Prince Pipes and Fittings Limited

Q3 & 9MFY24 Earnings Call

February 06, 2023

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:

- Jenish Karia : Antique Broking

Q&A PARTICIPANTS:

- Achal Lohade : JM Financial
- Shubham Agrawal : Axis Capital
- Aman Agarwal : Equirus Securities
- Sneha Talreja : Nuvama
- Chirag Lodaya : Valuequest
- Keshav Lahoti : HDFC Securities
- Rajesh Ravi : HDFC Securities
- Rahul Agarwal : InCred Equities
- Utkarsh Nopany : Bank of Baroda
- Asim Bharde : Dam Capital
- Praveen Sahay : Prabhudas Lilladher

Moderator:

Ladies and gentlemen, good day and welcome to Prince Pipes and Fitting Limited Q3 and 9M FY24 Earnings 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 "*" then "0" on your touchtone phone. Please note that this conference has been recorded.

I now hand the conference over to Mr. Jenish Karia from Antique Stock Broking. Thank you and over to you, sir.

Jenish Karia:

Thank you, Aditya. On behalf of Antique Stock Broking, I would like to welcome all the participants on 3Q and 9M FY24 Earnings Conference Call of Prince Pipes and Fittings Limited.

From the Management, we have on the call Mr. Parag Chheda – Joint Managing Director; Mr. Nihar Chheda – Vice President, Strategy; Mr. Anand Gupta – CFO and Mr. Karl Kolah – Head of Investor Relations.

Without further ado, I would like to hand over the call to Mr. Parag Chheda for his "Opening Remarks", post which we shall open the floor for Q&A. Thank you and over to you, sir.

Parag Chheda:

Thanks, Jenish. Good morning and thank you for joining us for our Q3 and 9MFY24 Earnings Call. The "Presentation and the Press Release" have been issued to the Stock Exchanges and uploaded on our website. I hope everybody has been able to go through the same.

Our performance this quarter witnessed margin improving by 240 bps YoY to 12.2% and 6% YoY growth in profitability. Our volume this quarter stood at 42,665 metric tons and overall revenues were at Rs.

619 crores. The quarter was a challenge in terms of driving volumes. However, we were resilient in protecting profit margins despite the high base effect of Q3 in the last fiscal, which witnessed strong restocking in the distributor channel after the stabilization of PVC prices.

We are aggressively focusing on driving volume growth through various efforts aimed at expanding distribution and strengthening the channel's network. We are also adding new products to build portfolio depth, strengthening our brand equity, and building a robust presence in the project segment. With all the initiatives, we are hopeful of returning to a healthy volume growth in the next fiscal year.

Aligned with our vision to expand, we are happy to share that our new integrated manufacturing facility at Begusarai in Bihar is underway and we conducted the ceremonial Bhoomi Pujan in December to mark the auspicious start of construction, which has already begun and is progressing well.

I'm also happy to share that we have accomplished the first full quarter of sales in our bathware segment, and the initial response has been encouraging from dealers and consumers where our products have been installed. We continue to penetrate in key Tier-2 and 3 markets of Northern India like Srinagar, Punjab, Haryana, Delhi, Rajasthan, Uttar Pradesh and Western India like Gujarat and rest of Maharashtra. We have also started participating at exhibitions and events across the country, which has drawn a positive response.

Our water tank segment continues to do well as we continue to leverage our multi-location manufacturing presence and achieve healthy traction in the first nine months of this fiscal. We will soon be setting up water tank manufacturing in Haridwar and Chennai, following which we will have five in-house water tank manufacturing locations.

In addition to engaging our channel partners in industry exhibition and events across India, our marketing efforts are also focusing on extending the B2B brand category to engage directly with the audiences through B2C contact programs and events across India to build stronger brand recognition.

During the quarter, we also introduced new products, thus building greater depth to the portfolio. We launched the Duratap range, including faucets and showers. Duratap is manufactured with PTMT material, which is a thermoplastic that combines the advantages of both plastic and metal. Being a specialty engineering plastic, PTMT has great advantages over the other materials in terms of functionality and longevity and is aimed at the cost-conscious mass market.

We also launched Terrafit-Subsurface drainage pipes and innovative solutions, addressing challenges related to excessive subsurface water. Overcoming challenges like impermeable soil, shallow bedrock, and dense glacial spin, our solution ensures rapid water percolation and the productive ideal for maintaining stability in agriculture and at the effort as well.

We continue to maintain a strong focus on our manufacturing processes and our Dadra plant has been awarded IMEA's, India Manufacturing Excellence Award, Silver Certificate of Merit as part of the Frost & Sullivan India Manufacturing Excellence Awards 2023. As you are aware, IMEA's assessment framework evaluates organizations on their manufacturing capability, supply chain reliability and technology adoption.

In addition, our Athal plant won the IMexl Commitment Prize for the continued excellence in operation. This is a premier program that recognizes efforts put into facilitating operational excellence and building a sustainable improvement culture.

Our business fundamentals continue to be healthy as we focus on growth strategies, optimizing capacity utilization, expanding market penetration, and optimizing our product mix. We are progressing aggressively, and we will continue to focus efforts to capture market opportunities across our core segments of pipes and fittings, bathware, and water tanks.

The interim budget 2024 has been recently abled and broadly it has kept its focus on fiscal prudence as expected. The proposals highlighted are in the right direction towards supporting the Government's aim of transforming India into a developed country by 2047. The Government's strong intent to continue the development of core sectors of infrastructure, train, airport, agriculture, and housing augurs well for the building material and pipes and fittings industry that play an active role by bringing innovative solutions and technologies.

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

Anand Gupta:

Thank you, Parag bhai and good morning friends. We had our board meeting from our Telangana plant yesterday and we are taking this call today from Hyderabad.

Taking a look at the quarterly highlights as follows. In this quarter, revenue is at Rs. 619 crores. Our finished good volume reported at 42,665 metric tonnes. We delivered a healthy operating performance with EBITDA at Rs. 76 crores for the quarter reporting a growth of 9% on year-on-year business.

Our market was enhanced by 240 bps year-on-year at 12.6%. A&P spend for the quarter has increased to Rs. 12 crores. Our profit after tax for the quarter grew by 6% reported at Rs. 38 crores.

We continue to judicially expand our channel finance program and we have made steady progress since the recourse has shifted to distributors and we have increased the credit limits of our channel partners.

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

Moderator:

Thank you very much. We will now begin the question and answer session. First question is from the line of Achal from JM Financials. Please go ahead.

Achal Lohade:

Sir, my first question is with respect to the volume performance. So, if you look at last 4-5 quarters, it optically appears to us that we are kind of underperforming most of the peers. So, if you could highlight a) in terms of how the industry growth could have been in last nine months and b) what is driving this underperformance and the corrective actions you would have taken or undertaking right now. That's my first question.

Nihar Chheda:

Thank you, Achal for the question, I think it's important to address this. So, I'm happy this is the first question of the call. We acknowledge the underperformance, obviously, that's been apparent over the past few quarters. The way we see it is I think it boils down to two factors I think, of course, the first two quarters of the year, we saw challenges in supply chain because of the ERP challenges, which led to some market share loss and we are in the process of regaining that market share. And the second is what I had stated in the previous quarter call is that there is some pricing action that we have taken, correction in pricing. In some markets, key markets, we felt that we had been outpriced by competitors and that pricing action we have taken.

You will see that is actually visible in our realizations per ton ne which have decreased. This has been a conscious effort to become more competitive or aggressive in the market and both these factors will take some time. So, the corrective action has been done, which is visible, but the results will take a couple of quarters. So, I feel that by the 1st Quarter of the next financial year, we should start performing in line with industry, if not being the fastest growing player in the industry.

What I will also add is the fundamentals remain the same. We continue to work on network expansion, new product launches, and continue to be aggressive in creating visibility for the brand. So, none of that changes. It's the same team, the same product, the same market. So, the fundamentals won't change. There have been two factors which we feel have led to this underperformance and we are confident that the action that we have taken, we will see results from the 1st Quarter of next financial year.

And to conclude, I can come to the table and say that the mindshare and the efforts right from the MD to the frontline sales team continue to be the same. So, there is no lack of mindshare or efforts. We acknowledge that there is an underperformance. The action has been taken and we are confident that the numbers are speaking from June quarter of FY25. So, hopefully that brings some clarity to the question.

Achal Lohade:

Yes, thanks for the answer. Just a clarification. Did you say that the impact of the corrective actions will be seen from fourth quarter of FY25? Did I get it right?

Nihar Chheda:

June quarter.

Achal Lohade:

Okay, 1QFY25, thanks for that clarification. The second question I had, is this market share loss anything to do with the distributor switching or any particular geography where there is a loss of market share, if you could comment on the same as well?

Nihar Chheda:

Yes, It is not at the distributor level, this is more at the retail space. Our distributors continue to be loyal with us. We have supported them through thick and thin and these are long term relationships. So, they are supporting the company in the challenging times of the first two quarters throughout that ERP transition. So, we are confident that the primary relationships with our distributors are stronger than ever and that one or two challenging quarters cannot change that. This is more to do with market share loss at the secondary level, at the retail level, because of the supply chain disruptions we had, which impacted the supply chain of our distributors and that is taking time to regain. Yes, it has been more apparent in certain geographies, which we have identified, and focus efforts have already started, focused actions have already started in those particular geographies. But to reclarify, none of the primary distribution relationships are being impacted by these one or two disruptive quarters. And I think now with the complete normalization of the supply chain and the rest of the efforts in the right direction, the market share will be gained back. And like I said, we'll be on track from June quarter.

Achal Lohade:

Another question I had for the quarter, you know, in terms of the inventory loss and also in terms of the growth for Agri and Plumbing, how was it for the third quarter for us?

Nihar Chheda:

So, I will take the second part of the question first and then Anand can take up the inventory loss. I think the growth continues to be stronger in building material related to agri. Anyway, I think December quarter is not a very high quarter for Agri. You will see at an industry level, Agri being more relevant in the March quarter and the June quarter because it's a seasonal business, unlike building materials. And I think the way real estate and infrastructure is growing. I think for the foreseeable future, the building material part of the portfolio will continue to grow at a faster pace. Agri will grow as well because PVC prices are now extremely affordable. So, Agri will continue to grow, but I think the pace of growth will be higher in the Alumbing and SWR segments for the foreseeable future.

Anand Gupta:

So, Achal for this quarter, the inventory loss will be in range of around Rs. 10 crores and that has been captured in the P&L which we have.

Moderator:

Thank you. Our next question is from the line of Shubham Agrawal from Axis Capital. Please go ahead, sir.

Shubham Agrawal:

Just on the previous participant’s question, you said that the corrective price action that is taken in Q2 will probably be visible two quarter hence that is in Q1FY25. So, just to understand, can you elaborate on this like what leads to a two-quarter lag for the growth to be seen? And if you can also elaborate, what kind of price discount or what was mispriced and how did you correct it? What kind of pricing action are you taking? If you can elaborate more on this?

Nihar Chheda:

Sure, happy to give more clarity on this. So, one is I think there are two factors that we have identified internally. One is the ERP challenges. The ERP challenges are true, but as a result of the challenges in the first half of the fiscal, there was some market share loss. And you know, the market, it is not like an on and off switch. It takes some time to recoup the market share that is lost, whatever the reason for the market share losses. Again, we'll reiterate, it's not at the primary level, but it's at the secondary level. So, that takes a couple of quarters. So, we estimate that by June quarter, we would be in a position to perform at par with industry, if not outpace, which is what we are used to as an organization. And the second is the pricing action, which we had highlighted in the September quarter conference call as well, that in certain markets, we are not discounting to peers. In certain markets, we felt that we had over-premiumized in our drive of premiumization, which led to this kind of challenging volume scenario. So, it's just that the pricing has now become realigned. So, I would not say that we are doing any deep discounting or anything. We are very clear in terms of whatever growth that will be there, it will be a profitable growth. So, there's no deep discounting as such. It's more just a realignment of pricing to ensure that we are competitive and market friendly. And again, that will just take, I think, one more quarter to really start showing in terms of results. But in terms of action, it has already been taken, which is visible on if you see our realization per ton has been a correction and that's a conscious correction that we have taken as we had stated in the previous quarter call. So, keeping this in mind, I think from 1Q we should be back on track. We are confident.

Shubham Agrawal:

This was helpful. So, given this context and the corrective actions taken, Nihar, what are you expecting? What kind of growth can we see in Q4 FY23? How has January fared out for you in terms of growth and what should we expect in FY25?

Nihar Chheda:

So, FY25, I think we will be at par with industry growth. And hopefully we start outpacing industry growth in due time. And that's how you see it in terms of FY25.

Shubham Agrawal:

January in Q4 FY24?

Nihar Chheda:

So, I would stay away from quantifying anything in the middle of the quarter. We have never done that as an organization, but we have seen a healthy operational performance in general.

Shubham Agrawal:

And just on the bathware revenue loss that we have incurred this quarter. That's all. That's my last question.

Anand Gupta:

So, this was a full quarter for sales in bathware segment. And we have got the encouraging response from dealers and consumers. We have made our brand reach in more than 100 retail touch points as the product continues to make deep in those in Tier-2 as well as Tier-3 markets of Northern India and Eastern India. So, a full quarter sales is around Rs. 6 crores which we have that is in the topline. And on the expense side for this quarter, it's around Rs. 3 crores. This includes manpower and A&P spending growth.

Shubham Agrawal:

Rs. 3 crores is the net loss you said? No, did I get it right?

Anand Gupta:

So, I gave you two numbers, one for sale, that is Rs. 6 crores, and the other side is the expense number, which includes employee cost and in this thing, that is Rs. 3 crores.

Moderator:

Thank you. Our next question is from the line of Aman Agarwal from Equirus Securities Private Limited. Please go ahead.

Aman Agarwal:

So, I wanted to understand on the competition or the competition coming in from the unorganized or regional players. The industry saw 2-3 new players entering the industry in the last 2-3 years. So, I wanted to understand first on that point?

Nihar Chheda:

So, I think new entrants, we have always seen a part and parcel of this industry because we have typically been a high growth, high-return kind of industry, we have always seen these new entrants coming in. Some have done well, some have not. I think there's immense growth opportunity and seeing that kind of growth opportunity, we have always seen new entrants. I continue to believe that this is an organized market with 65% of the market being organized, only consolidating at a faster pace as the end user becomes more and more brand conscious. Yes, we did see some unorganized players going out of the market because of the extreme volatility and we were always prepared that a part of that would come back and part would permanently be out of the market. But I think fundamentally remains the same at the microeconomics level for a builder, I think cost is less than 1%-1.5% of overall cost. So, builder is always going to choose to invest in a good quality brand that is established and well known and visible in the market since decades. So, I believe this industry is already organized and will continue to organize itself and consolidate and the big will continue to get bigger in the long term.

Aman Agarwal:

Understood sir. And second, wanted to understand on the demand movement coming in from the Government schemes. I think some of them are nearing the completion deadline. So, what's the revised outlook on that mainly on the Government scheme demand?

Nihar Chheda:

So, I think anyway we have not been very aggressive in the Government space because of the extended credit cycles. I do believe that it depends on state to state, certain state programs are coming to an end, but then certain states will pick up. And we have started selectively participating in these programs for HDPE pipes as well as agriculture pipes, but only when the credit cycle has been favorable. So, I think every state has their own cycle and then there are certain cycles for certain states which are coming to an end and certain states it's only now starting. But overall, I think with the kind of focus that the Government has on water infrastructure, I think this is a space that will become more and more significant over the next few years at least.

Aman Agarwal:

Understood, sir. And sir lastly, on the channel destocking, there have been divergent views from multiple management of whether destocking did happen or the scale was low. What's your view on the quarter with respect to the channel stocking levels?

Nihar Chheda:

I think channel level right now would be, I would say moderate. I think the good part is that PVC prices are extremely affordable. And more importantly than affordable, they're also very stable. So, any increase or decrease that we are seeing is not very sharp, which was not the case in the past 2 financial years. Luckily now, apart from the affordability, the range is very low so even if there is an increase or decrease, it has never been more than Rs. 1 or Rs. 2 per kg which means that there is not very sharp restocking and neither is there very sharp destocking and there is no shock to the channel. So, not only will you not see major inventory gain or loss but you will also see a more stable inventory levels through the channel, I think is good for the long term, it makes it more sustainable and a more growth conducive environment. So, to answer your question, even for the immediate term, I don't see immense de-stocking or restocking. I think whatever I'm interacting with my top distributors, I understand that it's moderate inventory, and they will continue to do that as long as the pricing environment remains volatile. And as an organization, we believe that PVC prices from here will be range-bound, and we will not see immense volatility both ways, even upward and downward, I think there is a gap and we will see extremely stable and range-bound driving environment.

Moderator:

Thank you. Our next question is from the line of Sneha Talreja from Nuvama. Please go ahead.

Sneha Talreja:

Couple of questions from my end. Firstly, on your market share loss, could you give us some sense where this loss has largely been? Is it on the PVC side? Is it been on the CPVC side, just product wise? And is there any specific geography where that you have seen market share losses?

Nihar Chheda:

Thank you, Sneha. Yes, this market share loss has been specific to certain geographies and certain products which the team has identified and that data analysis has been done by the team. And the corrective action that we have taken again, in terms of pricing and even in terms of being slightly more aggressive with creating brand visibility is not something which is blanket across the country, across product categories. It is specific to certain geographies and to certain products. So, that has been identified by the sales function and that corrective action has already been taken, which is visible in our realization. So, it is not across the markets, it's in certain markets for certain product categories, which corrective action has been taken.

Sneha Talreja:

Could you give us some sense versus example, the CPVC would have been dropped by what percentage approximate and what would have been the loss in PVC?

Nihar Chheda:

I think, Sneha, you are aware segmental margins we don't give and segmental growth also we don't share. Actually, I can say building material has done better than Agri, even at an industry level because of the growth drivers. But I don't think it would be fair for me to give segmental performance because we never have. Even whenever there have been good quarters or bad quarters, segmental we have stayed away from and I would continue to do that.

Sneha Talreja:

Where would our pricing be at this point of time versus peers since you have taken those price correction measures?

Nihar Chheda:

That's a good question. I think it's important to say that we are not deep discounting to peers. Gone are the days where we are going to do that to gain market share. This is more to realign the premiumization that we had done in markets where we felt we were outpriced. We have corrected that to bring it to parity to peers in the markets where we benchmark certain peers for certain markets for PVC and CPVC.

So, this is not some deep discounting or predatory pricing. It's just a realignment of pricing. As you are aware, we were going through a premiumization drive, not only from a pricing point of view, but also from a brand point of view, also from a product point of view. And as a part of that drive in certain markets, we felt that we had to come out of price, which then led to this kind of a market share loss. So, that correction has been done. So, the action has been taken for it to translate into results and for the market to realize that and for that to translate into volume performance. So, we'll take one quarter, which is why we are guiding from June quarter we will be at par with industry growth.

Sneha Talreja:

Understood. In terms of our working capital requirements, where do we stand in terms of our debtors and inventory?

Anand Gupta:

Debtors is at 72 days and inventory is at around 78 days.

Sneha Talreja:

That's the reason I could see our last concall we have discussed our debtors being at 63 days so that significantly ups in fact even inventory. Is there any push which is happening in this channel at this point in time?

Nihar Chheda:

No, I don't think this is, you know, every quarter there is a slight increase or decrease, but we are confident that it should come back to the 60s in terms of debtors. I think inventory anyway we have guided for it to be around 70 days and currently is around 75 days. So, I think inventory is at a normal level and payables is around 79 days, which puts our net working capital around 69 days for this quarter.

Moderator:

Thank you. Our next question is from the line of Chirag from ValueQuest. Please go ahead, sir.

Chirag Lodaya:

My question was on CPVC. If you can help us understand how has been the volume growth for the first nine months there and is corrective pricing action, is it the CPVC portfolio as well or it is restricted to PVC?

Nihar Chheda:

We have identified wherever the market share has been lost on account of pricing, whether that if it was in PVC or in CPVC for that respective markets, we have taken that action. So, I would stay away from giving segmental breakup, but whatever had to be done has been done, which is why we are confident that the growth will come back. It's not restricted to a particular product or geography, wherever that requirement was we have taken the action.

Chirag Lodaya:

And if you can just follow our current capacity utilization currently?

Nihar Chheda:

So, currently we are at around 50%-52% of capacity utilization at an installed level.

Chirag Lodaya:

And what would be our A&P for the quarter and first 9 months?

Anand Gupta:

For the quarter, it is around Rs. 12 crores and around Rs. 39 crores for 9 months.

Chirag Lodaya:

What would be our gross debt today and net cash balance plus investment?

Anand Gupta:

So, the gross debt is around Rs. 60 crores. That is short-term and for the Bihar facility, we have taken long-term as well, which we have started taking disbursements that is very small in number right now and we are progressing in civil construction. So, the Rs. 4 crores is the long-term debt and 60 around on short term debt. So, that is a debt perspective.

Chirag Lodaya:

And cash balance?

Anand Gupta:

Cash balance is around Rs. 120 crores at the end of quarter.

Moderator:

Thank you. Our next question is from the line of Keshav Lahoti from HDFC Securities. Please go ahead.

Keshav Lahoti:

I want to understand on the HDPE front. So, what I remember earlier, we had more like a 3% of volume, which we expect to have increased to 7%-8%. When that will be done, how is the progress happening on that front?

Nihar Chheda:

So, our first set of expansion of HDPE has taken place at Jaipur facility. And machines are running at ideal capacity utilization for HDPE at Jaipur. And I think once this is sustainable over the next one or two quarters, and the market demand seems to continue to head in the right direction, we will continue to expand HDPE capacity as well. So, the first phase at Jaipur is complete. And once this is sustainable, we are not opposed to increasing capacity in HDPE if opportunity seems to be sustainable.

Keshav Lahoti:

Understood. One thing you highlighted that you will grow in line with industry. So, how should I read this comment? Like this year your base is pretty low because of ERP issues and other things on the H1 side. So, in line with industry FY25 you're talking, or you're talking in line with industry on a base of FY23.

Nihar Chheda:

So, the guidance what I've given is long term, that we will be at par with industry. Of course, if there is a base effect, a positive base effect, that will be favorable for us. I think it's very hard for me to quantify all that sitting today, but we are confident that the actions have been taken. And by June quarter, that will start reflecting and the numbers will start talking. And we have always been used to being the fastest growing player in the industry and we are confident that the fundamentals remain the same and the mind share from the promoters and the efforts from the team are the same as they used to be if not better. So, we are confident that the growth will be back on track.

Keshav Lahoti:

Last two questions from my side. Firstly on the CAPEX side, the CAPEX size is increased. So, how will be CAPEX split up of Bihar will be and what has been the CPVC price correction in Q4?

Anand Gupta:

So, the CAPEX one, Bihar we are going ahead with the integrated facility. Earlier we had announced that we will only come up with the piping facility. Now the two cases have been combined, and we will be coming up with piping as well as setting facility, both in Bihar. So, the proposed CAPEX earlier was around Rs. 150 cores. Now it will be around Rs. 220 cores. That is how the CAPEX for Bihar will be. And as we see that the market has been growing on our side, the capacity which will add in Bihar will help us to gain the market share over there and the utilization will be at a healthy level once Bihar starts producing. And so we are coming up with tank facility as well. So, that will also help us to have better penetration in the tanks market in the East of India.

Keshav Lahoti:

Sir, my question was more towards the split of Bihar in FY24 and FY25 and CPVC price correction?

Anand Gupta:

FY24 it will be around Rs. 15 crores to Rs. 25 crores. Why I am giving this range because it depends on the kind of execution speed we will be giving at the end of March. So, the high on top side, it will be around Rs**.** 25 crores to Rs.15 crores**.** It excludes the land which we have already taken in Q2, that is around Rs. 27-28 crores. I'm talking from the steady point of view, and the rest will be in FY25, the balance which remains around Rs.170 to 175 crore in FY25.

Nihar Chheda:

Just to add to what Anand is saying and connecting the dots from previous few questions, we continue to be aggressive with adding capacity. And with current underperformance we are saying we are not faced by that. And as an organization, we continue to be aggressive with adding capacity. And none of those plans change which I think underlines the kind of confidence that we have in terms of quickly regaining our market share and becoming the fastest growing player in the industry. In fact, we have added capacity in the December quarter as well at the Jaipur plant for HDPE and the Chennai plant for PVC. So, we have already added 10KT more in the December quarter, taking our total installed capacity to 3,38,000 from 3,28,000 MT at the end of September. So, we continue to debottleneck existing facilities, invest in new products, and continue to take the same pace of execution at Bihar, and in fact increase the CAPEX there across pipes, fittings, and water tanks, which underlines our confidence, not only at the buoyancy of demand at the industry level, but our own ability to execute and grow at industry level.

Keshav Lahoti:

CPVC price correction?

Nihar Chheda:

Yes, there has been correction in CPVC input cost, and that has been passed on to the market.

Keshav Lahoti:

Would you like to quantify the numbers in Q3?

Nihar Chheda:

In Q3, I don't have the numbers offline, but I think it would be on the range of 5% to 7%. But my team can get back to you on that.

Moderator:

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

Rajesh Ravi:

Could you throw some understanding on this Government, the budgetary expenditure outlook for FY25, which has been kept at flattish level? How do you read these numbers? Will it slow down the industry growth going forward?

Nihar Chheda:

No, I think Government continues to be bullish on water infrastructure starting in the long term, which is going to be a key driver for growth at an industry level. For print specifically, we have not been very aggressive with the participation in these Government schemes because of the credit risk that's associated with it. So, wherever there has been a favorable credit cycle, we have participated. But otherwise, we have largely stayed away from this. And if you're talking in terms of the opportunities side for the industry, more than long term, it continues to be buoyant. And I think that's clear that the focus to bring pipe water access to every rural household in the country is strong and a few states could see end of the program because we have been successfully able to get access to rural households, but I think still there is a large part of most states where access to portable water is a challenge. And I think those states will now start picking up. So, I don't see this as a major challenge.

Rajesh Ravi:

Also talking on the inventory losses, could you quantify over the nine months how much inventory loss we have booked in and how much resin inventory do you maintain at company level both for PVC and CPVC compound?

Nihar Chheda:

So, we have around Rs. 10 crores of inventory loss for Quarter 3. I don't have the nine-month number handy, but if you go through the transcripts for June quarter and September quarter, we will get that. And you can reach out to Karl after the call and he can share the nine month inventory loss.

So, at any point of time, we have around 30 days of raw material inventory and 30 days of finished goods inventory as a broad thumb rule. CPVC would be lower than that because we buy Lubrizol which is locally produced. So, that would be around maybe 7 to 10 days of inventory. But overall at the organization level, raw material inventory would be around 30 days as a thumb rule and finished goods would be around 30 to 40 days.

Rajesh Ravi:

Okay, two more questions. CPVC resin price, you mentioned 5% to 7% would have declined in Q3. What has been the trend in Q4?

Nihar Chheda:

There has been no correction yet.

Rajesh Ravi:

No correction yet. And lastly on the Bihar expansion, could you quantify the size that we are adding both on the pipes as well as on the fittings?

Anand Gupta:

So, it will be around in the range of 50 KT to 52 KT. When it will be operational, it will be a combined capacity for pipes and fittings.

Rajesh Ravi:

And this Fittings, how much you're looking at, sir?

Anand Gupta:

50 KT to 52 KT, pipes and fittings combined.

Moderator:

Thank you. Our next question is from the line of Rahul Agarwal from InCred Equities. Please go ahead.

Rahul Agarwal:

One question broadly on the industry demand for pipes. It looks like within building materials, a lot of real estate is under construction. Hence, pipes, cables and wires are actually seeing better demand versus stuff which is used much later, stuff like tiles, wood panels, the commentary has been really weak from those guys. Question is, do we see a scenario over the next two years where weaker products actually see higher demand and pipe slows down? Any study on lead indicators of real estate under planning stage, more on the drawing board, that should help sustain pipe demand? That's my first question.

Nihar Chheda: So, if I answer the question right, it's in terms of sustainability of demand for pipes given the real estate demand. So, we believe real estate demand is strong. I think the numbers are out in the open. You guys would know better than we do. And whatever ground-level interaction that I'm having with the developers across the country and my sales team and project channel partners, I think this seems to be sustainable. And all of this is despite the cost of capital being high, we believe once cost of capital reduces, you will see a more sustainable demand in real estate. So, whatever interaction we've been having at the ground level, I think the real estate demand is here to stay. And as far as pipes is concerned, we come somewhere in the middle of the cycle for any new project. So, we believe that at least for the next two to three years, if not more taking a longer-term view, I think for two to three years, overall real estate demand should do well and as a result of which demand for piping we believe should be sustainable. And that's the reason we have added capacity aggressively in Jaipur and

Telangana. Over the past 3-4 years, we have added 75 KT and now we are adding 50 KT. Initially, our plan was around 40 KT, which now we have scaled up to 50 KT for Bihar. So, I think that more than anything shows our conviction in not only industry demand, but also our ability to participate and contribute in the growth of the Indian piping industry.

Rahul Agarwal:

Also, when you say we'll grow in line with industry and gain back market share, my sense is if you gain back market share, obviously your growth has to be higher than the industry, right? I mean, that's the only way to gain market share back for whatever you've lost. Is that understanding correct?

Nihar Chheda:

Sure.

Rahul Agarwal:

And few clarifications, the Bihar CAPEX of Rs. 220 crores that include the tank's CAPEX, right?

Anand Gupta:

Yes, it includes water tanks as well.

Rahul Agarwal:

Okay, and Bathware, Anandji, you said 6 crores topline and 3 crores EBITDA loss for the quarter. Is that understanding correct?

Anand Gupta:

So, I said Rs. 6 crores topline, Rs. 3 crores expense, the expense comprises of the employee cost and the A&P spends.

Rahul Agarwal:

Okay, so then it means that we made 3 crores positive a bit for the quarter?

Anand Gupta:

So, we don't have to see quarter-to-quarter, we have to see as a long term, growth we have to see in the bathware.

Nihar Chheda:

So, just to add to Anand, I think this could go up, we have guided for around Rs. 20 crores of annualized expense for bathware. And as we expand to East and South in June quarter that will further increase. And at some point we would have company owned, company operated. showrooms as well and at a pan India level, the expenses will increase. Today we are only in two zones. From June quarter, we will go into four zones. So, I think it's very important to see that from a long-term point of view. We believe that in six quarters from now, we should look at breaking even. Before that, the focus should only be on appointing distributors, reaching as many retail touch points as possible and being able to establish a strong brand visibility which will take time and we have the luxury of a strong balance sheet to be able to take these kind of long-term bets and really use the brand equity that we've created and the distribution network to cross-sell bathware.

Rahul Agarwal:

Yes, I completely understand. What I was trying to gauge is the pipe profitability, hence I was just trying to add back whatever you lost in bathware to the pipe to see the actual EBITDA. But I get what you're saying. And last question from my side is, given building materials actually done better than Agri over the nine months, the CPVC revenue mix would have grown faster. Any sense on PVC CPVC revenue mix for nine months? Is that possible to share?

Nihar Chheda:

No, we will not share the segmental breakup. Sorry, just to address your previous question before we come to this, I think I just understood what your question was. Yes, I think if you look at a normalized performance, there's a Rs. 10 crores inventory loss and a Rs. 3 crores expense in bathware. So, that will give you a normalized earnings performance. And no, I think I'll stay away from giving breakup in terms of revenue, but directionally again building material is doing better than Agri.

Moderator:

Thank you. Our next question is from the line of Utkarsh Nopany from Bank of Baroda. Please go ahead.

Utkarsh Nopany:

My first question is that if we see our debtor period has gone up from 40 days in FY20 to 73-74 days in nine months of FY24, and whereas the debtor period for our major peer has remained relatively stable or it has come down during the same period. And going ahead, we expect to perform in line with the industry from June quarter onward. So, wanted to reconfirm from you whether we can protect our market share without diluting the margin and increase our debtor period further and if you can provide the margin guidance range for FY25?

Nihar Chheda:

Yes, I think that's a good question. So, yes, we will start normalized performance from June quarter without impacting our EBITDA guidance of 12% to 14%. I think that we will reiterate that guidance in terms of operating margin. On an annualized level, one quarter here and there is possible. But on a four-quarter basis, I think 12% to 14% operating margin we're still confident on and the debtor days will continue to reduce without impacting our market share. At least now it will come back to around the 60s, which is what it was. I think that will be visible. And to answer your question, to sum it up, yes, we will be regaining our market share without impacting our guidance on margins or decadence. We are confident of that.

Utkarsh Nopany:

Okay, so for December quarter if we see, if we do the adjustment of M2M inventory loss, then our EBITDA margin came at around 14%. So, why we are guiding a range of 12% to 14% for FY25?

Nihar Chheda:

Because we have historically always done that given that guidance and been conservative with all our guidance. So, I will stick to that. It's not that we have come up with this guidance at the end of this quarter. This is something we have been giving for the past couple of years now and I will stick to that guidance.

Utkarsh Nopany:

And lastly, what would be your CAPEX guidance for FY24 and 25?

Anand Gupta:

So, FY24, I will not exclude Bihar from this. FY24 will be in the range of Rs. 110 to Rs. 120 crores and FY25, it will be in the range of 90 to 100. It doesn't include the capacity which we'll be adding in Bihar. Bihar will be Rs. 220 crores which will be split in FY24 and FY25.

Moderator:

Thank you. Our next question is from Asim from Dam Capital. Please go ahead.

Asim Bharde:

Just coming back to the price correction commentary you had made earlier. So, you've talked about price correction done in Q2 and Q3 because you were outpriced vis-a-vis peers. This would just be on the CPVC side, right? Not on the PVC per se?

Nihar Chheda:

It is across PVC and CPVC depending on geography to geography. Wherever we felt that we are over premiumized, again I want to reiterate that this is not deep discounting. We are not resorting to discounting for growth. This is a realignment of timing to ensure that we are competitive with the market and market friendly. So, wherever it was required in whichever geography in whichever product category, we have taken that call and that is reflected in our correction in realization for the December quarter, which is a conscious strategy. And that we are confident will translate into regaining of market share from the June quarter.

Asim Bharde :

Just trying to understand, I mean, in PVC price changes from the supplier side to pipe guys, the change in price is almost immediate. So, how did we end up becoming more premium vis-a-vis peers? That's what I was trying to understand.

Nihar Chheda:

Yes, just to explain to you how the industry works, whenever there is a pass through in PVC prices, there is an action taken. So, whenever there's an increase or decrease in raw materials, we pass that on to the finished goods. And in certain markets, we had started leveraging our brand to pass on more than what the cost was. Or if there is a decrease, we are not passing it on fully. And in a lot of the markets, it was accepted, which is why you have seen an increase in operating margins. And this is not something which have started three or four quarters ago, this is a drive that started two or three years ago, and that is reflected in our operating margin performance, what it was four or five years ago and what it is today. One of the reasons for that apart from product mix and superior operating leverage, has been better pricing power. But in certain markets, that is not as well absorbed as it was in other markets, where we are happy to take the correction and become more market-friendly. So, hopefully that gives you a clarity.

Asim Bharde :

Okay, just one more thing. I mean, we also had this ERP issue in Q1. April and May were significantly impacted, but I think you caught up quite well in June. So, was there some kind of volume portion to the channel back then and that could also have hampered volume performance in Q2 and Q3?

Nihar Chheda:

No, I think that was just a channel. I don't think it was some volume portion. It was just that April and May was disrupted by supply chains. So, the regular supply that we have to our market was disrupted.

So, naturally, you're going to have a vacuum in the market. And we noticed after two months of disruption, one month we'll go in and sort of filling that vacuum. I don't think that is the reason. We are certain that is not the reason for the volume disruption.

Moderator:

Thank you. Our next question is from the line of Praveen Sahay from Prabhudas Lilladher. Please go ahead.

Praveen Sahay:

The first on the Bihar expansion, is it the final number with respect to the 50 KT thousand metric ton? Or is there a scope for further increase in capacity out there?

Nihar Chheda:

This will be the first phase. So, the first phase will be locked at 50 KT for Rs. 200 crores. So, this is certain this number will not change now. This includes pipe capacity, fitting capacity, and tank capacity. So, for the short to medium term, now first we have to execute this. And now after that, once we start growing in the East we have the land bank to grow back over the long term. So, we have invested in around 35 acres of land, which will help us to expand easily over the five to seven-year horizon. But the current number of 50KT to 52 KT for around Rs. 220 crores of CAPEX is not going to go through any change.

Praveen Sahay:

Sir, next question might be repetitive but your realization for a quarter has been down more than 10 percent. So, is it possible to give any colour like how much is because of the price correction you have taken and how much is from the RM prices down?

Nihar Chheda:

Yes, so I think one is if you see the September call, we had said we are going to, we have taken pricing action because in certain markets we are outpriced. So, that is reflected in this. Of course, this kind of

10% correction is not on account only of price correction. It's a function of both the passthrough in the reduction in cost and the pricing action that we have taken. So, if you see that the peers, our realization cut is the highest. So, it's a function of both the reasons. It's hard for me to quantify how much is because of pricing action and how much is because of cost reduction because there are multiple geographies, multiple categories, but it's a combination of both the factors.

Praveen Sahay:

In your press release you have mentioned that witnessed a strong restocking in the distribution channel. So, is that the current scenario? And also, I'm just referring to your peers also given similar kind of a commentary for 30%-35% of growth for the fourth quarter. So, you are also witnessing the similar kind of things in business?

Nihar Chheda:

I think currently channel inventory is moderate. Like I said, yes, of course, we saw some correction in the December quarter, which is why channel inventory was lower, which I think has come back to moderate. I think more importantly than immediate term, let me focus on long term. I think PVC prices are going to be stable. They're going to be range down. As a result of which, you will not see major ups and downs in channel inventory. which I think is a very good environment, a very growth conducive environment. So, I think more important than short term, it's important to look at long term. PVC prices are affordable and range bound, which I think is here to stay. So, that's how we see it.

I think the strong restocking that we were talking about was about the base quarter of Q3, which was our last Q3. We are now talking about current Q3. You can go through the quote that will be clear. If not, Karl can speak to you after the call and give that clarification.

Praveen Sahay:

Fine. And just one clarification. Your Chennai plant capacity from the quarter-on-quarter, the capacity quote is changing. So, from the fourth quarter last year to now the third quarter, every quarter, the capacity number it's changing. Why is it so?

Nihar Chheda:

Yes, so that's normal. I think we are adding capacity in Chennai. So, from 42 KT in September quarter it has come to 47 KT. I think this is the realignment of capacity that's done in normal course of business.

Praveen Sahay:

So, you have reduced and now you have increased.

Nihar Chheda:

Correct. So, this is the realignment of capacity what we do based on the market forces of demand and supply. So, the current capacity is around 338 KT including the HDPE expansion at Jaipur and the Chennai capacity coming to around 45. That takes the total to 3.38 lakhs.

Praveen Sahay:

And one more just to clarify on, you had also mentioned in the press release, expanding the distribution and strengthening the channel network. So, can you quantify the numbers, how much of this position you have right now?

Nihar Chheda:

Don’t have the numbers offhand, Karl will connect with you post the call to share the details.

Moderator:

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

Rajesh Ravi:

My first question pertains to could you share how the ramp has been up in your project sales which earlier you have been talking about, you are trying to improve the project sales. And second is can you share the product wise capacity across CPVC, PVC and HDPE?

Nihar Chheda:

So, I think our project phase is going well. We have made entry into a lot of the accounts over the past quarter and the past nine months period, which helps us make reference projects and further increase our penetration in the project segment. We have also been able to significantly increase number of specifications and brand approvals in the approved list of mix, which is a step one to then cracking the project. So, we have got significant breakthroughs. And we are well poised and continue to expand to new centers for the project vertical. Apart from just the metros, now we are looking at Tier-2 project markets like Vizag and Chandigarh and Lucknow and Jaipur, apart from the metro cities. So, I think that's on track. And the second part of the question, I think is segmental capacity, which I think it's hard to give a number Ie there is a fungibility between PVC and CPVC. But broadly it would be a function of our product mix wit' lion's share being PVC, CPVC being around 20% to 25% and the PPR being 5% to 7% and HDPE being 4% to 5%. So, I think it would be broadly a function of that but hard to quantify because of the one-way fungibility between CPVC and PVC.

Rajesh Ravi:

And this HDPE product which you earlier guided that this revenue share will ramp up to 7%-8% in Q4, I think you touched upon that in an earlier participant's question. So, are you seeing that on track, 7-8% in Q4 and is this a better margin product compared to your average 12% to 14% margin range which you share?

Nihar Chheda:

So, we are driving from 7% to 8%, but that's over the long term. That's not for Q4. We have added around 6,000 tonnes of capacity at Jaipur which takes our total to Jaipur capacity at around 44 KT. And the machines are running at ideal peak capacity utilization for HDPE. And once this first phase of expansion at HDPE if it is seen sustainable and the forces of demand are sustaining, we have the infrastructure to add HDPE at our new facilities. So, phase one is complete and at least for now the utilization is high. So, that's how we see it. And I think the last question was in terms of margins. I think HDPE of course is more, as everyone is aware, more of a volume product, not a value-added product.

But at an organization level, we would stick to the guidance of 12% to 14% which includes the capacity expansion in HDPE.

Rajesh Ravi:

And lastly, this working capital increase which has happened, are you confident that in March, these numbers will again moderate towards normal levels?

Nihar Chheda:

Yes.

Moderator:

Thank you. Our next question is from the line of Shubham Agarwal from Axis Capital. Please go ahead.

Shubham Agarwal:

I just wanted one clarification. I got confused in the numbers. 3 crore is the EBITDA loss for Bathware or is it the A&P and manpower cost in Bathware?

Nihar Chheda:

A&P and manpower cost for Bathware segment is Rs. 3 crore for December quarter.

Shubham Agarwal:

Right, so you've not actually shared the EBITDA loss for that segment, right?

Nihar Chheda:

Correct. We have shared the topline and the expense for the December quarter. Hope that answers your question.

Moderator:

Thank you. Our next question is from the line of Aasim from DAM Capital. Please go ahead.

Aasim Bharde:

Just one more question. Not sure if I got it right when discussed earlier, but how do we protect market share or gain market share vis-a-vis industry and cut your receivable days at the same time in the near term or in FY25?

Nihar Chheda: Yes, so like we said, we are over-premiumized in certain markets, so it's not that we are deep discounting, we're just reducing that premium, which is already factored in, if you see for Quarter 3 the realizations have decreased which shows that we have already taken the pricing action. Just for that to translate into volume growth would take a couple of quarters, because the market is not like an on-and-off switch that would take some time. We are not deep discounting, we are just becoming competitive and realigning our prices in certain markets for certain problems.

Asim Bharde:

But how does your receivable days also decline from the current levels of 73?

Nihar Chheda:

We will be using channel finance. Even in December quarter we have added 20 distributors. And we will continue to increase channel finance so that it's not a payoff between sales or receivables ensuring that the channel is adequately financed helps us ensure that growth is there, but not at the cost of credit. So, to answer the question, how that happened, is through becoming more aggressive with channel finance, which now luckily is the complete recourse has been off our books for some time. Now we have started becoming more aggressive in channel finance. And as the channel becomes more, is better capitalized, that ensures that it's not a pay off between sales and credit.

Aasim Bharde:

But we have been doing this for some time, right? Is the channel financing extended only to a small part of the channel still?

Nihar Chheda:

Of course, we still have to, there is a certain due diligence process that we have internally. So, we will not give it to each and every distributor. There is a certain criteria that the internal finance team has and that the banks have. So, it's a process. This cannot happen overnight.

Moderator:

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

Nihar Chheda:

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

Moderator:

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

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