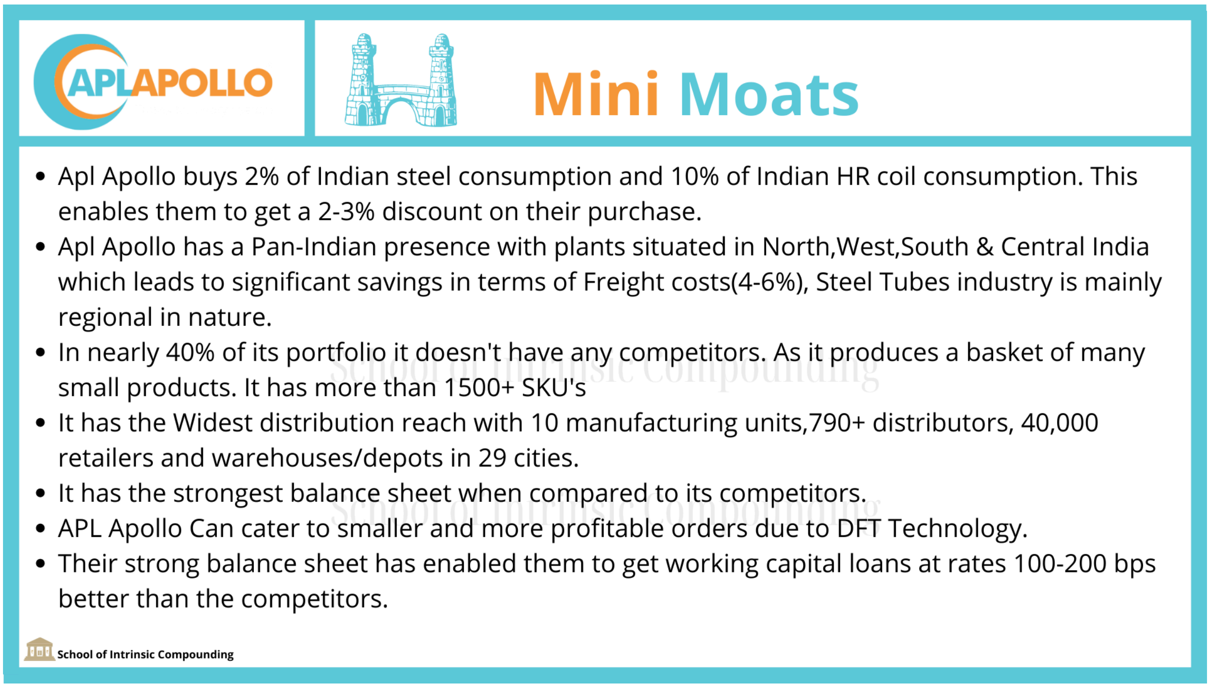
Apollo Pipes: Potential to Replicate History?

By reading the brand name Apollo the success story of APL Apollo Steel Tubes comes into the mind.

In our [APL Apollo Steel Tubes analysis] we spoke about how they captured the market share by building capacities and launching more than 1500 Sku's which gave them an edge to get into small products where there is no competition and it comprises more than 45% of their product portfolio. Since Apl Apollo is the largest buyer of HRC (Raw Material) in the country, this also gives them a 2-3% cost advantage as they buy in bulk when compared to the other players. Thereby, making Apl Apollo the lowest cost manufacturer in the industry.



In this blog we will try to figure out whether the same could be replicated by Apollo Pipes in their pipes business. As we have already covered the changes happening in the industry in our [previous blog], we will not cover that here.

Business model

In the book Capital Returns, the author mentions a question where Charlie Munger had asked the students to give him an example of a scenario where, when you increase the price of goods, the sales also go up. That's where the concept of principal agent mental model comes in.

The pipes industry has already seen a well-known example of the success of this model i.e. Astral Pipes. They captured the mind of plumbers who did the job of recommending their products to the end consumer.

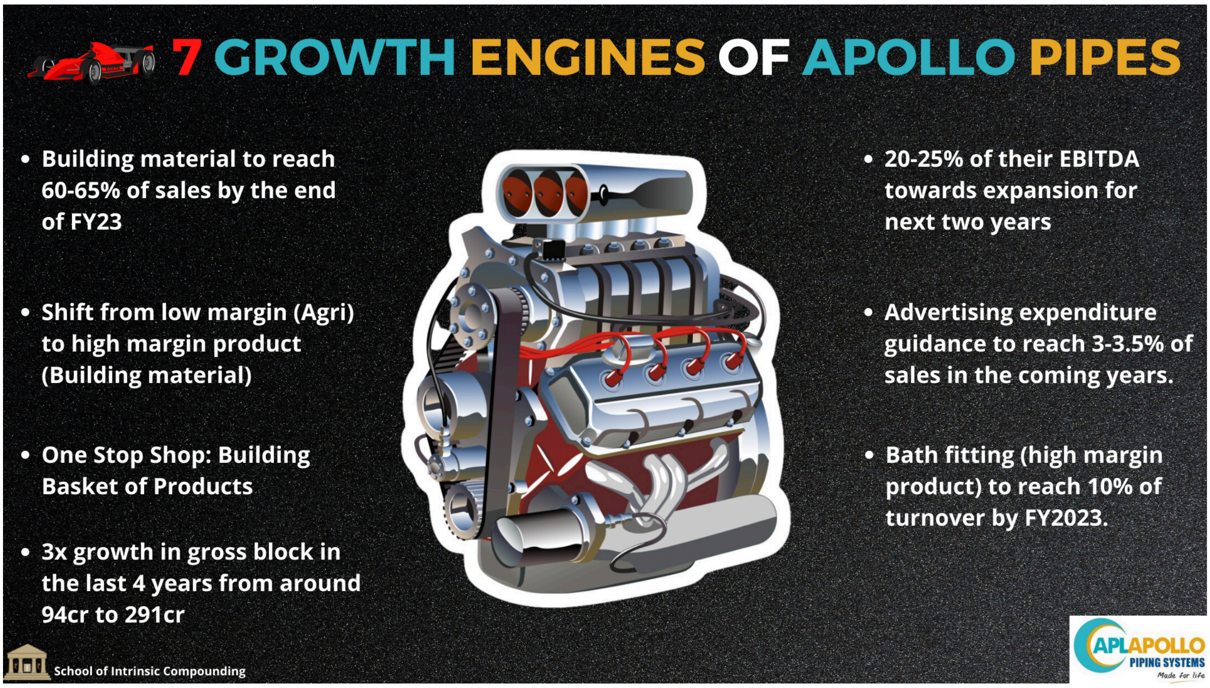
Similar to all its peers Apollo Pipes too sells its products via indirect channels, that is through the distributors who then sell it to the end user. Further, there are two segments here, B2C: direct retail trade to the end user and B2B: it is a segment of real estate development project which has a long gestation period and requires a strong brand to enter.

Apollo Management is not interested in the B2B segment as there is no stability in this segment. Any player could affect the price, which could damage the margins. But we need to understand that management is stating this because they do not have a strong brand to maintain those margins in the B2B segment. Prince Pipes was at this stage a few years back until they got into a deal with Lubrizol which gave them direct entry as a premium brand in the B2B segment.

Other than offering CPVC, UPVC, and HDPE pipes they have also diversified into PVC taps, fittings, solvents, and Water Tanks (A very negligible amount of business also comes from Steel Sinks). Company also has a 10-year patent for their Super Lock Pipe System in Column Pipes.

They started manufacturing solvent cement in January 2020 just as basket product and it meets ASTM international standards, plus it is 'LEED' compliant. Even though it is not a huge revenue contributor they plan to launch a similar wide range of packaging products in the future.

Growth Triggers



Better product mix

As we mentioned [last time](), the mental model of value migration is playing out in the industry as value migrates from metal pipes towards plastic pipes. There is another trend which is happening within the industry itself i.e. shift towards value added products (CPVC pipes).

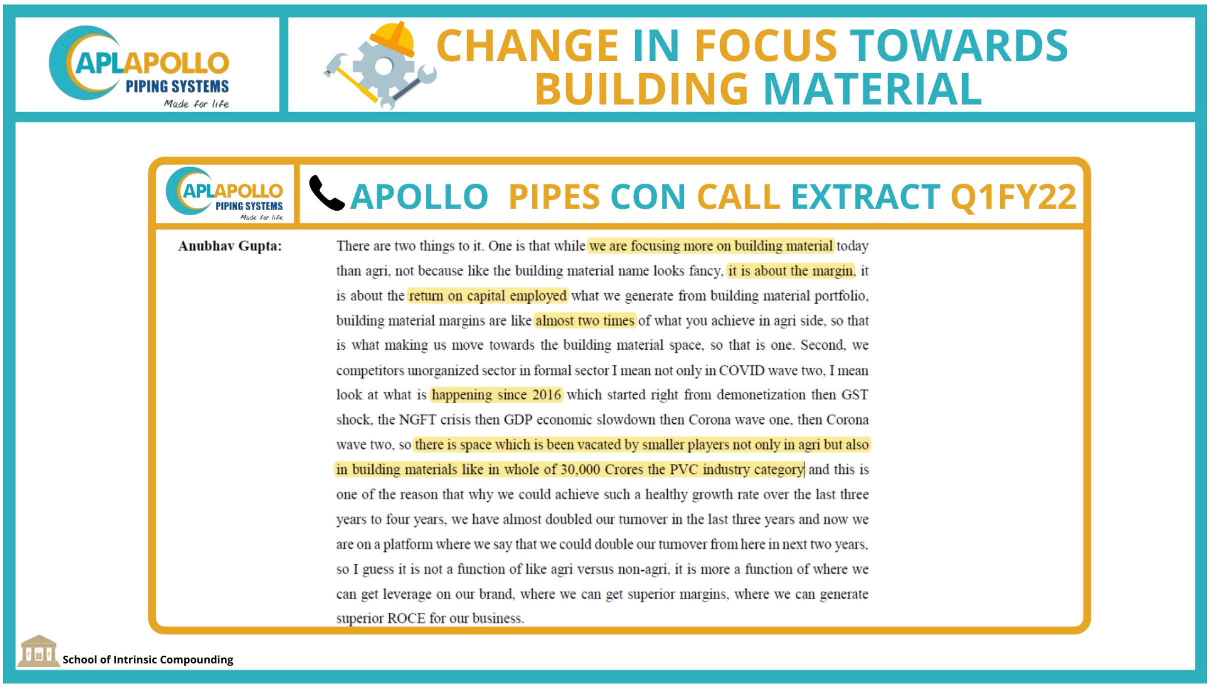
Management does not reveal its revenue mix clearly but during concalls they have mentioned that building material used to be at 30% a year back which is now around 45-50% of the sales, and they plan to make it 60-65% by the end of FY23. The long-term product mix guidance is 50-60% from pipes, fittings around 25-30%, and 5-10% from other products.

Between Agri and Non-Agri, the ratio is at 55:45. CPVC pipe share is around 5% to 7% of the total revenue. (Whereas Prince Pipes has 20% of its revenue from CPVC products)

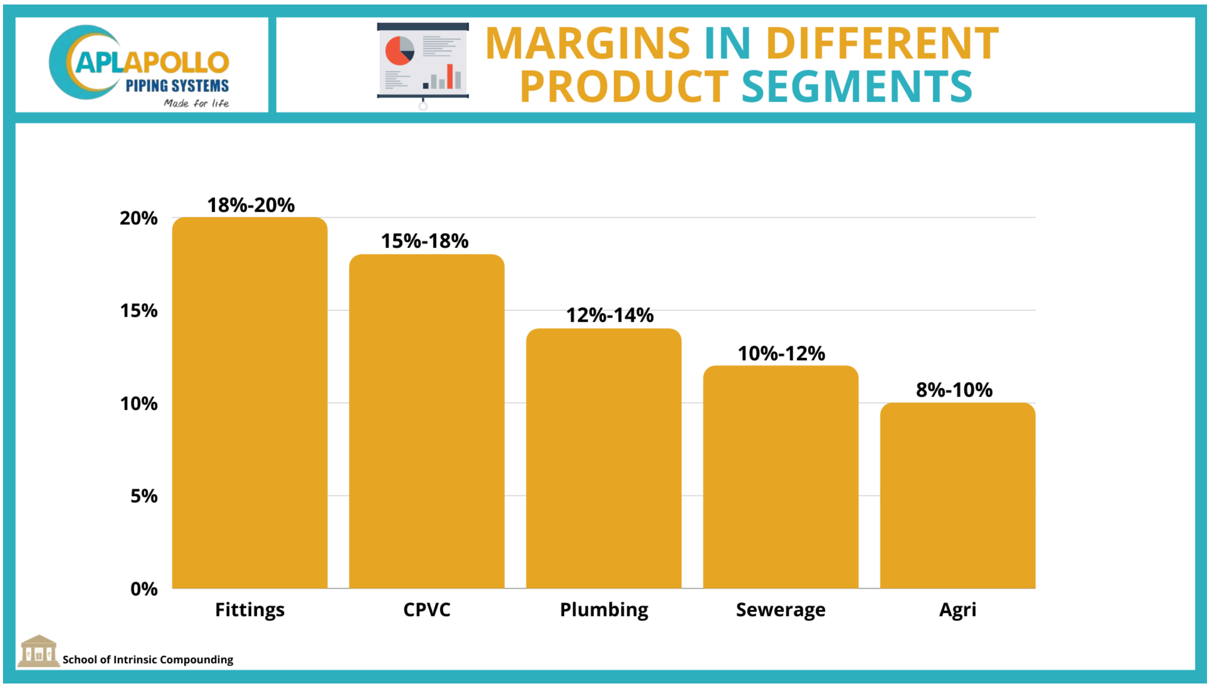
The question which would come into one's mind would be why Apollo Pipes is moving away from the Agri pipes segment? (Not only them but even Prince Pipes)

The reason is simple, the Agri segment is a low margin product with seasonal demand which gets affected when there are heavy rains.

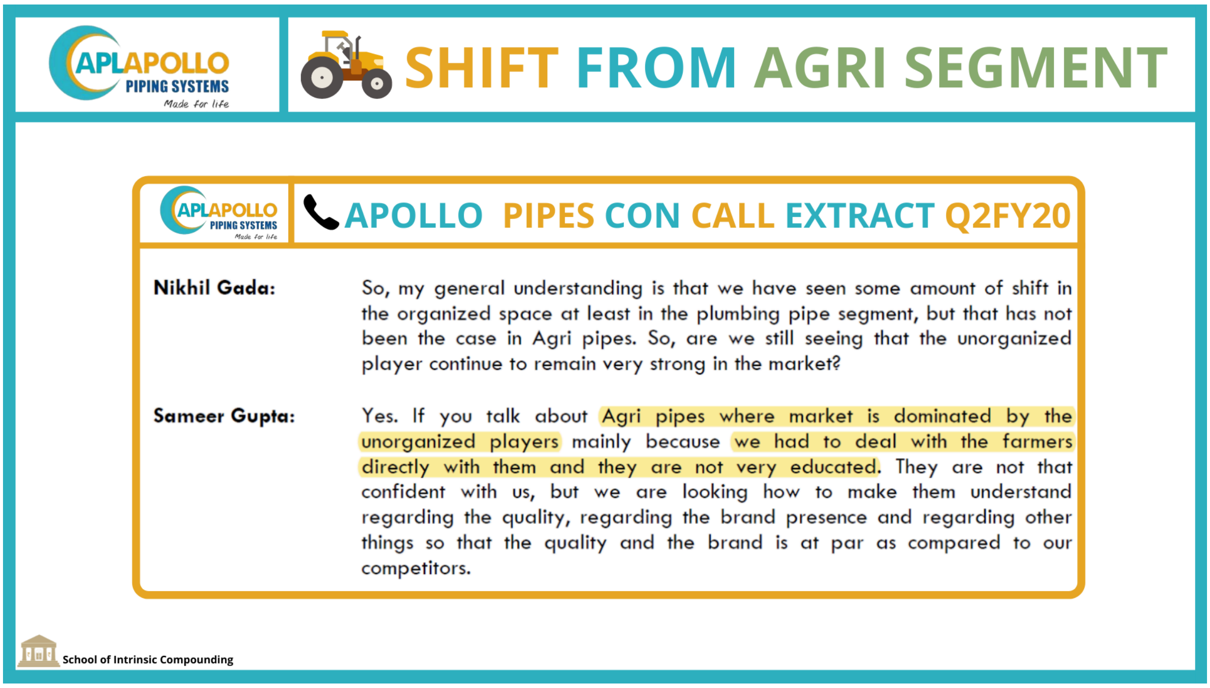
Here is what management has to say about the change in focus towards building material:



Anubhav Gupta: There are two things to it. One is that while we are focusing more on building material today than agri, not because like the building material name looks fancy, it is about the margin, it is about the return on capital employed what we generate from building material portfolio, building material margins are like almost two times of what you achieve in agri side, so that is what making us move towards the building material space, so that is one. Second, we competitors unorganized sector in formal sector I mean not only in COVID wave two, I mean look at what is happening since 2016 which started right from demonetization then GST shock, the NGFT crisis then GDP economic slowdown then Corona wave one, then Corona wave two, so there is space which is been vacated by smaller players not only in agri but also in building materials like in whole of 30,000 Crores the PVC industry category and this is one of the reason that why we could achieve such a healthy growth rate over the last three years to four years, we have almost doubled our turnover in the last three years and now we are on a platform where we say that we could double our turnover from here in next two years, so I guess it is not a function of like agri versus non-agri, it is more a function of where we can get leverage on our brand, where we can get superior margins, where we can generate superior ROCE for our business.

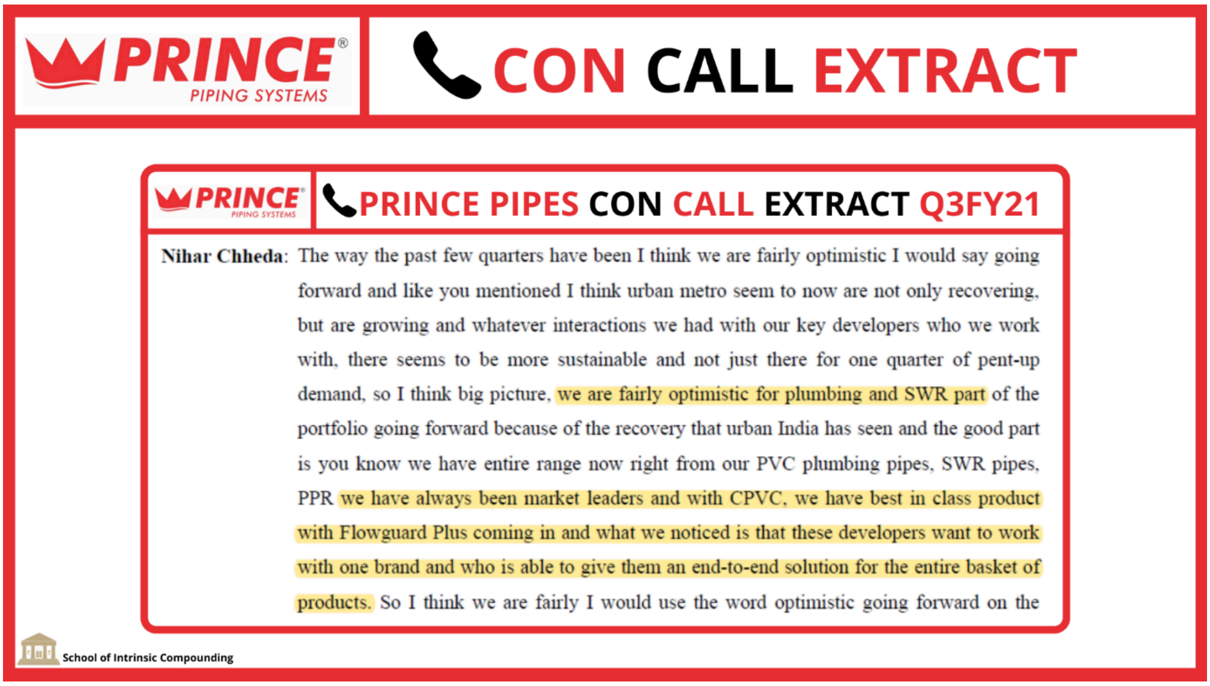


It doesn't stop at the margin, there is another part to it. It is very difficult to get market share in Agri pipes even if the pipe quality is better, because farmers don't understand what quality product is. Therefore, it seems a good call by the management to move away from the Agri segment.



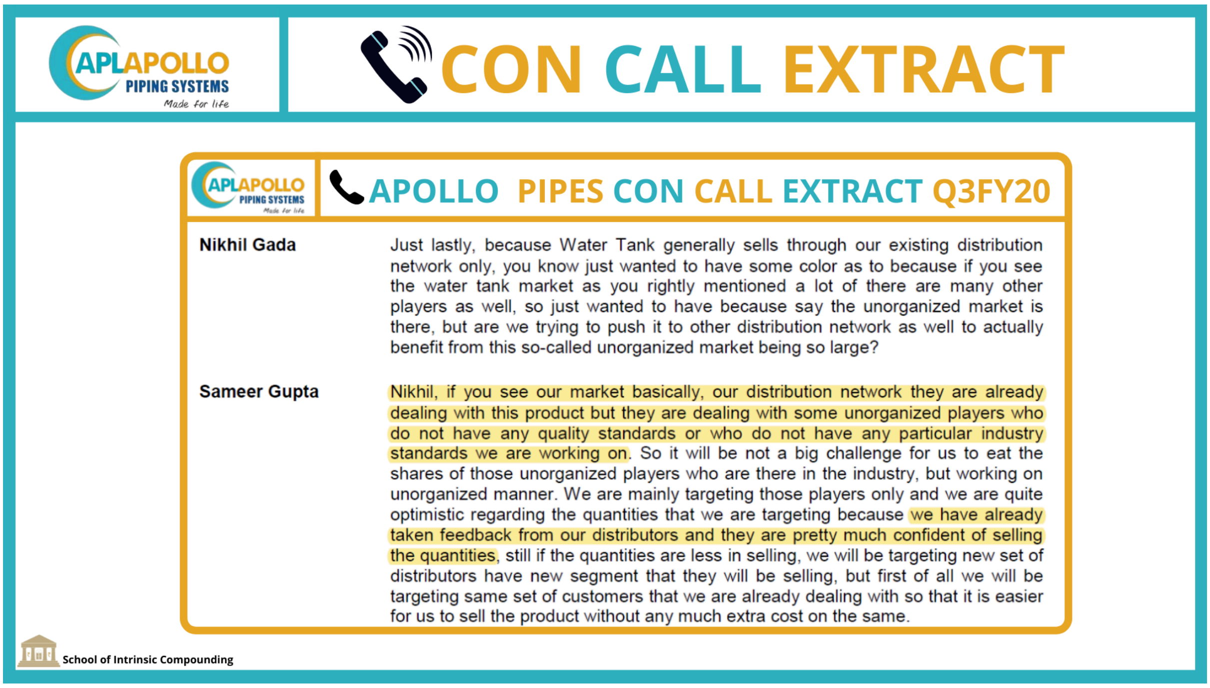
The way to win at the building material segment is to provide a basket of products because if a buyer could get everything under one roof it would bring in a lot of convenience.

Here is what Prince Pipes said on the same:



Nihar Chheda: The way the past few quarters have been I think we are fairly optimistic I would say going forward and like you mentioned I think urban metro seem to now are not only recovering, but are growing and whatever interactions we had with our key developers who we work with, there seems to be more sustainable and not just there for one quarter of pent-up demand, so I think big picture, we are fairly optimistic for plumbing and SWR part of the portfolio going forward because of the recovery that urban India has seen and the good part is you know we have entire range now right from our PVC plumbing pipes, SWR pipes, PPR we have always been market leaders and with CPVC, we have best in class product with Flowguard Plus coming in and what we noticed is that these developers want to work with one brand and who is able to give them an end-to-end solution for the entire basket of products. So I think we are fairly I would use the word optimistic going forward on the

To be honest, I feel there is no choice left with the management as they can't limit their portfolio to 2-3 products because then it puts their distributors at a disadvantage and forces them to sell other brand products. But if the business starts making a basket of products, then it makes the distributor's job easy like it is happening in the tank business.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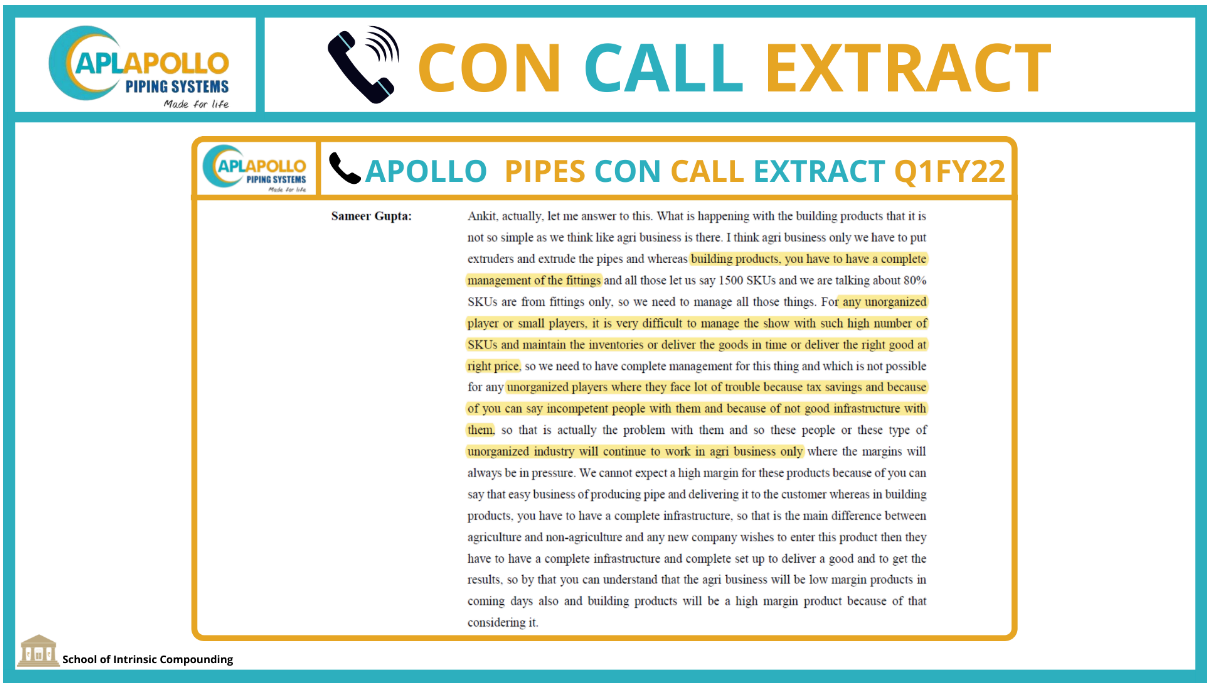
Nikhil Gada Just lastly, because Water Tank generally sells through our existing distribution network only, you know just wanted to have some color as to because if you see the water tank market as you rightly mentioned a lot of there are many other players as well, so just wanted to have because say the unorganized market is there, but are we trying to push it to other distribution network as well to actually benefit from this so-called unorganized market being so large?

Sameer Gupta Nikhil, if you see our market basically, our distribution network they are already dealing with this product but they are dealing with some unorganized players who do not have any quality standards or who do not have any particular industry standards we are working on. So it will be not a big challenge for us to eat the shares of those unorganized players who are there in the industry, but working on unorganized manner. We are mainly targeting those players only and we are quite optimistic regarding the quantities that we are targeting because we have already taken feedback from our distributors and they are pretty much confident of selling the quantities, still if the quantities are less in selling, we will be targeting new set of distributors have new segment that they will be selling, but first of all we will be targeting same set of customers that we are already dealing with so that it is easier for us to sell the product without any much extra cost on the same.

Manufacturing a basket of products means you need a lot of SKUs which are difficult to manage and that is where the organised players leverage their efficiency over the unorganised players.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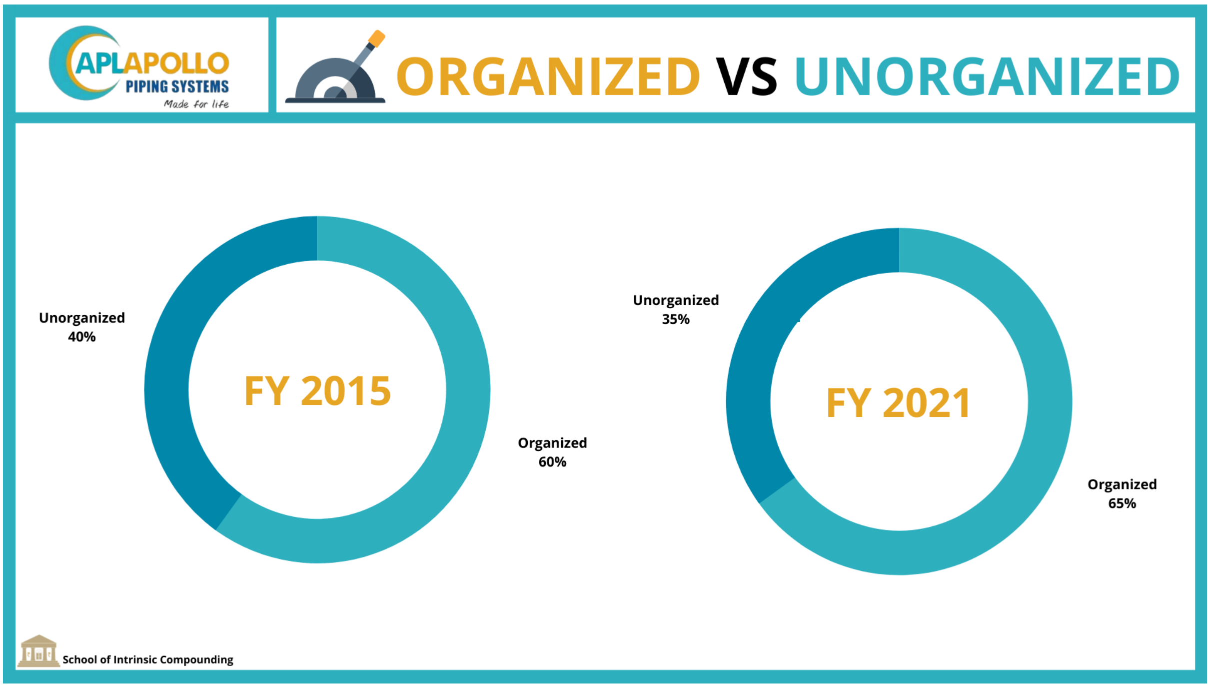
Sameer Gupta: Ankit, actually, let me answer to this. What is happening with the building products that it is not so simple as we think like agri business is there. I think agri business only we have to put extruders and extrude the pipes and whereas building products, you have to have a complete management of the fittings and all those let us say 1500 SKUs and we are talking about 80% SKUs are from fittings only, so we need to manage all those things. For any unorganized player or small players, it is very difficult to manage the show with such high number of SKUs and maintain the inventories or deliver the goods in time or deliver the right good at right price, so we need to have complete management for this thing and which is not possible for any unorganized players where they face lot of trouble because tax savings and because of you can say incompetent people with them and because of not good infrastructure with them, so that is actually the problem with them and so these people or these type of unorganized industry will continue to work in agri business only where the margins will always be in pressure. We cannot expect a high margin for these products because of you can say that easy business of producing pipe and delivering it to the customer whereas in building products, you have to have a complete infrastructure, so that is the main difference between agriculture and non-agriculture and any new company wishes to enter this product then they have to have a complete infrastructure and complete set up to deliver a good and to get the results, so by that you can understand that the agri business will be low margin products in coming days also and building products will be a high margin product because of that considering it.

Allow me to give another reference from Capital Returns where the author talks about analysing supply side economics rather than the demand side. Supply side economics means taking away supply side market share rather than competing at the demand side. Samit Vartak explains this concept by sharing two examples:

1. **APL Apollo Steel Tubes** who destroyed their competition by bringing in the DFT technology, which made them enter into small products where competitors could not and deliver goods within 2-3 days compared to 3-4 weeks by competitors.
2. **Balkrishna Industries (BKT)** entered a segment where no competition was present and became the lowest cost producer. China could not enter the segment as they prefer goods where they can manufacture in mass as compared to OTH tyres where a large number of SKUs are required.

In the pipe industry it is not exactly a fully supply-side disruption but the unorganised players are losing market share. As we mentioned earlier due to four reasons: **GST, NBFC crisis, Anti-dumping, and COVID**. Therefore, the unorganised and inefficient players have gone out or are facing trouble which has left a gap in the industry leading to many other organised players capturing it. **As per management around 50-60% demand for PVC product is catered through imports but all that is now disrupted due to COVID.**



Capital expenditure

If we have a look at the Apollo Pipes' balance sheet, we can see a **3x growth in gross block in the last 4 years from 94cr to 291cr**. They have increased capacity from 60,000 MTPA (FY18) to 1,18,000 MTPA (FY21) and have a long-term plan of increasing it to 125,000 MTPA. **But do remember a few years back management had set a goal to achieve 150,000 MTA by FY20, which they could not achieve but it is understandable as the world was hit with COVID.**

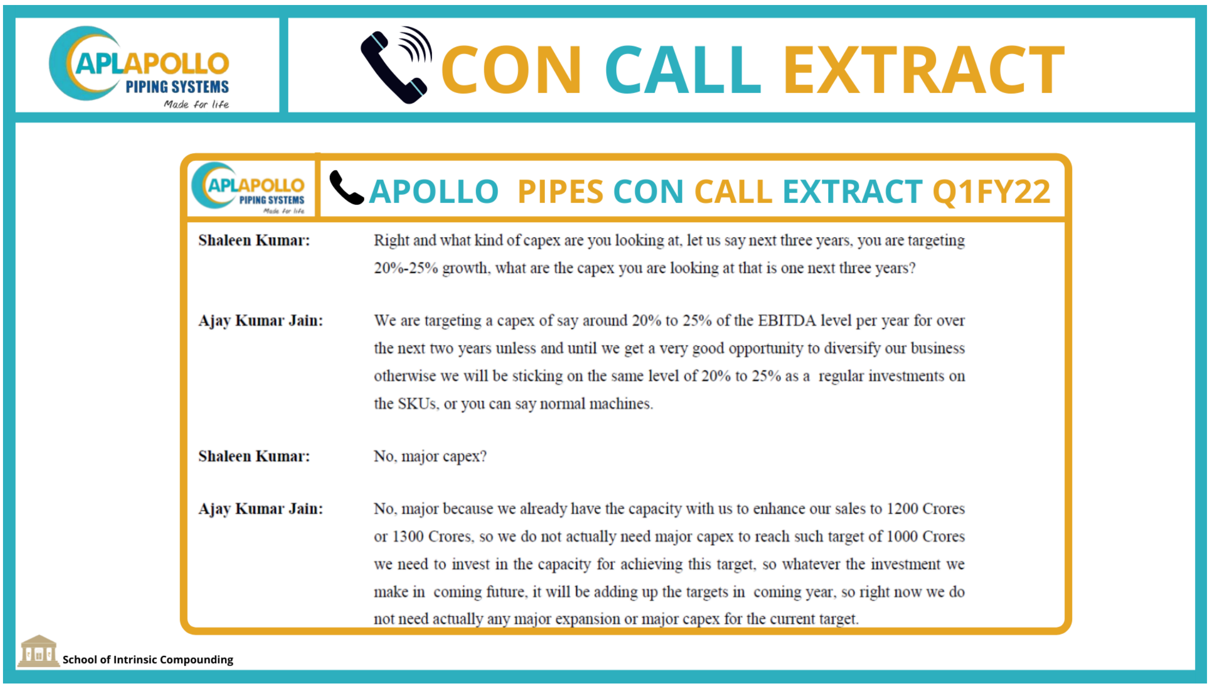
Company is done with all the major capex and has also finished all greenfield capex, now management guides that they will keep doing Brownfield capex to increase their capacity, so they would be spending **20-25% of their EBITDA towards expansion for next two years**.

In case you are a SOIC member then you must be aware of the above-mentioned terms but if not let me explain.

There are three types of capital expenditure a manufacturing company does, let me explain them by simple examples:

1. **Greenfield**: You buy land and construct a factory on it. This type of expansion has the **least ROCE** because of too much capital expenditure.
2. **Brownfield**: You create an additional floor within a factory. It has **higher ROCE than Greenfield** as the capital expenditure is also less.
3. **Debottlenecking**: This means constructing an additional room within a factory. This one has the **highest ROCE** among the three.
    a. Example: Alkyl Amines by spending less than Rs.10 cr increased their capacity by 15,000 tons. Through this they were able to increase their revenue by 150 cr. (Almost 15x asset turn) for Methylamines.

A good part of the mixture of Greenfield and Brownfield expansion which Apollo Pipes has done is 50-60% capacity addition in the Fitting segment and a similar expansion into the CPVC segment which we know from our previous blog is growing at 20%.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Shaleen Kumar: Right and what kind of capex are you looking at, let us say next three years, you are targeting 20%-25% growth, what are the capex you are looking at that is one next three years?

Ajay Kumar Jain: We are targeting a capex of say around 20% to 25% of the EBITDA level per year for over the next two years unless and until we get a very good opportunity to diversify our business otherwise we will be sticking on the same level of 20% to 25% as a regular investments on the SKUs, or you can say normal machines.

Shaleen Kumar: No, major capex?

Ajay Kumar Jain: No, major because we already have the capacity with us to enhance our sales to 1200 Crores or 1300 Crores, so we do not actually need major capex to reach such target of 1000 Crores we need to invest in the capacity for achieving this target, so whatever the investment we make in coming future, it will be adding up the targets in coming year, so right now we do not need actually any major expansion or major capex for the current target.

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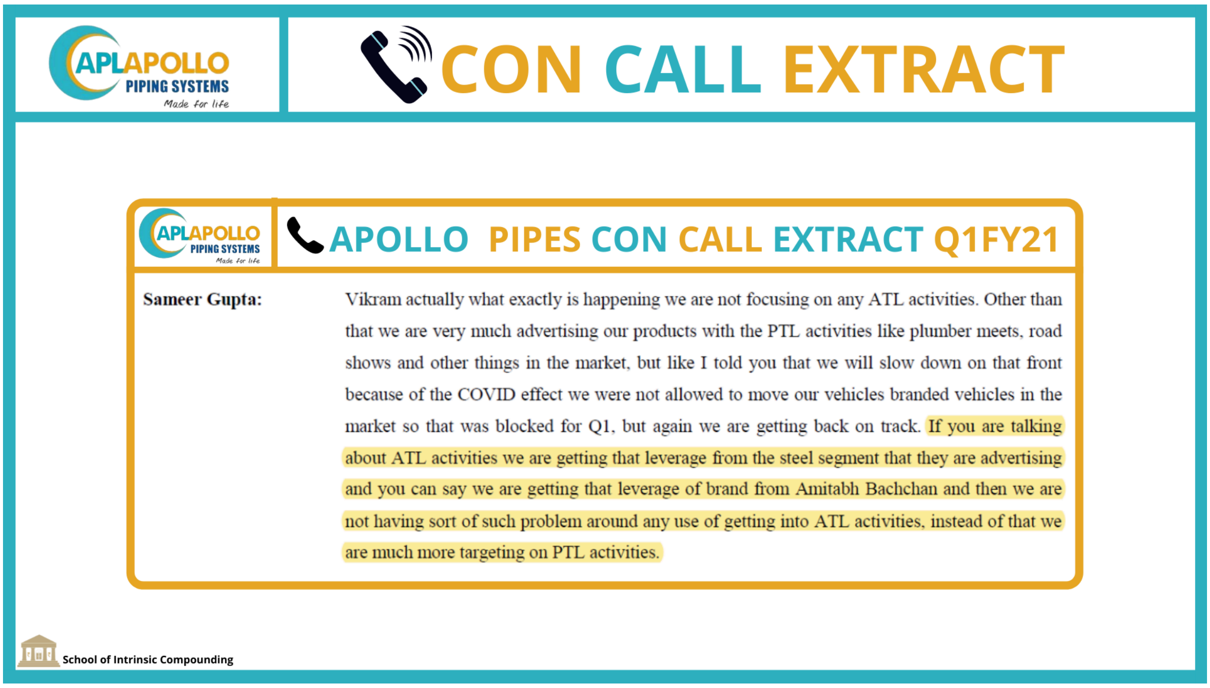
As we know that weak players in the industry are facing difficulty which is leading to consolidation, this created an opportunity for the Apollo Pipes and they purchased a plant at Tumkur which is in Karnataka from Kisan Mouldings at Rs. 25cr for a capacity of 12,000 MTPA. Out of the 12,000 MTPA capacity, 9000 MTPA is for UPVC pipes and

3000 MTPA is for CPVC pipes. Further, it is a 7 acres land which the management states that provides scope for future expansions with the current plan of adding 3000 MTPA capacity towards Fittings segment.

Focus on Branding

One clear cut edge they have over other players is on the branding side. They have a great parent brand of APL Apollo Steel who has shown excellent execution capability in the steel tubes segment. They also have Amitabh Bachchan as their brand ambassador in their steel tube business whose **effect spills over** towards the benefit of Apollo Pipes too.



APL Apollo Steel Tubes could only help them in branding but not in sharing the distribution system as even though the end consumer could be the same, most of their distributors are not into the plastic segment.

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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.

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But it’s not a cake walk that if people believe in APL Apollo Steel Tubes they would trust Apollo Pipes too, **capacity also matters.**

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Ankit Gor: My question was more pertaining to the Jain irrigation and Kisan, where they are not going so strong in Maharashtra, in Western region and lot of distributors are shifting to other brands. So my question was pertaining to that, are we just capturing that market as well or not?

Sameer Gupta: Yes, we are trying to capture those markets, but as you know we are new for PVC goods in those markets. We are trying to capture those markets where these companies were supplying and in some areas we are also getting benefit from approaching them, but not in all areas because as per the new brands, they are also very much reluctant regarding believing on the capacity is that what exactly capacities we had over there and whether we will be able to justify to replace that brand of Jain or Kisan. So, we are working on that line and we are getting good response from there because of the absence of some good brands on the market, but you can see that it is going as it is, not at very speedy pace, slowly we are getting the response from the market and they are also giving a good response regarding this thing.

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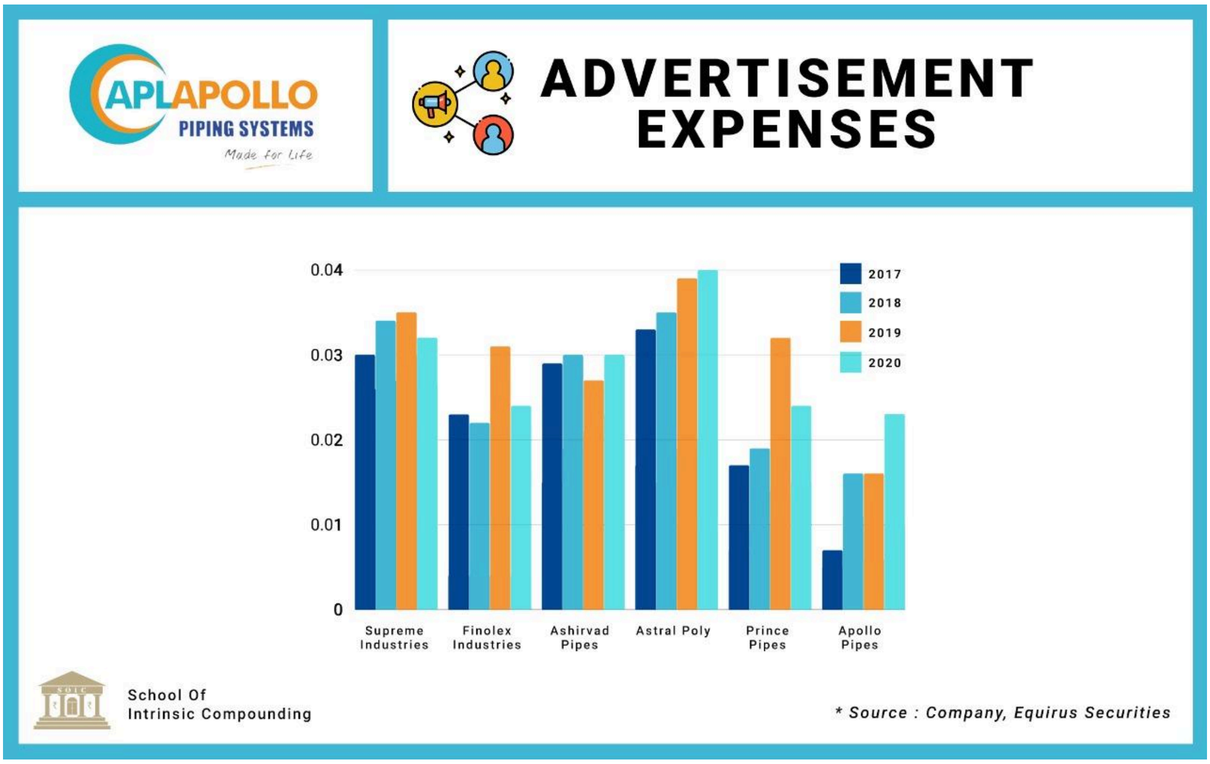
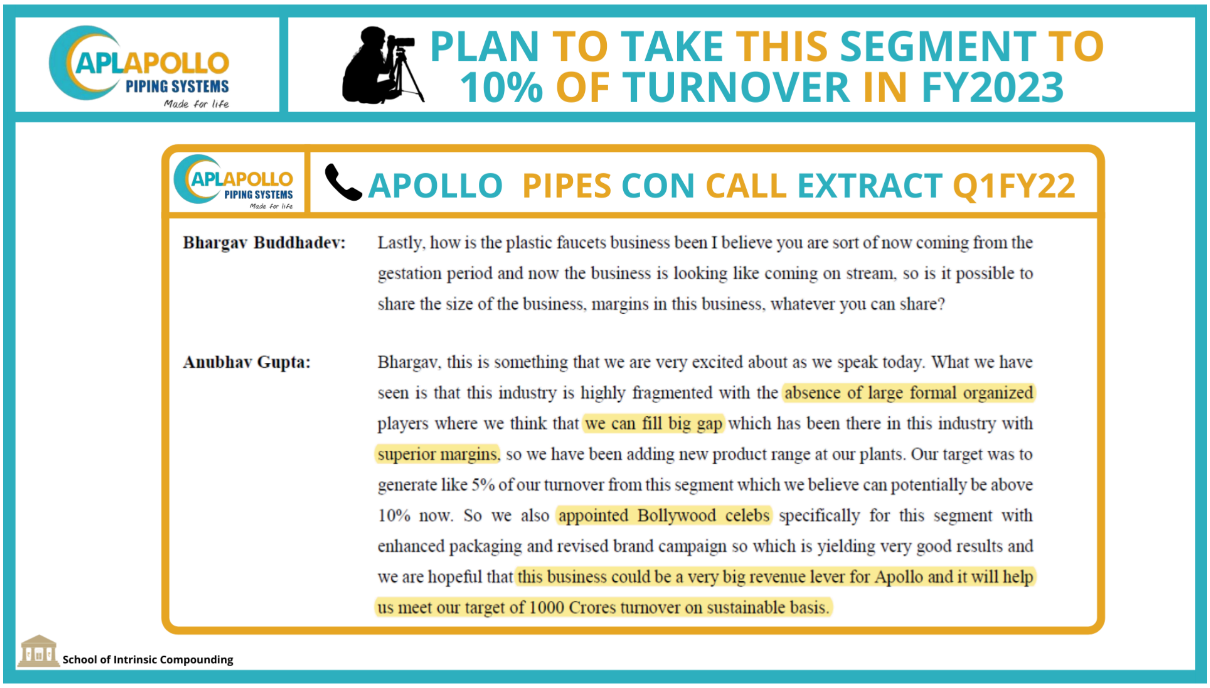
Coming to their advertising expenditure it has grown from 0.7-1% to 1.5-2% and they plan to spend around 3-3.5% of sales in the coming years.



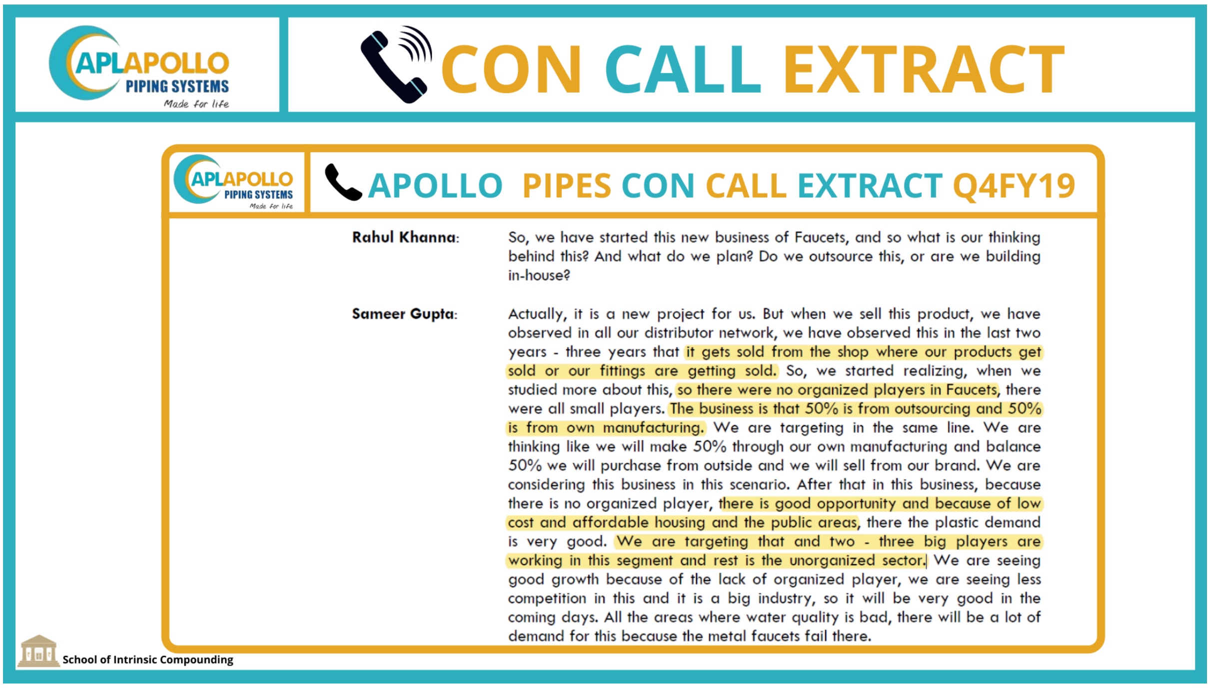
Bath fittings: Adjacencies or Diworsification?

Management decided to enter a related segment of Bath fittings. The rationale behind it was that the industry today is highly fragmented with the absence of any large organised player and it is a high value product with around 18-20% margin. Currently it is an outsourced business model with 50% of the products being sourced from third parties. Their focus is towards tier 2-3 cities and **plan to take this segment to 10% of turnover in FY2023.**



Bhargav Buddhadev: Lastly, how is the plastic faucets business been I believe you are sort of now coming from the gestation period and now the business is looking like coming on stream, so is it possible to share the size of the business, margins in this business, whatever you can share?

Anubhav Gupta: Bhargav, this is something that we are very excited about as we speak today. What we have seen is that this industry is highly fragmented with the absence of large formal organized players where we think that we can fill big gap which has been there in this industry with superior margins, so we have been adding new product range at our plants. Our target was to generate like 5% of our turnover from this segment which we believe can potentially be above 10% now. So we also appointed Bollywood celebs specifically for this segment with enhanced packaging and revised brand campaign so which is yielding very good results and we are hopeful that this business could be a very big revenue lever for Apollo and it will help us meet our target of 1000 Crores turnover on sustainable basis.



Rahul Khanna: So, we have started this new business of Faucets, and so what is our thinking behind this? And what do we plan? Do we outsource this, or are we building in-house?

Sameer Gupta: Actually, it is a new project for us. But when we sell this product, we have observed in all our distributor network, we have observed this in the last two years - three years that it gets sold from the shop where our products get sold or our fittings are getting sold. So, we started realizing, when we studied more about this, so there were no organized players in Faucets, there were all small players. The business is that 50% is from outsourcing and 50% is from own manufacturing. We are targeting in the same line. We are thinking like we will make 50% through our own manufacturing and balance 50% we will purchase from outside and we will sell from our brand. We are considering this business in this scenario. After that in this business, because there is no organized player, there is good opportunity and because of low cost and affordable housing and the public areas, there the plastic demand is very good. We are targeting that and two - three big players are working in this segment and rest is the unorganized sector. We are seeing good growth because of the lack of organized player, we are seeing less competition in this and it is a big industry, so it will be very good in the coming days. All the areas where water quality is bad, there will be a lot of demand for this because the metal faucets fail there.

The feedback from management seems good so far. The sales from this segment should be around 1-2% of the total sales. The machines required for this segment are similar to the Fitting segment therefore, not too much expenditure required.

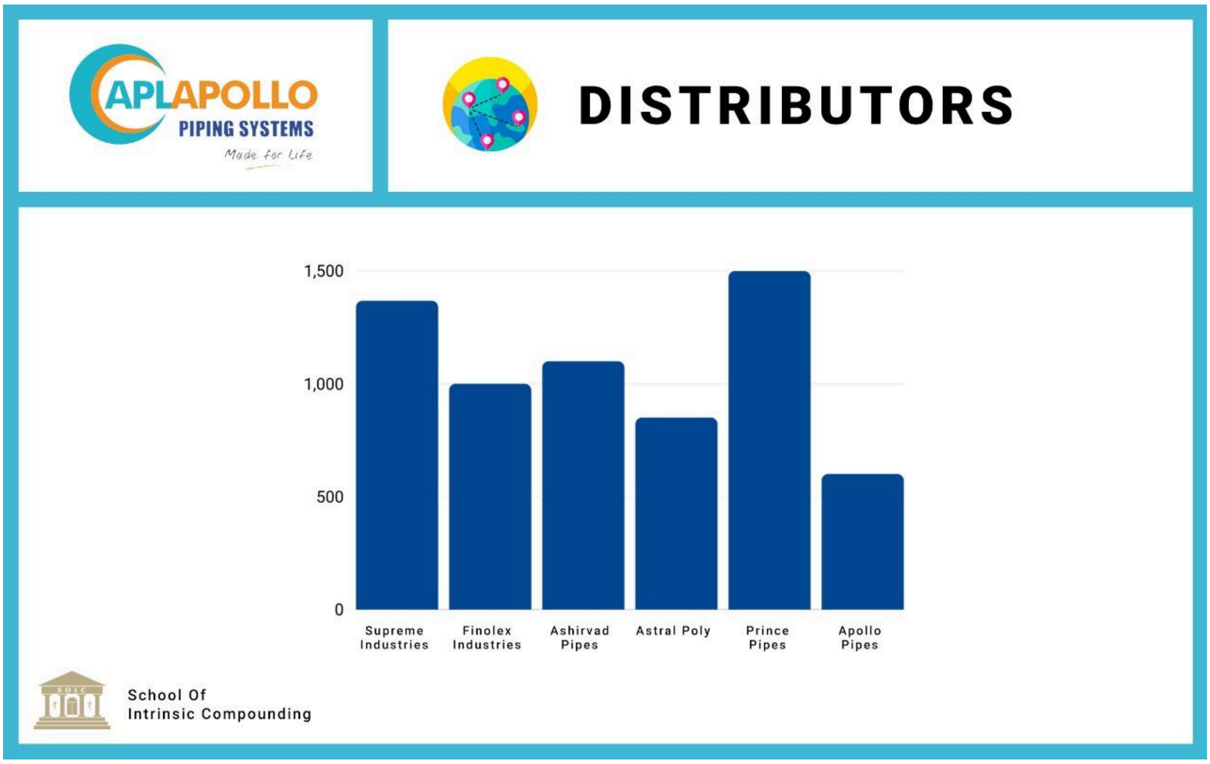
In case you are thinking that by entering this segment management is competing with brands like CERA, Parryware, etc. but those players are mainly into higher bath fitting products like brass and Apollo is only into plastic fittings.

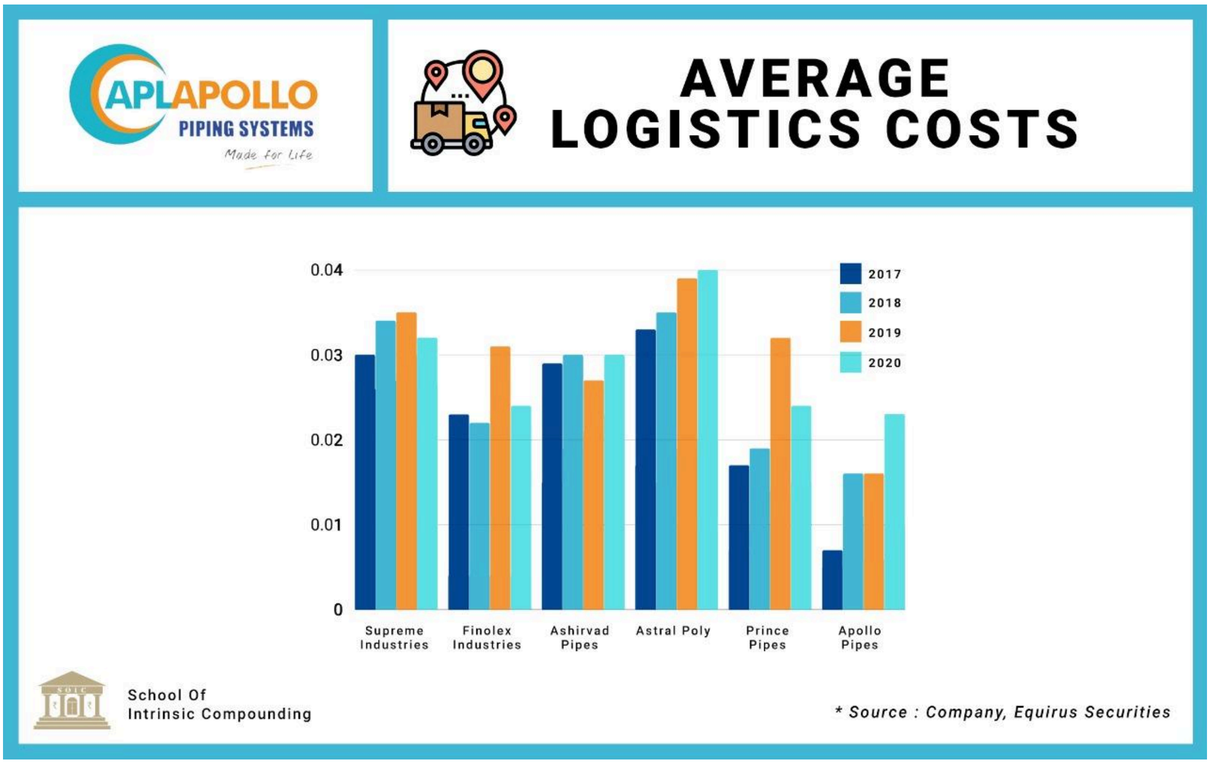
Antithesis: It's Not All Glory

Distribution Reach

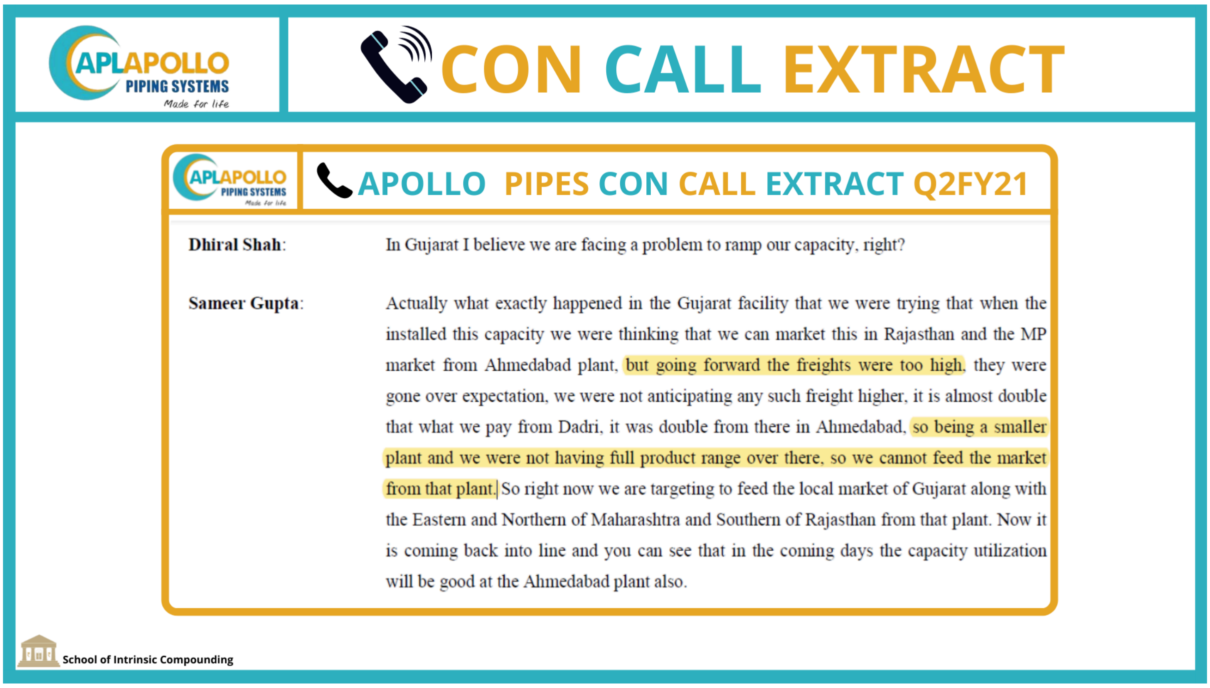
As discussed, various times on SOIC that in these types of industries distribution can act as a huge edge over the competitors. By saving 2-3% cost APL Apollo Steel Tubes was able to create a huge difference between their next best player. But such a difference is not present in the pipe industry.

This is the area Apollo Pipes struggles as they are a very small player in the industry with a market share of just 1-2%. If we see the no. of distributors, it stands nowhere compared to the giants. It is somewhat closer to Astral, but they are an exceptional player and comparing Apollo with them could be a farfetched narrative. As Astral's distributor productivity (revenue per distributor) is way higher. It is always better to compare with average rather than the best outcome scenario.





It has happened with the management that **freight eats up their margins** unless it's a high margin product which they supply from Dadri Plant. Rest of the product must be produced locally, or it becomes **economically not feasible** for them to supply.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Dhiral Shah: In Gujarat I believe we are facing a problem to ramp our capacity, right?

Sameer Gupta: Actually what exactly happened in the Gujarat facility that we were trying that when the installed this capacity we were thinking that we can market this in Rajasthan and the MP market from Ahmedabad plant, but going forward the freights were too high, they were gone over expectation, we were not anticipating any such freight higher, it is almost double that what we pay from Dadri, it was double from there in Ahmedabad, so being a smaller plant and we were not having full product range over there, so we cannot feed the market from that plant. So right now we are targeting to feed the local market of Gujarat along with the Eastern and Northern of Maharashtra and Southern of Rajasthan from that plant. Now it is coming back into line and you can see that in the coming days the capacity utilization will be good at the Ahmedabad plant also.

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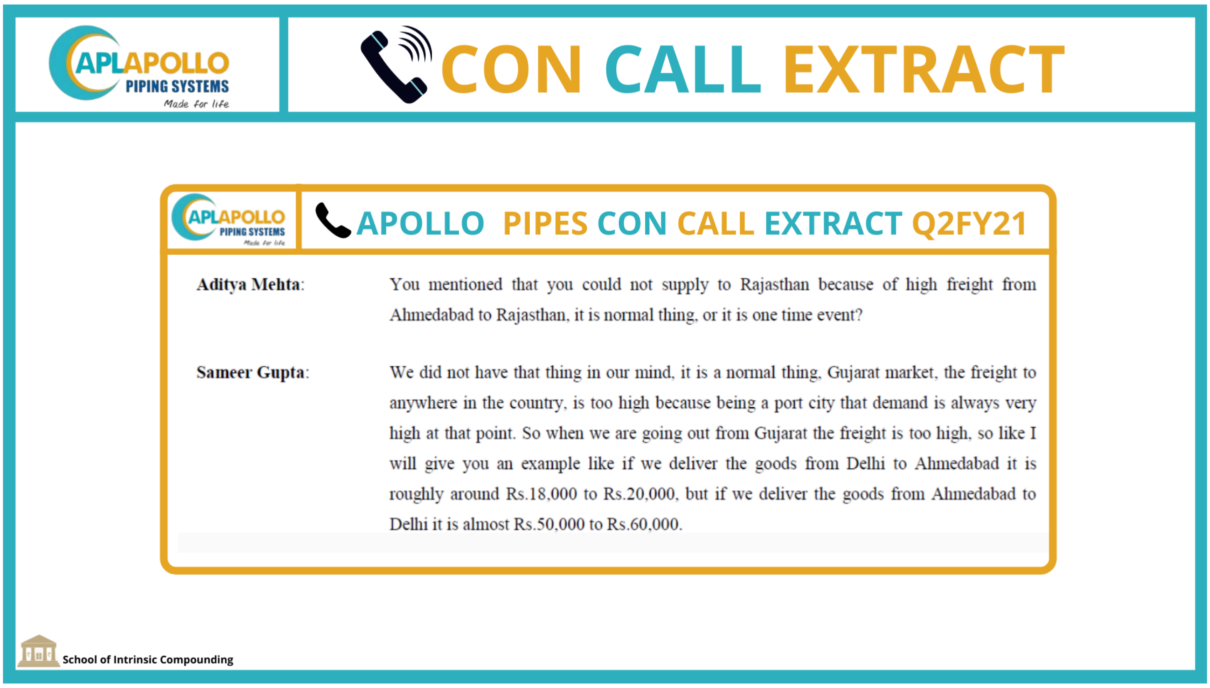
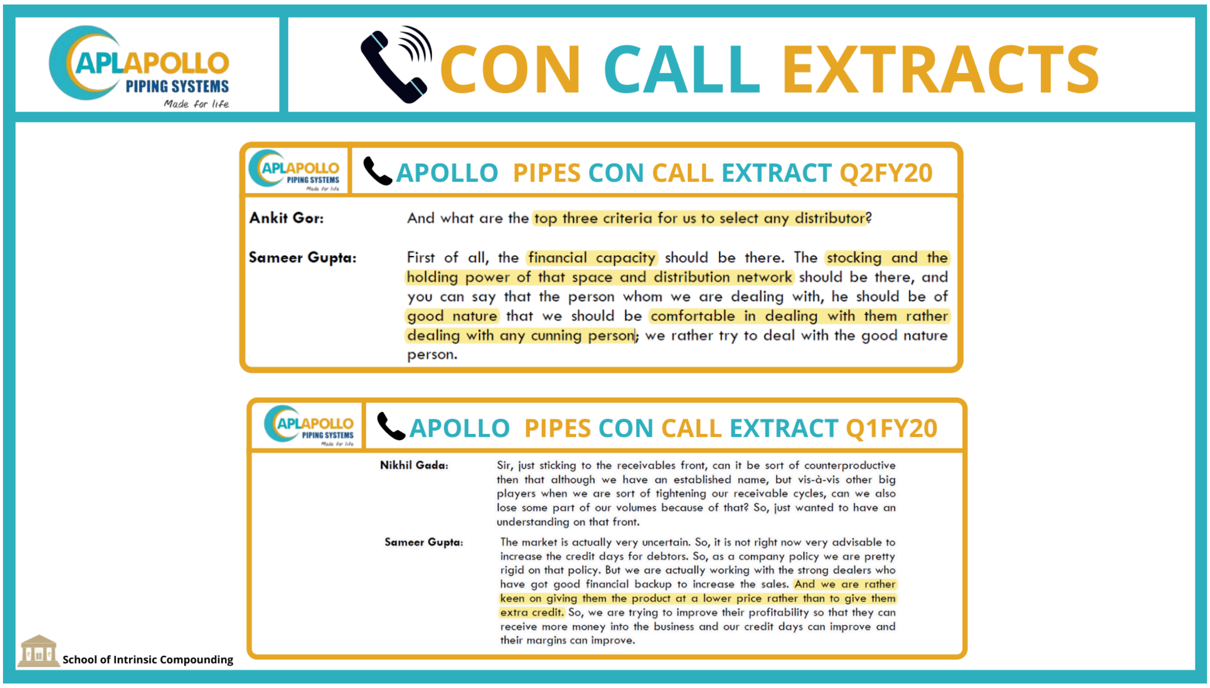


Even though their distribution partners are quite low, and it seems like a situation of “Beggars can't be Choosers” still here is what management looks for in a distributor:



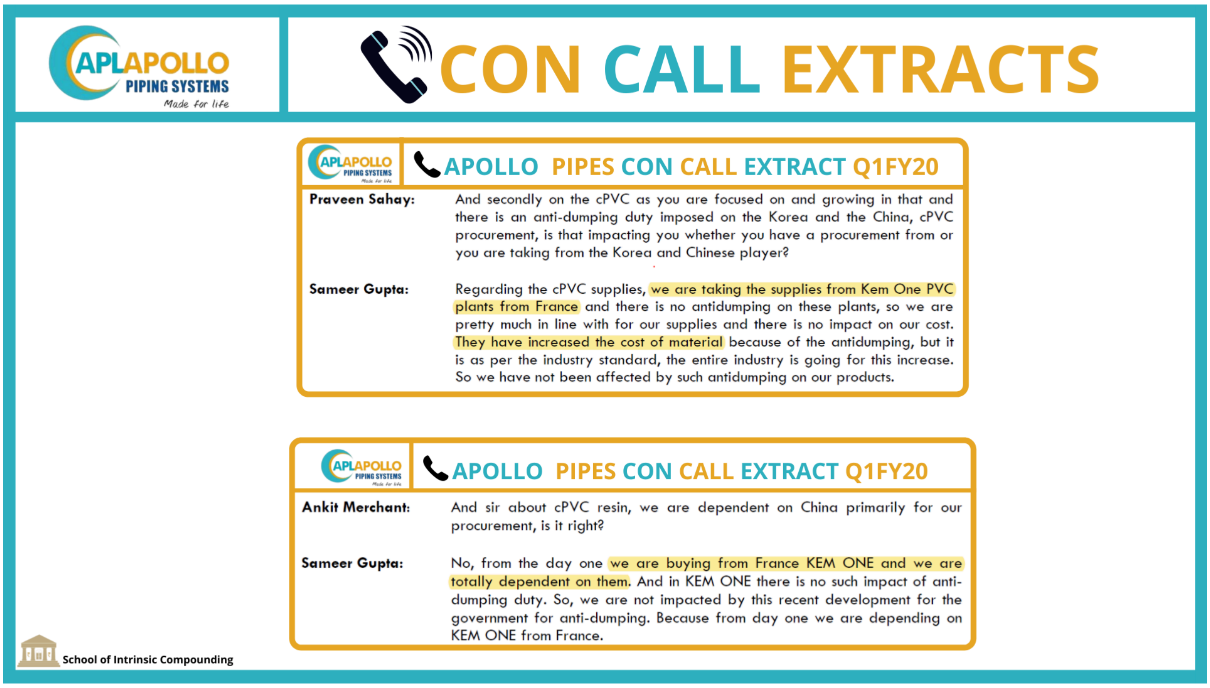
Sourcing problem

Apollo Pipes do not have Lubrizol like tie up with any player for sourcing raw material which could lead to supply chain issues. They import **80% of their raw material from**

Kem One plants present in France and the rest from Reliance. This is where they lack when compared with Prince Pipes. We can clearly see that this makes the business a little fragile as in the past Kem One has also increased the cost of material and they could not do anything.

Prof. Sanjay Bakshi in one of his talks, *Fragility & Optionality in Business Models*, mentioned about the characteristics of a fragile business. He highlights that business models which are dependent on the price of something (like raw material) which is volatile, have the risk of their margins going bust leading to making the business fragile.

If one day Kem One again decides to increase the prices it could bring in trouble for them. One would say that the industry structure itself is fragile, but we need to consider that other players have long term deals and as they buy huge quantities they have better power to negotiate. It will be far more difficult for a raw material provider to increase prices if they are a supplier of Astral, Supreme, Ashirwad, or Prince.

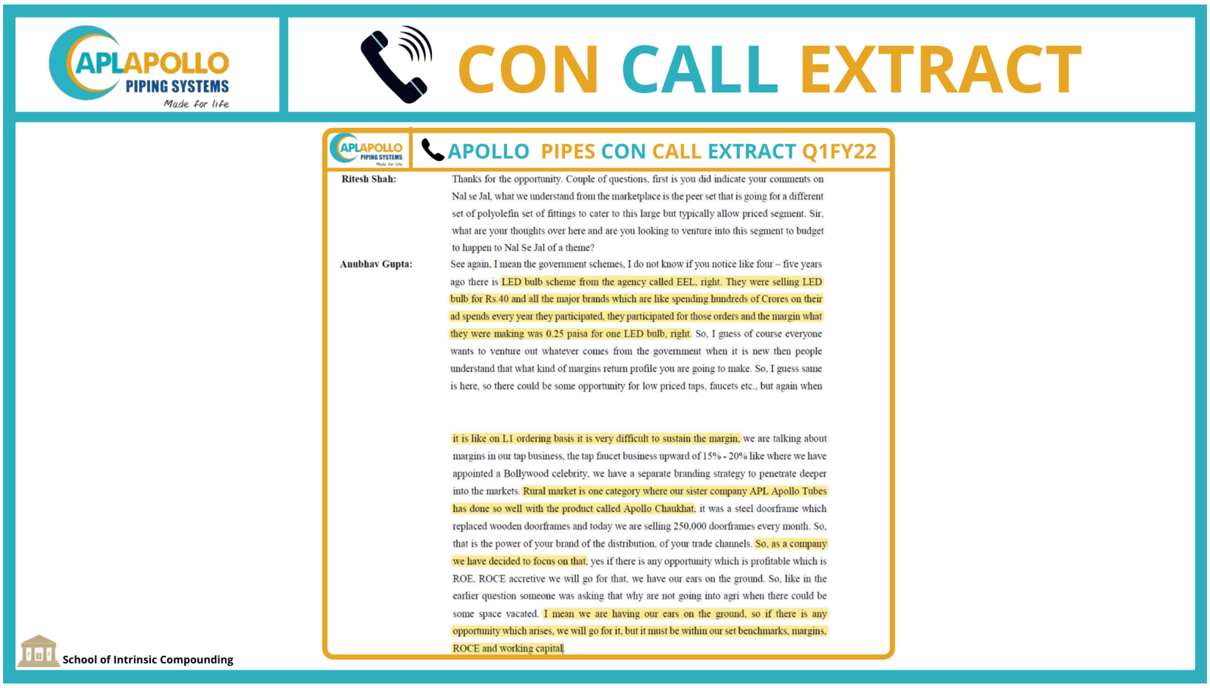


Importing 80% of the raw material comes with forex risk which the management claims to mitigate by taking advice from financial institutions.

One thing we can conclude is that Prince Pipes has a godfather (Lubrizol) for sourcing of raw material whereas they have godfather (APL Apollo Steel Tubes) for branding.

Government projects

One good thing about the management is they are clear with their focus. They state that their focus is towards trade sales where they could sell their brand and they don't get excited for government projects because they do not work at the preferred pace of management. Further, the margins in government projects are in single digit with credit cycle up to three months.



Ritesh Shah: Thanks for the opportunity. Couple of questions, first is you did indicate your comments on Nal se Jal, what we understand from the marketplace is the peer set that is going for a different set of polyolefin set of fittings to cater to this large but typically allow priced segment. Sir, what are your thoughts over here and are you looking to venture into this segment to budget to happen to Nal Se Jal of a theme?

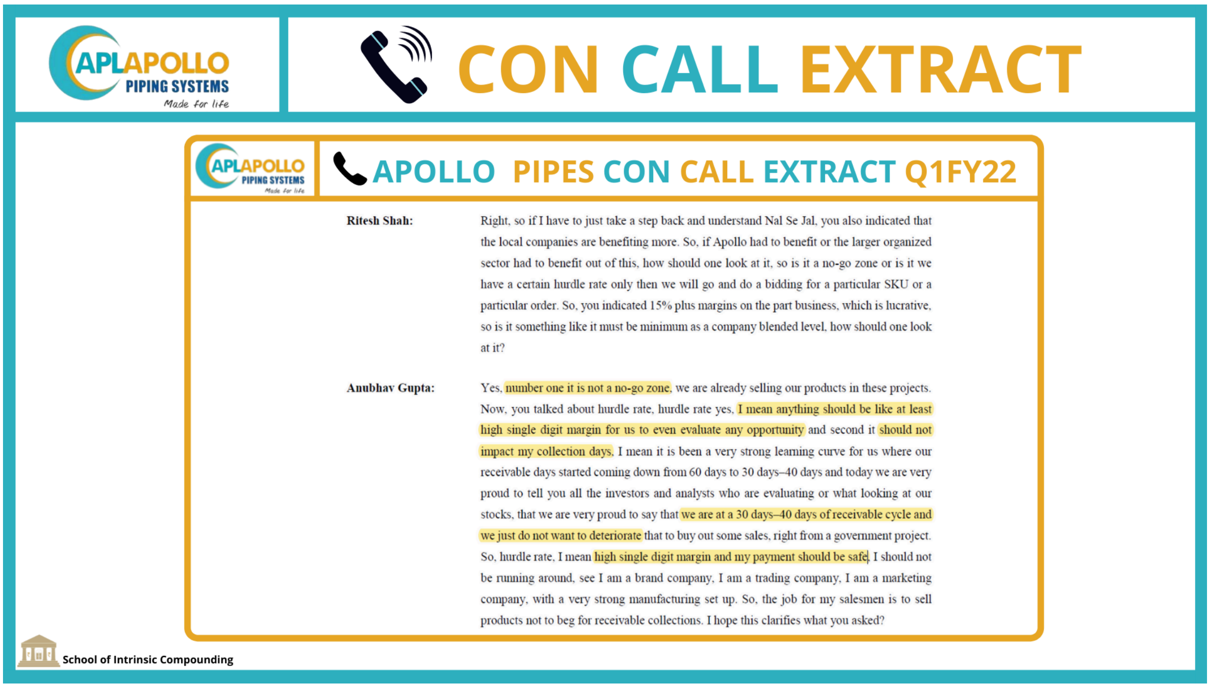
Anubhav Gupta: See again, I mean the government schemes, I do not know if you notice like four – five years ago there is LED bulb scheme from the agency called EEL, right. They were selling LED bulb for Rs.40 and all the major brands which are like spending hundreds of Crores on their ad spends every year they participated, they participated for those orders and the margin what they were making was 0.25 paisa for one LED bulb, right. So, I guess of course everyone wants to venture out whatever comes from the government when it is new then people understand that what kind of margins return profile you are going to make. So, I guess same is here, so there could be some opportunity for low priced taps, faucets etc., but again when

it is like on L1 ordering basis it is very difficult to sustain the margin, we are talking about margins in our tap business, the tap faucet business upward of 15% - 20% like where we have appointed a Bollywood celebrity, we have a separate branding strategy to penetrate deeper into the markets. Rural market is one category where our sister company APL Apollo Tubes has done so well with the product called Apollo Chaukhat, it was a steel doorframe which replaced wooden doorframes and today we are selling 250,000 doorframes every month. So, that is the power of your brand of the distribution, of your trade channels. So, as a company we have decided to focus on that, yes if there is any opportunity which is profitable which is ROE, ROCE accretive we will go for that, we have our ears on the ground. So, like in the earlier question someone was asking that why are not going into agri when there could be some space vacated. I mean we are having our ears on the ground, so if there is any opportunity which arises, we will go for it, but it must be within our set benchmarks, margins, ROCE and working capital.

Therefore, it's better to not include dependency on government projects in your thesis because they have a very bad history of inefficiency. Plus, the government generally prefers local producers as they have good relations with them.

4-5 years back Apollo pipes used to depend heavily on the government which contributed 30-40% of their sales but now it's approximately around 10% which is directly being sold to the government.

Government projects are much focused toward price rather than quantity and as resin prices had increased substantially it was difficult for Apollo to cater to such needs as these contractors are price sensitive rather than quality.

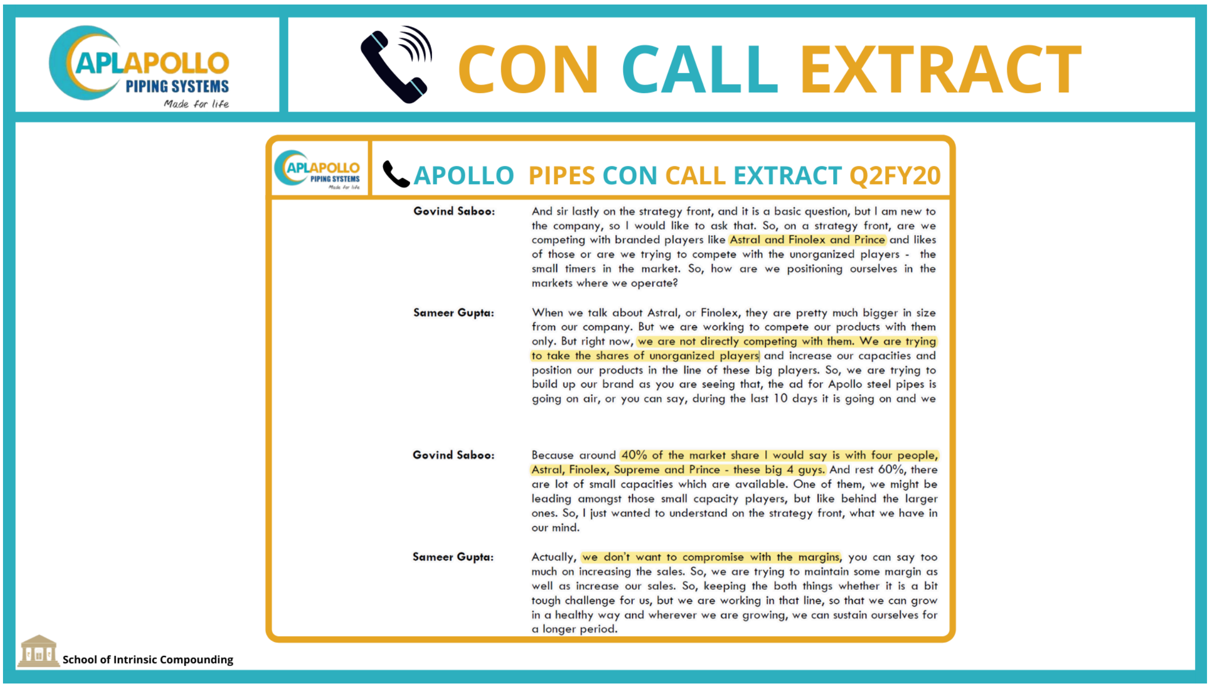


Ritesh Shah: Right, so if I have to just take a step back and understand Nal Se Jal, you also indicated that the local companies are benefiting more. So, if Apollo had to benefit or the larger organized sector had to benefit out of this, how should one look at it, so is it a no-go zone or is it we have a certain hurdle rate only then we will go and do a bidding for a particular SKU or a particular order. So, you indicated 15% plus margins on the part business, which is lucrative, so is it something like it must be minimum as a company blended level, how should one look at it?

Anubhav Gupta: Yes, number one it is not a no-go zone, we are already selling our products in these projects. Now, you talked about hurdle rate, hurdle rate yes, I mean anything should be like at least high single digit margin for us to even evaluate any opportunity and second it should not impact my collection days. I mean it is been a very strong learning curve for us where our receivable days started coming down from 60 days to 30 days–40 days and today we are very proud to tell you all the investors and analysts who are evaluating or what looking at our stocks, that we are very proud to say that we are at a 30 days–40 days of receivable cycle and we just do not want to deteriorate that to buy out some sales, right from a government project. So, hurdle rate, I mean high single digit margin and my payment should be safe. I should not be running around, see I am a brand company, I am a trading company, I am a marketing company, with a very strong manufacturing set up. So, the job for my salesmen is to sell products not to beg for receivable collections. I hope this clarifies what you asked?

Peer to Peer Analysis

The industry is getting consolidated among the hands of a few large giants but that doesn't mean there is no space for the small players. Opportunity size is large enough to cater the needs of players like Apollo Pipes who are trying to focus where these giants don't rule and take market share from there.



CON CALL EXTRACT

APOLLO PIPES CON CALL EXTRACT Q2FY20

Govind Saboo: And sir lastly on the strategy front, and it is a basic question, but I am new to the company, so I would like to ask that. So, on a strategy front, are we competing with branded players like Astral and Finolex and Prince and likes of those or are we trying to compete with the unorganized players - the small timers in the market. So, how are we positioning ourselves in the markets where we operate?

Sameer Gupta: When we talk about Astral, or Finolex, they are pretty much bigger in size from our company. But we are working to compete our products with them only. But right now, we are not directly competing with them. We are trying to take the shares of unorganized players and increase our capacities and position our products in the line of these big players. So, we are trying to build up our brand as you are seeing that, the ad for Apollo steel pipes is going on air, or you can say, during the last 10 days it is going on and we

Govind Saboo: Because around 40% of the market share I would say is with four people, Astral, Finolex, Supreme and Prince - these big 4 guys. And rest 60%, there are lot of small capacities which are available. One of them, we might be leading amongst those small capacity players, but like behind the larger ones. So, I just wanted to understand on the strategy front, what we have in our mind.

Sameer Gupta: Actually, we don't want to compromise with the margins, you can say too much on increasing the sales. So, we are trying to maintain some margin as well as increase our sales. So, keeping the both things whether it is a bit tough challenge for us, but we are working in that line, so that we can grow in a healthy way and wherever we are growing, we can sustain ourselves for a longer period.

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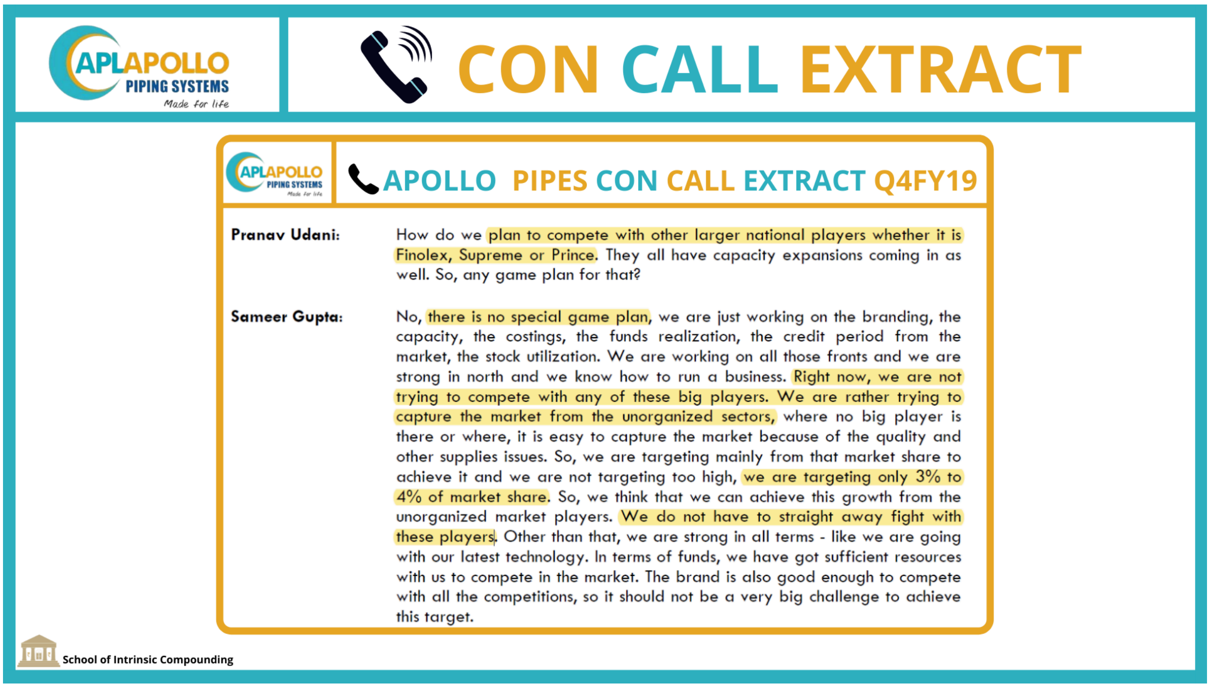
Management says that there is no special game plan to come out as a winner here. They are targeting 3-4% market share which is a satisfactory target for them.



CON CALL EXTRACT

APOLLO PIPES CON CALL EXTRACT Q4FY19

Pranav Udani: How do we plan to compete with other larger national players whether it is Finolex, Supreme or Prince. They all have capacity expansions coming in as well. So, any game plan for that?

Sameer Gupta: No, there is no special game plan, we are just working on the branding, the capacity, the costings, the funds realization, the credit period from the market, the stock utilization. We are working on all those fronts and we are strong in north and we know how to run a business. Right now, we are not trying to compete with any of these big players. We are rather trying to capture the market from the unorganized sectors, where no big player is there or where, it is easy to capture the market because of the quality and other supplies issues. So, we are targeting mainly from that market share to achieve it and we are not targeting too high, we are targeting only 3% to 4% of market share. So, we think that we can achieve this growth from the unorganized market players. We do not have to straight away fight with these players. Other than that, we are strong in all terms - like we are going with our latest technology. In terms of funds, we have got sufficient resources with us to compete in the market. The brand is also good enough to compete with all the competitions, so it should not be a very big challenge to achieve this target.

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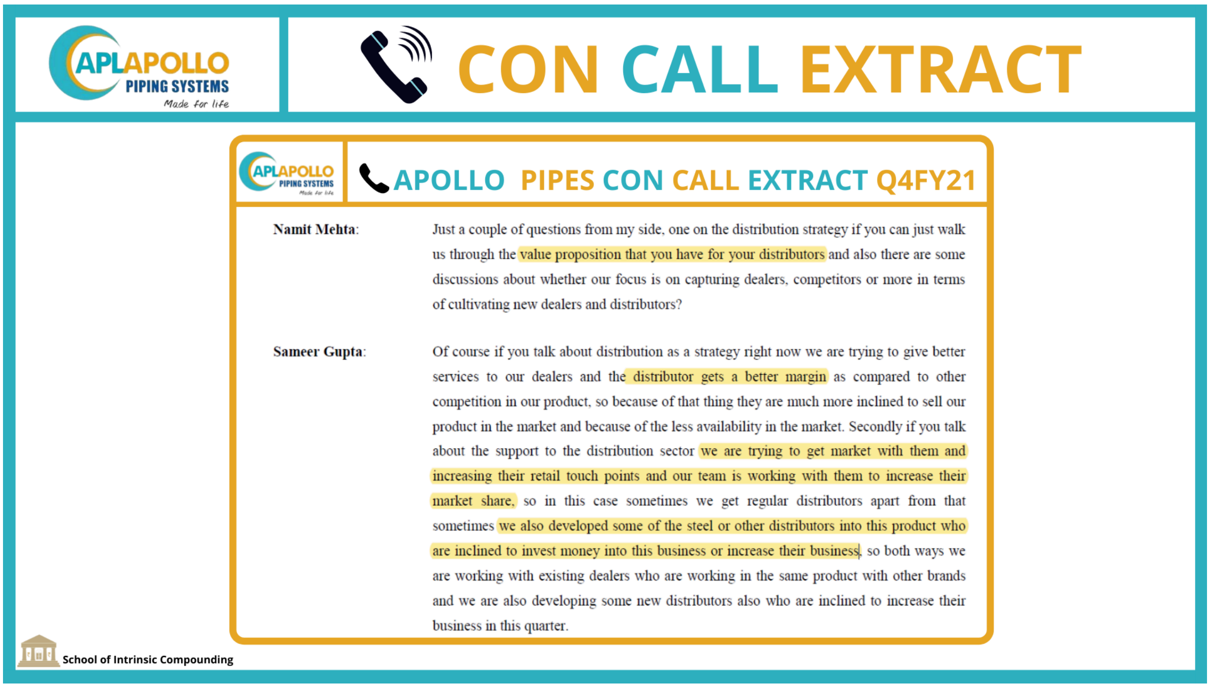
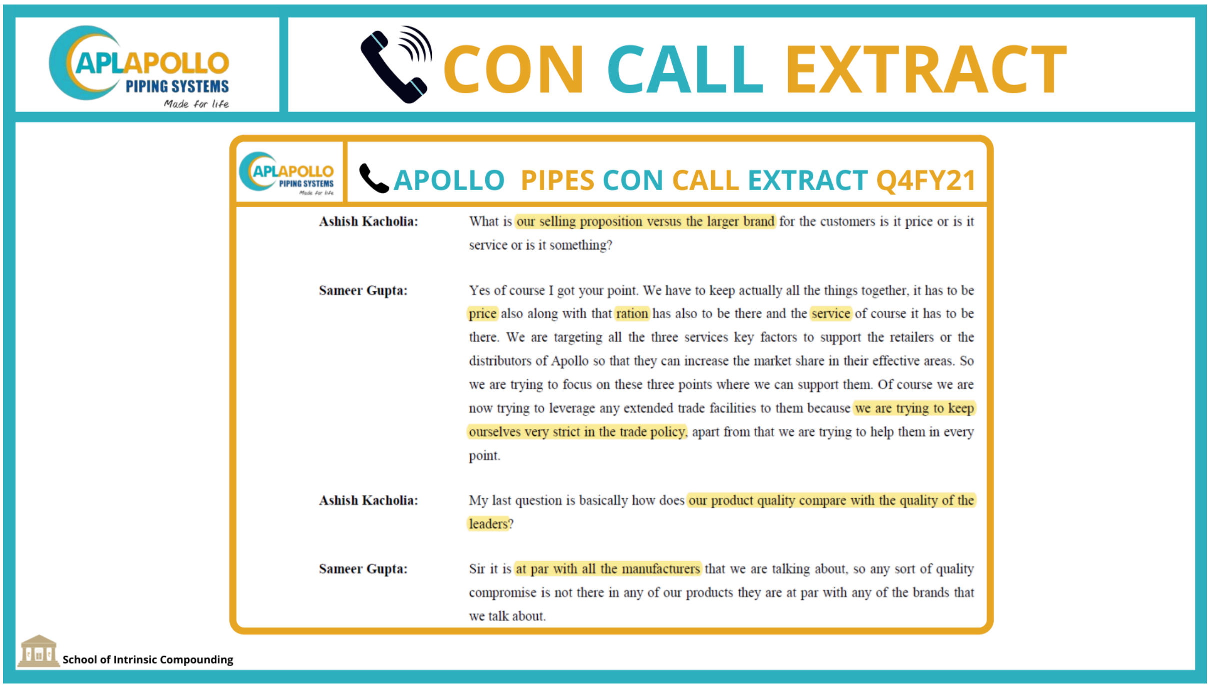
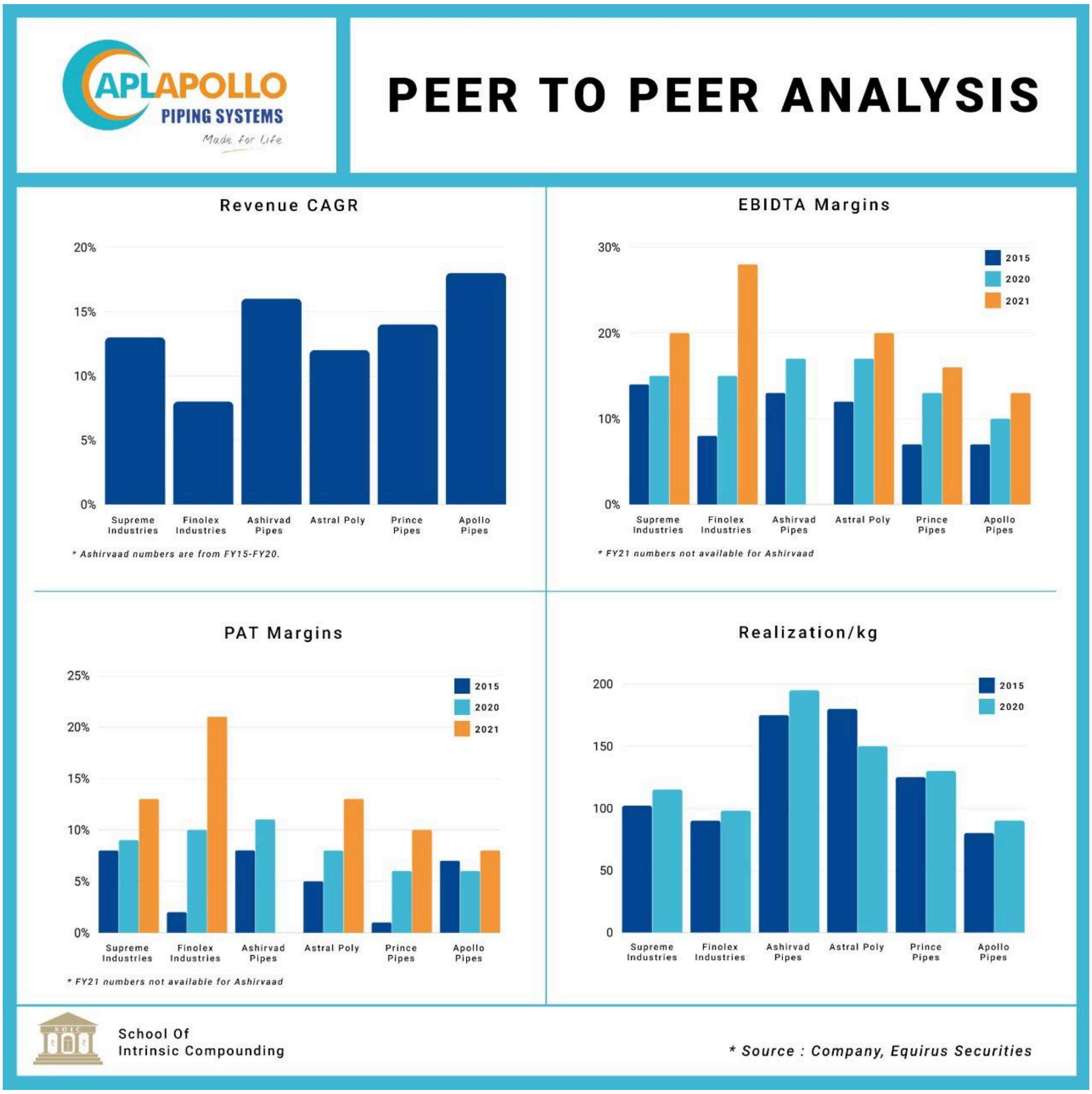
It seems **there is no difference between the product quality, and it is very different to get any edge over the giants.** What they are doing is playing the incentive bias game and giving better margins to distributors, but we need to remember that **Apollo Pipes products are 3-4% more expensive** than the competition which could make selling a bit difficult even after the incentives because the competition’s brand value is also quite good.





Instead of typing out the numbers for each player, let’s portrait them on charts and look at them because when data is looked through a chart a lot of clarity comes into thinking.



<u>Far Fetched Possibility?</u>

Before we jump to the valuation part I thought about mentioning a far fetched possible scenario which could happen in future. It is that the business could shift to a cash and carry model.

Apollo group has already done this with their Steel Tubes business so we can say at least they know when and how to do it, but we must keep in mind that their Steel Tubes business was a giant in that segment and they had the capability to do so because if the distributors did not agree with them they would face big losses.

Same is not the case with their pipe segment. They are just a small player in the industry and to bring in cash and carry model it would be initiated by one of the giants and highly unlikely this company could do it.

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Bilal Qureshi: Congratulations on a good set of numbers per se. Sir, my questions pertains to that Sanjay Bhai is MD in APL Apollo, they are trying to take the business model to cash and carry, are we trying to sustain business model to catch up in our business?

Sameer Gupta: We are trying level best to achieve that thing, but being a very strong brand in steel sector that helped us in achieving that figure, but being in a PVC player we are not at a number one position, so that will be a challenge if we target that thing, so right now we are targeting on the topline along with the bottomline, we are not targeting very high number things in terms of cash and carry, but we are trying to a level how to reduce those number of days, but right now that is not our target area.

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Agastya Dave: Sir one final question. I know the businesses are very different and I am a shareholder in APL Apollo also and they have during the previous call they have come out with a very aggressive guidance on how they will be managing their working capital? Are we thinking of on similar terms or is APL Apollo business model very different and their brand equity in their products are very high and the market share very high compared to us? Will we be following that model cash only model cash only business that is some time away?

Sameer Gupta: Actually the thought process goes across the group in the same way once Sanjay Bhai gives the direction almost on the same line to each and every business we have got, so we are also working on the same pattern, but being a brand leader in steel pipes and not there in PVC pipes so that is an hindrance for us you can say exactly replica that business model of 100% cash basis, but still we are trying to reduce our working capital cycle by reducing the debtors and the inventory days and we are working very hard so that we can reduce that cycle by almost 30 to 40 days by complete you can say that and you can say we are quite optimistic regarding achieving that thing. We hope that by the end of you can say this financial year we should be achieving those figures given by Sanjay Gupta so that you can say work on the minimum debtors and minimum stocks to achieve the high efficiency of our working capital.

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Valuation

As SOIC always says that valuation comes after business analysis and valuation methods, or multiples does not work in insolation.

It is a business which is present in an industry with double digit growth plus within that a segment is growing at 20%+, Management is very confident and aims to achieve 1000cr sales by 2023FY, they are aiming for 30-40% growth, and ROCE should reach 25-30% with ROE at 20%+ but right now it seems below that because promoters have infused capital into the business. They do not plan to infuse more money in future and all the future capex will be through internal accrual.

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VALUATION

PARTICULARS	APOLLO	PRINCE	ASTRAL	SUPREME	FINOLEX
P/E RATIO	39	32	92	24.7	12.8
EV/EBIDTA	21.3	18.6	56.8	16.6	8.7
PRICE/SALES	3.5	3.4	12	4	2.7
ROCE	16.4%	28.8%	29%	41%	35.6%

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* As of 3rd Sept 2021

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