

PPFL/SE/2020-2021/105

August 29, 2020

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

National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex
Bandra (E), Mumbai -40005 1

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 for Analyst and Investors

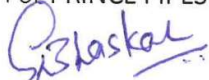
In continuation to our letter No. PPFL/SE/2020-2021/100 dated: August 25, 2020, please find enclosed transcript of the Conference Call for Analyst and Investors held on Wednesday, August 26, 2020 at 11:00 hours IST following the announcement of Tie-up with Lubrizol for CPVC compound.

Kindly take the same on your record.

Thanking you,

Yours faithfully,.

For PRINCE PIPES AND FITTINGS LIMITED



Shailesh K. Bhaskar

Company Secretary & Compliance Officer

Enclosed: as above

PRINCE PIPES AND FITTINGS LIMITED

Mfg. & Exporters of UPVC, CPVC, PPR & HDPE Pipes, Fittings and Valves

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“Prince Pipes and Fittings Limited
Business Update Conference Call”

August 26, 2020



ANALYST: MR. NEHAL SHAH - ICICI SECURITIES LIMITED

**MANAGEMENT: MR. NIHAR CHHEDA – AVP – STRATEGY - PRINCE
PIPES AND FITTINGS LIMITED
MR. VININDER BAWEJA – CHIEF OPERATING
OFFICER – PRINCE PIPES AND FITTINGS LIMITED
MR. ASHOK MEHRA – NATIONAL SALES HEAD -
PRINCE PIPES AND FITTINGS LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Prince Pipes Business Update Conference Call hosted by ICICI Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Nehal Shah from ICICI Securities Limited. Thank you and over to you Sir!

Nehal Shah: Thank you Janice. Good morning everyone. On behalf of ICICI Securities, I welcome you all to the Conference Call of Prince Pipes and Fittings Limited to discuss the recent development, which is the tie-up with Lubrizol for sourcing of CPVC compounds. From the management we have Mr. Nihar Chheda, AVP – Strategy; Mr. Vininder Baweja, COO; and Mr. Ashok Mehra, the National Sales Head who have joined us for this call. I would request Mr. Nihar Chheda to start the call with his opening remarks post which we can then proceed with the Q&A session. Over to you Nihar!

Nihar Chheda: Thank you Nehal. Good morning to all. Thank you for joining in on our conference call to discuss our tie-up with Lubrizol and the overall strategy moving forward.

I am very happy to announce that we have signed a multi-year deal with Lubrizol and will be their second licensee in India. Before I get into the details of the collaboration would like to quickly introduce two key members of our team here. Firstly Vininder Baweja, Our Chief Operations Officer, Vininder has joined our family in the last fiscal from Hindustan Unilever HUL and has also worked at Eicher before that. Vininder has developed a rich experience of over 17 years in IT and marketing throughout his professional career. At Prince he is closely working on developing our marketing strategies, strengthening the IT function to ensure that IT department is not just an enabler, but a disruptor as well as improving the efficiency of our supply chain. Secondly, I would want to introduce Mr. Ashok Mehra, who is the VP and National Head of Sales. Ashok has been with us for more than three years now and has a total experience of over 30 years in the field of sales and marketing. Ashok has previously worked with organizations like Jaquar and Pidilite and he knows the building material space in detail.

Now that you know my team let me give you a perspective on our partnership with Lubrizol. Our relationship with Lubrizol should not be looked at as a normal supplier consumer transactional relationship it is a change in the ecosystem for our internal and external stakeholders, not only the FlowGuard help us provide premium and best-in-class CPVC solutions to our value chain but it also creates an ecosystem where we are able to sell these premium products. This will include rigorous sales team and distributor training programs, which will help us, understand what parameters apart from price need to be focused on to market intelligently. Quality and technical parameters will be highlighted to premiumize the selling across the value chain.

The confidence of my sales team in product quality and knowledge of product application will be at an all time high. This is of prime importance and was a major incentive for us to join hands with Lubrizol. We will not just be conducting sales, but we will truly be marketing from now on. We have been emphasizing on our strategy of Winning In Many India's as we try to improve our distribution network across urban, semi-urban and rural India. Our diverse distribution network coupled with our strategically located manufacturing facilities helps us provide the ultimate penetration for our range of Prince FlowGuard Plus products. Our first mover advantage and brand recall in PVC combined with Lubrizol's brand equity in the CPVC segment will help us extend our market leadership from the SWR and Agri segment to the CPVC segment as well. We will now be a force to reckon with across both the polymers. I also believe that the brand positioning of Lubrizol will have a ripple effect on the rest of the product portfolio as well and will help us upsell the entire product range in the long term. Selling as premium is not something that can be achieved overnight nor is it going to be easy. We are betting on ourselves to create long-term value, which is why we have signed a three-year deal. Also, we believe that this is the right fit at the right time. When I say timing, I mean that in two ways, firstly from an internal point of view we have been heavily investing in building a strong professional team, a robust distribution network and scaled up branding spends over the past two, three years. This partnership is at the right time for us in our growth journey to help us reach the next level not only as a brand but as an organization.

Secondly, from an industry point of view the organized players currently have very strong tailwinds not only due to the ongoing market consolidation, but also because of the antidumping duty on the CPVC raw materials. This segment is becoming a big boy's game as essentially 4 players will control the market. I believe that this is the perfect time for premiumization as we look to become a preferred brand amongst brands. Given the above tailwind, the timing of this partnership demonstrates that our strategy is truly Built to Adapt. Another advantage of this relationship is that we will now be locally sourcing our products from Lubrizol's production facility in Dahej, Gujarat. This will help us improve our working capital as we will work on just-in-time inventories. This ties up with our overall focus of being practical and disciplined with working capital management and improving the overall quality of the balance sheet.

To conclude, I would like to give a perspective on organizational strategy. The partnership with Lubrizol is an important cog in the wheel of an overall long-term strategy. This starts from a series of moves, which includes hiring a brand ambassador two-and-a-half years ago and ramping up branding investment, capacity expansion in Jaipur in September of last year, raising the growth capital for Telangana facility, which should be operational by next fiscal, the launch of storage tanks in the last quarter, tying up with Tooling Holland last month for better operational efficiencies and superior quality molds and now in partnering with Lubrizol to enhance our brand positioning. It is my strong belief that these series of strategies are component parts of a larger organizational philosophy, which will make us reach the next level in the long run. Thank you for your time and mindshare. We can now open the floor for questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question answer and session. We take the first question from the line of Maulik Patel from Equirus Securities. Please go ahead.

Maulik Patel: Congratulations for the tie up. Nihar in your opening comments you mentioned that you are a second licensee for Lubrizol in the country, so who is the first one because we understand there were already two licenses and you are the third one?

Nihar Chheda: Yes, so out of respect for our competitors we understand that there are going to be two licenses and we will be the second licensee, I think we will leave it up to the other players to make their announcements at that time, I think that is the basic respect we can show.

Maulik Patel: Sure I understand that and my second question is that you mentioned that the consolidation in the CPVC market that there will be four players so what kind of a market share these four, five players will be commanding right now if you have any data point and what they were commanding before this antidumping duty came into the picture, so just want to understand how much of the market share has been lost by the other players including the unorganized in this last one year?

Nihar Chheda: Yes, so currently in my estimate around 60% to 70% of the market should be controlled by the top four or five players and I think that has improved significantly I do not know exactly how much that improvement has been I think you guys would be better aware than I am actually, but I think currently 60% to 70% is controlled by the top four side, which I think should only increase because this duty is there for five years, it is the only direction from here is up.

Maulik Patel: The next question is on this you mentioned about the premiumization of your entire product portfolio with this tie up it will help, what I understand that earlier the Prince were largely importing the CPVC before this antidumping duty came was largely from the China and South Korea and in the market the CPVC from the Prince were at a little discount to the other players, so how do you think that the retailers or the consumers will perceive once you start selling this FlowGuard brand and you have to start selling it in a premium than what you were doing it earlier, what is your expectation or the view on this side?

Ashok Mehra: What we have been doing is we have been gradually ramping up our pricing even prior to we started discussing with Lubrizol, so we realized that there was a delta between our pricing and the major players and we have been working very hard on all fronts improving our quality, improving our distribution network as well as ramping up the pricing gradually and we are happy that even now we have closed the gap considerably and going forward now with this Lubrizol tie up I am sure we would be right up there.

Maulik Patel: What we understand historically the Lubrizol helping the Indian players like Ashirvad and others in a project business where the FlowGuard brand is approved by the consultant and architectures, so what is your expectation in which particular side of the business segment either the project or

the retail where you can see a significant major thrust coming because of your tie up with Lubrizol?

Ashok Mehra: So we agree that we have been slightly slow on the project side and we have been a potent force as far as retail is concerned, our presence is there all across the country, so this tie up now helps us leverage this tie up we can definitely go ahead and we are very bullish on the project front as well.

Nihar Chheda: I would just like to add to Ashok's point is what we have often noticed is that retail demand is driven by project demand, so once we get that acceptability with the top developers, top consultants who are anyway using Prince PVC products be it SWR or other PVC products now they will also obviously accept our CPVC products because of this tie up and a lot of the times the retail demand actually is driven by the project demand, so once we get accessibility in these top sort of prestigious projects a lot of that is actually I can use the word contagious for the retail market as well, so once we get this entry into B2B for CPVC that will also have a good ripple effect on the retail pool as well.

Maulik Patel: When you start to sell this FlowGuard brand in which date and will this have any impact on the existing inventory, which you have been selling for the CPVC?

Nihar Chheda: Operationally we will work towards liquidating existing inventories as soon as possible. I think from October we will be having our products into the market.

Maulik Patel: Great. Thanks for answering the questions. Wish you all the good luck.

Moderator: Thank you. The next question is from the line of Pritesh Shah from Investec Capital. Please go ahead.

Pritesh Shah: Nihar first question is for you. What is the size of the CPVC market right now and would we have any numbers on what the historical growth rate has been in volume terms for CPVC versus PVC?

Nihar Chheda: It should be around 3500 to 4500 Crores market in our estimates. I think over the past I think there has been a very healthy double digit CAGR over the past four or five years, but I think my estimate should be anywhere between 3500 Crores to 4500 Crores market.

Pritesh Shah: In volume terms any indication on how much would be the growth rates basically like 7% is it higher than PVC how should one look at it to better understand that?

Nihar Chheda: Yes, so from a directional thought process from a percentage point of view I think it would be the highest growth rate across all polymers, the base also is pretty small compared to PVC, but it has been the fastest growing polymer in percentage terms year-on-year over the past three or four years.

Pritesh Shah: Now I think on the press interview yesterday in the media interview yesterday you did indicate that 20% of our revenue that comes from CPVC is that number right?

Nihar Chheda: Yes, approximately 20%.

Pritesh Shah: So, if one goes by that math roughly the CPVC for us will be 327 Crores on FY2020 numbers and assuming that the market size is say 3500 Crores one would imply that our market share would be around 16%, 17% how should one look at it?

Nihar Chheda: No, I think market share should be around 10%, 12% in my eyes if we are doing around 350 Crores and it is 3500 Crores market roughly around 10%.

Pritesh Shah: My second question is on how does the pricing mechanism work with Lubrizol does it put us in advantageous situation because we are associated with the name FlowGuard, but how the local markets work is most of the other larger players they do revise their pricing pretty frequently on a weekly or fortnightly basis, what I am trying to understand is whatever we procure from Lubrizol we will have to carry a certain inventory is that cost fixed for a month, two months, what is the frequency at which Lubrizol changes the prices and consequently that will decide our ability to change the prices in the marketplace?

Nihar Chheda: I think there has been a misunderstanding on your part, I do not think CPVC prices change weekly or fortnightly, that is not the case, that is the case for PVC, but CPVC is very rarely do the prices change, it would be if there is like a big impact like when the duty came in or when there was a significant depreciation of the rupee is when a large part of that cost is transferred, but CPVC is not like PVC at all PVC would be a fortnightly or a monthly change, CPVC would change it would be very, very infrequent I cannot even put a time period to it, but that is not how the CPVC market works.

Pritesh Shah: But for how long do our prices get locked, so we procure material from Lubrizol it is a function of that and basically if we stock it up for 15 days or 30 days that is how we lock our prices?

Nihar Chheda: We will not share such information it is contractual and confidential, but my limited point is that it is an event-based changing in pricing for the entire market and with FlowGuard coming in I would want to just impress this on everyone that definitely it is a premium compound and that is why we have signed a three-year deal, it enhances our ability to premiumize our end product and upsell and makes it easier for us to transfer that pricing to the market over a long term, but that is how the pricing mechanism will work.

Pritesh Shah: Are there any minimum volume optic commitments that we have, how does it work?

Nihar Chheda: I will stay away from giving contractual details, I am sure you can appreciate the confidentiality.

Pritesh Shah: Sure and just last question you made a very interesting point on upselling the entire product range, I would like to hear it from Mr. Vininder and Ashok on how they plan to do it going

forward given they have come from HUL, Jaquar and Pidilite, so there is a lot of variables that can be touched upon so some initial thoughts from them will be quite useful over here?

Ashok Mehra: So, we have been working on all fronts in terms of upselling our product range and that can be I think it would be visible in terms of the profits that we see in the results. It is a process which I am again repeating it is a process, which we decided on since the last year or so and we have been working on all fronts, again improvement in terms of the product quality, in terms of distribution network, in terms of pricing, in terms of our promotions so it is all put together and we have been pretty successful in that.

Vininder Baweja: Just to add to what Ashok called out. See in terms of our product mix we are also trying to focus on how we are building on the strategy of winning in many Indias by doing some intelligent selling and that has been one of my key mandates here coming from Unilever that how do we get the visibility for the go to market and our route to market across my channel partners and the more visibility I get there it helps me to understand how my channel partner is further selling and how we as an organization can help them grow more and giving power in the hands of the salesman to be able to do some intelligent selling basis the geography, topography of that state, that region, that market so that kind of working we have already triggered.

Pritesh Shah: Sir have you already put in new IT systems over here?

Vininder Baweja: We are in process it is an ongoing process, but clearly we as an organization want to embrace in the new technologies, which includes things like artificial intelligence and machine learning, which really helps to upsell and cross sell and that is our long-term vision as well.

Pritesh Shah: Okay, that is quite useful. Thank you so much for the answers and good luck.

Moderator: Thank you. The next question is from the line of Madhav Marda from Fidelity Investments. Please go ahead.

Madhav Marda: My question was once the Lubrizol FlowGuard pipes we start selling it in the market do our gross margins that we were making earlier on CPVC versus what happens with the FlowGuard does it increase or does it stay the same, I am assuming the cost of the compound that we buy would be more expensive versus the fewer sourcing earlier so if you could just talk about that?

Nihar Chheda: Yes Madhav. Yes that is a good question, there is definitely an increase in cost because it is a branded compound, it is a well-known compound, it comes with the advantages of being accepted as the best in class CPVC especially in the B2B space, so there would definitely be an increase in the cost once we start procuring from Lubrizol next month and that is why it is a long-term deal where we will be passing it on to the market over the long-term and that will happen over the coming quarters depending on how we are able to work with the sources of demand and supply and the acceptability of the product as well and that is the reason even in my opening remarks I have stated that it is a change in the ecosystem, it is something that is not going to happen overnight because there will be rigorous training of the sales force, of the distributors,

and I want to be candid with everyone here, we have been a value focused company and this is a change in not only strategy, but also philosophy and we are betting on ourselves through this deal in the long-term to create long-term value and why cannot Prince be premium today and through distributed training, sales training, and many other investments into branding and promotional activities we will be a premium product in the market and I would also like to add this will help us improve our contribution of CPVC to the topline, which in turn will improve margins as a result of product mix and the more CPVC market that I am able to capture that I am able to penetrate my average monthly sales will also increase, which will also have its operating leverage benefits, so I would like to look at bottomline not only as a function of pricing but also product mix as well as operating leverage benefits.

Madhav Marda: If I understand right initially the cost of sourcing the compound obviously goes up as we are buying from Lubrizol, but the process of increasing the prices of Prince CPVC pipes in the market will take some time basically so our gross margins might take a short-term impact, but they sort of improve over the long-term, is that the right way to think?

Nihar Chheda: Perfect.

Madhav Marda: One other question that I had was the larger pipe brands in India likes of whoever has been associated with Lubrizol in the past any learnings from them sort of having doing their own compounds or buying from somewhere else like any learnings that we have from there now that we are tying up with Lubrizol?

Nihar Chheda: Absolutely, I think that is a great question, I think one of the things that we definitely as an organization are really excited about if we have a lot of sort of benchmarks within the industry a lot of quality organizations and brands, and we learn from each brand and organization and I will give you a more specific answer here is that a lot of brands have done a good job of being able to upsell of taking that journey from being a value focus brand to now being a premium brand and the reason as far as doing this deal or learning is the biggest incentive for me to join hands with Lubrizol when that opportunity came knocking on our door was the external tailwinds that are going on I think with the duty coming in it is going to be a very consolidated market and it is the time to become a preferred brand amongst brand and the way you can do that is you cannot just tie hands with Lubrizol and expect an overnight miracle of improving your CPVC sales, I think there are enough and more examples of success stories in the market, it has to be one part, one component part of our larger strategy at place, it has to be combined with investments into branding, into improving the distribution network, which is always an ongoing process, we always talk about how strong our distribution experience is and how robust our distribution network today is, but I am not happy with our distribution network today, I think there is a lot of wide spaces in our distribution network, we are hungry for more and we want to improve our distribution network. We need to not look at branding only as expenditure it has to be an investment, it has to be a long-term strategy, it cannot just be like I am having a couple of bad quarters of business I am going to cut off branding expenditures you have to look at it as a long-term strategy and be very disciplined and committed to investing in branding, so the biggest

learning is I cannot look at this in a vacuum and just say that now I have tied hands with Lubrizol everything is going to be perfect and it is going to be magical, I think it has to be one part of a larger strategy in place and those dots have to connect and only then will this actually be successful, I think also the tie-up with Tooling Holland was actually a precursor to this tie up, which will not only now, not only do we have the best compound and raw material, but we also have a significant amount of technical expertise as far as molding and quality of our product is concerned, so I think it is important to have these series of strategies to make one large organizational strategy.

Madhav Marda: Maybe I think another way to ask the question would be why did the previous organization sort of move on from Lubrizol is what I wanted to understand?

Nihar Chheda: Yes, of course I do not want to name any names, but I understand your question I can appreciate why you are asking that. I think it all comes back to timing, I think there are certain moves that were made at certain times in the industry, so if I can again give you a directional thought process CPVC in India started off as a very niche product where and there was obviously it was scarcity of supply then that graph moved towards an abundance of supply with China and Korea with cheaper material coming in and CPVC becoming commoditized, so at that time whether premiumization was that easy or was it easier to buy lower cost material, but now with the antidumping duty coming in is that we are going back the way I see, this is that we are going back eight to ten years to that previous mode where there is a scarcity of supply, there is not an abundance of cheap material flowing from China and Korea, so that is the reason this timing makes sense and it may not be the same as why organizations have left in the past.

Madhav Marda: If you think about the retail market for CPVC India, is FlowGuard the brand that a customer or the plumber asked for or would it be Prince or I just want to understand like what size more what is the selling point at the retail touch point?

Nihar Chheda: As far as B2B is concerned, I think FlowGuard is the undisputed market leader. As far as retail is concerned there are some quality conscious markets, be it metros, be it certain zones of the country where people definitely will get the end who is the decision maker in this value chain or the influencer is the plumber, so the plumber definitely has a very high regard, very high acceptability for the brand FlowGuard especially in certain markets and why we are bullish on this synergy is because of a lot of markets, Prince already is a top one or two brand in the PVC segment, so that coupled with the acceptability of FlowGuard will really make us a force to reckon with. I think it is a combination basically.

Madhav Marda: Got it. Okay, thanks a lot.

Moderator: Thank you. The next question is from the line of Bhargav Buddhadev from Kotak Mutual Fund. Please go ahead.

Bhargav Buddhadev: Is it fair to say that our CPVC market presently will be primarily in North and West and if this is correct then this tie up does this change materially?

- Nihar Chheda:** Yes, so we are definitely strong in North and West India, I think East is one of our fastest growing zones and we are looking at doing rain selling there, I think we have got a good penetration for PVC over the past one or two years and we definitely are looking towards improving our CPVC market share there and South India of course has the highest acceptability for CPVC and that we will improve our market share in the South as well, but I think first focus will be to fortify our CPVC market in North, West and East where we are strong today.
- Ashok Mehra:** Just to add to what Nihar said south has the maximum acceptability towards FlowGuard as well, so we are banking on that, and we are going to improve our share in the South.
- Bhargav Buddhadev:** Secondly in terms of finished goods pricing, so essentially does Lubrizol have any call-in terms of what we price in terms of our finished products or surprising is left to us essentially?
- Ashok Mehra:** Lubrizol is an MNC and they have very strong view towards anti-trust or anti-competitive behavior, so it will be Prince making the call, Prince will be taking a decision, the remote is in our hands and I think we ourselves are keen to be premium, otherwise we would be happy to continue sourcing generic resin and selling at a certain rate, but we are keen to premiumize, but to answer your question we are the decision makers on all pricing of our products.
- Bhargav Buddhadev:** So, tomorrow if we want to sell like a discount to say Ashirvad in South India we are free to sell?
- Ashok Mehra:** We want to be a premium brand, but Prince Pipes is going to be the decision maker of the pricing of our products.
- Bhargav Buddhadev:** Secondly are we looking at this tie up from a three-year perspective or sort of we are looking at this from sort of a long-term arrangement?
- Ashok Mehra:** Long-term.
- Bhargav Buddhadev:** So why would not be a three-year arrangement any rationale on that part?
- Ashok Mehra:** Yes, so there is, there is an ability to renew further I do not want to get into the contractual details, but we do have the flexibility for further renewal.
- Bhargav Buddhadev:** Lastly is it possible to sort of know what has been the share of Lubrizol in the CPVC project market?
- Ashok Mehra:** We cannot quantify, but we could give you a qualitative thought process, I think whatever consultants or developers we have been meeting I think it is an undisputed leader and it is just that with the FlowGuard name you get an automatic sort of walk-in to the most prestigious projects in Mumbai, Gurgaon, Bengaluru, Hyderabad, Chennai it is a walk-in and it is an undisputed market leader, but we would not have a specific number.
- Bhargav Buddhadev:** Thank you very much and all the very best.

- Moderator:** Thank you. The next question is from the line of Sneha Talreja from Edelweiss. Please go ahead.
- Sneha Talreja:** My question is actually pertaining to as you rightly said it is a three-year contract so firstly I wanted to understand what have been the contracts with the previous companies like for example of Finolex or Ashirvad how many year contracts do they have and is it something exceptional to us or is it a common phenomena that you have a three year contract and you started doing it?
- Nihar Chheda:** I am not sure about what other organizations have done, but I am very clear that while the contract says three years we are definitely looking this as an absolute long-term arrangement, this just gives us additional flexibility, but you cannot always go by what the contract says, it is more to do with the way we are thinking, the way Lubrizol is thinking, and I think that is very clear that our wavelength match that we are doing this for the long-term and we do not want to take any impulsive short-term decisions, so eyes are definitely on long-term value creation and both the organizations are aligned and especially as an entrepreneur or even as a third generation entrepreneur we are thinking on 10, 15 year horizon as far as any strategy is concerned, so while the contract says three years both the organizations are keen to make this a long-term partnership.
- Sneha Talreja:** Secondly my question was more pertaining to the FlowGuard brand, of course a tie up actually brings this FlowGuard brand into picture and it has already been associated with names like Astral or Finolex in the past, what do you feel that you adding this brand how much value now it can add and what is the value you still perceive because frankly I just want to understand your opinion how does the market look at because FlowGuard brand has changed multiple brands as of now so how does it being perceived in the market?
- Nihar Chheda:** Yes, marketing is about perception, I think when we before signing the deal, we understood the intent of Lubrizol and it is to create that stronger brand perception they will be further making investments into the brand in India. For us what was exciting was B2B, we are nowhere in B2B today that is a very unexplored market for us as far as CPVC is concerned and this gives us an absolute walk-in to those projects, so in terms of opportunity or our market potential that was one key immediate sort of low-hanging fruit that we can definitely attack and as far as B2C is concerned is a lot of top dealers and distributors where we have strong penetration who are already selling Prince products for PVC, but it is for CPVC because certain other organizations obviously have a first mover advantage there the way we do in PVC. They were maybe not accepting our CPVC as much, but now with this brand equity of FlowGuard there is no reason why our CPVC also will not be accepted. I want to be candid, it is no secret that Prince used to procure our raw materials from Korea and China before the duty, we were a value focused player where definitely the quality coming in from Korea and China was not as good and even my sales team knew that and their confidence was not that high since we were not buying the best raw materials. For me what it boils down to- is the confidence of my sales team when he is at a retailer or at a distributor or at a project site convincing and a key stakeholder to buy a CPVC product of Prince who are already buying my PVC products and with this coming in I think the sales team and the channel partner confidence is at an all-time high to replicate our success story in PVC, in CPVC as well.

Sneha Talreja: Glad to hear that Sir we have been one of those well wishers. Sir my last question would be regarding as you rightly said it opens up your doors for the project business where you were not present so just one understanding that we have is your project business involves a lower margin compared to your retail segment where you are currently strong at that is one point and secondly as you also mentioned that of course tying up with Lubrizol also entails a bit of a premium raw material pricing for you, of course you said that some of it you will pass it on, so how do we see margins for the next coming times, how much of it could be passed on and how much of the margin dilution you see in the projects business.

Nihar Chheda: I think that is a good point definitely it is again no secret that B2B obviously because of the volumes there is going to be more pressure but the way you have to look at project costing from a different point of view you also have to see the operating leverage benefits that are going to kick in, so definitely the bigger the volume the more competitive that you have to be, but that then gives you advantages on the operating leverage front. That is something that we are very clear and I would also like to say there are a lot of top developers and consultants with whom it is FlowGuard or nothing, so we are going to get an entry into those markets as well and of course while like Ashok said the initial burst has been very exciting the value is only going to be created in the long-term because this excitement has to be translated into actual execution, which will take maybe not long-term, but at least in the medium-term we will be able to translate that and which is why it is not just a deal for one year or anything like that, we are betting on ourselves in the long-term.

Sneha Talreja: Sure, got that. Thanks, Nihar.

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

Achal Lohade: My question is given the background of the cost increase will be immediate while price increase of the end product will happen over a period of time more B2B and investment into brand and other investment how do we look at the operating margins, what kind of margin range can we look at on next let us say two to three year perspective at the company level?

Nihar Chheda: So of course like you said there are so many variables in play which makes it, it is a lot of parameters that have to be considered, I think as an organization we have always been conservative with guiding any investors to consider like 12% to 13% EBITDA margin and we are happy to be conservative with any EBITDA guidances, so I still can understand and appreciate why you are looking for a certain number, so we want to be very conservative and I think 12% to 13% margin is what we have demonstrated in the past and we will continue to stick to that we are happy to over deliver.

Achal Lohade: Is there a risk to this margin assuming that sales are normal, normal situation is there in the market and even the way the cost will move would there be a risk to this 12% to 13% margin expectation let us say for the next two to three quarters?

Nihar Chheda: The only risk I see is that if there is a significant adverse impact on the economy at large and if there is some other major extension of lockdown and we are not able to do our sort of minimum monthly sales, but as long as we are able to achieve our topline and our basic minimum topline I think 12% margin is not addressed.

Achal Lohade: That kind of normalized sales we have already started seeing from the month of June, July onwards is that a fair assumption?

Nihar Chheda: Yes, let me give you some more colour there, so Q1 I think we did mention in the commentary as well that May was like an 80% recovery, June was like a double digit value growth that we saw and a lot of that was obviously due to multiple factors like agri being strong, pent-up demand in housing. I think Q2 if I look at our performance now it has been a sort of 80% sort of recovery in business, there have been markets that have been going in and out of lockdown, so we are not seeing growth, there is a degrowth year-on-year in the months of July, of course August we do have some time left, but we did see like 80% recovery in July and what everyone must understand is that August and September were really, really robust months last year- we are working with a very big base because Q2 of last year we were seeing major of the market consolidation taking place, there was the duty actually was announced, if I am not wrong in this quarter last year, which is when there was all that the channel was stockpiling the inventory, so we are dealing with a very high base of Q2. I would just want to mention that we are seeing an 80% recovery in July and August and September will be key since the base that we are working with is really big.

Achal Lohade: I do not know if you could answer this, but for the CPVC compound procurement from Lubrizol is there any minimum guaranteed volumes we have signed up for and would the cost be initially higher and as they increases the cost decline or is the pricing is fairly steady?

Nihar Chheda: Yes, Achal I am sure you can understand we do not want to discuss those details of the contract, and I am confident you will understand why.

Achal Lohade: With respect to B2B versus B2C what is the mix currently for us and how has it changed in last three to five years?

Nihar Chheda: We are not there in B2B, we were never in B2B, we are not in B2B I think top down we have always been a retail oriented brand, a part of that was definitely to do with acceptability within consultants we were always seen as a value focus brand, so B2B since the past three years and even today is a very small part of business, which is why we are harping on it so much, so again we are not expecting any overnight results, but the base in itself is small so there is a significant amount of low hanging fruit moving forward over the next two to three years.

Achal Lohade: These comments are with respect to only CPVC segment or the aggregate company level, I would like to know at the aggregate company level how much is B2B already and how do you look at it let us say next three years perspective?

- Ashok Mehra:** On an aggregate level we would say it is 80:20, 80 would be retail 20 would be projects where projects also trickle down in the retail platform you can say, so I would put it at 80:20 at this point of time.
- Nihar Chheda:** So a lot of projects in Tier-3, Tier-4 are catered through like a big dealer or wholesalers will work with a contractor to do like a G plus 3, G plus 4 sort of building, so that does not register as project sales that there is a trickle down sales, which we do not have visibility of, so our best estimate would be 15% to 20% would be B2B.
- Achal Lohade:** Just one last question with respect to even earlier we were the market leader for the PPR product and CPVC was somewhat lower price than PPR if you are seeing a pricing improvement in case of CPVC of FlowGuard brand do you think there could be a possibility of any cannibalization out there?
- Ashok Mehra:** No, we do not see any possibility of cannibalization because there are certain markets where we are selling PPR and we are still strong in those markets and there have been players in PPR who have been selling at a price much lower than us and we have seen over a period of time those players not doing that well currently because we have been maintaining our quality in PPR and we have been holding those as far as those markets are concerned and we have no intention to replace PPR with CPVC in those markets.
- Achal Lohade:** Thank you so much AshokJi and Nihar thanks.
- Moderator:** Thank you. The next question is from the line of Akash Pipara from Nippon India Mutual Fund. Please go ahead.
- Akash Pipara:** Most of my questions have already been answered; I just have one query to ask. I see you are trying to keep your Lubrizol contract confidentially, so I just wanted to ask is there any impact of this we have any exclusivities in place, do you foresee any changes in sourcing for a B2C products or is there any change in the cost structures because of this deal?
- Nihar Chheda:** I am sorry I missed on the essence, could you please repeat the question?
- Akash Pipara:** Your new Lubrizol agreement does it have any sourcing exclusivities, which could change your cost structure, your existing sourcing?
- Nihar Chheda:** Yes, so it is, we will be buying, I am sorry.
- Akash Pipara:** B2C as well as B2B.
- Nihar Chheda:** Yes, yes, at an organization level CPVC pipe coming out of our facilities will be with FlowGuard Plus it is an exclusive arrangement and like we have mentioned there is definitely an increase in cost, which we want to be premium and we will premiumize over the long-term and I just want to also address another question related to the contract that a couple of people have been asking. As

far as the minimum offtake is concerned, there is a minimum offtake volume, which is well within our reach, so it has been negotiated accordingly and there is a number, but it is well within reach.

Akash Pipara: That is helpful Sir. That is, it, thank you.

Moderator: Thank you. The next question is from the line of Utkarsh Nopany from Haitong Research. Please go ahead.

Utkarsh Nopany: I have a few questions to ask. First is like what kind of an increase in CPVC revenue share we are targeting over the next three years?

Nihar Chheda: Ashok is smiling at me I think there is aggressive increase that we would want to take internally, but as far as guidance is our concerned I will stay away from quantifying that we definitely want to increase the CPVC share I think there is no secret, but it is a fine line because whatever market share increase that we want to do we want to do in a sustainable manner so we not only are looking at market share improvement we also want to premiumize which is why I want to harp on we should not expect any miraculous overnight results, this is going to be over the medium term as we try to sustainably improve market share, but we definitely want to increase our overall contribution of CPVC in the topline from what it is today at around 20%.

Utkarsh Nopany: So, like from 20% can you get some sense what is the annual increase in our revenue share we are looking at maybe say 1% to 2%?

Nihar Chheda: Yes, I think 1% to 2% increase would be viable.

Utkarsh Nopany: We have talked about premiumization in the CPVC portfolio so whether this alliance would help us in further reducing the price gap with major brands for non-CPVC portfolio as well?

Nihar Chheda: Absolutely I think that is something we have been doing for the past one or two years brand monetization in PVC I think the margins speak for themselves, the performance speak for itself and in certain markets for certain applications there is a further gap, which we have identified and over the medium-term this is definitely going to have a ripple effect on the rest of our portfolio and the positioning of Prince in itself needs to change and which will change and we will make a change.

Utkarsh Nopany: A connecting question to this is that like our gross margin stood at 31% in FY2020 so now since we are targeting an increase in CPVC revenue share, which commands much higher gross margin over other polymers and since we are expecting further narrowing of price gaps with major brands for non-CPVC as well as CPVC what kind of a sustainable gross margin we are targeting from FY2022 onwards?

Nihar Chheda: So definitely I think again I will stay away from quantifying, but from a directional thought process there is scope to improve margin not only at EBITDA level but at gross margin level

itself there is a decent gap that we need, that we want to cover and that we will cover but we want the numbers to do the talking and once we deliver the results I think that will be the best guidance or our confidence builder, but if your question is, is there scope for improvement then absolutely is and we are working internally, but we want to be conservative with guidances.

Utkarsh Nopany: So, can we assume that 31% is the base minimum margin, which we can think of blocking and whatever changes we are anticipating our gross margin can improve from that level going forward?

Nihar Chheda: Ideally yes, but given the current business environment the macros are very uncertain and like I mentioned previously as well there is a minimum quarterly sale that we need to do for the operating leverage benefits to kick in so with the given current uncertainty in macros in this fiscal giving margin guidances or a minimum margin is not easy, but from FY2022 I think 30-31% gross margin is a fair guidance.

Utkarsh Nopany: Can you just give us a sense what is your CPVC revenue split by geography wise?

Nihar Chheda: Yes, again I will give you a directional thought process North and West is most of the market followed by South and then East would be last for CPVC.

Utkarsh Nopany: Can you just give some sense that what would be the share of south market in CPVC?

Nihar Chheda: We again do not want to give any numbers, but a qualitative thought process can be given.

Utkarsh Nopany: Thanks a lot. That is, it from my side.

Moderator: Thank you. The next question is from the line of Praveen Sahay from Edelweiss. Please go ahead.

Praveen Sahay: My first question is you have a fixed plan, so do you manufacture, or do you plan to manufacture CPVC from all those six plants?

Nihar Chheda: No, not from all six plants but we definitely want to have a good footprint in each zone and I think Telangana coming in by next year will help us improve our service and our timely supplies to our channel partners and the entire supply chain in the south, we will be manufacturing CPVC in the south, today the CPVC of South India comes from the other facilities, so that not only means higher freight costs but it also means the service levels have a scope for improvement, already we are manufacturing locally CPVC in North and West and South is the last part of the puzzle.

Praveen Sahay: Also, this agreement is along with the Lubrizol for just Gujarat plant or you can also import from them?

- Nihar Chheda:** We are a licensee so there is a flexibility to import if we want to it is up to the licensee's discretion.
- Praveen Sahay:** There is also no geographical restriction as there is another license in the market?
- Nihar Chheda:** No, we are a Pan India player and we are a Pan India licensee.
- Praveen Sahay:** Current volume can you give CPVC volume of the company right now?
- Nihar Chheda:** No, I think as I have stayed away from quantifying that polymer wise breakups, I think you can appreciate the competitive intensity that there is but having said that CPVC is around 20% contribution in value to topline.
- Praveen Sahay:** Is it possible to give any capacity number of Lubrizol plant in Gujarat?
- Nihar Chheda:** Actually I am not sure of those numbers, but I would want to add there that they definitely have given us assurance that there is supply security even if we grow at a very high year-on-year rate we will, there is no uncertainty as far as supply security is concerned for the next few years.
- Praveen Sahay:** Great, thank you Sir and all the best for this project.
- Moderator:** Thank you. The next question is from the line of Arafat Saiyed from Reliance Securities. Please go ahead.
- Arafat Saiyed:** My question is you said that market size of CPVC is close to 4000 Crores so just want to understand in terms of tonnes how much that would be Sir?
- Nihar Chheda:** Should be north of 150 kT.
- Arafat Saiyed:** My second question is let us say the antidumping duty on provision basis has started last year in August in six months it was on a provision basis since February it is not for the next five years, but just want to understand have you approach Lubrizol earlier also in terms of getting tie up or you just started now only?
- Nihar Chheda:** Lubrizol has approached us- it is a onetime thing and we grabbed the opportunity.
- Arafat Saiyed:** Fine Sir, thanks, that is it from my side.
- Moderator:** Thank you. Well ladies and gentlemen that was the last question for today. I would now like to hand the conference over to Mr. Nehal Shah for closing comments.
- Nehal Shah:** Yes, thank you so much for the time. Nihar would you want to add as well?

Nihar Chheda: Yes, just thank you everyone, I think we have seen a good participation today. Thank you to everyone who has attended for your time and your mindshare and thanks Nehal and Jigar for hosting this. Thank you so much.

Moderator: Thank you. On behalf of ICICI Securities Limited we conclude today's conference. Thank you all for joining. You may now disconnect your lines.