PRINCE PIPING SYSTEMS

PPFL/SE/2022-23/057 November 15, 2022

To,

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

Scrip Code: 542907

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

Scrip Code: PRINCEPIPE

Dear Sir/Madam,

Sub: Disclosure under Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI LODR") – Transcript of Conference Call held on November 10, 2022.

In continuation to our letter No PPFL/SE/2022-23/052 dated November 07, 2022, please find enclosed herewith transcript of the Conference Call for Analyst and Investors held on November 10, 2022.

Kindly take the same on record.

Thanking You.

Yours faithfully,

For PRINCE PIPES AND FITTINGS LIMITED

SHAILESH KANJI BHASKAR
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PRINCE PIPES AND FITTINGS LIMITED MUMBAI

Shailesh Bhaskar
Company Secretary & Compliance Officer
ACS: 36475

Enclosed: as above

Prince Pipes and Fittings Limited

Q2 & H1 FY23 Earnings Call

November 10, 2022

MANAGEMENT:

- Parag Chheda: Joint Managing Director, Prince Pipes and Fittings Limited
- Nihar Chheda - Vice President Strategy, Prince Pipes and Fittings Limited
- Shyam Sharda - Chief Financial Officer, Prince Pipes and Fittings Limited
- Anand Gupta - Deputy CFO, Prince Pipes and Fittings Limited

ANALYST:

- Aasim Bharde : DAM Capital

Q&A PARTICIPANTS:

- Achal Lohade : JM Financial
- Sneha Talreja : Edelweiss (Nuvama)
- Shrenik Bachhawat : LIC Mutual Fund
- Rajesh Ravi : HDFC Sec
- Nikuj Khanna : ASK Investments
- Udit Gajiwala : Yes Securities
- Akhil Parekh : Centrum Broking
- Sujit Jain : ASK Investments
- Nikhil Agrawal : VT Capital
- Sandesh Barmecha : Haitong Securities

Moderator

Good morning, ladies and gentlemen. I'm Pelsia, moderator of Prince Pipes Q2 & H1FY23 Earnings Conference Call hosted by DAM Capital Advisors Limited. As a reminder, all participant lines will be in 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 * and then 0 on your touch-tone telephone. Please note this conference is recorded. I would now like to hand over the floor to Mr. Aasim Bharde from DAM Capital. Thank you and over to you, Sir.

Aasim Bharde

Thanks, Pelsia, and good morning to all. On behalf of DAM Capital Advisors, I welcome you to the Prince Pipes and Fittings Q2 & H1FY23 earnings call. From the management side, we have with us Mr. Parag Chheda, Joint Managing Director; Mr. Nihar Chheda, Vice President Strategy; Mr. Shyam Sharda, CFO; and Mr. Anand Gupta, Deputy CFO. I would now like to hand over the call to Mr. Parag Chheda for his opening comments.

Parag Chheda

Thank you, Aasim. Thank you all for joining us for our Q2 and H1FY23 earnings call. The presentation and the press release have been issued to the stock exchanges and uploaded on our website.

I will begin the call by giving you a macro view of the industry and then diving into company-level performance and the strategy going forward. The first half of FY23 has been a challenging period for the industry, and from April till-date PVC resin prices have dropped by about Rs. 62 per kg. The sharpest fall was in the month of July, a steep fall of Rs. 20 per kg in one single month. This steep fall has led to an unprecedented inventory loss for us and the industry at large, which severely impacted Q2 performance. I would like to share here that what we are witnessing is a one-off development, which happens once in a few decades, and we are navigating it with earnest resilience. The nonstop fall in PVC prices led to a sustained destocking amongst our channel partners, adversely impacting Q2 volumes.

On an overall basis, our volume growth in H1 has been healthy with a 14% YoY growth, and I'm glad to share that the CPVC segment has delivered us a 25% plus YoY growth. We continue to maintain our focus on cross-selling and optimize our product mix, which has been serving our customers well and will also aid average realizations. The fall in the PVC prices has a silver lining as attractive prices will lead to demand rebounding strongly in H2 of FY23. On an annualized basis, we will continue to expand market share and our volume growth trajectory remains intact.

Let me take a moment to give you an overview on the macro demand environment. The overall industry sentiments are bound across our service sectors. India's housing sector has seen a sharp revival in demand and supply on the back of positive consumer sentiments and has caught up to its pre-pandemic levels this fiscal. Based on market reports, housing sales in July and August 2022, have surpassed the housing sales level of January 2020 reflecting that the India's housing sales figures have now started to cross the pre-pandemic levels. This augurs well for us, and we see this trend being stable and will continue based on key factors like confidence in future earnings, coupled with the pandemic-induced importance of homeownership for safety and security that have accelerated property sales in the top metros.

Also, the Agri sector continues to witness significant transformations. Several states are overhauling their food and farming strategies and this transition is part of India's Central Government plans to create a self-sufficient India. With a good monsoon, and attractive pipe prices, we are well-equipped to tap any notable uptick of demand with our range of agriculture and borewell products and will leverage, and the opportunities that will that this sector has to offer.

Our lateral expansion into the Bathware segment continues to progress as we build a lean and credible team and finalize implementation of the business plan. I would like to assure you that our approach will be solid and prudent. We will keep sharing more milestones as we get through closer to our launch, which are planned in the Q4.

Let me share some salient steps which we continue to take despite severe industry headwinds. The emphasis on building a strong brand remains as we maintain focus on our long-term vision of superior growth. Despite quarterly performance, our advertising and promotion initiatives continue to remain on track, and we spent Rs. 14 crores or 2.2% of overall revenues in Q2. Further, we remain on the path of fiscal prudence and remain long-term debt free. We have seen a notable improvement in debtor days from 60 days in March'22 to 48 days in September'22. Moreover, inventory days improved from 85 days in March to 65 days in September'22.

At Prince, sustainable growth is the heart of our organization's progress. I'm glad to share that recently, our Jaipur plant achieved IGBC Platinum-rated Green Building Certification by the Indian Green Building Council. This reiterates our commitment to ESG as one of our core pillars of achieving operational excellence. We recently also signed a limited liability partnership agreement with Cleanwin Energy Eight LLP. This wind power project will help us achieve our renewable energy aspirations in our Kolhapur plant. On completion of this project, we would have attained credible renewable energy for all our plants.

To conclude, I would like to restate that as we move into the second half of the fiscal, we expect the current prices regime to create a healthy demand environment for us, which we are very well placed to capitalize on. Despite the challenges in the first half for us and the industry, we remain extremely positive on the business prospects, and see attractive growth in all the three segments of Plumbing, SWR and Agri. As opportunities are created and Indian economy continues to grow, Prince Pipes remains active, agile and growth-hungry to ramp up activities, expand network and strengthen the market penetration.

I, once again, thank you everyone for your time and mindshare today. I now hand it over to Mr. Anand Gupta, our Deputy CFO, to take you through our key financial highlights.

Anand Gupta

Thank you, Parag Bhai, and good morning, friends. I'll be taking you through the Q2 and H1 FY23 financials. In this quarter our volumes stood at 38,458 metric tonne as compared to 42,845 metric tonne. In H1 FY23, volumes grew by 14% to 69,707 metric tonne. Revenue from operation for the quarter was at Rs. 636 crores. EBITDA was minus Rs. 11 crores in Q2 FY23 and Rs. 33 crores in H1 FY23. Profit after tax was minus Rs. 24 crores in Q2 FY23 and is minus Rs. 8 crores in H1 FY23.

Further, our finance costs have for the quarter reduced by 15% YoY to Rs. 3.2 crores and commenting on the working capital for the quarter, our overall working capital stood at 68 days for September end. It is important to note that despite a tough environment, we have seen a notable improvement in debtor days from 60 to 48 in September'22 as compared to March'22, and inventory days has also improved from 85 days in March to 65 days in September 2022.

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

Moderator

Thank you, Sir. Ladies and gentlemen, we will now begin the question-and-answer session.. The first question comes from Achal Lohade from JM Financial. Please go ahead.

Achal Lohade

Good morning, gentlemen. Thank you for the opportunity. My first question was with respect to the interest, would it be possible to quantify for the Q2 and the first half, what is the extent of inventory loss, and do you see inventory loss continuing even in the Q3?

Nihar Chheda

Thank you, Achal. Inventory loss for the September quarter would be in the range of Rs. 80 crores to Rs. 90 crores, for the June quarter it would be around Rs. 30 crores to Rs. 35 crores which we had declared after the June quarter results. So, I think for the first half of this fiscal inventory loss would be in the range of Rs. 100 crore to Rs. 120 crore. To answer your next question, we have seen corrections in PVC prices as expected in the month of October and this week in November as well. So, the inventory losses would continue in the December quarter. However, the extent of the inventory loss would not be as significant in the December quarter as it is in the September quarter. So, the overall operational margins should start recovering from Q3, but it will normalize in the March quarter.

So, that is how we see this today and I would just like to highlight that, this PVC Industry or the Piping Industry, while our margins are sensitive to raw material prices, we don't see this kind of volatility every four or five years. This kind of volatility is extremely unprecedented and maybe happens once every 15-20 years, because normally the price of PVC itself would be around Rs. 70 per kg, whereas, as we highlighted the decrease has been around Rs. 60 per kg. So, the reduction in PVC prices has been almost as much as the base price of the commodity itself. So, we are not susceptible to such volatility usually, but this has been that kind of year. But to answer your question, yes, the inventory losses would extend into the December quarter, but it would not be as significant as it was in the September quarter, and from March quarter margins should start to normalize.

Achal Lohade

Got it. For the Q2, is it possible to call out what has been growth or decline in the Plumbing and the Agri segments?

Nihar Chheda

I don't have the segmental growth ready with me, but what's important is if you look at the polymer-wise growth CPVC has seen the first half of this year compared to last first half has been a 25% plus volume growth, which is really encouraging to see. And, going forward to answer your question about Plumbing and Agri, I think plumbing demand continues to be healthy because of a strong real estate market. It's just that it's maybe not that reflected in our volumes today because of destocking that we're seeing in the channel. But once the prices stabilize and start to increase, I think the true plumbing demand will be reflected in our volumes.

And I think as far as Agri is concerned, I think most of you would be aware that the past two seasons of Agri have been essentially muted because of the high price of PVC, and now at this price of PVC, it becomes extremely conducive for growth, and we are bullish on Agri demand picking up. We have seen some green shoots of demand, it's still early days, but it would make sense that Agri should deliver good volumes in the second half of this financial year and plumbing will continue to do well.

Achal Lohade

Got it. If I may ask a few more questions. Will it be fair to say that the price elasticity is lesser in plumbing, , because plumbing is relatively linked to real estate demand, is that a fair assumption?

Nihar Chheda

Achal, your voice is breaking, but what I could understand I will try to answer that yes plumbing is more of a branded players game, a more consolidated market where brand does play a role whether it is with a plumber, a contractor, a retailer or in the project where it's a builder or the consultant. So, the plumbing and drainage which is the building material part of our portfolio which is around 60-65% of our overall businesses is more price inelastic relative to Agri business which is unorganized, much more segmented business where there is a higher level of sensitivity towards price.

Achal Lohade

Right. My question was, in terms of the price elasticity with respect to, since the PVC prices have come off, that will help more in the Agri business because that demand tends to be more price elastic compared to plumbing.

Nihar Chheda

Correct. Plumbing is not as price sensitive. Plumbing is more of a brand play and not as price sensitive. Price is important, but not as important as it is in Agri. So, for plumbing, I think demand I think even today is fairly healthy, and it will start getting reflected in our volume once the price is normalized, because there is a destocking in the channel today.

Achal Lohade

Got it. If we were to adjust the inventory loss, what you mentioned, we get to a gross margin of somewhere around 26% per kg in terms of at about 43-44 per kg. Is that a sustainable margin we should look at?

Nihar Chheda

So, I think, while we do track per tonne and percentage and I do understand why per tonne is important, but there are, as you are aware, still there are many-many factors and many moving parts are not only in terms of PVC prices but also in terms of volume growth and the kind of impact it has on operating leverage. So, we've always maintained that sort of 12-15% EBITDA is something which is sustainable on a long-term in a normal state basis and I would stick to that right now.

Achal Lohade

Understood, I'll come back in the queue for follow-up. Thank you.

Nihar Chheda

Thank you, Achal.

Moderator

Thank you. I request the participants to restrict with two questions in the initial round and join back the queue for more questions. Next question comes from Sneha Talreja from Edelweiss. Please go ahead.

Sneha Talreja

Hi. Good morning . I was saying thanks for the opportunity. My first question is now that the PVC prices are almost near the bottom, or it looks like they're bottoming out. As the channel started picking up inventory and what is the kind of a sense that you're getting with respect to volume growth? I know Q2 was uncertain means that maybe after H1 you'll be able to give some guidance, but what does the volume trajectory now looks like?

Nihar Chheda

Sure. Thank you, Sneha. So, as everyone aware, we have seen a correction in this week itself in the PVC prices, RS. 3 per kg. So, I don't think restocking has started yet. I think the channel continues to work on low inventory. I think this correction was expected and maybe there could be one more correction, but we are very close to a bottom-out. So, I do anticipate restocking to begin sometime either in December or January.

Sneha Talreja

Sure. Understood. Secondly, I wanted to understand your realization. Last time, we did not see material impact on your realization given that prices started falling at the end and there was some benefit of CPVC. While there is benefit of CPVC which is there, the drop is only 7% in your average realization versus 24% drop in PVC prices. Just want to drill down on that, of course CPVC is there but what is the other reasons why realization are not falling exactly in line with PVC? And secondly to do, have CPVC prices have also started falling or have you seen any sort of a decline in CPVC or are they still constant?

Nihar Chheda

So, I'll answer both the questions, Sneha. So, one is in PVC what's important to understand is that the correction is happening at different points of the quarter. Right? So, while the total correction in PVC prices, you'll see from the beginning of the quarter to the end of the quarter it would be not a right assessment because the prices are falling at different points of the quarter and hence being passed through at different times in the quarter. And second, I think that CPVC segment continues to outpace PVC segment in terms of growth and in terms of contribution to our overall business. Hence, the realizations will continue to improve on account of CPVC. Assuming if PVC is stable, then the realization should improve, given that CPVC contribution will continue to improve over the medium term for our organization. Sorry, what was the second part of your question?

Sneha Talreja

I was asking you, CPVC prices are still stable, or have they now started seeing some declines because PVC prices have fallen a lot.

Nihar Chheda

No, I think CPVC prices have not seen any correction. CPVC prices continue to be as to be stable. While PVC is a commodity market driven by the forces of demand and supply in an open market, I think CPVC is very different where both the supply is also very consolidated and even on the demand side the top four processors and it essentially controls 70% of the market. So, the CPVC prices will continue to be stable.

Sneha Talreja

Sure, thanks Nihar. Just last one and in case I can just go ahead. Are your inventory levels now rationalized or are we still holding a lot of high-cost inventory? And if yes, by when do you feel that will normalize? Because I see that there's a constant fall also. Or how do you see this into PVC prices?

Nihar Chheda

Inventory levels, if you see at the end of the quarter were around 65 days, which is a regular inventory level for us. Hence, the inventory loss in December quarter will be there but it will not be as significant as September quarter, it will be more in line with industry.

Sneha Talreja

Understood. Thanks a lot, and all the very best.

Nihar Chheda

Thank you, Sneha.

Moderator

Thank you. Next question comes from Shrenik Bachhawat from LIC Mutual Fund. Please go ahead.

Shrenik Bachhawat

Hi, good morning team. Thanks for the opportunity. So, Nihar, my first question is basically, if you see the adjusted numbers, the gross margin percentage which is around 23% has fallen by 450 bps YoY versus as you highlighted that CPVC volumes have grown 25% YoY. So, I don't understand, if the product mix has improved why has the adjusted gross margin is fallen on YoY basis?

Nihar Chheda

So, one of the major reasons for the gross margin decline has been the inventory loss and a significant reduction in PVC prices. Added to that in a market where there is destocking happening, one needs to give additional incentives through the channel to ensure that at least there is fixed cost recovery. So, that was a one-time impact in the September quarter, which I don't see happening in every quarter.

Shrenik Bachhawat

Sure. Thanks. Could you explain how much percentage of our PVC resin requirement is imported? In the last six, seven months.

Nihar Chheda

Yeah, around 40% of our PVC consumption is local and 60% is imported, which is in line with India, if you see as a country, around 55% of India's PVC consumption is imported. So, it's more or less in line with that. It changes from QoQ, but this is an average.

Shrenik Bachhawat

Okay. So, if I'm not wrong, the larger pipe player buys the whole requirement from Reliance**.** So, as a matter of choice, we import 60% of the requirements or we're forced to?

Nihar Chheda

Every player has their own strategy, but even if you look at some of our peers also have a 50-50% sort of breakup. So, every player would have a different strategy. Of course, as a country, since we're import-dependent, there is natural import dependency which is going to be there for any large player, especially a large player, which is growing the way we have over the past five to six years.

Shrenik Bachhawat

Okay. Sure. And could you help us on the ground, what are the large distributors telling us, are they looking to stock aggressively for the upcoming Agri season or like what is the sentiments on ground?

Nihar Chheda

That's a good question, Shrenik. So, like I said, and as you're aware there have been a correction of Rs.3 per kg yesterday, in fact. So, I don't think there is going to be a restocking immediately. However, we, as an organization, are bullish on demand in the second half of this year. We have a good amount of finished goods inventory and what the good part is that today we have additional capacity in form of the two units at Jaipur and Telangana to take advantage of any uptrend in demand. One thing is certain that demand will improve from here on in Agri and overall, as an industry across segments. It's tough to pinpoint whether that would happen in November, December or January, but it is going to happen, because it's a extremely growth conducive environment. So, as an organization, what we can do is at least put up the capacities which we have already done over the past year. And now we are building the right finished good inventory, to take care of any uptrend in demand so that we are able to service that in the right way.

Shrenik Bachhawat

Thank you so much. I'll get back in the queue.

Nihar Chheda

Thank you.

Moderator

Thank you. Next question comes from Rajesh Ravi from HDFC Securities. Please go ahead.

Rajesh Ravi

Hi, Sir. A few questions. First, on the demand, this quarter we have seen a volume decline. So are you seeing that second half, you're looking at demand to rebound. So, are you hopeful of delivering demand volume uptick in second half? And if that, where is that which segment would be driving that growth for you? Thank you.

Nihar Chheda

Yeah. Thank you for your question. Yes, we have a bullish demand going forward. Simply because of the reasons that I stated earlier that real estate will continue to do well and that will get reflected in our numbers as soon as the channel starts to keep regular inventory, which is only a matter of time. And Agri, also which is around 33% of our business, should do well given that prices are now extremely affordable and Agri is a very price-sensitive market, in the past two years we have seen a very strong postponement of demand in Agri pipes. So, I do foresee good demand in the second half of the year and as an organization we are prepared for it.

Like I said earlier, we have put up the capacity, have the right way of inventory management and more importantly focus on the long-term objectives of the organization which is brand building and network expansion and adding newer products to our portfolio. These cycles do exist, and we are not immune to these cycles. But I think as an organization, it's very important that we stick to our fundamentals, keep investing in the brand keep expanding in network and not get panicked or distracted by any of the changes in the commodity cycle. So, we will continue to be build, but we will also continue to be stick to our long-term fundamentals as an organization.

Rajesh Ravi

Okay. Sir, in terms of the inventory losses for H1 around Rs. 120 crores, if I look on a per tonne, per kg this is almost Rs. 17 per kg. So, do you imply that these inventory losses should not have been there with the EBITDA per kg number, which is for 1H around Rs. 5 per kg could have been north off Rs. 20 per kg?

Nihar Chheda

Correct, that the H1 inventory loss is Rs. 100 crores to Rs. 120 crores.

Rajesh Ravi

And when you say that in December we will have inventory losses, obviously Q2 number is insanely high in terms of the loss, but even Q1 number is not an easy number. So, are we looking at something between Q1, Q2 and Q3, even when you're paid on your inventory?

Nihar Chheda

So, I think I would not like to speculate on what the inventory loss is it would, because this is not something which is controllable for us as an organization or as management, we are not immune to any price decrease or increase. What I can say now is that at least now the inventory levels have normalized. So, the inventory gain or inventory loss from hereon will be more in line with the industry. Of course, every organization would have a different pattern of inventory, but now it would be more aligned with the industry, since our inventory levels have rationalized. So, yeah, I think we need to focus on what is controllable for us and we will continue to focus on that, continue to invest in the brand, continue to add newer products, and continue to expand the distribution network.

Rajesh Ravi

And Sir, when the resin prices have fallen 25% QoQ, but you along with other players have delivered 14% sort of realization between QoQ, is it fair to say that the cost of resin fall has not been fully passed on or at the same speed and that is where some of the it has given you some cushion at the top line in terms of the inventory?

Nihar Chheda

So, we are a pass-through industry, any increase or decrease is passed on immediately with full effect or close to full effect, I would say. I think I answered this question earlier in the call, but just to highlight there are two factors. One is, product mix. So, CPVC continues to grow at a faster pace than PVC, which will help the realization. And the second is that the price reductions happened at different points of the quarter. It's not that the 25% or whatever the percentage dropped was happened on the first day. So, that seemed to have an impact and more importantly product mix is improving and that should help realization, profitability in the long-term for the organization.

Rajesh Ravi

Because I was looking at the three-month average prices of resin, and there the fall is around 25%, and given that you and others product mix, what we would understand is the CPVC would be 20% of your revenues, 10-odd-percent closer to plus-minus in terms of the volume mix. So, they may not, even if the CPVC realization would be stable, they may not make a big dent on the overall realization numbers. Correct me if my understanding is right.

Nihar Chheda

So, the CPVC contribution would be slightly higher than 20%. It would be maybe 22-24% now that has helped us, and secondly, we have taken increases in CPVC as well. So, this CPVC realization also has improved. So, these are some of the factors, including the rest of our portfolio in PPR as well we have taken some price increases. So, that will be impact realization.

Rajesh Ravi

Okay, great. Sir, I'll come back in the queue. Thank you.

Nihar Chheda

Thank you for your questions.

Moderator

Thank you. Next question comes from Nikuj Khanna from ASK Investments. Please go ahead.

Nikuj Khanna

Yes, Sir. What volume growth are we expecting for the next year?

Nihar Chheda

For FY24?

Nikuj Khanna

Yeah, and rest of H1.

Parag Chheda

So, H1 of next financial year?

Nikuj Khanna

No, the remaining half of the year and FY24, what volume growth should we expect?

Nihar Chheda

So, like I said, the H2 prices have corrected significantly. Agri demand should do well from hereon, and Agri is around 1/3rd of our business and 2/3rds of our business which is building material, plumbing and drainage will continue to do well as real estate continues to do well. And once the channel start keeping regular levels of inventory that will get reflected in our performance as well. So, we are bullish, and we remain bullish, since this current environment is very conducive to growth, with the tailwinds of a strong real estate and affordable PVC price, and more importantly additional capacity that we now have at the Jaipur and Telangana plant, we would be able to take advantage of the uptrend in demand, which maybe was not possible in the past three, four years before we had these two greenfield projects. So, I think we are very well-positioned to take advantage of any uptick in demand from hereon. So, I think on an annual basis double-digit growth is achievable.

Nikuj Khanna

Okay, sure. Thank you.

Moderator

Thank you. Next question comes from Udit Gajiwala from Yes Securities. Please go ahead.

Udit Gajiwala

Sir, thank you for taking the question. Sir, like you mentioned multiple times that Agri demand is likely to be strong and it is a price-sensitive market. So, with the falling PVC prices, do we see a downgrading kind of a thing happening or unorganized coming back to gain market share?

Nihar Chheda

That's a good question. So, as we saw in the past couple of years, unorganized players had moved out of the industry because of volatility in raw material prices and just an overall consolidation that we are seeing in the industry. So, yes, I think unorganized players will be more competitive in this sort of a market. What I will say is that sharp volatility, whether it's upward or downward, is not good for smaller players, larger players like ourselves can absorb such kind of an inventory loss, because we have a strong balance sheet, we have good amount of cash on the books and are long-term debt free, but this kind of shocks are not something that smaller players can absorb.

So, any kind of volatility, whether upward or downward, is generally bad for smaller players. However, now there is better availability of PVC. So, some of the unorganized players that have lost out will come back into the market, it would be wrong for me to say that they will not come back into the market. So, that could be a possibility with this current price trend, but it will not happen in an immediate manner, and this will be mostly restricted to the agriculture segment, which is more fragmented. For the rest of our product range plumbing and building materials, it is more of a brand play and branded players will continue to gain.

Udit Gajiwala

Understood, Sir, just a follow-up to that, in your opening remarks you've mentioned that Company will continue to gain market share. So, is it attributable that we'll be gaining more of a market share into the plumbing segment, and if so, then given that it is more of a formalized industry, so, what will be the major reasons for that outperformance like there are the players also which are strong?

Nihar Chheda

Absolutely. So, I think one is, before I get to market share, one I think industry itself will grow. So, there will be enough market and enough volume and enough demand across sectors for all players, be it the bigger players or the smaller players. And you're right, that any kind of market share growth is never easy, it's not something we are entitled to. But if you see the past five, six year trend, we have consistently been one of the fastest-growing players in the industry because of the kind of focus we've had on brand building, be it the FlowGuard Plus tie-up which is helping us grow in CPVC, expanding our distribution footprint, and also having a very strong focus on getting newer products and expanding our product range.

In the past one or two years, we have identified new products within the piping division as a key focus area, getting more research and innovation within the organization and getting more technologically driven products to the Indian market. So, hopefully, that will, that is in the works currently and we would like to expand our product portfolio within the piping segment going forward. So, network expansion, brand-building, and investments in new products will help us drive market share in the long term.

Udit Gajiwala

Sir, CPVC contribution, and like you mentioned is 20-22%. So, what will be our target to take it into the next two, three years of total business?

Nihar Chheda

So, I don't like to speculate on contribution percentage, because the rest of our portfolio will continue to grow and we are going to be growing in PVC, we're going to be aggressively growing in PVC, as well. However, the growth, the fastest growing segment for us will continue to be CPVC as it has been over the past couple of years and that trend will continue, but I don't want to put a number on the contribution because PVC we are equally aggressive and that's where our brand has an inherent first mover advantage. So, CPVC contribution will continue to increase, but hard to quantify.

Udit Gajiwala

Okay, Sir. Thank you so much.

Nihar Chheda

Thank you.

Moderator

Thank you. Next question comes from Akhil Parekh from Centrum Broking. Please go ahead.

Akhil Parekh

Hi. Thanks for the opportunity. My first question is on the PVC prices. We have seen price cuts in month of October as well as month of November. What make us believe that the prices won't fall below say Rs. 80 per kg, which are probably the prevailing prices at this particular time?

Nihar Chheda

Yeah, I think the prices are closer to, I would say Rs. 75 per kg currently as we see, if I'm not wrong. So, that's where we are currently and just to give you an insight, since you asked the question is, already there's a very low-price regime and given the feedstock prices are high and crude continues to remain high. So, while there is no direct correlation to crude, the derivatives of crude which are EDC, VCM et cetera continue to not correct at the same fast pace. So, today PVC has come to this level because caustic prices, caustic soda prices are very-very high in Europe and caustic soda is a byproduct of PVC manufacturing.

So, today PVC raw material manufacturers are able to subsidize their PVC rates with the high caustic prices that they are getting in Europe. So, this is going to be a temporary phenomenon. Once caustic soda starts to correct, manufacturers will be forced to take production cut, which will then start to improve the PVC prices. However, that I still believe is secondary, what is primary is demand, end of the day PVC is a demand-supply driven commodity. So, while production cuts, that's all, we're not a subject matter expert on that, but what we can say is that, at these PVC prices demand should really improve in India, which should improve the PVC prices or at least stabilize the PVC prices going forward.

Akhil Parekh

Okay. Do we see a change in the dumping from China at this point of the time? Because one of the key reasons for the decline has been the increased dumping of previously from China. And there have been talks that some of the industry players are in talks with the government. Any update on that front?

Nihar Chheda

So, I think there was some announcements. I think with any kind of these duties or anti-dumping investigations, it's very hard to speculate how long it would take or how much of an impact it will have, but there was some announcement. But currently, as we speak, I think there is not much dumping happening from China. It is more to do with the rest of Asia and other parts of the country. China is not relevant in today's India's PVC market.

Akhil Parekh

Okay. As of now you're saying because if the commentaries is that we were hearing from some of the other managements in a couple of calls.

Nihar Chheda

As of now, this has changed. So, in the past, maybe for a good part of the Q1 and early two years China did impact the Indian PVC prices. But today as we speak, with the rest of the globe, be it Europe, North America, Latin America, rest of Asia is also not having a very good global demand. So, overall, there is a pressure, it's not from China specifically as we speak today.

Akhil Parekh

Yeah, got it. My second and last question is on the price differential between CPVC and PVC. Like, PVC, if my understanding is correct, should get around roughly Rs. 80 per kg and CPVC should be north of Rs. 200 per kg. So, has the differential between these two resins have led to a switching of from CPVC to PVC by the customs?

Nihar Chheda

See, what is important to understand here is that, we have always maintained this over the past many quarters even when this gap had come down significantly is that PVC is a very versatile polymer and can be used across applications like Agri, drainage, cold water plumbing. Whereas CPVC is a very niche application of only hot and cold-water plumbing. So, for any structural change to happen and cross cannibalization within polymers to happen. I think it takes a longer time for these kinds of gaps to widen or narrow to impact the actual demand. So, I don't foresee any significant impact of this. To some extent it could happen from the hot and cold water plumbing to the cold water plumbing as well in some of the metro markets, but I don't think it will be very substantial.

Akhil Parekh

Sure. This was helpful. Thanks a lot, and best wishes for the coming quarters.

Nihar Chheda

Thank you so much.

Moderator

Thank you. Next question comes from Sujit Jain from ASK Investments. Please go ahead.

Sujit Jain

Thank you for the opportunity. When you talk about CPVC contribution 22-24% in your mix, this would be value contribution, right?

Nihar Chheda

Correct.

Sujit Jain

Volume would be a little less than that close to about 15%-16%?

Nihar Chheda

I don't have the exact number, but 13-15%.

Sujit Jain

Right. And CPVC 25% YoY growth that is in volumes?

Nihar Chheda

Yeah, H1 to H1.

Sujit Jain

Right. When you look at the industry growth rate pre-COVID year ending FY19 five-year growth. The volume growth was 6%. When we speak with various industry players, we get a sense is that it could be in double-digit. What gives the confidence to the industry that it would be in double-digits? Or was that period particularly impacted? This period, pre-COVID period of five years, which I'm referring to.

Nihar Chheda

That's a good question. And I do understand where you're coming from. So, this is how I see it. Right? The five years pre-COVID, we did see an industry growth of maybe 6-7%. However, the larger players maybe grew at, I think around 9-11%, if I'm not wrong, a slightly higher growth rate, because the industry continue to consolidate. However, real estate was not doing as well, and everyone knows the kind of challenging time real estate has seen ever since, maybe 2013-2014. Going forward, over the next five years, I think Industry will continue to consolidate and larger players will continue to outpace smaller players as the market becomes more and more brand conscious and as larger players like ourselves continue to invest heavily in the brand.

However, this time, we will have the tailwinds of a strong real estate. So, consolidation compounded with strong real estate should lead to higher growth rate for the larger players, as well as PVC prices becoming very, very low, and Agri continuing to grow from hereon, because the past two seasons of Agri have been very muted. So, now we will see some pent-up demand and we will see some sustainable demand as well in Agri. So, because of these three, four factors put together, I do believe high-single digit low-double digit growth over the next three years is achievable. And like I said earlier on the call, specific to Prince, apart from all the things on the front end and on the market.

On the back end, today we are having the additional capacity at Jaipur and Telangana plants, and also being debt free and a strong balance sheet we are able to be agile with our CAPEX when we see any further uptrend in demand, we would also be able to debottleneck, the Jaipur and Telangana facility. So, both on manufacturing and balance sheet side any uptrend in demand we would be able to capture aggressive.

Sujit Jain

It's safe to say that industry can grow at 8-10% and other grow 10-12% in volumes for medium term.

Nihar Chheda

Yeah, I think that is, a lot of things have to go right for that, as I say. So, I don't really like playing the numbers game. But I understand where you're coming from, and it is likely.

Sujit Jain

Yes. And on the distribution side, our current distribution and what is the growth that you're expecting there? Manufacturing, you've explained.

Nihar Chheda

Yes. So, distribution, today, we have more than 1,500 channel partners. And, like we've consistently stated number of distributors is not something we focus on, because yield per distributor can be right from Rs. 50 lakh per annum to more than Rs. 50 crores per annum. So, we will continue to aggressively expand the network. But in weak markets, where we don't have a presence today, we need to build those sort of whitespaces in the distribution, and there's one exercise we did around two-three years ago is to identify these whitespace, and easier said than done to fill these whitespaces. But that exercise has started, that identification has started, and we've moved in the right direction. And over the next one to two years, we would like to structurally improve our reach and distribution network. And apart from distribution network also do well in the project, the B2B market, which can be a good volume driver and a brand builder for us in the next two to three years.

Sujit Jain

And then one last question on OP per tonne, if that may not be the right metric to focus on OPM percentage as you've explained, but could it get back to those earlier levels of very high OP per tonne, or now it could normalize at around Rs. 20 type?

Nihar Chheda

I think, in the past, if you see the gross margin per tonne or the EBITDA per tonne was higher in the past two years because of inventory gains, and we've always tried to declare whatever the inventory gain or loss is in a very transparent manner to understand what the inherent operating margin is. So obviously, any loss is one-time and usually evens out in a normal year. So, if we remove that, I don't think that the past couple of years of course the EBITDA per tonne was very-very high because of those inventory gains. So, that will obviously next be phased out. Having said that, there are more sustainable levers for driving the margin which has helped us in the past. One important one being product mix. And then after in the building materials of space.

Second being pricing power as the brand Prince becomes stronger in the markets and in the channel. Pricing power is something that we have enjoyed over the past two-three years, and we will continue to play that as and when we get the opportunity and the market supports us. And the third and the most important for us is operating leverage, I think if we are talking about good growth and good environment for growth, I think there is in our industry, the more you sell the more profitable you are, because most. So, these are the more long-term and sustainable drivers for operating margin going forward. So, that's more of a direction from our side.

Sujit Jain

Quickly one last question. You would have taken the inventory mark-to-market. How does this work? Do you take the entire inventory and put it to test for mark-to-market both finished goods and raw material? So, this inventory loss would include realize and as well as mark-to-market? And within that mark-to-market is the entire inventory mark-to-market including finished goods?

Anand Gupta

So, Sujit, what we do is the valuation of inventory is done as per the Ind AS governance, the way it is defined that how the inventory is as per the guidelines, and it defines that whatever the case may be as the cost or NRV whichever is lower. If the NRV parameters are set out, we take as per the guidance set out in the Ind AS.

Sujit Jain

So, one presumes is that RM’s put to test but maybe not the finished goods?

Anand Gupta

Correct.

Sujit Jain

So, this inventory loss is both realized like-to-like and as well as raw materials put to test for inventory loss calculation?

Anand Gupta

Not necessary, Sujit, because as I said the finished goods is not put to test and to some extent if the parameters are met means if the margins are exhausted and difference is wider from the current spot price, then you have to do the NRV valuation, and the valuation has not used to that situation. So, there must be some carrying of higher inventory cost from the spot price.

Sujit Jain

No, sorry, I didn't get that right.

Anand Gupta

Yeah, both are put to test, but raw material is something where the valuation may be slightly on a higher side, because the NRV testing parameters might not fulfill that criteria which is set out for actually evaluating at NRV.

Sujit Jain

Okay, sure. Thank you.

Anand Gupta

Thank you.

Moderator

Thank you. Next question comes from Nikhil Agrawal from VT Capital. Please go ahead.

Nikhil Agrawal

Good afternoon, Sir, and thank you for the opportunity. Sir, I wanted to understand, like what percentage of your capacity is used for CPVC production?

Nihar Chheda

So, thank you for your question. I think the production capacity is not segmental, because there is a one-way fungibility. On PVC capacity you cannot manufacture CPVC, but on CPVC capacitive you can manufacture PVC pipes as well. However, we have enough room for growth over the next one to two years. We have a personal capacity in CPVC as well where we are able to take advantage of any uptrend in demand.

Nikhil Agrawal

Okay, great. And Sir, like in agriculture, you cannot use CPVC pipes, right? Or is it possible?

Nihar Chheda

Correct. CPVC is only used for niche application of hot and cold-water plumbing.

Nikhil Agrawal

Okay. And Sir, the other polymers HDPE, PPR, can these be used in place of PVC or CPVC pipes in plumbing or agriculture? Is it possible or do they have other uses as a whole?

Nihar Chheda

So, PPR is again a niche application of hot and cold water plumbing and industrial. So, it cannot replace PVC. HDPE to some extent can replace PVC in infrastructure projects of water supply, a large pipeline, but again at this kind of PVC price I don't see HDPE being able to compete with PVC.

Nikhil Agrawal

And what about CPVC?

Nihar Chheda

CPVC is again niche application.

Nikhil Agrawal

Yes, I mean HDPE and PPR can they be used instead of CPVC?

Nihar Chheda

No, HDPE cannot be used for hot and cold-water plumbing. PPR and CPVC do have a similar application of hot and cold water plumbing as well as industrial. However, PPR is a very niche market because the jointing method of PPR is very different than CPVC. So, CPVC will always be a max widely used product, whereas PPR is only a niche product used only in certain pockets.

Nikhil Agrawal

Okay, got it, Sir. And Sir, just one last question if I may. Sir, you've guided for a double-digit volume growth in FY23, and Sir, if we like plugin a 10% figure. So, that basically implies 20% volume growth in H2 over H1 FY23. So, are you confident of getting to that or like?

Nihar Chheda

So, I think firstly, H1 and H2 are not comparable, because in our business H2 is always a stronger part of the year. And like I said, I would, while I understand where you're coming from, I think as a management we don't focus on the number game, I understand numbers are important, but that's more of a result, what we need to focus on the process of putting up capacity, expanding distribution, getting newer products, and continue to invest in the branding within such challenging times. So, see if the growth is there in the market, if they're able to generate the demand, we have the capacity, and we will aggressively capture that demand. So, I think we're more focused on the how rather than the what.

Nikhil Agrawal

Okay, great. Thank you so much, Sir. That's it for me.

Nihar Chheda

Thank you.

Moderator

Thank you. Next question comes from Sandesh from Haitong Securities. Please go ahead.

Sandesh Barmecha

Hello, Sir. Just a couple of questions for me. Sir, our debtor days in FY20 was around 38 days and we were targeting it to take it down to 30 days. But right now it is hovering around 47, 48 days. It is high because of weak demand environment. And whether do we still be that our debtor days can move back to around 30 days once the demand recovers in future and what is the channel financing amount outstanding at the end of September'22?

Parag Chheda

So, I'll start with the target for debtor days and then Anand will add the channel finance amount. So, in terms of debtor days, as a management and for our CXOs our top priority is to improve the receivables days. So, as an organization that is something that we acknowledge, appreciate and that is something that has to see a structural improvement. Like you said, we cannot choke the channel, it has to be a balance between being market sensitive and having prudence as far as receivables is concerned. So, over the long-term, over the next two to three years, yes, the debtor days needs to move closer to 30-35 days and that is something which is achievable in the long-term as the brand becomes stronger, as the network expands, the receivables they need to reduce and will reduce over the long-term.

Anand Gupta

On our scanning of channel finance, it ranges between Rs. 54 crores to Rs. 55 crores, but you have to also see that it has now the channel finance portfolio has a mix of recourse on us, partial recourse on us and node recourse on us. So based on that, we have to see the holistic picture of how channel finance portfolio looks like. But from the balance outstanding perspective it is around Rs. 54 crores to Rs. 55 crores as of now.

Sandesh Barmecha

Okay. Thank you, Sir. I have just one question. So, what is our CapEx plan for FY23 and FY24? And what would be your sustainable gross margin guidance for annualized basis going ahead?

Anand Gupta

So, we see that only maintenance CapEx and replacement CapEx are in pipeline and some CapEx, which will improve our efficiency, in terms of power, are being considered for FY23. And it will be in range of Rs. 100 crores to Rs. 120 crores kind for a year as a whole. For FY24, it will be too early. Right now, to give you any numbers, but going forward we will guide you as and when we'll be ready to do that. What will be the second part of the question?

Sandesh Barmecha

What would be a sustainable gross margin, Sir, going ahead, Sir, on annualized basis?

Nihar Chheda

So, as you are aware we, on an operating basis, operating margin, I think 12-15% margin is something that we have always guided on. Knowing that there are enough and more levers for improving the margin, we have product mix, pricing power, operating leverage, and also lastly, decentralization of the manufacturing footprint which will help us reduce freight costs in the long-term, since our industry is very freight sensitive. So, these are the three or four drivers for margins, and we will continue to work on that going forward. And when regain and loss is a part and parcel of this business, of course, it's been very high inventory gain and loss in the past couple of years, but on a normal year for this industry, inventory gain or loss usually evens out in an annual basis and what counts is, the more long-term drivers of margin that I've just highlighted. So, hope that answers your question.

Sandesh Barmecha

Okay, great. Thank you, Sir. Best of luck.

Nihar Chheda

Thank you so much.

Moderator

Thank you. That will be the last question for the day. Now, I hand over the floor to management for closing comments.

Nihar Chheda

Thank you to all the participants for joining our call today. Thank you.

Moderator

Thank you, Sir. Ladies and gentlemen, this concludes your conference call for today. Thank you for your participation and for using Door Sabha’s conference call service. You may disconnect your lines now. Thank you and have a pleasant day.

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