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November 17, 2022

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BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai – 400 001

NSE Symbol: APOLLOPIPE

SCRIP Code: 531761

Dear Sir/Mam,

Sub: Intimation under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI Regulations") – Earnings Call Transcript

With reference to our letter dated November 08, 2022 regarding Earnings Conference Call, which was held on November 14, 2022 and pursuant to the Regulation 30 of the SEBI Regulations, please find enclosed herewith the Earnings Call Transcript of Earnings Conference Call held on November 14, 2022.

Submitted for your kind information and necessary records.

Thanking you

Yours Truly
For **Apollo Pipes Limited**

ANKIT SHARMA
Digitally signed by ANKIT SHARMA
Date: 2022.11.17 11:38:53 +05'30'

(Ankit Sharma)
Company Secretary

Encl.: As above

"Apollo Pipes Limited
Q2 FY '23 Earnings Conference Call"
November 14, 2022

MANAGEMENT: **MR. SAMEER GUPTA – MANAGING DIRECTOR**
MR. AJAY KUMAR JAIN – THE CHIEF FINANCIAL OFFICER
MR. ANUBHAV GUPTA – GROUP CHIEF STRATEGY OFFICER

MODERATOR: **MR. UDIT GAJIWALA – YES SECURITIES**

Moderator: Good day, ladies and gentlemen, and welcome to the Q2 FY '23 earnings conference call of Apollo Pipes Limited hosted by YES Securities. As a reminder, all participant line 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 star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Udit Gajiwala from YES Securities. Thank you, and over to you, sir.

Udit Gajiwala: Yes. Thank you, Michel. Good afternoon, everyone. On behalf of YES Securities, I welcome you all on the Q2 FY '23 earnings conference call of Apollo Pipes Limited. From the management side, we have with us today, Mr. Sameer Gupta, Managing Director; Mr. Ajay Kumar Jain, the Chief Financial Officer and Mr. Anubhav Gupta, Group Chief Strategy Officer. We'll start the call with the brief opening remarks from the management side and then open the floor for the Q&A session. Thank you, and over to you, sir.

Sameer Gupta: Thank you. Good afternoon, everyone, and thank you for joining us on our Q2 FY '23 earnings call to discuss the operating and financial performance. I'm sure you all have the opportunity to go through our results presentation, which provides detail of our operational and financial performance for the second quarter ended September 30, 2022. As you all know, the PVC industry is witnessing a carnage.

The resin prices collapsed 25% in Q2 and 12% in Q3 till date. This is after the fact that the prices crashed almost 35% from their peak till 30th June 2022. We have not seen such situation in our history. What it did was that it created a panic in the industry, the traders and distributors went into market destocking mode to prevent stock losses. In such circumstances, we were working on 3-point strategy, prevent Apollo Pipes from inventory write-downs to the extent possible; second, push post volume to continue market share gains; and third, to increase share of value-added products to boost margins.

The only silver lining was the underlying demand, which has been strong enough for us to report 15,465 metric tons, second half highest quarterly volume number ever. The current PVC price levels are way below pre COVID levels given the fact the dollar has appreciated by 15% in the last two years. This suggests that correction may be adjusted soon from here on. This should instill confidence in our channel partners, which will lift volumes in coming quarters.

Another data point I want to share is that in seven months so far, we have maintained sales volume run rate of 5,000 metric tons per month, we suggest that 20% Y-o-Y growth for the current fiscal year. So I would like to appreciate the efforts put by the team Apollo for achieving such growth in the worst of the times. We continue to hold minimal inventory levels to avoid our stock losses.

At the same time, we have to improve our share of value added products such as HDPE, CPVC pipe and fittings and pipe fittings et cetera, we are continuing with our capex program as planned earlier, we have spent INR 37 crores in quarter 1 and INR 8 crores in quarter 2 to meet our full year capex guidance of INR 60 crores. I would like to remind everyone that this ongoing capex is majorly for a greenfield plant, which is 100% dedicated towards value-added products. We expect the new production to start in FY '24, which will help us to meet our revenue targets of 25% CAGR.

To conclude, I would like to state that it is our most tough times our industry has ever seen. The moment -- there is some respite in PVC pricing. The channel will see massive restocking, which will lift our sales to significantly higher levels with sharp recovery in profitability. Till then we are holding our both through market share gains that is growing at an expected rate. Now I would like to invite Mr. Ajay Jain to run you through the key financial highlights for this quarter ending June 30, 2022. Thank you.

Ajay Kumar Jain: And good afternoon, everyone. I will briefly cover the financial performance during the quarter and half year ended September 30, 2022. The company delivered a strong operational performance during the quarter. However, financials got impacted due to lower realization and higher input costs.

Sales volume for the quarter stood at 15,465 metric tons, reporting a growth of 7% as against 14,518 metric tons in Q2 FY '22. Sales volume for H1 FY '23 stood at 29,871 metric tons as against 24,920 metric tons, up by 20%. Volume from operations for the quarter stood at INR 207.0 crores as against INR 208.02 crores, in the Q2 FY '22 lower by 1% Y-o-Y. In H1 FY '23, half year revenue from operations stood at INR 425.9 crores as against INR 345.8 crores, up by 23%.

On the profitability front, EBITDA for the quarter declined to INR 2.5 crores versus INR 26 crores in Q2 FY '22. EBITDA for H1 FY '23 stood at INR 22.5 crores as against INR 43.4 crores, lower by 48% Y-o-Y. Margins for the half year ended September 30, 2022, stood at 5.3%, where compared to 12.5% in the corresponding period last year, lower by 726 bps. Going forward, we anticipate EBITDA margins to be stabilized. During the quarter, we witnessed a sharp increase in rising raw material costs.

Depreciation costs stood at INR 7 crores in Q2 FY '23 as against INR 6.2 crores in Q2 FY '22. Financial cost was higher by INR 1.5 crores during Q2. The company booked a net loss of INR 4.8 crores for the quarter compared to a profit of INR 14.1 crores in Q2 FY '22. Net profit for H1 FY '23 stood at INR 4 crores as against INR 22.8 crores in H1 FY '22. Net margins during the period stood at 0.9% as compared to 6.6% in FY '22, lower by 565 bps.

On the balance sheet front, our net debt position stood at INR 45.6 crores, and our annual capacity increased by 6,000 tons to 1,31,200 metric tons during this period. capex during the period was largely funded from internal cash flow. On the working capital front, our continuous endeavor improved our overall working capital cycle to 66 days in H1 FY '23, against 73 days in H1 FY '22.

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

Moderator: We have the first question from the line of Aman Agarwal from Equirus Capital.

Aman Agarwal: Sir, two questions from sir. Firstly, if you can just elaborate on the magnitude of inventory losses that you have resisted for the quarter.

Anubhav Gupta: Hi Aman. Good afternoon. This is Anubhav here. See, if you look at our quarterly revenue, which was around INR 210 crores, on a manufacturing level, we did make EBITDA spreads of like 12% to 13%. And of course, because of falling prices because of destocking in the channel, we had to push materials or some extra discount, et cetera, we gave to our channel partners. So let's say, we did a 10% EBITDA margin at operating level. And what we reported is 1.5%, 2%. So that balance will be inventory write-down. So this would be the tune of like INR 15 crores to INR 20 crores that should be what it is.

Aman Agarwal: And I mean that will also include the incentive impact that we have passed on to the dealers as well.

Anubhav Gupta: I mean some discounts, right? When dealers are not ready to stock material, then you have to push your material. And some discounts, some sweeteners go into the kitty. So like we were working on a normalized EBITDA level of a 12%, 13%. Then some extra discounts, which brought down our operating EBITDA to 10%, and the rest is inventory write down.

Aman Agarwal: And secondly, I just like to know about the consumer sentiment opening up, especially for the agri side of demand since you are near to approaching the good demand pool for the agri segment. So how is the sentiment shaping up for that segment?

Anubhav Gupta: So agri demand has been strong for two reasons. One, that monsoon has been on expected lines in India this year. So that has kept the agri demand up. Second as prices are falling. So this makes high-grade PVC pipes more affordable for farmers, for people related in the agricultural sector. And this has been a good factor for organized players who are dealing into high-grade PVC pipes.

So yes, demand from agri is there, but glad to share that demand from the building materials side has also been strong. In first half, our volumes are up 20% Y-o-Y, even in Q2, we could grow our volume by 6%, 7%. The reason, one is, of course, I mean, agri, but right now, 50% of our sales are coming from building materials. So that segment is also doing well, and we are confident that this portfolio from building material will keep on growing. And that's the main factor for our market share gains, Aman.

Aman Agarwal: And just last question, if I may. If you can elaborate on the kind of mix of value-added products in our revenue for 2Q?

Anubhav Gupta: So until last year, it was around 45% agri and 55% building materials. Right now, we are operating at 50-50 mix. So building material is all value added. And then from agri, 10%, 15% of HDPE pipes is value-added. So value-added should be around 60% and commoditized should be like 40%.

Moderator: We have the next question from the line of Avadhoot Joshi from Newberry Capitals.

Avadhoot Joshi: Two questions. First about PVC resin, how much we are importing currently, how much percentage wise of total?

Sameer Gupta: It is roughly around 70% of our total consumption of PVC, we are taking through imports.

Avadhoot Joshi: So is it fair to assume that inventory losses may continue in the Q3 also?

Sameer Gupta: Yes, of course, some part because in Q3 also -- as I told you in my opening remarks that there has already been a drop of around 12% till date. And of course, and in the next few days, we also expect some more drops. But I think that this should be a -- like I say, the bottom in near to bottom prices that we are witnessing. And once the prices take a U turn, then there should be some corrections in the prices. So we are not because we are in the mid of this Q3. So we are not exactly sure that what exactly will happen in the coming days. But we are optimistic regarding the prices that it should be near to bottom or bottom out and we should witness the sharp growth in the coming days.

Anubhav Gupta: So just to add to this that in Q2, the drop in PVC prices was around INR 30,000 per ton. So far, in Q3, we have witnessed 10,000 per ton drop. If the drop sustains at this level, then the inventory losses will be much lower than what we saw in Q2.

Avadhoot Joshi: But the import material, we would be maintaining inventory or the given orders in the three months or something like that?

Anubhav Gupta: Yes, of course, we have reduced the imports seeing the volatility in the market and the drop in the international market. We have reduced the import cycle and we are right now trying to cater the demand through local purchases because material is currently available in the local market. So seeing -- going forward, we will be actually maintaining, you can say, maintaining the normal level of in-force in coming days. But right now, of course, we are on the lower level in the [inaudible 0:14:35].

Avadhoot Joshi: And second question about CPVC, whether we have gained market share in the CPVC in the same quarters?

Sameer Gupta: Yes, of course, we have gained -- so CPVC has been growing at 70%, 80% for us. Last year, the growth was in the same range this year, so far in first half, we have grown at 70%, 80%. So assuming that industry is not growing at the same pace, definitely, we are seeing market share gains for Apollo.

Moderator: We have the next question from the line of Jenish Karia from Antique Stock Broking Limited.

Jenish Karia: If you can just broadly help us with the estimated market share currently that Apollo has annually to be going forward.

Anubhav Gupta: So if you look at our market share, right, we are at a run rate of INR 800 crores to INR 1,000 crores of annual revenue run rate. On a market size of, say, INR 30,000 crores on reduced PVC prices. So this gives us a share of around 2%, 2.5. That's what where we are today. And given our revenue growth target of 25% CAGR till FY '25, we expect this market share to take it to 3.5%, 4%.

Jenish Karia: Sir, 25% CAGR level revenue run rate in terms of [inaudible 0:16:27] volume guidance?

Anubhav Gupta: So what do we say is that 20% volume CAGR and 20% to 25% volume CAGR and the rest will be the realization increase or, I would say, the realization improvement on account of our growing value-added product portfolio. I mean, we don't know where the PVC prices will be. So when we say 25% revenue CAGR, it's the volume mix plus [NSR 0:16:58] improvement on account of our value-added products.

Jenish Karia: Sir, next [inaudible 0:17:05] opening among 6,000 metric tons of capacity added. So what product -- is it in the value added category in which location have we added the 6,000 metric tons? And secondly, going forward, the INR 60 crores capex that you are guiding to where you -- what capacities would be added though in terms of metric tons and in what segments?

Anubhav Gupta: So this 6,000 tons, which came up as new capacity that's majorly value-add in the existing plants. But this majority of the INR 60 crores capex that we talked about, that is for the new upcoming Greenfield plant in North India, which we are putting up for 100% value-added products. So yes. And what was the second question?

Jenish Karia: So what was the total capacity after this new plant PVC comes up and what would be the future basis that is after this capex is over?

Anubhav Gupta: So as at March 31, right, we were at 125,000 tons as capacity. Now in first half, we have added around 6,000 tons. So right now, we are at 131,000 tons. And this new plant, which we're talking about, that will be incremental 15,000 tons. Okay. So we should be around like 145,000 to 150,000 tons capacity after this new plant.

Jenish Karia: And post that any capex plan or we figure out it at later date?

Anubhav Gupta: I guess, we may want to put one plant in West India, after we are done with this. So we want to penetrate deeper into Western market. That's where we are getting very good traction. And there will be some minor Brownfield expansions, which will keep on going on. So I guess, for the time being, our whole focus is to come up with this new plant, where we have committed around

INR 100 crores plus capex. And it's going to contribute majorly into our FY '25 revenue vision. So right now, the focus is on completion of this plant.

Jenish Karia: Sir, just one last question that is, you can tell us how the distribution network is shaping up for the rest of India, I know we have a good presence in north, but for the rest of India, how is the distribution network expanding? And that would be all from my end.

Anubhav Gupta: So distribution expansion is taking place as we speak. The main clients, who are our direct channel partners, they are at around 600 in number today, but that's growing, right. At the same time, we are also helping our channel partners to penetrate deeper with their retailers. So the retail touch points are also increasing at the same time.

So we still see a lot of scope to improve our distribution network in East India, in South India, in West India, North we can say that we are fully there given that we have very high market share in North India, but same model we want to replicate in the rest of India. So I guess I guess there is a lot of work to do. And in next few quarters, coming quarters, you will see a lot of new store additions in terms of like counter edition in our network.

Moderator: We have the next question from the line of Behzad from Stallion Asset Managers.

Behzad: My question is regarding the distributors which you have. So you have 600 distributors across India. Can I know what percent of distributors sell the value-added as well as the commoditized or everyone sells everything at the end of the day?

Anubhav Gupta: So see, I mean, majority of our distributors will sell all the products at their counter. And that's the right to win for Apollo in last two, three years. When we go to our distributor and we sell all kind of products. That's where they see value being added from our side, and that's why they are sticking to us. So it is better to go to any distributor, reach out to him and sell the -- or offer him full SKU range. And that's how the stickiness will be there. Otherwise, if we do single product with single distributor, then my right to win goes away.

Behzad: My second question is just a follow-up on that. So is your entry in the door basically the commoditized products and then they come ask for the value-added product or you guys go with all the products at the end of the day. I just wanted to understand their psychology?

Anubhav Gupta: I mean if you look at the history of the company, right, when we started this business in 2015, '16, that time, we were doing majorly agri-based products. So that you can say was commoditized. But over the years, six, seven years, we have built our portfolio today equal to any top PVC pipe company in India. The full SKU range, whether you take pipes, you take fittings, you take CPVC, you take water tanks, you take bath fittings, you take solvents, you take HDPE pipes. So I guess the main right to win for us has been the ever-expanding SKU range of what we are doing.

And that's what our distributors also like about us that as a brand, as a Tier 2 brand versus like the top brands, which are there in the market. We have been able to offer the complete SKU range and we have been able to match the servicing levels also. As far-- with our peers. So I think -- I mean, we are happy with the current model, where we go and take the full range to our distributors and we want them to buy the complete range because in some products, I'll make x margin in some products, I'll make x plus 2 margin, right? That's how I kind of -- because we also have this metric of one is revenue per distributor, second also earnings per distributor. So earnings per distributor will go up if I sell more of value-added products.

Behzad: Just one last question. So you said you want to penetrate more on the South Western and Eastern region compared to the North. Can I just know the problems from the distributors and why you are not able to penetrate or not get that incremental market share which you are targeting and how you're able to address this problem?

Anubhav Gupta: Okay. The first thing is that it's not that we are not focusing on North. In North, we already have a high market share of 8% to 10%. So now we have the other markets to grow. And the other markets have been new for us, right? Our competitors have been present in other markets for the last 10, 15 years, but we put up our plants only in last two, three years. South we started just after corona, right, which is just two years from today. East, we started last year. So again, we are ramping up. West, we had put up the plant, which is now ramping up.

So it's not that we are not able to penetrate. It's that we are new to this market, and we are taking some time -- it will take some time for us to penetrate into this market. So far, the response has been good. All our plants when we put up the initial IRRs, ROC is what we are expected, we are achieving those desired ROCs from the new plants. So it's just that it will take some time. The market has been too fluctuating. A lot of things have happened in the last two, three years when we got this new capacity online. So once things are normalized. I'm sure our efforts will give more returns in terms of penetration, deeper penetration.

Moderator: We have the next question from the line of Dushyant from SageOne.

Dushyant: I was just asking the percentage of our distributors who would be overlapping with our Apollo brand. So…

Anubhav Gupta: 5%.

Dushyant: 5%.

Anubhav Gupta: Yes.

Dushyant: When you talk about this right to win because of the power brand, what exactly are we talking about? Is there such little overlap?

Anubhav Gupta: Because -- see I mean, ultimately, it's a building material segment. So today, any Indian who is buying -- who is renovating a home or buying a new home or doing some work at his home. So he would know Apollo because Apollo because in steel tubes in structural tubes, we are the biggest brand. So the number one pull comes from the end customer. And then the entrance -- today the distributors say, I'm going to a new market in South India. I would talk -- I would try to interact with the top PVC pipe traders, right, who maybe doing some brand A, B C. But of course, they would have heard of Apollo.

And when they come to know that APL Apollo is also having this vast SKU range in PVC pipes, the brand is any way established, right? So there is some respect, there is some reputation, what we are getting when we are going to interact with him. So then the general discussion starts like the pricing, the servicing, our capacity, our brand spends, what we're going to do with our brand over the next few years.

So all these discussions take place, and we come to the conclusion, yes, I mean, he's happy to, whether he's happy to push Apollo or not? And that's how we have made these channel partners in last two, three years when we started expanding beyond North India. And we are pretty satisfied, we are pretty happy with the way how our sales team has been able to expand the distribution network because in last three, four years, we have grown at a faster pace in terms of volume in the PVC industry. And our targets also for the next three years are most aggressive in the PVC pipes.

Dushyant: And one more question on this side. What is our dealer margin right now?

Anubhav Gupta: Dealers margin, I mean, normally, they would take like 3% to 4% to 5%, right, based on like what kind of product they are selling. So this also explains the earlier question like whether there is like one distributor for one product, like I had explained that we have some products where we make x margin in some products we may x plus two. So same goes with our distributors, our channel partners, right? So blended, they would end up making 3%, 4%, but the range starts from like 1%, it goes up to 6%, 7%.

Dushyant: And if you could talk about your CPVC side as well? What's the overall contribution of just the CPVC products?

Anubhav Gupta: So right now, it's like just below 20%.

Dushyant: And what is our CPVC sourcing? Are we exclusive with somebody? Or are we just buy from the market on a spot basis?

Anubhav Gupta: So right now, our requirement is small compared to our large peers. So we don't have to go exclusive as of now. So we are sourcing from Japan and France, and we have been quite okay with the supply so far.

Moderator: We have the next question from the line of Bhargav Buddhadev from Kotak Mutual Funds.

Bhargav Buddhadev: My first question is on inventory. So if you look at September '22, the inventory looks a tad bit higher at about INR 167 crores versus INR 132 crores in March and about INR 80 crores in September '21. So any particular reason for the high inventory?

Anubhav Gupta: So Bhargav, if you see in terms of days, in terms of days, we are at around 65 days. Now, if you look at the industry average also, that's also in the same range between 60 to 70 and this is because we are expanding our SKU range, right? We have to improve our serviceability with our channel partners, with our clients. So I guess as the industry is on average 60, 70 days. So you will see our inventory also being at similar levels of 60 to 70, although we try to become more efficient in terms of the raw material supply.

But of course, because of this volatility in the pricing, we have not been able to do that. So I guess, I mean, there is still room to -- still some room to improve this inventory to, say, 60 days from 65, 66, what we are seeing on -- as on September 30. But on the finished good inventory, I guess this is something what we have to maintain as we have to match the serviceability of our completed brands.

Bhargav Buddhadev: No, sir, is it that we were expecting higher volumes and hence inventory?

Anubhav Gupta: Of course, Bhargav, I mean not only us, anyone in the industry would have expected better volume growth in second quarter. We were at 6.5% volume growth on Y-o-Y basis for 2Q, but our expectation was at least 15%, 20%. Okay.

Bhargav Buddhadev: So bulk of this is finished goods inventory, right?

Anubhav Gupta: That is right. But we will still improve it from here towards the raw material side.

Bhargav Buddhadev: Secondly, has the channel restocking started at the industry level now that each and every company seems to be of the view that PVC prices have bottomed out and has the intensity of offering incentives at the industry level started getting reduced? Or is it the same?

Sameer Gupta: No Bhargav ji, actually, industry is not actually convinced regarding the prices to be bottomed out here, because every month or every week year we are witnessing a drop in the prices even in the international market, not because of right power, raw material, but because of other raw materials or other products that is actually, giving a temp to the PVC prices.

So right now, that convincing is not there in the industry. So the industry is waiting and maybe in the near future, in the next few weeks or next month, we may witness that the industry has started restocking, but right now it is not so. So once it starts or once we feel that the Reliance is going to increase some price or the market gets at the premium of the Reliance price or the import price, then you will see a sharp increase in the Asian countries stocking level.

Bhargav Buddhadev: And lastly, is it possible to quantify how has been the Y-o-Y growth in CPVC and bathroom fittings?

Anubhav Gupta: I mentioned 70%, 80% in CPVC and sub 50% in bath fittings in terms of value.

Moderator: We have the next question from the line of Deepak Lalwani from Unifi Capital.

Deepak Lalwani: My first question is that our guidance of about INR 1000 crores for FY '23. Any change in those numbers after the subdued prices and the volume of that?

Anubhav Gupta: Yes. I guess there could be little, not much. One on the fact that, the PVC prices are down. But then also, we thought that we will be able to match INR 1,000 crores with our improving value-added products. And also when we gave guidance of INR 1,000 crores, we had not considered the PVC prices at INR 170 a kg, which were at like all-time high towards the end of FY '22. So we had already taken the normalized PVC prices while giving guidance of INR 1,000 crores.

So I guess, there shouldn't be much of deviation from this number. Except the fact that in 2Q, of course, the volume growth was a little lower than expected. But I guess in second half, if for PVC prices become stable and they go and they start going up even by a few percentage points, there could be like a good restocking which can take place, and we will make up for like what we lost in second quarter. So I guess, I mean, we have done around INR 450 crores already and 4Q is a strong quarter anyways. So I guess we should be here and there around INR 1,000 crores.

Deepak Lalwani: And just on the value-added segment from what I read in the last quarter, it was about 35%, but it has substantially increased to 65% in this quarter. So any rationale behind that?

Anubhav Gupta: So value-added products, last quarter also, I mean, and what the mix we give is the mix between the agri portfolio and building material portfolio. So that's like 50:50. And out of this, the value-added product what we count is, the PVC pipe is going to building materials plus the CPVC pipes, plus the PVC fittings, plus the marketing, plus the water tanks. So this portfolio has been around this proportion 55%. The same was last quarter also.

Deepak Lalwani: And on that note, if you can help me with the EBITDA we make EBITDA per ton we make on the value-added versus the commodity. Assuming that the prices have normalized?

Anubhav Gupta: So on a normalized level, if you see, I mean, our EBITDA per ton, it is INR 17 a kg, right. So value-added product will be anywhere above INR 20,000 to INR 25,000 a ton, and commodity will be below INR 12,000 to INR 15,000 a ton.

Deepak Lalwani: And on the new capacity which you're putting up, when should it start commercializing?

Anubhav Gupta: I guess, I mean, we are planning to complete this over the next six to eight months. And if everything goes well in terms of like there is no disruption due to COVID, etcetera. I mean we can have the first production starting as soon as like towards end of Q2 FY '24.

Deepak Lalwani: And lastly on the distribution expansion, you were on track to grow that number from 600 to 800. So any changes of that that, any aggressive step that you taken after [inaudible 0:37:17]?

Anubhav Gupta: Yes. So I guess, I mean, in the last six months, seven months, the addition has been low because the market sentiments have been so bad. So today is not a time to go and ask for a new distributorship with any new client because right now, the sentiments are too weak, so I guess, like I said, I mean, once the prices become stable and the sentiments are back in the industry, we will try to make up for all the losses, whether it was in terms of volume loss or distribution expansion loss. This is all recoverable. I mean the idea is to hit new distributors to approach new distributors when at least, they are not afraid of any kind of losses which they are booking with their existing business. So I guess, last two months, three months have been slow, but this situation will not remain forever.

Moderator: We have the next question from the line of Vijay Chauhan from Right Horizon.

Vijay Chauhan: So the first question is basically on the EBITDA per kg side to, as you highlighted in the different like value add what is the normal margin of 17 to 20 to 25 per ton value added side. So what is the, like the blended EBITDA per kg that we make in normalized cases once the, what price volatility is gone in terms of PVC?

Anubhav Gupta: So that's like INR 16,000 to INR 17,000 per ton.

Vijay Chauhan: And let's say the next two years to three years for our value-added product share. So how much ideally we are targeting internally right, so you mentioned around 55%, so how much we are targeting to…

Anubhav Gupta: So we think there is a good chance to take it beyond INR 18,000 a ton.

Vijay Chauhan: And in terms of percentage of revenue, value-added product. Share?

Anubhav Gupta: It should be, okay. So then the mix will be at least 70%, 30%.

Vijay Chauhan: 70%, 30%. That's fine. And lastly, on the brand building side, sir, are we taking like what is the strategy that we are deploying to like we have some discounts, versus the industry leader. So what is the long-term strategy that we are deploying?

Anubhav Gupta: For branding?

Vijay Chauhan: Yes, for branding and marketing particularly?

Anubhav Gupta: Right. So branding, I mean in the last two years, three years, we had focused on leveraging the APL Apollo parent brand. Second, we were very strong in the below-the-line promotional activities, when we were trying to establish communication with the influencers, who are plumbers in our case and the retailer counter front, the hardware shops. So that exercise, we were very-very aggressive. Of course, in first six months, because of low profitability, so we have pulled out some of those activities.

But just before this carnage started, we had come up with a strong campaign with Tiger Shroff, where we tried to communicate with our end customer, the end user of our pipes. So that activity started on a good note, and then we are following up with our social media branding platform. So I guess, the brand spend continued to be around like 1% to 2% of our top line that will, with this kind of budget, we are happy with what we have in hand for the next two, three quarters.

Moderator: We have the next question from the line of Dhananjai Bagrodia from ASK Investment Managers.

Dhananjai Bagrodia: I might have missed this earlier but, sir, on average, how much cheaper are we compared to, let's say, some of the larger players in terms of pricing? That's the first question.

Anubhav Gupta: So I guess on the overall portfolio, the range will be 2% to 5%.

Dhananjai Bagrodia: So that way, we're not even playing the pricing game too much in that sense because 2% to 5% is not, so then how do we see our volume growth going ahead? Because let's say, another large player, which has been losing distributors, is that something we are targeting? Because even at the distributor end there are only so many companies products he can keep.

Anubhav Gupta: I guess, I mean, see our growth has been highest in the last four years, five years and it has not come at the cost of any established top brand. Where we have focused is the unorganized part of the industry, which still forms a very major part, which is like 40%, and with all the events which took place in the last four years, five years, starting from demonetization, then GST implementation, the NBFC crisis and macro slowdown, then COVID wave 1, COVID wave 2, then there's PVC supply chain disruption prices moving from INR 70 kg to INR 180 per kg, then crashing back below INR 70 per kg, so all these events have made business situation very hard for the smaller unorganized players and even smaller organized players. Okay. So this is where we have attacked to gain market share, and we still see good opportunity over the next two years, three years, when we say that our volume CAGR target is 25%.

Dhananjai Bagrodia: And so just to comment that how much would be a distributor target for that, over the next few years to get this volume figure, this, like are we targeting in terms of number of distributor expansion in the sales? Or have we just penetrated the same distributors more?

Anubhav Gupta: I guess, I mean, like I said, like I explained, there is a lot of room to improve or to expand the distribution coverage in North, West, East, or sorry, South, West, East, right, so right now, we are at 600. We'll take it to 700, 800 levels in next two years, three years. At the same time, rather than increasing the number of distributors, we are also focusing on expansion of number of retail touch points. That's also important because the band, we will make our brand strong not with the number of distributors, but with the number of retail touch points. So I guess the question should be like from current 25,000 retail touch points, what will the number be in the next two years, three years. So I can say that this number will be at least 40,000, 45,000 number.

Dhananjai Bagrodia: And so what will be the capex guidance for the next few years?

Anubhav Gupta: So this year, the guidance is INR 60 crores, and we did spend around INR 45 crores so far. So second half would be a bit low, although we want to finish, complete that plant as soon as possible. So I guess, I mean, INR 30 crores, INR 40 crores is what we should be spending every year. This will be towards like some brownfield expansion, some debottlenecking, if we can increase the capacity, some value addition within the existing plants and there is a new greenfield. So INR 40 crores, INR 50 crores is something what we want to spend every year. And if at all, I mean, we decide to go for new greenfield, which we don't see over the next 10, 15 months that will be over and above this.

Moderator: We have the next question. That is a follow-up question from the line of Jenish Karia from Antique Stock Broking Limited.

Jenish Karia: Yes. I see that employee expenses and other expenses have gone up on a year-on-year basis and sequentially also. So any specific thing that we should be looking at?

Anubhav Gupta: Not much to our analysis, except that, I mean, some increments would have been there, but nothing much.

Jenish Karia: And sir, earlier we were guiding for EBITDA per kg INR 20 and above by FY '25. So are we in maintaining that guidance?

Anubhav Gupta: So like I said, I mean, right now, we are at INR 17 a kg on a normalized level. The target is to take it beyond INR 18 and see where we land at INR 19 or INR 20, but yes, there is room to improve this to INR 20 a kg, given the top brand players are making such numbers.

Jenish Karia: And just one last question, if I may. Last quarter we entered in the PPR segment, so anything incremental on that segment that you can share?

Anubhav Gupta: Sorry, your voice was breaking, come again, please?

Jenish Karia: So last quarter, we announced entry into a new product of PPR. So anything incremental on that or that you can share?

Anubhav Gupta: Yes. So PPR is a new segment where there is very little competition. It's a niche market. We, right now, I mean, we are at a run rate of say, I mean INR 1 crores a month kind of run rate. But this can substantially go up because this product is more superior than the existing products what are being sold in Indian market today.

So I guess, I mean, and this is highly profitable product. So it just adds up to our SKU range, which our distributors love us for that. So I guess, I mean, this number has good scope to go up. But right now, the markets are pretty much like in Jammu in North India, where this market is more conducive. So we'll have to make a lot of efforts to promote this product in the other markets. So that activity has started slowly gradually we are focusing on this. And just on a question on employee costs. So I guess, there's like some marginal increase, like I said, one is because of the average increments. Second, we are also expanding team in our sales and production as I mean the growth target, what we have about 20%, 25%. So there is like some increase in the sales force and production team as well.

Jenish Karia: And any amount of forex loss or something in other expenses that has been accounted since we import a lot of PVC so just asking?

Anubhav Gupta: Nothing.

Moderator: We have the next question from the line of Aman Agarwal from Equirus.

Aman Agarwal: I just want a clarity with respect to your product mix. So when we say we are currently at 70% of value added product, this includes the entire non-agri portion and the PVC portion of the agri segment, right?

Sameer Gupta: No, Aman, we said that 70% is our target for FY '25. Right now, we are at 50%, 55%.

Aman Agarwal: I think you said around 60%, 65% is our VAP which you mentioned earlier, if I'm not wrong…

Anubhav Gupta: What we say Aman is, see, I mean, 50% is agri, 50% is building materials. Now there is like 15% HDPE contribution, which is value-added product in agri. But then at the same time, 5%, 10% is like commoditized UPVC piping building material. So net-net, what comes to the value-added product is 55%.

Aman Agarwal: And when we say we want to raise this to 70%. We mean the 50% non-agri is what you want to raise to 70%, right?

Anubhav Gupta: That is right. So that will go to 75%.

Aman Agarwal: 75%. Sure. And second question, as this company, we have -- in multiple times maintained our stance, like you want to penetrate faster into the Tier 2 and Tier 3 markets. So my question is that now with the upcoming value-added product capacity, does this stance still maintained or would we be also looking at Tier 1 cities to penetrate more for the value-added products?

Anubhav Gupta: See, these value-added products are not because they're expensive. I mean, it is that they give us better margins. But that doesn't mean that they're expensive for the end user. For example, we talked about expanding sales in the bath fittings. Now a plastic tap or faucet is priced one-third of what you get a brass or stainless steel product. So for us, it's a value-added because we are making INR 20 per kg EBITDA. But for end user, it is at one-third price of what he is selling from, what he is buying from a Tier 1 brand for an available category. So I don't think this is a correct conclusion that the value-added products can only be sold in Tier 1 cities. Right. Water storage tanks, for example, it's value-added for us. Now the demand for water storage is more in Tier 2, Tier 3 towns.

Moderator: Thank you. As that was the last question for today. I would now like to hand the conference over to the management for closing comments.

Sameer Gupta: Thank you all. 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 to join us on this call.

Moderator: Thank you. On behalf of YES Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.