APL Apollo Tubes Ltd

Q1 FY19 Earnings Call Transcript
August 10, 2018

Moderator Ladies and Gentlemen, good day, and welcome to APL Apollo Tubes Ltd 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 morning, everyone. Thank you for joining us on APL Apollo Tubes Limited's Q1 FY2019 Results Conference Call. We have with us Mr. Ashok Gupta – Managing Director of the company 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 start, 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 morning, everyone. I welcome all of you to the APL Apollo's Conference Call to discuss the Operating and Financial Results for the quarter ended June 30, 2018. I will briefly cover the Financial Performance of Q1 FY19, following which Ashok-ji will take you through the Business Performance.

Our total revenues during the quarter stood at Rs. 1,676 crore, registering an improvement of 45% year-on-year. Our sales volume posted a healthy improvement of 14% year-on-year to 3.02 lakhs MT in Q1 FY19. The period saw increased realization across the product categories led by higher steel price. As all of you are aware, as a policy we pass on any change in the steel price directly to the customer. Going forward, as raw material price stabilize, we expect volume momentum to further improve in the upcoming quarters.

With regards to our profitability:

EBITDA in Q1 came in higher by 38% year-on-year at Rs. 108 crore. EBITDA per ton during Q1 stood at around Rs. 3,500 as against around Rs. 3,000 in Q1 FY18. The EBITDA per ton was within a healthy range, especially given our primary focus to drive higher volume growth.

Interest cost during the quarter was higher by 49% year-on-year to Rs. 26.3 crore. It corresponds to the increase in our top-line by 45%. And in this quarter, the management has consciously increased some inventory position as to mitigate the uncertainty around the raw material availability in the domestic market. And in turn this led to an increased interest outgo in Q1 FY19. However, the interest cost as a percentage of sales remains stable at 1.6% in Q1 FY19.

With that, let me request Ashok-ji to take us through the business performance.

Ashok Gupta

Good morning, everybody. Thank you, Deepak. I am Ashok Gupta – MD of APL Apollo. Dear friends, we are very happy to share with you that the company had a stable quarter. Stable on many fronts, stable in the sense that our volumes have been crossing 1 lakh ton each month. It is after a long period that this is happening, earlier volume used to be just shy of that, I think it is almost now four to five months that we have been crossing 1 lakh every month, very positive thing in fact. Secondly, the positivity was in terms of EBITDA, EBITDA has been Rs. 3,300 plus which we have been looking forward to, despite the volatility in the steel prices.

There was a concern for past couple of months in the company with regard to raw material supply. As you are aware, we are taking raw material primarily from JSW, but significantly from Bhushan Steel. For last one year, there was a lot of speculation of who may take over Bhushan Steel. And obviously, a concern for us because every person has their own philosophy and policy with regards to customers and suppliers and there is disruption possible. Fortunately for us, there was a disruption in April – June with precautionary step by way of high inventory in the month of April, which we were able to sail through. In the month July, some stability has come in the operations of the plant with subsidiary of Tata taking it over. And from this month, supplies have almost been normal. And the commercial part has also been in line with what we were doing earlier. So, to that extent raw material supplies have become smooth now.

Another positive has been that the DFT technology new mill, which we had imported a couple of months back, almost all of them, barring one or two, have become operational. There are some initial hiccups which normally happen with new technology or new plants, but now most of them have been taken care of. The engineers from the suppliers were on the shop floor for quite some time, and now all the mills are running smoothly.

With this, the production front has been taken care of, now it is the sales part. And we are in the process of talking to different people. Here again, I must share with you that there has been some awareness in the market, particularly among architects, structural engineers about availability of higher size structures. So, we have been now getting some enquiries for higher strength structures, particularly from large projects including many projects taken up for infrastructure, oil and gas refinery, and others. So, hopefully once the word spread, our mills are stable, and we are able to supply, in a year or two full benefits for the DFT technology will start coming in.

With these few words, I must thank you for participating. I will be very happy to answer any query that you may have. Thank you so much. Let us keep it open for Q&A.

Moderator

Thank you very much, sir. Ladies & gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Anand Bhavnani from Unifi Capital. Please go ahead.

Anand Bhavnani Sir, in the previous quarter, you had mentioned that for FY19 our volume could grow by about 20%. As of Q1, how do you see the markets, and do you maintain this outlook?

Ashok Gupta See, last year our volume was of the range of around 11 lakh tons on a consolidated basis. We are targeting a 20% growth. When I say 20%, it could be (+/-5%) here and there. So, first quarter we only achieved 14% YoY. There have been some uncertainties in the first quarter, however, going forward even if we are able to manage 15% to 20% growth, I will say it is a good growth, because our base line is quite high and the economy is even though growing at 6% to 7%, but the increase in infrastructure spending has still not come to the extent that we were expecting from the government, particularly on the newer projects, the large projects for metros and airports and many other things, they are still in the waiting period. But still we are targeting household sector, we are targeting solar sector. So, these are the sectors where some investments are coming and we are targeting it and we are getting good results. So, however, we still think that our growth will be in the vicinity of 20%, it could be 15%, 20% or 25%, that will depend on how the year roles out, particularly in terms of infrastructure spending.

Anand Bhavnani And with regards to our policy of passing on all the gains or rises in steel prices to the customers, but when the steel prices are higher, we have higher interest cost, so you must have considered at your end to have slightly higher margins when steel prices rise in order to cover up for higher cost of interest due to inventory and work in progress?

Ashok Gupta I wish it was true. You see it is a competitive environment, so when the prices go up or go down then the competitors have a tendency to obviously pass on the price increase or decrease so that their volumes continue. And there will always be a tendency among few to even make a loss but make indoor into the competition. To maintain our share, we have to ensure that there is a level playing field and we do not miss out on the opportunity which such a thing creates. So, we have to ensure that immediately the gains or the losses are passed on. So, far as interest is concerned, we have other strategies. Now this quarter, we had to pay interest only as insurance against disruption in supplies. But going forward as the volume goes up, our interest cost will also be under control. So, that way if we are able to maintain EBITDA per ton, we will be able to handle the situation, maintain our profitability also.

Anand Bhavnani And lastly, you mentioned that you are contemplating some capex for GI and you would share as plans are made. So, any updates on that?

Ashok Gupta We have three GI plants currently with capacity of around 7,000 tons to 8,000 tons per month. Fourth GI plant is coming, the investment is not too high, it is hardly some Rs. 10 crore or so, which is coming up in Raipur, which should be operational by September. So, that will give us a combined capacity of around 10,000 tons to 12,000 tons. And at this moment, we do not want to increase capacity beyond that because that should be sufficient to take care of our domestic as well as export needs. Once we cross 10,000 ton level in our sales, then we will think of additional levels.

Anand Bhavnani And we had some disruption in GI, which in the previous quarter led to lower growth. Again, in this quarter the volume has seen de-growth, so why is it so?

Ashok Gupta Our plant which was closed came up only in the month of May, so we had only got part benefit of the plant coming up. But going forward, July to September again you may face some disruption because normally rainy season is a relaxed season for GI, but from October you will again see the full capacity being utilized.

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

Pallav Agarwal I had a question on how the imported steel prices are moving and if there is some arbitrage over there, are we looking at importing steel also as an option?

Ashok Gupta Current steel prices in the international market vary from $600 to $640 per ton, depending on the country of origin. The landed price is almost equivalent to the domestic prices, so there are no arbitrage opportunities.

Pallav Agarwal Even from Korea and Japan, where there is zero duty, so even from there you are saying there is not too much of arbitrage?

Ashok Gupta Yes, the current price is $640 with a dollar conversion ratio of 69, the prices are almost at par with the domestic prices.

Pallav Agarwal And also just on this quarter, EBITDA per ton has been pretty healthy, at about 3584. So, sequentially what has driven this? Because if GI volumes had been lower, so is it the hollow section? And if I see the proportion of black round pipes also has increased. So, is it primarily the DFT and hollow sections that have driven this improvement in EBITDA per ton?

Ashok Gupta No, it is not so. So, what has happened, in the month of April, May, June, there was an improvement with the prices with respect to the previous quarter of raw material by around 8% to 10%. Because of that we had some stock gain on the inventory which we carry which is around a month. So, if you translate that, then you will see there is an improvement of around Rs. 200 - Rs. 300 in EBITDA only on account of stock gains.

Pallav Agarwal So, given that Q2 is a seasonally weak quarter and prices may weaken, so could we see some of this reversing in Q2?

Ashok Gupta So, yes, in case there is a reversal in prices there could be some pressure on the EBITDA margins. But having said that, we are still trying to see that EBITDA margins remain in the vicinity of Rs. 3,300 per ton on an average over the next few years. So, let us see how does it really work out in this quarter. The prices till now have not been significantly changing, prices have been almost stable now. So, depending on how the prices really chalk out during the quarter, because international prices have not been moving much, they have been around $600 - $640 for last couple of months. So, perhaps there may not be too much of change in steel prices in this quarter as compared to last quarter. So, we will be almost stable.

Pallav Agarwal So, on the SAIL conference call, they had mentioned that for HR flat products they are offering probably a discount, or the prices were low in July by about 500 to 600 per ton compared to June levels.

Ashok Gupta So, what happens is, June is Rs. 500 more over April level – that is not much of a difference, almost similar.

Pallav Agarwal Yes, on their ISCO and Durgapur plant, SAIL has a lot of structural steel capacity in place but they have not still been able to ramp up the capacity utilization. And their response that at least in the eastern region they are not really seeing too much of demand, so it was not a supply led constraint, it was more of a demand led constraint. Which is what probably you also mentioned that the infra spend that you are expecting has not really taken off on the ground. So, are we expecting some recovery in the second half over here?

Ashok Gupta

To some extent, we are responsible for their decline. So, what we have been promoting is we have been promoting that instead of using structural we may start using sections, because sections are lighter, they are much steadier, much stronger. So, we had been promoting in the infrastructure project to replace all those structures. You see, one advantage which we have over others is we make the sections which are used for a common household, for a commercial shop, from a small shop, from a hoarding, from solar project to agriculture. So, our applications vary across. So, even if infrastructure does not pick up, our impact is there. The impact is with respect to DFT technology, where we are thinking of making very high strength, high sizes, high dimension sizes. But if we see the entire range, our entire range has so many applications that fortunately for us infra is improving, not to the extent we were expecting. But even if something does not improve, even then we are fine. See, we are supplying lot of material now a days to oil and gas, we are supplying a lot of material now to solar projects. So, I think marginally there could be some impact here and there of infrastructure projects, but overall basis we are not negatively impacted. Yes, once the infrastructure projects start coming, we will have benefit in terms of our high dimension structural, 300x300, those structures will be used primarily, and we have just created capacity for that. And we are hoping that once those projects start coming up our capacity utilization will improve. Overall, we still hope that we will continue to do around 1 lakh plus per month, which we have been doing now.

Moderator

Thank you. Our next question is from the line of Ankit Merchant from SMC Global Securities. Please go ahead.

Ankit Merchant

My question is related to this unorganized shift, and how is the unorganized market playing out? Because I believe post GST and introduction of e-Way Bill, the shift should have been much better for the organized players. But however, we have realized that the shift, although it is happening but very slowly, and many unorganized players are able to evade taxes producing fake e-Way Bill. So, I would like to know your comment and how is the industry reacting, and specifically you?

Ashok Gupta

I think you are right. There has been some impact, though it is slow. So, a few things are happening, one, people are shifting over to proper means, so some people have shifted to paying off GST and paying off using the right e-Way Bill, so that extent they have joined the main stream, it is a good sign. The competition obviously comes down because they are in the mainstream. Some people steal away taxes that always happen. We are unable to help it. But those people hopefully in the days to come will realize that it is no longer advantageous, hopefully they will also shift. Unorganized sector capacities are definitely shifting to organized sector, so organized sector is slightly growing faster than the unorganized sector, but the shift is slower. In days to come this will continue to happen. So, currently I will say the level playing field, which GST is supposed to introduce is happening, we are seeing a shift happening from unorganized sector, I will not say unorganized, I will say duty-evading sector to duty-paying sector, that is happening, that will continue to happen. And we are also benefitting out of it, in the sense that a lot of business which was to be done without payment of duty has shifted to duty payment. So, things are happening in a better way. But these people have learned the tricks by way of paying taxes and they are still able to compete because they have some other lower cost. However, unhealthy competition has reduced to some extent.

Ankit Merchant

Just a follow-up on this, to grow further at 15% to 20% which you have been saying, so are you taking in to consideration the impact which is happening? And are you also compensating your dealers higher so that the unorganized or the duty free evasion, as you say, does not impact you much? Or basically are you willing to lose some mergers for the volume growth?

Ashok Gupta No. We do not want to compromise on our margins for volume growth. We are finding methods other than discounts, margins to the dealers. So, we are working on creating demand specially for our products. So, we are trying to work our strength like DFT technology, like pre-galvanized pipes. So, more and more you will observe that our growth is coming from three sectors - GI pipes, GP pipes and from sections which are specifically being made for special customers. So, our volume growth will be coming from these three products and not by giving discounts. So, our margins will not be compromised for the sake of volume.

Moderator Thank you. Our next question is from the line of Lakshminarayanan KG from Catamaran. Please go ahead.

Lakshminarayanan From an end market point of view, how much actually goes to pure infrastructure and how much actually goes to residential purposes?

Ashok Gupta So, around 85% of our sales takes place through dealers and distributors. And around 6% - 7% takes place directly through large customers, and another 5% - 6% we export. Of the 85% which takes place through dealers and distributors, around 30% goes to fabricators; these are small fabricators which are meeting small needs. Another 25% to 30% goes to large suppliers. So, these are the fabricators, these are contractors who may take up large projects, it could be housing, it could be commercial, it could be metro. So, these contractors typically they like to go in for large projects. So, while fabricators they look at household demand, retail demand, commercial demand, those kind of things, these people take up larger projects. And balance 15% - 20% goes in for what they call equipment manufacturing or advertisement boards which are more a nature of a manufacturer or a supply line. So, if we see the larger projects, specifically you are talking about, infrastructure and large projects, they constitute around 25% to 30% of our sales.

Lakshminarayanan It is pure infrastructure and that is why the margins are higher because we supply different SKUs there?

Ashok Gupta See, I will not call it a pure infrastructure, it could be some commercial building coming up, it could be some shed coming up, some warehousing coming up. So, for example, Bhatinda refinery is coming up. For example, solar project is coming up. So, these contractors may supply anywhere where some kind of construction is going on, it is more related to construction than the infrastructure. Yes, whatever special sizes we are producing those have a higher margin, but the consumption of those special sizes is still not very high. So, currently if we are selling around 1 lakh tons, those special sizes are selling around 3,000 tons to 4,000 tons only, 3% or 4%. Our endeavor will be that we increase that percentage and as more infrastructure projects come up, this percentage is expected to increase.

Lakshminarayanan What is the realization per ton we get and what is the EBITDA per ton on this high end products?

Ashok Gupta Typically EBITDA, if we are getting, is around Rs. 3,300 per ton, these things can give us significantly more, even 30% - 40% more EBITDA depending on sizes.

Lakshminarayanan And another question related to your capex plans for the year, and what is the guidance for the full year and how are we tracking?

Ashok Gupta Basically we are targeting that our growth should continue to be between 15% to 25% range. And so there are definitely headwinds and we have to look at that. Many areas we are working on and our EBITDA margins should remain, we are always maintaining 3,300 as our kind of a reference point, and we are trying to maintain that, there may be some ups and downs. So, what we are focusing now is, apart from the things we have been mentioning earlier like distribution, like our product strength and all that, on the equipment manufacturers. on the large projects and also on branding, so we have taken up a very big campaign for branding and already the digital campaign is endorsing, and we are getting very good response. And I am happy to inform each one of you that today we have started digital marketing, we are getting queries through digital medium and we are getting orders through digital medium. I think in our company's history, this is the first time it is happening that people are giving us orders online, this is something which unique has happened, and we intend to increase it. More than that, we will also be coming on the main line media. So, these things we are trying to do to ensure that our volume growth of 15% to 25% continues, and also that our margins remain steady.

Lakshminarayanan So, a question from expenditure point of view, capital expenditure, how much you have set aside and what we are on track on that? And this advertising expenditure, any guidance?

Ashok Gupta So, we are looking at a very moderate level, to begin with. So, we are feeling that on an annualized basis, we should be spending around Rs. 20 crore – Rs. 25 crore per annum. And once the heat picks up, we will increase allocations. But currently we are targeting Rs. 20 crore – Rs. 25 crore per annum.

Lakshminarayanan And capex?

Ashok Gupta We do not have much of a need for capex immediately, we are going to incur some Rs. 50 crore to Rs. 100 crore basically for creating capacities in galvanized, pre-galvanized sector. One area where we are working on is bringing in some kind of a backward integration by way of thinner materials. So, our cost of raw material procurement will go down, so that facility should be coming up this year. So, capex is very limited this year, ranging between Rs. 50 crore to Rs. 100 crore only.

Lakshminarayanan With DFT coming in, our focus on exports is going to be higher than earlier? And if so, what are you planning for the year?

Ashok Gupta We are going to increase our exports. So, we were earlier not able to break the US market. I am happy to inform you that in the previous quarter, we were able to break the US market and we had been able to export certain quantities to US. Now we are looking at Canada also. So, these markets were actually having following different dimensions which were not able to be produced by the conventional mills, but DFT can produce the sizes. Yes, with this new DFT technology, we hope to break into new markets and increase our exports from 5% to 7% to at least 8% to 9%

Lakshminarayanan And EBITDA per ton would be 40% more than the average EBITDA or it would be in line?

Ashok Gupta So, 40% I mentioned when we are talking about a very large size, 300x300. All exports will not be there, exports may be mixed. So, if I am exporting 100 tons, only 10 tons out of that may be special sizes, 90% will be normal sizes.

Lakshminarayanan So, we can assume a similar EBITDA?

Ashok Gupta	Similar EBITDA, you are right.
Moderator	Thank you. Our next question is from the line of Chintan Seth from Sameeksha Capital. Please go ahead.
Chintan Seth	Sir, on the volume growth of 14% can the higher ASP be one of the reasons why volume growth was being capped at 14%, if our regular selling prices of steel are lower the volume offtake would have been much-much higher than what we have reported this quarter? Or is it purely because of the demand.
Ashok Gupta	It is not because of average selling price in any case. As I told you, selling price is a reflection of the raw material price and we just simply pass on. Market does not really change too much because of the pricing, between the consumption remains same and difference is 1% - 2% only. Demand in the first quarter was steady, demand was not an issue. The issue came in the month of April and May, there was uncertainty in supplies because of this, there was so much news of Essar increasing, decreasing, going, not going, Bhushan going or not going, and there was a disruption in supplies. So, for a very limited period, for very limited sizes, mostly thinner sections, we found it difficult to get from the suppliers. So, I will say that for a small period, there was disruption in some of the sizes which affected our sale by maybe 1% or 2% or 3%. So, if we had plenty of supply, then this problem would not have been there. As a reaction to that and anticipating much more disruption, we placed a lot of orders including all imports. And those materials came in June, by June supplies were good, now there is no problem, but it resulted in increased inventory. By May -June, our inventory had gone up because of the shortages in April.
Chintan Seth	How much inventory we are currently holding?
Ashok Gupta	I think we are holding around almost 50 days of inventory, where we should have been around 35 – 40 days. So, 10-15 days extra inventory we are having.
Chintan Seth	And how do you see steel prices going forward, for the full year we see from 50,000 right now at least our ASPs are currently on a blended basis, Rs.53 per kg, how are we looking at it, is there a moderation we can expect? And if yes, then how much?
Ashok Gupta	See, domestic prices are in a way reflection of the international prices. International prices have been hovering at around $600 - $610 for last couple of months, there has been softening by around $10 - $15 in last few months which is very nominal. But for that there has not been any change. So, I do not think, in my own way I do not think international prices will change significantly during the balance part of the year. See, change of 1% or 2%, 3% I cannot rule out, but that is a very minor thing, or I do not expect anything more than 3% - 4% to happen in the near foreseeable future.
Chintan Seth	So, this ASP will continue at least for this year?
Ashok Gupta	I think it will be almost in the same range.
Chintan Seth	Sir, on a working capital, are we facing any collection issue or we are steady in our debtor cycle?
Ashok Gupta	We are improving. Each month, our total debtors have to reduce, even if we reduce by Rs. 1. So, whatever our debtor is at the opening of the month, at the end of the month it has to be lower than that, simple.

Chintan Seth And any new SKUs, how are we progressing on that?

Ashok Gupta I think very good progress, we are introducing new SKUs almost on every week basis, but these are very specific and small quantities, so now we are working on customizing the SKUs. So, one more initiative we have taken recently, and I think one of the problem is whatever strategy I inform I am only afraid my competitors should not know it. So, we are working on more SKUs and we are able to give in the market more SKUs. Because of that my hold on the market is improving day by day. So, I am happy to inform you that eastern region where we were not present at all, we have been able to establish some presence now. On every month basis we are selling 3,000 which we were almost 0 last year same time. So, that is a good breakthrough. In other markets also we have been getting new SKUs. So, overall, our basket is increasing day by day, and that is our strength today. If you ask anybody in the market our strength today is our basket and we are increasing it.

Chintan Seth And lastly on the demand side, you mentioned the new category oil and gas this quarter, our focus was on solar, infra, agri, those were the fabrications and other utilities. The oil and gas to be a new segment which we are focusing on. So, is this a right understanding or we were supplying oil and gas into this quarter or it is one of the segments that we are targeting?

Ashok Gupta No, oil and gas sector does not normally take sections, we are specializing in sections. Recently what is happening, in the construction for new refineries, as it is you know not many refineries are coming up in India, only one or two are coming up, in the construction of new refineries, steel sections were not being used, but with the latest development, people have started shifting to sections. And wherever new refineries are coming we are focusing on it, let us go there.

Chintan Seth What are we replacing with?

Ashok Gupta Angle channels. Either angles or concrete beams. So, concrete beams used to be taken as pillar, so people are shifting from cement structures to steel sections.

Chintan Seth The capex on the refinery side is lower, as you mentioned one or two refineries are coming up. But there are talks of upgradation of the existing refinery, maybe it will take time. But does that mean that on the upgradation of refinery also, they will replace the beams and cement concrete to structural?

Ashok Gupta See, actually what happens is it depends on refinery to refinery, depends on structural involved. So, at some places they will take the shift over, in some places they may not. We are trying to work with structural engineers and architects to see that in case they can start replacing more and more the concrete structure with steel, because it is much better. See, you would not believe, many people have shifted from concrete beams to steel sections today, not necessarily only steel section by way of pipes and all that, some people have shifted to beam as well. But large number of buildings are shifting today from concrete to steel. So, this is one positive development which is happening.

Chintan Seth The shift to beams to sections can be expected?

Ashok Gupta Yes, we are working with that.

Moderator Thank you. Our next question is from the line of Suvarna Joshi from Axis Securities. Please go ahead.

Suvarna Joshi Sir, I had this question on demand front itself. I believe about nine months back we had indicated that we should be happy to have reported volumes growth in the range of around 20% to 22%, by this time 20% guidance we seem to have changed the range to between 15% and 25%. And also given that Q2 is seasonally weak quarter how do you see demand shaping up given that infrastructure is not picking up? And what makes you say that we will maintain the 20% kind of volume guidance even for FY19?

Ashok Gupta So, what happens is the growth in the sector continues between 7% to 9% year-on-year for past few years. And now within that growth, we will try to take a higher share, thereby maintaining our stand of 15%to 25% I am talking 15%to 25% on a year-on-year basis, on an average basis even though it may be around 20% but quarter to quarter it may vary. And secondly, it will depend, now election year is going to be very close, so there is always a possibility that some of the projects may get postponed, they may not take a final view. So, it can have some impact, I do not know to what extent. But more important than that, see our base line is increasing year-by-year, so while last year it was x now it is 20% higher than x. So, the base line effect will also start coming up at certain point of time. But besides all this, still we are looking at targeting 20% growth in any case, in some quarters it may be 15%, in some quarters it may be 25%. But it should be in that range. Infrastructure project, as I mentioned earlier, does not have a very large impact on us because our segments are wide, practically every part of life we are targeting. Furniture, today a lot of our furniture material is using steel pipes. So, many wide variations are there that one segment by itself will not have a significant impact. So, I think despite infrastructure not really getting so much funds, we should be able to achieve our growth.

Suvarna Joshi So, you are saying, is it right to then understand that infrastructure is going to be low during this particular year, mainly driven by elections? So, we will see a shift or an increase from infrastructure demand once elections are out of the picture. But in the interim, we will see growth coming in from the household segment, is that understanding correct?

Ashok Gupta So, let me put it to you this way, each sector is contributing a small percentage, 4% - 5% to our total kitty. So, marginal shift there, we will be able to compensate by focusing more on the other segment.

Suvarna Joshi Sir, also you mentioned that organized market is growing faster than the unorganized, rather, the duty paying segment is growing faster than duty evading segment. So, could you just help us understand by how much is it growing faster? Second, what would your market share be in the total industry, and in the organized segment?

Ashok Gupta So, there is no data available for people who are evading duties. I would only say that on a rough basis, our overall market, we do not know how many people are evading duty or not. See, today we are producing around 1.2 million tons and our market estimates are between 8 million tons. So, on that basis, we are around 15% to 16%. And we really do not know how much market today is evading duty or how much is not evading duty, people put an estimate of around 20% - 25% evading duty, but we have absolutely no data or no idea about it.

Suvarna Joshi Sir, my question was, by how much are we growing compared to the unorganized segment? The organized market is growing at what rate, if you can tell me, compared to the unorganized?

Ashok Gupta So, what I was mentioning to you is, when we say unorganized there could be two meanings, one is those people who are producing very low quantities and one are those people who are evading taxes and duties. So, the data on avoidance of external duties will not be there. If we talk of smaller people, yes the smaller people are growing slower now, whereas organized players maybe growing at around 10% the very small people, small scale manufacturers they may be growing only at around 3% to 5%. But there are no data on this aspect, these are all estimates which we have from the industry.

Suvarna Joshi Sir, my third question was on the brand spends, you mentioned that for the year we will look to spend around Rs. 20 crore – Rs. 25 crore, so if you could just help us understand regarding the brands that we had launched, which geographies you are seeing good demand? Because initially, we had targeted the southern Indian region, specifically the state of Kerala. So, have we made any progress or inroads into any other geographies besides Kerala, mainly driven by the branding activity?

Ashok Gupta So, branding activities are at a very nascent stage, just started. We made some beginning in Kerala and we have been able to kind of make a presence there. And as you will see, normally branding is a three to five-year process and we are just starting it. So, I will say the real impact will come only after a year or so. Currently, we are seeing some influence in Kerala only where we started last year. So, people are recognizing APL Apollo and are giving more and more value to us.

Suvarna Joshi And my final question was on the EBITDA per ton that you mentioned, while in this quarter it was mainly driven because of the raw material prices, during the year you have mentioned that a sustainable level would be around Rs. 3,300 plus/minus Rs. 200 – Rs. 300 here or there. So, you stand by that or do you see any headwinds to that?

Ashok Gupta See, I cannot say what will happen because there are so many uncertainties in the economy and also in the competition. Our endeavor will be that our EBITDA levels should not slip. And that is what we are trying to do.

Suvarna Joshi Sir just one final question before I pass on, what would be our distributor or dealership strength now because we were also mentioning that we are working towards improving our distribution penetration pan-India. So, could you just help us with some thoughts on that front?

Ashok Gupta So, today we are I think billing directly to more than 400 distributors. And day by day they are increasing; particularly they are increasing in tier-II and tier-III cities.

Moderator Thank you. Our next question is from the line of Ronak Morjaria from Edelweiss Asset Management. Please go ahead.

Ronak Morjaria Sir, you just mentioned on the capex front that you are planning to do some backward integration. So, if you could throw some light on that, what exactly are we planning to do and what would be capacity and what would be the benefit in terms of our profitability with this?

Ashok Gupta So, we are supplying steel pipes in the range of 1mm to about 10 mm. The standard supply of material from the steel producers is in the range of 2.5 mm and above. Materials below 2 mm are slightly difficult to find I also mentioned that there were periods of shortages in this area of thinner material. So, to take care of both the supply issue as well as pricing issue, we are trying to put some means of reducing the thickness of the material we get so that we do not have to depend on outside sources. So, that facility we will be setting up which will reduce our thickness to the desired level. And thereby we hope to make sure that the prices of raw material will come down for us. So, we hope to make some saving in the raw material prices.

Ronak Morjaria And by when will this be operational?

Ashok Gupta By this year end.

Moderator Thank you. Our next question is from the line of Sameer Desai from FinCo Capital. Please go ahead.

Sameer Desai See, as you mentioned in Q1, the EBITDA per ton was around Rs. 3,500 and for the current year, it will be around Rs. 3,300. So, what will be the Q2, Q3, Q4 breakup or will it be like a blended average EBITDA per ton?

Ashok Gupta We will try to see that it does not slip up from our average of Rs. 3,300 each quarter, but we cannot say at this particular moment, what could happen because it will depend on a lot of factors.

Sameer Desai But you are going to maintain that EBITDA margin?

Ashok Gupta We will try not to slip up on that.

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

Ankit Gor Sir, first question with regards to interest cost. What could be that sustainable interest rate in the light of stable steel prices, what do you foresee on a quarterly basis?

Ashok Gupta So, our interest cost which normally used to be in the range of Rs. 20 crore to Rs. 25 crore, I think that level should be continuing in days to come as well, because steel prices have already gone up, and our volumes also will be only higher. So, I think we had been normally operating between Rs. 20 crore to Rs. 25 crore per quarter and that level should be maintained.

Ankit Gor With regards to GI pipe production guidance, we kind of decline YoY as well as QonQ. What do you foresee year ending in terms of GI pipe productions, considering new capacities come in.

Ashok Gupta If you see GI pipe, we produced about 23,000 in Q1. So, we will try to make sure that these figures are definitely between 25,000 to 30,000 in coming quarters. We have got three GI lines now, fourth GI line should be coming up somewhere in the month of October to December, then onwards our production will go 30,000 plus.

Ankit Gor We are talking about 4 GI lines?

Ashok Gupta Yes, you are right. So, currently our capacity of GI production is about around 25,000 – 26,000, so we are producing 23,000. So, with the same capacity, we will continue to produce 25,000 plus but with having one more line, we will be closing 30,000 plus.

Ankit Gor With regards to this inventory gain which we received in Q1, what was the average cost of holding in Q1?

Ashok Gupta Holding cost, so we were carrying around 45 to 50 days inventory, so the holding cost will come to perhaps 1.5%.

Ankit Gor And in light of slowing down infra expenditure from government, are you still holding guidance of 2.4 million tons in next two to three years or how are we seeing our capacity expansion?

Ashok Gupta I will say that every year we endeavor to go between 15% to 20% per annum, that we will try to cross

Ankit Gor Presently 1.8 million tons is what our capacity is, right?

Ashok Gupta It is not such a fixed number, it depends on what kind of material we are producing and what exactly we are doing. So, focusing more on the customer requirement, capacities can go up and go down.

Ankit Gor With regards to capex for FY20, what could be that number, can we assume Rs. 100 crore considering capacity expansion?

Ashok Gupta In my view, we will finish somewhere between Rs. 70 crore to Rs. 90 crore.

Ankit Gor And this will be for what in FY20?

Ashok Gupta We have not made any plans. To tell you frankly, we are trying to see how this year goes out, only by end of the year we will make the plans, because we are slightly trying to consolidate now, instead of creating new capacities we are saying our utilization should go up.

Ankit Gor And last question with regards to the channel financing, how is that panning out? You said that debtor days are coming down day by day.

Deepak Goyal It is gradually improving, right now we are doing around Rs. 100-odd crore and in the coming days, it will be improved.

Ashok Gupta I will tell you what we have done, the scheme of giving cash discounts to our customers, so cash discount is available only when you make the payment upfront, which is around within 10 to 15 days of supply. So, for making use of that, dealers will have no option but to go in for financing, which channel financing is a way out. So, we expect a lot of people to go for channel financing once we have announced, the scheme has been announced only recently. So, in days to come, more and more people will go for channel financing.

Moderator Thank you. Our next question is from the line of Romil Jain from JM Financial. Please go ahead.

Romil Jain On the DFT side, did Q1 see any production volumes of the total volumes as of now?

Ashok Gupta There has been an improvement in DFT production, even though it is marginal, but there has been an increase. It will build on itself one by one.

Romil Jain And that will be primarily on the hollow section side as we start?

Ashok Gupta DFT is completely hollow section.

Romil Jain And what part of the capacity would be DFT, when we scale up of the total capacity?

Ashok Gupta DFT should be between, my total capacity including round and GI and GP and everything, DFT could contribute as much as 25%.

Romil Jain That would be at full utilization?

Ashok Gupta I am just giving an average, because so many factors are there. At around 25% - 30%, we will hope will be DFT.

Romil Jain We were actually trying to rope in the OEMs and everyone for DFT. So, how is that progress going on, any advance talks with any one?

Ashok Gupta Slowly it is happening, but it is very slow. There have been some changes made by some people, but as you know changing of a specification, changing of the guidelines takes time. So, we have been able to do very-very small job in that direction, just early shoots are there. So, some people have shifted from other materials to sections of our requirement. But very few ideas, not too many.

Romil Jain So, maybe in a year or so we should start to see the volumes also, the shift to DFT as well as some margin improvement out there?

Ashok Gupta Definitely it will happen, but very slow.

Romil Jain And any new capacity in our market coming up?

Ashok Gupta Small capacities continuously come up. So, as you see the country's capacity is around 8 million to 9 million tons. So, people with capacity of around let us say 50,000 or 1 lakh ton go on coming, 30,000-40,000 per annum goes on coming every now and then. But they are nothing worthwhile to mention about.

Romil Jain So, just wanted to understand on the competitive scenario, one from the point of view of new capacity and one from the point of view of existing capacities which are kind of giving you competition or scaling up.

Ashok Gupta See, I have only 15% share, we face intense competition from all kind of producers, large and small. Our only way out is, we differentiate ourselves so much that we do not really kind of come under their pressure. So, we are trying to create our own niche by way of products, by way of branding, by way of servicing. And I think that this is why we have been able to stay where we are. You would understand that commodity item like pipes to maintain the leadership is a challenge. But doing these things we maintain it and I think we have done some job in that direction, so people are sticking to us. Our margins in the industry today are perhaps the highest, despite that we are trying to ensure that volumes continue to improve. That is only by differentiating ourselves. So, today in the market we are kind of a different player.

Romil Jain How much is the debt on the books?

Deepak Goyal Around Rs. 950 crore.

Romil Jain So, even with Rs. 100-odd crore of capex by this year, we should be nearing the peak or something in the debt?

Deepak Goyal Yes.

Ashok Gupta Very simply, we are no more allowed to take any more debt from anybody, so it cannot go up, it can only go down.

Romil Jain So, once all this Rs. 100 crore capex will be done, we can start our repayment as the cash flows improve?

Ashok Gupta We will reduce from before that itself by shifting over to channel financing, we should start reducing our total debt. We are not going to wait for the year end. From right now itself, the endeavor is to reduce the total debt. It is Rs. 950 crore, then quarter-on-quarter we should see some reduction.

Deepak Goyal Right, because we have extra inventory also, in the coming days, we will reduce our inventory also by 10 to 15 days.

Moderator Thank you. We have the last question from the line of Lakshminarayanan KG from Catamaran. Please go ahead.

Lakshminarayanan Sir, in terms of demand of agriculture, I assume that there was more than 15% of our revenue comes from that. So, can you just tell me how it is trending? Second, you mentioned that there are 400 distributors we have, what kind of end points they reach and how it has actually moved in one year. And the last question I have, which states are actually growing ahead of 14% volume growth which we have seen?

Ashok Gupta So, agriculture uses our pipes for two purposes - one for extraction of underground water and secondly for green houses. We are endeavoring to increase our presence in the underground sector, but we have met with limited success. In days to come, we hope to increase that share. In the other sector, where we are using this material in the agriculture for green houses, we have got very good success. So, there we will be increasing our presence even further. However, the growth rates are not very high; we may be growing only at around 5% to 6% in that area. Secondly, agriculture sector would be contributing not more than 10%.

Lakshminarayanan And second question is in terms of distributors, how many distributors in the last one year you have opened and what kind of end touch points they reach?

Ashok Gupta So, we have around 400 distributors, out of which 50 - 60 are very large distributors, they are focused mostly in the large metro cities. And then there are small distributors, which we have opened, and we are further opening in small cities, cities like Rajkot, Kanpur, Baroda and small, small places, tier II and tier III cities. Our presence is increasing on those cities, so we have made many new dealers in small cities including Jamshedpur or Bhubaneswar. We are trying to ensure that our presence in the smaller city increases, because by that the loyalty is higher. What we observed is in small cities, there the dealers have a higher percentage of royalty as compared to large metros. We are focusing on that. So, as for the increase in distributor is concerned, every year we add some 20 – 30 new distributors. So, it is 400 this year, next year should be 420 – 425.

Lakshminarayanan And how many end points they touch?

Ashok Gupta So, if you talk of retailers, each distributor typically services around 50 to 100 retailers. If we see, it will be around 20,000 retailers which may be connected to us.

Lakshminarayanan And which are the key states that are giving very high volumes for us?

Ashok Gupta We did not have presence in east, now we are having some presence in east. Growth-wise, we are still getting good growth from south. And so last quarter, the growth was there in south. On an average, all those regions are growing; south was doing slightly faster, now we are looking at north, because north also the demand is now growing. So, this quarter or coming quarters, we will see good growth happening in north and east as well.

Moderator Thank you. Ladies & gentlemen, with this I hand the conference over to the management for their closing comments. Over to you, sir.

Ashok Gupta I must thank for the really interesting questions. I would just like to inform everybody that there has been lot of new initiatives being taken by the company, including branding, differentiation and new product front. With these initiatives, we hope that our journey towards higher growth, 15% to 20% and stability in margins should continue.

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