Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

APL Apollo Tubes Ltd

Decent Q3; growth guidance looks promising

Building Material	Sharekhan code: APLAPOLLO
Reco/View: Buy ↔	CMP: **Rs. 1,184**
	Price Target: **Rs. 1,425** ↑

↑ 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 Dec 08, 2022

High Risk

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

Source: Morningstar

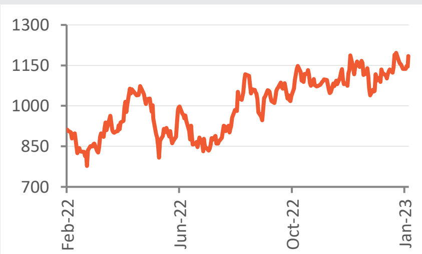
Company details

Market cap:	Rs. 32,843 cr
52-week high/low:	Rs. 1,200 / 771
NSE volume: (No of shares)	4.7 lakh
BSE code:	533758
NSE code:	APLAPOLLO
Free float: (No of shares)	19.1 cr

Shareholding (%)

Promoters	31.2
FII	24.3
DII	10.4
Others	34.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	8.8	8.5	20.8	29.8
Relative to Sensex	11.0	10.0	18.1	27.9

Sharekhan Research, Bloomberg

Summary

- Q3FY23 operating profit of Rs. 273 crore (up 18% q-o-q) was 3% above our estimate led by marginal beat in EBITDA margin, while sales volumes of 605 kt (up 50% y-o-y; flat q-o-q) was in-line with estimates. PAT of Rs. 169 crore, up 13% q-o-q) slightly missed estimate due to steeply higher depreciation/interest costs.
- EBITDA margin grew by 17% q-o-q led by positive operating leverage at new Raipur plant (margin of Rs. 3,146/tonne and operated at 25% utilization), marginally better VAP mix at 56% (versus 54% in Q2FY23) and no channel destocking. Apollo Structural/Apollo Z/Apollo Galv EBITDA margin was also up by 25%/10%/13% q-o-q.
- Management maintained its FY23/FY24/FY25 volume guidance of 2.3mmt/3.2mmt/4mmt; targets to reach 5mmt by FY26 as the company plans to expand capacity to 5mtpa (capex of Rs. 400 crore). Q4FY23 volume expected at 700kt (2.5 lakh tonnes in January'23). Margin to improve to Rs. 5,000/tonne in FY24 and aim of Rs. 6,000/tonne over FY25-26.
- We maintain Buy on APL with a revised PT of Rs. 1,425 as strong earnings growth outlook and improved earnings quality post Tricoat's merger would narrow the valuation gap with listed peers and makes risk-reward scenario favourable. APL trades at 30x/21.7x its FY2024E/FY2025E EPS.

APL Apollo Tubes Limited (APL's) Q3FY23 performance was good with a modest 3% beat in consolidated operating profit at Rs. 273 crore (up 34.9% y-o-y; up 17.7% q-o-q) led by marginally higher-than-expected EBITDA margin of Rs. 4,510/tonne (down 10.2% y-o-y; up 17.1% q-o-q) versus the estimate of Rs. 4,388/tonne and sales volume of 605 kt increased strongly by 50% y-o-y (flat q-o-q) was in-line with provisional volume numbers announced by the company. Better-than-expected EBITDA margin reflects resilient gross margin of Rs. 9,219/tonne, up 12.3% q-o-q and 7% above our estimates supported by positive operating leverage at new Raipur plant (margin of Rs. 3,146/tonne and operated at 25% utilisation), marginally better VAP mix at 56% (versus 54% in Q2FY23) and no channel destocking. Gross margin improvement of 12.3% q-o-q to Rs. 9,219/tonne (4% above estimate) as increase of Rs. 5,614/tonne q-o-q in blended realisation was higher than raw material cost increase of Rs. 4,605/tonne. EBITDA margins improved across portfolio on sequential basis - Apollo Structural/Apollo Z/Apollo Galv EBITDA margin was up by 25%/10%/13% q-o-q. Consolidated PAT of Rs. 169 crore (up 32% y-o-y; up 12.6% q-o-q) was 3% below our estimate as a marginal beat in operating profit was offset by higher-than-expected interest/depreciation cost, up 37%/25% q-o-q.

Key positives

- Robust volume growth of 50% y-o-y to 605 kt.
- Marginally beat of 3% in blended EBITDA margin at Rs. 4,510/tonne, 17% q-o-q.

Key negatives

- Sharp rise of 71%/37% y-o-y/q-o-q in interest cost in Q3FY23.

Management Commentary

- Volume guidance of 2.3mmt/3.2mmt/4mmt for FY23/FY24/FY25 is encouraging and aim to reach 5mmt by FY26. Raipur volume ramp-up guidance at 0.1mt/0.6mt/1mt in Q4FY23/FY24/FY25.
- FY24 volume guidance of 2.4mmt/0.6 mmt/0.1 mmt/0.1 mmt from existing plants/Raipur/Dubai/Kolkata plant.
- Margin guidance of Rs. 5000/tonne for FY24 and target of Rs. 6000/tonne over FY25-26. Management is focused to improve Raipur margin to Rs. 6,000-7,000/tonne from Rs. 3,146/tonne currently.
- Focus on super value-added products (SVAPs) which have margin of Rs. 15000-16,000/tonne, in line with global peers. Volume share of SVAPs is targeted at 10% of total volume (0.5mmt) in FY26.
- Capex guidance of Rs. 400 crore over FY24-25 to take overall capacity to 5mtpa (from 4.5mtpa guidance earlier). Debottlenecking would take APL existing capacity to 3.2mtpa while Raipur/Dubai/Kolkata capacity would be at 1.2 mmt/0.3 mmt/ 0.3mmt.
- APL is focused to tap steel tubes market from railway/water tanks.

Revision in estimates – We have fine-tune our FY23-25 earnings estimates.

Our Call

Valuation – Maintain Buy on APL with a revised PT of Rs. 1,425: APL's presence in a niche business, first-mover advantage (introduction of innovative, first-of-its-kind products) in structural steel tubes space, and improved earnings quality (better margin/RoE profile) post the merger of Tricoat could help reduce the valuation gap with other listed building material companies (APL trades at 22x its FY2025E EPS as compared to the valuation of 60x for players such as Astral Limited). We expect APL to sustain a high earnings growth momentum (expect EBITDA/PAT CAGR of 32%/40% over FY2022-FY2025E), supported by robust double-digit volume growth and margin expansion. Hence, we maintain a Buy rating on APL with a revised price target (PT) of Rs. 1,425 (increase reflects rollover of valuation PE multiple to FY25E EPS).

Key Risks

A 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	FY22	FY23E	FY24E	FY25E
Revenue	13,063	16,436	21,080	29,250
OPM (%)	7.2	6.5	7.5	7.4
Adjusted PAT	557	708	1,089	1,516
% YoY growth	*54.7*	*27.1*	*53.8*	*39.2*
Adjusted EPS (Rs.)	20.1	25.6	39.3	54.7
P/E (x)	58.9	46.3	30.1	21.7
P/B (x)	14.5	11.5	8.8	6.6
EV/EBITDA (x)	31.5	28.0	18.4	13.2
RoNW (%)	28.2	27.7	33.0	34.7
RoCE (%)	30.8	28.8	37.9	41.9

Source: Company; Sharekhan estimates

Q3 operating profit marginally beat estimate on better margin performance

Q3FY23 performance was good with a modest 3% beat in consolidated operating profit at Rs. 273 crore (up 34.9% y-o-y; up 17.7% q-o-q) led by marginally higher-than-expected EBITDA margin of Rs. 4,510/tonne (down 10.2% y-o-y; up 17.1% q-o-q) versus the estimate of Rs. 4,388/tonne and sales volume of 605 kt increased strongly by 50% y-o-y (flat q-o-q) was in-line with provisional volume numbers announced by the company. Better-than-expected EBITDA margin reflects resilient gross margin of Rs. 9,219/tonne, up 12.3% q-o-q and 7% above our estimates supported by led by positive operating leverage at new Raipur plant (margin of Rs. 3,146/tonne and operated at 30% utilisation), marginally better VAP mix at 56% (versus 54% in Q2FY23) and no channel destocking. Gross margin improvement of 12.3% q-o-q to Rs. 9,219/tonne (4% above estimate) as increase of Rs. 5614/tonne q-o-q in blended realisation was higher than raw material cost increase of Rs. 4,605/tonne. EBITDA margins improved across portfolio on sequential basis - Apollo Structural/Apollo Z/Apollo Galv EBITDA margin was up by 25%/10%/13% q-o-q. Consolidated PAT of Rs. 169 crore (up 32% y-o-y; up 12.6% q-o-q) was 3% below our estimate as a marginal beat in operating profit was offset by higher-than-expected interest/depreciation cost, up 37%/25% q-o-q.

Q3FY2023 conference call highlights

- **Broadly maintained volume growth guidance:** Management has broadly maintained its FY2023 volume guidance of 2.2-2.3 mt and target of 4 mt volume by FY2025 remains intact. The company guided for 0.7 mt of sales volume for Q4 and has made sales of 0.25 million in January 2023. Management guidance implies a strong 32% volume CAGR over FY2022-FY2025E.
- **Margin commentary:** Company guided EBITDA/tonne of Rs. 5,000 in FY24 and expects it to reach Rs. 6,000 either in FY25 or FY26. This is on account of increase in the share of value-added products in the portfolio improvement in capacity utilisation rates. Share of general products is expected to decrease from 35% currently to 25-30% going forward. EBITDA/ton of general/value added/Super value-added products is Rs. 2,000/Rs. 4,000-5,000/Rs. 15,000 per tonne. EBITDA/ton increased to Rs. 4,510 in Q3FY23 as channel destocking stopped due to stabilisation of prices and Raipur plant achieved positive operating leverage.
- **Raipur plant update:** All three lines of the plant have become fully operational. Management has guided for volumes of 0.1mt in 4FY2023 and further ramp-up to 0.6mt/1mt in FY2024E/FY2025E.
- **Capex commentary:** Management has guided for Rs. 400 crore to bring the overall capacity to 5 million tons over the next three years Capex would be on residual Raipur capex, combined Dubai/Kolkata capex of Rs. 150 crore and remaining on maintenance capex. Company funded 9MFY23 capex of Rs. 514 crores from internal accruals.
- **Other updates:** 1) Increase in the Union Budget's allocation for railway and water infrastructure projects bodes well for the company in the medium-term. 2) Company has a market share of ~65% in airports and metro projects. 3) Net debt increased by 28% in 9MFY23 to Rs. 262 crore as on December 31, 2022.

Results (Consolidated) Rs cr

Particulars	Q3FY23	Q3FY22	Y-o-Y %	Q2FY23	Q-o-Q %
Revenue	**4,327**	**3,230**	**34.0**	**3,969**	**9.0**
Total Expenditure	4,054	3,028	33.9	3,737	8.5
Operating profit	**273**	**202**	**34.9**	**232**	**17.7**
Other Income	9	8	17.6	12	-19.8
Interest	19	11	71.1	14	37.1
Depreciation	35	27	26.8	28	25.1
PBT	229	172	33.1	202	13.2
Tax	60	44	35.4	52	14.8
Reported PAT	169	128	32.3	150	12.6
Equity Cap (cr)	27.7	27.7		27.7	
Reported EPS (Rs.)	6.1	4.6	32.3	5.4	12.6
Margins (%)			**BPS**		**BPS**
OPM	6.3	6.3	4	5.8	46
Effective tax rate	26.1	25.7	44	25.7	37
NPM	3.9	4.0	-5	3.8	13

Source: Company; Sharekhan Research

Key operating metrics

Particulars	Q3FY23	Q3FY22	Y-o-Y %	Q2FY23	Q-o-Q %
Volume (kt)	605	403	50.2%	602	0%
Realisation (Rs. /ton)	71,517	80,212	-10.8%	65,903	8.5%
Gross margin (Rs. /ton)	9,219	10,445	-11.7%	8,211	12.3%
EBITDA margin (Rs. /ton)	4,510	5,023	-10.2%	3,850	17.1%

Source: Company; Sharekhan Research

Product-wise volume break-up kt

Particulars	Q3FY22	Q1FY23	Q2FY23	Q3FY23	Y-o-Y chg	Q-o-Q chg
Apollo Structural	**250**	**257**	**426**	**406**	**62%**	**-5%**
Big Section	35	33	41	46	31%	12%
Light Structures	76	59	109	96	26%	-12%
General Structures	139	165	276	264	90%	-4%
Apollo Z	**135**	**141**	**137**	**125**	**-7%**	**-9%**
Apollo Galv	**17**	**18**	**27**	**28**	**65%**	**4%**
Apollo Build/ New Raipur	**0**	**7**	**12**	**46**	**NA**	**283%**
Total volume (kt)	**403**	**423**	**602**	**605**	**50%**	**0%**

Source: Company; Sharekhan Research

Product-wise EBITDA margin Rs. /tonne

Particulars	Q3FY22	Q1FY23	Q2FY23	Q3FY23	Y-o-Y chg	Q-o-Q chg
Apollo Structural						
Big Section	7,531	7,028	6,926	7,568	0%	9%
Light Structures	5,970	5,081	5,344	5,580	-7%	4%
General Structures	1,524	1,614	1,388	2,284	50%	65%
Apollo Z	**7,319**	**7,224**	**6,816**	**7,492**	**2%**	**10%**
Apollo Galv	**6,065**	**5,005**	**4,996**	**5,659**	**-7%**	**13%**
Apollo Build/ New Raipur		**5,001**		**3,146**	**NA**	**NA**
Blended margins (Rs. /tonne)	**5023**	**4,587**	**3,850**	**4,510**	**-10%**	**17%**

Source: Company; Sharekhan Research

Outlook and Valuation

■ **Sector Outlook – Structural steel tubes market size to report a 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 tonne 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 tonne by CY2030E.

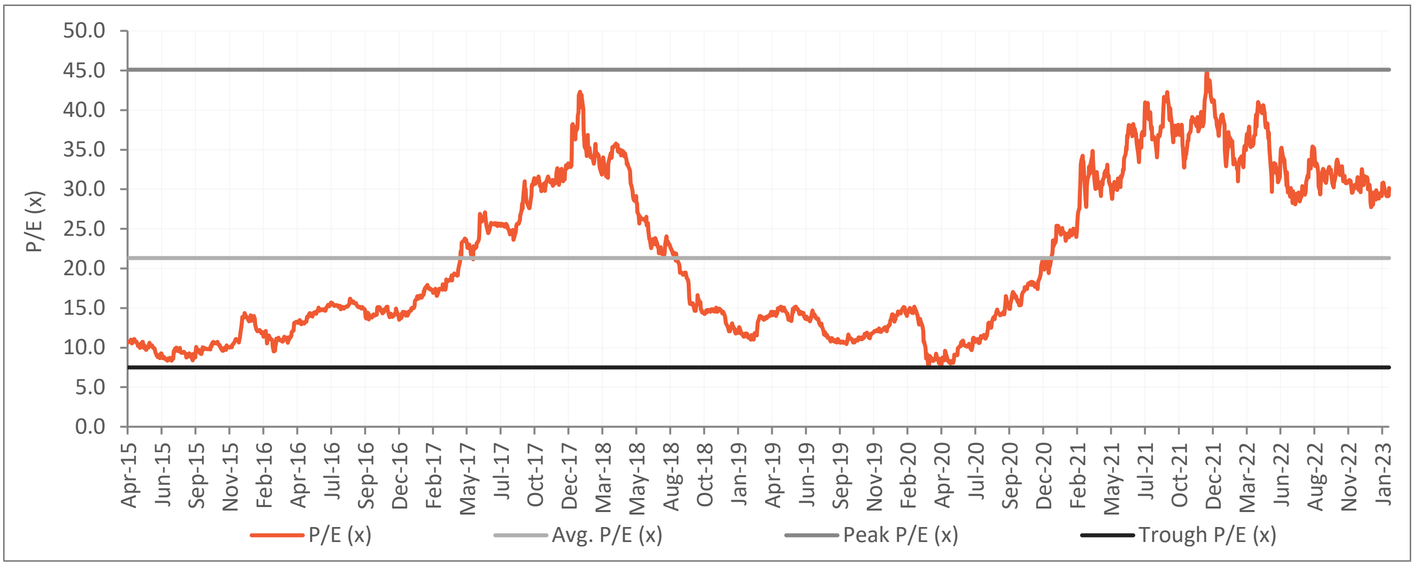
■ **Company Outlook – Earnings to rise sustainably led by structural volume growth drivers and potential rise in margins**

Volumes reported 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 a fragmented industry structure would help APL further expand market share in the next few years. Hence, we expect a robust 30% volume CAGR over FY2022-FY2025E and reach 3.9 million tonne by FY2025E. Moreover, premiumisation and cost reduction would drive up EBITDA margin to Rs. 5,365/Rs. 5,115 per tonne in FY24E/FY25E versus ~Rs. 4,500/tonne currently with scope for further improvement as the share of VAP is likely to increase further from 63% in FY2022. Industry-leading volume growth and strong margin are likely to result in sustained outperformance in earnings (expect a 40% PAT CAGR over FY2022-FY2025E) versus peers in the medium to long term.

■ **Valuation – Maintain Buy on APL with a revised PT of Rs. 1,425**

APL's presence in a niche business, first-mover advantage (introduction of innovative, first-of-its-kind products) in structural steel tubes space, and improved earnings quality (better margin/RoE profile) post the merger of Tricoat could help reduce the valuation gap with other listed building material companies (APL trades at 22x its FY2025E EPS as compared to the valuation of 60x for players such as Astral Limited). We expect APL to sustain a high earnings growth momentum (expect EBITDA/PAT CAGR of 32%/40% over FY2022-FY2025E), supported by robust double-digit volume growth and margin expansion. Hence, we maintain a Buy rating on APL with a revised price target (PT) of Rs. 1,425 (increase reflects rollover of valuation PE multiple to FY25E 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 2.5 MTPA in FY2020 through the organic and inorganic routes. 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 the 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 the 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	7.6
2	Smallcap World Fund	6.1
3	Capital Group Cos Inc	6.1
4	DSP Investment Managers Pvt Ltd	2.4
5	Sampat Sameer Mahendra	2.3
6	Vanguard Group Inc	2.0
7	Kotak Mahindra Asset Management Co. Ltd	1.6
8	ICICI Prudential Life Insurance	1.6
9	L&T Mutual Fund Trustee Ltd	0.9
10	FIL Ltd	0.9

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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