Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

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		↔	

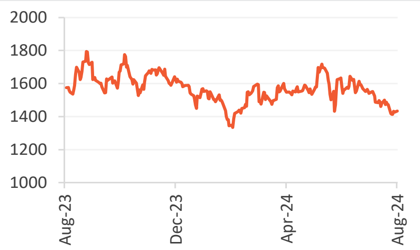
Company details

Market cap:	Rs. 39,782 cr
52-week high/low:	Rs. 1,806/1,306
NSE volume: (No of shares)	10.3 lakh
BSE code:	533758
NSE code:	APLAPOLLO
Free float: (No of shares)	19.9 cr

Shareholding (%)

Promoters	28.3
FII	31.6
DII	14.9
Others	25.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-6.9	-8.4	-10.1	-9.0
Relative to Sensex	-5.9	-17.9	-18.2	-30.8

Sharekhan Research, Bloomberg

Stock Update

Result Update

APL Apollo Tubes Ltd

Soft Q1; Outlook positive

Building Material	Sharekhan code: APLAPOLLO
Reco/View: Buy ↔	CMP: Rs. 1,433
	Price Target: Rs. 1,850 ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- We maintain a Buy on the stock with an unchanged PT of Rs. 1850, rolling forward our valuation to H1FY2027E earnings which offset downward revision in estimates.
- Consolidated revenues stayed in line aided by 9% y-o-y volume growth for Q1FY2025. EBITDA/tonne lagged estimates, affected by a one-off rise in employee and other costs. PAT stays in-line.
- Management targets 3.2 million sales volumes in FY2025 expecting H2 to be strong and retained 20-25% y-o-y growth guidance for FY2026.
- Its capacity target of 5 million tonnes in 12-15 months remain unchanged from current 4.5 million tonnes. Ramp up in newly commissioned plants is expected to help achieve Rs. 5000 EBITDA/tonne by FY2027 on conservative basis.

APL Apollo Tubes (APL) reported largely in-line consolidated revenues at Rs. 4974 crore (up 9.4% y-o-y) led by 9% y-o-y growth in sales volumes. However, consolidated EBITDA/tonne at Rs. 4183 (down 9.9% y-o-y, up 1.2% q-o-q) came in lower than our estimate of Rs. 4400/tonne. Although Gross margins improved by over 300 bps y-o-y, expenses related to ESOPs (Rs. 5 crore impact) and higher other expense (brand campaign launch expense) led to miss on OPMs. Hence, consolidated operating profit declined by 1.8% y-o-y to Rs. 302 crore (5% lower than our estimates). Lower-than-expected interest expenses and tax rates led to in-line consolidated PAT (almost flat y-o-y at Rs. 193 crore). The management targets 3.2 million sales volumes in FY2025 (expecting H2 to be strong) and retained 20-25% y-o-y growth for FY2026. Capacity target of 5 million tonnes in 12-15 months remain unchanged from current 4.5 million tonnes. Ramp-up in newly commissioned Raipur and Dubai plants is expected to help achieve Rs. 5000 EBITDA/tonne by FY2027 on a conservative basis.

Key positives

- Sales volumes rose 9% y-o-y and 6.3% q-o-q at 7.2 lakh tonnes.
- Gross margins expanded by 335 bps y-o-y and 442 bps q-o-q. Spread with the secondary scrap steel players has reduced to just Rs. 3-4 per kg providing an opportunity for market share gains going ahead.

Key negatives

- EBITDA/tonne at Rs. 4183 lagged our estimate on account of higher employee costs (ESOPs and increments) and other expense (brand campaign launch expenses).
- Q2FY2025 is expected to be soft but better than Q1FY2025.

Management Commentary

- It expects sales volumes of 3.2 million tonnes in FY2025 and 20-25% y-o-y growth in FY2026. EBITDA margins are expected to remain under pressure in Q2FY2025, where it is expected to bottom out. It expects Q2FY2025 to be better than Q1FY2025 and H2FY2025 to be significantly better than H1FY2025.
- It maintained its target of achieving 5 million tonne capacity in 12-15 months from current saleable capacity of 4.5 million tonnes. It would be shifting some capacity from mills in Bangalore and old Raipur plant and buy 2-3 new mills. It would be setting up three new small mills of 2 lakh tonne capacity each at Siliguri, Gorakhpur and Ahmedabad.
- Net debt increased slightly owing to increase in working capital cycle by three days. It expects zero net debt by FY2025.

Revision in estimates: We have lowered our net earnings estimates for FY25-FY26 factoring gradual improvement in operational profitability than earlier envisaged.

Our Call

Valuation – Maintain Buy on APL with an unchanged PT of Rs. 1,850: 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) is expected to improve its valuation. Ramp up in recently value added capacities is expected to drive volumes and operational profitability going ahead. A reduction in spread with secondary scrap steel players provides an opportunity to gain market share in its general products. We have introduced our FY2027E earnings in this note. We expect APL to grow its revenues/operating profit/net profit at a CAGR of 26%/28%/33% over FY2024-FY2027E. We maintain a Buy with an unchanged price target (PT) of Rs. 1,850 as we roll forward our valuation to H1FY2027E earnings, which offset downward revision in estimates.

Key Risks

A delayed recovery in demand from construction and infrastructure projects could hurt the 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	FY24	FY25E	FY26E	FY27E
Revenue	18,119	22,425	28,632	36,591
OPM (%)	6.6	6.5	6.7	6.8
Adjusted PAT	732	927	1,271	1,712
% YoY growth	14.1	26.6	37.0	34.7
Adjusted EPS (Rs.)	26.4	33.4	45.8	61.7
P/E (x)	54.3	42.9	31.3	23.2
P/B (x)	11.0	9.1	7.4	5.8
EV/EBITDA (x)	30.7	24.3	18.1	13.4
RoNW (%)	22.2	23.3	26.0	28.0
RoCE (%)	23.9	25.7	29.9	33.7

Source: Company; Sharekhan estimates

Key conference call highlights

- **Guidance:** It expects sales volumes of 3.2 million tonnes in FY2025 and 20-25% y-o-y growth in FY2026. EBITDA margins are expected to remain under pressure in Q2FY2025, where it is expected to bottom out. The levers for margin improvement are 1) Better product mix 2) Operating leverage gains 3) Better pricing for general products 4) better negotiation power for steel sourcing 5) Lower brand spends and 6) Continued cost rationalisation. Net debt increased slightly owing to increase in working capital by three days. It expects zero net debt by FY2025.
- **Outlook:** Steel prices is in reversal mode over trailing 4-5 months after four years and are down by Rs. 3000/tonne from recent highs and Rs. 7000-8000 per tonne versus last year. Hence, the piping industry is de-stocking expecting steel prices to further slide by Rs. 3000-4000 per tonne by Q2FY2025. However, H2FY2025 is expected to be solid. The company expects to benefit from 1) Stability in raw material prices 2) market share gains from secondary scrap steel players (spread reduced to 5% from 20% over trailing 15 months) 3) Pick-up in construction activities post monsoon. It expects Q2FY2025 to be better than Q1FY2025 and H2FY2025 to be significantly better than H1FY2025.
- **Expansion:** It maintained its target of achieving 5 million tonne capacity in 12-15 months from current saleable capacity of 4.5 million tonnes. It would be shifting some capacity from mills in Bangalore and old Raipur plant and buy 2-3 new mills. It would be setting up three small mills of 2-lakh tonne capacity each at Siliguri, Gorakhpur and Ahmedabad.
- **Capex:** It would be incurring Rs. 500-600 crore capex to reach 5 million tonne capacity four quarters down the line.
- **Q1FY25 highlights:** The company did sales volumes of 721 KT. EBITDA per tonne of Rs. 4183 came in lower by Rs. 150 due to ESOP related notional expenses (Rs. 5 crore impact) and brand campaign launch expenses. However, gross margins improved by 335 bps y-o-y and 442 bps q-o-q owing to better product mix with commissioning of its Raipur and Dubai plants.
- **Raipur plant:** The plant has four product lines aggregating to 1.1 million tonne comprising two lines for innovative products and two for value added products. It operated at 61% capacity utilisation in Q1FY2025.
- **Dubai plant:** The plant has four lines of which two lines were commissioned last year and two lines in the last three weeks. Overall, it has a capacity of 3 lakh tonnes and operated at a 30% capacity utilisation in Q1FY2025.

Results (Consolidated) Rs cr

Particulars	Q1FY25	Q1FY24	Y-o-Y %	Q4FY24	Q-o-Q %
Net sales	**4,974.3**	**4,544.9**	**9.4**	**4,765.7**	**4.4**
other income	24.7	21.7	14.0	18.6	33.1
Total income	**4,999.0**	**4,566.6**	**9.5**	**4,784.3**	**4.5**
Total expenses	4,672.7	4,237.7	10.3	4,485.4	4.2
Operating profit	**301.7**	**307.2**	**(1.8)**	**280.4**	**7.6**
Depreciation	46.5	40.9	13.6	46.6	(0.2)
Interest	27.8	27.1	2.6	31.1	(10.6)
Exceptional items	-	-	-	-	-
Profit Before Tax	**252.0**	**260.9**	**(3.4)**	**221.2**	**13.9**
Income taxes	58.9	67.2	(12.5)	50.8	15.9
PAT	193.2	193.6	(0.2)	170.4	13.3
Adjusted PAT	**193.2**	**193.6**	**(0.2)**	**170.4**	**13.3**
EPS (Rs)	7.0	7.0	(0.2)	6.1	13.3
Margins (%)			**BPS**		**BPS**
OPM (%)	6.1	6.8	-70	5.9	18
NPM (%)	3.9	4.3	-38	3.6	31
Tax rate (%)	23.4	25.8	-242	23.0	40

Source: Company, Sharekhan Research

Outlook and Valuation

■ **Sector view - Structural steel tubes market size to clock 12% CAGR over 2023-2030E, 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 8% by CY2030 from 6% currently. Overall, we expect the structural steel tubes market to post a 12% CAGR over 2023-2030E and reach ~17 million tonnes by CY2030E.

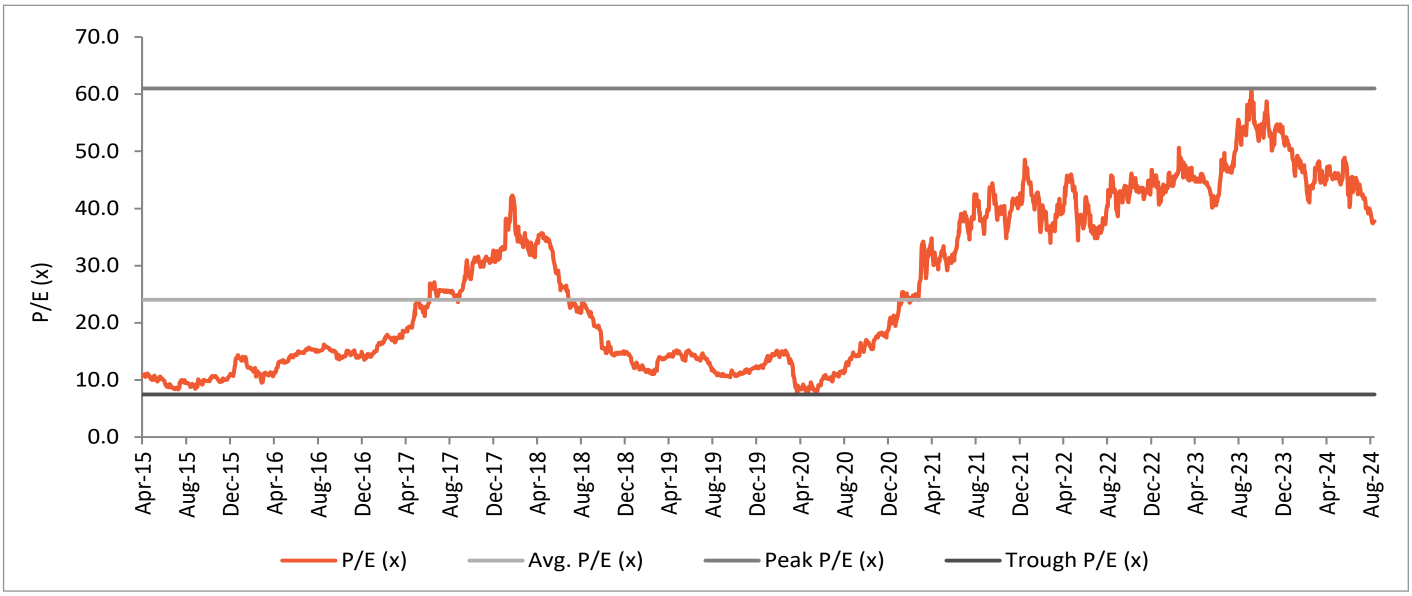
■ **Company outlook - Earnings to rise sustainably led by structural volume growth drivers and potential rise in margins**

Volumes reported a 16% CAGR over FY2017 to FY2023, led by market share gains supported by capacity expansion. Demand drivers for structural steel tubes and weak competition given a fragmented industry structure would help APL further expand its market share in the next few years. Hence, we expect a strong 23% volume CAGR over FY2024-FY2026E and reach 4 million tonnes by FY2026E. Moreover, premiumisation and cost reduction would drive up EBITDA margins with scope for further improvement as the share of VAP products increases. Industry-leading volume growth and strong margins are likely to result in sustained outperformance in earnings (expect a 43% PAT CAGR over FY2024-FY2026E) versus peers in the medium to long term.

■ **Valuation - Maintain Buy on APL with an unchanged PT of Rs. 1,850**

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) is expected to improve its valuation. Ramp up in recently value added capacities is expected to drive volumes and operational profitability going ahead. A reduction in spread with secondary scrap steel players provides an opportunity to gain market share in its general products. We have introduced our FY2027E earnings in this note. We expect APL to grow its revenues/operating profit/net profit at a CAGR of 26%/28%/33% over FY2024-FY2027E. We maintain a Buy with an unchanged price target (PT) of Rs. 1,850 as we roll forward our valuation to H1FY2027E earnings, which offset downward revision in estimates.

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 60%. The company has consistently expanded its capacity from 53,000 TPA in FY2006 to 3.6 MTPA in FY2023 through the organic and inorganic routes. The company further plans to expand its capacity to 5 mtpa/10 mtpa by FY25/FY30. 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 11% CAGR over FY2023E-FY2030E and reach 16 mt by FY2030E. 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

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	APL Infrastructure Pvt Ltd	27.69
2	Capital Group Cos Inc/The	9.46
3	KITARA PIIN 1101	6.60
4	New World Fund Inc	3.32
5	Vanguard Group Inc/The	2.49
6	BlackRock Inc	2.38
7	DSP Investment Managers Pvt Ltd	1.79
8	Kotak Mahindra Asset Management Co	1.76
9	Gupta Veera	1.75
10	Sampat Sameer Mahendra	1.65

Source: Bloomberg

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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