By **MADHUMITA MOOKERJI**

APL Apollo Turns Pipe Dream into Reality

What started out as a small rolling mill on the outskirts of Delhi has today emerged as the leader in steel structural tubes in India. **APL Apollo Tubes**, which was set up in 1986, initially found it a challenge to operate in a segment lionised by large and branded players catering to the water and oil & gas segments. It was then that it decided to become a square peg in a round hole. In a market dominated by circular pipes, it decided to break out of the mould to manufacture square and rectangular pipes that had the potential to replace conventional steel construction products like angles and channels and several other building materials like wood, RCC, aluminium and PEB. **Anubhav Gupta, Chief Strategy Officer, APL Apollo Tubes**, in conversation with **Steel360**, says the company is focusing on strengthening its value-added portfolio as well as working on capacity expansion. Excerpts:

Anubhav Gupta,
Chief Strategy Officer,
APL Apollo Tubes

Q. Please give anoverview of the company – its evolution, manufacturing capacity, product portfolio, best-sellers etc?

A. Our main focus is structural steel tubes, which are otherwise known as hollow steel sections (HSS). If we consider the evolution of this particular segment, before the year 2000, the main application for steel tubes was in water transportation and oil & gas. At that juncture, all steel pipes being circular in shape were thus ideal for carrying water and oil & gas, apart from having industrial applications.

APL Apollo was set up in 1986 as a rolling mill near New Delhi and also started manufacturing circular pipes, catering to the water transportation sector etc.

When the current Chairman and MD, Sanjay Gupta, took charge, he decided to do something different, because, at that time, there were already very large existing players operating in the circular steel tubes segment. Consequently, the year 2000 onwards, he started focusing on the structural applications of steel tubes. He strategised that the company should concentrate on square and rectangular tubes, which can be used as building material products to give load bearing support to many structures and replace conventional steel construction products like angles and channels. Thus, this was something new that he brought into the market – rectangular and square hollow steel sections.

Thereafter, a typical B2C franchisee model was created to distribute these products, across cities in India.

Subsequently, plastic pipes arrived on the scene whose advent disrupted the steel tubes industry considerably, because, one, these easily replaced steel tubes in plumbing applications since it is quite hassle-free to cut a plastic tube. Secondly, these are cheaper by around 30%, and thirdly, easier to load and unload.

But, plastic pipes did not impact APL Apollo Tubes since it was anyways not catering to this market. Rather, we targeted the building material structural steel tubes applications, which did not experience any disruption because the strength of a steel tube cannot be replaced by plastic.

At that juncture, competition did get disrupted but we kept on growing. We saw a very clear path for growing our business and competition lagged behind by a wide margin. We were amongst the few players in square and rectangular hollow sections. Competition did try to emulate us but because of disruption caused by plastic pipes, they were slowed down.

Today, APL Apollo enjoys 50% market share in structural steel tubes while the second player has 10% share.

Q. Please tell us about your distribution network

A. We have a typical B2C franchisee model as is followed in the paints, tiles, plywood or cement industries. We are present at the top as a brand/manufacturer and sell our goods to around 800 distributors, pan-India, who in turn sell to 50,000 retailers. These retailers sell to 200,000 fabricators. Beneath the fabricators lie the end-customers, who can be an individual house owner, a real estate developer, a contractor or an engineer.

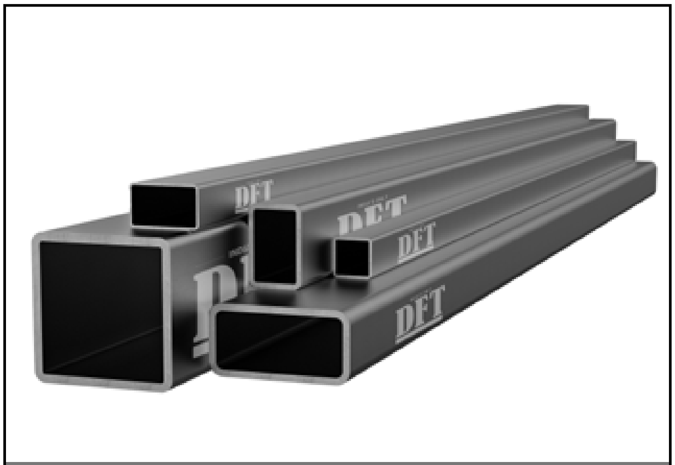
Many of these distributors are exclusive to APL Apollo while others are multi-brand.

Q. APL Apollo is the leader in structural steel tubes in India. What is the USP of such tubes?

A. There are five conventional construction products that we have replaced with our tubes. These are steel angles and channels, wood, aluminum profiles, concrete columns and pre-engineered building structures made of built-up sections.

The USP is that APL Apollo is the lowest cost producer for steel tubes. Our product is sold as a brand.

Products from new plant will be an improvement of our value-addedbasket. We are bullish on higher diameter & thickness tubes.



Source: **APL Apollo**

We can serve 1,500 SKUs. Our products are available 24x7 for our distributors. So our USP can be our SKU range, our brand value and innovations towards these 1,500 SKUs, the technology we have brought to India in the tubes industry and the serviceability to our distributors. We are near to the end-market.

Q. Please elaborate on your manufacturing facilities

A. APL Apollo has a total production capacity of 2.6 million tonnes (MnT) per annum. Last year, ie, FY20, we did a volume of 1.6 MnT. Historically, we have been growing at around 27% CAGR in the last 10 years.

However, because of Covid in calendar 2020, April and May were highly disrupted months. This year, we will see what best can be done. We don't give guidance.

We have 10 manufacturing facilities – four plants near Delhi although they fall in Uttar Pradesh, three plants in Bangalore, and one each in Raipur and Murbad, near Mumbai.

Q. How did Covid-19 impact your business? Have you reached the pre-Covid levels?

A. Yes, we have surpassed the pre-Covid levels. In April and May, last year, when there was a complete lockdown, we had strategised to focus on the rural markets, because we knew that there was a lot of reverse migration taking place. Around 150 million Indians, who form the migrant working population, were returning to their homes in villages and small towns from the cities. So, we anticipated that for the next 3-4 quarters the rural economy would outperform its urban counterpart. Therefore, we had revitalised our entire rural sales network around April-May, whose benefits we were able to reap over June-August. In March, our market share had been around 40%. However, when the markets were unlocked, over May-December, 2020, the same improved to 50%.

Q. And how much do you expect to end the financial year with?

A. We plan to end the fiscal with 50% marketshare. This is the base and we aim to protect it.

Q. What is the company's strategy with its value-added products?

A. Our value-added portfolio comprises around 60% at present and the balance 40% is commoditised. Our target is to take up the value-added share to 75% and so we are in the process of decommoditising our portfolio with more branded and speciality products. For instance, products that are unique in shape, like door frames, designer pipes, fencing tubes, high dia and thickness tubes. These would all be replacement for wood and RCC.

Margins are higher by almost two-times in value-added items over commoditised products and there is little competition.

Q. Tell us about the overall tubes industry in India, its market size, growth rate etc

A. The total market size of structural tubes in India is 4 MnT per annum. In the pre-Covid, stage, the industry was growing in double digits. Financial year 2019-20 closed at around 4 MnT and we expect fiscal 2020-21 to end flat at 4 MnT, because of the pandemic.

In value terms, this 4-Mnt market is pegged at around INR 20,000 crore. However, in three years' time it should grow at mid-double digit of 10-15%.

Q. Going forward, what factors could act as enablers for the structural tubes industry?

A. The Indian markets picked up quite well after the lockdown was lifted. Even when cases were touching an all-time high of one lakh per day, all markets were fully operational, not only in structural steel tubes but building material or any other related industry. All the large Indian companies' first and second quarters' results had pleasantly surprised everyone. We too were surprised by the V-shaped recovery path that the market followed. This shows the resilience of the Indian economy despite the lockdown for 30-40 days. The pent-up demand had been so strong that the markets were able to recover quickly.

And things will only improve with the full rollout of the vaccination drive.

The pace has already been set and the expectation is that this momentum will continue into FY21-22.

Q. Where do you see the challenges, looking ahead?

A. The challenges will be more on the macro front. Government spending should continue to improve right through FY22. I see inflation as a big challenge for the Indian economy. Because of the global increase in commodity prices, things are becoming expensive.

For government spending to increase, the key trigger will be management of the fiscal deficit. If some funds are raised through disinvestments, that will be an added trigger. Interest rates are at an all-time low, the private sector should come forward to take up big projects. It is a cycle – first the government comes in, followed by the private sector and then again the government plays a role. The aim is to get this cycle moving.

Q. There is a big infra push from the government. How

Inside APL Apollo's Hosur plant.

Source: **APL Apollo**

will that impact your business?

A. It does impact our business. Infrastructure comprises around 20% of our business. However, we are more concerned about the housing pick-up, because around 50% of our sales come from the housing space, while 20% is commercial, which is again part of real estate, and the balance 5% is from industrials.

However, our cash cow is mainly the housing sector, where we have a very strong brand presence. Our products go into many applications in this space. Given that the home loan rates are also very low, there should be good pick-up in housing over the next 2-3 years.

Q. Please walk us through APL Apollo Tubes' future expansion and investment plans

A. Our focus over the next 2-3 years is to ramp up the existing capacity, plus persist with the value-addition aspects. So, the 2.6 MnT capacity will keep on increasing year-on- year. However, whatever incremental capacity comes up, will only be in value-added products. We are setting up our 11th plant in Raipur, Chhattisgarh.

The current fiscal was one of consolidation, where we have preserved cash and became debt-free. Next year, if things continue to improve, then we shall execute our expansion plan. Normally, for a 100,000-tonne plant, the investment required is around INR 100 crore. We have not decided yet on the total capacity etc. We will be firming up our plans in the next 3-4 months. We will wait for the fourth quarter to get over. Then focus on the new capex cycle.

The products from the new plant will be an improvement of our value-added basket. We are very bullish on the higher diameter, higher thickness tubes.

Q. Tell us about your exports

A. Around 5% of our volumes go out as exports. But that is not a very strong focus area, because, one, for us, domestic demand is strong, and two, we can also sell at out price. We get a brand premium. At the same time, we will focus on value-added products for the export markets.

Q. What is your steel consumption per annum like and by how much are you looking to increase the same, considering your expansion plans? Do you import?

A. All our steel is sourced from top domestic producers. We don't import because we have long-term contracts with the Indian producers and want to strengthen this relationship.

India produces around 100 MnT of steel. In the third quarter, we did a volume of 4.85 lakh tonnes. At an annualised level, it is around 2 MnT, which is almost 2% of this 100 MnT. This should increase going forward as we would expand capacity faster than the steel sector.

Source: **APL Apollo**

Q. There has been a sharp increase in the prices of iron ore as well as steel. How have these two factors impacted APL Apollo Tubes?

A. Let us look at our value chain… we buy HR coils at say INR 50,000 per tonne. After processing it, we sell our product at INR 60,000/ tonne to distributors, who would keep a margin of around INR 1,000/tonne while selling to a retailer. At the retailer level, with an addition of INR 1,000 per tonne of freight, the price will amount to INR 62,000 per tonne. The retailer will keep his INR 2,000 margin plus the freight cost and sell to the fabricator at INR 65,000 per tonne. The fabricator who welds and cuts the tubes to convert these into finished end-products like hand rails, choukhat, door etc, will charge INR 35,000 per tonne from his clients for the labour and eventually sell at say INR 100,000 per tonne to the end-customer.

Now, if steel prices rise to say INR 60,000 per tonne, there is a 20% increase in the prices of HR coils. Hence, the end-customer will pay INR 110,000 because everything else will remain constant, which is actually a 10% hike or so. For the end-customer, a 10% hike will not impact his buying decision, when he is building a house.

Thus, a steel price hike must be judged in terms of the last-mile jump.