management discussion & analysis »

OUR WORLD

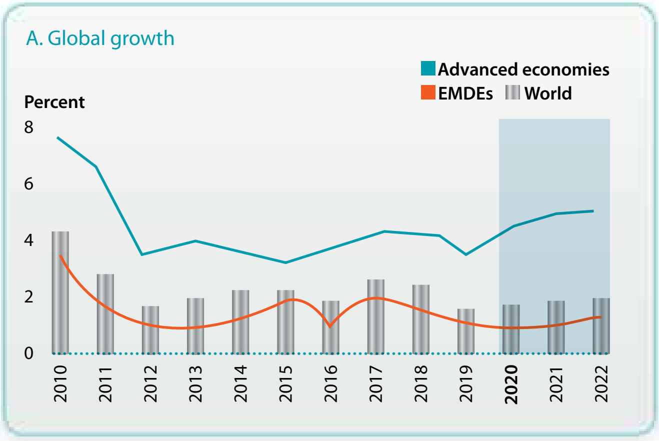
The Global Economy

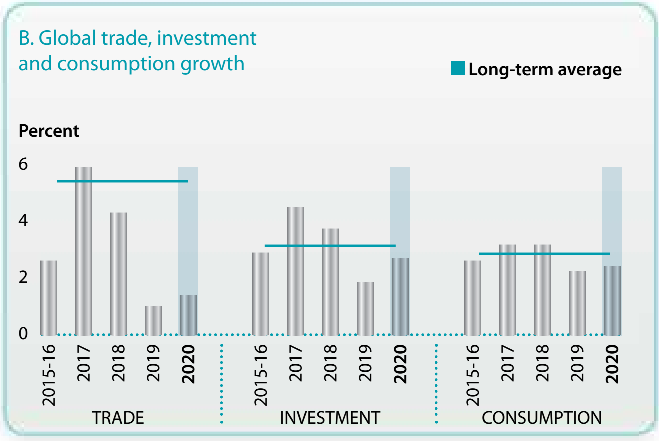
The year under review saw a sharp deceleration in global growth with sluggish trade and poor investments affecting in varying degrees the developed world, particularly the Euro area, the emerging markets, and the developing economics.

Global trade in goods stayed constricted for most part of 2019, and manufacturing activities slowed down markedly, while services stayed moderate. Close to 90% of the advanced economies and 60% of EMDEs suffered in the downturn. The financial markets, too, remained troubled for most of 2019.

Such a scenario dragged the global economic growth down to an estimated 2.4% last year – the slowest rate of expansion since the 2008 financial crisis.

Recovery: The prospects of a recovery looks bleak after the Corona virus outbreak shattered the wobbly economy. The worst nightmare in human history struck the world when most of the major economies were grappling with trade disputes, policy uncertainties and geopolitical tensions. As administrations adopted containment measures to fight the Covid-19 pandemic, most of the world went under a lockdown, brining all economic activities to a stop. The impact has been dreadful. It sent the ailing global economy into a deep recessionary phase, which could be far more punishing and long-lasting than it was feared initially.





OUR BUSINESS ENVIRONMENT

The Indian Economy

With a gross GDP of US$2.94 trillion, India ranks as the fifth-largest economy in the world, and the third-largest market in terms of purchasing power parity (PPP).

Performance: A continued slump in global business environment weighed on the Indian economy, pulling it down to an 11-year low of 4.2% in 2019-20 from 6.1% a year ago. It consequently widened the government's fiscal deficit to 4.6% of the gross domestic product (GDP), outstripping the Budget projection of 3.8%.

A rebound in the farm sector and a sharp spike in government spending helped the ailing economy in this hour of distress. While agriculture growth almost doubled to 4% over the last one year, public administration, defence and other services saw a double-digit growth of 10% during the year under review.

But the disturbing reality was a sharp decline in all three components of demand – consumption, investments and exports – into the negative territory. Manufacturing and construction threw up poor growth numbers of 0.03% and 1.3% in 2019-20, marking a steep fall from 5.7% and 6.1% a year ago. Gross fixed capital formation (GFCF), which indicates the level of investment activity in the economy, was down to less than 30% of the real GDP. Compared to 2018-19, GFCF saw a contraction of 2.8%, highlighting deeper problems underlying the slowdown. Even private final consumption expenditure grew slowly at 5.3% in 2019-20 as against 7.3% a year back.

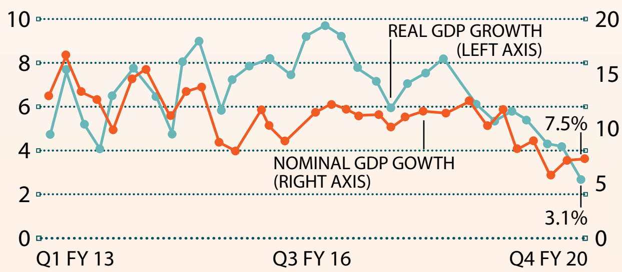
India's emergence as the fifth-largest global economy and the country's 14-spot climb to the 63rd rank on the World Bank's Ease of Doing Business Index 2020 came like a ray of hope amid this reign of darkness.

But even before the economy could nurture the early green shoots of revival, the Covid-19 outbreak shuddered everything at the end of March 2019. To save its 130-crore populace from the dreaded contagion, the Indian government enforced one of the longest and strictest lockdowns in the world spanning over two months. It triggered severe demand-supply shocks and nixed the economy's incipient recovery with large-scale job losses across sectors.

Although the virus has claimed more than 50,000 lives in India and infected over 2.5 million in less than eight months, it couldn't break the spirit of resilience of the people. Looking at a 70% recovery rate among the Corona-positive patients, and recollecting India's history of endless onslaughts and revivals, experts strongly believe that this too shall pass, and the economy will begin to rebound, breathing fresh life into people and their living.

Downward spiral

India's real GDP growth rate slowed to 3.1% for fourth quarter of FY 2020. Nominal GDP growth rate, at 7.5% saw a marginal improvement to the previous quarter



Structural Steel

From manual to automated with remote-controlled access – machine operations took a kangaroo leap in the last couple of decades with the last few years having seen the most rapid advancement in technology. It led to a paradigm shift in the way machines are operated.

The saga is no different in the construction segment. The shift through the last decade has been towards structural steel or Pre Engineered Building (PEB) material from heavy engineering construction materials. India was one of the latest to join the league but emerged one of the fastest to adopt the new system.

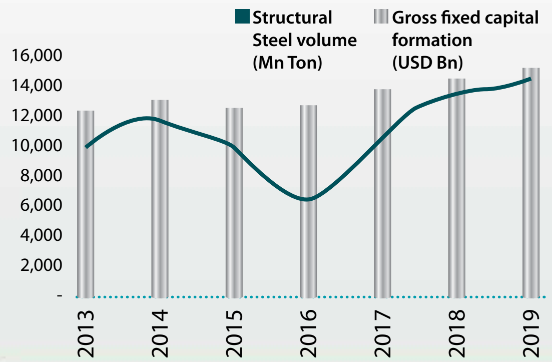
The drift has been primarily because structural steel saves time and cost and ensures more efficient performance. This type of steel is used in the construction industry and it can be welded in various shapes and grades. A spurt in urbanisation and consequent boom in the construction triggered a strong demand for long steel products like tubes, bars and sections, paving the way for structural steel to corner a wider market share.

These products show superior properties like high strength, ductility, ease of fabrication, seismic resistance and fast erection speed. Structural steel finds immense applications in the non-residential construction space like airports, manufacturing facilities, healthcare facilities, and retail stores.

The booming commercial building sector and the government's push for green buildings, smart cities and the **Make-in-India** initiative are expected to boost the structural steel market in India.

The structural steel market expansion is closely dovetailed to construction activity

Global Structural Steel market expansion



Indian Structural Steel market expansion

What is ahead for structural steel?

Climate change is an undeniable reality. The looming threats from environmental damages are encouraging governments, manufacturers and consumers to use sustainable products. Major manufacturers are developing advanced steel products which can help in waste reduction and can be suitably recycled. Buildings made by these products do not include mandates such as treatments for preventing insect infestation, mould and decay. This is where structural steel sees a bright prospect. India's National Steel Policy, 2017, aims for 300 million tonnes of production capacity by 2030-31. With a meagre per-capital steel consumption, the Indian market holds tremendous potential for structural steel. As the government goes on an overdrive for infrastructure and real estate, the market throws up immense opportunities for structural steel products.

OPPORTUNITIES & PROSPECTS

Structural Steel: Essential for new-age construction

OPPORTUNITY 1

verticalisation: there's plenty of room upwards

Going up is better than being away. Most cities around the world have resorted to vertical growth as rising population and urbanisation leave them in sheer space crunch.

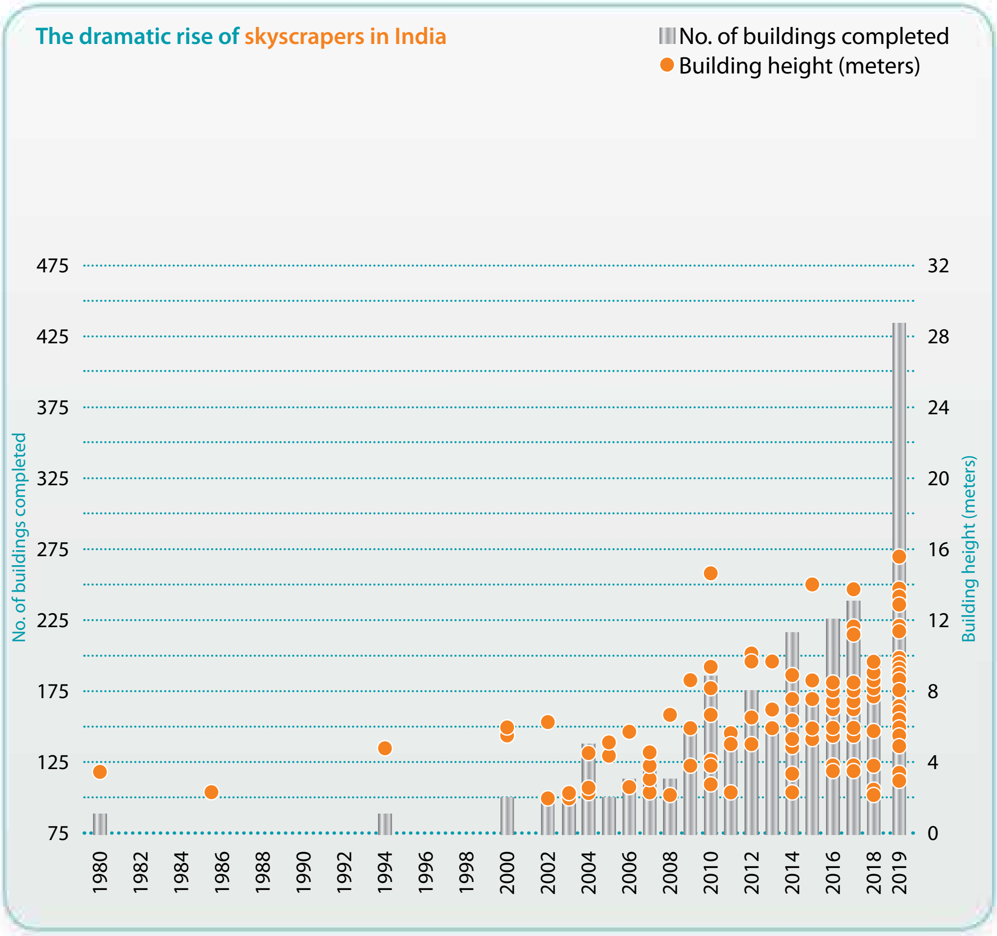
Home to 17% of the world population, India is crammed with only 2.4% of the landmass in its command. A fast-developing economy and a rapid urbanisation have left metros and cities bursting with people. High-rises have come up as the obvious solution. Rising population, shrinking space and a wish to remain close to the main city have fuelled growth in multi-storeyed buildings.

India's vertical growth pushed high-rises or buildings with ground-plus-twenty (G+20) floors or more to record highs in 2019. Out of the 1,816 projects launched during the year across seven major cities, more than 52% were of the G+20 format or above. The share of villas declined consequently to a record low of 2% from 5% five years back.

Mumbai is closing in on mega cities like New York, Hong Kong and Tokyo where buildings as tall as G+50 floors are the norm. Delhi-NCR comes next with nearly 70% of its total launched projects in 2019 being in the high-rise category. Bengaluru had 45% of its 2019 projects towering above 20 floors, followed by Pune with a 41% share. In Hyderabad, Kolkata and Chennai, the share of G+20 floors or above remained somewhat narrow at 23%, 21% and 16%, respectively.

Chennai and Hyderabad – which stuck to the more conventional low-rise formats for long – are gradually warming up to high-rise developments. In both the cities, the well-to-do preferred bungalows and sea-facing villas. It is only in the last decade that these cities too began growing vertically, largely to accommodate the increased inward migration.

In Indian cities, the FSI ratio is generally about 1.5, which is said to be on the lower side given the need of rapid urbanisation.



Going Forward

The government has formed a panel to look into the upward revision of the Floor Space Index (FSI) norms in all major cities. Such a revision, if implemented by the civic bodies, would drive the number of high-rises in Indian cities.

The Ministry for Housing and Urban Affairs has advocated for compact and vertical densification. In keeping with the recommendations of the Niti Aayog, it has sought easing of the FSI and FAR norms in urban areas and asked officials to take up a time-bound review of these guidelines in 53 cities each with a population of one million and above.

In Delhi, the urban development ministry has recently approved the land pooling regulations, allowing apartment blocks to be built on 20,000 hectares of farmland on the outskirts of the city. Even if half of this area is developed, it would go a long way in meeting the city's housing need. This growth will be largely vertical – anything between 15 and 30 storeys in each apartment block.

With the state governments notifying the combined development and building rules, core parts of cities such as Chennai and Coimbatore are likely to witness greater vertical developments and become denser in future. It's clear that the future of urban development in India resides in scaling new heights. This will throw open significant opportunities for APL Apollo, which is the country's largest in making structural tubes – a key component of vertical realty development.

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OPPORTUNITY 2

infrastructure: the core catalyst for growth

The harder the core, the stronger the edifice. A robust infrastructure determines the strength of an economy to sustain its growth.

India has lined up a series of infrastructure development projects with an aim to attract ₹100 trillion (about US$1.39 trillion) investment by 2024-25, when it aspires to emerge as a US$5-trillion economy. A panel has been tasked to create an infrastructure pipeline for each of the intervening years.

The projected share of capital expenditure for 2020-2025 is pegged at 16% for energy, 19% for roads and highways, 16% for urban development and 13% for railways. Private investors will have a wider room to play in an economy, which was battered first by the slowdown and then by the Corona pandemic.

Out of a total expected capital expenditure of ₹111 lakh crore, projects worth ₹44 lakh crore (40% of NIP) are under implementation, those worth ₹33 lakh crore (30%) are at the conceptual stage and those worth ₹22 lakh crore (20%) are under development. Information regarding the stage of certain projects worth ₹11 lakh crore (10%) are unavailable at the moment. The highest investments are proposed for the energy sector (24%), followed by roads (18%), urban development (17%) and railways (12%).

Large & growing

The global steel pipes and tubes market size was valued at US$141.3 billion in 2018 and is estimated to average 9% annual growth rate from 2019 to 2025. The market is driven mainly by the demand from the oil and gas industry where the product is used in exploration, processing, and transmission applications.

OPPORTUNITY 3

airports:
paving the tarmac for a take-off

Fly high when the ground is ready and the sky is open. With an expanding number of upwardly mobile population aided with an increasing purchasing power, India is set to take off to newer highs.

Just three years back in 2015, only 75 of India's 450 runways were functional, as airlines avoided flying to smaller, World War-era airstrips in smaller towns. The central government's subsidy programme, which partly funds airlines' losses while capping fares on remote routes, has helped add as many as 38 airports to the nation's aviation map.

The government remains focused on strengthening its airport infrastructure as part of a plan to boost Asia's third-largest economy to a global superpower. The country plans to get 100 more airports on stream by 2024. The Airports Authority of India (AAI) has drawn up a plan to invest about ₹19,000 crore in upgrading the airport infrastructure, especially in smaller cities, over the next three years.

Steel drill

These factors should contribute to an accelerated demand for structural steel tubes which is considered as the backbone of new-age construction. APL Apollo being the leader in this segment in India, with a pan-India manufacturing base and an entrenched distribution network, should gain significantly.

OPPORTUNITY 4

warehousing: storehouse for growth boosters

Shore it up lest it drifts away from the shore. As India aims to be the manufacturing hub for the world, beating many others in the fray, it needs a storehouse to keep its gears ready.

As vital pillars of supply chain for any manufacturing sector and a significant driver of the economy, the logistics and warehousing sector in India has seen more than US$7.2 billion flying into the space over the past two years. The credit goes to the swarming of global online retail giants on the country and their widespread expansion across the value chain.

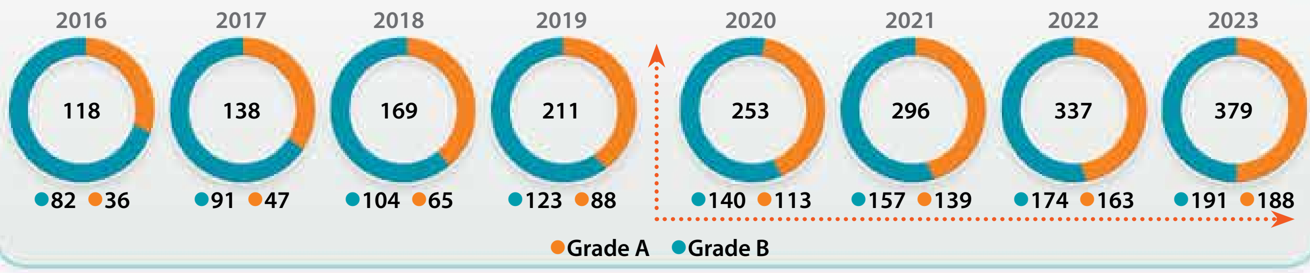
There has been a rapid increase in the number of large, organised players in the market, from barely three or four to at least eight or 10 over the last couple of years. These players are investing and building superior warehouses, raising them from Grade B to A and A-plus, in real estate parlance, aligning with the customer's demand upgrade.

As India evolves as the fifth-largest global economy, sophisticated logistics and warehousing systems would be a key trigger for the manufacturing sector and the entire gamut of trade activities. But India is failing to match the demand. A recent JLL report, Indian Logistics and Warehousing: Tracing the Lifecycle, said demand for the logistics and warehousing space outstrips the supply.

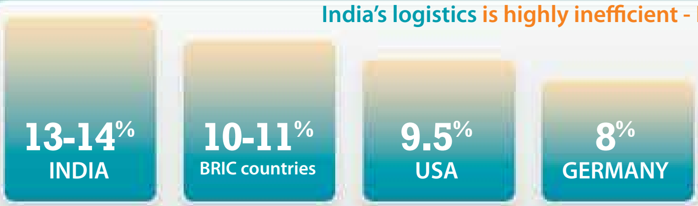
The consultancy projects that there will be 344 million sq. ft of warehousing space in India by 2022. This will be more than double the current capacity of 169 million sq. ft and triple that existed in 2015. Sectors such as 3PL/logistics, engineering, auto and ancillaries, e-commerce, FMCG, retail and telecom, and white goods have remained the biggest demand drivers.

The government has identified cold storage as a thrust area for development and recommended the creation of cold-chain infrastructure. Through the Pradhan Mantri Kisan Sampada Yojana (PMKSY), the government is also following a transparent selection process and online filing of claims for the infrastructure development projects of mega food parks and cold chains.

Indian Warehousing stock (in Mn Sqft) - Cumulative supply



India's logistics is highly inefficient - Logistics cost as % of GDP



Sophisticated warehouses will help India narrow down its logistics cost closer to that of developed nations.

SOURCE: MINISTRY OF ROAD TRANSPORT AND HIGHWAYS

about APL Apollo

APL Apollo Tubes Limited (APL Apollo) is one of India's leading branded steel products manufacturers. Headquartered at Delhi NCR, the Company runs 10 manufacturing facilities churning out over 1,500 varieties of MS Black Pipes, Galvanised Tubes, Pre-Galvanised Tubes, Structural ERW Steel Tubes and Hollow Sections to serve industry applications like urban infrastructures, housing, irrigation, solar plants, greenhouses and engineering.

What makes us different?

It is only branded domestic steel tubes manufacturer with a pan-India presence. The 2.5-million-tonne-per-annum (MTPA) capacity positions APL Apollo as one of the largest players in the world.

APL Apollo is the only company in this field with an expansive and entrenched market presence aided by a three-tier distribution network and a robust supply chain infrastructure comprising warehouses-cum-branch offices in over 20 cities.

It is a leader in adopting the latest technology from around the globe, leading to expanding addressable market size, improving productivity and enabling cost savings.

A large and growing product portfolio of the Company, consequent to continuous innovations, has significantly enhanced growth opportunities and value additions.

Growing size and continuous efforts to deploy cost-efficient strategies have positioned it as one of the lowest-cost producers in India.

Operational performance

Fiscal 2019-20 was another good year as it scaled new highs in operational performance. Despite the overall muted demand because of the economic deceleration and a marked slowdown in key user sectors and floods in key markets like Karnataka, Kerala and Maharashtra, sales volumes increased by 22% over the previous year. This was largely because of a combination of factors like better product mix, branding, presence in new locations, restocking at the dealer network and normalisation of the overall environment and market sentiment. The volume growth was primarily driven by Apollo Structurals and Apollo Z brands.

Product segment	2019-20	2018-19	Y-o-Y Growth (%)
Apollo Structurals (Hollow section & DFT pipes)	**870**	766	13.6
Apollo Z (Pre-galvanised tubes -GP)	**335**	283	18.4
Apollo Build (Galvanised tubes)	**99**	92	7.6
Apollo Standard (Black round pipes)	**216**	198	9.1
Apollo TriCoat	**113**	-	-

APL Apollo added a number of distributors in 2019-20, primarily in Tier-II and III towns. They delivered healthy business volumes. The channel financing initiative for the dealers launched in the previous year was well received and assisted them in growing the business volumes.

Strategic initiatives

During the year, APL Apollo implemented important business initiatives which promise to enhance its capability and improve organisational liquidity. These initiatives are aimed at sustaining the Company's growth momentum and retain its position in the market.

1) Commodity to consumer product: In line with its goal of moving up the value chain, the Company took definitive steps towards strengthening its recall as a consumer brand. The Company is working to make its products at address-specific customer requirements. These consumer products are environment-friendly and increase its acceptability. To create consumer awareness of this shift, the Company has partnered with Mr Amitabh Bachchan as its brand ambassador for the next two years. It started a small campaign through the globally watched IPL tournament. This was supplemented with a large nation-wide campaign through TVC, media and print. This will foster APL Apollo as a customer-oriented brand.

2) Inorganic growth: The Company concluded the acquisition of a production unit in Hyderabad from Taurus Value Steel & Pipes, a subsidiary of Shankara Building Products. It has a production capacity of around 200,000 tonnes per annum and includes manufacturing lines for GI pipes and GP pipes, which are APL Apollo's high-margin and value-added product segments. This unit promises to strengthen the Company's presence in the large and value-added South Indian markets. It commenced operations in the second quarter of 2019-20.

Shri Lakshmi Metal Udyog (SLMUL), a wholly owned subsidiary of APL Apollo Tubes, concluded the acquisition of shares of Apollo TriCoat in June 2019, by way of an open offer and market purchases (during the open offer). As on, as on March 31, 2020, SLMUL owns around 50.86% stake in Apollo TriCoat.

3) Expansion and addition: The Company has installed cold-rolling capacity at its Sikandrabad unit, an essential backward integration that will help sustain the supply of quality inputs and will optimise operational costs, which was completed in the year under review.

It also invested ₹60 crore in acquiring additional land parcels proximate to its recently commissioned Raipur manufacturing unit. This land would be utilised for greenfield expansions in future.

4) Promoter funding: During the year, an entity belonging to promoter category infused ₹172 crore through preferential allotment of equity and convertible warrants. These funds helped in business expansion and debt reduction.

(BASED ON CONSOLIDATED FINANCIAL STATEMENTS)

review of the financial performance

APL Apollo reported an improved performance in 2019-20 despite the prevailing gloom in the external ecosystem. This highlights the relevance of the Company's strategies in challenging the odds to deliver value to stakeholders.

Statement of Profit and Loss

Revenue from operations increased from ₹7,152 crore in 2018-19 to ₹7,723 crore in 2019-20 – an 8% increase on the face of reduced economic growth.

The Company delivered its highest ever sales volume during the year, which was backed by a strong demand recovery and increase in contribution from Hollow Section, DFT and GI pipes. The additional revenue consequent to business operations of its subsidiary Apollo TriCoat (acquired by APL Apollo in 2019-20) also helped scale volumes and revenue.

An increase in proportion of value-added products – also contributed by Apollo TriCoat – and improved operational efficiency assisted the Company to report a 23% growth in EBITDA – from ₹405 crore in 2018-19 to ₹500 crore in 2019-20. In tandem, EBITDA margin improved by 80 bps over the previous year.

The Company's interest cost moderated marginally to ₹107 crore in 2019-20 from ₹113 crore in 2018-19 despite an increase in the overall borrowings. Net Profit for the year stood at ₹238 crore as against ₹148 crore in the previous year – a jump of 61%. In addition to an improved performance, the increase in Net Profit was owing to a reduction in the Corporate Tax Rate announced by the government during the fiscal.

Earnings per share moved up from ₹62 in 2018-19 to ₹97 in 2019-20.

Balance Sheet

The Capital Employed in the business increased from ₹1,774 crore as on March 31, 2019 to ₹2,144 crore as on March 31, 2020. Judicious use of the funds employed is reflected in an improved Return on Capital Employed. It stood at 20.6% in 2019-20 as against 20.1% in 2018-19.

Shareholders' Funds increased from ₹964 crore as on March 31, 2019 to ₹1,356 crore as on March 31, 2020. The increase was on account of the acquisition and ploughing of operation surplus back into the business.

Net Debt improved to ₹788 crore on March 31, 2020 against ₹810 crore as on March 31, 2019, and the debt-equity ratio stood at 0.6x as against 0.9x during the period.

Fixed asset balance scaled to ₹1,484 crore as on March 31, 2020 as against ₹1,038 crore as on March 31, 2019. The sizeable jump was owing to the commissioning of new facilities and the addition of fixed assets from subsidiaries.

The Company continued stringent monitoring of its working capital. Hence, despite an increase in sales volumes, inventories remained at the previous year's level of ₹784 crore, trade receivables declined from ₹543 crore as on March 31, 2019 to ₹476 crore as on March 31, 2020. As a result, the working capital cycle improved from 28 days as on March 31, 2019 to 20 days as on March 31, 2020.

Going forward, the Company expects return ratios and cash flow to improve on the back of a pickup in utilisation of the existing capacities, lower capex requirements for FY21 and FY22 and expansion of profit margins.

human resources

For APL Apollo, progress with people is at the heart of its corporate ethos. Over the years, the Company has nurtured a meritocratic, empowering and caring culture that fosters excellence. APL Apollo nurtures talent by providing its people with opportunities to sharpen their capabilities, encouraging innovation, boosting lateral thinking, and prepares them for future leadership roles. The Company's management embarked upon multiple operational excellence initiatives that catapulted it to a completely new league of competitiveness.

IT-enabled HR

With a view to ensure smoother and reliable services, all systems, including the HR master database, leave filing and time management as well as payroll have been made IT-controlled. It is accessible to every employee with self-service features and automates routine HR and employee processes.

Safety

APL Apollo is committed to ensuring safety to its entire workforce and the communities in which it operates. This is integral to the Company's business process and is laid down in its safety policies, standards and working procedures. Health-and-safety is a key performance indicator and one of the prime drivers of the Company's corporate vision.

Training and development

APL Apollo stresses on continuous learning and employee trainings at all levels for building technical and behavioural competence, self-development and leadership development. For this, the Company has institutionalised a training calendar which provides knowledge enhancement opportunities – imparted by in-house faculty and external subject experts.

Industrial relations

The Company continues to maintain its record of good industrial relations without any interruption in work.

information technology

We are continuously putting in efforts to enhance our productivity through innovations and adoption of new technologies in our work areas. In FY20, we upgraded our automation process by implementing RPA (Robotics Process Automation) and SAP Ariba process in to our system.

internal control and it's adequacy

At APL Apollo, the internal control mechanism is designed to protect its assets as well as authorise, record and correctly report all transactions on time. It conforms to the local statutory requirements and meets the highest global standards and practices to remain competitive in an evolving business dynamics.

The internal control framework monitors and assesses all aspects of risks associated with current activities and corporate profile, including scientific and development risks, partner interest risks, commercial and financial risks.

While ensuring flawless competition of accounting and financial processes, the internal control mechanism reviews both the manual and automated processes for transaction approval.

The Audit Committee carries out periodic reviews of the internal audit plan, verifies the adequacy of the control system, marks its audit observations, and monitors the sustainability of the remedial measures.

risk management

Risk management is integral to any business. APL Apollo has devised its risk management mechanism to predict, pre-empt and prevent financial or commercial risks, errors and frauds. It also simultaneously ensures that the Company's business model remains stronger and sustains profitable growth.

The framework involves an integrated risk appraisal system and mitigation strategy with all key managers being part of the mechanism. The control measures are placed before the Company's board for periodic review and improvement.