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APL Apollo Tubes – Performance shows resilience even in tough times

Q1FY21 Result Update

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Rating	BUY
Price	Rs 2,128
Target Price	Rs 2,603
Implied Upside	22.3%
Sensex	38,310
Nifty	11,300
Bloomberg Code	APAT:IN
Reuters Code	APLA.NS

(Prices as on August 13, 2020)

Tracking Data

Market Cap (Rs bn)	52.7
Shares O/s (m)	24.9
3M Avg. Daily Value (Rs m)	226.6

Major Shareholders

Promoters	38.4
Domestic Inst.	13.7
Public & Others	47.9

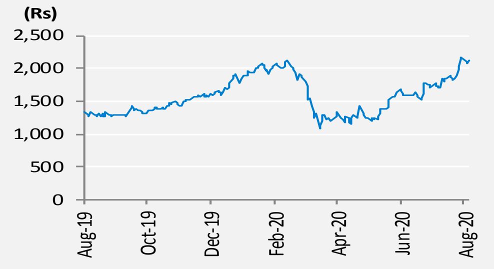
Stock Performance

(%)	1M	6M	12M
Absolute	16.5	2.4	60.1
Relative	11.8	9.5	56.6

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2021E	96.9	78.9	22.8
2022E	160.6	114.4	40.4

Price Chart



APL Apollo Tubes (APAT) cons revenue de-grew 45.9% YoY to Rs 10,792m due to loss in revenue in lockdown. Volume de-grew 40% to 238,000 MT. EBITDA de-grew 43% YoY to Rs 711m due to revenue decline while EBITDAM expanded 40bps to 6.4% on back of cost rationalisation. EBITDA/ton declined 4.7% YoY to Rs 2,986 due to lower fixed cost absorption. Although Interest cost came off by 12% QoQ as net debt came down from Rs 7.8bn as on March-20 to Rs 3.5bn at end of June, PBT fell by 62% due to higher depreciation and lower other income.

Rural accounted for 60% (40% earlier) on back of strong demand and lesser impact of lockdown in tier 2 & 3 towns. APAT gained further market share (>40%) as smaller, unorganised players buckled under liquidity & demand pressures.

Recently APAT shifted to cash sales resulting in sharp drop in receivable days to 12 from 22. This will also help in efficient RM inventory management thereby lowering impact of volatility in steel prices. Since no major capex is planned for FY21 (capacities enough to grow for 2 years), cash generated will be used towards repaying debt and company expects to be debt free in the next 12 months. Further, the focus will be on optimising costs by reducing freight cost by Rs 400/ton to Rs 800 through realignment of machines and streamlining operations. APAT has a capex plan of Rs 1bn in FY22 (to be funded through internal accruals) on setting up high diameter pipe capacity.

Post results we have revised FY21E revenues upwards by 3.7% but FY22E downwards by 5.8% (lower volume assumptions). PAT for FY21E stands doubled and up by 28.3% for FY22E due to beat on EBITDA/ton & lower interest burn. Going ahead, along with volume growth we also expect EBITDA/ton to expand steadily led by operating leverage, cost savings and better product mix. Simultaneously balance sheet will also gain strength due to combined effect of shorter NWC cycle (10 days v/s 17 days FY20), deleveraging and high cash generation. At CMP, the stock is trading at EV/EBITDA of 8.1x FY22E. Our previous TP of Rs 1961 is achieved but we maintain BUY with revised TP of Rs 2603. We re-iterate that this stock is a potential candidate for re-rating & thus value it at 10.0x FY22E EBITDA v/s 8.0x previously.

Key financials (Y/e March)	2019	2020	2021E	2022E
Revenues (Rs m)	71,523	77,232	70,483	86,317
Growth (%)	*34.1*	*8.0*	*(8.7)*	*22.5*
EBITDA (Rs m)	3,928	4,773	4,693	6,305
PAT (Rs m)	1,482	2,560	2,411	3,993
EPS (Rs)	62.2	102.9	96.9	160.6
Growth (%)	*(6.2)*	*65.6*	*(5.8)*	*65.6*
CEPS (Rs)	89.1	141.5	135.9	204.3
Net DPS (Rs)	14.0	14.0	13.5	13.5
Profitability & Valuation	**2019**	**2020**	**2021E**	**2022E**
EBITDA margin (%)	*5.5*	*6.2*	*6.7*	*7.3*
RoE (%)	*16.5*	*21.2*	*15.6*	*21.9*
RoCE (%)	*27.7*	*22.7*	*18.7*	*24.9*
EV / sales (x)	0.7	0.6	0.8	0.6
EV / EBITDA (x)	11.9	9.9	11.6	8.1
PE (x)	26.1	15.8	22.0	13.3
P / BV (x)	4.0	2.8	3.2	2.6
Net dividend yield (%)	*0.9*	*0.9*	*0.6*	*0.6*

Source: Company Data, PL Research

Q1FY21 Result Overview (Rs m)

Y/e March	Q1 '21	Q1'20	YoY gr. (%)	Q4 '20	QoQ gr. (%)
Gross Sales	10,792	19,936	(45.9)	18,087	(40.3)
Other Operating Income	306	780	(60.8)	799	(61.7)
Net Revenue	**11,098**	**20,716**	**(46.4)**	**18,885**	**(41.2)**
Expenditure					
Raw Material Cost	9,308	17,951	(48.1)	15,867	(41.3)
% of revenue	*83.9*	*86.7*		*84.0*	
Employee Cost	287	301	(4.8)	386	(25.7)
% of revenue	*2.6*	*1.5*		*2.0*	
Other Expense	793	1,214	(34.7)	1,433	(44.7)
% of revenue	*7.1*	*5.9*		*7.6*	
Total Expenditure	**10,387**	**19,466**	**(46.6)**	**17,686**	**(41.3)**
EBITDA	**711**	**1,250**	**(43.1)**	**1,199**	**(40.7)**
Margin (%)	*6.4*	*6.0*		*6.3*	
Depr. & Amortization	239	202	18.1	255	(6.2)
EBIT	472	1,048	(55.0)	**944**	(50.0)
Net Interest	212	283	(25.1)	241	(12.1)
Other Income	49	46	7.0	83	(41.5)
Exceptional Items	-	-		-	
Profit before Tax	**309**	**810**	**(61.9)**	**786**	**(60.7)**
Total Tax	90	289	(69.0)	178	(49.7)
Effective tax rate (%)	*29.1*	*35.7*		*22.7*	
Profit after Tax	**219**	**521**	**(58.0)**	**608**	**(64.0)**
PAT Margin (%)	*2.0*	*2.5*		3.2	
EPS	**9**	**21**	**(58.0)**	**24**	**(64.0)**

Source: Company Data, Idea Research

Q1FY21 Operating Metrics

Y/e March	Q1 '21	Q1 '20	YoY gr. (%)	Q4'20	QoQ gr. (%)
Volumes (MTPA)	238,000	398,797	(40.3)	401,000	(71.7)
EBITDA/ton (Rs)	2,986	3,134	(4.7)	2,989	(0.3)

Source: Company Data, Idea Research

Income Statement (Rs m)

Y/e March	2019	2020	2021E	2022E
Net Revenue	**71,523**	**77,232**	**70,483**	**86,317**
Raw Material Expenses	63,077	65,786	59,545	72,506
Gross Profit	8,446	11,447	10,937	13,811
Employee Cost	1,079	1,422	1,240	1,463
Other Expenses	3,439	5,252	5,004	6,042
EBITDA	**3,928**	**4,773**	**4,693**	**6,305**
Depr. & Amortization	643	959	970	1,087
Net Interest	1,134	1,073	700	100
Other Income	117	222	200	220
Profit before Tax	**2,269**	**2,963**	**3,223**	**5,338**
Total Tax	787	403	812	1,345
Profit after Tax	**1,482**	**2,560**	**2,411**	**3,993**
Avg. Shares O/S (m)	**23.9**	**24.9**	**24.9**	**24.9**
EPS (Rs.)	**62.2**	**102.9**	**96.9**	**160.6**

Cash Flow Abstract (Rs m)

Y/e March	2019	2020	2021E	2022E
C/F from Operations	3,632	5,390	6,201	4,333
C/F from Investing	(2,236)	(6,832)	202	(578)
C/F from Financing	(987)	1,420	(6,659)	(1,502)
Inc. / Dec. in Cash	409	(22)	(256)	2,253
Opening Cash	69	478	456	200
Closing Cash	478	456	200	2,453
FCFF	1,396	(1,442)	6,403	3,755

Key Financial Metrics

Y/e March	2019	2020	2021E	2022E
Growth				
Revenue (%)	34.1	8.0	(8.7)	22.5
EBITDA (%)	5.9	21.5	(1.7)	34.4
PAT (%)	(6.2)	72.7	(5.8)	65.6
EPS (%)	(6.2)	65.6	(5.8)	65.6
Profitability				
EBITDA Margin (%)	5.5	6.2	6.7	7.3
PAT Margin (%)	2.1	3.3	3.4	4.6
RoCE (%)	27.7	22.7	18.7	24.9
RoE (%)	16.5	21.2	15.6	21.9
Balance Sheet				
Net Debt : Equity	0.8	0.5	0.1	(0.1)
Net Wrkng Cap. (days)	27	17	12	12
Valuation				
PER (x)	26.1	15.8	22.0	13.3
P / B (x)	4.0	2.8	3.2	2.6
EV / EBITDA (x)	11.9	9.9	11.6	8.1
EV / Sales (x)	0.7	0.6	0.8	0.6
Earnings Quality				
Eff. Tax Rate	34.7	13.6	25.2	25.2
Other Inc / PBT	0.1	0.1	0.1	0.0
Eff. Depr. Rate (%)	5.5	5.6	5.6	6.0

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2019	2020	2021E	2022E
Non-Current Assets	**12,849**	**18,160**	**17,227**	**16,992**
Net fixed assets	**10,078**	**14,711**	**13,842**	**13,555**
Capital Work In Progress	275	101	-	-
Intangible Assets	29	27	25	23
Goodwill on Consolidation	230	1,375	1,375	1,375
Right to Use Assets	-	971	971	971
Investments	494	15	15	15
Loans	5	-	5	10
Other financial assets	404	253	266	293
Non-Current Tax Asset	7	115	127	139
Other Non-Current Assets	1,329	592	602	612
Current Assets	**14,786**	**14,484**	**7,753**	**11,542**
Inventories	7,835	7,842	3,916	4,795
Trade receivables	5,433	4,764	2,349	2,877
Cash & Bank Balance	478	456	200	2,453
Loans	13	13	14	16
Other financial assets	60	27	30	33
Other Current Assets	966	1,382	1,244	1,368
Assets held for sale	104	17	17	17
Total Assets	**27,739**	**32,660**	**24,997**	**28,551**
Equity				
Equity Share Capital	239	249	249	249
Other Equity	9,402	13,313	15,322	18,913
Non-Controlling Interest		954	897	897
Total Net-worth	**9,641**	**14,516**	**16,467**	**20,058**
Non-Current Liabilities	**3,528**	**5,897**	**2,981**	**2,374**
Long Term borrowings	1,745	4,043	1,043	343
Lease Liabilities	-	1	1	1
Other Financial Liability	7	7	8	9
Provisions	99	162	178	196
Deferred tax liabilities	1,200	1,012	1,012	1,012
Other Non-Current liabilities	478	672	740	814
Current Liabilities	**14,570**	**12,247**	**5,548**	**6,119**
Short Term borrowings	5,356	3,229	729	429
Lease Liabilities	-	6	6	6
Trade payables	6,989	7,644	3,308	4,028
Other Financial liabilities	1,832	1,144	1,259	1,384
Short term provisions	8	11	12	14
Other current liabilities	307	173	190	209
Current Tax Liability	78	41	45	50
Total Equity & Liabilities	**27,739**	**32,660**	**24,997**	**28,551**

Quarterly Financials (Rs m)

Y/e March	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Revenue	**16,473**	**21,159**	**18,885**	**11,098**
EBITDA	**720**	**1,605**	**1,199**	**711**
% of revenue	*4.4*	*7.6*	*6.3*	*6.4*
Depr. & Amortization	240	262	255	239
Net Interest	269	280	241	212
Other Income	46	47	83	49
Profit before Tax	**258**	**1,109**	**786**	**309**
Total Tax	(341)	277	178	90
Profit after Tax	**599**	**832**	**608**	**219**

Source: Company Data, PL Research.

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