



APL Apollo Tubes Limited Q2 FY20 Earning Conference Call Transcript November 11, 2019

Moderator: Ladies and gentlemen, good day and welcome to the 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 '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Anoop Poojari from CDR India. Thank you and over to you, sir.

Anoop Poojari: Thank you. Good morning everyone and thank you for joining us on APL Apollo Tubes Limited Q2 and H1 FY2020 Results Conference Call. We have with us Mr. Arun Agarwal – Chief Operating Officer, Mr. Deepak Goyal – Chief Financial Officer and Mr. Anubhav Gupta – Chief Strategy Officer 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 may be 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 conference call to discuss the operating and financial results for the quarter and half year ended on 30th September 2019. I will briefly cover the key development and financials and then we will open the forum for questions and answers and your valued suggestions.

We have reported steady sales volume performance during Q2 and H1 FY20 despite facing many external challenges such as muted demand sentiment in the domestic market, slowdown in the construction and infrastructure activity, flooding in key markets like Karnataka, Kerala and Maharashtra. Our sales volume during the quarter grew by 20% led by contribution from our Apollo Structural brand and Apollo Z brand among others. As you would have noticed, in our results documents, we are now sharing break-up of the sales volume performance as per our brands instead of product categories, which we did earlier. So, just to take you all through it, our brand 'Apollo Structural' comprises of Hollow Sections and DFT pipes; Apollo Z brand is of pre-galvanized pipes, that is GP pipes; Apollo Build is galvanized pipes, that's GI pipes and Apollo Standard is the Black round tubes.

This quarter also included a full quarter consolidation of Apollo Tricoat's operations and financials. So, volume contribution from Apollo Tricoat's brands of Apollo Chaukhat, Apollo Plank and Apollo Signature, also assisted our overall volume growth during the quarter.

Now, while our volume performance remained healthy in Q2 FY20, our operating performance got affected. A combination of factors such as higher branding & marketing expenses, additional cost incurred on account of the acquisition of Hyderabad plant in the last quarter impacted profitability during the Q2 FY20. There was also a significant decline in steel prices during the quarter led by a weak sentiment in the steel industry owing to a subdued macro environment. This further impacted our profitability performance. However, we would like to state that volatility in the steel price is a part of our business. Being one of the leading players in our industry, we have actually been able to navigate through this volatility and report positive EBITDA per ton level. However, we are now seeing a healthy improvement in the operating environment and are confident of delivering a much stronger EBITDA per ton from Q3 FY20 onwards.

Moving to the financial performance, our total net revenue from operations during the quarter stood at Rs. 1,647 crore against Rs. 1,690 crore. In H1 FY20, total revenue from the operations grew by 10% to Rs. 3,718 crore. On the profitability front, EBITDA in Q2 stood at Rs. 76 crore, lower by 13% YoY. In H1 FY20, EBITDA stood at Rs. 206 crore, higher by 3% YoY. Our profit after tax stood at Rs. 55 crore compared to Rs. 27 crore and in H1 FY20, PAT stood at Rs. 112 crore as against Rs. 73 crore in H1 FY19. PAT has improved due to the reversal of deferred taxes liability of the previous year.

With our focus on branding approach and our innovative product portfolio, we believe, we are well positioned to the profit from the recovery in the operating environment and looking forward to delivering healthy results in the upcoming quarters. Further, the stabilization of capacity expansion and strategic acquisitions should further consolidate our position from FY20 onwards and lead to improved performance going ahead.

On this note, I would now request the moderator to open the forum for questions or suggestions that you may have.

Moderator: Sure, thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Anand Bhavnani from Unify Capital. Please go ahead.

Anand Bhavnani: I have three questions. The first question is about our overall investments in plants, property and equipment in H1 and if I see our balance sheet, the consolidated plant, property, equipment is up by around Rs. 405 crore, it was Rs. 1,007 crore, now is Rs. 1,412 crore. So can you give me the split of the Rs. 405 crore, how much of it is Tricoat and how much of it is acquisition of Shankara and third, any new investments that you had made in existing units?

Deepak Goyal: On the CAPEX front, almost Rs. 192 crore, excluding Tricoat, we have invested in the fixed asset including new acquisitions of Hyderabad unit and balance is from the Tricoat, which is almost Rs. 250 crore.

Anand Bhavnani: So, Hyderabad I think is Rs. 70 crore, so Rs. 122 crore additional we have investments in the standalone, is it?

- Deepak Goyal:** Yes, that includes the new CRFS facility with the capacity of 2 lakh ton in Secunderabad and some land acquisitions in Raipur for the future expansion purpose.
- Anand Bhavnani:** And sir, in terms of our interest cost, now I see that our debt levels are quite moderate but the interest cost continues to be very high. So what is the current interest rate for the working capital limit if you can give us a sentence? Can it be expected to go down in H2?
- Deepak Goyal:** Yes, definitely in H2, it will go down below Rs. 50 crore and as compared to Q1, it has also reduced in this quarter. Our rate of interest has also softened in this quarter. So we are quite hopeful going forward, that the interest and debt levels will reduce further.
- Anand Bhavnani:** What is the absolute rate that we are paying currently? The blended average rate for the entire debt that we have.
- Deepak Goyal:** Around 9%.
- Anand Bhavnani:** And lastly, on our CAPEX front, in the first half we had cold rolling mills coming up and new land. Is there any expectation of more CAPEX in H2 or FY21?
- Deepak Goyal:** In this financial year, we had a CAPEX plan of Rs. 200 crore that is already completed and small maintenance CAPEX of may be Rs. 10 to Rs. 20 crore maybe used in the balance half of the year but not more than that.
- Anand Bhavnani:** And last on the inventory loss like assuming there was no sharp movement in steel prices, what would have been our EBITDA or if you can quantify the inventory loss in rupees crore for this quarter?
- Arun Agarwal:** I think, it would have been almost close to Rs. 120-Rs. 130 crore.
- Anand Bhavnani:** The EBITDA for the quarter would have been Rs. 120 crore in the absence of inventory loss?
- Arun Agarwal:** Yes.
- Moderator:** Thank you. We take the next question from the line of Vikash Singh from Phillip Capital. Please go ahead.
- Vikash Singh:** Sir, I just wanted to know the like-to-like volume comparison, since you said that Hyderabad is newly included. What was the volume because of Hyderabad - Shankara unit in this quarter?
- Arun Agarwal:** Hyderabad has reported a volume of around 20,000 tons during Q2.
- Vikash Singh:** And sir, just wanted to understand that previously you used to give the breakups of Black Pipe, GI pipe, so can I have the similar breakup just for this quarter as well?
- Arun Agarwal:** Yes, you can have that.
- Deepak Goyal:** Black pipe is around 48,000 ton, Steel pipe is around 207,000 ton, GI pipe is 18,000 ton and GP is around 64,000 ton.

- Vikash Singh:** This is excluding Tricoat?
- Deepak Goyal:** Yes, excluding Tricoat and Tricoat volume is 27,529 including Apollo Chaukhat, Apollo Signature, Plank and many other products.
- Vikash Singh:** In this Hyderabad plant acquisition, you said there were some additional costs because of which also our performance has been a bit weaker, so would you be able to quantify that?
- Deepak Goyal:** It is around Rs. 10 to Rs. 12 crore because our overall volumes are not increasing after the acquisition of the Hyderabad unit. That is why we are giving the additional cost but that plant has produced around 20,000 ton in this quarter only.
- Vikash Singh:** And sir just one more last question, so you said that we had some volume loss because of the extended monsoon and floods. So any estimates of what could have been the normal, steady state volume, if that wouldn't have come?
- Arun Agarwal:** In our business, we have a seasonal impact every year due to rains actually. Rains are offseason for the business because construction activities get stopped.
- Vikash Singh:** So, how is the October sales has been panning out on a monthly basis, say have we been able to ramp it up from the levels we have seen in the Q2 on an average or what kind of the average we are seeing right now?
- Arun Agarwal:** We expect Q3 and Q4 to be much higher than the Q2 level.
- Vikash Singh:** And what is the October average?
- Arun Agarwal:** We are hopeful of meeting our already given guidelines of 20% volume growth for the year.
- Moderator:** Thank you. We take the next question from the line of Rahul Jain from Credence Wealth Management. Please go ahead.
- Rahul Jain:** Sir, given the environment, our results have been quite good, there is no doubt about that. I just had some questions. One, on the volume front sir, if we exclude Tricoat, our volume growth is actually around 11.5%, so just trying to understand that, is that a correct way of looking at it or is it like some of the products from Tricoat, there is an overlap between our standalone APL production and Tricoat?
- Arun Agarwal:** There is technically no overlap between Tricoat products and APL Apollo products. If you see historically during these quarter of rains, our volume normally go down by 20% wherein this year we have been able to clock a YoY growth of around 11%. So though we have been able to maintain the volumes top-line, however, we have been hit in the EBITDA per ton due to some other factors actually.
- Rahul Jain:** And sir, on the volume side, so the galvanised products, both GP and GI part of it, what kind of measures we have taken because I understand these are higher margin products and typically some of the growth in this product in last about 4-5 quarters has been comparatively lesser than the other products. So

are we trying to take some steps in terms of these two categories of products, how do we look at making better growth on this?

Arun Agarwal: Q3 and Q4, you will find very good growth in GP and GI because Galvanized Products again owing to extended rainy season, these products cannot be used because they have to be commissioned in an open area. So all bore well and construction activities get stopped. GP, more importantly, is a coastal area product, so in coastal places, the rains are at an extreme situation. So, it is a seasonal impact. Every year almost 2-3 months Galvanized Product sales are down, so going forward you will see a healthy growth in these products.

Rahul Jain: Sir, one more question on this volume part. Trying to understand more the Structural for the next 2-3 years or 4 years, are we finding some new applications, so that this growth on a higher base can also be sustainable, newer applications are where there is a replacement of a certain product with our kind of price, if you could share some more details on that?

Arun Agarwal: We have found a core strategic force which is working 24 x 7 on finding new applications or developing new applications. So, almost every month one or two products we are developing and throwing it into the market for testing purpose. So, I think going forward we will have some more products added into the portfolio which will keep us insulated from any price fluctuation or market fluctuations also.

Rahul Jain: Sir, last question from my side, we understand that being a large steel consuming company, steel is a part of our business and we will see this kind of volatility in our numbers because of steel prices going up and down. So, on this front what is the strategy like? Is there a strategy where we can reduce the kind of inventory which we want to keep on still and what is generally the standard in terms of number of days of inventory being kept, so there will be a minimum these many number of days of inventory of steel and a higher range, so if you can give the range for the number of days?

Arun Agarwal: As of now, our inventory days are around 37 days of inventory. Obviously, we would like to reduce the number of days of inventory. At the same time, we have taken a number of initiatives, like we have recently roped in Mr. Bachchan as our brand ambassador and are going ahead with mega branding initiative. So, all of these things will help us in muting the price fluctuations that we normally face or the impact of price fluctuation. No company in our industry has done any branding activity at such a large scale.

Rahul Jain: I fully appreciate that ad which has been released in last about fortnight or so post Diwali, they are really nice and they are wonderful. Just one small thing on this, last quarter we had mentioned that our overall advertisement budget or the estimate will be around Rs. 50 crore. Do we continue to maintain that our advertisement channel will be around Rs. 50 crore and will this include the branding exercise of Mr. Bachchan?

Arun Agarwal: Our branding budget for the current year will be between Rs. 40 and Rs. 50 crore only. Depending upon the revenue that we generate, so minimum it will be Rs. 40 crore, that already we have planned.

Rahul Jain: And that includes the branding done through Mr. Amitabh Bachchan?

Arun Agarwal: Yes, that includes everything.

- Moderator:** Thank you. The next question is from the line of Bhavesh Chauhan from IDBI Capital. Please go ahead.
- Bhavesh Chauhan:** Sir, on our capacity of 2.5 million ton, how much volume can we do?
- Deepak Goyal:** This year, our target is 20% growth over the last year. So, absolute number would be around 16 lakh ton.
- Bhavesh Chauhan:** No, my point was that what is the time when we require fresh CAPEX?
- Deepak Goyal:** After FY22.
- Bhavesh Chauhan:** After FY22, so next 3 years we are not doing any CAPEX for expanding?
- Deepak Goyal:** Not exactly right. If we cross the Rs. 20 crore, then we will plan for further CAPEX.
- Bhavesh Chauhan:** And sir, in terms of our margins, you already guided that we will be doing 20% volume growth, but given the demand scenario is weak, are we trying to push volumes at the cost of margin or are we looking at improving margin also?
- Arun Agarwal:** We are confident of achieving our volume growth guidance given at the EBITDA levels that we have committed, in spite of the slowdown in Q2.
- Moderator:** Thank you. Next question is from the line of Sachin Kasera from Svan Investments. Please go ahead.
- Sachin Kasera:** Deepak, regarding this CAPEX you mentioned that second half CAPEX will only be Rs. 20 crore, so does it mean that we will see a debt reduction substantially in second half or you think that debtor levels or inventory will again go up and debt will go from here?
- Deepak Goyal:** Sachin, definitely debt levels will be reduced further because we have no cash CAPEX plan in H2 but some increase may happen due to the volume increase on the working capital side but net debt will be reduced that we are confident of.
- Sachin Kasera:** What is the type of increase in working capital as per plan you are envisaging second half?
- Deepak Goyal:** It depends upon the pricing level because now our working capital is 26 days. If it remains within the same range, 25-26 days and if volume increases, in the absolute numbers, there may be a small increase in that.
- Sachin Kasera:** Second question is on the inventory. You mentioned that the inventory is 37 days. That is only raw material or including finished goods?
- Deepak Goyal:** Including everything. Including COGS and sales, WIP, raw material and finished goods.
- Sachin Kasera:** Can you quantify what is approximate tonnage and what rate this inventory valued at as of 30th September?

- Deepak Goyal:** Inventory average rate would be around Rs. 35,000 per ton and volumes is around 170,000 ton.
- Sachin Kasera:** As we have an aggressive plan for the second half if we start doing 150,000-160,000 ton that promoter envisaging, this inventory of 1,70,000 ton will increase to 2,00,000 tons or it will remain at 1,70,000 ton.
- Deepak Goyal:** There will be no increase in the inventory side and debtor may increase a bit but not too much.
- Sachin Kasera:** So, basically as the volumes will increase in second half, the only increase in working capital will be either if the prices of steel go up on the inventory side or because of the increase in debtors because of higher sales. That is what you are trying to communicate?
- Deepak Goyal:** Yes.
- Moderator:** Thank you. We take the next question from the line of Ankit Merchant from SMC Global. Please go ahead.
- Ankit Merchant:** I understand the operating and the manufacturing or the other expenses have gone up, so how much of the Rs. 40 crore that have been spent in marketing and how much is it accounted in this particular quarter? Can you give some guidance on that?
- Deepak Goyal:** In H1, we have spent almost Rs.17 crore on the branding and marketing activity.
- Moderator:** Thank you. We take the next question from the line of Ankit Gor from Systematix Shares. Please go ahead.
- Ankit Gor:** Sir, my question with regards to again on inventory side, 3 YTD we have seen a drop of another 9 to 10% in HRC, so how do you look at this quarter considering my product mix remains same like GA, GI and GP. Are we eyeing for another Rs. 40 crore - Rs. 50 crore kind of inventory loss or my product mix has improved this quarter, so it will nullify a bit?
- Arun Agarwal:** Obviously, the change in product mix will nullify a bit of any inventory loss if at all you proceed, but steel prices have already shown a bottom and there is a reversal in the steel prices and the environment has changed a bit. So, going forward in the next 2 quarters, we don't see any further inventory losses.
- Ankit Gor:** What is that you mean to say Q3, there will no inventory loss as we are speaking?
- Arun Agarwal:** As we are speaking today, given the present circumstances, we don't see any further inventory losses.
- Ankit Gor:** So, that confidence which is getting by better product mix because HRC prices have further dropped down from Q2?
- Arun Agarwal:** The steel prices have already shown a bottom and had shown some reversal during the current month. So, as we speak, we don't see any further decrease in the steel prices. That is the perception that we have today.

Moderator: Thank you. We take the next question from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Sir, I had a few questions. So, you mentioned about the inventory losses in APL, can you also quantify them in Tricoat because as far as I can see in Tricoat there are barely any inventory losses. So if that is the case then why Tricoat did not show inventory losses but we had inventory losses in APL? My second question is, in this cycle what was the peak steel cost that you incurred and what is the current cost given the current cost which is 35,000 per ton, so what was the peak for this cycle and my third question is that on the capacity side, when I go through Tricoat's disclosures that you have made, I see different numbers in different documents, sometimes different number in the same document. So sometimes it is 175,000, sometimes it is 200,000 and sometimes it is 250,000. So, can you clarify, give a concrete breakup of your total capacities including Tricoat and can you also give one number which we can follow because in this year's annual report there are so many numbers especially related to Tricoat that is very difficult to gauge what is the actual capacity?

Anubhav Gupta: On question number one, the difference between APL and Tricoat is that APL is sitting on a capacity of 2.5 million ton and in Q2, we could sell only 3,25,000 ton, so we are operating at less than 55% utilization. That is why you saw some excess inventory where we had to write down some inventory whereas Tricoat, the capacity is very little and the volume is increasing very fast, the capacity is rising very fast. So, that is why there were no inventory write down in Tricoat. The next question on the capacity in Tricoat, you can take note that right now, the current capacity is 200,000 ton which is spread across 5 products which are operational and 3 more products will get on line in next 6 months which will take the capacity to 2.5 lakh ton.

Agastya Dave: And the steel price?

Anubhav Gupta: On steel prices, in APL as we ramp up our volume, the shock of steel fluctuation will not hit us. We have made our business model in such a way that as the capacity ramps up to 60%, 70%, 80% in next few quarters, there will not be excess inventory because right now as the plants are operating at underutilization levels, every plant has to maintain minimum inventory levels. As the volume picks up, the production picks up, we won't buy excess inventory, it will be more on replenishment model. So, automatically our inventory write down will not take place. You saw that already in Q4 and Q1, then we could sell above 4,00,000 ton in a quarter, there was no inventory write down. So our business model is becoming in such a manner that we will be moving away from inventory write down.

Agastya Dave: What were the peak steel prices that you saw in this cycle?

Arun Agarwal: It was around Rs. 40 at the beginning of this year which is approximately at sub Rs. 35 level currently.

Moderator: Thank you. We take the next question from the line of Pavan Kumar from Ratnatraya Capital. Please go ahead.

Pavan Kumar: Sir, I have seen significant amount of reduction in your receivable days, they have almost reduced by half, so is the kind of debtor days manageable or how are we able to do this and is this actually sustainable at the current level?

- Deepak Goyal:** It would be sustainable. We are very much focusing on the debtor side and now it is almost 15 days because we are mainly focusing on the channel financing schemes and we are maximising. More and more customers will be covered under the channel financing schemes. It is on a sustainable basis, so we are seeing these numbers.
- Pavan Kumar:** Can you just give us the flavour of the mechanism that operates, suppose the steel prices were to bounce back, so are we going to write back the losses whatever has happened on the inventory level in the next quarter if there was a price bounce back or even if it goes to much above the levels that they were previously, then profits can also be put in, how does that work overall?
- Arun Agarwal:** Write back of losses is not allowed as per accounting standards actually, so inventory valuation is done as per whatever prevalent accounting practices is there. It is normally at cost or market price, whichever is less.
- Pavan Kumar:** And that is at the average or the end of the quarter inventory price itself. How does it work?
- Arun Agarwal:** We are valuing our stock prices on FIFO basis.
- Pavan Kumar:** Okay, First in, First out method and my last question, in Hyderabad since you have said the volumes were around 20,000 and there were significant higher other operating expenses. At what level of volumes per quarter would you say these kind of excessive expenses will be covered for?
- Arun Agarwal:** At 30,000 per quarter, I think our expenses will be taken care of because we have just taken over the plants, any transition phase it takes some time to settle down for the changeover.
- Pavan Kumar:** And additional investments in Hyderabad plants, what would that be?
- Arun Agarwal:** No major CAPEX is planned anywhere across all plants.
- Moderator:** Thank you. Next question is from the line of Dipan Mehta from Elixir Equities. Please go ahead.
- Dipan Mehta:** This is Dipan Mehta from Elixir. Apologies, I got disconnected. My question is regarding the 20% guidance growth on what basis are you assuming that you might get a 20% type of a volume growth given the present economic scenario?
- Anubhav Gupta:** Dipan, if you see in Q1 FY20, our volume increased by 30% YoY, Q2 FY20 because of seasonality issues, the volume growth slowed down to around 11-12%. So, first half we have already done above 20%. As the economic cycle picks up a bit, we will definitely get the tailwinds otherwise we are working on new products, new applications on developing the structural steel building material market in India. We are confident that achieving similar growth rate of first half and second half will not be much of a challenge and if there is some kick-start in the economy, the goal can be achieved much easier.
- Dipan Mehta:** Another thing is that we have been developing new products, which are fantastic and lot of growth has come from there. Any statistic as to products developed in the last two years, what percentage they are contributing to our sales, some indication that what is the quantum of new products and the overall volumes or sales?

- Anubhav Gupta:** If you see our product category, Apollo Z and Apollo Structural. Most of our new products, new technology has come in these two categories and these two categories have shown maximum growth in the last 7 to 8 quarters. So you can expect similar new product innovations, new acquisitions in these two product categories.
- Moderator:** Thank you. We take the next question from the line of Viraj Mehta from Equirus PMS. Please go ahead.
- Viraj Mehta:** Sir just had two questions. One when you say that you had 170,000 ton of inventory with you and you faced around Rs. 70 odd crore of inventory loss that would be almost close to Rs. 3,500 to Rs. 4,000 inventory loss per ton whereas if I look at the slide in the HRC prices, they are lower than that, in this quarter especially. They are like Rs. 3 odd, so how can we explain that?
- Arun Agarwal:** Though the prices have gone down slightly higher than the absolute stock loss that we have incurred, so a part of it has been taken care by the operational part actually. We have been able to cover a part of the losses from the operational performance.
- Viraj Mehta:** Second, when you talk about your EBITDA per ton of Rs. 2,100 that is because Apollo Tricoat is at a very high EBITDA margin. If I actually take out Tricoat EBITDA, the EBITDA for the firm is around Rs. 60 crore and then it comes to around Rs. 1,800-Rs.1,900 EBITDA per ton, is that correct understanding?
- Arun Agarwal:** Yes, it is correct.
- Viraj Mehta:** And so Sanjayji on the call always used to say that we can in a steady state environment do Rs. 3,500 to Rs. 3,800 or even Rs. 4,000 EBITDA per ton, how quickly do you see us going back to the number of Rs. 3,500, is it possible in Q3 and Q4 or not really?
- Arun Agarwal:** We are confident of crossing Rs. 3,500 by Q4 actually and obviously there will be a significant improvement in Q3 numbers as well.
- Anubhav Gupta:** Just to add to it that the reason for low EBITDA spreads in Q2 is because of low capacity utilization. The moment our volume picks up and the utilization levels go up, the fixed cost will get materialized, will get factored in and you will see improvement in the EBITDA spread. Q2 is not the parameter for the full year; it is more of a seasonality factor which impacted the EBITDA spreads.
- Viraj Mehta:** Sir, just last one question if you allow me, if you are going to spend Rs. 40 to Rs. 50 crore on the branding for Apollo brand with Mr. Bachchan and the entire ad and everything. How does it get split between APL Apollo and Tricoat because my understanding is if you do it on volume basis, Tricoat gets disproportionate value out of that advertisement cost because there is a far more higher value at product, how do you take care of this conflict?
- Anubhav Gupta:** That is not a correct assessment. So, coming to the first question, there is a split between the tax spends between Tricoat and APL Apollo and if you see the main corporate branding, that is promoting APL Apollo brand and if you saw the advertisement, we would see all the products like Hand Rails, like Structural Steel, all these products are coming from house of APL Apollo and those are equally B2C consumer products which are aesthetically visible to

the consumer. So, to say that the branding will only give advantage to Tricoat that is totally incorrect assessment and between the budget of Rs. 40-Rs. 50 crore, there is equal split between how much Tricoat would benefit, how much APL would benefit, there is an equal split between the cost.

Moderator: Thank you. We take the next question from the line of Dhimant Jain from Unify Capital. Please go ahead.

Dhimant Jain: Just wanted to understand that our debt levels are in the vicinity of around Rs. 800 crore, the number was very similar at the end of FY19, but the interest cost is Rs 55 crore. So, if I analyse this interest cost, cost of debt is around 13%-14% whereas you have indicated to answer one of the fellow participants that interest cost is around 10%. So, how do we reconcile the difference?

Deepak Goyal: During the quarter, since the debt level is increasing or decreasing, that is the average. If the closing numbers in the quarter end, everybody is focused on the inventory levels and debtor levels that is why they are reduced. During the quarter, it too was fluctuating between the Rs. 800 to Rs. 900 crore. That is why little bit higher in fact.

Dhimant Jain: And does that include any factoring that you might be doing to have lower receivables or any channel financing for dealers that you would be doing and you would be bearing the finance cost? Does our interest cost include any of these two activities?

Deepak Goyal: Not much, because channel finance cost is born by the dealers only. We are passing the discounts to them for the early payment and small bank charges are only there.

Dhimant Jain: Okay. And sir in case of CAPEX, you mentioned that about Rs. 120 crore of CAPEX for cold rolling mill and Raipur land, so can you give split of this? So, how much for cold rolling mill and how much for Raipur land?

Deepak Goyal: Around Rs. 70 crore for the cold rolling mill and almost Rs. 50 crore Raipur land.

Dhimant Jain: Okay. And this cold rolling mill CAPEX is operational?

Deepak Goyal: Yes. Right now, it is operational.

Dhimant Jain: We starting from Q3 or Q2 only we got it operational?

Deepak Goyal: Q2 itself, in the second half of Q2.

Dhimant Jain: And sir, advertising and marketing spend, for the full year we are targeting between Rs. 40 crore and Rs. 50 crore. And for first half, it was Rs. 17 crore and I think the first half was included IPL as well as World Cup. So, if I were to draw conclusions, overall H2 we are expecting much more intensive marketing campaign and much more intensive presence in the media space, am I correct?

Arun Agarwal: Yes, you are correct because Mr. Bachchan's ad film has been completed and we have just released our TVC ad, a couple of days back. So, TVC is a very costly medium of marketing, branding and that would take a major part of it actually.

- Dhimant Jain:** And sir, how many years have we signed Mr. Bachchan for?
- Arun Agarwal:** Two years.
- Moderator:** Thank you. We take the next question from the line of Kumar Saumya from Systematix Shares. Please go ahead.
- Kumar Saumya:** Sir, my question is regarding revenue across the product segment if you could share that for the quarter?
- Deepak Goyal:** Are you asking for product wise revenues?
- Kumar Saumya:** As in for standard Apollo Structural revenue, revenue against the volumes that we have shared?
- Deepak Goyal:** For the Black Tubes is around Rs. 40,000 per ton. For the Hollow sections is 40,500 and for the GI pipe is around Rs. 50,000 and GP is around Rs. 48,000 per ton.
- Moderator:** Thank you. We will take the next question from the line of Bobby from Falcon Investment. Please go ahead.
- Bobby:** Regarding your growth, are you factoring in any market share growth in the 20% volume forecast?
- Anubhav Gupta:** Yes, we are, Bobby. In last two years, we have continuously grown our market share and going forward also you will see that our volume growth will be higher than the market growth. So, quite evidently we are gaining market share and we will continue to gain market share.
- Bobby:** Who are gaining the market share from, is it from the listed companies in your sector or the small unorganized sector?
- Anubhav Gupta:** It is a mix of both. If you look at a few large organized listed companies, none of their volume is growing as quickly as ours, number one. Number two, in the small unorganized sectors also, the balance sheets of some of the players are quite stretched. They are not able to do business in this economic downturn. So, we are gaining market share from smaller guys also. So, it is a mix of both which we are gaining market share from.
- Bobby:** Okay. And coming to the inventory losses that you have, I just wanted to understand it a bit better. So, you hold the inventory for 37 days, right? So, this is, when you say it is an inventory loss, do you mean during that period the price of steel would have fallen and you would have been stuck with higher cost inventory for those 37 days, is that correct?
- Anubhav Gupta:** This is correct. And second, for your understanding, when the steel prices move up or down, there is a 10-day window in which we change our price lists to the customers. So, there is eventually the risk of those 5 to 10 days wherein we have to take a hit if steel prices go down.
- Bobby:** So, why don't you have any back-to-back arrangements or something that when you actually buy your steel from, you buy steel locally, correct? So, why don't you have back-to-back arrangement such that you can fix the price at the time you buy the essentially?

- Anubhav Gupta:** So, 6-7 days is not a high time. It is as good as back-to-back arrangement. The inventory is hurting us because our plants are not running at full capacity. For your understanding, please note that we have 11 plants with capacity of 2.5 million ton. For example, every plant has capacity of say 2 lakh ton and we have to have minimum inventory levels of HR coil in every plant irrespective of we are operating at 50% or 100%. So, since we are operating at 50%-60% utilization that is why the inventory losses appearing high. As the utilization levels go up, the volume goes up. The inventory fluctuations will not impact our EBITDA. So, it is only hurting in the quarters when there is low volume. When there is good growth, when there is good ramp up, the inventory loss doesn't hurt us. So, the whole strategy of the company is to ramp up the capacity and gain market share and develop the structural steel market.
- Bobby:** So, even if your capacity utilization increases, you still have the 37 days inventory, right?
- Anubhav Gupta:** No, inventory will fall down. The number of days will decline.
- Bobby:** So, what is your target assuming 70% utilization? What would be your target holding period?
- Anubhav Gupta:** So, we could be between 25 to 30 days and 80%-90% utilization will be further down.
- Bobby:** So, there is still a risk because this has been happening, this is not the first quarter it has been happening. I mean if I look at your record for the past 3 years, 4 years, this has been a perennial feature. There is one quarter in a year where you have inventory losses.
- Anubhav Gupta:** Because in the last two years, we have doubled our capacity. We were at 1.3 million ton capacity, today we are at 2.5 million ton, and this has happened in last 2-2 ½ years. So, now that we are not increasing our capacities further, our whole focus is to ramp up the volume. You will see that inventory loss will start disappearing.
- Bobby:** Okay. Because that is very important, you need to get the right supply chain people or whatever. You have Astral Poly and other peers. If you look at your peers like Pidilite and Astral Poly, there is no such thing as an inventory loss.
- Anubhav Gupta:** That is right. That is how we are chasing the business model and we see this happening because we clearly understand that it is because of the excess capacity that we have been hurt.
- Moderator:** Thank you. We take the next question from the line of Heet Vora from Prabhudas Lilladher. Please go ahead.
- Heet Vora:** I just wanted to ask that you said that there was some expense in the Hyderabad plant because of the lower volume. So, could you just quantify those amounts, sir?
- Arun Agarwal:** Around Rs. 10 – Rs. 12 crore.
- Moderator:** Thank you. We take the next question from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

- Ankit Gupta:** I just, again going back to the question of inventory loss reduction, I do understand that the number of days will come down with increase in volumes and you know we ramping up our capacity utilizations but we will still be exposed to 25 to 30 days of inventory and there might be inventory loss on that as well. So, how will it help in actually reducing our inventory losses?
- Anubhav Gupta:** So, if today my EBITDA is 'x' at 50% utilization, at 90% utilization my EBITDA will be '2.5x' and the proportion of write down will be diluted when my EBITDA will be much higher? So, then it does not impact me at all.
- Ankit Gupta:** But your gross margin will be impacted because of that. Of course, I do understand that operating leverage and the fixed cost getting spread out because of higher volumes, but on gross margin front you will still be impacted because of fall in prices.
- Anubhav Gupta:** That will be very little versus what we are seeing today.
- Ankit Gupta:** And secondly on the branding front, if you can just clarify how much will be the breakup between APL and Tricoat. Let us say, we are spending Rs. 50 crore in APL for this year on branding. How much are we planning to spend on Tricoat for this year and what is the share of or the difference between, or what is the share between APL and Tricoat for hiring Mr. Bachchan as brand ambassador?
- Arun Agarwal:** Look, the total branding expenses is divided between all the plants on a pro rata basis. So, it is an average phenomenon for dividing any common expenses.
- Ankit Gupta:** One thing I wanted to highlight there again is that, the other participant also pointed it out, EBITDA per ton and the planting in some of our products are almost like commodity type and in like some of our other products we do get advantage of hiring Mr. Bachchan. But you need to factor in that with how much impact we have on the Tricoat products because those are high margin, high EBITDA per ton kind of products. So, that is something that management should consider is what our suggestion is. It should not be on the basis of volume, it should be on the basis of either the kind of profits or how much impact will we have on the overall profitability of both the company. Not on the pro rata basis because volumes cannot be compared for both these companies and as EBITDA per ton is totally in a different range for Tricoat.
- Anubhav Gupta:** So, you are right. It is not based on the volume; it is based on the profitability. That is how we split the budget between other two companies.
- Ankit Gupta:** So, it is not on the volume basis?
- Anubhav Gupta:** No.
- Ankit Gupta:** Okay. That is helpful. And how much will be the spends for Tricoat, let us say, how much is the marketing expenditure budget for Tricoat for this year?
- Anubhav Gupta:** We don't have Tricoat management right now, so probably we could take this offline.
- Ankit Gupta:** Sure. We will do that. Thank you sir.

- Moderator:** Thank you. We will take the next question from the line of Ankit Gor from Systematix Shares. Please go ahead.
- Ankit Gor:** My question is to receivable days. How much receivable are under channel financing law of HDFC?
- Anubhav Gupta:** It is more than Rs. 200 crore right now.
- Ankit Gor:** Okay. Is it possible to achieve like 60%-70% in next 2 years, how you will see that Deepak Ji?
- Deepak Goyal:** Definitely we are targeting on that only.
- Ankit Gor:** Okay. My next question is with regards to; Sanjayji always used to say volume growth of 20% when there was no Tricoat. But now including Tricoat you guys are saying 20%. So, are we kind of going down on our guidance basis or we are seeing some slack in demand for FY20 basis. How do you see that?
- Deepak Goyal:** You can see in the first half excluding Tricoat over volume growth is 20%.
- Ankit Gor:** Okay. So, when we are saying 20% growth is excluding Tricoat when we say that?
- Deepak Goyal:** Our target is including Tricoat, but in H1 is excluding Tricoat our growth is 20%.
- Ankit Gor:** I totally agree, Deepak with that. But okay, but we will take it offline this question. My next question is with regards to Tricoat Chaukhat that product specifically. There, the distribution channel is what the APL pipe has, same distribution channel or different distribution channel, how it is?
- Anubhav Gupta:** Yes. So, for Tricoat, the distribution is separate because Tricoat is more solution offering, more solution driven. So, the channel is not overlapping with APL Apollo.
- Ankit Gor:** Okay, overall Chaukhat will be how much percentage of Tricoat revenue?
- Anubhav Gupta:** You could see that in our second quarter volume release and also in the Tricoat results which we published last week.
- Moderator:** Thank you. We take the next question from the line of Kedar B from Composite Investment. Please go ahead.
- Kedar B:** So, this is a question that is pretty particular to once again the advert plan that the company has put out. So, in your own words, this is a very unprecedented sort of a spend that we are seeing in category of this nature. So, looking at where the business currently is, touchwood market share gains have been kind of happening. Control over pricing anyway is not really a function of the industry. So, what seems to be the primary reason for us to actually embark on advertising spends of this scale for this industry. Just curious to know what is the process over there?
- Anubhav Gupta:** We are curious to know, why do you say the nature of the business is not prone to this kind of advertisement?

Kedar B: No. In a sense I can understand 50 crore sort of a budget for a consumer company, but as I said market share gains are anyway happening through various means.

Anubhav Gupta: For APL Apollo, the revenue for full year is around Rs. 8,000 crore, right? Out of Rs. 8,000 crore, Rs. 4,000 crore worth of products are which are going inside the commercial building, inside the residential building which are very much aesthetically visible to the customer, to the end customer. So, even on Rs. 4,000 crore revenue, I am only spending Rs. 40-50 crore which is only 1% of it. So, I don't think it is high and if we are able to successfully create a brand, our premium which right now is at 2%-3%, it could be much higher versus the peers. So, this is the main thought process behind going hard on advertisement. So, for us it doesn't impact because my Rs. 4,000 crore worth of revenue is coming from products which are going inside residential and commercial buildings.

Kedar B: So, if I understand you right, we are basically saying that control over pricing is not a strong point of the industry, but the premium that we are going to get over the competition is something which the branding spend is going to help us achieve, correct?

Anubhav Gupta: Even on the pricing in the industry, the kind of value added products which we are developing or which we had developed, the EBITDA spreads are 1.5 to 2 times higher versus our previous product EBITDA levels. So, it is both. It is getting premium over competition and also premiumizing the whole industry.

Kedar B: And coming to your other point, Anubhav so there is two ways of looking at advertising. Either you can look it as a percentage of top-line, if I look at it that way obviously this is not a very high number. But then Rs. 50 crore over the expected PAT for this financial year is almost 25% of the PAT. So, I do understand that as you increase your volumes obviously will be spreading it over. So, primarily you are saying customer stickiness and the premium that we will continue to get over the competition, correct? Would I be right in saying that?

Anubhav Gupta: I don't know what your PAT expectation is; neither should we discuss this on call. But if it is 25, whatever number you said, for next two years it half of my PAT number. So, advertisement is not for one year, this strategy is for 2-3 years. We have just started to build on our profitability and our return profile. We wish it was so easy compared to within first year we could have got our return back on branding investment.

Kedar B: Sir, just one more question. So, the 40% market share that the PPT talks about, that is on installed capacity, correct? Or is that on a revenue basis for the industry?

Anubhav Gupta: No. this is on revenue basis, on my current run rate in first half.

Kedar B: So, within the other 3-4 strong competitors that we have, who do we think is actually our strongest competitor who seems to be as aggressive as we are in terms of winning market share?

Anubhav Gupta: So, the number two guy has one-fourth of my capacity in Structural Steel. It has two times debt than what I have today. And the spreads for number two player is already 30% lower than my spreads. So, I don't think that any

number two or number three player would be in position to spend or to come forward towards in terms of brand creation.

Moderator: Thank you. We take the next question from the line of Anand Bhavnani from Unify Capital. Please go ahead.

Anand Bhavnani: Sir in Raipur we bought land, how much acres was it for Rs. 55 crore?

Deepak Goyal: 238 acres.

Anand Bhavnani: Okay. So, this is quite a sizeable amount of land. So, fair to assume that as and when we do CAPEX post FY22, it will be in Raipur?

Arun Agarwal: That is a presumption actually.

Anand Bhavnani: Sure. And sir, this cold rolling mill that we installed for Rs. 70 crore, what is the capacity for this?

Arun Agarwal: 200,000 ton per annum.

Anand Bhavnani: So, I guess we would still need some CAPEX because our overall sales could be Rs. 1.4-1.5 million next year. So, for cold rolling of just 2 lakh ton per annum we would need sales of cold rolling also of Rs. 1.5 million, similar to our sale side, is that the right assumption and there will be some CAPEX for cold rolling mills going forward?

Arun Agarwal: No. There is no plan for any further CAPEX on the cold rolling mills.

Anand Bhavnani: But do we need cold rolling for our entire sales for whatever sales we have for each of the tonne that we process?

Arun Agarwal: The current year we have no further CAPEX plans except for minor maintenance CAPEX and next year on the basis of operational performance, we can give you our CAPEX plans again.

Moderator: Thank you. We take the next question from the line of Sachin Kasera from Svan Investments. Please go ahead.

Sachin Kasera: Just again one clarification on this inventory loss. So, from what I can gather, there are two types of inventory loss we end up having, one is what you mentioned is that we have to do a mark-to-market of the stock that we have as on the end of the quarter, cost versus the market value and second what was mentioned was that, there is a gap of say around 8 to 10 days between the change in RM prices versus the change in finished good prices. Is that understanding correct on the inventory loss?

Anubhav Gupta: No. It is the same 8 days because the mark-to-market is based on this 8-day window.

Sachin Kasera: So, in earlier question Mr. Arun mentioned that the EBITDA would have been around Rs. 120 crore or Rs. 130 crore without the inventory loss. So, I am not able to understand between 8 to 10 days window how can we incur our inventory loss of almost 60 to 70 crore?

- Anubhav Gupta:** So, actually what Mr. Arun Agarwal meant was that the bridge between Q1 and Q2 for EBITDA, for Q1 the EBITDA was Rs. 130 crore and for Q2 the EBITDA was Rs. 60 crore. So, what he meant was the bridge, but this whole Rs. 70 crore is not for the inventory loss, it is also because of the lower production. Our production came down from 4 lakh ton to 3.35 lakh ton, right and we increased our brand spends, we increased our promotional spends, so this Rs. 60-70 crore bridge is also because of this volume decline, Q-o-Q basis.
- Sachin Kasera:** So, how much can we attribute specifically to inventory loss in that case?
- Anubhav Gupta:** Difficult to give a number, but probably Rs. 20 - 30 crore.
- Sachin Kasera:** Okay. Because from what I could presume, our sense was that the inventory was around Rs. 60 crore, so that is very different than Rs. 20 crore that you are mentioning.
- Anubhav Gupta:** The majority of decline in EBITDA on Q-o-Q is because of the low volume.
- Sachin Kasera:** I would have a suggestion that because of this inventory loss, every quarter that is happening. There is lot of confusion of how should we look at the numbers. Maybe the company should come out with a proper and comprehensive explanation of how one should look at the inventory and how is the auditing of the inventory losses done that will help clear lot of confusion on your quarterly numbers.
- Anubhav Gupta:** Point taken. Please go ahead.
- Sachin Kasera:** Second question was regarding this backward integration that was mentioned it has just started, so what is the benefit we can expect on a recurring basis from this backward integration that has just got commissioned?
- Arun Agarwal:** The benefit of having a backward integration should be somewhere around 2%.
- Sachin Kasera:** 2% of what sir, on realization, on margin?
- Arun Agarwal:** Of the amount of CRFS produced actually.
- Sachin Kasera:** Can you quantify it in absolute terms, that will be really helpful like Rs. 15 crore, Rs. 10 crore, Rs. 20 crore that will be quite helpful.
- Arun Agarwal:** It actually depends upon the capacity that we will get utilized in Q2. So, this we have just started.
- Sachin Kasera:** On a full year, when you have the full benefit, what is the per year realization benefit we can get?
- Arun Agarwal:** You can multiply 2 lakh tons by Rs. 1,000, I suppose.
- Sachin Kasera:** Around Rs. 20 crore?
- Deepak Goyal:** Yes.

- Sachin Kasera:** Next question was on this loss that was mentioned of around Rs. 8 -10 crore in the Hyderabad unit. How do we see that trend in Q3 and Q4, will this loss come?
- Arun Agarwal:** It is time and again getting misinterpreted. The Hyderabad loss that you are talking is because we have just settled over the capacity and it needs to fall in line with our expected volumes. So, the expenses remaining constant if we are having a less capacity utilization or less sales out of that plant, so the expenses are getting not appropriated properly on the overall volume that we expect out of that plant. So, in the last quarter the volumes were only 20,000 ton. So, for a small plant wherein we have with us 30,000, 20,000 is almost 33% down as compared to our benchmark production that you have targeted.
- Sachin Kasera:** One question is regarding the sourcing of Apollo Tricoat, so they source it directly or it is routed via APL Apollo, how is the sourcing of raw material done for Apollo Tricoat?
- Arun Agarwal:** Sourcing of Tricoat RM is done directly by Tricoat actually.
- Sachin Kasera:** Directly?
- Arun Agarwal:** Yes. Though we get a volume advantage as a group company.
- Sachin Kasera:** So, see, since from what I understand is a big volume advantage that accrues to the group because we are such large buyers and in that case, who keep the benefit of that additional volume incentive? Is it because see, because the benefit is coming primarily because 90% of the volume is being sourced by APL or the 80%-85% in it, other 15%-20% is sourced by Tricoat. If they were to buy on their own they would get a much higher price. So, there is an inbuilt discount. So, who gets the benefit of this discount, it is kept by APL because of APL's large volume they are getting the discount or that benefit is kept by Apollo Tricoat?
- Arun Agarwal:** Any purchase, benefit will accrue to the company which is purchasing asset because I don't get the benefit if I don't purchase it.
- Sachin Kasera:** Okay. Maybe I will take this offline. And just one more suggestion on this Tricoat. There were couple of questions on which it was mentioned that the Tricoat management is not on the call. So, I would suggest that since there are some transactions between the company Tricoat and questions related to that. In the next call if you could also have the management of Tricoat that will be really helpful for the investors.
- Arun Agarwal:** Point is noted sir.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for closing comments.
- Anubhav Gupta:** Thank you everyone for dropping by. Hope all your questions have been answered. And if you have further questions, well you may reach out to Deepakji or me. We shall be happy to address those. Thank you and have a nice day.



Moderator: Thank you very much. On behalf of APL Apollo Tubes Limited, we conclude today's conference. Thank you for joining. You may disconnect your lines now.

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