

APL Apollo Tubes

BUY

Margin strong; Focus on value added products continues

Summary

APL Apollo Tubes Q2FY22 EBITDA was slightly weaker than our forecast. EBITDA stood at Rs2,222 mn (9% below our forecast). EBITDA/t expanded by 48% YoY to Rs5,199, although sequentially it fell 24%. Nevertheless, EBITDA/t over Rs5,000 is likely to be sustainable over the coming one year in our view; APL aims to increase EBITDA/t to Rs6-7,000/tonne in coming 2-3 years as it expands its Raipur facility where it will have 0.5 mtpa of high-margin products. Also, APL targets strong volume growth of 2.5 mn tonnes in FY23 (from an estimated 1.8 mn tonnes in FY22).

We raise our margin estimates for FY23 to factor strong sales volume guidance. Hence, our FY23 EBITDA estimate is now higher by 21%. We now value the stock at a PER of 28x FY24 (earlier 36x FY23E) EPS and raise our target price to Rs1,112 (earlier Rs1,007).

Key Highlights and Investment Rationale

- Strong improvement in margins:** Despite the second wave of Covid-19 affecting Q2FY22 volumes (-11% QoQ to 427 kt), APL's margin remained firm. Overall, its EBITDA at Rs5,199/tonne remained strong (its last five years average has been Rs3,400/tonne).
- APL working to replace conventional products:** APL continues to innovate new products. It aims to replace application of some conventional products such as steel angles, steel channels, wood, aluminum profiles, fabricated metals sheets with structural steel. Currently, it offers 1500 SKUs which is far higher than its competitors.
- Management targets 4 mn tonnes of volumes by 2025:** 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 applaud APL's management for its execution – strong improvement in product mix, lower working capital days alongside sharp reduction in leverage in past one year. We expect APL's EBITDA/net profit to grow at a CAGR of 22%/26% over FY22E-24E. Hence, we maintain our BUY rating on the stock.

TP	Rs1,112		
CMP	Rs805		
Potential upside / downside	39%		
Previous Rating	BUY		

V/s Consensus

EBITDA (Rs bn)	FY22E	FY23E	FY24E
IDBI Capital	10.1	11.9	15.0
Consensus	9.2	11.3	13.5
% difference	9.8	5.3	11.1

Shareholding Pattern (%)

Promoters	36.8
FII	25.2
DII	7.9
Public	30.1

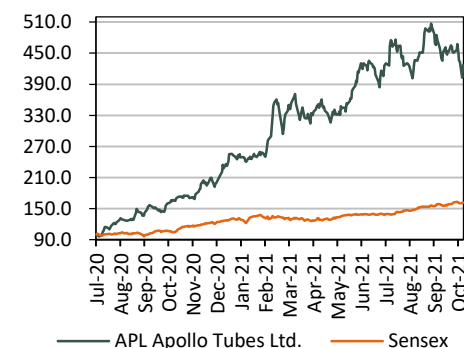
Price Performance (%)

	-1m	-3m	-12m
Absolute	(7.3)	(8.0)	162.4
Rel to Sensex	(7.3)	(8.0)	162.4

Key Stock Data

Bloomberg / Reuters	APAT IN /APLA.BO
Sector	Iron & Steel Products
Shares o/s (mn)	250
Market cap. (Rs mn)	201,095
Market cap. (US\$ mn)	2,683
3-m daily average value (Rs mn)	67.9
52-week high / low	Rs1,050 / 302
Sensex / Nifty	59,985 / 17,857

Relative to Sensex (%)



Financial snapshot

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	74,265	82,149	125,348	153,637	181,719
EBITDA	4,773	6,787	10,142	11,923	15,057
EBITDA (%)	6.4	8.3	8.1	7.8	8.3
Adj. PAT	2,380	3,602	6,253	7,705	9,918
EPS (Rs)	19.1	14.4	25.0	30.8	39.7
EPS Growth (%)	53.9	50.7	73.6	23.2	28.7
PE (x)	84.7	55.5	32.0	25.9	20.1
Dividend Yield (%)	0.2	-	0.4	0.6	0.8
EV/EBITDA (x)	43.7	29.6	20.1	16.5	12.5
RoE (%)	20.5	23.6	38.8	40.5	36.4
RoCE (%)	18.2	23.9	38.0	42.8	43.0

Source: IDBI Capital Research;

Exhibit 1: Quarterly Snapshot

(Rs mn)	Q2FY22	Q1FY22	QoQ (%)	Q2FY21	YoY (%)
Net sales	29,775	24,433	21.9	21,303	39.8
EBITDA	2,222	2,547	(12.7)	1,691	31.4
<i>EBITDA /tonne</i>	<i>5,199</i>	<i>6,825</i>	<i>(23.8)</i>	<i>3,513</i>	<i>48.0</i>
Other income	114	102	10.9	101	12.5
Interest	107	128	(16.5)	159	(32.7)
Depreciation	273	265	2.9	251	8.8
PBT	1,956	2,256	(13.3)	1,382	41.5
Tax	495	572	(13.4)	356	39.2
PAT	1,313	1,474	(10.9)	921	42.6
Diluted EPS (Rs)	5.3	5.9	(10.9)	3.7	42.6

Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. Estimates

(Rs mn)	Q2FY22E	Q2FY22A	Variance (%)
Total Revenues	27,986	29,775	6.4
EBITDA	2,436	2,222	(8.8)
<i>EBITDA/tonne</i>	<i>5,700</i>	<i>5,199</i>	<i>(8.8)</i>
Net profit	1,524	1,313	(13.8)
EPS	6.1	5.3	(13.8)

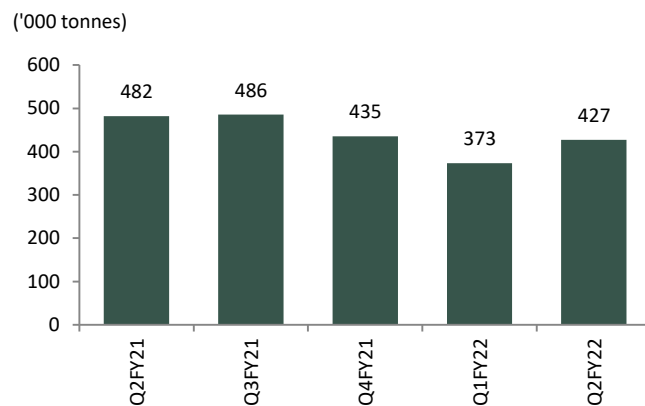
Source: Company; IDBI Capital Research

Exhibit 3: Change in estimates

	FY22E			FY23E			FY24E
	Old	New	(%) Chg	Old	New	(%) Chg	
Revenue (Rs mn)	119,100	125,348	5.2	131,761	153,637	16.6	181,719
EBITDA (Rs mn)	10,266	10,142	(1.2)	9,827	11,923	21.3	15,057
EBITDA margin (%)	10.4	8.1	-235bps	9.1	7.8	-134bps	8.3
Net profit (Rs mn)	6,497	6,253	(3.8)	6,269	7,705	22.9	9,918
EPS (Rs)	26.0	25.0	(3.8)	25.1	30.8	22.9	39.7

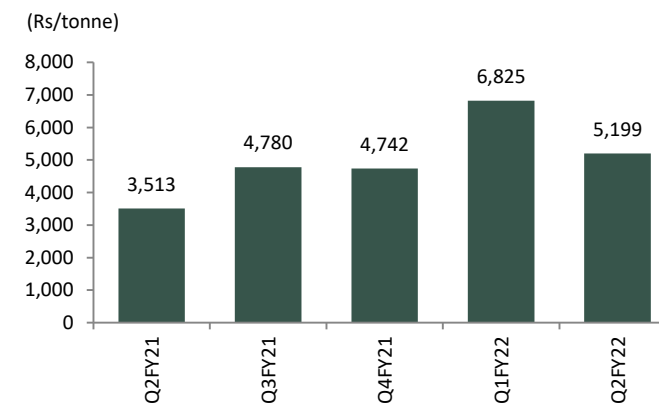
Source: Company; IDBI Capital Research

Exhibit 4: Sales volumes remained flatish on YoY basis



Source: Company; IDBI Capital Research

Exhibit 5: EBIDTA/tonne above than historical average



Source: Company; IDBI Capital Research

Con-call Highlight

- APL is confident in achieving market share of 55-60% in coming years on account of innovative products across business verticals and addition in color pipes business categories.
- During Q2FY22, EBITDA/tonne stood at Rs5,199/tonne because of value added products.
- Company has target of EBITDA/ tonne of Rs6000-7000/tonne with 4 mn tonnes volumes in FY25.
- In H1FY22, Net Working Capital Cycle stood at 10 days
- Apollo Tricoat Tubes merger is on track and company already got NOC letter from both exchanges and expected to complete by Q1FY23.
- Company is supplying its products to various government agencies through EPC contractors with an advance payment. This will help them to expand their customer days with impact on debtor days.
- 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.
- Company's long term goal includes value additional, cost control, innovation, new market creation and brand equity enhancement which will bring double digit growth in volume in coming 2-3 years
- In terms of exports, company is looking to set up a base in Dubai to cater Middle East and European markets.
- Company has a long term contract with all the customers which will help to create inventory at a stable level
- Raipur capacity expansion of 2.6 mn tonnes to 3 mn tonnes is on track and expected to commence 25% of production in March'22. Full capacity utilization will take atleast 2 years. .

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Net sales	82,149	125,348	153,637	181,719
<i>Growth (%)</i>	10.6	52.6	22.6	18.3
Operating expenses	(78,210)	(118,180)	(147,091)	(173,021)
EBITDA	6,787	10,142	11,923	15,057
<i>Growth (%)</i>	42.2	49.4	17.6	26.3
Depreciation	(1,028)	(1,092)	(1,114)	(1,136)
EBIT	5,759	9,050	10,809	13,921
Interest paid	(661)	(389)	(130)	(34)
Other income	359	451	474	497
Pre-tax profit	5,458	9,112	11,153	14,384
Tax	(1,381)	(2,302)	(2,807)	(3,621)
<i>Effective tax rate (%)</i>	25.3	25.3	25.2	25.2
Minority interest	(475.4)	(558)	(641)	(846)
Net profit	3,602	6,253	7,705	9,918
Adjusted net profit	3,602	6,253	7,705	9,918
<i>Growth (%)</i>	51.3	73.6	23.2	28.7
<i>Shares o/s (mn)</i>	249.8	249.8	249.8	249.8

Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Pre-tax profit	5,458	9,112	11,153	14,384
Depreciation	1,028	1,092	1,114	1,136
Tax paid	(1,281)	(2,290)	(2,796)	(3,609)
Chg in working capital	3,892	(1,043)	(343)	(349)
Other operating activities	(757)	(7,161)	1,107	732
Cash flow from operations (a)	8,340	(291)	10,235	12,295
Capital expenditure	(2,298)	(2,000)	(2,000)	(2,000)
Chg in investments	0	-	-	-
Other investing activities	-	-	-	-
Cash flow from investing (b)	(2,298)	(2,000)	(2,000)	(2,000)
Equity raised/(repaid)	1	250	-	-
Debt raised/(repaid)	(2,861)	(600)	(3,482)	(335)
Dividend (incl. tax)	-	(874)	(1,249)	(1,499)
Chg in minorities	(47)	-	-	-
Other financing activities	-	-	-	-
Cash flow from financing (c)	(2,907)	(1,225)	(4,731)	(1,834)
Net chg in cash (a+b+c)	3,135	(3,515)	3,504	8,461

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Net fixed assets	17,484	18,392	19,279	20,143
Investments	15	15	15	15
Other non-curr assets	2,499	2,499	2,499	2,499
Current assets	13,991	14,946	21,609	32,936
Inventories	7,599	11,483	14,292	16,811
Sundry Debtors	1,306	1,993	2,442	2,889
Cash and Bank	3,579	64	3,568	12,029
Marketable securities	-	-	-	-
Loans and advances	13	13	13	13
Other current assets	1,494	1,394	1,294	1,194
Total assets	33,990	35,853	43,402	55,593
Shareholders' funds	16,947	15,306	22,761	31,805
Share capital	250	500	500	500
Reserves & surplus	16,697	14,806	22,261	31,305
Total Debt	4,416	3,816	335	-
Secured loans	1,835	835	335	-
Unsecured loans	2,582	2,982	-	-
Other liabilities	1,877	1,896	1,915	1,934
Curr Liab & prov	9,367	12,894	15,810	18,427
Current liabilities	9,190	12,713	15,626	18,239
Provisions	177	180	184	188
Total liabilities	15,660	18,606	18,059	20,361
Total equity & liabilities	33,990	35,853	43,402	55,593
Book Value (Rs)	68	61	91	127

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY21	FY22E	FY23E	FY24E
Adj. EPS (Rs)	14.4	25.0	30.8	39.7
Adj. EPS growth (%)	50.7	73.6	23.2	28.7
EBITDA margin (%)	8.3	8.1	7.8	8.3
Pre-tax margin (%)	6.6	7.3	7.3	7.9
ROE (%)	23.6	38.8	40.5	36.4
ROCE (%)	23.9	38.0	42.8	43.0
Turnover & Leverage ratios (x)				
Asset turnover (x)	2.5	3.6	3.9	3.7
Leverage factor (x)	2.2	2.2	2.1	1.8
Net margin (%)	4.4	5.0	5.0	5.5
Net Debt/Equity (x)	0.0	0.2	-0.1	-0.4
Working Capital & Liquidity ratio				
Inventory days	34	33	34	34
Receivable days	6	6	6	6
Payable days	37	37	37	37

Valuation

Year-end: March	FY21	FY22E	FY23E	FY24E
P/E (x)	55.5	32.0	25.9	20.1
Price / Book value (x)	11.8	13.1	8.8	6.3
PCE (x)	43.2	27.2	22.7	18.1
EV / Net sales (x)	2.4	1.6	1.3	1.0
EV / EBITDA (x)	29.6	20.1	16.5	12.5
Dividend Yield (%)	0.0	0.4	0.6	0.8



Notes

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Key to Ratings Stocks:

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

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