



Prince Pipes and Fittings Limited

Q3 & 9M FY23 Earnings Call

February 08, 2023

MANAGEMENT:

- Parag Chheda: Joint Managing Director, Prince Pipes and Fittings Limited
- 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 – Investor Relations, Prince Pipes and Fittings Limited

ANALYST:

- Amit Srivastava : B&K Securities

Q&A PARTICIPANTS:

- Pranav Mehta : Equirus Securities
- Shrenik Bachhawat : LIC Mutual Fund
- Udit Gajiwala : Yes Securities
- Dhananjai Bagrodia : ASK Group
- Keshav Lahoti : HDFC Securities
- Sandesh Barmecha : Haitong Securities
- Archana Gude : IDBI Capital
- Sujit Jain : ASK Investments
- Praveen Sahay : PL India
- Nikhil Agrawal : VT Capital
- Arun Baid : ICICI Securities

Moderator:

Ladies and gentlemen good day and welcome to the Prince Pipes and Fittings Limited Earnings Conference Call hosted by Batlivala & Karani Securities India Private Limited. As a reminder, all participant lines will be in the listen-only mode. 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amit Srivastava from Batlivala & Karani Securities. Over to you Sir!

Amit Srivastava:

Thank you, Dorwin. Good morning, everyone. On behalf of B&K Securities, I welcome you all to the 3Q FY2023 Earnings Conference Call of Prince Pipes and Fittings Limited. We have with us from the management Mr. Parag Chheda, Joint Managing Director, Mr. Nihar Chheda, Vice President of Strategy, Mr. Shyam Sharda CFO, and Mr. Anand Gupta, Deputy CFO. We would start the call with opening remarks from management, which will be followed by Q&A. Over to you.

Parag Chheda:

Thank you, Amit. Thank you all for joining us today. The presentation and the press release have been issued to the stock exchanges and uploaded on our website. I trust you have been able to review the same.

I will cover a brief overview of the industry and then discuss the company level performance. As you are aware, we continue to see pressure on PVC prices for the first two months of the quarter. Since April 2022, PVC prices corrected by an unprecedented Rs. 66 per kg, which is nearly the price of resin itself and bottomed out at about Rs. 76 per kg by November end. The trend reversed in December leading to improvement in market sentiments and channel restocking. Affordable rates supported by underlying

demand momentum delivered a healthy growth momentum across all sectors of real estate, agriculture, and infrastructure.

Largely the overall industry sentiments are buoyant across all sectors. As per economic survey 2023, housing prices have started to firm up after a two-year COVID lull and demand has stabilized. New construction is picking up pace, which has stimulated innumerable backward and forward linkages within the construction sector. This holds a good bearing on the building material industry, and we see this trend being stable.

These are exciting times for the Indian economy, which has already taken center stage at the global level. Strengthening water infrastructure, housing, agriculture have emerged as key themes and the mission of the Central Government.

The union budget 2023-2024 has outlined initiatives to stimulate this momentum with Jal Jeevan Mission budgeted allocation increased by 27% to Rs. 69,684 Crores. The mission envisages providing piped water to each rural household by 2024. PM Awas Yojana has allocated over Rs. 79,000 Crores, which is 65% higher compared to last year boosting the housing for all mission. Such initiatives will positively impact industry progression. It is noteworthy that the significant increase in allocation for capex spending by 33% to Rs. 10,00,000 Crores conveys the Governments intent on ensuring that the Infrastructure Acts as a force multiplier for India's path to inclusive prosperity. Real estate building materials, infrastructure, and ancillary industries look to benefit from this capex push. This higher thrust on capex is at a time when private capex is yet to reflect credible signs of revival and is a step to stimulate the private capex environment.

I am happy to share that this quarter we achieved a very strong 35% volume growth. The company sold 43,693 metric tonnes of goods and achieved revenue of Rs.706 Crores during this quarter. We witnessed respectable rebound in margins this quarter, which we believe will further improve in Q4. Our focus continues to be on innovation and market expansion as we launched two key products with superior German technology in Modern Plumbing division, which marks the beginning of new growth trajectory. We understand India's evolving needs and with the launch of premium line of products, we are bringing

home the finest in manufacturing design and end-to-end solution to offer high performance drainage and piping solutions to builders, homeowners, and consultants across India.

We maintain fiscal prudence and remain long-term debt free. Our net working capital has improved to 44 days as of December 2022 from 68 days in September 2022.

At Prince, sustainable growth is the heart of our organization progress. I am proud to share that our Haridwar plant has won the IMexl Commitment Prize by Kaizen Hansei for a greater effort towards building a sustainable and world class ecosystem. We were also awarded the Certificate of Merit in Believers Category Sustainability 4.0 Awards by Frost and Sullivan. Our sustainability practices have reduced carbon footprint, increased recycling, and accelerated the use of renewable energy.

On an overall basis, we continue to be bullish in the medium to long-term prospects of the industry with the government's growth-oriented terms. India was recognized as the fifth largest economy in the world last year. Evidently, the opportunities within India are significant. Our business fundamentals continue to be strong as we focus on implementing growth strategies centered on utilizing existing capacities, expanding our distribution network, premiumizing the brand, deeper market penetration, and optimizing our product mix towards high value-added margin products.

We will continue to ensure strong execution of our three-pronged business strategy centered on organic growth, operational excellence, ESG aligned progress, and thus steer the organization to provide great value to all our stakeholders. Thank you for your time and mindshare.

I will now hand it over to Anand Gupta our Deputy CFO to take you through the key financial highlights.

Anand Gupta:

Thank you Parag bai and good morning, friends. I will be taking you through the Q3 FY 2023 financials. In this quarter, our company saw revenue growth of 6% Y-o-Y at Rs. 706 Crores compared to Rs. 664 Crores in Q3 FY2022 led by very healthy volume growth across segments. Our volume grew by 35% at 43,693

metric tonnes. EBITDA stood at Rs. 69 Crores for Q3 compared to Rs. 111 Crores in Q3 FY2022. EBITDA margin recovered quarter and quarter and stood at 9.8% for this quarter.

Further our finance costs reduced by around 50% due to decline in short term borrowing. Profit after tax stands at Rs. 35 crores compared to Rs. 67 Crores in Q3 FY2022.

Our average realisation has been very healthy, as we continue to maintain our focus on our core strength, which is SWR and Plumbing segment. Agri segment helps us drive cost absorption and unlock cross selling opportunities.

Commenting on working capital inventory days improved from 85 days in March to 61 days in December 2022. Debtor days from 60 days in March to 48 days in December 2022 and which we are working upon to further reduce and improve the credit cycle.

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

Moderator:

Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Pranav Mehta from Equirus Securities. Please go ahead.

Pranav Mehta:

Good morning. Thank you for taking my question. I wanted to understand your strategy in the Bathware segment, so where are we standing as of now because you had announced that you have moved into the Bathware segment two quarters back so where are we standing in this and how are we strategizing for increasing the share of overhead water tanks as well as the fitting business.

Nihar Chheda:

Thank you, Pranav. On the Bathware, I would like to take this opportunity to give everyone an update. We have finalized our design as well as shortlisted our outsource partners for both the CP fittings and the sanitary divisions of the Bathware segment. We are in the process of finalizing the cost structures as well as the pricing that we would offer to the market and as we had guided by March or April, we would be able to launch to the market our entire range of Bathware products, with team down the line is being hired and we have made some progress on that and the next quarter most of the state head positions should be in place, which will help us build a strong team for the overall Bathware vertical.

Coming to storage tanks, we have seen good growth from last year. Of course, the base is small, so the percentage growth would always look good, but as we have always guided with water tanks that we need to be patient in this business. It is more of a three-to-five-year strategy before it really starts impacting our overall revenues, but the product acceptability has been excellent across markets. We have in-house manufacturing in the Jaipur and Silvassa plant. We have also started now manufacturing water tanks at the Hyderabad facility and the rest of the market is catered through outsource partners and we have seen a very good acceptance of the product and we will continue to steadily grow the water tanks business, leveraging the cross-selling opportunities across our distribution network.

Pranav Mehta:

Okay, and what about the PVC fittings business.

Nihar Chheda:

The PVC fittings business.

Pranav Mehta:

Yes Sir.

Nihar Chheda:

Yes what about that. What is the question?

Pranav Mehta:

How is that performing and how are you strategizing on increasing the contribution from value-added products on that segment.

Nihar Chheda:

PVC fitting is a basket selling with PVC pipes. We have been in the PVC fitting market for four decades now and we are one of the leaders in the PVC pipe and fittings industry as everyone knows. The new products where we have launched or the value-added products of course in CPVC we have a tie up with FlowGuard Plus. PPR is a value-added product for us which we have been present in for more than two decades. We have also launched two products in the modern plumbing division through two partnerships with German companies Ostendorf and Hauraton, which we are extremely excited about. As we focus on more innovative products and then try to drive innovation in the industry, so that is where we are.

Pranav Mehta:

Okay and my next question was related to how the demand you are expecting to pan out in 4Q because 3Q also actually saw kind of restocking at dealer level because of December seeing all the price correction getting wiped off in PVC segment, so are you seeing 4Q to be somewhat muted versus 3Q volume because of the demand or you think that both rezi and agri would be able to more than cope up and give you a sequentially also very good set of numbers.

Nihar Chheda:

Firstly, it is early days right, so I think I would stay away from talking about how the overall quarter is going to go. We continue to be optimistic because as you are aware for the building material part. I think real estate is doing well. There can be short-term challenges, but next one to two years at least real

estate will do well. The data is out in the open and whatever ground level interactions that we have had with builders and architects across the country has been extremely encouraging, so I continue to believe that next four to six quarters will be strong for building material, which is plumbing and SWR which is 2/3 of my portfolio and 1/3 of our portfolio which is Agri, PVC is affordable today and past two years of agri has been weak for the industry, so Agri will also continue to do well, so overall we are optimistic about both end user segments, Plumbing as well as Agri. Of course, we have to be realistic that December quarter the kind of 35% volume growth that we have had. Of course, restocking has been a part of it because the channel was empty for the first six months of the year so 35% volume growth is not something we are going to see continuously for the next four or six quarters. It was driven by both genuine demand as well as restocking and restocking of course now channel inventory is closer to the normal inventories days today than it was at the beginning of December quarter, so we can see a healthy growth for the industry now because of volatility of PVC actually is behind us. I think PVC will be stable, will be range bound. We are back to normal. The worst is behind us, and we should be back on a growth trajectory, a healthy growth and a sustainable growth trajectory.

Pranav Mehta:

Okay, thank you very much.

Moderator:

The next question is from the line of Shrenik Bachhawat from LIC Asset Management. Please go ahead.

Shrenik Bachhawat:

Thanks for the opportunity. My first question is, could you quantify the inventory loss for this quarter first question and the second question can you throw some light on do we supply materials for Jal Jeevan Mission and is it big for us?

Nihar Chheda:

Thank you, Shrenik. Since we are importers of PVC and mainly a PVC player, so inventory loss was around Rs. 25 to 30 Crores for the December quarter so significantly less than the September quarter and like I said the worst is behind us and all the high-cost inventory has been consumed in the past quarter so that is now behind us so that is to answer the first part of the question Rs. 25 to 30 Crores and can you repeat the second part of your question.

Shrenik Bachhawat:

Do we supply materials for Jal Jeevan Mission?

Nihar Chheda:

We have seen some demand from some pockets. In PVC, we have participated HDPE we are not that keen because of the extremely paper-thin margins, but PVC wherever there has been opportunity we have participated. We are very clear as an organization and Jal Jeevan is good for the industry. It can be a growth driver for the industry, but it is not going to be a primary driver for growth because it is something that we cannot trust whether it would be consistent or not month on month quarter on quarter, so I do not see Jal Jeevan Mission as a sustainable growth driver. It will be third or fourth driver for growth, but primary driver for growth has to be driven from real estate, agriculture, network expansion, and newer products that we are coming into within piping segment.

Shrenik Bachhawat:

Last question, the Agri season has already started, so how is the agri demand performance in Jan and Feb till now.

Nihar Chheda:

December, we saw some good agri sales and affordability is back, so Agri should be good towards the end of this quarter and in the first quarter. As you are aware agri is around 30% of our business, so that

part of the business should do well given that affordability is back and past two years of agri have not been very good, so I agri should do well at an industry level.

Shrenik Bachhawat:

Just last question. On the Telangana plant how is the progress over there like what is it the current capacity that we are running at the Telangana plant and all the products are in place can you enlighten us about the Telangana plant?

Nihar Chheda:

Telangana, we have been able to put up the capacity approximately 50,000 tonnes. Initial response has been very good and as you are aware South India is a focused market for Prince Pipes today and having a local plant, we are already seeing the green shoots of having a lower freight structure and a local supply chain. Of course capacity utilization is still early days and will take a few quarters to really ramp up, but we are on track as to what we had internally projected.

Shrenik Bachhawat:

Thank you so much for answers.

Moderator:

The next question is from the line of Udit Gajiwala from YES Securities. Please go ahead.

Udit Gajiwala:

I just wanted to know that what kind of volume outlook you are looking for FY2024. I believe you said that you were meeting at 12% to 14% margins on a sustainable basis, so what would be the volume growth that you are looking at for the next fiscal.

Nihar Chheda:

We usually stay away from giving quantitative guidance's, but I think given all the tailwinds that we have today in terms of affordability of PVC strong real estate market like I said, Agri should be doing well, so that is at industry level and we have always looked to outperform industry growth via our network expansion, our entry into the projects vertical and lastly the large range of new products that we are getting into within the piping division, so I think whatever industry growth will be we have constantly outpaced by 2% to 4% and then we would like to continue that. I think industry growth typically has been around 6% to 8% which I think should be back and as a result we should be trying to outpace that over the medium to long term.

Udit Gajiwala:

Absolutely. Secondly like we have seen one of the focuses growing into newer products so do we have any sort of data that what would be the contribution of these new products that we have launched in the last 12 to 15 months and the market acceptability for the same.

Nihar Chheda:

It is important to not look at this quantitatively. It has to be looked at qualitatively because a lot of these products take time. We are the first movers in the market to introduce this kind of technology, so that concept selling takes time, but the initial response has been very good I will maybe give you a slightly detailed answer here, so starting right from 2017, we were one of the early movers to come into the DWC, double wall corrugated pipe segment used for underground drainage where we are replacing RCC with DWC and we have seen very good acceptance for this product and it has started silently contributing to our overall revenue.

The potential for this product is immense going forward and we are excited about the underground drainage vertical and we have set up capacities accordingly over the past three to four years. Apart from that we have come into storage tanks which I commented on earlier that good product acceptance, about the quality and the design of the tanks and over the long term this will also be a growth driver for the organization and tanks is more a story of concept selling of cross selling in our

distribution network and the last part is the modern plumbing vertical that we have recently started with the surface drainage products as well as the low noise polypropylene drainage pipes in collaboration with German companies, which also we have started creating awareness about these products in the market and being the first movers it is up to us to have that we are able to concept sell these products. In the long term, this will not only contribute to our revenue, but it will heavily contribute to our profitability because the gross margin for these products is very, very strong so it will contribute to the value-added part of our portfolio and more important than the number part of it is this will help us create a very strong brand. Today we are already one of the leading brands in the industry but having these kind of products really helps us focus on research and innovation which is very, very important for a leader in any segment.

Moderator:

Thank you. The next question is from the line of Dhananjai Bagrodia from ASK Group. Please go ahead.

Dhananjai Bagrodia:

Congratulations on good set of results. I wanted to ask you in your breakup of your sales would you have any percentage of like how much will be the breakup between segments for your piping business.

Nihar Chheda:

No, we do not give out segmental revenues but broadly 2/3 of the business is Building material, 1/3 is Agri, and 2%-3% is Infrastructure.

Dhananjai Bagrodia:

Okay, 1/3 is Agri, so comparatively would you have seen in this Q3, which segment would you have seen which has grown on a higher base. I am just trying to compare between the three players and their focus area so which segment have you seen a good growth in between building materials and Agri in Q3.

Nihar Chheda:

Yes that is a good question. I think end of the December quarter our growth has been across segments, across plumbing, SWR, and agri so the contribution to the top line remains similar. As we stated in the opening remarks where our business strategy is very sustainable. We see agri segment as a way of absorbing cost, driving volume and entering into rural markets, but the entire mindshare is obviously on the plumbing and SWR segment, so this contribution to revenue for all the three verticals has broadly remained the same and we have seen growth across segments.

Dhananjai Bagrodia:

Okay sure and yes my other question has been answered congratulations.

Moderator:

We have the next question from the line of Keshav Lahoti from HDFC Securities. Please go ahead.

Keshav Lahoti:

Thank you for the opportunity. Just want to get a sense about channel inventory there was in December and where is a channel inventory currently.

Nihar Chheda:

Channel inventory in October and November was very low in anticipation of further reduction. Starting from December as prices started to stabilize and reverse, we saw restocking phenomena in the December month and today as we speak channel inventory is moderate, close to normal.

Keshav Lahoti:

Okay understood. If I see quarter three performance, is it fair to assume the growth came because of restocking so maybe the growth in October and November would have been low single digit.

Nihar Chheda:

Restocking was one of the drivers for growth, but we also believe that there is genuine growth in the market because of two reasons one is real estate is doing well which is why building material will do well and PVC prices had crashed, but the silver lining was because of affordability Agri also grew, so we saw restocking is one part of it apart from genuine demand improvement in the market.

Moderator:

The next question is from the line of Nikhil Agrawal from VT Capital. Please go ahead.

Nikhil Agrawal:

Good afternoon and thank you for the opportunity. I just wanted to know what is the current run rate in the water tank business, monthly run rate.

Nihar Chheda:

It contributes to around 1% of our overall value today.

Nikhil Agrawal:

1% in Q3.

Nihar Chheda:

Correct.

Nikhil Agrawal:

Okay and so what would be the capacity. You have a total capacity of 315,000 so how much of that is water tanks.

Nihar Chheda:

I would have to get back to you with that. I do not have the exact capacity. Karl would be in touch after the call.

Nikhil Agrawal:

Okay sure I will get back to you. In your pipe segment and overall as a company on a company level, what was your capacity utilization in Q3 and how much can it go up to going forward, I mean at optimum utilization how much can that be.

Nihar Chheda:

We have put up two new plants in Jaipur and Hyderabad in the past three years and we have put up this capacity for the next two or three years so today capacity utilization is fairly low, but on a rated capacity of 3,15,000 MT our production capacity can go up to 230 to 240 KT per annum.

Nikhil Agrawal:

Okay so you have no capex plan as such right now for the next capex?

Nihar Chheda:

Right now, we are debottlenecking existing facilities and yes the focus in this current financial year has been on maintenance and debottlenecking.

Nikhil Agrawal:

Okay, that is it from me. I will get back in the queue. Thank you.

Moderator:

Thank you. The next question is from the line of Sandesh Barmecha from Haitong Securities. Please go ahead.

Sandesh Barmecha:

Thank you for the opportunity. First question how much CPVC contributed on volume terms and value terms?

Nihar Chheda:

We don't not give out segmental data as you are aware, but broadly CPVC contributes to around 20% of the revenue.

Sandesh Barmecha:

What will be our full year capex guidance, for this year?

Nihar Chheda:

The guidance for capex.

Sandesh Barmecha:

Capex.

Anand Gupta:

For nine months, we have already done Rs. 80 Crores. We have capitalized this fiscal and around Rs. 20 to 25 Crores is what we will be expecting in Q4.

Sandesh Barmecha:

Okay great. Thank you so much. Good day.

Moderator:

Thank you. The next question is from the line of Archana Gude from IDBI Capital. Please go ahead.

Archana Gude:

Thank you for the opportunity. Overall, like what kind of growth we should look at for the next three years down the line and more if you can give some color on how we should look at the margins in this sanitary ware business going forward.

Nihar Chheda:

The next two to three years as an organization, we are growth hungry and we have put up the capacity of to take advantage of any such up trends and demand and I believe the past five years all the growth that came, came because of market consolidation. The top three or four players like us grew mainly because of a consolidating market environment from the unorganized to the organized and within the organized also. The big were getting bigger. This was despite a weak real estate segment. However, over the next three to four years I believe consolidation will continue to take place, but we will have the tailwinds of a strong real estate market coupled with affordability of PVC prices which will bode well for the agri segment as well so the confluence of these three factors makes me optimistic about growth over the next three years and the sanitary ware business I think we would be able to give exact guidance on revenue and margin once we officially launch.

Archana Gude:

Just one more bookkeeping question. There has been 14% decline in other expenses in this quarter. Was there any one off or what exactly has been going there?

Nihar Chheda:

We should be one off nothing sustainable so just a one off. Nothing specific.

Archana Gude:

Sure and any guidance on expense going forward.

Nihar Chheda:

Specific guidance on expenses, the main discretionary expenditures for us are obviously manpower and advertising, which I think will continue.

Archana Gude:

Should we take that like 2 to 3% of your top line for ad spend.

Nihar Chheda:

One and half to 2% on ad spends will sustain.

Archana Gude:

Thank you so much.

Moderator:

Thank you. The next question is from the line of Sujit Jain from ASK Group. Please go ahead.

Sujit Jain:

If I look at the working capital situation compared to March 2022, our inventory has gone up and so I think receivables, overall working capital days. If I normalize the payable days which have increased would have gone up, so can you just explain would it be in line with the inventory you would want to keep for the upcoming season or how is it panning out basically.

Nihar Chheda:

Every quarter this would be dynamic so I do not think we can take March 2022 as a benchmark for working capital for all quarters, but yes 60 days is an inventory that we have always guided 60, 65 days is a very normal level of inventory for this industry, so I think that will continue and receivables as we mentioned earlier on the call also the focus is on receivables. Clearly, we acknowledge that there is scope for improvement. We have come a long way from whatever 70, 75 days of debtor days that we had which has come down to 48 days over the past two three years. You cannot have overnight reduction because we are still a growth-oriented organization, but in the next two to three years, I would like to see receivables come closer to the 30 day mark and more in line with the industry, so today is the kind of brand that we have built I we need to leverage our brand equity that we have built by tightening our receivables. It will not happen overnight, but I am confident in the next two years we should see a significant improvement in the receivable days.

Sujit Jain:

Sure and the two technology tie ups that you have spoken about, German tie ups and launch of two products, any details about royalty payments then how does this work.

Nihar Chheda:

There are no royalty payments. Initially it is a trading model. We will start with the trading model and as volumes pick up we are open to local manufacturing as well but the initial days the hard work we need to put into really concept sell these products so for example the surface drainage products of Hauraton we are replacing cast iron and RCC surface drainage channels, so the same way we replace cement pipes to DWC pipes. The first two to three years were very, very painful and it looked like we were sitting on a very low capacity utilization, but eventually all conventional products like steel and cement will move to polymer products because of better product life cycles and more user friendly high performance products, so the way we have done with DWC now we want to create these pockets within piping, newer applications where we replace conventional used products with polymer products and we have to do the concept selling so first two to three years will be really challenging but that is what we like. We like the challenge because that helps us cement ourselves to become synonymous with that product and

establish category leader and this will not only contribute to revenue, but because of the better gross margins once we start in-house manufacturing there is immense potential for contribution at the earnings level as well.

Sujit Jain:

One quick question is that in buildings you have SWR from drainage pipes and surface drainage is meaning overall drainage system, is that the correct understanding.

Nihar Chheda:

So surface drainage basically helps storm water or the rain water to exit a project. It is the channels that we see of RCC in our buildings, residential and commercial buildings today that we are replacing with 100% recycled polypropylene surface drainage products so we would be happy to share some product pictures with you. It is also available on our website, but it is a surface drainage channel.

Sujit Jain:

Perfect sure. Thank you and all the best.

Moderator:

Thank you. The next question is from the line of Praveen Sahay from PL India. Please go ahead.

Praveen Sahay:

Thank you for taking my question. First question is related to the plumbing. How is the project versus the retail contribution?

Nihar Chheda:

We are retail driven today and heavily indexed towards the retail so it would be like a 75% retail and 25% project split because we have built out the project vertical only in the past two years with a separate project head and entire project team so the progress that we have made in the past two years has been immense and we are already heavily skewed towards retail but project segment will now help us drive the next level of growth over the next two to three years. It is a very different kind of business than retail. Retail is more distribution network driven. Project is more relationship driven; the relationships that we are able to build across builders, contractors, consultants across the country and we have made a lot of strides in the past two years and going forward we should see a better contribution from the project segment and the timing of this has been opportune as the real estate segment is doing well, so as an organization we are excited about the potential of the projects division over the next two to three years.

Praveen Sahay:

Okay, the next question is related to the plumbing mix of PVC and CPVC, so PVC prices have come down significantly, is that impacting your CPVC performance.

Nihar Chheda:

What do you mean?

Praveen Sahay:

In the plumbing segment you sell PVC and the CPVC both. Now the PVC prices were down PVC pipes and fitting prices were corrected; is that somewhere impacting the CPVC.

Nihar Chheda:

We have not seen anything like that. CPVC continues to be 20 to 25% of the business. We are growing in CPVC. For the nine-month period, we have a double-digit growth in CPVC because what you must understand is CPVC is used for very niche application which is hot and cold water plumbing. It is today

Rs.4,000 - 5,000 Crores market versus PVC which is obviously a Rs. 30,000 Crores market. Because PVC is much more versatile and can be used for agri, SWR, as well as cold water plumbing while CPVC can only be used for hot and cold water plumbing so I do not see much cannibalization happening across the polymers.

Praveen Sahay:

Last question, related to your capacity. You said uh 3,15,000 MT post this expansion in both the plants and will that be year-end number.

Nihar Chheda:

Yes.

Praveen Sahay:

Thank you for taking my question. All the best.

Moderator:

The next question is from the line of Keshav Lahoti from HDFC Securities. Please go ahead.

Keshav Lahoti:

Sir as you said the project division is expected to grow at a higher rate. Will it be fair to assume you will have a lower margin in project division overall your margin could be decreased because of that?

Nihar Chheda:

No. I do not see this challenge because right of course projects, the pricing for the entire industry or across any industry project we will tend to be more aggressive on pricing. However, this is compensated by two things; one the product mix tends to be better towards plumbing, specialty CPVC so this helps

partially offset the aggressive pricing at the gross margin level because of the superior product mix relative to our product mix overall and at an operating margin level the volume when the project business are lucrative so from a cost absorption point of view it almost evens out, so on operating margin level there is not a significant difference in the projects at retail.

Keshav Lahoti:

Can you give some sense on what would be your current margin difference between the project and retail?

Nihar Chheda:

Like I said there is not a significant difference at the operating margin level, so it is not very material.

Keshav Lahoti:

Okay, one last question from my side. What would be the margin you would be making in agri and plumbing, a broader range? I am not looking at the exact number.

Nihar Chheda:

Because you are aware we do not give segmental break up for revenue and margin, but I understand what you are asking plumbing margin is superior compared to agri. Plumbing is more value driven, brand driven, and agri is more volume driven and price driven.

Keshav Lahoti:

Okay got it. Thank you. That's it from my side.

Moderator:

Thank you. The next question is from the line Arun Baid from ICICI Securities. Please go ahead.

Arun Baid:

Nihar, just one question here. If you look at your EBITDA per kg in in this quarter which came in about Rs. 15.9 and as you said the inventory loss would be of Rs. 25 Crores so in fact the Rs. 20 Crores the EBITDA per kg ballpark would be about Rs. 20.50. What I am trying to ask is, is that the normalized margin we should look at, forget about inventory gain which might have losses, but normally assuming things in normal is that the range we should look at going ahead.

Nihar Chheda:

Arun, we do not really give guidance on EBITDA per kg. Of course, there has been an improvement quarter on quarter as the prices improve but on a long-term basis 12% to 14% EBITDA margin is something which is sustainable with obviously a healthy volume growth.

Arun Baid:

Nihar, the only catch here is when you say 12% to 14% we do not know what the PVC prices would be so that is the catch there right because if I assume the PVC prices for example in this quarter your PVC relation was roughly Rs. 162 per kg your blended realization, which is obviously lower compared to quarter because you had lower prices in between the quarter, so the point is if you look at today's realization which would be higher because PVC prices have gone up from what the lowest was then your number changes dramatically 12% to 14%. So what I am ballpark trying to get to is that 12% to 14% actually is the lowest, so is that EBITDA per kg, which we are seeing normalized is my calculation really correct. I am not asking you to give a guidance but is that the way we should look at it.

Nihar Chheda:

Yes you are right. I will stay away from giving a guidance, but your calculation is accurate.

Moderator:

The next question is from the line of Nikhil Agrawal from VT Capital. Please go ahead.

Nikhil Agrawal:

Good evening. Thank you again. I wanted to know like your nine-month CPVC volume growth if you could quantify it.

Nihar Chheda:

We have seen double digit growth in CPVC in the nine months.

Nikhil Agrawal:

In your Q2 call, you had mentioned that CPVC volume growth has been around 25% in the first half so has it been around the same levels or has there been some tapering off or anything.

Nihar Chheda:

We have seen double digit growth in the December number. I do not have the exact number, but in December we have seen double digit growth and for the 9-month period as well we have seen double digit growth.

Nikhil Agrawal:

Okay great and what would be the price and any major changes in the CPVC prices.

Nihar Chheda:

No, CPVC prices continue to remain stable.

Nikhil Agrawal:

Okay great that is it from me. Thank you.

Moderator:

Thank you. Ladies and gentlemen that was the last question for today. I now hand the conference over to the management for closing comments. Over to you.

Parag Chheda:

Thank you to all for attending our call. Thank you.

Moderator:

Thank you very much. On behalf of Batlivala & Karani Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.

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