



**APL Apollo Tubes Limited's Q4 FY'23
Earnings Conference Call**

May 12, 2023

Management:

Mr. Sanjay Gupta – Chairman & Managing Director

Mr. Deepak Goyal – Chief Financial Officer

Mr. Anubhav Gupta – Chief Strategy Officer

Moderator:

Mr. Aman Agrawal - Equirus Securities

Duration – 01:14:21

Moderator (00:00:02): Ladies and gentlemen, good day and welcome to the APL Apollo Tubes Limited Q4 FY23 results conference call hosted by Equirus Securities. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aman Agarwal from Equirus Securities. Thank you and over to you, sir.

Mr. Aman Agarwal (00:00:41): Thanks, Dorvin. Good evening, everyone. On behalf of Equirus Securities, I welcome you to the 4Q FY23 earnings conference call of APL Apollo Tubes. From the management side, we have with us Mr. Sanjay Gupta, Chairman and Managing Director, Mr. Deepak Goyal, who is the Chief Financial Officer and Mr. Anubhav Gupta, who is the Chief Strategy Officer. Not wasting much time, I would straightaway like to hand over the call to the management team for their opening remarks. Over to you, sir.

Mr. Anubhav Gupta (00:01:09): Thanks Aman, thanks for hosting us for our quarterly earnings call. Good evening, everyone. We welcome you all on our FY23 earnings call. Sorry to start this a bit late this time. Some of the directors had different plans. FY23, we just closed. It was like a rollercoaster ride with steel prices falling from Rs. 65,000 per tonne to Rs. 55,000 per tonne and then eventually settling between Rs. 55,000 to Rs. 60,000 per tonne. This decline was triggered after the global meltdown of commodity prices started in May 2022. It impacted building material space and APL Apollo tubes as well with channel de-stocking and some margin pressure due to a push sales strategy when our channel partners go for de-stocking. But we are pretty glad to share that we ended FY23 on a high note as our sales volume recovered very sharply with 30% growth after two continuous years of COVID-led disruption. FY21 and FY22, and at the same time, the company's capacity increased to 3.6 million tons as we are talking right now from 2.6 million tons post-commencement of the new Raipur plant, which is our biggest ever plant. Some of the highlights we would like to share are for FY23, the volume growth was 30% to almost 2.3 million tons. Out of this, Raipur plant contributed around 6%. The total volume from Raipur plant was 137,000 tons per full year, which now is ramping up pretty fast. The EBITDA per tonne is lower for FY23 since last year because of channel de-stocking, which led to some push sales strategy and of course, Raipur plant was being stabilized. So there were some costs which got loaded up front. Despite lower EBITDA per tonne, the EBITDA growth was 8% to 10.2 billion. It was supported by a strong volume growth. The PAT growth was 4% to Rs 6.4 billion due to high depreciation as the new Raipur plant started in FY23, all of the depreciation was accounted towards the second half of FY23. The working capital days remained in single digit at five days, despite the inventory days going up as we started the Raipur plant. But the debtor days came further down and we continue to sustain at a single digit working capital cycle. Operating cash flows were pretty solid as well, with 9.7 billion INR of OCF in FY23. It was almost 95% of our EBITDA, so the cash flow generation remains pretty strong. And because of the strong cash flow generation, the capex we did last year was 8.4 billion INR. Out of this, 80% was for Raipur, and now Raipur capex for 1 million tonne is pretty much done. This led to slight increase in our net debt to 2.4 billion rupees versus 2.0 last year. But as the capex intensity is slowing down, this will be coming off over the next two, three quarters. Encouraged by strong operating cash flows, we are glad to share that the board has approved dividend of Rs. 5 per share, which is a pay-out of 20% plus for company, which is one of the best pay-out ratios. So, we are glad that this solid cash flow generation is resulting in a shareholder reward at the same time. The ROCE was 29%, the ROE was 24%, this was slightly lower YoY, but because of our heavy investments into Raipur plant, which has just started, and this year as we expect good ramp-up and good profitability from Raipur, the ROEs and ROCEs will hit a world of 35%. And eventually they will hit 40% once we have the full ramp-up from Raipur. Coming to some of the other updates, one is the volume trends in Raipur. So, you would see that we started

ramping up plant from Q1 FY23 onwards, and by the time of Q4, we did 73,000 tons in volume, which was, if you analyze it, it was at 30% utilization. The EBITDA per ton trends is also encouraging over 4,000-4,500 per ton from Raipur. And the last 2-3 months, we launched our 500 square diameter mill and also the color-coded products are mainly for roofing and wall cladding. So, these two complexes are stabilizing and giving us incremental volume because these are two new products. The market creation efforts are ongoing in an aggressive manner, whether it is for high dia tubes for steel building solutions, or it is for color-coded products for roofing, housing and industrial applications, we are focusing aggressively on the market creation by pushing our products to influencers and our distributors. Lastly, on some of the business decisions, which we took early FY23 was to invest some stake in our distributor, Shankara, so I am glad to share that the volume contribution from that client has increased by 180% in FY23 versus FY22. So, this led to a very strong relationship between the two organizations with our suppliers to them and they are going aggressively on the market share gains within southern India. So, this relationship turned out to be a very win-win kind of thing for each of us. And we are looking forward to further strengthen it as we have aggressive plans over the next 2-3 years over that platform. Coming on the guidance and future plans, our capacity expansion in Dubai in East India and new incremental capacity in Raipur, plus some de-bottlenecking will take us to around 5 million ton by FY25, which is part of our vision 2025. And for that, we need a capex of Rs. 5 to 6 billion, which will be funded from internal cash flows over the next 18 months. And by FY26, we will target to utilize this capacity and in the next two years, we stick to our sales volume target of 3.8 to 4 million ton by FY25 with operational capacity of 5 million ton. So more or less, we are sticking to our guidelines, our guidance, which we have been communicating over the last 15 to 18 months. That's it from our side, Aman. We can now have this Q&A session. Thank you.

Moderator (00:09:47): Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and 1 on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and 2. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Rahul Agarwal from Incred Capital. Please go ahead.

Rahul Agarwal (00:10:20): Hi. Good evening. Thank you for the opportunity. Congratulations on consistently meeting the stated targets and good to see how they will play out as well. First question, Sanjay ji was more on the competitive landscape. We hear from certain regional channels that Tata Structural and JSW Steel both have ramped up their capacity in structural tubes and JSW Steel has actually started manufacturing that. Few regional players also we hear are picking up quite a decent amount of volumes on a monthly basis. I just wanted to hear your thoughts because what is happening is, there is a lot of competition now building up for APL Apollo which was absent for many years and we had a very clear runway of growth. Just your thoughts on, you know, is it really real and what do you expect going into next two to three years? That's my first question.

Mr. Sanjay Gupta (00:11:13): Thank you, Rahul. Rahul, I also hear and read in the presentation of Tata Steel, right now they have a capacity of 1 million tonne and they want to go to 4 million tonnes by 2030. But I have no plans in which sector Tata is going to or want to go for 4 million tonne in the next six, seven years. If we go for 4 million tonne, right now it is in the structure to buy 2 million tonne. If we calculate, so he has the capacity for structural tube of 1 million tonne or 1.5 million tonne, this is not a big threat for us as well as Tata is a responsible player in the market. He never destroyed the market so we are not worried about the Tata Steel. JSW just taken a plant called Bhushan Power in Orissa. They have a little bit of capacity of tube in the parental plant. Still we have no such as information from the market towards their planning in that commercial. In JSW, we have no worry so when they are helping JSW or Tata Steel also, they are healthy players. They is not worry if anyone comes I don't worry about it

that as they are not a market destroyer, if they increase a little bit of capacity my cost is in control, my everything is in control, I have a good value addition product with me. I have good branding in the market, I have a good social network, I am not worried at all. Market is also growing very fastly in the two business. What we are saying is that there is a good lot of work, maybe all can survive it is not a big issue for us, but time to time, there is a healthy concern, we will learn from it and take the collective action and go forward. I don't see today any big threat.

Rahul Aggarwal (00:13:33): Got it sir, understand. And the second question was, how is being April and May so far, how are the HRC prices behaving and obviously a target of 3-3.2 million tonne at 5,000 rupees EBIDTA next year, basically needs like 7 lakhs, 7.25 lakhs quarterly run-rate, so how are we based on that, how is the market behaving?

Mr. Sanjay Gupta (00:13:54): As far as we make the business plan for 3 million tonnes for this year, in the first half we are thinking we go for about 13 lakhs, maybe 14, maybe 12.5 to 14 lakh ton, anywhere between. And the second half, because our one machine is only pending in ABPL and is in last stages of commissioning, which I think all three complexes in ABPL would be running by June. One complex we have called HSU complex, second complex we have called wider complex, third complex we have called narrow section complex. However, our narrow section started at the first but unfortunately it has stacked in one machine so it is possible that is not working due to this. HSU complex and wider complex is running good. We are developing HSU complex to 500 square, depending on 500 square, it has come to the run-rate of 7-8,000 ton, HSU complex, wider complex has come to the run-rate of 15-20,000 ton, narrow section has come to the run-rate of 3-4,000 ton. As soon as machines will be stabilized in the June or July, just to took a ramp-up of 30000 ton straight forward because this is our old market for the east we will not face any big problems because we have already created our market in the product. We are thinking in the next half, we are going for about 15 to 16 lakh ton anyway to the close of the target. In spite of steel prices again from the month of April, steel prices are going down but not like last year, last year gap of from Rs 75,000 to 55000 ton, this year it is slightly slowed down, like Rs 1000-2000/t this is a chapter but not a big chapter, we can manage it.

Rahul Aggarwal (00:15:56): Got it, thank you so much for answering I'll come back again.

Mr. Anubhav Gupta (00:16:01): Thank you Rahul.

Moderator (00:16:03): Thank you, the next question is from the line of Invest Research please go ahead

CA Garvit Goyal (00:16:10): Hello. Am I audible sir?

Moderator (00:16:03): Yes, you are audible sir please go ahead.

CA Garvit Goyal (00:16:15): okay

Moderator (00:16:16): We request you to mention your name and go ahead with your question

CA Garvit Goyal (00:16:21): I am CA Garvit Goyal from Invest Research sir. My first question is on your volume target like you mention 30,00,000 kind of volume FY24 target which is more than 30% growth in volume. So, if we take your guided EBIDTA per tonne for 5000 it gives us EBIDTA growth of approximately 50%. So can you elaborate on what are the projects in line for completion in FY24 which makes you believe the targets. I am asking this because run-rate for January was, I think it was 2,50,000 as you mentioned earlier but considering your overall quarter for volume it seems that monthly volumes decline in Feb and March despite being good time for construction. So kindly put some colour on that sir.

Mr. Anubhav Gupta (00:17:09): So, see our products are sold through distribution channel, okay we are not dependent on lumpy project B2B business where we have a strong order book. If you look at our inventory, that is like almost 30 days which is right from the sourcing of raw material to the processing and dispatching. We never had the order book visibility in our business plan. Our job is to 1) innovate a product, 2) create the market for that, 3) distribute it efficiently so that it is profitable for us and our channel partners at the same time. If you look at my FY24 business plan, yes we are targeting 30% volume growth. Same like we did in FY23. If you look at my 5-year, 10-year volume CAGR, we are pretty much confident that this kind of run rate momentum is possible. We are fully confident about it. Last year, just to add to it, when steel prices crashed from Rs.75,000 per tonne to Rs.50,000 per tonne, that was the worst year for this steel industry. Even then, we could manage 30% volume growth and this year should be like more or less stable scenario for global commodities. This momentum is also backed by all our innovation work that we have done in Raipur plant. We mentioned that there are two products which are already being established in the market, whether it is high dia tubes, run rate of 7-8,000 tonne monthly, whether it is roofing product, the coated products that also run rate at 15-20,000 tonne and with our more thicker color coated sheets which will start in 1-2 months, that is only going to add to the momentum. And then the overall industry is also expanding. It is not that only Apollo is growing, we are growing, but we are also getting good support from industry and you will also see that it has never been the case that Q4 must have been the seasonally strong quarter for us. I mean we tried to make our business plan, yes, it is more skewed towards the second half, but then December quarter could be good, March quarter could be good for us.

CA Garvit Goyal (00:20:03): Understood sir and sir, mainly actually my question was from the EBITDA per tonne side.

Mr. Anubhav Gupta (00:20:11): So yes, you heard us right. I mean in FY23 our EBITDA per tonne was 4,500. So, this was despite the fact that we weathered or we faced the raw material decline pressure right from 75,000 rupees per tonne level to 50,000 rupees per tonne level, plus we were stabilizing our Raipur plant. So, these two factors depressed EBITDA spreads right. This year FY24, even if we are able to achieve Q4FY23, EBITDA levels, yes, we are talking about good jump in EBITDA, more than our volume growth. Your assessment is right and we are confident of that.

CA Garvit Goyal (00:21:01): Understood, sir. And sir, what will be the targeted value-added percentage to your total volume in FY24?

Mr. Anubhav Gupta (00:21:09): Right, so FY23, it was slightly lower versus FY22, but this will go back to 60% plus levels and eventually to 75%, right, when we have fully commissioned 5 million tonne capacity because all new incremental capacity, whether it was Raipur which got commissioned or the new capacity which is coming, majority is value added products. So, FY24, we would be improving our sales mix with value added products contributing 60% plus and eventually to 75% when we hit our 5 million tonne capacity in three years.

CA Garvit Goyal (00:21:52): Actually, I was asking what was the reason for this downfall in the VAP percentage because overall volumes are growing, so why isn't value-added percentage going up?

Mr. Anubhav Gupta (00:22:01): So, if you look at last two years, FY21 and FY22, my general product category, it actually declined in absolute terms, right, because the steel prices were high, so the affordability for my general product deteriorated and that is why there was some shift towards the scrap steel or inferior products, right, in our industry. But now that the prices went down, right, so the affordability improved and there was recovery in our general products. So that led to some deterioration in sales mix, but we are not too much bothered about it, given the fact that Raipur is stabilizing well and Raipur is all high value-added products.

CA Garvit Goyal (00:22:50): Understood sir. And sir, one last question on the cash flow side, actually, if you see the results PDF and the presentation, I think the figures are slightly different for cash flow from operating activities.

Mr. Anubhav Gupta (00:23:02): Right, so what happens is that, I mean, there is reclassification, so you are comparing FY22 versus FY22?

CA Garvit Goyal (00:23:10): No, no, it is not comparison, actually, for FY23, your cash flow from operating activities that given in your presentation and what is that given in your PDF, results PDF, that is, I think, slightly different, in results PDF it is 690 Cr and in presentation it is 946 Cr.

Mr. Anubhav Gupta (00:23:30): No, no, so that is just the, that is just some of the, like, you know, in presentation, we try to give cash flow in the manner how investors like to analyse, right, and the result PDF is as per the accounting norms, but if you look at the lines, right, it is just that some lines we have taken up and some down. So, there is no change in the number, it is just like, it is just reclassification of some lines.

CA Garvit Goyal (00:24:10): So, what is your cash flow from operations for entire year?

Mr. Anubhav Gupta (00:24:16): One minute, please.

Mr. Deepak Goyal (00:24:27): Yeah, there is some difference because in the financial statements, if the FDR is more than one year, we are showing the other financial assets. It is amounting around 250 crores and in the cash-flow is the presentation we taken is a bank balance. That is why you are focusing on this difference, that is why there is a difference.

Mr. Anubhav Gupta (00:24:49): Just to add to it, so if you look at our other financial current assets, out of that 2.6 billion, 260 crores is in FD, right, which our auditors, because it was more than one year, 365 days, so auditors suggested that it should be part of other current assets, not in the cash balance, right. So, we adjusted that 260 crores of FD for that. And there is a note mentioned in the presentation for you.

CA Garvit Goyal (00:25:26): Okay understood sir. Thank you very much for that, and all the best.

Moderator (00:25:33): Thank you. Ladies and gentlemen, in order to ensure that the management is able to address questions from all participants in the conference, please limit your questions to two per participant. For follow-up questions, you may rejoin the queue. The next question comes from the line of Dhruv from Ambit Capital. Please go ahead.

Dhruv from Ambit Capital (00:25:51): Thank you so much for taking my question, sir. So, I have two questions. One was that if you look at the fourth quarter presentation in terms of the EBITDA split you give per section. So, we have seen a sharp jump in the general products, you know, EBITDA per ton, which is, if you look at it from a four-quarter perspective, also the highest. So, I just wanted to understand what has changed, sir, and if we should consider this as the new model.

Mr. Anubhav Gupta (00:26:20): So, Dhruv, see, I mean, this general product sales, right, and margin, they are very much sentiment-driven, right, that is why they are, I mean, you will see the EBITDA per ton moving from 1500 rupees per ton to 2500 per ton, right. In Q4, if you see, because overall affordability of these general products versus inferior products, right, when the volume trends are good, we are able to get better margins on that. So, it is a function of that. So, we wouldn't say that 2600 per ton has been established for the general category. If this segment does not grow, right, then there will be some pressure on that. So, if you look at the contribution of this, right, to my overall EBITDA, that is not that high, right. So, we just let it be driven by the market sentiment. So, we go month on month, not even quarter by quarter in this.

Dhruv from Ambit Capital (00:27:36): All right, correct. And the second question was on your UAE expansion. So, just wanted to understand that what is the kind of volume that you are expecting from there in terms of exports and, you know, in your 4 million guidance that you have given, you know, what is the contribution that you are expecting from there? And in general, if you could just talk about the market opportunity there, how large it can be there.

Mr. Anubhav Gupta (00:28:02): So, Dhruv, see, I mean, if you look at our last four, five years of growth, right, it has been heavily driven from the domestic market, right. But there was always the opportunity for us to go aggressively in the international markets, right, given the fact that today APL Apollo is among top three steel tube producers globally, right. So, this is one segment which we have been ignoring, but now we decided that we have to cater to it, right, given the fact we have excess capacities, right, given the fact we are able to hire best talent in the industry, okay. So, we have good volume maximization strategy from the exports market. Now, Dubai plays an important part because sitting in India and having excess to expensive raw materials, you would understand, it does not make us price competitive. When we are competing with Chinese or Turkish steel tube producers globally, okay. So, if we had to grow this segment by 2x, 3x, which we have in our business plan, we needed excess to the cheap raw material. Now, cheap raw material nearest port what we could find out was Dubai, right, in terms of the real estate land, what we are developing in terms of the talent which is available and in terms of accessibility for my existing team, right. So, we are setting up a 300,000-tonne plant in Dubai which will be starting by Q4 of FY24, right. I mean, if you look at my overall export sales, they were around 60,000 tonnes last year out of 2.2, out of 2.3 million tonnes sales volume. So, this year, we target to take it up beyond 100,000 tonnes, okay. And with Dubai capacity coming on-line, we will be targeting 200,000 tons over the next 3-4 years.

Dhruv from Ambit Capital (00:30:22): Okay, great. Thanks a lot and all the best.

Mr. Anubhav Gupta (00:30:25): Thank you.

Moderator (00:30:26): Thank you. The next question is from the line of Akshay Chheda from Canara Robeco Mutual Fund. Please go ahead.

Akshay Chheda, Canara Robeco Mutual Fund (00:30:34): Yes, sir. So, two questions. So, first is, sir, if you see the EBITDA per ton for this quarter, that is around expansion of around 500 rupees, but if we see that the product mix had deteriorated sequentially and even raw material was also largely stable, so, sir, how do you, what do you attribute this 400-500 rupees expansion to? Is it better pricing or how do we see this, sir?

Mr. Anubhav Gupta (00:30:58): So, two reasons. One is my incremental volume coming from Raipur, right. In nine months, Raipur EBITDA per tonne was a bit low. In Q4, as we did 73,000 tonne volume, my EBITDA per tonne improved in Raipur and that contributed to my overall EBITDA at company level one. Second, because the channel de-stocking stopped, right, after the raw material prices stabilized, right, so that also led us to improve our margins, right, when there is natural pull in the industry, we take out the discounts which we normally offer to our clients. So, that led to improvement in the margin. So, given the fact that steel prices are not going to go down by again 25,000 per tonne, which they did in FY23, we should be able to maintain these spreads for FY24.

Akshay Chheda, Canara Robeco Mutual Fund (00:31:56): So, what would you guide for FY24? On the back, the product mix will improve. So, what would you guide? Would you continue with 5000 in FY25 or would you revise your guidance?

Mr. Anubhav Gupta (00:32:09): Right, so for FY24, we are confident of 5000 per tonne, plus minus 100-200 rupees per tonne, okay, and eventually with my 5 million tonne of business plan, it should be around 5500 to 6500 per tonne, I mean that is the broad range.

Akshay Chheda, Canara Robeco Mutual Fund (00:32:31): Got it, thank you.

Moderator (00:30:35): Thank you. The next question is from the line of Bhushan Shah from Congruence Advisors. Please go ahead.

Bhushan Shah, Congruence Advisors (00:32:41): Hi, sir. One of my questions would be as have shown in this presentation on competitive sheet and in that we are seeing that the Zekelman is making a EBITDA model of 19% with having 80% of building material infrastructure sales. I am not able to understand that the chart what is being presented because in that thing SSAB is also been making 60% but the EBITDA margin is 40%. Can you explain that because even the manufacturing sector city we have been the highest, revenue we have been the almost highest, second highest. So, how this has been evolved, like why we are being with low EBITDA margin and they are having value added products like the contribution of value-added products will be more or something like that?

Mr. Anubhav Gupta (00:33:33): So, there are two reasons why we put this up. One is to show to our investors that this is the aspiration. This is possible in steel tube industry which normally is looked as the commoditized or just the steel processing industry. Globally, when we look at players in Japan, in US, in Europe, so they are making these fancy mid-teens EBITDA margins. So, one purpose is that. Second is to tell our investors that we are highly focused towards the building material and infrastructure space which is related to construction and all our innovation, all our product SKU range is focused towards this segment. So, the fact of the matter that why the margins are almost two times more than what there are in India and in India in the structural steel tubes our spreads are the highest. So, what we find out, what we could analyze is that in the construction sector these companies are selling the high-dia high thickness tubes for many years and they have almost 40-50-60% of their volume coming from high-dia high thickness. Apollo started its journey into high-dia high thickness in 2018 when we put up our first 300 square dia mill. It took us a good 3-4 years to create the market for that. Now we are selling more than 100,000 tons a year. So, the next leg was to get into 500 square diameter mill because we wanted to give the complete SKU range to the contractors, to the designers, to the structural engineers to design the structures using tubes. Now after 500 square, as it is ramping up, the next product line what we are adding this year is 1000 by 1000 mm dia mill. So, that will give us further expansion of SKU range. So, what we believe is that after this SKU profile, the volume uptick in big section, in super big section will be much more quick versus what it has been over the last 3-4 years. So, once we reach at those levels, even you will see that our margins will start inching up towards double digit and henceforth. Sanjay ji, please add to it.

Sanjay ji (00:36:45): Sir, what I see in my last 2-3 years just before the COVID, I personally go to the Zekelman industry in Chicago. I visit 3 plants of the Zekelman industry. There, the product percentage of the selling is almost 75% in the bigger sections. And the higher-dia thickness and circular tubes. So, it is almost 10% or less than 10% for APL. This economy of European or I don't visit the European companies, but I visit Japanese companies, but I visit the Zekelman very nearly, I have observed it closely and from their my vision has started. Their market is developed, they are developing nations and their product is higher diameter, almost 75% to 80% dia, I have started my work on the same vision. First time we take 12 DFT machines, one of sort, and put 200 square, 3 lines, We have 3 lines of 200 square, then 300 square, now 500 square. Because in India, I am meeting a lot of architects and engineers and when they make a design so, they talked to me there is shortage of material so have to go back to RCC or the PEB designs. So, engineers and architects and told me that if there is shortage of material, then why do you

make us these designs so things are coming slowly slowly and when the India market is developed in this, there I have studied many companies there even their margin is better than Indian margin in tube industry. I also can't understand why this in India, so I understood only two reasons that there is no scope for secondary materials in those countries. Number two, they have the highest share of high dia high thickness tubes. I hope if these two things starts in India, then our margin will also become similar. But I can't say it right now. But I am also working on this very deeply. I am also worried about this point. You are just talking about pipe, if you compare tiles or paints with American industry and Indian industry then Indian margin has better margins. But right now, I have no answer. As there is no secondary market there, they have bigger high dia market share. I have no more answer. Thanks.

Bhushan Shah, Congruence Advisors (00:39:41): Okay. Okay, sir. That was a very elaborative answer. Just one that Dubai, total tons, how many would be the tons in Q4FY24? Just a tonnage specific?

Sanjay ji (00:39:58): Q4, we are targeting Dubai about 10,000 tons.

Bhushan Shah, Congruence Advisors (00:40:03): 10,000 tons. Okay. Okay. Thank you, sir. Thank you, sir.

Sanjay ji (00:40:08): Quarterly 30,000 tons.

Bhushan Shah, Congruence Advisors (00:40:11): 30,000 okay, okay.

Moderator (00:40:14): Thank you. The next question is from the line of Aditya Vilekar from Axis Securities. Please go ahead.

Aditya Vilekar, Axis Securities (00:40:23): Thank you, sir. Can you just revisit on your sales volume guidance for FY 24, 25, and if possible, for 26? And if you can quantify the splits with respect to individual plants, and how much is from existing, how much from Raipur, Dubai, and Kolkata.

Mr. Anubhav Gupta (00:40:40): Right. So, see, I mean, our vision 2025 is 5 million tons. Okay. So, this means by FY26, we plan to exhaust this capacity and convert this into sales volume, actual sales volume. So that's 3 years sales volume target. Now, coming to FY24, we are seeing 2.8 to 3 million tons, right, FY25, 3.8 to 4 million tons, and then FY26, 4.5 to 5 million tons, right. So, that's why we try to break it up. Here, Dubai plant is 300,000 tons. New plant in East will be 200,000 tons. Then, there will be incremental capacity in Raipur over 1 million tons of around 300,000 tons, right, and then, there will be some capacity expansion, brown field expansion within the existing 10 plants, ex-Raipur, that will give us additional capacity of 3-400,000 tons, right. So, that's the broader maths for 5 million tons.

Aditya Vilekar, Axis Securities (00:41:55): Thank you. So, that's useful. And the next one is just if you can once again reiterate the capex guidance for FY24, 25.

Mr. Anubhav Gupta (00:42:06): So, right now, we are at 3.6 million tons capacity, right, and to reach to 5 million tons, we may not require more than 500 to 600 crores of rupees, right. This, we should be spending over the next 12 to 18 months, and this will be 100% funded from the internal cash flows.

Aditya Vilekar, Axis Securities (00:42:27): Okay, perfect. Sir, one last question. So, now, recently, there were reports of falling steel prices, steel prices falling in China. So, are we seeing any signs of de-stocking from traders in anticipation of further falling steel prices? Or is the demand robust enough, and we are confident that the demand will stay strong? And the kind of volatility we have seen in FY23, that kind of de-stocking cycles may not get repeated in FY24?

Mr. Anubhav Gupta (00:42:58): See, I mean, if you look at our trend over the last 5 to 10 years, okay, steel is a very volatile commodity, right. And we are managing this quite efficiently, right, over the years. So, the point here is that 1000, 2000, 3000 per ton decline or increase, it's a very normal industry

practice. Apollo's scheme, Apollo's plants, Apollo's system, and similarly, our distributors, retailers, and further channel partners. So, they are equipped to manage this 2000, 3000 rupees per ton kind of volatility, right. It does impact for a few days in terms of the de-stocking, because if one understands that yes, there could be some decline in the prices, so they do hold on to their purchases but then there are two factors we are playing to. One is that the secondary demand should be strong, given the fact that construction is doing well in India right now. So, the secondary sales will remain good. The demand from the end consumer, whether he is a household owner or a contractor or a developer. So, if those trends are good, then material keeps on flowing. And second is that normally for distributors, they work with 25-30 days of inventory. When they want to destock, they may reduce it by 4-5 days. So, this is a general industry practice, which may hit the volume for a few days or weeks, but not beyond that. So, to answer the question, yes, right now, trends are a bit on the low side. So, it is impacting some volume, but not to the extent that we have to change our business plan or something.

Aditya Vilekar, Axis Securities (00:44:53): Understood. Perfect. Thank you, sir.

Moderator (00:44:56): Thank you. The next question is from the line of Aman Agarwal from Equirus Securities. Please go ahead.

Aman Agarwal, Equirus Securities (00:45:04): Yeah, thanks for the opportunity. So, first, just wanted a clarification on, we recently saw an open offer made for SG Finserve by the promoters. So, just wanted to get management strategy. Is there an intention to raise the stake in SG Finserve or was this more from a compliance perspective?

Mr. Anubhav Gupta (00:45:26): So, it was just from the compliance perspective because this NBFC is guided by the RBI norms and RBI approval came late. So, it is just for the compliance purpose, nothing else. That company is well funded by the investors and there is no plan of changing shareholding structure as of now.

Aman Agarwal, Equirus Securities (00:45:53): Got it. So, no further investments to be made in that company. Got it. And secondly, on the new product. So, just wanted a comparative on, you know, first with respect to the high diameter tubes, 500 by 500 and second the color-coded tubes. So, which product category do you see, you know, getting better traction or faster traction for APL Apollo?

Mr. Anubhav Gupta (00:46:16): See, I mean, we are equally bullish on all the segments because whatever Capex of 1000 crore plus we have put in Raipur, that is with the vision that all three products will fire for us at the same pace. So today, right now, the coated products are giving us the maximum volume. The high-dia, high-thickness tubes, we have very strong visibility from our potential clients. It is just that the conversion takes a bit of time. But right now, the pipeline is very strong, where some projects we are talking about more than 30-40,000 tons of consumption of our products in single project. So, it may take like, you know, one or two quarters to reflect into P&L. But given the pipeline, we are very bullish that this product, which is high diameter thickness will do really well. And thirdly, the thicker color-coded products. We have already developed the market last year but now we are doing further processing that will complete in next two months. And once it hits the production even that volume ramp-up will be very quick. Because we have already done very hard work last year to develop market for that. So, I would say that all products should fire for us over the next three to four months, and right now, the focus is on 500 square because this is first-of-its-kind mill in India. Globally, this would be only third, fourth mill. So, our technical team has done a really wonderful job to make this happen. Given the fact there was like restrictions from traveling from Europe/ China. So, as the line is stabilized, market is there, we should be ramping it up pretty quickly and from June-July onwards, the thicker coated sheet will fire at the same time.

Aman Agarwal, Equirus Securities (00:48:46): Sir, from what we understand, there is an existing market for these color-coded products. Can you throw some light on that? What is the total existing market size and who are the key players that are operating here?

Mr. Anubhav Gupta (00:49:00): Right. So, I mean, the coated products which you see in my sales volume, this is an adjacent product for me. Because in housing or in industrial, Apollo's tubes are already being used for roofing structure. Now, what I am providing is the sheet. What we are now supplying is the sheet which goes over our structure. So, being an adjacent product, it is the same distributor whom I am selling to, it is my same retailer whom my distributor will sell to and then the fabricator who is going to install it and the same end construction site.

Sanjay ji (00:49:48): Ultimately, we are putting a new type of concept, I think we come out with the month of October, or in the between of third quarter. We have to give our consumer a permanent solution of wall. So, like one machine in thicker color coated is yet to start because of that we are not marketing openly. Our one machine is stacked in Vizag from that we could make solution of wall and provide it to customers. Second line should start from the June if not in June, then it will surely start from July and this wall solution line will start from the quarter of October and then its concept will be more clear. Right now, whatever options we are getting we are working from it.

Aman Agarwal, Equirus Securities (00:50:54): Understood sir, and sir lastly on a broader level, what do you think can be an inflection point in terms of profitability or may be the industry size, ERW industry size, where the large steel manufacturers can start to look more aggressively towards making a meaningful entry into this segment. I understand there is an already meaningful entry, but we have not seen much of capacity addition from their end in past few years.

Sanjay ji (00:51:24): Boss, you have to have understood one point. I was just earlier telling; our difficulty is two points. One is secondary market, there is no market in India for the bigger sector in the big way. We are working both ways. Secondary market, three, four days I am just in the JSPL plant in Angul, with Naveen ji. Their HRC plant is going to start in October or November with the capacity of 5 million ton. In JSW Bilani December or January there is another 5 million tonne plant of HR Coil going to start and NMDC steel government has already ordered an intent of letter to some of few steel producers to take it. MNS and Tata are also ramping up their capacity. Today the structural steel market in India is of 8-9 million tonnes. Right now, APL is 3 million tonnes. Primary steel market is 5 million tonnes and secondary is almost close to 4 million tonnes market size. As HR Coil will increase in India, I don't look there is any good vision for the secondary steel. So that market will be so big that I don't think nobody can supply the material in the primary steel other than Apollo. Any other company can increase the capacity by 1-2 lakh tonnes. Only Apollo can increase the capacity by a million tonnes overnight. This is a time phase that we have to pass. At that time our EBIDTA, as a promoter base, as a business base, I used to sell it for 4,000, 5,000, 6,000. I am not worried till I am not in a cash loss. Because I have a vision. Vision is not for 1 quarter, 2 quarters, 1 year. I have a vision for 2, 3, 5 years vision. I am looking forward that when Indian economy will grow from 3 trillion to 10 trillion dollars, when steel production in India will reach 300 million tonnes, how much steel tube we want in India. For that time, I have to survive. I have to stay alive. I am not making any mistake that today this company is doing this, today that company is doing that. I don't want to be afraid and work accordingly. I want my company to be saved to see that time. I am just safeguarding my company and from time to time taking the right decision to reach the goal. Number two, biggest section is that we are doing a lot of work in market creation. This time almost 200 people, our team, daily basis architects and fabricators and government agencies are involved in market development. Like in the three railway stations, you have seen the design changes and tender is float. Ahmedabad Railway Station, Delhi Railway Station and Mumbai Railway Station. Almost in three railway stations, 2,00,000 pipe tubes have to be installed. Similarly, we have done a lot of work on tanks. Now, the UP government has given a tender for 60,000 tank order place. We have successfully made one tank and given it to them. In one tank, almost 16ton pipes is being used. If that

60,000-tank order would convert to a tube, it would create a 1-million-ton market. Similarly, the Assam government is working on 10,000 tank order with us. So, a lot of government agencies, a lot of builders, a lot of infrastructure projects are working with us. I am hoping that everything will be done today or tomorrow. And this is not happening first time in India. It is already happening in America, China, everywhere. So, I am waiting for the time. I have patience. I have patience. Till then my EBIDTA comes to 4000, 4500, 5,000, 5500, 6,000. Today, we have to also survive. We are working in numbers. But my big vision is that when all this will come together in the market, this secondary market, as the steel capacity increases, the steel plants are earning 20,000 rupees of EBIDTA. If they get 20,000 EBIDTA of steel, imagine how much steel capacity will be created in 3-4 years in India. Just like right now, today I am sitting with some guys. Some of them are JSPL. JSPL is also installing a steel mill. So, if 3,000-5,000 EBIDTA of steel is sold in a pipe, If 50,000-EBIDTA is generated in steel, imagine how many people will be attracted to it. Imagine how much capacity will be created in 2-3 years. Who is the beneficiary for this capacity? No doubt Apollo is the beneficiary for this capacity. I am not worried about Tata is putting a pipe mill, or JSW is putting a pipe mill. I am waiting for my lifetime to see how much steel capacity will be created by the people who will earn 20,000 tons of steel in India. I am just waiting for the time. Thank you.

Aman Agarwal, Equirus Securities (00:56:24): Thanks a lot for the detailed explanation. Thank you.

Moderator (00:56:29): Thank you. The next question is from the line of Amruta from Wealth Managers India Pvt. Ltd. Please go ahead.

Amruta, Wealth Managers India Pvt. Ltd. (00:56:37): Yeah, hi. Thank you for the opportunity. So, my question is now, the current capacity is 3.6 million metric tons, right? So, if you could give us the break-up of the capacity for the application-wise, that will be helpful.

Mr. Anubhav Gupta (00:56:56): Right, so Amruta, if you look at my sales volume for FY23, it is around 50% housing, and 25% commercial and 25% infrastructure. So, that's the broader application mix, right, for our products and this 3.6-million-ton capacity versus 2.3-million-ton volume, in this, the housing and commercial segment will be a bit higher because of introduction of our coated products that's more used in residential and light fabrication jobs. So, more or less, we'll stick to like 55% housing, 25% commercial and 20% infrastructure.

Amruta, Wealth Managers India Pvt. Ltd. (00:57:57): And what could be the capacity between the structure as in heavy, super heavy, light, general, Apollo Z and Apollo Galv?

Mr. Anubhav Gupta (00:58:06): Right, so we can share this data with you over like one-to-one interaction. I don't have it handy right now.

Amruta, Wealth Managers India Pvt. Ltd. (00:58:22): Second question is regarding the debt position. Right now, the debt is 2.5 billion rupees. So, like we are going to do capex of increasing the capacity to 5 million tons. So, from like, what could be the, like when can we expect the company to become less cash-positive?

Mr. Anubhav Gupta (00:58:41): Right, so Amruta, if you see, I mean, this year, FY23, we did 10 billion of EBITDA and almost 9.5 billion operating cash flow. Okay, so this operating cash flow of 9.5 billion was FY23. And given that we have, and given that, I mean, we have strong growth plans, both in profitability and volume. So this operating cash flow should improve, right, assuming the fact that our working capital days will remain where it is. So, having like incremental operating cash flows in FY24, and my residual capex to reach to 5 million tons is less than 6 billion INR today, 600 crores, okay. So, this could be funded from like, you know, operating cash flows what we're going to generate over four to six months, because that's a timeline when we will complete this expansion to 5 million tons. So, eventually, we should be debt-free by FY24 end, or early FY25. Hope this is clear, Amruta?

Amruta, Wealth Managers India Pvt. Ltd. (01:00:10): Yes, thank you, thank you very much.

Mr. Anubhav Gupta (01:00:14): Right, moderator, can we have the last question, please?

Moderator (01:00:19): Yes, the last question will be from the line of Shashank Agrawal from Aukwin. Please go ahead. Shashank Agrawal, the line for you has been unmuted. Please go ahead with your question. As there is no response, we'll take the next question from the line of Mridul Shah from Reliance Securities. Please go ahead.

Mridul Shah, Reliance Securities (01:00:48): Yes, sir, thank you for the opportunities. Sir, I have two questions. One is on the railway side, railway modernization related, which we discussed in past one or two controls, was at a primary stage at that time. So, any further update, or are we getting any sizeable orders on that side?

Mr. Anubhav Gupta (01:01:05): Right, so, Mridul, I'm very glad to share with you that one railway station in South India, it got approved, our tubular design got approved last week, and, right, so, the contractor will release the order within this month, okay, and at the same time, today, we are in touch with at least 20 contractors, okay, who have won the orders already and single contractor is working on at least four, five railway stations. So, the railway station, which I'm talking about, the one which we closed already, right, the same contractor is working on one more station in South India. We are working with one contractor who has won five stations in North and West India. So, this is like, so, this is like a trend, where the contractors have understood that if they go on tubular design, they are saving a lot of money. So, with this South India station, the construction getting started over the next one, two months, this is going to open massive doors for us, apart from that, there are like three mega stations, which Sanjay ji spoke about, in Bombay, Ahmedabad, and Delhi, so, Delhi and Ahmedabad stations, where the bidders were L&T and AFCON, so, their bids were higher than the government budgets. So, they are, so, the government is again working to kind of lower the scope of these redevelopments, so, that it comes under the government budget, but Mumbai is going as per the plan and we are already, and we are already talking to the contractor, where we are submitting the tubular design. So, given the fact that there are going to be 1,500 new railway stations under redevelopment in India over the five years, I mean, this, this opportunity is mammoth in size.

Mridul Shah, Reliance Securities (01:03:32): Sir, in terms of any value or damage or anything for railway station, you can share, and what duration it should, that this contract should be spread over? Mr. Anubhav Gupta (01:03:42): Right, so, so, I'm sure, like, you know, this data point, we have, we have told you, that in a high-rise building, the skewed consumption, skewed consumption is 5 to 6 kgs per square foot, but in railway stations, where the dead load is high, and there is vibration matrix, which need to take control, right, the tonnage is above 10 kg per square foot for a railway station design.

Mridul Shah, Reliance Securities (01:04:14): So, per station, how much in terms, value comes roughly, as of current?

Mr. Anubhav Gupta (01:04:19): So, it will vary from the size of the railway station. When we talk about 1500 stations, there could be, like, a very small station in a, in a small district of Uttar Pradesh, and we talk about New Delhi Railway Station, with 7000 crore budgets, where the tube consumption will be minimum 40,000 tons, versus a small district, where the minimum tonnage will be 5-600 tons, minimum, minimum will be 500 tons, and maximum, it will go to 40,000 tons.

Mridul Shah, Reliance Securities (01:04:56): And then, second question, on your EBITDA per ton for FY24, wherein, going forward, as New Raipur is ramping up, most of this product category, in the range of 6,000, to 8-9,000 rupees per ton, kind of a, products are increasing in terms of contribution, even in terms of volume, whatever we have done in this quarter, if you annualize, we are guiding even higher for

next 4 year, so there is already operating leverage you are indicating, so this 5,000 per ton kind of indication, plus or minus 100, 200 rupees, seems to be too low, so what is restricting us from guiding better margins, may be 5,500-6,000 kind of number, based on logic, it seems to be, should be quite high, but is there anything we are missing out on that, for FY24 and 25?

Mr. Anubhav Gupta (01:05:45): So, there are two things, see, I mean, even Raipur, if we do 500,000-600,000 tons, right, in Raipur, the utilization will be 50-60 percent, and given the fact, the incremental 200,000 ton is coming, so the capacity, by end of FY24, in Raipur will be 1.3 million tons, and on that, we are doing 500-600,000 tons, so we are still like, below 50 percent, right, so the real Raipur, you will see in FY25, or maybe Q4 of FY24. When you see the real Raipur EBITDA being visible and second, the fact is that, I mean, the 5,000 rupees per ton, again, it is, as for our business plan, this number is quite impressive, because at the same time, we need to ramp up our volume from 2.3 million tons, we are targeting 3.0 million tons. So, there could be, like, a few months where there could be, like, some volatility in the steel prices, and there might be some channel destocking, so we have to be ready for that. So that's why, I mean, with whatever caution you may say, right, we are guiding for 5,000 per ton, but, yeah, if sentiments are good, if macro tailwinds are there, there could be a higher number, so let's hope for the best, and maybe we could have some (inaudible 01:07:23) in the back when we talk after 12 months.

Mridul Shah, Reliance Securities (01:07:28): Sir, thank you for the detailed explanation, and all the best, sir, thanks once again. Thank you.

Moderator (01:07:35): Thanks, everyone, for joining the calls, Sanjay ji, or you want to...

Sanjay ji (01:07:38): Yeah, I want to share my views with my channel partners, or my investors, stakeholders in the company, first of all, I thank you all of you who believe on us, maybe we are late by one or two quarters, and for your patience, I am very, very thankful, we will try our best to, we never let you down, but I want to share my vision with you, first of all, we are now in the process of making an organization, as some people know, and some people don't know, I don't know, in the first of April, we totally reworked all our licenses, and we boosted up a lot of junior people in our senior posts, like now Deepak Goel is our CEO, so in that process, we should be little careful, if we are going in the process of making an organization, so we have to be very careful, that all the guys below also come up, so I am being a little careful, number two, I have a vision for India, 3 trillion to 10 trillion story, 3 to 10, according to me, all the steel makers, all the economists are saying that, 300 million tons, they are talking about 300 million tons of steel making, if India makes 300 million tons of steel, currently structural steel market in India, is almost 6% of primary and secondary in total, 130 million tons, Indian market is close to 8 million tons, this market, if you look at it from an international standard, is around 10 to 12%, if I calculate the lowest side number i.e. 10%, we should have a market of 10% i.e. 30 million tons of structural market. Right now, we have a total capacity of 8 million tons, I am not worried about the capacity of 1-2 million tons, I am not worried, because I am working with Tata Steel, J.W. very closely, they are working very hard, we are all talking about how we can increase the market, this is beneficial for all of us, you may give a margin of 3-4-5 thousand rupees, the margin I am talking about, the steel market in India, is not less than 15-20 thousand rupees of any steel company, if these people go to steel making, even if India's steel market decreases by 1000-2000 rupees, it doesn't matter, but 300 million tons, EBITDA margin 15-20 thousand rupees, this is the ratio, tomorrow, these people will understand, this is all just rumours, that Tata will do this, J.W. will do that, this is a rumour in the market, small dealers, they spread these rumours, to scare people, to scare people, this is very hopeful, for the industry, my vision is, when in 2030, India's steel market will reach 300 million tons, India's steel market, structural steel market will reach 30 million tons, how can Apollo go to 10 million tons for Vision 2030. I am working on this, if in 2030, how will I talk about 10 million tons, who is capable for going 10 million

tons or 15 million tons, or above the 5 million tons. I am working on this. It does not matter if numbers are up and down for one or two quarters. My primary vision to raise it to 5 million by 2025, the second vision is how can I go to 10 million tons in 2030 without engaging APL, without making heavy balance-sheet how can I go to 10 million ton, how can I create the market for India, 30 million tons of steel, how can I create the market, I am working on this, this market needs new products, what are the requirements of the customer, I am working on this, I am very hopeful, maybe I can be a little late, but I am very sure, I can assure you, I will not fail, maybe I can be a little late, but because our size is very big, I have to take steps very carefully, as per the phrase when the elephant walks, it takes time to get up, it takes time to get down. Many people's lives are on stakes, almost 2 lakh shareholders with me, almost 4000 employees with me, and if we multiply one employee by 4 so there will be 16000 families are directly involved with me, transporters are with me. So, I have major responsibilities because I have to take steps carefully keeping everything in my mind. So, this I can assure you that I will try my best. We will not do any foul, our intentions will be never be false in work and I have a lot of responsibilities to take care of all. I will not break your trust so don't worry I am trying at level first that I can complete my vision of 5 million tons and after that we will go further 10 million tons. After analysing this year, I will share my vision with you. And please don't worry J.S.W and Tata steel anyone comes, this is very grateful to increase this market, this is a positive signal those who don't understand tube industry, at least today everybody is talking about it. This is a big thing for Apollo. Thank you, thank you very much.

Moderator (01:14:10): Thank you on behalf of Equirus Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.