APL Apollo Tubes Limited

Q4 & FY18 Results Conference Call Transcript
May 29, 2018

Moderator Good day ladies and gentlemen and welcome to the Earnings Conference Call of APL Apollo Tubes Limited. 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 evening everyone and thank you for joining us on APL Apollo Tubes Limited's Q4 & FY2018 Results Conference Call. We have with us Mr. Ashok Gupta - Managing Director and Mr. Deepak Goyal - CFO of the company. We will begin the call with brief opening remarks from the management, following which we will have the forum open for an interactive question and answer session.

Before we begin, I would like to point out that some statements made in this call may be forward-looking and a disclaimer to this effect has been included in the earnings presentation shared with you earlier. Now, I would like to invite Mr. Ashok Gupta to make his opening remarks.

Ashok Gupta Good evening friends, my pleasure to welcome you to this conference call, it has been a mixed year for us. My colleague Deepak will give you a brief on the financial highlights and then I will give you some parameters on operations.

Deepak Goyal Good evening everyone. I will briefly cover the financial performance of Q4 as well as FY 18. Total net revenue during the quarter stood at Rs.1,519 crore registering a healthy improvement of 40% year-on-year in FY 18. Net revenue stood at Rs. 5,335 crore, up by 36% growth year-on-year. Our sales volume increased by 28% to 3 lakh ton in Q4 FY 18 and in FY 18 volumes stood at 11.3 lakh tonnes, higher by 21%. Healthy pick up in the domestic consumption trend especially in the latter half of the year supported volume performance during the period under review. The growth was also driven by increase in contribution from the hollow section by the commissioning of the new DFT line during the year.

With regard to our profitability, EBITDA in Q4 FY 18 came in higher by 20% at Rs. 103 crore, whereas the EBITDA in FY 18 was at Rs. 371 crore, up by 11% year on year. EBITDA per tonne during Q4 FY18 stood at Rs. 3,411 as against Rs.3,659 in the corresponding quarter last year. The EBITDA per ton during the quarter and year stood at Rs. 3,411 and Rs. 3,283 per ton. This is well within the range especially given our primary focus on the doing, higher volume growth. Also last year in Q4 FY 17 EBITDA was restated according to the new accounting standards of IndAS. Hence, the YoY comparison that you see in Q4 & FY18 reflects this one-time adjustment, which was primarily related to the IndAS migration. Adjusted for the same, our EBITDA growth is stronger

Interest costs during the quarter was higher by 46% year-on-year to Rs. 23 crore while the interest cost in FY 18 stood at Rs. 81 crore higher by 13% only. The Company has undertaken greater proportion of raw material import in FY 18 due to the soft raw material price in the overseas market. This in turn led to the inventory buildup, resulting in increased outgo. However, interest cost as a percentage of sales reduced to 1.5% as compared to 1.8% in FY17. In addition, I would like to highlight here that our gross working capital cycle of the debtor where remained within 60 days and 25 days, respectively.

PBT in Q4 stood at Rs. 67 crore, higher by 19% year-on-year and during FY 18 registered a growth of 13% to Rs. 245 crore. Our tax expense during the quarter stood at Rs. 22 crore against Rs. 6 crore in Q4 FY 17. While in FY 18, it was higher by 32% to Rs. 84 crore. In FY 17 the income tax expenses for us was lower as the company had received the investment along benefit under the income tax. However, this has normalized now and our effective tax rate in FY 18 stood at 34% as against 29% in FY 17.

With this I would now request to Mr. Ashok to give the performance highlights.

Ashok Gupta Thank you Deepak. I am happy to share with all my friends that this was a year when there was lot of volatility in the market. Steel prices were going up and down; there were lot of changes in the GST rules, regulations, stability issues. Nevertheless, the economy was doing well and so has the steel demand and within steel, the steel pipe demand. So the good news is that demand is growing, demand for steel pipe; ERW pipe is continuously growing at around 7-8%. GST is also helping us a bit if you observe most of the large players, their growth of consumption or sales have been more than 7%-8%. It basically means they are taking shares from the unorganized segment who are facing the heat because of GST, that is a positive for us. Having said that, there have been certain headwinds on the export front with USA banning the import of pipes or steel from India or putting a stiff anti-dumping duty and Europe also threatening to take up some measures, even though they have not taken any measures till now there were certain headwinds. But all in all, it didn't affect us much because the price in the US increased significantly.

As you know Apollo has created a space for itself in the market, being the largest producer, particularly in 2 markets; one for the support system by way of sections and secondly for GP pipes. I think we have the largest market share, which is more than 20% and we have certain definitive advantage in that sector. The other segment, which is the water supply segment, which is basically, G I pipes and Black pipes I think there is a lot of distance to be covered so we will be taking up some measures this year and should be doing something different in this year to enter into that segment. The main players in the water supply segment are Surya, Jindal and Tata, our presence is limited. So that is one segment, which is open for our efforts.

We all know that Apollo has implemented the DFT technology, out of 8 lines we had ordered for, 6 have been commissioned, but these are smaller lines only one of them is larger, 2 large lines which are basically of 8 inches size they are under solution. So by next quarter both will be commissioned. So with that our DFT installation, commissioning will be over by Q3 or Q4 we should be in the market with full range. Next year, you should be seeing the margins coming from the DFT lines. Let me not give you a big hope, there will be some improvement in the EBITDA margins, but it will not be a drastic change. Currently our EBITDA on an average of around Rs. 3,300 per tonne, there will be a marginal improvement. We are targeting anywhere Rs. 3,500 plus but that will take another 8-9 months to start giving us results.

With these few words, I shall rest my comments and request you to please ask your questions so that I can reply to individual questions in detail. Thank you.

Moderator Thank you very much. The first question is from the line of Suvarna Joshi from Axis Securities. Please go ahead.

Suvarna Joshi Sir I have 3 questions. One was on the base effect impact. I think in Q4 of last year we had a lower base and on the back of that. I believe we have also shown a 28% growth in volume this time around. So could you just help us quantify how much has the base effect contributed to this kind of a volume growth? That is my first question.

My second question also, if you could just throw some more light on why have our EBITDA per tonne based margins declined? We understand that volumes were our focus, but if you could just help us understand if there was some impact of raw materials, which we had to probably take on our books. So that is the second question.

My third question is what has been our overall utilization and if you could just help us understand the product wise utilization rates? So these are my 3 questions.

Ashok Gupta So far as the base effect is concerned, definitely as the volumes go up, the percentages look lower, we have been despite the increase in volumes trying to grow at 20% plus. I think that is what we had maintained in the last year also, and if you see the growth figure of 28%, so quarter on quarter, there were minor variations which are happening, so because of that, you are seeing good growth in Q4 also, because in first two quarters we were having slight challenges so we have tried to cover up these challenges in the last quarter, that is why we are saying that we had did some more efforts in the last quarter and our growth was better.

As regards EBITDA per tonne, I think in all my conference calls I have been mentioning that our EBITDA per tonne hovers around Rs. 3,300 per tonne. So if we see last 8 quarters, there have been only 2 or 3 occasions when our EBITDA per tonne was either above Rs. 3,500 or below Rs. 3,100, typically it would be Rs. 3,300. It is almost consistent so if we see even this year all the 4 quarters the EBITDA was in between Rs. 3300, +/- Rs. 200. So I think EBITDA will remain almost in that range till we are able to fully make use of our facilities of DFT. And also, one factor which happened against us this year was 2 of our Galvanizing lines, so they got affected because we had to take a significant capital improvement and our capital working in the 2 GI lines. And as you know, GI gives us a higher EBITDA margins so because of that volumes of GI has fallen down, which obviously impacted the overall EBITDA.

Regarding the product wise utilization is concerned, we have 4 products; GI, GI because of the 2 lines being shut down, our utilization level continues to be around 75%-80%. But with these 2 lines coming up which should happen by next month I think the volumes will also improve and our utilization also should be better. Pre-galvanized we are almost at around 90% and overall utilization if you see, so these facilities have been coming up by different parts of the time. So if I see currently my capacity would be of the order of around 1.5-1.6 million tonnes, it should be around 70% or so.

Suvarna Joshi So sir you are saying that on an overall basis we are at 70% utilization and that Hollow Section been running at higher utilization level?

Ashok Gupta Our capacities are interchangeable. So same facility, we can use either for making rounds or for making hollow sections. So when I say utilization I say combined.

Yes, our growth in Hollow section is higher so let me give you a slight background to this, the competitors in rounds which is galvanized rounds and black rounds are primarily Tata, Jindal and Surya Roshni. These players have been operating in the market for the last perhaps 25-30 years, where we are comparatively between 15-18 years only. In sections and the GP pipes, we have an advantage because we started it sometime 15 years back and these people joined later. So we have a better market acceptance we have a better brand name in both these products. That is why; a) we have not only very high market share in these 2 markets our growth also has been persistently higher. If I see only last year, in Hollow sections I have grown by around 29% and pre-galvanized by 28% against the overall growth of 21%. So these are our strong points and we will continue to grow faster than this. In the current year that is 2018-19. We are now trying to focus ourselves on the rounds and GI pipes, our GI capacity having come back. So we feel that in the water supply front also, we will be making an entry. So with these 2, so basically Hollow section we are very strong, so growth continues to be stronger.

Suvarna Joshi Sir, and if you could just share the distributor number as of close of FY 18?

Ashok Gupta So typically, we have totally dealers, distributors, because it is an internal mixing thing, dealers are smaller and distributors are larger. So we will be around 600 plus, that means 610-620 overall number. This year we are slightly against shifting our strategy. We are trying to increase our number further so hopefully why the end of the year we should be 650 plus.

Suvarna Joshi So, on the total number you are saying 650 plus?

Ashok Gupta Yes, this year

Moderator Thank you. The next question is from the line of Ankit Merchant from SMC Global Securities. Please go ahead.

Ankit Merchant Sir again few questions on the EBITDA front and the EBITDA tonne front basically. So you have been targeting around Rs. 4,000 per tonne, so what is the strategy becuse right now over last 1 year we have seen that our EBITDA per tonne has actually tapered out.

Ashok Gupta See EBITDA per tonne has been hovering around Rs. 3,300 per tonne for last 2 years now and one of the major reasons for this is that our category where we operate, basically Hollow sections and rounds and GP as well as GI, they are in a very stable, matured market. So unless and until we do something differently, EBITDA will remain in this range. All of our competitors also having EBITDA, which are primarily may be in this range or slightly lower than this. So what do we do? So 2 years back when we recognized that we need to do something for the EBITDA, we took certain decisions. One of the decisions we took was to incorporate DFT technologies. Now DFT technology gives people customized material in place of standard material. This process of installing the DFT equipment has taken almost 2 years. We ordered it I think 1.5-2 years back, the manufacturers took more than 1.5 years to produce it, send it to us and now we are on the final; we already installed 6. There are 2 more in the final stages. After we have got the entire range, now the time will start to change the consumer preference from standard sizes to customized sizes. This may take another year to begin with, so by next year we will see some improvements happening in the EBITDA margin per tonne. This growth will be slow, but once it picks up then it will be long-term because people will have very limited choice but to, because once they get used to customized sizes then it is very difficult for them to go back to standard sizes. And that is from where the EBITDA growth will really come. So I think only by next year, you will be seeing

EBITDA really improving to the level of Rs. 4,000 per tonne which you are talking about. I don't think in this year we will be seeing much of an improvement.

Ankit Merchant But sir, would it be safe to consider that Rs. 3,200 and it will be between Rs. 3,200 and Rs. 3,400 for this whole year, FY 19?

Ashok Gupta It will not be less than that in any case, so it will be only more. I can't say at this moment, what it will be but it won't be less than this.

Ankit Merchant Sir one more question, I had related to the competition because what we have been seeing is there are a lot of few players right now who have been expanding their capacity not basically DFT but they are getting into GI and GP and some into black rounds pipes as well. So suppose, for example, there is Rama Steel and HiTech as well which has been expanding their capacities very aggressively and they have been dominating the market on a state wise not on the pan India front but on the state wise. So how is it impacting you and what difference are you planning to tackle them?

Ashok Gupta So competition in a product like pipes is always there and will continue to be there and I think we have learned to live with it. We have our own strategies which are being only sharpened from day to day and we have survived them and we have learned from them. So this year we are taking some measures which are different from what we have been doing earlier apart from DFT, apart from technology, apart from distribution which we all are aware, we have been talking for the past few years. I think this year we will see our close connect with our customer, with our consumer. That is one thing we are working significantly on. So that should give us better results. So our consumer connect is increasing. Besides that, we are also in the stage of improving our services significantly. So because of that, see today Apollo has become the reference. Anybody who wants to sell their material they sell it, in reference to Apollo, whether the quality is better or worse than Apollo, whether price is better or worse than Apollo, service is better or worse. So we have become a kind of reference, both because of volume and because of our services. We will continue to improve even the people you are mentioning about they try to follow what we do, so that is fine. So I think the steps we have been taking by way of technology, by way of service, by way of consumer connect they all will be giving us a first mover advantage. So we will be able to handle competition by taking this measure that we have been doing in the past, we will be doing this year, we will be doing next year and the results of the previous quarter are a testimony to that our working in the current quarter, also bears it out. So I think we will be able to handle them and despite, and let me give you an idea if you really see there has not been too much of a capacity expansion. Your capacity expansion of 1 or 2 lakh tonnes or 3 lakh tonnes in a market which is of around 70-75 lakh tonnes is very minimal. So others are not really expanding so much as we have been doing.

Ankit Merchant And just few questions, on the geography front which geography is the best performing for you right now?

Ashok Gupta See this is one question that I should not be answering. Every time we answer this question, we say South is good, West is good. So all our competitors are going to the south or west now.

Ankit Merchant On this front, on DFT right now, 6 lines now, are they operational so would it be safe to assume that from Q1 of FY 19 we should see some positive impact on your volumes?

Ashok Gupta Okay DFT 6 lines are operational, 2 more will become operational by next quarter. So real, full range of DFT will be available only from Q3 or maybe from September onwards. This having been happened, now I can go to the market and start convincing people to customize their requirements, the process may take 6-8 months. So some benefits may come in this year, but that will be very limited, next year that is from April 2019 onwards, I should say significant room because that will give me around 7-8 months of time where I could have worked with the consumers. That is something which will give me lot of ammunition from April 2019 onwards.

Ankit Merchant So basically when you talk about this customization front so which particular industries do you wish to target through or you wish to target?

Ashok Gupta See there are a large number of industries which is already happening that is the solar they are making mountings, the mountings are being made from standard pipes now we are talking to them to make it from non- standard pipes, vehicles, auto mobiles, trucks, trailers, we are talking to each one of them. The process has just started, so interaction has just started. This gym equipment, we are now targeting gym equipment manufacturers telling them why are you making out of standard sizes I will give you non-standard size. So there are large numbers of people who are using pipes in one shape or the other and when they see that I can make it especially for them with those properties they tend to prefer it. Some places conversion has happened, some people have changed to non-standard sizes including one or two examples that I can give you is this transformer heat exchanger, so that industry was using standard pipes now they have gone for slightly customized sizes. But these are just early shoots not really significant in terms of volume, but only giving a direction. It will need at least a year of concerted efforts for us to really change the environment.

Ankit Merchant Sure and the solar traction, how is it, I mean in the last few quarters or last few months have you seen some traction from the solar?

Ashok Gupta: Yes, we have entered into a new segment where we have to go really big now I think we will have to set up a separate facility for it. So we are making this, what is known as trackers for the solar mountings at our southern region facility. The world's largest solar mounting or solar plants manufacturer are which is NEXTracker so has been a regular buyer from us, we are giving in small volumes to them now we will have to increase our volumes, So our experience with NEXTracker has been good and there are couple of more people who are on the lines of NEXTracker making the same kind of solar mountings. With this good experience now, we will expand in them as well. So I think so far as solar mountings are concerned, we should become a global player in the next 2 years that is one area of focus. So I think NEXTracker solar mounting has been a successful operation for us.

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

Varun Agarwal Just wanted to understand the new segment you said, like automotive bus body making, you also mentioned water pipes is an opportunity, solar also you recently mentioned in this previous participant in the call. So how are the new segments overall doing and how is the traction looking from those segments?

Ashok Gupta So as you know, around 90% of our sales take place through distributors. So we tried to create these segments and then it is followed. The response is good from auto mobiles as well as from the solar, but the volumes are still low. So just a beginning has been made for example, in the solar area we are just supplying I think around 4,000-5,000 tonnes a year. In the water supply our volumes are still low, but the market is very big, we are not a very major player in that segment. So opportunities are good and only early shoots are visible today. But as after 2-3 quarters we could see some significant results. Currently, our volumes are limited.

Varun Agarwal Okay, so a couple of questions on your overall debt. The debt has gone up around Rs. 100 crore I think this year on year comparison, and your working capital cycle has also increased. So if you can just elaborate on that how will it move going forward for FY 19?

Ashok Gupta So the debt has gone up, total debt has gone up I think from Rs 600-Rs.773 crore, which is around Rs. 173 crore higher which is I think around 28% increase. One of the factors for the increase in debt has been that my prices of raw material have gone up. So if you see our net income has grown up by around 36%. So if we see because of the 36% growth in the overall revenue the increase in debt is around 28%. My trade receivables continued to remain around 25 days, my inventories have slightly come down I think from 39 days to 35 days. So we are keeping a close watch on both inventory and the receivables. Going forward, we hope to control it even more. But at the current level of around 60-62 days, I think we are almost stable.

Varun Agarwal So it will remain there around these….?

Ashok Gupta we are trying it should not increase.

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

Pavan Kumar So what is going to be the CAPEX nest year since, the background of my question is, we are already at some 1.8 million tonnes and we are utilizing like around 1 million tonnes of that capacity. So should we take it like this year it is going to be more focused on execution?

Ashok Gupta You are right. So our sales last year were 1.13 million tonnes only?

Pavan Kumar Yes sir it was 1.13 million tonnes, I guess including the scrap of around 40,000 right?

Ashok Gupta Excluding the scraps whatever small quantities are there. So we are planning for 20% plus growth this year as well. So we should take it to around 1.35 plus million tonnes and normally in the pipe industry we look forward to a capacity utilization of around 80% so you are right this year CAPEX will be very limited and some free cash should come because we are only completing these two lines, the DFT lines and there is no other at this moment.

Deepak Goyal Some maybe in value addition side

Ashok Gupta Okay some Rs. 15- Rs. 20 crore will be planned small CAPEXs not much. So that way CAPEX is very limited this year and capacity utilization should definitely improve against a capacity of around 1.8 or so our utilization should come to around 1.4 -1.35 or so. So we are earning better utilization this year.

Pavan Kumar Since we have this capacity sir so are we being aggressive on pushing the volume front through maybe we're giving some kind of discounts?

Ashok Gupta No we don't want to do with you see we don't believe in this. Our basic philosophy is not so much of a push sale as much as service. So we will prefer to maintain our 20% plus growth trajectory rather than go in for just a push. So I think we will be maintaining 20% plus trajectory you see it has many implications, if you go for something like this just to utilize our capacity, as it is our capacity utilization even at 1.35 would be around 75%. So it is not much of a gap there at the most we can go and then we have, next year again, we will be growing and perhaps if 20% then our utilization should go up to around 85% plus. I think it is reasonable growth rate. We should be trying to maintain it.

Pavan Kumar And of the 2 lines of GI that has been shut down what is it as an overall proportion of our capacity?

Ashok Gupta We have only 4 lines out of which 2 were shut down. So 2 have been working. Now all the 4 are coming in this quarter. So next quarter we should be having all the 4 lines working.

Pavan Kumar So of the total capacity how much capacity are the GI lines, sir exactly?

Ashok Gupta So my total capacity is around 1.8 million tonnes my GI capacity will be hardly 1.2 lakh, so 10% maybe.

Pavan Kumar 10% okay and you are saying this gives you the maximum margin, right?

Ashok Gupta This gives me better margin..

Pavan Kumar And coming to the DFT sir so as of now, are we pushing it at a price of normal tubes so as to get the customers accustomed to the product or has the next phase of our pricing improvement already started?

Ashok Gupta Currently it is only a stabilization phase happening whereby we are just stabilizing the production. See at this juncture the units are being commissioned one by one. So we have to make sure that our quality is fine, testing is done, product is good, product is accepted by the market, so you are right currently we are selling almost 95% of the products at the price of the conventional pipes. And as I mentioned, only 8-9 months down the line we will start charging premium from the people who customize.

Pavan Kumar And do these pipes also going into our normal businesses, our normal customers like construction, these are more specialized, automotive kind of application?

Ashok Gupta Mill is capable of making both kinds of pipes, they make the conventional pipe as well as customized pipes. Currently we are focusing only on the conventional pipes because the facility has to be utilized and also the production has to be stabilized. Going forward as I mentioned around a year from now, we will start producing customized then it will be going more and more for special application like automobiles, equipments, solar and all that.

Pavan Kumar Okay and Rs. 3,500 EBITDA per tonne is that the numbers, we should be looking forward to?

Ashok Gupta This year we should be inching towards it, next year we should be looking, that we should be trying to get to it.

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

Chintan Seth Sir on the CAPEX front I am seeing net block increasing by close to Rs. 200 crore this year, so can you just give us a break up of why such a large chunk of CAPEX happened this year?

Deepak Goyal Yes it is the Raipur plant completely capitalizing this year and four DFT lines and two in the road lines pipe and 2 in Hosur. So total Rs. 200 crore CAPEX, Rs. 125 crore is around Raipur and balance from the Hosur and Murbad.

Ashok Gupta So there is a new plant basically coming up, which might give some comfort.

Chintan Seth Right and sir, what is the export contribution this year and how should we look at it, given that you already mentioned in your opening remark on US and European countries putting some tariff?

Ashok Gupta So I feel that our exports are very low perhaps 5% of my total sales so even lower than that. So I think this year, we don't expect much of an increase in exports. Next year we should see a big jump because what we're trying to do now is we are trying to go to the second stage where we will be doing something with the pipe and selling them. For example, NEXTracker happened so we are trying to look at different options.

Chintan Seth Direct sale to export, the guys who are exporting the finished products or you are trying to supply them and then they will be exporting to US?

Ashok Gupta No, there are 2 aspects to it; one is, the new DFT line are being commissioned so this will happen this year. I will be sending to export some of the experimental sizes, some sample quantities. This year my attempt will be increasing the customer base, not increasing the volumes. Next year, I should we should get a dividend I should be increasing the volumes significantly. So current year my share of exports may be around 4%. But next year it should see a jump.

Chintan Seth Okay and sir the trade payable, creditors have remained stagnant while revenue grew 37%. Are we seeing a change in our credit policies from our supplier?

Ashok Gupta I think there is a second line beyond that which is other financial liabilities. So if you combine them I think that gives a complete picture. So combined if you see it has gone up from around Rs. 440 crore to around Rs. 500 crore so that gives you that there has been increase in the trade payable as well.

Chintan Seth Right sir and you gave 20% growth. So from 1.1 we will reach around 1.6 by FY 20 which will be crossing around 80% of our 2 million tonne capacity which you are targeting this year and so beyond that what are we looking at? We will be looking at an incremental small capacity addition or we will require to have a larger capacity somewhere Greenfield or in such lines or the existing facilities have enough space to accommodate additional capacity incrementally?

Ashok Gupta I won't say space is there now I think we have utilized most of the space in the existing plants, so we will have to go for Greenfield. So, you see at a 2 million tonnes we will be close to around 25-30% of the domestic market which is quite good. So perhaps current year we are not looking at anything like this we are not looking at expansion per se we are not looking at in those directions. But yes one year down the line we could look at opportunities available in the market in India, limited outside more possibility. So, we will see but not in the current year we should be looking at it only from April 19 onwards.

Moderator Thank you. The next question is from the line of Omkar Hadkar from Mirabilis Investment Trust. Please go ahead.

Omkar Hadkar Sir in the H1 call you had for the CAPEX front you had guided around Rs. 100 crore we had done Rs. 70 odd crore at that time and this result the CAPEX is around Rs. 200 crore. So what is the difference attributable to? And the second question is on what is the contribution of OEMs and the export side?

Ashok Gupta CAPEX between Rs. 170 and Rs. 200 crore difference will be what we could capitalize at Raipur. So Raipur, we are planning around Rs. 125 crore. So basically, the difference is only what we had capitalized higher. Small Rs. 170-Rs. 200 means we might have added some more facilities, there is not much of a difference.

Omkar Hadkar Earlier you mentioned Rs. 100 crore CAPEX for this year, and Rs. 70 crore was done in the first half?

Deepak Goyal Actually the thing is, already the cash outflow has gone in the last year's only. This year's, we have an incremental cash outflow. But in the CAPEX, the entire CAPEX has come in this year only, because in the last year's we amount in the advance to supplier and capital work in progress.

Ashok Gupta Basically, when we're talking about Rs. 100 crore we are talking about cash outflow when we are talking about capitalizations here what you observe that is also what advances were given in the previous year.

Omkar Hadkar Understood and sir the breakup of the OEMs and the exports for this year?

Ashok Gupta OEMs and exports are very less at this moment hardly 7%-8% of our total volume. Only by next year you will see a jump. This year also they will remain almost in the same range.

Moderator Thank you. The next question is from the line of Aashish Upganlawar from Arjuna Capital. Please go ahead.

Aashish Upganlawar Sir I may not be an expert in your industry. But I have been reading your interview somewhere and I came across that, basically you have some kind of power to pass on the raw material price increases to customers. So, we saw your gross margins, compressing on a quarter-on-quarter basis. So how do we end up with the future outlook on this?

Ashok Gupta I think you are right that we have no alternative but to pass on the raw material price increase or decrease because the whole industry is working on quite thin margins. If you observe our EBITDA margins are around 7% and some people in industry even have a lower EBITDA margins. So industry as a whole has a tendency to pass on the increase or decrease in the raw material prices, we also follow that so to that extent the prices volatility doesn't have a direct impact on us and I think that trend, should continue

Aashish Upganlawar But sir the contraction that happened this quarter is it temporary and the price increase will come up with a lag and that is why your margins will improve for FY19 Q4?

Ashok Gupta No contraction which happened, even our Q4 also our EBITDA continues to be around Rs. 3,300 per tonne. See a marginal Rs. 100-Rs. 200 variation which you see can happen for a number of reasons, including minor variation in inventory or inventory as a whole price or new price or valuation and also this much variations will take place in the EBITDA margins always. But in the industry generalized average level there has not been any significant change some changes happened because of our GI production has come down. So because of our in the galvanized pipes we had a de-growth of around 5% and the EBITDA of this GI pipe is much higher than our average EBITDA that is why you are seeing minor change in the EBITDA per tonne.

Aashish Upganlawar Okay sir so as you said that the target is to grow volumes next year also by about more than 20% so should we expect that EBITDA on year-on-year basis should also grow to that extent for the next year, if you're able to increase price?

Ashok Gupta We will work to improve upon it, not only maintain it.

Aashish Upganlawar Okay sir secondly wanted to ask, since you already 20% of the market, so what is the runway available to us in terms of the domestic market and how are you strategizing for the next 5 years that we then? Is it all dependent on the domestic market that way and you think that 20% plus will be possible with that?

Ashok Gupta Currently, our focus is domestic market. So because of the changes taking place in the domestic economic scenario, including GST, including throttling of black money there is a room available for us to grow because unorganized sector is feeling the heat. I think not only us but everybody in the organized sector is trying to improve their volumes whatever little volumes are coming in fact from our competitors that are also happening because unorganized sector is not able to meet. When the government is discouraging because unorganized sector typically has a higher pollution and environmental concerns so to that extent so long unorganized sector, which constitutes around 30-35% of the total volumes, they continue to contract we have an advantage and we have our runway available to us. Having said that, we do not expect to grow very high there I think the figure 2 million - 2.5 million is at the most, we should be reaching and then we should be looking at large, international market. Currently we have not even touch the international market because domestic market was good. But perhaps 2 years down the line, we will have to think in global terms.

Moderator Thank you. The next question is from the line of Shekhar Singh from Excelsyor Advisors. Please go ahead.

Shekhar Singh Sir, going forward that is next year, you said there will be improvement in the margin, but the magnitude of that improvement is very, very miniscule whereas, what we thought was once those 8 lines are operational and the initial phase is over, the margin expansion should be much more?

Ashok Gupta No it won't be that much because you see what happens is that margin improvement will take place only from customized sizes. Customized sizes may contribute 10%-20%-25% of our total volume so margin improvement is taking place in that percentage 20%-25%. So when you talk about the overall average, the average immediately comes down. So there should be improvement, but how much improvement that will depend on how much we can customize. But customization will not be 100%. It will be 20%-25% maximum 30% and not more than that. So average EBITDA margins will improve only marginally.

Shekhar Singh What does that mean? Say, like when you say 8 lines are being set up what does it mean like in terms of what is the amount of input that they can convert into customized sizes?

Ashok Gupta So you see our capacity today is around 2 million tonnes or it will become by the end of this year around 1.8-2 million tonnes. So these 5 lines should contribute about 25% of my total volume and even after the 25%, percentage coming in from customized sizes may be around 10-15%. So out of 8 lines, today I have got around 30 lines, out of 30 only 8 will be DFT so it will be around 25%.

Shekhar Singh Understood, okay and in terms of competition like are your competitors also in customized sizes or you are the only one?

Ashok Gupta Currently we are the only one and hope that we should stay like this for some time.

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

Varun Agarwal Sir my question is follow up of previous participant, basically on the raw material side, the cost has gone up so is it because of the rise in steel prices are we finding it difficult to pass on the price? Or is it the competition also has become aggressive and they are probably selling us low margin, so that is why facing the impact on the margin?

Ashok Gupta See in this industry competition is tough because there is an element of overcapacity so, in case my capacity is 100, utilization level for us is around 75%, industry as a whole may be around 65%-70%. So, because of that competition is there. We have many competitive advantages because of which we are able to get more volume, higher growth as well as better margins. Since the overall margins are low, people have no alternative but to pass on the increase. So whatever prices have increased in steel in last one year or two years entire has been passed on. Having passed on the entire margins, the EBITDA per tonne remains in a very narrow range around Rs. 3,200- Rs.3,400, it doesn't change much, and it doesn't change much only because of this reason. See the changes in the raw material prices have been to the extent of even Rs. 3,000 - Rs. 4,000 per tonne just because we have been able to pass on the increase that is why EBITDA margins remain in the narrow range.

Varun Agarwal Okay so going forward, do you see an impact on the overall volumes due to rise in steel prices or of the demand remains pretty robust?

Ashok Gupta Demand is improving, steel price act as a substitute for many other product including wood. So I would say steel as a whole and steel as a pipe are both substituting wood to a large extent. So demand for steel as well as a steel pipe is increasing continuously. There no figures we have, no published data we have, our estimates are demand for steel pipe is increasing 8-9% per annum and that should continue. And because of this demand increase, we feel that by taking some more shares from the unorganized sector, we should be able to grow at around 20%

Moderator Thank you. The next question is from the line of Deepak Narnolia from Birla Sun Life. Please go ahead.

Deepak Narnolia I was just trying to understand this, a lot of questions have been asked on this, but I was just trying to understand your EBITDA per tonne, how it will move? My understanding is your DFT EBITDA per tonne, I mean production from your DFT technology will have higher EBITDA per tonne and as you improve your special value-added product and as proportion of value-added products as the proportion of special value-added products increases that will have better margin. So can you throw some light on this, how was I wrong or what is the, whether I'm thinking in the correct line?

Ashok Gupta You are thinking on the right line. Our EBITDA per ton from DFT lines should be better than our overall average what we are having today. This process may take 8-9 months more because people have to be convinced to go in for customized sizes as against standard sizes now.

Deepak Narnolia I am not understanding this point - DFT production will have 2 kinds of production?

Ashok Gupta See I will tell you what happens. So, you have a shirt size of 40 shirt size of 42 now some people will be very happy to have a shirt size of 41. But nobody makes it so I am not able to get it. I have to use either 40 or 42. Suppose tomorrow, one of the brands they come up with the idea of 41 size I may not mind paying a higher price to get 41 because that suits me best. This exact analogy I am giving you of a user who is using a pipe let us say in a truck or a dumper, he is using a size currently at 250x250 but what he specifically needs is 230x230. Today, nobody makes 230x230 so he makes a compromise. Tomorrow when I can supply 230x230, maybe he would pay me higher price, that is the meaning of customization and once we can convince those people to change from 250x250 to 230x230, we hope to get better margins.

Deepak Narnolia See just one clarification on this itself, that means in the standardized size products from DFT also you will not have better margin. Only in the customized size you will have better margin. That is what you want to say?

Ashok Gupta In a standardized DFT product the margin improvement is very less, because there it is only a question of quality. But in a customized product margin improvement is significant.

Deepak Narnolia But in the standardized product also my understanding is in Hollow section pipes you will have some savings in material?

Ashok Gupta You are right.

Deepak Narnolia That will lead to 3-4% improvement in raw material consumption is that right?

Ashok Gupta It will definitely help in the raw material consumption. I cannot tell you the percentage because that will depend on the individual application and individual size. But definitely there will be some saving and customers, once they recognize the savings they will give us the benefit. But this experience of understanding the savings takes time, it may take 6 months, it may take 1 year, it may take 2 years. But I understand yes that there is a saving which is happening to me and because of saving, I should pay a higher price takes time.

Deepak Narnolia And the second question sir in the special value-added product, can you just say how much of volume was there and how much you are expecting going forward? What is the difference in EBITDA per tonne spread in these kind of products?

Ashok Gupta Yes so of all the value-added products that we produce while overall our volumes will grow around 20% in value-added products, we will try for a growth rate of more than 20%. Exact figures will depend on the material and on the response we get from the market.

Deepak Narnolia More than 20% means 30%, 40%?

Ashok Gupta Yes, it will be higher than 20%.

Deepak Narnolia And what is the current volume range in that product?

Ashok Gupta Currently of our entire product range around 30-35% is value-added.

Deepak Narnolia 30-35% of your volume?

Ashok Gupta So what happens is when you say value-added, it means it can vary, from a marginal value to high-value, if I say high-value, the high-value may be around 5%-10% but overall better value could be 30%. So what you were talking of high EBITDA margins.

Deepak Narnolia Special value-added products.

Ashok Gupta Special value-added product today is only around 5-7%.

Deepak Narnolia They are already at 5-7% in FY 18?

Ashok Gupta Yes.

Deepak Narnolia And how much is the EBITDA per tonne of those products?

Ashok Gupta So if I am earning EBITDA per tonne of Rs. 3,200 per tonne in this case the EBITDA will be more than Rs. 4,000 per tonne.

Deepak Narnolia More than Rs. 4000 per tonne.

Moderator Thank you. The next question is from the line of Suvarna Joshi from Axis Securities. Please go ahead.

Suvarna Joshi Just wanted your thoughts on the brand awareness and brand spends that we had spoken about?

Ashok Gupta Yes so currently we are known as a good brand amongst the trade, which means the distributor, the dealers and to some extent the users. But our brand is not so well-known among the consumers and the public at large. We are trying to take up a special campaign in the current year that is 2018-2019 to increase our brand awareness among consumers and among the general public. Now, this process will take totally 3 years, we have started the process now. You will be seeing some of the campaigns on the digital front as well as on the (OH) outside-home front as well as on print. So, going forward brand awareness of our brand should increase significantly in the next 2-3 years.

Suvarna Joshi We had made about some Rs. 4 - Rs. 5 crore of investment already towards branding activity?

Ashok Gupta We have been spending limited amounts till now. This year we have budgeted around Rs. 20 crore. So that should give us an impact. And going forward, our spend on branding will continue to be in the range of Rs. 20-Rs. 30 crore each year.

Suvarna Joshi Alright sir and just a bookkeeping question, what is the tax rate that we can see for FY 19 and 20?

Ashok Gupta Our tax rate continues to be around 33% and will perhaps remain the same.

Deepak Goyal It will continue to be in the range of 30%-34%. We are the full taxpayers because all the CAPEX is already done so we are paying full tax rate.

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

Chintan Seth Sir on the waterfront you mentioned you want to get into a better penetration vis-a-vis our competitors, so why water because we do phase PVC and CPVC pipes competition over there. So which segment in water you are targeting to higher diameter or it will be domestic water application?

Ashok Gupta No, we are targeting because our current market share in water segment is lower than our market share in the support system. Having said that, water can have a couple of segments; one of them is the domestic water supply where our presence is limited. We may not look at it per se, because as you rightly said, plastic is entering it. There is a second segment, which is primarily in firefighting, air conditioning, industrial now this is a big segment and our presence is very limited. This is the segment we will be targeting because we hope to take some share from our competitors.

Moderator Thank you. The next question is from the line of Rajesh Gajara from Cogencis. Please go ahead.

Rajesh Gajara Sir could you please share some information on your borrowing program. So you have short-term borrowings, long-term borrowings and it went up by around 20% in FY 18. So what is your plan for FY 19 and FY 20 the next, particularly when next year you plan to target the global market in a much more intense manner?

Ashok Gupta Our long-term borrowings have not been increasing, I think they are either stable or they are coming down. Our short-term borrowings are increasing only at a rate at which our total revenues are increasing. This year we do not intent to do much of CAPEX so our borrowings in total should come because we should have some positive cash inflows. Going ahead, it will continue because once we foray into global also, unless and until I do a major CAPEX there should not be any significant increase in our short-term borrowings.

Moderator Thank you. We will take our last question from the line Hitesh Shrimali from Nirmal Bang Securities. Please go ahead.

Hitesh Shrimali My question is relating to some accounting presentation, which has been made changes due to IndAS which we had done in this year. So basically, in FY 17 our sales were Rs.4,996 crore, which has been re-quoted to Rs. 4,377 crore this year, sir, may I know which element of this revenue you have eliminated from this part?

Deepak Goyal Freight and discount part we have eliminated from the revenue and last year we had some trading sale, high-sea sales that is also eliminated from the net revenue.

Hitesh Shrimali So the trading sales has been totally eliminated from the revenue of both the years FY 18 and FY 17, is it?

Deepak Goyal Trading sales is pertaining to the high-sea sale is totally eliminated in FY 18.

Hitesh Shrimali And sir one more question, may I know any capacity expansion plans for GP and GI product category?

Deepak Goyal Yes, CAPEX for the GI and GP is under consideration we will come up with that in some time.

Hitesh Shrimali Sir one more question on that, as you said that trading sales have been eliminated, is there any provision in IndAS that that trading sales need to be eliminated, is there any provision?

Deepak Goyal Yes, there is a provision if not have any value addition in the sales it is a high-sea sales, metal is not coming in our plant we directly sell to the third party. That is why we have eliminated from both the sides and taking the only margins in our revenue.

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

Ashok Gupta I must thank all my colleagues and my dear friends, all by investors for such a lively conference. We are very happy that we could answer, and we had so many questions. Thank you for your participation please. Thank you.
