

India

August 08, 2023 - 12:24 AM

ADD (no change)

Consensus ratings*: Buy 15 Hold 3 Sell 1

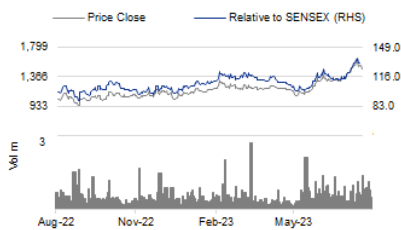
Current price:	Rs1,477
Target price:	Rs1,611
Previous target:	Rs1,611
Up/downside:	9.1%
InCred Research / Consensus:	13.9%

Reuters:	
Bloomberg:	APAT IN
Market cap:	US\$5,642m
	Rs740,701m
Average daily turnover:	US\$10.2m
	Rs740.3m
Current shares o/s:	277.3m
Free float:	68.8%

*Source: Bloomberg

Key financial forecast

	Mar-24F	Mar-25F
Net Profit (Rsm)	8,756	12,409
Core EPS (Rs)	31.57	44.74
Core EPS Growth	36.4%	41.7%
FD Core P/E	46.79	33.02
Recurring ROE	26.2%	30.2%
P/BV (x)	11.11	9.02
DPS (Rs)	7.00	14.00
Dividend Yield	0.47%	0.95%



SOURCE: BLOOMBERG

Price performance	1M	3M	12M
Absolute (%)	12.1	24.2	43.5
Relative (%)	11.0	16.3	28.0

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

Margins need to be better; retain estimates

- APL missed our EBITDA/PAT estimates by 7-10%. Input prices were volatile that led the gross profit to decline to Rs9,436/t, down 11% yoy and 6% qoq.
- Jul-Aug 2023 was better & management retained its sales volume & EBITDA margin guidance for FY24F-26F. Raipur unit's EBITDA: Rs30m in 1Q.
- Retain estimates, TP and ADD rating. Risks: Sudden input price fluctuations.

Input price volatility hits 1Q margins; Raipur unit ramp-up on track

- APL Apollo Tubes' (APL) hot-rolled coil (HRC) steel prices were volatile in 1QFY24 and varied between +/- 5 to 10% qoq. The time lag to change selling prices led to a lower-than-expected gross profit/t of Rs9,436, down 11% yoy and 6% qoq.
- EBITDA/t declined to Rs4,645, up 1.3% yoy but down 7% qoq.
- Sales volume stood at 661.5kt, +57% yoy and +2% qoq. This was in line with management's guidance regarding sales volume of 1.3-1.4mt for 1HFY24F. Raipur unit's sales volume stood at 75kt, +4% qoq, & at 11.3% of total sales volume in 1QFY24.
- Consolidated finance cost and other income (export incentives, treasury income) stood at 2.6x yoy, much above our estimate. APL's management explained that Raipur project SPV (100% subsidiary) had drawn down project debt while other subsidiaries had surplus cash. High interest income and outflow to continue till the Raipur SPV starts debt repayment.

Jul-Aug 2023 has been better; management retains its guidance

- Jul 2023 sales volume stood at 200kt. Input prices stabilized, demand revived and the channel inventory was lower than normal. Management expects a sales volume of 650kt in 2QFY24F.
- APL's management retained its sales volume guidance of 2.8-3mt, 3.5-4mt and 4.6-5mt for FY24, FY25, and FY26F, respectively. EBITDA/t is expected to improve to Rs5-5.5k in FY26F. This implies FY26F EBITDA of Rs25bn vs. ~Rs14bn in FY24F.
- Raipur SPV's break-even at the EBITDA level was achieved in 1Q. This implies EBITDA/t of Rs5.7k based on sales volume from the remaining plants.

Raipur plant update

- Plants manufacturing higher diameter and higher thickness tubes with a capacity of 300kt & coloured and galvanized tubes of 300kt capacity are fully operational.
- Narrow cold rolled and flat coated products with a capacity of 400kt will be operational by Aug 2023F.
- APL plans to add capacity of 300kt and the total saleable capacity is expected to be at 1.3mt by Mar 2024F.
- At 80-90% capacity utilization, management expects EBITDA/t of Rs6-7k by FY26F.
- The Chhattisgarh government has approved incentives to the tune of Rs5bn against Phase-I capex of Rs8.4bn, largely in the form of refund of 75% of the state Goods and Services Tax or GST paid on sales within Chhattisgarh from the plant. This implies ~Rs500m/year of state grant receivables over the next 10 years to APL.
- As regards the Phase-II capex plan of ~Rs4bn, the company has applied to avail an additional Rs5bn of state incentives that is under approval.
- The total sales volume is estimated at 500kt (1Q: 75kt) for FY24F.

Other relevant updates

- Mr. Ameet Kumar Gupta, independent director, resigned, effective from 5 Aug 2023, citing increased commitments elsewhere. He is currently an executive director at Havells India.
- Gross debt and gross cash including liquid investments stood at ~Rs9.5bn and ~Rs6.5bn (fixed deposits) at the end of Jun 2023. Net debt stood at Rs2.8bn.
- Consolidated net working capital days were steady qoq at six days of annualized sales.
- APL plans greenfield capacity addition of 0.5mt and brownfield expansion of 0.9mt to achieve a total saleable capacity of 5mt by the end of Jun 2024F.

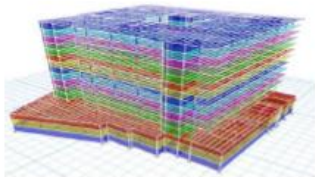
Figure 1: Ongoing project sites



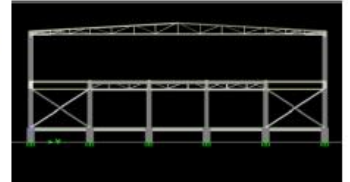
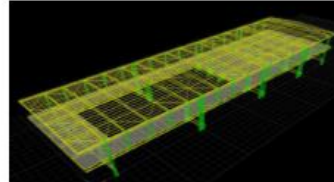
Housing-Delhi



University Campus- Telangana



Hospital- Mumbai



Railway Station – Andhra Pradesh



University, Delhi NCR



Water Tank, Uttar Pradesh

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Product application

- High Rise Buildings
 - Hospitals, Housing, Schools, Courts, Hotels/Malls/Offices
- Warehouses/Cold Storage/Food Parks
- Factory Buildings/Process Structures
- Aviation Hangers
- Data Centres

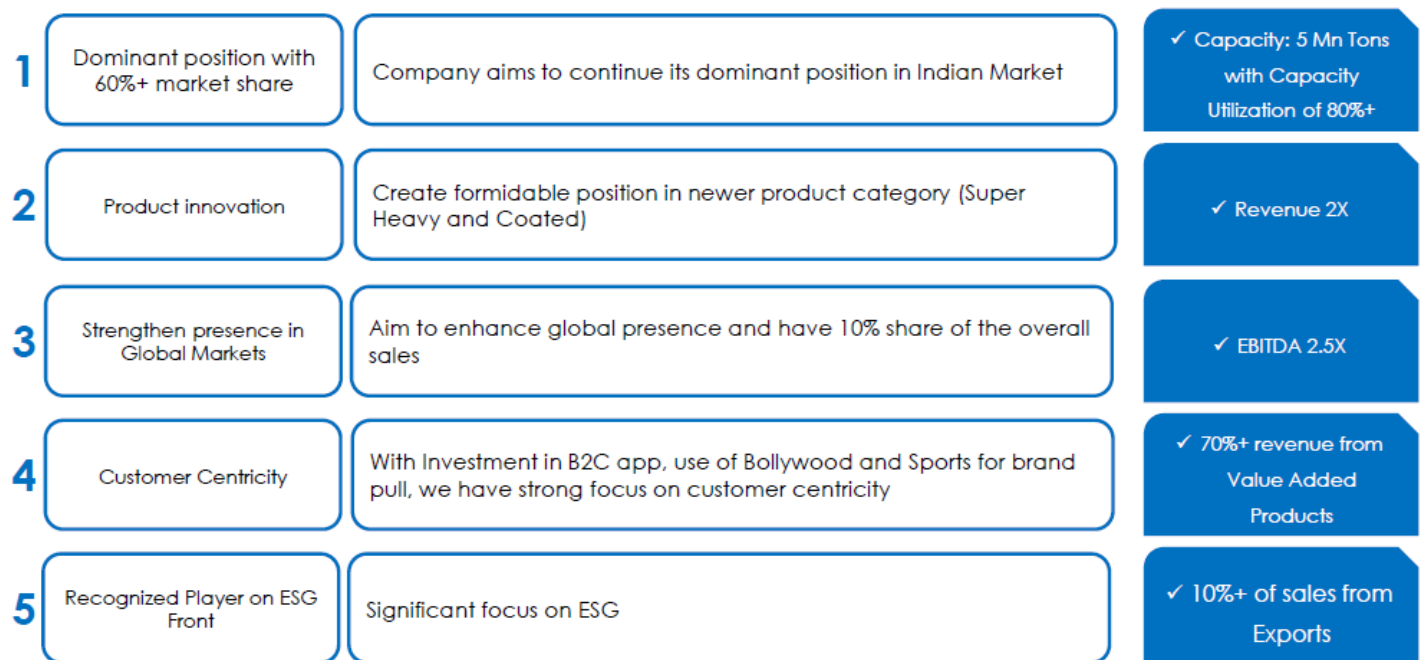
45 projects	42mn sq. ft. Visibility	220,000 ton heavy structural steel tubes
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Ongoing enquiries



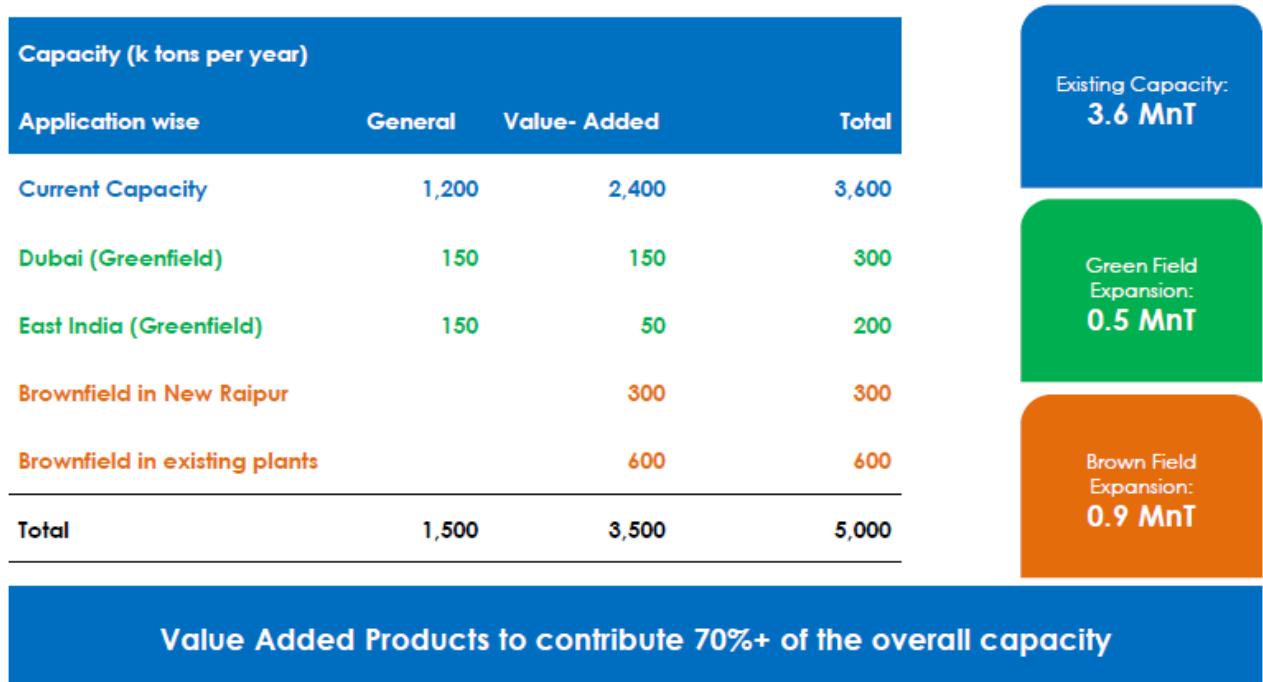
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Vision 2025 document



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Capacity and geographic expansion



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Manufacturing facilities

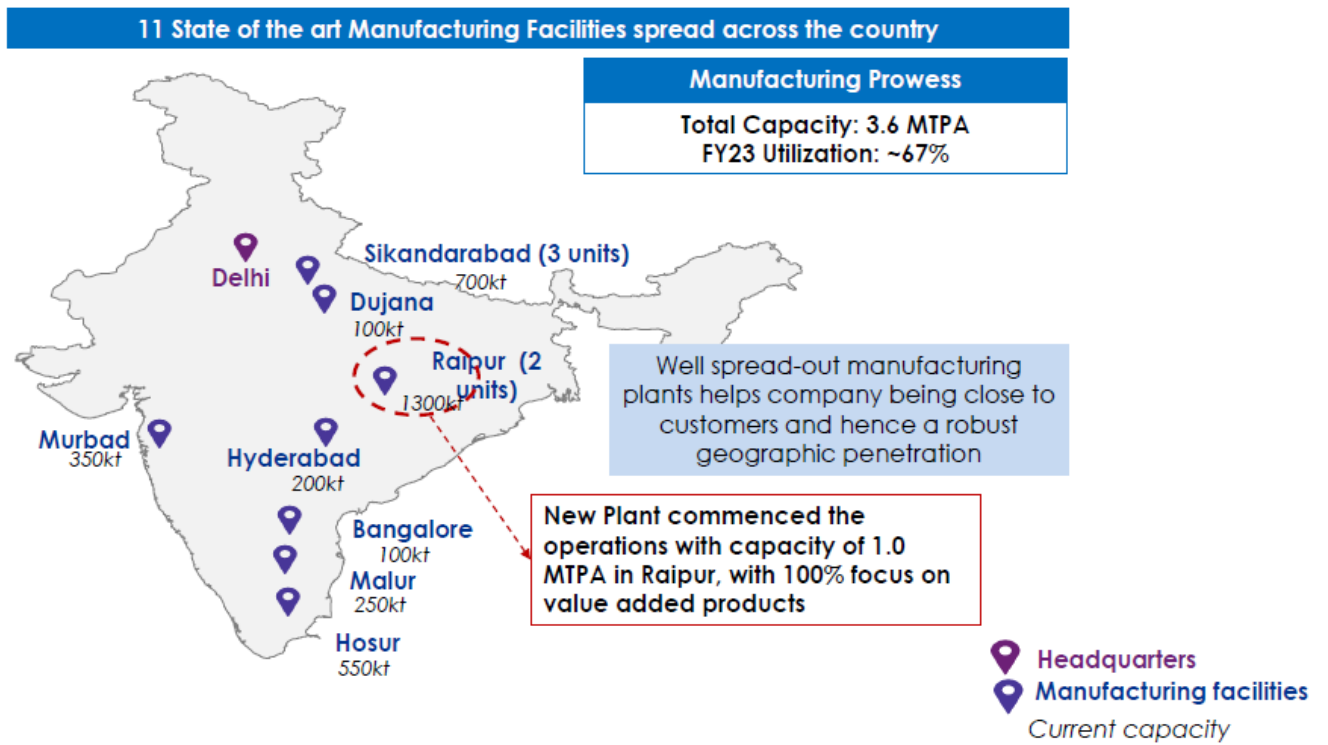


Figure 6: Quarterly volume trend

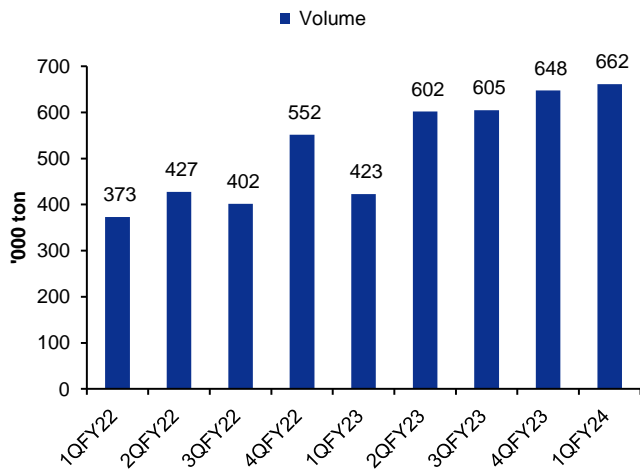


Figure 7: Quarterly revenue and EBITDA/t

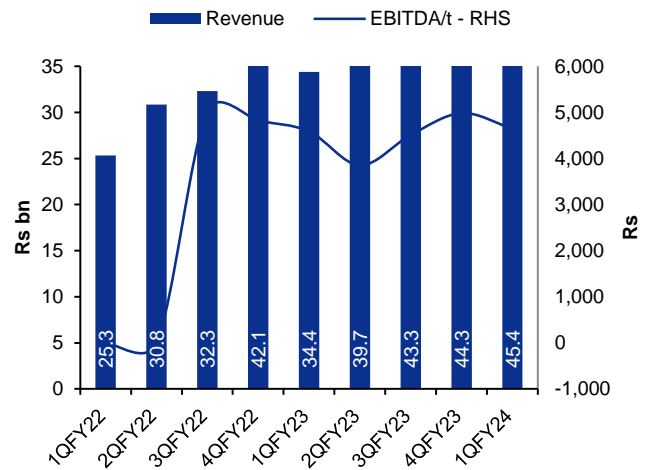
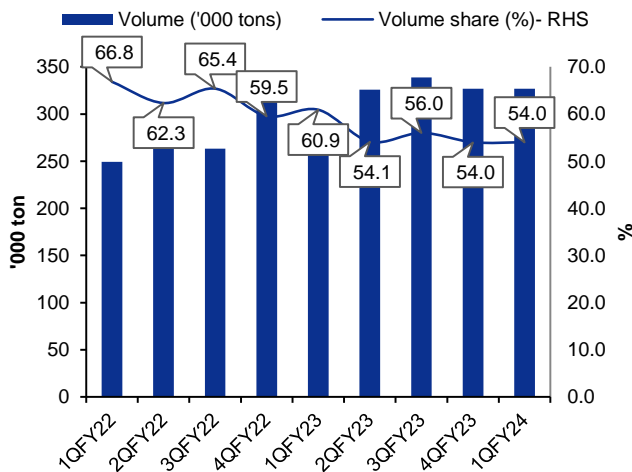
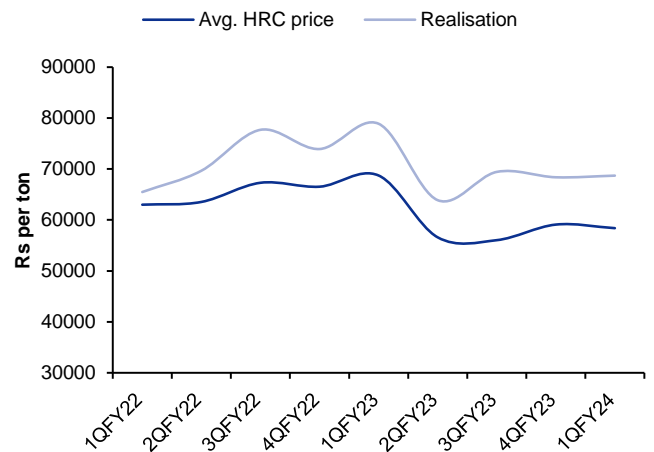


Figure 8: Value-added products



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: HRC prices and realization trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: 1QFY24 results snapshot

YE Mar (Rs m)	1QFY24	1QFY23	yoy (%)	4QFY23	qoq (%)
Revenue	45,449	34,386	32.2	44,311	2.6
EBITDA	3,072	1,939	58.4	3,229	(4.8)
EBITDA margin (%)	6.8	5.6	112 bp	7.3	-53 bp
Adj. PAT	1,936	1,071	80.8	2,018	(4.1)
Diluted EPS (Rs)	7.0	4.3		7.3	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: 1QFY24 sales volume and mix snapshot

Sales volume ('000 tonne)	1QFY24	1QFY23	yoy (%)	4QFY23	qoq (%)
Apollo structure (hollow section)					
- Heavy	45	33	36.5	39	15.4
- Super-heavy section	4	NA	NA	2	120.6
- Light	111	59	88.7	108	2.5
- General	282	165	70.5	299	(5.8)
Sub-total	442	257	72.0	448	(1.4)
Apollo Z (GP – pre-galvanized)					
- Rust-proof structure	170	141	20.5	163	4.1
- Coated products	19	7	160.6	10	94.5
Apollo galvanized	30	18	73.7	27	12.9
Total	662	423	56.5	648	2.1
Volume mix (%)					
Apollo structure (hollow sections)					
- Heavy	6.8	7.8	-100 bp	6.0	79 bp
- Super heavy section	0.7	0.0	67 bp	0.3	36 bp
- Light	16.7	13.9	286 bp	16.7	8 bp
- General	42.6	39.1	350 bp	46.1	-355 bp
Sub-total	66.8	60.8	603 bp	69.1	-233 bp
Apollo Z (GP – pre-galvanized)					
- Rust-proof structure	25.6	33.3	-766 bp	25.2	49 bp
- Coated products	2.9	1.8	117 bp	1.5	140 bp
Apollo galvanized	4.6	4.2	46 bp	4.2	44 bp
Total	100.0	100.0		100.0	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 12: EBITDA/t

	1QFY24	1QFY23	yoy (%)	4QFY23	qoq (%)
Apollo structure (hollow sections)					
- Heavy	7,711	7,028	9.7	8,437	(8.6)
- Light	5,775	5,081	13.7	6,256	(7.7)
- General	2,252	1,614	39.5	2,612	(13.8)
Sub-total					
Apollo Z (GP – pre-galvanized)					
- Rust-proof structure	6,749	7,224	(6.6)	7,327	(7.9)
Apollo galvanized	6,196	5,005	23.8	6,780	(8.6)
Total	4,645	4,587	1.3	4,983	(6.8)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 13: Actuals vs. our estimates

Rs m	1QFY24	1QFY24F	Var (%)
Revenue	45,449	45,565	(0.3)
EBITDA	3,072	3,405	(9.8)
EBITDA margin (%)	6.8	7.5	-71 bp
Adj. PAT	1,936	2,080	(6.9)

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 14: Actuals vs Bloomberg consensus estimates

Rs m	1QFY24	1QFY24C	Var (%)
Revenue	45,449	45,542	(0.2)
EBITDA	3,072	3,266	(5.9)
EBITDA margin (%)	6.8	7.2	-41 bp
Adj. PAT	1,936	1,921	0.8

SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 15: Unitary data

Particulars	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Realization/t	78,907	63,880	69,434	68,381	68,706
Raw material cost/t	70,757	57,719	62,297	58,368	59,269
Gross profit/t	10,573	8,215	9,219	10,013	9,436
Opex/t	5,986	4,363	4,710	5,030	4,792
EBITDA/t	4,587	3,852	4,510	4,983	4,645

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Profit & Loss

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

Balance Sheet

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

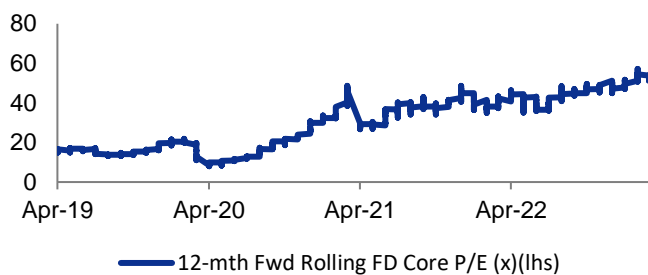
Cash Flow

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

Key Ratios

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

12-mth Fwd Rolling FD Core P/E (x)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

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