"APL Apollo Q1 FY-21 Earnings Conference Call"

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MODERATORS: MR. NEHAL SHAH – ICICI SECURITIES LIMITED

Moderator: Ladies and gentlemen good day and welcome to the APL Apollo Tubes Limited Q1 FY21 Earnings Conference Call hosted by ICICI 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 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. Nehal Shah from ICICI Securities. Thank you and over to you sir.

Nehal Shah: Thank you Rio. Good evening everyone. On behalf of ICICI Securities I welcome you all to the conference call of APL Apollo Tubes Limited to discuss the Q1 FY21 results. From the management we have Mr. Arun Agarwal – the COO of the Company, Mr. Deepak Goyal – the CFO and Mr. Anubhav Gupta – Chief Strategy Officer of the Company. I would request Mr. Anubhav Gupta to start the call with his opening remarks, post which we can then proceed with the Q&A session. Over to you Anubhav.

Anubhav Gupta: Thanks Nehal. Thank you all for joining in today and good evening. We have also joined by our Chairman, Mr. Sanjay Gupta over the call. We will be happy to take the questions later on.

So to start with the Q1 FY21 performance; it has been quite an eventful quarter of our lives. We are glad to share with you that we have proven resilience even in these difficult times and we have emerged stronger than ever before out of these difficult times. Now we are future ready in the coming months as the demand in the Indian economy recovers over the next 2 to 3 quarters. To face the crisis we worked on four point agenda which helped us to come out of the crisis with much proven resilience:

#1 The lighter balance sheet, reduction in the debt, reduction in debtors and reduction in inventory.

#2 The lower fixed cost in the overall organization.

#3 The market share gains and volume ramp up as we had seen the opportunity to gain market share from the weak competitors.

#4 The profitability returning back to pre-COVID levels.

1. If you see our quarterly results, we have reduced our debt by 55% where we have reduced our debtors that 75% and our inventory is also down by around 10%. This was possible because we switch to cash sales model which helped us in faster collection, and it helped us reduce the overall debt in the system.
2. The lower fixed cost; we worked across the verticals, be it the employee cost, be it the establishment cost and of course the interest cost which was result of the lower debt. So overall the costs are down by 20% to 25% in the first quarter.

3. The volume ramp up; so our plans started operationalizing from 22nd it will. Our first plant started on 22nd April, 2020 and over the next 10 days of all our 10 plants were fully operational. So that we give us a head start versus our competitors and we could start gaining market share.
4. Our strategy on the rural sales because of the reverse migration which had happened in the month of April and initial May we believe that the rural sales will outperform the urban sales, so we were highly focused on the rural sales and regard our distribution network in the rural India and we started servicing of distributors aggressively to catch the rural sales.

Third reason for high market share was of course the unorganized sector which was struggling because of the cash crunch because the liquidity because of the Supply-chain constraint whereas our organization was much resilient to face all these difficulties. And number four was of course the replacement of structural steel tubes versus conventional construction methodologies made we see big switch to our high efficient products which were replaced from dimensional structures like steel angles, garter channel, aluminum profile, the wooden products etc. so this helped us ramp up our volumes in month of May and June. If you see bulk of sales came in last 15 days of May and full 30 days of June and there was very strong growth if you compare June 2020 versus June 2019 and we are glad to share that the momentum continued in the month of July as well.

Now the fourth strategy is to work on the profitability; now we have lighter balance sheet, we have ramp-up all the volumes and now we will work on improving the profitability for our products.

Talking about the Q1 performance:

The main highlights were of course the balance sheet numbers where we cut down the debt, we improved our net working capital cycle to 10 days versus 20 days in March. There was a big improvement in operating cash flow which was around INR 5 billion. In the whole of FY20 we generated that much of cash flow which we could generate only in the first 90 days of the financial year. In terms of P&L, there was volume decline of 40% YOY which resulted in EBITDA decline of 60% YOY. But I think what needs to be highlighted here is the reduction in the interest cost which was down by 25% to 210 million and we believe that these cost efficiencies which we could work at the establishment cost, at the employee cost, at the other fixed cost and at the interest cost level, these should be continued over the coming quarters which will aid our overall EBITDA margin.

Lastly it is currently difficult to give any guidance for the full year of FY 21. We are monitoring the situation on daily, weekly basis. In the last 2-3 weeks there were multiple lockdowns in multiple cities across India, so we are quite watch full of these current situation and we are changing our strategies accordingly. So far it has worked quite well for us and we are hopeful that the momentum which we gathered in month of May and June we should continue over the coming quarters, ending September 2020. With this we would like to open the floor for the Q&A session.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Suarav Patwal from HDFC.

Saurav Patwal: Just wanted to understand one thing, this quarter the proportion of Tricoat volumes compared to the APL volumes was significantly higher as the fall there was not as big as the fall in the other products and since Tricoat has the significantly high EBITDA margin which is almost 2X currently. So as the proportion of Tricoat decreases or you may say other way round as in the normal products volume increases, do you see some pressure on margin there? Because if we exclude this cost this quarter, so we just do to A-B so that gives a EBITDA of the key APL products close to 2500 compared to almost 3000 which we have reported. So just wanted your thoughts on the same.

Anubhav Gupta: Saurav if you see the say momentum in month of May and June, we could gather very aggressively in the Kerala and coastal markets of India. This was the peak season for galvanized products and if you see the signature product of Tricoat, it really gained momentum last year, so it continued when there was lockdown coming off. There was good pent-up demand and we could aggressively cater to that market and that's why the proportion of Tricoat was higher in the Q1. And the same was visible in the APL Apollo results also. so we have one plant there in Bangalore, so that performance was also equally good compared to what you saw in Tricoat.

Saurav Patwal: No, my question was slightly different Anubhav. I'm just trying to understand to simplify that ex of Tricoat our EBITDA per ton comes to close to around 2500 and as volume increases….

Anubhav Gupta: Saurav just one thing here, you please include the other income while calculating the EBITDA per ton.

Saurav Patwal: So that's not operating, right?

Anubhav Gupta: No, it is operating because it's all the export incentives which we receive. So it is part of the operational income, you please include that. So if we include that our EBITDA per ton was around 3000 for the Q1 excluding Tricoat.

Saurav Patwal: Including Tricoat how much it would be then?

Anubhav Gupta: 3200.

Saurav Patwal: So the impact will be lower in that case.

Anubhav Gupta: Yeah.

Saurav Patwal: So what would be the breakup for other income in terms of how much of it….

Anubhav Gupta: So 90% of other income is..

Saurav Patwal: Is export incentive?

Anubhav Gupta: Yes export incentive.

Moderator: The next question is from the line of Viraj Mehta from Equirus PMS.

Viraj Mehta: The only question I had was on the market share, considering the volume growth that we have seen in May and June and the growth that you are also seeing in July, what will be in your view? I mean before the lockdown you were saying that our market share is around 40%. So if you can tell us what is the run rate of the market as of today and what will be your share is roughly in that.

Anubhav Gupta: So how we see is Viraj, for example before COVID market was about $100, our market share was 40%, so we were at $40. Now after COVID my market are operating at $80 but our market share has become more than 50%, so we have already crossed $40 because of increase in the market share. So industry is down by 20%-25% but that got compensated because of our improvement in the market share. So today we are operating at 50%.

Moderator: The next question is from the line of Pallav Agarwal from Antique Broking.

Pallav Agarwal: First was on the steel prices, there have been reports that they have increased by almost Rs. 2500 to 3000 per ton, so will this help in any way in supporting over the spread in the next quarter?

Anubhav Gupta: So Pallav if you look at the steel price trend, after the lockdown was lifted there was decline in the steel prices. In last 1 or 2 months what we are hearing is that steel prices have come back to the pre-COVID levels. So industry is now adjusting to the pre-COVID level and if you look at our business model if steel prices go up or down, our volume if you see last 10 years, last 5 years, last 3 years, last year also, we also grown by 20%. In all these years steel cycle there would have been different cycles up cycle, down cycle. So I think it might impact 1 or 2 months plus or minus. But if you look at the broad base basis two quarters, three quarters it gets quite normalized. So there is no change in our strategy for the sales if steel prices crash by 10% or they go up by 10%.

Pallav Agarwal: It's very impressive on the working capital reduction that you have achieved. But once sales volume start increasing and normalizing would this working capital level go up partly because steel prices have gone up, so the raw material inventory absolute value would go up. And if the activity levels improve can you all just manage with cash sales or you would have to extend some credit period going ahead?

nubhav Gupta: So Pallav July was quite a healthy month for us if you compare it versus June or compare it versus last year July and our net working capital cycle remained similar what you see it in 30th June balance sheet.

Pallav Agarwal: So given that we don't have any major CAPEX this year, so this net debt level of about 350 crores or thereabouts, is it sustainable in the year FY21 at these levels?

Anubhav Gupta: So we think that it should come much lower than what you see on 30th June. Every quarter you will see decline in debt because of the improvement in working capital and of course, first quarter you see our EBITDA was only 70 crores versus we were doing 150 crores of EBITDA before pre-COVID levels. When we return to those levels there will be lot of cash flow generation in the system from profit, so that is yet to play out.

Pallav Agarwal: If you could give us what are the current HRC levels, what levels are you looking to….

Anubhav Gupta: We won't to like to share this sensitive information. But before COVID the HRC prices were around 38,000-39,000 per ton and they have reached to similar levels.

Moderator: The next question is from the line of Ankit Merchant from Reliance Securities.

Ankit Merchant: My question is related to the cash sales component. So we have seen on the ground is that few of the dealers are quite happy with the cash sales because the discount per ton is earlier which used to be given that has for some of them it was not helpful and for some of them the cash was quite helpful. And another point which is coming across is that because of our change in strategy the other competitors are trying to give higher credit so that they can push the sales. So do you think that going ahead that could become a challenge for us considering our market share and few of our dealers could be switching to that model or to our competitors?

Sanjay Gupta: Ankit the model which we are working on, our 40% and 50% of business you can say competitive, is around 50% in which one in that we get almost of Rs. 1500 to 2000 ton. No one can go below that and there is no scope because we have a brand in the market, we have a lower purchase cost in the market and we have lower production cost in our company. We are working similarly like we have created Apollo Metalex Lakshmi and Tricoat which is the high-value rate product. Now we are slowly changing APL also with the high value-added products. So we are very hopeful in the coming months and years, we improve our margins by adding the value-added products. We can increase our margins as well as our volumes. It will be helpful for us. The basic market has no scope to go below it

Ankit Merchant: But one question which was coming out, few of the dealers were saying that because of this change in policy, earlier you used to sign a MoU with most of the dealers and used to give them some targets and some incentives also for completing those targets and now that strategy has been changed. Now you are offering up front cash discount if the dealer is procuring goods from you and if the payment is done in advance. Now there are few other dealers also who are not happy with this particular cycle because their cash flow is getting impacted and some of them are suggesting that if this way the situation continues and they might have to switch to some other competitors. So I'm not sure that these particular dealers are either very small for us or probably they were not contributing too much to our volume growth as such. So that was my question.

Anubhav Gupta: Ankit what we are doing is, we have some 20% to 25% dealers who have problem in this policy. But we are very friendly with our dealers. We are making the money arrangements through banking and channel financing for them so that they can take the discount from the company and they are comfortable. Banks are on our goodwill, without our force they are giving credit to the dealers. We have a target to not leave any distribution network. Whatever we are managing we have a very long relationship with our dealer network, so we are very hopeful that no dealer should go out from our network because we have a brand and good basket of variety in our pockets and our people are very familiar and friendly with the dealer network. So I don't think there is any problem. If they have any financial problems then our finance department is working swiftly to do the channel financing.

Moderator: The next question is from the line of Ambar Singhania from Asian Market cap securities.

Ambar Singhania: Just couple of clarifications, I wanted to understand the math when you said the industry is down by around 25% during the COVID time and we have gained our market share but when I compare the volumes, our volumes have degrown by about 47% on a like to like basis ex of Tricoat. Just wanted to understand how do we understand this. Is the industry degrowth is much higher than this number or that 25 number how should we read it? That is my first question.

Arun Agarwal: First thing is that we had operated only 45 days in the first quarter. So operations started gradually, one plant at a time and as per government guidelines. So first plant that we are going to start was in Raipur on 24th of April also but gradually expanded and so volume that you see is only for 45 days working that is half of the quarter. So in half of the quarter we achieved 55% of our normal sales. So that explains that first question that if I have achieved 55% and 50% of the time that means I have achieved more market share. There is no doubt that in any industry the demand has shrunk due to lock down. Even today everything is not opened up.

Anubhav Gupta: So Anubhav, Arun ji's point is that when we say that market is at $80 versus $100 this is for the 45 days of operations excluding the lockdown period.

Ambar Singhania: And market is declined by 25%, right?

Anubhav Gupta: Yeah after it started operating.

Ambar Singhania: And secondly just wanted to understand during this quarter we had seen the fluctuations in raw material prices on the downside as such. So if you can just give a rough number how much we might have incurred in the inventory side because generally if I calculate we keep around 2 lakh ton of inventory and even if Rs. 2000 per ton of decline we factored in this quarter then it works out to be around 40 crores kind of number, am I correct on the math?

Anubhav Gupta: No Anubhav this is totally incorrect math. If you look at our working capital improvement, it is at the annual level, it is also at the inventory level. So the number which you said the inventory level which we were operating at, today they are much lower. And when I'm producing in a particular month if I'm producing more than what inventory I'm keeping in my system I can never have major inventory write down or gains. So we are working on this model that's where we have always been highlighting that we are making our company shock proof. We keep lower inventory, we produce more, steel price go up-down it doesn't impact us. We work on our manufacturing EBITDA per ton.

Ambar Singhania: But the inventory which we were having just before the lockdown, so are we able to pass on those things, how we accounted for that because there must have been some losses we might have incurred in Q1?

Anubhav Gupta: What happened was that we had started sales from 22nd-23rd April, the steel market was still not operational the first week of May, so we had that 10-15 days window where we clear our inventory and pay high price. So all the high price inventory we could off-load through sales and when steel prices start adjusting to the market price of inventory cost was also. The new inventory acquisition cost was low. So if you look at full 90 days there was hardly any inventory gain or loss because whatever system is operating at such an efficient model where the inventory in the system which is line, our monthly sales are higher than that.

Ambar Singhania: And just lastly on Tricoat side, I understand it is difficult to gauge a demand at this juncture because of COVID and all but at a company level how are we planning to roll out Tricoat in the much wider platform because it is been fourth quarter we have started, so what are our thoughts and plans for taking Tricoat on the pan India level, much deeper penetration and what are our targets on that account over 2 to 5 years period?

Anubhav Gupta: So if you look at Tricoat, there are 4-5 products now on which we have worked on. So there are two products which are particularly going well in the South market and there are two products which are going well in the North market. So Signature and Elegant are mainly in the South market and plank and doorframe are in the North market. So Tricoat has 250,000 tons capacity today and in the December quarter we already did around 40,000 tons as the quarterly sales. So if you annualize it, we already achieved 80% of our capacity utilization. There could be marginal increase in capacity over the next few quarters. So I think on the current model some products for North and some products for South we should be doing okay with Tricoat, there is no need per se to take it pan India level or to be highly aggressive. We have a strong business plan for the next 2 years where from the current existing network today we have 80 distributors; we will achieve these 300,000 tons kind of capacity utilization number over the next few quarters.

Ambar Singhania: So one thing, our largest customer Shankara, so I just wanted to get some color; what kind of decline or what kind of off-take we have seen in this quarter vis-à-vis last quarter and what is the outlook on that account? How we are planning to bridge that gap because they are one of the largest customers for us?

Anubhav Gupta: But I don't think that this is a right platform to talk about it. We will skip this question.

Moderator: The next question is from the line of Saurav Patwal from HDFC.

Saurav Patwal: It's a follow-up question on the previous question, as you mentioned that almost 90% of current quarter's other income from export incentives, so last annual report which I have of, it's highlighted that we have had 8 crores of export incentive in FY19. So what would be that number in FY20 and in this quarter exports?

Anubhav Gupta: Pardon?

Saurav Patwal: So what would be the export number in FY20 and previous quarter also?

Arun Agarwal: It's an amount of government grant on the confessional increase on EPC, export packing credit. So its 3% subvention is there, so that amount is there.

Anubhav Gupta: So Saurav, our other income last year FY20 was 21 crores, out of that 18-19 crores was export incentive.

Saurav Patwal: Which is largely the interest subvention on exports?

Anubhav Gupta: Yes.

Saurav Patwal: And how much was the actual export number just for the book keeping part?

Arun Agarwal: This is not100% subvention. Government is giving us 3.05% or 3.60% of incentive of MEIS and 2% of Focus product scheme. So total I think 5% is we are getting from government also in the sales.

Saurav Patwal: And that is on which number, export number just for the book keeping part FY20 and the current quarter if you have that handy.

Anubhav Gupta: So normally it's been around 5% of our overall sales.

Moderator: The next question is from Kedar B from Composite Investments.

Kedar B: My first question is regarding the advertising and the brand building initiatives that the company is started last year. Now in lot of the accelerated market share gains that we have seen post-COVID, so is there any updates to the policy or are we continuing with what we have planned last year?

Anubhav Gupta: So if you see the market share gain post-COVID level you see it's we can gain but you need to also understand that even last year FY20, our volume growth was 24% when industry had now grown at the same pace. So the advertisement campaign which we started in February 2019, it started playing out for the full 12 months where we increase our market share from 36% to 40% by end of financial year and then yes, in last 3-4 months because of lockdown it has accelerated. So last year our branding expenses were around 50 crores, this year Q1 was very-very minimal. And now that sales are coming back to normalcy levels we are drawing the strategy how do we see next nine-months to spend on the advertisement. But as the sales have normalized we will definitely go on the advertisement but not as aggressive as we were in FY20.

Kedar B: So given the kind of efficiencies that we have been able to get out in terms of optimizing working capital and hopefully if the current trend continues over the next 12 to 18 months, there may be a day where the company actually becomes debt-free. In that case are we starting to think about what the capital allocation policy would be going forward? So do we plan on increasing the dividend payout or do we have plans for doing some inorganic acquisition, any thoughts on that front?

Anubhav Gupta: So I think the first target is to become zero debt whenever that happens and then we will discuss with our Board, with our shareholders that how can we utilize the capital. But first target is to become debt free.

Kedar B: And there appears to be a possibility that we could do it within the next 12 months, barring any unforeseen circumstances?

Anubhav Gupta: Yeah.

Moderator: The next question is from the line of Abhilasha Chitale from Dalal & Broacha.

Abhilasha Chitale: You mentioned that the market is down 20%-25% in Q1, so I just want to take a view like how it has improved in Q2? How are we seeing current circumstances overall how the volumes are in the current circumstances as compared to pre-COVID level?

Anubhav Gupta: So July we could start on a very strong note. We had a very strong momentum from June end and we could sustain that momentum in month of July. There are 3-4 things which we are targeting. Number one is like I mentioned the rural sales, the rural versus urban split for us before COVID was 40% rural, 60% urban. Today 60% is rural and 40% urban. So we had sensed that the rural sales will outperform urban in India for the first 6-9 months of this financial year, so we went aggressive on our rural distribution network. Number two was the market share gain from the unorganized sector. There are lot of small players in the industry who are struggling with the supply chain constraints because of the cash crunch or liquidity crunch in the system. So we knew that, we targeted the weak competitors and we attacked that market aggressively and we gained market share there. Number three is that the structural steel tubing if you see, it is providing solution cheaper compared to the conventional products. So just to give an example a PEB building, a pre-engineered building structure which is built on conventional steel products which are H beam, I beam and angles and channels; if you convert it to a tubular building, building which is 60% made out of APL Apollo Tubes, high diameter-high thickness tubes the weight of the building comes down by 30% to 40% which results in the project cost saving by up to 10% to 20%. So this trend is also emerging in the time when contractors, developers everyone is trying to save cost. So it has become very easy for us to promote the idea of tubular construction in India which anyways we were trying to do before COVID. So it has helped us to market this product aggressively and we are already seeing the benefits. So these three factors helped us gain market share and perform much better in month of July compared to any competitor or the industry.

Participant: But do you see industry is also emerging faster than expected in post-COVID in some Q2 as unlocking happens?

Anubhav Gupta: I would say so, that data is also available if you talk to players like Larsen & Toubro, Shapoorji & Pallonji some real estate companies like Oberoi Realty etc. so they do talk about that almost 80%-90% of their sites are now operational right, large developers like DLF most of its sites in Gurgaon are operational now. So I think industry is also coming back to normalized levels but still I would say it will be down by 10% to 20% compared to pre-COVID levels.

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

Rahul Agarwal: My first question is basically with respect to demand bifurcation in terms of which product categories we are seeing most demand in, where the recovery is the strongest? And secondly in terms of the players which are the smaller players that we are saying we gain market share from; are we looking at acquisitions at any of those fronts? That is the first question.

Anubhav Gupta: So first thing Rahul if you see our product portfolio there are three categories which have performed well for us in last 3 months. Number one is Apollo Structural which is hollow section tubes, right. Number two is Apollo Z which is galvanized tubes for coastal markets, number three is Tricoat Series. So these are the three products which form almost 80% of our volumes. So we have seen demand revival across these three-product categories. 45% of our sales come from residential construction, whether it is urban or rural, then 20% comes from the commercial which is mainly urban or semi-urban, third is infrastructure which obviously we saw some revival in month of July, June was not good for infrastructure but July we saw some offtake in the infrastructure projects, we saw some inquiries coming in. And all the three categories Rahul whether it is Apollo Structural or Apollo Z or Apollo Tricoat so they cater to all these three segments in some way or the other. So it's a mix of revival in residential, in commercial, in infrastructure and then all these three products which are positioned in their own manner they benefit out of that.

Rahul Agarwal: And in terms of the smaller players they were stronger than the Tier II-Tier III set ups or the metros?

Anubhav Gupta: Metros.

Rahul Agarwal: So given that metros had not bounced back that much, once the metro start bouncing back would we start to see a little lower growth than the industry going forward?

Anubhav Gupta: You mean for APL Apollo?

Rahul Agarwal: Yes.

Anubhav Gupta: I don't think so Rahul because right now our rural network has become very strong, number one. Number two urban also if you see right, I mean in month of July we have seen all the major metro cities which got opened up barring say Mumbai or Ahmadabad but even they started opening up in late part of July. So obviously we can't disclose numbers for month of July but whatever we could achieve in month of July it doesn't say so.

Rahul Agarwal: And what about touch points? How has that increased for us last 2-3 months?

Anubhav Gupta: So touch points we have a network of 800 distributors who cater to 40,000 retailers pan India. Before COVID I would say 400-500 were very active distributors for us. Today that number has gone up by 100-150.

Rahul Agarwal: So I will just go back to my previous question and tell you the context in which I was asking that. So we have been a major gainer for the unorganized to organized transition and we have gained market share in a significant manner. What I am saying is the unorganized in this industry what was more prevalent in metros so once metros start to bounce back which is expected in the coming month; I was just trying to wonder whether this market share gain could have been extended much-much more in the coming months is what I was trying to understand from you.

Sanjay Gupta: Rahul, so what is our biggest advantage is like our inventory gets sold in small players like Pune or Bangalore so first we give delivery to big dealer in their warehouse. If any small player of Bombay sells the inventory in Pune, he gives one fare from Bombay to Pune, then he will mix the variety in goods and then sell it in Kolhapur. So again he is giving loading-unloading charges and the freight cost on this. We have improved our distribution and supply chains so much that we can reach directly to Kolhapur from our plant. So in this business there is not so much EBITDA margin that the industry or competitor can bear that. I am very-very hopeful that on the supply chain model on which I am working; this may increase our market share in future but it's too early to say anything about it because after COVID we have completely changed the whole structure which we were following from last 20 years. So it's a bit too early to say anything about it but I am very hopeful that the new structure that we have built and after COVID, the structure which we are following maybe this is a game changer for the APL Apollo.

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

Dhruv Jain: Just one question with respect to the margins, the product wise margins disclosure that you guys have given. In that the Apollo Structural DFT which is our hollow section that the margins have significantly dropped since the last third quarter. Even if you see Q-on-Q margins have significantly dropped. So is it because that we have passed out some discounts to distributors to improve over volumes or what's been the case? Even in normal hollow section and black pipes also that's been the case.

Anubhav Gupta: No Dhruv, so I think benchmark for Q4 the March quarter you are talking about…

Arun Agarwal: No, he is talking about Q3.

Anubhav Gupta: So see December quarter if you see Q3 FY20 that was our best quarter. What I am trying to say is that the product wise EBITDA stretch whether for June quarter or for March quarter. Please don't take these as benchmark because March quarter had full 15 days of revenue loss. So because of high fixed cost the margin across the product categories was low and again Q1 June quarter the fixed cost was quite high compared to the revenue loss. So don't…

Dhruv Jain: If I use that benchmark then I think you have improved our margins in GP despite having some sort of, I mean about a 36% volume loss in this quarter. So how do you look at this?

Anubhav Gupta: Because for our Apollo GP category in after lockdown in whole of coastal region it was mainly APL Apollo which was dominant to supply the product. So we could charge the premium in the market because there was very limited supply from the competitors.

Dhruv Jain: And considering that July has been healthy as you highlighted, how do you see your CAPEX going forward considering that subsequent quarter should be hopefully better than the first quarter so how do you see CAPEX and possibly your advertisement cost going forward in this year?

Sanjay Gupta: Dhruv regarding the CAPEX this year we have no major CAPEX plan. We are just listing our facilities this year like we acquired a company in Hyderabad Shankara where we have two galvanizing lines there but the freight cost is very high from that market. Now we are shifting one line from Hyderabad to Bombay and one line to Raipur plant. Like today my capacity is almost 2.5 million tonnes, 2.1-2.2 million tonnes in APL group and 3 lakh tonnes in almost in Tricoat. So we did what we liked do, so many mistakes happened, some wrong placement of machine in some markets, we had to give some freight cost at some places. So to control the cost, this year we are doing re-alignment of our machines. We are taking out from one market and shifting them to some other place. Our major focus for this year is that we should do realignment of our machines. After that we have a big plot in Raipur, almost we have acquired 300-acre land last year. We have no focus that we don't want to do any non-value debt product work now like on this mill we already went in advance already gone like 500 square for columns and pipes is famous in all over the world, there is no such facility in India, so we had already given advance in that so we will complete that project first. Then we will see 1 or 2 quarters and have a look and there should be some free cash flow in our banks because company has decided that we are not going in the future we are not going on the debt basis. We don't want to take any debt to install machines; we are very clear about that. Whatever we have seen in 1 or 2 months of COVID, we have decided not to work on debt. So as soon as balance sheet gets more improved, here we have a full capacity of 2.4-2.5 million tonnes and when we reach there then we can focus on Raipur new plot and slowly we will come to that CAPEX but now it's too early. This year to control our cost we are doing readjustment of our machines. Like we were sending our inventory from Hyderabad to Pune, we are giving Rs. 1600 cost and in Mumbai the raw material is cheaper by 500. So total is 2100 cost. My inventory reaches from Mumbai plant to Pune in 800 so I have shifted my plant to Mumbai and my margin improved by 2%, my margin will increase by 1300. This time in our system we had lot of cases. My highest cost at this time, I am in all the locations apart from that my outward freight cost is approximately around Rs. 1200; my target is to bring from 1200 to 800. We have worked upon interest cost, wages cost, stores; on power we did a lot of work. Now I am working more on freight cost that how should I reduce my freight cost by Rs. 300-400 due to the cross-location sales; we had to give there. So this year our whole focus is dependent on that, to work on that till 31st March 2021 we should bring the freight cost to Rs. 800. As our cost price reduces, we will have value addition, we have volume so our roads for coming days will be easier.

Dhruv Jain: Just one connecting question to what you just said so what will be the CAPEX in 500 X 500 and till what time are you planning this, till what I will it get completed, what is the cost behind it?

Sanjay Gupta: We have 100 crores CAPEX on that mill and 20% of advance we have pre-COVID. We have postponed it so our total CAPEX in that is approximately Rs. 100 crores.

Dhruv Jain: How are you thinking about it considering we have launched DFT last 2-3 years back so how are we thinking about the market, how big can be the market for you?

Sanjay Gupta: Our biggest win is in DFT there are two benefits, I have always said that. One benefit is we make high diameter pipes, in that we get lot of value addition in it but in low diameter pipes in DFT we don't get much value addition in it but today as I am going directly to the rural areas and capturing the market due to my product range. In every single day, in every mill about by putting 5-6 rolling and making material I am able to give service. My competitors need 8 days to make one rolling, 5 days to make rolling then the inventory is given to the big distributors. Big distributors' first order all the inventory and stocks there and then further dispatches it. The whole cycle which was of 15 days that got reduced to 2 days because I got the order in the morning and till noon I manufactured the goods and supplied it. Today our turn out time is within 24 hours we have started giving the goods. The same we have seen in the airlines; in the airlines what was the game changer? First the flight used to come and after 3 hours it used to go back, Indigo changed that line. If you were sitting in the plane, the crew members used to collect garbage within that time only so using that formula as base; like a paint industry also the change has happened. By putting one tablet and you have kept base paint so you don't need to keep different color paints, putting one base paint all the paint colors are made. So DFT is like that there are many benefits which can be visualized which comes directly to your pockets, many benefits like branding which is not coming to your pockets directly but is helping in improving the whole system. So that is why we have brought our inventory to the lowest with full variety service because we don't have the change over time.

Anubhav Gupta: And Dhruv just your point on how do we see market for high diameter tubes, right? So whether it's 300 X 300 which is currently with us or the 500 X 500 which we will get by next year so we are working with structural engineers to develop this market. So what we have found is that 1 square foot of construction whether it's a warehouse or factory shed or any infrastructure projects, 1 square feet of construction will require 1.2 kg of APL Apollo high diameter tubes so you can imagine the kind of the million square footage of warehousing construction or industrial shed construction. We think it can be a 200-300 thousand tonnes annual market size for high diameter tubes. 200,000 to 300,000 tonnes.

Dhruv Jain: And we are putting up capacity for how much?

Anubhav Gupta: So we have capacity to cater to this demand after we get 500 X 500 square.

Moderator: The next question is from Madhav Marda from Fidelity.

Madhav Marda: My question was, first question was on the margin side. So Sanjay sir has mentioned that we can bring down the freight cost to Rs. 800 per ton, which is about 1200 per ton right now. So that basically can happen on our entire volume by the end of the year or is it on some part of the volume?

Sanjay Gupta: Yeah on the entire volume.

Madhav Marda: That's a very big reduction that one-third of our freight cost going down, right?

Sanjay Gupta: Yes, so I am very unhappy with me that what we were doing till now? We have stopped ourselves for 1-2 months and we have got to learn a lot from this, we were doing lot of mistakes which we are rectifying.

Madhav Marda: And secondly 2-3 months back in the conference call you had said that Rs. 4000 per ton EBITDA per ton you are targeting, so basically 400 can come from freight and then the balance will come from other elements like branding and galvanizing product?

Sanjay Gupta: Freight cost, value addition, branding all the four things. My target is not 4000, my target is reaching 5000.

Moderator: The next question is from Deepak Mehta, who is an Individual Investor.

Deepak Mehta: So you talked about the innovation and new products. So what can be the structure of these products in next 3 to 5 years what we can expect?

Sanjay Gupta: In new products our development is stopped little bit because our marketing people are not travelling. We have not allowed travel yet so travelling and without doing the fabricator meets and lot of the ground work, to develop the new projects is a little difficult at this point of time. So we are running a little slow this time on the new products.

Deepak Mehta: Are we getting any projects or contracts from government or still the projects come from residential or with corporates, anything from government like…?

Sanjay Gupta: We get a lot of projects but where there is a tender basis system we don't participate over there because we don't get any benefit of company or the company service. Any cheaper player gives the goods over there, we don't give.

Moderator: Thank you very much. That was the last question in queue. I would now like to hand the conference back to the management team for closing comments.

Nehal Shah: Thanks everyone for your time. We look forward to see you again during the second quarter conference call. Thanks and have a nice day.

Moderator: Thank you very much. On behalf of ICICI Securities Limited that concludes this conference. Thank you for joining us. Ladies and gentlemen you may now disconnect your lines.