Sudesh Group

APL APOLLO STEEL PIPES

APL/SECT/DLH/SE: 2022-23

18th May 2022

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 May 13, 2022

Dear Sir/ Madam,

With reference to our letter dated May 10, 2022 intimating you about the conference call with Analysts and Investors held on May 13, 2022, please find attached the transcript of the aforesaid conference call.

This above information shall be made available on the website of the Company viz. www.aplapollo.com.

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

Thanking you

Yours faithfully
For APL Apollo Tubes Limited

Deepak C S
Company Secretary
M. No.: FCS-5060

Encl: a/a

"APL Apollo Tubes Limited Q4 FY22 Results Conference Call hosted by Ambit Capital Limited"

May 13, 2022

MANAGEMENT:	**MR. SANJAY GUPTA —CHAIRMAN AND MANAGING DIRECTOR, APL APOLLO TUBES LIMITED**
	MR. ARUN AGARWAL – CHIEF OPERATING OFFICER, APL APOLLO TUBES LIMITED
	MR. DEEPAK GOYAL – CHIEF FINANCIAL OFFICER, APL APOLLO TUBES LIMITED
	MR. ANUBHAV GUPTA - CHIEF STRATEGY OFFICER, APL APOLLO TUBES LIMITED
MODERATOR:	**MR. DHRUV JAIN – AMBIT CAPITAL PRIVATE LIMITED**

Moderator: Ladies and gentlemen, Good day and welcome to the APL Apollo Tubes Limited Q4 FY22 Results Conference Call hosted by Ambit Capital Private Limited.

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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Dhruv Jain from Ambit Capital Private Limited. Thank you and over to you, Sir.

Dhruv Jain: Thank you. Hello everyone and welcome to APL Apollo Q4 FY22 Earnings Call. From the management side today, we will have with us Mr. Sanjay Gupta – Chairman and Managing Director, Mr. Deepak Goyal the Chief Financial Officer, Mr. Arun Agarwal – Chief Operating Officer and Mr. Anubhav Gupta the Chief Strategy Officer. Thank you and over to you, Sir for your opening remarks.

Anubhav Gupta: Good afternoon everyone. This is Anubhav Gupta. Thanks for dropping by and I welcome everyone on behalf of APL Apollo management to our FY22 Earnings Call.

FY22 has been very eventful year when we started the financial year was a second wave of Corona which hit the nation badly and by the time we close the year there was Russia-Ukraine war which also kind of impacted the year in a big way, but I am very glad to share that we have ended FY22 on a very high note and we were able to make a perfect pyramid with sales volume growth of 7%, EBITDA rising by 39% and PAT rising by 55%. The volumes were soft in the first 9 months, but we picked up very strongly in the Q4 with 27% YoY growth and closed FY22 with the highest ever volume of 1.75 million tons.

Our EBITDA per ton improved to Rs. 5,400 from Rs. 4,200 per ton this was drive by value addition, brand premium and market fold which we saw in the first half of FY22 and now we are confident that our margins going forward should be in range of Rs. 4,500 to Rs. 5,500 per ton.

Our value-added sales mix improved to 63% from 57% we saw very good growth in our coated tubes and heavy structural tube. This has been our theses for last three, four years where we have invested lot of energy, time and money on value addition and now we are seeing the benefits in form of margin improvement and improving sales mix and going forward our focus to invest more into value added products remained on a high note and we will talk about it as we talk about our outlook over the next two, three years. The balance sheet brought further strong with cash flow generation of s. 6.5 billion so our operating cash flow to EBITDA was 70% this is quite good when we see that the steel prices increased by 45% so our company absorbed is increased in steel prices easily without stretching our balance sheet and cash flows and this operating cash flow of Rs. 6.5 billion helped us to fund the CAPEX in Raipur and from Brownfield expansion which made our full year CAPEX of Rs. 6 million and there was also investment of Rs. 750 million in one of our distributors.

The net working capital days remained 7 which is again best in the industry we could sustain the working capital days at single digit. So, our inventory management, our debtor collection everything remains good and on track the way we are guiding that our overall working capital cycle will remain in single digit. Our ROC improved to 34% from 26% this shows the inherited strength of our business, the investments, the asset turnover rising margins and low working capital that has resulted in high ROC of 34% and now our endeavor is to sustain this ROC and improve it further once the Raipur plant kicks in and start contributing in a big way. At the same time our ROE also touched 29% so as we stretch more assets our ROE will also go beyond 30% going forward. So, these were the main highlights for FY22 apart from that there are some updates which we would like to talk, one is the Shankara investments which we did in one of our largest distributors in month of March. So, the rationale here was very simple that we wanted to make our largest distributor to sell more of our products because we see there is lot of scope to increase APL sales volume on to Shankara network and channels and this will lead to security in sales volume going forward for APL Apollo and given that South is a largest market it made a lot of sense for us then it would provide a ready platform to launch our upcoming value added products which are mainly from Raipur so that also jointly Shankara and APL Apollo will create the market for those new products and push through Shankara interesting network.

Third benefit is that we are getting is the better pricing policy in South market over other markets because our volumes are already secured by the largest distributor so it is helping us to improve the pricing into that market. So, we will see the overall positive impact on our earnings as well on our EBITDA margin. As we are talking on Shankara two things I like to make very clear is that we do not want to invest any more money in Shankara so that is all what we wanted to do below 10% and with that we are achieving all the objectives which we had in our mind before getting into this deal and secondly there is no plan of APL Apollo to run Shankara or run any retail business kind of setup. Our core business is manufacturing and distribution this is what we are sticking to and we expect this investment of 1.8 billion out of which 750 worth of shares having got from the promoters and rest 1.1 billion will be infused in Shankara over the next 18 months through warrant conversion.

So, we expect this investment to be ROC accretive and EPS accretive from year 1 itself and we are already seeing results so what we can tell you is that results are already visible after the deal was closed. Now coming to the second update in our 11th plant Raipur which is in our 100% subsidiary Apollo Build product limited so that plant is also very important for the group because it is the largest facility with 1.5 million tons. In Q4 we have already started the production with small 400 tons of dispatch, but week-on-week in fact dispatches rising and we are very confident that Q3 onwards we will see significant contribution from Raipur kicking in. It is a mega plant with almost 8 to 9 million INR of investment we have spend 60% of it and 40% will be done which is equivalent to 3 billion INR that will be sent during this financial year. The third update is on TriCoat merger so all the necessary process have been completed there we expect the NCLT in the final court to formalize the decision within this month.

So, hopefully when we meet next time over the investor call we would come with a single entity merged entity. Our fourth update is on Alishan app I am glad to share that as our endeavor to reach near to the end consumer we launched Alishan app in month of February and the idea is that we promote the end application of steel tubes closer to the end customer and so far we have got 45,000 downloads from end consumers and we have enrolled 25,000 fabricators from 110 cities. So, idea is to create a network of fabricators who are actually influencers in our products so that ultimately they become the promoters of APL Apollo brand in front of the customers. This will help us improve our brand equity and also help us get more premium as we move forward. Fifth is the update on Delhi hospital project which were started last year so you could see some of the photographs and the presentation that we work at all the 6 sites which the contractor has got position it is on track and within 3 to 4 months this kid of superstructures of up to half a million square foot of area has been erected this is one of the fastest delivering projects in the country today and we have a very strong pipeline which is building in around 30, 40 projects there are lot of inquires we are doing, lot of design changes in latest projects.

So, our thesis there is market for heavy structural duties also going well and once these projects are fully completed this will help us create more market for our heavy structural tubes. Apart from this lastly I like to touch base on our business strategy which is revolving around four points.

One is the continued CAPEX for value addition.

Number two is the distribution announcement through investment due to Shankara for the Southern market and some starting off the secondary sale for some of the Northern states where we have started as pilot project.

Third is innovation where we continue to invest our resources into new innovative products in to structural steel tubes which are launch in India. We are not for the first time being brought in India but also globally and fourth continuous effort from the market creation because that is how we have grown at the CAGR of 19%, 20% over the last 10 years and given that we have target of reaching 4 million of sales volume by FY25. So, we believe that these strategies will help us smoothen our journey and we will be able to outperform expectations as we could do in FY22 that is it from our side. Dhruv we can start the Q&A. Thank you so much.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Sujit Jain from ASK Investment Managers.

Sujit Jain: I am on slide 36 if you can elaborate a little more on the two new plants in Kolkata and Dubai and as well as the galvanize lines to improve efficiency where you mentioned it may reduce zinc consumption by Rs. 4 steel to ton what kind of margin improvement that can bring in and also some bit on the Hyderabad Hosur backward integration, value addition that you plan to do?

Sanjay Gupta: Our two, three plants are in the low margin categories like one of the plant is Hyderabad and Hosur and little bit Secunderabad plant their margins are low and my other plants margins are high. Just going for some backward capacity announcement some little bit of investment for the value-added product, backward integration from that we think Hosur plant is around 4 lakh ton capacity and Hyderabad almost 2 lakh ton capacity 8 lakh ton capacity Rs. 1,000 EBITDA margin we can increase. New plant in Dubai and Kolkata whatever in last two year business we have done realignment to reduce the freight cost so we see that some lines has got vacant which is not getting utilized at full capacity and in East from Raipur we are not able to get deeper and plus a lot of markets in export markets is left out because of that all prices are in the upper side from last two, three months so we think that we will get good opportunity and if get any problem we just want to create a infrastructure in both of the place and we have to increase our presence slowly and gradually and future as soon as we get the opportunity then we will try to increase that.

Moderator: Thank you. We have the question from Mr. Bharat Shah from ASK Investment Managers.

Bharat Shah: On the Hosur plant where we have three 0.5 million plant categories want to understand from you your sense of likely outcomes from that plant over a period of time in terms of product portfolio, in terms of likely specialty areas which are distinguishing and in turn the impact on the realization as well as the margins over the period of time?

Anubhav Gupta: So, if you see the Raipur plant it has three main product categories one is the color coated products second is the color coated tubes and third is the heavy structural tubes up to size of 500 square diameter. So, coming to the product category one which is color coated product that is an established market where lot of companies are selling these products, but they make margins of up to 15% to 20%. APL Apollo is already supplying tubes for adjacent product. So, color coated products become our adjacent product which we can sell in the same channel under the same brands and the ends fabricators the end users will be able to buy our products jointly. So, we will be able into solution category with color coated products and tubes put together and for that we need not spent much into distribution infrastructure because all the different distributors of Apollo deal into this product and given that the industry is working on high 15%, 20% EBITDA margin so even for us also it is very much possible given the Apollo branding that we will be able to achieve these kind of margins. Number two and number three products are highly innovative products like color coated tubes we have shown a photograph in our presentation also you can see that this square tube or the single tube these products have not been introduced globally, globally there are color coated tube but those are mainly circular and the application has been mainly like chemical transportation or gas transportation, but we converted that into the square angle tube which is having a low hearing of capability and again it want to replace the conventional products like wood and aluminum in a big way and it can be used inside homes for various décor applications and at the same time it can be used in industrial sheds under pre-engineered buildings where the fabricators or contractors they do not have the beautified products. Right now they may be using either plain steel or maybe galvanized steel. So, lot of thought process innovation have gone into this category to make this product possible and now the efforts have already begun from our team to create the market both at the trade level and at the OEM level and again these product can carry very high margins because of two reasons one it is highly specialized value added products so by default they carry better margins and second because this kind of products are not available anywhere globally and if we are able to make the market successfully we can charge very high premium for that. Third product is heavy structural tube with size of 500 square diameter so this is extension of our existing portfolio into heavy structural tube category almost 4 years ago, 5 years ago we were the first one in India to put up 300 square diameter tube at that point of time the market was not existent it took up two to three years to educate the construction industry that these kind of sections are available and now our mills are running at high-capacity utilization. After we got the Delhi hospital projects there has been good demonstration that with the help of structural steel tubes one can finish the building quickly at lower cost. So, we are getting lot of inquiries for high rise building up to 15, 20, 30 floors and even for larger span industrial shed warehouses. So, for those products we have to get into heavy structural tubes with size up to 500 square diameter. You can look at the margin what we are making in 300 square diameter which is given in our presentation in the range Rs. 7,000 per ton and this 500 square diameter globally only three, four companies produce that. So, with introduction of these tubes our margins should be more than what we are making on existing portfolio. So, put together all these three products have the potential of earning much, much more than what is being made today by Apollo. The whole objective is to create market and ramp up the production. Our team is working 24/7 to do both jobs and in terms of the overall written profile if you see I mean we have been able to improve our ROC from 26% to 34% and in that almost INR 5 billion to INR 6 billion CAPEX has been done into Raipur which is not yielding on $1 in FY22. So, as the plants ramps up we are very hopeful and confident that our written profile would improve significantly from what we could do in FY22.

Bharat Shah: Can you talk about color coated products in greater details the kind of products and what kind of possibilities exist?

Anubhav Gupta: So, color coated products there are three main categories. So, one is color coated tubes second is color coated door frame because for that you need some adjustment in the width of the sheet what we have been able to achieve unlike anyone else and third is for roofing. Roofing it can be used at both locations at home and industrials. So, idea is that right now the market for overall color coated product is very small because normally we are being only used in roofing. So, we have innovated sizes and products which will expand the market beyond roofing. Roofing is the existing market, but we have made products for markets like door frames for roofing in industrial shed which is called Purlins. For solar, for bus bodies for shutter, for ducting we can send you some of our presentations or we could go on our website also you will see that how these products will be able to create markets into different categories not only in one, but in at least 20.

Moderator: We are moving on to the next question from the line of Mr. Rahul Agarwal from InCred Capital. Please go ahead.

Rahul Agarwal: Sir first question was on the market creation Anubhav mentioned it in the previous answer, but just wanted to understand more color if you could help me understand the go to market for the APL Raipur products or you explain the products, but what is really happening to get this 5 lakh ton volume go through this year, could you help me understand that please that is the first question?

Anubhav Gupta: Rahul again for the benefit of everyone so this year our target from Raipur is up to 300,000 to 400,000 ton of production and sales and this will be mainly into the color coated tubes. This segment has around capacity of 500,000 tons and this is what we have started in month of March you could see some dispatch also. So, color coated tubes will be used at three main areas and this will be bulk of it and apart from that we will be working on lot of other applications and other markets. So, number one is the purlins which are used in the pre-engineered building structures. Today, if you see any warehouse or any industrial share which has come up in the country they use non color coated products, they use either galvanized or non galvanized products. So, this product latch the beauty of the shed from inside. Our products our color coated tubes can be used in place of purlins and they can replace the existing products and how it will help the customer is by increasing the likes because our color coated tubes first they are galvanized then they have aluminum coating then they have the color coating. So, the life of the product will increase by 15 years and that has cost to about maybe 10% or maybe 15%. So, this becomes very strong value proposition for any fabricator or for any end consumer to switch to color coated products instead of simple galvanized products or plain products. Second volume uptake will come from the heavy structural tubes as you can see the ramp up the sales growth in our heavy structural tubes in last four, five quarters it is the function of our aggressive marketing and aggressive market creation strategy to increase the volume in this category. We are today sitting on a very solid pipeline of projects where this heavy structural tube section need to be used. So, we are waiting for this line to start in July, August and once it is there I mean we have ready demand from our distributors and from the construction company who will be happy to use these products on immediate basis and the third category like what I said was color coated products in the roofing segments where the market is already there it is dominated by few players in the country with the launch of product from Apollo house we can get some market immediately because the same distribution channel will sell these products. So, selling 300, 000, 400,000 tons should not be much of a challenge if things remain as it is right from Raipur and when the plant will be like fully functional from Q3, Q4 onwards next year FY24 the volume will ramp up to 700,000 ton to a million ton and then 1.5 million ton in March 25. So, we do not see much of a challenge to achieve these numbers from Raipur project because the work on marketing and creation of the market has already begun and we are already seeing results which are visible I mean I am sure when we meet again during Q1 earnings call we will be able to share much more information with you, but the signs, the trends are already visible.

Rahul Agarwal: Just one question with Sanjay ji the Shankara transactions just wanted to know your thoughts that could have we signed same agreement with Shankara without getting into equity stake the kind of deal with the company because I think it has been long standing relationship with Shankara and how will things really change after this transaction purely because you have invested money into the company, any thought?

Sanjay Gupta: Shankara is a very good system and distribution center for the South market. He has I think already 100 plus stores in the retail sector and my South market is almost in my business plan this year for Apollo business plan met almost 20 lakh ton out of 20 lakh ton my plan for South is 7 lakh ton and in 7 lakh ton like last year 5.8 or 5.9 lakh ton in that Shankara is 1 lakh ton. This year we are targeting Shankara to all products tube is almost 2 lakh ton and 50,000 ton from new products. We are targeting 2.5 lakh ton from Shankara and visibility we are already seeing. Number two is till now we did not have that much hold so lot of price competition is there between the distributor to distributor. So, company has to take a hit on the margin and now we are in the controlling stage and we are controlling the market as well as distributor we are securing like I will give you one simple example in my own language all over India prices stake is there, but in today pricing system price Rs. 1 Kg has been increased extra. Our price is increase Rs. 1 kg extra in the South so our motive is that volume plus margin both in South market should be managed in a organized way and all distributor family and everybody shall be with us so that in future also we have to use so there is not bonding within ourselves so it becomes difficult. So, I think this is good for the company.

Moderator: Thank you. The next question is from the line of Pallav Agarwal from Antique Stock Broking.

Pallav Agarwal: So, first question was on I think our volume guidance so I guess you mentioned something like 2 lakh or 2 million tons for FY23, so is that something will we be again looking to maintain our 20% growth in volumes this is our longer term target for FY23?

Sanjay Gupta: Right now on the volume side we are not in a position of anything because in markets steel prices volatility is running sometimes $200 market price it is more and sometimes it is $200 it is less sometimes dealer is stocking and so we are pretty much waiting for the right time like February, March demand is very good and from last 20 days, 30 days there is a rumor in the market steel prices come down to 60,000, 65,000 lot of reports and lot of news are coming that international market is also down. So, I cannot give the guideline in the board, but our business plan what we are seeing very easily we can achieve first half quarter-on-quarter we are not talking first half we are seeing 10 lakh to 11 lakh volume 10 lakh to 11 lakh ton of volume second half 12 to 13 lakh ton of volume put together we are taking target of 2.4 million ton for this year. So, far our problem was that when our market was running that time we have a shortage of raw material, but when we have raw material then we did not have market to supply and this year we lined up with our quantity also in the steel plant as for the 2.4 million ton. In the month of April or May there is no doubt too much pressure is there because market is totally in the destocking mode. May be volume can go up and down in one off quarter but gradually the steel prices come down and the demand is stuck in the market, the demand will be created so we are getting very good signals. Right now we are not in a good position but we are getting very good signal from the market for the long term vision. So, we are very happy that once the volatility gets over and steel prices crash downs to a reasonable level where steel plants also are comfortable, consumer also is comfortable and mediatory also is comfortable so this is very good for the business. So, what I am thinking that we are closer to it. Right not we are going through a painful time but we are hopeful that future is very bright. If you are taking internal guidelines according to the market our guidelines I think EBITDA growth of Rs. 1200 crores at about 20%. But internally we are taking target of 10 lakh tons-11 lakhs tons in the first half with the margin of Rs. 500 crores to Rs. 600 crores of EBITDA. In the second half Rs. 12 lakh to 13 lakhs tons with the EBITDA margins of Rs. 700 crores to 800 crores. If the time is good may be we cross 1400, if the time is not in our favor this would be close to 1200.

Pallav Agarwal: Sir that was a very comprehensive answer. Just also sir you mentioned that with prices coming down you are more competitive now with the secondary sales scrap based players. So, at what steel price level or HR steel, is it like right now let say we are 72000 do you think 65000 to 70000 the prices will….

Sanjay Gupta: Right now, in the month of April the HR Coil blended prices is close to Rs. 75000 tons with Rs. 1000 plus-minus depending on the customer. This month I think there is an indication of decrease of Rs. 3 Rs. 4 kg, price would go to Rs. 70 to Rs. 71 per kg. Next month I am also expecting a decrease of Rs. 4 to Rs. 5 a kg. So, I think today in international market the price is close to $800 FOV so the price is going to be less than Rs, 65 base price. So, I think once the coal prices will come down so steel plants will also reduce their prices after June so this is a very good situation for the steel plants as well for the consumer. We cannot touch the pre-corona Rs. 40-45 stage but I think when the price gets stabilized between the range of Rs. 60-65 this is a very good position for both the sides.

Moderator: Thank you. The next question is from the line of Abhijit Mitra from ICICI Securities. Please go ahead.

Abhijit Mitra: The question is on the CAPEX so clearly you have upfronted the Raipur CAPEX almost completed (+50%) of the same and that is probably giving us better than expected timelines as well as volumes from the project is concerned. Now given the incremental Rs. 300 crores that has been announced where would that incremental CAPEX goes into in terms of adding your capacity, adding your ROCE or maintaining your ROCE or how to look at it essentially does that support your EBITDA per ton, does that increase your EBITDA per ton, does that help maintain the ROCE? Where in the overall equation does this kind of CAPEX fits in and would we see more scope for such CAPEX going forward? Thanks.

Sanjay Gupta: Other than the Raipur CAPEX almost about Rs. 300 crores of CAPEX this would increase our capacity by 0.5 million tons with the capacity of almost 3 lakh tons to Dubai and 2 lakhs tons to Calcutta. This CAPEX is only for value addition so there is some value addition activities going on Hosur, some value addition activities going on in Hyderabad plan and some activity is going in Dujana plant and a little bit activity in Secunderabad also. So, all put together these CAPEX is Rs. 150 crores and cost improvement also. In these investments, one of my major investments is the controlling of cost. If you see my presentation, there it is clearly mentioned innovative gravelling line to improve efficiency by Rs. 100 crore to help reduce zinc consumption by 4 kg per ton. So, this means, whatever we are putting the products, there our zinc consumption is almost close to 11 kg to 12 kg per ton because this plant and this technology is very old, almost 13 - 14 years, before I innovated this technology, this is a very less cost. At that time, our production was not that much, so it did not matter us much at that time but now my production is too big. So, if I reduce 4 kg zinc costing in this by improving the plant, then if we do 7 lakh ton per annum zinc coating, then on 7 lakh ton by reducing 4 kg will be almost 3000 ton, which will cost to Rs. 80 crore or Rs. 90 crore odd. So, in this you can say that there are some expenses on our value addition also, some expenses are on capacity enhancement also, some is on cost controlling also.

Moderator: Thank you. The next question is from the line of Shaleen Kumar from UBS, kindly proceed.

Shaleen Kumar: Hello, Mr. Sanjay and the team and congratulations on a very good set of numbers. Sir, you answered for one question, which I wanted to ask that if volatility is there in the market, then it will be soft in April and May. So, I think you hinted that April and May are little soft. Secondly, on cost, energy prices have also rallied, so will that affect our EBITDA prices a lot?

Sanjay Gupta: Shaleen, it only impacts us by 0.2, 0.1 basis points. So, now our energy cost is almost Rs. 400 to Rs. 500 ton, so instead of Rs. 500, it may become Rs. 550 or Rs. 600 or maybe Rs. 450. It does not matter us much.

Shaleen Kumar: Okay, so it will not affect that much. If I compare year-on-year, our volume pick up on home improvement, then it is not that much, and for the full year, if I look FY21 versus FY22 or if I look at the quarter, what is happening here? Is the demand not there or the steel prices have gone up, what is stopping us? Because from FY 2021 to FY 2022, we had seen a sharp growth ..

Sanjay Gupta: Shaleen, I understood your question. To get an answer for this, you need to understand the industry first, you need to understand the economy first. The answer to this is a bit lengthy, I will explain in a little detail to you.

Today Indian market is almost 110 million ton. Out of these 110 million tons, 7 million ton is almost structural tubes, so I take it as 6% in India approximately. So, in India the structural tubes market is of 7 million ton. In which at the moment, the 3-million-ton market is on primary steel and the 4-million-ton market is on the secondary steel. Today's primary steel rate is Rs. 75 per kg, which is our HR coil and the rate of the raw material that is being made form the secondary steel, its rate is Rs. 60,000 per ton, so there is a gap of almost Rs. 15,000. Till this gap is of Rs. 5 per kg or Rs. 6 per kg, we are in a very comfortable position, once it goes beyond that, then we are of the walking mode. If this gap goes up to Rs. 15,000 then a very big part of our business goes in the sleeping mode, because one the gaps are formed, secondly, we keep a big margin and sell the products and they work on a very low margin, so the gap increases, our some low thicknesses prices becomes extra. So, the total gap, all inclusive, becomes Rs. 20,000 per ton. And when the steel prices increases, the consumer says that now since the prices have increased, so let us buy a cheaper product and go but as the capacities and HR quality is being bult up in India, like three months back, SAIL started its Rourkela steel plant. Prior to this, SAIL never used to agree to give us material more than 50,000 ton, now they are approaching us to take 2,00,000 ton for this year. JSW never used to agree to give us material more than 9,00,000 ton or 10,00,000 ton, this year they signed an MoU with us for 15,00,000 ton. We have renewed the quantity with TATA. So, now in one year, in JSW steel also the HR coil plant is coming up, in Bellary also, one HR coil plant is coming up. So, according to my own vision, in two years' time, the steel market of India in HR coil is going to get doubled in the capacity, in the next two to three years. And their basic cost of production, of secondary and primary, the primary cost of production is less but due to investment, their depreciation and interest rate, the cost of the selling price increases but as and when the competition will increase, I feel that they will beat the secondary production. Now as they will beat the secondary production, then complete 4-million-ton market will come back. And there are talks that from there onwards, India's total steel conversion in the coming next three years will be 200 million ton. If it becomes 200 million ton and the way the tubes vision is increasing, if this market rises up to 8% also, then India will need 16-million-ton tubes and at present the total capacity for tubes in India is of 7 million ton, consider one million more capacity of ours, take the total capacity of 8 million ton and take people's one million more capacity which is lying idle, so we have 9-million-ton capacity. Today, if this 16 million ton's demand is being created, then in India there is no other brand other than Apollo, which can fulfill this capacity. I am working on this vision only, the reflection of which, if you see February and March, there we worked only for 50 days, after 28th of March we stopped our plants to taking the physical stock on the zero level. We have never seen our plant on zero level in 10-15 years, so I never go and check every plant. I am a countryman, I will say that empty the plant, bring it to zero stock, you see our plant's inventory, if you see our inventory as of March 31st is very flat. Our Hosur plant, which is of 40,000 ton there was only 3000-ton material over there. So, in 50 days, we had sold almost 3.7 lakh ton material. I am waiting for, what you call it instinct, I want to see them with receive with the base, I am working in that style, I have put up my capacity for that style. This, I am just parking a tile by doing value addition, etc. the day this will come that 'Give the material', then Apollo is in the front side and this time will come. We just want to save ourselves for that time that we should not clash anywhere, we should not do any mistakes anywhere, we should not fall in any debt trap, we just want to walk very safely. It is okay if my numbers go up and down for a year, I am not worried about it, my vision is for 2025. I have to reach up to 4 million ton to 5 million ton anyhow to complete Rs. 2000 crore to Rs. 2500 crore EBITDA. I am very hopeful that I will achieve my goal. Data are saying, situations are saying, like if you see, if the steel prices are corrected in one or two months, then no doubt though our sale is down today but we will definitely cover this up, I have no worries.

Shaleen Kumar: Thank you Mr. Sanjay. Looking at your energy, your frankness, we get lot of enthusiasm.

Sanjay Gupta: I talk what I visualize. I do not know whether this s wrong or right because I talk what I visualize.

Shaleen Kumar: There is a good fan following of you, Mr. Sanjay. Thank you so much sir, that is a very good answer.

Moderator: Thank you. The next question is from the line of Ankush Agarwal from Surge Capital, kindly proceed.

Ankush Agarwal: Hi team, Mr. Sanjay how much is our inventory days now?

Sanjay Gupta: Our inventory days is less than 30 days; it is 24 days.

Ankush Agarwal: Sir, in the next two to three years, all this optimization that we are doing, in value addition by putting up additional plants, so will any substantial difference come in our inventory days or will it be stable, 24 days?

Sanjay Gupta: It is impossible to bring it below 20 days, maximum 30 days and minimum 20 days. If it goes above 30 days means we are trapped somewhere in the wrong direction, if it is below 20 days means we are spoiling the market because we have so many warehouses, we have so many segments, our so many SQs are there, so it is not possible.

Anubhav Gupta: In FY17, we used to have 44 days of inventory, so we have already rationalized and worked hard to bring this down to 23 days to 24 days.

Ankush Agarwal: Sir, there is a less possibility of any big inventory loss for us in these 20-30 days range, right?

Sanjay Gupta: Like if you see, we had 1,10,000-ton total stock, from that we might have sold of about 20,000 or 30,000 or maybe 40,000 ton of stock. The remaining 50,000-ton stock is there, in that Rs. 200 or Rs. 400 increases or decreases, we do not look at it. We do not see the gain, nor the loss, we have already come out of this track. Yes, we do get impacted when the steel prices go a little up then our margins come under a little pressure.

Ankush Agarwal: Secondly sir, you have mentioned in the presentation about some secondary sales on pilot basis in 8 States, can you clarify this a little?

Anubhav Gupta: Sorry, come again.

Ankush Agarwal: We have mentioned something about secondary sales on the presentation, within 8 States that you have started on pilot basis, can you clarify something on that?

Anubhav Gupta: Right, so this is in the distribution strategy, because this is right now one of the core pillars over the next three to four years. So, one is that we are strengthening our South market by joining hands with Shankara. Second is, what we have observed in other B2C franchise business model is that, there has been lot of focus on the secondary sales, right reaching to the retailer of our distributors, the retail counter which our distributor is servicing. So, we have created a team, who is going and promoting Apollo brand at the retailer counter levels. So, from primary, we have created this pilot project to work on the secondary model also. So, right now, we have launched it in 7 States, once we see the benefits, then this can be replicated on pan India basis.

Ankush Agarwal: Right. So, Apollo will sell directly to the retailers and no through the distributors in this time.

Anubhav Gupta: No, Apollo will promote its product, the sales will happen through the distributor.

Ankush Agarwal: Okay, it is just a marketing effort, that is.

Anubhav Gupta: Yes, right.

Ankush Agarwal: Lastly sir, just a small one. You know we have talked about market formation. So, anything specific, like you know if the HRC prices remain quite high, will that affect market position for our new products from the Raipur plant?

Anubhav Gupta: See, I mean today when the steel prices are at all time high, I mean Raipur there are two products; one is heavy structural and second is color coated, right? So, let us talk about heavy structural first, so at steel price peaking out at Rs. 75 per kilogram, the cost differential versus RCC is Rs. 250 per square foot, okay at the construction levels. So, this is like 3% to 4% of the overall project cost and then the TMT prices, which you call re-barred, the cement prices have also risen, right? So, the delta used to be Rs. 250 and it is still at Rs. 250 per square foot because all building material products are going up. So, in fact, if prices come down, that delta will come down in favor of tubular construction.

Second on steel, about color coated steel there is no other alternative. So, for roofing, for cladding, for walls, for doorframe, you have to buy steel only, right? So, that has no substitute, steel is the only product in the color coated category, which is used. So, for that, the contractors have to use that. All they can do is, they can delay their purchase by few weeks in anticipation, if prices are coming down but if prices will not come down, if they have to finish their project, they have to buy steel.

Ankush Agarwal: Anubhav, just a small clarity in terms of color coated products. So, you know, are we priced competitive when it comes to someone buying a non-color coated product, coloring it and then fitting it versus supplying a color coated product directly, since you are doing it in bulk? Is that competitive?

Sanjay Gupta: First, you try to understand our color concept. In India, not only India, even worldwide all the color plants are up to 1.4 mm thickness linkage, nobody is making above 1.4 mm thickness color coating. None of the plants is designed as such in the country, so we have designed this plant for up to 3 mm, we are color coating in up to 3 mm, so previously 1.6 mm or 2 mm was a major market for the two in the color. So, whatever demand used to come, what people used to do, they used to take pre-revised tube, then paint it with paint or powder coating and supply the product or else they used to refuse that this is not possible. Like in PV, with which the industrial sets were being made; in that on top, at the bottom, on the sides, everywhere it would be covered with the colored sheets but in Purlin 2 mm thickness, Zed Purlin is required. Nobody is able to take the Zed Purlin of color, so they used to put GP on it. Now we are slowly replacing this product from our color. So, in Purlin last month, we have supplied almost in the month of April 1010 color sheet and in tubes we have just started, so we might have given a 50-ton material last month. This month we are planning in Purlin 2000-ton, 1000 ton in tubes. Number third in this is door frames; in door frames previously what used to happen, many small fabricators make door frames, in open style. For that they used to throw the sheet and then they used to do powder coating on it. So, now we have started providing 1.8 mm, 2 mm to 2.2 mm thickness sensor to them. So, I think these three segments put together, my capacity is around 1,25,000 per annum. So, within one or two months, hopefully we will make the complete line busy.

Moderator: Thank you. The next question is from the line of Anupam Gupta from IIFL Capital, kindly proceed.

Anupam Gupta: Good evening, Sir, congrats for a good set of numbers. Firstly, this Dubai CAPEX of 3,00,000 ton, what is the rationale behind it and is export into as a target, apart from the India operations which you do?

Sanjay Gupta: We had 300 square meter line in Raipur, this line's today's cost is almost Rs. 75 crore to Rs. 80 crore odd. Now our 500 square feet combination that is coming, sue to that this line had become free, that means there will not be much work on this line. Our 500 square meter mill's capacity is too big, this mill would be ideal over here. Dubai is a very good market of Middle East and we were also sending about 1000-ton material every month from here to Dubai. So, we thought this line is ideal over here, Dubai is a good market if we provide a ready delivery service over there, then there also the line can be quite good. Number 2, the way all prices are high from last two, three, four months, so I think in the coming times, a very good growth will come from Middle East. So, keeping both these things in mind, I did not had much CAPEX, Rs. 75 crore or a Rs. 100 crore CAPEX will come on the infrastructure. I do not have any CAPEX in machines, I thought we were trying from past two, three years, I thought of making a presence and see. If that presence succeeds, then we will slowly increase our reach there but this is just in initial stage and we want to experiment with this on a small level.

Anupam Gupta: Sir like you outlines for India that you are seeing a capacity of 5 million tons, possibly. Dubai. Potentially if you find it well how much can it reach to? What will be our aspiration?

Sanjay Gupta: So, for now what we have in the plant is we can do up to 0.5 million tons.

Anupam Gupta: Okay but if the response is good then you are ready to expand that further also?

Sanjay Gupta: It depends how much cash we hold at that time and what will be the margins we get from the market, if this is good then we will surely increase our capacity.

Anupam Gupta: Okay and sir my second question is on the new product innovation and market creation which you do, so you highlighted that you have lot of patents which you have at this point of time and these patents have been increasing all through the year, so can you give the share of volume which will come from these patents, let us say in FY22 versus FY21 versus FY20 volume?

Sanjay Gupta: Sir the volumes on our patent products is pretty low but growth margins are very good, growth margin is almost 40-50% and if you see our volume in total tonnage then our total volumes constitute to 8000 - 9000 ton per month. 1 lakh ton per annum, from which the growth rate of ours is around 40%.

Moderator: Thank you. The next question is from the line of Bhavin Pandey from Trust Family Office. Kindly proceed.

Bhavin Pandey: I had just one question regarding General products as we can see that the EBITDA per ton from this product is below Rs. 2000 but the contribution still stands stronger in the overall scheme of things. I was just wondering as we plan to gradually transition towards value added products, how do we plan to deal with this segment in particular, thank you?

Anubhav Gupta: So, if you see this general category it used to contribute 60% in FY 18 fiscal, which is down to 37% by fiscal 22, so we have already de-commoditized our portfolio in a big way and going forward with our Raipur plant starting contributing, first. Second, the value addition what we are going to do in Hyderabad and Hosur plants and the other small value addition which we will do in other facility, then our heavy facility moving to Dubai that again is high margin product, so overall this mix will go down to 20-25% in next 2-3 years from 33% today, so our strategy is to keep on de-commoditizing our portfolio year on year as you are seeing and this volume will remain constant at around 1 million ton, when we will be producing 4-4.5-5 million tons of sales volume, with general categories volume will restrict to a million tons, right so that will remain because we have ready facilities, ready distribution, our SKU range gets completed, so once this as a mix will go below 20%, then it will not impact our EBITDA per ton on quarterly or yearly basis.

Bhavin Pandey: So, if this transpires, the volume we are assuming around 25% contribution from commoditized products, so how much EBITDA per ton are we looking at the long run?

Anubhav Gupta: So, if you see today this year, we closed at around Rs. 5200 to Rs. 5300 per ton, so from the existing capacity, our focus is to sustain this number around Rs. 5000 per ton and the incremental revenue will come from Raipur that will bring EBITDA of Rs. 6000 – Rs. 7000 per ton, so blended basis we should be inching towards Rs. 5500 - 6000 per ton, slowly and gradually.

Moderator: Thank you. The next question is from the line of Rajiv Mehra from Sanctum. Kindly proceed.

Rajiv Mehra: Just wanted to clarify a couple of things, you said that FY 2025 we are looking at touching volumes of 4 million tons and I think you have already given breakup of market, so just wanted to say the structural tube market stands currently stands at 7 million which should grow to 16 million in the next 3 years, did I hear that correct, sir?

Sanjay Gupta: Yes, maybe possibly the Indian steel production goes to 110 million to 200 million ton.

Rajiv Mehra: 110 to 200 million ton okay.

Sanjay Gupta: Yes 110 to 200 million ton is what the industry and the government is saying.

Rajiv Mehra: Got it, so as your capacities are coming online and as your value-added products are increasing, currently from a 55% market share, overall, what market share would you be inching towards, would it be close to 65% and as your EBITDA per ton moves up, which ideally you are trying to reach in the blended region of Rs. 5500 - 6000, if we compare it with your peer group their blended EBITDA margins which right now stand at around 7% but globally a few peer group companies are in the higher range, can we reach closer to say 9 - 9.5% EBITDA margin over the next couple of years sir?

Anubhav Gupta: So, coming to point number one which is regarding the 55% market share, see we do not look at market share based on what we sold and what is the market size. This is a function of two things, one is in the segment which is highly competitive what is our market share and in the category which is monopolistic, which is bulk of our business. Whenever we launch a new product whenever we innovate, we start with, we being with 100% market share and that market share remains with us for the next 2-3 years before competition start putting up or copying our capacity, right? And then again after three years we have another product which would come and we will have 100% market share to begin with, so our sales growth is not confined with our market share today which is at 55%. How we want to grow is we create totally new market; totally new segment, we create demand there and we take 100% market share for at least 3 years. If my monopolistic, innovative products keep on growing, my market share could be 60-70% and I can still grow if I am able to increase the market with my innovative products. So, given that in 3-4-5 years, the competition increases in any products category, so we can sustain between 50-60% easily and still achieve the high growth which we are targeting.

Rajiv Mehra: Got it.

Anubhav Gupta: And secondly on margins like we responded to the earlier caller, we are at Rs. 5500 per ton range in terms of EBITDA, with the commencement of Raipur plant which is definitely high margin product on overall basis we would like to gradually increase to Rs. 6000-6500 kind of levels in next 2-3 years and see how these innovative products or what value addition we are able to do in next 2-3 years where we can take our EBITDA to, so the immediate target is to reach to Rs. 6000-7000 in the next 3-4 years.

Rajiv Mehra: Just one last question, I just wanted to reaffirm what you were saying that incase the steel prices move up by another 10-15%, how much sensitively it will be impacting your margins or your volumes going ahead and how would that play out even in the same case if it goes down by say 15%?

Anubhav Gupta: See in last 2 years steel prices have moved from Rs. 35 per kg to Rs. 75 per kg, right? In last 2 years you can see our profitability in terms of EBITDA, net profit, debt reduction, cash flow generation, working capital reduction, so we have been able to and why only 2 years, you look at our 10 years history, steel prices have moved from any level to any levels, steel has been very volatile commodity but if you look at our consistency in terms of volume growth which has been 18-19% CAGR, if you look at our EBITDA growth which has been 25% CAGR, if you look at our PAT growth which has been 26-27% CAGR, if you look at our constant, consistent ROCE improvement, you look at our ROE improvement, you look at our cash flow generation, if you look at our working capital enhancement, so I guess, I mean as a group we have demonstrated our capability to grow profitably in any cycle, whether up cycle or down cycle in steel, so there could be impact of few weeks or few months but on annualized basis, on consistent basis you will keep on seeing the consistency in our numbers.

Rajiv Mehra: Got it and thank you for answering my questions and all the best for the future.

Moderator: Thank you. Ladies and gentlemen, the management would be taking one last question that is from the line of Mr. Bharat Shah from ASK Investment Managers. Kindly proceed.

Bharat Shah: Mr. Sanjay I was just trying to raise a question and the line got shifted apart from the numbers and improving profitability, introducing specialty products and the size of opportunity with the growing steel capacity, we are favorably poised there and improving percentage of structural steel tube as a percentage of steel, if you were to lay down your reason as to how you are seeing this unfolding scenario, APL Apollo and what is it you are most passionate about and what is it that excites you the most, when you look at next 5-10 years in this journey. What are some of the things that really drives you as an entrepreneur?

Sanjay Gupta: See Mr. Bharat today's market sentiments are changing very fast. Like in February and March we were under the impression that our capacities were very low and why did we deploy it so low, why did we do the raw material procurement so less. In April-May we felt why the capacity is so much and why volume was kept so high, so in market if you see from the last 2 years then the volatility is very high, if I pass on comments for the coming 5 years then it is not good but I feel that India is a growing market and in spite of with respect to Indian Government, Mr. Modi and his team, there has been fabulous work all over the country and there has been lot of restructuring in the entire country, like the way in which we are getting inquiries for Metro's, Airports, so if we see on those things then we feel that demand can shoot up to very high levels also but unfortunately what has happened in the last 2 years steel prices have increased from Rs. 35 to Rs. 75 per kg. So, all the people who had invested in the projects, they either started searching for other projects to substitute because the projects costs went out of their budget and people slowed down the projects because of this reason. If all the things come into the picture, like you see worldwide small countries where there is 10-20 crore population, out companies are there who make millions of tubes, if you go to see in Italy there is a company called Marcegaglia, he is doing almost 2.4 million ton, in US if you there is a company called Zeckleman Industries has a capacity of almost 2.5 million tons, so there are small countries where there is good development, out there you have companies of 2-2.5 million ton capacity and if you go to see in China then there is world number 1 company of capacity of 13 million ton. So, anything is possible, today I cannot tell you that I will do 10 million ton or 15 million ton, if I see India's 110-million-ton steel production against which we need to do 4-million plant, then when India's capacity will reach to 200 million ton then I can think of 8-million ton or 10-million-ton plant, I am ready. My system is not on debt, it is generating cash flows from business and we are ready from every schedule, it is just that I cannot take such a big call at this point in time. I cannot give such a big statement at this point of time, it is too early to give any type of statement but if the market is going well and our systems strength is, world's lowest cost production, we make the tube at the lowest cost. Every day we are working on the cost that how can we reduce our cost. Like, in my call I gave a simple example that I am working on zinc coating, in which I will reduce 4 kg worth zinc coating, due to which I will get almost Rs. 80 crore to Rs. 90 crore saving per annum.

Similarly, I am working on freight factor as well, I have reduced the freight factor a lot. Also on power, on rejections, mill to mill, like at present our total 47 lines are working, now in every line our average tube rejection is around 2.6%, in some lines it is 1.6%. in some lines it is 3.5% also. So, the tube mills in which the tube rejections are above our bench mark, we are working a lot on it as to how to reduce tis rejections. Our cutting cost is almost Rs. 60 per ton, on some lines our cutting cost is Rs. 15 per ton, on some it is Rs. 150 per ton. So, we are working a lot on, where the cutting is of Rs. 150 per ton, which comes in bigger size, how to bring the bigger size cutting into plasma cut or laser cut, so that our cost becomes Rs. 10 per ton to Rs. 15 per ton. So, I am working a lot on these small costs, I am working a lot on innovations, I am working a lot on organizational built up that our system should be very strong.

Our biggest vision for this year is, if you divide my business into two parts; we have done a total work of 17 lakh ton, out of these 17 lakhs, we have done 5 lakh ton to 6 lakh ton work worth in Lakshmi, Apollo Metallics and Tricoat together, all three companies which are our subsidiaries. And we have done a 10-lakh ton to 11 lakh ton work in Apollo and our EBITDA margin is almost equal in both, the margin is of Rs. 500 crore in each. So, my complete focus is on this, that I have earned Rs. 500 crore in 11 lakh ton and on the other hand I have earned Rs. 500 crore on 5 lakh ton, so my main focus is how can I increase my 11 lakh ton's margins. From last two years, my mind is completely working on margins that how do I increase my margins. So, as soon as I feel that there is not much that I can do on these margins, then we will bring our attention to volume. Like in tubes, there are lots of segments that are left out, like you see in API we do not have our presence anywhere, we do not have our presence anywhere in Auto tubes, in water line we do not have much presence anywhere, there is a presence in water line but it is very nominal. So, we will think on all these segments in the future also but my single point focus is that let me complete my Raipur first, our 4 million capacity will be created, we are already on carrying 5 million ton capacity, from this 3.5 million ton to 4 million ton will be ready in the next one or two years, so that I will be in a position to talk about 8 million ton or 10 million ton. So, I am a tube person, I do not have my focus apart from tubes, nor do I want to de-focus myself in other worlds, I am only doing one business constantly and want to make myself strong on one business only such that Capex, 'don't touch me', I want to make myself that strong in the business that I am untouchable, work on it, remaining we need some support from the external environment, some we will have to work internal. If all the support is only from external then we will not be able to do, if all the support is from internal then also, we will not be able to do but I am hopeful that our next vision, as soon as we will reach 3 million ton, 3.5 million ton, then we can think of our next vision.

Bharat Shah: Mr. Sanjay, when hard work is good, intention is good and opportunity is big, then the whole world may come together and complete that mission first only. All the best.

Sanjay Gupta: See Mr. Bharat, we are working hard, our intention is good, and if big brothers like you are with me then the world will also come with us.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Anubhav Gupta: Thanks Ambit team for hosting us today for our earnings conference call and like to thank everyone who was present on this call on behalf of APL Apollo team for dropping by and if there are any further questions, you could reach out to the Investor Relations team, thank you so much.

Moderator: Thank you. On behalf of Ambit Capital Private Limited, that concludes this conference. Thank you for joining us, you may now disconnect your lines.