



"When you create a new market, you capture 100 per cent share."

- **Anubhav Gupta**, Chief Strategy Officer, APL Apollo

One look at the Q3 FY21 financials of APL Apollo will leave you wondering whether there was a pandemic! At ₹2,321 million, the company's EBITDA was up 45 per cent year on year while net profit, at ₹1,320 million, was up 78 per cent. Interest payouts declined 41 per cent to ₹159 million during this period following a massive reduction in net debt, from ₹7.9 billion (in March 2020) to ₹3 billion.

All is well at APL Apollo because a master strategist is steering the company into profitable avenues. In 2020 alone, APL Apollo gained a

tenth of the steel tubes market, growing its overall share from 40 per cent to 50 per cent. Designated **Chief Strategy Officer Anubhav Gupta** brought 12 years of investment experience to APL Apollo when he joined in 2019. In his previous equity research analyst positions at Maybank Kim Eng and Emkay Global Financial Services, he had helped midcap firms raise funds to expand as well as successfully cut their debt, skills he has avidly deployed at APL Apollo. He advises the management on innovative product avenues, cost control, corporate development, communications and marketing. Under his guidance, APL Apollo has consolidated its position as India's largest branded structural steel tubes manufacturer and one of the world's top five players.

Your sales rose 22.53 per cent to ₹25.0021 billion in the quarter ended December 2020 from the quarter ended December 2019. And your net profit at ₹1.3204 billion in Q3FY21 was up 77.81 per cent from Q3FY20. What is driving these results?

When the lockdown happened, we decided to go aggressive on rural markets. We saw 150 million workers migrate from cities and towns to semi-urban and rural areas. We were very clear that the rural economy would outperform the urban economy in the rest of FY21 because we knew the migrants would not sit idle in their native places. Also, the lockdown was not

imposed as harshly in rural areas. We revitalised our rural distribution network and went aggressive on pricing and servicing as well as addition of new distributors.

Second, unorganised, smaller, unbranded players suffered a lot. The unorganised sector has been going slow anyway since 2016 after demonetisation, GST, the overall banking crisis and, finally, the lockdown. We were able to capture some of their market share.

Third, we have been aggressive on the pricing front. Without compromising on our margins, we took on many cost-control measures, making our pricing more competitive. We passed on these gains as sweeteners to distributors.

Did you also consider offering discounts to end-users?

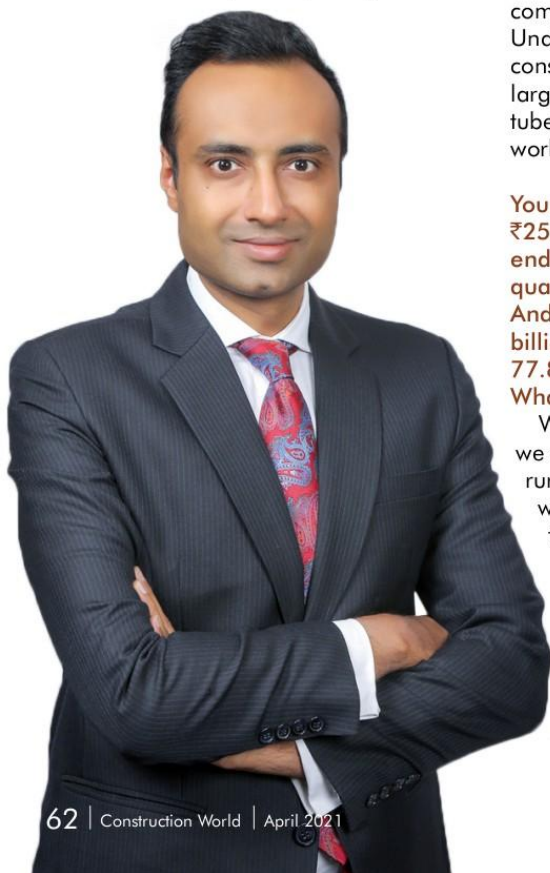
No. Our brand is strong in users' minds.

Which products were you aggressive on?

The main drivers for our high performance in Q3 FY21 were structural steel in the lighter sections (light structural tubes) and Apollo Z pre-galvanised tubes.

Equity analysts are now forecasting revenue of ₹99.8 billion for you in 2022, 28 per cent higher than the year ended December 2020. This would mean you will grow faster than your 15 per cent per annum growth over the past five years. Is this your expectation too?

We have never grown at 15 per cent; we have been growing at over





Investment in technology helps in improving serviceability to distributors.

20 per cent. FY21 was a washout because of the lockdown. As a result, FY22 will be strong. We might grow faster than in the past five years but the GDP is also expected to grow at a fast pace. That ripple effect will be felt in the industry. So yes, we are excited about next year.

Why are you growing faster than others in your industry?

I would attribute it to our product range. We continuously innovate with new sizes and shapes of steel tubes for multiple structural applications. Today, we have 1,500 SKUs, which no other company has. Through innovation, we create a market for ourselves. For example, our steel tubes have replaced conventional products like wooden structures, aluminium profiles, concrete RCC, steel angle channels and pre-engineered building structure components. When you create a new market, you capture 100 per cent share. Innovation is our X factor. It has helped us create new markets and increase our SKU range.

The second factor is our distribution network. It has improved our serviceability to distributors. The

supply chain is something anyone can control.

I would also attribute our growth to technology. Our mills are from Japan, Italy, China and the US. We have more efficient mills with minimal production loss. They are highly automated, which facilitates faster production. We have imported DFT technology that helps us make square and rectangular tubes directly, unlike the conventional way of making a circular pipe and then press moulding it to make a square pipe. So we can manufacture more quickly and efficiently. We can dispatch products within 48 hours of receiving an order—any customised size. Our investment in technology to improve our serviceability to distributors is unmatched. Other players tend to take at least one or two weeks to fulfil orders.

You sell regular tubes as well as architectural steel products such as fencing and elliptical tubes.

How are the regular and special segments performing?

In our architectural range, doorframe tubes have been very popular; our bestsellers since they were launched in 2019. We have

fencing tubes and planks that are gaining momentum and popularity. These require education to be imparted to fabricators and end-users through meets. That exercise was on hold because of COVID-19. Once we resume the education of fabricators about the applications of these high-value products, they will also start contributing significant volumes.

How were you impacted by the scarcity of raw material (steel) in F21?

We are the largest steel tube company in India. We buy almost 2 per cent of India's steel production. Our relationships with steel majors are very strong. So we got whatever we were committed. But, of course, if there was no shortage, we could have bought more and sold more.

How have you achieved higher operating cash flow and cut your debt?

In our March 2020 balance sheet, we had ₹7.8 billion debt on the books; this was primarily working capital debt. Our working capital cycle was around 25 days. Even that was one of the best

compared to other building material industries. But after the lockdown, we were highly concerned on the receivable front. So we shifted our business from the 20-25 days receivable mode to the cash mode where we started to get spot payments. Also, we became more efficient to churn out raw material inventory. That also brought down our inventory days and we could cut our net working capital cycle to below 10 days. It threw up a lot of operating cash, which has been used to bring down debt, which in December 2020 stood at ₹2 billion. When debt is eliminated, your interest cost is reduced so your EBIDTA, your net profitability improves significantly. Now, we have a lot of funds for capacity expansion in our new Raipur facility.

What changes would you like to see in India's steel policy?

We don't have much expectation from the steel or metal authority or ministry because steel is a global commodity. It is bought and sold in free markets globally. So I think the government should let steel be. Steel is totally deregulated. That works fine because ultimately steel prices move up or down based on global supply and demand mismatches. I think the government has been fair.

What the government can do better is boost production. It is disheartening to see iron ore being exported, being processed to make steel, and then being exported back to us. We should be able to process our resources to make steel. This would boost the sector and generate employment. We are sure the government is taking the necessary steps. A bit more focus on mineral processing and steel production would help the overall economy.

With the approval of the merger of Shri Lakshmi Metal Udyog and Apollo Tricoat with APL Apollo, what impact do you see on the performance of the consolidated company?

We're not expecting much impact. Apollo Tricoat is already 56 per cent owned by APL Apollo. Shri Lakshmi Metal Udyog is a wholly owned subsidiary. In any case, we were doing line by line consolidation into our P&L and balance sheet. So the net profit before the minority interest



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consolidation was still 100 per cent. Just the minority interest that used to get deducted from the bottomline will now remain in the P&L. So our net profit will grow by 12-13 per cent over nine months. At the same time, there will be new capital increase in APL Apollo because of the share issue to Tricoat shareholders. That dilution is around 10.9 per cent. So, overall, my EPS (earning per share) will grow by 2.5 per cent if you look at nine-month financials. As for the balance sheet, line by line consolidation for net worth, debt, working capital was already happening. But minority interest will come into the liability side, which will boost my return on equity.

For APL Apollo, in terms of financials, the benefit is not

significant. But for Tricoat, being part of APL Apollo will give it a stronger balance sheet and cash book. The expansion of Tricoat products across India will be much faster. As for the group, now we are a single structural steel tube giant with 2.6 million capacity, which puts us among the top five steel tube producers globally.

Once the merger is complete, we will gain two synergies. We will be able to roll out Tricoat products faster. Tricoat had only two plants, in NCR and in Bengaluru; now, products could be produced in APL Apollo's Mumbai and Raipur plants. So you become a pan-India player. Also, we will try to optimise production. Some mills might be shifted. With APL Apollo and Tricoat together, we have four plants in the NCR region and three plants in Bengaluru. There will definitely be some consolidation at the plant level.

Would the merger help rationalise costs?

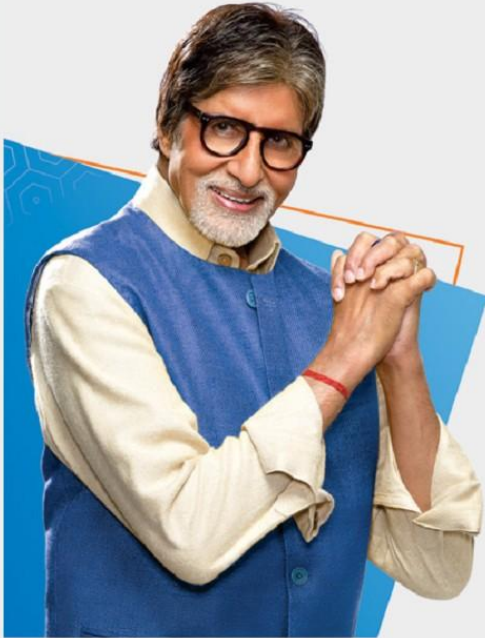
There will be some cost savings in the distribution and go-to-market costs. With a common platform, there will be fewer visits to distributors, so that will help optimise some distribution costs. As for the go-to-market costs, we spend a lot of money on fabricator education. So far APL Apollo has done its own meets and Tricoat has done its own. Common meets will save some costs too.

What management changes will the merger usher in?

None. Tricoat was working on a lean structure. The majority of employees were in the plants, which are being retained. The sales and marketing distribution teams will get absorbed in APL Apollo.

- CHARU BAHRI | CW |

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