"APL Apollo Tubes Q2 FY22 Results Conference Call"

October 28, 2021

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MODERATOR:	**MR. RAHUL AGARWAL – INCRED EQUITIES**

Moderator: Ladies and gentleman, good day and welcome to Q2 FY22 Earnings Conference Call of APL Apollo Tubes Ltd. hosted by InCred Equities. 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, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rahul Agarwal from InCred Equities. Thank you and over to you sir.

Rahul Agarwal: Thank you Margret and good evening, Ladies and gentlemen we welcome you all to the second quarter earnings conference call of APL Apollo Tubes. We have with us the senior management of the company, led by Mr. Sanjay Gupta - Chairman & Managing Director, Mr. Deepak Goyal- Chief Financial Officer, Mr. Arun Agarwal – Chief Operating Officer and Anubhav Gupta- Chief Strategy Officer of APL Apollo. We thank the management for giving us this opportunity to host the call, I now handover to the management for the initial remarks, post which we will get into Q&A. Over to you sir.

Anubhav Gupta: Thanks Rahul. It is a real pleasure to be here and discuss our Q2 performance with everyone. We welcome every one of you and thanks for stopping by. Before we discuss our Q2performance I would like to talk about a few updates which took place in the last quarter, so one is we received 6 patent designs for our new innovative products, so our total patented design portfolio stands at 16 today, this is in-line with our strategy to create new market for our success steel tube products into building material applications and these various products has helped us to grow at a CAGR of 20% in the last 10 years, so our efforts to innovate and come out with new products continue. Number 2, the government hospitals in Delhi, there the work has started and we are glad to share that our products are being used to create the super structure of those hospitals, it is a first of its kind building in India, where the hospital shall be ready in 6 months and this was possible because the super structure is on 100% tubes and this is very good for our product category which caters to the heavy structural side of it, so we are confident that once these towers are ready in next 6-7 months, it is going open a very large market for our heavy structural tubes. Number 3, we appointed Tiger Shroff as our second brand ambassador, specifically for the heavy structural tubes and we have branded this product as Apollo column. Very soon we will go on air and our target is to cater to all the architects, structural consultant contractors where we want to push this product. Number 4, we have started work on our consumer facing app which we are targeting to launch next quarter, currently we are in the process of enrollment of 50,000 fabricators and at the same time we are working on the various designs which would be used in any household into multiple segments, so this will help us reach near to the customer as our brand equity endeavor is. Number 5, very interesting update I would like to share is that one of our distributors in Dehradun has opened a 10,000 square feet furniture store where the furniture is 100% made of steel tubes, since he is our distributor so he is using APL Apollo tubes and again this demonstrates that our products are being used for the typical building material, furniture applications, so as this business starts to gain momentum, we will move much closer to the consumer, again this will help us enhance our brand equity in a significant way.

So, coming to the second quarter performance, it was an important quarter as the economic recovery started after the corona wave 2 and things started to return to normalcy, coming to our sales volume which was 427,000 ton for the quarter, it was down 11% Y-O-Y, mainly because of delayed recovery after the lockdown was lifted and some unseasonal rains which impacted some of the sale volume. The raw material costs were up significantly, if you look at Y-O-Y they were up by almost Rs. 24,000 per ton but at the same time our net selling realization was also up by Rs. 26,000 per ton, so on Y-O-Y basis we reported EBITDA per ton of Rs. 5,200 which was best ever after Q1's Rs. 6,800 per ton. And the factors which resulted into improvement in EBITDA are of course number 1, our continuous improving sales in the value-added products, in the Q2 our value-added products mix was 62% versus 53% in Q2 of FY21. Thirdly, our working capital cycle continues to remain within 10 days of limit, so it has helped us generate very strong operating cash flows and our net debt is further down to Rs. 130 crore from Rs. 160 crore in March'21. Overall, we generated operating cash flow of Rs. 261 crore, which was almost 60% of the EBITDA and this helped us fund our CAPEX of Rs. 216 crore, so the net FCF was Rs. 31 crore, which helped us reduce our debt. One milestone what we hit was the ROE and ROCE, our return profile for the group surpassed 30%, we believe this is a very strong demonstration of our inherited strong business model that our business has capability of generating much higher returns, historically we have been around 20-25% because we were expanding to build capacities but now that our utilizations levels are going up, our working capital has reduced, our margins are moving up, so we are going above 30% ROE, ROCE's and we target to sustain these ROCE's the longer term.

Lastly, the Tricoat merger is on track, hopefully the process should be done within the Q1 of next calendar year, so that we will have a simplified group structure with a largest structural steel tube company in India and 5th largest globally. With this Rahul we can open the floor for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Dhruv Jain from Ambit Capital. Please go ahead.

Dhruv Jain: Sir I had a question with respect to the volumes, so we have seen that the volumes have declined on a Y-O-Y basis, so just wanted to understand is it because of the high HRC prices that the channel is not stocking up or has it got something to do with the mix, just wanted your thoughts on that?

Anubhav Gupta: Hi Dhruv. So, Dhruv as I understand that you are comparing this quarter's volume of 427,000 ton versus 480,000-485,000 what we have achieved in the past, so when we were doing 485,000 ton, the commoditized segment which we call general structure that was contributing around 225,000 ton into that right and if you look at Q2 volume that was 161,000 ton, so there has been shortfall of 50,000-60,000 ton into the commoditized category and that is where we have lost the volume, if you look at our value added portfolio, where the 100% focus of the company is today, there the volumes have not declined and this is obviously because when the primary steel prices go up, so there is some shift in the industry which take place towards the more secondary side, so we are not too much worried about it because anyway that segment if you see our 5 year business plan that segment is not going to contribute much today, in the future. Today it is like 35-36%, in future we expect it to go down to 20-25% but that being said whenever now that the prices have stabilized, right? And the gap between secondary, primary should also narrow down because ultimately there would be some cyclicality towards it, so we will regain those volumes but at the same time the focus towards value added products is continuing and that is where we are getting our earning from.

Dhruv Jain: Thanks, and I had a question with respect to the Raipur facility, if you could just give an update with respect to when do you expect it to commence operation?

Sanjay Gupta: Hi Dhruv. We are almost on track in the Raipur project, I think in the month of December or January, little bit of production is going to start and up to March, we can go up to 25% production, as per our total plan of 1.5 million ton and after in Q1, our capacity would almost be close to 50% and Q2 first half we fulfil for our project of 1.5 million ton but no doubt, to ramp up the market we take at least 2 years to fulfil the whole capacity. Capacity is done by first half of the next year.

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

Urvil Bhatt: Just want to understand how has the demand been, so we did 427 KT last quarter, so if you can give some color on how October month has been and how is the outlook looking for 3Q and 4Q?

Sanjay Gupta: Hi the demand is right now on track, we can forecast that we can cross almost, as per our business plan of full year of 1.8 million ton, we are very close to or maybe we crossed this quantity which we are making 0.5 million ton for every quarter of our business plan, so I do not think there is any indication of 3rd wave of Corona, we can achieve these targets.

Ujjwal Bhatt: Okay that is good to hear. And also tubular sales like what happened in the last quarter as we ramp up volume towards 500 KT per quarter would we see the fall in the share of value added or will it be continuing above 60%?

Sanjay Gupta: I think so this is about 55-60%.

Urvil Bhatt: Okay that is good to hear. And second question is on the hospital front, what kind of volumes are you targeting over next couple of years, assuming that you get few more such contracts and you start creating a new segment out of this, so what is the outlook here in terms of volumes?

Sanjay Gupta: Boss like in 1 square foot of area; your total tube consumption is almost 5-6 kg depending on the design. And first order we got from the hospital, Seven Hospital we got an order of almost 12,000 ton, so we are working on at least every year we can design the infrastructure on the tube almost 15 crore square floor area and if we take the average building, these are almost 3-5 lakh square foot area, then close to 300 buildings we have to develop every year, right now we are working on almost 50 buildings. So, we are very sure that in the next two years we can cross this landmark of what we are targeting 15 crore square foot area every year, so we can get almost a demand of 5 lakh ton. Half a million ton.

UrvilBhatt: Okay that is good to hear. And I assume this will be some value added only, so the margins in this segment will be higher?

Sanjay Gupta: Yes, no doubt because our, the higher thickness line 500 square is also coming and maybe this line is started in the month of March or April of FY22, so we are very hopeful because this is the first time not in India, in Asia.

Moderator: Thank you. The next question is from the line of Jiten Doshi from Enam AMC. Please go ahead.

Jiten Doshi: Good afternoon, everyone and congratulations Mr. Sanjay for a wonderful performance in such a challenging environment. I just want to know from you when do you think you will be actually exhausting your entire capacity what you are putting up in Raipur and what will be your strategy in terms of future expansion? What point do you think you will expand, let us say for another million or 2 million tons, because we see India now on a massive growth trajectory both in terms of infrastructure, CAPEX as well as lot of new projects coming in, so how are you actually planning and what sort of lead time is require for this?

Sanjay Gupta: Thanks, Jiten. See the basic thing is right now without Raipur we have a capacity of 2.5 million ton right now and this year our business plan is in the lieu of the year is 2 million ton. But due to corona we reduced the business plan and we took it 1.8 million ton. So, I think in the next year we with this thing setup of APL, we can cross 2 million ton and Raipur would give me almost 0.5 million ton from new plant, so next year we are planning to cross 2.5 million ton. In 2023-2024 we are targeting to cross 3.2 million ton and 2024-2025 we are targeting to cross 4 million ton. This is already our plan and we are doing work very hard on the projects. After 4 million ton, right now we are searching some opportunity in the east market in Kolkata and Dubai in the Middle East but right now we have an own structure of concrete business plan but I think with the existing system and with new small additions we can cross almost 5 million ton in 2025/2026 or maybe 2024/2025.

Jiten Doshi: So, what would be the lead time to setup this capacity?

Sanjay Gupta: Capacity I will be able to setup up to 4 million tons in the second half of next year.

Jiten Doshi: Okay and after that it takes about 18 months?

Sanjay Gupta: See Jiten, if I tell you frankly our new capacity that we have been setting up is totally in new products, there is no existing market of Apollo in this, this would produce colored pipe, column pipe, profiling, PEB related business, renewable energy related business we are targeting in this facility. So, if wanted to we could scale up fast but in designing a business plan we have to see the market also, we have also allocated organization, how many people would do what type of work out there, so we are taking a roadmap of 2024/2025 and we are very sure that by 2024/2025 we will be able to reach in between 4-5 million. And since this is a high value-added business, the base which is around Rs. 5,000 per ton EBITDA that we are around today that will also increase well.

Jiten Doshi: Okay, Sanjay the Zekelman that you presented in the slide in the earnings, when will we be Rs. 10,000 per ton, when do you see it, in 2024/2025, when do you see this Rs. 10,000 a ton coming for us, at least selectively in our portfolio?

Sanjay Gupta: Jiten at present I am not dreaming so big, this is possible, real meaning to show it is that this is possible but I am not in a position to pass commentary on this. Even Rs. 15,000 per ton is possible like the high diameter tubes that are coming up, if you go to see the EBITDA margin out there on a particular order, they are plus of 20%. And if we start getting that market, our value addition will increase, there is no doubt but there is lot of difference, this is the first order that we have bagged now in bulk, when we start bagging more of such orders then surely, I will revise my guidelines but now I am a little apprehensive in committing on this.

Jiten Doshi: Okay when you will see 4 million what will be the value-added percentage in it?

Sanjay Gupta: Almost 75-80%.

Jiten Doshi: Okay which will be far higher than what it is today?

Sanjay Gupta: Yes, we are targeting in a such a way that a minimum base of Rs. 5,000 is created and Rs. 6,000 + is achievable and our target can be Rs. 7000 also.

Jiten Doshi: Okay so you will more reduced the commoditized products and go for more value-added products?

Sanjay Gupta: Yes, we are not increasing commoditized products.

Jiten Doshi: Okay not increasing but whatever incrementally you are doing is only value added?

Sanjay Gupta: We are working on value added and if we consume higher volumes in commoditized products, then we are keen to go for outsourcing.

Jiten Doshi: Okay wonderful, basically your model will continue to be remaining asset light?

Sanjay Gupta: Yes, there is no doubt on this. Inventories, Debtors, etc. I am not in the mood to invest much CAPEX in these.

Jiten Doshi: Okay, so then when a lot of money will get accumulated, then what will you do with the money in the coming 2 years?

Sanjay Gupta: Jiten I had accepted my mistake in the last call, just hear me out I had accepted my mistake, we will issue dividends.

Jiten Doshi: Okay, you will come out with a decent dividend policy looking at the cash flows.

Sanjay Gupta: Yes, no doubt about that.

Jiten Doshi: Wonderful. Many congratulations and all the best for the future. Thank you.

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

Bharat Shah: Return on capital employed, clearly beautifully improved Y-o-Y and now we are in excess of 30% but structurally I thought we should be touching somewhere closer to 50% plus because CAPEX per ton later is about Rs. 7,500-8,000 and later say Rs. 1,500 of working capital should be lower actually, but maximum of Rs. 10,000 of the capital employed and we can make kind of EBIT of Rs. 5,000+ we should be touching return on capital employed above 50%, does that not sound structurally the realizable number?

Sanjay Gupta: Yes, definitely Bharat there is no doubt we can touch to 50% of ROCE and ROE.

Bharat Shah: But when in the coming year or year after that, we should be touching this kind of a number?

Sanjay Gupta: Yes, Bharat our business plan is up to 2024-2025, in the next 3 years. As a promoter, as a stakeholder if you ask me I would want it to happen next year but in this there are few external factors that are affecting it which in today's date one of the segments which does 30-40% business due to difference in long project and flat project has been severed badly, so such uncertain problems can come into picture, if everything goes well it should be done very soon but as per our business plan we can touch 2024/2025.

Anubhav Gupta: And also, Bharat the numbers what you said that Rs. 10,000 per ton of capital employed which includes Rs. 8,000 per ton of gross block and Rs. 1,500 per ton of working capital. On that EBIT of Rs. 5,000 per ton, so an inherited ROCE, yes, we are touching these numbers because our capacity utilization today is around 60%, so that is why on the blended basis on the consolidated balance sheet you are not looking that but if you look at the core ROCE of the business it is 50% what you mentioned.

Bharat Shah: Right therefore if we do not take into account the new capacity which is still in the process of being built, structurally next year now that Rs. 5,000+ kind of EBITDA seems to be structurally embedded in our business and given the fact that value added is rising as a percentage, structurally speaking if we not take into account new CAPEX, we should be 50% + in next year itself, isn't it?

Anubhav Gupta: Yes, definitely and also see I mean the numbers what we give in our presentation this 30% ROE, ROCE, so for capital employed we have taken total asset and reduced only the current liabilities, right? So if you calculate as per the accounting this number will be much higher 35-38% also but we are just highlighting the conservative number here where we have deducted current liability from the total asset base, right so that it takes account of all the ongoing CAPEX in the balance sheet and other assets, so if you take the core business ROCE, it is 50% today, yes.

Bharat Shah: And Mr. Sanjay you mentioned that in 2023/2024 we should achieve 4 million?

Sanjay Gupta: In 2024/2025.

Bharat Shah: In 2023/2024 what will be the business plan?

Sanjay Gupta: Our business plan is for the next three years, in the next 3 years the business that we have is in this year we are close to 1.8 million-ton, next year we are closing to 2.5 million ton we are targeting and in the next year it is 3.2 million and in 2024/2025 we are targeting 4 million ton.

Bharat Shah: In 2023/2024 what you said, I did not hear properly?

Sanjay Gupta: 3.2. the trajectory will be like; 1.8 - 2.5- 3.2 and finally 4 Million tons.

Bharat Shah: That is remarkable. Anubhav, I think in the presentation in slide 27 the year labeling seems to be wrong, 21's numbers are on 20 and vice-versa. So, I thought I will just bring to your notice.

Anubhav Gupta: Slide number 27?

Bharat Shah: Yes, the profit and loss accounts summary that is listed for all the years, 26 and 27 slide number. Later on, you can take a look at it. Thank you, Mr. Sanjay and hearty congratulations, to entire APL team.

Moderator: Thank you. The next question is from the line of Abhishek Ghosh from HDFC Mutual Fund. Please go ahead.

Abhishek Ghosh: Thank you Mr. Sanjay for the opportunity and thank you for charting out the business plan up to FY 2024/2025, sir in this I wanted to understand one thing in this, the market share that you hold today in excess of 50-55% in structural tubes, when you are telling us the plan for 2024/2025 what will be market shares then and will the application of structural tubes increase, can you tell something on those lines, it will be helpful?

Sanjay Gupta: My market share will remain 55% to 60% only, because of it, the new project of Raipur that is upcoming, this is totally different product. Like in bigger sections, that market is not there at all for us, at the moment, from that market, we have got almost close 80% to 90% market. All that will change with concrete, Angle/Channels, the market will convert with the other items at this point in time. Number 2, our color pipes are there and usual related profiles that are there, under all these, there is no market at all in few and in few it is quite big due to, means our technology advantage will be there. So, there will not be much impact on our market share due to that.

Abhishek Ghosh: So basically, the 4-million-ton market that we see today in 3.6 or 3.7, beyond that the market shares in new applications because typically yours will be the lone player in that, so should it be looked at that way.

Sanjay Gupta: In few will be lone player, in few since the existing market is there, we will replace due to our technology and the costing benefits.

Abhishek Ghosh: Okay, and the other thing was that, in terms of competitive intensity, are you seeing that the unorganized and small players coming back in the commodity section? It would be helpful; if you can just help us with your thought as to how it is.

Sanjay Gupta: Somehow, yes. If you see our general structure product use, in that the non-branded players that are there, because of difference between the long product and the flat product, lot of people are coming in this sector, so this is a matter of time because in today's time lot of flat products is being exported from India, so the raw material shortage has increased in India, one plus three-four, four coil mills are coming in the next one or two years, India's capacity is going to get doubled in the flat products. So, I feel that this situation that has been created today, will normalize within one or two years, when the flat product capacity will be announced in India. And anyways, from past five, ten days, China is softening again, in genera structure also, there is a gap of almost 20%, 25% in ours and their prices. And all the players have gone to the secondary material in today's date, so if you are talking about the long term, then there I have a benefit because I am the only branded player left in the market. Everybody has gone into the 'Patra' type material. So, this is the benefit for me, when the rates will come into my favor, then I will have a lot of benefit but today I am a loser in this sector.

Abhishek Ghosh: Okay, but you feel that within 18-24 months, these things will normalize, when the flat capacity will come.

Sanjay Gupta: Did you think that the flat project and long project processes are the same, in that a gap of 20%, 25% in the selling price will run, today there is a gap of 20% in the tall steel and HR coil pricing, though the HR coil's cost per ton is down, tall steel's rate is more. So somewhere down the line, this gap will melt down, the day it will melt down, Apollo will be working.

Abhishek Ghosh: Great, Mr. Sanjay one last thing I wanted to understand. Whenever the Raipur plant comes and get stabilized and work on a decent utilization, then obviously you will get the mix change benefit but some freight cost and other benefits, go to market in the East, other things, will you get those benefits also overall for the company?

Sanjay Gupta: Yes, very much, I feel this is quite interesting in sharing it. Now our company, my motto from the very beginning is that 'Cost is priority' and how much will be my low cost, nobody can beat me. So now on freight cost, on the renewable energy on your first process we are going on EV process. I just buy out three trucks which runs on electric meter in the company, I think I am getting its delivery in the next month or so, the company code does IPT tech, I have bought 40 tons' loading truck in that and if my that truck model is successful, then I have a plan to buy almost 100 trucks, with this my freight gown will go even down. My motto has been from the very beginning that 'innovation and cost', these are my company's two strengths, other strengths are there but the main strengths are these two only. If you look at my cost, anywhere worldwide, not India wide, I am the lowest producer in the world.

Abhishek Ghosh: Correct. And Mr. Sanjay, one last thing; you will get a very good cash flow generation for the business plan that you have shown in 2.5 million ton, 3 million ton and maybe your CAPEX requirement will not increase in that rate, so will the acquisition …?

Sanjay Gupta: It will not increase; our CAPEX will not increase.

Abhishek Ghosh: Correct. So, is there anything in your mind like acquisitions and other things in terms of, are they also opportunities that you would like to grow organically?

Sanjay Gupta: Boss, for any acquisition you need a good capacity but unfortunately not a single good capacity is there in India and if there are, they are so solid that why would they sell? And the commoditized products that are there, where you do not need quality and nothing else, so I do not intend to waste my time over there, that I will only go on outsourcing. As my demand due to branding will increase, so I do not think that APL will be able to do any good acquisition in this business.

Moderator: Thank you. The next question is from the line of Vivek Gautam from G S Investments. Please go ahead.

Vivek Gautam: Sir, congratulations once again on consistent set of numbers. Few questions from my side, I saw that you are now catering to the government plants, tele-government and you are also seeing the potential, so the receivables and deter days issues that are there with the government plants, how are we planning to tackle that, this is my first question? And the second question is about, how successful has been our brand ambassador experience and how much successful it was of Salman Khan for Astral Pipes, do we expect the same with our brand ambassador Mr. Amitabh Bachchan and now Tiger Shroff? Thank you.

Management: So, coming on the first point, see I mean, the product is going into a government order but we are not dealing with the government while doing the transaction, okay. So, there is an EPC contractor, who has been appointed by the government to construct the buildings. We are supplying to that EPC contractor and it is on advance payment basis. With the government what we are doing is, we are going and giving presentations to the government agencies who deal into the construction, like CPWD, State PWDs, NDCC, NCRTC, there are various government agencies who are doing lot of construction work. That could be towards construction of buildings, that could be construction of infrastructure projects.so we go and try to convince them, that if you switch from concrete construction to tubular construction, you can achieve four things; one is PEEP, second is environment, third is cost, fourth is quality. So our dealing with the government is limited to the education and telling them about our product, about our technology. And then the things are in hands of the contractors, large contractors who deal with APL Apollo and we have a very strong business development team who has been dealing with these OEM clients for a very long time, but we are very averse to extend any extra credit to any of the contractor, developer or builder, we have seen that how we have reduced our deter days, so no way we are going to have any impact on that.

And second, on the branding equity announcement, so see appointment of Amitabh Bachchan happened two years ago and in the same year we started our branding exercise in a big way, so the result is already there, that we have been able to increase our market share from 40% to 50% in last two years. We have grown much faster in the rural areas where we increase our margin also, we have expanded our base in the rural markets, then our brand Premium has improved in the last two years. So, this is the exercise which we just started two years ago and we have already seen very favorable results, when we look at our other building material peers into other industries, they have been evolving their segment for last 10, 15 years, right. So, we have also the same vision, where we can command much higher premium versus number 2, number 3 players in our industry and as our gross margins improve, we will take out that and invest into the brand equity investments. So yes, Amitabh Bachchan has been successful, now Tiger Shroff for the specific product category which is towards heavy structural tube, where we have branded our product as Apollo Column. So, all these activities have yielded results and from that encouragement only, we are going more aggressive, now we are sponsoring every year's IPL events, we are taking help of Bollywood and now going towards like this B2C consumer facing App, our distributors opening furniture stores, so this is all attributable to the fact that we want to reach as near to the end-consumer and we want to grab as much mind share of his, as we can.

Vivek Gautam: Sir, how much is this pricing power, like basically there was quite a big rise in the steel prices and how much time did it took for us to pass-on the price rise and means, are you doing with a lag … ?

Management: If you see my five quarters' trend, when the steel prices started going up, you can see every Q-on-Q, our RM cost per ton has gone up, our NSR per ton has gone beyond that, so this demonstrates our pricing policy and this is not only APL Apollo, see I mean any industry where one product is in such a high proportion, so all the players work on the same model. And not only In India, globally also when we look at our global peers, few names we have given you in our presentation also, so they also work on the same model, so there is no rocket sign that any fluctuation in the steel prices need to be passed on to the end customers.

Vivek Gautam: And technology innovation is our strength, are you thinking about any other strategy, to import any new latest technologies, so as to we continue our edge?

Management: So right now, the clear focus is on two things; one is the heavy structural tube like we said producing 500 mm x 500 mm diameter tubes, I mean no one is doing in Asia, so this is altogether a new technology which we are bringing in India and it has the potential to revolutionize the whole construction industry. Number 2 is color-coated tubes, again nowhere the color-coated tubes are being used for any building material application. There are some companies who make color-coated tubes but for the industrial applications; circular round tubes but square and rectangular tubes which would replace aluminum profile, which would replace wooden structure, which would replace hangers and channels, so again it is a total new innovative product what we are bringing in the Indian market. Beyond that, technological advancement we have all our mill producers, who are our partners from Italy, Japan, US, China, so to increase the speed of the mill to enhance the quality at the mill, to reduce the rejection, right. So, I mean this process is always continuous, every year we come up with something new, which helps us reduce cost and improve the overall efficiency.

Moderator: Thank you. I would request Mr. Gautam to rejoin the queue for follow-up questions. The next question is from the line of Bharat Shah from ASK Investment Managers. Please go ahead.

Bharat Shah: Mr. Sanjay, one thing is absolutely clear that commodity Apollo standard product would continue to remain where it is and therefore its percentage would keep declining and value-added share will keep rising but within value added, whether even superior value-added products percentage, I suppose would again inch up, is it not?

Sanjay Gupta: Mr. Bharat, we are working on lots of products. I cannot say even right now as to how many products I am working on. If you visit our plant, you will see that for every new product, I am installing new things but my problem is that right now there is no market for all those products in India, few I have made with Indians and few I have made from overseas. In that, you will see that right now I have products ranging from Rs. 2000 to Rs. 20,000 margin, so that I can give a name to them in today's date but I do not know, how much market which material will be able to make, it will take time for me. Today suppose, like 500 square 20 mm thickness pipe market is made here, my EBITDA margins in these products would be around 30% to 40%. Wherever the pipe is made of a different budget, I try to bring it to India from there, so I think my margins should be 40% to 50% maybe. So now if that 500 square 20 mm for me is sold of about 50 ton or 100 ton, then this is another chapter, if 5000 ton is sold, then that is another chapter. Means I am working on lot of different products but my problem is that, first I am creating things, then I have to market also, in many products you will see, which I had thought about ten years back, in the beginning three years back, DFT troubled me a lot but today in DFT we have improved our service almost in less than 24 hours and my value-addition is increasing due to that. So, I am doing lot of things but even if I commit really, then also you can say definite for those things whose market is already there. There is no market in the products on which I am working, tomorrow I do not want to take excuses, that this and that difficulties were there, I could not do it. I have taken lot of excuses in life, now I have to perform.

Bharat Shah: So you mean to say that we have a complete range of Rs. 2,000 to Rs.20,000 per ton profit, as the market evolves, as the demand emerges, we will also catalyze and support the market and profit and margin, etc. will become an outcome of that.

Sanjay Gupta: Yes, Mr. Bharat I can only guarantee one thing that APL Apollo's product basket is there, you will not find a single company as such in the whole world who will have such a product basket. Lot of Japanese players came to me, lot of American players came to me, chines players came, every person saluted my company and went that it is impossible to prepare such a product basket in India.

Bharat Shah: Thank you, now that is something really to be proud about. And per say, while domestic market itself is very exciting and important, both in terms of the opportunity for growth, laser base to create the value creation but at some stage, will exports be an important enough market or do you think that is still long time away, in any meaningful way?

Sanjay Gupta: Mr. Bharat, in exports there is some problem only, in the last four five years the difficulties that we are facing is, Indian market was always high in the steel prices, import was always less. From last one year, India is a net exporter of steel. Otherwise, if you would have asked me about one year back as to how the India is, India was always the importer of steel. So, we were not able to go and sell the material anywhere, this year no doubt our export is increasing a lot but now the problem that is arising in exports is, the containers. All our tubes go in containers, now container prices are unbelievable, means after taking few orders, I have got trapped in such a way that I cannot tell the truth; my container's freight cost is more than my raw material cost. So, I am not even seeing any visibility in India in exports, what I am seeing is, I have told you or Mr. Jiten, I am looking in Dubai, I am working a lot on Dubai, I am trying to run an export-based unit over there. When you bring in steel all over in India there is taxation benefit that you are entitled to receive but out here for steel the capacity is quite less if you compare with Indian Market standard because steel plant people have been in a suitable position from last 1-1.5 years, there were talks of plants being commissioned or sold and Bhushan got sold, that got sold, etc. Now the capacity is being built up really and Mr. Modi has also made a lot of announcements and private players have been working towards increasing in capacity and for the last 7 years the industry CAPEX was was there, almost from 2012 CAPEX got closed, so I am very hopeful that if we get support then everything is possible but when you start growing from very small to big you tend to be fearful of things.

Bharat Shah: I understand. One last question you mentioned that approximately Rs. 20,000 per ton profit or 40%-50% margin in some products that we offer, can you tell 2-4 such things, in which areas are they and what type of products?

Sanjay Gupta: Like Mr. Bharat I am going towards making a door profile in color, I am giving a simple example in that color profile is made from 2 mm, now If I go to purchase 2 mm color in entire India, 2 mm color is not available, so I have established my plant to make color. The door frame profile market that is there is a very good market, some people do powder coating, some people do other things, now If I go to see its cost, then cost is almost Rs. 1 lakh per ton, if you send some people in the market to purchase door profile color, then you will not get door profile cheaper than Rs. 1 lakh. So, I am establishing its plant and my raw material cost has dropped by Rs. 10,000-12,000, my cost will be almost Rs. 75,000 - 76,000 per ton. So, there is almost Rs. 23,000 per ton EBITDA at the rate of today and I am sure that from first month I will get market of 5,000-6,000 ton. So, there are lot of such things, problem is that if I need 2 mm color, I cannot get in India, so for that I have to built up my own plant, so there are lot of such work, so the thoughts that have come up in my mind, in this f I have problem right from the raw material to market in everything almost. Neither do I have raw material, now do I have machine, nor I have the market. Still, I am fighting out to create every thing one by one. My normal pipe business if you go to see Mr. Bharat, it is Rs. 2,000 per ton EBITDA business in total, what will be the benefit from it to me or the organizers or the stakeholders from that business. So, I am working out lot of things, I only feel that if you take any American, European or Japanese tube making good companies, their EBITDA is not lower than 13-14-15%, so somewhere we are doing mistake, we cannot read the business, we are not able to earn 13% - 14% EBITDA, so I am very sure and if you see PVC pipe there is 13% - 14% EBITDA, what wrong have we done, we will also earn, we have to work hard.

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

Alisha Mahawla: Sir, this volume guidance that you have given to reach 4 million tons by 2025, obviously this includes utilizing the Raipur plant which includes lot of products which are new in the market, so what is giving us confidence that we will be able to completely utilize this, because first you will have to seep the market and acceptance takes time which we have learnt when we introduced the DFT technology also, so just wanted to know what risk do you see in this?

Sanjay Gupta: I do not think so that there is la ot of risk because I am almost spending Rs. 800 crore in this project, in which Rs. 400 odd crore I have already deployed, I will deploy Rs. 200 odd crore in 2nd half and the remainder R.s 200 crore I will put in the first half. And in working capital I need Rs. 200-300 odd crore, there is a total investment of Rs. 1,000 crore including working capital, if I work even for 5 lakh ton, 1.5 is a very big number, my EBITDA margin out there should be around Rs. 7000-8000 per ton. So, we will start getting Rs. 300-400 crore from the first or second year itself. So, 30% - 40% return on nvestment, I will start getting in the first or second year itself, so I am not boasting much, it is company owned money, but usually risk factor comes into picture when he falls into the debt trap. My entire project is without debt, it is totally internally funded, my debt is not going to increase. Number 2; no doubt utilization, we are being conservative in saying we will complete in 3 years or being aggressive in saying we will cover up in 3 years, maybe it can happen in 4 years or in 2 years also. But market is there, I am very hopeful because it is not so that market is not there, market is there , in place of it other items are there and other products are being utilized for the purposes, we have to replace the things.

Anubhav Gupta: So, if you see how we have grown at 20%+ compounding so consistently, because we are taking market share from other building material products which are conventional, right? So, our steel tubes offer better proposition in terms of quality, in terms of cost, in terms of easing solution, so that is what is giving us confidence that we can continue this journey even with the launch of new products, so if you see last 7-8 years, 5 products where we have been able to replace. 1) Is steel angle channels; 2) Aluminum; 3) Wooden Structures; 4) Concrete RCC; 5) Long steel products, which are like S-beam & I-beam and pre-engineered building structures, so that being said, all these products I mean whatever will come in Raipur plant, so the market creation experience, the team everything is in place and we just have to go and educate the market which we have lengthy experience.

Alisha Mahawla: Understood great, and except Raipur is there any other CAPEX that we have planned for currently?

Sanjay Gupta: Very small CAPEX for maintenance or routine improvement to cut down the cost, replacement of the old machines and like we were making this pre-galvanized sheets, it was flux home based line, that we have converted to non-ex line, so like we are spending almost for 1 kg production, 12 kg zinc per ton, now with this new lines our zinc consumption is come down to 9 or 8 kg, so there is huge saving, so these these types of small improvement we are doing in the system, otherwise capacity wise there is no increase.

Alisha Mahawla: Okay understood and sir just wanted to understand excluding the Raipur facility and the products that would come where you are telling we can do Rs. 7000-8000 per ton EBITDA, the existing facility and capacity and the product portfolio that we have, can that sustain to do EBITDA per ton above Rs. 5,000 like we have shown in this quarter also?

Sanjay Gupta: Madam, up to last year we were struggling for Rs. 3,000 per ton EBITDA. In the corona, we did a lot of improvements in our working way and we are doing lot of value-added products, in the last call I may not want to say more than Rs. 4,000 per ton at any cost, right now in this call, I am very confident now my company base is very strong on the Rs. 5,000 per ton EBITDA, so this confidence will start building up gradually, I have no magic rod in my hand that I can promise you that in a year it will go from compete Rs. 3,000 to Rs. 6,000-7,000-8,000 per ton EBITDA company but we are sure that the work we are doing is the best in the industry, we are best with our near any competitors.

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

Anuj Upadhyay: Sir can you just elaborate more on the pricing front, considering the raw material cost has gone up significantly and the delays we have already taken a price hike for the passed-out quarter but considering the raw material prices have been on an upfront going in the current level as well and we are unlikely to settle down in the current quarter this is what we believe, so are we planning similar level of price hike for Q3 or Q4 as well?

Anubhav Gupta: So, Anuj I am repeating this, last year steel prices were Rs. 35,000 – 40,000 per ton, right? They are between Rs. 60,000 – 65,000 per ton, so there has been 60% - 70% increase in the steel prices and if you look at my 6 quarter performance, you will see that we have been successfully able to pass on this to our channel partners and it has been well absorbed in the system and this is not only for Apollo, like I said, this is for the whole global industry where one product, one element which is steel is such a high proportion of the overall product value, that industry works on the pass through models, this is not only for Apollo, this is not only for Indian steel tube industry, it is for the global steel tube industry, so that is how it works, you talk to any of our global peer in US, Japan, China I mean they work on the same model, the question is that, what are the levels where demand starts getting impacted, so far also if you see last 4-5-6 quarters, our volumes have also been decent, right? In any of the quarter there is no collapse in the volume, so that means demand has also not got too much impacted or hampered due to the increase in steel prices, that being said if you look at the global trends, how China and other local markets are behaving, so I think $ 900 per ton kind of steel levels, they look highly unsustainable, there has already been some drop in the Chinese steel prices, so I guess this does give the signal that steel prices had peaked around $ 900 per ton, from hereon as the global capacities will start coming in because China is cutting on the supply due to environment, due to reduction in exports, etc., but then other countries will come up and they will start putting up the factories, new capacities, in India we are already seeing that, so that means global steel prices should settle somewhere around $800 per ton, which is good enough for demand to grow at the global level.

Anuj Upadhyay: Right, so now with China playing the strategy of bringing down or cutting down the supply, could this open up a decent door for us for the export market? I know sir has already mentioned about high freight rates and all but if we see some softening on that end, so could we explore the export market as well going ahead?

Anubhav Gupta: This is the reason that why we are exploring to setup a base in Dubai from where we can feed Middle East markets, European markets and US markets because our product already has seen acceptance in the last few years when we started exporting and if we have a solid base in the middle, we can cater to that market in a big way, but when I said that China is cutting on the supply that is on the raw steel, on the raw material, on the HR coil, not on the processed steel or structural stee tube which we are selling.

Moderator: Thank you. The next question is from the line of Kush Tandon from Ananta Capital. Please go ahead.

Kush Tandon: Thank you sir for this call. My question has been answered, it was more on the raw material prices. It has been answered.

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

Darshit Shah: Sir I just have one question, this is on regarding to the increase in inventory and receivables as compared to March balance sheet, I mean inventory has gone up by around Rs. 180 crore and probably Rs. 50 crore odd receivables, any specific reason for that?

Sanjay Gupta: Boss, you see in the March quarter our inventory is Rs. 760 crore and right now it is almost Rs. 900 crore but if you see in the volume terms, there is a price increase of almost 12% - 13%, I think so, 24%. So, the volume remains same but the amount is increased, number 1. And number 2) we have a long-term agreement with our all the suppliers for 5 million ton in a quarter, when our volume should go down, so our inventory in accordance to that because the contract that we have done with us, a little bit of plus minus we are able to do, when we go to purchase the material, so the inventory will go up, if our volume is going up, if we see if we had done 5 lakh ton in this quarter, then we are less than almost 17-18 days of inventory. These are the two reasons for the increase in the inventory.

Darshit Shah: Got it, so in next quarter probably touch…

Sanjay Gupta: If it crosses 5 lakh ton, our inventory is less than 18 days.

Darshit Shah: Okay, so that will automatically reduce by next quarter then?

Sanjay Gupta: Because our supply is fixed boss.

Darshit Shah: Thank you so much and it is really lovely to hear you, Mr. Sanjay. All the best.

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

Sujit Jain: Mr. Sanjay and team congratulation especially on the trajectory of your ROCE per turn. I have few questions, if I look at tricot, 11,200 EBITDA per ton in Q1 which has come to Rs. 8200 even that number is commendable but in tricot itself why there should be such a large variation?

Sanjay Gupta: Boss if you see in tri-coat the main product is coated products and in the last call I mentioned very clearly that the margins in coated products that are there today is due to lot of shortage in the country for the coated products and because of these margins were high, this is not sustainable. If you see my margin has come down from Rs. 6,800 to around Rs. 5,400-5,300 and it was added in my business plan because that had to happen.

Anubhav Gupta: So, Sujit that was some phenomena which helped us earn some extra dollars, since it was on the table we can leave it, right? And we were sure and we guided that to the investors on the call also that this may not sustain and whenever there is mismatch in the demand supply, so it had to normalize, it got normalize.

Sujit Jain: Right and when you say you will increase your sales to institutional segments such as hospitals, etc. would that lead to, even if you are dealing with the EPC contractors and not government bodies directly, would that not lead to your working capital days eventually going up?

Anubhav Gupta: No, Sujit because see I mean today if any contractor has to build any or he has to construct any building using tubes, I mean right now he has only two options. One is Apollo and second is the number 4th player which is there in our presentation, so the capacity which APL Apollo has is ten times what the number 4 player has to supply such products, so I mean the contractor has no option, the contractor has no option but to buy material from us, so we can dictate our payment terms and that is what we did in this current order, so we do not think that it is going to be a challenge to sustain to 4-5 days of deter days in the longer term even if there are some institutional sales and also we have our distributors Sujit, okay who fund such sales, such transactions for us, so we will ensure that our deter days remain in single digit in future as well.

Sujit Jain: Right and lastly market share gain in Q2, your volumes spilled 11% and what the market would have been?

Anubhav Gupta: There are two companies who have come out with the results, so far you can.

Sanjay Gupta: They have a different business, boss if you see the market share, I think my market share in the primary materials is very high right now, almost 75% - 80%, not in the structural tubing, right now my share in the primary material if you see my market share this is more than 75% - 80%

because lot of the industry players have gone into the sheet metal material. Overall sheet metal material share is increasing, like if the market is of 4 million ton, then it has shrunk to 3.5-3 million ton and sheet metal market has gone from 2 million to 3 million ton. So, sheet metal has gained the market but in the primary material we gained the market share.

Moderator: Thank you. Ladies and gentlemen due to time constraints that was the last question for today. I now hand the conference over to Mr. Rahul Agarwal for closing comments.

Rahul Agarwal: Thank you so much. We really thank the APL management team for giving us this opportunity and I pass onto the management for any last comments and wish you Happy Diwali everybody.

Anubhav Gupta: Thanks Rahul and thanks to Incred for hosting us this 2nd quarter results call. And I would like to thank everyone who has taken time to join on this forum, any questions, I know there could be some unanswered questions, we are happy to take offline. Mine and Mr. Deepak's phone numbers and email address are on the back of the presentation. Please feel free to reach out to us and Happy Diwali to all. Thank you so much.

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