



“APL Apollo Tubes Q3 FY-16 Earnings Conference Call”

February 15, 2016



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MODERATOR: MR. SALIL UTAGI- SYSTEMATIX SHARES & STOCK LIMITED



*APL Apollo Tubes
February 15, 2016*

Moderator: Ladies and gentlemen good day and welcome to APL Apollo Tubes Q3 FY16 Earnings Conference Call hosted by Systematix Shares & Stock Limited. 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 this conference, please signal an operator by pressing ‘*’ and then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Salil Utagi from Systematix Shares & Stock Limited. Thank you and over to you sir.

Salil Utagi: Hi all, we welcome you to 3Q FY16 conference call of APL Apollo Tubes Limited. We have with us is from the management Mr. Ashok Gupta-Managing Director, Mr. Deepak Goyal-CFO and Mr. Gaurav from Kanav Capital. Now I handover to Mr. Gaurav for his opening remarks. Over to you Gaurav.

Gaurav Sud: Thanks Salil. Welcome everyone and thanks for joining this Q3 FY16 earnings call for APL Apollo Limited. The results have been mailed to you along with the press release and are also available at our website, in case anyone does not have a copy of the press release. Please do write to us and we will be happy to send it over to you. To take us through the results of this quarter and answer your questions we have today with us Mr. Ashok Gupta-MD of the company and Mr. Deepak Goyal, who is the CFO. We will be starting this call with a brief overview providing a brief of the company's performance and then we will follow it by a 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 construed as a forward-looking statement must be viewed in conjunction with the uncertainties and risks that they face. These uncertainties and risks are included but are not included to what we have mentioned in the prospectus filed with Sebi and subsequent annual report which you can find on our website. With that said, I now turn over the call to Mr. Ashok Gupta.

Ashok Gupta: Good afternoon everyone and welcome to the conference call. I am happy to share with you the performance of the company. We are all aware that there are difficult times and each one of us is passing through difficult times, the economic conditions are not good, the prices of most commodities have been falling over the years and situation in the country is also not much better with key reforms measures being delayed over and over. Despite all these problems the company has done slightly better. Volumes have again grown over last year by around 25%. Most of you have the numbers that we are normally talking of 25% growth year on year in this quarter also we were able to achieve it, this is despite the fact that the sentiment in the market are pretty bad because every month or every quarter the prices of raw material have been declining. Now this sentiment has obviously got passed on to the market and people are reluctant to buy steel or pipes for that matter. Despite that there has been improvement however the top-line has not been able to grow because what has happened is that the decline in prices, this year the total price decline is of the order of around 27% to 28% over last year. Whatever gains we are having in terms of volume have been taken off by this decreasing prices

so you will see that the revenue is not growing even though the volumes are growing. Notwithstanding that we are now focusing on our margins and our future plans. What we have got is we have been able to improve our margins. Last year our margin used to be only around--I'm talking from the manufacturing activity--about 7.6%. This year from manufacturing we have been able to get around 9.4%. Overall you will be observing the margins have gone up from 6.7% to 8%. This is a big change because typically over past few years, we were trying to improve our margins from (+) 7% and now we have been really able to go to 8% to 9%. Hopefully in the futures these margins will be maintained. There have been lot of decline in the prices and because of that we have taken stock loss. Now this stock loss has written into our bottom line. Hopefully, you all may be aware that government of India has announced a minimum import price. With this minimum import price, imports into India in the future perhaps after a month or so will reduce drastically. This will help us in stabilizing and improving the prices further. So we hope that the stock loss should be a thing of the past and in years to come the prices and the stock gain should start.

Going to the future, we are planning to continue our journey. All of you are aware that we have been growing, evolving around 25%-26% every year and we hope to continue this journey in the future as well. Toward this end we have setting up many new facilities. To begin with we are working on the Brown field expansion; already plans are afloat to increase the capacity from about 1.2 million ton at present to 2 million tons. So once we increased from 1.2 to 2 million that will be big jump. So this jump we are planning to complete in the financial year 17 may spill over in financial year 18. This growth obviously is going to be leading from front, we plan to spend around 200 crores next year to fund this expansion. Most of it will be from internal accruals, a part if required--depending on situation, we will take—for which we already have **NCD** approval in place.

We are also bringing in some new technology, in last con call also I mentioned that we are going in for what we call HSU which is basically hollow section universal mill, what the mill does is, it can make very different sizes and sections at the short notice without changing any new roles. So this is a new concept which was developed internationally around 4-5 years back and we are the first one to bring it to India. This should help us in a big way; in a way we feel that this will revolutionize the industry. This implementation should start from next year and the benefit also. So these are in short our plans, our plans till now have worked. They have been in time and in place, almost as per schedule so we hope in future also our plans will be as we had planned. So with these few words I now open the discussion for question and answer. I will request all of you whatever questions and concerns you have, bring them forward. Thank you.

Moderator: Thank you very much sir. We will now begin the question and answer session. We have the first question from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: You mentioned that inventory loss has happened in this quarter also, so if you can quantify that and also for the nine months if you were to adjust the margins for us and the adjusted profit,

had the inventory losses not been there how much you would have made? My second question is the new steel pricing policy that government has introduced, what impact--generally you guys have been able to pass on everything-- but is the demand strong enough to do that? What do you expect going forward next year, how is the demand looking like? Volume wise I'm assuming that the steel prices will be more or less constant from here now, so if you can just give the guidance of that much? I missed one number, you mentioned 200 crores CAPEX that will be taken entirely in 17?

Ashok Gupta:

So far as inventory loss is concerned, this inventory loss for the quarter and nine-month, in Q3 12.67 crores and on nine months it is 47 crores. Going forward of course this inventory loss will not be there. The new government policy says that the import prices have been pecked at around \$445 which means imports are practically ruled out so it will be all domestic demand. Now good thing in our industry is that price increase or decrease have pass through. So HR coil manufacturers, they increase the price it will be a pass through for us. Question of course is demand, we would have been observing that we have been normally taking care by taking the market share from others, from the small scale and from the unorganized sector that strategy will continue. So far as overall demand in the country is concerned demand for pipe is continuously increasing and one of the reason for increase is that we have been replacing steel on wood and the concrete requirements have been witnessed by steel pipes. So this replacement will also continue so we expect the demand for steel pipes to continue to grow at around 7%-8% which has been growing in the past few years. So that growth being there and in days to come, small scale sector not doing all that well, it is now for us the demand will be strong enough for us to enable the price passing. You are talking about the next year, well yes, next year we plan to increase our capacity and whatever CAPEX we are planning it will be mostly through internal accrual, most of it will be spend next year itself in maybe a small part from 15%-20% will spill over to FY18 as well.

Agastya Dave:

You mentioned 47 crores inventory loss for nine months, my guess is that part of it will be reversed because now you will see inventory gain because there will be a bump up in steel price, one time. So even if I assume that there is no inventory gain or loss in the 4th Quarter, am I right in saying that had this inventor lost not happened instead of reporting adjusted basis around 90 crores odd that you have done so far in this year, you would have made profit of around 120 crores, 47 crores and then knocking off the tax around 30%. I am saying roughly, is the map right?

Ashok Gupta:

See what happens is when you lose inventory then it is not that whatever the inventory loss we lose everything in the bottom line, it doesn't happen like this. What we try to do is we try to make up something out of it. Suppose my inventory loss is 47 crores then my net loss visible in the balance sheet would have been 30-35 crores, so basically what happen is I tried to make up something so going forward yes definitely inventory gain could be there depending on the HR coil prices but again it may not be as much as the increase in the prices per se are concerned

supposed my inventory value goes up by 20 crores what benefits accrue to memay not be 20 crores, there will be 10 or 12 crores.

Agastya Dave: Correct and this delta, this 35 crores versus 47 crores and 12 crores versus 20 crores, the make-up which you are doing, how does it happen, is it just an accounting entry or is it something else?

Ashok Gupta: When the prices come down we try to delay the process of reducing the prices and similarly when the prices go up the customer's demand that something should be given to me at old prices also. There will be some delta that delta depends situation how much the prices gone up, how much the prices have come down.

Agastya Dave: So as of now you're 47 crores but because of this lag effect, by adjusting bit by bit, you will drag it back up to 35 crores.

Ashok Gupta: Let us see that, let us see that how the price improves.

Moderator: We have the next question from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.

Sachin Kasera: My question was regarding the volumes that you have done, normally the December quarter the volumes are better than the September quarter. But if you see for the quarter, they are lower than the September quarter, so what is the reason? Secondly if you see majority of the growth has come from ERW, your higher margin which is basically the GP and the GI, they have grown at a much slower pace, so if you can throw some light on that?

Ashok Gupta: You are right totally, our Q3 is normally the best but not necessarily. This uniformity of the month sales is changing from time to time. At the point of time November used to be bad and again November was not the best. This year October happen to be not so good so it happens in a year there are 2 or 3 months which are not as good as any other months. So there has been certain downfall in the month of October other than that we had two, November and December were very good months and we achieved much better in that, generally again is going to be good. I feel that yes there is a marginal decline in one of the months what you are observing in the month of Q3 portion, marginal pain is there.

Sachin Kasera: Major growth in ERW and GP, GI..

Ashok Gupta: All the pipes which are there in ERW, whether it is galvanized or pre-galvanized or it is totally black pipes. So far as GI and GP pipes are concerned, the more value-added products are concerned there we have type of stability in production. The production volume in the demand has almost lacking so we are now trying to expand the capacity of both GI and GP. Going forward GI and GP capacity will be increased and that will take care of the increased demand. The numbers are almost stable because the capacity utilization of both of them is between 85%

to 90% so will have to increase the capacity there. What you observed in black pipe is again, the capacity we have increased that's how the numbers are growing in black pipe.

Sachin Kasera: So is it fair to assume that next year your share of GI and GP pipes in the overall sales goes up and the margins would be much better?

Ashok Gupta: I will not say that share will go up; yes our volumes will go up. Volumes of GI and GP both will go up because the increasing capacity in those two sectors. But since we will be increasing the black section as well, increase in share maybe is not very significant.

Sachin Kasera: But unlike this year and next year you will not have lot of capacity constraint.

Ashok Gupta: Correct.

Sachin Kasera: Can you tell us what is the type of capacity you are increasing in GI, GP both this year?

Ashok Gupta: We already have five GI plants, now we are planning to have two more GI plants, maybe one in West and one in South. Those plants are afloat as a part of that CAPEX which we are planning for the FY17 and that will increase our capacity.

Sachin Kasera: Year what is the type of increase we can see in the GI-GP production if demand is there? Can we achieve...

Ashok Gupta: Currently if you observe our GI production that is of the order of around 30,000 tons per quarter which should go up from 30,000 tons to around 40,000 tons by next year maybe.

Sachin Kasera: And the other segment GP?

Ashok Gupta: GP, we are already doing around 35,000-40,000 tons, it should go to around 45,000 tons.

Sachin Kasera: But this will be gradual so will get the impact only over a period of full-year?

Ashok Gupta: Yes it takes time.

Sachin Kasera: Second question was regarding the financial charges, they are also little higher. I believe we have been having a very tight control on working capital and also been able to get very good rate of interest from the bank, so it mainly because we had anticipated MIP and kept high inventory so working investment went up or what is the reason for that?

Deepak Goyal: It is not due to the stock blocking; it is due to the importing transit. We are required to make the payment when the matter is dispatched from the origin country that's why our interest cost is increasing.

Moderator: We have the next question from the line of Agastya Dave from CAO Capital. Please go ahead.

- Agastya Dave:** I wanted to understand employee cost from you, the YOY trend that we have seen and there is this adjustment due to bonus act that so many companies have done. If you can kindly explain what kind of wage inflation and number of people addition will we see over a period of time? Because of the bonus act if there has been any distortion, it doesn't look like it but are there any distortions?
- Ashok Gupta:** No, we have already provided for the bonus to employees so there is nothing new for us. Our system already has the bonus is already there.
- Agastya Dave:** A number of people will be added over a period of time; I mean how will your fixed cost change going forward? Fixed cost because of two reasons like one is employee based and another is the additional number of people that you will add and second what kind of wage growth are we seeing? Since last 3-4 years the vegetable growth we were seeing was around 10%....
- Ashok Gupta:** As the volume grows number of people also grows but it will not be in the same proportion, it will be less than the volume growth. So far increments are concerned normally we are doing 10%-12% increment that policy also will continue in the days to come. So if you see the overall expenditure, if you see the total expenditure on manpower that may continue to grow around 10% to 12% however if you see per ton, the per ton expenditure will come down.
- Agastya Dave:** One thing is not still very clear, what are we going to capitalize this year? What kind of CAPEX number should I assume going forward? I know the total plan but how much maintenance CAPEX will be over and above that and how will it be spread? You mentioned that there will be a spillover of 25 crores in '18, so next year he will you be doing 175 crores CAPEX?
- Ashok Gupta:** Actually the plan today is around 200 crores only, we hope to get our all facilities in place but normally it happens 5%-10% CAPEX the spillover to the next year. We don't plan for it but it happens. So far as this year is concerned, Deepak our CAPEX this year is around 100 crores?
- Deepak Goyal:** Not 100, it's around 70 to 80 crores.
- Ashok Gupta:** Current year was 70 to 80 crores, next year we are planning 200 crores because we are planning a big push in the capacity.
- Agastya Dave:** Liquidity wise there is no problem, I mean the debt which you are going to raise must be tied up?
- Ashok Gupta:** We are planning not to raise any debt at all; we may require minimal debt depending on the profitability. But yes we already have a tie up. We have already got approval for NCD, if required tie-ups are in place. But hopefully we will not need much of increase in that.

Agastya Dave: There is this announcement which was made in last budget that government will be reducing all the exemptions that is given on the tax rates and the actual marginal tax rate will be brought down from 30% excluding the surcharges to 25% over the next 3-4 years. Now we are at believe full tax paying and I am not very sure what kind of exemptions we are getting today. So are we getting any exemptions, what can be cut down in exemptions and if they have lowered our tax rates the way it was promised in last year, what kind of benefits I mean have you done in the analysis on that side?

Deepak Goyal: It will not make much of difference; recently we are paying the tax under the MAT, minimum alternative tax so our deferred tax liability will be reduced in that case only.

Agastya Dave: When is this benefit expiring according to current run rate?

Deepak Goyal: Right now we have five years accruals, maximum 10 years is allowed.

Agastya Dave: Basically you have till 2020 then before 2019 it will go so marginal portion will go and not full?

Deepak Goyal: Yes.

Moderator: We have the next question from the line of Nikhil Kothari from KR Choksey. Please go ahead.

Nikhil Kothari: How is our structural business is doing, are we receiving any new orders in that?

Ashok Gupta: The structural business is what is keeping us alive and growing. Actually now structures and have been I should say accepted very well throughout the industry and my applications are growing day by day. If you see today there is practically hardly any place where people are using wood or people are using aluminium or people are using RCP. Everybody has shifted almost to Steel structures and that is helping us even in a small gates, canopies, railing, or stairs, everywhere people have shifted to steel structures. That business is growing at around 7% to 8% per annum and that growth should continue. In case the economy grows faster than 6%-7% now then this demand will grow maybe 10%-11%. Steel structure demand is likely to grow much faster than the economy, I think the demand is good.

Moderator: We have the next question from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.

Sachin Kasera: Few days back there was announcement by our competitor based out of North,Surya Prakash, they have intent to put up a very large facility in southern India. Will that have any impact on the margins of our southern market?

Ashok Gupta: I think there are many companies who have been thinking of setting up plants in all over the country. But somehow depending on the economic condition and the condition of the industry

particularly, not many plants have come up. Anyway we always welcome competition because it helps us in the growth of industry per se. We are already the largest player and our capacity is almost 3x the capacity of other players. More than that we are focusing on our brand, we are focusing on a new product. Some of the new products which we have introduced in last few years, their volumes have grown significantly, particularly like double door frame and window frame, etc. So these are the things which are helping us and the popularity of our brand is also improving day by day. In short I must say that definitely whenever any competition comes it can have some implications but since we have become significantly strong in our old field, we are not really having any fears of the competition happening in near future. So even if they think of setting up the plant today, it normally takes 2 to 3 years so let us see what happens on success of the plant.

Sachin Kasera: If I see your November 15 presentation, you have given the breakup between MS Black, the GI pre-galvanized tube and galvanized tube and hollow sections but your quarterly release only gives the breakup between these three so if you can give us what was the growth in the hollow section that will be really of good help.

Ashok Gupta: Actually whatever growth you're observing is entirely coming from hollow section because our rounds are almost stagnant. Why we are not trying to differentiate between the two today is because the prices of hollow section and black tubes are almost same, not much of a difference.

Sachin Kasera: But your margins I believe are better in hollow vis-à-vis black, right?

Ashok Gupta: Yes margins are slightly better because production cost comes down. So the margins are slightly better so we're focusing on hollow section. Our growth is coming only so far as black pipe is concerned, mainly in hollow sections only, not in rounds.

Sachin Kasera: Hollow is mainly on the consumer and retail side, is that understanding correct?

Ashok Gupta: Yes our sales are mostly in the retail side; our 90% sales are through distributors who are mostly giving it to consumers and retailers.

Sachin Kasera: In the preparation to our east facility that is going to come out, are we started to appoint distributors in the Eastern region to strengthen our marketing when the product goes online?

Ashok Gupta: Yes in a small way we are already selling in the Eastern region. We are selling a small quantity but just a beginning only, I won't say there is a significant presence as such. Because what happens is the cost of movement from North to East is significant late so our new plant is likely to come up in Raipur in the near future, maybe next one year and then we will start our marketing in Eastern region in the big way.

Sachin Kasera: Overall what is the increase in dealer network that we would have done in this financial year compared to March '15?

Ashok Gupta: In March 15 our total dealer network was around 400 dealers, today it has already crossed 450-460 that means 10% to 12% growth in number of dealers. In addition the dealer volume is also growing.

Sachin Kasera: And where do you intend to take this number in 2-3 years?

Ashok Gupta: Actually every year the number of dealers per se only increases by 8% to 10%. What happens is each dealer's volume grows much faster.

Sachin Kasera: How we will distribute, we only follow a dealer model or we have distributor plus dealer model?

Ashok Gupta: Actually we have distributor come dealer model. The difference being people who are very large they supply to further small-small dealers or retailers, they are all distributors and they are mostly in the large cities like Bombay, Delhi, Calcutta or Chennai and Bangalore. The people in Tier-II or Tier-III cities, they do a same job so we can call them dealers. Otherwise all perform the same job that they take the stock; they buy from us, keep the stock and then give it to either small retailers or directly to consumers.

Sachin Kasera: How many distributors you would be having today?

Ashok Gupta: As I told you we are using the term in a same manner, for us distributors and dealers are those who are directly buying from us, total number as I told you is more than 450, out of them you can say around 20% will be those who are large distributors.

Sachin Kasera: You have any sense of the demand growth difference between Tier-I, Tier-II and Tier-III cities, how it is growing? Is it growing in the same fashion or is it that the Tier-II, Tier-III are growing much faster and their share is now increasing in the sales?

Ashok Gupta: You are right, actually our sales in Tier-II, Tier-III cities is rising faster. Couple of years back we were hardly present in Uttarakhand or Dehradun or those areas. Now we are a very large supplier in those areas. On the other hand big cities like Bombay and Delhi and Bangalore and Chennai, their growth is much less. So I will say our sales are growing much faster in Tier-II and Tier-III cities that is why we are now focusing on very small cities in different parts like Jammu and further to that.

Sachin Kasera: Any sense you can give us on what would be your sales in the top 10, top 20 cities versus others?

Ashok Gupta: Our top 10 customers will be less than 15% of the sale. You're talking about cities?

- Sachin Kasera:** Yes.
- Ashok Gupta:** No city wise it will be difficult for me because the distributors are spread over more than 100 cities. If I say top 10 cities maybe it is my guess it may be around 30% to 35%.
- Sachin Kasera:** What is the budget for the branding and tube promotion in FY16 versus FY15?
- Ashok Gupta:** We are still finalizing our budget for next year but hopefully we will keep it around 8 to 10 crores but let us finalize it. We have not yet finalized.
- Sachin Kasera:** What was the number that you are planning to spend for the current financial year, how much you have spent and how much you will spend in the fourth quarter?
- Deepak Goyal:** Till December we have spent around 6.5 crores.
- Sachin Kasera:** So we are basically looking at 8 to 10 crores on a yearly basis on brand building and sales promotion.
- Ashok Gupta:** I agree with you.
- Moderator:** We have the next question from the line of Mr. Salil Utagi. Please go ahead sir.
- Salil Utagi:** Can you clarify on the consolidated and standalone numbers because difference of revenues is only 100 crores odd but difference in profitability is much higher, so can you give the exact number? How the procurement flows and which are the segments which are doing well for the subsidiaries, can you throw some light on that?
- Ashok Gupta:** Actually subsidiaries produce what is known as pre-galvanized pipes, two of the subsidies that is Lakshmi as well as Apollo Metalex where the margins have been in the range of 13% to 16% against an average of around 8% or 9%. So obviously subsidiaries, the products give much higher margin that is one. And then there are other parts of the expenditure for example in the main company that would take up some foreign currency loss due to MTM which is of course not a loss perpetually, it is only write-back and next quarter it will be taken back and then there is some branding expenditure which again has to be taken in the main company. In any case the product themselves having slightly margins so taken together there is some marginal difference. The difference looks much more in a particular quarter but on an average the difference will not be much significant.
- Salil Utagi:** In percentage terms it will more or less remain the same on standalone?
- Ashok Gupta:** Yes EBITDA is almost same.
- Salil Utagi:** These two subsidiaries do turnover of around 100 crores odd per quarter?

Deepak Goyal: Turnover of Lakshmi Metal is 95 crores and Apollo Metalex is 85 crores.

Salil Utagi: And this Lloyd?

Deepak Goyal: Lloyd is 178 crores.

Salil Utagi: That will also get added in consolidated, right?

Deepak Goyal: Yes.

Salil Utagi: This is you are saying yearly number or quarterly?

Deepak Goyal: Quarterly numbers, I have mentioned the Quarter 3 numbers.

Salil Utagi: You are planning to expand the capacity from 1.2 million to 2 million, right?

Ashok Gupta: Yes.

Salil Utagi: Is the market also growing at that pace or you're looking to capture more market share going forward?

Ashok Gupta: We will have to capture market share.

Salil Utagi: You are seeing that kind of growth in the market that's what I want to understand.

Ashok Gupta: No, market growth may be only 10% or so, we will be capturing share from the unorganized sector basically. Unorganized sector is slightly getting affected because of the changes in the economic conditions so whatever space they are vacating, we want to fill that space.

Salil Utagi: Where would you be setting up these capacities, any particular geography you have identified?

Ashok Gupta: Four mills we are setting up in South, another three mills are coming up in West and another three mills are coming up in North, so all three areas the facilities are coming up plus we are expecting a new plant in Raipur, central India. These plans have already been finalized.

Salil Utagi: Mostly 1-1 lakh capacity in each of the mill?

Ashok Gupta: More than 1 lakh, it will be between 1.5 to 2 lakh tons.

Salil Utagi: Every mill you are saying?

Ashok Gupta: Each location.

Salil Utagi: It will come up by the end of FY17?

- Ashok Gupta:** Yes.
- Salil Utagi:** Basically very aggressive plan that you have.
- Ashok Gupta:** What can we do, what investors are always looking for aggressive plans?
- Salil Utagi:** Basically somebody asked that because Surya is also setting up capacity in South India, others are also expanding so we are wondering how big is the market and what is the growth rate that is sustainable over next and 5 to 7 years?
- Ashok Gupta:** Last 4-5 years if I see there is hardly any growth except by Apollo. All other people have been almost keeping their volumes at a same level of 3 to 4 lakh tons, nobody has grown. Even Surya they have announced which I think first time they announced they will be setting up the.... I don't know what has happened. There has not been much of capacity addition and one more reason is our EBITDA margins are always between 8% to 9% and there are not many people were interested in the business of 8% to 9% EBITDA and that is giving some kind of a benefit to us. Let us see what others do, of course we are always getting ready, we are improving our brand image, we are improving our working so that whenever as and when the competition goes up we are ready to face it.
- Salil Utagi:** In the last few calls, you had mentioned about the color coated pipes, how it has performed over last few months can you elaborate?
- Ashok Gupta:** Color coated pipe is a new concept in India and like all other concepts, it is difficult to get digested in a short run. So we have various color coated pipes in the country, we have supplied to some customers, we are collecting some feedback. Because of the type of practices we have in India off using black pipe and doing the welding then doing the painting depending on the color choice but color coated pipes will come only in one color, so they are going to take time before it is finally accepted. We have also done; we have only set up one line at a very nominal cost. So depending on the feedback and once this utilization improves we will think of additional line so we are going very cautiously on that.
- Salil Utagi:** How are the payment terms in the market right now? Have they changed in last six months because the liquidity conditions have got tight especially on the working capital side? Has it improved or deteriorated in last six months?
- Ashok Gupta:** I will say they have remaining same or slightly improved orders. We are supplying 90% of our goods to the distributors so we have our fixed terms, we don't normally deviate from those terms. People have to make payment within those days otherwise we reduce supplies so I think that is working for us.
- Salil Utagi:** You don't think that there is oversupply in the market of pipes, there will be strong demand going forward as well?

- Ashok Gupta:** At the moment we are booked, yes for this year we were almost except 1 to 2 we were quite booked. Demand is good for a person who wants to supply large. Nobody else has got the kind of range which we have got. Nobody has the penetration of the Tier-II, Tier-III cities like we have got. Nobody's making a new product like we are doing. So I think these are the factors which are helping us to maintain our share despite difficult conditions.
- Salil Utagi:** The demand from the plumbing side is it going down rapidly or it is still stable? The competition from the PVC pipes is very strong, how do you see that going forward?
- Ashok Gupta:** The demand from the plumbing sector is stable. In any case that is not one of our focus areas because we focus on structures, we focus on hollow sections. But you are right PVC sector is affecting the demand for the plumbing sector. In any case it is not our focus areas so we usually don't spend too much time on that.
- Salil Utagi:** Structurally, you said it is growing at 8% to 10%, volume wise?
- Ashok Gupta:** More than 10%.
- Salil Utagi:** Our total volumes are grown at 25% odd, more than that so where is the other set of demand coming from?
- Ashok Gupta:** Mostly from the unorganized sector. Unorganized sector, they used to produce a significant quantity of the structural pipes. Now because of the difficult economic conditions and difficulty in raising the funds from the bank they are vacating some space which we have occupied.
- Moderator:** We have the next question from the line of Agastya Dave from CAO Capital. Please go ahead.
- Agastya Dave:** You just mentioned that unorganized sector is having difficulty in raising funds. This problem, is it going to get much worse?
- Ashok Gupta:** You have seen the kind of NPAs the banks have faced, so what banks are doing they have been very careful whom they fund. Most of the small-scale people and the unorganized players, they are finding it difficult to raise funds from the bank at a cheap rate now. We have got our working capital limit which is sufficient for even 1.5-1.6 million tons. So we have already tied up funds and it is all right for us to increase our capacity and increase our business. But I think the unorganized sector is finding it difficult, they want to sustain the business so they are vacating some space. They are not able to buy raw material in time and because of the continuous losses, particularly now inventory losses which they are suffering, today they are losses are so heavy that they are not able to service their working capital loan they have taken.
- Agastya Dave:** Are dealers facing similar problem, they might be facing same problem in managing their working capital on the dealer level?

- Ashok Gupta:** Dealers are slightly smart people, what they do. They are very careful with the kind of inventory they keep. They normally are now keeping very low inventory. Earlier suppose they were keeping inventory of one month now they have reduced it to 20 days' inventory. Here again they try to sell off their material before they buy so that to reduce the losses. Secondly dealers normally don't bank totally on the bank's money or bank loans. They have 50%-60% their own capital and 30%-40% they take bank loan. So impact on a dealer is much lower as compared to the impact on the manufacturers.
- Agastya Dave:** I was kind of anticipating something like some listed company in any industry will sooner or later mention such kind of problems that unorganized sector is facing. You are probably the first one who has mentioned that.
- Moderator:** Thank you. As there are no further questions I now hand the conference back to Mr. Salil Utagi. Over to you Sir.
- Salil Utagi:** On behalf of Systematix Shares, I would like to thank the management and the participants for attending the call. Thank you everybody.
- Moderator:** Thank you. On behalf of Systematix Shares & Stock Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.