



APL Apollo Tubes Limited

Q4 and FY19 Earnings Conference Call Transcript

May 20, 2019

Moderator Ladies and gentlemen, good day and welcome to the earnings conference call of APL Apollo Tubes Limited. I now hand the conference over to Mr. Anoop Poojari from CDR India. Thank you and over to you Mr. Poojari.

Anoop Poojari: Good evening everyone and thank you for joining us on APL Apollo Tubes Limited Q4 and FY 2019 Results Conference Call. We have with us Mr. Sanjay Gupta - Chairman of the company, Mr. Ashok Gupta - Managing Director, Mr. Arun Agarwal - COO, and Mr. Deepak Goyal - CFO of the company. We will begin the call with brief opening remarks from the management following which we will have the forum open for an interactive question and answer session. Before we start, I would like to point out that some statements made in today's call may be forward looking and a disclaimer to this effect has been included in the earnings presentation shared with you earlier. I would now like to invite Mr. Deepak Goyal to make his opening remarks.

Deepak Goyal: Good evening everyone and welcome all of you to the APL Apollo conference call to discuss the operating and financial result for the quarter and year ended on 31st of March 2019. I will briefly cover the financial performance following which Ashok ji will take you through the business performance. Our net revenue during the quarter stood at Rs. 2,094 crore, registering a growth of 38% YOY. In FY19, total revenue grew by 34% to Rs. 7,152 crore. Our sales volume posted a robust growth of 39% to 4.18 lakhs MTPA in Q4 FY19. And in FY19, volume stood at 13.39 lakh MTPA, higher by 19%. The company delivered its highest ever sales volume performance during the quarter and year which was backed by the strong demand recovery and increase in contribution from Hollow Section, DFT, and GI pipes.

With regard to our profitability, EBITDA in Q4 FY19 stood at Rs. 142 crore, higher by 35% YOY. In FY19, EBITDA stood at Rs. 405 crore, up by 6% YOY. EBITDA percent during Q4 stood at Rs. 3,384, and in FY19, it stood at 3,021. The profitability during the year was mainly impacted due to inventory loss of around Rs. 42 crore in Q3 FY19 caused by the steep fall in the steel prices. This impacted EBITDA and margin performance in FY19 adjusted for this over profitability has been healthy.

Interest costs during the quarter were higher by 38% YOY to Rs. 29 crore and higher by 39% at Rs. 113 crore in FY19. However, the interest cost as a percentage to remain stable at 1.4% in Q4 FY19 as against 1.5% in Q4 FY18.

During the quarter, PAT stood at 62 crore against Rs. 43 crore in the Q4 FY18. In FY19, PAT stood at Rs. 148 crore against Rs. 158 crore. On the balance sheet



front, our net debt is Rs. 810 crore. Even in a volatile raw material environment, our working capital cycle remains stable and improved by the year end with debtor days at 24 days, inventory days is at 40 days and net working capital is 28 days. If we calculate it on the quarterly number, then it would be 24 days only.

With this, I would like to hand over to Ashok Ji who will take us through the key highlights and business performance.

Ashok Gupta:

Hello friends, good afternoon. Welcome you once again. Happy to announce very good numbers this quarter. You would have seen that it has been a marked growth across sector and across products to a large extent helped by the economy which improved a lot. So far as our sections are concerned and so far as our pipes are concerned. Apart from the help we got from the economy and the market, there was significant focus on DFT products and focus on consolidation of our operations. Lots of efforts we were trying to make in the last few quarters on improving our operations, focusing on markets, branding our products, they all paid our good dividends and we have been able to post a very great numbers and a great growth. You have already seen that it is almost around 38% growth we were able to achieve. We intend to continue this journey and not only continue but accelerate it further. You would have seen that we have spent a lot of money on our branding exercises. We want to almost own the category whereby a person who needs pipe will think of APL Apollo first and APL Apollo last.

In this quarter in the coming year, we hope to continue our journey of over 20%. Apart from growth in volume terms alone, we are focusing a lot on our techno-economic parameters; parameters like debtors, stocks, outstanding, all those things are being carefully looked into

Branding is going to be our focus this year. We are already trying to tie up with leading celebrities for this and go for a massive campaign both ATL, BTL, TVC, all kind of branding exercises we will be conducting this year. You would have seen that the 2 leading products we have - Hollow Section and GP, our share is almost 70% to 80% now of our total product and in both the products, our market share has crossed 26%. What does it mean? It means we are very, very dominant in each of the market we operate. So, we are dominant in the products where our volumes are highest which basically means for years to come, we don't expect competition to do much. With these few starting words, I will request all of you to please have your questions. Our chairman Sanjay Guptaji is here to answer your questions.

Moderator:

We will now begin with the question and answer session. The first question is from the line of Ankit Merchant from SMC Global Securities. Please go ahead.

Ankit Merchant:

Congratulations on good set of numbers. Sir, I have 2-3 questions. One is related to on the volume front. You have been guiding 20% volume growth. Second question is related to now that the exit polls suggesting that NDA is going to form a majority, what material difference that will make for this coming year for us? The third question is related to your capacity. Now that we have done quite a good amount of capacity addition, so in this particular year, the coming year, what is the CAPEX plan? How do we see our debt going ahead?

Ashok Gupta:

You were mentioning about the guidance we have been giving 20%, I think we have been close to it. We have been honoring our guidance. We have been achieving our guidance significantly in the past and we hope to exceed it in the years to come.

So far as election results are concerned, I think on 23rd, we will have the final news. I am sure the news will be good for us. In case, the present regime continues, the stability will ensure that the demand growth continues at the rate of 8% to 9% which



will basically mean that with good demand growth and good economy, our own company will benefit a lot. So far as CAPEX is concerned, we are trying to consolidate our operations now.

Sanjay Gupta: On the CAPEX front, we have already utilized the capacity of 1.8 million ton almost to APL Groups. Now, we are acquiring a new unit - Shankara. This adds to our capacity by 0.2 million ton and 0.3 million ton we are acquiring Apollo Tricoat. So, our total utilized capacity I can say is close to 2.4 million ton. All the CAPEX is already done. In this year, we have an outflow of 200 crore for all these activities with some normal maintenance CAPEX and Rs. 50 odd crore coming by the capital infusion by the promoter. So, I think the total outflow of the CAPEX is Rs. 150 crore. And with this CAPEX of Rs.150 crore, we are ready for 2.4 million ton. We don't think that we have now any other requirement for the CAPEX. If our 2-3 quarters are going ahead with our reasons, then we think about the CAPEX for the 2020-21 or 2021-22 because we have a lot of spare capacity to first utilize and improve our ROC, ROE, free cash flow, operating cash flow, whatever the numbers are we are targeting. This is our vision.

Ankit Merchant: Sir, how do we see the steel prices going ahead and what is the thumb rule according to you? How much EBITDA per ton we would be planning to achieve in this particular year?

Sanjay Gupta: In the last year if you see our operational EBITDA, we are close to 450 crore with volume of 13.4 lakh ton, almost close to Rs. 3,350. Now, we are targeting with a lot of value additions in the APL Group apart from the Tricoat. We are targeting EBITDA close to Rs. 3,600 or Rs. 3,700 per ton with the help of the DFT and we have also started backward integration in the cold-rolling CRFH mill. One is already started in Delhi plant and one is going to start in the next 2 months. So, with all the steps we have taken, our EBITDA Rs. 3,600 to Rs. 3,700 per ton we are targeting this year.

Ankit Merchant: Sir, this time your raw material cost per ton was close to 47,000 for the whole year. I am talking on the blended basis. So, going ahead, with the current prices, where will we end at on the raw material cost per ton?

Sanjay Gupta: In our balance sheet, we close our stock at the price of near Rs.40,000 per ton. And in India, there is a lot of duty markup laid by the government close to \$500. If the price goes down beyond \$500 in India, there is no impact. So, \$500 multiplied Rs. 70 plus 1,000 is almost close to Rs.36, 500 is the bare minimum price in India. On this price, the RNO price are now more than \$100 and the coke price is more than \$200. The plant costing are more than Rs. 30,000 to Rs. 31,000 per ton. I don't think there is a lot of chance to any major correction in the raw material price now in India. Maybe 500-1000 is okay but I don't think more than this, we are thinking that the price should go down and for the upside, the auto industry is witnessing a slowdown and also there is lot of capacities are coming in the HR coil in India like the Steel Authority in the month of July, they are starting two plants by capacity of 2 million ton, NMDC is also starting a capacity of 3 million ton in the month of December or January, Dolby plant of JSW is also coming with a capacity of 5 million ton. So, I don't think in India also, there is any chance of any sharp increase in the price.

Ankit Merchant: So, that will mean that we don't face any inventory losses or neither do we plan to gain because that will help us because what we have seen in the Q3, we had lot of impact of that. So, I don't think so we could be repeating that thing.

Sanjay Gupta: Yes, and also we are now careful because we were hit badly in Q3, now we are also very careful.



- Moderator:** The next question is from the line of Trupti Agarwal from White Oak Capital. Please go ahead.
- Trupti Agarwal:** I have just a few questions – 1) I just want to know what is the capacity that is coming from DFT? Given the EBITDA per ton from DFT, if you would be able to tell me what were the volumes from DFT in the full year FY19?
- Ashok Gupta:** Currently, we have got 8 lines of DFT and these 8 lines give us a capacity of around 6 lakh tonnes all the total capacity. Obviously, capacity depends on what kind of production is being taken up. We have already produced last time production of around 3.2 lakh tonnes and going forward, this utilization will further go up and should be around 80% to 85%.
- Trupti Agarwal:** Just now like Sanjay Ji said that we have done an EBITDA of 3500. I just need one clarification. Full year EBITDA is about Rs.400 crore and if I see the volumes, total volumes are about 13.3 million. So, on that basis, my EBITDA works out to Rs. 3,064. Now what I just want to understand is that this Rs.3,064 is including the inventory loss. Is it on the net basis and that is why it is Rs. 3,064 or how is it Rs. 3,500 and how did you get that number?
- Ashok Gupta:** Your understanding is quite right. Apart from Rs.400 odd crore EBITDA that we have reported, there is an inventory loss of around 40-45 crore. If you add that too, the total EBITDA will be close to 450 and on a per ton basis Rs.3,350. This is what we are mentioning.
- Trupti Agarwal:** Now that we are aiming for Rs.3500 to Rs.3600 in the next year, I just want to know that what would be the product lines from which we expect this EBITDA because I think the Black Pipe and the Hollow Section; I don't see any reason why the EBITDA could improve there. DFT currently we are reporting an EBITDA of close to Rs.3,000. Just curious to know that where do we see which product lines would give more EBITDA going forward in the next year?
- Ashok Gupta:** There are 2 shifts taking place which will give us an improvement in the EBITDA. Apart from the Tricoat which we will get, one shift is towards GP pipes. As you see, our GP pipes give us pretty good EBITDA and those volumes are going up day by day, and secondly with all the DFT lines being commissioned now, there will be some movement of material from normal to DFT and DFT utilization also will go up. So, most of the increase in volumes will come from DFT which again will increase my average EBITDA, and thirdly as you would recall, we have been talking to you for quite some time that we have set up cold-rolling mills which will enable us to buy thinner materials like 1.2 and 1.4 mm in-house rather than buying it from outside. Obviously, the cost will be lower there which again will add to the EBITDA. So, EBITDA is coming from 3 areas; one GP, one DFT, and one cold rolling apart from the fact that overall we expect the pricing to slightly improve because of the massive branding exercise we are undertaking. As I mentioned in my opening remarks, we are going for a big campaign, spending a significant amount of 25-30 crore even more bringing in TVC, bringing in printed, bringing in BTL activities, all this and today if you aware, we are the first mover in this line. Nobody else is doing this kind of branding and history will show that the first mover always owns the category. Currently we are already having 26% to 27% of market share in hollow section and GP. You think of a situation when apart from the dominance, you also own the category. At that time, you can think of the EBITDA level you will enjoy.
- Trupti Agarwal:** Sir, just one last question on Apollo Tricoat. Just want to know what is the kind of volumes that we are targeting here and what would be the EBITDA per ton that we are looking at in Apollo Tricoat?

- Sanjay Gupta:** Now, the Tricoat is on the CAPEX mode but I think all the CAPEX are done within the month of June. In Q1, we are targeting at a volume of 10,000 to 15,000 ton, but from Q2 with sharp utilization in the capacity, we are targeting almost 35,000 to 40,000 ton, and in the Q3, we are targeting 40,000 to 50,000, and in Q4, I think we will come to the 100% utilization of capacity. Our total capacity of the Tricoat is almost 0.3 million ton.
- Trupti Agarwal:** What would be the EBITDA in the Tricoat product, blended basis? I understand there are 2-3 different products.
- Sanjay Gupta:** We still have only 1 line on the running mode, which is the ILG. This is going very good. But doorframe is to come in the month of June. I think the EBITDA is close to between 7000 to 8000 metric ton.
- Moderator:** The next question is from the line of Vikash Singh from Philip Capital. Please go ahead.
- Vikash Singh:** Sir, I just want to understand that in your presentation, you have written that Shankara would be buying 2.5 lakh ton of pipes from you in 2020. This is specifically buying in that single year or it is spread over a number of years or the pricing has been fixed for those pipes or it would be depending on that time of the current pricing level?
- Ashok Gupta:** Shankara is our regular customer for past so many years and we have got excellent relationship with the Shankara and the group. They have been taking material from us in almost 7 to 8 states. We have a very good relationship. We are only strengthening this relationship. We have entered into what we call an arrangement whereby over the whole year, month after month, they will be buying from us. The total quantity in the year should exceed 2.5 lakhs as mentioned there, this is for the whole year, and this sale will not be at any particular price. This will be at the same terms which are applicable for all other dealer-distributors. There is no special pricing per se. This will be at our normal pricing and terms.
- Vikash Singh:** How much they are buying right now? Just wanted to understand what kind of the incremental sales could come from this arrangement.
- Sanjay Gupta:** Last year, they bought from us almost 50,000 ton. In the month of April, they bought from us almost 12,000 ton, and this month, I think they have ramped up to 14,000 or 15,000 ton. And from this month, their Hyderabad plant is now handed over to us. I think from the next month, they are close to 20,000 ton.
- Vikash Singh:** Sir, if I look at our product mix, mostly we have sold higher amount of Hollow Section. Can you just tell me that if the product mix is deteriorating, then overall EBITDA per ton improvement for the next year how we are planning?
- Ashok Gupta:** I will say the product mix is improving, not deteriorating. And the reason for the same is which are the elements where we are dominant and which are the elements which give us better EBITDA. So, you will observe that the element which gives us the highest EBITDA or better EBITDA is GP pipes and we are showing good growth in GP pipes year after year. Again, if you see, within Hollow Section where we are so dominant - our market share has been 26% to 27% - here again, our growth is good and this again gives us a better margin because in DFT, our margins are almost Rs. 3,000 per ton as against Black Pipes where the margins are lower. If you combine the two, which is GP plus DFT, our margins are improving and will be further improving with the branding. These 2 products where we are so dominant, our margins are improving, EBITDA is improving. So, overall on a product mix basis, EBITDA will further improve.

- Vikash Singh:** Sir, we have talked about 2 cold-rolling mills as a plan to back integration. What would be their total output once both the lines are completed and what kind of cost saving per ton we are looking from it?
- Sanjay Gupta:** The capacity of both the lines is almost 4 lakh ton per annum and the cost saving on this line is I think close to Rs. 1,500 per ton. We are paying almost Rs. 3,000 per ton to our suppliers. Now, our cost is reduced by Rs. 1,500 per ton.
- Vikash Singh:** Sir, just one last question. If I look at the blended realization, this quarter also, it has been on a downward trend. Currently, given the stock at your hand even at a lower price - you mentioned Rs.40,000 - can we expect some more inventory losses in coming quarters or we are done with most of the losses last quarter itself?
- Sanjay Gupta:** We have already absorbed everything. Now, I don't think there is even 1% of chance for inventory loss.
- Moderator:** The next question is from the line of Pallav Agarwal from Antique Stock Broking. Please go ahead.
- Pallav Agarwal:** I had a question on other operating income. I think for FY19 if I compare with previous year, this year I think we ended up with almost Rs.258 crore of other operating income compared to Rs.179 crore in FY18. What is the nature of this other operating income and why has it gone up so much?
- Deepak Goyal:** It is only routine rejections and scrap material sales only. It is directly linked with the sale. In the top line, we have 2 components. First is the finished goods product and second is the other product, the byproduct. In pipes, the byproduct is the scrap and rejected pipe and in the galvanized is the zinc and zinc byproducts. It is a directly linked business. In absolute terms, you are seeing the increase but in the percentage terms, it is linked with the sales only.
- Pallav Agarwal:** So, this is a sustainable thing. With the volumes going up, this should be sustainable.
- Deepak Goyal:** Definitely. It is directly linked with the sales.
- Pallav Agarwal:** The other question was I think in the presentation, there was this amount raised from the promoters, if I understand out of the warrants, I think only 25% of the money would have come right now and balance would probably still has to come into the company. Is that correct?
- Deepak Goyal:** Yes. In the promoter issue, there are 2 parts. One is the 4 lakh we issued the shares. For that, entire money we have received already on 12th April and 5 lakh we issued the warrant at the rate of Rs. 2,000 per share. For that, 25% money is already received on 12th April and balance will be received by October or this year only.
- Pallav Agarwal:** So, that would probably now fund I think the CAPEX we were probably mentioning about 150 crore in FY20.
- Deepak Goyal:** Yes, definitely. It will be contributing to over acquisitions and CAPEX.
- Pallav Agarwal:** Finally, on our debt, are we confident of maintaining our net working capital days at this level of close to 28 days?

- Sanjay Gupta:** This year, in FY18-19, our stock is almost Rs.780 crore, our debtor is almost Rs.540 crore and creditor is about Rs.700 crore and debt is close to Rs.810 crore. These are the 4 figures related to the financials. Now, we are targeting to reduce the stock from Rs.780 crore to Rs.600 crore and we are targeting the debtor to reduce from Rs.540 to Rs.500 crore and also we are going to reduce our creditors from Rs.700 to Rs.600 crore our target for this year. And also we want to reduce our debt by Rs.810 crore to about Rs.600 crore. Because what has happened is now all the plants are well equipped with the stocks. Now, if we sell 1 lakh ton or we sell 1.5 lakh ton or 2 lakh ton sale, we don't require more inventory because whatever service we want to give to our customer, we have already enough stock at our end. So, we can service the customer very well. On the debtor side, now we have a very good relationship with the bankers and our dealers Now, bankers are very aggressively taking our debtors on their channel financing system. On that, without any cost to APL Apollo because we are now too much comfort with our distributors because the track record is very good. So, with these 2 types of activities, we are thinking that we can improve our operating cash flow also as well as free cash flow also.
- Pallav Agarwal:** So, basically even if volumes go up to push that, we don't see an increase in the debtor?
- Sanjay Gupta:** We are required to stock more than 1.5 lakh ton because our practice is 1.4 lakh ton for existing system and 10,000-ton addition for Shankara acquisition in Hyderabad. So, we don't require any stock more than 1.5 lakh ton.
- Moderator:** The next question is from the line of Abhishek Ghosh from DSP Mutual Fund. Please go ahead.
- Abhishek Ghosh:** Sir, just wanted to understand one thing. When will Shankara's this thing will get effective in terms of in our volumes and that start getting reflected?
- Deepak Goyal:** From Q2, Shankara results will be coming.
- Ashok Gupta:** The transaction is going through. There are some formalities we have completed. We hope to start looking after the operations from June onwards, anytime in June, as soon as the formalities are over. So, the results would be coming up for us from 1st July if not earlier.
- Abhishek Ghosh:** So, for about 9 month's period, effectively it should be accountable for our operations. Is that a fair assumption?
- Ashok Gupta:** You are right, 9 to 9-1/2 months, we will be having the benefit of the Shankara operations.
- Abhishek Ghosh:** Sir, we should assume a 60% kind of utilization from there on an average from the Shankara unit for the first 9 months?
- Ashok Gupta:** Yes, 60% is the minimum we will target. We will try to go even further but definitely 60% is something which is the baseline.
- Abhishek Ghosh:** Then we are talking about almost something like 90,000 to 1 lakh ton can only come in from incremental volumes from Shankara and another 35,000 to 40,000 ton probably can come in from Tricoat. Would that be a fair assumption?
- Ashok Gupta:** You are right. I think your assumption about Shankara is pretty good. It will be around more than a lakh ton, in fact much more than that 1 lakh ton, 1.2 lakh ton.

And similarly, Tricoat also has a good capacity and once the Tricoat as we were mentioning from 1st June onwards it will be giving us results, so from Tricoat also, we are expecting anywhere between 80,000 to 1 lakh or even 1.2 lakh ton.

Abhishek Ghosh: Because I was coming from is that 90,000 to 1 lakh Shankara will give us incremental volumes, Tricoat will also give us that 70,000 to 80,000 kind of volume. When we are talking about that 20% kind of a growth, majority of that is coming from these acquisitions. I was trying to just understand that this 20% is a conservative number from that aspect.

Sanjay Gupta: What happened in the last year was we hit badly on the volume and the margins also. So, we don't want any compromise with our margins. In the existing system, we are doing 1.25 lakh ton very comfortably. 1.5 x 12 if you think 15 lakh ton. 1 lakh ton add with the Shankara. This goes to 16 lakh ton. This will fulfill our commitment of 20% of growth and 1.5 lakh ton from Tricoat is additional, but if we do the volume without compromising on our margins, then we are going for further volume because we have a capacity of 2.4 million ton. We have no worry to do more volumes. But we are not going for further volume to compromise with our margins.

Abhishek Ghosh: Sir, would it be fair to assume that we will maintain our market share at 18% on an overall basis? We would look to at least maintain that?

Sanjay Gupta: We will increase our market share.

Abhishek Ghosh: Just one more thing. If I look at your product basket, while volume growth has come in healthy from GP and Hollow but GI is something that we have kind of struggled with. If you can just help us out with the reasons for the same and our positioning? Because when we acquired Shankara's unit, a good 30,000 ton kind of volume is GI also. How do you look at that? If you can just help us with that because that is also a higher-margin product.

Sanjay Gupta: We are in the 4 types of business. One is Black Tubes, other is Galvanized Tubes. I am not strong in both of these segments. I am very strong in the Pre-Galvanized tubes and the Hollow Structural Tubes. With the exercise of branding, what we have done in the IPL, now we are going for more TVC and more ATL and BTL activities because we have a very, very huge ambition for the branding this year. GI is the market of branding and that our other healthy competitors like Tata, Surya, and Jindal are very good brand names in both the sectors of Black and Galvanized. I think now we have the capacity of almost 1.5 lakh ton per annum capacity now we have with us. I think we can catch it. Like I earlier said, this year my focus totally is on the free cash flows, operating cash flows, ROE, and ROC. I don't want to take any pressure on my vision to compromise on any margin. If volume is done, I have the capacity will happen on its own. I do not have to do anything. I have the systems, I have the organization, I have the capacity, and the market I have the distribution network channel, I have the branding, and I have the purchasing strength. So, I am not worried about the volume now. Up to last year, I was worried about the volume and the margins. But now I am very confident that all my systems are on track, not to worry but see how I improve these things and I think you got the good results.

Moderator: The next question is from the line of Kumar Saumya from Systematix Group. Please go ahead.

Kumar Saumya: My question is regarding the working capital improvement. We are seeing it on the back of payment days improvement in the last around 10 days improvement. Do you think this is sustainable or is it just because of the volume pick up in the last quarter?



- Sanjay Gupta:** My gross working capital is almost close to 65 days in the last financial year and the net working capital is 27 or 28 days. Now, we are targeting to improve this 65 days to 50 days and 27 days to 23 or 24 days.
- Kumar Saumya:** About the accounting question. What is the current maturity that we have on the books right now for debt?
- Deepak Goyal:** Current maturity is around Rs.125 crore.
- Kumar Saumya:** The jump in other expenses that we are seeing in this quarter, what are the line items that are moving that number currently?
- Deepak Goyal:** Basically, the freight component. In the year-on-year, the numbers are almost same. In the quarter, it is slightly increased due to the changeover sale policy from ex-works to FOR. That's why freight component has come in the other expenses.
- Moderator:** The next question is from the line of Ashish Poddar from Anand Rathi. Please go ahead.
- Ashish Poddar:** Sir, what is your view of demand shifting from metal pipes to PVC pipes? Is this shift still happening or has it largely been done?
- Ashok Gupta:** Let us talk about shifting from steel to PVC. Shifting from steel to PVC will take place only in plumbing pipes. So, you would observe that our 70% to 80% products are Hollow Section and GP where PVC products don't even exist. Other black and GI also is mostly for irrigation purposes or other purposes where again the presence of PVC is very limited. So far as we are concerned, impact of shifting from metal to PVC is almost negligible. On the other hand, there is second process which is taking place I think in a big way and that is shifting from wood and cement to steel and that's why the demand for Hollow Sections and GP pipes is increasing much faster than the steel consumption or for that matter overall pipe consumption. This shift in demand which we are seeing from wood to steel pipe is so strong that today even the furniture which used to be typically made of wood is shifting to our Hollow Sections. So, I must say that the impact of shifting from steel to PVC is negligible for us. On the other hand, shifting from wood and cement to steel pipe is very significant for us.
- Moderator:** The next question is from the line of Nitesh K from Axis Capital. Please go ahead.
- Nitesh K:** Congratulations on a good set of numbers. My question is regarding APL's current stake in Tricoat and has there been any increase post the conclusion of open offer? We wanted to take it up to like 65% to 70% range. Where are we placed currently?
- Deepak Goyal:** Right now, we are requiring more than 50.62% only. Already everything is in process. The shares are under transfer. Within this month or in the early next month, shares will be transferred in the name of Shri Laxmi Metal Udyog. Right now, we are requiring the controlling stake only, 51% not more than that.
- Moderator:** The next question is from the line of Dhruv Jain from Ambit Capital. Please go ahead.
- Dhruv Jain:** Sir, I had 2 questions. First question, we have seen a sharp increase in employee benefit expenses this year, about 25% increase. What has been the reason for that?
- Ashok Gupta:** If you observe, there is always an increase in the employee benefit cost of around 10% to 12% year on year. Since the performance has been good, obviously we

want to reward and make all the employees a part of the whole thing as well. So, the increase is only to the extent of around 20% to 22% but our sales have increased much more than that. So, I think in view of the increase, both in the normal increase in the salary and wages as well as volume increase, that is why and secondly what is happening is if you observe, we are going for slightly backward integration. Also, we are trying to create an organization which can handle a volume of around 2.4 million ton in days to come. Obviously, all this will require a very good strong. So, I think a couple of things. a) Increase in volumes to around 2.4 million-ton, b) Going backward integration, c) Building a big brand, all this requires good manpower and this is our asset on which we have built APL Apollo till now and this will continue to remain our asset in days to come.

Dhruv Jain: Second question is that we are seeing other building material companies kind of struggle in this quarter. What has driven the growth for us? Especially what geographies have driven the growth for us this quarter?

Ashok Gupta: I think we have been trying to be much more focused on our operations. We have focused on the consumer segment, we have focused on the convenience of the consumers, and we have focused on things which they like. All geographies are giving us very good volume growth. In fact, the growth of 40% which you are observing is almost uniform across South, West, North, and even East has been much faster than that. We have been focusing on the domestic market. We have been focusing on new products. One thing which has gone in our favor has been our focus on Sections and GP. As I was mentioning to you, demand for these 2 products is growing faster because of replacements of wood and cement by Section.

Sanjay Gupta: Due to DFT, we can cater to lot of new types of requirements smart customers want. We can give them the 24 hours service. Earlier, they had to wait for 2-3-4 months. Just right now, one requirement came to us for 280 square 10-mm thickness from L&T. I think this order is for the steel plant or airport. Earlier, they had to wait for 4-5 months to import the material from Europe Tata Corus. Now, we have been giving them within 3 days. So, this type of lot of new requirements we are now going to cater with our DFT facilities. I think what we had taken a step for DFT 2 years before, now we think that we are getting the results but it has taken time. We have improved our services. Earlier, we used to have a pending order of 15 days in our systems. We are now servicing the customer in 2 to 3 days for the special sizes. This can improve our market share also and the volume also.

Moderator: The next question is from the line of Kiran Naik from Moody's Fincap. Please go ahead.

Kiran Naik: I have one question. You have told that there will be a 20% volume growth. How much will be the EBITDA margin for FY20?

Ashok Gupta: We mentioned to you that our growth in volume will be over 20% and we are targeting that EBITDA over our operational EBITDA of around Rs.450 crore should be at least 25% more. So, if you see, we are targeting at least 25% growth in EBITDA over & above 20% growth in volumes.

Kiran Naik: What will be the revenue growth for FY20?

Ashok Gupta: If Steel prices do not change much, our company's growth will obviously be more than 20%. If our volume growth is same, we are expecting the prices to remain stable at the current level of around Rs. 40,000 per ton.



Kiran Naik: What is the timeline for you to pass on the raw material price increase to the customer?

Ashok Gupta: What typically happens is that all the steel plants have a normal system whereby they effect the increase in raw material prices or decrease in raw material prices from 1st of each month. They may announce it in couple of days or 4-5 days and we may take a day or two more to work out our own pricing. So, anywhere between 7 to 10 days in the time taken for passing on the price increase or decrease to the consumers in the market.

Moderator: The next question is from Trupti Agarwal from White Oak Capital. Please go ahead.

Trupti Agarwal: My question is to Mr. Deepak. Deepakji, if you can please help me understand in Tricoat what would be the net asset that would be taken? Meaning what would be the net assets of Tricoat in terms of let's say net block and net working capital as at March 2019? And I just want to clarify that I think we are going to pay about Rs.188 crore for the 50.6% stake?

Deepak Goyal: For Tricoat, their financial is not with me right now. I will get back to you later on. Right now, it is not our subsidiary.

Moderator: The next question is from Pallav Agarwal from Antique Stock Broking. Please go ahead.

Pallav Agarwal: Deepakji, one more clarification on the Tricoat thing. Once we do acquire, the balance stake would be under minority interest, right? So, when we present our accounts after we acquire Tricoat, the balance 49% would be shown as share of minority. Is that the correct understanding?

Deepak Goyal: Right, 49% will be shown as minority interest.

Moderator: The next question is from the line of Bhavin Chedda from Enam Holdings. Please go ahead.

Bhavin Chedda: Sir, what will be the CAPEX for FY20?

Sanjay Gupta: Close to Rs.200 crore.

Bhavin Chedda: This includes the Shankara Facility what you are acquiring?

Sanjay Gupta: Everything.

Bhavin Chedda: But this doesn't include the 50% payment you would be making for Tricoat?

Sanjay Gupta: I think lot of the payment already made in the last financial year.

Deepak Goyal: Excluding Tricoat, Rs.200 is including the Shankara but excluding Tricoat.

Bhavin Chedda: What was the net debt number as on March 2019?

Deepak Goyal: For APL Apollo?

Bhavin Chedda: Yes, consolidated.

Deepak Goyal: Rs.810 crore.

- Moderator:** The next question is from Nitesh K from Axis Capital. Please go ahead.
- Nitesh K:** This is just a follow-up question. Sir, what was the difference between the DFT and the regular Hollow Sections in realizations in Q4 as well as for FY19? I believe it was only Q4.
- Ashok Gupta:** As you know, when we say DFT, we are talking of a couple of special things. We are talking of sections which are very high side sections more than 200 mm each side, we are talking of odd sections which cannot be made by the conventional technology, and we are talking of short-term duration for supplies. So, there are a lot of advantages which people have over a typical normal pipe. So, on an average, we are able to realize about Rs. 1,000 more per ton as compared to what we realized in normal sections. It depends on size to size. Some times it could be Rs. 100 to Rs. 500 more, some times it could be Rs. 2,000 to Rs. 5,000 more. Suppose somebody is looking for a section like 300 x 300 or they just mention 280 x 280 which nobody else in India is currently making, so obviously our margins are much higher in the range of Rs. 4,000 to Rs. 5000 per ton but if we are talking of sections which are smaller in dimension like 80 x 80 or 100 x 100 which could be made by other people, the margins are slightly more to the extent to Rs. 1,000 to Rs. 2,000 more.
- Nitesh K:** Do you have the breakup for FY19 handy, the realizations from DFT and the realizations from other normal Hollow Sections?
- Ashok Gupta:** The difference in realization between the two is around Rs. 1000 per ton for the whole year. If the realization for X may be around normal pipe if it is around 46-47, it is 48,900. This is overall. So, if it is 48,000 for normal, then DFT realization is 49,000.
- Moderator:** The next question is from the line of Bobby Jain from Falcon Investment. Please go ahead.
- Bobby Jain:** I have a more fundamental question. Given that your raw material cost is around 70% to 80% of your sales and your value add is relatively low giving a high asset turnover, what is really the barrier to entry in this business? Couldn't the steel mills themselves get into this?
- Ashok Gupta:** If you see the history, Tata Steel were the first ones to start a pipe mill ages back, biggest, old. But where are they today? Their total volume today is not even half or one-third of our volumes. What happens is globally it is observed that steel plants are not very good at steel pipe making. So, there are not many steel plants worldwide who are very strong in steel pipes. Steel pipe is more of a standalone situation and it has lot to do with the way it is marketed, the way it is sold, the way it is distributed. Steel plants are typically aware or would like to do business in thousands of tonnes each transaction. Steel pipes on the other hand are sold in meters, maybe 10-15 tons small tonnage. So, the mental makeup is very different. That is the reason why it is not normally seen that steel plants entering this kind of business.
- Second thing is we have created a distribution network which is so deep that it is difficult to break. We have more than 400-500-600 dealer distributors all over the country. They are in tier-1 cities, tier-2 cities, tier-3 cities, in small corner, district, talukas, and it is very difficult to replicate this kind of distribution network. On top of that, we are going for branding whereby when you will say a pipe, when you call a Hollow Section, you will think of only APL Apollo.
- Thirdly, steel plants typically are having a facility normally in one part of the country. For example, Ballari or for that matter in Jamshedpur. While this is one item which is



very, very heavy on transportation cost, we have our plants in 6 different locations throughout the country. Steel plants will find it very difficult to create that kind of infrastructure.

And I think lastly I must say that we are servicing 1,100 different SKUs. Steel plants will find it very difficult to handle that. So, I think all these factors are there. That's why we are kind of a protected industry.

Bobby Jain: Talking about the inventory loss, how long you typically hold the inventory?

Ashok Gupta: Typically, industry operates at 35 to 40 days' inventory. So, whenever there is an inventory loss, it occurs only in that part of 35 to 40 days. Going forward, since the volumes are going up, our number of days inventory should come down to around 30 or even below that.

Bobby Jain: Essentially inventory loss is a part of your business model, right? It is not really one-off, it is a risk for your business. Isn't that a way of looking at it?

Ashok Gupta: What you are saying is right but let us observe the risks involved. What we are talking of is inventory of around let us say 30-35 days, so 1 month inventory. The steel price is going up or down by let us say 1% or 2%, the inventory risk is hardly 0.1% or 0.2%. Then, if you see over a year, generally over a year, the prices may go 10 go up and go down. So, you are talking of a very, very limited change in a particular month. Hopefully, as you would have seen in most of the good products, for example, cement or paint or any other industry, when the brand become strong, the pricing power improves, and with that pricing power will come that we will be able to withhold prices despite change in the raw material prices.

Moderator: That was the last question. I would now like to hand the conference back to the management team for closing comments.

Ashok Gupta: I must thank all the participants. It was a wonderful interaction. We had good insight into the business, and as I mentioned to you, the good days are going to come again with Modi coming again. So, I think much more better days are ahead of us, things are happening, and with lot of changes in the environmental laws, particularly there is a big movement against usage of wood which we are also participating in our own fashion and the new products we are bringing like Door Frames and Hybrid Pipes, we think that our volume growth and our EBITDA growth and our business growth will continue and we will reach new heights in the years to come. Thank you so much for your participation.

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