Prince Pipes and Fittings Limited

Q1FY24 Earnings Call

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MANAGEMENT:

- Nihar Chheda - Vice President Strategy, Prince Pipes and Fittings Limited
- Shyam Sharda - Chief Financial Officer, Prince Pipes and Fittings Limited
- Anand Gupta - Deputy CFO, Prince Pipes and Fittings Limited
- Karl Kolah – Head- Investor Relations, Prince Pipes and Fittings Limited

ANALYST:

- Arun Baid : ICICI Securities

Q&A PARTICIPANTS:

- Achal Lohade : JM Financial
- Chirag Lodaya : ValueQuest Investment Advisors
- Dhananjai Bagrodia : ASK Group
- Rahul Agarwal : InCred Capital
- Praveen Sahay : Prabhudas Lilladher
- Sneha Talreja : Nuvama
- Akash Shah : UTI Mutual Funds
- Udit Gajiwala : Yes Securities
- Harshit Sarawagi : InCred Capital
- Vineet Shanker : JM Financial
- Akshay Chheda : Canara Robeco Mutual Fund
- Keshav Lahoti : HDFC Securities
- Aasim Bharde : DAM Capital
- Rajesh Ravi : HDFC Securities
- Parth Bhavsar : Investec
- Vineet Shah : Shah Group

Moderator:

Ladies and gentlemen, good day, and welcome to Q1FY '24 Earnings Conference Call for Prince Pipes and Fittings Limited hosted by ICICI Securities. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Arun Baid, from ICICI Securities. Thank you, and over to you, sir.

Arun Baid:

Good morning, ladies and gentlemen. On behalf of ICICI Securities, I welcome you all to the Q1 FY '24 results post con call. From the management side, we have Nihar Chheda; Mr. Shyam Sharda; and Mr. Anand Gupta.

Now I hand over the call to Nihar for opening remarks, post which the floor will be open for Q&A. Over to you, Nihar.

Nihar Chheda:

Thank you, Arun, and thank you all for joining Prince Pipe's Q1FY24 Earnings Call. The presentation and press release have been issued to the stock exchanges and uploaded on our website. I hope everyone has been able to go through the same.

During this quarter, we have demonstrated encouraging operational results despite our performance being materially disrupted, as we witnessed numerous transitioning challenges due to the ERP upgradation. This ERP implementation had an impact on our volumes as well as our product mix and pipe fitting ratios since the dispatches of fittings faced major challenges.

This unfavorable product mix and pipe fitting ratio led to significantly lower margins. As of today, these challenges are now behind us, and the pipe fitting ratio should normalize from this quarter onwards.

As operations stabilized, we were quick to enhance focus on execution and improved volumes. Thus, in Q1, we have delivered a healthy volume growth year-on-year despite the operational challenges. This was also the highest June quarter volume in the history of Prince despite the bottlenecks.

It was encouraging to witness volume growth across our segments of plumbing, SWR, agriculture as well as infrastructure.

Before giving you all an outlook on the business, I would like to welcome Mrs. Amisha Vora, Chairman and MD of Prabhudas Lilladher, to our Board. Mrs. Vora is a highly acknowledged equity market veteran with 35-plus years of experience in the capital markets. Mrs. Vora has been a member of the CII Capital Markets Committee since the past 5 years, and we look forward to her valuable inputs on the board towards our business strategy as well as our journey of value creation.

Moving on to the business outlook, which continues to be positive because polymer prices remain affordable and economic activity remains healthy across urban and rural India. We are confident that the buoyancy and demand will continue across segments of building material, agriculture as well as infrastructure.

Further, our transition in demand towards branded products will continue to lead to healthy traction for preferred brands like Prince.

Coming to the Bathware segment, we have launched our collection of luxury faucets and sanitary wear. This launch was done in Goa at our pan-India Distributor Conference, followed by a pan-India sales team meet. We have received an encouraging response from our distribution network, which was present at the launch event. We are now even more confident of scaling this distribution network for Bathware over the next two quarters.

The Bathware range includes nine different collections of world-class faucets and sanitary wear across different price points. The concept of a bathroom has evolved to becoming a lifestyle solution in recent years with homeowners seeking to make a statement in technology enhancements as well as aesthetics.

With this move, Prince makes a presence in the front of the wall category, which complements our growth strategy to offer complete water solutions.

Few more updates on Bathware. The state level teams are in place and the Bathware warehouses at the Dadra facility and in Morbi are now functional. Happy to share that we have received our first order for Bathware in the month of August, which has already been dispatched.

Moving on to the water tanks vertical. As of the last fiscal, we had started in-house manufacturing in Dadra, Jaipur and Telangana facilities. We plan to expand our manufacturing footprint for tanks in the Haridwar and Chennai facilities in the second half of the current fiscal.

The orders for these machines for these two facilities have been placed in this month. This will help us truly leverage our multilocation manufacturing network to scale the tanks business going forward.

Next, I would like to give an update on our eighth manufacturing facility in Bihar. I'm happy to announce that we have successfully acquired land in an industrial complex and will commence construction soon. This plant will cater to demand in East India, which is a major frontier of growth for the nation as well as for our industry going forward.

This move will not only lead to savings in freight costs, but also superior service to the fast-growing Eastern market. Over the years, we have integrated our sustainability goals and business strategy. We extend this same ESG focus to our new business of Bathware.

I'm happy to announce that our Kristal range of faucets has received GRIHA certification. As a result, any builder installing our Kristal faucets collection would earn green points for their green projects. Such certifications will help us cement ourselves as a preferred brand in the Bathware segment over the long term.

Lastly, I am also happy to share that Prince Pipes has sponsored the latest film of our brand ambassador, Akshay Kumar, Oh My God 2. This strategy of film association started in 2019 when we sponsored Mission Mangal, then in 2021 when we associated with the blockbuster, Sooryavanshi. And now in continuation, Akshay Kumar continues to be the face of Prince Pipes through OMG 2. Through this, we have created strong visibility in our focus markets across India. These film associations not only help us build brand equity, but also help us engage with retailers and plumbers across urban and rural India.

In conclusion, I am extremely optimistic about the growth of India over the next few years. We are geared up to aggressively participate in India's growth journey, which is happening at breakneck speed.

Now with our presence across pipes, water tanks and Bathware segment, we are geared up to strengthen India's water infrastructure during this crucial phase of growth for the Indian economy. Thank you for your time and mind share. I will now hand over to Anand to take you through the financial performance.

Anand Gupta:

Thanks, Nihar, and good morning, friends. I will be taking you through Q1FY24 financials now. For Q1FY24, revenue stood at Rs.554 crores. Sales volume grew by a healthy 19% year-on-year at 37,155 metric tonne. For Q1FY24, EBITDA stood at Rs.45 crores as compared to Rs.44 crores in Q1FY23. EBITDA margin for Q1FY24 was at 8.1% and were better year-on-year but got adversely impacted due to unfavorable product mix, pipe fitting ratio and also on account of ERP issues relating to dispatch of fittings.

PAT reported at Rs.20 crores compared to Rs.16 crores in Q1FY23 and it has an improvement of 25% year-on-year. Net working capital days were at 59 days as of June 23, as compared to 57 days in March 23.

During ERP migration, the trade control activity was not fully operational, due to which debtor days increased to 64 days in June '23 from 56 days in March '23. We acknowledge that the debtor days needs to be tightly controlled and that there is significant scope for improvement, and we are continuously working towards the same.

As we had guided earlier, we will not shy to keep optimal finished goods inventory to service healthy demand. Inventory days stood at 73 days as on June '23 from 57 days in March '23, and 78 days in June '22.

We expect the polymer price for next few months to be stable. In channel finance program, we have made steady progress since the recourse has shifted to distributors. We have increased the credit limits of our channel partners from Rs.70 crores to Rs.105 crores and the number of channel partners engaged in this program has increased from 76 to 132. We maintained our net cash position at Rs.164 crores as of June '23.

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

Moderator:

Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Mr. Achal Lohade from JM Financial.

Achal Lohade:

In terms of the volume outlook, can you help us understand how July has been? And how the trends in terms of plumbing and Agri you're looking at? And a broader sense in terms of the volume growth guidance for the next 3 to 5 years. And in terms of competitive intensity, do you see it increasing given everybody's adding capacities? Could there be a risk to the pricing stroke margins?

Nihar Chheda:

So I think, let me answer short term first and then move into long term. So specifically, I think July volumes have been encouraging, and we have seen good growth and looking forward to sustain that over the remaining 9 months of this financial year.

We are optimistic about demand. Real estate continues to do well. Polymer prices continue to be affordable. Any movement upwards or downwards will be range bound, which is very conducive for industry growth as well as growth for the branded players.

As far as 3 to 5 years, we are the way, we are adding capacity. We look forward to high double-digit growth over a 3- to 5-year period. And despite entering into water tanks and Bathware, I think we continue to be extremely bullish about the pipe segment.

And your last point about competitive intensity and everyone adding capacity. I think this has not been a new phenomena for the pipe industry. If you see the past maybe 5 to 10 years, the larger players like ourselves have always consistently added capacity with a vision for the kind of growth that the piping industry has seen.

So I think this is just the start, actually. I think we are -- at no point is demand going to -- supply will not outpace demand. So we continue to be bullish and industry will continue to grow. And I think with the kind of growth prospects, we don't see the need for predatory pricing. So this growth will be much more sustainable and then profitable going forward.

Achal Lohade:

Right. The second question I had was with respect to CPVC, the raw material cost. What we understand is that there is a correction in the CPVC prices as well. Has it been the case for us as well? And given the supply -- increasing supply of CPVC in the domestic market, do you see the overall demand supply for CPVC segment tilting towards pricing pressure?

Nihar Chheda:

Yes. So I think there has been correction in CPVC prices across the industry as well as for us. And we do believe that there is more room for correction. We have seen the steep correction in PVC. So that is bound to follow in CPVC, maybe with a slight lag. But with the kind of local capacities that are coming in, in India, there is further room for correction in CPVC.

Having said that, for the long term, I think this is a very good phenomenon because at the end of the day, we believe supply creates demand. And when there is going to be local capacity in India, that is going to make CPVC more affordable. And for CPVC to grow the way PVC has, local capacity and affordable pricing is very important. So I think this affordability in CPVC bodes well for growth from a 5-year-plus perspective. So that's how we see the CPVC market.

Achal Lohade:

Got it. Just one more question with respect to the plumbing business. If you look at last few quarters or years, we've seen the plumbing growth has been fairly good in terms of volume. Is that understanding right? I'm not talking just about 1Q or 4Q or last 4, 5 years, the plumbing growth has been in double digits. Is that a fair assessment for us and the industry?

Nihar Chheda:

So industry, I don't know if it would be double digit, but for us, definitely, it has been double digit. I think if you -- apart from this couple of quarters, the growth has been largely driven by building material because PVC has become unaffordable and extremely high, which impacted Agri. Despite which, there was a healthy performance. So that was largely driven by building material.

So plumbing has grown over the past few years for the industry as well as for us. And for us, our focus is towards building material going forward as well. And I think with the way real estate is, I think in the next 2 to 3 years, at least, we are excited about growth in plumbing and SWR and we are accordingly setting up capacities as well.

Achal Lohade:

Got it. Just a couple of data bookkeeping question, basically, with respect to capex, how do we model that for FY '24 and '25 in terms of quantum and which locations and what kind of capacity addition?

Anand Gupta:

So largely, Achal, it will be for our bottlenecking in the existing plants and the one which we have announced for East. So these are the 2 -- these will be the 2 major things which we'll be doing.

In terms of -- I'll not include East right now in terms of projecting what will be in FY '24. So FY '24, normal existing plants will consume around Rs.100 crores. It will be Rs.90 crores to Rs.100 crores in between and that will be consumed for internal thing. And we are in a planning stage of East. And by next quarter, we'll be ready with the projection that how it will be flown in FY '24 and what will be the split in FY '25.

Achal Lohade:

Understood. Understood. And just, as of June, what is the gross debt and the cash and cash equivalents?

Anand Gupta:

So net cash is Rs.164 crores in our books. So Rs.40 crores is working capital utilization and around Rs.195 crores is the cash equivalent in our books.

Moderator:

Our next question is from the line of Chirag Lodaya from Valuequest.

Chirag Lodaya:

Congratulations on good set of numbers. Sir, my first question was on overall capacity utilization. At company level, what kind of utilization we are? And also, if you can highlight for Telangana plant?

Nihar Chheda:

So utilization, steady state has been around 50%, 55% on installed capacity. Of course, Q1, it would be slightly lower because of the disruptions. And Telangana, actually, we have seen good utilization in the first few quarters since the plant has been set up in end of '21. So I think Telangana capacity utilization would be around 35% to 40%.

Chirag Lodaya:

Okay. In terms of realization, if you see this quarter, it has gone down sharply. And the reason you explained is the mix changes, etcetera. Going ahead, what kind of realization one should expect given the PVC prices restabling at this level?

Nihar Chheda:

So I think, obviously, this -- like you correctly said, this quarter, the realization per ton was lower because of the unfavorable pipe fitting ratio and product mix. So this will improve from here on. It's hard for me to quantify, but it will be higher than what it is today because in the market, we have -- as we are investing in branding, our pricing power has also improved over the past few years. Then product mix also has improved over the long term, and this will continue.

So tough for me to put a number on it, but it will improve from here on, as we have normalized.

Chirag Lodaya:

Right. And just lastly, on sourcing mix. How would be our sourcing mix now? .

Nihar Chheda:

Sourcing for PVC?

Chirag Lodaya:

PVC.

Nihar Chheda:

Yes. Sourcing for PVC is 60-40 split, 60% import, 40% domestic. And yes, that's how it is.

Moderator:

Our next question is from the line of Dhananjai Bagrodia from ASK Investment Managers.

Dhananjai Bagrodia:

Just a couple of questions. I think some of my questions have been answered. Just a couple of questions in regarding now, ERP implementation. Is everything done with it. Now going ahead, will it be back to normal?

Nihar Chheda:

Yes, our performance from this quarter onwards will be normalized.

Dhananjai Bagrodia:

Okay. And second part on the Bathware, faucetware, is any -- like now that you all have an idea what's happening in the market, what competitors are doing, what our brand positioning. Any strategies you could tell us like what is our right to win in this segment and what we are doing compared to the others because if you see, there have been some large players who haven't really grown over time. Obviously, they reached a larger scale, we're starting off in a smaller space -- smaller scale, sorry. Anything which we could share on our side?

Nihar Chheda:

Yes. So Dhananjai, we have always believed that in any business, be it pipes, bathware or water tanks, there is no one clear right to win. You have to do a lot of small things right. And we believe, first and foremost, investing in the right people who have the experience of that business, which is what we've been able to do by getting the team from the incumbent. After that, invest heavily in branding.

This is a front-of-the-wall product. So brand equity becomes even more important than the pipes and water tanks vertical. And we already have a very strong distribution network across urban, semi-urban and rural India, where we have to cross-sell Bathware. So we are very clear that this is not going to yield overnight results. There's a lot of patience that we will have to give.

But it's a Rs.15,000 crores industry, where 65% of the industry is organized, and 35% is unorganized. And this will continue to grow double digit over the next few years. And we believe we have the right product, the right service infrastructure, which is very critical, the right team and the right distribution network to create value over the long term.

Dhananjai Bagrodia:

And like, what is our go-to strategy? Are we going to be going directly to builders more or are we going to do the B2C where we'll have shop-by-shop open?

Nihar Chheda:

So initially, we'll take whatever we can get. So it's going to be a combination of retail and projects. Retail, of course, takes time for the brand to build. Builders, it has to be a slightly more - it's a very different kind of selling, more relationship-driven, more price driven. So it will be a combination of both. More focus on retail and distribution because that's a sustainable strategy over the long term.

Dhananjai Bagrodia:

And have you been able to do any tie-ups with any of the builders? But considering now, we're seeing real estate project launches happening significantly. So any of the larger players, have you been -- are we working on like doing a tie-up with them or anything along those lines?

Nihar Chheda:

Yes, of course, I think that's a key part of the strategy. And luckily for the pipes business, it's been 3 years now that we've set up the project vertical. And we've been able to become a preferred brand for a lot of large real estate developers. And now it's a point of leveraging those relationships to sell Bathware as well. So it's still very early days. We've just had our first invoice in this month. So those things will fall into the place over the next few months.

Dhananjai Bagrodia:

And just last one question on pipe segment. We've seen other players obviously have stronger volume growth, which we weren't able to put in our ERP implementation. But let's say, going ahead, would we be able to recoup all that? Or is that something which will then take time to recoup the lost market share?

Nihar Chheda:

So I don't see it as lost market share. Of course, the Q1 volumes were impacted. Despite which, we were able to do this kind of a high double-digit growth. So I think from this quarter onwards, we are optimistic about demand. All our 3 applications of building material, Agri and infrastructure are well-poised for short term as well as long-term growth. And we have the capacity and the distribution to participate in this. So we are optimistic about growth.

Dhananjai Bagrodia:

What would be your capex number for this year?

Anand Gupta:

So as I said, the capex number will range in between Rs.90 to 100 crores, excluding the East projects. The breakup of East, we will be giving in Q2, then we'll finalize the drawing plan and the execution plan, the split between FY '24 and FY '23.

Moderator:

We have our next question from the line of Chirag Lodaya from Valuequest.

Chirag Lodaya:

Just on capacity side, I wanted to understand what kind of – what size we are looking for each ballpark?

Nihar Chheda:

Yes. So it will be in 2 phases, Chirag. Phase 1 will be 35,000 to 40,000 MT. And Phase 2, we'll take it from there.

Chirag Lodaya:

Right. And in terms of brownfield capacity addition in existing plant, are we considering any of those? And which are the plants where we can do this brownfield expansion?

Nihar Chheda:

So from an infra, so, yes, we are considering certain debottlenecking in -- especially in DWC, HDPE water tanks and some, of course, in the core of PVC, CPVC as well.

So from an infrastructure point of view, we are actually able to add capacity at the Jaipur, Telangana, Haridwar and Agra, all these plants, we can add capacity. That's how the infrastructure is set up. Some of the plants like Athal, Kolhapur and Chennai are slightly strapped for further major capacity addition.

But I think, I would say 4 out of the existing 7 plants, we do have infrastructure to have some kind of brownfield as and when the demand requires it.

Chirag Lodaya:

And generally, what is the lead time to add the brownfield capacity?

Nihar Chheda:

3 to 4 months.

Chirag Lodaya:

Okay. And another thing was on overall infra side. There is a lot of demand, etcetera. So are we also aggressively participating in that?

Nihar Chheda:

We are participating. Maybe not as aggressively because we want to be very conscious of receivables. So it doesn't really make sense to stretch the balance sheet to participate in this demand because already it is low margin.

And on one side, for the retail and projects business, we are trying to significantly improve the debtor days. So we will participate. And DWC segment has actually seen very strong growth over the past 2 years. If you see the volume CAGRs have been very encouraging. HDPE also has been good, but we are careful about the receivables. So we will grow steadily in the infrastructure as well.

Chirag Lodaya: And on overall margins front, I mean, with improvement in overall utilization over the next 2 years, do you see our margins moving beyond like 13%, 14%?

Nihar Chheda:

So medium term, I think 13%, 14% is a fair estimate. Are we happy with that? No. We are aspirational for a better operating margin, and that will come as product mix improves, as CPVC contribution grows, as operating leverage, like you correctly said, improves and we start moving closer to 180,000 – 200,000 MT. I think those operating leverage will also be beneficial as cost absorption will be better.

And I think some of the new products that we have come into within piping, like the modern plumbing, surface drainage products and low-noise piping, as well as once Bathware scales up, I think this kind of a product mix will help improve the margins. But that would be over the long term. For now, our focus has to be on sustaining the 12% to 14% operating margin and have industry-leading volume growth.

Chirag Lodaya:

Okay. And in terms of this Bathware launch, etcetera. So initially, definitely, there will be investments going behind this. So what kind of initial losses you are expecting over say 1 or 2 years, some ballpark number?

Nihar Chheda:

So I think in 1Q, the launch that we did with the Pan-India Distributor Conference in Goa. I think that cost was approximately around Rs.2 crores, which is obviously one time. And over the – on an annual basis, I think, Rs.5 crores to Rs.6 crores of an investment into manpower and Rs.10 crores to Rs.12 crores of investment into brand building for – exclusively for the Bathware vertical.

Moderator:

Our next question is from the line of Rahul Agarwal from InCred Capital.

Rahul Agarwal:

The first question was on Nihar. So essentially, East and North East, right, what's the market size there? And how much that will sell today there? Because I'm looking it from a perspective of freight savings going forward. And secondly, obviously, I know that you mentioned that the plan is not ready yet, and it will be in phases. But more direction on what's the thought process here? My sense is it should be like more integrated complex, which will have most of your products across pipes and value-added products.

If you could give some more color in terms of what's your plan for this market and what sells there and what does not.

Nihar Chheda:

Yes, that's a good question. So yes, you're right. This is going to be more of a complex, where in the long term, we will have all kinds of pipes, PVC, CPVC, DWC, HDPE, water tanks, we will have from day 1. And fittings as well, is a part of our long-term strategy at East. So initially, we may start with a small capacity of fittings, but we will scale that up.

So in the long term, maybe 3 years from today, I can see Bihar plant being one of the largest plants for Prince Pipes. So we are very bullish on the Eastern market, the kind of growth that we have seen. Without having a local plant, it's currently -- we are only having outsourced in East that too only for 1 or 2 product categories.

So the moment we have an entire basket that we're able to sell locally in East, I think there can be very strong growth across segments of building material and infrastructure, as well as across pipes, fittings and water tanks.

This Eastern market, to answer your last question, what sells, what doesn't sell. I think pretty much everything sells like PVC, CPVC, underground drainage. Maybe it's not as heavy on agriculture as the rest of the country for obvious reasons. But apart from that, I think we are very confident of being able to cross-sell our entire product range of pipe fitting tanks across PVC, CPVC, HDPE and LLDP.

So like I said, in 3 years from now, this will be a large complex and one of the largest facilities in Prince Pipes.

Rahul Agarwal:

So as of now, the East region sales for Prince Pipes would be like what kind of mix today?

Nihar Chheda:

So we do not give out geographical breakups for competitive reasons. So -- but today would be around 15% to 20%.

Rahul Agarwal:

So there is a freight canvass here, right? I mean, this entire 20% is either outsourced or it is supplied from some other plant, which obviously, will better the quality once you have your own plant and whatever you source from other locations should save some money for Prince, right?

Nihar Chheda:

Correct. So initially, I would like to pass on that freight benefit to the channel to ramp up capacity utilization. I think the more important, maybe low-hanging fruit is, obviously, being able to resell by having everything under one roof. And obviously, quality of in-house manufacturing is always going to be -- you cannot compare that to outsource. So I think we are excited about the cross-selling opportunity as well as the in-house control on quality.

Rahul Agarwal:

Sure. Got it. And last question on Bathware. I'm not sure whether we are having in our own facility here or doing outsourcing right now just started. But just 3- to 5-year thought process, I think, we've seen faucets and sanitary ware premium products doing in-house and everything else outside is a good kind of ROC perspective.

But your thoughts on how would you think about your Bathware in terms of in-house, outsource and brand building going forward? 3 to 5 years, not short term.

Nihar Chheda:

Yes. I think obviously, manufacturing for faucets is -- needs to be announced. So over the next 12 to 18 months, we would like to have in-house manufacturing. We are actively looking for opportunities. So at the right time, we will have that. So within 18 months, we should have that.

And as far as brand building is concerned, see, we are very clear that investing in brand has to be a long-term strategy, has to be seen as an investment, not as an expenditure, especially for a product which is front of the wall. I think a lot of brand building has to be done here. The target audience also is slightly different compared to pipes. Pipes for retail is the plumber or the farmer, is the influencer. And for the project segment, it would be, maybe a contractor or the builder. Whereas for Bathware, there are architects, interior designers, developers themselves. And homeowners, I think that is a very big part of the overall value chain for Bathware. That the homeowners themselves also is engaged.

So I think extensive investments need to be made across digital, across having visual merchandising, the touch and see kind of product, as well as brand visibility from an ATL point of view, by having visibility across hoardings or across media.

So this is something that we will invest in. We will continue to invest in. For us, we have always been very clear while taking the decision to come in to Bathware. This is going to be a long-term strategy, which we need to commit to and we are fully committed to that in terms of investing in brand, people and technology.

Rahul Agarwal:

So you said Rs.5 crores, Rs.6 crores per year on manpower, Rs.10 crores to Rs.12 crores of brand building, that basically is about Rs.16 crores to Rs.17 crores. On a net basis, I would imagine a Rs.5 crores. Would you restrict yourself to, like, Rs.5 crores, Rs.6 crores of losses, let's say, initial 2 years? Or is that something which plays on your mind?

Nihar Chheda:

So see, we have to be -- we are prepared for making an investment into this. There is no one particular x number in mind. But I think within 18 to 24 months, this is the maximum we can give in terms of Bathware bleeding into core margins. I think from -- after 6 to 8 quarters, it should become non-dilutive into the core business. So I think that's a realistic way of looking at things.

Rahul Agarwal: Okay, because my sense is even if you breakeven, it will still be dilutive, right? So obviously, we are not talking about 13%, 14% of Bathware margins, at least 3 years out, right? Obviously, even if they make 5% then still be dilutive.

Nihar Chheda:

You're right. So maybe dilutive is not the right word, but bleeding into the core profitability. We are very clear that in the long term, this is going to be a better business in terms of operating margins over the long term. If you see the performance of the current brands in the Bathware segment. So over the long term, definitely, it is going to be profitable. So we have to be prepared for this kind of investment in the short term.

Moderator:

Our next question is from the line of Praveen Sahay from Prabhudas Lilladher.

Praveen Sahay:

So the first one is like the value-added products you have. Can you give some color like how much is the contribution right now? And also on the -- like which all you considered as a value-added?

Nihar Chheda:

So currently, CPVC and PPR systems as well as PVC fittings tend to be value-added.

Praveen Sahay:

And how much contribute to your top line?

Nihar Chheda:

So I think pipe fitting ratios historically have been -- fitting has consistently been 30% to 35% of revenue, which was obviously significantly lower in Q1, which impacted our performance, but pipe fitting ratios, I think, 30% to 35% revenue comes from fittings. And CPVC and PPR -- CPVC has been 20% to 25% of revenue and PPR has been around 4% to 5%.

Praveen Sahay:

Okay. And one thing on the one-off expenses for the quarter. As you had already mentioned to quote Bathware launches. Is there any one-off of ERP as well? Because last quarter call, you had said 90% cost has been absorbed in FY '23. So is there something in this quarter as well? Or the sponsor cost, the movie sponsor cost, is it treated as a one-off? What exactly all 3, 4 one-off you had seen in this quarter? And how much is that?

Anand Gupta:

So apart from Bathware, what Nihar mentioned about Rs.2 crores, there is nothing like one-off in this quarter. The ERP-related expenses are treated as intangible, wherever it is applicable. And it has gone into the gross block. And the operating expense obviously has come to the P&L, which is not significant. And so one-off is only Bathware related expense.

Praveen Sahay: Okay. And also on the clarification on your capex part, as you have mentioned, Rs.90 crores to Rs.100-odd crores for FY24. Is it not including the land acquisition, which you mentioned in the opening remark, that's for Bihar, you had already acquired that?

Anand Gupta:

So the Rs.90 crores to Rs.100 crores is purely for our existing plants. It does not include anything of East. East, as I mentioned, the breakup -- the split between '24 and '25, we'll provide in Q2. So Rs.90 crores, Rs.100 crores is purely on the existing plants.

Nihar Chheda:

So just to add to what Anand said, this Rs.90 crores to Rs.100 crores is for existing plants, for debottlenecking, for maintenance and to maybe adding capacity for some of the newer products like water tanks or HDPE in certain facilities.

Moderator:

Our next question is from the line of Sneha Talreja from Nuvama.

Sneha Talreja:

While you said there are no one-offs apart from Bathware division, is there any inventory loss in this particular quarter?

Nihar Chheda:

Yes. So there is an inventory loss. It's not very significant, around Rs.10 crores of inventory loss in Q1.

Sneha Talreja:

All right. But with the current PVC prices moving up, do you see inventory gains in the second quarter, like the leader mentioned that can offset inventory losses in Q1. Do you also see similar trends? Or is there any other opinion here?

Nihar Chheda:

I think we'd like to be conservative. I think it's still the middle of the quarter. I think it's more likely to -- it comes with a lag effect, so I think more likely in the third quarter. But I think, we have still a long way to go. So I'll not comment on -- I don't want to speculate on that sitting today.

Sneha Talreja:

Sure. Got it. And my second question on the volume run rate. While in a lot of your comments, you mentioned that you would be wanting to do industry-leading growth. This particular quarter, you've already done 19% and you're mentioning double-digit growth for the full year.

I would want you to give a specific range at least, like example, the leaders are mentioning 23% to 25%. Where do you see that growth run rate? Because I'm speaking on -- let's speak about Q2 itself, you're sitting at a low base of minus 10% volume growth. So that definitely means that will be -- growth looks like upwards of 20%. So where do you see this range? Because double-digit could be anywhere between the 10% and it could be also the highs of 30%. And you also mentioned industry-leading growth. So just confused there. What is the sort of growth that you're looking at in FY '24?

Nihar Chheda:

So I think, Sneha, I think industry-leading growth is always on a medium term to long term. Quarter-on-quarter, there could be up or down. And other players are -- every organization is different and will have their own style of guiding the street. We are very clear since the IPO, we have always been very conservative. So I will stick to a guidance of double digit. That may not be the answer that you want to hear, but I think it's still the middle of the quarter. We have a long way to go. We are aspirational for growth, and we are aggressive internally to have a high growth, and that's how we are putting up capacity aggressively. But sitting today for the entire financial year, I think we are confident of double-digit growth, and I will stick to that.

Sneha Talreja:

But fair to assume your Q2 will definitely be higher than your Q1. And H2 definitely is higher than your H1 in a normal circumstance. We can put the number ourselves, but then just giving this breakup to you.

Nihar Chheda:

No, I will stay away from that. It's -- I don't think we can put a -- that Q2 growth is going to be higher than Q1 or any of that. Q1, as you're aware, it is Agri heavy. And last year, the base of Q1 did not have any agri. So all I can say is July growth has been encouraging. And with price hikes happening, there will be restocking. So we need to wait and watch and let the numbers do the talking once the numbers are out.

Sneha Talreja:

Secondly, I also just wanted to understand from you. I mean, your fitting share this particular quarter, as you said, has taken a dips on margins. From next quarter onwards, should normalize and leaving apart inventory losses, you see stable margins there or you see one-off continuous thing to impact? And does that 13% to 15% margin range factor in the Bathware expenses that is taken care of? Or how does that work?

Nihar Chheda:

Yes. I think, ex of Q1, if you see the 9-month numbers, we'll stick to this 13%, 14% guidance inclusive of all expenses.

Sneha Talreja:

Understood. And lastly, in case you can specify how are you doing in the Infra segment. You did highlight a bit on the previous participant's question. But how are you placed? Would you be able to quantify some bit. How much of the revenue is coming in from there? And you also said in one of the commentary, you are expanding capacity in HDPE side. So some comments on there would be helpful.

Nihar Chheda:

Yes. So HDPE currently, I have capacity in the Jaipur and Hyderabad facility. We will be expanding HDPE capacity at the Jaipur facility. And whenever Bihar commences commercial production, we will be manufacturing HDPE and Bihar from the first day.

And that is one part. Obviously, DWC for us is a larger part being one of the early movers in that segment. And DWC, we launched in 2017. First couple of years were challenging because of the late adoption curve in the Indian market. But I think past 2, 3 years, we have seen very strong volume CAGRs. And the Indian market now has very well accepted that DWC is the only solution to replace cement pipes from a product life cycle point of view, from a user convenience point of view, and more importantly, from an execution speed point of view.

So I think we are only going to grow faster in the infrastructure segment. Of course, we are -- DWC for us is a very large contributor relative to HDPE, where we have a very small capacity. So I think today, infrastructure would be around 3% to 5% of the total revenue.

Moderator:

Our next question is from the line of Akash Shah from UTI Mutual Funds.

Akash Shah:

Sorry, all my questions are answered.

Moderator:

Our next question is from the line of Udit Gajiwala from YES Securities.

Udit Gajiwala:

Just one question from my end. Sir, when you say that July has been good. So has this resorted to normalcy in terms of your value-added pipes and fitting mix?

Nihar Chheda:

I think July has been heavier on PVC because we saw price hikes in PVC. So pipe fitting ratio will be normal for the second quarter. But yes, the overall growth in July has been good.

Udit Gajiwala:

And sir, just previously, when you answered that your infra is 3% to 5%, so this infra constitutes the Jal Jeevan projects that are ongoing or is that placed in your agri?

Nihar Chheda:

Yes, the Jal Jeevan Mission is in agri. When I say infra, I'm referring to DWC and HDPE.

Udit Gajiwala:

So we are not participating so actively into the Jal Jeevan projects. Is that right?

Nihar Chheda:

We are. We are participating. We don't directly sell. We sell through our channel through the contractors. But we have participated in growth over the past few quarters, and we will continue to as long as the receivable cycle is disciplined, we will participate. Going forward over the next -- just to complete that part, I think over the next 2 to 3 years, this demand from Jal Jeevan Mission, we'll continue to support and we'll continue to be a driver for this industry apart from, of course, real estate and agriculture doing well. I think this is also going to help the industry grow at a fast pace over the medium term.

Moderator:

Our next question is from the line of Harshit Sarawagi from InCred Capital.

Harshit Sarawagi:

What has been your ad spends during the quarter?

Nihar Chheda:

Rs.12 crores.

Harshit Sarawagi:

And what do you peg for the entire line that's coming?

Nihar Chheda:

Typically, we have invested 2% into branding, which should be in that range. This is for the piping vertical. For Bathware, it will be Rs.10 crores to Rs.12 crores. Cannot be seen as a percentage today because Bathware business obviously will take its time to establish itself. So 2% for the pipe and water tank revenue put together and Rs.10 crores to Rs.12 crores on a stand-alone basis for the Bathware business.

Moderator:

Our next question is from the line of Vineet Shanker from JM Financial.

Vineet Shanker:

Yes, my first question is, in your opening remarks, you mentioned about the channel financing, number of dealers accepted. So just can you highlight on that channel financing. How many dealers have been enrolled in that channel financing scheme? Second question, current strength of the dealers?

Anand Gupta:

So as I mentioned, channel partners right now is around 132. We have scaled this up from 70s to this level after the course has been shifted in last Q3 of FY '23. Since then, we have been actively working with our team and the enrollment is in progress wherever the interested parties are. And right now, it is 132. But going forward, we are identifying such channel partners who have strength to take this program in their stride, and we are helping them to participate. So this number will grow from 132 in coming months.

Vineet Shanker:

Okay. And second on the distribution network for Bathware division, how many distributors have we enrolled? Or by the end of the year, how many distribution -- distributors are we going to see? If you can just highlight on that distribution strategy of Bathware division?

Nihar Chheda:

Yes. So I think it's very early days because we just had our first dispatch to our first distributor appointed in Bathware. So in terms of target for number of distributors in Bathware, you'll have to allow us till the next quarter commentary to give a better visibility on that.

Moderator:

Our next question is from the line of Akshay Chheda from Canara Robeco Mutual Fund.

Akshay Chheda :

Just one question, sir, just on this channel inventory. So when you say that July was good. Is it -- does it hold true for both primary and secondary sale? Or it is just that the channel is up stocking in anticipation of further PVC price hikes? So just your thoughts there.

Nihar Chheda:

So I think, yes, we have seen price hike. So there has been channel restocking. But at the beginning of the quarter, channel inventory was low to moderate. So I think this quarter, we should see channel inventory normalize. I don't think it is going to -- you're going to see a major increase there because while there are price hikes, there are not -- the upside is still capped, which is good from a growth point of view, a more steady PVC pricing. But you're not going to see very aggressive restocking because the PVC price will be range bound.

Moderator:

Our next question is from the line of Keshav Lahoti from HDFC Securities.

Keshav Lahoti:

As we can see, because of unfavorable mix, your Q1 margin was impacted. Can you throw some colour on how -- what has been your fitting mix in Q1? What is the margin differential?

Nihar Chheda:

So fitting there, extremely value-added product for us, it's -- the gross margin is 1.5x to 2x the gross margin of pipes. It's a basket selling. So it's -- the margin should be seen not on a stand-alone basis, but on a blended basis for pipe fitting. So I think as pipe fitting ratios will normalize, fittings contributes to 32%, 33% of revenue which this quarter was closer to 25% for us. I don't have the exact numbers, but that's the approximate ballpark. So 9 months x of Q1 for this financial year, I think we will stick to 12% to 14% operating.

Keshav Lahoti:

Okay. Okay. Got it. That is helpful. What sort of price correction we have seen in CPVC pipes in Q1? And how much you expect in upcoming quarters?

Nihar Chheda:

So I think we have seen a correction in the first quarter. And like I said, with PVC prices coming down, we do expect CPVC prices to come down as well. It's with a slight lag, and it may not be to the same extent because PVC is much more commoditized. CPVC is not as commoditized. And still, while there has been capacity addition as far as raw material is concerned, still, there is not ample capacity, I think that will come in over the next 1 or 2 years. So we don't expect some major corrections, but you could see some minor corrections in the next couple of quarters.

Keshav Lahoti:

Okay. Can you please quantify the correction for Q1?

Nihar Chheda:

So on the raw material, obviously, we will not quantify that. But on finished goods, I think it has been in the range of 5% to 6%.

Keshav Lahoti:

Okay. Is it possible for you to throw any colour on what would be the Bathware loss in FY '25 or too early?

Nihar Chheda:

Too early for that. You'll have to give me some time.

Moderator:

Our next question is from the line of Aasim Bharde from DAM Capital Advisors.

Aasim Bharde :

So I have a question on the Bathware business. Would it be predominantly moat towards projects in the first few years to build volume despite the brand building plans you have?

Nihar Chheda:

I think, like I said, we'll take whatever we can get. Yes, projects will be some low-hanging fruit because it is more relationship based than if you are able to offer the right range at the right price point, I think it becomes easier, especially in Tier 2, Tier 3 markets. But we have to -- while we have to play the short-term game of having product going into the market and then playing the number game, we also have to keep our eyes on the medium and long term, which will happen only through retail and distribution. So it has to be a combination of both. And as a new baby into this segment, we are -- focus is going to be on retail and projects, both. We will take everything that we can get.

Aasim Bharde:

Okay. So but still in the near term, basically over the next 4, 5 years, assuming Bathware business becomes a -- so do you have any rough percentage in mind, how much would Bathware be as the overall top line contributor for you, guys, for the next 5 years?

Nihar Chheda:

See, I've never seen it like that, Aasim, because pipes and water tanks will continue to grow and continue to grow aggressively. So it would be unfair for me to say Bathware should be x% of the overall business because the rest of the pie is going to continue to grow. And we are putting up capacities aggressively to ensure that, that grows higher than what the industry is growing.

So we do have internal targets for where Bathware should be 3 years from now. And we'll share those numbers with the street as and when we achieve those milestones.

Aasim Bharde:

Sure. Sir, actually, my question was why I was asking is, because if it is more on the project side, would it impact working capital on an overall level? But if it's restricted as a percentage of revenue, then maybe it doesn't really matter. So that's actually what I was trying to get a sense of.

Nihar Chheda:

Sure. And I'll give you some direction on that. I'm very clear that the project business for Bathware will work the same way the projects for pipes work. We will not directly sell to a single builder or a contractor or a developer. We will sell through the channel. And it's the channel's role to invest in the market and accordingly on whatever margin they need to. But we will not expose ourselves directly to builders.

We've been able to do that in pipes and grow in projects over the past 3 years. And I think the same philosophy will apply to the projects for the Bathware segment. So it will not stretch working capital, whether it is retail or projects, it will be done through our primary distribution network.

Moderator:

Our next question is from the line of Rajesh Ravi from HDFC Securities.

Rajesh Ravi:

While some of my questions are answered. At the cost of being repetitive, I just wanted to understand this ERP implementation. What was the volume impact? Because I see, there is a large stock in trade, which is there at June end. So if this ERP implementation were not there, what sort of volume growth -- volume growth number would have looked like?

Nihar Chheda:

Yes, I think, it's obviously tough to quantify because you cannot scientifically arrive at this number. But we had operations impacted in April and beginning of May. So we did lose out on sales. Hard for me to quantify that. But I am optimistic despite these kind of challenges, we were able to do a high double-digit growth. And then hopefully, we will be able to continue that momentum over the next 2 to 3 years.

Rajesh Ravi:

How is July growth different from the Q1 numbers. And if you annualize it for 3 months?

Nihar Chheda:

Yes, yes. I don't want to speculate on quarterly growth. We have always been conservative. So that the numbers stop whenever the numbers -- whenever the good results are out, but July has been encouraging, we have seen double-digit growth in July.

Rajesh Ravi:

So the sharp margin contraction, which you have seen in this quarter, you're saying is mostly because you lost sales? Or there are other factors like there's a pricing pressure or product mix is obviously one factor which you mentioned?

Nihar Chheda:

Yes. It's led by -- like I said in my opening remarks, it's been primarily driven by unfavorable pipe fitting ratio, and if you see in the 9 months for this year, x of Q1, I think we will be back to 12% to 14%.

Rajesh Ravi:

And sir, on this earlier, 2, 3 years back, you used to talk about, you have to set up a project team and you're looking to scale up the project business. Could you throw some light? How is the traction going on there? What is the revenue mix coming in from there? And any updates?

Nihar Chheda:

Yes. So good question. I think we were very underpenetrated and untapped in the project segment. It's been 3 years now, and we have made very good strides. Now projects is around 25% of overall revenue. And more than the numbers, that's been a lot of key accounts that we've been able to add to our kitty, across metros, across Tier 2.

We have -- initially, the projects team, when we set up 3 years ago, was limited to the metros. Mumbai Delhi, Bangalore, etcetera. But in the past 1 year, we have added centers like Jaipur, Lucknow, Pune, Hyderabad, Chennai. And in this year, we will be -- in the second half of this year, we'll be adding a project team to East India. And once the Bihar plant is up and running, by that time, hopefully, we would have made good strides in the project segment in East India as well. So we will have a pan-India coverage in projects.

And like I said, a lot of top developers who are not using Prince have started using Prince. And more than the numbers, what's been encouraging to see is the kind of brand equity that has helped us build -- add a ripple effect of this project success has come into the retail segment as well in terms of the brand perception of Prince.

Rajesh Ravi:

One last question. This movie sponsorship. Is this part of your 2% of top line in the pipes? Or it would be over and above that and would have an impact on this running margin?

Nihar Chheda:

It’s a part of our branding budget.

Rajesh Ravi:

Within the 2%, right?

Nihar Chheda:

Yes, sir.

Moderator:

Our next question is from the line of Rahul Agarwal from InCred Capital.

Rahul Agarwal:

Just one question I had on capacity. Just wanted to know March '24 and March '25, where will the company be. Right now, we are at 323,000 MT. I understand Rs.100 crores of expenditure all on brownfields. I'm obviously assuming that Bihar will be very close to commissioning around March '25 and beyond. So it would help me with closing capacities from your brownfields for March '24 and March '25.

Nihar Chheda:

Yes. So Bihar will be -- we are targeting commencing commercial production in March quarter of '25, and that will be around 40,000 MT in Phase 1. So that will be over and above the current capacity. And I think maybe around 20-30,000 MT of debottlenecking at existing plants. That's how we should see the number. So that debottlenecking will happen by FY '24, and Bihar will commence by end of FY '25. I hope that's clear.

Rahul Agarwal:

So March '25, apart from Bihar, there is no addition, right? So 323,000 MT goes to 350,000 MT and 350,000 MT gets added by about 40,000 MT from Bihar. Is that correct?

Nihar Chheda:

Correct. So see, I will -- there could be some new applications within piping that we get into. That's a constant that we have to see on an annual basis. So sitting today, I can -- brownfield, I can guide on an annual basis. So FY '24, I think we will add around maybe 20,000 MT, 20-30,000 MT. And Bihar, which will be operational by end of FY '25, which will be another 40,000 MT. Brownfield, what we will do in FY '25, it's hard for me to quantify today. And whether we will do or not also, you'll have to give us some time.

Moderator:

Our next question is from the line of Parth Bhavsar from Investec.

Parth Bhavsar:

Just wanted to know, like, who is the Chief Technical Officer at the company at present?

Nihar Chheda:

Yes. We don't have a position as CTO. We have different functions of manufacturing and production planning and IT, but we do not have a position as CTO.

Parth Bhavsar:

Would there be a technical head?

Nihar Chheda:

No, we don't have anything like a CTO or a technical head.

Parth Bhavsar:

Okay. Okay. And sir, I just wanted to know this 19% volume growth that the company has reported. Is this purely from piping? Or does it also include resins?

Nihar Chheda:

This does not include resins.

Parth Bhavsar:

Okay. And sir, in terms of fitting as a percentage of total volume, you mentioned that 25% is the contribution of fitting. What would be the share as a percent of total volume?

Nihar Chheda:

So volume breakup will be lower because fitting with the realization per ton is higher. I don't have the exact volume breakup. But in terms of revenue on a normal basis, it should be 30% to 33%.

Parth Bhavsar:

Okay. Would it be possible to give me a number for last year like for comparison, if you have it handy?

Nihar Chheda:

You can reach out to Karl after the call, and we'll be happy to share.

Moderator:

Our last question for the question-and-answer session is from the line of Vineet Shah from Shah Group.

Vineet Shah:

My question is related to film association. Like how does it actually help? And how are we going to judge ROI over here?

Nihar Chheda:

So it really helps us. One cement, Akshay Kumar is the face of Prince Pipes across the value chain. We have also had a lot of invested in ATL branding. I'm sure you would have seen it across Bombay, hopefully and other focus markets. For us, we have invested in creating above-the-line visibility in terms of hoardings.

And we also heavily distribute free tickets to retailers and plumbers and plumbing contractors across the country. So I think around 5,000 tickets will be distributed across India and just helps us engage with key influencers in our value chain and also reinforce Akshay Kumar as the face of Prince Pipes.

Vineet Shah:

And over here, we are trying to brand pipes or Bathware as well?

Nihar Chheda:

No. This is for pipes and water tanks. Bathware is still early days.

Vineet Shah:

Okay. Okay. And can you elaborate a bit on loss that has been incurred on ERP implementation?

Nihar Chheda:

So losses has been in terms of the impact on the pipe fitting ratio and product mix, which is evident in the lower operating margin. So that's the major impact that it had on the operational performance.

Vineet Shah:

Okay. Okay. And regarding the Bathware segment, like which segment are we actually targeting like the economy segment as compared to Cera, so on or we are targeting premium segment like Toto or Jaguar, like which sort of segments are we actually targeting?

Nihar Chheda:

So see, this is in a Rs.5,000 crores, Rs.15,000 crores market and the largest chunk of the market is in the premium mass -- mass premium segment, which is maybe just 1 notch below Jaguar. That's where the largest target addressable market is. So we will have collections across price points of premium, mid and economical. But I sense that the focus will be on the mass premium segment.

Moderator:

Ladies and gentlemen, that brings us to the end of our question-and-answer session. I would now like to hand the conference over to the management for closing comments.

Nihar Chheda:

Thank you all for joining our call. Thank you.

Moderator:

Thank you. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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