

# APL Apollo Tubes

BUY

Margin beat; Focus on value added products continues

## Summary

APL Apollo Tubes (APL) reported strong improvement in profitability for Q1FY22; its EBITDA was a strong beat to our forecast. APL's EBITDA/tonne jumped to Rs6,825 (+129% YoY, +44% QoQ) driven by 1) strong demand, 2) better product mix and 3) higher contribution from high-margin Apollo Tricoat Products. Despite 14% QoQ fall in volumes, APL's EBITDA jumped 23% QoQ to Rs2.5 bn and net profit was higher by 24% QoQ to Rs1.5 bn.

We raise our margin estimates for FY22/FY23 given strong margin improvement in Q1FY22 and anticipated higher demand. Overall our FY22/FY23 EBITDA estimates are higher by 10%/12%, respectively. We value the stock at a PER of 36x FY23E EPS (earlier 32x FY23E) and raise our target price to Rs2,014 (earlier Rs1,606). Maintain BUY.

## Key Highlights and Investment Rationale

- **Strong improvement in margins:** Despite the second wave of Covid-19 affecting Q1FY22 volumes (-14% QoQ to 373 kt), APL's margin witnessed significant improvement. Overall, its EBITDA at Rs6,835/tonne was at all time-high (its last five years average has been Rs3,400/tonne).
- **APL working to replace conventional products:** APL continues to innovate new products. It aims to replace application of some conventional products such as steel angles, steel channels, wood, aluminum profiles, fabricated metals sheets with structural steel. Currently, it offers 1500 SKUs which is far higher than its competitors.
- **Management targets 4 mn tonnes of volumes by 2025:** Management targets volumes of 4 mn tonnes by FY25 (current run-rate of ~2 mn tonnes) with focus on value added products for the rest of 2 mn tonnes. We applaud APL's management for its execution – strong improvement in product mix, lower working capital days alongside sharp reduction in leverage in past one year. Management continues to focus on innovating newer products as it aims to increase valued added products mix to 70% from 57% in coming years. We expect APL's EBITDA/net profit to grow at a CAGR of 27%/39% over FY21-23E.

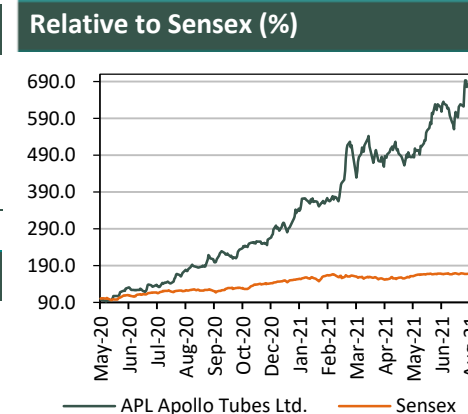
|                             |         |  |
|-----------------------------|---------|--|
| TP                          | Rs2,014 |  |
| CMP                         | Rs1,751 |  |
| Potential upside / downside | +15%    |  |

| V/s Consensus |       |       |
|---------------|-------|-------|
| EPS (Rs)      | FY22E | FY23E |
| IDBI Capital  | 43.9  | 56.4  |
| Consensus     | 38.7  | 49.8  |
| % difference  | 13.6  | 13.3  |

| Shareholding Pattern (%) |      |
|--------------------------|------|
| Promoters                | 36.9 |
| FII                      | 25.7 |
| DII                      | 8.7  |
| Public                   | 28.7 |

| Price Performance (%) |     |      |       |
|-----------------------|-----|------|-------|
|                       | -1m | -3m  | -12m  |
| Absolute              | 9.7 | 33.8 | 308.9 |
| Rel to Sensex         | 7.1 | 22.9 | 266.1 |

| Key Stock Data                  |                       |
|---------------------------------|-----------------------|
| Bloomberg / Reuters             | APAT IN / APLA.BO     |
| Sector                          | Iron & Steel Products |
| Shares o/s (mn)                 | 125                   |
| Market cap. (Rs mn)             | 218,730               |
| Market cap. (US\$ mn)           | 2,940                 |
| 3-m daily average value (Rs mn) | 747.3                 |
| 52-week high / low              | Rs1,850 / 407         |
| Sensex / Nifty                  | 54,278 / 16,238       |



| Financial snapshot |         |        |        |        |          |
|--------------------|---------|--------|--------|--------|----------|
|                    | (Rs mn) |        |        |        |          |
| Year               | FY19    | FY20   | FY21   | FY22E  | FY23E    |
| Revenue            | 68,946  | 74,265 | 82,149 | 90,360 | 1,05,961 |
| EBITDA             | 3,928   | 4,773  | 6,787  | 8,846  | 10,957   |
| EBITDA (%)         | 5.7     | 6.4    | 8.3    | 9.8    | 10.3     |
| Adj. PAT           | 1,482   | 2,380  | 3,602  | 5,483  | 7,048    |
| EPS (Rs)           | 12.4    | 19.1   | 28.8   | 43.9   | 56.4     |
| EPS Growth (%)     | (6.7)   | 53.9   | 50.7   | 52.2   | 28.6     |
| PE (x)             | 130.4   | 84.7   | 56.2   | 36.9   | 28.7     |
| Dividend Yield (%) | 1.0     | 0.2    | -      | 0.4    | 0.6      |
| EV/EBITDA (x)      | 50.9    | 43.7   | 30.0   | 23.0   | 17.9     |
| RoE (%)            | 16.5    | 20.5   | 23.6   | 31.3   | 32.7     |
| RoCE (%)           | 18.9    | 18.2   | 23.9   | 32.3   | 36.4     |

Source: IDBI Capital Research;

**Exhibit 1: Quarterly Snapshot**

| (Rs mn)                 | Q1FY22        | Q4FY21        | QoQ (%)      | Q1FY21        | YoY (%)      |
|-------------------------|---------------|---------------|--------------|---------------|--------------|
| <b>Net sales</b>        | <b>24,433</b> | <b>25,051</b> | <b>(2.5)</b> | <b>10,792</b> | <b>126.4</b> |
| <b>EBITDA</b>           | <b>2,547</b>  | <b>2,065</b>  | <b>23.4</b>  | <b>711</b>    | <b>258.3</b> |
| <i>EBITDA /tonne</i>    | <i>6,825</i>  | <i>4,742</i>  | <i>43.9</i>  | <i>2,986</i>  | <i>128.6</i> |
| Other income            | 102           | 126           | (19.1)       | 49            | 110.1        |
| Interest                | 128           | 144           | (10.8)       | 212           | (39.5)       |
| Depreciation            | 265           | 275           | (3.7)        | 239           | 10.9         |
| PBT                     | 2,256         | 1,772         | 27.3         | 309           | 630.9        |
| Tax                     | 572           | 428           | 33.5         | 90            | 537.1        |
| <b>PAT</b>              | <b>1,474</b>  | <b>1,192</b>  | <b>23.6</b>  | <b>168</b>    | <b>778.1</b> |
| <b>Diluted EPS (Rs)</b> | <b>11.8</b>   | <b>10.8</b>   | <b>9.6</b>   | <b>1.8</b>    | <b>573.1</b> |

Source: Company; IDBI Capital Research

**Exhibit 2: Actual vs. Estimates**

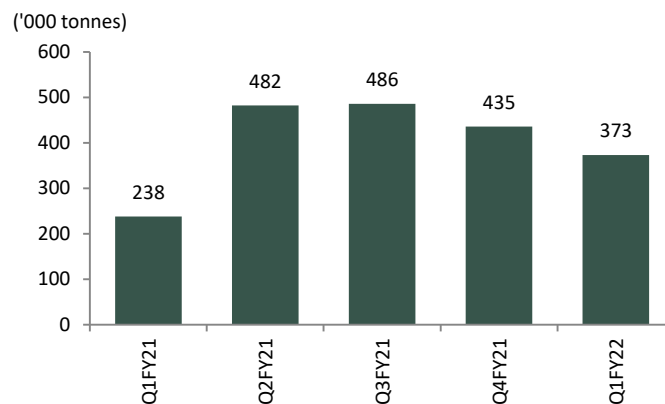
| (Rs mn)              | Q1FY22E      | Q1FY22A      | Variance (%) |
|----------------------|--------------|--------------|--------------|
| Total Revenues       | 19,531       | 24,433       | 25.1         |
| EBITDA               | 1,548        | 2,547        | 64.5         |
| <i>EBITDA margin</i> | <i>4,150</i> | <i>6,825</i> | <i>64.5</i>  |
| Net profit           | 861          | 1,474        | 71.1         |
| EPS                  | 6.9          | 11.8         | 71.1         |

Source: Company; IDBI Capital Research

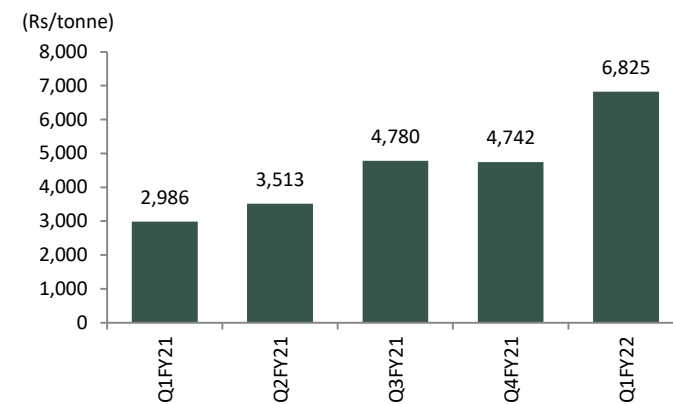
**Exhibit 3: Change in estimates**

|                    | FY22E  |        |         | FY23E    |          |         |
|--------------------|--------|--------|---------|----------|----------|---------|
|                    | Old    | New    | (%) Chg | Old      | New      | (%) Chg |
| Revenue (Rs mn)    | 92,161 | 90,360 | (2.0)   | 1,07,761 | 1,05,961 | (1.7)   |
| EBITDA (Rs mn)     | 8,036  | 8,846  | 10.1    | 9,827    | 10,957   | 11.5    |
| EBITDA margin (%)  | 8.7    | 9.8    | 109bps  | 9.1      | 10.3     | 124bps  |
| Net profit (Rs mn) | 4,943  | 5,447  | 10.2    | 6,269    | 6,989    | 11.5    |
| EPS (Rs)           | 39.6   | 43.6   | 10.1    | 50.2     | 56.0     | 11.5    |

Source: Company; IDBI Capital Research

**Exhibit 4: Sales volumes increased 57% YoY**

Source: Company; IDBI Capital Research

**Exhibit 5: EBITDA/tonne jumped up sharply**

Source: Company; IDBI Capital Research

**Concall Highlight**

- Q1FY22 volume decline due to Covid-19 2<sup>nd</sup> wave related lockdown in April-May'21. On other hand, volume for peer companies are down by 22-25% in Q1FY22.
- Company is targeting 4.5 Lakh tonnes volume in Q2FY22 followed by 5 Lakh tonnes in Q3FY22 and 5.5 Lakh tonnes in Q4FY22 therefore total 1.8 – 2.0 mn tonnes in FY22.
- Company has target of 4 mn tonnes volumes in coming three-four years.
- During Q1FY22 product realisation increased by Rs8,500/tonne because of value addition mix.
- Working capital is intact at 7 days.
- EBIDTA/tonne is highest ever at Rs6800/tonne but it stands lower among the global peer in Japan and US which has EBITDA of Rs10,000/tonne.
- Apollo Tricoat Tubes merger is on track and company got NOC letter from both exchanges and expected to complete by end of FY22.
- Company's efforts to create market for heavy structural tubes have started to pay off as company received inquiry for live projects. Company is working on innovative product apart from conventional products.
- Company's long term goal includes value additional, cost control, innovation, new market creation and brand equity enhancement which will bring double digit growth in volume in coming 2-3 years
- Raipur capacity expansion of 2.6 mn tonnes to 3 mn tonnes is on track and expected to commence in FY22, hence colour coated tube and large diameter tubes expected to contribute significantly in volume's in FY23.
- Company is focusing on market share gain and absolute EBIDTA rather than margins in coming time due to impact of lockdown.
- Globally 10% of steel consumption is structural tube. In India it is 3-4% of total steel consumption. However tubular industry is expected to grow at high rate, industry can be 13 mn tonnes in coming years.
- Company is bullish in colour tubing business with 2 Lakh tonnes of market.

## Financial Summary

### Profit & Loss Account

(Rs mn)

| Year-end: March               | FY20          | FY21          | FY22E         | FY23E           |
|-------------------------------|---------------|---------------|---------------|-----------------|
| <b>Net sales</b>              | <b>74,265</b> | <b>82,149</b> | <b>90,360</b> | <b>1,05,961</b> |
| <i>Growth (%)</i>             | 7.7           | 10.6          | 10.0          | 17.3            |
| Operating expenses            | (72,459)      | (78,210)      | (84,677)      | (98,713)        |
| <b>EBITDA</b>                 | <b>4,773</b>  | <b>6,787</b>  | <b>8,846</b>  | <b>10,957</b>   |
| <i>Growth (%)</i>             | 21.5          | 42.2          | 30.3          | 23.9            |
| Depreciation                  | (959)         | (1,028)       | (1,048)       | (1,069)         |
| <b>EBIT</b>                   | <b>3,814</b>  | <b>5,759</b>  | <b>7,798</b>  | <b>9,887</b>    |
| Interest paid                 | (1,073)       | (661)         | (234)         | (105)           |
| Other income                  | 222           | 359           | 377           | 396             |
| <b>Pre-tax profit</b>         | <b>2,963</b>  | <b>5,458</b>  | <b>7,942</b>  | <b>10,179</b>   |
| Tax                           | (403)         | (1,381)       | (1,999)       | (2,562)         |
| <i>Effective tax rate (%)</i> | 13.6          | 25.3          | 25.2          | 25.2            |
| Minority interest             | (180.3)       | (475)         | (460)         | (569)           |
| <b>Net profit</b>             | <b>2,380</b>  | <b>3,602</b>  | <b>5,483</b>  | <b>7,048</b>    |
| <b>Adjusted net profit</b>    | <b>2,380</b>  | <b>3,602</b>  | <b>5,483</b>  | <b>7,048</b>    |
| <i>Growth (%)</i>             | 60.5          | 51.3          | 52.2          | 28.6            |
| <i>Shares o/s (mn)</i>        | 124.4         | 124.9         | 124.9         | 124.9           |

### Cash Flow Statement

(Rs mn)

| Year-end: March                      | FY20           | FY21           | FY22E          | FY23E          |
|--------------------------------------|----------------|----------------|----------------|----------------|
| Pre-tax profit                       | 2,963          | 5,458          | 7,942          | 10,179         |
| Depreciation                         | 959            | 1,028          | 1,048          | 1,069          |
| Tax paid                             | (592)          | (1,281)        | (1,988)        | (2,551)        |
| Chg in working capital               | 529            | 3,892          | (598)          | (190)          |
| Other operating activities           | 1,640          | (79)           | (4,080)        | 1,357          |
| <b>Cash flow from operations (a)</b> | <b>5,500</b>   | <b>9,018</b>   | <b>2,324</b>   | <b>9,864</b>   |
| Capital expenditure                  | (6,562)        | (2,298)        | (2,000)        | (2,000)        |
| Chg in investments                   | 479            | 0              | -              | -              |
| Other investing activities           | -              | -              | -              | -              |
| <b>Cash flow from investing (b)</b>  | <b>(6,084)</b> | <b>(2,298)</b> | <b>(2,000)</b> | <b>(2,000)</b> |
| Equity raised/(repaid)               | 10             | 1              | -              | -              |
| Debt raised/(repaid)                 | 176            | (2,861)        | (2,581)        | (500)          |
| Dividend (incl. tax)                 | (411)          | -              | (874)          | (1,249)        |
| Chg in minorities                    | 774            | (47)           | -              | -              |
| Other financing activities           | -              | -              | -              | -              |
| <b>Cash flow from financing (c)</b>  | <b>550</b>     | <b>(2,907)</b> | <b>(3,456)</b> | <b>(1,749)</b> |
| <b>Net chg in cash (a+b+c)</b>       | <b>(34)</b>    | <b>3,813</b>   | <b>(3,132)</b> | <b>6,115</b>   |

## Balance Sheet

(Rs mn)

| Year-end: March                       | FY20          | FY21          | FY22E         | FY23E         |
|---------------------------------------|---------------|---------------|---------------|---------------|
| Net fixed assets                      | 16,214        | 17,484        | 18,436        | 19,367        |
| Investments                           | 15            | 15            | 15            | 15            |
| Other non-curr assets                 | 1,931         | 2,499         | 2,499         | 2,499         |
| <b>Current assets</b>                 | <b>14,500</b> | <b>13,991</b> | <b>12,196</b> | <b>19,822</b> |
| Inventories                           | 7,842         | 7,599         | 8,227         | 9,591         |
| Sundry Debtors                        | 4,764         | 1,306         | 1,436         | 1,684         |
| Cash and Bank                         | 444           | 3,579         | 1,125         | 7,240         |
| Loans and advances                    | 13            | 13            | 13            | 13            |
| <b>Total assets</b>                   | <b>32,660</b> | <b>33,990</b> | <b>33,146</b> | <b>41,703</b> |
| <b>Shareholders' funds</b>            | <b>13,562</b> | <b>16,947</b> | <b>18,045</b> | <b>25,093</b> |
| Share capital                         | 249           | 250           | 250           | 250           |
| Reserves & surplus                    | 13,313        | 16,697        | 17,795        | 24,843        |
| <b>Total Debt</b>                     | <b>7,278</b>  | <b>4,416</b>  | <b>1,835</b>  | <b>1,335</b>  |
| Secured loans                         | 4,043         | 1,835         | 835           | 335           |
| Unsecured loans                       | 3,234         | 2,582         | 1,000         | 1,000         |
| Other liabilities                     | 1,692         | 1,877         | 1,896         | 1,915         |
| <b>Curr Liab &amp; prov</b>           | <b>9,175</b>  | <b>9,367</b>  | <b>9,527</b>  | <b>10,949</b> |
| Current liabilities                   | 9,002         | 9,190         | 9,347         | 10,765        |
| Provisions                            | 173           | 177           | 180           | 184           |
| <b>Total liabilities</b>              | <b>18,145</b> | <b>15,660</b> | <b>13,258</b> | <b>14,199</b> |
| <b>Total equity &amp; liabilities</b> | <b>32,660</b> | <b>33,990</b> | <b>33,146</b> | <b>41,703</b> |
| <b>Book Value (Rs)</b>                | <b>109</b>    | <b>136</b>    | <b>144</b>    | <b>201</b>    |

Source: Company; IDBI Capital Research

## Financial Ratios

| Year-end: March                              | FY20 | FY21 | FY22E | FY23E |
|--|------|------|-------|-------|
| Adj. EPS (Rs)                                | 19.1 | 28.8 | 43.9  | 56.4  |
| Adj. EPS growth (%)                          | 53.9 | 50.7 | 52.2  | 28.6  |
| EBITDA margin (%)                            | 6.4  | 8.3  | 9.8   | 10.3  |
| Pre-tax margin (%)                           | 4.0  | 6.6  | 8.8   | 9.6   |
| ROE (%)                                      | 20.5 | 23.6 | 31.3  | 32.7  |
| ROCE (%)                                     | 18.2 | 23.9 | 32.3  | 36.4  |
| <b>Turnover &amp; Leverage ratios (x)</b>    |      |      |       |       |
| Asset turnover (x)                           | 2.5  | 2.5  | 2.7   | 2.8   |
| Leverage factor (x)                          | 2.6  | 2.2  | 1.9   | 1.7   |
| Net margin (%)                               | 3.2  | 4.4  | 6.1   | 6.7   |
| Net Debt/Equity (x)                          | 0.5  | 0.0  | 0.0   | -0.2  |
| <b>Working Capital &amp; Liquidity ratio</b> |      |      |       |       |
| Inventory days                               | 39   | 34   | 33    | 33    |
| Receivable days                              | 23   | 6    | 6     | 6     |
| Payable days                                 | 39   | 37   | 37    | 37    |

## Valuation

| Year-end: March        | FY20 | FY21 | FY22E | FY23E |
|------------------------|------|------|-------|-------|
| P/E (x)                | 84.7 | 56.2 | 36.9  | 28.7  |
| Price / Book value (x) | 14.9 | 11.9 | 11.2  | 8.1   |
| PCE (x)                | 60.4 | 43.7 | 31.0  | 24.9  |
| EV / Net sales (x)     | 2.8  | 2.5  | 2.2   | 1.9   |
| EV / EBITDA (x)        | 43.7 | 30.0 | 23.0  | 17.9  |
| Dividend Yield (%)     | 0.2  | 0.0  | 0.4   | 0.6   |



# Notes

Dealing

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