUTY CHIEF FINANCIAL OFFICER, PRINCE
PIPES AND FITTINGS LIMITED**
**MR. NIHAR CHHEDA – VICE PRESIDENT (STRATEGY), PRINCE
PIPES AND FITTINGS LIMITED**

ANALYST: **MR. VINEET SHANKAR – JM FINANCIAL INSTITUTIONAL
SECURITIES LIMITED**

Moderator: Ladies and gentlemen, Good Day and welcome to the Prince Pipes and Fittings Limited Q1 FY23 Earnings Call hosted by JM Financial Institutional Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ and then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vineet Shankar from JM Financial. Thank you and over to you, sir.

Vineet Shankar: Good morning, everyone. We welcome you all to the conference call with management of Prince Pipes and Fittings Limited to discuss the financial performance of Q1 FY23 and Business Outlook. From the management, we have Mr. Parag Chheda – Joint Managing Director, Mr. Shyam Sharda – CFO, Mr. Anand Gupta – Deputy CFO and Mr. Nihar Chheda – Vice President Strategy.

Now, I hand over the floor to Mr. Chheda for his initial remarks after which we will move on to the Q&A session. Over to you sir.

Parag Chheda: Good morning. Thank you all for joining us on our quarter one FY23 Earnings Call. The presentation and the press release have been issued to the stock exchanges and uploaded on our website. I trust all of you have had the opportunity to go through the same.

Let me start by giving you a macro view of the industry and then diving into the Company level performance and the strategy going forward. Q1 of FY23 has been a challenging quarter for the industry. As Agri demand continued to be weak, while the demand for Plumbing and SWR was resilient. In addition, the persistent softening in PVC prices resulted in a muted sentiment across the value chain, causing destocking amongst our channel partners. Despite the challenges, we continue to aggressively expand our volumes and increase our market share.

During the quarter, our volume and value grew by 69% and 83% respectively, led by outperformance in the building materials segment of our portfolio. However, as you are aware, the quarter witnessed inventory loss led by constant falling off raw materials prices, which has been a phenomenon across the industry. We were impacted to a greater extent due to the higher inventory as of 31st March.

The inventory losses are likely to impact the second quarter as well, due to the sharp price correction in PVC in the July month. We now believe the prices have more or less stabilized and are close to bottom. In the coming times, as prices stabilize our channel partners will start restocking. We also believe that our margins will begin to recover from the December quarter. I would like to highlight that while the price correction led to a sharp inventory losses in the short term, the current price regime will create a strong demand environment for the industry. At these levels of PVC, we expect robust demand to be driven across segments of Plumbing, SWR as well as Agri. We strongly believe we are well poised to capture this growth due to a) the new capacity setup at Jaipur and Telangana facilities as well as b) widely expanding distribution network across the country. Furthermore, our business outlook continues to be positive. Prince Pipes continues its vision to aggressively grow the piping systems business and diversify into complementary verticals.

In May this year, we had launched PE Fit Aqua which is our HDPE piping solutions and CORFIT Manhole Chambers. I am glad to share that both these products have received a good acceptance and we are gaining steady traction for these in the institutional as well as private developer segments.

We are now in the midst of implementing several growth oriented strategic efforts, some of which were discussed on the last quarter call, like digitalizing, our value chain launching newer applications and we thus continue to enlarge our product basket as our focus remains on growing our value-added product portfolio to the overall sales mix.

I am happy to share that we have announced our foray into the Bathware segment making our presence in the front of the wall category and a natural extension of our business. This organic expansion of our product portfolio into faucets and sanitary ware allows us to leverage the strong equity of the Prince brand in the building solutions market and will help our channel partners to expand their business. It is our endeavor to offer a wide choice of hardware solution to Indian homeowners and architects as we as we will roll out the latest range of products in line with global lifestyle trends.

As per market estimates, the overall market size of Bathware segment is about Rs.15,000 crores which organized market in the range of about 65% and balance 35% being the unorganized market. We are in the process of developing this vertical and I have hired a seasoned professional with over 15 years of relevant experience. We are

formalizing a progression plan based on building an asset light model and capitalizing on our growing dealership network. We shall share further details at a later stage, following the completion of regulatory and necessary approvals.

I would like to also share that we have been making steady progress on growing our B2B segment. Even though we have begun to work with reputed institutions and builders, there is a great scope on growing this business segment. We will continue to put adequate thrust to ensure that the B2B segment is a key growth enabler for us. Guided by a strong set of corporate values, a talented team and successful execution of our key strategies. We have been navigating the environment well, despite industry headwinds.

With strong business fundamentals and an exciting India opportunity. We remain optimistic as we leverage our strengths to achieve higher growth and create greater shareholder value. Thank you for your time and mindshare. I will now hand it over to Shyam to take you through the key financial highlights.

Shyam Sharda:

Thank you, Parag Bhai and good morning, friends. I will be taking you through Q1 FY2023 financials now. In this quarter, the Company saw a revenue growth of 83% at Rs. 604 crores compared to Rs.331 crores in Q1 FY2022, volume grew by a robust 69% at approximately 31,250 metric tonnes.

Coming to our EBITDA, which stood at Rs.44 crores for Q1 compared to Rs. 41 crores in Q1 FY2022 indicating a growth of 6%. EBITDA margin stood at 7.3% for this quarter. Profit after tax stood at Rs. 16 crores compared to Rs.18 crores in the corresponding quarter. On the working capital days have increased to 88 days from 68 days in March 2022 but our inventory days has improved to 78 days from 85 days at the end of March 2022.

Given the volatile raw material supply situation, we had higher inventory levels, which are being rationalized and we will return to normal levels by Q2, with constant emphasis our craters has improved to 38 days and our debtors to 48 days. Our endeavor going forward to further improve our collection, thereby reducing our debtors days.

The Company had issued and allotted 507 units of commercial papers of rupees 5 lakh each aggregating to Rs. 25.35 crores. The commercial paper were issued on May 11, 2022, and has been successfully repaid on August 5, 2022.

With this, we would like to open the floor for the questions please. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Okay, just one question given the PVC prices are falling, the realization per kilo seems to be broadly stable. So, when do we start seeing the impact of this in the numbers?

Nihar Chheda: Thank you Dhaval. So, the realization impact of the fall in the raw material prices will be seen in the September quarter and I would also in fact like to highlight that the margin pressure will continue in the September quarter and then from the December quarter the margins will begin to normalize. This is because if you see the trend of the PVC prices, the largest drop has actually been in the month of July. So, July has been the worst month of the financial year. We do believe that PVC prices are now close to bottom and August and September should more or less be stable which bodes well for the business going forward in terms of an affordable PVC price regime, should drive a better demand going forward across segments.

Dhaval Shah: So, a comparison to service we saw last almost six-eight quarters we were seeing an increasing trend of PVC prices just after the first lockdown. So, before COVID our realization per kilo used to be around Rs.131, 125, 130 range and now we are at Rs.193 for the June reported quarter. Now, in this we have seen a transition you know with the share of CPVC increasing, your share of fittings increasing which are much higher value-added products. So, on a like to like basis if we were to see A where are the PVC prices compared to the pre-COVID like the December 2019 or the march 2020 quarter and what would be the realization per kilo you know, if we keep the same PVC prices.

Nihar Chheda: So, the PVC prices currently are obviously much lower than what it was over the past few quarters, but it is still higher than what it was pre-COVID. So, traditionally, PVC prices would be in the range of I am just giving a rough estimate would be in the range of Rs.70 to 75 per kg which today would be around Rs. 93 to 95 per kg which we feel is close to bottom for the next couple of months. So, that is the differential. On realizations, I will not comment now and it would be better at the end of the quarter we would also have a better clarity on that.

Dhaval Shah: Sure and sir last question so over September. So, now, what sort of drop in realizations should we expect? So, which was Rs.193 per kg. So, any broad direction if you can give.

Nihar Chheda: So, it will be lower than Rs.193 per kg if you are asking for a broad direction, it will be significantly lower than the quarter one realization because like I said a large drop has happened in July quarter. I will not be in a position to quantify it because we are not even done with one half of the quarter. But it will be to answer your question broad direction will be lower than Q1

Dhaval Shah: And how would that be reflected in a long-term trend for EBITDA per kilo because we have seen again, a very wide range in EBITDA per kilo also. So, any long-term sustainable number as a Company, what would you be looking at?

Nihar Chheda: Yes, so in the September quarter, the EBITDA will be under pressure because of the inventory losses extending into July month. But on a long-term basis, I think from December quarter, our usual EBITDA guidance of 13 to 15% seems achievable at this point.

Dhaval Shah: And on per kilo bases around Rs.18 to 20 per kilo would be right figure.

Nihar Chheda: It is a larger range than that. I think we would stick to a margin guidance of 13 to 15%.

Dhaval Shah: Okay fine, thank you very much.

Moderator: Thank you. Next question is from the line of Sujit Jain from ASK Investment Managers. Please go ahead.

Sujit Jain: Hi, Nihar, if you can quantify the inventory losses in the quarter.

Nihar Chheda: Yes. Sujit inventory loss would be in the range of Rs.30 to 35 crores for the quarter.

Sujit Jain: Okay, and industry volume degrowth QoQ. So, we said that we could have gained market share, in your opinion, what would be the volume degrowth that would have happened QoQ?

Nihar Chheda: I think Sujit. Thank you for that question. I think it is important to highlight that in our industry, volume growth cannot be seen on a QoQ basis, because quarter four is always going to be very heavy and quarter one is usually light for us, especially since we are not very heavy on the agriculture segment, it is better to see volume growth

on a year-on-year basis and last year, of course, the base is really small. So, that would not be a fair comparison either because of the impact of COVID, etc. But if you see the last two- or three-year CAGRs of volume on an annualized basis, you know, we have been gaining market share consistently.

Sujit Jain: In your sense, whichever number we may look at the industry would have fallen more YoY or QoQ for the quarter?

Nihar Chheda: So, if you see YoY, there has been a growth for us, which we believe is higher than the industry.

Sujit Jain: Yes right. I am asking industry would have fallen more QoQ most likely.

Nihar Chheda: What I am trying to say I think, QoQ is not really relevant, because players who are having more dependence on the agriculture segment, which is a seasonal business, will always have a lower drop from Q4 to Q1 because Q1 is very heavy on the Agri business. For us, it contributes to maybe only around 30 to 33% of our business. So, Q1 is always going to be lighter for us basis Q4. So, it would not be the right comparison to look at volumes on a QoQ basis, except especially for Q4 to Q1. Historically, if you see the trend for us, they were over the past five years, Q4 will always be much-much higher than Q1 and that continues to stay true.

Sujit Jain: Not bad and now, when I add back Rs.35 crores to your OP. Your operating profit margin would have been 13.1%. That still looks a lower side on the typical, 13 to 15% kind of range that we target. Is there any other one off or any other items you would like to highlight, which would have impacted the operating margin for the quarter.

Nihar Chheda: So, one obviously, like you said is inventory loss. The second is obviously the volumes are still not at the desired level, because of the continuous fall in PVC prices, the sentiment in the channel has been negative which leads to destocking as a result of which there was not a very strong pull for sales, which is usually there. So, in terms of operating leverage and cost absorption, also that has been impacted due to the I would say maybe sub optimal volumes as a result of destocking which I believe should reverse in the coming weeks and months.

Sujit Jain: And the net working capital increase despite your commentary, you know, last quarter that was the peak. So, how do you view the net working capital now?

- Nihar Chheda:** Yes, so I think Sujit I prefer to look at working capital in terms of receivables, because that is the only genuine reduction in receivables, which we are able to drive, which has gone from around 60 days to 48 days, the increase in working capital has happened because of a reduction in the creditor day, which really is not in our hands because it is a function of our buying pattern and inventory also has reduced from 85 to 78 days, which will continue to reduce and will be at a much lower number as of the end of the quarter. So, the genuine improvement in working capital is not receivable days, on a long-term basis, I am saying which has incrementally improved from March and you know, we are not happy with where our current receivables days are, it has to improve and we are very far from where our peers are. So, that is something that we have recognized and appreciated internally and over the long-term, this will further reduce, maybe in the next one to two years.
- Sujit Jain:** The current growth and net debt and your operating cash flows, if you can quantify that number for Q1?
- Shyam Sharda:** So, the gross debt, we had Rs. 177 crores of a gross debt for this quarter and in terms of net debt, it is closer to around Rs. 65 to 66 crores, because we have a cash balance and also the investment in Bank FD & mutual fund .. So, net is around Rs.65-66 crores, While gross is around Rs.177 crores.
- Sujit Jain:** Right and be cash flow conversion for the quarter?
- Shyam Sharda:** Cash flow conversion for the quarter I mean, we have been positive and is around Rs.4 to 5 crores.
- Sujit Jain:** Sure sir. Thank you and all the best.
- Moderator:** Thank you. The next question is from line of Sneha Talreja region from Edelweiss Securities. Please go ahead.
- Sneha Talreja:** Hi, everyone, thanks for the opportunity. Just want to understand as you said that, margins will normalize from quarter third onwards. What are the kinds of margins that we look from quarter third onwards and for Q2 are we expecting similar inventory losses to continue and will there be falling inventory losses given that year inventory levels have come down or is it that the prices have fallen more? Just wanted to get some sense on margins here.

Nihar Chheda: Yes, so I will take the second question first. So, like I said, July has been the month of the sharpest decrease in terms of rupees per tonne. So, the sharpest fall will be seen in the July month. Having said that we are working on a lower inventory than we did in quarter one. So, I think margins should be in a similar range in the September quarter and to answer your first question is in December quarter our margins will begin to recover and normalize, which will be in the range of 13 to 15% as per our long-term guidance.

Sneha Talreja: Understood and do we expect demand, how you think demand trend, if I am not wrong Agri is almost gone. How was the year and how do you see now even things panning out? Was there any substantial shift towards other polymers according to you, which will now come back to PVC and your outlook was the volume growth does? If it does, there is some recovery that you are believing?

Nihar Chheda: Sure, Sneha before I answer this question, just to build on the previous question, what I would like to highlight in terms of the PVC prices is that we are in industry, which of course, raw material cost is a large part of our cost structure and any volatility in raw material will have an impact on margins. Having said that this kind of volatility that we have seen in the past couple of months has been I would say unprecedented. It may be happens once every decade or once every few decades. So, it is not that we are susceptible to such volatility every two or three years. This is a sort of a black swan event and we obviously have been impacted more because of the inventory that the higher inventory that we had, which was a conscious strategy to keep supply chain security. So, this is a sort of an anomaly a one-time hit that we have to take and move on and to answer your question, we are not fazed by this margin pressure or inventory loss, we continue to be extremely bullish on the core business and on volume growth across segments, which in Plumbing and SWR the building material part of the portfolio was already doing well, and now with a lower price regime that will continue to build and Agri will start to recover because the past two or three years, we have seen muted agri demand with this kind of price regime, I think across segments, PVC demand over the next two or three years should be robust and today we have set up those capacities in Jaipur and Telangana to take any advantage of uptrends in demand and we are constantly working on the usual network expansion and brand visibility exercises. So, we continue to be extremely bullish on demand in the medium to long-term.

Sneha Talreja: Oh, got that Nihar. Lastly, in case even though for your sanitaryware and bathware division that you have announced, what is the idea here if I understood it correctly,

you said asset-light models, so will that continue for how long. Any CAPEX that you envision in this particular network, and what the current network that is already dealing with and what is the synergy that we see in this business and the kind of that how much of your current network is already dealing with bathware product and what is the direction here. Any numbers also that you want to give as a projection that we should look at in this particular business?

Nihar Chheda:

Sure. So, before I answer in detail, to give you a more big picture view, the rationale behind this diversification is to leverage the brand equity and the distribution network that we have built Pan India. We still continue to remain bullish on the core business and that will continue to grow, but given that we today have the management bandwidth, both at the family and the professional level and the balance sheet strength, we have decided to diversify into a business which is very adjacent to our core business and like I said our brand equity and distribution network has a huge scope to be leveraged in this business. Large part of our distributor network is already selling this product and we have got very good feedback from our channel partners basis our announcement into this segment. It is very strategic for us to come, front of the wall. Becoming a front of the wall brand helps us truly connect not only with plumbers but with homeowners across India and this strengthens our connect to become actually a genuine B2C Connect and we have appointed a seasoned professional, Harsh Kochar as well as our existing national head in the Pipes Division, Ashok Mehra, both of them have a combined experience of more than 20 years with the market leader of the Bathware segment and this is going to be an asset light model, especially for the first one or two years and we are in the process of shortlisting our outsource partners and the finalization will happen in the coming time.

Parallely with that we are also working on the design conceptualization which is going to maybe materialize soon and we are targeting a product launch in the March quarter and it will be a phase wise product launch. We will start with maybe two zones and then get the right feedback from the market. We are in no hurry to just drive numbers we want to give the right product the right design, it is a service-oriented business, we also recognize that this business is easier said than done. It is a business where some large players also maybe have not been able to do as well. So, we recognize that but bases our distribution network and internal management experience we have taken this call. So, we are in no hurry, it will be a phase wise

launch and bases the feedback we will become a Pan India player in this category. So, Yes, hope that answers your question.

Sneha Talreja: That definitely does. Thanks a lot Nihar and all the very best.

Moderator: Thank you the next question is from the line of Shrenik Bachhawat from LIC Asset Management. Please go ahead.

Shrenik Bachhawat: Hi Nihar. Sir, my first question is on the PVC drops are we doing any benefit on the PVC drop or the prices will be fully passed on to the consumer.

Nihar Chheda: Thank you Shrenik. Shrenik in this industry we usually pass on any increase or decrease to the channel with immediate effect. So, when the prices were increasing, we would pass it on with full effect and, in maybe one- or two-weeks' time. So, we cannot be unfair when there is a decrease of similar business practice has to be followed in an upward and a downward trend.

Shrenik Bachhawat: Sure, and also sir our volume growth is around minus 2% on three-year CAGR basis, which is similar to the industry leaders in industry. But I would assume on percentage basis, our performance should be better going forward because of a lower base and also much higher distribution growth and new plant additions and various other measures we are taking. So, is this a fair understanding on percentage business or from the industry leader or how should we benchmark.

Nihar Chheda: Yes, I mean, we will not only look at industry leader, but all three or four players, you know, really driving the industry today and if you look at the I do not know if looking at one quarter CAGR volume will be a right benchmark, I think the genuine volume growth has to be seen on an annualized basis. So, if you see the past three or four years of volume growth CAGR. We believe that we have outperformed the industry. Having said that we still are not happy with where we are, we are at maybe 6.5% to 7% market share with the industry leader maybe being at around 12 or 13% market share. So, we still have huge potential for growth. Not only in terms of geography, be it South and East, where we are ramping up distribution and retailer touchpoints, but also in terms of different product categories, of course, and CPVC we have a large gap with the market leader that gap has closed down in the past one or two years, but still a lot of work remains to be done and we will be launching a few new products within the piping segment itself which we think will help us cross sell and ramp up for market share in the piping vertical.

Shrenik Bachhawat: And could we throw some light on the CPVC pricing, any change on CPVC pricing or any what is your outlook there?

Nihar Chheda: I think CPVC pricing have stabilized. There was an increase in the past couple of quarters and now I think CPVC prices will continue to remain at current level. I do not see any imminent increase or decrease going forward.

Shrenik Bachhawat: Sure. Thank you.

Moderator: Thank you. Next question is from the line of Rajesh Kumar Ravi from HDFC Securities, please go ahead.

Rajesh Kumar Ravi: Hi sir, my question pertains first on the numbers. Could you give some guidance for FY23? What sort of volume numbers we are looking at?

Nihar Chheda: Yes, thank you Rajesh. I think in terms of volume, I think the second half of the year will be better in terms of operating performance, not only in terms of volumes, but in terms of earnings as well. We will recover from the second half of the year. The first half of the year has been impacted by the sharp decrease and like I said earlier, that not only impacts the margin performance, but it also impacts volumes because of the uncertainty and the negative sentiment in the channel there is a phenomenon of destocking that is especially happening in the first four months of the financial year. I think things will stabilize from here on and then start improving from the October to December period. So, I think maybe at the end of the second quarter, we will be in a much stronger position to give some guidance for FY23.

Rajesh Kumar Ravi: But any 10% 15% any broad outlook which you are looking at?

Nihar Chheda: Yes, like I said, I think we will stick to the second half of the year being much better in terms of volumes and earnings. First four months have been impacted by the sentiment, so like I said, at the end of September quarter, we will be in a much better position to give guidances on volume. I understand what you are trying to ask. So, on a medium to long-term basis, volume growth should be there for the industry overall and I think we will be leading the industry volume growth as we have over the past financial years. We will be leading the industry growth, that is the internal target and I think it will be possible given this lower price regime and then internally the capacities that we have set up to take advantage of any uptrends in demand. So, on a medium to long-term, there is double digit volume growth is definitely achievable or a realistic target for us.

Rajesh Kumar Ravi: So, then I look on a trailing 12 months basis a three-year CAGR. Indeed, you are growing at 11% target, which is relatively better off during the industry has not been doing good, so we want to continue, with the Lubrizol brand, tie-ups that you have, what sort of benefit you have seen on your volume push and do you expect growth can firm up here on?

Nihar Chheda: Yes, obviously, the Lubrizol tie-ups is in one category, which is for CPVC, overall, in volume terms end of the day it is only maybe 11 to 13% of our overall volume in metric tonne basis. So, that will have a positive impact and it is not only the Lubrizol tire but apart from that, we are doing a lot of other initiatives to grow overall, not only in CPVC, but in the overall building material space. Flow Guard is just one small part of a larger overall strategy. Lubrizol may be more helpful in the B2B space. But in B2C end of the day, Prince is still a larger brand, where we need to initiatives but yes, I think going forward growth will be led by plumbing and SWR and like you correctly pointed out over the past two-three years we have been doing better often industry and again to repeat we are still not happy with that. We need to perform better and internally we are aspirational and over the past two three years we will deliver on that.

Rajesh Kumar Ravi: Okay and sir given the inventory loss, you mentioned you have already incurred Rs.30 odd crore in Q1 and given that post June and there has been for the shortfall. Shortfall from June end pricing the current realizations from Rs. 117 per kg which is further down by Rs. 20 odd or more than Rs.20 per kg. So, are we looking at similar inventory losses in Q2 and hence or how should we read the numbers because the 13 to 15% EBITDA margin, which you are talking about, which you can sustain for Q3 Q4 that still works out to be close to Rs. 20 per kg EBITDA margins and Q2 also you will have similar EBITDA per kg which we have done in Q1.

Nihar Chheda: Yes, so, as I stated earlier, Rajesh, there are two variables here. One is the per kg drop, which has been sharp in July, as we pointed out, which will ensure that September quarter margins are under pressure. Having said that inventory levels are slightly lower than what we had at the beginning of the first quarter. So, I think I would stick to a similar sort of operating margin performance as of now. We will have more than 45 days with a quarter left, but should be a similar performance as the first quarter.

Rajesh Kumar Ravi: Okay and one last question. If I look at pre-COVID margins, you know, were around Rs. 17-18 per kg last 2 years have been very strong for you and as well as the industry. So, going forward, what could be the normalized number. Is that Rs. 18-20 is the

normalized EBITDA margin which one should build into, or there have been significant changes in the product mix whereby you can go up to Rs. 25 or even Rs. 30 what would be the normalized number one should look at.

Nihar Chheda: So, I think Rajesh we have typically always stuck to margin guidance of 13 to 15%. Of course, there is, you know, better product mix, better pricing power, in a consolidating industry will help us improve margins over the long-term and as volumes grow, profitability will grow because of the way our cost is structured, there will be a good amount of operating leverage, as well. So, I would stick to a long-term EBITDA guidance of 13 to 15%.

Rajesh Kumar Ravi: Great sir, thank you. I will come back in queue.

Nihar Chheda: Thank you. Next question is from of Praveen Sahay from Edelweiss Wealth Management. Please go ahead.

Praveen Sahay: Thank you for taking my question. Just a query on the volume side. As you know, I believe that Agri contributes around 35% of the volume and as you also said that I Agri is the weak. Plumbing has done well for our sector, but still I look at the peers, whoever has reported their numbers in volume. Your numbers makes a weak in terms of sequential. So, like, your Agri is lower, Plumbing is a high, Plumbing did well as compared to peers. But again, your sequential volume is lower. So, can you correct me what I am looking wrong?

Nihar Chheda: Can you repeat your question?

Praveen Sahay: Sir my question is on the volume. I believe that volume 35% contribution is from Agri and as you said that agri for the sector is weak and the Plumbing sector and the other component has been strong for the sector. But on a sequential basis if I look at the other peer, who has reported their numbers, their numbers, your number is a weaker in terms of the volume on sequential side. So, even they have a higher contribution of Agri. So, am I looking something wrong in that? How to look at actually?

Nihar Chheda: Yes, yes. So, like I mentioned at the beginning of the call, that volume in our industry, cannot be seen on a sequential basis. It has to be seen on a year-on-year basis. If you look at our past five years of past 10 years, for that matter, Q1 is always going to be significantly lower than the March quarter. That is just an industry trend because quarter four is always heavy, in terms of plumping demand and in terms of, you know, distributors running for their targets and their turnover discounts not only for Prince,

but at an industry level, quarter four is always extremely strong because of the reason. Quarter one for us is always slightly weaker, because we have a lower dependence on Agri, hence, any volume performance needs to be seen on a year-on-year basis. Of course, last year Q1 was impacted, and the base is very small and that comparison would not be fair either. What I will say to conclude is that any volume performance has to be seen on an annual basis, not on a quarterly basis, that would be too much of a short term number with too many variables that play. If you see the past two to three years, on an annualized level, we have still outpaced industry growth, we have still been one of the fastest growing in the industry and that will continue over the next two or three years because of the capacity enhancement investments into branding and distribution and the new products that we are launching in the Piping segment, we still have a strong belief that we will continue to drive industry growth over the next two to three years as well.

Praveen Sahay: Thank you for the answer basically, that is comparing the peers why you had even. Okay, so the next question is again on the comparison on the margin front. There also I can see that more deterioration in your margin versus peers. So, is it because of the inventory loss of the PVC resin largely for you or something else to also there?

Nihar Chheda: No, I think we stated this at the beginning of the call as well that we were holding a higher inventory at the end of the March quarter. So, as of March 31 our inventory levels were at a much higher level than industry or then our usual industry inventory levels as well. This was a conscious effort and we have been stating this consistently over the past four quarters that we are maintaining a higher inventory level because of the supply chain security issues as a result of the global supply chain crisis. So, it was conscious effort for our inventories.

Praveen Sahay: Got it. Thank you.

Moderator: Thank you. The next question is online of Nikhil Agarwal from VT Capital, please go ahead.

Nikhil Agarwal: Good afternoon, sir and thank you for the opportunity. Sir like, we have been seeing that the PVC prices have been falling down, but if you compare sequentially, the cost of raw materials consumed, it is up if you compare it sequentially and so what explains that have you been taking more price cuts in the drop in PVC prices or is it because of the volume mix or something?

Nihar Chheda: So, the prices have come off as a result of the raw material prices, it is a pass-through industry, the increase or decrease in raw material is passed on to the channel in terms of an increase or decrease in the finished good pricing. That is what has impacted the performance. Product mix in line to our regular products.

Nikhil Agarwal: Okay sir and sir like, our CPVC products, they are higher margin products for you like, is my understanding, correct?

Nihar Chheda: Correct.

Nikhil Agarwal: Okay, so like, since PVC prices have been falling down, do we see the demand shifting to PVC more and hence, I am having an impact on your margins going forward.

Nihar Chheda: So, you know, I have traditionally maintained that, even when PVC prices were going up and CPVC was not going up in that same extent, we had always maintained that I do not see much cross cannibalization across the polymers because for that to happen, there needs to be long-term reduction in the Delta of CPVC and PVC prices, only then can a structural change happen in the consumer pattern. This was only a phenomenon for maybe three or four quarters, that does not really change end-level or consumer level behavior. Such gaps have to be there for a longer period of time. So, I do not think the CPVC growth for us over the past three or four quarters has happened because PVC prices were higher. So, similarly, now that the original Delta has come back, I do not see any threat to the CPVC growth going forward.

Nikhil Agarwal: Great sir, so sir could you like give us the volume mix of your Agri demand, Plumbing demand and SWR demand historically. Like, traditionally, what has been your volume mix just some figure on that.

Nihar Chheda: So, traditionally, in terms of revenues, Agri is around 30 to 35% around Plumbing and SWR which is the building material is around 60 to 65% and 2 or 3% is Infrastructure, which is the underground drainage pipes. Tanks is still a very small part of the portfolio and only will start contributing in a percentage basis, maybe in the next one or two years and similarly bathware also will take some time before reflecting on the overall revenues.

Nikhil Agarwal: And your CPVC and PVC in terms of volume and revenue value percent.

Nihar Chheda: So, in terms of volume is around 11 to 13% and in value is around 20 to 25%.

- Nikhil Agarwal:** Okay, thank you so much.
- Moderator:** Thank you. Thank you. The next question is on the line of Udit Gajiwala from Yes Securities. Please go ahead.
- Udit Gajiwala:** Yes, thank you for taking the question. Majority have been answered. I just wanted to check you mentioned that after July there has been some steadiness in demand. So, could you please explain it what was the dealer inventory for the past quarter and what it is now and are we seeing any improvement there?
- Nihar Chheda:** So, the recovery I am seeing is in terms of PVC prices have stabilized in August and we are close to bottom because of the sharp decrease in July and as a result of this stabilization in PVC prices, we believe that demand in August and September should hold steady because this kind of a decrease we have, like I said earlier we have seen maybe, once every decade or once every two or three decades, this sort of a sharp fall. So, I do believe that demand will stabilize in August to September and then start recovering from the December quarter.
- Udit Gajiwala:** Okay sir, thank you.
- Moderator:** Thank you. Next question is from the line of Akhil Parekh from Centrum Broking. Please go ahead.
- Akhil Parekh:** Thanks for the opportunity. Yes, my first question is on the Agri side. You said Agri as a percentage of total volume is 35% for. It is on the volume side and not on the sale side.
- Nihar Chheda:** On the sales side is around 30%.
- Akhil Parekh:** Okay on the sale side is 30% and volume is 35%
- Nihar Chheda:** I mean, this is just I mean.
- Akhil Parekh:** A rough ballpark.
- Nihar Chheda:** I mean a benchmark for what it has been like over the past one or two years.
- Akhil Parekh:** And second is CPVC prices if I remember correctly, last or last one full year highlighted CPVC prices were at Rs. 200 per kg what will be the current price scenario for CPVC?

Nihar Chheda: It will be in a similar range.

Akhil Parekh: Got it and last on the Bathware segment, just want to understand what kind of channels we are going to use, because for sanitary ware and faucet ware, the channels are slightly different as compared to the pipes, because we need better showrooms and all to display the product. So, are we planning to invest anything on that front?

Nihar Chheda: Correct. So, you know, before entering into the segment, a lot of research and homework has been done by my team and one of the most encouraging things was a lot of our distributors today are key distributors in our principal markets especially are already doing faucet and sanitary ware business, which will be a sort of a low hanging fruit for us. Of course, we will not only be dependent on that, in some districts, we will have existing distributors that we will be able to leverage and, in some districts, we would have to open up new channels, which will also help us cross sell our core product which is the Pipe and Fittings. Usually the trend that I understand is that in the larger tier one cities is where there have you know Company owned showrooms and in tier two, tier three market is where large distributors that have worked for us over the past many years would invest in the showrooms and we would maybe incentivize them for that because the margin in this business is going to be accretive for us relative to the core business and design of the product and service after sales service are going to be two key drivers.

So, we recognize that this is not going to be easy, we are not going to see overnight success. We have built the Pipes business over the past three four decades. So, similar investment of not only energy and resources but also time, patience needs to be given to these kinds of divisions which will pay off for us in maybe three to five years' time. So, similarly how we have in tanks a long-term growth strategy similarly we will see for the bathware division and what is important is our team is seasoned professionals who have spent a lot of time in this bathware industry so they know the opportunities, the challenges, the threats and that will really help us to build this business going forward.

Akhil Parekh: Okay, and we are not planning to have any kind of in house manufacturing any sanitary ware or faucet ware at this point of time?

Nihar Chheda: I think we will for the first 12 to 18 months at least it will be on an outsource model. It is still early days what I am given to understand is that investment would be at least

required for the CP Fittings Business. Sanitary ware can still be long-term outsource thing and maybe after three years, we would need to invest. So, the first investment would be towards CP which has the faucet, which also will be after 12 to 18 months at minimum.

Akhil Parekh: And will be using Prince brand for both the product.

Nihar Chheda: We will, you know that is being under consideration currently, whether we would be going with a dedicated brand for the Bathware segment. Either way, we would leverage the Prince brand. So, it would either be or named from the House of Prince or it will be a Prince Brand. On the right time we will make those announcements.

Akhil Parekh: Okay, thanks a lot. That is all from my side and best of luck for the coming quarters.

Moderator: Thank you. The next question is from the line of Rahul Agarwal from InCred Capital, please go ahead.

Rahul Agarwal: Hi, good afternoon. Just two questions both on the industry and partly they have got answered. So, pardon me for reputation, but firstly on Bathware, Nihar obviously, it is a known fact that large national brands are very bullish on the segment. Asian Paints is talking last thing as per recently entered. Kajaria has been trying to grow it 4-5 years now. COVID obviously had some kind of tailwinds for home improvement, and hence, maybe the demand was pretty high for faucet or sanitaryware. Now, from your perspective, your internal research and study just wanted to understand any structural change are we seeing in the segment? Is that the replacement demand versus new demand? What is the kind of thought process you have over the next five to 10 years? If you look at industry growth is not about Prince specifically, but even on industry growth do you think this segment basically grows better than plastic pipes and obviously, as you mentioned, it is more going to be B2C now versus B2B, front of the wall means more branding and Akshay Kumar contract extension by next two years also help, but overall, your long-term vision and your study why Bathware is so exciting, even at a 5% market share at today's revenue at the industry level would be like Rs.750 crores, I think that is a long journey. So, anything you want to share on this, some points? That is my first question.

Nihar Chheda: Yes, thank you for that question. I think for us what was important is we have been the only pure play Pipe and Fitting manufacturer in the industry. So, any diversification that we did has happened after a lot of brainstorming with the team

within the family, a lot of evaluation research homework, a lot of study has gone into this, because this may be our first real diversification, I do not consider the Tanks business to be a real diversification. So, a lot of study has gone into it, I think what was very important for us is, one being able to leverage the brand and the distribution network and the second is to get into a segment where eventually, we would be a maybe not a market leader, but amongst the four or five companies driving the market, we did not want to get into a business where there are already huge giants sitting and it is impossible even after 10 years to become one of the market leaders and have some sort of pricing power, scale and ability to drive the industry trend. So, I think this was a good fit, where at least we see in 5 to 10 years, we will be able to at least be one of the leading recognized brands at a pan India level and build that for us and that was one of the most exciting things. Second is this is an industry which is still 35% unorganized and 65% organized similar to piping and in piping a product which is behind the wall is seeing such a fast consolidation with organized players growing market share and the larger four or five players being able to grow market share in a product which is behind the wall. So, in a product that is front of the wall, we do anticipate that you know market will continue to consolidate larger players with an ability to invest in branding and ability to invest in the product design, to invest in a right service team Pan India, those sorts of players will be able to drive the market and we feel that in the next, five to seven years we can, we are ready to make those investments into brand design, sales team, service team, etc and have the distribution network to have an immediate rollout Pan India in a phase wise manner, So, these were the parameters that was studied and considered, which really excited us to get into this space.

Rahul Agarwal:

Anything on the timing, like it is really coming in all together that all brands, who are already incumbents in the segment, or maybe newer guys are trying to talk about and build this. Everybody suddenly very bullish on the segment, and I am assuming bathware faucet have to do well, the entire ecosystem of pipes and along with tiles, and along with the entire whole market should do well, is it like more related to the real estate, cyclical recovery, which we are very bullish on over the next five to seven years in India? Is that the way to think about it?

Nihar Chheda:

Yes, this diversification is not because we are not bullish on growth in piping. We continue to be bullish on growth in piping and in fact piping industry has been the fastest growing in the overall building materials segment. So, we do believe that core business will continue to take the lion's share and will continue to grow. One of the

reasons you are right is optimism on real estate, I think real estate is overdue for a good performance and we have already started seeing the green shoots of a strong real estate market over the past maybe four or five quarters and I think this will be sustainable and good real estate growth not only in urban India, but in semi urban and rural India as well, where a large part of our brand equity and distribution network is present. So, that the positivity in real estate also has been one of the drivers behind this decision and both new projects and replacement market have been encouraging in the Bathware segment.

Rahul Agarwal: Thank you Nihar. I had a small second question, can I go ahead.

Moderator: Sure sir.

Rahul Agarwal: So, Nihar one question on pipes, overall, obviously there is bullishness around volumes to pick up purely because the PVC price is now reasonable enough for the decisions have been pretty volatile from the income customer perspective. Farmers have been pretty hazy in terms of investing into the fields last year, obviously COVID hit. Do you think a scenario wherein we are talking about volume recovery? Based on your past experience, 30 to 40 years, Prince has been around? Would you see that the volume can actually surprise? You know, we know that 10 to 15% is a good range to work with but 20% plus, is that real a possibility at current pricing or you still think that maybe if you go back to pre-COVID level of Rs. 70-75 to 80 a kg, that is when we can actually see those kind of crazy numbers. So, just a hypothetical question, would you see a volume pick up something like that? Could we expect that?

Nihar Chheda: Yes. So, firstly, this kind of a volatility you are right does not happen every two to three years. It happens once in 10 years. So, it is very important that it does not faze us and then one has to remain patient and then believe in the market. So, that is point number one. Point number two is, in terms of volumes, see this price regime? Say I personally do not see prices going back to pre-COVID levels of that Rs. 70-75 per kg on a sustainable level. I think this current price regimen, given the global trade flows today is very-very conducive to grow and high double digit volume growth going forward is not I would say, impossible. A lot of things have to go right for a consistently sort of 15 to 20% volume growth at an industry level, but maybe for the consolidated players, the larger players, it is more realistic. So, it's hard to really quantify, but yes, this is this bodes well for good volume growth going forward and we have set up the capacities in order to take advantage of such uptrends.

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

Nihar Chheda: Thank you to all who have attended today's call. Thank you.

Moderator: Thank you. On behalf of JM Financial Institutional Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.

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