January 30, 2025

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

NSE Symbol: APOLLOPIPE

Department of Corporate Services/Listing
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai – 400 001

SCRIP Code: 531761

Dear Sir/Madam,

Sub: Intimation under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI Regulations") – Earnings Call Transcript

With reference to our letter dated January 21, 2025 regarding Earnings Conference Call, which was held on Tuesday, January 28, 2025 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, January 28, 2025.

Submitted for your kind information and necessary records.

Yours Truly
For Apollo Pipes Limited

AJAY KUMAR JAIN
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Date: 2025.01.30 15:16:12 +05'30'

Ajay Kumar Jain
Chief Financial Officer

"Apollo Pipes Limited

Q3 FY'25 Earnings Conference Call"

January 28, 2025

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

MODERATOR: **MR. HARSH PATHAK – EMKAY GLOBAL FINANCIAL SERVICES**

Moderator: Ladies and gentlemen, good day and welcome to Apollo Pipes Conference Call hosted by Emkay Global Financial Services. 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 this conference call is being recorded.

I now hand the conference over to Mr. Harsh Pathak, Emkay Global Financial Services. Thank you and over to you.

Harsh Pathak: Thank you, Yashashri and good morning everyone. I would like to welcome the management and thank them for this opportunity. We have with us today Mr. Sameer Gupta, Chairman and Managing Director, Mr. Arun Agarwal, Joint Managing Director, Mr. Ajay Kumar Jain, Chief Financial Officer and Mr. Anubhav Gupta, Group Chief Strategy Officer. I shall now hand over the call to the management for the opening remarks. Over to you gentlemen.

Sameer Gupta: Thank you. Good morning everyone. This is Sameer Gupta, CMD Apollo Pipes here. I along with my colleagues, Arun Agarwal (JMD), AK Jain (CFO) and Anubhav Gupta (Group CSO). Welcome everyone to the Apollo Pipes Q3 FY25 Earnings Call. It's been an interesting quarter as the macro factors related to infra and retail demand remained weak. However, Apollo Pipes has given its best ever quarterly performance in terms of sales volume of 27,000 metric tons registering strong growth of 43% Y-o-Y and 34% Q-o-Q.

The reason for this performance was our aggressive sales strategy which worked pan India and we could improve our market share after a gap of few quarters. We continue to focus on sales push and increase our capacities across new geographies and new product categories. Please note that we are yet to receive contributions from three revenue drivers, PVCO pipe segment, window profile product segment and Varanasi plant. This will drive our volumes higher in Q4 and FY26.

In last seven quarters, we have incurred capex of Rs. 430 crores including Kisan investment and yet we remain debt free. We have a plan to invest further Rs. 400 crores over the next 3 years to finish ongoing projects and set up a Greenfield South India plant which shall take up our total capacity to 3.6 lakhs tons. And to fund this investment, we got commitment from an Oman based fund Kitara Capital which is investing INR110 crores at almost 30% premium to today's market price. This demonstrates the faith and conviction in our business model from their side. I want to reiterate that here Apollo Pipes will always remain debt free which help us to ride any slowdown smoothly.

In Q3, our profitability got negatively impacted due to decline in EBITDA margin mainly due to Kisan consolidation. At APL Apollo level, margins remain stable around 9%. Higher depreciation cost further pressurizes our net margins. However, we are not much concerned over this as we are of a very strong view that once we ramp up our capacities, the margin shall reach low teens on a back of better product mix and operating leverage gains. The current focus is to gain market share aggressively.

We expect good demand from Agri and housing segments for the last quarter. The entire channel has de-stocked seeing the continuous fall in PVC prices. As the prices have reached low level, we expect demand recovery in Q4. Anyways, Q4 is always a seasonally strong quarter being the last quarter for completing infrastructure projects. Some green shoots are visible in terms of pickup in construction activity. We expect government trust on water infrastructure and housing to return after some important state elections are over.

Our return profile in terms of ROE and ROCE looks depressed as of now due to reasons such as 1. low-capacity utilization, 2. ongoing capex expense, 3. margin pressure and 4. Weak macro environment. However, we are confident of achieving 25% of ROCE in next 2 years as we increase our sales volume 25% CAGR with margin improvement. This is from our side. Now we are glad to take questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. We will take our first question from the line of Utkarsh Nopany from BOB Capital Markets. Please go ahead.

Utkarsh Nopany: Hi. Good morning, sir. Sir, wanted to know on the margin performance for December quarter. So we have seen a sequential contraction in our margin in December quarter. What is the reason for the same and have we booked any M2M inventory loss also in December quarter?

Anubhav Gupta: So if you look at the Q-o-Q comparison it is not comparable because in Q2 the volumes had fallen pretty sharply and OPVC had started contributing to Q2 which was like higher as a proportion and that carried a very high margin as that's the product profile. So in Q3, when we increased our revenue from INR250 crores to INR310 crores quarter-on-quarter, so the overall product sales mix which was there till Q2, it rammed up.

So that's why the margins I would say are more nominal now at around INR10,000 per ton at APL Apollo level. And Kisan anyways is ramping up. So Kisan is at INR4,000 per ton. So blended we are at INR8,500 per ton, which is like 8% at percentage level. And it is better you compare it with Q1 or last year.

Utkarsh Nopany: And so we haven't booked any inventory loss in December quarter, is that correct?

Anubhav Gupta: Very nominal because the fluctuation was very little during the quarter. So no as such MTM losses.

Utkarsh Nopany: Okay. And so what would be the margin guidance for both Kisan and for standalone operations, say for FY26?

Anubhav Gupta: So see I mean right now APL Apollo standalone is making around INR10,000 per ton EBITDA. Given that, the high margin OPVC and window profiles will contribute significantly in FY26. So margins should be better by about like INR500 to INR1,000 a ton minimum, but then we also need to see that what is the intensity of market growth in FY26 because as of now the macro factors continue to remain pretty sluggish.

And if at all the demand at end level does not pick up much, so the aggressive sales policy may remain basically. But yes, we are confident that improvement of INR1,000 per ton to INR1,500 per ton is definitely on the cards. And at Kisan level, right now we are making like INR3,000 ton to INR4,000 a ton.

At Kisan level, we are at INR3,000 ton to INR4,000 a ton. The business plan what we have made for Kisan is that we shall ramp this up to INR6,000 ton to INR7,000 a ton over the next 2.5 years because we just took charge of the operations. And anyway the company was at negative EBITDA which we have brought it to positive EBITDA within like a span of three quarters. So next four to five quarters, you will keep on seeing a jump in the margins.

Utkarsh Nopany: Okay. And sir for standalone operation just wanted to confirm, you are saying that we are expecting an improvement to around 11,500 to 12,000?

Anubhav Gupta: Yes INR1,000 ton to INR1,500 a ton improvement should be there. Given that there is some pull demand because right now, like I said the macro level demand has been very, very sluggish. So industry is under pressure on selling price, everyone is trying to gain market share here. So even if we get some pull from the macro, which we should, Q4 we are already seeing some green shoots. So yes, this much of improvement is doable.

Utkarsh Nopany: And sir lastly, how much capex we have incurred in 9 months FY25? And what is our capex outlook for the current March quarter and for FY26?

Anubhav Gupta: So in 9 months, we have so far spent around INR130 crores which includes like addition in gross block plus capital advances what we have paid. And for next 2 years to 3 years including the Greenfield South India plant, we may be investing another INR350 crores to INR400 crores which is residual capex across the categories for us plus the new Greenfield South India plant.

So how we're going to fund it is that, of course, you must have seen that there is a INR100 crores pref which has come in from an Omani's fund, plus INR250 crores to INR300 crores will be our operating cash flow generation over the next 2 years to 2.5 years.

Utkarsh Nopany: Okay. Thanks a lot.

Moderator: Thank you. Next question is from the line of Pujan Shah from Molecule Ventures. Please go ahead.

Pujan Shah: So my first question would be on the OPVC side. So we are hearing more on the side that many Chinese lines have been coming and disrupting the market. So could you just state your views and what are the current industry dynamics and what could be the potential dynamics could be changing out in next 2 years to 3 years?

Sameer Gupta: You're asking about OPVC?

Pujan Shah: Yes.

Sameer Gupta: So it's a very new product segment which has emerged in India in last 1 year to 1. 5 years. It's a replacement of ductile iron pipes in the water infrastructure projects. If you look at the transition of PVC piping industry over the last 10 years, 15 years, 20 years, it's always been the shifting of metal pipes to PVC pipes because of better handling, low cost, easy to install, etcetera.

So wherever, like earlier the transition was in the low dia pipes in plumbing and agri. Now it is coming to large dia pipes, which are being used for the water infrastructure projects. So it's a national transition which will keep on happening from metal pipes to PVC pipes. And OPVC is one of the outcomes of this transition.

And government focus on water connectivity as everyone knows has been pretty high in the country for the last 2 years, 3 years and that remains very high for the next 4 years, 5 years. So we saw this opportunity and we got license from a player for the machine supplies who is authorized or registered with Indian government. We got the capacity. We ordered three machines, two machines are operational, One machine shall get operational in the next 2 months.

OPVC has already started contributing just about like 4%, 5% of our revenue at APL Apollo level and it shall increase to 7%, 8%, 9% over the next 1 year to 2 years as the order book builds up and we ramp up our capacities. So yes it's a new segment where a very limited number of players have access to technology from the registered vendors and we shall ramp it up as the order book starts building up.

Pujan Shah: So all the three machines which we have currently which we are planning to ramp up, is it related to the Spain technology or we have any domestic procurement as well?

Management: Arun, do you want to take this one?

Arun Agarwal: Yes. So these are all Spanish technology and originally there were only two manufacturers globally and these are the best in class.

Pujan Shah: So any planning to go to 7%, 9% of the revenue, so what are the plans ahead, how many lines we have been trying to procure from the same company and what would be the timeline of that potential line to get commission?

Arun Agarwal: So already two lines are commissioned. The third line has already arrived and it will take almost a month more to get commissioned and the business has already started contributing in a smaller way almost as already communicated around 4% it is contributing currently and we hope next year it should be contributing somewhere around 8% or so with the current lines also in place.

So as of now, the market is growing at a rapid pace and currently there are not too many capacities existing in the country, whatever capacities will get added will still be a shortfall in the near future.

Pujan Shah: Sir, but we are hearing about the Chinese guys also entering with this extrusion machine lines. So do you have any idea it could impact the margins or it could impact the industry dynamics as such?

Arun Agarwal: Economics always plays like that. Whenever there is a high value contribution from any product or technology. In the long run, yes, it will get evened out, but not in the short term. It requires a lot of effort actually because it's a B2B government supply mainly and most of the governments are opening up. Only 8 states approximately have currently started and another few are in the pipeline. So India being a larger market we think at least for the next few years, their demand should be good.

Pujan Shah: Okay. And do we see any challenge in terms of fund flow challenge from the government and due to as the capex has been slowed down, there is a slowdown from the government end. So do you feel any impact on that part?

Arun Agarwal: No, government capex funding has been slower for the last almost 7 months, 8 months now. So and it cannot remain like that. And it is impacting across business segments and other building segments also. So it has to change. How much time does it take? It's a matter of question to be guessed actually, but we hope from May onwards, things should start improving.

Pujan Shah: Okay, sir. And just one more question. There is anticipation in the PVC side that there could be anti-dumping duty. So do we feel any challenge out there due to might there would be a spike in our RM that could impact our realization? Is there any view on that part or it would be a stable, sustainable margin because we can able to pass on to the customers?

Sameer Gupta: If you see the margins of the PVC resin manufacturers, they are not enjoying very high margins. And because the world market is not working very aggressively, so we don't see very steep hike in the PVC resin prices in near future, first of all. Secondly, that anti-dumping impact will also be not very high. Maximum to the tune of INR6 to INR8 per kg will be impacted as per the initial guidelines issued by the DGTR for anti-dumping.

So we don't see very steep hikes. So because of that, we don't see any major margin effect because of the resin prices.

Pujan Shah: And any expectation of implication of ADT?

Sameer Gupta: We all are waiting for that government notification. We don't know when it will come, but it should come in the next 1 month to 2 months.

Pujan Shah: Okay, sir. Thank you so much and all the best.

Moderator: Thank you. We'll take our next question from the line of Sneha Talreja from Nuvama. Please go ahead.

Sneha Talreja: Firstly, congrats on good volumes. Just wanted to gauge to this particular quarter specifically, we have outperformed the industry. If I look at the volumes, even X of Kisan is coming out to be around 13% Y-o-Y growth. What is it leading to outperformance and versus the industry leader was already giving the number out. And how confident are you in terms of outperforming over the next 2 years to 3 years? Some insights would be helpful?

Anubhav Gupta: So Sneha there are like two, three factors here. One is that, I mean, if you look at our trade sales volume growth over the last two, three quarters has been pretty strong, but when we report the numbers because of poor demand from the water infrastructure, the numbers had been looking pretty bad, but our trade sales volume growth has always been in like high single digit or low double digit in the last three, four quarters, when you saw that our overall volumes were not growing.

It's not that water infrastructure demand has revived. It has not - that segment still contributes less than 5% of my overall volume which used to contribute 15% like at its peak in FY24. So the focus was always to be aggressive in the trade and continue to gain market shares. What we saw is that in Q2 the larger players because of aggressive sales price strategy, they were gaining like they were doing better like for the last two, three quarters.

And then, at some level market also absorbs whatever price cuts would have been taken by the larger players. And then we were always growing without much of price cuts. So that traction was always there. It is just that the Q3 the other players got a bit soft and we found the window because they had like pushed the channel with the lower pricing strategy. So that got normalized and then we got our space, we got our window to place our products plus see as the demand scenario has been bad.

So the smaller players below us at number 7, number 8, number 9 so they also started to struggle, because the industry is not doing good. So as a stronger player you tend to take market share from the smaller companies as well, smaller competitors also. So this is what - this is what has driven to the Q3 sales jump. And what gives us confidence for 25% revenue CAGR for the next 2 years to 3 years is that still our Varanasi plant is yet to contribute.

My OPVC just started, it's contributing only 4%, 5% to my overall revenue which will ramp up. Then window profile segment which we will start in next 3 months, 4 months that will start contributing to my revenue. Kisan, it's been three quarters we took the position. Kisan will ramp up in FY26, FY27.

So we are fairly confident that in bad environment, we have been able to - we have been able to demonstrate whatever you see as our numbers. These three drivers will keep our momentum up and 25% revenue CAGR looks very much possible over the next 2 years to 3 years.

Sneha Talreja: Understood. Just a couple of follow-up when you said demand from water pipes that's related to HDPE demand, that's correct?

Anubhav Gupta: One of the products, yes water infrastructure, that's right.

Sneha Talreja: Another two things what would be your pricing at this point of time versus leader because you mentioned that there was intensive price competition. So where are we versus leaders in terms of pricing, maybe in one of the few geographies you can mention?

Anubhav Gupta: So depending on market and depending on the product segment we are like at retail level, my pricing is not very much different, Sneha. And the pricing differs at the distributor level. At retail level, if you go and buy for Apollo Pipe product or my completed product, the pricing will not be too much different.

Sneha Talreja: What I understand is at distributor level, can it be something like double digit difference also in terms of pricing. Although that does not translate into retail?

Anubhav Gupta: No, like I said it's very market specific. In North, I would be at par with any of the top competitors. In West, South, where I'm building my market, so there the difference could be 3%, 4%, 5%.

Sneha Talreja: Understood. Secondly coming to your windows profiles division, you said you're starting revenues next year. How is the competitive intensity in that particular space? Which are the large odd players? Do you see basically capacity is increasing here? What does the margin look like, some flavor here on that particular segment would be helpful?

Anubhav Gupta: Sneha, the strategy to go there is to extend our building material portfolio, home segment portfolio. Now, you would be tracking the construction material sector. So what matters is number one capacity, yes, but then more than capacity what you require is the brand and then the distribution network.

So obviously, we know who is number one. And he's the undisputed leader in this segment. And after number one then there is a big gap, that's where we came and plug ourselves in that if number one leader has built a market size of INR700 crores to INR800 crores. There is a potential for pan-India players to reach INR100 crores, INR200 crores kind of numbers in 2 years, 3 years if we have the right product mix brand and network we already have. So we leverage on that and we build on to the capacities.

So idea is to remain in like top 3, top 4 in next 2 years, 3 years as we start selling or once we start our product sales. We have got a very good team to drive this business for us. And we are fairly confident that the way OPVC is going to give us revenue same way, window profile will be a top-selling segment for Apollo in coming years.

Sneha Talreja: Understood. That was helpful. Thanks. Anubhav and team. All the best.

Moderator: Thank you. We'll take our next question from the line of Rahul Agarwal from Ikigai Asset Management. Please go ahead.

Rahul Agarwal: Hi, good morning. Thank you for the opportunity. A few questions firstly to start with South India Greenfield project, I just wanted to hear your thoughts on the broader thought on the complex which you think should come up whenever you decide the location. How would you want to take up this project? Can we do better in terms of product offerings, supply chain, input-output ratio for production and stuff like that?

So just broader thoughts before the project actually gets finalized. What would you want to do in South India and what kind of products will you offer and things like that, please?

Anubhav Gupta: So Rahul, this is also part of our overall strategy which we have been following for the last 2 years to 3 years. So if you look at Apollo in last 5 years, we had one mother plant in North India, where we were among top two, top three players in terms of market share, in terms of pricing.

Then we had smaller plants in West India, in Gujarat, very small plant with capacity of 15,000 to 20,000 tons, even lower than that. Then Kisan in South, we acquired in Tumkur, which had capacity of 15,000 tons to 20,000 tons. We did some Brownfield there. Now the capacity is like 35,000 tons there.

And then Raipur in East India, Central India again which was like 10,000 tons to 15,000 tons plant for us. So 3 years ago or I would say 2 years ago what we decided is that we must have similar scale of plants Pan India what we were having in North India. So that's why Varanasi came in.

That's why we acquired Kisan to cater to the West market. And now we feel that in South India also, if we have to be a pan-India player, compete with top five players who are much stronger, who have been present in the industry much before than us. So we need similar scale of plant in South India also to make a company with like if not 4 lakh tons, but 3,60,000 tons capacity by FY28.

So South India plant is part of that growth strategy. And as far as the location is concerned, it should be somewhere near Bangalore, from where we can cater to all the four, five major states in the Southern part. Now, we have started looking for the land. Now that we have funding commitment with us, we will be more aggressive because we already had INR250 crores of INR300 crores of residual capex for the ongoing projects. We were a bit slow till last quarter, but with funding commitment now we want to lock the land deal quickly. And in the next 2 years to 2.5 years, we want to see that plant up and ready.

Rahul Agarwal: So I thought 2,86,000 tons was the plan including Brownfield in Varanasi. So when we're talking about 3,60,000, the difference is basically around 70,000 is what the size should be for South India plant. Is that understanding right?

Anubhav Gupta: So 40,000 tons, 50,000 tons will be like the plant coming up. And then 20,000 tons to 30,000 tons will be Brownfield expansion in existing products. God willing, we do well in OPVC. We do well in window profiles. So nothing stops us from expanding those capacities. In North also we do water tanks, we are adding capacities. So yes and then now from 2,86,000 tons we want capacity of 360,000, 370,000 tons in 2 years, 3 years.

Rahul Agarwal: Related question was, obviously, we go out of our core market, we enter South. We, obviously, we are there, but we still need to build a lot of brand and customer pools. Any thoughts because even if I map out, let's say a 1 lakh ton production or a sale today going up to 2 lakh tons, let's say, in 3 years, we'll still be very small from overall pie perspective.

We're talking about like 3.5 million tons of entire market size in India. So just to get more customer pool and improve brand perception, because when we do channel checks, Apollo still doesn't figure out how into top 3 across India in terms of brand perception. Can we work around that and have more customer pool? Any thoughts on that, how does that work?

Anubhav Gupta: So Rahul, see that's why I told you that we were not ready with our capacities to attack West India, to attack South India, to attack East India or Central India. We had very small plants there, which were not having complete SKU range. Most of the products were being fed from my mother plant so it had freight issue as well.

When I would go to a customer, a distributor my sales team was not having the full SKU range with itself to go and push for the product. That's where we changed our strategy and became aggressive that we need larger plant similar to what we have in East India. So when you have and last 4 years, 5 years, you see that, I mean, last year without Kisan we closed at like INR1,000 crores, INR1,100 crores kind of revenue.

Out of that INR600 crores was from North, but INR500 crores contribution, INR400 crores, INR500 crores revenue contribution came from these small plants. So we already have our foot in the door. It was just that we did not have relevant capacities to go aggressive and try to take position like what we had in North India.

Sorry Rahul, some signal problems. So what I was saying was that now with capacities with us in all the major parts of the country, we are much more confident that we will be able to replicate our market share positioning in other parts of the country what we have in North India. Because last 4 years, 5 years we have been selling like INR400 crores, INR500 crores worth of product there with very smaller size plants. With larger size plants, we should be doing much, much better.

Rahul Agarwal: Got it. And lastly a question on the leadership team, obviously, the top level is pretty much there. Just one level below that, let's say, SBU heads, the execution is something which is going to be the major dependence on whatever plan we have. Capital, obviously, has been taken care of. So now we have capital to boost our production and sales. Just in terms of people, where are we in terms of SBU heads? What are we thinking? What else do we need to ramp this up and achieve our target?

Anubhav Gupta: So I will let Sameer ji answer this, but just before that how we have segregated the team is that. So we are growing, one is geographically new plant and one is new products. So new geography we have Arun ji who joined us like now 2 years back. So he's taking care of all the like new projects including Kisan which we consider like a new geography for us. Then we are hiring the right people, right to drive the new products.

So OPVC is there, window profile is there. So since we are growing like geography-wise and product-wise. So we are hiring team to manage that specific location or that specific product. That's how we have hired team in the last 1 year and 1.5 years. Sameer ji, you want to talk about like new hiring?

Sameer Gupta: Rahul, actually if you see our structure that is not like that only few people are managing and rest of all are not their existing, but actually each and every team members in our company, they are involved in each and every activities it is properly defined and distributed amongst the team, the top level and then the backup plan to the top level.

And again, thereafter, the business heads or the product heads, the regional heads or you can say we are distributing that production into various parts, sales into various parts, other activities such as HR, IT, finance, they all are distributed. It's not like that one single person or few people are managing the complete show, but it is a group of people that is managing the show.

But few people are actually coming in front of you, that's why you feel like that, but it is not like that. It is a group of people that is managing the show and we have got very experienced professional people in our team who are managing the show and they know there has to be a succession planning along with that experienced people and new blood into the group so that we can fetch results from them and have the result of their experience whatever experience we have people with us who have got experience of 30 years or 25 years in the team who are managing the show. Like in window profiles also, we are moving in the same direction.

We are trying to fetch the best from the industry and trying to create the best team so that we can get results as early as possible. So, you don't worry about that. We are actually taking care of the team and apart from that, infrastructure also we are investing too much like in IT or in other you can say parts. So we are taking care of that.

Rahul Agarwal: Absolutely, we appreciate that. So where are we in the journey…

Moderator: Thank you. We will take our next question from the line of Bhavin Rupani from Investec. Please go ahead.

Bhavin Rupani: Thank you so much for the opportunity. My first question is related to OPVC. Sir, you mentioned that we have two lines operational and one line will be commissioned in the next couple of months. I just wanted to understand how much capex that we have incurred for these three lines?

Arun Agarwal: It is close to INR100 crores.

Bhavin Rupani: Is it close to INR100 crores?

Arun Agarwal: Yes.

Bhavin Rupani: Okay and how should one understand the margins of this OPVC segment? It will be obviously better versus what we are clocking right now?

Anubhav Gupta: It is a bit sensitive issue. We do not want to give the exact profitability numbers, but it is much more than what our other products are making. And this investment we plan to like the return on this investment is like 2 years to 3 years payback.

Bhavin Rupani: Okay, sir it would be fair enough if we say that margins are in a similar range of CPVC?

Anubhav Gupta: We do not want to comment on this, please.

Bhavin Rupani: Got it. And sir can you throw some light on competitive intensity over here, how many companies are getting into this segment?

Anubhav Gupta: Arun ji you want to take this up.

Arun Agarwal: Actually, right now if you see the technology, it is available with two major players. One is from Netherlands and the other is from Spain where we have got our machine from. It is from Spain. And some of the Chinese, these two companies have limited number of you can say customers. They are not giving their machines to each and every customer. So, molecule from whom we have taken the technology, they are limited to seven customers across India.

And the other companies, they are limited to only one. Apart from the Chinese companies that are now coming into the picture, but the quality is still a question from the products that are manufactured from their machines. They are still not up to the mark, and a lot of challenges are there. And the higher dia pipes in those machines are still not okay.

So, there are challenges in the - you can say products. So, right now, if you compare Apple-to-Apple only four to five players are there who are working aggressively in this product. Apart from that, some more three to four more Chinese machinery manufacturers, they have entered the market, but they are still to establish their product. So, in the coming days you can say 10 to 15 manufacturers will be there, but with the repeated manufacture of these molecule machines, only five to six numbers are there.

Bhavin Rupani: Got it, sir. Sir last question is related to dealer financing. Can you give the amount of dealer financing as on Q3 and how many dealers are covered right now and what it was in the previous year?

Anubhav Gupta: So, right now around 10%, 15% of our dealers are taking channel financing. That's all.

Bhavin Rupani: And what was it in the previous year?

Anubhav Gupta: 5% to 10%. Now, it's 10% to 15%.

Bhavin Rupani: Thank you so much.

Moderator: Thank you. We'll take our next question from the line of Karan Bhatelia from Asian Market Securities. Please go ahead.

Karan Bhatelia: Yes, team with respect to the inventory levels in the channel. Now that PVC prices have not seen that much of volatility starting from November. So, how do you see things at the inventory level?

Anubhav Gupta: Sameer ji, you want to answer this?

Sameer Gupta: Yes, if you see that the PVC prices are almost near to bottom. So, the inventory levels right now still there is a fear in the mind of our distributor or dealer segment. So inventory levels are quite low with them. They are not keen to keep any high inventories or high level of stocks with them. So it is normal or below normal, not high.

Karan Bhatelia: And one last question from my side. Sir, our operating margins on the standalone business is holding good because the infrastructure contribution has come down significantly, but if government capex was to come back in next 6 months, you think our margin estimates look a little aggressive on that part?

Anubhav Gupta: No, but then our other more profitable products like OPVC and window profiles they should start contributing.

Karan Bhatelia: Right. Okay. That's it from my end.

Moderator: Thank you. Next question is from the line of Rishab Bothra from Anand Rathi Shares and Stock Brokers. Please go ahead.

Rishab Bothra: Hello, good morning, sir. I just wanted to understand if possible, can we have the revenue share from UP? And do you think there could be meaningful contribution in the coming quarter because of the Kumbh Mela?

Anubhav Gupta: Which product you asked?

Rishab Bothra: Overall company revenues from UP Uttar Pradesh?

Anubhav Gupta: So see North has been our main market as of now. 65% of our sales come from North. Obviously, with Kisan the Western market started to contribute to our consolidated numbers. Kumbh has not been too much driver for infrastructure spending. In fact, it brings a lot of disruption in movement of materials. Whether it's residential, housing, construction, private or it's government infra.

Of course, I mean for last 1 year, 2 years government had been focusing on modernizing the railways there the aviation, airports, etcetera where we did supply material, but then overall we wouldn't say that there was like spurt in revenue or volume from Uttar Pradesh because of Kumbh. It only brings disruption in movement of the material.

Rishab Bothra: And secondly, and lastly, we have brand ambassadors. How do we map what kind of contribution or growth momentum is there because of brand ambassadors?

Anubhav Gupta: We have what sorry?

Rishab Bothra: Brand ambassador. So we have brand ambassadors who market our products in terms of advertising spend. So how do you monetize them? What kind of threshold do we have in terms of revenue achievability?

Anubhav Gupta: See, I mean, how we see this as our ROI. Whatever we invest, it's not just one brand ambassador. A whole lot of package comes with it. You have to make an ad film and then how do you promote that ad film? You go on costly media which is television, you go on cheaper media which is print media. Now, social media is available, you want to go out door. So we don't evaluate as like how much we're paying to one celebrity.

No, it's a complete package. So if you look at our brand spends, they have been like under just over 1% of our revenue and again, it is divided into two parts. One is ATL, which is above the line. Second is BTL below the line, because of stress in the demand, stress on the margins, we decided that it doesn't make too much sense to go above the line.

So our focus has been on below the line BTL, where we are adding more plumbers to our network, we are doing in shop branding at our retailer counters at hardware shops then we are engaging with our channel partners to put outdoor hoardings near the main markets. So overall, investment has been pretty low on branding in last 2 years because of market situation.

And based on that, we think that the ROI on these spends is matching our overall company ROC where we need to achieve 2025% return profile.

Rishab Bothra: Okay, thanks. I'll come back in queue.

Moderator: Thank you. We'll take our next question from the line of Aditya, an Individual Investor. Please go ahead.

Aditya: Hello, good morning sir.

Moderator: Aditya, can you use your handset mode, please? Your voice is not very clear.

Aditya: Good morning sir. My question is related to OPVC. Are we facing some trouble selling into Chhattisgarh market? We were hearing some rumors that we will be listed in Parliament list due to some criteria to your experience criteria. Is it correct? Are we facing this problem in other states also?

Anubhav Gupta: No, Aditya, if you could understand can you repeat the question for us?

Moderator: Aditya your voice is not clear. Please use your handset.

Aditya: Is it clear now?

Moderator: No, Aditya. No, it is not clear. Can you switch to your handset mode, please. Aditya has left the queue. We'll take our next follow-up question from the line of Pujan Shah from Molecule Ventures. Please go ahead.

Pujan Shah: Sir my follow-up question would be on the OPVC side. So we broadly understand that the Spain or the technology has been the capacity has been limited. And even we say that the Chinese companies extrusion machine are not up to the mark. So do we feel that in the coming years ahead we'll start procuring from the domestic company which might - which they claim that they have cracked the technology as well. So do we start procuring from them and what could be like is there any consideration for that?

Arun Agarwal: Yes, Pujan, actually, if you see the technology is evolving. And right now as of today, the difference between technology, what Spanish or the European manufacturers are giving are way above than what we are getting from the Chinese manufacturers. So it is you can say, it will take some time right now for them to evolve and get them to the level of - to the level of European manufacturers.

Of course, they will get to this level in the coming years, but for the next 2 years to 3 years we don't see significant you can say, upgradation of the Chinese machines to the level of European manufacturers machines. So we hope that that you can say that difference will be there for the next 1 year, 2 years.

Of course, after that if the technology permits us to mix a similar type of product from the Indian manufacturers or the Chinese manufacturers and the cost difference is there, then we will definitely shift. But right now as of today, the difference in the quality, the productivity level, you can say the accuracy level is much higher in the European machines as compared to the Chinese manufacturers.

And right now, in India, all are doing hit and trial methods to produce such machines, but right now, nothing has been established. Technology has been there in India. So we are just waiting and watching the developments that is happening around us and continuing with the European manufacturers only.

Pujan Shah: Okay. And is there any clause or something from that Spain technological partner that you can only procure from them or it's non-exclusive you can procure from even Chinese anyone domestic? Is it open for any source?

Sameer Gupta: Yes, as of today definitely - there's definitely a clause that the Chinese for the European manufacturers, they will not be supplying to any other manufacturer other than the seven licensed partners that they have identified in India. And along with that, we also are not allowed to buy from any other machine manufacturers apart from them during that tenure, but as the market will evolve, as the market will grow, we think that there should be some change in the license.

But right now we are restricted to take supplies from them only and they are restricted to give supply to us only. There's a both ways contract. So both are binded to each other for the supplies and the procurement.

Pujan Shah: Can you just state the timeline, what would be the cost timeline if there would be any modification on that part? So is there any timeline till this date you have to procure from them?

Sameer Gupta: As of date, there is no timeline. It's a contract between both the parties and we are bind to each other for the procurement or selling of the same.

Pujan Shah: Okay, thank you so much. That is from my side.

Moderator: Thank you. We'll take our next question from the line of Akash from UTI Mutual Fund. Please go ahead.

Akash: Just wanted to ask how is the traction in plastic faucet tap and shower that we have launched? Any thoughts there, just wanted to hear how that business is doing?

Anubhav Gupta: So, Akash, we started that business 3 years ago and we made a small investment to test the waters. And we did build a business which started contributing a little to our overall revenue, but then we realized that it requires much more bandwidth, much more investment into multiple SKUs, multiple modes for the complete SKU range.

And we just decided not to invest further in that segment because the focus shifted more towards larger volume products which we found OPVC is one of those or window profiles and then expansion in Varanasi and South India. So, we just thought let's give a pause for...

Moderator: I'm sorry, sir, we lost you.

Akash: Can you hear me now?

Moderator: Yes sir. Please go ahead.

Anubhav Gupta: So I will repeat, I'm sorry. So what I was saying was that we stopped ourselves from making further investments into that product segment because it required more bandwidth, more investment to have the complete SKU range and more focused approach. So we thought that let us first get into more voluminous products which we found in OPVC and window profile and then expanding geographically Varanasi and South India.

So once we finish with these expansions, then we'll see that how we want to take basketing as a category. I mean, in between we were evaluating some inorganic opportunities also. A lot of small material brands are available in the market. So, there could be some potential opportunity if we see that, but yes I mean organically it is a bit slow to drive a significant revenue for our company. So, yes going forward we are open for an inorganic opportunity if we find a suitable fitting.

Akash: Sure. Thank you.

Moderator: Thank you. We'll take our next question from the line of Manan Madlani from Kamayakya Wealth Management. Please go ahead.

Manan Madlani: So, my question might be repetitive because I joined the call lately. So what was the reason behind this pref issue?

Moderator: Manan, can you repeat your question and use your handset mode, please?

Manan Madlani: So, I was asking what was the reason behind this pref issue? I mean, how are we using the funds?

Anubhav Gupta: So, Manan we have a capex outlay plan of INR400 crores for the next 2 years to 3 years. And as per our business model, we shall be generating operating cash flow of INR300 crores in the next 2 years to 2.5 years and balance residual INR100 crores which was residual we thought it is better to have equity infusion rather than going for any debt.

You would appreciate that we have invested INR400 crores in the last 2 years so far and remain - and yet we remain debt free. So, we want to remain as a debt-free company while building aggressive capacity. The first fee comes right from the origination of the group where we don't want to have debt on the books because whenever there is a downturn in the industry, the revenue is under pressure, the margins are under pressure at the operating level and then interest cost also brings companies down.

So we are very clear that we don't want to invest into capacity by taking bank loans. So that's why we get all equity preferential wherein our capex is sorted for next 2 years to 3 years. And then we don't believe that now companies will ever require equity infusion because once we utilize our 63,000 tons, 70,000 tons of capacity, we shall be generating INR300 crores plus EBITDA every year.

And with 20 days, 25 days of working capital cycles, 25% ROC all the future growth will be self-funded after this.

Manan Madlani: Fair enough, sir. That's it from my side. Thank you so much.

Anubhav Gupta: Moderator, we missed one question from the participant. If he's there, we can take it. Otherwise, let's wrap it up, please.

Moderator: Do you mean Aditya, the investor?

Anubhav Gupta: Yes or we take the last question. If Aditya is not there we take the last question.

Moderator: Aditya is not in queue. We have Chinmay Nema from Prescient Capital.

Chinmay Nema: Just a quick question. Could you give some color on the receivables on the agri side? Do we operate on a cash-in-carry model or is there a credit cycle involved in that?

Anubhav Gupta: So, I mean, 90% of our products are sold to dealers, Chinmay. Now, whether they sell to housing players or they sell to agri players, that's their purview. If you look at our receivable cycle, that's around 30 days 35 days which we have with our dealers. So yes it doesn't matter to us whether my dealer is selling in agri or he's selling in housing. We don't offer more than 30 days, 40 days of credit period to our distributors. From there 90% of our sales are generated.

Chinmay Nema: Sure sir. Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to management for closing comments. Over to you.

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

Moderator: Thank you. On behalf of Emkay Global Financial Services, that concludes this conference. Thank you for joining us and you may now disconnect your lines.