"APL Apollo Tubes Limited Q1 FY2022 Earning Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the APL Apollo Q1 FY2022 Results Conference Call, hosted by Antique Stock Broking. 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pallav Agarwal from Antique Stock Broking. Thank you and over to you Sir!

Pallav Agarwal: Thank you Karuna, and good evening everyone. Welcome to the 1Q FY2022 Earnings Call of APL Apollo. We have the senior management of APL Apollo with us and I would like to thank them for giving us the opportunity to hosting this call. I will now hand over the call to Mr. Anubhav Gupta for his opening remarks! Over to you Anubhav!

Anubhav Gupta: Thanks, Pallav. Thanks everyone for joining in here, good evening. From our side, we have Mr. Sanjay Gupta, the CMD, Mr. Arun Agarwal, the Chief Operating Officer, Mr. Deepak Goyal, the Chief Financial Officer, and myself Anubhav Gupta. It is a great pleasure to be here and discuss our Q1 FY2022 performance with you.

Before we start our Q1 presentation, our opening remarks, I would like to update on few things. Number one is as an exercise to strengthen our board we have appointed Mr. Amit Gupta, the Whole-Time Director of Havells India in our independent board today.

We are sure that his experience to run India as a largest consumer electrical firm will help APL Apollo in areas like market penetration and distribution expansion organization build up and brand building.

The second update is regarding our corporate governance standards, which again we are consideringly strengthening these standards. So, in our recently published report on ESG we have articulated our ESGs framework, which talks about what APL Apollo stands today and what we want to achieve over the next five years. We have identified 13 material issues which we believe are important for us in alignment of the expectations of our stakeholders.

A few goals which we have setup are, for example zero cases of violation of code of conduct, all plants to have significant access to renewable energy, rainwater harvesting at all plants, zero liquid discharge facilities everywhere and zero incidents from noncompliance. So, we have published the full report and submitted to the exchanges and the same is available on our website, we will be happy to get any feedback regarding the same.

Coming to the Q1 performance it was again an eventful quarter as the pandemic had hit again in the country after six months of normalcy. Our team's experience of handling the pandemic last year had helped us this time around. We sailed through the quarter pretty well and reported the highest ever quarterly EBITDA in net profit.

Few highlights from Q1 FY2022 results; number one is the volume decline of 16% on Q-o-Q basis of course because of the lockdown towards the end of April and early May and it took time for things to get back to normal levels.

Number two was the raw material cost which went up by Rs. 5000 per ton for us at the same time our net selling realization went up by Rs.8500 per ton because of two reasons, number one is the value addition mix improved to 67% in Q1 versus 57% for full of FY2021. So, this resulted in better realizations and second is the some of the benefits to our group which were coming from the backward integration for some of the products. When we talk about the volume decline of 16% for ourselves, some of our industry peers they reported Q1 earnings we saw that their volumes are down from 20% to 25% on Q-o-Q basis. So, this does demonstrate that APL Apollo would have gained some market share here.

Our working capital remained intact at seven days, with stable net debt so our philosophy of cash reservation and higher working capital efficiencies we continue to work towards that. Our EBITDA per ton was 6800 again this was highest ever. We will see how much of this is sustainable, but we are not too much surprised with this number given that our global peers generate EBITDA per ton of 10000 to 15000 if you look at our global peers in Japan and US and Europe; however, our business plan for next three years is still based on the EBITDA per ton assumption of 4000 to 5000.

Our cash flows remain strong because of working capital efficiencies so our CAPEX into Raipur project continued and that project is doing well. TriCoat merger is on track, we recently got No Objection letters from both the exchanges hopefully we should be over with this process by end of FY2022 and the whole restructuring exercise will also be completed soon.

Our efforts to create new market for heavy structural tubes have started to pay off as we are getting good inquiries and we could also kick start some live projects. In our presentation, we have given details about some of the oxygen plants what are being constructed using Apollo Tubes and we also got any query for 2.2 million square footage of hospital development from one of the state governments and happy to share that all those designs are 100% using tubular sections.

Our long-term growth strategy remains unchanged which is based on value addition, cost control, innovation, new market creation and brand equity enhancement. We believe this would help us deliver double-digit volume growth over the sustainable next three to five years. Our Raipur project is on track where we are focusing on two products 500/500 square diameter tubes and color coated tubes. So, hopefully we should be able to start the production within the financial year and these two projects could contribute good chunk in FY2023.

With this Pallav we should close the remarks and we can open the floor for Q&A.

Moderator: Thank you very much, Sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Raj Mehta from Raj Mehta & Association. Please go ahead.

Raj Mehta: Thank you for the opportunity. Congratulations for a very good set of numbers. Sir my one question is with respect to the EBIT margin. There was a sudden increase if you compare on year-on-year also and quarter-on-quarter also. So, what led to this significant increase in EBIT margin and even in opening remarks you have mentioned that you will maintain your guidance of EBIT margins around 4000 to 5000 so even our value-added products are getting increased year-on-year the percentage share is increasing year-on-year you are not changing your guidance so can you just give a brief about those things?

Sanjay Gupta: Good afternoon everybody. What happened in the last quarter, in the last few years whatever the downstream the big companies are in the country is go into NCLT and all the plants are taken over by the steel plants and some of our value added products which we are producing our own backward integration raw material they increase their margins in this products so our margins go high, but today we are not sure to go up the industry how much margins, they will do, so if they go down by the margins, so maybe slightly these margins are again hit to us. We are just watching the situation for next one or two quarters then we can comment on this margin per ton, if we can increase.

Raj Mehta: So, your current margins to sustain are now difficult right now.

Sanjay Gupta: I think that we are not in a position to speak now, number 2, our volume growth in this quarter was very less, we are trying to get the volume back to normal since the pandemic is towards closing and given if we do not get the 3rd wave. So, I am not sure if we increase the volume will the same margins meet the volume or not, we are not sure. And give the existent margin pressure is there we do not want to lose our market share but we are confident that amount wise we can continue at this level and maybe our EBITDA will increase in amounts but we are not looking at margins too much, we are looking at total EBITDA at what company is earning and how much market share we can gain because last year if you see, before COVID our margins were Rs. 3200 per ton and in whichever industry it be it is not possible that I committed to you that we did magic in one year and our margins became Rs. 7000 per ton. We do not want to create this type of pressure, our main aim is to reach the volume of 4 million ton, so this I am sure that today it is not possible to go for internal with this margin, maybe tomorrow this will happen. So, today our main focus is what we are earning of the total amount of EBITDA and what type of volume we are capturing and what type of market share we are gaining.

Raj Mehta: And sir my second question was that Apollo Tricoat has not come to Maharashtra and Northern side, we do not see much of these products displayed here, still we have done so good volume growth in Apollo Tricoat company, so going forward once we merge by the end of this year, so next year onwards all these products will start penetrating into this stage right, we do not have any expectation this year, right?

Sanjay Gupta: So, this year there is not because everything we are bringing on the Raipur project because of the tax benefit in this project we have got tax benefit of 15% of income tax from the government because of the new project, so whatever major CAPEX we are doing, the new projects that we are doing in Apollo field, so from there, plus Raipur is in center of India position and from there we will do all India penetration of all products, after the merger.

Raj Mehta: And Sir last question was the government orders that we are hoping we will get, so over there will it be our value-added products or the basic product that we have and EBITDA per ton that you are maintaining, will it be in the same range or would it be lower because it is a government contract?

Sanjay Gupta: On those projects our EBITDA will be very good because that is our dream, the day we are able to create market in India, then I can assure that we can do 7000 and 8000, can do 6000 also, then this is not dependent on anyone else but this is dependent on us because whatever products that we have developed out there, these are our innovative products and new products, monopoly products then we will have good amount of comfort in margins, so still we are working on developing this market because basis our study, if we built up one square foot of area, to make 1 square foot of area 4 kg of tube is required, if we develop annually around 15 crore square feet area in India, let us say for one building it is 5 lakh square feet, then we will have to develop in total only 300 buildings in total in India. So, if you see it that ways it is not a big kind of a job and we are still almost working on 10-15 buildings in which we are very hopeful in the next few months we should get contract of 10-15 buildings, so if this market is developed which is spread across the world because the biggest problem of real estate now is construction time and getting the desired quantity of soil, environmental clearance, so there are no issues that come through and within 30 days the structure can be built but unfortunately in India this concept has not yet been adopted but lot of companies are speaking about this concept, as and when this concept is adopted here, the steel consumption will increase and we will see a very good impact on our margins.

Anubhav Gupta: Just one clarification that we are not bidding in the government tender. government tenders will be by one of the EPC contractors and our customer will be that EPC contractor we will not deal directory with the government here.

Raj Mehta: So, there would not be no pressure working capital as such you will maintain this working capital.

Anubhav Gupta: Yes. That is right.

Moderator: Thank you. The next question is from the line of Shubham Jain a Retail Investor. Please go ahead.

Shubham Jain: Congratulations to APL Apollo team for a good set of numbers. Sir I have two questions one question is that Apollo has issued stock split offer in the ratio of 1:5 and now giving bonus share, so what will be the impact of those shares on the profitability and on EPS and second question is the working capital from 2008 it has reduced from 43 to 8. Can you please explain how we have drastically reduced our working capital while our peers find there is many problems in the working capital to be managed, due to increase in steel prices?

Anubhav Gupta: We could understand your second questions which we will address now. Later on, you could repeat your question number one. So, coming on the working capital see I mean we could reduce working capital cycle in two areas one is the deters, second is the inventory. In deters if you see that right after COVID lockdown last year which to cash and carry model wherein from 35 days of collections we reduce our collection day to three to five days and the whole system got switched to cash and carry model and this has been sustainable and we believe this will remain sustainable in the future because our distributors are earning higher margin from the cash discount what they are getting and it is giving them better ROCEs so for them it is having more money on the table we are happy to do that. Second is on the inventory side earlier when we have expanded our capacity from 1.3 million ton to 2.6 million ton we had to keep minimum raw material inventory in our factories so from the volume as the volume has ramped up in last two, three years where we have taken 15%, 20% growth so the inventory levels have not gone up in the same proportion so in number of days it has reduced so these are the two reason that why our working capital cycle improved and we believe that we should remain like that below 10 days.

Moderator: Thank you. The next question is from the line of Amruta Deherkar from Wealth Managers India Limited. Please go ahead.

Amruta Deherkar: Congratulations on the quarterly performance. I have two questions one is like regarding the structural steel tube market size, I mean APL Apollo did around 1.6 million tons in FY2021 so which was like around 50% market share so the derived market size would have been around 3.3 million tons, whereas in the annual report it is mentioned that it is expected to rise to 13 million tons by FY2023, so roughly as in is it goes up double every year to reach that numbers by FY2023 and another part is like to maintain the 50% market share APL Apollo will have to do roughly around 6.5 million tons of volume in FY2023, so whereas the capacity addition is still from 2.6 to 4 million tons?

Anubhav Gupta: Amruta, what we have mentioned in our annual report is the potential of this industry if we have to match India standard with the other country standards so if you analyze other countries like US, Europe, China, Japan over there the structural steel tube industry represents 10% of the total steel consumption for example globally also the total steel consumption is 1800 million tons and the structural steel tube industry globally is around 180 million tons which is 10% but in India if the steel consumption is 100 million tons and the tube industry is only 3 to 4 million tons right which is only 3% to 4%. As we are creating the market for our tubular products we have seen how we have grown in the last 10 years 25% volume CAGR no building material industry has grown at this pace why we could grow higher than other building material industries because we were creating new market for our products, so India also at some stage has to go at 10% like what we mentioned about the building 300 buildings what we target to have constructed using tubes so that percentage will improve from 3%, 4% to 4%, 5%, 6%, 7%, 8%, 9%, 10% and eventually when it go to 10% and as per the government data the steel, the government wants to like triple the steel capacity in India from 100 million tons to 300 million tons so that is the potential we are talking about that if steel consumption goes to say 300 million tons in ten years so the potential of our industry is 13 million tons that is what we had implied we are not saying that the industry will grow we are saying that could be the potential of this industry.

Amruta Deherkar: My second question is from 2.6 million tons to 4 million tons will be mostly coming from the column steel pipes, large diameter pipes and Raipur plant. So, beyond that what is the maximum possible capacity expansion which APL can do in Brownfield and before it has to do Greenfield CAPEX?

Anubhav Gupta: So, our Raipur project which is our 11th plant that is all Greenfield, the color coated tubes and the 500/500 square diameter tubes are coming there so Raipur is a good hub to produce tubes in India because of the geographical advantage and availability of raw material also. So, yes, I mean around 1 million ton could come from Raipur over the next three to four years and the balance 0.5 million could come from the Brownfield expansion, so as of now our business plan is based on 4 million tons once we have the capacity in next two three years then we will see which ever plan we can go for Brownfield and what we can do Greenfield. But I think we have enough on our plates today on our table today to focus on 4 million ton and beyond that give us a few quarters we will see how the volume goes up how the capacity comes on line and then we will come and tell you that what is plan beyond 4 million ton.

Amruta Deherkar: Just a clarification the Raipur plant includes the color steel pipes and large type pipes so it is around what is the capacity of the Raipur plant coming up?

Anubhav Gupta: As of now what we have in our table is 200000 ton of each mill from 2.6 million ton we will go to 3 million tons by FY2022.

Sanjay Gupta: Total future plans of Raipur plant is almost close to 1.1 million to 1.4 million ton.

Amruta Deherkar: Thank you.

Moderator: Thank you. The next question is from the line of Shaleen Kumar from UBS. Please go ahead.

Shaleen Kumar: Congratulations on a very good set of number and to the team also. Sir your 4000-to-5000-ton guidance, I think even if I use the current mix on the past quarter probably you were crossing around 5200 ton. So, do you think you will go back to the fourth quarter EBITDA per ton?

Sanjay Gupta: My answer is not that I am going to Rs.4000 or Rs.5000 per ton, with this growth and volume, we had a different business plan for first half almost close to 9.5 million ton, but due to COVID it did not go as expected because of the lockdown, so what we did was focused only on value added products to sell and in the products where our margins are less, we will increase the products whose margins are less, so due to that we can see some margin impact and the gain that we have, margin gain is due to backward integration only and tomorrow if we are seeing benefit there, so it is not in my hand if it comes back to its normal margins, so due to that also margins can decline because I will not be leaving the market by any means and one more thing I mentioned that in amount, we will do our best that we sustain this amount. All the way, who feels bad if a margin comes up to Rs. 6000, Rs. 7000? But today if we take this pressure on ourselves that we have to sell goods by adding up to Rs. 6000 or Rs. 7000, then the impact will come on our growth somewhere or the other. So, we do not want to change our business plan, otherwise whatever we can do the best, we try to do the beast.

Anubhav Gupta: So, Shaleen the point here is the absolute EBITDA which used to be Rs. 100 crore per quarter three years ago, which moved to 125 then 150 then it jumped to 200 and now we are doing 250 for last two three quarters, the plan is that we sustain the run rate, the absolute EBITDA run rate which is like above 200, around 250. Now this comes with like …

Shaleen Kumar: Rs. 250 crore run rate is sustainable?

Sanjay Gupta: Yes, we are trying for that.

Shaleen Kumar: We also would want you to achieve it, because this is a very positive surprise. We thought you are giving conservative guidance, the mix change that is happening and looking at the numbers, it looks like you are guiding conservative.

Sanjay Gupta: Shaleen, this year we touched 3000 to 7000 of EBITDA in the first quarter, aur, see today any investor you take, his money is a hard-core money. My nature is not that I become bullish and give any wrong statement. Previously we used to say more and less used to happen, now we have learnt a little from you people, we are trying to say less and produce more.

Shaleen Kumar: What you are doing is absolutely correct. Okay, my other question is, what you have demonstrated regarding the hospital and oxygen plant, so you are dealing with the contractor here, right? So, how does that work over there, because this is like relatively a large quantity you will be dealing with. So, is it make to order, how the working capital be in this?

Sanjay Gupta: Shaleen I will explain this to you. First what we are doing is, we are bringing it to the design stage and then where buildings, hospitals, hotels and are being built we are convincing them that you take this to the tube structure in place of concrete or other structures and we are giving them the presentation. At the moment, our presentation is going on in about 16 to 25 places. We first convince them that you go to the tube and these are its benefits. We are making the complete design and giving them, when they get convinced then they remove their contracts that they want to make this building, this hospital, this hotel, etc. So, in that all the contractors that are there like Ahluwalia, L&T, Shapoorji, these type of contractors bid that. The designs that we are making, we are using our DFT a little in that. With that what material we can make easily, we are first showing that to them because the major problem in India is that, even we are ready up to 16-

storey building. 500 square can be built by 20 mm pipe only, which is our plant which will start within two or three months but if you want to go up to 26-storey or 30-storey then for that you need 800 squares, now there is no such material in India, even 500 square is not available in India, now only 300 square we and TATA are producing, that is all, no one is making material above 16 mm, even TATA is not making above 16 mm, till now our instant capacity is not above 12 mm**.** So, till availability is not created, the market cannot be created. So, our first step is to create availability, now technically we do not even have 500 square also, which we will start within 4-5 months from now, in that, maybe we are going for 1000 square, so as and when the availability will increase and all these things will increase, so one thing that I am ensuring you is that you study few companies worldwide, many companies have studied us like one company which is our technical partner also; like Zekelman Industries in USA. It is a company of 2.4 million ton, so there in its 2.4 million ton, about 1.4 million ton, 1.5 million ton production is there, so volume of further construction tubing is there. This concept has not yet come in India but I am very sure that it will come, I have invested lot of money on this theory. If you see my company's ROC and ROE, then you will see nothing in APL ROC and ROE, in comparison if you see TriCoat, Apollo Metalix , Laksmi like companies', their ROC and ROE will be quite high, those are subsized APL. My very big theme and lot of time is put in this that the market will definitely come in India, maybe today or tomorrow. And the day this market will come, sky is the limit, instead there will be no limit gain but today unfortunately the market is not there, I am not in a position to commit anything on this chapter but I have put lot of efforts on this work. If you will see the EBITDA margin of Zekelman Industries in America, its EBITDA margin is 16,000 to 17,000.

Anubhav Gupta: You can look at slide #38 in our presentation we have given the names, capacity, margins, everything for our global peers, that is the benchmarking what we are doing.

Sanjay Gupta: Whom should I compare with, in India? There is no market in India, there are no manufacturers in India, so my total target is, first produce the material then create the market, then enjoy the situation

Moderator: Sir current participant has just moved out of the queue. We will take the next question in the meanwhile, that is on the line of Bharat Shah from ASK Investment Managers. Please go ahead.

Bharat Shah: Mr. Sanjay heartiest congratulations more than just the outstanding profitability which has taken by a huge surprise, at least to me but what I am most impressed by is, agile and getting intelligent engagement with the changing market place, that is the hallmark of our great entrepreneur so really delighted is to how the company is engaging, dealing with the changing landscape, creating a space for itself and carving out brand new opportunities, phenomenal effort, I must appreciate I basically wanted to put appreciation on the table.

Sanjay Gupta: Thank you Bharat Bhai, thank you very much.

Bharat Shah: I would like to take few comments from you. Market share has improved, specialty share in the overall pipes has improved. When you look at competitively on the competitive landscape what are the key impressions that come to your mind today and when you think about it over next three to five years?

Sanjay Gupta: Mr. Bharat, see it is like that, amongst our peers around few are doing quite good work, because of the CG issue, I cannot take the names, few are doing good work, few are just flattering, all types of people are there in the industry, but our organization's strength that is there from past 20 years, we never think our peers are weak, we take them very seriously and go along. And you take any industry and look into it, if you develop any product then there is a period of its enjoyment, maybe it takes 2 or 3 years to develop any product, 1 or 2 years it takes for you to do marketing of that product, next 4 to 5 years you get to enjoy it, then gradually people start entering into that business because this business is not such that no one can enter it but what our strength is, till people reach this stage in 1, 2 or 3 years, till then we have to develop a lot in it. So, for that only, we are putting up this Raipur project. If you believe me, 1 million to 1.4 million tons capacity that I am talking about, there it is not looking like even 1 lakh old pipe product capacity, there100% capacity is for new products, new segments, which will get next 5 to 10 years for me. No doubt, here the competition will come gradually but what I am satisfied with is, the size of competition is very small now and the market is being developed more than that. If the market gets developed more and the sizes come in this way, for any company today it is very difficult to get a growth of more than 20%, 30%, 50%. If you see our number 2, number 3 players then all of them are near 2 lakh ton, 3 lakh ton, 1.5 lakh ton. Even if they take the growth of 20%, 30% then its impact will be very less than the country's overall growth, so that is why I am so fearless about it. Yes, our only one little fear at this point in time is, due to steel prices increase in the last few months fairly, lot of products are on the stand basis. The work that I have given to people, contractors, where people feel that they are going for a loss, people have kept their projects on hold, due to which there can be an impact on the demand. Number two, a big gap has been created between long products or flat products, due to which this problem has arisen that many people are getting diverted towards long products. These types of problems do arise and we remove its solution time to time. See Mr. Bharat, this type of trade factor is there in your mind, whatever business we are doing, I cannot say that I am 100% secured that I will do it anyhow but I can say this much that whatever we are doing, we will do much better in steel compared to our peers around.

Bharat Shah: Okay, Mr. Sanjay second and last question; if you think about next five years, not today but over next five years what is it that excites you the most which is not visible and in numbers today in APL Apollo or in the industry, something which is not even a tick of iceberg today, but it will be a game changer when we take a longer-term view of the business.

Sanjay Gupta: Mr. Bharat Bhai, there are two things in it which are exciting me the most; one is, we have done a lot of work on DFT from 2016 and we have also set up 1000 capacity across Pan India board, whatever capacity we got, it is running almost up to 15%, 20%. The way we are getting these hospital orders and our projects are in the bullet trains, our talks are going on for projects on airports as well, if those sizes requirement coms up, today the 500 square mill that will be set up, I have made its preparation from past 5 years, I have ordered for its machine for more than two and a half years now, when the time period to start this machine is three years, this machine will start in almost three years. So, one way, one-sided market will be in my hand if this market is created completely. So, this one thing is making me excited and the other thing is, the color tubing that I am working on, if you believe me, no one in the world has made such type of color, which color tube I am talking about. This total, color plant, color tube, 100% not only in India, it is a new innovation all over worldwide and technically we have created its market too early, and we have made a little material and sold it also, we are getting a very good response for it in the doorframes, so I am too much bullish on the color tubing, but the market size will not be that big in the color tubing, the market size is small. I am targeting about 2-lakh ton of market, in color doorframe I am targeting 1-lakh ton of market, in heavy structure I have a very big dream, for which I am working now. I do not have its result even 10% now, what I am thinking. So, these two, three things are making me too much excited. Number 2, the organization level on which we have worked, the organization that we have built up today, you believe me that I have completely come out of the routine work, I am not seeing the routine work at all. So, now my organization is becoming self-dependent, so I am little about it that what my dream was, to build an organization, that is also exciting me a lot, remaining you people's support always excites me, your guidelines are there, I understand things from you people and we do mistakes but I try to correct me mistakes and improve myself.

Bharat Shah: Thank you Sanjayji. This is fantastic attainment and hallmark of a direct organization is resilience and adjustability. I think under your leadership the whole APL Apollo team this is a remarkable journey the first quarter is without doubt very good but it just tapering a fantastic journey congratulations.

Sanjay Gupta: Thank you Bharat Bhai. Thank you very much.

Moderator: Thank you. The next question is from the line of Sujit Jain from ASK Investment Managers. Please go ahead.

Sujit Jain: Sanjayji congratulations especially on the margins that you delivered per tonne. One question is, that you have presented an aspiration in the Annual report that today you are doing 48-hour delivery, tomorrow you will do 24-hour delivery. Is this possible and till when is it possible? Secondly, you said Zekelman 19% margin, so I saw that in your presentation but as you said they are doing very good work in construction, but basically what is that company's DNA that they do that margin at this time? And third thing, you had spoken about App, suppose I am the end customer and I am doing interior in my house, how does the end customer and his architect quickly find that the APL Apollo's product can be ported nearby? And when we go to the showroom or to the supplier, then how will you capture our data because that will become your captive data Banega, eventually with the data analytics, you will have all the customers' data and after that as a home building company that will be the next step where you will understand your customer far better because I am sure that, it will be not your data now that the end costumer, end architecture or fabricator, what has been his history with the company, this is my question. Thank you.

Anubhav Gupta: Can you repeat the first question for we missed it?

Sujit Jain: 48 hours delivery end report aspiration 24 hours delivery.

Sanjay Gupta: Yes, the 48 hours delivery system did a simple, ifs and buts, they did in the 48 and 24 hour delivery system, if the raw material in our company now we are positioned to dispatch the material within 6 hour from our plant to getting the orders. We can remove the material from our plant within 6 hours and our plants are all over in Pan India and in that we have seen our travelling time, it is 10-12 hours maximum, so we have taken a theme of 24-hours, that we have to supply the material in 24 hours, any type of material. Now we are giving 1-hour, 2-hour, 3-hour services from our branches but there are many critical sizes as such which are not available in the branches, then we need to make it in the plants and then dispatch it. So, in that, now we are doing 48 hours, in that we are targeting our delivery 90% + for within 24 hours. In that unfortunately, there may be some orders as such in which the raw material availability may not be there with us because we are not the raw material makers, so in that it might take 10-15 days to get the raw material and supply it. This is the answer to your first question. Number two is the Zekelman; before the Corona I visited its plant and saw everything, it has two, three core strengths; one is, he is in the heavy structural tooling business, its business is of heavy structural tooling. Secondly, our ISG that has started now, which we are running successfully from last two quarters, its ISG business is about 20%, they have made some jet modular system in which they are making the complete building and then supplying the whole building with the containers, in which he will even set up the air conditioners, putty, etc., it is a very portion of it. I think it must be 5% of its total revenue, so these are his three main businesses and unfortunately in all three businesses, there are no markets in India. We are studying on as to how much time it will take to create these markets, we are trying to push the markets, create the markets. And one thing is, traditionally in US every product has a greater margin, that also impacts the business but we are sure that our EBITDA margin, means, will go to double-digits in the coming times, we are working very hard for it, that we should keep our EBITDA margin in the double-digits.

Sujit Jain: And the third question was on the app.

Sanjay Gupta: Anubhav is working mainly on this. Anubhav can answer this.

Anubhav Gupta: See I mean the question which you asked was that how can an end-user look at the Apollo products and get the things built at his home so we have to showcase our products and then we have to connect that customer to the nearby fabricators who can go and do the work. So, we have seen that some of the other players in the building material industry, like paints and they have been doing this, but not on the paint model, but pretty much inspired by that we have already developed the app, where we have categorized the application into eight categories. For example, doors, gates, furniture, then window frames, right, so there are like eight categories and there are 250 designs to start with. Those 250 designs are like CD rendered design which you will want in your beautiful home and then we are enrolling the fabricators, pan India. We have started this exercise. Today, as we speak, there are 10000 fabricators which have already got enrolled on the tab and the target is to take it to 100000 in the next one year. So, once we hit 40000, 50000 pan India, 150 cities, we can launch that app and then see, I mean today also, there are application in your home right from the main road, the steel gate, when you enter, then there is handrails, there are staircase, there is door chokhat, there is window frame, there is furniture, there is balcony and I think handrails, then when you go on your terrace, there is beautiful shade seven coaters on the ground floor there could be car garage, car park, all this is made on tubes. So, we have to showcase the designs that anyways we have been doing this in your place and we are giving you beautiful designs which will give you new ideas and then these are connected to the nearby fabricator and then at the same time, we are giving the skeleton design to our fabricators for whatever design that you would select. So, for him it is very easy job, just to buy the tubes from the nearby retailers and cut and do the work, as per the design which is already available at your cost to the fabricator. So, that is what the attempt we are trying to make and in the next two, three months, we should be ready with the soft launch. Initially, we would do our digital marketing. Once we have some active user base, then we can go for loan the branding for this. So, this helps us in two ways; one is that the fabricators they will get new leads because of this app, so they will be more than happy to buy Apollo products and second we will go near to the end customer, which is our ultimate goal. This whole exercise, we started two years ago, with appointment of Amitabh Bachchan as our brand ambassador sponsoring IPL, now it is the third year that we are sponsoring Delhi Capitals. So, the ultimate goal is that we go as much near to the end consumer, which our other building material peers have done wonderfully in the last 15-20 years.

Sujit Jain: Thank you. This 24-hour delivery will make it really, Sanjay Ji and Anubhav clearly, this app will make our company truly a building company. Thank you very much. All the best.

Sanjay Gupta: Thank you very much.

Moderator: Thank you. The next question is from the line of Urmil Bhatt from IIFL. Please go ahead.

Urmil Bhatt: Thank you for the opportunity. Congratulations for a very good set of numbers especially in a challenging time. Just want to understand, how has been the demand recovery in June and July? I mean, I can understand April, May we were impacted, because of COVID, so just trying to understand how has been the recovery and what kind of volumes we will be guiding for FY2022?

Sanjay Gupta: Recovery July also, other things are looking better than July by 15% to 20%. In the first quarter we have spent 3.7 lakhs tons. We are targeting for the Q2 about 4.5 lakh tons and Q3 we are targeting 5 lakhs and Q4 5.5 lakhs tons, so I think total we will be close to 1.8 million tons to 2 million tons. Our business plan is 2 million tons but we are in the first quarter we fell by almost 75000 tons. So, we will see, if we can achieve this number or not but we are sure that 1.8 million tons we can cross.

Urmil Bhatt: That is great. Second question is on TriCoat. TriCoat EBITDA has jumped to almost 11700 per ton, so just wanted to understand what is the driving factor here. Earlier we used to do around 7600 tons, 7800 tons it has primarily jumped in this quarter. So, just wanted to understand whether we have launched new products or there has been the inherent demand has been very strong or there is some other factors influencing this EBITDA number?

Sanjay Gupta: One of the reasons is ILG. From last quarter, we started the ILG and slowly, slowly we are increasing the ILG product. Number two, if you see our Apollo products also in the coated tubes, our margins are high in the machine metal and Apollo Metals also, so like that what signature pipes in TriCoat the margins are also very good. So, this is the result for the margins.

Urmil Bhatt: This will be sustainable broadly around this level because these are all your premium products and so I think, compared to your commodity grade products, this will be more or less stable margins business, right?

Sanjay Gupta: Yes.

Urmil Bhatt: Finally, last question is what is your debt balance at end of 1Q and because of the higher steel prices that you have been seeing over the past few months, I mean what kind of incremental working capital requirement will be there in FY2022 on an absolute basis; I can understand number of days we are broadly stable at seven, eight days, so that is fine, but on the absolute number, I mean, if you can just give some direction that would be great?

Sanjay Gupta: I do not think so that we increase our debt because whatever profits we are running, we are managing this. My mindset is not acceptable that I can increase my debt. My maximum price to decrease the debt not increase. So, we are managing our working capital with our earnings, we will bring the inventory levels a little lower, reduce the debtor a little but we will not increase our debt, boss.

Urmil Bhatt: So, all the increase in steel price whatever will be there, in debtors or inventories?

Sanjay Gupta: Steel prices for us are already stable, steel prices are not increasing now, whatever steel price was there in the month of June, this is the highest steel price. Even prices were reduced a little in July.

Urmil Bhatt: What will be the debt in June?

Deepak Goyal: Total debt as at June 30 is 200 Crores. This we have given in the presentation. The net working capital cycle stays at eight days versus seven days. So, to answer the question there will be increase in the absolute net WC. So, you can calculate that my net working capital days have gone up by one day. So, one day in over a turnover of 2500 Crores that means that overall WC would have gone by only 15%, 20%. Not much even with the increase in the steel prices. So, today, on the system where we are sitting, two, three days of, if we are able to sustain net WC below 10 days then I mean 30 Crores, 40 Crores here and there would not impact us at all and this is the amount that by which our debt has gone up from 200 Crores to 160 Crores in March 2021. So, I guess, you should not worry too much on this absolute WC because we are very much sure that our debtors of four, five days inventory of 20-25 days that is pretty much sustainable on a very, very long-term basis.

Urmil Bhatt: Thanks for the answers.

Moderator: Thank you. The next question is from the line of Madhav Marda from Fidelity. Please go ahead.

Madhav Marda: Thank you. It is good to see the company is pioneering new product categories. I just wanted to understand one broad question that as we are entering new product categories and launching new products, plus what are the steps we are taking so that, do you think that competitive advantage that any new player in the industry wants to launch a similar product how many years, before they can reach to the level of APL Apollo or like just how do we build our competitive advantage around these new products? So, any broad thoughts there will be very helpful?

Anubhav Gupta: Madhav, there are at least five factors which one has to consider when my peer has to go into the product category where I am into. So, one is the network. I mean today we boast of having 800 distributors, if you look at our peers, they would be like 200, 300, one-third of our size in terms of number, even if we go like very, very aggressive, that will also be like below 100. Then second is the availability in terms of the plant location. Our competitors they would not have more than two, three plants at all. Today, we are running 10 plants and 11 plant is under construction. So, it is very easy to procedure raw material and put up a mill and produce the tube, but then to sell the tube, in the shape and in the size, for which the demand is here in the market, number one. Number two to have the distribution channel, to sell your products, number three to have the pull demand in terms of brand, which the end customer would ask for and lastly the logistics, the supply chain management to be able to complete the whole transaction. When we are setting up a 2.6-million-ton capacity, we are talking about 1.8 million tons, 2 million tons sales volume in FY2022. My immediate competitors are doing 3000, 4000 tons in structural tubes per annum. So, difference is four, five times with the nearest competitor. Now to get into a new market, new product segment, the first thing, what needs to be done is to have the distribution network and the brand to be able to sell. Now for example, we are talking about the heavy structural tubes, which are going to hospitals or plants, any government agency or any contractor, any consultant would recommend any subpar brand. APL Apollo has been working for the last seven, eight years to get a brand approved in thousands of government agencies, departments and private contractors and private developers. So, for them to get this brand registered itself will take five years for them to be able to sell the products for such high reputed projects like hospitals or season plants, we are talking about G+30 hotels, commercial, towers, malls and that has been our strength. So, all the products, what we have worked on, coated tubes, etc., it has been like five years, seven years, we create the market, we get the products and then they copy. So, the gap is five to seven years and going forward even for these new products where we are working. It is not going to be less.

Madhav Marda: Understood. That is very clear. Thank you so much.

Moderator: Thank you. The next question is from the line of Darshit Shah from Nirvana Capital. Please go ahead.

Darshit Shah: Thanks for the opportunity. Mr. Sanjay you keep surprising us with your numbers every quarter. So, many, many congratulations for that. Sir, my question pertains to the newer products which you are talking about that on higher structural tubes you are in conversation with lot of government agencies and all of other developers and all, so what is the take you are getting that how will the market develop, are you facing any difficulties, I mean if you can throw some more color on that?

Sanjay Gupta: Now, how many products that are there know, all the buildings that are there, they were mainly built on concrete, few buildings have now been started to being built on steel, so in steel what is there is, pre-fab is there, buildings were being built by big garters, big channels; a few buildings that had started to build in India because whenever they tried to make with the pipe, with the tube, that size tube was not available in India. So, first thig we did was, we made the tubes available, right now if you talk about India, then the tube that is made in India is of 150 square, 6000 thickness, the industry does not make the tube of more than that thickness other than TATA and APL. We then set up the last plant where we started producing 300 square up to 12 mm thickness, now our new pant that is going to be set up, it is for 500 square, up to 20 mm thickness. Can you believe that in India we were not aware how much will be the market for 20 mm, so I said that we will get it slit from outside. We did not get any slitting line in India in which 20 mm goods can be slit, so for that we had to buy our slitting line, which costs almost Rs. 20 crore. This 500- square mill's cost is almost around Rs. 125 crore, the total investment in this project is almost Rs. 200 crore. So, no one had dared this in India, now we have done this daring, so now our projection is going on in bullet trains, lot of projects are going on in the hospitals, we are doing lots of talks on re-developing the slums and build buildings over there with the local government. We have given presentation to many hotels that were being built that if you make on this type of tubing, it will be very easy for you to make, so in this now, if I say technically, we have got success in 8 to 9 places. We have been successful in 8-9 buildings, at least the requirement has been created over there. Now we will get orders in that, maybe TATA will take few orders but market will be created, suppose Ahluwalia contractor built one hospital in Delhi, Ahmedabad or Bombay, then when he goes to the other place, he sees benefit in this, then he will say that make the hospital in tubes only over here, this is an easy find out. When we will set some examples, then we will also show, make them visit at the demo site, this way gradually with the mouth publicity, look and see, this is an easy process, so this will develop gradually and its process has started in India, I am very sure that if we push, then in the next three, four years, if we are successful in pushing that much, then it will take eight to ten years, the whole India market will be developed at this level.

Darshit Shah: Great sir thank you so much for this answer. The way you are working and the way you are pushing, I am pretty sure you will develop this market very soon in India and sir many congratulations for that.

Sanjay Gupta: I will give one example in this, our talks that are going on in this bullet train project, they require unlimited tubes for the next ten years.

Anubhav Gupta: It is a very huge project government had already launched the Ahmedabad, Mumbai one and that is getting extended to Delhi and they are talking about Delhi to Calcutta and all and everything is on the table they are already the design constructions and all they are already we are in discussion with them so we expect the demand to come up by sometime late this year and it may continue for the next 10, 20 years actually.

Darshit Shah: Sir, in bullet trains how much diameter are you talking about?

Anubhav Gupta: see, in that the diameter will be from small to big, but our core strength that we are talking about, which is not available with the competitors as of today we are talking about large diameters for which we are already very shortly our capacity is going to get started

Darshit Shah: Okay sir all the best sir for this project. Thank you.

Sanjay Gupta: Yes gradually, it will run on the ground. It has to be a no hindrance zone so the use of steel will be immense there and I think it may, bullish may short of capacity to serve the demand.

Darshit Shah: That is really nice to hear sir and all the best for this project and upcoming newer projects. Thank you so much.

Moderator: Thank you. The next question is from the line of Bhavin Chedda from Enam Holdings. Please go ahead.

Bhavin Chedda: Excellent opportunity you continue to surprise us over last decade and generate a good shareholder returns for all the stakeholders. Sir just on the quarter one margin which is again surprising and was there an inventory gain element or you are guiding sustainable margins now inching towards 7000.

Sanjay Gupta: No already as I told earlier see I do not think this is sustainable, not even may be wise this is sustainable but structurally I am not sure because there is a lot of factors for this margins some of the factors in our hand and some of the factors are in the external hand so I cannot right now in position to comment on this but once the margin is foreseen then a person will try at least but 3000 ton in one year, we have not done some magic that our margin will go from 3000 to 7000.

Bhavin Chedda: So, in this some inventory gain will also be there, demand..?

Sanjay Gupta: Total inventory is of around 15000, we do not have exact calculation because the material that we have sold we cannot say that we will have inventory gain of 10000, 20000, this I cannot say because our stock valuation that is done is on purchase cost, so there is no chapter in it of inventory gain but margins will be sustainable or not, on this right now I am not in a position to comment on.

Bhavin Chedda: Sir second is also your presentation has been very good and detailed and where the company is heading so it is very knowledgeable so one of the slides you have mentioned the different applications where currently aluminum profile is used or concrete is used which can be possibly replaced by structural steel tubes opportunity so which are those areas where you are already working on and you have replaced the market already there and the aluminum profile or concrete market is there which you are looking to replace from structural steel, how big is that?

Sanjay Gupta: See, the building material market that is there currently there is not a platform for it in India as to how big is that market, like for example, we started making door frames, today we are already selling door frames to the tune of 6000-ton, one door frame requires 20-22 kg of steel. So, 2.5 lakh door frames we are selling every month, so 70000–75000-ton material is getting consumed in door frame and 10000-20000 is being consumed by unauthorized sellers who are simply copying our product, around 1 lakh ton market got created in 1 year, which was not existent at all 3 years ago. Similarly window frames is there, in frames right now it is a very big industry, India is in a developing state and what happens is we are also working as well as unauthorized players, what we call in local language is ‘patra’ material, they are selling the items in cheap places from products, so overall market both together, primary and secondary including, this market of structural steel has reached to 6 million tons, 3.2-4 million tons is primary and around 2 million is the ‘patra’ market, we already have a market of 6 million ton in India.

Bhavin Chedda: Sir, my second question was that we have done very strong growth over a decade normally 22%, 23% is our CAGR, so large part of the growth was also driven by you creating you have expanded the industry size as well as large shift from unorganized to organized, so according to you how much of the unorganized sector is left which is in shift process and obviously over there opportunity is there because you converted a lot of unorganized to organized?

Sanjay Gupta: Unorganized sector I think is almost nil, now this industry is split into two parts, one is cheap and one is costly material, one that is manufactured from secondary material and one that is manufactured from primary material, so the industry has split into two parts, unorganized sector is finished.

Bhavin Chedda: Thank you sir and best of luck.

Moderator: Thank you. Mr. Pallav Agarwal over to you sir.

Pallav Agarwal: Karuna if you can take one last question.

Moderator: The next question is from the line of Varun Arora from Safe Enterprises. Please go ahead.

Varun Arora: Congrats on great set of numbers, my one question is regarding our plans for cash utilization in last few calls you have mentioned that for the more commoditized products you do not want to expand the capacity you want to expand capacity for more value-added products and you also mentioned that we will use outsourcing to smaller players for more commoditized products. I was just trying to understand since our working capital is also very low, so how will we use this cash in next three, four years?

Sanjay Gupta: Now we cannot increase outsourcing from outside, our capacity itself is empty, till now we are doing 1.6 last year, this year between 1.8-2 million to and we have a capacity of 2.4-2.5-million-ton capacity we have already. First, we will utilize this capacity then as and when the demand increases, then we will switchover to outsourcing on low value-added products, number 1. Number 2, on the cash utilization our Raipur project is coming and now our investors, I am also one of the investors frankly if I speak, we missed the dividend for 2 years, which we feel sad about but on year the situation was such, we were not able to payout the dividend but this year we have done a mistake by not paying out the dividend. So, we want to get back on track, on the dividend policy for cash utilization and plus if the company is able to pay off the debts and keep cash, so we have Rs. 200 crore debt and plus company has creditors also amounting to Rs. 500-600 crore, I want to finish the creditors also, plus a little bit will go in the dividend as well, so if the cash is leftover then I can think about this, I am not dreaming anything beyond this.

Varun Arora: Sure sir, thank you so much.

Moderator: Thank you. Ladies and gentlemen this was the last question for today. I now hand the conference over to Mr. Agarwal for closing comments. Over to you Sir!

Pallav Agarwal: I would like to thank the management APL Apollo for a very detailed explanation on the call. Sir any closing comments from your side.

Anubhav Gupta: Thanks everyone for joining in here and we look forward to speak to you in our next interaction when we report second quarter results. Thank you everyone.

Sanjay Gupta: Thank you.

Moderator: Thank you. Thank you, members of the management. Ladies and gentlemen, on behalf of Antique Stock Broking that concludes this conference. Thank you for joining us and you may now disconnect your lines.