"APL Apollo Tubes Q2 FY15 Earnings Conference Call"

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MANAGEMENT: MR. ASHOK GUPTA – MANAGING DIRECTOR
MR. PANKAJ GUPTA – CFO
MODERATOR: MR. GAURAV SUD – ANALYST, KANAV CAPITAL ADVISORS

Moderator: Ladies and gentlemen good day and welcome to the APL Apollo Tubes Q2FY15 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal for an operator by pressing * and then 0 on your touchtone telephone. Please note this conference is being recorded. I now hand the conference over to Mr. Gaurav Sud from Kanav Capital. Thank you and over to you.

Gaurav Sud: Good afternoon everyone, this is Gaurav from Kanav Capital. It is my pleasure to welcome you all at the APL Apollo Tubes Limited second quarter FY15 Investors' Conference Call. This call is being held to discuss the performance of APL Apollo for this quarter and to answer any questions that you may have. I hope that all of you had a chance to go through the quarterly results and the press release. Today on the call from APL Apollo Tubes Limited we have Mr. Ashok Gupta – Managing Director and Mr. Pankaj Gupta – the CFO. I would now like to hand over to Mr. Pankaj Gupta of APL Apollo Tubes for his opening remarks.

Pankaj Gupta: Good afternoon everyone and a very warm welcome to our Q2FY15 Earning Con-Call. For the second quarter ended 30th September 2014 we are happy to report that our consolidated gross turnover is Rs.863 crores, this represents 20.71% year-on-year increase driven by almost similar increase in volume that is 1.75 lakhs ton for the Q2FY15 as compared to 1.45 lakhs ton in the corresponding period last year.

Net sales for the period is Rs.774 crores, an increase of 21.17% year-on-year. Our EBITDA for the reported quarter is Rs.49.3 crores and PAT of Rs.19.4 crores. EPS of Rs. 8.26 for the quarter both annualized. As far as half year ending 30th September 2014 is concerned, Net Sales increased in line with yearly target and registered a year-on-year growth of 20% and stood at 1,520 crores with EBITDA of 93.3 crores and net profit of 39.2 crores. EPS for the first half FY15 is Rs.16.73 not annualized. As regards capacities and utilization thereof we are well on track utilizing almost 85% of our installed capacity.

As we shared earlier, in the current subdued economic scenario company is focusing more and more to reach near to consumption centres and **penetrating deep** into Tier-2 and Tier-3 cities through strong brand promotional exercises and fabricators conference etc. This coupled with other operational and marketing initiatives we expect improvement in our growth and margins in coming quarters.

With this, I would like to hand over to Mr. Ashok Gupta, Managing Director of the company.

Ashok Gupta: Good afternoon everybody, I am Ashok Gupta here from APL Apollo. I hope you would have seen the numbers, the volume as well as revenue is growing and it must bring some cheer to you and even the EBITDA margins have been improving or have been stable at least. Last three to six months have been quite a challenging period, the reason being that the monsoon, the credit availability, the projects available and change in the government, at any point of time elections are a severe test to the economy. Fortunately for us, the things have started improving, the latest data which has come for the IIP numbers is quite encouraging so I think things are changing and even in the difficult period when we have been able to maintain 20% - 25% growth, I am sure in days to come things can only be much better.

Apart from growth we are trying to look at how do we improve our margins. If you observe in the areas where our margins are better, for those products the growth has been better. For example in GP pipes we have been able to increase our sales by about 50%, this is indeed remarkable and not only that, we are also increasing our capacity of GP pipes and hopefully by next year, year-on-year again we should be crossing another 50% growth. So wherever we find that there is a scope for improvements in margins we try to focus on those areas. Similarly, exports have seen a big jump, even though the international market has not been doing well we have been kind of throwing away some of our competition to enter some new markets. Apart from our traditional markets of Europe and USA, we are now going in a significant way in Australia and also in Latin America.

While focusing on sales, we are not losing control on cost. If you would have seen, our interest cost as a percentage of revenue is reducing; well of course it is also being helped by the kind of convenient credit liquidity available. Even our manpower cost is under control and is reducing. So with improvement in value added products, a tight control on cost, a tight control on debtors, we hope that days to come will be much better.

Brand plays a very important role in today's world and not only in all the consumer products but somewhere in the Industrial, in the durables also it is having it's own impact. Unfortunately in the steel industry and the pipe industry this awareness has been coming only in last few years and falling in that trend we have now been focusing significantly on brand awareness. For last one year we have been focusing and we have been working on one to one contact programs with the users. We plan to meet about 1,000 users every week so that in a year we can meet large number of fabricators. Though they use small quantum of pipes but there are large number of people who do that. We are trying to put up our main, our brand presence in each and every small city in the country. With this the name of APL Apollo which is not as well-known as that of Jindal or Tata's should also become a household name.

As I was mentioning last time, our capacity has become close to 8.4 lakhs tons, we plan to increase it in next one-one and a half years to about 10 lakhs ton and not much of CAPEX would be required there. So CAPEX wise we are almost coming to the end of the cycle and with a very minimum of balancing facilities we should be able to cross one million ton capacity but apart from capacity now the focus is on producing those things which are not being produced in India today. For example I mentioned about colour coated pipes, our equipment is getting ready in Turkey and perhaps within next two months our first colour coated pipe or pre-colour coated pipe should be out in the market. That market should develop very well in the country, initial surveys show that people are very much facilitated by the idea and in some countries like Australia all the pipe sold are colour coated so we feel that export market also will be open to us.

In line with that idea of new products, we have also been working on a technology known as inline galvanizing. This technology will be relatively new for the country, even though a lot of pipes in USA are being made with this technology, hopefully in another eight to nine months we would have got a better grip on the market.We are developing this technology in a way our self because there are not many suppliers in the world. So hopefully in the next couple of months, the seven eight months we would have evolved this technology and started marketing it. And as I was mentioning the products of higher margins like GI and GP are continuing to be our focus, we hope to increase that further in the months to come. Cost will continue to be an area where we will be working on and interest rate should further come down. Currently we were paying an interest rate of an average of around 11.6% and hopefully it will become less than 11%, even 10.5% in the months to come. So with these changes we hope that margins should improve while our top line should be better, our cost should be under control.

So all in all, the six months were pretty good, pretty exciting, all round growth and next six months are promising to be even better. With these few words I would like to thank you for attending the conference and we'd be very happy to answer any questions you may have.

Moderator: Thank you very much sir. We will now begin the question-and-answer session. We have the first question from the line of Aksh Vora from Praj Financial. Please go ahead.

Aksh Vora: Just wanted to know that does capacity utilization influence the product mix?

Ashok Gupta: Marginally yes, you are right. In case you go in for producing smaller diameter thinner thickness the capacity utilization in terms of tonnage may slightly come down but that is offset by the higher price realization you get. So all in all it really does not matter significantly.

Aksh Vora: Okay. what would be current capacity utilization?

Ashok Gupta: Around 80%, this year we plan, we are working at around 80%. Now when we talk of capacity normally we talk of a medium thickness range but looking at the market we have been working on thickness range which is lower than the average. So even though theoretically we can produce more quantity, because we are making thinner pipes. So even 80% is a good achievement. We are still working at a lower figure.

Aksh Vora: Okay. But utilization can be fully utilized like 100% can be utilized?

Ashok Gupta: No, I think a 10% gap is available to us, we have a gap whereby we can further make it 90% with existing facilities. If you want to go to more than 90% we will have to ad certain facility. For example this year we are planning to produce around 6.7 net tons of pipes and without any additional investment we can go to around 7.5-7.6 lakhs ton.

Aksh Vora: Okay. This is in terms of production or sales?

Ashok Gupta: This is production, our sales and production is normally same because inventories are almost controlled at a level of around 28 to 30 days.

Aksh Vora: Okay. So what would be the CAPEX for the current year?

Ashok Gupta: Current year CAPEX we are trying to peg at only 50 to 60 crores and that also is basically for balancing facilities and for some kind of renovation.

Aksh Vora: Okay. So this which we expanded like from 8 lakh tons to 8.40, this will be included in 60 crores, right?

Ashok Gupta: Yes-yes, it is already a part of this and this was also a part of increasing the capacity from 8 to 8.4. In addition to that there have been certain relocation, reduction in cost, reduction in operation, those kind of things.

Aksh Vora: Okay. Sir how are we going to fund this CAPEX?

Ashok Gupta: So this has all been done through internal accruals.

Aksh Vora: All by internal accruals, no debt?

Ashok Gupta: You see we are looking for a PAT of around 80 to 90 crores.

Aksh Vora: For full year?

Ashok Gupta: Yes, for the full year. And out of that even if we take out dividend for around 10 crores to 12 crores and we have an equal amount of depreciation which will be available to us, so there should be more than sufficient fund available to handle this 50 crores to 55 crores of CAPEX.

Aksh Vora: Okay. So we are planning to go entirely internal accruals?

Ashok Gupta: Yes, mostly it will be internal accruals only.

Aksh Vora: Okay. See currently I think so debt on our books as of September is around 490 crores, right sir?

Ashok Gupta: Yes, I think that's correct.

Aksh Vora: So that is around 1:1 debt equity ratio?

Ashok Gupta: Yes, approximately that.

Aksh Vora: So how is it going to move in this year and what do you feel at the end of the year what should be the debt proportion and how it will be planning?

Ashok Gupta: See it can vary.,Tto an extent it depends on the debtor, our planning is that we will like to keep it at the same level or below this level. So today it is around 1.1 or 1.2, we are targeting to bring it below 1.1 and maybe go even to one or even less, but definitely it need not be more than 1.2.

Aksh Vora: So no plans to increase debt from this levels, right?

Ashok Gupta: No-no, we have tight control on overall debt. This industry cannot afford more debt.

Aksh Vora: Okay, got it. And sir do we have any plans to raise equity capital in near future or any plans for further equity dilution?

Ashok Gupta: Not at this moment, we haven't even thought about it at the moment.

Aksh Vora: Okay. And lastly sir, do we have any dividend pay-out policy?

Ashok Gupta: Yes, I mean normally for last two years we have decided that our dividend pay-out will be between 15% to 20% of the net profit.

Aksh Vora: Okay, between 15% to 20%. Thank you.

Moderator: Thank you. We have the next question from the line of J. Daniel from Entropy Advisors. Please go ahead.

J. Daniel: Sir, the quarters saw impressive volume growth in square pipe and GP pipe, can the management provide some more update on this, I mean what is the reason for this growth and will this be sustained into the second half?

Ashok Gupta: You see we make four products, we make black round pipes, we make black sections of square, we make GP pipes and GI pipes. Now GI pipes are typically not increasing in overall volume in the country significantly so whatever share we can take we will have to beat somebody and take that share. And as far as black round pipe is concerned that margins are comparatively lower than the black square or GP pipes. Fortunately for us those two products that is black square pipe and GP pipes, they are used for construction for fabrication and that industry is significantly growing, the reason for growth is that most people are shifting from wood to steel as a structural support system, whether it is roofing or it is scaffolding or it is green houses.

J. Daniel: Okay, so this actually goes in scaffolding that's what…?

Ashok Gupta: No-no, we are not supplying to scaffolding at all, we are making mostly squares, square does not go for scaffolding, scaffolding is again a very low margin product, most of these products are going for lose. For example , in Kerala, Himachal Pradesh, in most of those places, roofing is a very important part of steel consumption. Then another fabrication which goes on for your fencing, even for your wall, for your gates all that is using steel sections. And then GP pipes is again being used for similar purposes. So all the signpost you see on the roads that all is using this pipes.

J. Daniel: Okay, so who are your competitors in this?

Ashok Gupta: We have primarily three competitors, the main is TATA Steel, we are producing around 7 lakh tons, 6.7 - 6.8 lakh tons; TATA steel is making around 4 lakh tons, then we have Jindal's who are making another 3 lakh tons and we have Surya Roshni who is making another 3.5 lakh tons.

J. Daniel: So you are manufacturing 7 lakh tons?

Ashok Gupta: 6.7 lakh tons is expected this year, 6.7 to 6.8 lakhs.

J. Daniel: Of square pipes that is?

Ashok Gupta: No, all pipes together. The volume of other people is not available product wise so I will have to give a comparison, all pipes together. These are the four people who are competitor, their focus is not so much on pipe today fortunately for us, they are working on many other areas, they are working on lighting projects, they are working on steel, they are working on something else. So this area is relatively not that much of a focus for many people.

J. Daniel: Okay. So you expect this to sustain?

Ashok Gupta: We expect to sustain a growth of 20% - 25% basically from steel sections and GP pipes, GP pipes we have got a very high margin product and the demand is increasing everyday.

J. Daniel: Okay. But actually sir I see the business as a whole, it has very low value addition with the EBITDA margin of just 6%, is there any possibility of improving on this and how would this be achieved, I mean 6% is essentially very low margins, how do you plan to…?

Ashok Gupta: Actually this is one business where with a little investment you can get a lot of output.

J. Daniel: Okay, what is the capital return?

Ashok Gupta: Normally nine to 10 times, that is if I invest 100 crores…

J. Daniel: Okay, you can go for 1000 crores.

Ashok Gupta: 1000 crores, yes, maybe more also. So what happens typically is that people they focus on the rate of returns on the investment. So typically we try to target a ROCE of around 18%, 20%, 25%; our long-term goal is to have a return on capital employed of around 20%.

J. Daniel: But with such low margins wouldn't it be better for you to further reduce your debt, I mean 1:1 is fairly high for a company with 6% EBITDA margin.

Ashok Gupta: No, of course we are focusing on that. If you have observed our debt has never been increasing, it used to 1.4, it became 1.3, 1.2, 1.1 and now maybe 1. And remember this is including working capital, this is not long-term, if you see long-term that's very-very small. Now when we increase our volume the working capital increases correspondingly and I am reducing working capital for the moment I see… my working capital cycle is typically 60-65 days, I cannot make it 40 days because then I will not be able to service. So in a way it is related to the revenue so the ratio always will be around 1 to 1.1.

J. Daniel: Okay. And if I can ask one more, the company has provided per ton realization across its product profile, would it also be possible to provide EBITDA per metric ton across products?

Ashok Gupta: It is very difficult because most of the facilities are common, for example the same mill produce all the products, same people and at same time. For example today when I am making a production on a particular mill, for three hours I may be making a square and another three hours I maybe making a round and then I may be shifting over to GP line, so this all it is not possible to. I should say even do a significant aspect of division of cost among different products.

J. Daniel: Okay. But in GP pipe you said your margins are very high so I was just trying to figure out…

Ashok Gupta: Okay, I can give you some kind of estimate, EBITDA margin in GP pipe is typically (+10%) and in black round it is typically 5% or less than that and for section…

J. Daniel: So GP pipe is double?

Ashok Gupta: Yes. And the reason for that is that practically everybody makes black rounds but very few people make GP pipes.

J. Daniel: Okay. And last question, I mean what is the maximum operational capacity that you have now, out of 8.40 lakhs what is the maximum operational capacity that is possible?

Ashok Gupta: We can reach a figure of around 7.6 - 7.7 lakhs tons.

J. Daniel: Okay, this year you will be around 7, right?

Ashok Gupta: This year we will be around 6.7 - 6.8, next year we are planning to cross 8 - 8.5 and another next year hopefully we should be crossing 10.

Moderator: Thank you. We have the next question from the line of Arka Kundu from DSP Blackrock. Please go ahead.

Arka Kundu: Sir actually just wanted some colour on the industry growth rate and also maybe if you could share like the sales that's happening is it actually going to the end user as of now or some part of it is still in the channel inventory, some sense on that will really be helpful.

Pankaj Gupta: Okay, you see the industry as a whole, the steel industry has been growing at around 3% and out of steel industry growth in pipe industry has been of the order of 5% to 6% per annum for last three-four years. But when we are growing at 20% 25% obviously we are taking somebody else's share and we are taking the share of small players, small players are finding it difficult to sustain the current economic environment. So we have been able to get some of the share from the very-very small players. So far as the material which is being sold, let me tell you on an average the increased inventory is not much and the reason being that there is a very tight monetary condition and people are not able to really fund inventory. So the total inventory is higher than normal but it is higher by only 4% to 5% on an average of country wide basis, it is not too high. So our sales are almost at equal level, if you observe our sales have been varying between 50 to 60,000 tons per month. Monsoon season, slightly the sales come down because some of the activities are related to the monsoon for example irrigation, water supply, constructions. So there will be some fall in consumption per say otherwise there is not much of inventory in that cycle.

Moderator: Thank you. We have the next question from the line of an individual investor Shankar Satyavadi. Please go ahead.

Shankar Satyavadi: Sir, first of all congratulations on winning the award for excellence for turning around Shri Lakshmi Metal Udyog Limited. Sir, do you have any plans for further inorganic growth?

Pankaj Gupta: At the moment we are not looking at any acquisition per se. We have sufficient land bank available with us, by using that land bank we can go from a capacity of 8.4 lakhs today to around 11 lakh tons in the days to come in next two years. So we are not planning any immediate acquisition or something.

Shankar Satyavadi: So it is coming from organic growth?

Pankaj Gupta: Most of it will be through organic growth only.

Shankar Satyavadi: For two years or more?

Pankaj Gupta: I mean I can't, at the moment there is no opportunity also for us, no interesting opportunity, if something comes then we can look at it.

Shankar Satyavadi: Okay. And sir you talked about new product launches in your earlier calls, how are they faring in the market post the launch?

Pankaj Gupta: Okay. We have introduced three or four products one is door frames, one is replacement for flat, the one product we made for replacement for flat that is doing very well. There has been a very good response from the fabricators. Door frame is slow to enter because people have to get used to it. But there has been repeat orders for that but I must say that the introduction is rather slow because currently people are using wooden doors and changing over to steel doors may take some time but we are persisting and we are hoping that some volumes will be built up there.

Shankar Satyavadi: Sir, these are basically in domestic market or export market?

Ashok Gupta: These two products are in domestic markets, for export markets we are trying to develop some more products but most of them are in the development stage. It will take some time for them to develop. But we are coming up as I mentioned to you with certain totally new ideas. For example colour coated pipes, inline galvanized pipes, we will be coming in next couple of months and obviously once they come over we will start marketing them and we hope to create their own market.

Shankar Satyavadi: Sir, you talked about branding, what are the efforts you are putting or if you can explain?

Ashok Gupta: Yes, I will tell you there are many things we are doing today, I have already mentioned three of them. The first one is we are conducting one to one interactions with the users primarily fabricators and plumbers, every week we meet around 700 to 800 fabricators. So in case there are 50 weeks you can see the number of fabricators we would be meeting in a year. Then every market we are putting our retailers or fabricators both, most of the fabricators they do not have any board so we are going and putting boards on their shops, they feel very happy about it and then the people who make it they tend to use our pipe as well. And thirdly, we are having continuous interactions with architects and the specifiers. These three steps are helping us in creating a name and I am happy to share with you that there have been certain responses from the users saying that the consumers are demanding pipes by name like saying do you keep Apollo, can you give us Apollo. So I think there has been some impact in the market. Particularly in those markets which are rather small market, for example Himachal Pradesh our presence was zero, because of these steps we have taken, we have reached to interiors.We went to places like Hamirpur and near Shimla, there has been now we are quite a big force there we are number two in Himachal now.

Shankar Satyavadi: If I can ask more questions, sir what is the current number of distributor and retailer and how do you plan to scale that up?

Ashok Gupta: Currently we have around 340 distributors or dealers as we call them and their consultation is in the four state of Kerala, Karnataka, Maharashtra, and UP. Now we have dealer-distributor in other states as well but their number or their depth is not so much, so what plan we have started is that every two districts in every state should have at least one dealer. So we have created a separate team which goes to those districts where we don't have dealers, hand over the market there and then try to develop the dealer. So hopefully this number of 340 should increase to around 500 in another 7 to 8 months.

Moderator: Thank you. We have the next question from the line of an individual investor, Shankar Satyavadi. Please go ahead.

Shankar Satyavadi: Sir, I have a further question. I have heard that due to falling lower prices steel coils are being imported in India, so sir are you also importing any steel coils?

Ashok Gupta: Not much. We are exporting quite a good quantum of pipes to different countries against those exports we do import a very small quantity otherwise we are taking the entire material from within India. What is happening abroad is that only poor quality material typically gets exported at a lower or a cheap price and we as company are focusing on making good quality steel, good quality pipes so our procurement is 98% from domestic sources mainly JSW. And in line with the global prices, the domestic producers have also been reducing their prices, so the difference between the landed price and of import and the domestic price is not significant.

Shankar Satyavadi: And sir there is a talk about GST being implemented in India in April 2016, sir will our company get benefit from this?

Ashok Gupta: Yes, our company will benefit from this. Currently we are paying CST whenever we are marketing or selling pipes from the states of Karnataka to other states or even from the state of UP to other state, we are paying 2% CST. Once GST comes this will be one saving. Secondly, a lot of people have a resistance to payment of CST or payment of VAT, there are many restrictions. We have a plant in Murbad in Bombay where we are paying double taxation, we pay VAT when we buy from the local resource which is JSW Ispat plant in Dolvi and we pay again tax when we shift it to Ahmadabad or to Indore or other states, so we are paying double taxation. Once GST comes, all this would go. So we will benefit definitely.

Shankar Satyavadi: I guess my last question, sir there are a lot of competitor in this market, do you have any competitive advantage?

Ashok Gupta: We have five competitive advantages over others. Our first competitive advantage is in term of freight, we have our facilities in North, South and West. Now that acts as a freight advantage. Second our distribution network, we have a very deep distribution network of around 340 dealers, most of the people have distribution of around 30-40 dealers or distributors so our reach is very high. And to service these distributors we have around 20 depots, so we are able to meet that requirements of small consumers in a wide range at their doorstep. Our third advantage is in terms of high range we have. We make around 400 products, most of the people make 80-20 products. So again if a person wants any type of pipe we become the first choice. Then we have because of the volume we are the largest producer of pipes consuming around 7 lakh tons of HR coil. We have advantage in terms of price, the supplier of HR coils will definitely give us some advantage over others. And lastly because of our presence is so much we have a very good brand name in the market because more people use it more your name becomes famous. With these five advantages we are able to increase our volume and get the type of numbers which you have seen.

Shankar Satyavadi: And sir lastly, what is our current debt number, cash number, our net cash in balance sheet as of 30th September?

Ashok Gupta: We don't normally keep any cash in balance sheet and our debt is around 500 crores totally.

Moderator: Thank you. We have the next question from the line of Deven Pujari from ICICI Lombard. Please go ahead.

Deven Pujari: Sir, our exports had exhibited a smart uptick, can you please explain what is explaining there, are there any specific countries that we are targeting for specific product? And are the margins better in India or in other countries?

Ashok Gupta: Okay. Our exports are mainly to Europe, to USA and to Africa and slightly to Latin American and Sri Lanka. These are our areas where we are focusing on, we are also looking at Australia, our PM is already there. So our exports we get advantage because we produced galvanized pipes, now galvanized pipes the process itself is such that there could be some pollution in the air or water, we are taking care of it by suitable means. But despite those means galvanizing as a process is not very much encouraged in developed economies like States or in Europe, so most of the galvanized pipes into these economies are imported and India is one of the largest exporter of these pipes to these economy and our company is a big part of that. So exports are basically taking place for galvanized pipes. Also certain areas we get cost at one time because of the low labour cost and low power cost. The margins which we realize after taking care of freight is almost at par with the domestic margins, so EBITDA margins export also will be around 6.5% to 7% so margin wise there is not much of a difference between domestic and export. So we take export as an extension of our domestic market and focus accordingly.

Deven Pujari: Sir my next question is, what is the goal of the company after you say reach 1 million ton capacity?

Ashok Gupta: Let us complete this goal, then we will think. See, 1 million ton itself is a big goal for us, it is a matter of pride because the next largest producer TATA Steel and Jindal's they make around 3 to 4 lakh tons of pipes so making 10 lakh ton of pipe itself will be a big thing for us and it will take another two years and it will require a lot of effort, a lot of marketing. We are looking at different things, what to do after that are only I must say at discussion stage, nothing concrete. At the moment we are only focused on 10 lakh tons. But within 10 lakh tons we are thinking of many aspects, we are thinking of branding as I mentioned, we are thinking of value added projects, we are thinking of market penetration, we are going close to customer, basically we are thinking of strengthening ourselves so much that our volumes, our margins, our markets they become sustainable for a long period of time. It is not that you reach 1 million or 10 lakh tons and then we start getting into problems.

Deven Pujari: Sir, next question is sir, your margins compared to the last quarter have been static despite growth in the revenue, why is it so?

Ashok Gupta: Couple of things happened, see in the market the demand has been growing at around 5%-6% but we have to grow faster than that so obviously we have to snatch some volumes from others. Now if you have to snatch some volumes from others you will have to compromise on many things including prices. So we have become very aggressive. Second is the market conditions if you observe from last two-three years, the demand side has not been very encouraging, the GDP growth itself has been of 4% to 5%. So these two factors are limiting our capability to increase our prices and increase our margins.

Deven Pujari: Okay. And sir given the structure of the COGS is heavily dependent on the raw material prices, how much of that can be passed to the customer?

Ashok Gupta: This whole system in the country for most of the articles which are made of steel whether it is pipe, galvanized sheet, cold rolled sheet is that one of the leaders which in this case happens to be the steel authority or JSW they decide the price on first of the month and within two- three days all other people follow and pass the price to the consumer, so ultimately consumer pays. And everybody else whether price goes up or goes down passes on the price increase or decrease within two to three days of the announcement by Steel Authority normally. So there is no absorption period, immediately price change is affected.

Moderator: Thank you. As there are no further questions, I now hand the floor back to Mr. Gaurav Sud.

Gaurav Sud: Yes, thank you everyone for participating in today's call. If there are any further queries anyone can get back to us, our details are there on the press release and in case somebody wants to have a one-on-one with the management we are happy to do so. Thanks every one once again and see you on the next call.

Moderator Thank you sir. On behalf of APL Apollo Tubes that concludes this conference. Thank you for joining us. You may now disconnect your lines.