



APL APOLLO TUBES LIMITED | ANNUAL REPORT 2011-12



APL Apollo Tubes Limited
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FAST FORWARD

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FAST FORWARD.

At APL Apollo Tubes, the term 'fast forward' does not necessarily indicate a management desire or corporate performance. It underlines our operating philosophy. How we plan. How we think. How we respond.

The result is that we enhanced capacity by almost 10 times in just six years

Created a robust portfolio of innovative products.

Customised product applications across sectors.

Built a strong pan-India distribution network.

Entered a number of global markets.

Enriched employee skill-sets.

Practised ethical values.

Delivered what our customers wanted.

Invested in environment-friendly processes.

With the objective to be future-ready with speed.

The result is that even as India's steel tubes sector grew moderately in 2011-12, APL Apollo Tubes grew revenues 55.94%.

Foresight pays.

ACROSS THE PAGES >>

Corporate identity 02 Highlights 04 Chairman's statement 06 Fast forward 08
MD's review 20 Growth phases 22 Strategic blueprint 23 Strengths 24
Building shareholder value 26 Did you know 28 Product review 30 Business drivers 32
Risk management 34 BOD profile 36 Management discussion and analysis 38
Directors' report 46 Report on Corporate Governance 53 Consolidated accounts 63
Section 212 80 Standalone accounts 81

THERE IS A STEEL TUBE IN OUR LIVES, WHEREVER ONE LOOKS.

STRUCTURES OF NEW COMMERCIAL BUILDINGS.

WINDMILLS PROVIDING CLEAN ENERGY.

NEW-AGE BRIDGES SPANNING RIVERS.

TOWERS THAT MAKE MOBILE TELEPHONY POSSIBLE.

PIPES BRINGING WATER TO OUR BATHROOMS.

LOW-FLOOR BUS THAT ONE TAKES TO THE OFFICE.

METRO RAILWAY INFRASTRUCTURE AND BOGIES.

STRUCTURE OF STATE-OF-THE-ART NEW AIRPORTS.

CITY MALLS, ADVENTURE PARKS, HIGH RISE STRUCTURE, AMONG OTHERS.

LAST MILE CONNECTIVITY FOR CITY GAS DISTRIBUTION.

TOLL PLAZA STRUCTURE ON EXPRESSWAYS AND SO ON...

APL Apollo is the fastest growing steel tube manufacturer in India, helping make these a reality. >>

Lineage

- Established in 1986
- Headed by Mr Sanjay Gupta (Chairman), Mr. Ashok Gupta (Managing Director) and a team of experienced professionals

Location

- The Company is headquartered in NCR, Delhi with five manufacturing facilities – two units in Sikandrabad (UP) and one unit

each in Bengaluru (Karnataka), Hosur (Tamilnadu) and Murbad-Mumbai suburb (Maharashtra)

- The Company has created a vast distribution network across India, warehouse-cum-branch offices in 15 Indian cities and an international distribution network in all continents (exporting to more than 35 countries).

Listing

The shares of the Company are listed and traded actively on the Bombay Stock Exchange and National Stock Exchange (market capitalisation of ₹3850 million, as on March 31, 2012).

Line of business

The Company manufactures over 300 varieties of steel tubes in a range of outer diameter sizes of ½" to 14".

Mission statement

To create sustainable value for all stakeholders

To involve all our employees in our overall development

To satisfy customers' requirements by supplying high-quality products at affordable rates

To emerge as a 'one-stop shop' for the entire spectrum of steel tubes and to

attain a paramount market position for its quality products.

To achieve revenue worth US\$1 bn by 2015

To achieve capacity of one million TPA by 2015

'Fast forward' grows. 'Fast forward' enriches. Here is an evidence. >>

WE WERE A 80,000 TPA COMPANY IN 2006-07.

WE ARE A 500,000 TPA ORGANISATION TODAY.

WE WERE A ₹2,300.95 MILLION REVENUES COMPANY IN 2006-07.

WE ARE A ₹15,362.63 MILLION ORGANISATION TODAY.

WE WERE A ONE UNIT (MANUFACTURING) COMPANY IN 2006-07.

WE ARE A FIVE-UNIT ORGANISATION TODAY.

WE POSSESSED A PORTFOLIO OF 150-PLUS PRODUCTS IN 2006-07.

WE POSSESS A PORTFOLIO OF 300-PLUS PRODUCTS TODAY.

WE WERE A HUNDRED-PLUS EMPLOYEE COMPANY IN 2006-07.

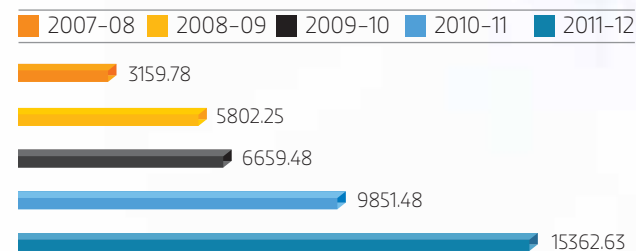
WE ARE A THOUSAND-PLUS EMPLOYEE ORGANISATION TODAY.

THIS IS HOW THE PHILOSOPHY OF 'FAST FORWARD' TRANSLATED INTO A RECORD 2011-12. >>

Financials

- Gross sales increased 55.95% from ₹9,851.48 million in 2010-11 to ₹15362.63 million
- EBIDTA increased 26.19% from ₹914.50 million in 2010-11 to ₹1153.99 million
- Net profit enhanced 13.83% from ₹430.94 million in 2010-11 to ₹490.55 million
- Cash profit increased 18.45% from ₹492.84 million in 2010-11 to ₹583.77 million

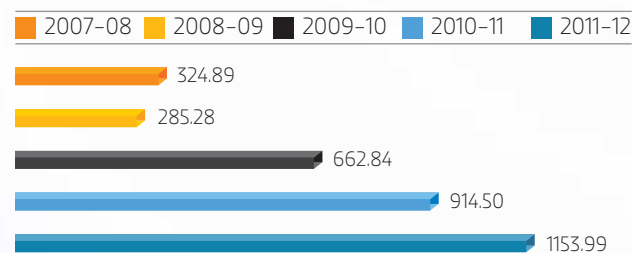
Gross sales (₹ million)



Revenue growth

55.94% | **36.95%**
over 2010-11 | five-year CAGR

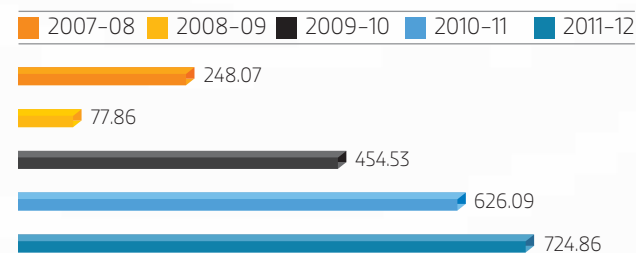
EBIDTA (₹ million)



EBIDTA growth

26.19% | **28.95%**
over 2010-11 | five-year CAGR

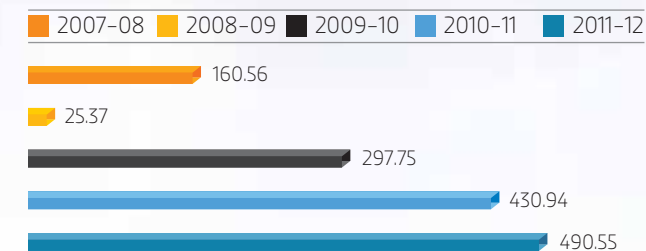
PBT (₹ million)



PBT growth

15.78% | **23.92%**
over 2010-11 | five-year CAGR

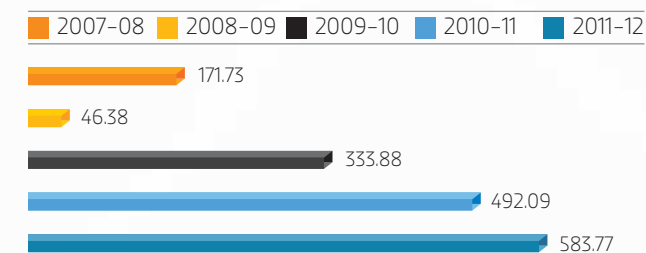
Post tax profit (₹ million)



Post tax profit growth

13.83% | **25.03%**
over 2010-11 | five-year CAGR

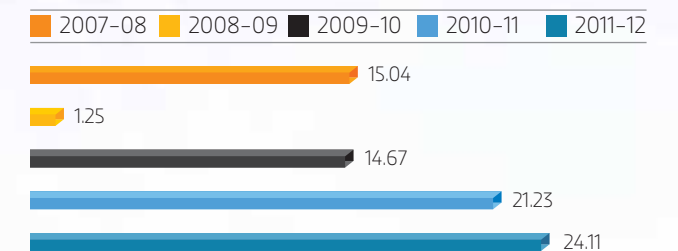
Cash profit (₹ million)



Cash profit growth

18.45% | **27.72%**
over 2010-11 | five-year CAGR

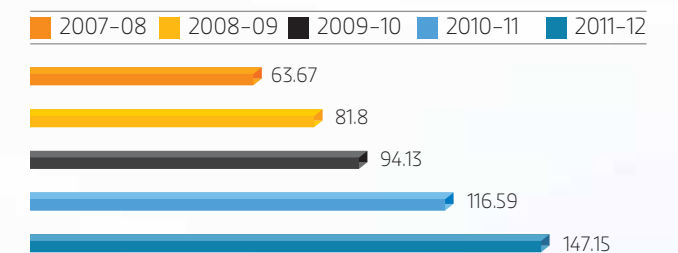
Earning per share (₹)



EPS growth

13.57% | **60.31%**
over 2010-11 | over 2007-08

Book value per share (₹)



Book value growth

26.20% | **131.11%**
over 2010-11 | over 2007-08

CHAIRMAN'S STATEMENT >>

“FAST FORWARD' AT OUR COMPANY MEANS US\$1 BN REVENUES BY 2015”

In the competitive business of steel tubes manufacturing and marketing, sustainable success is inevitably drawn from four key drivers.

Attractive scale, cutting-edge technology, wide portfolio and a dedicated team.

It is our conviction that when a company possesses these competences – as we do – the result is a fast-forwarding of prospects that makes it possible for players to be future-ready.

It is a measure of the deep prospects in India that despite the infrastructural slowdown of the last couple of years, the

country continues to remain one of the most attractive global steel tube sector opportunities. This opportunity is based on a simple reality: that when a large country steps out of decades of under-investment, a sharp increase in the country's appetite is bound to happen based on market growth at one level and demand sophistication at the other. The result is not just a linear increase in the size of the country's steel tubes market but a concurrent graduation to quality, benchmarked with demanding standards the world over. Inevitably, what was for long seen as a relatively vanilla steel tubes

market, has broadened out to a multitude of sectors, products, grades and sizes.

There is another reason why the Indian market is creating global excitement: the sheer scale of the opportunity. India's per capita consumption of steel tubes compares quite weakly with the global per capita average. While this under-penetration indicates the extent of latent potential within the country on the one hand, the fact that the country's steel tubes market is growing at a faster pace than the global average indicates that India has possibly hit its inflection point in steel tubes consumption.

There is evidence to support this conviction. Just take one sector as an instance of the country's potential: with India rapidly urbanising and cities growing larger, there is a growing emphasis on the need to connect fringe areas with city centres. For decades, the conventional road network connected the dispersed points; with mass rapid transport emerging as the only feasible solution, there is a growing preference for metro rail linkages across cities.

That the country has embraced this form of transportation is evident: the upcoming metro railway services in Hyderabad, Mumbai and Bengaluru, in addition to the increasing investments going into Delhi and Kolkata, are part of a trend where metro services will eventually move down to Tier-II Indian cities. This single downstream sector is expected to keep growing for the next few decades, growing the demand for steel tube products in a robust and sustainable way. APL Apollo Tubes revenues from this vertical are growing with the growing country's metro network; we see this proportion rising as the country increases its investments in its metro network and we continue to remain a preferred supplier for these projects.

At APL Apollo Tubes, the basis of optimism is that this significant impact on our financials is not only based on the growth coming out of one sector; the Company addressed the need of several new sectors during the year under review, each of which is going to invest significantly over the foreseeable future. As a result, even as shareholders are delighted with the 36.95% annual growth (compounded) in revenues over the five

years leading to 2011-12, the reality is that this growth is barely indicative of the Company's true potential.

The staggering prospects facing our industry are not just on account of the significant growth from within; USA, Brazil, Canada and some European countries imposed anti-dumping duties on Chinese tubes and pipes, creating an unprecedented international opportunity for Indian manufacturers.

It is this background which is creating an internal challenge at APL Apollo Tubes – expand capacity, broaden the product mix, raise operating efficiency – to not just grow with the opportunity but to proactively emerge as the largest Indian steel tube manufacturer by 2015.

The Company is doubling its installed capacity from 500,000 TPA in 2011-12 to 1,000,000 TPA by 2015. The Company is investing in swing capacity to address diverse needs. These capacities are being dispersed across India to be able to respond to regional demand in the shortest time and competitive cost. The Company is plugging product gaps through innovation. The Company is not merely intending to address an existing demand but to create new markets. The Company is committed to grow its international presence through its Murbad facility (Western India). The Company is reinforcing its technology edge leading to superior efficiency.

At APL Apollo, the excitement is not just about what we expect to achieve in the future but also in what we accomplished in 2011-12. Despite a high cost of debt, delayed policy decisions and slowed

infrastructure investments, the Company recorded impressive numbers:

- Gross sales grew 55.95% over 2010-11
- EBITDA grew 26.19% over 2010-11
- Net profit grew 13.83% over 2010-11

There were some sound reasons why APL Apollo Tubes countered the industry slowdown:

- The Company continued to create products with applications beyond traditional sectors, extending its risk across a larger sectoral spread
- The Company's nation-wide presence helped reach customers quicker than competitors
- The Company invested in brand building, resulting in a consumer pull
- The Company extended from retail to institutional sales
- The Company leveraged its various certifications and client approvals to enhance project penetration
- The Company's enhanced scale translated into superior economies of scale
- The large scale translated into stronger negotiation with raw material suppliers

APL Apollo Tubes is investing in its capacities and capabilities to achieve US\$1 bn revenue by 2015, enhancing value for all those who hold shares in the Company.

Sanjay Gupta
Chairman

fast forwarding through...

CAPACITY GROWTH >>

APL Apollo Tubes is one of the largest steel tubes players in India today. The Company intends to add another 0.5 mn TPA capacity and emerge as India's largest tubes player by 2015.

The world needs an economically buoyant India. India needs growth. This growth needs infrastructural investment. This infrastructural investment needs diverse high quality steel tubes.

Keeping this linkage in mind, APL Apollo Tubes invested in the following initiatives:

- Stabilised operations at its state-of-the-art greenfield facility in Hosur (Tamil Nadu).
- Incurr capex to augment installed capacity aggressively across its plants
- De-bottlenecked and modernised the Murbad facility with the objective to significantly augment installed capacity.
- Embarked on commissioning sheet galvanising facility in every geography of manufacturing presence, not only raising total in-house sheet galvanisation capacity but strengthening backward integration as well.

This investment (to be completed in a couple of years) is expected to translate into annual revenues of US\$1 billion by 2015.

fast forwarding through...

STRONG PORTFOLIO

APL Apollo Tubes is responding to emerging demand – a larger number, wider kind and diverse graded – with a rich portfolio.

There was a time when APL Apollo's products only addressed steel tube applications in India's fluid transportation sector. Gradually, it became a prime supplier of hollow sections, with application in infrastructure, new-age structures, support systems and a pioneering introduction of pre-galvanised tubes and hollow sections. With the objective to grow its presence beyond this limited application, the Company invested in research with the following results:

- Pioneered the installation of the Rotary Sizing Mill technology in Hosur with the objective to manufacture 'dynamically balanced and cold drawn precision tubes'. This technology facilitates online adjustments that improve diametric accuracy and roundness and also enhances surface finish by eliminating roll marks usually caused by conventional mills. The result is that the tubes are increasingly used in the following applications:

- Conveyor rolls in heavy engineering sectors like cement, coal plants, among others
- Spinner blocks in the textile industry
- Axle tubes, exhaust tubes and propeller tubes in the automotive sector
- High-rotational applications.
- Commissioned a new variant – lower diameter-high thickness seamless equivalent tubes' – of ERW tubes that are fast replacing seamless tubes.
- Commenced the supply of tubes for solar and wind energy projects as well as the fire-fighting sector. The Company's tubes were enjoying preference in value-added applications like hydraulic cylinders and pre-fabricated warehouses.

fast forwarding through...

UNCHARTED AREAS >>

APL Apollo Tubes is extending its footprint to make its product available across all corners of India and a number of countries.

In the business of steel tubes manufacture and marketing, success is derived from the ability to be proximate to customers with the objective to reduce distribution costs and delivery tenure.

For years, the distribution model in the steel tubes industry was business-to-business until APL Apollo introduced a pioneering change by marketing directly to end users. Over the last couple of years, APL Apollo Tubes invested in 15 Company-owned warehouse-cum-branches (Ghaziabad, Gurgaon, Jaipur, Ludhiana, Faridabad, Kanpur, Pant Nagar, Pune, Goa, Ahmedabad, Mumbai, Nagpur, Bengaluru, Hyderabad and Kochi) with the objective of delivering products just-in-time to customers. The Company now generates a substantial part of its revenues from this route.

The Company is taking this initiative ahead:

widening and deepening this network, increasing its presence in Tier-II and III cities and increasing the number of Company-owned warehouse-cum-branches. Going ahead, this increase will enable the Company to address consumer needs quicker, access feedback better and track marketplace trends more accurately. At APL Apollo Tubes, the need to be proximate to customers is reinforced by the location of manufacturing units. The Company established a manufacturing presence in western India through the acquisition of the API-certified facilities of Lloyds Line Pipes in Murbad (Maharashtra), enhancing proximity to the port and increasing international competitiveness. The Company is investing afresh to commission a state-of-the-art plant in Murbad to cater to growing international demand.

fast forwarding through...

DEDICATED PEOPLE >>

At APL Apollo Tubes, we recognise that the difference between companies comes down to people.

At APL Apollo Tubes, we recognise that the way we recruit, where we recruit from, who we recruit and how we retrain and retain influence our competitive advantage.

The Company is strengthening its organisation through the following initiatives:

- Recruiting the best available talent from premier institutes as well as inducting experienced industry hands in senior positions
- Creating an environment of excellence, inspiring our people to perform better
- Providing periodic training in technologies and workplace practices to enhance skills and competencies
- Strengthening a sense of professionalism through the absorption of industry best practices
- Sending employees to various national and international seminars to enhance their exposure and insight
- Engaging Ma-Foi randstad as HR consultants to strengthen people practices

fast forwarding through...

HIGH VALUES >>

At APL Apollo Tubes, we recognise that an ethical grounding extends our reputation even across prospective customers, creating a base for sustainable growth.

The Company has consistently followed best governance practices, which not only resulted in enhanced stakeholder value but enabled the Company to fulfill its obligation towards customers, shareholders, employees, vendors and society. The principles of transparency, accountability, independent monitoring and environment consciousness are being followed at APL Apollo through the following initiatives:

- Adopted best working practices across the organisation; installed SAP/ ERP and other technological aids
- Constituted an independent investor relations cell
- Listed on the NSE and on BSE (earlier at BSE Indonext)
- Reinforced a zero-tolerance of unethical behaviour.
- Constituted an independent committee to conduct internal audits

We aim to drive business in a way that not only meets, but exceeds, our legal, commercial and ethical standards and obligations that a society may have.