

APL Apollo Tubes

BSE SENSEX
57,991

S&P CNX
17,214

CMP: INR1,126

TP: INR1,330 (+18%)

Buy



Bloomberg	APAT IN
Equity Shares (m)	250
M.Cap.(INRb)/(USD\$)	281.7 / 3.4
52-Week Range (INR)	1177 / 750
1, 6, 12 Rel. Per (%)	14/14/35
12M Avg Val (INR M)	513

Financials & Valuations (INR b)

Y/E Mar	2022	2023E	2024E
Sales	130.6	154.2	161.4
EBITDA	9.5	11.0	14.5
PAT	5.6	6.9	9.7
EBITDA (%)	7.2	7.1	9.0
EPS (INR)	20.2	25.1	35.0
EPS Gr. (%)	54.7	24.1	39.8
BV/Sh. (INR)	82.0	107.7	137.8

Ratios

Net D/E	0.1	0.0	-0.1
RoE (%)	28.2	26.4	28.5
RoCE (%)	25.8	23.5	25.8
Payout (%)	17.3	16.0	14.3

Valuations

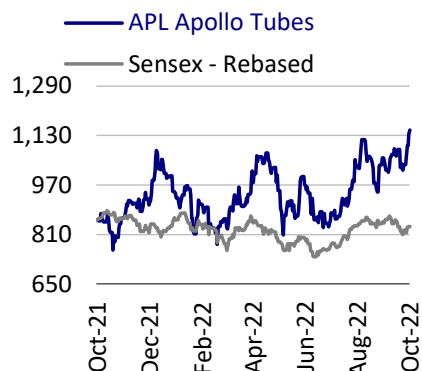
P/E (x)	55.8	44.9	32.1
EV/EBITDA (x)	33.3	28.4	21.1
Div Yield (%)	0.3	0.4	0.4
FCF Yield (%)	0.1	1.1	2.4

Shareholding pattern (%)

As on	Jun-22	Mar-22	Jun-21
Promoter	34.5	34.5	36.9
DII	11.2	11.1	9.4
FII	24.6	23.3	25.7
Others	29.7	31.1	28.0

Note: FII includes depository receipts

Stock's performance (one-year)



Robust volume growth aided by improving on the ground situation

APL Apollo Tubes (APAT)'s long-term growth story remains intact underpinned by growing application and rising consumption of structural steel tubes in residential & commercial buildings, warehouses, factories, agriculture and other infrastructure works. The industry, post-inventory destocking in the last quarter because of higher steel prices, is now witnessing channel re-stocking led by correction in steel prices.

- From our channel checks, we sense the overall demand scenario to be better with channel re-stocking happening in anticipation of a stable or marginally higher steel price.
- Primary steel (HRC) price declined from the all-time high level and accordingly the gap between primary and secondary steel prices narrowed.
- Overall margins of the company are expected to get a boost with the commissioning of Raipur plant by 3QFY23, which offers value-added products.

Re-stocking of inventory to drive near-term growth

- APAT saw tepid demand in 1QFY23 due to destocking of inventory in the channel as steel prices were at all-time high levels; however, a fall in prices was anticipated due to steps taken by the government to control inflation.
- According to the recent [press release](#), APAT's overall 2QFY23 volume rose 41% YoY/42% QoQ to 602,283MT (v/s our est. of 584,589MT) fueled by general structure tubes that increased 72% YoY. Overall 1HFY23 volume grew 28% YoY to 1,025,071MT (Refer to Exhibit 4).
- According to our channel checks, demand is recovering with distributors re-stocking their inventories as the HRC price has fallen ~21% to INR55,952/MT in Sep'22 from INR70,875/MT in Nov'21; distributors are not anticipating any further reduction in prices.
- From our channel checks, we sense the overall demand scenario to be better with channel re-stocking happening in anticipation of a stable or marginally higher steel price.
- We believe this strong demand outlook to aid growth during 3QFY23E as well, while growth in further quarters will be driven by the Raipur plant.

Narrowing gap between primary and secondary steel prices aids APAT

- Currently, the structural steel tubes market in India is ~7MMT out of which primary steel market is of ~3-4MMT. The same is likely to reach ~6MMT by FY25E. APAT being a market leader in manufacturing of primary steel-based products, targets to achieve a market share of ~60-75%, with volume of ~4MMT by FY25E.
- Primary steel (HRC) price declined ~21% to INR55,952/MT in Sep'22 from INR70,875/MT in Nov'21; while, secondary steel (scraps) price grew ~6% to INR50,972/MT from INR48,147/MT over the same period.
- Hence, the price gap between primary and secondary steel has narrowed markedly to INR4,953/MT in Sep'22 from INR22,728/MT in Nov'21.

- With the narrowing gap in prices, APAT stands to benefit as demand for its general structures (~37% of total sales volume in FY22) has increased led by customers shifting to a higher quality product made from primary steel (APAT's offering) vis-à-vis general structures made from secondary steel (by unorganized players).

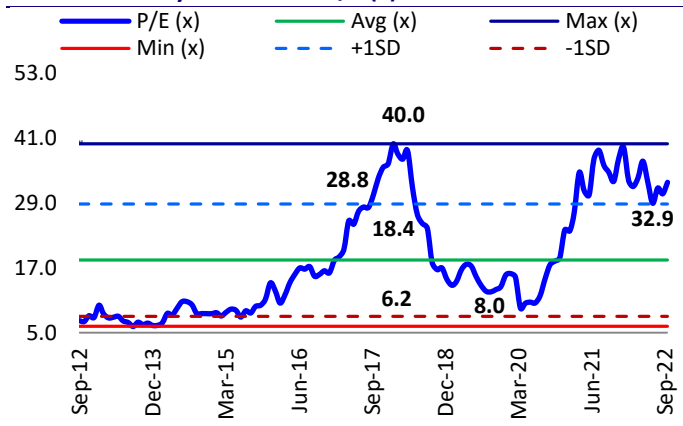
APAT's Raipur plant to improve overall margins

- APAT's upcoming plant in Raipur, Chhattisgarh with an annual capacity of 1.5MMT (in addition to the current capacity of 2.6MMT) is expected to become fully operational from 3QFY23.
- One of the three lines has already started operations with another one likely to be operationalized over Oct-Nov'22 and the third in Dec'22.
- The new plant will manufacture three products, viz.
 - **Color Coated Products (CCP)** – currently used in roofing but APAT is expanding it to other product categories such as door frames, industrial shed roofing, bus bodies, shutter, ducting, etc.,
 - **Color Coated Tubes (CCT)** – primarily used in chemicals and gas transportation but APAT converted it into a square CCT that can be used in homes, various home décor applications and pre-engineered buildings (Raipur plant has the capacity to produce 0.5MMT of CCT) , and
 - **Heavy Structural Tubes (HST)** – primarily used in construction applications. The Raipur plant is having a bigger size of 1,000x1,000 mm tubes v/s earlier version of 300x300 mm.
- The Raipur plant manufactures these value-added products, which is margin accretive in nature. The EBITDA/MT for these products is expected to be in the range of ~INR6,000-8,000 v/s INR4,500-5,000 for existing company products, thereby driving up the overall margins of APAT.

Valuation and view

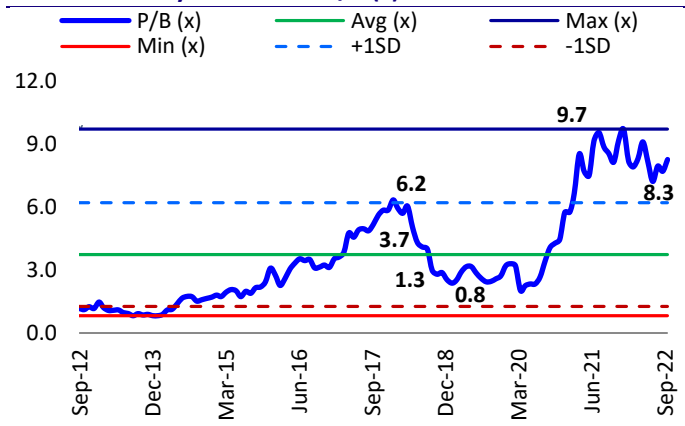
- We believe APAT's earnings momentum would continue with: a) growing demand across segments, b) increased product penetration with the help of a robust distribution network, c) an increase in the share of VAP, thus driving margins, d) the introduction of Apollo Mart, and e) its market leadership position.
- Improving operating leverage, growing share of VAP and addition of high-margin products from the Raipur unit are likely to result in an improvement in margin and higher cash generation.
- We project a revenue/EBITDA/PAT CAGR of 11%/24%/32% over FY22–24, respectively. We value the stock at 34x Sep'24E EPS to arrive at our TP of INR1,330. **Maintain BUY.**

Exhibit 1: One-year forward P/E (x)



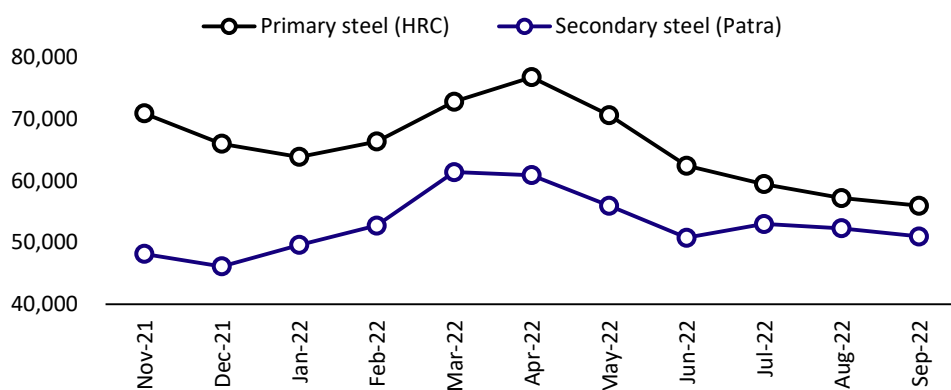
Source: Company, MOFSL

Exhibit 2: One-year forward P/B (x)



Source: Company, MOFSL

Exhibit 3: Narrowing gap between Primary and Secondary steel prices



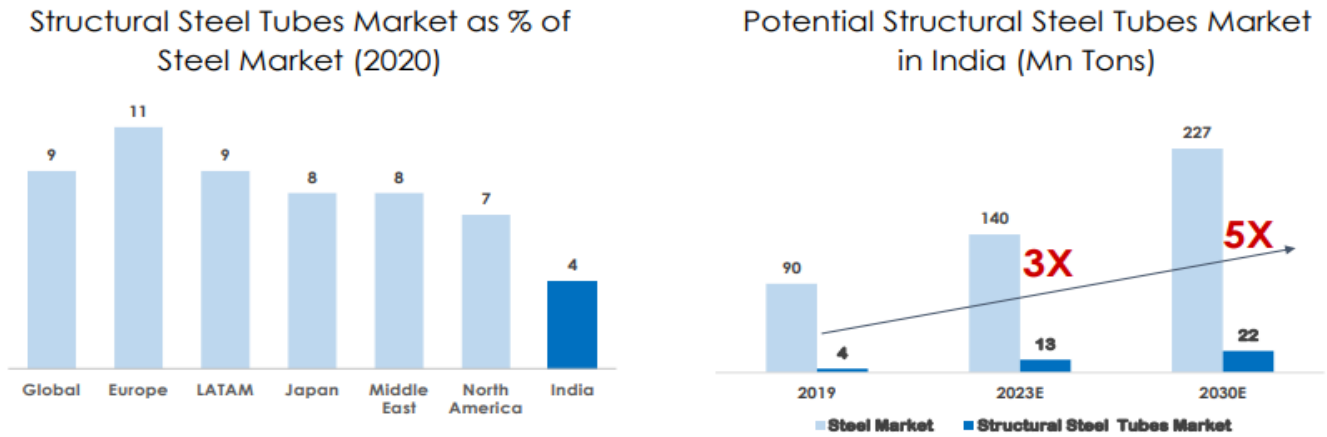
Source: Company, MOFSL

Exhibit 4: APAT's sales volume data

Y/E March	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	YoY change (%)
Segment Volumes (MT)											
Apollo Structural											
Heavy Structures	9,000	21,000	26,814	38,000	18,897	26,464	35,143	40,129	32,987	41,104	55
Light Structures	8,000	63,000	82,969	58,000	39,955	51,378	47,250	59,895	50,108	76,954	50
General Structures	1,19,000	2,26,000	1,94,231	1,73,000	1,23,700	1,60,955	1,39,360	2,23,204	1,65,269	2,76,292	72
Apollo Z											
Rust-proof structures	56,000	85,000	81,943	70,000	84,792	90,317	91,140	1,02,624	80,120	78,114	-14
Rust-proof sheets	0	6,000	6,071	10,000	29,768	21,245	19,043	34,905	20,195	21,126	-1
Apollo Galv	13,000	18,000	20,947	19,000	16,666	15,980	17,109	25,840	17,551	26,602	66
Apollo Tricoat	32,000	61,000	72,604	66,000	59,346	61,048	53,684	64,746	49,095	70,046	15
Apollo Build/ New Raipur								380	7463	12,045	
Total	2,37,000	4,80,000	4,85,579	4,34,000	3,73,124	4,27,387	4,02,729	5,51,723	4,22,788	6,02,283	41

Source: Company, MOFSL

Exhibit 5: India has a huge structural steel tubes-based construction potential




Source: Company, MOFSL

Exhibit 6: Market creation by APAT

Conventional Construction Products	Applications	Why Structural Steel Tube replaces these products?	How we replaced the conventional products...
Steel Angle/Channels	Structural support, Towers infrastructure	Uniform Strength, Lower steel consumption	Low Diameter Steel Tubes/Low Load Bearing
Wood	Furniture, Door Frames, Planks	Cost Effective, Termite Proof, Environmental Friendly	
Aluminum Profiles	Facades & Glazing	Cost Effective, Higher Strength	
Reinforced Cement Concrete	Construction of Buildings	Faster Construction Environmental Friendly	High Diameter Steel Tubes/High Load Bearing
Fabricated Metal Sheet	Pre-Engineered Steel Buildings	Lower steel consumption Reduces overall project cost	

Exhibit 7: Raipur plant update

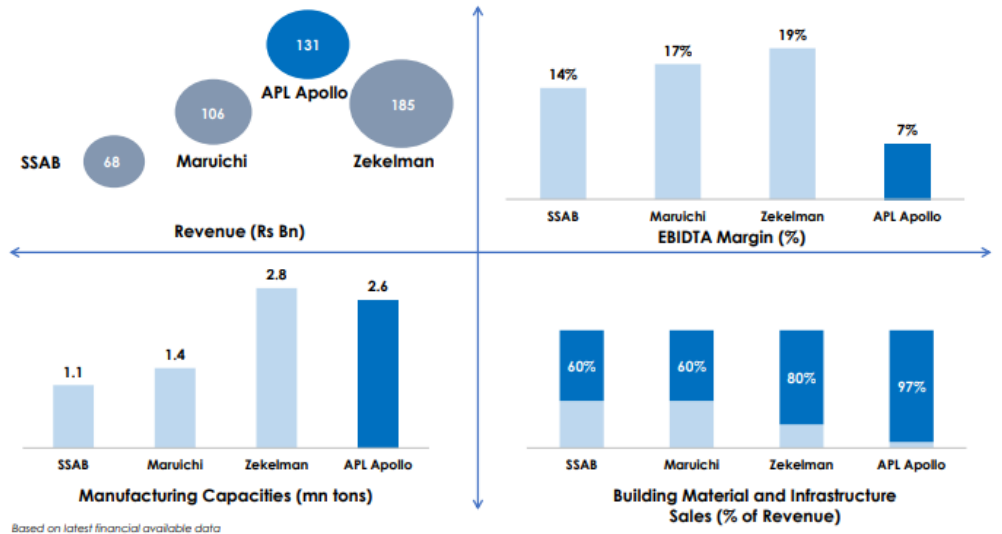


HIGHLIGHTS

- Upcoming 400 Acre Raipur plant progressing on expected lines
- Project to commence in phases starting H1FY23
- Total Capacity – **1.5mn ton**
- 100% value added products
- Total capex **Rs8bn**; **c75%** already incurred

Source: Company, MOFSL

Exhibit 8: Global peer benchmarking



Source: Company, MOFSL

Exhibit 9: APAT’s nationwide strong network



Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Income from Operations	42,136	39,239	53,348	71,523	77,232	84,998	1,30,633	1,54,186	1,61,383
Change (%)	34.3	-6.9	36.0	34.1	8.0	10.1	53.7	18.0	4.7
RM Cost	35,546	32,324	45,483	63,077	65,786	71,648	1,12,231	1,33,543	1,36,369
Employees Cost	629	754	862	1,079	1,422	1,296	1,530	1,833	2,098
Other Expenses	3,145	2,832	3,292	3,439	5,252	5,266	7,419	7,834	8,456
Total Expenditure	39,319	35,909	49,637	67,595	72,459	78,210	1,21,181	1,43,210	1,46,923
% of Sales	93.3	91.5	93.0	94.5	93.8	92.0	92.8	92.9	91.0
EBITDA	2,817	3,330	3,710	3,928	4,773	6,787	9,453	10,976	14,460
Margin (%)	6.7	8.5	7.0	5.5	6.2	8.0	7.2	7.1	9.0
Depreciation	341	509	534	643	959	1,028	1,090	1,304	1,573
EBIT	2,476	2,821	3,176	3,286	3,814	5,759	8,363	9,672	12,887
Int. and Finance Charges	695	720	813	1,134	1,073	661	445	440	450
Other Income	103	60	80	117	222	359	405	416	484
PBT bef. EO Exp.	1,883	2,160	2,443	2,269	2,963	5,458	8,323	9,648	12,922
EO Items	-253	0	0	0	0	0	0	0	0
PBT after EO Exp.	1,630	2,160	2,443	2,269	2,963	5,458	8,323	9,648	12,922
Total Tax	624	639	862	787	403	1,381	2,133	2,443	3,251
Tax Rate (%)	38.3	29.6	35.3	34.7	13.6	25.3	25.6	25.3	25.2
Minority Interest	0	0	0	0	180	475	617	288	0
Reported PAT	1,006	1,521	1,581	1,482	2,380	3,602	5,573	6,917	9,671
Adjusted PAT	1,259	1,521	1,581	1,482	2,380	3,602	5,573	6,917	9,671
Change (%)	97.5	20.8	4.0	-6.2	60.5	51.3	54.7	24.1	39.8
Margin (%)	3.0	3.9	3.0	2.1	3.1	4.2	4.3	4.5	6.0

Consolidated - Balance Sheet

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	234	236	237	239	249	250	501	552	552
Total Reserves	5,441	6,798	8,141	9,402	13,313	16,697	22,139	29,181	37,472
Net Worth	5,676	7,034	8,379	9,641	13,562	16,947	22,640	29,733	38,024
Minority Interest	0	0	0	0	954	1,383	2,000	0	0
Total Loans	6,498	5,944	7,751	8,581	8,338	5,203	5,806	5,806	4,006
Deferred Tax Liabilities	859	813	994	1,200	1,012	1,112	1,187	1,187	1,187
Capital Employed	13,033	13,790	17,124	19,422	23,865	24,644	31,633	36,726	43,217
Gross Block	7,291	6,922	9,617	11,626	17,246	18,568	20,677	26,207	29,963
Less: Accum. Deprn.	1,058	454	988	1,548	2,507	3,535	4,625	5,928	7,501
Net Fixed Assets	6,233	6,468	8,628	10,078	14,738	15,033	16,053	20,278	22,462
Goodwill on Consolidation	429	230	230	230	1,375	1,375	1,375	2,796	2,796
Capital WIP	320	1,224	460	275	101	1,077	5,037	2,507	2,251
Total Investments	131	4	11	494	15	15	913	2,863	5,363
Current Investments	0	0	0	0	0	0	50	2,000	4,500
Curr. Assets, Loans&Adv.	9,491	10,519	12,483	16,663	16,431	16,491	21,147	23,548	26,063
Inventory	5,944	4,696	5,915	7,835	7,842	7,599	8,472	10,201	10,466
Account Receivables	2,201	2,949	4,321	5,433	4,764	1,306	3,417	4,224	4,421
Cash and Bank Balance	14	16	68	478	456	3,579	3,764	2,955	4,721
Loans and Advances	1,333	2,859	2,179	2,917	3,370	4,006	5,494	6,167	6,455
Curr. Liability & Prov.	3,572	4,656	4,688	8,317	8,796	9,345	12,891	15,266	15,718
Account Payables	2,581	4,039	3,793	6,989	7,644	7,859	10,595	12,555	12,881
Other Current Liabilities	506	459	814	1,220	979	1,310	2,113	2,494	2,610
Provisions	484	157	81	108	173	177	184	217	227
Net Current Assets	5,920	5,864	7,795	8,346	7,636	7,145	8,256	8,282	10,345
Appl. of Funds	13,033	13,790	17,124	19,422	23,865	24,644	31,633	36,726	43,217

Financials and valuations

Ratios	(INR m)								
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)									
EPS	4.6	5.5	5.7	5.4	8.6	13.0	20.2	25.1	35.0
Cash EPS	5.8	7.4	7.7	7.7	12.1	16.8	24.1	29.8	40.7
BV/Share	20.6	25.5	30.4	34.9	49.1	61.4	82.0	107.7	137.8
DPS	0.8	1.0	1.2	1.2	0.0	0.0	3.5	4.0	5.0
Payout (%)	28.0	22.5	25.3	27.7	0.0	0.0	17.3	16.0	14.3
Valuation (x)									
P/E	246.9	204.3	196.5	209.6	130.6	86.3	55.8	44.9	32.1
Cash P/E	194.2	153.1	146.9	146.2	93.1	67.1	46.6	37.8	27.6
P/BV	54.8	44.2	37.1	32.2	22.9	18.3	13.7	10.5	8.2
EV/Sales	7.5	8.1	6.0	4.5	4.1	3.7	2.4	2.0	1.9
EV/EBITDA	112.6	95.1	85.8	81.2	67.0	46.2	33.3	28.4	21.1
Dividend Yield (%)	0.1	0.1	0.1	0.1	0.0	0.0	0.3	0.4	0.4
FCF per share	0.9	11.6	3.5	4.8	-5.4	24.2	1.6	11.9	26.9
Return Ratios (%)									
RoE	23.7	23.9	20.5	16.5	20.5	23.6	28.2	26.4	28.5
RoCE	14.5	16.1	14.5	12.9	17.4	20.8	25.8	23.5	25.8
RoIC	13.6	15.8	14.1	12.4	15.9	19.9	29.7	28.7	32.5
Working Capital Ratios									
Fixed Asset Turnover (x)	5.8	5.7	5.5	6.2	4.5	4.6	6.3	5.9	5.4
Asset Turnover (x)	3.2	2.8	3.1	3.7	3.2	3.4	4.1	4.2	3.7
Inventory (Days)	51	44	40	40	37	33	24	24	24
Debtor (Days)	19	27	30	28	23	6	10	10	10
Creditor (Days)	22	38	26	36	36	34	30	30	29
Leverage Ratio (x)									
Current Ratio	2.7	2.3	2.7	2.0	1.9	1.8	1.6	1.5	1.7
Interest Cover Ratio	3.6	3.9	3.9	2.9	3.6	8.7	18.8	22.0	28.6
Net Debt/Equity	1.1	0.8	0.9	0.8	0.6	0.1	0.1	0.0	-0.1

Consolidated- Cash Flow Statement	(INR m)								
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
OP/(Loss) before Tax	1,630	2,160	2,443	2,269	2,963	5,458	8,323	9,648	12,922
Depreciation	341	509	534	0	959	1,028	1,090	1,304	1,573
Interest & Finance Charges	669	711	789	0	851	302	40	24	-34
Direct Taxes Paid	-432	-629	-602	-673	-403	-1,381	-2,133	-2,443	-3,251
(Inc)/Dec in WC	-2,335	330	-2,342	287	725	3,577	-802	-835	-298
CF from Operations	-127	3,082	823	1,884	5,096	8,983	6,517	7,697	10,912
Others	240	72	91	1,693	0	0	0	0	0
CF from Operating incl EO	113	3,154	914	3,576	5,096	8,983	6,517	7,697	10,912
(Inc)/Dec in FA	149	61	48	-2,261	-6,591	-2,298	-6,070	-4,421	-3,500
Free Cash Flow	261	3,215	961	1,316	-1,495	6,685	447	3,276	7,412
(Pur)/Sale of Investments	-18	2	2	-390	479	0	-898	-1,950	-2,500
Others	-1,227	-1,761	-1,703	13	1,763	-4,171	1,666	416	484
CF from Investments	-1,096	-1,697	-1,654	-2,639	-4,349	-6,468	-5,301	-5,955	-5,516
Issue of Shares	0	106	100	56	10	1	251	1,280	0
Inc/(Dec) in Debt	1,673	-554	1,807	830	-244	-3,135	603	0	-1,800
Interest Paid	-695	-725	-772	-1,014	-1,073	-661	-445	-440	-450
Dividend Paid	-141	-234	-283	-400	0	0	-966	-1,104	-1,380
Others	-28	-47	-59	0	538	4,403	-474	-2,288	0
CF from Fin. Activity	809	-1,454	792	-528	-768	609	-1,031	-2,552	-3,630
Inc/Dec of Cash	-175	2	52	410	-22	3,123	185	-809	1,766
Opening Balance	188	14	16	68	478	456	3,579	3,764	2,955
Closing Balance	13	16	68	478	456	3,579	3,764	2,955	4,721

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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