“APL Apollo Tubes Limited Q2 FY16 Earnings Conference Call”

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MANAGEMENT: **MR. ASHOK GUPTA – MANAGING DIRECTOR, APL APOLLO TUBES LIMITED**
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MODERATOR: **MR. DIWAKAR PINGLE - CHRISTENSEN INVESTOR RELATIONS**

Moderator: Ladies and Gentlemen, Good Day, and Welcome to the APL Apollo Tubes Limited Earnings Conference Call for Q2 FY16. 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, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Diwakar Pingle. Thank you and over to you, sir.

Diwakar Pingle: Thank you, Darrel. Good evening, everybody. It is my pleasure to welcome you all to the APL Apollo Tubes Limited Q2 FY16 Investor conference Call. This call is being held to discuss the performance of APL Apollo for this quarter and answer any questions that you may have. I hope that all of you have had chance to go through the quarterly results in the Press Release. In case, you do not have please you write to us and we will be happy to send it to u. today on the call from APL Apollo we have the top management including Mr. Ashok Gupta – Managing Director and Mr. Deepak Goyal – CFO. We will be starting this call with a brief overview of the Company's performance which will be given by Mr. Goyal followed by a Q&A session.

I would like to remind you that everything said on this call that reflects any outlook for the future or which can be construe as forward-looking statements must be viewed in conjunction with the uncertainties and the risk which we face. These uncertainties and risk are included but not limited to what we have mentioned in the prospectus filed with SEBI subsequent Annual Report which you can find on our website. With that said, I would now turn the call over to Mr. Deepak Goyal for the opening comments, over to you sir.

Deepak Goyal: Thank you, Diwakar. Good evening everyone it is my pleasure to be with you on this concall. We are happy to say that we had another record quarter for the first time in our history we have crossed the turnover of 1,000 crores sales in a single quarter. The growth was led by stable EBITDA despite the pressure on the realization due to the steel price reduced.

In Q2 FY16 we grow by over 40% to INR1,056 crores from the INR753 crores in the same period in FY15. The EBITDA stood at INR71 crores up to 43% against the 49.8 crores in the Q2 FY15. EBITDA margins and PAT remain stable at 6.7% and 20 crores respectively so from half year point of view our total sales were INR2,021 crores up by 36% from the H1 FY15, EBITDA stood at 128.9 crores and PAT 41.9 crores.

Beside a favorable financial performance we also had a successful quarter from the operational and strategic perspective. The company are in plan to invest in the state-of-the-art HSU tube mill from an international manufacturer to augment its current capacity and technology framework. The HSU mill concept help in forming of the universal hollow shapes directly from the steel and it is expected to be useful to the company many ways including reduction in the production time increased automation, saving with respect to the material cost which can be as high as 5%. We had sent a detail note about this technology as a part of our press released to everyone for their better understanding.

Our vision is now to increase capacity to 2.5 million tonne by 2020. We are putting our plants in place to augment production capacity to 2.5 million tonne in 2020 from the current capacity of 1.05 million tonnes. This move to increased capacity has been necessitated to become an undisputed leader in the ERW Market which is fragment by the nature. We are confident of garnering a huge share of market from the unorganized players and given the industry is a commoditized market where volume growth and innovation would be a key driver to increase margin efficiencies while we are a strong hold North, South and Western India, we are also setting up a net plant in Eastern India. We are currently seeding large part of the Eastern India through our plant in Sikandarabad, North India put the present the plant in the eastern region would the APL Apollo aided advantage of not only serving the captive market but also increasing margins.

In export sales as latent demand is existing in the MENA and European region for the year 2015 we are putting up a blue print in place to set up a new plant in Middle East which would be the production hub for the all our export requirement. This facility will add a new dimension to the APL Apollo geographical reach as well as enhance the Company's brand image all across the world.

In the end I would summarize that we had decent quarter in term of multiple developments and financial performance. We have strong visibility of business in future. With this I would like to hand over to Mr. Ashok Gupta our Managing Director who will speak about the performance of the company before we start the question-and-answer.

Ashok Gupta: Thank you, Deepak, Thank you Diwakar. Welcome friends. Once again friends happy to inform you that things are bright. Despite the fact that the steel prices have been declining, despite all the problems the industry, the economy, the world is facing, we have been growing at 25%-30% and that volume growth is maintained and not only volume growth but also the EBITDA growth has been maintained and more importantly despite these problems the operational parameters have not been compromised with our debt, our production cost, our inventory cost all are under control. The CAPEX for the new capacity is also reduced and we are going in with such new machinery that India has never seen before. We are looking not for machines from the nearby country or from China. Now we are looking for European machines.

We hope in years to come, perhaps two years or three years the company will transform into an organization as the leader in the ERW industry and I will just say before I take the questions that hopefully we expect the price decline of steel will be a matter of the past and and in days to come prices will be stable or improving and so would be our EBITDA. Thank you so much, friends. And I will open it for question-and-answers.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Sir a number of questions I will start by asking this inventory write-off that we are facing every quarter for some time now. If we start our calculations from the previous financial year first quarter till date how much have we taken cumulative inventory losses?

Ashok Gupta: I will tell in my opinion I am giving you an estimate see this year last six months I have given around 35 crores this year and last year if I take another two quarter - three quarter it is by around 50 crores ; so 80 crores - 85 crores hit we already taken.

Agastya Dave: Correct, sir. So now is it reflecting the current market prices or for example today it is second week of November so I mean today our inventory is reflecting the current prices. Or in this quarter also we may be taking some additional debt.

Deepak Goyal: Actually from 1st October onwards the prices have not decreased much. There maybe marginal impact maybe 5 crores or something for the quarter Q3 and unlike last quarter we had a hit of around 13 crores so it is tapering off. This quarter maybe marginal I cannot give you any number at this moment because all the calculation have to be done by the expert it maybe not more than 2 crores - 3 crores or 5 crores.

Agastya Dave: Okay, perfect, sir. And sir, now adjusting for all these our target of reaching 8% EBITDA are you satisfied with the progress made because there was a lot of contribution just supposed to come from value addition and savings on the raw material side. So are you happy with the progress because it is very difficult as of now to do the adjustments and calculate what exactly have we achieved so, we on course?

Ashok Gupta: The experts like our Deepak they do it in advance as they anticipated this question. And real EBITDA from operation if I remove trading, if I remove stock loss then my real EBITDA is 7.56% as per realizations. That is what he has given.

Agastya Dave: Okay. And sir, my second question is on the expansion at your warehouse today, can you take us through the economics where I mean on the balance sheet side my understanding was because there was no expansion announced till date that whatever cash we were generating we were going to reduce debt so, now how much will debt go up by and when this plant is fully functional how much additional debt will be required for working capital will those ratios will be similar to what we are doing now? And on the P&L side this new plant we have been doing a lot of brown field expansion and debottlenecking and Greenfield so it is a mixture of all three. So this new development is completely new so what will be the asset turnover ratios look like going forward and you said that this is a unique facility that you are going for. So are you expecting let us say bigger spreads here on the gross margin and on the EBITDA margin side what are you seeing here in the new facility? That is all from my side, thank you sir.

Ashok Gupta: See I will tell you our debt typically has been in the range of 650 to 700 crores. Normally we would not try to exceed that, at year end it come out because we try to reduce stocks and reduce debtors but throughout the year it is always between 650 and 700 on an average. See our philosophy for the last couple of years has been our investment in plant and machinery has been equivalent to net profit. So if that philosophy will continue in the current year FY16 also we are planning to invest around 100 crores and that is likely to be all through internal accruals. Next year also it will be in the same range again through internal accruals, so apart from about 10 crores or 20 crores here and there, most of our investments will be through internal accruals. As you would have observed last so many quarters we are slightly shy of taking debt on our books. At this moment still we are working on Brown field that is why the investment is low. You see in this 100 crores we will be increasing the capacity by around 2.5 lakh tonnes or so maybe 3 lakh. The capacity is around 10 lakh now it will become 13 lakhs. We are putting up seven new lines all the seven new lines are coming in our existing plants. So we have five plants so all the plants will be taking one line or two lines and there is some space available there. So we will be doing entire Brown field expansion which will take our capacity to 13 lakh tonnes. Now we are planning to add more plants which are Greenfield, one in Eastern region, one is Middle East that will happen in FY17 or maybe by FY18 keeping a provision of around 100 crores all through internal accrual. So that side we can feel comfortable we want to increase much.

Now talking about the technology till now that was happening. We had most of the equipment which was manufactured in India that has certain speed, that had certain quality, that had certain advantages. Now lately the world over people are trying to change things because they want to make it economical, better faster, better quality, so we started importing some of the equipment's sometimes two to three years back we imported one cutter, we imported one bending machine like this. We saw the results, the results came certainly one day morning we realized that imported equipment particularly from Italy are giving better results. So we searched and we went to Italy, we went to China, we went to Germany looking for the equipment and we saw the result. So now after seven mills which we are planning to set up this year next year onwards most of the mills we will set up will be coming from Europe. Those mills have higher speed from the same facilities, same number of people we hope to get 50% to 60% more production and it will reduce the cost drastically, quality will improve and weight per piece will reduce giving us many advantages and as you are rightly mentioning I think you have very correctly point it out the spread will improve obviously the EBITDA will improve but more than that our reach will increase, our operations strength will increase, our product strength will increase.

Moderator: Thank you. Our next question is from the line of Umesh Gupta from Reliance Wealth. Please go ahead.

Umesh Gupta: A couple of questions on the top-line growth. So what has been the volume growth from the manufacturing business this side in this quarter?

Ashok Gupta: You see manufacturing growth in the quarter Q2 was about 35% over last year quarter Q2.

Umesh Gupta: Okay. And in absolute terms what was the production number this quarter manufacturing.

Ashok Gupta: Okay, in the quarter in the manufacturing our figure was around 221 thousand tonnes.

Umesh Gupta: 221 thousand tonnes?

Ashok Gupta: That is the manufactured quantity.

Umesh Gupta: Okay. And on the trading side what are the volume in this quarter?

Ashok Gupta: At a margin of 16,000 tonnes.

Umesh Gupta: 16,000?

Ashok Gupta: One six.

Umesh Gupta: Okay. And you said I think in the beginning I miss that number. If you were to remove that trading business what are the EBITDA margin of the manufacturing of manufacturing operations?

Ashok Gupta: Actually see we have done some calculations with and without losses. If I do without taking into consideration losses, we had 13 crores of losses this time. So in case I take only manufacturing EBITDA, manufacturing EBITDA will be around 7.56%.

Umesh Gupta: 7.56% but this you are saying excluding that inventory loss?

Ashok Gupta: Yes, inventory loss has been considered in this. if inventory loss is also added to profit that will be 8% plus.

Umesh Gupta: Then that will be?

Ashok Gupta: Around 8%.

Umesh Gupta: 8%, okay. And from the trading business what EBITDA margins are you making?

Ashok Gupta: That is hardly anything 1% or so 1% or 2% nothing much.

Umesh Gupta: So what is the objective of this trading business because I think it has been actually from the last two quarters only?

Ashok Gupta: You see what happens with trading is that it gives you the flexibility and when you are buying large quantities, it gives us a purchasing power advantage. It may at times give you higher EBITDA. The important point is whatever EBITDA, it adds to my bottom-line it gives me purchasing power when I am doing a negotiation for 10,000 tonnes, again if I do for 15,000 tonnes I get a $2 less which helps me in my EBITDA for the manufacturing as well.

Umesh Gupta: But in this current scenario when your realization are going down and you are taking an inventory loss is it not a risk specially in this downward pricing scenario because you might end up with some purchases of this trading business which subsequently when you sell in the market at lower prices. So instead of making any positive contribution from this business you might end up making an negative contribution from this trading business.

Ashok Gupta: Well you see normally trading business is on a spot basis that mean you buy today and you sell tomorrow you do not make a loss because you are buying and doing the same thing. Losses will come if we start keeping stocks. We do not keep stock. We do almost instant businesses. There is no customer into loss per say and the reason for low EBITDA is also that we do not stock it. Only advantage we are getting out of it some purchasing power negotiation power.

Umesh Gupta: So in businesses in trading business you are actually selling this off raw steel only I mean for example you said you buy in the volume so you get a discount but since you sell on the next day or let us very far which means you are not doing any value addition on the material which you are buying from the trading business is that correct?

Ashok Gupta: There is value addition also involved. See once we buy we negotiate we buy material and we have the material ready to whomever we are selling we are selling from availability. So our supply time reduces because of that we get 2%-3% advantage. And you see the trading part is hardly 10%-15% of our business which is not much.

Umesh Gupta: No, I think if you look at this quarter it is around 20% out of the revenue

Ashok Gupta: Yes, correct.

Umesh Gupta: Which is not insignificant because that is what I am asking if you are doing value addition then that would be inventory risk for that period is not it? Just for working on a 1% EBITDA margin if you take that inventory risk I mean it does not add up.

Ashok Gupta: Okay, there are two aspects I will share with you a) if you see half yearly that is hardly 10% to 14%. Secondly there has been a net positive gain of 2% to 3% in our EBITDA and if you see the profit from trading activities only then for the half year that is around 8 crores so we have gained 8 crores there are no loss going forward the prices are likely to stable so again there is no question on any loss I think the prices have already bottomed. In last six months the advantage was more because prices were coming down so people wanted to sell more material so, they were offering more discounts on the hard quantity and we were good enough to ensure that while we are doing that we get the advantage and we make some profit. So as long as you were able to make profit there was no loss going forward the prices are going to be stable or more again no loss.

Umesh Gupta: Okay. And in terms of capacity utilization you said you did about 2,20,000 this quarter so which works out almost about 90% utilization so is it like this is the optimum utilization of the current capacity or it can go up?

Ashok Gupta: If you observe again traditionally last six years to seven years our capital utilization always have been hovering around 85, it may go below to 80% and maximum 90% is always between 80 and 90 I think that always be there. See what happens is we have stated preparing in advance so next year I want to grow by 25% I increase my capacity also by 25%-30% so next year again it will be 80%-90%. So I am not stopping it here. My capacity utilization also remains same round 80%-90%.

Umesh Gupta: Okay. So this 3 lakh which you are adding when will that commission?

Ashok Gupta: This is a gradual process. Earlier also I had mentioned we do not have any particular date perhaps it is like a like coming up, line comes up probably in two months a new line comes up. So one line will come up this month, one will come after two months, hopefully by March my capacity will be very close to 1.2 or so. My plan is whatever I have ordered seven mills one by one they are coming up in operation so by March-April maybe by May all the seven mills will be operational.

Umesh Gupta: Okay. And this exceptional item I don't know that exact description but I think it is about some advertisement expenditure which we did in the past and which was written-off in this quarter so is there anything which is left out of that account and why is it done in this quarter?

Ashok Gupta: You see what happened I will explain to you. We had been spending a lot of money on branding because the brand plays an important role in our whole set-up. Now last quarter we had shifted our auditors Deloitte become our auditor and as per some system they had said that branding expenses should be written-off immediately and not taken as asset. So we have written entire branding expenditure only in one quarter that is because of change of auditors.

Umesh Gupta: Okay. So you are saying that earlier you were not expensing it out from the P&L as and when it was happening you were rather capitalizing those advertisement expenditure?

Ashok Gupta: In the last two years we have capitalized branding expenditure because what they call this deferred advantage of whatever you have that language over five year period but Deloitte when it took over as new auditor they mention that it is better you take in one year because of certain blah-blah reason. So we accepted it.

Umesh Gupta: Okay. And lastly you have mentioned I think since the 1st October onwards or let us if we talk about the current quarter so far there have been no inventory losses is it fair to assume? I mean obviously it is only for 40-odd days but what has been the experience in the first 40 days of the current quarter.

Ashok Gupta: Well in our experiences the inventory loss will be either zero or it will believe nominal maybe 2 crores - 3 crores maybe maximum 5 crores but it would not be significant it will be minor because steel prices are not reducing now 20% safeguard duty was put by the government since then steel people have not reduced the prices.

Umesh Gupta: Okay. One more follow-up on the volume growth. Sir, you are seeing very substantial volume growth for quite some time now this quarter also had been very healthy. So can you tell us a little bit about the market side the demand side is it coming only because of market share gain be in general in economy terms we are not seeing much of demand especially for basic goods and those companies are not growing actually. So is it mainly market share gain or could you tell something about which user industry are specifically growing?

Ashok Gupta: Okay, I will talk of other reasons also. Market share gain is definitely one reason the smaller players are shedding their market share and we are taking it but there are a couple of more reasons. One, we are introducing new products day after day. We are including many products which are replacement for wood. So that is something which we are gaining from the furniture or wood industry for example we have introduced Double Door Frame, we have introduced door hinges and so many small products which are a replacement of wood. That is giving us additional volume. We are increasing our product range slowly and steadily that is giving us in volume. So these are the two main reason that is development of new product, new applications and there is some growth of course because economy whatever maybe happening there is growth in economy and particularly from household income. So that domestic sector is giving us some additional growth.

Umesh Gupta: Can you broadly tell us in terms of your overall revenue break-up which are the industries where it goes in percentage terms maybe top 5%-6% industries or something like that for areas where you sell.

Ashok Gupta: Steel pipes are mostly going for household construction, infrastructure support system so these are the main areas of growth. Where wood is being used you would have seen advertisement banner, bus stand, sign boards, everything which was outside house, canopies everything where wood has been using I am seeing people are shifted to steel pipes. So there are so many usages I will only say wherever you need a support system people are using pipes today. So there are a wide variety no single sector is accounting for more than 5%. So it is a very wide usage.

Moderator: Mr. Gupta, you are requested to return back to the queue for follow-up questions, as we have other participants in queue.

Umesh Gupta: Yes, thank you.

Moderator: Thank you. Next question is from the line of Saurabh Patwa from HDFC Mutual Fund. Please go ahead.

Saurabh Patwa: A part of my questions have already been answered. Just one thing regarding the exceptional item the branding expenditure so, is this the amount which is the differential which should have been accounted so far and which was not accounted?

Ashok Gupta: Actually it was capitalized earlier and it was the balance after depreciation whatever is the net balance which was there on 1st of July. Now this quarter also we would have done some depreciation but instead of doing some depreciation the auditors advice that please take out the entire amount in one go.

Saurabh Patwa: Okay. So whatever would have been spread over next five years is now taken into one quarter itself so that was one. Second is our debtor days have increased. Is it a seasonal occurring or basically my question is it has nothing to do with trading right?

Ashok Gupta: No, see typically if you see our last five years - six years our debtors have been 35 days - 36 days. Now in the last year in the month of March we have taken a special drive to reduce debtors because there was always threat in the industry or in the economy that people may not be paying the conditions could be bad but that is was abnormal. Typically our debtors are always within 30 days -35 days even now it is below 30 days. So there is no increase as such if you see our last year any day for that matter.

Saurabh Patwa: Okay. And I think inventory levels are also high compared to March. Again is it specifically my question is like these items are getting inflated because trading part because of some inventories is there on the last day or something of that sort.

Ashok Gupta: Yes, actually here you have been able to hit a bull's eye. There has been one ship which came on 28th of September it was goods from a transit but as per the system we have to take in our stock. So the complete quantity of around I think 15,000-20,000 tonne were taken in the accounts. That is why the stock is high. But again here if you see we have been typically carrying 35 days inventory and in this case it becomes around 38 days - 39 days.

Saurabh Patwa: So this is that large shipping would have impact on all the three items because as you say you sell on spot so again your debtors would also not been accounted for and payables again would have increased because of that?

Ashok Gupta: No, that ship still in transit there was no sale at all.

Saurabh Patwa: Okay. No, I think the payables would have increased, right?

Ashok Gupta: The payables would have increased maybe…

Saurabh Patwa: Payables would because I think payables are also slightly higher.

Ashok Gupta: You are right.

Saurabh Patwa: Okay. And sir again the CAPEX plan which you have mentioned so this year, it is basically so this product is not there in our execution right this would be for raw material or is one of the… So this HPR Tube Mill will cater to which segment of our pipes?

Ashok Gupta: Okay. You see what is happening is as I was just now mentioning a lot of steel pipe is being used in place of wood. Now these are used as a support system for making anything suppose you want to put up a small sign board earlier people were using wood not they are putting steel price. So what is happening dimension requirement are varying too many somebody wants 50-50, somebody wants 60-60, somebody wants 70-70 so many dimensions and so many thickness. It was difficult for anybody to keep so many dye, so much machines. So some technology has been I should say developed in Europe for last three years - four years wherein by using the same equipment they are able to make very diverse product range. That is the technology and we are now adopting it for the first time in India to make sure anything you want in hours we can make it today.

Saurabh Patwa: Okay. So you are not adding any new line of product as such? It would be variations of the current product line?

Ashok Gupta: No, it is a new line you cannot do in the existing line?

Saurabh Patwa: No, I am saying sir product line I am not saying in terms of manufacturing line the product portfolio.

Ashok Gupta: Yes, it is a differentiated product it is not…

Saurabh Patwa: Extension of the current product?

Ashok Gupta: Yes, it is a variation of the current product.

Saurabh Patwa: Okay, sir. Exports have fallen sharply is it again I believe profits one of the reasons could be the trading part because they are saying that I think the mix which we have given includes exports in domestic…

Ashok Gupta: Actually if you observe you will see exports are not exactly falling, domestic is increasing, export is almost no change. Our exports in last year Q1 was around 3,000 tonnes and this has also 3,000 tonnes and last year it was slightly 5,400 tonnes. One of the reasons has been European market has been a bit difficult our domestic market was much better so wherever we get more profits we turn to that.

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

Agastya Dave: Sir you answered the branding capitalization so that is all done right? Sir I have been going through the entire industry and a lot of your company does and there is huge diversions in how numbers have come out over the last six quarters to eight quarters. When you are reporting decent amount of inventory losses some people were not showing them at all and there has been a huge timing issue. I know you cannot really comment on competitors but what do you think has really happened? I mean the diversions in number had been quite remarkable. So could you comment on that? And my second question this time it was one volume growth so, you mentioned that there is a bit of debottlenecking exercise and a Brownfield expansion. I missed what exactly you were referring to and you said the capacity would go to 13 lakhs. So how has the CAPEX been for that what is the timing and now that you are run rating at a decent click in terms of utilization. Next year do we think that we will have a decent amount of volume growth will this 13 lakh capacity will be operational next year? I mean the incremental capacity will be operational next year?

Ashok Gupta: Yes, there you are right, actually in the industry most people would have a stock of 40 days average industry wise. We also have that much 35-40 to 30-35 varying slightly so, the prices have been coming down for last one and one half years and we can do nothing about it because the price has come down taking into loss if you observe our inventory loss throughout the year has almost based at the rate of 12% to 13% of one month inventory which is around 1% per month. So as we have been having only that loss. So you see as of now maybe some people if they do not have inventory they would not show the loss but then you cannot survive; industry norm is 40 days. We have been taking and one of the reasons we have been doing it because if you take it after 12 months or after so many quarters, we are going to have a bigger number. Many people were expecting prices will improve in the meantime and then they may not have to show it but we believe that when you think it will improve it will come on the balance sheet in any case. So we have been following it on quarterly basis. I will talk about my capital expenditure see, if you again of the last seven years - eight years we have been very steady. Every year we had been increasing our capacity on an average by 25%-30% maximum 40% it has never been to 10% and 100%. And our volume also growing only 25-30, our as basic principle is that so long as my capacity utilization remains around 85% it maybe 80%, it maybe 90% but on an average 85%. Then I have to invest in my capacity addition. See getting at capital utilization of more than 85%-90% is very difficult. There are months when the sale is very good. There are months when the sale is not good. On a year wise basis getting a utilization more than 85%-90% is difficult, okay. So having said that we are going to ensure that every year we had that much capacity now currently we have 19 mills for 19 mills we have capacities around 1.05 and we are producing around 850-860 which is around 85 or so. We are going to create a capacity to 2.5 lakh to 3 lakh tonnes seven more mills we have already ordered which are likely to arrive in next six months. So by June our capacity will be around 1.3. So again we will be producing 1.1 which will be again 85%.

Agastya Dave: So for three quarters of next financial year you should have 1.3 available at your disposal.

Ashok Gupta: Actually you know what happens see I always mentioned or us it is not a date it is not June everything happens it goes on happening. So every 2nd March we have put a one new mill which gives us 2,000-3,000 then there is ramp up start with 1,000 tonnes then goes to 2,000 goes to 3,000. So it is a continuous phenomenon so what we talk is a year average by the end of this year capacity will be 1.3 million and by end of next year it will be 1.6 million. See the end of year capacity will be 1.3 my production target is 1.1. My next year capacity finishing will be 21.6 my production target will be 1.4, this is how we work. So my end year capacity suppose for this year it is 1.3 approximately next year I will try to aim for 85% of that.

Agastya Dave: Okay. So 25%-27% volume growth you will be targeting. And sir I miss the CAPEX number so this 100 crores that you mentioned you mentioned that you will do close to 100 crores this year. This is almost fully for this expansion or is it some component of that will go for your Middle East and East India expansions?

Ashok Gupta: Yes, typically see out of what happens is last year when I closed my year there were 20 crores - 25 crores of what we call capital-work-in program. This year again when I close the year some 20 crores - 25 crores advances are given for the machine will be there. So every year around 20 crores - 25 crores will capital work in progress always so again averaging it this year if you see real expenditure on investment maybe around 90 crores next year maybe 100 crores - 110 crores but that 10 crores - 20 crores is something like a fine line.

Agastya Dave: From my previous interactions over the last 18 months with your company I have just seen in my notes that you have once mentioned that rule for thumb for you is CAPEX for 1 lakh tonne is 70 crores to 80 crores maximum 100 crores. So it kind of changing now? I mean are the numbers looks slightly off?

Ashok Gupta: Yes, you have again got a very good point. See whenever you ask me how much is the investment required for 1 lakh tonne I will say 70-80. But that means I am setting up a new facility. But in the current scenario of taking it from 1.05 to 1.3 this is all Brownfield. In Brownfield my expenditure is half.

Agastya Dave: Perfect it makes sense.

Moderator: Thank you. Since there are no further questions, I would now like to hand the floor over to Mr. Ashok Gupta for closing comments. Over to you sir.

Ashok Gupta: Thank you so much. I am very happy that a lot of good questions were asked and I can assure you that like all previous we will continue to strive forward to make sure that our investors our stakeholders are taking care of. Thank you and Happy Diwali to all of you once again. Thank you so much.

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