Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

APL Apollo Tubes Ltd

Q2 hits operational trough; Expect stark revival

Building Material	Sharekhan code: APLAPOLLO
Reco/View: Buy ↔	CMP: Rs. 1,516
	Price Target: Rs. 1,850 ↔

↑ 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		↔	

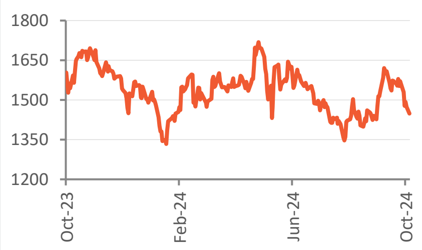
Company details

Market cap:	Rs. 42,075 cr
52-week high/low:	Rs. 1,773 / 1,253
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	31.9
DII	15.9
Others	23.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-4.3	1.1	-2.5	-5.4
Relative to Sensex	0.4	2.3	-10.2	-30.8

Sharekhan Research, Bloomberg

Summary

- We maintain a Buy on the stock with an unchanged PT of Rs. 1850, considering its strong outlook led by capacity additions and structural demand drivers.
- Consolidated revenues came in tad below estimates led by healthy volume growth. EBITDA/tonne hits trough led by inventory loss and sales discount. Operating and net profits starkly lower than estimates.
- Management may surpass its 3.2 million sales volumes guidance for FY2025 led by 10% q-o-q sales volume growth in Q3FY2025 and Q4FY2025. EBITDA/tonne expected to reach Rs. 5000 over 2-3 quarters and remain stable in FY2026.
- Its capacity target of 5 million tonnes by FY2026 stay on track with 6.1 LTPA greenfield expansions and 0.9 LTPA brownfield expansions.

APL Apollo Tubes (APL) reported a tad lower than estimated consolidated revenues at Rs. 4774 crore (up 3.1% y-o-y) led by 12% y-o-y growth in sales volumes. However, it hit its quarterly trough in terms of EBITDA/tonne at Rs. 1821 (our estimate of Rs. 2200/tonne) owing to sharp contraction in steel prices to the tune of Rs. 7500/tonne during Q2FY2025. Lower operational profitability was led by ~Rs. 2000/tonne inventory loss and ~Rs. 500/tonne sales discount negating ~Rs. 100/tonne benefit of operating leverage. Hence, consolidated operating profit (down 57.5% y-o-y at Rs. 138 crore) and net profit (down 73.5% y-o-y at Rs. 54 crore) came in starkly lower than our estimate. On the positive note, the spread between primary and secondary manufacturers have narrowed down to just Rs. 2-3 per kg while steel prices are expected to remain stable from hereon. Hence, management remain confident of possibly surpassing its 3.2 million tonne sales guidance for FY2025 with EBITDA/tonne reaching Rs. 5000 mark over 2-3 quarters (expected to sustain in FY2026 as well). Its capacity expansion plans remain intact to reach 5 million tonnes by FY2026 from current 4.3 million tonnes per annum.

Key positives

- Sales volumes rose 12% y-o-to 7.6 lakh tonnes. It expects 10% q-o-q rise in sales volumes in Q3FY2025 and Q4FY2025.
- Spread with the secondary scrap steel players has reduced to just Rs. 2-3 per kg opening up 5 lakh tonne monthly volume opportunity.

Key negatives

- EBITDA/tonne at Rs. 1821 lagged our estimate on account of inventory loss and sales discount.
- Net debt increased to almost Rs. 300 crore from cash surplus position in FY2024 led by Rs. 400 crore capex and weak operating cash flow generation in Q2FY2025.

Management Commentary

- The management retained its sales volume guidance of 3.2 million tonnes for FY2025, although it is likely to surpass it considering its targeted 10% q-o-q volume growth for Q3FY2025 and Q4FY2025.
- For FY2026 and FY2027, it targets sales volumes of 4 million tonnes and 5 million tonnes respectively. It targets to achieve Rs. 5000/tonne EBITDA over the next 2-3 quarters and expects it to sustain the same in FY2026.
- The current capacity stands at 4.3 mtpa which is expected to scale up to 5 mtpa by FY2026 with residual capex of Rs. 300-350 crore. It will be setting up three greenfield units with aggregate capacity of 6.1 LTPA and Brownfield capacities of 0.9 LTPA.

Revision in estimates – We have lowered our net earnings estimates for FY25 factoring fall in steel prices and higher employee cost structure. We retain our FY2026 and FY2027 estimates.

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 expect APL to grow its revenues/operating profit/net profit at a CAGR of 24%/28%/33% over FY2024-FY2027E. We maintain a Buy with an unchanged price target (PT) of Rs. 1,850, considering its strong outlook led by capacity additions and structural demand drivers.

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	21,105	26,948	34,439
OPM (%)	6.6	5.7	7.1	7.2
Adjusted PAT	732	734	1,271	1,712
% YoY growth	14.1	0.2	73.2	34.7
Adjusted EPS (Rs.)	26.4	26.4	45.8	61.7
P/E (x)	57.4	57.3	33.1	24.6
P/B (x)	11.7	10.0	8.0	6.3
EV/EBITDA (x)	32.5	31.4	19.3	14.2
RoNW (%)	22.2	18.8	26.9	28.8
RoCE (%)	23.9	21.1	30.8	34.4

Source: Company; Sharekhan estimates

Key conference call highlights

- **Guidance:** The management retained its sales volume guidance of 3.2 million tonnes for FY2025, although it is likely to surpass it considering its targeted 10% q-o-q volume growth for Q3FY2025 and Q4FY2025. For FY2026 and FY2027, it targets sales volumes of 4 million tonnes and 5 million tonnes respectively. It targets to achieve Rs. 5000/tonne EBITDA over the next 2-3 quarters and expects it to sustain the same in FY2026.
- **Capacity expansion:** The current capacity stands at 4.3 mtpa which is expected to scale up to 5 mtpa by FY2026 with residual capex of Rs. 300-350 crore. It will be setting up three greenfield units with aggregate capacity of 6.1 LTPA in Gorakhpur, U.P. (1.1 LTPA), Siliguri, West Bengal (2 LTPA) and New Bangalore, Karnataka (3 LTPA). Brownfield expansions are pegged at 0.9 LTPA.
- **Q2FY2025 highlights:** The sharp drop in HRC prices to the tune of Rs. 7500/tonne during Q2FY2025 led to its lowest EBITDA/tonne of Rs. 1821/tonne. The same is attributable to ~Rs. 2000/tonne inventory loss, ~Rs. 500/tonne sales discount while operating leverage benefit stood at ~Rs. 100/tonne.
- **Steel price outlook:** Sharp fall in steel prices during Q2FY2025 has led to price differential between primary and secondary manufacturers reducing to as low as Rs. 2-3 per kg. HRC prices are currently at Rs. 46000-47000 per tonne and expected to remain stable as only 2.5 LTPA capacities out of envisaged domestic capacities of 12 LTPA has commissioned.
- **Raipur plant:** It added 1.1 LTPA capacity at Raipur taking total capacity at Raipur plant to 1.2 mtpa. The plant is operating at 53% capacity utilisation on expanded capacity.
- Capex: it incurred Rs. 400 crore capex in H1FY2025 taking its overall capacity to 4.3 mtpa from 3.6 mtpa.
- **Debt:** The net debt as on H1FY2025 stands at Rs. 297.5 crore from net cash of Rs. 18.5 crore in FY2024 owing to Rs. 407 crore capex and lower operating cash flows in Q2FY2025. As operating cash flows improve in H2FY2025, net debt is expected to reduce sharply.
- **Cost structure:** The company's fixed cost per tonne stands at Rs. 2000. It can get operating leverage benefit of Rs. 500-600 per tonne if increase in production volumes. There is further scope of reduction in power & freight costs. Employee costs includes Rs. 70 crore notional ESOP expense. Going ahead, Rs. 80 crore quarterly run-rate for employee costs would continue.
- **Sales discounts:** The sales discount of Rs. 500/tonne continues in October for general products.

Results (Consolidated) — Rs cr

Particulars	Q2FY25	Q2FY24	Y-o-Y (%)	Q1FY25	Q-o-Q (%)
Net sales	**4,773.9**	**4,630.4**	**3.1**	**4,974.3**	**(4.0)**
other income	14.8	19.6	(24.6)	24.7	(40.2)
Total income	**4,788.7**	**4,650.0**	**3.0**	**4,999.0**	**(4.2)**
Total expenses	4,635.9	4,305.4	7.7	4,672.7	(0.8)
Operating profit	**138.1**	**325.0**	**(57.5)**	**301.7**	**(54.2)**
Depreciation	46.9	41.3	13.4	46.5	0.8
Interest	36.4	26.6	36.6	27.8	30.6
Exceptional items	--	--		--	
Profit Before Tax	**69.6**	**276.7**	**(74.8)**	**252.0**	**(72.4)**
Income taxes	15.8	73.8	(78.6)	58.9	(73.2)
PAT	53.8	202.9	(73.5)	193.2	(72.1)
Adjusted PAT	**53.8**	**202.9**	**(73.5)**	**193.2**	**(72.1)**
EPS (Rs)	1.9	7.3	(73.5)	7.0	(72.1)
Margins (%)			**BPS**		**BPS**
OPM(%)	2.9	7.0	-413	6.1	-317
NPM(%)	1.1	4.4	-325	3.9	-276
Tax rate (%)	22.7	26.7	-400	23.4	-68

Source: Company; Sharekhan Research

Outlook and Valuation

■ **Sector Outlook – 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.

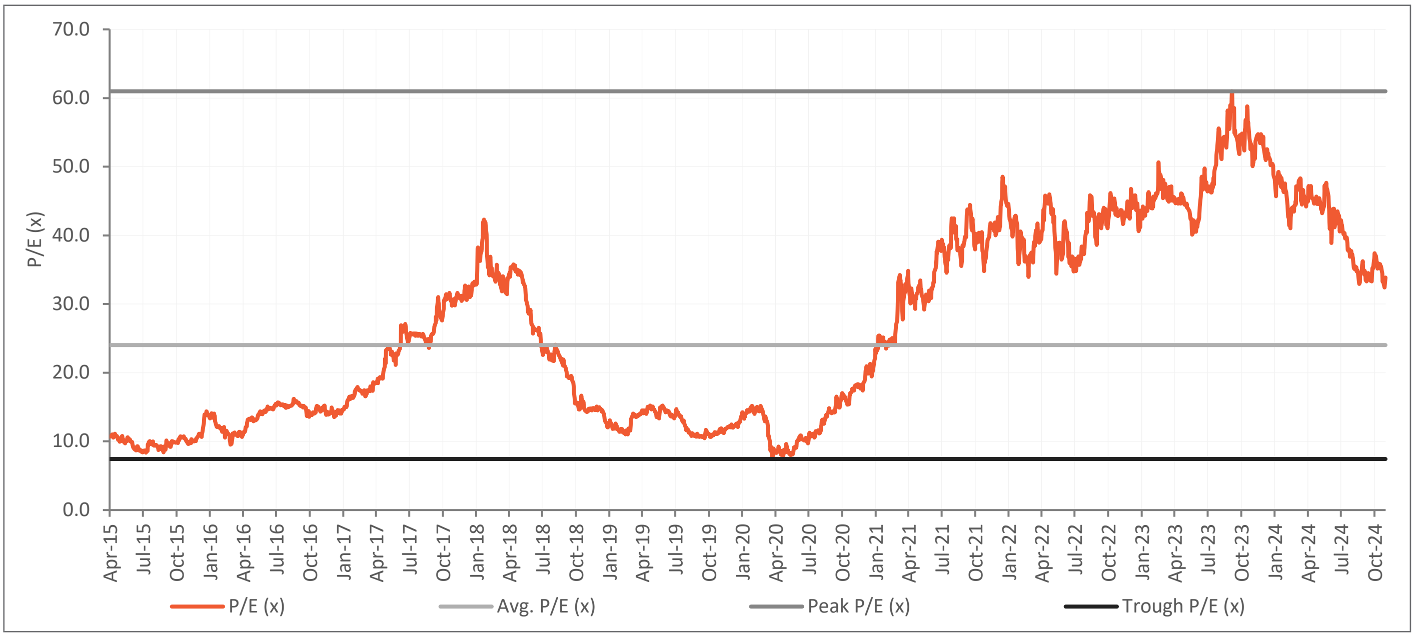
■ **Company Outlook – Earnings to rise sustainably led by structural volume growth drivers and potential rise in margins**

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 expect APL to grow its revenues/operating profit/net profit at a CAGR of 24%/28%/33% over FY2024-FY2027E. We maintain a Buy with an unchanged price target (PT) of Rs. 1,850, considering its strong outlook led by capacity additions and structural demand drivers.

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 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 Website

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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