APL Apollo Tubes Limited

Q3 FY20 Earning Conference Call Transcript

January 27, 2020

Moderator: Ladies and gentlemen, good day and welcome to the APL Apollo Tubes Limited's Earning Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note this conference is being recorded. I would now like to hand the conference over to Mr. Anoop Poojari from CDR India. Thank you and over to you Mr. Poojari.

Anoop Poojari: Thank you. Good morning, everyone and thank you for joining us on APL Apollo Tubes Limited's Q3 & 9M FY2020 Results Conference Call. We have with us Mr. Arun Agarwal – Chief Operating Officer; Mr. Deepak Goyal -- Chief Financial Officer and Mr. Anubhav Gupta – Chief Strategy Officer of the company.

We will begin the call with the Opening Remarks from the Management, following which we have the forum open for an Interactive Question-and-Answer Session.

Before we start, I would like to point out that some statements made in today's call maybe forward-looking and a disclaimer to this effect has been included in the earnings presentation shared with you earlier. I would now like to invite Mr. Deepak Goyal to make his opening remarks.

Deepak Goyal: Thank you, Anoop. A very good morning everyone. I welcome all of you to the APL Apollo's earnings conference call to discuss the operating and financial results for the quarter and nine months ended on 31st December 2019. I will cover the key developments and financials and then we will open the forum for the questions-and-answers.

We have reported a healthy operating and financial performance during the quarter, driven by steady revival in the demand conditions and stabilizing macro. Our consolidated volume during the quarter stood strong at 4.80 lakh MTPA as compared to 3.14 lakh MTPA in the corresponding period last year. Excluding Tricoat, our volume growth was at 38% to 4.33 lakh MTPA. We believe a combination of factors assist us in delivering this growth which includes improving product mix, branding, presence in new locations, restocking at the dealer network and general normalization of overall environment and market sentiment. Overall, we are on track to deliver on our guidance of over 20% volume growth in FY20.

On the financial front, excluding Apollo Tricoat, EBITDA during Q3 FY20 was healthy at Rs.137 crore. In 9MFY20, EBITDA stood at Rs.326 crore, higher by 24% year-on-year. EBITDA per ton during the quarter stood at Rs. 3,157. On a year-on-year and quarter-on-quarter basis, EBITDA per ton has improved. We are striving to take it over to a better level by further improving the product mix and enabling a steady increase in the demand premium that APL Apollo commands in the market. In addition, we are sustainably looking at reporting better volumes, going forward. This should enable us to register stronger EBITDA per ton. Our Hyderabad facility also showcased better volumes during the quarter and we are now producing healthy volumes every month, in sync with our internal target. This has helped us to improve operating efficiency in the plant.

On a consolidated basis, EBITDA in Q3 FY20 came at Rs. 165 crore and in 9MFY20 EBITDA stood at Rs.371 crore. EBITDA per ton during the quarter stood at Rs. 3,440. In line with our branding strategy, the company has increased spends towards the brand development and marketing activities during the quarter. This resulted in higher other expenses at Rs. 154 crore. Profit after tax for the quarter stood at Rs. 74 crore, higher as compared to the Rs.13 crore in Q3 FY19. Similarly in 9M FY20, net profit after tax excluding non-controlling interest stood at Rs. 181 crore. We would like to highlight here that the PAT performance is also better given that we have now moved to lower tax rate as compared to the full tax rate earlier. Further, there are some deferred tax reversals, which also helps the profitability. From a longer-term perspective, increasing contribution from the higher margin value added branded products and better utilization will continue to positively impact our profitability.

On the balance sheet front, I am happy to say that during the quarter we reduced our total debt by around Rs.100 crore to Rs.700 crore as at 31st December 2019, excluding Apollo Tricoat, from Rs.800 crore at 30th September 2019. On consolidated basis, our debt-equity improved to 2.6x as compared to 2.9x as on 31st March 2019. Improving market sentiment and increasing liquidity in the industry during the quarter, resulted in over Rs. 100 crore collections for the company. This led to net working capital cycle improving to 21-days, with the debtor days at 22-days, inventory at 29-days and creditor at 30-days. Going forward, the company expects cash flow to improve driven by pick up in the utilization levels at existing capacities, lower Capex requirement for FY21, expansion of profit margin driven by increasing contribution from value added products. The company is actively targeting over 80%-85% capacity utilization levels on a sustainable basis. And we are currently focusing on improving cash flow generation and speedy debt reduction over the next few quarters. We are also focusing on strengthening our large diameter pipe segment, ranging from 150x150 mm to 300x300 mm. We believe as a pioneer for the large diameter hollow section in India, we have successfully created demand for these products in the market. The segment still has untapped potential in India and in the export markets. To successfully address this, we have established a separate business unit to focus on the branding, marketing and sales aspects for these products. A new team will also focus on creating product awareness among the institutional buyers for a big project. In sync with this strategy, the company appointed Mr. PK Singh as Executive Director of the company. With over three decades of experience in the steel industry, Mr. Singh is the ex-Chairman of Steel Authority of India and has had several other leadership positions across organizations in India.

The company also signed MoU with the IIT Rourkee during the quarter to provide a platform for research and training facility to both the IIT Rourkee and APL Apollo. The MoU also aims at fostering innovative designs and new product development initiatives as per the changing requirements of the future.

During the quarter, the promoter entity concluded the further infusion of Rs 75 crore in APL Apollo via the convertible warrants issued to them in 2019. The promoter entity were allotted 5,00,000 equity shares pursuant to the 5,00,000 Fully Convertible Warrants issued at a price of Rs. 2,000 per share. This, would be in addition to the Rs. 97 crore infusion in April 2019. The total capital infusion of Rs. 172 crore reiterates the promoter group's commitment towards the business and confidence in its future growth outlook.

Looking forward, as the demand environment and macros further improve, we anticipate our sales momentum to remain healthy.

On this note, we would now request the moderator to open the forum for any questions or suggestions that you may have. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Rahul Agarwal from ICICI Prudential Life Insurance. Please go ahead.

Rahul Agarwal: Sir, my first question is basically relating to the demand environment. Given that we have seen such healthy volume growth, if you could just give us a sense of where this demand is coming from, be it geography-wise or industry-wise?

Anubhav Gupta: Rahul, if you look at our sales volume pick up, 65% of our products are sold in the building material category which are housing and commercial building and 35% is from infrastructure and some industrial applications. So, in the last three months, where we have seen such a high growth, it is a mix and match of all the three segments which have contributed to this demand, the housing has done well, the commercial buildings have done well and also the infrastructure. Over and above, we have focused on some of the value added products which have grown much faster than the overall growth for the quarter. We have been able to take market share away from some of the small organized players and the unorganized players also. Of course the branding which we started last year has started to benefit us in a big way and we hope that we could have the sustainable growth going forward.

Rahul Agarwal: Is there any aspect of government ordering which added to the growth this quarter?

Anubhav Gupta: Very limited, because 90% of our sales are directed through our distribution channel. The government ordering would be very limited in this. So this is all the trade channel sales.

Rahul Agarwal: How many distributors we have added this quarter and what is the count now?

Anubhav Gupta: We are above 800 distributors. The addition of distributors is a regular exercise. We do add new distributors, at the same time we consolidate our old distribution list. So definitely we would have added 20, 30 new distributors in the last four to five months.

Rahul Agarwal: Just ex of Tricoat, what would be our EBITDA per ton now?

Anubhav Gupta: Ex of Tricoat, EBITDA per ton is around Rs. 3,150.

Rahul Agarwal: What did Tricoat end at this quarter?

Anubhav Gupta: Tricoat was at Rs. 6,100 per ton. On consol basis, we did around Rs. 3,500 per ton.

Rahul Agarwal: So Tricoat, from these levels of margins, is there further room for improvement or should we take this as pretty much the base one?

Anubhav Gupta: I think conservatively you can assume that. But one point to note is that Tricoat right now is not running at full utilization. So next two years when the realization levels go up, there could be slight improvement in the margin space.

Rahul Agarwal: Tricoat, what is the utilization you are running at?

Anubhav Gupta: We did around 48,000 tonnes in the December quarter when the full capacity of the company is 2.5 lakh tonnes.

Moderator: Thank you. The next question is from the line of Anand Bhavnani from Unifi Capital. Please go ahead.

Anand Bhavnani: I have three questions; one is you did some commercial paper issuance at some discount to the face value. If you can give me what was the yield to maturity debt that we offer? And then second question is on the EBITDA per ton ex Tricoat. You mentioned it is Rs. 3,150 per ton for the quarter. So there was some increase in steel prices in the quarter. So can you give us a sense of how much of this Rs. 3150 per ton would have come from some increase like Rs.50 or Rs.25, whatever number you can give? And thirdly, if I see your other expenses, they have increased quite a bit. So while the gross margin has improved, the other expenses have also taken away a lot of improvement in the gross margin. So is it that you are passing on benefits through some distributor rebates or something which is leading to higher other expenses?

Deepak Goyal: In the commercial paper front, this time we have issued the commercial paper at the rate of 6.60% per annum and it will be matured at March end.

Anand Bhavnani: But I think we issued it at less than face value; So yield to maturity would be close to ~Rs. 8. Am I correct in my understanding?

Deepak Goyal: No, it is 6.6%

Anand Bhavnani: But was it issued at face value?

Deepak Goyal: We have issued at a face value. They have given the money after the discount at 6.6% per annum. And to your third question relating to the other expenses, it increased due to some change in the trade policy, earlier the policy was at the branch and plant level, now we have changed to the 'FOR' basis. That is why our trade expenses has increased in this quarter and from the last quarter some impact has been there and also branding expenses have increased in this quarter.

Anand Bhavnani: So in terms of branding expenses, can you give me the comparison?

Deepak Goyal: Compare it on year-on-year, in Q3 FY19 it is around Rs.1 crore and in Q3 FY20, it is around Rs.17 crore and in Q2 FY20, it is around Rs.10 crore.

Anubhav Gupta: So by Rs.7 crore higher Q-o-Q, right?

Deepak Goyal: Yes, as compared to quarter-on-quarter.

Anand Bhavnani: If I got your freight policy changes, let me just rehash and let me know if I understand correct. So earlier when you used to sell, you used to sell at a price ex-factory levels. Now you sell at a price which includes the freight and delivered to the customer. So it is a gross price that you sell at. Do I understand correct?

Deepak Goyal: Yes, your understanding is absolutely right.

Anand Bhavnani: And lastly on the inventory gains, there will be some inventory gains in the Rs. 3,150 EBITDA per ton. So if you can give a sense of how much it was?

Anubhav Gupta: If you look at the steel prices, at the start of 1st October and you compare it with 31st December, steel prices have remained neutral. So this Rs.3150 EBITDA per ton spread which we have earned excluding Tricoat, it does not include any inventory gain or loss.

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

Rahul Jain: You have done fantastic volumes at 408,000 MT. Even this quarter, you had extended rains and also some kind of disturbances in the last 10-days of the quarter specifically in Delhi and the northern side of the country which included UP also. So, was there some impact on volumes because of these two things and accordingly can we see better volumes coming in the next quarter compared to the third quarter?

Anubhav Gupta: Rahul, if we look at the three months, October to December, October month was similar to what we had achieved in the second quarter. The volume sales ramp up started from November onwards. So last two months were quite good and yes, going forward, we may have better volume growth than what we have seen in this quarter.

Rahul Jain: So absolute volumes of fourth quarter can be better than the third quarter?

Anubhav Gupta: We would not like to comment on this but our endeavor is to achieve better.

Rahul Jain: What was the approximate tonnage in terms of inventory as on quarter-end and also at what rate this inventory is being valued?

Arun Agarwal: Quarter ended December, the inventory was around 1.5 lakh tonnes and there was no movement in absolute prices from 1st October to December. So, technically the stock got valued at the base price only.

Rahul Jain: And current prices would be a bit higher than your 31st December rate?

Arun Agarwal: Yes.

Rahul Jain: So, what exactly is the reason why our overall realization per ton in the current quarter has been lesser than the previous quarter in spite of the fact that product mix or volumes some of which are higher priced products which includes GP, GI and Apollo Tricoat are higher as compared to Q2?

Arun Agarwal: October volumes were similar to Q2. So we had only two months in the quarter wherein demand and other factors improved. So November it started improving, so only 1.5-months it has improved and that is the improvement in results.

Rahul Jain: Sir, in the last quarter, you had mentioned about reduction on the interest cost in the second half of the current year. But we are not seeing that, the interest cost is almost flattish or a bit higher than the previous quarter. You also mentioned about debt being reduced by almost Rs.100 crore. So if you could give us some kind of color on what kind of debt level do you expect by March end and do we expect an interest rate reduction in the next two, three quarters to come?

Anubhav Gupta: Rahul, if you look at the debt levels, definitely they have come off. We would not like to give any number for March 2020, but our two main parameters are debt-to-EBITDA and interest coverage ratio. You would see that they have been constantly improving quarter-on-quarter and Q4 FY20 also you would see that both debt-to-EBITDA and interest coverage ratio would improve.

Rahul Jain: A small observation sir. In your presentation, you have mentioned number of plants at 10 versus 11 in the Q2 and in one page in the presentation it was mentioned 11 plants. So can I say that 10 would be an error?

Arun Agarwal: No, 10 is not an error actually. There has been shifting of plants at Ghaziabad which has moved to Plot No.22 from A2. So, on a consol basis, we have now 10 plants running instead of 11 earlier.

Moderator: Thank you. The next question is from the line of Ashish Upganlawar from Investec Capital. Please go ahead.

Ashish Upganlawar: Sir, since we do not have a separate call for Apollo Tricoat and this business is kind of in an early mode basically, so can you just give us some data on how the demand trends are picking, how the different products are doing, what is your expectation going forward over the next two years and how this can shape up?

Anubhav Gupta: If you look at Tricoat which we started in March of 2019, there are seven products which we are working in the portfolio. So, all the seven products were being produced in India for the first time. They were all new concepts and what we have seen in last seven, eight months is that the ramp up of these products or the acceptance of these products has been better than even what we thought. So, some of the products like Chaukhat, Signature, Elegant and Plank, these four products have ramped up quite well. These are all products with new applications which the market, the consumer, our channel partners have liked a lot and these four products are running at 70%-80% utilization already. Now the focus is on launch of the next three products which are Tricoat, Scaff and Alpha. This we should launch in next two quarters. And like I said, that Tricoat the utilization level for the first quarter is already at 70%-80% and for the whole company, it is at 48,000 tonnes in the third quarter with capacity of 2.5 lakh tonnes. So for the next two years, our internal target is to take this utilization level at 90%- 100%.

Ashish Upganlawar: So any softer aspects that you could tell us because we are still not able to gauge the potential as the business develops - the early feelers on what the dealers are experiencing on the ground or what the ultimate consumers are kind of seeing as a differential to the existing products that they might be using, so any qualitative stuff would help us in terms of gauging the potential of these products?

Anubhav Gupta: On this call, I can talk about like two products which can give you a fair idea. So, one is Chaukhat. Right now on monthly basis we are producing 4,000 tonnes of Apollo Chaukhat. This translates into 2 lakhs Chaukhats (door frames) per month. So it is a full replacement for a wooden product which is environment-friendly, fire resistant, and cheaper in cost and termite free. So the end consumer, the household owner, they are already attracted towards this product and that is why the demand is good. So how we look at this market is that in our small two bedroom flats with 1700 sq.ft. of area, there are at least 7, 8 doors. So India is a huge market and Chaukhat right now majority of the sales are coming only from the North region. So as we go pan India, the demand should continue to remain strong. Other product is a Signature. It is a designer pipe which is being used in homes, in offices for the furniture and other small tube applications.

Ashish Upganlawar: Somewhere in the presentation, you have mentioned 40% market share. I could not read what that meant and is that APL Apollo Tubes market share in the ERW? And then what is the kind of outlook because with that market share you probably may not be able to grow at the pace that you have been growing, is the reading correct or I am absolutely wrong on these counts?

Anubhav Gupta: How we have segregated our market is the structural steel tubing market, which in India is 4 million tonnes . Our run rate looking at the 9M, is around 1.6, 1.7 million tonnes . So we have calculated market on this basis. We are not into water transportation category. Hardly our sales are into that channel. So it does not make sense to include the whole ERW tube market to calculate our market share.

Ashish Upganlawar: But do you still think that the run rate for growth for Apollo is pretty long still and growth rate may not come off significantly?

Anubhav Gupta: I think double digit volume growth and superior EBITDA growth are possible in the near future.

Moderator: Thank you. The next question is from the line of Dhruv Jain from Ambit Capital. Please go ahead.

Dhruv Jain: I just had one or two questions: Sir, you mentioned that your higher share of large Diameter pipes materially contributed to your EBITDA margin expanding. So sir if you could just quantify what would be the share of large Diameter pipes in Q3 on YoY and QoQ basis?

Anubhav Gupta: Dhruv, the large Diameter pipes are above 150x150 mm. For the whole industry, this would not be more than 3%-4% of the overall volume. But for us it is like 7%, 8%. The idea is to grow this to 15%-20% in next three-four years. For this we have to create market, we have to make architects, engineers, developers aware about the benefits of using steel tube versus PVC or other structures. So this campaign we would work on and we expect this contribution to grow significantly in the next two, three years.

Dhruv Jain: In terms of EBITDA, this would contribute higher. So what would be the EBITDA number?

Anubhav Gupta: The EBITDA spreads are like 2 times higher than what we get on the blended basis.

Dhruv Jain: And if we look at capex, you have not announced any significant Capex while you have significant capacity yet to be utilized, but if you sustain the current momentum, you would need capex at some point. So any thoughts there?

Anubhav Gupta: The first thing first is that as an internal policy, we want to keep capex spends at 20%-25% of the EBITDA on annualized basis. Secondly, like we did 4.8 lakh tonnes in third quarter. The annualized run rate is 19 lakh tonnes and our capacity is 24-25 lakh tonnes. So we are still 15%-20% away from the 100% utilization. So I think for next 12-months, we can be slow on the capex spends and if there is actual pull from the market, if the volume growth is higher than the double digit, then we may have to go ahead with some capex spends, but it would not be more than 20% of the EBITDA at any given point of time.

Moderator: Thank you. The next question is from the line of Bhavesh Chauhan from IDBI Capital. Please go ahead.

Bhavesh Chauhan: Just on the capex front, now that for the next 12-months we do not have any major Capex. Should we assume that our debt level should come down, so we will have maybe increase in dividend but probably by the end of FY21, we should have Rs.150-200 crore debt lower?

Anubhav Gupta: If we look at FY20 how it is panning out despite such high capex spends, two acquisitions which we made with volume growth of 35% in the first nine months, we have been able to reduce it. So you can already appreciate the kind of operating cash flows which our business has been generating. So in simple words, if there Capex intensity is low, if there is no acquisition, debt level should come down.

Bhavesh Chauhan: On volume front, can we expect maybe 14%, 15% volume growth for FY21 or is it too early to comment?

Anubhav Gupta: Like I said, we are looking at double digit volume growth and superior EBITDA growth.

Moderator: Thank you. The next question is from the line of Urvil Bhatt from India Infoline. Please go ahead.

Urvil Bhatt: Just some follow ups on Capex. So, we had guided for Rs.200 crore in FY20. How is the run rate and what is the guidance for Q4 and FY21? And at what stage would we look at further expansion or acquisition, because you might be going to a drawing board sometimes in FY21 because around that time you will be reaching almost 90% utilization. And also wanted to get a sense on how the Jan volumes are so far? So just wanted to understand whether Q3 was largely restocking or there is some actual recovery in on-ground demand? And also if you can give some sense on advertising and branding expenses going forward? This quarter we did Rs.17 crore. So what would be the guidance going forward?

Anubhav Gupta: On the Capex front for FY20, we have already spent maybe more than 80% of the total outlay. So Q4 would be minimal. Secondly, Capex guidance for FY21-22, like I said, we are still 12-months to 15-months away from utilizing the 100% capacity on annual basis. If there is natural pull from the market if macro factors do play a positive role and help us grow our volume at higher rate, we may have to think of capex. That being said, we have a large land parcel in Tricoat which we have already bought. So putting one or two mills would not cost us much. There could be some capex going forward towards the high diameter tubes that is towards the value added products but we are still on the drawing board and we need to see that we have sustainable, consistent performance, such as what we saw in Q3. It gets repeated for next two, three quarters and then our debt levels will be low. And at any given point of time, we would not like to spend 20%, 25% of EBITDA towards Capex. So we will stick to that.

Urvil Bhatt: On the volume, are you seeing very good Jan or very good start to Q4 or it is a bit tapered down from November, December level? I am talking about the ground level demand.

Arun Agarwal: Jan ground level demand is still robust and the current trend shows that this will continue at least for the next two quarters.

Urvil Bhatt: Some comments on the ad-expenses going forward?

Anubhav Gupta: In Q3, they appeared high because Q2 expenses were low. We will stick to our Rs.40-50 crore annual spending for FY'20 and we are getting encouraging response from branding and we are already seeing this in our numbers. Now, we may decide to spend similar amounts or maybe slightly lower amount in FY21.

Moderator: Thank you. The next question is from the line of Saurabh Patwa from HDFC Mutual Fund. Please go ahead.

Saurabh Patwa: Your realization in Tricoat is very similar to your historical realization in Apollo Z and Apollo Build, but EBITDA per ton is significantly higher. So any particular reason for that though I would believe since you are selling it to the consumer, so that would have been inbuilt in realization itself?

Anubhav Gupta: Saurabh, the Tricoat series is not exactly same what you see in Apollo Z or Apollo Build. There is a more value and that is why the spreads are slightly higher there. Those are not the exact similar products.

Saurabh Patwa: But your realization is similar. So I would assume that gross margins would be significantly higher. Correct me if I am wrong?

Anubhav Gupta: Yes, that is right. And also APL Apollo would be selling Apollo Z, Apollo Build in all the four markets, right. So we may have a premium in some markets, in some markets we may not have the premium. So that is why there will be some difference in the margins between the two products.

Saurabh Patwa: And this Apollo Standard volume decline is in line with the strategy as they are lower margin products, I mean, the share in the total volume, used to be like 25% a few years back?

Arun Agarwal: That is a low margin product and it is not in our focus.

Moderator: Thank you. The next question is from the line of Amber Singhania from Asian Market Securities. Please go ahead.

Amber Singhania: Just few things; wanted to understand, one, till last year we used to give scraps, coils and others volume separately which is not there in last three quarters. So is it part of the current volumes?

Anubhav Gupta: No, that is not the part of the manufactured volume that comes in other operating income.

Amber Singhania: How much is the volume if you can share for the nine months?

Deepak Goyal: On an average, you can take it as 5% of the sales volume.

Amber Singhania: Secondly, can you share the current cash and bank balance overall?

Anubhav Gupta: We have given debt figures in the presentation and beyond that we can take it offline.

Amber Singhania: Why I wanted to understand like we have Rs.75 crore of infusion from promoter plus we have very good cash flow in this quarter. Despite that our debt repayment is only to the tune of Rs.100 crore and Capex is also fairly low as you mentioned. So just wanted to understand is the cash balance is pretty high as of now or where exactly the cash is getting utilized on that part?

Anubhav Gupta: The cash is fully invested in the working capital and in the Capex. There would not be much difference between the gross debt and net debt.

Amber Singhania: Nine months tax rate is 10.3% as of now. So for the full year basis what will be the guidance on that part?

Anubhav Gupta: You are getting this 10% because of the skewness in Q2 where we had the credit when every company adjusts as per the new tax norms. So FY20, we should be paying 25%.

Amber Singhania: On the DFT side, how are we seeing the overall panning out of DFT, now three years since we rolled out, where exactly do we see the margins EBITDA per ton getting stabilized on that part, what kind of further scope of the margin expansion is there in this particular segment, if you can give some color on that?

Anubhav Gupta: We launched this product two years ago. It has ramped up quite well. There is good acceptance in the market because of the superior quality, because of the sharpness in edges and the customized sizes which we have been able to provide to our customers. So as now, we command a very large market share in this category, we have started to charge premium from our clients and probably in next few quarters you will see we are able to attract more premium in the DFT product category.

Amber Singhania: EBITDA per ton guidance on overall basis would be around Rs.3,500 for next year?

Anubhav Gupta: So next year, our guidance is double digit volume growth and superior EBITDA growth

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

Vikash Singh: I just wanted to understand on the inventory loss or the gain part. You said that there is none. But if I look at the HRC prices basically you keep roughly one month of the inventory. Then the average price should have been significantly lower for this quarter as well as what we have seen in some of the steel companies results. So just wanted to understand have we built up a significantly higher inventory in the last quarter or why there is no difference could be seen in this quarter?

Arun Agarwal: We said there is no inventory gain or loss in the current quarter. October saw a decline of Rs.1,500 per ton; November saw an increase of Rs.500 per ton and December was Rs.1,000 per ton. So a net-to-net basis, there was no increase or decrease during the quarter.

Vikash Singh: Would we expect some kind of inventory gains going forward since the prices have ramped up significantly? What price increases we have taken so far since December?

Arun Agarwal: Whatever price increase is there in our input prices we will normally pass it on to the consumers. There may be a time lag but it is passed on to the consumer.

Vikash Singh: Last one year we have acquired a couple of assets. So ex of those assets, what is our like-to-like volume growth for this quarter?

Anubhav Gupta: For Q3, the like-to-like volume growth is 32%.

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

Rohan Gupta: Sir, one question on is rising steel prices. So we have seen historically the scrap realization generally remains close to Rs.27,000 to 28,000 per ton. The moment, the steel prices go up above 40,000 so we will start seeing the immense pressure from the unorganized market. But do you see that something is changed in a current scenario or that still remains a threat with the rising steel prices?

Arun Agarwal: You are absolutely right; scrap prices move only in accordance with the secondary steel prices. They have got nothing to do with primary steel prices movement. So, in the recent past, secondary steel prices have also moved in the positive direction. It is a daily basis phenomenon; everyday prices are different.

Rohan Gupta: You are saying that the scrap prices in the market have also gone up?

Arun Agarwal: Yes, scrap prices are related with the secondary steel prices movement. In the current scenario, even secondary steel prices have moved.

Rohan Gupta: But sir this has been a general scenario because if scrap realization even though it is linked with the secondary steel prices, we have seen that they generally do not go beyond Rs.27,000-Rs.28,000 and then this unorganized market which starts coming back in a very big way

Arun Agarwal: Absolute numbers do not define anything actually. If you see 27,000, 28,000 lower range maybe Rs. 80 or 90 also. These are subjective thing. It will change every day or every month or every quarter. It is a very wide range.

Rohan Gupta: So in general do you see that the unorganized market has been constantly losing the market and that is where we have been marking such a strong volume growth?

Arun Agarwal: I think this phenomenon is across industry.

Rohan Gupta: The move from unorganized to organized?

Arun Agarwal: Yes.

Rohan Gupta: Unfortunately, we fail to see that in many other industries but yes, definitely it is working in your industry. Second is on this brand expense you mentioned that this year you are looking at roughly Rs.40-50 crore spending but you also mentioned quickly that next year you are looking at a lower amount. Did I hear you correctly?

Arun Agarwal: What we said is it would not be higher than that, it would be same or slightly lower because now we know that which all categories we have to focus, we tried two, three attempts last year and we know which categories have performed well for us, so we want to focus spending on those two, three categories.

Rohan Gupta: I travel to UP across the roads, I saw a great amount of visibility of your board and hoarding. Just was wondering in UP, you are running any campaign, or it is nationwide phenomena for a great visibility across the roads?

Arun Agarwal: It is a nationwide campaign. But as a part of our branding strategy, wherever we do, we have some focused campaign also.

Rohan Gupta: Were you running any special campaign in UP because I saw great visibility there, not sure about the markets?

Arun Agarwal: Not particularly U.P.. In other regions also, we have done similar thing. But when I say that we have done our campaign as a national part, we have done everywhere and at certain areas wherein we have some strategic plan, we have done focused and with greater depth.

Moderator: Thank you. The next question is from the line of Pratik Singhania from Sageone Investment. Please go ahead.

Pratik Singhania: My question is pertaining to the average inventory that a dealer, distributor generally stocks. So what is the inventory level that he would be having on a normal season and what is the current restocking that he would have done because of which when the prices go up, he would be buying more than what actually in a normal scenario he would be doing just to get some bit of inventory gain, so I want to get your sense on that?

Arun Agarwal: Normally, our dealer has stock for 16-20-days of his monthly sales. And any price movement, he has the flexibility to switch over those five to seven days of inventory. If he reduces beyond that he will not be able to service his customer and if the price is increased, he would not be short of working capital.

Pratik Singhania: So because the prices have gone up, so do you think that he would be only at say 20, 21-days or it would be much higher say 30, 35-days of inventory?

Arun Agarwal: Normally, if you take it on an average, it would be short of working capital to increase their inventory beyond that even if they want to do.

Pratik Singhania: So basically if the prices stabilizes at a particular level, then this 25 or whatever excess inventory that he is having, he might reduce that further to the other normal level of say 15, 16-days what you mentioned?

Arun Agarwal: Fifteen days is the minimum inventory. Below which, he cannot work. So these minor tinkering is a regular phenomenon that a dealer does at his own wisdom.

Moderator: Thank you. The next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: I wanted to get a sense on EBITDA per ton for the quarter. I think excluding Tricoat, you have done say even Rs. 3,157 per ton. And if we look at in this quarter, we haven't had any impact of inventory loss or profit. Despite increasing ad spends plus you are focusing more on higher value added product, we seem to have been below our average EBITDA per ton of around Rs. 3400-Rs. 3500 per ton which you have done before without any impact of inventory loss or gain, just wanted to get a sense on why we reported lower EBITDA per ton during the quarter and how do we see it going forward?

Arun Agarwal: As we said that October was as bad as Q2. So only normal demand started picking up and the market sentiments improved from November onwards. So we got only half of the quarter wherein we had our better EBITDA margins. On an average out basis, it is Rs. 3,150 per ton.

Ankit Gupta: Do you see we going back to Rs. 3,400-Rs. 3,500 EBITDA per ton given the kind of demand we are seeing? And I am not even factoring the impact of inventory gain on this because of increasing steel prices.

Anubhav Gupta: That is a fair assumption to make.

Ankit Gupta: Wanted to get a sense on how much are the acceptances as on December 31st in our balance sheet or you can give us the data of gross debt plus acceptances as on 31st December 2019 and how much was that amount as on 31st December, 2019?

Anubhav Gupta: Can we take this offline?

Ankit Gupta: Sure. Just wanted to get a sense whether the trend is also any similar to our gross debt decline that we have seen of Rs.100 crore?

Anubhav Gupta: It is in similar trend on a broader basis. You can calculate 30-days inventory, 30-days debtors, and 30-days creditors. So net-net we are like 25, 30-days of working capital cycle.

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

Dhaval Shah: My question is on receivables. We have seen a good improvement compared to FY19. So what this improvement is driven by – is it largely to do with the channel financing what we have been doing? And in terms of the government receivables, what is the situation?

Anubhav Gupta: If you look at our collection which have improved significantly in the last few quarters or probably a year now is because of channel financing is playing a small role here, of course. But I think the broader point here is that APL Apollo now commands 40%, 50% market share in the structural tubing category. So if any distributor who needs to have a full range of structural tubing, he has to have APL Apollo as a brand in his godown. So we are able to command better payment terms with our distributors and which has helped us bring down our overall collection days.

Dhaval Shah: So working capital at 28 days versus 34 days for the last entire year, the reduction is driven by which component?

Anubhav Gupta: This is collection and obviously higher or better inventory management as well.

Dhaval Shah: And on the receivables from the government side, how is the payment terms? I believe government is back in the market with large orders for this 'Water for All' scheme and also for the other infra. Any thoughts on that?

Arun Agarwal: We do not have any exposure directly to the government.

Dhaval Shah: Via contract?

Arun Agarwal: Via intermediaries. We normally ensure 17-days to government.

Dhaval Shah: Second question is past two years you have been building brands and trying to strengthen your B2C connect. Any plans to increase your exposure on the B2C side by having visible presence with the stores, any thoughts on that given more offerings are increasing towards your building material category, so any plans to be on the B2C completely?

Anubhav Gupta: So we may not want to do it directly at the first go. We are talking to some of our distributors who are willing to have APL Apollo experience centers in respective cities. So probably we can follow that model first and if it works then we can think of having our own experience centers but in the beginning we will like to go through our distributors who are willing to do these set-ups.

Dhaval Shah: Any inorganic plans?

Anubhav Gupta: No.

Moderator: Thank you. The next question is from the line of Shailee Parekh from Prabhudas Lilladher. Please go ahead.

Shailee Parekh: Globally, we have seen that a lot of steel manufacturers often tend to forward integrate into manufacturing pipes. Do you see that kind of a scenario play out in India or do you see any kind of a pertinent threat something of that kind happening here?

Anubhav Gupta: We are not seeing any such practice being followed by steel producers in India. Globally also, I mean, if you look at the large tubular companies, they are not the steel manufacturers or steel producers, number one. Secondly, steel is used in so many wide applications. Why only structural tubing, they could go into precision tube, automotive tube, stainless steel, API pipes. All these categories are better margins than what we are making in structural tubes today. So for a steel producer, probably who are already making 15,000 per ton EBITDA kind of spread, they would like to do more value add into other applications. Globally I can name four, five steel tube producers which do not belong to any steel manufacturing group.

Shailee Parekh: So you have not heard of any steel manufacturer in India wanting to set up a capacity or to do a similar category that you are in?

Arun Agarwal: Tata Steel already has, Bhushan Power also has a small tubing unit, then JSW as well. So, this has been the structure for many years.

Shailee Parekh: I heard vaguely that there is a certain group that intends to sort of foray into this segment. Because it could tip the scale and I was just wondering if you all have heard of it.

Anubhav Gupta: No, we have not. Competition is always welcome. They might help us expand the market. So structural tubing market in India like I said is 4 million tonnes on a steel consumption of 90 million tonnes. So it is only 4%,-5% of the overall steel consumption. Globally, this averages 10%. So if India doubles its steel consumption in next 10-years and the structural tubing as a percentage of market grows to 10% from 4%, we are looking at 4x size the market today. We welcome the competition if they help us grow the market.

Moderator: Thank you. The next question is from the line of Ankit Gor from Systematix Shares. Please go ahead.

Ankit Gor: I have a few questions: We saw improvement in our EBITDA per ton. Would you be able to quantify trend wise? Is this contribution coming from DFT or probably CRFH mill or any logistics cost savings coming in from Shankara plant, so does these three factors also price in, how much that would be?

Anubhav Gupta: Ankit, the best way to look is our presentation where we have given the product wise EBITDA generated. So you would see that our value added products like Apollo Z, Apollo Build and Apollo Structure which has contributed to the growth, they are better margin and that is what is driving the margin improvement.

Ankit Gor: How about CRFH mill?

Anubhav Gupta: That is very new, Ankit. Yes, it has started to contribute, but very little. So probably next in the 12-months when the volume ramps up you will see the benefits coming out in a major way.

Ankit Gor: You have these mills in how many locations and do we expect to expand across plants or how it is?

Arun Agarwal: It is at two locations as of now; north and south.

Ankit Gor: Any major logistics saving coming in from Shankara plant or is that also yet to come?

Arun Agarwal: It is negligible. We have certain plants in south and Hyderabad is also closely located.

Ankit Gor: Particularly that plant is at what capacity utilization now, 2 lakh tonnes capacity?

Arun Agarwal: We are doing around close to 10,000 tonnes per month.

Ankit Gor: Secondly, with regards to large Diameter pipe, how big is the India market overall, if you can just give some insight about it?

Arun Agarwal: It is the fastest growing segment in the structural tubing industry. And globally all the developed nations the market is quite large or say 25-30% of the structural tubing industry, wherein in India it is still at 5%-7%. So there is a great scope of improvement going forward.

Ankit Gor: But if we see tonnage wise, does it come under structural tubing or completely that comes under the 9- 10 million tonnes of overall yard in the pipe market, how do you segregate this?

Anubhav Gupta: This is very much part of the structural tubing. High diameter tubes you will only require to make buildings, to make sky crappers, to make bridges, to make railway bridges.

Ankit Gor: So this large Diameter would be how much of that number?

Anubhav Gupta: Less than 5%; for India it will be like 3%, 4%, not even 5%.

Ankit Gor: With regards to other expenses, after accounting in the change in trade policy and higher branding expenses, what could be the quarter run rate, can we expect this Rs.150 crore should be the quarterly run rate or how do you see that?

Anubhav Gupta: One is that is linked to volume and you will see that our EBITDA growth is superior to the volume growth. I think that is how you should look at the company's guidance.

Ankit Gor: Last call we were talking about some royalty or some arrangement with Tricoat since mostly same distributor is selling our Tricoat product. Did we come down to some conclusion in terms of what sort of royalty payment or some arrangement in terms of royalty or some commission or how it is?

Anubhav Gupta: Tricoat is APL Apollo's baby right now. We hold 51%. We treat this company like fully consolidated. If you see there is a line-by-line consolidation. So we are not talking about any such arrangement with Tricoat.

Ankit Gor: Mostly, the distributors are 80% common in between APL Apollo and Tricoat. Can we assume that way?

Anubhav Gupta: I think it will be like 50% to 60%.

Ankit Gor: And remaining 30% to 40% which we have developed over the months?

Anubhav Gupta: Right, remaining 30%, 40% would be quite new.

Ankit Gor: As you are speaking, the majority of our volume must be from the existing APL Apollo, just to clarify that?

Anubhav Gupta: Yes, 50% to 60% from APL distributors.

Moderator: Thank you. The next question is from the line of Dipan Mehta from Elixir Equities. Please go ahead.

Dipan Mehta: Any thoughts on merger of Apollo Tricoat into the company considering the similar products maybe you can get better synergy and even creating value for minority shareholders of APL Apollo?

Anubhav Gupta: Tricoat has ramped up quite well in last three, four quarters. The ramp up has been better than our expectations also. APL Apollo owns 51% in Tricoat that this is a fact. On future course of action, we would not like to comment right now.

Dipan Mehta: Are you considering at some point of time of a merger?

Anubhav Gupta: Cannot comment now.

Moderator: Thank you. The next question is from the line of Ronak Vora from AUM Advisors. Please go ahead.

Ronak Vora: Can we go above 100% utilization currently?

Anubhav Gupta: How we are looking at is that we did 4.8 lakh tonnes in December quarter. If we annualize it we reach at 19 lakh tonnes which is still lower than the rated capacity of 25 lakh tonnes. I think depending on the size, because we have 1100 SKUs, it will be fair to assume that we can operate at 90, 95% at some point of time but if we keep on making only one product, then yes, we can hit 100% utilization but not with the SKUs which we are targeting at.

Moderator: Thank you. The next question is from the line of Arpit Shah from Stallion Asset Management. Please go ahead.

Arpit Shah: I just wanted to understand what was the cash flow from operations for nine months and for H1 because there was a difference of about Rs.40, Rs.50 crore, since we had a really good quarter and our working capital cycle was actually down. For nine months, it was Rs.259 crore and for H1, it was Rs.305 crore. What was the difference? Why was a reduction?

Anubhav Gupta: The line-by-line consolidation of Tricoat because for Tricoat, this is the first year. So we start from year (-1). So any addition is all negative impact on the cash flows

Arpit Shah: What will be the comparable figure for H1 FY20 and for nine months FY20?

Anubhav Gupta: We will take this number out. Meanwhile moderator, can you put another question and then we can come back when we have the answer?

Moderator: Sure sir. The next question is from the line of Kumar Saumya from Systematix Shares. Please go ahead.

Kumar Saumya: I have the question regarding the realization across the products, i.e. hollow section, black round pipe, GP and GI so could you please give those realizations for the quarter?

Anubhav Gupta: We have given this in our presentation. You may refer to slide #16.

Moderator: Thank you. The next question is from the line of Ashish Upganlawar from Investec Capital. Please go ahead.

Ashish Upganlawar: Sir just wanted to ask, in Apollo Tricoat, we have mentioned that the working capital days is about 20-days. So is that all or that does not take into account the other parts of working capital except for the core working capital?

Anubhav Gupta: Yes, this is core working capital. If you include everything it is around 28-days.

Ashish Upganlawar: So should we assume that that would be the normal working capital for this business as such?

Anubhav Gupta: Thirty-days, that is right.

Ashish Upganlawar: Sir, on the other participant's question on merging Tricoat with the parent company, this product basket is entirely different and it operates probably very differently. So is it fair to assume that you will be treating it as a different entity because that is very important from a shareholder or Tricoat point of view?

Anubhav Gupta: The company is different, it is a separate product or different than APL Apollo and it is our baby, we own 51%, this is a structure, no comments on acquisition, merger, I do not think it makes any sense to talk today.

Ashish Upganlawar: Yes, because there would be a thought process of keeping it separate or combined which will define the roadmap

Anubhav Gupta: Right now there is no internal thought process.

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

Anubhav Gupta: Before that, we would like to address the question on the cash flow. Excluding Tricoat, so for the September quarter, the operating cash flow was around Rs.300 crore and December also, it was around the similar levels, around Rs.300 crore. We had good cash profit but there is slight decrease in the creditors and we paid some advance money to the steel producers to buy raw material. That is it and thank you all for the time for standing by. For anything, you can reach us offline.

Moderator: Thank you very much. On behalf of APL Apollo Tubes Limited, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.

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