APL Apollo Tubes

BSE SENSEX	S&P CNX
74,454	22,553

Bloomberg	APAT IN
Equity Shares (m)	278
M.Cap.(INRb)/(USDb)	408.5 / 4.7
52-Week Range (INR)	1729 / 1253
1, 6, 12 Rel. Per (%)	-3/13/0
12M Avg Val (INR m)	964

Financials & Valuations (INR b)

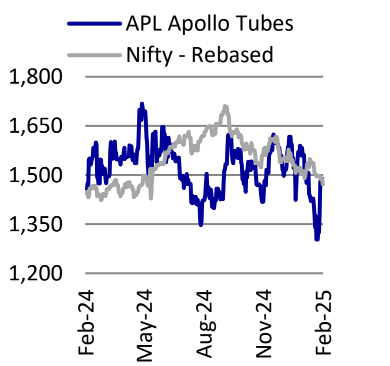
Y/E Mar	FY25E	FY26E	FY27E
Sales	208.6	261.6	304.5
EBITDA	11.7	17.5	22.2
PAT	7.1	11.8	15.3
EBITDA (%)	5.6	6.7	7.3
EPS (INR)	25.4	42.5	55.3
EPS Gr. (%)	-3.7	67.2	30.0
BV/Sh. (INR)	149.4	186.0	235.2
Ratios			
Net D/E	-0.1	-0.2	-0.4
RoE (%)	18.2	25.4	26.3
RoCE (%)	17.1	23.8	26.3
Payout (%)	23.6	14.1	10.9
Valuations			
P/E (x)	57.9	34.6	26.6
EV/EBITDA (x)	34.4	22.7	17.3
Div Yield (%)	0.4	0.4	0.4
FCF Yield (%)	3.5	1.9	3.5

Shareholding pattern (%)

As on	Dec-24	Sep-24	Dec-23
Promoter	28.3	28.3	29.6
DII	16.5	15.9	13.8
FII	31.7	31.9	29.3
Others	23.5	23.8	27.4

Note: FII includes depository receipts

Stock's performance (one-year)



CMP: INR1,472 TP: INR1,830 (+24%) Buy

Demand revival to drive volume growth, margin recovery

The Indian structural tubes industry has been in a turbulent phase due to a sharp drop in realization, slowing demand, and capacity expansions. APL Apollo Tubes (APAT), being the market leader, delivered healthy volume growth in 9MFY25, though at the expense of margins, which took a major hit (EBITDA/Mt down 28% YoY in 9MFY25). However, we expect the scenario to change for the better going ahead owing to the following factors:

- **HRC prices have stabilized at lower levels, driving affordability, as the spread between primary and secondary steel has also narrowed. APAT, being the largest primary steel player with an extensive distribution network, will be a key beneficiary.**
- **The demand environment is also expected to improve, led by better capex spends across traditional and new-age sectors. We can see increasing momentum for volume growth for APAT, along with margin expansion; unlike earlier, when volume growth was at the expense of margins (discounting).**
- **APAT has been focusing on widening its reach in both export and domestic markets. Its Dubai plant is ramping up smoothly, becoming an export hub for APAT. The company's plans to set up two facilities in eastern markets of Gorakhpur and Siliguri bode well for capturing the untapped eastern markets and saving freight costs.**
- **We expect APAT's margins to improve going ahead as infrastructure spending resumes, capex spending in new-age sectors increases, and dealer restocking begins. Long-term growth will be driven by rising demand, strong distribution, a rapid expansion in Dubai and eastern markets, higher value-added product (VAP) share, and its market leadership.**
- **We expect APAT to report a CAGR of 19%/23%/28% in revenue/EBITDA/PAT over FY24-27. We value the stock at 33x FY27E EPS to arrive at our TP of INR1,830. Reiterate BUY.**

Near-term bottoming of HRC prices improving affordability

- Indian HRC prices have seen a significant contraction of ~40% from the high of ~INR79,050/MT in Apr'22 to INR48,143 in Jan'25. Of this decline, half (till ~INR60,000/MT normalized levels by Jan'23) is attributed to normalization of pricing after Covid-related price hikes.
- Major factors leading to the latter half of price erosion are: subdued domestic demand (election year impact), higher cheap HRC imports from China and SEA countries, weak global demand, and weak price sentiment.
- The fall in HRC prices is also reflected in the performance of APAT, which witnessed subdued realization. APAT's realization declined by 19% vs. 1QFY23 to INR65,597/MT in 3QFY25 (down 5%/4% YoY in 3Q/9MFY25). Consequently, EBITDA/MT declined by only 9% during the same period (down 10%/28% YoY in 3Q/9MFY25). Despite volume growth of 19% YoY in 9MFY25, EBITDA declined by 14% YoY due to discounting and inventory loss.
- However, a moderate fall in EBITDA/MT compared to realization can be attributed to the addition of VAP, such as super-heavy structural tubes, rust-proof structures, coated tubes & sheets, etc., which have much better margins (in the range of INR6,000-8,000/Mt).

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- HRC prices are now stabilizing at lower levels and also have started to inch up in Feb'25. Going ahead, HRC prices can further increase, led by 1) improvement in the domestic demand scenario (better government and private capex spending expected in FY26 vs. lower spend in FY25 due to election; 2) government capex budget for FY26 has been increased by 10% vs. FY25RE); and 3) a pick-up in the global demand scenario (particularly in China, EU and the US), thereby reducing imports to India. The potential implementation of safeguard duty on steel can also increase domestic HRC prices.
- With lower pricing, affordability of HRC has improved, as now the price gap between primary (HRC) and secondary (patra) steel is only ~INR5,000-8,000/Mt. This is expected to further push the replacement timeline toward HRC-based tubes from traditional products, such as secondary steel, TMT, cement, wood, angle channels, and aluminum.
- This affordability will remain effective if HRC prices stay below INR60,000/MT. The price increase over this level can dampen the demand scenario.
- APAT booked a major inventory loss in 1H by selling off high-cost inventory. Going ahead, with improving or stable pricing, we expect the company to witness a volume pickup. The improving mix of VAP will also drive margin expansion.

Demand revival in 4Q to drive healthy volume growth

- Demand for structural tubes has been slowing over the last few quarters (since 3QFY24) due to extended monsoon and subdued domestic demand (election year impact). However, volume growth for the industry has remained healthy (low double digit), largely led by capacity expansions across companies.
- However, higher volumes across the industry have been led by higher discounting, which impacted margins.
- With elections (both general and state) now behind, we expect a gradual pickup (from 4QFY25) in demand, led by increase in government spending (still at lower levels). Traditional sectors, such as highways and railways, are expected to witness a pickup in demand.
- New sectors (such as solar) are expected to contribute to the demand recovery. The central and state governments (Maharashtra, Gujarat, etc.) are working aggressively on solar projects. Moreover, the increasing use of prefabricated structures is driving up the tubes usage in construction sectors.
- For APAT, volumes have remained on an upward trajectory since 3QFY24, led by plant additions in Raipur (new products such as heavy structural tubes and coated tube & sheet) and Dubai, despite a subdued demand scenario. Higher volumes can be attributed to discounting and lower realization (affordability).
- However, going ahead, we expect volumes to continue increasing, led by an expected demand recovery with low discounting, thereby boosting margins. We estimate a ~28% YoY increase in volumes in 4QFY25 to ~0.87mmt (i.e. monthly run rate of ~290kmt). This is expected to increase to ~3.9MMT/4.4MMT in FY26/FY27 (i.e. monthly run rate of ~321KMT/~370KMT).
- The incremental volumes in FY26/FY27 will be driven by the increase in the VAP product mix to 65%/68% vs. ~60% in FY25E. This will lead to healthy margin improvement.

Export business ramping up smoothly

- APAT is expanding its exports while focusing on domestic growth, with a presence in 20 countries and key opportunities in the Middle East and Southeast Asia. **Export demand** is fueled by a shift to high-quality HR coil-based steel

pipes, replacing lower-grade alternatives, and rising infrastructure projects, particularly in Saudi Arabia, where it has secured a major order.
- Stable global steel prices further support competitiveness for APAT in export markets. Export pricing is competitive, benefiting from lower steel procurement costs in international markets like Dubai (no duty on steel imports there unlike in India on imports from Russia and China). The pricing gap between domestic and export markets is, however, narrowing, making exports more viable. APAT maintains a price premium over local competitors in its export markets due to its brand strength and product quality.
- APAT's **Dubai plant** is now fully operational, sourcing cost-effective steel from Asia. Plant utilization has reached 58% in 3QFY25, with further scaling planned.
- It serves both local markets and exports, particularly to Saudi Arabia, focusing on structural steel and high-value products.
- APAT targets over **200KMT** of exports in FY25, with Dubai playing a major role. The long-term strategy focuses on expanding international sales, using Dubai as a key manufacturing hub. EBITDA margins (currently lower) are expected to improve as export operations grow. EBITDA margins from the Dubai plant are higher than overall company margins.
- In the longer run, the company expects its international sales to surpass 1MMT (~0.5MMT from the Dubai plant and 0.5MMT of exports from India), accounting for ~20% of the total sales volume (vs. ~4% in FY24).
- Therefore, going forward, international sales will be one of the key growth drivers for the company.

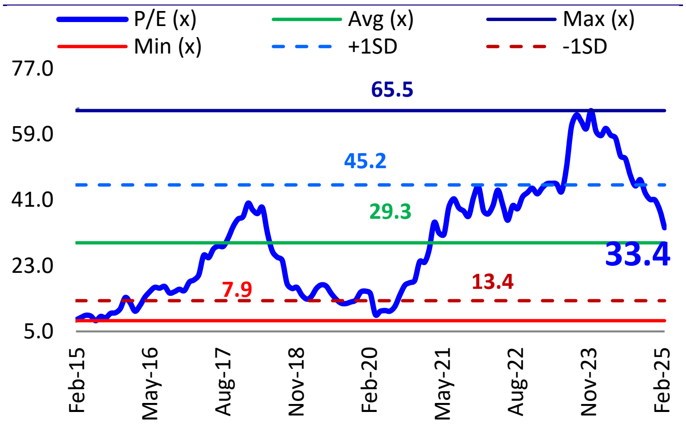
Widening reach in eastern markets

- **Domestic market** still remains a focus point for the company, with an aim of widening its presence in the untapped eastern markets.
- Raipur plant has been ramping up smoothly, with a utilization rate of 55% in 3QFY25. Going ahead, this is further expected to improve.
- Apart from the Raipur plant, which is just tapping into the eastern markets, APAT is strengthening its foothold in this market by setting up two facilities, i.e., in Gorakhpur and Siliguri, each having a capacity of ~200-250KMT.
- Gorakhpur plant will serve Eastern Uttar Pradesh and Jharkhand, while Siliguri plant will target Northeast India, including the seven-sister states, with potential exports to Bhutan and Myanmar.
- The new plants will reduce freight costs for eastern markets, improving distribution efficiency, as the freight cost from Raipur to the eastern markets is currently ~INR5-6k/MT.
- Eastern markets are currently dominated by small unorganized players. Hence, APAT will have a good opportunity to penetrate these markets.

Valuation and view

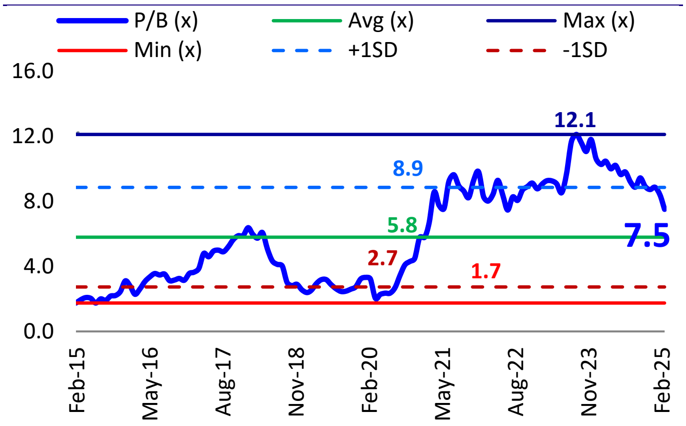
- APAT is likely to witness margin improvements as demand recovers after infrastructure spending resumes and dealers begin restocking inventory (affordability factor).
- In the long term, we believe APAT would sustain its earnings momentum on the back of: 1) growing demand across segments, 2) increased product penetration with a robust distribution network, 3) rapid capacity expansion (Dubai and eastern markets), 4) an increase in the share of VAP, thus driving margins, and 5) its market leadership.
- We expect APAT to report a CAGR of 19%/23%/28% in revenue/EBITDA/PAT over FY24-27. We value the stock at 33x FY27E EPS to arrive at our TP of INR1,830. **Reiterate BUY.**

Exhibit 1: One-year forward P/E (x)



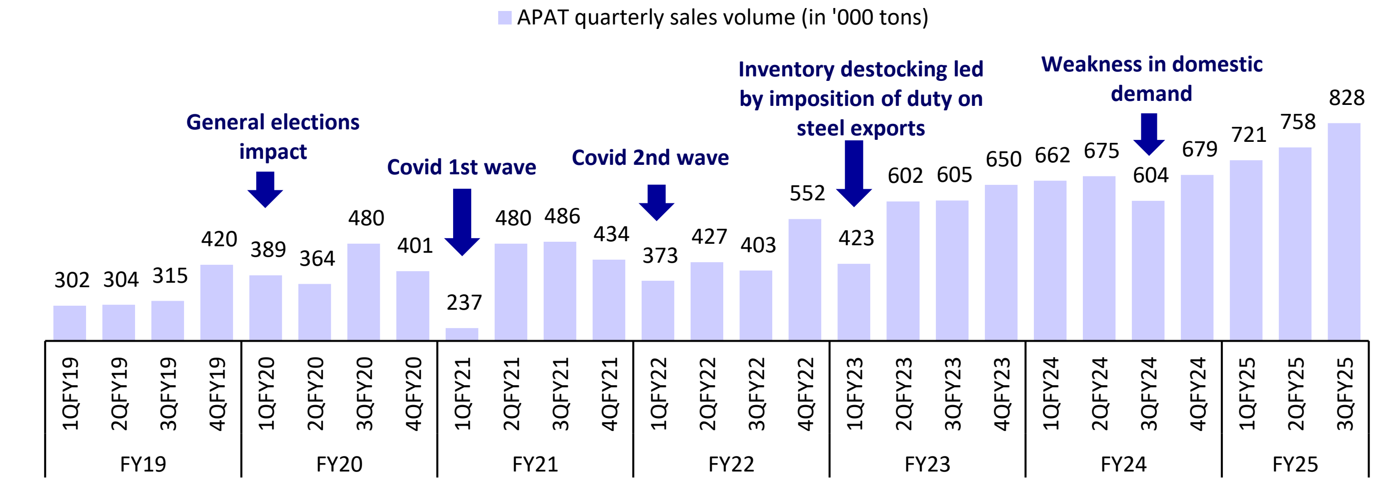
Source: Company, MOFSL

Exhibit 2: One-year forward P/B (x)



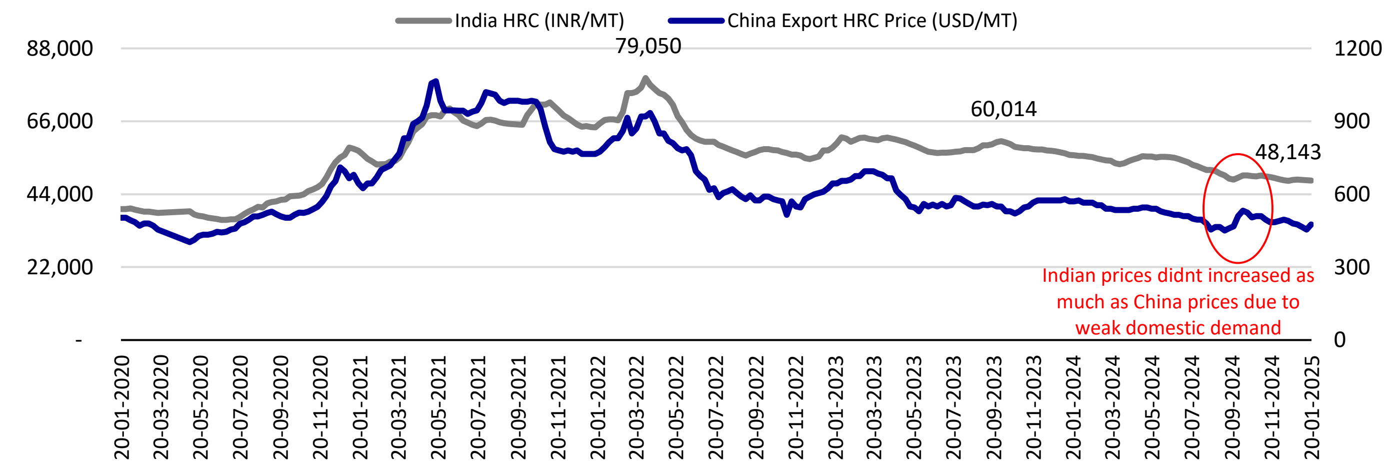
Source: Company, MOFSL

Exhibit 3: APAT quarterly sales volume trends over past seven years



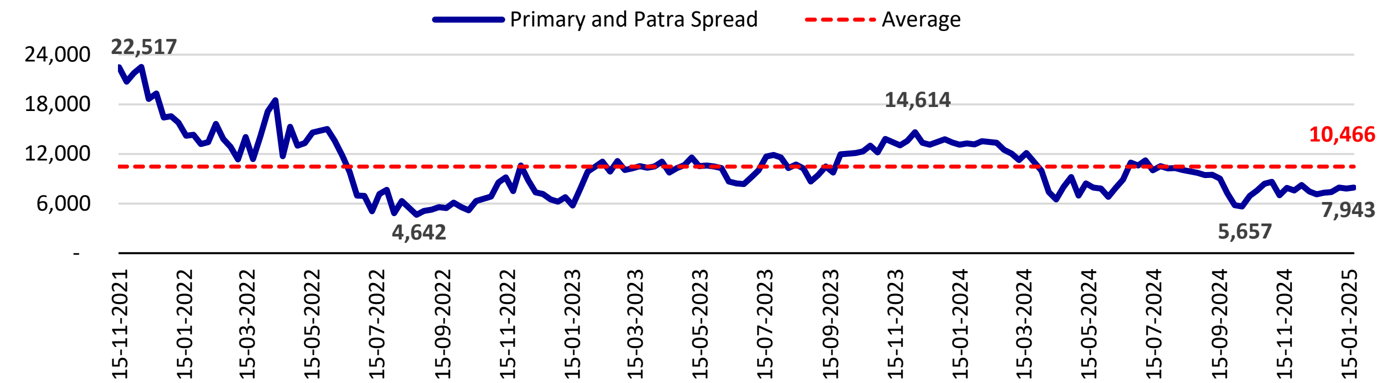
Source: Company, MOFSL

Exhibit 4: Primary HRC prices of domestic market and China export market



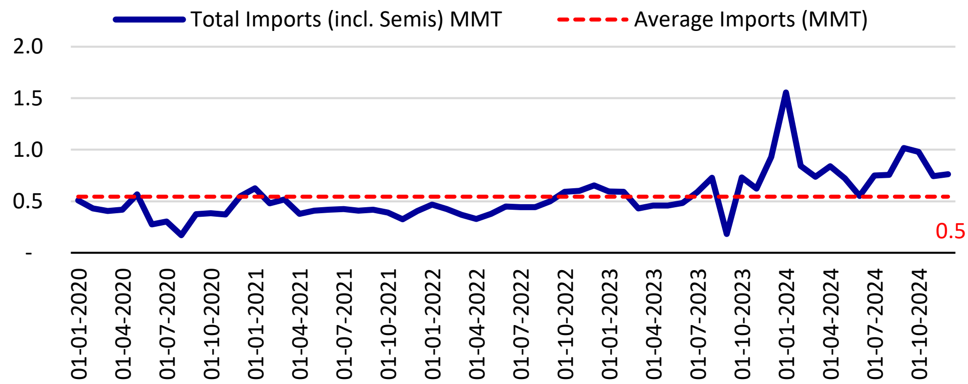
Source: Industry, MOFSL

Exhibit 5: Primary HRC and secondary (Patra) pricing spread (INR/MT)



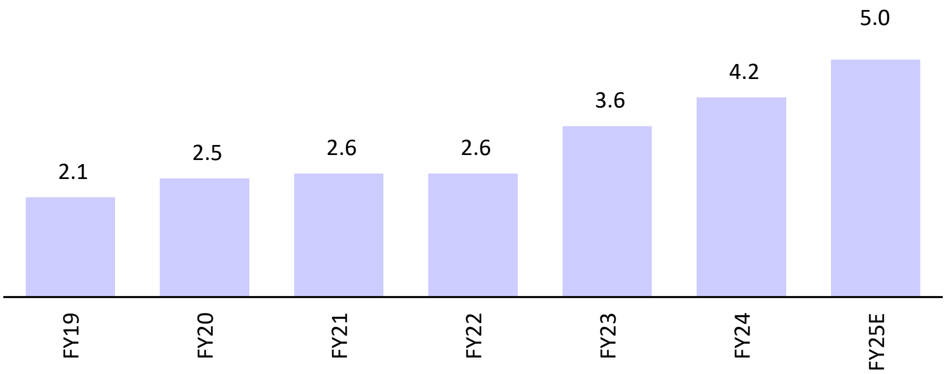
Source: Industry, MOFSL

Exhibit 6: HRC import in India – currently over long-period average (million MT)



Source: Industry, MOFSL

Exhibit 7: Manufacturing capacity of APAT (MMT)



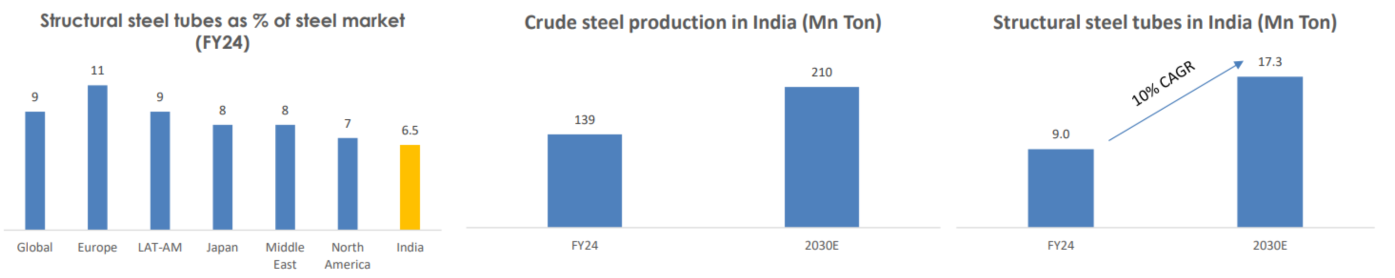
Source: Company, MOFSL

Exhibit 8: APAT's sales volume data

Y/E March	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	YOY
Segment Volumes ('000 MT)											
Apollo Structural											
Big Section	41	46	39	45	51	62	64	58	52	67	8%
Super Heavy Section	0	0	2	4	5	7	8	11	11	13	75%
Light Structures	109	132	108	112	113	95	102	110	127	143	49%
General Structures	276	264	299	282	301	249	272	288	338	360	45%
Apollo Z - Rust-proof structures	137	125	163	170	144	124	156	168	150	166	34%
Apollo Z- Coated Products	12	10	10	19	29	36	40	52	51	46	27%
Apollo Galv - Agri/Industrial	27	28	27	30	32	30	37	34	29	34	12%
Value Added Products (VAP)	*326*	*341*	*350*	*381*	*374*	*355*	*407*	*433*	*420*	*468*	*32%*
VAP Mix %	*54%*	*56%*	*54%*	*57%*	*55%*	*59%*	*60%*	*60%*	*55%*	*56%*	
Total	**602**	**605**	**650**	**662**	**675**	**604**	**679**	**721**	**758**	**828**	**37%**

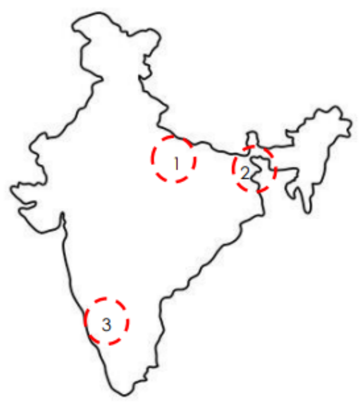
Source: Company, MOFSL

Exhibit 9: India has a huge structural steel tubes-based construction potential



Source: Company, MOFSL

Exhibit 10: New proposed plants for higher market penetration

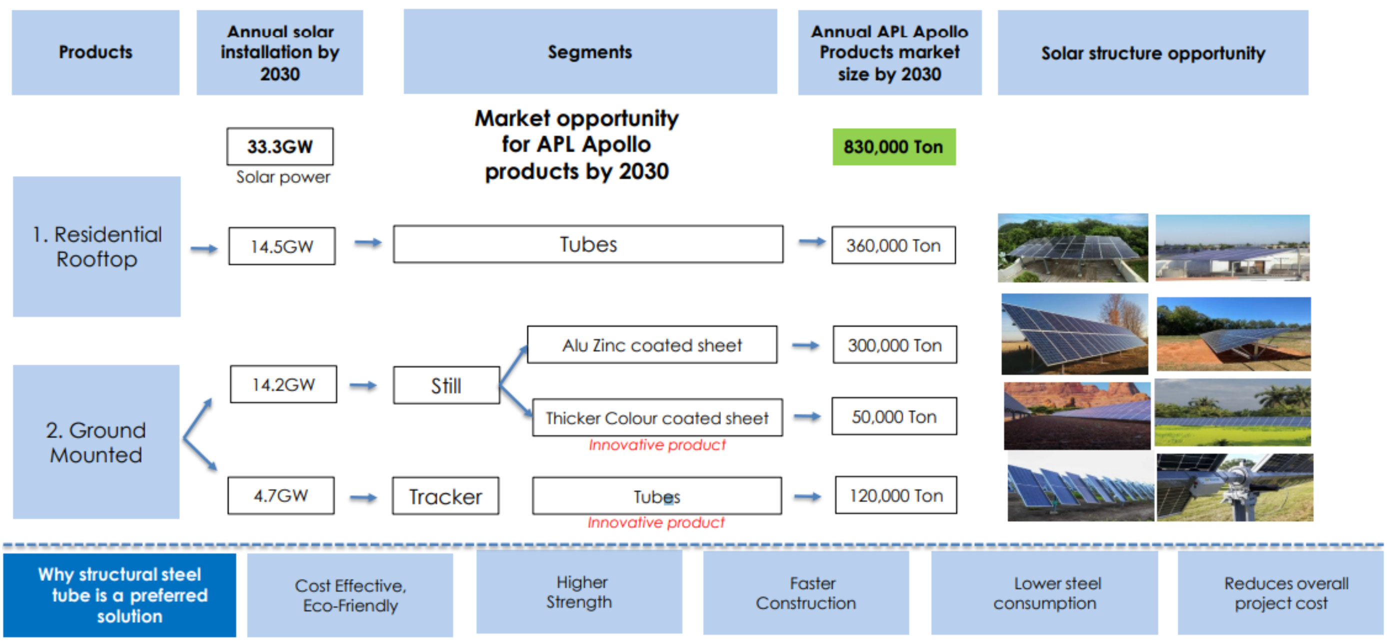


Location for Greenfield Plants	Capacity	Target Market	Incremental Market opportunity
1. Gorakhpur Eastern UP	110,000 Ton	Eastern UP, Bihar and Nepal	1.5 Mn Ton
2. Siliguri West Bengal	200,000 Ton	West Bengal, Jharkhand, 7 Sister State and Bhutan	
3. New Bangalore Karnataka	300,000 Ton	South India	

Existing capacity 4,300,000 Ton + 3 Greenfield plants 610,000 Ton + Brownfield expansion 90,000 Ton = **Total Capacity by FY26 5 Mn Ton**

Source: Company, MOFSL

Exhibit 11: Solar structure opportunity for structural tubes



Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement								(INRm)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Total Income from Operations	**77,232**	**84,998**	**1,30,633**	**1,61,660**	**1,81,188**	**2,08,588**	**2,61,557**	**3,04,547**
Change (%)	8.0	10.1	53.7	23.8	12.1	15.1	25.4	16.4
RM Cost	65,786	71,648	1,12,231	1,40,178	1,56,172	1,80,171	2,23,369	2,59,474
Employees Cost	1,422	1,296	1,530	2,062	2,576	3,491	3,662	4,264
Other Expenses	5,252	5,266	7,419	9,204	10,518	13,184	17,039	18,623
Total Expenditure	**72,459**	**78,210**	**1,21,181**	**1,51,444**	**1,69,266**	**1,96,845**	**2,44,071**	**2,82,361**
% of Sales	93.8	92.0	92.8	93.7	93.4	94.4	93.3	92.7
EBITDA	**4,773**	**6,787**	**9,453**	**10,216**	**11,922**	**11,742**	**17,486**	**22,186**
Margin (%)	6.2	8.0	7.2	6.3	6.6	5.6	6.7	7.3
Depreciation	959	1,028	1,090	1,383	1,759	1,977	2,363	2,509
EBIT	**3,814**	**5,759**	**8,363**	**8,832**	**10,162**	**9,765**	**15,123**	**19,677**
Int. and Finance Charges	1,073	661	445	671	1,134	1,380	400	400
Other Income	222	359	405	472	749	861	1,046	1,218
PBT bef. EO Exp.	**2,963**	**5,458**	**8,323**	**8,633**	**9,777**	**9,246**	**15,769**	**20,495**
EO Items	0	0	0	0	0	0	0	0
PBT after EO Exp.	**2,963**	**5,458**	**8,323**	**8,633**	**9,777**	**9,246**	**15,769**	**20,495**
Total Tax	403	1,381	2,133	2,215	2,453	2,190	3,969	5,159
Tax Rate (%)	13.6	25.3	25.6	25.7	25.1	23.7	25.2	25.2
Minority Interest	180	475	617	0	0	0	0	0
Reported PAT	**2,380**	**3,602**	**5,573**	**6,419**	**7,324**	**7,056**	**11,800**	**15,336**
Adjusted PAT	**2,380**	**3,602**	**5,573**	**6,419**	**7,324**	**7,056**	**11,800**	**15,336**
Change (%)	60.5	51.3	54.7	15.2	14.1	-3.7	67.2	30.0
Margin (%)	3.1	4.2	4.3	4.0	4.0	3.4	4.5	5.0

Consolidated - Balance Sheet								(INR m)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Equity Share Capital	249	250	501	555	555	555	555	555
Total Reserves	13,313	16,697	22,139	29,501	35,491	40,883	51,019	64,691
Net Worth	**13,562**	**16,947**	**22,640**	**30,056**	**36,046**	**41,438**	**51,574**	**65,247**
Minority Interest	954	1,383	2,000	0	0	0	0	0
Total Loans	8,338	5,203	5,806	8,729	11,246	6,246	2,246	46
Deferred Tax Liabilities	1,012	1,112	1,187	1,171	1,258	1,258	1,258	1,258
Capital Employed	**23,865**	**24,644**	**31,633**	**39,957**	**48,550**	**48,941**	**55,078**	**66,550**
Gross Block	17,246	18,568	20,677	29,513	38,099	41,472	44,447	46,792
Less: Accum. Deprn.	2,507	3,535	4,625	6,008	7,767	9,745	12,107	14,616
Net Fixed Assets	**14,738**	**15,033**	**16,053**	**23,505**	**30,331**	**31,728**	**32,340**	**32,176**
Goodwill on Consolidation	1,375	1,375	1,375	1,375	1,375	1,375	1,375	1,375
Capital WIP	101	1,077	5,037	3,740	2,030	2,156	1,681	1,336
Total Investments	**15**	**15**	**913**	**960**	**1,027**	**4,527**	**8,027**	**11,527**
Current Investments	0	0	50	0	0	3,500	7,000	10,500
Curr. Assets, Loans&Adv.	**16,431**	**16,491**	**21,147**	**28,936**	**37,105**	**34,759**	**40,783**	**53,871**
Inventory	7,842	7,599	8,472	14,799	16,379	17,797	22,067	25,529
Account Receivables	4,764	1,306	3,417	1,374	1,391	1,714	2,150	2,503
Cash and Bank Balance	456	3,579	3,764	3,525	3,476	6,904	6,104	13,658
Loans and Advances	3,370	4,006	5,494	9,239	15,859	8,344	10,462	12,182
Curr. Liability & Prov.	**8,796**	**9,345**	**12,891**	**18,560**	**23,318**	**25,604**	**29,128**	**33,736**
Account Payables	7,644	7,859	10,595	15,970	19,816	21,572	24,073	27,849
Other Current Liabilities	979	1,310	2,113	2,357	3,229	3,717	4,661	5,428
Provisions	173	177	184	233	273	314	394	459
Net Current Assets	**7,636**	**7,145**	**8,256**	**10,377**	**13,787**	**9,156**	**11,655**	**20,136**
Appl. of Funds	**23,865**	**24,644**	**31,633**	**39,957**	**48,550**	**48,941**	**55,077**	**66,550**

Financials and valuations

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)								
EPS	**8.6**	**13.0**	**20.1**	**23.1**	**26.4**	**25.4**	**42.5**	**55.3**
Cash EPS	12.0	16.7	24.0	28.1	32.8	32.6	51.1	64.3
BV/Share	48.9	61.1	81.6	108.4	130.0	149.4	186.0	235.2
DPS	0.0	0.0	3.5	3.5	5.0	6.0	6.0	6.0
Payout (%)	0.0	0.0	17.4	15.1	18.9	23.6	14.1	10.9
Valuation (x)								
P/E	171.6	113.4	73.3	63.6	55.7	57.9	34.6	26.6
Cash P/E	122.3	88.2	61.3	52.3	45.0	45.2	28.8	22.9
P/BV	30.1	24.1	18.0	13.6	11.3	9.9	7.9	6.3
EV/Sales	5.4	4.8	3.2	2.6	2.3	1.9	1.5	1.3
EV/EBITDA	87.4	60.6	43.6	40.5	34.9	34.4	22.7	17.3
Dividend Yield (%)	0.0	0.0	0.2	0.2	0.3	0.4	0.4	0.4
FCF per share	-5.4	24.1	1.6	-2.3	15.3	50.9	27.8	50.8
Return Ratios (%)								
RoE	20.5	23.6	28.2	24.4	22.2	18.2	25.4	26.3
RoCE	17.4	20.8	25.8	20.6	19.0	17.1	23.8	26.3
RoIC	15.9	19.9	29.7	24.5	20.6	19.3	30.3	37.1
Working Capital Ratios								
Fixed Asset Turnover (x)	4.5	4.6	6.3	5.5	4.8	5.0	5.9	6.5
Asset Turnover (x)	3.2	3.4	4.1	4.0	3.7	4.3	4.7	4.6
Inventory (Days)	37	33	24	33	33	31	31	31
Debtor (Days)	23	6	10	3	3	3	3	3
Creditor (Days)	36	34	30	36	40	38	34	33
Leverage Ratio (x)								
Current Ratio	1.9	1.8	1.6	1.6	1.6	1.4	1.4	1.6
Interest Cover Ratio	3.6	8.7	18.8	13.2	9.0	7.1	37.8	49.2
Net Debt/Equity	0.6	0.1	0.1	0.2	0.2	-0.1	-0.2	-0.4

Consolidated - Cash Flow Statement **(INR m)**

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
OP/(Loss) before Tax	2,963	5,458	8,323	8,633	9,777	9,246	15,769	20,495
Depreciation	959	1,028	1,090	1,383	1,759	1,977	2,363	2,509
Interest & Finance Charges	851	302	40	199	385	519	-646	-818
Direct Taxes Paid	-403	-1,381	-1,993	-2,161	-2,453	-2,190	-3,969	-5,159
(Inc)/Dec in WC	725	3,577	-1,154	-1,475	1,646	8,059	-3,299	-927
CF from Operations	**5,096**	**8,983**	**6,306**	**6,580**	**11,115**	**17,611**	**10,217**	**16,100**
Others	0	0	211	321	0	0	0	0
CF from Operating incl EO	**5,096**	**8,983**	**6,517**	**6,901**	**11,115**	**17,611**	**10,217**	**16,100**
(Inc)/Dec in FA	-6,591	-2,298	-6,070	-7,539	-6,876	-3,500	-2,500	-2,000
Free Cash Flow	**-1,495**	**6,685**	**447**	**-638**	**4,239**	**14,111**	**7,717**	**14,100**
(Pur)/Sale of Investments	479	0	-898	-48	-67	-3,500	-3,500	-3,500
Others	1,763	-4,171	1,666	-1,171	-2,214	861	1,046	1,218
CF from Investments	**-4,349**	**-6,468**	**-5,301**	**-8,757**	**-9,157**	**-6,139**	**-4,954**	**-4,282**
Issue of Shares	10	1	251	1,284	0	0	0	0
Inc/(Dec) in Debt	-244	-3,135	603	2,924	2,516	-5,000	-4,000	-2,200
Interest Paid	-1,073	-661	-445	-671	-1,134	-1,380	-400	-400
Dividend Paid	0	0	-971	-971	-1,387	-1,664	-1,664	-1,664
Others	538	4,403	-469	-949	-2,004	0	0	0
CF from Fin. Activity	**-768**	**609**	**-1,031**	**1,617**	**-2,008**	**-8,044**	**-6,064**	**-4,264**
Inc/Dec of Cash	**-22**	**3,123**	**185**	**-240**	**-49**	**3,429**	**-800**	**7,554**
Opening Balance	478	456	3,579	3,765	3,525	3,476	6,904	6,104
Closing Balance	**456**	**3,579**	**3,765**	**3,525**	**3,476**	**6,904**	**6,104**	**13,658**

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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