"APL Apollo Tubes Limited Q2FY25 Earnings Conference Call"

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MODERATOR:	**MR. UDIT GAJIWALA - YES SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to APL Apollo Tubes Limited Q2FY25 Earnings Conference Call hosted by YES Securities.

As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference call is being recorded. I now hand the conference over to Mr. Udit Gajiwala from YES Securities. Thank you, and over to you, sir.

Udit Gajiwala: Thank you. Good evening, everyone. On behalf of YES Securities, we welcome you all to the Q2FY25 Earnings Conference Call of APL Apollo Tubes.

From the Management side, we have today Mr. Sanjay Gupta – Chairman & Managing Director; Mr. Deepak Goyal – Director (Operations); Mr. Anubhav Gupta – Chief Strategy Officer, and Mr. Chetan Khandelwal – Chief Financial Officer.

I'll now hand over the call to the Management for your "Opening Remarks". Thank you, sir.

Anubhav Gupta: Thanks, Udit and thanks to YES Securities for hosting us for our Earnings Call. Good evening, everyone. I welcome all of you to our quarter two FY25 Earnings Call. I sympathize with my analyst friends who are covering the building material sector and are attending 5th Investor Call today.

hat a mind-blowing quarter we had in the Q2, our Q2 performance reminds me of a famous phrase 'The night is darkest just before the dawn'. Why I say this because we have been waiting for this time when inflation in the domestic steel prices seems to be over and the gap between our product and low-grade sponge iron made steel pipes has narrowed down considerably. Of course, the correction in steel prices brought rock on our profitability and our EBITDA spreads collapse to all time low. However, we are not discouraged by this at all and in fact, we are working harder to pounce upon the opportunity which has opened with the low base raw material costs. The gap between our product and sponge iron pipes is around 5% to 6% today and we can target additional market of 500,000 tons on a monthly basis.

Our products have also become affordable against wooden structures, aluminum profiles, rebars long steel products and steel angles and channels which is further expanding our universe. The existing pricing situation seems to be sustainable as there is not much room for steel prices to go down given the depressed profitability for the steel mills and at the same time steel prices should not rise further because the new steel capacity is coming online quarter-on-quarter basis, which will keep the steel prices under check. Henceforth, the volume trends in H2 should remain strong as we are confident for 3.2 million ton sales target for full year of FY25. Confidence also comes from the fact that our channel partners are still sitting on low inventory levels because there secondary sales are equally. The reason for all time low EBITDA spreads in Q2 were number one inventory loss of Rs. 2,000 per ton which even we could not stop because of Rs. 7,500 ton steep fall in the steel prices. And that was back-to-back, so inventory which we were having on our books, we had to correct it and we also offered more discounts of Rs. 500 per ton to our customers with the falling steel scenario to push sales. 1 positive highlight was the operating leverage benefit of Rs. 100 per ton as our as our sales volume expanded on quarter-on-quarter basis.

Now, APL Apollo is ready with 4.3 million ton capacity, which we shall expand to 5 million ton by FY26. The residual CAPEX is around Rs. 3 billion to Rs. 3.5 billion, which will be easily funded from the internal cash flows. Our strategy here is deeper penetration in the market with the new Greenfield plants. Two plants are coming in Siliguri and Gorakhpur. This is to cater to the whole of East India, including the seven sister states and some opportunity in Nepal and Bhutan markets as well. We are also adding up a new plant in Bangalore for our lighter section where we feel that the existing capacities are fully utilized. From these three plants, we expect an additional market of around 1.5 million tons on an annual basis and we should be able to ramp up our volumes from these plants over the next 2 to 3 years.

Our thrust on innovation continues in structural field space with launch of specialized structures for the solar power industry. One product is pre coated thicker sheet which shall replace existing galvanized sheets and another product we added to our portfolio was to cater to the solar tracker systems. We continue to make inroads in the heavy structural steel tube space as the usage of for tubular designs in heavy construction keeps on rising. Our tubular designs are now being used in major infrastructure and real estate projects in the country. For next year, we maintain our sales volume guidance of 4 million tons and 5 million tons by FY27. The margin shall expand to normalized level of Rs. 5,000 per ton over the next 2-3 quarters and this margin should remain sustainable throughout FY26 on a quarter-on-quarter basis.

With this, we are done with our opening remarks, and we are happy to take questions.

Moderator: Thank you very much, sir. We will now begin the question-and-answer session. Our first question is from the line of Rahul Agarwal from Ikigai Asset Management. Please go ahead.

Rahul Agarwal: Sanjay, the first question was on steel demand supply. Could you give please share your thoughts on what's really happening with overall global and India steel demand supply and your outlook on how should the prices actually behave? A bit more color on that will be helpful. That's my first question.

Sanjay Gupta: Good evening, Rahul. First of all, Happy Diwali to everyone. Well, the demand of the steel if you see the real facts, not very good. But somehow we are struggling from last two years with secondary and the primary steel prices is the huge gap between the primary and industry secondary steel. Price almost close to Rs. 12 to Rs. 15 per kg. Now it has come down to reduce to Rs. 3 almost close to Rs. 2-Rs. 3 per kg. This is a big boost in itself. if you see all the other sectors, our growth rate is almost close to 5% to 10%. There are chances of growth, so need to build up the-capacity and we are very focused quarter-on-quarter 10% growth, and increase the target. Globally demand is in some places, like Middle East. Europe and US the demand has slowed down. Next month we are going to do much higher production close to 16,000 tons this month. All these things are good for us.

Rahul Agarwal: Sanjayji, net-net for the HRC pricing in India, what do you foresee, because….

Sanjay Gupta: All need to understand, today HRC prices is close to Rs. 46,000-Rs. 47,000 per ton. There are not much chances of price correction too. Margins are in pressure also, steel prices are in pressure. There are no chances for it price higher anymore. It is going up and down. The price will remain same. In India the capacity of HRC is 1.5 million tons, like 2 lakh ton per month from Tata Steel, 2 lakh per month from NMDC Steel, 4 lakh ton from JSW Steel and 4 lakh ton from JSPL. Of the 12 lakh per tons capacity, hardly 2.5-3 lakhs capacity just started. 9 lakh ton capacity will start in the next 4-5 months. 2 lakh ton Tata Steel, 4 lakh from JSW and 2 lakh ton from JSPL. 8 lakh ton capacity will be built up and pressure from China is very high in overall market steel prices. But I feel the steel price of the India will be same but the secondary market, it is moving towards the primary steel.

Moderator: Thank you. Our next question is from the line of Amit Dixit from ICICI Securities. Please go ahead.

Amit Dixit: Couple of questions. The first one is despite pushing volumes, the general structure segment we found that the contribution was negative. So, what explains that? Are we pushing volumes at the cost of margins and the realization? In that case, it could be counterproductive as we ramp up our capacity. So, that is the first question I have that how do we see this margin shaping up of this critical, I would say bucket, which is like 45% of your overall sales volume?

Anubhav Gupta: Amit, the EBITDA per ton spread was negative because of the inventory loss overall with the company, if we remove the inventory loss, it was pretty much profitable and going forward we don't expect further inventory losses. So, the EBITDA per ton in his particular category will recover to the previous level which we have been showing around Rs. 2,000 to Rs. 2,200 a ton.

Amit Dixit: I was asking what gives us confidence that the steel prices will not fall from here because what we have seen the Chinese stimulus, I mean the measures and the impact has been fairly, I would say muted at this point in time. Chinese exports have a again came to 10 million tons odd. And last quarter also we said that now things, are the worst is behind us possibly. But although we said that Q2 might be a little bit here and there. But going ahead in Q3 also the demand that we saw is like 4% to 5% now in Q2. So, what gives us confidence that we will go back to this EBITDA per ton of 5,000 in 2-3 quarters?

Anubhav Gupta: Amit, no one will be more happy if fuel prices go down further from here. The question is can steel prices go down again Rs. 7,500 per ton in single quarter, answer seems to be no because company if you look at our performance for last 10 years, we have the cycle of steel volatility. Where in in a single quarter steel prices swing by Rs. 2,000-Rs. 3,000 per ton very easily and we don't have inventory losses in every quarter. It is just in Q2 when there was such a sharp decline, Rs. 2,500-Rs.2,000 month-on-month we saw the correction in the steel prices which we have not witnessed in the last 10 years. Even an efficient inventory churning company like Apollo, right, which we always boast of, right, our inventory churn is like 25 days 15 times-8 times in a year. When we are churning inventory so quickly then two Rs. 3,000 per tonne fall or increase in steel prices in a quarter does not impact our profitability. But if steel prices were to fall off by Rs. 7,500 a ton in a single quarter, then it does impact our profitability. So, in quarter three we expect that steel prices could further go down by the same pace? I mean at one side we will be very happy because then I mean we will just eliminate the sponge iron Patra pipes, because right now the gap is Rs. 2,000 a ton and if steel prices, my base raw material goes down by like Rs. 6,000 – Rs. 7,000 a ton you can imagine the situation where I will be able to sell at such a lower price. Second point, we may not need to lower my selling price once steel prices go below Patra coil price because I have almost 500,000 ton of monthly incremental market which I will take from sponge iron steel pipe and even if my base for material is lower, I may not decrease my selling price. So, in fact my margin will go up in a situation when steel prices crash by Rs. 7,000 per ton in Q3 or Q4 and sponge iron steel prices are at similar levels.

Sanjay Gupta: I also add to one point here. Today, the total structural to marketing of India is almost close to 5 million with the primary steel and for almost 6 million tons from the secondary steel. If the price go down with secondary steel, nobody can supply the material to market other than Apollo. In the other segment, the second number player is just one tenth of our capacity. So, if the market requires 5-6 lakh ton per month more material, Apollo also can give maximum one like 1 lakh-1.5 lakh ton material per month to market. So, there we don't need to slash our price. Then our margins should increase.

Amit Dixit: The second question is on employee expenses. Last quarter you indicated that maybe they have picked off, but this time we saw again employee expenses increasing. So, what is the sustainable rate of employee expenses that we can see going ahead?

Anubhav Gupta: Amit, the employee expenses for the Q2 is Rs. 870 million. Out of this again Rs. 70 million is for the notional ESOP expense. So, 800 million per quarter is what like we have peaked and as a as the sales volume increases quarter-on-quarter, the per ton cost will keep on going down.

Amit Dixit: But in absolute amount we can expect that 800 million thereabout would be a quarterly rate.

Anubhav Gupta: Definitely yes.

Moderator: Thank you. Our next question is from the line of Lokesh Maru from Nippon India Mutual Fund. Please go ahead.

Lokesh Maru: Two-three questions. Assuming that there will no lower inventories, what kind of growth are you seeing right now or maybe what is your estimate for in the current situation say Q3-Q4, that is first. Second is as prices were down already we're on a declining trend. The discount of 500 per ton that we had shared even in the call and in the PPT, when did when did you actually start giving this discount and how long do you intend to stretch that? And what was the rationale to still push volumes in a declining destocking environment or gain share some maybe peers. Anything like that? And 3rd last question is on the, while doing some channels few dealers also mentioned presence of or rather competitive intensity in the heavy structures by JSPL. So, what is how do we counter that? What is our strategy around that piece?

Sanjay Gupta: Lokesh, now we are targeting quarter-on-quarter, 10% growth like this quarter we have done 7.5 lakh 10 nearabout. On the Q3 we are targeting 8.25 lakh ton and Q4 we are targeting 9 lakh ton. And Q1 we are targeting 10 lakh ton and Q2 I'm targeting 11 lakh ton and Q2 up to 12 lakh ton. I think this type of market, we are not going to stop, we are going to quarter-on-quarter 10% growth because I have the capacity, I have the market. I have all the things I have. Nothing is for me any excuse, for Apollo now no excuse. But we are very confident. Already the secondary market is in the loss, and we are still in the comfort position. So, I don't think the steel price will increase. I think that the ball is in our court now we are going with the external support also, so we are working in full horse power because in we will not get any such golden opportunity in future. We are very hopeful if we can't do it, so we have to rethink where is our structural problem, how can we remove and how can we go ahead. But right now, I can say only one I can give you assurance, that we don’t have any excuse other than to perform. Apollo team has no excuse.

Lokesh Maru: Just one counter to that. Are we aware of how come the rate of steel has fallen right now, if our gap, which will be narrow, so why not to include that volume which we are forecasting later on the growth rate rather? Later we don't know, right, if steel prices increase, that is an unknown scenario. So, any thoughts around that, growth would be accelerated today rather than maybe Q1?. Please pardon my ignorance.

Sanjay Gupta: It's important thinking, we are going to first time do this type of volume. Now we know about the market pulse. We have a full basket.. We have tried till this time, we don’t know from where to increase the volume and what work needs to be done. But right from month of September, we are increasing the volume,. We now identified the pulse of market, and how to increase volume. Which areas need to be touched, which products the impact will not be there, but there will be impact in the figure. We have the map now, so we know where to get the volume . Till this time we were very confused. We can’t do anything without the volume. If any problems come, we are going to face. I am not worried about seeing Maharashtra volume is near to 30,000. This month we are going to close the volume at 45,000 per ton. So, we will close at 45,000 in October . So, we understood that Maharashtra has 15,000-20,000 more market. Tamil Nadu also. We haven’t received much growth because of the price. Now we will get more growth if we reduce the price. So, we make the basket of things. Number 2, at a margin point, we are going to close to 16,000 ton. Our old stocks have also expired. So, our margins will help in maintain the margin. We are very hopeful we see 10% growth quarter-on-quarter. First spread EBITDA is 4,000-5,000. Second spread will be Rs. 5,000 to Rs. 6,000. Now it has only started in India. Out of 12 lakh ton only 2.5 lakh ton has been done. So, either demand need to increase so much hat all capacities get absorbed. That is also good for us. Whatever sales is done, it will increase demand also

Anubhav Gupta: Our East plant which we are setting up two plants. Siliguri and Gorakhpur. So, that will also give us incremental market of around million tonnes a year and that will also boost our volumes, which will contribute to the quarterly run rate which Sanjayji just highlight. Now on your second question about the discounting in the second quarter for our customers, see, I mean in the falling price scenario, the sentiments for the distributors, our channel partners also go to like pretty low level and we have to compensate with some additional discounts, try to do the volumes. I mean it would be like first time in our own history that in a quarter when steel prices crashed by 7,500 per ton and our sales volume increased in that quarter versus the previous quarter. So, the momentum what we were seeing we wanted to continue with that and we thought, okay, if we bleed further by Rs. 500 per ton, but that will keep the momentum going with our channel partner. We should go for it. So, so that was the conscious decision and decisive strategy which we adopted and we went for it and we knew that once and we also had fair idea that prices will stabilize in September. So, from October we shall withdraw such discounts and there will be no need to continue with the pricing.

Lokesh Maru: We have already rolled back the discounts and this 500 should flow through into our EBITDA anyway?

Anubhav Gupta: That is right. And on your third questions, competition on the structural steel heavy space, see our philosophy here is the more the merrier. Because we are the only ones who are promoting tubular construction in the heavy construction. If more if more strong players or strong brands come and pitch the same theme to the developers, to the contractors, to the structural engineers, to the architects, to the government, it will only expand the market in a bigger way. So, everyone shall reap the benefits in the long term.

Moderator: Thank you. Our next question is from the line of Dhananjai Bagrodia from ASK Investments. Please go ahead.

Dhananjai Bagrodia: I just wanted to understand, roughly we are expecting around 170 crores was the inventory loss for this quarter?

Anubhav Gupta: It was Rs. 2,000 per ton. So, if you calculate it shall come around Rs. 1.5 million.

Dhananjai Bagradia: Only one month inventory we keep right?

Anubhav Gupta: Right. So, normally the stock is around 280,000 to 300,000 ton. On that the loss we would have booked around Rs. 5,000 a ton.

Dhananjai Bagrodia: Loss would have been Rs. 2,000 ton.

Anubhav Gupta: Yes.

Dhananjai Bagrodia: Effectively for the second half, what OP per ton would be targeting assuming there will be no losses?

Anubhav Gupta: So, we shall be going from Rs. 4,000 to Rs. 5,000 per ton for the second half.

Dhananjai Bagrodia: So, that's effectively that's 5000 and volume is guidance is, would it be increased cause our numbers have come higher?

Anubhav Gupta: Yes, I mean if you sum up the guidance which Sanjayji just gave right, quarterly volume, I'm sure you will see that the guidance seems to be a bit better.

Dhananjai Bagrodia: So, it would be above 3.2 - 3.3, right?

Anubhav Gupta: I think the main impact we will see for the FY26, right, because the six months have already gone. But yes, we should be surpassing the 3.2 million ton guidance if we do second-half as we are saying.

Moderator: Thank you. Our next question is from the line of Anupam Gupta from IIFL Securities. Please go ahead.

Anupam Gupta: The question was on the EBITDA per ton number which you have put in the PPT of Rs. 5000 for FY27 targeted. But just do the math from your current number and assuming there no inventory losses and you have this Rs. 500 discount rolled back; thus it will be operating leverage, it will come through, ideally it should be Rs. 5,000 per ton in the next two quarters itself, in fourth quarter itself, in fact, assuming there is no further this thing, so are you assuming adverse mix incrementally? Because let's say you'll push out more of general structures, given that the competition there is much lesser or how are you looking at that number specifically?

Anubhav Gupta: So, Anupam, if you heard Sanji, right, he said in first phase our target is Rs. 4,000 to Rs. 5,000 a ton EBITDA and in second Phase 5,000 to Rs. 6,000 per ton EBITDA, right. I mean right now the EBITDA per ton has been so low for the last 2-3 quarter. If we mention Rs. 6000 per ton on presentation, we just thought let's be a bit conservative in highlighting the number, but yes, you are right that the business has the ability to produce Rs. 6,000 per ton EBITDA which Sanjayji also highlighted.

Anupam Gupta: And the second question is on the utilization of the Raipur facility at this point of time. Last quarter you mentioned it was close to about 60%, what is the number for the 2nd Quarter?

Anubhav Gupta: In Raipur there has been an expansion in the capacity as well. Earlier it was 61%. But now on the expanded capacity it is 53%.

Moderator: Thank you. Our next question is from the line of Pallav Agarwal from Antique Stockbroking. Please go ahead.

Pallav Agarwal: Sir. I have a question. The new plant at Bangalore, I think in the last call you had mentioned that the location was supposed to be in Ahmedabad. So, has there been any change in our strategy in terms of geography?

Anubhav Gupta: We did decide to go for Ahmedabad initially. And then we evaluated the raw material availability, the market dynamics and existing plants which are already feeding the Gujarat market, right. So, we thought that existing plants can keep on feeding and in fact there is a need for a plant in southern market. So, we change that strategy. Anyways we did not invest any money on land acquisition etc. So, it was withdrawable and we did withdraw that, Sanjay you want to add?

Sanjay Gupta: Yes. Pallav, the main thing is that we have struggled with ABPL and our Latur facilities and this plant, our main market is Gujarat. Right now, in the South we have a shortage of structure because of the Patra markets. So, |I thought if plant is set up in Ahmedabad, then we will again struggle in Latur. So, it's better to work in place where there is shortage of material. Second thing is, when we are going to form 5 million-to-10-million-ton target, then we have then we will work on these plants in the 2nd Phase where our capacities are short and where we want to set up the plants, so because of that we dropped the Ahmedabad plant. Right now we don't want to disturb Latur facilities because Latur facility has become our backbone of the company. So, we don't want to take any of the market from that.

Pallav Agarwal: The reason for us turning into net cash to debt again is because of the lower EBITDA this quarter or again there's build up that is happening working capital.

Anubhav Gupta: So, Pallav. There are two reasons, of course. The profitability was low, so operating cash flow was very, very low compared to the earlier quarters. And secondly, we also went ahead with the INR4 billion of CAPEX in the first half. So, as you know that the capacities have increased from three-point 3.6 million ton to 4.3 million ton. So, some residual CAPEX also we had to incur which we did. So, that's why there is a slight built up in the debt. But as the operating cash flows will normalize in the second-half, it shall come down sharply.

Pallav Agarwal: So, we still probably have a target of being net cash by the end of FY25. Is that a possibility?

Anubhav Gupta: Definitely yes.

Pallav Agarwal: Given the difference in between domestic and import prices. So, do we do we import any HRC in the last quarter because the Rs. 6,000-Rs. 7,000 of decline in prices seems to be on a point to point basis because on average you know the prices are probably low about 3000-3500 **0:35:26** what spot prices we track. So, was any imports of HRC that happened either in Q1 or Q2?

Sanjay Gupta: Like in India, there are two type of imports. One is the Japanese, Korean and Vietnam materia, duty free, and one is Chinese material which was 8.25% duty, So, the Japanese and Korean materials which was near to $600, the starting of the quarter, and now lastly it touched $500. Now this material stabilized on to $520-$525 per ton. So, if you see the $80.00 decrease in to Rs. 84, almost close to Rs. 7,000 per ton, India, there was a Rs. 7,500 per decline, so both are very equivalent. Indian market is going with the international market.

Moderator: Thank you. Our next question is from the line of Devvrat Mohta from Capital Group. Please go ahead.

Devvrat Mohta: My question really was that if your mix shift towards taking away more market share from Patra, does that become adverse for margin going forward and really when you say margins are 4,000 to 5,000 in first phase and 5,000 to 6,000 in second phase really I mean what time period are we talking about phase one, phase two?

Sanjay Gupta: Devvrat, 100% you have taken the right point. I am unable to talk a lot on margin. My volume is increasing in Patra in the commodity sector. From there the margin won't increase further. So, the absolute amount of EBITDA, ROCE margin will increase much further. But may in Patra EBITDA will get reduced. That is why I am not talking above the 4000-5000-6000 mark because the growth is very evident at this time. In value added products also growth will be there. If I make 9 lakhs in Q3, then it if on 9 lakh tons Rs. 500 crores or Rs. 600 crores EBITDA, then I will fall into the same loop. So, my target is, how my overall EBITDA increase? How absolute EBITDA increase and the remaining 2,000-3,000 EBITDA, why should I go to lose the market, that my per ton EBITDA will be reduced. So, that is why I am not talking about EBITDA much. Let us produce volume in this quarter, that will affect our expense also. In our board meeting, I notice that our expense is around 2,000 per ton and we have done 7.5 lakh ton. This expense is reducing and we are going to make it more efficient and increase the volume. So, may be it will come down to Rs. 1000 per ton. If expense come down to Rs. 1,000 that will be a booster for me. The problem is I am sitting with a capacity of 4.5 million ton, and I am producing 3 million ton. I was not able to do any assessment, but right now from September onwards I started assessing, where my expenses is, where my market share is less, if I am already using 80% market share, I cannot increase my market share. So, I don't want to lose the premium there. Where my market share is 40% or 50%, market, and Patra market is more, so I can lose my margins and I can capture the market share, right now we are seeing the strategy. But working for another quarter, I think we will be bullish on our strategies.

Devvrat Mohta: Basically, you are saying your focus is on absolute EBITDA rather than EBITDA per ton. So, what, how should we think about, EBITDA going forward? Is absolute EBITDA going forward if the volume ramp up happens as you said? What do you think will EBITDA go up to?

Sanjay Gupta: I always believe in being bullish. I think in this quarter we will be above 4000 and less than 5000. And maybe in next quarter will touch 5000. Right now, we can 4300-4400 per ton this quarter, 4700-4800, quarter-on-quarter margin will also increase as our volume increase.

Moderator: Thank you. Our next question is from the line of Sneha Talreja from Nuvama. Please go ahead.

Sneha Talreja: Just two confusions here. One is, you said that you have discontinued the discount which were given which was around Rs. 500 a ton, which has been done in October starting. Is that correct?

Anubhav Gupta: So, Sneha, this was on the overall portfolio, right? But if you go in the market, you may still see that we have discounts on the products which are directly competing with sponge iron and steel pipes. But overall portfolio, the discount which came out to be 500 because of destocking because of sales force that we have rolled over but on our general products, the discounts are continued in month of October.

Sneha Talreja: And that is not the reason of your EBITDA per ton for this particular quarter. But how do we EBITDA per ton impact because of that?

Anubhav Gupta: Rs. 50- Rs. 100 a ton.

Sneha Talreja: Secondly, one of the impacts what I wanted to understand is, the last quarter you had mentioned the gap between Patra and your primary steel prices were about Rs. 2 – Rs. 3 odd, with this particular quarter you said is Rs. 5 to Rs. 6 plus there was a Rs. 500 discount which you give it on the overall basis. Despite these gaps increasing, what is the confidence that you have on 10% Q-on-Q growth is what I wanted to understand.

Anubhav Gupta: Sneha, I correction. I said 5% gap. I didn't say Rs. 5000 per ton gap, I said Rs. 5000. 5% percent Rs. 52,000 per ton selling price, absolute comes out to be Rs. 2,500 a ton, Rs. Rs. 3,000 a ton.

Sneha |Talreha: My bad then, understood. The next thing I wanted to understand is how quickly can you actually ramp up your capacity once you achieve 5 million tons sort of a number in terms of capacity because earlier what I understand is you were trying to ramp up your Raipur capacity itself, later you decided to get into various other markets. So, I think that particular area would help in understanding.

Sanjay Gupta: Which all commodity base capacity we have, it is all running in full utilization. There are some capacity left on the bigger pipes. One line is getting installed in Hyderabad, one in Dubai. In order for us to reach 4.5 million tons, these three areas have 500-ton balance. Rest we utilized all the capacities. Also, we are working on this strategically. The 4.5-million-ton road map is very clear to us. After that 4.5 million ton, we have a plant in Siliguri for 2 lakh ton, that market is very niche. 1 lakh ton market for Gorakhpur and 2 lakh ton market for Bangalore, south lighter structure to market? If feels like quarter-on-quarter we will be in a fast pace.

Moderator: Thank you. Our next question is from the line of Aditya Welekar from Axis Securities. Please go ahead.

Aditya Welekar: Anubhav, just a few points which I have missed. So, you said 53% capacity utilization on Raipur plant on expanded capacity. So, what is that expanded capacity now? And residual CAPEX guidance for 25 and for 26?

Anubhav Gupta: So, last quarter, the rated capacity was 1.1 million ton, now it is 1.2 million ton. So, there has been addition by 110,000 tons to be precise in the capacity and if you calculate the volume, it was kind of unchanged on a QoQ basis.

Aditya Welekar: And on CAPEX guidance for 25 and 26?

Anubhav Gupta: So, CAPEX we have around Rs. 3.0 to Rs, 3.5 billion of residual CAPEX which we shall spend over the next 6 to 7 months and we shall reach 5.0-million-ton capacity.

Aditya Welekar: And one question on this value-added product share, means it is 55% and that percentage is almost flat year over year. So, what is the function of that value added product share in our EBITDA per ton increase means do we see any case where we can have the flexibility to increase the value-added product share and reduce our general product share because in this quarter we have incurred losses on EBITDA per ton basis on general product. So, in that scenario is that market is developed or is there a sufficient market for pushing volumes for value added products?

Anubhav Gupta: Aditya, please understand that the EBITDA loss in general category is not because of our pricing but because of Rs. 2,000 per ton inventory loss which we booked for the whole company. So, if I remove inventory loss, it was pretty much profitable product. And there is no strategy to. lower the volume from general products, because the opportunity which has come in front of us with the decline in the sponge iron steel pipes we have almost 500,000 ton of new incremental monthly market which we can target very, very aggressively. We have the capacities. We have the distribution network. It's one of the fastest-moving products. So, here the inventory churns are even higher. In this segment, inventory churn touches almost 20 times a year. So, on EBITDA per ton basis, you may see it being dilutive, but on ROCE basis this is like super accretive, and we are not going to leave any stone unturned two to grab the market from sponge steel pipes which got opened up over the last 3-4 months because it is not ROCE dilutive, it is highly ROCE accretive.

Moderator: Thank you. Our next question is from the line of Bhavin Pande from Athena Investments. Please go ahead.

Bhavin Pande: So, I just wanted to draw your attention to slide 23 on the opportunity in solar. Just looking to quantify the size of the opportunity and second, if you could touch upon if products in this particular offering are fungible, could it be used across segments?

Anubhav Gupta: The products are not fungible. The target, if you look at the opportunity in the area of residential rooftop, there our lighter structure will be used. Now, for ground mounted, one is stealth so there our **(Inaudible) 0:48:57** sheet and the thicker colored coated sheet will get used and for tracker, again we have specialized tubes which can only be used in solar trackers. So, these capacities are not fungible. So, we have introduced the products specifically for each area.

Bhavin Pande: And Anubhav, what would be the mix of exports and domestic revenue?

Anubhav Gupta: So, if you look at our Dubai sales, that is our international sales.

Moderator: Thank you. Our next question is from the line of Bharat Shah from ASK Investment Managers. Please go ahead.

Bharat Shah: I just wanted to ask one question. Out of the other expenses which are booked per ton, so which was about 4,400 odd in the first quarter, a little over 4,000 in the second quarter, how much conceptually is likely to be fixed cost and how much is kind of variable linked to the output? In other words, as we ramp up the sales, what kind of operating leverage I can expect to see on a roughly 1 lakh extra kind of ton per quarter ramp up that we are talking about. Just to get a bit more clarity on that?

Anubhav Gupta: So, Bharat bhai, in fixed cost, our primary is employee cost which right now is Rs. 1,050 a ton.

Bharat Shah: I am saying the manpower cost is about Rs. 1,000-Rs. 1,100 per ton in each of these two quarters that I have seen, I am seeing that expense which goes up Rs. 4,400 a ton in the first quarter and roughly Rs. 4,000 in the second quarter. So, what kind of operating leverage one can hope, in other words, how much normatively is the fixed element of the cost broadly? I mean it need not be very precise and how much is likely to be the variable part?

Anubhav Gupta: Bharat bhai, like I was saying, in fixed cost, there are three main components, right, one is employee cost, salary, second is head office expenses and third is the branding expenses. Now, in the variable cost, which are #1 power, #2 consumables, #3 steel wastage and #4, the freight cost. And if you look at the operating leverage which we can get right from the employee cost, from the head office expenses and the advertisement expenses almost Rs. 500-Rs. 600 per ton operating leverage we can get if we keep on producing Rs. 300,000 ton of steel pipes every month.

Bharat Shah: And on the variable part also, we have program to save the cost in each of the areas. So, roughly what kind of improvement over the next 1 and 2 years, we expect to see on the variable part of the cost?

Anubhav Gupta: Variable, the power cost has some potential to go down because we are investing in the renewable energy, right, so that helps us reduce the cost. And secondly, on freight cost also, every day, we keep on improving efficiencies from the plant dispatched to the end market so that we can optimize the freight cost and after opening or commencement of Siliguri and Gorakhpur plants, definitely the freight cost to eastern markets will come down.

Sanjay Gupta: Bharat bhai, one thing is very clear. Right now, we are sitting with the expenses of close to 4.5 million tons we are sitting on that. As our volumes keep on increasing like power, power also we take in two parts. One part is if we run the mills we incur the cost. If we run the mill or not we have to give the power. Like in a plant we have made a connection of 4000 KVA but it is running at 3000 KVA but all the charges we have to pay for 4000 KVA. So, if you see the fixed cost of Rs. 2000 per ton in that main is fixed power which we need to have, branding expenditure, HO expenditure, marketing expenditure. If we achieve that volume then there will be major reduction #2. Our freight factor last quarter was 1900 its only export. If we do according to the local market then it almost Rs. 1600 ton. In that what happens if we have to pull any plant if there is a demand in one market like from Horus we have to send the material to Pune we used to send that pull that market. If material of Hosur is getting sold in Hosur so don't require to send the material to Pune market. As our plants are getting full then unnecessary freight factor is getting reduced as we are selling the material in the local market. Like to pull the Raipur We have to send to Pune, we have to send to Bangalore also. So as the local market of Raipur, Eastern UP, MP and Gujarat as the demand is getting ramped up our freight cost is reducing. Today if we send the material to Bangalore then our freight is Rs. 4000 ton and if we send the material to Ahmedabad then our freight is Rs. 2500 tons from Raipur so that cost is getting reduced. Now we are in the process of working on the costing. Everything is linked to volume and unfortunately over the last couple of years we were stuck with the volumes, we could not do the volume if we wanted to. Right now, as the volumes is increasing we will come across some mistakes then we will remove that. If there is something good we will make it more better. Now we have come into that process. So, I think Q3 and Q4 will tell a lot about the future of the company.

Moderator: Thank you very much, sir. Our next question is from the line of Shailesh Raja from B&K Securities. Please go ahead.

Shailesh Raja: Sir, how is the current CAPEX trend seen in the government infra projects like metro, railway station, airport, then water infrastructure project like steel water tanks, which you were roughly in the 2-3 quarters back? So, today, what is our total volume from this sector and what is the total overall contribution is coming from government infra projects?

Anubhav Gupta: So, Shailesh, around 20.5% of our sales come from the infrastructure project, right, the last few months have been pretty slow, right, because of elections and new government formation and delayed budgets and then monsoon. Now, in the month of October, we have seen the pickup right, but we have been working on these projects for the last 1.5 years in terms of the approvals and design, right. So, we have started to see good traction from October onwards and this momentum should continue throughout FY25 and FY26.

Shailesh Raja: Is it back to pre-election premium?

Anubhav Gupta: Not yet, because now North India again will see construction slowdown because of the elevated pollution level, right. So, we believe that Jan, Feb, March, last quarter, we shall see the pre-election levels of momentum.

Moderator: Thank you. Our next question is from the line of Vikash Singh from Phillip Capital. Please go ahead.

Vikash Singh: Sir, just wanted to understand one thing that the competition is also getting into this segment, which previously was dominated by you only, basically you are the only player. At the same time, you are actually selling more of low-grade products. So, in this context and giving lot of HRC capacity coming, so competition will also get some benefits of the bulk buying, how do we expect that our blended EBITDA would still be growing to 5000-6000 level, given our value added would also come under pressure?

Sanjay Gupta: Vikash, what competition are doing, we don't bother because we have our own branding. We have our own distribution network; we have our own expertise on the costing part. Number three, market is also expanding, see in any business competition keeps on coming but we don't think there is any serious competition in our segment. It is fine that some one is coming in API, someone is coming in DI, someone is coming in galvanized, and we are creator. We create our own market, and we are doing lot of small things, that you can see in the volume of the market. We can't describe on the phone. If we lose a bit of market share because of competition then our business is not going to finish. Our expansion is keep on going, in November our 1000 square line will start in Raipur which is of 1 lakh ton capacity which is a new innovation of a kind. We have put a thicker color line that is ramping up gradually and its market is developed that will increase our valuation**.** If we increase our valuation 2 lakh ton to 4 lakh ton per annum then may be 50000 tons, 1 lakh ton, 20000 if commission does not come in that we don't bother. Like we are pre-galvanized pipe we are preparation of bringing a new pipe which will be done by March. This is the way of life people would want to come up and we will try to go more up. Try not to worry.

Vikash Singh: Sir, just one small clarification, I know the inventory loss point has been said so much, but we had a similar situation in 2Q FY23 when we export duty led to almost Rs. 10,000 price correction. Even then, we have managed these EBITDA per ton reduction of only Rs. 700, while this time was almost Rs. 2,400. So, are we setting up some extra inventory equals this time, or I am reading the situation differently?

Sanjay Gupta: That time I don't remember, but I think that time we compromise with the volume.

Vikash Singh: Sir at that time your volume was 602 KT versus previous quarter 422 KT. So, the volume was also good actually.

Sanjay Gupta: I cannot tell you right now why it has happened so that time, may be Patra market was good at that time or we could have good export order without seeing a fact I don't want to comment anything.

Moderator: Thank you. Next is a follow-up question from the line of Bharat Shah from ASK Investment Managers. Please go ahead.

Bharat Shah: Sir you were saying that our cost structure is 4.50 million ton to 4.75 million tons but we are doing lower and net-net there is a Rs. 2000 there is effective scope for saving? Just part of the variable cost like power where there is some level semi-variability. When you were saying that my call got dropped.

Sanjay Gupta: Bharat Bhai whether we do the business or no around Rs. 45 crores per month is our total fixed cost which we can reduce to Rs. 40 crores. We are trying that somehow we bring it to Rs. 40 crores and our volume around 15 lakh ton so if we bring it to 40 and if we increase our volume to 1 million ton which is our target for the quarter that we reach to 1 million ton within one or two quarter then our cost will come Rs. 1200 per ton which will help us to improve our margin.

Bharat Shah: So, there will be saving of around Rs. 700-800 per ton basis?

Sanjay Gupta: Yes, because we are sitting at the higher expenses, and we are doing the lesser volume.

Bharat Shah: Is there any program on saving at the variable cost side?

Sanjay Gupta: In variable cost we save at two places more, one is on the freight factor. Freight factor like we are running Hosur plant, Hosur Plant-1 has tonnage of 45000 ton per month. Now we are selling 35,000 to 38,000 tons material in the local market and our demand is more in the Pune market or demand in Ahmedabad is more or demand is more in Hyderabad then we will shift the material from Hosur to Hyderabad, Pune, Ahmedabad wherever we have more demand. Though we don't send to Ahmedabad, we shift to Hyderabad and Pune. If we sell the material in the local market of Hosur then in the local market our average freight comes to Rs. 600 per ton to Rs. 700 per ton and if I sell my material outside them my cost comes to Rs. 1600 to Rs. 1700. Then I save extra Rs. 1000 directly on the material so as the market is expanding my material is getting sold locally then my freight cost should come down. There will be impact in the power and like we are making tube mill pipe and the capacity of tube mill is to make Rs. 200 per ton per day so leaving the tube mill all the capacities are running whether it is cranes, water motor pumps there will be not much of an impact. Like our expense is Rs. 40 units per ton on tube mill and suppose our tube mill runs at the full capacity then our unit cost will come to around Rs. 35 unit per ton. Then unit cost is around Rs. 8 to Rs. 7 then it comes to Rs. 40 to Rs. 50 per ton. If there will be pressure on the mills then our yield will come down marginally. There will be a slight improvement like Rs. 50 per ton, Rs. 100 per ton, or Rs. 30 per ton and it other expenses too. So there will be no major fixed cost but here also Rs. 200 per ton to Rs. 300 per ton cost will get reduced overall, breakdown also get lessen, if there is no pressure to make the material in the plant so what happens we have to store the material in the plant then our handling increases and if the handling increases our wastages increases. So there are many factors, Bharat Bhai. My ultimate goal is to run at a full capacity. Unfortunately, we have already placed full capacity so anyhow I have to complete this and we are just aiming to that.

Bharat Shah: Sanjayji, will it be fair to say we finally are at a point where all that we needed or all that we have desired in market conditions is what we have got today. In other words, on the valuated component, realization steadily should improve. On the raw material side, we now have stable conditions and favorable one where we can at a lower end expand the volumes on the fixed asset, fixed cost side, we will have operating leverage benefit to save to gain and on the variable, our efficiency and cost saving programs will result in some reduction. And all of the combined rate opportunity in the global arena, overall, I would say that there should not be any reason now going ahead for APL Apollo not to be right at the top and shining. Otherwise, it will require a lot of introspection within as to why we told all the favorable factors, I would say there is now no scope for any analytics. It is only the numbers.

Sanjay Gupta: Bharat bhai in the beginning of the call I have said very clearly that everything is in our favor. This time we don’t have any excuse. If we are not able to do it then this is a worry point for us and we have to rethink about whole system and the structure why we could not do it. We don’t have any excuse as on date to be frank. If will not be able to make it I will say that I am unable to do it. But I will not give any excuse. Right now I can boldly and proudly that I have no excuse except to deliver that number because my whole system knows this and we working full hours. You can check from anywhere. We are working overnight at this time to prove this. If does not happen, why it did not happen, why I did not happen we will come with the reason. We are a failure, or our structure needs a whole revamping but today I can say boldly and loudly and again I am saying we don’t have any reason except performing. Quarter-on-quarter we have to give our performance exceptionally good not just good.

Moderator: Thank you. Our next question is from the line of Omkar Gughardare from Sri Investments. Please go ahead.

Omkar Gughardare: You mentioned that because of the price differential in the sponge steel market, you will be able to garner the additional market. So, what exact steps are you taking in order to garner that market which has been vacated?

Anubhav Gupta: Which market are you talking about?

Omkar Gughardare: The sponge steel market, that is how you mentioned. So, you said that you will be capturing volumes from that market, right, because of the price differential?

Anubhav Gupta: Correct.

Omkar Gughardare: So, what exact steps are you taking in order to garner that market share?

Anubhav Gupta: It has become a pool market, right? If we have the product, right and if we are able to service our distributors, well, the sales will go up automatically, right, because the end user, whether the fabricator or contractor or a house owner, if he is getting HR coil quality steel pipe at the same price or maybe at a price gap of 5% so he is going to ask for APL Apollo Steel pipe, right, and my product has just to be available at my distributor counter so that he can service his retailers, his fabricators efficiently and the sales will go up on their own.

Omkar Gughardare: Just a small question is that how has been the month of October as we are already at the end of October?

Sanjay Gupta: We are right on target.

Omkar Gughardare: So, whatever you mentioned right now that you will be gaining momentum in each of the segments, the revenue, the volume and EBITDA, everything, do you think you are on target?

Sanjay Gupta: I don't know about EBITDA right now. Right now, I know about the volume. The month is not over yet, so I would not know about the EBITDA but as far as volume is concerned, we are right on the target but if I would have a slightest of doubt I would not have said that.

Omkar Gughardare: So, you are right on the track for whatever you have guided so far?

Sanjay Gupta: Yes.

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

Anubhav Gupta: Thanks YES Bank for hosting us and thanks to all the participants and I wish everyone Happy Diwali on behalf of APL Apollo Tubes. Thank you so much.

Moderator: On behalf of YES Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.