APL Apollo Tubes Ltd

Q1-FY20 Earnings Call Transcript
August 13, 2019

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

Anoop Poojari: Thank you. Good afternoon, everyone. And thank you for joining us on APL Apollo Tubes Limited's Q1 FY20 Results Conference Call. We have with us Mr. Sanjay Gupta – Chairman of the company, Mr. Ashok Gupta – Managing Director, and Mr. Deepak Goyal – CFO of the company.

We will begin the call with brief opening remarks from the management, following which we will have the forum open for an interactive question-and-answer session. Before we begin, I would like to point out that some statements made in this call maybe forward-looking and a disclaimer to this effect has been included in the earnings presentation shared with you earlier.

I would now like to invite Mr. Deepak Goyal to make his opening remarks.

Deepak Goyal: Good afternoon, everyone. I welcome all of you to APL Apollo conference call to discuss the operating and financial results for the quarter ended on 30th June, 2019. I will briefly cover the financial performance, followed by Ashok Ji who will take us through the business performance.

We have begun FY 2020 on a strong note. Our sales volume posted a robust growth of 29% to 3.9 lakh metric tons in Q1 FY20. The growth was driven by a healthy pick up in the demand environment and our ability to take the market share from the small players. Strong contribution from our value-added products category of Hollow Sections, DFT pipe and GP pipe among others assisted the overall volume growth during the quarter.

Before I take you through the financial performance, I would like to highlight that the figures include contribution from Apollo Tricoat for 13 days of operation that is 17th of June to 30th June 2019. Total revenue during the quarter stood at Rs. 2,071 crore, registering an increase of 24% in year-on-year. These include contribution from Apollo Tricoat which amounts to Rs. 11 crore.

With regards to profitability – EBITDA in Q1 FY20 stood at Rs. 129 crore, higher by 15% year-on-year. EBITDA per tonne during the quarter stood at Rs. 3,335. Given our focus on volume growth, EBITDA per ton was within the healthy range. Spending on brand development, marketing activity increased to around Rs. 10 crore during the quarter. This amongst the stamp duty expense of Rs. 2.3 crore for acquisition of Taurus Value plant resulted in higher other expenses during the Q1 FY20.

Further, raw material price during quarter was down, which impacted the inventory valuation. A combination of all these factors affected profitability during the quarter. However, from a longer-term perspective the company expects that its industry-leading brand initiatives will help strengthen its brand position in the longer-term. In addition, an increasing contribution from the higher margins value-added branded products and better utilization levels will positively impact profitability on going forward.

Depreciation during the quarter stood at Rs. 20 crore, higher by 30% YoY due to the commissioning of new capacities. During the quarter, interest costs were higher by 7% YoY to Rs. 28 crore. However, the interest cost as a percentage of sales came lower by 20 bps which was led by an improvement in the working capital cycle. During the quarter PAT stood at Rs. 52 crore, higher by 11%. Net profit growth was slightly impacted by higher depreciation and increased tax rate. On the balance sheet front, our total debt is around Rs. 892 crore, which increased mainly due to the acquisition of Shankara Manufacturing unit. However, the capital infusion of Rs. 97 crore by promoter helped maintain a healthy balance sheet position. Our working capital cycle improved with debtor 19 days, inventory 34 days, creditor 25 days. During the quarter company generated a solid operating cash flow of Rs. 72 crore.

With this, I would like to hand over to Ashok Ji who will take us through our key highlights and business performance. Thank you.

Ashok Gupta

Thank you, Deepak. And once again, a very warm welcome to all my friends, and a very good afternoon. Indeed, the previous quarter was again a remarkable quarter for us at APL Apollo. In line we were thinking we had been growing steadily at 20% to 30% per year. Our emphasis is slowly but steadily shifting.

We had promised you long-time back that in due course of time you will see us more as a consumer brand. I think the journey is taking shape. You will all be happy to know that in line with that journey, we have taken a strategic shift from a commodity to consumer product, to a product made to the specific requirements of our customers. Towards that end, we are now going ahead with having a significant sustainable branding campaign. In the current year itself we are planning to spend as much as Rs. 40 crore to Rs. 50 crore on making APL Apollo a brand worth the name.

Towards that end, we have already taken up Mr. Big B – Mr. Amitabh Bachchan as our brand ambassador for next two years. We have already started a small campaign through IPL, now we will be starting a big campaign through TVC, media and print. This will make sure that our brand and our progress becomes sustainable. Not only that, we are also shifting over our focus on consumer-oriented products. As any company evolves and particularly when you evolve into a large corporation, you tend to add more and more better products to your stable. Towards that end, we are already working towards some of the consumer-oriented products. And incidentally those consumer products are also environmentally friendly. They will make sure that the damage made to the environment is also reduced. You are perhaps already aware that we have launched doorframe, and I am happy to share with you that doorframe has got a big welcome in the market. The first month capacity has been fully booked. So, I am happy to share with you that we have made very good progress in that direction. The second product we are trying to launch is wooden planks made of steel. This again we are hopeful will make a big dent in the consumer product we are talking about. Slowly and steadily you will see more and more such products coming from our brand. With this, the company will not have only a very, very high value product in its basket, but also ensure sustainable growth over a period of time.

With this, I invite all of you to please join me in question and answers you may have. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Ankit Merchant from SMC Global. Please go ahead.

Ankit Merchant: Sir, I would like to ask one question related to the Dubai warehouse. So, what is the main intention going over there? And going forward, how do you see the market shaping up for us over there, which particular geography are we focusing? And how much is the target of volume which you would try to sell there?

Ashok Gupta: See, normally whenever a corporation becomes large, it tends to widen its scope outside its borders. In that line we are also now venturing out, you are aware that we were always used to be exporting around 4% to 5% of our products, in that line now we are looking at the Middle East as a big market. We have started on a smaller level, we started with a warehouse in Dubai and we are already exporting around 1,000 tonnes to 2000 tonnes per month via Dubai to Middle East market. This amount will slowly go up. We are at the moment only focusing of using Dubai warehouse as a gateway for our products. If we really mature, if things happen well, then perhaps in the days to come we can even think of manufacturing facility. At the moment we are only talking of a warehouse.

Ankit Merchant: Sure. And will have a similar approach the way you approach in the Indian domestic market or the approach is going to be a little different there? So, will it follow the distributor model or would you tie-up with few construction companies or something like that?

Ashok Gupta: Our basic strategy will remain same. In India we have over 600 distributors through whom we supply materials all over the country, including Tier 2, Tier 3 cities. In Middle East our approach will be similar, we have a big warehouse there and we have already started supplying four to five distributors there who are in turn supplying to interiors. So, basic approach will remain the same However, there are some minor variation in the marketing which are there from market to market, those of course will be taken care of.

Ankit Merchant: Sure. And primarily it will be Hollow Sections and the DFT pipes, just to get an understanding?

Ashok Gupta: You are right. You see our strength has always been DFT pipes, Hollow Sections, and GP pipes. These strengths we will be again using there. Incidentally in Dubai also there are not many manufacturers who have DFT facilities, who have a facility which has 300x300, but demand is there. In warehouse readymade materials are available, we will go a long way in meeting the demand.

Ankit Merchant: Sure. And just one last question related to Apollo Tricoat. So, for the doorframe we have received a good response, but what about ILG, In-Line Galvanized pipes, how is the demand? I mean, it's too early but still how is it panning out for us?

Ashok Gupta: See, the difference between doorframe and ILG is, doorframe is a replacement for wooden doorframe which is already in use. In ILG we are talking of a totally new product which is being introduced. For introducing that product, we need to do much more market penetration. So, the process has started, we are already getting good response from people who could be potential customers. And you see there are two, three applications where ILG will be a big success. One of those we have been talking about is in electrical conduct segment, then we are looking at scaffolding, and looking at agriculture pipes. Now those areas are there where the consumers have been approached. Some of them have already agreed, registration have already taken place, the process has started, but any new thing, any new innovation it takes time to get accepted in the market, that much time will be taken for ILG as well.

Ankit Merchant: Thank you. Just one last one last question if I could squeeze in. Sir, we have seen a lot of slowdown in the construction sector across India, and looking at the phenomenal growth which the company has achieved, I am sure that this growth would have come more through the market share snatching rather than the demand growth, the actual demand for the product. Is my thought right on this point?

Ashok Gupta: So, both the teams are there, you are right we have taken market share from the smaller players, particularly those who are on the periphery. But let me tell you there is one difference between our steel sections and all other products which you are talking of, which you are talking of slowing down in the economy. Steel sections also are a substitute for wood. And you see to that extent demand continues to grow for steel sections, and our strength is steel section. So, for us demand is still continued to be growing despite slowdown in the economic, because wood has become very expensive.

Moderator: Thank you. The next question is from the line of Pallav Agarwal from Antique Stock Broking. Please go ahead.

Pallav Agarwal: So, I just had a couple of questions, first, with the steel prices again dropping very sharply off late. So, what was the quantum of inventory loss that we had in Q1? And if prices stay at these levels, would we see inventory loss in Q2?

Sanjay Gupta: Technically, we have forgotten what is the inventory loss, now this is a business loss, we have total focus on the like a product-based business. But the steel prices in Q1 is almost down by Rs. 2,000 per tonne. And Q2 is also sitting about the drop of Rs. 2,000 or Rs. 2,500 per tonne.

Pallav Agarwal: Okay. So, what was the inventory loss, did we have any losses in Q1 because you said raw material cost had fallen.

Sanjay Gupta: Yes, typically inventory of almost 1.5 lakh tonne. So, you can calculate the devaluation is there.

Pallav Agarwal: So, we may have some losses, okay. Sir, secondly, I think this quarter we saw a very high level of others and trading sales, so is this a sustainable thing because this has pushed up our revenues quite a bit in this quarter?

Sanjay Gupta: No, when the inventory is going down, we sell some HR coils, almost I think near about Rs. 100 crore of HR coil sale is there.

Pallav Agarwal: Okay. So, this may not be there like I mean is this a normal practice or this is only when prices are dropping?

Sanjay Gupta: This because of the price drop.

Pallav Agarwal: Okay. So, we may not see such levels of sales going ahead?

Sanjay Gupta: No, not at all.

Pallav Agarwal: Okay. Sir and also just since you all are more acquainted to the market, so what is your sense, have prices in the domestic market stabilized at these levels or you feel there could be further downside? Because, right now we have a significant discount to imported landed prices. So, is this a situation that can continue to it will reverse at some point of time?

Ashok Gupta: Typically, the prices currently prevailing in India and globally seems to be at their bottom. We have seen that for last one, one and a half month international prices are not moving down. We are also seeing that for last one month or so our domestic prices are also kind of looking to be bottoming out. And as rightly you said that domestic prices are at a discount to the international landed prices. So, question of the further slide from the current levels should not arise. So, in our view these are the lowest possible prices in the near future.

Pallav Agarwal: Okay. And any thoughts on the safeguard duty because the rumors keep coming that 25% duty can be imposed. Anything that you all are hearing on that front?

Ashok Gupta: I think this question would be better answered by the steel manufacturers.

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

Rahul Jain: Thanks for the opportunity and congratulations on a good set of numbers both on the P&L and balance sheet. I have two questions. Of course, one of my questions have been asked earlier. One is, you continue to be quite positive in terms of maintaining a 20% volume growth, both for this year and next year also. Now, given the uncertain environment, given the situation as we speak today in the domestic as well as global environment, sir what gives you confidence that you can achieve this 20% growth? And typically, as investors what should we track to understand whether this growth is slipping down or can that accelerate also?

Sanjay Gupta: Technically, now, we have a capacity of almost 2.5 million tonnes. We have given the guidelines of 20% growth in top-line and 25% in the bottom line. We have achieved the earlier target and my capacity is almost at the 100% growth level. We are the cheapest buyer of raw material in the country, we are the lowest cost producer of tubes in the country. We now have a very good brand image in the market. We have a big number of baskets with us. And we have a very good technological advantage as against other competitors, and government is also running lot of places, earlier I also said my biggest competitor is not the others, my biggest competitor is wood. I am targeting total capacity, but just I am waiting because due to the price fall in the last six, seven months there is a sharp price fall of almost Rs. 10,000 tonne. So, this business is also in some ways like cyclic business for staffing. So, nobody wants to stock the material. I think now we are almost near to bottom. If this fear factor go out from the market and government is also taking care about the economic from last two, three days we are also hearing, anything if external things just support us, so why should we can't do 2.5 million tonnes, why should we talk about growth of 20%. My very clear vision to my systems, my colleagues, my distributors, whatever my channel partners, I am taking care for 2.5 million tonnes. But okay, for the guidelines my guidance says about 20% growth line in the numbers and 5%, 7% through Tricoat. Collectively, the growth is 25%, this is my guarantee. But my thinking is bigger, why should I keep my capacity unutilized, I am planning for 2.5 million tonnes.

Rahul Jain: But any particular sectors which are showing high growth and which will contribute towards this?

Sanjay Gupta: We have increased our capacity in Pre-Galvanized to almost by 50%, now my Pre-Galvanized tube capacity is almost 0.5 million tonnes, and my ILG capacity is almost 0.05 million tonnes, Doorframe capacity is close to 0.06 million tonne, and the DFT capacity is almost 0.6 million tonne. In these four sectors we are focusing too much, because there is a value addition, there is lots of advantage to us.

Rahul Jain: And other expense has gone up this particular quarter, can you just share some more details about where have they gone up?

Deepak Goyal: Year-on-year other expenses have increased because we have changes in some of the trade policies, earlier we are selling the metal ex-works, then freight cost is net off from the sales, now it's coming to the other expenses. And this year say branding expenses is also increased by Rs. 10 crore, that's why other expenses are increased.

Rahul Jain: It is due to the branding which is Rs. 10 crore plus the freight part?

Deepak Goyal: Yes.

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

Ankit Gor: I have few questions, starting with the Kerala flood impact. We have seen our overall performance was impacted last year because of Kerala flood. This time the situation is equal to that. Since our revenue 8% to 10% comes from Kerala and obviously it's a high margin market since it's a more GP market, how do you see this time and how do you tackle this time since some learning last year or some or the same thing?

Sanjay Gupta: This problem is again ahead of us July technically we have done well. But in the month of August we are also again stuck. But we are thinking we can cover up volumes by other states, but no doubt in Kerala there is a problem.

Ankit Gor: Okay. So, we are facing some sort of slowdown there as we are speaking Kerala?

Sanjay Gupta: Lot of slowdown in Kerala for month of August.

Ankit Gor: Okay. Next question with regards to this, now since we have a 25% market share in overall ARW market industry, what is the goal ahead now and will we focus on utilizing these capacities first, 2.5 million tonnes, or you are open for more inorganic acquisitions or something like that?

Sanjay Gupta: No, right now there is not any chance of acquisition, or put some money for the acquisition from my balance sheet. Today my total focus is to utilize 2.5 million tonne capacity. My market share is not 25% or 30%, I think my market share is almost about 40% because when we are talking about ARW tube there is four types of tubes in the market, one is Galvanized tubes, second is the Black tubes, third is Structural tubes, four is Pre-Galvanized tubes. And put together, total market is almost close to 6 million tonnes to 7 million tonnes. But we are not a good player in Galvanized tube and Black tube, our main strength is in the Structural tube and the Pre-Ggalvanized tube. And in this sector we have a market share of almost more than 40%. Number two, now we have some opportunity through NCLT for the volume growth also, but we are also talking with some players, but we don't want to put their money, we want to take the plant on the lease basis. Next 1.5 years until and unless our balance sheet got some light, we can't think about the CAPEX.

Ankit Gor: In which regions, are we planning to do, if any?

Sanjay Gupta: Eastern region.

Ankit Gor: My next question with regards to EBITDA per ton, probably, I mean, waiting for EBITDA per tonne consistently over Rs. 3,400 sort of a number, when we can see, obviously, one-offs or some inventory gain/loss, now Tricoat and other stuff keep disturbing that goal or target. When we can see, obviously, the question been asked to us since many quarters now that we will see those numbers. But practically speaking when we see those numbers, obviously, the Rs. 3,400 plus sort of EBITDA per tonne?

Sanjay Gupta: We are trying our level best, but unfortunately, the external environment is not helping us. I think again there is a pressure on the Q2 because of the inventory correction. But if you technically see in the Q1 numbers, we almost have done Rs. 130 crore of EBITDA, almost I think we close valuation correction in the books of almost Rs. 25 crore to Rs. 30 crore for the stock correction. And almost Rs. 10 crore is for branding and Rs. 2.5 crore or Rs. 3 crore is for the Hyderabad plant number. If you put together all things you see, this has grown up to Rs. 4,000. Till the time numbers don't come I will not be in a position to say anything. There's no doubt Q2 we also in the pressure, but I think this should be solved in the Q3 or definitely in Q4, like whatever the company has worked on value-based products and worked on branding, this year it will definitely show some impact.

Ankit Gor: Sure. My last question with regards to Tricoat, at what level Tricoat will be EBITDA positive, at what revenue?

Sanjay Gupta: Tricoat this year we are targeting for 1 lakh tonne of production, and EBITDA is close to Rs. 75 crore.

Ankit Gor: So, this year itself we will do a lot of improvement in Tricoat?

Sanjay Gupta: Yes, you see from Q2, not now. Tricoat has totally stabilized. Just some approvals are needed in the ILG line from the government department on the IS9537 and for the greenhouses. Two, three approvals are pending from the government department. Otherwise 75% business is already on the streamline.

Moderator: Thank you. The next question is from the line of Agustya Dave from CAO Capital. Please go ahead.

Agustya Dave: Sir, thank you for the opportunity. Sir, your previous answer to the previous questions, did you say Rs. 4,000 per tonne EBITDA, that's the long-term target?

Sanjay Gupta: Long-term target is what type of capacity we have already put on and everything were we have the capacity and product mix and all things. My ideal is Rs. 5,000 per tonne. My vision is 2 million tonne plant with Rs. 5,000 EBITDA per tonne.

Agustya Dave: Great. Sir, my questions are on the dealers. So, I want to understand their business model. So, are these all the dealers that you have, 790-odd people, so these people are all exclusive to you or are they also doing other businesses? And what's the state of their financials? Because in many consumer companies with fairly decent distribution and supply chains, one of the things that is external to the company which is impacting the sales is the dealer stress in terms of funding. So, can you throw some light on that, sir, how are your dealers doing, what's their financial situation?

Sanjay Gupta: From last six months we are tightening our dealers. Now I can say before six months they are almost doing 50% of our business and 50% others. But from last year there is huge change in the system, now they are doing almost 75% of business is ours and 25% of others. Number two, the financial position, my all the dealers are relatively associated with me from last 20 to 30 years, we are not as such pressure on the debt side. But no doubt whatever the environment condition, we are taking very deep eye on this subject. I'm taking weekly review on this matter.

Agustya Dave: Great. There are no bad debts coming from the dealer end, right? Sir, the dealers are not getting like so badly impacted that they are down in future?

Sanjay Gupta: Total bad accounts just yesterday I reviewed it. My total NPA account is Rs. 3.82 crore in the last 10 years.

Agustya Dave: Great. Sir, next question was, you mentioned that your biggest competitor, I mean, you have been saying this; you are replacing wood more than anything else. But in your product segment how much supply has blown up, because a lot of companies are actually suffering a lot and tightly managed, or are not as well positioned as a brand in the market. So, in terms of your competition, in terms of supply of your products, what would be your estimate, how much capacity has gone up?

Sanjay Gupta: I think in the last one year the secondary material is down very sharply, more than the prime product. So, I think whatever capacity is coming in the industry is mainly in the secondary product, not in the branded product. I think this is almost 0.5 million tonnes in the last one year.

Agustya Dave: Okay. Sir, what would be your CAPEX guidance for FY20 and FY21?

Sanjay Gupta: Very light CAPEX.

Agustya Dave: Could you quantify it, sir, including maintenance CAPEX?

Sanjay Gupta: Maybe now from Q2 to next 18 months I think hardly Rs. 50 crore.

Agustya Dave: For 18 months?

Sanjay Gupta: Yes.

Agustya Dave: Okay. Cool. And sir final question, this is again something which was asked. So, going through your presentation, I did some calculations, you have mentioned Rs. 1,500 fall in prices, and that has hit the inventory valuations. So, considering the kind of inventory that we keep, I calculated the impact on EBITDA per tonne would have been around Rs. 150. But then you mentioned that you had an inventory of 1.5 lakh tonnes, if I multiply that by Rs. 1,500, I get Rs. 23 crore of inventory loss which translates on our quarterly volume to be Rs. 570. So, if Rs. 570 is what we have lost, our EBITDA per tonne is down by some Rs. 200 to Rs. 250. So, adjusting for that, we have actually grown our EBITDA per tonne. I mean, had this loss not been there, am I right in my calculation that we would have reported like Rs. 3,700, Rs. 3,750 kind of number?

Ashok Gupta: Yes.

Agustya Dave: Or am I missing something? This is just a calculation I am running through you.

Ashok Gupta: Yes, you are right actually. Had we not had the stock loss, our EBITDA would have been somewhere around Rs. 3,700 or Rs. 3,800.

Agustya Dave: You said that Q2 the prices are down by Rs. 2,000 to Rs. 2,500 a tonne, right?

Ashok Gupta: Yes.

Agustya Dave: And this is on base of Q1 or this you are talking YoY, so this is quarter-on-quarter or YoY?

Ashok Gupta: We are talking about quarter-on-quarter.

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

Vikash Singh: Sir, I just want to understand you have made a remark that you are looking for NCLT assets on a lease basis. Just wanted to understand if our own facilities are far below than full level of utilization, why we are looking at these kinds of opportunities at this time?

Ashok Gupta: You see, we are not looking for any opportunity per se, what normally happens in the market is that some opportunities go on coming once in a while. It's not that we are seeking something or we are going out and talking to people or we have given a mandate to somebody, and to see if any good opportunity comes anywhere if it attractive**,** we take it, otherwise we are not there.

Vikash Singh: Okay. And sir my second question is, if I look at the DFT Hollow Section, then there's still an opportunity to increase the volumes and take over the hollow section, because DFT EBITDA per tonne is roughly Rs. 800 higher. So, what are the things, so basically why we have not been able to push more on DFT in the Hollow Section and utilize the capacities fully, is there any bottlenecks to it or its more of a market related?

Ashok Gupta: So, you are observing that in any market you will only grow gradually.

Vikash Singh: So basically, I was looking at hollow section sales are already there, it's just gradually we are shifting some of the normal Hollow Section sales through DFT. So, how quickly we can push the entire 6 lakh tonnes into DFT and increase the margin, what's your take on that?

Ashok Gupta: What normally happens is that in any market we are growing normally at around 20%, 25%, within DFT we are growing faster than that. So, by growing faster than that we are replacing significant part of the market from non-DFT to DFT. Getting my point? Our growth is faster in DFT than non-DFT.

Vikash Singh: So, by next year we can assume that another 1 lakh tonne shift from normal to DFT would happen? Is that growth rate continuous?

Ashok Gupta: The thing is definitely taking place from non-DFT to DFT because DFT is a better product. And in course of time we will prefer DFT, but this doesn't happen in a day, it's a gradual process. What you will be observing for last two years since we started DFT, growth in DFT is faster than non-DFT, as I mentioned to you. It will never happen that 100% of non-DFT is to the DFT but yes, a significant part of non-DFT will go into DFT.

Vikash Singh: Okay. And just one more thing related to it. As I see the DFT EBITDA per tonne is exactly higher by the amount of the realization we get. So, in terms of other savings like lower wastage, so that savings are not visible in the DFT EBITDA per tonne.

Ashok Gupta: Those are significantly given to us by way of higher prices. So, you will see that benefit coming to us both in terms of price as well as EBITDA.

Vikash Singh: Okay. And sir just one last question. Sir, in center and East we have that new plant, right? So, how that ramp-up has been and have we got the Raipur facility fully ramped up to the potential or some portion is still left there?

Ashok Gupta: So, our Raipur facility also is working at the same similar capacity utilization, which typically is between 80% to 90%. You will see normally we have our plants working at 80%, 85%, same is the situation of Raipur as well.

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

Anand Somani: Sir, in previous calls you had discussed the possibility of us setting up a scrap mill. So, the Rs. 50 crore CAPEX guidance for the next 18 months, does it include the cost towards this scrap mill?

Ashok Gupta: At this moment we have not announced any plans to set up any such facility. And as I told you earlier also, we go on looking at possibilities depending on the movement of prices of steel, whether it's HR Coil or slab. As and when a good opportunity comes then we will look at it.

Anand Somani: And sir, whether inventory loss due to steel price correction, how much it would come in Q2 if the prices were to stay at current levels, what would be the absolute loss that we would have to take?

Ashok Gupta: So, as we were mentioning, the prices of steel have been declining, they declined in Q1, they are again declining in Q2, let us see how they behave in the balance part of Q2. It is too early to predict about the possibility of losses or gains in Q2. Steel is a very volatile commodity, there have been months where it has fallen significantly, and there have been months when it has suddenly gone up. So, I think it is a bit premature to visualize what kind of exact loss can come in this quarter.

Anand Somani: And sir the Doorframes that our plant that you commissioned at Dujana, just wanted to understand from a customer perspective a doorframe versus a wooden frame, what's the cost differential? I understand steel has advantages, so from cost perspective how much is it higher and how does a consumer see cost benefit into it, can you give us some sense of it?

Sanjay Gupta: Sir, basically we are making three types of doorframes here, single doorframe, double doorframe and four doorframes. And the cost of wooden doorframe is almost close to Rs. 5,000 to Rs. 6,000 per piece. And our steel cost is dependent on the thickness is between Rs. 800 to Rs. 2,500 per frame. And we are targeting this month to make almost 175,000 doorframe pipes.

Anand Somani: Actually, steel is cheaper, if I heard you correctly.

Sanjay Gupta: Yes, steel is cheaper almost by one-fifth rate.

Anand Somani: Okay. So, it to me it sounds that people should immediately, whosoever knows about this product availability, he would immediately be willing to shift. Are there any advantages of steel doorframe and disadvantage of steel doorframe which might prevent people from shifting immediately?

Sanjay Gupta: We are making doorframe from last four or five years, what type of doorframe we are making, technically this is not good for our earlier technology. But with the new technology which we started in end of July, this technology is perfect for the doorframe. And right now, we are marketing volume only in the north India, our first line is totally booked in the north India. Now we are just starting the sample business in the South India as well West India. I think the result is also market is going to grow in this product by any type of growth rate.

Moderator: Thank you. Next question is from the line of Ankit Jain from ICRA. Please go ahead.

Ankit Jain: I had a couple of questions. One on the total CAPEX that you have incurred in Apollo Tricoat till date?

Deepak Goyal: Till 30 June, 2019, our total CAPEX is around Rs. 190 crore in Tricoat.

Ankit Jain: And any balance CAPEX that you are doing?

Deepak Goyal: Balance CAPEX is around Rs. 5 crore to Rs. 10 crore only. All the capacity of 2.5 tonnes will be operational by the next month.

Ankit Jain: Okay. And what is the funding status there, how as that been funded?

Deepak Goyal: Promoter has infused around Rs. 150 crore and balance from term loan.

Ankit Jain: And secondly on the acquisition or Tricoat, it was proposed that it would be primarily funded through the promoters' equity only. And you have announced warrants and shares infusion and equity inclusion. So, as of date I think Rs. 97 crore has come in, what is the status of the balance funds? Because that has been loaded in APL Apollo in the form of debt as of now.

Deepak Goyal: Promoter have time till September 2020. And they will try to give the balance amount by March 2020. But as per the rules, time is available up to September 2020.

Moderator: Thank you. The next question is on the line of Nirav Savai from JM Financial. Please go ahead.

Nirav Savai: My question is regarding this acquisition which you had made in Shankara, Taurus facility which we understand is operational from July in APL Apollo. So, can you just help us out with some guidance on the kind of volumes which we are targeting from this facility?

Sanjay Gupta: We are targeting from this plant, right now there is a slowdown in the economy and as well as in the market also, from month of October we are targeting 13,000 tonnes to 14,000 tonnes per month.

Nirav Savai: So, about six months is something which we can consider for this facility for about 14,000-odd?

Sanjay Gupta: This year we are targeting Hyderabad plant close to 1 lakh tonne.

Nirav Savai: And sir on the OEM side we have presence in the OEM segment also, but somewhere you don't see the kind of growth also reflected in that vertical. So, what is our strategy on that side? And what are the top OEMs whom we cater to?

Ashok Gupta: We are catering to almost all types of OEMs. Right now, in that category, project orders are coming up, we have seen a very good demand in the project sector because of government's inclination towards renovation of airports and ports and other facilities. So, in the past few months we have observed a very good demand from the airport sector. So, going forward we will see a good amount of growth from OEM sector also.

Neerav Savai: Sir the government scheme from this 'Nal se Jal', do we see any opportunity for our company?

Ashok Gupta: You are right. A lot of demand is coming from this sector. See water supply, fortunately, has been taken up by the government in a very strong way. And the steel pipe is one of the main items to be used there. So, I think a lot of demand is coming up. But of course, it will take some time to really be on the ground. We will also be participating in it in a big way.

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

Dhruv Jain: I had a question with respect to Branding. So, we have done about Rs. 12 crore of Branding in this quarter. So, just wanted to know that if this will, and also you gave guidance of about Rs. 40 to Rs. 50 crore in this year. So, should we assume a similar number going forward in the next two years?

Ashok Gupta: As you know, branding is activity which once started one has to continue for a reasonable period of time. And we have started it now, so we will continue it, which is the right strategy as well. We won't discontinue it shortly, expense may vary from 40, 50 it may slightly be more or less depending on the impact they are getting it, but definitely we will be sustaining it.

Dhruv Jain: I mean, in the last quarter you guys have mentioned that you are taking distributor meets in a big way. So, are we sort of slowing that down and increasing our B2C Branding or is that strategy you want to continue?

Ashok Gupta: So, you see in any sales and marketing strategy has to work hand in hand. Yes, distributors will always be a significant part of our strategy to reach consumers. We are not reducing our dialogue with distributors at all. In fact, on the other hand, we are strengthening it. If we have to sustain ourselves then distributors have to remain with us. So, we are not reducing it in any way. But B2C there is branding, we are increasing it.

Dhruv Jain: Okay. And I think all my other questions have been answered. Thank you so much.

Moderator: Thank you. The next question is from the line of Vikrant Gupta an individual investor Please go ahead.

Vikrant Gupta: I just wanted to understand from a management and a succession planning perspective, during the last call Mr. Ashok Gupta mentioned that his shareholding in the company continues to remain strong, whilst in the months of June he offloaded a stake of about 1% in the market. So, just wanted to understand if there's going to be a change in the management in the medium-term regarding the continuity of Mr. Ashok Gupta with APL Apollo.

Ashok Gupta: So, a change in shareholding by a percentage doesn't really change the management structure per se. The management structure continues to remain what it was, shareholding variation of a person here or there will continue to be so depending on the need of the hour.

Vikrant Gupta: My question is linked from the perspective that from the annual report I could not glean any sight as to how Mr. Ashok Gupta has been compensated by the company, and he is not even holding shares. So, just wanted to understand how would be the senior management of Mr. Ashok Gupta in particular be incentivized.

Ashok Gupta: So, in the annual report you perhaps would have seen that there is an element of both, fixed component as well as a variable component linked to the outcome of the company. Both the company components are there. And our next annual report is also going to be published very soon and will be with you. There also you will see the fixed component as well as the variable component linked to performance.

Moderator: Thank you. The next question is from the line of Heet Vora from Prabhudas Lillader. Please go ahead.

Heet Vora: Sir, the first question I have is that you gave a 1 lakh break up, 1 lakh tonne from Apollo Tricoat. So, could you give a breakup of the same between ILG pipes and doorframe?

Sanjay Gupta: We are targeting for ILG almost 30,000 tonne. For the doorframe also we are targeting close to 30,000 tonne. And almost 45,000 to 46,000 tonne steel planks. And 35,000 to 40,000 design GP.

Heet Vora: Sir, I had one more thing. Could you just give a guidance on our debt by the end of the year, how much debt will be on the books?

Sanjay Gupta: APL Apollo we are targeting the debt of between Rs. 600 crore to Rs. 700 crore.

Heet Vora: Sir, currently our debt is Rs. 762 crore, so could you give a breakup of the long-term and the short-term from that?

Deepak Goyal: You are talking about APL Apollo?

Heet Vora: Yes, APL Apollo.

Deepak Goyal: APL Apollo, Rs. 325 crore is a long-term balance is a short-term debt.

Heet Vora: Okay. One last question, could you give a geographical breakup of our revenue?

Deepak Goyal: Almost 30% comes from the South, 30% from the west, and around 30% is north and east, and balance 10% is from the OEMs and export market.

Moderator: Thank you, the next question I told the line of Anand Somani from Unifi Capital. Please go ahead.

Anand Somani: I have two questions. Sir one is, last year in August there were Kerala floods and we had some loss of sale due to that flood. This year again, unfortunately Kerala has been hit with floods. So, if you are to compare, how do see, is this year worse or better than last year from our perspective? If you can give us some sense of it.

Ashok Gupta: This year the damage from the floods is not to the extent as it was last year. So, we expect to clock better numbers or have lesser losses due to the floods actually as compared to last year.

Anand Somani: Okay. And my second question is to Mr. Ashok Gupta, sir, in my previous call I had asked you whether you would be devoting time to Shalimar, and you said no. And then few weeks later when there was Shalimar call, there you changed your mind and you said on the Shalimar call that you will be devoting time to Shalimar. So, sir, in few weeks your mind changed. I would like to know what is the reason, and if you again would give us a sense of whether you are going to continue with APL Apollo for next, let's say, three years? If you can comment on these two things.

Ashok Gupta: So, as I mentioned to you, I'm working with APL Apollo, I am also a Director on the Board of Shalimar Paints. Being a Director there, I have to devote some time to Shalimar Paints, and to that extent I am involved there. And to that extent I devote my time there as well.

Anand Somani: Okay. But are you in operational capacity there or is it more of an advisory role only, so only board meetings once in a quarter, or its also Executive Director kind of role where you spend time on a weekly basis?

Ashok Gupta: I do not have any executive position there. It's only the Director position. And as a director position it is more of an advisory position and not executive position.

Anand Somani: Okay. So, you probably attend meeting of boards once a quarter?

Ashok Gupta: It depends on the need, as and when the need is there of course I will give my time.

Anand Somani: Okay. And can we safely assume we will be with APL Apollo for let's say at least next one year or next two years?

Ashok Gupta: I think at this moment there is no such thought of not being in APL Apollo.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I now hand the conference over to the management for their closing comments. Over to you, sir.

Ashok Gupta: So, thanks a lot. I think it was a very interesting conversation. We had very good questions coming up. Let me assure all my friends that we are on a very strong wicket, things are happening very well in our way the way we wanted them. And in days to come you will see much stronger APL Apollo Thank you so much.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of APL Apollo Tubes Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.
