"APL Apollo Tubes Limited Investor Update Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the APL Apollo Tubes investor update conference call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*'then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anubhav Gupta – the Chief Strategy Officer of APL Apollo Tubes. Thank you and over to you Mr. Gupta.

Anubhav Gupta: Thanks Margreth. Good morning everyone. Thanks for joining us on this APL Apollo investor update conference call on such a short notice. I am Anubhav Gupta, Chief Strategy Officer of APL Apollo Tubes. I am joined by my fellow colleagues, Mr. Deepak Goyal, the Chief Financial Officer of APL Apollo Tubes and Mr. Rahul Gupta, the Managing Director of Apollo TriCoat Tubes Limited. We are glad here to discuss about the recently announced merger of Apollo TriCoat and Shri Lakshmi Udyog Limited into APL Apollo Tubes. After our short presentation we will open the floor for Q&A. I would request all the participants to restrict your questions towards only this recently announced transaction and not any other business update.

Let me start with our presentation now. I have segmented our presentation into three broad categories. Number one is the basic contour of the transaction, number two is the strategic rationale why we have done this, and number three, the benefits to shareholders of both the companies. So, coming to the first segment, which is a broad contour about the transaction. It's a plain vanilla merger of Shri Lakshmi Metal Udyog which is 100% subsidiary of APL Apollo Tubes and Apollo TriCoat Tubes which is 56% subsidiary of Shri Lakshmi Udyog into APL Apollo Tubes Limited. As per the fair valuation done by Big 4 consultant KPMG they have derived at the valuation of 1:1 swap ratio 1:1 for both the companies. So, Apollo TriCoat shareholders will get one share of APL Apollo Tubes once the merger is complete. This fair valuation is 16% upside to Apollo TriCoat's last closing price and 25% premium to the 3-month daily weighted average share price formula. For APL Apollo Tubes the new share capital will increase by 10.8%. So, we are talking about around 10% dilution for APL Apollo Tubes. As per the new shareholding, the existing shareholders of APL Apollo Tubes will hold 89.2% and the TriCoat shareholders will end up owning 10.8% in the consolidated merged entity. The promoter shareholding will fall to 33.5% from 37% today because of the dilution after the new shares will be issued. We expect this transaction to get over by third quarter of FY22. This is based on a simple assumption that the board has already given approval for the merger. Now we will approach the exchanges SEBI and NCLT, after which the shareholders and creditor meeting will take place. Over that the second motion petition will be filed and then we should expect the final order. As per the consultants we should be able to finish this by December, 2021 plus minus a one or two months. The merger will be effective from date of 1st April, 2021. So, FY22 should be the full year of consolidation for APL Apollo Tubes. And lastly, this transaction is tax neutral for all the three companies which are involved in this transaction.

Coming to this strategic rationale why we have done this, like I said it's a simple plain vanilla transaction and we have done with the thought of achieving these objectives here. Number one is, simplified group structure with a single listed entity, APL Apollo Tubes Limited. Number two, to create a structural steel cube giant in India into a single company with capacity of 2.6 million tonnes. This makes our company APL Apollo Tubes among the top five global steel tube companies. And number three, stronger platform for growth. We have already seen the kind of growth which we have demonstrated over the last 10 years. So, the single platform will give further boost to create a strong platform for growth. And number four is the solid balance sheet and greater financial flexibility for our group which will help shareholder reward in future. Number five is to increase the cross sell opportunities between the two companies where we think there are a lot of synergies. Number six is the cost synergies between the two companies that is at the plant consolidation level. We have four plants of the group in NCR Delhi. We have three plants for the group near Bangalore area. So, we see some consolidation taking place there. There will be synergies in the distribution cost. There will be synergies in the go-to-market cost as well. Number seven is product synergies what we believe is going to take place after the merger of these companies. Number eight is the brand synergies, what we see after the merger. Because right now the two companies are spending separately on creation of brands. Once we have the combined budget the impact could be much-much higher and superior.

Now coming to my third segment which is the benefits to the shareholders for both APL Apollo Tubes and the Apollo TriCoat Tubes Limited. So, coming to APL Apollo first, this whole transaction is EPS accretive, ROE accretive, margin accretive, innovative or value added product addition to APL Apollo's portfolio. The B2C centric approach which Apollo TriCoat has got so far it will help boost overall brand equity for APL Apollo Tubes. And for Apollo TriCoat shareholders the benefits could be, number one, faster expansion due to increase size of the company, the de-risking of earnings, today 75% of earnings come from single product category which is designer tubes. Number three is the balance sheet strengthening with bigger scale which will again lead to faster expansion. Number four is the ability to introduce new technologies into structural steel tubing. And number five is increased brand strength for creation of a bigger and larger brand Apollo into structural steel tubing. So, with this, we would like to end our presentation and we can open the floor for Q&A. Margaret, please go ahead.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Kush Joshi from Kitara Capital.

Kush Joshi: Just a couple of questions. Can you just elaborate on the synergy and how long-term the APL Apollo will benefit out of this merger?

Anubhav Gupta: Kush, like we mentioned that the synergies there are like 3-point synergies what we have figured out. Number one is the cost synergies. Number two is the product synergies. Number three is the brand synergies. Coming to the cost again, there are three points where we are going to work over the next few quarters. One is the plant consolidation. Today APL Apollo Group has 10 plants, 8 are with APL Apollo, 2 are with Apollo TriCoat. Within the NCR region which is like 50 kilometers from New Delhi we have 4 plants, 3 from APL Apollo Tubes, 1 from TriCoat. And again near Bangalore city in South India we have 3 plants, two in APL Apollo Tubes and 1 in Apollo TriCoat. So, since we are also expanding our rural distribution reach very aggressively we are looking to add new warehousing capacity so that we can service our rural distributors in a much efficient manner. So, we will that if some of the plant and machinery could be installed at single location and we can vacate that space for the warehousing capacity. This we have done in the past within APL Apollo group two years ago because we used to have 4 plants in NCR and we consolidated those into 3 plants and we are seeing that because of that warehousing capacity which had come up we are able to service our north market in a much more efficient manner. So, same formula we might apply again in the north region after TriCoat plant is merged and in the south region also. Then the distribution cost Kush, because right now both companies they have their separate teams who are servicing distributors. So, if there is a single team going after the distributors and selling the products under a single umbrella, there will be a lot of distribution cost saving, this is what again we are foreseeing. And third which is very important Kush, is the go-to-market cost because if you see the track record of APL Apollo and TriCoat, these are all innovative products for what we had created the market, so it becomes very important for our marketing team to go and educate the fabricators who are the influencers in our value chain. Right now, what's happening is TriCoat team is having its own go-to-market cost and APL Apollo is having its own go-to-market cost, which we believe if combined again there can be lot of efficiencies which can be brought. So, this is on the cost side basis. As time goes by we will be able to give you more clarity on the quantum of the cost saving what we are anticipating once this whole exercise is done. Then second is product synergy Kush, where again we are very excited about the home decor product range. So, TriCoat is already having products like Designer Tubes Chaukhat for the home decor range. And in APL Apollo Tubes we are going to have color coated tubes where we are already setting up a mill in a new Raipur plant. So, combination of all the products within the home decor range, again these are very high value added products and then we can have a specific marketing strategy to push these products into the channel, educate these fabricators about this product and ultimately getting the pull from the market. And number three is the brand synergies Kush, where again both the companies have been very aggressive in the last two years to push for the brand equity. Right now both companies are having separate brand budget spends, but once this is merged into single entity we are looking at a lot of efficiencies that within a combined single budget the return, what we call ROI on the brand spends that are going to improve significantly.

Kush Joshi: With this taking into picture, the TriCoat product lines where we are trying to be a bit deferred expansion plans, whether they will accelerate the expansion plan as the balance sheet becomes stronger post this merger, so what is the outlook there?

Anubhav Gupta: So, Kush, yes that is again one of the stronger objective what we are trying to achieve here because we think TriCoat will be on a much faster expansion mode after the consolidation of balance sheet. Because right now if you see the product portfolio TriCoat we have Chaukhat and Plank in the north region and we have designer tubes and inline galvanizing line in the south region. So, if Chaukhat, which has been a flagship product for TriCoat, if we have to go pan India, it would take us five years to set up a plant in West and in East. South of course we could do brownfield expansion, but now with already established plant base for the group, it becomes very easy and fast to expand the capacity for the flagship products of Chaukhat and Plank. So, yes, we do believe that the expansion for TriCoat is going to be much more fast now.

Moderator: The next question is from the line of Dhruv Jain from Ambit Capital.

Dhruv Jain: I had one question and that was with respect to the valuation of the transaction or rather the timing of the transaction. So, just wanted to get a sense from the management that why a transaction right now? TriCoat was a much smaller company in terms of market cap earlier. So, what is the thought process there considering it was already a subsidiary?

Anubhav Gupta: So, this question reminds me of a very popular American song by an American band which is Never Too Late. Anyway, if you look at the Apollo TriCoat two years ago, of course the valuation, the market share was much lower, but it had zero profit two years ago. Today this company if you annualize the 9 months' performance, 9 months of FY21 and given April-May were bad due to lockdown, this company was going to generate almost 100 crore net profit, if you annualize 9 months' number which are already in the public. And this is despite the 60% utilization. So, TriCoat in the nine months had done volume of 160,000 tonnes on a capacity of three 350,000 tonne. So, on a 60% realization the company is almost at 100 crore annual run rate, number one. Number two, 2 years ago this company had zero ROE, zero earnings, zero ROCE. Today on annualized number you can see the ROE is again 40% and again with the simple fact that the utilization levels are like what 60%. So, what the consideration here is that even at today's valuation whatever APL Apollo is giving to TriCoat, this transaction is EPS accretive for APL Apollo, it is ROE accretive for APL Apollo, it is margin accretive for APL Apollo. And today the fourth reason I would like to highlight here is that both businesses are going to complement each other grow in the longer term. So, scale was not a problem for APL Apollo, but the kind of improvement in the financial metrics what APL Apollo has given in terms of the EBITDA, margin expansion, in terms of the volume growth, in terms of the ROCE expansion, in terms of the working capital enhancements, in terms of the debt reduction, in terms of the value added product addition and in terms of the brand equity enhancement. And if you look at the TriCoat the way it has ramped up in last 7-8 quarters what the management had time to deliver on the performance, so both the companies are going to complement each other grow, that is our main rationale to merge the companies today.

Dhruv Jain: And my second question is more with respect to operations. So, I believe that earlier TriCoat was operating as an independent company. So, now that in about eight to nine months from now or a year from now, TriCoat will get merged into APL Apollo, so will it continue to exist as a separate brand and how is it going to be operating under the APL Apollo umbrella, the employees, the top management, how it's going to be the transition, so your sense on that?

Anubhav Gupta: So, the TriCoat team is well equipped with B2C centric approach because that was new product category which came into TriCoat which are more B2C centric products like Chaukhat, Plank, designer tubes. So, we are going to be in need of this team very much in the future even when this entity is merged into APL Apollo. Like I said, APL Apollo itself is working on its new product categories into home décor segments. So, color coated tube is one product which is going to come from the house of APL Apollo. So, we do believe that the whole team can be fully absorbed. And anyway Dhruv, if you look at TriCoat metrics, the employee cost, the marketing cost, and even for APL Apollo, so we have been working on very lean structure anyway. Our employee cost with the revenue side we have in the building material space you will see that's very-very minimal compared to any other building material company. So, I don't think that absorption of the talent from TriCoat will be a challenge because we are going to have a new product segment which is going to be a big revenue contributor for the group which is home décor category.

Dhruv Jain: And the brand part? So, will TriCoat brand remain or then all the products will be termed as APL Apollo?

Anubhav Gupta: So, that decision we are yet to make Dhruv, we are evaluating. We are talking to our marketing agency, creative agency, whom we have taken help to come out with the above the line brand strength for last two years. So, I guess give us some time, we will be able to have much more clarity that whether it's going to be a single brand APL Apollo, or we want to stick with Apollo TriCoat as well, give us some time to come back on this.

Moderator: The next question is from the line of Urvil Bhatt from IIFL.

Urvil Bhatt: Just a follow-up question on the synergies part. So, how much time are you thinking will it take to realize the synergies. I mean just broad timelines, you mentioned about plants to consolidate, four plants into three or extend the warehousing facility in NCR. So, just want to understand how much time are we looking at executing this and also if you can highlight the quantum of savings that we are targeting, and second question is if you can just give the specific timelines of various approvals that are needed? You mentioned December as a tentative timeline that you are targeting but if you can provide the specific about each approval that would be helpful.

Anubhav Gupta: Coming to the timeline for synergies, we are already on the drawing board what needs to be done once we have all the approvals in place. How we are planning is that once we are through with the regulatory procedure, we should have all the plans ready with us and the execution time would be 12 to 18 months. Whether it is at the plant's consolidation level, ware housing capacity increase or a distribution cost is something which can be realized within 3 to 6 months as well. Go-to-market again it's a long-drawn process which could take 12 to 18 months, product synergies could be immediate because by the time we are anticipating this merger to be finished, we will have color coated tube line which will commence by end of FY22 so then again that's a low hanging fruit which we will want to take up quickly. Brand synergies again it is going to be like low hanging fruit because immediately we will want to merge the brand's spends together and have a combined big budget to go aggressive on the brand equity announcement.

Urvil Bhatt: If you can give the specific timelines of the various regulatory approval that will be helpful?

Anubhav Gupta: The timeline again, the immediate process is to reach out to the regulators which are steady here and both the exchanges and then we move to NCLT and after NCLT we will have a shareholder meet and a creditor meet. This will take around 6 months max and then we will have second motion petition filed with the various agencies and then finally we would expect the final outcome. Urvil this is also like very simple plain vanilla merger which involves only three companies. One company is anyways 100% owned by APL Apollo Tubes today and then 56% is owned by the subsidiary of APL and we do believe that both the shareholders are going to benefit from this. I think it shouldn't take beyond December 2021 but yes, we are remaining cautious so I guess that is why FY22 we should be able to finish the process.

Moderator: The next question is from the line of Ankit Gor from Systematix.

Ankit Gor: Anubhav firstly so it's not a direct to this transaction but indirectly you will appreciate. Firstly, Anubhav what's the outlook of TriCoat for next 2 to 3 years with related to that not sure that after merger you guys will provide a separate number of TriCoat or not. So, how do we track the synergies and how do we track TriCoat's performance after the consolidation or after the merger? That's my first question.

Anubhav Gupta: Ankit TriCoat today like I said nine-months capacity utilization was 60% with a volume of 1,60,000 tonnes on a rated capacity of 3,50,000 tonnes. What as a business line we had projected was that in next 2 to 3years we will be able to fully utilize that 100% realization so that's the business plan and you can do the maths in terms of EBITDA per ton what we are going to have with 60% realization EBITDA per ton what if can move. With 100% realization levels, the company is almost like zero working capital days and whatever debt it had till date, it had on December balance sheet. Again, we were anticipating that it's going to become debt free very soon. Business plan would remain as it is. In fact, what we are anticipating is that it will get into fast-track mode because some of the products where we were thinking that how we will scale this up like Chaukhat has been such a successful product for TriCoat. Within like three-four quarters of launch, we were selling 2,50,000 Chaukhat tubes per month. Our product was going into 43,000 homes every month but it was like again sad to know that it was only in the North market. So, now if we have to expand into Western market, Eastern market, South market, we can use APL Apollo infrastructure to install those Chaukhat tube mills. It will only fast-track it and as far as the tracking of TriCoat is concerned, I think segmentation we will have to consult with our auditors and consultants how it's going to be done but for the benefit of everyone we can disclose the TriCoat numbers separately, we don't mind that. Of course, we will have to check with our auditors and consultants but if at all TriCoat numbers will come into home decor category that's what we are planning right now and synergies benefit; today you know the EBITDA per ton anyways we are doing line-by-line consolidation when we are reporting consol APL Apollo numbers. Today the EBITDA per ton for nine-months was Rs. 3950 assuming we closed FY21 at some number, FY22 at some number. If there is improvement you are seeing year-on-year, that means the synergies are coming into play. I don't think there's going to be much of its problem for the analyst on the street to check if synergies are looking out or no.

Ankit Gor: My next question was very much related to that. In a better product mix of APL TriCoat was getting reflected in EBITDA per ton since it was line by line. You will see major; the acceleration or probably major accretion will happen on a PAT side after PBT so minority interest will get knock off there. On a margin side, if we really see we are already getting a better product mix in our existing numbers? There will be some cost savings which will reflect in EBITDA per ton as well, right after this merger?

Anubhav Gupta: Yes.

Moderator: The next question is from the line of Kashyap Jhaveri from Emkay Investment Managers.

Kashyap Jhaveri: A couple of questions, one like you highlighted, this merger is going to be EPS accretive, margin accretive for APL Apollo from day one. Just wanted to understand in first nine-months of this year already TriCoat is contributing almost about 24% of the consolidated EBITDA and which still if I look at even Quarter 3 on annualized basis, there is still spare capacity available there. In terms of this 10.8% dilution versus 24% already contribution; if I look PAT level also it's higher than about 11%-12% contribution. What was the deliberation on the spare capacities on both the sides which resulted into this ratio where the APL Apollo looks to be benefiting a lot whereas Apollo TriCoat actually seems to be probably a bit of a loser in that sense?

Anubhav Gupta: So, Kashyap if you look at the number which you are saying that it is contributing 24% to my PAT anyways so 56% is already owned by APL so you have to cancel that. The break up…

Kashyap Jhaveri: No, I am looking at even EBITDA level for that matter. Its whole thing is consolidated, right? So, my EBITDA as of today is APL Apollo shareholder includes 100% of which I will retain and for which I am doing about 10.8% dilution?

Anubhav Gupta: But 10.8% dilution is for the 44% sale which I am going to buy from the market so you are going to…

Kashyap Jhaveri: Of course, let's say if I look at even half of that today I am already getting 12% of contribution from Apollo TriCoat whereas I still have about almost 30%-40% spare capacity which I will be utilizing later on for which probably in fact I am not paying at all. So, as an APL Apollo shareholder I am happy.

Anubhav Gupta: Kashyap that is with APL Apollo also. APL Apollo is also catering….

Kashyap Jhaveri: In terms of spare capacity, how was that handled, that's the question actually on both the sides?

Anubhav Gupta: Kashyap so both the products in both the companies are different. TriCoat so there is there's no overlap between APL Apollo products and TriCoat products today so APL Apollo has its own product portfolio which is being utilized at 60% capacity today. TriCoat has its own product portfolio. Again, that has been precise at 60% capacity today so both will ramp up. APL Apollo will ramp up on its own, TriCoat will ramp up on its own. Once they are merged, the synergies will only come into play and then what we are trying to do here is, to make a greater home-decor product segment for the group which will be combination of TriCoat products which are already established, which are already having a very strong demand scenario over and above we are going to have a color-coated tubes from APL Apollo so this makes a very strong home-decor product portfolio for the group. That's what we are quite excited about and within that the Go-to-market strategy, the fusion strategy, the brand equity enhancement strategy, that's where we were going to have lot of synergies.

Kashyap Jhaveri: As of today, when you look at Go-to-market expenses for both the companies as a percentage of revenues would they be virtually same or would it be slightly higher in case of one which is like more of home-decor versus the other one which also includes some bit of structure.

Anubhav Gupta: TriCoat is higher today.

Kashyap Jhaveri: Would you be able to…for nine-months if you can give some percentage number if that's possible?

Anubhav Gupta: TriCoat the overall brand spends are Rs. 500 per ton.

Kashyap Jhaveri: Last question is on clarification, in the beginning you made a remark about this swap ratio where you mentioned about average of the stock price for certain months. If you could repeat that particular, I missed out on that.

Anubhav Gupta: That is 3 months weighted average daily price.

Kashyap Jhaveri: For both the companies?

Anubhav Gupta: For TriCoat, if you look at the formula 3 months weighted average for TriCoat share price and the APL share price which it was at the time of board meeting, it was 25%.

Moderator: The next question is from the line of Rahul Agarwal from ICICI Prudential Life Insurance.

Rahul Agarwal: I am just taking a bit ahead from the last question. The TriCoat do you think there was a scalability issue for APL TriCoat and with this merger that scalability issue will go on?

Anubhav Gupta: Rahul there was no issue as such, TriCoat started from 2,50,000 tonnes capacity. We took over the plant in 2019 and first quarter or FY20, we started the production in sales so within seven quarters till December 2020 it had two quarters disrupted due to lock down and then in third quarter we could do 70,000 tonnes of run rate volume and in meanwhile during the lockdown we increased the capacity from 2,50,000 tonnes to 3,50,000 tonnes so there was no issue as such Rahul. The point we are trying to make here is the scalability will fast-track now, it will be quick now because if you have to go set up a Greenfield plant, it's going to take 2 to 3 years versus if you do Brownfield expansion it's like 6 to 9 months but it was not an issue, it was never an issue, it is just that with this synergy coming into place it is going to be very-very fast track more.

Rahul Agarwal: If you, in the terms of distribution reach in TriCoat and APL Apollo what is the difference right now and how much of common dealers would be there?

Anubhav Gupta: Rahul today APL Apollo Group has almost 800 distributors and TriCoat today has in total 100 distributors which I would imagine like 60%-70% would be common and 30%-40% will be exclusive for TriCoat.

Rahul Agarwal: In terms of geography, is there any particular geography that a TriCoat is facing an issue where the TriCoat is not penetrated and which can now fast track?

Anubhav Gupta: Rahul because of sheer geographical presence of the plants of TriCoat today, which is North-centric and South-centric; these are the markets where we are strong and West and East market where we couldn't penetrate much because of simple fact that all the capacity was being absorbed in the markets closer to the plants.

Rahul Agarwal: In terms of pricing power, does anything change after this in TriCoat?

Anubhav Gupta: No Rahul again because of simple two facts, number one is the pricing power is because of the innovative nature of the products so as long as that is there it won’t impact whether it is being sold under Apollo TriCoat brand or APL Apollo brand, number one. Number two, what we are excited about is that once the combined tax and budgets come into play the kind of impact is going to make on the consumer mind and our channel partners mind that again will play an important role in lifting the overall or maybe maintaining the pricing premium which today is interesting.

Rahul Agarwal: Just a little more in terms of general updates so how has been the Jan-Feb, how has been the momentum?

Anubhav Gupta: No Rahul please let us stick to the questions from the deal itself. For general updates please it's only 30 days left for quarter to end. We shall talk about once the quarter is over.

Moderator: The next question is from the line of from Abhishek Ghosh from DSP.

Abhishek Ghosh: Just one thing, earlier Mr. Rahul Gupta's domain and functionality was more towards Apollo TriCoat and now that with the proposed merger how does his things that he looks at, does it change because now it's a merged entity? There will be lot of commonality so if you can just help us understand that.

Anubhav Gupta: Abhishek so today, if you look at the timelines from today, it's at least 9 to 12 months since this whole procedure is going to take place so anywhere for 12 months we have a clear responsibility of running this company, number one. Number two, even after the merger like I said there was a clear business plan for Apollo TriCoat, like we had to utilize 3,50,000 tonnes of capacity for TriCoat in the next 2 to 3 years. That would remain as it is, we are not going to jeopardize our plan to meet the targets what we had set for Apollo TriCoat so I guess for next 2-3 years the clear objective for Rahul would be to utilize 50,000 tonnes of capacity. Over and above, we are being very aggressive on the home solution side wherein we want to get into the solution offerings within the territory of the products like the designer tubes which are going to be home- roofing solutions in the coastal markets. Number two is Chaukhat wherein you want to go into ready Chaukhat solutions and door solution. That's a new vertical what we are going to work for the group and with this merger so yes so that new segment of home solution is going to get a major boost after the merger because then we can use the infrastructure which is their pan-India. We can use the distribution network, pan-India. We can use the Go-to-market route which again is available pan-India.

Moderator: The next question is from the line of Pavas Pethia from Enam Asset Management.

Pavas Pethia: I believe you must have done some kind of study before the merger about the synergy benefits. Any initial or rough estimates on synergies?

Anubhav Gupta: Of course, like I said we are already doing that, we have done that. We believe that it could on the face of it what as management we can tell you is if it is going to add at least a 5% to the EBITDA per ton today and that's the minimum what we are looking at.

Pavas Pethia: In previous calls we said that the Rs. 3000 per ton EBITDA has already moved to Rs. 4000 per ton level, so this adds another 5% to that steady state?

Anubhav Gupta: Yes, so that's like Rs. 150-250 per ton.

Pavas Pethia: Secondly, you also mentioned that it's a tax neutral kind of merger but I believe there were some losses which you were carrying in TriCoat, so has that been adjusted or that is not meaningful?

Anubhav Gupta: Whatever losses TriCoat had that has already been nullified against the profits what this company has delivered over the last seven quarters.

Moderator: The next question from the line of Madhav Marda from Fidelity Investments.

Madhav Marda: I just had a question on the home decor solution which is being emphasized on the call. I'm assuming like maybe next five-seven years if I sort of think will home decor become like a big focus area for the company to push the B2C portfolio and then we'll have more new launches coming within home decor apart from the color-coated tube and designer tube etc.?

Anubhav Gupta: See this is a natural part for the group today because we have been constantly highlighting that 50% of our products are anyways going inside the residential homes or complexes, apart from commercial and infrastructure whatever you have. When we have 50% of our products going into residences it makes very much sense for us to keep on premiumizing, to keep on selling more and more value-added products for that category. And today if you look at TriCoat which today is like 20% to 25% of the volume today for the overall group, so that proportion is anyway going to be much-much bigger over the next four to five years and the simple basic of this thesis is that 505 to 60% of our products are going inside residential houses.

Madhav Marda: And then there will be more new launches that we are sort of working on, more new skews that will come within home decor is that’s the idea?

Anubhav Gupta: Yes definitely, so we already have too much on the plate today apart from like ramping up of TriCoat products over the next two-three years, then this color-coated tube category which we are going to start from the late quarter of FY22. So, once that portfolio gets stabilized there will be more skews, definitely yes and second that around this segment, we are going to work on these solutions’ specialist offering the end-to-end solutions. So, yes, we are quite excited about this whole portfolio model.

Madhav Marda: Just last question on this, in this home decor products, for structural steel tubes competition would be quite limited here that you would see versus some of the other portfolios here?

Anubhav Gupta: Right, so home decor if you see today which is consistent of designer tubes, Chaukhat tube, Plank tube and color-coated tubes, these are almost monopolistic products for the group.

Moderator: The next question is from the line of Bharat Shah from ASK Investment Managers.

Bharat Shah: For the nine month TriCoat accounted for how much of the profits of APL Apollo?

Anubhav Gupta: So, today assuming APL Apollo without TriCoat today, TriCoat is contributing around 22% to 23% of the profits and 56% is already with us. So, the minority which goes away is around the 13%.

Bharat Shah: So, basically you say APL profits are Rs. 100 then add Rs. 23 more make Rs. 123 becomes consolidated profit?

Anubhav Gupta: Yes, so Rs. 123 is 100% of TriCoat and then the minority which goes away is Rs. 10.

Bharat Shah: So, Rs. 123 is for 100% of TriCoat?

Anubhav Gupta: Yes.

Bharat Shah: So, 13% minority moving away is 10.8% dilution essentially, right?

Anubhav Gupta: That is right.

Moderator: The next question is from the line of Amber Singhania from Asian Markets Securities.

Amber Singhania: First thing is when you said that posts this merger it will be easier and much faster in terms of expansion in CAPEX. So, just wanted to know will we wait to utilize the current unutilized capacities first, before going on any further expansion on these home decor side or we will be expanding simultaneously in the region wherever we have gaps on in terms of presence of TriCoat products as of now?

Anubhav Gupta: What we are planning to do here is that the products where the capacity is already at a constraint level, like for Chaukhat tubes, that is one low-hanging the product line where we should definitely be able to scale it up. But then yes, like I said TriCoat has a 350,000 ton of existing capacity, which is yet to be utilized over the next 2 to 3 years. So, that remains as it is and number three, Amber, is the point that this color-coated tube which will start from the house of APL Apollo, once that segment gets created with lot of SKUs, see it's all about offering SKUs to the distributor. So, once you have at one end you have Chaukhat tubes another end you have designer tubes, then you have color-coated tubes, then you have products like Plank, which are innovative against ceiling and boundary wall solutions. So, with the broad-based skew range, that whole exercise becomes very easy and it gets on the fast track mode automatically. So, I guess like I said, one year over the next 12 months we are very clear that the both companies will try to achieve the targets what we had set up during FY21 that's for next 12 months. Once this merger process is complete we would be ready with our synergy plan, because that's, again which is very critical for us as management. So, we will start implementing the synergy plan and at the same time we would have identified the products where we want to fast track the expansion. So, that's how we are looking next 12 to 18 months for ourselves.

Amber Singhania: Secondly, in terms of reporting segments post-merger, so currently the TriCoat segment which we mentioned separately would there be any reorganization on that part where in the other home decor products on other segments will come in and sit on this particular segment on APL Apollo TriCoat which we currently report and how will we able to match it like to like basis when you give us a Performa on that?

Anubhav Gupta: So, like I said, we are still discussing with our auditors and our consultants. Right now, the regulations are so strict for the auditors that they don't want to comment anything since they would have heard from the exchanges and NCLT, etc., before they start communicating how the reporting would go on. But like I said, that we may want to convert TriCoat into a home decor category, which will be addition of APL Apollo products. But yes, for the benefit of analyst on the street we would be okay to give a TriCoat the numbers for a while if anyone has any clarity to get, I mean we are okay with them.

Amber Singhania: And lastly on home decor side, if you can just give some color about how big is the market today, what rate it is expected to grow and where we believe in that home decor will be the major value driver going forward? So, if we can give some color about the overall market pie and how it is growing and what is our share in overall business as of now as far as home decor is concerned?

Anubhav Gupta: So, if you look at the home decor segments, the philosophy here is that what our products are replacing with. So, they are replacing old conventional construction products like angle channel, wooden structures, aluminum profiles, which are expensive, which are not fire resistant, which are not termite-proof. These are the benefits which our work products are offering to the end customer, so that's how these products are being accepted number one. Number two is the fact that all these products were innovated and launched by APL Apollo group, so there was no existing market which was already there. So, we launched a product and we created the new market for these products, we created the need for these products. People were happy using woodened doorframes, but we offered steel doorframes and which are closed ended tubes. Which are again superior than the open sections in doorframes which are available in the market. Easy to install, cheaper, two hours installation, termite proof, fire resistant, after 10 years of installation you can still sell your steel doorframe at our cost much higher than what you paid for because of the steel price inflation. Now talk about designer tubes, embossing and putting designs on the tubes again, no one is doing that in India except Apollo. Color-coated tubes, you can check in the market no one is doing that. Now this is on the line of when we launched pre-galvanized tube GP, our Apollo Z category. Earlier the Apollo market was black tube side then we shifted that market to zinc-coated tubes which became our V category. Today that is contributing 25% of my top line and more than 30% to my bottom line. So, now we will premiumize that zinc-coated into further color-coated tubes. So, that's a constant market creation activity what we keep on doing and with the both the companies coming on the single platform, I think that platform will become even stronger.

Amber Singhania: I understand the positives pretty big, just wanted to get some color in terms of quantum if we can put it any kind of size which can be on than that over but that's fine I understand that it's a developing sector segment on that.

Moderator: The next question is from the line of Nitin Bhasin from Ambit Capital.

Nitin Bhasin: I had a small question, you mentioned at the beginning that you want to take TriCoats reach to every part of the country to the multiple plants at APL has. Can you give us sense on how easy or difficult and the resources required to manufacture for finished TriCoat's products in the APL other locations, what are the challenges for that? How is it possible or not if you could give some sense on that?

Anubhav Gupta: So, Nitin I think this question came earlier also, so if you look at TriCoat business model today, we have two plants, one located in North India which is like 40 kilometers from New Delhi where we are doing two products Chaukhat and Plank. Then we have a second plant in Bangalore, which is a much bigger plant. It has again two products, one is designer tubes which has two brands, Signature and Elegant and number two In-line galvanizing tube, for that plant is still under stabilization mode. Now the product which is coming from North plant Chaukhat and Plank, so these products have created their market within the North-East. So, before the capacity expansion to 350,000 tonnes, the Chaukhat capacity was 15,000 tonnes and within three-four quarters of launch we hit 50,000 tonnes sales volume run-rate. Then let say that we are selling 250,000 Chaukhat tubes every month which are going inside 50000 homes every month. That is only in the North market. Similarly Plank, if you see it's a very innovative rectangular tube which has been used for multiple applications inside any house. Again it founded some market near to be near to the plant, which is mainly NCR, UP and Uttarakhand belt. So, it hasn't even moved to Rajasthan yet. Similarly, the designer tubes which are being created or are being manufactured in South India, they found their market within the South India itself, so hardly any designer tube is coming to North India from our South plant. So, when I say that it will all get into fast-track mode, I meant that if TriCoat have to go and set up a plant in West today, it's a minimum two to two and a half year procedure. So, we are already doing a new Raipur plant APL Apollo. It's been three years since we conceptualize the idea, we start acquiring land, so it's a 2-to-3-year process minimum. Now what says if I have to install a Chaukhat tube in a plant of APL Apollo which is 50 kilometers from Mumbai in our Murbad facility, we need to order Chaukhat tube it's going to be brownfield expansion. The time reduces to nine months to twelve months, so if we have all the infrastructure ready, we have paid for brownfield expansion the time reduces from three years to one year. That's what we mean that the expansion of TriCoat could be on fast track mode and then again this may not be relevant for all the four products. So, the immediate low-hanging product line what we are able to get is the Chaukhat and a designer tube.

Moderator: The next question is from the line of Sanket Goradia from VEC Investments.

Sanket Goradia: Just wanted to kind of get your sense on we've been talking of the brownfield expansion helping us do things faster. So, any indication on volume growth and my second question would be that now that we're at 33%, any indication of plans you want to highlight on maybe what's the thinking of the promoters and with this new shareholding.

Anubhav Gupta: So, Sanket, coming to the point number two here. Yes of course I mean the family's holdings has come off to a 33.5% from 37%, but I think what the decision as a promoter group and the management working with them, the whole idea was to create a structural steel tube giant under a single company and with a very-very simplified group structure. So, yes, equity dilution is a small disappointment, but then the philosophy this promoter group has worked on Sanket is, small equity beautiful equity. This is a philosophy which we are always going to maintain. We look at the American companies like Facebook, Amazon, Netflix, Google, Tesla all the promoters don't own more than 10%, 15%, 20%. But the shareholder value creation that those companies have demonstrated, so we are inspired by that and the philosophy will continue to be like that for us in the future.

Sanket Goradia: That's helpful to know and just if you could just put some color on the volume do we understand that we have a faster volume group in what we earlier estimated because of this, amalgamation?

Anubhav Gupta: Yes, it should happen but I mean too early to comment on any numbers. But yes, you know our history 27% volume cater, for last five years 20% volume catered. We have seen more years of GST implementation, demonetization, NBFC prices, GDP falling below 5% and also the lockdown period. I guess this will only fast track or it would definitely give some boost to the growth of what we are already going to demonstrate, but yes difficult to give a number today, but yes it should be higher.

Moderator: Thank you. Ladies and gentlemen due to time constraints, that was the last question. I now hand the conference over to Anubhav Gupta closing comments.

Anubhav Gupta: Thank you to all the participants. I would like to extend our gratitude on behalf of the management as you could all join on this call on such a short notice and we look forward to speak to you again during our Q4 FY21 earnings call. Thanks everyone.

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