January 31, 2023

The National Stock Exchange of India Limited
Exchange Plaza”, 5th Floor,
Plot No. C/1, G Block,
Bandra-Kurla Complex, Bandra (East),
Mumbai – 400 051

Department of Corporate Services/Listing
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 January 23, 2023 regarding Earnings Conference Call, which was held on January 27, 2023 and pursuant to the Regulation 30 of the SEBI Regulations, please find enclosed herewith the Earnings Call Transcript of Earnings Conference Call held on January 27, 2023.

Submitted for your kind information and necessary records.

Thanking you

Yours Truly
For **Apollo Pipes Limited**

ANKIT SHARMA
Digitally signed by ANKIT SHARMA
Date: 2023.01.31 11:33:02 +05'30'

(Ankit Sharma)
Company Secretary

Encl.: A/a

"Apollo Pipes Limited

Q3 FY '23 Earnings Conference Call"

January 27, 2023

MANAGEMENT: **MR. SAMEER GUPTA – MANAGING DIRECTOR**

MR. AJAY KUMAR JAIN –CHIEF FINANCIAL OFFICER

MR. ANUBHAV GUPTA – GROUP CHIEF STRATEGY OFFICER

MODERATOR: – **MR. ASHISH PODDAR – SYSTEMATIX INSTITUTIONAL EQUITIES**

Moderator: Ladies and gentlemen, good day, and welcome to Apollo Pipes Limited Q3 FY '23 Earnings Conference Call, hosted by Systematix Institutional Equities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ashish Poddar from Systematix Institutional Equities. Thank you. And over to you, Mr. Poddar.

Ashish Poddar: Yes. Thank you, Nirav. Thank you, everyone, for joining Apollo Pipes Limited Q3 FY '23 Earnings Conference Call. From the management side, we have Mr. Sameer Gupta, the Managing Director, and Mr. Ajay Kumar Jain, the Chief Financial Officer. I pass on the call to Mr. Sameer for his opening remarks. And then after that, we can open the floor Q&A. Over to you, sir.

Sameer Gupta: Thank you. Good afternoon, everyone, and thank you for joining us on our Q3 FY '23 earnings call to discuss the operating and financial performance. I am sure you all have the opportunity to go through our results presentation which provides details of our operational and financial performance for the third quarter ended 31, December 2022. As you on the PVC industry witnessed a sluggish cycle in the first eight months of FY '23 and started to renown from the month of December. Our performance also mirrors the similar trend.

Except the fact that our Q3 sales volume of 18,000 tons was the highest ever sales as we continue to expand our market shares aggressively. Even for nine months, we registered volume growth of 28% Y-o-Y, meeting the industry trend. In a scenario where, when PVC prices were collapsing, Apollo Pipes strategy is business operation resiliently. We work upon three-point strategies. First, prevented Apollo Pipes from inventory write-downs to the extent possible. Second, post volume to continue market share gains. And thirdly, increase share of value-added products to boost margins.

The current PVC price levels have started recovering after a sharp fall this year. This suggests that correction may be over, which should instill confidence in our channel partner and will lift volumes in coming quarters. In our Q2 FY '23 earnings call, I highlighted that we are on track to achieve 5,000 tons of monthly sales volume. However, I am glad to share with you that our monthly sales run has increased to 6,000 tons. This implies that we are on track to achieve 25% to 30% revenue growth over the next three years.

At the same time, we are improving our share of value-added products such as cPVC pipes and fittings, PVC pipe fittings, etcetera. We are continuing with our capex program as planned earlier. We have spent INR 64 crores in the last nine months. 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. To conclude, I would like to state that the tough time seems to be over. We are holding our hope through market share gains that is going 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 December 31, 2022. Thank you.

Ajay Jain: Good afternoon, everyone. I will briefly cover the financial performance during the quarter and nine months ended December 31, 2022. The company delivered a strong operational performance during the quarter. Sales volume for the quarter stood at 18,011 metric tons reporting a growth of 16% as against 15,465 metric tons in Q2 FY '23. Sales volume for nine months FY '23 stood at 47,882 metric tons as against 37,440 metric tons, up by 28%. Revenue from operations for the quarter stood at INR 236.7 crores as against INR 207 crores in the Q2 FY '23 and INR 190.8 crores in Q3 FY '22 was up by 14% Q-on-Q and by 24% Y-o-Y, respectively.

In nine months FY '23, nine months revenue from operations stood at INR 662.6 crores as against INR 536.6 crores, up by 23%. On the profitability front, EBITDA for the quarter increased to INR 16.1 crores versus INR 2.5 crores in Q2 FY '23 and INR 21.6 crores in Q3 FY '22, up by 545% Y-o-Y and it declined by 26% Y-o-Y, respectively. EBITDA for nine months FY '23 stood at INR 36.6 crores as against INR 55 crores, lower by 41% Y-o-Y. Margins for the nine months ended December 31, 2022, stood at 5.8%, where compared to 12.1% in the corresponding period last year, lower by 629 bps.

Going forward, we anticipate EBITDA margins to be stabilized. During the quarter, we witnessed a sharp increase in rising raw material costs from the last two quarters. Depreciation costs stood at INR 7.4 crores in Q3 FY '23 as against INR 7 crores in Q2 FY '23 and INR 6.7 crores in Q3 FY '22, up by 6% Q-on-Q and 12% Y-o-Y, respectively. Finance cost was at INR 2.1 crores during Q3 against INR 2.2 crores in Q2 FY '23 and INR 0.8 crores in Q3 FY '22, respectively. The company reported profit of INR 4.9 crores for the quarter compared to a loss of INR 4.8 crores in Q2 FY '23 and a profit of INR 11.4 crores in Q3 FY '22, respectively.

Net profit for nine months FY '23 stood at INR 8.9 crores as against INR 34.2 crores in nine months FY '22. Net margins during nine months FY '23 stood at 1.3% as compared to 6.4% in nine months FY '22, lower by 503 bps. On the balance sheet front, our net debt position improved significantly to INR 15.1 crores from INR 45.6 crores in H1 FY '23. On the working capital front. Our continuous endeavor into our overall working capital cycle to 52 days from 66 days in H1 FY '23 against 76 days in nine months FY '22.

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

Moderator: First question is from the line of Dhananjai from ASK.

Dhananjai Bagrodia: Sir, I just wanted to understand what would be your forecast, or how a company would look at our realization growth for the next few years, considering we are -- realization is lower compared to competitors?

Anubhav Gupta: Hi, Dhananjai, Anubhav Gupta, this side. So if you look at the realization, I mean we have been targeting a revenue growth of 25% to 35% over the next three years. So I was mentioning that to achieve revenue growth of 30%, 35%, we need volume growth of 25% and 5% to 10% growth coming from the improvement in NSR. And NSR improvement will be backed by incremental volume from value-added products like cPVC pipes, and fittings and water tanks and bath fittings, We are seeing a very high growth already. So yes, I mean, you can expect 5% to 10% improvement in NSR, irrespective of how PVC prices behave. If you take that factor out, then product-wise NSR should improve 5% to 10% year-on-year.

Dhananjai Bagrodia: And then that competitively against other players would keep us at how much discount if we improve 5% to 10% improvement in NSR?

Anubhav Gupta: Then you have to compare products like-to-like. So for example, if you compare PVC pipes of player A versus Apollo Pipes, right now, the pricing difference should be like 4% to 5% depending on different markets. So I'm sure that gap will narrow down. Four years ago, it used to be 8% to 9% also in some pockets. So now it's down to 4%, 5%. In north, we sell at par. In north, there is no discount versus Apollo pricing or any player A, B, C pricing.

But in south, we have to be wary of the market conditions, where we are expanding our market share. So we sell at a lower realization. But I guess, I mean, if you look at the value addition, I don't know which company you're referring to. For example, you take the company A, where the cPVC portfolio could be like 40%, 50% of their total sales. For us, it is only 15% today. So for us to reach to 50%, it will take many years, so I think it depends on 15% is value.

Dhananjai Bagrodia: Value is cPVC, so your volume would be around...

Anubhav Gupta: Yes. So I don't think it is correct to compare NSR of multiple companies with Apollo. There are two things which you should compare. One is the pricing for similar products in same market, what is the price gap? And the second, how Apollo Pipes is improving its overall NSR year-on-year.

Dhananjai Bagrodia: And sir, any just ballpark, what would we break up between our revenue segment like region-wise?

Anubhav Gupta: So region-wise, our north market continues to dominate for us because we have got our mother plant here, and we have a very strong market share in the northern region. So that's like 65% to 70% of revenues coming from north. Then we have got south market where we started our plant operations two years ago. That's ramping up quite well. So 15% sales are coming from there. And then rest is between west and east, which are slowly ramping up with our Raipur plant getting commissioned one year ago. So that's contributing. That has started to contribute, and it will keep on growing.

But now we have another Greenfield plant, which is coming in North India, again, so I guess north will continue to dominate in terms of production. But yes, from that Greenfield plant, for value-added products, we will also sell material across India. So production-wise north will dominate, but sales-wise, other markets will take up.

Moderator: Next question is from the line of Bhargav Buddhadev from Kotak Mutual Fund.

Bhargav Buddhadev: My first question is that in the presentation that has been mentioned that number of SKUs will increase from 1,500 to 2,500 in the medium term. So when are you targeting this? And if you can elaborate on what is driving this increase in number of SKUs, which categories?

Anubhav Gupta: So Bhargav, there are two things to this. One is we are bullish on our upcoming Greenfield plant, which will start operations in the next 12 months. We have already spent a good amount of capex so far, and in next two, three quarters, we'll try to complete the construction, etcetera, and production should start next financial year. So a lot of value-added products SKUs will come from that plant. And also in the existing facilities, we are getting new molds die, so that our SKU range keeps on expanding. So it's a continuous process, and it will get a major boost from our new plant, which will start over the next 12 months.

Bhargav Buddhadev: So for total targeted capex for this plant, the spend is INR 64 crores in nine months, but what is the total capex and what could be the asset turn at peak utilization?

Anubhav Gupta: So for total, if you see the total capex outlay for this particular plant is INR 150 crores, INR 65 crores, we will spend this year, and next year should be INR 80 crores, INR 90 crores, and we'll try to complete the plant capex.

Bhargav Buddhadev: And what could be the asset turn at full utilization?

Anubhav Gupta: So here because of value addition, it will be minimum 3x.

Bhargav Buddhadev: Next question is, if you can quantify the growth in cPVC and bathroom fittings, what has been the growth?

Anubhav Gupta: So cPVC for us has been growing above 50%, and even in bath fittings, the growth has been above 50%.

Bhargav Buddhadev: And what is the size now of bath fittings broadly?

Anubhav Gupta: So super value-add portfolio for us, which consists of water tanks and solvents and bath fitting, it is under 10%.

Bhargav Buddhadev: And lastly, is it possible to share what has been the free cash flow generation in nine months FY '23?

Anubhav Gupta: So free cash flow, if you see, I mean, we have been able to rationalize our working capital below 50 days for nine months. So the capex also has been there at INR 65 crores. So free cash flow, I would say, will be like zero, whatever OCF, we generated that got into capex. So FCF for nine months is zero, but going forward, we are further rationalizing our working capital, from 60, 65 days, we are already down to 50 and March '23 balance sheet, we target to close to 40. So if that happens, then there will be like incremental operating cash flow. And despite the capex commitment, we will have free cash flow generation for the full year.

And next year, it will further accelerate. Obviously, this year, the profits were depressed because of inventory write-downs in the first nine months. If we go back to our normalized EBITDA per ton of INR 16,000, 17,000 per ton or 12% EBITDA margin and with working capital of 40 days for FY '24, there will be substantial operating cash flow generation with whatever capex commitment of say, INR 100 crores. We will still be left with a good amount of free cash flow in FY '24. And that could boost our ROCs also beyond 20% easily.

Bhargav Buddhadev: And fair to say that after this FY '24 remaining capex on the value-added plan, there is no further capex lined up for the next two to three years on any Greenfield expansion, right?

Anubhav Gupta: They're not Greenfield, but every year, see, I mean we are a growth-oriented company when we are targeting 30% revenue growth year-on-year, So we must spend INR 50 crores, INR 60 crores or 25%, 30% of our EBITDA every year. So that will continue. But yes, no major capex of INR 150 crores, like what we are putting for this new Greenfield plant. Unless we see a good opportunity for West India, where we do believe that there is a possibility of setting up a second mother plant sometime, not immediately. But in next two, three years, we must have second base, how we have north as our base. Similar base, we should have either west or south at some point of time. We will take that call in next 15 to 18 months.

Bhargav Buddhadev: So just a related question to this, what is the utilization of the west plant?

Anubhav Gupta: West, right now it is in Gujarat. So there, the capacity is very little. West, when I say it will be in Maharashtra.

Bhargav Buddhadev: A new plant in Maharashtra. Okay.

Anubhav Gupta: Yes. Or maybe in south. So south is doing well. It was like an acquired unit, as you know. Whatever capacity ramp-up, we could do with that. But yes, I mean, if we have to grow to the size of say INR 3,000 crores, INR 4,000 crores topline, then we need another mother plant, like how we have in North India.

Moderator: Next question is from the line of Praveen Sahay from Prabhudas Lilladher.

Praveen Sahay: The first one is related to your volume growth. So can you give some detail like from which segment you receive higher growth for agri or plumbing?

Anubhav Gupta: So see, one one data point I'd like to share, and I'm glad sharing this is that our sales mix for housing and agri, which used to be around 50-50 till first half of FY '23. Now for nine months FY '23, housing is more than 55%. So it is touching 60%. And agri is 40%. So this is in line with our strategy that ultimately we want to be like 70%, 80% housing sales, plumbing sales the company and 25%, 30% agri sales company. So we are pretty much on track to do that. And after our new Greenfield plant, we are confident that this sales mix will be achieved.

So coming back to the question that, I mean, where we got the growth from, yes, housing sales did really well for us as our brand acceptability is improving month-on-month, without all the ad spend, our promotional activities, what we have been doing, our sales team expansion, secondary sales focus, etcetera. So all they have started to pay well. Then the new product addition, the new molds, the new SKUs expansion, what we have been doing in cPVC, in fittings, in bath fittings. So that's paying well. Then expansion from south and east markets where we started selling after commencement of two latest plants, so that's helping.

And obviously, some fill-up from the channel filling, which started in month of December, So these were the four factors which led to a strong growth overall. But yes, I mean between this, cPVC and bath fitting and the fittings, these are the segments which are growing faster than the overall growth.

Praveen Sahay: Next question is related to the utilization of the plant. If I look at currently, overall utilization is around 55%. So, and also the new plant is coming in. So how you are planning to improve this? And if you can give some geographical utilization like in the Ahmedabad or Bangalore, Raipur how the utilization there?

Anubhav Gupta: So Praveen, see, I mean we are not too much walk down by like how, what is our capacity utilization? What bothers us is the ROC, what we are generating in the business. So as per our business plan, a 50% utilization at our plant can generate 30%-plus ROC for us, so as long as we are able to achieve that number, we are happy with 50% capacity utilization.

As a group, we are always happy to have excess capacity with us, so that we can focus on new SKU range. We can focus on market share gains, and also the fact that when there is a good season, we should have capacity to fill in the supply, to fill in the demand. That being said, I mean, seasonally, we have seen that because agri one season is good, one season is bad. So we are happy with 50%, 60% utilization levels as long as we are generating 30% plus ROC.

Praveen Sahay: And if you can give a color on the current PVC resin prices and your procurement cost?

Anubhav Gupta: So I'll request Sameerji to answer this.

Sameer Gupta: Yes, Praveen. Regarding the PVC prices right now, it is more of a stable type of things. Around 15% to 20% has already increased in the last 20 to 30 days, and we hope the prices should be stabilized in the next, you can say, one or two quarters. Of course, a bit of you can say, recessionary conditions are there in US or China, but I don't think that will too much bother the prices in India because of the demand, because the demand is continuing good in our -- this pipe sector, and we are hopeful for the prices to be stabilized.

Praveen Sahay: Any numbers which you want to do? PVC resin prices at this current moment what is that?.

Ajay Jain: Yes. Right now, if you see the PVC prices, it is roughly around $900 level, $900 to $950 level they are running at, and it went down to the level of $650. So almost in the end as we -- if you talk about the international pricing, around 30% to 40% increase from the bottom prices have been there. But of course, we are because -- we are targeting our purchases mainly through, you can say, imports and domestic -- 30% from domestic producers.

So we are comfortable right now with all those you can see purchases that we have made in the last few months. And in the next, you can say, a few months also, we see that the price should be uptrend seeing the international market trend. So it should continue to somewhere around to $950 to $1,000 in the next few months, so, which would be comparable in pricing or sourcing for these PVC resin. Apart from cPVC and others, they are quite stable, you can see as compared to PVC.

Moderator: Next question is from the line of Udit from YES Securities.

Udit Gajiwala: Congratulations on a stellar volumes for the quarter. So if you can just highlight on the profitability front, we have said about the topline growth, given the PVC impact is behind what would be our EBITDA/kg target for, say, '24, '25?

Anubhav Gupta: So Udit, I mean, now that there are no expected write-downs, in the inventory. So manufacturing-wise, anyways, in Q2 and Q3, we achieved INR 15,000, INR 16,000 per ton EBITDA spreads. And it is just because of the write-downs, the numbers came like what you see for Q2 and Q3. Q4, we should be like back to normal the uptake number, which you will see, it should be back to normal INR 16,000, INR 17,000 per ton. And FY '24, '25 also with the incremental sales coming from value-added products, we will do INR 17,000, INR 18,000 per ton for EBITDA spreads.

Udit Gajiwala: And just secondly, what was our ad spends for nine months and what will it be for full year? And any budgeted expectations for next fiscal.

Anubhav Gupta: So they continue to remain around 1.5% to 2% of our total revenue. We are happy with this. Of course, I mean going forward, we could restart one campaign, there could be a spike in a quarter. But on a full year basis, I don't think it will go beyond 1.75% to 2%.

Moderator: Next question is from the line of Avadhoot Joshi from New Berry Capitals.

Avadhoot Joshi: Good to see that we have gained on the volume front. I just want to know in the regional mix, whether we have gained any market share in southern region. That's first. And secondly, we manufacture pretty mostly if I'm correct that mostly into Tumkur plant. So the new SKUs coming out in the new plant will be totally different from them from that plant or how it would be? That's two questions, I have.

Anubhav Gupta: So coming to the question one, the south sales are expanding year-on-year. So yes, we have gained market share. And it is on the back of capacity ramp-up than the plant modernization measures, which we undertook over the last 1.5 years to improve the quality and third, our distribution network expansion, which we are doing every day in the southern region. So these key factors led to incremental sales coming from southern market. And second, for south market, the fitting are also going from our Delhi plant. Because that plant, when we acquired it, it had the restrictions with the quality, etcetera. So we are ensuring that the fitting material is being sent over from our Delhi plant.

Avadhoot Joshi: And the new SKUs will be different in the Greenfield plant, which is coming up or some similar overlap would be there?

Anubhav Gupta: So the new plant has three products. One is cPVC. Second is bathroom fitting and third is HDPE, These are the three product lines which are going to be produced from that new plant. And the proportion of these three products today is 30%, 40% of Apollo's total volume today. So this 35%, 40% volume mix will improve significantly with the new plant. And SKUs will be new, with new range of products.

Avadhoot Joshi: PVC resin imported versus local procurement mix, whether there is improvement over there?

Sameer Gupta: No. Of course, we try to improve the local sources because the prices were too much volatile in the past few months. So we have increased it, earlier we were at 80-20. And right now, we are trying to run our sourcing like 70% from imports and 30% from domestic sources.

Moderator: Next question is from the line of Mahek Talati from Yellow Jersey Investments.

Mahek Talati: So two questions. One is what is the capacity of the new plant which we are expanding?

Anubhav Gupta: So that will be around 25,000 tons.

Mahek Talati: And second was with regards to the PPRC pipes. So have we started the commercial supply? And how has been the reception if started, then?

Sameer Gupta: Yes, we have started the PPRC production and supplies in there. You can say, around November, somewhere in November, we have started the production and the supplies and the response is pretty good and the material is pretty good, you can say accepted in the market. But because as it is mainly for the Northern, you can say J&K market mainly and because of the heavy rain, because there's snow fall, the market gets disturbed for at least two months, December and January. So from the next month onwards, of course, we will get again, good orders from those sector. And the product is quite well accepted in the market. So we are quite, you can say, upbeat regarding this product.

Mahek Talati: And last was any specific reason for significant increase in the PVC prices after a fall of eight months.

Sameer Gupta: Yes. Of course, the PVC prices went below the costing of those suppliers that they were actually having. So it has to bounce back, because its reasonable prices was around $750 to $800, but it went up to the $650. So we were quite, you can say, thinking that -- hoping that the prices will bounce back in the near future at the time of November, and it happened like that only. So right now, the prices seems to be stable at this level of $900 to $1,000 levels. And we are hopeful that it should remain stable for the next few months.

Moderator: Next question is from the line of Aman Agarwal from Equirus Securities.

Aman Agarwal: Congratulations on good numbers. Sir, when you say, we expect the plant capacity to be 25,000 for the new upcoming plant, does this include the 6,000 MTPA that we already commissioned in first half of '23?

Sameer Gupta: No.

Aman Agarwal: So it is excluding of that. And post this commissioning of 25 MTPA, which is essentially entirely value-added product, do we see any revision in our margin guidance or EBITDA/kg guidance after '24?

Anubhav Gupta: No, when we had given the initial guidance, so that was considering this plant as part of our business plan.

Aman Agarwal: And this plant, we continue to expect this plant to be fully funded by internal accruals, right?

Anubhav Gupta Of course, yes. I mean this year INR 60 crores capex in Q4, like whatever will be done, plus INR 100 crores next year, there won't be increase in debt.

Aman Agarwal: And lastly, on the East plant, how is the ramp-up for -- how is the penetration we have witnessing for the Eastern and the Central markets through that plant?

Anubhav Gupta: So East plant is pretty small. It's the capacity is less than 10,000 ton, annually. So that much volume, we have been able to ramp-up, because it is catering to Central India and East India belt, pretty well. And I guess, see, I mean, going forward, our strategy is to sell more-and-more fitting products and other value-added products. So they are being catered from our mother plant from North India. So even if we don't expand capacity in East and South and West, still you will see volume and revenue both going up because there will be fed, these market will be fed from our North plant.

Moderator: Next question is from the line of Kuber from IDBI Capital.

Kuber: Congratulations on good set of numbers. Few questions from my end, I would like to know about the channel partners. Have you added any channel partners in this quarter? That is the first one.

Anubhav Gupta: So it's an ongoing process, I mean, distributors, channel partners, every month, every quarter, we have to keep on adding because we are growing our volumes by 25%, 30%. So simple logic says that, yes, I mean we have to keep on aggressively adding new channel partners.

Kuber: So any numbers if you can just give some color on that?

Anubhav Gupta: So see, I mean, what we internally believe is that the -- right now, see, the number is around 600 distributors, direct channel partners. This number has to go up by 5% to 10% every year, the new addition. And then there will be like some division also like some -- so net-net, we want to add 30, 40 large channel partners, good channel partners, good distributors, strong distributors every year.

And we are on track, which is just, obviously, the first nine months was not a good time to go and aggressively add new distributors because everyone, all the channel partners who were going through low sentiments, PVC prices are going down, they were having inventory write-downs. Now the environment has become conducive to go out in the market and start approaching. And sales team is on this ground, they keep on adding...

Kuber: And secondly, I wanted to know about the EBITDA/kg for value-added products and commodity products. I mean, if you can just give some number?

Anubhav Gupta: So it's blended, the company says INR 16 a kg, the value-added products are above INR 25,000 and commodity will be like less -- lower than INR 12,000.

Kuber: For this quarter, For Q3?

Anubhav Gupta: No. Overall, Q3 blended EBITDA is INR 8, INR 9 but that's also because of the inventory write-down. I'm talking about the manufacturing EBITDA, normalized EBITDA of INR 15, INR 16 a kg.

Kuber: And secondly, sir, would like to know about the demand like for cPVC and bathroom fittings how you are looking at it for Q4 and for FY '24. That would be my last question.

Anubhav Gupta: Right. So we are pretty bullish on these two products. In fact, our capacity constraint is here. That's why we are adding new capacity in the new Greenfield plant, which is coming in North India. Both these products are pretty much like customer-centric products. You sell your product like a brand and happy to share that the brand acceptability is improving day-by-day. That's why we have been able to consistently grow our cPVC revenue at 50%.

Last year, the growth was 100%. This year, it has been 50%. So this clearly suggests that consumers and influencers or what numbers in this case are accepting our product, our brand. And we are also working hard to make the product available. Availability plays a big role. So both these products have performed pretty well for us. Now we are utilizing like full capacity for these products and new capacity will only boost up revenue.

Moderator: Our next question is from the line of Mr. Achal from JM Financial.

Achal Lohade: Just a couple of clarifications. One of the answers you mentioned that even at 50% utilization, the ROC is in excess of 30%, so I just wanted to understand the underlying assumptions, what is the margin assumption there? And what is the capex assumption on a per kg basis.

Anubhav Gupta: Sure. So Achal, see, today, my gross book stands at INR 400 crores. And my working capital for -- my normal working capital will be around, say, 40 days, 40 days of working capital and say turnover of INR 1,100 crores with 2.5x asset turnover and EBITDA margin of 12%, I'm considering. We do this math, my total capital employed will be gross book plus 40 days of working capital cycle on INR 1,100 crores, INR 1,200 crores turnover with 12% EBITDA margin. You can calculate the ROC, which should come near this number.

Achal Lohade: So you're calculating on EBITDA pretax. That's how you mentioned 30%, right?

Anubhav Gupta: Yes. That's right.

Achal Lohade: This INR 400 crores for what capacity in terms of...

Anubhav Gupta: The current capacity of 140,000 tons. 135,000, yes.

Achal Lohade: I'll work on this and come back for any questions. And secondly, in terms of your incremental capex is coming at what cost? Would you be able to clarify that, what capacity at what cost? Incremental, right?

Anubhav Gupta Yes. So incremental, again, it depends on the Greenfield plant, which is value-added products. So here, we are spending INR 150 crores, and the capacity, which we will get is 25,000 tons. So here, the math will be INR 6 lakhs. And right now, if you look at my gross book of INR 400 crores, which gives me 135,000, so that's around INR 400 crores. So incremental Greenfield plant is 40%, 50% extra. But Brownfield, whatever we do, in the existing plant. So that will be less than this max of INR 400 crores. So, but this incremental INR 600 crores, it is like 40%, 50% extra EBITDA margin also there, and even asset turnover will be higher.

Achal Lohade: And just a clarification. If I look at a simple math of the realization per kg in 3Q, it was about INR 131. And if I look at the average PVC price, the ratio comes to about 1.6x, 1.6x. And historically, it used to be around 1 to 1.2x. Would you be able to clarify as to -- if it is entirely driven by the new products? Or it is -- even in the core pipes business, there is increase in the pricing power, so to say?

Anubhav Gupta: So majority, I would say 70%, I will rate this to new products, value-added products, cPVC water tank, which sell at higher NSR. And 30% I'll ascribe to the improvement in realization in PVC pipes.

Achal Lohade: And just last question, if I may, with respect to cPVC mix for third quarter in terms of volume and value?

Anubhav Gupta: So volume, we don't share. Value-wise, it was around 17%.

Achal Lohade: 17% value mix.

Anubhav Gupta: Yes.

Achal Lohade: And for nine months, sir?

Anubhav Gupta: Nine months, it will be around, similar.

Moderator: The next question is from the line of Aasim Bharde from DAM Capital Advisors.

Aasim Bharde: So first question, can you just talk about housing level demand for pipes currently in your existing markets? So is the consumption actually happening on the ground? Or was the December channel stocking led growth, which may possibly filter out of the housing concessions still sluggish?

Anubhav Gupta: So Aasim. See, I mean, even we are happy to share that in Q3, this volume, what we did 18,000 tons. When we talk to our distributors, even they are not ready to fill their warehouses yet, even that fear is still there because they are sitting on such huge losses in the first eight months. And there's still uncertainty on how prices will behave.

So that means that all this 18,000 tons, which was bought out by our distributors, it got sold in the secondary channel as well. So this is one good silver-lining for us to have the confidence that next two quarters could be really good if prices stay stable, forget going up. But even if they stay stable then the channel filling will kick in at some point, and we could do better than this run rate of 7,000 tons, 6,000 tons which we did in Q3 on a monthly basis.

So when we talk about strong secondary sales, yes, I mean, a lot of projects, they are nearing completion before Q4 ends. So good demand from the project side for our distributors, real estate demand. And housing also, the independent homes, which are under renovation during festive time, etcetera. So it did boost the sales. So I guess when majority of my growth is coming from housing sales and my distributors are still not filling their warehouses. So this is good to assume that secondary sales for real estate is good for us.

Aasim Bharde: Very interesting that the channel is still not -- still light, if I can use that term. Second is just to reconfirm the capex number. For FY '23, all put together, it should be around INR 80-odd crores. And in FY '24, INR 100 crores to INR 105 crores.

Anubhav Gupta: So INR 60 crores, we have done so far. INR 60 crores, INR 65 crores, we have done so far, maybe another INR 10 crores in Q4. So it will be like under INR 75 crores and INR 100 crores next year, yes.

Aasim Bharde: That includes the normal maintenance of Brownfield capex, the 25% of EBITDA you're talking about?

Anubhav Gupta: Yes, that's right.

Moderator: Next question is from the line of Praveen Sahay from Prabhudas Lilladher.

Praveen Sahay: First is related to the value added. How you define value-added products?

Anubhav Gupta: So anything which gives us a margin of INR 25 per kilo at EBITDA level and above.

Praveen Sahay: And second is related to what you have said related to the realization. 30% improvement is because of our PVC pipe realization. So is that because of the raw material prices higher?

Anubhav Gupta: No. The narrowing down of pricing gap between Apollo and other brands, other stronger brands.

Praveen Sahay: So basically, you had taken some higher price hike or so?

Anubhav Gupta: Yes, because brand acceptability is improving, we are becoming strong contender in the PVC piping industry. So our realization improves. When we start in a market we start with a discount of 5% to 10% to the number one player. When we become a stronger player in that territory in one, two years' time, then obviously the gap will reduce.

Moderator: Next question is from the line of Arpit Shah from Banyan Asset Management.

Arpit Shah: I just wanted to ask a question in regards to the raw material. Just wanted to understand in regards. Has it cooled off? Or do you still expect it to be at right down compared to last quarter?

Anubhav Gupta: No, the prices, I think it's much more of a stable type. It should not go very high also. It should not, it should be range bound between you can say, $850 level, $850 level to $1,000 level. It should be between this rate only, if we talk about the PVC prices. The rest of other prices, if we talk about this cPVC prices, they are much more stable and you can say other polymers they are also on the stable side, a bit on the upward trend.

Moderator: Next question is from the line of Devansh Nigotia from SIMPL.

Devansh Nigotia: Sir, congratulation on great scale-up on all the new products, especially cPVC pipes. Just wanted to know, do you make the compound here? Or what is our sourcing strategy and also cPVC resin are we importing it or it's domestically procured and the price at which we are competing here because also, if you could elaborate more on the value proposition here because the scale-up has been really strong.

Sameer Gupta: Yes. First of all, if you talk about cPVC pipe, of course, we are making our own compound. We are not buying compound from outside. And the resins that we are buying, it is mainly you can see from our imports. We are sourcing a bit of you can say smaller segment from, for our South plant from India. But majority of that you can say sourcing is from imports. We are importing from this plant. So all the cPVC resin that you are seeing in our company we are importing.

Devansh Nigotia: And what price at? And price at which you are competing against the top 1, top 2 players?

Sameer Gupta: Price. You're talking about the cPVC resin?

Devansh Nigotia: Yes, cPVC pipes. Yes, the price at which we are competing in cPVC pipes against our competitors, [inaudible. 0:50:28]

Sameer Gupta: Yes, it is, you can see region-to-region, it varies, if you talk about North India, we are pretty much, you can say, around 3% to 4%, you can say, subsidizing our prices. If you talk about you can say, western or the southern India, it is around 5% to 7%. This is I'm talking about cPVC only. Rest of the products behave differently. But if we talk about cPVC, it is roughly around from market-to-market, it is varying from at par or 3% to we can say maximum of 5% to 7% or maximum of 8%.

Devansh Nigotia: And it was earlier we perceived to be like only few players could make cPVC compound, but now a lot of pipe players have started making their own compound. So if you can just share your perspective on the technological, how difficult or easy it is to make cPVC compound?

Sameer Gupta: Devansh, earlier it used to be a very, you can say, tedious job to make the compound. But right now, over the period because we have launched cPVC around five, six years back and many other companies have also started you can say manufacturing. So that technology is not so you can say, hidden technology, so that the industry doesn't know. So it is not much more of a technology side, but it is much more of a, you can say, marketing side than how to market or place your product.

Devansh Nigotia: And in case of new products, plastic faucet, showers in solvent cement and storage tank, can you just elaborate a bit more what is your value proposition here? What are we competing on? And also on the product acceptance, how the scale up is happening? And the sales mix for the same for the last, this quarter and nine months?

Anubhav Gupta: So value proposition lies on one fundamental, which is to be able to get into like complete plumbing solution, for a housing segment. And all these products, which we keep on adding, they should be sold through similar sales channel, where the cost to achieve these sales is not high. It's not more. So that's the basic principle, basic foundation of getting into these products.

And as Apollo, as a brand becomes stronger-and-stronger in the overall plumbing solution, so these products get automatic fill up, and gives us incremental sales. So there is a basic fundamental. And so far, like I said, from zero, these products are now contributing a little less than 10% to our overall sales revenue, which is growing quickly anyways. So we have already established a strong foundation to launch these products, and acceptance is getting better day-by-day. And we are confident that these products could be like 20% of our total revenue in the next three, four years.

Devansh Nigotia: And storage tank, we shared a 2% sales…

Anubhav Gupta: So like I said, all these three products put together are under 10% today. Solvents, tanks and bath fittings.

Moderator: Next question is from the line of Rahul Agarwal from InCred Capital.

Rahul Agarwal: First question, Anubhav, essentially was on the industry imports for PVC resins. I think the larger reason for the price bounce back was regarded to that the price actually fell below production cost for global supplier. There is also a reason of some disruption on plant shutdowns globally. And hence, it also bounced back. Related to Apollo, what I want to check was, do we have fixed vendors here from which we import, and do you think that, that disruption is largely over and on supply on stream now globally? That's the first question.

Sameer Gupta: Yes. First of all, we have fixed suppliers for some of our quantities from overseas suppliers. We can say around 50% to 60% we buy from our fixed sources on a regular basis, we are buying from them. So we can count every month on them for the countries of supplies. And it is not a very big challenge right now to source PVC resins. We have links. We are working in this industry for the last many years. So we have got good links, and we have met them personally all across, you can say. The manufactures all across the world. So we have got good relations with them. So sourcing for Apollo for PVC resin is not a big challenge. And what was the next one?

Rahul Agarwal: Global supply, is that normalized?

Sameer Gupta: Yes, global supply, of course, because China is getting back to normal and US and China, they are the major supply for PVC, resin and they are you can say getting back to normal. So global supply should not be a, you can say, big problems for PVC resin.

Rahul Agarwal: And just one corrected question was, are these contracts like on spot basis or you're actually tying up for, let's say, two years, three years? How does it work really?

Sameer Gupta: No, it is mainly on the spot basis, the pricing. The limitation is that we don't offer too much quantities to all the players. So whoever the players who are buying regularly from them, they are buying the regular prices to those players only who are buying regularly from them. So it is the quality is much more [inaudible 0:56:15] recession. The prices are always on a spot basis.

Rahul Agarwal: And one last thing on cPVC, we hear that we have some domestic manufacturing going up on the resin side. Are you would be into discussions with those companies to increase your import mix, your domestic mix?

Sameer Gupta: Of course, we are in discussions with those people also. But we need first the quality of those players to getting stabilized. One it gets stabilized, then we will be getting countries from them also. But right now, we are sourcing all our procurements from is this -- our overseas supplies only.

Rahul Agarwal: And domestic also is not, like it's generally on spot basis. It's not like long-term contracts, right?

Sameer Gupta: No. It is never a long-term contract. For any of the polymers is always on the spot basis.

Rahul Agarwal: So I'm talking about the volume, not on the price?

Sameer Gupta: Of course, volume also, I think, said it should be, you can say, as per the ability they will offer.

Moderator: Next question is from the line of Bhavin Rupani for Investec.

Bhavin Rupani: Sir, you mentioned that you're targeting working capital days to reduce to 40 by year-end from 56 currently. So sir, can you please elaborate the factors that will contribute to a decline in working capital?

Anubhav Gupta: So I said it's 50, not 56. Nine months is 50. So from 60, 65, we're already down to 50 as at December. And by March, we target to take it to 40 and '24, '25, there'll be like further reduction. So now why we believe so is, one is that in north region where our brand has become very strong, so we are commanding our credit terms with our channel partners. In some cases, we have gone cash and carry as well and they are accepted. Then we are tied up with financial institutions for channel financing service. That will also help bring the debtor down.

Inventory as our capacity utilization is ramping-up, but there will be like rationalization in the inventory levels also on PVC prices will become stable, assuming in 2023 calendar year-end and in 2024. Then obviously, there is no need to stock extra like which we have been doing for the last 15, 18 months, including all other players in PVC industry. Third, on creditor term, as our size is going up, we are becoming more dominant in terms of sourcing, in terms of procurement. So we are also getting better credit terms from our suppliers of any material, So all these, so we are working on all these three factors, that's why we say that WCE will keep on coming down.

Bhavin Rupani: Sir, can you just elaborate the terms of channel financing? Are you on the course basis? And what is the percentage of the commission they charge?

Anubhav Gupta: Non-recourse. And second, what was the second question?

Bhavin Rupani: What is the percentage of commission that they charge, bankers?

Anubhav Gupta: So this will be, see, I mean that they will charge from the channel partner, not from us, We will give a cash discount to our distributor against that. So our CD policy is like 1%.

Bhavin Rupani: And how much proportion of your debtors are going through channel financing right now?

Anubhav Gupta: Right now, it is 15%, but we are encouraging our channel partners to take more-and-more, because right now, there are institutions in the market which are offering a channel financing facility, say, at 10%, 11%. And if I offer 1% cash discount to my distributor, it makes sense for him to take that facility. So we are educating. We are -- along with the institutions, we are educating our channel partners that we should avail this facility. So this will improve. And it's all non-recourse, all non-recourse, not even for $1 on Apollo Pipes.

Moderator: The next follow-up question is from the line of Aasim Bharde from DAM Capital Advisors.

Aasim Bharde: Just one quick question. What is the gross debt on the books right now for Apollo Pipes?

Anubhav Gupta: So net debt, when you say it's around INR 15 crores, INR 20 crores as we stand today.

Aasim Bharde: But on the gross front, or rather, if you would have the cash number, that would work?

Anubhav Gupta: INR 30 crores and INR 15 crores. I mean that INR 30 crores is gross debt, INR 15 crores is cash. So INR 15 crores is the net debt.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Ashish Poddar for closing comments.

Ashish Poddar: Yes, thank you. Management, do you have any closing comments?

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

Ajay Jain: Thank you, everyone.

Moderator: Thank you very much. On behalf of Systematix Institutional Equities, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.