



Apollo Pipes Limited

Q2 & H1 FY20 Earnings Conference Call Transcript

November 14, 2019

Moderator: Ladies and gentlemen, good day and welcome to the Apollo Pipes Limited earning conference call. As a reminder, all participants' 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 * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Anoop Poojari from CDR India. Thank you and over to you, sir.

Anoop Poojari: Thank you. Good afternoon everyone and thank you for joining us on Apollo Pipes Q2 and H1 FY2020 earnings conference call. We have with us, Mr. Sameer Gupta – Managing Director and Mr. Ajay Jain – CFO of the company. We will begin the call with opening remarks from the management, following which we will have the forum open for a question and answer session.

Before we start, I would like to point out that some statements made in today's call may be forward looking in nature and a disclaimer to this effect has been included in the earnings presentation shared with you earlier. I would now like to invite Mr. Sameer Gupta to make his opening remarks.

Sameer Gupta: Hello everyone. On behalf of the entire management team of Apollo Pipes, I would now like to extend a warm welcome to all of you for our Q2 & H1 FY20 Earnings Conference Call. I will now share the operating highlights with you.

During the quarter, we had delivered a steady operational and financial performance despite facing external challenges such as muted demand sentiments in the domestic market and impact of heavy monsoons and flooding in key geographies. We have reported a sales volume growth of 11% in Q2. This was driven by a healthy contribution from the CPVC, HDPE pipe and value-added product segments of 'Fittings'. Steady volume growth was resulted in a healthy revenue growth of 14% Y-on-Y at Rs. 96.5 crore. Profitability during the quarter remained healthy with operating profits and PAT growing Y-o-Y by 18% and 29% respectively.

From an operational standpoint, our existing manufacturing facility at Dadri and Ahmedabad continue to mark a stable operating progress. The utilization levels at these plants are steadily increasing and we remain

confident of further improving it to the optimal levels in the quarters ahead. The integration of the recently acquired plant at Bengaluru is also progressing well. We are focusing on strengthening the dealer & distribution system and building on our brand presence in the existing and newer geographies. This will enable us to capture a higher market share and solidify our business operations in the markets.

Our previously-announced capacity expansions are also on-track. The brownfield expansion at Dadri facility is as per schedule as the Company expects faster ramp-up in existing capacity, given the stronger demand scenario in the North India markets. In addition, the Company is also establishing a manufacturing line for its high-margin 'Fittings' product at the recently acquired facility in Bengaluru. With better capacity utilization levels and expanded capacities going on stream, it should enable us to deliver a healthy sales momentum, going forward. In Ahmedabad, the ramp-up in volumes have been below internal expectations as we are operating in a relatively new geography in a tough environment. So we are working towards driving volumes from this facility in the second half leading to higher utilization of the facility. Following which, we will aggressively take up the expansion plan in this location.

We are also pleased to share that our brand new range of products that we launched last quarter such as the premium plastic faucets, taps, showers, and other accessories, are receiving a very positive response from the market. Going ahead, we remain keen on growing its share in our product basket.

On the macro-front, the Government is undertaking various pro-growth measures in the irrigation, sanitation and housing segments. This, along with the recently announced 'Nal Se Jal' government scheme should lead to better demand and consumption of PVC pipes in the domestic market. To further build on this opportunity, we have already registered with the state boards of Rajasthan, Haryana, Uttar Pradesh and Madhya Pradesh and are also registering with other key state boards such as Punjab, Uttaranchal, Maharashtra and Chhattisgarh.

So, on the whole, we believe we are well positioned to capitalize on the enormous growth potential across the Indian market. Further, our focused approach towards increasing market share, improving capacity utilization at existing plants and our innovative product portfolio should also help us to deliver and maintain a strong a sales volume growth of 25-30% CAGR over the next 3 years.

Before I conclude, I would like to share that Apollo Pipes' shares have begun trading on the National Stock Exchange (NSE) effective at the open of markets on November 11, 2019. The trading of Apollo's shares on the NSE will play a key role in increasing the stock visibility among investors, enabling an improvement in the investor base.

On that note, I would now like to invite Mr. Ajay Jain to run you through key financial highlights of the quarter and half year ended September 30, 2019.

Ajay Jain: Good afternoon everyone. I will briefly cover the financial performance during the quarter and half year ended September 30, 2019

In H1FY20, our total net revenues grew by 15%, stood at Rs. 214 crore vs Rs, 185 Crore in H1FY19. The net revenues for the quarter came at Rs. 97 crore as against Rs. 84 crore in Q2FY19, higher by 14%. Our volumes for the quarter stood at 10,306 MTPA as against 9,271 MTPA in the corresponding period last year, delivering a growth of 11%. Volumes for the half year ended September 30 stood at 24,258 MTPA, up by 16% as compared to 20,910 MTPA in H1FY19. The volume growth was driven by a healthy contribution from the cPVC, HDPE pipe and value-added product segment of 'Fittings'.

Moving on to the profitability front, our EBITDA for the quarter increased by 18% YoY to Rs. 12 crore as against Rs. 10 crore in Q2FY19. Margins for the quarter were higher by 56 Bps and stood at 12%. EBITDA for H1FY20 stood at Rs. 30 crore as against Rs. 26 crore in the corresponding period last year, growing by 15%. Improving contribution from the high-margin 'Fittings' segment resulted in a better margin performance during the period.

Depreciation costs during the quarter were up by 25% in Q2 FY20 to Rs. 3 crore. For H1 FY20, it stood at Rs. 6 crore as against Rs. 5 crore in the same period last year, higher by 20%. Higher depreciation was on account of commissioning of new capacities. PAT for the quarter grew by 29%, stood at Rs. 6 crore compared to Rs. 5 crore in Q2FY19. PAT for the half year ended 30th September, 2019 stood at Rs.16 crore as against Rs. 13 crore in the corresponding period last year, higher by 17%.

With this, I would now request the moderator to open the forum for any questions or suggestions that you may have. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Saurabh Poddar from Lucky Investment. Please go ahead.

Saurabh Poddar: I had a few questions for you. First of all, do we have any excess inventory or debtors in the dealer channel?

Sameer Gupta: No sir, it is very much in line, we don't have any excess inventory, or you can say debtors. We are pretty much as per the business that is going on. A little bit of increase is there because of you can say low season demand, otherwise pretty much in line.

Saurabh Poddar: Can you quantify the increase, is it a significant increase?

Sameer Gupta: In debtor days, there is not so much, around, you can say 20% or 25% increase is there in the debtor days. Other than that, you can say that the inventory is on the lower side as compared to the previous quarter.

- Saurabh Poddar:** My next question would be, what would be our breakup of the B2B, B2C like contract business? I think if I clearly remember 10% of our business was contract business but if you could just clarify?
- Sameer Gupta:** Again, it is on the same line, we are not pretty much focused on the contract business. We are mainly working with the dealer network and the trade network only.
- Saurabh Poddar:** Last question from my side would be, are we planning to tie up with various state bodies in terms of doing government contracts going forward and if so, what would be the working capital cycle there?
- Sameer Gupta:** No, let me tell you, we are tying up with the state body government for supplies, but we will not be supplying directly to them. Our brand is registered with them and our distributors or dealers, they will be supplying to these channels. So, in any case company will not be directly supplying to any of the state bodies.
- Moderator:** Thank you. We take the next question from the line of Ankit Merchant from SMC Global. Please go ahead.
- Ankit Merchant:** My first question is related to the utilization levels across the plants, can you throw some light on it?
- Sameer Gupta:** Across the plant, if you talk about utilization levels, Dadri is pretty much in line with utilization level. It is above around 75 to 80% for H1FY20. If you talk about Ahmedabad, because being a newer market and newer geography, it is somewhere around to 40 to 50% of the utilization level.
- Ankit Merchant:** And for the whole year, the Ahmedabad facility will be operating at 40% to 50%?
- Sameer Gupta:** We are targeting to take this facility to around 60% by year end, which we are targeting. By March 2020, we should reach this utilization.
- Ankit Merchant:** And the Bengaluru facility will start by when?
- Sameer Gupta:** For the Bengaluru facility, we are already in progress, our team has already lined up there and we are ramping up all the necessary initial arrangements at this facility. So by this month only we will be starting the production at Bengaluru facility.
- Ankit Merchant:** My another question is related to the raw material pricing, I believe in the last quarter the realizations had gone down, so are you seeing any uptrend in the raw material and vis-à-vis what is the price realization which we have been able to get?
- Sameer Gupta:** The price trend if you talk about the major raw materials for the current and the next quarter, it is pretty much under pressure right now but we see that from the next quarter it should start increasing but in the current quarter we don't see any major, you can say, increase in the prices of the raw materials

in current or the next month. From January, I think that it should increase and accordingly, the prices of our finished goods will move if it increases, but if you talk about trend, it is, you can say right now, at the stable end. It is not decreasing and there is not too much scope for increasing.

Ankit Merchant: When it comes to our dealer management, are we seeing any sort of delay in payments or the contracts getting delayed or related to any issues in the payments?

Sameer Gupta: No, slightly you can see this is as per the business scenario. Some of the dealers get stuck sometimes, somewhere but it is general business dealings. There is nothing alarming that we should be concerned about. It is as per the general business practice only and all our dealers that we are dealing with, they are pretty old and they are right now in track with the payment terms, not very alarming. Seasonal effect is only there.

Ankit Merchant: And just one last question from my side. So for the states which you are operating in, how is the scenario when it comes to the irrigation projects or the projects which have been undertaken and which particular projects are we keenly looking forward?

Sameer Gupta: If we talk about the projects, you are talking about the government projects?

Ankit Merchant: Yes.

Sameer Gupta: For the government projects, earlier also I told that we are not very much keen to supply to the government projects. We are only supplying to these projects who have a distributor dealer network. So, because of that, considering the volumes are not very high with these government projects unless and until we participate directly in these projects. So, we are not relying on these projects for our volume growth. We are much more focused on the trade, you can say, general market where we will be establishing our brand to get the market share from this.

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

Praveen Sahay: As you already reported that 11% of the growths in the volumes, can you give some more colour on that because if I look at your PVC business, it is flat, so we had not observed any volume growth in that?

Sameer Gupta: So, if you talk about the volume growth of 11% it is mainly derived from our value added products such as CPVC and Fittings which we are mainly focused on and as our brand is getting more popular day by day. We are getting good response for these products from the market. Apart from that, we are getting good response for our HDPE pipes also. So put together, we are getting the volume growth mainly from these products. PVC, because of the low season during the last quarter and good monsoon was there, because of that the demand was very low in this quarter, so we could not register a good growth in that agri pipes. In the coming time we also see that there

should be a growth in this product also. So, put together, there should be healthy growth for all in the company.

Praveen Sahay: Sir, there is a sales number that is flat, and we can see there is some improvement in the PVC prices, so have you observed a de-growth in the uPVC pipes?

Sameer Gupta: No, there is no de-growth in the PVC pipe sales. The prices are pretty much you can say stable and it was dropped only during the last month of the quarter, so the price impact was not too much on that and the prices if you see during the whole quarter, it was pretty much stable. The volume has not de-grown, it is growing, but very marginal growth is there, around 3 to 4% pipe growth is there, but overall if you see that, put together other products, cPVC and these Fittings, we have registered the growth.

Praveen Sahay: And secondly on the cPVC as you are focused on and growing in that and there is an anti-dumping duty imposed on the Korea and the China, cPVC procurement, is that impacting you whether you have a procurement from or you are taking from the Korea and Chinese player?

Sameer Gupta: Regarding the cPVC supplies, we are taking the supplies from Kem One PVC plants from France and there is no antidumping on these plants, so we are pretty much in line with for our supplies and there is no impact on our cost. They have increased the cost of material because of the antidumping, but it is as per the industry standard, the entire industry is going for this increase. So we have not been affected by such antidumping on our products.

Praveen Sahay: And any capacity number can you give in the PVC? How much is yours?

Sameer Gupta: cPVC?

Praveen Sahay: Yes, how much is yours?

Sameer Gupta: cPVC, right now we have the capacity of making some around 380MTPA which is increasing slowly and right now it is at 380 MTPA.

Praveen Sahay: And Bengaluru, have a facility to offer cPVC pipe or a uPVC pipe?

Sameer Gupta: No, the facility for cPVC pipe is there in Bengaluru. With the addition of this, additional you can say around 1.2 KT will be added at the Bengaluru capacity for this, which is actually included in the capacity that we are disclosing.

Praveen Sahay: Also in a press release, you mentioned about you are increasing your fitting capacity in the Bengaluru, so how much is current fitting capacity and how much you are adding?

Sameer Gupta: If you talk about the Bengaluru unit, there is no facility for Fittings right now. So, we have ordered new machines for Fittings production at Bengaluru unit and we have ordered also the Moulds for making those Fittings. Apart from

that, we are also increasing the capacity of Fittings at our existing set up at Dadri also.

Praveen Sahay: And currently, can you give the SKUs number?

Sameer Gupta: SKUs, talking about Fittings, it is roughly around 800 SKUs and if you talk about metric tonnes, it is somewhere around 6000 MTPA capacity is there with us, right now for Fittings.

Praveen Sahay: In the presentation, you had mentioned about the Q2 FY20, 57 distributors increased. So in which geography those have increased and in which segment? Agri or plumbing, which segment?

Sameer Gupta: As we are entering into the new markets for South and the Western India, we are mainly working for increase in distributors in these areas only. We are increasing distributors for both the products, for agricultural products as well as for the building products. Apart from that, because of the products are getting enhanced, we are also able to reach to the Eastern markets. We are also increasing our distributor network in those areas also. So, put together, the distribution has increased, and it is for both products for agriculture as well as building products. Our main focus is on building products only for the near future.

Praveen Sahay: And as you have talked about the East geography penetration, how are you serving the East geography, from which part?

Sameer Gupta: We are serving the East geography from Dadri plant only and we had started it last year when we were having a plan of putting in Raipur, but right now it is deferred, but the dealer expansion and the distributor appointments are already going on in these areas and we are working for building products from the Dadri plant only.

Moderator: Thank you. We take the next question from the line of Ankit Gor from Systematix Shares. Please go ahead.

Ankit Gor: Sir, my question is with regards to distribution. We have seen good amount of addition in distribution, is it mainly because of reach hence going out in Western and Southern market and we are able to get benefit of it and if yes, will this number aggravate further?

Sameer Gupta: Actually Ankitji, what exactly is happening that we are hunting the new markets and we are appointing new distributors in all the areas wherever we go. Sometimes what happens that we are not sure that which distributor will exactly work for us and what exactly performance we will get from them. So we are keen on appointing the distributors first and as time goes by, we analyse that how effectively the distributor is performing with our product and whether we are comfortable to work with them or not. It may happen in the near future that we might be shifting from one distributor to another distributor in the same area, so that better performance and better results can be achieved in those areas. So, these numbers will remain in this line only and we are basically working for our product distribution at a

larger scale. So, initially, we are much more focused on that line only, because of that thing, we are appointing distributors in all those areas where we are going in the newer markets only, so it may happen that the distributor may be you can say decreased or further you can say changed to some number, but it will be in same line only.

Ankit Gor: My question was more pertaining to the Jain irrigation and Kisan, where they are not going so strong in Maharashtra, in Western region and lot of distributors are shifting to other brands. So my question was pertaining to that, are we just capturing that market as well or not?

Sameer Gupta: Yes, we are trying to capture those markets, but as you know we are new for PVC goods in those markets. We are trying to capture those markets where these companies were supplying and in some areas we are also getting benefit from approaching them, but not in all areas because as per the new brands, they are also very much reluctant regarding believing on the capacity is that what exactly capacities we had over there and whether we will be able to justify to replace that brand of Jain or Kisan. So, we are working on that line and we are getting good response from there because of the absence of some good brands on the market, but you can see that it is going as it is, not at very speedy pace, slowly we are getting the response from the market and they are also giving a good response regarding this thing.

Ankit Gor: And what are the top three criteria for us to select any distributor?

Sameer Gupta: First of all, the financial capacity should be there. The stocking and the holding power of that space and distribution network should be there, and you can say that the person whom we are dealing with, he should be of good nature that we should be comfortable in dealing with them rather dealing with any cunning person; we rather try to deal with the good nature person.

Ankit Gor: My next question is with regards to this Fitting thing, the share of Fitting is comparatively higher versus cPVC pipe, so this Fitting which is 17% share, does it include plastic taps and plastic shower which recently launched or how it is or just it is related to just cPVC, ULV?

Sameer Gupta: It includes plastic faucets also. Right now, the volume for plastic faucets is pretty low and very negligible. So, it is actually not impacting that sale of Fittings too much, so if you see the Fittings numbers, it is pretty much Fittings only. The plastic taps numbers is pretty low right now and we are working hard for the brand and the market distribution. So, if you see the Fittings number, you can imagine that these numbers are mainly from the Fitting segment only.

Ankit Gor: My question was cPVC pipe revenue contribution is Fitting contribution, so the Fitting contribution to the revenue is higher which is 17% compared to cPVC pipe revenue which is just 6%. So, just trying to understand the breakup of Fitting revenue between PVC and CPVC Fittings, if you have them handy?

- Sameer Gupta:** No, right now those reports are not handy with me. If we talk about the fitting revenue, the cPVC actually is growing in line with pipes. Whatever the pipe sales are there and according to that, Fittings are only sold. So, that growth would be line with that only, now the figures are not very handy with me right now, but I will share those details with you later on.
- Moderator:** Thank you. We take the next question from the line of Nikhil Gada from Asian Market Securities. Please go ahead.
- Nikhil Gada:** Sir, my first question is regarding how is the current demand scenario in Agri pipe segment because if I look at our first half numbers, even in terms of overall revenue growth, it has not been that encouraging. Just wanted to understand because are we able to capture market share especially from the unorganized players and how is the overall outlook there?
- Sameer Gupta:** If you talk about the Agri pipe demand, these were affected because of the heavy rains in the last quarter. So, many of the areas we could not supply too much quantity because of flooding in those areas. But overall the demand, we are pretty much in line with supplying in the market for those areas where we are operating. But because of the other constraints, we have been facing challenges for this. It is not like we have been beaten by our competitors in the demand for those areas. So, wherever we are actually working, if the demand is low, we cannot hold too much in those areas because of agriculture product and we are totally dependent on the weather. So, because of that only, we have not registered a good growth in PVC pipes in the agriculture sector, but we are again working very hard so that we can cover up this thing with good numbers for PVC pipes also in the coming quarters.
- Nikhil Gada:** So, my general understanding is that we have seen some amount of shift in the organized space at least in the plumbing pipe segment, but that has not been the case in Agri pipes. So, are we still seeing that the unorganized player continue to remain very strong in the market?
- Sameer Gupta:** Yes. If you talk about Agri pipes where market is dominated by the unorganized players mainly because we had to deal with the farmers directly with them and they are not very educated. They are not that confident with us, but we are looking how to make them understand regarding the quality, regarding the brand presence and regarding other things so that the quality and the brand is at par as compared to our competitors.
- Nikhil Gada:** Secondly on the capacity expansion front, so I understand that you said that we are not being able to ramp up our Ahmedabad facility the way we wanted. According to my understanding we were trying to expand capacity by another 5000 MT in Ahmedabad, so is this plan still on or are we deferring it?
- Sameer Gupta:** No sir, the plan is still on, but we do not want to just add our capacity without any utilization. Our first motto is to utilize the capacity and if it is utilized, then only we will add the capacity. We will just not put up the facility without

any demand over there. So, we are working very hard regarding the demand in those areas and we are pretty sure that by March, we will be adding up the capacity in those areas.

Nikhil Gada: And that will be the case in Dadri as well, because we were expanding capacity over there from 53,000 to 60,000, if my understanding is correct?

Sameer Gupta: In the pipe we will be adding the capacity in Dadri also because we are also working in these areas also and response is really positive in Dadri plant and in the North area also. So, by year end, you will see the capacity addition in Dadri plant also.

Nikhil Gada: Sir just last question. In terms of cPVC, I understand we have done very good growth and there has been an improvement in realization as well. Would it be possible to give a number of how much volume growth did we do in Q2 as well as in first half?

Sameer Gupta: The breakup is for the cPVC that means product wise the breakup is not with me for the volume. I can get this numbers later on.

Moderator: Thank you. We take the next question from the line of Govind Saboo from India Nivesh. Please go ahead.

Govind Saboo: Just couple of questions. One was that we have given a guidance of 25-30% growth for the full year whereas in the first half, if we see the growth has just been around 15%-16%. So, to catch up in H2, we would require a very high growth number, maybe 35%-40% kind of number. So, are we still maintaining that guidance?

Sameer Gupta: Actually, we have given this number with the view that we will be acquiring this Bengaluru unit by September or October, but it was delayed by one or two months. So, because of that, it was a bit delayed, but we are pretty much on target to give a growth of 25%-30%. We have got our total strategy and roadmap for achieving those targets with us. You can say that start of our Bengaluru unit by the end of this month; we will be pretty much in line because the regular growth will be coming from the existing facilities. Apart from that, the Bengaluru unit will be giving us additional support in the capacity of around 3%-4%. So, put together, we will be achieving the capacity of total around 25-30% from the total volume.

Govind Saboo: So, we expect Q4 growth to be back-ended and Q4 to be a high growth quarter for us because Bengaluru will be full and fledged working for us?

Sameer Gupta: Of course, we are working in that line.

Govind Saboo: My second question is regarding our cash deployment. So, we already have a large amount of cash in hand for us around Rs. 125 crore plus there is additional one year of warrant conversion which is supposed to come. So, we would be having a cash of around Rs. 200 crore with us and plus, we are generating cash flow from our regular operations. So, how should we look at this cash deployment over next 18 months or so?

- Sameer Gupta:** Right now, we are looking for the expanding the areas where all the facilities that we have and apart from that we are also looking for the acquisitions that is available in the market. So, by keeping this cash, we are pretty much in line of acquiring any distressed asset that is available in the market at a good price. So we can actually encash on that opportunity that will be available. So, because of that, we are reserving this cash with us. Apart from that, whatever expansion that we are doing that the interest cost is not too high as compared to the reserves that we are maintaining at our end. So, that impact is not on us and to encash any opportunity because right now we don't see new cash requirements in the general business. So, we are nearly targeting on acquisitions of any new projects where we can use this cash. We are only reserving this cash for that.
- Govind Saboo:** I suppose that consideration for Bengaluru acquisition was done in H1, so that is the CAPEX which we see in our cash flow for the H1 around Rs. 23 crore kind of?
- Sameer Gupta:** That CAPEX is not still there in the last quarter. The payment for the Bengaluru acquisition has actually been in this quarter, in the current quarter, this will be seen in the next result. So, with that all those investments that are made on the other facilities like Dadri or our head office that is there in the books right now.
- Govind Saboo:** So, Bengaluru acquisition is still to come, cash outflow plus expansion at Ahmedabad and Dadri are still to come in the H2?
- Sameer Gupta:** Yes.
- Govind Saboo:** And what would be the total CAPEX outflow for those, Bengaluru is Rs. 30 crore and expansion at Dadri and Ahmedabad approximately?
- Sameer Gupta:** Probably around Rs. 15 crore.
- Govind Saboo:** Okay. So, Rs. 30 plus Rs. 15 crore of CAPEX in H2.
- Sameer Gupta:** Yes.
- Govind Saboo:** And sir lastly on the strategy front, and it is a basic question, but I am new to the company, so I would like to ask that. So, on a strategy front, are we competing with branded players like Astral and Finolex and Prince and likes of those or are we trying to compete with the unorganized players - the small timers in the market. So, how are we positioning ourselves in the markets where we operate?
- Sameer Gupta:** When we talk about Astral, or Finolex, they are pretty much bigger in size from our company. But we are working to compete our products with them only. But right now, we are not directly competing with them. We are trying to take the shares of unorganized players and increase our capacities and position our products in the line of these big players. So, we are trying to build up our brand as you are seeing that, the ad for Apollo steel pipes is going on air, or you can say, during the last 10 days it is going on and we

are getting good response because of this advertisement on TV. So, because of all the ATL activities going on, we are getting a good response from the market, for our brands and we have tried to get position in the coming days, we tried to position our brands in competition to these bigger brands, but initially we are not targeting them.

Govind Saboo: Because around 40% of the market share I would say is with four people, Astral, Finolex, Supreme and Prince - these big 4 guys. And rest 60%, there are lot of small capacities which are available. One of them, we might be leading amongst those small capacity players, but like behind the larger ones. So, I just wanted to understand on the strategy front, what we have in our mind.

Sameer Gupta: Actually, we don't want to compromise with the margins, you can say too much on increasing the sales. So, we are trying to maintain some margin as well as increase our sales. So, keeping the both things whether it is a bit tough challenge for us, but we are working in that line, so that we can grow in a healthy way and wherever we are growing, we can sustain ourselves for a longer period.

Govind Saboo: Alright. Sir last question is more kind of a, so in what we have observed is that, we have very well maintained our working capital position. Maybe because we were in our strong region of North India and larger sales were coming in from Dadri. But as we are moving towards Western and Southern geographies and also in Eastern geographies, what kind of working capital should we expect going forward?

Sameer Gupta: In the initial time, you can say that we may face some challenge with the working capital cycle in these new areas because we have to convert the dealer's orders or the distribution network to our brand. So, we may temporarily face some challenges regarding the working capital cycle, but over the period we will again bring all those new players back to our company policy only, which is around 30-40 days of credit which we are working with all the distributors, all across India.

Govind Saboo: So, let us say, near term, next 6 months or 18 months, how much stretch in debtors we should assume?

Sameer Gupta: It should be maintained in this line only where we are right now standing because we are already approaching newer areas and we have increased our debtor days by around 20%, but we are trying to maintain this trend only. We will not be increasing too much on the debtor days.

Moderator: Thank you. The next question is from the line of Forum Makim from Equentis Wealth. Please go ahead.

Forum Makim: I just had a couple of questions. So, sir, we can see an improved contribution from the high margin products like cPVC and Fittings on a QQ basis. But we don't see the same kind of improvement in our EBITDA margins excluding other income on a QoQ basis. So, could you just explain the reason for the same?

- Sameer Gupta:** Actually, ma'am what exactly is happening is that, we are new entrants in this building products line. We are not very old in this building products. So, we are trying to achieve a level in terms of market and newer distribution and dealer networks. For that, we have to pass on the margins to get some product and market so that customer attracted to our products. Because of that thing, we are not straight way seeing increase in the EBITDA margin and impact of margins of these efforts immediately on the EBITDA. But in the coming days these products will definitely be on the picture.
- Forum Makim:** Okay sir. And what would be your margin guidance for H2 FY20?
- Sameer Gupta:** We are trying to maintain the same margin lines that we are what we have achieved earlier.
- Forum Makim:** 12% to 13%.
- Sameer Gupta:** Yes, 11% to 13%.
- Forum Makim:** Okay sir. And what is the peak utilization that we can achieve from the Bengaluru unit?
- Sameer Gupta:** In this quarter or you are talking about the whole year?
- Forum Makim:** For the full year?
- Sameer Gupta:** For the full year, if we talk about, around 5 months only left after this month, so we expect that from 40% to 50% of the capacity utilization we can achieve.
- Forum Makim:** And for FY21?
- Sameer Gupta:** Again, the same like 50% around.
- Forum Makim:** Okay sir. And sir what would be our target debt to equity ratio by the end of the year?
- Ajay Jain:** Actually, if you check out, we already have ample cash with us and which is lying in the shape of FDR, so still our debt equity ratio is negative. There is no debt per se as such on the company. We have not enhanced any working capital limits on the bankers, and we have restricted our term loan facilities also.
- Forum Makim:** And just one last question what is your target for the Fitting's revenue for FY20 and 21?
- Sameer Gupta:** We are targeting Fitting growth at least by 30%-35% in the coming years.
- Forum Makim:** 30 to?
- Sameer Gupta:** 35% minimum growth should be there in Fittings.

- Moderator:** Thank you. Next question is from the line of Govind Sabu from India Nivesh. Please go ahead.
- Govind Saboo:** I just wanted to check on our employee cost. So, since we are ramping up our field force to approach newer markets. So, is that the reason for the increase in employee cost or is there anything?
- Sameer Gupta:** It is mainly because of that, because we are creating the system and we are increasing the sales force for sales only that is the main reason for an increase in employee cost. Apart from that, we are also increasing the capacities for both the locations. For that reason also, that you can say that impact is there. But percentage to employee cost is pretty much in line with our targets only.
- Govind Saboo:** So, the drop in the current quarter margin was because of the front ending of that cost?
- Sameer Gupta:** No, it has not impacted that much because we are also increasing the production line for Fittings where the manpower cost is pretty high as compared to normal pipes. So, because of that reason, it is there.
- Govind Saboo:** So, Fittings require much more manpower?
- Sameer Gupta:** Yes.
- Govind Saboo:** And can you just give me a number of employees which we have in our company and what would be the field force percentage out of it?
- Sameer Gupta:** Roughly, we have got around 400 to 500 employees right now working with our company. Around 10%-15% is for the field force, 15% you can say.
- Govind Saboo:** And in production?
- Sameer Gupta:** Production you can say, roughly around 60% of the total strength.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the floor back to the management for closing comments.
- Ajay Jain:** Thank you. I hope we have been able to answer all your questions satisfactorily. If you need any further clarification or would like to know more about the company, please feel free to contact our team of CDR India. Thank you once again for taking the time out to join us on this call.
- Moderator:** Thank you very much. On behalf of Apollo Pipes Limited, we conclude today's conference. Thank you for joining. You may disconnect your lines now.

This is a transcription and may contain transcription errors. The transcript has been edited for clarity. The Company takes no responsibility of such errors, although an effort has been made to ensure high level of accuracy.