Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

APL Apollo Tubes Ltd

Decent Q1; strong growth guidance sustains

Building Material	Sharekhan code: APLAPOLLO

Reco/View: Buy	↔	CMP: Rs. 912	Price Target: Rs. 1,100	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 32.26

Updated Jul 08, 2022

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

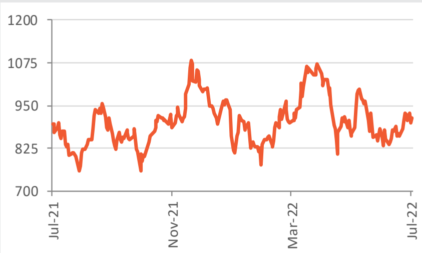
Company details

Market cap:	Rs. 22,826 cr
52-week high/low:	Rs. 1,114 / 743
NSE volume: (No of shares)	4.0 lakh
BSE code:	533758
NSE code:	APLAPOLLO
Free float: (No of shares)	16.4 cr

Shareholding (%)

Promoters	34.5
FII	24.6
DII	11.2
Others	29.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	9.6	-9.5	12.3	1.7
Relative to Sensex	4.6	-6.5	14.7	-4.7

Sharekhan Research, Bloomberg

Summary

- Q1 operating profit of Rs. 194 crore (down 27.1% q-o-q) was 4% above our estimate led by a beat in gross margins amid better realisations and a slight improvement in mix of value-added products. In-line sales volume of 423 kt, down 23% q-o-q.
- Sales volumes across product categories declined by 17-43% q-o-q due to channel de-stocking amid a steep steel price fall. Apollo Tricoat's margin/tonne rose sharply by 29% q-o-q but that of Apollo Structural/Apollo Z/Apollo Galv declined by 11%/10%/20% q-o-q in Q1FY23 due to higher fixed costs and discounts to customers.
- Management maintained its strong 37% volume growth guidance for FY23 as inventory restocking to start given narrowing gap between primary and secondary steel price and would support volume recovery. Company reiterated FY22-25E volume guidance of a 32% CAGR and better margin of Rs. 6000-8000/tonne for new products at Raipur plant.
- We maintain a Buy on APL with an unchanged PT of Rs. 1,100 as strong earnings growth outlook and valuation gap with listed peers makes risk-reward scenario favourable. APL trades at 23.9x FY24E EPS versus 52x for Astral.

APL Apollo Tubes Limited's (APL's) Q1FY23 performance was decent with a 4% beat in operating profit at Rs. 194 crore (down 23.8% y-o-y; down 27.1% q-o-q) led by resilient EBITDA margin of Rs. 4,587/tonne (down 32.8% y-o-y; down 4.9% q-o-q) and in-line sales volume of 423 kt although declined by 23% q-o-q. The company had volume loss of 60000 tonnes in Q1FY23 due to channel de-stocking by dealers amid sharp decline in steel price. Better-than-expected EBITDA margin reflects robust gross margin of Rs. 10,573/tonne, up 9.7% q-o-q and was 7% above our estimate supported by 6.5% q-o-q rise (versus expectation of 2% q-o-q decline) in blended realisations to Rs. 81,330/tonne and marginal improve in share of VAP in overall sales volume to 61% versus 60% in Q4FY2022. EBITDA/tonne declined across the product portfolio (Apollo Structural's/Apollo Z's/Apollo Galv's EBITDA margins fell by 11%/10%/20% q-o-q) due to a rise in fixed costs given a decline in volumes and discount to customers. However, Apollo Tricoat EBITDA per unit was up 29% q-o-q to Rs. 9,194/tonne as a proportion of higher value products was high in Q1FY23 and the same would normalize to Rs. 7,000-8,000/tonne going forward. Consolidated PAT (after minority interest) of Rs. 107 crore (down 27.3% y-o-y; down 34.3% q-o-q) was 3% below our estimate of Rs. 111 crore due to lower other income (down 18.7% y-o-y; down 24.4% q-o-q) and higher-than-expected minority interest.

Key positives

- Better-than-expected blended EBITDA margin of Rs. 4,587/tonne.
- Apollo Tricoat's EBITDA margin improved sharply by 29% q-o-q to Rs. 9,194/tonne.

Key negatives

- Volumes fell sharply by 23.4% q-o-q to 423 kt.
- EBITDA margin of Apollo Structural/Apollo Z/Apollo Galv declined by 11%/10%/20% q-o-q.

Management Commentary

- Management maintained upbeat 37% volume growth guidance to 2.3 mt for FY23 as management sounded confident to recover volume lost in Q1FY23 with start of inventory restocking. FY25 volume target of 4 mt implies a 32% CAGR over FY22-25E.
- Raipur plant capex is 75% complete and expected to get operational in Q3FY23 with product categories - colour coated tubes and heavy structural tubes are new innovative products and colour-coated sheets (established market).
- Margins of existing plants at Rs. 4500-5000/tonne and guided for higher margin of Rs. 6000-8000/tonne for products at Raipur plant.
- Management expects the primary structural steel tube market to reach 6mtpa by FY25 as volume would shift towards primary market from secondary as price gap is now lower at Rs. 4000/tonne versus Rs. 15000/tonne earlier.
- APL Tricoat merger's next hearing is scheduled in the first week of August 2022 as expects to be the last hearing.

Revision in estimates – We maintain our FY23-24 earnings estimates.

Our Call

Valuation – Maintain Buy on APL with an unchanged PT of Rs. 1,100: APL's presence in a niche business, first-mover advantage (introduction of innovative, first-of-its-kind products) in structural steel tubes space and potential improvement in earnings quality (better margin/RoE profile) post the likely merger of Tricoat could help reduce valuation gap with other listed building material companies (APL trades at 23.9x FY2024E EPS as compared to valuation of 52x for players like Astral Limited). We expect APL to sustain a high earnings growth momentum (expect PAT CAGR of 31% over FY22-24E) supported by robust double-digit volume growth and margin expansion. Hence, we maintain a Buy rating on APL with an unchanged PT of Rs. 1,100.

Key Risks

Delayed recovery in demand from construction and infrastructure projects could hurt earnings outlook. Any intensifying of competition from well-established steel companies could affect APL's volume growth and the working capital cycle.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Revenue	8,500	13,063	16,093	19,242
OPM (%)	8.0	7.2	8.0	8.2
Adjusted PAT	360	557	766	956
% YoY growth	*40.7*	*54.7*	*37.5*	*24.8*
Adjusted EPS (Rs.)	14.4	22.3	30.6	38.2
P/E (x)	63.3	40.9	29.8	23.9
P/B (x)	13.5	10.1	7.9	6.2
EV/EBITDA (x)	33.7	24.3	17.6	13.8
RoNW (%)	23.6	28.2	29.7	29.1
RoCE (%)	25.4	30.8	34.5	36.3

Source: Company; Sharekhan estimates

Decent Q1; Marginal beat in margin; in-line volume but decline 23% q-o-q

Q1FY23 consolidated revenue increased by 36% y-o-y (down 18.4% q-o-q) to Rs. 3,439 crore, 8% above our estimate of Rs. 3,171 crore led by better-than-expected blended realisation at Rs. 81,330/tonne (up 20% y-o-y, up 6.5$ q-o-q versus expectation of marginal decline of 2% on q-o-q basis). Sales volume of 423 kt (up 13.3% y-o-y; down 23.4% q-o-q) was in-line with provisioned volume numbers announced by the company. EBITDA margins of Rs. 4,587/tonne (down 32.8% y-o-y; down 4.9% q-o-q) was 4% above our estimate of Rs. 4,413/ tonne supported by better-than-expected gross margin of Rs. 10,573/tonne (up 9.7% q-o-q) reflecting benefit of better blended realisations and slight rise in share of value-added products (VAP) to 61% versus 60% in Q4FY2022. Consequently, operating profit of Rs. 194 crore (down 23.8% y-o-y; down 27.1% q-o-q) was also 4% above our estimate led by margin beat. PAT (after minority interest) of Rs. 107 crore (down 27.3% y-o-y; down 34.3% q-o-q) was 3% below our estimate of Rs. 111 crore led by lower other income and higher-than-expected minority interest.

Q1FY23 conference call highlights

- **Upbeat volume growth guidance maintained –** Management has maintained its strong volume growth guidance of 37% y-o-y to 2.4 million tonnes for FY23 and remain optimistic to reach 4mt volume by FY2025, which implies a 32% volume CAGR over FY22-25E. Large part of volume growth would be achieved through ramp-up of the new Raipur plant. Management expects to recover volumes in lost in Q1FY23 as dealers would start inventory restocking (already seeing signs of the same in July 2022). H1FY23/H2FY23 volume guidance of 10-11 lakh tonnes/12-13 lakh tonnes w

- **Raipur plant update –** The company has completed 75% of capex on the Raipur plant and more new lines would start would gradually and plant would become operational in Q3FY23 with the remaining capex to be done in the next 2-3 months. The plant will manufacture high-margin products including innovative products namely color coated tube/heavy structural tubes and established product of colour-coated sheets.

- **New products to have higher guidance –** Management has guided that new products from Raipur plant would have a higher margin of Rs. 6,000-8,000/tonne and the exiting products would continue to maintain margins at Rs. 4,500-5,000/tonne.

- **Update on new plants at Dubai/Kolkata –** The company has identified land in Dubai and in the process to give plant contract to local contractor) while it is in the process of identifying land for the Kolkata plant.

- **Structured steel tube market outlook –** The management expects share of primary market in structural steel tubes has potential to reach 6mtpa by FY25 from 3 mtpa currently, as demand would shift to primary steel from secondary steel as the price gap between the two has decline sharply to Rs. 4000/tonne from Rs. 15000/tonne.

- **New orders for heavy structural steel tubes –** The company has received order for heavy structural steel tubes for construction of a 15-storey commercial tower in NCR. The management sees opportunity of 200,000 tonnes of heavy structural steel tubes from over 50 projects in the pipeline.

- **Other updates –** 1) Next hearing for APL Tricoat merger is scheduled in first week of April 2022 and expect it to be final hearing, 2) Net working capital cycle increased to 8 days versus seven days as on March 2022 given inventory build-up due to lower sales volume, 3) net debt of Rs. 3 billion versus Rs. 2 billion as on March 2022 and 4) operating cash flow stood at Rs. 6.5 billion.

Results (Consolidated) Rs cr

Particulars	Q1FY23	Q1FY22	Y-o-Y %	Q4FY22	Q-o-Q %
Revenue	**3,439**	**2,534**	**35.7**	**4,215**	**-18.4**
Total Expenditure	3,245	2,280	42.3	3,949	-17.8
Operating profit	**194**	**255**	**-23.8**	**266**	**-27.1**
Other Income	8	10	-18.7	11	-24.4
Interest	10	13	-22.0	10	-1.1
Depreciation	29	27	10.7	28	5.1
PBT	163	226	-27.8	239	-31.9
Tax	42	57	-26.1	63	-32.4
PAT before MI	121	168	-28.4	177	-31.7
Minority Interest	14	21	-35.6	14	-0.3
Reported PAT After MI	107	147	-27.3	163	-34.3
Equity Cap (cr)	25.0	25.0		25.0	
Reported EPS (Rs.)	4.3	5.9	-27.3	6.5	-34.3
Margins(%)			**BPS**		**BPS**
OPM	5.6	10.0	-441	6.3	-67
Effective tax rate	25.9	25.3	59	26.1	-21
NPM	3.1	5.8	-270	3.9	-75

Source: Company; Sharekhan Research

Key operating metrics

Particulars	Q1FY23	Q1FY22	Y-o-Y %	Q4FY22	Q-o-Q %
Volume (kt)	423	373	13.3%	552	-23.4%
Realisation (Rs. /ton)	81,330	67,921	19.7%	76,392	6.5%
Gross margin (Rs. /ton)	10,573	12,252	-13.7%	9,639	9.7%
EBITDA margin (Rs. /ton)	4,587	6,825	-32.8%	4,823	-4.9%

Source: Company; Sharekhan Research

Product-wise volume break-up kt

Particulars	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Apollo Structural	**183**	**238**	**221**	**323**	**248**
Heavy Structures	19	26	35	40	33
Light Structures	40	51	47	60	50
General Structures	124	161	139	223	165
Apollo Z	**115**	**111**	**110**	**138**	**100**
Rust-proof structures	85	90	91	103	80
Rust-proof sheet	30	21	19	35	20
Apollo Tricoat	**59**	**61**	**54**	**65**	**49**
Apollo Galv	**17**	**16**	**17**	**26**	**18**
Apollo Build/ New Raipur				**0.4**	**7**
Total volume (kt)	**373**	**427**	**403**	**552**	**423**

Source: Company; Sharekhan Research

Product-wise EBITDA margin Rs./tonne

Particulars	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Apollo Structural					
Heavy Structures	8,000	6,240	7,531	7835	7028
Light Structures	6,300	5,137	4,721	5,074	4,375
General Structures	3,125	2,194	1,524	1,955	1,614
Apollo Z					
Rust-proof structures	8,990	8,083	7,714	7,942	7,015
Rust-proof sheet	6,000	5,136	4,554	4,746	4,105
Apollo Tricoat	**11,716**	**8,172**	**7,999**	**7,149**	**9,194**
Apollo Galv	**7,257**	**6,353**	**6,054**	**6,230**	**5,005**
Apollo Build/New Raipur				**5,040**	**5,001**
Blended margins (Rs./ton)	**6,825**	**5,199**	**5,023**	**4,823**	**4,587**

Source: Company; Sharekhan Research

Outlook and Valuation

■ **Sector Outlook – Structural steel tubes market size to clock 17% CAGR over 2019-2030E, as demand from construction projects soars:** Structural steel tubes market has posted a 7% CAGR over 2017-2019 and is estimated at ~4 million tonnes in CY2019. Demand outlook seems robust, supported by the government's focus on infrastructure spending and rising applications of structured steel in housing and commercial buildings. With strong demand, we expect the share of structured steel in India's overall steel consumption pie to increase significantly to 10% by CY2030 from 4% in CY2019. Overall, we expect the structural steel tubes market to post a 17% CAGR over 2019-2030E and reach ~22 million tonnes by CY2030E.

■ **Company outlook – Earnings to rise sustainably led by structural volume growth drivers and potential rise in margin:** Volumes clocked a 13% CAGR over FY2017 to FY2022, led by market share gains of 2,400 bps to 55% in FY2022. Demand drivers for structural steel tubes and weak competition given fragmented industry structure would help APL further expand market share in the next few years. Hence, we expect a robust 25% volume CAGR over FY2022-FY2024E and reach 2.8 million tonnes by FY2024E. Moreover, premiumisation and cost reduction would drive up EBITDA margin by 7% to Rs. 5,742/tonnes in FY2024E as compared to Rs. 5,386/tonnes in FY2022 with scope of further improvement as share of VAP is likely to increase further from 63% in FY22. Industry-leading volume growth and strong margins are likely to result in sustained outperformance in earnings (expect 31% PAT CAGR over FY22-24E) versus peers in the medium to long term.

■ **Valuation – Maintain Buy on APL with an unchanged PT of Rs. 1,100:** APL's presence in a niche business, first-mover advantage (introduction of innovative, first-of-its-kind products) in structural steel tubes space and potential improvement in earnings quality (better margin/RoE profile) post the likely merger of Tricoat could help reduce valuation gap with other listed building material companies (APL trades at 23.9x FY2024E EPS as compared to valuation of 52x for players like Astral Limited). We expect APL to sustain a high earnings growth momentum (expect PAT CAGR of 31% over FY22-24E) supported by robust double-digit volume growth and margin expansion. Hence, we maintain a Buy rating on APL with an unchanged PT of Rs. 1,100.

One-year forward P/E (x) band

Source: Company, Sharekhan Research

About company

APL is the largest structural tubes manufacturer in India with a market share of 50%. The company has consistently expanded its capacity from 53,000 TPA in FY2006 to 2.5 mtpa in FY2020 through the organic and inorganic route. APL is present across India with plants in northern, western, central, and southern regions. The company also has a distribution network of 800 distributors and over 50,000 retailers. The company derives 48% of its volume from building material housing, 26% from building material commercial, 21% from infrastructure, and 5% from industrial and agricultural sectors.

Investment theme

Structural steel share in overall steel consumption in India is one of the lowest in the world at ~4% in FY2020 as compared to global average of 9-10%. With rising demand from housing and infrastructure projects, we expect the structural steel market to witness a 10% CAGR over FY2021EP-FY2024E and reach 5mt by FY2024E. APL, a market leader in the segment, would be key beneficiary of rising demand and potential market share gain over the next couple of years. Thus, we expect sustained volume-led strong earnings growth for APL.

Key Risks

- Any rise in competition from well-established steel companies could impact volume growth and impact working capital cycle.
- Delayed recovery in demand from construction and infrastructure projects could hurt earnings outlook.

Additional Data

Key management personnel

Sanjay Gupta	Chairman
Arun Agarwal	Chief Operating Officer
Deepak Kumar Goyal	Chief Financial Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	PIIN KITARA	7.55%
2	Smallcap World Fund	6.12%
3	Capital Group Cos Inc	6.12%
4	DSP Investment Managers Pvt Ltd	2.35%
5	Sampat Sameer Mahendra	2.30%
6	Vanguard Group Inc	1.97%
7	Kotak Mahindra Asset Management Co. Ltd	1.62%
8	ICICI Prudential Life Insurance	1.58%
9	L&T Mutual Fund Trustee Ltd	0.92%
10	FIL Ltd	0.91%

Source: Bloomberg (Old data)

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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