



“APL Apollo Tubes Limited Q3 FY2022 Conference Call”

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*APL Apollo Tubes Limited
January 25, 2022*

Moderator: Ladies and gentlemen, good day and welcome to the APL Apollo Tubes Limited Q3 FY2022 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 “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Anupam Gupta from IIFL Securities Limited. Thank you and over to you Sir!

Anupam Gupta: Thanks Janice and welcome everyone to the 3Q FY2022 call of APL Apollo Tubes Limited. From the management, we have Mr. Sanjay Gupta, Chairman and Managing Director, Mr. Deepak Goyal, Chief Financial Officer, Mr. Arun Agarwal, Chief Operating Officer and Mr. Anubhav Gupta, Chief Strategy Officer. I will hand it over to Mr. Anubhav Gupta for the initial comments and then we have the Q&A. Over to you Anubhav!

Anubhav Gupta: Thanks Anupam. Good afternoon everyone. We welcome you all for APL Apollo 3Q FY2022 earnings. It was a mixed quarter with the volume falling a bit short of expectations; however, our performance in terms of value added product mix, EBITDA spreads, working capital and cash flow generation was in line so we sailed well in a difficult quarter, which was impacted from de-stocking from our channel partners and slow down in the construction activity post Diwali.

Before we get into detailed discussion on Q3 results a few highlights we like to make. First is our upcoming 11th Greenfield Raipur plant which is going to be the largest manufacturing facility for the group. It is important for us from two perspectives.

Number one all of incremental 1.5 million tonnes capacity which is divided among three products is 100% value added products, which will eventually take our sales mix to 75% in favor of value added mix products. Also the second perspective here is that the 100% of 1.5 million square foot of industrial space is constructed using Apollo Tubes, which is part of our heavy structural sections so this strengthens our pieces that there lies a vast opportunity for our heavy structural tubes and once operational this would be India’s largest industrial complex built on tubes.

We have also given pictures and photographs in our investor presentation for the reference. We expect this plant to become partial operational from first half of FY2023 onwards. We have spent around 50% of the total budgeted capex of Rs.8 billion and the rest Rs.4 billion would be spent over the next two to three quarters and this will be funded from the internal cash flows. The contributions from this plant are key to our FY2025 sales volume sales volume target of 4 million tonnes. The second update is on Apollo Mart which we have set up a 100% subsidiary to develop a new related business line. This venture has three objectives. One is to strength APL Apollo’s positioning in Indian building material space with the commencement of trading of steel building material products like TMT bar, etc.

This gives us access to potential Rs. 2,200 bn market size outside the structural steel tubes. Initially the business will be developed by leverage APL Apollo existing distribution network and then we will start expanding beyond 800 distributors to penetrate deeper into the markets. The ultimate goal is to become India's largest tech enabled B2B platform for steel building material products. To start with we have identified four locations Pan India to set up large warehouses cum fulfillment centres. The initial investment into moat will be done through infusion in form of equity from Apollo, which will be funded from internal cash flows.

The third update is that we appointed another Bollywood celebrity Tiger Shroff as our brand ambassador. We are using this association to promote our product Apollo Column. The campaign has been quite successful so far with 5 million views on social media which we launched on digital platform and at the same time the campaign was run on business new TV channels in the Q3.

The fourth update is on our prestigious Delhi hospital project which is again being built using Apollo Column. The work had started on five hospital sites with almost 10,000 tonne of tubes already dispatched. The first site at Shalimar Bagh in North Delhi has seen erection work almost being completed. Now this is one of the fastest construction of the super structure for a multistory building with area covering more than 500,000 square foot. This has given us tremendous confidence that our tubular technology has the potential to revolutionize the construction industry in the coming years. We are in discussion with many architects, government agencies and private developers to promote this product. We shall keep sharing positive developments on this product from time to time. Again we have shown some live photographs and pictures in our investor presentation for your reference.

The fifth update is that we have appointed Mr. Anurag Mehrotra as our Chief HR Officer who brings multiyear experience from MNCs and manufacturing background. This is in line with our chairman's vision to further strengthen organization to support growth for many years to come.

The six update is that we are glad to share that APL Apollo stood at 56% percentile in the first ever Dow Jones sustainability in ESG scoring. Our overall score was 25 which improved from five in one year. The best part was that the score improved in all areas of environmental, social impact and governance. We are committed to work even hard now to achieve our FY2025 ESG goals, which we articulated in our first year ESG report two quarters back.

Now coming to the Q3 results like on volume they were slightly way off versus our expectation. The main reasons were four. Number one being de-stocking in our channel partners because globally the steel prices had started coming down but in India steel prices were still firm so there was anticipation that prices will come down so there was some de-stocking from our channel partners. Secondly there was pricing gap between the primary and secondary steel which benefited the unorganized sector and took away some market from primary steel tubes to secondary steel tubes. We almost lost 100,000 tonnes of sales volume last quarter. We expect some to recover as the channel starts restocking. There has been declining steel prices over the

last two months and now there is enough confidence in the market on the pricing front and anyways the underlying demand from construction activity was strong so we should be able to recover the lost ground in the coming quarters. On margin front our EBITDA was in range above Rs.4,500 to Rs.5,000 per tonne. The good part was that we are sticking to our strategy to improve our value added product sales mix constantly. The raw material cost were up by Rs.24,000 per tonne but against that our net selling realization was up by Rs.27,000 per tonne, which again has two reasons. One is our product mix, which improved to 65% versus 63% and also some benefits we are getting due to backward integration for some of our processes so overall EBITDA per tonne was Rs.5000 per tonne and we are confident of sustaining our EBITDA around Rs.4500 to Rs.5000 per tonne in long term.

Thirdly on quarterly performance the working capital remained intact around 10 days with net debt near 1.5 billion which suggests that the operating cash flow was strong enough to fund our ongoing capex sense in Raipur. We target to finish Raipur capex by Q2 to Q3 of FY2023 post which there will be solid free cash flow generation. This will be further boost our ROE and ROCE which already touched 30% in September 2021. This was pretty much on the Q3 performance.

Lastly we would like to reiterate that we maintain our FY2025 sales volume guidance of 4 million tonnes. This confidence comes from the fact that the new Raipur facility will start operations and we will ramp up the production at the earliest as we see good for all the three product categories over the next three years plus the existing 2.6 million tonnes capacity will see double digit demand growth year on year. On EBITDA front we shall be a minimum Rs.5000 per tonne by FY2025. That is it from our side. We would like to open the floor for Q&A.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. We take the first question from the line of Sujit Jain from ASK Investment Managers Limited. Please go ahead.

Sujit Jain: Thank you for the initial remarks and commentary. If you look at your volume guidance it is almost 25% CAGR from here and incremental volumes per year they themselves are probably equal to or higher than the next competitor so if you can spell out our business development initiatives of the three new divisions that you will target using your Raipur plant?

Anubhav Gupta: Sure Sujit so if you breakdown our 4 million tonne FY2025 sale guidance every year we are saying that we are going to add 700,000 tonnes so this year 1.7 to 1.8, the next year incremental 700,000 tonnes and so forth in FY2024 and so forth in FY2025 so this incremental 700,000 tonnes 200,000 tonnes which will come from the existing capacity of 2.6 million tonne. Here we are assuming like early or low double digit volume growth right and then 500,000 tonnes will come from Raipur so there are three products. One is Apollo Column which is part of our heavy structural tubes where we are going to start producing products and tubes up to 500mm x 500mm diameter and we are also working on even bigger sizes, which are being produced only

one or two players globally. Now for Apollo Column the strategy we started working on two years ago where we have started created demand for heavy structural tubes, which are replacing conventional construction methodology, which is RCT based and conventional steel base so we believe that 500,000 tonnes of this capacity can be consumed within three years by FY2025 given the fact the market development initiatives we have taken so far. We are doing mass marketing through advertisement campaigns and also we are doing one on one marketing where we are going to each government agencies, structural consultants, architects, engineers, developers and we are pitching this idea that they should switch to faster way of construction which is tubular technology and God willing once these hospital projects in Delhi would be completed, it will add as an automatic demonstration of this technology. I mean you can do your channel checks with the contractor who is doing the work here the kind of speed he has been able to achieve due to the tubes I would urge you to do that plus there are live sites which are ongoing on Delhi. The photographs which we showed in our presentation they belong to Shalimar Bagh which in North Delhi. You are welcome to visit these sites and see the success of this technology so far so we believe because of our initiatives on mass marketing, to one to one marketing and demonstration of such projects, we are confident that we should be able to achieve 500,000 tonnes of sales volume over the next three years. This represents around 200 standard building which will be based on steel tubes in India which we believe should be feasible given the success we have got so far. Now coming to color coated products, the coated products again these products would be replacing the conventional construction products like aluminum profiles and steel angles and channels. If you give a coated solution to the fabricator he saves a lot of time in sending the end product for color coated, etc., so his efficiencies would improve significantly and he can do an ecstatic work with steel sections, which right now are being taken by wood or aluminum or angles and channels. Thirdly on coated products again that 500,000 tonnes of products would be sold in our existing distribution network. There is already an established market in the roofing sector and wall cladding so we have strong distribution network who are anyways selling these products for other brands given the brand positioning Apollo has, we are confident that again 500,000 tonnes of volumes could be achieved over the next three years. All in all this gives confidence Sujit that 4 million tonnes is very achievable. We know that Q3 was a bit off, but that is the short term phenomena which we see in many building materials sectors so same impacted us, but overall the strategy, the vision, the game plan, and the business plan everything remains intact.

Sujit Jain:

The difference between L tubes made from scrap and from HR steel had increased as you had mentioned and post that there was expectation that difference will come down what is that difference currently standing at? Has there been a correct in prices by your suppliers in HR sheet?

Deepak Goyal:

Sujit earlier this difference is in the month of November and December is almost close to Rs.20,000 per tonne. Now during some decrease in the flat product price in the primary and the increase in the long products price no difference is close to Rs.7000 to Rs.8000 per tonne. It is fair due to the very good quality material. Now since all the things are on the track and other

thing is there are two new lines of HR Coil started in India. One is in Dolvi of JSW Steel and one is of Steel Authority is also now good in India. I think what happened in the month of October and November may it will not come again.

Sujit Jain: Which means you will scale back some of our market share in commodity segment?

Sanjay Gupta: Yes. We need it. We need badly I can say.

Sujit Jain: Thank you.

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

Rahul Agarwal: Good evening and congrats. I hope that family is safe and healthy. Sir three questions essentially firstly you highlighted that the volume declined because of three reasons de-stocking, rains and price gaps? Price gap you already explained and it has come down? Obviously we do not have unseasonal rains now so would you help me understand what is the outlook for Q4 in terms of volume in the next 12 months? Broadly what is the plan in terms of sales volume that is the first question?

Sanjay Gupta: Rahul good afternoon. If you see there is a lot of pressure of the decline of the volume in the Q3. If you see our revenue, our revenue is up by almost 24% and our volume is down by almost 17% year on year. If you see the total impact, it is almost 40%. We have stopped the selling of credit sales. Our channel partners are also not prepared of this type of financial arrangement; this was one of the most important reasons for the volume decline. Second, all over the world the steel prices there was a fear factor that has been created and in that also we had de-stocking. Third our one very important part which is there in marketing, where we had the monsoons that had receded lately, and the products what we had at about 25% to 35% which used to go to secondary material for heating, we had an impact in that. So I think a lot of the prices had decreased and some people had improved their financial system, now monsoons are not there, now the difference has become very less in the system, so I am hopeful that the vision which I had that this year we will do 18 lakhs, earlier our plan was for 2 million tonne for this year but after Corona we revised our plan to 1.8 million tonne. I am hopeful with our team, we will do our 1.8 lakh goal.

Rahul Agarwal: Got it Sir. Sir secondly HRC prices though corrected during the quarter two questions to that? One was could we quantify inventory loss at all which happened? I know that we do not have more than one month inventory? It does not happen, but if the prices..?

Sanjay Gupta: My call was sharp. We had some minor selling, we may or may not have an impact of Rs.2000 to Rs.4000, right now I cannot say anything.

Rahul Agarwal: But there was some inventory loss during the quarter?

- Sanjay Gupta:** This will not have much impact for us.
- Rahul Agarwal:** Sir hypothetically the second part to the same question was if let us say HRC normalizes and falls by another 20% hypothetically what happens to the EBITDA per tonne for the company let us say next year fiscal year FY2023, the discussions about 4500 to 5000 will we sustain that?
- Sanjay Gupta:** I do not think there is such a big structural change in the system, so it will be easy for us to maintain that 4500 to 5000.
- Rahul Agarwal:** Even if the HRC corrects by 20% is that correct?
- Sanjay Gupta:** HRC, the lesser it is, the more benefits are there. Our margins will also be good. We have trouble raising every price in HRC. Otherwise, we do not have any trouble.
- Anubhav Gupta:** Rahul what will happen is that the demand for structural steel tubes will increase because we are competing with other established products so our product will become more competitive if the prices fall and then as Sanjay ji explained that the financial arrangement which our channel partners have to do on the overall value that will come down so actually it will be very good for the demand for structural steel tube if prices come down by 20%.
- Rahul Agarwal:** Got it because this quarter I can see the realization per tonne has gone to 80,000 when the HR actually fell any specific reason for this?
- Anubhav Gupta:** No this is on average basis. HRC fell in the last month so the average of Q2 versus Q3, Q3 is still high.
- Rahul Agarwal:** Got it and lastly Sir what is the monthly EBITDA absolute run rate will be for next year given the change in sale mix we expect from Raipur value added sales? Any number you would like to guide Sir that is my last question thank you?
- Anubhav Gupta:** Rahul we will not like to break up the EBITDA per tonne or EBITDA on yearly basis. The guidance what are giving is that 4 million tonnes sales volume by FY2025 so you could build your spreadsheet accordingly and then EBITDA per tonne every year expect Rs.250 per tonne of gradual improvement. Last year we did for Rs.4200 per tonne EBITDA and we are guiding for Rs.5000 per tonne EBITDA by FY2025 so there will be gradual improvement of EBITDA per tonne also.
- Rahul Agarwal:** I was actually more coming from we were trying to get Rs.250 Crores per quarter of EBITDA so I was just trying to come from that angle is there a number in mind for next year?
- Sanjay Gupta:** Next year we are targeting the business plan what we have we will do about 2 million tonne will be done from APL Apollo system, and we can do about 3 lakh to 4 lakhs tons, I do not think there is an issue of Rs.1200 to Rs.1300 Crores EBITDA.

- Rahul Agarwal:** Got it Sir. Thank you so much and all the best.
- Moderator:** Thank you. The next question is from the line of Abhishek Ghosh from DSP MF. Please go ahead.
- Abhishek Ghosh:** Thanks for the opportunity. Sanjay, if we look at Apollo general structure's margin, EBITDA per ton, this is almost about 1.5 thousand is coming which is one of the lowest, but this is largely because of the scrap prices are passed through, whether this type of sentiment will be there.
- Sanjay Gupta:** There will be the pressure in this segment only. If you see our major volumes, you will see a decline in this segment only.
- Abhishek Ghosh:** Whatever the normalization happened partly, Rs.20 to Rs.60 which is nearabouts per kg so do you feel there would be a discount to be sold, so that the margins will be improved. Is it a right understanding?
- Sanjay Gupta:** In this our target has always been Rs.3000.
- Abhishek Ghosh:** Secondly, the proportion of the general structure of the company, and you will have to give a discount of Rs.5000 per ton, and as the proportion of this goes up, then you will trend to move towards 4500 EBITDA per tonne but with higher volumes? Will we be able to see it?
- Anubhav Gupta:** The heavy structural which we had wherein we have EBITDA margins, in the last quarter it was 26,000. This quarter it is 35,000 tonne we did. Q4 we are targeting almost close to 50000 tonnes. So as and when this volume increases, we will see an increase in margins in all these areas. We are playing in this sector. I am not playing well in general structural this time. My full focus is on the new Raipur plant and heavy structural tubes and our coated tubes which is there, there would be some pressure and will be there, in order to do volumes, we will have to compromise the margins, so we will do it because end market share is almost because whatever competitors were there, they all have shifted to the secondaries. You can say this. If you see the channel checks then you will see the market share of our company is about 50%. Right now in the primary steel my market share, according to me it is 80% to 85%. Apart from us, almost everyone have dropped their hands. Nobody is doing primary sales. If you check the channel you find out and if I am not mistaken, the information whatever we have, my markets is almost close to 80% to 85%, we have seen all the pressures and 20000 is 40% almost 30% to 40% gap, which is a very big gap. It has never been done in the history of the company.
- Abhishek Ghosh:** Whatever new initiatives you have given of the Apollo Mart and in B2C the furniture store what is your thought process over the next three to five years in terms of capital and how much investment you will invest? How do we have to see these new initiatives?
- Sanjay Gupta:** Abhishek, the furniture stores, we are not investing any money. 100% money is taken by our distributors. They are opening the stores. We are only giving them designs. We are teaching them

the techniques, on how we have to work and we have not given any Royalty for the investors, and in the future we will get royalty. We are not going to invest any money in this business, on the best, we can invest Rs.5 Crores to Rs.10 Crores I can say that. Mart, right now we just, we are not able to commit big here, since we started just now, and we are getting many details, I can give a clear picture in the second half. We have tied up with some two, three small companies whose materials are of very good quality, we are just focusing on Raipur, by December Raipur, will be completed, after October, all these small, small things are getting done, I can give any clear picture in the second half. Right now I cannot give any clear picture.

Anubhav Gupta: Abhishek on your first question on the mathematics like how the EBITDA per tonne will behave if commodity sales go up. That is simple math you can also do. If commodity sales will go up so blended EBITDA per tonne may appear low optically but our strategy is how do we increase the absolute EBITDA. I mean optically it may look Rs.4800 to Rs.5200 but we are more focused on how we achieve Rs.250 Crores of quarterly EBITDA then we move to Rs.300 Crores and then we move to Rs.400 Crores and eventually Rs.500 Crores.

Abhishek Ghosh: Great. Thank you so much and wish you all the best. Thank you so much Sir.

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

Ankush Agrawal: Sanjay I just wanted to understand the business which we have, the margins for the HR coil is on the basis of absolute? How is the conversion calculated? Is it on the basis of margins or is it being calculated by tonne?

Sanjay Gupta: It is on the basis of tons.

Ankush Agrawal: Absolute basis, suppose the HR coil is Rs.80000 per ton, then...?

Sanjay Gupta: We always calculate it on the basis of tons, the margins, we do not do it on the percentage basis.

Ankush Agrawal: Because if I see the EBITDA per tonne on various products keeps changing every quarter and HRC pricing this is what I believe right so you are saying that you are calculating it on the basis of tons then why does it fluctuate so much.

Anubhav Gupta: Our product range you are seeing these four product categories. Now these four product categories have 1500 SKUs and the EBITDA per tonne varies from Rs.1000 per tonne to Rs.10000 per tonne today so within heavy structural we have value added products and super value added products. Within light sections we have patented products which are like super value added products. In TriCoat it is a mixture of three to four products. Again the margin would defer so because the skew range is so wide 1500 SKU and the range is from Rs.1000 per tonne to Rs.10000 per tonne and this EBITDA per tonne is calculated not on conversion basis. We are not supplying to a B2B OEM customer. We are selling this off the shelf products to our 800

distributors so the market price gets determined on demand and supply for various products. Products which are monopolistic for us which only AP Apollo is making not only in India, but the whole world where the margin would be upward of Rs.6000, Rs.7000, Rs.8000, Rs.9000 and Rs.10000 per tonne. The product where we are getting competition even from the run-of-the-mill operator where the margin will be Rs.1000 per tonne so I think if you want to monitor or track our margins you should look at the blended EBITDA per tonne, which is the function of our value-added portfolio sales mix improvement what we have done from FY2016 onwards.

Ankush Agrawal: The point that I was trying to understand is for example now the HRC prices in the last quarter was very high and in the last year itself it was very high right compared to last four to five years. Now four to five years down the line when you are saying that we are going to do 4 million tonnes right and you are targeting basic Rs.5000 per tonne so I was trying to understand HRC would go back to normal which was like three four years back, how does it impact EBITDA quarterly that is what I was trying to understand. So what you are saying is that it will not affect our EBITDA per ton even if HRC prices?

Anubhav Gupta: No we work on pass through policy. When the HRC prices are revised normally they are revised once in a month, 12 times in a year right. Within 10 days we also revise our price list for our distributors. If there is a revision of Rs.1000 per tonne upward, we will revise our prices accordingly. Again there will be some products where we can command better pricing, which are monopolistic right. If the prices go down by Rs.1000 per tonne, we will revise down our price list accordingly. Then again there could be some products where I may not reduce the pricing by the same quantum so it is a function of the demand supply scenario for my various SKUs so when we say Rs.5000 per tonne in FY2025 this could be at HRC at Rs.40,000 per tonne or HRC at Rs.60,000 per tonne. We have no say in that.

Ankush Agrawal: Unless and until HRC goes ballistic or like some extraordinary level we would be able to do it Rs.5000 tonne?

Anubhav Gupta: That is right. That is true for every building material product category right. For PVC pipes the resin plays the role, for paints, oil plays the role. That is the business risk which every business has.

Ankush Agrawal: Secondly, Sanjay Ji, you had mentioned a very good statement in the last concall that internationally most steel companies will do double digit EBITDA, in them the PVC has already done it, then why do not we do it? So, what according to you, when you will be doing this, by 2025 you can do it, the double digit EBITDA?

Sanjay Gupta: According to me, if we have to take the base of HR coil, it should be around Rs.50000 per quarter then in the next six months or one year, it should settle down. So, our selling price is almost Rs.70000 tonne, so the EBITDA of Rs.7000 in order to cross the double digit. If our Raipur plant comes up, and it does the structural steel it is not that big a statement, where a person who used to do Rs.3000 in EBITDA then he used to get Rs.4000, then he has got

Rs.5000, and it will be a very big thing for me. So, I do want to commit anything on this, but no doubt when they are able to do it, why cannot I do it. My working is on that plans only. There will be expenses on this, and then there will be branding, it is not just making pipes, our retail network also works on this, lot of things are there, but no doubt we also seek, let us say that our system, Apollo Pipes, it is having Rs.12,000 EBITDA then why cannot I earn that much EBITDA.

Ankush Agrawal: So Sanjay Sir what according to you restricts steel tube industry, why is the margins very less, meaning the product category or is it the industry practice?

Sanjay Gupta: The basic products which is there which is 62 mm which is very basic. There is no entry barrier in this. If you see the structural, when I innovated this 15 years ago, during that period, there was many things, but as and when the products are getting innovated it will take around five to six years, then it will be commercialized. But if you see this as Rs.3000 or Rs.4000 then ROCE and ROE will be high. It is fast. The smaller system people are very fast and they can get a smaller base and create demand. Our focus would be that 30% should be maintained for ROCE and ROE. So, if we have to maintain our ROCE and ROE c30% then we need to put our focus more. Like if you see our Raipur plant, the plant which I am commissioning, in the Raipur plant I invested almost Rs.800 Crores in the fixed asset and I do a work of 1.5 million tonne then approximately, I need 2 lakh tonne of inventory and debtor so 2 lakh tonne and 1 lakh tonne, I will get credit and for the 1 lakh tons I need to invest about 500 Crores or 600 Crores, working capital, I need to invest. So the total investment, capital implied is Rs.1500 Crores.

Ankush Agrawal: What you are saying is true but even at lower margins we are still making better ROCE?

Sanjay Gupta: If I am earning Rs.5000 at the full capacity, then it will be 750 Crores. The capital employed for 1500 Crores we get an EBITDA of 750 Crores, so your ROCE calculation will come to 40% or more. working capital is implied. My capital implied at Raipur plant is Rs.1500 Crores, if I earn Rs.5000 per tonne, Rs.750 Crores I earn.

Ankush Agrawal: The point is well taken. Thank you so much Sir. Good luck to you.

Moderator: Thank you. The next question is from the line of Pinakin from JP Morgan. Please go ahead.

Pinakin: Thank you very much Sir. Sir, you were telling before that there was de-stocking in the system on expectation the prices of steel will decline, we had a call with JSW earlier this week and they had said that in February and March the prices will increase, so according to the system, and according to you, has the de-stocking got over and the restocking should come back, or you say that when the steel prices decline the de-stocking will be there?

Sanjay Gupta: In the November month, the blended price of HR coil in India is close to Rs.69 per kg in the market. In January the price were even Rs.59 but after that the prices increased by 1500 and it has come to around Rs.61 and has become stable maybe Rs.1000 may come as an increase, and

the coal is on the upper limits at around \$450, from \$320 then there will not be a major increase that it will be Rs.5000 per tonne to Rs.10,000 per tonne, I do not think this type of increase will come in the system right now in the next few months. Further the prices will be up..

Pinakin: If little bit the prices go up then the demand should also go up, because the fear of de-stocking in the systems will get over then that should also be positive?

Anubhav Gupta: For the demand, but de-stocking will happen, and in Q2 we will have some difficulty, we need stable market. I do not want the prices go up, but the business is like this that we have to run with the business. Whatever backlog was there from last year, we have a target of completing all these in the next year or so.

Pinakin: Understood. Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Ritesh Shah from Investec Capital. Please go ahead.

Ritesh Shah: Thanks for the opportunity. Sir in the earlier calls you had indicated that you will look to outsource the commoditized part of our business any update over here Sir?

Sanjay Gupta: My capacity is almost almost 0.6 to 0.7 million tonne is vacant so there would not be any logic, but when the personal capacity is fulfilled then I am going for outsourcing.

Ritesh Shah: Sir any update on the plans for UAE basically we were looking to set up a plant any thoughts over there Sir?

Sanjay Gupta: We opened a small company in UAE and in the next few months after may be in the month of April or May we may go in for purchase of land. We will commission the plant soon.

Ritesh Shah: Sir how much will be the indicative capacity over there?

Anubhav Gupta: Right now we have no plan but in our minds we need to do some business in UAE, my whole focus is on the Raipur plant.

Ritesh Shah: Sure Sir and Sir what will be thought process behind setting up a small facility in UAE? Is it like servicing the local market or should one understand that?

Sanjay Gupta: In India due to the import restrictions, the steel prices in India become high, so we are not able to do exporting. There is no duty in UAE market further if required so to increase the export market, I think the company will need a plant in UAE.

Ritesh Shah: Sure Sir that is quite helpful. Thank you so much.

Moderator: Thank you. The next question is from the line of Abhijit Mitra from ICICI Securities. Please go ahead.

Abhijit Mitra: Thanks for taking my question so I have two questions. The first is on just to understand suppose you know in the likely scenario that HRC prices drops anywhere between Rs.5000 and Rs.10000 over the next couple of quarters which is where the expectations are setting up to be so how would our pricing for heavy structural say compare with on a per square foot basis to say RCC any math on that that is question number one? Thanks.

Anubhav Gupta: When we compare RCC with the steel tubes the difference is around Rs.150 to Rs.200 per square foot for the superstructure so against that the benefits, there are three benefits. One is that when you move to steel tubes the area covered by the vertical sections gets reduced so the carpet area gets increased by 2% to 3%. Secondly the time that you will save on the construction of the superstructure that is like one year of interest cost saving and third is that you can pre-advance your cash flows if it is an institutional building for hospital, hotel or school purposes you can pre-advance your cash flows so like I said that in last two years we have started marketing this concept to the contractors, developers, builders and architects. On pricing front, we have not seen too much of resistance. What resistance we see is that it is a new technology so people want to see some demonstration. All the architects and consultants they ask questions on the sustainability of the building, etc., so I guess pricing we are not too much bothered. It is more of like demonstration of two or three of such buildings in India and then we expect this to spread like wildfire, which we are confident of.

Abhijit Mitra: Great that is comprehensive. The second question is that you know typically you know till now the expansion has been across different locations so there are ten locations now? For the first time, we are seeing an aggregation of a large capacity almost one and a half million tons to a single plant so I think last quarter I think there was some reference as to how to control the freight cost through investments of you know investment in EBs and so any update on that project because you know freight costs can increase and that can be a potential you know factor to manage here in the EBITDA trajectory? Thanks.

Anubhav Gupta: Raipur why this large plant coming up is that Raipur was the tenth plant, which we started also apart from Hyderabad which came during those days so Raipur what we see Raipur as the hub for Indian structural steel tubing right because you can feed all the markets in India as it is centrally located and the raw material availability is also compared to like if we have to put a scoring on ten locations so Raipur will be like among the top ones so this is the reason that why we believe that we should make Raipur as the hub for structural steel tubes and secondly on the on improving the efficiencies for the freight logistics, etc., yes so that exercise is ongoing. We have done a lot of shuffling and reshuffling between the plants and the demand for example for coated tubes the demand was being the market was in West India and the product was coming from North India so we shifted the mill from North to West plant right and we also introduced the coated line there so those kind of shuffling and reshuffling took place and we are confident

that you will see these efficiencies are bringing our margins up and reducing the freight and logistics costs.

- Abhijit Mitra:** Thanks. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Nakshita Mehta from Credent Asset Management. Please go ahead.
- Nakshita Mehta:** Thank you for taking my question. On this call you mentioned that by H1 FY2023 our Raipur plant will be partially operational so how much or how much visibility can we expect in H2 FY2023 if you can just put some light on that?
- Sanjay Gupta:** Around 4 lakh tonne of quantity we are targeting from new plant from Raipur in the next FY2022-FY2023.
- Nakshita Mehta:** My other question is on our debt position, so as of now we have 1.6 billion of debt which is on revenue of \$32.2 billion so are we planning to go debt free in coming years or how are you planning the debt position? We have I think enough internal accruals operating cash flows so are we planning to do debt free?
- Anubhav Gupta:** Yes if you see that our operating cash flow to EBITDA is more than 90% currently and given the two to three quarters of EBITDA would go to complete the Raipur plant. Once that capex gets over by September or October so second half of FY2023 there could be working capital also in the Raipur in two years, but yes in terms of the net debt we are confident that FY2023 towards the end of FY2023 we should be near zero debt position.
- Nakshita Mehta:** Great and just one more question how much incremental EBITDA are we expecting because of the Raipur plant?
- Sanjay Gupta:** 400,000 tonnes figure we give and I think with an EBITDA margin of Rs.6000 per tonne, Rs.250 Crores we are targeting next year from Raipur new plant.
- Nakshita Mehta:** Sir just one more thing I just wanted to understand how we calculate the portfolio so in your presentation you said that earlier it was 57% and right it is 65% so can you just explain to me how we calculate that mix?
- Anubhav Gupta:** The general category which is their general category general structures that is commodities that is standard that is non-value added so 4300 ton of quarterly volume and 139,000 tonne from general structures is 35% of commoditize and the rest 65% is all value added.
- Nakshita Mehta:** That was from my side. Thank you and good luck.



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- Moderator:** Thank you. The next question is from the line of Vikas Mistry from Moonshot Ventures. Please go ahead.
- Vikas Mistry:** Good evening Sir. My question is that we have ventured into new Apollo Mart and what will be the contours of this whether it will be inventory based model, marketplace-based model and how we will really try to make money out of it by transaction based money or something, but a subscription-based money, how will we try to personalize like it?
- Sanjay Gupta:** The group is very clear. We are not going to B2C. We are going to only work B2B. This is like a market place and maximum we are going with our own brand materials private labels our Apollo label. We have identified four items like welding rod, tall steel, and mesh nets.
- Vikas Mistry:** Whether the inventory risk is with us or inventory risk?
- Sanjay Gupta:** We cannot go with that with kind of inventory and we will be doing it by a back to back arrangement. We need to keep about 5%, 10% inventory, but it is very difficult to say now because it is done through a trial basis, and our whole focus is on the Raipur plant. Once we complete the Raipur plant in between we will get many signals like what we have to do then we decide it, but we are not in favor to take the inventory and all those things. We just want to use our brand.
- Vikas Mistry:** Thanks a lot Sir.
- Anubhav Gupta:** Also because we will start with selling these products to our existing clients and existing distributors so they are already switched to cash and carry model with us for structural steel tubes so we believe we can carry the same arrangement for these newer products so on receivable side there should not be much of a stretch and on inventory also if we buy in bulk and sell to distributor so we would like to ensure that the inventory levels do not go up.
- Sanjay Gupta:** This is one of our radar. If it is handy work, we will not do it, we back out.
- Vikas Mistry:** Fine Sir. Thanks a lot Sir. All the best for the future and events and we hope that the inventory remains right only.
- Moderator:** Thank you. The next question is from the line of Dhruv Jain from Ambit Capital. Please go ahead.
- Dhruv Jain:** Thank you Sir. I had a question on the Raipur plant and out of the 15 lakh capacity that you are putting up about 10 lakhs is for color coated cubes and sheets so as you had given out the benefits of using Apollo Column versus the traditional structures if you can list some of the benefits that that the channel partners or the intermediaries will draw from this product and what is the current market structure like? Are existing players what is the market size like at this point

of time if you could just throw some light on it considering it is the biggest expansion in terms of the overall capex that we are doing? Thanks.

Sanjay Gupta:

I just explained about the Raipur plant. We are making it half a million ton capacity for the column pipes up to 500 square million units. We are making half a million tonne coated tubes capacity. This coated tube is not only one color coated tube. This has a capacity of 1 lakh tonne for the doorframe, 1 lakh tonne for the precision tube also the automatic tube you can say this type of tube, and 1 lakh tonne is galvanized tube. Galvanized tube now we are making pre-galvanized tube. Now we innovated one new product is Galvanized tubes. 40% aluminum and galvanized the capacity will increase and the line will also increase. This will become a premium quality that we want to establish. This has the capacity of 1 lakh tonne. We are going to make 1 lakh tons which is a new semi annealed pipe, which is between the HR coil and CR. Totally we will have 5 lakhs capacity in the coated tubes. This is only one color coated. 1 lakh tonne is color coated tubes. This is the 5 lakhs ton capacity for the coated tube and the third one, 5 lakh tonne is roofing sheets, is mainly in the roofing sheet and you would have seen after the frames there are many steel which are being introduced in the panels, then they are used in many different types of steels and in roofing sheets both. The capacity which we have is about 5 lakhs tons. So we have three capacities, 5, 5, 5. So, in this 5 lakh tons, 1 lakh tonne is color doorframe, 1 lakh tonne is precision tube, 1 lakh tonne is galvanized tube, 1 lakh is Semi annealed tube, and 1 lakhs is colored tube.

Dhruv Jain:

Sir in today's date, are any one manufacturing this kind of product and if they are not manufacturing, what are the marketing activities going to be like?

Sanjay Gupta:

Precision Tubes TI is manufacturing them. There are many organized sectors who are manufacturing precision tubes. In the doorframe, there are many unorganized manufacturers who make rolls of colour coated and sell them. Galvanized tubes in India there are no manufacturers. Semi-annealed tube no one is manufacturing in India and colour coated tubes are not being manufactured in India. If we talk about the column pipes, we have 5 lakh tons of capacity this is also not being manufactured in India, 5 lakh tons, which are coming in the sheet there are lots of players.

Dhruv Jain:

In terms of marketing activities are we looking to hire more people? What is the outlook there on this part?

Sanjay Gupta:

We are already in the process to strengthening the organization. In Raipur plant I think we have taken 50 IT guys and we are training them and some will go into production tomorrow and there will be some new recruitment, and some we will take them to marketing and we will build a team from there. For that I have taken a new HR guy and hired him.

Dhruv Jain:

Thank you. That is it from my side.



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- Moderator:** Thank you. The next question is from the line of Utsav Mehta from Edelweiss AMC. Please go ahead.
- Utsav Mehta:** Thanks for taking my question. Just one, our target is to grow volumes by more than 20% EBITDA per tonne 4.5 plus will that impact working capital in any way? Will that go up as volume push comes back?
- Sanjay Gupta:** No, because what we are taking the growth we are taking the growth in the new sectors, we cannot pressurize one sector. We are taking new, new sectors so I do not think our working capital cycle will increase.
- Utsav Mehta:** The receivable days which has come to single digit will it be single digit only cash and carry mostly?
- Sanjay Gupta:** It will be 100%, if I am not able to do it, then I will just leave the job. In the March quarter, if the debtors or the inventories increase, then I will back out. I do not want to go into that. My mindset is just over that.
- Utsav Mehta:** Understood Sir. Thank you so much for your time.
- Moderator:** Thank you. We take the next question from the line of Arpit Shah from Stallion Asset Management. Please go ahead.
- Arpit Shah:** Good afternoon Sir. Good to talk to you. As you mentioned that the primary market you have 20% to 25% which structures are you talking about, is it super premium or premium structure?
- Sanjay Gupta:** We are talking about the general structure marketing which is being manufactured by the primary steel.
- Arpit Shah:** 80% is being manufactured and the two new mergers which are there what is the timeline?
- Deepak Goyal:** In the 7th and 8th February we had creditors and shareholders' meeting. After that we submit the documents for the final hearing and that will be completed by Q1 of FY2023.
- Arpit Shah:** Thank you Sir.
- Moderator:** Thank you very much. Ladies and gentlemen that was the last question for today. I would now like to hand the conference back to the management for closing comments.
- Anubhav Gupta:** Thanks everyone for joining in. I would like to thank IIFL again for hosting us for this quarter call. Hopefully everyone would be safe and we hope to see you in the next quarter. Thank you so much.



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Moderator: Thank you. On behalf of IIFL Securities Limited we conclude today's conference. Thank you all for joining. You may now disconnect your lines.