"APL Apollo Tubes Limited Q4 FY2021 Conference Call"

June 03, 2021

ANALYST: **MR. URVIL BHATT– IIFL SECURITIES LIMITED**

MANAGEMENT: **MR. SANJAY GUPTA - CHAIRMAN AND MANAGING DIRECTOR – APL APOLLO TUBES LIMITED**
MR. DEEPAK GOYAL - GROUP CHIEF FINANCIAL OFFICER – APL APOLLO TUBES LIMITED
MR. ARUN AGARWAL - CHIEF OPERATING OFFICER – APL APOLLO TUBES LIMITED
MR. ANUBHAV GUPTA - CHIEF STRATEGY OFFICER – APL APOLLO TUBES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the APL Apollo Tubes Limited Q4 FY2021 Conference Call, hosted by IIFL Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Urvil Bhatt from IIFL Securities Limited. Thank you and over to you Sir!

Urvil Bhatt: Good evening everyone. On behalf of IIFL Securities I welcome you all to APL Apollo Tubes 4Q FY2021 results conference call. On the call today, we have APL Apollo Tubes management team being represented by Mr. Sanjay Gupta, Chairman and MD, Mr. Deepak Goyal, Group CFO, Mr. Arun Agarwal, COO, and Mr. Anubhav Gupta, CSO. So let us begin the call with the key thoughts from the management thereafter we can open the floor for Q&A session. Over to you Anubhav for your opening remarks!

Anubhav Gupta: Thank you Urvil and thanks Malika. It is a real pleasure to be here. I welcome everyone on the conference call of APL Apollo 4Q FY2021 results.

Like I said it gives us a pleasure to be here and discuss our performance for the fiscal of FY2021 which was one of the most challenging years in our history. At the same time, I am proud to tell you that team APL Apollo has converted the crisis into an opportunity and delivered the best fiscal year ever.

We saw record improvements in our P&L which was driven by margin expansion, our balance sheet which was driven by the debt reduction, our cash flows which was given by the working capital enhancement. Some of the achievements, I want to highlight are number one EBITDA growth of 40% for full year and PAT growth of 50% despite flat sales volume. Market share expanded to 50% from 40% in these structural C2 markets in India.

Our networking capital cycle down to eight days from 25 days as we switch to cash and carry model and which has been very well accepted in the industry and we believe that this should continue going forward and this kind of working capital cycle is best in the building material industry as well. Our net debt was down by 80% to Rs.1.6 billion from Rs.8 billion in the last 12 months.

Our value-added product contribution improved to 57% in FY2021 from 45%. Now again it is a real pleasure to share with you that this journey started three four years ago when our value-added product mix was 40:60. Now it is moving towards 60:40. Our ROCE jumped to 26% from 18% and our ROE jumped to 25% from 21%.

The company generated the operating cash flow almost 1000 Crores, Rs.10 billion in FY2021 and the free cash flow generation of around Rs.6 billion which helped us reduce our debt. Then we also started the group simplification process with the announcement of Apollo TriCoat Tubes merger into APL Apollo Tubes. This process was initiated in February of 2021 and is going mostly on track. At the same time, we also demonstrated our commitment to the sustainability and ESG compliance for our organization.

I am glad to share that we roped in one of the big four consultants who is helping us with the ESG compliance. Over the next a few quarters, you will see that how we are going to comply with the GoI guidelines and how we are going to monitor the ESG compliance for the next two three years. Lastly what we worked on a new market creation which has been the strength for APL Apollo Group towards the high diameter high thickness tubes which is one of our most focused areas for the next four to five years.

Specifically on the Q4 FY2021 a few highlights we like to share is that Q4 had started on a very strong note in Q3 the Indian economy has started to open up; however, the quarterly sales volume was slightly lower than Q3 because in January and February the markets took some breather after a record momentum what we saw from May of 2020 till December 2020, but after 40-50 days of breather we had the strong momentum which started in month of March and it continued till early weeks of April as well before the lockdown was initiated again. Our value-added portfolio in Q4 was 60% again similar to what we had in Q3. So, this shows that we are on a sustainable path of having the 55%-60% contribution.

Coming from the value-added products and our margins were again above Rs.4500 per ton as the unorganized sector continued to struggle due to raw material supply so this led to strong pool demand in the industry for products of the branded players and it kept our margin high.

Lastly on FY2022 outlook we started Q1 with good momentum but the second wave hit the country very badly and we witnessed the simultaneous lockdowns which were being announced by various state governments. Today as we speak it seems the worst is behind us and the market should start opening in month of June and July so this gives us some visibility for the rest of FY2022 but we are monitoring the situation very closely at the same time as things are changing on daily and weekly basis.

That being said our long-term strategy remains unchanged for the group which is based on value addition, cost control, innovation, new market creation and brand equity enhancement. With this strategy we are confident of sustainable double-digit growth in non-pandemic periods with superior net profit growth.

With this we will finish our opening remarks and we can open the floor for Q&A. Thank you so much.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of Dhruv Jain from Ambit Company. Please go ahead.

Dhruv Jain: Congratulations on a great set of numbers. I had no questions around the value-added product basket. Now in FY2021 we have seen that you have been able to drive this target that you had set out for yourself earlier. So just wanted your thoughts that in the last two quarters we have seen you know volume decline and flattish kind of volume so as we move to a more value-added kind of product basket has the growth taken a little bit of hit because of that and connecting question to that would be that going forward with respect to value-added products how do you see this changing? Can be 60% go to like 70% and what actually changed in FY2021 at least in the last two quarters that led to a significant spike in the value-added product basket?

Anubhav Gupta: Good evening. So coming to the first part of your question that given that our value-added product mix is improving so does it mean that we are our overall sales volume is going down that is not correct, Dhruv because if you see that when in Q1 FY2021 then everyone was hit from the lockdown in Q2 our company had reported the strongest quarter which was 480000 ton of sales volume and in Q3 we saw the economy opening up and we again did 485000 ton of sales volume. So we could maintain those record volumes so for right from month of May till December 2020 we had a record momentum. We increased our market share to 50% from 40% our rural sales contribution improved significantly. We were working on the value-added product portfolio at the same time so it was pretty much expected the group that the market should take breather in Q4 and it started from mid of January, the distributors who were sitting on a bit of high inventory levels they wanted to cool down their inventory levels and like I said that was pretty much expected, but at the same time what was happening was that the secondary sales were not impacting because the construction activity in India was still going strong in month of January and February. We had our ears on the ground. We did not bother much because we knew that once these inventory levels come down to normalized levels there will be strong demand coming from distributors at the same time so after the gap of few weeks we saw that in month of March we had a strong momentum building up and March was very strong so if that breather had not come in January and February we would have touched again for 84000, 90000 ton kind of volume with this sales mix 60:40 it will go to 65:35 also 70:30 also we do not see dip in any volume.

Dhruv Jain: Thanks and a question with respect to the growth going forward so should we assume a mid teen kind of growth in terms of volumes going forward I understand that FY2022 can be a little bit of hit because of the lockdown but you know on a sustainable four or five year point of view should we as that that to be the guidance?

Anubhav Gupta: Again I mean before I answer this question you had another question when you had raised it like what kind of value addition contribution that can come from our company, right? So today we are sitting at 60:40 and this did not happen in one year. It is the hard work which we have been doing for last four five years, we have been innovating, we have been coming out with new sizes we have been creating new markets right so this all of this process takes time right and we were continuously investing, our time, our energy, our money towards those objectives and then suddenly you saw that in FY2021 there is a big jump in the value addition but if you look at right from FY2016 slowly gradually we have been able to improve our mix like from 40:60 to India 16:40 it is not a one-year journey. It is a five-year journey which started right in front of 2015-2016 with a lot of planning, lot of investments, lot of thought process and a lot of strategy which came into play as well so this is like pretty much sustainable on sustainable basis this is not one year phenomenon or two-year phenomenon. This goes with a very, very clear thought process carved out strategy which we started in 2015 and on the volume growth see I mean we were so excited when we had started FY2022 that whatever revenue loss volume loss we witnessed in FY2020 we could make out in FY2021, in FY2022 but again the country got badly hit so I guess today I mean it is difficult to say that what we are going to do in FY2022 but what I can tell you is that in non-pandemic years right when things are normal our system is well established well oil to deliver high digit double volume growth, incremental volume coming from the value added products right so the so when we say that we are continuously decommoditizing our product portfolio that journey will continue.

Dhruv Jain: Great. Thanks a lot and all the best for the future.

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

Bharat Shah: I actually did not have any question but I wanted to place on record my appreciation a 1000 Crores of operating cash flow almost 600 plus Crores of free cash, adjusting for the minority stake although Rs.65 per share of operating cash and Rs.43 or Rs.44 of free cash is a remarkable, remarkable achievement and I think it has been strategic and not happen so congratulations Sanjay Ji and to the entire team, phenomenal across the board on all qualitative parameters not just quantitative numbers, I think it is a remarkable one and the quality of the disclosure and the level of details given again deserve appreciation. So many, many congratulations. Thank you.

Moderator: Thank you. The next question is from the line of Devvrat Mohta from Capital Group. Please go ahead.

Devvrat Mohta: Thank you so much for your time and congratulations on solid results. I just had one question from our channel checks we will be hearing of raw material shortages. Can you just talk through firstly what are you all doing to you know kind of deal with this challenge of procuring raw materials and secondly what does it mean for market share consolidation because I am assuming if you all finding it tough to source raw materials smaller competitors would find it a lot harder. I would love to hear your thoughts? Thank you.

Sanjay Gupta: Agreement with the steel plants like the Tata Steel and the JSW Steel and we have a long term MoUs from last 10 to 15 years. So, we have no such as a big problem but no doubt in this time when the country is the shortage of steel we are suddenly difficult to increase our quantity but if whatever commitment we have done with the Tata Steel and the JSW they are both of our main suppliers. We have no more difficulty to take the procurement of the raw material and now we are slowly and slowly entering with the small quantity with SAIL and Essar also. So I do not think the raw material is a big problem for us.

Devvrat Mohta: what about market share implications from smaller competitors struggling to gain market I mean struggling to gain raw material apart from availability of raw material go up because of this.

Sanjay Gupta: We have no doubt in the primary steel, smaller players getting now badly hit so they are losing the market share and the organized and big players are getting more and more market.

Devvrat Mohta: A follow-up question your working capital has improved quite substantially last one year how much is this do you think sustained versus do you think you know some of it goes back to normal I know I have asked you this question before we would love to hear your thoughts?

Sanjay Gupta: Now we are not going to increase our working capital cycle. We saw lockdown so we have long-term agreements with steel plants so because of that our stock level has gone up, but the debtors we have 100% in control. We do not want to force sale to any single ton of tubes. As per the distribution systems we are supplying the material. We are not in any compromise with the payments maybe this quarter due to the lockdown so some stocks will go up, but we are trying our best and as and when the lockdown opens up, we will cover it.

Devvrat Mohta: Perfect. Thank you so much all the best.

Anubhav Gupta: There is a just one point I am going to add here is that see I am in this working capital enhancement what you have seen this is again this is not a phenomena that is going to last for only for a few quarters. It is more like it has become a practice for APL Apollo and its clients also so majority of working capital enhancement what we saw is because of the reduction in the debtor days, receivables days so the kind of additional margin they are making on cash discounts right then we are compensating them against the low inventory level what they are keeping in their godowns versus what they have to do with other brands and the overall discipline which has come in the industry again I mean with the second lockdown which took place now that discipline again is in the minds of all the participants right from the distributor to the retailer to the fabricator so I guess this is a very structural long-term phenomenon what we are seeing for ourselves and as long as it is not forced it is by choice we think that this is going to be sustainable

Devvrat Mohta: Thank you so much. Thanks Anubhav. Thanks Sanjay Ji.

Moderator: Thank you. The next question is from the line of Madhav Marda from ICRA Limited. Please go ahead.

Madhav Marda: Good evening. Thank you so much for your time and congrats for very good set of numbers. I just wanted to get your thoughts on a couple of things the first one was the Raipur expansion if you could just give us an update in terms of when that plant starts and I think how much of a capacity comes in the first phase of the expansion and also the kind of product portfolio that we will be doing at Raipur if you could just give us your thoughts on that?

Sanjay Gupta: Madhav, now again due to the Corona lockdown we are behind by two or three months I think so but we are thinking our first product will come out with the Raipur plant in the month of December and in the first phase we are close to 0.4 to 0.5 million ton of capacity and this is totally different product of the basket whatever we have now in our basket like in this we are going for the bigger axles, 500 square up to 20mm for the high rise buildings and the colour for pipe the coated tubes so these a lot of type of new addition, new universal in this plant and hopefully we will start this plant in the month of December and in the first phase for Q4 or either Q1 FY2022 we are targeting key annualized 0.5 million ton capacity we can utilize.

Madhav Marda: The margins because, if these are value-added products, the margins will be better versus our existing portfolio?

Deepak Goyal: Yes, margins are no doubt far-far better than the existing product and you also see that in the future in the results our existing margins are also increasing because too much we are focusing on the margins, we are not compromising with the margins some part of our commodity business we are not taking care of the margins and we are going for the volumes, but in the value added product we are increasing our market share as well as margin both because we have done lot of innovations, lot of investment in these sectors and we are getting the results very soon you see the results.

Anubhav Gupta: And Madhav these products like 500 x 500 square diameter tubes or color coated tubes these are the products which are being introduced in India for the first time. So given that the competitive intensity is going to be so low or maybe zero for first few quarters or years, so it is like, it is a clear fundamental that the margins have to be higher here.

Madhav Marda: My second question was our balance sheet will be, it is almost net cash and I think in the next couple of years even if we do the capacity expansion our balance sheet will have cash building up. So is there any sort of acquisition opportunity that you will see or what do we plan to do with the cash which is building up on the balance sheet.

Sanjay Gupta: No Madhav, I do not think any acquisition is available in India of our nature because we are totally innovative type of player. I do not want to go into the again in the commodity business. I want to change the business with the high margins, so in India I am totally focusing on the new type of products, new type of markets, new type of distribution network. So I do not think so in our nature, in India any good business available and we have also a good long-term plan of a 4 million ton up to EBITDA margin of Rs.6, Rs.7 kilo in the next few years, so I do not think so, we are going for any acquisition and small little bit any co-acquisition or for any job work, if we have to do some kind of work, so we can look in this matter, but otherwise we have no planning.

Madhav Marda: Understood Sir that is very nice to hear. Sir, my last question was we have been investing on building the brand in terms of increasing the brand spending could you just update us on what the plan would be for this year in terms of any sort of commercial the sector that we are planning to do?

Sanjay Gupta: Yes, branding we are going up more aggressive and aggressive, but now we change our branding, I am not going to focus up to we are now want to expand our bigger sections bigger dia and color types we are more focusing on these type of products like we have many oxygen plants or hospitals.

Anubhav Gupta: Yes, Sanjay. So everyone is requested to go to slide #26 and that is what we are referring to in our presentation.

Sanjay Gupta: But here we are now we have a good number of inquiries with us and this is also very helpful to the Government of India to helping Corona we are targeting to start hospitals of almost 500 beds in three months and oxygen plants within 15 days and we have received the orders also we are getting started receiving order also. So we are working on this type of things too much and in this process we are very hopeful to this may help us to increase the volume of bigger sectors data.

Anubhav Gupta: Mr. Madhav just to add here like if you see last two quarters we have been spending around 8 Crores to 9 Crores of expense per quarter that was the run rate when it was in FY2020 before the pandemic hit. So as the quarters got normalized we are back on spending 8 Crores, 9 Crores per quarter of ad spends over and above what we are trying to do is the targeted branding, targeted marketing for our exclusive products.

Madhav Marda: Got it, understood. Thank you so much, all the best.

Moderator: Thank you. The next question is from the line of Pallav Agarwal from Antique Stock Broking. Please go ahead.

Pallav Agarwal: Good evening. I just had a question on the impact of the higher steel prices. So are we seeing some push back in terms of demand except or are people accepting these high speed prices?

Sanjay Gupta: Yes, there is some selection that some factors really get the demand pull back because of the secondary steel is also very cheap, so we are playing the primary steel, so there is some hit in the market I think which I can is of our primary steel sector market of in India is close to 2 million tons is now swinging to 1.7, 1.6 million ton, but we are managing to so to take the market say increasing our market share from 40 to 50. Now I think we are almost cross 60%, so we are covering from there, but major pressure in some sectors there is a pressure due to the steel price hike.

Pallav Agarwal: So if I compare this right if I compare it say second player who are probably using the Patra of scrap, so what would be the cost basically advantage that they would be having compared to primary players?

Sanjay Gupta: Yes, there is too much difference between Patra and primary steel I think the difference is almost Rs.10000 per ton.

Anubhav Gupta: Which is like 10%, 12%.

Pallav Agarwal: The margins itself was EBITDA side is Rs.4000 to Rs.5000 per ton so in that context quite significant. Yes, so thank you. It is also just on, so what would be our capex guidance for the next two years and any debt to EBITDA, I mean, now we are net, almost net debt free, but any net debt to EBITDA targets that we have in over the long-term?

Deepak Goyal: Our target is close to 20% to 25% of the EBITDA margin.

Pallav Agarwal: As a capex spend.

Deepak Goyal: Yes, for the capex.

Pallav Agarwal: As you said because of the lockdown maybe this year there will not be any volume guidance versus our normal 15%, 20%.

Sanjay Gupta: No. We are not affected from the lockdown. We are just waiting for our turn. I am still hopeful we are going to almost achieve our numbers very close to numbers.

Pallav Agarwal: Can we assume so then this year despite the lockdown we will have probably 10%, 15% volume growth in FY2022 over FY2021?

Sanjay Gupta: Still, there is no third wave we can manage it.

Pallav Agarwal: Thank you so much.

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

Rahul Agarwal: Good evening. Thank you for the opportunity. I have two questions, so firstly on the characters which the earlier participant was asking. So basically you said 20% in our annual budget that basically translates to about 175 Crores a year is that correct?

Anubhav Gupta: Yes that is right.

Rahul Agarwal: And on the Raigarh plant what is the total capex we have planned for?

Anubhav Gupta: No, as in, total capex as in.

Rahul Agarwal: No, I thought the total capacity planned is about 900000 to about a million tons stage I would be about 500000 tonnes as this earlier saying?

Sanjay Gupta: So the total plant going to 4 million ton across the group like today we are 2.6 million ton in the next two, three years we are targeting to achieve 4 million ton.

Rahul Agarwal: Basically if I look at March 2022 we will be close to 2.6 so we will increase our utilization?

Sanjay Gupta: It is close to 3 million ton.

Anubhav Gupta: Rahul right now we are at 2.6 million ton. There are two mills which are being added 200000 ton of 500 x 500 square diameter and 200000 ton of color coated tube. This will take our capacity to 3.0 million ton by FY2022 and then we have further expansion plans which is budgeted in 25% of EBITDA at capex spend so that will take our capacity to 4.0 million ton over the next two, three years.

Rahul Agarwal: Any specific guidance would you provide specific details in terms of capacity additions any thoughts.

Sanjay Gupta: so the product basket is going to remain in the value-added products new market creation and within the existing portfolio where we think they requires optical expansion right so we will set up for new mills there. So it will be mix of Brownfield expansion and new product addition.

Rahul Agarwal: The second question was on EBITDA per ton. When I look back five years fiscal 2017 to 2021 EBITDA per ton moves between 3600 and 4200 per ton. Now this year it existed at 4747.50 almost and our average for this year was about 4200. So hence as given your increase in value-added product share as well as the new Raipur capex is also a higher margin business this 5000 per ton of target Sanjayji also talking about 6000, 7000 per ton into next three years.

Sanjay Gupta: No, not. Overall it will be for the Raipur to new project.

Rahul Agarwal: For the new project only okay.

Sanjay Gupta: 6000, 7000 our 2.6 million ton we are targeting 5000 per ton.

Rahul Agarwal: So what role does the higher steel price play here as in if let us say there is a correction in steel prices what really happens to this number any sensitivity?

Sanjay Gupta: Now we have a very less inventory we are carrying. We are carrying almost 15 days or 14 days or less than 20 days inventory and the six, seven days to eight days we have the other book also in our hand so 10, 12 days inventory I do not think so give me any major hit or major gain.

Rahul Agarwal: So only difference is between inventory gain and losses otherwise there is no capital in irrespective of the steel price movement.

Sanjay Gupta: In 10 to 12 days, there is no big inventory gain or loss.

Anubhav Gupta: Rahul that is what we have done over the last two, three years that how we are making our system shockproof by becoming more efficient by keeping lower inventory in absolute terms and converting commodity into our value added products at much faster rate in much efficient and effective manner. So this reduces the overall risk of any fluctuation in the steel prices when we are sitting on such low inventory levels.

Rahul Agarwal: I got that. Thank you so much and all the best. Thanks for answering my questions.

Moderator: Thank you. The next question is from the line of Sujit Jain from ASK Investment Managers. Please go ahead.

Sujit Jain: Sanjay Ji and team congratulations. I am very delighted to see per ton. Sanjay Ji you had told us in the last quarter that you will not go lower than this, so you have achieved that, so congratulations. My question is about the large players such as JSW and Tata in terms of structural tubes what is their market share or their volumes that would be there. Tata Pravesh which would be in competition with TriCoat I believe so if we do a volume of 231000 which I believe is the highest in that particular segment how much Tata would be or any other large companies would be in terms of volume in that segment and one last question is on the dividend policy you had spoken in the last quarter that will finalize the policy about cash buyback dividend etc. Now that the cash flows are very strong have you finalized that policy and if you can share some views on that?

Sanjay Gupta: First of all once the Tata Pravesh and Tata Door Frame is very clear that the products which they have and our products are very different. They are in the process themselves and high end. The two frame solution which they have there is a difference of Rs.20 which can correct myself, and I am in a very low end. The door frames which we have is of Rs.7 or Rs.8. They are targeting Tier I cities, and I am targeting Tier 2, Tier 3, similar areas and cities. The design between ours and theirs is very different. So, we have 0% commission with Tata Pravesh. Number two, about the dividend policy we are still on our market dividend policy, which we have maintained we will maintain the similar, but these were the corona time and some capex and the buyback planning to with the current we are just deferring with two years but our dividend policy last year we have skipped and this year we skipped. Now I think from this year we are on the track.

Sujit Jain: Sure thank you all the best.

Moderator: Thank you. The next question is from the line of Amit Jeswani from Stallion Asset. Please go ahead.

Amit Jeswani: My question is about the growth part, so you have got the balance sheet 100% right now you have paid off debt whatever you had three, four quarters back you have delivered on that. My question is Sir on the growth part because that is now the most important part that will create the most value for APL Apollo. Sir you have been saying 10%, 15% growth but Sanjay Ji you have typically been growing at 20% around that on the volume side, do you think that kind of growth is possible for the next four, five years and since we believe increasing capacity by 50%, 60% now, we are at 1.6 million tons, where will we go three years down the line?

Sanjay Gupta: If you ask me firstly, we have a vision for 2025 4 million tons. 2025 we have vision of 4 million ton and accordingly, we will increase the capacity, without hampering our balance sheet and cash flow and previously that FY2019-2020 the growth which we have not crossed, I think was because of the pandemic, and some of the steels were higher than the demand, all these will be renegotiated and we do not find that in India there is any problem with the demand. Number two India is almost a steel conversion is of 120 million ton which will be 8%, to 10% tube sector. It is around 10 million total tubes in this. Now the government and all the experts are thinking this is going to touch very soon to 200 million ton. In China it is almost close to 1000 million tons so the India when the growth comes it will come in the steel, if the steel growth is of 200 million tons then it becomes 20 million tons, if you increase 20 million tons, and our total will come here it will be 20%, 25% we will capture the market. So, you please understand that if we do 20 million tons if we do 25% how much it will be.

Amit Jeswani: Thank you so much for whatever so you are doing, you are doing a great job and please continue doing this thing.

Moderator: Thank you. The next question is from the line of Jatin Damania from Kotak Securities. Please go ahead.

Jatin Damania: Congratulations Sir on the great part of numbers. Sir just wanted to check now since we have started the second wave and in month of April and May we have seen a impact of the lockdown so taking that into consideration what sort of volume we are seeing in the first quarter and what sort of profitability we are estimating?

Sanjay Gupta: First quarter, we are thinking our volume maybe depending on the lockdown but between 70% and 90%. It will be 70% and maybe we cross 90% but it depends on when the lockdown open if the lockdown opens in next few days we can close to 90% then if the lockdown goes longer so maybe we are close to 70% to between 80%.

Jatin Damania: How was the trend in the month of April?

Sanjay Gupta: April we are on track, April we have no problem and the margin wise we are on the safer side we have no problem at all.

Jatin Damania: So can we continue to deliver what we delivered in the Q4 or it will be marginally lower than that.

Sanjay Gupta: I think higher than this.

Jatin Damania: Higher than this. Thank you Sir.

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

Rahul Agarwal: Good evening all. Congratulations on a great year. Sir most of my questions have been answered. Just a couple of, we talked about the hospitals, oxygen and the cold storage if you could just give some idea about the kind of volume uptick that can bring and the current what is the order book looking like currently?

Sanjay Gupta: This exercise we just started with a few months back if you see in the Economic Times and a lot of the newspapers, we are also giving a very good as full page ad also. Now the order book is very less right now. I think that in the tonnage I know about the tonnage we know the square foot we do not understand, but we have orders worth of 2000 tons, 3000 tons of orders but we are very hopeful to we are in talks with a state government, I cannot disclose the name because it not yet the order is finalized. So it is behind us for almost 400 Crores of order size, single order size of 400 Crores. Now we have talks with the bullet train and the way we are getting the signals, the signal is very good but we are only one who supplies these materials other than imports, the moment it is on the ground, I cannot say anything because if you see the developed country markets like USA I studied a lot of it, there, like players of Jackal Man Industries he is making 2.4 million ton of tubes, there 2.4 million tons, 1.3 million ton, so 50% is bigger success. So for India to develop how many years it will take, we do not know that some of peoples are doing very good job in this industry like Tata Steel is doing very well to develop this market, we are doing very well to develop this market, or if this is being joined with us, then everybody is, whole industry is beneficiary, and in that whichever is very competitive, we will focus on them and they will get more benefit, but for our tube industry this is very, very, I can say good signal for the future.

Rahul Agarwal: Sir you will be dealing with the government or with the contractor?

Sanjay Gupta: No we are dealing with the contractor but designs on the part of design we are dealing with the governments. Government has to first approve the designs then they give the contact to their contact and through biddings then the contractors give us the orders.

Anubhav Gupta: So Rahul, it is like telling the government to construct in a new way. Right now they may be constructing using cement and concrete or they may be constructing using conventional long steel products. This is the third technology what we are promoting is, doing the construction using our structural steel tube. So here are like two three channel partners who are involved one is the government or the developer who owns the projects then there are the project consultants who are the structural engineers and architects and then there is the contractor who is going to take the projects for the execution. So what we are doing is that we are reaching out to the government, to the developer then we are reaching out to their consultants and we are making them believe that if you switch to tubular construction you are going to save at least 10% to 20% on the project cost basis that encourages them to use tubular consumption. So all of this exercise we started in last few quarters and now that we are talking to a lot of private developers, lot of state government agencies, central government agencies. So you will see that over the next few quarters there is going to be a good order book that will build up and once there is clear demonstration of one, or two, three buildings then it will be like wildfire and we like to leverage it out very, very aggressively.

Rahul Agarwal: So the first milestone is basically the government approval which you are saying we have got in some places?

Anubhav Gupta: Yes, government approval comes when government consultant who can be a structural engineer or an architectural firm they also agree to it so first they agree then the government agrees and then yes once it is in the design then the EPC contractor has no authority to change that design then by default he has to build that building on tubes and the kind of sizes SKUs what are being imbibed that gives us like a good opportunity to have a line market share there.

Sanjay Gupta: Second thing also while India is the net exporter of steel, earlier years India is the net exporter of steel now India is a exporter of steel in the future this is also very helpful to India like China is withdrawing from the export market for market from the segment maybe, you will see that the exports from India, is growing larger and in the bigger sections we are getting very good response once our 500 square dia being started there we have lot of Canadian and USA people started getting in touch with us to take this material. So when we deliver the numbers then it will come to true there is a difference between the rich and that will differentiate that, but we are very hopeful to talk and play with this.

Rahul Agarwal: So that is another area then we need a detailed discussion later but in terms of just this quarter if I have to look at January, February whatever volume if you would have done a normal quarter let us say Q4 what kind of volume we could have touched?

Sanjay Gupta: We have almost close to 0.5 million ton.

Rahul Agarwal: We could have touched 500 you are saying?

Sanjay Gupta: Yes.

Rahul Agarwal: Great sir. Thanks and all the best.

Moderator: Thank you. The next question is from the line of Amar Maurya from AlfAccurate. Please go ahead.

Amar Maurya: Congratulations for a very good set of numbers. Firstly Sir just for the understanding if you can help me like you give the breakup of all the volumes so how do we calculate the value added like what all are included in the value-added portion?

Anubhav Gupta: Amar there is a clear slide.

Sanjay Gupta: Apollo Z, Apollo TriCoat, Apollo Galvanized, Apollo Structure and the General Structure.

Anubhav Gupta: So these are the products which are, so general structure is commoditized and anything apart from that is value-added where our margins are above 4000 per ton.

Amar Maurya: When we say that 60% is the value added we are basically mulling off the general structure and rest all we are considering it as the value added right?

Sanjay Gupta: Yes.

Amar Maurya: Sir secondly like in terms of the EBITDA per ton like this quarter also despite the lower volume we had been able to maintain our EBITDA per ton. So is it and this is again in the rising commodity pricing environment. So is it fair to assume that once the prices start tapering down your EBITDA per ton would improve significantly because your ability to probably pass on or to maintain the EBITDA would be higher?

Anubhav Gupta: Amar, if you look at our history, if you look at the last five year EBITDA per ton and you look at this steel price fluctuation there is no correlation you would find in EBITDA per ton and steel prices very little correlation. In FY2019 and 2020 steel prices were going up but we had a flat EBITDA per ton because we were expanding our capacity, there was negative operating leverage, we had built up our capacities and economy was not doing well so we had to do some of push sales. If that was the case and in 2019-2020 we could have demonstrated much better EBITDA per ton but we could not, so this demonstrates that there is very little correlation between the steel price fluctuation and our EBITDA per ton, and as our system is becoming more and more shockproof by as we are becoming more efficient, more effective and are keeping inventory levels low with the existing inventory of 150000, 160000 tons doing monthly volume of more than 160000, 170000 tons. So these are all the measures what we have been taking to make our system shockproof. So even historically you would not see any correlation between our EBITDA per ton and steel fluctuation.

Amar Maurya: I completely agree with that what I was trying to understand since the realization I mean your commodity prices had gone up significantly. So does this like for us for a buyer overall price is increasing does this limit you to pass or improve your profitability and given that once the commodity prices are declining you can probably fully pass on your profitability to the dealer and distributor I was trying to understand from that perspective?

Anubhav Gupta: Amar steel being 75%, 80% of the value in our product and forget APL Apollo you look at the Indian steel tube industry or you look at the global steel tube industry now can any player who is dependent on 70%, 80% of the total product value on single commodity if it goes a plus minus 5% can any player keep those margins onto his chest? No. Right so he has to immediately pass it on so this is the business model which every company whether in India or globally has been working on. So there is a clear path through within 10-12 days of any revision whether upward or downward and this is a trend which has been there for many, many years and not only in India but globally also.

Amar Maurya: Lastly Sir what would be the current utilization?

Deepak Goyal: Right now there is almost 60%, 65%.

Amar Maurya: Thank you sir.

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

Darshit Shah: Congratulations for such a fantastic result in FY2021. Sir most of the questions have been answered. So I just want one question on the merger, so Sir any deadline you would like to give some clarity when the merger probably would happen?

Sanjay Gupta: We are targeting by month of December but it also depends on the government authorities.

Darshit Shah: So you still said the record date has not been finalized right?

Sanjay Gupta: No that will be finalized in the last quarter maybe.

Darshit Shah: Thank you Sir and keep up the good work.

Moderator: Thank you. The next question is from the line of Raj Mehta from Raj Mehta Association. Please go ahead.

Raj Mehta: Sanjay Sir very big congratulations and you have delivered the excellent results. Sir my question is with respect to Apollo TriCoat. Apollo TriCoat we will have the capacity utilization at normal levels, but we have not catered to western part of India because most of our plants are catering to the eastern and south part. So going forward maybe we get the merger by December so how are you planning to cater to the places like Maharashtra or Pune or where there is a big residential real estate market so if that picks up our products will be more utilized in those markets?

Sanjay Gupta: Thank you Mr. Mehta first of all. Now after the merger before we have a lot of foundation between the both of the company but now we are free to put any facility anywhere in India in the eastern plant. So now we are planning to put up more the TriCoat facilities in Raipur from the Raipur we can capture deliver to all India market so we are focusing now into Raipur plant to create this type of facilities in to capture the other parts of India.

Raj Mehta: Sir but there will be a big difference in transportation if we cater through Raipur?

Sanjay Gupta: Yes, Raipur is nearby to the raw material so there will not be any big difference.

Raj Mehta: Apollo TriCoat revenue and profitability is how much as compared to APL Apollo's total consolidated profit and revenue what percentage at present?

Sanjay Gupta: At present it is contributing 15% to the EBITDA and 12% to the PAT.

Raj Mehta: Are you expecting this to be at much higher levels before the merger maybe for nine months this can go up to 20% on EBITDA level because our margin on TriCoat business is higher compared to your normal value added production in APL?

Sanjay Gupta: Raj, we have not done any separate workings, because we are working as a one company, so, we have not done separate workings for both the companies. So, right now we cannot answer this question. Apollo company is working on one margin.

Raj Mehta: No issue Sir. Thank you giving me the opportunity. From a retail investors, their utilization level that was the question and I am very happy.

Sanjay Gupta: Anytime you are most welcome boss.

Raj Mehta: I will give you a good news that I have touch based with your investor relations and he has been very polite and he answers very nicely when I ask questions through email and even through calls. It is very good to, Anubhav Sir, Anubhav Gupta is doing that, he is doing it very greatly Sir, just an appreciation.

Sanjay Gupta: When you look at our company, we feel great and it is grateful for us, we are grateful to you.

Raj Mehta: Thank you Sir. Thank you.

Moderator: Thank you. Ladies and gentlemen this was the last question for today. I would now like to hand the conference over to the management for closing comments.

Anubhav Gupta: Thanks Mallika, and thanks to IIFL team for hosting us for this call. Thanks to all the investors and analysts who joined us. Please be safe. Hopefully we will see you soon. Thank you so much.

Moderator: Thank you. On behalf of IIFL Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.