



“Apollo Pipes Limited
Q2 FY2021 Earnings Conference Call”

October 30, 2020



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Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY2021 Earnings Conference Call of Apollo Pipes Limited hosted by Asian Market Securities Limited. 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. Karan Bhatelia from Asian Market Securities. Thank you and over to you Sir!

Karan Bhatelia: Good afternoon ladies and gentlemen, we welcome you all to the Apollo Pipes Q2 FY2021 results concall hosted by Asian Market Securities. From the management side, we have Mr. Sameer Gupta, Managing Director, Mr. Ajay Jain, CFO and Mr. Anubhav Gupta, Chief Strategy Manager, so we would request Ajay Sir to give the opening remarks post which we shall open the floor for question and answer. Over to you Ajay Sir! Thank you.

Sameer Gupta: Hello everyone. I am opening the meeting. Good afternoon everyone and thank you for joining us on our Q2 & H1 FY2021 earning call to discuss the operating and financial performance for the quarter. I trust that you and your families are safe and maintaining all precautions against the spread of COVID-19. I hope you all had the opportunity to go through our result presentation, which provides the details of our operational and financial performance for the second quarter and half year ended September 30, 2020.

To begin with I am happy to share that we have reported an encouraging performance during the quarter led by healthy uptick in consumption in our market. Our sales volume during the quarter marked a solid improvement of 19% Y-o-Y to 12,268 metric tonnes per annum; this was driven by a healthy contribution from our CPVC, HDPE pipe and value added to our segment of Fittings. In addition, our new product launch which is Apollo Life Water Storage Tank also contributed to improve sales during the quarter. Overall, we have witnessed increased marked momentum across our product categories, which enabled us to record healthy improvement in sales during the quarter.

On the operational front, all our Greenfield and Brownfield manufacturing expansions across the cities are progressing as per schedule. The operationalization of our Greenfield facility at Raipur is advancing well and we remain on track to commission this facility by March 2021. This plant, with a proposed installed capacity of 7,200 metric tonnes per annum, is strategically located and will help in boosting our sales in high potential market, domestic markets of Central and East India. We are also undertaking Brownfield expansions at our existing facilities of Dadri and Tumkur. They are also progressing as our schedule. On the whole we are aiming towards healthy capacity upgradation and are in track



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to achieve our total production capacity exceeding 1,00,000 MTPA by March 2021. Currently all our facilities are now operating at steady utilization level and we remain confident to further improving it to the optimum level in the quarters ahead. I am also happy to share that our newly launched project Apollo Life Water Storage Tank has seen strong acceptance from the market. In order to address the increased demand for this product, we are in the process of doubling the capacity for this product line at our current manufacturing facility at Sikandarabad in November 2020. Their product launch is in line with our long term growth strategy to improve our product offerings across the value chain and efficiently leverage upon the APL Apollo brand reach and recall. We believe this will enhance our business visibility and improve sales momentum going forward.

On the whole we are encouraged with the improved demand momentum in our key markets. As we look ahead the upcoming facilities and various growth measures undertaken by the government especially in the rural, infrastructure and agricultural space should lead to better demand and consumption of our product over the medium to long term and we remain optimistic that once the macro situation normalizes we should be able to deliver strong and sustainable growth going forward. On that note, I would now like to invite Mr. Ajay Jain to run you through the key financial highlights. Thank you.

Ajay Jain:

Good afternoon everyone. I will briefly cover the financial performance during the quarter and half year ended September 30, 2020. The company delivered an encouraging healthy operational and financial performance during the quarter lead by an uptick in demand and consumption in the domestic markets. Total income from operations for the quarter stood at Rs.120.2 Crores higher by 27% as compared with Rs.98.9 Crores in the corresponding period last year. Sales volume stood at 12,268 metric tonne higher by 19% Y-o-Y as compared to 10,306 metric tonnes in Q2 FY2020. In H1 total income from operations stood at Rs.219.9 Crores as against Rs.218.6 Crores.

Moving on to the profitability front, EBITDA for the quarter stood at Rs.17.4 Crores as against Rs.12.2 Crores, up by 43%. EBITDA margins grew by 162 basis points and stood at 13.9% as compared to 12.3% in the corresponding period last year. So, EBITDA for H1 FY2021 stood at Rs. 25.8 Crores lower by 13% as against Rs.29.7 Crores in H1 FY2020. Margins for H1 FY2021 stood at 11.7% as against 13.6%, down by 187 bps. Depreciation cost increased by 33% to Rs.7.4 Crores in H1 FY2021. For the quarter it is stood at Rs.4 Crores as against Rs.3 Crores in the same period last year, up by 32%. PAT for Q2 FY2021 stood at Rs.9.5 Crores higher by 64% as compared to Rs.5.8 Crores in Q2 FY2020. PAT margins for the quarter stood at 7.6% as compared to 5.9% in Q2 FY2020, higher by 175 bps. PAT for H1 FY2021 stood at 11.5 Crores as against Rs.15.6 Crores in H1 FY2020



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down by 26%. PAT margins during the period stood at 5.2% as compared to 7.1% in H1 FY2020, lower by 192 bps. 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. We will now begin the question and answer session. The first question is from the line of Praveen Sahay from Edelweiss. Please go ahead.

Praveen Sahay: Thank you Sir for taking my question and many congratulations for such a great set of numbers for a quarter. Sir at this moment how is the PVC price moving and is that in the next half we are expecting due to that some margin contraction?

Sameer Gupta: During this quarter the PVC prices are nearly peaking up at all time high figures. We are really very cautious regarding this period because the prices are too high and we need to be a bit cautious regarding all those activities. So I think right now there is no such margin pressure on us, but going forward there should be some pressure on the margins, but right now I do not think that during the current quarter there should be any pressure because of the shortage of the material in the market, so that is not there right now.

Praveen Sahay: From where you are procuring mostly like domestic market or import?

Sameer Gupta: Both sectors, but we are mainly dependent on imports. otherwise we are also procuring from the domestic market also.

Praveen Sahay: In the current quarter is there an element of inventory gain as well?

Sameer Gupta: Of course, there should be.

Praveen Sahay: Is it possible to quantify that?

Sameer Gupta: Right now it is not possible because we are not very certain regarding that figure because going forward we are not sure about the COVID situation. So, any such conditions we would not be able to forecast, so that is why we are not able to forecast at what exactly it could be.

Praveen Sahay: From where cPVC you are procuring now?

Sameer Gupta: We have two new sources here and we are only procuring this from the reputed sources. We are not relying on the Chinese sources. So there is no such pressure on us. They are regular sources for the last five, six years.



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Praveen Sahay: Also can you guide especially in the cPVC pipe segment also deliver a very strong number, so can you give some colour on that from where you are getting this great set of numbers like geography and where you are gaining some more?

Sameer Gupta: Going forward as you see that we are gradually increasing our product range, so that thing is really helping us in getting sales in building segment where the range is the main important part and right now we are working very hard on increasing some Fittings segment where we are increasing the number of molds, which is the main priority sector for all the customers in this area. So, first of all this thing is helping us. Second of all the brand is also getting more popular and the establishment of brand is getting more stronger day-by-day, so that is also main thing for the increased demand, put together again we are also expanding ourselves geographically, so that is also a main key factor for the increased demand.

Praveen Sahay: So from where you are getting the traction?

Sameer Gupta: Put together we geographically expanded and the strong brand image all put together.

Praveen Sahay: Any number on the storage tank as I can see that other contribution is around Rs.6.7 Crores, so how much is that container is storage tank?

Sameer Gupta: It just started in the second quarter only, so the numbers are quite small in terms of capacity to total sales, but right now we are almost working on the full capacity of the water storage tanks with one machine, so we are expanding this capacity to other locations also along with the expansion in the current location.

Praveen Sahay: So, can you give the other breakup what you account in the other segments?

Sameer Gupta: Right now it is accounting for water storage tanks, solvent cements, taps and faucets, which are not very significant in numbers, so we have accounted this in other, but slowly and slowly showing this as a separate figure once the figure is in some good numbers then we will be showing it in a separate figure.

Praveen Sahay: Okay, thank you for taking my question. I will come in the queue.

Moderator: Thank you. The next question is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Thank you for the opportunity, good afternoon and congratulations on fairly decent execution. Sir I have actually three questions, one is gross margin trends, so given the high



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PVC prices, you are also introducing new products, which are selling very well and I am guessing those who are getting higher rate than the base business as of now. So, over the next three years how do you see the gross margins evolving, is there is a certain target in your mind that you want to reach that is my first question. Second question is on the near term sales growth and demand, what are you seeing in the market, what is your commentary on that, just like you mentioned in last quarter if you can update on that, that would be great. And third question is on working capital, how do you see that evolving till what time will we see an expansion in working capital, is that what is needed for further growth or we have reached a level where we can probably start gaining some like reducing the working capital and gaining on the back of our clear report, have we reached that stage? That is it from my side Sir.

Sameer Gupta:

First of all regarding the gross margins, I know that this will be a challenge because we are really working hard to expand our market geographically. If we just go onto the same market then that will not be a challenge, but we are trying to expand ourselves geographically, so gross margin will be a challenge in the coming days, but we are trying to maintain the same gross margin level that what we are earning today in the future because we are working hard with the other products, which are having higher EBITDA margin, so we are trying to maintain the same EBITDA margin or an average because if we just focus on the newer market and with the regular product expense then our gross margin will be same, so that is the main reason that we are working on other products to maintain the same level of gross margin, we are not trying to increase the gross margin in the coming days, we are trying to maintain it and again with very high prices right now of the plastic products, so that is also a big challenge for the product acceptability in the market. So we are also trying to maintain the same with minimum profit so that the demand does not go off, so first of all we are trying to maintain the gross margin and trying to target the same gross margin in the coming days. We are talking about sales growth, sales growth again we have answered the same in the previous question also that we are trying to maintain the same sales growth that we are achieving, we are trying our level hard to enter into new geographies and with the new products, but going forward we are not very sure regarding the COVID situation whether there will be lockdown in the coming days or not, how the Government will behave, how the Government will release the funds that is the challenge for us that we are not very sure regarding all those activities, how the situation will be, so we are not very much confirmative regarding that figures, but we are trying our level best to achieve that number. Third of all regarding working capital we are already working very hard with the working capital and debtor days, inventory days and trying to reduce the working capital cycle. Right now the debtor days is around 36 days we are thinking that at our level, this should be a good number to maintain it, we are trying to maintain the same number in the



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coming days, in the coming quarters, when we are trying to maintain the same debtor days along with a little increase in inventory and overall as per the business sales growth that only marginal growth will be there in the working capital not in number of days, we are trying to maintain the number of days in working capital.

- Agastya Dave:** Thank you very much. I will go back in the queue I have got more questions.
- Moderator:** Thank you. The next question is from the line of Ritesh Shah from Investec. Please go ahead.
- Ritesh Shah:** My question is what are our capex plans for this year and next year and if you can give a broad scale for that, that would be pretty useful?
- Sameer Gupta:** We are expanding at all our locations, at our Dadri plant where we are having a major expansion along with at our Bangalore plant we are also adding the products and the capacity of the existing product at that plant along with that we are also setting up a new unit at Raipur, which will be producing PVC pipes, uPVC pipes along with water storage tanks. The total capex plan for the current year is around Rs.50 Crores in line very well and we hope that the whole expansion process should be over by March 2021 with the total capacity should be crossing 1,00,000 MTPA when it is installed then we will be declaring that exactly what will be the capacity.
- Ritesh Shah:** In the slide that you have indicated utilization levels at Dadri, Ahmedabad and Bangalore, can you highlight what is the capacity utilization level right now over there and if one has to look at what context versus the capex that we are going ahead with, also one look at the two variables together?
- Sameer Gupta:** The capacity utilization if we talk about all across it is roughly around 60% I do not have exact figures, but it is roughly around 60% of the total capacity utilization. At Tumkur plant and at Ahmedabad plant we are almost working at the same level slightly up and down, but because Tumkur being a new plant we are trying hard over there and we are getting a good response also there because it was a old plant that we have taken over from Kisan, so we are trying to improve the machine quality and also increasing the capacity by adding new machines over there so that we do not have any production hiccups at that plant along with that from Ahmedabad plant we are now getting good response from the local and the nearby market so that plant is also putting well, but we are not planning any expansion at Ahmedabad plant. All the expansions at Tumkur and Dadri plant.



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Ritesh Shah: You indicated Rs.50 Crores, is there a broad split either plant wise or something on new machineries versus refurbishment of old machinery, just trying to understand incremental capital allocations?

Sameer Gupta: All that expansions that we are talking about is mainly for no refurbishment it is all about the new machines and the new facilities that we are creating and in Dadri we are building the whole new work shed of around 80,000 square feet shed, it is being build up, in fact in Tumkur plant also we are building the shed along with the infrastructure development over there along with the machinery investment also or column pipes or casing pipes along with water storage tanks machines, injection moulding machines all those are there. So it is on the whole we are trying to increase the capacity with new machines, not we are working on the investing on the old machines.

Ritesh Shah: I have more questions in the queue. I just wanted to have a sense on the distribution reach, we are at 170 plus distributors and 500 plus dealers right now as per the presentation, how do we plan to enhance this each going forward as we increase the capacity?

Sameer Gupta: We are actually working on both the sides, we are not just working on increasing the number of distributors. Right now we are also changing our strategy to increase the number of dealers and retailers who are attached with the distributors, so the distributors should have confidence on us that the Company is working with them for the post sales. So we are working on that. For the newer areas we are working on the distributors to the point that we are now appointing new distributors in the southern part of India along with we are also sitting in the market of Eastern India. So we are working on the new distributors on these areas along with working on the dealers and the retailers network for those existing distributors so that the new expansions and new products should get their way in the market.

Ritesh Shah: Thank you so much.

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

Yash Modi: Congratulations on a great set of numbers. Just wanted to understand from you now that you have introduced so many new products and most of them are doing well, are there any plans in the pipeline for introducing more new products that is my first question?

Sameer Gupta: We are working regularly on the new products, but right now we are not focusing on any new product, we are working hard with the existing products as we are already producing.



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We are trying to increase the number like we talk in the first you can recall that we are working on the other segment where we are making several products, but those numbers are not very big, so we are working on all the products that we are manufacturing, so that every number, every products that we are working on it should have good figures to show in the presentation, so we are working on all the products that we are manufacturing right now. Right now no other product is in line so that we are working on. We are working to increase the sales of those products only.

Yash Modi: In the last presentation the capacity was given as 90,000 MTPA and this presentation we have increased to 1,00,000 MTPA, of course testament to good demand that you are saying, so would it be mostly on account of fittings and the tank business that we have started, there is increase in capex that we have done the capacity that we are doing made from last presentation 90,000 to 1,00,000?

Sameer Gupta: We are mainly working on the value added segment right now, which is fittings, tabs, faucets, solvents, tanks, which does not have highest numbers in tonnage, but they have good volume and good profit margin. So in this financial year we are mainly working on the value added products like fittings and other products, which gets good profit margin.

Yash Modi: This quarter has been excellent in terms of working capital management, volume, everything has come in line especially when our peers are not seeing any volume growth it is very heartening to see the kind of volume growth if I am able to do especially like sales have been flat in H1 I think very few manufacturing companies say that, congratulations and all the best for the future.

Moderator: Thank you. The next question is from the line of Punit Mittal from Global Core Capital. Please go ahead.

Punit Mittal: Thank you for the opportunity and congratulation. My first question is on the working capital. You have mentioned that you are trying hard to contain at this level, your average working capital days for the last five years is 52 days. So, when you are saying at this level you are aiming 52 days or at the current quarter level?

Ajay Jain: Moving forward the way we have reduced our working capital, so our focus remains to maintain this level.

Punit Mittal: Average of last five years is 52 days or this quarter?



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- Ajay Jain:** This quarter we are talking about, this quarter we are able to achieve at 35 days, so our focus remains to maintain this level.
- Punit Mittal:** That is great. Second question is that what is the reason for the PVC prices going up and since the PVC prices are going up for all players, do you see the prices moving up in the market in the sense the finished products whereby we can maintain our gross margins?
- Sameer Gupta:** Of course PVC prices have a direct impact on the finished products, so whenever the prices go up or it goes down we have to change prices as per the market and all the players in the industry does like this only, so we are not exception for increasing the prices if the raw material prices are increasing, the prices are increased by all the players in the market. So, going forward as the market is going up we are increasing the prices for the end product.
- Punit Mittal:** The next clarification is that you mentioned in your last call that you have one machine for a water tank and you are planning to put four machines by end of 2021 and now you mentioned that in your presentation you are doubling the capacity. Does that mean you are putting additional one more machine, two machines or doubling of four to eight machines?
- Sameer Gupta:** We are putting one more machine at Sikandarabad so the capacity will be doubled at Sikandarabad facility along with that two more machines are coming one at Tumkur and one at Raipur, so four machines put together.
- Punit Mittal:** Those all machines will be finished by March 2021?
- Sameer Gupta:** Of course Sir.
- Punit Mittal:** Okay. I also heard competitor like Prince and Supreme also getting little bit aggressive on the water tank is it because the market is vacated by Sintex or what is the reason of everyone getting aggressive in water tank?
- Sameer Gupta:** Mainly because of the absence of any branded players. Supreme was already manufacturing this product then Prince and other companies have also entered in this product, so it is mainly because of the absence of any big branded player in the market and Sintex was also one major reason for making all those companies to come into the picture.
- Punit Mittal:** My last question is that in terms of normalized fixed asset turnover, for example the new capex of Rs.50 Crores, so let us say assuming in two years normalized fixed asset turnover what would be the normalized fixed asset turnover that we can do?



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- Sameer Gupta:** We are working very hard for capacity utilization. So we think that the number should be improved in the coming days because right now we are working hard for growth in terms of geographical and along with the products, but like you see that we are adding several new products in our product kitty, so that is a big challenge for us to maintain the asset turnover because all the new products are getting full investment in terms of fixed assets, but the sales are gradually increasing, so we are trying to improve with this to the number of three, but this will take some time.
- Punit Mittal:** In the next two, three years we can expect around 3x of fixed asset turnover?
- Sameer Gupta:** Again some expansion will be there and some new product addition will be there and again this number can go down because of other expansion.
- Punit Mittal:** Whatever assets are if you keep doing capex naturally the new capex will take care of this, I am understanding all the existing capex, fixed assets that we have in three years we should expect around two to three years we can expect around 3x is that correct?
- Sameer Gupta:** Sure.
- Punit Mittal:** Normalized EBIT margins would be about 10% to 11%?
- Sameer Gupta:** You are talking about earnings before interest and tax?
- Punit Mittal:** Yes.
- Sameer Gupta:** It should be, we are targeting that thing only, and it should be around 12%, which we are targeting.
- Punit Mittal:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Shubham Gupta from Avendus Capital. Please go ahead.
- Shubham Gupta:** Congratulations on a great set of numbers. Two specific questions, on the balance sheet if you see the other current assets have gone from Rs.15 Crores odd to Rs.50 Crores odd, what is the specific reason for the current assets, second question is in the last one-and-a-half months how are you seeing the Q3 turning out to be? Was Q2 a pent up demand quarter or the capacity utilization is at similar levels for the last one-and-a-half months?



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- Ajay Jain:** This current asset attributes majorly the advances what we paid for the capex activity.
- Shubham Gupta:** Then why has this been included in other current assets because your cash from operations gets severely impacted due to this categorization?
- Ajay Jain:** Currently this is an advance to the supplier; once the machines are delivered, they would be capitalized.
- Shubham Gupta:** This majorly does not impact your free cash flow from operations, this is regarding the capex?
- Ajay Jain:** Capex only.
- Shubham Gupta:** Can you just give a brief bifurcation of this number?
- Ajay Jain:** That majorly towards infrastructure, plant machinery, building everything.
- Shubham Gupta:** So out of Rs.49 Crores I can assume around Rs.40 Crores, Rs.45 Crores on the advances pay to your capex?
- Ajay Jain:** That is right.
- Sameer Gupta:** Regarding Q3 right now, we are going through the Q3 segment and we are working very hard for that sales growth. But again the answer is there in the market and the COVID fear is also there in the market, so we cannot work since it is very early, but we are trying to boost our sales team, our customers, our suppliers so that the fear should not be there in their mind, but we have to work very cautiously with the COVID going on, so we are working hard to achieve similar set of growth, but we are not very sure because of the uncertainty in the market, so it should be fine.
- Shubham Gupta:** On the number side, if you see with the capex at the year end we will be somewhere at one lakh million tonne, just on a ballpark number if I say about revenue what will be the revenue per million tonne for us as an average be it fitting or be it tank what will be in average revenue per million tonne for us?
- Sameer Gupta:** It is one lakh tonne not one million tonne and again per one lakh tonne the average revenue should vary between Rs.900 Crores to Rs.1,000 Crores somewhere around.



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- Shubham Gupta:** So currently the plant construction and everything, which we have done is amounting to a topline around Rs.900 Crores to Rs.1,000 Crores if they reach 100% capacity utilization?
- Sameer Gupta:** It does not happen actually, but we are working hard to achieve a good number, but 100% it should be like that.
- Shubham Gupta:** EBITDA margins will be somewhere around 14%, 15% odd, Sir if you see the Finolex result and other players result the margins have expanded this quarter, their EBITDA margins have expanded due to lower PVC cost is there a reason that we were not sitting on inventory and we had to buy higher price PVC or what is the reason that our margins have not expanded other than us everyone in the industry have expanded their margins be it Finolex, be it Supreme or be it any other player?
- Sameer Gupta:** If you go through our figures the margins have increased in our case also, but being a good brand you are talking about the top three or four companies. They are enjoying a good premium in the market, so that is why their margins are good and along with that the Finolex is also manufacturing their resin, that is also a reason that they do not have any such pressures with them. But if you see our margin in this quarter it has also increased tremendously as compared to the last quarter same year, being a monsoon month and it was always the weakest quarter of full year, but we have achieved good number, it is mainly because of that stock gains were there along with that we are very much focused towards that increased sales in the new markets and along with the new products, so put together we are working hard on this open margin, but right now we are not targeting on margins higher at this level, but we are trying to achieve the topline at a higher level.
- Shubham Gupta:** On a Q3 front on a normalized basis what is your anticipation, will we see a decline in revenue from this quarter or more or less will we able to achieve because this is the weakest quarter from a traditional point of view, if you talk about historical forefront, so will we see a better topline, what is your prediction or what do you think will we able to meet the topline as we had met in Q2?
- Sameer Gupta:** We are trying to maintain the growth level, but right now the uncertainty is too much there in the market. We are not very sure that how the market and how Government will behave in the coming days, so we have to work very cautiously because we do not want to get stuck in any such situation where we cannot go back. So we have to work cautiously along with that we are also working very hard regarding our expansions, so we should be getting good numbers, but we are not sure that what exactly it will be, it should be good, but we cannot comment right now anything on the figures that once the situations are clear then only we will be able to comment on that.



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- Shubham Gupta:** Thanks a lot and fantastic numbers.
- Moderator:** Thank you. The next question is from the line of Dhiral Shah from Phillip Capital. Please go ahead.
- Dhiral Shah:** Thanks for the opportunity and first of all congratulations for the good set of numbers. My question is regarding our two new plants, which is there one in Gujarat and one in Tumkur, so wanted to know what is the capacity utilization of both the plants?
- Sameer Gupta:** At Gujarat we are working around 50% of the capacity utilization and at Tumkur we have older plants, so we are working to install new machines at this plant because the older machines were not in line with our quality that is what we were expecting. So almost in Tumkur plant we are working at 60% to 65% capacity utilization, but we are working on expansion of new machines over there, so the capacity utilization will remain same along with the capacity expansion will be there in Tumkur plant. So going forward the capacity will be increased at the Tumkur plant and we will be seeing good numbers over there.
- Dhiral Shah:** In Gujarat I believe we are facing a problem to ramp our capacity, right?
- Sameer Gupta:** Actually what exactly happened in the Gujarat facility that we were trying that when the installed this capacity we were thinking that we can market this in Rajasthan and the MP market from Ahmedabad plant, but going forward the freights were too high, they were gone over expectation, we were not anticipating any such freight higher, it is almost double that what we pay from Dadri, it was double from there in Ahmedabad, so being a smaller plant and we were not having full product range over there, so we cannot feed the market from that plant. So right now we are targeting to feed the local market of Gujarat along with the Eastern and Northern of Maharashtra and Southern of Rajasthan from that plant. Now it is coming back into line and you can see that in the coming days the capacity utilization will be good at the Ahmedabad plant also.
- Dhiral Shah:** When you are expecting full capacity utilization?
- Sameer Gupta:** In Ahmedabad plant?
- Dhiral Shah:** Yes.
- Sameer Gupta:** It should be year-and-a-half year; you can say 12 to 18 months it should be almost working at the full capacity.



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- Dhiral Shah:** Normally when you install a plant for how much year it takes to commence a full capacity?
- Sameer Gupta:** It depends upon the installed tank capacity it is working at full capacity from the day one, so it depends upon the plant and location and the circumstances that we are working on. We are always installing any plant with optimization at full level, but some conditions are different at different locations, so because of that thing it was not so good, but at Tumkur plant again it is responding very well and within the one year only we are reaching that level of 60%, so that is not actually the reason, unforeseen scenes were there, so it gave us some drawbacks otherwise it was always at good levels.
- Dhiral Shah:** Coming to your distribution network, in south we have just entered last year only, so how much of the total distribution network is in south right now the percentage?
- Sameer Gupta:** Right now in terms of percentage we cannot comment because some distributors are big and some distributors are there, in terms of numbers we can say that almost 20 to 25 distributors are there already good distributors we are talking about not the customers. We have one time customer also, but we are talking about the regular distributor, so almost 20 to 25 distributors have been in the southern region and we are working hard for the second line of sales with them, so that is why we see that in the coming days some more distributors will be added along with the good number of retailers and sub-dealers will be there.
- Dhiral Shah:** Are we targeting on a B2B side or B2C side currently?
- Sameer Gupta:** It is mainly B2C, but through distributors only.
- Dhiral Shah:** B2C?
- Sameer Gupta:** Yes, B2C, but through distributors not directly.
- Dhiral Shah:** In Raipur what is your strategy?
- Sameer Gupta:** The same strategy is there because in Raipur again we are feeding the market with our existing facility from Dadri. So we are right now having good response from the market and being Apollo with a strong brand image all across the country, so we are not facing any trouble for brand establishment at any locations, the only thing in Ahmedabad that we have a drawback is because of freight, so that reason we do not see in Raipur. So that will be not here and we will be able to achieve good capacity utilization at Raipur facility.
- Dhiral Shah:** Of 7,200 how much we have spent for this capacity?



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- Sameer Gupta:** Somewhere around Rs.12 Crores to Rs.15 Crores.
- Dhiral Shah:** This is purely uPVC?
- Sameer Gupta:** It is uPVC and water storage tanks.
- Dhiral Shah:** Lastly whatever growth we have seen of 19% in terms of volume is it pent up kind of a demand or there was a fresh demand also in the system?
- Sameer Gupta:** Not exactly pent up demand, you can say that like we are working hard with our brand, with our product range and with our geographical areas, so put together that response was there and going forward we also see the same type of response in the coming months.
- Dhiral Shah:** I have a few questions, but I will come in the queue. Thank you.
- Moderator:** Thank you. The next question is from the line of Bilal Qureshi an Individual Investor. Please go ahead.
- Bilal Qureshi:** Congratulations on a good set of numbers per se. Sir, my questions pertains to that Sanjay Bhai is MD in APL Apollo, they are trying to take the business model to cash and carry, are we trying to sustain business model to catch up in our business?
- Sameer Gupta:** We are trying level best to achieve that thing, but being a very strong brand in steel sector that helped us in achieving that figure, but being in a PVC player we are not at a number one position, so that will be a challenge if we target that thing, so right now we are targeting on the topline along with the bottomline, we are not targeting very high number things in terms of cash and carry, but we are trying to a level how to reduce those number of days, but right now that is not our target area.
- Bilal Qureshi:** In the previous conference call you had said that we are targeting for Rs.1,000 Crores of revenue, so in the long term how many years are we able to reach that number?
- Sameer Gupta:** As per Sanjay Bhai we should achieve very fast because we are working hard with the market, so we think that very shortly we will be able to achieve that thing, but right now because uncertainty into the market. First of all we are working on the capacity building up, we are right now working on the capacity so that capacity should be there with us to achieve that figure and as the market will open we will be able to give you some target dates that we are exactly working, but right now we are working on the capacity buildup.



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- Bilal Qureshi:** My last question is as October month is over how is the volume we posted there, are you seeing a double-digit growth in year-on-year basis?
- Sameer Gupta:** Right now the quarter is going on, so we cannot comment on that thing, but it is going good.
- Bilal Qureshi:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Agastya Dave from CAO Capital. Please go ahead.
- Agastya Dave:** Thank you for the followup. I had a question on our exposure to the government sector, is there any particular government program that we are selling a lot to or directly or indirectly is there any exposure to any state or central government programs, any comment on that, any visibility on that?
- Sameer Gupta:** Earlier if we talk about four, five years back we were mainly dependent upon the Government projects and Government tenders, we are working mainly with them and almost 30% to 40% of our topline that is coming from that sector. But right now we are totally focussed on the credit sales, which is actually hard to sell, but in long term it is very good to maintain the sales. So, right now if you talk about of our topline only 10% to 12% less than 10% is coming from the Government sales and I am talking about directly. If we talk about indirect Government sales, we are supplying to various government agencies like Nal Jal Yojana and other UP Jal Nigam or any other agencies through our distributors we are not directly billing with them and the quantum is not so big that is not we are targeting such business, so because there is very much uncertainty in demand from those sectors. When the funds is there then only they will come, if there is no fund they will just keep silent and there is no such brand delivery in front of them, so we are not very much targeting those sectors.
- Agastya Dave:** In your working capital of if I take last year's closing number right for the entire year pre-COVID so there were no distortion, so it was around 58-60 days of networking capital, out of those 58, 60 days how much was the Government number?
- Sameer Gupta:** Government number?
- Agastya Dave:** My guess is the receivables in the direct government business would be much higher than...
- Sameer Gupta:** Like I told you that it is not very high, it is hardly...



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- Agastya Dave:** Sorry, I missed that.
- Sameer Gupta:** Very negligible because we are not selling too much to the government sector, almost you can see that direct government sectors should be hardly Rs.1 Crores or Rs.2 Crores it will not be more than that.
- Agastya Dave:** Perfect. Thank you very much. Good luck for the next quarter.
- Moderator:** Thank you. The next question is from the line of Sanket Goradia from VEC Investment. Please go ahead.
- Sanket Goradia:** Congratulations on the great set of numbers. I wanted to just get your view on how you are looking in the next two years, are we looking to continue being a dominant PVC player, how does our product mix pan out two years forward and of course do not hold your view just an estimation of direction in which way are we going?
- Sameer Gupta:** We are working strongly on all the factors, we are trying to build up a team for each and every product as a different segment. So we are trying to grow vertically along with horizontally, we are working on the product lines that we are developing in our product range along with that we have already production like PVC, Fittings, cPVC, HDPE, all the products we are working very hard, so that each and every product should get attention individually because every product is a industry in itself like if we talk about water storage tanks, if we talk about solvent cements, if we talk about taps and faucets, if we talk about HDPE, so all those products have different type of business in themselves, so we are targeting all the products as individual business. Put together in Apollo we are trying to achieve the topline, we are put together all the products, we are working hard with the PVC being the core product and being the main product and oldest product with us, so we are working hard with that along with that other products also been getting full attention for the growth.
- Sanket Goradia:** From a margin point product wise how would you rank our current product line just in terms of uPVC, cPVC, HDPE, Fittings and Water Storage?
- Sameer Gupta:** If we talk from bottom to top goes ahead the PVC pipes have the minimum margin and going forward HDPE pipes should come next and then PVC Fittings then water storage tanks then solvents then taps and faucets it should be like this only.
- Sanket Goradia:** Going forward we intend to continue our focus on uPVC?



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- Sameer Gupta:** It is a focus, whole of the products are treated as same and we are treating the same growth level at all the products.
- Sanket Goradia:** Understood, great. 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:** My question was how much money for Tumkur acquisition I think it was 12,000 tonne capacity, how much was the money that we put over there?
- Sameer Gupta:** It was somewhere around put together the stamp duty and put together it was somewhere around Rs.25 Crores.
- Ritesh Shah:** Breakup for land and building, plant and machinery?
- Sameer Gupta:** It was almost 60% to 70% towards land and building and balance was towards that around machinery.
- Ritesh Shah:** Roughly we put around Rs.8 Crores for 12,000 tonnes of capacity and you indicated that we have to refurbish the plant, so how much is the incremental capex we expect going forward?
- Sameer Gupta:** We are not trying to refurbish that plant because we are working with those machineries, some old machineries, so we are not trying to refurbish that because we will not get production as we get in the new machines, so we are working with them, we are using those machines, but we are trying to put new machines along with them so that the new machines could may have better costing and better productivity in terms of utilization and other things. So going forward we are expanding in Tumkur with new machines with new range of products like fittings capacity, water storage, tanks, column pipes all those things, we are working with that, but we cannot refurbish that, we are not putting too much money on that because we have old machines though we do not want to expand too much on that.
- Ritesh Shah:** How much will be the incremental capacity that we intend to put over here and if there is any split over here that would be useful Sir?
- Sameer Gupta:** Right now we are not able to comment because the machines are too old, so we are just analyzing that what exactly will be the life of those machines should be. It should be around 20%, 30% minimum growth should be there or capacity buildup, but right now we are not able to, once the capacity should be there we will be able to comment on that.



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Ritesh Shah: Second question you have emphasized a lot on increasing the product basket going forward, how do you look at it from a market opportunity point of view taking into account competitive intensity, what is the return ratio with each of the product could actually I am not asking for margins and specifically asking for ROCE to understand the working capital angle as well, so I think tanks are something that we have been quite optimistic about and a few products, can you give some broad guidelines on top three or four products that we are looking to penetrate into and why?

Sameer Gupta: Right now we are working hard with all the four regular manufacturing, we are not keeping ourselves limited to one product or the other because all the product that we are manufacturing right now they have good prospect in the market, the market is very big and the scope for all the product is too much, the market size is too big and the market share of Apollo is quite low at this time, we are working at around almost 1.5% of the total market industry. So we are not limiting ourselves to one or two products, we are working with all the products and we are trying to increase the ROCE and ROE in the coming days, but right now it will gradually come because right now we are working with topline, with the bottomline and with the high margin products in our kitty. So I do not think that the ROCE and ROE that we are working on, it will keep on increasing, it will not be stagnant, as the major expansion is going on and all the products that we are adding right now they are value added products, so put together the ROCE and ROE both should improve in the coming days and we are quite optimistic regarding those figures.

Ritesh Shah: Is it fair to assume that any incremental capital allocation on non-piping portfolio that we have, it is likely to yield better margin or better ROCE including something like tanks?

Sameer Gupta: It is not like non-piping products, we are right now targeting the same markets where we are already marketing our other products. So it is not like that, we are focusing on the same market with the same set of products, but not exactly pipes like Fittings or tanks or solvents, they are sold in the same shop, so we are targeting that only, so by chance they have good margin and we are targeting such products only which have good margin and good potential. So it should help in our ROCE and ROE.

Ritesh Shah: But I am just trying to understand the larger picture, we are a solid company, we are growing in fittings well and other core set of pipes and fittings then what is the need to increase the products, is it better return ratio than the incremental products that we are getting into, I just want to look at it?

Sameer Gupta: Actually what exactly happens that if we keep on just working on Pipes and Fittings - uPVC pipes and uPVC Fittings then it will gradually keep us on the back trade because all the



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other companies PVC across the industry, they are coming with all the products, so if we just keep ourselves to one or two products and do not manufacture other products then our distributors or the dealers or the other trade will not be limited to us, they will be forced to go to other players for the other products, so we do not want to first of all want them to go to other players. Second of all whatever products we are trying to manufacture they are helping us with the good bottomline so that is also our main concern, so we do not just want to need any product just we wanted to keep our focus on the pipes with low margins and then hitting nowhere that will not make any sense, if we can market any product in the market with our brand name and get good margin we are definitely selling that product and any product that we are working we are working with brand presence and good brand positioning. So that the brand does not go down and we are not into any such product, which does not have brand value.

Ritesh Shah: Lastly on distribution reach we have a solid brand Apollo, how is that we are optimizing the brand Apollo when it comes to distribution which have a marketing reach, I understand the advertisement and marketing path, but something in South or do we have some additional advantage of formal distributors, dealers or for something new, are there some intangible benefits that we are benefitting from right now or we can expect going forward?

Sameer Gupta: Yes definitely Apollo being a very strong brand in steel pipes we definitely get a leverage on that account whenever we go to any distributor who is already dealing with our products he definitely recognize the brand and prefers it to do the business either by himself or by his cousins or immediate relatives because nobody want to leave a good brand that comes into the market and if they are already maintaining the good relation with the company then they will immediately go and join hand with us so that is definitely a big plus point for the Apollo PVC, sharing the brand that we are marketing with Apollo and they are also marketing with Apollo so we get leverage on that account and we are getting that leverage.

Ritesh Shah: Thank you so much and good luck.

Moderator: Thank you. The next question is from the line of Aditya Mehta. ZM Investment Advisors Please go ahead.

Aditya Mehta: My question is regarding the PVC inventory that inventory gain that we have seen in this quarter, will we receive the same gain in Q3 also?

Sameer Gupta: We are not sure because right now there is too much uncertainty in the market, the prices are going high, already almost reached the peak so the same level of inventory gain will be



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there or not and if the prices go down in the coming months we are not pretty much sure regarding those things.

Aditya Mehta: How many inventories do we carry?

Sameer Gupta: Normally carry around 30 to 60 days put together all in line and in hand, but if we talk about just in hand it is roughly around 30 to 35 days.

Aditya Mehta: What is the price lag of passing the prices to the customers?

Sameer Gupta: If we talk about the product it is almost done within one or two days maximum. We just pass on the price whether it is drop or the rise we pass on into the customers, we do not crop it too much, but only we have to carry the pending orders with us.

Aditya Mehta: It is an immediate pass on?

Sameer Gupta: It is almost Immediate only, within one or two days we pass on to the customers, only the pending orders are there with us, otherwise it is immediate.

Aditya Mehta: You mentioned that you could not supply to Rajasthan because of high freight from Ahmedabad to Rajasthan, it is normal thing, or it is one time event?

Sameer Gupta: We did not have that thing in our mind, it is a normal thing, Gujarat market, the freight to anywhere in the country, is too high because being a port city that demand is always very high at that point. So when we are going out from Gujarat the freight is too high, so like I will give you an example like if we deliver the goods from Delhi to Ahmedabad it is roughly around Rs.18,000 to Rs.20,000, but if we deliver the goods from Ahmedabad to Delhi it is almost Rs.50,000 to Rs.60,000.

Aditya Mehta: How do you plan to utilize that capacity?

Sameer Gupta: We are trying to target the local market and the nearby markets only, so it is a small plant again it is not a very big plant so we are not even planning to do any expansion over there, just trying to cater the nearby markets and the adjacent markets of Gujarat and Ahmedabad.

Aditya Mehta: Thank you Sir. That is it from my side.

Moderator: Thank you. As there are no further questions in the participants I now hand the conference over to Mr. Karan Bhatelia for closing comments.



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- Karan Bhatelia:** What is the total gross debt levels including the current maturity as on September?
- Ajay Jain:** It is around Rs. 40 Crores.
- Karan Bhatelia:** I want to touch upon the water tank business so how big is the market and are the dealer and distributor different from the piping division or how things over there?
- Sameer Gupta:** It is good market like I told you there were big players in the market, there are some players who are trying to control the market and the dealers and distributors are almost the same, which we are already supplying the pipes too, so they are not different, so we are catering the tank business with the same set of distributors.
- Karan Bhatelia:** That is it from mine. Thank you for the management team for giving us an opportunity to host the concall. Sir any closing comments you want to make?
- Ajay Gupta:** Thank you and I hope we have been able to answer all your questions satisfactorily. Should you need any further questions, you would like to know more about the company please feel free to contact our team. Thank you once again for taking the time to join us on this call.
- Karan Bhatelia:** Thank you.
- Moderator:** Thank you. On behalf of Asian Market Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.