"Apollo Pipes Limited
Q2 FY2022 Earnings Conference Call"

October 25, 2021

ANALYST: **MR. URVIL BHATT – EQUIRUS SECURITIES LIMITED**

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

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY2022 Earnings Conference Call of Apollo Pipes Limited, hosted by Equirus Securities. 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. Pranav Mehta from Equirus Securities. Thank you and over to you Sir!

Pranav Mehta: Thanks Rutuja. Good afternoon everyone and on behalf of Equirus Securities, I welcome you to the call with the management of Apollo Pipes Limited. Management is being represented by Mr. Sameer Gupta, Managing Director; Mr. Ajay Jain, CFO; and Mr. Anubhav Gupta, Group Chief Strategy Officer. Without wasting further time, I will hand it over the call to Mr. Samir Gupta for his opening remarks. Over to you Sir!

Sameer Gupta: Thank you. Good afternoon everyone and thank you for joining us on the Q2 and H1 FY2022 earnings call to discuss the operating and financial performance for the quarter.

First of all wish you and your family a very happy Diwali in advance. I hope you all had the opportunity to go through our results presentation which provides details of our operational and financial performance for the second quarter and half year ended on September 30, 2021.

To begin with, I am pleased to share with you that we have reported a robust performance during the quarter with our sales volume growing by 18% YoY to 14518 metric tons. Volume growth was driven by a healthy contribution from the CPVC, HDPE pipes and value added product segment of products.

Furthermore, expansion of product portfolio improved reach in newer geographies and addition of new Brownfield capacity assisted volume growth. Over the next few quarters we anticipate the sales performance trend to strengthen lead by an improving demand environment, expansion in addressable market and a sustained uptick in cultivation level.

Moving onto the operational front, we have successfully completed all our Brownfield expansions across facilities located at Dadri, Tumkur and Sikandrabad. As well as happy to announce that our Greenfield facility at Raipur is now operationalized with an installed capacity of 7200 metric tons per annum. So in all with the addition of new capacities we are able to scale up our total capacity to 125200 metric tonnes per annum. In addition we are aiming towards optimally utilizing our capacities over the next two years which will also help augment sales volume going ahead.

From a product basket standpoint we continue to witness positive traction inquiries of our Apollo life products to expand earlier in the previous quarter we have doubled our capacity for this product at our plant in Sikandrabad and had also commissioned a production line in Tumkur and

Raipur to ensure that we can meet our increased demand. We remain confident that this product along with our other value added offerings like fittings, solvents, bath fittings, adhesives, tap products will enhance our reach and content our sales going forward.

To conclude, I would like to state that we are constantly working towards enhancing our presence all across the existing and new high potential geographies. Post optimization of our Raipur plant, we expect to address the untapped and high potential market of Central and Eastern India as well. Going forward, we expect to deliver a robust performance in the quarters to come and further gain momentum on the back of improved profitability, strategic expansion in geographical areas, key geographical areas and better brand acceptance.

Further on this festive offseason of Diwali we are happy to announce a bonus of two shares on one each share face value of Rs.10.

Now I would like to invite Mr. Ajay Jain to run you through the key financial highlights for the quarter and half year ended on September 30, 2021. Thank you.

Ajay Kumar Jain: Good afternoon everyone. I will briefly cover the financial performance during the quarter and half year ended September 30, 2021. The company delivered a strong operational and financial performance during the quarter driven by an uptick in demand and consumption in key domestic markets.

Revenue from operations for the quarter stood at 208.2 Crores as against 123.3 Crores in Q2 FY2021 higher by 69%. In H1 FY2022, half year revenue from operation stood at 345.8 Crores as against Rs.215.8 Crores up by 60%. Sales volume for the quarter stood at 14518 metric tons growing by 18% as against 12268 metric tons. Sales volume for H1 FY2022 stood at 24920 metric tons as against 22901 metric tons up by 9%.

On the profitability front, EBITDA for the quarter grew by 67% Y-o-Y which stood at 26 Crores as against 15.5 Crores in Q2 FY2021. EBITDA margins, which stood at 12% in Q2 FY2022, remained almost flat Y-o-Y lower by just 13 BPS. EBITDA for H1 FY2022 stood at Rs.43.4 Crores as against Rs.21.7 Crores going by 100% Y-o-Y.

Margins for the half-year ended September 30, 2021 stood at 12.5% where compared to 10.1% in the corresponding period last year higher by 248 BPS. Going forward, we also anticipate EBITDA margins to remains high.

During the quarter, we witnessed a sharp increase in depreciation during the quarter which was partially offset by a deduction in financial costs. Depreciation cost stood at 6.2 Crores in Q2 FY2022 as against 4.1 Crores in Q2 FY2021 growing by 53%.

Net profit for the quarter stood at 14.1 Crores up by 48% Y-o-Y to when compared Rs.9.5 Crores in Q2 FY2021. Net profit for H1 FY2022 grew by 98% stood at Rs.22.8 Crores as against

Rs.11.5 Crores in H1 FY2021. Net margins during the period stood at 6.6% as compared to 5.3% in FY2021 higher by 127 BPS.

On the balance sheet front our net cash position stood healthy around 6.5 Crores; however, our endeavor 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 Ankit from Bamboo Capital. Please go ahead.

Ankit: Thank you for the opportunity. Sir if you can tell us which segments have grown during the quarter and how Q3 is shaping up in terms of the ways of the demand from various sectors?

Anubhav Gupta: Segment wise there are like two broad categories one is building materials and second is agriculture. So building material continues to gain momentum with higher growth, today it is contributing around 50% to our overall turnover and agri is around another 50%. Two years ago this was like 35% building material and 65% agriculture and two years from now we will have building material contributing 65% and agriculture 35%. So this was a strategy on which we started working on in 2018 when we started expanding our product portfolio and we went on pan India. So within building materials of course products like fittings, and CPVC and water storage tanks and bathroom fittings these segments are giving superior growth in the overall pipe sales and all our capacity expansion of the last two years has been with this strategy that this portfolio has to grow much faster than the overall sales and we continue to expect very strong momentum over the next 12 to 24 months given that we are also starting our ad campaign next month and this will help us gain mind share in the customers mind and this will boost our overall sales for the building material product category.

Ankit: How has the growth in both these segments during the quarter and so what you are saying the growth in the building product segment that is much more than agriculture. Is it, Sir?

Anubhav Gupta: Building materials for Q2 has grown at 50% Y-o-Y.

Ankit: So agriculture has broadly remained segment or degrown in terms of volume?

Anubhav Gupta: Yes, agriculture basically what is happening is because of the increase in PVC prices because there is like one segment in the agri sales where the customer they switch to secondary grade pipes. So all the branded players all the organized players they start losing out sales somewhat and that is what happening with us also. But then again those are very opportunistic sales which take place in the industry and once this situation would normalize again, again the branded player start getting the market share in the agri space. So other than that overall we are satisfied the way things are moving.

Ankit: On such a sharp rise in PVC prices, so is it that the building material segment has been able to absorb such sharp pricing and agriculture has not been able to make it?

Anubhav Gupta: That is how the whole industry works not only to Apollo Pipes that is how the whole industry work, but in specific with Apollo Pipes we are happy to share that all the pipe division what we have taken place in the building material space has been absorbed completely and that is why we have been able to protect our margin you can see in the quarter.

Ankit: What is the outlook for the current quarter and how has been the demand in the both the segments building material and agriculture till date?

Anubhav Gupta: So normally for building material third quarter is good because of the festive season the household owners want to finish the renovation work etc., and in Q4 the listed developers they want to finish their projects so they hand over the units. Normally second half is good for building material anyways and we are seeing the same momentum like how it has been historically.

Ankit: Just one clarification the 50% number that is the volume growth on the building material side?

Anubhav Gupta: No that is the value growth.

Ankit: How much will be the volume growth in building materials and agriculture if you can give us the broad numbers?

Anubhav Gupta: Yes, so volume growth in the building material category will be upward of 30% and overall value growth is 50%, now just do not end that this value growth is because of the increase in selling price, it is also because of our value added products within the building materials space are catching up, like for example CPVC and fittings overall fittings and water storage tanks. So these are high value added products anyways so because contribution from them is increasing that is why we are seeing higher value growth than the volume growth.

Ankit: What about the agri segment. How has been the volume growth in agri segment Sir?

Anubhav Gupta: So agri is more or less flattish.

Ankit: Thank you so much. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Abhinav Mehta from GK Capital. Please go ahead.

Abhinav Mehta: Thank you for the opportunity. Sir you mentioned the next month we will starting our ad campaigns so what will be your ad spend?

Anubhav Gupta: Abhinav, if you see our last two, three years we have been spending around 2% of our sales value on the branding expense. Now this year for FY2022 if you see we will end up spending 2% only given that all the initial expenses to produce the ad film and pay to the brand ambassador etc., all that will be accounted for so we may end up spending 2%, 2.25% of our overall sales for FY2022. FY2023 we will ramp it up to further 3% given because we will have to run the campaign for like full year. So we expect to spend around 3% of our overall sales next year. But this will not hurt our EBITDA margin we will take this up 100 bps additional from our gross margin expansion.

Abhinav Mehta: Sir what is the contribution of value added products right now?

Anubhav Gupta: So value added, so building material is all value added 50% within agri also some of the segments are value added so 60%, 70% of our sales today is value add.

Abhinav Mehta: Supposing that PVC prices do come back to their original level of around 100 odd levels so whether our realizations will also fall in a similar way or there is lesser fall in our realization during that because of the degrowth?

Anubhav Gupta: So it is not 1:1 definitely because of our high value added portfolio the revision. In our NSR should be lower than the revision in the net PVC prices.

Abhinav Mehta: Sir the last final question. So what is the trend for the PVC prices looks like?

Sameer Gupta: The trend right now is the PVC prices quite high so the trend will be upward for the next few months but I do not think so that it will be remain high for too long time but of course once the thing stabilized apart from as far as shipping lines are concerned or supply constraints are there those things is spread, then they will start coming down but in the near future I do not see any correction in the PVC prices.

Abhinav Mehta: So majorly because of logistic constraints with broad changes also there?

Sameer Gupta: Yes of course both the things are playing role in this.

Abhinav Mehta: Thank you Sir. I will get back in queue now.

Moderator: Thank you. The next question is from the line of Bhargav Buddhadev from Kotak. Please go ahead.

Bhargav Buddhadev: Congrats on a very good set of numbers. My first question is what could be the capacity utilization across all our manufacturing plants broadly?

Anubhav Gupta: Bhargav can you please repeat the question?

Bhargav Buddhadev: I was asking what is the capacity utilization across our manufacturing plants various manufacturing plants broadly?

Anubhav Gupta: So today we are at 50% utilization given that I mean in Q2 we did 14500 ton kind of volume so this gives us 50000, 60000 ton of yearly run rate on a capacity of 125000 tons. So we are hitting around 48%, 50% utilization levels.

Bhargav Buddhadev: Yes, but our Dadri plant would be operating at much high utilization right?

Anubhav Gupta: Dadri is almost hitting 60%.

Bhargav Buddhadev: Sir region wise I was asking is that if the capacity utilization possibly in south works and that is coming Raipur plant is much lower then would it be fair to say that the EBITDA margin difference at the plant level for North India and non-North India plant would be significant as of now?

Anubhav Gupta: Yes, definitely Bhargav if you see our blended margin is 13%, 14% so you could assume that north plant would be contributing above 15% and the other plant would be contributing below 15% so that is how we are making blended 13%, 14%.

Bhargav Buddhadev: Given that we do not have any major capex going forward right, is it fair to say that then next two and a half to three years as we reach maximum utilization level our other units will also start contributing to around 15% EBITDA margin with capacity utilization ramping up?

Anubhav Gupta: Yes, definitely Bhargav. Those were the initial IRRs and ROCEs on which we went ahead with our capex plans for west, east and south so definitely as the utilization levels ramp up in south and west and east Raipur just started right south it has been like one year we got the possession of the plant and west of course is doing well so yes in next few quarters we will see that as the utilization levels ramp up the margin will also improve.

Bhargav Buddhadev: On the CPVC portfolio would it be fair to say that the contribution of CPVC across manufacturing plants could be similar or it is much higher in North India our acceptance in the CPVC side?

Anubhav Gupta: Yes it is same.

Bhargav Buddhadev: That also is broadly same across model?

Anubhav Gupta: Yes, again those are our broader strategy that value added products should be kept in a similar range across the plants so that when we enter in the market we go with the complete product range.

Bhargav Buddhadev: My last question is if you look at your realizations your frontline companies the discount is broadly 20% but if you look at EBITDA per kg the difference is almost 50% so obviously that operating leverage we will be closing down this gap but do you think this 20% discount also has a room to sort of close as you ramp or value added stock?

Anubhav Gupta: Bhargav there are like three four factors why this discrepancy you see in numbers so the number one is the product mix all the two, three top players whom you are comparing us with they will have very high proportion from CPVC and fittings. For us this segment is very small today because we started this two, three years ago now it is ramping very fast in two, three years yes we will cover up most of it. Number two is of course that we offer exceptional to the distributor versus the established players so that is there and third is utilization levels yes I mean we are today at 45%, 50% utilization levels versus all these players are at 60%, 65% so that also gets better EBITDA per ton. So I guess in two, three years down the line our target is that we should be able to cover up a lot of it and that is why we are confident that in two, three years down the line we will have EBITDA margin of 16%, 17% on a sustainable basis.

Bhargav Buddhadev: Thank you very much for the clarification and all the very best.

Moderator: Thank you. The next question is from the line of Rajesh Ravi from HDFC Securities. Please go ahead.

Rajesh Ravi: Sir my question pertains to the gross margin impact driving PVC resin prices. So in this quarter first of all was there any entry gain which was booked?

Anubhav Gupta: Rajesh this quarter there were hardly any inventory gain or less it was nil on neutralized basis because initially the prices had come off and then they started going up and maximum revision was taken place in the second half of the quarter so it may have some spillover impact in Q3 but not in Q2. Also we work on a very thin inventory levels, Rajesh. So any like 5%, 10% increase or decrease in the PVC prices will not hurt or boost our EBITDA significantly and this is the strategy which we want to follow on the sustainable basis to work on very, very low inventory levels for the raw material.

Rajesh Ravi: In terms of the cost pass through capabilities are you seeing any pressures because raw material prices have swelled up significantly and do you see any impact on demand with soaring prices in your cost pass through capabilities and the margin of Rs.18 a kg this quarter do you see some risk to this because of cost pass through may not happen in full?

Sameer Gupta: Rajesh let me address. This is a fair question, but let me address in a broader base that given you look at the any building material today not only PVC pipe, you take cement, you take steel, you take paints, you take tiles every industry is facing with raw material cost revisions and all the producers brands manufacturers they are trying to pass it through the channel to protect their own margins and we talk to lot of channel partners, a lot of other brands in the other building material segments so and also the contractors and the real estate developers and the household owners, the end customer who is using all these building material products so today no one has any choice but to buy the products at the higher prices today, so contractors are negotiating their contracts, developers are renegotiating their contracts with their subcontractors etc., so all that is happening. Whenever there is such a sharp increase it takes time for the end user to absorb these costs but then there is no choice for them specific to PVC industry, all the peers would see that they are constantly talking to pass it on to their end consumers so is what we have done I mean you would not believe the PVC industry would have revise the pricing edge to by at least four, five times in last quarter minimum four, five times. So this does suggest that we are seeing passing it on to our distribution channel and then they pass it on to their retailers and ultimately the end consumers. It does impact the demand somewhat because like I said so many revisions in such a short span of time it does take time for people to absorb but that is what we are seeing everywhere so we are not concern today we do not know if prices keep on going up then it is difficult to say so we have not seen such a situation in the past. This is one of its time for profits time situation what we are into but as of now our whole focus is to strengthen our brand, to strengthen our reach, to strengthen our product portfolio and to strengthen our serviceability so even if that all the market has to contract in future although we do not anticipate that but we should present a very strong offering so which will protect us from any downturn if there is any.

Rajesh Ravi: Still I have one follow-up on that how much price hike has been done in this quarter so far in month of October?

Sameer Gupta: It has been like the PVC prices have gone up by 20%, 25% and similar pipe hike has been taken by all the industry players.

Rajesh Ravi: Any ballpark number that how much positive has happened in terms of percentage and when those prices will be implemented?

Sameer Gupta: Same 20%, 25%.

Rajesh Ravi: All of the increases which have happened have been passed on?

Sameer Gupta: Yes so far it has been the case.

Rajesh Ravi: Lastly on the capacities now you are 125000 with the Raipur expansion coming on board what next in terms of are here any further debottlenecking capacities which are being planned?

Sameer Gupta: Yes of course Rajesh, I mean our endeavor has been to keep on expanding our capacities into value added categories. So last year we spent 60 Crores as capex of course that was towards Raipur plant and Dadri Brownfield expansion. This year so far we have spent 25 Crores in the first half. So this time the proceeds have been towards adding the new molds, new designs, new lines, within the existing plants. This should consume 15%, 20% of our EBITDA on a sustainable basis going forward and like I was discussing with Bhargav before your question that Dadri plant, north plant we are hitting 60% utilization levels 55%, 60% utilization levels so something there we will have to see because north is very fast super fast growing market for us we are a very strong brand here we do not want to lose the momentum and then in future west is another geography where we are planning Greenfield because the Maharashtra and Goa belt, APL Apollo brand is very strong and we want to leverage on that and create a strong presence in the western market.

Rajesh Ravi: Sir how much would CPVC and bath fittings would be part of your total volumes and our revenues?

Sameer Gupta: Today it is 16%, 17% of the total value.

Rajesh Ravi: 16%, 17% bath fitting as well as the CPVC mix you are talking?

Sameer Gupta: Yes put together they are 16%, 17% of the total value.

Ravi: Tanks would be sizable revenue now?

Sameer Gupta: Tanks we started two, three quarters ago Rajesh. It is ramping up quite fast and now we have a capacity across four geographies and today it will be contributing around 3% to 4%.

Rajesh Ravi: 3% to 4% additional than the 16%.

Sameer Gupta: Yes.

Rajesh Ravi: Great Sir. I will come back in queue. Thank you all the best.

Moderator: Thank you. The next question is from the line of Amit Zade from Antique Stock Broking. Please go ahead.

Amit Zade: Good afternoon. Thank you for the opportunity. Congrats on good set of numbers in such challenging times. Sir we have guided of reaching volumes of 100000 tons by FY2023 or 1000 Crores of topline by the same time maybe we could reach that number ahead in terms of revenue but in terms of volume are we sticking on that kind of volume run rate or guidance of 100000 volumes by FY2023?

Sameer Gupta: Yes, so what 1000 Crores mix was around like 80000, 85000 ton of volume and 120000 ton of selling price so that gave us the 1000 Crores number. Now of course that the selling price is much higher so our capacity also is capable of producing more than 1000 Crores. So that is one. Second this 1000 Crores also is not only because of like today we got 208 Crores kind of revenue number that is not only because of increase in the PVC prices. Our value added product portfolio has performed better than even our expectations. The way we could ramp up our CPVC volumes, the way, I am happy to say that CPVC volume should double in next one to two years time so today it is contributing 10% to our overall sales. Now it should be contributing 20% over the next four, five quarters then water storage tanks is the new segment we have got into last year it is ramping up very well then the bathroom fittings, PVC faucets, and taps that also segment is growing very, very fast. So what I am trying to say is that just do not look this 1000 Crores number that we are able to achieve say if we are able to do 250 Crores in Q4 so just do not think that it is only due to PVC prices it is also because of the better than expected performance from our value added products.

Amit Zade: Definitely Sir. We are looking at the value addition on per kg basis at Rs.18 per kg almost incremental Rs.5, Rs.7 on Y-o-Y basis that itself I now speak for the good performance so on a sustainable basis where should now that the CPVC should the kind of growth we are witnessing in CPVC bath fittings and tanks so, on per kg value addition where should we look at this number moving ahead in the near future?

Sameer Gupta: The better way to monitor here would be on the percentage margin basis because today there is like 13% kind of EBTIDA margin on a sustainable basis we are very confident that 14% to 15% irrespective of upward or downward revision in PVC prices we should be doing 14% to 15% margin and as we move forward from 1000 Crores beyond 1000 Crores as our utilization levels go up further we get further into value added products 16%, 17% is pretty much achievable in three four years time and that is how you will see year-on-year improvement of 1500 BPS.

Amit Zade: Got it. Why I was asking on per kg basis that because in such a volatile market we see a sharp increase or decrease so then but optically that number maybe not correct but it is okay I get your point and another question on when our statement made in the press release where we have stated that some of the government projects like global infrastructure, agriculture space are driving volume so what are the kind of execution or the spending as we have seen on ground from which various downward initiatives?

Sameer Gupta: That segment surprisingly did well in first half. Normally HDPE pipes which we sell towards irrigation projects for the government normally they contribute like single digit in our sales mix but this time around it was better. Not only in agriculture, I mean like I said we talk to lot of participants in the infrastructure there is very good spending which is happening from the government all the projects which are announced initially, there is good money allocation which is going for these projects and these orders are coming in the market and very cautiously we are going for these orders because we are a very margin focus and working capital focus company so we just do not want to block our capital just to sell products for the government projects either we sell to distributors or where we think that there is like very minimal risk for the receivables only then we go for such projects and in some of the cases we have got even like 100% advance only then we go ahead and sell the products. So I mean whenever we see such opportunities where our receivables are safe. Our collections are safe we have the capacity we have the products we have all the approvals with the authorities we are happy to go and sell our products but not at the expense of our working capital.

Amit Zade: Sir just one last question if I may. So we are at dealer network of almost 600 dealers pan India and so how much of these now that our geographical expansion is almost complete with presence in all the four geographies so how should this number pan out I mean excluding North India how has the penetration happened in last four, let us say six months or ten months to support the kind of volume that would come out of north capacities?

Sameer Gupta: Out of the 600 still bulk of this like 60%, 70% is from North India so we see a lot of scope to penetrate deeper into non-northern markets which would be south and west of course and now with Raipur plant starting central and east also we will have to penetrate deeper and we have all the market activities which is taking place already so new distributor, new dealer addition should be like 10%, to 15% year-on-year for the next two three year and only then we will be able to say that yes now we are present pan India.

Amit Zade: So what are these numbers for the first half which is still at 600?

Sameer Gupta: I mean in terms of new addition?

Amit Zade: Yes.

Sameer Gupta: This time I mean first half of course because of COVID etc., and heavy rains because of travel restriction the dealer addition has been very minimal but in second half our target is to finish or to take this number up to 630, 640 by March 2022.

Amit Zade: Just one book keeping question Sir the capex guidance for FY2022 would be, you already spend 25 Crores and for the full year that number would be?

Sameer Gupta: I guess around 35 Crores based on, so no Greenfield coming here all the expansion is towards buying more molds and buying more lines for the value added products as of now.

Amit Zade: Thanks a lot and best wishes for the future. Thank you.

Moderator: Thank you. The next question is from the line of R S Kapoor, an Individual Investor. Please go ahead.

R S Kapoor: Thank you for the opportunity. Sir couple of questions one was what volumes do we see in the second half of the year? You have been having 20 plus, if I get that right which we need to know that. The second was given that some of the other competitors are coming into building dealer even profits specifically how do you see the competitive intensity going forward and one last question on the working capital days you have guided to that it can get below 50. Can you throw some light on that? Thanks a lot.

Anubhav Gupta: Coming to the third question first on the working capital. I mean we are flat march versus September around 60 days. Yes, we had guided for 50 days kind of management which today also is our target. If you look at our debtors and inventory, we are doing very good job there, so there is no deterioration in debtor or inventory days, it is just that because of the PVC market is so heated up, so we just have to pay advance to our suppliers, so that the material is available. Once this market normalizes, of course it is because of all the global supply chain disruption which is taking place, once this gets normalized, over the next one two quarters, you will see that our creditors days will increase and we will be going below 50 days of working capital, but if you look at inventories, there is no deterioration. So, this is one. Second on the bathroom fitting side, so today, if you see this market is highly fragmented. There is no large organized player who is present pan India selling these products. Right now the market perception for these products is that these products normally have household owners would use only for his balcony or terrace kind of places, where he would install a plastic or PVC faucet or tap, but what we are trying to do is that we are trying to create the market for this product, which will go inside the kitchen, which can go inside the bathroom also. So, with that kind of a setting we have worked on that kind of marketing that kind of packaging, that kind of product positioning what we are trying to do here and so far, such efforts have already started to pay off. So, this is a very new market segment where the household owner will use this product for his bathroom or kitchen. So, today you do not see many plastic products into bathroom or into kitchen. So, we think there is a very clean slate for Apollo. We entered this industry and we have already created a name. We have a very strong product line, our sales we have created a totally new sales team, which is working to push this product so we see very good scope of this product and we think that this product segment alone can be a very significant contributor to our overall sales over the next two to three years.

R S Kapoor: It is very helpful. The last question was on the volume side in the second half how do you foresee it?

Ajay Kumar Jain: The second half normally is very good for building material like we mentioned earlier also, Q3 is good for construction anyways because there is lot of household owners they want to finish renovation during the Diwali times, so good demand from there and Q4 is good when all the large real estate projects try to get finished in Q4. Apart from this in Q3 and Q4 we also witnessed a strong demand for agricultural products, because Q1 was affected because of COVID and loss of activities for agriculture, you can say borrowings and all those got deferred and again the high prices are again deferring the same, but they cannot wait too long. So, that demand has to come back, so we anticipate a good demand for agricultural products also in Q3 and Q4. So overall the volume should be good in second half of the year.

R S Kapoor: If I may just squeeze in a last question, I think you have mentioned that you are importing most of the PVC, 65% has been the imports for PVC. Can you foresee any shift in that, or do you expect it to continue to remain and does it have any impact on the freight cost and others, if there was a shift from the more imports to domestic sourcing?

Ajay Kumar Jain: It could be. Starting of the year, we shifted our purchase policy from 10% to 30% for the domestic market to purchase PVC resin from but right now there is no such time available for us to again shift the purchase policy to further increase the domestic share, so right now we are working on 30% from domestic players apart from that 70% still is from imports only. Of course this is a challenge right now for procuring PVC resin because of the shortage going all across the country for these products, so we do not want to disturb that supply chain right now. So, in the coming days, once the thing stabilizes we will again shift towards the domestic players to purchases resin and decrease the import share.

R S Kapoor: Thanks so much. Wish the management team a very Happy Diwali.

Moderator: Thank you. The next question is from the line of Abhishek Vora from Ambit Asset Management. Please go ahead.

Abhishek Vora: Thank you for the opportunity. First question would be on the branding front, personally might you are leveraging APL Apollo's brand. Is there any licensing agreement that you can mention of, there is a 6% of revenue that is hooked to that we can know of?

Ajay Kumar Jain: Abhishek actually the brand is totally owned by Apollo Pipes only. It is actually divided into two segments, the steel segment and the plastic segment where we own the brand of the plastics segments, the steel pipe segment is owned by APL Apollo Tubes and there is no such crossholding of this brand between the two companies so it is totally owned by Apollo Pipes, so we do not need to pay any royalty on any such expenses for the brand to them.

Abhishek Vora: So, the 2% to 3% spends on sales are purely with regard to the ad spends, right? It is nothing on this part?

Ajay Kumar Jain: Total ad spends excludes all the activities, whether it is the ATL or BTL activities, include all the things. Many activities we do on the ground like the plumber needs or the dealer needs or the road shows of the product, so the cost includes all those activities, apart from that PVC and the outdoor hoardings that we are planning.

Abhishek Vora: My second question was on the working capital. I think you mentioned that the inventory was flat, but are we planning to increase the inventory or keep some good part in anticipation of higher raw material prices? Are we anticipating and trying to purchase more in advance?

Ajay Kumar Jain: We try to hold raw material on the basis of booking of the orders. We do not try to play too much on the raw material front. So, these are very much on the favor side only, slightly up and down, maybe there, because of the price hike or drop, otherwise, we just try to hold the inventories as far as the quantum of orders that we have in hand.

Abhishek Vora: Because what we are hearing is normally the companies are trying to maintain more levels of inventory so that they make the products available in case of short supply that is what I just wanted to get your sense on?

Ajay Kumar Jain: The suppliers are concerned of PVC and there are further other raw materials also like chemicals and other things, they are all in short supply, so the constraints are there and we try to build up the inventory for this, but right now the opportunity is not there with us to build up any sort of inventory whether it is finished goods or the raw material, because of the continuous price hike for the last few months, the stock is not holding up. It is totally getting sold, so we are totally working on that, we can say on a hand to hand basis. We are not holding any inventories right now.

Abhishek Vora: Lastly on the sales mix, what percentage would be from the infra segment and from plumbing segment if you can bifurcate of the buildings material as well?

Ajay Kumar Jain: We do not sell to the government directly. The majority of the sales are coming from the building products sales only. In that if we talk about the infra product sales or the building product sales, It is one and the same. If you talk about the pipeline business, that the government buys for pipeline, that is hardly around 6% to 8% of our total volume otherwise, majority is from that, you can say from the building products only.

Abhishek Vora: Any mix on the project basis?

Ajay Kumar Jain: Yes, of course that is what the project sales because we do not get supply chain directly because of the payment constraint, we supply to the channel only. So that is around 6% to 8% of the total sales for infrastructure products. As far as the building products are concerned, we are not concerned with that outstanding of the projects with the dealer. We just get them the orders and the dealers supply it at their own risks. So, we are not in that situation to manage the whole payment cycle of that. So, we are much more concerned towards pulling orders from the builders or the infrastructure projects where the dealers supply at their own risk.

Abhishek Vora: Thanks. All the best.

Moderator: Thank you. The next question is from the line of Alisha Mahawla from Envision Capital. Please go ahead.

Alisha Mahawla: Good afternoon. Thank you for taking my question. While most of my questions have been answered, I just a little bit more clarity on while I understand that a lot of the capacity has come on stream now, and hence we are targeting almost a 50% margin growth for 2023 based on the current quarterly run rate that we are witnessing. What is giving us the confidence to increase our utilization swiftly in 2023 and 2024 while I understand we have expanded ourselves geographically but also distribution network right now on relative basis slightly lower if I may say so, so just wanted to understand what is giving us this confidence?

Anubhav Gupta: Alisha, what we said that was the current utilization is 50%. Next year it will move towards 60%, 65%. Currently, in Q2 if you see and the existing run rate, that is around 50% and the next year it will move towards 60%, 65%.

Alisha Mahawla: So the current expansion that we have one we are expecting can be use by 24 or 25?

Anubhav Gupta: Yes, in terms of volume, yes, so what we believe is that on 125000 ton capacity we could do around 80000 to 85000 ton of sales volume.

Alisha Mahawla: Just one more clarity you were mentioning earlier that CPVC and bath fittings and tanks which are currently small together would be around 20% of our volume and in earlier comment you said that while you added for portfolio currently 50% what would be the balance?

Anubhav Gupta: Rest will be so value added what we said was that the building material is 50% and 50% is agri within agri also there is some segment is value added. So overall value added will be 60%, 65%. This is one, second in value added we have building material, PVC pipes we have building material fittings, we have CPVC fittings, we have water storage tanks and we have bathroom fittings and solvents as well.

Alisha Mahawla: Any comment on while we have done strong volume growth of 9% in H1 how the industry has done?

Anubhav Gupta: I guess industry also I mean if you see the unorganized players have been losing market share for long time and this is the case even today given the raw material scenario has become in such a way that it is going up on weekly basis and then the supply also gets disrupted so it gives good opportunity for the branded players to take market share away from the unorganized so overall industry I mean may not have grown at the same stage.

Sameer Gupta: Actually, as far as the industry is concerned we do not see a robust growth in terms of volume in terms of the industry because of the supply constraint first of all to COVID restrictions in the first quarter was there so it was badly affected with the unorganized sector and further because of the high prices, the working capital constraint is also going on with them. So put together the industry growth I do not see it to be too much rather it should be in minus because of that raw material shortage is also there none of the player is able to run the plant at full capacity because of the supply disruptions so overall it is affected of course the volume but overall I can say organization is managing the show probably by having good supply chain and good you can say that all the activities within the plant is working well then they can manage the good growth but again because just one or two companies have shown the results once all the companies would declare then only we will able to ascertain that what exactly the industry is showing growth or what the growth is there.

Alisha Mahawla: Just one last question if I may. What is the frequency of price we set considering that like you mentioned earlier also that currently the raw material prices are slightly volatile so what is the frequency of pricing reset we take is this monthly or something else?

Sameer Gupta: Actually the price hikes that are going right now in the industry it is quite unusual. Normally the price hike is one or twice in a month if we talk about before COVID period that after COVID the price is quite volatile and you can say because of the supply disruptions they are not you can say stable at all for the past few months. They are going down first before the first quarter and then in the first quarter it is going down then Q2 onwards it was going up, again the supply chain was totally disturbed because of that shipping line and the total material availability with other players across the world so it is right now very much you can say disturbed but going forward we see that the prices should be you can say because it is already at to very high prices so we do not see too much price hike in this case so it should be stable in the coming quarters.

Alisha Mahawla: Thank you Sir. I will get back in the queue.

Moderator: Thank you. The next question is from the line of Karan from AMSEC. Please go ahead.

Karan: Thank you for the opportunity. Sir last year we had witnessed a 14% to 15% decline in the overall plastic piping industry given the fact that PVC prices have further going up so it is currently assume a similar decline or we can see a steep decline for the entire for year 2022?

Anubhav Gupta: Karan what are you referring to decline in what?

Karan: Total industry.

Anubhav Gupta: Industry volume?

Karan: Yes.

Anubhav Gupta: Last year was also a reason because of COVID lockdown which was very stringent so that is why the industry saw the negative volumes. But this year given the April, May month of lockdown were not like very harsh like last year and given the construction activity has picked up quite significantly so I do not think volumes should decline at the industry level for this year.

Karan: But the organized players will benefit more?

Anubhav Gupta: Yes, given the supply chain disruption what we are seeing in the PVC the stronger players are bound to have advantage here.

Karan: One more thing from my end, Sir how is the current channel inventory as of now the prices are still not expected to current so are the inventory levels healthy or they are still picking at a low inventory assuming that prices might correct?

Anubhav Gupta: Earlier they were trying to build up inventories in the price hike but for the past few weeks that the prices are almost reaching the all time high so they are bit cautious and they are not trying to hold any stocks and they are trying to sell as fast as it goes but still the price hike is continuing so they are in a mixed state of line wherever to hold the material or not so they are just buying the material at old prices and trying to sell off at the new prices that is what happening and they do not try to right now hold the inventories too much.

Karan: That was helpful. Thank you so much team.

Moderator: Thank you. The next question is from the line of Shrenik Bachhawat from JM Financial. Please go ahead.

Shrenik Bachhawat: Sir I would like to understand that as PVC prices are continuously rising do you see any threat to the upcoming agri season?

Anubhav Gupta: Of course, with the high prices agri market is very much price conscious and it is totally affected because of the high prices, they have tried to defer their demand but for the last few quarters definitely their demand because of the high prices and prices are not going to go down in the next at least couple of months. So they may have to buy at the current prices or they may shift their demand to the next quarter or one more thing happened that they may buy substandard products then in that way all the players maybe supplying to them and we may have a hit in that terms but overall a threat is definitely there in terms of agriculture products, agriculture pipes mainly because of the high prices but because of the low EBITDA margin and the low you can say overall margin of these products we are not very much you can say the short end for the very much high prices because it is across all the companies in the industry.

Shrenik Bachhawat: So as we speak on the unorganized sector Sir could you please throw some light on how are they able to procure the PVC resins and whether there are some many players are shutdown their production or like how is the supply from the unorganized side?

Anubhav Gupta: Normally the unorganized sector will normally buy from the open market which is already at a continuous premium of around 10% to 15% from the restricted pipes of Reliance or other sources so they have to buy at those prices but they match the cost by selling from a substandard goods so in that way they try to manage the prices and again they give unconditional rates and they again go for supplies as per the buyers specifications which organized players cannot. So that benefit is there but again the price hike that they have to keep price premium they have to keep so it is a mixed bag but of course they see a certain challenge because of the high prices and the restrictions for the government and working capital restrictions are also there so put together that challenge is there with the unorganized player also.

Shrenik Bachhawat: Sorry if I am repeating the question but could you throw some light on how is the PVC procurement mix currently for us and what is the target, what is the desirable PVC procurement mix within domestic and imports?

Anubhav Gupta: We are roughly right now buying from the local sources around 30% and 70% is from the imports. For this current year only we are following the same you can say sales term in which we are buying for the next two quarters also 70% from imports and 30% from the local sources. From next year we will try to shift more towards the domestic sources for our supplies.

Shrenik Bachhawat: Just one last question on the lead regulations by the government so are we complying on all those regulations or we need to make some changes to comply with the lead regulation?

Anubhav Gupta: Of course, we are complying with those regulations already and most of our products were lead free already. Some of the agriculture wise were not lead free because all the industry was going like that only but we again since by the beginning of this month we shifted our product to non-lead base only and we are supplying as per the government norms there is no such big you can say challenge was there for us because we are already in that shore business for our all building products they were lead free.

Shrenik Bachhawat: That is great to know. Thank you so much.

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

Dhiral Shah: Good afternoon. Thank you for the opportunity. Sir my question is again pertaining to the price hike. So whatever price hike we have taken is it equally on the agriculture side also?

Anubhav Gupta: Yes of course the price hike is there evenly distributed across all the products.

Dhiral Shah: Sir the similar price hike have we seen in the CPVC resin which you have said in the PVC resin also?

Anubhav Gupta: CPVC resin is yet to see a price hike but in the next few months or you can say next couple of months we can see you can say a steep price hike in CPVC resin also.

Dhiral Shah: Thank you so much Sir. That is it from my side.

Moderator: Thank you. The next question is from the line of Abhishek Vora from Ambit Asset Management. Please go ahead.

Abhishek Vora: Thank you for the followup. I had a question on tanks business if you can just throw some light on what margins are we clocking at tanks business do I know we are at an early stage but if you can give that what guidance on the margins for tanks business and their asset turnover as well will be helpful.

Anubhav Gupta: Abhishek, the value added products contribute 15% to 25%. They generate that kind of margin at EBITDA level. So water tank business also comes under this category and it is also giving us 15% to 20% kind of EBITDA margin.

Abhishek Vora: Growth run rate expected would be much above the normalized that you have guided right because it is at base will be low?

Anubhav Gupta: Sorry Abhishek your voice is not very clear.

Abhishek Vora: I was asking the growth expected here in this business will be much above what you have guided for the overall company as a whole right?

Anubhav Gupta: Yes, definitely so like we said that we started this product only two, three quarters ago so the momentum is building up and we have capacities for this product across plants now and we are going to have a dedicated ad campaign running for water storage tanks also so that will give us larger platform to boost the momentum here and yes our target is to take it to like 5% of our overall business by next year.

Abhishek Vora: What could be the normalized asset turnover out of the tanks?

Anubhav Gupta: It is around four to five times.

Abhishek Vora: Thanks a lot Sir.

Moderator: Thank you. Ladies and gentlemen, due to time constraint that was the last question for today. I now hand the conference over to Mr. Sameer Gupta for his closing comments.

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

Moderator: Thank you. On behalf of Equirus Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.