May 12, 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 May 05, 2023 regarding Earnings Conference Call, which was held on Tuesday, May 09, 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 Tuesday, May 09, 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: 2023.05.12 13:32:44 +05'30'

(Ankit Sharma)
Company Secretary

Encl.: A/a

"Apollo Pipes Limited

Q4FY23 Conference Call"

May 09, 2023

MANAGEMENT: **MR. SAMEER GUPTA – CHAIRMAN AND MANAGING DIRECTOR – APOLLO PIPES LIMITED**
MR. ARUN AGARWAL – JOINT MANAGING DIRECTOR – APOLLO PIPES LIMITED
MR. ANUBHAV GUPTA – GROUP CHIEF STRATEGY OFFICER – APOLLO PIPES LIMITED
MR. AJAY KUMAR JAIN – CHIEF FINANCIAL OFFICER – APOLLO PIPES LIMITED

MODERATOR: **MR. MANISH MAHAWAR – ANTIQUE STOCK BROKING LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Apollo Pipes Limited Q4 FY '23 Conference Call hosted by Antique Stock Broking. 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. Manish Mahawar from Antique Stock Broking. Thank you, and over to you, sir.

Manish Mahawar: Thank you, Rico. A warm welcome to all the participants on the 4QFY23 Earning's Call of Apollo Pipes. From the management, we have Mr. Sameer Gupta, Chairman and MD; Mr. Arun Agarwal, Joint MD; Mr. Anubhav Gupta, Group Chief Strategy Officer; and Mr. Ajay Kumar Jain, CFO, 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: Thank you and thank you for joining us on Q4 FY '23 Earnings Call to discuss the operating and financial performance. I'm sure you all had the opportunity to go through our results presentation which provides details of our operational and financial performance for the fourth quarter and year ended 31 March 2023.

We just concluded an eventful year, which was full of rollercoaster ride. It started on a low note as PVC resin collapsed by 39% from the beginning of the financial year to December 2022. The industry went through a tough cycle. This led to inventory write-downs and channel de-stockings across industries. However, sales costs stabilized during Q4 FY '23 as resin prices decline was finally rested.

I'm glad to share that we reported our best ever sales volume of 18,685 metric tons for the quarter in Q4. Revenue was highest ever as well despite lower PVC prices. This suggests that we are now hitting 6,000 tons of monthly sales volume quite comfortably. Our -- share gains and strong sales volume growth in a difficult year has given us enough confidence to expand our boundaries. That's why we have decided to double our capacity to 286,000 metric tons in the next 3 to 4 years.

We believe that the industry growth of 10% to 12% gives enough opportunity for a player of our size to grow at this pace. In order to prepare ourselves for this commitment, we have worked on 3-point strategy: Strengthen the team with appointment of x numbers of professionals in last 2 years, and latest being Mr. Arun Agarwal, ex-COO of our group company, APL Apollo Tubes. Allow me to welcome him onboard.

We are confident that his expertise in scaling up the steel business will help Apollo Pipes in the long run. As we are expanding -- second point, as we are expanding our capacity, we are mindful of the fact that the capex needs to be funded without that. That's why the company has got commitment for equity infusion of INR260 crores. Balance capex of INR240 crores can be funded from internal cash flows. In our capacity expansion program, we have ensured that there's no cannibalization of existing business. Our strategy to expansion is for value-added products comprising of bath fitting, CPVC and HDPE pipes. Our new proposed greenfield plants will mirror our flagship Dadri-1 plant with the investment of INR135 crores each. This will help us scale up at a quick pace similar to our North performance.

We believe that this shall provide enough ammunition to the team Apollo Pipes to accelerate revenue growth to 35% CAGR for the next 4 years. We are also confident of hitting 25% to 30% of ROCE despite this proposed investments supported by working capital efficiencies. That's it from our side, and we are now glad to take questions. Thank you.

Moderator: Thank you very much. Our first question is from Bhargav Buddhadev from Kotak Mutual Funds. Please go ahead.

Bhargav Buddhadev: Yes, good afternoon team and thank you for the opportunity. My first question is in your opening remarks, you mentioned that you are targeting capacity of about 286,000 tons, and you will not be cannibalizing this. So is it possible to highlight which areas you're looking at setting up a greenfield plant using this capex?

Anubhav Gupta: Bhargav, this is Anubhav here. So if you look at our expansion plan, right now, 70% of our capacity is in North India. And we are catering to west and southern markets with very small plants, so one being in Gujarat and second being, which we acquired from Kisan in Tumkur Bangalore. Okay. So now these plants are reaching to their utilization level, which were possible. And now we feel that if we have to -- and if we have to grow the scale similar to what we have in North, so we need to have a similar kind of plant set up, right, in West and South.

So in West, we are looking somewhere around Maharashtra because Maharashtra offers a very strong opportunity for a brand like Apollo Pipes to grow sales. Similarly, in South we are considering between Hyderabad and Bangalore range, right, where we can get the whole of South and East also being equally important. We have a small facility in Raipur. We tested the waters, we are glad with the performance of that plant. So now we have to move forward with much aggression.

And if you look at the government spendings, which have been announced over the last 2, 3 years, they start from Eastern UP and go towards Bihar, Odisha and further East. So it's very important to have a solid infrastructure to cater to these six, seven states, right, and have equal stronger plant what we have in North India.

So these are the 3 belts, which we are evaluating. Right now, we are doing around INR200 crores, INR300 crores top line from these three geographies. So that's why we feel that we are not going to cannibalize the existing sales. All the new plants will contribute incremental top line for the company.

Bhargav Buddhadev: Okay. Thanks for this detailed high explanation. The second question is, is it possible to share what is the share of HDPE pipes now in our overall volume mix? And is there any geographical concentration in terms of sale of HDPE pipes?

Anubhav Gupta: So HDPE pipe moves around like late single digit, early double digit. That's the contribution. And since this mainly belongs to water infrastructure projects, which government is undertaking across India. So our capacity right now is more skewed towards North. So that's what we are selling. And we see good visibility. That's why the Dadri-2 greenfield expansion also consists of new HDPE lines. So right now, the focus is more towards North India, but with all the new plants, which will come up, they will also have HDPE lines.

Bhargav Buddhadev: And is this good in terms of margins, this product?

Anubhav Gupta: So margin, if you see like in Q4, we reported INR17 per kg at EBITDA level. So that's our normal business EBITDA. That's what we were doing in FY '21, right. FY '22, of course, because -- FY '22, I mean, FY '23 was, of course, depressed because of inventory write-downs, but our normal business EBITDA is around INR17 a kg. So which gives us around 12% to 13% margin. So HDPE pipe will be like just hitting 10%, 8% to 10% kind of based on like what orders have come, what our distributors get, what kind of orders. So it ranges from 8% to 10%.

Bhargav Buddhadev: Okay. And my last question is with this geographical expansion, do you see an improvement in terms of your turnaround time in terms of reaching the distributor? And what kind of working capital efficiency are you expecting post this geographical expansion maybe in the next 3 to 4 years? And that would be my last question.

Anubhav Gupta: Right. So see, I mean -- so it's been -- like it's been 40, 45 days Arun-ji joined our team. So that's been the point of deliberation that we need to have large-scale plants, right, in all the major markets which are spread across India. So that we are able to service all the potential clients in a much efficient way. It becomes at some -- like to achieve INR200 crores, INR300 crores top line, it is all right to have a small plant in South and feed higher value products from Northern plant.

But we can't scale it up to INR1,000 crores, that market. For that, we need an investment of INR200 crores in that geography, which takes care of the whole market access. Why I said that, it doesn't make sense to grow your sales beyond small INR100 crores ticket size because the freight factor comes into play. So it becomes very important. I mean, the brand which APL Apollo right now has become in the building materials space, right, it becomes very important for us to present across India, right, with the same aggression, what we are having in North India. And the results are also evident with like 6%, 7% market share, what we're having in North India. So we are super confident that the same kind of market shares can be achieved in the other geographies as well.

Moderator: Our next question is from the line of Piyush Khandelwal from Bank of India Mutual Fund. Please go ahead.

Piyush Khandelwal: So I mean just wanted to understand because Sameer sir highlighted in the opening remarks about this working capital efficiency, enhancement in the ROC, so I mean, Anubhav, if you can explain, I mean, what kind of measures that we are taking to improve the working capital efficiency? And even if I look at, let's say, FY '23 numbers, our working capital has improved. Which is mainly led by increase in the payable days. I'm taking everything on sales. I mean, it has improved from 68 days to 47 days. So if you can highlight, I mean, which are those measures that we are taking and why payable days has increased in FY '23?

Anubhav Gupta: Right. So Piyush see, I mean, if you look at my payable days, at -- they were 63 in FY '22. So that was very high compared to the industry average. Now payable day is around 45. Now we have come at par with industry? Or industry may have even further higher payable days. So the reason is that in FY '22, my scale was like sub INR700 crores, INR800 crores top line.

So I was buying, say, for example, INR600 crores worth of raw material, right, from my suppliers. So the payment terms, right, the negotiation power, the bargaining power that was limited to the size of INR700 crores, INR800 crores. Now I'm touching like INR250 crores, INR260 crores top line on a quarterly basis right? And I have visibility to grow my top line to INR1,200 crores, INR1,300 crores in next 12 months.

So my bargaining my negotiation, my payment terms, everything improves, right, with my suppliers, right. And also last 2 years have been like so volatile in terms of the commodity prices, right, so sometimes I'm trying to stop more so that my plants don't run out of raw material. I have to ensure that, correct? And that's what we also feel the need of having like similar large plants across India, what we have in North that to have better inventory management right we should work with larger size plants, right, to achieve all the aspired revenue CAGR, what we are having, right. So one is that, creditor days will continue to increase.

As my scale goes up, right, my suppliers are ready to offer me same terms, which they are offering to my competitors. And second towards receivables, right, debtors we are confident that in North India, we have started cash and carry model with some of our top clients. And the response has been very encouraging. So that will bring down the overall debtor days as well. So we are confident that Ultimately, we will have our net WC getting stabilized around 35, 40 days right on a sustainable manner.

Piyush Khandelwal: Understood. Sir, just one thing on these payable days. I mean on -- once you highlighted that with scale, you get the bargaining power. So it's a question of whether, I mean, getting higher payable days or getting product at a lower cost. I mean, what would you I mean, make a trade of better -- for example, let's say, something you're buying, let's say, at INR10, maybe at a lower scale, you might get at INR8.5 or INR9 with a better margin.

Anubhav Gupta: Piyush, I understand what you're trying to ask, it's about like what return I'm getting. So if -- of course, my supplier offers me credit, right, it will come at some cost. But that cost is equal to the discount, which he gives us cash discount, right to me. So whatever is better for me, I'm going after that. So as per our evaluation, this is better that we take material on credit if he's ready to offer to me. Before that, he was not ready to offer to me. That was the problem.

Piyush Khandelwal: All right. Understood. So this working capital days will be maintained in the range of 40, 45 days, as you said?

Anubhav Gupta: Yes, they will come down below 40. What we are saying is we can do this business around 35 to 40 days of WC.

Piyush Khandelwal: All right. Understood. Now another question is on the targets that even Sameer sir has mentioned that about 35% kind of a growth. So this, if you can just give me, I mean, a ballpark breakup. Obviously, I mean, previously as well, you have highlighted about the change in mix towards the building material and hence a better realization. So this majorly growth will be led by volume? Or will it be led by realizations as well? Because this quarter, we have reported INR135 per kg of realization. And this is where the PVC prices are hovering somewhere around INR85 to INR90 per kg so if PVC prices stable at same level, let's say, INR80, INR100, how will our realization will look like going forward with the change in mix?

Anubhav Gupta: Yes, Piyush. So if we look at our business model, right, which we have firmed up, right, in last 40 days, it is with the consideration that PVC prices are not going to go up. So whatever NSR improvement will come. It will come from the from the value-added products. So we have kept the base PVC resin same what we are today. So to get 35% revenue growth, we'll get 28% to 30% volume growth and 4% to 5% improvement in NSR owing to the sales mix improvement. We have not factored in any decline or increase in the PVC prices from the current levels.

Piyush Khandelwal: All right. Understood. And what would be our agri mix as of now?

Anubhav Gupta: Right now, Agri is like slightly below 50% of the overall sales mix? Every year, it is going down. And with the capacity what we have right now, with the capacity, which will come in Dadri-2 and some brownfield expansion we are doing. Plus the new greenfield plants, what we want to set up over the next 2 to 3 years, this agri sales mix will drop down to 25% of the total sales.

Piyush Khandelwal: Got it. And just one last question on this margin profile as well. For this quarter, we reported, I mean, around INR16 per kg of EBITDA. So going forward as well, will there be increase that you're looking in EBITDA per kg or you are comfortable with same kind of numbers?

Anubhav Gupta: So see, my gross margin will expand to, Piyush. But it may not visible in EBITDA per ton immediately because as I'm going to put up new plants, new capacity, the front cost will go up. So for me to show like INR1, INR1.5 improvement in EBITDA per ton, it may not be possible. Once the plants are stabilized, then definitely. And as we have to go very aggressively in the market, right, we are offering cash discounts to go to cash and carry also. So there will be gross margin improvement, yes -- gross profit improvement but for next 2, 3 years, we are comfortable with like INR500 to INR750 per ton improvement in EBITDA.

Moderator: Our next question is from the line of Keshav Lahoti from HDFC Securities.

Keshav Lahoti: Sir, just want to understand whether in this quarter, do we have any sort of inventory gain?

Anubhav Gupta: This quarter, there was no inventory gain, no inventory loss. This is our actual business performance.

Keshav Lahoti: Okay. And what sort of capex we should build in, in this year and next year?

Anubhav Gupta: So we have factored in INR500 crores of capex, right, over the next 3 to 4 years, INR100 crores is from the ongoing projects. One is Dadri-1 brownfield, second is Dadri-2 greenfield. These two projects sum up to around INR100 crores and then INR400 crores is for three plants right? So that will be put up in next 3 to 4 years. So I think FY '24, '25, '26 and maybe like some residual in FY '27, so we should be like INR150 crores, INR150 crores, INR150 crores, INR50 crores. So that's the number what we have in our mind. But of course, I mean, if required we may go for INR200 crores in 1 year, right, and maybe slightly slower in the following year. It will depend on what kind of plants get finalized. But we are comfortable with INR150 crores to INR200 crores of annual investment. Based on the equity infusion, which is coming plus the operating cash flows what company is going to get.

Keshav Lahoti: Okay. Got it. Can you share your plant wise capacity of 136?

Anubhav Gupta: Yes, sure. Just a second. So very broad-based numbers we can share. So right now, North India, which is mix of Dadri and Secunderabad, they are around 90. Then South India is around 25, 30. And then the rest is Raipur? And Ahmedabad, split like equally between Ahmedabad and Raipur.

Keshav Lahoti: Okay. Got it. One last question from my side. As you are correctly working in the right direction, you said reducing agri to 25%, so 25% you're talking in terms of volume or revenue? And lastly, how is your margin, let's say, in agri versus value-added versus plumbing? Some broader sense would be great.

Anubhav Gupta: So when we say sales mix, it is on value terms. Second, on margin profile for different products. So like at a comfortable EBITDA per ton of INR17,000 right, which gives us a margin of 12% at EBITDA level. So our product range starts from 6%, 7%, right, for super commoditized agri products. and it goes up to 25%, 30% for super high value-added products for bath fittings, etcetera. So that's our product profile starting from 7% towards agri and goes up to 25%, 30% for building material products.

Moderator: Our question is from the line of Mr. Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Anubhav, just one question. I couldn't understand the answer it was asked. So at the current PVC prices, let's say, whatever, INR80 or INR90 a kg, whatever it is, what kind of realizations should be assumed for that current price? And what is the margin assume?

Anubhav Gupta: So Pritesh, at current PVC price of say INR85. Our NSR for Q4 was around INR135. So we have factored in like same PVC prices, right, for next 4 years in our business plan. And this NSR can go up by like INR6, INR7, right, every year based on -- INR4 crores, INR5 based on our volume mix improvement, sales volume mix improvement.

Pritesh Chheda: Okay. And you are saying that you are back to the original margin of, let's say what, INR17, INR18. Now there's a big variation in your margin as the company has progressed. Now this margin I saw back in quarter 2 FY '22 and that was a time also where there was some inflation element on account of -- benefit on account of inventory. And it continued for a few quarters and then tapered off in FY '23. So because FY '22 was a year where you guys gained a lot on the inventory part. So still you believe that the INR17, INR18 is what you should look at? Or what is the change in your business model between FY '22 and FY '24, let's say, or let's say, FY '22 and quarter 4 FY '23?

Anubhav Gupta: So Pritesh, I think it will be better to compare FY -- if you look at our journey of EBITDA spread improvement, right, it started from FY '20 right, even in FY '20, like we touched like INR10,000 -- or INR10,400 per ton. And then it jumped to, say, INR15,000 per ton in FY '21. All right, so there was like some element of inventory gains, of course. But majority of that came from the fact that our CPVC and the bath fittings sales mix, right, it started contributing in a significant manner okay? So that's the reason that why our EBITDA per ton increased significantly. And then it's sustained for full of FY '22. Yes, I mean, INR2,000 per ton improvement in spreads from FY '21 to '22, you can ascribe some to inventory gains. But then again, my sales mix continued to improve right? And then FY '23 starting like Q1 okay?

Pritesh Chheda: FY '23 we know that there is a massive inventory fall.

Anubhav Gupta: No, so what you should look at that whether you look at quarterly, right, from Q1 FY '22 to Q4 FY '22, we were hovering around INR16,700 per ton to INR17,800 per ton okay? So I would say my base EBITDA spread was INR16,000, INR16,500 hence ascribe to some like soft inventory gains?

Pritesh Chheda: For FY '22?

Anubhav Gupta: For FY '22 yes, the quarterly spread, which you see, INR16.5 to INR17.5 that's what they have moved.

Pritesh Chheda: I'll ask the other way around. Let's say, the annual number for FY '20 is about INR9 to INR10 a kg FY '22 -- FY '21 is about INR13 to INR14 a kg FY '22 is about INR18 plus a kg and FY '23, if you adjust the raw material inventory loss for FY '23, what will be your number?

Anubhav Gupta: INR16,500.

Pritesh Chheda: Okay. INR16,500. If I adjust the entire inventory.

Anubhav Gupta: Of course, yes.

Moderator: Our next question is from the line of Ankit Gupta from Bamboo Capital.

Ankit Gupta: Thanks a lot for the opportunity. Anubhav, if you can please talk about how has been the demand on the agri side now, agri pipes have been facing challenges for the past 2, 3 years. So how has been the demand in Q4 and Q1 being a big season for agri pipes? How is the demand in Q1 as well till now?

Anubhav Gupta: So Q4, the average demand has started improving and Q1 and Q2 normally being season agri demand. So as of now, we are currently seeing good traction in agri demand.

Ankit Gupta: So -- and like how much would have been our volume growth on the agri side for Q4?

Anubhav Gupta: So if you see like for Q4, our overall volume increase, right, if you look at Y-o-Y, so Agri would like wouldn't match that? Because our whole focus is towards building the housing plumbing portfolio. All our distributors right now are focusing on pushing that product. Agri, yes. I mean we've been in the market for many years, we having very strong SQ range for the agri products. Our brand is popular. So that sales continue to happen as per the market growth rate as per the market sentiments, how the markets move. But beyond a point, we don't put extra efforts, right, to get that growth. Our whole efforts are going towards on getting the market share from the housing plumbing side.

Ankit Gupta: Sure. And on the PVC pricing side, we are seeing a decline in prices during April and May in Q1. So can we expect some inventory loss during Q1?

Sameer Gupta: Yes, the PVC prices have been going down, but that drop is not so drastically -- you can say that were not very steep. So there should not be any inventory loss in the quarter or coming quarters because we don't see too much drops in the coming days also. It is almost near to the bottom only. Again, there will be some rise in -- you can say, in the next month, we may see temporary rise again. We don't see too much drop or the rise in the coming quarters. So the prices should be stable, and we don't see any gain or losses in the inventory.

Anubhav Gupta: So Ankit, the other angle to this is that normally, the inventory gains or losses will come if the volatility is like 20%, 25% right like in a short span of time. PVC prices at INR89 a kg, INR5, INR10 here and there. That's a normal industry, I would say, business practice, cycle, right, which takes place, and which has been taking place for years.

So it's just that if PVC prices go from 80 per kilo to INR180 a kilo, or they drop from INR180 per kilo to INR70 a kilo. That's the time when the industry faces these issues. INR10 to INR15, INR5 to INR10 to INR15 fluctuation, I don't think it is going to impact any much beyond a point.

Ankit Gupta: Sure, sir. And my last question was on the capex, the funding for the capex. So this INR260 crores that we plan to fund capex on equity infusion. So this will be raising this equity in the near term?

Anubhav Gupta: Right. So as and when the need comes, right, the commitment is already there. So it's not -- although it's in form of warrants. It's not that the money has to come within like at the last month, which is like in year 2024. But if the company needs money tomorrow, the money will flow.

Moderator: Our next question is from the line of Udit Gajiwala from YES Securities. Please go ahead.

Udit Gajiwala: Thank you for taking up my question. And sir, firstly, what gives us the confidence of achieving the 25% compounded growth where we are seeing industry will grow at 10% to 12%, say, for example, volume will grow at 8% to 10%. So this outperformance and the confidence that we have of gaining market share, could you please elaborate on the same?

Sameer Gupta: So the basic ideology of growth comes from our geographical expansion plan. So as of now, we are mainly focused only on the northern markets. We don't have any major, say, capacity to fuel the market in the other geographies. We have already tested -- done some pilot projects on our existing plants and tested the waters there, and we see good, say, response on those markets which has led to the expansion plan as a whole. So this will improve overall service time in those markets, improve -- give me some scale advantage, some freight advantage to service those markets. And we are planning state-of-the-art facilities in all our future expansions.

Anubhav Gupta: So Udit, just to add to it, right now, as per you, what will be the current PVC industry market size in India?

Udit Gajiwala: Say, close to INR35,000-odd crores INR30,000 crores, INR35,000 crores, varies.

Anubhav Gupta: INR35,000 crores. And what kind of growth you would ascribe to the industry for -- on an annual basis?

Udit Gajiwala: Value Terms compounded could be 9% to 10%.

Anubhav Gupta: So that means INR3,500 crores of incremental industry should increase every year, right, fair to say? And what will be the asset turnover you think companies get in this industry? Asset turnover?

Udit Gajiwala: 2.5 to 3.

Anubhav Gupta: So if it is 2.5x, that means industry needs to add INR1,400 crores worth of new assets -- fixed assets every year?

Udit Gajiwala: Agreed. Yes.

Anubhav Gupta: Right? So we are just trying to be part of that.

Udit Gajiwala: Got it. So do we have any such plans or some target in terms of number of deals or distributors, however you put it, what would be '23 ending and in say next 3, 4 years? I mean, what number could we be at given the geographic expansion having coming into play?

Anubhav Gupta: So Udit right now, we are at like 600 direct channel partners right out of these like 70%, 80% of course, business coming from north. So to achieve 286,000 ton of sales volume, whenever it comes in 3, 4 years, right, we must be having at least 1,500 to 2,000 direct channel partners across India who will give us this kind of top line. So that's the number we have in our mind.

Udit Gajiwala: Got it. And just last, if I could squeeze in, what would be the channel level inventory that they are holding given that the prices are coming down for PVC?

Anubhav Gupta: You mean the channel partners?

Udit Gajiwala: Yes, yes the dealer inventory level. Currently, how many days would be they storing right now?

Ajay Kumar Jain: Right now, as the prices have stabled down and it is almost near to the bottom. So I don't think they are carrying too low inventory or too high inventories. They should be normal inventories which should vary from 30 to 60 days, depending upon channel partners to channel partner, what volume they are doing and what -- how much scale of business they are doing. It's totally dependent upon that. So it should be varying from 30 to 60 days of inventory per channel partner.

Moderator: Our next question is from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah: Sir, a couple of questions. Sir, first, on working capital. Just wanted to understand how much is the resin sourcing locally versus imports? And how much was it in Q4 last year?

Anubhav Gupta: So 70% imports and rest local.

Ritesh Shah: And how much was the same ratio last year?

Anubhav Gupta: More or less same.

Ritesh Shah: Okay. So payable days doesn't have any impact varying because of sourcing -- change in sourcing pattern, would that be fair?

Ajay Kumar Jain: No, this year, it is going to change because this year, we are targeting higher volumes. So we are trying to -- whatever the increased volume, it is from the local -- it should be from the local side.

Anubhav Gupta: No, no. So Ritesh, this is one. This is one that the local sourcing will increase, right, and that will further help us improve our payable days. But also during the last 12 months, although the import proportion looks similar, but the terms with those suppliers, that's what is helping us have higher payable days.

Ritesh Shah: I would assume it would be the other way around. So if you are reporting something, I think we have that -- we can avail else facilities and it can actually help working capital. So how are we saying that if we source more locally then it will help on working capital. Please correct me, am I understanding?

Yes, I could not comprehend basically, when we say that we -- if we increase local sourcing this year, it will aid over working capital. Shouldn't it be the other way around when we are looking at payable days?

Anubhav Gupta: No. So see, there are 2 parts to it. One -- the first part of your question was that between FY '22 and FY '23, right, the mix of imports and local was kind of the same. 70% imports, 30% local right? So how our working -- how our payable days increased. So the answer to that question is that as we are sourcing more and more, right, almost 30%, 40% increase, right, in the sourcing during last 12 months, it helped us with the better payment terms. That is one.

Second, now that in FY '24, right, the local sourcing will improve, say, we go to 40%. We go to of 45%. It's not going to be like it will become 30/70 from 70/30. So that's what I'm saying that the ultimate improvement in payables is coming from the fact that the sourcing power, right, of Apollo Pipes is improving every year.

And you would see that not only for us, you could see that for all the other pipes companies you must be tracking. Or maybe outside the pipes industry. Whenever the scale goes up, you get all the benefits. Apollo Tubes is one of the best examples. Today, with our power of sourcing at Apollo Tubes towards the steel side. We enjoy the benefits, which today, our larger peers are enjoying. But as we are moving up the chain, right, those benefits do come for a company of our size also.

Ritesh Shah: Sure. My second question was on receivables. What sort of benefit should we expect on receivable days going forward?

Anubhav Gupta: So Ritesh, if you see my March '23 receivable days were around 26 right? And my March '22 receivable days were 28. So there is hardly any change in these receivable days right? So I'm kind of maintaining that. So I don't -- so we don't ascribe this change -- marginal change in receivable days to any channel financing. But yes, I mean, that product is available in the market. So if my distributor asks for that channel, you may go for it. But Apollo Pipes is not kind of getting into like to tell my distributor to buy from -- to use HDFC Bank or some fintech or an NBFC or SD Finserv, right?

What we are telling our distributors in North India is that you please lift my material on cash and carry. And I will offer discount to you? Now to pay against that material, whether he brings his own capital, he takes help of HDFC Bank. He takes help of a Tier 2 bank, he takes help of some NBFC, he takes help of some ongoing -- like today, a lot of existing -- there are a lot NBFCs and Fintechs which are existing, right, VC funded or it is SD Finserv. So I leave it to my distributor to decide which product he has to use from which lender. So as on like March 31, 2023, there could be hardly INR2 crores, INR3 crores, INR4 crores, INR5 crores kind of exposure from finserv.

Ritesh Shah: And just last question, more of a clarification to what Bhargav asked earlier. HDPE you indicated it has a high rate single-digit on volume contribution. Did I hear that number right?

Anubhav Gupta: Yes, yes. It's around like between the quarters, it has ranged from 8% to 13%. So blended basis, it will be like 10%, 11%.

Ritesh Shah: Okay. The reason I ask for this clarification is I remember earlier we had indicated this numbers to be upward of 20%. Can you please just clarify whether this number has trended down from 20% to, say, 10% to 12% or it has always been at 10% to 12%?

Anubhav Gupta: No, I -- 20% could be like in one of the months, right, when there was like maybe execution of some large ongoing order. But if you look at the 3 months or 6 months or 9 months or 12 months pattern, it won't go beyond 12%, 13%.

Ritesh Shah: Sure. Perfect. Sir, if I can just squeeze one, we have indicated incremental capex in new regions. Can you just give some broad qualitative comments on the competitive intensity, say, hypothetically, if you are deciding to put up a plant in the Maharashtra? We have a significant agri contribution right now, which you indicated that we intend to reduce it going forward. But there are formidable players in this region. In North, obviously, we call out the shots, but venturing into new regions, how do we look at competitive intensity, say, Maharashtra being a case in point?

Anubhav Gupta: So Ritesh, see, I mean, how we are looking at these new markets is the way how we took market share away in the north market. So we are not trying to get into territories or we are not trying to get market share from the top 5, 6 players who are like stronger than us. What -- how we see this industry is like the players in the organized sector, which are below us. So say we today are ranked at #7, right, six being a sixth company so from -- starting from rank 8 to rank 25, right, in the organized space, there are like many players, right, who are facing a lot of issues last 6, 7 years, you know how they have been disrupted, right, right from 2016 started with de-mon and till 2022, the second, third wave from the COVID crisis right? So we find a lot of opportunities, a lot of gaps, right, which have come up because of these players. So my target is to take market share from these, number one.

Number two, then the unorganized space. I mean this industry is one of the great examples that the unorganized contribution is still very high, right, versus other building material companies. Third -- I mean the third is we are eyeing this incremental INR3,500 crores, INR4,000 crores of industry size, right, which is going to get added every year right? So even if you see that the kind of capex required right to -- for the industry to grow 10%, right, we just want to be part of that incremental industry. So we're not -- we don't think that we may need to bother stronger players too much to get this growth.

Moderator: Our next question is from the line of Mr. Dhiral from Phillip Capital PCG. Please go ahead.

Dhiral: Sir, my question is, again, continuing to the follow-up of the earlier question, so this future expansion of 1,25,000 tons that you are targeting across West, South and East, sir, will this be equal distributed like 40,000 tons on each of the region? Or what are you planning for that sir?

Anubhav Gupta: So I guess -- yes I mean not necessarily right, not necessarily. But yes, I mean, broad-based you could assume that the minimum plant, what we're going to set out will be at least 30,000, 35,000 tons, right, at single location. And we are -- we have already started mapping the markets. In the next 2, 3 weeks, we will have ready plan. What kind of capacity, what kind of line have to come across these 3 geographies.

Dhiral: Okay. And sir, have you decided or have we bought any land for this or we are in very early stage?

Sameer Gupta: We are still evaluating say locations and other things. So we will give more updates on this in our next interaction.

Dhiral: Okay. So INR500 crores includes the land.

Sameer Gupta: INR500 crores includes the land.

Moderator: Our next question is from the line of Sandesh Barmecha from Haitong. Please go ahead.

Anubhav Gupta: Sandesh, sorry, just want to clarify on the previous question that the greenfield capex is INR400 crores. INR100 crores is for the ongoing expansion. So INR400 crores, which we have allocated for 3 greenfield plants that includes land also. Please, Sandesh, sorry, please go ahead.

Sandesh Barmecha: Okay. Sir, we have clocked EBITDA of around 15.7 per kg in Q4 which is one of the best quarters for the industry. And the industry also saw a benefit of PVC resin price during the March quarter. So what makes us so confident that clocking of INR17 to INR18 kg per EBITDA per unit going forward, sir?

Anubhav Gupta: So what we are guiding is INR16 to INR17, right, for the next 2 years, right, as we are going to expand capacities, right, there will be fixed cost, which will be coming up front. We are moving to cash and carry, which may -- which will require some extra discounts right. So we are comfortable with INR16 to INR17 kind of EBITDA spreads. And once the new plant settle in, our market share is higher. Then we will -- then our EBITDA spreads will inch towards INR18, INR19? So right now, our guidance is INR16 to INR17 over the next 2 to 3 years.

Moderator: Our next question is from the line of Jenish Karia from Antique Stockbroking Limited. Please go ahead.

Jenish Karia: So sir, in one of the earlier questions, you answered that you're targeting market share gains from smaller organized players and unorganized players, and capacity that we're adding is more of a CPVC and value-added category. Can you please help us with the understanding that how much of the smaller organized players and unorganized players who have the CPVC and what is the target market size that we're seeing in the value add then?

Anubhav Gupta: No, no, Jenish, there was like a lot of disturbance, could you please speak closer to your mic.

Jenish Karia: Yes. Is this better sir?

Anubhav Gupta: Yes, better.

Jenish Karia: Yes, so I was saying that we are targeting market share gains from smaller organized players and unorganized players. And the capacity we are adding is more towards the value-add and CPVC category where we want to increase our market share. So could you please help us understand how much of this CPVC and value-add capacity will the smaller organized players have that we are targeting?

Anubhav Gupta: Right, no, so Jenish, the value-added products, which are coming right now, they are in Dadri-2. Okay. That is already part of our business plan, which we announced, right, 1.5 years ago. Okay? And why that expansion? Because I had utilized my whole capacity for CPVC, which I had put up in North India, I had already utilized my 100% capacity for bath fittings, which I had put up in North India. Then my HDPE pipe business was growing as the water infrastructure projects keep on coming from the government?

So that's why we put up those brownfield -- those greenfield lines in Dadri-2 near to our existing Dadri-1 plant. Now the greenfield expansion, what we are talking about in North, West, East, right, it's not going to be like 100% value added. It will also be consistent of the normal lines for -- some lines for agri, some lines for regular building material, plumbing pipes. And then there will also be CPVC and HDPE and bath fittings? So it's not that all my 250,000 -- all my 150,000 tons of incremental capacity is coming in, in value-added products.

Jenish Karia: Understood. That's helpful, sir. And sir our freight cost ranges between 2%, 2.5% of the revenues. So with our plants being spread out pan-India, how much of the freight cost savings can we expect? So can we expect it around 1.5% of revenue or something like that? Or will it consistently be 2% and above?

Anubhav Gupta: So see, I mean, right now, it's very limited sales limited products, which I send from my north plant to feed these markets? So that proportion will be very small, right, nothing to make a note of it. But what is important is my incremental sales, right, after these new plants are out. Then it will have regular freight cost, which right now my north market has? So there could be substantial cost savings if I was feeding my south market from my north plant, which is like very, very small today, very small today.

Jenish Karia: Okay. And sir just one last thing, if you can just highlight on the ad spend going forward?

Anubhav Gupta: Ad spends, if you see, there has already been increase of 60%, right, from INR10 crores in FY '22 to INR16 crores in FY '23 in terms of ad spends, right, despite pressure on sales because of market, right, we were aggressive in ad spend. So this came out to be around 1.75% of my total sales. So I think FY '24, our budget factors in around 2% of the top line as my ad spend. So I think going forward, you should factor in like 1.75% to 2.25% as a percentage of top line.

Moderator: Our next question is from the line of Mr. Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Yes, sir, I have a follow-up. These plant they run at their rated 100% capacity?

Anubhav Gupta: No. Say 70%. If you look at industry average, Pritesh, it's around 70%, 75%. So we have also factored in that by putting 286,000 tons, we may get sales volume of not more than like 225,000 tons.

Pritesh Chheda: Okay. So if they operate at 70%, 111 divided by 136. So basically, you're out of your capacity in first half of FY '25 on the current 136? Okay you're adding 136 plus 25, so that takes care of FY '21. Now these greenfields when do they start coming to your P&L? Or when they will -- are they staggered operation where they will start coming?

Anubhav Gupta: So first contribution will be coming within 15 months, Pritesh.

Pritesh Chheda: So it is FY '25?

Anubhav Gupta: Q1 of FY '25.

Pritesh Chheda: 15 months, you've already started constructing or how it is?

Anubhav Gupta: I mean mid Q2 FY '25.

Pritesh Chheda: Okay. And you mentioned that these plants will give some element of fixed cost once they get operational. Will all the plants come at one go for the entire INR400 crores, 125,000 tons?

Anubhav Gupta: No, Pritesh, it won't be like that? So right now, our priority is west. So we have already started mapping the market we have -- right? And our project team is super active now looking for land, etcetera? Then the second priority is South and East. So you could assume that if things go as per the plan, first plant will start in west after 15 months. Then within 20, 24 months the eastern plant will start and then the South plant.

Pritesh Chheda: So it's basically '25, '26 and maybe '27 that the entire capacity will come. And when you're factoring -- have you factored in the INR16, INR17 a kg EBITDA the fixed cost, which would come in once this capacity?

Anubhav Gupta: Yes. So INR16 is what we have factored yes.

Moderator: Next question is from the line of Vignesh Iyer from Sequent Investments. Please go ahead.

Vignesh Iyer: And just on the margin -- I mean, on the guidance front that you have given. Sir if I'm not wrong, you said 35% CAGR growth and you're targeting around 25%. As per your presentation, you are targeting around 25% for FY '24.

Anubhav Gupta: Could you please repeat, sorry?

Vignesh Iyer: Yes, yes. So as per your presentation that you have put up, right, you are targeting around revenue growth of around 25% for FY '24? I mean as a focus area of -- for FY '24. And overall, you are targeting 35% CAGR for next 4 years. So I just want to understand...

Anubhav Gupta: So presentation is like the growth, the long-term sustainable growth. So it's not for 1 specific year. So today on call in opening remarks, which Sameer-ji gave, right, so he's talking about 35% revenue CAGR for the next 4 years. By the time we will utilize this capacity of 286,000 tons.

Vignesh Iyer: Right.

Anubhav Gupta: Right? So you should assume -- so our guidance is 35% revenue CAGR for the next 4 years.

Vignesh Iyer: Okay. And just if I missed, I'm sorry, this -- your expansion in Dadri when it would kick in I mean, any time line for it? I mean the greenfield and the brownfield on Dadri?

Anubhav Gupta: By Q4 of current financial year.

Vignesh Iyer: Okay. Both the capacity will be kicking in by then?

Anubhav Gupta: Yes.

Moderator: Our next question is from the line of Mr. Rahul Agarwal from Incred Capital. Please go ahead.

Rahul Agarwal: Just 1 question on these value-added products. Could we highlight what's the R&D focus of the company? Because my understanding is most value-added products we are talking about are essentially already available from larger national brands. And anyway, they're also improving on that. So how do we excite the market with new offerings exclusive from Apollo? Could you talk just your thoughts on this, please?

Arun Agarwal: So we are setting up our first R&D labs in our Dadri unit, and we have allocated around INR5 crores initially to fund that. So this is the first of its kind that Apollo Pipes is planning, and I think we'll give more updates once we have some concrete shape to it. So in our budget plan, we have allocated INR5 crores to the R&D lab at our Dadri unit.

Rahul Agarwal: Yes, I understand that, sir, but could you talk about just your thing in terms of how do you excite market in terms of what products you would offer? Because my understanding is the growth you're talking about is more volumes. And obviously, that will come more from getting market share from like smaller, regional brands and lesser from national larger brands. And correct me if I'm wrong, so my sense is that obviously, volumes can be pushed by doing more PVC but margins...

Anubhav Gupta: Rahul, I mean, to excite the market, right, I have enough ammunition as of now right. If you look at my CPVC sales contribution, you look at my solvents sals contribution, you look at my water storage tank product contribution. You look at my bath fittings right contribution. The new PPR product which we launched 3 quarters back. So all these 5 products, right, which will be contributing very small versus my larger peers?

So focus is to ramp up these products, right, to the best possible manner over the next 2, 3 years. And these 4, 5 products will give me volume. At the same time, they will give me more profits of like -- like I said, my gross margin, my gross profit per ton will continue to improve. You could very much verify my financials. EBITDA per ton, we are keeping like 16%, 17% range because now we are getting into a hyper-growth phase, right, which will require a lot of capex, fixed costs will come upfront right aggressive sales push?

So at no time, we feel that we don't have like something to excite the market. We have enough inside the market. with these products, my bath fitting, I mean, there is this company in Coimbatore in bath fittings, investors -- it is like a combination of some Sri Lankan company, some Malaysian company and some local family from Coimbatore. And it's up for sale by some private equity funds. People are going like crazy for that? So this product, which I started right, it is giving me 25%, 30% EBITDA spreads, right -- EBITDA margin.

So I think if I am able to ramp up this product, right, to whatever business plan I have made, this could be a new -- different revenue stream for Apollo Pipes for the next 3, 4 years. So nowhere we feel that we don't have enough mission where I have to do some -- to come up with some super R&D product. But like Arun-ji mentioned that we have taken the first step to set up the lab. We are like INR100 crores odd EBITDA company. INR5 crores allocation is also a very big amount for us. But if you look at the total industry, it is not. So we'll take baby steps. And right now, our SKU range matches any other Tier 1, Tier 2 company, you may compare us with 2,000 SKUs, more than 2,000 SKUs, more than 1,500 fitting molds. So we are pretty much in race as per the SKU profile and enough products to excite ourselves and our clients and the end consumer.

Rahul Agarwal: Perfect, sir, I get that. Just to conclude on this, should we see any exclusivity on new product launches from Apollo?

Anubhav Gupta: Not really as of now. Like Arun-ji mentioned, in next 1, 2 quarters, we have more clarity on our R&D efforts where it is taking us. So we may have something out of our hat, but not today.

Moderator: Due to time constraint, that was the last question of the question-and-answer session. I would now like to hand the conference over to the management for closing comments.

Anubhav Gupta: Right. Thank you for hosting us. And thanks to all the investors who dropped by. And if there is any question unanswered, I would request you to reach out to us, and we will be happy to address any question. Thank you so much.

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