



“Apollo Tubes to Understand the Demonetization Impact on
the Company and Overall Steel Pipes Industry”

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Moderator: Ladies and gentlemen, good day and welcome to the Conference Call of APL Apollo Tubes hosted by Edelweiss Broking 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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Salil Utagi. Thank you and over to you sir.

Salil Utagi: Thanks. We welcome you all to the con-call of APL Apollo Tubes to understand the demonetization impact on the company and overall steel pipes industry. The management is represented by Mr. Ashok Gupta – Managing Director and Mr. Deepak Goel – CFO of the company. Now, I hand over the call to Mr. Ashok Gupta for his opening remarks, then we can open the floor for question answers. Over to you, Ashok Ji.

Ashok Gupta: Good afternoon friends. You all of us are aware that the development which took place on the 8th of evening is almost like a hurricane, suddenly it came. It had two major impacts. One was on the retail side. The consumer suddenly was left with no cash to buy daily needs. So, as far as pipes are concerned, our ultimate consumer, be the fabricator or be the householder, you normally buy these goods by cash and payments by way of credit cards, by way of cheque and bank transfers are limited. So, consequently the starting pipe of retail sales got affected, which in turn had impact on dealers and subsequently on distributors and then on the manufacturers of pipes and subsequently on the manufacturer of coils, steel. That was the one impact which came up in last 3 weeks.

Second thing was that the payment cycle got affected. Now, each of the person in the cycle had given some credit to his customer. Now that customer was unable to pay the whole dues and because they were not able to pay even if the demand was there, the supply got affected. So, I think these are the basic two roots of the issues which got generated as a result of the demonetization. So, it is having an effect on almost each aspect of the economy, whether it is retail sale or it is wholesale business or even it is the manufacturer. Impact may vary from item to item and items of daily necessity, impact obviously will be much less, but in items which heavier people can postpone their purchases, the impact will be much more.

This is having an impact on ours also. Our sales this month have been badly affected. We expect our sales to be significantly down from our average and going forward, we will have to see how things now shape up. Whether there will be sufficient currency available in the system to make things normal again and how fast that currency can come with the descent level of the chain, the consumer, the retailers and each and every level and how far they can make things, make their lives normal and then come over to buying the things which are not immediately required, things of not necessity.

However, having said that in a short term period, there will be pains but in the long run in the economy, if the payment shifts from cash or number 2 or avoidance of taxes to compliances

and to what we call number 1 payment, then it will be good for large corporation like us who are totally tax compliant. For people who are avoiding taxes, they will be badly affected and the business will particularly shift to people who are tax compliant who has been meeting all the requirement and so we expect that in the long run the company will gain a lot because of sales shift and if the sales shift, our volumes and our margins both should improve. So, short term there is a pain, significant pain depending on the time period, how long the pain will last and has to be felt, but long run we feel it will be positive for the company. I think these are the small opening remarks I wanted to give.

Moderator: Thank you very much. We will now begin with the question and answer session. We have our first question from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: Since the 9th of November, could you give us sense of what kind of volume slowdown, has it completely seized, has the volume offtake should we assume is in the zero to low single digit numbers. Could you just give a sense of what kind of impact it had on your volume offtake?

Ashok Gupta: In this particular month, we had first 8 days which were good days, normal days, so that was there and after that, our volume has come down by around 40%-50%. So this month as a whole we expect at against our average sale of around 75,000 to 80,000 tonnes, we should be somewhere between 50,000 tonnes to 60,000 tonnes. So month as a whole, there will be a drop of 30%-40% because first 8 days are alright normal, but last 15-30 days have not been so good and going forward it will depend on how the things shape up.

Baidik Sarkar: So, it has been effectively 16 days since its regulation, obviously I understand the first 5, 6, 7 may be 10 days have been painful. But over the last may be day or two, are you seeing normalcy return as has the pace of volume offtake been static or are you witnessing a slight improvement on that?

Ashok Gupta: You are right to an extent that first week was horrible. So there has been some improvement, I won't say it is very significant, I will not say it is can we marked upon, but yes there is marginal improvement so that the materials started moving. But it is still, I would say horrible.

Baidik Sarkar: So from our plant perspective, have we cut down our production in sync with what the volume loss has been or are we still building up inventory at our plants? What is the stand there?

Ashok Gupta: No, we have cut down. Of course some inventory buildup has taken place because suddenly you cannot make it zero, but yes we have cut down production.

Baidik Sarkar: Has this impacted our input cost anyhow the HRC prices, I mean has this impact been felt there?

Ashok Gupta: HRC prices are not linked directly to it because HRC prices are controlled by the steel makers on a different footing based on the import wages and import duties. So I would not say that HRC prices have been directly impacted because of slowdown, hopefully the HRC price

impact should come next month. This month because the price is already fixed before the month beginning, I think this whatever impact should come will come in the next month.

Baidik Sarkar: And given the inventory buildup not just for us but for the entire industry, you think there might be some pressure in realization in the months to come, obviously there might be pressure to liquidate the inventory, how do you see that shaping up?

Ashok Gupta: Actually it is difficult to say so at this moment because it will depend on how, things remain as bad as they are, there is obviously pressure but the things improved because the other side is also there. There is some demand buildup will start also because economy cannot work like this. People need goods, people need services. So, in case government improves this currency system, government improves the distribution, then things should become positive and in case they are not able to do it for whatever reason, whether notes have been printed or not printed or movement is taking place or not place, they can distribute or not, then we will can have significant problems. It all depends how the government is able to take the currency crisis.

Baidik Sarkar: So, given the 20% of our demand comes from institutional buyers, has there been a slowdown on that front as well or is ...?

Ashok Gupta: Institutional buyers, it is not 20% it is less. It is I think 5% to 10% only and there are some quantum exports, so on export and on OEMs, no. There has not been any significant dip in the OEM, but going forward something can happen because OEM till now are buying based on their own past requirements. But suppose their sales further go down, then it may have happen but OEMs I am not expecting much of a change may be 5%-10%. But it is the distributors and the retailers where the maximum impact is happening.

Baidik Sarkar: I am just trying to understand if you had the opportunity to engage with any of the real estate players and what kind of commentary you might be hearing from the real estate players?

Ashok Gupta: Well, let us see our materials mostly goes through distributors, so we are not having much of interaction directly with the reality players but I think they are as confused as many of us are.

Baidik Sarkar: Sir, one last question from my side. It is like when we are talking about the volumes drop of around 40%, is this volume drop you are talking about for this particular month itself or for the whole quarter?

Ashok Gupta: No, month only. Actually as I told you, we do not even know what is going to happen after a week. See, it depends if the currency comes in the market. Now till date the currency whatever has come is being used only for buying essentials. Disposable products or things which can be delayed those have not yet started. So, I think it will take some time before things come to a place. We will know exactly what to expect in days to come. So, it is only for this month. Next month, let us see, after a week or so we will be able to have a better idea.

- Baidik Sarkar:** So, will we be able to at least in the long term, you are talking about the structural positives, so what kind of market share can be gained from the unorganized sector if we look at it may be from a six months or one year perspective?
- Ashok Gupta:** We have been building up our capacities and I think in case the unorganized sector gets affected the way we are expecting to get affected in case we are not able to handle the gains. So, it is also very important to know that whether the post scenario people will be able to handle cash or not. If they are not able to handle cash, then it is a big plus for us. How will they strike Indian system, they go back to the old system then I think we have not got anything. So, we all expect that people will not be able to go back to old system and if they cannot go back to old system, it will be a big plus. How much plus it is, I think at this moment it is bit difficult to say but definitely it will be plus and we should be on our trajectory or goal path.
- Baidik Sarkar:** Sir, currently what would be the unorganized sector share of the market?
- Ashok Gupta:** There is no authentic data per say but we have been estimating it between 30% to 40%.
- Moderator:** Thank you. We have our next question from the line of Chintan Seth from Sameeksha Capital. Please go ahead.
- Chintan Seth:** Just wanted to understand on the dealer to retailer, it is mostly on cash as you mentioned that there is very minimal use of credit card and cheques. Have we seen after the weeks or two weeks' time that some demand has shifted to non-cash system or still is unclear at this point of time?
- Ashok Gupta:** It is unclear.
- Chintan Seth:** And sir, from our point of view, we mostly deals in cheques and from the distributor to you is mostly on a formal way of ...?
- Ashok Gupta:** Banking system.
- Chintan Seth:** Bank right?
- Ashok Gupta:** Yes.
- Chintan Seth:** So, we are not impacted on that front but we are impacted on the backend of the distribution and cycle where mostly it deals with cash?
- Ashok Gupta:** We are not directly impacted because our payments all come by cheque or by transfer, but our distributors and dealers they are affected and because of that, they do not have any funds and because they do not have fund, they cannot give it to us.
- Chintan Seth:** Has been there any recovery we have been getting vibes that post the demonetization, it was likemost of the dues are coming back to the company or the supplier because the bad debts or

the funds which were tied up or are substandard are getting back their dues by paying old currency, have you faced such kind of scenario?

Ashok Gupta: Actually that we are slightly lucky and we were quite cautious about it right from beginning. We have not been extending credit where credit worthiness is not there and so I was telling you that so far as...

Chintan Seth: Collections basically?

Ashok Gupta: So, what happens, our collection not affected but dealer collection affected. To that extent, our collection gets affected indirectly.

Chintan Seth: But have we collected or some of the overdue?

Ashok Gupta: There is nothing overdue. As I told you, we were quite cautious. So, we did not allow any bad debts or overdues to be piled up. We are very strict in getting our payments within 15 days or so. We did not have that problem to begin with, so the customer solution does not arise.

Chintan Seth: And sir, how this new change will have any on the dealers and from your end you are educating your distributors, dealers that shifting from the informal to formal transactions non-cash transactions, are we seeing some at least way of doing things have been changing from the distributors and dealers and that they also want to add up to the new norms basically?

Ashok Gupta: Yes, you are right. Actually some of the dealer distributors, they had been saying that they will caught unaware, so they are not happy with this situation. So, in days to come I expect that more and more people will start dealing only with the cheque and the banking system. So, this as a practice the amount of banking system should increase.

Chintan Seth: Do we have any data that from our 2000 odd dealers across country...?

Ashok Gupta: Absolutely not. Data is something which is always short off, there is no data, there is only discussion which takes place and we kind of get a feeling from them.

Chintan Seth: Swiping machines, any of the dealers or the distributors have started tying up with the banks and getting the swiping cards, so that transactions those demands which are coming back but because of the cash crunch, the swiping machine or something some way of ...

Ashok Gupta: No, I think at this juncture, I do not think any significant number of people would have got the swipe machine. I think that idea will come to know once they are able to grapple with the current situation. Currently, the problem they are trying to solve is of getting their payments from their dealers. So, I think once they get through it, then they will think of these methods, but yes, you are right in days to come, more and more people will go for this kind of system.

Chintan Seth: How much of such exposure we are, what is the current debtors in this sir?

- Ashok Gupta:** Current debtors, I think Deepak can tell you the current debtors, Deepak.
- Deepak Goel:** Around 225 crores.
- Chintan Seth:** Are we extending any credit limit to our distributor to support the liquidity thing currently?
- Ashok Gupta:** No ,we are not extending it because we do not want to take a risk after all tomorrow it can happen that people are not able to solve the problem. So it is at this juncture risk taking is not increasing. So whatever system we were following, we are continuing with the same, any views Deepak? At this moment, we are not taking any additional risk.
- Moderator:** Thank you. We have our next question from the line of Salil Utagi. Please go ahead.
- Salil Utagi:** Sir, would this impact our debt level means we are planning to reduce our debt considerably in next 2-3 years, so if this situation perceives then will have some difficulty right?
- Ashok Gupta:** I won't say that but let us see, see what has happened is at this juncture we are all doing firefighting. I think sure that today we live, but our long term strategy will take some more time to be built up.
- Salil Utagi:** But short term borrowings which were at the end of September....?
- Ashok Gupta:** We are not increasing, we are not extending both credit.
- Moderator:** Thank you. We have our next question from line of Giriraj Daga from K. M Visaria Family Trust. Please go ahead.
- Giriraj Daga:** Sir, my question is related like this month we are talking about somewhere around 25,000 tonnes to 30,000 tonnes of volume impact, hopefully like next month should be lower than that may be about 10-15 but what would be your best case estimate that we will return to normal, so by end of December or like it might even spill over to fourth quarter also?
- Ashok Gupta:** Just let us see how the things really turn up. Currently, we all are just waiting for things to become normal in the sense currency should be with the people. We have no idea when people will have currency. We do not know when people will have currency. We cannot say what kind of sales to expect in days to come.
- Giriraj Daga:** And just on a steel price side, at the spot market prices I believe the steel prices are declining. So you will be expecting decent cut from the 1st December onwards, steel prices?
- Ashok Gupta:** Because the demand is less, so they should react but steel premises we are never able to predict their prices in advance.
- Moderator:** Thank you. We have our next question from the line of Kalpesh Gothi from Veda Investment. Please go ahead.

- Kalpesh Gothi:** Sir, what will be the volume impact in this Q3?
- Ashok Gupta:** I was saying that we have seen that in this month our sales will be down from around our average of 75,000 to 80,000 to around 50,000 to 60,000. Going forward, it is difficult to say anything in the month of December what can happen, it all depends on how fast the currency can reach the consumers. So, because that is totally unpredictable, I do not think anybody can say today. So, I think it won't be right for my part to project what kind of sales will come in the month of December.
- Kalpesh Gothi:** So, what kind of demand for our product coming from the real estate?
- Ashok Gupta:** Real estate directly does not give any demand because the demand comes mostly from fabricators. So, but yes, construction industry is user of raw material and in even construction based industry, we cannot say what kind of impact it will have in days to come. So, our business is heavy from impact because of the construction industry but it is not a major one because our applications are very wide, it is not only construction it could be infrastructure, it could be daily use, it could be individual, it could be industry, it could be project, it could be Airport, Hotels everything. So, one sector alone does not harm us totally.
- Kalpesh Gothi:** So, your monthly rendered was 75,000?
- Ashok Gupta:** Average 75-80 and this month it would be around between 50 to 60.
- Kalpesh Gothi:** Any more difficulty we are seeing in terms of realizing your money from the dealer, distributor?
- Ashok Gupta:** No, we are strict about our payments. We are insisting that payment should come to us before you take our next supplies.
- Kalpesh Gothi:** Sir, you spoke about that you cut your production, cut down your production, by how much percentage?
- Ashok Gupta:** We are keeping our production in line with the demand. There is some inventory buildup, I would not allow it to become too much.
- Moderator:** Thank you. We have our next question from the line of Jignesh Kamani from GMO. Please go ahead.
- Jignesh Kamani:** Just wanted to know about the things beyond the one or two quarter providing by March hopefully this money situation will improve. Just want to check after that what kind of growth can be impacted because as you said the fabricator everything did large part in the unaccounted you can say and their cash crunch will be available or they won't be able, they will be forced to do in the you can say white which will impact their competitiveness. So if you take what industry wise similarly residential will go for a toss or delay so what kind of growth

moderation you will see in the pipe demand after you can say 2 quarters at least money flow will start improving.

Ashok Gupta: So there are two factors. India has basically a growth story. So, I think the growth story cannot go down, growth should take place which is not 7%, 6%, 5%. So growth will always be there. So the growth remaining stays intact, quantum of growth can change. Second is that there will be some shifting expected in case the government is able to curve the flow in number two. That is in without payment of taxes. Essentially if that continues, in case the government is able to curve it and people will be either forced to do all dealing through banking system in which case they cannot avoid taxes and did not operate at all. In both the cases, we will be benefited either by way of better margins or by way of higher volumes.

Jignesh Kamani: So I am taking more about industry perspective. Definitely, there will be more say from unorganized to organized, so impact on us will be very limited either negative or positive side, but industry..

Ashok Gupta: It will be positive for the whole industry where demand is not going down hopefully within 6 months- 1 year, but in the long run demand should not go down.

Jignesh Kamani: You are not expecting that growth which will be 10% plus in the piping segment will be more than around 6%-7% at the industry level.

Ashok Gupta: The industry should continue to grow at the current level that goes around 7%-8%. And even if it slows down, it may be 6%-7% and in line with the GDP, but I do not think demand will dry up. Demand will still be there. It is only a question of time, how much time it takes for things to become normal.

Moderator: Thank you. We have our next question from the line of Siddharth Bhattacharya from Suyash Advisors. Please go ahead.

Siddharth Bhattacharya: Sir, I wanted to understand in terms of recovery of demand, are we seeing let us say geographical difference, for example do you think that South India will sort of recover faster, do you think that urban areas would recover faster in terms of demand versus rural. What is your thought on that?

Ashok Gupta: That is true that wherever the activities where already having good systems, their recovery should be faster. So South India was I think having better systems in some ways, their recovery could be better. But as I told you, it is now question of not only the practices, but also disbursal of currency. We do not know how much time it is going to take and how much time. So, yes definitely should be better in this like South India where things are already good, but we do not know how much time it may take.

Siddharth Bhattacharya: Sir, my second question is I just wanted to understand whether have we thought about doing any sort of maintenance in our plants in the interim?

- Ashok Gupta:** We are already doing maintenance from time to time, so that is already taken care of.
- Siddharth Bhattacharya:** So, there is no special maintenance that is scheduled.
- Ashok Gupta:** I think that is right.
- Siddharth Bhattacharya:** Third question sir is I wanted to understand as things stand today, what is our outlook for CAPEX assuming that there is slowdown in demand for let us say 6 months to 9 months. What is our outlook for CAPEX and second, how much have we committed so far in terms of ongoing CAPEX that we need to sort of finish in the next 6 to 9 months?
- Ashok Gupta:** Whatever CAPEX we have committed, we are definitely going to do it because most of it has been committed and we are going ahead. Additionally, we may not commit. What CAPEX we have already committed, I think Deepak Goel will be able to better give you figures. Let me answer in a very broad way. Our CAPEX expenditure this year is expected to be around I think 150-200 crores that is already committed. Next year also, part has been committed around I think 50 crores plus. That is all we are still in the way of finding out that we can take a view, but has not been finalized.
- Siddharth Bhattacharya:** So at max around 200-250 crores is what we have committed so far.
- Ashok Gupta:** I think 250 crores plus has already committed, balance we will have to.
- Moderator:** Thank you. Due to paucity of time that was the last question. I would now like to hand the floor over to Mr. Salil Utagi for his closing comments.
- Salil Utagi:** On behalf of Edelweiss Broking, we thank all the participants and especially Mr. Ashok Gupta who took out time to answer our queries. Thank you Ashokji, thank you Deepakji.
- Ashok Gupta:** Thank you Salil. Thank you everybody.
- Moderator:** Ladies and gentlemen, that concludes this conference. Thank you for joining us and you may now disconnect lines.