

## Q1 Misses Our Estimates; Growth Drivers Remain Intact

**Est. Vs. Actual for Q1FY24:** Revenue – **MISS**; EBITDA/t – **MISS**; PAT – **MISS**

**Change in Estimates post Q1FY24:**

**FY24E/FY25E:** Revenue: 0%/6%; EBITDA: -3%/3%; PAT: -1%/5%

### Recommendation Rationale

- **Raipur Plant Ramp-up:** 1MT capacity out of 1.5MT Raipur plant is now on stream. Out of this, 0.6MT is operational and the narrow chequered section of 0.4MT capacity is expected to commence in the next 1-1.5 months. In Q1FY24, the plant achieved volumes of 75kt (30% utilisation on an annualised basis). This will ramp up to 100/150kt in Q2/Q3FY24 and eventually 175-200kt by Q4FY24, which will yield a total run rate of ~0.5-0.6MT in FY24. Volumes will ramp up to 1MT by FY26 as the company's market-creation efforts have bought more orders from railway stations and airports in Q1FY24. EBITDA/t at Raipur stood at Rs 4k/t which will increase to a steady state of Rs 6k-7k/t once the ramp-up gets completed over the next 2.5 years.
- **Blended EBITDA/t to improve from hereon:** With the ramp-up of the Raipur plant, the blended EBITDA/t is expected to improve gradually. In FY23, the EBITDA/t stood at ~Rs 4,481/t. The target is to achieve Rs 5,000/t in FY24 and Rs 5,500/t in FY25 and Rs 6,000/t in FY26, assuming the Raipur plant manages to deliver products at Rs 6k-7k/t.

### Sector Outlook: Positive

**Company Outlook & Guidance:** The company has Vision 2025 where it targets Revenue/EBITDA to grow 2x/2.5x over FY23 by FY26. The management has given sales volume guidance of 2.8-3MT, 3.6-4.0MT, and 4.6-5.0MT for FY24/25/26. It has planned Capex for a 5Mtpa expansion of ~Rs 6 Bn, out of which Rs 1.8 Bn was spent in Q1FY24, and the remaining will be spent over the next 3-4 quarters. FY24 capex will be Rs 4.3 Bn. The vision is to grow to 10MT capacity by FY30. Capex of Rs 2,000 Cr to start from Dec'25, post the 1st 5 mtpa expansion phase stabilises.

**Current Valuation:** 32x P/E Jun'25 EPS (Earlier Valuation: 31x P/E FY25E EPS)

**Current TP:** Rs 1,630/share (Earlier TP: Rs 1,380/share)

**Recommendation:** Incremental production from the Raipur plant will drive higher EBITDA/t. However, post the recent rally in the stock price, the valuation is not very attractive which caps a higher upside on the stock from the CMP.

**Financial Performance:** APL Apollo Tubes numbers stood below our and the street's estimates. Revenue grew by 32%/3% YoY/QoQ but missed ours and consensus estimates by 2% led by lower-than-expected sales realisation. EBITDA stood at Rs 307 Cr, up 58% YoY but declined by 5% QoQ, missing our and consensus estimates by 10%/6% respectively. Corresponding EBITDA/t stood at Rs 4,645/t, up 1%, but down 7% QoQ and 10%/6% below our and street's estimates. QoQ decline in EBITDA/t across VAP and general products led to the miss. On a consolidated basis, the company booked some inventory loss which impacted gross margins QoQ, which was due to the drop in HRC prices in Q1FY24. PAT stood at Rs 194 Cr (up 60% YoY, down 4% QoQ), a 9% miss, led by lower EBITDA and higher interest expense, which was partially offset by lower D&A and higher other income.

**Outlook:** The company's market-creation efforts have bought more orders from railway stations and airports for the heavy structural and coated products at Raipur which has higher EBITDA/t. These new projects provide demand visibility for the company over the next few years. With a lower Capex intensity ahead, higher OCFs, and the Raipur plant stabilizing in due course, the company's ROCE is likely to improve from ~28% in FY24 to 35% by FY26. The company's vision to expand its capacity over to 10mtpa by FY30 provides a growth tailwind in the longer term.

**Valuation & Recommendation:** We increase our sales volume estimates and EBITDA for FY25 by 4%/3% and roll forward our valuation at 32x PE of Jun'25 EPS (From Mar'25E). We maintain our **BUY** rating on the stock. We raise our P/E from 31x to 32x on a good demand outlook. Post the recent rally, the stock is currently trading at a consensus 12M forward P/E of 39x which looks stretched.

### Key Financials (Consolidated)

(Rs Cr)	Q1FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	4,402	3%	32%	4,496	-2%
EBITDA	307	-5%	58%	343	-10%
EBITDA/t (Rs/t)	4,645	-7%	1%	5,186	-10%
Net Profit	194	-4%	60%	214	-9%
EPS (Rs)	6.98	-4%	45%	7.71	-9%

Source: Company, Axis Research

(CMP as of 7<sup>th</sup> Aug 2023)

CMP (Rs)	1,478
Upside /Downside (%)	10%
High/Low (Rs)	1,601/943
Market cap (Cr)	40,989
Avg. daily vol. (6m) Shrs.	5,89,249
No. of shares (Cr)	27

### Shareholding (%)

	Dec-22	Mar-23	Jun-23
Promoter	31.2	31.2	30.6
FII	24.3	25.7	25.1
Mutual Funds / UTI	7.4	7.7	8.8
Financial Institutions	0.0	0.0	0.0
Others	37.2	35.5	35.5

### Financial & Valuations

(Rs. Cr)	FY24E	FY25E	FY26E
Net Sales	19,500	26,079	32,666
EBITDA	1,370	1,904	2,401
Net Profit	879	1,293	1,685
EPS (Rs.)	31.7	46.6	60.8
PER (x)	46.6	31.7	24.3
EV/EBITDA (x)	30.3	21.7	17.1
P/BV (x)	10.7	8.1	6.1
ROE (%)	25.7	29.1	28.6

### Change in Estimates (%)

Y/E Mar	FY24E	FY25E	FY26E
Sales	0%	6%	NA
EBITDA	-3%	3%	NA
PAT	-1%	5%	NA

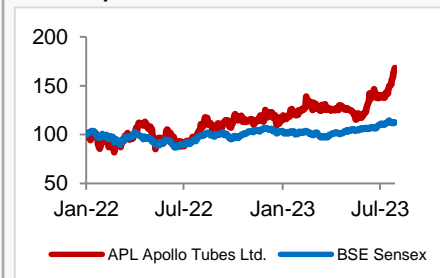
### ESG disclosure Score\*\*

Environmental Disclosure	46.8
Social Disclosure Score	41.4
Governance Disclosure Score	66.1
<b>Total ESG Disclosure Score</b>	<b>51.5</b>
<b>Sector Average</b>	<b>50.4</b>

Source: Bloomberg, Scale: 0.1-100

\*\*\*\*Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures, Sector average is for NSE500 companies

### Relative performance



Source: ACE Equity, Axis Securities

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## Key Concall Highlights

- **Capacity target:** Capacity will increase to ~4.8MT over the current capacity of 3.6MT by FY24 which will be coming from i) De-bottlenecking its existing plants (0.6MT), ii) Greenfield Dubai plant (0.3MT) and iii) New Raipur plant brownfield expansion (0.3MT). Post FY24, the East India Greenfield plant of 0.2MT will also come online which will take the total capacity to 5MT by FY25. Out of the total 5MT capacity, 1.5MT is general products and 3.5MT is VAP.
- **Vision 2025:** The company under its Vision 2025 program aims to maintain its dominant position with a 60%+ market share in the structural steel tubes market. By FY26, it aims to double its revenue and increase its EBITDA by 2.5x over FY23. It plans to achieve 70%+ revenue from the VAP (74% earlier target) and 10% of sales from exports. Its focus is on creating a strong position in newer product categories (Super Heavy and Coated products)
- **Net Debt:** In FY23 Net debt stood at Rs 2.4 Bn. At Q1FY24, the net debt stood higher by Rs 400 Mn and ended with Rs 2.8 Bn, however, this should start coming down as Raipur starts ramping up and OCF remains strong with 6-7 days of WC cycle. Gross Debt was at Rs 950 Cr and cash was at Rs 650 Cr.
- **Channel inventory** is almost blank as of Aug'23, despite the monsoon and there is good demand for the products.

## Key Risks to our Estimates and TP

- Failure to ramp up the Raipur plant as guided by the company.
- Steep fall in HRC prices leading to destocking by traders.
- Macroeconomic risk impacting the demand for structural steel.

## Change in Estimates

Rs. Cr	Revised			Old			% Change		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Net Sales	19,500	26,079	32,666	19,487	24,707	N/A	0%	6%	NA
EBITDA	1,370	1,904	2,401	1,408	1,844	N/A	-3%	3%	NA
EBITDA Margin (%)	7.0%	7.3%	7.4%	7.0%	7.0%	N/A	2.34	30.00	NA
PAT	879	1,293	1,685	884	1,235	N/A	-1%	5%	NA
EPS (Rs.)	32	47	61	32	45	N/A	-1%	4%	NA
Sales Volume (kt)	2,902	3,850	4,800	2,890	3,700	N/A	0%	4%	NA

Source: Company, Axis Securities

## Results Review

Consolidated (Rs Cr)	Q1FY23 Actual	Q4FY23 Actual	Q1FY24 Axis Sec Est	Q1FY24 Consensus	Q1FY24 Actual	% Change (YoY)	% Change (QoQ)	Variance (%)	VsCons (%)
Sales Volumes (tonnes)	4,22,788	6,49,726	6,61,501	6,61,501	6,61,501	56%	2%	0%	0%
<b>Sale of products</b>	<b>3,336</b>	<b>4,292</b>	<b>4,496</b>	<b>4,507</b>	<b>4,402</b>	<b>32%</b>	<b>3%</b>	<b>-2%</b>	<b>-2%</b>
Other operating income	102	140	139		142	39%	2%	2%	NA
<b>Net Operating Revenue</b>	<b>3,439</b>	<b>4,431</b>	<b>4,636</b>		<b>4,545</b>	<b>32%</b>	<b>3%</b>	<b>-2%</b>	<b>NA</b>
ASP (Rs/t)	78,907	66,052	67,972	68,128	66,553	-16%	1%	-2%	-2%
<b>Expenditure</b>									
Net Raw Material	2,992	3,782	3,964		3,921	31%	4%	-1%	NA
Employee Expenses	45	59	60		60	36%	2%	0%	NA
Other Exp	209	266	269		257	23%	-4%	-5%	NA
<b>EBIDTA</b>	<b>194</b>	<b>323</b>	<b>343</b>	<b>327</b>	<b>307</b>	<b>58%</b>	<b>-5%</b>	<b>-10%</b>	<b>-6%</b>
EBITDA Margin (%)	5.6%	7.3%	7.4%		6.8%				
<b>EBITDA per tonne (Rs/tonne)</b>	<b>4,587</b>	<b>4,970</b>	<b>5,186</b>	<b>4,936</b>	<b>4,645</b>	<b>1%</b>	<b>-7%</b>	<b>-10%</b>	<b>-6%</b>
Depreciation	29	47	49		41	39%	-13%	-16%	NA
Interest	10	25	17		27	172%	9%	58%	NA
Other Income	8	18	12		22	160%	21%	87%	NA
<b>PBT</b>	<b>163</b>	<b>269</b>	<b>289</b>		<b>261</b>	<b>60%</b>	<b>-3%</b>	<b>-10%</b>	<b>NA</b>
Tax	42	67	75		67	59%	0%	-10%	NA
Tax Rate (%)	25.9%	25.0%	25.9%		25.8%				
<b>PAT</b>	<b>121</b>	<b>202</b>	<b>214</b>		<b>194</b>	<b>60%</b>	<b>-4%</b>	<b>-9%</b>	<b>NA</b>
MI	-	-	-			NA	NA	NA	NA
<b>Attrib PAT</b>	<b>121</b>	<b>202</b>	<b>214</b>	<b>179</b>	<b>194</b>	<b>60%</b>	<b>-4%</b>	<b>-9%</b>	<b>8%</b>
EPS (Rs.)	4.82	7.28	7.71	7.65	6.98	45%	-4%	-9%	-9%

Source: Company, Axis Securities, Bloomberg Consensus

## Financials (Consolidated)

### Profit & Loss

(Rs Cr)

Y/E March	FY22	FY23	FY24E	FY25E	FY26E
<b>Total Sales</b>	<b>13,063</b>	<b>16,166</b>	<b>19,500</b>	<b>26,079</b>	<b>32,666</b>
Total Raw Materials	11,223	14,018	16,766	22,349	27,995
Total Expenditure	11,965	14,938	17,875	23,836	29,840
<b>EBITDA</b>	<b>945</b>	<b>1,022</b>	<b>1,370</b>	<b>1,904</b>	<b>2,401</b>
<b>EBITDA per tonne</b>	<b>5,386</b>	<b>4,481</b>	<b>4,720</b>	<b>4,945</b>	<b>4,945</b>
Depreciation	109	138	187	195	198
Interest & Finance charges	44	67	69	41	26
Other Income	41	47	71	78	98
EBT (as reported)	832	863	1,185	1,746	2,275
Tax	213	221	306	453	590
<b>RPAT</b>	<b>619</b>	<b>642</b>	<b>879</b>	<b>1,293</b>	<b>1,685</b>

Source: Company, Axis Securities

### Balance Sheet

(Rs Cr)

Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	50	55	55	55	55
Reserves	2,214	2,950	3,774	5,011	6,641
Net worth	2,264	3,006	3,829	5,067	6,696
Total loans	581	873	573	273	173
Deferred tax liability (Net)	119	117	117	117	117
<b>Capital Employed</b>	<b>3,256</b>	<b>4,136</b>	<b>4,687</b>	<b>5,681</b>	<b>7,267</b>
Net block	1,604	2,349	2,612	2,567	2,419
Investments	86	96	156	209	261
Inventories	847	1,480	1,496	2,001	2,506
Sundry debtors	342	137	321	429	537
Cash and cash equivalents	164	123	689	1,626	3,152
Total Current assets	1,827	2,539	3,035	4,643	6,903
Total Current liabilities	1,196	1,715	1,980	2,645	3,313
Net Current assets	631	823	1,056	1,998	3,590
<b>Capital Deployed</b>	<b>3,256</b>	<b>4,136</b>	<b>4,687</b>	<b>5,681</b>	<b>7,267</b>

Source: Company, Axis Securities

**Cash Flow**

(Rs Cr)

Y/E March	FY22	FY23	FY24E	FY25E	FY26E
PBT	832	863	1,185	1,746	2,275
Depreciation & Amortization	109	138	187	195	198
Incr/(Decr) in Deferred Tax Liability	-	-	-	-	-
(Incr)/Decr in Working Capital	(115)	(147)	334	(6)	(65)
<b>Net Cash Flow from Operating</b>	<b>652</b>	<b>690</b>	<b>1,397</b>	<b>1,445</b>	<b>1,746</b>
(Incr)/ Decr in Gross PP&E incl Capital Advances	(597)	(862)	(450)	(150)	(50)
(Incr)/Decr In Work in Progress	-	-	-	-	-
(Incr)/Decr In Investments	(82)	(27)	(60)	(53)	(53)
(Incr)/Decr in Other Non-Current Assets	-	-	4	(44)	(89)
<b>Cash Flow from Investing</b>	<b>(530)</b>	<b>(876)</b>	<b>(407)</b>	<b>(112)</b>	<b>(38)</b>
(Decr)/Incr in Borrowings	60	290	(300)	(300)	(100)
Dividend	-	(88)	(55)	(55)	(55)
<b>Cash Flow from Financing</b>	<b>26</b>	<b>145</b>	<b>(424)</b>	<b>(396)</b>	<b>(181)</b>
Cash at the Start of the Year	16	164	123	689	1,626
<b>Cash at the End of the Year</b>	<b>164</b>	<b>123</b>	<b>689</b>	<b>1,626</b>	<b>3,152</b>

Source: Company, Axis Securities

**Ratio Analysis**

(%)

Ratios	FY22	FY23	FY24E	FY25E	FY26E
<b>Growth (%)</b>					
Sales	53.7	23.8	20.6	33.7	25.3
EBITDA	39.3	8.1	34.1	39.0	26.1
APAT	54.7	15.2	37.0	47.1	30.3
<b>Profitability (%)</b>					
EBITDA Margin	7.2	6.3	7.0	7.3	7.4
Adj. Net Profit Margin	4.3	4.0	4.5	5.0	5.2
ROCE	30.4	24.7	27.5	33.7	34.7
ROE	28.2	24.4	25.7	29.1	28.6
<b>Per Share Data (Rs.)</b>					
AEPS	22.3	23.1	31.7	46.6	60.8
Reported CEPS	29.4	28.2	38.7	54.1	68.5
BVPS	90.5	108.4	138.1	182.7	241.4
<b>Valuations (x)</b>					
PER (x)	41.1	52.1	46.6	31.7	24.3
PEG (x)	-1.8	13.2	1.3	0.7	0.8
P/BV (x)	10.1	11.1	10.7	8.1	6.1
EV/EBITDA (x)	25.0	33.6	30.3	21.7	17.1
Dividend Yield (%)	0.4	0.4	0.1	0.1	0.1
<b>Turnover days</b>					
Inventory Days	24.5	28.4	30.4	26.8	27.6
Debtor Days	6.8	5.6	4.4	5.4	5.6
Payable Days	32.3	35.6	37.7	35.4	36.4
<b>Gearing Ratio</b>					
D/E	0.3	0.3	0.1	0.1	0.0

Source: Company, Axis Securities

## APL Apollo tubes Price Chart and Recommendation History



Source: Axis Securities

Date	Reco	TP	Research
25-Jan-22	BUY	1,215	Result Update
13-May-22	BUY	1,100	Result Update
01-Jun-22	BUY	1,100	Result Update
01-Jul-22	BUY	1,100	Top Picks
28-Jul-22	BUY	1,100	Result Update
01-Sep-22	BUY	1,100	Top Picks
01-Oct-22	BUY	1,145	Top Picks
01-Nov-22	BUY	1,200	Top Picks
10-Nov-22	BUY	1,200	Result Update
01-Dec-22	BUY	1,240	Top Picks
01-Jan-23	BUY	1,240	Top Picks
02-Feb-23	BUY	1,345	Top Picks
03-Feb-23	BUY	1,345	Result Update
15-May-23	BUY	1,380	Result Update
8-Aug-23	BUY	1,630	Result Update

Source: Axis Securities

**About the analyst**

**Research Analyst: Aditya Welekar** is a PGDBM in Finance with 12 years of experience in Equity Market/Research.

**Sector:** Building Materials

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