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Scrip Code : 533758

Dear Sir/Madam,

Re: Transcript of Conference Call held on 13th December 2017

In continuation of our letter dt. 11.12.2017 and 08.12.2017, wherein we had intimated your exchange regarding the Conference Call with investors and analyst held on 13th December 2017, enclosed herewith the transcript/minutes of the aforesaid conference call.

Submitted for your kind reference and records.

Thanking you

Yours faithfully
For APL Apollo Tubes Limited

Adhish Swaroop
Company Secretary

Encl: a/a

APL Apollo Tubes Limited (CIN-L74899 DL 1986PLC023443)

Corp. Office : 36, Kaushambi, Near Anand Vihar Terminal, Delhi - NCR 201010, India Tel:+91-120-4041400 Fax:+91-120-4041444

Regd. Office : 37, Hargovind Enclave, Vikas Marg, Delhi 110092, India Tel:+91-11-22373437 Fax:+91-11-22373537

Unit - I : A-19, Industrial Area, Sikandrabad, Distt. Bulandshahar, U.P.-203205 India Unit - II : 332-338, Alur Village, Perandapalli, Hosur, Tamilnadu-635109 India

e-mail : info@aplapollo.com Website : www.aplapollo.com



APL Apollo Tubes Limited

Earnings Conference Call Transcript

December 13, 2017

- Moderator** Ladies and Gentlemen, Good Day and Welcome to the APL Apollo Tubes Limited earnings conference call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anoop Poojari from CDR India. Thank you and over to you, Sir.
- Anoop Poojari** Thank you. Good Evening everyone and thank you for joining us on APL Apollo Tubes Limited Q2 & H1 FY 2018 results conference call. We have with us Mr. Ashok Gupta – Managing Director, and Mr. Deepak Goyal – CFO of the company. We will begin the call with brief opening remarks from the management following which we will have the forum open for an interactive question and answer session. Before we begin, I would like to point out that some statements made in this call maybe forward looking and a disclaimer to this effect has been included in the earnings presentation shared with you earlier. I would now like to invite Mr. Deepak Goyal to begin the call.
- Deepak Goyal** Thank you, Anoop. Good evening everyone. I will briefly cover the financial and operational performance for Q2 and H1 FY18. Our total income during Q2 FY18 stood at Rs. 1,345 crore, registering a healthy improvement of 46%. In H1 FY18, total income stood at Rs. 2,501.0 crore, up by 32% Y-o-Y. Our sales volume, increased by 20% to 2.83 lakh tons in Q2 FY18 and in H1 FY18, volumes stood at 5.48 lakh tons, higher by 15%. A positive pick-up in the domestic consumption trend along with healthy contribution from OEMs and presence in newer markets including Eastern India supported the volume performance. With regard to our profitability, EBITDA in Q2 FY18 improved by 27% year-on-year to Rs. 101 crore, whereas EBITDA in H1 FY18 was at Rs. 180 crore, higher by 4% Y-o-Y.
- Ashok Gupta** EBITDA per ton continues to be in the same range as we have been talking about around Rs. 3,400, though last year it was Rs. 3,492 because of the high gain in the prices in Q1 FY17. Q-O-Q EBITDA per ton marked a healthy improvement, however, there were some inventory gains that we got which have been passed on to the customer in view of the difficult market situation. Interest cost came in higher primarily because of the higher inventory. With growing demand, we are focusing now on two areas, one is exports and the other is on the OEMs market, both of them we are having good gains in the H1 as well as during the month of October and November. Coming on the PAT front, PAT has improved by 39% to Rs. 40 crore which translates to EPS around Rs. 16.77 and for first half, the PAT stands around Rs. 80 crore. These are the major financial highlights, rest all we can discuss during our coverage during the question and answer.

Let me give you a general outlook of the market, so the market for pipes particularly hollow section continues to be buoyant, demand is improving at around 8% to 9% per annum and competition is still there. One major hurdle we are still having is volatility in the steel prices, in the last one or two months, the prices are going up, which is a matter of concern because whenever the prices go up, there is always an apprehension that demand may or may not pick up accordingly, so as far as APL Apollo is concerned, we have built up our capacity. Last year, our capacity was around 13 lakh tons. Going forward, we would be closing it at around 18 to 20 lakh tons, so capacity wise we will have no constraint, we will have sufficient capacity for any kind of demand growth. On the actual sales wise, last year we did around 9.3 lakh tons and now onwards a target of 20% to 25% growth should be maintained.

In the first half, we have made around 5.5 lakh tonnes, in the second half it should be above 6 lakh tonnes, which should give us a growth of around 20% to 23%, so that we will be maintaining, our EBITDA margins will continue to be in the same range of Rs. 3,300 to Rs. 3,500, depending on the market. We do not expect a large variation in that. Product wise, hollow section continues to be the focused product. Now, we have installed our mill of 300 x 300 which is a very special mill. We are the only one in the country who are making it and obviously we are trying to gain some extra margin out of that and we are getting also, and that production should ramp up in the months to come, so that is one positive factor which is happening now and going forward it should give us some benefits. These are the main things and with these remarks, I would like to invite questions from my friends. Let me just tell you the future continues to be good and the company is going from strength to strength and things should be fine. Thank you.

Moderator

Thank you. Ladies and Gentlemen, we will now begin the question and answer session. We will take the first question from the line of Ankit Merchant from SMC Global. Please go ahead.

Ankit Merchant

For this particular quarter, you have seen good amount of growth coming in for black round pipes, GI and GP pipes as well, so what is it leading from? Could you guide us on the SG&A spend which you have done over the quarter and how do you see it going forward? How is GST been phasing out for you and is there any unorganized to organized shift that is leading to more incremental growth?

Ashok Gupta

GI and GP are products which slightly command better margins than our black and hollow products primarily because for GI and GP the brand name becomes important, and customers are more cautious of quality, that is why we command a better premium on that, however, the volatility that you have seen in GI and GP is more a result of raw material changes in the prices than any other factor, so whatever raw material prices have been changing, we try to pass on to the customer. Sometimes, there is a lag, sometimes we are able to pass that in advance, sometime it takes time, so the difference which you will observe is only because of lag or lead from the price changes with respect to raw material prices, otherwise, the market remains steady.

The second thing was about GST, GST was supposed to be rolled out and one critical component of GST was that there will be E-way bill. Now, the point of interest to us was once the E-way bill is introduced then people who are selling it without paying taxes, they will be having problems. Unfortunately, the government has postponed E-way bill introduction, so the people who are trying to avoid taxes, they are still not following rules, so the impact of GST what we were expecting has not happened so the unorganized players, who we were hoping will find it difficult to sustain in a tax regime or in a tax compliance regime, they continue to avoid taxes and the shift which we were hoping has not happened. Having said that, now the new date for the introduction of E-way bill is April 1st, so there is already tension in the market that in case it is introduced from April 1st, then these players will again find it difficult to sustain, so shift should start taking place, but we must understand that shift is a slow

shift, it does not happen overnight that our market share will go up, market share may increase in small quantum, for example, it may be from 0.5% or 0.25% in a quarter, so minor improvements will take place, but it will not jump suddenly, so let us wait for the introduction of the E-way bill till we expect, but without E-way bill also, we were expecting some shift to take place but because of that variation in HR coil prices, you know HR coil prices had been varying by as much as Rs. 3,000-Rs. 4,000 in a matter of three to four months, so because of this variation, the unorganized players are able to survive because they do not pay taxes, so we are expecting some movement to take place, already some movement is taking place from unorganized to organized, the share of organized is improving day by day, with GST coming definitely on April 1st, this will further increase.

Ankit Merchant How much of SG&A, marketing spend have you done for this particular quarter?

Ashok Gupta Marketing spend has two components, one component is what we spend on branding, so branding spend we were trying to do a big campaign, that campaign will not start this year, that will only start most probably from March or April 2018, but the second part is our regular spend which is in the order of a crore or two in FY18, that already we have spent around a crore. The second component is incentive by way of promotion to dealers, which could be in the form of discounts, in the form of some special incentive scheme that is continuing at the same normal rate, I think it is around Rs. 60 lakhs to 75 lakhs per month and there is no change in that, that continues to be same pattern. The main spend which we are planning is on the communication side, on the branding side of around Rs. 20 to 25 crore that nothing has been done till now because we are still doing some research on what kind of communication is to be sent to the consumer, we are doing research, so that big spend will happen only from March or April onwards.

Ankit Merchant What about the DFT line, one line has already started in Raipur?

Ashok Gupta In fact, for DFT, four lines have already started now, so let me share with you the results are pretty good, there are repeat orders coming in, so as per our estimates on a monthly basis, the material being sold from DFT is around 8,000 to 10,000 tons per month already, so it is a very good pickup. If you see we have started DFT only this year. In case if we can shift more quantities to DFT, even if the sales happen replacing our current product mix, the advantages of the DFT technology will be there to the extent people get hooked up to DFT, they will have no alternative but to stay with us. This year perhaps we will go only on ramp up of DFT, we may be able to do sales of DFT from 8,000 tons now to around 15,000 to 16,000 tons by year end, and thereafter next year, we should be able to see some benefit coming by the way of better margins.

Ankit Merchant From which particular sectors you are seeing growth and also which particular region be it North, South, West, or East, has been driving the sales for you?

Ashok Gupta Our share in the market is not more than 14% to 15%, so even a minor shift in the demand from region to region does not really mean that demand is coming more from that region. Our growth is coming still primarily from South and West, which has been happening for last few years, South and West continues to be strong. This is the first time we are entering Eastern region in a small way, so whatever sales we are getting in Eastern region is growth only, so I will say that the basic growth is coming from Eastern region and then the Northern region is not doing as well primarily because the construction activity and the realty factor in Northern region is not as strong, so primary growth is coming from Eastern region and followed by Southern and Western region. Of course, we are focusing a lot now on OEMs and exports where we are getting very good growth.

- Ankit Merchant** How do you see EBITDA per ton trend going forward?
- Ashok Gupta** In the next six months to one year, it will be maintained between Rs. 3,400 to 3,500, when DFT starts contributing, it should go up, but by how much, I cannot say now.
- Moderator** Thank you. The next question is from the line of Shaleen Kumar from UBS Securities. Please go ahead.
- Shaleen Kumar** Did you mention 22% to 23% growth for second half or for full year?
- Ashok Gupta** Basically, we have been trying to make sure that our growth even at a higher base level continues between 20% to 25%. Last year, we sold around 9.3 lakh tonnes, this year we are targeting around 11.5 lakh tonnes, so if we achieve 11.5 lakh tonnes, it will be around 22% for the whole year.
- Shaleen Kumar** Given that first half was around 15%, will it be a steep task for you?
- Ashok Gupta** I think 20% is more likely, normally second half gives better return and volatility has been very significant in the first half, hopefully, second half will not be as bad and October-November are slightly better than the first half, so we are aiming at 20% overall volume growth.
- Shaleen Kumar** Can you talk a bit about the impact of the steel prices, should our EBITDA be impacted by that?
- Ashok Gupta** When prices of steel go up or go down, we will have it pass through, we do not want to keep it either way, but what happens is that sentiment in the market takes time to absorb it, so when the prices come down then for few days our sales are affected, EBITDA may not be affected, when the prices go up, it takes time to absorb the prices. In the meantime, the EBITDA for few days are affected, so on an average, volatility in steel price has a marginal negative impact, so my expected EBITDA was Rs. 3,450, may be the impact will be only Rs. 10 to Rs. 20, but definitely it is on a negative side, because it takes time for the market to absorb it. Having said that, we are trying to work out a system whereby we can insulate ourselves from variation in steel prices, so what we are trying to do here is that more and more people get hooked up to DFT. In DFT, our terms will be that the prices are passed down on the day one itself or day two, so that we have the minimum impact on variation in steel prices.
- Shaleen Kumar** Sir, you also talked about the export opportunity here, so what are we seeing on that front?
- Ashok Gupta** Earlier, we were exporting only galvanized products particularly GI products. Now, there is lot of demand for square section and rectangle section, particularly in Middle East and Europe. Our traditional mills, the kind of quality they were doing particularly on the edges was not very well accepted in the market, there was resistance, so the material was not being really taken up. The new product which has gone from DFT has been accepted well in the Middle East market, particularly Dubai, Abu Dhabi, and other parts of Middle East. There we are getting good offers and because of that, we are hoping that the growth in exports will be much higher than the average of 20%, and that is reason why we expect our growth to be much better in second half because now the DFT has come up, export enquiries have increased significantly. This DFT which is square, rectangle will be a big opportunity for growth in exports.
- Moderator** Thank you. The next question is from the line of Suvarna Joshi from Axis Securities. Please go ahead.

Suvarna Joshi On EBITDA per ton, you mentioned we are comfortable with about Rs. 3,400 to 3,500 going forward and with DFT by end of FY 18 we should be able to ramp up, so what are your thoughts on EBITDA per ton going into FY19, what kind of a target have we set for ourselves? On the EBITDA per ton for H1 FY 18, we have seen a decline of 12% over there, so is that mainly because of some inventory-related pricing or is there something else to that?

Ashok Gupta Going forward, DFT should give us better margins, so while we are currently working on EBITDA per ton range of Rs. 3,300 to Rs. 3,500, next year we should be aiming for Rs. 3,500+, so it may be in a similar range, let us see how it comes out, but definitely there will be increment in EBITDA, so if today our EBITDA varies between Rs. 3,300 to 3,500, it will be Rs. 3,400 to 3,600 in the upward direction, and this upward movement, we are not able to really give a much precise figure because that will depend on how the market behaves, definitely it will improve but how much it is difficult to say. So as far as last year is concerned, last year in April - June, the government had set up the anti-dumping duty on carbon and steel, HR coil, because of that the prices had shot up and we made lot of benefit in the first quarter on stock gains as well as on the sentiment, because of this EBITDA in Q1 FY17 was very good. If you take out that element of stock gain or the sentiment for that quarter, EBITDA per ton has improved in a sense that now it is in the range of Rs. 3,400 and last year it was around Rs. 3,350 or so, So, last year we had a one-off, but actually it has improved.

Suvarna Joshi I believe in the previous quarter we had launched Apollo Coastguard and in this quarter, we have launched Apollo Fabritech, so could you share some thoughts there? For Coastguard, we mentioned that we had seen good response, so would you be able to quantify what kind of gains in volume did we see from this particular brand and are we seeing any sort of positive momentum on Fabritech brand as well?

Ashok Gupta On the Fabritech and Coastguard, the main campaign was in the region of Kerala. So, acceptance of our pipes in Kerala is much better today than it was earlier and we know any brand-building exercise takes lot of time, so definitely the gestation period will happen, but the initial response is good. We are getting consistent sales and people are now asking for the brand, Apollo Coastguard, so to that extent the trend is positive, so we have established a brand there in Kerala, we have not yet launched it in other places. As far as Apollo Fabritech is concerned, which has just been launched only last quarter, it is also a soft launch, soft launch means it is being only done what we call BTL activities, we are only talking in seminars and workshops. The big exercise on television and on digital has yet to commence, preparations are on to find out the right communication message to be given and how it has to be given. The film has to be produced, that will be done from March onwards or April onwards, so for Fabritech, the impact is limited, the Coastguard the impact is significant, Fabritech impact will come only after April or May and it is gradual. We cannot expect a response in first year. First year will go only in brand building; I think from FY20 onwards, we should be expecting a much better response.

Suvarna Joshi Sir, the third and the last question if you can share some quantitative data points on how the OEMs have done? Have we got inroads into any new OEMs besides the one which we were already catering to? In reference to OEM segment reporting a growth of over 107% on a low base, so any thoughts over there as to how we want to penetrate further into this OEM market on the domestic front?

Ashok Gupta There are two sectors from which we are getting good response in OEMs, when I say OEM, it means the people who are manufacturing some equipment or some facility out of steel pipes. Now, the primary material being sourced to OEMs are square and rectangle and the sectors are mainly in solar and in prefabricated buildings, what you call PEBs. These are the two areas where we are getting good response because these two sectors, they are happy with customized sizes as against normal standard

sizes. That is the specialty of DFT, we can supply customized sizes, so both these sectors have shown interest and we have got good orders. Response from other sectors, which is basically equipment manufacturing, automobiles and on agriculture equipments that also is there, but the period to design their products and deliver is slightly longer. While initial enquiries have started coming, the shifting of enquiries to order may take another six months to eight months. These two sectors are already giving us orders and we are supplying them, Solar and PEBs, but other sector of equipments particularly of agriculture and automobiles that may take some more time.

- Suvarna Joshi** When we are saying we are seeing good orders in solar, is it because of the tie-up that we have done with NEXTracker or is it as APL standalone company that we are seeing those kind of orders?
- Ashok Gupta** NEXTracker order is yet to fructify, but it is in advance stages that will come, but apart from that there are many other companies who are setting up a solar plant and because we are able to customize, so we are getting orders from other than NEXTracker also.
- Moderator** Thank you. The next question is from the line of Varun Agarwal from BOI AXA Mutual Fund. Please go ahead.
- Varun Agarwal** In this quarter, what are the reasons to import higher raw materials, is it due to the anti-dumping or is there any other reason for that?
- Ashok Gupta** We are importing HR coil basically for two purposes, one is for exports, so once we have to export our pipes then the facilities are available today to import, and secondly due to drawback. The advantages of import are much higher than the duty drawback, so instead of taking duty drawback on export, we are using the facility of import. Secondly, at times when arbitrage is available whereby the imported landed price is lower than the domestic price, as and when any such opportunity occurs, we use it, that is the only purpose we are importing, otherwise not.
- Varun Agarwal** You mentioned in your presentation that you are taking some steps for cost utilization, so can you elaborate on what steps are we taking there?
- Ashok Gupta** I understand that in any organization, there is a tendency for cost to go up particularly on conversion front, cost of HR, cost of power, administrative cost, they have an absolute tendency to go up and this is what happened in our case also since we were doing reasonable in the last three years, the volumes were increasing, profitability was better, so we felt that the costs are going up, so we did an audit and audit revealed that areas where the cost can be controlled that is what we have done. Immediately, we have taken many measures to find out where were the surplus people, we have rationalized the manpower, we have rationalized their working. There were areas, there was opportunities for reducing the power cost. We have done that and the third area of opportunity was to include the yields by changing some method, so again when I say the cost reduction in overall terms, the impact may be marginal Rs. 50 to Rs. 100 per ton, but over a period of time, we will have permanent and enduring effect.
- Varun Agarwal** This quarter our debt and inventory has gone up as you mentioned that, so what are the sustainable level of debt and inventory going forward, or do you think because of steel prices going up, this will remain little higher going forward?
- Ashok Gupta** Steel prices definitely have an impact on the overall level of debt, but it will be working capital debt. If you observe, they were not normally going for long-term debt or term loan, we will be going for working capital to the extent required because of the changes in the steel prices and subsequent import of material for export, our inventory

had gone up in Q2 to about Rs. 800 crore. Now, what had gone up was not sustainable, was not required to be sustained, so we have got it down. In last two to two-and-a-half months, already it has come down by around 20%, so today it may not be more than Rs. 650 crore and going forward it may further come down, this is present at around 45 to 50 days of inventory. Normally in the industry, inventory is maintained between 30 to 35 days, going forward, if the prices remain stable, we will try to bring the inventory down to 35 days.

- Varun Agarwal** Which inventory are we talking about?
- Ashok Gupta** This is total inventory, it is raw material, WIP, finished goods, all stocks together we are talking of.
- Varun Agarwal** The large part of that would be your finished or your raw material?
- Ashok Gupta** Mostly raw material, so around 60% to 70% is raw material and 5% will be WIP and 20% to 25% will be finished.
- Varun Agarwal** We are seeing that in GI and GP we are running almost 100% of our capacity, so any plans there for capex, somehow through debottlenecking, can we increase capacity there?
- Ashok Gupta** Capacity, we are already 1.3 million tonnes and we are likely to go up to around 1.8 to 2 million by the end of this year and whatever capex we are doing much of that capex has already been done, I do not think much will be done, but Deepak can give you an idea of what exactly is the plan, but I do not expect more capex in this area for next two to three months or one or two years, and most of it has been financed through our internal accruals.
- Deepak Goyal** Total capex was Rs. 300 crore for expanding the capacity from 1.3 million to 2 million tons, and last year we have spent almost Rs. 200 crore and Rs. 100 crore we will spend this year, of almost Rs. 70 crore in the first half and balance Rs. 30 crore to Rs. 40 crore will be by March end.
- Ashok Gupta** There may not be need for much of additional capex next year.
- Varun Agarwal** Basically, we are almost done with our capex.
- Ashok Gupta** Yes, almost done.
- Moderator** Thank you. The next question is from the line of Ankit Gor from Systematix Shares & Stocks. Please go ahead.
- Ankit Gor** What is the incremental EBITDA per ton that we are getting in DFT as compared to our normal pipes?
- Ashok Gupta** I can divide the products into two parts, one is the replacement for my conventional mill products, one is those products which were not being produced earlier, so when I say those products which were not being produced earlier, they fall into two categories. One is customized sizes, size like 78 x 43 will be customized size. Second is higher sizes, 300 x 300, 250 x 250. In this customized sizes, EBITDA per ton is as much as 10% to 12% higher than our conventional EBITDA, so by conventional, I was getting EBITDA of around Rs. 3,300 to Rs. 3,400 and with these sizes, have got as much as even Rs. 4,000 to 4,500. In the same sizes which have been produced in DFT and the same size that was being produced by conventional, I will say EBITDA is almost the same because the appreciation for the premium for quality has not yet

come, I think that will only come when the markets get really hooked up to it and they get so used to it that they will say they cannot do without this for long, then I will start getting the premium, so I think it will take some time for me to get premium on the same sizes. On new sizes, I have already started getting premium which is as much as 10% to 20%. So far as my sizes, which are standard sizes which are being produced both by the standard mills, the conventional mills, and the DFT, I will not say I am getting any significant increment in EBITDA, but for those sizes and quantity which are not being produced through conventional mills, I am getting significant higher EBITDA of as much as Rs. 4,000 to 4,500.

- Ankit Gor** This is a case of 300 x 300, a higher diameter size?
- Ashok Gupta** Yes, there is 300 by 300, 250 x 250, 280 x 280, and odd size, 60 x 43, 58 x 21, like this.
- Ankit Gor** What was the status for Raipur plant, what is the utilization as of now?
- Ashok Gupta** In Raipur plant, my total capacity ultimately will be around 3 lakh tons per annum and, basically I used to be reaching a production of 25,000, I think I have already crossed 10,000, and going forward by next year April, I shall be close to around 20,000, already have crossed 10,000 per month.
- Ankit Gor** Capacity is 3 lakhs, right?
- Ashok Gupta** Around 25,000 per month, so I have already crossed 40% to 45%, by next year should be around 70% to 75%.
- Ankit Gor** What is the extra cost, cost per ton, sales net realization per ton if you say in DFT vis-a-vis the conventional pipe?
- Ashok Gupta** You see the conversion cost from HR coil to pipe in DFT will be either same or a shade lower because the productivity is higher, so I do not have any extra cost, however the product is superior in terms of shape, size, dimension, and weight, so only the capital investment is higher, whereas earlier technology I could set up a mill for Rs. 5 crore, for setting up a DFT of the single size mill it may take around Rs. 15 to 20 crore, so initial investment is higher, the variable cost, the day-to-day operational cost will be same or slightly lower.
- Ankit Gor** A similar mill will be required to produce GI or pre-galvanized pipes and black pipe or mills will be different?
- Ashok Gupta** It will be different, so DFT can only make square sections or rectangle, it cannot make round, GI is total round and GI is made currently only by conventional mills, similarly GP rounds are being made by conventional mills. DFT can only make square and rectangle shaped pipes.
- Ankit Gor** Whatever expansion we are doing in this year, how much would be the GP lines?
- Ashok Gupta** So as far as GP lines are concerned, currently we have four GP lines and I do not think we are expanding anymore of GP lines this year, GP lines will remain the same. They are totalling around 20,000 tons per month and the quantum also will remain 20,000 to 22,000. Next year, we may think of setting up additional GP line, but we have not yet finalized any plans at the moment.
- Moderator** Thank you. The next question is from the line of Nidhi Babaria from Dalal & Broacha. Please go ahead.

- Nidhi Babaria** What is the breakup for domestic and international volumes in DFT?
- Ashok Gupta** Currently, as I said that DFT is still just in the beginning in a nascent period of installation and commissioning, so the volumes are just being built up. Currently, our 90% volume comes from domestic market, only 10% is being exported, but going forward the growth rate in export is much faster than the domestic market because of the low base and the market is happy with the product, so going forward we expect that by year-end, by March around 20 to 25% of our DFT production will go for exports.
- Nidhi Babaria** What is the capacity utilization for the same?
- Ashok Gupta** It is slightly premature to talk of capacity utilization because most of the capacity are just coming up, out of eight facilities we want to install, only four has been installed and that also has been in this year only, so currently capacity utilization is bound to be low, but by next year we expect that capacity utilization should go up from 60 to 60% plus, but this year capacity utilization is going to be low depending on which month, so there is one facility which is installed in April and second one in June, and third one in September, so currently we are in a stage where we can say it is stabilizing or ramping up.
- Moderator** Thank you. The next question is from the line of Prajwal Gote from Systematix Shares & Stocks. Please go ahead.
- Prajwal Gote** Can you please provide revenue break up between domestic and export?
- Ashok Gupta** We have the total revenue for the quarter at about Rs.1,310 crore out of which not more than 7% or 8% came from exports, so balance 92% has come from domestic supplies.
- Prajwal Gote** Can you please provide the realization breakup, what kind of realizations we get in the export market, how much is it at premium to the Indian market?
- Ashok Gupta** Slightly they are different, so for the Indian market we source material from the domestic sourcing and for export, we are now trying to source from the import sources, so when I see the gross margin available with me, which is net sales realization minus the raw material cost. The margins of export are better than the domestic market. I would not like to quantify that how much is coming because it depends on lot of factors, but the margin in exports because of the imported raw material are better than what we are getting in the domestic market currently.
- Prajwal Gote** Why are we importing raw materials for export market?
- Ashok Gupta** We are manufacturer of steel pipes and structuring steel pipes in HR coil, so the sources of HR coil are either domestic players like SAIL, Tata, and JSW. For import, the main sources are Korea and Japan, so once we are exporting, Government gives two type of incentives, they either give you a duty drawback which is very nominal some 2% to 3% only. Secondly, Government says in case you do not take the drawback, you can import the raw material. The benefit of importing raw material i.e. HR coil is much higher than the duty drawback we are getting, so whenever the benefit becomes more for import, we go in for import rather than taking duty drawback, so we only import raw material, we do not import pipes.
- Prajwal Gote** On the branding part, what kind of premium are we able to see in the products which we have branded currently, and what is the premium we are getting from the normal product which we are selling, if you can quantify it?

- Ashok Gupta** As you know branding creates demand, it creates a desire, but normally you cannot say that because of branding alone you have got that much premium. We have done branding currently only in the state of Kerala and that also primarily for Coastguard. For others also, we are doing some kind of marketing or brand activity, but that is on a low level. I will not really say that because of branding alone we are getting some premium because there are so many factors we have to do to command a premium in the market apart from communications, apart from advertisement, you also have to improve your quality, do the service and so many things. In Kerala market, we are getting a good premium over other producers, since we are doing branding on an overall Kerala market the demand or the craze for our material has increased, as a result we are able to command a higher premium with respect to other producers.
- Moderator** Thank you. The next question is from the line of Pawan Kumar from Unifi Capital. Please go ahead.
- Pawan Kumar** Can you please repeat what is the inventory gain numbers we have seen in this particular quarter?
- Ashok Gupta** We are having a system of pass through of prices of raw material since the prices have increased and we have been able to pass it through, so we have not taken any loss on that account, but at the same time having said that, there is no such gain also on inventory because we pass it on. Basically, because of the steps we have taken in last few years of branding, of distribution, or product mix or capacity and quality, we are commanding a premium over most other brands and because of that our sales have also improved. We have been improving around 20% going forward, we will have created sufficient capacities to create that kind of growth, so whatever margins we are getting, it is because of the operational parameters, because of the sales and marketing offer we had done, inventory gain per se is nothing significant we can talk about.
- Pawan Kumar** There might have been some inventory which was lying at your disposal from the previous quarter and there might have been rise in prices of the metal post that, that is what we understand from the increase in revenues, so what is the kind of impact on the inventory in the balance sheet because of this increase in realization of the raw material or the end product?
- Ashok Gupta** If I put it like this, the average price of raw material or price of finished goods as on April 1st and as on October 1st that is six months' period is almost same, so the difference between the prices on April 1st and October 1st being almost same, Rs. 100 to Rs. 200 here and there, so there was nothing like inventory gain, we might have gained inventory slightly in the month and lost in another month. The price of steel and price of pipes on April 1st and October 1st were almost same, so there is hardly any question of inventory gain.
- Pawan Kumar** What is the kind of incremental volumes we have seen from the Raipur plant?
- Ashok Gupta** Raipur plant is currently working at around 7,000 to 8,000 tons per month, it has been ramping up for another 1,000 tons we started in the month of April and May, so already it has reached 8,000 tons, so around 7% to 8% of our volume is coming from Raipur. Going forward, it will further increase and it is also producing special grades, so we expect that Raipur plant by the year end will be producing around 15,000 to 20,000 tons which will mean our sales is likely to be around a lakh ton per month, so it will be around 15% of the total volume we have, so Raipur plant actually is more than the volume is like a special steel plant. We have set up a special mill there making 300 x 300 and we are seeing good response from the industry, very surprising phase. Prior to setting up of the facility of 300 x 300, there was hardly any demand coming up for higher sizes. More and more, the market is knowing that we can produce high sizes of

250 x 250 or 300 x 300, more and more people are demanding it now, so it is the kind of availability creates its own demand and since we are the only mill manufacturer who is making pipes above 200 x 200, so lot of good demand is coming to us and obviously at a better margin, so Raipur plant in days to come should be taking care of around 15,000 to 20,000 tons, 20% of our total product mix again of special products, and incidentally, we are producing high strength pipe here, we are not producing the normal pipes here. We are focusing on producing what is known as C10 pipes or C50 pipes, these are around 20% to 25% higher in tensile strength, so all large projects, bridges, buildings, people prefer these pipes, so there are several advantages in Raipur plant and it can make high thickness, high size, high dimension, high strength pipes, we are the only company in India.

- Pawan Kumar** If we are speaking about 8,000 tons, our utilization this year would be around may be some 25% to 30%, right?
- Ashok Gupta** Let me say that currently it is around 8,000 to 10,000 tons, going forward it will be around 15,000 to 20,000 tons and at that stage my capacity utilization of Raipur per se will be around 60% to 70%.
- Pawan Kumar** In the first year itself?
- Ashok Gupta** In the first year itself, I am talking about last quarter.
- Moderator** Thank you. The next question is from the line of Manan Patel from Equirus PMS. Please go ahead.
- Manan Patel** Sir, you mentioned that our volumes, we are targeting around 11.5 lakh tons for this year, so what kind of volumes do we target for FY19 and FY20?
- Ashok Gupta** Generally, we have tried to examine the growth rates which are sustainable in the long run, so we observe that the industry that we are in, the market grows at around 7% to 9% per annum, so to grow from the current level which is by itself a very high base, which will mean that we have to snatch market share from many other players where most players are in the range of 50,000 to 1 lakh tons per annum, so to snatch share from them, we really have to take orders from many other smaller players. We are looking at a growth rate of 20% plus in the days to come and years to come, so for FY19 and FY20, we are looking at a growth of 20% each year, year on year.
- Manan Patel** That is great, Sir, so your market share can be in the range of 18% to 20% by FY20?
- Ashok Gupta** Yes, definitely, it should be that way.
- Manan Patel** What percentage would exports contribute in next two to three years?
- Ashok Gupta** The percentage will go on increasing. Currently, it is around 6% to 8%, so going forward it should go up increasing, it will of course cross 10%. We will not be able to really work out how much more growth will come, so we are targeting that the exports should gradually ramp up from 10% to at least 15% of our sales, but I think 10% is a good estimate, more than that, we will have to see as the time comes.
- Moderator** Thank you. The next question is from the line of Shrinath Mithanthaya from Motilal Oswal Asset Management Company. Please go ahead.
- Srinath M** My question was on inline galvanizing which we had spoken of sometime back, what is the status of that and how do you see that panning forward?

- Ashok Gupta** Inline galvanizing is a very special technology which is available in very few countries in the world whereby a pipe is galvanized on the outer surface with zinc that as it is being rolled and inside surface by anti-corrosion zinc paint whereby erosion is avoided on both sides, advantages being that it is low cost but high life, so where the life of inline galvanizing could be as much or even more than conventional GI pipe, the cost may be less than half, so the application varies. We have placed the order on the American supplier some seven to eight months back, so the delivery period is one year, so I am hoping that he should be dispatching it by March-April and it should take another three months to install, so by May-June or Q1 of FY19, we should see it installed and upcoming.
- Srinath M** What is the capacity?
- Ashok Gupta** It should be around 4,000 to 5,000 tons depending on the diameter and the sizes per month.
- Srinath M** Currently, we are at about 1.3 million ton capacity?
- Ashok Gupta** It is 4,000 to 5,000 tons, there is expectation that we may go in for lower thicknesses in which case it will be only 3,000 tons per month.
- Srinath M** We are seeing in our company is continuous premiumization, our product mix is shifting towards more premium products, so from 1.3 million tons we are going to about 2 million tons in terms of capacity, how do you see the share of premium products rising there?
- Ashok Gupta** You see in any manufacturing, there are everyday products, all those are in majority, they may vary from 60% to 90% depending on industry and same is true of pipes also. At times, we have to increase our special or niche products which are only around 3% to 5% now to around 15% to 20%, so with that mix and an increase in volume, the EBITDA per ton may increase marginally on an overall basis, so it is around Rs. 3,300 to 3,500 now, it may go to Rs. 3,600 to 3,700, so overall basis the impact will be less, but once you see in the context of percentage contribution, that will definitely go up from a very marginal contribution today to a significant contribution in next two years.
- Moderator** Thank you. The next question is from the line of Ankit Merchant from SMC Global. Please go ahead.
- Ankit Merchant** On the gross block front, the total capex, which you have planned for this particular year is Rs. 300 crore?
- Ashok Gupta** Total planned capex for last year and current year together was around Rs. 300 crore, we have spent Rs. 200 crore last year and this year we plan to make around Rs. 100 crore.
- Ankit Merchant** The debt level is likely to remain the same?
- Ashok Gupta** We will not increase any long-term debt or term loan we do not plan to take, working capital we have increased, but that also will be only in line with the increase in volume. We do not expect our working capital to go up much more than the increase in volumes.
- Ankit Merchant** In this particular year, we could be closing at 0.8X debt to equity, is that a right assumption?
- Ashok Gupta** Debt to equity currently is 0.8, it will be around 0.8.

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

Ashok Gupta I must thank all the participants, it was a very lively and interactive session. I inform all of you that the company is doing well and the plans which we have already made, the action we have already taken both by way of latest technology. As you know, we are the one to introduce new technologies to the country whether it was DFT or inline galvanizing or even pre-galvanized pipes all of them we were the pioneers. I would attempt to remain pioneer not only in technology, but also in systems and practices, so we are going for a big branding exercise starting from March onwards and so in days to come, both our volumes and EBITDA margins should improve. Our volumes should go up as was mentioned around 20% plus each year and EBITDA margin should improve gradually in a systematic manner. We are focusing on exports, as we see a lot of potential particularly with DFT. We have got big enquires from Middle East and we see large volumes coming up there and OEMs are responding very well to our new initiatives, our distribution channel continues to remain deep. We are now not only at district level, but sub-district level also. I think with these initiatives, our growth rates will continue and with these few words, I thank you, and Mr. Deepak joins me in thanking you all for this participation. Thank you so much.

Moderator Thank you. Ladies and Gentlemen, with that we conclude today's conference. Thank you for joining us and you may now disconnect your lines.

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