



Prince Pipes and Fittings Limited

Q1FY25 Earnings Call

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MANAGEMENT:

- Parag Chheda – Joint Managing Director, Prince Pipes and Fittings Limited
- Nihar Chheda – Vice President Strategy, Prince Pipes and Fittings Limited
- Anand Gupta – CFO, Prince Pipes and Fittings Limited
- Karl Kolah – Head- Investor Relations, Prince Pipes and Fittings Limited

ANALYST:

- Manish Mahawar : Antique Stock Broking

Q&A PARTICIPANTS:

Shravan Shah	: Dolat Capital
Keshav Lahoti	: HDFC Securities
Utkarsh Nopany	: BOB Capital
Akash Shah	: UTI Mutual Fund
Shubham Aggarwal	: Axis Capital
Sneha Talreja	: Nuvama
Praveen Sahay	: Prabhudas Lilladher
Umesh Jain	: Kotak Life
Aasim Bharde	: DAM Capital
Udit Gajiwala	: Yes Securities

Moderator:

Ladies and gentlemen, good day, and welcome to Prince and Fittings Limited Q1 FY'25 Conference Call hosted by Antique Stock Broking. 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. Manish Mahawar from Antique Stock Broking. Thank you, and over to you, Mr. Mahawar.

Manish Mahawar

Thank you. On behalf of Antique Stock Broking, warm welcome to all participants on the Q1 FY'25 earnings call of Prince Pipes. Today, we have Mr. Parag Chheda, Joint Managing Director; Mr. Nihar Chheda, Vice President Strategy; Mr. Anand Gupta, CFO; and Mr. Karl Kolah, Head, Investor Relations on the call.

Without any delay, I would like to hand over the call to Mr. Parag Chheda for opening remarks. Post which, we will open the floor for Q&A. Thank you, and over to Mr. Chheda.

Parag Chheda:

Yes. Thank you, Manish. I thank you for joining us for our Q1 FY'25 earnings call. The presentation and the press release have been issued to the stock exchanges and uploaded on our website. I trust you had the time to go through the same. I'll initiate the call with a brief overview of Q1.

In the current quarter, our volume growth has been driven by all verticals plumbing, agri, as well as infrastructure. This growth factors in our focused execution of various growth oriented initiatives. We reported a 14% Y-o-Y volume expansion and registered quarterly volume sale of

42,180 MT. The company achieved revenue growth of 9% Y-o-Y with revenues of Rs. 604 crores during Q1. EBITDA and PAT grew by 29% Y-o-Y and 25% Y-o-Y respectively.

I'm glad to share that our efforts of focusing very actively on strengthening our brand visibility, engaging more actively with our channel partners and a greater marketing trust are all translating into a meaningful volume growth.

We have aggressively enhanced our branding initiatives across daily modes of travel, in metros, buses, trains and even at the airport transit. Such initiatives are aimed at strengthening top of mind recall for Prince through clear visibility at strategic locations, particularly travel ports with high footfall so that no matter where you travel, Prince Pipes is part of your journey. Our campaigns are created to reiterate the key messages of trust and reliability of high-quality Prince products in everyday life.

The buildout of bathware segment continues with a strong momentum. We expect that over the next 2 quarters Aquel by Prince will gain a presence across all zones in India. The second phase of the asset purchase agreement, which includes the acquisition of the manufacturing unit which includes land, building as well as the manufacturing equipment is under process.

The construction of our Begusarai plant is progressing on course. Bihar facility will cater to demand of East India, which is the fast-growing market in the country.

I'm glad to share that Prince UDAAN has won the best creative campaign and communication in loyalty category third year in a row by the Customer Fest Leadership Awards. They have recognized UDAAN's highly engaging and evolving design, which helps create long-lasting relationships with our plumber partners.

The Union Budget 2024-2025 has outlined a road map for Viksit Bharat and announced a balanced budget with a core focus on driving medium term policy stability. It rightfully emphasizes on agriculture with the promotion of natural farming and new crop varieties, manufacturing and services, the development of industrial parts and support of MSMEs as

rental housing for industrial workers. The budget continued trust on infrastructure development and investment in road transport, energy, health and rural development are initiatives that augur well for our industry.

Some other areas that open up potential opportunities are Prime Minister Awas Yojana Urban 2.0 and the development of investment-ready, plug-and-play industrial park with a complete infrastructure in/or near 100 cities, focusing on the Eastern part of the country. The government also launched 'Purvoyada' for the all-round development of Bihar, Jharkhand, West Bengal, Odisha and Andhra Pradesh as well as the development of 'Cities as Growth Hubs', are all welcome initiatives that bode well for the pipes and fittings industry.

At a broader level, the growth pie presents significant opportunities that continue to excite us in undertaking appropriate strategic measures to drive volume growth, making disciplined investments across our diverse portfolio to bolster our business progress.

Thank you for your time and mind share. I will now hand it over to Anand to take you through the key financial highlights.

Anand Gupta:

Thank you for Parag bhai and good morning, friends. I'll be taking you through Q1 FY'25 financials. Revenue in Q1 FY'25 improved by 9% year-on-year at Rs.604 crores as compared to Rs.554 crores in Q1 FY'24. We achieved volume growth of 14% Y-o-Y, primarily led by growth in Plumbing and SWR segments. EBITDA for the quarter grew by 29% year-on-year to Rs.58 crores as compared to Rs.35 crores in Q1 FY'24. A&P spend for the quarter has increased to Rs.14 crores from ~Rs.12 crores in Q1 FY'24. PAT improved by 25% Y-o-Y to Rs.25 crores as compared to Rs.20 crores in Q1 FY '24.

Our overall working capital stood at 80 days in June as compared to 95 days in March 2024. As we had guided, Receivables have shown marked improvement at 61 days in June '24 from 83

days in March end. Inventory days stood at 70 days in March as compared to 52 days in March '24.

We continue to judiciously expand our channel finance program as we have made steady progress since the recourse has shifted to distributors and have increased sanction amount to Rs.155 crores at the end of Q1.

With this, we'd like to open the floor to questions. Thank you.

Moderator:

The first question is from the line of Shravan Shah from Dolat Capital.

Shravan Shah:

A couple of questions first, this quarter, 13.5% volume growth. So just a broader understanding in terms of how the industry would in this quarter and whether we have done better or not? And if it's possible in terms of the sense of CPVC volume, if you can help us that's the first one.

Nihar Chheda:

Yes. Thank you for the question. So like we said, the growth has been driven across agriculture, plumbing and infrastructure, all 3, which is encouraging to see. As we all know, real estate continues to do well. So we believe Plumbing and SWR will continue to grow. PVC again is in range-bound territory. So we believe that the agri demand also should be doing well. So this demand has been driven across the segments. To answer the first part of your question.

Shravan Shah:

Just wanted in terms of guidance. So the 15% kind of volume growth guidance for FY'25 stand still. And also on the margin front, this quarter was on the lower side, 9.6%, but we are looking at 12% to 14%. So is there any change in that guidance?

Nihar Chheda:

No, I think on a long-term basis, 12% to 13% EBITDA margin is sustainable. This quarter was impacted slightly by product mix. There was more agri sales compared to normal quarter, which led to the adverse product mix. Also, branding cost has gone up. It's more than 2.5% for this quarter. So these two are the major factors, which have led to a slight dip in the EBITDA margin. The volume growth has been encouraging. We are adding capacity aggressively, and we believe this kind of volume growth is sustainable over the long term.

Moderator:

Mr. Shravan, we may request you return to the question queue, as your voice is not audible. We can take your questions with a clear background. The next question is from the line of Keshav Lahoti from HDFC Securities.

Keshav Lahoti:

If I recollect, Q1 FY'24 was a quarter where our fitting sales was low because of the SAP issue, and there was a Rs.10 crores inventory loss. If we adjust the Rs.10 crores inventory loss, your Q1 FY'24 margin works out to be 10%. And this quarter, it is 9.6%. So there is a drop in margin in spite normalized fitting sales. So how should we read this? Is it more of agri? And how should we see the margin in Q2 onwards?

Nihar Chheda:

So like I said earlier, the current EBITDA margin of quarter 1 is lower than what our usual EBITDA margins are around 12%, 13%. The two major reasons for that one has been product. While we have grown across segments, both have been higher in the agriculture space where the -- of course, it's a volume driver, but the margins are slightly lower. And second is also the A&P costs have significantly increased, which is a conscious effort. That is the reason the

margin has come at 9.6%. But on a long-term basis, we believe to have 12 - 13% EBITDA margin is still achievable.

Keshav Lahoti:

What sort of margin you're looking for FY '25?

Nihar Chheda:

Yes, I think 12%, 13% on a long-term basis is sustainable ex of inventory gain or loss.

Keshav Lahoti:

Understood. What we understand, April and May demand was pretty healthy and possibly in June, there was softness in the demand. Is the sense correct? And secondly, how has been July? What sort of growth trend might have done in July? And how do you see the demand trend going forward?

Nihar Chheda:

So you're right, April and May demand was robust. And like I said, we have plans to aggressively debottleneck existing facilities as well. So a lot of that, we have already placed the orders for increasing capacity at existing plants. And of course, with the plant coming up in Begusarai, that will also significantly increase our installed capacity. Two quarters from now, we will be in a much better supply position from a capacity point of view.

Of course, in June, towards the end, we saw some weakness in PVC prices, which always means that there will be destocking in the channel. And that trend has continued in July. But I have always maintained that any restocking or destocking averages out over 12 months. What is important is the last mile demand. And that, I believe, continues to be strong because of the confluence of many factors like raw material becoming affordable, real estate doing well and infrastructure doing well.

So because of these three factors, we are still extremely bullish. And in fact, we are more bullish than we've been in the past in terms of industry growth as well as growth for Prince. So we continue to add capacity aggressively. And I believe the next 2, 3 years, we should have strong top line growth.

Keshav Lahoti:

Understood. That is good to hear. One last question from my side, what we hear CPVC volume growth has been pretty healthy in this quarter. Few of your peers have said 20%, 40% types of year-on-year volume growth. How has been that number for you?

Nihar Chheda:

So as you're aware, we don't give segmental breakups, but yes CPVC continues to do well. I think CPVC has become extremely affordable. And from here on, CPVC prices will continue to remain affordable, especially with local capacity of raw material increase. That will really disproportionately increase the market size of CPVC for the next 3 to 5 years. So we are not only adding capacity in PVC pipes and fittings, but in CPVC pipes and fittings as well. And I think similar, we continue to be very optimistic on volume growth for CPVC as well.

Keshav Lahoti:

And just a follow-up on this. What we hear, there are antidumping talks around CPVC. So is it the CPVC prices at its bottom and possibly the CPVC price might increase from here on? How you see the trend?

Nihar Chheda:

No, I believe that's already actually factored into the pricing. So it's tough to predict raw material prices, but I think even CPVC, there is no major upside. Most of the variables have been factored in. So I think CPVC raw material prices should continue to be range bound from here onwards because PVC also is becoming extremely affordable.

Moderator:

The next question is from the line of Utkarsh Nopany from BOB Capital.

Utkarsh Nopany:

So first of all, would like to congratulate to the entire team for growing volume at a better pace than most of our peers even after tightening credit period to our dealers.

Sir, my first question is, again, I'm coming on the margin side. Like you have mentioned that we have we have witnessed pretty good volume growth in the plumbing and sanitation portfolio. But still, our gross margin came under pressure by around 150 bps in this same quarter versus prior to the COVID period of Q1 FY '20. So is this a conscious call from our side to chase volume growth over margin in the short term?

Nihar Chheda:

So volume growth is important. To answer your question, yes focus is on market share and on volume growth, which we are very encouraged by what we have been able to deliver. And we are adding capacity aggressively because we are still not happy with this kind of volume growth. Aspirations are higher than the kind of volume growth we have delivered, and we believe that the industry does have tailwinds to have very aggressive volume growth going forward.

So from a supply point of view, we are preparing ourselves. And those orders have already been placed. From a margin point of view, I think like I said at the beginning of the call, it is primarily a factor of 2 things. One is the product mix being more agri heavy. So although the growth has been across segments, it's majorly been driven by agri. And second is a slight increase in branding cost also, which has contributed to EBITDA margins being on the lower side, but on a long-term guidance, I will stick to 12%, 13% operating margins because with this kind of volume growth, eventually, operating leverage will also come in and cost absorption will be superior.

I think one thing that I would also like to highlight, apart from the P&L bit is the kind of control that we have been able to deliver on the working capital, which has come from the control on the debtor days, it is back to around 60 days, which in the past couple of quarters was, I would say, significantly higher than that. And going forward, we would like to continue this kind of a control and hopefully keep decreasing the debtor days in a structured manner without compromising on volume growth.

So it's a tight line that we have to trade. It's something which is not easy to do for a growing organization. But our focus will be on industry-leading volume growth coupled with a strong control on debtor days, which should lead to very strong cash conversion as we continue to add capacity going forward.

Utkarsh Nopany:

Sir, my second question is on return ratio profile. If we see our ROE profile has come down sharply, which earlier used to be around 20%, 25% prior to the COVID period. Now it has come down to around 12% to 13% rate. And this is on mainly on two counts. First, because of the margin pressure, which is a market-determined factor. And second, because of the steep decline in our gross block asset plan, which earlier used to be around 3x.

Now it is at around 2.2x to 2.3x. So wanted to know what is the rationale for the steep decline in our gross block asset turn? And where do you see our ROE and gross block asset turn to settle at over the next 2- to 3-year period from here?

Anand Gupta:

So we are a growing organization, and we intend to keep adding the capacity, which will go back to gross block, which will not immediately give the top line and the contribution. So in next 2 to 3 years, we'll be again back to 16% as we add capacity and we start realizing the output from it. And that will help us to get the better realization from the assets, which will be deployed.

Utkarsh Nopany:

Okay. So where do you see your gross block asset turn over the next 2, 3 years?

Anand Gupta:

So we have plans to implement in the next 2 years what capacity we have to add. That has already been formulated. And next quarter, we'll be able to tell you more effectively that what has been planned in which plant then it will be better to give you a full overview of how the capacity will be added in which plant.

Utkarsh Nopany:

Sir, my last question is like our inventory period has gone up sharply from 53 days at the end of March to 70 days at the end of June. So -- and as PVC resin prices has been under pressure in the past few weeks, so whether you are likely to see any interim inventory loss in the September quarter, what is our bathware and water tank revenue June quarter, sir?

Nihar Chheda:

Yes, it's too early to comment on what quarterly impact will be because there could be an increase in PVC prices going forward, we don't know. Of course, there has -- whenever there is a decrease in PVC prices, there will be inventory loss. And similarly, whenever there is a gain, there will be inventory gain.

Inventory, Utkarsh, it's always going to be in the range of 60 to 70 days. And we are not afraid of keeping inventory. Like you said, we are a growing organization and supply is of top priority. We believe that even in the first quarter, we would have been able to deliver better volume had we had more inventory and more capacity. I think we could have easily done much higher volume numbers than we have done, which is why we are adding capacity not only in Bihar, but at existing facilities as well, we have done some unbudgeted capex, and we'll continue to add capacity.

So in the next 3 quarters, a lot of this capex will result in capacity addition. Our continuous focus is on ensuring that we are doing a lot of things on the front end, like branding and distribution and new products. But it's very important that we keep adding capacity and have that risk appetite to have that kind of supply position, whether it's from an inventory point of view or whether it is from a capacity point of view.

So see, inventory gain and loss is part and parcel of this business, and that will continue to happen. I believe on a 12-month period, it always evens out. But I think supply is paramount and this kind of a market which we are seeing very aggressive tailwinds for growth.

Utkarsh Nopany:

Yes, got it, sir. And what would be the bathware and water tanks revenue for June quarter?

Nihar Chheda:

So bathware would be around Rs.5 crores for the quarter. Water tank, just give me a minute. Water tank is around Rs.10 crores to Rs.12 crores exact number Karl will share post -- but Rs.10 crores to Rs.12 crores of water tank and Rs.5 crores of bathware.

Moderator:

Thank you. The next question is from the line of Akash Shah from UTI Mutual Fund. Please go ahead.

Akash Shah:

I just wanted to ask what is -- I missed in the opening comment, you said A&P spend for this quarter is Rs.14 crores. What was the number same quarter last year?

Nihar Chheda:

Rs.11 crores.

Akash Shah:

Okay. And sir, what is the bathware losses in this quarter?

Anand Gupta:

It is around Rs.4 crores in this quarter, net of all expenses and sales.

Akash Shah:

Okay. Right, right. And sir, if you can roughly share what is the capacity -- overall capacity that you see in FY '25 and FY '26?

Anand Gupta:

So that -- in the previous question, we had answered that. In H1, we'll be able to give you a broader plan, which will be executing in next 24 months in terms of adding capacity. So that time we will share the plan.

Nihar Chheda:

Yes. And just to maybe add on to what Anand was saying. So we expect Bihar to be operational by January, which will add -- so previously, we had guided for end of quarter 4, and we have tried our best to prepone that. So we are confident by January, we will be able to commercialize production at Bihar facility, which will help us have a strong March quarter in the current financial year, which would be a production capacity of around 45,000 tonnes, which includes pipes, fittings and water tanks and this is phase 1.

And some other debottlenecking capex that we will do at existing plants will be in the range of 35,000 to 40,000 metric tonnes, which will again take some 3, 4 quarters to commercialize. So from -- 2 quarters from now on, we will be in a much stronger supply position. So whenever we see such strong uptrend in demand like we did in April and May, we will really be in able position to cater to that demand and deliver some very aggressive volume growth.

In quarter 1, especially in the first half, we believe that we could have done better volume numbers, which would have resulted in better quarterly volume growth as well if we were in a better capacity and inventory position. And we have taken that decision already and the machine orders have been placed. So around 45,000 tonnes from Bihar starting from January and another 35,000 to 40,000 tonnes at existing facilities, which would take 3 quarters from today. So I hope that answers your question.

Akash Shah:

Yes, sir. Just one last bit. I mean, any thoughts on OPVC segment? I mean, are we planning to put capacity in this segment?

Nihar Chheda:

So as of -- we continue to evaluate a lot of new products, and we have added a lot of new products in the past few quarters. Currently, we -- while many segments may seem exciting, but it's -- we also believe focus is important. And at this point of time, our focus is more on distribution-driven products as well as products which are applicable for private projects whether commercial, residential, industrial projects.

So at this point of time, we do not have any plans for OPVC. We have always been more focused on distribution and private projects. And we believe there is enough and more room for growth, and we are adding capacity. And we have enough on our plate with now water tanks and bathware being the 2 new segment.

So at this point of time, we are consciously not looking at that, but we will continue to evaluate all opportunities, but we will be selective and strategic in where we put our money.

Akash Shah:

Yes, sure. And just one last thing.

Moderator:

May you please return to the question queue?

Akash Shah:

Sorry, this is the last one.

Moderator:

Okay, sir.

Akash Shah:

Yes. There is a talk going on, on antidumping duty in PVC segment -- in PVC. So any thoughts around this?

Nihar Chheda:

It's tough to speculate on how the government will act, but I can share my point of view without being a subject matter expert on this. But yes, I believe that current PVC prices not be sustainable for PVC raw material manufacturers. If you look at the spreads between the feedstock and PVC are at very, very low prices, and I don't see feedstock prices correcting.

So current prices of PVC, most PVC raw material manufacturers will really be struggling. So maybe you could see some support given by the government. But I cannot -- it's very speculative on assuming when it will come and to what extent the duties will be. So as a good practice, I will stay away from that.

But as an organization, we understand the current PVC pricing is -- while it is very good for us from a volume growth point of view and affordability point of view, I think PVC raw material manufacturers may really be struggling with this kind of PVC prices. So one should not be

surprised if there is any support coming into for the local manufacturers. But like I said, tough to speculate on timing.

Moderator:

The next question is from the line of Shubham Aggarwal from Axis Capital.

Shubham Aggarwal:

First question, inventory. Was there any inventory gain or loss this quarter?

Nihar Chheda:

No inventory gain or loss.

Shubham Aggarwal:

Okay. So my first question was that -- question on gross profit, I'm looking at gross profit per kg and what I see is adjusted for the inventory loss in Q1 '24, that is base quarter, gp per KG has declined Y-o-Y. And what puzzles me here is that it's happening despite a better growth in higher-margin products like plumbing, SWR, fitting in Q1 on a Y-o-Y basis. So could you just throw some more colour on what led to this?

Nihar Chheda:

Yes. So maybe I answered this in previous questions, but happy to repeat. Mainly, this has been driven by product mix. Like I said, while the growth has come across segments of agriculture, building material and infrastructure, it has been -- one of the major contributors has been agri. As you all are aware, the first quarter is more of an agri season and with this time, PVC prices being on an affordable side, we saw very strong growth on the agri segment, which is why the product mix led to a slight impact on the operating margins, as well as if you come at the EBITDA level, we also had higher branding expenses, as well as expenses for Aquel, where we

are being very aggressive with both branding and manpower. So it was the contribution of these three factors.

And on a more macro picture, I do understand that, of course, the margins have been lower than our guidance. But it's also important to understand that the volume growth trajectory is back and the growth engine has started to deliver from the last quarter and which has continued in the June quarter as well. And along with this, we have been able to tighten debtor days as well.

So for me, while we will continue to improve and margins will, over the long term, come back to our guidance, it is heartening performance because the volume growth as well as control on receivables has been our stated target, and we have been able to deliver that. And like I said, we would be able to deliver a better volume growth had we been in a better supply position from a capacity and inventory point of view.

So yes, we are extremely encouraged by the tailwinds that the industry is seeing and we'll continue to add capacity. And hopefully, this kind of volume growth will sustain not only for this quarter, but for a couple of years from now.

Shubham Aggarwal:

So on the agri mixes better -- is higher -- agri share of revenues higher Y-o-Y?

Nihar Chheda:

Correct.

Shubham Aggarwal:

Okay. And my second question is on the capacity. The first quarter, you're talking about debottlenecking the capacity constraints. Just what's the capacity utilization currently?

And also a related question that what I see is that your inventory days have increased from March '24 to June '24. If there was a capacity constraint, and that's the reason for the lower volume growth, let's say, the volume growth would be higher if there was no constraint, then some the inventory days been lower versus March '24, how should I see this?

Nihar Chheda:

So inventory is not only finished good inventory. It's a combination of both raw material and finished goods.

Shubham Aggarwal:

Okay. And what is the capacity utilization currently?

Nihar Chheda:

It would be around 60% of installed capacity and would be higher from a production point of view.

Shubham Aggarwal:

And this peaks out at how much, sorry?

Nihar Chheda:

Peaks out at around 65% to 70%.

Shubham Aggarwal:

Okay. And last thing is just on the Aquel. There is a run rate expenditure or run rate loss and -- that you're expecting to put in every quarter going forward?

Nihar Chheda:

So annual level, I would say, Rs.5 crores to Rs.6 crores on manpower and Rs.10 crores to Rs.12 crores on branding. This will slightly increase because we are now expanding our footprint to south and east over the next couple of quarters. But around -- you can take around Rs.15 crores to Rs.18 crores on a 12-month basis.

Shubham Aggarwal:

Rs.15 crores to Rs.18 crores of expenditure, right? And after considering the revenue run rate, it should -- the loss for the full year should be in the range of less than Rs.10 crores.

Nihar Chheda:

Yes. So basically, it's -- the scale of operations today is now very, very small relative to our overall portfolio. And given the way we are trying to cross-sell this product, the run rate is something that could disproportionately increase going forward. But to answer your question, I think around Rs.5 crores to Rs.6 crores of expense on manpower for bathware, and Rs.10 crores to Rs.12 crores for branding.

Shubham Aggarwal:

And gross margins are better in this business, right? Compared to our average gross margin?

Nihar Chheda:

Correct. That will take some time, but you are right.

Shubham Aggarwal:

What I'm saying is currently, the gross margin currently is better than our average, not EBITDA, gross margin.

Nihar Chheda:

Yes. Once we start in-house manufacturing, a large part of the range in-house, gross margins will be higher than piping and water tank business.

Shubham Aggarwal:

Got it. Got it. And can you just -- this is the last thing, the CPVC price trend during the quarter.

Moderator:

Mr. Shubham, please can you return to the question queue for follow up question.

Shubham Aggarwal:

Yes, yes. I just asked. I don't have any questions. The CPVC price is in -- for the quarter, the trend?

Nihar Chheda:

Yes. Raw material prices for CPVC will continue to be range bound. We don't see any major upside going forward.

Moderator:

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

Sneha Talreja:

Firstly, you have downgraded your margin guidance is what I see from 12% to 14% range to now 12% to 13%. This is ex of inventory gains and losses. So would that be because of -- is it because of weaker Q1 and in the long term, we will be back to 12% to 14%? Or is it because of the change in the pricing strategy that you opted for, which may be more affordable?

Nihar Chheda:

Thank you, Sneha. I think downgraded is -- I think that's a strong word, 12% to 14%. So I just said 12% to 13%. I think we have strong aspirations as far as volume growth is concerned, and we are adding capacity aggressively. So I think it's not a very big change from our earlier guidance 12% to 14%.

Yes, we will continue to be competitive in the market from a pricing point of view, which in some of the quarters of last financial year, we believe that because of pricing, we may be lost on some market share, which now is back on track and you are able to see the numbers. The numbers speak for themselves.

But no, I'm not downgrading guidance as such. We will continue to be competitive, but we have aggressive volume growth aspirations. And we believe the next 2 to 3 years minimum, this industry is going to see very strong volume growth. And like we have been for the past 5 years, we want to be at the forefront of growth and be one of the fastest growing player if not the fastest-growing player.

So with all these factors in mind, I think 12% to 13% EBITDA margin and good volume growth on a long basis is something which is priority for us and of course, not to forget a tighter control on receivables, while it has come down from the peak of 80 days to 60 days, which using channel finance and other credit control policies, we are still not happy with where we are. And we will continue to reduce this in a structured way, in a tactful way, which will improve cash flow for the organization, which is very, very important as we continue to add capacity.

Sneha Talreja:

Understood. My second question was related to more of current scenario. Wanted to understand PVC from your -- the way it moved up significantly because of logistics constraint. Now it's moving down because of the demand constraint. What's really happening on ground? Are those supply side constraints all done with the current prices? Are you seeing demand picking up? Or there is still destocking happening? Some clarity will be helpful.

Nihar Chheda:

Sure. In July month, we did see destocking because we -- there is a clear downtrend in PVC prices. PVC prices are extremely affordable. So the moment prices stabilize, I think demand should be good. I still believe last mile demand continues to be strong, exists that because of destocking the distributors, reduced inventory and as you are aware, when the price is reduced.

But yes, PVC prices are low. I think from here, PVC should continue to be range-bound. Of course, cannot factor in when the anti-dumping duty will come and all of that. But apart from that, I think our PVC prices are affordable today, which is very conducive for volume growth at an industry level, as well as for Prince. And the moment we see stabilization in pricing, which I think is -- we are close to that, I think end product demand will be very good, and you will see good primary sales as well because affordability is there.

And like I said earlier on, I think it may be a tough time right now for PVC raw material manufacturers. From what I understand, the gap between PVC feedstock prices and PVC prices today is not something which is actually sustainable. So we need to see how that plays out, but the -- supply is not an issue. Supply chain isn't an issue as well for global supply chain for PVC. So I think supply situation has normalized.

India, as you are aware, is one of the only markets globally, which is actually doing well from a consumption point of view. So naturally, a lot of global supply will come towards India because it's one of the few markets which is actually consuming well and doing well. And that's good for us as a processor, affordability and stability in raw material prices always leads to good volume growth like we saw in the first quarter. Hopefully, the next 2 to 3 years, we should see similar growth because of multiple factors, one of them being stability of PVC.

Moderator:

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

Praveen Sahay:

My question is more to clarification actually. First on capacity. So if I look at in the last 1 year, your capacity has increased largely in the Haridwar. And now you are talking about around 35,000 to 40,000 metric tonne of capacity commercialization in the existing capacities, what you have said for the next 3, 4 quarters. So is there any indications you can give in which location you are going to expand this capacity?

Nihar Chheda:

It's across plant. As you are aware today, we have 7 manufacturing units with the eighth one coming up in Bihar. Bihar, like I said, will be operational from January. We have preponed that from March, looking at the current demand scenario. Bihar will add around 45,000 tonnes of production capacity from day 1, which includes pipes, fittings and tanks. And we have infrastructure from a land point of view to increase this capacity significantly over the next two to three years.

And the existing debottlenecks that we're doing around 35 to 40KT additional will be at the existing plant. So it would be a combination of Jaipur, Silvassa, Kolhapur, Haridwar, Chennai across facilities because the good part is the demand is not coming from 1 or 2 geographies. The kind of growth that we are seeing has largely been spread across the zones and which is why our multilocation manufacturing footprint will really help to cater to this demand.

And I think one thing that maybe I've not addressed is we are also seeing further consolidation in the industry. Because of sharp volatility in raw material prices, we have seen a lot of the smaller players struggle. There are more and more acquisition opportunities, which always signals to challenges that are happening at the bottom of the pyramid which is why we are aggressively not only adding capacity, but also spending aggressively on advertising and promotion because we believe this will continue to be a big -- getting bigger and a big boy's game and the strongest brand will emerge strongest.

So we are -- that is why not only from a capacity point of view, but also from a brand point of view, we are extremely aggressive because we are seeing -- I think we have only seen the tip of the iceberg as far as consolidation from the unorganized to the organized and even within the organized. The large players will continue to become bigger. And this is the time for people with strong balance sheets and a strong brand equity to really dominate in the market.

Praveen Sahay:

Great. Thank you for that. One, just related to this, your Athal capacity, if I look at quite fluctuating capacity. So first quarter last year were around 11,900 tonnes and then reduced to 9,500 tonnes. Now come back to the same level. Why is it so fluctuation in the capacity?

Nihar Chheda:

For Aquel?

Praveen Sahay:

Yes, not Aquel. Your capacity in the Athal. So what you gave in the presentation, if I look at there is some fluctuation in the capacity of Athal.

Nihar Chheda:

So we constantly debottleneck facilities, and there could be -- we have seven manufacturing facilities. We have extrusion at 6 out of the 7 facilities, which is for pipe, and injection moulding for fittings, which is at three facilities currently at Athal, Haridwar and Telangana. And going forward, Bihar also, we will have both extrusion and injection moulding. So there could be interunit transfer of machines from one unit to the other.

What's important is that an organization level, we are adding capacity aggressively and that we have done over the past quarters and we have tried to be ahead of the curve, ahead of the industry as far as that. And with current debottlenecking that we are doing and our foray into

East, I think we will continue to be ahead of the industry as far as additional capacity at an organization level.

Praveen Sahay:

And just one clarification. You said the agri mix Q1 '24 to Q1 '25 has increased.

Nihar Chheda:

Correct.

Praveen Sahay:

But your gross margin per kg has been maintained even I'm adjusting last year of Rs.10 crores of losses.

Nihar Chheda:

Correct. So agri has increased that at the gross margin level, their product mix is there. But as the EBITDA margin with increase in advertising expenses as well as losses in bathware, we have ended up with a lower EBITDA margin compared to normal. I think Anand can add.

Anand Gupta:

So last year, as we had told that time also that mostly we had sold pipe that time. Fittings were not there. And this time, as Nihar mentioned that agri had a significant portion, but at the same time, we have sold fittings as well. So we'll have to factor that -- both the things in terms of gross margin. So that's why you are seeing the gross margin at the same level, but Agri has increased, but that has been offset by the contribution of fittings, which was not there in the earlier quarter.

Moderator:

The next question is from the line of Umesh Jain from Kotak Life.

Umesh Jain:

Sir, am I audible? Yes. very quickly, it's surprising to see your number -- your comment on the capacity constraint, which is why we are not able to grow higher than what we have grown in quarter 1. When I quarterize our annual capacity, the capacity utilization is coming out to be 50%. And now we are guiding for debottlenecking our of capacity across our manufacturing plants. Can you just highlight, is there any specific reason why there has been increase in the capacity? Or this is related to any particular segment like quarter 1 is generally agri heavy segment. So this capacity addition is towards agri products?

Nihar Chheda:

This capacity addition is specifically for agri as well as building materials products. .

Umesh Jain:

Okay. And the capacity utilization on a simple math is coming out to the 50%, and you've highlighted optimal utilization could be much higher.

Nihar Chheda:

Correct. So the peak demand -- this is on an annualized basis, the peak demand in April, May was significantly higher. Mostly, whatever capacity we give out is installed capacity. It's a rated capacity, which is more of a theoretical number, which is the industry practice. And this includes a lot of capacity towards new products like industrial, like underground drainage or DWC pipes. So this factors all of those products, which we don't -- which are new products which will not run at optimal capacity.

So looking at our realistic capacity, and we feel that there is a need for capacity addition. Hence, Bihar will be another additional 45,000 tonnes and this is debottlenecking of 35,000 to 40,000 tonnes, which will put us in a stronger supply position starting from January.

Umesh Jain:

Sure. And lastly, on the -- it's heartening to see our volume growth is coming back on track. And it's clearly -- from the commentary, it seems to be suggesting we are now clearly focused on growth with a slightly downward revision of the margin. So is there a possibility that we are looking at a much higher volume growth in FY '25 versus what we have already guided for?

Nihar Chheda:

Let me be very clear, there's no downgrading of EBITDA margins. I think 12% to 13% is what we have always stuck to. This volume growth has not come because of any predatory pricing or selling at a discount to peers. That is a slippery slope, and we are going to stay away from that. We need to be competitive in the market. There is no point of -- and we are not a saturated market. This is a growing market. So we don't need to actually really steal market share from other players.

Overall, industry is growing. And from within that, the top 3 of us are -- 3, 4 of us are growing at a faster pace. So this is not the time for predatory pricing or reducing price and selling. There is enough growth opportunity at an industry level. And the various initiatives that we are taking from a branding point of view, distribution point of view and addition of new products, there is no need to cut price and sell.

Margin is a factor of various things apart from pricing, like product mix as well as discretionary investments in branding and manpower, especially for some of the newer segments, I am not downgrading my EBITDA guidance, 12% to 13% is what we have always said, and we will stick to that on a long-term basis ex of inventory gain or loss. But yes, volume growth, I am not -- while we have delivered 14% in Q1, we could have done much better. We are not happy with 14%.

We are used to being the fastest growing in the industry. And our aspiration continues to be there, and I will not be happy until we reach that place, but we don't need to do any irrational things like reducing pricing and any short-term thing. Whatever we do will be in a structured manner, looking at long-term value.

Moderator:

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

Aasim Bharde:

Just one question on the margins again in Q1. I mean, given the kind of volume growth that you have done and receivables are also down, I just wanted to understand, are there any cash discounts given in view of collections and that might have weighed down on our margins?

Nihar Chheda:

So we always look at optimizing our credit policy, and we have made some changes to our credit policy, but the impact on margins, I think we have clearly said is the impact of product mix being heavier on agri and expenditure on branding.

I'm still not happy with our DSO of 60 days. This has to come down. If you look at my peers, they have a far better control on DSO, while still growing. And we are not happy with where we are. We have to improve. It's that it's -- it's come down from a peak of 80 days to 60 days back to a normal of 60 days, but this has to come down significantly. It takes time because we don't want to compromise on growth.

But I am confident looking at the various initiatives that we have taken as well as channel finance and strengthening of the brand, I think 2 or 3 quarters from now, our DSO will significantly reduce from where it is today, which I believe is very, very important. It is just -- as we continue to add capacity, I think our focus on cash flow is more and more acute.

Aasim Bharde:

But among the initiatives that you have taken, are there like -- so let say, one thing would probably be increased cash discount vis-à-vis peers or maybe -- for the channel, some other incentivization like higher volume, so maybe relatively less or rather more discount on pricing. Is any of that also being taken?

Nihar Chheda:

See, we continue to be competitive in the market. Like I said earlier on -- Aasim, this is a growing market. This is not an industry which has saturated where we need to resort to predatory pricing. This is a market which is growing at a very fast pace because of a confluence of many reasons. And within that the top few of us are growing at a faster pace.

So we are not immune to pricing. We have to be competitive. We are obliged to offer our channel partners and our end users of competitive pricing, but it will not be predatory in nature. So on a long-term basis, I'm -- we have the aspiration of having 12% to 13% EBITDA margin with industry-leading volume growth. And hopefully, we will be able to deliver that and the numbers will speak for themselves. And along with that, maybe I'm repeating myself, but a strong control on cash flow.

Moderator:

The last question is from the line of Udit Gajiwala from Yes Securities.

Udit Gajiwala:

Just one bit that you mentioned that any rise in PVC resin leads to inventory gain and reduction leads to loss. So how come in Q1, we have not seen any inventory gains and Q2, certainly, if the prices you are seeing remain stable then inventory losses are likely to happen. But in Q1, no inventory gains per se?

Nihar Chheda:

This is not only for Prince, we are not the only industry player. If you see across players, this has been the situation because the price increase was not across the 3 months. It was mostly in the end of May or in June. So that is why there was no significant inventory gain, and we are not the only player without any inventory gain that's been an industry phenomenon.

And what's important is to see the margin ex of inventory gain or loss on an annual basis. Inventory gain or loss is a part and parcel of this industry. But as long as the inherent core margins ex of the inventory gain or loss are healthy, I think that's the true barometer to understand the health of the organization.

Udit Gajiwala:

Absolutely, sir. I mean that's the point for inventory while we have not seen it. So does that imply that we might see some rub off inventory gain in Q2? I mean I'm sure that this inventory gain, losses are a temporary phenomenon, but just wanting to extrapolate that FY '25, we see some inventory losses in Q2, then supposedly, your FY '24 -- '25 margins may not be around 12%.

Nihar Chheda:

So very tough to speculate on annual margins sitting in not only -- even half year is not complete. So I will not try to speculate on what margins will be because that's a function of input costs and PVC raw material pricing, which is not in our control. So hard for me to speculate sitting today, I hope you understand. But point is we are doing all things right as far as distribution, brand, new products and adding capacity. So whatever is controllable by us, we are trying to put our best effort.

Udit Gajiwala:

Absolutely. And just the last question, if I may squeeze in. The utilization rate that you have us, 60%. So if we exclude your Telangana plant, I believe that is quite underutilized currently. So barring that, what would be the utilization? And is that a nearby -- major debottlenecking?

Nihar Chheda:

No. So Telangana, of course, is the latest plant. So of course, it takes time to reach peak capacity utilization, but we have been moving well in Telangana. Quarter-on-quarter, utilizations have improved. So there's need to debottleneck is not only at any one plant. It's an organization level. We feel that when there is peak demand in the core segments of agri and plumbing, we still need more capacity than where we are because no one is able to accurately predict when the uptrend and demand will come and to what extent. So that's why this exercise has been taken.

Moderator:

Thank you. I would now like to hand the conference over to the management for closing comments.

Nihar Chheda:

Thank you to all the participants. Thank you for attending the call.

Moderator:

On behalf of Antique Stock Broking Limited that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

NOTE - This is a transcription and may contain transcription errors. The transcript has been edited for clarity. The Company takes no responsibility of such errors, although an effort has been made to ensure high level of accuracy.