



“APL Apollo Tubes Limited Conference Call”

May 16, 2012



**MODERATORS: MR. ASHOK GUPTA - MANAGING DIRECTOR
MR. PANKAJ GUPTA - CFO**



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Moderator: Ladies and gentlemen, good day and welcome to the APL Apollo Tubes Limited Q4 and FY 2012 conference call. As a reminder, for the duration of the conference, all participant lines are in the listen-only mode and there will be an opportunity for you to ask question at the end of today's presentation. Should you need assistance during the conference call you may signal for an operator by pressing * and then 0 on your touchtone phone. Please note, that this conference is being recorded. At this time I would like to hand the conference over to Mr. Pankaj Gupta, CFO at APL Apollo Tubes Limited. Thank you and over to you , Mr. Gupta.

Pankaj Gupta: Good evening ladies and gentlemen. I welcome you all to our Q4 FY 2012 earning conference call. Let me to start with briefly highlighting some of the key numbers of Q4 and the full financial year performance. Later Mr. Ashok Gupta Managing Director of the company would throw some light on the company's business and future outlook. Thereon, we will take questions. We are happy to announce that this quarter results marking our highest ever quarterly production and sales volume. APL Apollo Tubes has become one of the largest producer of ERW pipes and tubes in India. We achieved the highest ever production volume of approximately 33,000 metric tonnes in a single month and also achieved highest ever production of approx 90,000 metric tonnes in a single quarter during FY 2012 Q4. Consolidated turnover of FY 2012 increased by approximately 54.82% wherein gross sales of FY 2012 was 1525 Crores as compared to 985 Crores in FY 2011 and PAT for FY 2012 is rupees 49.01 Crores as compared to rupees 43.09 Crores for FY 2011. Our volumes have witnessed significant growth over the two years which can be attributed to aggressive marketing. Our clients are well diversified, across various economic sectors which includes agriculture, metal engineering and fabrication. Oil and gas sector, real estate and construction, automobile sector among others. On the margin front, as you are aware, there was pressure on steel pricing during the first three quarters and accordingly EBITDA margins remained under pressure and saw a decline of approx. 165 basis points being at about 8.22% on FY 2012 as compared to 9.88% during FY 2011, however after struggling on the margin front in Q2 and Q3 we regained EBITDA margins of +9% in Q4. For the quarter ended March 31, 2012, the consolidated figures in terms of revenue was Rs. 461.01 Crores as compared to Rs. 296.43 Crores during the corresponding quarter in FY 2011 which is an increase of almost 57%. EBITDA for the quarter stood at 38.01 Crores as compared to 28.96 Crores during the corresponding quarter last year which is an increase of 31.25%. PAT for the three months ended March 31, 2012 is Rs. 17.56 Crores as compared to Rs. 14.22 Crores during the corresponding period last year which is an increase of 23.50 %. In terms of balance sheet at consolidated level, the debt equity ratio stood at 1.02 as of March 2012 which is more or less same as at the end FY 2011. Going forward we expect to increase production by 30% without incurring any major CapEx with the enhanced



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utilization of present capacity. We are continuously watching the market and we remain cautiously optimistic. We will continue to invest in technology and new product investment plan and investment so far in line with our budget and forecast for the year. Strong geographical presence, wider product range, and diverse industry presence will help us derive benefits leading to improvement in margin. With this brief I would like to invite Mr. Ashok Gupta to highlight on markets with service and demand going forward.

Ashok Gupta:

Thank you Pankaj. I am Ashok Gupta from APL Apollo. I have taken over as MD of the company only 10 days back on first of this month. I will just introduce myself. I started my career with Steel Authority and from over there I shifted to Surya Roshini, a few years I was there and from there I shifted over to Mittal Steel in its Algeria plant and thereafter I was working for Bhushan Steel at Kapoli and my last working was at Jindal Industries at Hissar, so almost I have spent my entire career in the steel industry and particularly steel pipe industry.

Talking of APL Apollo, APL Apollo has shown very good growth in the last few years and continuing the growth path both in the last quarter Q4 and last year that is FY 2012 the growth has been continued and I am happy to share with you that APL Apollo has become one of the four largest steel pipe producers in the country. It is a moment for pride for us because other three are much older players. In a way we have become, we have joined the club at a very fast pace in the shortest possible time, shortest time on the floor. The other three players in the steel pipe industry are Tata Steel, Jindal Pipes, and Surya Roshini. This is as far as the volume of the turnover wise, even profitability wise APL Apollo is one of the better ones. The company's focus continues to be on growth and volume growth. We hope to continue our increase in volume which we have been having in the last few years. We have tried to look at some new market segments, market segments both by way of applications where we have not been there as well as in terms of geographical segments. We hope to spread our markets domestically as well as internationally and another focus the company has and which is one of the main reason for its good growth is we are looking at better technologies. In years to come, none of our mills or plants will be very old, when I say very old, more than 10 to 15 years, all will be fresh. APL Apollo Tubes will be the only one who will be having such fresh technology and such fresh plants and that also with most of the plants having Japanese technology. In a way we are overhauling all our plants and units almost 70 to 80% has been done and whatever balance is there should be over by this financial year end. In addition to the focus on the upgradation, we are taking lot of care on the cost front. This improvement in technology and plant and machinery should give us lot of cost advantages. Along with the cost we are now looking at markets. We are looking at very deep penetration in the markets. We are looking at widening our distribution network, going to the last mile, going to the small district level dealers as well as looking at the OEM



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and projects our focus would be that we should have a very large area where we can market our products. We are hoping that in the year FY 2013 and in the coming year our growth should continue and we should remain one of the fastest growing companies in the country. Apart from domestic front, in exports also we are hoping to make a big dent this year. Our plant which is near to the coast near Mumbai should be modernized by this year end and with that we hope to make a very big dent in the international markets. As far as markets are concerned, the Indian story continues to be strong in infrastructure, in construction and steel pipe is used extensively in both the sectors apart from water transportation which again is an area where demand is good, so overall demand continues to be robust, if not great, then it is good. Steel prices the world over has been stationary for last about one, one-and-a-half years, there has not been much of a change unlike what was observed in 2008, so we hope to make use of the situation where the demand is good and prices are stable to further intensify and make aggressive marketing this year and next year for a larger market share. In addition, there are new segments which are opening up for the steel pipe industry. Couple of years back most of the construction used to be done by way of wood and reinforced concrete, today that has been replaced by steel construction and glass and this is where we are trying to focus. We are also focusing on what we normally call GP pipes which are used in green houses, and fencing and lot of fabrication applications, so with these efforts we hope we would be increasing both our topline as well as bottom line. With these few words I would like to invite all my friends for any question that they might have.

Moderator: Thank you Sir, we will now begin the question and answer session. Our first question is from the line of Mr. Bhavin Chedda from Enam Holdings. Please go ahead.

Bhavin Chedda: What is the gross consolidated borrowings and cash balance as on March 31, 2012?

Ashok Gupta: Gross borrowings including long term and short term working capital needs would be around 310 Crores as of March 31, 2012 and cash will be around 20 Crores.

Bhavin Chedda: Does this 310 Crores include working capital?

Ashok Gupta: Working capital plus long term.

Bhavin Chedda: Just the update on the capacities now at different locations including the Lloyd Capacity, what has been the run rate at that plant and what is the run rate at your south plant also?

Ashok Gupta: Our total capacity currently would be around 4 lakh 90 thousand and last year we had totaled around 300, 000 tonnes that is around 3 lakh tonnes and this year we are hoping to cross 4 lakh tonnes level. As far as Lloyd is concerned last year our production at Lloyd was about 40,000 tonnes, this year we are hoping for around 60,000 tonnes.



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- Bhavin Chedda:** This year's 3 lakh includes 40 of Lloyd?
- Ashok Gupta:** Yes, it includes.
- Bhavin Chedda:** Particularly how has been your ramp up from the new plant in south India, how much production you did there?
- Ashok Gupta:** Last year we did 110,000 and only Q4 would be around 33,000.
- Pankaj Gupta:** We want this run rate to continue and are hoping to register a production of 1.5 lakh tonnes there.
- Moderator:** Our next question is from the line of Mr. Vinay Bhandari from Enam Securities; please go ahead.
- Vinay Bhandari:** Hi, sir, good set of numbers congratulations on that, just wanted to have a sectoral break up of the revenue and how it has been shaping up over the past four quarters, if you take auto, infra and other sectors, is there any new sector which is emerging or just wanted to have a sense on that and secondly which sector fetches higher margin?
- Ashok Gupta:** Are you talking of break up of revenue quarter wise?
- Vinay Bhandari:** If you could give me a wholistic picture you know, for example in auto in first quarter contributing 20% currently it is 42%, how the whole industry is shaping up and secondly which sector is providing us higher margin and how that sector is growing going forward?
- Ashok Gupta:** I will give you the break up quarter wise. Let me tell you about the industry and what we are doing and what segments we are working. So far as steel pipe industry is concerned, new segments are opening up in a number of ways. First of all the construction of industrial and commercial buildings. It is shifting from, as I mentioned, from concrete to glass and steel, that is creating a lot of demand for steel pipes and steel sections. Second thing which is happening is that there are a lot of new applications that are developing for example solar energy, in the solar energy sector, steel pipe is becoming a very big part of the whole project, similarly wind energy and then in addition to that in a big way people are going in for what you call in agriculture form you have this GP pipe that is used for fencing as well as, you know lot of poles are being made, green houses, now greenhouses the moment they are catching up, they use a lot of pipes again, these are the applications which we are developing which we are not there, our strength lies in catching on these things. Secondly, we are looking at automobile sector in a big way, particularly large buses, today there is almost like a trend for low floor buses which earlier were using wood, now they have all



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gone for, wood is of course like nonexistent now, so all going for tractions, this is the area where we have lot of applications.

Vinay Bhandari: If you could give me the revenue break up and domestic as well as exports?

Ashok Gupta: Exports is only 8% of our total revenue, 92% is domestic, but we hope to increase it now with our plant near Bombay which is likely to be modernized by this year end, our exports will increase significantly.

Vinay Bhandari: Export constitute across the products or any specific product which is having demand overseas?

Ashok Gupta: Basically the large quantum of export is for galvanized pipes, what happens is galvanized pipes does create some pollution and abroad they are very stringent about the terms and all that, we are able to export some quantity of galvanized pipes.

Moderator: Our question is from the line of Eric Martin from Systematic Shares. Please go ahead.

Eric Martin: I would like to have an understanding of the capacity expansion plan basically in terms of product wise what are the capacities we are planning to increase and which plants and what is the current status of these, capacity expansion programs?

Ashok Gupta: I will give you a brief idea of the capacities currently we have and what we are planning to increase. Our largest plant is in Hosur and currently we are able to produce around 1.5 lakh tonnes at Hosur and similarly our second largest plant is in Ghaziabad, here we are producing around 100,000 tonnes which is around 1 lakh tonnes. Our third plant currently is near Mumbai where we are producing around 60,000 tonnes, then we have a plant in Bangalore what is known as Shrilakshmi at Bangalore and we have another plant at Sikandarabad near Ghaziabad, both these plant combined will give us another 1 lakh tonnes, so you see the total production will be around 4 lakh tonnes in this year.

Eric Martin: This is the maximum we can do based on current capacities?

Ashok Gupta: This is what we are planning to do in this current year that is FY 2013, going forward this capacity will go up to 6 lakh tonnes, 6 lakh tonnes the major increase will come in Hosur, the first plant near Bangalore in Tamil Nadu, that will go to around 2.4 lakh tonnes, then second increase will take place in Ghaziabad which will go to around 1.2 lakh tonnes and third increase will take place in Mumbai which will go to around 1 lakh tonnes and the other two plants will contribute between them around 1.4 lakh tonnes making a total of 6 lakh tonnes.



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- Eric Martin:** So this 6 lakh tonne would be our capacity is it or is this the production target?
- Ashok Gupta:** That will be the capacity next year, we hope that some 4 lakh tonnes you see at by FY 2013, FY 2014 we should be able to make somewhere between 4 and 6, let us see whether we are really able to achieve it. Our normal growth has been around 30% to 40% and we are hoping that both the years we will still be able to continue with 30% to 40% growth.
- Eric Martin:** This capacity expansion by then we are expecting it to be completed?
- Ashok Gupta:** The model we have adopted is we are not taking a model that we expire it in one go and finish it off. We are doing what is called as a modular approach. Every year we are adding capacities to the extent that we are able to increase the sales. Last year our sales had increased by more than 1 lakh tonne, so we had increased our capacity by 1 lakh tonne. As a result we are always able to have from around 20% to 30% capacity sphere for next year to increase and by next year we would have increased our capacity by 30%. So at no point of time we had a very good capacity utilization and at no point in time we had been short of capacity and every year we will be having capacity expansion.
- Eric Martin:** Okay and what will be the cost for this increase sir from 4 lakh tonnes to 6 lakh tonnes?
- Ashok Gupta:** May be requiring around 70 to 80 Crore rupees but we are already planning further to that so we are planning next three years about Rs.200 Crores.
- Eric Martin:** Does this include working capital also?
- Ashok Gupta:** Yes that includes working capital.
- Eric Martin:** The working capital will be around Rs.200-300 Crores?
- Ashok Gupta:** Rs.200 Crores over the next three years.
- Moderator:** Next question is from the line of Vinay Bhandari from Enam Securities, please go ahead.
- Vinay Bhandari:** The quality of earnings which could eventually see the return ratio profile going up, how we are going to improve the margins basically?
- Ashok Gupta:** If you observe our margins are hovering between 8% to 9%, the steel pipe industry what happens is in very good years we have margins of around 9% to 10% and in normal years it is around 8% to 9%, what we are trying to do is we are focusing on some of the segments which give better margins for example auto tubes, they typically give better margins and



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also we are looking at newer product, new products means a very low thickness pipe which gives better margins but with that being not a very large chunk of the sales we still hope our market margins will still remain between 8.5% to 9% we do not expect a very big change in that. If you see last three years the margins have hovered between 8% to 10% only. I think in future also we will be around 8% to 10%. In turn what we are trying to do is we are increasing volume from the sale capacity so that we don't have to invest much. If you observe on the same investment we are trying to increase production, so EBITDA as a percentage of sale may remain at 10% but our return on investment will be much better.

Moderator: A reminder to all the participants, if you have any question please press * and 1. Our next question is from the line of Ayush Joshi from Kitara Capital, please go ahead.

Ayush Joshi: Good evening sir congratulations for a good set of numbers. I just have two questions here. One is that it says that in current year you would not have any capacity expansion and your production will be around 4 lakh tonnes, just wanted to know that part because in the current year we have already achieved 3 lakh tonnes, so how additional 1 lakh tonne will be coming and my second question is about the product mix of the company, whether the company will continue with the same product mix which has followed in FY 2012 or as targeted it will follow in to the value added products as a part of its sales?

Ashok Gupta: Okay thank you. I will answer the first question. You see we had the capacities what we are doing is we are modernizing the mills and we are adding some balancing equipment without adding to the capacity per se, these two things will give us the additional quantum we require for increasing the sales for example in many areas what happens is we have the entire plant but we do not have the slitting line which is sufficient to cater to the whole requirement, so we are adding a small slitting line and we are able to increase the production and then it is not that we are not doing any capex per se, we are not adding to the capacity but we are changing one old mill to a new mill, when we do that, capacity does not go up but capacity utilization goes up because you have newer mill, by these balancing factors we will be able to increase the production and capacity utilization in the current year.

Ayush Joshi: So what was the capacity utilization level in FY 2012?

Ashok Gupta: Our capacity is around 4.9 lakhs and if I do 4 lakh in the current year, I will be doing 80% plus, in steel pipe industry typically 80% to 85% is good capacity utilization because the capacity utilization depends a lot on the type of pipes you are making.

Ayush Joshi: So the majority of your additional output would be coming because of your modernization and balancing equipment?



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- Ashok Gupta:** Exactly.
- Ayush Joshi:** So there would not much Capex in FY 2013 to achieve this level of target?
- Ashok Gupta:** Capex would be very limited, however we are taking the Capex for FY 2014, whatever increase we want to do for 6 lakh tonnes for FY 2014 the Capex starts now because the lead period for capex to fructify is around 12 to 14 months, CapEx for FY 2014 results capacity has started now.
- Ayush Joshi:** To achieve production of 6 lakh tonnes for FY14 Capex plan is on?
- Ashok Gupta:** Capex has started, yes and then your second question about the product mix we are focusing a lot. There are four segments which we normally say, one is the section which is square and rectangles, one is the galvanized pipes, one is the pre galvanized pipe and the last is the round black pipes. The segments which are giving us higher margins we are focusing on those segments, recently we had installed an equipment which will help us in making pipes for the conveyer belts which is used in all mining industry and lot of material handling industry, similarly auto tubes we are focusing on and I mentioned that lot of focus will be on galvanized pipes. With this shift over, we will be shifting from lower, most of the increase in sales will be coming to the higher margin products.
- Ayush Joshi:** So shift will be in product mix towards these product lines which you are entering in to?
- Ashok Gupta:** I basically mentioned two, one is section, one is galvanized and one is equipment for mining industry and equipment for automobile industry.
- Ayush Joshi:** Share of this products will increase and which will in turn improve our margin.
- Ashok Gupta:** Exactly.
- Moderator:** Our next question is from the line of K. C. Suri from Span Capital, please go ahead.
- K. C. Suri:** Good evening thanks for this opportunity. I just wanted to understand how the cycle work, do you get orders in advance and how much in advance and what is the current order book if any?
- Ashok Gupta:** Let me explain to you our distribution model. About 8% of our products are exported which means we get orders at least one-and-a-half months in advance, about 75% of our products is sold through distribution channel, another 15% is sold through OEMs and projects. OEMs and projects typically give you order only 10 to 15 days before they want the



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material, so we have to keep stocks, around half of the requirement are from stocks and half the requirement are custom made for their specific needs. 75% of our customers are distribution channel by way of large dealers, distributors, what they do is, they give us their indication of requirement before the beginning of the month and this is a typical indication only, it is not a fixed demand, fixed demand comes almost every week, so in a way I should say that it is not that we can have advance orders, advance orders will be only from 20 to 25% but most of the orders are regular flow items because they are required regularly in the market, regularly they are going. Our experience shows that our target level of 4 lakh tonnes which is around 33000 tonnes per month is almost covered by orders on month to month basis that means we have got understanding with the distributors, 30000 at least will be definitely covered, now we are working for the extra 3000 tonnes, even the 3000 tonnes get covered and we are able to achieve our 4 lakh tonne target.

K.C. Suri:

Okay what will drive the 400,000 to 600,000? What would be the drivers for this, I did not exactly get that?

Ashok Gupta:

Okay 600,000 will be the capacity, maybe we can reach around 5 lakh or 5.5 lakh depending on the plan we are able to draw next year, depending on the market we are able to draw next year and now what we are doing is we are already strong in certain segments, A, we are very strong in certain states, for example certain southern states we are very strong, certain western states and one or two states in northern India, but we are not very strong in and around actually out of 27 or 28 states in India we are not strong at all in let us say 20 states, so we are focusing on those 20 states, let us say we will pick up five or six states next year, this year itself, to increase our presence, that is geographically we will widen our catch, second is we are trying to look at those applications which we are not strong, for example firefighting, firefighting we are there, but we are not a leader there, plumbing we are not a leader there, so we are trying to catch up those segments where others are the leaders, so we will focus on those applications where we are not strong, we will focus on those states where we are not strong and thirdly we look at exports, our current exports are now at around 7.5 to 8%, we are trying to increase to around 15 to 16%, so a large chunk of our exports is almost double in that period because we are modernizing our facility we will have lot of cost advantages. With these three things I think volume will look up.

K.C. Suri:

What is the inventory we are carrying as on March 31, 2012?

Ashok Gupta:

See typically we carry 30 days inventory, maximum it may become 35 days and minimum it may become 27 or 28, so it varies between 27 to 35 days.



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- K.C. Suri:** Okay and the debt number, if you could repeat the debt and cash number again?
- Ashok Gupta:** Total debt on books as on March 31, 2012 is 310 Crore and 20 Crores maybe in cash.
- K.C. Suri:** What do you see as risk to achieving 500000 to 550000 tonne volume next year?
- Ashok Gupta:** If there is a risk it is a sharp fall in GDP growth, if GDP grows below 5% or 4% then I think we will be in some kind of problem, so long as GDP growth remains 7% or 8% plus, I think we are in safe waters because most of our demand comes from construction, infrastructure, development and GDP is all about development, so we depend a lot on the country's development.
- K.C. Suri:** How is this sensitive to pricing, are you able to pass on the price increases almost immediately or do you see a lag or how does that work?
- Ashok Gupta:** The cost of pipes as part of total construction cost is very limited, it is not very significant and most people are not sensitive to prices, only dealers they will go on asking for price comparison but normally a consumer is not aware of the price project people are not really looking at the prices and because all the pipe makers, they are not steel producers and steel price typically is same all over India, if it is X it is X for everybody else so the real art is reducing your cost, so whenever there is a price increase it is for everybody, fortunately in India when prices go up all the steel producers they somehow do it with same amount at same time, so everybody is able to pass on the increase to the consumers and the reverse also is true when the prices come down then we have to pass on the reduction to the consumers.
- Moderator:** Our next question is from the line of Eric Martin from Systematix Shares, please go ahead.
- Eric Martin:** Sir a followup question, this 6 lakh tonnes that we are planning to achieve is this the production that we are planning or is this the capacity that we are planning?
- Ashok Gupta:** This will be capacity, we normally try to work it around 85 or so, I am talking of FY 2014 now, we are hoping that we should be somewhere between 5 and plus but I cannot really say because we have not worked on it, capacity addition has to be thought in advance.
- Eric Martin:** So presently we are 4.9 lakh tonnes, we are planning to go to somewhere close to by 6 lakh tonnes by FY 2014 end or beginning what would that be?
- Ashok Gupta:** That is for the entire year and the capacity for the entire year would be around 6 lakh tonnes.



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- Eric Martin:** So by FY 2013 end this financial year end we will complete the capacity expansion.
- Ashok Gupta:** Normally the 6 lakh tonne capacity will be coming in the first quarter of FY 2014.
- Eric Martin:** For this 1 lakh tonne addition what would be your CapEx cost?
- Ashok Gupta:** I really cannot say because what we do is it is not that we have a single plant and a single CapEx, it is a continuous affair, Capex will be continuously happening, it will be happening next year also but for this 1 lakh tonne we will be spending anywhere between 60 Crores to 70 Crores lot of balancing equipment is there and it involves lot of things it is not that it is only for capacities, there are lot of other things also involved, it involved also marketing effort, it involves working capital, we are hoping that we will be spending 60 to 70 Crores every year.
- Moderator:** Next question is from the line of Ipshita Roy from Captive Equity Advisors, please go ahead.
- Ipshita Roy:** Good evening sir, I just like to know could you tell us what is the average working capital cycle as in the debtor and inventory days, I am sorry if I missed it?
- Ashok Gupta:** Typical for a stock inventory between 30-35 days and debtor days between 40 to 45 days typically.
- Ipshita Roy:** What is your average working capital cycle including the creditors?
- Ashok Gupta:** We do not have creditors per se and if I see my books then I think my working capital requirement are 75-80 days.
- Moderator:** Next question is from Ayush Joshi from Kitara Capital, please go ahead.
- Ayush Joshi:** Sir what is the impact of exchange in your earnings for this quarter and full year?
- Ashok Gupta:** We don't have any exposure to foreign exchange, so that way our impact is minimal, however we do have certain export, around 8% of our turnover is from exports, to that extent there will be some benefit in the sense that my profitability may improve but unfortunately the impact is not significant because we Indians we compete against each other in foreign markets, so we have almost negligible or only a small positive impact on exchange rate.



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- Ayush Joshi:** So EBITDA margins what you have achieved is not mainly because of the exchange fluctuations right?
- Ashok Gupta:** Immaterial of exchange fluctuations.
- Ayush Joshi:** Secondly what is the scenario on the pricing of the products of the trends are we able to command pricing in the domestic as well as international markets?
- Ashok Gupta:** Okay, you see I have mentioned that we are one of the top four pipe producers other being TATAs and Jindal Pipe and Surya Roshni and all of them have been in the business for far more years and we have been going with fast for last couple of years. So pricing wise our pricing for same-to-same apple-to-apple product will be almost either similar or maybe marginally lower than TATAs but maybe same as Surya and the others. However what we do is how we differentiate our cell is we produce those products, which they may not be strong in by doing that and by doing certain services and by being close to customers. We have five plants and because of the five plants we are very close to customers in northern region, southern region and western region because of the proximity we do have lot of cost advantages, we do have lead-time advantages because of that and because we are trying to work in this segment where they are may not be there overall we have slight price advantage over Surya and Jindal.
- Ayush Joshi:** Do we see the same trend in price improvement in the current financial year as well?
- Ashok Gupta:** In the current financial year in years to come we are trying to spend more on marketing. Our plan is that the marketing should be made much stronger in fact we have tried to create many new marketing avenues for ourselves. So we hope that overall our pricing would improve with respect to all the key players. When I say improve means our premium should be there with respect to Surya and with Jindal today it is not there and we should be getting closer to TATA pricing who is the leader.
- Ayush Joshi:** As you said that you are focusing on marketing strategy so is it a strategy to enhance the mix from more from OEM and projects this is then the distribution business?
- Ashok Gupta:** You see we are growing so we need to grab everybody, we cannot grab A business at the cost of B business. We are increasing our distribution channels, we are increasing our depth of the distribution at the same time we are increasing OEMs and projects. Our aim is that we will not be focusing on those projects which we have very low volume, very low margins and which have a very high competition base there are some products which have 15 to 20 competitors but there are other which have one 4 to 5 competitors so focus would be on those products which have less competition also we will try to make certain projects



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where we are almost like have a USP some product advantages over others. So example in automobile, in conveyor belt, conveyor belt only TATAs are there boiler tube TATAs are there. So we try to work more on those products.

Ayush Joshi: Thank you Sir.

Moderator: Next question from the line of Vinay Bhandari from Enam Securities. Please go ahead.

Vinay Bhandari: Technology means how technology is critical among this sector and what sort of technology which we are using and is the technology is an edge over at our competitors?

Ashok Gupta: I think it is a very nice question you have put up because normally technology is ignored for steel pipes. What happens is that basic technology for manufacturing pipe is same; however, different technologies or different equipment's give different kind of output. For example different mills can give different output per hour. Till yesterday most of the mills in India used to produce let us say 30 tonnes per day, today there are mills which to do 150 to 200 tonnes of the same section. So you are getting from the same out same number of people, same hour, same equipment and same infrastructure almost twice or thrice a production. Now what we are trying to do is on apple-to-apple basis we are trying that all our mills should be manufactured within last 10 years. When we do that our production per hour will be almost highest in the country except maybe TATAs. This is the one technological, second the quality of product within we have five plants and you will be surprised that customers transfer our product from our Hosur plant or from our Bangalore unit because that equipment is only two year old. So they see some difference so what we are trying to do now is everywhere going for enhancement of those equipment's so that customer find that these pipes are much better than those produced by the older mills. So we are differentiating our product from other pipes.

Vinay Bhandari: How is this your Japanese technology is different from others, which I think in a way wastage is less if I am not mistaken so could you please spend one or two minutes on that?

Ashok Gupta: Sure, see basically it is a Japanese technology but manufacturing is within India at Faridabad only. Now what happens is that Japanese are almost like perfectionist so what advantage we are getting is from the same mill we are getting more production but more than that there are no breakdowns. That mill produces hour-after-hour, day-after-day. Production cost comes down and emission quality is better and appearance is better and our wastage is lower, so we get advantage on the key fronts plus we are also getting the Japanese technology whereby the product the pipe will be almost having zero-zero tolerance which will be almost first in the country. We are the only one in the country who have imported the technology from Japan. It comes from Japan. It is not manufactured in



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India also. So that will give us zero-zero tolerance pipe, in case you need a pipe which has to be exactly round which you cannot for any reason afford even a minor variation then this is the only mill which can give you, no other mill will be able to give it.

Vinay Bhandari: But then why our competitors are not getting into that technology?

Ashok Gupta: It is expensive and the demand for such product is not very high at this moment. Because availability is not there so demand is also not there we are hoping on people come to know that 00 tolerance is possible and it is available they may like to have it.

Vinay Bhandari: Which all products would be there if you are saying demand is not there as of now so what sort of product?

Ashok Gupta: Okay, I will give you some example you have the conveyor belt. The people are using the typical pipe available today for conveyer belts and what happens is because that is not exactly round so they wear out very fast maybe six months one year they replace it. Once they get exactly round zero tolerance pipes the life will go up by two years, three years, four years. So people will shift over from normal pipes to such appreciation pipes and then for textile industry a lot of spindle again made of steel pipes. Today they accept whatever is available or the import when we give them 00 tolerance pipes they would like to shift over to such pipes. Automobile industry they make all kinds of product and automobile industry is have a flavor for 00 tolerances. So we are hoping that in the automobile also we will be able to make an inroad.

Vinay Bhandari: Thank you so much for your time.

Moderator: Our next question from the line of Paras Kapoor from Pioneer Invest. Please go ahead.

Paras Kapoor: Good evening sir. Primarily a couple of questions sir what is the present banking arrangement of the company in terms of working capital loans, term loans, and foreign funding?

Ashok Gupta: I think my colleague Pankaj who is our CFO can answer it better.

Pankaj Gupta: We have adequate arrangements for the working capital as well as long-term debt.

Paras Kapoor: Sir in quantum?

Pankaj Gupta: In quantum we have the sanction limit to the tune of 500 Crores with us whereas the utilization level is 310 Crores only the one thing. Second thing as far as foreign currency



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loan is concerned we use that instrument typically for reduction of borrowing cost and whatever the foreign currency exposure there is its completely hedged by forward booking so there is no open exposure at any given point of time.

Paras Kapoor: Sir what is the sort of average interest cost in percentage for the existing 310 Crores debt on your balance sheet?

Pankaj Gupta: As of now 12.5. We are trying to get it reduced by means of better price option

Paras Kapoor: Absolutely sir. So you know this 12.5 would consider the foreign funding which so far for if I may ask sir what is the average domestic lending cost sir?

Pankaj Gupta: Average domestic lending is 13% to 13.5%.

Paras Kapoor: 13% to 13.5%, that can certainly be reduced and Sir what is the present if any existing current credit rating of the company Sir?

Pankaj Gupta: Long term A-, short-term A2+.

Paras Kapoor: Sir the networth of the company till date sir?

Pankaj Gupta: As of March 31, 2012 it is 304.29 Crores.

Paras Kapoor: Thank you.

Moderator: Sir, there are no further questions, would you like to add any closing comments here?

Ashok Gupta: I must thank to all the participants for really insightful questions and we are thankful that so much could be brought out. I just want to assure all my colleagues there that this company has a good business we are trying to organize a nice company here we are hoping that in days to come we will not remain only national players will become a good international player and a good organization. Hope to see you again in future. Thank you so much.

Moderator: Thank you Sir. Participants on behalf of APL Apollo Tubes Limited that concludes this conference. Thank you for joining us you may now disconnect your lines.