

India

ADD (no change)

Consensus ratings*: Buy 16 Hold 1 Sell 1

Current price:	Rs1,061
Target price:	Rs1,223
Previous target:	Rs1,145
Up/downside:	15.3%
InCred Research / Consensus:	7.0%
Reuters:	
Bloomberg:	APAT IN
Market cap:	US\$3,657m Rs265,573m
Average daily turnover:	US\$6.3m Rs454.1m
Current shares o/s:	276.7m
Free float:	65.5%

*Source: Bloomberg

Key changes in this note

- Revenue revised by -1 to 3.5% for FY23F/24F.
- EBITDA cut by 1%-3% for FY23F/24F.
- PAT revised by 1%-2.5% for FY23F/24F.



Price performance	1M	3M	12M
Absolute (%)	(5.8)	1.0	16.8
Relative (%)	(10.5)	(2.6)	15.5

Major shareholders	% held
Promoters	34.5
Smallcap World Fund Inc.	6.0
K India Opportunities Fund	3.3

Analyst(s)



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APL Apollo Tubes

A lot depends on Raipur plant ramp-up

- An adverse mix, extra discounts to trade and Raipur plant ramp-up delay led to EBITDA/t of Rs3,850, a 9% miss to our estimate. Revenue/PAT were in line.
- Channel inventory remains low. Company targets sales volume of 2.2-2.4mt (0.2mt from Raipur) at EBITDA/t of Rs4,500-5,000 (1H: Rs4,154/t) in FY23F.
- All eyes are on Raipur plant ramp-up and achieving the sales volume target of 4mt in FY25F. We retain ADD rating on the stock with a higher TP of Rs1,223.

Extra incentives and discounts led to highest-ever 2QFY23 volume

APL Apollo Tubes (APL) posted 2QFY23 revenue/EBITDA/PAT of Rs40bn/Rs2.3bn/Rs1.5bn, +29%/+4%/+14% yoy, respectively. Revenue was in line while EBITDA missed our/Bloomberg consensus estimates by 6-12%. 2Q saw the highest-ever quarterly sales volume of 0.6mt, despite hot rolled coil or HRC prices correcting by 18% qoq. Realization/t fell to Rs63,850, down 8% yoy/19% qoq. Trade channel destocking continued, seeing a further fall in HRC prices. Extra discounts/incentives were offered to them to cut destocking intensity, leading to a higher-than-estimated sales volume in 2Q. Adverse sales mix (value-added product sales' share at 54% vs. 62% yoy), slow ramp-up of Raipur plant (EBITDA break-even) and trade discounts led EBITDA/t to fall to Rs3,850, down 26% yoy/16% qoq vs. our estimate of Rs4,200. Amalgamation of Apollo Tricoat Tubes with APL got final regulatory approvals. APL issued 26.9m equity shares (post-issue dilution: 9.7%) to Tricoat Tubes' shareholders on 9 Nov 2022. Consolidated gross debt rose by Rs3.7bn to Rs9.5bn as Apollo Building Products (Raipur project SPV) availed project debt to fund its remaining capex in 1HFY23. Consolidated gross cash and liquid investments rose by Rs2.8bn to Rs6.6bn in 1H as most standalone cash flows were retained for future contingencies. Higher channel finance by distributors/dealers, led to a sharp drop in debtors to Rs1bn (three days of TTM sales), down 70% in 1H.

Management maintains sales volume guidance for FY23F/24F/25F

Sales volume guidance of 2.3mt/3.2mt/4mt for FY23F/24F/25F and EBITDA/t range of Rs4.5k-Rs6k was maintained by APL. 2HFY23F target EBITDA is Rs6-6.5bn. Raipur plant's sales volume target is 0.2mt/0.65mt/1mt for FY23F/24F/25F, respectively. Greenfield plants at Kolkata/Dubai to add 0.5mt capacity (capex: Rs3bn) by Jun 2024F.

Change in our estimates

We alter FY23F/24F revenue/EBITDA/PAT by 1-3% and rollout FY25F estimates. We expect revenue/EBITDA/PAT CAGR at 18%/29%/32%, respectively, over FY23F-25F.

Valuation and risks

APL's P/E multiple has kept expanding as the company consistently improved market share, ROCE and FCF generation. We retain ADD rating on it and raise our target price to Rs1,223 (from Rs1,145) based on a higher exit P/E of 36x (33x earlier). Downside risks: Raipur plant ramp-up delay, and HRC price volatility.

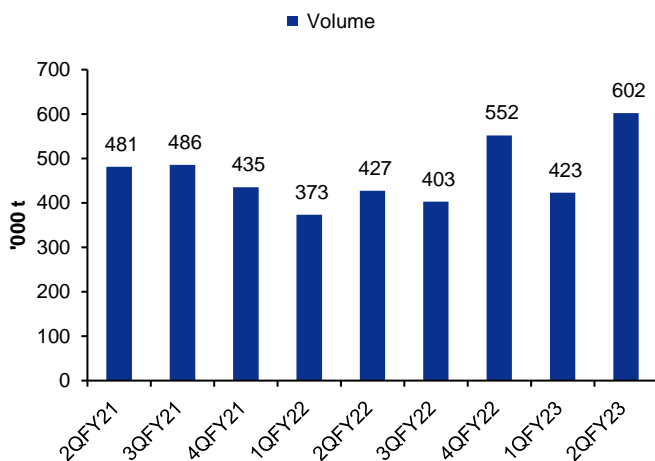
Financial Summary	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	84,998	130,631	143,223	167,991	200,524
Operating EBITDA (Rsm)	6,787	9,451	10,269	13,893	16,984
Net Profit (Rsm)	3,602	5,571	6,756	9,323	11,848
Core EPS (Rs)	14.4	22.3	24.4	33.7	42.8
Core EPS Growth	49.5%	54.5%	9.7%	38.0%	27.1%
FD Core P/E (x)	73.66	47.67	43.45	31.49	24.78
DPS (Rs)	0.0	3.5	3.5	7.0	8.0
Dividend Yield	0.00%	0.33%	0.33%	0.66%	0.75%
EV/EBITDA (x)	39.41	28.53	28.79	20.84	16.55
P/FCFE (x)	1,379.89	145.95	119.81	(209.66)	90.13
Net Gearing	4.6%	8.1%	7.4%	(11.4%)	(27.3%)
P/BV (x)	15.66	11.73	10.31	8.18	6.45
ROE	23.6%	28.1%	26.4%	29.0%	29.1%
% Change In Core EPS Estimates			0.59%	(2.86%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

2QFY23 earnings-call highlights

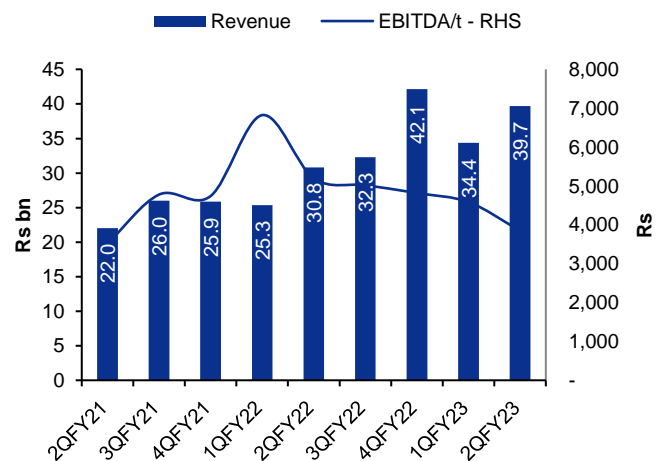
- Raipur plant update:** The company's sales volume stood at 19.5kt in 1HFY23 and it expects the volume to ramp up to 70-75kt in 3QFY23F, 100kt in 4QFY23F, 600-700kt in FY24F and 1mt in FY25F. Currently, the plant is at EBITDA breakeven point and it expects to improve margins as volume ramps up in the coming quarters. 80% of Rs10bn capex has been already incurred and the remaining will be infused in 3QFY23F. The plant is facing some delay in getting machinery for making large diameter tubes (500*500mm) from Chinese suppliers, as travel remains restricted between India and China.
- Channel inventory:** Trade remained cautious on carrying optimal inventory due to the sharp drop in HRC prices (down 18% in 2Q). Restocking has still not started in anticipation of a further correction in HRC prices in India. Management indicated normal inventory stocking to resume from Jan 2023F.
- Exports and project sales:** Exports contributed less than 5% to total sales and the company's management expects exports of value-added products to increase from the Raipur facility. Project sales (OEM sales) stood at 5% of total sales volume and over the next two-to-three years, annual OEM sales could touch 7-8% of total sales volume.
- Tricoat amalgamation:** Regulatory approvals were received during the quarter. APL allotted 26.86m equity shares (9.7% post-issue equity dilution) to Apollo Tricoat Tubes' shareholders on 9 Nov 2022. The amalgamation is effective from 31 Oct 2022.
- Delhi pollution update:** No meaningful hiccups in material dispatches was experienced by the company due to restriction on truck movement in the Delhi-NCR region so far in 3Q.
- Capex:** Cash capex stood at Rs650m in 1HFY23. APL has budgeted cumulative capex of Rs5bn over 2HFY23-FY25F, which includes residual Raipur capex, around Rs3bn for Dubai and Kolkata plants, and for maintenance of existing facilities.
- Net working capital:** Receivables dropped further to Rs1.1bn, down by Rs2.4bn or 70% in 1HFY23, to three days of TTM sales. Overall net working capital cycle remained steady at five days of TTM sales.
- Debt:** Gross debt stood at Rs9.5bn during the quarter as compared to Rs5.8bn (as at end-Mar 2022). Net debt was at Rs2.9bn as at end-Sep 2022 vs. Rs2bn as at end-Mar 2022. The rise in debt was because of project debt drawdown by Apollo Building Products (a 100% subsidiary) to meet Raipur plant's capex.
- Cash:** Gross consolidated cash (including equivalents) and bank balance as at end-Sep 2022 stood at Rs.6.6bn (vs. Rs3.8bn as at end-Mar 2022).

Figure 1: Quarterly volume trend



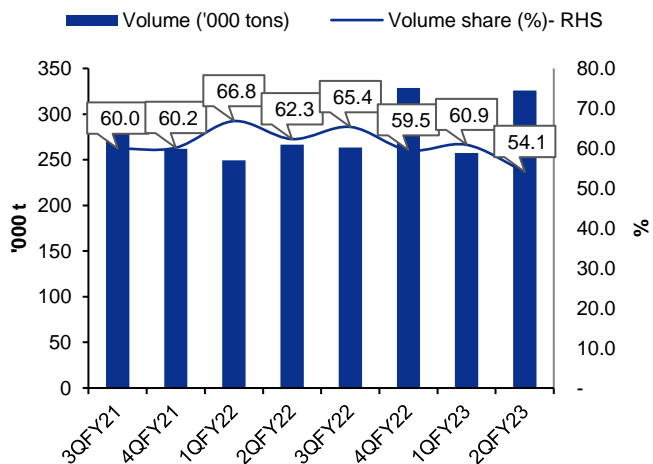
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Quarterly revenue and EBITDA/t



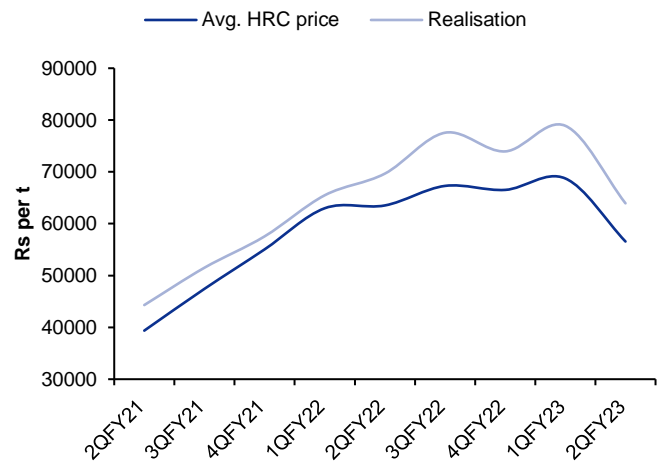
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Value-added products



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: HRC prices and realization trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: 2QFY23 results snapshot

YE Mar (Rs m)	2QFY23	2QFY22	yoy (%)	1QFY23	qoq (%)	1HFY23	1HFY22	yoy (%)
Revenue	39,692	30,839	28.7	34,386	15.4	71,817	54,208	32.5
EBITDA	2,319	2,222	4.4	1,939	19.6	4,258	4,769	(10.7)
EBITDA margin (%)	5.8	7.2	-136 bp	5.6	20 bp	5.7	8.5	-274 bp
Adj. PAT	1,502	1,313	14.4	1,071	40.2	2,573	2,787	(7.7)
Diluted EPS (Rs)	6.0	5.3		4.3		10.3	11.2	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: 2QFY23 sales volume and mix snapshot

Sales Volume ('000 t)	2QFY23	2QFY22	yoy (%)	1QFY23	qoq (%)
Apollo structure (hollow sections)					
- Heavy	41	26	55.3	33	24.6
- Light	77	51	49.8	50	53.6
- General	276	161	71.7	165	67.2
Sub-total	394	239	65.1	248	58.8
Apollo Z (GP - pre galvanized)					
- Rust-proof structure	78	90	(13.5)	80	(2.5)
- Rust-proof sheet	21	21	(0.6)	20	4.6
Sub-total	99	112	(11.0)	100	(1.1)
Apollo Tricoat	70	61	14.7	49	42.7
Apollo Galvanized	27	16	66.5	18	51.6
Apollo Build/New Raipur	12	-	NM	7	NM
Total	602	427	40.9	423	42.5
Volume mix (%)					
Apollo structure (hollow sections)					
- Heavy	6.8	6.2	63 bp	7.8	-98 bp
- Light	12.8	12.0	76 bp	11.9	93 bp
- General	45.9	37.7	821 bp	39.1	678 bp
Sub-total	65.5	55.9	960 bp	58.7	673 bp
Apollo Z (GP - pre galvanized)					
- Rust-proof structure	13.0	21.1	-816 bp	19.0	-598 bp
- Rust-proof sheet	3.5	5.0	-146 bp	4.8	-127 bp
Sub-total	16.5	26.1	-963 bp	23.7	-725 bp
Apollo Tricoat	11.6	14.3	-265 bp	11.6	2 bp
Apollo Galvanized	4.4	3.7	68 bp	4.2	27 bp
Apollo Build/New Raipur	2.0	0.0	200 bp	1.8	23 bp
Total	100.0	100.0		100.0	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Actuals vs. our estimates

Rs m	2QFY23A	2QFY23F	Var (%)
Revenue	39,692	38,504	3.1
EBITDA	2,319	2,477	(6.4)
EBITDA margin (%)	5.8	6.2	-37 bp
Adj. PAT	1,502	1,473	1.9

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 8: Actuals vs. Bloomberg consensus estimates

Rs m	2QFY23A	2QFY23C	Var (%)
Revenue	39,692	40,212	(1.3)
EBITDA	2,319	2,644	(12.3)
EBITDA margin (%)	5.8	6.6	-73 bp
Adj. PAT	1,502	1,681	(10.7)

SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 9: Change in our estimates

	New estimates			Old estimates			Change (%)		
	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F
Revenue	1,43,223	1,67,991	2,00,524	1,38,525	1,68,819	NA	3.4	-0.5	NA
EBITDA	10,269	13,893	16,984	10,397	14,359	NA	-1.2	-3.2	NA
Adjusted consol. PAT	6,756	9,323	11,848	6,699	9,570	NA	0.9	-2.6	NA
EPS	24.4	33.7	42.8	24.3	34.7	NA	0.5	-2.9	NA
EBITDA margin (%)	7.2	8.3	8.5	7.5	8.5	NA	-34 bp	-24 bp	NA

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 10: P/E standard deviation (five-year mean P/E)

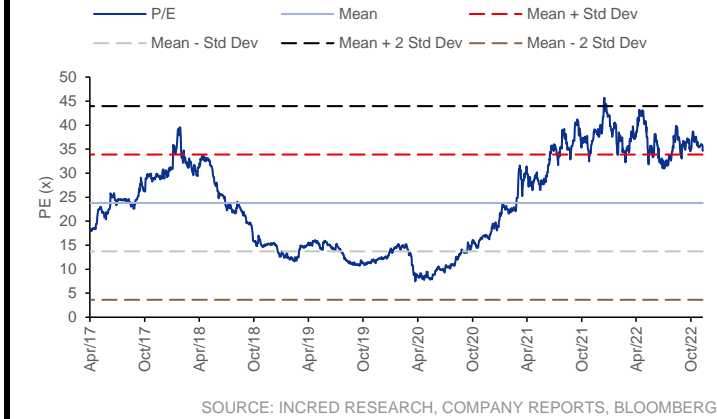
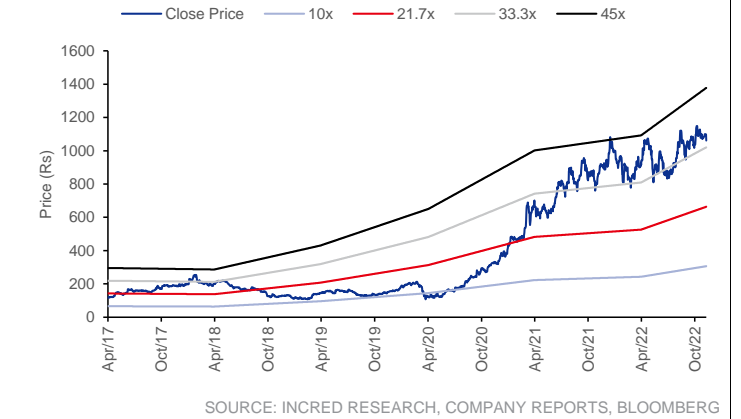
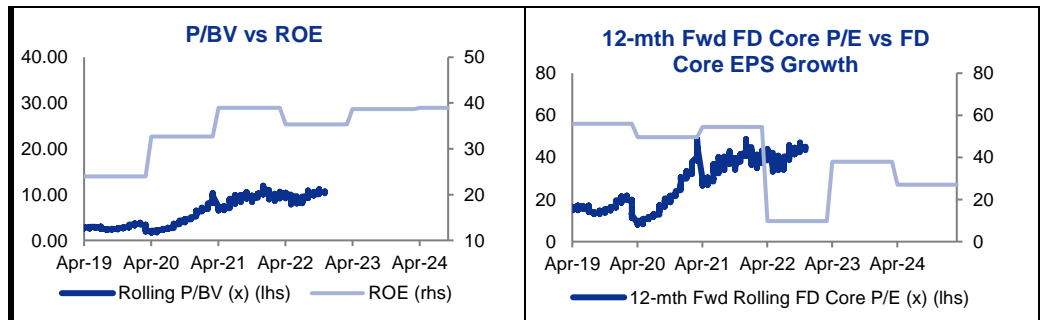


Figure 11: P/E band (one-year forward EPS)



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	84,998	130,631	143,223	167,991	200,524
Gross Profit	13,349	18,400	21,125	26,375	31,081
Operating EBITDA	6,787	9,451	10,269	13,893	16,984
Depreciation And Amortisation	(1,028)	(1,090)	(1,233)	(1,661)	(1,828)
Operating EBIT	5,759	8,361	9,036	12,232	15,156
Financial Income/(Expense)	(454)	(287)	(253)	(48)	408
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	152	248	250	263	276
Profit Before Tax (pre-EI)	5,458	8,321	9,032	12,447	15,840
Exceptional Items					
Pre-tax Profit	5,458	8,321	9,032	12,447	15,840
Taxation	(1,381)	(2,133)	(2,276)	(3,124)	(3,992)
Exceptional Income - post-tax					
Profit After Tax	4,077	6,188	6,756	9,323	11,848
Minority Interests	(475)	(617)			
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	3,602	5,571	6,756	9,323	11,848
Recurring Net Profit	3,602	5,571	6,756	9,323	11,848
Fully Diluted Recurring Net Profit	3,602	5,571	6,756	9,323	11,848

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	6,787	9,451	10,269	13,893	16,984
Cash Flow from Invt. & Assoc.					
Change In Working Capital	4,120	(1,154)	(335)	(493)	(647)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(395)	(74)	(2,004)	215	684
Net Interest (Paid)/Received	454	287	253	48	(408)
Tax Paid	(1,195)	(1,993)	(2,276)	(3,124)	(3,992)
Cashflow From Operations	9,771	6,517	5,908	10,539	12,621
Capex	(2,869)	(5,967)	(4,850)	(2,368)	(2,486)
Disposals Of FAs/subsidiaries	(72)	98			
Acq. Of Subsidiaries/investments	(3,711)	421	(2,500)	(5,000)	(5,000)
Other Investing Cashflow	183	147	275	429	622
Cash Flow From Investing	(6,469)	(5,301)	(7,075)	(6,939)	(6,864)
Debt Raised/(repaid)	(3,111)	603	3,500	(5,000)	(2,500)
Proceeds From Issue Of Shares	154	70	53		
Shares Repurchased					
Dividends Paid			(968)	(1,937)	(2,213)
Preferred Dividends					
Other Financing Cashflow	(623)	(407)	(529)	(476)	(214)
Cash Flow From Financing	(3,580)	266	2,056	(7,413)	(4,927)
Total Cash Generated	(278)	1,482	889	(3,813)	830
Free Cashflow To Equity	191	1,819	2,333	(1,400)	3,257
Free Cashflow To Firm	2,641	772	(1,695)	3,123	5,543

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	3,579	3,814	7,203	8,390	14,220
Total Debtors	1,306	3,417	2,354	2,761	3,296
Inventories	7,599	8,472	11,772	13,807	16,481
Total Other Current Assets	1,507	2,567	1,976	2,318	2,767
Total Current Assets	13,991	18,270	23,305	27,277	36,765
Fixed Assets	15,032	16,046	22,699	25,306	25,964
Total Investments	15	863	863	863	863
Intangible Assets	1,375	1,375	1,375	1,375	1,375
Total Other Non-Current Assets	3,576	7,964	4,923	3,023	3,023
Total Non-current Assets	19,998	26,247	29,860	30,566	31,224
Short-term Debt	2,580	2,334	3,741	1,731	726
Current Portion of Long-Term Debt					
Total Creditors	7,859	10,595	11,772	13,807	16,481
Other Current Liabilities	1,344	1,352	1,482	1,738	2,075
Total Current Liabilities	11,783	14,280	16,995	17,277	19,282
Total Long-term Debt	1,835	3,472	5,565	2,575	1,080
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	930	938	938	938	938
Total Non-current Liabilities	2,765	4,410	6,503	3,513	2,018
Total Provisions	1,112	1,187	1,187	1,187	1,187
Total Liabilities	15,659	19,877	24,685	21,977	22,487
Shareholders Equity	16,947	22,640	28,480	35,867	45,502
Minority Interests	1,383	2,000			
Total Equity	18,330	24,640	28,480	35,867	45,502

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	10.1%	53.7%	9.6%	17.3%	19.4%
Operating EBITDA Growth	42.2%	39.2%	8.7%	35.3%	22.3%
Operating EBITDA Margin	8.0%	7.2%	7.2%	8.3%	8.5%
Net Cash Per Share (Rs)	(3.34)	(7.96)	(7.60)	14.76	44.87
BVPS (Rs)	67.78	90.45	102.95	129.64	164.47
Gross Interest Cover	8.71	18.80	17.08	25.68	70.86
Effective Tax Rate	25.3%	25.6%	25.2%	25.1%	25.2%
Net Dividend Payout Ratio		11.4%	10.7%	15.6%	14.0%
Accounts Receivables Days	13.03	6.60	7.35	5.56	5.51
Inventory Days	39.33	26.13	30.26	32.96	32.62
Accounts Payables Days	39.49	30.01	33.43	32.96	32.62
ROIC (%)	23.8%	39.5%	32.4%	38.4%	45.9%
ROCE (%)	25.0%	30.7%	26.4%	31.5%	35.1%
Return On Average Assets	17.7%	21.9%	19.0%	22.5%	24.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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