MIRAE ASSET Sharekhan

Stock Update

Result Update

APL Apollo Tubes Ltd

Good Q3, maintain Buy

Building Material	Sharekhan code: APLAPOLLO
Reco/View: Buy ⇔	CMP: Rs. 1,580
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		⇔	

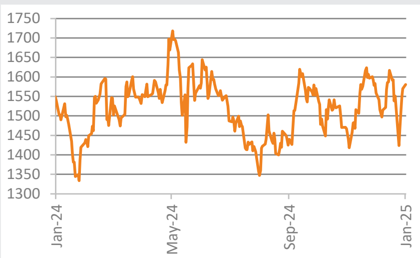
Company details

Market cap:	Rs. 43,862 cr
52-week high/low:	Rs. 1,729/1,253
NSE volume: (No of shares)	5.5 lakh
BSE code:	533758
NSE code:	APLAPOLLO
Free float: (No of shares)	19.9 cr

Shareholding (%)

Promoters	28.3
FII	31.7
DII	16.5
Others	23.5

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	1.4	2.8	6.3	2.6
Relative to Sensex	-1.2	-5.0	-4.4	7.9

Source: Mirae Asset Sharekhan Research, Bloomberg

Summary

- Consolidated revenues beat estimates, driven by strong volume growth. EBITDA/tonne surged rose sharply, supported by higher realisation in Q3FY2025 compared to Q2FY2025. Operating and net profits were higher than estimates.
- Management may surpass its 3.2 million tonnes sales volumes guidance for FY2025 driven by a shift in market share from sponge iron steel pipes to HR-coiled steel pipes. EBITDA/tonne expected to reach Rs. 4,500 by Q4 2025.
- Its capacity target of 5.5 million tonnes by FY2026 stay on track with 6.1 LTPA greenfield expansions and 0.9 LTPA brownfield expansions.
- 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 beat estimates at Rs. 5,433 crore (up 30% y-o-y) led by 37% y-o-y growth in sales volumes. Also, its quarterly EBITDA/tonne stood at Rs. 4,174 (up 129% QoQ) owing to better price realisation. Higher operational profitability was led by higher realization in Q3 2025. Operating leverage benefits are expected to improve by Rs. 400-500 per tonne as production ramps up. In Q3FY2025, margins recovered, with no inventory loss recorded compared to Q2. Consolidated operating profit (up 23.6% y-o-y at Rs. 345.6 crore) and net profit (up 31.1% y-o-y at Rs. 217 crore) came in higher than our estimate. The company anticipates scaling back discounts by Rs. 100-200 per tonne as demand strengthens in the end market. The management remains confident of possibly surpassing its 3.2 million tonne sales guidance for FY2025 and EBITDA/tonne reaching Rs. 4,500 in Q4 2025. Its capacity expansion plans remain intact to reach 5.5 million tonnes by FY2026 from current 4.3 million tonnes per annum.

Key positives

- Sales volumes rose 37.2% y-o-to 8.3 lakh tonnes, with the company focusing on growth and outpacing competition in Q4FY2025.
- Operating leverage is expected to improve by 400-500/tonne as the production ramps up. Q3FY2025 saw recovery in margins, with no inventory loss as compared to Q2 2025.

Key negatives

- Operating expenses rose by Rs.25 crore sequentially, mainly due to higher freight and fuel costs, alongside rising miscellaneous expenses.
- Macro environment has been challenging due to weak retail demand and a slowdown in government spending.

Management Commentary

- Management retained its sales volume guidance of 3.2 million tonnes for FY2025, The company is targeting 4 million tonnes by FY2026 and 5 million tonnes by FY2027.
- Capacity currently stands at 4.3 mtpa, which is expected to scale up to 5.5 mtpa by FY2026 with residual capex of Rs. 600 crores.
- Company is currently selling at discount, it anticipates scaling back discounts by Rs. 100-200 per tonne as demand strengthens in the end market.

Revision in earnings estimates – We have maintained our net earnings estimates for FY25-FY27.

Our Call

Valuation – Maintain Buy on APL with an unchanged PT of Rs. 1,850: APL benefits from its presence in a niche market and a first-mover advantage, having introduced innovative, first-of-its-kind products in the structural steel tubes space. The company is poised for growth with increasing volumes, expanding capacity, and improved EBITDA per tonne, positioning it as a strong investment prospect. Ramp-up in recently value added capacities is expected to drive volumes and operational profitability going ahead. The company anticipates to withdraw discounts once the market strengthens. 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)	60.0	59.9	34.6	25.7
P/B (x)	12.2	10.5	8.4	6.6
EV/EBITDA (x)	33.9	32.8	20.1	14.9
RoNW (%)	22.2	18.8	26.9	28.8
RoCE (%)	23.9	21.1	30.8	34.4

Source: Company; Mirae Asset Sharekhan estimates

Key conference call highlights

- **Guidance:** The management retained its sales volume guidance of 3.2 million tonnes for FY2025, The company is targeting 4 million tonnes by FY2026 and 5 million tonnes by FY2027. It targets to achieve Rs. 4500/tonne EBITDA in Q4 2025. The management expects a healthy sales volume driven by market share shift from sponge iron steel pipes to HR-coiled steel pipes.
- **Capacity expansion:** Capacity currently stands at 4.3 mtpa which is expected to scale up to 5.5 mtpa by FY2026 with residual capex of Rs. 600 crores. 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 Bengaluru, Karnataka (3 LTPA). Brownfield expansions are pegged at 0.9 LTPA.
- **Margin improvement:** Operating leverage are expected to improve by 400-500/tonne as the production ramps up. Q3 2025 saw recovery in margins, with the Rs. 2,000/tonne inventory loss from Q2 being negated. Margins in the general segment are expected to improve to Rs. 2,500-2,800/tonne over the next few quarters. The company is focusing on mid-sized customers to maintain higher margins, avoiding low-margin sales to large conglomerates.
- **Capex:** Capex of Rs. 600 crore planned to scale up production capacity to 5.5 million tonnes by FY2026 and will be finance from internal accruals.
- **Expenses:** Operating expenses rose by Rs. 25 crore QoQ, mainly due to higher freight and fuel costs, alongside rising miscellaneous expenses tied to increased plant utilization.
- **Macro environment:** The macro environment has been challenging due to weak retail demand and a slowdown in government spending. However, the company expects improvement in the Indian macro situation as government spending. Retail demand, which has been weak for the past 3-4 years, is expected to recover in H2FY2025.
- **Sales discount:** The company is currently discounting; it anticipates scaling back discounts by Rs. 100-200 per tonne as demand strengthens in the end market.
- **Domestic market penetration:** New plants in Gorakhpur and Siliguri strengthening presence in Eastern India and North-East markets. These plants target key construction zones in Eastern UP, Bihar, Odisha, and the North-East.
- **International market:** Strong growth in international markets, with the Dubai plant operating at 58% utilization. The Middle East market continues to perform well, with 60,000-70,000 tonnes/month already being sold, and expansion into Saudi Arabia progressing.
- **Market segments:** The company achieved 20% growth in its heavy structural tube segment over the first 9 months, despite challenging conditions. Residential products (Apollo Z) make up 60% of the portfolio, and while retail demand has been weak, a recovery is expected in H2 of the calendar year.

Results (Consolidated) **Rs cr**

Result table	Q3FY25	Q3FY24	y-o-y%	Q2FY25	q-o-q%
Net sales	**5,432.7**	**4,177.8**	**30.0**	**4,773.9**	**13.8**
other income	21.7	15.0	44.1	14.8	46.5
Total income	5,454.4	4,192.8	30.1	4,788.7	13.9
Total expenses	5,087.2	3,898.2	30.5	4,635.9	9.7
Operating profit	**345.6**	**279.6**	**23.6**	**138.1**	**150.3**
Depreciation	50.3	47.1	6.9	46.9	7.4
Interest	36.8	28.5	29.1	36.4	1.2
Exceptional items	--	--		--	
Profit Before Tax	**280.1**	**219.0**	**27.9**	**69.6**	**302.5**
Income taxes	63.1	53.5	18.0	15.8	300.1
PAT	**217.0**	**165.5**	**31.1**	**53.8**	**303.2**
Adjusted PAT	217.0	165.5	31.1	53.8	303.2
EPS (Rs)	**7.8**	**6.0**	**31.1**	**1.9**	**303.2**
Margins (%)					
OPM(%)	6.4	6.7	-33 bps	2.9	347 bps
NPM(%)	4.0	4.0	3 bps	1.1	287 bps
Tax rate (%)	22.5	24.4	-188 bps	22.7	-14 bps

Source: Company; Mirae Asset 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

The structural steel tubes market in India is expected to grow at a CAGR of 10% from 2024 to 2030, reaching 17.3 million tonnes. 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.

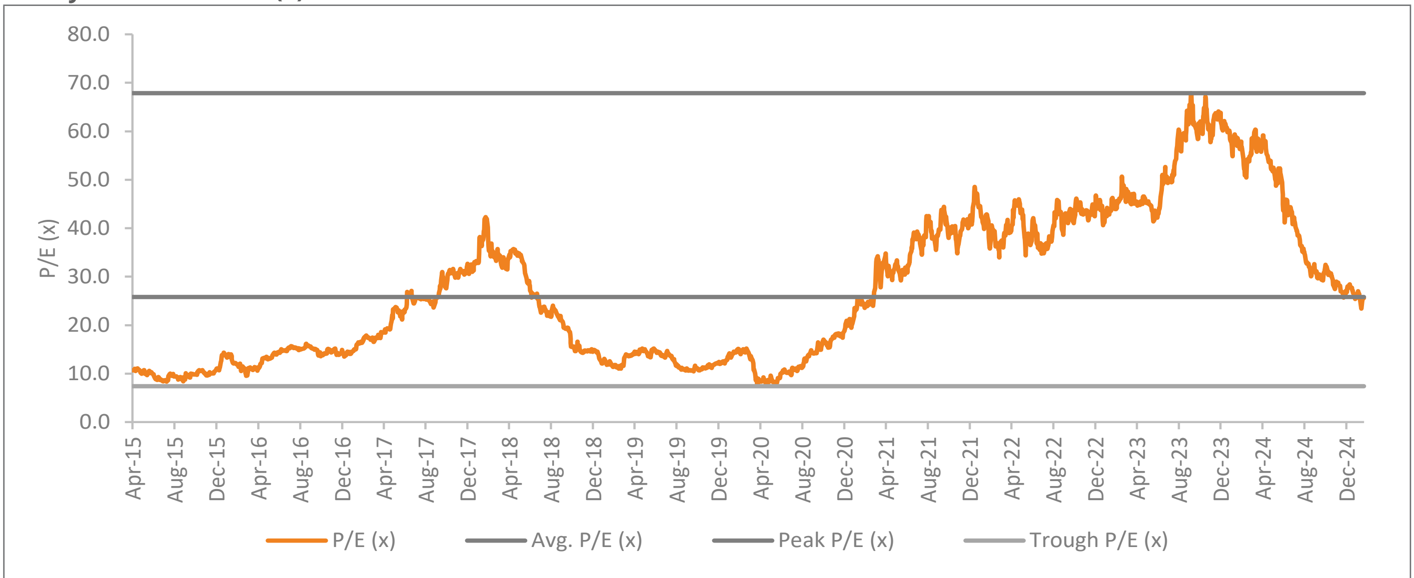
■ Company Outlook – Earnings to rise sustainably led by structural volume growth drivers and potential rise in margins

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 benefits from its presence in a niche market and a first-mover advantage, having introduced innovative, first-of-its-kind products in the structural steel tubes space. The company is poised for growth with increasing volumes, expanding capacity, and improved EBITDA per tonne, positioning it as a strong investment prospect. Ramp-up in recently value added capacities is expected to drive volumes and operational profitability going ahead. The company anticipates to withdraw discounts once the market strengthens. 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 3.8 MTPA in FY2024 through the organic and inorganic routes. The company further plans to expand its capacity to 5.5 mtpa/10 mtpa by FY26/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
C. K. Singh	Chief Operating Officer
Chetan Khandelwal	Chief Financial Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Capital Group Cos Inc/The	9.97
2	KITARA PIIN 1101	6.57
3	New World Fund Inc	3.79
4	Vanguard Group Inc/The	2.74
5	Kotak Mahindra Asset Management Co	2.59
6	Blackrock Inc	2.27
7	DSP Investment Managers Pvt Ltd	2.08
8	Sampat Sameer Mahendra	1.56
9	FIL Ltd	1.44
10	Franklin Resources Inc	1.38

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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