



“APL Apollo Limited Q2 FY-23 Post Result Conference Call”

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MODERATOR: **MR. SUMANT KUMAR – MOTILAL OSWAL FINANCIAL
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Moderator: Ladies and gentlemen, good day and welcome to APL Apollo Q2 FY23 Conference Call. As a reminder all participant lines will be in a 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 “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sumant Kumar. Thank you and over to you.

Sumant Kumar: Thank you. Good afternoon everyone and very warm welcome to APL Apollo Limited 2Q FY23 Post Results Earning Call hosted by Motilal Oswal Financial Services Limited. On the call today we have management team being represented by Mr. Sanjay Gupta – Chairman and Managing Director; Mr. Deepak Goyal – CFO; Mr. Arun Agarwal – Chief Operating Officer; Mr. Anubhav Gupta – Chief Strategy Officer will begin the call with key thoughts from the management team. Thereafter, we will open the floor for Q&A.

I would now like to request the management to share their perspective on the performance of the company. Thank you and over to you.

Anubhav Gupta: Thanks Sumant. And thanks, Mike. It’s a pleasure to be here and talk about our Q2 FY23 Results. So, the quarter which went by in terms of volume, it was pretty exceptional with all time high sales of 602,000 tonne of volume. We are glad to share that we almost hit our peak capacity in September month with the volume of 230,000 tonnes. And again this shows that the capacities what we had put up over the last two, three years they are near to the peak utilization levels. And this number is more important because the distributors were still under destocking mode as steel prices had not bottomed out. We believe prices shall plateau over the next two to three months and we only see restocking happening with distributors post Q3 December month.

There is some disappointment in terms of margins. As the EBITDA spreads were under pressure, it was basically because of three reasons what we see, one was the weak sales mix as the commoditized sales contributed 45% to the overall volume versus 35% to 40% what we have seen historically. The sales were important because the market had just opened up after the sharp correction in steel prices. So, we also wanted to gain market share and we went pretty aggressive on the sales and offered some extra seasonal discounts to our clients. And also if you see the contribution from Raipur has started in terms of volume, but in terms of margins in terms of profitability, we are just at the breakeven level. So, as the volume will start raising up from October, November month we’ll see the contribution in terms of EBITDA also coming up significantly.

Without Raipur, without new Raipur plant the EBITDA spreads were near about Rs.4000 per tonne. When we compare our margin performance and sales performance with other companies in the building material sector and value added businesses of steel companies. We believe our performance was pretty satisfactory. Our partnership with Shankara has proven to

be fruitful in the last six months, we finished the deal in the first quarter. And again, we are glad to share that the first half sales with Shankara has grown by 110% on Y-o-Y basis. This suggests that the ROI on that investment is pretty much on expected lines, and it will match our business ROC of +30%. The operating cash flows in the first half again were super strong with OCF forming 110% of the first half EBITDA. We could improve working capital slightly as the liquidated inventory as the sales volume were all time high 602000 tonnes. This operating cash flow 400 crores were utilized for Raipur CAPEX and some other CAPEX which we are incurring. And then there was dividend payment of around 100 crores that led to marginal increase in debt to 300 crores. But these debt levels will come down as Raipur CAPEX is near completion and the operating cash flows which will be generated they will help us reduce the debt over the next three to four months.

The Raipur plant is pretty much on track as you can see that over the last two, three quarters there has been an increase in the volume coming up but substantial increase we will start seeing from month of November, December and Q4 there should be pretty much all the lines will be commissioned and the plant will show its true colors from Q4 onwards and our whole team is working day and night to ensure that all the lines are commissioned on time and at the same time all the products are innovative there. So, the teams are also working to create the market for those products and the results whatever have come up they are pretty much encouraging.

Lastly, I would like to say that as we ride through this tough wave of global uncertainty and inflationary environment, our laser sharp focus remains on the innovation, market creation and ESG. We have ensured that most of our new products which are starting whether in Raipur or other plants in APL Apollo are 100% innovative and they are being launched in India or globally for the first time ever. So, our efforts towards market creation are at the same pace. So, that the volume ramp up from these new capacities can be pretty quick and fast. All in all, our long term volume target of 4 million tonne by FY25 remains intact, which suggests 30% volume CAGR from FY22 to FY25. And, this will be much higher than what the group has achieved over the last four, five years in terms of volume CAGR.

On ESG front, we're committed to reduce scope one and two emissions per tonne by 25% by 2030. And more than 50% of our power consumption will be met through renewable energy by 2030. So, our efforts on the ESG front are also encouraging and we continue to ensure that all the goals of the company are aligned with the ESG goals in the coming years. All these efforts towards ESG are in addition to 250,000 trees which we saved by manufacturing environmentally friendly products like Chokhats and window frames, et cetera. So, as a group, we are pretty much committed to ensure that our ESG goals are met in an aggressive manner. That's it from our side Mike, we can open the floor for Q&A.

Moderator:

Thank you. We will now begin the question-answer session. We take the first question from the line of Rahul Agarwal from InCred Capital. Please go ahead.

Rahul Agarwal: Just two questions, firstly on Raipur just wanted to know the status of capacity addition and ramp up, you alluded some bit of it in your commentary. If you could quantify what kind of sales, volume are we looking at in second half with more so for fourth quarter and will the entire 1.5 million tonne be ready by March?

Sanjay Gupta: Thanks, Rahul. Rahul our Raipur plant we are talking Q3 is almost we are going to close about 70 to 75000 tonnes and Q4 we are targeting for 1 lakh tonne. With some of our machines from China and there is no persons are allowed to come from China to India, so some bottlenecking is still we are waiting from the government should allow to give the Chinese to visa. So, we are not sure, maybe we delay by some one or two or three months. We are trying our level best to start with some by online process. Next year we are targeting in Raipur plant almost close to six to seven lakh tonne and next 23-24 we are targeting the target of 1 million tonne. And for going to 1.5 million tonne, we have some bottlenecking we have to order some machines, we are still waiting that we first we wrap up this 1 million tonne, then we go for the 1.5 million tonne.

Rahul Agarwal: Got it sir. And only one more question on sizing of HRCs. What the gap between primary and secondary scheme, the patra rights now how are they different from international pricing and any outlook you could provide what's really happening on the debt free market, that's all from my side. Thank you.

Sanjay Gupta: Rahul today the intentional market is close to with landed CFR Mumbai or Chennai is close to 540, 550 and Indian steel prices are close to 54, 55 and patra is still sitting on around 50,000. This is okay, this is not in our favor. And we are thinking if the people are saying in the international market, the price are bottom out because the coal prices are very high, so the cost of steel portion is very high. So, we are looking maybe there is a slight decrease in steel prices in India in the next one or two months and then the price settle down and maybe if the international market go up maybe there is no price for in India. So, we are in the middle of a situation in this time, what time you can save earliest product hike we can't comment and we can't forecast anything. So, the better way, we maintain ourselves very light. If it increases or decreases it should not impact us. So, we are trying to maintain us very light.

Rahul Agarwal: Got it sir. And last year one question for you, the discount and offers gain market share in 2Q, that should go up again in third and fourth quarter so, EBITDA per tonne should improve significantly is that understanding correct?

Sanjay Gupta: Rahul in EBITDA per tonne we are targeting for this thing, earlier our business plan is 22 to 23 lakh tonne of total volume. So, for the volume we are very sure that we will cross 22 lakh tonne. Now we are looking at this as a cakewalk for us. In the marine side maybe slightly, right now we are in the presser but we looking that we can maintain around the EBITDA margin of 5000 back on track. Earlier our aggressive plan is go to Rs. 6000 per ton. This year we are not looking that this is possible. This year, we are targeting into the second half if we make it the Rs.5000 per tonne EBITDA.

- Moderator:** Thank you. We have the next question from the line of Sujit Jain from ASK Investments. Please go ahead.
- Sujit Jain:** Anubhav you mentioned that Raipur cost came in. So, if I look at the OP bridge which you have given in the presentation slide #19, Raipur cost are at 10 crores, if I add that, divide that by 6.02 your volume, then that can add back only about Rs.120 a tonne in terms of OP whereas your commentary was at, because of those cost, x of those cost OP could have been at Rs.4000 a tonne?
- Anubhav Gupta:** So, Sujit if you see in quarter two Raipur the EBITDA has been shown at zero. In Q4, Q1 there was some operating profit but in Q2 as the plant and machineries are ramping up and commissioning, so because of higher labor costs, and obviously there was some inventory, which we have to keep as a plant is ramping up. So, there was some minor write-downs also on there. So, that's why it is at zero EBITDA level.
- Sujit Jain:** Maybe I will take this offline, and to Sanjay. If I heard it correctly, Raipur plant to contribute six to seven lakh tonnes in FY24 and about a million tonne in FY25. And then 1.5 million in FY26, is that correct?
- Sanjay Gupta:** Yes.
- Sujit Jain:** Okay. And Rs.5000 a tonne, OP per tonne on track this commentary is for a full year FY23?
- Sanjay Gupta:** No, for the second half.
- Sujit Jain:** For the second half Rs.5000 a tonne?
- Sanjay Gupta:** Yes. About maybe 200, Rs.300 a tonne minus or plus, we can't see right now exact amount, but we are looking that we can manage it around Rs.5000 a tonne.
- Anubhav Gupta:** So, Sujit in first half we did from Rs.4000 to Rs.4500, if you take two quarters separately. In second half we are targeting from Rs.4500 to Rs.5000 per tonne. So, for the full year the blended should be above Rs.4500.
- Sujit Jain:** Right. And this commentary Chinese people could not travel to India and visit the plant, what exactly we are taking in Raipur plant from China?
- Sanjay Gupta:** Our the 500 square feet is from China, mainly this will be our struggling and one of two small things we are struggling but this is not a big matter, but our 500 square feet is our main basket, we are aggressively waiting for this mill and due to Chinese are not coming to India. So, we are struggling to ramp up this mill.

- Sujit Jain:** Sure. And one more question in the initial days of selling this Raipur production, Q3, Q4 75,000 and 1 lakh tonnes. So, would that we centered on direct sales to large clients or this would be through distributors?
- Anubhav Gupta:** Through distributor and retailers mainly.
- Anubhav Gupta:** So, the channel will remain same, barring some projects which we get directly but 70%, 80% of sales will flow through the same existing sales channels.
- Sujit Jain:** Okay. And finally, APL Apollo Tricoat volumes now will go in light structure and Apollo's Z Rust-Proof structure. New segmentation that you give, right?
- Anubhav Gupta:** That's right.
- Sujit Jain:** It will not be mentioned separately?
- Anubhav Gupta:** That is right.
- Moderator:** Thank you. We have the next question from the line of Pallav Agarwal from Antique Stock Broking. Please go ahead.
- Pallav Agarwal:** Sir, I had a question on what are we planning as advertising and promotional expenses, since you are planning an aggressive increase in volumes. So, what is it currently as a percentage of sales, so what are we planning to spend going ahead?
- Anubhav Gupta:** So, Pallav right now it is around in the range of 8 to 10 crore per quarter. And this is still very low versus what we did in the year one of FY20 when we had launched the ad campaign when we did 50 crores. So, we've been able to efficiently rationalize the brand expenses from 50 crore to around 25 to 30 crore annual rains and the visibility is same because first year we started with bank and then second, third year we are taking help of more efficient and more cheaper medium like hover boarding or social media. So, for the time being we are okay with 30 crore kind of annual run rate and next year there could be slight increase as of course the Raipur products are coming online, the expenses to promote those products will be there. But then the volume uptake is also there, so on EBITDA per tonne basis it should be around Rs.200 per tonne maximum.
- Pallav Agarwal:** Sir just want to also understand given that the Raipur, the city will be coming out with products which are relatively new in the market, so how do you see this acceptability are you in your current interactions with builders or architects, how the traction or acceptability of these products, how do you feel that's going to play out?
- Anubhav Gupta:** So, Pallav we started this exercise already like eight, nine months ago. Obviously because of COVID and all there has been a delay in the Raipur capacity ramp up, but our earlier plans suggested that the plant should be very between like or by mid of 2022 calendar year. So, our

marketing plans we had started already last year and in Jan, Feb of this calendar year. And so there are like two, three types of promotions or market education what we are doing here one is, so we have identified the influencers who are going to promote our products. So, one influencer is the fabricator who will sell our products in retail, so that data we already had from last six, seven years because we were very aggressive in organizing fabricator meets and doing direct communication with them. So, we have reactivated that fabricator meetings on a large scale across India where we are our teams are on ground and we are meeting fabricators one-on-one they are doing cyber charcha kind of stuff where they are trying to assemble 20, 30 fabricators at one place and we are also doing mega fabricator meet where 100, 200 fabricators comes and we tell them about our product. So, one part is fabricator meet. The second part is architects and structural consultants who are more smart and more polished audience. So, there also we are doing one on one meets, we are organizing a lot of seminars, where we are trying to educate them about our product for example color coated tubes, thicker sheets, and heavy structural tubes, a lot of seminars it's all on our social media, our YouTube channel you can go and have a look that we would be doing at least one seminar, one exhibition per week, that's been the run rate for the last four, five months now. So, that way the promotional activities are going on. And then thirdly, our distributors and retailers there also we keep on meeting them and educating them about our products and innovative products. So, that activity is ongoing and that's why like Sanjay, just few second back said that we are eagerly waiting to start our 500 square mill, because we know that we have been able to create market for that product and the moment the mill start so we will have a lot of orders inflow coming in and we hope that the mill capacity gets booked too quickly.

Pallav Agarwal: Sure. Sir just a final question so, with this large diameter pipes will this cater more to the institutional segments, with the share of B2G or will that go up in our mix or we don't really expect that to happen?

Anubhav Gupta: Not really, because when we are creating the market of course we have to talk to the government agency who undertake the project or we talk to the contractors who are doing the project or we talk to the real estate developers who are doing the project, but then the sales happen through our distributors. The OEM business which currently is 5% of the total sales, I don't think it should go up significantly and anyway if there is any direct sales, whether B2G or B2B we are not going to compromise on the payment terms. You can you check with our clients like last financial year we executed this hospital project in Delhi and the payment terms were same which is on cash, payment firstly, I should deposit advance then we won't deliver even one tonne of pipe without money coming into our account. So, that model continues. The OEM sale I don't think it should go beyond 7%, 8% of total volume.

Moderator: Thank you. We have the next question from the line of Bharat Shah from ASK Investment. Please go ahead.

Bharat Shah: I heard of the conversation, but I still could not fully understand that what we were looking at almost about Rs.6000 a tonne will end up a 3850 there about, so what are the various sources

through which such a sharp reduction has occurred in the final number. If you can help in reconciling, then it will be easier to comprehend what has happened.

Sanjay Gupta: Bharat, this may not be one reason that why should this margin come down from 6000 which we are targeting to Rs.4000 tonne. One is our commodity part sold much which we wanted to sell less due to the volume we have to sell more. Number two Raipur plant we are targeting that in Q1 only it will settle down a lot. But it could not settle from where we were getting Rs.7000, Rs.8000 tonne EBITDA business which would have improved our business, that plant could not settle. Third reason was the clocking system so after that we had to do aggressive selling because the first week of April the steel prices are almost close to Rs.74000 tonne and we closed our price at 30th September Rs.54000 per tonne. So, the slide from 74,000 to 54,000 everybody want to destock the material. So, when we have to sell the material we have to push the material, these are the main three reasons to, 6000 is our vision this is not practical. We made a vision that we will do 6000, as a promoter level, as a Chairman level I can't take the easy target, if my target is achieved then I am not a promoters, I need to set a target which I should fail. So, we had set a hard target, then our Raipur plant got delayed. Our commodity product sale was more, some impact we faced from destocking. These are the four main reasons you can say which impacted our margin.

Bharat Shah: Sanjay you said three things, one was commodity shares, restocking and Raipur plant stability, which is the fourth one?

Sanjay Gupta: Fourth is our target, which we mad aggressive. We made the target aggressive target.

Bharat Shah: Okay. So, from Rs.6000 to Rs.3850 difference of Rs.2000 which element impact is it in what percentage. How much it is from destocking on an average per tonne?

Sanjay Gupta: You can say 50% is of destocking. And 25% is Raipur plant and 20%, 25% is my aggressive target.

Bharat Shah: So, 50% impact is of destocking?

Sanjay Gupta: Yes, because it has changed from 74 to 54 which is lifetime.

Bharat Shah: I understood that, 50% came from there, 25% we are considering the Raipur plant which ended up just being kind of breakeven. And rest is commodity or anything?

Sanjay Gupta: I kept that in aggressive target. Commodity have added in the 50% of destocking.

Bharat Shah: So, you are saying if this destocking wasn't there then also we would have got Rs.5000?

Sanjay Gupta: Yes, around Rs.53, Rs.5500.

Bharat Shah: Okay. So, currently the situation was till September.

- Sanjay Gupta:** If you will see it specifically. You would have seen that we have increased exports as well and we don't get any benefit in retail and branding. There also our margin got hampered, because our focus was to catch-up our volume, we can get back the volume I am not worried about the margin, one quarter here and there is fine I can pull it back, my market share is increased but if my margin goes down by 50 or so then also I am not worried about this, I can bring back my margin. If a 55, 60% shareholder would like to increase the margin so it's very easy to increase the margin.
- Bharat Shah:** So, right now the destocking and the steel price repeat movement was there so now can we say that picture is more normal now?
- Sanjay Gupta:** I think in Q3 this picture should be over.
- Bharat Shah:** It will last till Q3?
- Sanjay Gupta:** It is going on now.
- Bharat Shah:** So, in this quarter it should finish?
- Sanjay Gupta:** It will finish in this quarter but as Raipur has started so we have got support from it and October we have done well.
- Anubhav Gupta:** Impact will be low.
- Sanjay Gupta:** October impact is also low, earlier it was Rs.20 a kilo but now they are Rs.2 kilo, it's not Rs.15, Rs.20 kilo so it's impact obviously decreasing of price is very less now. It was a heavy impact before this.
- Bharat Shah:** Okay. If I have to read between the lines, then the Rs.5000 per tonne which you said for second half, you are being very careful there I guess?
- Sanjay Gupta:** Yes, when I say something I want to fulfill that and I am a bit scared about it.
- Bharat Shah:** It is unlike Sanjay.
- Sanjay Gupta:** I am talking on this call with a fear factor, I don't want to misguide anybody. So, I am scared a bit. This call I am talking slightly conservative.
- Bharat Shah:** So, if I have to summarize the destocking and inventory movements so majorly that factor is behind us after this quarter, and Raipur plant issue won't affect in this quarter?
- Sanjay Gupta:** Last month we have done 15000 tonne from Raipur, this month we are targeting 25000 tonnes and next month we are targeting 35000 tonnes. And January also we are targeting 50000 tonne at least.

- Bharat Shah:** Okay. So, there our under recovery of 30 would go off and we should normalizing then?
- Sanjay Gupta:** Yes. A lot of our expense is not capitalized in this as well. I believe in the cash profit, a lot of are on Apollo rolls and lot of things go from Apollo to there so it comes in our expenses so I said let it go in our expenses and don't go for capitalization.
- Bharat Shah:** And the commodity mix which was more, so their impact will also decline by this?
- Sanjay Gupta:** Yes, to complete the volume we don't have to sell the commodity, we will leave the market if needed. I am targeting at least +300 crore EBITDA in Q3 and Q4, we are targeting at least 20% growth. This is what you wanted to hear so I finally told that. 650 to 700 crore target we will have, I won't give up so easily. Without guidelines it was 1200 crore and my target was 1400 crore, still I am hopeful that I will cross my 1200 crore.
- Bharat Shah:** I understood the picture, there were some unusual circumstances.
- Sanjay Gupta:** You took off my sleep by giving me pressure. If I talk something then I have to try my level best to fulfill the things.
- Bharat Shah:** We have hopes on you so I am asking you.
- Sanjay Gupta:** I will try my level best to achieve that and I can't say whether it will be fulfilled or not but I will not leave any stones unturned.
- Bharat Shah:** That we know for sure. So, to summarize in this quarter due to unusual circumstances combination, which has taken us to kind of a result on PAT and EBITDA which is something very big in the past. We saw this number after a long time.
- Sanjay Gupta:** Yes, but you have to see the strength of the company that few years back if this time would have come then company's EBITDA could have been almost zero.
- Bharat Shah:** Yes, I agree to that, the change from 72 to 54 can lead the EBITDA being zero for normal company.
- Sanjay Gupta:** Yes, I can come to negative as well but we managed very well. If you will ask us then we have managed ourselves very well. I congratulate my team after seeing the numbers. The whole Board congratulated the team, because as per the steel scenario nobody expected to have such kind of numbers.
- Bharat Shah:** Your point is correct. If I just see the difference of the Rs.18, Rs20 difference on 6 lakh tonne on which the business took place in second quarter, if we take that number then impact can be catastrophic so I quite understand.

Sanjay Gupta: We will try to achieve what we said and your wishes too. I won't say this and that but I am very hopeful by type of machine we have put in the Raipur new plant and the work we have done in the other plant. I am very hopeful the results should come. Maybe at one quarter sooner or later.

Moderator: Thank you. We have the next question from the line of Pankaj from Kotak Mutual Fund. Please go ahead.

Pankaj: My question was more on cash flow. So, when I see the first half consolidated cash flow, significant release from the trade receivables and you have reduce your trade receivable by about 250 odd crores, roughly a swing compared to last year of what almost 280 to 290 crores in one single half. Just wanted one understanding that how such a large number has been achieved once and second, what is a little surprising is that, despite of huge generation of cash flow compared to the last half and after CAPEX, we see that non-current borrowings and current borrowings have gone up by 400 crore and that has been then reinvested in fixed deposits. So, can you just help us understand the cash flow part that why 400 crores have been raised on borrowings again despite of higher operating cash flow. Thank you.

Sanjay Gupta: Thank you Pankaj. What I understood your question, there is two main question one about the debtor receivable and one about cash flow. The bank that is increased so firstly the debtor reduction this is due to started by the company from us a SG Finserve earlier was **(Inaudible) 38:19** Securities. So, the debtors to whom banks couldn't pay money that money SG Finserve took. SG Finserve is dealing with APL dealer also almost 200 crore. So, it's main reason is to reduce the debtor reduction. And number two the bank borrowing, you will see that our bank borrowing has reduced and it has not increased. What we have done is, you can say we are constructive or whatever. ABPL Raipur we put 600 crore equity from APL, in the ABPL Raipur now we left ABPL that now APL is not going to give you any funds, you take your own funds from the banks and now you perform. So, in ABPL we gave 600 crore and on that we got CAPEX or working capital so because of that you will see the bank borrowing in APL and whatever we have free cash we have in APL we are making FD of it. ABPL is different, we can't comment anything with ABPL at this stage it's quite early because after one and a half month later the plant is starting which is equivalent to almost old plant. So, if you will calculate numbers then all the numbers are mismatch, you have to see the old APL and the ABPL could see after two quarters.

Pankaj: No, so if I am seeing console cash flow then the 400 crore borrowing increase.

Deepak Goyal: Pankaj the net debt has increased only by 75 crore, because there is an increase in cap and bank balance by 300 crore. So, that's why we said that we have three entities one is Apollo Metlife there is a cash surplus of around 250 crore. So, we have put that in FD, APL Apollo if the cash surplus is around 50 or 100 odd crore so we have put that in FD. ABPL we have borrowing and we have cash surplus also. So, that's why you can see increase in borrowing.

And secondly we get some arbitrage on export and interest is mentioned there so we do borrowing here and put it in FDR.

- Sanjay Gupta:** Because our exporter rate of interest is less and FDR rate of interest is high.
- Deepak Goyal:** Almost 3.5% arbitrage.
- Deepak Goyal:** 3.5% we gain more interest.
- Moderator:** Thank you. We have the next question from the line of Lavania from UBS. Please go ahead.
- Lavania:** Sir, just wanted to check on what is the current export share and what it was and the base quarter last year?
- Deepak Goyal:** So, Lavania it has been quite stable below 5% that's the contribution we get from exports. Now that some of our value added products will start in Raipur that proportion will rise, but right now it's just below 5%.
- Lavania:** Okay. Even in the current quarter export share is at similar levels?
- Deepak Goyal:** Yes.
- Lavania:** Okay. So, maybe on the heavy segments that's you are seeing participating or interest from private hospitals I just wanted to check on that because the Max company has highlighted on structural steel usage for hospitals, I just wanted to know your view on how you are looking at private hospitals also for this segment?
- Anubhav Gupta:** So, Lavania it's not just about private hospitals, see there are two types of influences here. One is the government, second is a private owner or developer. If you look at government today, they want fast hospital today, they want faster schools, they want faster educational buildings, they want faster transportation whether it is metro station or railway station or airports, then they want faster housing projects. Now coming to the private side, whether it's a hospital chain, hotel chain, real estate developer if they are able to finish construction within two years versus three years it boosts their IRRs. So, interest is from hospital yes and second whether you take up hotels, you take up data centers, you take up warehouses, you take a manufacturing facilities, you take up shopping malls, you take up commercial buildings, office complexes, we are working on all types of projects.
- Lavania:** Okay. So, can you help us understand what's the progress in any of this like everything is in still talk or discussion stage?
- Anubhav Gupta:** No, so after Delhi hospitals we have got four, five confirmation across categories like #A grade warehouse, an office building, one more hospital. And there are three, four more projects, so four, five confirmations have already come, a school building also for that matter.

So, that work will start over the next one to two months for these projects and right now there is pipeline of more than 45 projects which could put up the steel tube demand of 50,000 tonnes. So, we are working aggressively on these o these projects and as and when the projects start, that pipeline will keep on rising and you will see more and more similar building across India.

Lavania: Okay, got it. And if I may ask one more question. So, for the new projects like four or five which sir mentioned that you've got confirmation, so the current capacity which is there will that be sufficient or the delay which we are facing related to **(Inaudible) 45:00** will that impact these projects so just wanted to understand, thank you.

Anubhav Gupta: So, we already have a mill which is running in the old APL plant. So, that is sufficient to feed any upcoming demand, three, four project which will start over the next one, two months and maybe by December worst case last week of December we will have our 500 square ready, So, that will feed any kind of demand we are not worried about that.

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

Aditya Velkar: So, I have one question on the balance sheet on slide #28. So, if you see the inventories are still at a higher level of level 1100 crores from 850 crores in FY22. So, does that mean that in Q3 there will be further liquidation of these inventories and we will see kind of repeat of what has happened in Q2 or is it a raw material inventory or more of a finished goods inventory and if it is a finished goods inventory, then again in Q3 we will see more offloading of that?

Anubhav Gupta: See, inventory if you see in number of days so you compare FY22 and September 23, so in days it is like 24 versus 27, so it's pretty much the same in terms of value it has gone up of course because of the rising sales volume starting of the Raipur plant where we have to keep some inventories like we are projecting 75,000 tonne of volume in Q3. So, we need to have some readily raw material there. So, that's why it is and, like majority of this inventory is raw material we keep very less or low finished good inventory at our warehouses.

Sanjay Gupta: Understood. And secondly on CAPEX, so with this Raipur plant now being 80% complete. So, what's the guidance in FY24, will the CAPEX level go down further?

Anubhav Gupta: So, for next three years until FY25, we think we're going to spend around 500 crores maximum which will be residual to CAPEX then we are putting up one plant in Dubai, we might do Calcutta also and some maintenance CAPEX. So, all put together, cumulative second half FY23, FY24, FY25 in two and a half years it should be 500 crores cumulative. And this will take up our capacity beyond 4.5 million tonnes.

Moderator: Thank you. We have the next question from the line of Kunal from Centrum Broking. Please go ahead.

Kunal: Sir my question is that, you mentioned the major reason for the fall in EBITDA margin is due to the fall in steel prices. But during the quarter if we see the movement of the steel prices, so it has been quite stable from June to July, July to August and August to September, despite and also like our inventory days is also very stable throughout the period.

Anubhav Gupta: Sorry to interrupt, we didn't say that EBITDA per tonne declined because of fall in steel prices. Our EBITDA per tonne declined because destocking with our distributors, they were in the destocking mode because steel prices are falling so they were not ready to lift materials. Normally our distributors work on 20 to 30 days of inventory at their warehouses, but when the prices are falling, they go into destocking mode and they work on 15, 20 days inventory. So, they restock, when they destock we have to offer some discounts to our distributors that's why our EBITDA per tonne declined. Not because there were inventory write down on our books.

Kunal: Okay. So, as we believe that the destocking will further continue in quarter three. So, how the discount moment do you see for quarter three?

Anubhav Gupta: So, obviously, Q3 we don't expect steel prices to fall Rs.15,000 per tonne as they did in Q2, or Rs.10,000 as we did in Q2. So, there should be a marginal drop and obviously we will lift the discounting which we have been given. So, it should boost our margins in Q3 and Q4.

Moderator: Thank you. We have the next question from the line of Akshay from Canara Robeco Mutual Fund. Please go ahead.

Akshay: So, just if I understood it correctly, you are writing for Q3 to be around 70, 75,000 tonnes from Raipur and Q4 you're talking about 1 lakh tonnes. So, that amounts to say 1.75 lakh tonnes and then FY24, you're talking about six to seven lakh tonnes from Raipur and then FY25 you're talking about 1 million tonne and in FY26 1.5 million tonne. So, then how does the math work, how do we achieve 4 million tonne in FY25, like is there a mistake in my numbers or how is it or maybe if you can reiterate your guidance like what is the volume expectations over the next two, three years and what part of it will come from Raipur and what is the EBITDA per tonne expectation from your side so if you can clarify this that will be helpful. Thank you.

Anubhav Gupta: If you see in the Q1 numbers, we done the volume from APL without Raipur 5,85,000 tonnes you multiply 5.85 into is close to 24 lakh tonne. And with the support of demand and supply some bottlenecking we also working on. So, this capacity go to 2.82, 2.9 million tonnes, we have done 2,20,000 tonne in September month. Around 2.8 APL will reach and 1 million tonne will be Raipur, this is close to 3.8 or 3.7, 3.6 you can say any number and Dubai will come before that, our Calcutta plant will come before that so this both together plant we have no worry to take the volume to 4 million tonne.

Akshay: Okay. So, you mean that on the existing plant, you are doing some debottlenecking exercise so which will increase the capacity?

- Anubhav Gupta:** Next two, three lakh tonnes not more.
- Akshay:** Okay, understood sir. And your EBITDA per tonne guidance like in 23, 24, 25 what is the expectations?
- Anubhav Gupta:** If you ask me then my target is always high. I'm seeing at least minimum Rs.5000 tonne EBITDA for APL, Rs.7000 to Rs.8000 tonne EBITDA for ABPL and what type of capacity we are putting in Dubai as there is a bigger size demand is very good in Dubai or incentive are sending the material from India and selling there. If we see the current scenario so my EBITDA is more than Rs.10,000 tonne in Dubai. Calcutta again there is a community close to Rs.5000 tonne EBITDA. So, all put together, I'm very sure that Rs.6000 EBITDA I can take to 2025.
- Moderator:** Thank you. We have the next question from the line of Pallav Agarwal from Antique Stock Broking. Please go ahead.
- Pallav Agarwal:** Sir just had a clarification on a minority interest. So, I understand that the merger has happened but I don't see any dilution in the share capital. So, can we just clarify what will be the dilution and when that will come in?
- Anubhav Gupta:** Today, we have allocate the share to the new shareholders of the Apollo Tricoat, from the next quarter impact will become.
- Pallav Agarwal:** And can you just quantify how much, whatever percentage of dilution?
- Anubhav Gupta:** 10% dilution.
- Moderator:** Thank you. We have the next question from the line of Rahul Agarwal from InCred Capital. Please go ahead.
- Rahul Agarwal:** Sanjay, one question on the Delhi pollution. Last time, we had some issue with material dispatches, this time around how is that behaving is there any government regulation again, could we see some negative surprises here in third quarter?
- Sanjay Gupta:** I can't understand Rahul what you want to want to ask?
- Rahul Agarwal:** In Delhi due to pollution the transport of material had some issues for APL in history. I was asking, is that very serious this time around?
- Sanjay Gupta:** Transportation is not a problem, but frankly we in the North region in the NCR demand is sluggish because all the customer activities is on hold. So, there is slightly 20%, 25% demand is through the NCR, system for the whole system which is very negligible for us.

- Rahul Agarwal:** Okay. So, whatever number we're talking about, that is adjusted for this thing, we should not see any negative surprise in this respect?
- Sanjay Gupta:** For the volume there is no surprise, but for the margins we are struggling and we want to fulfill our target.
- Rahul Agarwal:** Got it sir. And one clarification on the receivable thing, you explained some 250 crore shift because of some trade channels and I couldn't really understand?
- Sanjay Gupta:** Correct answer is not shifted, our that of 200 crores our banks are not giving them general financing or other facilities. So, our finance company is giving some facilities almost close to Rs.200 odd crore right now I don't have the exact number. We are now taking the facility from SG Finserve.
- Anubhav Gupta:** So, your client at the team of SG Finserve is going and meeting the field traders in the market including distributors who maybe doing work of Apollo or not, and if they find they are offering good they are going for it and in that situation some of the receivables from Apollo got funded from SG Finserve.
- Rahul Agarwal:** Got it. This should also help increase volumes, isn't it because some business which we would have got because of low credit that will come back?
- Sanjay Gupta:** Sure, there is no doubt. This is clear impacting the month of September. September we have done our highest volume, at 2,30,000 tonne, not to project it to 3240. So, precisely 2,38,000 tonne we have done in the month of September.
- Rahul Agarwal:** Got it sir. And this SG Finserve supply chain finance is completely non-recourse to APL is it?
- Anubhav Gupta:** Without any recourse. This is totally different body, they work differently, they evaluate all the customers and then they give the finance.
- Anubhav Gupta:** So, just to put on record, there is no guarantee from APL Apollo, there is no recourse, there is no risk on APL Apollo, SG Finserve is a totally separate entity being owned separately, managed separately with zero default rates through APL Apollo.
- Moderator:** Thank you. We have the next question from the line of Rahul Jain from Systematix. Please go ahead.
- Rahul Jain:** Just want to check sir, we are growing our volume size 25% CAGR you mentioned, the 16 market definitely is people are looking at 62% kind of volume growth over the long term. So, where do you think you are getting that extra market share from and what are your thoughts on doing any kind of inorganic because we've not really looked at that side. So, can you just clarify with these two things?

Anubhav Gupta: So, Rahul coming to the second part of the question first, on inorganic acquisition or opportunity the market has been under stress for last two, three years, there have been a lot of mills who have shut down and there are a lot of deals which come on the table. So, we keep on evaluating but, nothing material today which we can talk about. And first part of the question was about how do we improve the market share, right that was the question.

Rahul Jain: Yes, exactly because our growth rates are really outstanding in terms of how the market is growing. And my only concern from that point is that, does it also lead to a challenge in terms of keeping your margins where they are, because if you're offering such higher quantity obviously, basic math says that you will have to make your product a lot more attractive right. So, that is I just want to bridge these two things.

Anubhav Gupta: So, see for market share which reflects 55% for us, you need to break our portfolio into three segments. One is commoditized, second value added, third is super value added. In super value added which are like complete innovative products where APL has the lead for next four, five years because no other competitor is in the competition there we have 100% market share, because we innovated the product, we launched the product and we control 100% of the market. So, that portfolio phase today is 20% or 25%, then comes the value added products where APL Apollo innovated three, four, five years ago and then we created the market, we enjoyed the market share, but then the competitors came into picture and they also came into the competition. So, that portfolio will be say 40% today. Where margins will be slightly lower than super value and the market share will be say for 60%, 70% for those products. Then the third category which is commoditized which today is like 35%, 40% of the portfolio, here the market share will be 10% to 20% only, because we started mass manufacturing of square, rectangular tubes like 15 years ago and then the competitors came in, they also switched from round circular tubes to square rectangular tube. And now that segment is monetized. So, there our market share is 10% to 20%. So, how we will achieve 30% volume CAGR and still improve the EBITDA spread by growing our portfolio in the super value-added segment and value-added segment.

Rahul Jain: So, from a new product that you're developing, so you're very positive on the kind of trajectory and the customer acceptance and you will be able to get the margins higher commodity levels.

Anubhav Gupta: That's how we have grown in last 10 years, it's not just next three-year story, look at our 10 year story that's how we have grown our spreads are highest in the sector because of the value addition and super value addition and innovation.

Moderator: Thank you. We have the next question from the line of Abhishek Ghosh from DSP. Please go ahead.

Abhishek Ghosh: Sir just in terms of the EBITDA per tonne if you see on a sequential basis, one of the major drops has coming in about the general structures, but rest of the. So, is the discounting more

into that particular commodity product for how should one read it because there you have done almost something like Rs.1400 of EBITDA per tonne. So, is that section which was more impacted by the destocking elements?

Anubhav Gupta: Yes, because that is also the more competitive product, Abhishek. Where I just said that our market share is 10% to 20% so there we have to go most aggressive, and that's where we offer extra sweeteners to our distributors.

Abhishek Ghosh: Okay. And how is the differential with scrap today in terms of because that is very important in determining the margins in this section. So, how should one look at the difference with this scrap today?

Anubhav Gupta: So, it is back to the historic long term average which is like Rs.5 to Rs.7 per kilo. That's where we are today.

Abhishek Ghosh: Okay. And just one last question in terms of the, if I look at the volumes in the rust proof structures, that volume seems to have seen a major decline of almost about 13% on a Y-o-Y basis, sequentially also it is down so is it a conscious decision as a strategy or how should one look at it, just your thoughts?

Anubhav Gupta: So, Abhishek this is another point which you highlighted, team is highlighting that Rust-Proof structure is our value-added product and the sales were weak in Q2 of FY23 because of floods and monsoon in Southern coastal markets, which is the main market for this product. So, there is nothing conscious decision like that as the markets have opened up after the monsoon and flood, et cetera. You will see the uptick in volume in Q3 and Q4.

Abhishek Ghosh: Okay. So, in terms of the general structure, which has increased to almost something like 46% of total volumes in 2Q and which in certain quarters goes down to as low as 33, 35. What should this number be post Raipur comes in, how should one look at this number?

Anubhav Gupta: Eventually, like on 4.2, 4.3 million tonne capacities this number should be less than 25% on consistent basis.

Moderator: Thank you. That was the last question. I now hand it over to the management for closing comments.

Anubhav Gupta: Thanks, Mike. Thanks, Motilal team for hosting us for our quarterly call. See you next time. Thank you very much. Bye.

Moderator: Thank you. On behalf of Motilal Oswal Financial Services Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.