14th August 2024

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NSE Symbol : APLAPOLLO	Scrip Code : 533758

Re: Transcript of the Conference Call held on August 12, 2024

Dear Sir/ Madam,

With reference to our letter dated 1st August 2024 intimating you about the conference call with Analysts and Investors held on August 12, 2024, please find attached the transcript of the aforesaid conference call.

This above information is available on the website of the Company.

We request you to kindly take the above information on your record.

Thanking you

Yours faithfully
For APL Apollo Tubes Limited

DEEPAK CHARUVIL SANKUNNI
Digitally signed by DEEPAK CHARUVIL SANKUNNI
Date: 2024.08.14 12:43:37 +05'30'

Deepak C S
Company Secretary
M. No.: FCS-5060

Encl: a/a

"APL Apollo Tubes Limited
1QFY25 Earnings Conference Call"
August 12, 2024

MANAGEMENT: **MR. SANJAY GUPTA – CHAIRMAN AND MANAGING DIRECTOR – APL APOLLO TUBES LIMITED**
MR. DEEPAK GOYAL – DIRECTOR, OPERATIONS – APL APOLLO TUBES LIMITED
MR. ANUBHAV GUPTA – CHIEF STRATEGY OFFICER – APL APOLLO TUBES LIMITED
MR. CHETAN KHANDELWAL – CHIEF FINANCIAL OFFICER – APL APOLLO TUBES LIMITED

MODERATOR: **MR. KUMAR SAUMYA – AMBIT CAPITAL**

Moderator: Ladies and gentlemen, good day, and welcome to APL Apollo Tubes Limited 1QFY25 Earnings Conference Call, hosted by Ambit Capital. 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 star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Kumar Saumya from Ambit Capital. Thank you, and over to you, sir.

Kumar Saumya: Thank you, Yusuf. Good afternoon, everyone. Welcome to the First Quarter FY '25 Post Results Conference Call of APL Apollo Tubes. From the management, we have with us, Mr. Sanjay Gupta, Chairman and Managing Director; Mr. Deepak Goyal, Director, Operations; Mr. Anubhav Gupta, Chief Strategy Officer; and Mr. Chetan Khandelwal, Chief Financial Officer.

Now I'll hand over the call to the management for opening remarks. Post which, we will open the floor for Q&A. Over to you, sir.

Anubhav Gupta: Thanks, Kumar, and thanks to Ambit Capital for hosting APL Apollo Tubes for its quarter 1 FY '25 earnings call. And thanks to all the participants who have joined to attend this call. I welcome, everyone, and wish you a pleasant day.

What a start to the year for our company, with the steel prices in the reversal mode after a gap of 4 years. If you remember, we have been talking about this all the time that in India, the steel price inflation environment has to reverse. The prices have to come at par with the global steel prices, and it got triggered in the last 4 or 5 months with the commencement of new upstream steel capacity, which hit the market in December of 2023. And in the anticipation of new capacity, which is going to hit the market over the next 2 to 3 years. So as we are talking, steel prices are already down by INR3,000 per ton from the recent highs. And if we compare it with last year, they are down by almost INR7,000-INR8,000 a ton.

This benefits APL Apollo in 2 ways. Number one is that our company is India's largest steel buyer. So there's -- all the incremental capacity, which is coming in the market, it gives APL Apollo a better negotiation power in front of those steel suppliers. Plus, as you all know that our finished goods replace conventional inefficient construction products like secondary scrap steel, wooden structures, aluminium, rebars, cement and concrete, steel angles and channels, long steel products.

With the lower input raw material cost, the affordability for our product as well as the acceptance for our product improved significantly. And we are glad to share that, that environment of deflationary steel prices is already here and there's a visible pretty strong for the next years as new capacity keeps on coming in.

At the same time, the falling steel environment brings its own challenges like industry destocking, heavy discounting in the short term and minor inventory write-downs as well. So we have geared ourselves to play on a strategy, short-term pain and long-term gain. Our assumption is that steel prices can further go down by INR3,000, INR4,000 a ton and whatever fall has to happen, it will happen by Q2, and we'll see all the pain from July to September months, after which second half should be pretty solid.

Anyway, our current focus is to maintain the sales volume momentum, which we gained in quarter 1 with a 721,000-ton sales volume. We are not overly concerned about margin expansion in the short term because we know that we have a lot of operating leverage benefits that will start coming into play as we increase our utilization levels.

Coming to quarter 1 performance, I think what looks a bit weaker is our EBITDA spreads. Now the reported EBITDA of 4,183 per ton would have been slightly higher by 150 per ton. It didn't happen because we booked a notional expense on account of ESOP policy in Q1 plus we spent some extra money on brand campaign because we wanted to launch a few products, so that's nonrecurring in nature.

One data point we would like to highlight is the expansion in our gross margin spreads. It improved INR335 per ton on Y-o-Y basis and INR442 per ton on a Q-o-Q basis. This does reflect that because our new products from Raipur and Dubai plants are giving us better product mix. That's why our gross margin is expanding, although it is not visible in the EBITDA spreads yet because of operating leverage that is yet to play out.

Just to point out our Slide 19 in the presentation, which shows the potential profitability and ROCE profile, which our company can achieve with the 100% utilization levels. We have mentioned a conservative EBITDA of INR5,000 per ton. Please understand that we have not lowered our guidance.

It is just the demonstration that even at 5,000 per ton what kind of ROCE our company can generate at a foreseeable rate. Now please allow me to share the progress in our Raipur and Dubai plants. In Raipur, we have 4 products capacity with capacity of almost 1.1 million tons. Out of these 2 are highly innovative and 2 our value-added products.

Now coming to the heavy structural segment, where the utilization levels are around 58%. For roofing sheet our utilization levels are around 89%. For super-light structural, our utilization rate is 52%. And for coated thicker sheet, our utilization level is 48%. On overall basis, the Raipur plant is running at 61% utilization rate. Just to highlight again that 1.1 million ton of capacity is our sellable capacity, not the nameplate capacity. That's how we rate capacity for each of our plants and at the company level as well.

Dubai has 4 lines, which are capable of manufacturing products starting 15-millimeter by 15-millimeter till 300-millimeter by 300-millimeter. Two lines got commissioned last year and 2 lines was commissioned just in the last few weeks. So ramp-up is pretty strong as we speak now. With the total current capacity of 300,000 tons, the utilization level for Dubai in quarter 1 was around 30%. But since the 2 new mills just got commissioned, so utilization levels will improve significantly over the next few quarters. Now if you look at the overall levers for our sales volume in the coming quarters, there are 3, which we can see through.

Number one is the stability in input raw material prices, which will bring an element of restocking in the channel, which will boost our volumes. Number two is that we shall be taking market share from the secondary scrap steel because now the pricing gap between our products and the scrap steel pipe is like 5%, which used to be 20% in the last 15 months. So we will definitely take market share from this segment, which has become an equal sized industry compared to our addressable HR-coil tube industry.

Third is that post monsoons and budget allocations, the construction sector should start doing well in India from the both government and private side. So we expect that Q2, despite these challenges should be better than Q1 and second half should be significantly better than the first half. And based on these factors, we are confident that we should be doing 3.2 million tons of sales volume for FY '25, which is in line with our guidance for this year.

As far as the margin is concerned, Q2 should remain under pressure as there is a lot of uncertainty still in the steel upstream sector. How the prices are going to settle down. The dealers, the channel partners, the distributors, the retailers, they are still afraid of stocking the material, so we need to stick to our strategy of discounting and gaining the volumes.

And we don't know the -- how deep steel pipe correction could go from these levels, so we will see if there are any minor inventory write-downs also in quarter 2. But whatever has to happen, we believe that Q2 will bottom out which will give a very clean slate for growth to our company from October month onwards. And anyways, the levers for our margin expansion are many, like, number one, the better product mix as our gross margin splits are increasing quarter-on-quarter anyways.

Number two is operating leverage gains with better utilization level in Raipur and Dubai plants. Number three is better pricing for our general products as the price gap between scrap steel and our product is reducing. So we may have better pricing as well in the standard products. Number four is the better negotiation power to buy steel from the steel mills in the country.

Number five is lower brand spends for the rest of FY '25. Whatever were the major spends, we finished in Q1. And number six is our own continuous drive to keep on working on cost rationalization, be it power, steel wastage, consumables rate, etcetera, day in, day out, we are trying to work on these cost elements and bring them down.

Lastly, if you look at our working capital for Q1, it's at 3 days, so there is a slight increase in the net debt position for the company. However, we should remain near net debt 0 position throughout FY '25 with surplus cash being visible on balance sheet from FY '26 onwards. And just to complete that our expansion plan for 5 million ton capacity in the next 12 to 15 months is on track. We are going to add 3 new plants now, small plants, which is part of our regional penetration strategy.

One is the Siliguri to cater to East market, which we have highlighted. And 2 new plants, one in Gorakhpur and one in Ahmedabad also, we have planned to bring them online. Gorakhpur is just to cater to the Eastern UP market and Bihar and Odisha built, which can be catered well through that geography. And Ahmedabad is -- Gujarat is a very good market for us. Right now we are servicing that market mainly from our north plant and Raipur plant. So to benefit for the freight, it makes sense to have a small plant in Ahmedabad as well. So the capex is in line with like INR500 crores, INR600 crores what we had guided last time that is required to take us to 5 million tons. We may not be adding new mills, all the new mills for these plants.

A lot of these plants, we will see the shifting off existing mills from current plants to these new plants. So I guess, 4 quarters down the line, we will be sitting on 5 million ton sellable capacity, which we will -- which we target to utilize by FY '27. And the current capacity, sellable capacity, which is available with us is 4.5 million tons anyway. So idea is to produce 3 million -- 3.2 million tons this year and 20%, 25% growth from next year and post that to achieve 5 million tons by FY '27.

That's all from our side. Happy to take questions now.

Moderator: First question is from the line of Amit Dixit from ICICI Securities.

Amit Dixit: Congratulations for a good set of numbers and a very challenging quarter. My first question is essentially on the -- if I look at other expenses, while you have explained in your opening comments that there were certain nonrecurring items over there. So other expenses and employee costs, both have gone up significantly. Now if you could quantify these nonrecurring items that possibly we could take out in our forecast going ahead. That would be very helpful.

Anubhav Gupta: Amit, the nature of other expenses, some expenses are nonrecurring and some are recurring as well. So I'll explain in detail. Number one is that employee cost, if you see in Q4 was around INR64 crores -- sorry, Q1 -- Q4 last year was around INR70 crores, right, which right now is INR80 crores, right? So INR5 crores impact is for ESOP, INR4 crores to INR5 crores is on account of ESOP, which is notional in nature. And of course, 7%, 8% increment we had in the company. So for the rest of the quarter, you should build in INR75 crores per quarter, okay?

Then the other expense, which is higher and it is recurring in nature is the freight cost per ton. Freight, if you see has gone up because from Raipur, we are selling value-added products like roofing sheet and thicker-coated sheet. So here because of the volume is lower per truck load, the freight cost per ton goes up. But then you get paid from the customers as well, right? So our freight cost is always paid for. So that's another impact. Third is power and fuel also went up because in Raipur, we are still not on renewable power yet. We have signed up with these solar power producers.

So we will start getting the benefits as the plant -- when the plant will be ready. It will take around 9 months and then the power cost will come down. So that will settle down in FY '26, for sure. But for rest of FY '25, it will remain elevated. And then lastly, which needs to be highlighted is the brand spends. Q1 was a bit heavy. We paid for the actuals and the Siliguri brand campaign, which we undertook. So in the next 9 months, it will be significantly lower than what we had in Q1.

And lastly, there are also some charges, which we are getting for outsourcing jobs, right? Because we have developed a specialty tube for solar structures for the largest solar power producer in the country. And we have to get it coated, right, from outside. So those charges also come into other expenses. But of course, we do get our markup for that. That's why our MSR is going up.

Moderator: Mr. Amit, does that answer your question?

Amit Dixit: Yes, that does answer my question. I'm moving on to my second question now. Yes, so the second question is, you have mentioned that there are 2 plants that you are thinking of Gorakhpur and Ahmedabad. Gorakhpur particularly interesting location, and you mentioned about Siliguri as well, if I'm not mistaken. So just wanted to understand the configuration of these plants, whether they will be also on DFT and what kind of products do we intend to produce from these plants? And since you are shifting some of the capacity lines, so capacity -- so how will the capacity go up to 5 million tons. Just wanted to understand that.

Anubhav Gupta: So Amit, see, I mean we want to cater to both the markets. Like if you take, say, Gorakhpur and Ahmedabad. So structural steel tubes, right, we cater to 2 segments. One is square and rectangular. Second is circular, right? Of course, circular -- square and rectangular are a major proportion of our sales volume. So any mill, which is going to produce square and rectangular, it has to be DFT for us, right? And for circular, we must install the conventional one, okay?

Each of these plants will be having capacity of 200,000 tons initially, right? And some of the mills from our Bangalore plant and old Raipur plant, we will move to these locations and 2 mills, 3 mills, we will order new as well, right? So it's a mix of everything. The objective to achieve here are two: number one, local penetration, regional penetration, better servicing; and second is to lower the freight costs.

Amit Dixit: And in terms of products, we will producing everything, whatever -- I mean, we be producing -- will there -- is there a thought process to produce sheets also because that region might have the color-coated 10-gauge sheets that you generally produce at Raipur?

Anubhav Gupta: No, so these are tube plants, Amit. We are yet to decide on strategy for expanding capacity for roofing sheets or thicker-coated sheet. But in our grand plans of 10 million tons, right, these products don't have too much contribution.

Moderator: Next question is from the line of CA Garvit Goyal from Nvest Analytics Advisors LLP.

CA Garvit Goyal: Just one question on the EBITDA per ton. Like you guided for 3.2 million tons volume. What is the EBITDA per ton guidance for this year?

Anubhav Gupta: So see, I mean, Q1, as you can see, is around INR4,200. Q2, we are not yet certain, right? It will depend on how the upstream steel prices behave, but our endeavor will be to at least match what we did last year if it not improve that. I think on -- during the October investor call, we will have a better idea of EBITDA per ton.

Moderator: Next question is from the line of Gagan Deep from Nvest Analytics Advisors LLP.

Gagan Deep: Sir, my question is already answered.

Moderator: Next question is from the line of Sneha from Nuvama.

Sneha: Would it be possible for you to give the breakup of capacity by FY '25 till the time we reach 5 million tons. Where all we will be having capacity? And what all will be the capacity since you will be making some shift from other plants to new plants like Gorakhpur and Ahmedabad like you mentioned?

Anubhav Gupta: So Sneha, we have given product-wise capacity in our presentation. There is a slide of de-commoditizing product portfolio. You will find 5 million tons of proposed capacity. It is on Slide 8.

Sneha: Sir, do we have plant-wise capacity also by FY '25 there?

Anubhav Gupta: Of course, but we don't share that.

Sneha: Understood. Secondly, a more broader question, Anubhav, how are we planning to address the gap between secondary and primary steel. From a couple of quarters, we've been seeing that one of the reasons for our volumes not being that great, especially with general products is that gap widens between the secondary and primary steel? Of course, it's narrowed down currently to about INR3 to INR4-odd. But generally, historically, we've be seeing this to be a major reason for our volumes not doing that great. How are we addressing that -- this issue and what's the confidence of strong volume growth in H2, given we don't have an outlook right now between the primary and the secondary steel price gap?

Anubhav Gupta: Sneha, you need to look our portfolio in 2 categories. One is standard general commodity, which is 35%, 40% of my portfolio. The rest is value-added and super value-added products, okay? So my value-added and super value-added products, there have no threat from scrap steel tubes, right? Because scrap steel tubes are incapable of addressing that application, what our products are doing, right? So the completion, which we face from scrap steel tube is general, right? And this is one segment, if you look from FY '20, we have not been able to grow this segment, right? From FY '20, if you see my general sales used to be like 0.9 million tons and last year, we did 1.1 million tons.

So there is hardly any growth, right, in general segment. And this is because of availability of low-grade scrap steel tube product, which is available in the market, where the manufacturers and the dealers are taking benefit of price gap, right? And why this happened in last -- over the last 5 years is because HR-coil prices in India, they have been on the inflationary mode, which was triggered by corona, right, in 2020.

Then in 2022, Russian-Ukraine war, which triggered further the steel prices to go up globally. HR-coil, which used to be INR35,000, INR40,000 per ton commodity before corona, it went up to like INR65,000, INR70,000 per ton by mid of 2022, right? But the cost of production for scrap steel, that remained stagnant. So that's why the gap, right, it used to be -- like before corona also the gap used to be INR5 per kg, but it's shot up to INR20 per kg.

And that's where these small steel melters in Raipur belt, in Mandi Gobindgarh belt, in Chennai belt, they popped up because there was this arbitrage, right? But we were of the view that the steel price inflation is not sustainable, okay? And we are seeing that being reversed already. The second factor you need to understand is the cost of production for blast furnace steel versus cost of production for scrap steel.

So you can check with any steel expert in the country that the cost of production for blast furnace steel is lower than the cost of production for scrap steel, right? So blast furnace steel manufacturers have the window, okay, to still lower the prices, but scrap-steel steel producers, they don't have the window available to lower the prices. right? So whenever -- like I said, that the gap is already down to INR3,000, INR4,000 a ton, right?

And it can further go down by September as the new capacity in upstream steel sector keeps on hitting in the market. So we are fairly confident that HR coil will substitute the scrap steel do. And then we are also taking initiatives like making the consumer aware about the poor quality of scrap steel what they are using, right? Because ultimately, structural steel, whether it is for handrails, for fencing, for doors, etcetera, right, it is not of a very good quality, there is always a chance of an accident, right? So we are making the consumer aware.

Secondly, the level of pollution, which these small melting shops, they pollute in mining, that's also very, very hazardous, right? And the government, given the fact that they are pro-climate, they are taking all the steps to improve the environment in the country. So I guess, at some point, they may also take this step to halt this highly pollutive industry. So yes, I mean, we are fairly confident that as HR-coil prices remain stable around INR45,000, INR48,000 per ton, we have a very good chance to take the market share back from our scrap steel segment.

Moderator: The next question is from the line of Kunal Kothari from Centrum Broking.

Kunal Kothari: My specific question with regard to the Apollo TriCoat. In this, on a year-on basis, our volume are stagnant, but on the margin front, it is down significantly. The trend that we are seeing in this particular segment for last year, it's just a downward slope. So can you just make me understand what is happening in this particular segment? Why we are seeing such a huge downward slope, which is happening continuously?

Anubhav Gupta: Actually, you need to tell me the product segment now because TriCoat products got divided into 2 categories: One is light; and second is rust-proof. So which segment are you catering to?

Kunal Kothari: Rust-proof.

Anubhav Gupta: Okay. So yes, rust-proof is our zinc-coated pipes, which are mainly sold in the coastal markets, right? There the standard black pipe doesn't work because of the moisture in the environment. So the fabricators, the fabricators need coated products, right? So that's where we sell our rust-proof. Now this segment, if you see, it has a pressure of aggressive sales growth because right now the market is constrained towards coastal markets only, right?

Although we are making a drive to expand this market in non-coastal markets as well. But it's a long drawn process. And Sanjay, do you want to add to this? I guess, I mean, as the market expands for this product beyond coastal markets, we will see the growth going to like 15%, 20% levels. But right now we are able to take the growth whatever the coastal markets are growing at a natural rate.

Kunal Kothari: I understand. But any specific reason that we used to have margins INR7,000, INR8,000. Then last year was around INR6,000 to INR6,500. Now it is below INR5,000 per ton? Like my question is, are we losing the competition to other players in the rust-proof segment? What is the core reason for such a steep decline?

Anubhav Gupta: Okay. So if you look at -- if you compare it with the margins, which were like 2 to 3 years back, INR7,000 to INR8,000 per ton, at that point of time, what was happening was that in India after COVID, the Indian steel producers, they started exporting coated coils, okay, in international markets. So that brought the short supply situation in India, right?

It benefited Apollo because we had our in-house galvanization plants, okay. We used to buy their HR-coils and galvanize those coils and then converting those coils into coated-tubes. When there was a shortage of galvanized coils in the country, our competitors were buying expensive coils from the market. And then they were converting the tubes, right? So we had a very good arbitrage for 3, 4 quarters in that segment.

And we have highlighted that in our investor calls earlier as well, now that situation got course corrected, right? Now the galvanized coil prices have come down in India. And the arbitrage, the benefit what Apollo has for having the in-house galvanization unit, so that's now at fair, at parity with our competitors. And of course, yes, competitors have also put up the galvanization mill, right?

So yes, I mean, it's a competitive market, but we are maintaining our market share of 65%, 70%. If you do some channel checks in strong coastal markets like Kerala, Mangalore belt, Goa belt, right, we continue to have a line market share there. But yes, I mean, to grow aggressively in this segment, we need to create this market beyond coastal markets, which we are working on.

Kunal Kothari: Okay. Second question is in regard to our overall capacity. You mentioned that currently, we had around 4.5 million tons, right? Firstly, like from previous calls, what I remember is that we were at 3.8 million tons. So this around 0.6 million where it has been added and additional 0.5 million are you going to catch up in the next 12 months, so where it is going to come?

Anubhav Gupta: Right. So this is across the categories, right? Actually, the data point of 3.8 million tons in presentation is old one, right? Right now we are almost near 4.5 million tons and it is across the categories. We can share the updated product-wise list to you separately.

Moderator: The next question is from the line of Aditya Welekar from Axis Securities.

Aditya Welekar: So my question is with respect to EBITDA per ton shaping up for FY '26. How do you see that? And this is the context of our value-added product share. So how do you see our VAP share increasing in FY '26 in the context of any market creation? Any visibility on the ground that you see that the VAP share will increase and that will aid our EBITDA per ton going forward?

Anubhav Gupta: So definitely, if you look at our VAP share from Dubai and Raipur plants, right, as those plants are ramping up, we have been giving the data point of utilization levels, which you would appreciate that quarter-on-quarter the utilization levels are going up and our gross spread per ton is also improving quarter-on-quarter.

So we are continuously working to create the market for innovative products from Raipur whether it is for the heavy structural pipes or the thicker-coated sheet, which are like the 2 most innovative products from Raipur. And Dubai also with introduction of sizes up to 300 x 300 mm, the mill commissioned last week only. We are seeing a very good order inflow for that mill, in particular. So yes, I mean this 65% of our portfolio, that's our crown, right? And we continue to work to improve the sales in this segment.

Aditya Welekar: Will it be fair to assume EBIT DA per ton reaching near INR5,000 per ton in FY '26?

Anubhav Gupta: So see, I mean, if you look at the sheet, right, where we have mentioned like how we can reach INR5,000 per ton, right? It's a question of like how my plants are utilized and what kind of operating leverage benefits I get, right? But if market becomes stable, right, in Q2, which we expect, right? Q3, Q4, we start doing 800,000 ton -- 850,000 ton kind of quarterly volume. Then yes, APL is capable of throwing INR5,000 per ton EBITDA during those quarters by FY '26.

Aditya Welekar: Understood. My second question is with respect to the net debt. So I mean, what I understand is that the working capital should come down because the steel prices have gone down and that should not be the reason for increase in the net debt. Is it correct? Or is there anything else which I'm missing here?

Anubhav Gupta: So see, I mean, last quarter, our working capital day was 0, now it is 3, right? So it's a very minor movement, right? There are multiple factors like you have to collect payments from your clients, some of the projects where there is like 4, 5 days delay, that's all, right?

And secondly, to answer your question on inventory, yes. So we will -- you will see the devaluation in inventory going forward because prices have fallen recently, right? So on the balance sheet, it is on an average basis. So as we close September balance sheet, you will see -- you should see some devaluation in the inventory levels.

Aditya Welekar: Okay. And that should drive our net debt down to 0 level, again?

Anubhav Gupta: Like I said, INR1.5 billion on our balance sheet size of like INR50 billion, it's almost 0. And we will stick to net zero balance sheet for the rest of FY '25. Yes, I mean, but it should be near zero.

Moderator: The next question is from the line of Kunal Vora from White Whale Partners.

Hardik Doshi: This is Hardik Doshi. I just wanted to check, in your recent presentation, it shows that in FY '24, the structural steel size for the scrap steel is about 4.5 million. And in the previous -- in 2023, it was 3.6 million. So is it correct that the scrap steel has grown by 25% in FY '24?

Anubhav Gupta: You'll have to repeat the question, sorry.

Hardik Doshi: Yes. So in your recent presentation, when you're talking about the structural steel tube market, right, you're talking of 9 million tons, out of which 4.5 million is scrap steel based tubes. The same presentation previously indicated that it was 3.6 million in FY '23. So it seems like the scrapped steel-based tubes is grown by about 25%. So I just want to check if that is actually the case.

Anubhav Gupta: Yes, that is right. That is right. As I mentioned earlier that the growth in the structural steel tube segment got taken up by the scrap steel producers because of this arbitrage they had, yes.

Hardik Doshi: Yes. Okay. And so now going forward, you were expecting by 2030 4.5 million to kind of degrow to 4 million.

Anubhav Gupta: The logic says it should because outside India, there is no country where you have this product available. It's only on government behest or I don't know whose behest that this industry is surviving and thriving as of now. But when the blast furnace steel prices are lower than scrap steel prices, then why should this industry do well. The logic says it should not.

Hardik Doshi: Okay. Second question I had is, you mentioned that the spread has now come off to 5%. Is that as of now as per plan? And is there any seasonality related to monsoons for the spread? Or there is no connection between that.

Anubhav Gupta: For which product?

Hardik Doshi: For the scrap steel versus your HR-coil, the differential has come down to 5%, I believe that's what you mentioned, right?

Anubhav Gupta: Because the new capacity in HR coil, the new capacity in the blast furnace steel has come online since December of 2023.

Hardik Doshi: Yes.

Anubhav Gupta: And NMDC Steel mill started its HR-coil mill. JSW started its mill in Bellari. Now in next 6 months, their Dolvi plant will start. Tata Steel's Kalinganagar plant will start. Jindal Steel Power will start its second plant, right? ArcelorMittal Nippon Steel will start it's HR-coil mill, if not this year, next year. So we have a very strong visibility for the next 2 years that India will keep on witnessing steel capacity expansion.

See from 2018 to 2023, what we have heard, India steel capacity is 120 million tons, 120 million tons, 120 million tons, 120 million tons, 120 million tons. It has not increased. What has happened is the consolidation of the sector. Essar mill got acquired. Bhushan Power got acquired. Bhushan Steel got acquired. Monnet Ispat got acquired. A lot of mills, which got sick, they were acquired, they got consolidated, right?

And it takes 5 years for any greenfield plant to come online. JSW, which was expanding from 2018, Tata Steel, which was expanding from 2018. So those plants are now coming online. So from 2023 December till 2025 December, HR-coil capacity from blast furnace should increase by 50% in the country, right? And when cost of production for blast furnace steel is lower than cost of production for scrap steel, then why should scrap steel be sold, number one.

Number two, when scrap steel production is such a highly pollutive industry, why it should survive. Number three, when it is such a poor quality product, why government should allow this to survive, right? So logic says that this segment should not be growing, right, going forward. Let's see.

Hardik Doshi: Okay. Got it. My last question is within the organized space, your competitors have announced a lot of expansion plans as well. So how do we plan to kind of keep up our differentiation market share? And do we command a pricing premium to our competition? And how do we plan to sustain that?

Anubhav Gupta: It's a good question. It will be good for everyone of course. If you could highlight what kind of players you're talking about, who are expanding the capacity, so that we can answer the question accordingly. Because all these steel pipe producers, right, no one is as unique as Apollo in terms of focus on the structural steel tube segment and that too from a HR-coil.

So you need to see that if you're talking about someone who is good in API pipes, oil and gas pipes, water transportation pipes or in scrap steel pipes, then he is not by completer. My competitor is a manufacturer who is using blast furnace steel from top 5 producers in India and he is making structural steel tubes, right? Where I command, if not 90%, at least 75% market share. Of course, that's our gut feeling. We can't put this in writing. But if we talk to 200 of our top customers, top dealers, we get this sense.

Hardik Doshi: Okay. I mean I was talking about guys like JPL, and many of these other guys that were -- have announced.

Anubhav Gupta: So again, JPL is a scrap steel tube producer. Recently, they acquired a steel melting unit called Nabha, something, right? So it's a scrap melting shop, right? So again, I mean, the point I'm trying to make is that they may do well in their segment and we wish everyone a good luck. But you need to see that what expansion they are doing in HR-coil tube segment. And in structural, not water transportation, not oil and gas, not automotive precision tubes, but structural steel tubes.

Moderator: The next question is from the line of Mayank Bhandari from Asian Market Securities.

Mayank Bhandari: Sir, my first question is on the number we have given on Slide 19. APL's Q1 FY '25 working capital was from minus INR25 crores to INR456 crores is at full utilization. Can you explain that much of jump?

Anubhav Gupta: Yes. Yes. So even this, we have taken conservative that for APL, we have taken 5 days of net working capital. And for new plants, we have taken around 7, 8 days, 10 days of combined working capital. So again, these are conservative numbers, okay, not in line with what we are at today. Similarly, like we have conservative EBITDA number as well of INR5,000 per ton. So yes, I mean, this is just to demonstrate even at converting numbers, what we are going to achieve. So yes, I mean, as per current run rate of working capital, the working capital requirement will decline significantly.

Mayank Bhandari: So the newer projects, the working capital requirement is lower is what...

Anubhav Gupta: Of course, yes. Apart from Dubai, Dubai has, of course higher working capital compared to India. But our Raipur plant should be more or less similar to what APL Apollo is.

Mayank Bhandari: And also from the Dubai plant, what is the visibility on the export ramp-up whether it's from the Indian plant?

Anubhav Gupta: Right. So Idea to go to Dubai and put up the plant is to expand in the Middle East market, plus the international markets of U.S., Europe, etcetera, right? The strategy here is, first, we wanted to install and commission all the 4 mills, which happened like just 2 weeks ago. In fact, just a week back our fourth mill was commissioned last week only.

And now the sales team is all out in the market, right, booking orders for those mills, promoting the product because this 300 by 300 die of size, we are amongst the only -- we are the only company in Dubai, which is offering this size, right? So ramp-up will happen. Ramp-up will happen. Our strategy is that by FY '27, right, we should be able to utilize all 300,000 ton available capacity to achieve our sales volume.

Mayank Bhandari: Okay. And sir, if I were to look at the presentation, in the applications, on Slide 45, you have given certain ongoing inquiries. And it says that 220,000 tons of heavy structural steel tubes are required for about 42 million square feet visibility. Just to understand it better, if I arrive at per square feet number, of almost 50 kg per square feet, would it be a correct metric to understand this?

Anubhav Gupta: 5 kg per square foot.

Mayank Bhandari: 5 kg per square foot.

Anubhav Gupta: Yes, that's right, 5 kg per square foot.

Mayank Bhandari: So just -- this is 5 kg per square foot for, let's say, higher of application, which is data center, aviation. What would be for different segments? Will it be different to...?

Anubhav Gupta: Yes. So it depends on the load of the structure, right? For data center, the consumption could be as big as 20 kg per square foot. For a plain vanilla warehouse, the consumption could be 1.5 kg per square foot. But on an average, the high-rise building of, say, 5-story, 10 story, the consumption comes out to the 5 kg per square foot.

Mayank Bhandari: So this is average...

Moderator: Sorry to interrupt, Mr. Bhandari. May we please request you to rejoin the queue for any follow-up questions? Next question is from the line of Abhinav from Standard Chartered Bank.

Abhinav: Just wanted the breakup for APL Apollo building for sales volumes and EBITDA in Q1?

Anubhav Gupta: No. See I mean we have not given the absolute number, but we have told you the capacity available and the utilization level. So please calculate basis that.

Abhinav: So -- but in that 94,000 volume you have given for Raipur and Dubai. So Raipur would be how much out of that volume?

Anubhav Gupta: 90%.

Abhinav: Okay. And the utilization that we are calculating is it on 1.1 million or 1.5 million tons?

Anubhav Gupta: 1.1. for Raipur and 0.34 Dubai.

Abhinav: Okay. And the INR500 crores to INR600 crores capex that you mentioned for the 3 plants, what is the amount which has already been incurred, the expense?

Anubhav Gupta: So INR500 crores is our receivable capex. We have -- as of now, we have made payments -- like we are in process of making payment for Siliguri land and Gorakhpur land, right? Once land is in our possession, then the capex for the plant and building, etcetera, will go. So put together, we must have spent around INR200 crores to INR250 crores for these plants.

Abhinav: Okay. And in our previous quarter presentation, you had given a breakup for the market share for the next 8 players as well. So just wanted to know the player 2 and 3 that we are mentioning here 10% market share from ancillary business and for oil and gas-focused businesses, who are the competitors, which have part 10% each, player 2 and player 3?

Anubhav Gupta: We'll take this offline, please?

Abhinav: Okay. Sure.

Moderator: Ladies and gentlemen, we will take our last question from the line of Sailesh Raja from B&K Securities.

Sailesh Raja: I have 2 questions to ask. First is on, what was our total outsourcing cost in FY '24? In future, any plans for shifting these outsourcing it times to in-house and trying to bring down the cost?

Like in cold rolled product, we were buying it from steel companies and now we are having a separate line for the lower bids, which don't down our cost significantly. So in similar lines, is there any scope for us to bring down the cars and having it in-house?

Anubhav Gupta: So Sailesh, as of now, we are not doing any outsourcing job for finished goods, okay? It is 0 today because we are yet to utilize our own capacity. So there is no point of going on outsourcing model as of now. Once we hit our own 5 million ton capacity utilization, then we will see if it makes sense to go more asset-light and look for outsourcing jobs. But I think that is still 1 to 2 years ahead of us from today, right, unless we sell 300,000 -- 350,000, 400,000 tons for 2, 3 consecutive months, right, we are not looking for any outsourcing job.

Sailesh Raja: Okay. In color-coated sheet, we do aluminium coating and do color coating also, both these process are currently outsourced?

Anubhav Gupta: Say it again?

Sailesh Raja: In color-coated sheet, we do aluminium coating and also do color coating. So both these processes are currently outsourced?

Anubhav Gupta: No, no, it's all in-house. And it's not aluminium, it's aluminium zinc, Aluzinc. It's a combination of aluminium and zinc. It's all in-house. So the outsourcing what we did, let me rehash that. The other expense, which I mentioned was we -- one is a tube order, right? It's a 12-meter tube, which goes for a solar structure, right? And we have to do -- or did galvanization. So our zinc baths, own zinc tanks, what we can maximum do is 8-meter, right? So above 8-meters, we will send it small units near our plant for outsourcing job. So this is only for that product. There is no other job work, which we do for any segment or any client. It's specifically for that solar structured order.

Sailesh Raja: Okay, okay. Got it. My second question, could you please talk about the exports business opportunity for the high dia tube, so 300 plus 300, 500 plus 500, global key players are making INR15 EBITDA. And considering our cost competitiveness, larger capacity, and we have presence in wide product size range from 300 plus 300 to 1,000 plus 1,000. So what is our plan to increase the volumes for the high dia tubes in the overseas market?

Anubhav Gupta: Right. So for this, the game plan is that first, we installed 300 by 300 in Dubai, which started last week only, right? Now the whole world knows that in Dubai, we have this mill, right? We have already started booking orders for this segment, right? Now with 300 by 300, we are also selling 500 -- we are also promoting 500 and 500 from India, right?

So as a combo, 300 by 300 from Dubai local and 500 by 500 from India, now our customers know that we have this segment, so yes, it has a strong potential, if you ask us, okay? It needs promotion. It is awareness, okay, which we are currently working on. And I think -- I mean, if 300 x 300 mill, we are able to utilize it like completely better or sooner than expected, so I mean, if market requires, we may install 500 square in Dubai as well, right?

So I guess opportunity is there, right? Almost 40 million ton of steel pipes is traded ex India and China, right, globally. Okay. So as a plan, we first went ahead with 300,000 ton capacity, right, which is like around 3%, 4% market share. So I guess as we see the ramp-up from Dubai, we will keep on installing high value-added products, including high dia pipe mills, right? But let's see how the existing mill performs, how the existing plant performs. Once we have green shoots visible, we will not stay behind from putting up the capacity.

Sailesh Raja: In tonnage terms, how much we are doing in exports?

Anubhav Gupta: I'm sorry?

Sailesh Raja: In tonnage terms, how much we are doing in exports?

Anubhav Gupta: So it's around 100,000 tons.

Sailesh Raja: Okay. So any target we have in next 2, 3 years?

Anubhav Gupta: It will be combination of like what we do from Dubai and India. So Dubai, we have to ramp up to 300,000 tons anyways, right? And India, let's see, 100,000 remains the same or some cannibalization will also take place. So let's see.

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

Anubhav Gupta: Thank you, everyone. Again, special thanks to Ambit for hosting us, and look forward to see you for next conference call. Thank you so much. Have a nice day.

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