"Prince Pipes and Fittings Limited Q3 FY2021 Results & Business Outlook Conference Call"

February 04, 2021

Dolat Capital

ANALYST **MS. NIDHI DOSHI - DOLAT CAPITAL**

MANAGEMENT: **MR. PARAG CHHEDA - JOINT MANAGING DIRECTOR - PRINCE PIPES AND FITTINGS LIMITED.**
MR. SHYAM SHARDA – CHIEF FINANCIAL OFFICER – PRINCE PIPES AND FITTINGS LIMITED.
MR. ANAND GUPTA, DEPUTY CHIEF FINANCIAL OFFICER - PRINCE PIPES AND FITTINGS LIMITED.
MR. NIHAR CHHEDA - AVP STRATEGY

Moderator: Ladies and gentlemen, good day and welcome to the Prince Pipes and Fittings Limited Q3 FY2021 Results & Business Outlook Conference Call hosted by Dolat Capital. 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 for an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Nidhi Doshi. Thank you and over to Nidhi!

Nidhi Doshi: Good morning, ladies, and gentlemen. We welcome you all on behalf of Dolat Capital to the conference call with the management of Prince Pipes and Fittings Limited to discuss the financial performance for Q3 FY2021 and business outlook. Representing the management, we have Mr. Parag Chheda, Joint Managing Director, Mr. Shyam Sharda, CFO, Mr. Anand Gupta, Deputy CFO and Mr Nihar Chheda, AVP Strategy. We now hand over the conference to Mr. Parag Chheda for his initial remarks after which we could move on to the question and answer session. Over to you, Sir!

Parag Chheda: Thank you, Nidhi. Good morning to all. Thank you for joining us for our Q3 FY2021 earnings call. I am joined by Shyam Sharda our CFO, Anand Gupta our Deputy CFO and Mr Nihar Chheda, AVP Strategy. The presentation and the press release have been issued to the stock exchanges and uploaded on our company website. I hope everyone has had an opportunity to go through the same. I will be keeping my opening remarks in brief so that we can have longer time for Q&A.

It has been a top priority for the management to address the governance related points as soon as possible. Thus, we as management set out with the goal of delivering clear intent and actions on these governance points. In continuation with a series of such efforts over the past four quarters, the last piece of the puzzle was also completed. As you are all aware, we have now paid a major portion of the Prince marketing capital advance to the company and will be paying the remaining amount in due course as well. We believe these actions give a clear direction and intent to all. Furthermore, on channel finance, my team is working towards moving partial recourse from the company to the distributor.

In the next one or two quarters, we aim to resolve this point as well. This will not only improve the quality of the balance sheet but will also add power to our brand identity. We have been able to address and resolve these points in the four quarters post-listing. We continue to believe actions speak louder than words. Our goal is to not only address governance related issues, but to actually have strong governance and transparency as strength of Prince Pipes. Now, let us purely focus on the strategic view of the business.

Firstly, we are glad to commence commercial production at the Telangana facility ahead of schedule. We were working very closely with the team to start production way ahead of the schedule. I believe that the pipe industry is at the cusp of an aggressive growth phase and with the Telangana unit, Prince will be a major beneficiary of the industry tailwinds. The initial capacity is fairly small but expanding. Fittings capacity was an important move for us. We will have the next two to three phases of capacity expansion coming in based on the demand scenario.

Moving on to the Union Budget, the Finance Minister announced an outlay of more than Rs. 50,000 Crore for the urban and rural water supply scheme, which is over four times the previous budget. This mission aims to supply water to 4,378 identified urban local bodies with Rs. 2.68 Crore tap connections. We believe this will provide acceleration in the government's mission of Har Ghar Jal, which is to provide piped water access to rural households across our nation. This could be a major demand driver for us over the next few years.

Next, this was the first proper quarter for Prince Flowguard Plus products and the response has been exciting. Our strategy that we had set for ourselves was two pronged, first gaining traction in the B2B project space. Second cross selling CPVC products within our exiting retail network. I am glad to state that the progress on both the fronts have been in the right direction. We have also started to work with the top developers across the nation, which was never a part of our model in the past. Of course, we are doing this selectively and want to work with developers without compromising on the receivable cycle.

We have been able to build stronger brand equity with our retailer and plumber fraternity for our CPVC range. Not only have we improved our secondary network, but also after Prince Flowguard Plus has been launched into the market, a very high number of distributors have approached us to get associated with Prince brand. This response has truly been overwhelming and we have been able to add approximately 250 new distributors this year out of which more than 100 distributors have been added in quarter three.

This expansion in distribution network is reflected in our robust volume growth of 18% and makes this growth to be more sustainable in the future quarters. While I believe it is too early to declare the collaboration successful within one quarter. We have been moving in the right direction as far as CPVC market penetration is concerned. To bolster our product mix, we have made a conscious decision to ramp up branding initiatives. We have significantly increased branding initiatives across cities, towns, and rural villages.

We have always maintained that we see branding not as a cost, but as an investment. As a result, our advertising and promotion spends have gone up to Rs. 19 Crore versus Rs. 10

Crore in quarter three last year, which has almost doubled. The intent is clear. Brand building and perception building continue to be the top priority for us as we try to move from being value focused to a premium brand in the long-term. I shall now hand over to Shyam Sharda for the financial summary.

Shyam Sharda: Thanks Parag Bhai and good evening friends. I will be taking you through the Q3 FY2021 financials. In this quarter, the company saw a robust revenue growth of 39% at Rs. 549 Crore in Q3 FY2021 compared to Rs. 396 Crore in Q3 FY2020. EBITDA was at Rs. 103 Crore in Q3 FY2021 compared to Rs. 53 Crore in Q3 FY2020 indicating a growth of 93%. EBITDA margin is at 18.8% in Q3 FY2021 as compared to 13.5% in Q3 FY2020 translating to a margin expansion of 526 bps.

The four main reasons for this significant margin expansion were, there was an inventory gain of Rs.20 Crore to Rs.25 Crore during the quarter, which was driven by higher PVC prices. In view of this gain, the management during the mid of the quarter decided towards investing a part of this gain in advertising and publicity, which is inline with our long-term brand building strategy, which is focused towards premiumization post Lubrizol tie-up. We invested a part of this gain toward A&P, which was Rs.19 Crore in Q3 FY2021 vis-à-vis Rs.10 Crore in Q3 FY2020 translating to an increase of 90%.

Secondly, we continue to come on better pricing power given the market consolidation tailwinds. Thirdly, a favorable product mix as the growth was largely driven by value added products like our plumbing portfolio post our Lubrizol tie-up, which witnessed an overwhelming market penetration. Lastly, robust volume growth of 18% led to a healthy operating leverage benefit. Profit after tax stood at Rs. 67 Crore compared to Rs. 24 Crore translating to a growth of 179%. This was owing to an overall improvement in performance of EBITDA level aided by a sharp decreased in finance cost by 61% due to the debt reduction.

Our gross debt as on December 31, 2020, was at Rs. 119 Crore compared to a gross debt of Rs. 186 Crore as on September 30, 2020, indicating a reduction of Rs. 67 Crore from the previous quarter. Cash on books from internal accruals is at Rs. 156 Crore excluding IPO proceeds. The net cash position excluding IPO proceeds stands at Rs. 38 Crore. CARE rating outlook has improved from stable to positive during this quarter. On our working capital front, our debtor days are largely in check despite delivering a healthy topline.

This was achieved due to a coordinated cross-functional effort between finance and marketing teams. Our inventory liquidation has happened during the quarter due to close coordination with our sales team in selling stock, which was aided by healthy product demand in the consolidated market. The working capital days are at 27 days. Quality of the balance sheet remains our topmost priority. 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. The first question is from the line of Nehal Shah from ICICI Securities. Please go ahead.

Nehal Shah: Congratulations for very good set of numbers and industry topping volume growth.

Nihar Chheda: Thank you.

Nehal Shah: Sir, couple of questions here, the first one on your EBITDA margins, if I were to adjust your inventory gains, which is close to 4% to 4.5% and your incremental ad spends, your margins come closer to almost 16%, which is significantly higher than your average margins of last 4 years, which is somewhere around 12% to 14%, now you also have further levers up your sleeve going forward with your Telangana facility coming in, which has already commenced partial operations, I think with that decentralization benefit in market, which is in South India where you are one of the weaker brands today because you do not have any facility there, I think that is one of the bigger moves going forward as far as margin expansion is concerned plus your CPVC mix is likely to improved with the current Lubrizol licensing, which has come in, so I think with these kind of levers in store over the next couple of years where do you see your margins going forward and one more important thing is the current quarter is the first quarter with the new Lubrizol licensing coming in and there was additional cost pressures also so despite that you have come in with very, very strong margins of 16% adjusted with the couple of items, which I discussed, so just want to understand where do you see you margins going forward with the current cost pressures and with the likely improvement going forward, that is my first question?

Nihar Chheda: So, let me give you a detailed dissection of the margin performance, so EBITDA margin was at 18.8%. We obviously had an inventory gain of around Rs. 20 Crore to 25 Crore, if I adjust the inventory gains that would bring the EBITDA margin to around 14%; however, in the middle of the quarter we realized that the PVC prices continue to rally and the inventory gain would be significant, so we decided to actually double up the branding investment for the quarter from Rs. 10 Crore in Q3 FY2019 to Rs. 19 Crore in Q3 FY2020, so if I adjust for that as well our net EBITDA margin would be at around 16%, I think that sort of performance is due to multiple reasons, the first and the most important reason for us is superior pricing power. We continue to lookout for markets where we can eliminate the pricing discount versus our peers, secondly, we are also looking at markets in which we can start charging a premium versus our peers while still growing our market penetration at the same time, so pricing power has been and continues to be a key lever for margin expansion for us. Second reason, I would say is product mix, in this past quarter plumbing and SWR obviously led the growth for the entire portfolio, so the product mix has been fairly favorable as well and the fourth reason is the operating leverage sort of benefit that we saw due to the double-digit growth. Like you said I would like to highlight this margin performance has been delivered despite the cost pressure post the Lubrizol tie-up, so overall we have traditionally been very conservative with certain margin guidances while we have always been and continue to be hungry for higher margins, the performance in this quarter is a testimony of our hunger for higher margins. Going forward, we will continue with conservative projection, but with the product mix improvement and operating leverage benefits due to aggressive network expansion, I think we have enough and more levers for margin growth going forward.

Nehal Shah: Yes, I think that is very helpful. Secondly, as Parag bhai also mentioned budgetary outlay what has been coming in from the finance minister with respect to rural and urban JJM, I think we are looking at a big driver even as far as branded players is concerned considering that there is a big consolidation drive, which is continuing and which may exist for some more time, so what kind of opportunity are you looking for the top 4 to 5 branded players going forward with this kind of budgetary outlay?

Nihar Chheda: Before I get into specifics, I would like to say that this kind of government focus on the piping sector can potentially be a game changer. The government vision to provide piped water access across urban and rural households could genuinely accelerate volume growth opportunities in the coming quarters. See broadly the outlay for this project is expected to be around 1 lakh Crore, based on our experience in the past we understand that material cost tends to be around 8% to 12% of the total budget allocated, which means out of the one lakh Crore allocation potentially Rs. 8,000 Crore worth of piping would be required. Now let us assume a bare case scenario that only 30% of this takes place on ground, I think that is still puts us around Rs. 2,500 Crore worth of piping system requirement. Broadly today our industry size is around Rs. 30,000 Crore, so we believe that even in a worst-case scenario the addressable market size would increase by 7% to 8% only due to this Jal Jeevan mission across urban and rural India. Now, I understand that with sort of big picture policies and often there is a gap between the policy and the on ground reality and even we are usually skeptical about such initiatives, but I think this time is different and we are more bullish than usual and I will tell why, I think firstly such orders are generally catered to by regional players who have moved out of the market post-COVID due to major inventory losses and now inability to source PVC. I think these orders is now bound to come to big branded player like Prince and we have already started seeing green shoots of demand in the last quarter. Secondly, we also now have a very strong manufacturing network with 7 plants across the country. Now, we can be competitive across all the markets of the country and strike these orders, hence I think at this time we are more bullish than usual about the Jal

Jeevan mission opportunity, which could potentially increase the size of the market by 7% to 8% in the worst-case scenario as well.

Nehal Shah: Great, another followup here would be whether the requirement of this mission would be BIS standard pipes or probably their requirement would be lower quality products any hints on that because that is where if at all the requirement is on the quality side that is where I think top brands will come into contention?

Nihar Chheda: Yes, absolutely, the government is always going to be BIS governance, so that is a good thing for us as well.

Nehal Shah: Great. Thanks and all the best.

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

Achal Lohade: Congratulations team for the great show on the P&L as well as balance sheet. My first question is with respect to the industry growth, can you help us understand what the industry growth in the third quarter has been as well as 9 months in your opinion. I know it is hard to put a number, but still from a direction perspective is it looking better, or is it steady what it was in the second quarter and in terms of the CPVC product, is it possible to put any number in terms of the contribution post the Lubrizol tie-up?

Nihar Chheda: So, the first question in terms of industry growth, I will give you direction. I think quarter one and quarter two obviously semi-urban and rural part of the country was doing better, and I think what has happened in quarter three is that, that part of the country continues to do better and urban India has now started doing really well as well everyone knows the kind of bounceback that real-estate has had in the December quarter I think that has had a compounding impact. As far as where we versus industry growth, I think for the past two or three quarters at least we have been able to significantly outpace the industry growth, I think majorly due to the two reasons, one is of course the Lubrizol tie-up, which gave us a further boost in the plumbing segment and SWR segment overall and second is we have been on an aggressive network expansion drive where we mentioned in the opening remarks 250 new distributors added year to date and 100 new distributors added approximately in the third quarter, so I have no idea in terms of try to quantify industry growth, but I think things are moving in the right direction especially with the real-estate the way it is rebounding. I think this looks to be more sustainable than just one or two quarters of pent-up demand.

Achal Lohade: Any particular number you have in mind in terms of what kind of distributor addition you are looking at and are these in the pockets where we did not have the presence or is it also a little bit of cannibalization in your opinion?

Nihar Chheda: Yes, I think like I said 250 new added in the year and out of that 100 in quarter three, we have done some rationalization as well, so this puts up at more than now 1,500 channel partners across the country, whatever distributors we have added largely I would say in pockets where we were weak, we keep saying this quality and reach of the network is more important than the number of distributors and we have added distributors in markets where we had minimal network or very weak network certain that is the positive in terms of sustainability of growth going forward. Of course you tend to add distributors in markets where we are strong as well, but the intent clearly is to add distributors in markets where we are not that strong, which of course is obvious that we would obviously want to add distributors in markets where we are weak, but that is not as easy to do because our brand presence have not there is those markets in the certain pockets in certain states, so it will take time, but we are patient with it and I think it has already started reflecting in the performance I would say.

Achal Lohade: Right, in terms of, you said about weak presence is it possible to point out, which specific pocket you think where we could see fair amount of addition in terms of the distribution?

Nihar Chheda: Sure, I think east of course is one important market because it is a faster growing market has been for us over the past, I would say three to four years and there are still pockets where we need to improve, and I think parts of central and South India also is where we need to focus. Of course, north and west we already have maintained that those are our if I can use the word our home market, so traditionally we have been stronger in those markets just as a function of our manufacturing presence has been. So, I think east of course is a focus because of the kind of results it has been driving for not only us, but for the industry I would say and central and south is the market where we need to improve versus what market potential is or versus where competitors are today.

Moderator: Thank you. The next question is from the line of Mitesh Jain from Birla Mutual Fund. Please go ahead.

Mitesh Jain: Good morning, Mitesh over here and congratulations for Parag bhai, Nihar and Sharda, I think wonderful performance and happy to see the way company progressing. I have two questions, number one is on the CPVC side, I know you would not be able to comment or give exact number, but I would like to ask in the CPVC segment growth for Prince during Q3 is higher than the industry growth at least this much you share as directionally I want to know this is point number one and secondly on the ads spend, which you did from your remarks it looks like it was opportunistic in the sense there were inventory gains and you deployed those gains into more advertisement, but going ahead, Nihar would it be a run rate that we are looking at or again it will come back to normal level of Rs. 40 Crore, Rs. 50 Crore per annum size, these are two question and thank you very much.

Nihar Chheda: Firstly on CPVC, I think there is absolutely we beat industry growth for Q3 in CPVC overwhelmingly in the B2C and B2B segment because in B2C we have started cross selling in at least markets where we are strong and B2B, which was not a part of our base actually we have started working with the few developers in urban India, so definitely growth I would say undoubtedly would be higher than the industry growth and the response has been very overwhelming as we said just earlier so that is on the CPVC bit, as far as branding investments are concerned, I think that is a good question, this is definitely was opportunistic because we course corrected in the middle of the quarter looking at the inventory gain, so I think going forward we will be committed to branding and you know the good part for branding is the end of the day is discretionary so we always have that sort of lever to when to pull, when to stop, when to push in the middle of the quarter depending on how the performance looks like, so if there continues to be these sort of levers our margin expansion continue to play out for us, we will not shy away on investing in the brand, but I think in the next one or two years for us a crucial in terms of building the brand for the long-term, so we will not shy away from aggressive branding investments as long as the business model supports us, post Lubrizol tie-up, I think as far as we are concerned on Lubrizol for us, if the business model is supporting us we will go ahead and make those investments and like I said, we can pull back if the quarter has been lean or anything like that.

Mitesh Jain: Wonderful. Fantastic and I would also like to comment what Parag have mentioned in the opening remarks, of very, very clear focus to resolve those issues and we can clearly see us getting out of all this, so thank you very much and all the best.

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

Madhav Marda: Good afternoon and congratulations on a terrific performance. Really happy to see the way the company has done in the last few quarters. So, my question was on the government program, that they are bringing about what kind of products typically go into such projects by the government are they more in HDPE pipes or PVC pipes, what sort of pipes get used here that was the one part of the question and the second part is why are traditional regional players catering more to this demand is it because pricing isn't great from the government?

Nihar Chheda: Sure, so on the first part of your question, it is a mix of PVC pressure pipes on the plumbing and the agri side what we have typically seen been used for such water supply projects and like I said we have already started seeing runs in previous quarter and that has largely been PVC for us, there also could be HDPE, which could be used, but till now we have seen PVC largely being used for this being such a versatile polymer. Secondly, as far as regional players, one of course having local manufacturing capabilities always helps because PVC is freight sensitive, logistic sensitive, so they would definitely be more competitive because of their local presence, some government I would say in my experience also have it in their tenders, they would give a preference to plants in the local state or in and around the local state, so we have also seen that, so the two reasons largely are one is the competitiveness due to freight factor and second is some governments would also like to foster the local industries and would give at least the preference to the manufacturing plants within the state.

Madhav Marda: Understood, perfect and my second question was, could you help us understand the demand that you would have especially for plumbing pipes going into this year, do you think given that metros, etc., are just starting up now, so could there be an element of pent-up demand in 2021 and also in the water tanks any thoughts how the business will scale up in the coming years?

Nihar Chheda: The way the past few quarters have been I think we are fairly optimistic I would say going forward and like you mentioned I think urban metro seem to now are not only recovering, but are growing and whatever interactions we had with our key developers who we work with, there seems to be more sustainable and not just there for one quarter of pent-up demand, so I think big picture, we are fairly optimistic for plumbing and SWR part of the portfolio going forward because of the recovery that urban India has seen and the good part is you know we have entire range now right from our PVC plumbing pipes, SWR pipes, PPR we have always been market leaders and with CPVC, we have best in class product with Flowguard Plus coming in and what we noticed is that these developers want to work with one brand and who is able to give them an end-to-end solution for the entire basket of products. So I think we are fairly I would use the word optimistic going forward on the plumbing and SWR market. The second question was on tanks, so what we have done in the past few quarters is, we have used the combination of inhouse and outsource manufacturing. Tanks being even more freight sensitive I think it is important to have right manufacturing network, so we have worked on building that manufacturing network, of course the sales number right now is too small to even make a material impact on the balance sheet, we do have our internal roadmaps as to where we want to be, but I think for the external sort of stakeholders I think we would be able to give a better flavor or better colour on the way forward and when they could start making a meaningful impact on the balance sheet by the end of this year, I think by March we would be comfortable giving visibility on where we could be two or three years from now.

Madhav Marda: Got it. Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Pritesh Chedda from Lucky Investments. Please go ahead.

Pritesh Chedda: Congratulations for good set of numbers. I had two questions, one on growth and one on margin, so hearing your commentary initially on your stress on this Jal Jeevan missions drinking water and the buzz on the housing segment, do you foresee a situation where this 18% to 20% volume growth might sustain for a couple of years?

Nihar Chheda: Pritesh, as far as volume growth is concerned, we are very bullish on the Jal Jeevan mission being a great demand driver for the entire industry I would say just given the pure scale of the opportunity relative to the market or the industry size today and since we have already started seeing demand on ground, I think that is really, really encouraging for us as far as volume growth going forward is concerned. It is hard to again quantify it, is it possible for this type of growth to continue absolutely, I think that is what we are hoping for, but that is not something we would like to guide people at, but that is I would say a possibility give the sought of demand drivers we are seeing not only from the Jal Jeevan mission, but also in terms of recovery from real-estate that we see across the country today.

Pritesh Chedda: So, at least the trajectory of growth that you saw in the last 3 to 4 years and the trajectory of growth that you will see in the next three years will be higher at least directionally it should be higher, we can conclude that much?

Nihar Chheda: That is a tricky question, I think if there is a good possibility, absolutely given the opportunity that there is, but we would not want to guide at that rate.

Pritesh Chedda: My second question is on margins, so you have mentioned that there are few levers where the margins can be higher than 16%, just trying to put the other way we did about Rs. 21,000 per tonne as the EBITDA on the portfolio that we had adjusting for the inventory gain at that 16% margin, now this number is about Rs. 3,000 to Rs. 4,000 higher than what we would have done last year and then we mention that we have CPVC to flow into the margin, but I am looking at the peer who do CPVC alone, the margin was about 14% to 15%, so should we take this 21,000 per tonne as a number incrementally for the margin or we want to help us otherwise?

Nihar Chheda: Yes, I would like to give more colour there, I think we will continue to be conservative with margin guidance going forward, so there are multiple levers, but they all need to play out and we rather let the numbers do the talking I think as of now we would still like to be conservative with margin guidances I think like we have and then we are happy to exceed expectations, but I think we will continue to be conservative with margin guidance.

Pritesh Chedda: Just one clarification, does the Telangana facility, which comes up in south helps you on saving logistics cost and if yes, how much of extra EBITDA per tonne or margin does Telangana facility gets us, I am hoping that the southern market was not serviced by Telangana is that fair?

Nihar Chheda: The Telangana facility will mainly be for South India and parts of East India states like Odisha and West Bengal, today the markets are serviced by the Haridwar plants especially for the fittings part of the portfolio, so couple of advantages there one of course decentralization will help us as a lever for margin expansion and second aspect it will also improve the supply chain by us giving faster deliveries to our distributors and they can focus then on keeping lower inventory and optimize their working capital end of the day if our channel working capital improves our working capital will improve as well and with those sort of local supplies that also usually bodes well for market penetration as well, so definitely it is going to be lever for margin expansion once the sales ramp up closer to our higher capacities that we want to build there, which will happen in a phase wise manner depending on the demand scenario, so it is really hard to quantify what EBITDA per tonne benefit that we will get from this, but there will definitely be a benefit on this not only on the margin, but also on the balance sheet and also on the volume penetration once our phase wise expansion is complete.

Pritesh Chedda: What freight cost do you say instead of sending it from Haridwar?

Nihar Chheda: So, I will give it to you in percentage term, freight traditionally could be anywhere between 4% to 6% from any plant just as the thumb rule that could be brought down to 2% to 3% with local supplies.

Pritesh Chedda: Thank you and all the best wishes.

Moderator: Thank you. The next question is from the line of Varun Arora from Safe Enterprises. Please go ahead.

Varun Arora: Thanks for the opportunity. My question is regarding working capital, so we have seen a sharp improvement in working capital for the company as well as for the industry I mean all players have reported a significant improvement in working capital, so I just want to understand what is aiding in this working capital, can you comment regarding the sustainability of this working capital improvement and if you can give some guidance on target that you have in terms of working capital days looking ahead?

Nihar Chheda: See, on working capital I think there are three parts to it obviously, one major reason has been that we have been able to have a discipline sort of debtor management despite that the kind of volume growth we have delivered one of the major reasons for a sharp decrease has been the inventory that we have been able to liquidate. So inventory days traditionally is between 60 to 70 days, which this time has come down to 46 days, if 46 days as inventory days a sustainable number, we would like to like to keep more than 2 months of total inventory given the nature of the industry, so I think anywhere between 45 to 55 days of working capital should be a fair guidance going forward, of course we are working very closely to bring this number as down as possible, I think we have been successful to structurally improve our working capital over the past 3 or 4 years and the intent to further reduce it from here, but realistically in the immediate term, working capital requirement could be anywhere between 45 to 60 days.

Varun Arora: And you mentioned that you are looking to tie-up with some of the developers selectively can you give some more colour in terms of what kind of these developers are there geography wise where are you focusing, what does it mean for your receivable days?

Nihar Chheda: As far as B2B is concerned, it is very important for us now given that it is not a part of our base at all or may be around only 10% to 15%, which is not the industry norm, so obviously we need to bring it higher than what it is today in terms of contribution to the topline, this will not happen overnight simply because we are being selective with the kind of developers that we want to work with and a lot of this actually relationship building and building that PR with that value chain, our current value chain we are more focused on our relationships with our distributors and retailers and plumbers whereas this segment of course that the key influences I would say are the plumbing consultant, contractors and in some case the developers themselves in maybe smaller tier 2, tier 3 cities where the decision making is done by the developers themselves, so anytime the relationship building involved you are not going to see immediate ramp up in terms of impact on the balance sheet, but 2 or 3 years from now I think our B2B contribution for our overall portfolio should be significantly higher than where it is today, I do not think it will have a material impact on working capital as far as receivables are concerned simply because this is something we are very, very selective with, that is top priority for us so we will not do anything, which would risk our receivables pattern in a significant way.

Varun Arora: Sure, alright. Thank you so much.

Moderator: Thank you. The next question is from the line of Dhruv Bhimrajka from Bharti AXA General Insurance. Please go ahead.

Dhruv Bhimrajka: Good afternoon, Sir, and congratulations on good numbers. Sir, if you can give me the advertisement and sales promotion expenses for the first three quarters, for each quarter if you can give that information, please?

Nihar Chheda: It will just take us a minute do you have another question until we get the data point?

Dhruv Bhimrajka: Yes, just one thing I want to ask again is that you just said that the working capital cycle, which for 9 months FY2021 has been 28 days, you see it coming back to 45 to 60 days, is that correct?

Nihar Chheda: Yes.

Dhruv Bhimrajka: And how do you see that range coming in will it take you another year or two years or should that be back in another two quarters, how do you see that band coming again in how much time?

Nihar Chheda: Let me give you some more detail here, 28 days right now is because the inventory is at 46 days that is not a sustainable number because our finished goods were very, very low, our finished good inventory were very, very low at the quarter ending simply because of the demand that we were able to drive in that quarter, inventory tends to be more than 2 months at least so that is the only difference, we will continue to have very strong discipline on the debtor days.

Dhruv Bhimrajka: Sure, got it.

Nihar Chheda: Unfortunately, we are not able to get that data point, we will come back to you one-on-one post the call with the Q1 and Q2 A&P spends.

Dhruv Bhimrajka: No problem, I will drop a mail to Mr. Sharda and may be then he can reply whatever they are?

Nihar Chheda: Sure, thank you.

Dhruv Bhimrajka: Thank you so much.

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

Sneha Talreja: Good afternoon, Sir, and congratulations on great set of numbers. My question was more pertaining to the growth segment wise, so in this particular quarter is it safe to assume that plumbing has done much better, which has also added to benefit and specially if you could give some direction on the CPVC growth how it has been after Lubrizol tie-up?

Nihar Chheda: Demand has clearly been driven by the plumbing and SWR because of the real estate performance that we have seen, agri of course I think industry wide anyway Q3 is a lean quarter and given the PVC prices I think some of the agri demand definitely have been postponed and waiting for a price correction so that is as far I think it is very clear that plumbing and SWR have driven the sales, which why the product mix also has been favorable and contributed positively to the gross margins. Your second question on CPVC, we had received an overwhelming response on CPVC, and the response is reflected again in the performance. We have been able to cross sell very well, retailers who were only buying PVC from us previously have also started accepting our CPVC because of the kind of brand power that we have been able to build and more importantly as far as B2C is concerned is after this tie-up a lot of distributors across industry have actually approached us, you know we already have a high base in terms of number of distributors, but we have been able to build on that because of this kind of response that we have got from the primary distribution network as well simply because for them as well it is very important that they are associated with a company that has the entire range that is not limited to their product catalog, but is actually selling in the market. Our PVC obviously is doing very well in the market because of our first mover advantage and now with the Flow guard tie-up even distributors recognized that this is potentially a lethal combination of having Prince as first more advantage in PVC and Flow guard strong brand equity in CPVC, so as far as B2C is concerned it has been an encouraging growth that we have had at both the primary and secondary level which sets up very well for the next 1 or 2 years and secondly on the B2B side like we have been saying we started to work there with the few developers, but that will take some time to trickle in.

Sneha Talreja: So, that number would be very low right, project sales as of now for you as a percentage of your sales?

Nihar Chheda: Yes, we have improved somewhere where we used to be, but we have a long way to go.

Sneha Talreja: Any numbers that you can see because earlier if I am not wrong it was almost zero?

Nihar Chheda: No, it was around 10% and given the way the B2C also has done for us, I think it would not be very much higher than that number may be 10% to 15%.

Sneha Talreja: Sure, my second question was related to distribution, so you have shown an impressive growth in terms of addition of distribution, just wanted to understand few more points on this, was it mainly in South India, I think you clarified of east and focus on central and South India, but could you give some sense as what would be the addition in South India and second most important thing the number of distributors that you have converted even for CPVC price for example, existing PVC distributors who have right now even started taking CPVC from you, some number there?

Nihar Chheda: Yes, let me clarify, when I am talking about cross selling that happens as a secondary level, all our distributors even previously used to buy our entire range, it is just that now at the secondary level the retailers who buy from my distributors would maybe rely on Prince only for PVC and were relying on another brand for CPVC. Now Flow guard coming in our cross selling has improved at the secondary level of the value chain. In terms of number of distributors added, I would not be able to give you how many distributors are added zone wise, but overall, 250 for the year, 100 for quarter three and quality of distribution network is something, which is very, very important for us and we want to be aggressive with network expansion going forward in the long-term as well.

Moderator: Thank you. The next question is from the line of Siddhant Dand from Goodwill Warehousing. Please go ahead.

Siddhant Dand: Most of my questions have been answered and congratulations on the good results. I just wanted to know do you have any plan for backward integration and why do not have any major backward integration unlike our competition?

Nihar Chheda: So, as far as I know it is not a trend that we are backward integrated in this business. We have no plans of backward integration, our focus is on expanding the distribution network, expanding our product portfolio, I think going forward we want to introduce some niche products, which would high margin products, which would again be a lever for margin expansion, so we are not exploring backward integration at the moment, I think there is enough supply of PVC globally and as far as CPVC is concerned, now we are associated with the strongest brand who plans to even improve their supply security in India even further from where we are today, so I think for us supply security is concerned we are very, very strong relative to the industry and backward integration being fairly capital intensive, I think we would like to stick to what we know best in terms of improving our network and improving our range of products that we are offering to the market.

Moderator: Thank you. We will take the next question from the line of Rajesh Kothari from Alf Accurate Advisors. Please go ahead.

Rajesh Kothari: Good afternoon, Sir. Parag bhai, Nihar bhai, and the entire team congratulations for the great set of number. I think the management has time and again proven the execution capabilities both in terms of not only delivering industrial leading growth, but also very importantly efficient working capital management. Paragbahi, my question is if you look at for next 3 to 4 years, how do you see the company in terms of volumes and how do you see the sustain profitability levels and my question is also with reference to the east market where as you rightly mentioned even in your presentation that is the fast growing market and of course all eyes are on the east market, but currently we do not have right now plant in the eastern market, so are you now planning for the next level of capital expenditure as the growth continues to remain high and my second question is with reference to the government demand what you mentioned I think about Rs. 2,500 Crore, I understand that will be spread over 5 years and not one year, so it will be 2% of the industry rather than 6% to 7% kindly correct me if I am wrong?

Parag Chheda: Thanks Rajesh for your good wishes. I think in the next 3 to 4 years we would want to see the way we were few years back, we were in the top 10 list, we have moved from that and now very, very aggressively in the top 5 list. We shall continue to be perceived as the fastest growing company in the PVC industry, so our focus shall continue in the building material segment as well. Now, talking about east, yes, we have the asset light model, which has been successful so far and we shall continue to focus on the eastern market where the business opportunities are very interesting for us. Talking about your second question on the government demand, yes, that is true, that it is spread across in about 3 to 4 years time, but we have to understand that it not just one off these initiatives, but there are such various government initiatives whether it is 100 smart cities, whether it is Amrut scheme, so many are there, there are various government initiatives, which is focusing on infrastructure as well as on the agriculture sector.

Nihar Chheda: If I can add to that Rajeshbhai, we have taken a bare scenario even if 30% of this Rs. 8,000 Crore happens that would be a Rs. 2,500 Crore opportunity over the next 3 or 4 years, so even the worst-case scenario 2% just from the Jal Jeevan mission assuming that real-estate and agriculture demand, which are other drivers remain status quo that is a pretty significant number in the worst case scenario as well.

Moderator: Thank you. We will take the next question from the line of Karan Bhatelia from Asian Market Securities. Please go ahead.

Karan Bhatelia: Thank you for the opportunity and congrats for a great set of numbers. Sir, just wanted to understand currently are we seeing channel de-stocking in anticipation of decent correction in the PVC prices?

Nihar Chheda: I think that is a good question, what has happened is we have from August has been expecting a correction in PVC, but it is just keeping going up and I think even with now Formosa increasing their pricing in this month and with shut down expected for maintenance activities at one of the local PVC plant, I think PVC should hold good in the immediate term, so there has been this I would say volatility in sentiment from distributors, but that has been something since August because people have been expecting PVC to soften, it has just never softened, whatever people are expecting the opposite is happening. So yes, the quarter started of with a slightly low sentiment, but again with Formosa increasing their offer prices and now with the Reliance having a shut down in the March month for one of their plants, I think PVC should hold good in the immediate term is what we believe.

Moderator: Thank you. We will take the next question from the line of Sameer Shah from Value Quest Investment Advisors. Please go ahead.

Sameer Shah: Congrats for good set of numbers. I also had a similar question, so from the company point of view what you said is from the distributors point of view, but from the company point view how does inventory management change in this kind of scenario and secondly on the pricing front also, I think last pricing action you took last month, so do you need to take more pricing actions or how if you give some more color?

Nihar Chheda: As far as pricing action is concerned we are a pass through industry, so whenever there is an increase or decrease in raw material we pass it through immediately with full effect, so as far as pricing I think we will need to alter our prices only when raw material prices alter and as far as inventory management is concerned, I think it is a very dynamic thing, I think with PVC at these level it is something that we have been very prudent and conservative with. I think that easily could have been some more risk appetite and we could have had higher inventory gains in December quarter, but end of the day this is not our business model, we are not traders, so it is something that we have chosen to be very prudent with and we would not want to take positions that this price, we are just trying to buy and improve our coverage to ensure supply security for our channel at all times even if there is a surge in demand, but it is something that we have to be very conservative with, we cannot operate under greed or fear, we just have to ensure supply security for the channel because volumes and satisfying our channel is obviously the top priority in such a scenario.

Sameer Shah: Right and Telangana plant operations if you can give an idea is it fully operational or how will ramp up be?

Nihar Chheda: That is a good question, the initial capacity is obviously significantly low at around 4,000 tonnes for installed capacity currently. We obviously aim to ramp this up in a phase wise manner. I think we should have a next phase ready in quarter one and the following phase ready in quarter two, this would be the initial two phases. Of course, that would be dynamic given the demand scenario if it supports us we are happy prepone it as well, but that is where we are. The focus is on fittings, so the current capacity also setup is purely fittings given that we are already running with hand to mouth utilization in the peak seasons at Haridwar and Athal plants for the fittings, so current is also only fitting, the quarter one sales, also will be only fitting and in quarter two we will also try to get the extrusion capacity setup.

Moderator: Thank you. We will take the next question from the line of Maulik Patel from Equirus Securities. Please go ahead.

Maulik Patel: Thanks for the opportunity and congratulations on good set of numbers. Just a followup question on one of the earlier participants, on CPVC did you had any disruption when you moved from your own CPVC to Lubrizol in the previous quarter?

Nihar Chheda: I am sorry, can you repeat?

Maulik Patel: Did you had any supply disruption or the pipes going to the distributors was there any disruption in the Q2 when you wanted to move to the Lubrizol?

Nihar Chheda: Yes, it was a planned thing, I would not call it disruption of course we work to liquidate old inventories of the non-Flow guard CPVC that we had and obviously those things do not happen as smoothly as we would like, so those overlaps happened, but I think that was part of the Q2 performance and Q3, we have been able to really ramp up the CPVC business well and now our tie-up with Lubrizol I think we have the best supply security to fulfil our aggressive growth aspirations in the next 3 to 5 years as well with now Lubrizol announcing their backward integration in India, I think we now have a very good opportunity to make some formidable move in CPVC over the next 3 to 5 years.

Maulik Patel: I have missed that Lubrizol announcement of backward integration; can you just highlight and if they want to setup a CPVC resin plant in India at Dahej?

Nihar Chheda: Yes, I am happy to forward the press release to you after the call, we have tied up with an Indian partner to setup CPVC resin in India, they were importing and then compounding at their facility in Dahej, now they will backward integrate manufacture resin in India and then compound it at their Dahej facility and this sets up a very good capacity for us, which will really be able fuel our growth aspiration over the next 3 to 5 years.

Moderator: Thank you. We will take the next question from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah: Congratulations again for good set of numbers. I had a couple of questions, the differential between PVC and HDPE has widened a lot, are there any applications from a water perspective wherein there can be a shift in polymer utilization from PVC to HDPE that was the first question?

Nihar Chheda: That is a great question, Ritesh. Yes, the gap has widened significantly, and this talk has been going on for one or two years actually, as PVC had traditionally been at a higher level than where it was, I think it is too early to comment. Definitely make sense on paper given where pricing is that of HDPE versus PVC, so on paper it does make sense, I think only time will tell whether this will actually pan out in the marketplaces.

Ritesh Shah: But are there any applications or any diameter of pipes wherein this contribution something which can happen over longer 10 years the spreads had to sustain at prevailing levels?

Nihar Chheda: Yes, I would say for water supply, that is the one specific application, where we have seen HDPE do better in terms of acceptability, I think water supply especially over long distances is where I think HDPE could grow faster.

Ritesh Shah: That is useful. My second question is on CPVC pricing. Post Lubrizol I assume we would have increased prices would you provide some flavor on how the pricing differential is versus non-Lubrizol players and has that help to advantage say from a market share versus profitability point of view, thank you so much?

Nihar Chheda: That again is a pertinent question I would say, yes, we did take a first round of price increase in the past few months as soon as we got the Lubrizol product, I think we need to take few pricing revisions upward in the time to come, the focus of course is on maintaining that balance between pricing and volumes, but as we are investing in branding, I think there is definitely an intent to move from being value focused to premium. Lubrizol tie-up is the one such step in a series of other steps that we have taken to preimmunize and the goal is in the long-term we want to be the premium brand of the industry and we want to move from being value focused and of course that will not happen overnight, it will take a lot of time, a lot of effort, but I think the intent is clear and we are moving in the right direction.

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

Shrenik Bachhawat: Congratulations on great set of number. Sir, I just wanted to get a sense on agri demand, so if I am right, agri demand season is from February to June and we know that agri demand has been weak due high prices, so can it impact the current quarter?

Nihar Chheda: Yes, I think agri it's February to June, July is where agri is at its peaks, I think with all these initiatives and the way the economy has been moving and the monsoon season also has been fairly robust, we expect the per capita income in rural India to also be healthy and that traditionally translates into a robust agriculture season, so I think agri demand will be strong going forward, the one tailwind of course is PVC prices, I think at this pricing we have seen postponement of demand, but it is almost now how long can they wait sort of situation because PVC just continues to remain tight, so I think it is not a question of if, it is a question of when agri will pickup and when it does, I think there could be a situation of very, very robust demand seen from the agri sector as well.

Shrenik Bachhawat: Thank you and on PVC resin just wanted to understand how many days of inventory do we keep for PVC resin in order to understand if you can have inventory losses when the price goes up?

Nihar Chheda: Yes, it is across something dynamic in such a scenario we want to work on as low inventory as possible because clearly there will be a structural change downward in PVC. When that happens of course is the golden question and it is a very tight line for us to follow because we cannot compromise on supply security, we have to keep feeding our channel come what may because we want to be the fastest growing company the way we have been over the past few years, so supply security is top priority and we will look to minimize the inventory loses, but it is a fine line that we have to sort of thread. In terms of inventory days, it depends, if the plant is fed by local supplies from Reliance and Chemplast, we would keep just in time inventory of around 3 to 7 days of inventory and import traditionally we could keep anywhere between 3 to 5 weeks of inventory, so it is something that we are managing and tracking very, very closely in such unprecedented times.

Moderator: Thank you. The next question is from the line of Chetan Gondaliya from Alf Accurate Advisors. Please go ahead.

Chetan Gondaliya: My question is with regards to fittings, you said that in the eastern market we are outsourcing some of the quantity, if you could quantify how much we are outsourcing currently in the eastern market and at what level would you be comfortable setting up a plant in the eastern market?

Nihar Chheda: I think outsourcing, I would like to clarify for the eastern market is only for one product, which is the non-pressure PVC pipes, this is a calculated call taken by the management because this is the most freight sensitive product and it is also the entry product, which gives us entry into retail counters so we want to be the most competitive in this product, the rest of the product portfolio like CPVC pipes or PVC fittings is catered through our Haridwar plant, which is of course well placed to penetrate North and East India for products, which are not as freight sensitive. I think we do have our internal roadmap as far as east plant; I think it has been one of the fastest growing markets for us and we do want to setup a local plant there. Internally, we are brainstorming as to when that would be, I think again by the end of this year, when we have the call for the March numbers, we would be able to give a better visibility in terms of timeline for East India, but that is definitely on the cards for us given the kind of response that we have and we are a top two brand for East India in terms of market penetration, so it is only a question of when.

Moderator: Thank you. The next question is from the line of Ritesh Badjatya from Asian Market Securities. Please go ahead.

Ritesh Badjatya: Thanks for the opportunity and congratulations entire team for the great performance. Sir, my question is with regards to our Q3 strong volume performance, so just wanted to understand is there also element that some strong players as well as other regional players also started late in couple of the metros and tier 1 city post the lock down, so that has also benefited us in this strong volume along with our dealer addition and other strategies and if this is the case then is it possible for you to give a month wise growth for Q3 and how this quarter is going ahead?

Nihar Chheda: I think it is a great question, I think the market consolidation is something that has been a constant theme for us and has been a constant driver of demand growth for us over the past few quarters and I think quarter three was no different in terms of market consolidation driving growth for us among many other reasons for volume growth. As far as month wise trend I do not think it is fair to give those types of trends to the market I think only a quarterly trend is what important, we have been growing uniformly month-on-month and I think we would like stick to being prudent and only giving quarterly numbers to the market.

Ritesh Badjatya: Sir, if I can squeeze one more, so just wanted to understand your SKUs related strategy that going ahead like we are focusing more on the value added and premium product, so that will somehow improve our inventory days in terms of improving working capital, so we can concentrate more on lesser number of the SKUs, but the premium SKUs?

Nihar Chheda: I think we have always been very clear as an organization of course working capital is a top priority for us and that is mainly in terms of debtor control, I think the sustainable way of improving your working capital is by getting a discipline on your debtor days. As far as inventory management is concerned, our business availability is king so the focus is not always on reducing inventory for the sake of working capital, but how do I improve my sales penetration keeping inventories at the current level and that can come only with the adoption of better tools, better technology for production planning, for demand planning and for demand forecasting and we are on the way of adopting these technologies in this medium term, which would help us to improve market penetration keeping inventory numbers stable. Our range is our forte, we are where we are today because of our presence across multiple polymers and multiple applications, so there is never a thought to us that we want to reduce number of SKUs to improve working capital, we want to keep improving our product portfolio so that we are a one stop shop for our channel. So, in concluding our range is very important for us and we want to be a one stop shop for our channel and we will continue to improve the range of the product portfolio that we have today.

Ritesh Badjatya: Thanks, Sir. That is all from my side.

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

Achal Lohade: Thanks for the followup. I know the call has got extended, just wanted to clarify, you said the freight cost is 4% to 6% of revenue, however, if I look at our expenses FY2020, it is roughly about 1.2% to 1.3% of revenue, so what I am missing, are you talking about a particular stretch or for the company as a whole when you say 4% to 6% or is it the freight cost is also picked up directly by the distributor?

Nihar Chheda: Firstly, the main important part is that the freight cost for us that we show is only for our raw material to our plant and then from our plant to our depo wherever we have depo, otherwise the major freight cost is actually on a to pay basis it is borne by the distributors, but it has a net impact on our books as well because if the freight cost reduces, we can be competitive while still being profitable.

Achal Lohade: Of course, I take that point, I just wanted from the number perspective and just if you could help us with the debtors, creditors, and inventory absolute numbers as of December and how much IPO proceeds lie in the bank?

Shyam Sharda: Achal, as on December 31, 2020, FD of Rs. 134 Crore is what is being parked and we have Rs. 188 Crore, which is being from our internal sources so in all from what has been parked from is total of Rs. 134 Crore plus Rs. 188 Crore that is the total amount that we have.

Achal Lohade: Right and debtors, creditors, and inventory?

Shyam Sharda: In terms of debtors, it is Rs. 187 Crore as on December 31, 2020, inventory is Rs. 217 Crore almost Rs. 320 Crore of cash and other balances and Rs. 22 Crore is cash equivalent.

Achal Lohade: Sorry, creditors, I missed that amount, what did you mention?

Shyam Sharda: Rs. 183 Crore for creditors.

Achal Lohade: Got it and what are the extent of channel financing as on December 31, 2020?

Shyam Sharda: Rs. 63 Crore is channel financing.

Achal Lohade: I think this is super helpful. Thank you so much.

Moderator: Thank you. The next question is from the line of Siddhant Dand from Goodwill Warehousing. Please go ahead.

Siddhant Dand: My question was regarding our competition called SWR, so do you have any non-compete agreement with them because there may be the risk of competitor acquiring your brand and that could end up cannibalizing us?

Nihar Chheda: No, there is no such non-compete in place.

Siddhant Dand: Thank you.

Moderator: Thank you. The next question is from the line of Karan Bhatelia from Asian Market Securities. Please go ahead.

Karan Bhatelia: Thank you for the followup. Sir, is it right to assume that because CPVC and PVC pricing delta has come up significantly and that is where we are seeing higher growth in the plumbing and housing segment?

Nihar Chheda: Partially yes, I think for such structural changes to happen it takes time, it cannot happen over the course of one or two quarters and I think CPVC also, the pricing will increase because CPVC is made out of PVC, PVC is a big stock for CPVC, so I think in the coming few months CPVC prices also should structurally increase if PVC continues to be at such level and for any cross volume or cannibalization to happen, it cannot happen in just one or two quarters, that delta has to remain for 3 or 4 quarter for structural change to happen so I think it is too early for that to happen in our view.

Karan Bhatelia: Right, I believe the price alteration for PVC happens every fortnight, so how is the case with CPVC?

Nihar Chheda: CPVC is more stable, the changes happen may be once a quarter depending on the overall demand supply scenario.

Karan Bhatelia: Thank you. That is it from mine.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the conference over to the management for closing comments.

Nihar Chheda: Thank you to all participants and thank you to the Dolat team for arranging this. Thank you all.

Nidhi Doshi: On behalf of Dolat Capital, we thank the management team of Prince Pipes & Fittings for taking out for the call. We also thank the participants and hope the call was useful to you. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Dolat Capital that concludes this conference call. Thank you for joining us. You may now disconnect your lines.