



APL Apollo Tubes Ltd

Q3 & 9M FY19 Earnings Call Transcript

February 18, 2019

Moderator: Good morning, ladies and gentlemen. Welcome to APL Apollo Tubes Limited's Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. 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 afternoon, everyone. And thank you for joining us on APL Apollo Tubes Limited's Q3 & 9M FY2019 Results Conference Call. We have with us Mr. Sanjay Gupta – Executive Chairman of the company, Mr. Ashok Gupta – Managing Director of the company and Mr. Deepak Goyal – CFO of the company.

Before we will begin the call, I would like to point out that some statements made in this call maybe forward-looking, and a disclaimer to this effect has been included in the earnings presentation shared with you earlier.

I would now like to invite Mr. Deepak Goyal to make his opening remarks. Following which, Mr. Sanjay Gupta and Mr. Ashok Gupta will take the Q&A session. Over to you Mr. Deepak Goyal.

Deepak Goyal: Good afternoon, everyone. I welcome all of you to the APL Apollo conference call to discuss the operating and financial results for the quarter and nine months ended 31st December 2018. I will briefly cover the financial performance for Q3 & 9MFY19, following which Ashok-ji and Sanjay-ji will take up the question-and-answer session.

Our total net revenue during the quarter stood at Rs. 1,691 crore, registering an improvement of 29% year-on-year. Total net revenues in 9M FY19 grew by 33% to Rs. 5,058 crore. Our sales volumes posted a stable improvement of 12% to 3.15 lakh metric ton in Q3 FY19. And in nine months FY19, volumes stood at 9.21 lakh metric tons, higher by 11%. Company delivered a steady volume performance during the quarter, despite the subdued demand environment across the domestic market.

With regards to our profitability, EBITDA in Q3 FY19 stood at Rs. 59 crore, lower by 33% year-on-year. In 9M FY19, EBITDA stood at Rs. 254 crore, down by 5% year-on-year. EBITDA per ton during Q3 FY19 stood at Rs. 1,900 and in 9MFY19, it stood at Rs. 2,750. Profitability during the quarter was impacted mainly due to the

inventory loss to the tune of approx. Rs. 42 crore in Q3 FY19, caused by steep fall in the steel prices in the month of November and December. Adjusted for this inventory loss, EBITDA during Q3 FY19 grew by 14% year-on-year to Rs. 101 crore. Similarly, adjusted EBITDA per ton during Q3 FY19 stood at Rs. 3,200 per ton against Rs. 3,133 per ton in Q3 FY18. Apart from the inventory loss, profitability was also impacted due to the lower contribution from the GI segment.

On the balance sheet front, our gross debt is stable, around Rs. 900 crore. Even in a volatile raw material environment, our working capital cycle remains stable with debtor days at approx. 25 days, inventory is 35 days and creditor at 30 days.

Now, call is open for question-and-answer. I request Sanjay-ji and Ashok-ji to take up further.

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

Anand Bhavnani: I have two questions. First is, I would like an update on the capex that we have I think capex in three areas is happening, one for door-factory at Dujana, second is cold-rolling mill in UP, and third is Tricoat capex in Mallur. So, if you can give an update on all three?

Sanjay Gupta: The capex of door-frame, we are going to start this line in the first week of April. Tricoat is already on the trial production and in this coming week we are going for commercial production. The cold-rolling mill of Delhi plant is going to start in this week with a capacity of almost 2 lakh ton per annum and Tricoat capacity is almost 75,000 tons per annum. The door-frame capacity is also almost 75,000 tons per annum.

Anand Bhavnani: My second question is about Mr. Ashok Gupta and his overall plans for being part of APL Apollo. So, we learnt that through the rights issue, Mr. Ashok Gupta has taken a significant shareholding in Shalimar Paints. And he does have shareholding in APL Apollo, but the shareholding in Shalimar Paints is valued multiple times more than his shareholding in APL Apollo. So the first question is in terms of time commitment would he be also spending time with Shalimar Paints in operational capacity? And second is, given that he has more control at this point in time in APL Apollo, why wouldn't he invest money in APL Apollo stock than invest in Shalimar?

Ashok Gupta: So, let us divide the question in two parts. One is about the time part, one is about the investment. So the investment in Shalimar is a much smaller part than the investment in APL Apollo. So that is a separate investment altogether. And as far as the timing is concerned, my whole time is primarily being spent only in APL Apollo. So as far as Shalimar is concerned, my primary duty there is, I am not there in official capacity at all and my primary duty there is only in the Board of Director as a Vice Chairman, which is non-executive. So it is only an advisory capacity I am working there, otherwise my whole time is going only in APL Apollo.

Anand Bhavnani: Can we expect you to be a part of APL Apollo in the foreseeable future, let's say for next two, three years?

Ashok Gupta: Yes, for next three to four years, there is absolutely no reason for me to not to be in APL Apollo.

- Anand Bhavnani:** From the annual report, the value of your holding in APL Apollo excluding the options is close to Rs.7.5 crore at current market price, whereas in Shalimar you have invested Rs. 42 crore. So where am I getting this wrong?
- Ashok Gupta:** No, my total investment in APL Apollo as on date is more than Rs. 100 crore.
- Anand Bhavnani:** Okay, so it might be in different ways, not directly?
- Sanjay Gupta:** It is in his wife's name.
- Moderator:** Thank you. Our next question is from the line of Ankit Merchant from SMC Global. Please go ahead.
- Ankit Merchant:** Can you help us on the EBITDA margin profile and EBITDA per ton, how would it fare over the next few quarters to come? And also the hit which you have taken due to inventory, can you throw some light on it?
- Ashok Gupta:** So far EBITDA margins are concerned, EBITDA margins were definitely affected because of stock loss we have been suffering in last quarter. Other than that I think we have been able to maintain the EBITDA margins in our normal range.
- Ankit Merchant:** Related to how much inventory do you still have? And if any further correction could happen or some guidelines or guidance on it?
- Sanjay Gupta:** In Q3, the fall is totally much skewed and very sharp. We were not prepared for this fall. But in Q4, we are prepared already. We know there is a price fall in the month of January, almost by Rs. 2,500 a ton and in the month of February, there is some regain in the pricing by almost Rs. 700 a ton. But, for this quarter, we are ready, in the month of November, we were not ready because market was on the bullish side, all of a sudden in two or three days, the market was going through a very bad shape. So we were helpless. But in Q4, we are very-very hopeful that we can cover this stock loss.
- Ankit Merchant:** Sure. And then the EBITDA per ton would be in the range of Rs. 3,200 -Rs. 3,300?
- Sanjay Gupta:** Yes, our target is always Rs. 3,500 per ton and the yearly target is 20% growth on volumes and 25% growth in EBITDA. We are quite hopeful that we are close to achieving these numbers. There is no doubt, in the bottom-line there is a hit of stock loss. Our team is working very hard to recover from this stock loss. We are very hopeful; we are not far away from our guidelines for the year. We are trying our level best. We are doing lot of new things to increase our EBITDA margins, like in the bigger sections we have a monopoly market and in July 2017, when we started the first HSU and our volume was 3,000 tons per month. Now it is going to increase, from last two months, we are doing almost 10,000 tons per month. In the door-frame, which is our product in the building sector, last month we sold almost 2, 50,000 door-frames. This is also helping us to improve our margins. Now, the ILGILG is also going to start, maybe in two - three days, this will also give us a good leverage in the margin. We will do the backward integration like cold-rolling mill will start in this week, so this is also going to cut down our costings. So we have done lots of things in the last six - seven months, I think this can come with a very good result. But you have to give us some time to see the results.
- Ankit Merchant:** GI tubes have fallen by 29%, I understand there is some modernization of plants which is happening, but has the demand also gone down in this particular segment?

- Sanjay Gupta:** In this particular segment in the bore-well line, the demand is going down. But in the structural line the demand is going up, and now our Raipur plant has started, and from last month we are doing 10,000 tons per month and we are seeking a target of 125,000 tons for next year. Also ILGILG will kind of help us to improve this demand because ILGILG is also a replacement of some part of the galvanized product.
- Ankit Merchant:** How much is the debt right now?
- Sanjay Gupta:** That is Rs 925 crore.
- Ankit Merchant:** Should we see some reduction in it?
- Sanjay Gupta:** Yes, we are targeting close to Rs. 700 crore or Rs. 750 crore.
- Ankit Merchant:** And what about the interest cost, how will it fare?
- Sanjay Gupta:** Interest cost we are targeting almost Rs. 25 crore to Rs. 26 crore per quarter.
- Moderator:** Thank you. Our next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.
- Ankur Periwal:** GI again we have seen sort of a volume decline. I understand, as you rightly mentioned in the earlier comment that the production has started now, so will it be fair to say that Q3 will be the bare minimum quarter, the base quarter and from here things should improve?
- Sanjay Gupta:** No doubt at all, no doubt. This is the worst quarter after 2008.
- Ankur Periwal:** Sure, that is helpful. Secondly on the volume growth guidance, you mentioned 20%, but this will also be driven by the new product launches, whether ILG or GI pipes scaling up. Will it be possible to share what could be a like-to-like growth and incremental volume growth, if that can come from the new product lines?
- Sanjay Gupta:** The new product lines are coming and the results are, we are not taking it in this quarter, we are taking from Q1. But in the last two years, we worked very hard on DFT. When we introduce any new technology or any new product, it takes time to stabilize. Now from the month of December, we are going very aggressively in DFT and in the small sections, the improvement of our services is very aggressive, very fast. Earlier in the normal size, we are going to deliver the material within 13 to 14 days, now we are able to deliver the material within three to four days which is our leading time. It has come to result, our volume growth is there and in the bigger sections now the architects and consultants are very aware that some material is available in India and slowly the demand is picking up. And whatever they are recommending the project, it came after three, four months. And in the ILG, this is a totally new market; this is totally a new growth. Door-frame, up to October or November, if you calculate the ton basis, we are doing 2,000 ton, 2,500 ton per month. Now from last three months, we are doing almost 4,000 tons to 5,000 tons per month. And we are thinking that this market can go up from 5,000 tons to 10,000 tons in another one year, because new lines are coming in Dujana, which is to purely make this product. Now the quality is for low graded housing, then we are also complete with the high-end quality material. So we are very hopeful with these two, three products. And also one product is coming in the month of May or June, our hybrid pipe, which is replacing the bore well column pipe of PVC and CPVC pipe of conduits. I think from there we are also going to get very good results.

- Ankur Periwal:** Just one last question, your thoughts on the Tricoat products and you did mention starting the production this month, but probably some initial comments in terms of your expectations on volumes, etc., and our plans to increase further stake in Apollo Tricoat?
- Sanjay Gupta:** If we can get the stake from promoter or either from the market, we can increase our stake.
- Ankur Periwal:** So, if I recollect earlier, we did have plans for an open offer or something to increase your stake?
- Sanjay Gupta:** I think altogether we have a stake of 51% and we are trying to take it to 60% or 65%.
- Moderator:** Thank you. Our next question is from the line of Pranav Tendolkar from Rare Enterprises. Please go ahead.
- Pranav Tendolkar:** I just wanted to understand what percentage of the product goes in what end industry, as in infrastructure or real-estate or anything else? So I understand that you have introduced a lot of new products and that will be a demand that never existed and it will be advantageous to us. But just like to highlight what are the underlying industry demands?
- Ashok Gupta:** So, you see, normally steel pipes are being used for two purposes, one is transportation of water, the other is structural support. The transportation of water obviously goes for both construction as well as household purposes. Similarly, construction as well as household purposes are used for structural support systems. Our material is distributed through, around 90% goes through distributors and dealers, most of it is around 40% to 50% goes for construction, infrastructure and related activities, another 20%, 30% goes for household applications, individual applications and 10% to 15% for miscellaneous uses. Construction sector and infrastructure, so far as we are concerned is improving, and one of the reason is that is a replacement for wood as well as to some extent for cement. So the demand for steel sections for structural support system is increasing day by day. Even though the construction sector bites us, we may not be having a significant upswing, but because of replacement or substitution for wood, demand for steel pipe per say is showing signs of improvement.
- Pranav Tendolkar:** Any impact that you have from the real-estate slowdown that is happening right now?
- Sanjay Gupta:** Yes, there is an impact, but which we cover from tier II and tier III cities, we expand our market and we cover it. But I think the real-estate is also now coming back in picture, for us the growth is very easy, and then we can swim with the wave. Otherwise now we are covering our demand from the tier II and tier III cities. Today our main focus is tier II and tier III cities household material.
- Moderator:** Thank you. We have the next question from the line of Chintan Sheth from Sameeksha Capital. Please go ahead.
- Chintan Sheth:** Sir, on the inventory side, just wanted to know what is the average cost of HRC in our books right now?
- Sanjay Gupta:** Right now, the HRC cost on average market price is 40,500 to 41,000 landed to plants. And our inventory is almost 1.4 lakh tons, 1.3 lakh tons, varies between 1.3 to 1.5 lakh tons.

- Chintan Sheth:** I am observing a sharp jump-up in terms of spread between black pipe and our MS pipe. Is there any relation, compared to historical number it was around Rs. 800 to Rs. 1000 per ton, this quarter we are seeing the difference is around Rs. 1400 to Rs. 1500? So is it fair to say that DFT has picked up, customized pipes volume has picked up this quarter which led to better realization or this is related to market pricing itself?
- Sanjay Gupta:** No, both the factors are working. The DFT is working because now demand is coming in very huge number, so DFT is also performing well. Our all DFTs are running on fully capacity. Now, we are also increasing our market share of round pipe, which earlier we were weak. Now from this line, from the old lines we are increasing our circular pipe market share also. So you can see the growth in both sectors.
- Chintan Sheth:** So, how much DFT volumes we did this quarter versus last quarter?
- Sanjay Gupta:** We are running now seven lines, one line is still to start today or tomorrow. Already we are running several lines of DFT and on an average, each line is producing 5,000 tons per month.
- Chintan Sheth:** You mentioned that most of cold rolling mills is expected next year, Tricoat already started trial run, and commercial production will be next week. So, how much capex you have spent in terms of rupee crore this year and next year?
- Sanjay Gupta:** In Tricoat, our total capex amount is close to Rs. 175 crore. And in APL, I think our capex is close to Rs. 150 crore to Rs. 200 crore.
- Chintan Sheth:** And how are we going to fund this?
- Sanjay Gupta:** Already funded, already capacity is funded. All the capex for 2 million tons is done.
- Chintan Sheth:** Capex for cold milling line is done?
- Sanjay Gupta:** All the lines are done. My payments are already done. In next financial year, there is no capex for the capacity of 2 million ton, if we achieve our number in Q1, then we will go for the next jump like 4-5 million ton, but still first we are waiting to book less debt then we will go further for next capex and next plan.
- Chintan Sheth:** What happened in December in terms of HRC prices crashing? If you can give us some background to it, why it happened and how do you see HRC market going forward in terms of demand and volatility in prices?
- Sanjay Gupta:** This type of volatility comes once a while, not every time. Every time, the volatility is 1%, 2%, 3%, this can be manageable. But this time, price fall in Indian market is almost Rs. 7,000 per ton. So, from November to January 15 the total crash is about Rs. 7,000 a ton. This is the first time it has happened after 2008, otherwise there is plus/minus Rs. 2,000 a ton which can be manageable. But this type of sharp fall, Rs. 7,000 to Rs. 8,000 or Rs. 6,000 in one or two months, this is not manageable.
- This price has already softened in the month of November in the international market. In the international market, it has come down from \$650 to \$450 for various reasons. But all over the world, the steel producers are not in the comfort zone. So the price should be between \$525 to \$550. If we see, again there will be Rs. 500 to Rs. 1,000 jump in the month of March in steel prices and then the market should be stable, maybe Rs. 1000 less or Rs. 1000 more. I think the trend of the steel price for next year is like that.

- Chintan Sheth:** And lastly in terms of capacity, we are 1.8 million tons as of now and once the eight line of DFT and Tricoat lines come in, what will be our piping capacity by end of year or next year?
- Sanjay Gupta:** If you see our utilized capacity it will be 2.1 million tons; if you talk about installed capacity, then it is close to 2.5 million tons.
- Chintan Sheth:** Including door-frames?
- Sanjay Gupta:** Everything.
- Moderator:** Thank you. Our next question is from the line of Abhishek Jain from Vallum Capital. Please go ahead.
- Abhishek Jain:** How are the realization of GI pipes in this quarter?
- Sanjay Gupta:** Q3 is not good.
- Abhishek Jain:** In Q4?.
- Sanjay Gupta:** Q4, we are targeting for 30,000 tons. Realization is better than Q3.
- Abhishek Jain:** Can you just quantify like what is the current realization which is going in particularly GI pipes?
- Sanjay Gupta:** Almost close to 55,000 tons.
- Ashok Gupta:** So current realization is much better than previous quarter. And if I take historical average of last one year, we are almost at the same level as we used to be last year.
- Moderator:** Thank you. Our next question is from the line of Shikhar Mundra, an individual investor. Please go ahead.
- Shikhar Mundra:** If I compare your sales realization per ton of Q2 and Q3, it is approximately the same. And even if compare the raw material per ton expense, it is almost the same. So, wouldn't this fall in prices be compensated by the fact that your gross spread has increased because your sales realization is approximately the same and the raw material prices have decreased?
- Deepak Goyal:** Due to the product mix change, our GP and hollow section sales has increased. And door-frame and big section sale has increased, that is why our realization is almost same. But our raw material prices have also gone down.
- Ashok Gupta:** Raw material prices have gone down; the finished good prices also goes down. Subsequently, we suffer loss on account of inventory. However, to improve our realization we try to balance it by selling more of GP and by selling more of products, which can give us higher margin at higher price. So, we are now focusing on more GP, more GI and more section above 150 m,. All the three will give us better realizations and that is why you will see average realization is slightly improving.
- Moderator:** Thank you. We have the next question from the line of Kashyap Jhaveri from Emkay Global. Please go ahead.

- Kashyap Jhaveri:** If you can help me with the gross borrowing number as of December 2018? If I look at our other operating expense line item, we have kept quite a tight leash over there. For 9M, our total other opex is about Rs. 235 crore, which is lower than if I look at 9M of last year. So what are the costs which are helping us in keeping a tight leash on this other opex item?
- Deepak Goyal:** In December 2018, our gross debt is almost at the same level as September 2018, which is Rs. 925 crore. Opex is a mixture of various things, other expenses like discounts on sales and credit outward, credit inwards goes into it. So, it varies depending upon the policies, sales policies and trade policies. But in terms of the fuel consumption, spare store consumption, it is almost at the same level. That is why due to the IndAS adjustment, it goes down.
- Kashyap Jhaveri:** Yes, but if I look at your numbers for at least for the last year, they would have been regrouped, right, for all the IndAS adjustments?
- Deepak Goyal:** Yes.
- Kashyap Jhaveri:** So, in which case this is like-to-like comparison, right?
- Deepak Goyal:** Right.
- Kashyap Jhaveri:** And despite that from Rs. 270 crore for 9M FY18, it is down to about Rs. 235 crore, in 9M FY19, so two line items which you mentioned which is stores and spares, and power cost is flat YoY basis?
- Deepak Goyal:** This year, we slightly changed our transportation policy, earlier we were saving the F.O.R basis, in first eight months we sold at ex-works basis. So, the transportation cost is deducted from the sales price, earlier it came into other expenses.
- Moderator:** Thank you. We have the next question from the line of Omkar Hadkar from Mirabilis Investment. Please go ahead.
- Omkar Hadkar:** One question on the debt guidance which you gave just now. You are talking about nearly like Rs. 200 crore reduction that is far above the run-rate of the operating profit, which we generate on a quarterly basis. So, is this coming from inventory liquidation or some kind of receivables management, can you throw some more light on what are the things happening?
- Deepak Goyal:** Yes, it comes from the working capital only. We are focusing on reduction in debtor days because we are arranging the channel finance with various banks. Recently, we have taken up from one or two more banks in our portfolio. Secondly, for the inventory, we have taken services from the vectors; we are taking over supply chain management system. That's why our inventory has come down further.
- Omkar Hadkar:** We are talking about lower receivables and finished good inventory, that's all?
- Deepak Goyal:** Yes.
- Omkar Hadkar:** Second question is on the near-term demand for next one to two quarters. The general commentary from many of the infrastructure companies has been that order inflow will slowdown and some bit of execution may be also challenging. So how does that affect your business in the near-term? Would you like to give some color on how the volumes can trend over the next two quarters or so, that will be very helpful?

- Sanjay Gupta:** Government projects like metros, airports are now coming very fast in smart-cities, the ports, the railways stations. I think the demand is not going down, and the road works is also going fast track. And in the realty sector, we are seeing some demand slowdown, which we are covering from the tier II, tier III cities. Now, we have another benefit, when the steel price is coming down, we also have the secondary market, now the secondary market is also hit badly because the secondary market is not going down like that. So, I think our industry is also taking this advantage. Put together, I am not worried in the future for the volume.
- Omkar Hadkar:** Any guidance you can give on how the current run-rate can step up over a couple of quarters?
- Sanjay Gupta:** Our vision is very clear; we are going for 20% of volume growth and 25% of EBITDA growth for year-on-year, this year also and for next year also. We are very committed.
- Omkar Hadkar:** This year, EBITDA growth can happen despite the problems we had?
- Sanjay Gupta:** Maybe, you have to take into account the inventory loss.
- Omkar Hadkar:** Okay. So you are saying that will get fully reversed in the fourth quarter, is it?
- Sanjay Gupta:** Yes, we are very hopeful.
- Omkar Hadkar:** So on a full year basis, the numbers will still look very healthy?
- Ashok Gupta:** So, what we are saying is, if not for the inventory loss, our growth numbers would have looked to be 20% - 25%. So take into account the inventory loss, they will look slightly lower.
- Omkar Hadkar:** So we are talking about normalized number?
- Sanjay Gupta:** Yes, we are talking about normalized business.
- Omkar Hadkar:** And you are hopeful that the next couple of quarters will also be along the guidance which you have mentioned?
- Sanjay Gupta:** Yes, because now we also have a lot of new products in our basket.
- Moderator:** Thank you. Our next question is from the line of Ashish Yug from InvesQ Investment Advisors. Please go ahead.
- Ashish Yug:** Just wanted to know on the couple of things happening, one is steel pricing coming down and secondly the mix also has been fluctuating for us. So, what can we expect in terms of EBITDA per ton over the next couple of quarters? If you could guide us, assuming that steel prices are not moving as much as we have done in the past?
- Sanjay Gupta:** Our minimum guidelines of per ton EBITDA is Rs. 3,500 but now we want to increase from Rs. 3,500 to Rs. 4,000, for the type of product basket that we have increased in last six, seven months.
- Ashish Yug:** And sir if you could just explain how the market growth is shaping up? And for us the 20% volume growth that we are seeing, is that mostly market share gains, how do we read it?

- Sanjay Gupta:** Lot of new innovation growth is also there. Like I am talking about the door frame, it comes from 2000 to 5000 tons, this is totally new market. If you see the total door and window-frame market in India, if you see all the products together, it is almost Rs. 1 lakh crore. Our tube industry total market is Rs. 35,000 to Rs. 40,000 crore market. Now, we are working very hard on each segment. And one of my team is working on how we increase from 8 million to 10 million tons. We are working very hard with steel organization like Tata Steel and JSW Steel, we are doing lot of new innovations, and we are presenting lot of departments to change their product in the new product, which are now available in India. So, the growth is coming from there also very good.
- Ashish Yug:** As you said that you are looking to grow the market as an industry overall. And given the market share gains that your company has had over last five-six years, we would be about 20% of the market probably. So what is the run-rate for growth that you see, because you are still hoping or targeting a 20% volume growth on consistent basis. So how long does the run-way seem for you considering the current market plus the expansion of the market that you are targeting?
- Sanjay Gupta:** In the tube industry, India is very less, if you see per capita consumption is almost 6 kg per person in India. And if we were China, it is close to 50. So, in India the basic problem is we have no innovations. The people require tubes; they cannot get the tube from the market. Now what we are doing, we are introducing the product in the market, slowly and slowly, and when people know this product is available in India, then sky is the limit.
- Ashish Yug:** So from your commentary it seems that the worst is over probably?
- Sanjay Gupta:** Yes, if you see worldwide, tube consumption per person is almost 23-24Kg per person. In India, it is very less, we are talking India is second largest economic growth country in the world, so why not in tubes. We are very sure and we are working on this, I had planned for the capacity for 2 million tons when I was producing 5 or 6 lakh tons per annum, 0.5 million tons per annum, that time I had planned the capacity of about 2 million tons. So this is my vision.
- Moderator:** Thank you. Our next question is from the line of Amit Zade from Emkay Global. Please go ahead.
- Amit Zade:** My question is again on inventory losses. Some of the smaller players in the industry like Surya and Hi-tech, they have not seen such sharp inventory losses sequentially. So just wanted to understand we in spite being a bigger player compared to those smaller players, what could be the reasons for them not having seen such steep losses in inventory?
- Sanjay Gupta:** Because this is worldwide, not in India. This is worldwide slide in the steel prices, and not for APL but also for Tata Steel, for JSW also.
- Ashok Gupta:** So, in case you see the steel prices globally as well as India, they have fallen from around Rs. 47,000 per ton to around Rs. 41,000 per ton. I think that gives us the idea of what kind of fall has taken place. It is not only in India, it is a global phenomenon. So I think steel fall is a global phenomenon. And if you are keeping inventory then obviously you will have inventory loss. The only way to avoid inventory loss is not to have inventory.
- Moderator:** Thank you. Our next question is from the line of Mohit Kumar, an individual investor. Please go ahead.

- Mohit Kumar:** What is the cash conversion ratio we should expect by the year end?
- Ashok Gupta:** So we do save cash, and as we were mentioning, our capex is not going to be significant going forward. So whatever cash will be generated in the system, that is going to come to us. Secondly, we are going to reduce both, the inventory as well as debtors. So, on both your fronts we are going to have significant reduction in our cash outlay.
- Mohit Kumar:** I just wanted to understand what will be the cash flow from operations compared to the net profit for the year end?
- Ashok Gupta:** Cash flow from operations compared to the net profits will be the same, net profit plus depreciation and less dividend and capex. I think at this point of time it will be difficult to give any figure for that. The only thing I can tell you is that we are not having any significant cash outlay from here onwards.
- Moderator:** Thank you. Our next question is from the line of Ankit Gor from Systematix Shares. Please go ahead.
- Ankit Gor:** My question is with respect to EBITDA per ton, we are saying that we are eyeing Rs. 4,000 EBITDA per ton sort of number. If you can give a rationale and what gives us confidence, is it ILG, door-frame or any other things or it's a combination of all these things?
- Sanjay Gupta:** No, on the bigger sections also from the DFT, which we are increasing our market very quickly, now we have come from 5,000 to 10,000 tons on quarter-on-quarter basis. And also, we are hopeful about our purchasing capacity. Because in the next year, in India, the capacity is coming into HR coil is almost 15 million ton new capacity, and Essar is also going to settle down and Bhushan is also going to settle down. Today, they are making almost 35 million tons of HR coils. I think next year, they will go to 50 million tons. So, now we have a capacity of 2 million tons of buying capacity, which is almost four times bigger than any other downstream user in India. And when the steel price is having pressure and demand is in pressure, I think the largest player gets the benefit. So this is also counted in the numbers.
- Ankit Gor:** Can you give some broad range of EBITDA per ton in ILG and door-frame, if possible?
- Sanjay Gupta:** ILG was going to start today, but to comment anything now is wrong. Give us some time, you will see the results. I can say this is totally new technology, new venture and the company is very bullish on this product. In the door-frame, I can say that our EBITDA per ton margin is Rs. 2 to Rs. 3 per kg already higher than our normal product. And now we are going for the door-frame solution also, which will add to our margin more. Last month, we have supplied materials, door-frame almost to 80,000 houses, one house is taking three door-frames and we have sold almost 250,000 door-frames. So I think this is directly to consumers, so we can improve our EBITDA margin in door-frame also. But right now to comment anything is very difficult.
- Ankit Gor:** What is our inventory in terms of tonnage for Q4? What is the value of those inventory what we are holding as of now?
- Sanjay Gupta:** Right now, we have holding of almost 1.5 lakh ton and average valuation is almost Rs. 43 or Rs. 44 per kg. We are targeting to reduce to 1.5 lakh to 1.3 lakh per ton, and average value remains same.

- Ankit Gor:** For example if HRC prices remain at 40,000 tons, then we might see some inventory loss in Q4 as well?
- Sanjay Gupta:** Yes, Rs. 20 crore to Rs. 30 crore odd loss of inventory again in Q4. But right now, we are prepared to face this problem. So I think we can minimize this.
- Moderator:** Thank you. Our next question is from the line of Trupti Agarwal from White Oak Capital. Please go ahead.
- Trupti Agarwal:** What do you think is your full year volume guidance, not the revenue guidance for this year?
- Sanjay Gupta:** Last year, our volume was 11.30 lakh tons. And if you take 20% growth, it is close to 13.5 lakh tons.
- Trupti Agarwal:** If we want to do 13.5 lakh tons in this year, then we will almost have to do 50% growth sequentially quarter-on-quarter and year-on-year.
- Sanjay Gupta:** I can only say that we are targeting 20% growth.
- Trupti Agarwal:** Would it be possible for you to give what is your EBITDA spread for different products broadly, without taking into account the inventory loss which you will opportune on all of them. But what would have been the EBITDA per ton for different products in this quarter?
- Sanjay Gupta:** We are targeting pre-galvanised (GP) of close to Rs. 6,000 per ton, and galvanized (GI) also of Rs. 6,000 per ton. In DFT, we are talking around Rs. 4,000 per ton, and normal tube, we are talking close to Rs. 2,000 per ton.
- Trupti Agarwal:** The product quantity that was made on DFT technology for 9MFY19. Can you just tell me what that number is?
- Sanjay Gupta:** Right now, technically I know the numbers, I cannot confirm from the books. We have already started seven lines in DFT and almost from one DFT, we are on an averaging making 5,000 tons per month, so it is close to 35,000 tons per month.
- Moderator:** Thank you. We have the next question from the line of Maulik Patel from Equirus Securities. Please go ahead.
- Maulik Patel:** From a demand perspective, which geography is doing better? I understand that you have almost equal exposure in north, south and west.
- Sanjay Gupta:** I can say south is still our biggest market, followed by west and then north, then east and exports. And then the OEM and government department which has been created now, this is all close to same ratio.
- Maulik Patel:** I think the competitive intensity in south has gone up, couple of other players have set up the plant, is it true?
- Sanjay Gupta:** Yes, there are one or two new players that have come in, like Surya Roshni and Hi-tech. But they are not affecting us, they are affecting the small players in the south, which are already there in previously. Because we have a very strong brand image in the south and we have a very wide range of products. So I do not think they can hamper our market share and we have a very good relationship with raw material suppliers and also with JSW Steel, which is located there. They are not in a good

relation with JSW Steel, they are doing business with others, and this is also a big advantage to us.

Maulik Patel: Referring to some news that there is a booming market from scrap to billet to the tube, is it also a threat for the organized player?

Sanjay Gupta: Yes, this is a threat but in our small segment, this segment is almost 25,000 tons per month. So this is a threat for this segment, HR coil is close to billet than the 'patra' material then this market moves from 25,000 tons to 35,000 tons. If this gap is wide then the market comes down to 15,000 to 17,000 tons, there is almost a gap of 5,000 to 10,000 tons

Moderator: Thank you. We have the next question from the line of Lalaram Singh from Vibrant Securities. Please go ahead.

Lalaram Singh: You said around 80% to 90% of your business comes from distributors, you sell to them and then they sell to the end consumer. So, does that mean most of our end consumers are small players?

Sanjay Gupta: Yes.

Lalaram Singh: So we would not have any big customers, that's what you mean to say?

Ashok Gupta: 5% to 7% are the big customers. And even some of the distributors, they were selling to large customers, so let's understand large construction companies like L&T and Reliance, they may be buying directly from us, but there are a large number of contractors and project owners, they may be buying from distributor as well. So, if sale takes place through distributor then it goes in all the projects. For example, metro, all the contractors are buying from distributors. So for large projects like infrastructure projects, sale takes place from contractors, the sales are diverted through distributors.

Lalaram Singh: Do our tubes find application in pre-engineered buildings which are used as warehouses or industrial sheds?

Ashok Gupta: You are right. In fact, more and more pre-engineered buildings, which are being primarily made for industrial sheds, they are using square sections. As you are aware, around a year back, we started a new facility which can make sections right up to 300x300 or 400x200. Increasingly, PEB is using these kind of sections. So demand from pre-engineering building is going up day by day.

Lalaram Singh: Within PEB, one is industrial segment, at the same time there was expectation that post GST, we will see a huge investment in bigger warehouses, larger warehouses. So are you seeing traction from that segment also, in terms of demand?

Ashok Gupta: Yes, you are 100% right. Since industrial is one area where they have shifted a lot from cement, concrete to steel and within steel to sections. Second big area is after this logistic upgrade coming up, warehousing is becoming a big job. And warehousing, construction in steel section is very fast. And since time is money, so a lot of people are shifting from cement and other materials to steel sections. We were just mentioning to you, our sale of large sections – 150mm and above has increased almost 3x from around 3,000 tons per month to around 10,000 tons per month in recent past.

- Lalaram Singh:** Do we have any plans to then forward integrate into a PEB solution provider? What would be the total contribution of our sales today to PEB segment?
- Ashok Gupta:** I do not think it will be very wise for us to go in every segment where our pipes are being used, they are being used in large areas. At this point of time, PEB may not be a very hopeful diversion for us. Having said that, we will continue to focus and work with people or application developers in these areas, we will work with people to develop areas where we can replace the existing material with sections.
- Moderator:** Thank you. Our next question is from the line of Rudhyam Verma, Augmen Catalyst. Please go ahead.
- Rudhyam Verma:** Regarding where you mentioned that you are going to reduce the debt this year. So, just wanted to know how you are going to reduce the debt?
- Deepak Goyal:** We have plan to reduce the debt by Rs. 200 crore from December to March by reduction in inventory and reduction in debtor days.
- Rudhyam Verma:** So, basically you are saying that you have some money pending, so that money will come in and that will reduce the debt?
- Deepak Goyal:** Yes.
- Rudhyam Verma:** Because the total operating profit right now is about Rs. 250 crore and you are mentioning to reduce the debt by Rs. 200 crore. Are we discounting sales?
- Ashok Gupta:** You see, our inventory which is around 1.5 lakh tons, the moment it comes to around 1.3 lakhs tons, it will reduce our debt by almost Rs. 100 crore. And similarly on the debtor front, receivable front, even if we reduce number of days slightly by two to three days by putting pressure on the customer or by going for channel financing, again the amount of debt reduction would be of the order of Rs. 100 crore.
- Rudhyam Verma:** The steel prices will probably stabilize from \$525 to \$550 from next quarter, so how is the cycle overall with the demand and with the prices?
- Ashok Gupta:** So far as steel is concerned, you would have observed that for past three, four years, steel has been rising significantly and it reached almost like a peak in the month of September, October, since then it had a sharp correction. This particularly happens once in three, four years when there is one-time price variation. But after that we see a period of stability. So going forward, I do not think anybody can talk of more than six months to one year, but for six months to one year, we see a stable period. But in this time of uncertainty, where so much political actions are taking place throughout the world, it is difficult to really predict much more.
- Rudhyam Verma:** Our EBITDA per ton target is Rs. 4,000 per ton, is it for next quarter or for next year?
- Sanjay Gupta:** For next quarter, maybe next year. This is the target, we have already started working on this and now from the month of March, our Tricoat and cold-rolling mill will also help to reach this target.
- Moderator:** Thank you. We have the next question from the line of Chetan Chhabria from Capital Mind. Please go ahead.

- Chetan Chhabria:** My question is on the backward integration that you are talking about, this cold-rolling line that you have, what kind of benefit you will get in terms of margins and what have we spent and when this line be operational?
- Sanjay Gupta:** This cold rolling mill is not purely backward integration. Now, we have 30% to 40% market for less than 1.6 thickness, for which we are taking raw material from steel plants. We are paying them almost 3,000 ton extra for thickness of 1 mm, 1.2 mm, 1.4 mm, which are mainly used in our pre-galvanized tube and low section, where we are doing the work. Now, we are putting one capacity in Secunderabad and one capacity in Bangalore, almost a capacity of 4 lakh ton per annum. And I think our cost is close to Rs. 1500 a ton, and we are getting a cost control of Rs. 1500 a ton in next year for 4 lakh tons.
- Moderator:** Thank you. We have the next question from the line of Anubhav Mukherjee, an individual investor. Please go ahead.
- Anubhav Mukherjee:** I just wanted to understand the inventory loss better. Because if you look at the realization for each of the four products that we manufacture, sequentially the realizations are better. Because what I understand is that the inventory loss is taken on the finished goods inventory, so the realization has improved sequentially, so why the inventory loss?
- Ashok Gupta:** Item by item if you see, the prices in the quarter three are less as compared to quarter one and quarter two by around Rs. 2,000. So, this is one variation that you will see. Second variation is that inventory loss normally you have one inventory which is there, so if you see the closing price of HR coils on 31st March or on 30th September and closing price on 30th December, there is a variation of as much as Rs. 4,000 to Rs. 5,000 per ton. If you multiply by the average inventory we keep, the amount would come to around Rs. 40 crore to Rs. 45 crore. So the inventory loss primarily is on both accounts, less realization. As well as if you see, it will be on account of closing prices of HR coil, the stock which are lying, which is around 1.5 lakh tons.
- Anubhav Mukherjee:** Is inventory loss also taken on raw material, because I thought it is only taken on the finished goods?
- Ashok Gupta:** So, the material which is lying as on 1st of April in our books or 1st of October in our books. And once the price comes down by the end of 30th December, then the overall value will come down. So overall if you see, impact will come out this way or that way, either you will be seeing in terms of total revenue or it will be seen in the closing stock.
- Moderator:** Thank you. We have the next question from the line of Mohit Gupta, an individual investor. Please go ahead.
- Mohit Gupta:** Just a clarification on the debt question. Rs. 200 crore from working capital improvement, shouldn't you have another Rs. 100 crore from operating profit, or are you spending somewhere else?
- Ashok Gupta:** No, we are talking of overall impact; we are just giving you approximate figures. It includes three parts, reduction in debtors, reduction in stocks, inventory as well as operating profit. So we have given ballpark figure for this quarter, and exact figures obviously will come once the quarter is over.
- Moderator:** Thank you. We have the next question that is a follow-up question from the line of Anand Bhavnani from Unifi Capital. Please go ahead.

- Anand Bhavnani:** Roughly our inventory loss is Rs. 4,000 per ton on 1.5 lakh ton inventory, so close to Rs. 60 crore. Out of which, Rs. 40 crore has already been realized in Q3 and in Q4, we might see Rs. 20 crore. Is my understanding correct?
- Sanjay Gupta:** Yes.
- Anand Bhavnani:** Secondly on our plan for promoter warrants and promoter share issue, have we gone through it?
- Sanjay Gupta:** Already under process.
- Deepak Goyal:** In one or two days, we will proceed for the postal ballot. And in early April, we will complete the preferential issue.
- Anand Bhavnani:** And the terms remain the same, i.e. 4 lakh shares at 18%?
- Deepak Goyal:** The terms will remain the same, because market price is less than the issue price and the terms will remain the same.
- Anand Bhavnani:** Our interest cost, what is the ballpark figure that we are paying in percentage terms?
- Deepak Goyal:** Around 9% to 10%.
- Anand Bhavnani:** But then if I back calculate from the interest figure of around Rs. 25 crore - Rs. 26 crore that you mentioned at the debt levels of Rs. 900 crore
- Sanjay Gupta:** Almost close to Rs. 900 crore to Rs. 1000 crore. For quarter-by-quarter basis, Rs. 25 crore to Rs. 26 crore. Because in interest cost there is some bank charges also involved.
- Anand Bhavnani:** So what will be the overall interest cost in percentage terms, including bank charges?
- Sanjay Gupta:** 9% to 10%.
- Anand Bhavnani:** Have we seen this cost rise due to the crises in NBFC?
- Deepak Goyal:** Earlier, we were taking the commercial papers from the market. After the ILFS default or other market activity, CP rate has gone up to 1%. So, that is why our cost of interest has gone up. So now market has stabilized, in the coming quarter, our interest cost will come down to Rs. 25 crore or Rs. 24 crore.
- Anand Bhavnani:** Out of our host of distributors, how much would our receivables be from our top-25 or top-50 distributors, if you can share a ballpark figure?
- Sanjay Gupta:** About Rs. 250 crore to Rs. 275 crore.
- Anand Bhavnani:** From top 25?
- Sanjay Gupta:** From top 50.
- Moderator:** Thank you. Our next question is a follow-up question from the line of Kashyap Jhaveri from Emkay Global. Please go ahead.

- Kashyap Jhaveri:** Again coming back on the other opex question, your freight outward was roughly about Rs. 150 crore odd last year, so the deduction of freight probably cannot be the primary reason or then the fall in the other opex has to be larger if it was deducted from freight?
- Deepak Goyal:** It is not entire one, because we are first sending the metal to our warehouses, and thereafter it is going to the customer. Our policy in first eight months acts as branch basis, so our onward freight will reduce.
- Moderator:** Thank you. Ladies & gentlemen that was the last question. I now hand the conference over to the management for their closing comments.
- Ashok Gupta:** Thanks a lot. I think it was a very interesting session we had. We had a very difficult period in the past, but things are looking bright now. We have been able to clock good growth in this quarter itself. So going forward we hope to achieve our target of 20% in volume and 25% in EBITDA. Things are happening better by way of demand as well as by way of steel prices. The kind of steep fall in prices, which was seen last time is going to be stabilizing now. So things should be better. So hopefully next quarter we will be seeing a much better performance. Thank you so much.
- Moderator:** Thank you. Ladies & gentlemen, on behalf of APL Apollo Tubes Limited, that concludes today's conference. Thank you for joining us. And you may now disconnect your lines. Thank you.

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