PRINCE
PIPING SYSTEMS

PPFL/SE/2024-25/066 February 17, 2025

To,

BSE Limited
25th Floor, P.J Towers,
Dalal Street, Mumbai-400001

National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex,
Bandra (E), Mumbai -400051

Scrip Code: 542907

Scrip Symbol: PRINCEPIPE

Dear Sir/Madam,

Sub: Disclosure under Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI LODR") – Transcript of Conference Call held on February 12, 2024

In continuation to our letter No PPFL/SE/2024-25/058 dated February 06, 2025, please find enclosed herewith transcript of the Conference Call for Analyst and Investors held on February 12, 2025.

Kindly take the same on record.

Thanking You.

Yours faithfully,

For PRINCE PIPES AND FITTINGS LIMITED

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PRINCE PIPES AND FITTINGS LIMITED MUMBAI

Shailesh Bhaskar
Company Secretary & Compliance Officer
FCS: 13188

Enclosed: as above

Prince Pipes and Fittings Limited

Q3 & 9M FY25 Earnings Call

February 12, 2025

MANAGEMENT:

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

ANALYST:

Aasim Bharde	: DAM Capital

Q&A PARTICIPANTS:

Gautam Rajesh	: Everflow Partners
Shravan Shah	: Dolat Capital
Sneha Talreja	: Nuvama
Keshav Lahoti	: HDFC Securities
Pritesh Chheda	: Lucky Securities
Amit Agicha	: HG Hawa & Co
Utkarsh Nopany	: BOB Capital
Arun Baid	: ICICI Securities
Jenish Karia	: Antique Broking
Chinmay Nema	: Prescient Capital
Mudit M	: M3 Investment
Ashish Shah	: Business Match

Moderator:

Ladies and gentlemen, good day, and welcome to the Q3 and 9 Months FY '25 Earnings Conference Call of Prince Pipes and Fittings hosted by DAM Capital AdvisoRs.. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Aasim Bharde from DAM Capital AdvisoRs.. Thank you, and over to you, sir.

Aasim Bharde:

Good morning. On behalf of DAM Capital, I would like to welcome everyone for Prince Pipes Q3 and 9M FY '25 Results Conference Call. From the Prince team, we have Mr. Parag Chheda, Joint Managing Director; Mr. Nihar Chheda, VP Strategy; Mr. Anand Gupta, CFO; and Mr. Karl Kolah, Head, Investor Relations.

I will hand over the call to Mr. Parag Chheda for his opening comments. Thanks.

Parag Chheda:

Thank you, Aasim. Good morning and thank you all for joining us for our Q3 and 9M FY '25 earnings call. The presentation and the press release have been issued to the stock exchanges and uploaded on our website. I hope everybody has been able to go through the same.

The December quarter has been a challenging quarter for the industry and specifically for Prince as well. We have never shied away from admitting that our performance is far away from our expectations.

Over the past few months, PVC prices have continued to remain volatile. As you are aware, that PVC prices had fallen by 19% till October, leading to a sustained destocking. Thereafter, prices increased twice by Rs.3 per kg in November on announcement of provisional findings of anti-dumping duty. However, delay in the final findings and implementation in the past couple of months had led to lower spot prices and maintenance of suboptimal inventory at dealer level.

Further, Q3 volumes in the industry and ours were affected by delayed demand and sluggish execution in the infrastructure and construction sectors. Our profitability was majorly tended by lower volumes and high-cost PVC inventory vis-a-vis sales realizations.

We are implementing a wide range of growth strategies on an immediate basis, which will yield returns in the upcoming quarters. Our investments in distributor management system will help us track and forecast end demand more efficiently. Our focus on brand reinforcement and customer loyalty initiatives like Udaan 2.0 on a pan-India basis will help us expand and strengthen customer engagement, thus driving notable volume growth in medium term.

Aquel By Prince, our Bathware vertical continues to expand presence across markets. The Bathware segment is steadily expanding its footprint with new showrooms across Goa, 2 in Jaipur and Pune, in addition to the earlier launched outlets in Haryana and New Delhi. Now we are present in Tier 2 and 3 cities across North, West and South regions of India across more than 200 retail touch points.

Our integrated manufacturing facility at Begusarai, Bihar will be commissioned in this quarter and a capacity of 40,000 metric tonnes in a Phase 1 is likely to go on stream from Q1 FY '26, which will cater to the rising demand in East India, a fast-growing market.

At an organization level, we have been certified as a Great Place to Work, which is an independent concrete evidence of employee experience. GPTW is a global authority to certify organizations across the world. This certification reiterates that Prince Pipes fosters a positive work culture, enjoys high employee satisfaction and promotes sustainable business success, marking a significant milestone for the company. Achieving GPTW status will help attract and retain rich talent while also boosting employee engagement.

In another significant development, Prince Pipes has ranked among the top 2 most desired brands in the pipes category as declared by TRA Research in its Most Desired Brand, 2024. This recognition marks an important milestone for the Prince brand. TRA Research annual rankings are highly regarded by the industry, providing valuable insights into consumer perceptions and preferences for over a decade.

The Union Budget 2025 announced the extension of Jal Jeevan Mission until 2028, with an enhanced total outlay aiming to achieve 100% coverage of portable tap water connections across rural households. It was reiterated that since 2019, 15 crore households representing 80% of India's rural population have been provided access to portable tap water connections under the Jal Jeevan Mission scheme.

Additionally, the Government plans to sign separate MOUs with the states and union territories to ensure the sustainability and efficiency of water service delivery, reinforcing its commitment to a water secure future for all. This augurs. well for the pipes and fittings industry that play an active role by bringing innovative solutions and technologies.

To capture the long-term demand trends, we are expanding manufacturing at key plants, including our latest facility at Bihar, which will go on stream by April.

Before I conclude, I would like to highlight again that we recognize that this quarter performance, both volume and profitability is far from our expectations. While we are accountable to our investors, we are fiRs.t accountable to ourselves. During these challenging times, I'm confident that we will emerge stronger.

Going forward, I believe PVC prices have bottomed out. As the sentiments improve, our volume performance will improve. The various marketing strategies, including digitizing of our value chain will help us gain market share. While improving volumes and product mix, I'm confident that our profitability will improve from the current quarter. Thank you for your time.

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

Anand Gupta:

Thank you, Parag Bhai, and good morning, friends. I'll be taking you through Q3 and 9M FY '25 financials now. Revenue in Q3 FY '25 stood at Rs.578 crores as compared to Rs..619 crores in Q3 FY '24. In a challenging operating environment, we had volume of 41,267 tonnes in Q3 FY '25 as compared to 42,665 tonnes in Q3 FY '25.EBITDA for the quarter stood at Rs.3 crores. We had a loss for the quarter at Rs.20 crores.

Revenue in 9 months FY '25 stood at Rs.1,804 crores as compared to Rs..1,829 crores in 9M FY '24. In 9M FY '25, we achieved volume growth of 4% YOY. EBITDA for 9 months FY '25 at Rs.107 crores with profitability at Rs.19 crores.

Our overall working capital stood at 90 days as compared to 93 days in September and 95 days in March 2024. Receivable have shown marked improvement for the past 2 quarters and now stand at 53 days from 83 days in March end. Inventory days stood at 102 days as on December end.

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

Moderator:

The first question comes from the line of Gautam Rajesh from Everflow Partners.

Gautam Rajesh:

I had a few questions. My first question was why is the margin profile of the company changed significantly over the last few quarters.? What is likely to be the steady state of EBITDA margin that we are targeting?

Nihar Chheda:

Yes. So, a couple of things here as far as margin performance is concerned. Margins have been under pressure at the gross margin level itself because of a constant reduction in PVC prices. So, we've had a couple of quarters of inventory loss. So even in the December quarter, there was around Rs.30 crores of inventory loss. So that is the main reason for the pressure on margins. And the second reason is in such an environment where prices are declining, our channel does re-stocking which leads to a pressure on volumes, which is not only for us, it's across the industry. So, as a result of that, with lower volumes, there is no operating leverage and lack of cost absorption, which is why not only gross margin but also the EBITDA margins, operating margins are under pressure.

Gautam Rajesh:

State of EBITDA that we would be targeting, sir?

Nihar Chheda:

So long term, we have always targeted 12% EBITDA. Today, that is obviously a significant gap from our current performance. But to give a picture going forward, I believe that from the March quarter itself, we will see an improvement in volumes. And from the June quarter, I believe that we will also see a better sentiment in the market as far as commodity prices are concerned. So, I think volumes should start improving from March quarter and both volumes and profitability will improve from the June quarter.

Gautam Rajesh:

Okay. So, could we be able to see 12% roughly from June?

Nihar Chheda:

I think it's tough to comment on that because the gap is large. I think historically, we have always tried to let the numbers. speak and I think that doesn't change even in this sort of challenging environment. I think we have to just focus on execution, look to improve volumes in this kind of times and the rest will follow.

Gautam Rajesh:

Okay, sir. So, from a growth perspective, so we are seeing green shoots, not from this quarter, like from the market? Or is it still dull now and we can see that primarily from March or June?

Nihar Chheda:

I think from March; volumes should improve from the March quarter compared to the December quarter. And from June quarter, I think we should also see a better pricing sentiment in the market, which will also then further help volumes.

Gautam Rajesh:

Okay, sir. And one final question from my side is, over the next 2 to 3 years., what sort of growth and margin profile do you expect from the business?

Nihar Chheda:

So, I think across the pipes, fittings and tanks, I think we have always outgrown industry by 2% to 3% and that is what we will continue to focus on. Of course, Bathware is a new baby where we can't look at growth in percentage terms, but we have to look at it in exponential terms.

So, the Bathware revenue for the December quarter is around Rs.8 crores, which has increased from around Rs.5 crores, Rs.6 crores in the second quarter. So there, we should see a significant growth. And 18 months from now, I think the Bathware number also will be significant and the margins also in the long term will be better than the piping margins, if you look at that industry. There is more scope for value creation in terms of product differentiation and brand creation because it is a front of the wall product. So, in the long term, that will be a good value-added product for the organization.

Gautam Rajesh:

Yes, sir. For the overall business, any particular in 2 to 3 years, what type of growth and margin should we expect?

Nihar Chheda:

So, 2 to 3 years, overall business, we should outgrow industry by 2% to 3% every year. And margins, again, I think steady state, once we are out of these challenging times, I think 12% is still achievable.

Moderator:

The next question comes from the line of Shravan Shah from Dolat Capital.

Shravan Shah:

Sir, just to clarify and have a question. So, you mentioned that in the third quarter, we had an inventory loss of Rs.30-odd crores. Is it right?

Nihar Chheda:

Correct.

Shravan Shah:

Yes. So even if I adjust that Rs.30-odd crores, then also the EBITDA margin comes at around 5.7-odd percent, which is still much lower than what we used to guide. So just trying to understand. So, let's say, the prices, I don't know your view in terms of the anti-dumping duty when it will be coming and in terms of the improvement in the PVC prices.

But let's assume if it remains at the current level, then particularly for the fourth quarter, where we can see the EBITDA margin? And sustainably, though you are saying that 12% EBITDA margin is achievable, can we see that coming from the June quarter itself or maybe it will take at least from the second half of FY '26, it will start coming in?

Nihar Chheda:

Apart from the inventory loss, there is a further loss of around Rs.5.5 crores, Rs.6 crores on account of the Bathware division, which we had guided for. And like I said, I think mainly the EBITDA margins are under pressure because cost absorption is not happening. Realizations and volumes both dropped, which led to pressure at the gross margin level. And then obviously, that trickled down to the EBITDA level as well, which is why there is a gap between our targeted EBITDA and where we are today, I would not like to speculate on when the duty comes.

Of course, it is going to come. Whenever it comes, that will be a huge relief to the entire industry, not only in terms of pricing or margins, but specifically in terms of there will not be any sort of negative sentiment from the channel to destock.

And channel inventory, as we speak, is low. It is quite low. So as soon as sentiments just normalize, I think you will see a good volume pickup, which could be in either by end of this quarter or in the beginning of June quarter.

Shravan Shah:

Sorry, sir, still not able to get. So, let's try to put a number. So, in January and February, how much in terms of the broader range, how we see in terms of the volume growth? And for fourth quarter, let's say, the prices remain at what it is, how do we see the volume growth?

And for next year, do we believe that once the Bihar is also operational, can we see a 10% plus kind of a growth that also coming from the June quarter itself for the entire FY '26? And if that is the case, then are we believing that the 12% EBITDA margin in FY '26 is achievable?

Nihar Chheda:

So I understand your question. What I will say is for the 12 months this year, we should have mid- to high single-digit volume growth. And for the June quarter, yes, I can foresee a double-digit volume growth coming in.

Shravan Shah:

Okay. And then from the June quarter itself, can we see closer to a kind of a double-digit or 12% kind of EBITDA margin? Or will it will take us some time from the second half of FY '26, it will start coming in?

Nihar Chheda:

It will start coming in from the June quarter. Things will normalize. I think volumes will solve most of the problems. So, I think like I maybe to make my statement more loud and clear, you will see better volumes coming in from March quarter and you will see margin moving towards normal levels from June quarter.

Shravan Shah:

Okay. That's great, sir. Second, just if you can share how much we have already spent on the CapEx in 9 months? And what is left in the fourth quarter and maybe for FY '26, how are we looking to spend?

Anand Gupta:

So for 9 months, we have spent around Rs.95 crores. And in the last quarter, we will be further spending around Rs.60 crores because most of the Bihar closure will be there. The total Bihar capitalization will happen in Q1 of FY '26. So, this is how the CapEx plan is. So, it will be spill over in FY '25 and FY '26, particularly the Bihar. For internal CapEx, excluding Bihar, it will be around Rs.110 crores to Rs.120 crores.

Shravan Shah:

So put together Rs.110 crores plus RS..90 I'm just clarifying what sir has answered. Sir, so putting everything in terms of the cash flow perspective, how much CapEx will be there in FY '25 and '26?

Anand Gupta:

So, it will be in the range of Rs.260 crores to Rs.270 crores, including Bihar.

Shravan Shah:

And '26?

Anand Gupta:

So '26, it will be a lean period for us because most of the CapEx we have done already in FY '25. The leftover of Bihar plus Rs.80 crores to Rs.90 crores, which is a normal spend over existing plants will happen.

Nihar Chheda:

Before the next question, I would like to make a clarification. I misspoke the Bathware sales for December quarter is Rs.9.5 crores. Just one clarification. Please go ahead.

Moderator:

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

Sneha Talreja:

Just wanted to understand why is there a very sharp increase in inventory days? It's largely standing at about 102-odd days versus even 6 months run rate of about 88 days. That's one.

Nihar Chheda:

Yes. The inventory days has gone up because sitting at the end of H1, if you look at our commentary or just commentary from the industry, we were expecting a very strong H2. Most people were expecting the duty to come in somewhere at the beginning of the second half, which is why we were actually preparing for a very strong volume growth coming in, in December quarter and in March quarter, which has led to, which didn't end up happening, which is why the inventory has actually gone.

Sneha Talreja:

So this will be largely inventory in terms of raw material and which is why the inventory losses?

Nihar Chheda:

Yes. So, I would say around Rs.350 crores is of raw material and the balance is finished goods.

Sneha Talreja:

Understood. Secondly, although, of course, we understand your volumes are not going up and gross margins have taken a hit, but what about your employee expenses, both on a Y-o-Y basis as well as Q-o-Q basis, we continue to see it on a very strong increase in trend even as a percentage of sales, last 2 to 3 years. have seen a very strong run up. Any comments on that?

Nihar Chheda:

So, one is because of Bathware. And apart from that, we have been aggressively increasing our manpower in the marketing and sales divisions. So, this is as a result of that because even if you see today compared to peers., our sales force is smaller. So, as we grow, we want to , we make 2 kinds of investments.

One is, in terms of branding and second is in terms of increasing the sales force, which is why it's been shown. I think it's getting highlighted more because sales are not growing. But once that starts growing, I think these investments will start paying off.

Sneha Talreja:

Understood. And you also mentioned on the mid- to high single-digit kind of a volume growth run rate for Q4 and double-digit growth volumes for FY '26. Is that correct? Given PVC prices are still on a downward trajectory, we've just seen an Rs.3kg dip. Why do you expect a growth now versus what we have seen in Q3?

Nihar Chheda:

No. I agree, Q3 volumes are not good. But if you still see 9-month numbers, we are at around 4.5% volume growth, which is in line with other larger players. And I believe that we will see a good coming in the quarter 4. So, I think this kind of a mid- to high single-digit growth is possible in March quarter. And yes, from next year onwards, we will be seeing a double-digit growth.

Moderator:

The next question comes from the line of Keshav Lahoti from HDFC Securities.

Keshav Lahoti:

Sir, firstly, whenever we talk about channel inventory is low, but that would be a correct Understanding the channel inventory was low in Q2. So, from Q2 to Q3, the channel inventory might have been stable or possibly might have improved. So that way, the channel inventory has not impacted the growth rate year-on-year. How should we read it?

Nihar Chheda:

No, I think channel inventory is extremely low right now because what happens is when prices are falling with no sign of any triggers. of increase apart from the duty, there is a lot of anxiety in the channel to keep stocks. So, my sense is right now, channel inventory is very low and possibly even lower than what it was at the beginning of the quarter.

Keshav Lahoti:

Okay. Understood. Got it. That is helpful. Sir, on the incentive side, have you given higher incentive this quarter? Because last quarter also ex inventory loss, your margins were somewhere around 9%. But now that has fallen to 5%, 6%. I understand one reason is volume. Does it have to do with incentive also something?

Nihar Chheda:

Yes. It is to do with 2 things. One is because of this challenging environment; we've had to take some price corrections, and we've had to incentivize the primary and secondary channel. So that is true in this kind of environment, we've had to hold on to our market share at least. And to do that, we've been forced to be slightly more aggressive in the marketplace. And I think as sentiments improve, we will be able to pull these back.

Keshav Lahoti:

Can you quantify what sort of additional incentive you have given in this quarter?

Nihar Chheda:

It depends from state to state, from category to category, but would be in the range of 3-odd percent.

Keshav Lahoti:

Okay. So earlier, the 2% was already there. Now you added 3 more percent incentives. So broadly, the incentives have increased by 5% in the last few quarters.

Nihar Chheda:

This is 2%, I think you're referring to is the cash discount. That is just for distributors. to pay within 3 days. This is a 3% additional sort of discount that we had given during the quarter to ensure that our volumes are intact.

Keshav Lahoti:

Got it. So the discount impact is 5%, what I'm getting compared to maybe 3, 4 quarters. back, that impact is 5% right now, if I combine all this...

Anand Gupta:

No. So if you are referring to the last commentary where we had indicated that there is some 2% incentivization was done. So that was valid for the last quarter. And what we have just mentioned, 3% for this quarter. So, it is not on top of 2%. It is 3% for the quarter. It's not on the top of 2%.

Moderator:

The next question comes from the line of Pritesh Chheda from Lucky Securities.

Pritesh Chheda:

Yes, sir, including this quarter or maybe last now 10, 12 quarters., if you see your volume performance vis-a-vis some of the larger players. is quite different. So if you could tell us the key reason and how does it rectify itself? And it seems that you have lost some market share as well.

Moderator:

Sorry to interrupt, Pritesh, please be a little louder.

Pritesh Chheda:

Is it clear?

Moderator:

Yes.

Nihar Chheda:

So Pritesh, to answer your question, a couple of years. ago, we had our ERP issue, which led to a lot of supply chain issues for a few quarters. when we did actually transparently mention that we have lost market share. Past few quarters., I would, however, say that our growth has been in line with larger players. So, if you see the 9-month numbers., we are at around 4.5% volume growth, which is in line with the other two peers.

So right now, the challenge is more to do with the industry as opposed to our specific market share. Before that, I will agree that because of our supply chain issues, we did have some loss of market share.

But if you see for the 9 months, we are still broadly in line. Going forward, not only are we confident of holding on to our market share but also growing our market share and taking market share not only from peers. but from specifically the smaller players., both organized and unorganized, in this industry.

We continue to expand our channel. We continue to invest in marketing and in increasing our team. We have also made huge investments in digitizing our value chain through distributor management systems and sales force automation, which helps us improve our productivity per channel partner and per sales executive. We now have better visibility of retailer-level sales and secondary sales, which then helps us improve market share at a more granular level across geographies and across product categories.

Pritesh Chheda:

Just to clarify, your ERP implementation ended in '23, right?

Nihar Chheda:

Correct.

Pritesh Chheda:

So, you even had a loss of market share continuing in '24 as well?

Nihar Chheda:

The ERP implementation started in '23 FY '24.

Pritesh Chheda:

For the 9 months, see this, the PVC price volatility etcetera, now in the nine months, what is the PVC RM impact, if you have to quantify? And what is the non-pipes EBIT loss -- EBITDA loss which is there in these 9 months? Why is it that you have a higher inventory while some other players. do not go through a similar RM cycle? What exactly you do, what exactly is the method you are deploying in sourcing raw material?

Nihar Chheda:

For the year, we've had around Rs.50 crores of inventory loss.

Pritesh Chheda:

For 9 months, basically.

Nihar Chheda:

Correct. December, it is around Rs.50 crores of inventory loss.

Pritesh Chheda:

And the non-pipes loss? Your business is basically about...

Nihar Chheda:

Per quarter, it is around Rs.5 crores to Rs.6 crores.

Pritesh Chheda:

Loss.

Nihar Chheda:

Per quarter.

Pritesh Chheda:

So, Rs.15 crores is this, Rs.50 crores is inventory. What is the inventory method that we deploy where it goes through much sharper cycles?

Nihar Chheda:

We are mainly import-dependent as a country. So, any of the larger producers. would typically have 50% to 60% dependence on imports, which is why, because of the lag, because of transit times, we are forced to keep higher inventory. In this case, the inventory was significantly higher because we were preparing for a very strong H2 because of the way the fiRs.t half had gone.

We were expecting a very strong second half with an improvement in sentiment, which did not happen. I think that has been postponed. Instead of happening in the beginning of Q3, I think it is now going to happen at the end of Q4, which is why the inventory days look higher. But I think by the end of this quarter, you should see a sharp reduction in inventory days.

Pritesh Chheda:

And lastly, one clarification on pricing.

Moderator:

Pritesh, those were your questions. I would request you to rejoin the queue. The next question comes from the line of Amit Agicha from HG Hava

Amit Agicha:

Good morning and thank you for the opportunity. Sir, my question is connected to the expected revenue and margin contribution from the Bathware segment post-acquisition. Are there any further M&A opportunities the company is evaluating?

Nihar Chheda:

Currently, we are not evaluating any M&A opportunities. In the December quarter, like I said, we have around Rs.10 crores of revenue coming in from Bathware, which will increase quarter-on-quarter significantly. To give you further colour on that, we have expanded our operations in South and East. For the first three quarters. of the year, we had operations only in North and West, so we were still not pan-India. In Q3, we have been able to deploy our teams in South and East India.

So today, as we speak, we are operating in, I would say, 90% of the country. Now the channel is being set up in South and East parts of the country. By the end of this year, we will have a pan-India channel, and this contribution from Bathware will continue to go up.

Amit Agicha:

Sir, what is the current capacity utilization rate across all plants? If you can give a ballpark number?

Nihar Chheda:

Across all these plants, it would be around 50% across the pipe business.

Moderator:

The next question comes from the line of Utkarsh Nopany from BOB Capital Markets Limited.

Utkarsh Nopany:

Good afternoon sir. Sir, I am repeating the same question which has been asked by the previous participant. When we do the comparison with the major listed pipe companies, we were the only exception that reported negative volume growth for the December quarter. This was despite a weak base last year, which was affected due to ERP implementation. Our margin has also contracted the most compared to any other listed pipe company. Can you specify what challenges we are facing, particularly on a relative basis, not on industry factors, which is resulting in such poor performance?

Nihar Chheda:

Today, as we speak, we have grown 4% to 5% on volumes over the past 9 months. Currently, as we speak, there is no specific challenge for us relative to the industry. Yes, I take your point that our base is more favourable because last year was impacted by ERP.

But in this kind of environment, it is tough to increase market share or win back lost market share of the past. This year, for 9 months, we are still at 4% to 5% volume growth, which is in line with other larger players. Like I said, we will see an improvement in volumes from the March quarter and then in volumes and profitability from the June quarter. We are confident of the same.

There are no challenges specific to us; this is more just the industry going through tough times. To repeat myself, for 9 months, we are still in line with peers. I take it that it is a favourable base, but in these kinds of times, it is hard to win back market share. We have to at least try to be in line with the larger players.

Utkarsh Nopany:

But sir, the other players. have not seen such a margin contraction or they don't have such an elongation in their working capital cycle, which we are seeing, and then also if you are saying that over 9 months, we are growing at the same pace, what pain are we actually facing? Is there anything like, we are not able to compete with the major brands because they have cut down their prices in the market, so we are facing difficulty in getting the volume?

Nihar Chheda:

Coming to working capital, it looks elongated because of the inventory days going up. Debtor days are still in control. It is around 53 days, compared to 83 days at the end of the last financial year, so we have seen a reduction of 30 days, and like I said, inventory days will normalize at the end of this financial year.

If you look at on the margin side, yes, the decrease in margin has been the largest majorly on account of two things, one is an inventory loss of around Rs.30 crores, and second is Bathware loss, which was foreseen, of around Rs.5 crores to Rs.6 crores. Yes, competitive inventory is high but, this is not new to us. We have been in this industry for 40 years.

We have seen ups and downs. This is a down cycle, when I say down cycle, not really in terms of end demand, I think end product demand is still more or less okay, and going forward, I think it will continue to grow, this industry. It's just that right now, sentiments amongst the channel across the channel have been very poor.

I will not even say positive sentiments, but once the sentiments normalize, we will see a better volume performance, which will then help us normalize our EBITDA margins. So, I have to acknowledge that times are tough right now, but we are very confident that this is not going to be a prolonged pain. It is going to be a sort of quicker turnaround because of the reasons that I just explained.

Utkarsh Nopany:

Okay, sir. And sir, my last question is, are we likely to see any further M2M inventory loss in this March quarter as PVC resin prices have corrected in February? And where do we see our net debt at the end of March?

Nihar Chheda:

So yes, we will see an inventory loss in quarter 4. I will not be in a position to quantify it. I don't think it will be a significant inventory loss sitting today. It will not be a major inventory loss in the March quarter. As far as net cash position.

Anand Gupta:

Yes. So apart from term loans, we have working capital debt as well. So, the net cash position is negative because of mostly the term loan that we have taken. So, net debt is around Rs.109 crores, including term loans.

Moderator:

The next question comes from the line of Arun Baid from ICICI Securities.

Arun Baid:

Just one question. We have been speaking of industry-leading growth for the last 2, or 3 years. continuously. Just to give a sense, you look from FY '22, I think post-COVID till now, we are nowhere near the competition in terms of volume growth to get the margins, which is what we're talking about. What gives you confidence that this will change from the June quarter?

Nihar Chheda:

So, like I said, for these 9 months, we are in line with industry at 4%, 5% growth. It should be higher given that our base is lower, which is in line with what you're speaking. So, I acknowledge what you're saying. This year, things have normalized as far as volume growth is concerned. We should be growing at a higher pace because, yes, our base is on lower growth relative to other peers.

So, I acknowledge that. It's just that in this kind of environment, holding on to market share itself has been a task. But I think just as sentiments change post-duty, I think you will see the channel being willing to stock at least normal levels, forget about aggressively restocking.

And apart from this, there are a lot of other initiatives that we are taking in terms of investing in the brand, digitizing the value chain, and increasing our sales force productivity through sales force automation. And we continue to expand the distribution network. I know times are tough, but we are still focused on execution.

And if we keep our heads down and execute, typically, whenever our backs have been against the wall, we have had the best performance as an organization. So that's where my confidence comes from, in terms of, this is not going to be a prolonged but a quick revival. That is why we are so confident of a quick turnaround.

Arun Baid:

But if I look at even FY '19 data till FY '24 because FY '25 is not over, we can take that point. The data isn't sacrosanct with what we say that we'll grow more than the industry. It's way, way lower than the other 2 peers. that report numbers. It's way, way lower than that. And second thing is one question here why do we want to continue building on inventory?

Because when you say that we will build up inventory significantly in Q2, thinking that will come through and there will be an advantage. Is that we are trading on PVC because we are seeing our peers. Obviously, they also had some inventory loss, which is a minuscule but you are trying to play on that.

So, the margins are not sacrificed because in one quarter, you'll have a gain because of your policy, and in the second quarter, if it doesn't work, it goes against you. Should we be re-think our policy there? And it's not as if we are...

Nihar Chheda:

We are not thinking like traders. This is not what we built in inventory to take, I never said to take advantage of the duty. I said that we have expanded capacity aggressively in the existing plants, then with Jaipur, Telangana, and now with the Bihar plant. So let me make myself very clear. This inventory is not to take advantage of the duty. That has never been the intention, and I've never said that.

The intent was that we expected a stronger volume growth in the December quarter and March quarter. And we have put up the capacity. We have put our money where our mouth is. But the point is that if we add capacity and there is a positive sentiment in the market, we should have supply security.

So, we have seen times in the past 4, 5 years. where there has been such good demand from the market, and we have not been able to serve the demand despite having the capacity and the orders. So, this is not a position, or this is not some speculative thing. This is just because we have the capacity. We were expecting a good volume growth, which is why we have done this.

And we will see a normalization from this quarter itself. So, this inventory it's not some dead inventory or anything like that. It's just 3 months to normalize. So, by the end of this financial year, we will see a normalization of inventory.

Arun Baid:

No, I appreciate the point on the normalization of inventory. What I'm trying to say is the huge inventory we built up. Just to give you a sense, every quarter, for the last many quarters. when you report numbers, you talk of an inventory loss, which comes to us every quarter I think the last one where you reported gain was Q3 FY '23 or somewhere there. What I'm trying to again indicate in our case, the variation on your profitability is significant because of the inventory management versus your call. That's my observation.

Moderator:

The next question comes from the line of Jenish Karia from Antique Stock Broking.

Jenish Karia:

Considering we have a good mix of plumbing pipes and low on the Agri-side, you see PVC was growing. Now adjusting for the Bathware loss and inventory losses that we have reported, still on a gross level, our margin seems to be lower than some of the Agri-focused players. While you have explained the reason? If you could just shed some more light on that, that would be the first question.

Nihar Chheda:

Yes. So, like I said, in this challenging environment, we have had to give the channel more incentives, and we've had to correct pricing as well just to hold on to market share and ensure that on a 9-month basis, we are still having a positive volume growth. So, as a result of that, we've had to be more competitive in the market, which is why there has been a pressure on the gross margins. But once the sentiment to the channel improves and the destocking stops and the channel starts regular inventory, we will see a normalization of the gross margin. And once the volumes improve, the EBITDA margins also will improve.

Jenish Karia:

So, given that understanding, when we are guiding for a mid-to-high single-digit growth for the fourth quarter, which implies a 30% growth on a sequential basis, can we assume or is it better to assume that, that growth of 30% on a sequential basis that you have been guiding will come at a cost of margin?

And how has been the growth uptick for the first 45 days of the quarter? If you could shed some light, we'll have a better understanding of the 30% sequential growth that you have been guiding.

Nihar Chheda:

Yes. So, I'm talking about a single-digit growth for the 12-month basis is what I have guided at. And we will have to continue our run rate of the 9 months for the fourth quarter as well in terms of year-on-year growth. This will now not come with further incentives. We have to just continue being market-friendly and we have to continue finding the balance between volume growth and being competitive in the market. We are not immune to the forces of demand and supply. So, we have to continue to be competitive and gain market share, although it has to be done in a profitable manner going forward.

Moderator:

The next question comes from the line of Chinmay Nema from Prescient Capital.

Chinmay Nema:

Just needed a clarification on the volume number that we report, the 126,000 metric tonne that we report, this is on a blended basis, right? So, including the Bathware business as well?

Nihar Chheda:

This does not include the Bathware number. This is a pipe and fitting number.

Chinmay Nema:

Understood, sir. Understood. Got it. And could you share the 9-month revenue for the water tank business?

Nihar Chheda:

Can you repeat your question?

Chinmay Nema:

Could you share the 9-month revenue for the water tank business?

Nihar Chheda:

Just give us a second. Karl Kolah will come back to you after the call.

Chinmay Nema:

And just wanted to understand...

Nihar Chheda:

Yes, it's Rs.34 crores of water tank sales for the 9-month period.

Chinmay Nema:

Got it. And sir, what was the number in the 9 months of the previous year, if you could share that?

Nihar Chheda:

Rs.27 crores.

Chinmay Nema:

Got it. And sir, lastly, my question was on the Bathware acquisition. If we look at the other listed companies in this space, this also looks like a challenging space to operate in. Could you give some colour on our product positioning or where do you plan to operate in this space?

Nihar Chheda:

So I don't think it is a challenging business and neither is pipes and fittings, I think we need to understand that this is a challenging time, but the overall industry is still, I think, one of the fastest-growing industries in all of building materials, which is why you also see such a lot of new entrants in the piping space, and you see aggressive capacity expansion happening by Prince and by our peers..

So let me clarify that our core business is not a challenging industry. It's just a couple of quarters. of challenge because of the commodity prices. But overall, we are in an industry that is poised to grow aggressively over the next 5 years. And similarly, I think Bathware is total around Rs.18,000 crores to Rs.20,000 crores industry size, with 65% market is organized and 35% market is unorganized.

Margins tend to be slightly higher than pipes because there is a more scope for product differentiation and for brand building because it's a front-of-the-wall product. So, our intent is to use our channel to leverage our existing channel and cross-sell, our products. So that's how we see it. And in terms of positioning, I think we would be positioning at the mass premium sort of bracket. We have collections across different price points, but the main is the mass premium position.

Moderator:

The next question comes from the line of Mudit M from M3 Investment.

Mudit M:

I want to understand if the industry margins have systematically gone down for the entire industry given the market leader has been very aggressive and is pricing at par with all the people. So, I would like to understand your comments on industry margins like in 2, 3, 5 years., how you see? The second question is on the CPVC. Once the CPVC is abundantly available in Indian soil itself, do you think the competitive intensity in this segment also will rise?

Nihar Chheda:

So yes, I think because there is a challenge with channel keeping regular inventory, yes, the market leader also has become more aggressive with pricing, which has led to a downtick on margins for players. across. So that is true. I think going forward, this will normalize as volume growth improves, as sentiment improves, this sort of aggressive pricing, I expect to not be as aggressive as volumes come back.

And I still continue to be optimistic going forward. CPVC, yes, there will be more supply, but it is a very organized and a brand-conscious market. 75% of the market belongs to the top 4 playeRs.. As supply increases, I think the market itself will grow because the price of the raw material will significantly reduce, which will make the product more affordable, even the finished goods because we do pass through the pricing.

So, with local capacity, I think India is actually, the CPVC industry cannot grow with such a dependence on imports. So actually, the industry is crying out for local raw material manufacturing, which once that is available, I think the industry will grow multi-bound going forward. And in line with that, we are also adding capacity for CPVC.

Mudit M:

To follow up on that, the abundance of, I mean not abundance least availability of CPVC within India, would that also start local competition and unorganized players. coming in like we saw in PVC? And so, the margin differential would then cease to exist will reduce at least?

Nihar Chheda:

It will not cease to exist, it could reduce, but I think it will be more compensated by larger volumes coming in from a value-added product. Industry overall will grow. And this is used for hot and cold water plumbing, a sensitive application used in the concealed parts of a bathroom, where if there is leakage, the scope is to do damage to other building materials is very high and the nuisance value for the builder also is very high.

So typically, plumbing cost is less than 1% of the overall builder's project cost. So, I believe industry will continue to consolidate and brands will continue to be bigger.

Mudit M:

Last one from my side.

Moderator:

I'm sorry to interrupt Mudit, I guess you are done with your 2 questions. So, I would request you to rejoin the queue. The next question comes from the line of Shravan Shah from Dolat Capital.

Shravan Shah:

Sir, that trade incentive of 3% is still continuing till now in January, February?

Nihar Chheda:

Yes.

Shravan Shah:

So, any idea when we will be either reducing or stopping this 3%?

Nihar Chheda:

I think we have to continue observing the market, which is what is our job. And right now, the focus is on improving volumes. And as volumes improve, our cost absorption will improve and profitability will improve. So, this is the time to hold on to volumes.

Shravan Shah:

Okay. And second, sir, this Bihar, initially, we were having a 50,000 tonnes. And now I think in opening remarks, we said 40,000 tonnes, which will start from the April onwards in terms of the production. So, if you can help us what's the capacity, the next phase?

Anand Gupta:

Yes, sure. So, in the opening remarks, we said that we'll be starting off with 40,000 MT, which is primarily pipe capacity. And in next 6 months, by end of H1, we'll be ready with not 50, but around 55 to 60 KT, we should be ready with that capacity. And that will include pipes and fittings both.

Shravan Shah:

Okay. Got it. And lastly, sir, I understand that maybe previously also answered in terms of the employee cost. So just trying to understand because the cost has gone up decently high in last kind of 3-odd years. Is it possible to share in terms of the top managerial, including the three Promoters, a broader range currently, how much we would be drawing or part of the total salary cost or staff cost, Rs.45 crores, Rs.46 crores-odd crores quarterly?

How much would be there, we see that in last 3 years., we have taken a significant hike from 20% to 35% odd in last 3 years. So just trying to understand if we are not growing the volume, then as a promoter, why don't we would have thought that we could have not taken a hike or maybe a lower point that could have also helped to some extent in terms of the better margins?

Nihar Chheda:

So there are 2 parts. One is the fixed salary and one is the commission. The commission to promoters. is a function of profit. So, if there is no, if the profit parameters. are not met, then there are sort of, so basically, commissions are variable. And I think it's actually a significant positive that we are linking our compensation to the profitability of the organization. So, all interests of all shareholders. are aligned. Estimated remuneration to the directors. for this year will be around Rs.9 crores.

Moderator:

The last question comes from the line of Ashish Shah from Business Match.

Ashish Shah:

I just have 2 questions. One is what we witnessed this quarter in terms of profitability. Any steps and measures that you can take from a long-term perspective, whereby in the next round of raw material volatility, we can safeguard ourselves?

Nihar Chheda:

Yes. I think in the short term; we will see a reduction in branding costs for the March quarter because we are trying to optimize costs to ensure improvement in profitability. And I think going forward, the focus just has to be on growing the volumes, especially in the plumbing space to ensure a better cost absorption going forward. So, in the short term, we will, our discretionary cost is branding, which we will tone down in the March quarter. In the long term, focus has to be on volumes so that we are able to absorb our overall fixed cost better.

Ashish Shah:

But I think that sounds more at an operating level, right? So, at the raw material level or the gross margin level, we will continue to be, we will continue to face the volatility every time it hits us or any steps, we can take to safeguard ourselves at that level, not at an OpEx level?

Nihar Chheda:

At the gross margin level, going forward, we will be more and more prudent with inventory management, which will help us safeguard ourselves in a volatile raw material environment.

Ashish Shah:

And sir, just one last question. You mentioned the number of capacity utilization. Is there a way to look at your OpEx to say that we have significantly ramped up our people and manpower and hence going ahead when incremental business kicks in the next year or the year after, we can get some operating leverage or they will actually go up in line with the business.

Nihar Chheda:

No, I think like our capacity, a lot of the addition in manpower has been done over the past 2 or 3 years. I think like our total CapEx number as well, even the manpower cost, the growth will not be as aggressive going forward.

Moderator:

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

Nihar Chheda:

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