"APL Apollo Tubes Limited

Q3 FY '23 Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the APL Apollo Tubes Q3 FY '23 Conference Call hosted by Asian Markets Securities Limited. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and include risks and uncertainties that are difficult to predict. Actual results may differ from such expectations, projections etcetera, whether expressed or implied. Participants are requested to exercise caution when referring to such statements or remarks.

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I now hand the conference over to Mr. Suraj Sonulkar, Asian Market Securities. Thank you, and over to you.Mr. Urmik, would you like to take the handover?

Urmik: Yes. Thanks. Ladies and gentlemen, welcome for joining the call. The management is represented by Mr. Sanjay Gupta, CMD; Mr. Deepak Goyal, CFO; COO, Mr. Arun Agarwal; and Anubhav Gupta, Chief Strategy Officer. Thanks management team, for giving us the opportunity to host the call. After opening remarks by management, we shall have Q&A. Please takeover, sir.

Anubhav Gupta: Thanks, Urmik. Thanks Asian Markets Securities for hosting us and thanks to all the participants who have joined on our Q3 FY '23 earnings call. I welcome you all. I'm very glad to share that APL Apollo Tubes has reported highest ever quarterly sales volume, EBITDA and net profit in last quarter, Q3 FY '23.

At the same time, I'm also glad to share that we are testing our peak capacity now consistently by doing monthly volume of above 220,000 tons per month. Hence, we are in process of expanding some capacity in our existing plants through debottlenecking apart from all the expansion which is happening in Raipur and Dubai and Calcutta. So we have further expanded in our expansion plans beyond 4 million tons, which we will talk going forward.

Coming to some of the highlights in the last quarter, number one is the Raipur update; all three complexes are now fully operational. We can tell you that 1 million ton of Raipur capacity is on stream now and the current run rate is 30% utilization as per current month rate. Last year we take the 46,000 ton which was around 25% utilization rate. You must have seen that the Q3 EBITDA per ton in Raipur was around INR 3,000 per ton with a 25% utilization. So as the utilization levels inch up further, the margin spreads will inch to the expected levels beyond INR 5,000 per ton.

In terms of product launch from Raipur, we launched two products, one is 500 square in the heavy structural segment and second is coated products for the roofing application. Now that

Raipur plant is coming on-stream, we are becoming equally aggressive in the market creation for these products because these are highly innovative and being launched for the first time in India or globally.

So, coming to the heavy structural side, we have now some more reputed projects where the work has started on tubular construction which is in-line with our aggressive plans to create market for our heavy structural tubes. In yesterday budget there were two segments where government was quite aggressive in terms of increased allocation for funds, which are railways and water infrastructure.

Again, I can tell you that we had already identified these segments earlier and we were focusing on these segments, both railways and water infrastructure for the last six months and today we have got 10 railway stations, where our design team is working to convert the design on tubes in upcoming railway stations out of 25, 30 railway station which have been awarded. And there are 100 more which are coming over the next two to three years.

In the water infrastructure segment, we have successfully demonstrated a sample of a tubular structure in Uttar Pradesh where almost 200,000 liters of water over a tank storage on a 20-meter height staging has been demonstrated.

So if the government approves that, it could throw a huge opportunity for our heavy structural segment. The third update I want to give you is the super-value-added products, where we are again focusing very aggressively. We are always inspired by our global peers who make EBITDA of INR 16,000 per ton outside India versus APL Apollo's current EBITDA of INR 4,500 to INR 5,000 per ton.

So we always aspire to achieve a higher spread. And to achieve this, we are now focusing to increase sale of super value-added products in our portfolio, which can fetch us the net selling realization of INR 80,000 per ton with EBITDA margin of 20%-plus. So this implies EBITDA spread of INR 18,000 to INR 20,000 per ton on some of the products. Of course, the Raipur products have -- are capable of producing these spreads and also within APL Apollo, where we have monopoly in the structural and chemical side, we are trying to promote such products.

And I can tell you that in January the momentum was pretty good for such products. The fourth update I want to highlight is our partnership with Shankara Building. Our association with Shankara continues to yield greater results for the group. Our sales volume through Shankara channel is up 170% Y-o-Y in the first 9 months of FY '23.

And now that the Raipur products are coming online, we are now more confident that Shankara will become our stronger partner to promote and to push our value-added products through its platform. Coming to the quarterly results updates, one concern investors had shown last quarter when our EBITDA spreads were below INR 4,000 per ton, we were pretty sure that we will bounce back sharply in Q3 and we did that with the EBITDA spread of INR 4,500 in the third quarter.

This was on the back of two reasons; one was, of course, the channel destocking stop after the global commodity prices stabilized from month of September-October and of course the Raipur plant which had a negative operating leverage in Q2, now it turned into positive operating leverage with INR 3,000 per ton EBITDA. So going forward with the Raipur plant ramping up, the EBITDA spreads should improve further versus what we are seeing in Q3. Coming to operating cash flow.

The performance remains strong with INR 6 billion of operating cash flow, which was equivalent to 85% of 9 months EBITDA and the working capital remained in single digit. Now it's been the 11th quarter where we have been able to maintain our working capital in single-digits and now we -- now this has become the practice for us, which remains best in the building material sector.

Out of the operating cash flow of INR 6 billion, we spent INR 5 billion on capex and rest INR 1 billion was spent on dividend payments and investment in Shankara. So going -- so free cash flow was still negative. But going forward with Raipur capex coming to hand, we will have good amount of free cash flow generation, which will improve -- which will lower -- which will make our debt 0 and there'll be cash surplus on the balance sheet.

Our 9 months ROC was 29%, which is slightly lower than FY '22, but this was because of investment of INR 8 billion which is sitting in books for the Raipur, which is yet to yield results. So if we exclude Raipur, our ROCE is above 37%. So we are confident that we will be hitting 35% ROCE as the Raipur plant ramps up over the next one to two years.

Coming on the guidance and future plans, we maintain our FY '23 sales volume of above 2.2 million tons with a 4 million ton hitting in FY '25. The capacity, however, should be around 4.5 million to 5 million ton by FY '24, which will be coming from Dubai, Calcutta, debottlenecking at existing APL plants and Raipur becoming fully operationalized. So and any capex which should be there are of around INR 5 billion to INR 6 billion. This will be fully funded from internal cash flows. So this gives us volume visibility beyond FY '25 wherein we'll be hitting 5 million tons sales volume by FY '26.

So that's it from our side and we'll be happy to take questions. Thank you so much.

Moderator: We have the first question from the line of Garvit Goyal: from NVeast Research.

Garvit Goyal: Sir, basically, in yesterday budget you also mentioned that lot of transaction is on the infra side. So basically, I wish to know your view, how APL Apollo as a company is going to be benefitted out of this increased capital outlay along with the new airport and the air connectivity and stuff? So how do you think your entire product basket or the new value-added products that you are bringing in specifically that will cater to these capex plans, sir?

Anubhav Gupta: So, if you look at the current sales mix of APL Apollo, right, 50% of sales come from the residential segment, 25% comes from the commercial/institutional segment and 25% comes from the infrastructure segment, right, which is airports and railway station, bullet trains, metro stations, et cetera, right.

So if we look at -- if we decode yesterday's budget, right, there was lot of impetus on transportation infrastructure, right, which includes roadways and railways. Now in railways, we have high-speed railway bullet trains where our tubes are used anyways, right. But now, what we are trying to do is we're trying to increase the application in infrastructure by converting the structural design on tubes.

So I didn't mention about railway stations, right. India has -- the Indian government has awarded around 50 railway stations in the last one year, okay, at different cities and 100 more yet to come. So right now, we have already approached the contractors and the architects who got those railway stations and today we are designing almost 10 to 15 railway stations, right. And we are able to demonstrate, we are able to prove that by using tubular construction, they can reduce the time and they can also reduce some costs, right.

So, one railway station we should start in next 2 to 3 months and basis that there will be like new orders coming from different contractors doing railway station. In airports, I mean, you look at any new airport which has come up in last 5 years, any tube which you see, Apollo will be at least 60%, 70% of that market share, right. Any new airport comes, all the roofing, all the ceiling are all on tubular trust. So Apollo has been supplying material whether it is Bangalore, Hyderabad, Delhi any new airport, which has come up in last 5 years.

Then the another focus area was water infrastructure, right. So lot of government -- state governments are focusing on sanitation and drinking water distribution. For that, they require water tanks of up to 2 lakh to 3 lakh liter at a height of 20, 25 meter staging. So this requires very strong structure, right. RCC which is conventionally used it takes around 4 to 5 months, okay for creating a structure versus like what we could demonstrate in Uttar Pradesh last month was a 3-day job, right. It's a prefabricated tubular structure, which comes on site and by using 10 people, 10 laborers you can erect a structure in three days, right. So we have already shown some photographs on our Twitter account. I'll request you to visit that.

So, all this impetus on infrastructure is going to help APL Apollo in long term and given that 25%, 30% of our portfolio right now is coming directly from infrastructure, so we are pretty bullish on what Indian government has been doing so far and what it intends to do over the next two to three years.

Garvit Goyal: That was very much deep. So secondly, sir, basically from the Raipur products you are entering into and one slide was during your presentation that was hinting about the realizations at global level and you also mentioned in your speech about that. So how do you think this Raipur facility? Basically, I want to get a overview picture, means how you think the overall realization is likely to increase or likely to shape up in next two, three years on account of these super-value added products you mentioned sir?

Anubhav Gupta: So see, I mean, if you look at our product portfolio again, right. There are like 3 segments, which are like value-added for us. One is heavy structural, where we make EBITDA of INR 7,000, INR 7,500 per ton consistently. Second segment is Apollo Z, which is be pre-galvanized tubes. There also we make EBITDA spread of INR 6,000, INR 7,000 per ton consistently.

Now Raipur products are extension of these products, right. So heavy structure, what we are doing currently is 300 square, right, Now, 300 square gives us INR 7,000 per ton, and just imagine 5,000 square which is coming from Raipur, it's the only product available in India third mill globally, right. So the EBITDA spread has to be higher than INR 7,000 per ton what we are making today, right. And it's for more high-rise more complex structures, right. So there we can command better premiums.

Now second is Apollo Z, which is like zinc-coated tubes, right. Now in Raipur, we are coming up with products like which are combination of zinc and aluminium, we call them aluzinc, right. So it's again a premium product more premium product then Apollo Z. In Apollo Z, we are making INR 7,000 per ton spread. So in aluzinc, we have to make superior margins, right. So again I mean being done for the first time in the world, not only in India.

So we already have a strong foundation of product portfolio, where we are making INR 7,000 per ton EBITDA spreads consistently and with more innovation, right, and monopolistic products, the EBITDA spread should be higher. So that's what we say that -- I mean we should also have some products in the portfolio, which should give us like 15%, 20% EBITDA margin INR 15,000 per ton EBITDA spread.

Garvit Goyal: And sir, you mentioned this INR 7,000, INR 6,000 EBITDA per ton. Just for clarification, these are for the super-value added products?

Anubhav Gupta: No, INR 6,000, INR 7,000 we are already making. You have the table in our presentation where there are these products where we have been making such margins for last four, five years now.

Garvit Goyal: And will you tell -- can you give the product mix, what is the share of total revenues of these products sir?

Arun Agarwal: So right now the value-added products contribute around 65% to our portfolio, right, and 35% are general. With the super-value add coming up, the general products will go down to 25%, 30%.

Moderator: We have the next question from the line of Rahul Agarwal from Incred Capital.

Rahul Agarwal: Yes. Good to see some recovery in the overall and Raipur margin. I had three questions. Firstly, on the raw material to Sanjayji. So APL in my sense is already the largest customer of HRC in India and now you would need another 1.5 million ton for Raipur any thoughts on this in terms of discussion with suppliers? Could there be a problem in sourcing HRC enough or is this question irrelevant, that's the first question.

Sanjay Gupta Rahul, we have already tie up of almost 2.5 million ton with our steel plants. Now I think, next year, we are targeting for the volume of 3 million ton. So, we need 20%, 25% more material. I don't think this is a big issue, because lot of capacity is coming in India in the next few quarters like one line is coming of 5 million ton in JSPL, one line is coming 5 million ton for in Bellary with the JSW and NMDC is also going to start with a capacity of 3 million ton and Tata Steel is also increasing a capacity of 2 million ton, MSC also increasing their capacity by 2 million ton. So I think almost 20 million ton capacity is coming against today. Right now, today capacity is 50 million ton in one year time, in the next 3, 4 quarter, I don't think the raw material supply is a issue for us.

Rahul Agarwal: Sir, secondly on the Raipur, just two questions there, ramp-up of that volume for fourth quarter and next year, could you help some direction and when does the balance 0.5 million ton comes on stream?

Sanjay Gupta: Yes. Next year, we are targeting for Raipur almost 0.6 million ton. For Q4, we are targeting more than 1 lakh ton and we are targeting -- from APL, we are targeting 2.4 million ton from APL and 0.6 million ton from Raipur and maybe 0.1 million ton from Dubai and 0.1 million ton from Calcutta. Total we are targeting our business plan of next year is 3.2 million ton.

Rahul Agarwal: Anubhav, when does the 0.5 million ton balance start at Raipur?

Sanjay Gupta: Next year, Rahul. Capacity already started, Rahul. But the problem is, this is all new type of products and we are taking very good margins. So we don't want to spoil the margin, because if you see our track record, up to corona, we are only forcing for the volume. Every year we are taking growth 30%, 40%. After corona we are conducting for the next last two years, you see our growth is almost zero, but our EBITDA margin go almost double.

Now in next one year, this year we are 100% focusing on our growth of volume, likely we took 2.3 million tons this year against 1.6 million or 1.7 million ton last year. So this year our focus on growth. Now next year, again, we came back on to the margin, of revenue go for the growth you have to sacrifice the margin, when you go for the growth so you have to submit – excise the. If growth does not matter that, then you can manage your margin. Next year will focus on margin as to how can we increase our margin from INR 5,000 to INR 6,000 per ton.

Rahul Agarwal: And lastly on the general structures, the profitability, the margins there have been very volatile where does this number settle down, where should we see that, sir?

Sanjay Gupta: Rahul this will circle between 2 or 3 ton because this margin is dependent on the secondary market like December/January we had good margin, February again coal price are going up. So maybe margin will be back, so we are not thing much on that. This is our just our volume portfolio.

We are focusing our -- right now, we have almost order book of 500 – we now have 3000-ton order, we haven't received IS yet, we have sent the sample, I think this take 15, 20 days to get the IS. So in this our EBITDA margin almost INR 20,000 per ton nearby. And then we started colour roofing our EBITDA margin is nearby INR 15,000, we have started some solar product in that our EBITDA margin is INR 12,000 per ton. Our total focus is on that side. As were not able to do anything in Raipur, now our plant has started. So our total focus is, how to keep the rapid margin from INR 3,000, INR 4000 to INR 7,000 to INR 8,000 per ton.

Moderator: We have the next question from the line of Sujit Jain from ASK Investments.

Sujit Jain: What would be the fixed costs in Raipur plant? And when you say 25% utilization, what kind of capacities has come on stream, because then that -- but my calculation leads us to 8 lakh ton capacity that would have been operational.

Sanjay Gupta: Sujit, Raipur fixed cost is almost close to INR 5 crores per month.

Sujit Jain: So, INR 60 crores per annum, okay.

Sanjay Gupta: Yes.

Anubhav Gupta: So when we say that like we did 46,000 ton in Q3, right, and EBITDA spread was around INR 3,000 per ton, so on a capacity of 1 million ton, right. So that's around like 25% utilization and those rates have already going up month-on-month and like for Q4 we expect around 100,000 ton, so which will be 40% utilization rate, right. So the EBITDA spread should be further inching up from INR 3,000 per ton to like above INR 4,000 per ton levels.

Sujit Jain: Right. And you just spoke about we see new lines -- these will be your super-value-added product lines. So Raipur will be super-value added, the 3 divisions basically, right?

Anubhav Gupta: Yes. And plus, there are some products what we identified from existing Apollo portfolio, right, where we see that if we are able to create market and incentivize our distributors, right, there we could get extra margin.

Sujit Jain: So just to understand anything above INR 2,000 is value-added. And then what threshold when it crosses you call it --

Anubhav Gupta: INR 15,000 per ton is -- no, no, general is INR 2,000, okay? Value-add is INR 4,000 and super-value add is INR 15,000 per ton basis.

Sujit Jain: And Sanjay-ji just spoke about division one, I mean the two new divisions in the Raipur. The residential basically the wider and cement sheets there one can expect close to INR 12,000 per ton kind of OP. And solar that thing et cetera INR 15,000 per ton, right?

Sanjay Gupta: Yes, we are targeting Rahulji, some of products -- sorry, Sujit-ji, some of our project is close to INR 15,000 per ton, some of our products is close to INR 12,000 some is INR 7,000, INR 8,000, some is INR 4,000 INR 5,000 a ton. We are not manufacturing anything less than INR 4,000 ton less than in the Raipur plant. So I think we can achieve with an average of about INR 8,000 per ton in Raipur plant.

Anubhav Gupta: So Sujit, what happens is that within the roofing sheets segment, right, there are SKUs, right? There are multiple colours, there are multiple sizes. In some sizes, we may get INR 12,000, INR 13,000 per ton, in some sizes we may get INR 6,000, INR 7,000 per ton. So on an average Raipur the target is to hit above INR 7,000 per ton.

Sujit Jain: Right. And the capex that you spoke about for moving from 4 million to 4.5 million tons in FY '24 in terms of capacity, how much capacity will come in Dubai and how much would be in Kolkata?

Sanjay Gupta: Sujit, right now our aiming APL for 3.2 million ton and after 100% -- when we faced our bottlenecking of the plants and 1.2 million for Raipur ABPL, 0.3 million ton for Dubai and 2.3 million ton for Calcutta.

Sujit Jain: Right. And so to sell roughly 3 lakh tons of higher dia, is the third line or third division in the Raipur, how much square footage in terms of construction that is needed to be basically tapped into?

Sanjay Gupta: Raipur, total our construction area is almost close to 20 lakh square foot.

Anubhav Gupta: No. He's asking -- so, Sujit, the max is around 6 kg per square foot right. To sell 300,000 ton, we will need 180 million square foot, 180 million square foot to be built, which equals around 150 buildings around 150 buildings of 0.5 million square foot each.

Moderator: We have the next question from the line of Madhav Marda from Fidelity.

Madhav Marda: Just wanted to understand, given that it's good to see that you're announcing more debottlenecking at our existing facility. So is it that we are seeing more for like new applications such as this water tanks becoming a new end market for us, which is helping us expand capacity at existing locations or are we gaining share from competitors? What is helping us sort of giving that possibility to add more capacity, which is obviously good to see.

Anubhav Gupta: So I think Madhav it is a mix of both, right. So, one is that, yes, we are gaining market share, secondary market scenario is also favourable for primary, right. Then we are deepening our distribution system, right. Our products like chokhats and planks, there these sales are going up as those products were launched just before COVID and for one to two years, we were not able to market those products as per like the aggressive plan, but now the markets have opened up.

So a lot of promotional activities have started right and then, yes new applications where we are, again, working very hard to replace structural steel tubes, right, against wooden structures, against angles and channels, right, against rebars, against concrete. So all these factors are playing a role here, right.

And the reason that why the 9-month sales have been so strong and we have been hitting 220,000 ton of monthly volume. So yes, I mean, now it's the time we believe that whatever we can squeeze in our existing assets, right, through debottlenecking, et cetera, we think that 3 million, 3.2 million ton from 2.6 million ton at 10 plants, right. We have about 46 mills, right. So this much of debottlenecking is possible.

Madhav Marda: And our EBITDA per ton outlook for FY '24-'25 stays in that roughly INR 5,000 range as Raipur kicks in or how should we think about margins going ahead?

Anubhav Gupta: So see, I mean, for first 9 months, we are at around INR 4,200, right. Next year, our target is INR 5,000 per ton. Like we said that next year, the focus will be on margin recovery and assuming that Raipur is able to deliver INR 6,000, INR 7,000, INR 8,000 per ton right. Almost 1 million ton of sales will be coming from there and incremental sales through debottlenecking capacity so that will also be more margin accretive. So I guess as a group, we want our EBITDA spreads to hit INR 6,000 per ton. Now this happens in FY '25 FY '26, I mean, difficult to say but -- INR 5,000 per ton is minimum like we will be doing with all the sales volume targets what we highlighted.

Madhav Marda: And just last question from my side, our capex outlook for FY '24, have you already got the budget in place, how much we'll be spending for capex?

Sanjay Gupta: For 5-million-ton capacity we need another around INR 400 crores of capex.

Anubhav Gupta: So that should be equal to like our 30% of this year EBITDA, 40% of 9 months EBITDA.

Madhav Marda: So this is obviously because of the debottlenecking, so we don't need to invest too much to expand capacity?

Sanjay Gupta: Because there we have two plants, new plants, Dubai and Calcutta, otherwise all the debottlenecking we are going to do.

Moderator: We have the next question on line of Akshay from Canara Robeco Mutual Fund.

Akshay: Sir, I just wanted to understand this EBITDA per ton movement. So, if I see Q2 FY '23, so EBITDA per ton was around….

Moderator: Akshay, your audio is a bit low. If you could kindly go off the speaker phone and come closer to the mic?

Akshay: So if I see the EBITDA per ton in Q2 was INR 3,850. And then in the presentation, you had mentioned that INR 300 was because of the adverse product mix, INR 100 was the Raipur hit and then INR 300 were the incremental sweetener that you had to pass it on to the channel.

So in Q3, if I assume that INR 300 of sweeteners that we had to pass that was out and even we were turning profitable in Raipur, so that is around INR 400. So INR 3,800 plus INR 400 that is INR 4,200, but at least the product mix sequentially has not improved that much. So then what explains that incremental INR 300 EBITDA that the company has done in the third Q?

Anubhav Gupta: So that incremental INR 250, INR 300 is the demand pull, right. When the channel started restocking right, and there is good demand scenario and Apollo being the largest player, right, so there is like some short supply in the market, then you try to increase the pricing, right? And that also explains the dominant power of APL Apollo being the market leader that when market trends are favourable, we can command premium. So that INR 200, INR 250 per ton of effect was due to favourable market conditions and that was across products.

Akshay: And how do you see the demand shaping in Q4? I mean, do we…

Sanjay Gupta: Q4, we are targeting almost close to 7 lakh ton of volume already we have done in month of January 2.5 lakh ton.

Moderator: We have the next from the line of Lavanya T from UBS.

Lavanya Tottala: So, I just wanted to understand this, the new opportunities like the water infrastructure and oil. For all of these products, the design is being done by APL or the contractors or the subcontractors are increasing their ability in this space?

Anubhav Gupta: So again, it could be either of the ways, right, so one is that obviously Apollo takes the initiative, right, no contractor will be willing to spend time and energy on design, anything on something new, right? So APL Apollo design team takes the initiative, right, where we offered the design for free of cost to the contractors.

And if they feel that yes, there is a saving, then they go ahead. Second is that we may help the consultants of contractors or their design team in house design teams, wherein our team goes and sits with them and then we can jointly design it, right. So, it could be either of the ways, but initiative is always taken by APL Apollo.

Lavanya Tottala: So, I just wanted to check this because if the contractors in build, they start building this ability that would be much more helpful for APL to serve more number of buildings like just you have highlighted, like our target we need 150 buildings of 0.5 square foot. So I just wanted to check that. And I just missed your point on INR 18,000 to INR 20,000 the super-valued products. What is the share that you are looking out of these products in next like FY '24-'25?

Anubhav Gupta: At least 10%.

Lavanya Tottala: So, these are largely the products which are being served from Raipur and few in the existing portfolio of APL?

Anubhav Gupta: So out of 4 million in FY '25, yes, at least 0.5 million ton should be coming -- upward of INR 18,000 per ton.

Moderator: We have the next question from the line of Anupam Gupta from IIFL Securities.

Anupam Gupta: I have a few questions. Firstly, on this quarter we see that the realizations per se are up close to about INR 5,500, INR 6,000 per ton, whereas obviously the HRC prices were down Q-on-Q on an average basis, so what drove this higher realizations for us?

Anubhav Gupta: So Anupam -- so one is that yes, NSR is up INR 5,000 per ton. But if you look at the raw material price also for us, it was INR 62,000 per ton versus INR 57,000 per ton. So even raw material price for us is up by INR 5,000 per ton.

Anupam Gupta: But what drove that difference, because otherwise, if you see HRC price on an average were down during the quarter versus the previous quarter?

Anubhav Gupta: If you look at the average, right, you can't take from like 31st October to 31st December, that's not the right criteria. You need to take the average, right, steel companies, they go -- they lowered the prices like on month-wise basis. So, the average buying or average selling is what you see in our numbers and that would be for the steel companies also, the NSR.

Anupam Gupta: Actually, steel companies have reported a decline in NSR, except one company, but broadly yes. So that's why the difference was, that's why the question was coming. That average JSW or Tata have reported a decline in further NSR.

Sanjay Gupta: Their decline was mainly in downstream products, galvanised sheets and colour sheets. There was no price decline is in rooftop. If you see they got hit from downstream.

Anupam Gupta: Second question is on the capacity which you said, you said Raipur would be 1.2 million ton, whereas if I recall right Raipur was supposed to be 1.5 million ton. So why is it now 1.2 million ton?

Sanjay Gupta: If we get favourable market, you can see Apollo capacity to increase from 25% to 30%. My capacity would increase from 5 million ton to 6.5 million ton. I don't give the capacity which I can utilize. I rank the capacity on which I work like our one line average 8,000 and it also make material for 4000. If the it gets preferrable my all the life can go up to 6000 minimum.

As we see Raipur and analyse how much market share we can get and how we can work. We are committing our capacity to 1.2. when I say 1.2 ton, it means that we will produce 1.2 million ton will be produce from Raipur. If you see other they don't have capacity more than 70%, 75% and our capacity is around 100%. We are always saying APL capacity is 2.6 million ton. This month we have done APL we have done 2.25x12. 2.7 million is run rate we have take the run rate. If we get Raipur market, then our 500 square mill we are thinking about 15000, it can produce 25,000 ton, 30,000 ton easily.

Anupam Gupta: Second thing, you have said you have 1 million ton is what is commissioned at this point of time and balance FY '25, is that what I heard? Is that right?

Sanjay Gupta: Our Raipur is fully commissioned and started. Only formalities of government and suggestions of department will be followed and our plant will be ramp up. I have see how much raw material and have to distribute EBITDA wise our raw material. I think first six month raw materials availability wont be easy, so we are planning accordingly. In second half raw material will be easy. Our business plan is to close 1.4, 1.5, 1.6. in second half we might be able to do 2 million ton. But it is hard to commit now because market volatility is too high. We want to commit only what we can deliver. In the start of the year we committed 2.2 to 2.4 million ton we are still targeting that. We are sure we will hit 2.3 million ton.

Anupam Gupta: And another question was 1.2 billion in Raipur what is the breakup between, let's say, the tubes, the sheets and the other value-added, the super-value added products, which you're are seeing in terms of volume?

Sanjay Gupta: There will be around 8 lakh ton, thickness from 0.23 to 40 mm thickness and then square to 1000 square dia. And roofing sheet and solar sheets and others would be 0.4 million ton.

Anupam Gupta: And sir, one question, if we look at this quarter, in your general structure, you have already exceeded 1 million ton of run rate. You have 264 Kt volume in general structures, which is almost equivalent to what your capacity is. So what is the plan incrementally will you add more capacity in general structures or will you let go of that market share or not?

Sanjay Gupta: No, no. We are not going to increase the capacity in this sector. Now, we are only focusing on the value-added product. Right now small materials are started doing job work. Now we have taken one unit in mafta for job work, almost 50,000 ton per annum. As the requirement will increase we do job work from there. We won't be allocating our front for the fix for this.

Anupam Gupta: Okay. So ideally the way to look at it in that segment in profitability should be on the lower side, even though you'll not lose market share?

Sanjay Gupta: We will increase that from next quarter.

Anupam Gupta: And just one last question, sir. If you can give the capex total plan for FY '23, FY '24 and FY '25, the total absolute number?

Sanjay Gupta: For 5 million ton, I require INR 400 crores plus, minus 5%. So FY '23, if our EBITDA margins are good in this year, then maybe we -- in one year for this capex if slightly business sluggish then we go for two year capex plan for this depending on the cash flow.

Anupam Gupta: Sir you saying from 4 to 5 million ton you need INR 400?

Sanjay Gupta: We need total INR 400 crores to achieve 5 million ton.

Moderator: We have the next question from the line of Pallav Agarwal from Antique Stock Broking.

Pallav Agarwal: Yes. This is Pallav Agarwal. Yes, my question was on if I look at this quarter numbers, the purchase of stock in trade on an absolute number has gone up. So is this I think part of the job work that you were mentioning anyway probably getting the lower-end products converted from outside and purchasing that?

Sanjay Gupta: Pallav-Ji, if you see the month of October and November market is on the downward trend since are very low though. We have commitment with steel plant for minimum materials should be taken for long term associated. Excess material taken before would be adjusted this quarter. Because trading is not in our portfolio.

Pallav Agarwal: So is the trading is included in 6000 ton or not?

Sanjay Gupta: We don't include trading in that.

Pallav Agarwal: It is high because it is coming in revenue. So I'm guessing that's why there's a disconnect. Hence your realization is more because trading is coming up, but volume is not coming? Hence there is a disconnect because yours is increasing and others are reducing. Sir if you can adjust that and add, it can give us some idea of CAGR volume?

Management: Pallav, we will come back to you this.

Pallav Agarwal: Sir if you INR 100 crores whatever average?

Management: I don't remember the exact number, I think it should be nearby 30,000 ton.

Pallav Agarwal: That I will take offline. Just also on this coated products. So if I look at JSW steel coated products performance, before it was good about 6, 7 quarters back but from steel prices have been going down, they have been taking a lot of NRV losses Net Inventory Provision losses, from last 2 or 3 quarters, they've actually reporting a loss. So I understand that's a totally different segment. But, so it's just little -- ultimately go in the coated products, that is what our focus area is. So if you can just explain why we are different compared to them. So that'll help?

Sanjay Gupta: Steel plant has they own system, they run accordingly. In pressure they sell on lower prices. They are always profit focused, but tube is everything for us. At times, we took a stand we wont be selling in loss, if we have to comprise with the volume. You have seen in start our volume has broken down. There was no replacement for us in the market so our product sold on our prices, it will be shown in Q4 in profit.

Pallav Agarwal: Sir, and also just, I mean in the general structure, you are outsourcing. So it does not make sense to probably maybe acquire smaller scrap based, patra based player to cater to that your gets reduced maybe the spreads over there...

Sanjay Gupta: Apollo is a brand, it has a market value and goodwill in 20 years. So we can't go in the patra and I don't believe in the patra material, because the patra material is a timing -- for timing. If you see cost of production for steel plants it is INR 42,000. But we are taking more EBITDA margins hence their material gets costlier. But if you see the patra costing, patra is as close to INR 50,000 to INR 53,000 per ton. I don't think patra is going to survive more than one year or 6 months. In January we have done 2.5 lakh ton work, we could have done for 3 lakh ton. I don't believe in the patra material and this is not long-term business. This is only one opportunity business.

Moderator: We have the next question from the line of Mitul Shah from Reliance Securities.

Mitul Shah: Sir, congratulations for a very strong performance on operating margins. Sir, first question is again on EBITDA per ton for general structure. As you already highlighted in detail, but sir there is a big jump of nearly INR 900 per ton on Q-on-Q basis, despite volume being low. So, sir, want to understand out of this INR 900, how much would be related to the pricing and how much is the raw material coming down, because you also highlighted that raw material in general has gone up, so is it like more than INR 900 we have covered from pricing only?

Sanjay Gupta: Our market is distributed one is the primary one is with the secondary. As I said, second market is in pressure, secondary prices would be 55. Now this gap is come down to INR 3,000 to INR 4,000 ton. As the gap decrease, our margin increases because we are able to sell the material on our prices.

Mitul Shah: So primarily, it is pricing power. The second question is on this railway modernization and airport related where we mentioned nearly 25%, 30% is coming from this infrastructure segment. So, sir, for this 9-months, how much would have been roughly from this railway modernization?

Anubhav Gupta: This railway -- see, I mean, there is regular business which keeps on coming, which has been coming for last many years. What I highlighted was this new opportunity where these railway stations are being redeveloped, right. So 50 railway stations have been awarded in last 6 months to 12 months. The work will start for them.

Right now, they are in all the approval stage, right. The actual work will start from FY '24, right. So that's when you see our volume contribution will be coming from next year. This year, 9 months whatever has happened this is on regular business where our tubes are being used, anyways. But now what we are saying is the whole railway station should be developed on tubes and maybe 3 months down the line, we will be able to share with you the railway station, which is going to be constructed 100% on Tubes in South India.

Mitul Shah: Then on that follow-up is that how much would be per railway station in terms of either quantity or revenue potential?

Anubhav Gupta: So, typically a railway station has 3 structures, okay? One is called the concourse building. Now concourse building is the building which is coming on above that railway tracks, right. There the railways is using it for shopping area for office space et cetera, et cetera. So that is on an average, say, 400,000, 500,000 square foot, then there could be additional office blocks, right. Now, in some cases it is there, in some cases it is not there. Then there is a foot over bridge, FOBs, right, they are mainly on steel, so that we are promoting on tubes. And third is the canopies for railway station for railway tracks, so put together like one railway station could generate tube demand of around 3,000 tons.

Mitul Shah: Okay. Sir, lastly on this margin side again this being a kind of a government projects only, so directionally how one should look at margin of -- from these projects railway or airport in?

Anubhav Gupta: So again, this is part of our heavy structural tubes, Mitul, right, where we have been generating INR 7,000 per ton EBITDA spread, right, for many quarters now. So that's the minimum you can take. And as the structures are complex where our 500 square, 1000 square products will be used, there the margin will be in double-digits.

Mitul Shah: Sir, in report as we stated that nearly 60%, 65% is Apollo's share APL Apollo, similarly any number for railway based on past one or two year rates?

Anubhav Gupta: See, railway stations are yet to start, like I said. But the metro stations, right, the Cochin Metro, the Delhi Metro, the Mumbai Metro, wherever tubes have been used, Apollo market share will be at least 60%, 70%.

Moderator: We have the next question from the line of Rahul Jain from Systematix.

Rahul Jain: Yes. Sir, on the -- last year, we were very bit -- tubular steel segment, where hospitals and we had identified many such segments. So, what is the progress on that and where is this classified in our product classification segment in terms of volumes?

Anubhav Gupta: So, Rahul, so that comes under our heavy structural segment, one. Second, with the proof-of-concept of Delhi's 6 hospitals, right, last year, now we have got approved -- we have got approval with India's largest private hospital chain, which is coming up with its 5 new greenfield projects. One hospital work has already started in Mumbai, maybe like one month down the line, we can send you over the site and you can have look with your own eyes.

Then there is a housing project from Military Engineering Services, which is arm of Indian military. They are doing a housing project in New Delhi, right. It's all tubular. One month down the line you can come and have a look, right. Now we have got buildings in Kathmandu, which is a new convention centre, which is coming up.

One, two months down the line, the work will start there. There is a university campus in Greater Noida, which is now being constructed over tubes. So there has been good success for us in promotion of tubular construction, right. And with these new segments coming from railway stations and water tanks, et cetera, this we believe I mean whatever the plans we had set for ourselves, we're going to achieve those.

Rahul Jain: Yes. That was very elaborate. And also we have given a number of 220 KT. What kind of conversion do we expect and do we also get any kind of a service fee for giving the kind of ideation and things like that?

Anubhav Gupta: No, no, right now we are offering the design free of cost.

Rahul Jain: Right. And sir, also on Apollo Mart, any progress on that and -- integrated with Shankara or [inaudible 1:03:03] two, three year plans on that?

Anubhav Gupta: Rahul, so we are very happy with the current arrangement with Shankara, right. Like I already told you, the sales are up170% in the first 9 months and we see more growth coming in the coming quarters based on new products from Raipur, right. So nothing on that front. Apollo Mart, I mean, we are still evaluating because the business is low margin, right, high working capital intensive.

So we will be very prudent to allocate any capital at that front, right, because Apollo we have learned how to come to like 35%, 40% kind of ROC level. So anything which we do new, right, it has to match those expectations, right, so unless it does that, we're not going to go ahead. So it is still under evaluation mode.

Moderator: We have the next question from line of Sujit Jain from ASK Investments.

Sujit Jain: So basically, I'm looking for cash flow bridge?

Anubhav Gupta: Right.

Sujit Jain: INR 25 crores is what the negative figure is. And in Shankara you would have invested INR 75 crores buying the promoter stake and then after that there was a preferential allotment. So how much went in 2022?

Anubhav Gupta: So INR 75 crores went in FY '22 and warrants 25% money is this INR 25 crores.

Sujit Jain: Okay. And the next tranche will be going when?

Anubhav Gupta: So 18 months from the deal in Feb/March, so September this year.

Sujit Jain: September this year, yes. And just to get this math right, perhaps will require far higher volume in terms of square footage for higher dia mill, basically Raipur third line at 6 kgs per square feet, probably that number was 3 times what you spoke, 180 million square feet?

Anubhav Gupta: That was my mistake, that was miscalculation. So, yes, so it should be...

Sujit Jain: Close to 500 million square feet. And so, let's say…

Anubhav Gupta: 50 million square foot…

Sujit Jain: 50 crores square feet?

Anubhav Gupta: 50 million, 5 crores square foot. It's simple, just divide 3 lakh tons into 1,000 kgs divided by 6.

Moderator: We have the next question from the line of Alisha Mahawla from Envision Capital.

Alisha Mahawla: Just wanted to know is there any inventory gain or loss in this quarter?

Anubhav Gupta: No, Alisha. Very, like maybe like INR 10, INR 20 per ton, that's about it.

Alisha Mahawla: And previous quarter Q2?

Anubhav Gupta: Again, see, I mean, we have been highlighting that we work on very limited inventory levels. So, I mean steel prices like in 9 months are down by INR 20,000 a ton, right. And if you go with that math, I mean, the inventory losses would have been massive, right, but there is no such booking, right. So, our business is clear that we hold minimum inventory levels right turnaround time is 20, 25 days. So, any sharp increase or decrease in steel prices should not impact us more than like INR 40, INR 50 per ton.

Alisha Mahawla: And just want to know when is the Dubai and Kolkata capacity coming on stream?

Anubhav Gupta: So, like we have already guided, that 100K should come in FY '24, right, so…

Sanjay Gupta: It will start-up to July and Kolkata is to December.

Anubhav Gupta: Right. So, this midyear Dubai will start and end of the year, Calcutta will start. And we will have like 4, 5 months of Dubai plant operational and 2, 3 months of Kolkata plant operational in FY '24, I'm talking.

Alisha Mahawla: And just one last question, what products will we be making in Dubai and Kolkata?

Anubhav Gupta: So Dubai, the total capacity is 300,000 tons, in Kolkata, the total capacity will be around 200,000 tons , the products will mirror like what APL Apollo right now is doing.

Moderator: That was the last question. I would now like to hand it over to the management for closing comments.

Anubhav Gupta: Thanks everyone for joining us. It was a real pleasure to be here and we hope we have been able to address all questions except from Antique Broking, which we will take up post this call. Thank you so much. Have a good day. Bye.

Moderator: Thank you. On behalf of Asian Markets Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.