APL Apollo Tubes — BUY

Volumes strong; product mix to improve

Summary

APL Apollo Tubes Q4FY23 profitability was slightly weaker than our estimate. EBITDA/t slightly increased by only 3% YoY to Rs4,968 despite higher volume growth (+18% YoY to 650k tonnes). Nevertheless, EBITDA/t over Rs5,000 is likely to be sustainable over the longer term in our view. APL targets 400 kt of volumes from Raipur plant in FY24 which should aid margin improvement. APL targets sales volume of 3 mn tonnes in FY24 and 4 mn tonnes in FY25. We expect capex intensity to decline hereon which should lead to stronger payouts hereon. We raise our FY24/FY25 EBITDA estimates by 14%/18% given stronger than expected ramp up at Raipur plant. We value the stock at a PER of 35x FY25E and derive a target price of Rs1,491 (earlier Rs1,484). We maintain our BUY rating on the stock.

Key Highlights and Investment Rationale

- **Higher volumes but margin weak:** APL's sales volumes increased by 7% QoQ while it grew 18% YoY to 650 kt mainly due to higher demand across its product categories but, EBITDA/tonne was higher by only 3% YoY to Rs4,968/tonne mainly led by weaker product mix. Nevertheless, the management commentary was positive as APL targets EBITDA/t at Rs5,000 in FY24 and Rs6,000/tonne in FY25 .
- **Capex update:** The capacity expansion in Dubai, East India, and new incremental capacity in the Raipur plant, and debottlenecking will increase the capacity to 5 mn tonnes in FY25, and capex will be Rs5-6bn, which will be funded from internal accruals. In FY26, the company will utilize this capacity and target a sales volume of 3.8-4.0 mn tonnes in FY25. Importantly, the company expects value-added products to contribute 60% to the sales mix in FY24, and once the 5 mtpa capacity plant is commissioned, VAP contribution should likely increase to 75%.

TP	Rs1,491
CMP	**Rs1,184**
Potential upside/downside	26%
Previous Rating	BUY

Price Performance (%)	-1m	-3m	-12m
Absolute	(1.0)	(1.8)	35.4
Rel to Sensex	(3.6)	(4.5)	17.9

V/s Consensus		
EPS (Rs)	**FY24E**	**FY25E**
IDBI Capital	29.3	42.6
Consensus	34.1	44.7
% difference	*(14.2)*	*(4.7)*

Key Stock Data	
Bloomberg / Reuters	APAT IN /APLA.BO
Sector	Iron & Steel Products
Shares o/s (mn)	277
Market cap. (Rs mn)	327,042
3-m daily average value (Rs mn)	20.5
52-week high / low	Rs1,337 / 816
Sensex / Nifty	62,028 / 18,315

Shareholding Pattern (%)	
Promoters	31.2
FII	25.7
DII	9.6
Public	33.5

Financial snapshot (Rs mn)

Year	FY21	FY22	FY23	FY24E	FY25E
Revenue	82,149	1,26,252	1,56,744	1,78,391	2,19,243
Change (yoy, %)	*11*	*54*	*24*	*14*	*23*
EBITDA	6,787	9,453	10,216	12,129	15,642
Change (yoy, %)	*42*	*39*	*8*	*19*	*29*
EBITDA Margin(%)	*8.3*	*7.5*	*6.5*	*6.8*	*7.1*
Adj.PAT	3,602	5,573	6,283	7,323	10,638
EPS (Rs)	14.4	22.3	25.2	29.3	42.6
Change (yoy, %)	*51*	*55*	*13*	*17*	*45*
PE(x)	83.5	54.0	47.9	41.1	28.3
Dividend Yield (%)	-	0.3	0.4	0.6	0.7
EV/EBITDA (x)	44.4	32.0	30.0	25.4	19.1
RoE (%)	23.6	28.2	23.8	25.9	34.2
RoCE (%)	23.9	29.3	24.0	26.1	33.3

Source: IDBI Capital Research

Exhibit 1: Quarterly Snapshot

(Rs mn)	Q4FY23	Q3FY23	QoQ (%)	Q4FY22	YoY (%)
Net sales	**42,916**	**42,011**	***2.2***	**40,804**	***5.2***
EBITDA	3,229	2,729	*18.3*	2,661	*21.3*
EBITDA /tonne	***4,968***	***4,510***	***10.2***	***4,823***	***3.0***
Other income	180	93	*93.1*	110	*63.1*
Interest	249	186	*33.6*	101	*146.7*
Depreciation	468	345	*35.5*	279	*67.6*
PBT	**2,692**	**2,290**	***17.5***	**2,391**	***12.6***
Tax	673	598	*12.6*	625	*7.7*
Reported PAT	**2,018**	**1,692**	***19.3***	**1,766**	***14.3***
Adjusted PAT	**2,018**	**1,692**	***19.3***	**1,630**	***23.8***
Adjusted EPS (Rs)	**7.3**	**6.8**	***7.4***	**6.5**	***11.5***

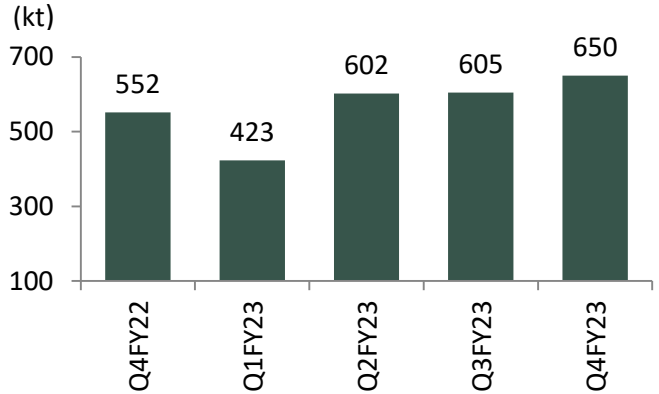
Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. Estimates

(Rs mn)	Q4FY23E	Q4FY23A	Variance (%)
Total Revenues	42,388	42,916	*1.2*
EBITDA	3,437	3,229	*(6.0)*
EBITDA/tonne	*5,287*	*4,968*	*(6.0)*
Adjusted net profit	2,255	2,018	*(10.5)*
Adjusted EPS	9.0	7.3	*(19.4)*

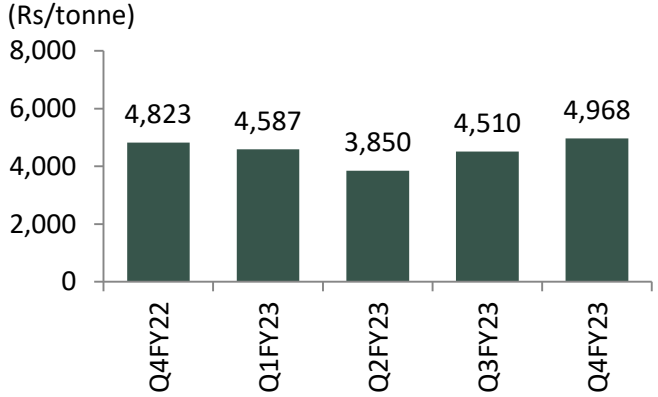
Source: Company; IDBI Capital Research

Exhibit 3: Sales volumes higher by 18% YoY



Source: Company; IDBI Capital Research

Exhibit 4: EBIDTA/tonne increased by 3% YoY



Source: Company; IDBI Capital Research

Concall Highlights

- In Q4FY23, APL Apollo's sales volume grew by 7% QoQ and 18% YoY to 650 kt, and EBITDA/tonne increased by 10% QoQ to 4,968, owing to higher demand across its product portfolio and an increase in sales volumes from the Raipur plant.
- The company's capacity has increased to 3.6 mn tonnes in FY23 from 2.6 mn tonnes post the commencement of the new Raipur plant.
- In FY23, volume growth had increased by 30% to 2.3 mn tonnes, out of which the Raipur plant had contributed 6% to the volumes.
- In FY23, volume sales from housing were 50%, commercial were 25%, and Infrastructure was 25%.
- EBITDA/tonne was lower by 17% to Rs4,481 in FY23 compared to FY22 because of channel destocking.
- In FY23, the working capital had stayed at a single digit of 5 days, despite the inventory day having gone up with the start of the Raipur plant, but debtor days had further decreased.
- The ROCE was 29%, and the ROE was 24%. This was lower YoY due to heavy investment in the Raipur plant, but the company expects the ROE and ROCE to go up by 35% after the ramp-up and good profitability from the Raipur plant and hit 40%.
- The capacity utilization was 28% for the recently commissioned New Raipur plant in Q4FY23, and EBITDA/tonne was Rs4,000-4,500.
- The company had launched 500 square diameter and color-coated products for roofing, which had given the company an incremented volume.
- In FY23, the volume contributed by Shankra distributors had increased by 180% compared to FY22.
- Guidance - capacity expansion in Dubai, East India, and new incremental capacity in the Raipur plant, and debottlenecking will increase the capacity to 5 mn tonnes in FY25, and capex will be Rs5-6 bn, which will be funded from internal accruals.
- For FY24, the sales volume target is 2.8-3.0 mn tonnes, for FY25, the sales volume will be 3.8-4.0 mn tonnes, and for FY26, it will be 4.5-5 mn tonnes.

- The company has guided an EBITDA/tonne for FY24 of Rs5,000.
- The company targets that value-added products will contribute 60% to the sales mix in FY24, and once the 5 mn tn capacity plant is commissioned, it will contribute 75%.
- The company will set up a 300,000-tonne capacity plant in the UAE, which will start in Q4FY24 and expects the export to increase to 200,000 tonnes in the next 3-4 years.
- The company targets to be debt-free in FY24 once it generates enough operating cash flows.

Exhibit 5: Change in estimates

	FY24E			FY25E		
	Old	New	*(%) Chg*	Old	New	*(%) Chg*
Revenue (Rs mn)	1,48,686	1,78,391	*20.0*	1,70,042	2,19,243	*28.9*
EBITDA (Rs mn)	10,554	12,129	*14.9*	13,248	15,642	*18.1*
EBITDA margin (%)	*7.1*	*6.8*	*-30bps*	*8.7*	*7.1*	*-155bps*
Net profit (Rs mn)	6,869	7,169	*4.4*	8,921	10,638	*19.2*
EPS (Rs)	27.5	28.7	*4.4*	35.7	42.6	*19.2*

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Net sales	**74,265**	**82,149**	**1,26,252**	**1,56,744**	**1,78,391**	**2,19,243**
Change (yoy, %)	*8*	*11*	*54*	*24*	*14*	*23*
Operating expenses	(72,459)	(78,210)	(1,21,181)	(1,51,444)	(1,66,262)	(2,03,601)
EBITDA	**4,773**	**6,787**	**9,453**	**10,216**	**12,129**	**15,642**
Change (yoy, %)	*22*	*42*	*39*	*8*	*19*	*29*
Margin (%)	*6.4*	*8.3*	*7.5*	*6.5*	*6.8*	*7.1*
Depreciation	(959)	(1,028)	(1,090)	(1,383)	(1,872)	(1,910)
EBIT	**3,814**	**5,759**	**8,363**	**8,832**	**10,257**	**13,732**
Interest paid	(1,073)	(661)	(445)	(671)	(539)	(270)
Other income	222	359	405	472	718	754
Pre-tax profit	**2,963**	**5,458**	**8,323**	**8,633**	**10,436**	**14,216**
Tax	(403)	(1,381)	(2,133)	(2,215)	(3,113)	(3,578)
Effective tax rate (%)	*14*	*25*	*26*	*26*	*30*	*25*
Minority Interest	(180.3)	(475.4)	(617)	(136)	-	-
Net profit	**2,380**	**3,602**	**5,573**	**6,283**	**7,323**	**10,638**
Exceptional items	-	-	-	-	-	-
Adjusted net profit	**2,380**	**3,602**	**5,573**	**6,283**	**7,323**	**10,638**
Change (yoy, %)	61	51	55	13	17	45
EPS	9.6	14.4	22.3	25.2	29.3	42.6
Dividend per sh	2	-	4	5	7	9
Dividend Payout %	17	-	16	20	24	21

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Shareholders' funds	**13,562**	**16,947**	**22,639**	**30,056**	**26,447**	**35,836**
Share capital	249	250	500	555	555	555
Reserves & surplus	13,313	16,697	22,139	29,501	25,892	35,282
Total Debt	**7,278**	**4,416**	**5,812**	**8,730**	**8,730**	**6,730**
Other liabilities	1,692	1,877	1,950	2,359	2,382	2,406
Curr Liab & prov	**9,175**	**9,367**	**12,122**	**17,371**	**18,718**	**22,613**
Current liabilities	9,002	9,190	11,938	17,139	18,481	22,371
Provisions	173	177	184	233	237	242
Total liabilities	**18,145**	**15,660**	**19,884**	**28,460**	**29,830**	**31,749**
Total equity & liabilities	**32,660**	**33,990**	**44,523**	**58,516**	**56,277**	**67,585**
Net fixed assets	16,214	17,484	22,464	28,620	29,747	30,337
Investments	15	15	866	963	963	963
Other non-curr assets	1,931	2,499	2,923	3,356	3,356	3,356
Current assets	**14,500**	**13,991**	**18,270**	**25,578**	**22,211**	**32,929**
Inventories	7,842	7,599	8,472	14,799	13,665	16,734
Sundry Debtors	4,764	1,306	3,467	1,374	1,466	1,802
Cash and Bank	444	3,579	3,764	3,525	1,300	8,712
Loans and advances	13	13	13	13	13	13
Other current assets	1,438	1,494	2,554	5,867	5,767	5,667
Total assets	**32,660**	**33,990**	**44,523**	**58,516**	**56,277**	**67,585**

Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Pre-tax profit	2,963	5,458	8,323	8,633	10,436	14,216
Depreciation	959	1,028	1,090	1,383	1,872	1,910
Tax paid	(592)	(1,281)	(2,058)	(2,231)	(3,101)	(3,566)
Chg in working capital	529	3,892	(279)	1,015	2,388	490
Other operating activities	1,640	(757)	-	-	-	-
Cash flow from operations (a)	**5,500**	**8,340**	**7,077**	**8,801**	**11,596**	**13,050**
Capital expenditure	(6,562)	(2,298)	(6,070)	(7,539)	(3,000)	(2,500)
Chg in investments	479	0	(851)	(97)	-	-
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	**(6,084)**	**(2,298)**	**(6,921)**	**(7,636)**	**(3,000)**	**(2,500)**
Equity raised/(repaid)	10	1	250	55	-	-
Debt raised/(repaid)	176	(2,861)	1,396	2,918	-	(2,000)
Dividend (incl. tax)	(411)	-	(874)	(1,249)	(1,749)	(2,248)
Chg in monorities	774	(47)	0	(2,136)	-	-
Other financing activities	-	-	-	-	-	-
Cash flow from financing (c)	**550**	**(2,907)**	**772**	**(412)**	**(1,749)**	**(4,248)**
Net chg in cash (a+b+c)	**(34)**	**3,135**	**927**	**753**	**6,847**	**6,302**

Financial Ratios

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Book Value (Rs)	55	68	91	120	106	143
Adj EPS (Rs)	*9.6*	*14.4*	*22.3*	*25.2*	*29.3*	*42.6*
Adj EPS growth (%)	*53.9*	*50.7*	*54.7*	*12.7*	*16.6*	*45.3*
EBITDA margin (%)	*6.4*	*8.3*	*7.5*	*6.5*	*6.8*	*7.1*
Pre-tax margin (%)	*4.0*	*6.6*	*6.6*	*5.5*	*5.9*	*6.5*
Net Debt/Equity (x)	*0.5*	*0.0*	*0.1*	*0.2*	*0.3*	*-0.1*
ROCE (%)	*18.2*	*23.9*	*29.3*	*24.0*	*26.1*	*33.3*
ROE (%)	*20.5*	*23.6*	*28.2*	*23.8*	*25.9*	*34.2*
DuPont Analysis						
Asset turnover (x)	2.5	2.5	3.2	3.0	3.1	3.5
Leverage factor (x)	2.6	2.2	2.0	2.0	2.0	2.0
Net margin (%)	*3.2*	*4.4*	*4.4*	*4.0*	*4.1*	*4.9*
Working Capital & Liquidity ratio						
Inventory days	39	34	24	34	28	28
Receivable days	23	6	10	3	3	3
Payable days	39	37	32	38	38	38

Valuations

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
PER (x)	126	84	54	48	41	28
Price/Book value (x)	22.1	17.7	13.3	10.0	11.4	8.4
EV/Net sales (x)	4.1	3.7	2.4	2.0	1.7	1.4
EV/EBITDA (x)	64.2	44.4	32.0	30.0	25.4	19.1
Dividend Yield (%)	*0.1*	*0.0*	*0.3*	*0.4*	*0.6*	*0.7*

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) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

SEBI Registration: BSE & NSE (Cash & FO) – INZ000007237, NSDL – IN-DP-NSDL-12-96, Research – INH000002459, CIN – U65990MH1993GOI075578

Compliance Officer: Christina D'souza; Email: compliance@idbicapital.com; Telephone: (91-22) 2217 1907

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