

13 May 2024

## APL Apollo Tubes

### Margins contract despite higher volumes and favorable realisations

#### RESULT UPDATE

**Sector:** Steel Pipes **Rating:** BUY  
**CMP:** Rs 1,565 **Target Price:** Rs 1,872

#### Stock Info

Sensex/Nifty	72,776/ 22,104
Bloomberg	APAT IN
Equity shares (mn)	277
52-wk High/Low	Rs 1,806/ 1,047
Face value	Rs 2
M-Cap	Rs 436bn/ USD 5.2bn

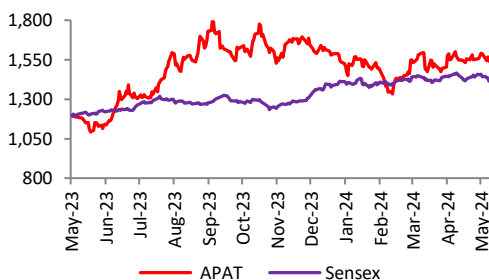
#### Financial Snapshot (Rs bn)

Y/E Mar	FY24	FY25E	FY26E
Net sales	181	240	290
EBITDA	12	17	21
PAT	7	10	13
EPS (Rs)	26	37	48
PE (x)	59	42	33
EV/EBITDA (x)	37	26	21
P/B (x)	12	13	14
RoE (%)	22	30	42
RoCE (%)	25	31	41
D/E (x)	0.4	0.4	0.5
OPM (%)	7	7	7

#### Shareholding Pattern (%)

	Mar'24	Dec'23	Sep'23
Promoter	29.4	29.6	29.7
- Pledged	-	-	-
FII	30.7	29.3	28.7
DII	14.1	13.8	12.7
Others	25.8	27.4	29.0

#### Stock Performance (1-year)



APL Apollo Tubes' (APAT) 4QFY24 EBITDA (excl. other income) of Rs 2.8bn (-15.6%/+0.3% YoY/QoQ) was 4% below our estimate, as margins from value-added products (VAP) came lower than expected. The company reported revenue of Rs 47.6bn (+7.6%/14.1% YoY/QoQ), 8% above our estimate on superior realisations. APAT reported 679kt in sales volume this quarter, clocking 4.5%/12.4% YoY/QoQ growth, with a blended realisation of Rs 70,188/t. Realisation grew by 2.9%/1.5% YoY/QoQ despite a 7.7%/7.9% fall in HRC prices, respectively. Overall EBITDA/t in 4Q was Rs 4,132 vs. our estimate of ~Rs 4,538, due to lower margins from key segments. EBITDA margin of rust-proof structures in the VAP segment fell continuously for the 5<sup>th</sup> consecutive quarter resulting in a sharp 33.6%/20.8% YoY/QoQ fall in EBITDA/t at Rs 4,865. Margins in other VAP segments, including heavy, super-heavy, and light structures, also fell during the quarter. The share of general structures in the sales mix was 40%, where EBITDA/t fell by 31% YoY.

APAT's sales volume of 2.6mt in FY24 (versus our estimate of 2.8mt) was up 15% YoY, largely led by higher volumes arising from the commissioning of its plant at Raipur. The sales, however, fell short of the company's guidance by approximately 350kt due to a slower than expected Raipur plant ramp-up. The company reported FY24 revenue and EBITDA at Rs 181.2bn (+12% YoY; 9% below estimate) and Rs 11.9bn (+17% YoY; 15% below estimate), respectively. The company closed FY24 with an EBITDA/t of Rs 4,553, within its guided range of Rs 4,500-Rs 5,500, albeit slightly above the lower limit. APAT's long-term strategy involves developing new markets for niche, high-margin VAP products. We would monitor to see if higher volumes translate into better margins hereon. Slower than expected capacity ramp-up and unfavorable demand for key structural steel products are key risks for the company.

**Maintain BUY:** We have cut FY25E EBITDA by 21%, assuming lower margins and volumes, and have introduced FY26E. We expect APAT to deliver 3.3mt/4mt volume sales in FY25/FY26 with an EBITDA/t of Rs 5,044/Rs 5,268. We roll forward our valuations to FY26 and value APAT 25x FY26E EV/EBITDA (25x FY25E EV/EBITDA earlier) to arrive at a revised target price of Rs 1,872/share (Rs 1,843/share earlier). Over the years, APAT has raised its output from 1.8mt in FY18 to 3.8mt in FY24, at 13% CAGR, and is on track to achieve 5mt proposed capacity by FY25. With various capacity expansions to be commissioned next year, we expect volumes to expand at 24% CAGR over FY24-FY26E.

#### Key highlights of the 4QFY24 earnings call

- Volumes:** APAT sales volume reached 2.6mt in FY24, reflecting a 15% YoY growth, falling short of the guided volumes of 3mt primarily due to a slowdown in domestic construction activity and delays in ramping up the Dubai and Raipur plants.
- Drop in EBITDA/t:** Overall EBITDA/t in 4Q was Rs 4,132 (-17%/-11% YoY/QoQ) due to lower margins from key segments as the company offered discounts to drive sales. Additionally, there has been a shift in the product mix, with a higher proportion of sales comprising galvanized sheets, which typically yield lower margins compared to galvanized structural steel tubes.

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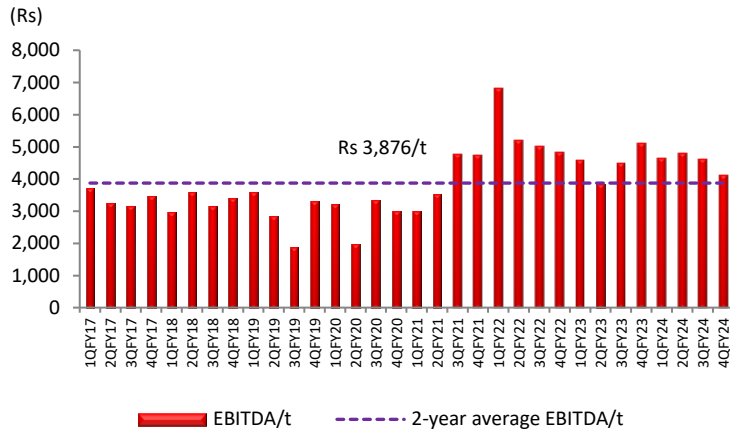
- **Capacity and volume guidance:** Volumes in 1QFY25 are expected to be softer due to the impact of elections. The management expects volume, EBITDA, and PAT to grow by ~25% CAGR over the next 2-3 years. Plans to achieve 5mt capacity by FY25 are on track, with EBITDA/t expected to surpass 5,500/t upon full commissioning. The 1mt Raipur plant reached 55% capacity utilisation in 4QFY24, expected to reach 70-75% in FY25. Two out of four mills at the Dubai plant are operational, and the remaining two mills are expected to be commissioned over the next two months.
- **Exports:** Export volumes during the year were 110kt, and the management expects to export 200-250kt in FY25; 150kt export volumes will be contributed by the Dubai plant.
- **General structures:** Management expects general structures (40% of sales mix) to improve supported by the narrowing gap between primary and secondary steel prices, which now ranges between Rs 7,000-8,000/t compared to previous levels of ~Rs 15,000/t; the spread is projected to narrow to Rs 3,000-4,000/t in the near term with the commissioning of new primary steel capacities. Additionally, the company's efforts towards brand building have resulted in price premiums increasing to 5% from 2-3% earlier.
- **Net cash:** The company turned cash positive in FY24 with net cash of Rs 0.2bn vs net debt of Rs 2.4bn in FY23. APAT generated free cash flows of Rs 3.6bn in FY24 and the management estimates Rs 10bn net cash in FY25.
- **Solar panel tubular structures:** The company is in talks with major solar power producers to manufacture tubular structures for tracking solar panels. Tracking solar panels could see rising demand due to higher efficiency. As per the management, 1MW solar trackers require around 25 tons of steel tubes.

#### Exhibit 1: Quarterly financial statement

Particulars (Rs bn)	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)
<b>Net Sales</b>	<b>47.7</b>	<b>44.3</b>	<b>7.6%</b>	<b>41.8</b>	<b>14.1%</b>
Other income	0.2	0.2	3.4%	0.2	23.6%
<b>Total Income</b>	<b>47.8</b>	<b>44.5</b>	<b>7.5%</b>	<b>41.9</b>	<b>14.1%</b>
<b>Expenditure:</b>					
Cost of material	41.3	37.8	9.3%	35.9	15.3%
Employees expenses	0.7	0.6	17.8%	0.6	8.8%
Other expenses	2.8	2.6	9.9%	2.5	13.8%
<b>Total expenditure</b>	<b>44.9</b>	<b>41.0</b>	<b>9.4%</b>	<b>39.0</b>	<b>15.1%</b>
EBITDA	3.0	3.5	-14.6%	2.9	1.5%
<b>EBITDA (Excl. OI)</b>	<b>2.8</b>	<b>3.3</b>	<b>-15.6%</b>	<b>2.8</b>	<b>0.3%</b>
Depreciation	0.5	0.5	-0.5%	0.5	-1.0%
<b>EBIT</b>	<b>2.5</b>	<b>3.0</b>	<b>-16.8%</b>	<b>2.5</b>	<b>2.0%</b>
Finance Cost	0.3	0.2	25.1%	0.3	9.2%
Exceptional item	-	-		-	
<b>EBT</b>	<b>2.2</b>	<b>2.8</b>	<b>-20.5%</b>	<b>2.2</b>	<b>1.0%</b>
Tax	0.5	0.7	-24.6%	0.5	-5.0%
Tax rate	23%	24%	<b>-123 bps</b>	24%	<b>-147 bps</b>
PAT	1.7	2.1	-19.2%	1.7	3.0%
<b>PAT (adj)</b>	<b>1.7</b>	<b>2.1</b>	<b>-19.2%</b>	<b>1.7</b>	<b>3.0%</b>
EPS (Rs.)	6.1	7.6	-19.2%	6.0	3.0%
EPS Diluted (Rs.)	6.1	7.6	-19.2%	6.0	3.0%
EBITDA margin	5.9%	7.5%	<b>-161 bps</b>	6.7%	<b>-81 bps</b>
PAT margin	3.6%	4.8%	<b>-119 bps</b>	4.0%	<b>-39 bps</b>

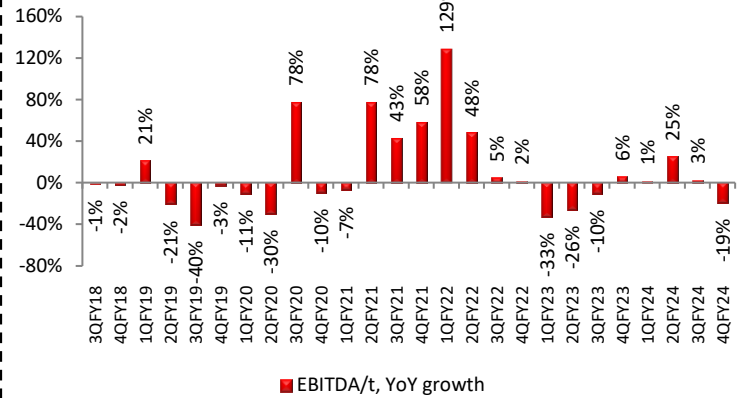
Source: Company, Systematix Institutional Research

Exhibit 2: Quarterly EBITDA/t



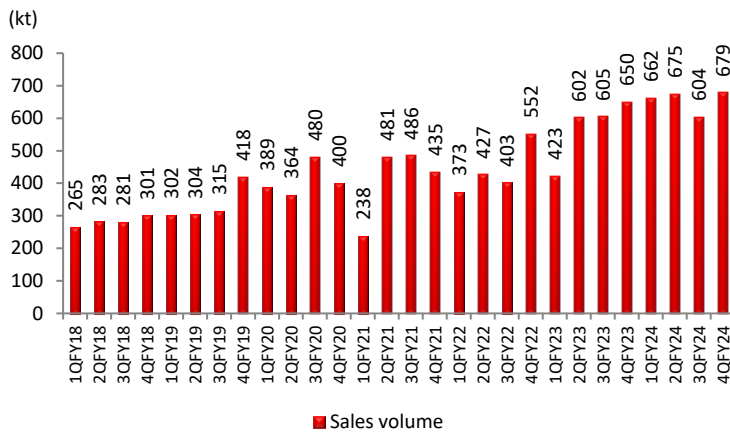
Source: Company, Systematix Institutional Research

Exhibit 3: YoY change in quarterly EBITDA/t



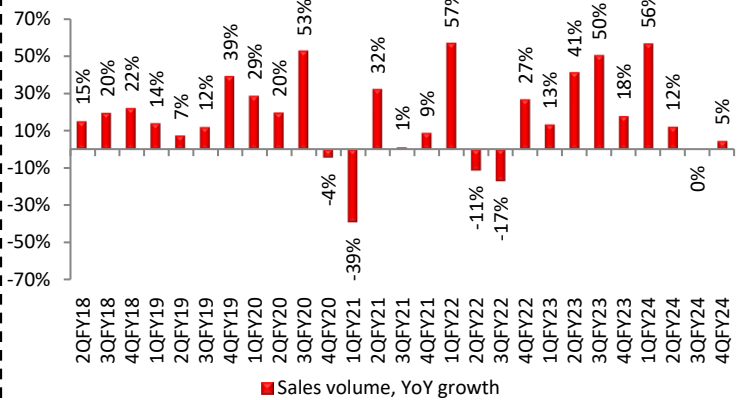
Source: Company, Systematix Institutional Research

Exhibit 4: Quarterly sales volume (kt)



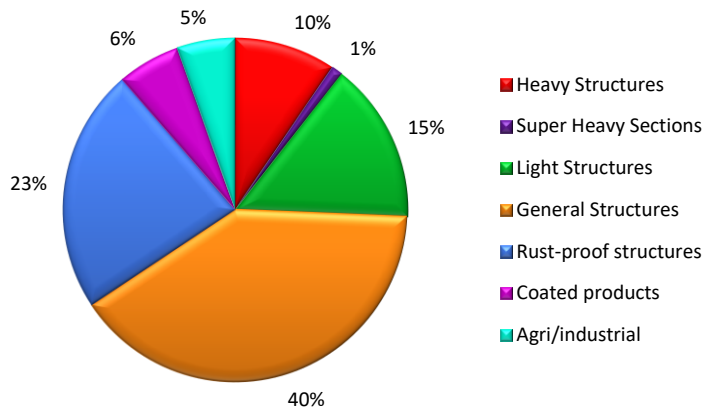
Source: Company, Systematix Institutional Research

Exhibit 5: YoY change in sales volume



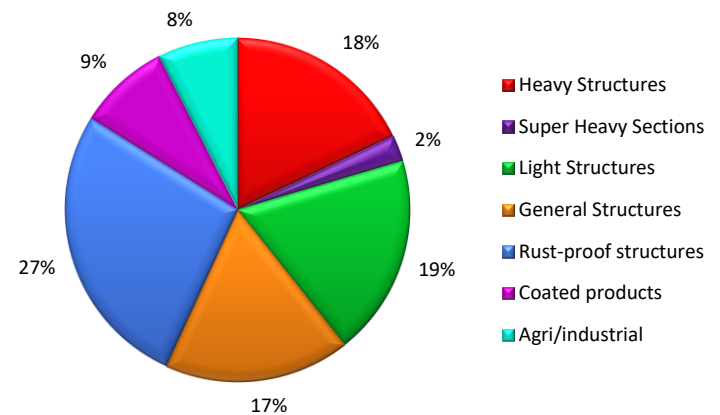
Source: Company, Systematix Institutional Research

Exhibit 6: 4QFY24 Volume composition by segment



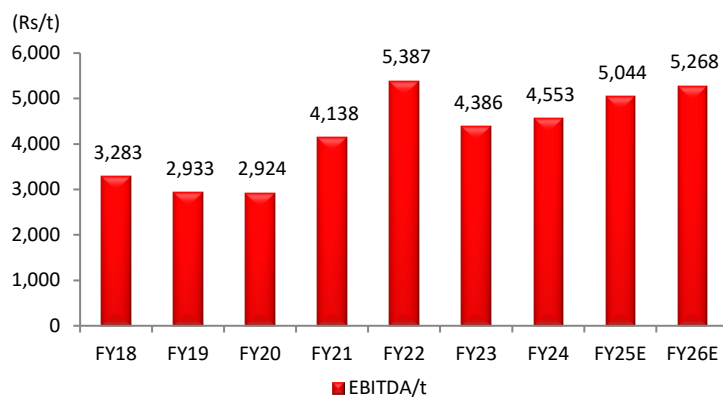
Source: Company, Systematix Institutional Research

Exhibit 7: 4QFY24 EBITDA contribution by segment - General Structures with 40% volume share, contributed 17% to EBITDA



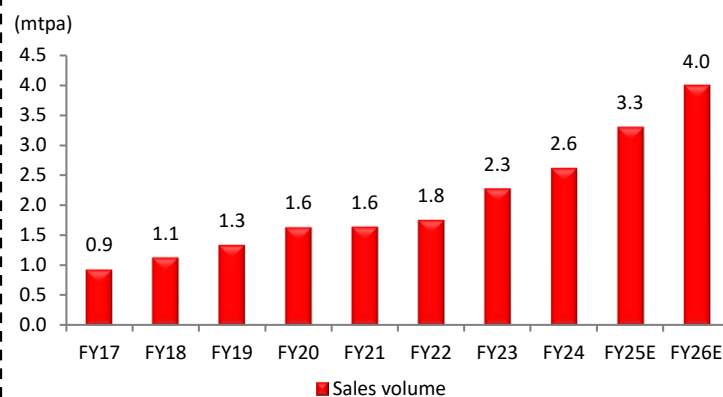
Source: Company, Systematix Institutional Research

Exhibit 8: Margins expected to rise gradually



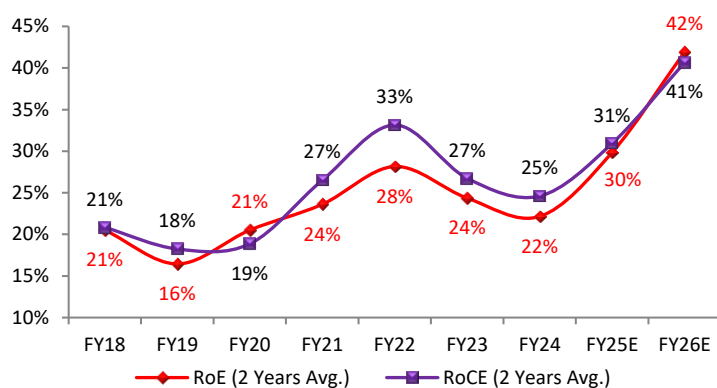
Source: Company, Systematix Institutional Research

Exhibit 9: FY26 to see volume jump with Raipur plant ramp up



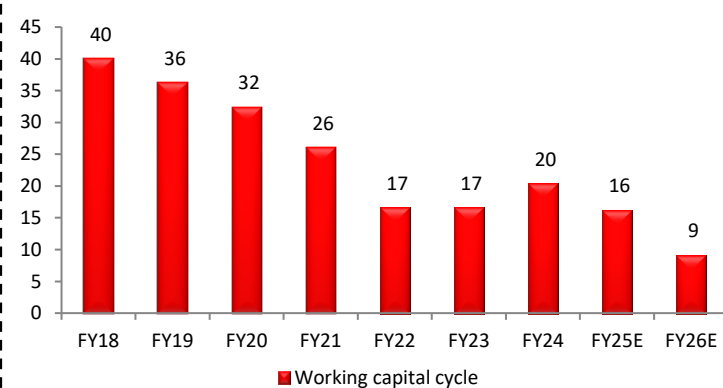
Source: Company, Systematix Institutional Research

Exhibit 10: RoE and RoCE trend



Source: Company, Systematix Institutional Research

Exhibit 11: Net working capital cycle (days)



Source: Company, Systematix Institutional Research

Exhibit 12: Key assumptions

	Unit	FY21	FY22	FY23	FY24	FY25E	FY26E
Volume	Mt	1.6	1.8	2.3	2.6	3.3	4.0
EBITDA/tn	Rs/t	4,138	5,387	4,386	4,553	5,044	5,268

Source: Company, Systematix Institutional Research

Exhibit 13: APL Apollo Tubes, EV/EBITDA (FY26E)

	Discount (%)	EBITDA (Rs bn)	Multiple (x)	Enterprise Value (Rs bn)
EBITDA		21	25	527
Add: CWIP				2
Less: Net debt				8
Equity Value				521
Target price per share				1,872

Source: Company, Systematix Institutional Research

Exhibit 14: Revised estimates

(Rs bn)	Actual vs estimate			Previous		New		% Change FY25E
	FY24A	FY24E	vs estimates	FY25E	FY26E	FY25E	FY26E	
Net Sales	181	200	-9%	284	-	240	290	-16%
EBITDA	12	14	-15%	21	-	17	21	-21%
PAT	7	9	-19%	13	-	10	13	-20%

Source: Company, Systematix Institutional Research

## FINANCIALS

## Profit &amp; Loss Statement

YE: Mar (Rs bn)	FY22	FY23	FY24	FY25E	FY26E
<b>Net revenues</b>	<b>131</b>	<b>162</b>	<b>181</b>	<b>240</b>	<b>290</b>
Revenue growth (%)	53.7	23.8	12.1	32.3	21.1
- Op. expenses	121	151	169	223	269
<b>EBITDA (Excl. OI)</b>	<b>9</b>	<b>10</b>	<b>12</b>	<b>17</b>	<b>21</b>
EBITDA margins (%)	7.2	6.3	6.6	7.0	7.3
- Interest expenses	0	1	1	1	1
- Depreciation	1	1	2	3	3
+ Other income	0	0	1	1	1
- Tax	2	2	2	3	4
Effective tax rate (%)	26	26	25	25	25
Reported PAT	6	6	7	10	13
+/- Extraordinary items	-	-	-	-	-
+/- Minority interest	1	-	-	-	-
<b>Adjusted PAT</b>	<b>6</b>	<b>6</b>	<b>7</b>	<b>10</b>	<b>13</b>
EPS (Rs/share)	20	23	26	37	48

Source: Company, Systematix Institutional Research

## Balance Sheet

YE: Mar (Rs bn)	FY22	FY23	FY24	FY25E	FY26E
Equity capital	0.5	0.6	0.6	0.6	0.6
Reserves and surplus	22.1	29.5	35.5	32.7	29.9
Net worth	22.6	30.1	36.0	33.3	30.5
Minority Interest	2.0	0.0	0.0	0.0	0.0
Total Debt	5.8	8.7	11.4	12.5	13.2
Other LT liabilities	2.1	2.6	2.8	3.8	4.8
<b>Capital employed</b>	<b>32.6</b>	<b>41.4</b>	<b>50.3</b>	<b>49.6</b>	<b>48.5</b>
Net fixed assets	23.4	29.5	34.8	35.6	38.3
Other assets	2.8	3.4	3.6	4.5	5.2
Cash and bank balance	1.6	1.2	3.5	2.2	-3.9
Other Bank balance	2.1	2.3	0.0	10.3	25.0
Inventories	8.5	14.8	16.4	27.5	33.2
Receivables	3.4	1.4	1.4	5.3	6.4
Other current assets	2.6	5.9	12.2	3.6	4.4
Current Assets	18.3	25.6	33.4	48.9	65.0
Current liabilities	12.0	17.2	21.6	29.0	35.0
NWC	6.3	8.4	11.8	19.9	30.0
<b>Capital deployed</b>	<b>32.6</b>	<b>41.4</b>	<b>50.3</b>	<b>49.6</b>	<b>48.5</b>

Source: Company, Systematix Institutional Research

## Cash Flow

YE: Mar (Rs bn)	FY22	FY23	FY24	FY25E	FY26E
<b>PBT</b>	<b>8</b>	<b>9</b>	<b>10</b>	<b>14</b>	<b>18</b>
+ Non cash items	1	1	2	3	3
Cash profit	9	10	12	17	21
- Incr/(Decr) in WC	-1	-1	1	1	-1
<b>Operating cash flow</b>	<b>11</b>	<b>12</b>	<b>10</b>	<b>16</b>	<b>22</b>
- Capex	6	9	7	5	6
<b>Free cash flow</b>	<b>5</b>	<b>3</b>	<b>3</b>	<b>11</b>	<b>16</b>
- Dividend	-	1	1	1	1
+ Equity raised	0	0	0	-	-
+ Debt raised	1	3	4	1	1
+ Investments	0	-0	-3	-	-
<b>Net cash flow</b>	<b>1</b>	<b>-0</b>	<b>2</b>	<b>9</b>	<b>9</b>
+ Opening cash	0	2	1	3	13
Closing cash	2	1	3	13	21

Source: Company, Systematix Institutional Research

## Ratios

YE: Mar	FY22	FY23	FY24	FY25E	FY26E
P/E (x)	78.2	67.9	59.5	42.1	32.6
P/BV (x)	17.3	14.4	12.1	13.2	14.4
EV/EBITDA (x)	41.8	43.2	37.1	26.9	21.7
RoE (%)	28.2	24.4	22.2	29.9	41.9
RoCE (%)	33.1	26.7	24.6	30.9	40.7
Fixed Asset turnover (x)	5.7	4.6	4.5	5.3	5.7
Dividend (%)	157	157	249	250	251
Dividend yield (%)	0.2	0.2	0.3	0.3	0.3
Dividend payout (%)	15.7	13.6	18.9	13.4	10.5
Debtors days	10	3	3	8	8
Creditor days	30	37	41	42	42
Inventory days	24	33	33	42	42
Revenue growth (%)	53.7	23.8	12.1	32.3	21.1
PAT growth (%)	54.7	15.2	14.1	41.3	29.1
EBITDA growth (%)	39.3	8.1	16.7	39.8	26.5

Source: Company, Systematix Institutional Research

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