Sharekhan by BNP PARIBAS

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APL Apollo Tubes Ltd

Multi-year growth opportunity; aims to double EBITDA by FY25

Building Material	Sharekhan code: APLAPOLLO
Reco/View: Buy ↔	CMP: Rs. 1,097 / Price Target: Rs. 1,275 ↑

↑ 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 July 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. 27,457 cr
52-week high/low:	Rs. 1,146/750
NSE volume: (No of shares)	4.5 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	3.7	30.3	10.4	28.7
Relative to Sensex	5.7	21.0	13.9	31.5

Sharekhan Research, Bloomberg

Summary

- APL Apollo Tubes reported robust sales volume growth of 41%/42% y-o-y/q-o-q to 602 kt (highest ever quarterly volume); while VAP mix declined to 54% (versus 61% in Q1FY23) but would improve with ramp-up of Raipur plant. H1 volume of 1 mt and potential ramp-up at Raipur plant to help achieve 37% y-o-y volume growth guidance for FY23.
- Raipur plant (innovative first-time products in India) would help APL beat industry growth rate and expand market share (from 55% in FY22). Management has guided for 32% volume CAGR over FY22-25E with high margin on new products and thus target to more than double EBITDA to Rs. 2,000 crore by FY25 (versus Rs. 945 crore in FY22).
- Primary structural steel tube market expected double to 6 mtpa by FY25 as volume would shift towards primary market from secondary. Moreover, steel tubular technology is gaining acceptance in construction projects. APL has capacity (to reach 4mtpa soon) and product portfolio to tap growth opportunities in structural steel tube market.
- We maintain our Buy rating on APL Apollo Tubes and increase PT to Rs. 1,275 as we rollover our PE multiple to October 2024 EPS. Strong sustainable volume/margin led earnings growth potential and likely Tricoat merger would help narrow valuation gap with players like Astral.

APL Apollo Tubes Limited (APL) posted sharp volume growth of 41%/28% y-o-y to 0.6mt/1mt in Q2FY23/H1FY23 led by strong growth across product categories (except for Apollo Z – volume de-growth of 11% y-o-y in Q2FY23). Robust volume show and potential ramp-up at new 1.5 mtpa Raipur plant (expected to be commissioned in Q3FY23) makes us optimistic that APL would be able to comfortably achieve volume growth guidance of 37% for FY23. Raipur plant is important for APL as it would drive both volume and value growth (innovative products colour coated tubes, heavy structural tubes and colour-coated sheets with much higher EBITDA margin of Rs. 6,000-8,000/tonne) for APL. Management had earlier guided for 32% volume CAGR over FY22-25E and targets to more than double its EBITDA to Rs. 2,000 crore by FY25. We maintain Buy on APL with a revised PT of Rs. 1,275.

- **Robust Q2FY23 volume growth and likely ramp-up at Raipur plant in H2FY23 – Volume growth guidance of 37% seems achievable:** APL reported super strong sales volume growth of 41%/42% y-o-y/q-o-q to 602 kt although VAP mix declined to 54% as compared to 62%/61% in Q2FY22/Q1FY23. H1FY23 volume of 1 million tonnes (up 28% y-o-y) gives us confidence that the management's 37% volume growth guidance is achievable as H2FY23 would see benefit of capacity ramp-up at APL's new Raipur plant (capacity of 1.5 mt and commissioned expected in Q3FY23).
- **APL well placed to benefit from rising application of steel tubes:** APL's management expects the primary structural steel tube market to reach 6mtpa by FY25 (versus 3 mtpa currently) as volume would shift towards primary market from secondary as price gap has narrowed down significantly. Also, steel tubular technology is gaining acceptance in construction projects (net benefit of +1.5% project IRR and +2% additional carpet area). With exiting capacity utilisation of 79% (based on H1FY23 volume) and upcoming 1.5 mtpa new Raipur plant, APL is well placed to capture growth opportunities as primary structural steel tube market is expected to almost doubles in size and rising applications of steel tubes for construction across airports, warehouses, high-rise buildings among others. We believe that APL is all set to consistently expand its market share in India's structural steel tubes market as seen in past (increased market share to 55% in FY22 versus 40% in FY21).
- **Raipur plant – To improve volume/margin and help EBITDA jump by over 2x by FY25:** APL's ~Rs. 800 crore Raipur plant is expected to get commissioned in Q3FY2023 with high-margin products (margin of Rs. 6000-8000/tonne) – colour coated tubes, heavy structural tubes and colour-coated sheets (established market). Management expects that ramp-up at this plant would drive up volume to 4 mt by FY25 (32% CAGR over FY22-25E), improve VAP mix to 70-75% and more than double its EBITDA to Rs. 2,000 crore by FY25 (versus Rs. 945 crore in FY22).

Our Call

Valuation – Maintain Buy on APL with a revised PT of Rs. 1,275: We maintain our FY23-24 earnings estimate and have introduced our FY25 earnings estimate in this report. 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 margins/RoE profile) post the likely merger of Tricoat could help reduce valuation gap with other listed building material companies (APL trades at 28.7x FY2024E EPS as compared to valuation of 69x for players like Astral Limited). We expect APL to sustain a high earnings growth momentum (expect EBITDA/PAT CAGR of 31%/33% over FY22-25E) supported by robust double-digit volume growth and margin expansion. Hence, we maintain a Buy rating on APL with a revised PT of Rs. 1,275 (increase in PT reflects rollover of PE multiple to October 2024 EPS).

Key Risks

Delayed recovery in demand from construction and infrastructure projects could hurt earnings outlook. 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	FY25E
Revenue	8,500	13,063	16,093	19,242	27,750
OPM (%)	8.0	7.2	8.0	8.2	7.7
Adjusted PAT	360	557	766	956	1,322
% YoY growth	40.7	54.7	37.5	24.8	38.3
Adjusted EPS (Rs.)	14.4	22.3	30.6	38.2	52.9
P/E (x)	76.2	49.2	35.8	28.7	20.7
P/B (x)	16.2	12.1	9.5	7.5	5.8
EV/EBITDA (x)	40.5	29.2	21.4	16.9	12.1
RoNW (%)	23.6	28.2	29.7	29.1	31.3
RoCE (%)	25.4	30.8	34.5	36.3	40.1

Source: Company; Sharekhan estimates

Robust Q2FY23 volume performance – registered 41% y-o-y volume growth

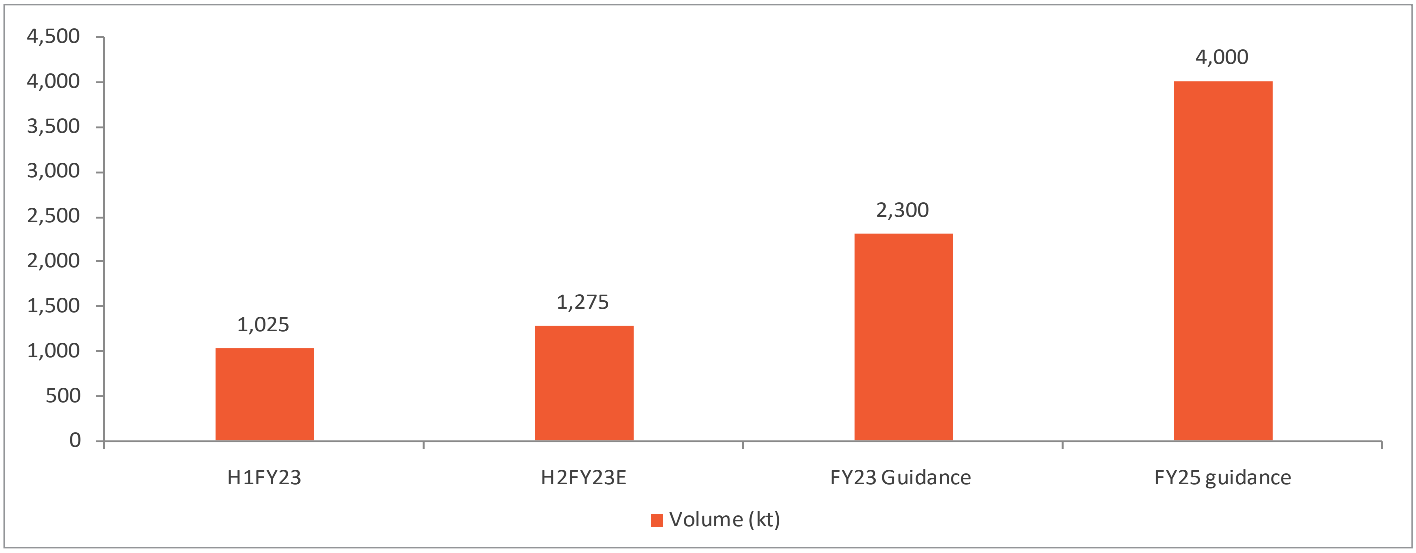
In its recent press release, APL announced Q2FY23 volume details that revealed that it posted a phenomenal sales volume growth of 41%/28% y-o-y to 602kt/1025kt in Q2FY23/H1FY23. Strong volume growth was in line with the management's commentary in the Q1FY23 earning conference call that it would recover lost volume in the coming quarters. H2FY23 expected volume growth of 34% y-o-y would be supported by ramp-up of APL's new 1.5 mtpa Raipur plant (expected to get commissioned in Q3FY23). The strong volume performance gives us confidence that APL would be able to achieve its FY23 sales volume growth guidance of 37%. More importantly, H2FY23 would also witness improvement in value added mix as all products at Raipur facility are VAP and thus drive margin expansion given new products have much higher EBITDA margin of Rs. 6,000-8,000/tonne.

Robust volume growth of 41% y-o-y in Q2FY23

Particulars	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	y-o-y chg	q-o-q chg
Apollo Structural	**183**	**238**	**221**	**323**	**248**	**394**	**66%**	**59%**
Heavy Structures	19	26	35	40	33	41	58%	25%
Light Structures	40	51	47	60	50	77	51%	54%
General Structures	124	161	139	223	165	276	72%	67%
Apollo Z	**115**	**111**	**110**	**138**	**100**	**99**	**-11%**	**-1%**
Rust-proof structures	85	90	91	103	80	78	-13%	-2%
Rust-proof sheet	30	21	19	35	20	21	1%	6%
Apollo Tricoat	**59**	**61**	**54**	**65**	**49**	**70**	**15%**	**43%**
Apollo Galv	**17**	**16**	**17**	**26**	**18**	**27**	**66%**	**48%**
Apollo Build/ New Raipur				**0.4**	**7**	**12**	**NA**	**72%**
Total volume (kt)	**373**	**427**	**403**	**552**	**423**	**602**	**41%**	**42%**
VAP mix	**67**	**62**	**65**	**60**	**61**	**54**	**(820 bps)**	**(685 bps)**

Source: Company; Sharekhan Research

Volume guidance – implies 34% y-o-y volume growth for H2FY23; 32% CAGR over FY22-25E



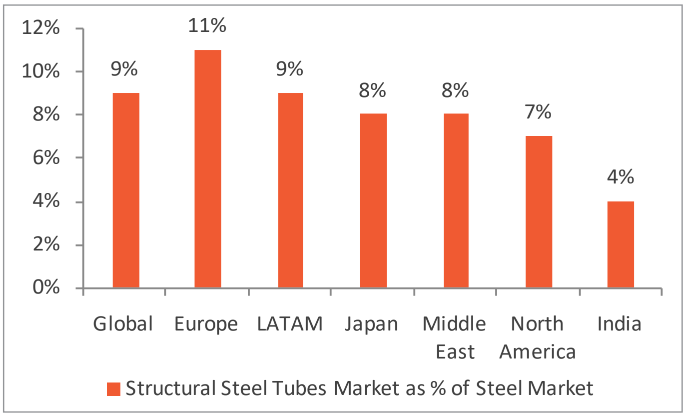
Source: Company; Sharekhan Research

APL's dominant position and rising application to drive sustained high double digit volume growth

India's consumption of structural steel tubes is estimated at ~4 mt and its share in country's steel consumption ay just 4% is significantly below the global average of 9-10%. We see four pillars of growth in structural steel tubes in India – 1) Expansion in warehousing capacity, 2) Affordable housing, 3) Urban infrastructure and 4) Urban real estate. Rising application of structured steel tubes in construction projects is expected to expand the share of structural steel tubes in India's steel consumption to 10% by 2030. This would expand India's structural market to 22 mt by 2030, which implies robust 17% CAGR over CY19-30E.

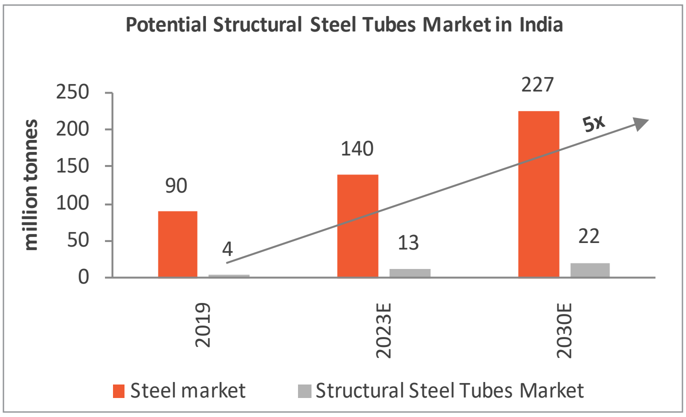
We believe APL is well placed to grab this massive volume opportunity given presence across India, spare capacity (utilisation rate of 78%) & further capacity expansion to 4mtpa (from 2.6 mtpa currently), new innovative product launches (colour-coated tubes and heavy structural tubes). Additionally, APL's recent project win to supply structured steel tubes for construction of seven hospitals is Delhi is an indication of shifting trend from RCC structures to steel structures given several benefits includes better project IRR, lower construction time and higher carpet area. Thus, we see scope for further market share gain from current level of 55% and superior volume CAGR of 28% over FY22-25E.

India structured steel's share vs. global average



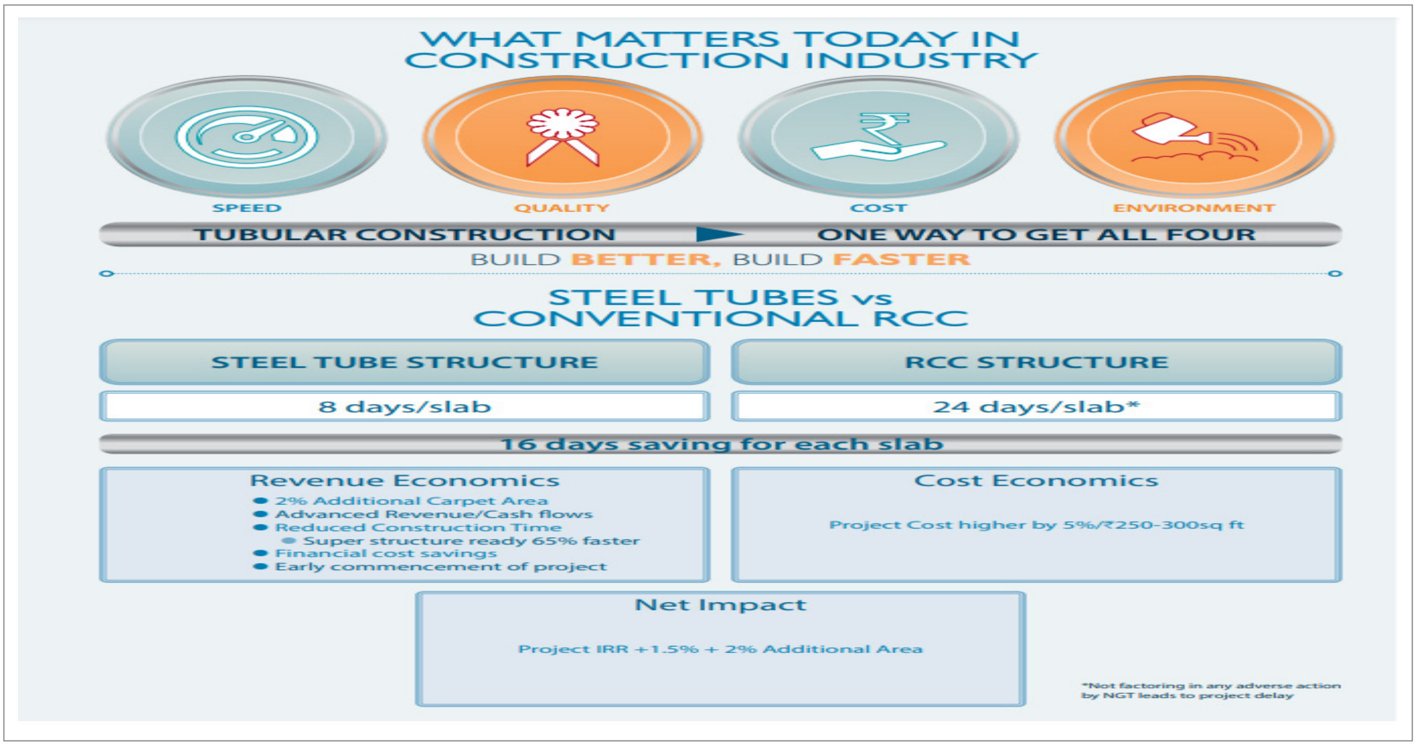
Source: Company; Sharekhan Research

India structured steel market to grow 5x over CY19-30E



Source: Company; Sharekhan Research

Steel Tubular technology to drive revolution in construction industry



Source: Company

New Raipur facility – Volume-value driver; key to achieve APL's FY25 target of 32% volume CAGR/2x EBITDA growth

APL's ~Rs. 800 crore Raipur plant is expected to get commissioned in Q3FY2023 with high margin products (margin of Rs. 6000-8000/tonne) - colour coated tubes, heavy structural tubes and colour-coated sheets (established market). Management expects that ramp-up at this plant would drive up volume to 4mt by FY25 (32% CAGR over FY22-25E), improve VAP mix to 70-75% and more than double its EBITDA to Rs. 2,000 crore by FY25 (versus Rs. 945 crore in FY22).

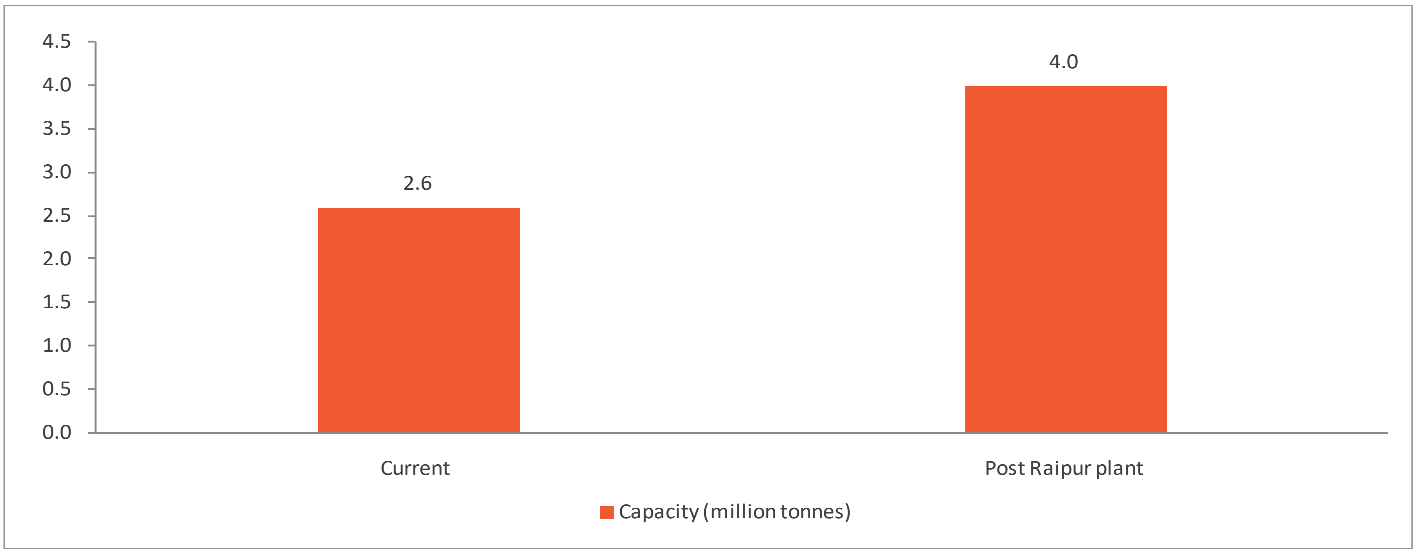
Key products at Raipur facility

Colour-coated products: It is an in-demand product being manufactured by multiple players with healthy double-digit margins. APL will market this product through its existing distribution network. Colour-coated products will have a capacity of 0.5 million tonnes per annum (mtpa).

Colour-coated tubes (niche product): Globally, colour-coated tubes are being manufactured but they are round tubes that are used for chemical or gas transportation. APL will make square angle colour-coated tubes that are not made anywhere in the world. APL is positioning this product as an environment-friendly and aesthetically superior variant to conventional products like wood and aluminium. Key uses - various home décor applications and industrial sheds under pre-engineered buildings. Colour-coated tubes will have capacity of 0.5 mtpa which is further divided into interesting five sub-products.

Heavy structural tubes (among 3-4 companies globally to offers these products): APL will manufacture heavy structural steel tubes of 500x500 mm, which is an extension of APL's existing portfolio (300 x300 mm structural steel tubes - launched almost 4 years ago and have first mover advantage). This product is being used in APL's Delhi medical building projects and are getting enquiries for high-rise building up to 30 floors and for larger span industrial sheds and warehouses.

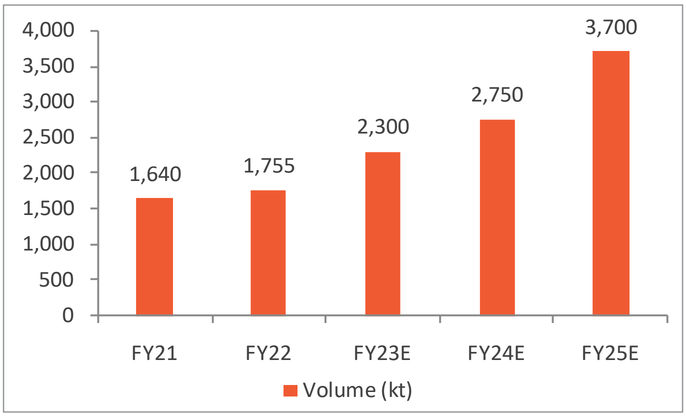
Capacity post Raipur plant commissioning (expected in Q3FY23)



Source: Company; Sharekhan Research

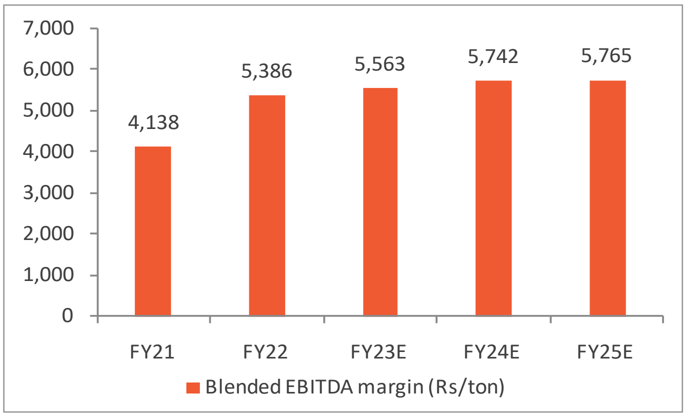
Financials in charts

Volume to post a 28% CAGR over FY2022-FY2025E



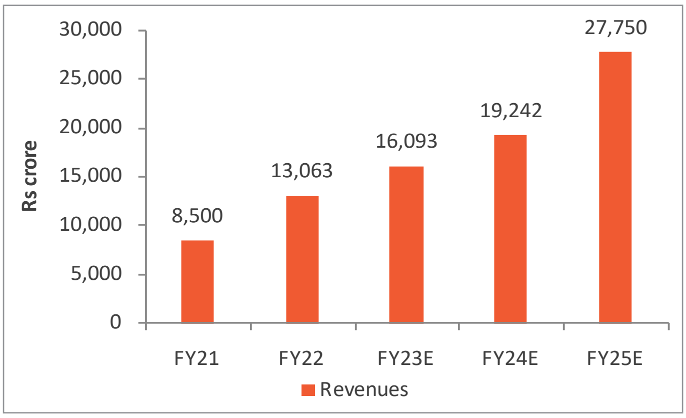
Source: Company, Sharekhan Research

Margin expansion given rise in share of high-margin products



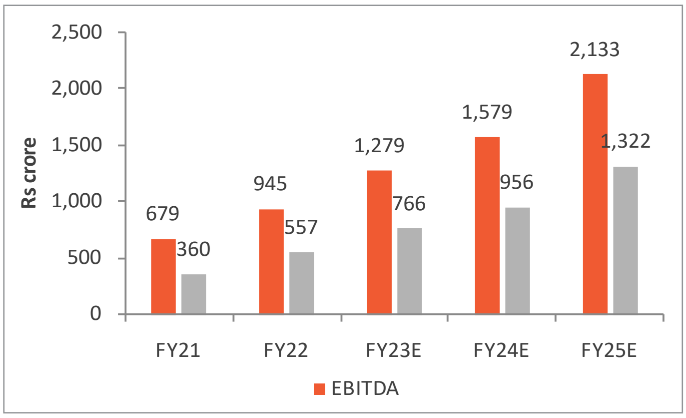
Source: Company, Sharekhan Research

Revenue trend



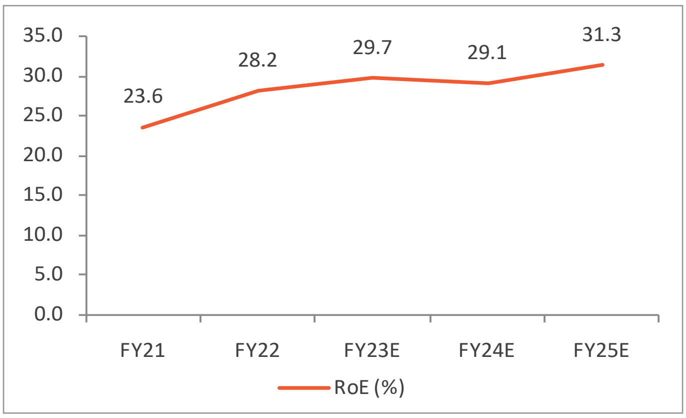
Source: Company, Sharekhan Research

EBITDA/PAT CAGR of 31%/33% over FY2022-FY2025E



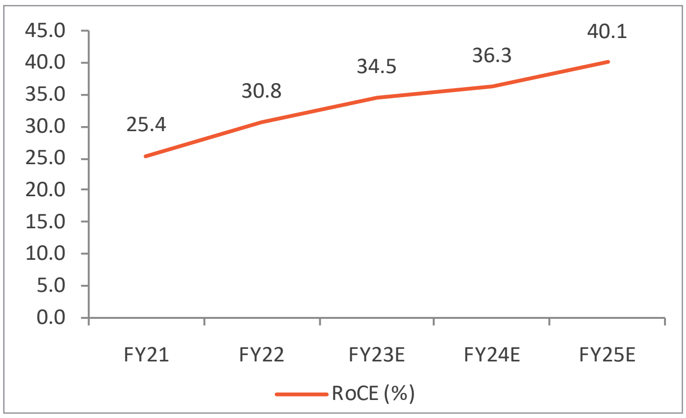
Source: Company, Sharekhan Research

Robust RoE track record



Source: Company, Sharekhan Research

RoCE improving consistently



Source: Company, Sharekhan Research

Outlook and Valuation

■ **Sector view - 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.

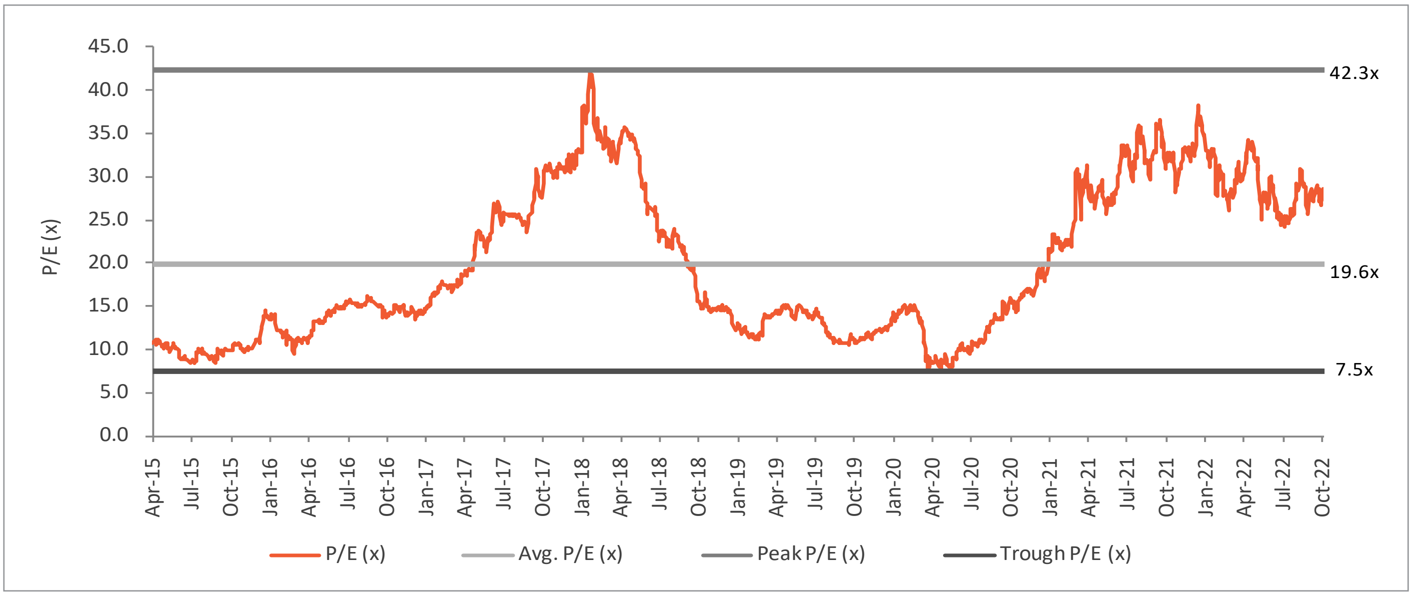
■ **Company outlook - Earnings to rise sustainably led by structural volume growth drivers and potential rise in margins**

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 28% volume CAGR over FY2022-FY2025E and reach 3.7 million tonnes by FY2025E. Moreover, premiumisation and cost reduction would drive up EBITDA margin by 7% to Rs. 5,765/tonne in FY2025E as compared to Rs. 5,386/tonne 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 33% PAT CAGR over FY22-25E) versus peers in the medium to long term.

■ **Valuation - Maintain Buy on APL with a revised PT of Rs. 1,275**

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 margins/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 EBITDA/PAT CAGR of 31%/33% over FY22-25E) supported by robust double-digit volume growth and margin expansion. Hence, we maintain a Buy rating on APL with a revised PT of Rs. 1,275 (increase in PT reflects rollover of PE multiple to October 2024 EPS).

One-year forward P/E (x) band



Source: 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 2.6 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 FY2021P-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

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

Sharekhan

by BNP PARIBAS

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