"Apollo Pipes Limited
Q1 FY2022 Earnings Conference Call"

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ANALYST: **MR. JIGAR KAMDAR – SYSTEMATIX INSTITUTIONAL EQUITIES**

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

Moderator: Ladies and gentlemen, good day and welcome to the Apollo Pipes Limited Q1 FY2022 results conference call hosted by Systematix Institutional Equities. 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. Jigar Kamdar from Systematix Institutional Equities. Thank you and over to you Sir!

Jigar Kamdar: Thank you Lizann. On behalf of Systematic Institutional Equities, I welcome all participants for Apollo Pipes Q1 FY2022 earnings concall. The management of the Apollo Pipes will be represented by Mr. Sameer Gupta, Managing Director and Mr. Ajay Kumar Jain, Chief Financial Officer. Now I hand over the call to Mr. Samir Gupta for opening remarks. Over to you Sir!

Sameer Gupta: Thank you. Good afternoon everyone and thank you for joining us on the Q1 FY2022 earnings call to discuss the operating and financial performance for the quarter.

I trust you and your families are safe. I hope you all had the opportunity to go through our figure presentation which provides details of our operational and financial performance for the quarter Q1 FY2022.

To begin with, I am pleased to share with you that we have reported a linear performance during the quarter. Our sales volume decreased marginally by 2% to 10,402 metric ton due to countrywide pandemic and sluggish domestic demand. However, our cost optimization measures and improved contribution from the high-margin fitting segment resulted in a better gross margin performance during the quarter.

Furthermore, expansion of our product portfolio improved reach in newer geographies and addition of our new Brownfield capacity assisted volume growth. Over the next few quarters, we anticipate this phased performance to strengthen led by improving demand and may have expansions in markets and are sustainable uptick in utilization level.

Moving on the operation front, we have successfully completed all our Brownfield manufacturing expansions across facilities located at Dadri, Tumkur and Sikandrabad. Though operationalizion of our Greenfield facility at Raipur which would have installed capacity of 7,200 metric ton per annum is delayed due to impact of second wave of COVID; however, we expect to commercialize this facility from next month that is August 2021.

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 to organize sales volume going ahead. From a product basket standpoint, we continue to witness a positive traction in price of APL Apollo water storage tanks. We have already doubled our capacity for water storage tanks at our Sikandrabad plant and also commissioned our production line in Tumkur to ensure that we can increase demand. We have also identified a strong business segment for us which is bath fittings. This is highly fragmented industry which will give potential for Apollo to emerge as a leading brand. Margins are superior in this segment. We are confident that this products along with our other value-added products like fittings, solvent cement and adhesives, will enhance our reach and strengthen our sales going forward.

To conclude, I would like to state that we are constantly working towards enhancing our presence across the existing and new potential geographies. Once we complete optimization of our plant, we expect to address the untapped and high potential market of Eastern and Central 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 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 Q1 FY2022. Thank you.

Ajay Kumar Jain: Good afternoon everyone. I will briefly cover the financial performance during the quarter of Q1 FY2022. The company delivered a linear operational and financial performance during the quarter due to constraints like countrywide pandemic restrictions and sluggish domestic demand.

Sales volumes for the quarter stood at 10,402 metric tons decreased marginally by 2% Y-o-Y as against 10,633 metric tons which was 80% of sales volume of Q4 FY2021. The revenue from operations for the quarter stood at 137.6 Crores as against 92.5 Crores in Q1 FY2021 higher by 49% Y-o-Y.

On the profitability front, EBITDA for the quarter grew by 182% Y-o-Y which stood at 17.4 Crores as against 6.2 Crores in Q1 FY2021. EBITDA margin, stood at 12.7% in Q1 FY2022 as against 6.7% in Q1 FY2021 higher by 598 BPS. Going forward, we anticipate EBITDA margins to normalize from Q2 onwards.

Interest cost stood at 1.1 Crores in Q1 FY2022 as against 2.1 Crores in Q1 FY2021 declined by 50% Y-o-Y.

PAT for the quarter stood at 8.8 Crores up by 338% Y-o-Y when compared to 2 Crores in Q1 FY2021. PAT margins for the quarter stood at 6.4% as compared to 2.2% in Q1 FY2021 higher by 420 BPS.

Last but not the least, I am happy to share that our company is not leveraging our balance sheet for an expansion project. I believe our cash flow to this going ahead will improve on demand and productivity.

Moving forward, from Q2 FY2022, we are discontinuing quarterly volume disclosures ahead of quarterly results due to sensitivity of data. So, 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. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Bhargav from Kotak Mutual Fund. Please go ahead.

Bhargav Buddhadev: Good afternoon team and congrats for the good performance. My first question is on the volume break up, is it possible to share the volume break up between agri and non-agri because our value decline is just about 2%, just wanted to know how has been the breakup between agri and non-agri?

Ajay Kumar Jain: Between agri and non-agri, the ratio is somewhere at 55% will be the agri business and 45% is the building products.

Bhargav Buddhadev: Is it possible to share the Y-o-Y volume growth for agri and non-agri?

Ajay Kumar Jain: Y-o-Y for quarter?

Bhargav Buddhadev: Yes, for the quarter.

Anubhav Gupta: Anubhav here. When we say that 45% building materials in Q1 and 55% agri and infra, this is with the fact that Q1 is seasonally heavy for the agri side otherwise this would have been like 50:50 what we closed FY2021 and in terms of value growth the building material revenue has grown at 50% on Y-o-Y basis because the proportion was very low in Q1 of FY2021 because of lockdown and heavy sales from the agri and infra side in Q1 FY2021.

Bhargav Buddhadev: How does the agri portfolio has it declined in double digits?

Anubhav Gupta: No, even agri we have seen double digit growth in Q1, value based. Yes.

Bhargav Buddhadev: Second, is it possible to know what has been the operating cash flow and free cash flow generation in Q1 and how was it on a Y-o-Y basis?

Anubhav Gupta: On cash flow basis, we are still net cash company. Our net cash stand similar to what was there on a March 31, 2021 accept that there is slight increase in the working capital because of the lockdown restrictions what we witnessed in Q1 otherwise the operating cash flow to EBITDA if we remove the increase in inventory that remains same what we witnessed in FY2021.

Bhargav Buddhadev: On the branding side, how are we looking at spending in FY2022, I believe you have appointed couple of new brand ambassadors, so how is the branding strength likely to pan out?

Anubhav Gupta: Bhargav, I mean if you look at our ad spends so far which are mainly focusing on below the line branding campaigns, we are spending anywhere around 1% to 2% of our turnover depending on like which campaign goes in any specific quarter with our focus now turning on above the line aggressive campaigns with appointment of Bollywood celebrity etc., we should be looking to spend around 3% to 3.5% on our full year FY2022 revenue estimate which we believe will give us a very strong and aggressive ad campaign to come up with.

Bhargav Buddhadev: Lastly, how is the plastic faucets business been I believe you are sort of now coming from the gestation period and now the business is looking like coming on stream, so is it possible to share the size of the business, margins in this business, whatever you can share?

Anubhav Gupta: Bhargav, this is something that we are very excited about as we speak today. What we have seen is that this industry is highly fragmented with the absence of large formal organized players where we think that we can fill big gap which has been there in this industry with superior margins, so we have been adding new product range at our plants. Our target was to generate like 5% of our turnover from this segment which we believe can potentially be above 10% now. So we also appointed Bollywood celebs specifically for this segment with enhanced packaging and revised brand campaign so which is yielding very good results and we are hopeful that this business could be a very big revenue lever for Apollo and it will help us meet our target of 1000 Crores turnover on sustainable basis.

Bhargav Buddhadev: The 10% of revenue target is by what period FY2023 or FY2024?

Anubhav Gupta: If things go as per the plan, you might see us hitting 10% of turnover in FY2023 itself.

Bhargav Buddhadev: Is it fair to say this far higher margin than the pipe business?

Anubhav Gupta: Yes, it has.

Bhargav Buddhadev: I will come back in the queue. All the very best.

Moderator: Thank you. We will move onto the next question that is from the line of Shaleen Kumar from UBS. Please go ahead.

Shaleen Kumar: Thanks for the opportunity. Just an observation, when I was going through your presentation, 1500 SKUs and you are talking about 2500 SKUs, while your expansion plan of capacity of 125,000 is already there, so will you be able to launch these extra SKUs from your erasing capacities or you need a regional capacity for that?

Sameer Gupta: Marginal capacity additions will be there on account of such products which we are adding up. Secondly, we are working on the fitting side which have high margins, so you can say such value added products will be added, the moulds will be added which will be you can say use on the same machines which are already there in the plant, so maximum investments will be there on the moulds which we are planning for increasing these SKUs.

Shaleen Kumar: Right and what kind of capex are you looking at, let us say next three years, you are targeting 20%-25% growth, what are the capex you are looking at that is one next three years?

Ajay Kumar Jain: We are targeting a capex of say around 20% to 25% of the EBITDA level per year for over the next two years unless and until we get a very good opportunity to diversify our business otherwise we will be sticking on the same level of 20% to 25% as a regular investments on the SKUs, or you can say normal machines.

Shaleen Kumar: No, major capex?

Ajay Kumar Jain: No, major because we already have the capacity with us to enhance our sales to 1200 Crores or 1300 Crores, so we do not actually need major capex to reach such target of 1000 Crores we need to invest in the capacity for achieving this target, so whatever the investment we make in coming future, it will be adding up the targets in coming year, so right now we do not need actually any major expansion or major capex for the current target.

Shaleen Kumar: Right Sir and I just have a primitive question like what is the sales break up for us like if you see like in terms of the customers like proportion of B2C versus B2B customer segments.

Sameer Gupta: We are maximum you can say supplying to B2C only. Our major focus is on the retail and the trade sales only, our B2B is very low, because we are not very much interested to contract sales or other such sales because there is no such permanent you can say that stability is there,

any new company can come and drop their prices and take over the business so that is not our business model, so we are much more focused towards the trade sales and the retail sales.

Anubhav Gupta: Shaleen, just to add here that the medium through which we sell our products is 90% B2C, now within that there are two kinds of application where our products go. One is agriculture and infrastructure, second is building material. So, today 50% of our products go into building material space and 50% of our products go into agriculture and infrastructure space but the medium to sell these products is 90% B2C.

Shaleen Kumar: Basically, via distributors, right?

Anubhav Gupta: Via distributor network, yes.

Shaleen Kumar: Okay and Anubhav in terms of the concentration or strength are there like specific areas or tiering up the towns where we have strength of the targeting like we see that the there is very much possible gaps, in certain region of the country or may be the town like Tier-II town, Tier-I town obviously irrigation have been in rural areas, but you know building material and infrastructure?

Anubhav Gupta: Shaleen, if you look at Apollo Pipes, today majority of revenue is coming from north region still because we started expanding into pan India markets from 2018 itself. First plant we have put up in West India then we acquired the Kisan Moulding plant in South India now we are just on the merge of starting our fourth plant in Raipur which is Central India, so for Apollo Pipes we have fairly good potential to expand our sales into these geographies because we are very new here and with the focus more on distribution expansion and retail penetration, we are getting good response and which will be fill with our ad spends which will go up in FY2022 and our consistent or constant addition of products into our SKU portfolio, so this is giving us good opportunity to keep on expanding and grow our sales, bases like rural or urban, I mean in building materials mainly you are selling products in urban and semi urban centers, agri and infra is mainly semi urban and rural areas, we still think that there is may be scope of new capacity to further expand in the West markets because Maharashtra is a very strong market for PVC which we may evaluate at some points of time but I think for us to grow within the closer markets near to our plants, I think our business plan of 1000 Crores turnover should be achieved by constant distribution network into areas near our plants.

Shaleen Kumar: Alright, understood. I will get back in the queue. Thank you so much.

Moderator: Thank you. We will move onto the next question that is from the line of Shrenik Bachhawat from JM Financial. Please go ahead.

Shrenik Bachhawat: Thanks for the opportunity. Could you please help us understand what will be the sustainable gross margin level going forward?

Ajay Kumar Jain: The sustainable gross margin will be on the same line of 13% to 14% that we are targeting right now because of the most focus on value added product sales so we are trying to maintain the same gross margins in coming quarters or years. We are talking of the EBITDA margin right now.

Shrenik Bachhawat: Gross margins could you throw some light?

Anubhav Gupta: We have been talking about EBITDA margins with investors and analysts, the reason is that it also takes our sales promotion ad spends into consideration and just to answer on gross margin front, it is a clear function of constant increase of value added products to our turnover which is mainly given by building material products such as CPVC, more fitting sales, solvent and adhesives, water storage tanks and plastic bathroom fittings, so gross margin should constantly move up and at EBITDA level the target which our business plan can suggest is that 13% to 15% kind of margin on sustainable basis is possible.

Shrenik Bachhawat: Our new Greenfield plant when you will start operations?

Anubhav Gupta: You mean the Raipur plant?

Shrenik Bachhawat: Yes.

Anubhav Gupta: Raipur plant is just on the verge of getting commenced. It is just we are waiting for small final approval from the local authorities which should come over the next few days and then we are ready to go.

Shrenik Bachhawat: Thank you very much.

Moderator: Thank you. The next question is from the line Ankit from Bamboo Capita. Please go ahead.

Ankit: Anubhav, I missed the answer on the volume degrowth on the agri side if you can repeat that?

Anubhav Gupta: There was no degrowth. There was double digit growth.

Ankit: I am talking about volumes, not value because realizations have increased significantly?

Anubhav Gupta: Volumes, was flattish at 10,500 tons. There was marginal 2%. So let us assume that is flattish. The reason the volume was flattish in Q1 FY2022 was that in Q1 FY2021 there were heavy

sales coming from the agri and infra side because the government had started spending heavily on the agriculture after the lockdown restrictions were lifted so that gave us good volume and the revenue was around Rs.950 million versus like in Q1 FY2022 our volume remains almost same and our revenue value wise inched up to 1.3 billion, so this explains a shift of our sales from non-building to building material and this journey has been throughout in FY2021 Q2, Q3, Q4, Q1 and it has been consistently around 45% to 50% our building material volume which was like 30% in Q1 last year.

Ankit: Sure, and the volume part this year you are targeting 25% CAGR volume growth over the next few years, so how does this year look like given we are seeing degrowth in Q1 and any idea or any feedback on how the Kharif sales in Q3 season for the agri pipes season looks like?

Anubhav Gupta: I guess for us our business plan how we are looking at it as that we are targeting revenue and then volume is derivative of that, so to achieve 1000 Crores turnover what kind of product portfolio, what kind sales mix we have to achieve, so that is how we are going about it, we think that today the platform what we have created it has potential to give us 30%-40% revenue growth in FY2022 and FY2023 consistently and the volume growth could be high double digit here but the majority of value will come from the sales of added products which are like better superior realization which are better margin products.

Ankit: Right Anubhav but you would also have realized that PVC prices have increased significantly and that would also add realization part even on simple PVC pipes, so volume growth for this year do we expect we can in the next three quarters if we do not see any significant hit because of third wave of COVID and you expect double digit growth in volumes?

Anubhav Gupta: Like I clearly said that we are looking at high double digit volume growth for next two years and see when we say that the revenue growth will be 30%-40%, the EBITDA growth will also be same, if I am considering the high realization on the back of high PVC prices then my EBITDA would not grow at the same pace, so I am saying 30% to 40% revenue growth, 30% to 40% EBITDA growth that is how we are going to achieve 1000 Crores turnover over the next two years.

Ankit: Sure, and on any inventory loss because of PVC prices coming down in the quarter?

Sameer Gupta: Yes, there were some inventory losses but that was not too much because we were trying to increase our sales on building products through which we were trying to mitigate the loss and marginal of the inventory loss in this quarter but again going forward, the prices have rebounded, and we do not see any major inventory loss in coming days also.

Anubhav Gupta: Moreover, I think I mean rather looking at quarterly inventory plus-minus what we believe is that today we are capable of delivering 13% to 15% EBITDA margin on sustainable basis, irrespective of fluctuation in the PVC prices, so I mean PVC prices are going to be like plus-minus every quarter, every month, so what we do is that we work on minimum inventory levels so that we mitigate the risk of any fluctuation which is coming from the PVC pricing and second, focus on value added product where the gross margins are so high that 4%-5% reduction addition in PVC prices would not impact our business model. So, the point what we are trying to make here is that you look upon us that we are going to deliver 13% to 15% EBITDA margin irrespective of how PVC prices would behave.

Ankit: Sure and two broad questions on the strategy part, we have done exceptionally well over the past few years in diversifying from agri to almost 40% to 50% contribution from non-agri portfolio and one thing we have been noticing is that all smaller, regional players including us are trying to make it big on the building product side and agriculture and bigger and even the smaller and mid-sized players in the industry are not focusing much on the agri side and with the past one year to one and a half years of COVID impact, do you see there is some vacuum been created on the agri side and the tough competition that we are seeing on the agri might ebb down and the building product segment might become more competitive than agri PVC pipes industry over the next few years?

Anubhav Gupta: There are two things to it. One is that while we are focusing more on building material today than agri, not because like the building material name looks fancy, it is about the margin, it is about the return on capital employed what we generate from building material portfolio, building material margins are like almost two times of what you achieve in agri side, so that is what making us move towards the building material space, so that is one. Second, we competitors unorganized sector in formal sector I mean not only in COVID wave two, I mean look at what is happening since 2016 which started right from demonetization then GST shock, the NGFT crisis then GDP economic slowdown then Corona wave one, then Corona wave two, so there is space which is been vacated by smaller players not only in agri but also in building materials like in whole of 30,000 Crores the PVC industry category and this is one of the reason that why we could achieve such a healthy growth rate over the last three years to four years, we have almost doubled our turnover in the last three years and now we are on a platform where we say that we could double our turnover from here in next two years, so I guess it is not a function of like agri versus non-agri, it is more a function of where we can get leverage on our brand, where we can get superior margins, where we can generate superior ROCE for our business.

Ankit: I understand that part, Anubhav but what I am asking is do you see the competitive intensity reducing on agri part and increasing on building material part because even small and mid-

sized players are looking at the fact that non-agri portfolio or the building product segment has better economics, has better margins, ROCEs and even it is not lumpy or it is not seasonal like agri, so do you think the better economics of building product segment might lead to this space crowding up and the margins and economics reducing?

Sameer Gupta: Ankit, actually, let me answer to this. What is happening with the building products that it is not so simple as we think like agri business is there. I think agri business only we have to put extruders and extrude the pipes and whereas building products, you have to have a complete management of the fittings and all those let us say 1500 SKUs and we are talking about 80% SKUs are from fittings only, so we need to manage all those things. For any unorganized player or small players, it is very difficult to manage the show with such high number of SKUs and maintain the inventories or deliver the goods in time or deliver the right good at right price, so we need to have complete management for this thing and which is not possible for any unorganized players where they face lot of trouble because tax savings and because of you can say incompetent people with them and because of not good infrastructure with them, so that is actually the problem with them and so these people or these type of unorganized industry will continue to work in agri business only where the margins will always be in pressure. We cannot expect a high margin for these products because of you can say that easy business of producing pipe and delivering it to the customer whereas in building products, you have to have a complete infrastructure, so that is the main difference between agriculture and non-agriculture and any new company wishes to enter this product then they have to have a complete infrastructure and complete set up to deliver a good and to get the results, so by that you can understand that the agri business will be low margin products in coming days also and building products will be a high margin product because of that considering it.

Ankit: That was really helpful and last question our strategy for building plants with low installed capacity and geographically diversifying, we have seen some companies putting a big plants and the companies like us, we establish a plant with smaller capacities and then ramp up or increase capacities over the next few years, so any views on this strategy and how is it different then now putting a big capacities at a single location and trying to achieve better economics of scale or from that particular location?

Sameer Gupta: That is one idea I agree to you that once we build up the sales in that area then putting up the big plant is of course that is more advisable other than that wherever we are putting up the plants, the main focus is to produce wherever the low margins products are like pipes, we do not have good margins and we need to deliver the goods to the customers who deliver other you can say value added products, so with that we are putting up the plant to deliver low margin items produce locally and producing the high margin product at our main plant Dadri

or Tumkur where we are producing fittings and other value added products to deliver all across India and if we deliver these goods from the Dadri plant where freight factor is very low because of the high margin and high value added product, the freight margins almost 2% to 3% of the total volume and where if we produce it locally, the prices although investment will be much higher as compared to this, so it is much more advisable to produce it at central location and distribute it to all the areas where we wish to sell at a common point at the plant where we are like Ahmedabad or Tumkur or Raipur, we are getting stock over there and distributing in small quantities from that plant to the nearby areas.

Ankit: Okay. Thank you. That was very helpful.

Moderator: Thank you. The next question is from the line of Shalu Asija from Anvest Research. Please go ahead.

Shalu Asija: Good afternoon Sir. Sir, my first question is, I want to know the reason behind operational profit margins declining Q1 financial year 2022 as compared with Q4 financial year 2021?

Ajay Kumar Jain: Yes, in the Q4 as compared to if you talk about the margin in Q4 and comparing Q1, the Q4 we had inventory gain in that quarter. That was helping us otherwise our sustainable margin is 13% to 15% only which we are targeting, and we are working on the same line.

Sameer Gupta: This goes as per the industry norms. This is nothing specific to Apollo Pipes. If you look at the numbers of any PVC company who would have reported you will find the similar trend.

Shalu Asija: Sir, can I know the current capacity utilization?

Ajay Kumar Jain: In current capacity again, because we have higher capacities available, we are not able to utilize that but moving forward we would be using them, currently it is around 40%.

Shalu Asija: Okay, and in the coming two - three quarters how we see it will go up?

Anubhav Gupta: Q1 we did 10,500 ton of sales volume with our capacity of 118,000 ton which is available. In Q2 the available capacity should be 125,000 tons as the Raipur plant would start. Last year we did 48,000 ton of volume, in FY2022 we believe that high double-digit growth in volume is possible. So, the utilization level rates will go up, you can calculate with the numbers which we have given to you.

Shalu Asija: Okay, and Sir what is the debt level currently?

Anubhav Gupta: We are net cash company with net cash of Rs.100 million.

Shalu Asija: Okay, as there is increase in cost in interest, what is there in that?

Anubhav Gupta: I am sorry please come again?

Shalu Asija: Interest costs?

Anubhav Gupta: Right.

Shalu Asija: Includes what, like which item is coming in this?

Anubhav Gupta: That is on a net level. We are a cash surplus company, but we have gross debt and then against that we have fixed deposits in the bank, so interest cost what you see is from the gross debt against that there is other income which we receive interest on our FDs. So, that is what it gets nullified, both things get nullified net-net we are a net cash company.

Shalu Asija: Okay Sir, and can I know the current market share of our company?

Anubhav Gupta: Total industry size stands at around Rs.30000 Crores – Rs.35000 Crores on annualized basis. Last year we did Rs.520 Crores of turnover, so you can calculate our market share.

Shalu Asija: Okay Sir, and can I know the individual capacities of the products?

Anubhav Gupta: Not really.

Shalu Asija: Like plumbing, Size, and fittings, yes?

Anubhav Gupta: That is a bit of sensitive information, so we are not comfortable sharing this information.

Shalu Asija: Thank you. That is it from my side.

Moderator: Thank you. The next question is from the line of Nikhil Gada from Abakkus Asset Managers. Please go ahead.

Nikhil Gada: Sir, thanks for the opportunity. Sir, my first question is, you mentioned about brand X being close to 3% to 3.5% of our sales in FY2022, can you help me what this number was in FY2021?

Anubhav Gupta: FY2021 we were at 1.5% of turnover, so you can calculate.

Nikhil Gada: Sir when we are planning to increase this by another 2% points, do you still believe that this 13% to 15% EBITDA margin guideline that we are giving for FY2022 that is achievable?

Anubhav Gupta: Yes, so all the additional incremental profits which will come from the value addition that will go into ad spends right. So, that is why we think that it is going to remain stable between 13% and 15%.

Nikhil Gada: In that case, just our value-added products when we mention we include CPVC fittings and may be on plastic faucets that you planning now. So, what is that percentage share in terms of revenue in FY2021?

Anubhav Gupta: FY2021 was 50:50. Q1 was 45% towards value added because Q1 is heavy for agriculture.

Nikhil Gada: I am talking about the fittings and CPVC specifically?

Anubhav Gupta: Okay, so fitting and CPVC put together would be around 25% to 30%.

Nikhil Gada: How do we see this moving in the next couple of years?

Anubhav Gupta: So, CPVC we are growing at 30%-40% on annualized basis and fittings also we are seeing similar growth rates. So, this proportion should be like inching up incrementally.

Nikhil Gada: Sir, I do not want a specific number but, how much higher in percentage terms at least would the gross margins in these products be compared to our base products?

Anubhav Gupta: I mean, since we are talking on EBITDA levels, so let me tell you on EBITDA level, the agri portfolio delivered margin less than 10% and the value-added building material portfolio delivered margins more than 15%.

Nikhil Gada: Thanks for that, and then secondly regarding our raw material procurement I guess earlier we were doing close to 80% - 90% imports and since this entire COVID situation has happened we are doing more domestic procurement I am assuming. So, what was that percentage now would be for PVCs specifically?

Anubhav Gupta: For PVCs we are procuring all our raw materials from Tumkur, Raipur and Ahmedabad plant from local sources whereas from Dadri plant it is around 80% from imports and 20% is from local sources. So, put together it is somewhere on 30% and 70%.

Nikhil Gada: So, then 70% is domestic and 30% is imports?

Anubhav Gupta: No, reverse 70% is imports and 30% is domestic.

Nikhil Gada: Okay, so when we say that we have not faced many major inventory losses. What would be our raw material inventory generally, number of days?

Anubhav Gupta: It is less than 30 days always.

Nikhil Gada: Thank you so much Sir. Thank you.

Moderator: Thank you. The next question is from the line of Karan from Asian Market Securities. Please go ahead.

Karan: Thank you for the opportunity and congratulations for the set of numbers. I just wanted to have some sense on the dealer inventory as on July end, I am asking in the context because since April we have seen some southward movement in the PVC prices and suddenly from second week of July, we have seen some Rs.1.5 to Rs.2 price hike. So, how is the channel reacting the same?

Anubhav Gupta: Karan your voice is breaking. Karan, I cannot hear you, I am sorry. Probably you can go back in the queue, and you can disconnect and call again meanwhile we can take another question.

Moderator: Sorry to interrupt Karan but we are not able to hear you. Thank you. The next question is from the line of Madhav from Fidelity Investments. Please go ahead.

Madhav Marda: Good afternoon. Thank you so much for your time. I just want to understand that what is happening on the Nal Se Jal programme we heard that traction is picked up across quite a few states, are we seeing demand coming to organized players like ourselves as well or is it more restricted to some of the more unorganized players in the market?

Sameer Gupta: No, actually the demand is coming up to the organized sector also, and we are also receiving good demand from this sector from Nal Se Jal Yojna. Of course because it is the government supply unorganized sector is bit strong because of that local presence over there with the local authorities they are able to cross very easily, whereas for us we have to do through our channel so that is a problem otherwise we are getting good demand from this sector also. But our focus is not over towards this, but on regular basis our production is quality products and we do not compromise on the quality front, so that is a bit of challenge for supplying to these government supplies. Otherwise, we are supplying regularly to this programme, we are getting regular orders from them.

Madhav Marda: When we did like very broad calculation that, it seems like although given how much budget the government has increased for this programme in this fiscal. If that demand comes through the piping industry in India can expand by a good amount like May 15% or which is a very large number. Do you think that kind of action is happening on the ground and the next one year – two years the piping industry can expand by that quantity?

Sameer Gupta: Yes, Madhav the demand is floating in the market. The demands are there, but it basically depends on the funds or the fund allocation the department has with them so that the contractor can easily supply the material to the department. So, that trouble is there of course the demand is there and it is actually very big number, but the funds problem is there. So, people are not very aggressively supplying to this Yojna because of that, so that they do not stuck with the payments problem with these department.

Anubhav Gupta: So, Madhav I guess this is going like a typical government projects where the announcements are very heavy, the capex plans etc., are always aggressive and higher in number and it is a big project, it is linked to multiple states, some funds coming from central, some funds coming from state government right, so lot of government machinery has to get oiled here for the smooth functioning of this project. So, I guess with the limited resources government could allocate the project is going at a decent pace not at the pace what PVC players would like to have, but there is a like constant flow orders and based on everyone's capability to generate margin and collect cash from the authorities, they are participating here. For us it is a regular government project we were never too much excited about it because our focus has always been towards trade sales where we could sell our brand on our terms to our clients.

Madhav Marda: How different broadly would the margins and the receivable cycle be for these kinds of projects versus our trade sales?

Anubhav Gupta: So, margins will be like single digit and the credit cycle can go up to three months also.

Madhav Marda: Understood and the other question from my side was, I do see you are already addressed this, but in general how is the demand condition right now once the second wave restrictions have gone down, is demand like going at a healthy pace again for us or is just still some challenges being faced?

Sameer Gupta: Yes, of course the demand is coming back in position, and we are getting good response from the market backed by aggressive marketing and good product basket and good product reach also. So, demand according to us it is ramping up and we are hoping that a bit of slowdown in agriculture demand may be there because of rains otherwise regular demands of the

building products and other segments are there with us and it is ramping up there back to normal position.

Madhav Marda: Thank you, Sir.

Moderator: Thank you. The next question is from the line of Dhruv Bhimrajka from Monarch AIF. Please go ahead.

Dhruv Bhimrajka: Good afternoon Sir, and congratulations on a good set of numbers. Sir, regarding the new products you were talking about high value fittings products along with plastic bathroom products, correct?

Sameer Gupta: Yes.

Dhruv Bhimrajka: Yes, so what would be your strategy for this plastic bathroom segment versus the market size currently and what are the target market, if you could elaborate a bit that would be great, Sir?

Anubhav Gupta: This plastic bath fittings they are mainly sold in the tier-2 and tier-3 cities where people do not spend too much on the houses or you can say that for homes their expenditure is very low, so we are targeting those type of cities only and first of all the market is very much unfragmented, it is very much unorganized, very few organized players work in this segment. So, lot of scope is there if you talk about the market and the market potential and if you talk about that product positioning, we are trying to position our product along with the leading product in this segment. So, we are quite hopeful that may increase our sales to achieve Rs.100 Crores in next two years or maximum two and half years. We may ramp up our product line or production to that level because the potential is there and the demand of the organized players there in the market and lack of the organized players is giving us good opportunity to sell our product.

Dhruv Bhimrajka: Okay, so this will be mainly for your current catchment areas of north states, or will you need to add a few other markets in the other parts of the country?

Sameer Gupta: No, we are right now for bath fittings, we are targeting pan India, right now focusing towards the nearby area of Bengaluru plant along with that eastern region and the Northern region.

Dhruv Bhimrajka: Thank you so much.

Moderator: Thank you. The next question is from the line of Jaspreet Singh Arora from Equentis PMS. Please go ahead.

Jaspreet Singh Arora: Thanks for the opportunity. Good afternoon to everyone. Just a quick some clarifications and some question. So, the 25% volume CAGR is over the next three years while current year we are targeting a high double digit, is that what is being given?

Anubhav Gupta: What we are saying is that we will achieve Rs.1000 Crores turnover by FY2023 okay, so that makes 35%-40% revenue CAGR, this will be supported by high double digit volume growth.

Jaspreet Singh Arora: Fair enough and that the Rs.1000 Crores is financial year March 2023?

Anubhav Gupta: Yes, assuming there is no third wave etc., I mean in the non-pandemic period if we get the platform this is achievable.

Jaspreet Singh Arora: Sure, and the second thing is related to the capacity, so we go up from 118,000 ton to 125,000-ton next month, the Dadri Brownfield would add more right, is that correct or am I missing something?

Sameer Gupta: No, Dadri Brownfield is like whatever must happen it has happened, now we are getting 118,000 tons and 7,000 tons will get added next month from Raipur.

Jaspreet Singh Arora: That is where we stop but there is also something mentioned regarding exploring more Brownfield/debottlenecking expansion opportunities over the next few quarters, can you elaborate on that?

Sameer Gupta: Of course, I mean when we say that the immediate target is Rs.1000 Crores turnover and as a company we do believe in the industry space where we are, given the brand we would have built over the next two years, given the SKU portfolio decision what could have happened over the next two years. So, we do believe that 25%-30% consistent revenue CAGR is possible, so for that we will have to keep on doing some Brownfield expansions; we will have to keep on adding new products to our portfolio. So, what we meant was that 20% - 25% of our EBITDA we should be spending on such capacity additions and apart from that west region is one market where we think we could add another plant which right now we have in one in Gujarat, there could be something coming up in Maharashtra that is what we believe.

Jaspreet Singh Arora: So the volumes we have done last year was 47,000 ton plus and now quarterly of 10,000 ton plus. So, based on the current capacity may be at whatever you want to take maybe 125,000 ton or 118,000 ton, what is the maximum production possible in a fiscal year and in a particular quarter, whichever be the best quarter seasonally, just trying to understand what is the best utilization is possible on a practical basis?

Sameer Gupta: 100,000 tons.

Jaspreet Singh Arora: That is on an annual basis?

Anubhav Gupta: On an annual basis on capacity of 125,000 tons.

Jaspreet Singh Arora: Okay, and in a particular quarter, because there will be lean and there will be a best quarter?

Anubhav Gupta: Yes, I think probably like Q4 which is good for both agri and building materials so the skewness over there could be like 25,000 ton to 30,000 tons.

Jaspreet Singh Arora: 25,000 ton to 30,000 tons, so we could go as much as 100% in a particular quarter if the demand allows?

Anubhav Gupta: Yes.

Jaspreet Singh Arora: Fair enough. I was just trying to understand in two years' time possibly that could be the exit run rate let us say we are talking March 2023 maybe the March quarter of that year could be something closer to that, just trying to understand.

Anubhav Gupta: Yes if environment remains safe for the business definitely that can be achievable.

Jaspreet Singh Arora: Sure, fair enough. Thank you so much and all the best.

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

Ritesh Shah: Thanks for the opportunity. Couple of questions, first is you did indicate your comments on Nal se Jal, what we understand from the marketplace is the peer set that is going for a different set of polyolefin set of fittings to cater to this large but typically allow priced segment. Sir, what are your thoughts over here and are you looking to venture into this segment to budget to happen to Nal Se Jal of a theme?

Anubhav Gupta: See again, I mean the government schemes, I do not know if you notice like four – five years ago there is LED bulb scheme from the agency called EEL, right. They were selling LED bulb for Rs.40 and all the major brands which are like spending hundreds of Crores on their ad spends every year they participated, they participated for those orders and the margin what they were making was 0.25 paisa for one LED bulb, right. So, I guess of course everyone wants to venture out whatever comes from the government when it is new then people understand that what kind of margins return profile you are going to make. So, I guess same is here, so there could be some opportunity for low priced taps, faucets etc., but again when

it is like on L1 ordering basis it is very difficult to sustain the margin, we are talking about margins in our tap business, the tap faucet business upward of 15% - 20% like where we have appointed a Bollywood celebrity, we have a separate branding strategy to penetrate deeper into the markets. Rural market is one category where our sister company APL Apollo Tubes has done so well with the product called Apollo Chaukhat, it was a steel doorframe which replaced wooden doorframes and today we are selling 250,000 doorframes every month. So, that is the power of your brand of the distribution, of your trade channels. So, as a company we have decided to focus on that, yes if there is any opportunity which is profitable which is ROE, ROCE accretive we will go for that, we have our ears on the ground. So, like in the earlier question someone was asking that why are not going into agri when there could be some space vacated. I mean we are having our ears on the ground, so if there is any opportunity which arises, we will go for it, but it must be within our set benchmarks, margins, ROCE and working capital.

Ritesh Shah: Right, so if I have to just take a step back and understand Nal Se Jal, you also indicated that the local companies are benefiting more. So, if Apollo had to benefit or the larger organized sector had to benefit out of this, how should one look at it, so is it a no-go zone or is it we have a certain hurdle rate only then we will go and do a bidding for a particular SKU or a particular order. So, you indicated 15% plus margins on the part business, which is lucrative, so is it something like it must be minimum as a company blended level, how should one look at it?

Anubhav Gupta: Yes, number one it is not a no-go zone, we are already selling our products in these projects. Now, you talked about hurdle rate, hurdle rate yes, I mean anything should be like at least high single digit margin for us to even evaluate any opportunity and second it should not impact my collection days, I mean it is been a very strong learning curve for us where our receivable days started coming down from 60 days to 30 days–40 days and today we are very proud to tell you all the investors and analysts who are evaluating or what looking at our stocks, that we are very proud to say that we are at a 30 days–40 days of receivable cycle and we just do not want to deteriorate that to buy out some sales, right from a government project. So, hurdle rate, I mean high single digit margin and my payment should be safe, I should not be running around, see I am a brand company, I am a trading company, I am a marketing company, with a very strong manufacturing set up. So, the job for my salesmen is to sell products not to beg for receivable collections. I hope this clarifies what you asked?

Ritesh Shah: Yes, it helps. My second question is very basic I just wanted to understand how we account for the inventory, one of the statements what the management indicated that we do not expect the inventory losses in Q2. Now, looking at where the PVC resin prices where it came down by, I think from Rs.130 to Rs.118– Rs.119 and there has been a small bump of Rs.2-Rs.2.5.

So, just wanted to understand have we booked any inventory losses, if it has been booked is it only on the resin part or it has been booked on the finished goods and what gives us comfort to say that we are not looking at inventory losses in Q2?

Anubhav Gupta: No, we have never said that we are looking at losses in Q2. See we are in a business of buying PVC converting that into a product brand, with the lead time of 30 days, so we will always carry that basic risk. The question is that how we are going to minimize that risk, how we are going to mitigate the risk. So, first thing comes first is that you work on minimum low inventory levels, that is one. Second is that you can revise your price list regularly which is possible when you sell more and more value-added products, in commoditized products the market acceptance is always weak but in value added products the market acceptance is always high right, so that is how you mitigate the risk. Now, in Q1 of course there would be some marginal losses we would have booked difficult to quantify and in Q2 also whatever the pricing fluctuation we might foresee accordingly we will do that, but then what again I am saying on record from our side is that whatever fluctuation might come up on annualized full year basis sustainable margin is 13% to 15%. In one of quarters say PVC prices come down by Rs.20-Rs.30 per kg then one can imagine what kind of sprout is going to have on all the PVC players not only Apollo Pipes. So, I guess our job here sitting is that, how do we ensure that we work on the sustainable 13%-15% EBITDA margin. Yes, in one quarter or two quarters there could be plus–minus here and there, but long-term margin is like how we are going ahead with our business plan.

Ritesh Shah: Right, Anubhav I completely appreciate from a strategy standpoint what you are indicating. Now, if I look at the inventory days and March end basis it was 55 days. I was just trying to understand how would that be on June end basis, and have we already done a mark down on cement good as well or was it only done on the raw material or the resin inventory?

Sameer Gupta: Yes, Ritesh Ji, when we talk about the inventory at the closing of March that inventory was, we already anticipated the increase in the resin prices and so because of that we built our inventory in the first month of January only. We stopped all our purchases from next February, no bookings were made for the resin procurement plan from February onwards. So, the loss on that account was a bit low we got lucky, we were selling very aggressively in April month where the lockdown pressure was very minimum, and we were very aggressively in selling our products in that month. May of course was disturbed because of lockdown and the pandemic again it was coming back to normal in the month of June. So, you can see the impact was there in the sales because of drop in the month of June, but we tried to minimize that loss because of the high prices in April, we tried to gain maximum profit and minimize the loss of the same in the same quarter. So, exactly this happened and because of that we minimized our loss. Secondly, the resin is not 100% of our sales it is actually if you take the

total percentage it is roughly around 40% to 50% of our sales. The balance is fitting where the drop is not so high and because the margin does not drop too much over there and gross margin was there along with that CPVC there was no drop at all, at CPV there was no drop at all. So, put together it was maintainable because of the quarter and the slight drop was there in the quarter you can see and witness also, because that price drop.

Ritesh Shah: This was very encouraging. Last question if I may, Sir we have seen PVC prices or say piping products always moving tandem with the resin prices. Now, given the shape which has happened from unorganized to organized wherein the larger pears are benefiting, just wanted to understand has the price increase which has been taken on fittings say on a per keg basis, is it more when the price increases what have seen typically on a UPVC price. I am just trying to get some sense on the structure improvement in the margins given the shift in the market structure that we are looking at?

Sameer Gupta: Yes, of course the margins increased in the fitting segment further. As you see that we are continuously increasing our SKUs. So, the base line excuses are already there with us and whatever the business SKUs that we are building up in the last quarter and in the coming quarters these have high margins and the low volume. So, the margins always improve with the sale of these goods. So, there is always high margin or high EBITDA level in these fittings as compared to pipes ware. Of course, these players are the regular players they are trying to sell more quantity because of the drop in prices. The margins of course loose but we were very less focused on those products because of the low margin, and we are not too much optimistic about those products. So, our total focus was on the building products where we were eyeing because of the high sales and where the margins were not so much under pressure whereas of course in the agriculture products the margins were under pressure and the sales was a bit challenge because of the low margins. But we tried to manage that thing and with the help of high volume of fitting sales.

Ritesh Shah: Thank you so much for the detailed answers. I appreciate it.

Moderator: We will take the next question from the line of Pratibh Agarwal from ITI Mutual Fund. Please go ahead.

Pratibh Agarwal: Good afternoon, Sir! Sir, just very basic question regarding PVC prices, like for last few months it was understood that as the situation normalizes the prices may come back to normal, but as we saw that, that did not happen and now we have the understanding that things may not go back to the last year's level it may settle somewhere in between. So, what I am asking is from the context of the Rs.1000 Crores sales target FY2023. We know that it is based on very high double digit volume growth as well as improvement in realization on the basis of

value-added products and building material products. But my basic question was how do you see the swing in the basic PVC prices which may swing the topline, EBITDA margin may sustain and every profitability may sustain but the optical Rs.1000 Crores how can it swing with if there is a drastic drop in PVC prices for whatever reason and how do you see it that how much down it can go based on the industry dynamics, that was my only question, Sir?

Anubhav Gupta: When we say Rs.1000 Crores the basic assumption is 100,000 ton of sales volume at selling price of Rs.100 per kg. So, I think this should answer your question like if there is any swing plus–minus that is how it is going to impact us. Our business plan suggests 100,000 tons sales volume at realization of Rs.100 kg.

Sameer Gupta: Further regarding the PVC prices, if you talk about the PVC prices they have not yet stabilized. The prices that was going downwards that has now stopped and it is now coming back to track, so you can see that the disruption in supplies is still there, so it is not very easy right now to source PVC and the premium we may see in the coming days again back to either previous level before COVID-2 level the prices may go up to that level once again because of the shortage in the material and the supply problem still continuing with the product.

Pratibh Agarwal: Thanks a lot for answering that. Best wishes from my side.

Moderator: Thank you. Ladies and gentlemen, due to time constraint that was the last question. I now hand the conference over to Mr. Jigar Kamdar for his closing comments.

Sameer Gupta: Thank you. I hope we have been able to answer all your questions satisfactorily. Should you need any further clarifications or would like to know more about the company please feel free to contact our team. Thank you once again for taking the time out to join us on this call. Thank you and have a good day.

Jigar Kamdar: Thank you, participants, and management of Apollo Pipes. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Systematix Institutional Equity that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.