"Apollo Tubes 4QFY20 Earnings Conference Call"

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MODERATOR: **MR. DHRUV JAIN, AMBIT CAPITAL**

Moderator: Ladies and gentlemen good day and welcome to the APL Apollo Tubes Limited 4QFY20 Post-Results Analysts Conference Call hosted by Ambit Capital Private Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Dhruv Jain of Ambit Capital. Thank you and over to you sir.

Dhruv Jain Thank you. Welcome to the APL Apollo 4QFY20 earnings call. We have with us the entire management of APL Apollo Tubes here today for their earnings call. Over to you sir for your opening remarks.

Anubhav Gupta: Thanks Dhruv. Good afternoon everyone. So from APL Apollo Tube we are four of us, Mr. Sanjay Gupta – the CMD, Mr. Arun Agarwal – the COO, Mr. Deepak Goyal – the CFO and myself Anubhav Gupta.

So, first of all we would like to apologize for rescheduling this call which was planned last week. Actually in view of certain operational challenges in completion of the audit process due to the lock down and other issues caused by COVID-19 outbreak we had to postpone the board meeting and so for the call as well.

This call we would like to discuss two main things, number one is our 4QFY20 performance and number two the 1QFY21 performance which we released this morning on the exchanges. So if you look at the FY20 results, there are 4-5 key highlights which I would like to discuss. So, in general there was 22% sales volume growth which came from all the four product categories for APL Apollo Tubes. Our EBITDA growth was 23% at the group level; despite the softer steel prices our EBITDA spread was pretty much stable. This shows that the company is moving away from the fluctuation sops which come in the form of steel prices. Our net profit growth was 60% which was aided by stronger EBITDA, lower interest cost and of course benefit from the lower taxation. RoE for the company jumped to 21% from 20% last year and this is one big satisfaction at the group level which we got because over the years we have always maintained (+) 20% ROE. Our ROCE also improved marginally to 21% from low 20, so that is also important that our target ROCE which is (+) 25% we moved towards that.

Next is big improvement in our working capital cycle. The overall net working capital cycle days reduced to 20 days from 28, again we worked really hard to achieve this number. Over the last 2-3 years if you see our working capital days have been improving year-on-year and this year there was a substantial improvement. This was on the back of better collection, the low inventory and lower filters as well.

For the full year we spent ₹450 crores towards the organic capex and two acquisitions which was Shankara, number one and number two Apollo TriCoat. Despite ₹450 crores CAPEX and investments we could reduce our debt marginally by ₹26 crores. This was because of the strong operating cash flow which was to the tune of ₹510 crores versus ₹360 crores. So this is the most heartening number for us and that the company has been able to generate the strong operating cash flow and as the CAPEX intensity goes down we shall reduce our debt with great intensity. Last year we also kick started our branding exercise. We spent almost ₹50 crores for the full-year and we are very satisfied with the way the campaign went. Obviously due to Corona Virus there has been a speed breaker. But last year our market share gains, our sales volume growth, our premiumisation, this all suggest that the branding campaign has been successful and once the things normalize we will definitely want to go back to the same intensity with which we started last year.

We also released 1QFY21 numbers. So if you look at the sales ramp-up in the June quarter, it has been very strong. We have achieved almost 60% of volume which we had done in Q4 last year and 1QFY20. So the team has worked really hard at our plants, at our sales to achieve this number. We were the first company in structural tubes to start our facilities from 22nd April and by the first week of May all our 10 plants were up and running, so hats-off to our production and operations team which during the crisis they started our plants so quickly and efficiently and we got major benefit over the competition because we were up and ready. Our tubes are already available in the market, so we lead the competition strongly and definitely where market share is much higher than 40% which we achieved last year. Hopefully these market share gains will continue as things stabilize further.

Also you would see that we have done great work towards the debt reduction which is around ₹375 crores to ₹380 crores. The primary reason for this is very efficient debtor management and inventory management as when the crisis started the main message from the Chairman was that we need to work on five things. So the whole team worked vigorously on achieving those five goals, #1 was that we have to have much lighter balance sheet when we come out of the crisis, so that journey has already begun. #2 was that we need to cut down our fixed costs which were nonessential in the system. There were three main fixed costs for us, number one was employee cost, number two was interest, number three was the branding. So we rationalized costs at all three parameters. #3 was to ramp up the volume once the market opens or once the plants start the production. Again hats-off to our sales team without traveling they could achieve the numbers which we have already seen. #4 was the profitability that in the current situation when the demand will be stressful we need not impact our gross margins to the extent given that April was zero sales, so we need to maintain the superior profitability also in the system. And #5 was the CAPEX budget, before COVID we had 2 years CAPEX program which obviously now we are redrawing for next 2 years. So idea is that without straining on cash flow whatever is required to achieve long-term sustainable growth and to keep on growing our volumes in the value-added product category we should do minimum CAPEX what is required. So these five points helped us to achieve numbers which we are seeing today and hopefully we will come out much stronger than before in this crisis.

Regarding the guidance for this year, it's very tough as everyday things are changing. So our focus is that our market share should be higher than 40% what we achieved last year irrespective of whatever the structural steel tube industry achieves. Last year it was 4.0 million tonnes and we did volume of 1.7 million tonnes which was 40% market share. This year difficult to predict what the 4.0 million tonnes will be but what we are working towards is that we increase our market share beyond 40% and in first quarter of FY21. We are 100% sure that our market share is much higher than last year.

Lastly update on the small Sebi order which asked our promoter entity not to participate in the market for 2 years. This is pertaining to a small personal investment which promoters had done in 2008, 12 years back. So we are disappointed with this order as there was no wrongdoing. We are in talks with our lawyers who will advice us that how do we take it forward.

So with these updates I would like to open the floor for the Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Utsav Mehta from Edelweiss Asset Management.

Utsav Mehta: I just wanted some clarity on cost-saving measures which you're highlighting. What is our current monthly fixed cost and how has that evolved over the last 3 months?

Sanjay Gupta: Good afternoon everybody I am Sanjay Gupta. Before COVID our fixed cost including interest is almost close to Rs. 20-22 crores. Now we have cut down this cost to bring down to almost Rs. 14 to 15 crores.

Utsav Mehta: And this includes pay cuts to the salary?

Sanjay Gupta: No, we have not done any pay cut of salaries to low level of management up to salary of Rs. 50 lakh. More than 50 lakh of salary we have just done some corrections on the board side, promoter's salaries and senior top management salary. This I think almost this had 10 people that's all. But before COVID we had enough capacity. We have a capacity of almost 2.5 million tonnes. Fortunately after the COVID there is lot of manpower shortage in the system, so we carry with the shortage of the manpower so our salary cost goes down. Because we have enough capacity, this has not hurt us.

Utsav Mehta: My second question was on the press release that was just released today. The working capital I noticed has come down quite meaningfully as has the net debt, so is it fair to say that broadly debtors will continue to track the level of sales that we do through the year?

Sanjay Gupta: What happened earlier we know that we have to do this thing but when the train is going at the speed of 200 km everybody was scared. We were scared how to stop it and repair it or not, if the train runs in speed then the nut bolts loosen ups. But if 10 out of 100 nut bolts are loose and 90 are running fine then the person leaves it as it is. When the train stopped in the month of April we decided that whatever work we have to do after 1 or 2 years now the time has come and we should take advantage of the COVID time as whatever growth has hampered it is all done, now we are not going to sell the material on the credit basis. We are going to sell the material on the cash basis because the system was without fear and strength was there, it came out. The management thinks that there are lot of chances for improvement in the future.

Moderator: The next question is from the line of Madhav Marda from Fidelity Investments.

Madhav Marda: My question was in the presentation you have mentioned that building material categories in general can decline by 25% to 50% but structural steel tubes can do better than that. Could you give us some sense on why you think so and why it could outperform the other building material category?

Anubhav Gupta: So Madhav that 15% to 20% decline that is not urban number. We took this from our peer building material companies be it in paints or plywood or cement etc. So while we do believe that structural steel will outperform the other building material, there are 2-3 factors. Number one is in this whole crisis if you talk to developers, contractors, engineers, architects, there is a strong will to reduce the prices. Structural steel tube provides good alternative for the conventional construction methodologies like be it concrete cement, RCC, be it wood or be it aluminum. So we are talking to various agencies wherein we are convincing them that steel can replace high-cost conventional products at cheaper cost, it is environmental friendly. So this is what gives us confidence that structural steel will outperform other building material sectors. Number two, structural steels are used at various stages of construction, right from piling to building the structure towards the end of construction where there is home décor etc. After the lockdown when the builders, contractors they started the work cement and structural steel tube were the first product which they had come to buy and as the construction picks up, today Larsen & Toubro is talking about 90% of their sites which are operational. So I think the demand will continue to come for tube as various projects reach various levels of completion.

Madhav Marda: The market side deals which you are saying can continue, so can we expect anymore M&A which will happen during the year and till what level of net debt to EBITDA are we comfortable with to take the balance sheet if an acquisition at a good price comes?

Anubhav Gupta: If you look at the Q1 of course I can't talk about net debt to EBITDA but even if we take EBITDA of ₹500 crores in FY20 which we achieved and ₹375 crores of debt which we have reported today, so it is at 0.6-0.7 times and we believe that at whatever working capital cycle we have achieved why can't it be zero going forward and we won't surprise ourselves if we make it zero.

Madhav Marda: So debt wise you are comfortable but some acquisition comes and you mentioned in your PPT in terms of some players being stressed on the balance sheet side, so till what level of net debt to EBITDA can we go till and we will be comfortable at those levels?

Anubhav Gupta: So acquisitions, Madhav I mean we don't want to buy any company just to add the capacity. We have enough capacity available in our system already. For next 2 years we may not want to acquire any company unless and until there was a good—it's a throw away price—so that we can cut down the supply. We don't need machine, we don't need any brand. Any capacity which we will add it will be to cut down the capacity which we have done in the past. So any such opportunity will be very small, chances are very low, number one. Number two, the amount will be very less. So I don't think that it will increase our net debt to EBITDA number substantially. First target is to become zero debt as soon as possible.

Madhav Marda: If I look at the Apollo TriCoat volumes in the press release which you have given that you have done pretty decent the quarter-on-quarter decline is limited to 20% maybe versus the other category, so is it because it's in the initial stages of ramp up the volumes are better versus the other category or what's happening there?

Anubhav Gupta: Again there are 2-3 reasons Madhav, number one is of course we were up and ready by end of April with our launch at Malur and Dujana. Number two is that market caters to a premium roofing industry in South region. Normally this is a very strong season for TriCoat products because in southern market the contractors, builders, household owners, they want to finish the renovation construction before monsoon. So there was very good demand because of that. and number three is just of course TriCoat just started last year, so even last year it was operating at 50% capacity so we won't take FY20 as benchmark for TriCoat definitely because that was operating at 50% utilization.

Moderator: The next question is from the line of Saurabh Patwa from HDFC Mutual Fund.

Saurabh Patwa: Just wanted to understand two things, one is as you mentioned in the previous response that partly TriCoat volumes are good because of the roofing segment. So how much would be the roofing which you would be targeting as roofing as a segment for the whole year of the total volume?

Anubhav Gupta: So in TriCoat there are three main products which have given us the volume, one is Signature. Signature is what is used in the roofing. Number two is Chaukhat which is door frame product, Chaukhat of course normally we launched in North region, so North picked up later than South. If you look at the overall India trends in April and May, May and June for that matter, South was the first market to recover fastest. So that's why you would see that Chaukhat ramp up will take place in next coming quarters. Regarding Signature we have total capacity of 85,000 tonnes. If you look at the Q3 of FY20, the December quarter when TriCoat registered 48,000 tonnes volume that time we almost hit 90% of the capacity. So I think Signature by end of this year should touch nearly 100% utilization level.

Saurabh Patwa: And part of this will be led by in Q1 which you would have already done?

Anubhav Gupta: Yes.

Saurabh Patwa: Second is on your PPC last year volume growth for the company as a whole, last 10 years volume growth has been close to upwards of 20%, last 5 years was 15% but your EBITDA margins have remained pretty stable. There is no growth as such, so do you believe that going forward the trend would be maintained or you believe these numbers can be improved because the volumes have grown up significantly, so all operating leverage kind of benefit, synergy benefit within the product, within the distribution team, we have done acquisition during this period, tried new technology, all of these have already come into the picture but the EBITDA margins per ton have remained very stable. So that's a very good thing in some sense but I think in the past interaction you guys have mentioned that you believe the EBITDA margins can go up to Rs. 4000 also, so do you still believe that it is possible and why you believe so?

Sanjay Gupta: Suarabh if you see our EBITDA margins from last 3-4 years, it is stable between ₹3000 to ₹3500. There are 1 or 2 reasons behind it. We were ramping up our capacities very fast. If you see our capacity in the last 3 years, we have tripled our capacity. So while ramping up the capacity spends were going high but there was no output. Till the time the capacity is not full-fledged the numbers cannot come in a full way in EBITDA margin. But the systems which we have made and the product mix of the company; if we achieve 100% then our EBITDA will touch Rs. 5000 per tonne. Whichever big sections we have like since last 3 months our DFT is working very fine. DFT has helped us a lot to reduce our stock, it is giving lot of value addition to us because we are supplying it in the small quantities like ATM service and reaching to people. This is not possible for our competitors. So whatever we made the systems if the system capacity is ramped up to 2.5 million tonnes then whatever products we have made by company wise system then vis-à-vis we will touch Rs. 5000 per tonne. I'm very sure the days are not are away from us

Saurabh Patwa: So you believe the 5000 as sustainable level can be done?

Sanjay Gupta: If the lockdown type situation arises in future.

Saurabh Patwa: Barring the exceptional situation on normalized basis you believe you can….

Sanjay Gupta: India if grows around 6%-7% then we will touch these things.

Saurabh Patwa: You will be able to touch 5000?

Sanjay Gupta: Our vision and target is that. We are trying our level best, our nation is trying level best but I can't commit any number on this. But our vision and aim is that we have to reach Rs. 5000 per tonne of EBITDA

Saurabh Patwa: Opening comments you guys also mentioned that we are moving away from the fluctuation in steel prices. But in this quarter also if we exclude TriCoat and other income also, our EBITDA per ton is close to 2650 which is down almost Rs. 400 from the Q3 numbers and in Q2 also we had a sharp drop, we were down to almost 1700 per ton, so this shows a bit of volatility which is still there.

Sanjay Gupta: No Saurabh, last year we have worked a lot on our branding. What we see in the last few months is that the price fluctuation is not hitting us a lot. We can sell the material as a product. If the steel prices are going up and down then no doubt it hammers us but if slight 1%-2% up-down is there then we can absorb. So these things used to hit us a lot and we used to have inventory loss of ₹20 crores on ₹200 crores of EBITDA margin then today it is only ₹10-20 crores on ₹500 crores of EBITDA margin. The EBITDA is increasing and the impact is decreasing. I'm sure we will take out the impact of steel prices from our system.

Saurabh Patwa: So you are saying the inventory loss we have this number will not be there over time?

Sanjay Gupta: Now we are not using these words inventory loss like if you see the last year balance sheet then our stock valuation is devalued by almost Rs. 6000 per ton after this number.

Saurabh Patwa: So this number already includes that kind of number but still we are able to sustain that.

Sanjay Gupta: The stock valuation price which we took on 1st April, our current stock levels price is less than that by around Rs. 6000 per ton.

Saurabh Patwa: What would be the current price in the steel, what is your current realization?

Sanjay Gupta: It is round Rs. 36,000 per ton. Basic price is 36,000 landed.

Saurabh Patwa: And what was it pre-COVID?

Sanjay Gupta: Pre-COVID is 36, today the price is 35. Last year this price 1st of April, 2019 this price was close to 42 (₹42000 perTonne).

Anubhav Gupta: One more clarification, when you compare Q4 FY20 versus Q3 that's not….Q4 is certainly the benchmark because in Q4 we lost 15 days of sales whereas there was full fixed cost plus 15 days profit comes, the business was 75 days but whereas fixed cost was for whole the 90 days. So Q4 will definitely look lower.

Saurabh Patwa: Frankly I wanted to compare Q2, Q3 and Q4, all three because there was a volatility that's the only thing which I wanted to highlight because in Q2 also our numbers were sharply down. I think it was partly due to inventory loss that's what you have mentioned that time also.

Anubhav Gupta: In Q2 in September quarter the EBITDA per ton declined because of the collapse in our sales volumes. In Q4 of FY19 and Q1 of FY20 we achieved 400,000 tonnes plus sales volume on a quarterly basis whereas in September quarter the sales volume declined to 3,35,000 tonnes because of slowdown in GDP which was surprising at 4%, floods in Kerala etc. Since our system was having capacity of 2.5 million tonnes which is 6 lakh tonnes per quarter and we did 3.5 lakh tonnes, so fixed cost is what had hit us badly plus there were some change in the product mix also. So that's why the EBITDA per ton collapsed in September quarter, it was not because of inventory loss.

Saurabh Patwa: And what's the kind of volumes we are targeting for the whole year broadly?

Anubhav Gupta: Again difficult to say today. Our focus is to increase the market share.

Sanjay Gupta: We are targeting to increase the market share from 40% to 50%.

Saurabh Patwa: But the market itself is expanding because we are getting into new categories that is actually…

Sanjay Gupta: We are very hopeful but Saurabh this time it is not fair to give guidance for sometime. We get the call that Tamil Nadu is closed, sometime Secundarabad is closed, sometime we get a call that Karnataka two persons got COVID, so then giving guidance in such situation is too early.

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

Dhruv Jain: Just wanted to know more details about this ban on the promoter entity which Sebi had put, any impact on the company and if there are anymore such litigations that the promoters are facing?

Anubhav Gupta: So Dhruv first thing there is no impact on APL Apollo Tubes Limited. These are on the subsidiary. This was a personal investment done by the promoters in 2008, 12 years ago; so that investment went bad and it came under Sebi radar. There was no wrongdoing on any of the front. We are 100% sure about it and we are very much disappointed by the order. We are already talking to the lawyers to take this ahead and we are hopeful that this will change. At this point we won't like to comment much on it. Secondly regarding if there are any other such litigation, there is no any other such litigations on any of the person related to the board.

Dhruv Jain: My second question is that we see great debt reduction in this quarter in 1QFY21, so is it fair to say that you guys will become debt free by the next year, by FY21?

Sanjay Gupta: We are targeting in this year we will be near to debt free. Next year we are near to liability free.

Moderator: The next question is from the line of Aadesh Mehta from Motilal Asset Management.

Aadesh Mehta: We understand that you said your focus will be more on market share improvement but wanted to understand that what is your outlook on the market itself? What I understand is that half of your revenues come from retail housing; another 25% comes from commercial building and another 23% comes from infra projects. So in each of three verticals what is your outlook?

Sanjay Gupta: If I see the last 3 months April-May-June then our demand is very less in metro cities, sales are very low. The recovery rate is very less here but because of our very strong distribution channel we ramped ourselves up very fast in Tier-II and Tier-III cities. If you see our last quarter sales there is almost 30% to 40% growth and not decline. As we focused ourselves in the Tier-II and Tier-III cities and the COVID impact is also less there and we have strengthened ourselves and because of that our margins have improved. In the past few days we have cut our channels to reach directly there and the biggest reason of our debt reduction is that we have increased our distribution network in last 3 months. Earlier we used to be dependent on our top 50 customers. We used to sell 50% to material another 500-600 people 50% to these top 50 people. Now the top 50 are left behind at 20%-25% and the balance 500 people have reached to 75%. We have lessened our dependency on big dealers and shifted it on small level because of which our debt has reduced and the benefit also reaches to us because we have DFT facilities. We had ramped up ourselves and would reach in small quantities. Our total focus is on the supply channel management system. We have been focused on improvement of the supply channel management. I'm sure this new era which has started right now will be very helpful for our group.

Aadesh Mehta: But are you seeing any trend in the retail housing in Tier-II and Tier-III cities that people who had to construct houses, they have postponed their decisions?

Sanjay Gupta: We are surprised, the demand is very good. We were also not hoping this much. But we have received a good demand from Tier-II and Tier-III cities. Just wait, we disclose one more number to you. The stock which was lying in our inventory channel has also reduced by 50%. The competition has increased on the last point and is not reflecting in our numbers. The dealer level stock is reduced that's why we received payment fast.

Aadesh Mehta: If you can tell us Tier-II, Tier-III cities numbers volume wise in our revenue versus 1 year back, if you have an idea?

Sanjay Gupta: This time our 75% of revenue is coming from Tier-II, Tier-III cities.

Aadesh Mehta: How much was it in last year?

Sanjay Gupta: It used to be around 40% last year.

Aadesh Mehta: So lot of growth has come from this segment.

Sanjay Gupta: Yes.

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

Ankit Merchant: I had a few questions; one was obviously related to the distribution which you highlighted. But can you shed more light that how come the top 50 contributors have gone down significantly?

And another point over here is that how much of this demand is just a pent-up demand and do you think the volume which we have achieved in this Quarter 1 the similar performance we can expect in going ahead in Quarter 2?

Anubhav Gupta: Ankit the first thing is that what is the change in our distribution network, when the COVID restrictions started lifting around 15th of May but our plant was operational from 22nd April but 15th of May we almost came up. The condition at that time was that we had debts towards our top 50 customers. We had to take money from all of them. But in the COVID time we decided one thing as an organization that we don't want to sell as credit. We had a belief that our material will be sold in cash. But we had to take a lot of past money from them then we were not able to sell the new material to them. Then we decided that to use our strength and focus on the small customers where we had very less money and touch those points directly. We touched the whole such points like earlier we used to sell in Banglore so then we started touching small points like Mysore, Hubli, Tumkur, Hassan. In the Milano maximum we used to sell in Chennai and Salem but then we touched small stations like Trichi, Madurai, Coimbatore and what we felt that they rewarded the company a lot. Because it was a pride point for them that they should work with Apollo and due to DFT our supply chain management system became very strong. We benefited from that because the small dealer can't take one truck of one size. He needs to have 20-30-40-50 products mix and we captured this thing. And our competitors don't have this variety, they have to go through big ones so the margins they had have sunk. Both the sides we are in the benefit. And we got a good response from the small station and at the company level we'll take the big ones along as well but our focus will be more on the smaller level. Our big customers are slowly improving, in the month of June, in our yesterday's closing debtor, in that more than 30 days our total payment is around 40-50 crores left. In that 20-24 crores is of OEM and balance is of trade. So I think if our increased customers also come in line then volume is not a problem for us. Then we can achieve any number.

Ankit Merchant: And what gives you the confidence that Quarter 2 will be better than Quarter 1 and the numbers which we have achieved is more due to pent up demand or something?

Sanjay Gupta: I can't say right now Quarter 2 is better than Quarter 1 in case tomorrow any lockdown happens. But still, if you see our numbers in all our projects we have put the numbers month wise. In the month of June we have ramped up very fast. Like we have done in the month of April 6,000 tonnes, in the month of May we have done 93,000 tonnes and this month we have done 1,43,000 tonnes. Now if this is ramped up demand or not is a question mark. But we are sure that we'll increase our market share.

Ankit Merchant: And just one last question related to channel financing, so again out of the top 50 dealers how many of them have availed that and through that they've given you the payment because we have seen a very significant reduction in the collection days.

Sanjay Gupta: Our channel is too much. We are not believing the channel financing system. It's the dealer's work and the dealers will work on their own. We are not helping them. Hardly it will be close to ₹150 crores.

Anubhav Gupta: So Ankit that number remains same. It has not increased.

Ankit Merchant: Okay.

Sanjay Gupta: We believe that our debtors and stock, we have a lot of stock right now and it is still a lot. It will be used more.

Ankit Merchant: Definitely.

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

Viraj Mehta: If you look at 4Q presentation, you have written in the presentation the focus will be on channel financing but you said that we don't believe in channel financing. Can you help me solve that dichotomy?

Deepak Goyal: Yes, we have mentioned that we are focusing on channel financing and accordingly we mentioned the channel financing by different banks and due to our dealers network. Now we are not pushing it to the channel. We have the approved limit it goes to the company and if dealer wants the channel finance then they can directly contact the bank.

Sanjay Gupta: Dealers, if they need to contact then they are contacting us. If they take directly from the bank then we have no problem. Company won't interfere anywhere that's what I mean.

Viraj Mehta: Okay.

Anubhav Gupta: Viraj in the presentation we just highlighted that this is one of the option which we can have but it was not required we are getting better collection anyways.

Viraj Mehta: My last question was that now in June we have done around 1,43,000 tons, so according to you how much will be our market share in this month?

Sanjay Gupta: It is like this Viraj that at the moment our guys are not going on tour in the market. Our competitors' companies' numbers hasn't come yet. So at this time making any comment is not possible but I think our relation with the market is such that from the bottom it should be above 60%.

Viraj Mehta: And our retail sale will be more than our secondary sales in your opinion compared to primary sales?

Sanjay Gupta: Yes. That has been quite a lot. We have confirmed and we have the data from our distributors.

Viraj Mehta: That means if we have 1,43,000 is there so retail will it be around 170-180?

Sanjay Gupta: I think our distribution networks that are there have reduced stock of almost 52,000-60,000 tonnes.

Viraj Mehta: So our secondary sale has been around 2 lakhs?

Sanjay Gupta: Secondary sales, yes you can say like that.

Viraj Mehta: Okay sir.

Moderator: The next question is from the line of Bharat Shah from ASK Investments.

Bharat Shah: Whatever luck is there in this year, in our 3 to 5 years vision statement the plans we have and where we want to reach, so in that is there any divergence in it or we are consistent on that?

Sanjay Gupta: Right now what portion is going to be created ahead is not known. I used to think earlier that I'll go till 3 million tonnes and then after that we will be debt free. Pre-COVID my thinking wasn't that on 3 million tonnes once I'll touch around 1500 crore and from there I'll move toward debt free. Now my vision is that we'll stop here and make the balance sheet lighter. After that already we have capacity for 2.5 million ton built up. And we have according to the 0.5 million ton valued it so that in CAPEX we had gone ahead but that also we had stopped one time. That also we will see another one year and after that we will put that ahead and our suppliers, those machinery suppliers' advances, around 30 crores advances have been given. They are very cooperative with us because they are long term suppliers. So this vision for ahead for 6-9 months we have to see all the environment, how India's GDP will improve and everything then we'll make a decision because already we have two way capacity 2.5 million tonnes. So that is why we are not thinking too much about it.

Bharat Shah: So for the moment our 5 years vision is kind of on a temporary hold. Current year's CAPEX is also put on a deferment. And first the prioritisation is strengthening the robustness and the finances, first growth will happen and then we'll tackle it.

Sanjay Gupta: In last 2 months whatever I have absorbed, the way I am feeling lighter and that taking growth has become easy have because earlier when the debtors were close to ₹500 crores, I used to think that if I sell from 1.4 lakh tonnes to 2 lakh tonnes then my debtors will be around ₹800-1000 crore. So I used to be scared to show any aggression. But from the time debt reduction has been done, debtor reduction has been done, our materials have started being sold on cash so the growth feels like it can done at a greater speed from before. Right now there is no hurdle in front of us. Earlier our debtors were hurdles many times.

Bharat Shah: To make the body lighter or to make the burden on the balance sheet lighter, both are beneficial.

Sanjay Gupta: Yes, I am feeling good comfort as a system. We have made our system very light, our rate of interest from the bank has become very less. Now also we have to pay off almost ₹400-500 crores to bank, we have given back to bank in this COVID time when bank was giving us extra leverage. So this is very good for the systems and now we will make ourselves lighter.

Bharat Shah: That has a psychological and economic reason also. When we prefer to sell it on cash or very low credit, lot of further decision making is not required because simply otherwise you are required to judge the credit working as you have to judge many other aspects and evaluate before going ahead with the same and lot of energy is put behind recovery and all that. So along with one decision, a lot of other things also come along….

Sanjay Gupta: It's really nice to work in this way, it's very easy, payments are coming automatically, we don't have to run here and there. Bharat bhai I haven' come to the office for the last 100 days. I am not in the system. My team is doing so well that really I want to add them, I want to add on. I haven't joined the office yet as today is my second day to come to office only for board meeting and con-call, that's all otherwise I am totally at home because in Delhi you know very well that Delhi and Mumbai the situation is not good. As my granddaughter is very young, so I have to be more careful with my family but my system is so capable in itself that without myself they have worked very well so I really salute them that they have done a lot of good things and I believe that my biggest win is that I have realized the strength of my organization. Earlier I used to think how will they work without me but now I am feeling very nice that they are doing well without me. This is my biggest win for the COVID.

Bharat Shah: Knowing you it's a difficult job to tie you up at one place so till now you have tied up….

Sanjay Gupta: How to do the development about future, how to do the value addition, I will think about it more now. From past 4 months, from February I have not gone to my plants. All the 10 location plants are doing their job very well. I just do a review meeting with them 3 to 4 times in a month that all. I want to tell that my team has tied me up in my home, they say they you don't need to come.

Moderator: The next question is from the line of Abhishek Ghosh from DSP Mutual Fund.

Abhishek Ghosh: Sanjay ji, I wanted to understand that whatever branding exercise we have done last year towards the second half; this would not be the very right time but are you getting any feelers in terms of, are you able to get a better yield from dealers and distributors, would you want to share anything?

Sanjay Gupta: Abhishek, the biggest thing is that whenever you do any work so all these things, the organization buildup, networking buildup, branding buildup there is no scale for that, that we can measure it. When the tough time comes then we get the idea as to what is the response of whatever work we have done. What I am seeing on the small stations is that like I will tell you the name of a small dealer, just an example R. Manaklal in Ratlam (MP), he never used to sell my pipes more than 200-300 tonnes. Then yesterday I reviewed everything I saw that he sold 1200 tonnes of goods in this month, last month he sold 800-900 tonnes. So I also have a lot of curiosity of asking and understanding from people, so I asked him how did your sales increase so much, are you eating the share of any big dealer? He said we didn't have that much courage before so now we have done our pricing level everything into one. So you started giving the goods, we started keeping and to selling it, customers are coming by themselves and taking it. We are taking cash from you it is getting sold, so they are enjoying the selling of goods so we don't have any problem in working. So from this COVID times many small things are seeing improvement that we had strength before also but out of fear we did not use that strength. In this COVID it was a situation of do or die that my money was already stuck with the big dealer, I could not give goods to them, I could not push the goods; I either keep my plant closed or I go to the direct channel. When I went to the direct channel, we got a very good response. So, how do we mix-and-match within ourselves, those dealers who were with me I don't want to hurt them. So we are defining the areas for the dealers, we are working on that, the dealers are also reducing their costing from big dealers, we have reduced their stocks, the goods which used to sell we have reduced their debts, we are decreasing their debt. If you talk in the markets the Q1 is best I can say that after COVID or in the COVID times…The biggest win of this industry, not only Apollo but the biggest win of this industry is that the whole market has converted into cash.

Abhishek Ghosh: Just one more question, the June '20 debtors and the absolute amount that you are seeing that is 115 crores, the corresponding sales is also down?

Sanjay Gupta: Sorry Abhishek to interfere in between, our sales are not down, our debtors are based on the month of June sale. June sale is 1,45,000 tonnes is already there, our sales are not down.

Abhishek Ghosh: But now you will control it at this level only? Will you control at this level even if we go to 1.82 million tonnes?

Sanjay Gupta: Abhishek, we will do better than this. My target is to come to negative debtor, now my target is going up to negative debtors but if this limitation another 3 months-6 months-1 year I don't know but our mindset is very clear we want to go on negative debtors. We want to take the money first and then sell the goods.

Moderator: The next question is from the line of Rahul Jain from Credence Wealth.

Rahul Jain: Sanjay ji, if you could speak something more about the competitive intensity given the conditions which we have been into last 3 months and some other industries who are in the building materials, there is also a discussion that a lot of small players are either out of the market or they have impacted very badly and you mentioned that you were planning to increase market share from 50% to 60%. So is it because the demand is good or basically you are seeing lot of the fringe smaller players are just going out of the market?

Sanjay Gupta: This is not good for the country but this is happening.

Rahul Jain: Any guess that in what kind of industry, how many players are effective or what percentage of market is impacted and probably you would go out of the market?

Sanjay Gupta: It's too early to say something but the feedback that we are getting from suppliers that all the small players are finding it difficult to work because banks are not supporting them. If dealers are not supporting them because the dealer also wants to keep that material that is going to sell- branded goods. Nobody wants to increase their work. The dealer wants variety, variety of baskets that the truck should come in the morning and the goods should get sold till evening, again the truck will come in the morning and till evening the goods should get sold out. If he takes the goods from small manufacturers so he will have to maintain the variety automatically, small manufacturer cannot create so much volume that he can maintain so much variety, he doesn't have that technology. So if you ask me as a person this is very unfortunate because I always take the industry together but this is happening, I am helpless.

Rahul Jain: Can you mention about the channel inventory that is reduced by 50% as we speak today, correct?

Sanjay Gupta: Yes.

Rahul Jain: So is it like again there will be inventory filling that's why the next quarter can be a good demand or it is a new norm for the industry?

Sanjay Gupta: The people have seen the 3 months, it cannot happen, this is not possible.

Rahul Jain: I did not get you. Can I say that this is not the new norm so again that inventory…

Sanjay Gupta: No dealer will keep the inventory; nobody will sell the goods on credit.

Rahul Jain: So this will be a new norm for the industry?

Sanjay Gupta: Yes, this is a new change for the industry, not for Apollo. I'm telling repeatedly it is a new change for the whole industry.

Rahul Jain: What is the plant CAPEX for this year and next year, as we speak today?

Sanjay Gupta: I want to finish my liability first. Today also I have to give ₹370 crores to banks and ₹600 crores to creditors. My total liability is ₹970 crores, my first target is to focus that.

Rahul Jain: So approximately this year you are not thinking of doing any big CAPEX?

Sanjay Gupta: My 500 million square feet advances has gone in big amount, I talked to the suppliers so this year it will not happen but the next year it will happen a little bit. This year it is going to minimize a lot.

Rahul Jain: Sir last question you said that the demand is coming from Tier-II, Tier-III cities and towns and that is up quite sharply. So from which segment this demand is coming, is it related to rural income levels that are good so is it because of the rural side and how sustainable is this demand?

Sanjay Gupta: Farming and housing both. In Farming they are constructing the sheds, they are doing fencing, there is a lot of demand of this kind and the main is from rural housing. Our biggest contribution is in the rural housing at this point in time.

Rahul Jain: And government demand?

Sanjay Gupta: Till now it is very less, as of now it is just on the TV and not in reality.

Rahul Jain: Just last question if I can squeeze in, your target of 25% return ratios, till what time do you want to achieve it?

Sanjay Gupta: Sorry come again.

Rahul Jain: I think in the opening remarks you mentioned about 25% return ratios?

Sanjay Gupta: You will see some major changes quarter-on-quarter.

Moderator: The next question is from the line of Nitin Kalsi.

Nitin Kalsi: One question when you are talking about working capital cycle change in the industry from you to the dealer-distributor but at the supplier end for the raw material to you from the steel sellers; what will be the change there also because when they see you changing the terms on the front how are you because you also have a very good advantage there in terms of volume discount etc. What kind of changes are coming over there or will come, what are you doing over there?

Sanjay Gupta: There is a lot of overcapacity over there; it will take a little more time for the change to happen. They have lot of capacity but the demand has reduced, all the steel plants are stuck. Now due to the China export, that's why they are feeling a little comfortable otherwise if they have to sell the goods in the Indian market so they are badly stuck unfortunately. So I don't think that they are thinking on this level. Now they are concentrating on the volume ramp up.

Nitin Kalsi: So basically you are getting a very good arbitrage where in the front you are actually squeezing your net worth but at the backward your suppliers are in a much bigger problem. So you are benefiting out of it?

Sanjay Gupta: Yes.

Nitin Kalsi: Number two was about the value-added SKUs etc. So what is happening over there in terms of any new SKUs that you are planning to launch in this year because earlier Bharat bhai was also asking the same thing in terms of vision but vision is to actually in every year add VAP products. What's happening there this year?

Sanjay Gupta: We got the orders that the new value-added products that we used to launch so to launch those products we had to meet the fabricators, we had to visit a lot of places, due to Corona we cannot meet any fabricators now, we cannot do a gathering anywhere. So we have to go door to door to do the branding and travelling is not allowed anywhere like if my guys go from Delhi to Raipur, so they are kept in quarantine for 14 days. If my guys go to Bangalore, they are kept in quarantine for 10 days. So through social media we are creating awareness as possible but for new innovative products we will have a disturbance of 5 to 6 months but our old value-added products that were selling, we are trying to ramp up that.

Nitin Kalsi: The good part was that we could launch 4-5 products in last 4-5 months. So we have those products where we will focus and they will give us the volume?

Sanjay Gupta: We will have some problem to launch the new products in the next 4-5-6 months.

Nitin Kalsi: Last question is on the base category volumes that you sell in which the other competitors also compete with you. Because of the stress the other competition has and so would you think the base category profit should rise for you or you would use this as an opportunity to gain market share by not expanding your conversion EBITDA?

Sanjay Gupta: If you are living alone in a jungle, it is not good for you however much amount of money you get but you will not like living alone in a jungle. It is for everybody's benefit that the industry should do good. My target is to how to rewrite this for the industries, how to make it good as a whole.

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

Anubhav Gupta: Thank you everyone for dropping by. Hopefully we shall meet soon for the first quarter results. Have a nice day, bye.

Sanjay Gupta: Thank you everybody, thank you for joining us.

Moderator: Thank you. On behalf of the Ambit Capital we conclude today's conference. Thank you all for joining, you may now disconnect your lines.