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* Mahaveer Prasad S. Taparia

* P. C. Somani

Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy

Ladies and gentlemen, good day, and welcome to The Supreme Industries Limited Q2 FY '19 Earnings Conference Call hosted by Axis Capital Limited. (Operator Instructions) Please note that this conference is being recorded.

I now hand the conference over to Mr. Kashyap Pujara from Axis Capital. And over to you, sir.

Kashyap Pujara, Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy [2]

Good evening, everyone, and thank you so much for standing by. It's a great pleasure to have with us the management of Supreme Industries for Q2 FY '19 conference call. From the management side, we are represented by Sri Taparia-ji, Managing Director; Mr. P.C. Somani, the CFO; and Mr. R.J. Saboo, the Company Secretary.

Without taking too much time, I hand over the floor to Taparia-ji. Over to you, sir.

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [3]

Thank you, Pujara. I'm M.P. Taparia, Managing Director of the Supreme Industries Limited. I welcome all the participants who are participating in the discussion of the unaudited stand-alone and consolidated financial results for the quarter and half year ended 30th September 2018. The stand-alone and the consolidated results are already with you. I'll be brief on company's product, operating performance and other highlights.

The company has sold 83,175 tons of Plastic goods and achieved net product turnover of INR 1,228 crores during the second quarter of the current year against sales of 79,029 tons and net product turnover of INR 1,044 crores in the corresponding quarter of the previous year, resulting in volume growth of around 5% and product value growth of 18%, respectively. The company sold 183,080 tons of Plastic goods and achieved net product turnover of INR 2,544 crores during the first half of the current year against sales of 171,225 tons and net product turnover of INR 2,171 crores in the corresponding half year of previous year, achieving volume and product value growth of around 7% and 17%, respectively.

Total consolidated income and operating profit excluding taxes on business for the second quarter of the current year amounted to INR 1,241 crores and INR 167 crores as compared to INR 1,055 crores and INR 155 crores for the corresponding quarter of the previous year, recording an increase of about 18% and 8%, respectively. Total consolidated income and operating profit excluding taxes on business for the half year of the current year amounted to INR 2,587 crores and INR 360 crores as compared to INR 2,217 crores and INR 317 crores for the corresponding period of the previous year, recording increase of about 17% and 14%, respectively.

The total net profit before tax and profit after tax excluding exceptional items and taxes on business for the second quarter of the current year amounted to INR 110 crores and INR 73 crores and compared to INR 107 crores and INR 71 for the corresponding quarter of the previous year, recording an increase of 3%. The consolidated profit before tax and profit after tax excluding exceptional item and taxes on business for the half year and current year amounted to INR 255 crores and INR 170 crores as compared to INR 226 crores and INR 149 crores for the corresponding period the previous year, recording increase of about 13% and 14%, respectively.

During the second quarter of the current year, company realized INR 80.85 crores from sale of 38,718 square feet of office premises. After allocating proportionate costs and overhead, profit before tax accrued INR 53.10 crores and profit after tax, INR 34.60 crores. The Board of Directors has considered the payment of interim dividend for the financial year 2018,'19 at 200%, that is INR 4 per share of INR 2 each and will be paid to the shareholders on the shares held as of the record date 26th November 2018.

Let me give you a scenario of all the product segment of the company for the current quarter ended 30th September 2018 as compared to corresponding period in the previous year. Plastic Pipe business grew by 7% in volume and 20% in value terms. Packaging Products segment business grew by 3% in volume and 4% in value terms. Industrial Products segment business grew by 8% in volume and 37% in value terms. The Consumer Products segment business decreased by 2% in volume and grew by 12% in value terms. The share -- overall share of value-added product had been 35% of the total share in the second quarter ended 30th September 2018 as against 37% in the corresponding quarter of the previous year.

The total borrowings of the company stands at INR 259 crores as of 30th September 2018 as against INR 248 crores as of 31st March 2018. Overall net borrowing level during the second quarter and the half year ended 30th September 2018 was INR 231 crores and INR 223 crores, respectively, as against INR 336 crores during the previous year ended 31st March 2018. Average cost of borrowing as of 30th September 2018 is 7.07% per annum vis-à-vis 7.12% as of 31st March 2018.

With the start-up of new greenfield petrochemical plant and capacity expansion of existing plant, we have boosted supply of plastic raw material. The international polymer pressure have downward bias going forward for this financial year. Thus, the polymer price will remain affordable for the year. The demand for plastic product remain positive with the higher growth potential going forward. The company remains fully committed to its investment plan as announced in beginning of the year.

New plant to manufacture industrial components at Gilothe in Rajasthan has commenced commercial production during September this year. Capacity of rotomolded product at Malanpur Unit III and at Kanpur has become operational. Expanded capacity of both the plants are 2,400 tons annum. The new plant to make high-density polyethylene pipe of 9,000 tons per annum capacity in Malanpur Unit III has commenced trial production. New plant to manufacture polypropylene corrugated sheet with a capacity of 3,600 tons per annum had been commissioned at Derabassi Unit in Punjab.

The construction work is going at full speed at Jadcherla in Telangana. The production of furniture and rotomolded product at that unit will go in production during October-December quarter. The production of foam product at that site will start in January-March 2019 quarter.

The Hosur unit will be streamlined with increased capacity at one site instead of 2 sites in October-December quarter. The Khopoli unit expanded capacity will be in production during January-March 2019 quarter. The company has made a breakthrough in export of composite cylinders in one more country apart from Bangladesh and South Korea.

This is a brief and overall summary of the quarter just finished. Thank you for your patience

Now I and my colleague, Mr. P.C Somani, CFO, assisted by Mr. Saboo, are available to reply to various queries raised by all of you. Thank you very much.

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Questions and Answers

Operator [1]

(Operator Instructions) We have the first question from the line of Sriram Rajaram from Sundaram Mutual Fund .

Sriram Rajaram, [2]

So if I look at the other plastic revenue, does -- the INR 81 crores for this quarter, that was INR 7 crores for Q1. So could you just give -- explain to us what impact other plastic -- what and why is there a marked difference in terms of revenue reported? Even if I look at your Q3, Q4 number, there has been a sharp increase, decrease so -- because of which, my -- the EBITDA that has been reported and the EBITDA that has been -- the product-wise EBITDA, there has been a difference. I think that is due to only the other plastic. So if you could just give the operating margin for the other plastic business also, it could be helpful.

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [3]

Yes. If you look at the press release or the (inaudible), the impact for that has been shared in the prepared speech also. We have sold our Andheri premises, which is part of the (inaudible) -- or part of construction business, and there's a revenue of INR 80.85 crores during this quarter. So 38,718 square feet we have sold in this quarter. [After allocating costs and overhead], we have generated INR 53 crores of EBITDA and INR 34.60 crores profit after tax.

Operator [4]

The next question is from the line of Umesh Patel from TCG Asset Management.

Umesh Patel, [5]

Can you give me EBITDA margin across segments sequentially and this quarter?

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [6]

(inaudible)

P. C. Somani, The Supreme Industries Limited - CFO [7]

Yes.

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [8]

Segment margin across the segment for this quarter, Plastic Piping is 13%. For Packaging Products, it is 15.7%. Industrial business was 10.33%.

Umesh Patel, [9]

10.3?

P. C. Somani, The Supreme Industries Limited - CFO [10]

11 point...

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [11]

Sorry, 11.1%. And for consumer, it is 16.45%.

Umesh Patel, [12]

Okay. And what was it in last quarter, quarter 1?

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [13]

You are talking quarter to -- corresponding quarter or ...

Umesh Patel, [14]

First quarter of this year, first quarter of this year.

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [15]

First quarter this year?

Umesh Patel, [16]

Yes.

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [17]

Yes. First quarter for Plastics Piping, 13.08%. For packaging, it was -- sorry, this half year. First quarter was -- Plastic Piping was 12.27%. For packaging, it was 16.93%. For industrial, it was 13%. And sorry -- I'm sorry, I gave you corresponding quarter of first year -- previous year.

Umesh Patel, [18]

No, I needed for the quarter 1 FY '19, I mean.

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [19]

Quarter 1 FY '19?

Umesh Patel, [20]

Yes.

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [21]

Next question. We'll come back to you.

Umesh Patel, [22]

Yes, sure. Second question was related to volume. If I look at the past 6 to 7 quarters, volume growth this quarter was subdued. What was the reason? (inaudible) the realization was significantly higher in few of the segments, particularly plastic and industrial. You managed -- I mean, lower volume growth and EBITDA margin was -- I mean, was the increase then because of the inventory gain of that 113 If I added that 113, what was the core EBITDA margin that we reported?

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [23]

What inventory -- there's no inventory gain. Which inventory gain?

Umesh Patel, [24]

Inventory increase.

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [25]

Sorry?

Umesh Patel, [26]

Change in inventory.

P. C. Somani, The Supreme Industries Limited - CFO [27]

Inventory of what?

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [28]

No, there is no inventory gain in the company this quarter -- through the half year. But (inaudible), our focus remains to increase the sale of -- not much focused on the sale of plastic pipe, where the margins are lower. So we are not changing the volume. We are changing our value and our operating margin -- and ROIC; most importantly, ROIC. Our ROIC last year was at 34.7% at the company, and this year, we are trying how to improve ROIC against last year. And value-wise, definitely, we are quite happy that we have grown by 17%. And we are still -- this year, we've maintained the growth. (inaudible) it may grow between INR 5,700 crores to INR 5,900 crores, again no change in volume.

Umesh Patel, [29]

Okay. So that translates into what percentage of volume growth, 8% to 10% (inaudible)?

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [30]

We are now believing that it can be 10% volume growth. We are currently 7%. For the full year, we expect 10%.

Umesh Patel, [31]

And because of the recent raw price decline, I mean PVC pricing has also declined. That will basically...

P. C. Somani, The Supreme Industries Limited - CFO [32]

PVC prices, olefin prices, [BP] price all have declined. (inaudible) gets iron out.

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [33]

Q1 operating margin, the Plastic Piping was 13.15%. Packaging Products was 17.75%. Industrial Products was 11.6%. Consumer was 15.35%.

Umesh Patel, [34]

15 point?

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [35]

3-5.

Operator [36]

Next question is from the line of Abhishek Ghosh from DSP Mutual Fund.

Abhishek Ghosh, [37]

So just wanted to understand about packaging segment, wherein we have kind of seen somewhat of a volume decline and also some pressure on margins. If you could just help us what happened there

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [38]

In packaging, in our Cross-Laminated Film business, there was a demand destruction in this quarter, in July-September quarter. Last year, in July-September, we introduced -- offered a scheme and this year, we started very slow because we wanted to start off things in a big way in October-December. That was the principal reason for the volume to grow. And also in our packaging film business, there are some plants shut down due to some big maintenance. That's why the volume has gone down. And for the full year, there will be volume growth in industrial packaging film and volume growth in our Cross-Laminated Film also. So for the year, there will be no problem.

Abhishek Ghosh, [39]

Okay. So the -- sir, what I'm really coming from is, what will happen -- the volume decline is largely specific to our company and not heightened competitive intensity and we will cover it up in the second half of FY '19.

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [40]

Competitive intensity had definitely reduced our operating margin in Cross-Laminated Film business, but volume will not destroy it.

Abhishek Ghosh, [41]

Okay. Is there also some amount of cost pressure that we are seeing in the packaging division, sir, because I can now see your realizations have gone up on a quarter-on-quarter basis, but your EBITDA has come down. So is there a cost pressure also there, sitting there?

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [42]

Possibly. We need to reduce our operating margin in Cross-Laminated Film, which was bigger data. And that was our monopoly and then so many competition came. So to maintain the product volume, we had to reduce our margins.

Abhishek Ghosh, [43]

Okay. And you expect it to remain at this level in second half of FY '19 also?

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [44]

No, depend on -- Protective Packaging product may do better. So overall -- given our operating margin, overall maybe better.

Abhishek Ghosh, [45]

Okay. Okay. And sir, if you could just take us to your CapEx plans in terms of for FY '19, what is the number that we are looking at?

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [46]

We had opening -- on 1st April 2018, opening commitment of INR 218 crores, which we committed last year to be invested in this year. In the current year, in first 6 months, we've already committed INR 208 crores. We know that all the investment may not come on ground in this year. Our original plan to invest between INR 350 crores to INR 400 crores remains intact.

Unidentified Analyst, [47]

INR 350 crores to INR 400 crores?

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [48]

Yes.

Abhishek Ghosh, [49]

Okay. Okay. That's helpful. And just coming to the last thing, in terms of the pipe segment, so as we are looking at more of value-added products, so how do you see in terms of the overall competitive intensity in that value-added product? Is it like stable? Or with polymer prices being fluctuating, are you kind of able to pass on the input cost increase or anything of that sort? How is your experience...

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [50]

In piping, everybody required to increase the price because it's working with a small margin, right? Business is growing properly. So (inaudible) intention is there, more and more demand is growing. In affordable housing, we are seeing good growth now occurring there. Overall housing segment also, we are seeing better demand growth. We now realize it will stabilize. And in farming sector also, we are seeing good demand growth and government demand is also coming up. So demand is looking quite okay.

Operator [51]

The next question is from the line of Avi Mehta from IIFL.

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [52]

Sir, since we're just speaking up on the margin bid, you highlighted that in the Plastic Piping business, there is a clear focus on improving ROICs and -- instead of volume growth. Was that...

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [53]

Not only Plastic Piping, overall for the company also.

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [54]

Okay, overall. Sir, but in the Plastic Piping segment, if you're kind of doing that focus, would it be fair to say that your EBITDA levels or margin levels should logically structurally move up? Is that what you are also aiming for, sir? That's a right understanding?

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [55]

Correct. See present 13% operating margin, then certainly get that more -- if I give more focus to volume and sell more plastic pipes only, then the margin will come down than 13%.

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [56]

Okay, sir. Okay. So the realization during growth will continue and hence EBITDA per kg will also be remaining healthy?

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [57]

You are right, yes.

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [58]

And sir, second point on the packaging business, which you was raised by one of the earlier participants, what would be the right way to see this business? Because, as you rightly said, there is a seasonality. When the product does well, the EBITDA margin on this and EBITDA per kg does well.

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [59]

See Cross-Laminated Film business has got 3 segments, Protective Packaging Product and flexible packaging film, those (inaudible) triple digits every month. Only Cross-Laminated Film because it is mostly serving tarpaulin, which is a [nonsignificant] product. So there the demand has got a big shrinkage. So -- otherwise -- as far as the other products, they've got [13%] month after month.

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [60]

Sir, okay. So sir, where I was confused is, you said, this time we did give a scheme, which was a little late, so our scheme...

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [61]

Yes. We offered a new scheme in September last year.

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [62]

Last year and this time it was...

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [63]

See, we started in September, but it started mostly later because this year Diwali was later. They're always linked to Diwali.

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [64]

Sir, then margin should have improved, sir, that would have been a positive signal.

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [65]

It has slowed down because people don't buy goods, so we had demand destruction also, lower sale in Cross-Laminated Film.

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [66]

Okay, sir, okay, I got that. And sir, lastly, on the -- you said there's no one-off gain. But could you explain the reason for the interest cost being so high and whether we should kind of assume that level to continue?

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [67]

It just got high due to the foreign exchange rupee depreciation.

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [68]

Okay. So that was -- can you share the number, sir? Just to go over back, how much (inaudible)? Would you be able to share how much was -- in that was rupee really?

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [69]

Yes, of course, for the quarter, if you're looking at, there are 2 reasons. One is mark-to-market accounting of the committed loss in foreign exchange borrowing. So there was a good gain in the first quarter because of the hedging gain mark-to-

market accounting, which got reverted second quarter automatically. And since we don't have any borrowing now in foreign currency, so there is no mark-to-market or hedging gain. So the first quarter again became the loss of the second quarter in quarterly accounting.

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [70]

Okay. So the first half average is the number that we can use.

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [71]

Correct. Correct. Correct.

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [72]

Okay, sir. And then lastly, sir, on the better side, the increase that you have seen in the quarter, is there any channel issue on liquidity that you are seeing? Or could you just share your comments on that? That's all from my side.

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [73]

It's started to go, actually it had gone up from 21 days of sale to 26 days, where directly now it came down to 25 days. This is 3 to 4 days more than what it used to be earlier 2 years before. If you have the -- we may be -- over a period of next 4 to 6 quarters, we may be able to bring down lower than 25 days. With 25 days, definitely our book getting burned up by INR 70 crores, INR 80 crores extra.

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [74]

Sir, so liquidity is the issue? Is channeling not coming back? Is liquidity now available in the channel?

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [75]

If you notice our company, liquidity is our customer.

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [76]

No, no, correct, sir. Channel, channel, I meant channel, not for company.

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [77]

Generally, definitely there is a liquidity issue nowadays.

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [78]

Is it changing? Worser the better? Or still it remains, sir? Because you said that same issue...

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [79]

Because I mentioned earlier it was -- it went up to 26 days of sale and second quarter, we've assumed now 25 days of sale. Am I clear?

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [80]

Yes -- no. I understood the trajectory, sir, but I mean, I recollect you had said that we expect it to sharply moderate because GST was the reason. But I was just thinking how long do you think this will play out? I was just trying to get your comments on that.

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [81]

Can't comment because we are aiming to bring it down back again from 25 days to 20, 21 days. Our initiatives are that we must bring down this number of days to a number which we had there 2 years before.

Operator [82]

Next question is from the line of Maulik Patel from Equirius Securities.

Maulik Patel, Equirius Securities Private Limited, Research Division - Research Analyst [83]

Couple of questions. One on the piping segment. Sir, is there anything in volumes within the pipe? Because it didn't show sequentially on a quarter-on-quarter basis the realization has gone up from INR 107 per kg to INR 120 per kg.

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [84]

Yes. So?

Maulik Patel, Equirus Securities Private Limited, Research Division - Research Analyst [85]

Sir, is there -- because of polymer prices were around INR 77 per kg in the previous quarter in the April to June period; while in the July to September period, it were approximately INR 80 per kg. So there was no significant change in the polymer pricing, there was a 3% increase in the PE prices, polyethylene prices, and so the PVC prices. But your realization has went up very fast..

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [86]

We don't make pipe only from PVC. We make pipe from PVC, we make pipe from high-density polyethylene. We make pipe from polypropylene random copolymer. We make pipe from (inaudible). So..

Maulik Patel, Equirus Securities Private Limited, Research Division - Research Analyst [87]

That's what I wanted to see -- is there any change in the volume mix? Are you selling more to -- more PE under the..

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [88]

And we told earlier that we are -- you just focus on PVC pipe business, there the margins are quite low. And we give focus on HDPE, HDPE price has gone up too much in last 6, 8 months. So the price per kilo must have gone up on HDPE. That is the only reason, change in the product pricing or the raw material price.

Maulik Patel, Equirus Securities Private Limited, Research Division - Research Analyst [89]

Sir, on the annualized business, entire pipe volume, what could be the component roughly about LDPE and HDPE prices approximately?

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [90]

We don't have the number before us.

Maulik Patel, Equirus Securities Private Limited, Research Division - Research Analyst [91]

Okay. Sir, second question is on packaging business. Again, I think there was an earlier question for that there on the same side. But sir, you mentioned that you have taken a price cut in Cross-Laminated Films. Can you just quantify to what extent we have given the price cut?

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [92]

I think it must be around 2.5% to 3%.

Maulik Patel, Equirus Securities Private Limited, Research Division - Research Analyst [93]

2.5% to 3%. Okay. And sir, from this quarter, this -- because the Kumi JV has been applicable from this quarter. So anything got -- in Industrial, earlier you were reporting the volume from those 2 plants, but now it is not there? So what could be the volume impact because of that?

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [94]

Which one?

Maulik Patel, Equirus Securities Private Limited, Research Division - Research Analyst [95]

Kumi JV.

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [96]

Yes, the entire turnover of that unit was INR 100 crore. In volume terms, it was about 6,000 tons per annum.

Maulik Patel, Equirus Securities Private Limited, Research Division - Research Analyst [97]

Okay, I got it, sir. And sir, the last question is that, as you mentioned that the PVC is seeing lot of pressure in terms of margin and probably there is more competition, is same applicable to the PVC also, sir?

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [98]

Yes, on all the Plastic Piping business, there is already pressure, but for PVC pipe, principally the margins of 8 liter market, no other application. An 8 liter application, the margin (inaudible) under 8 liter application. An 8 liter application market also giving good volume, so that volume we are not chasing as aggressively as other players are chasing.

Maulik Patel, Equirus Securities Private Limited, Research Division - Research Analyst [99]

Okay. But sir, are we seeing a trend as what will be the PE and others are much better polymers, they're having much stronger properties compared to the PVC. Do you see a trend where the...

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [100]

Every polymer has got very good property based on the application. For agricultural application, no product can match PVC. So I think it depends on application to application. All polymers have got their own strength. CPVC extremely good for plumbing, polyethylene pipe will be extremely good for drinking water supply. PVC for agricultural -- for farmer to supply water to the field. Application to application, every polymer has got its own strength.

Maulik Patel, Equirus Securities Private Limited, Research Division - Research Analyst [101]

Okay. For the last question, historically, we have seen that whenever the polymer price is more, either the PVC or PE or the PP because of the oil price rise or the rupee depreciation, we have some softness in the margin. Even if we look at this quarter, we have some softness. Even in the previous quarter, we had some softness in the margin. In that particular period, the EBITDA growth is generally lower than the revenue growth. So what kind of a guidance you can give probably on the margin side? And is the price increase -- or the market is expecting this price hike from the polymers? And are we passing it completely to the customer?

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [102]

We will tell you, in the first 6 months, the PVC price went up by 3.5% comparable, and other polymers did 4.5% to 5% repeatedly by more than 15% with polymer prices not grown to the extent of rupee depreciation or the increase in crude price with a lot of capacity coming up. Going forward, we believe the polymer price will have a downward trend. As on today, PVC is the only material where there is some stability. Polyethylene and polypropylene and polystyrene, all the prices are estimated to further go down going forward in the remaining 5 months.

Maulik Patel, Equirus Securities Private Limited, Research Division - Research Analyst [103]

Okay. So you do not pay any attention on the margin because of the polymer prices going up?

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [104]

Definitely there are some loss in the inventory, some loss in the inventory, but over a period of 5 months, you can always recover, it's not the issue now.

Operator [105]

The next question is from the line of Madhav Marda from Fidelity.

Madhav Marda, Fidelity Investments - Equity Research Associate [106]

Sir, I just have one question, more sort of longer term that our company used to grow volumes anywhere between above -- at about 12% CAGR earlier about 2 or 3 years back. At an India level or at an industry level, what are the 2, 3 things that need to work for us to move back to that growth rate? Is it housing? Or I mean, how should we think about that growth coming back for the company?

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [107]

Let me comment on the growth. Growth is a very difficult thing nowadays to guide about it, the things are so volatile. I must say, last year was the first year in last several years, where the polymer consumption in the country was lower than the GDP growth. Normally, polymer consumption should be 1.4x of GDP growth, which was happening historically. Last year, the growth was less than 6%. This year also in first 6 months, now being better than last year, but it is nowhere to 1.4x of GDP. So depending how the GDP grows in our country, we cannot do better than what the country is doing, so we are domestic-driven company.

(inaudible) believe that the growth may be -- going forward from next year may be between 8% to 10%. If they grow like that, we believe we may grow slightly above the market growth in the country -- of the polymer tenure in the country. Moving on with the forecast, out of the country will (inaudible) polymer for the next 4, 5 years given that it is hard to (inaudible).

Unidentified Analyst, [108]

Yes. I mean, the economic (inaudible) just to look at housing growth or look border same sort of (inaudible).

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [109]

Housing growth will continue. Now that we have a good segment, housing now thinking stabilized (inaudible) other activity. So now that players have -- small player and big player and affordable housing in good esteem. So the housing clusters in housing, they are definitely growing.

Operator [110]

Next question is from the line of Nehal Shah from ICICI Securities.

Nehal Shah, ICICI Securities Limited, Research Division - VP of Research of Midcaps [111]

On the initial part of the commentary, can you just, sir, give us the numbers for borrowing and the average monthly borrowing?

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [112]

(inaudible).

Unidentified Company Representative, [113]

Yes. At the end of September 2018, the total borrowing of the company was INR 259 crores. Average borrowing for each quarter versus the half year is INR 231 crores and INR 223 crores, respectively.

Nehal Shah, ICICI Securities Limited, Research Division - VP of Research of Midcaps [114]

Sorry, I didn't get -- your INR 259 crores is for September 2018?

P. C. Somani, The Supreme Industries Limited - CFO [115]

Yes.

Nehal Shah, ICICI Securities Limited, Research Division - VP of Research of Midcaps [116]

And INR 231 crores is?

P. C. Somani, The Supreme Industries Limited - CFO [117]

For the quarter, average for the quarter.

Nehal Shah, ICICI Securities Limited, Research Division - VP of Research of Midcaps [118]

Average, okay.

P. C. Somani, The Supreme Industries Limited - CFO [119]

And INR 223 crores is the average for the half year.

Nehal Shah, ICICI Securities Limited, Research Division - VP of Research of Midcaps [120]

INR 223 crores is the average for the half year.

P. C. Somani, The Supreme Industries Limited - CFO [121]

Average cost of borrowing end of September 15 is 7.07%.

Nehal Shah, ICICI Securities Limited, Research Division - VP of Research of Midcaps [122]

All right, fine. Sir, my next question is on the industrial products side. Now, the volume growth has been INR 30, pretty good as far as last couple of years is concerned, but if you look at the realization growth, the realization has come in at 26%. I just want to understand as to why the realization growth has been so big.

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [123]

In the polymer, a polymer they want us to make product of, which product to -- which I'm going to use for the particular industrial product. (inaudible), they grow much more than normal.

Nehal Shah, ICICI Securities Limited, Research Division - VP of Research of Midcaps [124]

So is this sustainable or...

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [125]

We can't forecast about the (inaudible) required for -- product which they require for the future.

Nehal Shah, ICICI Securities Limited, Research Division - VP of Research of Midcaps [126]

Okay. And sir, my last question is on the value add product segments.

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [127]

On?

Nehal Shah, ICICI Securities Limited, Research Division - VP of Research of Midcaps [128]

On the value-added product segments, which includes (inaudible) pipes...

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [129]

(inaudible) value-added segment. Our value-added product is 25% of total sale in second quarter and then 37% in the corresponding period -- quarter of previous years. Actually, value-added (inaudible), overall, (inaudible) have gone up. Overall, value-added item share, they've gone up from INR 749 crores to INR 850 crores. Concerning the (inaudible) growth in our business, the percentage value could come down.

Nehal Shah, ICICI Securities Limited, Research Division - VP of Research of Midcaps [130]

All right. But which one of (inaudible) production has started going well and which one has not been doing well?

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [131]

Nehal, all are doing well (inaudible). And assuming they come down due to the overall growth -- higher growth of turnover.

Nehal Shah, ICICI Securities Limited, Research Division - VP of Research of Midcaps [132]

All right. So and, sir, lastly, on the confidence of the said growth, where is it headed?

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [133]

Sorry?

Nehal Shah, ICICI Securities Limited, Research Division - VP of Research of Midcaps [134]

On the -- give you confidence running the business.

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [135]

Until you can push (inaudible) market. And next quarter, we are doing (inaudible) next quarter only led to (inaudible) demand also, but we have this. In South Korea, we already exported. And now, we're in a small country where we will be exporting this quarter. But the merchant market is still not opened up. The government finally has still not decided to go and (inaudible) and to control the policy -- in their market, but bound to come (inaudible).

Nehal Shah, ICICI Securities Limited, Research Division - VP of Research of Midcaps [136]

So do you expect the segment to return in this year because last year you said the prospects are looking significantly better?

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [137]

We are very optimistic, definitely looking better than what we are than last year.

Operator [138]

Next question is from the line of (inaudible) of (inaudible) investor.

Unidentified Analyst, [139]

Sir, what is the PVC price during the quarter? And how does it compare against previous quarter?

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [140]

We don't have the number from the previous -- PVC price have gone up and down in this year 6 or 7x.

Unidentified Analyst, [141]

I see.

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [142]

We don't compare last year (inaudible).

Unidentified Analyst, [143]

No. And the -- a reply to an earlier question, you said...

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [144]

Previous question, INR 3.5, and then now INR 304. So it has gone up and then come down.

Unidentified Analyst, [145]

Okay. So which -- are there raw material prices that were -- have gone up and you are expecting it to come down? I missed this part of your comment.

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [146]

Polymer, as I said, we expect to come down further. They've gone up compared to (inaudible) high by 45% and we are still, going forward, they will come down.

Unidentified Analyst, [147]

Okay. And lastly, sir, what percentage of pipe -- percentage-wise, what should be the business's contribution in the pipe business for raw materials?

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [148]

I don't have the number before me.

Operator [149]

The next question is from the line of Ritesh Shah from Investec.

Ritesh Shah, Investec Bank plc, Research Division - Analyst [150]

The first question that I have, (inaudible) recent product launches and your internal outlook on HDPE Pipes.

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [151]

Initial product launches, until now we could not make a break for double-walled corrugated for high density pipe. Apart from that, all production are all selling okay. Double-walled corrugated (inaudible) pipe that are being supplied in the market are mostly (inaudible) regulation and starting (inaudible), so we are not able have a prediction in the market other than (inaudible) our newly launched products are selling okay.

Ritesh Shah, Investec Bank plc, Research Division - Analyst [152]

Next question. Can you -- or do you have a pricing on every pipe segment outlook?

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [153]

Sorry?

Ritesh Shah, Investec Bank plc, Research Division - Analyst [154]

There has been price...

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [155]

We expect demand should be okay. Now onward, overall demand should start within that.

Operator [156]

The next question comes from the line of Abhishek Ghosh from DSP Mutual Fund.

Abhishek Ghosh, [157]

Just wanted to get clarity on the Consumer product division as well. While we are seeing a good traction in terms of profitability, I think the volumes are down, on a wider basis, too, marginally, but just wanted to get your sense around that.

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [158]

We are not very aggressive in the commodity product. So the volume will go down, margins will remain healthy.

Abhishek Ghosh, [159]

Okay. Okay. So looking at, again, value-added, is that not so much...

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [160]

Value-added is around -- normally should be not less than 17% market. So with the product that I mentioned, 15% will not classify as value-added (inaudible). We cannot get 15% margin in a commodity furniture.

Abhishek Ghosh, [161]

Correct, correct. Okay. So I think, looking at EBITDA growth, there is more of a relevance rather than individual volume within that segment. Is that...

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [162]

Yes, surely. We focus on EBITDA growth and we focus on where we are (inaudible).

Operator [163]

(Operator Instructions) The next question is from the line of Sriram Rajaram with Sundaram Mutual Fund.

Sriram Rajaram, [164]

Sir, regarding your breakup regarding the PVC, say, PVC and (inaudible), is that volume and (inaudible) for the quarter?

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [165]

That's classified information. We don't give breakup.

Sriram Rajaram, [166]

Then sir, in that case, I mean, is it possible to disclose the end user industry income? Like, how much would be the industrials and agricultural contributing to your (inaudible) revenue?

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [167]

We got a method we call we are -- whatever we are selling (inaudible) pipe (inaudible) in housing. So we cannot give how much is going to (inaudible), how many is going to housing. We don't have much in industrial. It's mostly housing (inaudible).

Sriram Rajaram, [168]

Fine, sir. Fine, sir. And from here on, how do you see the realizations going forward? Because you are seeing polymer prices are going down, so can we see the realization also going in that trajectory?

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [169]

We know one thing that definitely (inaudible) requirement. We require less money for holding the inventory, less money holding on debt. And we lessen -- after or when the price come down, I have to drop the price of my product.

Operator [170]

(Operator Instructions) The next question is from the line of Kashyap Pujara from Axis Capital.

Kashyap Pujara, Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy [171]

Could you just give an update on Supreme back then? You have not discussed anything on the call on that front.

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [172]

Supreme, I mean, the first 6 months, it was (inaudible), which had been followed by (inaudible). They still -- around 15,000 to 20,000 demand of polystyrene in the country. So the demand is sinking instead of growing. And if crude import started coming from Iran, which was lower than our current price, (inaudible) margin and decreased in the first 6 months. (inaudible) now, the remaining 6 months may be better unless our other verticals start turning better margin, which have grown to so far show that we cannot get out of the Australian monomer price fluctuation. Other verticals are SMMA, EPS, conforming business and SBS. And (inaudible) may come after 12 to 15 months. We remain very optimistic about the company, but for a short time, it's a problem (inaudible) demand restriction on polystyrene and due to dumping of material by Iran.

Kashyap Pujara, Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy [173]

So probably one final question on Supreme Industries. You had point out about your outlook of growth, which is still exactly you expect close to 10% volume growth for the full year. And obviously, you did mention the correlation that you expected to be more or less normalized, whether it should be 1.4x the GDP, which we haven't seen in the recent past. But if I look at the margin front, I mean, historically, Supreme's gross margin has been extremely steady and so which means that whatever the raw material cost fluctuation that happened because of crude going up or down or rupee going up or down, essentially, over time, has been passed through. So there might be quarter-to-quarter gaps, but over time, it's very steady. So -- and you are basically focusing on ROCE. So capital intensity is very, very controlled. You are trying to reduce the working capital base. And on the margin front, the peak cost had -- after material cost is power and then power. And on both these fronts, the new CapEx is that we are doing this essentially, having more energy-efficient machines, more automation. And with higher value-added products, where do you see operating margins of the company 2, 3 years down the line? I mean, what is your thought? Even if you can't comment a number, but how do you see this trajectory?

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [174]

Firstly, it is down this year. Earlier, we thought that our (inaudible) INR 5,500 crores. The general product mix now (inaudible) should be INR 5,700 crores to INR 5,900 crores for the year. Our operating margin due to these so many headwind coming, now we are going down our forecast from 15.5 to 16 to 14.5 to 15 for the current year. (inaudible) you must break the operating margin of around 16% going forward. And with (inaudible) we reported we must stabilize 15% plus operating margin going forward.

It is very difficult to give a guidance. Things are so different nowadays and so many headwinds are growing, but still, we are comfortable with the business. It is robust and it is a growing business. An opportunity to address demand, it's a good place. In our product segment, we are in good demand and we are not the problem from any government (inaudible) today.

Operator [175]

(Operator Instructions) As there are no further questions, I'd like to hand the conference back to the management for closing comments.

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [176]

Yes. Thank you very much.

P. C. Somani, The Supreme Industries Limited - CFO [177]

Thank you, everyone.

Operator [178]

On behalf of Axis Capital Limited, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.

Mahaveer Prasad S. Taparia, The Supreme Industries Limited - MD & Director [179]

Thank you.