"APL Apollo Tubes LimitedQ1 FY17 Earnings Conference Call"

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MANAGEMENT: MR. ASHOK GUPTA – MANAGING DIRECTOR
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Moderator Good Day, Ladies and Gentlemen, and welcome to the APL Apollo Tubes Limited Q1 FY17 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Diwakar Pingle from Christensen IR. Thank you, and over to you, sir.

Diwakar Pingle: Thank you, Margret. On behalf of Kanav Capital and Christensen, we welcome all of you who have joined on this call for the Q1 FY17 Earnings Call of APL Apollo Limited. The results have been mailed to you along with the press release and they are also available with the stock exchange and on the website.

To take us through the results today, for this particular quarter and answer your question, we have today with us the Management of APL Apollo represented by Mr. Ashok Gupta – Managing Director of the Company and Mr. Deepak Goyal – CFO.

We will be starting the call with a very brief overview of the Company's performance in this particular quarter and we will then follow it with the Q&A session. I would like to remind you that everything said on this call that reflects any outlook for the future, which can be constituted as a forward-looking statement must be viewed in conjunction with uncertainties and risks that they face. These uncertainties and risks are included but not limited to what we have mentioned in the prospectus filed with SEBI and the subsequent annual reports which you can find on our website.

With that said, I now would like to turn over the call to Mr. Deepak Goyal. Over to you, Deepak.

Deepak Goyal: Thank you, Diwakar. I will first walk you through the financials and discuss a bit about the operational highlights. We can then follow it up with the question-and-answers. For the Q1 FY17, on the corresponding quarter basis, net sale increased by 13% to Rs. 1,128 crores from Rs. 998 crores. EBITDA increased by Rs. 58 crores to Rs. 91 crores. EBITDA margins was grown up by the 8.1% in the current quarter against 5.8% in the corresponding period last year. Net profit after tax was up by 90%, increase to Rs. 41 crores from Rs. 22 crores. Earnings per shares increased by 90% to Rs. 17.68 from Rs. 9.32.

So, when you look at the numbers you can see that revenue has grown up consistently coupled with the increase in the EBITDA margins. Our net profit has also increased by 90% over the previous quarter. The performance this quarter was driven largely on account of the operating efficiency along with the improved product mix, resulting in the higher margins and average realizations. We are also progressing fast towards our expansion plant including setting up the new unit in Raipurto cater the demand of the Eastern region and Central region. The orders pertaining to HSU are now completed and we are expecting the commissioning of first machines by the end of the Q3 FY17.Of the total CAPEX of Rs. 250 crores to Rs. 300 crores planned for the year, we have spent about Rs. 70 crores in this quarter. We remain committed to our growth plan and region of becoming market leader in the volume, technology, innovation and quality.

Now, I am handing over to Mr. Ashok Gupta, our Managing Director to give a brief introduction about the operations of the Company and then follow by question-and-answer.

Ashok Gupta: Hello, friends. I am Ashok Gupta here. Welcome to the conference. Let me give you some brief outline of what happened. You are all aware that for the past couple of years the prices of steel were declining and so much so that the steel plants were bleeding. And in February last year Government ultimately decided to stop imports or reduce imports by going in for Minimum Import Price as well as many other measures. Those measures had fruits and imports virtually came to a standstill from March onwards. So last year imports coming down, the prices of steel went up. And as you know, our pipes are a pass through, when the price of raw material goes up so does the price of finished goods, that is our pipes.

Because of that, demand also picked up, whenever price was going up demands tend to go up because people want to stock. But stocking only has a limited capacity, so come May and June stocks reached their limit and destocking started. And with the destocking, the reverse cycle of pricing also started, pressure was on price. So from June, July onwards the price increase stopped and some reduction started. So steel also was obviously affected by that.

All in all, the price movement was increased from February onwards, increased till around May-June and from June onwards prices were either stable or slightly coming down. So this, of course, affected all the steel players as well as the pipe manufacturers. But we were fortunate, we were having talks in the low price and we were able to sell that material at a higher price. So stocks which we had purchases or we have booked in the month of January, February at low price, we received them in the month of April, May and we could sell them realize higher price for them. So we made some extra benefits in both the quarter that is February-March as well as April-June. Going forward, we also expect the prices to remain stable at the current level, so we feel that our operations which were already going smooth should continue to be smooth in the balance quarter as well.

Your Company is already working towards augmenting its capacity. In the three years, i.e. FY16, 2017 and 2018, we are spending around Rs. 300 crores to increase the capacity from our 10.5 lakh tons to about Rs. 20 lakh tons by 2017 - 2018. Now with this capacity, doubling of capacity, we are already number one in the country, we will be among top three players in the world. The challenge will be realized the capacity and to mark instead. And towards that end we have gone in for latest equipment, and latest equipment I mean something known as Direct Forming Equipment. It is a latest technology, as we discuss I will tell you the benefits of this. So hopefully in days to come, we will read the benefit of the technology and change we are bringing in the Company. It is almost like a technological disruption. Apart from that, we will also be working a lot on the branding, hoping to spend a lot on branding and improving our brand name. I will give you the details, if any question comes.

I would like to invite the questions now. Thank you.

Moderator: Thank you very much. We will now begin with a question-and-answer session. Our first question is from the line of Kashyap Zaveri from Capital 72 Advisors. Please go ahead.

Kashyap Zaveri: First, just some bookkeeping questions. If I look at your realizations for the fourth quarter in this quarter's release, and the same in the fourth quarter release, we are materially different. Why would that be so? For example, let's say, black pipe in Q4 really the prices are about Rs. 32,500 a ton, but in this quarter's release they are about Rs. 36,600 a ton. And so is the case with other products also, like GI and GP pipes?

Deepak Goyal: This is because of the regrouping of the freight and discounts on sales. As per the accounting standards we have revised our financials, they require the sales should be gross up by the discounts and freight, that is why the numbers changed.

Ashok Gupta: Mr. Zaveri, I will explain to you what happened. If you see earlier, we were giving to revaluation means we were taking care of all discounts and we were reducing the freight which is typically around Rs. 1,000 to Rs. 1,500 and discounts will be Rs. 2,000 or so. And all those were reviewed and net was given. Now recently the IndAS standards have started and your Company will be covered under IndAS for next year, so we have to start doing the working from now onwards. So now, our auditor Deloitte, they advised that these discounts, etc, should be shown separately and realization should be shown separately. Their size will be the difference, the difference in account of two factors, discount and our freight.

Kashyap Zaveri: And that is also the reason why, let's say, Q1 FY16 the sales in that particular quarter's release to BSE was 965 whereas the numbers in Q1 this year's press release is about 998?

Ashok Gupta: I think so, yes, you are right. There will be obviously that difference will come out here, you are 100% right because of the difference in the way you are doing it.

Kashyap Zaveri: Third question is on your black pipe volumes, quarter-on-quarter there is a significant decline in terms of volumes from about 189,000 tons to 161,000 tons, any particular reason why that would have happened?

Ashok Gupta: Yes, in fact we just mentioned that in February we had this Minimum Import Price coming, that came in the first week of February. So for two months there was big demand, people were all talking material, so we also sold as much as possible. But then stocking peaked in April so there was not much of a stocking taking place in April-June, April-June was kind of a normal sale. In fact from June onwards destocking also started.

Kashyap Zaveri: And what is the inventory that we are carrying at this point of time in terms of metric tons?

Ashok Gupta: It will be around 140,000 altogether including raw material and finishedwhich will be equivalent to around 50 days of our sales. `

Kashyap Zaveri: And let's say if the prices have come down, should that impact then our quarterly numbers for this Q2 slightly negatively?

Ashok Gupta: Well, you see the prices had come down slightly in the month of July, but again they have gone up by same amount in the month of August. So, I will say that yes there could be a marginal impact, but no significant impact, so again the prices have gone up by same amount. Overall, there is no significant change in the prices.

Kashyap Zaveri: So, in July they went down, let's say, by couple of percentage point, the same was the increase in August again?

Ashok Gupta: Yes, they went down by around 4% - 5%.In august these people have increased the price by 4% - 5%, so the effect has been almost neutralized.

Kashyap Zaveri: And last question is on your debt number, if you could give your gross debt number as of Q4 and Q1.

Ashok Gupta: See, to the best of my knowledge, the gross debt is of the order of around Rs. 700 crores including working capital, long-term is hardly anything, it is around 200 crores. Am I right, Deepak?

Deepak Goyal: Yes sir, little bit less, around Rs. 650 crores in the Q1 and last year is also around Rs. 600 crores.

Kashyap Zaveri: And this includes current maturity of long-term liabilities also?

Ashok Gupta: Yes, it includes everything, it includes working capital, includes long-term, includes maturity of long-term, everything.

Kashyap Zaveri: So Rs. 600 crores and Rs. 650 crores for Q4 and Q1?

Ashok Gupta: Yes.

Kashyap Zaveri: And just last question, if I look at our traded good number which is about Rs. 160 crores in this quarter versus Rs. 190 crores last quarter, but if I look at purchase of finished goods, quarter-on-quarter basis it is about Rs. 125 crores and Rs. 154 crores, so we do purchase some goods which are used in manufacturing also.

Ashok Gupta: No, this is simply traded goods, these are basically hexa coils. So what happens is when we are importing, then we get a discount in case you buy a high quantity, that high quantity we trade directly. So Rs. 161 crores what you are seeing is a sales number, the Rs. 154 crores is the purchase.

Kashyap Zaveri: I get your point. What I am trying to understand is, let's say in the previous quarter, which is Q4, we sold Rs. 199 crores of traded goods. And if I look at purchases of traded goods, that was about Rs. 127-odd crores.

Ashok Gupta: Is it so, Deepak?

Deepak Goyal: No, last quarter trading sales is Rs. 131 crores and purchase is Rs. 127 crores.

Kashyap Zaveri: I am looking at your press release right now which is actually showing…

Deepak Goyal: In Q4 it is Rs. 131 crores.

Ashok Gupta: We will check up and come back to you.

Moderator: Thank you. Our next question is from the line of Salil Uthangifrom Systematix. Please go ahead.

Salil Uthangi: Sir, in this quarter our volumes have grown at around 12% on YoY basis, you have been maintaining that you will be able to grow at atleast 20% on YoY basis for next two to three years. So, that means the next nine months should have higher growth, how would we be able to manage that and is the market actually growing at that pace, can you please clarify?

Ashok Gupta: We saw the challenge now, this is the real challenge. So what happened in this quarter, we were earlier targeted to grow by 20% at least, that has been our plan for quite a number of years we have been doing it. This quarter, as I mentioned to you, some sales which would have normally come in the quarter Q1 went to the previous quarter Q4, the reason was when MIP changed people stocked material, so they increased their purchase last year what they would have normally purchased in Q1, this is the normal phenomena whenever prices are going up.

Salil Uthangi: They were stocking it up?

Ashok Gupta: They were stocking it up. And in this quarter they were destocking. So now the things have almost, to some extent it has been handled. Going forward, I think we will maintain, if not 25% at least 20%.

Salil Uthangi: Sir and many players are expanding in the southern and western region now, is that market really big and having that kind of potential compared to northern and central market, can you throw some light on that?

Ashok Gupta: Well, market is not growing that much, market is hardly growing 7% to 8%. Not many, some people were thinking of growing in southern and western region, but I think that was because on the back of the very strong demand in the Q4 of last year. But again, I think some of them have again postponed their plans because there seems to a lot of volatility in prices as well as demand. So to the best of my knowledge, no business is coming either in southern region or in western at this moment.

Salil Uthangi: But still you feel that compared to northern region these western and southern region will be growing faster?

Ashok Gupta: Yes, I expect that Northern and Western should grow faster, because of economic activity taking place there. As a growth percentage the GDP growth in southern region as well as western region is much higher, particularly in the formation of Andhra Pradesh and Telangana, lot of activity is taking place there.

Participant: And now the prices have stabilized right, means, on YoY basis these are flattish now?

Ashok Gupta: Yes, almost.

Moderator: Yes, means, it had dipped in last month and now again back to the same level?

Ashok Gupta: Yes, again back to same level, you are right. And also prices remain stable, actually it is very difficult to say in steel industry whether the prices will remain stable or not, because there is a significant amount of panic which comes up where demand does not pick up. But fortunately for us, despite being a conversion item we pass the price immediately to the consumer, so that way we are protected.

Participant: And sir, can you throw some light on the Direct Forming Technology and what is the progress from your side on it?

Ashok Gupta: Let me tell you the progress. We have placed the orders for eight such mills, and supply will start from October, November onwards. So I think between this year and next year all the mills will become operational. Basic advantage of this particular facility is that normally when you make a square you have to make a circle first the form a square. So in this technology you do not form a circle at all, you start with your sheet and directly form a square. There are four basic benefits, first is, the weight to length ratio reduces so it gives a direct saving; second, shape is very good with perfect square; thirdly, the pipe is not twisted; fourthly, it is possible to form this material with a very high strength of steel. So I can make it with a very high strength, means basically that, instead of using a very high thickness I can reduce my thickness whereby reducing both the weight of the structure as well as the cost of the structure.

Participant: And these will be mainly customized orders that you will be getting through DFT, when you have DFT technology so the orders that you will be getting will be on customized basis or you can do mass scale production and then sell in the market?

Ashok Gupta: Our attempt will be that to have two distinct markets, one will be we would like to go in for odd-sized which the industry can require. For example, a person manufacturing automobiles he requires a very odd section that is a 70x75 to make a trailer. These are odd sizes which will be customized. However, we will like to change the entire market of distributor to our special product because distributor gets the benefit of 3% to 4% to 5% by using this material. So our attempt will be that entire market shifts to this better material. So then we will be making to stock.

Moderator: Thank you. Our next question is from the line of Pallav Agarwal from Antique Stock Broking. Please go ahead.

Pallav Agarwal: I have a question on the increase in capacity, the planned capacity to 2 million tons from current, I think, 1.05 million tons. So where exactly, which facilities will we expand apart from the new plant in Raipur, what would be the breakup of this 2 million tons of capacity?

Ashok Gupta: You rightly said, we are spending our capacity by around 9.5 lakhs tons 3 lakh tons goes to Raipur, balance 6.5 lakh goes to our existing plant which are basically around 2.5 lakhs goes to southern region and 2 lakhs each will be in west and the north. Now, so this is 9.5 lakh. With this, our capacity for south will become, which is currently of the order of 5 lakh tons shall become around 7.5 lakh tons and west which is around 3 lakhs tons should become 5 lakhs tons. And north, which is around I think 4 lakh tons should become 6 lakhs tons, and 3 lakhs should be in east, i.e. Raipur. So if you total up, it will become close to 20 lakhs tons.

Pallav Agarwal: And I think there were some plans of setting up of facility I think in Middle East or Dubai, so are those plans still there or they are being shelved for the time being?

Ashok Gupta: When we were talking about the facility in Middle East, we said that we are doing the CAPEX in a planned manner, in a systematic manner to the extent of we are able to generate our own profits, so that is when we are able to have our internal accruals. So, as you would observe, the investment plan of Rs. 300 crores out of which Rs. 100 crores we made last year and Rs. 200 crores we are planning current and next year, take scale of internal accruals during next year. So Middle East, we will think may be a year after that. So still it is in the drawing model, still it is in the concept stage, but implementation will take another one year down the line.

Pallav Agarwal: So just like, what debt equity and debt to EBITDA ratios are we broadly targeting, like by the end of expansion plan will we see any major increase in debt from current levels or broadly the debt equity would remain where it is right now?

Ashok Gupta: See, you would have observed that mostly we try to finance our expansion through our accruals, it would not depend much on that so you will observe again a sharp two, three years our debt has remained at the level of Rs. 600 crores to Rs. 650 crores on an average. Now, going forward, so obviously debt equity should not become worse, it should only become better because net worth is increasing. And, our debt to EBITDA also should be, we are targeting 2 or below 2, so that is what has been traditionally there and that should continue to be so.

Pallav Agarwal: Sir just one final question from my side, on the trading sales, obviously, this quarter you have benefitted, so if I just do the simple math, you sold Rs. 161 crores and the purchase was Rs. 154 crores, so that leaves an EBITDA margin of about Rs. 7 crores. So, out of this how much will be sustainable in the quarters ahead or some of it may not accrue in the balance of the year?

Ashok Gupta: Well, we will try to avoid to the extent possible, because this opportunity are one time opportunities, when they come suddenly they come, some arbitrage opportunity comes, we used it. But they are not a part to our regular business. So I will say from a planning purpose I do not assume it. If any opportunity comes I will make use of it, otherwise so far I am concerned or our company is concerned, we assume that we will not be having any significant trading days to come.

Moderator: Thank you. Our next question is from the line of Nitiksha Shah from Anvil Shares and Stock. Please go ahead.

Nitiksha Shah: Sir, I would just like to know that we are doubling our capacity over the next two years, so what is exactly our game plan that we will be able to market this capacity and, kind of, if the market is not growing at such a fast rate so what do we have in mind exactly that we will be able to market the entire capacity that we are expanding?

Ashok Gupta: So, what we are planning is that the steel pipes and steel square and rectangle, they are significantly kind of commodity products, so not much of a differentiation. Our game plan is that we want to play to differentiation in this market. So to begin with, we are bringing up a beautiful technology which will give a wonderful end product, a beautiful pipe, with this we hope to change the market itself, the people in the course of time will be able to appreciate the product differentiation and then shift to this product. Secondly, to master this product we are creating a product development cell which will go from application to application whether it is buses, it is trucks, it is agriculture implements, it is trailer, it is tipplers, it is mining equipment, even go to automobile industry and they will try to develop products around that technology. Thirdly, we are going in for a big branding excise whereby we want to inform people, we want to communicate to people that here is a product which is much better, lower, more economical, lower rate, better shape. Fourthly, we are already having very in-depth penetration in the market. And fifthly, because of GST lot of products which are being sold today in the grey market, they are unlikely to continue. So we hope to garner market share from the unorganized sector. So this way, today our market share is hardly 13% - 14% and we hope that with this technology, with these new products the branding we are hoping, the distribution at the GST our market share should increase to at least 50%. So that is a game plan we have and there are ingredients already, now only we have to execute it.

Nitiksha Shah: Sir, you said 20%, right, your market share would increase to?

Ashok Gupta: Yes, it will be around 20% to 25%.

Nitiksha Shah: And sir, so how much would be the spending on the branding, like how much would that be as a percentage of sales or something like that, sir?

Ashok Gupta: See, our sales is expected to be between Rs. 4,000 crores to Rs. 5,000 crores in the days to come. And we are planning to spend Rs. 20 crores to Rs. 25 crores every year, which will be around 0.5% above our total revenue.

Nitiksha Shah: And what is it presently sir, our branding expenses?

Ashok Gupta: Today it is hardly 0.15% to 0.2%.

Moderator: Thank you. Our next question is from the line of Ashish Kacholia from Lucky Investment Managers. Please go ahead.

Ashish Kacholia: Sir, just wanted to understand what is the EBITDA per ton in this particular quarter and how much of this EBITDA per ton has come from inventory gains?

Ashok Gupta: See, EBITDA per ton in this quarter is around Rs. 3,600 to Rs. 3,700 per ton. And if you observe, traditionally our EBITDA remains in the range of Rs. 3,200 to Rs. 3,500 per ton. So the extra EBITDA of Rs. 300 to Rs. 350 or Rs. 400 can be attributed to the benefit we got because we had raw materials which were priced at a lower level due to the continuous increase in the prices of raw material. So on an average, our EBITDA will continue to be around Rs. 3,300 - Rs. 3,400 per ton, this quarter we are exception of Rs. 3,700 per ton.

Ashish Kacholia: So basically for the next three quarters we should revert back our EBITDA per ton calculations to about Rs. 3,300 per ton?

Ashok Gupta: Yes, between Rs. 3,300 to Rs. 3,400 average.

Ashish Kacholia: That is a better way to look at the EBITDA for the next few quarters?

Ashok Gupta: Sure, that is a better figure.

Moderator: Thank you.

Diwakar Pingle: Margret I would just like to pitch in another question. Mr. Gupta, just had a one quick query on your Raipur plant. Now what is the progress there and when do we expect that to start commissioning?

Ashok Gupta: The construction is under way, the equipments should start coming by the end of October and we hope to commission the equipment in December, at the most January. So, initial production, trial productions should start in first week of January.

Diwakar Pingle: And to kind of continue on what Ashish had just asked before, I think in terms of margins where do you see uptick in margins, in case, you did talk about Direct Forming Technology where you said, obviously, it is a revolutionary technology that is coming into play, would that possibly lead to increase in margins or are there any other factors which give us that small uptick which will help us to be competitive as well as give us kind of returns that the shareholders are expecting. Now what are those two, three factors that contribute an uptick in margins is my question?

Ashok Gupta: Basically the steps we are taking like branding exercise, now once the branding exercise goes underway we expect consumers to demand Apollo by name and thereby giving us a premium. Secondly, we are working towards increasing our capacity of galvanized pipes as well as e-galvanized pipes which are higher margin products. Thirdly, material will be selling from the new Direct Forming Technology should again give us 2% to 3% higher margins as compared to the current levels. So, we expect that we will be getting a premium up to 2% - 2.5% over the current prices without any additional investment. Fourthly, we are trying to focus on customized products from the new technology. These customized products should give a high saving of around 10% to 15% to the consumers. So because we are giving at this level and they are much better alternative to the current products available, we expect that from these specialized customized products you should be getting a higher margin of around 5% to 10% in EBITDA terms. So currently, my EBITDA is now 8% from these products and from galvanized we should be targeting an EBITDA of around 13% to 14%. All in all, going down the line, maybe next two to three years we are expecting that our EBITDA should improve from 8% to around 10%.

Diwakar Pingle: One last question if I can slip in, how would GST impact our pricing and general process, would it have a favorable impact on APL Apollo?

Ashok Gupta: In fact, we are awaiting GST in a welcome manner, because the biggest benefit of GST, whatever you could be using today we will be able to get the credits for all the inputs which was not possible in the current regime. Secondly, there is some part of unorganized market which makes use of the current tech scenario, so that benefit will not be available in future, because obviously will taxed at the consumer end. So, because of that we expect that those unorganized sectors will find it difficult to continue since we are ready with our capacity we should garner a part of that market. So all in all, GST will be highly beneficial to us, particularly because our model is stock itself. So in that model we will be keeping large stock yards at one place, let us say somewhere in northwest, somewhere in north, somewhere in Eastern region and fulfill the demand of the entire region. Now, since we have such a broad product basket consisting of more than 400 products, it is difficult for me to keep these products in each state, but I can definitely keep it in each region. So my offering will be much better, it is possible that customers may not even require my competitors' product, I am saying I will benefit a lot because of the new GST regime.

Moderator: Thank you. Our next question is from the line of Ashish Kejriwal from Elara Capital. Please go ahead.

Ashish Kejriwal: Sir, my question is on steel, you mentioned that prices came down in July by around 4%, but again increased by the similar amount in August, am I right in that?

Ashok Gupta: Yes, approximately.

Ashish Kejriwal: So is it fair to assume it is around Rs. 1,500 to Rs. 1,700 per ton?

Ashok Gupta: Yes, it was about that only, Rs. 1,500 to Rs. 2,000.

Ashish Kejriwal: And sir, from where we normally buy, who are the major suppliers of steel? And do we buy on a spot or on a monthly basis?

Ashok Gupta: See, how the steel market operates is that normally you have a long-term MoU with the supplier, we have our MoU with JSW and with Bhushan. And you buy from month to month basis, the prices are almost increased or decreased in unison because the market follows a particular pattern of demand and supply. So for a marketing concern, we expect the market to remain steady and we will be continuing to buy our steel from JSW and Bhushan. What was your other question?

Ashish Kejriwal: I was just asking who are the major suppliers, you mentioned about that. So, normally we buy HRC only?

Ashok Gupta: We buy HR coils, yes, we buy only HR coils.

Ashish Kejriwal: Because what I have been weighing is that a lots of other producers like SR Steel or SAIL or maybe Bhushan, because there is overcapacity in their system so prices should be under pressure. But if they are increasing by around 1,500 or 2,000 in August, so I do not know what is towards the future, means, how do you look at the demand side?

Ashok Gupta: You see, import of HR coil or steel product is almost very-very limited, mostly for export purposes. So, the domestic players themselves write the pricing. In case they have surplus steel, there is always opportunity for export because international market is quite good now as compared to what it was one year back. So, in that scenario I expect the domestic players will not like to hurt themselves by selling it below price, I think they will try to maintain the price in the months to come. Of course, the prices which is very-very uncertainty, it is possible that movements will happen either way. But looking at the current scenario, we are expecting a stable price.

Ashish Kejriwal: And lastly, as far as our product is concerned, because the demand is still good we do not have any issue in passing of the raw material price?

Ashok Gupta: See, it is not only our company, the whole industry works in that direction. Whenever the prices go up or go down the industry passes on the entire change to the consumer, because it is an industry wise pattern. And the reason for the industry wide pattern is, there is hardly any scope left to absorb and increase or decrease or sales. So when industry passes we also pass, so it does not affect us significantly. There could be a lag of a week or so before we are able to pass on the enterprise increase, but eventually all the price increase or decrease is passed on to the consumers.

Moderator: Thank you. Our next question is a follow-up from the line of Ashish Kacholia from Lucky Investment Managers. Please go ahead.

Ashish Kacholia: When we are going to put up these Direct Forming plants what is going to be the capacity of each of these plants?

Ashok Gupta: On an average, we are putting up eight such lines and typically each one is capable of producing around 5,000 tons depending on the size mix.

Ashish Kacholia: 5,000 tons per what?

Ashok Gupta: Per month.

Ashish Kacholia: So one line 5,000 tons, so each line will produce about 60,000 tons per annum?

Ashok Gupta: 60,000 per line, eight such lines will be around 5 lakh tons.

Ashish Kacholia: Now, to put up 5 lakhs ton of this capacity how much is it going to cost us?

Ashok Gupta: It will be costing us almost around Rs. 150 crores to put up the eight lines, because we are putting a certain additional investment in Raipur. So overall, on a totality basis these five line will cost us around Rs. 150 crores.

Ashish Kacholia: And versus this what will be the normal cost of putting up of 5 lakh ton capacity?

Ashok Gupta: If I want to put up a new plant today of 5 lakh tons normal capacity, today my investment would be anywhere between Rs. 300 crores to Rs. 400 crores.

Ashish Kacholia: Sorry, I am not getting this. I thought this technology is new so it should be more expensive than putting up conventional plant of 5 lakh tons.

Ashok Gupta: So what happens is, if you observe, I told you about this facility being added mostly in the Brownfield expansion. we already have the basic facility like sleeping, like sheds, land and all that, so all that is already given, this Rs. 150 crores I am spending only on the equipment price. But when I setup a new plant, then obviously so if I want to procure OE equipment by equipment, this 5 lakh tons will hardly cost me around Rs. 75 crores to Rs. 80 crores.

Ashish Kacholia: So basically we are spending about Rs. 60 crores - Rs. 70 crores more on a like-for-like basis?

Ashok Gupta: Yes.

Ashish Kacholia: And this Rs. 60 crores - Rs. 70 crores it dates back very fast, the incremental cost that we are investing in this type of technology?

Ashok Gupta: Yes, because our EBITDA margins will increase significantly, so we expect that the entire extra amount we are spending should be paid back within one and a half to two years.

Moderator: Thank you. As there are no further questions, I would now like to hand the floor over to Mr. Ashok Gupta for closing comments.

Ashok Gupta: I must thank all the participants for lively discussion we had. We expect that whatever we have been doing in the past, we expect to repeat them in the future as well and hope to have better that in the days to come. Thank you so much.

Moderator: Thank you. On behalf of APL Apollo Tubes Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.