

July 28, 2023

**The National Stock Exchange of India Limited**  
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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 July 22, 2023 regarding Earnings Conference Call, which was held on Wednesday, July 26, 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 Wednesday, July 26, 2023.

Submitted for your kind information and necessary records.

Thanking you

Yours Truly  
For **Apollo Pipes Limited**

**(Ankit Sharma)**  
Company Secretary

**Encl.:** A/a

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## APOLLO PIPES LIMITED

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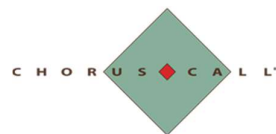
Manufacturing Unit : Dadri (U.P.), Sikandrabad (U.P.), Ahmedabad (Gujarat), Tumkur (Karnataka), Raipur (Chhattisgarh) India

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“Apollo Pipes Limited  
Q1 FY '24 Earnings Conference Call”  
July 26, 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. KARAN BHATELIA – ASIAN MARKETS SECURITIES**



**Moderator:** Ladies and gentlemen, good day, and welcome to Apollo Pipes Limited Q1 FY '24 Earnings Conference Call, hosted by Asian Markets Securities Limited.

This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. Actual results may differ from such expectations, projections, etcetera, whether expressed or implied, participants are requested to exercise cautious while referring to such statements and remarks.

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. Karan Bhatelia from Asian Markets Securities Limited. Thank you, and over to you, sir.

**Karan Bhatelia:** Thanks, Seema. Hi, everyone. Good morning. On behalf of Asian Markets Securities, we thank you for joining us on the Apollo Pipes 1Q FY '24 Conference Call.

In the panel today, we have Mr. Sameer Gupta, Chairman and Managing Director; Arun Agarwal, Joint Managing Director; Ajay Kumar Jain, CFO; and Anubhav Gupta, Chief Strategy Officer, Apollo Group. May I now invite Anubhav to begin the proceedings of the call. Thank you, and over to you.

**Anubhav Gupta:** Thank you, and good morning, everyone, and thank you for joining us on our Q1 FY '24 earnings call to discuss the operating and financial performance.

Q1 started on a solid note for Apollo Pipes with best ever sales volume of 21,000 metric tons. This suggests that we are now hitting 7,000 tons of monthly sales volume quite comfortably. So we are already increasing our sales by 27% versus last year monthly volume run rate. After stability Q4 FY '23 with respect to resin prices, the volatility returned. However, the fluctuation was well under control. However, it impacted our margins a bit with some inventory write-downs. We reported EBITDA margin of 10%, which is slightly lower than our expectations. After from volatility in RN, the margins was also impacted due to aggressive sales strategy we adopted to gain market share and higher ad spends.

Now that we are doubling our capacity to 286,000 metric tons in the next 3 to 4 years, we believe this aggression is much -- very much required. We have appointed Bollywood superstar, Mr. Amitabh Bachchan to endorse our brand. This will help us create massive pull for our products down the channel. Our commitment to achieve 25% plus ROCE remains intact. We introduced cash-and-carry model in north, where we have dominated -- dominant market share to rationalize our working capital. And as a result, our ROCE reached mid-double digit. From here, there is good room to take it to the targeted levels in the next 2 to 3 years.

Now to update everyone on our 2.86 lakh tons of capacity expansion plan. Dadri-2 expansion is on track, which should start production by Q4 FY '24. It will certainly give us some volume this year. Then we are aggressively pushing land acquisitions in Maharashtra, East India and South India. These new greenfield plants shall be of same size as of our flagship plant with investment of INR 135 crores each.

Just to repeat that this capex of INR 500 crores will be funded from equity infusion and our internal cash flows. We plan to remain a debt-free company. We believe this shall provide enough ammunition to our team Apollo to accelerate revenue growth to 35% CAGR for the next 4 years. We are also confident of hitting 25% to 30% of ROCE despite these proposed investments supported by working capital efficiencies.

This is from our side. Now we are glad to take questions. Thank you.

**Moderator:** Thank you very much. We take the first question from the line of Mr. Dhananjai Bagrodia from ASK Investments.

**Dhananjai Bagrodia:** Congratulations on a fantastic, stellar results again. Just wanted to ask you regarding this capex of INR 500 crores, how much would be from internal accruals and how much would be from equity infusion because -- just to understand that breakup?

**Anubhav Gupta:** Right. So earlier in the quarter, we had announced the equity infusion by promoter and some non-promoter investors to the tune of INR 2.6 billion, right? So 25% of that money has already been infused and rest 75% shall come as the company will require funds. And rest INR 2.4 billion will be from internal cash flows, assuming that 70%, 80% of OCF to EBITDA for our company and 3 years of consolidated EBITDA. So we should be able to generate this much of internal cash flows. So it should be like to be precise 55-45 equity infusion to internal cash flows ratio.

**Dhananjai Bagrodia:** Okay. And sir, regarding -- okay, that makes sense. And sir, regarding your volume growth, any idea how much would be like agriculture rate? Are we seeing more from agriculture? Are we more from the Jal Se Nal scheme? Because the numbers we've grown 40% is quite amazing. So any thoughts on that?

**Anubhav Gupta:** So see, I mean, Q1 is always heavy towards agriculture, right? So we got good traction from agri sector, right? And construction material, building material, housing plumbing, normally, they are pretty strong in the Q4. So Q1, ahead of monsoons, construction does slow down, right? So that's the mix always. If we look at our 4, 5 years of history that Q4 is construction material heavy and Q1 is agri heavy. So same trend continues this time around. But the mix would be still like compared to the last year mix, which was like 50-50, plus/minus 2%, 3%, we are pretty much at those levels only.

**Dhananjai Bagrodia:** Okay. And sir, what would be your distribution-led growth this time in terms of the number of distributor increases this year versus last year?

- Anubhav Gupta:** So distributors, I mean, the number which we reported in Q4, right, so today, the number stands similar. There would be some addition. Right now, the focus is to put up the plants, right, identify land parcels and establish the units there. So it's like always 1 to 2 years of the transition time. And at that point of time, during that period, we will be aggressively adding new distributors. So right now, sales team, whatever the sales we are getting, they are from the existing channel. Now the growth what we saw in Q1 of 21,000 ton of sales volume, this was mainly from the existing channels.
- Dhananjai Bagrodia:** Okay. And sir, last question. Just our realization decreased only 19% year-on-year, while PVC prices decreased 36% year-on-year. Any things on how we managed to keep so much with us? Have we done anything different...
- Anubhav Gupta:** That's the function of 2 things. One, if you look at the uPVC sales, right? So uPVC sales contribute 50% of our volume, rest 50% comes from cPVC, HDPE, right? So where the volatility in the raw material is not that much as we see in uPVC. And second, our sales mix is continuously improving towards value-added products, right? So that protects us from the exact reduction or increase in the uPVC prices in our NSR.
- Moderator:** We'll take the next question from the line of Mr. Bhargav Buddhadev from Kotak Mutual Funds.
- Bhargav Buddhadev:** I have a couple of questions. Starting with channel financing. So you mentioned in your opening remarks, you've introduced this in North India. Just to understand what is the coverage ratio, how many distributors would have been covered under the scheme?
- Anubhav Gupta:** Bhargav, can you repeat the second sentence, please?
- Bhargav Buddhadev:** So how many distributors have already accepted this channel financing in terms of percentage in North India?
- Anubhav Gupta:** So in north, Bhargav, if you see we have reached out to each and every one of them, right? And most of them have started coming under the program. But yes, a few of them will be like doing a lot of -- some of them will be doing less today. But at least from our side, we have reached out to everyone in North India.
- Bhargav Buddhadev:** And in terms of percentage target of covering distributors, is there any number which you're looking at because that will also lead to a reduction in your receivable days as well?
- Anubhav Gupta:** That's already happening, right? We are following the model which our other group company did in 2020, right? So we are following the same model, right? And the results are also visible like how our other company got the results in 2020. So idea is to reach out to everyone, right? I mean, ultimately, we are not forcing any one, right? We are just giving them the option, right, to pay upfront or to pay in like 20, 30 days of normal Indian business trade practice. So the cash discounts, what we are offering, right, it should make sense to them, right? No one will go to channel financing or cash-and-carry model just for the sake of it, right? Our client has to make superior ROCE. That's what we are offering to him.

**Bhargav Buddhadev:** Okay. Secondly, if I look at Slide number 24, where you have broken up the capex for the upcoming units and for the existing capex at Dadri and Tumkur. So if we sort of do a per ton capex, the capex at Dadri and Tumkur looks a tad bit higher on a per ton basis versus upcoming plants. So is it because that these units have value-added components and upcoming units might not have value added components?

**Anubhav Gupta:** So obviously, see, I mean the upcoming greenfield units, right, in North West and East, they will mirror our Dadri-1 plant, okay? Whereas Dadri-2 plant is all value added. It will have 0 commoditized product line, right? So Dadri-2, where we are going to produce cPVC, HDPE and bath fittings, right, here, the NSR is like 2x of what we get in uPVC, right? So capex has to be higher similarly. Whereas the other greenfield plants will be mirroring our Dadri-1 plant, where the mix will be 50% -- 30%, 40% commodity and 60%, 70% value added. Dadri-2 is 100% value added.

**Moderator:** We'll take the next question from the line of Mr. Dhruv Bhatia from Bank of India Investment Manager.

**Dhruv Bhatia:** Just one question, firstly, on your gross profit per ton. I mean if I look at it on a sequential basis, we see a dip in your profitability. So I'm just trying to understand that is this a function of the aggression that you've shown because you've talked about more about branding spends has been more, but where is this fall in profitability come from?

**Anubhav Gupta:** So see, I mean, there are 4, 5 reasons that why our gross profit per ton is lower, right, on a Q-o-Q basis. So one is, yes, like, right now, we are on an aggressive sales strategy, where we are looking to gain market share, right, from the weaker players, from the unorganized players because we see a massive transition, which is taking place, where the industry is shifting from unorganized to organized sector. And we are trying to take bulk of that share, right? So yes, we are pretty aggressive. We have given go-ahead to our sales teams that please go and try to get as much wallet share as you can get from the distributors, right?

So this is sales strategy is one where we have to offer some extra sweetness to our clients, right, to get sales. Second, the PVC prices were still down by INR 8 to INR 10 a kilo from 1st April 2023 to 30th June 2023. So there is some marginal write-down also, right?

Then third, non-uPVC raw material, like HDPE and cPVC were also falling, right? So there is like some sense of destocking the channel. So you have to, again, be aggressive towards push sales for those product categories.

Third reason would be like additional cash discount, what we are offering to our distributors to make them shift to cash and carry, right? And I mean all these reasons when you see, right, so yes, EBITDA per ton, EBITDA percentage, gross profit per ton will look lower. But as a result, the ROCE is not going down because the extra cash discounts what we are offering, they are helping us reduce our working capital days quite efficiently. So our target is 25% volume growth and 25% ROCE, right?

So we'll try to shift mix strategies like quarter-on-quarter how the market is performing. So for example, now in Q2, there is no destocking, in Q3, there is no destocking, right? The market pull is strong. Then we will pull out the discounts, right? That INR 1, INR 2 per kilo, the extra discount which we give that will stop offering, right? So I think the main target, the laser-sharp focus is for 25% volume growth and 25% ROCE. And the things which come in between are a function of how the market behaves on a monthly basis and quarterly basis.

**Dhruv Bhatia:** Okay. And is it possible just a follow up there is that, is it possible to share what the working capital days receivable and inventory would be at the end of Q1? Has that implied...

**Anubhav Gupta:** Right. So what I can tell you is there is a reduction of 7 to 8 days from Q4 versus Q1.

**Dhruv Bhatia:** This is net working capital you're talking about?

**Anubhav Gupta:** Yes, yes, yes.

**Dhruv Bhatia:** Okay. And lastly, as you mentioned, the 25% volume growth target with 25% ROCE, if I look at Slide number 32, you're still talking about 25% revenue growth target. So -- and because I think last call, you were talking about 35% revenue growth target with 25%, 30% volume growth and the remaining coming from price increase. So is there any change to that? Or this...

**Anubhav Gupta:** So no change, no change, no change. So what we mean is the 25% volume growth and 5% to 10% realization gain, right, from the value addition. Now if PVC prices fall to INR 60 a kilo from current INR 82 a kilo, right, that we don't take into consideration, right? So when we say 30%, 35% revenue growth, that's the mix of volume growth and the NSR improvement on account of my sales mix improvement. But the drop in or the increasing PVC prices, that will be -- that is not part of our business plan, right? There is no way that we can predict. So whenever we make business plan for the next 2, 3 years, we have taken a base PVC prices of INR 85 a kilo.

**Dhruv Bhatia:** And lastly, have you finalized the locations for the 3 new plants which were planned? So is there any conclusion to the locations at?

**Anubhav Gupta:** So 1 thing we are clear for West India is that it's going to be Maharashtra, right, so -- and maybe like Silvassa, which is like at border of Maharashtra and Gujarat. But yes, we are pretty much focused in that build, which is Maharashtra, to cater to the West India. In south, we are contemplating between Bangalore, Hosur and Hyderabad, right? So we have on-ground team, which is doing all the market research and maybe in next 1, 1.5 months, we'll have a very clear answer to where we all want to put up our plant.

And in East India, again, Bengal, Assam, Orissa and maybe Eastern UP, right? So we are considering these 3, 4 locations. Again, we have a ground team, which is working here to do some research. So maybe in next quarter call we'll have a very clear picture in our hands that where all we are going to be acquiring the land. And maybe if everything goes well, probably, we may have acquired 1 or 2 land parcels also by the time we do the next earnings call.

- Moderator:** We take the next question from the line of Mr. Praveen Sahay from Prabhudas Lilladher India.
- Praveen Sahay:** So just a continuation to the last participant question on the expansion. So is there any finalization of the -- how much of the capacity you are going to put it in these locations because the total you had given 1.25 lakhs, so how that's segregation in the geographical way?
- Anubhav Gupta:** Yes. So see, I mean, if you see that, right now, the capacity is 136,000 tons, right, and 25,000 tons is brownfield and plus one small greenfield we are doing near the existing plants, right? So other than that, it's going to be 125,000 tons greenfield West, Southeast, right? So you divide it by 3, right, that will be the ratio plus/minus 5%, 10%. That's the plan.
- Praveen Sahay:** Okay. So equally, you were expecting in the...
- Anubhav Gupta:** Equally. I mean don't hold us for 5%, 10% variation, but yes, it should be in the same proportion.
- Praveen Sahay:** Sure. second question on the -- as you had a mention that Mr. Amitabh Bachchan you had hired. So is that their cost has included in the Q1 number? Or...
- Anubhav Gupta:** Not yet, not yet, not yet. We have just signed the agreement, right? So all those things will be factored in Q2 and Q3.
- Praveen Sahay:** So in the first quarter, I can see your other expenses actually has increased as a percent of sales even after increasing the gross margin. So is there any one-off element to that, or...
- Anubhav Gupta:** So there are 2 factors. One is ad spends that we knew that we are on -- we were on the verge of signing celebrity for our brand, right? So we did increase some below-the-line activity, right? So some increase in expense there. And secondly, the increments got factored in the salary in the Q1.
- Praveen Sahay:** Okay. And on the -- as you had already explained even for the EBITDA per kg, can you give some colour like the way forward where we can see these numbers to settle down?
- Anubhav Gupta:** See, I mean, I would say that our first target is volume growth, right, and to maintain the ROCE, right? So these are the 2 critical factors. Now EBITDA per kg, whether it is INR 13, INR 15, right, it will depend on how the market moves, right? What's the competitive intensity, right? We are going to put up new plants, some fixed cost will be incurred upfront, right? So what I can tell you is that one should factor in like anything between INR 13 to INR 14 a kilo, right, for this year. And as the value addition will come in from the Dadri-2 plant, right, so that will lift overall EBITDA per kg in FY '25 significantly, right?
- So what we are saying is that just give us 1, 2 quarters because we are on a very high volume growth trajectory, right? Last year also, volumes were pretty strong. Quarter 1, we have started on a very strong note. So we just want to give free hand to our sales team to capture market share as we see good opportunity from shift from unorganized to organized. And even some of the larger -- weaker organized players are also vacating market space, right?



So I guess, we want to be a bit more aggressive than we have been in the last 2, 3 years, although the volume growth has been fastest in the industry, but we just want to outperform the industry by a bit higher margin over the next 2, 3 quarters because we are coming up with a massive capacity, right? So we need to be ready with our sales channel and our penetration in the market so that the volumes will be lifted immediately as the capacity ramps up, right?

And margins, INR 1, INR 2 a kilo, we are not too much bothered, right? We have seen that when we were at a scale of INR 250 crores, the margin we were making when we reached at a scale of INR 500 crores. We knew -- we saw margin improvement now at INR 1,000 crores, we saw the margin improvement. Once we reach INR 1,800 crores, INR 2,000 crore, margin will come automatically. And after that, we reach INR 3,000 crores, again, that margin will come automatically, right? So right now, the focus is revenue ramp-up, capacity buildup, right? Margins will come. 1, 2 quarters here and there, we are not too much bother. Our main business plan remains intact higher volume growth, higher ROCE.

**Praveen Sahay:** Right. Great, sir. That's quite helpful. For this quarter, our agri contribution has been the larger side, like 50-50, you mentioned that. But for this quarter, it's on the higher side? Is it right?

**Anubhav Gupta:** Yes. So like I said, variation will be like 4%, 5%, right? So we can say 55 agri, 45 construction.

**Praveen Sahay:** Okay. And lastly, sir, can you give the capex guidance for '24 and '25.

**Anubhav Gupta:** Right. So Q1 -- see, I mean if I sign up all the 3 land parcels, right, I could be end up spending -- I could end up spending like INR 200 crores, INR 250 crores in FY '24, right? If land parcels don't come, right, then capex will be like INR 150 crores, right? So we are prepared, right? The minimum capex will be, say, INR150 crores and maximum it can go up to INR300 crores. We have funds in our books, right? We are ready to do from INR150 crores to INR300 crores.

**Moderator:** We take the next question from the line of Mr. Udit Gajiwala from Yes Securities.

**Udit Gajiwala:** Yes. Congratulations, sir, for a great set of numbers. Just one follow-up from the previous one. So once you start the work at -- or once you finalize the land parcel, in how many months should we expect the plant to be ready?

**Anubhav Gupta:** Yes. So after the land is acquired, some regulatory approvals, etcetera, which is time consuming, right? So assuming that land finalization, 2, 3 months in approvals and then 9 to 12 months after that, right, to bring the plant and machinery and start the production. So I guess, I mean, if we are lucky, it could be 10 to 12 months. If we look at normal Indian standard, it would be 15 months.

We did convert Raipur plant under 12 months, right? And that was including COVID times. So our team has the execution capability to turn around from land to a full-fledged plant in 12 months, but then there are some factors which are beyond our control. So one should assume 12 to 15 months.

**Udit Gajiwala:** And lastly, sir, on Dadri-1 and Dadri-2, so from when will that be operational?

- Anubhav Gupta:** Dadri-2, I mean, the target is to start the production in Q4 this fiscal year. Now we are pretty much on track.
- Udit Gajiwala:** Okay. Got it. And Dadri-1 has already started? Is it the brownfield?
- Anubhav Gupta:** Sorry?
- Udit Gajiwala:** The brownfield Dadri plant has already started?
- Anubhav Gupta:** Yes. I mean, that's a continuous process of like adding machinery, improving the processes. So yes, I mean, that's ongoing.
- Moderator:** We take the next question from the line of Mr. Rajesh Ravi from HDFC Securities.
- Rajesh Ravi:** My first question pertains to the capex. This Dadri greenfield plus Dadri and Tumkur brownfield, you have mentioned INR100 crores. So all of this will be incurred in this financial year? Or we have already incurred partly in the preceding year?
- Anubhav Gupta:** So Dadri-1, Dadri-2, all of this is likely to get spent in the current financial year.
- Rajesh Ravi:** Okay. And Tumkur, what is the capacity expansion which is happening?
- Anubhav Gupta:** Tumkur, as of now, the capacity expansion that we are planning is around, say, in the existing facility, around 25% to the existing space that we have actually. From that, obviously, we are looking for new land parcels.
- Rajesh Ravi:** Okay. So this 25,000 includes 7,000 for Tumkur?
- Anubhav Gupta:** That's right.
- Rajesh Ravi:** Okay. And second, I see you have plants in Ahmedabad and Raipur. So these expansions, which you are looking at, close to 40,000 each, you are not doing it at these locations. Any specific reasons?
- Anubhav Gupta:** So see, I mean, the purpose of going for larger greenfield plants is that these plants, Ahmedabad and Raipur, we put up when we were at a scale of INR400 crores, INR500 crores, right? So those plants, land acquisition, the plant scalability was done, keeping in mind the scale of INR300 crores, INR400 crores, and we wanted to achieve top line of INR1,000 crores. Then we aspired to go to INR3,000 crores top line, right? So we needed much more space, much more proximity to our clients, right? So that's why the West India plant will not be near the existing plant in Ahmedabad. And similarly, the East India plant, right, will not be near the existing Raipur plant.
- Rajesh Ravi:** Okay. And you mentioned that you will be doing land acquisition. So if all acquisitions are completed this year, your total capital capex would be INR250 crores. So broadly out of this INR400 crores, is it that INR150 crores will go towards land and the remaining towards machinery and erection work?
- Anubhav Gupta:** Yes. So broad-based, this is the maths.

- Rajesh Ravi:** Okay. And you mentioned in your notes that this is -- you'll be doing all this capex in 3 to 4 years. So will that be coming in phases?
- Anubhav Gupta:** So it all depends actually because acquisition of land is a time consuming and then taking approvals. So if at all, things move faster, then some capex can move from, say -- can be preponed. So what we're trying to say is that we are ready, right, with the funds, okay? It is just that we need to identify the land acquisition takes place, then all the approvals, right?
- Market creation activity is already starting, right? Our sales teams have started meeting new distributors, right, talking and telling them about Apollo, Amitabh Bachchan, etcetera, etcetera, right? So all those parallel activities have started. Now whether this INR300 crores, INR400 crores happens in 1 year, 2 years, 3 years, right, we are prepared for any kind of scenario.
- Rajesh Ravi:** Okay. So even if the land acquisition, you complete all 3 of them this financial year itself, you will still be setting up one factory at a time or also you will go in parallel? Because your setup time is hardly 15 months, right, once the land is in place?
- Anubhav Gupta:** So I mean actually -- so again, like there are 2 factors to it, right, assuming that a single land parcel will be say 30, 40 acres at each of the locations, right? And acquisition, like we get 1 land parcel in 1 shot or we take it after like acquiring the first parcel. So there are a lot of factors, right? So that's why we say that in 3 to 4 years, we'll be ready with like 100% capacity, right? But yes, I mean, if we are working on all the locations parallelly, right, then the idea is to acquire land and start some production, right, in next 2, 3 years? And by the time we enter FY '27, FY '28, we will be ready with like this 286,000 ton capacity up and running.
- Rajesh Ravi:** So like this year and next year, INR150-odd crore annual capex could be a normalized run rate?
- Anubhav Gupta:** Yes.
- Rajesh Ravi:** Okay. And sir, this recent fund -- the warrants which you issued and promoters and non-promoter entities subscribe to, if -- I may have missed them earlier, but are they -- the non-promoters, are they related to the promoter family?
- Anubhav Gupta:** Some of them are employees also, right? So all of them are not related to promoters.
- Rajesh Ravi:** Okay. Okay. But either employees or promoters?
- Anubhav Gupta:** And some non-promoters also, right, and some non-promoters also. But yes, there are known entity, right? I mean they are known investors. There's no blood relation, yes.
- Rajesh Ravi:** Correct. Okay. Okay. No direct blood relations, but promoters and employees. Okay. And yes, you mentioned this. And so this 25% ROCE, which you are targeting, what sort of EBITDA per kg number to give you those numbers pre-tax ROCE 25%?
- Anubhav Gupta:** So our business model suggests that at INR15, INR16 a kilo, we can hit this ROCE.

- Rajesh Ravi:** On total, which is you're seeing on your current capacity and ongoing expansions, if you do INR15 per kg, we can be delivering. And in that, the assumption is what, 25% volume CAGR?
- Anubhav Gupta:** That is right.
- Moderator:** We take the next question from the line of Mr. Bhavin Rupani from Investec.
- Bhavin Rupani:** Congratulations on good set of numbers, sir. Sir, we have bought that as far as market checks, the Supreme has won INR800 crores of orders from government recently. Have we participated in the order, sir?
- Anubhav Gupta:** So nothing like specific. We don't bid for government orders anyways, right? It's either through our distributors. So they bid on our behalf, right? I mean no such activity we saw in Q1.
- Bhavin Rupani:** Okay. And sir, what is the proportion of HDPE pipes and cPVC pipes in the overall volume mix?
- Anubhav Gupta:** So see, HDPE pipe normally has been like 10% to 15%, right? That's the mix, which has been coming, right, quarter-on-quarter. This Q1 was a bit heavy towards agri. So yes, HDPE would be slightly higher. And cPVC is anywhere around like 14% to 16% kind of number. And now the sales mix will improve towards cPVC after our Dadri-2 plant starts, right? So yes, that's the thing.
- Bhavin Rupani:** Sir, can we say that overall sequentially Q-on-Q, our HDPE volumes have declined by 15%, 20%? Is it fair to say?
- Anubhav Gupta:** How do you imply so?
- Bhavin Rupani:** Sorry, sir. Okay. Okay. That was a mistake, sir. My calculation mistake. And sir, you say that your working capital days have declined by 7 to 8 days. How much of it is due to channel financing?
- Anubhav Gupta:** So there has been rationalization in inventory and debtor days, both.
- Bhavin Rupani:** Okay that's helpful, sir.
- Anubhav Gupta:** So you can 50-50.
- Moderator:** We take the next question from the line of Mr. Miraj from Arihant Capital.
- Miraj:** Sir, most of my questions are answered. I just have one question. I wanted to know if -- the reason for the decrease in promoter holding in the current quarter, it has come down by 1%, 1.5%. I wanted to know if there was any particular reason for that?
- Anubhav Gupta:** So there is no change, except that the Non-Executive Chairman, Sanjay Gupta, right, he had transferred some shares to his daughter-in-law, right? So that's the transfer of shares, not the sale of shares.

- Moderator:** We take the next question from the line of Mr. Keshav Lahoti from HDFC Securities.
- Keshav Lahoti:** What we see there is a change in commentary about EBITDA per kg. Last year, our normalized EBITDA per kg was 16.5. And last quarter, you expected the trend to continue, but this time, you have reduced the number to 13 to 14. So what has changed? Is there a change in any marketing strategy or something? Are you planning for higher ad spends?
- Anubhav Gupta:** Yes. So three changes, Keshav, right? So change, one, is more aggression, right? I'm sure you would have surprised looking at our Q1 volume growth, right? So aggressive sales strategy, yes. Second, we were not sure if like cash-and-carry transition will be so successful, which we saw, right?
- So extra discount for the distributors, and we are glad that this is working as it worked for Apollo Tubes 3 years ago. And yes, extra ad spends also, okay, because now that we have got a Bollywood celebrity appointed, right? So we have to spend extra than like what we were doing in the last 2, 3 years.
- Keshav Lahoti:** Understood, understood. As you highlighted, Mr. Sanjay has transferred his share, so now that is classified outside promoter. So what we see Apollo promoter shareholding is 51%, which will slightly get diluted post the warrants. So outside promoter, what sort of voting power you control?
- Anubhav Gupta:** So it is same, like what you see, it is same. I mean, it is equal in like how the equity shares you see on exchange, it is in same proportion.
- Keshav Lahoti:** Okay. Understood. One last question from my side. As you highlighted unorganized -- organized market is gaining share from unorganized, will you have any sense on what have been the industry growth for quarter 1 and how the industry growth looks for FY '24?
- Anubhav Gupta:** Yes. I guess there is good volume traction, right? We don't have the authenticated numbers in terms of the value of the industry. But in terms of volume, what we see, what you observed, what we feel is that there is a strong traction, right? Q4 was pretty much construction heavy. Q1 has been agri heavy. Now after monsoons later part of Q2 and early Q3, we'll see, again, traction in consumption coming back, right?
- So whatever secondary sales we track for our channel partners, whatever inquiries we are getting from real estate or government infrastructure projects, right? So that does suggest that the industry growth rate should be like early double digit, right, in terms of volume, right? We don't know how the value is panning out, but in volume, definitely we see like 10% to 12% kind of growth.
- Keshav Lahoti:** Okay. Just one follow-up on this. As you highlighted, Q1 was more of agri heavy, so your agri portion have increased Q-on-Q. But while we see in the case of Finolex, they highlighted their Q-on-Q agri mix is sequentially same. So have they sold less in agri? Or have you focused more on agri this time? How should we read this?

**Anubhav Gupta:**

No, I guess, see, for us, the other reason that why agri is high for us in Q1 specifically is because in cPVC, there has been a drop, right, in prices. So there was some destocking in cPVC, right? Otherwise, there could have been a higher volume coming from cPVC now that we are recovering that in Q2.

Otherwise, I don't see any reason that why agri should be heavy, except that it's a season, right? So some sales improvement in agri takes place anyways, right? So nothing unusual we saw in Q1. It's a typical scenario for us. If you track us for the last 3, 4 years, you will see the same Q1, same Q4 trends.

**Moderator:**

We take the next question from the line of Mr. Rahul Agarwal from InCred Capital.

**Rahul Agarwal:**

Just two questions. Firstly, on the value-added products. Just wanted to understand which products are we talking about, like, except cPVC, I'm talking about, are you doing anything on tanks, valves, stuff like that? And secondly, related question was how much it is today? And what's our target, right? So we discussed a lot of value addition happening on newer plants. Is there a view that, 3 to 5 years out, these value-added products in terms of their market size, which is available. And Apollo Pipes target market share, any thoughts like that in terms of -- so just 2 questions, products? And what's the target market here?

**Anubhav Gupta:**

So Rahul, when we talk about value add, okay? So number one is the fittings, right, which complement our uPVC pipes, right? Number two is cPVC pipes and fittings. #3 is bath fittings, okay? Bath fittings, which we are producing and replacing, conventional metal fitting products or ceramic, right? Number four is HDPE, which is high end in agri, right?

Normally, agri pipes are low end, but you get better margin in HDPE pipes within the agri sector. And then fifth product is water storage tanks, right? And sixth product is recently launched PPR pipes, which are like more premium than cPVC pipe. And last product will be solvents, right? So these are the -- this is the basket for our value-added products.

**Rahul Agarwal:**

Revenue share right now and going forward?

**Anubhav Gupta:**

Right. So right now, the mix for these products is around 50%. With the capacity we are putting up in Dadri-2 and brownfield in Dadri and Tumkur, right, the mix will go to 70%, right? And all the new greenfield plants, what we are putting up, right, in East, West and South, they will also like be like 60%, 65% value-added versus general products, right? So the idea is to take the group sales mix towards value-add above 65%, 70%.

**Rahul Agarwal:**

And in terms of -- so my understanding is that these products individually have limited applications that have limited market size, all put together, assuming that we do 65%, 70% of top line from value addition. And we're talking about some INR1,500 crores of sales. So we're talking about INR1,000 crores in total for everything put together 3 years out? Is that a fair assumption?

**Anubhav Gupta:**

Right. So at INR3,000, 30% -- like our target is INR3,000 crores top line, right? And if 60% has to come from this. So we're talking about INR1,800 crores.

- Rahul Agarwal:** Okay. Get it. And lastly, when we are selling pipes today and made these cPVC or uPVC and Northern India looks like a dominant market for you, is there a price difference for the end customer on versus Supreme or Astral?
- Anubhav Gupta:** Not in North India.
- Moderator:** The next question is from the line of Mr. Aasim from DAM Capital.
- Aasim:** So I wanted to understand this aggressive discounting strategy. So I heard your comments earlier, but still two parts to this question. One, how long do you anticipate the strategy needs to be done given that we'll be doubling capacity over the next 4 years? And second, is there plenty of weak or unorganized market to capture market share this way? Or should we anticipate the existing larger players to also get price competitive?
- Anubhav Gupta:** So coming to the first question, see, I mean, this strategy, we believe we have to follow it for like 2, 3 quarters, okay? Margins, we believe, will come from the scale, like I described earlier that at INR250 crores when you were having turnover, it reached INR500 crores. We got margin gains. System gives you margin, right? When you double your scale, then from INR500 crores to INR1,000 crores, we saw that the margins coming in, right?
- So until we hit INR1,500 crores, right, we need to adopt this strategy. But at INR1,500 crores, we'll see that margins from the existing infrastructure will start flowing, right? So I guess it's a matter of INR400 crores, INR500 crores of incremental top line, which could be like -- I'm talking about the run rate, right. So which could be which could be like a 2, 3 quarter strategy. After that, I don't think we may have to be as aggressive as we are, right, in terms of the strategy, sales strategy.
- And what was the second part, Aasim?
- Aasim:** The other part was basically what do the other larger players respond to this? I mean they would also be wanting to capture market share on the weaker guys.
- Anubhav Gupta:** We are -- right. So I mean, assuming that 40% is unorganized, right, in our industry size of INR35,000 crores, right? So if it is like INR12,000 crores, INR15,000 crores of industry, right, which is transforming into or transitioning into organized at a faster pace than before, right? So we are getting like what, INR100 crores, INR200 crores, right, out of that incremental.
- So I think it is a big enough market for everyone, for each of the larger players who are like top 5 ahead of us, right? So everyone is gaining market share. They would be gaining market share, right? It's a question of internal strategy, right, how much you want to be aggressive, some players may go for margins, right? So they will not be as aggressive as someone else who is not looking for margin too much, giving value to margin too much, right? So market is big enough to grow sales aggressively. Now it's -- your strategy, my strategy will be different to capture that growth.

- Aasim:** And in your sense, would -- I mean, the industry as a whole, organized plus unorganized put together, is volume growth still a double-digit number, like, say, early to mid-teens number?
- Anubhav Gupta:** Yes, it is. So that's what I -- I did say during this call that 10% to 12% is volume growth we believe the industry is growing at.
- Aasim:** Okay. Okay. And just finally, on the cash-and-carry experiment. So are you just providing the cash discount? Or have you also tied up with financing company?
- Anubhav Gupta:** It's more to do with cash discount, right? And we do have banks and non-bank companies, right, who are helping us build the infrastructure.
- Aasim:** Including the SG Finserv group companies?
- Anubhav Gupta:** Yes, like any other NBFC company, yes. Moderator, can we have the last question, please?
- Moderator:** We'll take the next question from the line of Mr. Praveen Sahay from Prabhudas Lilladher.
- Praveen Sahay:** Two questions I have. One, as you had mentioned that the cPVC prices corrected in the Q1. Can you quantify that?
- Anubhav Gupta:** Sorry, can you please repeat, sorry?
- Praveen Sahay:** So as you had mentioned in the call that the cPVC price is corrected, and that's lead to destocking. So how much correction you had seen in the first quarter?
- Anubhav Gupta:** It was around like INR25 a kilo.
- Praveen Sahay:** Okay. Okay. And the next question is related to your distribution part right now around 200 plus of distributors, and you are aggressively building your capacity. So what's the strategy there to expand your market. So this distributor numbers, how much to grow and where to grow?
- Anubhav Gupta:** So see, I mean, we have already tested these markets, right? Last 3, 4 years, we've been present in south, we're present in west, we're presenting east almost 300 crores, INR400 crores of top line is coming from there, right? So we have tested the markets, right? We have a distribution network. Now based on the success of these plants, right, the scalability, now we are confident that now the time has come that this INR300 crore has to become INR1,500 crores, right, in the next 3 years. For that, we are building up capacity, new capacities.
- So distribution strategy is that we stick with the existing network, right? We penetrate deeper into that network. We help them reach out more outlets, more retail outlets through our existing distributors, right? And wherever required, we see there is a scope of adding new distributors. So we are all in, right, as the brand is gaining strength day by day at a parent level, at the company level. So by the time, capacity is hit, we don't see a major concern that the new distribution network will be difficult to create.
- Yes, we still have time. Maybe we can address one more question if anyone has.



- Moderator:** Sure sir. We take the next question from the line of Mr. Rajesh Ravi from HDFC Securities.
- Rajesh Ravi:** I was just trying to work out your ROCE because even if you factored in 25% volume growth and given that you would be incurring INR500 crores capex over next 3 years and factoring in that INR15, INR16 EBITDA per kg also, we hardly move closer to 20% ROCE. So what could we be missing in terms of your balance sheet numbers and all? Even we have factored in this equity infusion through warrant conversion for next 2 years.
- Anubhav Gupta:** Right. So let's assume that we are at a 286,000 ton capacity, right? At 75%, the volume will be around 215,000 tons, right? 215,000 ton into INR130 a kilo, let's take this number, INR130 a kilo at today, although my valuation will give me extra NSR, but let's assume our current number. So I should be doing INR2,800 crores of top line with a volume of 215,000 tons. Now 215,000 tons into, say, INR15, I'm doing INR325 crores EBITDA.
- My capital employed will be total capacity of -- like total gross block in my books will be INR800 crores, right? And with 30 days of working capital cycle, right, on a top line of INR2,800 crores, so the number will be INR230 crores of working capital. So my total capital employed will be INR1,025 crores and EBITDA of INR325 crores. So that's the number you deduct depreciation of INR30 crores, INR40 crores, right? So EBIT comes more than 25%, the ROCE.
- Rajesh Ravi:** Okay. So which year you are targeting this top line, sir, INR2,800 crore?
- Anubhav Gupta:** So when we hit 75% utilization rate of capacity, we see that 3 to 4 years from today.
- Rajesh Ravi:** 4 years from today. Okay. Great, sir. That was all from my -- and sorry, lastly, if you could give inventory write-down, which happened in Q1?
- Anubhav Gupta:** So I mean, very marginal. I mean, for the sake of it, you can assume like 1%, there'll be like one point -- 1,200 per kg.
- Rajesh Ravi:** 1% of revenue?
- Anubhav Gupta:** Yes, right.
- Rajesh Ravi:** Around 26 -- INR2.6 crore. Great, sir.
- Moderator:** Ladies and gentlemen, that was the last question for the day. I would now like to hand the conference over to Mr. Karan Bhatelia from Asian Markets Securities for closing comments.
- Karan Bhatelia:** Sir, just one question from my part will be doubling our capacity. So any changes in the raw material sourcing? Or are we still import driven?
- Anubhav Gupta:** No, we had -- like in our last conference call, we have already communicated that we are changing the sourcing from imports to mainly towards the domestic one. So 10% to 15% shift will be there towards the domestic one from the imports.
- Karan Bhatelia:** Okay. So more of 60, 40 kind of ratio?



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**Anubhav Gupta:**

Something like that, yes.

**Karan Bhatelia:**

Yes. Great, great, great. Sir, any closing remarks you want to make?

**Anubhav Gupta:**

Thank you, Karan and AMSEC Securities for hosting us for Q1 earnings call, and thanks to all the participants for dropping by. Hope to see you in the second quarter with more clarity on our capex program and much more news to share. Thank you so much.

**Moderator:**

Thank you. On behalf of Asian Markets Securities Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.