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India | Equity Research | Company Update

## APL Apollo Tubes

Metals

### Raipur: Next growth catalyst

We visited APL Apollo Tubes' (APL) Raipur plant to gain a more in-depth understanding of the company's manufacturing processes, operational preparedness and its differentiating factors for a competitive edge. Key points: 1) Capacity utilisation of its Raipur plant is expected to improve progressively. 2) Narrow flats products line is undergoing cold commissioning and shall stabilise in Q3FY24. 3) Expect Q4FY24 production rate at 60–70kt/month. The plant is capable of producing a wide range of differentiated products such as roofing sheets of 1,500mm width (peers at 1,250mm). Taking cognizance of an imminent ramp-up and optionality of further expansion at Raipur, we raise our valuation multiple to 40x (earlier 36x), resulting in a revised TP of INR 1,930 (earlier INR 1,740). Maintain 'BUY'.

### Capability to produce wide range of differentiated products

APL's 1.2mtpa Raipur plant is among the largest single-site pipe/tubes facility in the world. Key points: 1) All the mills are based on Direct Forming Technology (DFT). 2) Capable of producing 1,500mm thick roofing sheets (peers at 1,250mm). 3) Heavy section mill (up to 500mm x 500mm) is already operational and super-heavy section mill (up to 1,000mm x 1,000mm) shall stabilise in another 7–8 months. 4) Wide range of sections from 8mm x 8mm x 0.18mm (weighing 700gms) to 1,000mm x 1,000mm x 40mm (weighing 7,000kgs). 5) Variety of sheet products – from wider products (up to 1mm thickness) to flat products (from 1mm to 3mm thickness). Besides, contingent on demand, there is sufficient land to expand capacity by another 300ktpa.

### Setting sights on 10mtpa capacity in the medium term

Management mentioned that capacity ramp-up at Raipur plant would be a key enabler for APL to achieve volume growth. Production from the plant is expected to ramp-up progressively: 100kt in Q2FY24, 150kt in Q3FY24 and 175–180kt in Q4FY24. The exit rate in Q4FY24 is likely at 60–70kt/month, implying capacity utilisation of 60–70%. Management is targeting brownfield expansion of 900ktpa (including 300ktpa at Raipur) and greenfield expansion of 500ktpa to reach a capacity of 5mtpa. Once the sales volume reaches a sustainable rate of 400kt/month, management would look for the next leg of expansion to 10mtpa.

### Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	1,30,633	1,61,660	1,98,936	2,53,881
EBITDA	9,453	10,216	13,815	19,242
EBITDA Margin (%)	7.2	6.3	6.9	7.6
Net Profit	6,190	6,419	9,075	13,367
EPS (Rs)	24.7	23.2	32.7	48.2
EPS % Chg YoY	(27.1)	(6.3)	41.4	47.3
P/E (x)	66.3	70.8	50.1	34.0
EV/EBITDA (x)	48.2	44.9	32.8	23.1
RoCE (%)	24.6	21.2	23.8	27.6
RoE (%)	32.3	26.4	29.5	34.4

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#### Market Data

Market Cap (INR)	455bn
Market Cap (USD)	5,469mn
Bloomberg Code	APAT IN
Reuters Code	APLA.BO
52-week Range (INR)	1,806 /988
Free Float (%)	63.0
ADTV-3M (mn) (USD)	16.3

Price Performance (%)	3m	6m	12m
Absolute	23.9	39.4	54.7
Relative to Sensex	0.8	11.9	16.9

ESG Disclosure	2021	2022	Change
ESG score	45.0	51.5	6.4
Environment	36.8	46.8	10.1
Social	32.1	41.4	9.3
Governance	66.1	66.1	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

#### Previous Reports

08-08-2023: [Q1FY24 results review](#)

31-05-2023: [Q4FY23 results review](#)

### Outlook: Growth levers in place; maintain ‘BUY’

Our visit to APL’s Raipur plant reveals that growth drivers are in place for the company. Management has launched two new categories: 1) 500mm x 500mm in the heavy structural segment; and 2) coated products for roofing application. We believe that as capacity utilisation at the Raipur plant improves, EBITDA/te is also expected to improve beyond INR 5,000/te in FY25E (our estimate at INR 5,130/te). Taking cognizance of robust growth prospects, we raise our P/E multiple to 40x (earlier 36x) FY25E, resulting in revised TP of INR 1,930 (earlier INR 1,740). Maintain ‘BUY’.

### Key Risks

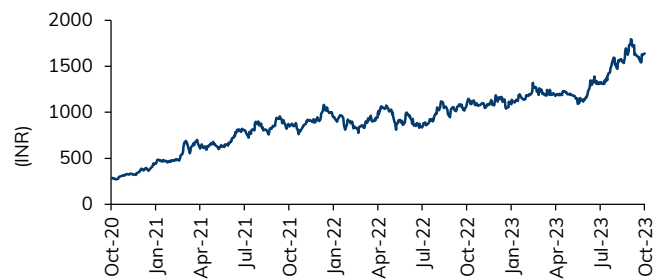
- Slow than expected ramp-up of Raipur plant
- Competitive intensity increasing in the space
- HRC – Patra price gap widening

Exhibit 1: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	31.2	31.2	30.6
Institutional investors	34.7	36.8	37.8
MFs and others	7.4	7.7	8.8
FIs/Banks	-	-	-
Insurance	1.7	1.9	2.3
FIIIs	25.6	27.2	26.7
Others	34.1	32.0	31.6

Source: Bloomberg

Exhibit 2: Price chart



Source: Bloomberg

## Financial Summary

### Exhibit 3: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Net Sales</b>	<b>1,30,633</b>	<b>1,61,660</b>	<b>1,98,936</b>	<b>2,53,881</b>
Operating Expenses	1,21,181	1,51,444	1,85,121	2,34,638
<b>EBITDA</b>	<b>9,453</b>	<b>10,216</b>	<b>13,815</b>	<b>19,242</b>
EBITDA Margin (%)	7.2	6.3	6.9	7.6
Depreciation & Amortization	1,090	1,383	1,501	1,618
EBIT	8,363	8,832	12,314	17,624
Interest expenditure	445	671	681	681
Other Non-operating Income	405	472	573	1,036
<b>Recurring PBT</b>	<b>8,323</b>	<b>8,633</b>	<b>12,206</b>	<b>17,979</b>
<b>Profit / (Loss) from Associates</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Less: Taxes	2,133	2,215	3,131	4,612
PAT	6,190	6,419	9,075	13,367
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
<b>Net Income (Reported)</b>	<b>6,190</b>	<b>6,419</b>	<b>9,075</b>	<b>13,367</b>
<b>Net Income (Adjusted)</b>	<b>6,190</b>	<b>6,419</b>	<b>9,075</b>	<b>13,367</b>

Source Company data, I-Sec research

### Exhibit 4: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	18,274	25,388	35,442	51,340
of which cash & cash eqv.	3,814	3,525	8,818	17,265
Total Current Liabilities & Provisions	12,129	16,372	20,013	25,366
<b>Net Current Assets</b>	<b>6,146</b>	<b>9,015</b>	<b>15,429</b>	<b>25,974</b>
Investments	863	960	960	960
Net Fixed Assets	16,041	23,493	24,492	25,374
ROU Assets	-	-	-	-
Capital Work-in-Progress	5,037	3,740	3,740	3,740
Total Intangible Assets	-	-	-	-
Other assets	4,309	4,743	4,743	4,743
Deferred Tax assets	-	-	-	-
<b>Total Assets</b>	<b>32,396</b>	<b>41,951</b>	<b>49,363</b>	<b>60,790</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>5,814</b>	<b>8,734</b>	<b>8,734</b>	<b>8,734</b>
<b>Deferred Tax Liability</b>	<b>1,187</b>	<b>1,171</b>	<b>1,171</b>	<b>1,171</b>
provisions	-	-	-	-
other Liabilities	754	1,989	1,989	1,989
Equity Share Capital	501	555	555	555
Reserves & Surplus	22,139	29,501	36,914	48,341
<b>Total Net Worth</b>	<b>22,640</b>	<b>30,056</b>	<b>37,469</b>	<b>48,896</b>
Minority Interest	2,000	-	-	-
<b>Total Liabilities</b>	<b>32,396</b>	<b>41,951</b>	<b>49,363</b>	<b>60,790</b>

Source Company data, I-Sec research

### Exhibit 5: Quarterly trend

(INR mn, year ending March)

	Sep-22	Dec-22	Mar-23	Jun-23
Net Sales	39,692	43,271	44,311	45,449
% growth (YOY)	28.7	34.0	5.1	32.2
EBITDA	2,319	2,729	3,229	3,072
Margin %	5.8	6.3	7.3	6.8
Other Income	116	93	180	217
Extraordinaries	-	-	-	-
<b>Adjusted Net Profit</b>	<b>1,502</b>	<b>1,692</b>	<b>2,018</b>	<b>1,936</b>

Source Company data, I-Sec research

### Exhibit 6: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Operating Cashflow</b>	<b>6,517</b>	<b>6,901</b>	<b>9,456</b>	<b>12,887</b>
Working Capital Changes	(1,154)	(1,475)	(1,120)	(2,099)
Capital Commitments	(5,967)	(8,621)	(2,500)	(2,500)
<b>Free Cashflow</b>	<b>551</b>	<b>(1,720)</b>	<b>6,956</b>	<b>10,387</b>
<b>Other investing cashflow</b>	<b>665</b>	<b>(137)</b>	<b>-</b>	<b>-</b>
Cashflow from Investing Activities	(5,301)	(8,757)	(2,500)	(2,500)
Issue of Share Capital	70	27	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	603	2,902	-	-
Dividend paid	-	(875)	(1,663)	(1,940)
Others	(413)	(608)	-	-
Cash flow from Financing Activities	260	1,446	(1,663)	(1,940)
<b>Chg. in Cash &amp; Bank balance</b>	<b>1,476</b>	<b>(410)</b>	<b>5,293</b>	<b>8,447</b>
Closing cash & balance	1,476	(410)	5,293	8,447

Source Company data, I-Sec research

### Exhibit 7: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Per Share Data (INR)</b>				
Reported EPS	24.7	23.2	32.7	48.2
Adjusted EPS (Diluted)	24.7	23.2	32.7	48.2
Cash EPS	29.1	28.2	38.2	54.1
Dividend per share (DPS)	3.5	3.5	4.9	7.3
Book Value per share (BV)	90.5	108.5	135.2	176.4
Dividend Payout (%)	14.2	15.1	15.1	15.1
<b>Growth (%)</b>				
Net Sales	53.7	23.8	23.1	27.6
EBITDA	39.3	8.1	35.2	39.3
EPS (INR)	(27.1)	(6.3)	41.4	47.3
<b>Valuation Ratios (x)</b>				
P/E	66.3	70.8	50.1	34.0
P/CEPS	56.4	58.3	43.0	30.3
P/BV	18.1	15.1	12.1	9.3
EV / EBITDA	48.2	44.9	32.8	23.1
Dividend Yield (%)	0.2	0.2	0.3	0.4
<b>Operating Ratios</b>				
Gross Profit Margins (%)	14.1	13.3	14.6	14.3
EBITDA Margins (%)	7.2	6.3	6.9	7.6
Effective Tax Rate (%)	25.6	25.7	25.7	25.7
Net Profit Margins (%)	4.7	4.0	4.6	5.3
Net Debt / Equity (x)	0.0	0.1	0.0	(0.2)
Net Debt / EBITDA (x)	0.1	0.4	(0.1)	(0.5)
Fixed Asset Turnover (x)	7.0	7.1	7.3	7.9
Inventory Turnover Days	32	43	40	41
Receivables Days	13	4	4	4
Payables Days	-	-	-	-
<b>Profitability Ratios</b>				
RoCE (%)	24.6	21.2	23.8	27.6
RoE (%)	32.3	26.4	29.5	34.4
RoIC (%)	27.9	24.7	28.5	35.7

Source Company data, I-Sec research

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