

APL Apollo Tubes

BUY

In-line performance with healthy volume growth

Summary

APL Apollo Tubes's Q1FY25 performance was in line with our expectations. Revenue grew 9.4% YoY to Rs49.7 bn, driven by volume growth of 9.1% YoY. Gross margin improved 40bps YoY to 14.2%, thanks to a better product mix. However, EBITDA/t declined by 10% YoY to Rs4,184 due to ESOP expenses and higher A&P cost. APL expects margins to remain under pressure in Q2FY25 due to declining steel prices, which is delaying inventory restocking by channel partners. However, APL expects margin to improve in H2FY25 driven by a better product mix, a narrowing pricing gap between scrap steel products and BF steel products, and operating leverage from higher utilization of new plants. We cut our FY26 EPS forecast by 12% and value the stock at a PER of 36x FY26 to derive a target price of Rs1,693 (earlier Rs1,814). We maintain BUY rating on the stock.

Key Highlights and Investment Rationale

- Healthy volume growth:** APL's sales volumes grew 9.0% YoY and 6.0% QoQ to highest ever quarterly sales volume in Q1FY25, despite a muted demand environment, delays in restocking by channel partners and headwinds from general elections. APL aims to achieve sale volumes of 3.2mn tons in FY25 and 5mn tons by FY27, driven by infrastructure spending, the ramp up of new facilities and capturing market share from scrap steel pipe producers due to narrowing pricing gap with falling steel prices.
- Project updates:** The capacity utilization of new Raipur plant reached 61%, while Dubai plant utilization stood at 30%, as two mills were operationalized in Q2. Capacity utilization is expected to reach 70-75% at new Raipur plant, and the Dubai plant is projected to reach around 50% in FY25 with all 4 mills operational. APL aims to establish a new plant in Ahmedabad along with previously announced plants at Siliguri and Gorakhpur within next 12-15 months to reach 5mn ton capacity by FY25 with a capex of Rs5.6bn.

TP	Rs1,693
CMP	Rs1,433
Potential upside/downside	18%
Previous Rating	BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	(6.9)	(6.6)	(7.6)
Rel to Sensex	(5.9)	(16.2)	(29.5)

V/s Consensus

EPS (Rs)	FY25E	FY26E
IDBI Capital	32	47
Consensus	36	51
% difference	(11.8)	(7.3)

Key Stock Data

Bloomberg / Reuters	APAT IN /APLA.BO
Sector	Iron & Steel Products
Shares o/s (mn)	278
Market cap. (Rs mn)	397,818
3-m daily average value (Rs mn)	20.5
52-week high / low	Rs1,806 / 1,306
Sensex / Nifty	79,649 / 24,347

Shareholding Pattern (%)

Promoters	28.3
FII	31.5
DII	12.9
Public	27.3

Financial snapshot

Year	FY22	FY23	FY24	FY25E	FY26E
Revenue	1,30,633	1,61,660	1,81,188	2,15,271	2,68,604
Change (yoy, %)	54	24	12	19	25
EBITDA	9,453	10,216	11,922	13,955	19,339
Change (yoy, %)	39	8	17	17	39
EBITDA Margin (%)	7.2	6.3	6.6	6.5	7.2
Adj.PAT	6,190	6,419	7,324	8,943	13,049
EPS (Rs)	25	23	26	32	47
Change (yoy, %)	71.9	(6.7)	14	22	46
PE(x)	57.8	62.0	54	44	30
Dividend Yield (%)	-	0.2	0	0	0
EV/EBITDA (x)	38.1	39.4	34.0	28.3	20.2
RoE (%)	31.3	24.4	22	22	24
RoCE (%)	29.3	24	22	23	27

Source: IDBI Capital Research

Ajit Sahu

ajit.sahu@idbicapital.com
+91-22-4069 1849

Exhibit 1: Quarterly Snapshot

(Rs mn)	Q1FY25	Q4FY24	QoQ (%)	Q1FY24	YoY (%)
Net sales	49,743	47,657	4.4	45,449	9.4
EBITDA	3,016	2,804	7.6	3,072	(1.8)
EBITDA /tonne	4,184	4,129	1.3	4,648	(10.0)
Other income	247	186	33.1	217	14.0
Interest	278	311	(10.6)	271	2.6
Depreciation	465	466	(0.2)	409	13.6
PBT	2,520	2,212	13.9	2,608	(3.4)
Tax	589	508	15.9	672	(12.5)
Reported PAT	1,932	1,704	13.3	1,936	(0.2)
Adjusted PAT	1,932	1,704	13.3	1,936	(0.2)
Adjusted EPS (Rs)	7.0	6.1	13.3	7.0	(0.2)

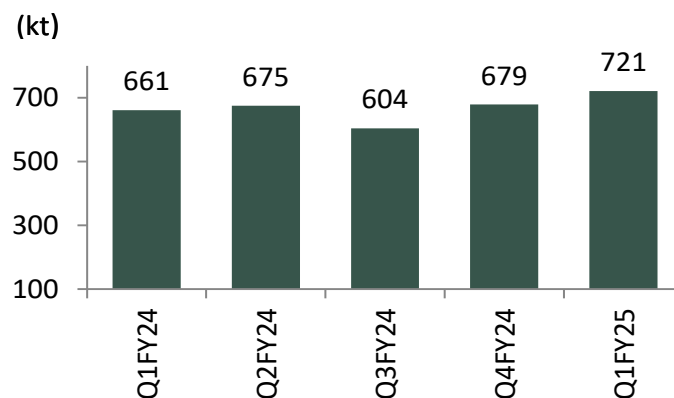
Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. Estimates

(Rs mn)	Q1FY25E	Q1FY25A	Variance (%)
Total Revenues	50,180	49,743	(0.9)
EBITDA	3,101	3,016	(2.7)
EBITDA/tonne	4,300	4,184	(2.7)
Adjusted net profit	1,914	1,932	0.9
Adjusted EPS	6.9	7.0	0.9

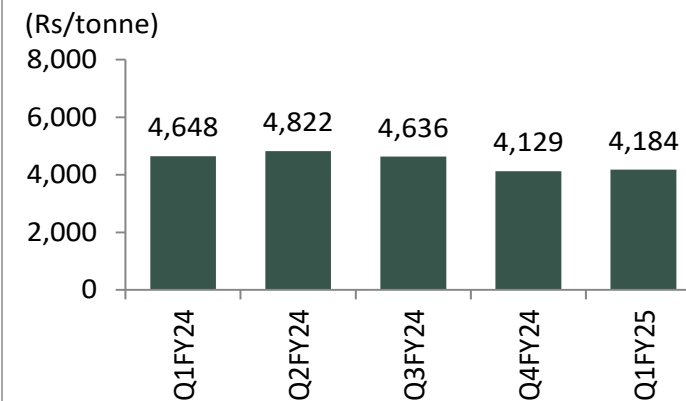
Source: Company; IDBI Capital Research

Exhibit 3: Sales volumes increased by 9% YoY



Source: Company; IDBI Capital Research

Exhibit 4: EBIDTA/tonne decreased by 10% YoY



Source: Company; IDBI Capital Research

Exhibit 5: Change in estimates (Rs bn)

	FY25E			FY26E		
	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs bn)	2,23,768	2,15,271	(3.8)	2,78,171	2,68,604	(3.4)
EBITDA (Rs bn)	15,887	13,955	(12.2)	20,863	19,339	(7.3)
EBITDA margin (%)	7.1	6.5	-62bps	7.5	7.2	-30bps
Adj. Net profit (Rs bn)	10,153	8,943	(11.9)	13,984	13,049	(6.7)
Adj. EPS (Rs)	26.4	26.4	(0.0)	36.6	32.2	(12.0)

Source: Company; IDBI Capital Research

Con-call highlights

- APL Apollo received favorable impact due to lower steel prices as it decreased the RM costs and gave more bargaining power in terms of purchase with the mills
- EBITDA/tonne was low due to ESOP expense and higher than usual Advertisement expenditure
- The Gross Margins expansion was driven by New products improving product mix
- Management expects steel prices to fall further by Rs. 3,000 – 4,000/tonne
- Raipur plant – 4 product capacity with 1.1mn tonne capacity. Two are highly innovative product and 2 are VAPs. Overall utilisation at 61%
- Utilisation level breakdown– Heavy structural – 58%, Roofing Sheets – 89%, Super light structural – 52%, Coated thick sheets – 48%.
- Dubai plant – 4 production lines, 2 commissioned last year and 2 in last 3 weeks. Total capacity is 300,000 tonne with utilisation of 30%
- The performance of Q2 is expected to be better than Q1 and H2 better than H1. 5mn tonne capacity to be reached in next 4 quarters
- Long term EBITDA/tonne guidance of Rs. 5,000 with 4 lakh plus volumes
- Due to falling steel prices and inventory write down can be expected in Q2.
- Driving levers for Margin expansion – Better product mix, Operating leverage and higher utilisation, better pricing, better negotiating power, lower brand spends
- New plant with expected capacity of 200,000 tonne each with a capex outlay of Rs.200-250cr
- Silguri to cater east India market, New Gorakhpur Plant to cater eastern UP, Bihar and Odisha belt.
- New Ahmedabad plant to cater the Gujrat demand
- Volume guidance of 3.2mn tonne, Capex guidance of Rs. 5,600cr, EBITDA to be at par of last year.
- Export guidance for domestic operations – 100,000 tonne and Dubai operations – 300,000 tonne

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Net sales	84,998	1,30,633	1,61,660	1,81,188	2,15,271	2,68,604
<i>Change (yoy, %)</i>	10	54	24	12	19	25
Operating expenses	(78,210)	(1,21,181)	(1,51,444)	(1,69,266)	(2,01,317)	(2,49,264)
EBITDA	6,787	9,453	10,216	11,922	13,955	19,339
<i>Change (yoy, %)</i>	42	39	8	17	17	39
<i>Margin (%)</i>	8.0	7.2	6.3	6.6	6.5	7.2
Depreciation	(1,028)	(1,090)	(1,383)	(1,759)	(1,888)	(2,084)
EBIT	5,759	8,363	8,832	10,162	12,067	17,256
Interest paid	(661)	(445)	(671)	(1,134)	(952)	(714)
Other income	359	405	472	749	779	857
Pre-tax profit	5,458	8,323	8,633	9,777	11,893	17,398
Tax	(1,381)	(2,133)	(2,215)	(2,453)	(2,951)	(4,350)
<i>Effective tax rate (%)</i>	25.3	25.6	25.7	25.1	24.8	25.0
Minority Interest	(475)	-	-	-	-	-
Net profit	3,602	6,190	6,419	7,324	8,943	13,049
Exceptional items	-	-	-	-	-	-
Adjusted net profit	3,602	6,190	6,419	7,324	8,943	13,049
<i>Change (yoy, %)</i>	51	72	4	14	22	46
EPS	14.4	24.8	23.1	26.4	32.2	47.0
Dividend per sh	-	-	3.5	5.0	6.0	7.0
<i>Dividend Payout %</i>	-	-	15	19	19	15

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Shareholders' funds	16,947	22,639	30,056	36,046	43,601	54,985
Share capital	250	500	555	555	555	555
Reserves & surplus	16,697	22,139	29,501	35,491	43,046	54,430
Total Debt	4,416	5,812	8,730	11,437	9,437	6,437
Other liabilities	1,877	1,950	2,359	2,551	11,988	8,988
Curr Liab & prov	9,367	12,122	17,372	21,834	25,865	28,247
Current liabilities	9,190	11,938	17,139	21,555	25,586	27,968
Provisions	177	184	233	279	279	279
Total liabilities	15,660	19,884	28,460	35,822	37,574	36,956
Total equity & liabilities	33,990	44,523	58,516	71,868	81,175	91,941
Net fixed assets	17,484	22,464	28,620	33,736	34,348	34,264
Investments	15	866	963	1,030	1,030	1,030
Other non-curr assets	2,499	2,923	3,356	3,689	3,689	3,689
Current assets	13,991	18,270	25,578	33,414	42,109	52,959
Inventories	7,599	8,472	14,799	16,379	16,547	23,902
Sundry Debtors	1,306	3,467	1,374	1,391	1,769	2,944
Cash and Bank	3,579	3,764	3,525	3,476	11,625	13,945
Other current assets	1,507	2,567	5,880	12,168	12,168	12,168
Total assets	33,990	44,523	58,516	71,868	81,175	91,941

Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Pre-tax profit	5,458	8,323	8,633	9,777	11,893	17,398
Depreciation	1,028	1,090	1,383	1,759	1,888	2,084
Tax paid	(1,195)	(1,993)	(2,161)	(2,180)	(2,951)	(4,350)
Chg in working capital	4,121	(1,154)	(1,475)	1,202	3,206	(6,147)
Other operating activities	360	251	520	557	173	(143)
Cash flow from operations (a)	9,771	6,517	6,901	11,116	14,211	8,842
Capital expenditure	(2,798)	(5,869)	(8,424)	(6,618)	(2,500)	(2,000)
Chg in investments	(3,406)	420	(393)	(2,876)	-	-
Other investing activities	(265)	147	59	338	779	857
Cash flow from investing (b)	(6,468)	(5,301)	(8,757)	(9,156)	(1,721)	(1,143)
Equity raised/(repaid)	154	70	27	-	-	-
Debt raised/(repaid)	(3,111)	603	2,902	2,586	(2,000)	(3,000)
Dividend (incl. tax)	-	-	(875)	(1,387)	(1,388)	(1,665)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(628)	(413)	(608)	(933)	(952)	(714)
Cash flow from financing (c)	(3,586)	260	1,446	266	(4,340)	(5,380)
Net chg in cash (a+b+c)	(283)	1,476	(410)	2,225	8,149	2,320

Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Book Value (Rs)	68	91	108	130	157	198
Adj EPS (Rs)	14.4	24.8	23.1	26.4	32.2	47.0
Adj EPS growth (%)	51	72	-7	14	22	46
EBITDA margin (%)	8.0	7.2	6.3	6.6	6.5	7.2
Pre-tax margin (%)	6.4	6.4	5.3	5.4	5.5	6.5
Net Debt/Equity (x)	0.0	0.1	0.2	0.2	-0.1	-0.1
ROCE (%)	24	29	24	22	23	27
ROE (%)	24	31	24	22	22	24

DuPont Analysis

Asset turnover (x)	2.6	3.3	3.1	2.8	2.8	2.9
Leverage factor (x)	2.2	2.0	2.0	2.0	1.9	1.7
Net margin (%)	4.2	4.7	4.0	4.0	4.2	4.9

Working Capital & Liquidity ratio

Inventory days	33	24	33	33	28	32
Receivable days	6	10	3	3	3	4
Payable days	37	32	38	43	43	38

Valuations

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
PER (x)	99.4	57.8	62.0	54.3	44.5	30.5
Price/Book value (x)	21.1	15.8	13.2	11.0	9.1	7.2
EV/Net sales (x)	4.2	2.8	2.5	2.2	1.8	1.5
EV/EBITDA (x)	52.9	38.1	39.4	34.0	28.3	20.2
Dividend Yield (%)	0.0	0.0	0.2	0.3	0.4	0.5

Source: Company; IDBI Capital Research



Notes

Dealing (91-22) 6836 1111 dealing@idbicapital.com

Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

IDBI Capital Markets & Securities Ltd.

Equity Research Desk

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 4069 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

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Compliance Officer: Pushkar Vartak; Email: compliance@idbicapital.com; Telephone: (91-22) 4069 1907

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