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**Mr. Pankaj K. Gupta, Director - Finance & Accounts, APL Apollo Tubes Ltd.**

**Mr. Pankaj K. Gupta**
**Director - Finance & Accounts, APL Apollo Tubes Ltd.** 35 years, is PGDBA (Finance), ACS, MA (Business Economics), LL.B. He has a decade of experience in Accounts, Finance and Corporate Affairs. He is associated with the Company for the last three years, and is actively involved in strategic decisions. He looks after the entire gamut of Corporate Affairs, and heads Corporate Secretarial and the Finance & Accounts departments.

Incorporated in 1986, **APL Apollo Tubes Ltd.** (erstwhile Bihar Tubes Ltd.) has carved an unparalleled position in the industry by making relentless endeavor to cater its clients with premium quality ERW Steel Black, Galvanised, Pre-Galvanised Tubes and Hollow Sections, the widest range of steel tubes and pipes in India. APL Apollo Tubes is one of the leading supplier to downstream users like urban infrastructure, transmission towers, automotive, bus bodies, airports, metro sectors, green houses, fencing, conveyor systems, scaffoldings, fire-fighting, irrigation, water, gas and oil transportation, among others. The Company has prestigious accreditations like Underwriter Laboratories, CE and SGS France and is a recognized Export House. All its products are endorsed by Bureau of Indian Standards (BIS).

**In an exclusive interaction with** Hemant P. Maradia **of** *IIFL*, **Mr. Gupta says, "Being proximate to ports, Lloyds Line Pipes facilities would not only ensure savings in logistics cost, but would also enable higher exports."**

**What was the rationale behind the latest acquisition?**

Prior to this acquisition we had presence in the north India and south India with no manufacturing facility on the western part of the nation. The distance from the manufacturing facilities to the end customers entails transit time; longer the transit time higher the freight cost. Freight constitutes around 8-10% of the company's total cost. Therefore, to reduce the freight costs, we would like to have closer and quicker access to the end customers. The facilities of Lloyds Line Pipes are API certified and can manufacture up to 14" tubes. Being proximate to ports, these facilities would not only ensure savings in logistics cost, but would also enable higher exports.

The acquisition will reduce lead time for company's existing customers in the western region. Also, APL Apollo will strengthen its overall production capacity from the existing 400,000 metric tons per annum (MTPA) to 490,000 MTPA.

These were some of the main factors that were considered for acquiring the manufacturing facilities of Lloyds Line Pipes Ltd., a Maharashtra-based manufacturer of steel tubes and pipes.
Basically, this acquisition is a very strategic and significant for APL Apollo. We have a ready market to the tune of 3500-4000 metric tons per month in the western region. We are supplying 2300-2600 metric tons per month from our existing manufacturing facilities in the western region.

The Lloyds Line Pipes facilities being closer to ports we can import raw materials at a cheaper rate compared to the domestic raw materials. Also, we can exploit the export potential of the company's products. We expect this acquisition to contribute significantly to our topline and the bottomline in the coming quarters.

**What kind of contribution do you expect from this acquisition to your topline and bottomline?**

In FY12 we are hoping to achieve a turnover of Rs. 3bn from the Lloyds Line Pipes unit alone. The net profit from this company is expected to be around Rs. 150-160mn.At the moment, the unit is operating at 1800-2000 metric tons a month level. But we hope to scale this up to a level of 6000-7000 metric tons per month in a short time.

**Why the deal structure was changed to all-cash from cash-cum-stock deal?**

We had reached an understanding that we would close the deal by the middle of November. Regulatory approvals for deals involving shares take time. We wanted to expedite the process. So, due to time constraint we decided to do the entire deal in cash.

**Are you also taking on any debt?**

No. We are not assuming any debt from Lloyds Line Pipes.

**Could you tell us about the revenue and profit of Lloyds Line Pipes?**

The current management is not able to operate the facility at the optimum level. They are operating it at a level of 1500-1800 metric tons a month. This is very low compared to the installed capacity of 90,000 metric tons per annum.

In 2008, we bought Lakshmi Metal Udyog Ltd. That company too was operating at a very low level of capacity utilisation (1300-1600 metric tons a month) at that time. But, now we are operating that same capacity at 100%. We are planning to engineer a similar turnaround in Lloyds Line Pipes Ltd.

**By when do you expect to reach 100% capacity utilisation in Lloyds Line Pipes?**

In this industry it is next to impossible to have 100% capacity utilization as I am doing in my two subsidiaries. The industry average is around 60-65%. But, we enjoy certain advantages such as greater use of technology and a diversified distribution base that allows us to operate at above-industry utilisation level.

As far as Lloyds Line Pipes is concerned we expect to boost the capacity utilisation to 4,000-5,000 metric tons per month by the end of FY11. And, by Q3 of FY12, we expect to achieve capacity utilisation of at least 80% at Lloyds Line Pipes.

**How do you see the next two quarters for APL Apollo Tubes?**

We are targeting a turnover of Rs. 10bn for the current fiscal year. And, we have already done Rs. 3.85bn in the first half. Typically, 60% of my total sales come in the second half of the fiscal year. We are confident of attaining the Rs. 10bn topline target for FY11.

**How do you see margins going ahead?**

There will be a little bit pressure on the margins going forward. But we expect to derive some savings on freight costs and working capital costs. We are also gradually shifting to high margin products which will help us increase our margins by 60-70 basis points. There may not be any increase in the margins but at the same time we do not expect the margins to decline.

**Your tie-up with SPIL?**

That is only for the southern part of India and not for western India. Shankara Pipes is the largest buyer from our southern operation. The Company has forged a strategic partnership with Shankara Pipes, the largest steel pipes and tubes' distributors in southern and western India. The Company will allot 425,000 fully paid-up equity shares at Rs. 176 each for cash, to Shankara Pipes. The Company expects the relationship to translate into higher market penetration.

**What will be the total capacity at Hosur facility after expansion?**

The expanded capacity at Hosur started in September 2010. The October to March period is peak season in the southern part of India and we are receiving good response.

**Could you face any Demand-Supply mismatch?**

As of now there is no risk. We are not a traditional tube maker. We make specialised tubes meant for specific purposes. There may be certain risks for the normal tube maker. But we have a diversified presence across the country and our sales come from 4-5 segments. We are not dependent on any one particular segment or sector. We are also pretty flexible in terms of our product mix.

**Are you planning any fresh capex?**

There are some plans on the capex front but first we would like to consolidate our latest acquisition and the expanded facility at Hosur. Steel tubes is a volume driven business and with the recent acquisitions we have achieved 500,000 MTPA capacity. One you have volumes, you can negotiate on both the sides – suppliers and customers.

We are the only player in the industry with presence in western and southern parts of India. We make the entire range of products like Steel Pipes & Tubes, Aluminised Steel Tubes, ERW Black Steel Tubes, Hot Dipped & Pre Galvanised Steel Tubes, Fence Tubes, Structural Steel and Hollow Sections.

**Are you planning for new inorganic growth?**

There are certain plans but we cannot disclose it right now. There are certain aspirations and projections that the company has set out to achieve over the next few years.

**What is the proportion of exports in total turnover?**

Last fiscal year it was 7% of total turnover. This fiscal year it will be 12-15%. We are into exports but it is not a priority for us right now. We export only if we are getting better margins vis-à-vis the domestic markets.

Having said that, we are hoping to export up to 3000-4000 metric tons per month from the Lloyds Line Pipes facility. There is a good demand for API certified steel tube products in the US and European markets.

**What is the debt on your books?**

There are no term loans except for the working capital loans.

**What challenges do you see going forward?**

Sales have never been an issue. We were lacking capacity. Now the challenge is to translate the capacity into results.

**What is your message to the shareholders?**

We are a long term player. We do not think short term and we are not in a hurry to achieve our targets.