PRINCE
PIPING SYSTEMS

PPFL/SE/2024-25/051 November 14, 2024

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 November 08, 2024

In continuation to our letter No PPFL/SE/2024-25/042 dated November 04, 2024, please find enclosed herewith transcript of the Conference Call for Analyst and Investors held on November 08, 2024.

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

Q2 & H1 FY25 Earnings Call

November 08, 2024

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:

Arun Baid : ICICI Securities

Q&A PARTICIPANTS:

Gautam Rajesh	: Leo Capital
Sneha Talreja	: Nuvama
Nigel Mascarenhas	: Leo Capital
Shravan Shah	: Dolat Capital
Keshav Lahoti	: HDFC Securities
Udit Gajiwala	: Yes Securities
Utkarsh Nopany	: BOB Capital
Varun Jain	: Dolat Capital
Aasim Bharde	: DAM Capital

Moderator:

Ladies and gentlemen, good day, and welcome to Prince Pipes and Fittings Q2 FY '25 Earnings Conference Call, hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Arun Baid. Thank you, and over to you, sir.

Arun Baid:

Good morning all. On behalf of ICICI Securities, I welcome you all to the Q2 FY '25 results con-call of Prince Pipes and Fittings Limited. From the management side, we have Mr. Parag Chheda, JMD; Mr. Nihar Chheda, VP, Strategy; and Mr. Anand Gupta, CFO; and Mr. Karl Kolah, Head, Investor Relations.

Now I hand over the call to Parag bhai, post which we will open the floor for Q&A.

Parag Chheda:

Thank you, Arun, and thank you for joining us for our Q2 and H1 FY '25 earnings call. The presentation and the press release have been issued to the stock exchanges and uploaded on our website. I trust you had the time to go through the same. I will initiate the call with a brief overview of the quarter.

Our performance for the quarter was led by volume expansion and a good progression in our Plumbing and SWR segments. We reported 4% Y-o-Y volume expansion and registered quarterly volume sales of 43,301 metric tonnes. The quarter witnessed a fall of about 16% in PVC prices, which led to severe destocking by channel partners and adversely impacting volume and profitability.

Despite the fall in PVC prices, realizations remained stable yoy on account of better sales mix. With price volatility easing out, stocking cycles have started resuming, which makes us optimistic of a more resilient performance in H2 and our complete focus hereon is to recover the sales volume. We are confident of delivering 8% to 10% volume growth for FY '25.

Before I share more highlights for the quarter, I'm proud to share that only yesterday, Prince Pipes has been certified as Great Place to Work organization. As you all know, GPTW is a global authority to certify organizations across the world, and it's a very proud moment for us to achieve this feat. This signifies that Prince has an ambient work culture, high employee satisfaction and advocates sustainable business success. GPTW will help us to attract and retain best talent, boost employee engagement and raise morale.

Our concentrated efforts continue to ensure that the brand remains strongly engaged with our customers, maintain top of the mind recall and remain agile to service demand being generated across all the product categories.

We have expanded branding efforts across travel ports with visibility in metro trains in Ahmedabad. The Ahmedabad metro's vibrant, new wrap brings Prince Pipes and Aquel by Prince closer to millions of commuters in Ahmedabad and Gandhinagar. We worked closely with Gujarat Metro Rail Corporation Limited for this successful collaboration. Prince Pipes also implemented a branding campaign to be visible inside apron buses that carry passengers to and through on the tarmac. These strategies have allowed Prince to boost visibility at the strategic locations, particularly travel ports with high footfalls so that no matter where you travel, Prince Pipes is a part of your journey.

Our Bathware segment has been gaining greater foothold steadily, as we continue to make firm inroads into current markets and expect to complete the build-out of pan-India presence by end of H2. We are happy to share that during Q2, Prince launched the company's first Aquel by Prince retail showrooms in Haryana and New Delhi.

Now we also have a dedicated web and virtual presence of Aquel by Prince with the launch of a new website that introduces the brand and the entire line of products. The second phase of Aquel's asset purchase agreement, which includes the acquisition of the manufacturing unit comprising land, building as well as the manufacturing equipment is under process, subject to regulatory approvals.

A crucial aspect of our operations also focuses on upskilling and ensuring that a strong supply of trained man force is always available. Under our Parivartan Plumber Upskilling Programme, we trained 1,848 plumbers across Delhi, NCR, Himachal Pradesh and Uttarakhand to enhance technical skills. We also extended critical health benefits to plumbers and their families through 17 health camps. Each plumber received a toolkit to equip themselves for the next step in their careers.

We have maintained earlier that Eastern India is a strategic importance to us, and we have been developing our market in the region. So our plant in Begusarai, Bihar is on schedule, and we expect the production by Q4 FY '25. To start ingraining the market with brand visibility, our branding team constructed a stunning Durga Mata installation in Kolkata made entirely with products of Prince Pipes. A fully sponsored plumbing training program for 11 women plumbers have been undertaken in partnership with the Water Management & Plumbing Skill Council. To harness the power and skill of women, this pilot project aims to inspire other states and expand across India.

At a broader level, with our growth pillars firmly in place, we are now concentrating very strongly on driving volume growth. Infrastructural development, urbanization and real estate, industrial growth and government policies are well aligned towards more growth and progress.

With volume growth being the primary aim, we continue to strongly focus on building deeper customer relationships, knowledge of customers' pain points, exploring new channels, leveraging capabilities, all of which are being explored to capitalize on growth opportunities. Thank you for your time and mindshare.

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 Q2 and H1 FY '25 financials now. Revenues in Q2 FY '25 stood at Rs.622 crores as compared to Rs.656 crores in quarter 2 FY '24. Despite a challenging operating environment, we achieved volume growth of 4% Y-o-Y. This is primarily led by growth in Plumbing and SWR segments. EBITDA for the quarter stood at Rs.46 crores. PAT for the quarter stood at Rs.15 crores as compared to Rs.71 crores in Q2 FY '24. It is important to note that there was an exceptional gain of Rs.18 crores in Q2 FY '24.

Revenue in H1 FY '25 improved by 1% Y-o-Y as compared to Rs.1,210 crores in H1 FY '24. We achieved volume growth of 9% Y-o-Y, primarily led by growth in Plumbing and SWR segment. EBITDA for the quarter stood at Rs.104 crores as compared to Rs.139 crores in H1 FY '24.

Our overall working capital stood at 93 days as compared to 80 days in June and 95 days in March '24. As we had guided, receivable have shown marked improvement in the past 2 quarters, and we now stand at 55 days from 83 days in March end. Inventory days have increased to 88 days as compared to 62 days in March '24.

We continue to judicially expand our channel finance program, and we have made steady progress since the recourse has shifted to distributors and the sanction amount has significantly increased and over 150 channel partners have been enrolled under the program as we expand this initiative very judiciously.

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

Moderator:

The first question is on the line of Gautam Rajesh from Leo Capital.

Gautam Rajesh:

I had two questions. My first question was, how would your new plant in the East change the volume trajectory of the company?

Nihar Chheda:

Sure. So, East is the fastest growing market because of the late urbanization cycle in East India compared to the rest of the country. So we are seeing faster growth in East because of a lower base at an industry level, and we are amongst the top 2 players in East India today. Currently, this is being majorly served by the Haridwar facility and partly by the asset-light model that we have in Hajipur.

But having our own facility in Begusarai of Pipe, Tank and Fittings eventually, that really strengthens our supply chain and reduces freight cost, which helps us penetrate this market in a more efficient and more profitable way. So this is a vacuum in our entire manufacturing network, which we will now be filling by Q4 of this year. Like we said, we aim to commercialize Begusarai, which will really help us meet our volume aspirations.

Gautam Rajesh:

Yes sir, any figure or rough estimation on the volume trajectory that you could see due to this plant?

Nihar Chheda:

So by March, our capacity at Begusarai will be more than 50,000 tonnes.

Gautam Rajesh:

March FY '25?

Nihar Chheda:

By the Q4 of the current fiscal, we will be putting up 50,000 tonnes. So we have preponed the next phase as well, and we are aggressively putting up capacity.

Gautam Rajesh:

So 50,000 tonnes, what capacity utilization would we expect initially, sir?

Nihar Chheda:

So initially, the capacity utilizations are always low, but we are putting this capacity over the -- looking at growth over the next couple of years. But essentially, we continue to have aspirations to keep growing. Even if you see the current quarter, we have gained market share from smaller players, from larger players. So our focus continues to be on profitable growth. And this capacity will be key going forward

Gautam Rajesh:

Yes, sir. And one final question I had was, you mentioned that in this quarter, the growth has been depressed due to the inventory destocking. Is it completely done now? And what sort of volume growth do we expect in the balance that is H2 of this year?

Nihar Chheda:

Yes. So like most participants would be aware, this destocking that we saw in the Q2 was mainly because of significant downtrend in PVC prices, which is why channel inventory was very low across the industry. That continued in October, which was also hampered by the festive period as it usually is.

In November, we have seen a reversal of PVC prices because of the announcement of provisional findings of ADD, anti-dumping duty. So I do believe that the channel will start to normalize their inventory levels. And one level is the inventory, but what is more important is the end product demand across plumbing and agriculture should do well because of a strong real estate cycle as well as affordability in polymer prices. So despite a slight uptrend, PVC prices continue to be extremely affordable. So we are optimistic about demand going forward.

Gautam Rajesh:

Yes, sir. And any figure or rough estimation on the volume growth for H2 per se?

Nihar Chheda:

I think for the financial year, we would be targeting 8% to 10% volume growth.

Gautam Rajesh:

Okay. So we expect maybe 8% to 10% for H2 as well from H1 and next year.

Nihar Chheda:

I think the H1 number is with you. So for the full financial year, we are targeting 8% to 10% volume growth.

Moderator:

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

Sneha Talreja:

A couple of questions from my end. Firstly, how has been October there? How was the October for us? I think you said it was muted. But could you quantify some numbers on it? And most importantly, have we passed on the increase in PVC prices, the Rs.1 per kg and the Rs.2 per kg price increase that we recently saw in the system or we are yet to do that?

Nihar Chheda:

October was muted. I'll stay away from quantifying mid-quarter, but it was weak because the PVC prices continue to slide, and we had an extended monsoon as well as a festive period. So October typically for the industry has been a weak month because of the reasons I mentioned.

Coming to the second part of your question, we have passed on. We have announced both the price hikes. The first part has been passed on and the second part will be passed on by next week. So the way we pass through decreases, we are -- it's a pass-through for increases as well, which is being the market leaders, we are first to announce the price increases.

Sneha Talreja:

That was helpful. And secondly, what was the inventory losses? What was the quantum of inventory losses during the current quarter?

Nihar Chheda:

It would be around Rs.12 crores to Rs.15 crores for quarter 2.

Sneha Talreja:

Understood. And any -- while you have revised your volume growth guidance, any revision in the EBITDA margin guidance given H1 has been slightly on the weaker side now?

Nihar Chheda:

Before I get the margin guidance, let me break down the September quarter margin, of course, was significantly lower than what we historically have performed. And the reason for that is around 2% - 2.5% of inventory loss and further additional sort of 2% was passed on to the channel through trade incentives to ensure that even in this kind of an environment, we are able to post a volume growth when most players are struggling to maintain volumes.

We have been able to post a volume growth in this kind of a weak environment with a lot of headwinds in terms of sentiment. So we did pass on some special trade incentives to ensure our volume is still growing in this kind of an environment. So that would be around 2%. Another 0.5% of loss on account of the Bathware division, so around Rs.3 crores of loss for the September quarter, Rs.3 crores to Rs.4 crores of loss.

And also, there is a lack of operating leverage because realizations have gone down and volume growth is not where it should be. So in a normal environment, we should continue to do 12% EBITDA margin ex of inventory gain and loss. So hope that breakup of that September quarter is helpful.

Sneha Talreja:

Yes, that was. And any breakup that you would like to give on the product side also? If I'm not wrong, CPVC would have done fairly better compared to PVC. And by any chance, if at all, you can quantify something, that would be really helpful. Or where have we reached in terms of CPVC share?

Nihar Chheda:

So CPVC, we continue to grow. You're right. We are able to have a good volume growth, mainly because of plumbing. So not only CPVC, but mainly in the Plumbing division. In this kind of an environment, PVC did struggle and Agri anyway is a weak quarter. So that is where we are. The growth was majorly led by Plumbing.

Moderator:

The next question is from the line of Nigel Mascarenhas from Leo Capital.

Nigel Mascarenhas:

From a competitor's point of view, are you still seeing higher competitive intensity in terms of pricing and channel margins from the competition? And how are you responding to the same?

Nihar Chheda:

So as you're aware, I think this continues to be an industry which is, I would say, fairly organized because piping cost is a very low percentage of overall project cost for a builder. So still 65% of the industry is organized, 35% is unorganized, which I would say is fairly healthy relative to other building materials.

And it's essentially top 4 players who are growing at a faster pace to the industry and gaining market share as the end user also is becoming more and more quality conscious and brand conscious about a product which has typically always been behind the wall, we are seeing a higher level of brand consciousness.

So long term, I believe this industry will continue to be more and more organized and big players will continue to become bigger. Having said that, yes, in Q2, everyone has been adding capacity aggressively over the past 2 years to keep up with the demand. So in these times where you have such strong headwinds from a sentiment and raw material pricing point of view, we had seen one player be more aggressive. It's a fine line that one needs to draw. We are not immune to the forces of demand and supply.

So we have to be responding to that, but we cannot be irrational. We have our own metrics internally as well. So yes, we did pass on in terms of trade incentives to be competitive, but it was not done in an irrational way. And the good part about trade incentives is it's not permanent. It helps us only when demand is weak. So no predatory pricing or anything like that was done. Our focus continues to be on profitable growth.

Nigel Mascarenhas:

Got it, sir. So you'll pass it on in terms of trade incentives?

Nihar Chheda:

So see, PVC pricing, we completely pass through any increase or decrease. The leaders usually announce and the rest of the industry usually follows. But since there was such poor sentiment of demand and destocking across the channel, we did have to give some additional onetime incentives to ensure that volume growth is registered, and that is visible to everyone that we have done better off compared to industry. And now that the reversal is coming in terms of PVC pricing, we can slowly phase that out.

Moderator:

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

Shravan Shah:

Sir, just wanted to check, so despite in the 1H, we have done an 8.6% volume growth. We are saying for full year also 8% to 10%, though now as the PVC prices has increased and maybe some further increase likely to happen. So don't we may be slightly growing lesser than the industry in the second half? And how one can look at from the FY '26 onwards?

Nihar Chheda:

We are clearly growing faster than the industry. You can see the September numbers as well. But we have always been conservative with guidance and hope to deliver better. I do believe H2 will be significantly better than H1 in terms of demand tailwinds, as you rightly said, because of positive PVC prices.

And apart from -- see, PVC price is only important from a channel inventory. I would say we are still a semi commodity. We are not fully driven only by the sentiment of PVC pricing. I think what is encouraging for us as an organization is that end product demand continues to be strong. So we will continue to have destocking and restocking, which over 12 months will usually even out.

But I think rather than me giving a guidance, you can see that we ourselves are ramping up capacity aggressively. We are preponing capacity as well in the Begusarai facility, and we continue to debottleneck the existing facilities as well. So we are putting up capacity aggressively. And I think that itself should give everyone an idea of how we view demand for the piping industry and specifically for Prince going forward.

Shravan Shah:

And sir, for margin, what did you say -- you explained why it was low in the second quarter. But now how one can look at for the second half in terms of margin and from the FY '26 onwards, EBITDA margin, how one can look at? So 12%, 13% previously what we were used to say, that is doable.

Nihar Chheda:

So see, margin is a function of majorly 3 things for us. One is pricing power. As I think now that we will again see an uptrend of PVC prices. Larger players tend to do well in such a market because we are holding on to inventory. And supply security is never a challenge for us regardless of what kind of duties come in. So I assume pricing power will continue to become better in the midterm and the long term.

Second is product mix we continue to work on and CPVC continues to do well for us. And third is operating leverage. In quarter 2, we really did not have operating leverage because realizations were low compared to normal and volume growth was only low single digit. But typically, when realizations will continue to improve and volume growth comes back to high single digit, low double digit, operating leverage plays a very big part for us in terms of cost absorption as well.

So if all these factors support, which they look like, I think we have performed -- we have delivered 12%, 13% EBITDA margin and significantly more than that as well. So efforts are on in the right direction. And I think more than the guidance, what is important is the parameters that drive the margin. And I think I've explained the margin drivers for you.

Shravan Shah:

Okay. Got it. And in terms of the capacity, what you said, so previously, I think we were looking at Begusarai by January and then now we are saying by March and 50,000 tonnes will be added. So any specific reason in terms of the delay? And also the debottlenecking, so last quarter and this quarter also, we -- around 12,000-odd tonne capacity has been increased. So how much more debottlenecking is possible? And apart from Begusarai, is there any other plant to increase the capacity?

Nihar Chheda:

So we had -- you're right, we have guided for Jan, which has now come to March. There were slight monsoons in Bihar, which were overextended, but it's not a major delay. It's only by 1 or 2 months on account of the monsoons. We're still on track, and we are confident of Q4. And we are still trying to do it significantly before March. So our fingers are crossed, and hopefully, we will be able to achieve that before March.

And yes, we are able to debottleneck. We have more than 80 acres at Jaipur facility and around 50 acres at the Telangana facility. And at both current campuses around 20 to 30 acres only. So significant land parcels are available in the Northwest being Jaipur, which caters to both North and West India and Telangana, which is our fully integrated facility for South India.

And in Begusarai as well, we have around 35 acres. Basically, we have ability to debottleneck capacities across Northwest, South as well as Eastern part of the country. Post Begusarai, yes, we will continue to decentralize manufacturing and we'll look at our next manufacturing facility. But currently, the focus for now is just to prepone capacity at Begusarai as fast as possible so that we can commission production there and that can further help us move towards our aspirations of volume growth.

Shravan Shah:

Lastly, if you can share the revenue for Aquel in the 2Q and the capex for FY '25?

Anand Gupta:

So Aquel reported Rs.7 crores of top line in the second quarter. And as we had announced that the asset purchase agreement has been only completed in the first phase. The second phase cash outflow is still pending, which will be around Rs.43 crores. And there will be some maintenance capex in the plant in the range of Rs.5 crores to Rs.7 crores, which we anticipate over a period of 12 months.

Shravan Shah:

Okay. And total capex for the company in FY '25?

Anand Gupta:

Total capex, including Bihar, will be in the range of Rs.330 crores to Rs.350 crores.

Moderator:

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

Keshav Lahoti:

Sir, as you said, the trade incentive was a one-off kind of situation. So is it fair to assume there would be no trade incentive impact in Q3?

Nihar Chheda:

It's too early to say that. We are in the middle of the quarter. I will not -- I cannot sit here and rule out trade incentives. That's a part and parcel of the industry. When it is required, we will do it. It was just -- and it is a normal thing that we do every quarter. It's just that it was done at a higher extent in the September quarter. It's not the first time we have done it. It will not be the last time we have done it. It's just that we had to be slightly more aggressive in the September quarter because of the weak sentiments on account of volatility in raw materials.

Keshav Lahoti:

So the trade incentive was in September or was there for the entire quarter? And was it there in October or not? I'll put it this way.

Nihar Chheda:

It was there in the entire quarter, and it continued in October.

Keshav Lahoti:

That is very helpful. And sir, the channel inventory is low, what we understand, which has led to weak growth in Q2. Is it -- any sense you can give what was possibly the channel inventory in your opinion at Q1 and how that would have been at Q2 end and whether the channel inventory was low also for CPVC portfolio or not?

Nihar Chheda:

CPVC prices don't change very often, but typically, it's more of a sentiment thing, right? So typically, when dealers restock, they restock across polymers. But I don't anticipate wild fluctuations in channel inventory for CPVC. Main restocking is in PVC because of more volatile behaviour of the raw material.

Keshav Lahoti:

Possible to give any sense how has been the channel inventory at Q1 and Q2 and in your opinion?

Nihar Chheda:

Q1 would be higher because the demand sentiment was not as weak as it was in Q2.

Keshav Lahoti:

Okay. Understood. One last question from my side. In the last quarter call, you said possibly you will give a road map of expansion for the next 2 to 3 years in next fall. So has the company finalized anything on that? And when should we expect?

Nihar Chheda:

No. So expansion currently is in 2 places. One is in Bhuj, where we are acquiring the Aquel facility through an asset purchase agreement. And the second is our manufacturing of pipes, fittings and water tanks, which will be done in a phase-wise manner in Bihar for the eastern part of the country. Like you see, even in Q2, we have done some debottlenecking at existing facilities at Jaipur and Chennai. And we continue to debottleneck existing facilities.

So going forward, we have a lot of -- like I said earlier, we have a lot of land bank at Jaipur, Telangana and now at Begusarai. So across these 3 manufacturing locations, we will have the ability to debottleneck. And we will also look at decentralizing manufacturing footprint at the right time. For now, the entire focus is on completing the Aquel transaction and putting up capacity in Bihar as soon as possible.

Moderator:

The next question is from the line of from Udit Gajiwala from Yes Securities.

Udit Gajiwala:

Sir, you have explained a lot on margin front. Just one angle to it that since you mentioned twice in your opening commentary that you will be going aggressive for volume push. So in order to gain this market share that we have lost over the years, could we still see that margins for pipe business could remain under pressure?

Nihar Chheda:

Lost over the years, I will not agree with that statement to begin with. Yes, there were ERP issues in the last year as a result of which we did have supply chain issues. But typically, we have always been one of the fastest-growing players in the industry. Coming to margins and how that impacts volume growth, our focus always, especially over the past 3 or 4 years has been on profitable growth. We don't believe in predatory pricing.

There is no point of just gaining market share for the sake of gaining market share. We are in an industry where there is enough and more room for growth, and there is room for everyone to grow. And that is why you're seeing so many new players also come in, looking at the kind of growth potential in the piping industry. It is one of the highest in any other building materials space. And overall real estate is also doing well and infrastructure continues to do well over the long term.

So we have a lot of demand tailwinds across all our verticals, be it plumbing, be it infra, be it agriculture, be it water storage and now bathware. So we are very clear that as an organization, we need to be focusing on profitable growth. Yes, we are not immune to sentiment of demand and supply. And sometimes we have to be competitive if the situation demands, but it will never be a predatory pricing. If we are investing even in Q2, which was a challenging quarter for the entire industry, we have still invested 2.5% in promotional activities, both ATL, BTL and digital.

So when we are investing so heavily in the brand, it does not make sense to be having predatory pricing. So focus will continue to be on profitable volume growth. And it is up to us to find that right balance of volumes and profitability.

Udit Gajiwala:

Understood, sir. And sir, secondly, I mean, we have seen peers launching the OPVC segment. You had said that you always wait for the market to develop. So are there any plans on drawing board already or we are still waiting for this product acceptability to come up?

Nihar Chheda:

I think overall, we are much more comfortable in the private, so be it private projects or retail and distribution because of the extended credit cycles in some of these institutional businesses. So as of now, we are adding capacity in core product categories as well as looking at a lot of more value-added products within piping, be it low noise pipes, be it industrial pipes and channels, surface drainage channels. So we are focusing on a lot of these other new products and innovation will be at the core pillar for the Piping division. OPVC for now, we don't have any immediate plans.

Udit Gajiwala:

Understood. And sir, lastly, on working capital, I mean, you all had highlighted that it will ease out. So by FY '25 end, what kind of targeted days can we assume for this?.

Anand Gupta:

So overall, 93 days is the September number for us. And primarily, the inventory has gone up significantly for us from 62 to 88 days. As we had already given a guideline that around 70 days is something which we'll keep on a regular basis. So there will be some correction of 10 to 12 days over here. We keep on working on DSO. DSO has -- is now at 55 days, which we are still working to 3 to 4 days, we see that further correction will come in next quarter. And by year-end, we see that it should go below 50.

Moderator:

The next question is from the line of Utkarsh Nopany from BoB Capital.

Utkarsh Nopany:

Sir, my first question is on the return ratio. So like our ROE has come down sharply from earlier 20% plus run rate during pre-COVID period to now high single-digit range. So just wanted to get a sense from you like what kind of an ROE we are targeting over the next 2-year period? And how we plan to reach to that level, assuming competition in the sector remains intense in future as well?

Nihar Chheda:

Yes. So there's 2 parts to this. One is, of course, we have been aggressive with capacity expansion. In the last 3 to 4 years, we have added capacity in Telangana. Now we are adding capacity in Bihar. And we have added capacity at existing locations of Jaipur, Haridwar and Silvassa. So that is always going to have a short-term impact on return ratios. And we have had a couple of challenging quarters on account of volatility in raw material and previously with a few ERP issues.

But over the long term, once we are able to normalize the capex, our return ratios will be back return on capital of 15% to 20% is what we have consistently delivered, and we will consistently deliver that going forward. We are also investing in bathware, both capex and opex. So that also will have a short-term impact. But over the long term, it's a growing industry.

I still don't agree that competitive intensity is a challenge because, yes, supply is increasing, but at the same time, demand also is increasing and a lot of this supply, whether existing players are adding capacity or new players are coming and is looking at the growth potential. This is one of the few industries that is growing at a CAGR of high single digit, including unorganized both put together.

So I think we are in a sweet spot being one of the leaders in an industry, which is the fastest-growing industry in the building materials space. So being one of the leaders in this kind of an industry, I think 15% to 20% return is something that we have delivered and in the long term, we will continue to deliver.

Utkarsh Nopany:

Okay. And sir, like what is your ad spend in the September quarter and budgeted ad spend amount for FY '25?

Anand Gupta:

It's 2.5% for the September quarter as well as for the first half of the financial year. So I think we will continue to keep that in that range, 2% to 2.5%.

Utkarsh Nopany:

Okay. And sir, like can you please provide the capex breakup of Rs.330 crores to Rs.350 crores, which we are planning to spend in FY '25 into Bihar, Aquel and maintenance capex?

Anand Gupta:

So Bihar has started last year. So there is -- there will be spillover of total capex in 2 years. So part of Bihar will be completed in this year. It will be in the range of Rs.170 crores kind of for this year. Bihar will be there.

Apart from that, there will be the bottlenecking, which we have undertaken that will be around Rs.30 crores to Rs.35 crores will be there in that thing. And maintenance capex will be in the range of Rs.80 crores to Rs.90 crores for our existing plant. This is how the piping segment is there. And apart from that, we have already mentioned that Rs.43 crores is left for Aquel for second phase, which we have already planned for that. And maintenance capex will be in the range of Rs.5 crores to Rs.7 crores for Aquel. That is how the split is.

Moderator:

The next question is from the line of Parikshit Gupta from Fair Value Capital.

Parikshit Gupta

I just have one operational question. In the new unit in Bihar as well as the existing units in Jaipur and the Southern India, the furnaces, are they -- what kind of fuels do we use in the furnaces? I understand that the industry relies a lot on natural gas as well as propane. However, there is varying prices across different months because of the volatility at this moment. So if you could just give a directional sense of the kind of fuels that you use?

Nihar Chheda:

So we are into manufacturing of plastic pipes and fittings. So we don't have any dependence on natural gas nor do we have furnaces. Pipes is an extrusion process, which is a continuous manufacturing process, and fittings is an injection moulding batch processing. And our input raw material is polymers like PVC, CPVC, PPR, HDPE, LLDP.

Moderator:

The next question is from the line of Bhavesh Jain from DV Investment Advisors.

Bhavesh Jain:

My first question is regarding the capex front. So we have done a capex of around Rs.127 crores in H1. But if I see the change in fixed asset plus capital work in progress and plus depreciation, it is around Rs.92 crores. So the numbers doesn't seem to match up.

Anand Gupta:

So you are matching cash flow and balance sheet?

Bhavesh Jain:

Yes, yes.

Anand Gupta:

So I think we can connect offline and we can get this line plotted.

Bhavesh Jain:

Okay. Okay. And my second question is regarding the inventory build-up we have seen from March '24 to H1. So it has come to around Rs.588 crores. So can you explain the reason behind the same?

Nihar Chheda:

Yes. So typically, supply security is important, and we are dependent both on domestic sources as well as import. So when we ensure -- so firstly, this inventory is a mixture of finished good and raw material, and we continue to have healthy amounts of both finished goods and raw material inventory.

Whenever there is a soft quarter, you are going to see a slight buildup in inventory because we are taking these positions 2 or 3 months in advance, assuming 10%, 15% growth, which is what we are aspiring to do. So naturally, when we are going to do a lower volume growth, there is going to be a slight inventory buildup.

And same whenever we have exceptional quarters in terms of volume growth, inventory tends to be lower. So looking at our -- and this -- the inventory buildup is not unique to us. This has happened across all large players in the industry because of the reason that I explained. That's how it is.

On a normal basis, we have always guided for 65 to 70 days of inventory we are usually going to sit on. So a month of raw material and a month of finished goods or slightly more than that is typically what we maintain. So compared to normal, we have maybe 15 to 20 days more of inventory, which is on account of a weak quarter 2.

Moderator:

The next question is from the line of Varun Jain from Dolat Capital. .

Varun Jain:

So just wanted to ask what was the water tank revenue for Q2?

Nihar Chheda:

Rs.12 crores.

Varun Jain:

And sir, you mentioned there's an exceptional gain in Q2, right, of Rs.18 crores?

Nihar Chheda:

That is for last year, last year Q2.

Varun Jain:

Okay. That was for last year. And sir, what is your projection on bathware for FY '25 complete revenue and EBITDA?

Nihar Chheda:

So I'll guide only on top line. It's too early to guide on EBITDA because still we are not a cash accretive business. But we have done Rs.11.5 crores in H1. So we will be doing higher than that in the second half. So we aim to close the year higher than Rs.25 crores.

Varun Jain:

Okay. And no guidance on like when the breakeven will happen or something like that?

Nihar Chheda:

I think by quarter 3 of next fiscal, we will break even, but it's not that we are really haemorrhaging cash. The bathware losses are very much in control. It's around Rs.4 crores per quarter, which we had guided for. So that would come to around Rs.16 crores to Rs.18 crores for per annum, which is what we had guided when we had gotten into this business.

So the loss in bathware is very much under control and is being monitored closely. Manpower cost will go up in the second half of the year for bathware because we are expanding into South and East India, and that revenue will take a quarter's lag before the team has settled. We had started from North and West. Now we are reaching this run rate of Rs.7 crores per quarter in second half -- in Q2.

So now we have expanded into South and soon, we will be expanding into East in this quarter itself in terms of building the team and then a quarter to build the channel and for the revenues to trickle in. So looking at this, I think by second half of next fiscal, we will -- or Q3 of next fiscal, we will achieve no bathware losses, and then we scale the business from that.

Varun Jain:

Okay, sir. And just last question, sir, how are you seeing the competitive landscape across this water tank and bathware? Like in water tank, since Sintex has been acquired by Welspun, they are a very large player, and they are also going very aggressive and in bathware, so many new players have entered. So how do you see the competitive landscape in these 2 products? That's all.

Nihar Chheda:

Tanks competitive intensity has always been higher, and we had acknowledged that getting into this business because it's opposite of the pipe vertical and the bathware vertical for us, where only 35% of the market is organized and 65% of the market is unorganized. And this is due to a high sensitivity towards freight cost.

So this is going to be an industry where you are going to see a lot of competition from regional players. However, with larger players like us getting in, we have seen a slight more brand consciousness in this segment. And we continue to add capacity in water tank. We have now in-house manufacturing at the Silvassa plant, at the Jaipur plant, Haridwar, Chennai as well as Hyderabad plant.

Moderator:

The next question is from the line of are Aasim Bharde from DAM Capital.

Aasim Bharde:

Two questions. One on the inventory. So is the rise purely to do with the pipes business and PVC resin? Or is there a good push also coming due to bathware?

Nihar Chheda:

No, pipe business.

Aasim Bharde:

And second, basically, I just wanted a clarification. So when you say your Aquel loss is Rs.4 crores per quarter, does that -- I mean, is that the EBITDA loss, so it includes the cost of goods sold? Or is it just the SG&A and the employee cost?

Nihar Chheda:

So it is after factoring your gross margin and up to depreciation.

Aasim Bharde:

So it's basically EBITDA, right? Or you're factoring depreciation also?

Nihar Chheda:

Yes.

Aasim:

Okay, so it's EBIT.

Moderator:

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

Keshav Lahoti:

Sir, I need a clarification. Bihar expansion size was 45 KMT, which you said will increase to 50 KMT. So whether the capex size remains same or that has also increased?

Nihar Chheda:

We have preponed the second phase.

Keshav Lahoti:

Okay. So total size is how much now Bihar, including the second phase?

Nihar Chheda:

It's around 55 KMT total capacity that will be there at the Bihar.

Keshav Lahoti:

Understood. Got it. One last question, how has been the demand trend for pipes in Q2, monthly trend?

Nihar Chheda:

In Q2, it was challenging in the first 2 months. But in September quarter, we saw a good growth. So we did see a more -- better recovery in the September month.

Moderator:

Thank you. As there are no further questions, I would like to hand the conference over to the management for their closing comments.

Nihar Chheda:

Thank you. Thank you to everyone. Thank you, Arun.

Moderator:

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