Prince Pipes and Fittings Limited

Q2 & H1FY24 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:

- Pranav Mehta : Equirus Securities

Q&A PARTICIPANTS:

- Rahul Agarwal : InCred Capital
- Devansh Nigotia : Safe Enterprises
- Pritesh Chheda : Lucky Investments
- Hitarth Kapadia : ValueQuest Investment Advisors
- Akash Shah : UTI Mutual Funds
- Arun Baid : ICICI Securities
- Sneha Talreja : Nuvama
- Achal Lohade : JM Financial
- Udit Gajiwala : Yes Securities
- Rajesh Ravi : HDFC Securities
- Jenish Karia : Antique Broking
- Ritesh Shah : Investec
- Keshav Lahoti : HDFC Securities
- Nikhil Agrawal : VT Capital

Moderator:

Ladies and gentlemen, good day, and welcome to Prince Pipes and Fittings Limited Q2 & H1FY2024 Earnings Conference Call hosted by Equrius 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. Pranav Mehta, from Equirus Securities. Thank you, and over to you, sir.

Pranav Mehta:

Thanks Seema. Good morning, everyone. On behalf of Equrius Securities, I welcome you to the call with the management of Prince Pipes and Fittings Limited. The management is being represented by Mr. Parag Chheda, Joint Managing Director; Mr. Nihar Chheda, Vice President Strategy; Mr. Anand Gupta, CFO; and Mr. Karl Kolah, Head Investor Relations. I will straightaway handover the call to Mr. Parag Chheda for his opening remarks. Yes sir, over to you.

Parag Chheda:

Thanks Pranav. Good morning and thank you for joining us for our Q2 & H1 FY2024 Earnings Call. The presentation and the press release have been issued to the stock exchanges and uploaded on our website. I hope everyone has been able to go through the same.

Our performance this quarter has been good driven by higher sales volume in the plumbing segment. Finished goods sales volume for the quarter increased by 8% YoY to 41,529 MT and overall revenues grew by 3% YoY to Rs.656 Crore.

The correction in PVC prices in early October did lead to some destocking and deferment of volumes in September, but the prices have now stabilized with a slight uptick leading to restocking and supporting volume growth during Q3. Improving product mix, rigorous input cost control, efficient marketing strategy, and good volume growth have translated into margins rebounding to normalized levels in Q2.

I am glad to share that this was the maiden quarter of the Bathware segment, and we have received a very encouraging response from dealers and end customers.

Let me share some highlights of our Prince Bathware segment post its launch in June 2023. I am happy to share that our products have been well received in the market gaining positive sales traction and encouraging feedback. We continue to build a robust distributor base in Northern and Western India with brand launches in tier 2 and tier 3 markets like Srinagar, Jaipur, and Varanasi. We plan to launch bathware in Eastern India by Q4 FY2024. We have also started participating at exhibitions and events, which have drawn a very good response. I am glad to share that we have already undertook our first project in Mumbai where our products have already been installed for the first phase of the project.

As our tanks business scales up, we will continue to leverage our multi location manufacturing presence to scale this segment. In the next couple of months, we would set up manufacturing in Haridwar and Chennai taking it to five of the seven in-house locations. With these efforts we plan to establish a strong presence in all segments including Pipes and fittings, Water Tanks, and Bathware.

Just to give you an update on our Bihar facility. The implementation is going on as per our plan. The layout has been finalized and the work will start post Diwali as we commence construction at our latest integrated manufacturing facility at Begusarai in Bihar.

As we grow, we are investing in building a strong frontline of our team in Accounts, Finance and HR to implement progressive strategies to help us achieve our long-term vision.

I take this opportunity to welcome Anand and Ajay as we work together towards fortifying our industry leadership position. Anand is a qualified CA with over 20 years of experience in finance, commercial planning, and efficient management of stakeholders, people, performance, risk and opportunities. Prior to Prince he was associated with ACC Limited for 14 years in different roles and responsibilities.

In addition, I welcome Ajay Kumar, our new Chief HR officer who brings comprehensive experience of 23 plus years in developing and executing strategic human resource policies. He has extensive exposure to large corporates with multiple manufacturing units spread across geographies in India and overseas.

On an overall basis several strategic efforts have been undertaken over the past few months and we will bear the fruits from them as we progress ahead. Prince Pipes remain active, agile, and growth hungry to ramp up market expansion efforts.

The long-term industry fundamentals remain strong. The real estate sector continues to remain buoyant especially reporting good sales in the mid and premium category. In fact, realtors expect record sales this year and unsold inventory is at a decadal low, which augur well for all building material consumption over the next 2 to 3 years.

Property developers expect home sales to post a new high at more than half a million units in the top seven Indian cities this year amid strong demand and big launches planned by many eminent large developers. Several prominent launches for residential real estate are lined up for this festive season as sales numbers are expected to touch unprecedented levels.

We are closely monitoring every aspect of industry momentum and are excited about the untapped potential. With several steps in the right direction as we focus on market penetration and expansion of pan-India footprint, we expect continued growth in the second half of the fiscal as we move ahead with an even greater commitment to transform and strengthen India's water infrastructure.

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 Parag bhai for the warm welcome and good morning, friends. I will be taking you through the quarterly highlights.

In this quarter revenues for the quarter improved by 3% YoY to Rs.656 Crore. Our finished goods volume grew by 8% YoY at 41,529 MT. We delivered a healthy operating performance with EBITDA at Rs.94 Crore for the quarter resulting to margin of 14.3%. A&P spend increased by 7% over the previous fiscal period and is at Rs.15 Crore. Further our finance cost reduced by around 50% due to improvement in cost of short-term borrowing.

Let me highlight the exceptional item for the quarter in first half. The legal matter between Prince Pipes, Ruby Mills Limited, and Mindset Estates Private Limited has been amicably resolved, and the corporate office situated at the Ruby Dadar, Mumbai has now been registered in the name of the company. Based on the valuation report, the property was revalued and there is a net gain of Rs.17.93 Crore towards the settlement which is included in exceptional item for the quarter and first half. It is important to note that despite the exceptional gain margin performance has been healthy.

We continue to judicially expand our channel finance program. We have made steady progress since the recourse has shifted to distributors and have increased the credit limits of our channel partners from Rs.105 Crore in Q1 FY2024 to Rs.126 Crore in Q2 FY2024.

Commenting on the working capital for the quarter. Our inventory is stable at 62 days while our creditors is at 59 days and debtor currently are at 63 days. We acknowledge that there is a large scope for improvement in the debtor days, and we are continuously working towards the same.

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

Moderator:

Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. We take the first question from the line of Mr. Rahul Agarwal from Incred Capital. Please go ahead, sir.

Rahul Agarwal:

Hi, good morning. Thanks for the opportunity and best wishes to Anand ji for his additional responsibilities. First question was essentially on the trade. You obviously mentioned that October has been stabilized, we had some initial hiccups. Any thoughts on the second half outlook, any known positive or negative surprises that could lead to volatility into PVC either the pricing or the demand.

Nihar Chheda:

So, if I understand the question, you are trying to understand the demand outlook.

Rahul Agarwal:

Yes, and any known positive or negatives which could lead to volatility in terms of performance.

Nihar Chheda:

Let me start from the raw material. On PVC, I think we are well poised as an industry, I think it is extremely low-cost polymer today, and I think at least for the next couple of quarters we foresee a very low level of volatility both upwards and downwards. I think PVC will be extremely range bound, which is going to create an extremely growth conducive environment because of affordability, and also more certainty and pricing will always help the channel to avoid any heavy destocking or restocking. So, I think it is going to be a more growth conducive environment with a more certainty and a better visibility of growth. As far as the end market is concerned, I think real estate is doing well, infrastructure is doing well. So, there are positives on both sides and from the medium to long-term perspective as well we are confident and certain of the growth.

Rahul Agarwal:

Secondly one of the larger peers into pipes has acquired a facility, which is the mix OPVC pipes though what I understand is the margins are decent and the demand looks like sustainable over the next 3 to 5 years given the drinking water problem in the country. Any thoughts on the product and your company's interest in doing this.

Nihar Chheda:

We have been evaluating this product, it is a capital-intensive line to be in, and there is no application apart from infrastructure, it is purely going to be an infrastructure and institutional sort of game, which traditionally we have stayed away from as an organization because of the credit cycles, but as the government's focus on infrastructure is improving, we have seen better credit cycles in the infrastructure and institutional business. So, we will keep exploring any new opportunities like OPVC.

A couple of the new products that we have introduced within piping like PP low noise pipes as well as Polypropylene Surface Drainage product, I think we have seen very strong acceptance for these new technologies. Of course, sales numbers do take time whenever you introduce such kind of technologies because we are the first mover in these kinds of products where we have to generate demand, do the concept selling, but in this quarter itself for both the products we have already received our first project orders for PP low noise as well as for Horton which has already been installed. So now with our modern plumbing vertical we will always be sort of on the lookout for these kind of technologies OPVC being one of them, but I would prefer to focus more on products that have acceptance in retail projects as well as infrastructure rather than having products which are focused only on infrastructure and institutional.

Rahul Agarwal:

Last one small question was when can you expect to see Bathware financials separately.

Nihar Chheda:

From December quarter.

Rahul Agarwal:

Okay, perfect. Wish you all a very happy festive season. I will come back in the queue. Thank you.

Moderator:

Thank you. We take the next question from the line of Devansh Nigotia from Safe Enterprises. Please go ahead, sir.

Devansh Nigotia:

Hi, this is Devansh Nigotia from Safe Enterprises. If we compare our volumes with the peers, it has been relatively tepid and also the base quarter was a weak quarter for us. So, any thoughts if you can share why the volume performance has not been very robust.

Nihar Chheda:

Thank you, Devansh. I think it is an important question to address, and we want to sort of answer this question with as much transparency as possible because regardless of whether the performance is good or bad, I would like to not shy away from the performance. So, yes accept that the volume growth in this quarter and past couple of quarters has not been at par with industry and at Prince we are used to industry-leading growth, what I can share is that there is no one or two peculiar reasons for this, we continue to be focused on distribution, adding new products, investing in branding, focus on entering into the project segment. So, the fundamentals do not change and we continue to focus on the fundamentals and our entire effort and mind share of the professional team as well as the family is on that. I think couple of places we feel that segment like HDPE we have maybe been laggards with investing in capacity and those capacity investments have been made in the September quarter which would start reflecting in the operational performance in terms of volumes from the March quarter specifically for HDPE and there has been some corrective actions that we have taken on pricing where we felt that the largest player has been more aggressive in pricing in certain markets. So, we have tried to close down those pricing gaps and certain more corrections that we have done in the past couple of months as well. So, I am confident from a medium-term perspective that we should be if not industry leading at least in line with peers in terms of volume growth.

Devansh Nigotia:

In case of bathware segment now that it has come in. So, what is the fixed cost which will be there in the P&L in terms of expected losses that we expecting.

Anand Gupta:

The cost regarding to Bathware will be primarily on two aspects. One is the employee cost and the other the branding cost, which we will be incurring in our P&L. So, these are the two costs which will sit in P&L.

Devansh Nigotia:

Any expected loss contribution we are expecting this year or let us say for this quarter how much would have been contribution.

Anand Gupta:

Right now, you can see that around Rs.3 to 4 Crore is the branding cost in this quarter and around Rs.1.5 Crore is the employee cost that is sitting in the P&L which you can factor for Bathware separately.

Devansh Nigotia:

The revenues for Bathware.

Nihar Chheda:

So, revenues like I said for the earlier question we will start reporting from December quarter because in September quarter we had just started a roll out. So, it is just the initial sales that have gone. So, I think in the next 3 months the focus will be on setting up distribution and from December quarter we would share the segmental revenues for Bathware as well. So, we would be targeting Rs.8 Crore of sales for bathware in the December quarter.

Devansh Nigotia:

Just last question. How much is the contribution of infra pipes as a percentage of volume this quarter?

Nihar Chheda:

Karl will get in touch with you after the call to share the specifics. I will not have that off hand.

Devansh Nigotia:

Thanks a lot.

Moderator:

Thank you. We take the next question from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead, sir.

Pritesh Chheda:

I have a question slightly on the longer side. What is your opinion on these composite pipes, which is basically polymer, aluminium polymer, or polymer steel polymer as an option where polymer aluminium polymer has evolved and has done some business in India, and can they make CPVC eventually a redundant pipe eventually because it is quite unique that it is India where PVC based piping solutions are prominent, but globally it is a different polymer and then there are these composite pipes.

Nihar Chheda:

Globally if you speak one is composite which is still not a very large market globally where you have PPR which is globally well accepted in which we are market leaders in India and we are seeing an acceptance of PPR growing apart from its usual base, it is still very small. But, yes, developers today are looking for options outside of CPVC as well as they are trying to upgrade their homes. I think average Indian consumer today as disposable incomes increase, I think there is end user also is becoming more product conscious, more brand conscious for a product which is behind the wall. So, I do not think it is specifically about composite pipes or not, it is about what alternate or what next after CPVC if that is the question, I think CPVC will continue to have the lion share of the market even on a 5 to 10 year horizon because of the ease of application as well as the cost structure. However, you will see certain niche polymers like PPR or composite pipes coming in, but I do not foresee it being more than 3% to 5% of the overall CPVC market. So, we will invest in those kinds of products because that helps us build a very strong brand identity and a first mover advantage. So, the way we have done for PP low noise where we are upgrading SWR Drainage Systems from PVC to PP. Similarly, we will upgrade water supply systems as well, but I do not foresee it to be a very large volume or topline driver.

Pritesh Chheda:

So, you mean to say that PPR plus composites will just be 5% of the market eventually or individually 5% PPR, 5% composite.

Nihar Chheda:

No, I think put together around 5% is what I see.

Pritesh Chheda:

Does your existing infrastructure and machinery which makes the CPVC pipes can make the PPR pipe, or you need a completely different manufacturing setup.

Nihar Chheda:

It is completely different, it is a completely different setup, but we have been in PPR for multiple decades now. So, we have capacity, we process more than 400-500 tonnes every month of PPR and we have been in this industry as market leaders since a couple of decades. So, we have that entire capacity for pipes and fittings of PPR, we possess and as then when the demand supply permit, we will be adding capacity as required.

Pritesh Chheda:

Any specific comment on PSP where when you put steel in between the two layers of polymer, one the pricing also becomes competitive because steel is Rs.50-Rs.60 a kg versus polymer at Rs.80 to 100 per kg. So, you get the strength of a steel and a life of a polymer which can compete straight with CPVC. Any specific comments there or it is too early for you.

Nihar Chheda:

As a product it is in a nascent stage, but as a market leader it is very important for us to be ahead of the curve with these kinds of technologies. So as far as cost structure is concerned, I think with composite pipes the cost structure becomes two to three times per bathroom and the builder the way he looks at piping cost is on a per bathroom basis. So, if you replace CPVC with composite I think the cost per bathroom will not increase from a percentage point of view, but it will increase two to three times. So, there is a market for it, but it is not going to become a commodity, even in the long-term I see this as a niche where more applications would be in bungalows, villas, maybe hotels, but your traditional high-rise buildings will continue to be in PVC and CPVC.

Pritesh Chheda:

Just one question to get your answer. Why was your volume growth relatively lower than the industry for the last two three quarters now.

Nihar Chheda:

Like I said the fundamentals do not change, we continue to be aggressive on distribution, branding, entry into projects. So, there is no one or two particular reasons, and we do not want to shy away from the numbers, the numbers speak for themselves that we have been lagging industry growth, there is no one or two reasons for it, but we are confident that we will be back to industry leading growth or at least in line with peers. One of the corrective actions that we have taken is investing in capacity and HDPE where we feel that we have been laggards. So that will be reflecting in our volumes from the fourth quarter and certain pricing actions as well that we have taken in the current quarter, which should help us realign our growth performance.

Pritesh Chheda:

Pricing action means you are way off in terms of pricing vis-à-vis your peers in terms of premium to peers that is the thought.

Nihar Chheda:

Yes, we feel that in certain markets we have as a premiumization drive that we undertook two or three years ago in certain markets maybe we have over premiumized. So, we are correcting that to be aligned with our peers. So, I do not want to put this all down to pricing I think pricing is just one aspect, but we need to be sharper and more aggressive with this and I am confident that overall apart from pricing there is a lot of other factors, that go into growth, this is not purely a commodity business. So, I am confident that in the next couple of quarters our growth will come back to industry leading growth.

Pritesh Chheda:

Thank you very much and all the best to you. Thank you.

Moderator:

Thank you. The next question is from the line of Hitarth Kapadia from ValueQuest Investment. Please go ahead, sir.

Hitarth Kapadia:

Hi, thanks for the opportunity. I have a couple of questions. My first question is how has the CPVC performance been so far and what percentage of volumes come from CPVC now.

Nihar Chheda:

So, we share a revenue breakup not a volume breakup CPVC would be around 20% to 25% of revenue.

Hitarth Kapadia:

What is the outlook on the working capital days as of now.

Anand Gupta:

So right now, our debtors is at 63 days and we are using channel finance as a lever as well as a credit policy we have we are doing wherever possible, we are trying to bring it down to around 50's in next two quarters and then we see a further downside is possible and by the next year we see that mid 40s should be the sustainable time period.

Hitarth Kapadia:

Mid 40s by next year okay and any guidance on margins.

Nihar Chheda:

Just to clarify mid 40s is the guidance for debtor days, inventory and creditors will be a function of your procurement pattern and you are seeing right now creditors reduced because we are depending more on local which could be the trend for the next couple of months.

Hitarth Kapadia:

Local in terms of your resin?

Nihar Chheda:

Yes, you can say of the Reliance and Chemplast.

Hitarth Kapadia:

Is there any guidance for margins that you would like to give.

Nihar Chheda:

I think we will stick to 12% to 14% on a long-term basis.

Hitarth Kapadia:

Okay, thank you.

Moderator:

Thank you. We take the next question from the line of Akash Shah from UTI Mutual Funds. Please go ahead, sir.

Akash Shah:

Hi, thank you very much for the opportunity. I had a few questions, one was on CPVC anti-dumping duty. So, in August or September the anti-dumping duty will get over so any thoughts whether it will get renewed or it may not come up for renewal.

Nihar Chheda:

I think it is tough to comment on these kind of things where the government is the decision maker, but I think there are two parts to it. As local capacities increased, definitely there is a better case for protecting the local capacities the domestic manufacturers and we are seeing domestic manufacturers increase capacity as well as our partner Lubrizol is putting up capacity in Gujarat. So as the capacity is locally increased, I think that builds an even stronger case for anti-dumping duty. Having said that the lower cost of CPVC, the lower the cost, the better the growth. So, we cannot really speculate on what will happen with the government, but if capacity increased, I think the case for duties will be even stronger.

Akash Shah:

Then just coming to Agri, non-Agri mix. If you can share what was the mix in this quarter and how was the growth on a Y-o-Y basis.

Nihar Chheda:

I do not want to give too much on segmental growth because of competitive intensity, but what I can say is Q2 is usually not very heavy on Agri. Typically, the Agri season is stronger in the March quarter as well as the June quarter typically the September and December quarters are not as strong in Agri because as you know Agri is a seasonal business versus plumbing and SWR which is more of a perennial uniform business. So, most of the growth has been driven by the building material segment in the September quarter.

Akash Shah:

Coming to industrial pipes. So, we had tie up with Lubrizol and we had launched pipes for industrial application using Corzan technology. So, any thoughts or anything that you can share on this front, how are we doing.

Nihar Chheda:

So, this is a segment which excites us because of the lower competitive intensity, higher barriers to entry in terms of access to technology and investing capital for a specific niche purpose. So today we see ourselves as someone who replaces conventional products like MS and RCC and the way we have been able to create value in DWC similarly we want to do that with industrial CPVC as well. Currently we are in the concept selling space, so these kind of orders take even higher gestation period than plumbing because a lot of concept selling has to be done and when you have to replace metal with plastic in India unfortunately that mental perception is still very high. So, I think next couple of quarters at least we have to still invest into interacting with stakeholders, creating awareness about these kind of products and then working on specifications and then generating sales. So it is a long process, but we enjoy that process because eventually then that gives us a very strong first mover advantage and brand equity and we have seen that entire cycle play out with DWC where the first couple of years we were virtually working at very low capacity utilization, but we focused on concept selling, we focused on nurturing the market and now DWC has become a very well accepted product and Prince today is recognized as a market leader in this space. So similarly, we are wanting to play out that process for industrial CPVC and the important thing is that this will not end at industrial CPVC. We will keep looking for newer opportunities, newer products, we are not in a hurry depth is more important than breadth and whichever product we take we will really give it a lot of mindshare and time and efforts and investment in terms of people as well as branding as well as capacities.

Akash Shah:

Sir, if you can share what is the investment that we have done in this segment, I mean, have we invested in capacity.

Nihar Chheda:

Yes, we have invested Rs.8 to 10 Crore.

Akash Shah:

And over long-term this segment would remain a niche or do you feel that this may contribute to a larger percentage of the top line.

Nihar Chheda:

Globally this is very well accepted and has become more than just a niche, but these cycles take very long, it is not a question of two to three years, it is a question of 5 to 7 years before this becomes more than just a niche, but at least in the next 3 to 5 years we see a good level of concept selling that we can.

Akash Shah:

Just last question. New applications of plastic pipes, so just wanted to check how are we doing on fire related, I mean, the pipes which are fire retardant. So, any or let us say any other new application that you would like to highlight with respect to plastic pipes.

Nihar Chheda:

Specifically we have entered into the low noise drainage and sewage systems with polypropylene which is noise cancelling which also has better impact resistance compared to PVC and we have tied up with Ostendorf which is the global market leader for polypropylene drainage from Germany and similarly for surface drainage we have partnered with Hauraton for surface drainage products where we will replace RCP surface drainage to PP surface drainage these products are also made of 100% recycled polypropylene and we are seeing today builders becoming more and more green conscious and looking out for these kind of products. So, with these kind of products revenue is not the only metric that we need to see. We need to see the kind of brand equity that it helps us create a first more advantage, something unique that we are able to offer to the end user that our peers are not and in the long-term the gross margins are really exciting when we will start in-house manufacturing for both these products the way we have started in-house manufacturing for industrial CPVC as well. So, in the long-term a lot of value can be created especially at the gross margin level and this will somewhere help us become more competitive in our core products as well. So that we can that diversification within piping also helps us become more competitive in our core segments.

Akash Shah:

Sure. Thank you very much and all the best. Thank you.

Moderator:

Thank you. We take the next question from the line of Arun Baid from ICICI Securities. Please go ahead, sir.

Arun Baid:

Hi, Nihar you mentioned that going forward we would at least be industry standard kind of growth. So, a lot of our peers are talking of at least 15% CAGR growth for the next two, three years. Are we trying to say that we will match that number if not more.

Nihar Chheda:

So, I think we have to look forward H1 of course at least Q1 was majorly disrupted by ERP. So, whatever I am talking about is from December quarter onwards, we need to be in line with peers. So, I want to be as transparent as possible and take this question head on that yes, the volume growth has not been in line with peers in the not only past quarter, but past couple of quarters. Certain corrective actions that we have taken which we have shared in the earlier answers, and now the numbers need to talk rather than us guiding for any kind of growth I think the actions have to speak louder than words and we are used to that internally as an organization in terms of having the highest growth in the industry. So rather than us talking I think the numbers to that talking and we are confident that is going to happen.

Arun Baid:

And just one thing last quarter we had some issue with regards to fitting sales is that it out.

Nihar Chheda:

Yes, that is normalized in the September quarter and that is reflected in our numbers.

Arun Baid:

Thanks for this.

Moderator:

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

Sneha Talreja:

Hi, good morning, sir. Thanks for the opportunity and congrats on good margin improvement. So just starting with the first question itself while you have answered the market share loss related question. Just wanted to understand where is this margin growth coming from.

Nihar Chheda:

The question was on the margin performance. One is pipe fitting ratio has normalized from the first quarter onwards, which led to a normalization in margins. Second there was an inventory gain, but which was not material, which was less than Rs.5 Crore of inventory gain, but mainly it is a normalization of pipe fitting ratio as well as the product mix in Q2 is always going to be higher from the building material segment, but overall, I will still stick to my guidance of 12% to 14% operating margin is sustainable in the quarter.

Sneha Talreja:

But given that now your volumes in Q3 and Q4 are going to be even better do not you think with operating leverage coming and this is really a conservative guidance.

Nihar Chheda:

Yes, but like I also said earlier in the call that we have taken some pricing action as well in certain segments. So, whether that, whether the operating leverage fully offsets that or partly offsets that is something to be seen. So, I would much rather have 12% to 14% operating margin and growth which is leading in the industry.

Sneha Talreja:

Secondly just wanted to understand from you Nihar, where are we in terms of our HDPE at this point of time what is the contribution from there and what is the outlook like are you now focusing more on that particular segment, or you would still want to stay away given it is a low margin business and higher working capital requirement.

Nihar Chheda:

So, one is we will participate in HDPE only if the working capital is similar because it does not make sense to stretch our balance sheet while we are tightening our balance sheet on the core portfolio, but we do see the value in participating in HDPE. I do not mind if the margins are lower, but the credit cycle should be tight which we are seeing as the government is increasing focus on infrastructure, I think more these programs are more funded and well capitalized. So, there are certain investments that we have made in HDPE, this has been one of the reasons that we have lagged industry growth, one of the reasons not the only reason and that investment has been done in the September quarter, and this will start reflecting in the volume performance from the March quarter specifically from HDPE.

Sneha Talreja:

Where are we, so today currently we would be hardly anything in this particular scheme of things as a percentage of our overall volumes or revenues?

Nihar Chheda:

Yes, it would be less than 3% in terms of volume.

Sneha Talreja:

And with this new capacity coming up, what is the vision, where does this go.

Nihar Chheda:

This should be closer to 7% to 8%.

Sneha Talreja:

And lastly in case if you can just let us know what is the reason for working capital increase in this quarter?

Nihar Chheda:

So, I think the question was on the working capital increase, so majorly the payables has reduced because sourcing has been more focused on domestic where it works on advanced payment or a cash and carry payment which has led to a pressure on the payables and this may continue for the next couple of months and I think on the debtor side Anand has already guided on our short-term and medium-term goals for debtor days.

Moderator:

We take the next question from the line of Achal Lohade from JM Financial. Please go ahead, sir.

Achal Lohade:

Good morning team, thank you for the opportunity. My question is, sorry, I joined the call little late, if it is answered, if you could repeat once again. In terms of the capacities where we are, where competition is adding. Do you see an issue with respect to the geographical capacity footprint creating a disadvantage for us and what would be the impact with respect to the freight part of it?

Nihar Chheda:

We have added capacity in Jaipur which helps just cater to the North and West and Telangana in 2021 which helps us cater to South and partly to the Southeast markets like Chhattisgarh and Orissa as well. So, we feel that the manufacturing footprint actually has strength and with our next Greenfield project coming up in Bihar which will cater to the entire Eastern market. So with the kind of capacity addition, we have done not only in terms of numbers, but also in terms of the strategic location, I think we are well positioned for the future and we will be adding capacities aggressively in Bihar after the first phase as well and I can say on a long-term vision 5 years from today Bihar will be one of the largest manufacturing facilities for the organization. So that is how we see it.

Achal Lohade:

Effectively if I understand correctly, there is no disadvantage you see with respect to our manufacturing locations vis-à-vis the competition. Have I understood right?

Nihar Chheda:

Correct.

Achal Lohade:

So, the question is pertaining to CPVC segment. a) We see that CPVC resin prices have come off in last few months is that the case with us for our source and b) earlier we had some disadvantage with respect to the cost CPVC sourcing cost has that normalized or is there a still gap between us and the peers in terms of the sourcing cost.

Nihar Chheda:

Costs have come down as PVC costs came down aggressively CPVC was bound to come down because CPVC is derivative of PVC at the end of the day. As a result of which you have seen some destocking in the channel for CPVC as well. To answer the second part of your question, no I do not think there is a further disadvantage, the kind of premium that we are paying to Lubrizol is similar so of course the base changes, but the Delta relative to the market continues to stay the same.

Achal Lohade:

Thanks. I will come back in the queue for follow up. Thank you.

Moderator:

Thank you, sir. The next question is from the line of Udit Gajiwala from Yes Securities. Please go ahead, sir.

Udit Gajiwala:

Hi, sir. Major questions have been answered. So just on volume front, if you can give any specific number what kind of growth are you looking for 2024 maybe this specific year and of course medium-term do you stick to that 14%-15% CAGR that you have already mentioned but anything specifically for this year.

Nihar Chheda:

Yes. So, I think like I have said earlier on in the call. We do recognize and we want to be fully transparent and acknowledge that the volume growth has not been where it should be relative to the peers. We are used to industry leading growth, there have been certain corrective actions taken on sizing, as well as certain investments in HDPE. So, I want to stay away from sort of guidances at this point, I think the action should speak louder than words and we are confident that growth will be there and it will be in line with the industry certain corrective actions have been taken and we are hungry and we are confident and we are putting up capacities aggressively with that belief.

Udit Gajiwala:

And sir, lastly on your EBITDA per kg or the margin like you guided. So, with the price corrective actions that you have mentioned, do you see that these margins could suppress for next couple of quarters or one quarter or so because your raisin prices have also come down sharply in this quarter.

Nihar Chheda:

Yes, I think rather than talking, see quarter-on-quarter could always go up and down basis raw material prices, but I will stick to long-term guidance of 12% to 14% I am confident which includes the investments in Bathware and the kind of corrective action we are taken in pricing, hopefully the operating leverage from the growth and the cost absorption should at least partially offset pricing action. It will take a couple of quarters, it will not happen overnight, but I will stick to long-term guidance of 12% to 14%.

Udit Gajiwala:

And lastly on your Bathware business, can you give any number in terms of what kind of dealers are we looking to end this fiscal act and what are the plans for next two, three years what number do you want to look at.

Nihar Chheda:

This has been just the first quarter of launch, and our focus right now is on distributors I think number of distributors again is not as important the same philosophy that we use for pipe it is the markets that we are able to do and the quality distributors. So, you will have to give me at least one quarter before we quantify target number of dealers, but our target for December quarter for bathware is Rs.8 Crore of sales.

Udit Gajiwala:

Understood. Thank you and all the best.

Moderator:

Thank you, sir. The next question is from the line of Rajesh Ravi from HDFC Securities. Please go ahead, sir.

Rajesh Ravi:

Sir, first question pertains to your capacity breakup which you share this quarter there has been major raises in the capacities. Any specific region your Athal fittings capacity number has been scaled down and similarly there is a sharp increase in the Haridwar capacity. Could you explain what is the changes even Tamil Nadu capacity has been down by 20%.

Anand Gupta:

So, the overall capacity right now is around 3,28,000 MT, so Chennai has gone down because of we have not replaced the NPA machine over there because in the region we have Sangareddy so for that reason the NPA has gone down we have not replaced that for Chennai. So Haridwar has added some capacity. So, in net-net there is only 5,000 to 6,000 KT which has been added in the quarter. So that is how the split is, but yes you are right in some of the plants the capacity has increased and some of the plant's capacity has gone down basis requirement of the organization.

Rajesh Ravi:

And second question pertains to CPVC you mentioned there is a 25% of your revenue is from CPVC.

Nihar Chheda:

Correct.

Moderator:

Thank you. We take the next question from the line of Jenish Karia from Antique Stock Broking. Please go ahead.

Jenish Karia:

Thank you for the opportunity. My question is on the Capex guidance, last quarter we have guided for a Rs. 100 Crore CapEx for FY2024 in first half I see we have already spent Rs.85 Crores. So is there any revision in CapEx guidance.

Anand Gupta:

So, in the first half CapEx there are two abnormal items which are not the regular ones which needs to be excluded while reviewing the overall CapEx for the plants that is one is The Ruby number which needs to be excluded and the other is the Bihar which needs to be separately tracked. So, Rs.7 to 8 Crore is Bihar right now, which will scale up in coming quarters, so that is how you have to exclude these two things for normalized spend on normal plant and plant operations.

Jenish Karia:

If you can please quantify these two exceptional spends and how should we look at the full year Capex number.

Anand Gupta:

Right now, we are at Rs.50 crore. Rs.50 crore for normal which we have guided for Rs.80 to 100 crore.

Jenish Karia:

And Bihar plant total CapEx would be over the next two years 2024 and 2025.

Anand Gupta:

It will be around Rs. 150 Crore and phase two is also lined up which will come subsequent to phase one we are just evaluating how to go forward with it, but right now 150 Crores is something which we are going ahead with.

Jenish Karia:

And if you can just tell the utilization on total level and Telangana facility.

Nihar Chheda:

So, utilization at current level is around 50% and Telangana would be around 40% of capacity utilization.

Jenish Karia:

That is helpful, thank you and all the best.

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

Ritesh Shah:

Hi, thanks for the opportunity. Couple of questions. First Nihar basically I just wanted to have your thoughts on the retention policy from the top management. We had a few of Exodus at the top recently any learnings from that and any retention policy that is the first question.

Nihar Chheda:

No, I think there is no specific retention policy as such, which is over and above the regular policies as we mentioned in the earlier remarks Anand who has been Deputy CFO with us for some time now is upgraded to the CFO position and the new CHRO also has joined and we believe now with these changes in the leadership we are better geared for the future for the kind of vision that we have to take the organization, not only in terms of market and growth, but also in terms of organizational identity. So that is where we are.

Ritesh Shah:

Would we be looking for some ESOP policy anything on the retention side or will continue status quo.

Nihar Chheda:

So, we already had an ESOP policy in place a few years ago. As of now that is the status quo.

Ritesh Shah:

My second question was more on the operational side. If you look at the realization per kg what we see for Prince Pipes it has the least reduction on a year-on-year basis at 4% versus the larger peers when the reduction is pretty sharp which is at 8% and 10% we just wanted to understand we have done pretty well on the price decline as compared to the peers can you give some flavour on the product mix was it less government sales, less HDPE or there was a contribution from bathware how should we understand it.

Nihar Chheda:

See Bathware the contribution it is too early to put that in here, but you are right I think this is not majorly a function only of price it is also a function of product mix for us Q2 is not very heavy in agri, also like I said we have been laggards in the HDPE space which is a low realization product which will eventually get drag down the margins at the organizational level. Today it is not a very relevant capacity in terms of volumes it is maybe only 3%-4%, so this will scale up from March quarter and also there has been some pricing action that we have taken in the core segments of PVC, CPVC which should hopefully help us realign our volume growth.

Ritesh Shah:

Possible to give some colour on the mix was CPVC higher or was fitting substantially higher on a year-on-year basis. Just trying to understand the operating metric.

Nihar Chheda:

So, fittings normalized from quarter two onwards, in quarter one we did have some challenges for the fittings dispatches which impacted our product mix. So, in quarter two pipe fitting ratio normalized and overall building material also had a better contribution relative to irrigation it is stick to my long-term margin guidance of 12% to 14% on a long-term is attainable on a long-term basis.

Ritesh Shah:

Sure, and just last question I think the other Chheda family also uses the brand Prince I understand they are coming up at sizable capacities and which is new for commissioning. So is the brand logo being the rights with the company or how should we look at it in the marketplace because there could be some scope of confusion between the two logos. So, what is a road map to actually address this, that is all. Thank you so much.

Nihar Chheda:

The logo is completely different, and it has been like that for many years and that completely is with the company with Prince Pipes the differentiated logo and name and I think now the gap is too big and that activity is very volatile in certain quarters it is there in certain quarters it is not there. So, I think the gap has become too big and now the market appreciates the range, the quality, the newer products. So today Prince Pipes has a very strong brand identity which was it is a very different scenario than what it was 5 years ago.

Ritesh Shah:

Sure. This is helpful. Thank you so much. Wish you all the very best.

Moderator:

Thank you. We take the next question from the line of Keshav Lahoti from HDFC Securities. Please go ahead, sir.

Keshav Lahoti:

Thank you for the opportunity. Sir, with all you spoke about you have taken some sort of price correction and is there some sense is it all across market is it specific to some market what sort of correction you have taken.

Nihar Chheda:

Some of the corrections we have taken some we are about to take. This is in certain markets not pan-India wherever we feel that we need to be more competitive. In certain markets, in certain categories this pricing action has been taken.

Keshav Lahoti:

At company level the impact would be 1% or 2%.

Nihar Chheda:

So I will stick to my long-term guidance of 12% to 14% of operating margin on an annual basis is achievable of course for the current year it will be ex of Q1 because of the challenges in the first quarter, but even for the next couple of years I think 12% to 14% annual EBITDA margins are sustainable including the pricing action because with that there will also be volume growth and resultant operating leverage benefits which could partially offset this at the EBITDA level.

Keshav Lahoti:

You said that your domestic sourcing has increased my understanding was earlier you have taken 40% from domestic. So, whether that mix is going to change on permanent basis.

Nihar Chheda:

Yes, so this happens annually the annual contract that we have to do with Reliance and Chemplast. So, at the beginning of this year, we had increased our domestic contracts on an annual basis. So that will be permanent, it was maybe not reflected in Q1 because we were not normalized as an organization, but that is reflected from Q2 because we have increased our volume off take as we grow and as the overall environment becomes more uncertain, I think it is always prudent for us to increase local and domestic off take. So, we will continue to import and it will continue to be a sizable share, but given the way we are growing, I think as we decided at the beginning of the financial year itself that we would be increasing our domestic volume then even the local players were keen to work with us seeing that the way we are growing across geographies.

Keshav Lahoti:

Is it the proper understanding now your raw material sourcing would be 50% domestic and 50% imported.

Nihar Chheda:

For PVC pipes, yes.

Keshav Lahoti:

One last question East Capex of Rs.150 Crore how will that be split.

Anand Gupta:

So it will be you can take Rs.60 to 70 Crore in this year and balance will be in FY2025.

Keshav Lahoti:

So this year total CapEx would be Rs.150 to 160 Crore.

Anand Gupta:

Including Bihar yes.

Keshav Lahoti:

Rs.150-160 Crore including the Capex right.

Nihar Chheda:

Yes.

Keshav Lahoti:

Okay, got it. Thank you. That is it from my side.

Moderator:

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

Nikhil Agrawal:

Good afternoon sir and thank you for the opportunity. My question was on the Grasim plant that is coming up. Will they be supplying only to you and Ashirvad or will they be supplying to other players as well the CPVC will compound.

Nihar Chheda:

Historically if you see Ashirvad has, I mean, Lubrizol has always had two licenses and as long as we are growing and we are able to fulfill our volume off take which we are I do not see the need and historically if you see they have always maintained two licenses because opening up the market may not, it may end up diluting the FlowGuard brand. So we believe that it will still be a two licensee approach.

Nikhil Agrawal:

So would not that like really put you on an advantage compared to the other players.

Nihar Chheda:

Absolutely and this was one of our incentive to sign with Lubrizol when they had approached us few years ago there have been some delays unfortunately, but we still believe that once the plant is operational we will be on a strong footing because local capacity, local cost structure with the flow guard brand will put us in a dominant position especially for CPVC.

Nikhil Agrawal:

And the plant is expected to commence from 2025 right if I am not wrong.

Nihar Chheda:

Correct.

Nikhil Agrawal:

And sir any reason why your employee benefit expenses have increased during the quarter.

Anand Gupta:

So it is a normal increment which has happened in the increment cycle that is one and the provisioning of director's commission is also there which was not there last year because of the subdued performance. So that is the two reason you will find the difference.

Nikhil Agrawal:

So do we expect this kind of employee expenses going forward as well or any reduction.

Anand Gupta:

It is a normal increment cycle which has happened and effected in the cost of employees.

Nikhil Agrawal:

All right, got it sir, that is it from me. Thank you so much.

Moderator:

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

Akash Shah:

Hi, thank you very much for the follow-up opportunity. I just had one question. So after taking the pricing action, if you can share how much will our products be at premium or discount to industry leader.

Nihar Chheda:

It would be at a parity to the industry leader.

Akash Shah:

It would be for both PVC and CPVC right.

Nihar Chheda:

So in CPVC there would be a slight discount to the industry leader in CPVC and in PVC it would be at a parity.

Akash Shah:

Sure okay thanks.

Moderator:

Thank you. Next question is from the line of Mr. Rajesh Ravi from HDFC Securities. Please go ahead.

Rajesh Ravi:

Hi sir, on this Lubrizol all new plant coming up you mentioned that you and Ashirvad would be selling almost all of the CPVC from that factory. So, if I look at your current volume should be close to just ballpark 160,000 volumes in FY2023 assuming 10%-12% of that would be coming in from CPVC. So it is around 15,000-16,000 tonnes of volumes and this plant would be how much 1 lakh tonne something.

Nihar Chheda:

First phase is 48,000 MT.

Rajesh Ravi:

So, are you saying that even if you get 30%-40% of that incremental volumes you see your CPVC portfolio significantly increasing over next 3 years.

Nihar Chheda:

Yes, it has to grow aggressively, and it will grow.

Rajesh Ravi:

And do you see any risk with the CPVC your Lubrizol capacity, Meghmani capacity and DCW all venturing into CPVC manufacturing domestically and these two players applying to even many other smaller players. The CPVC the high margin with the CPVC market is enjoying that may come under pressure.

Nihar Chheda:

No I think it is great news that there is local capacity coming in that will lead to growth of CPVC because we are today 95% dependent on import of our CPVC industry and that is not sustainable if the CPVC industry has to grow the way PVC did over the past three, four decades. The CPVC needs to have local capacity only then will CPVC become affordable and only then CPVC will grow. So unless there is growth, there is no point of having very high margin, and CPVC is a very different industry it is much more brand conscious at the front end where top four of us are controlling 70%-80% of the market. So I do not see that changing substantially while having local capacity will really open up the acceptability of CPVC and growth of CPVC. So I see this as a major positive.

Rajesh Ravi:

Correct. But you do not see there the margins which is 2x currently of normal PVC margins with more supply coming in of the CPVC market growing at a faster pace you do not see a risk to the margin profile coming off significantly.

Nihar Chheda:

Yes, what I am trying to say is it will be more than offset by the growth. The growth will more than offset, which is why we should see this as a net-net positive.

Rajesh Ravi:

Correct, at industry level this will be overall strong volume with a slightly lower margin, but overall the margin should narrow compared to where they are currently. Is this understanding correct.

Nihar Chheda:

Over the long-term.

Rajesh Ravi:

Yes, over a long-term obviously next 3 to 4 years.

Nihar Chheda:

Yes.

Rajesh Ravi:

Okay, great sir, that is all from my end. Thank you.

Moderator:

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

Nihar Chheda:

Thank you everyone for joining the call.

Moderator:

Thank you. On behalf of Equirus Securities, that concludes this conference. Thank you for joining and you may now disconnect your lines.

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