APLAPOLLO STEEL PIPES

Sudesh Group

1st February 2024

Electronic Filing

National Stock Exchange of India Limited “Exchange Plaza” Bandra-Kurla Complex, Bandra (E), Mumbai-400051	Department of Corporate Services/Listing BSE Limited Phiroze Jeejeebhoy Tower, Dalal Street, Fort, Mumbai-400001
NSE Symbol : APLAPOLLO	Scrip Code : 533758

Re: Transcript of the Conference Call held on January 29, 2024

Dear Sir/ Madam,

With reference to our letter dated 20th January 2024 intimating you about the conference call with Analysts and Investors held on January 29, 2024, please find attached the transcript of the aforesaid conference call.

This above information is available on the website of the Company.

We request you to kindly take the above information on your record.

Thanking you

Yours faithfully
For APL Apollo Tubes Limited

DEEPAK CHARUVIL SANKUNNI
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Company Secretary
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Encl: a/a

"APL Apollo Tubes Limited Q3 FY24 Earnings Conference Call"

January 29, 2024

MANAGEMENT:	**MR. SANJAY GUPTA – CHAIRMAN AND MANAGING DIRECTOR, APL APOLLO TUBES LIMITED** **MR. DEEPAK GOYAL – DIRECTOR, OPERATIONS & CHIEF FINANCIAL OFFICER, APL APOLLO TUBES LIMITED** **MR. ANUBHAV GUPTA – CHIEF STRATEGY OFFICER, APL APOLLO TUBES LIMITED**
MODERATOR:	**MRS. SNEHA TALREJA – NUVAMA WEALTH MANAGEMENT LIMITED**

Moderator: Ladies and Gentlemen, Good day and welcome to the Q3 FY24 Earnings Conference Call of APL Apollo Tubes Limited hosted by Nuvama Wealth Management.

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

I now hand the conference over to Ms. Sneha Talreja from Nuvama Wealth Management Limited. Thank you and over to you.

Sneha Talreja: Thank you Yashashree. Welcome to the Q3 FY24 Conference Call for APL Apollo Tubes.

From the management we have Mr. Sanjay Gupta ji who is the Chairman and MD, Mr. Deepak Goyal – Director - Operations & the Chief Financial Officer and Mr. Anubhav Gupta who is the Chief Strategy Officer.

To start off I will hand over the call to The management for "Opening Remarks" post which we will have a detailed Q&A. Over to you, sir.

Anubhav Gupta: Thanks, Nuvama and Sneha for having us here. This is Anubhav here and I thank all the participants who have joined this call to listen to our Quarter 3 FY24 Earnings Call.

So, if we look at the performance in the last 9 months and specifically in the Q3 FY24 few observations, few highlights we would like to make:

1. Number one is that if we look at our 9 months sales volume it's up by 20% YoY. The EBITDA is up 30% YoY, and the net profit is also up 30% YoY. Now the sales volume of 1.94 million tons if we analyze it, it comes out to be 2.6 million tons for the full year, which is of course lower than our initial guidance of 3 million tons when we had started the year, we had guided for 3 million tons.
    - Now there are multiple reasons why the actual performance in the first 9 months is lower than the initial guidance and that will also give you clarity on why our Q3 was so soft. So, a few reasons I'd like to highlight our number one that our Raipur plant, which is our Greenfield, a highly innovative plant, we had thought that we would start the production of this plant in the month of June, July in this calendar year, but ultimately we ended up commissioning it fully in the month of December and the last line just got commissioned in early Jan. So, obviously there is like 4 months, 5 months of delay in the commissioning of Raipur plant.
2. Also, our Dubai plant we had thought that we will start the production in month of September, but ultimately we could just start the plant in December.

3. Then the third reason is the steel price inflation in the domestic market which persisted throughout the year although we had thought with the commissioning of new steel mills by new players and the existing players increasing their capacities, the domestic steel pricing inflation will soften up, which will open up the market for our general segment which gets competition from the scrap steel tubes, but there also the steel pipe inflation didn't come down till the month of December. So, first 8 months were pretty tough.
4. The fourth factor I would say is because of weak retail sales in India in the construction industry if you at the commentary of other building material companies like tiles and electrical fittings and bath fittings, etc., there is this trend that the retail sales in 2nd Quarter, 3rd Quarter were pretty soft because of multiple reasons high inflation, high interest cost and also we believe that demonetization I would say partial demonetization also led to weak retail sales which impacted the money supply in the system.

Now, coming to the 3rd Quarter in specific:

The months of October and November were pretty bad because the regional steel prices were coming down sharply, but the domestic steel prices remained high which led to very heavy destocking by our channel partners and the sales kind of really collapsed in month of November.

But the good part was that with the commissioning of new steel mills the prices came down and it opened up the market and we could recover lot of ground in month of December and the trends continue in January as well as we speak.

The other highlight is a slight increase in our working capital to 9 days in the December Quarter. This is because of loss of volume in the Q3. So, there was some inventory pile up which is now getting normalized. So, we shall be going back to mid-single digit working capital as we close our March quarter.

And because we still did CAPEX of around 500 crores for the 9 months which was mainly funded from internal cash flows, the debt increased slightly because of elevated working capital to 400 crores versus 200 crores.

Now looking at the outlook for the Q4 and next year:

Like I said that the restocking has started, and we are very positive on the structural shift now which is going to take place in the upstream steel sector with the emergence of new mills getting commissioned and the increasing the capacity of the existing steel mills.

So, the unfair competition which we get from low-grade, low-quality scrap steel tubes that will slowly go away and it will open up the market for HR coil based primary steel tubes in a big way and given that the distribution network, the product portfolio we have, we are more than confident that we will maintain our market share of 55% as the HR coil-based steel tube market improves or takes market share from scratch steel-based tubes.

Now one highlight I would like to make here is that see I mean in 9 months our company has grown its volume by 20% earnings by 30%. This is despite the fact that last year we showed, or we registered a very solid growth. Last year the volume was up by 30% and this year we are up by 20%.

So, yes as management we take the responsibility that this is lower than the guidance, but as a business it grew stronger with back-to-back 30% and 20% YoY growth. So, we expect the momentum to continue and I'm glad to share that we maintain our 5-million-ton sales volume target by FY26. We are sitting on 4-million-ton capacity right now and in next 1 year we'll be ready with the 1-million-ton incremental capacity.

So, we'll be ready with 5-million-ton capacity. Everything is in line it's just that to grow more than 20%, 25% as an organization. We also need some external factors to favor us which could be this unfair steel price inflation and some macro trends, some macro factors also more conducive for the construction sector in India.

Now coming to like some of the micro factors for our organization, there are two things which we have spoken about a lot in the last two years:

1. Our new product launches and the market creation for those products.
2. Our export international sales where we are pretty confident to ramp up the volume.

So, I'll give some data points which will give you confidence that our new product launches have been pretty successful, and the market adoption is also pretty encouraging. So, for example, let's start with the Raipur plant where there are like 4 segments in which Apollo kind of came as the first manufacturer in the country.

So, talking about the heavy structural tubes:

Now, if you look at the ramp up when we started the mill in the month of Feb, March and till December the utilization levels have reached 50% in the heavy structural segment. Now this was one segment which was where we needed a different channel we had to educate the market and we have been pretty successful that's why we could reach 50% utilization levels within first year of operation.

Now the second segment in Raipur was super light tubes that also we started like 2 months, 3 months ago and now the mills are already running at 30% utilization levels. Now that's also pretty encouraging because we could launch our products with thickness of up to 0.18 millimeter and as narrow as 8-millimeter by 8-millimeter. So, it's a very broad portfolio of super light tubes which we launched, and the results are pretty encouraging.

Then the third product which we launched in Raipur was roofing sheets which is our adjacent product. There also I'm glad to share that, that mill has reached utilization levels above 70% already. So, this also shows the strength of the APL Apollo brand that we could ramp up these volumes so quickly pushing this product in our channel and along with our tubes the fabricators, the contractors, the end homeowner everyone is keen to use Apollo products.

Then thicker coated sheet which is super innovation first time in the world that mill it eventually got started in like late December and early Jan. So, also we could produce 8,000 tons in the last quarter which gives like 12% utilization levels. Now these utilization levels will go up pretty solid in the coming months.

So, all and all the Raipur plant is now running at more than 50% utilization levels. So, this gives this gives answers to a lot of questions which each one of you had in mind that whether Apollo will be able to make these products successful in the market, but I'm glad to share that the data points clearly give clarity that we are able to create market for these products.

Now the next big segment for us is the international markets. If you look at the global steel tube industry which is like 80 million tons, 90 million ton in size now if we remove India and China, the US, Canada, the African markets and the European market and the Middle East market they're dependent on imports from low-cost manufacturers.

So, what we have mapped is that this industry is around 30 million tons, 40 million tons of annual sales which trades over the borders. Now, if you look at Apollo's export international volume in FY23 that was as low as like 50,000 tons. Now Apollo being world's third largest steel tube producer and number one if we remove the top two Chinese, our contribution to international trade market was very small.

So, we fixed that by starting a plant in Dubai and setting up a full-fledged team in Dubai and again like we started the plant in month of December and the results are encouraging. Overall, if you look at Apollo the export sales have grown by 60% on a YoY basis in the first 9 months and the Dubai plant commissioning this will improve further.

Just to give you the perspective on the Raipur plant, the capacity is 300,000 tons, but in December we started the first two mills, and 100,000 tons is what is ready in Dubai and the balance 200,000 ton will be ready in next two quarters.

So, lastly I would like to again reiterate that we are ready with our infrastructure to be able to produce and sell 5 million tons in next two years what we look forward is having some tailwinds from the sector, from the steel sector with increasing supply which seems very visible and the macro trends hopefully after elections this year the things towards the construction, towards the infrastructure sector will be much more bright and we are ready to serve that growth in the construction sector with our 3,000 SKU base and 800 distributor network with all the core competencies which Apollo has developed over the last 35 years of its existence and whatever growth comes we will maintain our 55% market share in the HR coil based steel tube segment.

That's all from our side and we are happy to take questions now. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have a first question from the line of Bharat Shah from ASK Investment Managers. Please go ahead.

Bharat Shah: Very clearly the results of 3rd Quarter in terms of the volume growth I'm sure they've been below expectations of everybody including you. Good part to note is that we still are confident that where the journey ahead is lying, but a more question I want to ask is in this journey of reaching 5 million tons and more how much of our destiny is dependent upon the fact that industry itself has to grow and rise?

Secondly, how much of it is dependent upon our innovation success, our ability to read the market well, the ability to introduce the right products and create market ahead of the competition and superior customer solution service so that is the second factor.

And the third how much of the destiny will get is we are moving more and more into value added, how much of that will still be colored by the movement of the steel prices up and down. In short while this particular quarter clearly has been in terms of the sales outlook or below vote everybody thought or you might have thought too, but if you have to focus on the long-term journey how much of our own destiny is under our control and how much of it will depend upon?

Moderator: One moment sir. I am sorry, sir your line got disconnected. We'll take the next question from the line of Rahul Agarwal from InCred Equities. Please go ahead.

Rahul Agarwal: So, two questions Sanjay ji firstly on demand side and then the on the supply side. On the demand a bit more shorter term how the situation currently with the channel let's say the sales from the company to distributor which is primary and then from the distributor to end customers. I just wanted to know that what’s your experience into Jan, Feb, March what do you expect? Similarly you can explain what's the pricing difference between primary and secondary steel pricing today which might play an impact on how the 4th Quarter will be here? That's the first question?

Sanjay Gupta: Today, the difference between the secondary and the primary is almost close to Rs. 12 kg. Number two how is that going of the Q4 like in Q3 we are barely hitting the month of October and November due to the international price is also going down and India maybe challenged. But in the month of December, we again came back pretty very sharply or January also looking good.

I don't think there is an issue for a normal growth like I can say 7,00,000 ton in Q4 is not a tough challenge for us. The extraordinary like we are thinking for this year 3 million ton and next year again in the Q5 25-26 we are targeting 5 million ton.

No doubt this type of growth 40%, 50% we need some tailwind also with us. The positive point is now two new steel plants are already started in India one in NBC steel and one is JSTL and also I'm listening the concall of Tata Steel also they are coming 1.5-million-ton capacity this year and next year 3-to-4-million-ton capacity. JSW is also going to start the fifth HSM in Balali in the month of March.

Our international market is also in the softer side. So, maybe for short term this is a pain for us because there is the channel there is destocking and we have also to take care of our inventory losses, but for the future terms as soon the gap gets over in secondary or primary this is very good for us.

Rahul Agarwal: Sir in 12 kg difference general structures it becomes touch to sold what is your view on that?

Sanjay Gupta: Now we are do lot of work on our brand like you see from the last one and half months to two months we have increased the speed of branding exercise. So, I am glad to share that that general sections in that also now we are getting good demand and good response from the market and there our margins are also getting increasing. I am sure that in Q4 our margin impact will be seen good.

Rahul Agarwal: Secondly, on the supply side just one question what our understanding is that between the EBITDA of Rs. 2,000 a ton to Rs. 5,000 a ton supply is increased. We see lot of listed companies talking about similar goals what APL Apollo had 6 years back, how is it changing the supply dynamics in the structural tube industry for India market please?

Sanjay Gupta: Secondary just we come to hear from the market some companies are aggressive or some companies are doing some work in the secondary market, but in the primary steel I don't think maybe 55% or 60% market share when he talk about. Technically last month I was in visit all around India like you go to the Bangalore or Kerala, Salem, Tamil Nadu, Pune, Ahmadabad. Wherever we have visited markets almost close to 80% infrastructure.

If I define in limited way India’s total market share is mark-to-market is according to my reading around 11 lakh ton. Out of 11 lakh ton 6 lakh ton from primary year, 5 lakh ton this time from secondary year and in 6 lakhs if you will see then 2.23 lakh ton per month is Apollo the second player in the water lines like Maharashtra Seamless is almost close to 30,000 ton per month.

Jindal SR is close to 40,000 tons per month and number three Surya Roshni is close to 60,000 tons per month and in company in Eastern India in East zone is close to 40,000 tons per month. 2.3 is Apollo, 0.6 is in Maharashtra Seamless and 0.4 is Jindal SR, 0.4 is Meezon, 0.6 is Surya and one company is more Tata Steel is 5.6 lakh tons. Total 6 lakh ton in tubes in primary and 5 lakhs in small players like Sambhav Steel, Hariom Steel, JTL Infra lot of companies in the secondary steel maybe some bit in primary I don't have defined data available with me.

In 6 lakh ton almost 3 lakh ton in water transport and 3 lakh and 3 lakh ton in structural tube and in secondary out of 5 lakh ton 4 lakh ton in structure and 1 lakh ton water tube and transportation.

If you see of total structured in India 3 lakh ton plus 4 lakh ton 60 lakh ton structure tool market is there both combined in primary and secondary and 4 lakh ton in water transportation in cash transportation put together it is 4 lakh ton market is there in total.

So, out of 3 lakh ton my share is 2.3 lakh ton into 100 divided by 3 lakhs almost close to 75% and in December a lot of gap has reduced now steel plant has reduced price by Rs. 2,500 tons in December and Rs. 1,500 per ton in January almost close to Rs. 4,000 price gaps has reduced. In future this is also in the soft side and secondary market whatever I have studied this is just totally in at par system there is no margin to go down.

So, we have come from the tough time. We have sustained in Rs. 15 kg price and the margin Rs. 200, Rs. 400 we have covered and survived it. This is impossible to run this type of gap in the industry. So, this gap will get reduced and come to Rs. 5 kg which was obviously before also then the capital tailwind has come with the Apollo already we are sitting on the 4-million-ton capacity within two months, three months 4.5 capacity will get create up to April and up to December 5-million-ton capacity will get created. So, I don't think if we get a small tailwind support so we will come sharply.

Rahul Agarwal: Anubhav if you could just give a small answer APBL EBITDA for 3rd Quarter and 9 months that will be helpful?

Anubhav Gupta: So, APBL if you see the volume was around 1,15,000 tons and we did 4,500 per ton.

Rahul Agarwal: I missed the volume. What did you say?

Anubhav Gupta: 1,15,000 tons.

Sanjay Gupta: 1,15,000 of our Q3 volume in ABPL and EBITDA is Rs. 4,500 tons.

Anubhav Gupta: And just for the participants what Sanjay ji highlighted about the breakup for structural steel tubes between primary secondary there is a Slide #12 on our earnings presentation which clearly depicts this industry scenario.

Moderator: Thank you. We have a next question from the line of Bharat Shah from Ask Investment Managers. Please go ahead.

Bharat Shah: I raised the question earlier I am not sure whether that was heard or it got lost?

Sanjay Gupta: What I have understood you want to ask sir 5-million-ton capacity we want to reach by 2026 in that it will depend on us and how much on outside factor, am I right?

Bharat Shah: Yes more or less I am saying that if we see the factors in innovation, market creation and success there and customer centricity and service and solution providing. In the favorable external environment which is supporting demand for the structural steel tubes and third factor which is affecting profitability and in some sense demand also is being volatility in the steel prices with the much tighter inventory control and other we still have managed to deal with it much better, but it remained affected like this 3rd Quarter is also showing.

If you take into account all of these the journey which is of 5 million in the first stage how much is dependent on own inner strength and capabilities and our ability to anticipate and build that business and how much of it is that journey is likely to depend upon tailwind or favorable factors?

Sanjay Gupta: See 20% to 25% growth is with us without any favorable condition we are very comfortably innovation and branding and spread the distribution. 20% to 25% is not a big challenge for us this is we can do easily, but when I am talking like you know I am the aggressive person. I am not satisfied this year we do not do 3 million ton which is a clear visibility so we are very dissatisfied on the organization level.

We are not satisfied with our numbers, but 40% or 50% type number we need the tailwind factors, 25% number to bring out which we are working on innovation and branding and market creation that is not a big challenge for us, but like my vision is 3 million ton for 2024 and next year 4 million ton and then the next year 5 million ton. This is no doubt we need some external factors support otherwise 25% think that if there is no support so we can do it.

Bharat Shah: And at 25% growth would definitely imply most of it would come from superior products and superior solutions therefore relatively better margins. Therefore, in this journey whether the growth will be 25% or higher, but our margin trajectory should maintain a sustained improvement over a period of time?

Sanjay Gupta: Margin no doubt it will definitely get increase because like I am seeing a very good factor that if you try to regain the market across the country, channel partners. So, like our Apollo pipe that is a competitive brand focus and in that Rs. 1,000 tons were sold more. Now this gap it came to Rs. 3,000 tons.

Like in the market if you see the normal pipe in this present time 59 crore it is selling price and our selling price I am talking about the retail sale price around 62. The gap which was 61, 62 now because in important products our margins has been decreased and in that the big bucket which is there we tried to increase our margins there and we have successfully done in last two months.

In December end we have kept our margins, and we are able to sell our materials maybe this is the reason of our services, this is the reason of our quality of branding I don't know, but this is acceptable in the market. If our main basket goes away in that margin we create the margin this is the big game changer for our company.

Bharat Shah: Sanjay ji on export Anubhav was narrating large opportunity what are rarely given the size of opportunity in international market which is hardly exploited by APL Apollo is yet, whatever competitive strengthen in that market and what are impediments and challenges in attaining our growth in that market?

Sanjay Gupta: In this January, our export is high by almost 50% and from Dubai plant we are doing 8,000 tons this month in the month of January. February we are targeting to take to 8,000 to 10,000 tons in spite of these three days less in terms of the month and March target is about 12,000 tons.

So, put together Dubai plant we are targeting for this Quarter 30,000 tons and in two more line are coming in Dubai plant in the month of March one is 150 square and second one is 300 square. This all the four I put together the capacity of Dubai plant is close to about 25,000 ton per month which we are clearly seeing we achieve this volume growth in month of June.

First is we reach the 25,000 ton in Dubai plant in month of June that we have a next is plan in Dubai also for another creating a capacity of 0.2 million ton. So, then our Dubai plant is close to half a million tons. In India we have strengthened our export department and in outside countries like in Europe and USA and Melbourne we are going to open a warehouse.

One in Liverpool, one is Houston and one in Melbourne with the four cities we are going to create our own warehouses. I think in the next one or two years the export market presence is very less around 30 million ton of market we have just 0.4 million ton or 0.3 million capacity in that we have and we are trying to make it till 1 million ton.

Bharat Shah: Till when?

Sanjay Gupta: Next two years.

Bharat Shah: Means in 2026?

Sanjay Gupta: When we will go to 5 million ton in that we have a target of half a million-ton Dubai plant should give and half a million ton we can export from India.

Bharat Shah: And Sanjay ji what are our competitive strength which are very sure for the competitors?

Sanjay Gupta: By the nature of costing all over the world we are less prices cost. Number two basket in the structure to be in the world it is the best and number three our capacity of purchase of raw material is also excellent globally market like what we are seeing in Dubai what their local player buying today HR coil is $620 or $625 per ton. We are selling the material Dubai plant about $590 to $600. So, compared to them our purchase cost is less around 2% and 3% and no doubt we have a benefit of variety.

Bharat Gupta: So, these advantages is we would say prevails compared to any competitors including the ones which are larger than us?

Sanjay Gupta: Yes because this is the advantage due to the India x factor because of India our goodwill is very good across the world, and we have a very good relationship with the other suppliers that is the major reason.

Anubhav Gupta: Just to add to this Bharat bhai like this Dubai plant which we put up a small capacity 300,000 tons annual, but if we look at our SKU range we are going to produce pipe starting 15 millimeter by 15 millimeter into 300 millimeter by 300 millimeter. So, now that is the SKU which we are able to offer even in like 25,000 tons of monthly capacity. So, the factors which made us win in India the same factors, the same competitive strength will help us win in international markets also.

Bharat Gupta: And any major challenges do we believe that can scuttle this?

Anubhav Gupta: From the challenge that in India we were buying expensive steel, and we were not able to offer competitive price for our products now with excess to cheap steel we have overcome that challenge by putting up Dubai plant. Now we see mainly opportunity Bharat bhai not challenges.

Moderator: Thank you. We'll take our next question from the line of Abhishek from DSP. Please go ahead.

Abhishek: Sanjay ji just two things I want to understand when you do that 5 million ton of overall volume which were the aspiration, new product contribution how much will be in that?

Anubhav Gupta: So, Abhishek just to answer this question see I mean last year if you look at FY23our volume was 2.3 million tons. Now out of 2.3 million ton the general segment was 1 million ton and value-added super value add which also includes the new products that was 1.3 million tons.

Now when we are talking about 5 million tons sales volume, Abhishek our general segment will not be more than 1.5 million tons and 3.5 million ton will be value, super value add. So, my value, super value add is going to increase by almost three times from 1.3 million ton to 3.5 million ton by 2026. So, mainly these products like Raipur 1 million tons mainly is like all innovative products. So, 10% every year the new products contribute to our volume 10%.

Abhishek: So, in that 5 million ton almost 65%, 70% will be new product from that perspective?

Anubhav Gupta: Value add and super value-added product.

Sanjay Gupta: Value added product target is close to 70%. New product is I think what we are not able to do and what we will do 5 lakh to 6 lakh ton it will be totally new product.

Abhishek: Sir one more thing I want to understand in terms of export for Raipur will be your key contributor of volume growth from hereon, so how can we see the margin because if we see from the last 5 years, 6 years in general structure margins largely Rs. 1,700 to Rs. 2,000 EBITDA per ton it is getting moved. When it gets reduced by the prices of scrap so in that also margin improvement scope is there in general?

Sanjay Gupta: I am very hopeful that in this quarter 1,500 to 1,700 margin which used to run maybe increased to Rs. 2,500 to Rs. 3,000 per ton and in this a good improvement is coming, but it's too early to say something. If you do the discovery of the whole channel in the market so in our prices and in other prices there is almost Rs. 3,000 gap is there, but in February it is so tough that we are not able to say anything. We are doing hard work, but margins have been broken because in every product there is a tenure like just after Corona in India capacity in coated product plenty of margins have come and if you will see in that time Rs. 10,000 ton we have quoted the margins, but from that the capacity has increased that the pre quoted margins are getting break. So, our main core business in structural in that we have done a lot of hard work when we have in probability time and I am very glad to say if you see in any channel today our price is 62 of primary and secondary price is 50,000. This type we are able to maintain our volume this is very hopeful and if this brand get worked company will be in no limit gain.

Abhishek: Just one more question because of lot of infra-activities a lot of new demand sectors are coming like railways, warehouses, solar, so any sectors you are seeing which can also help you and you are bringing the new products of higher diameter, so if any one or two sector because of that it will help you to reach up to 5 million ton?

Sanjay Gupta: In solar we have done lot of new innovative product, in solar we are getting a very good orders from the bigger company and day-to-day meetings are also going on. In railways we have lot of registration already orders in hand. So, railway, airport and solar these three sectors we have a good response and if you see in bigger sections our growth rate is very high.

Moderator: Thank you. We have our next question from the line of Aman Agrawal from Equirus Securities. Please go ahead.

Aman Agrawal: So, just a clarification upfront basis the 3Q volumes that we have seen for multiple ERW Steel Tubes companies, we have seen a case where few other companies have grown a bit better than APL Apollo, is there by any chance a case where those companies are benefiting at the expense of APL. Any kind of market share shift that we have seen or is this mainly because of demand shift from primary market to secondary market?

Sanjay Gupta: I earlier also tell there is two type of market. One is secondary and one is primary. If you see that today the primary gap in the Q3 is almost close to Rs. 50 Kg which is close to Rs. 12 Kg. So, no doubt when there is a gap of Rs. 15 gap the demand shifting is there, but the most important thing is that in Rs. 15 gap we have survived. Our little volume has broken, but we maintain our market share like it's now decrease from Rs. 15 Kg to Rs. 12 Kg and in Rs. 12 Kg we have taken our market share and the way this gap gets decreased our market share even gets increase.

Now everybody wants good quality material products. So, I'm not worried about the secondary market because the market is dying. If you see the secondary market channel that today sponge is Rs. 27 Kg around that much where secondary starts and on top of that pipe expenses Rs. 2,200 and Rs. 2,300 from sponge to ingot to Patra to pipe. So, almost they are close to Rs. 50 Kg. So, they are running their plant on no margin basis.

So, by selling Rs. 50 pipe they are getting nothing and I don't think there is any margin of going down gap and HR coil the way its capacity is getting built up in India and HR coil EBITDA margin of Tata Steel and other companies is quite high. So, they are no doubt there is a problem in the market, but they can adjust their price because they have debt. So, this is a futuristic thing for us.

So, in India the HR coil capacity gets increased then secondary market ultimately gets end I am not bullish of the secondary market. Now you see I am talking about 5 million tons then also I am not talking of going to secondary market. See this is not good quality material and I am not thinking this is a longer vision for those there is a longer vision in this because that market has no resistance.

This is totally dependent on the HR coil prices. If HR coil prices gets decreases then the whole market gets diminished and HR coil price is up they have a level to play so they don't have their own strength so I am not thinking of secondary market there will be a huge impact. We are not even discussing in our internal meeting I am not worrying about the secondary market this is a matter of time maybe two months, maybe one month, maybe one year.

Aman Agrawal: Another question while I understand the dip in the volume of general product, any particular reason why light structure volumes have shown such kind of a degrowth in Q3?

Sanjay Gupta: This is due to the retail sale. Number one in retail sale is down plus mainly structure around 1.6 thickness to 2.5 thickness. So, because of that also there is an impact and due to retail sale down because of that it has an impact, but in this we are in very aggressive mode to gain our volume in this sector. So, we are launching lot of steel in the market. This is very funny to say, but yesterday we launched a scheme in Maharashtra we just sale 200 tons metal in two tons we offer a foreign tour so by making this type of scheme in retail we are going a make a strong presence.

Moderator: Thank you. We'll take our next question from the line of Madhav from Fidelity. Please go ahead. Mr. Madhav, your line is unmuted. Please go ahead.

Madhav: My question basically was that in the export market basically if I understand right of the 5 million tons which we are guiding for FY26, 1 million ton comes from the export market which is basically outside India. So, the domestic business ramp up is we need to go from 2.8 to 4. So, to that extent, the expansion that we need in the domestic market is not very high like we don't need to go from 2.8 to 5, we need to go from 2.8 to 4. Is that the right understanding to have for the company?

Anubhav Gupta: So, 1 million tons international market Dubai should be like 3,00,000 tons are fully ramped up and incremental also we are putting up new capacities plus from Indian mills we are increasing export sales international sales. So, yes if not like fully 4 million maybe 4.1, 4.2 should be coming from India and right now also like export markets is like 0.2 already. So, that also you deduct for the current volume.

Madhav Gupta: And in the export market how is the product mixed? Is it a good product mix and our EBITDA per ton is there at the current company level or is it higher or lower versus current company average?

Anubhav Gupta: So, right now it's higher than the company blended EBITDA per ton Madhav.

Madhav Gupta: And lastly any specific countries which you're targeting to start off with because it's a very large market, so any specific countries where we want to focus on?

Anubhav Gupta: Madhav it's across.

Sanjeev Gupta: But mainly in Europe, Canada, US and Australia.

Moderator: Thank you. We have our next question from the line of Anupam Gupta from IIFL Securities. Please go ahead.

Anupam Gupta: Just a couple of bookkeeping questions what is the CAPEX, which is outlined for total of FY24, FY25, FY26?

Sanjay Gupta: So, right now we have not exact data, but it should be close to 300 crores to 350 crores.

Anubhav Gupta: So, just to add to this, Anupam for clarity that the residual CAPEX at the start of the year was around 600 crores to go from to 3.5 million to 5 million tons. So, far we have spent like 500 crores in the first 9 months another 100, 150 should be in quarter 4 and then next year whatever the residual CAPEX plus the organic CAPEX what we do. So, it would not be more than like 200 crores, 300 crores.

Sanjay Gupta: Maximum totally now approx. from month of January to for 5 million ton I think not more than 350 crores.

Moderator: Thank you. We have our next question from the line of Anupam Gupta from IIFL Securities. Please go ahead.

Anupam Gupta: So, just continuing there you said that you want to expand Dubai by another 0.2 million tons, so what incremental CAPEX you are looking for?

Sanjay Gupta: 0.2 million ton hardly CAPEX of 50 crores, 60 crores because we have already made the infrastructure.

Anupam Gupta: And one more question on what was the inventory loss which you took in 3rd Quarter because obviously steel prices went down?

Sanjay Gupta: We never count our inventory loss. It is our policies whatever we buy and whatever we sell, we just see the gap.

Anupam Gupta: So, no major number there?

Sanjay Gupta: No there is no major number.

Moderator: Thank you. We have our next question from the line of Mahek Talati from Yellow Jersey Investment Advisors. Please go ahead.

Mahek Talati: So, we have been mentioning that we want to focus more on the value-added portfolio and not on the commodity, but if we see the new capacity additions we are adding our capacity in the general segments too. So, can you please explain the rationale behind that?

Anubhav Gupta: This is the natural growth for the industry 10% we are assuming the industry should grow. So, to cater to that we are ramping up the capacity because one of our core USP is to is to be able to supply all the SKUs to our customers. So, to maintain the SKU range we have to increase the capacity as per the industry natural growth.

Mahek Talati: And my next question was so we are saying that the new capacities of HR are coming which will help us for further supply. So, are we currently facing any problems in terms of raw material sourcing or it's going smoothly?

Sanjay Gupta: This is totally smoothly no problem at all.

Mahek Talati: And next question was given many players in the industrial increasing the capacity and adding new products what gives us the confidence that we will continue to grow at a 20% to 25% range, even the industry itself is expected to grow at 12% to 13%?

Anubhav Gupta: So, there are two factors. One is that our new products from Raipur they are completely like first time ever launched products in the country. So, those products are ramping up. So, that's new product, new market creation, new applications and secondly is new geographies like in export market and in East India where the sales were very, very low for Apollo and now we are focusing on each of those geographies very, very aggressively.

So, those will give the volume and third they will be shift from inferior scrap steel tube market to the HR coil tube market and given our market share we will maintain those levels.

Mahek Talati: And last question you mentioned that you are getting good orders from railway station redevelopment. So, how many orders are there and any order pipeline for railway station redevelopment programs?

Anubhav Gupta: So, any railway station will require steel tubes. So, far the Indian railways has awarded 50 railway stations to the EPC contractors. So, every railway station will require steel tube. We have supplied to four, five railway stations already.

At the same time, we are also trying to increase the steel tube consumption in those railway station designs. So, where our steel consumption could be more than 50% of the total steel versus 15%, 20% which comes anyways for us.

Moderator: Thank you. We have our next question from the line of Anish Jobalia from Girik Capital. Please go ahead.

Anish Jobalia: So, my question is in our next phase of expansion from 3.6 to 5 million you see there are two, three big players…

Moderator: Sir are you able to understand his question?

Sanjay Gupta: No we are unable to understand.

Anish Jobalia: So, my question would add in our next phase of expansion from 3.6 to 5. So, if we see there are two places where we are looking at expansion of the capacity one is on the light structures and then the second is on the galvanized tubes.

So, if you see the history of the galvanized tubes typically we have been doing around 1,00,000 odd tons 90,000 tons, but we are looking to go for a significant growth on this side. So, just want to understand how will we be able to sell these big volumes in the next phase of expansion if you could just help to understand that and in the light structure also how are you seeing the volume ramp up happening because 6,00,000 tons being added in the next phase and today we are at the run rate of around 1,00,000 tons, so how do you see the growth in these two sides?

Anubhav Gupta: So, first clarification is that this is not next phase this is ongoing phase of CAPEX 5 million ton is part of ongoing phase not the next phase. Now coming to the light section, light section why the capacity is increasing is because of introduction of super light tubes from Raipur plant.

So, that's part of super light and that's forming the bulk of incremental capacity which you see in the sheet then the second on pig iron hat also part of color coated tubes which are getting added in Raipur. So, that's where the new capacity is coming in. So, the existing product is organic 10%, 15% capacity expansion and rest are coming from new products, super light in light and color coated.

Anish Jobalia: So, I mean we are pretty confident that we will be able to sell these products and you are saying that it will be largely led by new products so it will be kind of a new demand?

Anubhav Gupta: Super light segment from Raipur plant we are already at 33% utilization level as at December 2023.

Moderator: Thank you. We have our next question from the line of Vikas Singh from Phillip Capital. Please go ahead.

Vikas Singh: Sir as you said that there would be a margin compression in such as galvanized and similarly many of the competitors are coming in even in the value-added segment like Mild Steel TMT. So, just wanted to understand that while on one hand you're talking about a margin expansion in the heavy structural your larger share would see an on slot from the competitor.

So, just your thought process whether in this mix you would be maintain the margin or you expect in a longer than it should come down?

Sanjay Gupta: Vikas like you see our pre recognized product, pre recognized product we take in the country almost 15 years back in 2007, 2008 we introduced the pre technology. Now no doubt there is some other players are coming, but the strength of our branding we have no problem to maintain our normal margin.

The extraordinary margin which is close to Rs. 8,000 tons, Rs. 10,00 ton. Now we are unable to maintain, but almost close to Rs. 6 kilo margin is not a big task to maintain because our quality and the costing lot of things and we are doing a lot of new work also innovation for pre-galv tubes.

Now we are introducing our one plant in Raipur plant. We ourselves now going to slowly and slowly converting to pre gal volume tube we have introduced that in Raipur plant and our Malur plant two lines are coming and two line it has to come in North India. So, I think with this month we came out with this product in maybe month of June totally we will come with this new product. So, I think again we will maintain this margin.

So, this is a chapter of snake and stair play and it will continue running in the industry. When we do something new then old people come and if we do something good then they will follow us after five years that is for a given time so the innovation will keep running.

So, we are doing lot of new type of work in margin we are doing new type of innovation so we can't disclose in open call. One-to-one no doubt we are happy to share with our shareholders, but we are doing a lot of new works to secure ourselves we are different kind of work. In the next year Apollo will come up with a lot of new products and we will come back with value added products.

Vikas Singh: Sir one last question on the cash flow users like you said next year 300 or let's say 400 crores will be your CAPEX and some working capital is required, but cash inflow is much higher and even in future for keeping a 25% growth rate term maintenance of that we don't need like 50%, 60 or 100% of our EBITDA to that. So, we have 50% or more EBITDA every year would be free to use cash what we will do?

Sanjay Gupta: This is a very tough question to answer. If you see our balance sheet this quarter around 1,600 crore we have a liability and 400 crores we have debt. My first point is that I should complete these 2,0000 crores and I am targeting FY25 liability free or debt free balance sheet and apart from that I am not thinking anything and the normal dividend which is coming which will continue coming, but my aim for FY25 March you see the balance sheet of zero debt and zero liabilities then we talk about our shareholders and we think inhouse and now how we consume the cash.

Moderator: Thank you. Ladies and gentlemen due to time constraints that was the last question for today. I now hand over the call to the management for closing comments. Over to you sir.

Sanjay Gupta: Thank you everyone for joining us today and thanks again to Nuvama and Sneha for having us for this call. Have a nice day everyone. Thank you. Bye.

Moderator: Thank you. On behalf of Nuvama Wealth Management, that concludes this conference. Thank you for joining us and you may now disconnect your lines.