

# APL Apollo Tubes

## BUY

Volume growth ahead, Maintain BUY

### Summary

APL Apollo Tubes Q4FY22 EBITDA was slightly weaker than our forecast. EBITDA increased 35% YoY to Rs2,661 although EBITDA/t fell by 4% QoQ to Rs4,823 despite strong growth in volumes (+27% YoY, +37% QoQ to 552k tonnes). Nevertheless, EBITDA/t over Rs5,000 is likely to be sustainable over the coming one year in our view; APL targets over 20% CAGR volume growth over FY22-25 backed by 1.5 mn tonne capacity expansion at Raipur and it aims to be net debt free after by the end of FY23. We broadly maintain our FY23-FY24 forecasts. We continue to value the stock at a PER of 28x FY24 EPS and derive a target price of Rs1,129. We maintain our BUY rating on the stock.

### Key Highlights and Investment Rationale

- Muted margins but volumes strong:** APL's sales volumes grew by 27% YoY to 552kt mainly on higher demand for heavy structural steel tubes and Apollo Z product segment. However, its EBITDA was lower by 2% QoQ to Rs4,823/tonne although it remained well above its historical levels (last five years average has been Rs3,400/tonne). Overall, its operating cash flow remained strong in FY22 at Rs6.5 bn (Rs9.5 bn in FY21).
- Capex update:** APL expects Raipur plant to contribute 0.3-0.4 mn tonnes of volumes in FY23. The company has already incurred Rs5 bn on its construction (total spent likely at Rs8 bn). Further, APL has announced additional capex of Rs3 bn towards adding new lines, setting up plants in Dubai and Kolkata and for value additions.
- Management targets 4 mn tonnes of volumes by FY25:** Management targets volumes of 4 mn tonnes by FY25 (current run-rate of ~2 mn tonnes) with focus on value added products for the rest of 2 mn tonnes. We expect APL's EBITDA/net profit to grow at a CAGR of 27%/34% over FY22-24E.

<b>TP</b>	<b>Rs1,129</b>
<b>CMP</b>	<b>Rs871</b>
Potential upside/downside	+30%
Previous Rating	BUY

### Price Performance (%)

	-1m	-3m	-12m
Absolute	(17.9)	(3.0)	41.5
Rel to Sensex	(8.4)	6.2	33.0

### V/s Consensus

EPS (Rs)	FY23E	FY24E
IDBI Capital	31.2	40.3
Consensus	28.2	36.8
% difference	10.6	9.6

### Key Stock Data

Bloomberg / Reuters	APAT IN /APLA.BO
Sector	Iron & Steel Products
Shares o/s (mn)	250
Market cap. (Rs mn)	217,969
3-m daily average value (Rs mn)	67.9
52-week high / low	Rs1,114 / 589
Sensex / Nifty	52,794 / 15,782

### Shareholding Pattern (%)

Promoters	34.5
FII	23.3
DII	10.2
Public	32.0

### Financial snapshot

Year	FY20	FY21	FY22	FY23E	FY24E
Revenue	74,265	82,149	126,252	152,824	180,502
Change (yoy, %)	8	11	54	21	18
EBITDA	4,773	6,787	9,453	12,145	15,277
Change (yoy, %)	6	42	39	28	26
EBITDA Margin(%)	6.4	8.3	7.5	7.9	8.5
Adj.PAT	2,380	3,602	5,573	7,805	10,075
EPS (Rs)	9.6	14.4	22.3	31.2	40.3
Change (yoy, %)	54	51	55	40	29
PE(x)	84.5	56.1	36.2	25.9	20.0
Dividend Yield (%)	0.2	-	0.4	0.6	0.8
EV/EBITDA (x)	43.6	29.9	21.6	16.8	12.8
RoE (%)	20.5	23.6	28.2	34.8	37.6
RoCE (%)	18.2	23.9	29.3	35.5	42.6

Source: IDBI Capital Research

**Exhibit 1: Quarterly Snapshot**

(Rs mn)	Q4FY22	Q3FY22	QoQ (%)	Q4FY21	YoY (%)
<b>Net sales</b>	<b>40,804</b>	<b>31,239</b>	<b>30.6</b>	<b>25,051</b>	<b>62.9</b>
EBITDA	2,661	2,023	31.6	2,065	28.9
<b>EBITDA /tonne</b>	<b>4,823</b>	<b>5,023</b>	<b>(4.0)</b>	<b>4,742</b>	<b>1.7</b>
Other income	110	79	39.2	126	(12.9)
Interest	101	109	(7.3)	144	(29.7)
Depreciation	279	272	2.5	275	1.4
<b>PBT</b>	<b>2,391</b>	<b>1,721</b>	<b>39.0</b>	<b>1,772</b>	<b>34.9</b>
Tax	625	442	41.5	428	46.0
<b>Reported PAT</b>	<b>1,766</b>	<b>1,279</b>	<b>38.1</b>	<b>1,344</b>	<b>31.4</b>
<b>Adjusted PAT</b>	<b>1,630</b>	<b>1,156</b>	<b>41.0</b>	<b>1,192</b>	<b>36.7</b>
<b>Adjusted EPS (Rs)</b>	<b>6.5</b>	<b>4.6</b>	<b>41.0</b>	<b>4.8</b>	<b>36.7</b>

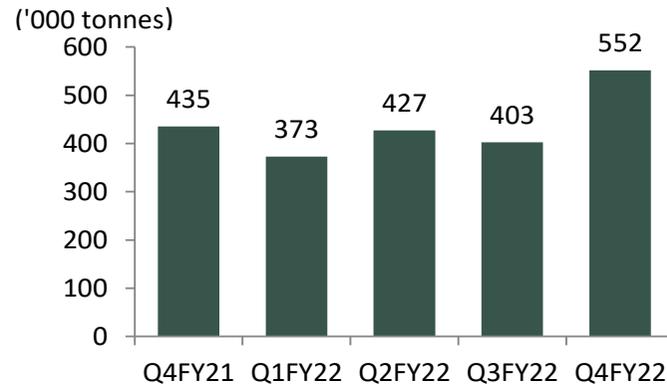
Source: Company; IDBI Capital Research

**Exhibit 2: Actual vs. Estimates**

(Rs mn)	Q4FY22E	Q4FY22A	Variance (%)
Total Revenues	38,437	40,804	6.2
EBITDA	2,952	2,661	(9.8)
EBITDA/tonne	5,350	4,823	(9.8)
Adjusted net profit	1,863	1,630	(12.5)
Adjusted EPS	7.5	6.5	(12.5)

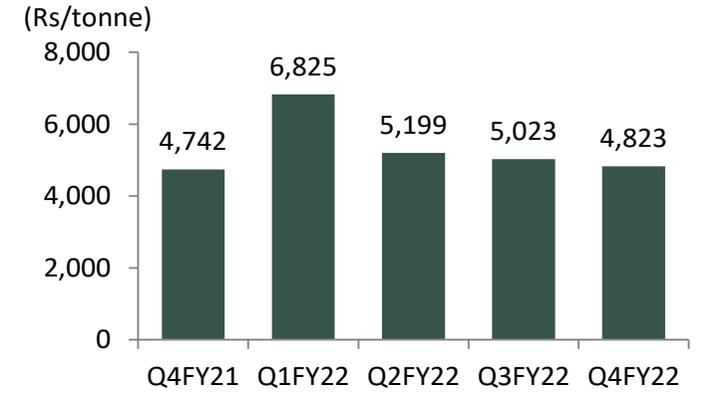
Source: Company; IDBI Capital Research

**Exhibit 3: Sales volumes grew by 37% QoQ**



Source: Company; IDBI Capital Research

**Exhibit 4: EBIDTA/tonne fell by 4% QoQ**



Source: Company; IDBI Capital Research

### Con-call Highlight

- In Q4FY22, company witnessed an uptick in sales volume by 37% QoQ to 552 kt on account of strong demand across infrastructure space and healthy order book from its customers.
- In FY22, APL's ROCE improved from 26% to 34% led by lower working capital, higher asset turnover and strong demand for value added products.
- The company's Raipur capacity expansion of 1.5 mn tonne with a total capex of Rs8 bn across 400 acre is on track. Although company started some initial dispatches by end of quarter. Its partial operation will commence in 1HFY23 However, full capacity utilization will take at least 2 years.
- During the quarter, company acquired 10% stake in Shankara building products. With this acquisition APL Apollo will leverage its products through Shankara's distribution network.
- In FY22, net working capital cycle stood at 7 days and is expected to be remain in single digit in long run.
- Apollo Tricoat merger is expected to get completed by May end. Although, company already got NOC letter from both exchanges for merger process.
- During the year, company launched Apollo mart as a B2B platform for steel building materials to leverage Apollo brand and enhance distribution network. No major investments will get deployed in it.
- APL Apollo has set up two new plants each in UAE and Kolkata to cater Middle East and European markets. Total capex is expected to be around Rs1.4 bn.
- On Innovation front, company is entering into new category of steel tubes in Heavy structural tubes segment. In color coated tubes, company is leveraging technology which can replace conventional tubes
- The sales volumes are expected to be around 2 mn tonne from existing facility with additional sales volumes of 0.3-0.4 mn tonnes from Raipur facility in FY23.
- The company maintains its guidance of EBITDA/ tonne target of Rs6000-7000/tonne with 4 mn tonnes volumes by FY25 on account of higher volumes from Raipur facility and value added products.
- The company is aiming to be a debt free entity by the end of FY23.

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Net sales</b>	<b>68,946</b>	<b>74,265</b>	<b>82,149</b>	<b>126,252</b>	<b>152,824</b>	<b>180,502</b>
<i>Change (yoy, %)</i>	34	8	11	54	21	18
Operating expenses	(67,595)	(72,459)	(78,210)	(121,181)	(146,028)	(171,543)
<b>EBITDA</b>	<b>3,928</b>	<b>4,773</b>	<b>6,787</b>	<b>9,453</b>	<b>12,145</b>	<b>15,277</b>
<i>Change (yoy, %)</i>	6	22	42	39	28	26
<i>Margin (%)</i>	5.7	6.4	8.3	7.5	7.9	8.5
Depreciation	(643)	(959)	(1,028)	(1,090)	(1,111)	(1,134)
<b>EBIT</b>	<b>3,286</b>	<b>3,814</b>	<b>5,759</b>	<b>8,363</b>	<b>11,034</b>	<b>14,144</b>
Interest paid	(1,134)	(1,073)	(661)	(445)	(270)	(125)
Other income	117	222	359	405	425	447
<b>Pre-tax profit</b>	<b>2,269</b>	<b>2,963</b>	<b>5,458</b>	<b>8,323</b>	<b>11,188</b>	<b>14,465</b>
Tax	(787)	(403)	(1,381)	(2,133)	(2,816)	(3,641)
<i>Effective tax rate (%)</i>	35	14	25	26	25	25
Minority Interest	-	(180)	(475)	(617)	(567)	(749)
<b>Net profit</b>	<b>1,482</b>	<b>2,380</b>	<b>3,602</b>	<b>5,573</b>	<b>7,805</b>	<b>10,075</b>
Exceptional items	-	-	-	-	-	-
<b>Adjusted net profit</b>	<b>1,482</b>	<b>2,380</b>	<b>3,602</b>	<b>5,573</b>	<b>7,805</b>	<b>10,075</b>
<i>Change (yoy, %)</i>	(6)	61	51	55	40	29
EPS	6.2	9.6	14.4	22.3	31.2	40.3
Dividend per sh	17	2	-	4	5	7
<i>Dividend Payout %</i>	271	17	-	16	16	16

**Balance Sheet**

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Shareholders' funds</b>	<b>9,641</b>	<b>13,562</b>	<b>16,947</b>	<b>22,639</b>	<b>22,182</b>	<b>31,383</b>
Share capital	239	249	250	500	500	500
Reserves & surplus	9,402	13,313	16,697	22,139	21,682	30,883
<b>Total Debt</b>	<b>7,101</b>	<b>7,278</b>	<b>4,416</b>	<b>5,812</b>	<b>2,972</b>	<b>-</b>
Other liabilities	1,684	1,692	1,877	1,950	1,969	1,989
<b>Curr Liab &amp; prov</b>	<b>9,313</b>	<b>9,175</b>	<b>9,367</b>	<b>12,122</b>	<b>16,212</b>	<b>18,787</b>
Current liabilities	9,128	9,002	9,190	11,938	16,024	18,596
Provisions	186	173	177	184	188	191
<b>Total liabilities</b>	<b>18,098</b>	<b>18,145</b>	<b>15,660</b>	<b>19,884</b>	<b>21,153</b>	<b>20,776</b>
<b>Total equity &amp; liabilities</b>	<b>27,739</b>	<b>32,660</b>	<b>33,990</b>	<b>44,523</b>	<b>45,902</b>	<b>55,475</b>
Net fixed assets	10,611	16,214	17,484	22,464	23,353	24,219
Investments	494	15	15	866	866	866
Other non-curr assets	1,739	1,931	2,499	2,923	2,923	2,923
<b>Current assets</b>	<b>14,895</b>	<b>14,500</b>	<b>13,991</b>	<b>18,270</b>	<b>18,760</b>	<b>27,467</b>
Inventories	7,835	7,842	7,599	8,472	13,388	15,728
Sundry Debtors	5,433	4,764	1,306	3,467	2,429	2,869
Cash and Bank	478	444	3,579	3,764	476	6,503
Loans and advances	18	13	13	13	13	13
Other current assets	1,131	1,438	1,494	2,554	2,454	2,354
<b>Total assets</b>	<b>27,739</b>	<b>32,660</b>	<b>33,990</b>	<b>44,523</b>	<b>45,902</b>	<b>55,475</b>

**Cash Flow Statement**

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Pre-tax profit	2,269	2,963	5,458	8,323	11,188	14,465
Depreciation	643	959	1,028	1,090	1,111	1,134
Tax paid	(581)	(592)	(1,281)	(2,058)	(2,804)	(3,629)
Chg in working capital	865	529	3,892	(279)	211	(204)
Other operating activities	1,273	1,640	(757)	-	-	-
<b>Cash flow from operations (a)</b>	<b>4,469</b>	<b>5,500</b>	<b>8,340</b>	<b>7,077</b>	<b>9,707</b>	<b>11,766</b>
Capital expenditure	(2,045)	(6,562)	(2,298)	(6,070)	(2,000)	(2,000)
Chg in investments	(374)	479	0	(851)	-	-
Other investing activities	-	-	-	-	-	-
<b>Cash flow from investing (b)</b>	<b>(2,419)</b>	<b>(6,084)</b>	<b>(2,298)</b>	<b>(6,921)</b>	<b>(2,000)</b>	<b>(2,000)</b>
Equity raised/(repaid)	1	10	1	250	-	-
Debt raised/(repaid)	368	176	(2,861)	1,396	(2,840)	(2,972)
Dividend (incl. tax)	(4,019)	(411)	-	(874)	(1,249)	(1,624)
Chg in minorities	-	774	(47)	0	-	-
Other financing activities	-	-	-	-	-	-
<b>Cash flow from financing (c)</b>	<b>(3,650)</b>	<b>550</b>	<b>(2,907)</b>	<b>772</b>	<b>(4,089)</b>	<b>(4,595)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(1,599)</b>	<b>(34)</b>	<b>3,135</b>	<b>927</b>	<b>3,617</b>	<b>5,171</b>

### Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Book Value (Rs)	40.4	54.5	67.8	90.6	88.8	125.6
Adj EPS (Rs)	6.2	9.6	14.4	22.3	31.2	40.3
Adj EPS growth (%)	(6.7)	53.9	50.7	54.7	40.1	29.1
EBITDA margin (%)	5.7	6.4	8.3	7.5	7.9	8.5
Pre-tax margin (%)	3.3	4.0	6.6	6.6	7.3	8.0
Net Debt/Equity (x)	0.7	0.5	0.0	0.1	0.1	(0.2)
ROCE (%)	18.9	18.2	23.9	29.3	35.5	42.6
ROE (%)	16.5	20.5	23.6	28.2	34.8	37.6

### DuPont Analysis

Asset turnover (x)	2.8	2.5	2.5	3.2	3.4	3.6
Leverage factor (x)	2.7	2.6	2.2	2.0	2.0	1.9
Net margin (%)	2.2	3.2	4.4	4.4	5.1	5.6

### Working Capital & Liquidity ratio

Inventory days	41	39	34	24	32	32
Receivable days	29	23	6	10	6	6
Payable days	38	39	37	32	37	37

### Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	130.1	84.5	56.1	36.2	25.9	20.0
Price/Book value (x)	20.0	14.8	11.9	8.9	9.1	6.4
EV/Net sales (x)	2.9	2.8	2.5	1.6	1.3	1.1
EV/EBITDA (x)	50.8	43.6	29.9	21.6	16.8	12.8
Dividend Yield (%)	2.1	0.2	0.0	0.4	0.6	0.8

Source: Company; IDBI Capital Research



# Notes

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

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