PRINCE
PIPING SYSTEMS

PPFL/SE/2023-24/080

March 28, 2024

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 (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI LODR") – Transcript of Conference Call held on March 21, 2024.

In continuation to our letter No PPFL/SE/2023-24/077 dated March 20, 2024, please find enclosed herewith transcript of the Conference Call for Analyst and Investors held on March 21, 2024.

Kindly take the same on record.

Thanking You.

Yours faithfully,

For PRINCE PIPES AND FITTINGS LIMITED

Digitally signed by SHAILESH KANJI BHASKAR
Date: 2024.03.28 18:07:51 +05'30'

Shailesh Bhaskar
Company Secretary & Compliance Officer
ACS: 36475

Enclosed: as above

Prince Pipes and Fittings Limited

Acquisition of Renowned Bathware Brand Aquel and Plant located at Bhuj, Gujarat

March 21, 2024

MANAGEMENT:

- 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:

Achal Lohade	: JM Financial
Shubham Agrawal	: Axis Capital
Sneha Talreja	: Nuvama
Nikhil Agrawal	: VT Capital
Udit Gajiwala	: Yes Securities
Chintan Modi	: Haitong Securities
Keshav Lahoti	: HDFC Securities
Arun Baid	: ICICI Securities
Utkarsh Nopany	: BOB Capital Markets

Moderator:

Ladies and gentlemen, good day and welcome to Prince Pipes and Fittings Limited Conference Call to Discuss the Acquisition of Bathware Brand "Aquel" 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Arun Baid from ICICI Securities. Thank you. And over to you, Mr. Baid.

Arun Baid:

Thank you, Michelle. Good morning, ladies and gentlemen. On behalf of ICICI Securities, I welcome you all to the Conference Call of Acquisition of brand "Aquel" by Prince Pipes.

From the management side, we have Nihar Chheda – VP (Strategy); Mr. Anand Gupta – CFO and Karl Kolah – Head - Investor Relations.

Now, I hand over the call to Nihar for "Opening Remarks", post which we will have the Q&A. Over to you, Nihar.

Nihar Chheda:

Thank you, Arun. Morning, everyone, and thank you for attending our conference call to discuss our purchase of the Aquel brand as well as their state-of-the-art manufacturing facility at Bhuj, Gujarat.

Since our launch, I have been visiting the market with my team to interact with various market stakeholders, like distributors, architects, and builders. And while the overall reception to our bathware foray was taken positively, one strong feedback that we received is that we need to have a known bathware brand which would serve as a platform to accelerate the growth of the Bathware segment.

I am happy to share with you that our purchase of the iconic bathware brand "Aquel" and its manufacturing facility at Gujarat is complete. Aquel has been a pioneer brand, known for quality, innovation and a focus on technology which is far ahead of its time. It is actually the first brand in the industry to introduce special-coloured faucets to the Indian markets, which are currently high in demand. Along with this, they are also first movers to introduce many new innovative bathware SKUs like diverters and mouth operating costs, which have now become an integral part of India's bathware industry. As a result of which, today, the Aquel brand resonates with ahead of the curve innovation and a clear focus on quality. Aquel gives us a platform to accelerate our go-to-market approach for our newly launched bathware business.

Furthermore, the manufacturing facility at Bhuj is highly advanced as it is the first company in the industry to use robotic equipment to automate the critical processes of electroplating, as well as grinding while even the incumbent has only actually just started using robotics for these processes only in the last few years. These are just a few examples of Aquel's manufacturing prowess.

The total land bank is approximately 8-acres, which can also be used for future expansion because the current manufacturing area spans around 2.5-acres, which is less than one-third of the overall land parcel. The installed capacities at the unit can produce about 1,00,000 pieces per year, leading to a revenue potential of Rs.100 crores to 120 crores p.a.

In a fast-transforming market led by changing customer needs and style preferences, Aquel has established itself with a comprehensive range of products and a prominent brand identity in Western, Central and parts of Southern India. It has built a very strong brand equity amongst homeowners, architects and builders. Their range of scientifically engineered products encompasses faucets and bathroom accessories across nine ranges and more than 250 SKUs, which will be integrated into our existing ranges to have a formidable range at different price points.

Our Bathware portfolio will hence be branded and retailed under Aquel by Prince brand once the existing inventory is cleared. We will also have access to the distribution of Aquel across India, helping us expand presence instantly.

Now, to give you an overview of the deal, we have signed an asset purchase agreement with Klaus Waren Fixtures Private Limited for Rs.55 crores. The acquisition will be funded through internal accruals.

The asset purchase is structured in two tranches:

In the first phase, we completed the assignment of the Aquel brand as well as the associated molds and dies on an immediate basis. This is to ensure that our market development activities as well as the sales engine can begin to fire immediately.

The second phase will be the acquisition of the balanced manufacturing unit comprising land, building as well as the manufacturing equipment situated in Bhuj, Gujarat, which will be completed over the next few months basis the regulatory approvals.

The advisors for the transaction are Deloitte for financials. The technical assessment was done by Knight Frank and Luthra and Luthra Partners did the legal due diligence.

The combination of Aquel's state-of-the-art plant modern manufacturing processes and rigorous quality control infrastructure, along with Prince's operational prowess will help us scale the bathware business. This acquisition also represents a strategic alignment that promises substantial synergies in the future.

As you all know, at Prince we have had a risk appetite for a combination of organic and inorganic growth in the past. We have been extremely selective and prudent while using the inorganic path in 2012. As you know, we acquired two manufacturing units at Chennai and Kolhapur from the Chemplast Sanmar Group, which helped us strengthen our presence for the pipes business in southern India. Hence, this is the second time we have used the inorganic path to accelerate our growth into a newer unexplored market for us. Prince is in the process of building multiple levers of growth that will boost our growth to become a stronger and more resilient enterprise.

With this acquisition, the overall addressable market for Prince would be spread over Rs.60,000 crores:

Pipes being Rs.40,000 crores, water tanks being Rs.8,000 crores and now the bathware segment being Rs.15,000 to 20,000 crores. We are taking definite strides towards our vision of transforming our country's water infrastructure.

As you are aware, out of the total Rs.15,000 to 20,000 crores of market size for the bathware segment, 65% is organized and 35% is unorganized. It is a segment where value addition is the most prominent. Product, innovation and ability to distinguish by service are key differentiators in this business, which will help us create more value.

With this acquisition, we will be using the strong brand value of Aquel and its product line to expand our presence. In the long-term, this will be the most profitable business out of the three verticals. It will elevate the performance of our bathware division, granting us direct access to one, an esteemed brand, two, a state-of-the-art manufacturing facility, and three, a deeply entrenched distribution channel in key markets.

You all are aware that we are aggressively expanding capacities across not only bathware business, but also in our core business of pipes and water tanks. In our core business, which is the pipes and fittings segment, we continue to invest in expanding our manufacturing capacities, product portfolio and advertising investments.

The Indian real estate industry is expected to grow aggressively over the next few years. And our plan is to not only participate but also contribute towards this growth via our three business verticals of pipes, tanks and bathware.

The Water Tank segment has been growing steadily for us. We have been expanding our in-house manufacturing footprint. We started manufacturing with Silvassa in July '20, then Jaipur in May '22, Telangana in June '22, Haridwar in Feb '24 and now we would be starting manufacturing for water tanks at Chennai in the next few quarters. This will help us leverage our multi-location manufacturing network to scale the tanks business going forward.

To also update on our capacity expansion in the pipe segment for the eastern market where we see a robust opportunity. We have increased the proposed CAPEX in our Bihar facility to Rs.220 crores. This is because we have increased the capacity that we are putting up in Bihar from earlier 35,000 metric tonnes to now 48,000 metric tonnes. This is because we have preponed the fittings capacity in phase-I.

Furthermore, in Bihar, we will also be putting up water tanks capacity, which is estimated to be at 60 lakh liters per month. With this, Bihar will be one of our largest plants and will cater to demand in East India, which is a major frontier of growth for the nation as well as for Prince Pipes. We expect to commercialize Bihar in Q4 of the next fiscal.

The current fiscal actually has not been the easiest for us. The ERP transition did lead to lower volume growth, but I would like to highlight that while we have had one eye on addressing short-term challenges which are now behind us, we have still kept the other eye on focus of long-term inorganic strategy which enables us to unlock major value over the long run. I am sure that it is evident that in a rapidly growing Indian bathware market, the Aquel acquisition helps us stand out at the very top of the pyramid in terms of brand recall and will seamlessly align with Prince's ambitious growth.

With that, we open the floor for questions and are happy to share our thoughts to your queries.

Moderator:

We will now begin the question-and-answer session. The first question is from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade:

Congratulations for the acquisition, Nihar, if you could help us understand, a), for this facility, what kind of earnings the earlier owners kind of derive from this facility? And also secondly, what is the replacement cost of this size and scale of this particular plant?

Nihar Chheda:

Yes. Thank you, Achal. In terms of the revenue, currently it's extremely low because the company, Klaus Waren is going through major balance sheet constraints for a few years. And despite having a strong order book from their distribution network, they were not able to supply the material because of working capital issues and this actually only worsened in the COVID period. So, currently I think revenues of last fiscal would be around Rs.7 crores, but what's important is that there is a strong order book from the distributors, and now with our financial muscle, we will be able to streamline supply, give that supply security to the channel to not only our existing channel, but also to Aquel's channel which will help us accelerate the kind of scale that we want in bathware.

So, I think more important than the current revenue, I don't think that's relevant because of the working capital issues. But now with our ability to timely supply and infuse that kind of working capital, I think we will be able to really justify the kind of sales, the brand like Aquel should be having. I think more than a decade ago that they did have revenues of close to Rs.40 crores to 50 crores 10 years ago. So, that shows the kind of sales that can be derived from this kind of brand platform. And I think the second question was on replacement cost. So, I think since the revenue potential is around Rs.100 crores to Rs.120 crores and a capacity of around 1 lakh pieces per annum, I think to put up similar capacity, you would need an investment of 35 crores to 40 crores. So, at the current price, I think it's an extremely lucrative deal for us given that we also now have access to brand and distribution.

Achal Lohade:

If you could guide in terms of what is the current number of dealers, retailers Aquel has and what is your tally before this acquisition?

Nihar Chheda:

So, before this acquisition, we currently have 25 to 30 active distributors for bathware and Aquel, because of the supply security, they were prioritizing only the larger distributors which now will not be the case, we will be able to supply material to some of the smaller inactive distributors and help them grow with us over time and then eventually become large distributors for us in the long run. But currently the relevant distributors for Aquel would be around 30 to 35.

Achal Lohade:

What is the non-compete in terms of the years, any particular clauses you can highlight with the promoters, and will the promoters be involved, or they are completely out?

Anand Gupta:

So, promoters will be out of this business, Achal, and the non-compete is for 10 years on the paper, but anyways, they have planned to exit this business as a whole, otherwise they would have continued on this brand, but since they want to focus on other areas where they are actively engaged, they are completely out of this business.

Moderator:

The next question is from the line of Shubham Aggarwal from Axis Capital. Please go ahead.

Shubham Aggarwal:

Congratulations on the acquisition, So, in the asset purchase agreement, I just wanted to get a sense, what is the cost of the eight acre land parcel or rather what is the fair value of the eight acre land parcel?

Anand Gupta:

Shubham, the land parcel is eight acres, and the fair value is between Rs.8 to 10 crores, that's the market value. But for the purpose of valuation, we have taken the rate based on the circle rate of that place and that is close to Rs.4 crores.

Shubham Aggarwal:

Secondly, the asset turn in a faucet manufacturing facility, is it generally in the range of 4x to 6x, is that understanding correct or how is it?

Anand Gupta:

It is generally 3x to 4x.

Shubham Aggarwal:

So, for Rs.100 crores revenue, the replacement cost should ideally be in the range of like Rs.25-odd crores?

Nihar Chheda:

So, the revenue potential is Rs.100 crores to Rs.120 crores. So, the replacement cost would be Rs.35 crores to 40 crores.

Shubham Aggarwal:

Just if you could also give a sense what is the revised plan in the bathware segment, what is it now the revised expected cash flow annually for FY'25-26, and what kind of EBITDA loss do you expect given the fact that we are currently in the investment phase in the business?

Nihar Chheda:

Correct. So, I will answer that question slightly differently. So, annual manpower cost is around Rs.5 crores to 6 crores and branding cost is Rs.10 crores to 12 crores what we had projected. Post this acquisition, we plan to become more aggressive on branding as well as investments into manpower. And essentially this helps us accelerate what would take us time organically to build the Prince brand for bathware for that channel with those stakeholders of the value chain, now, we can do that faster. So, what would typically take us four to five years, we are able to do it on a faster basis. And with that in mind, we will become more aggressive in investing in branding and manpower. So, our previous estimates I have shared, but now post this acquisition, we will be going slightly more aggressively on both of those. So, maybe in the next conference call for the Q4 earnings, we will be able to give a better visibility of these kind of projections.

Shubham Aggarwal:

What capacity utilization is the plant currently at and I understand they have balance sheet issues, but still, what is the utilization, is it like 20%-odd, is that the fair number or lower?

Nihar Chheda:

It would be around 10% to 15%.

Shubham Aggarwal:

The Rs.40, 50 crores revenue you shared was like 10 years back, right? So, currently the revenue should be in the range of Rs.10-odd crores?

Nihar Chheda:

It was Rs.7 crores as of last financial year.

Shubham Aggarwal:

I know you said like 35 distributors. So, 35 distributors is like a very small number for a geography of the South, West and parts of the East. So, majorly given that they have decreased their reach, would it now be right to say it's majorly Gujarat and Maharashtra that they are broadly known in or let's say the brand is where it's known?

Nihar Chheda:

The brand is known across West, Central and South, and we have done our primary micro research as well. But you're right, because of their balance sheet constraints, they were not able to supply the smaller distributors, which ideally would have then grown over time. The way distribution works is, today, your distributor can be small, but if you keep supply security and keep investing in brand in those markets, then those distributors in a long run can become big, which is essentially what we are betting on once we are able to give that kind of supply security. So, to answer your question, out of those markets, I think their strongest presence would be in Maharashtra. Gujarat and North Karnataka.

Shubham Aggarwal:

Where is this brand positioned with respect to pricing? What kind of a discount does this brand give to, let's say, Jaquar or CERA, where do you see it going forward?

Nihar Chheda:

Yes, that's a good question. And before I come to pricing, I would also like to talk in terms of the brand equity for Aquel is when it was established in the early 2000s, from a quality and an innovation point of view was actually benchmarked in level with Jaquar, if not higher. And I believe that if they didn't have this kind of balance sheet constraints, they would have been able to unlock very strong value the way the incumbent has. And from a quality and product and packaging point of view, this is at par to Jaquar if not more.

Shubham Aggarwal:

Do you expect like there would be distributors and retailers who would know the brand well and who would have discontinued working because there were supply constraint and given your visits on the ground, do they suggest that people are more than willing to come back to the brand Aquel with supply?

Nihar Chheda:

Exactly, because the equity that the brand had earned because of the focus on quality and innovation is strong and still they command that kind of respect and I believe with supply security we would be able to sort of bring that back to where it actually should be. So, I think that kind of interactions with the channel and pumping in money to supply product on time, which actually is not very capital-intensive for our kind of a balance sheet, and keeping on investing in the brand, I think this kind of combination is a very unique opportunity which excites to really able to create significant value and not just be one of the new entrants or one of the also-rans in the bathware industry, this really helps us cut through that clutter, and we at the very top of the pyramid from a brand point of view.

Shubham Aggarwal:

Last question is on the core pipe business. If you could give a sense on how the demand has been through the quarter, and if you think that we have performed better than what we expected in the start of the quarter?

Nihar Chheda:

I think demand has been strong. Real estate continues to do well. Affordability as well as stability in PVC continues with any price increase or decrease being extremely range-bound which we foresee for the next couple of quarters. So, not only for this quarter, but for the next few quarters, I see demand tailwinds, and which is why we are putting up capacity aggressively in the piping business as well. So, we remain bullish on demand in piping as well.

Shubham Aggarwal:

So, in the last three months, have you done better than what you expected in the start of the quarter?

Nihar Chheda:

So, we had projected a flattish kind of a number basis year-on-year and I think we will match the projections.

Moderator:

We will take the next question from the line of Sneha Talreja from Nuvama. Please go ahead.

Sneha Talreja:

A couple of questions here. Firstly, I was looking at the financials of the company. In a couple of years, the company has been loss-making, plus the revenues to the tune of Rs.5 to 6-odd crores till FY'22 in my view. What do you think that how much time will it take to revive? What was the real reason that the earlier promoters were not able to do so and what will help you to do so? And what's the kind of bandwidth it will take away from you?

Nihar Chheda:

So, one, I want to make it clear that this transaction structure is not an acquisition, it's an asset purchase. So, we will not be inheriting the balance sheet issues. We are just acquiring the brand, the land, the manufacturing facility and access to the distribution network. Because they had major working capital issues because of major financial mismanagement and which only got worsened during the COVID time, they are operating at very low-capacity utilization. And you all are aware, in this kind of manufacturing business, be it pipes or bathware, if you're operating at 10%, 15% capacity utilization, of course, you will not be making money. Now, all we have to do is ensure supply security, which for them I am saying may be a challenge, but for us, it's a very small kind of capital that we have to deploy just to ensure that the working capital is streamlined, and the supply security is robust. I think if there is supply security, the distributors are still actually extremely bullish on being able to increase sales and not only the active distributors, but some of the distributors that had become inactive because of lack of supply, we would be able to streamline supply to both as well as to our existing bathware distributors who now get a platform and a brand.

So, basically we are accelerating our go-to-market, and like I said in my answer to the previous question, there are a lot of new entrants in the bathware space, and we did not want to be just another new entrant or just another also-ran. And now with this acquisition, and the kind of brand equity that it has, which is at par to the incumbent, I think this really helps us to cut through that clutter and be at the very top of the mindshare of the various stakeholders, be it a distributor or a retailer, an architect or a builder, this really helps us to cut through that clutter.

From a mindshare point of view, say I am very clear, there are three generations of the family and a very strong professional team across different functions that handles the core business and similarly we will have a combination of the family and the professional team to run the bathware business, and the way it has helped us scale the pipe business, we plan to use that same strategy for bathware. So, mindshare has not been an issue in the past and it will not be an issue in the future.

Sneha Talreja:

And what's the kind for overlap in terms of your overall distribution of pipes and bathware at this point of time?

Nihar Chheda:

So, currently before this acquisition, we have 27 active distributors for bathware, which increases every day we are adding to that tally. But currently as we speak, we have 27 active distributors. So, in piping total, we have more than 1,500 distributors and for bathware today we have 27 distributors before the Aquel.

Sneha Talreja:

Which are also doing pipe business with you, right, these are not at all new distributors?

Nihar Chheda:

Some would be new, some would be pipe where we are cross-selling bathware and some in certain geographies where we felt that the existing channel may not be able to justify, we have also opened up new exclusive bathware distributors. So, in certain markets like Jaipur, Lucknow, etc., we have opened up new distributors and in certain markets like Pune, etc., we felt that our existing channel was well equipped and maybe they were already doing bathware, so they had a good know-how of the business. So, from market-to-market, we have taken our decision whether we want to cross-sell through the existing channel or whether we want to open up an exclusive channel. So, to answer your question, 27 would be a combination of pipe distributors as well as new distributors for bathware.

Sneha Talreja:

On the current stage of this existing brand, how much of it could be to project or it's all distributor led?

Nihar Chheda:

Majorly, the distribution and retail. There are a few large builders in Bombay who are using but especially in projects having the ability to serve an entire project on time becomes very, very important. So, there are builders who were Aquel loyalists. So, we have been meeting a few builders as well I think the project business is going to be one key where we will be able to revive that business as well. But to answer your question, currently, it's majorly distribution-driven.

Moderator:

The next question is from the line of Nikhil Agrawal from VT Capital. Please go ahead.

Nikhil Agrawal:

Sir, wanted to understand the replacement cost. You mentioned it is Rs.35 crores to 40 crores. So, it does not include the land value as well the remaining 6.5-acres that is left?

Anand Gupta:

When we say that Rs.35 crores to 40 crores is the replacement cost, it includes the land also, not necessarily the same size, typically this kind of facility comes in the range of three to five-acres very comfortably. So, we have an excess land bank at our disposal, which we will use for our future expansion.

Nikhil Agrawal:

And can we expect that the next leg of expansion like we have currently has Bihar on the pipeline, after Bihar, we begin production So, can we expect that the next leg of expansion will take place in this plant only or are we looking at some other possibility?

Nihar Chheda:

I will like to clarify. Bihar is for pipes, fittings and water tanks. Currently, what we have purchased is only for faucets; out of 8-acres. 2.5 acres is currently being used for faucets, balance area is available for us to manufacture any of our products, whether it's bathware or our existing products. We already have two facilities in Silvassa; one in Kolhapur and one in Jaipur, so currently in West, we have enough capacity. So, the balance land in Bhuj, we would be using to expand the bathware, maybe water tanks which is sensitive to logistics but no plans as of now. Currently, I think the entire focus is to sweat out the existing asset at Bhuj by really focusing on the front end of the bathware segment.

Nikhil Agrawal:

When can we expect the revenue to come in -- from this quarter itself?

Nihar Chheda:

From the second quarter of next financial year, I think it will become a relevant number on for the bathware.

Nikhil Agrawal:

And what is the order book size if you could help me?

Nihar Chheda:

While I say order book, that means, this is not a B2B business, this is still a distribution-driven business. So, when we interact with the company or with the distributors, we understand that if there was strong supply security, the appetite of the distributors is much higher than what the company is able to currently deliver because of their balance sheet constraints, but this is not a B2B business where we have large orders or some contracts or anything like that, that we win. But basically there is a significant mismatch in the appetite of the channel for Aquel and what the company is currently able to serve because of cash flow constraints. Now, with a company like Prince coming up and our balance sheet at play, we will be able to basically close that gap. So, with this kind of a brand, this kind of a manufacturing facility, distribution network and our execution intent, I think that's going to be a combination that really excites us.

Nikhil Agrawal:

Any other inorganic opportunities are you looking at in this space currently?

Nihar Chheda:

I think in bathware this is enough for now. I think now the focus has to be put our head down and execute. As far as pipes and water tanks are concerned, all of you would be aware there is a lot of stress at the bottom of the pyramid and there are opportunities coming up virtually every few months, and we explore all those opportunities.

But like I said in my opening remarks, we have used inorganic in 2012 when we acquired the Chennai and Kolhapur plants which actually worked out very well for us to build our footprint in South India for pipes. So, we are not averse to inorganic growth, but we will be extremely selective and prudent while taking these kinds of opportunities. So, we have the risk appetite for it, but it’s not just because the opportunity is there, we don’t want to do the deal. But there is ample opportunity in the core business of pipes and water tanks. And for bathware, I think we are good for now; we have a solid brand and manufacturing footprint now. Now, we just have to focus on execution.

Nikhil Agrawal:

Lastly, on your core pipe business, like you said that you are projecting a flattish year-on-year growth, but the demand situation is really like i''s quite good and the other players are expecting about 15% plus volume year-on-year growth. So, what exactly is the issue with our company like are we losing market share or are we still not recovering from the market share loss because of the SAP implementation?

Nihar Chheda:

No. Like I said in the previous quarter's concall, transition issues are behind us, the supply chain issue is behind us, some of the corrective pricing action also has been taken and we will continue. So, for the year, we will still be growing on a Q4 basis; year-on-year for Q4 it will be similar to last Q4 because I think it will take a quarter for us to gain back the market share that we lost during the ERP transition, and we believe that the growth engine will be back from the June quarter. So, the fundamentals remain the same and we continue to be bullish on the core business and which is why we are adding up capacity as aggressively as we are and preponing some of our CAPEX plans as well. So, fundamentals remain the same and we will be back to being not only growing in line with industry, but one of the fastest growing in the industry, which is what we are used to for so many years.

Moderator:

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

Udit Gajiwala:

Sir, just one point. Like you mentioned, some of the dealers of Aquel, they had stopped taking orders because the parent was unable to fulfill the orders. So, there would be a case that they might have switched to other brands by now since you said that the best financials were one decade ago and it has dropped drastically. So, I mean there'll be challenges for you also to pull them back and might have to incentivize them more.

Nihar Chheda:

Yes, we might have to incentivize them more, which is we are okay to do that because for us it's still a net-net positive and net-net entry into a new channel and a new market. It's not like a pipes business where we are well-entrenched and have a high brand recall. In bathware, our first goal is to establish a channel. And apart from the active distributors reigniting the inactive distributors also I believe is worth the effort because it helps us become more deeply penetrated into a market which is unexplored for the bathware segment. So, it accelerates our go-to-market.

Udit Gajiwala:

So, the brand will be sold as Aquel by Prince, or it will be Aquel ?

Nihar Chheda:

So, product will say Aquel, packaging and collaterals will have Aquel by Prince.

Moderator:

The next question is from the line of Chintan Modi from Haitong Securities. Please go ahead.

Chintan Modi:

Can you share that like how old this plant and machinery would be and when was the last revamp done and what was the cost for that?

Anand Gupta:

So, we have taken inventory of the plant and machinery over there and they are in a working condition. We have seen the maintenance schedule of assets as well. Two years back, they had done periodic check sometime in 2022. And then we will take over this plant, then we will have to take some corrective action in terms of operating machines, and we will have some maintenance CAPEX spending on this to make sure that the expected revenue what we are gaining from the market is achieved. So, we expect Rs.2-4 crores of maintenance CAPEX on the existing plant and machine.

Chintan Modi:

So, that will be the overall Rs.2-4 crores additional over the cost of acquisition that you will have to spend to kind of revamp the whole plant?

Anand Gupta:

On plant maintenance.

Nihar Chheda:

Which will help us then reach the peak capacity utilization of Rs.100 and 120 crores p.a., just maybe Rs.2 to 5 crores of CAPEX.

Chintan Modi:

And this Rs.100, 120 crores of revenue can be achieved through the existing network or for that also you will have to spend more money?

Nihar Chheda:

No. We don't have to spend money for distribution. That's just market development activities that any brand does. We do that in piping even at Rs.3,000 crores and 7% to 8% market share. We continue to expand distribution to grow the business. So, I think network expansion is going to be an activity which never completes, and you're never going to have a perfect distribution. So, network expansion, we continue to do not only for bathware, but also for our core business of pipe, fittings and water tanks. So, that's an activity which will never end, and it will always be a lever for growth across segments.

Chintan Modi:

Say at peak revenue of what you're targeting Rs.110 to 120 crores, the margins would be more or less similar to existing margins, or you believe it would be better?

Nihar Chheda:

So, initially it would be lower because we will be investing more in brand and manpower and the sales will not be enough to absorb that. Then in the long run, if you see typically in this kind of industry, I believe there is more value addition possible. If you understand the very basics, in pipes and water tanks, it's all standardized products where product differentiation actually is fairly limited. You are more selling in terms of range and new products and distribution access.

But in a product like bathware, there is more product differentiation that is possible because of designs that you can be ahead of the curve with. There is also service is one way that you differentiate yourself. So, because there are more differentiators in this business, I believe there is more value addition that can be done in the long-term. And even if you look at the existing players in the bathware space, typically have operating margins of 14% to 15%. So, I think five years from now this will be the most profitable vertical for us. But I think that's a long way ahead. Right now, we just need to focus on market share, distribution and creating visibility at the point of purchase.

Moderator:

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

Keshav Lahoti:

Just want to understand, Aquel right now targets which geography, where its distributor is spread and revenue is coming from?

Nihar Chheda:

West, Central and parts of South.

Keshav Lahoti:

So, your entire bathware sales now will have the Aquel written on this entire bathware?

Nihar Chheda:

Yes. It's a Pan-India brand, but the presence is in the West Central and Southern markets. But now post this acquisition there will be one brand which is Aquel. So, product will say Aquel Pan-India and packaging and collaterals would say Aquel by Prince Pan-India.

Keshav Lahoti:

What are your plans for bathware in FY'25 on revenue side, on maybe EBITDA side?

Nihar Chheda:

Like I said earlier on the call, maybe in the next quarter earnings call, we would be able to share specifics. Right now, the focus is on integration of the range as well as our distribution.

Keshav Lahoti:

The pricing action which you wanted to bring on piping side, some price correction, how are things going on that front?

Nihar Chheda:

Pricing action has been taken. We believe now we are at a competitive price in PVC and CPVC relative to our top two peers and the action has been taken in December and January and for that to reflect it would take a few months in terms of volumes, but that action has been taken and now we are just waiting for the results to show and Q4 has been going well and we believe that we will match the guidance that we have given and we will start our growth engine from the June quarter.

Keshav Lahoti:

The Rs.35 to 40 crores replacement cost, which you said, can you split it up like what are the other elements, equipment and everything?

Nihar Chheda:

For the replacement or for our acquisition?

Keshav Lahoti:

For replacement, about Rs.35 to 40 crores you said would be the replacement cost. So, bifurcation is what?

Nihar Chheda:

You see, it depends on where the plant is and there are many variables. The land cost has a very, very large range depending on where you put up the plant. Of course, majorly it would be for the building, the civil infrastructure followed by the manufacturing equipment as well as the utilities. So, that typically takes a major part, but cannot give a very clear break up because it depends on where you put the plant and a lot of other variables.

Moderator:

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

Achal Lohade:

Just a quick clarification. Rs.55 crores upfront plus whatever Rs.2, 4, 5 crores incremental CAPEX, Rs.60 crores on top of that working capital. So, I mean when you reach Rs.100 crores of revenue, what kind of working capital would it require, would it require like 90 days so additional whatever Rs.25, 30 crores, so what is the ROCE on this piece, I mean just from this particular asset perspective or acquisition perspective?

Nihar Chheda:

So, I think working capital will be very similar where debtor days if we have to grow would be around 40, 45 days keeping an inventory of one to two months. So, I think working capital does not look like it will be very different from what the current working capital cycle is.

Achal Lohade:

So, in that case I mean 14%, 15% margin on Rs.70 crores, Rs.80 crores is like 20% pre-tax ROC, is that the fair way of -?

Nihar Chheda:

I think, Achal, it cannot be seen this way because in the first few years EBITDA margins will not be 14%, 15%, there will be a higher investment in branding and manpower as well. I think 13% to 15% kind of operating margins are possible in the long-term over four, five years. I think instead of seeing it this way, I would put it slightly differently. I think for the next two to three years, focus just has to be on penetration and ramping up market share, serving existing distributors, adding new distributors, investing in branding at the point of purchase in terms of showrooms and visibility for the Aquel brand and right now focus has to be on market share.

In the long run, then we can have the luxury of focusing on profitable and certain X-per cent margin, X-times ROCE and all of that. I think in the next two to three years we just have to put our head down and build a strong brand and build a strong distribution and I think the rest will take care of itself over the long run.

Moderator:

The next question is from the line of Arun Baid from ICICI Securities. Please go ahead.

Arun Baid:

Nihar, just one clarification. You mentioned this plant can do about Rs.100, 120 crores revenues with this 1 lakh pieces capacity, is that correct?

Anand Gupta:

So, when we say in numbers, it means it's a set, so 1 lakh is the capacity we quote in sets and one set consists of numerous number of items, typically 8 to 10 items and each item comprises of six to eight parts. This is how we have to see in terms of the whole set. So, what Nihar mentioned 1 lakh capacity is on the sets.

Arun Baid:

You mentioned earlier that this product quality is more or less equal to Jaquar or maybe better. So, how's the pricing going to be, is it going to be at par, how's it going to pan out there?

Nihar Chheda:

There is a range across multiple price points because gone are the days where you only sell premium, only sell mass premium, you have to have products across price points because even in one house there is a certain range used in a master bed, certain in a normal and then certain for maybe your help. So, there will be products at every price point. Given the kind of quality that that we are giving and the kind of brand that Aquel has, yes, from a brand point of view, brand recall point of view, it will be top of the pyramid, but right now focus is on gaining market share.

Arun Baid:

Just to clarify, in each of the segments where we are going to be, there are multiple price point segments that you mentioned, we will be in line with the leader, right, is that correct understanding?

Nihar Chheda:

We would benchmark the leader. We would have to sell at a discount because they are a very, very large incumbent growing aggressively. So, it would be delusional for me to think that we can price exactly at that price point and still grow. There has been some dilution because of the lack of supply. So, we will bench now. This gives us the luxury to not look at the other brands and other new entrants and maybe some of the existing smaller brands. Now, we can at least benchmark with the incumbent and sell at a discount relative to the incumbent. But now at least the benchmarking is done versus the incumbent and this we are saying basis our multiple, multiple interactions, a lot of homework has been done in terms of interacting with distributors and retailers across India. So, now we will be able to basically benchmark the incumbent and really scale this brand to a new level.

Arun Baid:

You mentioned that we will go back to the growth engine from June quarter, industry leading growth. Just one clarification here. Because most of the bigger players in the industry are talking of at least a 15% growth next year. It is indicating that. So, are we trying to say that next year we are going to benchmark ourselves much higher than that?

Nihar Chheda:

I will stay away from this number game. I think at Prince, historically, we have been conservative with guidance and the numbers have spoken for themselves and we are confident, fundamentals remain the same and we continue to aggressively put up capacity. So, instead of speculating on whether growth will be 10% or 15% or 20%, I think the numbers will talk. We have delivered in the past and we are confident that we will deliver in the future simply because fundamentals have not changed. This year has just been tough because of the ERP transition and then the resultant supply chain issue and some of the pricing action which we have already corrected. So, whatever is controllable in terms of putting behind the ERP challenges and taking the corrective price action, that has been done. So, the action has been taken. Now for the result to come into place. So, we have taken a quarter's time and guided for growth from June quarter. I have never been a fan of the number game and I will continue to stay away from that, and the numbers will talk for themselves. I think we have to focus on execution in terms of product, distribution and adding capacity. Whatever has helped us grow till now and whatever has helped us lead the industry in terms of growth, there's no rocket science and no secret sauce, the same levers will continue to help us grow at industry leading pace. So, I will stay away from playing this number game and the actions will talk for themselves.

Moderator:

We will take the next question from the line of Utkarsh Nopany from BOBCAPS. Please go ahead.

Utkarsh Nopany:

Sir, I just need a few clarification. First is for the bathware. Which facility can entirely take care of our faucet requirement for the next two-to-three-year period? And for sanitaryware, whether we would still remain dependent under outsourcing model?

Nihar Chheda:

Sanitaryware, we will continue to outsource. Even large players outsource that to more be there's enough capacity and enough quality product available at competitive pricing. So, faucets we will manufacture at Bhuj. Certain parts we will continue to outsource which doesn't make sense to manufacture in-house which also is an industry practice. But sanitaryware, we will continue to fully outsource.

Utkarsh Nopany:

So, we don't have any plan to put up the sanitaryware plant in near future?

Nihar Chheda:

No plan in the near future.

Utkarsh Nopany:

For branding, like you mentioned that for faucets we plan to sell under Aquel brand and for sanitaryware also we plan to sell under the same Aquel brand name or under Prince brand name?

Nihar Chheda:

Now all bathware, be it faucets, sanitaryware, showers, accessories all will have Aquel. So, you will have a synonymous branding and one family for bathware.

Utkarsh Nopany:

Lastly, for Faucet, whether we need to put up the facility in other part of the country or whether this facility can take care for the Pan-India requirement for us?

Nihar Chheda:

This facility will take care of Pan-India requirement for us because currently there is only 2.5-acres which is utilized out of 8-acres. So, basically we can increase this capacity three times… possibly even more. This is not a product like pipes where freight is 5% to 7% of your overall cost structure. The value per truck of faucets is significantly higher than pipes. So, even if you look at the existing players, you either have a plant in Gujarat or in North India and you are able to serve the entire country, because it's not a logistic-sensitive business. So, now we will just focus on first sweating out the Bhuj asset and then incrementally adding capacity. So, I don't foresee for the minimum next three to four years we will have to look outside of this facility.

Moderator:

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

Nihar Chheda:

Thank you, Arun. Thank you all for attending the call.

Moderator:

Thank you, members of the management. Ladies and gentlemen, on behalf of ICICI Securities, that concludes this conference. We thank you for joining us and you may now disconnect your lines.

NOTE - This is a transcription and may contain transcription errors. The transcript has been edited for clarity. The Company takes no responsibility of such errors, although an effort has been made to ensure high level of accuracy.