



KRITI INDUSTRIES (INDIA) LIMITED

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Subject: Transcript of Conference Call with Investor and Analyst held on 28th October, 2021.

Dear Sir / Madam,

We enclose herewith transcript of Conference call of Kriti Industries (India) Limited with the Investors and Analysts held on Thursday, 28th October, 2021.

The aforesaid information is also being hosted on the website of the Company viz., www.kritiindia.com.

Please take the same on your records.

Thanking You

For Kriti Industries (India) Limited

Apeksha Baisakhiya
Company Secretary & Compliance Officer

Encl: As above



“Kriti Industries (India) Limited
Q2 FY-2022 Earnings Conference Call”

October 28, 2021



**ANALYST: MR. KARAN BHATELIA – ASIAN MARKET SECURITIES
PRIVATE LIMITED**

**MANAGEMENT: MR. SHIV SINGH MEHTA - CHAIRMAN AND MANAGING
DIRECTOR – KRITI INDUSTRIES INDIA LIMITED
MR. SHASHANK BELKHEDE – GROUP CHIEF FINANCIAL
OFFICER - KRITI INDUSTRIES (INDIA) LIMITED**



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Moderator: Ladies and gentlemen good day and welcome to Kriti Industries (India) Limited Q2 FY2022 Earnings Conference Call hosted by Asian Market Securities Limited. As a reminder, all participants' 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 an assistance during the conference call please signal an operator by pressing '*' and '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over the Mr. Karan Bhatelia from Asian Markets Securities. Thank you and over to you, Sir!

Karan Bhatelia: Thanks Bilal. Ladies and gentlemen good morning and welcome all to the Kriti Industries (India) Limited 2Q FY2022 Earnings Conference Call hosted by Asian Market Securities. From the management side we have with us Mr. Shiv Singh Mehta - Chairman and Managing Director and Mr. Shashank Belkhede – Group CFO. I hand the conference to management for their opening remarks and then we can open the floor for the question and answer. Over to you Sir. Thank you.

Shiv Singh Mehta: Good morning everyone. It is my pleasure to welcome you all to the earning conference call of Kriti Industries (India) Limited for the second quarter of the financial year 2021-2022. I hope all of you are well and keeping safe.

Let me give you a brief overview of the operational performance of the company for the second quarter. As you may be aware that globally PVC prices continued its upward momentum and in second quarter still it is looking that is going to continue its trend.

Second quarter is generally considered to be a nonpeak season due to monsoon particularly agricultural segment where during this period generally there is lack of demand for pipes, but our company has been able to maintain volume similar to the last year and in the institutional side we have shown growth for telecom duct business and also for micro irrigation segment.

Now our Group CFO Shashank Belkhede will give you the key financial highlights.

Shashank Belkhede: Thank you very much Chairman Sir. A very warm welcome to all of you and good morning everybody. Let me take you through the key financial performance of our company on a consolidated basis in Q2 FY2022.

The operating income for the quarter was Rs.112.7 Crores which was an increase of about 25.2% on a YoY basis. The EBITDA reported was Rs.12.3 Crores which was an increase of



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about 12% on a year-on-year basis. EBITDA margin stood at 10.93% while the net profit after tax reported was Rs.5.5 Crores with PAT margins of 4.89%.

On the balance sheet front we have been able to manage the working capital requirements prudently by maintaining the current issue at 1.32 times and the debt equity ratio is also in a very strong position at 0.19 as compared to 0.23 in March 2021.

For the first half of FY2022 the operating income Rs.267 Crores which is an increase of 8.7% on year-on-year basis. The EBITDA reported was about Rs.26 Crores which is an increase of about 4.9% and EBITDA margins stood at 9.71%.

The net profit for H1 reported was around Rs.18 Crores while the PAT margins were around 6.67%.

Thank you very much ladies and gentlemen. With this now we can open the floor for question and answer sessions. Thank you very much again.

Moderator:

Thank you very much. Ladies and gentlemen we will now begin the question and answer session. We have a first question from the line of Ankit from Bamboo Capital. Please go ahead.

Ankit:

Thank you for the opportunity. Sir there has been link from other PVC pipe companies that on the agriculture side given the sharp rise in PVC prices the demand has been impacted quite a bit and the farmers are shifting to unorganized companies because of the steep price increase. So if you can give your views on what is happening on the demand side kindly because of increase in PVC prices?

Shiv Singh Mehta:

Mr. Ankit in our view with the kind of prices and raw material challenges most of the industries is facing we are seeing more of a consolidation of industry rather than demand shifting to unorganized sector so we feel that there is a consolidation and growth for organized sector. As far as demand side is concerned the demand certainly gets impacted with these kind of prices but when we see overall availability of materials and ability to manage your supply chain appropriately those companies who are well placed to do this will be gaining out of the whole scenario this is how we look at the market at the moment.

Ankit:

There has been an impact in demand from the farmers end?

Shiv Singh Mehta:

For the quarter two yes agriculture sector has shown a very minor dip which is almost less than few percentages point but the question today was most of the time in September and



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even in October first week and towards second week it was raining across the length and breadth so monsoon was extended and delay so that could be a major reason so we are hopeful that post Diwali the market demand should improve because generally farmers must be looking for products because they were not able to buy in the first quarter as well because of pandemic when most of the agriculture market in rural and urban areas were closed.

Ankit: Sir in the last year Kriti was the best quarter for us in terms of revenues and margins and how do you see this year Kriti panning out at least in the pipes 25, 26 days of October?

Shiv Singh Mehta: For agriculture sector we are quite hopeful that there should be good demand and for other sectors like institutions and others we again feel that government is putting lot of efforts to push the demand and again when we look at building product where we are doing more focus towards we are seeing sustained growth quarter-on-quarter.

Ankit: The last question on the building product side Sir we have an ambitious target of this segment contributes so insignificant growth for us and contributing at least 20%, 25% of our revenues over the next two to three years so any development on how has been the acceptability of our products in the markets that we cater to and how are we building the teams of this segment if you can throw some light on that?

Shiv Singh Mehta: The growth in building material is fairly good. We are reaching out to the market as per our plans. We have been able to build our team and every segment, every geography we are able to get right capability to be able to sure that we able to move ahead as per our plans.

Ankit: Thank you. I will come back in the queue.

Moderator: Thank you very much. The next question is from the line of Vishal Prasad from VP Capital. Please go ahead.

Vishal Prasad: Good morning. I have a few broader questions on the business. In 2016 our revenue was 480 Crores and last year it was 589 now we aspire to double our revenue in three years could you take me through your thought process on why we have struggle to grow in last five years and what are we doing to change the growth trajectory for business. I understand this we have done geographical as well as product expansion but any specific pointers on what are the actual steps that we are taking?

Shiv Singh Mehta: Mr. Vishal if you look at our last few earning calls, we have been telling you about our geographical expansion into newer states and that is aiding us in terms of growing our



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volumes, not only that there is an overall expected growth in business itself which will be in addition to the growth coming from new geographies. Company has also entered into building materials with a very serious focus and we are seeing good traction. All put together this is how our volumes are growing. In addition to that apart from the metric tonnage growth we are seeing a substantial increase in the raw material prices over a period of time. So put together these all factors are helping in showing you a better topline numbers.

Vishal Prasad:

Sir if I look at our revenue from building materials starting 2018 and last year 2021 over four years it has hovered around 30 Crores to 35 Crores so basically our aspiration is to 33 to 200 Crores in three, four years so if I understand correctly from our competitors what has happened in the industry is that the larger and competent distributors they have signed up with larger organizations and they cannot sell the products on the competition so when we go and recruit the distributors in the market in specifically in building materials so how are we approaching the whole area where we are trying to get the distributors who are hungry for growth so how are we doing it?

Shiv Singh Mehta:

See we are primarily all these years focused on agriculture markets. We have a very strong distributor presence across our territories of marketing and sales. More than 400 odd distributors who are well entrenched in these areas who are capable and very effective in terms of their local connect. If these distributors sell our VP who are not traditionally very VP oriented that itself gives us a good traction and reach into many geographies. You must have seen that in last quarter-to-quarter we are showing good growth on VP segment and we are quite confident with existing dealership what we have without enrolling new distributors in many areas which we shall definitely try to do we should be able to achieve our numbers because most of the growth is coming in rural areas as far as building material is concerned.

Vishal Prasad:

So in the annual report you have talked about training our current distributors in how to sell in the building material segment. So I understand there are different skills required if we are trying to sell agri pipes and if we are trying to sell our building material pipes so is there any specific thing that we are doing with the distributors where training were providing which can help in up skill and sell our products?

Shiv Singh Mehta:

You see building material has lot of service orientation in terms of regular supplies, continuous supplies, stocking materials and also serving the retail network around your place of position. In case of agriculture pipes most of the customer come to the shop of a dealer and buy it mostly so there is a difference in two situations because building material you buy every day as the house construction progresses while in case of agriculture you buy it one time during your time of purchase.



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- Vishal Prasad:** My question was more on the distributors like we have talked about the training that we are providing to them.
- Shiv Singh Mehta:** Well, the range of products he has to stock them, he has to keep his stock level updated, he has to have internal systems of stock management, he has to serve the customers for small supplies or regular supplies, he has to build up connect with his local plumbers or other retail outlets so these are the new areas which he has to work towards in service side servicing the customer base so this is where we are training our dealers to do the job right way.
- Vishal Prasad:** One last question Sir. The business having multi-location plant is an advantage has it helps us to lower the logistic cost and it also helps us to the market improve our ability and time to market. But I have seen that we have a huge capacity at one location so could you please talk about your thinking process when we expanding created such large capacity at one location?
- Shiv Singh Mehta:** You see we are very well placed. Pithampur and Indore are centrally placed in India from where you can approach most of the territories and operational advantages of larger volume in single place are also available. However as I have been maintaining we will certainly look for more locations or new locations when we develop critical volumes and we are able to see a cost advantage because of transportation and logistics cost or local presence. So we are definitely planning to go and put up at new locations but that will only happen when we achieve critical volumes in those territories what we have planned.
- Vishal Prasad:** A bit on water tank business Sir?
- Shiv Singh Mehta:** Water tank is an area where you have to be more multi-locational because of volume so we are doing well as far as in the limited territory we are present presently but as and when we go multi-locational this is the area where we will focus more and more within coming times.
- Vishal Prasad:** We are having the water tank or we are going to have for the segment?
- Shiv Singh Mehta:** It is already launched and it is well received well accepted in the market.
- Vishal Prasad:** Thank you Sir.
- Moderator:** Thank you very much. The next question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.



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Dhwanil Desai: Good afternoon. Sir the first question is if you can explain us how the trade works on the agri side so let us say for Q3 is it that the placement of the products with distributor happens in advance and distributor anticipate certain demand and stock inventory or is it like as and when demand comes they kind of come back to us and then we going to supply how does it work?

Shiv Singh Mehta: You see agri side normally a customer will come to a shop and would expect material to be purchased on spot so most of the dealers keep stock for couple of days requirement and this is why they keep planning their purchases based on market movements. So most of the stocks are available for immediate sales at a dealer's point and there are times when the peak demand comes they run short of material and there is lot of pressure on companies to supply when turnaround times are expecting to be within minutes and hours but this is what is how the market functions because in peak season there is always shortage of Kasta products in market and we try our best to maximize supplies before sudden surge in demands coming in.

Dhwanil Desai: Sir even I am asking this question is Sir PVC prices have been on upward trajectory for sometime so is it a factor in coming couple of quarters that people are or distributors are skeptical to stock considering that the prices may not sustain if that making fear in the mind of distributor which may have some impact on the demand?

Shiv Singh Mehta: You see that is certainly these months the last 16, 17 months has been unprecedented in terms of price movement of commodities and plastics are really something where no one is sure how long, how far these kind of moments will continue and more importantly at dealer level or a distributor level, their understanding of world market is limited. So there will be always apprehensions so what you are saying is absolutely correct dealers do have the feeling that what kind of a price scenario they may face, there could be a sudden upward or downward movement which may affect their business. But they have fair good trust in company that we will give them appropriate guidance if there is a situation of sudden reverses and that is how our relationship and dealership has been maintained with such a strong dependence mutual dependence but yes this is a thing in mind but so far since it is a one way movement for last couple of months particularly last July onwards so dealer must have seen that the price trends are fairly robust and since demand is likely to peak in November so they will be keeping some stocks readily available with them.

Dhwanil Desai: That is helpful. Sir second question is on our industrial side I think in our previous commentary we were pretty cautious on that side in terms of considering the credit challenges that some of the corporate may face but still we have done reasonably well in terms of volume growth so Sir how do we look at this segment going forward and what can



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be driving the demand, there is a lot of city gas distribution projects which are coming up in implementation stage so how should we look at the growth in the industrial side?

Shiv Singh Mehta: We have not done very major growth in terms of volumes. We have been very cautious and we still continue to be cautious on institutions supply side because wherever we are sure with these companies where we are sure of payment and timely supplies, we still will try to maximize that work but still overall in our estimation there are not very great prospects where we will be able to increase this business beyond a reasonable amount I mean because ultimately government finances if they are able to support all their purchases in times we will certainly do whatever best with all caution in mind.

Dhwanil Desai: Sir last question is on the building product side. Sir I think if I recollect correctly our strategy is to leverage our distributor and probably our stronger geography and PE and maybe Maharashtra to kind of scale up this business so we are currently at 750, 800 tons on a quarterly run rate is it possible to double this number only by taping the existing distributors and market of MP and Maharashtra and if so other than the limited product profile that we have currently do we need to change anything if you can throw some light on that?

Shiv Singh Mehta: You see I mean we are very small player in terms of market share against the opportunity and with strong dealership based we have in rural areas we do not see any reason why we should not have a very good compounded growth rate as far as because starting from a small base it is very easy to grow numbers in terms of multiples. Last year to this year we are almost double and there is no reason why this growth rate should be maintained we should be we shall be that is how we see.

Dhwanil Desai: Sir last question, I mean, so one reason we may have done well in Maharashtra is one of the larger players was facing financial challenges and they exited the market or they kind of reduced their focus. Do you see them coming back at least on the ground level? Do you see them coming back with focus again on this market at least in Maharashtra?

Shiv Singh Mehta: I was sharing initially with one of the questions we are seeing consolidation of industry happening so the unorganized sector which has offers a big opportunity for any organized player to improve its market and size offtake.

Dhwanil Desai: Thanks Sir. I am done. Thank you.

Moderator: Thank you very much. The next question is from the line of Rupesh from IntelSense Capital. Please go ahead.



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Rupesh Tatiya: Three or four questions I really had. One first question really is if you see the play book of larger industry players Astral, Finolex of the world, APL Apollo there is a big brand strength that happens first and then a lot of sales growth comes and we just have a very good brand in Kasta so roughly I mean broadly can you talk about your branding strategy and do you see yourself following this playbook?

Shiv Singh Mehta: Our brand is a very well established brand in the areas where we operate and we have a majority market share in agriculture segment in these areas. We have also seen when we have gone to the newer areas or adjacent areas we are finding that people know about our brand pretty well though we may not be present in those territories but they do recognize us as one of the serious players of the business. So that is why whenever we have introduce our products in those areas we were able to identify some prospective good distributors and that is the journey we are on so we are quite hopeful that once we achieve critical volumes we are more focus on BTL not ATL at the moment and that is what is helping our business to stabilize in new territories as well.

Rupesh Tatiya: Do you see aggressive investments for that can be expect our ad spends as a percentage of revenues to go significantly over next three, four years?

Shiv Singh Mehta: Once we have captured the low hanging fruits and we have received certain reasonable numbers we will certainly go for other branding initiatives which are necessary as the business demands.

Rupesh Tatiya: The second question Sir is roughly if my understanding is right 60% of PVC resin you get from Reliance Industry is roughly 10% is on the imports and then other from other players so is there any scope for an annual contract or something like that so that we feel there is some vitality both on the upside and the downside?

Shiv Singh Mehta: No, we have regular supply channels and we get material through them from overseas as well as from domestic suppliers like polyethylene we are buying from all the majors whether it is OPAL, IOCL, Gail or anyone including Reliance, for PVC it is mostly Indian source is Reliance and otherwise all imported. Now the world market supply chain conditions have changed so much in last one and a half years that new sources new avenues have to be always explored for procurement and we do it because we are well known in the industry and we are able to do that as per our requirements.

Rupesh Tatiya: So most of the buying is spot basis, would that be fair understanding?



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- Shiv Singh Mehta:** Seeing at the time of monthly most of the buyers take up their sales once in a month and we are partly to that purchase cycle normally it takes about 45 days to 60 days cycle for material to each end.
- Rupesh Tatiya:** So PVC resin Sir it is fully not buying that, right?
- Shiv Singh Mehta:** Right PVC resin.
- Rupesh Tatiya:** Another thing is Sir if PVC resin prices continue like this do you see either downtrading or some of the lower segment moving to non-PVC products?
- Shiv Singh Mehta:** Sir it is a very natural thing to happen. If suppose this is a relentless price increase then there will be definitely customer will look at the auctions but today if you look at even steel the steel is going up, if you look at polyethylene it is also going up there could be a relative difference but there is an increasing trend in all commodities so we do not see major diversion at immediately because every product has its characteristics and its application which are unique to itself. So you can have some peripheral migration but not across the board.
- Rupesh Tatiya:** So you do not see like a big impact maybe some usual...
- Shiv Singh Mehta:** This economy ultimately plays out one cannot stop it. Polyethylene today is comparatively less its inflationary as compared to PVC but polyethylene has its advantages and disadvantages in PVC so specific application wise wherever that product is required will be there and this cannot go endlessly I mean over some period of time some corrections will have to happen.
- Rupesh Tatiya:** That is good to know. Next question is on distribution so what is our total number of distributors as of Q2 and then how many of them either they are exclusivity to us or our products get the maximum shelf space?
- Shiv Singh Mehta:** No most of our distributors were in mutually exclusive basis and we had more than 440 dealers and distributors and now we are adding very month now onwards some distribution in new territories where we want to establish our building material in a more significant way.
- Moderator:** Thank you very much. The next question is from the line of Viraj Mehta from Equirus PMS. Please go ahead.



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- Viraj Mehta:** Sir just wanted to understand because the PVC prices have gone up significantly over last few months in this quarter's number what will be the inventory gain?
- Shiv Singh Mehta:** Last quarter we do not have much inventory gains because in inflationary price cycle normally your margins come under little pressure. What I am saying in an inflationary price rise apparently your margins go under pressure. So if there are any inventory gains you will see in coming quarters more importantly rather than the quarters we have gone through that is how we see.
- Viraj Mehta:** Sir second thing what I wanted to understand is when you say your three year target is 1200 Crores topline or 1000 Crores whatever is the topline but see realization as you and I both understand is out of our hands so what we are doing in terms of tonnage is around 50000 today can we essentially see doubling our tonnage in next three years is that the target in terms of tonnage?
- Shiv Singh Mehta:** See that way the major growth will come in tonnage because you know predicting prices at this time after three years is impossible it is very difficult it is very uncertain so what we are calculating our growth is in tonnage internally that is what is our target to grow our tonnage more than 80000, 85000 tons.
- Viraj Mehta:** Around 80000, 85000 tons in three years.
- Shiv Singh Mehta:** What we want to grow it to from current year.
- Viraj Mehta:** You talked about seeding the market and specially that you have seeded the market in Maharashtra and now you are seeding the market in Karnataka significantly at what stage let us say at what stage you will think about putting our plant is it like a number in mind like is it like say we will do 5000 tons then we will put up a plant in that state in a year what is the number in your mind that will tell you that now if the time to go ahead because it is a chicken and egg situation because we are far away our pricing will be more expensive and which is why we are not getting market share and vice versa?
- Shiv Singh Mehta:** You see we are not in Karnataka today. We are in AP and Telangana. Now we will be entering Karnataka in this quarter. So our idea is to grow the market and the take size there. Once we cross 20000 tons domestic demand from that locality will be considering a plant.
- Viraj Mehta:** 20000 tons, okay. Perfect. Thank you.



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Moderator: Thank you very much. The next question is from the line of Ritesh Barjatya from Asian Market Securities. Please go ahead.

Ritesh Barjatya: Thank you for the opportunity. Most of the questions are answered. Just one question sir like you said that consolation is happening in the industry so I just want to understand what is our game plan to get our self increase our market share like as a strategy what we are doing are we concentrating on expanding our distributorship or we increase our offering in the terms of more number of SKUs and what kind of the difference in terms of trade we are offering to get this kind of the market share so if you can talk something on that will be helpful?

Shiv Singh Mehta: You see when you want to grow and gain market share you do both built and debt. You focus both on both. So we are definitely looking not only on increasing the distribution but we are asking every dealer to penetrate down the line into the smallest segments in pockets. We are also enhancing our product range as we have been talking in building materials, we are also doing lot of work on the borewell segment so we are trying to specialize some the products or area specific or application specific and also trying to engage with distributors to go vertically down in terms of catering to more subdealers or retailers or customers in that territory. So both efforts are simultaneously happening.

Ritesh Barjatya: Sir like any internal target you have set in like that in the next three years what kind of the market share we are expecting any numbers if you can give?

Shiv Singh Mehta: We are already strong. In our strong areas we have a fairly significant market share majority of market share but in new territories we are gaining traction and we are improving our market share so we will certainly like to take it to a reasonably respectable levels in the new territories where we will be present.

Ritesh Barjatya: Sir being you operated mainly from MP Indore region so how is the real estate over there and what kind of the demand for a building material product over there?

Shiv Singh Mehta: You see real estate we have seen is doing well across the length and breadth wherever we are seeing and I think everywhere I mean even the last quarter we have shown significant improvement in terms of our presence, our numbers and our sales and all companies must be doing it so as compared to agri this year for speedier improvement in our growth in building material.

Ritesh Barjatya: Sir what is our mix as of now PVC and building material products as of now?



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Shiv Singh Mehta: Building material is growing I mean as I was telling someone that over last year we must have doubled our numbers this year in terms of metric tons as well and quarter-on-quarter we are growing in building materials and it would be in excess to it is a double digit growth so which will further improve as our range grows improves, our territories grow, our distribution improves so we are quite hopeful that we should be able to do better.

Ritesh Barjatya: Sir in the next three years like what can be the sustainable margins we can expect?

Shiv Singh Mehta: Presently we are holding around 10%, 11% EBITDA margins we are trying to take them to industry best is about 18% EBITDA generally what is that is projected so we would like to bridge this gap as best as we can.

Ritesh Barjatya: Sir, so that difference of the margin mainly we spend more on the terms of the trade or on the advertising or something or something happen?

Shiv Singh Mehta: No, margins because of the products you sell and kind of brand utilization you have throughout the year that is where some margins come. Our prices are at par or at a premium in most of the product segments we operate so that is where the better plant utilization throughout the year because agriculture is cyclic, building material is a consistent business, building material also is better margins as compared to agriculture so as the migration will happen you will see we feel that our EBITDA margin should improve.

Ritesh Barjatya: That is from my side. Thank you.

Moderator: Thank you very much. The next question is from the line of Varun Sheth, an Individual Investor. Please go ahead.

Varun Sheth: Thank you for the opportunity. Sir most of my question has been answered just on the distribution front I think I heard that 440 distributors in India we have which are most of the exclusive side and we are planning to increase now onwards on a monthly basis so any number which you would like to share say by March how much would that be?

Shiv Singh Mehta: See we are doing lot of calculations and planning so it would be prudent only to answer these questions once we are ready and we have ourselves assessed our progress in market plan to actuals?

Varun Sheth: Sir on the demand side how ground level you are seeing particularly I think MP we are very strong but in the nearby vicinity where we have entered AP, Telangana, etc. So how we are seeing demand on the agri pipe particularly in October month and going forward?



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Shiv Singh Mehta: You see so far if you look at in last quarter there is this Q2 the agri kind of topline might have grown but the metric ton wise I see there is a little decline because of the prices or extended rains all put together but we are all hopeful that after post Diwali there should be an improvement in the market because ultimately underlying demand is there and since all commodities have gone up so relative price increases everywhere so I think customer will have a better choice in buying what he wants to in terms of agriculture pipes made from plastics.

Varun Sheth: I think that is it. Thank you.

Moderator: Thank you. The next question is from the line of Vishal Prasad from VP Capital. Please go ahead.

Vishal Prasad: I have two more questions. In our EPC business we supply the pipes directly to the subcontractors. If I look at some of our competition most of them do EPC business through distributors and that is how the wallet risk coming to their own balance sheet so could you please talk about our thought process behind this doing the business directly with EPC contractors?

Shiv Singh Mehta: No the type of business we are aim normally we feel that it can be only done to a direct EPC contractors because there are specifications specific to us particular project for which pipes have to be produced and there is an element of third party inspection which is involved in the process so mostly for a larger projects regular products we will need to buy directly from a manufacturer because third party inspection is fully possible when such situation is there where transparency of manufacturing supply is made.

Vishal Prasad: If we talk about the raw material well there are three sources generally in the industry one is the local producers like reliance second is the import and third is the traders or importers so if generally we talk about our raw material what percentage we would be buying from the traders or importers.

Shiv Singh Mehta: We do not buy it from traders we directly import or we buy it from the local manufacturers.

Vishal Prasad: So close to 10% would be import and rest is through local manufacturing.

Shiv Singh Mehta: Much higher if you see polyethylene for specific applications we only import PVC because Reliance will give you a limited quantity, rest you will have to import so we have fairly consistent and regular imports and whatever we get from local manufacturers that is only one PVC supplier that is reliance rest all is to be imported.



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- Vishal Prasad:** One last question Sir you have talked about the distributors that we are recruiting in newer areas like AP and Telangana so could you talk about the qualities you look for in the new distributors?
- Shiv Singh Mehta:** No we have a very clear dealer assessment form within our system and only once one qualifies with that kind of requirements that we appoint a distributor. We do not make rush in appointing a distributor because see long-term relationship and performance so there should be a mutual buying dealer must find that this is a company worthwhile to deal with and we must find there the dealer has a potential to achieve what we want to achieve in that territory on a long-term basis.
- Vishal Prasad:** Thank you so much.
- Moderator:** Thank you very much. The next question is from the line of Rupesh from IntelSense Capital. Please go ahead.
- Rupesh Tatiya:** Sir one feedback I am getting is in agricultural products because we have such a strong brand the dealer margins are relatively low so can you confirm that how are our dealer margins in agricultural products versus let us say leaders is it similar, is it significantly higher, is it significantly lower?
- Shiv Singh Mehta:** In my own assessment last one and a half years for dealers has been exceptionally good. They have been very comfortable with the kind of margins they have been able to achieve for two reasons; one there was a inflationary cycle so whatever stock they had they were able to gain out of the stocks they had and number two the supplier many small time unorganized sector supplies were restricted to minimum and that is where they were not in any kind of a price pressure in spite of raw material prices or product prices going up continuously.
- Rupesh Tatiya:** But our end margins are more than the leaders or less than the leaders so relatively if you say?
- Shiv Singh Mehta:** The other areas of dominance our dealers have the maximum margin because our product sales is going to be higher end of the prices and in the new territories where we are our dealers must be comfortable that is why they are buying regularly because they have to compete as well as they have to ensure that they do significant volumes to make their business viable.



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- Rupesh Tatiya:** Then how would the value proposition for the dealer changes and then we ask them to get them building products. Do they make significantly more money than they make in agricultural products how does the value proposition look for them when they start selling the newer products?
- Shiv Singh Mehta:** You see building material will definitely with them more comfort in margins but it is a mindset change which is very important because the service part on maintaining a large portfolio of inventory and supplying small items also because the dealer in agriculture sector may do a single billing of a much larger value as compared to what he does in building material segment. So there are mindset issues, comfort issues service issues and once he starts doing it he enjoys this because his margins are better he has been building material as compared to agriculture.
- Rupesh Tatiya:** That is good to know Sir and my other question Sir are our capacity is fungible between agricultural products and the building material products?
- Shiv Singh Mehta:** In building material products we are still adding in terms of capacities and we will be investing further in coming two quarters because our market traction is good we are finding responses we have created basic initial capacities and we will keep upgrading them as per the requirements as the market grows.
- Rupesh Tatiya:** The reason I had asked this question is agricultural demand is largely seasonal but building product is not so seasonal so in off agri season can we diverse some agricultural capacity to building products?
- Shiv Singh Mehta:** Surely that is the advantage we have because most of the technology part of it is similar or interchangeable.
- Rupesh Tatiya:** So some part of the agri capacity some steps we can reuse for building material?
- Shiv Singh Mehta:** We will and we shall do that.
- Rupesh Tatiya:** Sir last question is for the Q2 can you just give a split of revenue between your core markets and the newer geographies?
- Shiv Singh Mehta:** You see we are maintaining similar ratios of sales between MP, Rajasthan, Maharashtra, Telangana or AP or UP the market shares will be similar MP being predominant followed by Rajasthan and Maharashtra or most now Maharashtra has caught on with the Rajasthan in terms of equal numbers followed by that will be Telangana AP and UP.



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- Rupesh Tatiya:** Now on Madhya Pradesh will go below 50% in next 18 to 24 months?
- Shiv Singh Mehta:** Yes, this is going up equal to that.
- Rupesh Tatiya:** Thank you so much Sir.
- Moderator:** Thank you very much. The next question is from the line of Ankit from Bamboo Capital. Please go ahead.
- Ankit:** Thanks for the followup. Sir on the agriculture side if you look at it compared to in H1 FY2022 we are almost down by 25% in terms of volumes so do you think you will at least be able to match the volumes of last year as well as subsequent third wave of COVID and any requirements?
- Shiv Singh Mehta:** Ankit can you repeat question this is not very clear?
- Ankit:** Sir in the first half H1 FY2022 we have seen volumes in the agriculture product declining by almost 25% or more and assuming there was no third wave of COVID in the remaining five months do you think we at least be able to match the volumes in agriculture products for the full year?
- Shiv Singh Mehta:** There is certainly improvement in terms of overall expectations towards second half of the year. So we will definitely try to bridge the gap and we will try to achieve our metric ton number because topline will keep growing anyway because of the high inflationary prices of the product but topline along with the metric ton numbers total processing quantities we will try to achieve and cover the deficit of first quarter.
- Ankit:** Sir on the point of there has been no inventory gain despite inflationary trends in the PVC prices just if you could elaborate on that a bit, I am not able to get the reasons why there was no inventory gain despite the PVC prices increasing?
- Shiv Singh Mehta:** PVC prices are increasing and that is what I was explaining that when prices increase your margins come under pressure so you will see that EBITDA margins for this quarter will be little lower as compared to earlier quarters but we certainly look forward to if prices continue to stay on their higher side or further increasing trend as I have seen further we will see inventory gains in the coming quarters if that happens so it is all subject to how the price behave in coming quarters.



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- Ankit:** Also Sir on the new states that we have entered over the past two, three years Maharashtra, Telangana, Andhra and now in this quarter we are planning to enter Karnataka so in the three months where we had entered over the past few years how has been the pickup in demand and how has been our market share gain because these are very big market Telangana is a big market, and Maharashtra we have been able to garner 10% market share in the areas where we are present so if you can elaborate how is the market share responding or growing in these new areas that we have entered in past two years?
- Shiv Singh Mehta:** You see as I was telling last time that during COVID period of first quarter we saw a better growth in southern market as compared to northern and central market because these sales were less affected by COVID as compared to northern and central market we still continue to grow in these markets and we are quite comfortable the way markets are accepting our products in Karnataka we had not entered so far you have mentioned about Karnataka but we have not entered in Karnataka now we are entering into Karnataka.
- Ankit:** Sir any idea how would have been the growth of the industry on the agriculture products side in terms of volumes whatever data you might be having for the industry in the areas where we are present how the industry growing or degrown?
- Shiv Singh Mehta:** I would not have exact data, but I certainly feel industry has degrown in first half of this year as far as agriculture market is concerned.
- Ankit:** Thank you so much Sir and wish you all the best.
- Moderator:** Thank you very much. The next question is from the line of Vishal Prasad from VP Capital. Please go ahead.
- Vishal Prasad:** Thank you Sir. Two small questions so what percentage of our revenue comes from fittings?
- Shiv Singh Mehta:** Fitting, we are at about 5% at the movement from 5% to 5% point something which is growing from 4% to we have come to 5.5% something so it is improving.
- Vishal Prasad:** Fittings are generally higher margin product so are we planning to increase the number of SKUs in fittings?
- Shiv Singh Mehta:** That has been our focus, and we will work on this for increasing number of SKUs in next two, three quarters because it takes time to grow the SKUs more states time to get ready.



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- Vishal Prasad:** Sir last question we have a very small CPVC capacity and you have talked about our increasing capacity in the area of building materials and mostly it will be in PVC so are we thinking in the lines of we building capability in the area of CPVC?
- Shiv Singh Mehta:** Certainly when we talk of building materials CPVC will be the major area of growth where we will have to expand capacity and we are planning to do that.
- Vishal Prasad:** In the rural where we have focus so there I understand that CPVC is still not that dominant so how do you see in our market how we can sell the CPVC materials?
- Shiv Singh Mehta:** If you see that last one and a half year during the pandemic make it something has changed maximum in India is the rural area in terms of the culture, social realities, spending habits, everything. So CPVC is growing very well in rural markets.
- Vishal Prasad:** That would be all Sir. Thank you so much for your response.
- Moderator:** Thank you very much. That was the last question for today. I would now like to hand the conference over to Mr. Mehta for closing comments. Over to you, Sir!
- Shiv Singh Mehta:** Thank you all participants for joining this earning concall. I hope we have been able to answer your questions satisfactorily and if you have any further questions or would like to know more about our company please reach out to Investor Relations Manager at Valorem Advisors. Thank you. Stay safe. Stay healthy. Thank you so much.
- Moderator:** Thank you very much. Participants on behalf half of Asian Market Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.