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30th July, 2022

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Sub. : Transcript of the earnings conference call for the quarter ended 30th June, 2022

Ref.: Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015


Sirs

Pursuant to Regulations 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, enclose is the transcript of the earnings conference call held for analysts and investors following the announcement of the Unaudited Financial Results for the Quarter ended 30th June, 2022 after the Board Meeting held on Monday, 25th July, 2022.

Please take the same on records

Thanking you,

Yours faithfully,
For The Supreme Industries Ltd.


(R.J. Saboo)
VP (Corporate Affairs) &
Company Secretary



Encl.: a/a.



**“The Supreme Industries Limited
Q1 FY 23 Earnings Conference Call”**

July 25, 2022



MANAGEMENT: **MR. MP TAPARIA - MANAGING DIRECTOR,
THE SUPREME INDUSTRIES LIMITED**
 **MR. PC SOMANI - CFO,
THE SUPREME INDUSTRIES LIMITED**
 **MR. RJ SABOO - VICE PRESIDENT, CORPORATE
AFFAIRS AND COMPANY SECRETARY,
THE SUPREME INDUSTRIES LIMITED**

MODERATOR: **MR. AASIM BHARDE - DAM CAPITAL**

- Moderator:** Ladies and gentlemen, good day, and welcome to the Supreme Industries Q1 FY'23 Earnings Conference Call hosted by DAM Capital. 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 touch-tone phone. Please note that this conference is being recorded.
- I now hand the conference over to Mr. Aasim Bharde from DAM Capital. Thank you, and over to you, sir.
- Aasim Bharde:** Okay. Thanks, Faizan. Good evening, and thanks to everyone who have logged into Supreme Industries Q1 Results Conference Call. Today, we have the senior leadership of the company present to take us through the results and post which we will have a Q&A session.
- I would now turn the call to Mr. Taparia for his opening remarks. Thank you and over to you, sir.
- M. P. Taparia:** Thank you very much, Mr. Bharde. I am MP Taparia, Managing Director of The Supreme Industries Limited. I, along with my colleagues, Shri. PC Somani, CFO; and Shri. RJ Saboo, Vice President, Corporate Affairs and Company Secretary, welcome all the participants who are participating in the discussion of the unaudited standalone and consolidated financial result for the first quarter ended 30 June 2022.
- The standalone results and the consolidated results are already with you. I'll give a brief on company product, operating performance, and other highlights.
- The company sold 108,922 MT of plastic goods and achieved net product turnover of INR 2,169 crore during the first quarter of the current year against sales of 71,264 MT and net product turnover of INR 1,310 crore in the corresponding quarter of previous year, achieving volume and product value growth of about 53% and 66% respectively.
- The high-volume growth was mainly due to lower base of previous year when business was barely effected due to COVID second wave effect. Total consolidated income and operating profit for the first quarter of the current year amounted to INR 2,211 crore and INR 327 crore as compared to INR 1,346 crore and INR 267 crore for the corresponding quarter of the previous year, recording increase of 64% and 22% respectively.
- The consolidated profit before tax and profit after tax for the first quarter of the current year amounted to INR 268 crore and INR 214 crore as compared to INR 213 crore and INR 170 crore for the corresponding quarter of the previous year, recording increase of 26%. The business scenario of all the product segment of the company for the quarter ended 30 June 2022 as compared to the corresponding quarter of previous year has been as under.
- Plastic Piping System business grew 65% in volume and 76% in value term. Packaging Product segment business grew by 12% in volume and 34% in value term. Industrial Products segment business grew by 36% in volume and 52% in value term. Consumer Product segment business grew by 77% in volume and 98% in value term. The overall turnover of value-added product increased to INR 761 crore during the current quarter as compared to INR 516 crore in the corresponding period of previous year, achieving growth of 47%.

The company has cash surplus of INR 533 crore as on 30 June 2022 as against cash surplus of INR 518 crore as on 31 March 2022.

Business outlook. The company continues its objective to aggressively grow Plastic Piping System business. The company is implementing greenfield expansion, launching new applications and system and continue to enlarge its product basket along with brownfield expansion in its existing plants.

New unit at Guwahati (Assam) has commenced commercial production and units at Cuttak & Erode are likely to go in production by September, October 2022. The company has augmented its offering in Plumbing Systems by introducing PEX plain pipe and PEX composite pipe, which are ideal pipe systems to carry hot water. All these initiatives will give required impetus to the division to grow faster and seize the growing business opportunities. The company's Olefin fittings & Electrofusion fittings have received positive response in Nal Se Jal scheme, which government has committed to implement throughout the country by the year 2024.

The business of Cross Laminated Film product is getting impacted by fierce competition from look-alike products. The thrust in the current year will be in promoting non-Tarpaulin applications, targeting new customers in existing markets and making breakthrough in export market where company still has to penetrate. The company plans to launch relative new models and remain focused in the Premium Range of Plastic Furniture, which will help in overall growth in this business segment.

In Industrial Component division, business conditions are showing signs of gradual improvement. Company expect positive demand scenario in sectors of appliances like washing machine, air conditioners, cooler, refrigerator segment where it has good presence. Material handling division has been able to add many new customers all over the country and would strive to continue enlarge its customer base and product portfolio.

In Composite LPG Cylinder division, repeated orders from existing as well as new customers are encouraging. Supplies against the Letter of Intent from Indian Oil Corporation have commenced and existing capacity is running at full capacity. Work on doubling the capacity is progressing smoothly and likely to be operational by November 2022.

In Protective Packaging division, business conditions are improving. It has started doing good business in its consumer products, sports goods, yoga mats, kids puzzle and toys. Good growth is shown in export market as well. The company expects good business for the division and continue to develop various customized solution for the user industry.

Performance Packing Film has done well. Exports have also grown and received good response from countries in Middle East, Africa, and Europe. With improved product mix and focus on increasing customer base, the company would soon have all its capacity fully tied up and will look for expansion opportunities. The company remains optimistic in various business segments where it operates.

The company's envisaged CapEx plan for the year '22 to '23 of about INR 700 crore, including carry forward commitment to INR 280 crore is progressing smoothly and shall be funded entirely from internal accruals.

The prices of different polymers particularly polypropylene (PP), low-density polyethylene (LDPE) and poly vinyl chloride (PVC), have gone down between INR 19 per kilo to INR 46 per kilo since beginning of the year till now date, that is a reduction between 13% to 32%.

Your company in large consumer of PVC resin which has witnessed the sharpest fall since April 2022. This sharp reduction would result in inventory losses. Yet this price fall will boost demand of company products. Company expects business conditions to

improve from September '22 onward and will lead to higher volume growth in Plastic Piping business in the remaining period of the year.

This is a brief and overall summary for the quarter ended under reference. Thank you for your patience.

Now I and my colleagues, Shri. PC Somani and Shri. RJ Saboo are available to reply the various queries read by all of you. Thank you very much.

Moderator: The first question is from the line of Sujit Jain from ASK Investment Managers. Please go ahead.

Sujit Jain: Sir, there is 2 questions on the industry size in FY'22 as we can map it and your market share as we see. And plus your take on the differential between the PVC and CPVC because CPVC has not dropped. Will that impact the demand of CPVC?

M. P. Taparia: No, CPVC, it is used for mostly plumbing application. And for plumbing application, as people require water line, which can carry hot water is a very different market. So it doesn't have much impact on demand. CPVC demand is well maintained.

Even PVC demand has grown very nicely. In the whole country, the demand in the first quarter has gone up by 27% in volume. Our company, the demand has grown up by 55% by volume because we are getting into big segment in agriculture market last year due to COVID in the month of April and May, the agriculture demand got a big bridging. This year agriculture demand was quite okay.

Sujit Jain: And in FY'22, what would be the industry size and your estimated market share?

M. P. Taparia: I told you the industry overall FY'22 is degrowth. The country degrowth, our company also is degrowth.

Sujit Jain: In terms of value, what that market would be in FY'22 and your market share roughly overall in pipes?

M. P. Taparia: I don't recall immediately for me. Overall plastic piping market is around INR 40,000 crore. But in last 2 years, there were tremendous fluctuation in prices. It started going up from INR 70 a kilo to INR 160 per kilo. Now it has come down to INR 94 a kilo. So it is very volatile time more about the quantity.

Sujit Jain: And what is our estimated market share now in the industry?

M. P. Taparia: Market-share?

P. C. Somani: Market share in terms of volume if you talk.

Sujit Jain: Yes, in terms of volume.

P. C. Somani: Yes, the organized sector will be certainly around 15%.

Sujit Jain: Okay. And in terms of new products that you mentioned, the contribution to sales as you see going forward?

P. C. Somani: Share of new product.

M. P. Taparia: No, share of new product, we are launching this year only. Earlier years, I don't have immediate reply to give you, but definitely I can only say that whatever new product will launched in last 4, 5 years. All the product proved a big success.

Sujit Jain: Sure. And one last question is on your interview to one of the channels over the results, you spoke about 15% volume growth. That volume growth you're seeing for pipes or overall company ?

- M. P. Taparia:** As an overall company.
- Sujit Jain:** And for pipes, what is your estimate of growth for FY'23?
- M. P. Taparia:** Pipe, overall, will be higher.
- Moderator:** The next question is from the line of Rahul Agarwal from Incred Capital. Please go ahead.
- Rahul Agarwal:** Just to carry forward the previous participant's question. If I look at what the company sold during April to June 2019, which is I'm taking you back 3 years pre-COVID on a 3-year CAGR basis, we are still lower than what volumes would be at that point of time. And I think some reference to the media interview we're talking about. Overall, I just need some help to understand fiscal '23 volume growth. The pipe should be higher than 15% and overall company should be about 15% Y-o-Y. Is that understanding correct?
- M. P. Taparia:** No, I say 15% volume growth of the company as a whole and pipe will be higher than 15%.
- Rahul Agarwal:** Fiscal '23?
- M. P. Taparia:** I'm talking '22, '23, the current year.
- Rahul Agarwal:** Okay, sir. Got it. Any guidance you would like to give on the EBITDA per ton? Because my sense is you did about INR 25 a kg this quarter, which obviously has some kind of inventory loss built in here. Should we model like INR 20 a kg, what we did in fiscal '20? I mean that's the pricing currently happening? Is that correct?
- M. P. Taparia:** There will be inventory loss in the current quarter also. After 23rd of June up to today, the PVC prices have dropped again by INR 20 a kilo. So when we shared overall price drop by INR 46 a kilo. That is starting from 1st April up to Saturday. And they continue to be drop has happened between 23rd of June to Saturday.
- So there is more inventory loss in the month of July and August. But we believe that now the prices in PVC is close to bottom. So coming from September onwards, the prices may marginally improve also and even demand season starts. So September to March '23, we expect better business.
- Rahul Agarwal:** Got it, sir. Any guidance on EBITDA per kg for the year, '22, '23?
- M. P. Taparia:** EBITDA for the company only I can tell you. EBITDA per kg, we don't predict.
- Rahul Agarwal:** No problem, sir. For the company, what is the guidance?
- M. P. Taparia:** Company, we given guidance around 15%.
- P. C. Somani:** Operating margin.
- M. P. Taparia:** Operating profit margin first quarter was 12.24%. For the full year, we anticipate 15% operating margin.
- Rahul Agarwal:** Got it sir, last question on agri and non-agri sales. Could you help me with the mix like in terms of piping how much is agri pipe mix for this quarter? And the demand was you said it was better than last year, obviously, but overall, did we have destocking issues? And do you think this should turnaround going into the next season? I mean, obviously, that starts fourth quarter of '22, '23.
- M. P. Taparia:** I can say during the month of April, June, the demand for agri market was quite robust. But as we told earlier also, that whatever agri pipe will sell, they necessarily not go to farming area. Many areas for housing also people use agri pipe tubular pipe. So overall, percentage we cannot say. But we can say demand size though it was a

high price compared to 2 years before the demand for agriculture pipe was robust. We just gave you 65% volume growth in this quarter in Plastic Pipe.

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

Achal Lohade: Thank you for the opportunity. Sir, just a clarification. You mentioned 15% volume growth for the company for plastic pipes even higher. So if I do a rough math, what you have done in first quarter this year, it implies a 21% volume growth in rest of the 9 months, Y-o-Y. When you were saying the agri wasn't impacted in fourth quarter and first quarter. So how do we add this up, sir? Do you think the plumbing growth will be so strong or agri growth will drive this kind of a growth?

M. P. Taparia: In the current year, the growth was uniform. The growth was nice in agriculture. Growth was okay in housing. Growth was okay in infrastructure. All the 3 segments have shown positive growth in this quarter.

Achal Lohade: That is on Y-o-Y basis I presume, sir, right?

M. P. Taparia: Y-o-Y. Also for the full year, we anticipate good growth in all the 3 segments.

Achal Lohade: Got it. Sir, if you could give some indication as to what was the inventory loss in first quarter?

M. P. Taparia: We would be able to reply you properly in the month of October. Still we have to suffer inventory loss in this quarter.

Achal Lohade: But there was some inventory loss in first quarter. Have I got that understanding right?

M. P. Taparia: 100%, we're right. When the prices are dropping, there is no way to make loss. That's why you are seeing our margin overall has dropped to 12.24% in first quarter. In spite of 12.24% low margin in the first quarter, we maintained an operating margin of 15%.

Achal Lohade: Understood. Is it possible to give some clarity on the CPVC demand in terms of how was the volume growth for us, what would be our market share? A broad sense would be of great help, sir.

M. P. Taparia: CPVC demand is quite robust. We have increased our market share. We have grown double-digit, and we anticipate to grow double-digit in remaining 3 quarters.

Achal Lohade: Possible to quantify the market share, would we be like 20% of the organized market?

M. P. Taparia: That is classified information, but it is more than 20%.

Achal Lohade: Understood. And if I may ask on the industry, sir, what is the aggregate volume for FY'22 for Plastic Pipes and Fitting?

M. P. Taparia: Growth was 27% first quarter.

Achal Lohade: No, no, sir, FY'22, what was the volume in terms of would that be 2.5 million tons? Would that be 2 million tons?

M. P. Taparia: FY'22 is a degrowth.

Achal Lohade: Correct. If you could help us with the number, sir. Would you have that by any chance?

M. P. Taparia: FY'22 there was a degrowth end of the misleading. The total share was 674,000 ton, which was even 2020, when it was 489,000, but if you compare with years '19, '20, the first quarter, the sale was 900,000 tons. And last year, it was 674,000. So

compared to '19, '20, that degrowth was around 25% compared to '19, '20. 2021 was a disaster with regard on 25th March, the country was closed. So in the year 2021, April, May, June the business was all closed. The demand was very weak. Am I clear?

Moderator: The next question is from the line of Kunal Lakhan from CLSA. Please go ahead.

Kunal Lakhan: Sir, on the margin guidance side, you said that in Q2, you are expecting further inventory losses because in the month of July alone the PVC prices have dropped like 17% odd. But at the same time, you're maintaining 15% guidance for FY'23. So second half, you're building in like margins of upwards of 17% and 18%. Just wanted to understand what will be the drivers of these margins? Are we expecting PVC prices to bounce back to INR 130, INR 140 levels or what are the quarter going?

M. P. Taparia: Yes. Not only in PVC Pipe business dear friend. We are in eight segment of business. And this season period of all those segments. And the polymer prices have not followed only in PVC, they followed in PP and they will follow in polyethylene. They will follow in polystyrene. So in certain products, we'll be able to improve our operating margin. It's a business optimism, but business forecast, we are making you, would not only Plastic Piping business, any forecast will be made for the company.

Kunal Lakhan: No, I get it. But your Plastic Piping products contribute the bulk of your top line and EBITDA.

M. P. Taparia: 12.25% is too low.

Kunal Lakhan: Sure, sure. Secondly, just wanted to understand on the volume growth side also, on the 15% volume growth you expect agri, housing and industrials to continue to grow in the rest of the year as well. I mean just wanted to understand what is the cause of this optimism because we've seen subdued growth in the last 3, 4 years. So the sudden pickup in the optimism, just wanted to understand?

M. P. Taparia: Now the COVID is behind, I don't think COVID is that much little and the CapEx cycle started. Exports are better. The monsoon is better, the food grain sowing is going in a big way. We anticipate that the inflation has now peaked out. The inflation is only going to come down going forward. So there is no reason to be pessimist for anything. Economy is in fine shape. The PVC economy is in fine shape. So demand will be better from our segments.

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

Bhargav Buddhadev: Sir, my first question is on the Cross Laminated Film business. Is it possible to quantify how has this business done? And what are we doing to get our margins back on track?

M. P. Taparia: We will be getting our margins back by increasing business of value-added product and by initiating business in export market. We are pleased to share with you that we have added 3 more countries in this year, first quarter. We are putting more resources to reach more countries in the world market. Today, the company is reaching in 28 countries in the world.

Even in Latin America, goods are going. Europe, we are exporting. So many countries, we are exporting. And we want to increase more and more share of business coming from export market. And export, we sell mostly non-Tarpaulin product where we get better margin. Being very labor-intensive product, specialized product for the special segments. And we are seeing every month improved business in those segments.

Our metal business is also growing very nicely. And we are increasing the range of metal business. And though we told that look-alike product is cutting competition, but we are hearing many failure report of look-alike product. We remain more optimistic of our Cross Laminated Film business going forward.

- Bhargav Buddhadev:** So sir, how big would be the exports now for us in this product? And what kind of margins would we making in the export business?
- M. P. Taparia:** Volume, we can talk only when we close the year. But it is definitely far better than last year.
- Bhargav Buddhadev:** But sir, on export revenue, any quantification this quarter, how the has been exports? What is the amount of exports?
- M. P. Taparia:** Revenue, we can check and inform. I don't have number immediately with me at what is the value of export, what we made. Sorry, I don't have immediately with me. But volume we are sure and we are getting better price.
- Bhargav Buddhadev:** Sure. Sir, secondly, in terms of the pipe business, how is the channel inventory? Would it be fair to say it's at all-time low levels?
- M. P. Taparia:** Yes, perhaps it is very low level. Channel inventory in piping is quite low. With continuous prices falling they are very scared. So I think they are completely hand to mouth or many items they stroke out. So when the trend changes, they will get tremendous share of order with our pipe company, and we'll be well placed. By that time, we'll be starting with 3 new locations. What we started as 2 locations, we start in September, October with more volume available and we can service customers further better.
- Bhargav Buddhadev:** And sir, my last question is how are the margins in your Composite Cylinder business when we get to full utilization?
- M. P. Taparia:** Composite Cylinder made very good money last month and are running the plant fully. And by November this year, we will be leasing capacity of 1 million pieces per year. That should improve margins further starting from January, February, March. December, January, February, March, we expect margins to further improve.
- Bhargav Buddhadev:** And is this a value-added product for us?
- M. P. Taparia:** Yes, it is value-added product.
- Moderator:** The next question is from the line of Sailesh Raja from B&K Securities. Please go ahead.
- Sailesh Raja:** My questions are pertaining to Supreme Petrochem. Sir actually our polystyrene capacity production in FY'20 was closer to 5.5 lakh tons. So due to now euro and U.S. sanction against Russia. So what is the expected export opportunity for Supreme Petro? And also with the widening demand and supply, sir, how fast we can fill the new polystyrene and EPS capacity, sir, which is going to commission from September month.
- M. P. Taparia:** The new plant of 80,000 tons will be in operation from September, 1.5 tons from today. So up to June, we were not able to meet the domestic demand. In July is a safe season. So demand definitely, we started now exporting back. We may be exporting first 5,000 ton monthly. We are already present in more than 100 countries. That is very well accepted, and we are in good demand in export market.
- Sailesh Raja:** Okay. So how fast we can fill this capacity sir, new capacity?
- M. P. Taparia:** New capacity, may not be able to sell completely domestically. So whatever we cannot sell domestically, we'll put in export market.
- Sailesh Raja:** Sir, we can fill in 2 years sir? We can fill the capacity in 2 years?
- M. P. Taparia:** We should not take 2 years. It depend how the economy moves on the consumer appliance side. Our majority goods go to consumer appliance. With inflation getting

peaked out with good monsoon, we believe the demand should be better from the festive season, will start from September.

- Sailesh Raja:** Okay, sir. Sir, my second question is due to this global demand-supply mismatch, is it possible for Supreme Petro to have a mix of both fixed pricing contract and spot contract with customers so as to reduce the volatility in the business, sir?
- M. P. Taparia:** We are very alert how to procure our raw material. The complete take of the global situation, they are very large customer to buy our raw material. We get the best possible terms.
- Sailesh Raja:** Okay. Sir, last year we did sales volume of INR 2.73 lakhs. So what was the volume in 1Q? And what is the expected volume growth this year in FY'23?
- M. P. Taparia:** In the first quarter?
- Sailesh Raja:** Yes, sir.
- M. P. Taparia:** We showed polystyrene overall volume may be. I don't have immediate number with me. As I told you we sold out the plant fully.
- Sailesh Raja:** Okay, okay, sir. And one last question, sir. Can you share how is the current spread for the company?
- M. P. Taparia:** Overall in the first quarter, we sold 70,480 tons. Overall, we sold 70,480, all the polystyrene and specialty polystyrene compound and expanded polystyrene combined, we sold 70,500 tons.
- Sailesh Raja:** Okay. This is including XPS sir?
- M. P. Taparia:** Including XPS and including EPS.
- Sailesh Raja:** Okay, okay. So one last question, how is the current spread, sir, for the company?
- M. P. Taparia:** Current?
- Sailesh Raja:** Current spread, sir.
- M. P. Taparia:** I'm not clear what you are asking. Current what?
- Sailesh Raja:** No, current spread, styrene monomer and polystyrene spread?
- M. P. Taparia:** Current trend starting prices have gone down a little bit so we also dropped price of polystyrene. All the polymer prices are dropping. So polystyrene is one of the polymer only. The prices are dropping and styrene raw material price is also dropping.
- Moderator:** We'll move on to the next question from the line of Ritesh Shah from Investec.
- Ritesh Shah:** Sir, couple of questions. One is, where do we source our PVC and CPVC resin from? And what is the sort of inventory days that we usually maintain? That's the first question.
- M. P. Taparia:** The PVC, we source from local producer that is Reliance Industry in chem plast. And we also import from main countries of the world. So we source locally and internationally. CPVC was sourced from Kaneka and many other suppliers.
- Ritesh Shah:** And sir inventory days that we usually maintain?
- M. P. Taparia:** Inventory days, this year our inventory is low.
- Ritesh Shah:** Inventory days?

- M. P. Taparia:** Inventory days, we have to maintain to run our plant fully. Not to demand is there, we are obliged to keep the goods available to meet the demand. We got 9,000 SKUs. So inventory would be always there in the company. Inventory is there of raw material; inventory is there of finished goods.
- Ritesh Shah:** Right. Sir, inventory days, maybe will it be upwards of 2 months for PVC, CPVC or would it be lower, sir?
- P. C. Somani:** 30 to 45 days, depending upon the season and the time, it will be between 30 to 45 days, both put together.
- Ritesh Shah:** Okay. That's helpful. Sir, second question is on new product launches. Just saw the presentation. Can you give some color on Electrofusion Fittings, PP Compression Fittings and AQUAKRAFT Bath Fittings, what sort of opportunity do we see over here?
- M. P. Taparia:** Our bath fitting was very well accepted. We anticipate 100% growth in business in this year. Our Electrofusion fitting and compression molded switching has been very well accepted for Nal Se Jal scheme. We are selling every month, good quantity. We are increasing the range also. Our unit will start production very shortly in Guwahati in the month of August. Our conduit electrical system with pipe and fittings will be in operation from November this year. Industrial Valve will be also in operation by November this year. We are introducing 5 new system and 2 have already gone into production. The rest will go in next 3, 4 months. Our Electrofusion fittings and Olefin fittings are already in the market. So the all the systems starting from now up to November will be in the market. And bath fittings, what I told it is very well accepted now and this year, we anticipate 100% growth in business compared to last year.
- Ritesh Shah:** Sir, this is very useful, if I may, I have a follow-up question. Sir, what is the size of opportunity that we are targeting for, say, industrial walls or Electrofusion fittings or conduits that you indicated?
- M. P. Taparia:** I can already say, this all will be value-added product.
- Ritesh Shah:** Okay. Sir, can this be INR 100 crore plus segment?
- M. P. Taparia:** Markets size very difficult to calculate. But what will be the market size, we will go on building capacity to build the demand.
- Ritesh Shah:** Right. Sir, if I put it the other way, can either of these variables or new products. Can they be INR 100 crore plus in 2 years?
- M. P. Taparia:** INR 100 crore plus will be there in most of the product even in 1 year after they go into production. After they go into production, INR 100 crore will be the business from each of the segment in 1 year.
- Moderator:** The next question is from the line of Venkatesh Balasubramanian from Axis Capital. Please go ahead.
- Venkatesh Balasubramanian:** If I go back to the inventory loss issue you mentioned that if you didn't have inventory losses in the first quarter, your margins would have been 15%. Is it correct?
- M. P. Taparia:** I don't know, but inventory loss in the first quarter, inventory loss will be there in second quarter also.
- Venkatesh Balasubramanian:** No. But what I don't understand is why you don't even know how much of the inventory loss. Otherwise, how are you making the accounts?
- M. P. Taparia:** If there was no inventory loss, the margin would be better than 12%.
- Venkatesh Balasubramanian:** Okay. Now at a different level, when you are pricing products across various plastic products, which you make pipes and everything else, how do you actually think about pricing? Let's say, your raw material, is it like you think that I need to make a certain

- margin on these products and you price? Or is it like you think that if my cost is x, I need to make INR 10 or INR 15 per kg more? How do you think about pricing?
- M. P. Taparia:** Different products, different pricing policy.
- Venkatesh Balasubramanian:** Yes, okay. How do you think about it in the piping side?
- M. P. Taparia:** Piping side, the prices are dropped next day.
- Venkatesh Balasubramanian:** Okay. So that means that you're thinking of it in terms of per kg only, am I correct, sir?
- M. P. Taparia:** We've got many, many years of calculation. So what is the method of calculation that is our own classified information, we drop it next day.
- Venkatesh Balasubramanian:** Okay. No one of the questions which was asked by one of the earlier participants, again it was on EBITDA per kg. I mean I know you said you don't track it that way, but just to highlight in FY'20, your EBITDA per kg was around INR 20 per kg for the last 4 or 5 years. So it was largely constant. It was INR 19, INR 21 like that on an average INR 20 till FY'20. This jumped to INR 31.
- M. P. Taparia:** Correct. I don't see it was constant. In last 2 years, there was inflated profit due to inventory gain. The prices are going up. So we had much more profit in the year '20, '21 and '21, '22.
- Venkatesh Balasubramanian:** Are we over longer term, not longer term over the next couple of years, one, as you said, PVC prices are close to the bottom. So by second quarter, most of the inventory losses would have gone. On a steady state basis, do you think that EBITDA per kg will go back to INR 20 per kg?
- M. P. Taparia:** We have not yet EBITDA per kg. So I can't comment on EBITDA per kg.
- Venkatesh Balasubramanian:** Okay. The other question is on Supreme Petrochem. I think from 1st July of the current year, there is a ban on single-use plastics and quite a lot of products are made of polystyrene in the single-use plastics. So do you think that whatever EBITDA margins you had FY'21 of 21% and FY'20 to 18% in the first quarter also EBITDA margins was on the higher side in Supreme Petrochem, which is almost 17%. Do you think this can actually correct sharply? Or is it like you can hold this 16%, 17% margin in Supreme Petrochem.
- M. P. Taparia:** What do you do with single-use plastic because single-use plastic is very small percentage of our sale, the margin was better due to higher freight rate for goods coming to India. Now the freight rates have started dropping. So definitely, the margin will sink now.
- Moderator:** The next question is from the line of Jiten Doshi from Enam Asset Management. Please go ahead.
- Jiten Doshi:** I had just 2 questions. One was on the CapEx. You're incurring a very strong CapEx of INR 700 crore as you have indicated in your presentation this year. Would this be a recurring feature? That means can we expect every year, you will be spending about INR 700 crore going forward?
- M. P. Taparia:** Depend. But this year, we committed to you earlier in our AGM also that we may spend INR 300 crore plus every year next 2 years also on Piping System. So this year there was an additional investment of INR 50 crore on Plumbing on the composition cylinder, which may not be required next year.
- Jiten Doshi:** Right. So I can assume that against INR 700 crore, you are saying INR 300 crore to INR 350 next year onwards?
- M. P. Taparia:** Next year onwards, I'll say Piping definitely, we'll invest.

- Jiten Doshi:** And overall for the company?
- M. P. Taparia:** Overall, also for the company, maybe it may be not less than INR 500 crore.
- Jiten Doshi:** Okay. All right. And Taparia ji, you mentioned that there was a destocking. So you expect restocking to happen in Q3 or it will happen continuously between Q3 and Q4?
- M. P. Taparia:** Destocking last year or this year?
- Jiten Doshi:** No, this year, whatever destocking that has taken place, would you see restocking happening in quarter 3 or quarter 4?
- M. P. Taparia:** No, destocking happened in first quarter. Restocking will happen immediately when the price goes up. We believe the drop will be complete by end of August. So restocking may start from September only.
- Jiten Doshi:** Okay. So how many tons do you believe is in the restocking? You would be able to sell, what, 30,000, 40,000 tons additional?
- M. P. Taparia:** It depends. We sold in the month of March, 41,000 MT.
- Jiten Doshi:** Okay. So the restocking could be in that range?
- M. P. Taparia:** It depends. I can't predict, but I give you a past example in the month of March 2022, company sold 41,000 Plastic Piping System.
- Jiten Doshi:** Okay. So you believe that sort of growth once things stabilize, we can go back to that sort of a growth trajectory?
- M. P. Taparia:** I'm not committing 41,000. We are committing, we will have growth of more than 15% by volume in Plastic Piping System.
- Jiten Doshi:** Okay. And sir, how are you looking at competitive pressures? How are you looking at competition in terms of pricing, new product innovations, et cetera? How are you looking at competition right now?
- M. P. Taparia:** India is big market; we are enjoying the best position. We were the largest range. We've a very strong distributor network. We still need to reach many, many parts of the country.
- Jiten Doshi:** So in your view, sir, long-term sustainable growth should be between 15% and 20% volume-wise?
- M. P. Taparia:** Volume-wise, I can't commit 15%, but 10%, yes, we can commit.
- PC Somani:** 10% to 12%, normal volume.
- M. P. Taparia:** 10% to 12%, this year because the previous year was very weak. But going forward, we definitely anticipate volume growth between 10% to 12% in our Plastic Piping System.
- Moderator:** The next question is from the line of Sujit Jain from ASK Investment Managers. Please go ahead.
- Sujit Jain:** Sir, just to the previous question, you rightly explained how the operating profit per ton jumped in FY'21 and '22. Does that eventually revert back to the mean of close to INR 20 a kg as the prices stabilize?
- M. P. Taparia:** We have no idea. So how can I give any number. If we don't know, we can't give any numbers. But we got 9,000 SKUs, each SKU got separate buffer per kilo, what proportion each SKU will sell very difficult to forecast.

- Sujit Jain:** Now that value added is going up for Supreme, the operating profit per ton structurally gets elevated?
- M. P. Taparia:** Value added growing up not only in Plastic Piping. As already we've told that Composite Cylinder 100% value added. In our Cross Laminated Films major portion is value added, which segment will grow, but we can't say. Overall, value-added product business will grow in the first quarter April-June. We had an overall growth of value-added items from INR 515 crore to INR 760 crore and April-June also. And April-June, it was a very poor quarter, even then we had a value growth of INR 515 crore to INR 760 crore. So the value-added product growth will continue.
- Sujit Jain:** Surely. And is it safe to assume that we would have had an inventory loss of close to INR 55 crore, INR 60 crore in Q1 FY'23?
- M. P. Taparia:** I can't put the number as I told you. We will try to calculate properly in the month of October, but inventory loss is obvious. When the prices are dropping such a severe drop and we say, we don't lose money than we are misleading. When we told you earlier that we keep around 45-day inventory to maintain our supply chain. Then we are supposed to suffer inventory loss and which we hope to recover also going forward. We have seen the cycle in polymer pricing. This is nothing new for us. It goes down also, when it goes too much down, also it starts going up.
- Sujit Jain:** Right. And just to get this right, you said the restocking will start happening from Q3 onwards, that is September, October onwards?
- M. P. Taparia:** In Q2 only.
- Sujit Jain:** End of Q2, you said, right?
- M. P. Taparia:** I said end of this quarter. We believe from September, they'll be restocking.
- Sujit Jain:** Right. So even Q2 the industry faces prospects of inventory losses?
- M. P. Taparia:** There will be inventory loss in this quarter.
- Sujit Jain:** Right. So Q1, Q2 inventory losses, yet you say for the full year, 15% operating profit margin is possible, so which means H2 margin would be really strong.
- M. P. Taparia:** Little bit lower. Normally, now a days we are getting around 17%. Normally, we aim to get 17% operating margin when we say 15%, means we are going to allude margin by 200 basis points.
- Sujit Jain:** Sure. I get that. But if you aim to earn 17% profit margin, then what is your definition of value-added products now?
- M. P. Taparia:** Value-added product is only where we earn 17%. So whatever product we earn 17%, we count as value-added.
- Sujit Jain:** But just now you said is that nowadays you aim for 17% margin from the full company.
- M. P. Taparia:** We aim to get 17% operating margin. Normally, we don't get, we may get around 16% to 16.5%.
- Sujit Jain:** Right. And sir, one last question. What was the size in terms of the volumes for the entire industry FY'23?
- M. P. Taparia:** Overall industry volume?
- Sujit Jain:** Overall industry volume in your estimate, piping industry for FY'22.

- M. P. Taparia:** No, I don't tell the numbers. I can't share. The numbers are normal, but overall, the market was weak last year for the whole country. We had a degrowth of around 5% to 6% by volume.
- Moderator:** The next question is from the line of Vipul Kumar Anopchand Shah from Sumangal Investment. Please go ahead.
- Vipul Kumar:** Just a clarification, this Guwahati plant is for Plastic Piping or it is electrical conduit?
- M. P. Taparia:** It will make electric conduit also. On the same you can make electrical conduit.
- Vipul Kumar:** So it will have a flexibility to manufacture both plastic pipe as well as electrical conduit depending on the demand?
- Vipul Kumar:** Electrical conduit is also plastic pipe only. PVC pipe only. In Guwahati, we will be making PVC pipe and polyethylene pipe, both. And we are going to make all. We are going to make Roto molded tank. We are going to make blow-molded tank. We're making 5 variety new products there.
- Vipul Kumar:** So all can be manufactured on one line or?
- M. P. Taparia:** There are several lines. It's a big plant you see. We are not putting factory for one machine.
- Moderator:** The next question is from the line of Akhil Parekh from Centrum Broking. Please go ahead.
- Akhil Parekh:** My first question is on the PVC prices. So the decline in the prices, is it largely because of the increasing contribution from the Chinese inputs?
- M. P. Taparia:** Principally because the prices went sky high. So demand started shrinking and new capacity also came up. The freight rates started coming down from the peak level. I'll give you an example, the freight from China to India went up from \$60 to \$210. Now they have come down to \$130. All total combined together, along with the interior going up, Chinese economy going slow due to COVID restriction. So China, grew surplus. China incidentally produced 50% of world PVC resin. Out of 45 million ton, 22-million-ton PVC resin produced in China. If China has got low demand, their export increased to 250,000 ton monthly. So India was getting big share, around 80,000 to 90,000 tons per month, and they were dropping price every weekly. Along with China, Southeast Asia, Japan, they all started dropping the price.
- Akhil Parekh:** Okay. Would it be fair to say that Chinese imports would be the largest contributor to us in terms of PVC imports?
- M. P. Taparia:** In the country, largest share is of China.
- Akhil Parekh:** Okay. And during pre-pandemic time, was it Taiwan and South Korea?
- M. P. Taparia:** During pre-pandemic days, there was anti-dumping duty in China. Anti-dumping duty of 5-year period got over in 2nd of February this year. So once anti-dumping was removed, then China became competitive to participate in the Indian market.
- Akhil Parekh:** Got it, sir. The second question is on the CPVC prices. You mentioned for PVC, we are at INR 95 per kg. Would you be able to highlight what are the current CPVC prices? And what is the differentiate between CPVC?
- M. P. Taparia:** CPVC price is at higher level. They are of \$2,200 to \$2,300 per ton. They're not made in India. They are imported. This is a dollar price; I can tell you that calculation depends on the rupee-dollar rate.
- Akhil Parekh:** Got it. But has the differential widened significantly in the last 2 years between PVC and CPVC because the commentary, which we used to hear that PVC and CPVC prices are more or less same in say FY'19 and '20 but has more than?

- M. P. Taparia:** That is accidentally last year only. PVC price is always very low compared to CPVC.
- Akhil Parekh:** Okay. Got it, sir. And my final question is on the counterfeit products in the Cross Laminated sales, and we keep hearing from the channel partners or our market service that the unbranded players are kind of undercutting us on the prices and the quality, but this issue has been there for the last 3, 4 years, especially once we lost the patent expired for us, basically the exclusive license.
- M. P. Taparia:** I think many players have lost money. They are giving very poor quality, they got very bad name, many players out of them. We believe their business is shrinking. And even, they are no competition to us. They sell on a kilo basis. We sell on square foot basis. So their pricing, our pricing very different.
- Akhil Parekh:** Correct. But are there any steps we're taking to basically kind of correct the situation?
- M. P. Taparia:** The product doesn't last. So consumer decides what product to buy. Silpaulin is best non-brand in the country for tarpaulin. We are very proud of our product. Our quality is the best, second to none in the country.
- Akhil Parekh:** Got it. Sir, and the market size will be INR 500 crore to INR 600 crore the Cross Laminated Film business?
- M. P. Taparia:** Market share of tarpaulin market is a huge market, where people generally use very low-quality product. We sell for special applications. No, market is not applicable to this business. We sell for various application where there is no alternate film available. Ours is the best film product particularly application in the country.
- Moderator:** The next question is from the line of Vipul Kumar Anopchand Shah from Sumangal Investment. Please go ahead.
- Vipul Kumar:** Sir, just curious to know why we are not going for backward integration. I mean, in manufacturing of PVC resins?
- M. P. Taparia:** PVC resin we require very low-cost energy. So even Reliance company, they started for backward integration, a big plant in Abu Dhabi to make the raw material there, EDC. And then they're importing EDC from Abu Dhabi to India. So physical stock is a big issue.
- Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand the conference over to the management for closing comments.
- M. P. Taparia:** Thank you very much for all very intelligent questions. And myself and my colleague, Shri. Somani ji and Shri. Saboo are very thankful to the various questions raised by all our investor friends. We thank them all very much.
- P. C. Somani:** Thank you, everyone.
- Rajendra Saboo:** Thank you, everyone.
- M. P. Taparia:** Thank you.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of DAM Capital, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.