Prince Pipes and Fittings Limited

Q4 & FY23 Earnings Call

May 26, 2023

MANAGEMENT:

- Parag Chheda: Joint Managing Director, Prince Pipes and Fittings Limited
- Nihar Chheda - Vice President Strategy, Prince Pipes and Fittings Limited
- Shyam Sharda - Chief Financial Officer, Prince Pipes and Fittings Limited
- Anand Gupta - Deputy CFO, Prince Pipes and Fittings Limited
- Karl Kolah – Investor Relations, Prince Pipes and Fittings Limited

ANALYST:

- Manish Mahawar: Antique Stock Broking

Q&A PARTICIPANTS:

- Pranav Mehta : Equirus Securities
- Chirag Lodaya : ValueQuest Investment Advisors
- Keshav Lahoti : HDFC Securities
- Dhananjai Bagrodia : ASK Group
- Sandesh Barmecha : Haitong Securities
- Praveen Sahay : Prabhudas Lilladher
- Mitul Shah : Reliance Securities
- Rajesh Ravi : HDFC Securities
- Abhishek Ghosh : DSP Mutual Fund
- Udit Gajiwala : Yes Securities
- Shrenik Bachhawat : LIC Mutual Fund
- Achal Lohade : JM Financial

Moderator:

Ladies and gentlemen, good day, and welcome to Prince Pipes and Fittings Limited Q4 FY '23 Earnings Conference Call hosted by Antique Stock Broking Limited. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on a touchstone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Manish Mahawar from Antique Stock Broking. Thank you, over to you.

Manish Mahawar:

Thank you, Ranjan. Warm welcome to all the participants on 4Q FY '23 earnings call of Prince Pipes and Fitting. From the management, we have Mr. Parag Chheda, Joint Managing Director; Mr. Nihar Chheda, Vice President of Strategy; Mr. Shyam Sharda, CFO; and Mr. Anand Gupta as Deputy CFO on the call.

Without further ado, I would like to hand over the call to Mr. Parag Chheda for opening remarks, post which we will open the floor for Q&A. Thank you. Over to Parag ji.

Parag Chheda:

Thank you, Manish, and good morning to all. I thank each one of you for joining us for our Q4 and FY '23 earnings call. The presentation and the press release have been issued to the stock exchanges and uploaded on our website. I trust you have had the time to go through the same.

I will initiate the call with a brief overview of the industry and then discuss the company-level performance. The year saw an unprecedented volatility in input costs in PVC prices, which led to significant inventory losses adversely affecting our profitability in H1 FY '23.

Since April '22, PVC prices corrected by a record by Rs.66 per kg and bottomed out at approximately Rs.76 per kg by end of November. The persistent fall in PVC prices led to sustained destocking amongst our channel partners adversely impacting volumes. Since December '22, the trend reversed and prices have stabilized until March '23, leading to a much-improved operating performance.

We have delivered a healthy performance in Q4FY '23, led by stable input prices and an improving product mix with significant improvement in overall margins and profitability. The substantial improvement in profitability was on account of focus on operational excellence, inventory management, cost efficiency measures and marketing thrust.

The company sold 44,317 MT of volume and achieved a revenue of Rs.764 crores during Q4. Despite notable lower Y-o-Y revenues, EBITDA grew by 6% Y-o-Y to Rs.148 crores with margins significantly expanding to 19%. PAT grew by 7% year-on-year and 169% quarter-on-quarter to Rs.94 crores.

We continue to expand our product portfolio with the launch of state-of-the-art products in the piping division, which is in line with our growth strategy of bringing innovative and global products to the Indian market. Our rollout of Modern Plumbing products is on course with encouraging response from our channel partners.

I'm glad to share that to further strengthen our position in East India, we have planned greenfield expansion in the state of Bihar. The expected capacity of the piping plant would be around 35,000 MT initially. This shall entail an investment of approximately Rs.150 crores, which includes land and adequate infrastructure, meeting the requirements of any further expansion. We plan to commence production by Q4 of FY '25.

Positive industry sentiments continue to be optimistic across sectors. The uptick in the real estate industry continues to be strong. The Indian residential real estate market experienced a record-breaking sale in FY '23, rising by 36% from the previous year, according to the research by ANAROCK Group.

The new fiscal is expected to witness a strong foundation with more buyers and lower home loan rates, which augurs well for us. According to another report by IMARC, the India's real estate market is expected to exhibit a growth rate of 9.2% during 2023 to 2028. Affordable PVC rates supported by a positive demand momentum across sectors of real estate, agriculture and infrastructure showcase promising long-term trends for a multi-polymer pipe solution player like us.

Just to give you an update on the progress of our Bathware segment, vendors and designs have been finalized and our core team, including key state heads and service engineers have already been appointed. We are also set to launch the entire Bathware range towards the end of Q1FY '24 and are excited to deliver quality products backed by a superior customer experience.

Further, we continue to focus on fiscal prudence and remain long-term debt-free. We have seen a continuous improvement in debtor days from 60 days in March '22 to 56 days in March '23. Inventory days have remarkably improved from 85 days in March '22 to 57 days in March '23. Overall, working capital days have improved from 68 days in March '22 to 57 days in March '23.

I would like to highlight that we are migrating to a global ERP system from a legacy system. The implementation is witnessing certain transitioning challenges, and this will have a material impact on our performance in Q1 FY '24.

Next, sustainability and green initiatives continue to be a core focus area as our Chennai plant achieved gold-rated green factory building certification by the Indian Green Building Council. As you know, earlier, our Jaipur plant have achieved platinum-rated green building certification by IGBC.

Our sustainability practices have reduced our carbon footprint, increased recycling, and accelerated the use of solar and renewable energy. On an overall basis, with industry potential being promising, Prince Pipes will continue to take obvious steps towards innovation in building a robust portfolio on and ground execution of our growth strategies and capitalize on opportunities where the Prince brand can bring its expertise, knowledge, and service quality. Thank you for your time share. I will now hand it over to my finance team to take you through the key financial highlights.

Anand Gupta:

Thanks, Parag Bhai, and good morning. I'll be taking you through Q4 & FY '23 financials. For Q4 FY '23, revenue stands at Rs.764 crores. Sales volume reported at 44,317 MT. EBITDA margin for Q4 FY '23 were healthy at 19.4%, an improvement of 380 basis points over last year.

For Q4 FY '23, EBITDA came in at Rs.148 crores compared to Rs.140 crores in FY '22, growing by 6%. Profit after tax reported at Rs.94 crores compared to Rs.88 crores in Q4 FY '22, an improvement of 7% Y-o-Y. For the full year FY '23, revenue is at Rs.2,711 crores compared to Rs.2,657 crores in FY

'22. Sales volume has increased to 1,57,717 MT in FY '23 as compared to 1,39,034 MT in FY '22 reflecting an increase of 13%.

Profit after tax stands at Rs.121 crores as compared to Rs.249 crores in the previous fiscal. We have witnessed an improvement in net working capital days 57 days as of March '23, as compared to 68 days in March '22. As we have guided in our earlier calls, we have normalized our inventory. Inventory days for the year improved to 57 days from 85 days last year and 61 days in December 2022.

We maintained our net cash position Rs.158 crores as of March 2023. We continue to remain long-term debt-free during the quarter. And with this, we would like to open the floor for questions. Thank you.

Moderator:

The first question comes from the line of Pranav Mehta from Equirus Securities.

Pranav Mehta:

Congratulations on good operating profitability numbers. I wanted to understand on your point that you highlighted that due to migration to global ERP, you are facing some challenges in 1Q '24. So if you can throw some more light on this, how 1Q would be impacted? And after that, let's say, 2Q and 3Q might see better growth coming in because of the demand which you could not serve in 1Q? And because of that, overall, your FY '24 numbers might not be that impacted. That was my first question.

And my second question was, was there any inventory gain during this quarter?

Nihar Chheda:

Yes. Thank you, Pranav. Inventory gain for the quarter was Rs.25 crores. Coming to your first question, we are having migration from a legacy ERP system to a global ERP system, and we had planned this in the month of April because that tends to be a lean month because in March, you typically have a destocking in the channel. However, due to some technical sort of glitches, this has actually spilled over into May. So I will not be in a position to quantify it because we are still trying to make up for it in the second half of the quarter.

As we stand, most operations have normalized, and I would say we are 70%, 80% close to normal today. And of course, I think the silver lining in all of this is demand continues to be extremely strong across segments, across agriculture and building material and across geographies, north, south, west, east India, so we are confident of growth going forward. And yes, that's where we are today.

Pranav Mehta:

Okay, sir. And sir, your move towards the Eastern market. So earlier, I believe that you were doing it through kind of outsourcing arrangement. So going forward now, East being the focus area, you'll be putting up your own capacities and lowering the outsourcing mix is what your strategy is?

Nihar Chheda:

Yes. So we will – we feel that it's the right time to invest, and we have always said that outsourcing is only a steppingstone especially only for the entry product, which is the SWR pipes for East market, but now we feel that it's time to have rain selling and then have an overall basket of goods, PVC, CPVC, across segments.

So to answer your question, outsourcing, we will transition out of it. it will not be an overnight move from outsourced to in-house because we have to scale up in-house capacities, which takes some time. So maybe in a couple of quarters after in-house manufacturing, we would then be completely dependent on our in-house capacities.

Pranav Mehta:

Okay. And sir, just a pertinent -- added question on this. You are going up with CPVC and fittings and even overhead water tanks in Eastern market, have you finalized what products you'll be launching?

Nihar Chheda:

Yes. So tentatively, we would be starting off with pipes, both PVC and CPVC as well as water tanks.

Moderator:

The next participant is Chirag Lodaya from Valuequest Investment Advisors.

Nihar Lodaya:

Congratulations on good set of numbers. Sir, my first question was on channel inventory in the system, given the weak outlook of PVC or volatility in PVC prices and on top of it, ERP transition, etc, how is the channel inventory at this moment?

Nihar Chheda:

I would say channel inventory is low on account of 2 reasons. I think 1 end product demand continues to be strong. And second, of course, we had challenges in the month of April and first half of May, in terms of being able to service that demand. So I think overall, at industry level, channel level should be low to moderate, and it would be slightly lower in our case because of the challenges in the first half of the quarter. xI think it is -- this time channel inventory is not directly correlated to pricing because demand is robust.

Chirag Lodaya:

Okay. And do we expect any inventory losses in Q1 due to weak PVC prices currently?

Nihar Chheda:

It's early to say but sitting today does not look like there would be any inventory loss.

Chirag Lodaya:

And just lastly, what would be the timeline for East plant? Will we be starting in early FY '25 or H2? And second, Telangana plant utilization, if you can give colour.

Nihar Chheda:

So we are sitting today targeting East plant to be operational by Q4 of FY '25. That is our internal target that we are working with today. Of course, the land and all of that is still to be acquired. So this is what we are targeting, and we are confident of this timeline. And Telangana capacity utilization would be around 40%.

Moderator:

Next question comes from the line of Keshav Lahoti from HDFC Securities.

Keshav Lahoti:

So can you give some more idea about how is your storage tank revenue in FY '23? And in FY '24, what are your plans for storage tank and Bathware divisions? And what sort of cash burn we should expect in Bathware in FY '24?

Nihar Chheda:

So storage tanks, we have done around Rs.30 crores of net sales in FY '23. And we have always believed that it's going to be an organic path. And we are very confident of the kind of distribution network, the cross-selling of water tanks that we've been able to do in our current distribution network. And for FY '24, we would like to double our sales of water tanks. And I think now we are at that stage where we can take this aggressive growth now that seeds have been sown of the initial product acceptance of water tanks. I think this year, we would like to double revenue from water tanks.

Coming to Bathware, we will be launching next month in June. We are on track for that. We also have a dealer conference scheduled in the middle of the month, next month where we will be launching our products to our pan-India distributors and then slowly roll out to new distributors in the market in North and West. So that is on track for next month. The cash loss from Bathware would be in the range of Rs.15 crores per annum.

Keshav Lahoti:

Okay. And how is your margin in storage tank division?

Nihar Chheda:

I think margin in storage tank division is similar to the Pipe and Fitting business around 12% to 14% operating margin.

Keshav Lahoti:

Okay. That is great too. When you talk about better margin due to better product mix, I understand it is due to the launch of new products and due to the higher growth in CPVC. Is my understanding correct? And what was your CPVC portfolio growth in FY '23?

Nihar Chheda:

So our value-added products include CPVC, PPR, the entire Fittings range across polymers, be it PVC, CPVC and PPR. And some of the new products that we have launched like low-noise polypropylene pipes as well as polypropylene surface drainage channels. So it will take some while before they start showing up on the revenue. So majorly, this has been driven by better Fitting sales as well as better CPVC and PPR performance.

Keshav Lahoti:

Would you like to give some idea about your CPVC growth in FY '23?

Nihar Chheda:

We've always -- we've never shared segmental numbers, but we have grown across segments and CPVC is a key focus area for us especially after the FlowGuard Plus tie-up. So we are on the right path of growth. And then we have done well in terms of cross-sell CPVC in our deep distribution network.

Moderator:

Next question comes from the line of Dhananjai Bagrodia from ASK Investments.

Dhananjai Bagrodia:

I just wanted to ask regarding Nal se Jal, how much of a sales percentage is going towards that? And how is that shaping up for us?

Nihar Chheda:

So Nal se Jal, I think still, we continue to see on ground demand from Nal se Jal. It's not a very significant part of revenue today. But the important point is that it's consistent. Every quarter, we are seeing some on-ground execution as far as JJM projects are concerned, which is a positive for us. And I think this will continue to contribute. I think we are just seeing the tip of the iceberg as far as demand from JJM is concerned.

We don't directly sell to the Government. We sell through our channel partners because we don't want to take the credit risk on our books. The distributors sell to local municipal government contractors for JJM. So my understanding from my sales team and my distributors is that there continues to be -- this is not just policy on paper, but we are seeing on ground demand from this program of the government. I'm not in a position to quantify because we don't directly sell to the Government. It's through the channel.

Dhananjai Bagrodia:

Okay. But just I guess the follow-up is, let's see now, they are saying that this will be done now by FY '25. So then would we see there a significant drop -- would we see a significant drop in our revenues post that?

Nihar Chheda:

No. We will not see a significant drop in that. Firstly, I believe this program will continue into multiple years post that as well because there are different markets that are adopting this at different stages. But I've always maintained that JJM is never going to be a primary growth driver for Prince. It's just an added bonus. So we are not dependent on JJM for growth. Our growth will primarily come from growth in the distribution network, growth in Real Estate, growth in Agri market because of affordability, so Jal Jeevan Mission is only a bonus driver, not a primary driver.

Dhananjai Bagrodia:

Sure. And any rough guidance for next year in terms of volumes?

Nihar Chheda:

So I think ex of Q1, I think we should have 12% to 15% volume growth. I am optimistic about demand across segments. So Q1, of course, will be an anomaly because of the ERP migration. However, even in Q1, end product demand continues to be robust, and that will start reflecting in our primary numbers from the second quarter.

Dhananjai Bagrodia:

Okay. And how is Agri sales picking up now? Are we seeing any rural -- how is that coming along?

Nihar Chheda:

Yes. Agri sales is strong, primarily driven by affordability. So as we had envisioned in the previous couple of quarters that this Agri season should be strong. I think we are seeing that play out in the marketplace.

Moderator:

Next question comes from the line of Sandesh Barmecha from Haitong Securities.

Sandesh Barmecha:

Sir, just 2 questions on my end, sir. despite reporting relatively weaker pipe volume growth compared to our major peers, our debtor days has moved up from 43 days in this last quarter to 49 days in Q4 FY '23, whereas the collection period for the most of our peers has gone down. So can you please throw some light on this? And how do we see a collection period in FY '24?

Nihar Chheda:

I think historically, if you see the -- I think 4 or 5 days, debtor days does not make a material impact. But historically, if you see our trend is going lower significantly. So I've always believed that control on debtor days is not something that can be achieved overnight and it's a process of multiple years. So 4 or 5 years ago, our debtor days used to be closer to north of 75 days, which now has come to where it is.

So this is not something that can be done overnight. However, we -- for us internally, this is a KPI for us for the senior management to be able to control debtor days because that's the true testament of your brand equity. So while we acknowledge that this cannot be done overnight, this is a key for us going forward. And over the next 2 to 3 years, we want to have a stronger control on this, which will be visible in the cash flow that we are generating.

Sandesh Barmecha:

Okay. So -- okay. So if you can give some sense that, sir, what was the volume growth in Agri, Plumbing, Infra in Q4 FY '23 on year-on-year basis. And also, if you could put some sense on what kind of volume growth are we seeing in April, and May this year have compared to last year?

Nihar Chheda:

Yes. So Sandesh, as you're aware, I think as company policy and industry norm, we don't give out segmental numbers. What we can say is our focus is on building material because that's the value-added part of our portfolio and growing and building material has always helped us not only improve our margins, but also improve our brand equity in the marketplace. And our focus will continue to be on building materials.

While Agri will be key from an operating leverage and a cost absorption point of view and also to help us enter into rural markets and then cross-sell other products in rural markets. But growth has been -- in Q4, we have seen growth across segments. And coming to the first quarter, we have seen strong Agri growth and strong demand in Agri as well as Plumbing and drainage.

Sandesh Barmecha:

Okay. So what will be your capex plan for FY '24 and '25, sir?

Nihar Chheda:

And just to add to that before I answer this question, we have also seen good growth in infrastructure and double-wall corrugated pipes used for underground drainage where we are replacing cement pipes to DWC pipes as everyone is aware. I think that segment also is doing well, and we are bullish on this, and we would also be manufacturing this segment in the Bihar manufacturing facility. To come to the capex answer, I will hand over to Anand.

Anand Gupta:

So next year, what we are planning is as East is coming up, so Rs.75 crores to Rs.80 crores will go towards the capex in East mainly towards the land, building and utilities. It's for the Phase 1, what we are planning. And for the rest of the maintenance capex will be in the range of Rs.80 crores to Rs.85 crores for the rest.

Moderator:

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

Praveen Sahay:

So firstly, if you can advertising expenses for FY '23 and the Q4 FY '23?

Anand Gupta:

For FY '23, it was Rs.41 crores the advertisement expense for the full year. And for the last quarter, Q4, it is around Rs.12 crores

Praveen Sahay:

And the total capacity of 3 lakh – more than 3 lakhs, is it an installed capacity or production

capacity?

Nihar Chheda:

It is an installed capacity, Praveen. So production capacity is around 80% of the rated capacity. So the 3 lakhs plus what we put out is the rated installed capacity.

Praveen Sahay:

And on this transition to the global ERP system, is there any cost also involved to that? And how much is that?

Nihar Chheda:

So the cost has already been factored in over the -- in the FY '23 numbers. The exact number, we don't have handy with us. We can maybe connect offline, but it's been factored in the FY '23 financials.

Praveen Sahay:

Okay. And the last question, sir, on the raw material procurement, apart from the CPVC compound, do we have a long-term supply contract with a global supplier, or we are also dependent on some trading procurement of raw material?

Nihar Chheda:

So CPVC, we have a contract with Lubrizol. And for PVC, we have contracts -- annual contracts with Reliance and Chemplast Sanmar.

Praveen Sahay:

Domestic players only.

Nihar Chheda:

Yes. Import is -- it's an industry norm, import tends to be spot and local tends to be contractual.

Moderator:

Next question comes from the line of Mitul Shah from Reliance Securities.

Mitul Shah:

Congratulations on a strong performance. Sir, first question, just clarification on ERP-related costs. We incurred everything in FY '23 or something will come in FY '24 also.

Nihar Chheda:

I would say majority of it has been factored into FY '23. So maybe around 90% has been factored into FY '23. So it will not be a material impact on the FY '24 numbers.

Mitul Shah:

Sir, would you like to quantify any number in terms of the cost efficiency benefit from this new system in FY '24 or maybe in '25?

Nihar Chheda:

The benefit from the system?

Mitul Shah:

Yes. There would be certainly some cost efficiency.

Anand Gupta:

Efficiency will be in terms of integrating the whole value chain in the organization, starting from the procurement to supply chain, the integration will give us the visibility of production planning, demand planning and inventory management. These are the areas we are focusing on this. And for the long term, these capabilities need to be built in the organization's efficiency.

Mitul Shah:

Sir, second question on EBITDA margin. Adjusted for this inventory gain of Rs.25 crores, our EBITDA margin stands at 16.1%. So what do you think is a sustainable EBITDA margin going forward? Would that be such 15% plus is sustainable or long term could be somewhere around close to 15%.

Nihar Chheda:

I think we've always been conservative with EBITDA margin guidance. So, we stick to 13%, 14%, 15% sort of guidance's while fully knowing that there are enough and more levers for improving this. And we are constantly putting in efforts towards improving pricing power, improving product mix, decentralizing the manufacturing footprint as well as operating leverage benefits.

So I think these 3 or 4 levers have helped us sustainably improve operating margin. And while we guide conservatively, we still have aspirations to grow this, but from a long-term guidance, I think 13% to 15% is what I would stick to.

Mitul Shah:

Sir, lastly, on the -- how is the raw material inventory right now at our plants because as prices are coming down, there might be some inventory loss, if prices will go further down. So how is the raw material inventory level?

Nihar Chheda:

I think our overall inventory is around 60 days. So typically, it is – inventory would be around 35 to 40 days, raw material, and another maybe 25 to 30 days of finished goods. But I don't see a material inventory loss sitting today. So of course, it's early days. We have to see how it plays out. But long term, I think any inventory gain or loss would even out over 4 quarters.

I don't think we are going to see any kind of major volatility that we saw in the past 2 years, both upward and downward. So even if there is any inventory gain or loss in a certain quarter, I think across the span of 4 quarters, it should even out, which was actually the case in our industry before pandemic. There would be inventory gain or loss in certain quarters, but in the 12 months, it would even out.

I think we are back to that kind of a stable pricing regime. And I think India is in a sweet spot because India demand is strong, while global demand is weak, which means that in PVC, we don't see a very strong upside. But neither do we see a very strong downside because of local demand being strong. So that's our view.

Moderator:

Next question is from Rajesh Ravi from HDFC Securities.

Rajesh Ravi:

Congrats on good set of performance, healthy recovery. Coming to the inventory side itself, you mentioned that sustainably 13% to 15% EBITDA margins. Sir, could you share for full year what was the inventory loss we booked at a company level in FY '23? And what was the similar number gain in FY '22, please?

Nihar Chheda:

So in FY '23 for the 9 months, Q1 to Q3, inventory loss was in the range of Rs.150 crores. And for Q4, inventory gain was around Rs.25 crores. Around Rs.120 crores, Rs.125 crores loss -- inventory loss for FY '23.

Rajesh Ravi:

Sorry, because first 6 months, if I recollect, you had mentioned around Rs.85 crores of loss and Rs.75 crores in Q3. And we have set off again in Q4, Rs.25 crores, so Rs.80 crores, 85 crores.

Nihar Chheda:

So inventory loss for the 12 months is around Rs.125 crores, so we were in the range of Rs.150 crores for the first 9 months and around Rs.25 crores of gain in the fourth quarter.

Rajesh Ravi:

Okay. And sir, for last year, what was a similar number gain?

Nihar Chheda:

This is for FY '23.

Rajesh Ravi:

No, no, FY '22, the corresponding inventory gain, how much was that booked into the numbers?

Nihar Chheda:

I actually would not have that handy. I will request you to maybe go through the con call transcripts, else we can connect off-line, but I don't have the FY '22 expense number.

Rajesh Ravi:

Sure. And sir, the CPVC prices, which we understand is cooling off recently because of the cool off in PVC prices, but we understand that the fall is gradual compared to PVC. So in your case, with Lubrizol, do you also need to have any inventory losses required? Or it is like on a cost basis, you need not to do any inventory cost adjustments over there.

Nihar Chheda:

No, there is no sort of say, firstly, for CPVC, we don't carry much inventory, just-in-time inventory because we get the material from Lubrizol facility in Dahej. So we work on just-in-time inventory. So even if there is any inventory loss, it's not very significant. And the pass-through for CPVC is not as immediate in PVC, both in terms of upward and downward. So we don't really see it as an inventory gain or a loss. But CPVC prices have cooled off across the industry. And we don't see major cool off going forward because of the duty structure. But there has been a reduction in CPVC prices across the industry.

Rajesh Ravi:

Okay. And this PVC, you mentioned you're buying domestically long-term contracts with Chemplast and Reliance. So broadly, how much would be your import mix in the -- your raisins purchase -- raw material purchase?

Nihar Chheda:

It stands to be slightly dynamic based on the procurement strategy, but roughly around 40% of PVC, 40% to 45% is local for PVC and balance is imported.

Rajesh Ravi:

Balance is imported. And sir, with these big facilities coming up in the CPVC side, DCW doubling its capacity, even Meghmani is maybe more than doubling its capacity, how would that change the CPVC market for you?

Nihar Chheda:

I'm sorry, I'm not able to hear you.

Rajesh Ravi:

What I'm saying that the CPVC market with 2 big resin supplies adding significant domestic capacities in India, how will that shape up the CPVC market and even Lubrizol had some plans to set up another factory in India?

Nihar Chheda:

Yes. I think this is very good news for the Indian CPVC industry with local manufacturing coming in. CPVC is bound to become more and more affordable, which will improve the penetration of CPVC. So, with these 2 new local players coming in, I think 1 is before coming to pricing, I think one good part is availability will improve, two, overall industry will grow and now with Lubrizol putting up their local manufacturing in the Dahej with Grasim. I think that's going to help us not only in terms of affordability, but also sufficient growth -- supply security for growth.

So I think this overall bodes well, I think we are -- the Indian CPVC pipe industry was yearning for such kind of local raw material availability, which I think should do well. We are seeing the kind of importance affordability of a polymer has now that PVC prices have cooled off. We are seeing the kind of growth that the polymer can actually have. I think something similar coming in CPVC will only help industry grow and will only help the top 3 or 4 players like ourselves to lead that growth.

Moderator:

Thank you. Mr. Ravi, we request that you return to the question queue for follow-up questions. Next question comes from the line of Abhishek Ghosh from DSP Mutual Funds.

Abhishek Ghosh:

Just a few questions. If you look at the margin for the Q4 FY '23, even if one was to adjust for the inventory gains, the margin trajectory seems to be still much higher than what your long-term guidance is. So how should one look at it? Is it led by product mix or is it a fourth quarter phenomenon? How should one look at it? If you can articulate over the next couple of years, how should one look at the annual margin profile?

Nihar Chheda:

Sure. So Abhishek, firstly, across product mix and pricing power have been key to the profitability for us, not only over the past year, but if you see in the past 4 or 5 years, the way our margins have structurally improved from maybe a 9% to 10% to now where we are in this 13% to 15% and some quarters above 15%, so structurally, this has been driven by the 4 levers that we look at internally. One is product mix. Second is pricing power. Third is the centralizing manufacturing footprint through Jaipur, Telangana and now the Bihar facility. And the fourth is operating leverage.

So I think these 4 will continue to be the drivers for profitability going forward. As you are aware, we've always been conservative with guidance. So I would like to stick to being conservative on margin guidance's, but we are still hungry and aspirational for better margin profile over the long term. It cannot be achieved overnight, but we are fully clear in terms of the levers that are available to us, which have worked for us in the past and which we are working for in the present and the future.

Abhishek Ghosh:

Okay. Just in terms of agriculture and Infra demand and also so Housing, so Agri, would it be back to pre-crisis demand as far as the season is concerned for the industry?

Nihar Chheda:

So it's tough for me to exactly sort of quantify. But yes, I think we are seeing a very strong demand in agriculture and that was bound to happen because affordability is back and the base for agri has been low over the past 2 years. So maybe at the end of the quarter, I would be able to quantify whether we are back at pre-pandemic level, but all sentiments and all signals point towards very strong agri demand.

Abhishek Ghosh:

And overall, for the industry, the Infra demand that you have spoken about, is it more driven by HDPE pipes or PVC pipes are also going into that?

Nihar Chheda:

It's a combination of both HDPE, majorly HDPE as well as PVC.

Abhishek Ghosh:

And would it be fair to assume that infra today as an overall piece for the industry would be more like 10% to 15%, which would be single digit 3 years back? I'm just trying to understand that what is the proportion of infrastructure demand that is helping the overall industry to grow.

Nihar Chheda:

Yes. I think, of course, infrastructure as a -- so there's no sort of official data on this. But in terms of our guestimate as an industry player and interacting with other stakeholders, demand from infra has only gone up because of the government's focus towards not only providing pipe water access, but also the Swachh Bharat Mission and -- which has helped the DWC demand.

So we see this only growing from here. I think around 10%, 12% of total industry is a fair estimate, which was much lower 3 years from today. And I think this will be much higher 3 years going forward.

Abhishek Ghosh:

And just one last question. You've launched a few new products in the last 2 to 3 years. Do you track in terms of what has been the volume or the revenue contribution from these newer products? How have they been tracking vis-a-vis our expectation. Any update on that would be helpful.

Nihar Chheda:

Sure. So I think the kind of products that we've launched are -- so one, of course, we do track the performance. But some products like maybe water tanks and HDPE, which are slightly more commoditized, of course, it's a number game and we have to deliver numbers. And like I said in water tanks, we will be targeting a doubling of revenue in FY '24.

And similarly, in HDPE, we are looking at growth, but this is very small. But there are some products like low-noise PP pipes and surface drainage channels, which is more of a concept selling and more than numbers or volumes, we have to, as we are trying to position ourselves as an innovation leaders. We have to first do the concept selling with builders, with engineers and architects across the country of having the acceptance of these kind of products because here, we are not competing with other pipe players, but we are competing with conventionally used products like cement pipes or cast-iron pipes or RCC drainage channels. So a lot of concepts selling has to be done. I think we did a similar exercise, maybe in 2017, '18 when we launched DWC, and we were replacing cement pipes with corrugated pipes.

And the market in India, we have always been late with our adoption cycle. And it's more of a concept selling where we have to explain the product life cycle benefits, the installation cost benefits that the end user has. So these kinds of products take some time, we have to be patient. But over 4, 5 years, then this gives a disproportionate return not only in terms of numbers but also the brand image that we are able to build in our value chain.

Abhishek Ghosh:

Sir, just 1 question, one last one from my side is your 1Q FY '24 will get impacted because of the implementation -- ERP implementation and hence, you'll have -- that will have a bearing as far as the growth is concerned in FY '24, but on a 2-year basis, in FY '25, do you believe that you can clock off

15% to 20% CAGR volume growth? Is that something that you see because of the various initiatives that you have taken?

Nihar Chheda:

Yes. So looking at the kind of demand environment that we are seeing today and the capacity expansion that we are planning, I think this sort of growth is definitely possible. The kind of revival that we are seeing in real estate and with affordability back in PVC, we are optimistic about growth going forward.

Moderator:

Next question comes from the line of Udit Gajiwala from Yes Securities.

Udit Gajiwala:

Most of them have been answered. Sir, just last one, we are seeing a lot of players going for capex into the Eastern belt, so is it that the demand we are going to take from the unorganized segment over there? Or what is that structurally that is changing on that front?

Nihar Chheda:

So East for us, while we are only now putting up in-house capacity, we have put up outsourced capacity in the year of 2014 in Bihar and then a couple of years ago in Jharkhand. So we have already seeded the market, and we have an early mover advantage in East India. And we have seen a very strong demand over the past 3 to 4 years in terms of volumes in East India.

So now we feel it's the right time to put up in-house capacity because we want to do range selling of plumbing pipes and water tanks and our underground drainage pipes. So I think now the market is right for us to be able to cross-sell this -- the rest of our portfolio while growing the PVC pipes in East. East typically has seen a delayed urbanization cycle relative to West and South, which is why now we are seeing maybe a better growth in East India because that market has been underdeveloped relative to the rest of the country. So yes, this is why we feel it's the right time to enter into East.

Udit Gajiwala:

Understood. And lastly, on Bathware, would you want to give some revenue targets for FY '24, '25 for this segment?

Nihar Chheda:

No, we'll stick away from revenue targets. I think focus has to be on product range, branding and more importantly, setting up a distribution network. We do have internal targets, but I don't want to play the number game. I think I want to focus on brand and distribution and the results will be there for everyone to see.

Moderator:

Next question comes from the line of Shrenik Surendra Bachhawat from LIC Mutual Funds.

Shrenik Bachhawat:

Most of my questions are answered, just one question. So in this earnings season, we saw the other pipe players delivering healthy double-digit volume growth, while ours was minus 2%, so can you just explain us why is there a huge gap in other players and our volume growth?

Nihar Chheda:

I think, Shrenik, there is a few quarters of plus or minus volume growth does not really concern us. We have to see the long term. There have been periods -- multiple quarters where we have industry-leading growth. So I think these things tend to happen in the marketplace. So we are not taking it lightly. We have to see the balance of pricing power as well as operating leverage, and there have been some cost corrections that we've done in the month of April.

However, this is not something which is very concerning. I think from -- we have seen very strong demand from this quarter itself. And unfortunately, because of the ERP migration, it will not be visible in the primary numbers. But from the second quarter of this financial year, I think we'll be back. I'm confident that we will be back on a strong growth track.

Moderator:

Next question comes from the line of Achal Lohade from JM Financial.

Achal Lohade:

A couple of questions. One is with respect to CPVC. Is it possible to get some sense about the market share, what we would have had in FY '23?

Nihar Chheda:

So I believe we are around 10% of the market. And in terms of contribution, it is around 20% to 25% of our overall portfolio.

Achal Lohade:

This is in volume terms or value terms?

Nihar Chheda:

I think I'm seeing it in value terms, but I think it should be fairly similar in volume terms as well, in terms of market share.

Achal Lohade:

Right. And with respect to PVC, can you help us understand what would be the market share in PVC segment for us?

Nihar Chheda:

I think overall, if you see, I think all polymers put together, we would be at maybe a 6.5% to 7.5% market share. And CPVC specifically, we would be at around 10%. PVC stand-alone, maybe we can connect off-line. I don't have an offhand number.

Achal Lohade:

Understood. Secondly, with respect to the capacity, if you could help us understand the March '23 specific number, what is the rated capacity -- installed capacity? And how would that be by March '25. Why I'm asking because you have talked about the East expansion, but I presume there would be a brownfield expansion at the existing facilities as well. So can you give us some sense with respect to the capacity in March '23 and March '25. And I presume the capex, what Anand mentioned is Rs.150 crores each FY ‘24 and ‘25, half of that for East and half for maintenance. If I've got the understanding, right.

Nihar Chheda:

Yes. So that is for FY ‘24, the capex guidance. Today, to answer capacity point, today, we are at 3,15,000 MT, East will be 35,000 MT, so that put together plus the brownfield that would happen across plants that I will not be able to position – quantify what will be in FY ‘25. But to give you an answer FY ‘25, we should be at 3,15,000 MT plus 35,000 MT of East plus whatever minor brownfield we do at our existing facilities.

Achal Lohade:

Understood. Another question I had with respect to the channel financing as to what has been the quantum of channel financing as of March ‘22 and March ‘23? And how do you see this evolving over the next couple of years?

Anand Gupta:

So, Achal, it has been evolving very well for the organization. So more than 100 customers on boarded already in this program and sanction limit to our channel partners is in excess of Rs.100 crores right now. And we are taking this as a lever of controlling our receivables. This is one of the primary things which we are focusing in the areas where we are not very strong in channel financing and the distributors where the white space is there, we are filtering it out. And we are focusing on expanding the channel finance limits to our existing distributors. So in terms of outstanding, we are utilizing around 65% to 68% of the sanction limit. So that is how the position is right now.

Achal Lohade:

How much would that be Anand in March '22?

Anand Gupta:

It was around Rs.45 crores to Rs.50 crores in March '22 , I do not have a number handy, but it's a range only. and it's around 65% to 68% of the sanction limit to the distributors with the current outstanding right now.

Moderator:

Ladies and gentlemen, that was the last question for today. We have reached the end of question-and-answer session. I would now like to hand the conference over to the management for closing comments.

Nihar Chheda:

Yes. Thank you all for joining us today. Thank you, Manish.

Moderator:

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

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