"Apollo Pipes Limited Q3 FY2022 Earnings Conference Call"

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ANALYST: MR. MANISH MAHAWAR – ANTIQUE STOCK BROKING

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

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY2022 Earnings Conference Call of Apollo Pipes, hosted by Antique Stock Broking. As a reminder, all participant lines will be in 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 touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Manish Mahawar from Antique Stock Broking. Thank you and over to you, sir.

Manish Mahawar: Thank you Steven. On behalf of Antique Stock Broking, I would like to welcome all the participants on the call of Apollo Pipes. From the management, we have Mr. Sameer Gupta - Managing Director; Mr. A. K. Jain - CFO and Mr. Anubhav Gupta - Group Chief Strategy Officer on the call. Without further ado, I would like to hand over the call to Mr. Sameer Gupta for opening remarks, post which we will open the floor for Q&A. Thank you and over to you, Mr. Gupta.

Sameer Gupta: Good afternoon everyone and thank you for joining us on Q3 and nine months FY 2022 earnings call to discuss the operating and financial performance.

First of all, wishing all the participants and their family a very Happy New Year. I hope you all had the opportunity to go through our results presentation, which provides details of our operational and financial performance for the third quarter and nine months ended on 31 December 2021.

To begin with, I'm pleased to share with you that we have reported a stable performance during the quarter with our sales volume going by 9% Y-o-Y to 12,520 metric tons. Volume growth was driven by a healthy contribution from the HDPE, CPVC pipes and value added product segments.

Furthermore, expansion of work portfolio improved in newer geographies and addition of new Brownfield capacities assisted volume growth. Over the next few quarters, we anticipate this sales performance trend to strengthen, led by an improving demand, environment, expansion in addressable markets and a sustained uptick in utilization levels.

Moving on to the operational front, we continue to keep strong focus on value added products including the building material products, which continue to gain traction. From a product basket standpoint, we continue to witness a positive traction in enquiries for Apollo Bath Fittings and CPVC piping system. We remain confident that these products, along with our other value added product offerings will enhance our reach and strengthen sales going forward. In addition, we are aiming towards optimal utilization --- utilizing our capacities over the next two years, which will also help augment sales volume going head.

On branding, we have recently appointed Tiger Shroff as our brand ambassador, and launched social media campaign during Q3 FY 2022, which has generated strong response on social media platforms. We are excited to share that our commercials witnessed more than 50 million views in two months. We are expected to launch our TV commercial, starting Q1 FY2023, which will further strengthen our brand positioning in the market.

To conclude, I would like to state that we are constantly working towards enhancing our presence across the existing and new high potential geographies. Given that we are having healthy cash flow generation and capacity utilization levels are inching up, we are planning our next phase of CapEx. We are still on design stage, but I can tell you that any new capacity will be mainly in value added products, where we see strong demand trends, plus bulk of CapEx will be funded from internal cash flows. Going forward, we expect to deliver a robust performance in the quarters to come and further gain momentum on the back of improved profitability, strategic expansion in key geographic areas and better brand acceptance.

Now, I would like to invite Mr. Ajay Jain to run you through the key financial highlights of the quarter and nine months for the period ending December 31st, 2021. Thank you.

Ajay Jain: Good afternoon, everyone. I will briefly cover the financial performance during the quarter and nine-month period ending December 31st, 2021. The company delivered a stable operational and financial performance during the quarter driven by an uptick in demand and consumption in key domestic markets.

Revenue from operations for the quarter stood at INR190.8 crores as against INR128.1 crores in Q3 FY'21, higher by 49%. However, nine months FY'22 revenue growth was better at 56% Y-o-Y, with revenues of INR536.6 crores against INR343.9 crores last year. Sales volume for the quarter stood at 12,520 metric tons, reporting a growth of 9%, as against 11,445 metric tons and 9M FY'22 sales volume stood at 37,440 metric tons, as against 34,346 metric tons, up by 9% again.

On the profitability front, EBITDA for the quarter declined by 15% Y-o-Y to INR21.6 crores versus INR25.5 crores in Q3 FY'21. EBITDA margin, which stood at 11.3% in Q3 FY'22, was lower by 857 bps Y-o-Y. EBITDA for nine months FY'22 stood at INR65 crores, as against INR47.2 crores, growing by 38% Y-o-Y, with EBITDA margin at 12.1% for 9M FY'22 versus 13.7% during corresponding period last year, lower by 160 bps Y-o-Y. Going forward we anticipate EBITDA margin trends to sustain.

During the quarter, we witnessed a sharp increase in depreciation, led by new plant commissioning, which was partially offset by a reduction in financial costs. Depreciation costs stood at INR6.7 crores in Q3 FY'22, as against INR4.4 crores in Q3 FY'21, growing by 51%.

Net profit for the quarter stood at INR11.4 crores, declined by 30% Y-o-Y when compared to INR16.3 crores in Q3 FY'21. Net profit for the 9M FY'22 grew by 23%, stood at INR34.2 crores, as against INR27.8 crores in 9M FY'21. Net margins during the period stood at 6.4% as compared to 8.1% in 9M FY'21, lower by 173 bps.

On the balance sheet front, our net cash position stood healthy around 6.5cr in H1 FY'22. Any new CapEx will be majorly funded from internal cash flows, without stretching our balance sheet. On the working capital front, additional raw material requirements at a newly commissioned capacity may moderately impact in the inventory levels in the near-term. However, our endeavor remains on maintaining our overall working capital cycle at a stable level.

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, sir. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press "*" and "1" on the touchstone telephone. If you wish to remove yourself from the question queue, you may press "*" and "2". Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. First question is from the line of Madhav Marda from FIL. Please go ahead.

Madhav Marda: Yeah. Once again, thank you for your time and good afternoon. I just wanted to understand that volumes for us have been better versus some of the players in the same industry that have reported so far. So, just wanted to understand how we achieved that good volume delivery and how much of an impact did our business have from the destocking which has happened then plastic pipes overall.

Anubhav Gupta: Hi Madhav, Anubhav here. Good morning. So, if you look at our volume performance, which we have outperformed versus our industry peers so far, the reason is that our value-added product category, which is more tilted towards building materials, that has done really well in the third quarter and in the first nine months also. If you look at some of our categories like CPVC which is growing at above 70%, 80% on Y-o-Y basis, the Fitting Solution, the volume growth has been 20% to 30% on Y-o-Y basis. Then the other products like Bathroom Fittings, and water tanks and solvents put together even they are going at 60%,70% So, these are the broad three value-added product categories which have been doing really well for us and the commoditized sales and monetized sales is growing at like flattish. So, that's why we've been able to perform better than the industry peers so far.

Given on the destocking, yes, I mean, it did impact the overall volumes, because the CPVC prices were pretty much volatile in the three months of third quarter. If you see, first there was the increase and then they came off. Our initial expectations were a bit higher when we started the quarter, but because of volatility, there was some destocking. So, we would say we could have done much better in the third quarter if the volatility would have been lower in the PVC region pricing.

Madhav Marda: Got it. And when you say 70%, 80% or 60%, 70%, that's a top line right? Like could you help us with the volume growth for the building material category?

Anubhav Gupta: Yeah. So, CPVC I mean, the realizations have been stable, right. So, whatever growth we mentioned, this pertains to the volume growth right. In the Bathroom Fittings and water tanks, also, the realizations have been stable. So whatever growth we said it is the volume growth. And in the Fitting Solutions, I mentioned 25%, 30% volume growth only, the value growth is bit higher.

Madhav Marda: Okay. Okay. So basically, though, the PVC side of things, the more commodity grip, probably, like you said, has been very weak, and that's why. Okay. Got it. So, it's a complete product mix kind of a thing.

Anubhav Gupta: Yeah, it's the improvement in the product mix towards value-added products, which has boosted the sales value, and commodity, I mean, low margin products or commoditized product category, that's been flattish because of the destocking, but in the channel.

Madhav Marda: Got it. And if you just take a --- like we have some new capacity, which has come in. We are planning for more expansion. So, will give us some sense in terms of how you're seeing volume growth for the company, one? Two is, how their product mix changes? And thirdly, our margin? If you could give us some guidance in terms of how that will play out over slightly longer term?

Anubhav Gupta: So Madhav, if you see in the starting of this financial year, we had given the guidance of INR1,000 crores revenue by FY'23, right. So, we are sticking to that. This year so far, we have achieved 50% revenue growth. So, hopefully, we are confident that Q4 should be strong as well. So, we are on track to achieve INR1,000 crore turnover by FY'23 by next year. Right. So, this will be on the back of whatever CapEx we have completed so far. Our last CapEx was in Raipur.

Now, now beyond this, we are already sitting on the drawing board to see that how we grow our revenues incrementally about INR1,000 crores from FY'24 onwards. So, we have identified a few product categories where we are reaching the maximum utilization levels like CPVC bathroom fittings, etc. So, we are going to expand our capacity in these product categories. Whatever CapEx will take place, it will be funded from the internal cash flows, and also we will stick to our guidance that we won't spend more than 30% of our EBITDA towards the capacity expansion spends, right. So, within these parameters, we will announce the capacity expansion plans over the next one to two quarters. But we believe that after INR1,000 crores turnover, we can still grow at 20% revenue CAGR over the next three, four years.

Madhav Marda: And then margin should get a bit better as the mix changes towards building material

Anubhav Gupta: Yeah. So, right now, as we speak today, the nine months, the volume, the building material sales mix was 55%, which was below 50% last year. This year, we have reached 55% levels already. And on INR1,000 crores, it should be like upward of 60%. And like I said, all the incremental new capacity will be towards value-added mostly. So, eventually it will go to 70%, 80%.

Madhav Marda: One last question that I have is, generally in this industry, don't you think like we should guide in terms of volumes in metric tons and margins also on a per ton basis rather than percent margins because commodity input is just passed through always. So, I don't know if I'm missing something there?

Anubhav Gupta: I think it's a valid observation. I mean, internally we do make business plans based on an EBITDA per ton, to be honest Madhav. But because the investors and analysts, they have been using the EBITA margin in their spreadsheets, so that's why we talk about margin during our investor communication. But yes, on EBITDA per ton, I think INR17,000 to INR18,000 per ton kind of levels, where we see we should stabilize and as our volume mix keeps on improving, we should inch towards at INR18,000 to INR19,000 per turn.

Madhav Marda: Got it. Okay. Thank you.

Moderator: Thank you. The next question is from the line of Udit from Yes Securities. Please go ahead.

Udit: Yeah. Hi, sir. Thank you for taking up the question. Could you give us the utilization levels for the quarter and also the same for Q3 of last year?

Anubhav Gupta: So, Udit, the volume what we did in Q3 was around 13,000 tons, 14,000 tons, right, on a capacity of 125,000 tons. So, utilization levels, you can calculate, but this 125,000 tons doesn't have the seasonality factor. So, we believe taking this seasonality into factor, we may be able to do 80,000 tons, 90,000 tons of annualized volume on this existing capacity. Right. So, run rate of like 50,000 tons, 52,000 tons on an annualized basis on a capacity of 80,000 tons, 90,000 tons, we should be at 55% utilization levels.

Udit: And just like we have said that the value-added products have been going up. Can you just give the split, that how much was it for this quarter, the CPVC fittings and HDPE and a percentage to the total volumes?

Anubhav Gupta: So, we don't want to be like too much specific on the product given the sensitivity of the information. Overall, the value-added portfolio was 55% of the total revenue. This contains CPVC, Fitting Solutions, the PVC pipes towards housing applications and Bath Fittings, Solvents and Water Tanks. So, this is the portfolio what we call our value added or building material product portfolio. And in the north, in the agri side, we have general PVC pipes and HDPE pipes.

Udit: Right. And just last question, like what will be our discount that we offer as compared to leading players in PVC and CPVC?

Anubhav Gupta: So, normally the discount factor is 3%-4%. So that's the extra sweetener what we offer our distributors.

Udit: I'm sorry, Anubhav I missed your point, voice over there. If you could just repeat.

Anubhav Gupta: 3% to 4%, Udit.

Udit: That is in PVC, right?

Anubhav Gupta: Across category, yes.

Udit: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Bhargav Buddhadev from Kotak. Please go ahead.

Bhargav Buddhadev: Yeah. Good afternoon, team. My first question is on EBITDA per kg. So, if compared to, say leading players, their EBITDA per kg is still about 40% to 50% lower. When do we sort of expect this gap to narrow down?

Anubhav Gupta: See, Bhargav there are like two, three factors why we are at lower EBITDA spreads. First is the sales volume mix which is better for our competitors. So, the second point, what I was highlighting was that today we are utilizing 50%, 55% of our capacity. So, we are operating in an environment of a bit of negative operating leverage. So as our utilization levels will inch up, you will see that the EBITDA spreads will also improve. The third factor is, the extra discounts what right now we are offering to our distributors to get the market share, if you see in last few years, we have grown at the fastest pace in the industry. And, that’s why I mean, we also offer a bit of extra sweeteners to our clients. So as our brand is becoming prominent, right, all the brand pool we are trying to create for our products etc., we expect that our premium should go up, right, versus discount what we're offering today.

So, with mix of these three factors, we also believe that our EBITDA spreads have a lot of scope to improve. I don't want to throw a number today, whether we should be 20,000 per ton or 25,000 per ton, but our endeavor is that every year you will see the improvement, irrespective of the fluctuation in the PVC prices.

Bhargav Buddhadev: Now, so, once we achieve optimum utilization across the west, south plants as well, is the EBITDA per kg gap between these manufacturing plants going to be substantial or would be very minimal?

Anubhav Gupta: No, definitely, I mean the EBITDA per ton plant wise will also improve and also Bhargav, I mean, if you look at our ROC, right, so the investments, what we have done into plants so far, our focus is to generate better ROCs with higher turnover. Okay. So, are we able to churn our capital more and more? So, if we have to say compromise a bit on margin, we are okay to do that, right. First, we achieved the scale of INR1,000 crores. Our next goal is INR2,000 crores. I guess once we achieve that scale, then I mean, we will have much more brand permanence and positioning and pull factor which will help us realize better realizations, right. So, I guess, I mean, we are okay with marginal improvement in the EBITDA spreads because of this discounting, as long as we are achieving 25%, 30% return profile. So, you will see that this year we would be like near 20% levels, next year we would be 25% levels, when we achieve INR1,000 crore turnover. So, right now, the focus is more on return profile, rather than margin spreads.

Bhargav Buddhadev: And lastly, as a percentage of revenue, what would be the contribution from tanks and bath fittings now?

Anubhav Gupta: Yeah, so put together total, it should be around 5% to 6%. Next year target is to take it to 10%.

Bhargav Buddhadev: Okay. Thank you very much and all the very best.

Moderator: Thank you. The next question is from the line of Kushal Jajodia from Kushal Jajodia and Associates. Please go ahead.

Kushal Jajodia: Good morning, sir. So, this quarter, we have actually added two brand ambassadors, Raveena Tandon and Tiger Shroff. So, just wanted to know the expenditure incurred on both the brand ambassadors on advertisement per se?

Anubhav Gupta: So far, I mean, we have spent around 1.5% of our sales value on branding, which is pretty much under budget, okay. In fact, we had guided for 2% of turnover as the expense but we could manage at 1.5%. The total in terms of value, we have spent around INR7 crores to INR8 crores so far. So, the run rate is around INR2 crores, INR2.5 crores on a quarterly basis. Q4 also should be same. Next year, we would be hitting a bit higher, maybe say 2% of the total revenue, as we will launch TV commercials.

Kushal Jajodia: The second part is, are we capitalizing it as an intangible asset or are we considering it as a revenue expenditure in the P&L?

Anubhav Gupta: It is zero capitalization.

Kushal Jajodia: It is not capitalized. Okay. And just wanted to know because in this quarter, we have actually incurred expenses which we might have incurred on the bonus issue expenses. So that has hit the P&L? And what is the quantum of that?

Anubhav Gupta: No, no. It is ---

Ajay Jain: Mr. Kushal, we cannot understand your question because in case of this distribution of bonus, that comes out of my reserves and surpluses.

Kushal Jajodia: Okay. Okay. So, that's not hitting our P&L item, right?

Ajay Jain: Yes, that's right.

Kushal Jajodia: Okay. Okay. And just a last question, how many dealers and the distributor networks we have added in the quarter three?

Anubhav Gupta: It is more or less same, we are not adding too much of distributors, but of course, on the dealer side, we are working towards the distributors for the retail sales network. So, distributors are almost the same as per the last quarter is, but of course the dealer network is increasing. That's why our total top line is also increasing.

Kushal Jajodia: Okay. Thank you so much, sir.

Moderator: Thank you. The next question is from the liner Anika Mittal from Nvest Research. Please go ahead.

Anika Mittal: Hello. Am I audible, sir?

Sameer Gupta: Yes, yes.

Anika Mittal: My question is, in our presentation at one place, it is mentioned that there are various pro-growth measures undertaken by the government, especially towards the rural infrastructure and the agricultural space. So, this will benefit our company in terms of growing demand. But if I'm not wrong, our strategy is to focus on the value-added product that is basically on the building side. So, it seems like from the information given in the presentation, we are again, going towards the non-value-added side. So, can you please correct me or provide any color on the same, that why there is a sudden change in our strategy?

Anubhav Gupta: No. There is no change in strategy. In our presentation, we highlighted the opportunity lies in the agri side, right. I mean, if you look at our performance for last two, three years, every year our sales mix has improved towards building material side, right. Last year, we were 45%. Before that, we were below 40%. This year, we have achieved 55% so far. Okay. So our distribution, penetration, expansion, our product addition into our portfolio, everything is linked to our strategy, which is going more towards value-added products cum building material site.

In our presentation, we have given the opportunity which lies towards the agricultural side, as the government has strong focus on rural markets, and farm income, etc. So, if it makes more sense for us to increase our volume, we'll do that, if it doesn't impact my working capital cycle, which we are very much focused upon. I mean, but there is no change in the strategy. I guess, there is some confusion at your side.

Anika Mittal: Okay. Okay. Right. Right. That makes sense. Right. And my second question is, it is mentioned in the presentation that the company has improved gross margins due to some cost measures or the contribution from the value-added products and that is looking also you're saying 55% is from the value-added side. Then can you please tell, why there is a fall in the operating margins by 9% year-on-year? What could be the reason for that?

Anubhav Gupta: So, if you see in Q3, I mean, because there was high volatility in the PVC pricing, so, there was channel destocking which took place in the third quarter, right. Like in month of October, the PVC prices increased by INR20 per kg and then over the next two months, they fell down. Right. So, there was a lot of uncertainty in the trade community and there was destocking which took place. So just to push sales, we offered a bit of extra discounts to the distributors and that resulted in the sales --- in better sales volume and better sales value, right, which, few investors appreciated as well.

Now, Y-o-Y there is also another factor, I mean, last quarter in Q3 FY'21 there was some --- because PVC prices were going up, so there were inventory gains for the whole sector. Right. Our margins were like 18% to 20%. So, we had been communicating that those margins were not sustainable. Every PVC pipe company had the element of inventory gains in FY'21. So, it helped us also. We have always maintained that, our core EBITDA margin should be 13% to 15%, without any inventory gains or losses.

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

Ritesh Shah: Hi, sir. Thanks for the opportunity. My first question was, I wanted to understand volume growth. I appreciated you hinted that value-added products like CPVC fittings and tanks have actually grown at a considerably higher pace. Is it possible if you can provide some more color over here? The reason why I asked this, based on my understanding, I think last year's volumes, what we had indicated on the calls was, PVC would have accounted for around 70% of it and I was just going through my notes and I find, if I just sum up CPVC fittings with others, it would be around 25% of the volumes and the balance 25% could be HDPE or something else. So just wanted to understand if we factor that 25% by CPVC fittings others also to grow at say 50%, it still leaves other segments either PVC or others, which would have declined sharply. So, just wanted to understand if we could provide some more color segmental wise that would be very useful.

Anubhav Gupta: Right. So, Ritesh, I mean, in terms of commoditized sales, right, and even the PVC pipe toward building material, that's the segment which has not grown. In fact, the commoditized sales volume would have come off year-on-year, right. So, your observation is right, that whatever volume growth which has come, it has come from CPVC, the fitting solutions and the other value-added products.

Ritesh Shah: Okay. So, should one assume say, the PVC volume decline upwards of like 40% of which agri would be far higher than that?

Anubhav Gupta: You mean 40% volume decline?

Ritesh Shah: Yes.

Anubhav Gupta: No, no. That's incorrect.

Ritesh Shah: Okay. So, would you be able to indicate basically, if within PVC, agri and non-agri, what sort of degrowth we had or growth we had?

Anubhav Gupta: No, no. Non-agri PVC was flattish. It didn't decline.

Ritesh Shah: Okay.

Anubhav Gupta: Agri PVC declined.

Ritesh Shah: Okay. This is helpful. Okay. So, this is one. Second is, I just wanted to have some sense on the sourcing for both PVC as well as CPVC. I think our numbers for import sourcing used to be higher. So, if you could just highlight, how much is it right now for both PVC as well as CPVC?

Anubhav Gupta: Like I have told you earlier, we have shifted our buying strategy from import to local sources. So right now, we are buying almost 40% of our purchases from local sources, from domestic sources, and 60% is from imports.

Ritesh Shah: Okay. And how would it vary for PVC and CPVC? I think CPVC is?

Sameer Gupta: CPVC is100% import. It doesn't get manufactured in India. So, we have to rely on 100% imports.

Ritesh Shah: Okay. And this number 40% local, what would have been last year? I'm just trying to understand.

Sameer Gupta: Yeah, last year it was somewhere around 25%. You can say, 20% to 25%.

Ritesh Shah: Okay. And sir, one last question. Have we faced any shortages on CPVC or basically we hear that a lot of industry guys, are actually facing and hence the larger guys are actually benefiting? So, you indicated that we have grown in the segment. So, it definitely gives comfort on the sourcing. Any thoughts on this particular variable, sir?

Sameer Gupta: No, actually, of course, there is a problem in sourcing of CPVC. But we have got our regular sources with us and we have been working with them for years. So right now, touchwood, we are not facing any trouble in our sourcing. Whatever the increased quantities we are right now having, we are getting them from the suppliers. Of course, going forward, if we are eyeing further 100% or 50% growth in the coming days, then we have to see that to improve the sourcing. But right now, we are comfortable with our sourcing.

Ritesh Shah: Right. And sir one last question, what sort of inventory would we have at the company level? And how do we read into this basically, if the anti-dumping duties against U.S. and China are actually taken off, the local PVC prices could see a further decline? How are we acknowledging this variable when it comes to stocking up inventory at the plant level?

Sameer Gupta: Actually, the market has already discounted on the basis of anticipation of this drop in anti-dumping, because it was due in the next 10 to 15 days, it will be removed . So, market has already discounted on that and many of the imports right now is coming from China, where there is no anti-dumping from 15th of Feb, I think, so, that is the exact date. So many of the importers have already started importing from China. So, the prices have already been corrected on that account. So, we don't see any inventory, sorry, price correction in this, rather we see a price up, ticking upwards in the next few months on account of shortages, which are actually seen because of COVID going all across the world.

Ritesh Shah: Sure. So, this INR130, INR131 of pricing what Reliance has, its reflecting import parity, assuming this anti-dumping duty is taken off. Would that understanding be correct, sir?

Sameer Gupta: Yes. Exactly.

Ritesh Shah: Okay. This is very, very useful, sir. Thank you so much.

Sameer Gupta: Yeah.

Moderator: Thank you. Before we take the next question, a reminder to the participants, anyone who wishes to ask a question may press "*" and "1" at this time. The next question is from the line of Praveen Sahay from Edelweiss Financial. Please go ahead.

Praveen Sahay: Yeah. Thank you for taking my question. Just one clarification, as you had mentioned that your CPVC and fitting contribution has increased, but if I compare with the peers who had reported their numbers, their realization improvement on sequential basis on the higher side as compared of yours. So, is it because of just the realization, how the improvement across the board has happened or is there element for PVC or of CPVC and the fittings also included in it? So, just to give you numbers like 10% to 15% increase for them versus your is a 6% on sequential basis.

Anubhav Gupta: Yes. So, if you see I mean our net realization is INR152 per kg against INR143 per kg, right. This is the function of, I mean, whatever average pricing would have gone up in the PVC, as a raw material, plus value-added mix, which has more or less remained constant Q3 versus Q2, right. We haven't gone through the detailed financials of other industry peers. So, we can't comment on that. I hope we're clear?

Moderator: Mr. Sahay? Seems like we lost the connection for the current participant. We move to the next question from the line of Raunak Vora from AUM Advisors. Please go ahead.

Raunak Vora: Hi, sir. Am I audible?

Anubhav Gupta: Yes. Go ahead.

Raunak Vora: Yes. Sir, I just want to know how is the demand as an industry wide in the agri and the plumbing segment for us?

Anubhav Gupta: So, Raunak, the demand in building materials has been strong for us, as in industry also the things are looking up. The industry reports on real estate construction have been quite encouraging. For us, we are gaining market share constantly, because of our efforts towards network expansion, creating brand pools through advertisement strengths, and expanding into new geographies and adding new products. Right so, we have outperformed the industry in terms of volume growth, in terms of revenue growth over the last two, three years. Our market share used to be 1%, now we are at 2%. That's the change in the last three years. We expect to grow at 20%, 25% over the next three years.

Raunak Vora: Okay. And what about on the agri part?

Anubhav Gupta: Agri, I mean, as a sales mix, you will see this will constantly go down, but in terms of absolute number, there will be marginal growth, right. As a company, we are working on two strategies. One is, to keep the working capital days optimal, and second is, to have the margins in the trajectory of 13% to 15%, or EBITDA per ton of INR17,000 to INR18,000 per ton. So, any opportunity in agri which ticks these boxes, we will take it, otherwise, we are happy to focus mostly on the value-added products.

Raunak Vora: Okay and sir, when we said that over the last three years, we've been giving heavy discounts to the distributors and gaining market share to create a brand for ourselves, so obviously, that is truly visible with the market share that we have taken as of now from 1% to 2% in the last three years. Sir, where do you see your company in the next three to five years going ahead? Like do we see ourselves reaching 10% or going from say two to four, then doubling in the next five years?

Anubhav Gupta: Right. So as a company, the next target, the next milestone is INR1,000 crores turnover, INR250 crores quarterly revenue run rate, which we believe to achieve in FY'23. From there, our next plan is to touch INR2,000 crore revenue in three years.

Raunak Vora: Okay sir. Thank you.

Moderator: Thank you. The next question is from the line of Aditi Kasbekar an individual investor. Please go ahead.

Aditi Kasbekar: Hi. Can you hear me?

Anubhav Gupta: Yes. Please go ahead.

Aditi Kasbekar: Thank you for the opportunity to ask the question. So, my question is more on the competitive landscape side. On the agri side, what we've been hearing is that there has been like this increase in the prices and the increase in overall unit pricing at a unit price level, is actually causing a lot of the market to move to the unorganized sector. So one, I would like to understand what's your view on that? And then second question is, on the building material side, pipes as a segment, because of the demand that we're seeing from the real estate cycle turning up etc., has actually attracted a lot of competition from the organized market. For example, I was reading somewhere that the Hindware brand, which used to be like a sanitaryware brand, has also launched pipes, launched their own pipes brand called TRUFLO. And in the South India market itself, they're targeting a run rate of about INR150 crores per quarter. So, what's your overall view on the organized sector competition in the building material segment and unorganized gaining share in the agri segment?

Anubhav Gupta: So, Aditi, coming to the agri side, yes, because of the increase in pricing in the region, the market for branded players or organized players has shifted to the unorganized sector, which uses inferior quality raw material, right. And this happens across industries. And this is the reason that why our agri PVC sales have declined in terms of volume on yoy basis. So, we are letting that market go off? We are not chasing that segment at all, right. I don't want to compromise on our margins there. So, we are happy to let go that market and this is the industry wide phenomena. So, we, as a company, as an individual participant in the industry, we don't want to chase those sales. So, we'll wait for PVC prices to stabilize and if the market comes back, then we are ready, right. Our capacity is there, our distribution is there, our brand is there, our network is there. So, we'll wait for the better times to come in that agri space, right. We don't chase the volumes there.

Now, coming to the competition increase in the building material space, we need to understand what has happened in last three years, right. It is not a like six months phenomenon or one-year phenomena. In last three, four years, if you see the top 15 players, right, barring the top five players, there has been a massive shift in the market share below top five players, right, because of demonetization, GST, NBFC crisis, COVID wave 1, COVID wave 2, lockdown restrictions etc., a lot of weak or small organized players have gone away from the market, right, or they have become even smaller. So, at the cost of those smaller organized players, weak organized players, there have been like companies like Apollo Pipes or some name which you took, they have been taking market share. They have been inching up their market share right, plus the industry has also started growing, which was a bit of flattish growth, because of all the factors in the last 3 years which also impacted GDP performance in India.

So, I guess, I mean, now, there has been shift from like, if you look at like 7, 8, 9, 10 till 15, there has been like big change in these rankings, right. So, companies like Apollo Pipes, when started going PAN India with a turnover of INR250 crores three years ago, we were like number 10 player and our market share was not even 1%, right. So, from 10, we have come to position 7, and immediate player above us is also having financial troubles. So, the existing players will keep on taking market share at the cost of these weak or troubled companies, and the new generation of companies will emerge. So, as of now, we don't see like intense competition in our space where we are growing. We have also a right to win at many places, our brand, overall APL Apollo brand in building material is very strong.

Then, the work what we have done towards the network expansion over the last two, three years now, it has started paying off. The work what we have done towards the capacity creation across India now, has started paying off. The work that we have done towards adding new products to our portfolio, those products have started ramping up and they are contributing to our top line and bottom line. The work what we have created towards our PVC pipe brand positioning, that has started paying off. I mean, so, we are ready with all these ingredients and given the support we are getting from the construction activity and the macro factors started to play well, I think whatever numbers we're talking about, whatever goals we are talking about over the next one year and three years, we are confident of achieving those numbers.

Aditi Kasbekar: Understood. So basically, it's weaker players sort of weeding out of the market that's helping you out to gain the share?

Anubhav Gupta: Yes.

Aditi Kasbekar: Understood. Thank you, sir. Thank you very much.

Moderator: Thank you. The next question is from the line of Siddharth Purohit from InvesQ Invest Advisors. Please go ahead.

Siddharth Purohit: Hello. Am I audible?

Anubhav Gupta: Yeah. Please go ahead.

Siddharth Purohit: Yeah. Sir, on an overall industry level, if you could get some sense of what is the level of capacity that the last year are also planning to add and like now, there is no doubt there is, the demand is quite strong in the last one-and-a-half-year time. But is there a situation, likely situation there, because all the players generating enough cash. So, is there a situation that probably might be some more of an incremental addition, which might lead to sort of pricing pressure going there. That is one part. Second is given that there has been inflation in trend in almost all the spheres, what could it be on the Capex, like incremental inflationary Capex cost for return say, for a new plant. Be a new plant basically.

Anubhav Gupta: All right. So, coming to the first question, I mean, we also interact with our industry friends. So, I get the overall belief is that, this industry should grow at low-double digit now, after like a pause of two years. So, everyone is getting himself ready to achieve those kinds of numbers. Obviously, the larger players have much larger capacities. So, for them to grow on a base of what they are today, so, they are targeting like double-digit growth, but for us, I mean, at such a small base, we believe that we could grow at a much faster pace than what the overall industry will grow. Plus, the other peers are also getting into a lot of other product categories. I mean, we have seen PVC pipe companies getting into adhesives, solvent, etc. in a big way. So, they're also identifying other product areas where they can grow. We have our product portfolio where we want to expand, right. So, I guess there is enough scope now, that the industry should start growing at double digit, maybe low-double digit, but you will see that happening, given the support we are getting from the real estate sector and the construction activity.

Second point of yours, which was regarding Capex. So yes, I mean, there has been inflation, every building material product has gone up. So, the project costs will go up by 5% to 10%, which could depress the IRRs and ROCs a bit, but then we are not too much bothered about it because whatever new capacity we are going to create, that's going to happen in the value-added products, which give us very high margins. Right. So, we don't think that our ROCs or IRRs would get depressed because of the price inflation on our CapEx

side.

Siddharth Purohit: Got it, sir. Thank you.

Moderator: Thank you. The next question is from the line of Amit Zade from Antique Stock Broking. Please go ahead.

Amit Zade: Thank you again for the opportunity. So my question, first of all appreciate the fact that you have been guiding on INR1,000 crores of top line for FY'23, despite anticipating price correction in PVC. So, which warrants more than 45% to 50% of volume growth for the next year. So, sir, my question is what kind of dealer additions will that require, considering the fact we must be close to 600 dealers as of now, and what kind of dealer addition will that require to have an incremental gain of INR300 crores to INR400 crores, if we end up this year at almost INR700 crores to INR750 crores? And in what geography will this happen?

Anubhav Gupta: Right. So, Amit, coming to the main point about the INR1,000 crore turnover. So, nine months, we have done say whatever number is INR550 crores kind of number and if we just analyze this number, we will end the year at INR750 crores, analyzing the nine-month number. So, this suggests 30%-35% growth to achieve INR1,000 crores. Now, this 30% growth is divided into 20% volume growth and 10% utilization growth, right. So, right now, for the nine months, our utilization is INR142,000 per ton, which we believe should be like irrespective of PVC prices here and there. We should see some improvement in our realizations, based on simple fact that our value-added mix is improving. As our CPVC will go up as a mix, our fittings will go up as a mix our, our bathroom fittings, water tanks etc., will go up as a mix. So, that will automatically improve my realization.

So, this 30% revenue growth is broken into 20% volume growth and 10% NSR growth, right. So, yeah. to achieve 20% volume growth, yes, I mean, we will work towards expanding our distribution network. So far 60%, 65% of our turnover is still coming from North India, right. So as our plants have started contributing from Raipur, from South and from West, so over the next 12 months, we are going to add new distributors. Our target is to increase our distribution base by at least 5% to 10%, right. And that will be mainly in the southern and western geographies, now that we have support from our production plants, manufacturing facilities.

Amit Zade: Got it. So, North India contributed almost 65%, you said, right?

Anubhav Gupta: Yes, that's right.

Amit Zade: In this quarter, which was what 80% same year last quarter?

Anubhav Gupta: Yes, of course. Because South plant, we had just taken the possession from the seller in the middle of FY'21. So, yes, the contribution was very little and

Raipur started only in the Q1 of this year. So, Raipur and South contribution started flowing from FY'22 to be precise. And with our new addition of distributors in the West market, our Ahmedabad plant has also started ramping up quite strongly.

Amit Zade: So, fair to assume, 50% contribution from North India by the end of FY'23, which used to be 75% to 80%.

Anubhav Gupta: I guess that will be for FY'24. For FY'23, 55%, 60%, we may close from North India.

Amit Zade: Okay, sir. Got it.

Anubhav Gupta: Because in North also we had done some Brownfield expansion, right. So, that's why.

Amit Zade: Right. Okay. And also, sir, you suggested some Greenfield expansion that could happen. So, that would be for next phase of growth, right, which we are targeting from INR1,000 crores to INR2,000 crores, that would be?

Anubhav Gupta: Yeah, that's right. So, just to put this on record, any Capex, what we will do, it will have three checks. One is, that Capex in a year will not exceed 30%, 35% of our EBITDA. Second, any organic Capex will be funded from internal cash flows mostly, without stretching much of the balance sheet. Third, incremental Capex which will take place, will be mostly towards the value-added products and where ROCs or IRRs will be upwards of 25%, 30%.

Amit Zade: Okay. So, sir, this EBITDA per kg of INR17 to 18, which we are currently doing, so, what could that level at which it maybe stabilize once we reach all these expansions?

Anubhav Gupta: So, see, I mean, for INR1,000 crore sales, we believe that 60% of our products will be from value-added. So, I guess, I mean, we should be doing INR18,000 per ton to INR19,000 per ton, right, and then eventually it will inch up by INR1,000 per ton to INR2,000 per ton every year, if the sales mix keeps on improving. So, given that our competitors do INR30,000 per ton to

INR35,000 per ton, I mean, but for them the sales mix and the realization, etc. operating leverage, the premium realization they get, everything comes into play. So, our immediate target is to hit INR20,000 per ton and then we'll see how we can achieve INR25,000 per ton in the long-term.

Amit Zade: Okay. Got it. Thanks a lot.

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

Ritesh Shah: Hi, sir. Two questions. I just wanted to have a sense of what is the current inventory in the company?

Sameer Gupta: It should be in line. It should be somewhere around 2,000 tons, 2,500 tons roughly. I don't have the exact numbers.

Ritesh Shah: Okay. So, this would be resin or finished goods, sir?

Sameer Gupta: No. It is resin.

Ritesh Shah: And sir, I'm assuming, given we indicated that sir, we have increased our local sourcing, but still 60% would be import.

Sameer Gupta: Actually because of that, you can say drop in prices in the month of this November. This actually impacted us, like Anubhav already told that we were anticipating much higher sales as what we have achieved this time. Yeah, we were in anticipation of much higher sales, because of that there was a pile up of the inventory, which you can say liquidated in this current month.

Ritesh shah: Correct. But sir then, if one had to understand that I think the surprise came on volumes, which was lower in the month of November and December. So, the carrying cost of this inventory could actually be higher, right, given the volume throughput in the month of November and December was lower? Please correct me if I'm wrong.

Anubhav Gupta: Ritesh, it won't be much because the incremental inventory which was purchased right, on, as a company, we always maintain 2,000 tons to 2,500 tons kind of levels, right. I mean, how much we would have fallen short of the volume? We did 13,000 tons to 14,000 tons, right. We could have done 500 tons extra, if the destocking had not taken place. So, 400 tons to 500 tons on a total base of bit of high inventory cost, it won't have like very big impact on P&L or on the balance sheet.

Ritesh Shah: Right. Anubhav, the sense what I'm trying to get is, basically if you look at October, November and December resin prices, September to October it moved up very sharply and November it was around INR162, went to INR148 and then to INR140 and currently it's hovering at around INR130 levels. So, my assumption is, basically even if we have say, around 2,000 tons of rolling inventory, the average costing over here will be upwards of INR140, INR145, as against the prevailing prices. So, is the expectation that the end product prices will move up incrementally and the probability of inventory loss will be lower into Q4?

Sameer Gupta: Yes, Ritesh, actually if you see that there was an increase in Q3 in the resin prices. In October month was INR20, then again, the drop was there in the month of November, again, that was INR20 and the increase was almost trade off and there was no further drop in the month of December. December was almost stable. Of course, because the destocking was there, the buying was low on that account. But there was no price change in the month of December. Again, in the month of January there is a price correction of INR9 per kg. But now, the market has again started moving up. So, we don't actually foresee any inventory loss in this quarter and further, just again, two months are left and we don't actually know that what exactly the price level will be in the next two months.

So, it will be a bit of, you can say early to comment on these parts, rather, we should like to comment on these on the Q4 results. But we don't see any such big loss or any, you can say, any inventory loss on this account also.

Anubhav Gupta: Right, and just in addition Ritesh, if we assume a worst case, okay, let's assume that 500 ton inventory, extra inventory that would be in the system, it was at high price right and if the prices fall by say INR20 a kg or INR30 a kg. So, on 500 tons it will be like INR1.5 crores to INR2 crores, right on my quarterly bit of INR25 crores to INR50 crores. So, I think that much risk any company who wants to cater to so many dealers and who wants to service so many SPUs, have to take this much of extra inventory on our books always.

Ritesh Shah: Correct. I appreciate that. I think it's an industry wide problem and it's because of the volatility unfortunately in resin prices, but if I had to connect my earlier question with this one, basically, I was just looking at the resin price average for the month of November and December, it was at INR150. Currently, what we are sitting is around INR130 levels.

Sameer Gupta: No. Ritesh, it was INR140 in the month of November. Then there was no pricing change in the month of December. Again, in the month of January, there was a drop of INR9 per kg.

Ritesh Shah: Correct. Sure. That's helpful. My second question is sir, you indicated that the current pricing is already adjusted on import parity basis. I just quickly did some math. Can you help me understand how actually it stacks up because if I factored Chinese prices at $1,300, there are two elements over here, 7.5% is the duty, which I assume given China is non-FTA. This will come over there and there is another element of $148. If I loop in both the variables and factor in a higher freight cost of several $100, still the implied resin price what I get on rented basis is at around INR120, which is lower than current INR130.

Sameer Gupta: Let me correct you. First of all, the Chinese prices is right now around $1,250 or $1,270 FOB. It is not CIF dollar prices. You have to add around $250 per ton to $270 per ton on the freight part on these prices. Secondly, the duty is 10% plus the additional duty of 1%. Total is, 11% of duty is there. So, if you calculate all these things, the prices are at par with the Reliance prices, right now, what Reliance is offering to us. So, there is no such major price correction on that account to international prices.

Ritesh Shah: This is useful, sir. Sir, you said $1,270 and $270, right?

Sameer Gupta: Roughly around $1,470 to $1,500. Again, there are a lot of, you can say, deal cancellations are also there from China. So, a lot of people don't actually go with the Chinese company to deal with resin, because whenever the prices increase, they just decline the deals. So, that is again a challenge with

Chinese prices. Other than that, the normal PVC prices from other countries is somewhere around $1,500 to $1,550.

Ritesh Shah: Sure, sir. This is very, very useful. Sir, you said $270 for China to India?

Sameer Gupta: Yes.

Ritesh Shah: And how much would it take for U.S. to India?

Sameer Gupta: I don't know because right now there is no PVC that is coming from U.S. market because of the shortage that is already running at their end.

Ritesh Shah: Sure, sir. Thank you so much. Thank you. Thanks, Anubhav. Thanks, sir.

Anubhav Gupta: Fine. Can we take last question please.

Moderator: Sure. The last question is from the line of Karan Bhatelia from Asian Markets Securities. Please go ahead.

Karan Bhatelia: Hi, sir. Thank you for the opportunity. Sir, two things I wanted to understand. Agri, you said, was washed out since last couple of quarters. So, do we see some pickup there because how far can farmers delay their purchases? So, any comment could be helpful on this? And how has been the ramp up at the Raipur facility? Is it on track compared to our expectations or how is it shaping?

Anubhav Gupta: So see, agri sales have been declining for the organized players, but as an industry the agri sector is doing good. It is just that the volumes have shifted towards the unorganized sector who work on the inferior raw material for the end product, right. So, we don't expect agri to come back unless until the PVC prices go down drastically from these current levels. Having said that, the project sales which come for the irrigation sector etc and the government schemes, there the quality is all up to the mark. So, there the sales are happening anyways, okay, for the organized sector also. What was your second question?

Karan Bhatelia: On the Raipur facility. How is the ramp up? Is it in expectation to our earlier estimates?

Anubhav Gupta: Yes, Raipur is ramping up quite well. It has given us access to the Eastern markets and Central Indian markets, which were difficult to feed from our North or West plants. So, yes, it has been ramping up as per the expectation. Total Capex was INR15 crores. At the peak, we were expecting INR50 crores, INR60 crores of the top line. So, we should be able to achieve that by next year.

Karan Bhatelia: That was very helpful. Thank you for this.

Moderator: Thank you. I would now like to hand the conference over to Mr. Manish Mahawar for closing comments. Over to you, sir.

Manish Mahawar: Yeah. Thank you, Steven. On behalf of Antique Stock Broking, I would like to thank the team of Apollo Pipes for providing us an opportunity to host the call. Mr. Jain, would you like to make a closing comment, sir?

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

Moderator: Thank you. Ladies and gentlemen, on behalf of Antique Stock Broking that concludes this conference. We thank you all for joining us and you may now disconnect your lines.