



## “APL Apollo Tubes Limited Q2 FY-21 Earnings Conference Call”

**October 28, 2020**



**MANAGEMENT:** **MR. SANJAY GUPTA- CHAIRMAN AND MANAGING DIRECTOR, APL APOLLO TUBES LIMITED**  
**MR. DEEPAK GOYAL - CHIEF FINANCIAL OFFICER, APL APOLLO TUBES LIMITED**  
**MR. ARUN AGARWAL – CHIEF OPERATING OFFICER, APL APOLLO TUBES LIMITED**  
**MR. ANUBHAV GUPTA - CHIEF STRATEGY OFFICER, APL APOLLO TUBES LIMITED**

**MODERATOR:** **MR. DHRUV JAIN - AMBIT CAPITAL PRIVATE LIMITED**



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**Moderator:** Ladies and gentlemen good day and welcome to APL Apollo Tubes Limited Q2 FY21 Earnings Conference Call hosted by Ambit Capital Private Limited. As a remainder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Dhruv Jain from Ambit Capital Private Limited. Thank you and over to you, Mr. Jain.

**Dhruv Jain:** Thanks, welcome to the Q2 FY21 APL Apollo Earnings conference call. From the management, we have Mr. Sanjay Gupta - Chairman and Managing Director, Mr. Deepak Goyal - Chief Financial Officer, Mr. Arun Agarwal – The Chief Operating Officer and Mr. Anubhav Gupta – The Chief Strategy Officer. I will now hand over the call to the management for their opening remarks, post that we will open for Q&A. Thanks.

**Anubhav Gupta:** Thanks Dhruv, good evening everyone, this is Anubhav Gupta, thank you all for joining in. It has been a real pleasure to be here and discuss our Q2 FY21 performance with everyone on the call. At the beginning of the quarter, we were much worried and looking forward to how we are going to come out of this pandemic situation and how our team will perform in the important quarter of Q2 FY21. As we speak today, we are more than delighted to share that our Apollo Team has performed better than expectations and we have excelled in all the areas of sales, operations, manufacturing and managing financial strength of the company. In our past interactions we told you that we are working in our inner strength and trying to prove resilience.

Right from the pandemic, we started working on four point agenda which included:

- 1) The lighter balance sheet, which is low receivables, low inventory and finally zero debt.
- 2) Lower Fixed Costs which were mainly the salary and interest costs.
- 3) Volume ramp up after the reopening of the economy and the markets.
- 4) Returning to the normalized profitability after the pandemic is over.

And we are so very glad to share that we worked really hard to achieve these goals and we have successfully converted the crisis situation into the opportunity. Six achievements that our team has been able to achieve are:

1. We have switched to cash and carry model, which means that our debtor days are reduced to 6 from 19, 6 months ago. This is the lowest debtor days in the building material industry.

2. The company is on the verge of becoming debt free, which is on the back of a very strong operating cash flow, which is again backed by the net working capital cycle of 7 days, again which is the lowest in the building material industry.
3. Market share expansion to 50% from 40% in the last 6 months, this was on account of our rural push, the head start which our plants gave right after the pandemic and taking away market share from the small organized and unorganized players.
4. Lower Fixed Cost, like I said the employee cost and the interest cost per ton, employee cost is down by 20% on per ton basis and the interest cost is down by 75% per ton basis in the last six months. The rural sales mix for the company has increased to 55% in the first half of FY21 versus 40% last year.

Again this becomes very important because this was part of our strategy that we have to focus increasingly on the rural sales push and the economy will perform better at that side of the country and the sixth achievement I would like to highlight is the strong organizational build up, 25 years of hard work of our Chairman & Managing Director in building up the organization, it proved its resilience in the most crisis time, the way things were in the month of April and May, our production team, our sales team, our operation team, marketing team, everyone performed a par excellence and our performance in the first half of FY21 is the result of all this hard work. All these achievements that we achieved, now we are working harder to sustain these achievements as these have become benchmark for us.

We are confident that this is achievable in the longer run and we have set up a four points strategy around this, which is:

1. Working on the costing.
2. Working on the value addition.
3. Working on innovation.
4. Aggressive branding for our brand umbrella, APL Apollo.

So, with these four-point strategy we are 100% sure that this performance has become benchmark and we are going to perform quarter on quarter basis on this benchmark. With this, I would like to close our opening remarks and we can open the floor for Q & A.

**Moderator:** Thank you very much. We will now begin the question and answer session. First question is from the line Jiten Doshi from Enam Asset Management. Please go ahead.

**Jiten Doshi:** Sanjay ji congratulations on a wonderful set of numbers. Now I believe your company is now actually getting into the new orbit of growth. I have couple of questions. First is your market share has shifted from 40 to 50, how far can this market share go over the next two years? Secondly the kind of growth we are seeing We envisage that by FY 2023, you will have nearly Rs. 1000 crores of cash sitting your balance sheet, so how would you utilize that going forward? And 3rd, can you throw some more light on the value-added products that actually

can your margin improve from here over the next 24 months with the value-added products or you think this is the best you can do?

**Sanjay Gupta:**

Mr. Jatin, when we talk about the market share, like this industry is almost 5-7 million ton of market. In these 5-7 million tons, 2-2.5 million ton is from the secondary material and 4-4.5 million ton depends on situation, this is the total market. Out of this, the value-added products market is very less, now we are trying to convert this market, the market that is already growing will grow, but we are also diversifying these products in the value-added market. Like we have done for pre-galvanized tubes' market sales growth is growing at a very fast pace, in this our market in India is around 13%, 0.8 million tons market is there, we will take this at a growth rate higher than 30%. Number 2, the other items like we manufacture door frame, in door frame our growth rate is around 40%, we manufacture plank and in it our growth rate is almost 60-70%, so all the new ranges that we are manufacturing, our market will expand from those as well, our normal growth rate of tube industry is there and these new ranges that we are introducing, so we are very hopeful that we can maintain this growth whatever be the situation with the new innovations. I will speak on the cash flow later on, this is not realized on the books, in value-added I will throw some more light, in value-added we are working more like we just introduced a new product color, this color tube is made in the world for the first time, JSW and Tata Steel manufacture colored coils, from that we have developed pipe. That pipe, from door frame our success rate is very good, in tube segment the joint mechanism we have worked a lot, in the market we have issued samples. So, we feel that this will be a game changer in the coming 1-2 years for us, color tube is a major focus area for us. And secondly, the focus is on heavy building material like PEB total market in India is 10 million ton. And in them pipe hardly 0.5 million ton is being used but all over the world if we see PEB is around 20% and tubes are around 80%, so there is an American company named Zeckleman with whom we are working jointly with and we are pushing with 2-3 local PEB big guys like Zamil, Inerarch and one or two small players. We were able to push PV into this market because our arrival the 500 sq mill that is there, it is very important for that market and if this clicks for us, the 10 million ton market of PB that is there in India and from which we are thinking almost 0.5 or 1 million ton market then there is no limit gain it is all in books now but the results everyone are seeing are very good. We are getting very good response because the cost in this 20-30% cost reduces, the conventional PB that is going on nowadays, they weld the seats and make it. The working time is drastically reduced in this, like we have made 1-2 sets in house and the sets which used to take up to 6 months to be made, we have been able to achieve them in 2-2.5 months. Thirdly, there is a tri code-based product ILG (In Line Galvanizing), the technological aspect of it has been going very well and we hope that we will be able to successfully pass it for electrical conduit by October or November. So, these are the three products on which we are very hopeful in the future, rest of our products like plank, door frame, these are into routine and are expanding in the markets but these 3 products are such which can be game changers for the company, so we are working quite extensively on these three new product ranges.

- Jiten Doshi:** So, your average margin per ton can keep moving up?
- Sanjay Gupta:** Sir, our target for this quarter is Rs. 3500-3600 per ton, our target was first to achieve around Rs. 4000, then progress over to Rs. 5000. We currently have not envisioned to go above 5000 but nothing is impossible and we will see this later on. Now our target is to first achieve the Rs. 4000 and after that Rs. 4000 we have to achieve the Rs. 5000-target in the next year.
- Jiten Doshi:** So, Sanjay one very good thing that you have done is you have reduced your debt completely and your profit is going up, so obviously your return on capital employed goes to 35-37% next year, which is commendable and you will be sitting on approximately Rs. 1000 crores cash in the next 18 months, so what are your plans for this cash?
- Sanjay Gupta:** So, see this year we have missed our dividend, we have to cover that as well, our CAPEX is running low, in the first half the company has only been able to do only Rs. 80-90 crores total plus inclusive advances, so we will invest in the CAPEX as well and keep eyes on dividend as well as to finish off the debt, now our target is on these first 3 things that we will be utilizing our cash upon as a dividend or a buy back.
- Moderator:** Thank you very much. Sorry to interrupt you Mr. Doshi, I would request you to come back in the question queue for the follow up question. Next participant is Vikas Jain from Phillip Capital. Please go ahead.
- Vikas Jain:** Sir looking at our current state of 2 million tons on annualized basis, we have the history of very high growth rate and our capacity is of 2.5-2.6, so shall we assume that the next year, a large CAPEX is eminent and we have to increase this capacity either by organic or inorganic?
- Sanjay Gupta:** If you speak about buying any industry or company, so in India at the level on which our thinking has reached, at that level of technology there is no industry in India, so I do not foresee any chance of further growth there. In House we can make the coming quarters more sustainable, we can for sure plan towards in house growth because we have already paid a lot of advances, which we have slowed down to a large extent, in Raipur the land that we had purchased, we are slowly working on infrastructure, on construction over there and maybe in the coming year we will pace up things out there basis our cash flow position.
- Vikas Jain:** Okay sir, our Apollo Galvanized and TriCoat percentage if we see for the market share, so it is still very low, so what is our estimate that how quickly we can ramp up this and according to you what will be its impact in terms of volume and on margins next year?
- Sanjay Gupta:** GI is not my bread and butter, when you are in an industry then you have to be familiar with the industry also, like Jindals, Suryas, Tatas those people are strong player in GI in comparison to me, if I unnecessarily poke them up and disturb them, they are happy in their line and I am happy in mine. So, I do not want to enter into this line on a large scale, somewhere around 1-

1.5 lakhs ton we do and there is not a big scope out there, I do not want to disturb that industry. The industry is working on a common platform, so unnecessarily I do not want to disturb it.

**Management:** And anyways application of GI is more towards water transportation, which anyways we have not focused in the past. Our 100% focus is on building materials, structural steel tube for which GI is not a product.

**Sanjay Gupta:** We see a lot of scope here only, I do not want to mess up the entire industry because if we enter in that line then the industry will get messed up, we do not want to go there now but slowly-slowly the place that we have gained we are keeping it there, if you see in this quarter, in this half there was a growth of around 2% only in galvanizing, we do not have a big structure with us for this.

**Vikas Jain:** So, sir this margin expansion that we are speaking about of Rs. 4000 and Rs. 5000, from where will it mainly come through, in product mix then what are the additions this margin can improve?

**Sanjay Gupta:** Like I said we are working extensively on colored pipes, we are working on big sections as well, we are working on ILG as well, these 3 will be our major products and plus on small products also we are working on, plus in branding if you go to see in the market then today in structural tubes APL is number one brand, in the market our pipe is the costliest, we are also trying to get margins from our brandings, we are controlling our freight costs, we are also reducing our costs as well, in combinations of these things we are targeting that we would reach up to Rs. 5000.

**Moderator:** Sorry to interrupt you Mr. Jain, I request you to come back in the question queue for a follow up question. Thank you. A request to all the participants; please restrict to two questions per participant, if time permits please comeback in the question queue for a follow up question. Next question is from the line of Bharat Shah from ASK Investment Managers. Please go ahead.

**Bharat Shah:** Mr. Sanjay I think this has been a great demonstration of entrepreneurship. I had only one question, we have been progressively saying that the value-added component of our business is growing at a little faster pace than the rest of the business, so currently what kind of percentage of the total, it is about 15-20% is Value-added, right of the total mix?

**Sanjay Gupta:** No, total is almost around 45%.

**Bharat Shah:** Value-added component?

**Sanjay Gupta:** Yes, value-added products that we call is around 45%, base is around 55%.

**Bharat Shah:** I was counting numbers for TriCoat mostly in that but fair enough.

- Sanjay Gupta:** In TriCoat, Bharat bhai almost everything is Value-added, in that we do not make the base material at all.
- Bharat Shah:** Yes exactly, in overall 3-5 years what kind of volume growth in your opinion of value-added will come and what kind of the conventional product growth do you envision?
- Sanjay Gupta:** In conventional, Bharat the chances of growth are very low maybe a single digit growth in conventional and in value-added we are targeting to have a growth of 40-50%, so that in the coming 2-3 years the value-added products which are 45% will cross 75%.
- Bharat Shah:** Value-added part you are saying should grow at the rate of 40-50% per annum?
- Sanjay Gupta:** From next year Bharat, say this is our target.
- Bharat Shah:** Fantastic. Thank you, Sanjay once again fantastic demonstration of entrepreneurship, in a very challenging situation.
- Moderator:** Thank you very much. The next question is from the line of Madhav Marda from Fidelity. Please go ahead.
- Madhav Marda:** Congratulations on a fantastic set of numbers in these times. Sir my question was, our working capital has come down to less than 10 days, just wanted to understand how sustainable this is and can we stay at this level for the next coming period of time?
- Sanjay Gupta:** Our net working capital days as of now is almost 7 days and our gross is I think so is around 40 days. I am targeting to cut down this again by 40 days to reduce to 30 days. Now what steps we are taking to do this is; in total we have 11 plants, out of which we will shift our 2 or 3 small plants into big plants and since we need to maintain inventories in each plant, so if we end the inventories from those plants, the bigger plants will give that material, so our inventory will also get reduced. We are targeting to take this 40-days to 30-days. Now we are working on it and trying to improve it a lot and we are very confident that we will bring the gross working days to 30 days and bring down the net working days to negative working capital in the coming two or three quarters.
- Madhav Marda:** And Sir, one other thing; I think so you had mentioned in the last one or two quarters before that we can start buying steel in cash. Once our balance sheet becomes net cash, I think it will happen very soon, so by FY22 will we start buying steel in cash, how should we think about that, Sir?
- Sanjay Gupta:** We are in talks with the steel plant people already, once the cash comes in the books as to how we can bring this in place of credit because there cost of interest on credit is 4% to 5% maximum, so because of 4% to 5% we are not putting much brains and efforts in it.

- Moderator:** Thank you very much. The next participant is Pallav Agarwal from Antique Stock Broking. Please go ahead.
- Pallav Agarwal:** Yes, good evening Sir and congratulations on good set of numbers. I just have a query on our blended steel realization. So, if you look at the results for those steel companies you know, JSW has announced so far, there we have seen a sequential increase in the blended realization by almost Rs. 3000 to Rs. 4000 per ton. So, but then our numbers you know, I have not really seen on our blended paces, it is basically flat on, you know, marginally lower on a sequential basis, so what could be the reason for that?
- Anubhav Gupta:** So Pallav, see the realization of steel companies; there are two, three reasons for this, number one is of course the increase in the domestic prices but also their value-added products which they have started focusing in the last two, three months and for us also, if you see, our raw material per ton has increased on quarter on quarter basis.
- Sanjay Gupta:** We will have to work on numbers, there is an increase in the steel prices but maybe due to product mix, our realization must be looking low but I do not think so because I need to study the numbers in this way. So Anubhav will come back to you separately on this by tomorrow because in July the steel prices were lowered to Rs.3000 and in August and September it got increased to Rs. 4000. So total impact is around Rs. 1000 plus. I do not know why it is not reflecting in numbers, I have not studied this, maybe little black material was sold more and pre-galvanized tubes might have been sold less, galvanized might have been sold less, the impact might be reflecting due to this, I do not know. So right now, I cannot give you the right answer.
- Pallav Agarwal:** Sir you say said that exports have decreased so domestic sales are more, so premium might have increased and you know there is a peak in our Rs. 1000 is a big price increase, so that is you know ...
- Sanjay Gupta:** That price increase is of Rs. 3000, but here in total quarter the price increase is around Rs. 1000 because first there was a reduction of Rs. 3000 in the month of July and it was increased by Rs. 4000 in August and September, so total net impact is Rs. 1000 per ton.
- Pallav Agarwal:** Okay, secondly, I just wanted a clarification; our capacity is 2.5 or 2.6 but, in the presentation, I think in terms of the classification I think of product, so what is the exact capacity right now?
- Anubhav Gupta:** So Pallav, this is 2.6 million because there has been increase of 100,000 ton in TriCoat, so TriCoat was 2.5 lakhs which has increased to 3.5 and that group level we have increased from 2.5 million to 2.6 million.
- Moderator:** Thank you very much. The next question is from the line of Nissar from Key Investment Managers. Please go ahead.



- Nissar:** Most of my questions have been answered but congratulations Sanjay ji and the entire team of APL to do what maybe Asian Paints have done in 2002, 2003 on the working capital side. Seth ji, I only have one question with you that the explanation that you gave about expansion of our EBITDA per ton that our target is 4000, how much of that is actually dependent on launching more value-added products and how much of that is dependent on our operating efficiency because we have reached a size and scale and generally we see that when a company reaches a certain size, the EBITDA per ton generally expands due to the operating efficiency, that was my question Sir.
- Sanjay Gupta:** Waseem bhai, see we are already achieving around Rs. 4000 per ton because our EBITDA margins were quite low in the month of July, so due to this the net impact has come in this quarter. Right now, I believe that if we make two months' numbers then we should cross Rs. 4000 mark and if we increase the number from other sources, then we should cross the Rs. 4000 mark and I am very hopeful that my system is already ready for Rs. 4000 mark, now we are preparing our system for Rs. 5000.
- Nissar:** Wow, okay you already have EBITDA of Rs. 4000 per ton?
- Sanjay Gupta:** I think so, I have not seen the numbers separately but according to me our numbers should be Rs. 4000 plus for the month of August and September. Since our margins were low in the month of July, so on an average it has come to around Rs. 3500 to Rs. 3600.
- Moderator:** Thank you. The next question is from the line of Urvil Bhatt from India Infoline Limited. Please go ahead.
- Urvil Bhatt:** Thanks for the opportunity and congratulations on a good set of numbers. So just wanted to understand on the cost sustainability; I mean how sustainable are these cost levels and given that we are giving emphasis on branding, will our advertising spends again grow in the coming quarters? And second question is on the volume; so I mean what kind of volume and demand visibility are you witnessing and is this a strong pick-up, largely some bit of pent-up demand or given that you have shifted to rural, is this more sustainable and we can see further fully utilization of 2.6 million ton in the next few quarters, so what is the view on the volumes in 2022 as well?
- Sanjay Gupta:** Boss, whether this demand is pent-up or is it actual, nobody can say this right now but the most important point is that these months say like July, August, September, October, November; these are always slow months for our business, this I am witnessing since last 15 years because the construction work decreases a lot during the monsoon season but we have even worked during that time, so I am hopeful that coming forward is anyways a seasonal time together, say December onwards. So, we should not face such a big issue in this demand. Number two, now how much gap has been created in the primary and secondary, previously when such gap used to be created we used to almost go down, this time we have been able to withstand that, maybe this is due to the branding impact or whatever has impacted it, we do not

have anything to measure this but I feel that still we are coming out of our bad passage and going forward our good passage is awaiting us, we have still not entered the good passage. Number two, this 2.6 million-capacity that is there, if you look at an average, in an industry then 80% to 85% of the volume gets achieved based on the type of the product mix that we have to make. If we get high demand sizes and if bigger sections come more or of there is a great demand for the thicker material then we can make the 2.6 to 2.7 also or maybe 2.6 will go around 2.3, 2.2 on an average, we can utilize the full capacity also, this depends on mix of product range.

**Urvil Bhatt:**

That is very good and thank you and also on the cost side, I mean if you can just give some guidance that whether this cost is sustainable because employee cost is down 5% on a Y-o- Y basis in first half and other expenses have also been flat. So just want to understand your view on cost and whether given our focus on branding, so are we going to launch a new campaign again for our advertising and branding or how is it, so if you can give some guidance on it?

**Sanjay Gupta:**

This quarter's branding has already started; we have booked a cost of Rs. 8 crores to Rs. 9 crores this quarter and our branding expenditure per quarter does not exceed Rs. 10 crores, our maximum branding cost is Rs. 10 crores which is already reflecting in these numbers. Number two, if we talk about cost, we are planning to shift our Hyderabad to Hosur and Raipur, we will shift that plant 50%-50% in Hosur and Raipur. So, if we shift that plant then like today my Hyderabad plant cost is almost Rs. 70 lakhs, per month, a biggest cost, now if I shift that plant then in both the places my cost will increase by Rs. 10 lakhs for each plant to increase manpower, so in total it will be Rs. 20 lakhs, so I can save Rs. 50 lakhs. There are many such areas where I can still do more of squeezing, I am working on it. I feel that still our business cost is more, and we can control it a little more. So, we are working on that but we would want to do it little slowly, the fast operations have already been done, now we want to work slowly on improvements.

**Moderator:**

Thank you very much. Next participant is Saurabh Patwa from HDFC Mutual funds. Please go ahead.

**Saurabh Patwa:**

Sir, thanks for taking the question and great set of numbers and congratulations for that. Sir just wanted to know how is our distribution currently, have you added more distributors and what would be the broad wake up in terms of cities because we were working on expanding our distribution few quarters back, so where have we reached at?

**Sanjay Gupta:**

No boss, we are not expanding our distribution because if we increase our distribution then we are facing difficulties in making brands. A distributor works on a brand only when he sees an exclusiveness or anything else as such, so we are spreading area wise but instead we have cut down few distributors in some areas. In places there would be conflicts between two or three people for brands and distributor would get less money, so we are taking care of our distribution margin also. So previously we used to leave our money with them because we

were sure that it would not go anywhere, maybe because our credit is with them then he will anyways sell our products but now we have started taking cash from them, so now we have to work on all their margins also. So, we are not planning to expand distributors in the near future at least for a year, year and a half, instead we are working on their margins that how can we expand their margins so that our brand gets more strength. Like you go to Uttaranchal, Himachal, Kerala, so over there, pipes meaning is only Apollo. So there when a customer comes to buy, he will not ask for 80 x 40, give me 80 x 40 x 1.6mm, give me 80 x 40 x 1mm, he will not ask for Pipes instead he says give me Apollo, he will say give me Apollo Chaukhat, people are like that, like they say brand where people does not have anything to do with the pipes. Like if we want to buy a bottle of water, so we say give me Bisleri, we never say give me mineral water. So, in few places our that brand has started reflecting, so now we are working more on it.

**Saurabh Patwa:** Great Sir and there is just one more question related to the same; so for these newer products that we have like Chaukhat, so its target customers those are there, the end customers, he would be currently buying from other channels, so what is our distribution strategy in those cases?

**Sanjay Gupta:** Our distribution networking of three levels; first we give the goods to the distributor, he will further distribute it to nearly fifty thousand Retailers, as per our data base those fifty thousand Retailers gives the goods to four lakhs fabricators, you can call them our influencer, like in paints it will be painter, plumber in plumbing, similarly our influencer is fabricator. So, our data base is of four lakhs fabricators, the retailers will distribute the goods to them, and the fabricators will go to peoples' houses and work there, so this our three-level base of distributorship.

**Moderator:** Thank you very much. The next question is from the line of Dhruv Jain. Please go ahead.

**Dhruv Jain:** Sir one question on the DFT pipes margins, we have seen that a DFT pipe margins that you know over the last four or five quarters and in this quarter also margin is expanding, has remains in the range of 2000 to 2500, so any thoughts in considering DFTs like a specific product in APL Apollo?

**Sanjay Gupta:** In DFT, I always clear in every call. In DFT there are two types of products, first product is the one which we manufacture to improve servicing. The second is our exclusive product in DFT, in this product our margins at this point in time has reached to about 15% to 20% and the one which we make to maintain service, for that we get the same margin and, its impact reflects on our business overall but its impact does not reflect separately. So, our special products that are there like our bigger sections or special shapes in small sizes, like DFT is also helping us to make. Like now in the next one or two month I give a new slogan; we are not making tubes, we are crafting the steel. We are crafting the steel on the basis of the customers need. So, the volumes that we craft is almost 10,000 ton per month, 1.25 lakhs ton per annum and the

margin over there is around 15%, in normal our margin is around 4-5% but the service has improved very well and we are getting support to our branding and distribution because of this.

**Dhruv Jain:** And sir in the last call you had highlighted that the margin has shrunk to 25%, so what would be the number and the market share that we have gained, from which players will it come, is it going to be the players who have said 2 lakhs to 5 lakhs capacity or is it going to be the local guys who have say less than 2 lakhs capacity?

**Sanjay Gupta:** Boss, it will be local guys who used to make 10,000, 15,000, 20,000 annually; say 1000 ton, 1500 ton per month they are not able to sustain and the bigger impact that is coming that we have figured out in the last month's survey, now in the market there are two types of people, one who only wants Apollo, he is not concerned about the price, I had done survey of 500 people and 50% people told that they get 50% customers who just want Apollo. The other type of customer is one who does not want Apollo but a cheaper one, in today's time the secondary material products is cheaper by us by Rs. 10 per kg, almost 10,000 gap is there between secondary and us. So, they would prefer that Rs. 10 kg cheaper material, so in this way the market has been divided between two parts. So, in branded material our market share is gained and people are too much concerned about also the branding and good material, awareness amongst people is also increasing gradually from the way we have given advertisements on TV, we were able to beat so many fabricators, so many retailers, so the impact is coming from there also and I also feel people will slowly take this shift towards branded materials.

**Moderator:** Thank you very much. Next question is from the line of Nitin. Please go ahead.

**Nitin:** Mr. Sanjay you had told in the call that the value-added products business is 45% in volume and can grow at 40-50% in the next 2-3 years or you are at least targeting for that, so for that the capacity is required and the products are required. So, what can be the reason that the growth cannot be 40-50 and much lesser, what can be the reason for that target not getting met? Shortage of capacities, market behavior, can you tell something sir?

**Sanjay Gupta:** In this sir the biggest reason was that one complete part of India was left out of the value-added products, that is eastern zone, our Raipur's plant used to make only basic material and no value-added products were manufactured out there. Secondly the Murbad plant of Mumbai used to also make only basic material and nothing of value-added, so now we shifted a lot of machinery from Hyderabad plant to these plants as I mentioned in the last call also due to freight factor in Murbad, so my value addition will increase in the coming 2-3 months in these two plants, so because of which we will get good new market and number 2, as we are working extensively on quality and new innovations, which in the industry no else is able to do because of that as well I would see a gain in my market share and number 3, the usage of these products are increasing like door frame a new market is there, so we are seeing orders coming in from them, bigger sections that are there, from PVC I am also gaining market, so there is capture of market from there as well, now let us say I sell electric conduit pipes, so the entire

market is of PVC, there is no steel market at all, so we will be able to get traction from there as well. So, I am very hopeful that my value-added products in the coming times will see growth up to 30-40-50% also.

**Nitin:** So, will you have to create capacity in the plant, you would have to invest CAPEX for that?

**Sanjay Gupta:** For color I will have to put in CAPEX, currently there is no CAPEX . now I am buying raw material from steel plants and making it, so will have to do in it. In ILG there is one line created and, in this year, either in November or December if succeeds and the market starts capturing, so I will have to build in more lines for that product as well. In bigger section, my 500 sq feet mill is still pending, I think anywhere in the month of June or July I will get that mill of 500 sq, so I will have to create some capacity, for sure.

**Nitin:** So, basically to grow at 35-40% also, you will have to approximately put in Rs. 200-250 crores for one or two years in the value-added business, am I right to assume that when you build the business?

**Sanjay Gupta:** Yes, 100% we will have to invest.

**Nitin:** Sir second question is you know construction in the country, people say that structural steel will replace concrete and to improve the ease of construction, so in that where are we presently in your engagement with government, in engagement with consultants, in engagement with certain building developers, where do you see this change happening like is it in airports, or is it in commercial properties and what is the mindset of the consultants over there and what is the mindset of the government out there? What changes are coming in the building codes or happening currently in the building code?

**Sanjay Gupta:** Sir if you speak about the government, they are neither in favor nor against this, they are neutral. Government currently is facing challenging times and I do not expect any help from them at present because you are not able to meet anyone or approach any ministry and discuss and government itself has its own set of problems, there I cannot criticize also and cannot appreciate also. But our Steel Ministry is repeatedly emphasizing on work being done on increasing commission of steel but airports and all he has already passed design of using steel instead of concrete, these commercial buildings that are there and PEB in these two sectors we are working by ourself, government does not have any role out here, in PEB there is a company called Zamil of Saudi Arabia with them we have worked quite extensively recently, we developed a product for them a column pipe, there are a few small companies in Haryana, they designed pipes for the cold storages for potato by Haryana government. Like we got 17 cold storage orders and 70-ton pipe is being consumed in each of that. So, slowly we are sowing seeds and until the fruit is ripened it would take some time for the tree to come up but I am very hopeful that this will grow into a big banyan tree not even a small one.

**Nitin:** Sir, I have a small question lastly, which is things about channel financing. Sir in todays date you have channel financing of about Rs. 600-700 crores, so the partner of yours...

**Sanjay Gupta:** No, it is around Rs. 300 crores.

**Nitin:** Okay sir the Rs. 300 crores channel financing is there, can it increase and help you further to bring down your receivables, the retailer that you have, in that how important is funding cost under channel financing and how much can this be increased. I know it has no recourse on you but is Channel Financing a very important thing for your retailers to conduct more busines and pick up more volumes from APL Apollo?

**Sanjay Gupta:** So, sir the Rs. 300 crores channel financing that is there, we hardly utilize maximum up to Rs. 200 crores only. Nowadays, retailers and distributors are also not interested in borrowing money. Everyone has the joy of working with their own money that nobody is ready to sell the material in create or keep the inventory in their house. Like we earlier used to work on inventory of 2 lakhs tons, if you see in my balance sheet, 1, 10,000 tons inventory is left over in my balance sheet in total. Now we also tell to our supplier that we want the material on these terms if you are willing to give then good else, we do not work on their terms. Meaning, the focus is now shifted more towards service which indeed is very good for us also because our equipment's, made to customer plants, DFT technology, we also want that the market to be in cash and less inventory which is an added advantage for us. Customers' base have also become so, in these COVID times what we all have seen, I think this is not the change for the APL only but it is the change for the entire industry itself, maybe we are the first person to initiate but whenever we have discussions with our friends and associates in other industries or speak to dealers, they are not ready to sell material on credit, whether their goods are sold for 100 tons less or more, but in cash.

**Moderator:** Thank you very much. The next participant is Vivek from GS Investments. Please go ahead.

**Vivek:** Two queries from my side is, sir one is your branded play is doing very well, you have introduced this advertisement with Mr. Amitabh Bachchan which is very appealing and catchy but I checked for supply to my home and Chaukhat supply elsewhere also, and people have asked me to wait for 3-4 months for the supply, so what is the situation now, is there so much demand that we are not able to meet?

**Sanjay Gupta:** In which area have you been asked to wait for the delivery of Chaukhat?

**Vivek:** In Ghaziabad side sir.

**Sanjay Gupta:** In Ghaziabad we have 24-hour delivery system for Chaukhat.

**Vivek:** No, I was able to speak to only one or two people only.

- Sanjay Gupta:** If you have the helpline number, else we will give you, In North zone within 24 hours you will get Chaukhat, our Chaukhat has been famous in North Zone up to MP. Ahead of MP, in West Zone and South Zone our Chaukhat is not famous yet but within MP you should be able to get Chaukhat within 24 hours.
- Vivek:** Sir I believe I might have got in touch with the wrong person then.
- Sanjay Gupta:** You go to our site and lookup any dealers' numbers from there and you should be able to get within 24 hours, Chaukhat is readily available everywhere.
- Vivek:** And second thing is sir, this is regarding basically, our brand play is going on very well; the commodity to brand one, one question I do have is do we have any merger plans for TriCoat and Apollo because the TriCoat is a B2C player and we have full chances of getting premium valuation for them and our margins are also good and getting better, whereas in tubing segment of APL Apollo the margins are lesser there and if we do the merger so we might not get the premium valuation with B2C with other companies like for example, Astral converted PVC pipe into brand and took the premium valuation, similar to that?
- Sanjay Gupta:** Sir, see I am an entrepreneur and my duty is to work, numbers and all I do not know TriCoat merger will happen or not, how it will happen all of this, time to time the companies that we have with our consultants, the senior leadership would be comment onto it who are concerned with this. My work is to do business development and I am doing that, now I am not in a position to make any comments on this.
- Vivek:** How is the opportunity size looking for our value-added and branded play?
- Sanjay Gupta:** For which?
- Vivek:** How big is the opportunity size for our branded and value-added play?
- Sanjay Gupta:** Sir see I am into this business for the last 34 years, people who do service take retirement in 34 years so I have done work for one generation and I have not worked into any other industry apart from this. So, whatever I feel is good I work on it, else I am a very conservative person and shy away from other stuff. I am very bullish in regard to my company.
- Moderator:** Sorry to interrupt you Mr. Vivek I would request you to come back in the question queue for a follow up question. Next participant is Amit Jeswani from Stallion Asset. Please go ahead.
- Amit Jeswani:** Sir my question is about the value-added side of, more on the Apollo TriCoat side and your value-added side, broadly sir you said that you will increase the value-added portion at 40 % CAGR that is your vision of course, from 45%-75%. Today, TriCoat is about 13% like how large is the TriCoat opportunity because you are adding new products there, first of all how

large is the TriCoat opportunity and second what percentage of that value-added would TriCoat be?

**Sanjay Gupta:** Sir see I do not have any idea in terms of numbers but what I know is TriCoat in itself has its own business and within it there are different types of products like door frame is there in TriCoat, designer pipe is there in TriCoat, ILG is there in TriCoat and accordingly the growth will be seen in the business there. In APL column pipes are there, color coated plant is also coming in APL, APL is doing its own work, so we have not worked out the percentage of the mix of these products, what percentage will TriCoat do and what will APL do, but as a group wherever the business is cheaper, we will have to work there.

**Amit Jeswani:** Right, sir you are at 3.5 lakhs ton on TriCoat, how much do you expect to scale this up, you have scaled APL Apollo from 1 lakhs tons 12 years back to about 25 lakhs tons today, that is another level scale very few entrepreneurs in the country have been able to scale up like you have scaled up. In TriCoat you are at 3.5 lakhs ton, just on the vision side next 3-4-5 years what do you expect how large can TriCoat be?

**Sanjay Gupta:** Sir, there are three types of pipes in TriCoat, one is Chaukhat, second is plank, third is designer pipe and fourth is ILG. In within these, as the market expands the company will expand, and rest expansion how market will expand APL will also, so right now I cannot give the number is too tough. We know the company's product that in this company these products are in demand and within that, let us say if door frame goes up to 3 lakhs ton, so I will have to increase it in TriCoat then.

**Amit Jeswani:** Right thank you so much, you are doing a commendable job.

**Moderator:** Thank you very much. Next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

**Bhavin Chheda:** Congratulations to Mr. Sanjay ji and the entire team for a continuous growth for last decade. Just a few questions since you are now entering a very big league already, so this debtor reduction; the number of days what you have done, can you explain that in more details because that is a big number which has changed in these last 3-4 months how you have been able to implement because you said you have over 800 distributors and obviously during the times of pandemic, because what we hear is that the liquidity is very tight in the market, so where does these distributors got so much money to pay you off, or is there a securitization or channel financing which has happened? And how sustainable is this, if you can throw some light on the big working capital change what has been done in the first half?

**Sanjay Gupta:** Sir the biggest change is that to let you know in simple terms, when the pandemic struck at that time my debtor was around Rs. 500 crores and Rs. 350 crores approximately was my channel financing, total Rs. 850 crores exposure for banking and including my system consolidated. At that time when we were reaching out to people to collect our payments over the phone, people



were telling Mr. Sanjay you are asking for money and we are worried about saving our lives. I was saying if you give back the money I will save my life from COVID but how will I save myself from banks, so we took an in-house decision keeping in mind that whether the business would function or not but we will not sell materials on credit and secondly, we saw we were holding heavy stocks in house, let us say for example the car was speeding at 200 km/hr. and we were cautious of touching it, even if one wheel goes loose we will end up derailing the entire train. Now the situations so arise that already things have gone worse due to COVID, we said that whatever had to happen is already gone but the plans that we had for the future in 2 years we will do this, in 3 years so and so, we said let us implement all of them right away because we were always cautious behind implementing any new policy that the business should not be hindered because of it, our employees use to scare us, people from within the organization also had the same opinion, our dealers used to scare us, our suppliers also used to scare us, so we kind of removed the fear from our minds, we took a bold step here. We thought what could have happened has already happened, what worst can happen now? So we said that we would neither keep more of inventory, we will now work on our service, nor we will sell the goods on debt. So what happened at that time is that the company's inner strength emerged, So people started saying that what is this, initially we got resistance from 10, 20 big dealers, then they said okay Sanjay ji, previously you used to give us forty five days before, now make it to thirty days, we said we will not give that, so they insisted to make it twenty days. So, I thought from forty-five days they have come down to twenty days, so it will come to five days by itself. We became adamant that we will not do business on this and since they also did not have any other option, they started working on it gradually, then later they also felt that. Even they did not had money, so they also started reducing their credits and gradually this became a channel. So even they thought that they have to take so much money from the retailers, why do they have to do this work. So, the improvement came in the whole system, I think this is not for APL Apollo only, any type of building material companies, you will see this improvement everywhere. And I believe in the coming years, this will become a history for India that the goods were sold on debts. To be frank, today even the distributor does not want to take on credit.

**Bhavin Chheda:** Sir you have done a very good job, we will anyways feel good if you reduce the working capital. So Sir now the situation that you are saying is that in debtors also in future will be less than ten days and your channel financing will be at Rs. 300 crores, or will it be less or more than this?

**Sanjay Gupta:** It is decreasing only, on a daily business, it is decreasing, channel financing is not increasing and that is without TriCoat and secondly it is not 300, this figure will remain around 210, 220. that money also the distributor is after giving it back.

**Bhavin Chheda:** Sir, my second question was, now you will reach the full capacity by the next year, so how much will our capacity increase now from twenty-six lakhs, the ongoing capacity input that you are going to do?

**Sanjay Gupta:** We had a very big plan Pre-Corona but now after corona we have cooled down ourselves, now this year we are doing the re-setting of all our plants, due to which our field factor will reduce, our value-added products sale will increase little to 2.5, 2.6. Next year, we had planned for our Raipur project, we had given a lot of advances in that of around Rs. 40 crores, Rs. 50 crores, there we had a very good business but now we are not in a position to say anything about it at this point in time. We had made one, two guidelines in our life that whatever sale we will have, we will not go above 10%, 15% of the CAPEX. Secondly, during Corona time, we made one guideline that we will not borrow from banks, irrespective of whatever happens. So whatever we will earn, we will take a little into dividend, leave some of it in the company, some money we will take into CAPEX and we will mix this and the growth will definitely take place, we have to grow further anyhow but now we will not talk much about it, taking small CAPEX now we will do the work on land development in Raipur with a little bit of CAPEX and are getting ready to move.

**Moderator:** Thank you very much. Ladies and gentlemen, due to time constraints that will be the last question for today. I will now hand the conference over to the management for closing remarks.

**Anubhav Gupta:** Thanks, Nirav and thanks to all the participants for being present here. I am sure most of your queries would have been answered and if not, you can reach us by our email and our phone numbers and we shall reply to you. Thank you so much.

**Sanjay Gupta:** Thank you everyone for joining us.

**Moderator:** Thank you very much. On behalf of Ambit Capital Private Limited, that concludes this conference, thank you for joining us you may now disconnect your lines. Thank you.