"Apl Apollo Tubes Limited
Q1 FY 23 Earnings Conference Call"

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MODERATOR:	**MR. SUNDAR - SPARK CAPITAL ADVISORS INDIA PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY23 Earnings Conference Call of APL Apollo Tubes Limited hosted by Spark Capital Advisors India Private Limited. As a reminder, all participants' lines will be in 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 touch-tone phone. Please note, that this conference is being been recorded. I now hand the conference over to Mr. Sundar from Spark Capital. Thank you, and over to you, sir.

G. Sundar: Thank you, Jacob. Hello, everyone. On behalf of Spark Capital, we welcome you to APL Apollo's 1Q FY23 earnings call. From the management site today, we have with us Mr. Sanjay Gupta, Chairman and Managing Director; Mr. Deepak Goyal, Chief Financial Officer; Mr. Arun Agarwal, Chief Operating Officer, and Mr. Anubhav Gupta, the Chief Strategy Officer. Thank you and over to you, sir, for your opening remarks.

Anubhav Gupta: Thanks, Sundar. Thanks, Spark Capital for hosting us for our Q1 FY23 earnings call. I welcome everyone on this call. Thank you for dropping by.

Q1 FY23 was a mixed quarter with the volume falling short of expectations. The uncertainty for business environment remained very high as you do steep volatility in global commodity prices, and steel was no different product which collapsed 13% in Q1 and then further 10% In the month of July. The volume for our company was a bit way off because there was a massive de-stocking which happened in the channel. As the prices are falling, our channel partners, our distributors, our clients, they had started to de-stock and they started working on minimum inventory levels. We believe that almost 60,000 tons of sales volume was lost last quarter. However, we expect this to recover in coming quarters when the prices will stabilize and the channels will start re-stocking.

We had demonstrated that similar performance in second half of FY22, when the Q3 volumes suffered due to the de-stocking, but Q4, we came out with highest ever numbers of 5,52,000 tons of sales volume.

Despite low sales volume, our performance in terms of profitability was quite good. And one of the worst quarters for the steel sector when the prices collapsed so much, we could maintain the lower range of our EBITDA per ton guidance, which is INR4,500 per ton. In the long-term, we believe the steel price correction is very good as the gap for a low-grade tube versus our tubes is narrowing down and moreover our products are competing or taking market share from conventional construction products like both, TMT bar, V bars and light structural. So, our competitiveness will improve and this will help us increase our volumes aggressively in the coming months.

In terms of the cash flow generation, the operating cash flow was quite strong. However, the capex commitments of up to INR1.7 billion resulted in an increase in some debt levels. Also, the inventory levels also went up given the loss of sales volume and some inventory buildup in our Raipur plant, which we just started, and these inventory levels also should start coming down and that level also will narrow down.

The other highlights on Q1 was that the value-added product portfolio sales mix remains around 60% to 65% and this should keep on improving as the Raipur plant kicks and the contribution from that plant will improve our overall sales volume mix. The benefits from Shankara association are already visible. The sales ramp up as we had expected is on track and this should give us the desired ROIs which we had anticipated. The CapEx on our Raipur plant also is on track with almost 70%, 75% of CapEx being done and slowly and gradually more and more lines are starting as each month passes by. We expect Raipur plant to become operational from 3Q FY23, and the balance residual CapEx should also be completed over the next two to three months, which again will be funded from internal cash flows.

Now, the main point here is the efforts towards market creation for Raipur plant products has started in a big way, because the products from Raipur plants are highly innovative in nature. They are being launched in India for the very first time. So, it is very important that the market creation had to start at right time which we did. So, whether it is color coated products or it is heavy structural tube, we have started approaching the influencers in a big way, whether it's architects' community or structural consultants or steel construction contractors, which are called PV vendors, we are having series of seminars in the cities, where we are inviting all these influencers to educate them and talk about our products. And I'm glad to share that the feedback, the initial response is quite encouraging. People are appreciating the fact that these products are innovative and they will definitely solve a lot of industry problems which the construction industry is facing today.

Our efforts towards the creation of market for heavy structural tubes are also paying off as there has already been a proof of concept in form of the Delhi Hospital project, for which the structures for all the hospitals are completed. Very recently, we got order for a 15-storey, commercial tower as well in the NCR region as well. So, the ongoing inquiries for 50 odd projects, which amounts to 200,000 tons of heavy structural tube is there in pipeline and as we as we had guided that will keep on revolutionizing the construction space in India in coming months.

This was pretty much on our Q1 performance. Our long-term business strategy remains intact, which revolves around CapEx for value-added product, innovation, market creation and ESG. We maintain our FY25 sales volume guidance of 4 million ton. This confidence comes from the fact that the Raipur facility is coming on track and acceptability for its product is also there among the end consumers. Our distributors are excited at the same time, at the same time we are adding new distributors for these specialized products. So, this thing, capacity of 2.6 million tons should see a ramp up as sales volume should grow at 10% to 15%, and then incremental sales will come from Raipur. So, we are confident that the 30% volume CAGR over FY22 is achievable till FY25.

With this, we'd like to open the floor for Q&A. Thank you so much.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rahul Agarwal from InCred Capital. Please go ahead.

Rahul Agarwal: Yes, hi. Good evening Sanjayji and APL team. Sir, three quick questions. Firstly, on outlook on HRC. How is the channel behaving now? Where is the price today and what do you expect to happen over the next three, six months in terms of re-stocking?

Sanjay Gupta: Rahul, good evening. Sanjay Gupta this side. Today price is almost close to INR57. I think close to INR57. And I think when we look at the international market, as well as the local market, maybe there is another gap of another INR3, INR4 kg to come down. It may come down to INR52 or INR53 odd in the next one or two months. I think there is the bottom out.

Rahul Agarwal: So, would we say that the restocking basically would start sometime end September and it's not really happening in July or August? is that fair to say?

Sanjay Gupta: No. Sale is already a good are in the month of July, because of the whole sector is without stocks. They are sitting without stocks and which companies are holding the stocks, they are good sales. Like our --- in the month of July our sales is on track, in spite of the fact that our prices are high. We have maintained our in-house. We are not dropping our prices in the market as per the raw material prices. But still, it is happening. We are right on track in the month of July. I think there should not be much problem in the channel in the month of August and September. We are right on track. The actual consumption never stops. The channels have already de-stocked. Whatever material they require daily, for that…like I can say, we have the order of volume in 24 hours in our hand. But in the evening, our sales are completed. Whatever material they require, they buy that and then sell and go home. Nobody wants to keep the stock.

So, whatever our services are, the services for which we had worked a lot in the last year in U.S., we are taking the benefit of those our services.

Rahul Agarwal: Got it, sir. I understand. So next question was on the overall outlook for the full year. So, we are about 2.3 million tons is what we targeted. Raipur, obviously, it looks like second half will be very bulky in favor of Raipur volumes. We have guided for 3 lakh tons, 4 lakh tons. So, how is your visibility, sir? I mean, what are you thinking about the full year?

Sanjay Gupta: Whatever, our guidelines are intact. We had achieved the target of 11 lakh tons before the year started. The target was second half was of 12 lakh tons to 13 lakh tons. Still, we are thinking that we should fulfill our target. Margin pressure may happen in the first half. Maybe we recover in the second half.

Rahul Agarwal: Got it, sir. And lastly. Tricoat EBITDA per ton, it was about INR9,200 for the quarter. Why was it high? Because every other segment, there was a drop in EBITDA per ton. Any specific reason there? That's my last question.

Anubhav Gupta: So, Rahul, this was this was because of better sales seen in Tricoat in Q1. Tricoat has limited products. So, three segments dominate the sales volume. In few of the quarters, when the high value, super high value-added product sales are high, then the EBITDA per ton looks high and when the volume for high value-added products are low, then the margin will look low. So, yes. That's the reason. Nothing much to read into it.

Rahul Agarwal: Got it. So, it should basically retract back to its normal long-term average, right?

Anubhav Gupta: Yes, right, which we have been guiding between INR7,000 to INR8,000 per ton.

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

Ankush Agrawal: Yes. Anubhav, just a quick question on the sales channel for this high diameter products that you're selling to hospitals and all that stuff. So, would it be fair to assume that we would selling it directly and it will be an order-by-order kind of sales channel for the product?

Anubhav Gupta: So, it depends, if the contractor is very to pay on cash or on spot payment, we sell or if he is insisting for a credit, then we get our channel partners to come in. We don't take exposure to contractors for credit period.

Ankush Agrawal: Okay. Okay. But since this would be more of a customized product in terms of specifications. So, over long run, would it be fair to assume that large chunk of this business will be coming directly to us rather than through our distribution partners?

Anubhav Gupta: So, I guess right now, we are in process of trading the market right, wherein we are directly trying to approach the contractors, the builders, the developers, the architects. So, here, our interaction with those influencers is one-on-one. So, for initial orders there could be like direct orders coming to us, but once this concept picks up, the trends pick up, then our distributors will, they will deal with the developers directly. But for initial kick in we have to get in and get the market going.

Moderator: Thank you. The next question is from the line of Vikash Singh with Phillip Capital. Please go ahead.

Vikash Singh: Good evening, sir. Thank you for taking my questions. Sir, I just want to understand, we are targeting 32% CAGR growth in our volumes. During that period, what is the market size growth which we are envisaging and by the '25, what kind of market share we are targeting?

Sanjay Gupta: We have to understand this market. Today, this market is almost close to 7 million tons. Out of that, 3 million tons today is from the primary steel and 4 million tons from the secondary steel. And in the past one year, one and a half years, the prices between the primary and secondary is almost close to INR15,000 to INR20,000-ton gap. Now, this gap narrowed down to INR4 to INR5 kg. So, the market is coming from the secondary to primary. So, I think this market should first take from the secondary seller. Part from the secondary seller, the secondary material also is come to 4 million tons and on per annum basis, this market is growing at a rate of 15% 16%, I think so. So, up to 2025, this market should be 6 million tons, close to 6 million tons for the primary steel.

Vikash Singh: And out of that 3 million tons increment, we are targeting 2.3 million tons for ourselves. So effectively growing faster than the rest of the lot. So, is that a correct understanding?

Sanjay Gupta: Yes.

Vikash Singh: So effectively, we would be 70%, 75% of this, our structural steel market share, which is 55% right now can go up to 70%, 75%. That's what we are…?

Sanjay Gupta: We are targeting 60% to 75%. And plus, there could be some new additions in the market segments. Right. So, I'm sure, 0.5 million tons to 1 million tons could be the new market, which will be created because of our innovative products. So, sort of 8 million tons --- out of 7 million tons to 8 million tons buy, we should be 4 million tons plus.

Vikash Singh: Understood. Sir, my second question, have we taken any inventory write downs or hit during the quarter? And if yes, then at what HRC rate we have booked that inventory right now?

Sanjay Gupta: This time we have no inventory write down. Whatever we are taking, the raw material, we are selling as per our raw material prices, the material. We pass to pass the prices to customer. So, like now we have high-rate inventory in our house, so, we are keeping our prices upper in the market and we have no problem to sell our material.

Vikash Singh: So, are you implying that even after the export duty came in and HRC prices, which went INR70,00, INR8,000, at that day, you would have been keeping some inventory, but you have not lowered your prices for the remaining inventory, and still you were able to sell those products?

Sanjay Gupta: Yes. Let's say, prices have not gone down in these three months for INR7,000, INR8,000. Prices have gone down by go down by INR17,000, INR18,000 ton.

Vikash Singh: No. I'm just talking about immediately after the export duty implementation.

Sanjay Gupta: I'm also talking about that, the prices are… In the month of April, the price is INR73,000 and the closing price of July is INR57,000.

Vikash Singh: Yes, sir. So, just one last question. Are we still following the same kind of the process, where we buy roughly about our entire requirement at the beginning of the month in terms of HRC and later on produce and sell? Or now it's more spread over the entire month? So, how are we procuring our raw material at this point of time?

Anubhav Gupta: So, I guess the better way to address this is that our raw material inventory cycle is 15 days, right? It's not like if I'm producing and selling 170,000 ton of tubes every month, that doesn't mean that 170,000 ton of tube will come on day one, right? It's a it's a gradual, it's an ongoing process, right? Every day 5,000 tons of steel comes. I make it, process it, and sell it. Right. So, it's not like that we get all the raw material in the beginning of the month. It's an ongoing process. Every day, the trucks come from our steel producer partners and recharge plants.

Vikash Singh: So, what I effectively means is that the pricing is still fixed on the start of the month and that is applicable for the entire month in terms of raw material procurement or now that has also become dynamic?

Sanjay Gupta: No. Right now, the pricing of the raw materials decided at the last of the month. Earlier, when the market was growing, the prices were decided at first. When the market is in the downside, all the conditions of the market seeing the market pressure, then the prices are decided on 31st. Like today, we don't know the July prices.

Vikash Singh: Okay. So, this change has happened to which month, sir? This price decided from the beginning of the month to ending of the month, this change has happened from which month?

Sanjay Gupta: From the month of May. Month of May.

Moderator: Thank you. The next question is from the line of Aakash Pawar from Sahasrar Capital. Please go ahead.

Aakash Pawar: Yes, hi. Good evening, sir. Sir, in the last con-call, you mentioned something about primary steel capacity coming up in India. So, if that comes from steel, how will that impact our margin?

Anubhav Gupta: So, see, I mean, it's not going to impact our margin. How it's going to impact the steel sector is that if there is a more capacity coming in, the pricing which has been on the upside for many, many quarters, we have witnessed, so that should mellow down, right. The capacities have been delayed growth not only in India, but globally because of lockdown restrictions, what we have seen for the last two years. Now that capacities are coming back online, the supply demand mismatch which was there, should normalize and it is going to be very good for our business, if there is enough steel in the market available, the pricing on the steel should will be normal. And anyways, we have our own product basket of 1,500 SKUs through which we sell various products. every product has its own margin. So, our conversion margins, our EBITA spreads should not be impacted due to whatever steel capacity is coming in or out. Is this increase? Ideally, it should increase. I mean, because our discounting power, our negotiating power should improve as there is more steel in the market.

Aakash Pawar: Okay. So, second one was, let's say steel prices comes down to like INR40 per kg or INR45 per kg. So, what impact will that have on our EBITDA per ton?

Sanjay Gupta: When the steel prices come down to INR40 per kg to INR45 per kg, then maybe channel is not taking the material. We have to push the material in the channel. So maybe margin is adjusted by 1% or 2% but for the long term, this is a golden era for us.

Aakash Pawar: Okay, sir. How? Can you please elaborate?

Sanjay Gupta: Boss, I told you that the primary steel market that we have of structural steel is of 3 million tons and the market for secondary steel is of 4 million tons. This total market is 7 million tons. So, if it comes to INR40, INR45, then the secondary will not be that much. So, from the 7 million tons, the 4 million tons that is there for secondary, that will be reduced to 2 million tons and the primary market will grow to 5 million tons. In India, apart from Apollo, nobody has the capacity to serve more than 20,000, 30,000 tubes per month. Everyone combined also, cannot deliver that much goods. So, when you need 2 million tons or 3 million tons extra of primary steel, then only we have that. Then this is golden era for us, because capacities are never grown in one day and I have unlimited capacity. I have the money, I have the capacity, I have the raw materials, I have the market.

My problem was that the gap of INR15,000 to INR20,000 between primary and secondary had restricted me. To buy the raw materials for INR15,000 premium and then selling the goods in the same category, that is not easy. If I don’t have to take more premium, then I can do anything. Right now, if I have high-rate inventories, then I have kept the prices higher and then selling it. As the prices come down, my market share will increase.

Moderator: Thank you. The next question is from the line of Bhavin Pandey from TrustPlutus Family Office. Please go ahead.

Bhavin Pandey: Yes. Hi, Sanjay, Anubhav. Hope you are well. So, I have just one question. This quarter, the way we witnessed substantial decline in sales as compared to previous quarter and but the numbers were great on year-on-year comparison. So, I was just wondering like how do we look at these patterns in terms of, while steel price still corrects and there's de-stocking happening? So, for us to look at the business like how do we look at these? Like how long did it take for the corrections to reflect in the trade and stocking by the distribution partners? Thank you.

Anubhav Gupta: See, it's not just our industry, there are many other industries in the building materials segment, where one single raw material forms bulk of the value in that product. Okay. And wherever this is happening, the global commodity prices are coming down. So, each and every industry behaves in the similar fashion.

Normally, what we have seen is and we are also talking to our friends in other building material category, this phenomena is normally one to two months, right, maximum like four to eight weeks. If the prices are on downtrend consistently for one, two months, right. So, the de-stocking will be there for same time, but at the same time, one should not forget that there is underlying demand for these products as well. Right. For example, a distributor normally works on 25 to 30 days on inventory in a normal environment. Now, when he's de-stocking, his inventory would go to around 18 to 20 days, right. He can't take his inventory level below 10, five days because otherwise he will not be able to service his retailers. So, his business will collapse, right. So, normally what we see is that inventory days come down from 25, 30 to 15, 20 in period of de-stocking. And when it's re-stocking, from 15, 20 days, he will take his inventory to back to 25, 30 days, right. So, this normally takes place in one to two months. That's the kind of disruption which comes up. But whenever the prices stabilize then…

Bhavin Pandey: Then extra demand for that material.

Anubhav Gupta: Right, because steel, if I have to use steel for my industrial shed, for my housing tower, for my commercial tower, for my mall building, I have to use steel, right. There is no alternative. So, I may delay my project by one, two months but then eventually, I have to finish that project. So, demand will always come back, always.

Bhavin Pandey: So, given the recent correction in steel and commodity prices, are we expecting the rest of the three quarters to sort of make up for the volumes that we lost in Q1?

Anubhav Gupta: Definitely yes. And same phenomena happened in second half of FY22. In Q3 FY22, our sales volume went down to 40,5000 tons and in Q4, we achieved 552,000 tons. So, full year --- for the second half, we finished at 0.96 million tons. So, same way, first half, we also believe that almost 1.1 million tons, our initial sales guidance, we should definitely meet.

Moderator: Thank you. The next question is from the line of Kunal Kothari with Centrum Broking Limited. Please go ahead.

Kunal Kothari: Yes. Thank you for the opportunity. Sir, during the quarter, we have seen fall in steel prices and de-stocking happening in the market. And henceforth, the Tricoat business is seeing the net working capital going to negative 11 days. Then why is the consolidated level is flat at 8 days? Kindly please throw light on the same. Thank you.

Anubhav Gupta: See, Tricoat is a very small business in the overall scheme of things, right. It's around 10% to 15% of the total volume and in terms of the total balance sheet size, and it only has two plants, okay. So those plants run very efficiently. The inventory levels or whether it is days as well, because the products are highly innovative from Tricoat. So, the payment terms are even better there. Right. So, I guess, I mean, yes, it is around negative 10 days, but that's only because the operations are small and it's only two plants to manage right. So, that's why it is like super-efficient. Apollo managing below 10 days at a size of INR13,000 crore, INR14,000 crore turnover and the balance sheet size, it is a limited product. And so, yes, I mean, we are we are very happy with our net working capital cycle. How we have been able to bring it down with our very hard work of two years. So, yes, I mean, I don't think there is too much to read into Tricoat net WC versus Group's net WC.

Kunal Kothari: So, for x of Tricoat, in terms of business, the net working capital has increased in the quarter, or has it remained the same?

Anubhav Gupta: We have given this in our presentation. On 31st March, it was around seven, eight days. Today, it is eight to nine days. It's mentioned in our presentation. So, it's only one to two days of increase in net WC.

Moderator: Thank you. The next question is from the line of Rahul Jain from Systematix. Please go ahead.

Rahul Jain: Yes, hi. Thanks for taking my question. Sir can you give some more color on the product profile that we will see from the Raipur plant? We will mix our existing products that we have or will they be very different? Can you give some more color on this?

Anubhav Gupta: So, Raipur there are three product categories. All three, out of these three product categories, one of the categories is where we are launching the product for the first time in the in the world, which is color coated products, color coated tubes. The second product category is the heavy sector tube, 500 square diameter. That will be the first ones to do in India. Globally, there are two, three companies which do that. But in India, we are the first one. And then there is another third category, which is, color coated sheets. So, that's an established market and we will be competing against the existing players. So, the first two product categories are totally, totally innovative and we will be producing and selling them for the very first time.

Rahul Jain: So, in terms of our margin profile, should we see that it will be remaining where we are today or we can see some 15%, 20%?

Anubhav Gupta: For the Raipur project, we believe that the EBITDA per ton should be INR6,000 to INR8,000 per ton. And our existing margin range is INR4,500 to INR5,000 per ton.

Rahul Jain: And then you got good market acceptability for these products or it's like in the works?

Anubhav Gupta: So, we have started the exercise to create the market. There is a very strong base, which APL Apollo provides in terms of the distribution network, in terms of the retailer reach out, in terms of the influencer reach out, in terms of the brand, right. So today, we have to get 100 architects under one roof, it's not a difficult task, right. So, because brand Apollo speaks for itself, okay. So, I guess, I mean, and we have been creating new markets for our products historically. Our 20% volume CAGR is all because of new product which we have been keep on innovating, whether it is chocker tube or window frame tube or octagonal tube or elliptical tube, or oval shaped tube, V-shaped tube, D-shaped tube, handle-shaped tube, right. All these are innovative products for which we have created markets. So, our team, our marketing team, our sales team, both have already strong in-hand experience of creating market for our products, and at the same time, we are hiring new people in the marketing and sales as well to be able to sell these products so efficiently.

Rahul Jain: So, in the sense, what I actually I've seen that in some other similar types, so they've taken a lot of inventory write down and things like that, but because of our low seven days kind of meet in order we have such kind and this won't happen in the future also right that is how we should look at it, right?

Anubhav Gupta: I mean that is the efficiency what we have achieved right to be able to turn around the HR coil, which comes to our plants and produce that into 1,500 different SKUs and sell it to our 800 distributors, right. This whole turnaround time is like 20 to 30 days. So, that's the learning. That's our learning curve of running our operations and that is helping us today in all these volatile environment.

Moderator: Thank you. The next question is from the line of Unnati from Yellow Jersey Investment Advisors. Please go ahead.

Unnati Narang: Good morning. Thank you for the opportunity. Can you please provide us with the update on the merger of Apollo Tricoat?

Anubhav Gupta: So, we had a --- last hearing was in mid-July for the merger with the court. We had provided all the relevant data, information to the court and we were expecting that it should be through. But there was there was new date which, which is…We applied for the earlier date and so now the next hearing is in first week of August, right and hopefully, it should be through. There is nothing pending from our side. Once it is true, from 30 to 60 days, the shareholders should get the swap shares. There is a process which will start after the court order comes in. But we are very, very hopeful that the next hearing in first week of August would be the last one.

Moderator: Thank you. The next question is from the line of Bharat Shah from ASK Investment Managers Limited. Please go ahead.

Bharat Shah: Sanjyaji, in a very choppy and difficult raw material environment, very commendable performance. I didn't have question actually on APL Apollo, but I wanted to understand the acquisition of Moongipa Securities which has occurred. Therefore, details, rationale and thinking and kind of bearing on our business.

Sanjay Gupta: Good evening, Bharatbhai. Bharatbhai, the Moongipa Securities acquisition that is there, this is a new NBFC company, which is coming further, still be discounting system. We are going to do the steel, the industry sector ---the steel sector is of INR9 lakh crore. Here, people have exposure of INR1 lakh crore to INR5 lakh crore. So, here are going to start with the bill discounting system. We have seen in the last 10 years to 20 years that people face a lot of problem in bill discounting when they supply goods to government departments and all. So, I just think that this is totally risk-free zone. So, we thought of starting a new venture and hence we started this new venture.

Bharat Shah: Yes, but can you give some more detail as to what it will mean for APL Apollo?

Sanjay Gupta: Bharatbhai, if you suggest us to we can talk on this, the other platform, if you say that we should talk on this platform only, then we can talk on this platform also. Whatever you suggest, we are ready.

Bharat Shah: No, at least if you can give kind of a broad outline or the rationale and details we can discuss separately for sure.

Sanjay Gupta: Bharatbhai, we have made a capital infusion of INR300 crore, and we have tied up with the bank for INR200 crore, INR300 crore. So, we want to make it a INR500 crore, INR600 crore, INR700 crore book size for the company. In that, wherever there is a problem, the separate team that this company has, where it will understand whom to give loans and whom not to give, so, they can give the loans. They can give the discount but we are just totally focused on the steel sector discounting bill system. We are not going other than the steel sector in that bidding state or fear funding or not in any other business. This company is totally focused on the steel sector financing bill discounting system.

No doubt the Apollo distributors will get a lot of help also, when they cannot get money from the banking system and we don't give on credit. So, they can also take loan from us. Or when they supply to us, they don't get discount from the bank. But these OEMs are good. So, they can get help from there also, and whatever other business they do, they will be helped in that also, because we have a very good number of data in the last 35 years. So, we can use this data and do this business. That is why I am saying that we are not going to work outside the steel sector.

Bharat Shah: Sir, essentially it will mean one thing that it is operational. APL Apollo receivables will probably become close to zero and therefore we'll be able to crunch working capital further down close to barring inventory of the raw material.

Sanjay Gupta: Receivables data level is still zero almost.

Bharat Shah: No, I am talking about the receivables.

Sanjay Gupta: Yes. That is what I am saying, the receivable level is almost zero even now. We have receivable of almost INR50 crore, INR55 crore.

Anubhav Gupta: Bharatbhai, as of 31st March balance sheet, the -- what APL Apollo had was three, four days. That's it. So it's negligible even today.

Bharat Shah: Got it. Correct. So, then, how will --- I suppose the APL Apollo has nothing to do per se with these? It will be some members of the family which will be part of this and what will be the --- is there any impact on APL Apollo because of this?

Anubhav Gupta: It's a completely separate venture by the family. APL Apollo has no role to play here. Family decided to get into NBFC business right in the steel sector itself. There is big opportunity, which is INR78 trillion of steel sector the products exchange hangs and out of this INR1 trillion to INR2 trillion is what the pocket which this NBFC company will address to. APL Apollo, some of the clients may take this facility which may be buying product from Apollo but then Apollo distributors deal into a lot of other products, not just Apollo. They sell TMT bars. They sell like light structural angles and channels. They sell welding rod etc., etc. So, the distributor, the client could be of APL Apollo, but it is not to find Apollo receivables, because Apollo receivables are anyways zero today.

Bharat Shah: So, essentially from the point of view of APL Apollo it at all, impact is positive or neutral or is there no implication for APL Apollo operations?

Sanjay Gupta: I think this company should give help to APL Apollo to increase their sales because in the last two years' exercise, we left a lot of customers due to credit. Banking is not funding them; Apollo is not giving them credit. So, we left those customers because Apollo guidelines is very clear, that we will not give credit to anyone and their balance sheets are not strong that Apollo would give money to them. So, I think that those customers will return to Apollo through this company.

Bharat Shah: I see. So, it will become customer acquisition tool where credit risk is passed on to the new entity, while APL Apollo will be able to expand the sales footprint?

Sanjay Gupta: Yes. Because if any Apollo customer will buy goods from them then there is no request of Apollo. This is a totally new venture, new team, new office. It will depend on this venture and not related with anything Apollo.

Moderator: Thank you. The next question is from the line of Anupam Gupta from IIFL. Please go ahead.

Anupam Gupta: Yes Sanjayji. The question is basically related to the heavy structural tubes capacity that is coming in. So, you have worked a lot on the market development and you have highlighted quite a few advantages which tools brings to the table versus RPC IDs and HPs. In your marketing from where have you received high resistance from and how have you tried to address that?

Sanjay Gupta: The resistance that we are getting the most is that when we are making 60-storey or 30-storey, 35-storey, right now, we are making 300 square feet with up to 12 mm thickness. And now our new plant is coming with 500 square feet with 20 mm thickness. But handling that is creating…lot of people are wanting 1000 square, up to 30 mm thickness. They can make the whole building with that. So, we made some arrangement in the Faridabad to give this material to them with fabrication. We have taken such orders and supplied 400 tons to 500 tons of such material. 500 tons of such material is supplied and now we are also in the process of investing some more money for going 1000 square feet line. So, once the Raipur line starts in the month of September, August, or September, then we are going for 1000 square feet, up to 40 mm thickness.

The most difficult thing for us is the ability. People are very expecting. People are very demanding, but unfortunately, we are unable to supply the material.

Anupam Gupta: Okay. But in terms of design perspective and structural safety of the building perspective, there is no major resistance that you are seeing?

Sanjay Gupta: No problem at all. People are too much excited. We have 50 odd projects. You can talk with any customer. We are so excited. Like I will just let you know one thing yesterday I was meeting with one of the contractors. There is this process of installing water tanks in UP. It is 200KL, i.e., 2 lakh liters. There is a whole scheme of 2 lakh liter to 3 lakh liter and it is there in whole UP. So, they are constructing with RCC. The cost of making one with RCC is INR13 lakhs to INR14 lakhs. They were saying that the cost is INR6 per liter. So, the cost is INR12 lakh to INR15 lakh based on the capacity. So, that was the cost. So, we submitted a design to IIT Rourkee, that this construction should not be of RCC but of steel. So, the design has passed the first phase. Now, the design will pass the second stage and then the authority and Jal Nigam will pass it from Lucknow. So, I think that there is a requirement of 70,000 tons to 80,000 tons. So, the contractor who had an order of 1500 tanks, he was so excited, that he said that this should be passed anyhow. My work will be made easy. The project that I felt was difficult to complete in one year, I will complete that in two months. But no doubt there was a cost addition of 15%. He said that this is manageable. So, people are too much excited. But unfortunately, we cannot provide the material yet. Once we give the material, then we will be able to thing will be cleared.

Anupam Gupta: Okay. Okay. Second question sir. So, assuming that acceptability is very strong and you have --- your plant will be in Raipur only. So, will you at some point of time, think of having more such plants that say north and south or do you think that you will do the service from Raipur only?

Sanjay Gupta: Too early to answer this question. I cannot give you the answer to that. I am a very aggressive person but I have invested in many projects right now. Raipur has been delayed by one year and all the machines that I have in Dubai, I have to set up plant for that also. So, I cannot think about anything else other than this. I don't want to go in a debt trap again. I am not even dreaming. I am not even thinking. I have only one answer. I just want to create some capacity. Till the time I don't reach 3 million tons, I am not thinking of anything else. I am not talking about INR50 crore, INR100 crore CapEx. I am not in the position to think of anything right now. Once I cross 3 million tons, then I will think about this.

Moderator: Thank you. The next question is from the line of Aditya Velkar from Axis Securities. Please go ahead.

Aditya Velkar: Thank you for the opportunity. So, just to from an understanding perspective, sir, spread between primary and secondary steel. So, we know that the primary steel prices have come down because of the host of the factors but the secondary steel, the prices of the secondary steel, have they increased because of the energy prices, thermal coal prices? So what are the factors playing out there?

Sanjay Gupta: Boss, I don't think the secondary steel will increase. Primary will come down. We make that in Raipur. Ingot is there. First ingot is made and then the tin is made from that. So, right now, in Raipur, the ingot is close to INR48 per kg, INR49 per kg. An on top of that, for making tin, they at least need INR7 kg to INR8 kg. So, they are close to INR57, INR58 at Raipur. And to supply goods all over India, they almost need INR16,000 [Ph] and hence their price is close to INR60,000 per ton to INR61,000 per ton. Right now, we are filling our material, discounting everything for around INR65 per kg. So, in the gap of INR4, this is good enough for us to capture the market.

Moderator: Thank you. The next question is from the line of Mudit Jain from Hem Securities. Please go ahead.

Mudit Jain: Good evening, sir. Congratulations for good set of numbers. So, my question was Sir, as you mentioned that we have not reduced prices despite sharp correction in HRC. But sir, despite that there are EBITDA margins has come down from March quarter. So, sir, what is the reason for that? Can you explain that?

Sanjay Gupta: Boss, I told you that I didn't reduce the price. I didn't say that. As per the raw material prices today, I haven't reduced the prices. Right now, just as I told you that the raw material cost that I have is INR57. I am selling tube at INR65, the spread of almost INR8 per kg. Normally, we keep this spread of INR5 per kg to INR6 per kg. But we have old raw material in our house, so we don't reduce the price.

Mudit Jain: But sir, the difference that is there in the EBITDA in the March quarter, what is the difference for that? I didn't understand that.

Sanjay Gupta: The inventories that we are selling, the cost of that is INR60 per kg, INR61 per kg. That is why my margin is reduced. I am telling you the current price, that is INR57.

Mudit Jain: Okay, sir. So, you have sold it at INR61.

Sanjay Gupta: The inventories that we have in our house is of INR60, INR61, that I have sold.

Mudit Jain: And the current levels are INR57.

Sanjay Gupta: Yes.

Moderator: Thank you. The next question is from the line of Varun Jain from Edelweiss. Please go ahead.

Varun Jain: Good evening, sir. Sir, you had indicated that other than Raipur, you will have a capacity expansion of 3 lakh tons in Dubai and 2 lakh tons in Kolkata. So, can you give us any update on that? And secondly, we had an app called Aalishaan and which you had said that it had 45,000 or so downloads. So, and we wanted to build a B2B building materials platform for steel products. So, any update on that will be very interesting. Thank you, sir.

Sanjay Gupta: Boss, in Dubai we identified the land and we have done the agreement with Dubai Inventory Authority. Now, I will give the contract to the local contractor. The process has started. In Kolkata, we are in the process of buying the land. We just identified the land. We have not finalized the land. We have done everything in Dubai. In, Kolkata we are doing. Anubhav will give you a better update on the Aalishaan app.

Anubhav Gupta: So, Aalishaan app was launched to cater to the B2C demand for -- Right. Today we have around 55,000 downloads almost 25,000 fabricators are enrolled here. So, here the idea is that the end consumer who has been using our tubes anyways, they should know that with our tubes, they can they can get their home decor products made and we have made the nearest fabricator available to your home in almost 150 cities. So, idea is to promote Apollo brand and to have larger mindshare in the in the consumer. So, that's the objective. And this app is not for B2B platform. For B2B platform, we are having discussions internally and probably in next quarter call or we'll have some better concrete plan to discuss for B2B trading platform.

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

Pinakin Parekh: Thank you sir. Sir, one question is that you said that right now the steel price is INR57 and the import is done on INR52, then sir, Tata Steel, JSW said that they are doing the maintenance shutdown. So, as a company, have you started booking import orders, because if in the near-term, if they are going through maintenance shutdown, then they may not be keen to reduce the prices very sharply?

Sanjay Gupta: No, boss. We are not keen on import. We will do some little but import for doing the export. But after giving the taxation in import, maybe the prices are workable. Also, we have a very good relation with Tata Steel and JSW Steel and other steel suppliers. They are in problem because their raw material prices are too high in the current situation. We don't want to create any problem for them because of Apollo. Because we have a long-term relationship with all the steel suppliers, we are cooperating with them and we do not want to feel like import. They are in a problem now. As soon as situation improves, they will also cooperate with us. We have a very good relationship and we are going to import.

Moderator: Thank you. The next question is from the line of Akash from Canara Robeco Mutual Fund. Please go ahead.

Akash: Yes sir. Thank you for the opportunity. Sir, will you give some color on the demand side? Where are you seeing the demand? Where do you get the confidence of 2.3, 2.4, because if you see one of the building material product company, they tell you that there could be possibility of slowdown in demand, because of increase in interest rate. So, if you can put some color on the demand side? What gives us that confidence that we can still do 2.3, 2.4 type of number?

Sanjay Gupta: Boss, we are looking at the demand from three sectors. One is that we want our sales to go the secondary material that was there in the last two months. We want to take some from there. Our sales was badly hammered in that segment and we have noticed that the sales have started recovering from July onwards. I can give you example, like the Tamil Nādu market. In Tamil Nādu market, in 2019, my sales was close to 1.5 --- one minute, I will get my data. In Tamil Nādu, in year '20-'21, my sales was 1.5 lakh tons, which decreased to 1 lakh tons is '21-'22. In Q1 this sale was 21,000 tons, i.e., 7,000 tons per months. So you can see it is 84,000 tons per annum from 1.5 lakh tons. And in this market, I have already sold, in this market, 12,000 tons. So, I almost went back to 1.5 lakh tons. And four to five days are still left and inventory de-stocking is taking place. So, I am very bullish that as soon as I will come out of this phase after finishing my high-priced raw material, then the demand is not a problem with me, if there is no other major change. I am very bullish. If I am getting increased demand of 1 lakh ton from one market, then I have 32 markets.

Akash: Okay. So, you are saying that you are taking share from secondary and hence growth will be seen there?

Sanjay Gupta: I know how I have survived the last two years. I have lost a huge market share because gap is INR15,000 per ton to INR20,000 per ton.

Akash: And sir, this EBITDA that has softened a little QoQ and you have explained that. Can you please explain it again?

Sanjay Gupta: Boss, the problem we are facing is that no one I buying the material. Everybody knows that pricing is down. Company is not reducing the price because company has inventory of that date. So, they are also buying material that they have to sell. So, my capacity is of 6 lakh tons. I have sold 4.2 lakh tons and my postal cost has increased by INR700 per ton to INR800 per ton. My cost has increased by INR700 per ton to INR800 per ton. I sold some goods on discount and some I exported where I had less tension of achieving the target. There were lots of problems. The margin has not reduced. This is my best quarter, if you ask me. It has reduced only by INR400 per ton to INR500 per ton. If I show you the past history, sometimes the fall is so much that the raw material costs, reduce from INR74,000 to INR60,000. The raw material has decreased by INR14,000 and Apollo's EBITDA used to be zero. The company is so strong now that it has tolerated all this. I had an inventory level rise because of less sales but still we have managed our number. The price has reduced from INR74,000 per ton to INR54,000 per ton, which means a drop of INR74 per kg, at an inventory level of 2 lakh ton. I had inventory level of 2 lakh ton. This is almost INR340 crore odd, which I have saved from my margin or business.

Moderator: Thank you. That was the last question. I will now like to hand the conference over to Mr. Anubhav Gupta for closing comments.

Anubhav Gupta: Thanks, everyone, for joining us. And thanks to Spark Capital once again for hosting us for this call. Thank you so much. Have a nice day. Bye.

Sanjay Gupta: Thank you.

Moderator: Thank you. On behalf of Spark Capital Advisors, that concludes this conference. Thank you for joining us and you may now disconnect your line.