“Apollo Pipes Limited Q3 FY-21 Earnings Conference Call”

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MODERATOR: **MR. ANKIT GOR – SYSTEMATIX INSTITUTIONAL EQUITIES**

Moderator: Ladies and gentlemen good day and welcome to the Q3 FY21 Earnings Conference Call of Apollo Pipes Limited 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. Ankit Gor from Systematix Institutional Equities. Thank you and over to you sir.

Ankit Gor: Thank you, Steve. Hello everyone, on behalf of Systematix, I welcome all to the Q3 FY21 earnings call of Apollo Pipes Limited. From the management side we have Mr. Sameer Gupta, who is a Managing Director and Mr. Ajay Kumar Jain, who is a Chief Financial Officer of the company. Without much ado I would like to handover call to Sameer ji and the management participants for the opening remarks, after which we can open floor for Q&A. Thank you and over to you sir.

Sameer Gupta: Thank you everyone. This is Sameer Gupta. Good afternoon and thank you for joining us on our Q3 and nine months of FY21 earnings calls to discuss the operating and financial performance for the quarter. I trust that you and your families are safe. I hope you all had the opportunity to go through our results presentation which provides details of our operational and financial performance for the third quarter and nine months ended on 31st December, 2020.

To begin with I am happy to share that we have reported an encouraging performance during the quarter led by strong recovery and robust consumption across markets. Our total sales volume has marked a steady improvement of 7% Y-o-Y to 11,445 metric tonnes per annum for nine months in Q3 FY21, mainly driven by a healthy contribution from our CPVC and value added product segment of fittings. In addition, our latest product launched Apollo Life Water Storage Tank had also assisted volume performance during the quarter. On the whole we are seeing increasing traction in demand across our product categories.

On the operations front, all our greenfield and brownfield manufacturing expenses across facilities are progressing as per schedule. The operationalization of our greenfield facility at Raipur is also marking healthy progress and we remain on track to commission this facility by March 21. The plant is a proposed capacity of 7,200 metric tonnes, will provide a strong impetus to our overall volumes. All our facilities are also now operating at stable utilization levels and as operations further normalize it will help us boost overall volumes going forward.

I'm also happy to share that inquiries and wins for our latest launch; Apollo Life Water Tank is seeing a strong buildup in the domestic markets. In order to address this increased demand for the product we have already doubled our capacity for this work at our Sikandrabad plant and one unit at Tumkur plant. We remain confident that this product along with our other value added offerings, like fittings, solvents cements, bath fittings, adhesives will enhance our reach and strengthen sales going forward.

We are constantly working towards augmenting our presence across existing and new potential geographies. The operationalization of our Raipur plant in to 2022 will enable us to grow our footprints in the untapped market of Eastern and central India further the launch of value-added products enhance planning activities and phase wise capacity expansion across our facilities should further build the momentum for us going forward.

On the whole we are confident for the future growth potential and opportunities across the domestic market over the medium and long term. On that note, I would now like to invite Mr. Ajay Jain to run you through the key financial highlights. Thank you and thank you for joining this call.

Ajay Kumar Jain: Good afternoon, everyone. I will briefly cover financial performance during the quarter and nine months ended 31st December, 2020. The company delivered healthy operational and financial performance during the quarter, led by an uptick in demand and consumption in the domestic markets. Total income from operations for the quarter stood at 128.1 crores, up by 28% as compared to 100 crores in Q3 FY20. Sales volume for the quarter grew by 7% and stood at 11,445 metric tonnes per annum as compared to 10,712 MTPA in Q3 FY20. Total income from operations for nine months FY21 stood at 343.9 crores as against 313.8 crores, higher by 10% Y-o-Y. On the profitability front EBITDA for the quarter grew by 139% at 25.5 crores as against 10.7 crores in Q3 FY20. I would like to highlight here that there were notable price increases in raw material prices during the period due to which there has been a one-time inventory gain. This has resulted in sharp increase in EBITDA margins which stood at 20% in Q3 FY21 as against 11% in Q3 FY20. However we anticipate EBITDA margins to normalize going forward. EBITDA for nine months FY21 stood at 47.2 crores, higher by 32% as against Rs. 35.8 crores in nine months, FY20. Margins for nine months FY21 stood at 14% as against 11% up by 232 bps. Though depreciation cost stood at 11.8 crores in nine months FY21, in Q3 FY21, it stood at 4.4 crores, as compared to 3.4 crores in the same period last year, higher by 32%. PAT for the quarter stood at 16.3 crores, up by 145% when compared to 6.7 crores in Q3 FY20. PAT margins for the quarter also stood at13% as compared to 6% in Q3 FY20, higher by 609 bps. PAT for nine months FY21 grew by 25%, stood at 27.8 crores as against Rs. 22.3 crores in nine months FY20. PAT margins during the period stood at 8% as compared to 7% in nine months FY20, higher by 101 bps.

From this quarter onwards we have discontinued sharing the segment wise revenue details because of the sensitivity of the data and hope we can provide the details in due course. On the balance sheet front, our net cash position stood healthy at 29 crores. Our CAPEX outlook remains steady and we expect to fund the same through internal accruals.

On the working capital front, additional raw material requirements at newly commissioned capacities may moderately impact inventory levels in the near term. However our endevor remains on maintaining our overall working capital cycle at stable levels. With this, I would now request the moderator to open the forum for any questions or suggestions that you may have. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Bharav from Kotak Mutual fund.

Bharav: Sir my first question is that we've seen a significant increase in PVC prizes. Just wanted to have your thoughts in terms of what is the impact of this on the volumes per se?

Sameer Gupta: The prices are almost at the peak right now and the industry is witnessing the same but as you know that there is no much alternates to this product. So the volume may be deferred for a short time but it cannot be avoided. So we don't foresee any much volume impact on this product going forward despite the prices are high. But the market will stabilize and the volumes will be again back to normal once the prices are stabilize in the mind of consumer.

Bharav: Secondly any views in terms of where can be these prices, sort of stabilize, you mentioned that there are all time high levels. So essentially what are your thoughts in terms of where these prices could stabilize in the medium term?

Sameer Gupta: Right now because in India, if you see that almost 50% or 60% of the demand for PVC product is catered through the imports and because of logistics issues due to COVID going across the world, the material availability is a real problem. Once this thing stabilizes, we can see that the prices will be stabilized but we don't see too much drastic change in the near future for this product. Minor changes maybe there but we don't see right now too much drastic change. The prices can stabilize and going forward around 6 months or 9 months down the line it may go back to a normal stage.

Bharav: In these uncertain times how are we planning our inventory because are we resorting to reducing our inventory levels, given that we expect a correction in the price or how are we doing it?

Sameer Gupta: Of course with the prices to be all time high, we are very much cautious regarding the inventory level of our plants and we are trying to work on the minimum level that will benefit us on the both sides, worst is the working capital cycle will be low and other the inventory loss will not be there too much and we are seeing the strategies for purchase because we are mainly dependent on imports for our purchases. We are planning in such a way that the minimum impact should be there on our profit lines.

Bharav: Lastly in terms of our water tank business, is it possible to share our manufacturing capacity and have we tied up with any outsourcing partners?

Sameer Gupta: Right now we have not tied up with any outsourcing partner. During the third quarter only one machine was available and three more machines were under installations, in which two machines have been installed in the last month of late December, somewhere around last week of December. So from this quarter onwards we will be seeing the numbers for next two machines and our fourth machine will be coming in Raipur. So that number will be coming from the Quarter 1 next year and right now we don't have any tie-up with any service provider.

Moderator: The next question is from the line of Madhav Marda from Fidelity Investment.

Madhav Marda: My first question was our volume growth for this quarter has been 7%, broadly at the industry level what would it be for PVC pipes?

Sameer Gupta: We are not very much sure because the numbers from other companies are yet to come but there has been a pressure on the volumes because of the all time high prices, the dealers and the retail networks, they are trying to reduce the inventory and working on day-to-day basis on need to need basis. So because of that thing a little bit of pressure is there on that volumes but going forward we don't see too much backlog on this account because as they inventory level will go down then they have to purchase their daily needs and the projected needs of their demand from us. So going forward there will not be any much impact on the volumes. As a concern we talk about the rest of industry, it should be at par with our volumes. I think so. Yeah. I, I cannot hear you please repeat again.

Madhav Marda: My question was that given that PVC prices bit high and we hear smaller PVC players struggling either to get raw material or to fund working capital, so because of that can there be more consolidation in this space in 2021?

Sameer Gupta: There can be because for the smaller players it has been a tough year because of the all time high premium on this product and the material was not available as the price was too high, so they were not able to sell their products. So there may be some consolidations in this numbers but right now we don't have any such data with us that how many such players have suspended their production activities and what is the set impact on them. So we cannot comment right now on them.

Madhav Marda: In our reported results, is it a possible to give us a broad sense as to how much did the inventory gain contribute towards the margin expansion versus the product mix improvement that we have achieved?

Sameer Gupta: Of course there is the inventory gain in this quarter but it is very difficult for us to determine because of the regular movement of material and we have been regularily selling our product, so it is not very easy for us to calculate. But we are actually very much focused to have a sustainable EBITDA margin of 12% to 13% of our product and we are also working on the value added production that is also supporting us in our EBITDA levels improvement. So it should be a good number and some part of this profit margin is from the inventory gain but it is not very easy for us to calculate it.

Moderator: The next question is from the line of Agastya Dave from CAO capital.

Agastya Dave: If I look at the quarter-on-quarter numbers compared to Q2, our volumes have dipped. So how should I look at it because I am not very sure how seasonality pays out and this year Q2 was impacted because of Corona, so how do I look at that and you mentioned that there is a volume pressure. Can you quantify that how much; is there an estimate to that?

Sameer Gupta: First of all, there has been a volume contraction if you see quarter-on-quarter but because of that we have started after COVID in Quarter 1 in somewhere in late of May and there was lot of demand backlog in Quarter 2 or nearly Quarter 2 is back on the demand side but because of the backlog of the Quarter 1 we saw good demand from that Quarter 2. But because of that the demand shifted a bit from June to July and August. So we saw good jump in demand in Quarter 2. But if we talk about Quarter 3, we were mainly focused on building products and value added products and because of all the time high prices the impact was there on some of the agri products. But we were much more focused on building products and this CPVC and other bath fittings and adhesives. So were getting good response from there. so that helped us in improving our operating margin as well as the top line was also very much gained because of that thing. There was some impact on this agri products which we will see that it should be back on track in this quarter because the inventory levels are again going down with the dealers and the retailer network.

Agastya Dave: Sameer bhai I know it's a very tough thing to estimate but how would you gauge the demand as of now, the strength of the demand because I understand prices are high and because of that people maybe postponing a bit? But are you satisfied with what you're seeing, is it encouraging or do you think we will see some sort of a slowdown?

Sameer Gupta: At Apollo we are in a growing stage and we are increasing our product SKUs, along with that we're also increasing our geographical markets. So we don't foresee any much challenge on our side, being a very small size in numbers in the industry, we are almost at 1.5% to 2% of the total industry. So we don't see any much challenge to us. There may be a slowdown across the industry but not to that level because of the high prices the inventory level with the dealers and retailers are also at very low. So the demand should be continuing in the coming quarters.

Agastya Dave: The PV price spike, could you quantify how much the prices went up by last quarter compared to Q2?

Sameer Gupta: I don't have the exact figure at what prices Quarter 2 ended but it should be somewhere around 30% to 40% price hike should be there on PVC.

Agastya Dave: Quarter-on-quarter and has it stabilized or is it still going up, let's say last 15 days?

Sameer Gupta: It's right now stabilized, and a bit of correction is there of around 2% to 3% but that is not again impacting because of the availability of the material. It is not available in ample because of the COVID situation. The transports and the vessels are not available. So the challenge is still there.

Agastya Dave: You mentioned that you would be reducing inventories, a better inventory management, so can you throw some light on how are you managing it because if you over correct then probably you will have material shortages, so how are you managing that?

Sameer Gupta: I understand that thing and we are trying to have some local sources for our procurement for at least next 5 to 6 months, so that the inventory problem should not be there at our plant. Along with that again we are optimizing the stock levels because of that thing we can also manage some inventories over here.

Agastya Dave: One last thing, last call you mentioned that your target for existing assets with the existing asset base you were targeting three times asset turnover and a 12% EBIT. Now obviously the prices have gone up so the asset turnover obviously will be impacted so that I understand, but on the EBIT side, do you think that long term 12% is sustainable or slightly more than that, are you changing that view?

Sameer Gupta: We are focusing that thing only, because we are also trying to increase our market share along with that. In this quarter we have seen a good demand from the CPVC and the fitting segment and there's a good growth on both the sectors. Going forward the margins should be minimum 12% to 13% in the coming quarters.

Agastya Dave: EBIT level?

Sameer Gupta: I am talking about EBITDA level.

Sameer Gupta: It would be around 10% to 11%.

Agastya Dave: So thank you very much, sir and all the best for the next quarter.

Moderator: The next question is from the line of Punit Mittal from Global Core Capital Ltd. Please go ahead.

Punit Mittal: Thank you for the opportunity. A couple of questions, one is, I think you mentioned in Q1 that you are targeting about 60 to 70 crore of revenue from your Water Tank business in FY21. Does that target stay or does it change?

Sameer Gupta: Right now I don't remember but in FY21 60 to 70 crores from tank business, I don't think it is right now possible because the capacities is not that much. We have only one machine at Sikandrabad in which we will be achieving somewhere around 15 to 20 crores on annual basis of this tank business. But going forward in the next year, we can target this amount. Because of that our capacities will be available from this quarter onwards Q4 onwards. So after that we will be able to achieve that number.

Punit Mittal: So, let's say from FY22 annually from each machine how much do you target? What revenues do you target from each machine?

Sameer Gupta: Roughly around 15 to 20 crores per machine will be there. And multiplied by 4, it should be around 60 to 70 crores.

Punit Mittal: The second question is would you be able to give some color on your geographical distribution and revenue? Now I know you were very strong in North and some Western part and you were trying to expand into East and South. So what is the distribution of revenue now and how do you see that panning out going forward?

Sameer Gupta: Going forward we have installed capacity at Tumkur plant for PVC and tanks and fittings and we are getting good response over there. So going forward, we think that the South will also be a good base for Apollo in the coming days. Along with that, we are also getting good response from other markets like Western India, and that from Ahmedabad plant we are feeding the Western Northern of Maharashtra and southern of Rajasthan along with some parts of MP and going forward from this Raipur plant, we will be feeding central and the Eastern India mainly. So right now, much more focus is on the Southern plant because Tumkur is a big plant and we see that in the next year we should be seeing some good market presence in those markets. Along with that in the next one or two years we will also be seeing some good footprints in Eastern India.

Punit Mittal: Currently how much percentage of revenue is coming from like North versus other regions?

Sameer Gupta: Tumkur is roughly right now contributing around 10% to 15%. And along with that Dadri plant is mainly focusing towards the Northern market. And along with that from Dadri plant we are also supplying to all the parts like in Maharashtra or in Gujarat or in Tumkur fittings and the other range of the products because all the products are not being manufactured all across the plants. So bit of stock transfers is also there. So put together the South should be around 10% to 15% minimum and going forward it should be around 20% to 30% in the next year.

Punit Mittal: And a last question from me is that you mentioned that due to the extensive distribution network your delivery time is reduced to 48 hours from 10 to 12 days. How does that compare to the competitors in terms of the delivery time?

Sameer Gupta: I am not exactly aware of how many days they are taking to deliver the goods, but 48-hours delivering the goods is good time in the industry and if we are able to maintain this 48-hours delivery we'll be getting good response from the market.

Punit Mittal: Do you think given the current situation where you just mentioned that dealers are trying to reduce the inventory, this 48-hour delivery time gives you some advantage because you are able to replenish the stock very quickly with the dealers?

Sameer Gupta: Yeah, of course, it will.

Moderator: The next question is from the line of KVRS Babu from Vishar Portfolio Investment Pvt. Ltd. Please go ahead.

KVRS Babu: Fittings is almost 20% of our revenue last quarter and at what level you want to see the fittings, same as our main product or at what level you want to see fittings in the next 2-3 years?

Sameer Gupta: Fitting is still our main product and the level right now it is around 20% to 25% only and it will be around 25% to 30% at peak level also. At this level also fitting is contributing mill and will be a main contributor to the top and the bottom line. And going forward if we increase the sales volume of fittings, then it will also have an impact on pipes also. So if we increase the sales of fittings it will also be added in the sales of pipes. So percentage will be around this thing only going forward.

KVRS Babu: What is the margin for fittings?

Sameer Gupta: It depends because there are lots of SKUs of the fittings and it is from product to product like agri fitting or UPVC fitting or CPVC fittings as we have been diversifying in all the three products, so they have got a little bit of different margins. But it should be somewhere around 20% to 25% of EBIDTA margin.

KVRS Babu: Is there any market share gain from unorganized sector because of COVID or this raw material pricing, they are unable to produce?

Sameer Gupta: Of course certainly, you can say market gain from the unorganized sector because of the all-time high prices and the premium was too much and the unorganized players were not able to feed the market because of the sourcing from open market was very high. So definitely the organized players have gained on this account.

KVRS Babu: And what is the industry growth you are expecting, I mean, presently Government is giving lot of things to mainly agri people, farmers and our main product is UPVC. We are expecting any big change in industry growth or it will be same as the previous years?

Sameer Gupta: Actually, if you see the industry growth it is right now stable and a bit of impact of COVID is there because of the unorganized sector not able to perform well because of the high prices. Along with that, the government is also supporting us for this product be it agriculture or the housing plans that are going on in India. So, we see that there should be a good growth in this product of UPVC or CPVC because all these products are going in this sector. So there should be a good growth of around 7% to 10% in the industry.

Moderator: The next question is from the line of Abhinav Sood from Z M Investment.

Abhinav Sood: I wanted to know how are we seeing the PVC price momentum going forward for the next one to two quarters only, not beyond that, because beyond that you obviously mentioned that the prices would normalize, for the next one to two quarter how do we see the prices.

Sameer Gupta: There should be a pressure on prices of PVC because it is all time high. But along with that in the next one to two quarters the main PVC season period is also there. So there is a little bit of confusion in the market, whether to stock the material or not stock and just run the plant with very low or zero inventory. So a bit of confusion is there, that call we have to take and industry is also cautious regarding that thing. In the next one or two quarters, we don't see too much drop in the prices. Along with that because of the robust demand in the Q1 FY next year, so we have also to keep the inventories with us. So seeing that the prices should not be impacted too much in one or two quarters. But going forward after June or July there should be an impact. But international market behavior is also an important thing to watch in this aspect because if the material is not available and the vessels are not available so it will again be a challenge for us to procure the material and the prices will remain on the same level.

Abhinav Sood: That's very clear explanation and one more question, EBITDA levels you mentioned, what are the targeted EBIDTA normal levels which you are targeting. Is it 12% to 13%?

Sameer Gupta: Yeah, we are targeting this EBIDTA level only right now.

Abhinav Sood: And we are mainly dependent upon imports, whereas some established competitors are sourcing it from Reliance and other local domestic companies. So why aren't we not sourcing from Reliance and other domestic sources?

Sameer Gupta: We are also sourcing form Reliance, because earlier we were mainly depending on imports, but from last quarter we have shifted our some of the purchases from imports to domestic market and almost around 10% to 20%, of our purchases is from the domestic market, which we are keen to increase. Like I told to the earlier person also that we are increasing this percentage to roughly around 30% to 40% from the domestic market.

Abhinav Sood: Import prices are they higher or lower than domestic prices?

Sameer Gupta: Right now they are roughly around equal to the domestic prices. There is no much gap right now from the import prices and the domestic prices.

Abhinav Sood: Last question from my side, what is capacity utilization levels right now?

Sameer Gupta: Right now capacity utilization level is roughly around 50% to 55% across all of our units.

Abhinav Sood: 50 to 55%. And what are the peak levels we can achieve?

Sameer Gupta: It is roughly around 65% to 70% is the peak level that we can achieve of the total installed capacity.

Abhinav Sood: So 1 lakh MTPA capacity we can achieve around 700 to 800 crores of revenue?

Sameer Gupta: Of course.

Moderator: The next question is from the line of Ankit Shah from Stallion Asset.

Ankit Shah: Just wanted to understand what was the differentiated margins for value added products and PVC pipes and what would be your long term revenue shares from these two products going ahead?

Sameer Gupta: Right now we are much more focused on value added products like fittings and we are getting a margin of somewhere around 20% to 25%, from PVC products and pipes if you talk about, this is roughly around 5% to 10% of the EBIDTA margin. And going forward we would like to maintain the same level because we are much more focused on the market increasing rather than increasing the bottom line because of this PVC pipes, it may hit us, if we increase the bottom line in PVC.

Ankit Shah: What would be the long-term revenue share from these two product lines, value add and PVC, what would be the long term guidance for that?

Sameer Gupta: Roughly around 50% to 60% will be coming from pipes and around 5% to 10% will be coming from other products and this fittings will be somewhere around 25% to 30%.

Ankit Shah: And I just wanted to understand how many distributors of Apollo Pipes and APL Apollo would we same? What percentage of distributors would also be there with APL Apollo, as well as with Apollo Pipes and what percent of distributors are yet to be covered by Apollo Pipes already catering to APL Apollo?

Sameer Gupta: I also told in my earlier calls also that right now we are not much focused upon to target the APL Apollo distributors. Rather we are targeting the dealers and the retail networks so that the retail and the dealer networks could be the same or we may have benefit from them. Some dealers or distributors of Apollo Tubes they are big and they are quite substantial but they are not focused on plastics. So if we go through them then it will not be good for our business. So we are much focused towards the market side where we need to have a good brand presence and the branding of Apollo Tubes should complement us in this product. But if we go through that same distribution network then that would hamper us. So we are not very much focused towards same distributorship, but the markets we are targeting with same and we can enjoy the benefit of APL Apollo branding.

Ankit Shah: But would you have distributors who are already part of APL Apollo currently?

Sameer Gupta: Of course, there are some distributors who are common in both the companies, but we don't have such numbers with us.

Ankit Shah: And just a bookkeeping question, what will be the inventory gain this quarter, if you can quantify the number?

Sameer Gupta: It is not easy to quantify, I told in my earlier part. It is not easy to quantify but it is good because we are selling on a regular basis and the material movement is also there on the regular basis so it is good but we are trying to maintain the EBITDA level of 12% to 13% and we are working out as per that only.

Ankit Shah: When do you expect the capacity to be completely utilized? Actually, so you are going to be lying on 125,000 MTPA by March ‘21 and currently we are at a run rate of 45,000 to 46,000 MTPA and how many years do we expect to be completely utilized?

Sameer Gupta: We don't know actually it's a seasonal product and in the season time we are always running short of the capacities. Running 100% capacity of 125 right now it’s not possible because if you see that going forward, we will definitely increasing the capacity of all the ports again. First, we reach this 125 and we reach a turnover of 1000 crores then going forward we'll be increasing the capacity of all the products again. Going forward the capacity utilization will be good and we are targeting good operational efficiency at our workforce. It should be roughly around 60% to 70% at the peak level. I think so.

Moderator: The next question is from the line of from Achal Lohade from JM Financial.

Achal Lohade: In terms of agri versus non-agri could you give some color on that? Is there any agri mix for us and if yes, what is that mix?

Sameer Gupta: I could not understand what do you want to know?

Achal Lohade: The agriculture, agri pipes, fittings for us. What is that revenue contribution?

Sameer Gupta: The break-up is almost the same. We are working almost on the same line, a little bit of decline in that current quarter is there on the agriculture pipes because of that high prices and some impact because of this extra inventory with the dealers and distributors. But the percent is almost same with the last quarter.

Achal Lohade: Could you please help with the number? I don't have the number in front of me. Would you have that number? Agri, what is the mix, revenue mix or volume mix?

Sameer Gupta: It will be difficult for us to disclose this thing.

Achal Lohade: You said, the agri, the channel inventory was higher in agri and that's why less of primary sales in the quarter. Is that what you said?

Sameer Gupta: Yeah, it is also impacting along with that high prices, a bit of demand is being deferred. That is also impacting and hampering the demand.

Achal Lohade: In terms of the CPVC, possible for you to share how large is CPVC for us in terms of the mix.

Sameer Gupta: CPVC is again growing, it's on the growing side and if you see that the growth of our company on a year-on-year basis is roughly around 28%. The major contribution is there from fittings and CPVC.

Achal Lohade: You mentioned that 7% is the volume growth for us and industry should be similar volume growth at the aggregate level? So how do we tally this unorganized to organized shift, if the industry growth is 7% only for the quarter?

Sameer Gupta: I don’t know actually because it's just the quarter has ended and we don't have the figures from other competitors and other players. We don't have what exactly the industry has performed. Going forward we will have the figures from other players then only we will be able to calculate that how exactly the industry has performed but right now as per our assumptions the industry should be in this line only.

Achal Lohade: In terms of the competitive intensity from the large players; has that gone up or gone down or remained similar?

Sameer Gupta: It is right now for Apollo it is almost similar as the last quarter was, the competition was almost similar.

Achal Lohade: Given the agri season is coming up, have you started seeing more enquiries or things are as they were in the last quarter in terms of agri, given the high PVC prices?

Sameer Gupta: No, there were enquiries because last week, first or second week were more festivals in the Western and Southern India because of Pongal and other festivals there and North was pretty impacted because of extreme cold. So going forward, we are very much optimistic regarding the demand and you can say sales for agriculture.

Ajay Kumar Jain: On that agri building material mix, please note that we have been giving our revenue wise breakup till first half of FY21. You can look at our last quarter presentation. You will have some idea for the split between agri and building material.

Moderator: The next question is from the line of from Karan Bhatelia from Asian Market Securities.

Karan Bhatelia: Contribution from metros was very dull when we talk of first half of FY21. So for the quarter have we seen like a good recovery from the metro side, or are we still back on a YOY basis?

Sameer Gupta: Our recoveries from metro side, there has been a good demand from the metros along with the rural areas also so put together I think the demand is recovering and along with that we are also focusing in our SKUs of our product portfolio. That is also helping us a lot in increasing our sales.

Karan Bhatelia: We keep hearing that the plastic piping segment is seeing a lot of market consolidation. Have you seen a good dealer addition in last 6 to 9 months?

Sameer Gupta: Of course, because of that thing we are definitely seeing good number of addition of dealer and distributor networks but right now we are not able to comment upon this because we don't know how regular they will be or how long they will be running. Once they are regularized then we will definitely add them in our number.

Karan Bhatelia: If you can give us plant wise utilization levels. What at Dadri, at Ahmadabad and what levels at Tumkur?

Sameer Gupta: Tumkur we are seeing good utilizations but amongst all the plants it is roughly running between 50% to 60% from all the plants.

Moderator: The next question is from the line of Dhiral Shah from PhillipCapital.

Dhiral Shah: What kind of fitting goods we have seen in this quarter?

Sameer Gupta: It is roughly around 30% to 40%.

Dhiral Shah: When you say that CPVC, HDPE and value-added segments have grown so is it a pent-up demand still in the system or are we also seeing a fresh buying?

Sameer Gupta: It was not pent-up demand. It was regular buying from all the dealers and we are working across in increasing the distributor network along with the geographies also. Altogether it has helped us in increasing our sales for these products.

Dhiral Shah: How much dealer distribution network we have added in this quarter or maybe nine-month FY21?

Sameer Gupta: I told in the last two questions also that we have been getting good inquiries and increased our sales to new dealer and distributors but we don't know how long they will sustain. Going forward right now we are working on yearly basis that how many exactly or sustained numbers we have added so that the figures don't go up and down every quarter. We will be working on this number every year so that there should be some base of those numbers for the investors and other.

Dhiral Shah: When you say that, maybe by March '21, we are looking for 1,25,000 tonnes kind of a capacity, so where we are exactly adding this capacity, which facility and for which product?

Sameer Gupta: We are adding capacities across all the locations like mainly we are focusing on water storage tank and fittings along with the pipes is also been added. All the products and all the segments we are adding the capacities.

Dhiral Shah: This will be purely for Dadri or we are looking at even Bangalore and Gujrat also?

Sameer Gupta: Right now, we are not putting too much focus on Gujrat. Other than Gujrat we are investing on Dadri and Bangalore and Sikandrabad along with new plant coming up in Raipur.

Moderator: The next question is from the line Aasim Bharde from DAM Capital.

Aasim Bharde: Just wanted your view on agri pipe growth in an environment of high PVC prices. You are optimistic, you have mentioned but how does a farmer react to high PVC prices? Does it lead to continued deferment, which in this place could mean the entire season that could be lost and demands any push to the next season post October?

Sameer Gupta: If we talk about demand from the farmer side, they are a little bit cautious and the finance is also a problem for them. But if you see that the options are not too much available with them for this product. If they have to use this PVC pipes then they have to go for this product only they cannot go for steel or any other polymer or any other cement pipe for water transportation or bore wells. There's only one material available for them, for this bore well or for water transportation level. They can only defer the plan. That is also they can do to some level. They cannot defer it forever. I don't see that there will be too much delay in the demand from the farmers' side. They have to go for this product and because of this COVID and other things that prices have gone up really high but right now it has been a little bit stabilized. The premium has been stabilized by almost 10% in the last 1 month. A little bit of relaxation is also there in their mind and I don't think that there should be any hamper on the demand and there should be good demand in the coming quarters from them.

Aasim Bharde: You don't anticipate too much of a demand destruction if I can call it that for this particular season? There should be some decent agri demand from?

Sameer Gupta: Yeah, because the inventory levels are also very down so there's no much scope left at their end to work on the demand side because they have to take the material if the demand is there from the dealers or retailers and the farmers if they have to do farming, they have to go for pipes only.

Moderator: The next question is from the line of Amit Soni from PwC.

Amit Soni: I wanted to ask about the different cost optimization measures which you have put in place? The presentation said that improved margin is because of one growth of value-added products and second because of raw material and third because of different cost optimization measures.

Sameer Gupta: The optimization level we are continuously working on the capacity utilizations of the machines and increasing the productivity of the machines along with low scrappage. So because of that thing we have been getting good results and going forward, we will be seeing some more good results on this front from our plants.

Amit Soni: Any new products which are planned?

Sameer Gupta: Right now, we are only increasing the SKUs of our already running segments. We are not adding up new segment but many new SKUs are being added on continuous basis for all the segments.

Moderator: The next question is from the line of Ajay Sharma from Maybank.

Ajay Sharma: Your return equity numbers are still on the lower side. What is the company strategy or plan to really try and boost the written numbers for next few years?

Ajay Kumar Jain: Ajay if you see that the first parameter, what we look at is return on capital employed, which is in, if we utilize all our capacity over the next 2 years, we should be touching 25%-30%. As far as the ROE is concerned, it is slightly low because of our inflated net worth because the company and promoters had put in funds, they had infused new equity 1.5 years ago. As we touch 25%-30% ROCE, we should be touching ROE of 20%, which we believe is good and given that all the future CAPEX will be funded from internal cash flow, there won't be any requirement of new equity infusion. You will see that ROE also improving to 20%-25% levels in the longer time but we are quite satisfied with the kind of ROC which the business is generating which is upward of 20%-25%.

Ajay Sharma: What will be your annual CAPEX over next few years?

Ajay Kumar Jain: This year we are targeting around 50-60 crores out of which 70% has already been spent for FY21. FY 22-23, we are expecting we should be spending 20%-25% of our EBITDA towards the new capacity addition towards new value added products, high margin products. So that's what we have capped our CAPEX spends at 20%-25% of annual EBITDA.

Moderator: The next question is a follow-up from the line of Abhinav Sood from Z M Investment.

Abhinav Sood: Just needs clarity on a point that by March 2021 will we have been achieving 100,000 metric ton per annum or 125,000 metric ton per annum?

Sameer Gupta: With the Raipur plant, it will be 125,000 ton.

Moderator: The next question is from the line of Ajay Sharma from MaybBank.

Ajay Sharma: I just want to check on your guidance. I think somewhere in the presentation you mentioned that you are targeting 25% CAGR and volumes over the next 3 years. So what gives you that confidence considering your volumes, has been below that both in FY20 as well as FY21.

Ajay Kumar Jain: So Ajay, if you see that our current infrastructure which will be ready by March '21, 125,000 ton, we believe that this has potential to generate around 1000 crore revenue which shall come over the next 24 months and it will have 12%-13% EBITDA margin. That's our business model we are working towards and it will be mix of agricultural and building material segments which will be boosted by our water tank business and solvent business, which both are growing equally well. So, all in all we are confident that we could touch 1000 crores topline over the next 2 years.

Moderator: The next question is from the line of Yash from ICICI Bank.

Yash: Just wanted to check on your ESOP policy. I see that you guys have given ESOP's for the first time to your employees this time and the ESOP trust has purchased shares from the secondary market and that is the model you're following of giving ESOP's. Just wanted your take on the ESOP policy going forward and how do you see the employee count and what will be your HR policy of the company gowing forward?

Sameer Gupta: Yash, we have been growing and trying to increase the capacities, sales and all the business in our group. So, going forward we need to have a good set of people with our company who can trust on the company and work towards the growth of the company. So seeing that we have introduced this policy of ESOP and by adding this, we will be able to join good people with our company and going forward it will help us in the growth level because it will also help the personal growth of those employees who are working for the company and they will also see some benefits on their part because of the ESOP policy. And going forward, there will be some more ESOP policies coming on, in the coming years because we are getting a good response from all the employees and they are also very much keen towards the growth of the company. So, it should be a good initiative from the company side to have this policy in our company and it should give us good result in the coming days.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr Ankit Gor from Systematix Institutional Equities for closing comments.

Ankit Gor: Thank you Sameer ji and team at Apollo Pipes Limited. Any closing remarks Sameer ji before we close the call? Thank you.

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

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