

India

ADD (no change)

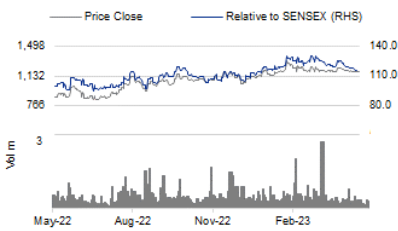
Consensus ratings*: Buy 17 Hold 1 Sell 3

Current price:	Rs1,180
Target price: ▲	Rs1,611
Previous target:	Rs1,360
Up/downside:	36.5%
InCred Research / Consensus:	21.8%
Reuters:	
Bloomberg:	APAT IN
Market cap:	US\$4,506m Rs327,181m
Average daily turnover:	US\$7.8m Rs569.5m
Current shares o/s:	277.3m
Free float:	68.8%

*Source: Bloomberg

Key changes in this note

- FY24F/25F revenue cut by 4.6%/5%.
- FY24F/25F EBITDA cut by 4.4%/6.5%.
- FY24F/25F PAT cut by 7.2%/9%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(0.9)	(4.2)	35.5
Relative (%)	(3.4)	(5.4)	15.3

Major shareholders	% held
Promoters	31.2
Kitara Fund	6.7
Smallcap World Fund	5.7

Analyst(s)



Rahul AGARWAL

T (91) 22 4161 1553
E rahul.agarwal@incredcapital.com

Harshit SARAWAGI

T (91) 22 4161 0000
E harshit.sarawagi@incredcapital.com

APL Apollo Tubes

In-line 4QFY23, but a solid FY24F likely

- APL's 4Q was in line with our/Bloomberg consensus estimates. Sales volume/EBITDA/PAT grew 30%/8%/4% yoy. FY23 EBITDA/t was at Rs4,450.
- Raipur plant ramp-up is on track. Management maintained its sales volume guidance of 3mt/4mt/5mt for FY24F/25F/26F, respectively.
- We expect a solid FY24F with sales volume growth of 20%+ and EBITDA/t of ~Rs5k led by a better sales mix. Retain ADD rating with a higher TP of Rs1,611.

Volatile FY23 ends on a strong note; 4Q results largely in line

APL Apollo Tubes' (APL) revenue/EBITDA/PAT were at Rs44.3bn/Rs3.2bn/Rs2bn, +5%/+21%/+24% yoy, respectively, in 4QFY23, largely in line with our/Bloomberg consensus estimates. Sales volume stood at 650kt, +17% yoy, in 4Q and at 2.3mt, +30% yoy, in FY23. EBITDA/t stood at Rs4,970, +3% yoy, in 4Q and at Rs4,450, down 17% yoy, in FY23. Value-added product (VAP) sales stood at 350kt, +6.5% yoy, 54% of sales in 4Q. For FY23, VAP sales stood at 1.3mt, +15% yoy, 56% of sales. Consol. EBITDA was at Rs3.2bn, +21% yoy, while PAT was at Rs2bn, +24% yoy, in 4Q. As global steel demand-supply normalized post Covid-19 pandemic, HRC prices turned volatile with sharp moves (~40% range between peak and lows) in FY23. Average HRC price stood at Rs60k/t in FY23 while it was at Rs59k/t in 4Q. Net working capital (WC) days stood at 11 days of TTM sales at end-Mar 2023 with marginally higher inventory days at 34 days of TTM sales due to Raipur plant output ramp-up in Mar 2023. Net debt was at Rs5.2bn (Mar 2023). APL's board recommended dividend payout that rose to 22% of PAT, at Rs5/share, for FY23.

Management targets a 30% sales volume CAGR over FY23-26F

APL's management maintained its sales volume target of 5mt (implies a 30% CAGR) for FY26F, well supported by production ramp-up at Raipur plant (FY26F: 1.3-1.4mt), new capacities in East India and Dubai, and brownfield expansions at its existing plants in India. The total capex needed to touch 5mt of capacity, from 3.6mt currently, is estimated at Rs5-6bn which will be fully funded via internal accruals. VAP revenue share is expected to increase gradually with an eventual target of 75% of total sales volume over the next three years. EBITDA/t target is maintained between Rs6-6.5k/t over this period. We expect FY25F EBITDA of Rs18.5bn, implying a CAGR of 34.5% over FY23-25F.

Change in our estimates, valuation and risks

We cut our revenues estimates by 4%-5%. Our EBITDA and PAT estimates have been cut by 4%-9% due to a change in our assumptions. We expect a revenue CAGR of 17% over FY23-25F and EBITDA/PAT CAGR of 34.5% and 39%, respectively, over FY23-25F. Market leadership, higher margins led by sales mix, strict working capital management, net-cash balance sheet by Sep 2025F, improving return ratios and cumulative FCF of Rs19bn over FY23-25F are key positives. We retain our ADD rating on the stock with a higher target price of Rs1,611 (Rs1,360 earlier) based on a P/E of 36x (mean+1SD) rolled-forward FY25F EPS. Downside risk: Volatile input prices.

Financial Summary







	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	84,998	130,631	161,660	189,355	221,190
Operating EBITDA (Rsm)	6,787	9,451	10,216	13,823	18,469
Net Profit (Rsm)	3,602	5,571	6,419	8,756	12,409
Core EPS (Rs)	14.4	22.3	23.1	31.6	44.7
Core EPS Growth	49.5%	54.5%	4.0%	36.4%	41.7%
FD Core P/E (x)	81.90	53.01	50.97	37.37	26.37
DPS (Rs)	0.0	3.5	5.0	7.0	14.0
Dividend Yield	0.00%	0.30%	0.42%	0.59%	1.19%
EV/EBITDA (x)	43.79	31.67	32.54	23.65	17.34
P/FCFE (x)	1,534.19	162.27	297.81	106.70	82.90
Net Gearing	4.6%	8.1%	17.3%	(0.6%)	(15.4%)
P/BV (x)	17.41	13.04	10.89	8.87	7.21
ROE	23.6%	28.1%	24.4%	26.2%	30.2%
% Change In Core EPS Estimates				(7.22%)	(8.96%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

4QFY23 earnings-call highlights

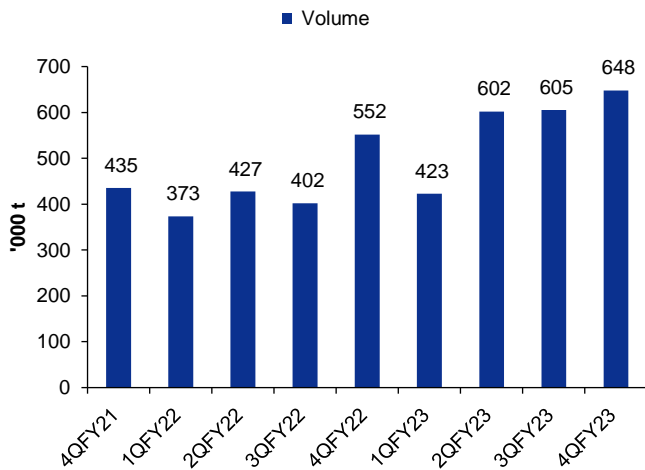
- **Growth and margin guidance:** Management gave sales volume guidance of 2.8-3mt/4mt/5mt for FY24F/25F/26F, respectively. It targets EBITDA/t of Rs5,500-6,000 by FY26F. VAP revenue share is estimated to touch 75% of total sales over the next three years from 60% currently.
- **New product market development:** APL has launched colour-coated roofing and wall cladding products and colour-coated tubes. The company has submitted steel tube designs to EPC contractors handling railway station redevelopment projects in Mumbai, Delhi and Ahmedabad. APL has also launched 500*500mm higher diameter tubes for the first time in India, manufactured by its Raipur plant.
- **HRC prices:** Since Apr 2023, hot rolled coil or HRC prices have started declining. Management is of the view that HRC prices will be range-bound and will not result in inventory gains/losses in FY24F, similar to FY23.
- **Shankara tie-up update:** The partnership with Shankara Building Products (large sales channel partner in South India) has yielded strong results with the sales volume through Shankara’s retail stores growing by 180% yoy in FY23. The company is gaining a meaningful market share in South India due to the marketing exclusivity with Shankar Building Products.
- **Raipur plant update:** The plant started commercial operations in 1QFY23. The sales volume stood at 73kt in 4Q and 137kt in FY23, at an EBITDA/t of Rs4-4.5k in FY23. APL expects to achieve 50-60% capacity utilization in FY24F.
- **Capex:** APL targets total manufacturing capacity of 5mt by FY25F. The total capex spending needed to touch 5mt of capacity is estimated at Rs5-6bn over the next 18 months. Greenfield and brownfield expansions are planned at Dubai (greenfield, 300kt), Kolkata (greenfield, 200kt), Raipur (brownfield, 300-400kt) and brownfield at existing plant locations of 300-400kt.
- **Working capital cycle and debt:** The net working capital cycle stood at 11 days of TTM sales as compared to 7 days yoy. Gross debt was at Rs8.8bn at the end of Mar 2023 as compared to Rs5.8bn yoy. FY23 OCF was negative at Rs1.5bn in FY23.
- **Dividend:** APL’s board has recommended a dividend of Rs5/share (20%+ payout) for FY23.

Figure 1: New product pipeline of Raipur plant

World's 1st thicker color coated products		Superior corrosion resistant, high load bearing with aesthetics
World's 1st Color coated structural steel tubes		Superior corrosion resistant with aesthetics
India's 1st 500x500mm dia structural steel tubes		Replacing RCC structures/columns in heavy construction
India's 1st and World's 2nd 1,000x1,000mm		
India's 1st CRCA Black annealed tube		High tensile light structural application; bendable; superior rust proof properties
India's 1st AluZinc tubes		Superior rust proof properties and better life

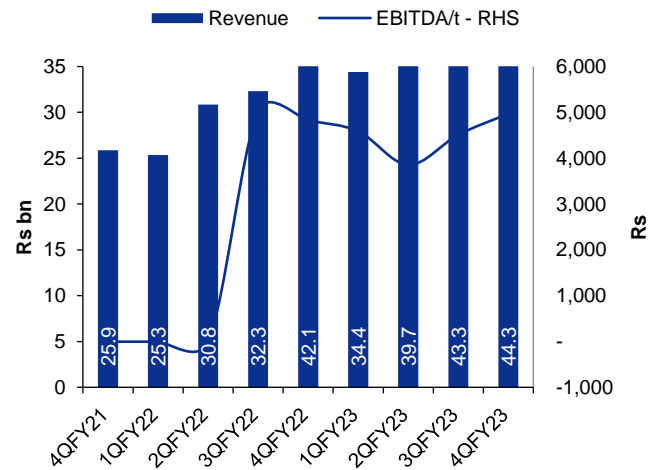
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Quarterly volume trend



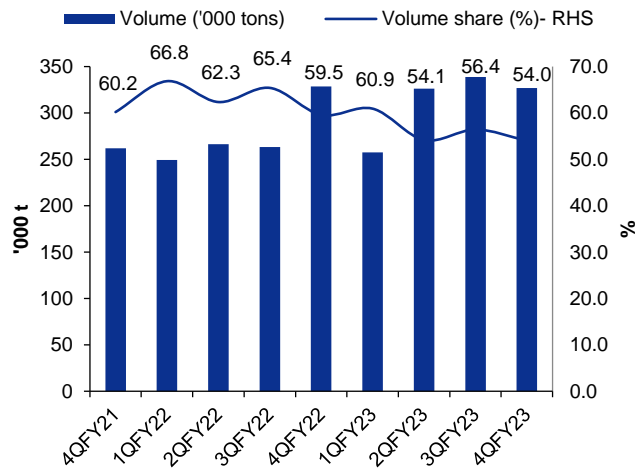
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Quarterly revenue and EBITDA/t



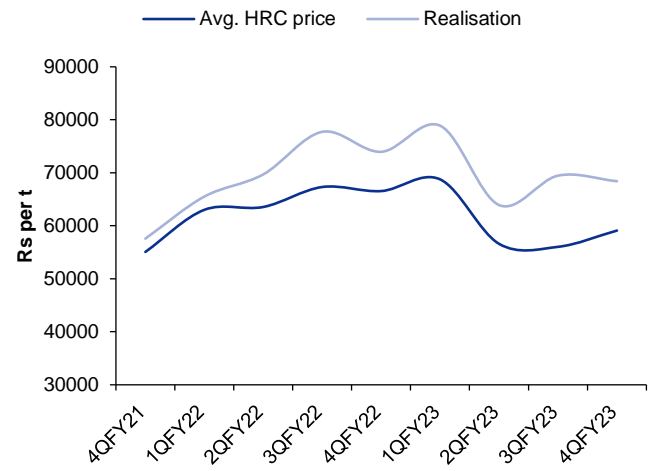
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Value-added products



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: HRC prices and realization trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: 4QFY23 results snapshot

YE Mar (Rs m)	4QFY23	4QFY22	yoy (%)	3QFY23	qoq (%)
Revenue	44,311	42,146	5.1	43,271	2.4
EBITDA	3,229	2,659	21.4	2,729	18.3
EBITDA margin (%)	7.3	6.3	98 bps	6.3	98 bps
Adj. PAT	2,018	1,628	23.9	1,692	19.3
Diluted EPS (Rs)	7.3	6.5		6.1	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: 4QFY23 sales volume and mix snapshot

Sales volume ('000 t)	4QFY23	4QFY22	yoy (%)	3QFY23	qoq (%)
Apollo structure (hollow sections)					
- Heavy	39	40	(2.8)	46	(16.0)
- Super heavy section	2	-	NA	-	NA
- Light	108	96	12.5	132	(17.9)
- General	299	223	34.0	264	13.3
Sub-total	448	359	24.7	442	1.4
Apollo Z (GP - pre galvanised)					
- Rust-proof structure	163	166	(2.0)	125	30.0
- Coated Products	10	0	NA	10	(1.0)
Apollo Galvanised	27	26	4.5	28	(2.5)
Total	648	552	17.4	605	7.1
Volume mix (%)					
Apollo structure (hollow sections)					
- Heavy	6.0	7.3	-125 bp	7.7	-166 bp
- Super heavy section	0.3	0.0	31 bp	0.0	31 bp
- Light	16.7	17.4	-73 bp	21.7	-507 bp
- General	46.1	40.4	570 bp	43.6	252 bp
Sub-total	69.1	65.1	403 bp	73.0	-390 bp
Apollo Z (GP - pre galvanised)					
- Rust-proof structure	25.2	30.1	-499 bp	20.7	444 bp
- Coated Products	1.5	0.1	147 bp	1.7	-13 bp
Apollo Galvanised	4.2	4.7	-52 bp	4.6	-41 bp
Total	100.0	100.0		100.0	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: EBITDA/t

	4QFY23	4QFY22	yoy (%)	3QFY23	qoq (%)
Apollo structure (hollow sections)					
- Heavy	8,437	7,835	7.7	7,568	11.5
- Light	6,256	5,852	6.9	5,580	12.1
- General	2,612	1,955	33.6	2,284	14.4
Sub-total					
Apollo Z (GP - pre galvanised)					
- Rust-proof structure	7,327	7,134	2.7	7,492	(2.2)
Apollo Galvanised	6,780	5,040	34.5	5,659	19.8
Total	4,970	4,823	3.0	4,510	10.2

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Actuals vs. our estimates

Rs m	4QFY23A	4QFY23F	Var (%)
Revenue	44,311	47,630	(7.0)
EBITDA	3,229	3,143	2.7
EBITDA margin (%)	7.3	6.6	69 bp
Adj. PAT	2,018	1,950	3.5

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 10: Actuals vs Bloomberg consensus estimates

Rs m	4QFY23A	4QFY23C	Var (%)
Revenue	44,311	45,736	(3.1)
EBITDA	3,229	3,150	2.5
EBITDA margin (%)	7.3	6.9	40 bp
Adj. PAT	2,018	2,103	(4.0)

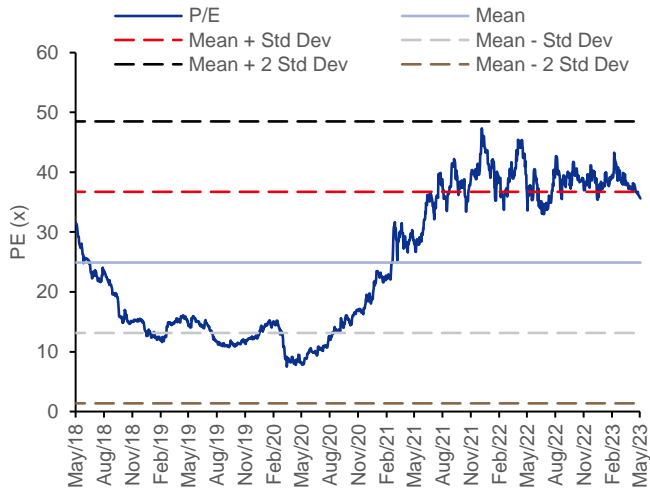
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 11: Change in our earnings estimates

	New estimates		Old estimates		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	1,89,355	2,21,190	1,98,424	2,32,710	-4.6	-5.0
EBITDA	13,823	18,469	14,465	19,757	-4.4	-6.5
Adjusted consol. PAT	8,756	12,409	9,437	13,631	-7.2	-9.0
EPS	31.6	44.7	34.0	49.1	-7.2	-9.0
EBITDA margin (%)	7.3	8.4	7.3	8.5	1 bp	-14 bp

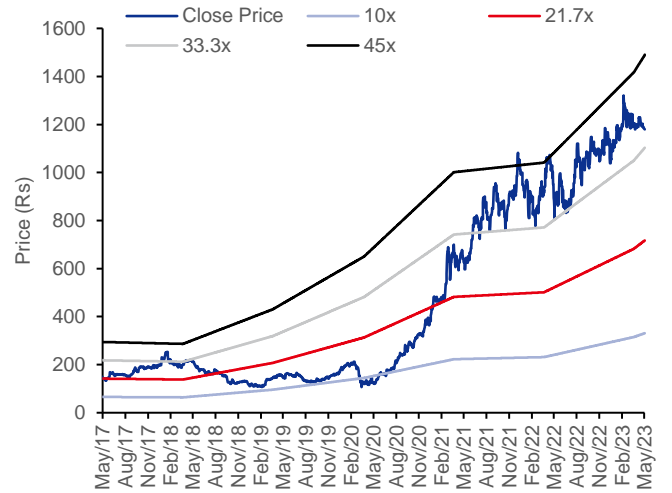
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 12: P/E standard deviation (five-year mean P/E)



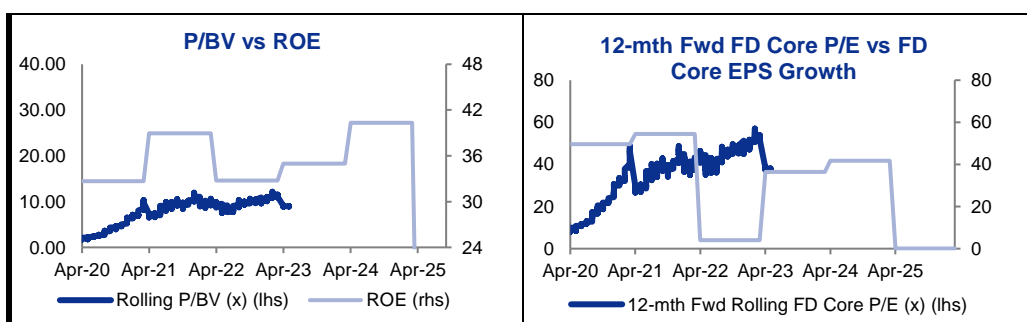
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 13: P/E band (one-year forward EPS)



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Net Revenues	84,998	130,631	161,660	189,355	221,190
Gross Profit	13,349	18,400	21,482	26,888	33,179
Operating EBITDA	6,787	9,451	10,216	13,823	18,469
Depreciation And Amortisation	(1,028)	(1,090)	(1,383)	(1,765)	(1,999)
Operating EBIT	5,759	8,361	8,832	12,058	16,470
Financial Income/(Expense)	(454)	(287)	(612)	(508)	(45)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	152	248	413	150	158
Profit Before Tax (pre-EI)	5,458	8,321	8,633	11,700	16,583
Exceptional Items					
Pre-tax Profit	5,458	8,321	8,633	11,700	16,583
Taxation	(1,381)	(2,133)	(2,215)	(2,945)	(4,174)
Exceptional Income - post-tax					
Profit After Tax	4,077	6,188	6,419	8,756	12,409
Minority Interests	(475)	(617)			
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	3,602	5,571	6,419	8,756	12,409
Recurring Net Profit	3,602	5,571	6,419	8,756	12,409
Fully Diluted Recurring Net Profit	3,602	5,571	6,419	8,756	12,409

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	6,787	9,451	10,216	13,823	18,469
Cash Flow from Invt. & Assoc.					
Change In Working Capital	4,120	(1,154)	(1,475)	(301)	(875)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(395)	(74)	(126)	(358)	113
Net Interest (Paid)/Received	454	287	447	508	45
Tax Paid	(1,195)	(1,993)	(2,161)	(2,945)	(4,174)
Cashflow From Operations	9,771	6,517	6,901	10,727	13,579
Capex	(2,869)	(5,967)	(8,621)	(2,850)	(2,905)
Disposals Of FAs/subsidiaries	(72)	98	197		
Acq. Of Subsidiaries/investments	(3,711)	421	(393)	(2,000)	(2,000)
Other Investing Cashflow	183	147	59	190	273
Cash Flow From Investing	(6,469)	(5,301)	(8,757)	(4,660)	(4,632)
Debt Raised/(repaid)	(3,111)	603	2,902	(3,000)	(5,000)
Proceeds From Issue Of Shares	154	70	27		
Shares Repurchased					
Dividends Paid			(875)	(1,941)	(3,883)
Preferred Dividends					
Other Financing Cashflow	(623)	(407)	(602)	(697)	(318)
Cash Flow From Financing	(3,580)	266	1,452	(5,639)	(9,201)
Total Cash Generated	(278)	1,482	(405)	428	(254)
Free Cashflow To Equity	191	1,819	1,045	3,066	3,947
Free Cashflow To Firm	2,641	772	(2,528)	5,369	8,629

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Cash And Equivalents	3,579	3,814	3,525	5,952	7,698
Total Debtors	1,306	3,417	1,374	2,594	3,030
Inventories	7,599	8,472	14,799	15,563	18,180
Total Other Current Assets	1,507	2,567	5,880	6,241	7,290
Total Current Assets	13,991	18,270	25,577	30,351	36,199
Fixed Assets	15,032	16,046	23,505	27,330	28,935
Total Investments	15	863	960	960	960
Intangible Assets	1,375	1,375	1,375	1,375	1,375
Total Other Non-Current Assets	3,576	7,964	7,098	4,356	3,656
Total Non-current Assets	19,998	26,247	32,939	34,021	34,926
Short-term Debt	2,580	2,334	4,648	3,051	388
Current Portion of Long-Term Debt					
Total Creditors	7,859	10,595	15,970	18,157	21,210
Other Current Liabilities	1,344	1,352	1,184	1,038	1,212
Total Current Liabilities	11,783	14,280	21,801	22,245	22,810
Total Long-term Debt	1,835	3,472	4,081	2,679	341
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	930	938	1,406	1,406	1,406
Total Non-current Liabilities	2,765	4,410	5,487	4,085	1,747
Total Provisions	1,112	1,187	1,171	1,171	1,171
Total Liabilities	15,659	19,877	28,460	27,501	25,729
Shareholders Equity	16,947	22,640	30,056	36,870	45,397
Minority Interests	1,383	2,000			
Total Equity	18,330	24,640	30,056	36,870	45,397

Key Ratios					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	10.1%	53.7%	23.8%	17.1%	16.8%
Operating EBITDA Growth	42.2%	39.2%	8.1%	35.3%	33.6%
Operating EBITDA Margin	8.0%	7.2%	6.3%	7.3%	8.3%
Net Cash Per Share (Rs)	(3.34)	(7.96)	(18.77)	0.80	25.13
BVPS (Rs)	67.78	90.45	108.38	132.95	163.69
Gross Interest Cover	8.71	18.80	13.16	17.29	51.82
Effective Tax Rate	25.3%	25.6%	25.7%	25.2%	25.2%
Net Dividend Payout Ratio		11.4%	16.1%	16.6%	23.4%
Accounts Receivables Days	13.03	6.60	5.41	3.82	4.64
Inventory Days	39.33	26.13	30.30	34.11	32.75
Accounts Payables Days	39.49	30.01	34.58	38.34	38.21
ROIC (%)	23.8%	39.5%	31.7%	32.7%	43.0%
ROCE (%)	25.0%	30.7%	24.8%	29.3%	36.8%
Return On Average Assets	17.7%	21.9%	17.9%	19.9%	24.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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