

PPFL/SE/2020-2021/132

November 17, 2020

To,

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

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

**Scrip Code: 542907**

**Scrip Code: PRINCEPIPE**

Dear Sir/Madam,

**Sub: Disclosure under Regulation 30 of Securities and Exchange Board of India (Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI LODR") - Transcript of Conference Call held on November 04, 2020.**

In continuation to our letter No PPFL/SE/2020-21/126 dated November 04, 2020, please find enclosed transcript of the Conference Call for Analyst and Investors held on Wednesday, November 04, 2020.

Kindly take the same on record.

Thanking You.

Yours faithfully,

**For PRINCE PIPES AND FITTINGS LIMITED**



**Shailesh Bhaskar**  
**Company Secretary & Compliance Officer**  
Encl. as above.



“Prince Pipes and Fittings Limited Q2 FY-21 Earnings  
Conference Call”

**November 04, 2020**



**MANAGEMENT:** **MR. PARAG CHHEDA – JOINT MANAGING DIRECTOR,  
PRINCE PIPES AND FITTINGS LIMITED**  
**MR. NIHAR CHHEDA – AVP(STRATEGY), PRINCE  
PIPES AND FITTINGS LIMITED**  
**MR. SHYAM SHARDA – CFO, PRINCE PIPES AND  
FITTINGS LIMITED**  
**MR. ANAND GUPTA – DEPUTY CFO, PRINCE PIPES  
AND FITTINGS LIMITED**  
**MODERATOR:** **MR. ANKIT GOR – SYSTEMATIX INSTITUTIONAL  
EQUITIES**

**Moderator:** Ladies and gentlemen good day and welcome to the Q2 and H1 FY21 Earnings Conference Call of Prince Pipes and Fittings Limited hosted by Systematix Institutional Equities. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankit Gor from Systematix Institutional Equities. Thank you and over to you sir.

**Ankit Gor:** Thank you Steven. On behalf of Systematix I welcome all on 2Q and 1H FY21 earnings call of Prince Pipes and Fittings Limited. From the management side we have Mr. Parag Chheda – Joint Managing Director, Mr. Nihar Chheda – AVP, Strategy, Mr. Shyam Sharda – CFO and Mr. Anand Gupta – Deputy CFO. Without much ado I would like to hand over call to the management for the opening remarks post that we can have a question and answer session. Thank you and over to you Parag bhai.

**Parag Chheda:** Thank you Ankit. Good afternoon to all. Thank you for joining us for the Q2 FY21 earnings call and I hope you all are safe and healthy. I'm joined by Shaym Sharda, our CFO, Anand Gupta – our Deputy CFO and Nihar Chheda – AVP Strategy. Presentation and the press release have been issued to the stock exchanges and uploaded on our company website. I hope everyone has had an opportunity to go through the same.

Before I start I would like to give the following disclaimer. The business, industry and economy at large had been impacted by the lockdown in H1 of this year. The business performance is therefore not comparable to the corresponding time period. Thank you.

So let me start by giving you a strategic view of where Prince is and where we are headed. You are all aware that in the past quarter, we decided to collaborate with Lubrizol and launched our range of Prince FlowGuard Plus products. The level of excitement and passion within our sales team and channel partners has been very encouraging. We were able to successfully Cummins commercial production in mid October. As we speak the first few batches of the products are being rolled out in the market. The initial feedback that we have received on the quality of Prince FlowGuard Plus has been encouraging. I'm highly confident that the quality and brand equity of FlowGuard Plus combined with the network and the reach of Prince, we shall reach a high level of performance.

While the enthusiasm is high our focus is on giving the team time to execute our strategy. We do not expect overnight miracles since sustainable success can be achieved only over the long run. The first phase of our sales team training by Lubrizol has been completed in the past month. Now, we will initiate distributor training program over the next few quarters. We see our distributors as our extended arms and training them about the technical parameters of Prince Flowguard Plus and how to upsell and premiumize is key to creating a sustainable ecosystem for the long-term success of Prince FlowGuard Plus. As a part of creating this sustainable ecosystem and to set up the long-term success of Prince FlowGuard Plus, we will be significantly

investing in branding over the next year. We need to see branding not as expenditure but as an investment, an investment that will yield results and help us create value in the long run. With our tie up with Lubrizol coming in and effective branding strategy is now more important than before. Our branding strategy is two pronged, ATL activities to increase the brand equity visibility and BTL activities to strengthen the connect with the stakeholders like retailers, plumbers and consultants. We have consistently invested in branding over the past 3 years and we remain committed to branding even in the current uncertain environment.

Secondly, this quarter we were able to expand our footprint for Tank manufacturing. We have identified principal markets where we want to launch the Prince STOREFIT Tanks. These are markets where our channel has given positive feedback on the market potential for tanks. The rationale behind entering into tanks was that we would have to spend no time or mind share into building a new distributor network. We intend to market Prince STOREFIT within the existing network of our pipe distributors. We have built a roadmap internal for the next 18 months for footprint expansion. We will use a combination of in-house and outsource manufacturing to move closer to the market that we intend to penetrate. For me depth is more important than the breadth. That means the scalability of business is the key metrics that we will always stay true to.

Next, I would like to highlight our organizational goal of working towards the triple bottom line. Triple bottom line includes not only financial bottom line but also environmental and social bottom line. In the past few quarters we have started working towards adopting solar power across our facilities. I'm excited to share that in this month we were able to officially commence solar power adoption across multiple plants. With solar power adoption we will be able to curb our carbon footprint and be future ready in fulfilling the renewable energy obligation when enforced. The solar energy generated shall be equal to approximately 1,200 metric tonnes of coal burned each year. In propositional terms, the carbon appropriated is equivalent to 40,000 seedlings grown for a decade.

Furthermore I'm glad to announce that we have also taken measures to reduce our greenhouse gas emissions by 23% over the past 4 years. Our manufacturing excellence team has been able to achieve this result by replacing conventional high energy consumption equipment with energy efficient equipment. Secondly, we conducted regular energy audits at our manufacturing facilities and thus curbed energy leakages. Thirdly, we improved equipment efficiencies and as a result maximized the machine output. And lastly the most importantly, we procured green energy across plants.

This quarter has been a key quarter for us. Despite the headwinds of market going in and out of lockdown, we have had a healthy revenue growth of 7%. While the first half of the quarter was slightly tepid due to uncertainty in markets, the second half of the quarter witnessed a timely recovery. The sales team worked closely with our channel partners on ensuring that we are able to capitalize on the market consolidation.

In terms of way ahead, India has witnessed a robust monsoon which will lead to a higher income per capita in rural India as a result there could be increased expenditure towards Agri and real estate in the smaller towns and villages which will be a positive for our Agri as well as our building material segment. We have been able to post a healthy growth in this quarter, despite our key urban markets like Mumbai and Delhi being tepid. Once these markets start to perform, the volume growth and resultant operating leverage could be very encouraging.

At the heart of our strategy lies growth, growth in distribution network and growth in product portfolio. We are looking to penetrate markets more effectively and within each market we want to increase our penetration for multiple applications. It is easier to add more distributors since today Prince has a unique ability to be a force to reckon with across SWR, Agri and now Plumbing. Distributor network expansion coupled with product portfolio expansion is a strategy that has got us where we are today and will get us where we aim to be tomorrow. Today the piping industry has reached a stage that we can change volume growth without compromising on brand equity and pricing power.

The dual goal of brand monetization and volume growth can be achieved in such a consolidating market. This performance has not only been pivotal in terms of business recovery but also in terms of balance sheet quality. Our working capital requirements have normalized since we have normalized, since we were able to liquidate inventories and get a solid control on receivables even in such tough times. Quality of balance sheet continues to be the top priority for us as a team and as the organization.

Lastly, I would like to highlight on the Telangana facility progress; as we have indicated in the past that apart from the natural delay owing to Covid, we are sticking toward timelines for our Telangana facility. We are aiming to commence commercial production by Quarter 2 of next fiscal. I'm personally working closely with the team to get Telangana started as early as possible so that we can further capitalize upon accelerated market consolidation that we are witnessing. Today the fittings for South India are being catered from our Haridwar facility. With Telangana coming in we will also witness de-centralization benefit as well, which is proven to be a lever for margin expansion in our model which is sensitive to logistics cost. Hence a key goal for us is to commence commercial production at Telangana as soon as possible. Thank you all for your time and mind share. Over to you Shyam.

**Shyam Sharda:**

Thanks Parag bhai and good evening friends. I will quickly take you through the numbers for the result under review for Q2 FY21 vis-à-vis Q2 FY20. Before we speak on the numbers I will take few minutes in discussing on the quarter under review. Parag bhai has very clearly explained our strategy being implemented in detail which we truly believe will enable us to become a preferred brand among brands and seize opportunities arising out of market consolidation.

We are better placed than before to effectively penetrate newer markets and cater to certain niche segments, owing to these strategies. During the Q2 FY21 quarter the unlocking of market has begun however metros like Mumbai and Delhi which are amongst our key markets continue to

remain slow for the period. It is heartening to mention, that we saw a good response with unlocking taking place throughout the country. We believe it is now only a matter of time till the situation normalizes. Having said that, we continue to remain cautious given the unpredictability of the pandemic.

The performance in this quarter was especially encouraging with the growth being delivered. It has reinforced our conviction of winning in many Indias and being able to garner market share rising out of market consolidation which is reflecting in our sales.

Coming to the manufacturing; utilization levels have normalized which is visible given the business performance during the quarter. A healthy spread has been observed between Agri, Plumbing and SWR segment.

Now I will be taking you through the Q2 FY 21 financials:

I would like to highlight that Q2 FY20 was extremely robust quarter hence the base for the comparison is quite significant. Now, during Q2 FY21, revenue from operations grew by approximately 7% to Rs. 459 crore vis-à-vis R. 429 crore in Q2 FY20. With reference to the uploaded investor presentation we would like to make a small clarification with regard to the volume reported of Q2 FY20. Volume growth of 1.7% from 35,142 metric ton in Q2 FY21 versus 34,553 metric ton in Q2 FY20. This minor revision has been updated in the investor presentation as we speak. The 5% difference value growth and the volume growth indicates a significant improvement for us for following two reasons, first due to the sharp hike in the PVC prices and secondly with the better pricing power that we have gained due to market consolidation.

Coming to EBITDA which was at Rs. 80 crore in Q2 FY21 vis-à-vis Rs. 65 crore in Q2 FY20 translating to a growth of 23% and margins were at 17.5% vis-à-vis 15.2% and expansion by 230 bps. Margins increased have been due to the following three reasons; one, inventory gain due to increasing trend of PVC pricing, second better pricing power due to market consolidation and third operating leverage benefits owing to volume growth in such times. Our cost optimization continues, and we are working on reducing cost on a continuous basis to improve manufacturing efficiencies and various other cost control identifications.

Given the current business scenario for the quarter under review, we have been able to decrease our finance cost by approximately 40% due to repayment of long-term debt, also we have reduced our short-term requirement given our healthy cash position excluding the growth capital raise through IPO. It will be our endeavor to closely monitor and look at the possibilities for a further reduction. Average cost of capital for Q2 FY21 is at around 8.4% as against 10.1% in Q2 FY20. Profit after tax for Q2 FY21 is at Rs. 47 crore vis-à-vis Rs. 33 crore translating to a growth of 42%.

Commenting on H1 FY21, revenue from operations have contracted by approximately 6% to Rs. 761 crore vis-à-vis Rs. 809 crore in H1 FY20. The contraction was owing to the lockdown

phase in Q1 FY21. The volume decreased by about 12% to 60,132 metric ton vis-à-vis 68,553 metric ton in H1 FY20. Better pricing and product mix have led to lower value decrease in comparison to the volume decline.

Coming to EBITDA which was at Rs. 112 crore in H1 FY21 vis-à-vis Rs. 118 crore in H1 FY20, a contraction by 5% and margins were at 14.7% vis-à-vis 14.6% in H1 FY20. There is a margin improvement by around 10 bps for H1 FY21 owing to the robust performance in Q2 FY21. PAT for H1 FY21 is at Rs. 58 crore vis-à-vis Rs. 60 crore for the corresponding period.

**Coming to the balance sheet:**

Term loans including current maturities as on 30<sup>th</sup> of September 2020 stands at Rs. 42.2 crore. Short-term loans as on 30<sup>th</sup> September was at Rs. 143.7 crore. The total debt as on September 30<sup>th</sup>, 2020 is at Rs. 185.9 crore and the net debt is approximately Rs. 105 crore as we are sitting on approximately Rs. 80 crore of cash. Over the first one year we have reduced debt from more than Rs. 322 crore to Rs. 185 crore, translating into a debt reduction of more than Rs.130 crore. Currently, we are net cash however excluding IPO proceeds net debt-to-equity stands at 0.1x. As on September 30<sup>th</sup>, 2020 we are sitting on more than Rs. 80 crore of surplus cash, over and above the growth capital raised through IPO. This cash has been generated in the past couple of months from our operations. Our top priority this year is to continue to strengthen our balance sheet by deleveraging our borrowings and focus on improving our cash management cycle. CAPEX cash flows for H1 FY21 was between Rs. 45 to 50 crore which includes utilization of IPO funds and internal accruals. We shall continue to maintain course of CAPEX during the year as scheduled. CAPEX will be done through the growth capital raised from our IPO for our new Telangana plant and upgradation of machinery at our existing plant.

Commenting on working capital; our debtor days have largely been in check despite the growth. Our debtor days have normalized to around 41 days, despite delivering a healthy top line we have been able to normalize our debtor days owing to disciplined debtors management which is our key focus. We are monitoring receivables very closely in the current scenario to ensure no distortion for us, as we ensure, we do not put pressure on our channel partners. Our inventory has normalized during the quarter owing to effective market penetration. Working capital is at 53 days which is an increase largely owing to lower creditors' days.

Given the healthy cash generation by the business, the Board of Directors of the Company at its meeting held on November 3<sup>rd</sup>, 2020 have declared an interim dividend of Rs. 1.5 per equity share of Rs. 10 each for the half year ended September 30<sup>th</sup>, 2020. We have recently rated our long-term and short-term facilities by CRISIL and have been assigned (A-) for our long-term facilities. Though the business recovery has been healthy, we will refrain from giving any revenue or margin guidance as the COVID impact is still unpredictable and dynamic. While the business looks good, we would remain cautiously optimistic given the current situation. With this we would like to open the floor for questions. Thank you.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Chirag Lodaya from Valuequest.

**Chirag Lodaya:** My first question is on growth, so if you can just help us understand what led to such a sharp recovery in the later part of the quarter and how big would be Mumbai-Delhi market in our overall scheme and how one should extrapolate with the September month trend going ahead?

**Nihar Chheda:** Bombay and Delhi while we would stay away from quantifying what each market is for us but Bombay and Delhi would be within our top 5 to 7 markets in India. The growth has been across segments in both PVC and CPVC and as well as HDPE, especially in Quarter 2 anyway Agri does not have a good role. So it is largely to do with our SWR and plumbing sales which have picked up well. In terms of way ahead, while of course the performance in Q2 has been encouraging for us, it's hard to give guidance given the overall uncertainty in the environment. But I think the Q2 FY21 has been encouraging for us. Once urban India really starts to perform we are pretty bullish on the overall business performance that could be achieved.

**Chirag Lodaya:** Can you call out what was the growth in the month of September, if that is possible?

**Nihar Chheda:** I would not have the monthly numbers handy, but there has been a growth year-on-year for us in terms of revenue. I will not have the exact quantity. We can get back to you on that later.

**Chirag Lodaya:** Secondly on margins, so can you call out what was the inventory gain for the quarter and how one should look at margins going ahead in terms of sustainability of margins?

**Nihar Chheda:** That's a good question. See the two reasons, if you look at the margin expansion that has happened for us has happened primarily at the gross margin level itself which shows that this margin expansion hasn't happened because of some ad-hoc cost cutting measures or anything like that. It has been genuine gross margin improvement due to two reasons. One is of course there has been an inventory gain due to a sharp increase in the PVC prices. I think the inventory gain would be around Rs. 8 to 12 crore for the quarter and the second reason has been better pricing. We are working very closely both the marketing and the finance team to identify markets where we are able to enjoy a better pricing power, where we can close the gap between our pricing and our peers pricing where in certain markets where Prince is strong and we are heavily invested in branding, we have also charging a premium compared to our competitors in the PVC segment, so it has been something which is not happened overnight. This is something that we have been highlighting in the past 3 or 4 quarters. It is only that in this time both the inventory gain and the pricing leverage have resulted in a compounding impact on the margin. But the pricing power which has improved for us has been happening for the past 3 or 4 quarters and we will continue to try to identify these markets and applications where we can improve the pricing power.

**Chirag Lodaya:** If I just exclude inventory gain from this quarter then there is a compression in gross margin, so the point you made about pricing being better in this quarter is not reflected in YOY numbers.



So how should I look at it for the quarter and going ahead is it right to assume that whatever we did in FY20, our gross margin, it should be substantially higher gross margins going ahead?

**Nihar Chheda:** While this has been a very encouraging quarter. We have been very conservative, and we will continue to be very conservative as far as guidance is concerned. Let me answer your question in terms of even if you consider inventory gain of Rs. 8 to 10 crore, there would still be around Rs. 5 to 7 crore at gross margin level, which is owing to the pricing leverage that we enjoy. So it's not completely wiped off after the inventory gain and while we are being conservative with guiding because of the uncertain environment, I don't want you to confuse that we are not being conservative internally. Internally we are very aggressive in terms of chasing volume growth, and in terms of chasing a higher margin, so internally we have very high aspirational targets that we are working towards but as far as guidance's are concerned we will be conservative.

**Chirag Lodaya:** Just lastly clarifying, when do you see this PVC price trend reversing? Can we expect anytime soon or it's difficult to comment?

**Nihar Chheda:** It's difficult to comment, it's been like since the past 3 months that I have been thinking that it should correct. It has not happened yet, but I think it looks like that it's here to stay for a while. PVC is not sustainable at this level, I think that is clear, so there should be a correction. But when it corrects is a golden question.

**Moderator:** The next question is from the line of Arafat Saiyed from the Reliance Securities.

**Arafat Saiyed:** My question is on EBITDA margin—I know you have reported very good set of numbers across the board and strong margin expansion despite the pandemic—I just want to know can this type of margin of 17% to 18% be sustainable or should we factor around 14% or 15% of margin?

**Nihar Chheda:** Like I said I will repeat the point, we are aggressive in terms of trying to improve margin. It's something that we want to structurally improve our margins and we are hungry to improve our margins. I think over the past 3 or 4 quarters we have been able to demonstrate that but it's hard to comment on margin going forward. We will try to be conservative as far as guidance's are concerned but will work closely towards maintaining a robust margin profile.

**Arafat Saiyed:** And my next question is on CPVC, can you quantify the revenue and volume from CPVC segment for the quarter and half year?

**Nihar Chheda:** No, I think we have been pretty clear in the past and we will continue to be very clear that we will not be sharing any polymer wise or segment wise breakup. I think that is an industry norm now, but I will give you a directional thought process because I understand why you are asking that question. CPVC, even in Q2 of this quarter had been around 20% of the overall sales topline and that is encouraging because despite such a sharp increase in the PVC prices we have been able to maintain a 20% contribution from CPVC. And in fact like we said in the opening remarks that the FlowGuard material has started to enter into the market. The key distributors have also passed on that material to their secondary markets. We have started getting repeat orders as well

and the initial feedback not only in terms of sales numbers but in terms of quality of the Prince FlowGuard Plus pipes has been extremely encouraging.

**Arafat Saiyed:** My question is, we also gained some inventory gain during the quarter, can we expect some inventory lost in the next quarter?

**Nihar Chheda:** Yes, if you look at PVC as a whole every annum it tends to normalize. I think maybe not in Quarter 3 but in Q4 of this year there should be an inventory loss. I don't know how much. It's tough to quantify today. But maybe in the Jan to March quarter there could be easing in the PVC pricing.

**Moderator:** The next question is from the line of Sneha Talreja from Edelweiss.

**Sneha Talreja:** Just couple of questions from my end would be, so basically wanted to understand how much is the CPVC price increase that we have taken into the system? And what sort of price increase are you planning to take going ahead so that our margins are at current level in the CPVC, if at all you can give some guidance on the same?

**Nihar Chheda:** We have taken a 3% hike for our CPVC portfolio. So the Prince FlowGuard Plus products will be 3% higher than our CPVC initially. We need to take further hikes but what you must realize is margin at the end of the day is a combination of pricing and quantity, keeping in mind operating leverage benefits. We have worked out a few permutations and combinations in terms of what price hikes we need to take vis-à-vis what revenue we need to generate. So, in the coming quarters we will look at further increasing the price, but we also have to remain market friendly. So this is something which cannot happen overnight again. It will take 3 or 4 quarters. If we are able to generate that sort of growth that would be great and would not put that much pressure on the margins because of the absorption cost and we also have to look at the overall demand scenario and if that helps then it's obviously easier to increase prices. The good thing is now with the ADD coming in; it is a fairly consolidated market. There is shortage of material for the smaller players and we are seeing a favourable demand-supply equation today and moving forward.

**Sneha Talreja:** My second question was related to your distribution network, so of course you have focused a lot in the initial remarks that you are focusing on distribution and in fact you are getting traction from even the distributors of unorganized segment. Could you give some color that where does our distribution network stand today versus 6 months back?

**Nihar Chheda:** We have been adding distributors, for us number of distributors like we said before is not that important. As you add distributors you might also lose distributors in certain markets, so we would like to track the number of distributors on an annual basis. So by the end of this annum we would see where we are vis-à-vis where we were at the end of FY20. But we have been able to add a lot of distributors especially after FlowGuard Plus, people realized that now we are not only strong in the SWR and Agri segment, where we have traditionally been strong. But now with Prince FlowGuard Plus coming in, we will be able to truly become a one-stop shop for the

channel. So we continue to add distributors but this is something we want to be selective with. We want to focus on distributors who are good pay masters who will be able to range sell for us and sell our CPVC products not only our SWR and Agri products and distributors who are hungry for growth. So that is as far as distribution expansion is concerned.

**Sneha Talreja:** My third question is related to our Tank business. In the initial remark you said that now we are planning to introduce it in other regions-geographies, can you give us what sort of turnover we have achieved in this particular business so far and in how many manufacturing units are we producing it? And you also mentioned about outsourcing in this particular segment, so where do you see that outsourcing mix going? Some qualitative as well as quantitative comments on that.

**Nihar Chheda:** Revenues this year in Tanks is very small. It's been only a quarter since we have launched, so it's not even what sort of mentioning. We have said that it will take some time, maybe a year to 18 months from today, till we can have a significant part of that revenue. We have got very good feedback from the market. We have got repeat orders as well and like we mentioned we have identified outsourcing partners across the country in multiple zones, be it West, South and East, in all three. But by the end of this year, I think we will be able to give you a clearer picture in terms of where we are with respect to in-house capacity, outsourcing capacity, revenue that we foresee. So give us some time, so that we are able to give you a clear picture, once we have a clearer picture ourselves.

**Moderator:** The next question is from the line of Utkarsh Nopany from Haitong Securities.

**Utkarsh Nopany:** I have just two questions; first is on working capital. We have seen a good reduction in inventory and debtor regarding second quarter, so wanted to know whether this can be maintained on a sustainable basis and is there a scope of further improvement from here, say by way of increasing the sales backed by channels financing facility and as there is no requirement of import of CPVC resin in future.

**Nihar Chheda:** Inventory of course is a function of how strong demand has been in that quarter, so this year of course inventory was high during the March to June period because of the unexpected lockdown and because there was a good demand that the sales team was able generate for us, we were able to liquidate a good part of the inventory. So if demand supports, I think definitely inventory at this level is sustainable. We are also working on making investment in the right technology to work on inventory management where the focus is not only in decreasing the inventory days but keeping the same inventory, how are we able to improve our service levels to the market, also is a key focus because in our industry amongst the brands, availability is king. So, we are working towards better inventory management practices internally. As far as debtor days are concerned, I think yes, focus has been on sustainable growth. We don't want to grow by just extending credit to the market, like we keep saying, as the market is consolidating it gives you ability to sell at your own terms and we find that we can get growth at our own terms, be it in terms of price or in terms of credit. There is further room for improvement as far as debtor days are concerned vis-à-vis our peer. I think there is a good scope of improvement in the medium to

long-term. It's a fine line at the end of the day because you don't want to choke your channel while you don't want to extend the liberal credit to your market; you also don't want to cut off credit overnight. It's something that again has to happen structurally over the long-term, a lot of which has happen over the past 2-3 years for Prince and there is further scope over the next 1 to 2 years as well.

**Utkarsh Nopany:** What proportion of our sales is currently from channel financing and how much this ratio can increase over the next 1 to 2 years period?

**Nihar Chheda:** So around 20% to 25% would be through channel finance. With channel finance, we do not want to just keep adding the distributors. I don't think there is a further increase in number of distributors that we have put on channel finance. Of course, the key distributors that we have on channel finance will grow, so the level will grow. But we want to be very selective with which distributor we want to give channel finance.

**Utkarsh Nopany:** And what is the channel financing amount outstanding as of September?

**Shyam Sharda:** As on 30<sup>th</sup> of September it is around Rs. 73 to 74 crore.

**Utkarsh Nopany:** And lastly on dividend policy, given that we have a strong balance sheet with healthy cash flow from operation and our future CAPEX over the next 2 years is likely to be funded out of equity raising which we have done through IPO. So, what would be your dividend payout policy over the next 2 to 3 years period?

**Nihar Chheda:** For us debt repayment is a top priority as an organization, so that is a priority for us. Only after four quarters of consistent debt repayment have, we looked at dividend, so it's very clear that debt repayment is our top priority. I think the numbers speak for itself. Having said that we do understand the value of giving out a dividend and we want to be consistent with dividend payouts to our shareholders. It's not even been on year since listing, so we are trying to formulate the dividend policy, so that we are able to be consistent with dividend payout every year.

**Utkarsh Nopany:** A follow up question here is that like our peers are having a pretty healthy dividend payout policy in the range of 30% to 40%. So once we pay off the long-term debt over the next 1 year period, whether we will be able to increase our dividend payout in that proportion over the next 2 to 3 years period?

**Shyam Sharda:** So, looking at the overall market scenario and obviously the profitability and the cash flow availability pursuant over repayment as well, we will keep on exploring the option of making higher payouts. As Nihar has indicated, we are formulating the policy which will anyway be over a period which will be sustainable and constant. The endeavor of the company is to increase or personally look at the option of increasing the payouts on account of dividend.

**Moderator:** The next question is from the line of Hiten Boricha from Sequent Investment.

- Hiten Boricha:** My question is on the Telangana facility. So just wanted to ask what is the total CAPEX we are spending on that facility and how much we have already spent? And on the follow-up on that is what is the asset turnover we are expecting on that plant?
- Shyam Sharda:** So for the Telangana plant we have earmarked Rs. 184 crore to be spent over a period of an year from now. We have so far spent close to around Rs. 22 to 25 crore and over a period of next 3 to 4 quarters remaining amount shall be spent on the Telangana plant.
- Nihar Chheda:** And the asset turnover typically in our industry is 2.5 to 3.
- Shyam Sharda:** 2.5 to 3 is what the normal trend is. So initially for Telangana it will take a while for it to reach this level, but on an average, we are at around 3.5 as of now.
- Hiten Boricha:** 2.5 to 3, am I correct?
- Parag Chheda:** Yes.
- Moderator:** The next question is from the line of Nikunj Agarwal from White Whale Partners.
- Nikunj Agarwal:** My question was on the Tank part. What is the size of opportunity we are looking in the Tanks and you also mentioned about the disruption within the markets in your presentation? So can you just talk about it a bit?
- Nihar Chheda:** According to our estimates tank market potential would be around Rs. 4,000 to 5,000 crore, out of which 30% is organized, 70% is unorganized, so it's a largely fragmented market, I think including us and some other quality national players will be coming into this business which is good. It is always going to be a disciplined approach to pricing and quality when there are quality national level players coming into the business, so that is good for the overall industry. There is disruption in this market, everyone is aware the incumbent is obviously going through some constraints, hence there is a vacuum in this market. In fact, it was our channel partners who encouraged us to come into this business because today Prince has not only the distribution network but also the manufacturing network where we will be able to be cost competitive across the country and for us scalability has always been very important. For the past 3 decades, we have been true to our core business of pipes and have been able to scale it up to this level from where we were. A similar philosophy in tanks where we will focus on giving a consistently quality product to the right distribution network and that's how we aim to create long-term value and get scale at a PAN India level.
- Nikunj Agarwal:** Few of our competitors are also entering into the Tank market and recently they have also announced some of the capacity addition for the same. So do you feel that the over the coming years the market will be much more competitive and there will be more players as you said some international players are also coming which is healthy for the markets.

**Nihar Chheda:** Yes that's what I am saying. Today it's an extremely fragmented market where we have to compete with regional players, who don't give a consistently quality product and hence are able to undercut the organized manufacturer in terms of price by 15%-20%-25%. We welcome quality players; we welcome national level players to come into this business. We are anyway competing with them in pipes and can coexist and everyone is able to thrive. The market is a big ocean, and we are happy to compete with players who have a disciplined approach to quality and a disciplined approach to pricing, a disciplined approach to credit, that's okay. So we are not scared of competing with big players, I am scared of competing with smaller players.

**Nikunj Agarwal:** Can you talk about your sales mix between rural and urban market?

**Nihar Chheda:** Yes. We have today a very strong distribution network. It is a strategy that we have been working on for the past 3 or 4 quarters, the strategy of winning in many Indias, where we have a strong distribution network across urban, semi-urban and rural as a result of having been a strong player in Agri; we have always been strong in the semi-urban and rural and because we were strong in SWR, we also had a strong presence in metros like Bombay, Delhi, Hyderabad etc. So we have a good mix in terms of urban, semi-urban and rural. We would be evenly hedged across the three. I don't have an exact quantified breakup.

**Moderator:** The next question is from the line of Achal Lohade from JM Financial.

**Achal Lohade:** Just wanted to understand from the first half FY21 perspective what would be the industry decline or the number growth if at all for the industry?

**Nihar Chheda:** It's just concluded, but it should be more than 20% at an overall level in terms of volume, in terms of PVC consumption as a nation.

**Achal Lohade:** You are saying a 20% decline in terms of volume for the industry?

**Nihar Chheda:** More than 20%.

**Achal Lohade:** With respect to, you said that our key markets like Mumbai, Delhi were pretty weak for the quarter. Can you help us understand broadly, I don't want to know for the second quarter particularly but broadly how much would be the top 5 or 10 cities contributing to our numbers and how much would be for the industry, broadly?

**Nihar Chheda:** It's always tricky with these points. So, like we said Bombay and Delhi is a part of our maybe top 7 markets for us today. In terms of quantification we will need to circle back with you, maybe we can, in the coming time you can call us and we can give you the exact data but urban still continues to be a big part of our portfolio and once Bombay and Delhi really start kicking in and that's not to say that they have been completely tepid, it's been moving in the right direction where we were in 1Q versus where we were in 2Q in urban India, there has definitely been a sharp improvement but it's not where we used to be last year in the same time period. So once those markets really start to kick in, the performance could be better.

- Achal Lohade:** You had talked about in the starting remarks with respect to polymer-wise; the growth has been there across polymers. What about the user segment, like I know Agri will be relatively less, but the trend is similar in terms of the direction or there is a drop in Agri while there is a fair amount of growth in the non-agri business in terms of volume?
- Nihar Chheda:** I can give you a directional thought process. There has been a better growth in the domestic side, so in SWR and plumbing we have fared better, than we have in Agri. For Agri anyway it is a lean quarter, Quarter 2 the monsoon quarter is not that favorable for Agri and the performance has been better in the plumbing and SWR compared to agri. Having said that across PVC- CPVC and HDPE, there has been an encouraging performance.
- Achal Lohade:** In terms of the CAPEX, can you help us understand what is the CAPEX number, one could work with for FY21 and '22?
- Nihar Chheda:** I am sorry can you repeat the question Achal?
- Achal Lohade:** Capital expenditures from cash flow perspective what would be the outflow in FY21 and '22?
- Shyam Sharda:** It would be in the region of Rs. 115 to 118 core on a full year basis. It is almost like Rs. 46 crore as of today and with Telangana being spread over a period of time it will be in that region.
- Achal Lohade:** In FY22?
- Nihar Chheda:** So FY22 we are still trying to understand the demand and supply scenario. It's a call that we have to take on a quarterly basis but our first priority is to scale up Telangana as soon as possible while we have said Quarter 2, we would like to have it earlier than that, we are working towards that and trying to see the feasibility of starting Telangana as soon as possible. So the quicker we are able to start Telangana, there would be a higher CAPEX in FY21 versus '22. In '22 post Telangana there should not be major CAPEX, may be Phase 2 of expansion at Jaipur could start because we are looking at a good capacity utilization that we have seen in Jaipur over the past 3 months. So largely Telangana would be determining what the CAPEX would be over the next 2 years.
- Achal Lohade:** In terms of the stage of work, where are we? Have we ordered the equipment's, or we are still waiting for any approvals?
- Nihar Chheda:** We have got the approvals, around 20% of the work has been done so that's where we are currently, but the approvals are all in place.
- Achal Lohade:** I see as there has been a drop in expenses, the other expenses item on a YOY basis, can you help us understand if there are one or two specific heads which have seen a reduction in the quantum of that?
- Nihar Chheda:** The drop has been in the branding, are you asking about Q2 or H1?

- Achal Lohade:** Q2 specific.
- Nihar Chheda:** In Q2 there has been a slight drop in the branding expenses. Of course, it's not a conducive environment especially in the first half of Q2 where we were able to invest in plumber workshops and other influencer engagement activities. Also we were waiting for the FlowGuard Plus announcement to come in and hence a lot of our branding expenditure will actually happen over the next 12 months and thank you for asking that question because we would like to highlight on this point that like we said in the opening remarks we want to be committed to investment in branding, we have the distribution network in place and now with FlowGuard coming in, in order to be able to penetrate the CPVC space we need to be committed towards investment into branding which we will not shy away from even in the lean quarters. So we want to invest significantly in branding over the next 4 to 5 quarters.
- Achal Lohade:** I will still insist on the answer for the quarter. Can you quantify what was the branding spend in second quarter last year and this year and is there any other head apart from branding which has lead to a reduction in the other expenses? I am actually asking on that because if I look at almost 140 basis point reduction as a percentage of Q2FY21 and is half of the EBITDA margin expansion.
- Nihar Chheda:** Branding was around 1.5% of sales in this current quarter versus a slightly higher number, so maybe around Rs. 7 crore in Q2 of this year versus around Rs. 10 to 11 crore in Q2 of FY20.
- Achal Lohade:** Apart from A&P any other heads?
- Nihar Chheda:** There is lower administration cost because of the lack of travelling, but broadly I think the biggest head would be branding.
- Achal Lohade:** In terms of branding you said that oi next 12-18 months you are going to step up. So is there any target we have in mind in terms of the range as a percentage with revenue or an absolute quantum one could work with?
- Nihar Chheda:** Typically for us branding 2% to 3% is what we are comfortable with. I think we should stick to that range.
- Moderator:** The next question is from the line of Chirag Lodaya from Valuequest.
- Chirag Lodaya:** Will we be doing commercial production in Q2 of next year. I am just trying to understand what kind of capacity, new capacity will be able to utilize in next year?
- Nihar Chheda:** So, would be around 30 to 35 kt of fresh capacity.
- Chirag Lodaya:** That will be available for like 6 months that is a fair assumption, right?



- Nihar Chheda:** 6 months of next year, eventually over a 2 to 3-year horizon we aim to scale up Telangana to around 50 kt.
- Chirag Lodaya:** When you say significant A&P you will be doing, still it will be in the range of 2% to 3%, that understanding is correct?
- Nihar Chheda:** Yes.
- Chirag Lodaya:** What was H1 A&P spend, H1 versus H1?
- Nihar Chheda:** We will have to come back to you with the exact number, but Q2 was Rs. 7 crore this year and Q2 last year was around Rs. 10 to 11 crore. All I can say is Q1 of this year there was no branding because of the lockdown and the market scenario. So there was very low amount of branding, but we can come back to you may be one on one once we get the number.
- Chirag Lodaya:** You talked about freight saving etc. which will be substantial when you will start supplying fittings in Southern market from your new facility. So, what kind of improvement one can expect from those revenues? How significant it can be if you can just try and quantify something?
- Nihar Chheda:** I can't answer that question in one line. Typically freight could be anywhere between 3% to 7% depending on the radius between the plant and the distributor that you are catering to, also, it would be discretionary for us in terms of whether initially we want to pass on that benefit to the market and ramp up sales and hence ramp up utilization or if demand is supporting us and we feel like we can keep that freight benefit for ourselves, so that we would realize only once we shift the production.
- Moderator:** Thank you. Ladies and gentlemen due to time constraint that was the last question. I now hand the conference over to Mr. Ankit Gor for closing comments.
- Ankit Gor:** Thank you. I thank the Company for giving this opportunity to host this call. I would like to hand over call to the management for any closing remarks. Thank you very much.
- Nihar Chheda:** No such closing remarks as such but thank you all the participants for your time and mind share and thank you Ankit for hosting the call. Thank you all.
- Moderator:** Thank you. Ladies and gentlemen on behalf of Systematix Institutional Equities that concludes this conference. Thank you all for joining us and you may now disconnect your lines.