

Think you really know? APL Apollo Tubes Limited

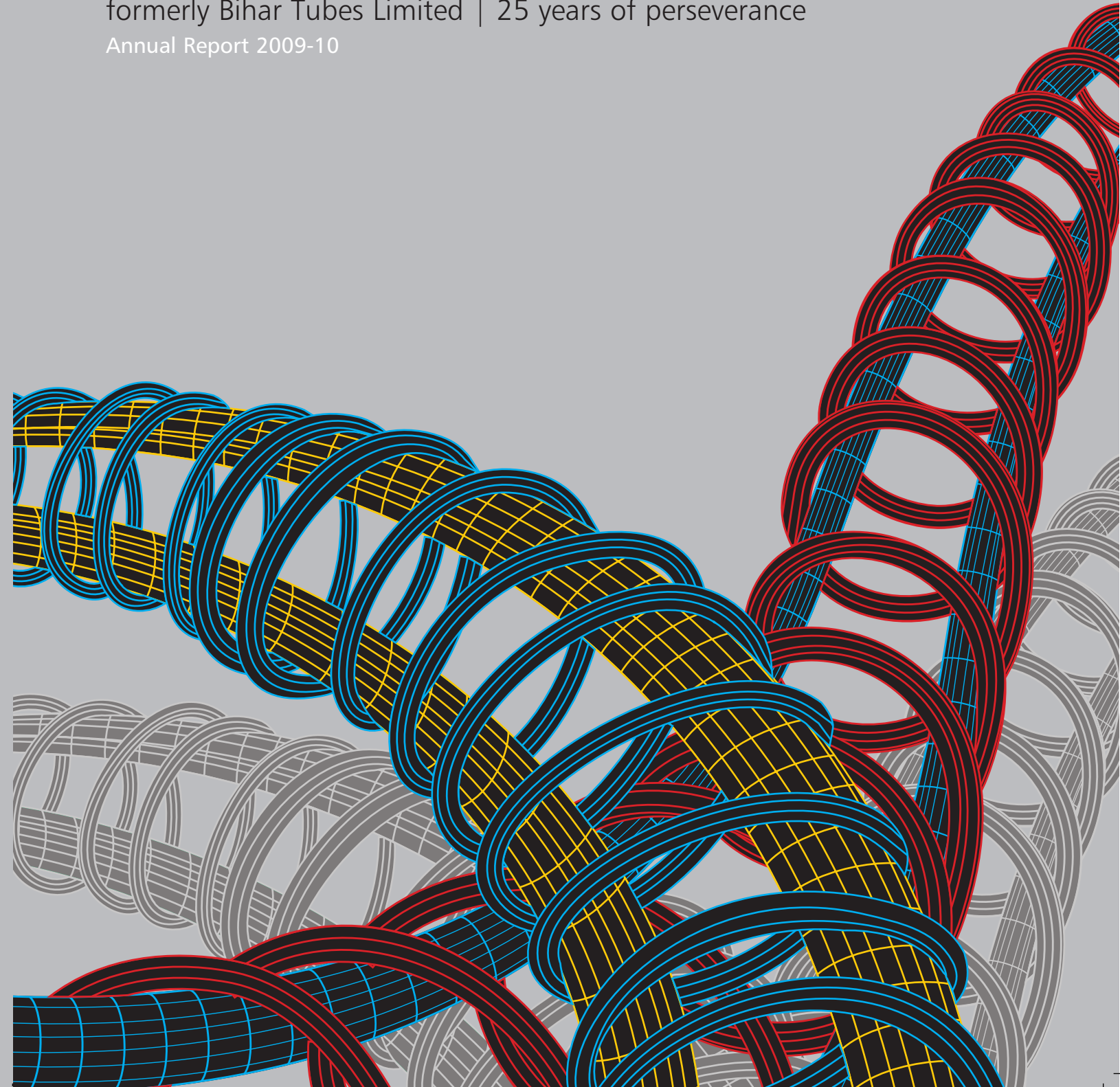
formerly Bihar Tubes Limited | 25 years of perseverance

Annual Report 2009-10



APL Apollo Tubes Limited

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Vikas Marg, Delhi - 110092



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TAKE A CLOSER LOOK

APL Apollo Tubes Limited.

Grew sales
204.95%
in three years.

Grew from
one plant to
4
manufacturing
locations in
three years.

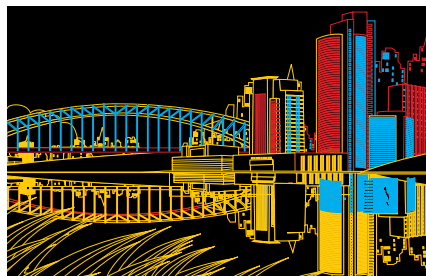
Increased capacity
five-fold
in three years

Turned around a
losing plant within
8
months of acquisition.

Generated
72.48%
of revenues in 2009-10 as
repeat business from
existing clients.

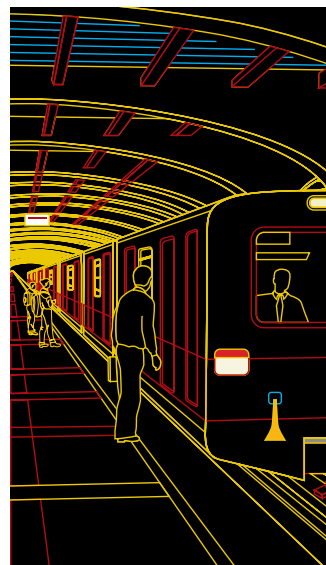
Achieved
80%
capacity utilisation of a
new plant within three
months of start-up.

Pioneered
Indian presence in
pre-galvanised tubes.



We make the tubes
that make the structures
that make the **telecom towers**
that make it possible to **connect calls** and make **everyday living joyful**

We make the tubes
that make the structures
that make the **urban transport system**
that make **your journey comfortable** and make **your day**



We make the tubes
that make the structures
that make our **infrastructure material-efficient**
that makes it **environment-friendly** by reducing the **CO₂ emissions**



We make the tubes
that make the structures
that make the **Wind mills**
that make sure we use **renewable energy resources** more and **more**

We make the tubes
that make the structures
that go into **beams and metal structures**
that make India's new **airports** attractive and make **Indians proud**

Result: We don't just manufacture tubes. We help our customers **create modern, futuristic and sophisticated structures** that *inter alia* enhance **life quality**



Our 25-year journey

Our formative years (1986-1995)

APL Apollo Tubes Ltd was founded by late Mr. Sudesh Gupta in 1986 as Bihar Tubes Pvt. Ltd, a steel tube manufacturer. Within three years, the Sikandrabad facility's capacity was raised to 24,000 MTPA. In 1993, it became a public limited company and started galvanising tubes. The Company's IPO in 1995 met with resounding success.

Coming of age (1996-2005)

The Company evolved further, installing cutting-edge technology from Kusakabe, Japan, across its three tube mills. It also diversified into structural pipes. The Company pioneered pre-galvanised tubes manufacturing in India. The APL Apollo® brand became the most preferred choice for the entire spectrum of steel tube users. The Company received ISO 9001:2000 certification from DNV, Netherlands and various other approvals and certificates.

The silver jubilee (2006-2010)

Leading up to a quarter of a century of existence, modernisation continues in the Company with geographically diversified manufacturing facilities and backward integration (started sheet galvanisation). It acquired Apollo Metalex and Shri Lakshmi Metal as wholly-owned subsidiaries. The Company established a 200,000 MTPA capacity greenfield project at Hosur. It received UL, CE, SGF France, ISO 14001:2004 and OHSAS 18001:2007 certifications. And in a bid to reinvent the brand, the Company changed its name to **APL Apollo Tubes Limited**.

What was	What is
Bihar Tubes Limited	APL Apollo Tubes Limited
80,000 MTPA capacity in 2007	4,00,000 MTPA capacity in 2010
Manufactured up to 8 inch diameter tubes, with thickness up to 6 mm	Manufactures up to 12 inch diameter tubes, with thickness up to 8 mm
3 tube mills	10 tube mills
Manufacturing presence in North India	Manufacturing presence in North and South India
Revenue of ₹202.66 crore in 2006-07	Revenue of ₹624.89 crore in 2009-10
Pioneer in pre-galvanised tubes	Leaders in the pre-galvanised tube segment
Marketed its products through dealer networks, OEMs, government contracts and exports	Forayed into the retail segment in addition to a strong network of over 10 outlets

Our mission

- To be among India’s three leading steel tube manufacturers
- To satisfy customers requirements by timely supplying high-quality products at affordable rates
- To create sustainable value for all stakeholders
- To involve all our employees in our overall development
- To emerge as a ‘one-stop’ shop for the entire spectrum of steel tube end users and to attain a paramount market position for distinguished products

Our products

We make tubes for every application – the widest range of steel tubes and pipes in India, comprising ERW black, hot-dipped galvanised, pre-galvanised tubes and hollow sections. 250 plus varieties of steel tubes and hollow sections.

Our pride

The Company’s products and process quality are endorsed by the following certifications:

- ISO 9001:2008 Integrated Management System
- ISO 14001: 2004 Environment Management Systems
- OHSAS 18001:2007 Health and Safety Management Systems
- IS 1161: Structural application
- IS 1239: Water and gas application
- IS 3589: Water, gas and sewerage
- IS 3601: General engineering
- IS 4270: Water wells and casing pipes
- IS 4923: Structural tubes for infrastructural purpose
- IS 9295: Idlers for conveyors

The Company has prestigious accreditations like Underwriter Laboratories, CE and SGS France and is a recognised Export House. All its products are endorsed by Bureau of Indian Standard.

Our presence

- Headquartered in New Delhi, India
- Manufactures products across four locations in India
- Direct marketing presence in over 15 states and vast distributor-network across India.
- Exports to over 35 countries across all continents
- Listed entity with ₹30,000 lac of market capitalisation

Our clients

Our products cater 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.

Our clients include brand-enhancing names like Engineer India Limited, Mecon, BPCL, L&T, metro railway (Delhi, Mumbai, Chennai and Hyderabad), Simplex Infra, Suzlon,, Gammon India, Afcons, Firepro, Ashok Leyland, Tata Marco Polo, AGCL, BHEL, Gujarat Gas, Mundra SEZ, IRCON and Airports Authority of India, among others

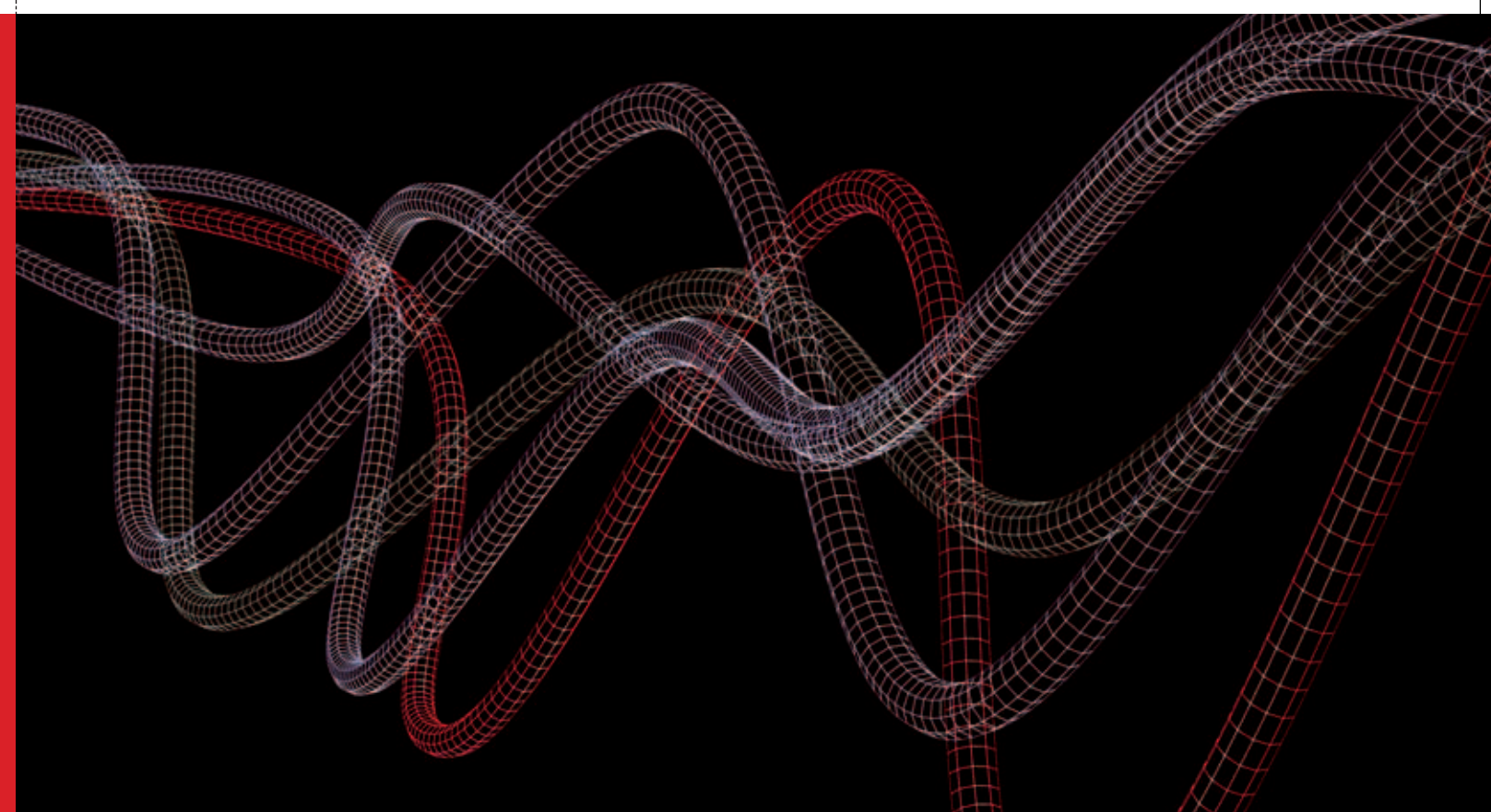




Q&A

A combination of acquisition, expansion, retailisation and value-addition will strengthen our growth from here to a projected revenue of ₹1,500 crore in 2011-12.

Sanjay Gupta, Managing Director, explains the Company's strategy



What is your opening observation following 25 years in business?

A. Our journey of 25 years was challenging, exciting and rewarding, resulting in a turnover of ₹624.87 crore in 2009-10. What pleases me is that we acquired, expanded, innovated and extended our industry presence. We enjoy respect for pioneering and leading the pre-galvanised tube space and for propelling the growth of the hollow section space within India, with a growing presence across a number of sectors of national importance. The result is that we are considered a proxy of modern India.

The Company had a good year in 2009-10. Where does it go from here?

A. There are some important strategic initiatives that we have embarked upon with the objective to grow our scale and enhance shareholder value:

■ **Acquisition:** We have demonstrated

that there is considerable value that can be leveraged from the acquisition and subsequent turnaround of a losing unit as it saves time and cost, resulting in a superior return on employed capital. We did this through the acquisition and turnaround of Shree Lakshmi Metal Udyog Ltd. which facilitated our entry into South India. We feel that this is just the right strategy to enter West India and we expect to conclude an acquisition in this regard during the current financial year.

■ **Expansion:** We commissioned operations at the state-of-the-art Hosur plant to cater to the growing demand from the South Indian market. This plant doubled our installed capacity and graduated us to the position of the largest steel tube producer of the segment. The facility was invested with world-class technology and infrastructure, expected to result in the manufacture of several products catering to emerging applications across new-age airports, metro networks, green houses and conveyor

systems, among others.

■ **Retail:** For years, we have marketed products through dealer networks and directly to institutional clients. We feel that it is time to create a retail marketing outlet to showcase our products, educate consumers, understand their needs and market directly. This will do more than just widen our margins: it will enable us to gain a better understanding of market-place realities, resulting in quicker strategic response.

■ **Value-addition:** The time has come for us to make a decision to shift towards value-added products. This is important for two reasons – it will help derisk our product mix from cut-throat competition during industry downtrends and it will strengthen margins (and hence, our corporate brand), which we feel will inevitably translate into a stronger discounting on the stock markets and enhance shareholder value. We grew the proportion of value-added products in our product mix significantly in the last

few years and we expect to raise this further.

What is happening on the demand side for the Company?

A. The Company is passing through a phase of significant demand growth. The country is witnessing a metro-rail boom following its success in Kolkata and New Delhi; the Company's products are used extensively in such stations and we have enjoyed attractive demand coming out of just one project (DMRC), which augurs well for a time when more such projects are commissioned across the country. The automobile sector in India is perhaps the fastest growing in the world, growing significantly higher than the international average, which will widen the offtake of low-floor buses where our products are used intensively. With increasing per capita disposable income, demand for our products is gaining momentum in new sectors like airports, green houses and conveyor

systems, among others. There are a number of sectors like these and their sustained growth is likely to widen the market for our products. Additionally, being from an organised sector with a high visibility is likely to enhance our offtake and market share faster than that of our competitors.

How does the Company expect to enhance shareholder value?

A. At APL Apollo, we expect to enhance shareholder value through the following realities:

■ **Increase in scale:** Following the commissioning of our Hosur plant, our installed capacity will have increased to 4,00,000 TPA. This will mean growth during the current financial year and in 2011-12, when the full impact of the expansion will be reflected in the financials. As a result, we expect to report attractive growth right into 2011-12 based on investments already made in our business.

■ **Dividend:** To celebrate our 25 years

of existence, we expect to declare an interim dividend at the rate of 10% during every quarter in our 25th year (from February 2010 to January 2011).

■ **Increase in margins:** As a value-driven organisation, we consider it imperative to enhance margins. I expect that we should be able to add 100 bps to our EBIDTA margins in the current financial year based on a product mix evolving towards value-added varieties like pre-galvanised tubes and hollow sections – economies of scale. In this regard, it would be relevant to indicate that our retail revenues will enjoy a 100-150 bps increase in margins and it will be our endeavour to enhance the retail proportion of our revenues from 10% in 2010-11 to a projected 18% in 2011-12.

■ We feel that an increase in return on employed capital and margins will be derived through the acquisition of losing assets, investment in cutting-edge technologies, higher productivity and asset turnaround.



This is what makes our story exciting. *Scale.*

WE WERE A 80,000 TPA ERW TUBE MANUFACTURING COMPANY THREE YEARS AGO. WE ARE A 400,000 TPA COMPANY TODAY.

This rapid investment in scale was owing to an overriding conviction: that when India's economic growth rebounded, there should be adequate tube capacity to cater to growing demand.

The Company did something more than just scale capacity: it identified opportunities in emerging markets and established a base in southern India. To expand its presence, the Company is extending from the North and South to West India, augmenting its capacities.

This prudent dispersal of production capacity did two things: it replaced the need to transfer material across India, cutting down logistic costs and transit times. It brought the Company and customers closer, optimising operations.

Result: a more competitive supplier on one hand (us) and delighted customers on the other.



This is what makes our story exciting. *Retail.*

CONVENTIONALLY IN OUR BUSINESS, MUCH OF THE MATERIAL IS MARKETING TO DEALERS WHO IN TURN MARKET OUR PRODUCTS TO END CUSTOMERS.

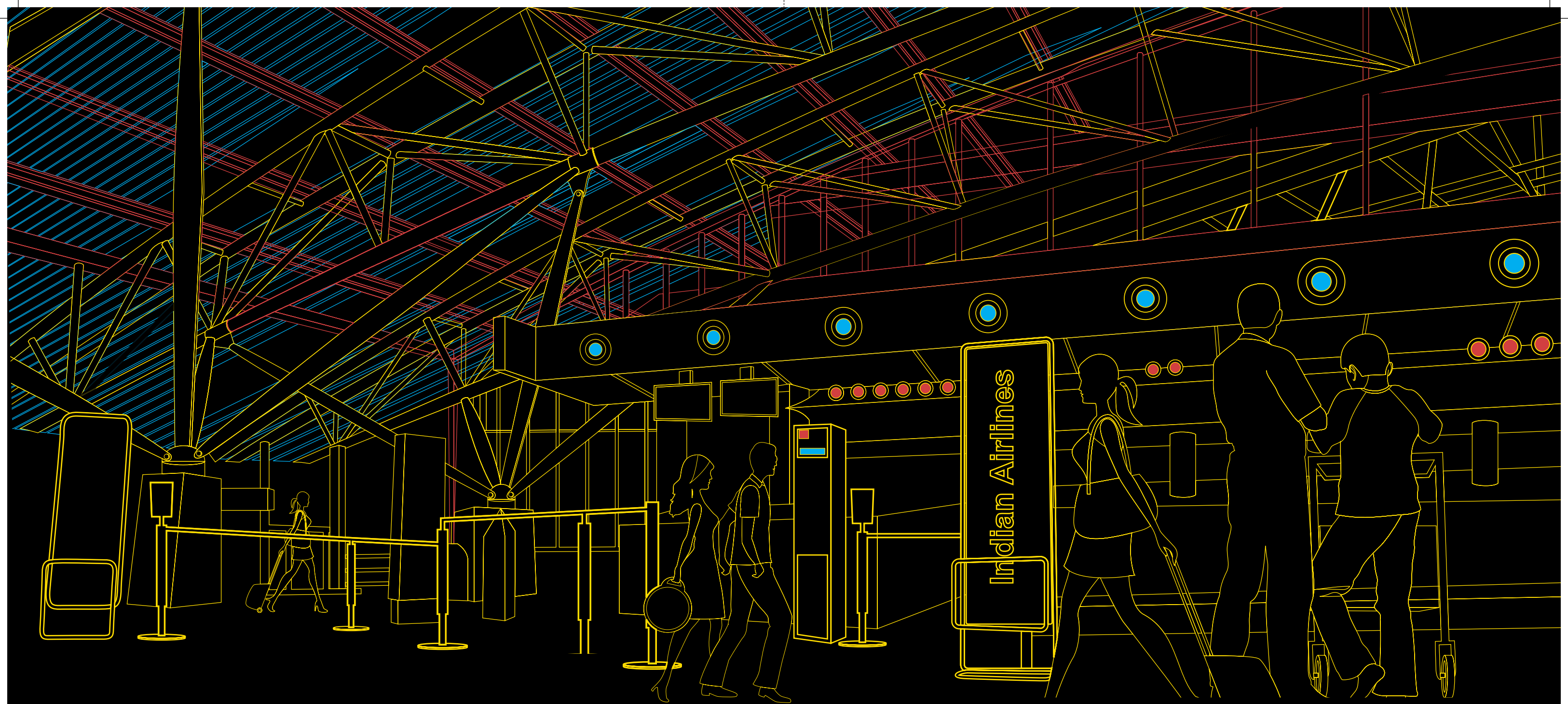
What makes our story compelling is that in view of the explosive demand growth taking place in some of our downstream sectors, we decided to reinforce this dealer-led marketing model with direct sales. We did so through the institution of our APL Apollo Steel World retail chain. We transformed our five existing branches at Ghaziabad, Gurgaon, Jaipur, Ludhiana and Pune into retail outlets and are planning to open five more at Ahmedabad, Bengaluru, Chennai, Hyderabad and Kochi, creating a robust direct servicing and selling network.

The advantages of going direct to consumers comprise the following:

- An ability to service emerging demand closer and quicker
- The provision of continuous and contiguous back-office support to dealers and end-users

- Direct access to marketplace realities leading to informed decision-making
- Cash and carry terms of trade, shrinking receivables
- Better capture of the value chain from raw material to retail

The Company expects to achieve attractive revenues and hopes to capture a greater market share through APL Apollo Steel World.



This is what makes our story exciting. *Product mix.*

WE WERE ONE OF A NUMBER OF MANUFACTURERS OF CONVENTIONAL STEEL TUBES IN INDIA WITH DOWNSTREAM APPLICATIONS IN THE PLUMBING, IRRIGATION AND ENGINEERING SECTORS NOT TOO LONG AGO. WE ARE A SIGNIFICANT PLAYER IN THE HOLLOW SECTIONS SEGMENT TODAY, CATERING TO NEW-AGE APPLICATIONS IN THE TELECOM, RENEWABLE ENERGY, AIRPORT, POWER, INFRASTRUCTURE, PRE-FABRICATION AND URBAN TRANSPORT SECTORS.

This is what helped strengthen our competitive edge in the area of hollow sections:

- Rapid capacity growth from 80,000 TPA in 2007 to 4,00,000 TPA in 2010
- Over 10 production lines, able to produce the largest range of hollow sections in all variants (black, galavanised and pre-galvanised), in a shorter time for specialised needs
- An ability to provide customers with a diverse product basket ranging from

19x19 mm to 250x250 mm square hollow sections and 40x20 mm to 300x200 mm rectangular hollow sections with multiple options regarding thicknesses.

The result is that our increased supply helped catalyse hollow section demand, resulting in a higher indigenous content in new-age Indian products like airports, malls, metro stations, low floor buses, amusement parks, playground equipment, trolleys,

pedestrian walkovers, footbridges and sports galleries, among others. Nowadays, hollow sections are preferred in new-age architectures as they possess more strength and robustness and are used as visible construction elements in structural steel projects, enhancing aesthetics.

Result: the proportion of revenue derived from hollow sections and pre-galvanised tubes shall continue to increase year over year.



This is what makes our story exciting. *Value-addition.*

WE WERE A CONVENTIONAL STEEL PIPE MANUFACTURER ONCE; WE ARE A MOST EXCITING INFRASTRUCTURE-SUPPORTING COMPANY TODAY, WITH A LARGE PRODUCT OFFERING COMPRISING PRE-GALVANISED AND HOLLOW SECTIONS, AMONG OTHERS.

This transition was made through timely foresight – that an increasing number of large and public structures in India being created differently in response to the growing need for style and strength would need a larger proportion of specialised tubes and hollow sections.

We did something daring – we pioneered the graduation from conventional galvanised products to pre-galvanised tubes and hollow

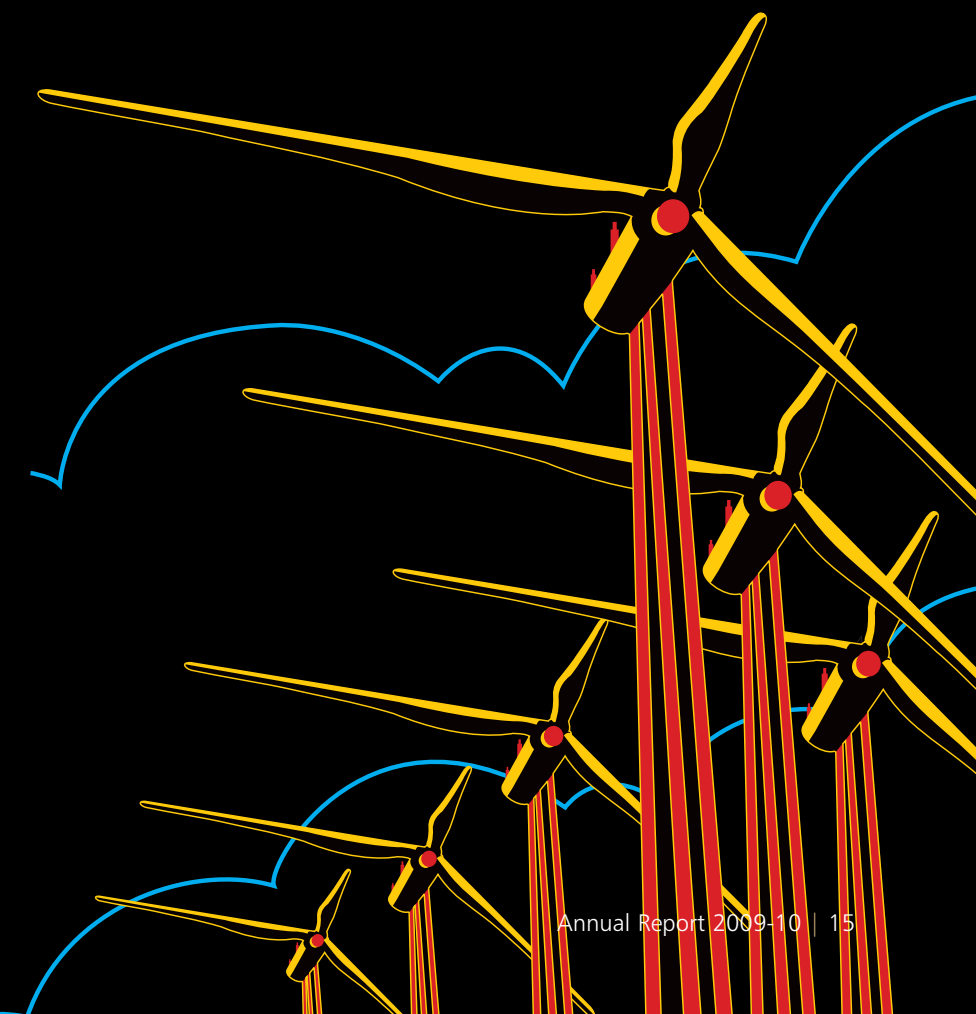
sections, resulting in a larger product offering with correspondingly greater value for our consumers and ourselves.

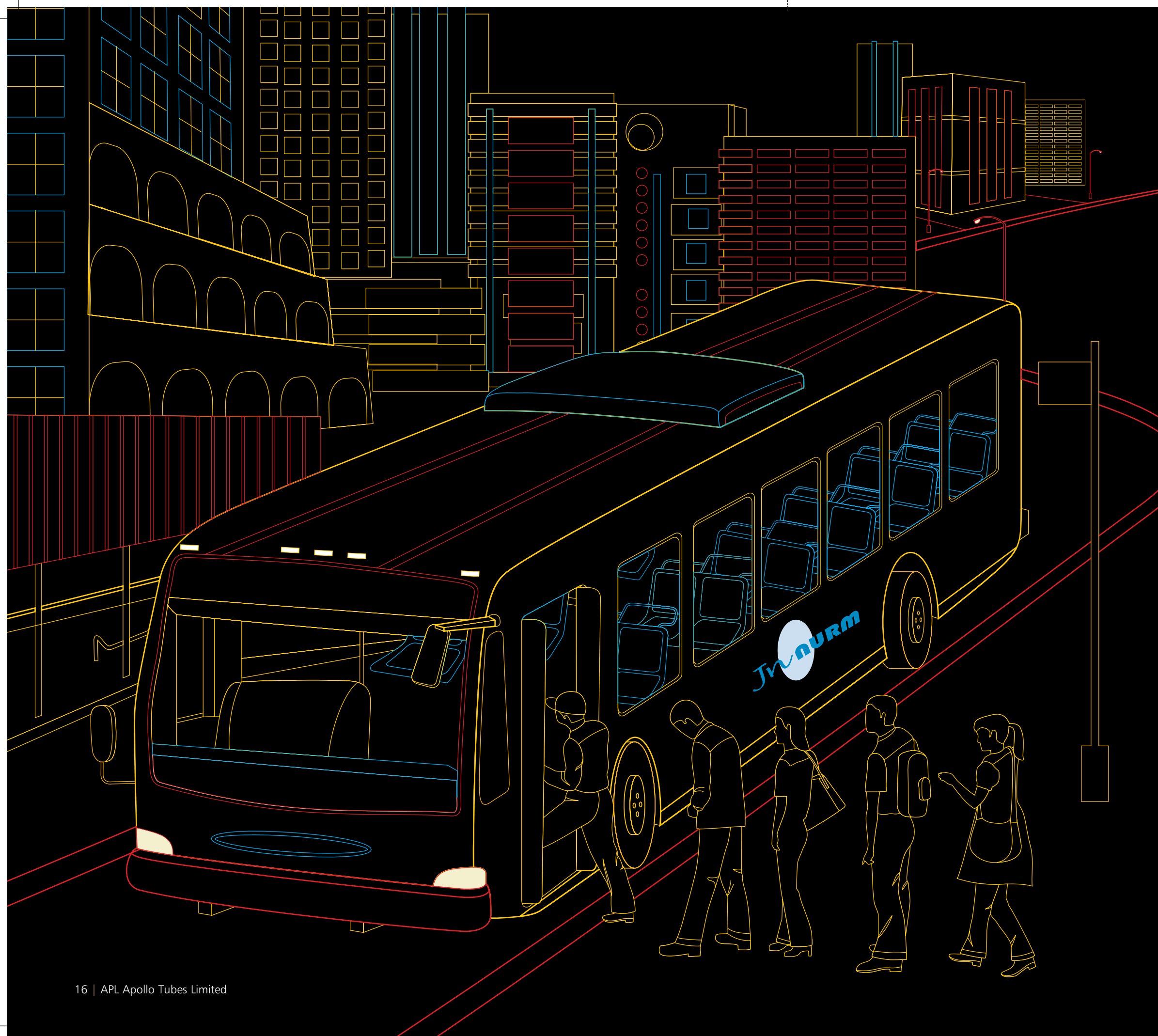
We registered more than 100% growth in the sales volume of pre-galvanised products every year, indicating that our products were well received by customers across pricing, quality and customisation.

Increased product sale is being driven by quality, branding and concept sale. Moreover, the Company's ability to

customise the zinc proportion in the final product as per the customers' precise requirement helped enhance value proposition. The Company has in-house sheet galvanisation facilities of 24,000 MTPA installed capacity, and an equal capacity is expected to be added in 2010-11.

The proportion of value-added products increased significantly in last five years.





This is what makes our story exciting. *Range.*

THERE WAS A TIME NOT TOO LONG AGO WHEN WE POSSESSED A LIMITED CAPACITY TO MANUFACTURE A LIMITED NUMBER OF PRODUCTS WITH LIMITED RESOURCES.

We entered a virtuous cycle through the following initiatives:

- We widened our product range in terms of greater outer diameter and higher thickness spreading our manufacturing facilities across India. We are the only player to dominate all four segments – ERW black, galvanised, pre-galvanised tubes and hollow sections.
- We expanded via organic and inorganic routes, augmented installed capacities of existing plants, acquired subsidiaries and made them profit-spinning ventures in almost no time, commissioned a world-class plant in record time and also penetrated deeper into new geographies.

We penetrated new and emerging markets, applications and industries, broadening our clientele. Today we provide solutions for each and every aspect of daily life with products for every sector of emerging economy.

Result: we are considered reliable suppliers for the entire spectrum of steel tube end users and enjoy a leading market position for our distinguished products.