

PPFL/SE/2020-021/61

June 29, 2020

To,

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

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

Scrip Code: 542907

Scrip 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 June 26, 2020

In continuation to our letter No PPFL/SE/2020-21/55 dated June 24, 2020, please find enclosed transcript of the Conference Call for Analyst and Investors held on Friday, June 26, 2020.

Kindly take the same on record.

Thanking You.

Yours faithfully,

For PRINCE PIPES AND FITTINGS LIMITED


Shyam Sharda

Chief Financial Officer





“Prince Piping and Fittings Limited
Q4 Financial Year 2020 Conference Call”

June 26, 2020



Analyst:

Mr. Arafat Saiyed – Reliance Securities Limited

Management:

Mr. Parag Chheda, Executive Director,
Prince Piping and Fittings Limited

Mr. Shyam Sharda, Vice President and Group Chief Financial
Officer, Prince Piping and Fittings Limited

Mr. Nihar Chheda, Executive Strategy,
Prince Piping and Fittings Limited

Moderator: Ladies and gentlemen, good day and welcome to the R Friday High Tea Corporate Access Conference Call with Prince Pipes and Fitting Limited to discuss the 4Q and FY2020 Results hosted by Reliance Securities Limited. 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 like to hand the conference over to Mr. Arafat Saiyed from Reliance Securities. Please go ahead Sir!

Arafat Saiyed: Thank you. Good evening everyone. On behalf of Reliance Securities I welcome all to the conference call of Prince Pipes and Fittings to discuss 4Q FY2020 results and industry trends. From the management we have Mr. Parag Chheda, Executive Director of the Company, Mr. Nihar Chheda, Executive Strategy, Mr. Shyam Sharda, who is the VP and Group CFO. Good evening gentlemen. First of all thank you very much for giving us opportunity for hosting this call. I will just request you if you can just show the current quarter results and also the trend in the industry then we can follow up with question and answer session. Over to you Sir!

Parag Chheda: Thank you so much. Hello everyone. A very warm good evening to all. Thanks for joining us for the Q4 FY2020 earnings call. We hope you and your family are safe and healthy during these challenging times. The press release has been issued to the stock exchanges and uploaded on the company website. I hope you all have got a chance to go through our performance.

Firstly, I am very excited to welcome Mr. Rajendra Gogri, Chairman and MD, Aarti Industries and Mr. Satish Chavva Investment Director of Oman India Joint Investment Fund to our Board. The company is ready for their strategic value addition and direction as we embark on our next chapter of growth.

Let me now give you a perspective on strategy before I hand it over to Shyam, my CFO who will walk you through the fiscal performance. As you are aware that the COVID led lockdown has had a major impact on the economy at large as a result of which we have lost out on a significant of our March sales which is the peak month of dispatches for Prince. However, we have had a solid performance during the months of January and February where we had a 16% value growth year-on-year, which has mitigated the lockdown impact on the overall Q4 performance resulting in a degrowth of 14%.

Prince was one of the first few companies to restart dispatches from our facilities post partial lifting of the lockdown. This not only helped us liquidate our inventory at plants, but also helped us penetrate the markets effectively being one of the first movers in opening up our value chain. I would like to highlight that we have had a manufacturing excellence and safety function at each plant for more than six years now, which helped us hit the ground running during the COVID era of plant activities. As a result of being able to liquidate our finished goods inventory at the plant level we were able to ramp up our production at a decent pace to timely fulfill our orders from the trade. Hence we operated at about 40% utilization level in the month of May which is better than I would have envisaged. Once again our

execution intent and hunger for growth coupled with systematic approach to business has set us apart from our competition.

Moving on in our war against COVID, we wanted to go beyond just educating. We wanted to make a meaningful contribution to the society we hit upon and innovative ideas. The contactless sanitizer made of Prince Pipes and Fittings. This product has been named as SANIFIT. We have been the first mover in not only innovating this product but also scaling it up.

We have taken the various steps across the nation. Firstly, we introduced hand sanitizer and hands free pedal pushing sanitizing dispensing unit under the SANIFIT brand. Secondly, all models extensively tested for durability and effective usage. Thirdly, order received from the defense establishment and shipped the first batch to their southern facility. Fourth, product in process of evaluation by one of the largest FMCG Company shortly would supply a large quantity towards their rural outreach program. Lastly, as a part of our CSR initiative distributed these units to various government departments and hospitals across the country.

I am also very pleased to announce that we have expanded our product portfolio and entered the vertical of storage tanks. Unlike our peers, Prince has always been a pure play pipes and fittings manufacturer. Our core strength has been Prince's B2C and retail pull. We wanted to encash on this B2C pull via extensive rain selling. We have been very selective and conservative in making an inline product portfolio expansion. Storage tanks hit the sweet spot of two things Prince knows well. First plastics and second building materials. I believe that we can use our current distribution network to scale up the storage tanks business. Storage tanks will be sold in the same distribution and retail network as pipes. Hence, we will not have to spend major time and mind share in building our new distribution model which could have been an uphill task. Therefore, I strongly believe that storage tanks, is the perfect fit for Prince.

Moving on to the tank industry metrics the market size we estimate is about 4,000 Crores. The organized to the unorganized split is 35:65. As you are all aware it was primarily one national brand ruling this market which has been having certain challenges and constraints currently. The rest of the market is largely fragmented via regional players since logistics cost is a significant part of the cost structure in the tank industry. I strongly believe that our strategic manufacturing network spread across six different locations in India will help us penetrate the market effectively. I also think this industry is waiting for national player with a robust distribution and manufacturing network to leverage the muscle of our brand power.

To conclude, we will not put pressure on immediate volume growth instead we will focus on providing a premium product and use quality and brand power to establish our place as a market leader in the long term. In fact we have received very encouraging and expanding feedback on our product quality from our first dispatches into the Gujarat market. This strategy of focusing on a premium product combined

with fierce distribution network has made us a force to reckon with in the piping segment and we will stay true to this approach in tanks as well. It is my strong believe that this approach is more sustainable since we have our eyes on long-term value creation.

Moving on our strategy of winning in many India continues to be as effective. Our distribution network spread across urban Tier-II, Tier-III as well as rural India has been a major reason for sale especially in the COVID era along with this robust distribution network, our strong brand power across different applications like plumbing, sewage, agriculture, underground drainage and borewell has actually helped us thrive in such a challenging global scenario, all six, in house manufacturing facilities and are our outsourcing units have scaled up production. This demand was initially led by agri products which has been a major demand driver.

Next, the momentum was followed by green shoots of demand for the housing segment which includes CPVC as well as PVC pipes in the plumbing segment and SWR pipes used for the drainage purpose in domestic application. This housing demand has primarily emerged from semi urban and rural markets. In such times, our exposure to semi urban and rural India has helped us differentiate ourselves from our peers. We continue to goal bolster our strategy of winning in many Indias.

Lastly, I would like to reiterate that though we lost out on approximately 120 Crores to 130 Crores of sales that would have not only contributed to our topline but also improved our margins. Having said that despite this loss of sale we have broadly mate our guidance on EBITDA and net margin and as we continue our debut on the capital markets we intend to be conservative and transparent organization.

I am glad that even in the phase of COVID-19 Prince as well as our peers have shown strong signs of recovery. Thank you all for your time and mindshare. I shall now handover to Shyam to walk you all through the fiscal performance. Thank you once again.

Shyam Sharda:

Thanks for advice and good evening friends. I will quickly take you through the numbers on the results and our review for Q4 financial year 2020 vis-à-vis Q4 FY2019.

We are all aware that there was a challenging economic scenario on account of the COVID lockdown in the second half of the March 2020. Further it is known within our business, March is a very critical period and so is the case with us. Revenue from operations degrowth by 14% to 431 Crores vis-à-vis 499 Crores. The volume degrowth by around 16% to 33,140 metric tonne vis-à-vis 39,641 tonne. January and February 2020 sales grew by 16% and the volume by 10%. However, the March sales was impacted due to lockdown which led to an overall degrowth which was mitigated by the robust performance for the month of January and February. The onetime duty hit of Rs. 7.65 Crores was accounted for in this quarter which was paid in the previous quarters.

Q4 financial year 2020 EBITDA with impact of ADD is at 57.6 Crores with an EBITDA margin of 13.4% while Q4 financial year 2020 EBITDA adjusted without ADD would have been 65.3 Crores translating to a margin of 15.2%. Despite this we were able to deliver a robust EBITDA highlighting the inherent strength of our business model. EBITDA at Rs. 57.6 Crores vis-à-vis 58.3 Crores indicates margin improvement by 169 BIPS to 13.4% vis-à-vis 11.7% during the corresponding period. EBITDA improvement due to the better product mix, depreciation has increased largely due to commissioning of the Jaipur plant and other capex.

Finance cost has got reduced due to repayment of long-term debt during the quarter. PAT is at 28.3 Crores vis-à-vis 29.9 Crores during the corresponding period.

Now I will run past year-on-year number for financial year 2020 vis-à-vis 2019. Despite a challenging environment, we have managed to deliver healthy performance overall. Revenue from operations has grown by around 4% to 1,635 Crores vis-à-vis 1,571 Crores during the corresponding period. The volumes have grown by around 3% at 132,816 metric tonnes vis-à-vis 129,111 metric tonnes during the corresponding period. April to February, the 11 months period the value growth was at around 13% and the volume growth was 11%. Despite the March 2020 impact we were able to deliver overall growth. EBITDA has grown by around 25% to Rs. 229 Crores vis-à-vis 184 Crores indicating an improvement by around 2.28% to around 14%. This is mainly on account of favorable product mix, better pricing power and the production efficiency and effective cost control measures.

Capex stood at 175 odd Crores of which around 112 Crores was towards our Jaipur plant. The term loan was Rs. 151 Crores in the previous year and is now at 56 Crores which indicates a reduction of 95 Crores which is quite substantial. This reduction was owing to repayment through our IPO proceeds and internal accruals. The total debt at present is 261 Crores. The gross debt to equity is at 0.31x. Our debtor days have shown improvement from 58 days to 40 days owing to disciplined debtor management.

Working capital is at 58 days which is an increase largely owing to the higher inventory days due to lockdown in March 2020. However, this inventory helped us an effective market penetration in May 2020.

On our credit rating we have moved to A family owing to our overall financial performance, our long-term facility has improved to A- from BBB+ and short-term facilities has improved from A to A2+.

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

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. We have the first question from the line of Rajesh Kothari from Alpha Equity Advisor. Please go ahead.

Rajesh Kothari: Good afternoon Parag Bhai and team. First of all, congratulations for good set of numbers in such a challenging time. My first question is can you give some color in terms of the new business what you are planning, the tank business, you said that you have a strategy locations, will it be manufactured across from all your across plants and how do you see in terms of year one and year two and year three slowly, steadily, how do you plan to ramp up this business, that is question number one? My question number two is on pipe business, if you can give insights on your marginal inventory of course is very high because of the lockdown may be so maybe you can explain on that and considering there was a significant oil and raw material price volatility, do you think any hit in first quarter because we are almost near to end of first of quarter and last but not least the question is on overall outlook, what is the current capex utilization and how do you see the ramp up in 2Q and 3Q? Thank you.

Nihar Chheda: Thank you for your question Rajesh. I will answer it point wise. The first one was on the tank business, so like we said I think 35% of the business is organized, 65% is unorganized. It is largely the fragmented players who are in the market because of the logistics cost. We are very clear that we do not want to do multiple product diversifications we want to stay true to our core products which will be pipe fitting and now tanks, so it is very important for us to scale up the tanks business to a pan India level so number one yes. We will be pan India tank player. We have started form our Dadra unit to do some test marketing in Gujarat market and like Parag mentioned in his opening remarks the initial feedback on quality is very, very exciting, so we plan to then scale it up. We have already derived a plan in terms of what next markets which we will be revealing soon, so we will become a pan India player, we think that there is a vacuum in the market today because there was obviously one national brand who was ruling that market and we feel like we have the distribution network along with the manufacturing network to really become efficient as far as logistics costs are concerned and really use the similar approach to our piping strategy which is one to have multiple locations to become efficient in terms of supply chain and then have a very strong focus on giving a quality product to the market and we feel like we can replicate the strategy very well intact. I this is a very sustainable approach towards creating long term value so that was your question on tanks.

Rajesh Kothari: Basically in terms of EBITDA margin and in terms of return on capital employed this tank business will be further accretive to your EBITDA margin?

Nihar Chheda: While it is too early to really comment on margins, what I can give you a directional thoughts process is we are targeting a healthier margin in tanks then in our current business of pipe fitting so on a margin front it is more lucrative is what the initial reading is which is why we have ventured into it while like Parag Bhai again mentioned in his opening speech I do not think we are trying to make into volume game. We want to come as a premium player as a quality player so we will not put too much pressure on volume growth from day one, we have our eyes like I said on long-term value creation. So that is for tanks are concerned.

Rajesh Kothari: Do you expect any major year one, set up cost or one time or business cost or one time brand in marketing cost do you expect any of such onetime cost in year one or year two?

Nihar Chheda: No, like I said what we like about this business is distribution network is exactly the same. We are seeing the building material segment is plagued with companies who have done over diversification of their portfolio and then do not have enough bandwidth to manage that model of distribution, so we are very conservative when we are going to do that what we like about this business is that the distribution network, retail network, plumber network all is the same which is why there is not going to be major investment to marketing. In terms of investment into manufacturing there will be that normal whatever capex cost that is going to be incurred which is not going to be very material compared to our current balance sheet and if I can answer your last question was in terms of piping. I am sorry to be honest I have forgotten your question, can you please repeat your question?

Rajesh Kothari: Second question was on inventory and third question was on your outlook and your capacity utilization as we move forward?

Nihar Chheda: Sure, one was inventory was 77 days both raw material and finished goods as opposed to 47 days so there is a 30 days almost one month increase in inventory which is quite sharp, but I think that has been an industry wide phenomenon like we said March is a peak month for sales so you are always sitting on a sizeable amount of inventory to be able to cater to your channel and lockdown obviously no one could have predicted it and when that came that is reason we are sitting on a higher inventory which has actually been a blessing in disguise because when the markets opened up in May we had permissions to dispatch material not necessarily to produce initially in the initial days so that is when we could really use our this high level of inventory to really, really penetrate the market and may be make some market share gains as well, so it have turned out to be a blessing in disguise cum Q1 and as far as overall outlook for the piping business, I think agri demand has been robust in May and June where we were actually running in severe shortages which is a good problem to have I think in such scenarios, so agri has been robust. Plumbing there has been a gradual recovery so one there is obviously a pent up demand from the March which has obviously helped us in May channel inventory we notice it was very, very low so that has in short that there is at least recovery in terms of sustainability of that recovery, I think only time will tell, but I think there is a very uncertain macro environment comment on any guidance, any quantitative guidance and to be honest with you lot of people have been asking this real estate have been bad for the past four years now so it is not that we are coming into we were running with the bull run in real estate and suddenly there has been a drop but despite that poor real estate us and our peers have posted that sort of robust year-on-year growth which is because of market consolidation and we only think COVID will accelerate this market consolidation because the small players cannot take the type of cash flow hit, inventory loss hit that our balance sheet can take, so I think there will be further shift from the unorganized to the organized within the organized big will continue to get bigger which is a silver lining for us in such hostile condition.

- Rajesh Kothari:** Thank you very much. I will come back in the queue.
- Moderator:** Thank you very much. We have the next question from the line of Ashish Poddar from Anand Rathi. Please go ahead.
- Ashish Poddar:** Thank you for taking my question and congratulations on good set of numbers. If I recollect in our case the agri pipe business is about 15% to 20% in the overall mix. If you can confirm that and also in the current scenario especially for FY2021, do you really see that it is the agri pipe which will drive overall pipe industry or you see even the plumbing will get its space in coming months and it will be like we were seeing in earlier year? Your comments on these will be helpful. Thank you.
- Parag Chheda:** Thanks Ashish this is Parag here and proper question for the current times. Typically I have to correct you little bit with your information it is not 15%-20% but almost agriculture is about 30% normally and the rest would be the building material. Now if I have to give you a current picture then so far in the month of May-June there has been a very good demand on the agriculture sector so today what we see is it is almost to the tune of agriculture could be contributing to the tune of about 40% so there has been a good increase on the agricultural front.
- Nihar Chheda:** So just build on to that this is where our expertise across many applications really help us because if you look at us we are in a very unique position compared to our peers, as one peer may be very good in plumbing one may be in only in agri, I think Prince has a very unique position where we are equally we have strong network across agriculture, plumbing, drainage and borewell, so this exposure to multiple application has really helped us. To further sharpen my answer to your question of what will carry demand going forward, I think that is a good question. The agri business is a seasonal one so there are typical agri months which is I would say Q1 and Q4 of the financial year typically strong for agri so that is the seasonal business where the housing demand comes in is we are all aware COVID has largely affected metro economies and the urban economy and again here Prince Pipes have differentiated ourselves from our peers because of our strong distribution network in semi urban Tier-II, Tier-III as well as rural India and we feel that that part of India is really going to help us drive our housing segment sales as well because we would be surprised as to how much of our CPVC is actually well penetrated into semi urban and rural India as well as our other domestic application product so we are bullish as far as rural and semi urban India is concerned to drive the non-agri part of our portfolio which is the larger chunk like Parag Bhai indicated.
- Ashish Poddar:** So, any sense in our revenues I mean in whatever you define the semi-urban, rural and urban will be ballpark trends what will be the mix in our case?
- Nihar Chheda:** See as a company policy I want to stay away from giving any quantitative break up because we do not largely track. I can give you a directional thought process is that I will give an example let us talk about the ground reality we at Prince Pipes has like more than 50% to 60% market share in an urban metro

like Bombay while still having very strong brand equity in the villages of UP, Haryana, Bihar, Punjab and all these sort of markets. So, we believe that our distribution network is very core to our business model and the spread of this network of across different India and the effective strategy of willing in many India.

Ashish Poddar: Thank you for your information and all the best. Thank you so much.

Moderator: Thank you. The next question is from the line of Vishal Verma from Oman India Fund. Please go ahead.

Vishal Verma: This is Vishal here first of all congratulations Parag Bhai, Nihar and Shyam for very good set of numbers for the year. I have a few questions; one, in the current year we all now that in the revenue loss but still we were able to meet the guidance due to the strong EBITDA margin expansion that we have witnessed. If you can comment little bit more than what Shyam has already mentioned that in due to a product mix if there is more you can comment on one why there will be such a strong EBITDA margin expansion and what is the sustainability of this? The second part is the debt levels have come down in terms of the long-term debt and we all know that it is part of it has been due paid using IPO money but after March have you taken more or have you reduced any levels of debt post that I would assume if there has been working capital stress, have you utilized more debt? Last part is on the receivables, how have you seen the receivable collection post March? Thank you.

Nihar Chheda: Thank you Vishal for your question. I will answer the first question before I hand it over to Shyam for the part on the debt. So, your question in terms of margin expansion I think there have been multiple reasons so let me walk you through them. One is a favorable product mix, so we have grown higher in our value added products be it our plumbing products and our SWR products have outgrown our agriculture segment in Q4 which always the good thing for the gross margins. Second, is I believe this is the most important region in my opinion for margin expansion is the pricing leverage that we are enjoying in the market today. The pricing power of a big processor increases as the market consolidates and we have seen a fair amount of market consolidation that has taken place. So this does not just mean that we have just been increasing our prices left and right what this means is your sales is more sustainable because it is done on a pull basis. So, you do not have to resort to month end throwing up discounts to the channel to really sell more you are able to sell in a very sustainable way and on your own terms so, this is really positive for us. The third is that we have worked out very strong charters for working on production efficiency which have led to cost control. These are of course more medium to long term majors that we have taken across our plants which has helped with the margin improvement as well and lastly, if the operating leverage benefits also kick in when you grow the way we have. So, really product mix, pricing power, production efficiency and operating leverage. So, it is not really the only one or two reasons that have led to this growth which makes this growth a lot more sustainable in our eyes. In terms of giving guidance for EBITDA I think we want to stay away given the current macroeconomic scenario we want to stay away from giving any guidance on EBITDA, we will work

very hard to sustain our margins, but it is too uncertain I think more certainty is expected post September in the second half. Shyam you can take now.

Shyam Sharda: Vishal basically in terms of the debt repayment we had Rs.167 Crores of debt which we have reduced there on Rs.95 odd Crores. So, we have repaid to the major institutions and also what we have done is in terms of all the banks, Bank of India, ICICI all the banks have been repaid from our IPO proceeds and also from the pre-IPO as well. Further, the short-term borrowing also has, now there has been some increase in short-term borrowing of course while there is a decline in long-term borrowings Rs.58 Crores is the net increase in our short-term borrowings. So, net and net it is like Rs.40 Crores overall reduction in my debt from what we have seen in the previous period. During the current three months starting from April onwards there is an addition of around Rs. 30 odd Crores to my working capital facility which we have taken from one bank, DBS. In terms of answering your third part in terms of collection so we are seeing a good uptake in collection as well and I think we are almost at 80% to 85% of average collection in the normal pre-COVID months as well. So, I think the recovery is pretty steep and we will see a good collection coming in the last one and half to two months.

Nihar Chheda: If I can just add some color to Shyam I think the reason for the increase or the good recovery in cash flow post COVID as well is the robust agriculture sales. So, as we know agriculture is a lower realization product compared to the rest of the segment which is why we do this sale on cash and carry or a three day payment model which has helped us improve cash flow.

Vishal Verma: That will be all from my side for now. In case I have some more questions I will log in again.

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

Ritesh Shah: Sir thanks for the opportunity. Sir, my first question is can you provide some color on the product mix on a year-on-year basis and at the time of the IPO we had indicated that we grow significant chest of our volumes and it also aided our margins. If you could provide some colors it will help us understand with the margin profile of the company?

Nihar Chheda: Sure, so like you are aware Ritesh we are against staying away from giving such specifics because it is heavily competitive industry but like we did last time we are happy to give a directional thought process I think like I said in my previous questions what we like about our product portfolio is we are able to strike a very strong balance across plumbing, agriculture, drainage and borewell product. I think like we mentioned agriculture used to be around 30% usually 30%-35% which at such times has gone from around 35% to 45% because of the strong agriculture season and the strong demand and as far as the fitting is concerned, I think we had last time also mentioned we are the gold standard in terms pipe to fitting ratio in the industry, we are doing our best to try to sustain this ratio. There is no further

improvement expected or possible. So, sustaining this ratio in itself would be an achievement which we have managed to do so in the past quarter as well.

Ritesh Shah: I just had a request basically to understand and appreciate the hard you are doing it would be great to have some disclosure at least on the PVC, CPVC, PPR and EWR which you have given for historical numbers and if in fact one looks at the presentation also we earlier used to give company versus SWR certainly in the prior quarters disclosures that is also something which has been coupled up in the prevailing quarters presentation. So, would really appreciate if there are more disclosures on the product mix that was on. Second we wanted to understand how much the CPVC costing moved on a sequential basis, I am looking at the raw material cost per ton number so we do have some cleaver on how the PVC prices moved where just wanted to have some sense on CPVC price movement actually consumption price versus the inventory that we used to have and once you look at the strength going forward?

Nihar Chheda: Firstly thank you Ritesh for appreciating the hard work we are doing on improving our VAP portfolio I think it is a tricky one because we want to stay away from giving quantitative numbers but like we just mentioned so are you looking for a polymer wise break up or application wise break up?

Ritesh Shah: Only CPVC pricing I am looking at raw cost per ton it has moved by 5% up on a sequential basis from Rs.85 to around Rs.90 so just wanted to understand how is the consumption price moved for CPVC resin or compound whatever we use for import?

Nihar Chheda: Sure, we use CPVC resin which like you are aware we used to import from Korea which we shifted to Japan and that would have led to an increase in the CPVC prices and a large portion of which we have been able to successfully pass on to market. Like I said in PVC it is 70% market is organized 30% is unorganized. In CPVC four players are having 65% to 70% market share so, it is very competitive at the top and there is no way we can share any pricing, we all know that pricing has moved upward, we all know that the top guys have been able to pass a large part of that to the channel which is what matters and I think our numbers sort of speak for themselves in terms of sustainability.

Ritesh Shah: Right, that is encouraging, so just wanted to check I think the prior quarters I had asked that question on CPVC inventory you had indicated there was some high cost inventory so are we done with that, margins were quite we look at it this it is really nice but just to have some comfort on how as this play going forward. So, is that high cost inventory is done with?

Nihar Chheda: Yes, that is done with and like I said the reason for margin expansion has been multiple which shows that it is very sustainable margin expansion and we have different functions working on it whether it is my marketing and branding team trying to inculcate a pull sales which helps our pricing strategy or my manufacturing team which has worked out very robust charters to really get a strong cost control on production efficiencies. So, it has been a real sustainable and long-term sort of margin expansion.

Ritesh Shah: The last question if I may, encouraging to see you are entering into the water tank market but it is a very competitive market like we are a new entrant over here you have like Sintex, Plasto, Patton, etc., so what is our strategy over here like is the margin profile and the working capital is better than our existing operations? How should one look at the business on Rupees per liter basis how do you look to tackle the market given it is far more competitive?

Nihar Chheda: It is around Rs.4,000 Crores to Rs.5,000 Crores market today and if you look at the metrics in terms of the lack of water availability especially in Rural India where our network is strong I think there should sort of market potential is a lot larger than market size today and we believe that we have the right reach in terms of competitive landscape, it is flipped pipe it is 70% in the organized in tank 70% is unorganized because it is such a freight cost sensitive industry because you are essentially transporting air when you are transporting tanks which is why it has really been fragmented by local players. Our approach is going to be slightly different we see that if you stick to giving a quality and a premium product and not put too much initial pressure on volume it is a very sustainable way of ramping up business. Like you are aware there is one national player that used to be ruling the tanks industry and that vacuum is still there today and no real other regional manufacturer has the muscle as far as network of distribution or manufacturing network is concerned which is why we feel like it is an very opportune time for Prince to make this entry and fill this vacuum up. We have six plants, two in the north, two in the west, two in the south so we feel we are very well placed to effectively penetrate each zone of India and really fill that vacuum at the top of the pyramid of tanks and our eyes are only at the top and we want to use a similar approach like we have in pipes, give a quality product, give a premium product do not put initial pressure on volumes and you will be able to cement yourself as force to reckon with.

Ritesh Shah: So, is there any specific segment that we are looking at antibacterial, pressurized tank, multilayer anything that we have looked at or we entail to launch?

Nihar Chheda: First I think retail is our strength we will be focusing on the retail. Let me give another clarification for the benefit of everyone if the lot of these unorganized guys or even smaller organized guys have given three layer tanks, seven layer tanks, 10-12-13 layer tanks which is really a marketing gimmick our strategy with tanks is to build a very strong trust equity with the end consumer outside of two to three layered tank it is all the same, it is just a marketing gimmick done to try to create a value added product and charge more money from the end consumer. Our campaign is going to be one which is going to be built on trust that we build with the end consumer whether it is plumber or a homeowner and even our branding strategy is done to clarify that we are not here to broom marketing gimmicks and give seven, eight layered tanks just to try to make higher realizations. We are going to give premium quality products made with virgin polymers and two and three layer is what we are at least going to start with except premium end to run a really trust based branding campaign coupled with a superior premium product.

Ritesh Shah: On working capital margins that will be my last? Thank you.

Nihar Chheda: Like I said margin with tanks are looking more lucrative on paper today we have just started our test marketing, feedback is encouraging, people have really accepted the brand Prince which is already very strong in this channel, quality has been really very well appreciated which what excites us because focus like I said is not on immediate volume growth, it is on giving a quality product and as far as working capital is concerned this phase will happen on a cash and carry model so debtor days should be lower that is the norm of the tanks industry. But of course margin and working capital profile I think we will be able give a lot clearer and certain color in the next one or two quarters to come.

Ritesh Shah: Thank you so much for the answers.

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

Achal Lohade: Congratulations for the great numbers. My first question is with respect to the capacity. What is the capacity as of March 2020 and what is the kind of capacities we would look at in March 2021 and March 2022?

Shyam Sharda: In terms of installed capacity it is 255,899 metric tons as on March 31, 2020 and future going we are looking at may be around 263,240 tons by March 31, 2021.

Achal Lohade: Okay, and so that is about 8,000 tons kind of a capacity addition on a net basis is that right?

Nihar Chheda: Achal while we have our of course Telangana plant is going to be done from IPO proceeds so let me give you some color on that. It usually takes 12 months to 15 months to have a Greenfield project now of course we have had three to four months of natural delay due to COVID but we intend to follow the normal timeline and not further intentionally delay the timelines for Telangana. We are bullish in terms of the market that will be there once we resume normal and we feel like the market will consolidate and we feel like we are in a very unique position to capture this market. The unorganized players and the fringe organized players will be moving out of the market and the consolidation will only accelerate. We strongly believe that we are in a very unique position to be able to do this capacity addition and really capitalize on these encouraging green shoots of demand. Having said that macros are very uncertain so it is while Shyam did indicate the number we are looking at for the end of this fiscal or the end of next fiscal as well if that the environment is too uncertain to really comment we want to wait and watch we are closely monitoring the situation on the ground and depending on that we are trying to strike a balance in terms of aggressiveness and still being focused on the quality of the balance sheet. Yes, Achal are you done?

Achal Lohade: Can you help us understand in terms of the total amount, the total money raised and you have highlighted that you have used part of that for debt repayments so how much has it been used and how much is lying in the escrow account as of now?

- Shyam Sharda:** Overall we have raised Rs.355 odd Crores and we have repaid our term loans so we have repaid almost Rs.95 Crores of term loan and that includes interim from our internal accruals as well. So, while part of the major amount was through our IPO proceeds including pre-IPO and plus main IPO part is in internal accruals. We still Rs.244 odd Crores which is lying with us, which is mainly on account of our usage for Telangana plant and upgradation of our equipment's as of now. So, we have used the balance amount so Rs. 244 Crores is what is lying with us as an FD for meeting requirement for Telangana plant and also the upgradation of equipment's.
- Nihar Chheda:** Just to summarize we have utilized around Rs.112 Crores and the money that is fits in the escrow account is around Rs.244 Crores, Rs.184 Crores out of that Rs.244 Crores is for Telangana facility and Rs.60 Crores is for upgradation of existing plants which is done in staggered manner depending upon the demand scenario.
- Achal Lohade:** Got it and just to clarify this Rs.112 Crores includes the general corporate corpus which we used I believe?
- Parag Chedda:** Yes, Achal.
- Achal Lohade:** Okay, that is a good thing and in terms of the cash flow statement if I look at there has been one item of Rs.249 Crores or Rs.250 Crores can you help us understand that what is about for better understanding?
- Shyam Sharda:** Achal this is basically our FDs itself I mean the months fund that we have lying because this is not only FD that we have put it of IPO but there is also some margin money because of our LC's and all. So, that money is getting classified in the head in cash flow which you are looking Rs.249 odd Crores.
- Achal Lohade:** Got it and with respect to imports a) what is the imports mix in the raw material consumption for FY2020 and given the way things are we are hearing about delays in terms of clearances of imports from China. Do we see any risk for us or for the industry in general for the raw materials?
- Nihar Chheda:** Firstly, we do not import from China zero import is from China, CPVC, PVC, HDPE any of that so I do not think there is any risk to us. So, any player who would have exposure to China would be better able to comment on that. In terms of mix it is largely 50-50 or a 60-40 mix of import to domestic so the good thing is we have a decent dependence on the domestic producers as well. There has been minor supply chain disruption but nothing material to affect production or the entire value chain it has just been minor immaterial disruptions of value chain which is manageable.
- Achal Lohade:** Great that is helpful. Thank you so much. Wish you all the best.
- Moderator:** Thank you. We have the next question from the line of Nehal Shah from ICICI Securities. Please go ahead.

Nehal Shah: Congratulations Parag and Nihar for a great set of numbers. Couple of questions from my end; first thing on the brand spend what was the actual brand spend numbers for FY2020 and also what would be our branding strategy in the post COVID 19 environment and second is, as regards the distribution network considering the kind of consolidation which is likely even going further which you rightly said what kind of net dealer addition would you be looking at in the near term? Thank you.

Nihar Chheda: Thank you Nehal. So absolute brand spend has been around Rs.30 Crores to Rs.35 Crores which is around 2% of net sales. In terms of outlook it is a really interesting question to be honest because this is a good amount of discretionary spend can be cut in times like COVID so we like to have that flexibility and that management discretion. At the same time I think it is also great opportunity to have the strength of the balance sheet that we do and still in consistently invest in branding because I think the key to building up strong brand perception if over the long-term and in such times when all brands are cutting on their branding costs, I think you have more eyeballs on your brand if you are able to invest into branding. So, it is a really balanced approach that we want to do because the macro environment is so uncertain and the demand scenario is pretty uncertain so it is a good means to be able to cut the cost but at the same time I think it is an opportune time to keep investing in brand building which is a very long-term exercise. So, it could be an opportune time. So, it is really to answer your question wait and watch, keep a very strong ear to the ground reality and let it play off strategy according to that. As far as your second question on distribution network I think again bang on I think have around 1500 channel partners today which is the strength of to be honest. As far as distributor addition it has been around 135 distributors over the past annum. We are very keen to add distributors because of the consolidation so there is a lot of trench organized which are going out of the market. So, it is great time to not only gain market share but if you gain distribution network your sales becomes more sustainable and that growth is a lot more sustainable. But at the same time you cannot just look at it in terms of we need to keep adding new distributors because we have a very strong criterion when it comes to opening up a new distributor. So, for example they have to be very good pay masters, a lot of these distributors of these unorganized brands or smaller organized brands are used to extend their credit cycle and do not have very disciplined approach to business so we want to stay away from those sort of channel partners and lastly it is hunger for growth right we want to have distributors who are ready to invest in infrastructure and their wavelength of growth has to match my wavelength of growth, only then does it make sense to add your channel partners. So, while we are working on improving our channel and our reach across India, we will be very product savvy while doing that.

Nehal Shah: Sure, Sir is it fair to assume that major part of the brand spend will be more on BTL activities rather than ATL in this COVID-19 environment?

Nihar Chheda: Absolutely it is more likely I think even outside of COVID I would say our first two years when we got on brand ambassador got the eyes on the brand and really had a very effective marketing campaign we were able to create that brand awareness. I think with second phase of this branding exercise was to

further bolster the connect that Prince has with its loyal plumbers and retailer network. So, yes regard with the COVID I would be spending more on BTL and now with COVID more so, on BTL of course.

Nehal Shah: Sure, thanks a lot.

Moderator: Thank you. We have the next question from the line of Nitesh Jain from Birla Mutual Fund. Please go ahead.

Nitesh Jain: Good evening everyone. Sir, I have two questions, number one is on the higher inventory since April, May, June have gone by largely has there been decline or come to a normal levels I mean the question is have you deliberated to your production in line with the sales and the inventory? Question number to Mr. Shyam is what will be the total capital expenditure in fiscal 2021 or the next full year? These are two questions.

Nihar Chheda: Yes, I think first on your question of inventory we were carrying more than two months of inventory because of the lockdown like we said there was a lot of bent up demand and robust agriculture demand so, this has really helped penetrate the market effectively. Our inventory has significantly reduced of course we will be able to give a better clarity on that at the quarter end but as of today there has been a sharp reduction in inventory because of the strong sales that is happening I will be comment in a quantitative manner only at the end of the quarter and I think Shyam on the capex.

Shyam Sharda: Nitesh on the capex front, while we have Telangana, which we intent to start in terms of the work over there, so while we have targeted 184 Crores to be spent over a period of time, I think we should be able to use may be 60%, 70% of that fund in this current financial year plus we have a normal capex of around 40 Crores, 50 Crores odd. So both put together we should be in the region of around 120-odd Crores, 125 Crores for this current financial year is what we are looking at plus what is more important is since the situation is quite dynamic, we need to be slightly more flexible and take a call on a quarter-to-quarter basis in terms of the spends that we intent to do on capex. In case the demand gets up or we see a good demand coming up we can further invest more in capex. Since the IPO funds have also been raised, plus there is good internal accruals happening so that should not be a challenge any time that we decide to do that.

Nitesh Jain: Thank you very much. Appreciate it.

Moderator: Thank you very much. We have the next question from the line of Darshan from Spark Capital. Please go ahead.

Darshan: I had two questions actually. I wanted to know post this lockdown how has the demand been from your distributors and the second question is regarding how many distributors you have added for financial year 2020?

Nihar Chheda: Thank you for your questions, Darshan. Firstly I think on the demand side, agri demand has been robust from the channel and I think that has been the situation not only for us but for the entire industry and some players had challenges in opening up their plants if they were in containment zones or red zones. So, whoever was able to start dispatches including Prince Pipes we were really able to garner a better market share in agriculture. As far as plumbing is concerned, of course it has been more gradual recovery. Luckily since channel inventory was low there was a lot of pent up demand for the housing segment and furthermore I think in rural and semi-urban India has performed a lot better than urban India and our distribution network is as strong in rural and semi urban as it is in urban. So, we have been able to see a decent recovery in the housing segment as well. In terms of channel addition, we have added around 120 to 140 new distributors somewhere in that range. Again just for the benefit of everyone we do not give major significance to a number of distributors. It is the quality of your network, the reach of your network. Like I answered in the previous questions as well, whether they have an ability to be good pay masters, invest in a stock point and infrastructure, in technology, and the hunger for growth. So, I would really encourage everyone to look at distribution network from not only a quantitative but also qualitative outlook and even the spread of this network across the different zones and different types of India is really prime to us.

Darshan: How has the western side of India particularly Gujarat or Mumbai has been fairing after this COVID unlock?

Nihar Chheda: I think everyone is aware of Maharashtra and Gujarat have been heavily affected by the lockdown, so of course it has been tepid compared to the rest of India, but again it is a mixed bag. If you look at Gujarat maybe the metros like Ahmedabad and Surat may not be doing as well, but the semi urban places of Mehsana, Vapi, Valsad are still having a stronger recovery than their urban counterparts. So, it is really you cannot give it a one blanket answer and I think agri demand in Maharashtra and Gujarat both is usually very robust and that was the same from rural parts of these markets as well. Of course now post monsoon agriculture being a seasonal product it will vary.

Darshan: Thank you.

Moderator: Thank you very much. We have the next question from Sunil Jain from Nirmal Bang. Please go ahead Sir.

Sunil Jain: Good evening Sir. Congratulations on a good set of numbers. My question relates to more of a cash flow. If I see your cash flow in that operating cash flow is negative whereas you had included one item other financial and non-financial assets which is making all these negative. Can you explain exactly what is this and why you need to include it over here?

Shyam Sharda: So, a couple of points over here. One is in terms of negative in spite of getting into IPO also. So our inventory, which we said has actually piled up as on March 31, on account of the sales that we expected

for the month of March they were up which has moved to 77 days. Generally, we have around 40% to 50% of the sales which is generally sold in cash. This is on a cash and carry model, which if it could have been accentuated would have flown into the cash flow as well. So that was one reason say we are sitting and even in spite of getting IPO money at around 8 Crores of a negative cash flow. That was one. Secondly, we have repaid a substantial amount of IPO money towards term loans, long-term loans. So, while as I said earlier 95 Crores has been paid from the system including from the IPO so that is actually putting up a marginal portion of the cash flow, but we are very comfortably placed and I think going forward this will be much, much more positive than we are living today. We have already taken this as a priority because debt reduction and importantly the long-term debts, which has been reduced substantially from almost 156 Crores to 51 Crores. It is a substantial decrease there and also in terms of our objective of improvement in our overall debt mix as well, we are well on course of doing that.

Sunil Jain: I was not able to understand one item in that that is the other financial and non-financial assets, which is somewhere around 249.12 Crores.

Shyam Sharda: That is what I think Achal had asked the same question and what we have actually clarified as well so this is my fixed deposits along with the margin money which is sitting in my cash flow, so it is mainly around 243-odd Crores which we have parked in our various accounts, 208 Crores coming from IPO and prior debt. So that is the money along with the margin money, which is lying in my other financial assets which is being shown in the cash flow.

Shyam Sharda: So, it is largely our IPO proceeds that we have parked into the banks once our capex starts that will get utilized and it can come down.

Sunil Jain: In fact that is a bit distorting the picture. That is why, was it a mandatory requirement. We have not seen the cash balances accounted before operating cash flow?

Shyam Sharda: This is like a normal accounting treatment that one would have been given and of course it was all consultation obviously this is the way it has to be reflected. So there is no deviation over here. This is perfectly the way it has to be.

Sunil Jain: Sir, second question relate to the gross margins. I am sorry, if I am repeating it because I dropped off in between. Gross margin if I see quarter-on-quarter has come down whereas your EBITDA has increased quarter excluding that 7.65 Crores which has increased substantially. So, this means there is something that you had gained in operating cost and all, which are all had you got benefited, where you reduced your EBITDA margins?

Nihar Chheda: One I think there has been a gross margin expansion. This duty hit was on the previous quarter because of the provisional duty became actual, so there has been a gross margin expansion. This has been due to three major factors; favorable product mix and pricing power, two at the gross margin and one like

we said below the gross margins for the EBITDA has been the production efficiencies which has led to cost control. So, we have really worked up some robust charters to help us reduce our manufacturing costs as well, which is more of a long-term measure, which has been given some short-term low hanging fruit as well.

- Sunil Jain:** The 7.65 Crores is accounted in the current quarter and was it in material cost?
- Nihar Chheda:** Material cost.
- Shyam Sharda:** It is there in material cost. It is part and actually an expansion in the gross margin, this is the previous quarters' hit that we have taken.
- Sunil Jain:** Thank you.
- Moderator:** Thank you very much. We have our next question from the line of Rajesh Kothari from Alpha Equity Advisor. Please go ahead.
- Rajesh Kothari:** Thanks for giving us an opportunity again. My question is in terms of the cost savings that I am sure you guys must have locked very hard considering the significant pressure in 1Q. Would you like to give some details on that? How do you see the cost savings to be reflected on the full year basis? How much on absolute basis your cost varies from fixed cost to semi variable and variable?
- Nihar Chheda:** Largely if you look at our industry it is largely fixed and semi variable costs. While we have worked on reducing costs like production efficiencies we have of course been very, very conservative with branding costs in Q1. We have a fixed cost of around and it ranges from 16 Crores to 20 Crores per month. I think we will be able to give better colour on the cost cutting measures at the end of the quarter in terms of absolute, but we see a lot of cash elements which can be cut.
- Rajesh Kothari:** I am sure you would have already worked upon it, if any major cost cutting drive if you have taken particularly on fixed cost side, then probably it would have been already worked by now, correct?
- Nihar Chheda:** No. These are ongoing processes. There has been most of the cost cutting has actually happened on the production front, which was even before the COVID era where we thought that there was some facts that we could cut if we worked on reducing manufacturing costs and that has actually and these are long-term measures. They cannot happen overnight. We have seen some improvement in EBITDA margin on basis of this because there was some low-hanging fruit that we have cut, but these are long-term measures, and these are ongoing. There is no short-term way of cutting costs.
- Rajesh Kothari:** Bulk of your employee cost is fixed in nature like last year it was about 5% or something like that? Is it variable part of it contract manufacturing or how it works?

- Nihar Chheda:** Employees of course are always a fixed cost and at the plant there is largely 50:50 or 60:40 breakup between payroll and contract. What we like a lot of companies we have seen have resorted to salary cuts or layoffs. We think that this is the perfect time to back the team to build a very strong culture and improve the team's morale. We have even in these tough conditions not resorted to any salary cuts, not have done any layoffs or not planning to do any layoffs. I think this is where you can differentiate the men from the boys and we are intent on delivering a very strong team culture which we will be able to create long-term value. As far as the laborers are concerned, I think it is 50:50 break up on payroll and contract.
- Rajesh Kothari:** My last question is in terms of the mark-to-market losses if any because of the volatility in the raw material prices. How do you see that for this current quarter?
- Nihar Chheda:** Like everyone knows PVC had a sharp decrease of around Rs.11 which is roughly 14% in three weeks' time. First there was a significant inventory loss, but the good part is this has already been 100% recovered by Reliance where they have increased this Rs.11 margin so there will be a loss for a one month period but that has already been reported as well.
- Rajesh Kothari:** I have not understood. My question is very simple, whether in first quarter is there any major mark-to-market losses?
- Nihar Chheda:** We cannot comment on that as of now. I think we will have a better picture as at the end of the quarter. What I was trying to say is PVC has had a recovery, so it dropped by Rs.11 per kg. It has again picked by Rs.11 per kg so PVC at similar levels post COVID, the good part is that we have been able to pass on this complete increase to the market without any lag and 100% and even when there was a decrease we pass on only 50%, 60% of that decrease to the market, so there will be an inventory loss, but it will be mitigated and we will be able to give better colour on it by the end of this quarter.
- Rajesh Kothari:** Thank you.
- Moderator:** Thank you very much. We will take our last question from the line of Ritesh Shah from Investec Capital. Please go ahead.
- Ritesh Shah:** Sir, I wanted a breakup of the inventory at the end of the year, just a broad breakup between 180 Crores, how much of it was PVC and CPVC?
- Nihar Chheda:** Again Ritesh, I want to stay away from giving these sorts of breakups. I do not think anyone in the industry is doing it and we are part of the same industry. In terms of sales you know lion's share is PVC, 60%, 70% is PVC, 20%, 25% is CPVC. I will stay away from giving polymer wise, inventory breakup. I will just stay away from it.

- Ritesh Shah:** My second question was you did indicate that in the prior question you did indicate that there has been PVC resin price increases, so the question is has the end product prices increased in proportion to the increase in raw material prices or is there some proportion left which is yet to be increased?
- Nihar Chheda:** It is fully passed on with immediate time. No lag and passing on and 100% passed on by Prince Pipes.
- Ritesh Shah:** This is after also taking into account that the March end PVC inventory will be relatively higher cost and the prices dropped in April and it moved up in May and then in June. So, basically what we are saying is in May the price of the products even taking into account high cost inventory that we had in March end basis. Would my understanding be right?
- Nihar Chheda:** There was a Rs.11 drop at that time we did not pass it on completely to the market. So, the inventory loss was mitigated of course there was an inventory loss, like there was for the rest of the industry, but if you see the industry norm followed by the top four, five guys that only maybe 50% to 60% of that drop was passed on to the markets hence the loss was mitigated and then once that has been recovered, of course we have passed on that balance portion immediately and 100%.
- Ritesh Shah:** So that also is in effect for the May sales?
- Shyam Sharda:** Of course.
- Ritesh Shah:** Thank you so much.
- Moderator:** Thank you very much. As there are no further questions from the participants, I now hand the conference over to Mr. Arafat Saiyed. Over to you Sir for closing comments.
- Arafat Saiyed:** Thank you so much once again for giving us opportunity Sir 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 you management going ahead. Thanks a lot. Thank you so much Sir.
- Parag Chheda:** Thank you so much Arafat.
- Shyam Sharda:** Thank you. Thank you everyone.
- Moderator:** Thank you. On behalf of Reliance Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.