

APL Apollo Tubes

BUY
Margins bottomed out; Volume guidance intact

Summary

APL Apollo Tubes (APL) reported better than expected profitability for Q2FY20. Although EBITDA/tonne fell to Rs1,977 (-30.3% YoY, -38.5% QoQ), it was better than our forecast of Rs1,800. EBITDA fell 42.4% QoQ to Rs720 mn due to inventory loss as steel prices fell sharply (Rs5,000/tonne) during the quarter. There was a tax reversal of Rs341 mn vs. our estimate of Rs3 mn. Hence, net profit at Rs598 mn was significantly above our forecast. Cash flow from operations improved to Rs3 bn in H1FY20 compared to Rs(0.9) bn in H1FY19 mainly due to favorable working capital changes.

We have made minor changes to our FY20 estimates. We continue to value the stock at a PE of 15x on our FY21E EPS to derive a target price of R1,920.

Key Highlights and Investment Rationale

- Margin better than expected:** APL's EBITDA/tonne fell to Rs1,977 (-30.3% YoY, -38.5% QoQ) due to Rs480 mn inventory loss as steel prices fell sharply (Rs5,000/tonne). Sales volumes were higher by 19.7% YoY to 364 kt.
- EBTIDA target at Rs3,500/tonne by Q4:** APL expects sharp recovery in EBTIDA/tonne during H2FY20 with target to reach Rs3,500/tonne by Q4FY20. APL maintained its volume guidance at 20% for FY20. The company aims to spend Rs400-500 mn towards branding in FY20 (H1FY20 spent Rs170 mn). The company aims to repay debt of Rs1 bn in H2FY20.
- Management changes:** Mr. Sanjay Gupta has been appointed as Managing Director of APL. He replaces Mr. Ashok Gupta who has stepped down and will now be a Vice Chairman (Non-Executive).
- Margins bottomed out; recovery ahead:** We believe the worst phase of profitability is nearly complete for APL as steel prices have bottomed out (fell Rs10,000/tonne in last one year) in our view. Steel prices have risen Rs500-1,000 since October. Hence, we believe meaningful inventory losses for APL are unlikely in coming 4-6 quarters. We anticipate volumes to grow at CAGR of 20% over FY10-20E to 1.9 mn tonnes. APL's stock is trading at an attractive valuation of 11.2x FY21E P/E given that we forecast its EPS to grow at CAGR of 43% over FY19-21E and ROE to improve to 22.7% in FY21 (16.5% in FY19).

TP	Rs1,920
CMP	Rs1,436
Potential upside / downside	+34%
Previous Rating	BUY

V/s Consensus		
EPS (Rs)	FY20E	FY21E
IDBI Capital	89.1	128.0
Consensus	89.8	124.8
% difference	(0.7)	2.6

Shareholding Pattern (%)

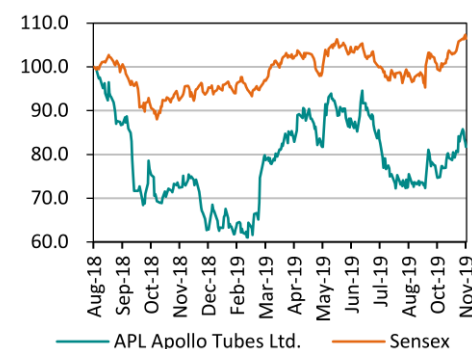
Promoters	37.2
FII	0.0
DII	11.6
Public	51.2

Price Performance (%)

	-1m	-3m	-12m
Absolute	5.7	8.3	13.2
Rel to Sensex	(0.7)	1.0	(1.4)

Key Stock Data	
Bloomberg / Reuters	APAT IN /APLA.BO
Sector	Iron & Steel Products
Shares o/s (mn)	24
Market cap. (Rs mn)	35,544
Market cap. (US\$ mn)	513
3-m daily average value (Rs mn)	28.4
52-week high / low	Rs1,683 / 1,009
Nifty / Sensex	40,324 / 11,908

Relative to Sensex (%)



Financial snapshot

Year	FY17	FY18	FY19	FY20E	FY21E
Revenue	38,051	51,561	68,946	75,052	91,652
EBITDA	3,330	3,710	3,928	4,769	6,083
EBITDA (%)	8.8	7.2	5.7	6.4	6.6
Adj. PAT	1,521	1,581	1,482	2,162	3,104
EPS (Rs)	64.5	66.6	62.2	89.1	128.0
EPS Growth (%)	20.1	3.3	(6.7)	43.4	43.6
PE (x)	22.3	21.6	23.1	16.1	11.2
Dividend Yield (%)	1.0	1.2	1.2	1.7	2.0
EV/EBITDA (x)	11.9	11.0	10.4	8.5	6.4
RoE (%)	23.9	20.5	16.5	19.7	22.7
RoCE (%)	21.6	21.2	18.9	19.9	23.5

Source: Company; IDBI Capital Research

Exhibit 1: Quarterly Snapshot

(Rs mn)

Financial snapshot	Q2FY20	Q1FY20	QoQ (%)	Q2FY19	YoY (%)
Net sales	15,838	19,936	(20.6)	16,317	(2.9)
EBITDA	720	1,250	(42.4)	862	(16.5)
<i>EBITDA /tonne</i>	<i>1,977</i>	<i>3,217</i>	<i>(38.5)</i>	<i>2,836</i>	<i>(30.3)</i>
Other income	46	46	1.5	19	144.4
Interest	269	283	(4.9)	310	(13.2)
Depreciation	240	202	18.3	162	48.3
PBT	258	810	(68.2)	410	(37.1)
Tax	(341)	289	-	143	-
PAT	598	521	14.8	267	124.3
Diluted EPS (Rs)	24.7	21	14.8	11	119.4

Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. Estimates

(Rs mn)

	Q2FY20E	Q2FY20A	Variance (%)
Net sales	18,548	15,838	(14.6)
EBTIDA	687	720	4.8
<i>EBITDA /tonne</i>	<i>1,800</i>	<i>1,977</i>	<i>9.8</i>
PAT	254	598	135.6
Adj. diluted EPS (Rs)	10.7	24.7	130.6

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account		(Rs mn)			
Year-end: March	FY18	FY19	FY20E	FY21E	
Net sales	51,561	68,946	75,052	91,652	
<i>Growth (%)</i>	35.5	33.7	8.9	22.1	
Operating expenses	(49,637)	(67,595)	(72,910)	(88,776)	
EBITDA	3,710	3,928	4,769	6,083	
<i>Growth (%)</i>	11.4	5.9	21.4	27.6	
Depreciation	(534)	(643)	(828)	(925)	
EBIT	3,176	3,286	3,941	5,158	
Interest paid	(813)	(1,134)	(1,123)	(1,031)	
Other income	80	117	123	124	
Pre-tax profit	2,443	2,269	2,941	4,251	
Tax	(862)	(787)	(740)	(1,070)	
<i>Effective tax rate (%)</i>	35.3	34.7	25.2	25.2	
Minority interest	-	-	(39)	(77)	
Net profit	1,581	1,482	2,162	3,104	
Adjusted net profit	1,581	1,482	2,162	3,104	
<i>Growth (%)</i>	4.0	(6.2)	45.8	43.6	
<i>Shares o/s (mn)</i>	23.7	23.9	24.3	24.3	

Cash Flow Statement		(Rs mn)			
Year-end: March	FY18	FY19	FY20E	FY21E	
Pre-tax profit	2,443	2,269	2,941	4,251	
Depreciation	533	643	828	925	
Tax paid	(681)	(581)	(680)	(1,057)	
Chg in working capital	(2,046)	865	(612)	(1,470)	
Other operating activities	593	(793)	(362)	(374)	
Cash flow from operations (a)	842	2,403	2,115	2,274	
Capital expenditure	(1,943)	(2,045)	(2,000)	(1,000)	
Chg in investments	7	(374)	-	-	
Other investing activities	-	-	-	-	
Cash flow from investing (b)	(1,935)	(2,419)	(2,000)	(1,000)	
Equity raised/(repaid)	101	58	974	-	
Debt raised/(repaid)	1,045	368	(100)	(1,000)	
Dividend (incl. tax)	(400)	(402)	(584)	(700)	
Chg in minorities	-	-	(39)	(77)	
Other financing activities	-	-	-	-	
Cash flow from financing (c)	746	24	251	(1,778)	
Net chg in cash (a+b+c)	(348)	8	366	(503)	

Balance Sheet (Rs mn)

Year-end: March	FY18	FY19	FY20E	FY21E
Net fixed assets	9,209	10,611	11,783	11,858
Investments	120	494	494	494
Other non-curr assets	1,099	1,739	1,739	1,739
Current assets	11,384	14,895	16,881	20,202
Inventories	5,915	7,835	8,451	10,290
Sundry Debtors	4,321	5,433	5,914	7,222
Cash and Bank	68	478	1,467	1,741
Loans and advances	12	18	18	18
Total assets	21,812	27,739	30,897	34,294
Shareholders' funds	8,378	9,641	12,344	15,046
Share capital	237	239	243	243
Reserves & surplus	8,141	9,403	12,102	14,804
Total Debt	6,734	7,101	7,001	6,001
Secured loans	782	1,745	1,645	645
Unsecured loans	5,952	5,356	5,356	5,356
Other liabilities	1,290	1,684	1,753	1,771
Curr Liab & prov	5,410	9,313	9,798	11,475
Current liabilities	5,165	9,128	9,609	11,282
Provisions	245	186	190	193
Total liabilities	13,433	18,098	18,553	19,247
Total equity & liabilities	21,812	27,739	30,897	34,294
Book Value (Rs)	353	404	509	620

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY18	FY19	FY20E	FY21E
Adj. EPS (Rs)	66.6	62.2	89.1	128.0
Adj. EPS growth (%)	3.3	(6.7)	43.4	43.6
EBITDA margin (%)	7.2	5.7	6.4	6.6
Pre-tax margin (%)	4.7	3.3	3.9	4.6
ROE (%)	20.5	16.5	19.7	22.7
ROCE (%)	21.2	18.9	19.9	23.5
Turnover & Leverage ratios (x)				
Asset turnover (x)	2.6	2.8	2.6	2.8
Leverage factor (x)	2.6	2.7	2.7	2.4
Net margin (%)	3.1	2.2	2.9	3.4
Net Debt/Equity (x)	0.8	0.7	0.4	0.3
Working Capital & Liquidity ratio				
Inventory days	42	41	41	41
Receivable days	31	29	29	29
Payable days	28	38	38	38

Valuation

Year-end: March	FY18	FY19	FY20E	FY21E
P/E (x)	21.6	23.1	16.1	11.2
Price / Book value (x)	4.1	3.6	2.8	2.3
PCE (x)	16.1	16.1	11.6	8.6
EV / Net sales (x)	0.8	0.6	0.5	0.4
EV / EBITDA (x)	11.0	10.4	8.5	6.4
Dividend Yield (%)	1.2	1.2	1.7	2.0



Notes

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Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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