APL Apollo Tubes — HOLD

Macro-Head Winds Amid Soft Demand

Summary

APL's Q1FY26 performance was below our expectations. Revenue grew 4% YoY to Rs51.7bn, driven by 10% YoY volume growth, which was offset by 6% YoY decline in realizations due to a drop in steel prices. EBITDA rose 23% YoY to Rs3.7bn, while EBITDA/t increased by 12% YoY to Rs4,683 but declined by 4% QoQ due to higher employee cost related to ESOP expenses and lower volumes. Management expects performance to improve in H2 with conclusion of monsoon and increased govt. spending boosting money supply. However, management has reduced FY26 volume growth guidance to 10%-15% from 15%-20% and expect EBITDA/t to range between Rs4,600-Rs5,000/t. We revise our FY26E/FY27E estimates downwards by 8%/7%, respectively and value the stock at a PER of 35x to derive a TP of Rs1,825. We downgrade our rating to HOLD.

Key Highlights and Investment Rationale

- **Healthy volume growth:** APL's sales volumes grew 10% YoY but declined 3% QoQ, due to 13% QoQ decline in general structural segment as the spread between patra-based tubes and HRC based tubes widened to Rs8-10/kg. Volumes were further impacted by subdued demand from early onset of the monsoon and a liquidity crunch in the distribution channel due to low Govt spending. However, the share of VAP increased to 61% from 58% in Q4FY24.
- **Project updates:** The new Raipur plant operated at ~60% utilization post-expansion, while Dubai plant improved to 60% utilization from 48% in Q4FY25. APL plans brownfield expansions at Dubai and Raipur plant, adding a combined 0.8mnT (including roofing sheets and heavy structure pipes), and 1mnT greenfield capacity across east, west and south. Bhuj plant planned in the west will focus on exports due to geographical advantages. APL Apollo also aims to add 300,000-400,000 tonnes of capacity for specialty tubes used in structural, oil & gas, water and mechanical applications.

TP	Rs1,825
CMP	**Rs1,688**
Potential upside/downside	8%
Previous Rating	BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	(5.9)	3.6	13.4
Rel to Sensex	(6.1)	0.6	10.9

V/s Consensus

EPS (Rs)	FY26E	FY27E
IDBI Capital	40	52
Consensus	43	56
% difference	*(6.6)*	*(7.3)*

Key Stock Data

Bloomberg / Reuters	APAT IN /APLA.BO
Sector	Iron & Steel Products
Shares o/s (mn)	278
Market cap. (Rs mn)	468,559
3-m daily average value (Rs mn)	20.5
52-week high / low	Rs1,729 / 1,253
Sensex / Nifty	80,747 / 24,414

Shareholding Pattern (%)

Promoters	28.3
FII	33.0
DII	15.4
Public	23.3

Financial snapshot (Rs mn)

Year	FY23	FY24	FY25	FY26E	FY27E
Revenue	1,61,660	1,81,188	2,06,895	2,34,426	2,88,178
Change (yoy, %)	*90.2*	*12.1*	*14.2*	*13.3*	*22.9*
EBITDA	10,216	11,922	11,990	17,113	21,820
Change (yoy, %)	*50.5*	*16.7*	*0.6*	*42.7*	*27.5*
EBITDA Margin (%)	*6.3*	*6.6*	*5.8*	*7.3*	*7.6*
Adj.PAT	6,419	7,324	7,571	11,032	14,474
EPS (Rs)	23	26	27	40	52
Change (yoy, %)	*60.4*	*14.1*	*3.4*	*45.7*	*31.2*
PE(x)	73.2	64.1	62.0	42.6	32.4
Dividend Yield (%)	*0.2*	*0.3*	*0.3*	*0.4*	*0.5*
EV/EBITDA (x)	46.5	40.1	39.2	27.4	21.3
RoE (%)	*24.4*	*22.2*	*19.4*	*21.4*	*22.6*
RoCE (%)	*24.0*	*22.3*	*19.7*	*24.6*	*26.7*

Source: IDBI Capital Research

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Exhibit 1: Quarterly Snapshot

(Rs mn)	Q1FY26	Q4FY25	QoQ (%)	Q1FY25	YoY (%)
Net sales	**51,698**	**55,086**	***(6.2)***	**49,743**	***3.9***
EBITDA	3,720	4,137	*(10.1)*	3,016	*23.3*
EBITDA /tonne	***4,683***	***4,864***	***(3.7)***	***4,184***	***11.9***
Other income	256	349	*(26.8)*	247	*3.5*
Interest	333	323	*3.0*	278	*19.5*
Depreciation	544	576	*(5.6)*	465	*16.9*
PBT	**3,099**	**3,587**	***(13.6)***	**2,520**	***23.0***
Tax	728	656	*10.9*	589	*23.7*
Reported PAT	**2,372**	**2,931**	***(19.1)***	**1,932**	***22.8***
Adjusted PAT	**2,372**	**2,931**	***(19.1)***	**1,932**	***22.8***
Adjusted EPS (Rs)	**8.5**	**10.6**	***(19.1)***	**7.0**	***22.8***

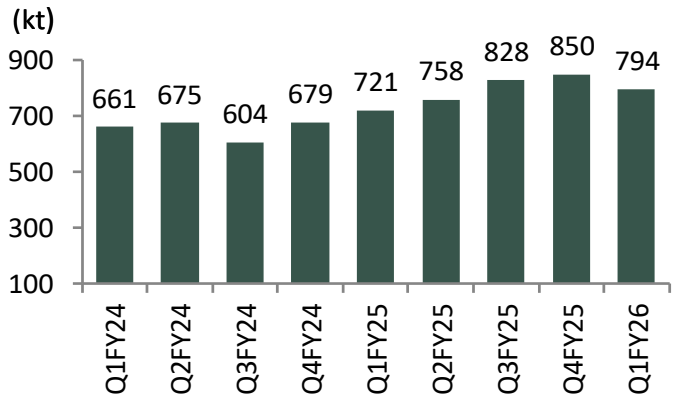
Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. Estimates

(Rs mn)	Q1FY26E	Q1FY26A	Variance (%)
Total Revenues	**54,269**	**51,698**	***(4.7)***
EBITDA	3,853	3,720	*(3.4)*
EBITDA/tonne	**4,850**	**4,683**	***(3.4)***
Adjusted net profit	**2,390**	**2,372**	***(0.8)***
Adjusted EPS	8.6	8.5	*(0.8)*

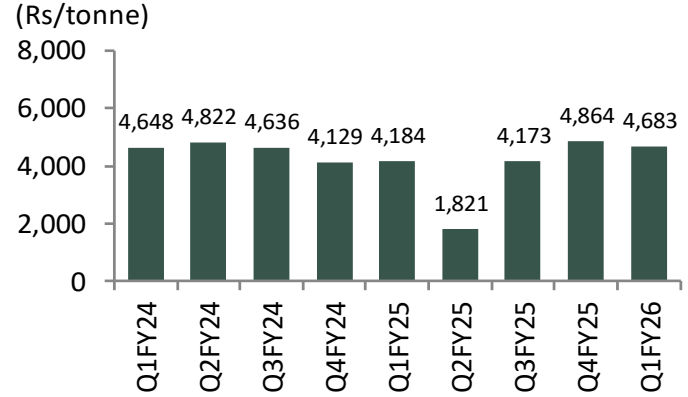
Source: Company; IDBI Capital Research

Exhibit 3: Sales volumes increased by 10% YoY



Source: Company; IDBI Capital Research

Exhibit 4: EBIDTA/tonne increased by 12% YoY



Source: Company; IDBI Capital Research

Exhibit 5: Change in estimates (Rs bn)

	FY26E			FY27E		
	Old	New	*(%) Chg*	Old	New	*(%) Chg*
Revenue (Rs bn)	2,59,767	2,34,426	*(9.8)*	3,17,756	2,88,178	*(9.3)*
EBITDA (Rs bn)	18,239	17,113	*(6.2)*	23,153	21,820	*(5.8)*
EBITDA margin (%)	*7.0*	*7.3*	*30bps*	*7.3*	*7.6*	*27bps*
Adj. Net profit (Rs bn)	11,987	11,032	*(8.0)*	15,495	14,474	*(6.6)*
Adj. EPS (Rs)	43.2	39.7	*(8.0)*	55.8	52.1	*(6.5)*

Source: Company; IDBI Capital Research

Con-call highlights

Business Updates

- Key reasons for lower volumes, Continued macro environment slowdown, elevated geopolitical tensions, early onset of monsoon, softer money supply.
- EBITDA spreads were significantly up YoY but down by approximately Rs 250 per ton QoQ. The QoQ decline was primarily due to lower volume leading to negative operating leverage and a one-time notional ESOP expense of Rs 60 million. Excluding these, EBITDA spreads would have been similar to the previous quarter.
- Net cash with prudent single-digit working capital days. Sustainable quarterly employee cost is Rs 880 million. 72% of power consumption is from renewable sources, targeting 80-85%, reducing power costs (currently 0.8% of product value).
- The Dubai plant is operating at around 60% plus capacity utilization, while the Raipur plant is slightly below 60%

Capacity Expansion & Capital Allocation

- Long-term capacity expansion plans are underway to increase from 4.5 million tons to 6.8 million tons in the next two to three years.
- Expansion in Eastern India (two plants, 500,000 tons) and Dubai (200,000 tons, aiming for 1 million tons total from Dubai in the future).
- New products: 500,000 tons of coated capacity and 100,000 tons of heavy structural tubes. New 1000/1000mm (100,000 tons) and rust-proof tubes (300,000 tons) lines are contributing.
- A new plant in Gujarat primarily for export sales.
- 500,000 tons for specialty tubes.
- Cash flow is divided into four equal buckets: tax, CapEx, shareholder rewards (dividends/buyback), and a buffer to repay liabilities.

Outlook & Strategic Focus

- The second half of FY26 is expected to be promising, with monsoon conclusion and government spending increasing money supply.
- **FY26 Volume Guidance has been revised downwards** from 15-20% to 10-15% growth due to a softer first half, assuming the macro environment doesn't worsen. However, upside is possible if conditions improve.
- Management has guided EBITDA per tonne to be between Rs4,600 to Rs5,000 per ton for FY26. The ultimate long-term goal for EBITDA per ton is Rs5,500 to Rs6,000
- The company is optimistic for FY27, suggesting growth "could be much higher than 15%, 20%" due to the lower base of FY26 and readiness with capacity, distribution, new products, and deeper industry penetration. They expect EBITDA per ton to be Rs5,000 per tonne in FY27, moving towards the ultimate goal of Rs 5,500-6,000
- The current price gap between HRC (Hot Rolled Coil) tubes and Patra (secondary steel) is Rs 8,000-10,000 per ton. APL Apollo's strategy involves adding products (heavy/light structural, coated, rust-proof, galvanized) that are not impacted by this gap, as secondary steel cannot produce them. When this gap narrows, the company benefits from a shift of the secondary market to primary, potentially allowing for higher growth.
- Expected recovery in exports and Middle East, contributions from new product lines, seasonal pick-up in construction, government-focused critical infrastructure (railways, aviation, healthcare), private infrastructure (warehousing, factories, commercial spaces, data centers), and retail sector revival due to easing inflation/interest rates.

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Net sales	**1,30,633**	**1,61,660**	**1,81,188**	**2,06,895**	**2,34,426**	**2,88,178**
Change (yoy, %)	*53.7*	*23.8*	*12.1*	*14.2*	*13.3*	*22.9*
Operating expenses	(1,21,181)	(1,51,444)	(1,69,266)	(1,94,906)	(2,17,313)	(2,66,357)
EBITDA	**9,453**	**10,216**	**11,922**	**11,990**	**17,113**	**21,820**
Change (yoy, %)	*39.3*	*8.1*	*16.7*	*0.6*	*42.7*	*27.5*
Margin (%)	*7.2*	*6.3*	*6.6*	*5.8*	*7.3*	*7.6*
Depreciation	(1,090)	(1,383)	(1,759)	(2,013)	(2,242)	(2,522)
EBIT	**8,363**	**8,832**	**10,162**	**9,977**	**14,871**	**19,298**
Interest paid	(445)	(671)	(1,134)	(1,333)	(1,219)	(1,007)
Other income	405	472	749	961	999	1,059
Pre-tax profit	**8,323**	**8,633**	**9,777**	**9,604**	**14,651**	**19,350**
Tax	(2,133)	(2,215)	(2,453)	(2,034)	(3,619)	(4,876)
Effective tax rate (%)	*25.6*	*25.7*	*25.1*	*21.2*	*24.7*	*25.2*
Minority Interest	-	-	-	-	-	-
Net profit	**6,190**	**6,419**	**7,324**	**7,571**	**11,032**	**14,474**
Exceptional items	-	-	-	-	-	-
Adjusted net profit	**6,190**	**6,419**	**7,324**	**7,571**	**11,032**	**14,474**
Change (yoy, %)	*71.9*	*3.7*	*14.1*	*3.4*	*45.7*	*31.2*
EPS	24.8	23.1	26.4	27.3	39.7	52.1
Dividend per sh	3.5	3.5	5.0	5.8	7.0	8.5
Dividend Payout %	*14.1*	*15.1*	*18.9*	*21.1*	*17.6*	*16.3*

Balance Sheet

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Shareholders' funds	**22,639**	**30,056**	**36,046**	**42,087**	**51,523**	**64,054**
Share capital	500	555	555	555	555	555
Reserves & surplus	22,139	29,501	35,491	41,532	50,968	63,499
Total Debt	**5,812**	**8,730**	**11,437**	**6,344**	**5,844**	**5,344**
Other liabilities	1,950	2,359	2,551	2,990	8,834	8,334
Curr Liab & prov	**12,122**	**17,372**	**21,834**	**24,541**	**25,029**	**26,236**
Current liabilities	11,938	17,139	21,555	24,220	24,708	25,915
Provisions	184	233	279	321	321	321
Total liabilities	**19,884**	**28,460**	**35,822**	**33,875**	**33,542**	**34,249**
Total equity & liabilities	**44,523**	**58,516**	**71,868**	**75,962**	**85,065**	**98,303**
Net fixed assets	22,464	28,620	33,736	38,432	41,189	43,667
Investments	**866**	**963**	**1,030**	**1,262**	**1,262**	**1,262**
Other non-curr assets	2,923	3,356	3,689	4,434	4,434	4,434
Current assets	**18,270**	**25,578**	**33,414**	**31,835**	**38,180**	**48,940**
Inventories	8,472	14,799	16,379	16,232	20,552	26,054
Sundry Debtors	3,467	1,374	1,391	2,673	3,854	4,737
Cash and Bank	3,764	3,525	3,476	5,749	6,593	10,967
Other current assets	2,567	5,880	12,168	7,181	7,181	7,181
Total assets	**44,523**	**58,516**	**71,868**	**75,962**	**85,065**	**98,303**

Cash Flow Statement

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Pre-tax profit	8,323	8,633	9,777	9,604	14,651	19,350
Depreciation	1,090	1,383	1,759	2,013	2,242	2,522
Tax paid	(1,993)	(2,161)	(2,180)	(1,875)	(3,619)	(4,876)
Chg in working capital	(1,154)	(1,475)	1,202	1,727	(5,335)	(5,179)
Other operating activities	251	520	557	662	220	(52)
Cash flow from operations (a)	**6,517**	**6,901**	**11,116**	**12,132**	**8,160**	**11,765**
Capital expenditure	(5,869)	(8,424)	(6,618)	(6,537)	(5,000)	(5,000)
Chg in investments	420	(393)	(2,876)	2,468	-	-
Other investing activities	147	59	338	323	999	1,059
Cash flow from investing (b)	**(5,301)**	**(8,757)**	**(9,156)**	**(3,747)**	**(4,001)**	**(3,941)**
Equity raised/(repaid)	70	27	-	-	-	-
Debt raised/(repaid)	603	2,902	2,586	(16,635)	(500)	(500)
Dividend (incl. tax)	-	(875)	(1,387)	(1,526)	(1,596)	(1,943)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(413)	(608)	(933)	10,012	(1,219)	(1,007)
Cash flow from financing (c)	**260**	**1,446**	**266**	**(8,149)**	**(3,315)**	**(3,450)**
Net chg in cash (a+b+c)	**1,476**	**(410)**	**2,225**	**236**	**844**	**4,374**

Financial Ratios

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Book Value (Rs)	91	108	130	152	186	231
Adj EPS (Rs)	*24.8*	*23.1*	*26.4*	*27.3*	*39.7*	*52.1*
Adj EPS growth (%)	*71.9*	*-6.7*	*14.1*	*3.4*	*45.7*	*31.2*
EBITDA margin (%)	*7.2*	*6.3*	*6.6*	*5.8*	*7.3*	*7.6*
Pre-tax margin (%)	*6.4*	*5.3*	*5.4*	*4.6*	*6.2*	*6.7*
Net Debt/Equity (x)	*0.1*	*0.2*	*0.2*	*0.0*	*0.0*	*-0.1*
ROCE (%)	*29.3*	*24.0*	*22.3*	*19.7*	*24.6*	*26.7*
ROE (%)	*31.3*	*24.4*	*22.2*	*19.4*	*21.4*	*22.6*
DuPont Analysis						
Asset turnover (x)	3.3	3.1	2.8	2.8	2.8	2.9
Leverage factor (x)	2.0	2.0	2.0	1.9	1.7	1.5
Net margin (%)	*4.7*	*4.0*	*4.0*	*3.7*	*4.7*	*5.0*
Working Capital & Liquidity ratio						
Inventory days	24	33	33	29	32	33
Receivable days	10	3	3	5	6	6
Payable days	32	38	43	42	38	32

Valuations

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
PER (x)	68.3	73.2	64.1	62.0	42.6	32.4
Price/Book value (x)	18.7	15.6	13.0	11.2	9.1	7.3
EV/Net sales (x)	3.3	2.9	2.6	2.3	2.0	1.6
EV/EBITDA (x)	44.9	46.5	40.1	39.2	27.4	21.3
Dividend Yield (%)	*0.2*	*0.2*	*0.3*	*0.3*	*0.4*	*0.5*

Source: Company; IDBI Capital Research

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Key to Ratings Stocks:

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

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