Apollo Pipes Limited

Q4 & FY19 Earnings Conference Call Transcript
May 30, 2019

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Apollo Pipes Earnings Conference Call. As a reminder for, all participants' lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Anoop Poojari from CDR India. Thank you and over to you, sir.

Anoop Poojari: Thank you. Good Morning, everyone. And thank you for joining us on Apollo Pipes Q4 and FY 2019 Earnings Conference Call.

We have with us Mr. Sameer Gupta - Managing Director; and Mr. Ajay Jain - CFO of the company.

We will begin the call with opening remarks from the management following which we will have the forum open for a Question-and-Answer Session.

Before we start, I would like to point out that some statements made in today's call maybe forward-looking in nature. And a disclaimer to this effect has been included in the earnings presentation shared with you earlier.

I would now like to invite Mr. Sameer Gupta to make his opening remarks.

Sameer Gupta: Hello, everyone. Good Morning. On behalf of the entire management team of Apollo Pipes, I would like to extend my warm welcome to all of you on our maiden earnings conference call.

As this is our first earnings call, I would like to start with a brief introduction of our Company and then share operating highlights following which Ajay-Ji, will run you through the financial highlights.

Apollo Pipes is amongst the top 10 leading PVC Pipe manufacturers in India, with a dominant leadership position in North India. We manufacture and supply CPVC Pipes and Fittings, uPVC Pipes and Fittings, HDPE Pipes, that cater to a high potential sectors like agriculture, water management, construction, Telecom ducting segment, etc. While currently agriculture segment constitutes around 60% to 70% of our volumes, we anticipate contribution from other segments also to improve going forward.

Since its inception, Apollo Pipes have successfully showcased a healthy growth trajectory. From just 3,000 MTPA per year in the year 2000, we have expanded our capacity to 63,000 tonnes in year 2018, growing by more than 20x in 18 years.

Today, we have got two state-of-art plants located in Dadri in Uttar Pradesh and Ahmedabad in Gujarat. The facilities primarily cater to the north, west and central part of India. Our best service presence in Northern India and around 600 extensive dealers and distribution network has helped significantly reduce delivery time to just 48 hours from the industry standard of around 6 days to 10 days in our markets.

Our focus is on providing high-quality and innovative products that has enabled us to maintain a competitive edge over our peers in North India. With a product portfolio are over 1,000 products, we offer the widest range of Pipes in our market, ranging from 20 mm to 400 mm. We were also one of the first company to launch the Super Lock Pipe System in Column Pipes in the country and have been awarded a 10-year patent for this product.

Our aim continues to be on improving products offering across the value-added chain that will help drive enhanced business visibility and higher business growth.

During Q4 FY 2019, we also launched a brand-new range of Premium Plastic Faucets, Showers and other accessories. This new segment has received a positive response from the market and it is our endeavor to rapidly gain market share in this category.

As some of you may be aware, we have some plans to expand into eastern and southern markets to establish ourselves as a pan India player. To set this in motion, I am pleased to announce that the Board of Directors have approved the acquisition of a suitable production unit with a capacity of 12,000 metric tonnes in Bengaluru for a consideration of below Rs. 30 crore.

This strategic acquisition will jumpstart our plans of establishing our presence in south, where the group has a very strong brand recall among distributors and consumers. The identified facilities have built in lines for the production of the uPVC Pipes and CPVC Pipes, and is spread over 7 acres. So, we have adequate opportunity in the future to undertake Brownfield expansions.

Overall, we anticipate this acquisition to have an attractive payback of less than three years. In addition to South, the company is also planning to expand into the eastern market. However, we plan to first develop a brand and product presence in the eastern and central India by capturing the demand through our already established facility in north. Following this, the company plans to implement its long-term strategy to establish a facility in this region. While the logistic costs towards transporting goods to the eastern and central market would be higher but it will be much lower than the interest costs that the company would otherwise incur towards establishing a new unit. This will also assist us to drive utilization levels at our existing manufacturing plants.

During the next few quarters, we will also be undertaking a phase-wise capacity expansion at Dadri and Ahmedabad. This along with our acquisition should take our total available capacity in the second half of this fiscal year to around 90,000 metric tonnes.

I am pleased to announce that the Board of Directors have recommended our first ever dividend or Re. 1 per share, which leads to a payout ratio of 5%. As we strengthen our cash from operations, we hope to further increase upon the payout in the years to come.

To conclude, we believe we are on a strong footing financially and operationally and are best-positioned to capitalize on the huge growth potential across the customer industries.

With this, we look forward to your continuing support in our journey; and we believe, we will create long-term sustainable value for all our stakeholders.

On that note, I would not like to invite Mr. Ajay Jain to run you through the key financial highlights of the quarter and year ended March 31st, 2019. Thank you.

Ajay Jain: Good Morning, everyone. I will briefly cover the financial performance during the quarter and year ended March 31st 2019.

During the quarter, our total net revenue stood at Rs. 89 crore, registering a growth of 20% Y-on-Y. In FY 2019, total net revenues saw a growth of 28%, which stood at Rs. 374 crore. We saw a volume growth of 11%, which stood at 9,613 metric tonne per annum in Q4 FY 2019 and in FY 2019, volumes stood higher by 18% at 39,823 metric tonnes.

The company delivered healthy sales volume performance despite a challenging macroeconomic environment. Uptick in demand combined with a healthy contribution from value-added products assisted the overall performance during the quarter.

The volume growth in the fittings segment stood strong at 92% in FY 2019 led by strong customer wins and penetration in newer geographies.

Moving on to the profitability front:

Our EBITDA in FY 2019 improved by 25% year-on-year to Rs. 51 crore. In Q4 FY 2019, EBITDA stood at Rs. 14 crore, lower by 26% Y-o-Y. EBITDA margins were steady at 14% during the year.

In FY 2019, PAT stood at Rs. 24 crore as against Rs. 22 crore. During the quarter, PAT stood at Rs. 5 crore as against Rs. 12 crore in Q4 FY 2018.

Depreciation cost increased by 40% to Rs. 10 crore in FY 2019 on account of increased commissioning of new capacities. As the company improves its sales volume on the back of the expanded capacities going forward, we should be able to deliver better profit growth on a year-on-year basis. However, we anticipate EBITDA margins to remain in the range of around 12% to 14%, as the company focuses on volume growth in the near future.

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

Moderator: The first question is from the line of Praveen Sahay from Edelweiss Broking. Please go ahead.

Praveen Sahay: On the capacity of 63,000 metric tonnes, can you give the details, how much is in Dadri and how much is Ahmedabad?

Sameer Gupta: The capacity in Dadri is 53,000 tonnes. Earlier, we had shown it as 60,000 tonnes however as we retired some old machines at Dadri. So we have actually revised that figure to 53,000 tonnes and in Ahmedabad it is 10,000 tonnes per annum, put together it is 63,000 tonnes.

Praveen Sahay: And the projection is for 90,000 metric tonne and out of that, I believe that 12,000 you had to consider for the Bengaluru facility as well, right?

Sameer Gupta: Yes.

Praveen Sahay: So, what about Dadri and Ahmedabad?

Sameer Gupta: Yes, Dadri, we will be adding another 7,000 tons. Ahmedabad, we will be adding 5,000 tonnes. We will be adding some more capacity in Bengaluru, so put together it will be around 90, 000 MTPA.

Praveen Sahay: What about Raipur, when are we going to add capacity there?

Sameer Gupta: In Raipur, we are creating a brand awareness in the market over there. So, that the unit in the first phase does not face any problem regarding the marketing. So, we are already doing marketing in eastern India and central India, where Raipur unit will be feeding to. So, we are right now working on that line. So, the interest cost for that unit will be much higher than what we will be giving as a transportation costs. So, we are now targeting the market to build a market share then we will establish the unit.

Praveen Sahay: How much would be the total capex for FY 2020?

Sameer Gupta: Rs. 20 crore will be for Dadri and around Rs. 7 crore to Rs. 8 crore will be in Ahmedabad, around Rs. 30 crore will be in the Bengaluru project.

Praveen Sahay: Could you throw some light regarding the Bengaluru unit that you had acquired?

Sameer Gupta: Right now, we cannot disclose it because of some limitations, most probably in very near future, we will disclose all those details.

Praveen Sahay: Coming to another segment, which we started that is Faucets and Tap. How much is the target sales in the coming years? And is that a total outsourced model?

Sameer Gupta: No, it is not totally an outsourced model. We are manufacturing roughly around 50% of the sales from our own facilities and because it is a totally new product for our company, we are targeting somewhere around 1% to 1.5% of the total revenue from this product.

Praveen Sahay: And how much are the sales we are targeting from this division?

Sameer Gupta: In future, as it is a good industry and the growth is very good over there and because of the low presence of any branded establishment, we can target around Rs. 20 crore to Rs. 30 crore in the coming years in this product.

Praveen Sahay: Okay. And also, if you can give that detail of promoter infusion of around Rs. 200 odd crore. So, can you give the breakup of utilization of that?

Ajay Jain: Yes, currently, that amount has not been fully utilized. It has been kept in the form of FD that would be used in future expansion that may be Greenfield or an acquisition.

Praveen Sahay: Okay. So, the entire Rs. 200 odd crore?

Ajay Jain: No, currently it is around Rs. 100 crore that is parked in the form of FD and balance we have utilized for this existing expansion and working capital.

Praveen Sahay: So, Rs. 100 odd crore you have utilized out of the Rs. 200 odd crore?

Sameer Gupta: No, around Rs. 40 crore we have utilized; Rs. 60 crore is yet to come in the next financial year. Right now, we have allotted only Rs. 140 crore of share amount.

Praveen Sahay: How much is advertising expenses for the company last year?

Sameer Gupta: Last year, it was somewhere around 1.5%, we are trying to increase it a little bit but we will be very aggressively working on the BTL activities and other activities where it will create a brand presence. Apart from that our group company is also working through the IPL and other branding activities. So, that is also giving us a brand leverage. Apart from that, we are targeting somewhere 1.5% to 2% of our total sales in advertisement.

Praveen Sahay: 60% - 70% of your Pipe contribution is coming from agriculture. So, is there any target to reduce it?

Sameer Gupta: No, actually we are not targeting to reduce it rather we are targeting to increase the building product segment contribution. So, in that way, it may get reduced but not too much because we are also expanding both ways.

We are strengthening the agriculture demand as well as building products demand. So, we hope that the ratio will change in the coming days. But it will be not too much. We are targeting building products to get around to 20%, which is right now around 14%.

Moderator: Thank you. We have the next question from the line of Meet Jain from Prithvi Finmart, please go ahead with your question.

Meet Jain: First is we are expanding our capacity to 90,000 tonnes. So, how much is optimum utilization that you can achieve from this 90,000 tonnes capacity?

Sameer Gupta: The optimum utilization or peak utilization should be somewhere around 70% to 75% because of the seasonal effect and other practical situations, so we can achieve somewhere around 70% to 75%, that is the peak utilization.

Meet Jain: From current 60,000 tonnes, how much were we utilizing right now?

Sameer Gupta: We are around 63%.

Meet Jain: Are we planning to increase the capacity because still we have a room to touch a peak utilization, so can you throw some color on this?

Sameer Gupta: No, actually because of the seasonal effect, the waiting period increases because the capacity utilization is almost at the peak in the season period. So, to cater to those demands, we are trying to increase the capacity. But if you see the overall capacity utilization, it comes up little low because in the rainy season or during cold winters, demand goes down and hence capacity utilization goes down. Otherwise, if we talk about a season period, we operate the unit at 100% capacity that is what exactly we can achieve.

Meet Jain: So considering the seasonality and non-seasonality, we are able to achieve around 70% to 80% of the capacity.

Sameer Gupta: Yes.

Meet Jain: There are lots of tenders coming from the state governments regarding irrigation and other things. So, are we participating actively in this?

Sameer Gupta: Yes, we normally participate in all such tenders where the payment is good or where the demand is good, and where the quantum is very good. We normally participate and we get good orders from those departments also. Other than that, we also target some contractor demands where they are bidding government supplies and take material from us. In both ways, we are working but the quantum of the Government and the contracted orders is not very big, it is less than 10% of our total volume.

Meet Jain: It is 10% only, the rest comes from private?

Sameer Gupta: Yes.

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

Ritesh Poladia: What is the incremental capex for Dadri and Ahmedabad for addition of 7,000 tonnes and 5,000 tonnes?

Sameer Gupta: For Dadri, it is around Rs. 20 crore and for Ahmedabad, it is around Rs. 5 crore to Rs. 7 crore.

Ritesh Poladia: Dadri, you are expanding by 7,000 tonnes for Rs. 20 crore and Ahmedabad would be Rs. 5 cr for 5,000 tonnes. So why such a difference between the two?

Sameer Gupta: In Dadri, we have actually utilized all the buildings that are available in Dadri. We have to build a totally new building for the new facilities. Apart from that, we are planning mainly fittings segment in Dadri for the expansion which will be for the North , wherein Ahmedabad, we are targeting mainly for the Pipes.

Ritesh Poladia: In FY 2019, you did about Rs. 48 crore capex so where has it gone and for which facilities?

Ajay Jain: Majority of that was in buying the land in Dadri and corporate office in Noida.

Ritesh Poladia: How much was the corporate office?

Sameer Gupta: It was around Rs. 15 crore.

Ritesh Poladia: What is the current capacity of the Bengaluru facility?

Ajay Jain: It is 12,000 tonnes.

Ritesh Poladia: How old is that facility?

Ajay Jain: Right now, we cannot disclose all the information, it will be too early. It is a new plant, it is not very old. Five years to six years old plant.

Moderator: Thank you. The next question is from the line of Pranav Udani from Kaytee. Please go ahead.

Pranav Udani: What is the game plan over the next three years to five years?

Sameer Gupta: Right now we are very optimistic regarding the plans because we are right now at a very small market share and the overall business in India for the PVC Pipes and other allied products. So, we are targeting somewhere around Rs. 1,000 crore in the next three to five years. And we are actually right now located in only North India and we are expanding to western part of India. We have now further acquired a unit in southern India. So, we are very optimistic regarding this goal. So, it should not be a very big trouble to achieve those targets. And the market is very big. And so, we do not foresee any drop from the demand side or from any other side. We are creating capacity and also have the funds, so it should not be a problem for us.

Pranav Udani: How do we plan to compete with other larger national players whether it is Finolex, Supreme or Prince. They all have capacity expansions coming in as well. So, any game plan for that?

Sameer Gupta: No, there is no special game plan, we are just working on the branding, the capacity, the costings, the funds realization, the credit period from the market, the stock utilization. We are working on all those fronts and we are strong in north and we know how to run a business. Right now, we are not trying to compete with any of these big players. We are rather trying to capture the market from the unorganized sectors, where no big player is there or where, it is easy to capture the market because of the quality and other supplies issues. So, we are targeting mainly from that market share to achieve it and we are not targeting too high, we are targeting only 3% to 4% of market share. So, we think that we can achieve this growth from the unorganized market players. We do not have to straight away fight with these players. Other than that, we are strong in all terms - like we are going with our latest technology. In terms of funds, we have got sufficient resources with us to compete in the market. The brand is also good enough to compete with all the competitions, so it should not be a very big challenge to achieve this target.

Moderator: Thank you. The next question is from the line of Kedar B. from Composite PMS. Please go ahead.

Kedar B.: For the raw materials, who exactly are we procuring this from? Are we procuring the PVC resin from our domestic player? Are we importing this?

Sameer Gupta: We are mainly importing this PVC raw material and around 90% of our purchase is from imports.

Kedar B.: When it comes to the CPVC segment, who exactly are we getting the base compound from?

Sameer Gupta: We are not buying compound, we are buying cPVC resin from France, Kem One.

Kedar B.: Okay. So, if I look at your gross margin. So, currently, we are tracking a number of close to 28% - 29%. So, what do you think it is really going to take for us to let us say, cross the 30% mark, so that it starts to translate into a higher EBITDA margins as well? This is in addition to the product portfolio expansion that we are doing. So, is it actually related to the scale of procurement or how exactly do we look actually at it, sir?

Sameer Gupta: So, actually right now, the volume that I told you that the volume of our total sales is very low as compared to our other competitors and we are trying to penetrate the market, newer markets with the new product and new area, we are targeting. So, right now, we are compromising all those fronts. So, we think that in the coming days, we can get leverage on that account and we can slightly increase the margins in coming days. So, on that account, we are targeting that it should be improved in the coming days. And apart from that, the quantum will also increase, it will also help in reducing the running cost and the other costs.

Kedar B.: The parent company that we have, has been very successful in building a very strong franchise in their segment. So, what kind of plans do we have to leverage the distribution of APL Apollo, how many common distributors do we have or how exactly does this arrangement work?

Sameer Gupta: Actually, if we talk about the market, we basically work on the brand awareness in the market, the brand awareness is good enough for us to sell any product in the market because it is only the same market where we are selling Steel Tubes and the PVC Tubes. So, if any distributor is working with us, he maybe the same distributor for Steel or maybe different. It is actually not our target, our main target is to create a brand awareness in the market, so that any good distributor who is there in the market, he can join with us. We are working very hard on the BTL activities. It is also creating a demand from the lower level, where good distributors can automatically come into our fold. And you can also see that some of the old distributors, they are common for both Steel and PVC. But our main focus is to just create good demand and we are just targeting good distributors in the market.

Kedar B.: Okay. So, would I be right in summarizing that we are trying to leverage the goodwill that the parent company has been able to create, but there is not going to be any formal sort of a resource sharing or anything like that.

Sameer Gupta: You can see the team is already working with us and there is a good coordination between both the teams. And Sanjay-Ji is actually leading the whole front from his end. So, there should not be any trouble regarding that. If any good distributor is there in the market, we will definitely use them for our distribution network.

Kedar B.: Will we not be sharing anything like a warehouse space or let us say a distributor common space or anything like that?

Sameer Gupta: No, right now we are not targeting any such thing, just the information and goodwill regarding that sales that we will be using.

Moderator: Thank you. The next question is from the line of Sriram Rajaram from Sundaram Mutual Fund. Please go ahead.

Sriram Rajaram: What was your capacity utilization for Dadri and Ahmedabad?

Sameer Gupta: Dadri, it was somewhere around 70% and Ahmedabad, it was somewhere around 25% because here we started late in the year. So, it was somewhere around 25%. This year, we are targeting capacity utilization in Ahmedabad to come to around 60% to 70% and in Dadri, it should be increased to around 75%.

Sriram Rajaram: In terms of volumes, couple of months have passed. So, how do you see this on back of weaker monsoons or late pickup? How are we seeing the volumes for FY 2020?

Sameer Gupta: Yes, it is running good, and because of the new product ranges and branding activities, we are getting good response from the market. And we are very optimistic regarding achieving our targets.

Moderator: Thank you. The next question is from the line of Prashant Pawar from New Berry Capital. Please go ahead.

Prashant Pawar: Do we have any formal tie-up in terms of royalty or brand sharing or anything with the APL Apollo Group or do we intend to have anything in due course of time?

Sameer Gupta: Actually, if you talk about the brand APL Apollo, this PVC brand is available with Apollo Pipes Limited only. In Steel segment, it is available with APL Apollo Tubes. So, there is no brand sharing in terms of that and there is no such formal tie ups, between APL Apollo Tubes and Apollo Pipes regarding that. Actually the chairman is same in both the companies. So, we are getting this synergy from there that the group is working towards the development of both the products. So, there is no formal tie ups but otherwise, informal arrangements are there to grow the market

Prashant Pawar: Any intercompany arrangements or contracts that we should take into account?

Sameer Gupta: We do not think there should be any need for that because we have got a separate team to sell the products and it is good if we have our sales team totally focused towards one product. If we have different focus for one sales team, it will be confusing.

Prashant Pawar: Any changes to this capital structure being proposed either issue of fresh equity or anything of that nature?

Sameer Gupta: No, it is in line with what we have actually earlier disclosed. We are working on the same line; we are not changing anything new.

Moderator: Thank you. The next question is from the line of Keyur Shah from Emkay Global. Please go ahead.

Keyur Shah: What is the volume growth that you are projecting for this year?

Ajay Jain: It is around 30% volume growth, we are targeting from the existing facility. And Bengaluru would be an additional to that.

Keyur Shah: That is 12,000 tonnes, right?

Ajay Jain: The capacity is 12,000 tonnes, but that will come after acquisition so that is not available for the entire year.

Keyur Shah: So, it will commission from FY2021?

Sameer Gupta: It is already an existing unit but once the acquisition is complete, then only their contribution will come in our company.

Keyur Shah: When do you expect that to be completed?

Ajay Jain: After two months to three months, so it would be contributing to revenues from H2 FY20 onwards.

Keyur Shah: What is Dadri and Ahmedabad utilization?

Ajay Jain: So, it was around 70% in Dadri; and 25% in Ahmedabad in FY 2019.

Keyur Shah: Okay. And Ahmedabad you will take it up to 50% for FY20?

Ajay Jain: FY 2020, we would be able to achieve around 50% to 60% of the capacity and in Dadri, it would be around 75%.

Moderator: Thank you. The next question is from the line of Gulshan Patni, an Individual Investor. Please go ahead.

Gulshan Patni: What was your gross margin in the quarter?

Ajay Jain: In the quarter, it was around 25%.

Gulshan Patni: What kind of gross margins are sustainable?

Ajay Jain: So, we are focusing for expansion so it would be available somewhere around this range, around 22% to 25%.

Gulshan Patni: What kind of ROE can you clock in the next two years - three years?

Ajay Jain: ROE is also currently ranging from 21% to 22%. We would be able to sustain at this current level. Because at the moment, we are in the expansion mode so we have to be aggressive in our pricing as well as credit policies. So, if we are able to sustain at the current levels then that would be an ideal situation for us.

Gulshan Patni: In the next two years, I can assume that ROEs are sustainable at these levels?

Ajay Jain: Yes, at this level these are sustainable.

Moderator : Thank you. The next question is from the line of Pranav Udani from Kaytee. Please go ahead.

Pranav Udani: I just wanted to ask, whether you had any inventory losses in the past four months - five months?

Ajay Jain: Inventory losses are not a very big amount; it is in the line of business only. It goes up and down very frequently in the year. So, we did not see any big loss in the past. And we also do not foresee in the future also in the coming years also, it is in line.

Pranav Udani: Okay. So, what was the main reason for the drop in margins this quarter?

Sameer Gupta: To meet the aggressive sales target we had to lower the sales price which impacted margins during the quarter. Further, there were Forex losses because of the dollar appreciation.

Moderator: Thank you. The next question is from the line of Sriram Rajaram from Sundaram Mutual Fund. Please go ahead.

Sriram Rajaram: So, generally as an industry as a whole for the PVC, agri space is there any correlation that you see between tractor growth and Pipe volumes or if you can share what is the metric that you track for this business?

Sameer Gupta: If we talk about the market, the market customers are almost the same for tractors and all those products. And whatever agriculture goods have been used by any agriculture consumer, they are same as what we are selling the Pipes. So, they are maybe a relation but we have not studied that much regarding the tractor sales, as to what affects the Pipes. But there may be a relation between them because both are agriculture based.

Sriram Rajaram: Because the reason is tractor volumes have been slowing down.

Sameer Gupta: No, tractors and Pipes are slightly different. Tractor is much more of a capital item and the same tractor maybe used by different person for the different fields. If we talk about the Pipes and it is used in the borewell, it cannot be used anywhere. It has to be used in the same place and the same point. It cannot be shifted. So, there is one limitation to pipe that we have to stick to the same place.

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

Nikhil Gada: Regarding our Fittings segment, you mentioned we have seen a strong growth of 92% year-over-year. So, just wanted to know have we taken certain price cuts in the fittings to gain more volume growth. And if so, do we continue to see that in future as well as in you will rationalize the prices further to gain more volume growth?

Sameer Gupta: Of course, we have taken some price cuts in the fittings to gain the volumes. But those prices were not below margins. We have bought the pricing to that level, where we can very easily enter the market. And right now, we are in a comfortable position, because we are pretty strong in northern India and in markets, where we are working with the fittings. And brand acceptance and the product acceptance is there. So, we are right now, on the recovering stage of the Fitting prices and hopefully, we can do this recovery in the next six months to eight months, the prices will be again back to normal and you can say, we will be again enjoying the same margin that we expected to earn in fittings.

Nikhil Gada: So, basically, it is not purely just to only gain volume on market share but it has been more in terms of how our pricing was initially and how we are correcting it to the levels where competition is. We are still lower than the competition or in line with the competition where this price is.

Sameer Gupta: The prices were in line with the competition. Our prices have not gone too below than our competitor's prices because then the brand can get damaged. So, we are not in that line. We are working in line with the competition, giving extra leverage in other terms rather than in pricing, in schemes and other facilities, we give to the distributors or the dealers so that they can work easily with our brands.

Moderator: Thank you. The next question is from the line of Kedar B. from Composite PMS. Please go ahead.

Kedar B.: So, what we are seeing is starting from this particular financial year for example, your top line of Rs. 362 crore from operations that is visible, is it after deducting the dealer incentives and commissions you give or do we need to deduct the dealer incentive and commission from the number of Rs. 362 crore?

Ajay Jain: This is net of margin and incentives.

Kedar B.: So, effectively you are following the IndAS standard. So, the second question is you seem to have brought down your receivable days to a great extent over the four year - five-year period. Now, given that 60% of your sales is coming from the agri segment, what kind of a credit period are you giving, because your presentation talks of the cash and carry model. So, can you throw some color on that, sir?

Ajay Jain: In cash 'n' carry, we are selling to our dealer and distributor network, we are not selling directly to the farmers or the consumers. So, that is why they may be giving more credit period to the consumers but we are having a collection period of around 30 days. So, that is why our debtor days are shorter than them.

Sameer Gupta: Apart from that, we were also giving certain benefit to our dealers to make early payment. So, on that account also we are reducing the creditor days because dealers are getting some more advantage because of making early payments because of that also we are bringing this down and our main target is to create cash from the business, not to increase the credit days or increase the debtors because it will affect us otherwise. We cannot increase the debtors. We are working on reducing the debtors' days by giving extra incentive to dealers to make early payments.

Kedar B.: So, would I be fair in saying that you would probably want to maybe give a higher discount or an incentive to the dealer and get your cash upfront rather than taking a balance sheet risk. Would I be right in saying that that is how we are viewing the business?

Sameer Gupta: In a way, we are giving some advantages to the dealers so that they are attracted towards making earlier payments. Otherwise, it will be very tough to increase the market share and increase with aggressive pricing, we will not be able to sustain. So, because of that in any chance we are not trying to increase the credit days or the debtors in the books. So, we are trying to give them extra incentive so that they will be more focused towards increasing the business because of the lower costing, they are much more aggressive in the market and sell their products more aggressively.

Kedar B.: Would this thought process apply for the construction and the plumbing segments as well or is it pertinent only to the agri segment?

Sameer Gupta: Mainly it works for the agri segment. In the plumbing and the building segment, it is a little bit low because our volume is very negligible as compared to the agri business, it is only around 20% so that is not affecting the balance sheet too much. But again, in the construction and the building segment, this is not up by too much, it is only 7 days to 10 days extra credit to the builders. Not too much as compared to agri business.

Kedar B.: So, in a sense, what we are seeing right now, there is a lot of capacity expansion that seems to be coming on board from all the larger players out there. So, Finolex is increasing by about 150,000 metric tonnes and we are also having to see some new entrants coming into the market in a big way. For example, HSIL who has typically been a building materials player now has presence in the PVC pipes as well. HIL has some capacity as well. So, are you starting to see any signs of any of these players taking aggressive price cuts to go and capture the market?

Sameer Gupta: No, right now like you said that various other players are also planning for the capacity expansions and new entrants are also coming by but we are not a new brand in PVC Pipes or the Steel Pipes, we are pretty old in Steel Pipes. We are working in Steel Pipe for the last 35 years - 40 years and we are working in PVC pipe for the last 18 years. The brand presence is there and our brand is not a weaker brand. We are a pretty strong brand and we have got pretty good presence in terms of Steel Pipes in the north, in southern and western region. So, we do not foresee any big challenges for us. It is just like any other competitor is creating the capacity and we are also creating the capacity. The market is big enough to eat the business share of all the organized sector. So, we are not targeting any big players or trying to eat any big player's share, we are rather targeting to capture the unorganized sector where any big player is not there, we are trying to capture those areas. Right now, we are not targeting any competition from these big players. Other than, we are also trying to increase our market share by creating good range of products, by creating innovative products and creating good basket of all the products, we are adding allied products to range like we have entered into Faucets, we have entered into steel segment, and we have entered into door projects. So, that may be also getting the brand leverage. So, we are not very much affected by these capacities coming into picture because they will also be again working for the profitability only. They will not be working for any loss-making project.

Moderator: Thank you. The next question is from the line of Rahul Khanna, an Individual Investor. Please go ahead.

Rahul Khanna: So, we have started this new business of Faucets, and so what is our thinking behind this? And what do we plan? Do we outsource this, or are we building in-house?

Sameer Gupta: Actually, it is a new project for us. But when we sell this product, we have observed in all our distributor network, we have observed this in the last two years - three years that it gets sold from the shop where our products get sold or our fittings are getting sold. So, we started realizing, when we studied more about this, so there were no organized players in Faucets, there were all small players. The business is that 50% is from outsourcing and 50% is from own manufacturing. We are targeting in the same line. We are thinking like we will make 50% through our own manufacturing and balance 50% we will purchase from outside and we will sell from our brand. We are considering this business in this scenario. After that in this business, because there is no organized player, there is good opportunity and because of low cost and affordable housing and the public areas, there the plastic demand is very good. We are targeting that and two - three big players are working in this segment and rest is the unorganized sector. We are seeing good growth because of the lack of organized player, we are seeing less competition in this and it is a big industry, so it will be very good in the coming days. All the areas where water quality is bad, there will be a lot of demand for this because the metal faucets fail there.

Rahul Khanna: So, we will sell only Plastic Faucets. Metal Faucets will not be there?

Sameer Gupta: Right now sir, we are focusing only on Plastic Faucets and we are entering in that only.

Rahul Khanna: What are the margins in Faucets business?

Sameer Gupta: There is more margin in Faucets business compared to Pipes but our volume is very small in this. We are targeting around 1% - 1.5% of revenue, in that way the profit margin is higher in that as compared to Pipes.

Rahul Khanna: In coming two years - three years, can there be Rs. 100 crore - Rs. 200 crore business?

Sameer Gupta: No, in coming two years - three years, we are targeting to reach to a turnover of around Rs. 40 crore - Rs. 50 crore in this.

Rahul Khanna: Previously our company was Amulya Leasing then we merged Apollo Pipes in this. After merger promoters sold a lot of their holdings to marquee investors. After that in the company as a form of debt they have put money then they converted that debt into equity. A lot has happened in last 1 year - 1.5

years - 2 years. So, what was that understanding behind this? First you have sold then you have taken back the share, what happened?

Sameer Gupta: So, the share which we had sold, we had promised that we will put the money back in business. If you will look, the shares which we had bought back, was at the rate of Rs. 590. At which rate the money has come, at the same rate we have infused back. Our total focus was to increase the size of this business, increase the growth and the geographical reach, we had targeted to increase that. So, our total focus was regarding this only. And from the rate from which we got share, on that rate only we infused it back despite the market being very low.

Rahul Khanna: How many had we sold and for what price? I think we sold around Rs. 200 crore - Rs. 250 crore and we invested less money than that?

Sameer Gupta: There is a marginal difference, around Rs. 200 crore we had sold, we had invested the same amount. Secondly, the money we have invested that was the maximum limit allowed by the SEBI. It was not allowed otherwise we would have invested.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management for their closing comments. Over to you, sir. Sir, over to you for closing comments.

Ajay Jain: I thank all of the investors and fraternity and those who are joining it for the first time and listening to the management for the first time. And our main target is to increase the business focus on this business and grow the business. The positivity is there, the resources are available with us, the group is strong and we do not find any substitute of this product. I hope we have been able to answer all your questions satisfactorily. Should you need any clarification or would you like to know more about the company, please feel free to contact our team or CDR India. Thank you once again for taking the time to join us on this call. Thank you so much.

Moderator: Thank you very much, members of the management. Ladies and Gentlemen, on behalf of Apollo Pipes, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.
