

APL Apollo Tubes

BUY

Short-term pain persists

Summary

APL Apollo Tubes Q4FY24 sales were in line with our and street expectations. Revenue grew 8% YoY to Rs46 bn led by volume growth of 4.5% YoY. EBITDA/t took a dip YoY to Rs4,132 due to increased discounts, change in product mix and under-absorption of fixed cost at new plants. The new Raipur plant is ramping up on expected lines with a capacity utilization of 55% during Q4FY24. Also, the company expects the new Raipur plant to potentially contribute revenue of more than Rs70 bn and EBITDA of Rs6 bn. The contribution from value added products increased to 60% in Q4FY24 vs. 59% in Q3FY24 and aims to increase it to 70% in future. We cut our FY25/FY26 EPS forecast by 40%/38%. We now value the stock at a PER of 36x FY26 to derive a target price of Rs1,814 (earlier Rs1,775) and maintain BUY rating on the stock.

Key Highlights and Investment Rationale

- Recovery in volume growth evident:** APL's sales volumes grew 4.5% YoY and 12.6% QoQ after de-growing in Q3FY24. However, FY24 sales volumes increased by 15% YoY to 2,618 kt, falling short of its volume guidance of 3,000 kt due to delay in ramp up of new plants, slowdown in private retail construction work, capacity increase by competitors and other macro factors.
- Project updates:** The Raipur plant utilization expected to reach 70-75% in FY25, while Dubai plant utilization projected at around 50% in FY25 with all 4 mills operational. APL aims to establish a new plant in Siligudi and Gorakhpur with a capacity of 0.2-0.25 mt. Overall, APL is aiming for 5 mt capacity by FY25 with Rs 6 bn investment.
- Outlook:** APL foresees demand recovery post-elections, driven by private builder order book, retail construction, and infrastructure spending. APL aims to achieve 20-25% growth in volumes over next 2-3 years with 70-80% market share in HR coil-based tubes.

TP	Rs1,814
CMP	Rs1,565
Potential upside/downside	16%
Previous Rating	BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	1.1	17.4	32.7
Rel to Sensex	3.1	15.6	15.4

V/s Consensus

EPS (Rs)	FY25E	FY26E
IDBI Capital	37	50
Consensus	42	56
% difference	(12.7)	(11.1)

Key Stock Data

Bloomberg / Reuters	APAT IN /APLA.BO
Sector	Iron & Steel Products
Shares o/s (mn)	278
Market cap. (Rs mn)	434,368
3-m daily average value (Rs mn)	68.5
52-week high / low	Rs1,806 / 1,047
Sensex / Nifty	72,776 / 22,104

Shareholding Pattern (%)

Promoters	29.4
FII	30.7
DII	12.1
Public	27.8

Financial snapshot

Year	FY22	FY23	FY24	FY25E	FY26E
Revenue	1,30,633	1,61,660	1,81,188	2,23,768	2,78,171
Change (yoy, %)	54	24	12	24	24
EBITDA	9,453	10,216	11,922	15,887	20,863
Change (yoy, %)	39	8	17	33	31
EBITDA Margin (%)	7.2	6.3	6.6	7.1	7.5
Adj.PAT	6,190	6,419	7,324	10,153	13,984
EPS (Rs)	25	23	26	37	50
Change (yoy, %)	71.9	(6.7)	14	39	38
PE(x)	63.2	67.7	59	43	31
Dividend Yield (%)	0.2	0.3	0	1	1
EV/EBITDA (x)	41.6	43.0	37.1	27.8	20.9
RoE (%)	31.3	24.4	22	29	31
RoCE (%)	29.3	24	22	29	34

Source: IDBI Capital Research

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Exhibit 1: Quarterly Snapshot

(Rs mn)	Q4FY24	Q3FY24	QoQ (%)	Q4FY23	YoY (%)
Net sales	47,657	41,778	14.1	44,311	7.6
EBITDA	2,804	2,795	0.3	3,229	(13.2)
EBITDA /tonne	4,129	4,636	(10.9)	4,968	(16.9)
Other income	186	150	23.6	180	3.4
Interest	311	285	9.2	249	25.1
Depreciation	466	471	(1.0)	468	(0.5)
PBT	2,212	2,190	1.0	2,692	(17.8)
Tax	508	535	(5.0)	673	(24.6)
Reported PAT	1,704	1,655	3.0	2,018	(15.5)
Adjusted PAT	1,704	1,655	3.0	2,018	(15.5)
Adjusted EPS (Rs)	6.1	6.0	3.0	7.3	(15.5)

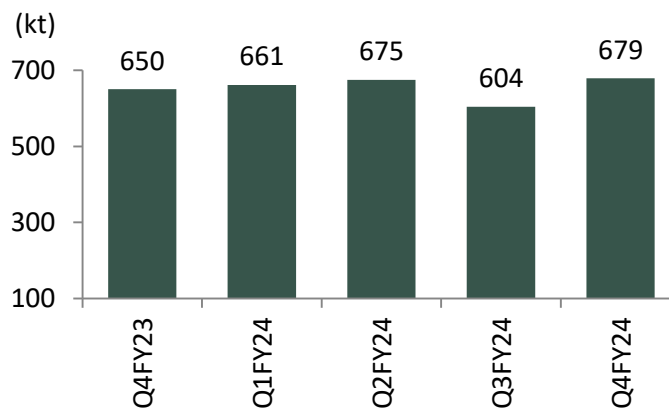
Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. Estimates

(Rs mn)	Q4FY24E	Q4FY24A	Variance (%)
Total Revenues	45,094	47,657	5.7
EBITDA	3,155	2,804	(11.1)
EBITDA/tonne	4,650	4,129	(11.2)
Adjusted net profit	1,907	1,704	(10.6)
Adjusted EPS	6.9	6.1	(10.9)

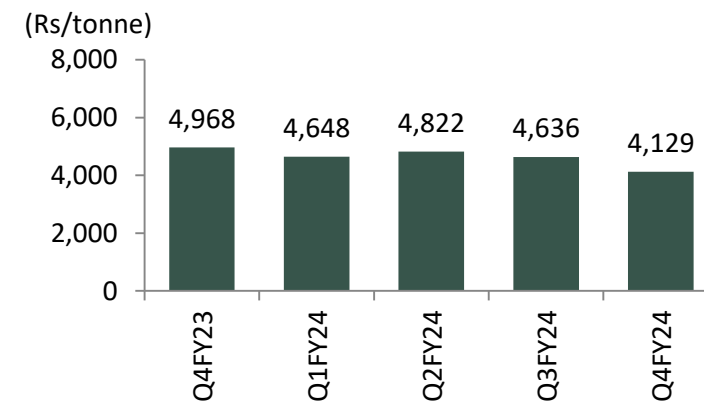
Source: Company; IDBI Capital Research

Exhibit 3: Sales volumes remained flat YoY



Source: Company; IDBI Capital Research

Exhibit 4: EBIDTA/tonne remained flat YoY



Source: Company; IDBI Capital Research

Exhibit 5: Change in estimates (Rs bn)

	FY25E			FY26E		
	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs bn)	2,19,019	2,23,768	2.2	2,95,226	2,78,171	(5.8)
EBITDA (Rs bn)	17,014	15,887	(6.6)	21,355	20,863	(2.3)
EBITDA margin (%)	7.8	7.1	-70bps	7.2	7.5	30bps
Adj. Net profit (Rs bn)	10,915	10,153	(7.0)	14,782	13,984	(5.4)
Adj. EPS (Rs)	43.7	26.4	(39.6)	59	36.6	(38.0)

Source: Company; IDBI Capital Research

Con-call highlights

- Company stated reasons for volume shortfall 2.62mn tons compared to their guidance of 3mn tons as broadly macro-economic reasons , Capacity increased by new entrants, approx. 0.1mn tn lost because of slow down of private retail construction work, 0.1mn tn lost because of late production start of Raipur and Dubai plant
- EBITDA/tn took a hit because of discounts offered to gain market share. Company's product with low margins product contributed more leading to low margins per tn. High fixed cost on new plants also contributed in margin contractions.
- Raipur plant – This plant has a capacity of 1mn ton per year and was currently working at 55% utilization in Q4 which is expected to go up to 70-75% by this year.
- New plants are expected to be built at Siligudi and Gorakhpur with installed capacity of 0.2-0.25mn tons.
- Dubai plant – out of 4, 2 mills are currently operational working at 45% capacity. Other 2 mills will start its operations in 1-2 months and will have 0.15mn tons capacity and utilization levels of 50% is expected
- Company aims at achieving 5mn ton volume for which is achievable by Macro-Economic support, entering secondary steel substitute category. 20-25% volume growth is expected with current business model.
- Private sector construction growth post elections is estimated at 20-25% with record making retail order book and share of steel in construction will be 4 times higher than concrete with vast variety of products used in construction
- Capacity guidance stays at 5mn/tn per year and 10mn/tn in long term period. Capex of 2000cr – 2500cr is expected for incremental increase from 5mn to 10mn levels

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	2,23,768	2,78,171
<i>Change (yoy, %)</i>	14	54	24	12	24	24
Operating expenses	(78,210)	(1,21,181)	(1,51,444)	(1,69,266)	(2,07,880)	(2,57,308)
EBITDA	6,787	9,453	10,216	11,922	15,887	20,863
<i>Change (yoy, %)</i>	42	39	8	17	33	31
<i>Margin (%)</i>	8.0	7.2	6.3	6.6	7.1	7.5
Depreciation	(1,028)	(1,090)	(1,383)	(1,759)	(2,129)	(2,209)
EBIT	5,759	8,363	8,832	10,162	13,758	18,654
Interest paid	(661)	(445)	(671)	(1,134)	(939)	(714)
Other income	359	405	472	749	749	749
Pre-tax profit	5,458	8,323	8,633	9,777	13,568	18,688
Tax	(1,381)	(2,133)	(2,215)	(2,453)	(3,415)	(4,704)
<i>Effective tax rate (%)</i>	25.3	25.6	25.7	25.1	25.2	25.2
Minority Interest	(475)	-	-	-	-	-
Net profit	3,602	6,190	6,419	7,324	10,153	13,984
Exceptional items	-	-	-	-	-	-
Adjusted net profit	3,602	6,190	6,419	7,324	10,153	13,984
<i>Change (yoy, %)</i>	51	72	4	14	39	38
EPS	14.4	24.8	23.1	26.4	36.6	50.4
Dividend per sh	-	3.5	5.0	7.0	9.0	11.0
<i>Dividend Payout %</i>	-	14.1	22	27	25	22

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Shareholders' funds	16,947	22,639	30,056	36,046	33,066	45,108
Share capital	250	500	555	555	555	555
Reserves & surplus	16,697	22,139	29,501	35,491	32,511	44,553
Total Debt	4,416	5,812	8,730	11,437	9,437	6,437
Other liabilities	1,877	1,950	2,359	2,551	12,013	9,039
Curr Liab & prov	9,367	12,122	17,372	21,834	26,645	29,107
Current liabilities	9,190	11,938	17,139	21,555	26,360	28,817
Provisions	177	184	233	279	284	290
Total liabilities	15,660	19,884	28,460	35,822	38,373	37,856
Total equity & liabilities	33,990	44,523	58,516	71,868	71,439	82,964
Net fixed assets	17,484	22,464	28,620	33,736	34,107	33,898
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	32,614	44,348
Inventories	7,599	8,472	14,799	16,379	17,086	24,673
Sundry Debtors	1,306	3,467	1,374	1,391	1,839	3,048
Cash and Bank	3,579	3,764	3,525	3,476	1,622	4,658
Other current assets	1,507	2,567	5,880	12,168	12,068	11,968
Total assets	33,990	44,523	58,516	71,868	71,439	82,964

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	13,568	18,688
Depreciation	1,028	1,090	1,383	1,759	2,129	2,209
Tax paid	(1,281)	(2,058)	(2,230)	(2,366)	(3,402)	(4,691)
Chg in working capital	3,892	(279)	1,015	2,843	3,371	(6,340)
Other operating activities	(757)	-	-	-	-	-
Cash flow from operations (a)	8,340	7,077	8,801	12,013	15,666	9,867
Capital expenditure	(2,298)	(6,070)	(7,539)	(6,876)	(2,500)	(2,000)
Chg in investments	0	(851)	(97)	(67)	-	-
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	(2,298)	(6,921)	(7,636)	(6,942)	(2,500)	(2,000)
Equity raised/(repaid)	1	250	55	0	-	-
Debt raised/(repaid)	(2,861)	1,396	2,918	2,706	(2,000)	(3,000)
Dividend (incl. tax)	-	(874)	(1,388)	(1,943)	(2,498)	(3,053)
Chg in minorities	(47)	617	(2,000)	-	-	-
Other financing activities	-	-	-	-	-	-
Cash flow from financing (c)	(2,907)	1,389	(415)	764	(4,498)	(6,053)
Net chg in cash (a+b+c)	3,135	1,544	750	5,834	8,668	1,813

Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Book Value (Rs)	68	91	108	130	119	163
Adj EPS (Rs)	14.4	24.8	23.1	26.4	36.6	50.4
Adj EPS growth (%)	51	72	-7	14	39	38
EBITDA margin (%)	8.0	7.2	6.3	6.6	7.1	7.5
Pre-tax margin (%)	6.4	6.4	5.3	5.4	6.1	6.7
Net Debt/Equity (x)	0.0	0.1	0.2	0.2	0.2	0.0
ROCE (%)	24	29	24	22	29	34
ROE (%)	24	31	24	22	29	31

DuPont Analysis

Asset turnover (x)	2.6	3.3	3.1	2.8	3.1	3.4
Leverage factor (x)	2.2	2.0	2.0	2.0	2.1	1.8
Net margin (%)	4.2	4.7	4.0	4.0	4.5	5.0

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)	108.5	63.2	67.7	59.3	42.8	31.1
Price/Book value (x)	23.1	17.3	14.5	12.1	13.1	9.6
EV/Net sales (x)	4.6	3.0	2.7	2.4	2.0	1.6
EV/EBITDA (x)	57.7	41.6	43.0	37.1	27.8	20.9
Dividend Yield (%)	0.0	0.2	0.3	0.4	0.6	0.7

Source: Company; IDBI Capital Research



Notes

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Key to Ratings Stocks:

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

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