



“Apollo Pipes Limited
Q4 FY2021 Earnings Conference Call”

May 05, 2021



ANALYST:

**MR. SUMANT KUMAR – MOTILAL OSWAL
FINANCIAL SERVICES LIMITED**

MANAGEMENT:

**MR SAMEER GUPTA – MANAGING DIRECTOR –
APOLLO PIPES LIMITED
MR AJAY KUMAR JAIN – CHIEF FINANCIAL
OFFICER – APOLLO PIPES LIMITED
MR ANUBHAV GUPTA – CHIEF STRATEGY
OFFICER – APOLLO PIPES LIMITED**



Apollo Pipes Limited
May 05, 2021

Moderator: Ladies and gentlemen good day and welcome to the Apollo Pipes Limited Q4 FY2021 earnings conference call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sumant Kumar from Motilal Oswal Financial Services. Thank you and over to you Sir!

Sumant Kumar: Thank you everyone. Good afternoon everyone and a very warm welcome to Apollo Pipes Q4 FY2021 post results earning call hosted by Motilal Oswal Financial Services. On the call today we have Apollo Pipes management team being represented by Mr Sameer Gupta, MD, Mr Ajay Kumar Jain, CFO and Mr Anubhav Gupta, CSO. We will begin the call with the key thoughts from the management team thereafter we will open the floor for Q&A session. I would now like to request the management to share their perspective on the performance of the company. Thank you and over to you Mr. Sameer!

Sameer Gupta: Thank you Sir. Good afternoon everyone and thank you for joining us on the Q4 FY2021 earnings call to discuss the operating and financial performance for the quarter. I trust that you and your families are safe. I hope you all had the opportunity to go through our results presentation, which provides details of our operational and financial performance for the Q4 and full year ended March 31, 2021.

To begin with, I am pleased to share with you that we have reported a robust performance during the quarter with our sales volume growing by 34% to 12987 metric tonnes, volume growth was driven by a healthy contribution from the CPVC, UPVC pipes and value-added product segment of fittings. Furthermore, expansion of product portfolio, improved reach in newer geographies and addition of new Brownfield capacity assisted volume growth. Over the next few quarters we anticipate this sales performance to strengthen led by improving demand, environmental extension in markets and a sustainable uptick in utilization levels.

Moving on the operational front, we have successfully completed all our Brownfield manufacturing extensions across facilities located at Kadiri, Tumkur, and Secunderabad through operationalization of our Greenfield facility at Raipur, which would have an installed capacity of 7200 metric tonnes per annum is delayed due to the impact of second wave of COVID; however, we expect to commercialize this facility in the current month only. So in all with the addition of new capacities we will be able to notably scale our volumes in the coming quarters. In addition, we are aiming optimally utilizing our capacities over the next two years, which will also help organize sales volume going ahead.



Apollo Pipes Limited
May 05, 2021

From a product basket standpoint, we continue to witness a positive traction in enquiries of Apollo Life water storage tanks. Earlier in the previous quarter we had doubled our capacity for this product at our Secunderabad plant and also commissioned our production line in Tumkur to ensure that we can increase demand. We remain confident that this product along with our other value-added offerings like fittings, solvent cements, bath fittings, adhesives, and taps will enhance our reach and strengthen sales going forward. To conclude I would like to state that we are constantly working towards enhancing our presence across existing and new potential geographies. Once we complete operationalization of our plant we expect to address the untapped and high potential market of Central and Eastern India as well. Going forward we expect to deliver a robust performance in the quarters to come and further gain the momentum on the back of improved totality and extension in key geographical areas and better brand acceptance. On that note I would now like to invite Mr. Ajay Jain to run you through the key financial highlights for the quarter and full year ended March 31, 2021.

Ajay Kumar Jain:

Good afternoon everyone. I will briefly cover the financial performance during the quarter and full year ended March 31, 2021. The company delivered a strong operational and financial performance during the quarter driven by an uptick in demand and consumption in key domestic markets. Revenue from operations for the quarter stood at Rs.174.2 Cores as against Rs.94.1 Cores in Q4 FY2020 higher by 85%. In FY2021 full year revenue from operations stood at Rs.518.1 Cores as against Rs.408 Cores up by 27%. Sales volume for the quarter stood at 12987 metric tonnes growing by 34% as against 9721 metric tonnes per annum. Sales volumes for FY2021 stood at 47333 metric tonnes per annum as against 44692 metric tonnes up by 6% despite operating for only around 10 months in the last year.

On the profitability front EBITDA for the quarter grew by 158%, which is stood at Rs.27 Crores as against Rs.10.5 Cores in Q4 FY2020. EBITDA margin, which is stood at 16% in Q4 FY2021 as against 11% in Q4 FY2020 higher by 431 BPS, EBITDA for FY2021 is stood at Rs.74.3 Cores as against Rs.46.4 Cores growing by 60%. EBITDA margin for the full year ended March 31, 2021 stood at 14% when compared to 11% in the corresponding period last year higher by 297 BPS. Going forward we anticipate EBITDA margins to normalize. During the quarter we witnessed a sharp increase in depreciation during the quarter, which was partially offset by a reduction in financial cost. Depreciation cost is stood at Rs.5.8 Cores in Q4 FY2021 as against Rs.3.7 Cores in FY2020 growing by 57%. PAT for the quarter is stood at Rs.16.6 Cores up by 169% when compared to Rs.6.2 Cores in Q4 FY2020. PAT margins for the quarter stood at 9% as compared to 6% in Q4 FY2020 higher by 302 BPS. PAT for FY2021 also grew by 56% stood at Rs.44.5 Cores as against Rs.28.5 Cores in FY2020. PAT margins during the period stood at 8% as compared to 7% in FY2020 higher by 162 BPS. On the balance sheet front our net cash position stood



Apollo Pipes Limited
May 05, 2021

healthy at Rs.10 Cores, on the working capital front additional raw material requirements at newly commissioned capacity may moderately impact inventory levels in the near term; however, our endeavor remains on maintaining our overall working capital cycle at stable levels. With this I will now request the moderator to open the forum for any questions or suggestions that you may have. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Arpit Shah from Stallion Asset. Please go ahead.

Arpit Shah: Under the cash flow statement we have seen a positive Rs.22 Cores coming from capital work in progress can you help me with that what is that?

Ajay Kr Jain: Actually the Rs.22 Cores that was the opening WIP, which we got adjusted after capitalization the assets.

Arpit Shah: Capital work in progress last year was Rs.30 Cores and this year is Rs.7.7 Cores?

Ajay kr jain: Out of Rs.22 Cores WIP got capitalized in mapping the assets.

Arpit Shah: What is the capacity in water tanks?

Ajay Kumar Jain: Currently it is 3600 tonnes, but after this fourth capacity at Raipur it would be 4800 tonnes.

Arpit Shah: What is the revenue potential in the next two to three years?

Sameer Gupta: The revenue potential for water tanks?

Arpit Shah: Yes.

Sameer Gupta: Of course we foresee revenue to be some roughly Rs.60 Cores by the end of the financial year FY2023.

Arpit Shah: FY2023?

Sameer Gupta: Yes FY2023 in the next two years.

Arpit Shah: The kind of pressure that you are seeing in the raw materials is it continuing even in the month of April?



Apollo Pipes Limited
May 05, 2021

- Sameer Gupta:** No, the pressure has been released; the prices are softening up so we do not see any prices jacking up in the current quarter rather it should go down in the coming months.
- Arpit Shah:** Any impact on demand in the last 15 days?
- Ajay Kumar Jain:** Yes of course because of lockdown the demand has been impacted because all across India many markets have been shut down and strict lockdowns have been followed up in many states, so the demand has been impacted in the last 10 days or 15 days.
- Arpit Shah:** Okay thank you Sir.
- Moderator:** Thank you. The next question is from the line of Bhargav Buddhadev from Kotak Mutual Fund. Please go ahead.
- Bhargav Buddhadev:** Good afternoon team and congrats for a good performance. My first question is on volume growth, is it possible to share the value growth in agri and non-agri in Q4 and maybe in FY2021?
- Sameer Gupta:** The volume growth if you talk about agri of course it was a bit affected because of the very high resin prices, but if you talk about the building products the volume growth was good and we foresee that volume growth will continue in the coming quarters for the building products because we have completed our product basket. Lot of fittings we have added and lot of new product range has also been added in the fitting segment so that is driving the demand in that segment. Other than that there is good demand in overall from each and every sector.
- Bhargav Buddhadev:** So was there growth on the agri portfolio in Q4?
- Sameer Gupta:** Yes of course there was growth but not significant.
- Bhargav Buddhadev:** Secondly it is possible to share what is the installed capacity across all your plants as on March 31, 2021 and what are the utilization levels across plants?
- Sameer Gupta:** Across the plants we have total capacity of 118000 tonnes, which we have already shared, but due to this price sensitivity we cannot disclose this on this forum we can share the details with you on the e-mail on 1 to 1 interaction.
- Bhargav Buddhadev:** On the cash conversion cycle our cash cycle is at about 65 days versus 30 days for larger players, but have we sort of inched closer to our target of about Rs.1000 Cores revenue do you expect material improvement in the cash conversion cycle as well?



Apollo Pipes Limited
May 05, 2021

- Sameer Gupta:** Of course it will improve because we have been ramping up the sales this working capital cycle has been gone up, but if you see quarter wise it is not increased to that level, if you see quarter-to-quarter because of the high sales in the last quarter you can see the inventory level or the debtors has gone up otherwise it is very much in control.
- Bhargav Buddhadev:** On our domestic sourcing of PVC where we are in terms of percentage?
- Sameer Gupta:** Earlier to this quarter we were nearly sourcing our raw materials from imports market, but from the last quarter we have changed our strategy to source mainly from domestic players such as domestic producers in India or the leaders who are selling the products, so we have changed our strategy a little bit for the short term to source our raw material from the local sources in future.
- Bhargav Buddhadev:** Lastly on capex what would be the guidance for the next two years?
- Sameer Gupta:** Capex will be very moderate in the coming years because we have done the maximum of the capex and now it is time to ramp up the sales to increase the utilization level of all the capacities that are available with us so we are much more focused towards capacity utilization. Maintenance capex on some small capex will be there, which will be some around 20% to 25% of the EBITDA.
- Bhargav Buddhadev:** So about Rs.20 Crores to Rs.25 odd Cores per year is that a fair number?
- Sameer Gupta:** Somewhere should be there.
- Bhargav Buddhadev:** Okay I will come back in the queue and all the very best.
- Moderator:** Thank you. The next question is from the line of Ashish Poddar from Anand Rathi. Please go ahead.
- Ashish Poddar:** So extending Bhargav's question if you can share the mix of volumes which you did in FY2021 across the three segments, which is agri, plumbing and sewage?
- Sameer Gupta:** Agri and these building segments earlier it was somewhere around 60% or 40%, but now it has improved to almost 50% of agriculture business and balance 50% is coming from the building products and we are much more focused towards building products as we have told in the earlier calls also, so we are much more increasing the capacities or marketing activities towards this part only because of the better EBITDA margin as compared to agriculture products.



Apollo Pipes Limited
May 05, 2021

- Ashish Poddar:** So on the margin profile is this the higher mix of agri products impacting your overall margin profile because if I compare your margin profile with the other larger peers I see large difference so is it because of the product mix and of course the low utilization level also, so are these the two factors or are there any other factor also?
- Sameer Gupta:** Low utilization level is not impacting us on any of the costing factor so that margins are not affected because of the low utilization level, but of course we are focusing on the product mix that is making a difference for the better margin in the coming quarters because we are much more focused towards these building products. There are other players they are very old and they are quite strong in those products and we have recently entered four to five years back only we have entered into this product, so we see that in the coming years we will see better utilization level and the better profit margins in these products because of better higher issue of building products in the total.
- Ashish Poddar:** So any targets that internally for FY2023 or FY2024 about the mix and the margin target any color on that?
- Sameer Gupta:** We target to sell around 60% to 65% of the building products by the end of FY2023 and we are much more focused on that thing only.
- Ashish Poddar:** Okay Sir, got it Sir. Thank you so much and all the best.
- Moderator:** Thank you. The next question is from the line of Sneha Talreja from Edelweiss Securities. Please go ahead.
- Sneha Talreja:** Congratulations on a great set of numbers Sir. My question is more pertaining to your margins, what is the kind of inventory gain that we have seen during the quarter and during the year?
- Sameer Gupta:** Because inventory gain we cannot establish what exactly it was because it is moving average and it is not very easy to calculate inventory gain, of course it was there in Q3, but in Q4 it is not very big number, almost all the increases have been there since the start of January month so there is not too much inventory gain in Q4, of course because of better product mix the margin was there other than that the inventory gain was not too much in that Q4.
- Sneha Talreja:** Sir the reason for margin dip on a Q-O-Q basis could be only because the inventory gains were missing this particular quarter compared to the last quarter?



*Apollo Pipes Limited
May 05, 2021*

- Sameer Gupta:** There were two reasons not exactly only the inventory gain was there, first of all of course the inventory gain was there in the Q3 other than that the operational issues were also there so because of that unorganized players or small players were facing difficulties operate in Q3 because of the restriction from government so that was giving us benefit in selling our product at a better margin as compared to Q4 where the things were much more normalized as compared to Q3 so put together the margins effect was there.
- Sneha Talreja:** Could you elaborate that issue that you mean to say that the smaller players were facing issue in Q3, but not in Q4 and what was the reason they were facing according to you?
- Sameer Gupta:** Because of the lockdown continuing in Q3 many restrictions were still there in Q3 whereas in Q4 almost everything was normalized and operations were very much normalized so because of those things the smaller players or unorganized players were facing problem in operating in Q3.
- Anubhav Gupta:** Sneha Anubhav here so just to add on this point like on the building material industry in Q3 whether it was PVC pipes or structural steel tubes or tiles, etc., the unorganized and smaller players they were pretty much not able to **(audio cut) 19:08** of branded large organized players and that is why all the companies could report very strong numbers in Q3 out of sales volumes increase. The participation from smaller players also started to improve and the **(audio cut) 19:56**.
- Sneha Talreja:** Anubhav I am really sorry but was not able to hear you properly we will again connect with you at a later stage about this. My second question is actually relating to the demand in case if you can answer that, basically how much is the dip we would have seen in April versus normal April or April versus Q4, this is just to get a sense that how much demand would have been down given the current lockdowns, which are in places some quantitative statement there?
- Sameer Gupta:** You want to understand about April 2020 or April 2021?
- Sneha Talreja:** April 2021 given we have seen sudden again lockdowns coming up just want to see the impact, which it will have on the Q1 numbers?
- Sameer Gupta:** Q1 numbers things are not yet clear the lockdowns are going on, April numbers were moderately okay because the first half was totally okay there were no restrictions, in the later half the restrictions started coming in several states, so the numbers we are not able to right now clarify because the things are not clear because how the lockdowns will move and



Apollo Pipes Limited
May 05, 2021

how the government will take step in terms of controlling the situation, so as things will be more clear we can let you know regarding the exact numbers that we expect in Q1.

Sneha Talreja: Sure just last one from mine, are you seeing some kind of a pickup starting for agri segment or it will still continue to remain weak given that prices are still at elevated level or because we are coming closer to the season have we started seeing any kind of pickup there?

Sameer Gupta: I could not understand what exactly your question, you want to know what exactly the impact of the prices on agri pipes?

Sneha Talreja: Agri pipes have you started seeing any kind of a pickup there because we are coming closer to the season?

Sameer Gupta: Of course the agri pipe demand should be there, but because of lockdown continuing all across the country many states have strict lockdown and some have partial lockdowns, so there has been impact on the demand so we cannot right now say that what exactly will be the demand if the markets open and how the farmers will behave with the current prices, but of course if the market opens then the demand will be there, even the prices are higher or lower they will definitely buy pipes.

Sneha Talreja: Sure thanks Sir and all the very best.

Moderator: Thank you. The next question is from the line of Yash from ICICI. Please go ahead.

Yash: Good afternoon Sir. Congratulations on a great set of numbers. Just wanted to check with you we have been increasing our margins by introducing new products, one product that I was seeing is looked interesting you have started manufacturing steel sink, so while the margin profile **(inaudible) 22:42** this is our first product, which is not into the plastic category so wanted to understand from you what is our outlook towards more and more new products, are we shifting more towards the building material kind of company that is my first question and my second question is relating to your ESOP policy how do you see the steel ESOP policy going forward, so will we see Apollo Pipes starts buying shares from the secondary market and giving ESOP to employees, so what is your outlook on the ESOP policy of the company? Thank you so much.

Sameer Gupta: Regarding first of all the steel sinks that we talk about it is a trading item we are not manufacturing steel sinks at any of our units we are trading it and actually it is a right product with bath fittings that we are already selling in various markets. We are manufacturing bath fittings at our Dadri location, so this is the additional product, which is



Apollo Pipes Limited
May 05, 2021

being sold at the same market or the same counters where we sell the bath fittings, so steel sinks of course we are marketing this product, but it is right now not a focused product for us it is added product in the product basket of bath fittings. Secondly if you talk about ESOP right now we have distributed the shares that we have bought in the last quarter the shares to the employees and around one lakh shares we have purchased from the market and out of that around 91000 shares has been allocated to the employees of Apollo Pipes, so right now we are continuing with this policy only and we have no plan right now for the next ESOP policy. As the things will move forward we will plan and see that what best we can do in the ESOP because it is good thing to boost up the morale of employees and we see that it should give us good results.

- Yash:** Thank so much and all the best.
- Moderator:** Thank you. The next question is from the line of Behzad Kalantary from Stallion Asset. Please go ahead.
- Behzad Kalantary:** Good morning. Great set of numbers congratulations. Just one question I had is I just wanted to understand the long-term vision of the company, you guys have started coming up with new products and that is great, so I just wanted to understand from your point of view are you planning to increase market share in the pie or are you trying to expand the whole pie at the end of the day?
- Sameer Gupta:** Sir right now we wish to increase the market share and we are much more focused towards that thing only, of course the market is very big and right now if you see the potential of the market we see good opportunities and of course the lack of branded players in the market and we at Apollo is a strong brand in building products so we will give good opportunities and we will get better acceptance level in the market, so right now we are much more focused towards increasing our market share in the market.
- Behzad Kalantary:** Is there any chance like you guys are planning to increase the pie of the market also at the end of the day?
- Sameer Gupta:** Of course we can do that, but right now we are not in that big numbers that we will increase the pie of the market because in that case we need to develop newer product applications and we need to increase our R&D team, so right now we are not into that mode we are much more focused to increase the market share.
- Behzad Kalantary:** Thank you and all the very best. Thank you so much.



Apollo Pipes Limited
May 05, 2021

Moderator: Thank you. The next question is from the line of Ashish Kacholia from Lucky Investment Managers Private Limited. Please go ahead.

Ashish Kacholia: Good morning to the Apollo Pipes team. My question is basically can you talk a little bit about your brand building efforts because we are a challenger brand in the market so what is the brand building efforts that we are taking that is one and the second thing is which are our key target markets that we are looking to develop over the next three to five years?

Sameer Gupta: Good morning Sir. Regarding the brand building activities we are tying with some celebrities with our brand apart from Mr. Amitabh Bachchan with steel brand we are tying some brand ambassadors for the plastic pipes only, so this was due in the current quarter only, but because of the lockdown it was a bit delayed and we hope to close the shoots by the end of June when the lockdown opens, so we are into that activity and we are seeing that we should spend around 2% to 3% minimum of the revenue in branding of the activities, which will be mainly coming from ATL activities such as TVCs and outdoor hoardings, so we are focusing a bit in a big scale for brand building activities in this current year.

Ashish Kacholia: Which are your key target geographies over the next three to five years?

Sameer Gupta: Key target markets of course we are targeting in an aggressive way for the southern market and we are getting good response from those markets. We have increased our sales team in the southern market in all the six states that is Maharashtra, Tamil Nadu, Karnataka, Kerala, Andhra and Telangana. We are much more focused in those areas because it is a big market and we have got good brand presence over there. Apart from that we are also trying to capture the untapped market of the Eastern region where we were not present earlier and the market share was very low of Apollo over there so we are trying to capture those market also because we will be having the Raipur unit by the end of this month so we will be cost effective in the production, we see that the market potential is there and again the lack of big brands is there in the Eastern region so we can capture those markets also. So apart from Northern region we are trying to capture the Southern region and the Eastern region as you can say to increase the sales of Apollo.

Ashish Kacholia: So let us focus on the Western market is that correct?

Sameer Gupta: Yes of course we are less focusing on the Western market but for the time being only because this Ahmedabad unit is quite small as compared to the Tumkur unit or this Dadri unit so we are focusing on those markets, but it is less focused as compared to other markets.



Apollo Pipes Limited
May 05, 2021

- Ashish Kacholia:** What is our selling proposition versus the larger brand for the customers is it price or is it service or is it something?
- Sameer Gupta:** Yes of course I got your point. We have to keep actually all the things together, it has to be price also along with that ration has also to be there and the service of course it has to be there. We are targeting all the three services key factors to support the retailers or the distributors of Apollo so that they can increase the market share in their effective areas. So we are trying to focus on these three points where we can support them. Of course we are now trying to leverage any extended trade facilities to them because we are trying to keep ourselves very strict in the trade policy, apart from that we are trying to help them in every point.
- Ashish Kacholia:** My last question is basically how does our product quality compare with the quality of the leaders?
- Sameer Gupta:** Sir it is at par with all the manufacturers that we are talking about, so any sort of quality compromise is not there in any of our products they are at par with any of the brands that we talk about.
- Ashish Kacholia:** So basically once the customer buys our product the experience will be the same?
- Sameer Gupta:** Of course it will be the same as compared to the other products.
- Ashish Kacholia:** Thank you very much and all the very best.
- Moderator:** Thank you. The next question is from the line of Madhav Marda from Fidelity Investments. Please go ahead.
- Madhav Marda:** Good afternoon. Thank you so much for your time. I wanted to firstly get any thoughts on government announced a big spending on Jal Jeevan, lot of projects for pipe water supply, have we seen any initial traction on the ground so far, has there anything been moving or it is still slow in the last couple of months?
- Sameer Gupta:** In Q3 it was on the tendering state and the government has started allocating these tenders to the contractors and now the contractors are in market for buying these products, of course the demand are there, but because of the very high prices the sustainability with the contractors are not there, so there were a bit compromise on the quality, which Apollo was not into that so we have to wait a little bit because of that high resin prices or high polymer prices, but right now as the prices are softening up and as this market was opening so the



Apollo Pipes Limited
May 05, 2021

demand was there and we see that there should be good demand on this account and of course the tenders has been allocated to the contractors and they are buying the products from market and we are supplying to them but it is not up to that level because of the high prices, they are much more focused towards the prices instead of quality.

Madhav Marda: In these kind of tenders there is no specification which happens that they specify four, five brands and then they buy from them?

Sameer Gupta: No, it is not like that, there is no such specified brand in any of these tenders.

Madhav Marda: That is my only question thank you.

Moderator: Thank you. The next question is from the line of Dhiral Shah from PhillipCapital. Please go ahead.

Dhiral Shah: Good afternoon Sir and thanks for the opportunity. Sir in the last one year we have increased our capacity by almost 50000 tonnes from 75000 to almost 125000 tonnes so if you can share the details the segment wise capacity increment we have done in the last one year how much in CPVC and fitting?

Sameer Gupta: Sir mainly the capacity expansions are mainly in the fitting segment because we were running short of capacities in the fitting segment and the product was very big so we were not able to supply the full product despite the moulds available with us so the major capacity expansion is in fittings. Apart from that the concern is of course there in CPVC along with that PVC pipes minimum capacity expansion is there, but mainly capacity extension is in CPVC pipes and fitting segment.

Dhiral Shah: Sir how much would be the proportion for these two?

Sameer Gupta: It should be around 50% capacity addition, 50% to 60% capacity addition is there in fittings and around same capacity addition is in CPVC pipe also.

Dhiral Shah: Sir in terms of retail touch point how much we have added in the last one year and particularly in the West and Southern region?

Sameer Gupta: Of course we are trying very hard to increase the touch points on the retail sector and we have increased you can say it is somewhere around 1000 to 1500 touch points minimum in the southern sector, but right now the exact numbers are not with us we can share you later on.



Apollo Pipes Limited
May 05, 2021

- Dhiral Shah:** Lastly what is your volume guidance for the next one to three years or any targeted capacity utilization for the next one to two years?
- Sameer Gupta:** We are trying to increase the capacity utilization up to 80% by the end of two years, so we are increasing the sales of the segments where we are not able to sale so some of the segments are being overloaded and some of the segments we are trying to sell hard because of the market conditions, so at the end of two years we are trying to increase the capacity utilization up to around 80%, but of course that is you can say again should be two years down the line we are talking about let us see how we can move.
- Dhiral Shah:** Okay so out of 125000 you are looking at 80% utilization by FY2023?
- Sameer Gupta:** Yes one lakh tonnes.
- Dhiral Shah:** Okay. Thank you so much and that is it from my side.
- Moderator:** Thank you. The next question is from the line of Kushal Jajodia from Kushal Jajodia & Associates. Please go ahead.
- Kushal Jajodia:** My question is that during the COVID period how many dealers have been increased in FY2021 and how do we forecast in FY2022?
- Sameer Gupta:** The dealers you can say around 10% to 15% number of dealers have been added and we are continuously working on increasing of either the dealers or retailers, so right now we are not able to tell you the exact numbers, but of course it will be minimum 10% to 20% of the dealer additions will be there and 25% to 30% of the retail touch points will be there.
- Kushal Jajodia:** Sir my second question is since we are a part of famous Apollo group so the building segment of the other group companies like Tricoat or APL steel pipes is that helping in the increase of dealers in Apollo piping system?
- Sameer Gupta:** Of course we will definitely get an edge because of being a part of Apollo group, the dealers grant a respect that we have, and we definitely get support in selling the products in the dealer network, so the support is definitely there and we get support in marketing of product because of the Apollo steel brand.
- Kushal Jajodia:** I have just one last question Sir we are forecasting a good revenue growth personally I am expecting Rs.800 Crores in the next year so how do we see future aspect in the turnaround of the business, vision or something in the next three to five years?



Apollo Pipes Limited
May 05, 2021

Sameer Gupta: First of all we are trying to increase the utilization level, which will be of course if we increase the utilization level it will definitely support increasing the top numbers to be around 700 or 800 Crores that we are expecting, but of course down the three years or five years once we achieved this target we will definitely aim higher figures and we will try to increase these numbers to around 30% to 40% growth in the coming years, but again as we move forward by seeing how things are moving we will take the step and try to maximize the sales and maximize the profit.

Kushal Jajodia: Thank you so much.

Moderator: Thank you. The next question is from the line of Aashil from CJ Shah and Co. Please go ahead.

Aashil: I had a couple of questions, one was you said that the building products had given you better margins as compared to the agri side, can you provide some numbers to that and secondly is there margin differential due to product mix or is it the same product get better margins?

Sameer Gupta: Of course building products get a higher margin as compared to agriculture products and agriculture products the EBITDA margin runs from around 7% to 12%, 7% to 10%, depending on market-to-market whereas building products still at the margin of around 15% to 20% on average basis so definitely because of those reasons we are trying to increase the market share of building products and other portfolio and what exactly was your question is product mix, of course we are targeting to have good product share of building products in our product mix and we are working on that front only, so going forward you can say the product mix will be getting better by increasing numbers of building products as compared to agriculture products.

Aashil: Got it and Sir you also mentioned that you are planning to get up to 125000 tonne around 80% capacity utilization in the next two years that would mean that you would have some sort of 40%-45% volume growth, is there any plan behind how you aim to achieve that?

Sameer Gupta: Of course, there is no such rocket science for achieving those numbers, we have to work hard in the markets regarding the brand building, regarding the product distribution or the retail or the touch points increasing we are working on that front only and the brand is quite good and it is visible all across India because of the very big steel brand that is we are working with so there should not be a very big challenge for us, seeing the brand visibility and the brand presence across the India for the steel brand, so we are mainly working with that increasing the numbers of dealers and the touch points where we can increase our sales.



Apollo Pipes Limited
May 05, 2021

- Aashil:** Understood Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Jaspreet Singh Arora from Equentis Wealth Advisory. Please go ahead.
- Jaspreet Singh Arora:** Congratulations and thanks for the opportunity. My first question is around that one of the previous participants also asked, so there are two things, one is leveraging the brand, the distribution skill, etc., which we have done and the other thing related to the brand ambassador, which obviously you said, so I believe so far we have been not spending as much because we would have probably been using the indirect benefits of Amitabh Bachchan associated with the APL Apollo group, so going forward did you mean that we would now have our own brand ambassadors and therefore upper ad spend or the whole year strategy of the last two or three years will continue I am not very sure what you meant by?
- Sameer Gupta:** Yes of course we get the leverage from the steel brand because the brand funding is much higher in the steel plant and we get a liberty because of those spending in the market, and if we talk about Apollo we are looking for tie-up with some of the brand ambassadors, which has been finalized, but because of the COVID the shoot was delayed, so it will be coming into the picture by the end of this quarter and from the next quarter we will be coming on air. So we will be having our brand ambassador for Apollo pipes, which will be seen in the TVCs or the public hoardings, so definitely because of these things we have to increase our ad spend and right now it is somewhere around 1% to 1.5%, which we consider going up to around 3% in the coming year.
- Jaspreet Singh Arora:** Sure got it and I believe April you mentioned this last part of second half of April was slow because of lockdown, so within geographies where we supply and within segments the two main segments building products and agri, which of them would have seen a higher dent, so just geography wise and segment wise to the extent that you have a color so far?
- Sameer Gupta:** Actually what has happened that some of the states in southern regions as well as some of the states in northern regions they have been affected by this COVID, apart from that in UP if you talk about the local panchayat elections were going on during the last month so that was also hampering the demand of the state, but of course we were trying hard to sell our product in the last month also, but because of the state lockdowns in the last few days of the month so that has impacted otherwise it was very much within control and we were getting regular orders from them, but right now the things are very much in dark and we are not clear that how the government will take steps control the COVID and by what time they can control it, so we are not very sure that how the things will move in this quarter. So as we



Apollo Pipes Limited
May 05, 2021

move forward and the things will be cleared we will let you know that what exactly we are targeting for this quarter and the current year.

Jaspreet Singh Arora: So what I meant was like same period last year the agri was probably moving because of the focus on rural was not impacted that smaller towns was not impacted while the building products was impacted, this time around is it correct to say that both the segments are impacted?

Sameer Gupta: I think you are right here, this time both the things are impacted because in today's time rural markets are also affected because of COVID last time it was not there it was mainly into cities and urban areas and right now it is into the villages and smaller areas also.

Jaspreet Singh Arora: Okay got it.

Moderator: Thank you. The next question is from the line of Namit Mehta from KC Capital. Please go ahead.

Namit Mehta: Just a couple of questions from my side, one on the distribution strategy if you can just walk us through the value proposition that you have for your distributors and also there are some discussions about whether our focus is on capturing dealers, competitors or more in terms of cultivating new dealers and distributors?

Sameer Gupta: Of course if you talk about distribution as a strategy right now we are trying to give better services to our dealers and the distributor gets a better margin as compared to other competition in our product, so because of that thing they are much more inclined to sell our product in the market and because of the less availability in the market. Secondly if you talk about the support to the distribution sector we are trying to get market with them and increasing their retail touch points and our team is working with them to increase their market share, so in this case sometimes we get regular distributors apart from that sometimes we also developed some of the steel or other distributors into this product who are inclined to invest money into this business or increase their business, so both ways we are working with existing dealers who are working in the same product with other brands and we are also developing some new distributors also who are inclined to increase their business in this quarter.

Namit Mehta: Great thanks and another question with regards to manufacturing network, so I realized that our power plant network is more distributed across states that gives us more of a pan India presence whereas some of our competitors are more focused regionally and concentrated in



Apollo Pipes Limited
May 05, 2021

larger plants in specific areas can you walk us through that strategy and what are the pros and cons there as well?

Sameer Gupta: Of course we get a benefit because of the plants located all across the country in four different zones like East, West, North and South so we definitely get an edge because of this plant distribution and our strategy is mainly to provide the material at the best rates to the distributors so that they can compete with the local markets or the local manufacturers that are there in their locality and we definitely get an edge as compared to our distributors if they wish to selling the product in any particular region and we get demand from all across the country so that brand visibility is much higher as compared to any regional player who is available there, so because of these things we get an advantage and of course the lead time is also reduced because of the local presence of our manufacturing facilities at the different locations.

Namit Mehta: Okay thanks and last question from my side how you are seeing competitive intensity in the agri pipe space, couple of competitors have been increased so are you seeing any benefit there?

Sameer Gupta: No, the competition is still there in agri pipes because there are many unorganized players also there in agri pipes so the competition is still continuing at the same level we do not see any softening of competition in the agri pipes, but we are much more focused towards building products so that is not our main focus area, but of course we are fighting the competition because of the competitors available all across the country whether it is organized or unorganized the agri pipe business is much more crowded as compared to building products.

Namit Mehta: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Kashyap Javeri from Emkay Investment Managers. Please go ahead.

Kashyap Javeri: Thank you so much for the opportunity. Two questions, I am sounding a bit repetitive, but I missed your comments in the middle about expansion of the distribution channel if you could repeat the numbers about what is the dealer network now and how many have we added in the last 24 months that is the first question, second to understand that given the shortage of the PVC resins as well as the pricing of PVC resins a lot of competition has moved out in regional spaces, but on a long-term this distribution channel plus the fact that you now have a brand ambassador, which nation associates with, in a longer term how does



Apollo Pipes Limited
May 05, 2021

this benefit once that competition probably comes back into the picture these are the two questions I have?

Sameer Gupta: Mr. Kashyap your second question was not clear can you please repeat again second question?

Kashyap Javeri: Sir my second question was that I do understand that given the PVC resins shortage as well as rising prices a lot of competitions has moved out of the market, but in a longer term let us say when the prices stabilized and the supply does also stabilize your distribution network plus the fact is that we are going to do marketing including a brand ambassador, which the nation knows or associates with, in the long-term how do you expect that to help sustain the kind of numbers that we have today?

Sameer Gupta: Of course, thank you Sir. First of all regarding the distribution network we have increased the distribution network by around 10% to 15% in the last financial year mainly in the last quarter because first quarter was very much hit and second quarter onwards we started marketing, but because all the various limitations we were not able to market very freely, so we are working hard in increasing the distributors and apart from that we have also increased the touch points by 22% to 25% in the current financial year by working hard with the various dealers by increasing their sale points and increasing their reach in the nearby areas where they can sell the goods and making our retailers available at each and every points within the vicinity, so in that way we are supporting our distributor network to increase the sales.

Kashyap Javeri: What is the number today?

Sameer Gupta: If you talk about that touch points or talk about this distributor network?

Kashyap Javeri: Distributor network.

Sameer Gupta: Distribution network should be somewhere around, right now active distribution network should be around 300 to 400 distributors should be there and apart from that if you talk about total it should be around 500 to 600, but if you talk about the active it should be around 300 to 400 active distributors are there working with us right now and secondly if we talk about the resin prices right now the resin prices are very high and that is a major concern for the smaller or the unorganized players to market their product and apart from that resin shortage is also continuing, but that resin shortage was not there because of lack of ability to import it or buy it from the regular sources but the shortage was mainly because of their low availability from the Reliance or the local manufacturers those are not able to



Apollo Pipes Limited
May 05, 2021

sell their product in the market, so because of that thing smaller players or unorganized players facing trouble, in the coming days definitely they will try to increase their footprints or the market share in the market, but right now if you see that those players are mainly into agriculture pipes only and we are mainly focusing building products in which you do not see much of the players working with fittings or the other segments, so our market will not be going to be too much changed because of the change in this raw material prices or the resin availability improves we are not going to see too much challenge in marketing our product and apart from that if we associate our brands with some good brand ambassador definitely we will get an edge on marketing our product and definitely it will help in improving our market share in the coming time.

Kashyap Javeri:

Sure thank you so much.

Moderator:

Thank you. The next question is from the line of Karan Bhatelia from Asian Markets Securities. Please go ahead.

Karan Bhatelia:

Sir now that **(inaudible) 54:11** started so how is the behavior of our dealers, distributors, are they stocking less of the inventory in the anticipation of the product downfall so how do you see things now?

Sameer Gupta:

Of course the prices are going down and dealers or the distributors they are a bit cautious because of that down prices, but as the lockdown is also going on so they also know that the product availability will also be a big challenge in the coming days because the number of labors are not available in any of the works in the country because of the COVID fear, so there is a bit of dilemma in the dealers or the distributors mind that whether to keep the inventories or to reduce the inventories, of course because of the fear of the price drop they are trying to work at the minimum inventory, but still they are managing the minimum level of inventory with them so that they will not miss the season opportunity if the market opens by the second half of the month or later in the month, so they wish to grab the opportunity apart from that they do not want to face any loss because of that price drop, so they are working in both ways where the margins are good they are keeping the inventory with them and where the margins are low they are trying to deplete the inventories.

Karan Bhatelia:

One more thing there is like more than 1500 SKUs now so what could be the number of SKUs if you can throw some color?

Sameer Gupta:

If you talk about the fitting segment right now around 1000 SKUs are there in the fitting segment alone.



Apollo Pipes Limited
May 05, 2021

- Karan Bhatelia:** Okay thanks for sharing that was helpful.
- Moderator:** Thank you. The next question is from the line of Rahul Agrawal from InCred Capital. Please go ahead.
- Rahul Agrawal:** Thank you so much for taking my question. Sir I had three or four things, firstly I can see the company growing in the right direction, as you said the quality is the same, the distribution network effort and how the leaders have been doing it you are doing the same thing, the regional plant locations are pretty much, you are trying to get into East and South, which is weaker segments right now, most of the players are trying to expand into eastern market as well, in terms of SKUs you are trying to build up lot of fittings and tanks, so product basket is great, you have CPVC, PVC both, the earlier participant also asked what is this price proposition for the customer and you are basically offering them most of it what other leaders are offering and I am trying to understand Sir what is the right to win here for Apollo Pipes obviously it comes very naturally that Apollo had a great presence in steel, the business has done really well in the last 10 years and hence natural transition for you to grow into plastic pipes, but if you could just give me top two points for any new players enters the pipe segment why they should be successful, is everybody can replicate what we are doing, and put factories at four corners of the country is that the only proposition we have, obviously you need the balance sheet for that, I understand that, but if you give it two points on that please?
- Sameer Gupta:** Mr. Rahul first of all if we see the brand, if we talk about the competition and see the Apollo brand. Apollo brand is quite big as compared to the competition that was available in the market plus steel segment is very big and we are selling some around 2 lakhs tonnes of steel pipes in a month so that definitely gives an edge to Apollo PVC segment to sell the product in the market, which is of course not available with maximum of the brands that are there in the market, so the brand visibility or the brand acceptability that has to be there in the market, which is there available with the Apollo and it is not there with each and every competition that are there in the market. Of course, in some of the markets the players they are working hard with their brand also, but dual support from the steel segment apart from that we are also spending on the branding activities of Apollo PVC segment so we get a dual benefit because of the common brand between both the companies, so first of all that benefit we get in marketing our product. Second of all of course it is very easy to put up a plant of PVC across the country and we can get a market share in the product of PVC pipes selling increasing the portfolio or increasing the intensity lower distributor, but it is not like that actually we have to get our distributors or the dealers or the retailers have a belief in our brand or they have to see that how thoroughly they see their business going in our business so instead of just the customer if we make them our channel partner or we make



Apollo Pipes Limited
May 05, 2021

them part of the growth so they are much more inclined towards selling our product and we are trying to focus in that thing only, we are trying to make our channel partners as the real partners in our growth and they are also going along with Apollo so they are much more inclined in increasing the product sales and they are also increasing the profit margins because of that you can see increasing sales so because of that thing only we are trying to increase the sales. Apart from that of course the second thing is only there that the brand visibility as compared to other competitors is still with us, which we definitely have an edge in selling out product.

Rahul Agrawal: Got that. Second question was so let us say today if I had to compare any particular pipe segment whatever product you want to choose what would be price difference between Apollo pipes versus Supreme or Ashirvad or Astral, whatever product you want to pick up just ballpark?

Sameer Gupta: Yes it is roughly around 3% to 4% you can say expensive than our product.

Rahul Agrawal: Okay got it. Two small questions PVC capacity and revenue for fiscal 2021 in fourth quarter could you share that please?

Sameer Gupta: We cannot share on a public platform, but of course it is increasing by around 30% to 40% annually and this year we have again increased the volume by 30% and the value by 40% in the CPVC and the fittings we have grown by around 40%, we may share this on e-mail on case to case basis .

Rahul Agrawal: Got it and last question if I look at five years out from here let us say 2025, 2026 I understand 2023 plan will Apollo pipes be similar to a plastic product company like what Supreme is doing having presence across plastic products or in terms of your planning you are working towards pipe right now obviously, but directionally where does the company go over five to 10 years?

Sameer Gupta: We are actually trying to focus on the plastic products, it is not only plastic pipes, it may be fitting products, but right now in Apollo pipes we are mainly focusing the plastic products only and we are trying to increase our product share or the product basket or the capacity in this segment only, so down the years we are not planning to add any other material in our group we are just trying to add the plastic products in the segment only.

Rahul Agrawal: So for example, Astral added adhesives, will adhesives be attractive opportunity or you think you would not do it and you stick with plastic products?



Apollo Pipes Limited
May 05, 2021

Sameer Gupta: Right now we will stick to the plastic products, right now the adhesives that we are selling it is mainly used with the plastic pipes only so it is at a very small scale, so right now we are not focusing too much on adhesives support it is a big business and many other companies are running there is a whole company on the basis of adhesives only, but right now our main focus is plastic and building products only.

Rahul Agrawal: Perfect. Thank you so much for answering my questions. All the best.

Moderator: Thank you. The next question is from the line of Arpit Shah from Stallion Asset. Please go ahead.

Arpit Shah: Hi just wanted to know how our EBITDA per tonne would be moving going ahead if I just see numbers for the last two years it has been around Rs.10000 EBITDA per tonne and this year for the last two quarters it was higher of 20000 and if I see some of the larger companies like let us say Supreme or National they have been in upwards of Rs.35000 to Rs.40000 per tonne, so how do we see EBITDA per tonne?

Sameer Gupta: Actually the EBITDA per tonne is mainly depends upon the product basket that we sell and the product basket of Supreme or Astral or Apollo they are not very much same, they are similar but not the same, so it changes from company to company depending upon the product mix that we are selling like we are selling these taps and faucets that have a totally different type of EBITDA per tonne whereas the pipes have different type of EBITDA per tonne and the fittings have different type of EBITDA per tonne, so we are much more focused on the individual product EBITDA instead of taking the company as a whole EBITDA per tonne.

Arpit Shah: So probably if I look at the realization of the different products, bath fittings, pipes and agri, the difference would come in realization not in EBITDA?

Sameer Gupta: EBITDA changes from product to product the taps and the faucets, the selling price of that product is somewhere around 500000 per tonne if you talk about the solvents it is around 3000 to 4000 per tonne or if you talk about the CPVC it is around 300 to 400 per kg or pipes it is around 150 to 260 per kg so it changes from product to product so it is very difficult to focus on this thing so we are much more focused on individual products rather to taking all products in one basket and calculating as a whole.

Arpit Shah: I am just comparing the pipe business, so if you see the EBITDA per tonne if I take let us say 50% to 60% of our volumes they will still come around 22000 that is for the last two quarters?



Apollo Pipes Limited
May 05, 2021

- Sameer Gupta:** I could not get you.
- Arpit Shah:** If I just talk about the pipe business, the pipe business will be around 50% to 60% of volumes right?
- Sameer Gupta:** Yes.
- Arpit Shah:** If I just take those volumes in compare it to the revenue the realization is obviously on the lower side as compared to some of the other players in the market?
- Sameer Gupta:** Of course yes it is on the lower side as compared to other products that we are selling, but if you talk about the EBITDA margin of the pipe it is somewhere around 8% to 10% because of the season period and changes from month to month because of that, but it is somewhere around 8% to 10% of the total product.
- A.K. Jain:** Also like we mentioned on the call earlier that the other players are having 3% to 4% extra margin than APL Apollo that means there will be 3%, 4% increase in the realization for the other players so that is also the factor.
- Arpit Shah:** One just last question if I just talk about your parent company that is APL Apollo, APL Apollo succeeded when they add lower cost of goods and differentiated product line, that is what helped them to become a leader in the market something so is that something that we are trying to do differently in Apollo Pipes where we can actually not become a market leader but expand the market and what would be the competitor advantage?
- Sameer Gupta:** We are trying to add some of the products in our product basket that can give an edge to market the product and give the Apollo Pipes a different standing as compared to our competitors, but right now we are much more focused towards increasing the volumes and as well as the capacity utilization of our company, apart from that if some of the products we get add into our product basket that give us differentiation with our competitors, we will definitely take the edge of that thing and increase the brand presence or margins with the help of that product, but definitely in the coming years how things move and how we get support in our product basket.
- Arpit Shah:** So broadly we are targeting utilization of 80% by FY2023 so that roughly translates to around Rs.900 to Rs.1000 Crores by FY2023 how confident are you on achieving that target?



Apollo Pipes Limited
May 05, 2021

- Sameer Gupta:** We are quite bullish on this target because we are getting good response from the market from the last two quarters the brand acceptance is very good there and the capacities that we have to add that has been added and we have the capacity to supply the product in the market so we are quite aggressive in achieving this target.
- Arpit Shah:** This will be coupled with margin expansion right?
- Sameer Gupta:** Of course we will be there but we are trying to maintain the same margin level and first of all we try to increase the market share.
- Arpit Shah:** So around 150 to 160 Crores in FY2022?
- Sameer Gupta:** Maybe we can see somewhat we do not know right now.
- Arpit Shah:** What would be working capital cycle by FY2023?
- Sameer Gupta:** It should be less than 50 days you can say for the coming days because we are not much more focused to increase the working capital cycle, so it should be maintained in the coming years.
- Arpit Shah:** **(inaudible) 1:8:17?**
- Sameer Gupta:** We do not know because these are two different products so I do not know how the product will behave in the coming days. Definitely we would like to keep the working capital cycle at the minimum whatever best we can do and we are focused on that thing.
- Arpit Shah:** Since we just entered the tank business or the solvent cement business would you like to enter more new products or the new opportunity or would you like to scale up these businesses?
- Sameer Gupta:** First of all we would like to increase the volumes for this business that we have already started in our product so we will be scaling up these products only, later on if we get an opportunity to add up any good product, which has a good EBITDA margin or good sales potential then we will see for that, but right now we are much more focused for the current products only.
- Arpit Shah:** The revenue contribution for these products will be somewhere around 20% by FY2023?
- Sameer Gupta:** Of course it will be somewhere around 20%.



*Apollo Pipes Limited
May 05, 2021*

- Arpit Shah:** Okay thank you good luck Sir.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to the management for closing comments.
- Ajay Kr Jain:** Yes thank you all for the participation. I hope we have been able to answer all your questions satisfactorily. Should you need any further clarification or would like to know more about the company please feel free to contact our team. Thank you once again for taking the time to join us on this call and have a good day and I wish you all good and safe.
- Moderator:** Thank you. Ladies and gentlemen on behalf of Motilal Oswal Financial Services that concludes this conference. Thank you for joining us and you may now connect your lines.