Stock Update

Company Update

MIRAE ASSET Sharekhan

APL Apollo Tubes Ltd

Earnings improvement on the card, valuation supportive

Building Material	Sharekhan code: APLAPOLLO
Reco/View: Buy ⇔	CMP: Rs. 1,568 / 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. 43,516 cr
52-week high/low:	Rs. 1,729/1,253
NSE volume: (No of shares)	5.6 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	3.4	-3.2	-2.9	2.1
Relative to Sensex	5.5	4.1	-1.2	-6.1

Source: Mirae Asset Sharekhan Research, Bloomberg

Summary

- Favourable risk-reward for investment. 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.
- Domestic steel prices have shown marginal improvement after a recent decline, anticipate that Q4FY25 may bring some relief to steel prices, though overall near-term outlook continues to remain weak.
- Higher steel prices and volumes are expected to drive improved performance in Q3FY25 and augurs well for improvement in spread and inventory gains.
- The company's strong growth outlook, driven by capacity expansions and innovative products, makes it well-positioned to capitalize on industry trends.

Domestic steel prices have shown marginal improvement, with prices stabilizing after a recent decline. This positive development, along with India's transition to a net steel exporter, bodes well for the steel sector. While near-term outlook remains weak, Q3FY25 earnings performance is expected to improve due to inch up in steel prices (improvement in spread and inventory gains) and higher volumes growth. APL Apollo Tubes, with its strong growth outlook driven by capacity expansions and innovative product offerings, is well-positioned to capitalize on these trends. Despite recent underperformance, the stock offers a favorable risk-reward at current valuations. Maintain a "Buy" rating with an unchanged price target of Rs. 1,850.

Marginal improvement in steel prices augurs well: Domestic Hot Rolled Coil (HRC) prices in the market have seen an average increase of INR 200-300 per tonne since the initiation of safeguard duty investigations into steel imports. This optimism stems from India's recent transition to a net steel exporter in November 2024, a significant development after a period of net imports since March 2024. Furthermore, flat steel prices for both HRC and Cold Rolled Coil (CRC) remained stable month-over-month in November 2024, holding steady at INR 48,000 per tonne and INR 55,500 per tonne, respectively. We anticipate that Q4FY25 may bring some relief to steel prices, though near term outlook continue to remain weak.

Expect improvement in Q3FY2025 performance: During Q2FY2025, there was a sharp fall in steel prices to the tune of Rs. 7500/tonne that led to price differential between primary and secondary manufacturers reducing to as low as Rs. 2-3 per kg. The same reflected in lowest EBITDA/tonne of Rs. 1821/tonne in Q2FY25. Further, aggravated by ~Rs. 2000/tonne inventory loss, ~Rs. 500/tonne sales discount while operating leverage benefit stood at ~Rs. 100/tonne. We are expecting improvement in Q3FY25 earning performance led by inch up in rising steel prices (improvement in spread and inventory gains) and higher volumes growth., also management reiterating 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.

Long term growth outlook remains intact: 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. 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.

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. The stock has underperformed significantly over last one year and current valuation at 34/25x FY2027E earnings estimates offer favorable risks-reward for investment. 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)	59.4	59.3	34.2	25.4
P/B (x)	12.1	10.3	8.3	6.5
EV/EBITDA (x)	33.5	32.5	19.9	14.8
RoNW (%)	22.2	18.8	26.9	28.8
RoCE (%)	23.9	21.1	30.8	34.4

Source: Company; Mirae Asset Sharekhan estimates

Outlook and Valuation

■ **Sector Outlook – Structural steel tubes market size to clock 12% CAGR over 2023-2030E, as demand from construction projects soars**

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.

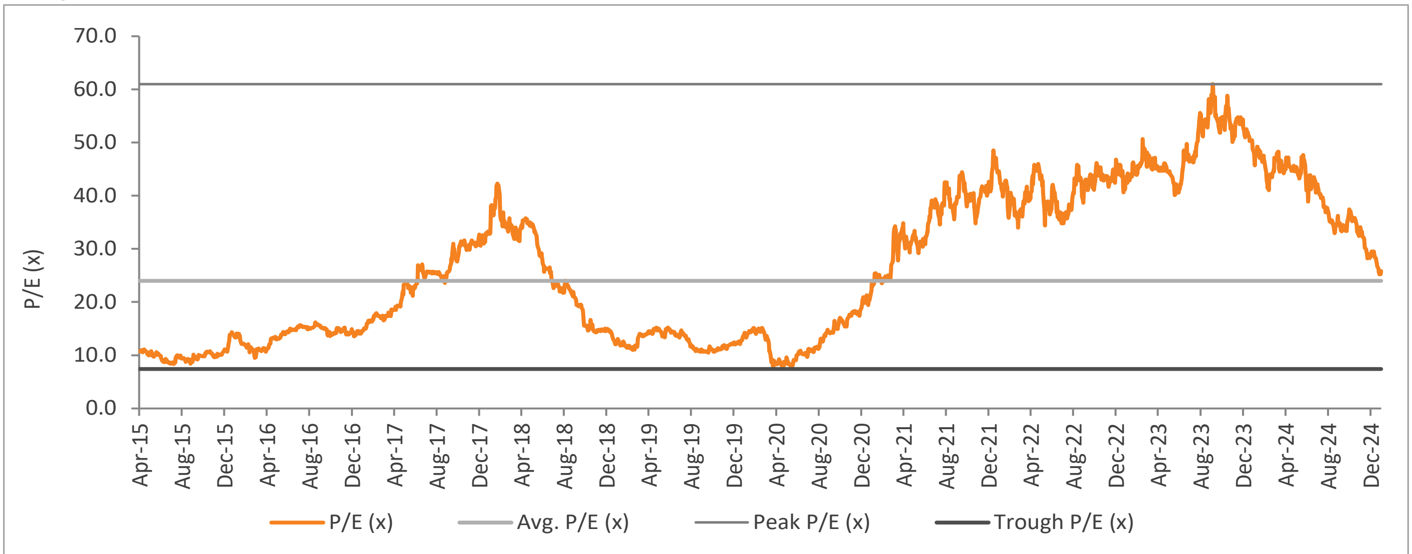
■ **Company Outlook – Earnings to rise sustainably led by structural volume growth drivers and potential rise in margins**

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: Company; Mirae Asset Sharekhan Research

About the 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	New World Fund Inc	3.79
2	Vanguard Group Inc/The	2.85
3	Blackrock Inc	2.29
4	Kotak Mahindra Asset Management Co	2.22
5	DSP Investment Managers Pvt Ltd	2.04
6	Gupta Veera	1.71
7	Sampat Sameer Mahendra	1.56
8	FIL Ltd	1.44
9	Nippon Life India Asset Management	1.19
10	Franklin Resources Inc	1.08

Source: Bloomberg

Understanding the Mirae Asset 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: Mirae Asset Sharekhan Research

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