



## “APL Apollo Tubes Limited Analyst Day”

**July 31, 2015**



**MANAGEMENT:**    **MR. ASHOK GUPTA – MANAGING DIRECTOR, APL APOLLO  
TUBES LIMITED**  
**MR. DEEPAK GOYAL – CHIEF FINANCIAL OFFICER, APL  
APOLLO TUBES LIMITED**  
**MR. VARUN PANDA – PLANT HEAD, LLOYDS LINE PIPES,  
MURBAD**

**Moderator**

Good afternoon everyone and on behalf of APL Apollo Tubes Limited I welcome you all to our Analyst Day Event 2015. It is great to see a good turnout and thank you all for being with us today, especially for those where it required some travel.

Throughout this session we would be making some forward-looking statements, such forward-looking statements are subject to certain risks and uncertainties and APL Apollo will not be responsible for any action taken based on such statements and undertakes no obligation to publicly update these forward-looking statements to reflect subsequent events or circumstances.

From APL Apollo we have today Mr. Ashok Gupta – Managing Director, Mr. Deepak Goyal – CFO, Mr. Varun Panda who is the plant head to Lloyds Line Pipes at Murbad. Mr. Ashok Gupta would be making a presentation first highlighting the quarterly numbers and then give an overview of the industry we operate in and the current dynamics of our business. After that we will be getting into a Q&A session.

Mr. Ashok Gupta is a steel industry veteran with over three decades of experience. During his illustrious career he has worked at senior managerial positions at SAIL, Bhushan Steel, LN Mittal Group, Jindal Steel among others. He is an M.Sc Physics, PGDBA from IIMA and has won various medals and awards. He has been instrumental in transforming the organization into industry leader epitomizing incremental profitability and expansive growth.

Please note that we are running a tight schedule and hence there will be an opportunity to take questions at the end of all the presentations in the open-house Q&A where all the leaders will be present. We have a high-tea planned after the Q&A, you could utilize this time to speak with the individual leaders in case you have any follow-up questions.

Thank you once again for being with us here and now I invite Mr. Ashok Gupta to the Dias.

**Ashok Gupta:**

Thank you Gaurav. Good afternoon friends. It is my pleasure once again to be with you. I think it is about a year since we last met, a lot has happened since then. To begin with, with the time we were meeting last time we have very high expectations from the government, Modi Wave was there, things have changed slightly. To some extent, yes something might have happened, to some extent the euphoria, the expectations have not been kept. But things have changed and let me tell you whether government has kept its promises or not, whether Modiji's effect is still there or not but Apollo effect still remains and we have tried to keep our promises.

With these few words I would like to start my presentation. I am sure many of you have been knowing for quite some time and we have shared with you what Apollo is and what it is all about. So there will be a lot of duplication, but there are few friends of mine who are coming for the first time, so if you do not mind I would just like to repeat few things for the benefit all others.

With these few words let me start directly with quarterly results. So our sales in this quarter have been around 965 crores which includes some trading, normally we do not do trading but it is the

first time we have tried to do at our hands some trading, so without trading which we can exclude our sales will be around 873 crores. As you see, they are about 13% higher than previous quarter and if I compare with the previous year they are 18% higher. We have been talking to you and telling you that we will be growing. Anybody remembers what we have been talking, what kind of growth we have been talking? Any friend of mine will remember what kind of growth we have been talking over last year or two? 25%, we have been talking of 25%, I am happy to share with you that we are almost there, whatever decline you are seeing from 25%, I am calling it a decline, even it is 18% between the prices have slightly fallen down, so when I come to volume I will show you that we are very close to what we have been promising.

And on the EBITDA front, the situation is slightly better. If you will see quarter-on-quarter because previous quarter that is January-March was a very difficult quarter for the steel industry primarily because steel prices declined the most in Q4 of last year. So we observed that there is improvement in EBITDA and so obviously in PAT and obviously in EPS. Here a question arises, was there any impact of stock loss in this EBITDA? Anybody has any idea? We have already I think informed that this quarter also we suffered a loss of 21 crores on account of stock loss that is because steel prices and so also our price of pipes have come down by around Rs.2500 per ton, because of that whatever stock we keep, the value has come down so we had taken a stock loss. Many people have been asking me that what would have been the situation if stock loss was not there. It is very difficult to really say that if stock loss was not there the situation would have been so and so, but we have tried to do some kind of a mathematical working, it is not exactly working but mathematical working incase stock loss was not there in that case we simply add it and we observe that our EBITDA would have been much higher. Again I will say this is not necessary because if the stock loss was not there maybe our realization would have been different. So this is just for a mathematical adjustment that the stock loss was not there and this is primary to show that if you remember we have been talking about EBITDA percentage of... what kind of EBITDA percentage we have been trying to achieve? 7% to 8%, we will be very close to that if we had not had the stock loss. That is just to show you that, now let me come back to our performances.

Our production volume has improved everywhere, I was talking off 25%. See last quarter FY15 our volume has increased from 182 to 224 which is almost over 25%. What we have been mentioning to you that first quarter at least we have been able to manage it, hopefully we will try to do same and the point we are trying to mention is all across the segments, as you know we make four products, all across the segments this has been maintained. Our volume growth quarter-on-quarter has been steadily increasing from 169 last year the increase was 30, this year we have started on a larger note, we have crossed 24. Beginning of the year we have mentioned that we will be reaching, we have taken a target of around 8.5 lakh tons and if I compare it we are almost on course in the first quarter. As you know first quarter always is generally a good quarter, quarter two and three could be not as good may be but quarter four again becomes better. So right from quarter one we have been able to maintain the growth which we have been expecting. Similarly the EBITDA, they have been steadily growing.

The main developments, and I think this is very important, the steps we are taking because this is what you saw was the final result, what you are seeing now is effort which has gone into it. You see the whole world, whole country is afraid of debtors, whether it is bank, it is investors, everybody is saying there is no money in the market, we also know that money is not there, so what is the first thing to be done, keep your money to yourself. Keeping that in mind we have been focusing on debtors and I am happy to inform you that our debtors today are at their lowest ever level and we have been able to further reduce our production cost both in terms of our cost of producing the pipe as also our inventory cost.

The people responsible for this are our production people and to meet you today we have Mr. Varun Panda who is head of the plant in Bombay. May I invite Varun to come on the stage and say firsthand what he has been doing, what he does in the plant to increase the production and to reduce the inventory.

**Varun Panda:**

Welcome to you all, myself Varun, I am taking care of the plant here in Mumbai. First step we take to reduce the production cost is keep the manpower as same and try to take out the output as much as possible from the same mill, so here we try to improve the efficiency of the mill where last year we were around 55% of our efficiency which we increased up to 65%. So these are the things cannot come in overnight, we work hard to improve upon the efficiency of the machines by increasing, by taking care of preventive maintenances, predictive maintenance of the machines and reducing the breakdown maintenance of the machines. See, we believe in Japanese concept of manufacturing and we try to implement the Japanese concept of manufacturing like 5S, JIT or, Kanban system which will definitely going to improve our efficiency in reducing the inventory level as well as reducing the production cost overall. Thank you.

**Ashok Gupta:**

Thank you Varun. A round of applause for the production team. I am also happy to inform you that looking at our performance our credit rating has been further improved from A- to A. And something more than that, today banks are not reducing their cost, the value of transaction, the business is increasing but we have been able to bring down the finance cost if you see our results from 2.1% of the turnover to 1.7%. Which basically means we have reduced our inventory, we have reduced our working capital and more than that we have reduced the rate of interest. And when do banks reduce rate of interest, when they see that you have a good balance sheet. So I have my colleague here again, I will call Mr. Deepak, he is a finance CFO of the company who will just tell you in few words what we have done to reduce our finance cost.

**Deepak Goyal:**

Hello. Good evening everyone. In the first quarter we have taken so many measures to reduce our interest cost. We have introduced new banking consortiums, also we have inducted HSBC as our new consortium, and in the first quarter we have started taking the commercial paper so right now we have a portfolio of 200 crores of CP. And now we are starting taking vendor finance from all the banks at the base rate and WCD at base rate. These all help us to reduce our interest cost. And further I want to mention that our working capital cycle has also reduced, as I have mentioned that our debtor days is now ever lowest as 22 days and inventory level is also in the control, even we have increase over volume and we are maintaining 26 warehouse at pan India basis and we have

very tight control over the inventory and right now we have a 32 days inventory including raw material, finished goods and scrap. Thank you.

**Ashok Gupta:**

Thank you Deepak. So how do you feel? A clap for him please. So basically looking at our good performance or our steady performance and strong financial health banks are also helping us. So when banks reduce the rate of interest it improves the profitability. A few more things, I think last year I mentioned to you that we will be introducing something known as a color coated pipe, did I say so, does anyone remember? So we at our Bombay plant introduced color coated pipes, the pipe get's painted while it is being manufactured, now a days these are the times of colors and no one likes to see black and white so we have painted the pipes itself and before you is the first colored pipe in India, this the color coated pipe. Can you all see? This is the color, you see the blue color and a red color, normally throughout the world pipes are grey or black only, Australia was the first country to color the pipes blue, then it went to Europe, then UK, in many countries now pipes are coated in the factory already, so we were the ones to introduce this in India in Bombay factory and our first consignment we sent to Australia only, it got accepted and after that now we will introduce it to our Indian clients.

With this we have also taken other steps, a big major step is which you all know that we have implemented SAP and our SAP has come in our other units as well, but there is another big step then this. Since last two years investors have been mentioning to us or I would say that we had a pressure coming from some of our big investors to change our auditors and I am happy to inform you that shortly we are going to have Deloitte as our auditor, this is to bring more transparency and more confidence among the investors.

Now coming on my business I was talking to you, I will just again repeat what business we are in, for some of my friends who are for the first time attending our conference we are basic in ERW pipe industry making pipes for water supply, making pipes for structural applications and pipe for structural applications are our main field. As you know you have ductile iron pipes used for water transportation, these are seamless pipe for oil and gas sector, we have saw pipe again oil and gas sector and we are in the last blue area which is structural pipe, structural pipe can be used for water transportation or for support system. Today if you see at any airport, any metro, all the structure is made on a steel pipe. This is how the simple steel making process is, you have a hot rolled coil, you fold it, you weld it, you give it a proper shape and very fast you get the right kind of pipe. The beauty is that the process is simple but the variety is so much that it is difficult to manage everything in one company, so most people have many companies from different kind of pipes. This is a simple photograph of our pipe, you can see somewhere pipe being rolled, pipe being welded and cut.

To market our pipes we have a very extensive distribution, this is our main strength. You see everybody wants that there has to be a mall next to his house. Everyone wants that there should be a mall in our vicinity, we have picked this concept and we have tried to open a depot in every person's city, we opened a depot in every state. No competitor of ours does something like this, they make pipes in their factory and sell them in the world. We have started that we will open a

depot near our customer, he will not have to travel a long distance. As a result we have our distribution network all over country and I am happy to inform you that we have more than 26 warehouses and more than 400 distributors all over India and to supply pipes in own distribution centers we opened factories everywhere, not like we have one factory in a country and sell it everywhere, no, we have factory in north, in west, in south. So anywhere we can supply pipes within a day. Today someone made an order, we supply it tomorrow, fast delivery; the way the world is speeding up we have also tried to speed up along with it. As a result, we have become the largest pipe manufacturer in the country. Today nobody is there who makes pipes more than us and our capacity has already crossed 1 million ton.

Does any of you remember that we had a slogan some time back? We had a slogan two years back, '1 million ton'. The second largest manufacturer of pipe in India is Tata who are only making some 4 lakh tons, almost half of what we make. There are four varieties of pipe we make, we make black pipes which are normal pipes; we galvanize our pipe, give it a zinc coating, that becomes a galvanized pipe; we galvanize sheets that becomes galvanized pipe and finally we make square rectangle that is like a hollow section. And all the four contribute almost equally to our total sales. Of course the margins may vary, three galvanized pipes give us the highest margins.

And I am happy to share with you that almost all large corporates, metros, airports they are our esteemed customers whether it is Bombay Metro, Chennai Metro, Cochin now or Bangalore or Delhi for that matter, everywhere Apollo Pipes have been used. So we say, 'Wherever you go, you will see Apollo.' You see steel industry is in a very bad shape, today people are talking that maximum amount of NPAs are in the steel industry but within the steel industry there is island and that island is steel pipes. The reason is steel pipe is a wonderful industry, it never goes down just like bread and butter it is something which is used everywhere by everyone. Such a wide variety of applications, somebody has a shop, he wants to put a shutter he uses a pipe; you want domestic water supply use a pipe; you want a hoarding you need a pipe; you want a bus you need a pipe; everywhere small application of pipe. As a result, oil and gas is not doing, does not matter, somebody else is doing well for us, so the demand is never too good, never too bad and in that industry if you become efficient the industry is always good for you, that is why we are very happy with the industry, anything may happen to steel industry we do not bother about it because it does not affect us. So demand is sustainable and it is growing day by day and within that demand our advantage is that we have so many products, as I mentioned to you we make more than 400 products with more than 1000 varieties, not many people can do it and we do this with a very low cost. See the whole world is making 20,000-30,000 tons a month, we make 80,000 tons with almost same manpower cost comes down. So you have an industry which is hungry, which can take so much pipe, you have an industry which is sustainable, always there and in that industry you have low cost and you have interest rate, he didn't mention to you I think he was slightly shy of that, our interest rate in many cases is as low as 9%. So with that kind of low interest rate, lower manpower the cost was bound to come down and competition is bound to have a problem. And on top of that we invest a lot on branding, after few slides I will show you what kind of activity we do but before that I want to bring to the last part that is innovation.

You might be wondering what type of innovation in pipes! See, up to two years back we used to make round pipe and we used to make square pipe. Have anyone ever heard anything apart from round and square in pipes? Hexagon, okay, there could be hexagon pipe, something else? We with our own ideas that how can we replace pipes, someone asked me what do you want to do in the pipe industry? I gave a small answer, I said that I want to replace wood with steel, meaning there is a shortage of wood, it is not allowed to use wood in India, if I can replace wood with steel in construction, see how big demand can be created. The first step for this we took a year back when we made a door frame. We saw the door frame, it looks solid on first look, is made of wood, we saw that we can give such a shape in pipes, was a nice idea, did some brainstorming, tried and attempted and I am happy to inform you that today the amount of doorframes that we sell in a month is close to a replacement of wooden doorframes made out of 300 trees, meaning 300 trees that could have vanished every day we have saved them by supplying our steel and here is the doorframe in front of you. This is the door frame, have you see this doorframe anywhere? I tried Aluminum but could not make the same door, we have tried, aluminum is weak, it will move, steel is solid, more solid than wood and the best part of it is that termites cannot do anything to it, it does not require any maintenance, when you polish your house then just paint it once, that's all. But not only this, this is just one example, we have developed lots of products like this which can replace wood at many places, doorframe, window frame, and we introduced so many products, this is has been our specialty that we call innovation and this is giving us the lead and we have patented this product as well and these are giving us big margins even though it's volumes are less, because it's cost is one-third of wooden doorframes, so obviously in days to come if shortage of wood keeps on increasing then our doorframe will keep on increasing.

Talking of range, we have very wide range, low production cost, branding. This is a unique branding we are doing, this is again something very special. We do not do branding by giving ads in television, we work really in a simple way, we go to the fabricators, we have or fabricators using our steel pipes, ones who fabricate things or make things, every day one meeting is held somewhere in India with 100 to 150 fabricators where we explain them what advantages are of using these pipes, how to use them. This way our users are increasing day by day, this is a unique one to one case. Just like this we go to the farmers, we hold competition amongst the farmers, this we call interactive branding, what you see in television is one sided branding, broadcast it in TV, a celebrity comes and it's over, we do interactive, interacting directly with the user, talking with him. This is another branding we are doing what we call van branding and this is of course I have already talked about innovation, the products we have developed, color coated pipe I have mentioned. We have also launched what we call a zinc spray, places where zinc gets eroded off from the pipes for that we have made zinc spray and we have introduced welding electrodes as well for welding these pipes. So in a nutshell we have a very wide distribution network, range of products, low production cost, competition is poor, new products and branding. And let me tell you the best part, this is a very interesting industry, this industry is so fragmented that 40% industry is divided in many small-small sectors, small scale sector. There is story big fish eating small fish, that industry is vanishing and big industry is growing. So we are in that cycle, we are getting full advantage of it. Many people ask me the question how do you 25% growth, industry does not



increase? So if you want more growth the only way is remove the small fish, not a good thing but it happens all the time.

With this let me come to the financial parameters, this is the growth we have been achieving over last seven years. You might be seeing our CAGR is around 30% for last seven years, year-after-year we started on a small note, we started with some 1.7 lakhs and this year we are trying to produce 8.5 lakh tons continuously steadily and of course EBITDA also has to grow with that, may not be in the same proportions. And best part is our operating cycle, even when growth is happening we have not left controls of our operations, our debtor, our inventory is continuously under control, we did not let it slip from our hand so that at any point of time we are not in a problem like steel industry. What is the problem of our steel industry, too much of debt and here we are controlling the working capital cycle. With the working capital cycle of 54 days you can see how strong we have become and a healthy balance sheet also means our debt to EBITDA is only 2.3, this was one request or one advice we got from many of the investors, please control debt to EBITDA and this is what we have tried to do here. And we have been able to manage our payout ratio, normally we have a system of a dividend payout of 15% to 20%, this year again we are maintaining it, our dividend payout this year again will be between 15%, 20%, this has been recommended by the board, it is going to the AGM.

Here are detail of income statement, you already have some of these details. Having told you what we have done, let me tell you what we are planning to do. The Indian industry is at a cross road, we have a hope that our country will go ahead and the wave of hope that was there with the coming of Modi maybe in some time, some months, some years it will really come true and if India economy grows then steel demand will increase tremendously and if steel demand increases then pipes will definitely go up, we are preparing ourselves for it. We have already reached a capacity of 10 lakhs ton, we are creating more capacity on a continuous basis due to which constantly we get 20% to 25% growth, take our margins to 7%, 8%, 9%, to take our presence in the east well like we have in the south, north and west. With this all India presence, strongest player, our production will be 10 lakhs ton, Tata who is number two does not even have 4 lakhs ton, Jindal is only at 3 lakh ton, so we will get more stronger and we will make ourselves more strong. With that strength, if even a little bit upturn comes in the coming year's economy it will give us a lot of benefit. So our first plan is that somehow to produce 1 million ton, we will be the first person in India to make 1 million ton and then after that keep a 25% growth constant and in the coming years also go out or India, this is our future plan. This line has amused us, we would like to take this further even more. So immediately we are having a capacity of around 86,000 tons per month in five plants, we are hoping to bring it to around 100,000 tons per month by next year, 10 lakhs to 12 lakhs per year. For this nearly 80 crores of investment will be needed which obviously we will do through our internal accruals, maybe we will take some money from NCD. With this our revenue will keep on increasing, and we hope that our revenues will reach 4000 crores, 5000 crores and ultimately will reach 6000 crores.



Let me just share with you some of the key shareholders we have, Kitara Capital who are the main shareholders, IDFC, Emblem, Kotak, HDFC, DSP Blackrock and Bhansali Family. Our stock has been doing thanks to you reasonably well, particularly when seen in the context of the metal stocks. So as compared to Sensex as well this has been doing reasonable and we hope it will continue to do, with your blessings with us this will keep on going like this for few more days.

And lastly I will say that we have all the parameters which are required for a good company, we are the largest player, we have nationwide presence, we have good distribution, good product range, strong revenue, consistent dividend payout and overall we have been outperforming our competitors. With these word I want to thank you all for your patience. Thank you so much.

**Moderator:** Thank you sir. We will now begin the question-and-answer session. Just remind you, this event is being recorded through the phone, so before you ask question please state your name and institution you represent so that the same can be uploaded on the website as a transcript, I think this is for the purpose of a disclosure so we would request you to state your institution name and then ask the question.

**Neeraj Shah:** My name is Neeraj Shah from Daulat Capital. I just want to know, your growth and everything is there and volume and revenue, but what about the margins and what about the profitability because that is the ultimate thing.

**Ashok Gupta:** I agree with you. I think growth without margins is not as good as growth with margins. See in our sector you get lot of volumes, lot of revenue with minimum investment so the output ratio is good, it is around seven to eight times. So in any such industry where output is higher compared to the investment the margin will always be reasonable. In our industry if you see our historical track, our EBITDA margins have been varying between 6% to 8%. We have been trying a lot to improve this percentage, last two years they were around 6%, we introduced a lot of new products only for keeping that in mind we went for branding, we went for new color coated pipes keeping that in view and we have been reasonably successful. Let me tell you that we are very close to our target, so our margins today exclude the stop losses between 7.5% to 8%. Stop loss is a phenomena which is a temporary phenomena, which is aberration because of falling steel prices, crude oil has been following, even gold has been following, everything has been falling. So when things are falling you are going to take some hit, question is how do you minimize it. We minimize it by reducing of inventory, we make sure that an inventory is never more than a month, less than one month your operation will be affected. So without affecting our operations we keep only a month's inventory, so the stop loss at any point of time will not be for more than 1 month of inventory. So we if exclude the stop loss, we have reached our target of 7.5% to 8%, we do not expect our margins to go up to 9% or 10%, we are hoping that they will remain 8%, go to 8.5% and maximum 9%. But what we are trying to do is increase our revenue so much that even at 8% to 9% the bottom-line is good.

**Neeraj Shah:** Sir another question is, what is the cycle or order in the sense that because in a falling kind of a market where the commodity prices are falling we have again after this quarter also, during this

quarter only we have seen the prices falling generally, so in the next quarter also I mean in the current quarter now we will see. So how your generally this order kind of cycle is there that we can, because in a falling this thing how you maintain your margin or it compresses your margin or something like that, that is what, what is the kind of strategy of that?

**Ashok Gupta:**

You see in a falling market there is always a fear that if you book raw material in advance and it comes late you will have lot of loss, what we have done is, not we have done the whole industry has done is they have gone for spot prices. In steel the prices are announced on 1<sup>st</sup> of each month by Steel Authority and everybody follows and we also follow. In pipes price is passed through, if Steel Authority reduces the price by Rs.1000 we reduce by Rs.1000, everything is passed through. So whether prices go up or go down, we are not affected except to the extent of the inventory we are carrying, because we were carrying inventory of around 70,000 tons which is about one month of our sale or around Rs2500 per ton reduction in price, we suffered a loss of 20 crores. Hopefully going forward reduction will not be as much, sometime it will reach a bottom, how let's assume that today's price is near the bottom, it may not be at the bottom but near bottom, and if it is near than maybe Q2 can see some loss, is not 20 then 15, we might not even get in Q3 but now we should reverse the cycle. My personal opinion is that for all the commodities it is almost the bottom, gold is I guess has come down to 22000-23000, 24000, so this way every commodity oil too seems a bottom to us, but we cannot tell, we think each dip as a bottom but we never can see what actually is the bottom, but still hope is there after all you won't get anything at a zero price.

**Neeraj Shah:**

Sir, I just wanted to know about your raw material strategy, I wanted to know how you book your order, I mean because you have a fixed kind of order or how it is passed through on truck basis, what is the thing?

**Ashok Gupta:**

We sell on spot basis, we have no long-term contract. This month we bought the metal, sold it this month itself, so whatever we will have will be in this month only. So every 1<sup>st</sup> we announce the price list, even if there is an old order it will go on new prices and even if I have given an old order to the raw material it will come at new price. So there is no follow-through in our prices, not while selling nor while buying, so everything is current, so our loss is nothing but the inventory loss, this system is not only ours but for the whole industry. So there is no long-term order nor long-term purchase, everything is spot, everything happens on a monthly basis. Like today is 31<sup>st</sup> July, so on 1<sup>st</sup> Steel Authority will announce its price, it will be the same for the whole month, if Steel Authority reduces Rs.1000 we will also reduce Rs.1000, if increased then we will also increase. So that's why there is no loss nor gain.

**Neeraj Shah:**

Sir last question, are you planning to get into the stainless pipe segment or something like that?

**Ashok Gupta:**

See, we believe that if you are in something and you are number one or two then you get a strength, and if you are on number 10 or 2 then it is tough. Today every industry is very competitive, we are number one in this industry, our margins are highest, if we infuse a small amount of money then our revenue increases four folds. Now see we will put hardly 70 crores, our revenue will increase to 1000 crores, this is the advantage that we get. If I go into the stainless industry, make pipes, I

will have to invest so much for a very little revenue, will not get any profit as competition is very high, so we will use in our own industry in our own way. Today in the country from Cochin, Trivandrum right up to Srinagar everybody knows Apollo pipes, I will use this strength of mine. Now what did I do, first I was in Tier-I cities, metros then I went to Tier-II and now I am going to Tier-III city, I won't name the cities or else they will think their city is only in Tier-II but small cities, Sangli, Satara, Hameerapur, small-small places, we have made dealers there, did conferences. So we are increasing our depth, increasing penetration in small-small village.

**Neeraj Shah:** And sir this trading sales you are talking about, it will continue or you will...?

**Ashok Gupta:** Well, you see we get opportunities sometime. What is happening now a day, like you guys say arbitrage, in our industry also arbitrage takes place, we get imports packets and got to know that we import 5000 tons, he says that if you will import 10000 tons then price would be even less by \$5, every businessmen wants to reduce costs, so we import that additional 5000 tons and sell it hands on, so that's trading. So whenever we will get such opportunities in which we will get profits by increasing a small volume, we will do it.

**Participant:** Do you have specific tie ups for imports?

**Ashok Gupta:** What we do is the imports that we have is basically from three or four parties, we do through Nippon, through Posco and Kobe. And now when we import then we have to sell it to someone, so who should we sell, the one who will give the highest price be it Monnet or Ponnet does not matter.

**Participant:** What are the payment mechanisms when we trade?

**Ashok Gupta:** Advance, see if I will not do that then how will I get my debtor day of 22 days, you will not leave me if I make it 22 days to 25 days, you will say why did it became 25, till it is going from 25 to 22 you all are smiling, as soon as it reaches 25 from 22 then we have to take advance, every trading of ours is done through advances, we do not give credit. Yes, what is the color of people giving us advances is what we do not care about.

**Participant:** Sir I have a question for you, you are running a very tight operation in terms of your debtor days, but somewhere in the chain these inventory losses will be hitting somebody, if you are selling it to your wholesalers down the line so maybe they are sitting on stock and they are taking losses which could impact the ability going ahead of taking an offtake from you.

**Ashok Gupta:** See what you are saying is right, you see inventory losses are affecting every person, it is effecting everybody, not single person. Today the whole industry, the whole trading community is getting affected. What happens is that every person reduces his losses, like we are doing, our EBITDA should have come 70 crores, but losses were of 20 crores so we got EBITDA of 50 crores. Every person sees how much can he suffer, that much inventory only he keeps with him. Today is the lowest inventory in today's system. Over a period, see prices have not come down in a day, prices

are reducing since last 18 months, so in these 18 months everyone is reducing their inventory, loss is being suffered by everyone be it steel plant, inventory loss, everybody will face losses if commodity falls be it pipe make, be it wholesaler or retailer. So everyone will have losses, everyone has their own capacity, yes, 5%-7% people cannot suffer such losses or these people speculate a bit, who will speculate will get trapped but in a big industry 1%, 2% keep on coming and going.

**Abhisar Jain:**

Sir myself Abhisar Jain from Centrum. Sir I have a question on the industry that you are in, so can you throw some light on the overall size of the industry and the way it is growing, I hope it is not seeing the kind of growth that you are showing so maybe we are able to take the market share from either the non-organized or even the bigger players who part of organized. So some light on that will be helpful.

**Ashok Gupta:**

You see, among all the industries this is one industry which is taking share from wood and cement, you do not see cement pillars which were made few years ago, so because of that replacement the growth of industry is better than the economic growth. The economy is growing 6%-7%, the industry is growing 10% to 12%, steel pipe industry, I am talking of only structural pipe, I am not talking of other pipes. So that is the advantage we are getting. If that replacement of wood would have been there then our growth would have been less than 5% but there is huge significant difference of wood. Today is you go to any market, there you see small billboards, the whole sheet that the billboard is covered with used to come with wood, now a days 80% comes in steel. We have our office in Delhi, near that there is someone's election office, so when elections happened in Delhi then we all were very happy, not this that there was a big crowd but because whatever billboards they had every billboard had a steel pipe behind them. There is this vote for so and so, earlier it used for wood for so and so, we don't get wood now it has got costlier, they use steel pipes. Wherever wood was used now steel pipe has come, replacement has happened, I showed you the door, windows; so the growth of industry gets faster with this. So see we can take a limited market share not unlimited, so 10% to 12% we are getting help from the industry growth, 10% to 12% we are getting growth from the market share, hopefully this will continue.

**Abhisar Jain:**

And sir market share is taken from?

**Ashok Gupta:**

Very small players. What has happened is that like we make 8 lakhs tons a year, people who make 15000-10000 tons they are not able to sustain today's market, they do not get raw material at competitive price, banks are not helping them, they are not getting credit, their payment does not come in time, they do not have muscle power, so slowly-slowly that small industry is reducing, every month one or two industry stops, their market share is going to big industries like us, Tata, Jindal everyone is growing, it is varying but, it is 25% for us, theirs is 10%, someone's is 12% but growth is happening of all big industries. I think in whole of the India a system is going on that big ones are growing and small industries are at a risk.

**Abhisar Jain:**

And sir if you can just indicate the total industry size, like 8-8.5 lakhs so it is 5 million ton or?

- Ashok Gupta:** Yes, today's industry size for steel pipe is around 7 million ton, so our market share is around 11% and going forward we expect industry to grow at around 10% to 11% in years to come, so around 7 million ton, it is around 70 lakhs today and our share is close to 11%, 12%. We are trying to increase this market share to 15% from 11%, 12%.
- Abhisar Jain:** And sir last question, so all the demand or all the supply is into the retail portion or there is any industrial or project portion also that you get and also the pre-engineered building, are you there in that segment and you supply to some of those pre-engineered building makers?
- Ashok Gupta:** Our 80% supplies are through the distribution channels, wholesaler, dealer, etc., around 5% to 6% we export and 10% is directly to what we call project supplies, NTPC, Reliance, Metros, Contractor, JMC, solar project, you have Mahindra's solar project coming up near Bombay, these are directly through the projects, so we supply significantly to these direct projects and of course 80% goes through distribution channels. What was your last question?
- Abhisar Jain:** No sir, I was saying that are you seeing any great demand pick up from the pre-engineered building?
- Ashok Gupta:** We supply almost to all the major pre-engineered fabricators including Everest, then you have Pennar, Ira, there are couple of people I do not know each one of them but we supply too many of them. Demand is growing because they are changing from sections that is structural's to hollow sections but we do not see a big jump here, we are getting a jump in the solar sector, there are many solar power plants coming up, there are a lot of our pipes going.
- Abhisar Jain:** Any benchmark there for solar power plant, so like a 50 megawatt, any ballpark number?
- Ashok Gupta:** I will put it that way that on an average 7% to 8% of an expenditure on solar power projects is spent on mountings and that mounting is made of steel fraction. So 7% to 8% whatever expense will be incurred will come near steel section.
- Participant:** Is it not true that only 50% of the above mountings is connected with Steel?
- Ashok Gupta:** I don't know that, because this much study does not happen, anyways we do not get data in India but 7% to 8% is Government of India's data, you are saying correct, it can be 0.50%. Government of India had conducted a study, in that they had came up with 8% that 8% will be on mounting....
- Participant:** Sir pre-galvanized you said you had the highest margin so how much is that difference?
- Ashok Gupta:** See, wherever galvanized pipes are there in that margins are around 9% to 10% and in pre-galvanized we get 13% to 14%.
- Participant:** So sir basically that is around 20% of volumes, right?

- Ashok Gupta:** Yes. It is 20%, it keeps on varying between 15%, 20% but yes, averaging is there. The black pipes that we have, in them the margin is hardly 4%, 5%.
- Bhavin Chedda:** Hi Ashok, this is Bhavin Chedda from Enam Holdings. Sir just a few questions, if I adjust your FOREX your OPM was 8% as against historic OPM or 6%, 6.5% so if this FOREX loss is eliminated then 8% is the more sustainable number now going forward?
- Ashok Gupta:** No it was a stock loss, not FOREX. Actually what you are saying is right, it is sustainable but may not be 7.5% to 8%, varying. We are now trying to make it even 8.5% but depending on situation it may vary anywhere between 7.5% to 8.5%, hopefully we will be able to manage within that.
- Bhavin Chedda:** So we will be at least above 7% as compared to 6% plus minus 50 bps because of the economies of scale now you are at 7.5%?
- Ashok Gupta:** Exactly, our cost has come down.
- Bhavin Chedda:** Okay. Other thing you mentioned of domestic market at 7 million, so is this entirely met by domestic players or how is the import seen here because in all other steel or pipe segment we are seeing a lot of imports into India, so why not Chinese guy has targeted this market also or is there a duty protection or any other barriers which is not leading to dumping in this case?
- Ashok Gupta:** See as you would have observed steel pipe is a very low margin for us, EBITDA margin itself is of the range of 7%. Now the freight from China to India, because these are hollow pipes, so the freight element typically of the order of 7% to 8% again, so what is our EBITDA margin becomes their freight only, the cost of production in India is as competitive as anywhere else because if I observe our cost of production today in India is hardly \$40 conversion cost, I do not think Chinese can do less than \$35, so not much of a difference. So that way they do not get a big advantage by selling here. Secondly, these type of industry type of sales, steel pipe people need a very wide variety in short notice in one basket, 20 pipes of this type, 40 of this type, 60 of this type, very difficult to imagine three months in advance and what we have done is we have kind of given them a addiction, people are addicted to smoking or maybe something else, these people are addicted to ready supplies, open a depot everywhere so they cannot even think of imports, whatever they want they get it every day, if the food is delivered at your house everyday you may not even think of having a kitchen, so that is the concept we are taking.
- Bhavin Chedda:** So you are saying 7 million demand is entirely met by the Indian players?
- Ashok Gupta:** Around 98%.
- Bhavin Chedda:** And you are 0.8 million run rate and Tata plus Jindal is another 0.8, so 2, so 4 million, 4.5 million, 5 million is still done by unorganized?

- Ashok Gupta:** Actually there are many players who are in that range of say 2 lakhs to 3 lakhs range, Bhushan coming up in Orissa makes around 3 lakhs tons, there are three groups in Jindal who are making 3 lakhs each, then there is a smaller regional group in Eastern India and Western India who make another 2 to 3 lakhs, so these all groups together will be around 5 million, another 2.5 million tons is maybe coming from very-very small players, 2-2.5 million. So around 30%, 40% market is still in the unorganized sector, but 60% market has already shifted to organized sector.
- Bhavin Chedda:** And just on the CAPEX thing, this 70 crores, 80 crores you will be spending entirely in '16 or '16 and '17?
- Ashok Gupta:** Mostly '16 only, but for a remaining small amount, maybe residual amount but mostly '16.
- Dhruv:** Hi sir, Dhruv here from Motilal Oswal. Sir what is the benefit of branding, we have been investing a lot in branding so what is the benefit of branding we are getting, what is the premium you can say we are getting as compared to our competitors because of branding exercise?
- Ashok Gupta:** I think the branding of course plays the same role as it plays in any other product, people if they remember something they get more confidence in it, they feel easy to buy it. And we are trying to as I told you work on the user, people who are fabricators unlike general branding where you put some add on the TV and people see, they do not need it, we talk only to farmers, we talk only to the fabricators, people who really need the pipes. Advantage is that once you have seen our name and he is familiar with it, when he goes to buy it even if my pipe, and let me tell you my pipe is the most expensive today in the market except Tata's, so when he goes and he sees my name he many times accepts even higher price, he says not an issue, we have heard the names so let's try one time. When he tries first time he is happy, he is satisfied, and then he buys the name. The advantage I am getting is, he is first time buys it once and once I know if he buys it once he will come back to me again and again. So my main advantage is that I am getting first time buyers and then once we use it I have no problem.
- Dhruv:** So do we have any margin advantage versus the competitors?
- Ashok Gupta:** Yes. As I told you my price is in price wise second only to Tata's, if I were not having such a good strong brand my price would have come as any other persons so maybe a margin of (+0.5%) is definitely there on an average, somewhere I get even 2.5% more for example Maharashtra my price is 1.5% more than others, other places like Punjab it is almost same. So on an average I get 0.5% more than anybody else.
- Dhruv:** On the distribution side, we have a lot of distributor and we are expanding significantly in Tier-II and Tier-II cities, so are these distributors exclusive to us or they can be, like in Cement we have exclusive distributors are these distributors exclusive so you have the benefit?
- Ashok Gupta:** 90% no, only 5% 10% maybe there who of their own are working only with us because they feel so comfortable. What typically happens is the distributor is required to keep products at different



price range, as I mentioned to you they are almost at the highest level. So people tend to keep pipes of cheaper brands also for two reasons, A, they can show the comparison see this is good and this is not so good, secondly, they can meet the varying demand, somebody who is coming very poor person he says I need something just give me something like iron, he says fine take this cheap one, but somebody who is a real good fabricator who knows the thing, who has been in the business for long he takes good brand. So normally most distributors will keep two or three brand.

**Dhruv:** Sir lastly, we are growing inclusively so who do you rate as the second, who is following you in terms of growth strategy, who is so actively in the growth, Tatas or Jindal or anybody else?

**Ashok Gupta:** See Tata have already decided that they will not grow any further because they fine steel as a much more lucrative thing, maybe some other product much more lucrative, maybe cars; Jindal, as far as Jindal as concerned, there are three Jindal as you know, only one group that is OP Jindal group is slightly emphasizing on pipes that too Marshal Seamless is more focused on the drills as you know, oil and gas and well we do not see any other group because all other groups are in some financial problems. We have two more groups Bhushan and Surya, they are in financial state. So practically in the country today there is not much of a focus on these pipe.

**Dhruv:** Basically we are the most aggressive players?

**Ashok Gupta:** Most aggressive, but there are small players, most regional players like to be aggressive but in a smaller way but nothing in a big way.

**Dhruv:** And sir just a last question, sir how long does it take to set up a new plant because if demand comes how long does it take for a person to enter the market, so what advantage do you have?

**Ashok Gupta:** In last five years at least six meaningful players have entered the industry out of which five have gone back. the problem is not in manufacturing, the problem in what you are rightly mentioning branding, acceptance. When a new pipe comes or a new brand comes people are skeptical, they are afraid, they are apprehensive, don't know how it is, how it's now, have not heard of this name, everyday someone or the other comes, do not know what they make. Secondly, they are not experienced, they do not know what is to be made, inventory loss happens, they do not know what quality should be, name gets muddled and getting the right people. So for one reason or the other these people have gone back, only one or two are remaining, let us see how long they go and they start on a small level. The biggest problem that we face in our industry, someone wants 50 products, 20 products, now no manufacturer can keep such a big range, so he is able to supply 10% of the demand, customer thinks that for the rest 90% I have to go to Apollo only so why not go for 100% at Apollo. Now what they do is they start keeping prices low, they suffer a loss. There is a big group in Bombay, Lodha Group who are in real-estate I think, they stepped into the steel industry, they opened a factory on the expressway somewhere, invested a lot around 200, 300 crores now all 200, 300 crores has gone. See I will tell you what happens, I know one small example, this person tried to take a order of L&T for a large quantity of around 1 lakhs ton or something on a very cheap price. They suffered so much loss that they had to close down the

factory itself, so this is the disadvantage for the newer players, that's why 5 out of 6 could not continue.

**Participant:** In terms of investing how long does it take one year or two year to setup a plant?

**Ashok Gupta:** See at least 1.5 years is required, depending on land, approvals etc, because the biggest problem is of pollution, there is no guarantee when will you get pollution approval, we got it after three years.

**Participant:** Sir you said you are growing at 11% though the nascent growth rate is 7%, maybe the infrastructure is growing at 11%, but otherwise steel pipes are not replacing any other pipes. Maybe even plastic is replacing steel, have you ever thought of also expanding in plastic?

**Ashok Gupta:** Actually one of our unit is already in plastic but let me tell you the difference between the two, plastic, steel and wood, see when you have to carry water, when water pipe is to be fitted there you can use plastic pipe, but that is not our strength, our presence in water pipes is very little, our presence is in structural. If we want to make a room, like you are seeing this pipe here, it is a steel pipe, you cannot use a plastic pipe instead of it because its strength is not there in it, our strength is in structural pipe. If I will put it on that table's plastic pipe, it will move, if I am making a metro station on plastic pipe then it won't stand, so our strength is structural pipe, plastic cannot replace it and there steel can replace the wood. Now I just went to a five star hotel, we saw that its main gate was made of a steel pipe, I felt so happy because it is a five star hotel, now he thought let's make the gate of steel, it was black in color, good quality pipe, even better than my pipes. So that's why I am telling people can think of such things, but strength should be there. There are many hotels in Bombay their chairs and tables are made of steel pipes, so slowly-slowly it will happen, plastic won't be able to do it.

**Participant:** Sir you have outperformed the market in terms of share price for last one year, two year and five year all. 90% of your holding with select few who are in your circle and they trust you and your future forecasts are so good that they stick with you and stick with their investments, but suppose one day something happens, then all the single circles ones that are there, 90% of the holding if they come in the market for serving...

**Ashok Gupta:** Let me ask you what is this circle, I don't know, I am not of your industry.

**Participant:** No, not the industry, shareholders of your company. Sir I am sorry I came late, so maybe...

**Ashok Gupta:** No problem, we are discussing openly, by the way let me tell you are also from my circle only. Now let me show it to you. First you tell me what is this circle, we have the investors IDFC, HDFC, DSP Blackrock, are these three single circles?

**Participant:** Now I cannot say much, I know but I cannot say.

- Ashok Gupta:** You might be knowing but I do not know, see I am not in the share market, you are in the market you know everything.
- Participant:** No, you also know everything.
- Ashok Gupta:** See you tell me that who is amongst them who is the part of this circle, is it Kitara, IDFC, Emblem, Kotak, DSP, HDFC, FILs, Bhansali's, are these one circle?
- Participant:** Sir their all fund managers are SAP, sir I cannot speak on this, I will not speak on this. But just let me tell, if and when they come for selling, there may be a run for selling so the outperformance that you have given just put a break on it let the company also pick up, the balance sheet also pick up with the share price.
- Ashok Gupta:** Sir I just don't understand one thing, we are outperforming as per our performance, our production, who can make them perform.
- Ankit Shah:** Hello sir, my name is Ankit Shah from Vallum Capital. I had a question regarding sir last time you mentioned about procuring a specific equipment from Japan and you know that similar applications to CDW tubes, so what is the status of that if you could just update on that.
- Ashok Gupta:** Actually what we are doing is we are now going on for value added products, now like we saw that we are introducing new-new products so we are focused on two things as of now, one, make such products that give higher value and then those products which can separate us from the crowd. So we have procured equipment from Japan which makes very precise pipe, dimensions become zero, zero, so that is the advantage we get through it.
- Ankit Shah:** So sir basically applications are similar?
- Ashok Gupta:** Application is like the rollers are made for the industry.
- Ankit Shah:** Even in the auto industry?
- Ashok Gupta:** They are used more in material handling than auto.
- Ankit Shah:** Okay, not in conveyers, off the shaft?
- Ashok Gupta:** No, no.
- Ankit Shah:** Alright, but those are basically high margin right?
- Ashok Gupta:** Higher margin, yes.

- Saurabh:** This is Saurabh from HDFC Mutual Fund. So we did almost 10% of our sales in trading, so was it something which we got for our own consumption and a part of which we sold or was it largely purely for trading?
- Ashok Gupta:** See what happens, steel prices internationally going down, so what have we done, we imported some material, the materials that we imported comes in a packet from outside, if you take 5000 ton then price required is x, if you take 10000 ton then you are at a profit of \$2. Now we have our own consumption limit so what we do is order a larger packet, by bringing larger packet we sell half of the packet to someone through the high seas, remaining half packed we keep for ourselves.
- Saurabh:** So will this be a continuing strategy as long as the spread between India and China is...?
- Ashok Gupta:** No, it is a once in a while thing when it just happens, that someone told you that please increase the quantity then I will give you the benefit, generally it does not happen.
- Saurabh:** No sir, I am saying the import...
- Ashok Gupta:** Import will be there as long as we get advantage.
- Saurabh:** You are saying the spread is there?
- Ashok Gupta:** Yes, today domestic price is 30000, imported price is 27000 then it is beneficial for us to import.
- Saurabh:** So you will continue to...
- Ashok Gupta:** We are importing as of now, will continue importing till it remains beneficial for us.
- Saurabh:** Sir what is your view like once GST comes what do you believe, because you have multiple locations and will there be any advantageous position or it will be a disadvantage?
- Ashok Gupta:** See whatever inter-state sale we are doing 2% CST is applied, so the only advantage we will have is 2% CST will not be there, our sales on CST basis are around 20%, so 2% of 20% which is around 5%, 4%.
- Saurabh:** So 0.5% margin improvement?
- Ashok Gupta:** 0.5% benefit can be there, but I would like to add one point to it, I think they are putting one provision in GST that they will charge 1%, in that it may be the case that our benefit reduces.
- Saurabh:** So it can be negative?
- Ashok Gupta:** Cannot tell what happens, it can be, but it will happen to every industry.



*APL Apollo Tubes Limited  
July 31, 2015*

**Participant:** See normally this color pipe is a base color, when you will put it, welding will be done, the whole structure will be built you will put up a finish color that matches your building color so it will become permanent then.

**Ashok Gupta:** No, this is the base color. The advantage is, if you do not put this color so by the time it reaches it becomes rusty, so it will protect. The price of it is 4% to 5% higher than the normal pipe, our cost of production is coming to 2%. Anything else, anything more interesting?

**Participant:** Why has the promoters stake come down in the recent past?

**Ashok Gupta:** No, it has not gone down, we have not made any sale in past one year, I am not aware of some small percent here or there but according to me there is no holding, if you want the exact percentage then I can give it to you. You all must be having the holding percentage, has the holding percentage gone down? I don't think so, 0.5% - 1% I cannot say but no, no one of has sold his share, promoters have not sold, others keep on selling.

Anything else, any other question? My pleasure, it was a real pleasure to talk to you, it was really interesting to talk to you. Thank you so much for coming. Please join us for high tea.