October 30, 2023

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

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

NSE Symbol: APOLLOPIPE

SCRIP Code: 531761

Dear Sir/Mam,

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

With reference to our letter dated October 23, 2023 regarding Earnings Conference Call, which was held on Friday, October 27, 2023 and pursuant to the Regulation 30 of the SEBI Regulations, please find enclosed herewith the Earnings Call Transcript of Earnings Conference Call held on Friday, October 27, 2023.

Submitted for your kind information and necessary records.

Thanking you

Yours Truly
For **Apollo Pipes Limited**

ANKIT SHARMA
Digitally signed by ANKIT SHARMA
Date: 2023.10.30 11:39:07 +05'30'

(Ankit Sharma)
Company Secretary

Encl.: A/a

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"Apollo Pipes Limited Quarter 2 Investor Conference Call"

October 27, 2023

MANAGEMENT: **MR. SAMEER GUPTA - CHAIRMAN & MANAGING DIRECTOR**
MR. ARUN AGARWAL - JOINT MANAGING DIRECTOR
MR. AJAY KUMAR JAIN - CHIEF FINANCIAL OFFICER

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

Moderator: Ladies and gentlemen, good day, and welcome to Apollo Pipes Limited Q2 Investor Conference Call, hosted by Systematix Institutional Equities.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

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

Ashish Poddar: Thank you, Sagar. Thank you everyone for joining us today for Apollo Pipes Q2 FY '24 Earnings Conference Call.

From the management side, we have Mr. Sameer Gupta – the Chairman and Managing Director; Mr. Arun Agarwal – Joint Managing Director; Mr. Ajay Kumar Jain – the Chief Financial Officer; and Mr. Anubhav Gupta – the Chief Strategy Officer at APL Apollo.

So, I will pass the floor to Sameer sir for his opening remark and then we will get into the Q&A. Over to you, sir.

Sameer Gupta: Thank you. Good afternoon, everyone, and thank you for joining us on our Q2 FY '24 Earnings Call to discuss the operating and financial performance.

It seems FY '24 would be as much of a roller coaster ride as it was in FY '23. We started Q1 on a solid note with best ever sales volume of 21,000 metric tons. However, momentum slowed down slightly in Q2 due to volatility in PVC and CPVC prices, which led to channel destocking. Although our sales volume increased 28% Y-o-Y, we were looking to grow our sales volume Q-on-Q as well. The good news is that even in bad market, we were just that below 20,000 tons sales volume.

We reported an EBITDA margin of 9.7%, which is in line with Q1 performance affected from raw material volatility and the margin was also impacted due to aggressive sales strategy we adopted to gain market share and higher ad spends.

Our working capital improved to 49 days in H1 FY '24 from 56 days in FY '23. We are on track to improve it under 40 days in two to three quarters.

Our ROCE should expand from the current 16% level. The fluctuation in raw material prices seems to be persisting as PVC prices dropped by 10% in October. So, sales and margin pressure would remain. However, we target to achieve 85,000 tons of sales volume in FY '24, a growth of almost 30%.

Now that we are doubling our capacity to 2,86,000 metric tons in the next 3 to 4 years, we believe this aggression is very much required. So, we are aggressively pushing land acquisitions in Eastern UP and Maharashtra. These new Greenfield plants shall be of same size as of our flagship plant with the investment of 135 crores each. We shall be commissioning new lines every quarter till we reach the capacity of 2.86 lakh tons by FY '27.

The industry may go through short-term pain, but our long-term goals intact, whereby we look forward to achieving revenue growth to 30% CAGR for the next four years. We are also confident of hitting 25% to 30% of ROCE despite these proposed investments supported by working capital efficiencies.

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

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Vikas Mistry from Moonshot Ventures. Please go ahead.

Vikas Mistry: Thank you, sir, for giving me the opportunity. I have a couple of questions. The first question is on industry structure. As we see that CPVC industry we are having five to six organized players, and they have good market share, and everyone has cash on their balance sheet. So, would you foresee in the next two, three years the price war starts, and everyone start feeling margin pressures? What is your view on this industry structure of CPVC industry?

Sameer Gupta: So, Vikas, welcome to our call. So, coming to the question of price war, right, see, I mean, if you look at this industry, which is like 40,000 crore in size, 35 to 40,000 crore and given that all the buoyancy and bullishness we are seeing in the real estate and construction sector in India over the next three, four years, so we believe that the industry should grow at 10% to 12% on a consistent basis for next 3, 4 years.

And if this industry adds 3,000 crores to 4,000 crores of incremental market every year and given that still 60% of this industry is organized and 40% is still unorganized, there is good scope of this transition from unorganized to organized. And within organized space also, yes, I mean, there are strong players with strong balance sheets.

We are in the same segment, but then there are a lot of weaker players, smaller players within organized space also who are struggling, because of working capital crunch, because of outdated machinery, because of not having brand to sell products in the housing segment, right? So, there is enough scope for stronger brands to continue to grow at their desired growth levels for Apollo which is 25%, okay. And we can continue to grab market share from the unorganized space and weaker organized players.

As far as the price war is concerned, I guess, if you see the margin trends coming in the last three, four quarters, I believe we are coming back to the normal margin trends which went upwards in FY '21, FY '22 due to the increase in the raw material prices globally what happened, right? But I guess whatever numbers of companies are now showing, they are towards the normalized level. And it is not because of price war, but it is more of the normalization in the industry which is taking place.

Vikas Mistry: That's great to hear. My apprehension just started from the fact that capacity utilization of all organized players are too low and as they start ramp-up and they could not able to do the sales, they may start doing the price war. Putting that aside, that's great to hear and kudos to the whole team of APL Apollo for doing exceptional execution. My second question is a bit on long-term, maybe five years after. Would we see Apollo Pipes to be as a complete building material play having solvents and maybe paints and something else apart from pipes? Although we understand that for next four, five years, our plates are full, but can we be thinking in that direction too?

Sameer Gupta: So, Vikas, our goal number one today is to build capacity of 286,000 tons in next 3 years, right, and utilizing it to 70%, 75% levels with Rs. 15,000, Rs. 16,000 per ton of EBITDA, which should give us 300 crores to 400 crore of EBITDA level, right. Currently, we are at 100 crore run rate at EBITDA level. And this should give us 25% to 30% ROCE. Right now working capital optimization is also going on.

So, mission number one for us is 30% ROCE with 350, 400 crore EBITDA number. Once we achieve that, right, then we will evaluate how we can grow vertically or horizontally. Does it make sense to add new products in our existing channel or we keep on expanding in PVC pipes?

Honestly, we haven't presented anything to board yet. The only thing what is in our mind today is 286,000 ton capacity with 30% ROCE.

Moderator: Thank you so much. The next question is from the line of Mihir Damania from Ambit Asset Management. Please go ahead.

Bhargav Buddhadev: So, first of all, congratulations to the management team for a strong performance. I have three questions. One is, what is the share of channel financing as of now? Because if you look at net working capital days, we have seen improvement to about 49 days versus 56 days. So, just wanted to know what is the share of channel financing?

Sameer Gupta: So, Bhargav, no increase. That's very, very negligible. No increase what we gave the number in April for Q4 results last year. So, no increase, because what we are doing is we are going for cash and carry model with our distributors. That's why the improvement in receivables, right. And also, better credit terms with our suppliers. So, that's not the result of channel financing. That is yet to come in, right? That is yet to come in.

You will see the results in next two, three quarters as the team is gearing up talking to the distributors, to the clients how to go about it. We are talking to three, four national banks, two, three NBFCs, one, two fintech companies also. So, wherever we get better rates, better services, so you will see those results from channel financing in next three, four quarters. Not today.

Bhargav Buddhadev: And ideally, you would want, say, 20%, 25% of your receivables to be financed through channel financing or can it be more?

Sameer Gupta: So, I guess, we are not looking for any number, Bhargav. What we are looking for is to make the business easier for our channel partners, right? We don't have any number in mind whether we want to go for 10%, 20%, 30%. Right now, the first priority is to get the right partner, launch the product, and get in the ease of business, ease of doing business. Then we will see how this ramps up and what are the results, what are the benefits to our channel partners. We will evaluate accordingly.

Bhargav Buddhadev: Secondly, is it possible to highlight the volume growth across your agri and non-agri portfolio?

Sameer Gupta: Sure. So, one figure I would like to gladly share on the forum is that our share from the housing segment in value terms touched 55%. So, 55% was housing and 45% was agri. So, this is as per our strategy that we want to make our housing portfolio stronger and stronger which is a better margin, and this is all the new capacities whether Brownfield or Greenfield, we are putting in. This also gives the confidence that the brand is now getting penetrated deeper in the market and there is consumer acceptance for Apollo Pipes in the PVC segment as well.

Coming to your question, I mean, in terms of volume growth, if you see for Q1, the housing growth was, just a sec, Bhargav. So, the mix, like I said in value, 55-45, and in volume terms it was 52-48, 52% volume from housing and 48% from agri, and growth if I have to compare Q1-Q1, just one second. So, Q-o-Q agri was kind of negative 3% and housing was up Q-o-Q, yes, so 10. Yes. So, housing was kind of flattish and agri was down 4%, 5%.

Bhargav Buddhadev: And Y-o-Y, would it be fair to say plumbing has grown faster than agri?

Sameer Gupta: Yes. So, Y-o-Y if we compare, yes, so our overall volume growth was 28%, right? So, the housing, housing was higher than the agri, although agrio also did well on Y-o-Y basis, but housing did better.

Bhargav Buddhadev: And lastly, is it fair to say that the volume growth is across geography or is it still being led by the North India geography?

Sameer Gupta: No, so all other markets are contributing, right? But of course, because of the sheer capacity in North India, 65%, 70% keeps on coming from North India, but this skewness will change. Happy to share that we are very close to or very near to start putting up the plant in Eastern UP which will cater to East India and UP market with deeper penetration. Then at the same time, we are aggressively looking at acquiring land in Maharashtra for the West region. So, as these two new plants shall start operations by FY '25, you will see that this skewness will shift more towards rest of India.

Bhargav Buddhadev: And share of HDPE will be about 10%, right?

Sameer Gupta: Yes. I mean, 10%, 12%, 13%. Not more than that. Yes.

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

Ritesh Shah: Sir, in the initial remarks, you did indicate that we went, we adopted aggressive marketing strategies to actually push volumes. Sir, just was trying to understand this because working capital we have done a fantastic job. EBITDA per kg is also pretty much okay on a sequential basis. Then what's the magic formula over here? Is it a product mix or anything different that we are doing on the marketing side?

Sameer Gupta: So, Ritesh, see, the magic formula is or I would say magic recipe is mix of multiple ingredients, which have now started to play, which I will start with the brand Apollo, which is among the leading construction material brand in India today. Then our capacity and SQ range in North India where we are one of the largest in terms of market share in the North Indian markets.

Then third, the quality of our products which matches the quality of our products which matches with the top players in the industry. Then our servicing to our channel partners. The fifth ingredient would be loyalty, the relationship what we are carrying with our channel partners for all these years.

Then sixth ingredient will be our aggression, our strong balance sheet which is helping us to go outside North India and expanding into other markets with large capacity announcements and appointing new distributors, new channel partners.

The next ingredient here would be our secondary sales support what we have started offering to our channel partners where we try to generate leads for them. Then the next ingredient would be the Plumber influencer program what we are running to engage with plumbers and make our brand stronger in that segment.

Then the other ingredient would be all the efficient brand campaign what we have run so far, because of our limited ad spend budget, which never exceeded 1.5%, right? So, whatever we could do, BTL, ATL, signing Tiger Shroff, now Mr. Amitabh Bachchan, right? So, rationalization in the ad spends and yes, the team what we have built, which is last but not least, the team which we have built over the last 2, 3 years with the vision of becoming one of the top three PVC pipe brands in India.

Ritesh Shah: This is helpful. My question was more towards bundling change in product mix. If you could please highlight over there, that would be quite useful.

My question was more towards any bundling strategies that we are adopting in the marketplace given housing as a segment has been a key focus area for us. So, that was one. And secondly, has our product mix drastically changed? If you could give? Earlier we used to give break up of fitting, uPVC, HDPE. Anything over there would be quite useful.

Sameer Gupta: So, bundling, Ritesh, of course, uPVC is what we started with in 2017. Then we introduced uPVC fittings. Then cPVC. Then we got water tanks. Then we got solvents, and now we are getting bath fittings, plastic bath fittings, right? So, these are the major product segments which we are doing. So, there is no strategy or no game plan to get into like non-PVC range for short for the next 3, 4 years still like I said initially that 300,000-ton capacity 70% utilization. So, till then I have no plan to add any other product.

And the second question was on, Ritesh, can you please repeat?

Ritesh Shah: My other question was on you indicated to Bhargav's question. I think 65%, 70% of the volumes is in the North. Can you highlight how much is a state level exposure? I understand UP is a big market for us, and we deal heavily on Nal Se Jal. How should we look at, is there any concentration of risk over here to the state level schemes that we have? Any numbers that you can share, that would be useful.

Sameer Gupta: I wouldn't think so, because from our UP plant, the existing plant, we are not only catering in UP, but we are catering to Punjab, to J&K, to Rajasthan, to Haryana, right? So, North is not just Uttar Pradesh. Being the size of the population in UP, it will carry the bulk of revenue, but it is spread as the map of India.

Moderator: Thank you. The next question is from the line of Dhananjai Bagrodia from ASK. Please go ahead.

Dhananjai Bagrodia: Just to understand year-on-year our realization was only down 6%, while PVC prices have been around 12% to 13%. Maybe I missed this earlier. Is this all product change or have we been able to increase prices and not be comparatively similar to some of the competitors?

I was saying compared to our realization is only down 6% year-on-year, compared to PVC prices has been down 13% year-on-year. Maybe I missed this earlier. Is it because we have taken price increases in August similar to competitors or has there been some product change?

Sameer Gupta: Yes, Yes, no, no. So, this is product mix, Dhananjai, because when you look at the industry trends, that's only for PVC, right? But we use other components also, like cPVC etc. So, that does not fluctuate as the PVC does, right? So, it is because of the product mix and improving share of value-added products in our portfolio. That also helps us improve our NSR despite the decline in the PVC prices.

Dhananjai Bagrodia: So, how much of the products would be now cPVC?

Sameer Gupta: cPVC is around like 15% to 20%.

Dhananjai Bagrodia: And what would have been a year ago?

Sameer Gupta: 12% to 15% range.

Dhananjai Bagrodia: And B, would you say industry has also grown similar volumes or are we getting from one of the larger players having internal problem and they are losing market share?

Sameer Gupta: No. So, I guess, we are big believer of strong growth in this industry, Dhananjai. Even at this size, we believe that this industry should grow at 10% to 12% year-on-year, and yes, market share gains like we always highlight from the weaker organized players and unorganized players. Wherever we see the opportunity, wherever we see the gap, we just become aggressive and try to get the market share there.

Dhananjai Bagrodia: And so, what would be CAPEX for this year, next year?

Sameer Gupta: So, CAPEX, if you see in first half, we have spent around 45 crores. You would see 16 crores in our cash flow, but then 28 crores is the capital advances which is reflected in the other non-current assets. So, the total CAPEX is around 44 crores. And for the second half, we have very aggressive CAPEX plan because we want to start investing into the Eastern UP plant, and then the ongoing expansion in Dadri area. So, we may end up spending 80 crores for the second half, and the funds we already got equity from the promoters, right?

Dhananjai Bagrodia: Yes.

Sameer Gupta: And cash flow is pretty okay. So, yes, we should be able to fund this easily by March.

Dhananjai Bagrodia: So, let's say 120 crores this year and would you say next year also would be similar range?

Sameer Gupta: Yes. So, till we spend the last dollar to get to 500 crore CAPEX plan, we will keep on spending.

Moderator: Thank you. The next question is from the line of Udit Gajiwala from Yes Securities. Please go ahead.

Udit Gajiwala: So, just one question. What was the advertisement spent for the quarter and H1? And what is budgeted for '24?

Sameer Gupta: Udit, it's around 1.5% only of the total top line and this was a number last year also, 1.5%. You can calculate the absolute numbers. Now, third quarter onwards, now this should increase to maybe 2%, not much, and then maybe 2.5% once we go for complete 360° live campaign. We got Amitabh Bachchan as our brand ambassador. We completed the shoot, ad shoot recently, and now our branding team is working on the complete plan. But like I said, the ad spend will not go above 2, 2.25% of the top line in any quarter.

Udit Gajiwala: Understood. And just lastly, when you say value added product mix, so what is, I mean, including cPVC, there are other fitting's part also. So, cPVC you mentioned is 15% to 20% of fittings and all together total value-added products for the quarter versus last quarter.

Sameer Gupta: Yes. So, I mean, starting with uPVC fittings, cPVC pipes, cPVC fittings, PPR pipes, solvents, water tanks, and bath fitting, so these are the value-added products for us.

Udit Gajiwala: Got it. And what will be the mix of these products for this quarter in Q2?

Sameer Gupta: So, all these products go into housing, right? So, like I said, the housing segment contributed 55% to our top line in Q2.

Moderator: Any more questions do you have, Mr. Gajiwala?

Udit Gajiwala: No, thank you.

Moderator: Thank you so much. The next question is from the line of Dhruv Bhatia from Bank of India Investment Managers. Please go ahead.

Dhruv Bhatia: So, the first question is you talked about by FY '27, you are looking at 400 crores of EBITDA at 75% utilization, Rs. 15, Rs. 16 kg of EBITDA, but when I do that maths, it actually works out to some and it comes out to somewhere about 320, 330 crores of EBITDA versus 400 crores that you are aspiring for. For to achieve 400 crores, you probably need to do almost about Rs. 20 a kg of EBITDA. So, could you just help us understand really how this match is working?

Sameer Gupta: So, I said 300 to 400, right? That was a broad range so 350, the number which you calculated will be 350, right, on 3 lakh ton capacity, 210,000-ton volume with Rs. 15,000 per ton EBITDA, right. So, this number will be like 330, 350 crores. So, that's the wishful number.

Dhruv Bhatia: And secondly just on, as you just mentioned in the previous answer is that the ad spends are not materially going to increase, but I am just trying to understand that when you say that the aggression because of which, because of the capacity is coming up, where is that aggression? Is it in the realization that you are offering it at cheaper rate than the others? What is it that the aggression? Because it doesn't seem to be reflecting in ad spend. So, which line item is it that this aggression in terms of 5% cheaper than competition, 10% cheaper, or is it just distribution margin is higher?

Sameer Gupta: So, Dhruv, see, I mean, last year, my top line was 900 crores, right? And if I spend 1.25% on advertisement, that number would be 10 crores, 11 crores for full year. Now this year our target is 1,200 crores, right? And if I spend 2.25%, my number will be 25 crores. So, 10 crores going to 25 crores, this is enough ad spend for a brand of our size to amplify. We don't need the 50, 60, 70 cores of ad spend to be aggressive. That's the strength of APL Apollo brand, which we have.

So, secondly, aggression, like I said, all the ingredients which I highlighted, and we are not selling 10% cheaper than our peer brands, because if that were the case, I mean, we wouldn't be showing 10%, 11% EBITDA margins. So, the discount what we offer versus our peers is not more than 3%, 4%, 5% depending on the market.

In North, we don't have to offer any discount where I have the leading market share, right? So, the discount which we offer is for the new territories where we are going, we are trying to penetrate deeper.

So, aggression, I mean, that's what we learned from our sister company Steel Tubes, right? It's not just like spending money on television and media and newspapers which will result in sales push. There are a lot of other factors to have the plant at right location, to have the right channel partners, to have the right servicing for your channel partners, to offer financing services, other add-ons to your channel partners.

So, all these mixtures will have, all this has helped us to be industry leader growth for last four years, and we are confident that this will continue for the next four years as well.

Dhruv Bhatia: And just on the EBITDA per ton, Rs. 15,000 aspirations when should we expect this to play out, right? I mean, we are seeing, you are still somewhere about 12 odd rupees. Is it something that you are expecting from FY '25 onwards or do we see something on improvement in profitability in FY '24 also?

Sameer Gupta: No, I guess, I would say, FY '26, because in the next 18 months, we are going to be spending heavily on new plants' expansion, right? So, it will always have some front cost, which will be uploaded, which will depress my EBITDA per ton. What you should look forward to is our gross profit per ton. So, that should slowly, gradually improve because of our improving product mix, but at EBITDA level if you have to see a good jump, you should see that in FY '26.

Dhruv Bhatia: And just last question is on the new facilities that you intend to put. One is in Eastern UP and the other in Maharashtra. For Eastern UP, is the land already you already purchased the land, are you in final stages and as and when that happens which quarter should we see in FY '25 that the plant will get commissioned? And same for Maharashtra as well.

Sameer Gupta: So, for Eastern UP, the land acquisition is in advanced stages, and we should be able to complete the land acquisition by end of next month, before the end of next month. And first commercial production we have planned to start by August '24.

Dhruv Bhatia: And sir, for Maharashtra?

Sameer Gupta: Maharashtra is still going on. So, we will be able to give you some updates once we have zeroed down on some particular land. As far as Eastern UP is concerned, we have zeroed down, and it is under process actually. So, in the next two to three weeks, land acquisition will be completed.

Moderator: Thank you so much. The next question is from the line of Keshav Lahoti from HDFC Securities. Please go ahead.

Keshav Lahoti: So, you said the last question, the land acquisition for UP will be done by November end and the facility will start by August. So, you are implying 10 months is enough to start the plant, right?

Sameer Gupta: I said first commercial production will start by August 24th. The project may take another two, three months to get fully completed. So, it's like there are multiple lines, right? It's not just one line. There are multiple lines. So, we always try to advance the commercial production by stabilizing line number one, and meanwhile the work continues for the other lines, right. So, yes, the plant will be fully operational by end of '24, but first commercial production should start from first line in August.

Keshav Lahoti: In a earlier question, you mentioned that the pipes volume for agri degrew by 3% to 5% quarter-on-quarter and housing was flattish, but if I see your overall number, your pipes volume is down by 7%. Am I missing something because that numbers are not adding up?

Sameer Gupta: Yes, so just one correction that the agri pipe volume was down 10% Q-o-Q.

Keshav Lahoti: We have seen a sharp correction in PVC and cPVC prices. So, just wanted to get a sense, how was the channel inventory at September end and right now? And what is your sense on the resin prices going forward on both side, PVC and cPVC?

Sameer Gupta: Yes, the channel inventories at the end of September, it was totally you can say bottomed out. They were running on very low inventories, the channel partners, because of that drop. That was already anticipated in the market. So, they were not carrying any big inventories, but right now as after the drop in October, the prices have increased in the last week by Rs. 1. So, that has again tried to gain the momentum back to the channel inventories are now again coming back to the normal level.

Again, the Diwali festival is after two to three weeks. So, a lot of uncertainties are there. Still the prices are on the upper trend for now. So, channels are right now filling up, and they are trying to come to the normal level. Still, they are not going for any overstocks, but right now the positive movement of the price they have right now you can say covered up some of the, you can say, channel inventories to the positive level.

Keshav Lahoti: And is it a correct perception that cPVC resin prices has also bottomed out? We shouldn't see any more corrections.

Sameer Gupta: It has actually bottomed out because the prices that is right now running in the Indian market, it is below the at par prices that what prices should be. So, you can say whatever prices right now it is, it is bottom prices only because these prices don't have anything, you can say, for the cPVC manufacturers in hand. So, they are trying for the prices to go up. So, we may see sharp corrections in the near future in cPVC also.

Keshav Lahoti: One last question from my side. Last year your normalized EBITDA per Kg was 16.5. Now we are talking looking at some numbers like 12 in this quarter and 15 after 3 to 4 years. So, why is there such a big mismatch when you are doing more value-added production, your EBITDA per Kg should reduce in next three to four years or was last year was not 16.5?

Sameer Gupta: No, so last year was, of course, 16.5, which was audited by auditors, right? But this reduction is on account of four factors. Factor number one is putting up new capacity, doubling the capacity in 3 years. The new plants take time to stabilize to start commercial production and ramp up the capacity utilization levels to 60%, 70%. So, initially, you will not get the desired EBITDA per ton from the new plants, and for 3 years we are going to be in the continuous expansion phase. So, that's why we want to guide the investor and analyst community that factoring that, we should be in that range 12,000, 13,000 per ton at EBITDA level.

Second factor will be the ad spends from 1.25%, which we were for last so many years, now we want to take it up to 2%, 2.5% because now we are going aggressive in the rest of India, outside our North market, which has been our home ground where we have reached the levels of 1100, 1200 crore revenue.

The third factor will be, of course, right now our focus is on aggressive volume growth, aggressive market share gain. In 2017, when we got serious into this business, our market share was less than 1% at pan-India level. Today, as we are talking, in 5 years, our market share is 2.5%, 3%. Now the aspiration what we have for 3,000 crore revenue, our market share should be for 4%, 4.5%. So, we need to remain aggressive, and if we have to let go some margin compromise on some margin, as management team we have taken that decision.

And reason number four, this value addition, our product mix eventually will go to 75-25, 75% housing, 25% agri. It will happen gradually, because all the new capacity what we are building is more towards housing, and the results would be seen only by FY '26, FY '27. So, that's why we just want to keep nominal expectations for our investors and analysts. And obviously, we are aggressive on volume and a little conservative on the margin front while guiding to the investors, but you should look for positive surprises for sure.

Moderator: Thank you. The next question is from the line of Nikhil Agrawal from VT Capital. Please go ahead.

Nikhil Agrawal: Sir, just wanted to understand like you said there was channel destocking in September. So, was that mostly restricted to the agri side or was it on the plumbing side as well?

Sameer Gupta: So, Nikhil, destocking happens for every segment. It is never restricted for one category, right? The decline in agri volume in Q2 is because of the seasonality. Q1 is always stronger for agri sector and Q2 because of monsoons and rains and floods at many parts of India, agri will always be slower. So, destocking because of decline in raw material prices, that is across segment always.

Nikhil Agrawal: And what about across the different various categories PVC, cPVC, HDPE, all these three categories are like channel destocking, inventory destocking?

Sameer Gupta: HDPE is infrastructure related product, right? So, there, there is no stocking. The contractors they buy as and when they require the pipe. So, there is never destocking or restocking.

Nikhil Agrawal: So, basically, PVC and cPVC, both of them were the two reasons they saw destocking in September.

Sameer Gupta: That is right.

Moderator: Thank you so much. The next question is from the line of Pranay Shah from Systematix. Please go ahead.

Pranay Shah: First of all, congratulations for the good set of numbers. My question would be that we have a very huge CAPEX plan going ahead in different regions. While I understand that for pan India expansion, the transportation would be difficult. So, we have to build up capacities in different regions, but with respect to the existing capacities, my question was that the utilization levels currently are a bit lower. So, what initiatives we are taking on that aspect to raise up the utilization level? Like, I understand that going beyond 80% utilization levels is not possible under the industry, but we are operating well below those levels. So, is there any initiative on that aspect, like, how do we plan to go about on the same?

Sameer Gupta: So, Pranay, if you see, that our capacity today is 136,000 tons, although by March 2024, there will be slight increase in the capacity by 5,000, 6,000 tons, but the current capacity which we had till second quarter, till September 30th 2023, the available capacity was 136,000 tons, and this year at the current run rate, we should be doing 85,000 tons of sales volume. So, right now we are at 63% utilization levels.

Now, if you look at Apollo pipes or all the larger PVC pipe players, the utilization levels across the industry never go beyond 70% because of the seasonality factor of the product. So, one is that agri is Q1 heavy. Construction is always Q4 heavy, right? So, there are like Q2 and Q3 will always be kind of leaner quarters for this industry. So, because of the seasonality and ever expansion of SQ range for the fittings, for the pipe diameter, the utilization levels will always be in the range of 65% to 72%. Industry operates at these levels.

So, we are also kind of near 63%, 64%. From existing capacity 136,000 tons, we can do 90,000, 95,000 ton easily, which you will see the numbers coming in Q1 FY '25 onwards. So, till Q4, we should be doing 20,000, 22,000 tons per quarter and Q1 FY '25 onward you will see this number going to 24,000, 25,000 ton on the existing capacity.

Pranay Shah: And another question would be that we are going on aggressive CAPEX mode right now. So, the capacity which we are planning to come, it would be coming in phases. So, could you like give a brief idea on how much capacity we plan on adding for the next three years? Like, for each year, how much capacity would be added since it's being added in phases?

Sameer Gupta: Yes, so broad base, I will tell you, FY '23 last year we were 136,000 tons. This year FY '24 we want to close with 142,000 tons. Then next year, 200,000 tons, FY '25. FY '26, 225,000 tons. FY '27, 286,000 tons.

Ashish Poddar: Sagar, I have few questions. So, I will pitch in now. So, related to again the quarterly results, on the employee cost, quarter-on-quarter we are seeing the line items having increasing trend. Even in this quarter we saw it is increasing 8% on a quarter-quarter basis, 23% Y-o-Y. So, in the coming quarters, will we see more higher numbers, or it will stay here? Any color?

Sameer Gupta: So, Ashish, now if you see my employee cost per ton, it has come down on Y-o-Y basis, employee cost per ton. If you look at Q-o-Q, it has increased because of two factors. One is that Q1, I mean, Q2 had the factor of increments for the employees. So, Q-o-Q is not the right criteria to evaluate, but on Y-o-Y basis my employee cost per ton has come down. And the second, now that we are in aggressive hiring mode both at the plant level and at the sales level, employee cost should remain at like 8,000 per ton plus.

Ashish Poddar: And similar trend on the other expenses. So, while you alluded to aggression on A&P and other activities to boost your sales, but what is the normalized number you are seeing on the other expenses side? Because the general understanding is that when you are growing very fast because of operating leverage that should reflect in your EBITDA, but in our sense, you are still guiding a very low number of around Rs. 12 EBITDA despite growing at 25%, 30%. So, if you can better color on that?

Sameer Gupta: Right. So, operating leverage gains, see, I mean, now if you look at my existing capacity, you shall see operating leverage gains, but because, see, I mean, now why my Q2 EBITDA per ton was lower when my gross margin expanded, right. So, all the expansion, the Brownfield expansion what we are doing in Dadri, there a lot of resources got utilized. Power cost, employee cost, then other expenses. My ad spends improved slightly, right? So, all these factors lead to depression in the EBITDA spreads.

Now this trend will continue for next 2, 3 years. Like, now from every quarter you will see one line adding to in Apollo Pipes. Now all the year-wise capacity targets which I gave like 141,000 ton this year, then 200,000-ton next year, then 225,000 ton following year, and then eventually 286, so every quarter you will see few line getting added in Apollo Pipes. They will not be giving the yield to what my existing plant is offering or giving, right. So, taking that into consideration, we are a bit conservative, but like I said, there shall be positive surprises in the margins.

Ashish Poddar: And in this quarter, the last quarter, any inventory gain loss which we booked?

Sameer Gupta: So, PVC prices if you see like June versus September average, quarterly average, there was slight improvement in PVC prices, right. So, that could have led to some, some, some like very paltry gains, not to be even mentioned. Now how the third quarter pans out, we will see. Right now the prices are down, and if at all there is a rebound, then we may end up being flattish in terms of any inventory write down, but at these level, there could be again some paltry nominal write downs if PVC prices remain at this level.

Ashish Poddar: But one of your peer group company, he stated that because of a sharp reduction towards the end of the quarter, sharp reduction in PVC prices towards the end of the quarter, they could see some kind of loss, but we are saying that for us it was a small gain.

Sameer Gupta: Yes. Ashishji, actually what happened that PVC increased in the quarter two. If you see the absolute figures, they increased, but actually the increase was not casted out. Whatever the increase are, we cannot fetch those increases from the market because of depressed market and eventually the drop happened in the month of October.

So, if you go by the numbers that the drop was not there in quarter 2. That drop was there in quarter three which will happen right now which we are going through right now. So, there is no such impact on the prices, you can say it is on offer, but we cannot, you can say, fetch the gains of those prices, that whatever the increase was, we cannot fetch from the market because of that depressed market conditions.

Ashish Poddar: Management, you can give any closing remarks, if you have.

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

Rahul Agarwal: Just one question. I think the CAPEX you mentioned is 44 crores in the first half, 80 crores in second half. That basically means it's excluding land acquisition, right?

Sameer Gupta: No, no, everything, Rahul.

Rahul Agarwal: So, my sense was, I think this year it was including land. I think it was like 250 crores. Isn't that correct?

Sameer Gupta: 250?

Rahul Agarwal: Yes.

Sameer Gupta: No, no. See, I mean, we are going to spend 500 crores, Rahul, in three years. So, average comes out to be 150, 160 every year.

Rahul Agarwal: That includes land as well, right?

Sameer Gupta: Yes, that's right. 500 crore number for….. So, I don't know if Rahul is still there or not, but just to clarify on your point that, see, when we are saying that taking capacity to 286,000 tons from 136,000 tons, this will require CAPEX of 500 crores. Now this 500 crores is inclusive of everything. Land, machinery, everything.

Rahul Agarwal: No, so I think last call we discussed 150 to 300 crores depending on when we buy the land. So, hence I was just trying to reconcile that number. So, that's fine. I understand that.

Sameer Gupta: So, what we had said was that we are ready with 500. If I find three plant locations, and if I have to invest 500 crores in one year, I am ready with the money. But it won't happen. Good things take time, Rahul.

Rahul Agarwal: And just one more clarification which is related to what you just said, that the money is ready. The balance sheet says it's about 54 crores of net cash as of September.

Sameer Gupta: That is right. With the 200 crores of equity to be infused by promoters and employees.

Rahul Agarwal: But that's due. So, that can be called for any time, is it?

Sameer Gupta: Yes, that when the company needs, that will be done next day.

Moderator: Thank you. Well, as there are no further questions from participants, I now hand the conference over to the management for the closing comments.

Ajay Kumar Jain: Thank you. 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. Have a great day.

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