



## APL Apollo Tubes Limited

### Q4 and FY2017 Earnings Conference Call Transcript

#### May 23, 2017

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**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. Should you need assistance during the conference call, please signal an operator by pressing \* and then 0 on your touchtone telephone. Please note that this conference is being recorded. I 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 Tube Limited Q4 & FY2017 results conference call. We have with us Mr. Ashok Gupta – Managing Director of the Company; Mr. Sharad Mahendra – Director (Sales & Marketing); 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 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. Ashok Gupta to make his opening remarks.

**Ashok Gupta** Good morning all my friends and welcome to this Conference Call. It is indeed my pleasure to have you with me. Let me begin by saying that FY17 was another challenging year for us. As you know, all of us in the industry right from steel to consumer goods, everyone had their own ups and down particularly demonetization spared nobody and we were also a part of it. We had some difficulties on account of demonetization like everybody else. On top of that, we had certain problems with regard to the steel price volatility, but despite all of that we were able to register a good growth in the first half and slightly sluggish sales in the second half, but we focused on ensuring that the growth stays. We continued the growth momentum and overall results have been satisfactory particularly on the bottom line.

Having said that, let me give you a slight idea about the industry as a whole. So industry has been growing continuously at around 8 to 10%. There has been some setback in the last six months, but again it has recouped and industry is again on the positive front. The steel industry prices also are more or less stable, so there is not likely to be much volatility now. The volatility had started because of MIP which was there in February 2016 and after one year of that, for most of the item, MIT has been changed, withdrawn. On our side, we are continuing our growth momentum. As you are aware, we were planning a significant jump in capacities. We had planned an increase for 1.3 to 2 million ton but because of these changes in the demand and demonetization, we have slightly postponed it, so this year we will be completing 2 million ton expansion which we had planned for. Most of the

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things are almost on stream now. Some of the facilities have also been commissioned, some are on way, and some are yet to be installed.

Going forward, we have couple of things up our sleeve. One of them is branding. We are taking up a big branding exercise that we have been talking about, so this year we should see lot of 'APL Apollo' name on the streets and on the channels, on the media, and our special technology which is the Direct Forming Technology that also is starting to get commissioned, so this year we should see lot of material development coming from Direct Forming Technology. With the capacity expansion at our Raipur plant, we will make foray into the eastern region. The production has started initially in Raipur facility. It should pick up in the next month and then regular production should start in June and July. With these initial remarks, I request my colleague, Deepak Goyal, to give you some idea of the financials as well.

**Deepak Goyal**

Thank you, Ashokji. Good morning everyone. I will briefly cover the financial performance for the period under review. Our total net income during the year stood at Rs. 1,316 crore, an improvement of 11% year-on-year and FY17 stood at Rs. 4,545 crore up by 8% year-on-year. Net sale for the manufacturing segment stood at Rs. 1,089 crore in Q4 FY17 higher by 27% year-on-year. In FY17, net sales for manufacturing segment grew by 11% to Rs. 3,900 crore. The growth was owing to the realizations which were driven by the higher steel price. As you are all aware as a policy, we tend to directly pass on any change in the steel price to the consumer. Total sales volume increased by 4% to 3.2 lakh tons in FY17. During the quarter, volumes were lower by 11%. As discussed earlier, demonetization drive along with the volatile steel price impacted the performance during the second half. Further the announcement of MIP on the steel product had made an exceptionally high base in Q4 FY16. With regard to our profitability, total EBITDA in FY17 improved by 12% year-on-year to Rs. 328 crore, total EBITDA margin stood at 7.2% against the 6.9% in FY16.

In Q4 FY17, EBITDA came lower by 15% at Rs. 76 crore with EBITDA margins at 5.8%. EBITDA margin for manufacturing stood at 8.1% in FY17 as against 7.9% in FY16 whereas margin during the quarter came in lower at 6.8%. Given the subdued market environment in the second half of the year, we were primarily focused on driving sales volume, which impacted our EBITDA per ton performance during the quarter. EBITDA per ton stood at around Rs. 3,200 per ton during the quarter. We are now starting to see a steady uptick in the demand-led recovery and have registered healthy sales volume in the month of April.

In addition, healthy performance of our value-added product, OEMs and export market should help facilitate a steadier-to-firm EBITDA per ton performance in the coming year even as our priority will be to showcase strong volume growth.

On the whole, FY17 has been a tough operating year owing to broader macroeconomic challenges; however, with a healthy uptick in the business activity, we look forward to reporting healthy volume in the upcoming fiscal. This brings us to the end of our discussion. I would now request the moderator to open the forum for questions.

**Moderator**

Thank you, Sir. Ladies and Gentlemen, we will now begin the question and answer session. We have the first question from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.

**Giriraj Daga**

Would you like to give any volume growth guidance for FY18? Earlier we used to say 20-25% kind of a growth, but what kind of volume growth are we looking at now?

- Ashok Gupta** We will maintain our trajectory of 20% growth in this year. We have already planned for it, capacities are in place, now it is only the question of slightly positive sentiment on the macro-environment front. We are happy to note that the GST rollout is almost on time so if the July 1 date is maintained then all the things are in our favor and our 20% growth trajectory should be maintained.
- GirirajDaga** So April and May are more or less on that same target?
- Ashok Gupta** Yes, currently it is on track.
- GirirajDaga** We have seen the presentation, there is a strong growth in the export and OEM segment also, although the numbers are as of now not that large, so do you expect that multifold growth to continue in this segment also?
- Ashok Gupta** If you see exports, in exports we have got good growth. It is almost 50-60% growth over previous year, now this is basically coming because the Direct Forming Technology product is very well accepted particularly in European markets, so it is only a beginning at this moment. We have only commissioned two lines till now. Going forward, we will be commissioning all the lines and with that our exports would now onwards definitely have more than 50% growth maybe even doubling of the sales, so export growth will be pretty good and the percentage which is only 5-6% now should go to even 10-15% in months to come. On the OEMs segment, all the sales today takes place through distributor and dealers, but there are large number of vendors or customers who do not want the supply through dealers, distributors and who want to directly deal with the company, so we are approaching them and also we will be able to give them much better services and much better product. We will now understand the demands better, we will understand requirements better, and so in both the areas of exports as well as OEMs, we are looking forward to growth around 50 to 100% in the months to come. Moreover, NEXTracker will be a game changer, because that company is an OEM in a way, so we are going to supply all the solar mountings to that company, which they require for their solar power plants.
- GirirajDaga** The steel prices have gone up over the last three-four months, so are we able to pass it on to the market, are we able to maintain our EBITDA per ton?
- Ashok Gupta** We have been talking about our EBITDA margins for quite some time. We are normally maintaining it between 30 to 100 plus/minus 200 here and there, so that continues to be the figure. Steel prices are a pass through that means if they increase we increase our price of structures or pipes and if they reduce, we reduce the prices. That way steel prices, up and down, only changes the kind of working capital we may need but on the EBITDA margin front, the changes are not significant.
- Moderator** Thank you. Our next question is from the line of Rajnath Yadav of Choice Equity Pvt. Ltd. Please go ahead.
- Rajnath Yadav** I have seen a proportionately decline in the sales of GI/GP pipe in this current quarter as compared to last quarter, so what is the reason behind that? On a proportionate basis, GI/GP contributed around 31% in Q4 FY17 as compared to 32.5% in Q3 FY17
- Sharad Mahendra** What happens is because the overall volume is going up, but the GI production is our limitation, we are yet to create the capacity which you are creating in the current and the next year, so once those capacity gets created, this proportion will increase. At this moment, we have slight limitation on the capacity front of GI pipes.

On GP pipe front, that problem is not there and the growth is almost better than the position of that overall growth.

- Rajnath Yadav** At what capacity are we operating these plants?
- Sharad Mahendra** Today, if you see last year our sales was around 10,000 tons per month which is very close to the capacity we have, which is you can say around 85-90% capacity utilization that we are having for GI pipes.
- Rajnath Yadav** Any expansion plans for this capacity, GI/GP?
- Ashok Gupta** For GI, our last year sales was around 120,000 tons, so we are trying to increase this capacity to around 2 lakh tons in another year.
- Rajnath Yadav** We have commissioned two lines of DFT one in Tamil Nadu and one in Raipur, so when are the other lines expected to be commissioned?
- Ashok Gupta** Within this year.
- Rajnath Yadav** All DFT capacity will be commissioned this year?
- Ashok Gupta** All of it should be in place.
- Rajnath Yadav** Have we started production from these two lines?
- Ashok Gupta** This is almost in the trial initial stages, so may be another one month and then regular production will start.
- Rajnath Yadav** What production we are targeting for this year from DFT?
- Ashok Gupta** Each line, we will be looking for a production of between 3000 to 5000 tons depending on the sizes and dimension, so hopefully after all the lines will get commissioned and the sales start happening which may take another one year, the DFT should contribute around 40,000 to 50,000 tons per month.
- Rajnath Yadav** What was the operating cash flow for FY17?
- Deepak Goyal** For FY17 operating cash flow, EBITDA is about Rs. 328 crore and cash flow is Rs. 210 crore.
- Rajnath Yadav** Is there any capex guidance for FY18?
- Deepak Goyal** For FY18, we will do a capex of around Rs. 100 crore to complete the expansion of 2 million tons.
- Ashok Gupta** We were planning for 1.3 to 2 million tons, the total expenditures is around Rs. 250 to 300 crore, about Rs. 150 to 200 crore already we have spent last year even though it is not being shown because it is still work in progress and another Rs. 100 crore, we will make sure that our capacity of 2 million ton is in place.
- Rajnath Yadav** What will be the positive impact from GST, in which rate bracket are we falling?
- Ashok Gupta** GST should be a big benefit to us. Firstly, we are in the 18% bracket, secondly there will be direct benefit. Today on most of the material, we are paying 2% CST,

that 2% CST will be a thing of the past that is the direct benefit, and you think of it, 1% to 1.5% minimum direct benefit, plus the indirect benefit, large number of people who are there, so there are people who are paying complete taxes and people who are paying part taxes. We are one of those who are paying full taxes and as the GST regime, people who pay full taxes will get the full benefit, so we should get lot of benefit because we are one of those who are paying full taxes.

**Rajnath Yadav**

What was the rate pre-GST?

**Ashok Gupta**

It is the same, if you take out the CST component, it will be around close to 17.8%

**Moderator**

Thank you. Our next question is from the line of Varun Agarwal from BOI AXA Mutual Fund. Please go ahead.

**Varun Agarwal**

With respect to new capacities coming up, we will increase the volumes, but do you think it will come at a lower realization or lower margins compared to existing, so it will dilute our overall margins, and secondly, relating to your segments you said exports and OEM particularly, but if you can also elaborate on few others, how do you think in next couple of years they are expected to perform or which sector can drive overall volumes?

**Ashok Gupta**

Let me just take care of the first part. The new DFT technology is a better technology than the existing ones. There is lot of flexibility. It produces a weight per meter, it also gives a better shape, so hopefully, our margins from this quarter should be better than what we have been getting, so as our volumes grow, our overall margins per ton should improve and it is in the range of Rs. 3,200 to 3,500 normally, so that should further improve. Now as far as the segment and sectors are concerned, I feel solar and construction but Sharad can give you better idea about what segments are expected to improve.

**Sharad Mahendra**

In the OEM, construction and infra is going to be the driver and with the new technology what we are bringing in terms of margin gives the entry into the areas and the segments where we are not present. The product range through Direct Forming Technology, no other producer in the country is having that capability to produce those products which the highest strength steel up to S355, up to 12 mm thickness, 300 x 300, so this will give us a huge opportunity in construction and infrastructure. Apart from this, as we have signed an exclusive MOU with the largest tracker movement manufacturer in the world, which is Flextronics is the company and the brand is NEXTracker, solar is going to be major because one gigawatt from present 9 to 10 gigawatts capacity, the government is planning for 100 gigawatts even if it happens 50, 1 gigawatt consumes almost 35,000 to 40,000 tons of tubular structures for which there are very, very specialized value-added product, and which we are going to supply and which is going to be an import replacement which today, it is totally import dependent. In addition to solar, is also the automobiles, basically the bus body building, is a major segment which is growing, all major bus producers whether it is TATA or whether it is Ashok Leyland and others Volvo, everyone is looking for a high quality, high strength steel wherein again DFT is going to help us, so these are basic segments where we are entering into and which is going to definitely support us.

**Varun Agarwal**

Due to GST, do you see impact more on inventory or production slowdown just before GST?

**Ashok Gupta**

It is not in our field. As I mentioned, current taxation level is around 18%, GST also it is 18%, so the taxation wise no impact at all and so far as industry and manufacturing is concerned, construction is concerned, entire GST is CENVARIABLE, so people will get a complete benefit. There is always some

disruption because of apprehension, people will be afraid, they have to be GST prepared, they have to prepare the form accordingly, billing accordingly, that disturbance may come for three-four days but for that at least we do not expect any disturbance.

**Sharad Mahendra** We have already started the communication by meeting all our key stakeholders, the customers and dealers and distributors to educate them on the GST implementation and the impact of that, that there is no impact, so we have already started that communication which will go on till May-June.

**Varun Agarwal** In H2FY17, the reason of overall volume de-growth was due to demonetization, volatility in steel prices, which segments or industry or end user led to this decline and do you think the latent demand can come back even stronger than what we have lost out on?

**Ashok Gupta** Normally, in steel pipe industry second half is stronger than the first half that has been the trend for last couple of years. Here two things happened, one was on the demand front, because of demonetization lot of steel pipes going through the household sector particularly got affected apart from the normal overall economics, so if you see even the GDP growth, consumption, construction growth slowed down, the household section and construction sector was badly affected, and second was automobile and buses, they got impacted. Another impact was, we also had the problem of Cauvery dispute in Karnataka and Tamil Nadu, two of our main plants which contribute around 40-50%, they are located on the border of Karnataka and Tamil Nadu, the dispatches stopped and also the production got affected, so that was the second thing. The dispute continued for one and half month and it had significant impact on us. These two things were there, now the things are of the past, people have forgotten demonetization and I hope Cauvery dispute will not again come so perhaps now those things are the past, one-off thing, which has gone.

**Varun Agarwal** On the steel price volatility, it impacted overall volume growth, so do you think going forward, even if there is a volatility, it should ideally be able to pass on or should not be affecting demand or do you think that plays a significant role in terms of overall volume growth?

**Ashok Gupta** Consumers do not like surprises, so February when the surprise came, which was basically by way of MIP, so that affected and because of that there were ripples, so prices were volatile, so there was a sentimental problem which was not that the latent demand went away, dried away, the demand did not dry up, but there was a sentimental problem and because of the sentiment problem, some demand got postponed which will of course rectify now. Steel prices do not normally in international market vary so much; MIP is not something which will be declared every now and then. It is declared once maybe in 10 years, so we do not expect the prices to stay so volatile as they were, even if they are volatile, if they are predictable, the international price movements are too large to some degree at least predictable, but MIP are unpredictable, so hopefully minor variation in prices do not affect. This was only effect of sentiment and going forward, yes, there could be some impact with the steel prices again are very volatile, it will not be as significant as it was because MIP is something which is a rare phenomenon.

**Varun Agarwal** On the working capital side, how is FY17 versus FY16?

**Ashok Gupta** Working capital almost is same. If you see our total loan portfolio remains both the years around Rs.600 years. We will not take more than that, in any case because we are very fast on getting debtors' payment and maintaining inventory was slightly higher, but we are controlling it. On working capital cycle, both on inventory side as



well as on the debtor side, overall picture remains almost same. There was no deterioration, slight improvement only.

**Moderator** Thank you. Our next question is from the line of Pavan Kumar from UnifiCapital. Please go ahead.

**Pavan Kumar** Can you give us the size of the East Indian market and the foray which the Raipur plant can make going forward? I understand from your presentation that you are talking about just commissioning one of the six lines, so how the ramp up is expected to be?

**Ashok Gupta** Already, one line has been commissioned and by September there are five more lines to be commissioned. They are all under different stages, so this year all the six lines will be in place. Sharad will give you some idea about the East region market which is more than 1 million ton and there are not many players here. The eastern region market is more than a million ton, 1.25 million ton. Currently, there are two-three players but not very large players, so players like Jindal are there and then two more players are there, local players, who have a capacity of around 15,000 to 20,000 tons per month and so we will have certain advantages because we will have a larger area. All players are concentrated in Kolkata, while our plant will be in Raipur, so diverse market we will be able to handle right from Chhattisgarh, Bihar, Orissa, and some part of Kolkata. Second advantage you will have is that ours will be primarily based on square section and hollow section which is not the case with the existing players. Existing players have been focusing more on black pipes and our focus will be on square and rectangle, so that is the second difference. Thirdly, the quality, we are getting the latest mills particularly from Europe and there what we are going to get is outside the realm, so we hope that it can be a good beginning for us and as you know whichever market we enter, we become the market leader in a very short time, the same thing we hope to do here also.

**Pavan Kumar** We are commissioning around 3,25,000 of capacity so what are the kind of sales volumes that we might be able to achieve in the first year, what is our expectation?

**Ashok Gupta** By the end of the year, our capacity will be around 25,000 tons per month and sales will obviously take time to pick up. Initially, it is starting from a small level of around 1,000 tons in the month of July or so, this should ramp up to about 8,000 tons to may be around 10,000 tons by year end, so for the year as a whole, we are targeting around 1 lakh tons for this year.

**Pavan Kumar** Regarding NEXTracker, the opportunity in 2022 would be around 1 million tons, but how is the ramp up there expected to be?

**Ashok Gupta** NEXTracker is for solar power plants which are coming up in the country, we need a mounting for the panel and that is what NEXTracker is all about. What happens is that they are putting a plant in a very fast way and our supply will depend on their demand, so we are expecting that they need some special equipment which are not currently available in India, so we are importing all the equipment and they should be in place by October and from October onwards they should start picking up. This year supply may be not very high, but next year onwards, regular supply starts. I cannot just give you the figure at this moment because the quantities and all those are being finalized by them, but as you rightly said, by 2020 it will be a million ton which will be quantity, so obviously the starting also will not be too small, it will be significant, but most of the supplies will start from October-November onwards.

- Pavan Kumar** About APL Coastguard, what is the market potential there and how are we expected to ramp up that side?
- Ashok Gupta** APL Coastguard is a kind of pre-galvanized pipe which is basically being used in Kerala and other coastal areas and advantage of this material is that it has a long life and beautiful finish. The demand in Kerala itself for GP pipe is around 30,000 tons per month. Currently, we were catering only 5000-6000 tons to a maximum of 9000 tons. Now this will give us two advantages. A higher market share, so currently 30-35% can go to 50-60% and secondly, the price advantage. Now people will see that the shine is better, the life is longer, the working is easier, it does not deteriorate, we expect another 2-3% margin that we may get out of the existing supply, so there are two advantages and the same formula which is being applied in Kerala, we will try to apply in all coastal areas whether it is Konkan or it is eastern coast or even in areas where there is heavy rains. For example, you have the northeastern region and as well as Himachal Pradesh and those areas which are hilly areas so in all areas we will spread APL Coastguard one by one.
- Pavan Kumar** Basically, it is a housing product or an infrastructure product or a combination of both?
- Ashok Gupta** Basically, it is a pre-galvanized pipe, which is already being produced but with a better finish and a longer life, that is why the name Coastguard. In coastal areas like Kerala, rains are heavy and people have what is known as steel sheets or aluminum sheets for roofing, below those sheets they need some kind of support and they use this Coastguard steel pipe as a support. Every house will have it, every commercial building will have it and most of the industrial buildings will have it, this is a basic purpose of this. In addition to this, people also use it for common household as well as for certain infrastructure projects.
- Pavan Kumar** Do we expect the margins to bounce back from Q4 level, would it be fair to assume that EBITDA per ton can come back to 3200, 3300 plus at some point of time?
- Ashok Gupta** Normalized volumes over a year should be that, there could be valuations from time to time depending on the market, but on an average I will say the margins will come back to Rs. 3200 to Rs. 3500 per ton level.
- Moderator** Thank you. Our next question is from the line of Pallav Agarwal from Antique Stock Broking. Please go ahead.
- Pallav Agarwal** On the current domestic HRC prices, is there a situation now where again importer prices on the landed basis would be cheaper than current domestic HRC prices?
- Ashok Gupta** Marginally yes, but in the international market have been varying significantly, so over the last two-three weeks only there has been some softening, but we are not really sure whether the softening is temporary because of some fluctuation in China or it will be long term, so I will say that HRC prices are quite stable today, they are not much of variation going on and minor variation of Rs. 500-Rs. 600, but there is no significant volatility we expect in the next couple of months.
- Pallav Agarwal** Now the Rupee is strengthening and also you said that international prices have been volatile, so how do the latest prices compare with the reference price and anti-dumping duty of \$474 or \$489 per ton, so are the domestic prices still significantly above those anti-dumping duty reference prices?
- Ashok Gupta** If you take care of all the duty which is there into anti-dumping duty and the safeguard duty, then the domestic prices are not higher, but if you take just the



international prices, definitely international prices are slightly below \$475 which is a reference price.

- Pallav Agarwal** Would that impact our trading activity to certain extent or we expect trading volumes to be at similar levels in FY18?
- Ashok Gupta** Trading volumes actually depends on the opportunity. We expect trading volumes to be steady. We will see going forward what opportunities we get, so last year we had a trading of around 600 crore and this year let us see may be it will be maintained at that level in minor variation, so we do not expect much big jump in that.
- Pallav Agarwal** Lastly is on the dividend policy, we have maintained a 20% payout policy is this something that we retain as a policy that we would be paying out about 20% levels going ahead as well?
- Ashok Gupta** Yes, for last few years, we have been working on 15-20% and we have been consistent with that. We do not intend to change it, unless and until there has been a very significant requirement of fund which we do not see likely in the near future.
- Moderator** Thank you. We will take the next question from the line of Viraj Mehta from Equirus PMS. Please go ahead.
- Viraj Mehta** With this new DFT lines that we have commissioned, which area would we be catering to and we are going to have 3 to 5% savings as you have maintained in the past, how much of it will be completely passed on to the client and would that mean that the remaining 1% or 1.5% that we retain would boost our margins, how will this entirely play out?
- Ashok Gupta** Any place where the hollow section is specifically required for that application, for example, you have automobile, you have truck, you have an agriculture implement, you have vehicle or you have the construction where the dimensions are not standard, there only DFT can supply, normal pipe mill cannot supply. Secondly, wherever weight is important, for example in a bus or in any transport system, there DFT will give an advantage. The advantage of 3 to 4% even 5% will obviously have to be shared with the customer and typically depending on the customer's need and depending on this, we expect that our margin should improve by 1% to 1.5% for the product supply from DFT technology on an average.
- Viraj Mehta** Would it be fair to assume that we will be able to maintain this year's working capital cycle going forward?
- Ashok Gupta** DFT should reduce working capital cycle, but I do not put too much weightage on that, so currently our working capital cycle is around 58 to 60 days, so that will be maintained. Normally, you will be observing for last couple of years, we have been maintaining around two months plus minus few days that will be maintained. DFT by its very nature tends to reduce the inventory particularly of finished goods, but we are not assuming that because of our service level should improve, so at least it will be maintained.
- Viraj Mehta** The only reason I was asking is this is our inventory in spite of growth in sales YOY has come down significantly around Rs. 130 crore and our payables have gone up by Rs. 70 crore, so is this kind of maintainable or would we revert back to FY16 numbers?

**Ashok Gupta**

If you see total inventory number of days which is important stays around 60 plus 5 days here and there, there has been a trend for last couple of years. Sometime that will go up four-five days, sometime the inventory will go up four-five days that depend on opportunities, inventory total working capital being available being limited, so there are times when we are expecting the prices to go up and we must likely increase our raw material inventory and when the times we are expecting prices to slightly go down, we do not have much of a leeway, but it leaves finished goods inventory by a day or two. If you see on an average, last five-six years, inventory has remained around 25 to 35-40 days' levels. Our debtor days have remained between 20 to 30 days. The same trend will continue.

**Viraj Mehta**

Due to GST in a lot of other segments, we are seeing that the channel is destocking their inventory and the off-take from the OEM has reduced significantly, especially in May and June is expected to be worse. In our case, because the change in taxation will not be very high on either side, do we see any effect on that in the short term?

**Ashok Gupta**

Apprehension in our sector is not because of change in rate as you rightly said, but it is only procedural. People are scared that some of the tax benefit may not be allowed, there could be procedure problem, some particular aspect may be overlooked, so they want to be taking precautions, but since in our case as it is most of our distributors they work on kind of low level of their inventories, I do not expect any big reduction in our sales, maybe small reduction is possible, 3%, 4%, 5%, which I cannot say because it depends on what kind of clarity is brought in the procedure, so rate wise and convertible wise there is no problems, but procedure wise people can have some apprehension, that can have some impact in the month of June. Till now in the month of April and May, we have not seen any significant impact.

**Moderator**

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

**RomilJain**

On the product mix, the expansion which will take your capacity to 2 million tons, post that what kind of product mix you are going to have, is it going to be very different versus current?

**Ashok Gupta**

There are two changes which are going to happen. One is we are going to increase our capacity of GI pipes which is very good margin product, so currently we are working around 10,000 ton, hopefully it will become 16,000-17000 ton percentage obviously going up, and secondly, our focus is going to be on hollow section, that is, rectangle and square where DFT technology will play very important and smart role, so going forward the percentage of round black pipe which is a low margin product, should go down further and percentage of galvanized pipe which has better margin and DFT should go up, so the changes basically will be percentage wise, GI/GP should remain same or slightly improved, hollow section should slightly improve, black round pipe will slightly reduce.

**RomilJain**

Just to clarify this capacity of 2 million ton will come by FY18 end or FY19 end?

**Ashok Gupta**

Plan is to finish it by March 18, as you know sometimes there are some overruns which we cannot predict at this moment, but planning is by March-April.

**RomilJain**

One more clarification, in terms of your end-user industry, so I understand that it is huge in metro, housing projects, structural, auto, airport, so I just wanted to have a very brief understanding of which would be the highest category in your end in terms of industry volumes, if you can just give that information?

- Ashok Gupta** If you observe the maximum consumption is from construction and household sector which include infrastructure, so if you go very specific, solar is going to be an important player because mountings are increasing day by day and as household income increases, so more and more households are likely to use it, so these two sectors are important sectors and are growing. Then the third is the metros, air force, there is lot of expansion expected in metros and airports. In pipe and particularly in hollow section, one product has so many categories, that one cannot pinpoint something which is of large share.
- RomilJain** Are we talking about 20% volume growth going forward maybe one-two years down the line?
- Ashok Gupta** If I keep aside FY17 for the moment, it has been going 20-25% in the last seven-eight years, now that has been our target all through and this year also our target will be that we should be achieving that 20% plus growth in FY18 and going forward as well.
- RomilJain** Your HRC contracts pricing is done monthly, how is that done?
- Ashok Gupta** The normal system in the industry is that people enter into MOU with large suppliers like JSW Bhushan and SAIL, and we also follow the same system. Within that MOU, the quantities are to a large degree already decided; only some minor variations, the prices are decided from month to month.
- Moderator** Thank you. Our next question is from the line of AshutoshGarud from Reliance Wealth. Please go ahead.
- AshutoshGarud** Five-six years back you had mentioned about how you want to go from a market share of 7% to 14% and now that GST is almost getting implemented, so has the addressable market share for you guys increased significantly and what would be that number?
- Ashok Gupta** Currently, we should be at a market share of around 12-13% and we are planning to increase it gradually. With the 2 million ton capacity, it should cross 20% it has to come, it will take some time, two-three years it should happen.
- AshutoshGarud** On the margin front, what kind of margins are you looking at because we have inched higher from say 4 to 4.5% to around 7.2% right now on a yearly basis, so what kind of margins do you see for yourself for next couple of years now?
- Deepak Goyal** Normally, we used to talk about percentage then we saw that steel prices they change so much that percentage can go haywire, because denominator changes itself so fast, so we have started talking more in terms of the steel prices rises as pass through more in terms of Rupees per ton, so Rupees per ton if we observe has been hovering around Rs. 3200, 3500 over the past four-five years, it has been improving from Rs. 2500 to Rs. 3200, 3300. Going forward, our target is to increase it to Rs. 3500 even plus maybe it may take a year or so because branding is coming up, DFT technology is coming up, our Raipur plant is coming up, all this are positive improvement for the margins, so I should say that the EBITDA margin may improve from Rs. 3200, 3300 to 3500 plus in over a year.
- AshutoshGarud** Low or not so very high margins is the kind of an entry barrier for any kind of a competition because it is not very difficult to get into the kind of products that we are into, yes, we do quite a lot of branding as compared to some of the other companies, but still on a product manufacturing front, it is not a very differentiated product per se, so would you be cautious of increasing the margins at a very steep

kind of a rise in your margins, would that be because that is something which we used to discuss five-six years back?

**Ashok Gupta**

Moderate margins are definitely entry barrier and it is not a question of whether we try to increase it or not, the important aspect is that what is our strategy and our strategy is to reach each and every home in the country, each and every district. With that target, we are increasing our volumes and when you are increasing your volumes, the primary goal becomes to improve your service and not only your margins. In relation to the lower or moderate margins, the second important aspect is our name and reliability. People trust Apollo name, people trust the brand and the product which we supply, now that is a big entry barrier. It is difficult to create the mind of, this is one product which is not consumed by few, it is not something which a dozen people or 100 people will consume, this is taken by hundreds and thousands and may be lakhs and may be millions of people, so those people to reach them and to create the trust and create the familiarity, create comfort takes time, that is the bigger entry barrier than only the moderate margins. Now, we are going for a communication exercise, value exercise, which will see people increasing their trust in us, which will make the barrier even bigger.

**AshutoshGarud**

Would it be safe to assume that we will not be increasing the margins purely from a branding perspective, but increase in the margins would be purely a function of efficiency internally which we create?

**Ashok Gupta**

You are right, it will be efficiency as well as when we bring in DFT, there will be saving to the consumer, so the margin will improve and you see always as a complete performance improves, the cost goes down and the margin improves.

**AshutoshGarud**

Just on this quarterly results when you were mentioning that all the increase in the prices is passed through, but on the margin front, we have not seen this or especially on the EBITDA, so any particular reason or we are very confident that Q1 would be far, far better on the margin?

**Ashok Gupta**

If you again observe EBITDA margin only of manufacturing, the EBITDA will be of the order of 7.5 to 8%. It has not gone down; it is almost the same level.

**Moderator**

Thank you. Our next question is from the line of Sanjay Dham from Old Bridge Capital. Please go ahead.

**Sanjay Dham**

The product mix that we see for hollow sections, black round, GP and GI, if you could give us a sense of where the 20% volume growth you see coming in FY18?

**Ashok Gupta**

Our flagship product traditionally has been, our hollow section, so DFT is a place where we have increased our capacity, so obviously the growth will come primarily from DFT as well as from hollow sections, and second area is our GP pipes, the pre-galvanized pipes. There, our sales are still lower than what our capacity utilization, so we have a scope there to increase our volumes. In GP sector also which is the order of around 15,000 tons per month we hope to take it to around 18,000-20,000 tons, so these are the two areas from where volumes growth will be more.

**Sanjay Dham**

Do you say that the restructuring bring in about a change in the product mix by reduction in black round pipes, , so 22% YOY drop that we saw for the full year, would that be by and large over?

- Ashok Gupta** Yes, of course, this will not be significant reduction in volume of black round, but because the volume of the other products will increase significantly, so as a percentage, black rounds may go down.
- Sanjay Dham** How will the 20% growth come about?
- Ashok Gupta** I will tell you how it will come about. This Q3 and Q4 were kind of a surprise for most of us including us from both the angles of demonetization as well as the Cauvery dispute, they affected us badly. You remember when the sentiment is hit bad, an item which is widely consumed gets also affected significantly, those things are the thing of the past now and GST is coming around. GST will of course give a big push and our capacities are in place, so what we now need is only a sales push or a marketing push and acceptance by the consumers and because capacities are in place and all other things are in place so we expect that volume is of square and rectangle, hollow sections where we have got significant capacity, rounds where we have reduced our sales last year and GP where we have scope. All three will increase. 20% growth we have been achieving for the last eight-nine years, if you leave aside H2FY17. If you see last 10 years, then CAGR is 20% plus.
- Sharad Mahendra** With Raipur commissioning, we are entering into a new market which is the eastern part of country where our business has been almost nil, so this is also going to give us incremental volume from a zero base which will definitely support us in achieving this 20% growth.
- Sanjay Dham** When I look at this four segments, so on an average you spoke about a certain level of Rs. 3200, Rs. 3100 per ton of EBITDA, so would hollow sections be significantly above it?
- Ashok Gupta** Hollow section EBITDA if you see, it constitutes a very big part of the total sales. If you see it is almost 50%, so hollow section EBITDA also is of the range of Rs. 3200-3400 or so only, it is almost similar.
- Sanjay Dham** That would be true of the GP also?
- Ashok Gupta** GP is more, the GP EBITDA should be in the order of Rs. 5000 plus/minus 200-300.
- Sanjay Dham** If I look at the way your gross blocks has panned out or your balance sheet has panned out, so by and large FY18 would be the year when most of your capex would get over, so would you say that by FY20, the kind of peak asset turnover or return ratios that we have seen the company do, we can achieve that levels by FY2020?
- Ashok Gupta** Yes, whatever capacity expansion we had taken earlier it all fructified and FY16 we were almost at a level where we did not have additional capacities, so we had to take up a large program of increasing our capacities from around 1 million ton or so to around 2 million tons, that entire program will be over this year, so our capacity will be in place, now the question of utilization will start, and that will also give us a legroom whereby we will not need any significant capacity addition in the FY19, FY20, so obviously our ratios will improve by significantly in these two years.
- Sanjay Dham** Do you stand by your stance of becoming debt free before that or by around FY2020?
- Ashok Gupta** With the way debt is going now, we are almost maintaining it at Rs. 600 crore and even after spending so much money on the projects, I will not know that, but all the

debt today we have is mostly working capital, so it maybe lower depending on the volumes, it may become very insignificant amount or small amount, and so far as capacity is concerned, this 2 million which is coming up this year definitely our sales in 2020 should be more than 2 million, it will be anywhere between 2 to 2.5 million depending on how the demand really works out.

- Moderator** Thank you. Our next question is from the line of Ankit Gor from Systematix Shares & Stocks. Please go ahead.
- Ankit Gor** With regard to expansion of capacity from 1.3 to 2 million ton, how much have we already spent on this?
- Ashok Gupta** In FY17, we would have spent anywhere between Rs. 160-170 crore even though the entire thing has not been capitalized, but the cash flow was there and this year cash outgo on completing all of that including the final payment and commissioning and installing and all that so these are the order of around Rs.100 crore, another Rs. 250 to 300 crore is the total spend on this capacity.
- Ankit Gor** tThe Raipur facility will have five lines, right?
- Ashok Gupta** Finally we should have six lines, so one is already commissioned and may be five will be in progress.
- Ankit Gor** Allof these lines will be of DFT?
- Ashok Gupta** At least three are DFT and three are regular lines.
- Ankit Gor** How much have we spenton Raipur?
- Ashok Gupta** Total final amount after all the lines are commissioned should be in the order of Rs. 120 to maybe 130 or 135 crore depending on final figures.
- Ankit Gor** In FY17, how much did we spend on Raipur?
- Ashok Gupta** I think half of that is already spent and balance half will be completed at this time.
- Ankit Gor** How much HRC did we buy in tonnage wise in FY17, how much we consumed internally in which we did trading?
- Ashok Gupta** Normally, the consumption of HRC is around 5-6% more than our sales, so our sales were around 0.9 million tons, so we would have purchased close to a million tons of HRC last year consumed and trading is concerned, I think trading would have been in the order of 1.5 to 1.7 lakh tons.
- Ankit Gor** Any plans to venture into API pipes, so do we have any product portfolio on API front or how big is the market and if you can give some traction on that part?
- Ashok Gupta** As you are aware, API is used mainly in Oil and Gas sector, so we have examined this position, already there are six-seven players in India who are producing API pipes and not all of them are fully utilizing the capacities and Oil and Gas sector for past few years has not been in a very pink of their health. They have been having problems. The solar energy coming, we really do not know, so at the moment we have not finalized any plan to enter into API.



- Moderator** Thank you. Our next question is from the line of ShrinathMithanthaya from MotilalOswal Asset Management. Please go ahead.
- ShrinathM** Can you confirm that sundry creditors figure as of March 2017 is Rs. 370 crore?
- Deepak Goyal** In March 2017, it is Rs. 95 crore, sundry creditors is at Rs. 370 crore.
- ShrinathM** This is a significant jump from Rs. 254 crore in the previous year?
- Deepak Goyal** We have some barricades in that also and some domestic creditors.
- ShrinathM** In the number of days, it has shot up from about 24 days previous year and again in the previous 7-8 years, it has been around 20 days. We buy HRC from stronger players, so they may be demanding money much more quicker than we demand from our customers, but this time in FY17 at least the number of days has increased significantly, so any reason or is this one off or something like that?
- Ashok Gupta** You see there are two ways of looking at it, number of days wise, what is important is what is the inventory number of days because creditors are basically because what you are purchased and still have an inventory...
- ShrinathM** The inventory days have gone down?
- Ashok Gupta** Yes, that is what is important.
- ShrinathM** Have the creditors gone up?
- Ashok Gupta** Our debtor days have slightly gone up, so debtor days have gone up from 17 to 21, that is written in to our working capital and that working capital has been partly, and second aspect which has taken place is increase in the prices, so overall prices if you see, during the year corresponding to last year, there has been an increase. That increase again increases your working capital requirement and how do you fund your working capital requirement either by taking cash from the bank or through creditors. If you see the cash taken from banks has not changed, so the only section alternative is creditors, so the increase in creditors to the extent of around Rs. 115 crore has taken place primarily by way of creditors and that Rs. 115 crore is for two reasons - because of increase in the debtor which is only three-four days maybe four days, and secondly, it was because of the increase in the prices, so the price increase if you see that is more than Rs. 115 crore.
- ShrinathM** On the branding exercise which you plan to undertake in a big way in FY18, any budget that we have set aside and will it have an impact on margins?
- Ashok Gupta** This is the first year when we will be taking the budgeting, branding exercise, mostly at this time will be initially very low, but going forward may be in next two-three years the spend can vary as much as Rs. 22 to 25 crore per annum. This all will depend on where you have to spend, we like to make it very effective and with a high ROI, the plans are still being worked out because the agencies which have been given this task of working out a branding plan for us, they are working on it and by July only we will be having a rollout, so by July we will be firm about our budget, depending on their advice and we will know exactly how much you are going to spend, but on average we intend to spend Rs. 20 to 25 crore per annum.
- ShrinathM** It is not that material when it comes to margin?

- Ashok Gupta** Yes, if you see a turnover of around Rs. 4,000 crore, Rs. 20-25 crore you can understand.
- Moderator** Our next question is from the line of ChintanSheth from Samiksha Capital. Please go ahead.
- ChintanSheth** On the production of 2.5 million by 2020, so from the nameplate capacity, we can produce significantly more than the current capacity so basically from 2 million ton, we can produce 2.5 million ton, is that understanding correct?
- Ashok Gupta** Our capacity by FY18, that is, by March 2018 all the plants and projected amount time should be around 2 million tons, that is the maximum we can achieve. When we want to go to 2.5 million tons, we will need to put additional facilities, we cannot do more than that. In this period, that is why I mentioned that by 2020 our sales should be above 2 million tons approaching 2.5 million tons, but I cannot say anything at this moment because that will depend on how time works out, how we increase our sales and what additional capacities we bring. Normally a plant for this pipe does not take more than one year to come up, so we are still working on it, we are still working on 2.5 million tons, the goal remains. 2 million we have it planned because the capacity is already there, for 2 to 2.5 million tons the path is yet to be charted. We are yet to plan out our path from 2 to 2.5 million tons, going forward perhaps by the end of March 18, that path also will be finalized.
- ChintanSheth** That can get deferred by one or two years depending on the absorption of the existing incremental capacity?
- Ashok Gupta** It all depends. We will be able to finalize our path from 2 to 2.5 million tons by end of this year. It is our mission that we should reach 2.5 million tons by 2020 but how exactly to do it, we have made a path of 2 million that is clear, the path from 2 to 2.5 million tons will take another few months to finalize.
- ChintanSheth** On the debt repayment, we do have Rs. 100 crore of LT debt on books and you are planning to reduce it or bringing close to nil debt going forward, so any debt repayment plans we have for the next year and for FY19?
- Ashok Gupta** We look at it from a total debt part of it, small parts can change from here to there. Now, this year we have to spend Rs. 100 crore on our new project, so the cash which we left for repayment will be limited, next year it will be more, so going forward as I mentioned earlier, we intend to reduce total debt gradually which is dependent on which will give us a better interest and rates, but slowly and steadily we should be reducing our debt in the years to come.
- ChintanSheth** Our Total debt is around Rs. 600 crore, right now?
- Ashok Gupta** Correct.
- ChintanSheth** May be FY18 would be a lesser number and FY19 repayment will be much higher?
- Ashok Gupta** Yes, 18 we do not expect much of the figures to change much but FY19 - FY20, yes there will be repayment.
- Moderator** Our next question is from the line of Sudarshan Mall from Dhunseri Investment. Please go ahead.
- Sudarshan Mall** We have stated that our EBITDA per ton can move up to Rs. 4,000 levels, so are we on that chart and what will be the way to achieve this?

- Ashok Gupta** We are working significantly on that, couple of things we have talked about is plant in eastern region, branding, communications, and DFT technology, some new products, some new segments, solar energy all those are steps in that direction, so slowly and steadily we should be working towards that and first it will reach Rs. 3,500 and then gradually inch up. DFT should give us 0.5% better margin, even more than that, 2.5% also, however, this path may take some time. It will not happen very shortly, it may take a year may be a year-and-a-half also, but yes we are working towards that. We are achieving some results also, but actually like branding and all that takes time, so it may take some time before we achieve that Rs. 4,000 figure.
- Sudarshan Mall** Will it be sales, if we assume that our 2 million ton capacity will be increased by FY18 and then by FY20, we will be having our best utilization rates, so around 2020 or we can achieve Rs. 4,000 number?
- Ashok Gupta** Within 2 million ton, we should be achieving, two years is a good enough time for us to achieve all our goals, so our goals has remained that we should achieve this Rs. 4,000 figure by 2020.
- Moderator** Our next question is from the line of Pavan Kumar from Unifi Capital. Please go ahead.
- Pavan Kumar** Can you just give us the tax rate which we should expect going forward in FY18 because it has been very volatile if you compare this quarter tax rate as against last quarter?
- Ashok Gupta** To the best of my knowledge, we should be at 33%. Under the new regime, there have been certain changes in the depreciation rates and all that.
- Deepak Goyal** This year we got investment allowance benefit under the income tax and in all the companies we have the additional depreciation because of the new capex, that is why we are paying the tax under that, which is why the impact in the four quarter is significant. In the next quarters it will be in the range of 25% to 30%.
- Pavan Kumar** Next two quarters, it will be 25 to 30%?
- Deepak Goyal** Yes.
- Pavan Kumar** From then on it should be 30% right?
- Deepak Goyal** Yes.
- Moderator** Thank you. Ladies and Gentlemen, that was our last question. I now hand the floor back to the management for closing comments. Over to you, Sir.
- Ashok Gupta** Thank you my dear friends, it has been a real pleasure to talk to you and a lot of enlightenment for me also, lot of good ideas you have given us and let me just assure you that the Company is in good hands and good path and with Sanjayji's, our Chairman's leadership, we will achieve our ultimate goal of 2020 which we have promised to you. Thank you once again so much.
- Moderator** Thank you members of the management. Ladies and Gentlemen, on behalf of APLApollo Tubes Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.



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