



APL Apollo Tubes Limited Q3 and 9M FY 2018 Conference Call Transcript January 30, 2018

Moderator Ladies and Gentlemen, Good Day and Welcome to the APL Apollo Tubes Limited Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. In case you need assistance during the conference call 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. 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's Q3 and 9M FY 2018 Results Conference Call.

We have with us Mr. Ashok Gupta -- Managing Director; and Mr. Deepak Goyal -- CFO of the Company. We will begin the call with brief opening remarks from the management following which we will have the forum open for an interactive Question-and-Answer session.

Before we begin, I would like to point out that some statements made in this call 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. Ashok Gupta to make his opening remarks.

Ashok Gupta Good Morning, Friends. I welcome you all to this conference call. My dear friend Deepak Goyal will just give you financial highlights first.

Deepak Goyal Good Morning, Everyone. I will briefly cover the financials and operational performance for Q3 and 9M FY2018.

Our total turnover during the Q3 FY2018 stood at Rs. 1,314 crore, registering a healthy improvement of 39%. In 9M FY 2018, total turnover stood at Rs. 3,815 crore, up by 34% YoY. Our sales volume excluding Coils and Scrap registered a 27% growth to 2.81 lakh tonnes in Q3 FY 2018; and in 9M FY 2018 volume stood at 8.29 lakh tonnes, higher by 19%.

With regard to our profitability, EBITDA in Q3 FY2018 improved by 19% year-on-year to Rs. 88.5 crore whereas, EBITDA in 9M FY2018 was at Rs. 268 crore higher by 9%. EBITDA per tonne during the 9M FY2018 stood at around Rs. 3,200 against the Rs. 3,500 in the corresponding period last year while EBITDA per tonne during the Q3 FY2018 is around Rs. 3,150 as compared to Rs. 3,250 in Q3 FY2017. We believe the quarterly movement in EBITDA per tonne is within the acceptable range, especially given our primary focus on the higher volumes growth in the near-term. We expect to report better EBITDA per tonne performance from

the second-half of FY 2019 driven by the increasing contribution from the higher margin value, branded products, and better utilization level.

PAT in Q3 FY 2018 improved by 23% to Rs. 36 crore translating into the EPS of Rs. 14.94 crore. In 9M FY2018 PAT stood at Rs. 116 crore, leading to an EPS of Rs. 48.06 crore.

This brings me to the end of my discussion and let me turn the call to Mr. Ashok Gupta Ji who will talk about the company performance.

Ashok Gupta

Thank you, Deepak. Welcome you once again friends, a very-very good morning. So I am seeing that all of us sitting in a very nice environment today. Things are improving on all fronts; the demand seems to be buoyant both in India and abroad. Economies are picking-up. The economic survey which was presented yesterday shows a very healthy growth and shows a bright future for the country and the future is bright for the country so is it for the company as well.

Last December onwards we are seeing that there is an upturn in steel prices all over the world and consequently in the country also, the prices are going up. The good thing is even at higher prices, still demand is robust and so is the demand for pipes. So even at higher prices, we are seeing that whatever production we are doing most of it is getting absorbed; this is a very positive thing.

So on demand front, things seems to have been improving and one of the things we observe is that whenever the economies are doing well, and steel prices are going up the sentiment improves and when the sentiment improves our sales also improve and our EBITDA also improves. And the reverse is true when the steel price are going down for whatever reason either global economies are not doing so well or the Indian economy is not doing so well or whatever reason. When the steel prices are going down then we see even the sentiment is affected, people start de-stocking their material which affects both the demand as well as EBITDA margins. So this is something which happens universally.

If we observe in last seven - eight quarters, our EBITDA per tonne has been hovering between Rs. 3,000 crore to Rs. 3,700 crore, which shows a median of around Rs. 3,350 crore - Rs. 3,400 crore is what we normally are able to get. So whenever price was going down as happened in the month of October – November, the EBITDA level per tonne goes straightly down and whenever they go up which happened in the last year, when EBITDA goes up it was around Rs. 3,600 crore. So it is a matter of the economy sentiment happening and I think this will continue to happen. EBITDA should be averaging around Rs. 3,300 crore - Rs. 3,400 crore plus-minus Rs. 200 - 300 here and there on the depending on the market sentiment.

On the insight of the company, I am happy to share with you, we talked to you a lot about the DFT technology, we are bringing in from Europe and some from China and all that. So, we had plans to bring in last year around eight such lines. I am happy to share with you that six lines have now been installed and two more are likely to be installed in next two-three months. With this, our project DFT will be almost over, this phase at least. Now we should be starting to see some results out it. So typically, what will happen is that today most of the people are going for standard sizes, slowly we will make them shift to non-standard sizes and in non-standard sizes because the consumer will get some benefit, we will share the benefit and EBITDA margin should start improving. We should see this process starting to happen next year and by the end of the next year, some signs should be visible of EBITDA improvement in DFT production.

In this Board Meeting, we had taken another call that is we have called off a joint venture with a Japanese company. So, there was this Japanese company, its name was Daiwa. They are a small manufacturer of special purpose steel pipes and as it happens with most of the Japanese companies, they are very-very vary of market outreach. So during our detailed discussion, they mentioned that they will like to restrict our marketing geographical spread as well as our strategies which we found could go contrary to our existing marketing practices, sales practices. So consequently, we could not reach an agreement with them and that is why the JV could not progress further. Let me tell you, it won't have a significant impact because the volume intended was very marginal around 3% of our current sales. So it will not have much of an impact.

The second thing was that one of my colleagues, Mr. Sharad Mahendra who was looking after sales, he has left the company for some personal reasons. We understand that he is likely to join one of his old companies and perhaps the weather environment in Delhi will suit him. For some part of the time, he was not well. But let us hope that he will be fine in his new place of location.

With these few words, let me tell you that environment is good, the economic environment is good, Company outlook is good and our growth which we have been targeting (+20%) for the last couple of years, which we have been achieving also, should be continued in the coming years as well.

With these opening remarks, I invite questions from all of you, please. Thank you so much.

Moderator

Thank you very much. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Ankit Merchant from SMC Global. Please go ahead.

Ankit Merchant

On the segment front, we have observed that the GP pipe volumes have come down. So what is the reason for that? Second, we have also observed due to this shift, the EBITDA per tonne has also declined. If the volume or product mix would have been stable, what could have been the EBITDA per tonne that we would have been able to achieve?

Ashok Gupta

In case of GP pipes, in Q3, our realisations was around 51,000 against 46,000 last year. If we observe there is 11% growth in GP pipe realization. In volumes, we have sold around 3 lakh tonnes. So the GP pipes volume is 58,000 versus 46,000, there is 28% growth.

Ankit Merchant

For GI?

Ashok Gupta

GI pipe, the volume is almost same. In Q3FY17, we sold 29,000 and in Q3FY18, we sold 26,000. What we have done recently we have taken one of our galvanising lines for a modernization change. So because of that, the production is slightly suffering but another month it will be back and then our volumes will again climb back.

Ankit Merchant

If this product mix would not have been hampered, what would have been the EBITDA per tonne?

Ashok Gupta

It would have been very small because the decrease is only 3,000 tonnes over a quarter. So impact might have been hardly some Rs. 20 on an average.

Ankit Merchant

But we are actually a little worried on the EBITDA per tonne front because we believe we were targeting at Rs. 4,500 crore in coming two years and currently over the last two quarters, we have seen the EBITDA per tonne declining. So how is that we take it forward and where do you see this going ahead from now onwards?

Ashok Gupta

I have seven quarters EBITDA per tonne in front of it. Seven quarters the EBITDA per tonne has been varying between Rs. 3,000 crore to Rs. 3,800 crore in the entire range. So the average of around Rs. 3,400 crore. So as I mentioned to you what happens is market sentiment has a significant impact on EBITDA per tonne. See, the price of our product is around Rs. 45,000. Now in Rs. 45,000, whenever sentiment is down we may have to pass on slightly more discount or slightly less discount, that variation of even 1%, which is Rs. 400 can have the variation. If you see the change in EBITDA from the average of around let us say Rs. 3,400 crore minus Rs. 300 - plus Rs. 300 works out to be, Rs. 300 is only not even 1% of our price. So if I give 0.5% extra discount just to ensure that my sales volume of 20% is maintained and my market share is not affected, the EBITDA gets affected by around Rs. 300 - Rs. 400. So I will suggest that variation of Rs. 300 - Rs. 400 should be taken in light of the change in the market sentiment, change in the steel prices and should not be seen as a trend. So this quarter, it is Rs. 3,100 crore; next quarter it will be Rs. 3,600 crore; next quarter it will be Rs. 3,200 crore. This variation of plus-minus Rs. 300 over an average of around Rs. 3,400 crore will always continue. So there is minor variation which will happen because of market sentiment. In the particular quarter of October - December, in October there was a price decrease and market was expecting the tube trade was expecting reduction in prices of steel may continue because of that there was a negative sentiment to ensure our market share slightly gave discounts because of which EBITDA got slightly affected. But the reverse happened in December. In December the prices were going up. January the prices are going up. So as a result of the price going up, sentiment is very upbeat, so we have not given those discounts. So our EBITDA in December slightly improved. That is why you are seeing marginal changes here and there. So you saw that EBITDA was Rs. 3,100 crore in last quarter before that quarter it Rs. 3,400 crore. Hopefully next quarter, it will be better because steel prices were improving.

Ankit Merchant

What is the thumb rule because if the steel prices go up today so how much time does it takes you to pass on those prices?

Ashok Gupta

So typically what we do is that in case the steel producers primarily steel authority or JSW they announce the price increase on let us say 1st or 2nd, typically that is what they do, then we increase within a week, three-four days, five days depending on the timings. So it does not take us more than a week to get the prices up, in case the price increase is very-very significant, let us say it of the order of 10% then we may not do it in one go, we may do it in two go, we will 5% within a week and 5% after two weeks. But invariably most of the times we are able to pass in the increase within three-four days.

Ankit Merchant

What was the export revenue in this quarter?

Ashok Gupta

Export revenue, on an average, remains around 5% while we are talking, my colleague Deepak may find out the exact export revenue for the quarter. I will give it to you during the call.

Ankit Merchant

What is the EBITDA per tonne in the export? Is it lower than the domestic or it is higher?

- Ashok Gupta** See, export has a couple of markets and couple of products. So in GI, the EBITDA is slightly better, in the square it may be slightly less. But on an average, if you see the EBITDA level in export also is in the same range between Rs. 3,100 crore to Rs. 3,600 crore, almost same.
- Ankit Merchant** This quarter, we did a good amount of sale in the black Pipes as well as in the Hollow Sections. So what was the primary reason for that?
- Ashok Gupta** I think, the primary reason is visible in the economy itself. So everywhere, things need to be upbeat, people seems to be going ahead, so there are three - four areas where the demand is coming from, one is the economy when it improves the demand also improves, the demand for Hollow Sections is increasing by around 8% to 10% per annum and same is the case with the GP pipes. Secondly, as I mentioned to you, whenever the steel prices go up the demand increases people start stocking. So all the distributors, dealers, the users, they start increasing their stock levels, so obviously demand improves. So these are a couple of reasons why overall demand in the country for steel pipe is improving.
- Ankit Merchant** Can we also have a break-up from the end user segment that how much is construction contributing to your revenue or real estate or the autos, OEMs?
- Ashok Gupta** So generally, you see 80% of our sales are through distributors, it is more than 80%. Now, what happens is that these distributors they have a large number of retailers to whom they sell. So it is difficult for us to link up which sectors are taking this material. So I will say that it is difficult to pinpoint exactly. However, the areas where the significant consumption is taking place is construction, household, industrial, solar, as well as transmission. These are the areas where we have seen significant activities.
- Moderator** Thank you. The next question is from the line of Pavan Kumar from Unifi Capital. Please go ahead.
- Pavan Kumar** Can you share what will be the proportion of volumes from DFT this particular quarter and currently what is our pricing strategy with respect to DFT, are we pricing it presently lower and hoping that the prices could be raised as and when the customer realizes its value? What is the strategy overall?
- Ashok Gupta** See, DFT is a slightly different technology whereby we directly produce square and rectangle what we normally used to do through the conventional method of producing round pipes first and then changing into square and rectangle. The change of process technology whereby the end output remains same. However, the advantage of this technology that we can make number of new sizes which were not possible in the conventional technology. So currently we are producing a large number of conventional sizes only through this technology also because for the people to become aware to find out what are the advantages of this new sizes and to fit it into the design will take time. It is a slow process as you know any R&D activity, let us say somebody is making a truck or trailer, now he is currently using a section, which is let us say 300 by 300 and we guide him that instead of using 300 by 300, why do not you start using 270 by 310. So this process of changing from 300 to 300 to 270 by 310 perhaps may take a year or two because he will have to experiment, do a lot of R&D, do experimentation, do trials and all that, you know how that trials take place before you accept it in a commercial level. So we have just recently adopted this technology. The production is just starting. So all the eight lines we were planning, so two more are likely to be completed by maybe by April after that, we will have a complete range available. Currently, only about 10% to 12% of our sales are happening through this particular machine. But there also around 90% sales are happening in standard sizes. Now that we will have the

complete range available to us we will go to these manufacturers of let us say trucks and trailers and guide them to shift over. The shifting over will start within a year depending on what kind of end product it is and may take 2 years - 2.5 years to happen significantly. So we should be seeing the impact on EBITDA level for the material produced out of DFT. In another eight months - nine months or to almost a year.

Pavan Kumar So overall the customer has to move from a standardized product to a customized product, right?

Ashok Gupta Exactly. So you see today more people will wear shirts of 40, 42 and 44. For me, the real size is 40.6. So for me, suppose somebody starts manufacturing these odd sizes at a short notice, he has to go and convince people that this is size when the real size has to be understood what size will fit him and then the commercial production so that may take sometime.

Pavan Kumar What is the kind of capex plan we have sir from here on?

Ashok Gupta The capex for our first eight line is almost over there is not much left there. So I think, today with this eight lines our capacity by this month of April should be around 20 lakh tonnes what we were have been planning all around. And so there is no big significant capex plan for next year at this moment, let us see the results of this. But in case, suddenly something comes up we will inform you as and when it comes.

Moderator Thank you. The next question is from the line of Karthik Swaminathan from Catamaran. Please go ahead.

Karthik Swaminathan My first question is with the DFT technology and your manufacturing custom sizes, what are the savings the end customer can experience? Savings in terms of material costs?

Ashok Gupta So there are three savings which a customer can expect. The first is by way of the size. So as I mentioned to you, if I have been using let us say a size 42 and I want to use size 40.5, this is saving in terms of the material itself. That will depend on the customer to customer. We expect that saving of the order of 2% to 5%. The second savings is in terms of the thickness. So what happens is that during the conventional process there is some wastage of material because of the very process itself there is some accumulation of unwanted material at the corners. In this technology, that unwanted accumulation does not take place. So there is an additional benefit of 1% to 3%, because you can avoid an unnecessary accumulation that makes us around 4% to 5%. Thirdly, the advantage is in terms of strength, so we are going to produce high strength pipe, high strength squares, and rectangle using this technology. So typically, when we make the round pipes and make into square, rectangle, we use what is known as 240 YSD or material. Here we will be using a higher level of 310 or 350. Now because of using the higher strength material, we expect that there will be a reduction in the thickness involved. So that will give some more additional savings to the users. Now, the exact thing will depend on the exact application. But we expect the savings to the users to vary from 3% to 8%.

Karthik Swaminathan Do you purchase raw material in advance if you are forecasting steel prices to shoot up in the future? Like purchase excess of inventory of raw steel to be converted later on so that your gross margin can, therefore, increase taking a benefit of future increases in steel prices?

- Ashok Gupta** Typically we will try to keep our raw material, finished good inventory within 45 days, we do not want to have too much of it. See, predicting steel price rise or decline is a very difficult thing and there have been many reversal earlier. So we do not go in a large way to accumulate materials just expecting an increase in prices. However, having said that, there is always a tendency that when the price was going up, we expect possibility of a shortage in future, so perhaps we may buy slightly more. When prices are going down that urgency is not there so we may buy as and when they need it. So there may be minor fluctuation buying pattern but just because prices are going up we do not speculate.
- Moderator** Thank you. The next question is from the line of Dimple Kotak from SKS Capital. Please go ahead.
- Dimple Kotak** With regard to APL's investment in Best Steel and the open offer. If you can just elaborate the deal because I am a little confused that this company was already a subsidiary of the APL group and through an open offer, we are doing a takeover. So can you just help me?
- Ashok Gupta** Best Steel Logistics is a company which is not directly related to APL Apollo as a company. So I think it was promoted by one of the acquaintance or a friend of the Chairman Mr. Sanjay Gupta.
- Dimple Kotak** Mr. Rahul Gupta's name is coming in the open offer. So he is I think Mr. Sanjay Gupta's son, if I am not wrong.
- Ashok Gupta** This was not exactly a subsidiary of the main company. It was an independent company which was promoted by some other gentlemen. So Mr. Sanjay Gupta's son which is Mr. Rahul Gupta, he was with the company after his graduation. For last three years, he was working in different departments like production, marketing and all that. Recently, he has infused some funds in this company and he has become a promoter in that company - Best Steel. That company is going to be in areas which are of different nature. For example, they maybe in precision pipe, which is in automobile sector and very niche market, small market, making small quantities and since that Company is very different diverse field, likely to be diverse field and in fact they are planning to be in diverse fields, so there is no much of a synergy with APL Apollo and the son has his own fund, the family has fund which they wanted to infuse. So perhaps the son wanted to try something in a different area, that is why he has gone there.
- Dimple Kotak** Are the funds from APL Apollo being infused in Best Steel and is it going to get merged with APL Apollo in the future, is that the thought process?
- Ashok Gupta** APL Apollo should have nothing to do with this company Best Steel Logistics. The entire working is of an individual, which is Rahul Gupta who happens to be the son of Chairman and with their own fund they have invested. We do not have at this moment any intention of doing anything with Best Steel directly.
- Dimple Kotak** As per ICRA's credit rating note on September 2017, APL Apollo was a guarantor against the loans taken by the company.
- Ashok Gupta** APL Apollo is a company which is in the production of steel pipes. One of the promoters of this company is a family company of the Sanjay Gupta Group which is APL Infra. APL Infra had given that guarantee. So APL Apollo had nothing to do with it. But you know most of these groups have some kind of promoter holding company which takes care of the investment. So APL Infra is primarily kind of investment company which might have given the guarantee. APL Apollo has nothing to do with the Best Steel.

- Dimple Kotak** In their website, it is written that they procure certain raw materials from APL Apollo also.
- Ashok Gupta** So at the moment the company has not made any significant operational per se. So I think it is possible that in future if they want to buy something from APL Apollo then it will be arm's length transaction but we do not foresee anything such thing. There may be a small quantum of the mix for their purpose but at this moment because they are going to be in the precision pipe segment and APL Apollo is not in the precision pipe, we are in the structural pipe. The two are totally different things. So I do not think there will be any common gain at all.
- Dimple Kotak** Yes, agreed to that. I just happened to open the website which says that we buy materials from various manufacturers including APL Apollo sales. So that is the reason, the question where it is coming from.
- Ashok Gupta** I understand. I think they might have been when they were thinking of the company they might have thought that in case may be buy something. But I do not think there is going to be any such thing in the future.
- Dimple Kotak** Okay. So we do not see any financials getting merged or consolidated in the company.
- Ashok Gupta** No, absolutely not.
- Dimple Kotak** As you mentioned on a precision segment of the pipe, how is that industry doing?
- Ashok Gupta** Precision pipe is basically based on the automobile sector and you know automobile sector is doing well. Now there is a small gap available because the couple of people who were doing precision pipe they are not doing so well. A couple of companies like Innoventive and even Bhushan's they are the large suppliers to the automobile sector. So, we feel that the Best Steel was conceived hoping to find some space in that sector. So perhaps that sector - automobile is doing well. Another change which is taking place in the automobile sector is the new electrical vehicle which is coming, which may throw up some more opportunities.
- Moderator** Thank you. The next question is from the line of Mangesh Bhadang from Param Capital. Please go ahead.
- Mangesh Bhadang** I just wanted to know the status or the update on the dip galvanization plant in Raipur? Do we have any plans to introduce this plant at other locations? And ultimately how much would be galvanised products as a percentage of total sales for us?
- Ashok Gupta** So we already have four galvanising plants. So out of four, one of the plant has been undertaken for major overhaul which should be happening in a couple of months. Raipur, we are planning to set-up one more galvanising plant and that should also be up in next two months - three months.
- Mangesh Bhadang** How is the profitability of the galvanised product and what are the demand drivers for that product?
- Ashok Gupta** We are already producing galvanised pipe. So we sold about 26,000 tonnes of galvanised tubes in Q3 FY18 and demand is primarily from two sectors - irrigation as well as firefighting. We see demand for firefighting growing faster because of the safety concern which is now much more visible in the economy. So we are putting

up these plants, modernizing one, putting one new at Raipur. So we have five plants. So I expect the demand for galvanising will increase. Also, there is a potential in exports. So we will see galvanising as a significant important sector for us.

- Mangesh Bhadang** How is the profitability in that segment?
- Ashok Gupta** Better than Black Pipes. Better than Hollow Sections.
- Mangesh Bhadang** What is it in terms of rupees per tonne?
- Ashok Gupta** If you see our on an average, our EBITDA is Rs. 3,400 crore Rs. (+/-300). So here the EBITDA should be of the order of Rs. 4,500 crore - Rs. 5,000 crore. So it will be around at least 15% more.
- Moderator** Thank you. The next question is from the line of Varun Agarwal from BOI AXA Mutual Fund. Please go ahead.
- Varun Agarwal** A couple of questions on DFT. Currently, we are doing very low volumes from DFT as you mentioned that it will take another year or so to basically get the savings from DFT. Just to understand in this one year, the EBITDA per tonne from the DFT would be more or less in line with the current EBITDA or will it be slightly lower than that?
- Ashok Gupta** It will not be lower. It will remain almost same. So let me tell you our strategy for DFT. So our first strategy for DFT is that DFT production should stabilize. So the mills are just being made operational, they are being installed, they are under commissioning. So we first of all want to try out all the sizes, we want to try out everything so that the mills are fully commissioned. The second will be that entire range should be made available. So if we go and promote somewhere that you can get non-standard customized sizes, we should be able to produce them. Hopefully, by April, we will have the entire range available to us which is as good as 15x15 to almost 300x300. The second strategy then will be that we will go to the direct users, consumers; we will educate them on the benefits of DFT. We will educate them that we can give you customized sizes. This process may take as I told six months to eight months - one year depending on the customer-to-customer. And thereafter, you will see visible improvement in EBITDA per tonne coming. But let me tell you the percentage will start from a small percentage, 5% - 10% going up to 30% - 40%. On an average, you will see a marginal improvement even though on the customized sizes, EBITDA may be higher.
- Varun Agarwal** Second question, more on the JV with the NEXTracker, so how is the JV progressing?
- Ashok Gupta** NEXTracker is basically making mounting for solar power. The process has started. We have also got some orders from them. And as and when they get orders depending on the state of the solar industry, we should be getting orders from them. So our arrangement is as and when they get orders for solar power plants, we will be getting orders for the mounting. Already things are started, volumes are still low but since they are kind of increasing their volumes, so our volumes also will go up.
- Varun Agarwal** So maybe the product we supply under that would be Hollow Sections, right?
- Ashok Gupta** It will be in square, rectangles, there is some reworking.

- Varun Agarwal** Last question – our product profile, will it significantly change over next one year or two years as DFT would come under primarily Hollow Section?
- Ashok Gupta** Our DFT comes under Hollow Sections. There are four products that we make. We make Hollow Sections; we make Black Pipes, we make Galvanized Pipes, we make Pre-Galvanized Pipes. So our focus will continue to be on Hollow Sections most from DFT. Pre-Galvanized Pipes give us highest EBITDA and they are kind of our very-very preferred products and Galvanized Pipes because of the economy, the firefighting and irrigation both will be highly required and they are a better margin product. So these three continue to be focused. If you see our sales of Black Pipe has not been increasing over a period of time, the other three product are contributing to the growth.
- Moderator** Thank you. The next question is from the line of Dhawal Shah from Girik Capital. Please go ahead.
- Dhawal Shah** I was just reading some industry report where I read that there seems to be some level of consolidation expected in the pipe industry. So do you have any view on that and can you share some thoughts?
- Ashok Gupta** If you see the large five-six players are APL Apollo, Tata Steel, Surya Roshni, there are three companies of Jindal's. So these are the large five-six players. Now balance all, which is around 30% to 40% of the industry is highly fragmented with players ranging from 1,000 tonnes - 2,000 tonnes per month to around 10,000 tonnes to 12,000 tonnes per month. These large numbers of fragmented players use very-very old technology, the equipments are old and they had yet to follow modern systems. A big chunk of them were using tax avoidance route to maintain their profitability, which may not happen under GST. There is no current news of these large players going in for acquisition of those small fragmented players. I will not rule out that one or two such companies can get merged together but I do not see a significant change or direction whereby with large players maybe acquiring those small companies. Also, I observe that these companies, for example, Surya Roshni or other companies they are having other interests as well. So we do not know to what extent they will be interested in increasing their share of pipe business.
- Dhawal Shah** When you talk about Tata, what is the level of competition do you face from them?
- Ashok Gupta** There is no published data with me, but according to estimates, Tata must be making around half a million tonnes of steel pipes every year. I think their volumes have been more or less steady. I do not see a large jump in their volumes. However, their quality and their brand name is very good. So we do face competition from Tatas, particularly in the premium segment. So wherever there are high rise buildings or there are premium customers, Tatas become a significant competitor to us. However, since they are not a cheap price competitor, we are happy to work with them, compete with them and collaborate with them in a way that to develop the markets. So to that extent there is competition but it is a healthy competition.
- Dhawal Shah** When you said three companies of Jindal, which would they be?
- Ashok Gupta** See, there are three companies, one is closely held which is Jindal Industries, which is in Hisar. There is another one in Kolkata, which is Jindal India and the third one is Jindal, Ghaziabad, which is a sister concern of Maharashtra Seamless.
- Dhawal Shah** In terms of the industry volume, I assume it is around 10 million tonne, right?

- Ashok Gupta** See, the data is not available. I think it should be around close to 8 million tonnes, this is our estimates only.
- Dhawal Shah** What are the big industry tailwinds you see that you mentioned the Hollow Pipe and the GP Industry, GP Pipes are growing at 10%, in one of the research reports, I read your increasing capacity from 1.3 Million to 2 million? So what gives you so much of confidence to maintain a 20% CAGR volume growth on a higher base, going forward.
- Ashok Gupta** So a couple of things are happening in the economy. Of course, apart from the economy growth being 7% or so. We are working on placing this pipe as a substitute for wood. Now wood is not available in the country and we do not encourage usage of wood in any form because it is a kind of cutting the forest. So now we are developing pipes, we are developing square and rectangle which will be an exact replacement for wood. This we see as a very big segment. How large scale the usage of wood is today in the construction sector, in our residences, in our hotels, in our commercial complexes. So we are feeling that this particular material can act as very good replacement for wood and we are already seeing it happening. A small example is suppose you have a lot of retail shops, the name board on the shop used to be a wooden pallet, now it is all steel section pallet. So this kind of replacement is taking place in each and every area and we expect the big replacement to take place in days to come because of the restriction on wood usage. The second thing is that individual families and house owners they are slowly looking at safety and these steel pipes, which are Hollow Sections they are a very good support system. So we expect that more and more people will use this support system instead of using a traditional brick and mortar and all that. So we see a lot of in addition to the normal economic growth, we see the replacement market coming up in terms of wood or in terms of concrete.
- Dhawal Shah** Tata was the company who introduced different pipes, they worked with architects, developed a market and then we went after this market seeing the size of opportunity and now we have created a good market share and name in the contractors' list also. So in this industry there still seems to be not many players in the big project market like the one you supplied for the airport and then the projects like what you have done. So what is your thought on that?
- Ashok Gupta** The initiative taken by Tata was really worth mentioning. So they were the first to introduce Tata Structura, which was the Hollow Sections and we followed them. And I must say that they are a force to reckon with. Having said that not many people are interested in investing in something like steel pipe perhaps because of the EBITDA level they give. So if you observe, our EBITDA level typically are 7% to 8%. I cannot vouch for the investment strategy of other players but I see some kind of reluctance and a second problem which people face is a large number of sizes. So if I count then the number of square and rectangle dimensions we produce, the sizes we make is more than 200. Most people cannot even think of keeping 200 types of material and people want their material out of stock, they do not want to wait for till you produce. So this is another handicap with the people. We got an advantage because we evolved. So we have been keeping sizes starting from 10 to 15 to 20 to 200 today. Other people, suddenly they have to start with 200 means, they find it difficult to really come up with. That may be one of the possible reason I am not really aware of what strategy they have. But possibly the reason is low EBITDA and a large number of sizes.
- Dhawal Shah** Because your business offers fairly good ROE, so it should attract some sort of competition. So I think the SKUs you mentioned is what is restricting people from taking it up.

- Moderator** Thank you. The next question is from the line of Suvarna Joshi from Axis Securities. Please go ahead.
- Suvarna Joshi** You mentioned in your opening remarks about giving more discounts to maintain our turf in the market. So what is our market share currently? The second one is our volume guidance in the previous concall, we mentioned was something around 22% to 25%, which we seem to have revised it a bit lower to about 20% over the long-term. So any thoughts on that would be really helpful.
- Ashok Gupta** Yes. You see, as per the market share we estimate and there is no published data we have come across. We estimate that the current consumption of steel pipe in the country should be of the order of 8 million tonnes which let me tell you is one of the highest in the world except for China and some other countries maybe and we are producing around 1.1 million tonnes, so which gives us a market share of around 14%. So that is the market share we have currently. So this market share we try to maintain, we do not give large discounts. So you will understand that in any trade, in any business the discount of 1% or price escalation of 1% is possible depending on the local market condition and that 1% change in our prices reflects the change of Rs. 300 to Rs. 400 in our EBITDA margin that is what you observe on a quarter-on-quarter basis. In fact, analysis of seven quarter shows that our EBITDA has not been moving more than Rs. (+/-400) on the average of around Rs. 3,400. On your second question, you see, whenever I had been talking, I had been saying 20% to 25% not exactly 20% - 22%. But you see marginal changes will take place depending on so many things but yes, (+20%) is sustainable, it is possible, it is feasible. We try to make sure that our promoters always feel that no, 25% should be more what we should stretch to but I think, on a sustainable basis (+20%) is something we have been targeting, we have been trying to achieve. Last year, I think we were not really close to that but going forward we will still look for (+20%). Now, in nine months we have achieved 19%, we will try to make sure that in the balance three months we make it up and make it (+20%). More than 20%, volume growth on a large base is difficult may not be even desirable because once you go for that kind of volume growth then the other problems associated with that which crops up. So on a longer-term basis (+20%) is what we should be looking forward to.
- Suvarna Joshi** If you could just share some thoughts on how our value-added products contribution is shaping up in terms of the total revenue because we have just introduced DFT and we are focusing more on the GI Pipes as well as you mentioned in your earlier comment. So can you share some thoughts on that I mean how has it shaped since we have started focusing on these products to really rev-up our product profile?
- Ashok Gupta** So there are three products we have which gives us more than the average EBITDA. These three products are Pre-Galvanised Pipes, Galvanised Pipes, and DFT and some special sections maybe. So for Pre-Galvanised Pipes, we have reached a level of around 58,000 tonnes for the quarter. So if I see last year same quarter it was around 46,000 tonnes. So if you see there is a growth of (+25%) in Pre-Galvanised Tubes. In the case of Galvanised Tubes, there will be a reduction in this quarter as compared to last year that is primarily because we have shut down one of the galvanizing furnaces. Going forward, we are modernizing this furnace, we are putting one more so hopefully we will again increase this volume and I expect that Galvanised Tube also will have a growth. Our main center of focus will be on DFT customized sizes; there the benefits are yet to come, only it has started trickling in. So I think we must have sold around 2,000 tonnes - 3,000 tonnes of customized sizes in last quarter which gave us a pretty good margin. But since the volume was only 2,000 tonnes - 3,000 tonnes it does not contribute much to the average. But as I mentioned earlier also in next eight months to nine months maybe a year, you will see significant improvement in margins coming from DFT.

So these are the three products which are giving us more than the average EBITDA and we are focusing on all the three, which should see volume growths.

Suvarna Joshi

In Q2 FY 2018, we mentioned that OEM segment reported a very stupendous growth as such. So what has been the traction there in this particular quarter? And in the export market are there any other Indian players from whom we face competition because I believe Surya Roshni is quite a known name in the export market for the Steel Tubes and Pipes and Hollow Sections. So some thoughts there?

Ashok Gupta

So on the OEM front, our volumes on a quarterly basis have been hovering around 10,000 tonnes per quarter. There has not been much of a change we have been focusing on that. But as you know OEM takes time to mature. So if I say two years back, we were hardly at 4,000 tonnes - 5,000 tonnes per quarter but now they have been improving, they have improved to around 10,000 tonnes and it may take some time before we really see a jump in that. So as far as exports are concerned, our volumes have been around 13,000 tonnes - 14,000 tonnes per quarter. Here again, we are seeing marginal improvement and after our galvanizing facility comes up, then we should be seeing much more improvement in exports. You are right, Surya Roshni is also significant exporter and competitor to us in an overseas market. Since the overseas markets are large there is space for more than one player. Other than Surya Roshni, we will not see any large quantum of any other player.

Moderator

Thank you. The next question is from the line of Chintan Seth from Sameeksha Capital. Please go ahead.

Chintan Seth

If I look at the India's steel consumption, we have around 90 million tonnes steel consumption in India of which you mentioned ERW Pipes steel consumption is around 8 million currently. So the trend of consumption is below 10% of what is being consumed right now. Can you grow faster than steel consumption user industry or can we grow faster with volume grows faster than overall steel consumption which is growing at 6% - 7% rate and we are growing at 7% - 8% then can it reach around 20% to 25% of steel being consumed by ERW Pipes or is it not possible?

Ashok Gupta

In my view I will say, no. Globally, it is observed that ERW Tubes and Pipes constitute between around 10%, it may be slightly less, slightly more depending on the economy. So here also I do not expect it to be much more divergent because even though steel production is increasing at around 7% - 8% and so steel pipe there will be a marginal improvement. But the percentage, if you observe even after minor variation of 0.5% or 1% here and there, does not change significantly in terms of market share. So in my view in next five years - six years, the percentage maybe around 10%, it may go to 11%. But there not be a marked change in the percentage of steel pipe as a percentage of total steel consumed.

Chintan Seth

Okay. And sir, if we grew at 20%, industry is not growing even at a 10% rate. So will it restrict us as a company, because industry is not growing but we are growing much faster or double the pace of industry and there will be some point wherein we will face some restriction in growth - so we will be more than 30% - 35% of the market and currently if we look at the organized market, we are at 36% - 37% market share in the organized pace. Will it hinder your growth at some point in future because the industry is not growing and our growth will take a backseat because of that.

Ashok Gupta

So I tell you what happens is typically a large number of small players, they are not able to face a competition and current problems, so their share should go down

and that should come to us and secondly, the other large players in the sector are really not growing even at 10%. So both this sectors should help us to grow at 20%, we have made a plan for next three years only. We are planning to grow at 20% for next two years. Once we reach that stage we will see what do in the future. But we feel that for next year, we can maintain this growth of (+20%).

Chintan Seth On our Dubai plant we were planning to add one or two lines over there to cater more closely the export market. Any update on that front?

Ashok Gupta So we earlier had four plants and we have just shut down one, the balance is three. So, this one will come down and one more will come. So totally we will have five plants. With five plants, our quarterly production should go up to about 40,000 tonnes per quarter.

Chintan Seth Based on your presentation of 2.5 million vision by 2020, we had a plan of opening up Dubai unit with 0.3 million tonne capacity by FY 2020. So is there any update on opening up the Dubai plant or we are not currently looking at adding any overseas plant?

Ashok Gupta I will say at the moment we have not taken any decision on setting up any plant overseas.

Chintan Seth Okay. And what will be the capacity on DFT after the eight lines being commissioned?

Ashok Gupta It should be close to 0.5 million tonnes.

Chintan Seth And on the galvanizing plant in Bengaluru where we are planning to add 1 lakh tonnes capacity, when will it be coming up?

Ashok Gupta We were thinking of setting up under the JV. So as I mentioned to you the JV itself has been cropped. So I do not think we will be going ahead with the JV in line galvanizing plant per se. However, we are looking at setting up as I mentioned about the galvanizing plant so there capacity we are increasing from the current production of around 26,000 in a quarter to around 40,000 even more than that. So we are focusing on galvanizing directly rather than on any other technology.

Chintan Seth So our plan for 2.5 million tonnes by 2020 will get a bit prolonged maybe?

Ashok Gupta No, we are planning 20% growth. So if you look at 20% growth by 2020, FY2021 we should be at around 1.9 million to 2 million only.

Chintan Seth That we have secured with existing extension that we have taken up.

Ashok Gupta You are right.

Moderator Thank you. The next question is from the line of Pavan Kumar from Unifi Capital. Please go ahead.

Pavan Kumar How is the penetration plan going around in the East Indian market, which is quite new to us? So are we giving any kind of promotional prices to actually get a decent foothold into the market?

Ashok Gupta Minor promotional benefits can happen from time-to-time. But I will not say that we are giving any large scale or large volume or large discount per se. So our strategy

is primarily to focus on Tier-II cities whereby we can have small-to-medium dealers and distributors and cater to their needs. See, the advantage we have is that we have depots in around 15 centers - 20 centers and these depots can cater to inside the hinterland. As a result of that, large numbers of the dealer distributors who cannot give service to other companies, for example, a distributor in a small place like say Haridwar or in other place like Nagpur. So there are such Tier-II cities. We focus on those distributors and promotional discounts are not the primary means of us reaching them.

Pavan Kumar What is the kind of market share we might be targeting in this particular East Indian market in maybe next two years?

Ashok Gupta We are starting from scratch. So obviously when you start from scratch you do not have high targets and so we do not have any such thing that we should be reaching that figure. As a market we have just entered there. So perhaps the experience of next year will tell us what kind of target we can achieve but definitely since the overall country basis, we have a 14% market share, we will try to see that here also we reach respectable market share.

Moderator Thank you. The next question is from the line of Abhishek Shah from Valcore Capital. Please go ahead.

Abhishek Shah My question is mainly in line with one of the questions asked earlier in terms of our growth over the next few years and how do we maintain our market share? Our channel checks suggest that Surya Roshni seems to have become quite aggressive in terms of the growth and especially in the Southern market that they have entered recently. So just wanted to understand and the company Surya Roshni again has guided a growth of +20% over the next three years. So just wanted to understand are you seeing any sense of aggression or any pricing pressure in the industry in general and from some of our competitors?

Ashok Gupta Most of the players are not really looking at focusing on this market. So even if half the market wants to have 20% market growth, they will create a big ripple. In any case, the market share is being taken from the unorganized players.

Abhishek Shah In terms of pricing, we are not sensing any thing?

Ashok Gupta No, not significant.

Moderator Thank you. Ladies and Gentlemen, we take our last question from the line of Suvarna Joshi from Axis Securities. Please go ahead.

Suvarna Joshi Just one quick question, we have commenced the Raipur plant about a couple of quarters now. And we have mentioned that we will be seeing some bit of logistic costs savings as well. So have we seen any benefits of the logistic cost coming down? I understand that it will not be very significant at this stage. But any thoughts you can share and once we are at full utilization level at the Raipur plant, what is the cost savings from freight that we envisage coming in from this particular facility.

Ashok Gupta There will be some cost savings definitely and already it has started because the plant is closer to the Bhushan unit. So you are right, the volumes have just started building up. So currently we are making around 10,000 tonnes - 12,000 tonnes per month there to that extent there will be a saving happening. But the real benefit you will be observing only after a couple of months. So perhaps once we reach the figure of around 20,000 tonnes per month, you can see a significant improvement happening over there. So what happens ultimately to the plant of Bhushan and

others who are in the Odisha (Orissa) because of the raw material base in Odisha (Orissa) there. So against an average freight of around Rs. 1,500, I think we do save up around Rs. 300 to Rs. 400 per tonne for the material, which we produce in Raipur.

Moderator

Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for their closing comments. Thank you and over to you.

Ashok Gupta

I must thank all the participants, it was a very interesting lively discussion and we are really happy for the interest you have taken in our company. Let me tell you, the future of the company is very good as you have already observed in last few quarters and our growth chart is very well planned and it will happen the way we have plans for it. Thank you so much.

Moderator

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

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