PPFL/SE/2019-2020/23

February 18, 2020

To,

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

Scrip Code: 542907

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

Scrip Code: PRINCEPIPE

Dear Sir/Madam,

Sub: Disclosure under Regulation 30 of Securities and Exchange Board of India (Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI LODR") – Transcript of Conference Call held on February 12, 2020

In continuation to our letter No. PPFL/SE/2019-2020/7 dated February 10, 2020, please find enclosed transcript of the Conference Call for Analyst and Investors held on February 12, 2020.

Kindly take the same on record.

Thanking You.

Yours faithfully,

For PRINCE PIPES AND FITTINGS LIMITED

PRINCE PIPES AND FITTINGS LIMITED MUMBAI

Pravin Jogani

Company Secretary & Compliance Officer

Edelweiss
Ideas create, values protect

Conference Call Transcript

Prince Pipes and Fittings

Q3FY20 Results

February 12, 2020 | 11 a.m. IST

Corporate Participants

Mr. Parag Chheda
Executive Director

Mr. Nihar Chheda
Avp Strategy

Mr. Shyam Sharda
VP And Group CFO

Questions and Answers

Moderator: Ladies and gentlemen, good day and welcome to the Prince Pipes and Fittings Limited Q3 FY2020 Earnings Conference Call hosted by Edelweiss Securities Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing "*" then "0" on your touchtone phone. I now hand the conference over to Mr. Rohan Gupta from Edelweiss. Thank you and over to you!

Rohan Gupta: Good morning, ladies and gentlemen. On behalf of Edelweiss, I welcome all the participants logged in for the conference call of Prince Pipes and Fitting to discuss Q3 FY2020 results and industry trend. From the management, we have Mr. Parag Chheda, Executive Director of the company, Mr Nihar Chheda, EVP Strategy and Mr. Shyam Sharda who is a VP and Group CFO.

Good morning gentlemen. First of all, thank you very much for giving us the opportunity for hosting this conference call. I request you to first share our current quarter results and the trends in the industry and then we can follow it up with the question and answer session Sir. Thank you and over to you! Please go ahead.

Parag Chheda: Good morning to everyone. Thank you for joining us for the Q3 FY20 earnings call. I am Parag Chheda, the Executive Director. Today, I am joined by my son, Nihar Chheda, EVP strategy and our CFO, Mr. Shyam Sharda.

Firstly, I would like to express my sincere gratitude to you and all our investors for the oversubscription to the IPO and showing your strong faith.

Let me give you a perspective on our strategy before I ask Shyam to take you through our fiscal performance.

I am pleased to announce that the Jaipur plant has commenced commercial production in H1 FY20. Jaipur plant will be our sixth state-of-the-art manufacturing facility with fully automated compounding facility. It has always been Prince Pipes' core philosophy to have a strategic multi location manufacturing network. This is because as you are all aware, freight cost is a significant part of our cost structure. It is our clear strategy to move closer to the market that we are trying to penetrate through efficient supplies and timely service.

Furthermore, we have recently struck outsourcing contracts with partners in Odisha and Andhra Pradesh to help us reinforce our service to the eastern and southern markets. The timing of this market consolidation has been favourable. In the sense that our capacity addition has coincided with the market consolidation, while we are not sure about the extent of actual demand growth, the lack of supply from the unorganised sector and parts of the organised sector have fueled this growth. What makes this growth sustainable is that we have been able to attach new distributors who have shifted to us from these regional and fringe national players. Network expansion along with a multipronged marketing strategy will help us to achieve my goal of being a preferred brand amongst brands.

My single line objective to the branding team has always been winning in many India's. It is my conviction that Prince has a strong command in a combination of urban, semi urban, Tier II, Tier III towns as well as rural markets. This is what makes us unique in the industry, the ability to win in many Indias. For example, we have a majority market share in a metro like Mumbai, we are parallelly able to enjoy strong brand equity in rural markets of states like Haryana and UP as well.

Our Brand Ambassador, Akshay Kumar helps us to achieve this goal to have an impact on homeowners, plumbers, farmers and borers across the country. We have used a multi-medium strategy of branding apart from the usual hoardings, shop boards and plumbers meet, we have used two unique mediums for brand building.

Firstly, we have used what I like to call a multi-state single strategy of transit media. Across different geographies, we targeted the most popular regional mode of transport to build the brand. For example, the Delhi metro, Mumbai local train, buses in South India etc. Furthermore, we also created a film co-branding strategy with Akshay Kumar's film Mission Mangal in this fiscal.

We believe that these brand building exercises will not only help us sustain this newly found market penetration but also help us in the quest of garnering higher market share across many Indias.

I am also glad to announce that we will be utilizing renewable energy sources at multiple factories, renewable energy has the dual benefit of helping us attain not only our sustainable goals but also reduce our operational cost.

We started with our Chennai plant where we have started connecting wind energy and plan to start harnessing solar power through the opex model. This solar power project will be completed by Q1 of the next fiscal and almost 25% of our Chennai plant will be running through the renewable energy and will led to savings on our conversion cost. Furthermore, through the next fiscal, we will also be using a combination of opex and capex model to harness the solar power at Haridwar, Jaipur, Dadra and other plants. These projects will be conducted in a phased manner and my goal is to complete this by the end of H1 in the next financial year.

Friends, as you all are aware that a provisional antidumping duty has been announced on CPVC resin imports from certain sources, while this will result in further market consolidation and aid the big getting bigger in the long run. There will be a short-term uncertainty on cost structures. Fortunately, we were importing from multiple sources, not only from Korea and China but also from Europe and Japan. Post the provisional duty announcement we have increased our allocation to Japan and Europe as well as domestic sources. I want to clarify that we have not been facing any problems in securing our volumes given that we are one of the top four processors of CPVC in the country today. Until the actual duty is formally announced, there will be a slight uncertainty on CPVC margins. Even though frankly, CPVC only contributes to less than 20% of our topline, we have been conservative and realistic with our guidance's for the overall fiscal performance. We continue to maintain our guidance on the EBITDA margins that we had mentioned at the start of the fiscal.

In the past quarter, we have also added in-house capabilities for manufacturing plumbing ball valves of running sizes at our Haridwar plant. This project should conclude by Q1 of the next fiscal. We shall continue to trade the slow- moving sizes. However, valves being a value-added product, we want to eventually be able to manufacture the entire range in-house. We are very excited to become an integrated manufacturer of pipes, fittings, solvents and now valves as well. It is our fundamental goal to have these in-house production capabilities which will transform us from being a pipe processor into an integrated system as well as end-to-end solution provider.

Now coming to our new favourite topic of the discussion which is the DWC pipes, now everyone is aware of the macros and the huge scope of the business growth. For example, more than 70% of our waste today in India is through the open gutter channels. Developed countries like USA and Europe are talking about the waste treatment, which is a faraway dream for us. We need to start with piping our waste as a country.

As you are aware, Prince is the early mover in the underground drainage segment to have a comprehensive product portfolio. We have the in-house capability of manufacturing pipes in the range of 100 to 1,000 mm in diameter. Furthermore, I am extremely glad to state that we have received a patent for our innovative and technologically superior product design of the DWC Coupler in this fiscal. Using the product range and the product design as a brand differentiator has always been at the heart of our strategies and we have done the same by being the first mover with the wide range of DWC products. However, in the last couple of quarters, the ground reality is not as black and white.

The delayed monsoon and the election period led to a slowdown in the demand for the DWC in the H1 period. This is because all the digging activities must stop during the rains which were overextended. Furthermore, EPC contractors at large who are the primary consumer of these pipes have been facing funding issues as a result of which DWC has got more capital intensive than envisaged.

This is contrary to our goal of constantly improving our capital cycle. Essentially DWC has a short-term challenge and is going to have higher gestation period than projected. I strongly believe the secret sauce lies in the product. I am very clear and confident in stating that DWC is technologically and economically a more superior product than RCC Pipes. In the medium run, we will mature as economy and as a country and evolve into making DWC our mainstream product.

At Prince, we have leveraged our multi-location manufacturing network by being the first one to manufacture DWC at all our plants across the country. This will help us significantly improve and become more competitive than our peers and establish and demonstrate our execution capabilities and intent to the market.

I am confident that these differentiators of the range and the network, will be the front runners of leveraging these opportunities in underground drainage system in the medium to long run.

Lastly, the technology is the key focus area for us. We believe that technology is an important tool to drive, change and increase our efficiency. Accordingly, we have made investments in the past few fiscals across our manufacturing plants. First, automation in the pre and the post extrusion process to reduce the manpower cost. Second, the real time and the live data capturing and monitoring through our SCADA systems to avoid the manual feeding process. Third, we have also adopted automation in non-core processes like pipe lifting and product packaging to further optimise the cost.

The above listed are the various initiatives that are part of the overall projects of using technology as not only a cost optimizer but also a disruptor. All these initiatives are a part of our overall strategy that will propel Prince Pipes into being a preferred brand amongst brands. Thank you for your time and mind share. I would now like to hand it over to Mr. Shyam Sharda, our CFO to quickly walk you through the fiscal parameters.

Shyam Sharda: Thanks a lot Parag Bhai and good morning friends. I will quickly take you through the numbers of the results which is under review. As you are all aware, we have got listed in the period under review. We have raised total Rs. 606 Crore which comprises of Rs. 356 Crore including a pre-IPO of Rs. 106 Crore of primary money for setting up the plant at Telangana, upgradation capex and for repayment of debt. Since it was the end of the quarter, we were not able to deploy the funds.

We have repaid a portion of our debt and are repaying more in the current quarter. We have taken a conscious decision to pay our debt in the coming quarters to further strengthen our balance sheet. The capex required over the next two years or three years will be undertaken through the IPO proceeds as well as from the funds which have been raised.

Before I take you to the results, I would like to highlight one key point, the Ministry of Finance issued a notification letting provisional antidumping duty under the Custom Tariff Act on the import of CPVC resin from South Korea and China. As all of you are aware, before this duty announcement we were sourcing CPVC resin from multiple sources including Korea, Japan, China and Europe. The company has paid Rs. 7.5 Crore as a provisional anti-dumping duty to the government.

Please note that this is only provisional duty and investigations are still on. In order to avail the delta within the provisional duty and the actual duty which will be announced post investigation we have treated this as an account recoverable from the government in our books of accounts. I would further like to highlight that we have stopped purchasing CPVC resin from Korea and China and this was like in one-time occurring. On receipt of the final order, the company will assess the same and account for it in the book of accounts.

Now, I would like to move onto the fiscal performance for the three-month ended December vis-à-vis the last three months ended December 2018. The revenue from operation grew by 10% to around Rs. 396 Crore vis-à-vis Rs. 351 Crore in the year-on-year basis earlier. Volumes have grown by around 5% to 31,122 metric tonne vis-à-vis 29,617 metric tonne in the previous period. EBITDA has grown by around 23% to Rs. 53 Crore vis-à-vis Rs. 43 Crore in the earlier period. The margins have improved by around 150 BPS to 13.5%. Depreciation increased owing to the commissioning of the Jaipur plant.

For the nine months number on the overall financial performance, the revenue from operations grew by 12% to Rs. 1,205 Crore vis-à-vis Rs. 1,073 Crore. The volume growth has been 11% at 99,676 metric tonne vis-à-vis 86,533 metric tonne, this is the first warning period. Despite a challenging environment, we have been able to manage and deliver performance on our key segments. We have started manufacturing incremental range of PVC fittings at Haridwar facility to serve our northern markets in a better way. This will help us to reduce freight cost more effectively and improve our service ability.

EBITDA has grown by 36% to Rs. 171 Crore vis-à-vis Rs. 126 Crore in the earlier corresponding period. The margin improvement is around 250 BPS at 14.2% owing to a favourable product mix. Our Jaipur plant has been commissioned during the period under review and the production is ramping up. Capex for the period has seen around Rs. 140 odd Crore which includes around Rs. 100 Crore towards our Jaipur plant. Our tax rate is at 25.1% for the period and we have adopted the new revised tax rate structure.

Our long-term debt as on date is around Rs. 64 odd Crore and intent is to further reduce the same in the next quarter. Our debtor days have been on an improving trend and is presently at 37 days owing to stringent credit control norms that we have adopted. We also have facilitated channel financing for our key vendors which has further helped us in improving the debtor days. The working capital days are at 51 days which is increasing owing to the higher inventory days and the gross debt to equity as of today stands at 0.37X.

With this, we would like to open the floor for Q&A session and would be happy to answer your queries please.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Devansh Nigotia from SIMPL. Please go ahead.

Devansh Nigotia: Thanks for the opportunity and congratulation on a very good set of numbers. In terms of volume growth if you can help us dissect it between agri, non-agri that would be really helpful?

Nihar Chheda: Thank you for your question. So firstly, the total volume growth on a quarter-on-quarter basis has been around 5%. As a company policy, we cannot give a break-up of those categories or the polymers, but I can give you a directional thought process. The reason for the margin expansion has been due to a favourable product mix. So, our goal always is to grow faster in the plumbing and sewage range of products as opposed to the agriculture range of products and we have been able to achieve that which is the reason that has also led to the margin expansion.

Devansh Nigotia: Okay but in that case, I mean because since there is a 5% volume growth and directionally if there is a strong growth in housing vis-à-vis Agri, would it be right to interpret that there will be volume degrowth in agri side? I mean directionally I am not talking for exact numbers though? Because as you highlighted that there is some consolidation in case of Kisan and Jain Irrigation, so sounds quite counterintuitive because if we look at compared to last year there were in the market but gradually they are phasing out of the market, if you can just help us understand in terms of how volume growth has played out?

Nihar Chheda: Sure, I would like to clarify there is not degrowth in agriculture segment. It has been slower than what it is in plumbing and drainage, also to be honest with you we could have grown at 2% to 3% higher than we actually have but then we would have to throw credit because a lot of these distributors of the regional players or these fringe national players are used to credit cycle which we simply do not want to entertain because in such times quality of the balance sheet is something that is very important to us and our sole focus above growth is going to be sustainable growth, so the fact that we have been able to grow in value at 10% and our volume at 5% and still decrease debtor days, you know I sleep a lot well at night knowing that I have been able to do that.

Devansh Nigotia: Yes. In terms of our communication with our distributors in terms of the way we used to give credit, I mean how that has changed, the channel financing is something to do with it but other than that if you can just help a thought process because there is a significant change in data days?

Nihar Chheda: That is the good question. So, what I would like to clarify is that with the market consolidating not only is the unorganised moving to the organised but even within the organised, the big are getting bigger. So today we have a lot more leverage than we had may be two or three fiscals ago, so as a result of which not only have we used channel financing as a tool to improve receivable days but we have also fundamentally reduced the credit policy that we were giving to our distributors. So, this is a very clear messaging that happens to the channel at the beginning of the fiscal when they sign their targets and MOUs with us. We can assign the fact that we are going to be giving lesser credit to the market and still want to grow but grow in a sustainable manner.

Devansh Nigotia: In terms of other expenses when we look at a percentage there is a significant delta around 1.5% to 2%, so if you can just help us in other expenses as a percentage of sales when we look at year-on-year?

Shyam Sharda: Basically, in terms of the overall expenses and there will be in couple of heads, which has gone up. One is on an account of power and fuel, which had gone significantly up and also because we have put up some other job works sites, also there is an increase in our labour cost as well. Further we have been emphasizing, the branding cost has also been going up so that has steadily contributed to the increase in cost.

Devansh Nigotia: Because since our ad spends like when we look at 2018 against 2019, our ad spends there were significant delta in that period, I mean what numbers are you working in terms of ad spends for FY20 in terms of absolute amount?

Shyam Sharda: We should be closer to around Rs. 35 to 41 Crore in terms of overall ad spends.

Devansh Nigotia: So that number is same as compared to last year?

Shyam Sharda: Rs. 41 Crore.

Devansh Nigotia: Rs. 40 to 41 Crore was the amount?

Shyam Sharda: Yes, that should be in the similar range.

Devansh Nigotia: In case of Jain, can you just help us understand, they are still in the market, what is the quantum of agri pipe business they were doing, any thought process you have on that?

Nihar Chheda: Sure. Of course, like you have correctly mentioned Jain was a very popular processor with a lot of market share especially in the irrigation segment. I think as everyone is aware that there are balance sheet constraint and there has been market share that has been up for grabs but that is purely in the agriculture segment mainly, while our focus is more towards plumbing and drainage. I will not be having exact quantities of what their volume or market share was but that has benefitted entire list of top four or five processors from this consolidation, I think that is evident in the performance.

Devansh Nigotia: Okay. Thanks a lot for answering all questions.

Moderator: Thank you very much. The next question is from the line of Ritesh Shah from Investec Capital. Please go ahead.

Ritesh Shah: Thanks for the opportunity. Sir you did indicate on the uncertainty around CPVC volumes and you also did indicate that we are looking at alternate sources besides China and Korea. Can you allude on to your strategy over here and is there any inventory that we are maintaining right now over here?

Nihar Chheda: Thank you for your question. Firstly, I think we did not say that there is uncertainty on CPVC volumes. What we said was that there is uncertainty on the CPVC margins because there is currently only a provisional anti-dumping duty. The investigation is ongoing, and the actual duty will be announced post the investigation conclusion. So, the volumes are intact. We have grown in CPVC while I do not want to quantify but we have double-digit growth and what I also want to add to that to answer your second question is that we have no problem in securing volumes today since we were not only sourcing from China and Korea, we had multiple sources of CPVC resin even before the duty was announced, so as opposed to being able to we did not need to find new sources of procurement of CPVC resin, we just had to increase our allocation.

Ritesh Shah: Can you give the break of what did China and Korea account for versus rest of the regions. I am just trying understand how the pricing of the sourcing cost will actually play out for us in the forthcoming quarters on back of this?

Nihar Chheda: While we cannot quantify that because I hope you can understand PVC 65% of the market is organised whereas in CPVC 70% of the market is controlled by four or five players, so the competitive intensity is very high. What I can say is that Korea and China were significant sources of CPVC resin for us but today if you see the market at large, India is the only consumer of CPVC resins. So, while the number of CPVC resin manufacturers are lower their only customer is India. We are the fourth biggest processor of CPVC pipes in India. So, we have a significant leverage not only in the trade but also in the sourcing part of it.

Ritesh Shah: Right that is exactly what I am trying to understand because you did indicate that market consolidation is one and there could be short supply and it could hit cost structure for the smaller guys. So, we want some comfort around the sourcing arrangement that we have in place ex China and Korea and will we have any price benefit given we have a reasonable size as we are among the top four to five players in the country. So, will we get that benefit and will we be able to source CPVC at the right price?

Nihar Chheda: We will be able to source CPVC at the right price and like you correctly mentioned having that sort of quantity leverage over the rest of the market will help us differentiate our cost vis-à-vis smaller players or even regional or even small national players and securing of volume is not going to be a concern at all. There will be uncertainty until the final duty is announced and I think that is the stance for the entire industry. It is very important to understand that in the long run this is going to be leading to market share gains.

Ritesh Shah: What is the timeline for the final anti-dumping duties? At what stage this working is on at DGTR?

Nihar Chheda: So quite frankly there has been some timelines but from what we understand is usually these investigations are prolonged and could have delays. So, I think it was announced in the month of August, if I am not wrong and at least broadly what we are given to understand is it should take six to eight months to be announced.

Ritesh Shah: Sir my second question is on sourcing specifically from Lubrizol what we got to understand from the market source is that we had some temporary sourcing from Lubrizol. Now are we looking for a tie-up with the Company or is it a one-off. How should one look at this?

Nihar Chheda: I am sorry like I said we cannot give this kind of information when four players are essentially controlling 70% of the market. What I can assure you is that there is no problem in securing of volumes and whenever there is an announcement to be made, we will make an announcement.

Ritesh Shah: My last question is on you did touch upon the margins, is it possible if you could give numbers on fittings as a percentage of total volumes specifically on PVC and CPVC side as even fittings do contribute a significant margin and I think that has been our focus area in the past as well. So, any colour over here would be useful?

Nihar Chheda: Sure, so there has been a sustained pipe to fitting ratio that we have delivered in the past while I will stay away from quantifying it again that is the reason that we have improved our margins and the pipe fitting ratio is intact.

Ritesh Shah: Any number that we target going forward over here or are there any incentives that we give out to our distributors and dealers to make sure that the fittings ratio is in our favour going forward?

Nihar Chheda: Sure, if you look the pipe fitting ratio of Prince Pipes already is the benchmark in the goal standards of the industry. So, I do not think we are trying to increase this ratio, our goal is to constantly sustain this ratio and we regularly give quarter-on-quarter schemes and incentives to our channel like our peer set does as well.

Ritesh Shah: Just last question if you can give some qualitative description on how our market share has actually played out in the marketplace given unorganised sector definitely they will be facing problems on resin procurement going forward and you had players like Jain, I think Prince SWR and Ashirwad also moving out of the market with change in promoters. Has it benefited us on the market share, how do you see it so far and how do you see it going forward?

Nihar Chheda: Absolutely without a doubt. We have been able to garner a significant amount of market share and I think as Parag Bhai mentioned in his opening remarks not only have we grabbed this market share but we have been also able to add new distributors from these companies that have moved out of the market which shows you that this increase in sales is going to be sustainable because there is going to be an increase in the number of distributors as a result of which we have absolutely been able to benefit from this growth that has come from this consolidation and we think that this is going to be sustainable.

Ritesh Shah: Can we have a number of distributors and the revenue per distributor any matrix that we look at?

Nihar Chheda: We can share with you number of distributors at the end of fiscal because this process of adding new distributors is an ongoing process. Having said that there is a criterion that we very strongly follow when we try to attach new distributor and I can walk you through that. Firstly, we always want to ensure that they are good pay masters. A lot of the distributors of these players were used to extended credit cycles which we do not want to entertain. So, we always make sure that they are going to disciplined pay masters.

Secondly, they need to have a robust infrastructure where they are able to have a strong retail network and the right infrastructure that is needed to keep the right amount of stock because availability of product in the secondary market is very important and thirdly, and most importantly for me is that the hunger of the distributor has to be paralleled to the Company's hunger and only if he is on the same wavelength of growth and has a very ambitious target of growth if the wavelength going to match so that is the foremost important criteria that we look at while trying to add new distributor.

Ritesh Shah: Right just last question if I may squeeze, on slide number 25 we have given that we intend to outpace industry growth by at least 2% to 4%. So how do we differentiate versus our peer set in the marketplace, is it like more discount, more credit or more SKUs. What is our strategy over there?

Nihar Chheda: Good question. Like you said the scope for product differentiation is minimal amongst peers because they are essentially all governed by BIS norms so the game for us today has become, how do we become a preferred brand amongst brands. So there are two ways in which we do that, one would be range of product portfolio so today if you look at us we are across multiple polymers, across multiple applications be it plumbing, irrigation, sewage, boring, underground drainage as a result of which we become a one stop shop for our channel and we have a very high number of exclusive distributors higher than our peer set as well and this comes as a result of the high product portfolio range that we have. Secondly, I would say is our manufacturing network where we have six plants as well as multiple job working units across the country. So we are able to minimalize our freight cost and penetrate the market more efficiently by minimalizing these freight cost and lastly, I would say is what the theme Parag Bhai touched on during his opening remark is the strategy of winning in many Indias and we are very proud of the fact that we are able to have majority market share not only in urban market like lot of our peers but we are also able to enjoy very strong brand equity in semi-urban as well as rural markets of India.

Ritesh Shah: That is helpful I will join back the queue for more questions. Thank you.

Moderator: Thank you. Next question is from the line of Sonali Salgaonkar from Jefferies. Please go ahead.

Sonali Salgaonkar: Sir thank you for the opportunity. Sir my first question is could you help us with your product mix in terms of PVC versus CPVC in your topline?

Shyam Sharda: As indicated by Nihar, we would not be in a position to provide that though we track it internally but for a better guidance perspective we will be able to position give you overall volume growth which is like 5% on quarter-on-quarter basis and also the value growth which is 10%.

Parag Chheda: Just to add that, while of course we have various segments of Agri, Plumbing, Drainage, Rain water harvesting, what we can inform is that our Company will continue focusing on the plumbing and the drainage products, drainage there are two segments again one is above the surface and second is the underground drainage systems. So company shall continue focusing on plumbing and drainage products very clearly.

Sonali Salgaonkar: Sir in terms of your revenue split what would be the B2B versus B2C portion.

Nihar Chheda: Sure, our more than 90% of sales comes from the B2C portion if you must ask me what our biggest strength is today, it would be our distribution network where we have in north of 1,400 channel partners across the country today. We traditionally have stayed away from the project and institutional side of business and we will continue to do that and this is because our sole goal like we have mentioned previously is on the quality of the balance sheet and with the projects we are usually exposed to higher working capital cycles and we want to keep that exposure to a minimal. So whatever projects we do participate in would be through the channel so it still ends that we sell to distributors who then eventually will sell it to a project. So essentially still a large part of our sales comes from B2C where the value chain is as follows, the company sells to the distributor who then sells to a wholesaler or a retailer who then eventually sell to the end consumer be it a homeowner, plumber, farmer, borer etc.

Sonali Salgaonkar: Sir my third question is would you be able to help us with your total installed capacity in the region wise mix of that?

Shyam Sharda: Our total capacity is around 2,41,000 metric tonne and this is likely to further go up to may be around 2,60,000 MT because with the Jaipur plant fully touching around 20,000 metric tonne by March we should be able to grow as that. So, it was exactly 252,000 MT as on December 31, 2019. It is categorised to all the six plants that we have, so broadly that would range between, if I have to tell you percentage overall thing it is like 59,000 MT for Dadra plant around 77,000 MT for Haridwar, Chennai accounts for 62,000 MT, Kolhapur is around 20,000 MT and Jaipur plant as on December 31 touched around 17,000 MT so that is broadly the overall 2,52,000 metric tonne that we have as an installed capacity as on December 31.

Sonali Salgaonkar: Sure. Sir my third question is you mentioned your ad spends sorry I missed the number what is your ad spend to net sales as a percentage right now?

Shyam Sharda: So, it will be range between 2% to 2.5% on an overall basis.

Sonali Salgaonkar: Sir my last question is on an industry basis, so what are the demand drivers that you are seeing going forward in terms any end user segments or probably housing and infrastructure?

Nihar Chheda: So, there are multiple drivers for growth. These drivers would be across segments so let me walk you through the main four drivers for growth for us one, which is substitution demand from the metal pipe so as you are all aware that there is a significant technological advantage of PVC as opposed to metal so that substitution market still goes on. The second being the government initiatives, so the setting up of the Jal Shakti Ministry and the Nal

Se Jal scheme which offers basically the single line mission of Nal Se Jal is to bring piped water access to every rural household in the country. It is going to be Price Pipes and our peers who are going to be direct beneficiaries of such programmes. In fact, I am glad to state that we have already started seeing demand from Nal Se Jal programmes at a state level in certain markets which we had envisaged as well and of course then there is the usual real estate leading to affordable housing and urbanisation that is taking place and lastly in terms of new frontiers for growth I think there are two new frontiers for growth for us one being the underground drainage segment so like Parag Bhai mentioned that more than 70% of our waste today is actually not even piped it is through open gutter channels if you are talking about a global bench mark today, US and Europe are talking about how much percentage of their waste is treated. For us waste treatment is a faraway chapter, we must begin with piping our waste. So underground drainage I believe is going to be a very significant vertical for us in the coming fiscal and the last frontier of growth from a geography point of view would be East India. I think given that freight is an important part of our cost structures it is important to have a local manufacturing presence and traditionally the top four or five manufacturers have stayed only in the West, North eventually then the South. But there has been a very small footprint in the East. So, four years ago we actually started a job work manufacturing in Patna which has worked out very well for us and helped us garner very good market share in the Eastern market and we have also struck in outsourcing deal in the past quarter in Balasore, Odisha to manufacture pipes which will further help us garner more market in the Eastern market.

Sonali Salgoankar: Sure, Sir you mentioned that Nal Se Jal you are seeing some demand in select markets, could you elaborate in which markets you are getting the demand from?

Nihar Chheda: Absolutely not. I do not want my competitors to know.

Sonali Salgaonkar: Okay Sir and any count of retailers that you would like to share with us because you just mentioned you have 1,400 channel partners so any retail touch points?

Parag Chheda: I think as you mentioned that we have more than 1,400 distributors all across the country. I think more important is to understand that more than 80% of our distributors are exclusive to Prince Pipes so that being our USP. Now to answer your question on the number of retailers, the numbers of retailers would vary from state to state from region to region on an approximate basis we would calculate that one distributor on an average could be catering to about 400 retail outlets so which means it is 1400 x 400 that is the kind of touch points that the company has.

Sonali Salgaonkar: Got it. Thank you.

Moderator: Thank you very much. Next question is from the line of Zain Iqbal from Alpha Invesco. Please go ahead.

Zain Iqbal: Good morning. Thank you for the opportunity. I just wanted know the year-on-year topline grew 10% but quarter-on-quarter, it declined by 8% what is the reason for this decline this is the first question and the second is what will be your debt position by the end of the financial year and if you could share a break of short term and long term?

Nihar Chheda: I am sorry can you please can you please repeat your question you were slightly inaudible?

Zain Iqbal: The topline grew year-on-year by 10% but on quarterly basis it declined by 8% so I wanted to know the reason for this weakness for the decline in the topline?

Nihar Chheda: Sure, so let us go question by question. On the first question I think your numbers are accurate and if you look at the industry at large Q2 usually tends to be a stronger than Q3 so there would be a decline across, further more I think Q3 saw overextended monsoons as a result of which the demand was tepid especially in October and November apart from that there was also festive season in October and parts of November as a result of which if you look at building materials as a whole Q3 has not been that exciting so we are glad that we have not only been able to but also been able to cut the receivable days so the growth has been sustainable.

Zain Iqbal: Okay what will be our debt position by the end of the financial year?

Shyam Sharda: Overall the term loan even as on today post December is around Rs. 64 odd Crore and we have in working capital limit which is Rs. 175 Crore and non-fund that is Rs. 250 Crore so we should be in closure of around Rs. 465 odd Crore as an overall basis including non-fund.

Zain Iqbal: Lastly how much can you improve the EBITDA margins from here?

Nihar Chheda: I think the goal what we are guiding at is 12% to 13% EBITDA margins. We want to be very conservative with our margin guidance's. What I can give is a directional thought process in terms of the levers for margin expansion or contraction so the first one being the product mix so there are certain polymers and certain applications that have better margins and realizations as opposed to others. The second would be the pricing leverage so as I mentioned with the market consolidation that is happening we are able to pass on whatever increase or decrease that is happening in the raw material immediately and with full effect and in certain times even more than what the increase has been so that also can lead to margin expansion and the third reason potentially is when you have the kind of volume and value growth that we have been having there are always operating leverage benefits which lead to margin expansions so those three I would say are the cornerstone or the levers for margin improvement.

Zain Iqbal: Thank you.

Moderator: Thank you very much. Next question is from the lie of Arafat Syyed from Reliance Securities. Please go ahead.

Arafat Syyed: Congrats for good set of numbers. Sir my first question is on the debt which you have with Express Infra, I think that Rs. 200 Crore already paid right?

Nihar Chheda: Correct absolutely and we have also been able to un-pledge as we had committed within 24 hours post listing, the promoters use this fund to pay off KKR in full and the pledge as we speak today is 0%.

Arafat Syyed: Sir that is great and secondly, I just wanted to understand which are the macros for tracking these kind of sector and companies so it may be let's say the company which is having higher CPVC we see it has a higher margin and coming as to the valuations, the number of distributor or a plant so which are the main macro we need to track Sir?

Nihar Chheda: I think like you correctly mentioned there are going to be certain value added products so for us those are CPVC, PPR those are our two value added products which tend to have better margin and realizations than other polymers, of course HDPE is a nascent polymer for us so we are actually trying to get a grasp of what margins will be in the long term on HDPE and that is as far as polymer is concerned. As far as application is concerned, I think like we have mentioned before plumbing and drainage have a better value proposition than the agriculture segment and the focus is on that and in terms of network I think two networks that are very important is not only your distribution network and the spread of that distribution network but also the network of your manufacturing facilities. So, I can walk you through that, advantage of that in 2008 we were the first movers to put up a manufacturing plant in the north in Haridwar whereas most of the processors traditionally spread in the West as a result of this we have been able to garner a very strong market share in the northern markets of India today. So, this is purely a function of being able to minimalize freight cost and being more competitive in the market so not only is it important to have a very robust distribution network but also to have a very strong manufacturing network of very strategically located plant and after our movement to the north in 2012 we acquired two plants from Chemplast Sanmar who are actually our resin manufacturers and our vendors as well. We acquired their two plants in Chennai and Kolhapur which helped us fortify our market of appraisals in the Southern markets as well.

Arafat Syyed: Sir last question on margin side although you have guided that a marginal expansion of that product mix and margin leverage is able to pass on to increase the margins but Sir this happens across the companies be it Supreme, be it Astral, all the companies are showing the expansion to the tune of 100 to 110 BPS also Sir my question is can this sustainable for going ahead also or can we say at a 13% -14% is what the industry can do?

Nihar Chheda: I cannot comment on any of our peer margins and whether they are sustainable or not. I think that is for them to answer what I can tell you is that while we are guiding at 12% to 13% we are hungry for margin expansion and we will try to work day and night to improve our margins but we want to be very conservative with the way that we give any commitment or guidance.

Arafat Syyed: Fine Sir that is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhawal Shah: Sir my question is A) what is the current debt and how do we see it over the next two fiscals and second question is what is the cash flow generated for the first nine months before capex after paying taxes and interest?

Shyam Sharda: So, I have said earlier as well, the term loan outstanding as of today is around Rs. 64 odd Crore and there is a good chance for it to further come down by March end as well and while considering our other limits as well we expect overall exposure of around Rs. 450 odd Crore by March 31 which include non-fund base limits and our working capital utilisation.

Dhawal Shah: Can you repeat that numbers, what did you say?

Shyam Sharda: Around Rs. 450 odd Crore overall which included for fund base limit as well as the working capital requirement limits.

Dhawal Shah: Okay by March end.

Shyam Sharda: Yes.

Dhawal Shah: What will be the cash flow for the nine months?

Shyam Sharda: The cash flow would be around Rs. 115 odd Crore for the nine months and in December 2019.

Dhawal Shah: Okay so this is after paying taxes and interest.

Shyam Sharda: Yes, this is after paying everything.

Dhawal Shah: Okay Rs. 115 Crore and our expanded capacity will be 270,000 MT am I correct?

Shyam Sharda: Yes, that is like over a period not immediately, so it is around 251,000 MT as of now and possibly with expansion in Jaipur also shaping up that is likely to touch that number in sometime.

Nihar Chadda: Just to build up of Shyam's point, what do you must realise is any sort of capacity expansion has to happen in a phased wise manner because Jaipur is the new plant and we are trying to improve our penetration in the markets in Rajasthan and the market adjoining to that state. So, as we fortify our market share the expansion will improve so it will be a phase wise thing and it is also dynamic in terms of how we are able to penetrate those markets.

Dhawal Shah: Got it Sir. In terms of our model, we have an outsourcing model as well whereas the peers in the industry follow an outsourcing base model, so what is our thought process to go for that?

Nihar Chheda: Good question, I think like I said around four years ago we set up an outsourcing unit in Bihar which has helped us really ramp our market share there. What we like about the outsourcing strategy is it is an asset light model and we do not really have to invest a significant amount of capital and still have a regional so we are basically able to combine two important strengths, one is have the asset light and lean model of a regional player, while still having the muscle of the national brand and the coupling of these two strategies has actually worked out very well for us. As a result, to which in past quarter we have gone out and done two more outsourcing deals in Odisha and Andhra Pradesh to be able to locally penetrate those markets as well. However I would want to clarify that this takes a very high amount of execution capabilities and intent so we are very careful in terms of quality that is coming out from this job work units so we have monthly and quarterly audit processes and standard operating procedures that has been put in place and the plant head from my existing plants and the manufacturing excellence guys from our existing plant regularly do audits of not only the finished product but also the kind of processes that are taking place at these outsourcing units. Not only that we also have people stationed there 24/7 x 365 to ensure that it is an in-house factory like product and process and just to conclude this thought I would also say that this is not a long-term strategy, it is only a stepping stone and a bridge strategy. Eventually when I am confident that I have built a strong enough market in the East which is sustainable and more importantly able to sustainably grow year-on-year, I am more than happy to put my own money there and invest in an in-house manufacturing plant.

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

Achal Lohade: Thank you for the opportunity. Since wanted to check with respect to distribution, what is the universe of retailers according to you, pan India, how much have we touched up to and what kind of retail additions are we targeting on an ongoing basis, yearly basis, if you could help us with that that will be useful?

Nihar Chheda: Sure Achal. So, when you see universe due means for Prince Pipes or for the industry?

Achal Lohade: For the industry.

Nihar Chheda: Unfortunately, I do not have estimate of what the industry retail counter is, I can give you an estimate for a broad data, estimate how we do it is that we have around 1,400 channel partners and on average I think every distributor would cater to around 300 to 400 touch points, this could range. So, this is an average, so I have some distributors who are having around 800 retail touch points as well and I also have some distributors who only have 50 to 100 touch points as well. It would vary from geography to geography, but I think a broad thumb rule that I would like to give you is that I think we should take 300 retailers per distributor is what the kind of touch points that Prince Pipes would have today.

Parag Chheda: Achal just to add to this is that so company is focusing on expanding our retail base and the company is having a very good plan which we call it as RREP, Retail Reach Expansion Plan so I think it is because of this a very well-defined and a good structure plan that the company is able to have a horizontal and vertical penetration into the markets so I think more important is that we are able to achieve a sustainable number and this is purely because the Company is having a very well structured programme on retail expansion.

Achal Lohade: Got it. Thank you so much for the answer.

Moderator: Thank you. The next question is from the line of Utkarsh Nupani from Haitong Securities. Please go ahead.

Utkarsh Nupani: Good afternoon Sir. The first question is like our phase volume got impacted in the December quarter due to impact of heavy rain, so are we seeing rebound in the volume growth in the current quarter?

Nihar Chheda: January has been good. February and March will be crucial. Having said that I think our prime focus like I keep saying on sustainable growth and we do not want to increase our receivables days. In fact we want to decrease receivables days and try to sustain the focus on working capital so any growth that will come will never happen at the sacrifice of throwing credit to the market and the way the secondary market is today is that there might be some more appetite than we are being to see but you can only penetrate that appetite only if you throw credit to that market which we will simply not entertain and we only want to do sales at our terms and at our credit policy and we will not deviate from that.

Utkarsh Nupani: With tightened credit policy what kind of a growth you are looking for the March quarter?

Nihar Chheda: So, we are looking at 8% to 10% growth.

Utkarsh Nupani: That is the volume growth.

Nihar Chheda: Correct. Value I cannot say because it depends on the raw material price.

Utkarsh Nupani: Fine and the debt amount which you have mentioned that was the limit, so can you just tell us what is the fund based outstanding that we are looking for say March 2020 and March 2021?

Nihar Chheda: Fund based is around Rs. 290 Crore currently, we are not only going to pay through IPO proceeds but also through the internal accruals on account of the higher profit than what we had envisaged debt to equity ratio today stands at 0.37 and what I would like to say here is when you start deleveraging the balance sheet there are actually two benefits, one you are not only reducing the debt but secondly and more importantly in my mind you are also able to gain a position where you can negotiate on the cost of capital itself and right now that is why whatever debt repayment we are doing, we have not done in one shot, we are in the process trying to reduce the cost of capital itself which will help us win on two fronts not only in the absolute terms but also on the percentage finance cost.

Utkarsh Nupani: In absolute term can you just guide us like how much reduction we are looking say by March 2021?

Nihar Chheda: I would rather actually do the debt reduction and then report that number to you.

Utkarsh Nupani: That is, it from my side.

Moderator: Thank you. The next question is from the line of Ashish Poddar from Anand Rathi. Please go ahead.

Ashish Poddar: My question is related to volume growth so for us you are saying it is in the range of 5% to 6%, yesterday another leader reported its number and they have shown about 50% kind of growth. I know they are heavier on the CPVC side, so in your mix though you are not sharing but for you the CPVC volume growth was in the range of 12% to 15% and it was because of the non CPVC side of the business which impacted the overall volume growth for you, any comment on this?

Nihar Chheda: So, while I do not want to give you a break up across polymers I just want to put this at rest. CPVC growth across volume and value has been north of 20% which is very stellar in my eyes. So, it is not that there has been certain sort of ambiguity in terms of CPVC not being able to grow or there being any deviation from the market share point of view or anything like that.

Ashish Poddar: Yes, and you mentioned it about 25% of your portfolio?

Nihar Chheda: In the volume and value.20% plus.

Ashish Poddar: Okay Sir. Thank you so much.

Moderator: Thank you very much. The next question is from the line of Chintan Shah from Investec Capital. Please go ahead.

Chintan Shah: My first question is regarding the antidumping duties what you indicated is provisional in nature, Sir has this been disputed by any other party right now, where do we see it?

Nihar Chheda: I am not sure if anyone has disputed, we do not track that.

Chintan Shah: That is one. Secondly, can you indicate how much was the price increase on PVC and CPVC in the quarter gone by?

Nihar Chheda: Sure. In PVC what you must understand is that whatever the increase or decrease that happened from Reliance was immediately passed on to the trade and I think that is the norm with the entire peer set.

Chintan Shah: Right. Is it possible for you to quantify it please?

Nihar Chheda: Sure, so broadly this is just an estimate I do not want give an exact number but I mean I am not aware of the exact number as a ready reckoner but in quarter three I think PVC resin saw correction of around 5% to 7% Q-o-Q.

Chintan Shah: Sir is it possible for you to quantify on a per kg business because I understand there was some Rs.3 increase which was there more recently and the last quarter there was some price decline, so is it just trying to understand how much was the price increase on PVC and CPVC respectively?

Nihar Chheda: I can give you the trend. I am happy to share with you since this is available in the public domain maybe I can email it to you after the call is over but unfortunately, I do have the ready reckoner for that.

Chintan Shah: Sir indicatively on CPVC how much it would be?

Nihar Chheda: So, there would be a significant double-digit price increase in CPVC.

Chintan Shah: Sir would it be like 15% to 20%.

Nihar Chheda: It would depend from processor to processor and source from source.

Chintan Shah: The reason I am stressing over here is I was looking at the provision duties which are in effect specifically from Shandong and China, it is in the range of 40% to 80% now even if one factors a 60% of the raw material cost is through CPVC resin or compound the implied increase which would have been required for CPVC would have been quite steep so just I wanted to actually get comfort that is it still a profitable proposition for us given the duties have moved up so sharply?

Nihar Chheda: Like you said correctly it is not viable to import from China and Korea which we have stopped doing and I think as Shyam mentioned we have moved our allocation to other sources be it Japan, be it Europe or be it even domestic sources of CPVC resin. So, I want to clarify that we are not sourcing from China and Korea anymore because that would not be viable price to source resins from. I also want to clarify that absolutely CPVC is value proposition for us and continues to be value added product for the organisation and the results speak for themselves.

Chintan Shah: The reason I am stretching over here is if one looks at the peer set the price increase is even for PVC or CPVC or for the blend it has not been in the same quantum and even if our market checks do suggest that so is it safe to assume that CPVC so margins that we have given for the quarter it is despite probably the negative contribution from CPVC volumes given earlier we used to get material from China and Korea which we would have consumed during the quarter and incrementally things can improve?

Nihar Chheda: Sure. Firstly, CPVC is not a negative product. Yes, there is uncertainty on the margins but it is still a value proposition for us and I think we will be in a better seat to give you clarity on the margins once we ourselves have it once the actual duty is announced but CPVC is a value proposition for us. We are the fourth largest processor of CPVC in the country today and we have a lot of leverage not only as a seller but also on the sourcing front and yes we have taken in some markets a slightly higher increase than our peer set but to be honest with you we also have to end up giving schemes and variable discounts so there is the difference between the rack rate and the effective rate of CPVC in the market today across the peer set.

Chintan Shah: Sir honestly things do not tap over here for me on the margins because you have just said we had double digit volume growth on CPVC, now against that basically for any industry player, any larger player you will have stock inventory and specifically for us even being the case China and Korea were the sourcing regions, so if you have a double digit volume growth, I would request to provide some more colour on the price increases on CPVC or some comfort that we did not have any negative contribution on CPVC because as per market checks I think our price increases were broadly in line with the peers. So, I am failing to comprehend the margin profile and the volume growth number that we have on the CPVC side?

Nihar Chheda: I think if you continue your market checks to understand that we have given a slightly more increase than our peers, but I will agree with you in terms that there has been a marginal incremental increase as opposed to the peer set.

Chintan Shah: Okay. Fair enough, I have more questions probably I will come over and see you. Thank you so much.

Moderator: Thank you. Next question is from the line of Ritesh Shah from Investec Capital. Please go ahead.

Ritesh Shah: My question is answered.

Moderator: Thank you. The next question is from the line of Nehal Shah from ICICI Securities. Please go ahead.

Nehal Shah: Congratulations for good set of numbers. Sir most of things have been answered. One question on working capital, there has been an alarming change in working capital wherein receivable days have been declining for us which I think is a very good thing to start with, just one question here, we have also been resorting to channel financing in the recent past, so if we adjust for the channel financing how do our numbers stack as far as receivables are concerned?

Nihar Chheda: Sure. That is a good question. I think like you said channel finance has helped us decrease the receivable days. I also just want to clarify for everyone that it is not channel financing that has led to this decrease and if I can just try actually I am in a position to quantify that so if you look at traditionally debtor days who are in the range of 87 days and 68 days maybe two years or three years ago which currently has come down to around 50 days if we gross up the channel finance as well, without that would be around 37 days but if I also include channel finance would be around 50. There is a sharp decrease.

Nehal Shah: Thank you.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I now hand the conference over to Mr. Rohan Gupta from Edelweiss for closing comments. Over to you Sir!

Rohan Gupta: Thanks a lot for giving us the opportunity to hosting this conference call. Just couple of follow-up questions from my side and then we can wind-up the call. Sir once you clarified that now absolutely there are no pledged shares in the market as far as the promoters are concerned right?

Parag Chheda: Yes.

Rohan Gupta: Sir, second is on the debt reduction front we have reduced almost Rs. 200 Crore debt as of now and before our next capex commission so absolute debt level will remain at the current level?

Nihar Chheda: So, the Rs. 200 Crore of debt that has been repaid is on the promoter balance sheet to pay off KKR while we have significantly reduced debt on the company balance sheet of around Rs. 80 to 85 Crore as well and that will continue to happen not only from IPO proceeds but from the internal accruals as well.

Rohan Gupta: So, if you just provide us the current long-term and short-term debt number?

Nihar Chheda: Around Rs. 65 Crore to 70 Crore would be the long-term debt and around Rs. 170 to 180 Crore of working capital debt.

Rohan Gupta: What cash is unutilized from the proceed that we have right now?

Nihar Chheda: I would have to get back to you on that number.

Rohan Gupta: Okay and our capex plans commissioned from next year probably Q1 right?

Nihar Chheda: Correct.

Rohan Gupta: So, can you just give some spends in terms of total expend which we will be doing on our new plant next year?

Nihar Chheda: For Telangana plant we have raised around Rs. 180 Crore which will be a phase wise expansion over the next two to three year's but the chunk of the expenditure will come in year one because the building and the basic infrastructure utilities I have to make all those investments in year one itself.

Rohan Gupta: Okay so year one investment will be roughly Rs. 100 Crore out of Rs. 180 Crore?

Nihar Chheda: Around Rs. 100 to 120 Crore I would have a ballpark range currently for Telangana plant.

Rohan Gupta: That is, it. Thank you so much for once again giving us an opportunity for hosting the conference call. I also thank all the participants who have participated in the conference call for Prince Pipes. All the best to the management going forward. Thanks a lot. Thank you so much.

Parag Chheda: Thank you all.

Moderator: Thank you very much members of management. Ladies and gentlemen on behalf of Edelweiss Securities that concludes today's conference call. Thank you all for joining us. You may now disconnect your lines.

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