

APL Apollo Tubes

BUY

Despite weak Q3 volumes, 5 mtpa guidance intact for FY26

Summary

APL Apollo Tubes Q3FY24 sales were in line with our expectation. EBITDA/t remained flat YoY to Rs4,636 as its volumes remained flat YoY at 604 kt. The new Raipur plant with a capacity of 1.2 MTPA ramp-up is ramping up on expected lines with a capacity utilization of 41% during the quarter. Also, the company expects the new Raipur plant to potentially contribute revenue of more than Rs70 bn and EBITDA of Rs6 bn. During Q3FY24, the contribution from value added products increased to 59% vs. 55% in Q2FY24. Also, EBITDA of value added products was more than Rs5,000/tn during the quarter. Broadly, we maintain our FY24-25 forecasts and introduce FY26 estimates in this report. We now value the stock at a PER of 30x FY26 (earlier 35x FY25E) to derive a target price of Rs1,775 (earlier Rs1,577) and upgrade the stock to a BUY.

Key Highlights and Investment Rationale

- Lower volumes owing to channel de-stocking:** APL's sales volumes remained flat YoY while de-grew 11% QoQ to 604 kt due to channel de-stocking. EBITDA/tonne was also flat YoY to Rs4,636/tonne due to sharp fall in steel prices. Nevertheless, 9MFY24 sales volumes increased by 19% YoY to 1,940 kt. Despite weak volumes in Q3FY24, the company maintained its FY26 guidance of 5.0 mn tonnes sales (our forecast 4.1 mn tonnes).
- Project updates:** The company aims to establish a new plant in East India with a capacity of 0.2 MTPA. The land acquisition is in process for the project and is expected to be completed by the end of FY25. This project will also help the company to penetrate deep in the Eastern India market. Lastly, Dubai plant (capacity of 0.3 MTPA) has also started production in Dec'23.
- Outlook:** The company foresees signs of restocking and anticipates volume recovery in coming quarters. Importantly, Raipur plant ramp up is progressing well which will lead to better margins over FY24-26E in our view.

TP	Rs1,775
CMP	Rs1,490
Potential upside/downside	19%
Previous Rating	HOLD

Price Performance (%)

	-1m	-3m	-12m
Absolute	(3.5)	(8.2)	31.0
Rel to Sensex	(1.1)	(19.1)	11.8

V/s Consensus

EPS (Rs)	FY24E	FY25E	FY26E
IDBI Capital	33	44	59
Consensus	32	46	58
% difference	3.3	(4.4)	2.3

Key Stock Data

Bloomberg / Reuters	APAT IN /APLA.BO
Sector	Iron & Steel Products
Shares o/s (mn)	278
Market cap. (Rs mn)	413,512
3-m daily average value (Rs mn)	66.4
52-week high / low	Rs1,806 / 1,047
Sensex / Nifty	70,701 / 21,353

Shareholding Pattern (%)

Promoters	29.6
FII	29.2
DII	12.0
Public	29.2

Financial snapshot

Year	FY22	FY23	FY24E	FY25E	FY26E
Revenue	1,26,252	1,56,744	1,80,443	2,19,019	2,95,226
Change (yoy, %)	54	24	15	21	35
EBITDA	9,453	10,216	13,139	17,014	21,355
Change (yoy, %)	39	8	29	29	26
EBITDA Margin(%)	7.5	6.5	7.3	7.8	7.2
Adj.PAT	5,573	6,418	8,230	10,915	14,782
EPS (Rs)	22	26	33	44	59
Change (yoy, %)	54.7	15.2	28	33	35
PE(x)	66.8	58.0	45	34	25
Dividend Yield (%)	0.2	0.3	0	1	1
EV/EBITDA (x)	39.6	36.9	28.8	21.7	16.6
RoE (%)	28.2	24.4	29	34	29
RoCE (%)	29.3	24	29	36	35

Source: IDBI Capital Research

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Exhibit 1: Quarterly Snapshot

(Rs mn)	Q3FY24	Q2FY24	QoQ (%)	Q3FY23	YoY (%)
Net sales	40,478	44,890	(9.8)	42,011	(3.6)
EBITDA	2,796	3,250	(14.0)	2,729	2.5
EBITDA /tonne	4,636	4,822	(3.9)	4,510	2.8
Other income	150	196	(23.4)	93	61.5
Interest	285	266	7.1	186	53.0
Depreciation	471	413	13.9	345	36.3
PBT	2,190	2,767	(20.8)	2,290	(4.4)
Tax	535	738	(27.5)	598	(10.6)
Reported PAT	1,655	2,029	(18.4)	1,692	(2.2)
Adjusted PAT	1,655	2,029	(18.4)	1,692	(2.2)
Adjusted EPS (Rs)	6.0	7.3	(18.4)	6.8	(11.9)

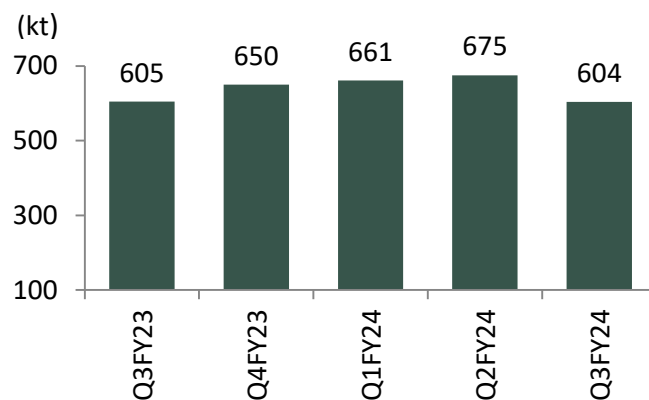
Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. Estimates

(Rs mn)	Q3FY24E	Q3FY24A	Variance (%)
Total Revenues	40,710	40,478	(0.6)
EBITDA	2,955	2,796	(5.4)
EBITDA/tonne	4,900	4,636	(5.4)
Adjusted net profit	1,848	1,655	(10.5)
Adjusted EPS	6.7	6.0	(10.5)

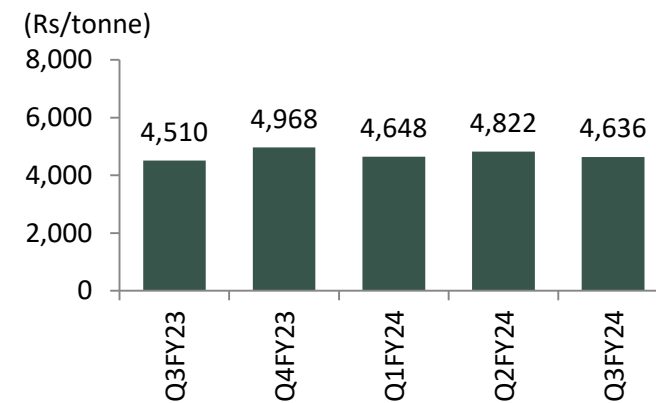
Source: Company; IDBI Capital Research

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)

	FY24E			FY25E			FY26E
	Old	New	(%) Chg	Old	New	(%) Chg	
Revenue (Rs bn)	1,85,408	1,80,443	(2.7)	2,39,067	2,19,019	(8.4)	2,95,226
EBITDA (Rs bn)	13,609	13,139	(3.5)	16,411	17,014	3.7	21,355
EBITDA margin (%)	7.3	7.3	-6bps	6.9	7.8	90bps	7.2
Adj. Net profit (Rs bn)	8,819	8,230	(6.7)	11,306	10,915	(3.5)	14,782
Adj. EPS (Rs)	35.3	32.9	(6.7)	45.3	43.7	(3.5)	59

Source: Company; IDBI Capital Research

Con-call highlights

- During quarter, APL Apollo sales were lower than the guided sales due to (1)The company anticipated the Raipur plant to start production in the month of June which got commenced in December.(2)The company anticipated Dubai plant to start production in the month of September which got commenced in December.(3) Steel price inflation.
- During the quarter the Working capital days increased due to increase in the inventory. However, the company expects working capital days to improve in Q4FY24.
- The company expects the new product launches from Raipur plant will drive the further growth. The capacity utilization for heavy segment stood at 50%, Super light tubes at 30%(production started in September), coated galvanized sheet at 70%, thicker coated sheet at 12% (production started in late December).
- The company maintained the production volume guidance for FY25/26 at 4 /5 mn tons. The contribution from value added products will improve from 1.3 mn tons in FY23 to 3.5 mn tons in FY26 (+70%).
- Dubai plant will contribute 0.5 mn tons by FY26, company expects the exports to improve from 0.3mn tons to 0.5 mn tons by FY26. The company will majorly export to countries like Europe, Canada, USA and Australia.
- The company expects higher margins in exports majorly driven by competitive pricing, ability to purchase raw material at lower cost and number of SKUs offered.
- The company expects it will easily achieve the volume growth of 20-25% but to reach to 40-50% of volume growth will require some industry tailwinds.
- The company incurred the capex of Rs5 bn in 9MY24. Also it will incur the capex of Rs 1.5 bn in Q4FY24.

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	82,149	1,26,252	1,56,744	1,80,443	2,19,019	2,95,226
<i>Change (yoy, %)</i>	11	54	24	15	21	35
Operating expenses	(78,210)	(1,21,181)	(1,51,444)	(1,67,303)	(2,02,005)	(2,73,871)
EBITDA	6,787	9,453	10,216	13,139	17,014	21,355
<i>Change (yoy, %)</i>	42	39	8	29	29	26
<i>Margin (%)</i>	8.3	7.5	6.5	7.3	7.8	7.2
Depreciation	(1,028)	(1,090)	(1,383)	(1,764)	(1,883)	(1,921)
EBIT	5,759	8,363	8,832	11,375	15,131	19,434
Interest paid	(661)	(445)	(671)	(1,108)	(1,140)	(310)
Other income	359	405	472	713	601	631
Pre-tax profit	5,458	8,323	8,633	10,981	14,592	19,755
Tax	(1,381)	(2,133)	(2,215)	(2,751)	(3,677)	(4,972)
<i>Effective tax rate (%)</i>	25.3	25.6	25.7	25.0	25.2	25.2
Minority Interest	(475.4)	(616.9)	-	-	-	-
Net profit	3,602	5,573	6,418	8,230	10,915	14,782
Exceptional items	-	-	-	-	-	-
Adjusted net profit	3,602	5,573	6,418	8,230	10,915	14,782
<i>Change (yoy, %)</i>	51	55	15	28	33	35
EPS	14.4	22.3	25.7	32.9	43.7	59.2
Dividend per sh	-	3.5	5.0	7.0	9.0	11.0
<i>Dividend Payout %</i>	-	15.7	19	21	21	19

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Shareholders' funds	16,947	22,639	30,056	27,490	37,155	50,189
Share capital	250	500	555	555	555	555
Reserves & surplus	16,697	22,139	29,501	26,935	36,601	49,634
Total Debt	4,416	5,812	8,730	8,730	6,730	3,649
Other liabilities	1,877	1,950	2,359	2,382	9,136	6,079
Curr Liab & prov	9,367	12,122	17,371	18,826	22,689	30,183
Current liabilities	9,190	11,938	17,139	18,589	22,446	29,936
Provisions	177	184	233	237	242	247
Total liabilities	15,660	19,884	28,460	29,939	31,583	36,015
Total equity & liabilities	33,990	44,523	58,516	57,428	68,738	86,204
Net fixed assets	17,484	22,464	28,620	29,855	30,472	30,551
Investments	15	866	963	963	963	963
Other non-curr assets	2,499	2,923	3,356	3,356	3,356	3,356
Current assets	13,991	18,270	25,578	23,254	33,947	51,334
Inventories	7,599	8,472	14,799	13,751	16,603	22,510
Sundry Debtors	1,306	3,467	1,374	1,483	1,800	2,427
Cash and Bank	3,579	3,764	3,525	2,240	9,863	20,817
Other current assets	1,507	2,567	5,880	5,780	5,680	5,580
Total assets	33,990	44,523	58,516	57,428	68,738	86,204

Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	5,458	8,323	8,633	10,981	14,592	19,755
Depreciation	1,028	1,090	1,383	1,764	1,883	1,921
Tax paid	(1,281)	(2,058)	(2,231)	(2,739)	(3,665)	(4,960)
Chg in working capital	3,892	(279)	1,015	2,394	451	956
Other operating activities	(757)	-	-	-	-	-
Cash flow from operations (a)	8,340	7,077	8,801	12,400	13,261	17,672
Capital expenditure	(2,298)	(6,070)	(7,539)	(3,000)	(2,500)	(2,000)
Chg in investments	0	(851)	(97)	-	-	-
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	(2,298)	(6,921)	(7,636)	(3,000)	(2,500)	(2,000)
Equity raised/(repaid)	1	250	55	-	-	-
Debt raised/(repaid)	(2,861)	1,396	2,918	-	(2,000)	(3,081)
Dividend (incl. tax)	-	(874)	(1,249)	(1,749)	(2,248)	(2,748)
Chg in minorities	(47)	0	(2,000)	-	-	-
Other financing activities	-	-	-	-	-	-
Cash flow from financing (c)	(2,907)	772	(276)	(1,749)	(4,248)	(5,829)
Net chg in cash (a+b+c)	3,135	927	888	7,652	6,512	9,842

Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Book Value (Rs)	68	91	120	110	149	201
Adj EPS (Rs)	14.4	22.3	25.7	32.9	43.7	59.2
Adj EPS growth (%)	51	55	15	28	33	35
EBITDA margin (%)	8.3	7.5	6.5	7.3	7.8	7.2
Pre-tax margin (%)	6.6	6.6	5.5	6.1	6.7	6.7
Net Debt/Equity (x)	0.0	0.1	0.2	0.2	-0.1	-0.3
ROCE (%)	24	29	24	29	36	35
ROE (%)	24	28	24	29	34	29

DuPont Analysis

Asset turnover (x)	2.5	3.2	3.0	3.1	3.5	3.4
Leverage factor (x)	2.2	2.0	2.0	2.0	2.0	1.7
Net margin (%)	4.4	4.4	4.1	4.6	5.0	5.0

Working Capital & Liquidity ratio

Inventory days	34	24	34	28	28	28
Receivable days	6	10	3	3	3	3
Payable days	37	32	38	38	38	38

Valuations

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
PER (x)	103.3	66.8	58.0	45.2	34.1	25.2
Price/Book value (x)	22.0	16.4	12.4	13.5	10.0	7.4
EV/Net sales (x)	4.5	3.0	2.4	2.1	1.7	1.2
EV/EBITDA (x)	55.0	39.6	36.9	28.8	21.7	16.6
Dividend Yield (%)	0.0	0.2	0.3	0.5	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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