“APL Apollo Tubes Limited
Q2 FY2024 Earnings Conference Call”

October 30, 2023

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Moderator: Ladies and gentlemen, good day and welcome to the APL Apollo Tubes Limited's Q2 FY2024 Earnings Conference Call hosted by IIFL Securities 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 the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anupam Gupta from IIFL Securities Limited.

Anupam Gupta: Welcome to the 2Q FY2024 conference call for APL Apollo Tubes. From the management we have Mr. Sanjay Gupta, Chairman & Management Director, Mr. Deepak Goyal, Director, Operations and the Chief Financial Officer, and Mr. Anubhav Gupta, Chief Strategy Officer. To start off with I will hand it over to the management for opening remarks post which we will have the Q&A. Over to you!

Anubhav Gupta: Thanks IIFL Securities for hosting Apollo Tubes for its Q2 FY2024 earnings call and I welcome all the participants on this earnings call. To start with I would like to share that Apollo Tubes reported its highest ever quarterly sales volume of 675000 tonnes highest ever EBITDA of Rs.3.25 billion and highest net profit of Rs.2.02 billion on quarterly basis in Q2 FY2024.

Coming to the highlights for the quarter number one highlight is Raipur update where the third complex for the thicker coated sheet and super light tube also started and the commercial production for super light tubes has started and for thicker coated sheets the commercial production will start in November. Now almost 1.2 million tonnes of capacity in Raipur is online and we did around 28% utilization levels in Q2. The plant generated EBITDA of Rs.5000 per tonne in Q2. With such low utilization levels we are getting a good EBITDA per tonne spreads and as utilization levels go up the EBITDA spreads will go beyond 5000 per tonne to the desired numbers of Rs.6000 to Rs.7000 per tonne. Within Raipur the roofing sheet is ramping up pretty fast with the utilization levels upwards of 50%. The heavy structural tubes also are ramping up with utilization levels for 500 square mill in Q2 was 25%. As the Raipur is ramping up we are working pretty hard on market creation as well. Apart from heavy structural tubes we are working towards transformation in the construction industry. The sales for heavy and super heavy sections for the Q2 were 56000 tonnes versus 41000 tonnes in the same quarter last year, so we are seeing almost 35% to 40% jump on Y-o-Y and Q-o-Q basis. Other than heavy structural tubes we have identified other high margin value added segments like solar top tubes, the thicker coated sheets which will start from Raipur. The global business for Apollo which comprises of export sales from India and our Dubai plant is under a lot of revamping. The export sales increased 28% on Y-o-Y basis in Q2 and even the H1 sales for export segment were up 28% Y-o-Y. The other value added products from Raipur are CRCA tubes which are annealed tubes for industrial applications and furniture applications. Then the coated sheets for roofing also the utilization levels were around 50% and we intend to ramp it up in the following quarters at good speed so from Raipur we expect the utilization levels to go up to around 40% in the Q3.

The other update is on our branding strategy last two years. You see that we have been pretty soft on our branding strategy, now this year we have decided to go aggressive and we have appointed two Bollywood Superstars Amitabh Bachchan and Akshay Kumar. The campaign is going to be rolled out over the next one to two months. It is a 360-degree campaign which is comprising of outdoor hoardings, television and social media campaigns. The ad spend and sales promotional expenses were around Rs.300 million last year this year the budget is around Rs.500 million to Rs.600 million.

Coming to the quarterly update, the sales volume were 675000 tonnes up 12% Y-o-Y. The value added proportion was slightly low because of softness in our Apollo Z sales which got hit in the coastal markets due to heavy monsoon and floods in some of the regions so that segment should ramp up in the second half. The EBITDA per tonne for the whole company was stable at Rs.4800 and is in our stipulated guideline of Rs.4500 to Rs.5500 per tonne. Working capital days remain stable at five days. In H1 the operating cash flow to EBITDA was 76% which helped us to fund the capex of Rs.356 Crores. The ROCE including Raipur plant was 28% this was despite that the Raipur plant generated EBITDA of around Rs.500 million. Now once the utilization level goes up to optimum level in the next two to three years the EBITDA should increase at least three times from Raipur so without Raipur investment the ROCE for the Apollo ex Raipur was 40%. If we maintain our FY2024 volume guidance of 2.8 million tonnes although there could be some softness in October or November months but as you know the company recovers sharply in terms of its sales volume. The reason for softness is number one the festive season which is normally weak for the construction sector and second the regional HRC prices are quite low compared to domestic prices so there is fear of some price decline in steel which is leading to some destocking but you must have observed in last year also that after destocking of 20 to 25 days when restocking starts the company recovers its sales volume pretty sharply, so there is no threats to our FY2024 sales volume guidance of 2.8 million tonnes and given that the capacity expansion in Raipur and in Dubai is online so we should be ready with 5 million tonnes capacity by FY2025 and we target to hit this number in terms of sales volume in the following year which is FY2026. So overall Q2 performance was pretty good with all-time high numbers for each volume, EBITDA and PAT and as the Raipur and Dubai plants are ramping up pretty well we expect this momentum to continue over the next three years. That is all from our side. We can now have a Q&A session. Thank you.

Moderator: Thank you. We will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of Amit Dixit from ICICI Securities. Please go ahead.

Amit Dixit: Good evening everyone and congratulations for good performance and thanks for taking my questions. I have two questions. The first one is on if I look at EBITDA per tonne individually then for coated products in particular it has jumped substantially compared to last quarter so could you please explain the reasons for that and whether this kind of bump up is sustainable?

Anubhav Gupta: Right so this is mainly for the roofing sheets in new Raipur plant. The EBITDA per tonne jumped because of better utilization levels so all the products in Raipur so one is this coated and second is light section, so both these two categories saw good jump in EBITDA per tonne so this is sustainable.

Amit Dixit: As I understand it correctly that going ahead we expect this Raipur plant utilization to increase and essentially these value added products that you are mentioning their proportion will also go up so is it fair to assume that we shall close the year at somewhere close to our upper range of the EBITDA per tonne guidance?

Anubhav Gupta: EBITDA per tonne should go up but at the same time if you see the commodity segment the general segment which still accounts for 40% of the business in that segment there was pressure because of high price gap between the inferior quality scrap steel and HR coil, so I guess that pressure should remain for next few months unless we see drop in HRC prices in India which seems logical and visible as we see the current scenario, so till then there could be some pressure in general category but as a company we do not see like EBITDA per tonne what we are bothered about is absolute EBITDA, so if you see our absolute EBITDA how it has progressed quarter-on-quarter, so idea is that every quarter we are able to surpass the last quarter absolute EBITDA number, now whether that is by selling extra volume at slightly lower EBITDA per tonne or by selling less volume at higher EBITDA per tonne so that depends on the market behavior and market situation in different categories. Today Apollo has different multiple product segments in multiple application and multiple industries, within the construction sector also, so based on that what we see is that we are able to squeeze profits from one segment if some segment is not doing well so yes but ideally Raipur and Dubai both ramping up they both are higher EBITDA margin products versus our existing portfolio so yes EBITDA per tonne should expand.

Amit Dixit: That is very helpful. Thanks and all the best.

Moderator: Thank you. The next question is from the line of Aman Agrawal from Equirus Securities. Please go ahead.

Aman Agrawal: Many congratulations on wonderful set of numbers again, so firstly on the inventory gain or loss impact did we see anything of that sort in 2Q in the current reported numbers?

Anubhav Gupta: No, the steel prices were pretty flattish on Q-o-Q basis so nothing substantial which could give us any inventory gain or loss.

Aman Agrawal: Sure and secondly on our value added product mix there has been some sideways movement for last four to five quarters now we are trading at around 55% value added product mix which is clearly low from our previous highs of around 63% which we saw I guess in FY2022 on the movement towards VAP 70% VAP share this quarter is it mainly because of affected Apollo Z volumes or was there any other impact in this quarter?

Anubhav Gupta: So I guess there are two things what you highlighted. One is that the comparison for the last two years and comparison for the current quarter for the Q2 quarter. Now last two years what has changed is that the share of general segment has increased considerably because in 2021 and 2022 those sales were down because the steel prices globally had gone through the roof after Corona so because of the pricing gap between scrap steel and and HRC if you see that our general segment volumes were going down year-on-year, so last year when the commodity cycle reversed and steel prices came down from Rs.70000 to Rs.75000 per tonne to Rs.55000 to Rs.60000 per tonne it led to recovery in our general sales so that trend is continuing. The sales mix will eventually improve to 70% as our Raipur and Dubai plants ramp up and the volume you will see from those segments which are high margin so we are not bothered to hit to 70% in the next two to three years. Quarter-on-quarter yes of course Apollo Z sales were down because of monsoon and floods; this will recover in Q2, Q3 and Q4.

Aman Agrawal: Understood. Now on our distribution through Shankara channel if you can give any update on what is the number or what is the kind of growth that we have seen in the first half of FY2024?

Anubhav Gupta: So Shankara we continue to get the desired yields Aman. We are doing around 20000 per tonne volume from Shankara through its platform and this has been there since we got into this strategic tie-up with the company and this number of 20000 tonne on monthly basis is up 100% before there was strategic tie-up and now we are confident that the number from this platform will match the overall sales growth of the company.

Aman Agrawal: Sure any update on our investment in Shankara, do we plan on adding any more investments to it or maybe liquidating the existing investments?

Anubhav Gupta: So Aman we are due to exercise our warrants next month which we will be doing.

Aman Agrawal: Sure understood. Thank you. That would be it from my side.

Moderator: Thank you so much. The next question is from the line of Rahul Agarwal from Incred Capital. Please go ahead.

Rahul Agarwal: Good evening. Thank you for the opportunity. Sir first question Raipur has reached about 1.2 million tonnes after the balance of the left capacity gets added what is the eventual capacity here?

Anubhav Gupta: Eventual is 1.2 which is today so yes earlier the plan was 1 million tonnes and incremental 200000 tonnes so that has also come online so now we are at 1.2 million tonnes.

Rahul Agarwal: Perfect and company level total capacity including Raipur has gone to like October end what would that be?

Anubhav Gupta: It will be around 3.6, eventually this will be 5 million in next 12 months.

Rahul Agarwal: Got it and capex the cash flow says about Rs.400 Crores for first half could you elaborate a bit where was this spent just different projects and full year what is the budget and next year what is the budget just a breakdown please?

Anubhav Gupta: So mostly Raipur and Dubai, other than that some value addition Brownfield expansions that continues but there the capex amount is very small but out of this Rs.350 Crores for the 1H mostly was Raipur and Dubai.

Rahul Agarwal: What is the full year budget?

Anubhav Gupta: Full year we could see another Rs.200 Crores to Rs.300 Crores, idea is Rs.200 Crores basically because Raipur is completed and Dubai balance also we should be spending like Rs.200 Crores in the next six months.

Rahul Agarwal: Got it and lastly on the debt side Rs.1155 Crores just wanted to know where would this peak because capacity expansion mostly done except Dubai so will there be more project debt here or Rs.1155 Crores is the peak?

Anubhav Gupta: Rahul do not look at our gross debt because we have cash balance also so the net debt on the books was 2.2 billion Rs.221 Crores.

Rahul Agarwal: Yes I am aware of that. My question essentially was on gross debt just wanted to know that out of this Rs.1155 Crores this will include project debts from Raipur as well as Dubai right?

Anubhav Gupta: Yes that is right.

Rahul Agarwal: So just wanted to know this number has peaked out already?

Anubhav Gupta: Our gross debt level yes. Now after this capex is done we will be net cash pretty soon Rahul.

Rahul Agarwal: Perfect and how will this gross number come down is there a firm repayment plan to the project debt?

Anubhav Gupta: I can repay Rs.900 Crores today because I have fixed deposits worth of Rs.900 Crores so this is like some advantage of interest cost what we are getting and obviously how we see ABPL the Raipur plant as a separate company although it is 100% own but we want ABPL to stand on its own to show its own performance and to have its own ROE and ROCE so that is why this structure this Rs.1155 Crores can become Rs.950 Crores tomorrow.

Rahul Agarwal: Yes absolutely I completely agree and appreciate, my sense was as you said ABPL is a separate entity so there will be a repayment plan based on their own cash flows right?

Anubhav Gupta: Yes so ABPL did Q2 EBITDA of Rs.50 Crores it will ramp up over the next two to three years so yes as the cash flow comes in we have no option but to repay debt.

Rahul Agarwal: Right so this gross number will continue for two years in the balance sheet I understand the net thing, I know companies has enough amount of cash but this gross number should continue for two years is that fair?

Anubhav Gupta: Yes so it will keep on reducing as cash flow from Raipur plant comes in.

Rahul Agarwal: Perfect got it. I will come back in the queue for more questions. Thank you so much.

Moderator: Thank you. The next question is from the line of Bhavin Pande from Athena Investments. Please go ahead.

Bhavin Pande: Good evening team. Congratulations on great set of numbers. As it is showed in the presentation are we the largest player in the world in terms of capacity and the second followup would be that regarding the announcement we made for three new personnels being appointed one for branding, one for information and new CFO?

Anubhav Gupta: Yes there have been hiring of three senior people like I said that now we plan to go aggressive on branding side because two years we were soft so we wanted to have talent and capable resource who could manage this kind of yearly budget what we proposed to have and Deepak Goyal of course he got elevated as Director (Operations), so we hired a new CFO and yes even Chief Information Officer because we are doing a lot of automation and IT softwares for different operations and functions we are implementing so better to have good senior resource and our existing CIO he is also retiring so we got him replaced with a more senior resource and sorry what was the first part of your question Bhavin.

Bhavin Pande: Now in terms of capacity are we the largest player in the world now for steel tube?

Anubhav Gupta: Yes so in structural steel tube yes we are the largest player, in steel tube segment also barring two players in China we are largest globally.

Bhavin Pande: Wonderful and just one part I missed so the existing utilization I guess was 50% and we mentioned that we could see an improvement of 40% so was it absolute of 50% or 40% of 50% that would lead up to 70% utilization?

Anubhav Gupta: No, Raipur 50% was for roofing sheet segment and when I say 40% that is for the overall Raipur.

Bhavin Pande: Optimum level should be somewhere around 70% to 75% if I am not wrong?

Anubhav Gupta: 100%.

Bhavin Pande: Thanks and all the best for times ahead.

Moderator: Thank you. The next question is from the line of Madhav Marda from FIL. Please go ahead.

Madhav Marda: Good evening. Thank you so much for your time once again. I just wanted to understand a bit more on the export side so which are the key countries we are exporting to and will most of the exports happen from the Dubai plant or will the Indian facilities also be exporting and is there like a five year target in terms of like firstly how big is the export volumes for us in say Q2 and how do you see this ramping up for us over the next say three to four years or five years and how does the economics fit basically is it more value added trades which we can sell more in the export markets or who is the competition if you could give us some sense because this is like a new area that we are entering into and looking to scale up? Thank you.

Anubhav Gupta: So Madhav if you see our last seven to eight years of growth which we have achieved 20% to 25% volume CAGR it was mainly through the domestic markets because all the resources were focused to grow the domestic business. The last two to three years we evaluated that given the size of Apollo on global stage we cannot afford to be a low exporting company we need to have good presence in the international markets also, so two or three years ago we kind of focused onto this segment and we started appointing distributors in Middle East and Europe and North America for the wider distribution of our products and given the quality and given the capacity it was easy to catch hold of large distributors of steel pipes so we started exporting. Now two to three years what we have found out is that the demand is pretty strong for someone like Apollo Tubes that it is easy to penetrate the market so after having two to three years of good sales momentum so if you see first half also our export sales have increased by 28% on Y-o-Y so we believe that it is good to have a presence in Dubai in Middle East to be able to export to other countries Europe and North America with the fact that Middle East obviously is going to see lot of demand because of lot of construction activities happening there. The other reason what prompted us to set up the factory in Dubai was the access to cheap raw material there because in India the domestic steel prices are always higher compared to the regional steel prices so that makes you uncompetitive versus the other players who have factories outside India so we are very confident that after Dubai plant is operational we have put up a capacity of 300000 tonnes and glad to share that the product SKU range in Dubai also starts from 15 x 15 mm dia pipes tube till 300 x 300 mm dia tubes, so we have full range of structural tubes for exports market which will be produced in Dubai so we are pretty confident that having the product range which is commoditize plus value add same mirror what we have in India, so the mix will be good and margins will be good with the right competitiveness which we will get after having access to cheap raw material in the Middle Eastern markets.

Madhav Marda: Understood and so the idea that we sell more value added grades in the export market and how are the margins there versus domestic or is it a bit early to say because we are still kind of building up the base there?

Anubhav Gupta: So of course it is a bit early to say but we have tasted success Madhav so we will talk about this maybe after two quarters but what I can tell you is that the EBITDA spreads are higher than what we do in India.

Madhav Marda: Perfect got it. Thank you.

Moderator: Thank you. The next question is from the line of Aaron Armstrong from Ashmore Group. Please go ahead.

Aaron Armstrong: Thank you very much for taking the questions and congratulations for a great set of numbers. Can you talk a little bit about the ramp up in Raipur please, could you talk about whether that is an operational ramp up that it takes time to build out the kind of manufacturing capacity and actually produce the volumes or is the ramp up more around market creation and customer offtake and which is the factor that dictates the speed of the ramp up at Raipur?

Anubhav Gupta: So there are two elements to it number one is the market creation of course because most of the products from Raipur are innovative products so market creation had to start early before we got into commercial production, so market creation for heavy structural tubes, for thicker color coated sheets started last year itself before we started our line, so we are satisfied with the market creation what we have done for both the segments and now we see that the heavy structural tube segment right now the ramp up is 27% to 28% utilization levels thicker coated sheet which will start next month there also we see immediate ramp up because lot of exercise and activities have already been taken place in terms of market creation to educate fabricators, to educate our distributors, to educate the retailer network and and secondly comes the adjacent product which is a roofing sheet from Raipur now that is an established market so there the utilization levels are highest which is 50% today and like I said it is an adjacent product went to the same distributor, distributor sold to the same retailer, retailers sold to the same fabricator who was selling our tubes anyways for the roofing structures, so roofing sheet went as an adjacent product to complete the solution in a house so that ramp up was pretty quick so yes the market creation activity started much in advance. A lot of hard work yet to be done because we are talking about transformation of the construction industry, products which have not been seen in India so it will take time but we are playing very patiently. We do not have a debt on our Raipur plant. We want to keep our margins high so we are playing the game patiently with the right production and seeding of our products.

Aaron Armstrong: Thank you. Sir is it the case that just purely from an operational perspective you could ramp up to say 100% or full utilization reasonably quickly, the area where the kind of patience comes into it is on the market creation side and building the awareness?

Anubhav Gupta: That is right. Yes so we target to utilize this 100% of 1.2 million tonnes by FY2026 that is the target right now we are having.

Aaron Armstrong: That is great. Thank you very much.

Moderator: Thank you. The next question is from the line of Aditya Welekar from Axis Securities. Please go ahead.

Aditya Welekar: Thank you for the opportunity. Sir just wanted to understand the next phase of growth additional 5 million tonne so from when we can expect the capex to initiate for that from which fiscal year?

Anubhav Gupta: Till we start hitting 400000 tonne on monthly basis right now we are doing 225000 tonnes we have a big task ahead of us to utilize this 5 million tonne first, so once we get the sense that yes we are achieving the targeted number of 400000 tonne of monthly sales we do not want to commit any capex and we are evaluating a lot of options on our drawing board how to go on in the structural steel tubing within India and outside India because we see good momentum from Dubai coming in, some of the other applications are also under evaluation, so right now we are on the drawing board. We will talk about it maybe during our Q4 FY2024 earnings call where we will come up with a more firm plan but yes we do not want to commit even $1 of capex still we see ourselves hitting 400000 tonnes of monthly sales.

Aditya Welekar: Can you reiterate your volume guidance for 2025 – 2026?

Anubhav Gupta: Like I said we should be a 5 million tonne capacity company in FY2025 and after 12 months to 18 months we want to hit sales volume of the same number.

Aditya Welekar: Thank you.

Moderator: Thank you. The next question is from the line of Onkar Ghugardare from Shree Investments. Please go ahead.

Onkar Ghugardare: As you mentioned little while back 40% is still a commoditize portfolio so when the Raipur plant hits 100% capacity where can this number settle?

Anubhav Gupta: 30 so value added will be 70 and general will be 30.

Onkar Ghugardare: So the 40% which you mentioned will be 30% at full capacity utilization of Raipur plant?

Anubhav Gupta: Yes so if you see Q2, Q2 was even 45% so this will go to 30%.

Onkar Ghugardare: So that will be at around FY2025 –FY2026 level?

Anubhav Gupta: FY2026 yes.

Onkar Ghugardare: Another thing is that you mentioned that around 300 lakh tonne is the export capacity you have so if you look at even the margins there are better but in overall scheme of things the contribution to the volume and eventually to the EBITDA or to the profit will be lower as percentage of your total portfolio right?

Anubhav Gupta: No because 300000 tonne is Dubai capacity not export, export volume is already 100000 tonne without Dubai on annualized basis so after we hit 300000 tonne in Dubai we expect international business to be around 10% of Apollo.

Onkar Ghugardare: So 10% by when you are expecting of the total 100% from exports?

Anubhav Gupta: FY2027.

Onkar Ghugardare: FY2027 you are expecting and can you share a bit about margins in the export product currently and what is the future for that?

Anubhav Gupta: So keeping the sensitivity they are higher than what we are doing in the domestic market today.

Onkar Ghugardare: That is the only thing you can share about margins in the export?

Anubhav Gupta: Yes that is right.

Onkar Ghugardare: It would be great if you talk little bit more about that like how much higher they are like not exactly but like what percentage?

Anubhav Gupta: 20% higher.

Onkar Ghugardare: Then the domestic one right. Thank you very much.

Moderator: Thank you. The next question is from the line of Ca Garvit Goyal from Nvest Analytics Advisory LLP. Please go ahead.

Ca Garvit Goyal: Thanks for the opportunity and congrats for a good set of numbers. Just want to know about the guidance like earlier in Q4 FY2023 concall you had mentioned that we will be able to achieve somewhere around 3 million tonne for FY2024 then what is the reason for this reduction in the guidance?

Anubhav Gupta: So what we said was that our guidance is 2.8 to 3 million tonnes so yes completing first half and having finished October so we right now we think that 2.8 million tonne is what seems to be achievable but let us tell you that we have full capacity available. If there are tailwinds with us we can go much beyond 3 million tonne also but like I said there are two things which are not in favor one is the price gap between the domestic HR coil prices and regional HR coil prices and second is the price gap between the structural steel tube and the scrap steel tube so these are the two main reasons that make us to believe today that 2.8 is what we should be able to do easily but yes if anything of this reverses we can go beyond 3 million also.

Ca Garvit Goyal: That is good Sir and does it mean you mentioned like October and November are not doing that much well due to festive season and the difference between the prices so what was the run rate in October?

Anubhav Gupta: October was a bit soft and November also because of festive season should remain kind of softish. We might see improvement and sharp rebounds towards end of November and early December. We just need like 10 days to 15 days time to bounce back sharply which we always do.

Ca Garvit Goyal: That is good and can you please throw some light like how much percentage of revenue comes from the government side and the private side and what is the difference in the margin profiles from both of these customers?

Anubhav Gupta: So what I will tell you is that 90% of our sales come from the distributors. Now distributor may be selling to retail or government that is his thing we do not sell directly to the government, 90% is through trade through distributors, 5% exports and 5% to OEM clients. We do not have direct dealing with the government.

Ca Garvit Goyal: Understood and talking about the EBITDA per tonne so like earlier you mentioned it will be somewhere around 5000 tonnes for full year basis but in first half it is less than 5000 so can we expect this beyond 5000 kind of EBITDA per tonne in second half?

Anubhav Gupta: So given the product range what Apollo has given that a lot of investment from Raipur is yet to yield results because the large plant almost Rs.1200 Crores worth of plant is under ramp up stage so we always give guidance of Rs.4500 to Rs.5500 per tonne at EBITDA per tonne level. Now you may say that there is a big variation but if you look at from our perspective that is hardly like 1% of our NSR net selling realization so this much leeway Apollo requires the management of Apollo needs because there are a lot of moving variables in the market so what we always target is the absolute EBITDA number. We have been increasing our absolute EBITDA if you see quarter-on-quarter, now that is achieved by selling 10% less volume at 10% higher EBITDA per tonne or 10% high volume at lower EBITDA per tonne that is end result. What matters to us is the absolute EBITDA number which we want to keep growing and expanding quarter-on-quarter basis.

Ca Garvit Goyal: Yes good and so lastly based on the guidance that you have provided so is it fair to assume that Q3 will fall short as compared to Q2 as well?

Anubhav Gupta: We do not know yet. Like I said we need just 10 days to bounce back sharply, if market is in favor then who knows. Today is not the right time to give guidance for Q3 but FY2024 2.8 million tonnes is achievable and we are confident.

Ca Garvit Goyal: All the best Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Ankush Agrawal from Surge Capital. Please go ahead.

Ankush Agrawal: Can you just confirm the volume numbers for Raipur for this quarter?

Anubhav Gupta: 100,000 tonnes.

Ankush Agrawal: But you did mention about 28% utilization for Q2 for Raipur?

Anubhav Gupta: Yes.

Ankush Agrawal: You expect this to move to 40% coming quarter?

Anubhav Gupta: Yes so there are two ways to look at it so 100000 tonne volume which is like 400000 tonne annual and till Q2 the capacity was 1 million tonnes, now it is hitting 1.2 million tonnes, so it was 40% on the available capacity if you see but if you take 1.2 million tonne then it was like 30% to 35%.

Ankush Agrawal: Got it. Thank you.

Moderator: Thank you. The next question is from the line of Vikas Singh from PhillipCapital. Please go ahead.

Vikas Singh: Good evening and thank you for the opportunity. Just a little bit clarification since you said that the domestic steel prices are much higher than the export prices but we still gets the better margins in the export so just failed to understand where is the differences basically because conversion cost even for the foreign player should not be that high?

Anubhav Gupta: So first is that not domestic export prices import prices, so the regional steel prices are lower versus domestic steel prices so if you are having factory in Dubai you can get cheaper almost 20% cheaper.

Vikas Singh: Sir that what I understand basically I am talking about current exports so can we assume that the current exports which we are making is of a lower margin and in future we will substitute it with Dubai and getting some margins?

Anubhav Gupta: Yes that is right so this is the reason that why we are investing in Dubai.

Vikas Singh: Understood. My second question pertains to since we are investing heavily on the heavy section and super heavy section where we need to develop the new market, just wanted to understand what percentage of our targeted volumes of 5 million tonne would be at risk if this market takes a little bit more time because you need to educate the user industry and it might take some time so what percentage of our volume target would be at risk if they go slow on that?

Anubhav Gupta: So if you look at our presentation we have given the proposed capacity for heavy and super heavy products so that is around 400000 tonne 396000 tonnes to be precise, so now on 5 million tonne this forms 8% of the total capacity. Now if you see that this 8% to 10% out of this we are already doing a volume of like 150000 tonnes per year anyways because the first mill what we put up in Raipur was 300 x 300 and there the market has already been created and the volume is ramping up and there is no reason that why one should believe that this market will not be developed because replacing conventional concrete construction over steel construction makes sense it has happened outside India, so in India also it is happening and steel tubes are better compared to conventional long steel products that also like there is no rocket science to know about it, it is just about the awareness and the acceptability of the product, so we have done a good amount of work with the influencers like architects, structural consultants and PMCs and government construction agencies and real estate developers and contractors so eventually this has to happen but to answer your question the risk factor is like 4% to 5% to the total capacity.

Vikas Singh: So it is pretty low actually?

Anubhav Gupta: Yes it is pretty low.

Vikas Singh: Yes just one last question if I may ask. Has promoters have any more plan to sell stake or we are done with most of our capital needs in other businesses and no more selling in APL Apollo?

Anubhav Gupta: No more selling.

Vikas Singh: Thank you. That is all from my side and all the best for future.

Moderator: Thank you. The next question is from the line of Amruta Deherkar from Wealth Managers India Private Limited. Please go ahead.

Amruta Deherkar: Thank you for the opportunity. Sir my question is regarding the general structures so right now general structures contributes around 45% of the total revenues and for the past five quarters we have been reporting the utilization of greater than 100% so I just wanted to know till what extent of subcontracting is possible in the general structures and do we have any subcontracting in any other products?

Anubhav Gupta: Even in general structures we are hitting like 100% because we do not want to invest too much capital into a commoditized segment. All our capex in last two to three years has gone in Dubai, in Raipur and other value added products in the existing plants so in our overall 5 million tonnes seem of things also you will see that we shall increase from 1 million to 1.3 million only, so right now the volume is not from contract manufacturing but yes we have always explored and we still explore good contract manufacturers who could manufacture for us but then it requires lot of things to fall into place for example the quality of the product, then the mill has to be near to our end market and raw material availability also because both inward and outward freight play important roles, so yes at some point we may go ahead with this but we have always been evaluating to find good contract manufacturers.

Amruta Deherkar: So like right now whatever excess above 100% utilization that we have for general structures is all in-house as in or are we doing it right?

Anubhav Gupta: No, it is in-house so that is what we say the capacity what we always give it is not licensed, it is not inflated capacity, it is saleable capacity so we can always go beyond this number.

Amruta Deherkar: How beyond can we go and overall like we are targeting 5 million tonnes of capacity so what you are saying is that 5 million tonnes of capacity is the saleable capacity right?

Anubhav Gupta: So 5% to 10% is achievable.

Amruta Deherkar: The max utilization so because this is 5 million tonnes saleable capacity so you are saying on that 5 million tonne 100% utilization is possible?

Anubhav Gupta: I am saying 100 is yes, we are saying that we will do. We can go incremental 5% to 10% only.

Amruta Deherkar: Because in the general structures like when I just check out the numbers I see the utilizations like for this quarter around 120% utilization in this particular quarter?

Anubhav Gupta: Yes so in general and galv you will see that utilization is like 100%. In general it is even higher yes so general because of less SKUs and less time in changeover of road set, etc., we are able to achieve that, so when I said 5% to 10% that is on full 5 million tonne, product-by-product it may vary.

Amruta Deherkar: So you have like the capacities are fungible based on the product demand you can say kind of move the capacity from Galv to Apollo Z and something like that?

Anubhav Gupta: Amruta we have 75 mills so not all 75 mills are fungible but some of these within 75 are fungible yes.

Amruta Deherkar: Got it. Thank you.

Moderator: Thank you. The next question is from the line of Shweta Dikshit from Systematix Group. Please go ahead.

Shweta Dikshit: Good evening thank you for giving me the opportunity and congratulations on a good set of numbers. Could you repeat the residual capex for this year you said Rs.200 Crores for both Raipur and Dubai is that correct?

Anubhav Gupta: Yes that is right.

Shweta Dikshit: So that is Rs.400 Crores capex that will come in the second half and can you just elaborate on?

Anubhav Gupta: No, Rs.200 Crores total consolidated in second half.

Shweta Dikshit: Another question can you elaborate on the incremental volumes that we can see in the Q3 especially from the Raipur plant because 28% to 40% utilization that like 12% additional volume despite it being a soft quarter and because construction activity, etc., is lower due to the festive season?

Anubhav Gupta: It does not impact Raipur much because Raipur is innovative products and volume is pretty small. When we say that volumes are soft that is on overall company basis and mainly general segments because of destocking, etc., so Raipur we should see utilization levels like on 1.2 what we are targeting is of 42% in Q3.

Shweta Dikshit: Thank you. That is all.

Moderator: Thank you. The next question is from the line of Bobby Jayaraman from Falcon. Please go ahead.

Bobby Jayaraman: You have been marketing the Raipur products for quite some time could you talk a bit about some of the push backs that you get from customers in terms of pricing or whether there is really a need for that product or other alternatives available?

Anubhav Gupta: So there is no pushback as such it is just the acceptability is always low for new products in India, acceptability is always low for new technologies in India but you can see that the ramp up has been there for all the product segments so pushback is never on the pricing front. It is just the acceptability, the market awareness and the education, a lot of these factors need to fall into place so which we are doing and we are confident that the utilization levels for each and every product will improve quarter-on-quarter for Raipur.

Bobby Jayaraman: All Right. Thank you.

Moderator: Thank you. The next question is from the line of Onkar Ghugardare from Shree investments. Please go ahead.

Onkar Ghugardare: As you have given in your presentation the global EBITDA margin the companies are making is around 14% to 19%, so at what point of time we can at least expect a lower single digit margin or a higher single digit margin at APL Apollo?

Anubhav Gupta: So I guess some of our products you see they are already at high single digit EBITDA per tonne Rs.1000 per tonne so for companies to happen the share from general segment has to be pretty low compared to what it is today and secondly the share from super heavy the coated products now we are very bullish on our Dubai plant which is having high margins, we are very bullish on thicker color coated sheets which will see commercial production from next month so we have lot of products for high single digit Rs.1000 per tonne for company also barring commodity barring general the idea is to take every product towards high single digit Rs.1000 per tonne.

Onkar Ghugardare: So at a company level is it possible when the Raipur plant hits full capacity or like it is too early to say that?

Anubhav Gupta: So what we believe is that per tonne eventual EBITDA per tonne is achievable it is possible with Raipur full-fledged and that is what we have our guidance.

Onkar Ghugardare: Sorry I missed the number what you said?

Anubhav Gupta: We do believe that Rs.6000 per tonne at company level is doable and is achievable.

Onkar Ghugardare: At 100% capacity of Raipur plant right?

Anubhav Gupta: Yes.

Onkar Ghugardare: This higher single digit margin at a company level is that something in your mind when you are planning for say next 5 million tonne capacities so totaling 10 million tonne capacity is it something on your mind for that about that?

Anubhav Gupta: Yes so like I said we are already sitting on our drawing board with lot of options, lot of applications and lot of new industries within steel tube in geographies as well so we will be talking about it in another two to three quarters but right now our focus is 100% to achieve existing 5 million tonne capacity with of course Rs.5000 to Rs.6000 per tonne EBITDA.

Onkar Ghugardare: So this is 5 million saleable capacity at FY2026 with Rs.6000 EBITDA correct?

Anubhav Gupta: That is the target yes.

Onkar Ghugardare: Another thing is that you had mentioned in the last concall or last to last concall that the EBITDA can double in next say two to three years so is the plan still on or is it achievable to do that?

Anubhav Gupta: Yes given by the simple math you do you will get the numbers. So anyways our history says that we have been growing our earnings by 20% to 25% every year so that means doubling our number every three years.

Moderator: Thank you. The next question is from the line of Bhavin Pande from Athena Investments. Please go ahead.

Bhavin Pande: Thanks for the opportunity again. I just wanted to follow up on the capacity for exports so what would be the sales mix for exports when the ramp up happens?

Anubhav Gupta: Sales mix as in general and value ad?

Bhavin Pande: No, exports and the proportion of our total topline?

Anubhav Gupta: So the target is 10% sales mix for international business in four years.

Bhavin Pande: 500,000 tonnes

Moderator: Thank you. The next question is from the line of Jatin Damania from SVAN Investment Managers. Please go ahead.

Anubhav Gupta: I believe this is the last question Mr. Moderator. Go ahead Mr. Damania.

Jatin Damania: Thank you for the opportunity. Sir just wanted to check that since we moving to a 5 million tonne and we are seeing a ramping up of Raipur and Dubai will be kicking in any plan or any explanation in terms of where we are on the setting of the capacity in East India?

Anubhav Gupta: So yes our 5 million tonne has 200000 tonne of capacity from East India. Right now we are exploring the land, we zeroed down on the location already and in next two to three weeks we should be starting the process for land acquisition, so once land is there and infrastructure is built up then it takes us only six to seven months to start the line, so 12 to 14 months from today we should be able to at least start the production if not 200000 tonne but in phases we shall start.

Jatin Damania: What is the capital you will be spending for that?

Anubhav Gupta: Around Rs.800 million.

Jatin Damania: Last question now since we are more into heavy and super heavy which we are doing from the Raipur and we have seen the increase in the volume so just wanted to understand the opportunities from the railways for us, how big is the opportunity and how are we placed?

Anubhav Gupta: So railways is one segment which can contribute quite big because Indian Government wants to redevelop around 1500 railway stations over the next 5 to 10 years and all these railway stations 80% of them are coming on stream and right now we are talking to a lot of contractors and railway agencies for tubular construction so we have supplied our steel tubes for tubular design to two railway stations now, one is in South India and one is in North India and we have plans to close on more number of railway stations, so railways stands as a very good opportunity to sell our heavy structural tubes.

Jatin Damania: Thank you. That is all from my side and all the best.

Moderator: Thank you. Ladies and gentlemen we take this as last question and now I hand the conference over to the management for closing comments.

Anubhav Gupta: Yes. Thank you IIFL for hosting us and thanks to all the participants who dropped by. I look forward to see you for Q3 earnings call. Thank you so much.

Moderator: On behalf of IIFL Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.