"Prince Pipes System Limited Q1 FY2022 Earnings Conference Call"

August 06, 2021

ANALYST **MR. RAJESH RAVI - HDFC SECURITIES LIMITED**

MANAGEMENT: **MR. PARAG CHHEDA – JOINT MANAGING DIRECTOR– PRINCE PIPES SYSTEMS**
MR. NIHAR CHHEDA – VICE PRESIDENT STRATEGY - PRINCE PIPES SYSTEMS
MR. SHYAM SHARDA – CHIEF FINANCIAL OFFICER - PRINCE PIPES SYSTEMS
MR. ANAND GUPTA – DEPUTY CHIEF FINANCIAL OFFICER - PRINCE PIPES SYSTEMS

Moderator: Ladies and gentlemen, good day and welcome to the Prince Pipes and Fittings Q1 FY2022 Earnings Conference call hosted by HDFC 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rajesh Ravi from HDFC Securities Limited. Thank you and over to you Sir!

Rajesh Ravi: Hi! Thank you, Mallika good morning everyone. On behalf of HDFC Securities, we welcome you the Q1 FY2022 Earnings Conference Call of Prince Pipes and Fittings. From the management team we have Mr. Parag Chheda – Joint MD, Mr. Shyam Sharda – Chief Financial Officer, Mr. Anand Gupta – Deputy Chief Financial Officer and Mr. Nihar Chheda –Vice President Strategy in this call. I now handover the call to Mr. Parag Chheda for his opening remarks post which the moderator will open the floor for Q&A. Over to you Parag Sir!

Parag Chheda: Thank you, Rajesh, and a very good morning to all. Thank you for joining us for our Q1 FY2022 Earnings Call. Hope you and your families are safe and well. The presentation and the press release have been issued to the stock exchanges and uploaded on our website. I will be keeping my opening in brief so that we can have more time for Q&A.

In Q1 we had a revenue growth of 9% and a volume degrowth of 26%. Operating margins stood at approximately 12.5%. Our results were impacted due to three reasons, firstly as we had indicated during the last quarter's call, we took a strategic decision in March that we wanted to have a high product availability in the market due the uncertainty of a potential lockdown, also with the anticipated decline in PVC prices we kept our capacities running high to produce and sell to align with the above goal. Hence in April the channel inventory was relatively high,

Secondly due to the restriction of the second wave both the urban as well as the rural markets were impacted. Lastly, agri demand was muted. However, the plumbing and the SWR segments continued to deliver, also, well supported by the strong inroads gained by Prince FlowGuard plus plumbing systems in the urban, semi-urban and Tier-2 and Tier-3 regions.

Moving forward June performance had been better than May and July performance had been much better than June. We are returning back to our regular growth trajectory. We are moving in the right direction with strong business fundamentals. The real estate sector has been reporting positive growth. This augurs well for us signaling traction piping products.

As we progress sustainability of our growth momentum is our key focus. Alliances and profitable collaborations will continue to play an important role for us across all our operating categories. Aligning with our strategy of winning in many India's the Ultratech Building Solutions and Prince Pipe's synergy is well-placed to be a mutually beneficial partnership especially for the semi-urban and rural markets.

The UBS platform has a vast network of around 2,000 dealers and Prince can now leverage the relationship of registered dealers on the UBS platform. This presence will further expand our brand visibility in our Tier-2 and Tier-3 cities and towns which are growing markets for our segment.

Over the past few quarters, we have been highlighting how ESG is core to our overall strategy. In alignment with this we announced the Ab Ghar-Ghar Mein Ganga campaign in Haridwar during the Mahakumb. As a part of this visitors were given miniature Prince Storefit water tanks containing holy Ganga water at special booths. We were able to provide a solution to citizens who could now take this holy water back home in a safe and hygienic manner thus helping the government authorities to maintain the COVID guidelines.

Furthermore, the miniature Storefit water tanks signified a message urging people to save water. Through this campaign we distributed more than 10,000 small tanks with holy Ganga water to family members of senior citizens who were unable to visit ghats during the pandemic.

Thank you for your time and mindshare. I will now hand it over to Nihar to introduce our new product launch.

Nihar Chheda: Thank you. Good morning everyone. This is a day I have been looking forward to for some time now. At Prince, we have been able to build a range of innovative products consistently catering to applications across the board in a market like India which has typically been late in the adoption curve of technology and products that are well accepted globally.

Right from the 1980s we were ahead of the curve by driving a shift from GI to PVC pipes for domestic use. In 2017, we were early movers in bringing a global product double wall corrugated DWC pipes to replace RCC pipes for underground drainage. I strongly believe that this product will be able to change the face of our sanitation standards across India in the years to come.

For us the next such high-performance product is one that will improve the user experience and impact yet another segment. I am excited to introduce Prince OneFit Industrial CPVC pipes. We are confident that this product will replace the conventionally used product mild steel pipes for industrial applications. OneFit will be licensed from Corzan our global partner of choice, Lubrizol. This Corzan product of Lubrizol is the preferred industrial CPVC solution across the globe.

Now, that I have walked you through the high-performance standards of Corzan, let me also walk you through the rationale of Prince entering into this segment and the potential opportunities. Firstly, the Indian industrial piping market size is expected to be around approximately Rs.16,000 Crores. This is today dominated by the conventional MS pipes. In India today CPVC is majorly used only for the domestic applications, whereas globally CPVC pipes are very well accepted for the industrial application as well. Thus, I believe there is a tremendous potential for industrial CPVC pipes in the Indian market.

Secondly, the industrial CPVC segment is underpenetrated and has low competitive intensity. Hence, this product is an ideal complement to our existing product portfolio. Also, the pipe to fitting and valves ratio is favorable making this a key value proposition. Lastly, this segment has high barriers to entry because of high gestation periods for orders and the required technocommercial expertise. This results in relatively high barriers to entry.

Prince OneFit will provide an optimum solution to industries such as chemical, power generation, metal treatment, paper and pulp, mineral processing, water treatment plant among many others. Now, with this new product Prince is India’s first company to have a three-polymer solution for the industrial applications. Easyfit in PVC pipes, green fit PPR pipes and now OneFit CPVC pipes. I strongly believe we are now in an opportune position to impact the industrial piping segment.

Thank you all. I will now pass it on to Sham to walk you through the fiscal performance.

Shyam Sharda: Thank you, Nihar and good morning friends. I will be taking you through the Q1 FY2022 financials now.

In this quarter, the Company saw a robust revenue growth of 9% at Rs.331 Crores compared to Rs.302 Crores in Q1 FY2021. Volumes have reduced by 26% at approximately 18,500 metric tons. EBITDA was at around Rs.41 Crores in Q1 FY2022 compared to Rs.32 Crores in Q1 FY2021 a growth of 30%.

EBITDA margin was at around 12.5% in Q1 FY2022 as compared to 10.5% in Q1 FY2021 indicating a margin expansion of 200 BPS. The profit after tax stood at Rs.18 Crores compared to Rs.11 Crores translating to a growth of 58%. This was owing to an overall improvement in performance at EBITDA level aided by a sharp decrease in finance cost by

60% due to the complete repayment of long-term debt and continuous improvement in cost of short-term borrowings.

On key balance sheet parameters for the quarter ended, we would like to state our gross debt as on June 30, 2021 stood at Rs.157 Crores compared to a gross debt of Rs.256 Crores as on June 30, 2020, thereby indicating a reduction of Rs.99 Crores from the previous year.

We have repaid our long-term outstanding debt and have become long-term debt free as on date. Our working capital will improve as markets open up and the inventories will normalize. It has been our priority (1) to reduce cost of borrowings, (2) move recourse on channel financing facility.

While we have been able to reduce the borrowing cost over the past six quarters, I am glad to share that we have achieved partial recourse terms on our channel financing facility. We are in the right direction towards achieving our dual goal of customer centricity and a stronger balance sheet. With this we would like to open the floor for questions please. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sujit Jain from ASK Investment Manager. Please go ahead.

Sujit Jain: I just wanted to quickly check Nihar with you is, if you can give that number for FY2021 what is our sales mix in CPVC, PVC and others in agri, plumbing and infra and looking at the numbers for Q1 of competitors have we lost some market share?

Nihar Chheda: Firstly, in terms of the breakup you are aware that we do not give out segmental data from a competitive intensity point of view but roughly around 65% odd is building material, 30% odd is agri, and 5% odd is infrastructure. Secondly, on your question of market share no, we have not lost market share. I think it is not a fair thing just to look at year-on-year or quarter-on-quarter because the bases are very different for different companies looking at the kind of impact the two waves had in the past Q1 and the current Q1. I think the only reason, there has been a significant volume degrowth is like you mentioned channel inventory was very high and if you look at the March quarter, we actually had a very strong volume growth relative to the industry and as you likely said that if you look at the July numbers, I think we are back on our strong growth trajectory. So, to answer your question, no we have not lost the market share.

Sujit Jain: Sure, but is it fair to understand that CPVC would be roughly 65% - 70%, PVC would be 15%- 20%, and then the remaining others without getting into numbers?

Nihar Chheda: PVC would be around 65% - 70%, CPVC would be around 18% - 20% and the balance would be the other polymers.

Sujit Jain: The other thing is I was just noticing in your FY2020 release when the cash flow from operations got revised from minus Rs.152 Crores to plus Rs.102 Crores. So, if you can explain this?

Shyam Sharda: Actually, what was done in March 2020 there was a point which was mentioned in operating activities against the financial activity which got regrouped in the subsequent quarter. So, that was in discussion with the auditor itself so there was realignment being done. So, the classification was suitably being made thereafter.

Sujit Jain: So, if you can explain further actually what went above the line of cash flow from operations when you declared FY2020 results and then what got recast in FY2021 results when you restated FY2020?

Shyam Sharda: So, it was basically the fixed deposit part which was a part of the investing activity which ideally should have formed a part of the investing activity had got clubbed with the operating activity. So, that got rightly classified at a later stage with the consent of the auditors. So, it was mainly in FDs, the money that we had raised from IPO which was parked in FDs that classification got changed.

Sujit Jain: Okay, and one question is on inventory, if I look at in the P&L the inventory is high at about Rs.104 Crores, would the industry be fairing at some inventory losses if the prices were to go down?

Nihar Chheda: The inventory level is high right now relative to what it usually is. If you see the PVC trend actually it has started moving upwards as demand is normalizing and supply continues to remain tight. There was a slight inventory loss in the June quarter of around Rs.5 Crores odd but I do not see a major threat of inventory loss going forward simply because PVC will only tighten from here on.

Sujit Jain: And versus making CPVC compound ourselves sourcing it from let us say Lubrizol at least one player in the industry the leader in CPVC is making their own compound, how much margins we forego when we source CPVC compound and then next CPVC pipes?

Nihar Chheda: It is tough to quantify an exact margin firstly because this is not a commodity. Every organization has their own sort of contracts with their suppliers and a price is formed it is not PVC where there is a sort of global benchmark pricing. So, it is impossible to quantify the margin and for us I have always stated that Prince was always perceived as a strong brand in the PVC space also trying to sell CPVC products. So, now with this tie up we have that inherent first mover advantage and brand equity in PVC and with Lubrizol now we get that in CPVC as well since the FlowGuard Plus brand is still very strong in India and definitely our cost would be higher, but I think at the operating margin levels that would be set off as we ramp up market share in a space where we are underpenetrated.

Sujit Jain: Last question on channel finance what is the guidance then what is the exact amount, absolute currently?

Shyam Sharda: We are at around Rs.54 Crores in terms of the utilizing so far and we wanted to be slightly moderate over there because we are also moving as I said on my call, we are moving to a partial recourse structure. But slow but steady is what we are looking at which is around Rs.54 Crores – Rs.55 Crores as on date.

Sujit Jain: But as a percentage of sales where do you want to keep it?

Shyam Sharda: I think we should be in the range of around 15% to 20%around that range and not beyond that.

Sujit Jain: Sorry I did not get that Rs.2,000 Crores of sales and 20% of that is Rs.400 Crores of sales?

Nihar Chheda: It is around 15% to 20% of our distributors are on channel finance not as a percentage of sales. This is not something that we can have fixed as a percentage of sales, we are very clear as a management that channel finance is something that we do not want to give to each and every distributor. There are a handful of distributors who have a strong credit history and trust built with the Company and only those distributors are on channel finance this is not something that we are looking to expand on aggressively, the simple point being that only we have moved from full recourse on our books to partial recourse that is the only change.

Sujit Jain: So, to understand this correctly the absolute number is what we should be tracking, and which remains at Rs.55 Crores and broadly it should remain thereabouts, and we should be focusing on absolute number?

Nihar Chheda: Correct, so it would be range bound.

Sujit Jain: Thank you.

Moderator: Thank you. The next question is from the line of Madhav Marda from FIL. Please go ahead.

Madhav Marda: Good morning. Thank you for second time once again. I just wanted to ask on the new product launch that we are talking about, who would be the key customers for this product and how are the margins and the season cycle like does it vary from our existing business or it will largely be the same?

Nihar Chheda: Thank you Madhav. So, this is still going to be through the channel but there is no trade as such where there will be no retailers or anything in this space. But we will not take any direct exposure, we will still sell through our specialized distributors for this segment, industrial distributors where we already have decent experience because some of our PPR is already sold through the industrial channel and if I have to talk from an end user point of view it would be various industries like chemical, power generation, metal treatment, paper and pulp, water treatment, so these are the potential end users we are looking at and the gross margins are very favorable relative to our existing portfolio and that is why I think it is a very good compliment to my existing portfolio today because of the kind of value proposition that we are seeing in this space. So, may not be huge in terms of contribution to the topline but the gross margin is going to be favourable.

Madhav Marda: Got it and the second question was, last year the larger players benefited from market size gains from the smaller players, are we seeing any of the smaller players coming back in the market or it remains status quo and sort of still feasible for the larger players to gain share in the coming years?

Nihar Chheda: Yes, that is an interesting question Madhav, and it is something that we internally try to evaluate and brainstorm. So, to answer that question it is very important to understand what has caused that market share gain in the first place. Really, it was multitude of factors whether it wasthe cash crunch that smaller players were facing, the tightening BIS norms and now especially post-COVID the kind of volatility that the commodity of PVC has seen. Today if I see globally, PVC continues to remain tight, supply of PVC continues to remain a challenge and as demand normalizes in the Indian market, I think PVC is going to see an uptrend the extent of the uptrend is something that needs to be understood. But to answer your question I do not see the smaller players coming back any time soon given the current environment.

Madhav Marda: Understood and just any brief comments on your outlook for demand for rest of the year especially on the plumbing and the Agri side, how are you all seeing the market shaping up?

Nihar Chheda: So, agri now I think we need to see how it will perform from November onwards because that would be the next season. On plumbing, I am optimistic about plumbing. The kind of growth that the real estate sector has been showing, I think there is still that underlying buoyancy for real estate demand. Whether it is in Urban India or whether it is in Semi-Urban, Rural India and the affordable housing sector. So, I am still optimistic for plumbing and SWR which is anyway 65% - 70% of our overall business.

Madhav Marda: What about the Nal Se Jal program has that picked up in a good way and is it favorable for larger players like us to supply volumes there or are the margins not great so we want to limit the amount of volume?

Nihar Chheda: Madhav could you repeat your question please?

Madhav Marda: The Nal Se Jal program we were hearing that it had picked up in a good way in some of the states in the country. Just wanted to understand how are you all seeing the take off in the demand there and is our Company looking to sell meaningful volumes or because margins are lower, we might want to limit exposure to that?

Nihar Chheda: With government projects our key thing has always been credit and the receivable cycle which I think has been fairly disciplined, so we will continue to participate because yes, at the gross margin level it may not be favorable, but the volumes do help with cost absorption. In the December and March quarter, we did see a good contribution. Of course, in the current quarter it was slightly subdued due to the lockdown. So, we will continue to participate as long as the credit cycle is disciplined.

Madhav Marda: Got it, okay thanks. Thanks a lot.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: My question is with the FlowGuard coming in the half year last year and now the industrial CPVC pipes, so over the next three years to five years how should the CPVC share in our total business should rise and what is the incremental gross margin in CPVC over our base business of PVC?

Nihar Chheda: Especially with the FlowGuard Plus brand, it is very well aligned with our overall strategy of premiumization, which we began much before our tie up with FlowGuard Plus as well. So, I think now with this tie up and with industrial CPVC it may not be a huge contributor in terms of topline, but I think it will help us improve the overall market potential for CPVC over the next five years to ten years. I think we need to target double digit-growth in CPVC every year. It is hard to comment on what that will be as a percentage to overall revenue, but I am pretty optimistic about strong growth in CPVC from here on.

Pritesh Chheda: On the incremental gross margin there?

Nihar Chheda: I cannot comment on segmental margins, but CPVC is a value product for us and focusing on CPVC will improve our product mix which has been a lever for margin expansion and will continue to be a lever for margin expansion.

Pritesh Chheda: My second question is there has been a lot of volatility in your margin what we saw in the last three–four quarters. What would be your best guess incrementally on the margin profile either percentage or EBITDA per kg whatever you are comfortable with over the next 12 months and what kind of volume growth at the company level is what you are seeing?

Nihar Chheda: I think firstly if I see last year, of course the margins were strong because of multiple reasons like improving pricing power, better product mix and inventory gain all three led to an increase in margin in the past financial year. Of course, this last quarter the margins have reduced because of a small inventory loss, even the sales were fairly muted and as a result we did not have the usual cost absorption benefits as well. So, there are enough and more levers for margin expansion what we have been consistently talking about whether it is pricing power, value added product mix which will only improve with such new launches like industrial CPVC, and operating leverage would be our third lever for margin expansion. So, we need to keep working on these three segments and that will lead to strong margins going forward. I am sorry I missed the last part of your question.

Pritesh Chheda: Volume growth expectation?

Nihar Chheda: So, volume growth, I think again, we are very confident that the real estate segment is underlyingly buoyant, we are also going to be making market share gains whether it is from the unorganized segment or from other organized players because of the kind of network expansion we have been working on, because of the kind of branding investments that we have made. So, whatever the industry growth is over the past few years we have been able outpace industry growth by 2% to 4% and I am confident about that continuing over the next few quarters.

Pritesh Chheda: Just a clarification your margin answer be refence there for expansion, is it the expanded margin of 17% which you reported in 2021 and there is an expansion case by virtue of mix operating leverage etc., or your reference is something else?

Nihar Chheda: No, I am referring to FY2021 margins where there was pricing power product mix and inventory gain. So, I am taking about FY2021 on an annual basis the EBITDA margin.

Pritesh Chheda: You are referring to there is an expansion scope over that 17%?

Nihar Chheda: No, I am saying that has expanded to 17% because of these levers and we should continue working on these levers going forward.

Pritesh Chheda: Thank you very much Nihar. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Chirag Lodaya from Value Quest. Please go ahead.

Chirag Lodaya: Thank you for the opportunity. Sir, just one clarification on margins, so first how you look at your margins internally is it more EBITDA per kg basis or is it is percentage of sales basis. How you internally evaluate this?

Nihar Chheda: We internally evaluate on percentage and per ton basis. But in terms of discussing, it with external stakeholders for any projections we would stick to a range in percentage terms.

Chirag Lodaya: Just a clarification one more, so FY2021 you did 17.5% margins, so whatever you have stated you are saying that FY2022 and beyond that margin will be at least 17.5% or more is that understanding, correct?

Nihar Chheda: No, that is not what I am saying. I am saying that there were multiple reasons for margin expansion whether it was pricing power, product mix or inventory gain and better cost absorption because of the kind of growth we had, and I am simply saying we need to continue working on those levers the way we have.

Chirag Lodaya: Right, so in terms of range if you can help us. What kind of range we should consider for annual margins going ahead?

Nihar Chheda: So, it is hard to give guidance and we have always been conservative whatever as a company. I understand what you are trying to get at but so I think 13% to 15% is something that we have always guided at, and I would like to stick to that and then we are happy to keep working and trying to exceed. We are not happy with 13% to 15% when we want to always strive to improve whether it is on the topline or on the bottomline.

Chirag Lodaya: Sir on annual volume base I am trying to assume that you would at least do whatever volumes you would have done last year is that base assumption correct?

Nihar Chheda: I think do I think it is possible? Yes. Do we want to? Obviously yes. So, we need to keep working on I think rather than speculating on what the annual number would be I think we need to put our heads down and focus on network expansion, invest in branding, trying to create a further pull for our products across applications and then whatever results are going to be is going to be a result of that process. So, of course is it possible? It is very much possible.

Chirag Lodaya: Sir, Q4 your employee cost for the quarter was around Rs.27 Crores and in this quarter, it is at around Rs.21 Crores, so what has led to decline in employee cost on a QoQ and how we should look at this number going ahead?

Nihar Chheda: I think employee cost will remain uniform. I think in the last quarter there are usually some incentives that is there, for the team based on a strong performance. There has been no lay off or no salary cut or anything. This is just something that it is usually there linked to the performance in the March quarter, and I think it is nothing as a cause of concern for lay off or salary cut or anything.

Chirag Lodaya: Thanks and all the best.

Moderator: Thank you. The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Sir, how is the demand scenario after the second lockdown? What sort of year-over-year growth are you seeing currently?

Nihar Chheda: I think we are moving in the right direction June was better than May and July have been much better than June and a few reasons for that is channel inventory was very low by the end of the quarter and we have just started seeing an increase in the PVC prices. That is at the channel level and at the end user level I think as the guidelines is the demand has started to normalize real estate is showing that kind of positive momentum. So, we are confident of returning to strong growth momentum going forward.

Dhaval Shah: Typically, on the channel inventory when the prices are rising generally, so does the distributor network tend to stock up more?

Nihar Chheda: Correct.

Dhaval Shah: Would you be confident of achieving at least high single digit kind of volume growth over FY2021 base, looking at the scenario currently?

Nihar Chheda: I am optimistic about the demand scenario. Is it possible? Yes, but I do not like to speculate on these numbers. I think like I said earlier as well we just need to focus on network expansion, branding, creating a pull for our products and then the results will take care of itself. So, we need to focus on the process and then the delivery will happen, and I think the environment is definitely improving from a demand point of view.

Dhaval Shah: Sir, if you adjust EBITDA margin for the inventory loss so it would be around 14.5% for the current quarter rather the Q1?

Nihar Chheda: Yes, 14% odd.

Dhaval Shah: 14% odd okay, so then inventory loss was the only one-off expense and then from the operating deleverage which you had because of the lower volumes?

Nihar Chheda: Yes.

Dhaval Shah: Okay and are you back so in the fourth quarter we had higher advertisement expenditure one time. So, on a run rate basis now from the second quarter since the things are normalizing again, what sort of spends would we be doing?

Nihar Chheda: So, I think 2% to 3% is what we have always done and that is something that as demand normalizes, we would like to continue.

Dhaval Shah: Sir there is a last question again on the advertising now. The way of advertising like in piping industry headed after different ways of advertising. But now after COVID as many people have shifted to digital, so what is the piping industry and your company in particular adopting? Are we again going back to those more non-digital ways or are we more digital or what is it?

Nihar Chheda: Yes, that is a good question. The focus on digital for Prince has been increasing. I would say there has been a shift even before COVID that was happening but after COVID it is happening at an expedited way, the way we are using the digital landscape to reach to our influences and our end users, to create that sort of brand equity and brand perception. I think the traditional medium still has some power whether it is to do with retail boards or plumber meets and workshops, our loyalty program Udaan is strengthening from here on and helping us improve our touch points and the digital play helps us across urban, semi-urban and rural. So, that focus will keep improving.

Dhaval Shah: Sir, sorry to interrupt, when you say digital your end customer are they going to connect with it or is it only through the phone or it is through some other medium?

Nihar Chheda: I think it is multiple mediums. One is definitely social media is a keyway and this is not like a transactional, right that no one is to come online to buy a pipe or fittings it is more to create a certain level of awareness and brand power and today the key influencers are retailers and plumbers. In some cases, in Rural India, it could also be the individual homeowners. So, we have to target across these segments.

Moderator: Thank you. The next question is from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah: Thanks for the opportunity. I have a couple of questions, first is just wanted to understand in the marketplace how we are going about pricing specifically on the CPVC side,given PVC prices have moved up, I understand from the larger distributors that Lubrizol has been seeking a price increase at least and speaking with the channel partners again, what we understand is our pricing has been at a discount to peers like Astral. Now, in a hypothetical scenario if Lubrizol does seek a further increase of 10% - 15% what would it mean on the strategy on market share versus spreads, that is the first question?

Nihar Chheda: Thank you Ritesh. Firstly, the CPVC price hikes are going to be industry wide. It is not going to be only from one particular supplier whether it is Lubrizol. So, CPVC right now pricing is definitely one and I think across the three major global suppliers there have been price hikes that have happened over the past few quarters and that could continue. But I think the main point here is about supply. Today if you see we were talking about few quarters ago smaller player was struggling to get access to raw material after the anti-dumping duty. Today larger players are also unable to get supply of raw material. So, today they do not have the supply security in the marketplace. So, price is only going to be on paper unless you are actually going to be able to sell. So, today not only the smaller players but larger players also are running here and there for product, whereas today we are in a strong position as far as supply security is concerned and any price hikes will be industry wide it is not something that is going to be unique to one supplier or one partner because the dynamics at the end of the day are same.

Ritesh Shah: Given the peers that has captive compounding I think we also used to do captive compounding earlier so you will appreciate that they have a benefit on the cost side. So, even if it is an industry wide increase obviously the increase what we will have during procuring a compound from Lubrizol our costing will be higher and that one has to look at or appreciate in consumption that the discount at which still we are selling to the peersset. So, does it result in market share loss or are we looking at spread contraction going forward?

Nihar Chheda: Ritesh, let me repeat maybe in a different way that yes, we are at a premium in terms of our cost but that delta I do not think has moved significantly because when we signed up with Lubrizol a year ago there was still these other players who were buying resin and making it indigenously and that holds true today as well. So, I do not think that delta in our cost has moved significantly. Cost has increased for everyone in a proportionate manner simply because of the change in the industry dynamics which has led to this increase in cost it is not something that is specific to one supplier or one particular vendor. So, I think what the dynamics was a year ago when we did the partnership; it is a pretty similar dynamic. The delta in terms of the finished goods pricing has reduced to the market leaders. I am sure you would appreciate that we have not been a first mover in this space which is why we had to sell at a discount, but that delta has significantly reduced on the finished goods side which has helped us find the balance between market share and selling profitably.

Moderator: Thank you. The next question is from the line of Achal from JM Financial. Please go ahead.

Achal: Good afternoon. Thank you for the opportunity. So, my first question is with respect to inventory right in QoQ we have seen that significant increase in the inventory. So, the question is that to do with the raw material or is it to do with the finished goods?

Nihar Chheda: It is a split of both, Achal, and as the demand normalizes finished goods inventory would normalize. So, it has been an increase both in raw material and finished goods inventory.

Achal: Understood, and with respect to first quarter what is usually the agri mix and what was that in this quarter would you be able to give some color on that given that we have seen a substantial drop in volumes if you could help with that?

Nihar Chheda: Agri being muted has not been the only reason for the drop in volumes, but it has been one of the key reasons. Usually for us in Q1 agri would be around 38% to 40% which in this quarter has been around 30%.

Achal: Right, and with respect to this supply security perspective for the PVC, what has driven this we were hearing that some of the facilities in US and Europe were re-starting about a quarter back. So, what is that driving this availability of it and how you see it evolving actually when you see the prices are bound to remain kind of or go up from here on?

Nihar Chheda: So, Achal supply security today is a challenge both in PVC and CPVC is the point I was making. Specifically coming to PVC, I think it is multiple factors like you correctly said yes, there was delay in supply globally and even as that has improved that has not impacted the Indian PVC pricing for two reasons in my mind. One is out West whether it is North America, Europe, Latin America, inherent demand has been very robust for PVC. So, they are choosing to sell locally and not export as much and freight cost globally have, I am sure you would be aware have gone up in multiples which has kept this pricing buoyant.

Achal: Understood, and if you could give some colors in terms of the B2B part post the tie up have we started realizing that benefit or is it there in the quarter numbers or we are yet to see meaningful contribution ?

Nihar Chheda: So, right now I think B2B I would say we are sowing the seeds right now, so we are in that process as we are building the team, building the relations with the key stakeholders in that segment. So, I think it would take a few quarters for that to realize but the process is going on currently.

Achal: Understood, and just one more, if you could give some color on the water tanks and valves where are we, how are we looking at and what kind of, I know it is really very early to ask but what kind of contribution can we look at from these two things as over in the next three years to five years can it be like 5%, 15% or could be less than 5% some range?

Nihar Chheda: Tanks is something that it was a natural extension to our product portfolio, but I do not think it is going to be major driver for growth. It is still early to comment on how it would be as a percentage of the overall revenue. But one needs to be sort of conservative simply because it is early days, and we are trying to establish ourselves. The feedback on the product and quality continues to remain encouraging and we are looking to further penetrate in this space and cross sell our tanks with our pipes.

Moderator: Thank you. The next question is from the line of Sneha Talreja from Edelweiss Securities. Please go ahead.

Sneha Talreja: Thanks a lot for this opportunity. I just wanted to understand about your new product. So, in your commentary remarks you also said that some part of sales is already happening for PPR. So, could you tell me what sort of sales is happening for PPR what would be the percentage and would be the readily available channels for us in that case and secondly which are the players currently which are supplying in this market whether it be domestic or any global player or any imports? That will be helpful.

Nihar Chheda: PPR in the industrial we have a decent distribution network. PPR also in India is still largely for plumbing in certain pockets, so industrial is still not hat developed. We are still relying on traditional products I think plastic pipes are still being penetrated or have some further room to be penetrated in the industrial space and today in India if I look at CPVC industrial space, there is only maybe one player in India, it is not easy to import simply because of the freight cost. I am seeing a very good adoption curve that we can drive in this space simply by looking at what is happening globally and the kind of challenges that are there with the conventional MS pipes today I think there is very good scope for this product.

Sneha Talreja: Just an extension to this, you said that globally India generally follows global trend, like we followed in case of DWC when we came in 2017 now you are following that. So, which are the other segments which can be part of our growth journey maybe going ahead or for the industry? So, Sir if you can highlight some of the global strengths which you are seeing and which we or any other peers could later follow in later follow in terms of getting the demand?

Nihar Chheda: Yes, so I think you are right in saying that we have been late in the adoption curve, and it has to be leaders like ourselves who have to drive this change in the industry and that started with DWC and now with industrial CPVC Corzan. Now, the focus has to be on nurturing this product for the next few quarters and only then would we like to come into a newer product, and I think let the action speak louder than words when we come into that product we will talk about the potential and try to be a first mover in many more segments from here on.

Moderator: Thank you. The next question is from the line of Devang Patel from NAFA asset Management Company. Please go ahead.

Devang Patel: My questions are on industrial CPVC pipes again, so globally what is the penetration of these pipes versus MS pipes, how old is the technology and in India over five years what kind of penetration would you expect in this Rs16,000 Crores market?

Nihar Chheda: Those are all good questions and sort of hard for me to answer at this point. All I can say is today in India CPVC more than 90% or 95% of CPVC in my understanding is used only for domestic application and it is very skewed towards domestic plumbing whereas globally industrial and domestic both form a pretty good part of the overall CPVC consumption. So, simply by looking at that I think now it is just a point of concept selling in India which is not easy it is going to have gestation period. But we are willing to do that because the harder it is the higher the barriers to entry in this segment and I am fairly confident simply because the product is so much superior to the conventional solution. So, if we are able to do that concept selling nothing stops us from having high double-digit growth for industrial CPVC from here on. Again, it may not be a very significant part in terms of contribution to the topline, but it is going to be extremely value added at the gross margin levels.

Devang Patel: How is the BIS certification norms established in India for this kind of pipes and has anyone before this tried to introduce them?

Nihar Chheda: Like I said there is one other player in India but largely still this space is dominated by Mild Steel Pipes and the Corzan product of Lubrizol is beyond any standards and specifications. I think Lubrizol's own standards of quality and safety are much higher than any standards and this is a product which has been very well accepted by industrial consultants.

Moderator: Thank you. The next question is from the line of Praveen Sahay from Edelweiss Financial Services. Please go ahead.

Praveen Sahay: So, my question is just a clarification as you had already mentioned that channel inventory is down, and your inventory level has normalized. So, is it fair to assume your inventory went up to the fourth quarter levels?

Nihar Chheda: So, inventory has not yet normalized but as demand picks, it will normalize in the coming time.

Praveen Sahay: The second question as I can see that the sequential volume degrowth in Prince is relatively as compared to peers whoever has given their numbers and as well as your EBITDA per ton is also more see correction on sequential basis. So, can you enlighten me to differentiate these numbers?

Nihar Chheda: I think in our industry firstly I understand why you are looking at quarter-on-quarter and maybe not year-on-year because of the YoY base also was impacted by COVID. But in our industry, I think quarter-on-quarter is never the right comparison especially March quarter to June quarter simply because the dynamics are so much different for agri and for plumbing as well because Q4 is a quarter where all the distributors are gunning for their targets so that they can achieve their incentives. Like I said, there were three main reasons for the volume degrowth for us two were industry wide one was the muted agri demand and second was the lockdown having an impact and one specific to Price was the channel inventory being very, very high at the end of the March quarter which was a strategic decision we took and we had said that in the last conference call as well that was one of the learning's we had from the last lock down. We wanted to have no supply chain issues and have plenty of product available in the market and which is why we were outperformers in the March quarter that would have been seamless but because of this muted demand it has led to a sharper drop, but we have moved in the right direction. June was much better than May and in July we have returned to our growth trajectory.

Praveen Sahay: Thank you. Thank you for taking my questions.

Moderator: Thank you. The next question is from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah: I just wanted to continue my prior question, Nihar what you indicated as that our discounts versus the market leaders has reduced, is it possible to quantify it. I am just trying to understand what our strategy is in the marketplace?

Nihar Chheda: If you look at few years ago it was high single digit or in some cases even our double-digit discount to the industry leaders which now in some markets would be around 3% to 4% in some markets it would be at parity as well. So, that has sharply reduced, and we have been able to grow over FY2021 over the four quarters of FY2021. So, it is a balance between market share and profitability, and we have to keep monitoring that.

Ritesh Shah: On CPVC basically our cost curve is bit higher, but we are still at a bit of discount has reduced over the time, right would that be a correct conclusion?

Nihar Chheda: Yes.

Ritesh Shah: That is helpful. My second question is on the PVC side, you indicated that we are not worried about inventory losses. I think this question is for most of the polymer processers in the country. I dug out certain data wherein I understand for April-May and June the cumulative resin imports mostly had was around 25,000 ton – 27,000 tons and the average pricing was around Rs.125– Rs.128. Now, if one looks at the Reliance current pricing it is below Rs.120 including volume discount. So, I have a two-pronged question over here, why is that we have moved to imports? Do we not have a MoU with Reliance to procure material locally? That is one. Secondly looking at the average inventory costs what we have would not it mean, that we are looking at inventory losses. Now this is not something to Prince we have been asking this question to across companies as well. Just trying to understand what the sourcing strategy is and the quantum of inventory losses that one can look into the next quarter?

Nihar Chheda: That is a good question. Firstly, in terms of supply security we have domestic contracts with both the large PVC manufacturers in the country. So, being one of the largest PVC processers in the country we do have those dependencies both on import and domestic and supplies continue to remain a challenge which is why we had a good number of imports like most of the large processers would have and if there was no second wave, I think we would be in a very strong position. There will not be major inventory losses going forward because PVC has started going back in an uptrend and we have both local and import which helps us control our cost quarter-to-quarter while still having strong supply security. Similarly, like CPVC in PVC today there are few players both small and large who has supply chain issues and we do feel that we have a pricing power being one of the strongest brands in PVC to return to our regular margin levels.

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

Rahul Agarwal: Good afternoon. Thank you so much for the opportunity and congratulations for the OneFit Corzan launch. I had two questions. Firstly, on the demand sustainability side I mean there have been so many questions largely on how the demand is shaping up for building materials in India and especially for pipes. I am just trying to understand could you help us with some leads indicator which you track internally maybe which builds on the conviction that the demand is going to be sustainable both from housing or projects demand or even from government and that could be across plumbing, SWR or even agri pipes for that matter. So, I am just looking for some more color, any dealer feedback you could share which you get from your channel essentially highlighting, okay this is what we are moving faster than the other and overall, the next 12 months looks like that? That is my first question. Thank you.

Nihar Chheda: Thank you Rahul. So, yes whichever distributor that I have been talking to in the markets that I have visited, even at the retail levels there has been a return in normalcy. So, even if you look at larger picture data the kind of performance real estate sector has been seeing in terms of registrations especially in metros have improved and whatever few developers also that work with us there has been an underlying buoyancy in demand and I think it was of course impacted by the second wave but I think that still remains and that will come to the front and center now as the economy normalizes and I think the kind of direction that our performance has seen month-on-month like we said the June was better than May and July has been much better than June. So, that itself is the lead indicator that demand is going to improve from here on and that direction has already started moving. Also, channel inventories was very low at the end of the quarter and with the increase in the PVC prices starting I think that will be a further boost for the demand.

Rahul Agarwal: So, if I understand it correctly, basically we have to look demand more in short-term right as in month-on-month behavior basically helps us build more conviction there is no way out could be built like a 12-month view on sustainability, is it even possible?

Nihar Chheda: So, the accuracy could not be that high for a 12 month view especially in the current uncertain economy. But if you are asking me for a medium-term view, I am still optimistic because real estate had started to see that turnaround in the December quarter and then in the March quarter and I think this was just a blip. I think underlying buoyancy will continue to deliver. If you are asking for my opinion on a 12-month basis I am optimistic.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to Mr. Rajesh Ravi from HDFC Securities Limited, for closing comments.

Rajesh Ravi: Thank you everyone for joining in this call and thank you to the management for taking all the questions. I would now want to hand over to Parag Sir, for his closing comments if any, after that you can conclude the call.

Parag Chheda: Thank you Rajesh. Thank you to all the participants, Stay Safe.

Moderator: Thank you. On behalf of HDFC Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.