

India

ADD (no change)

Consensus ratings*: Buy 15 Hold 2 Sell 3

Current price:	Rs1,173
Target price: ▲	Rs1,360
Previous target:	Rs1,223
Up/downside:	15.9%
InCred Research / Consensus:	8.3%
Reuters:	
Bloomberg:	APAT IN
Market cap:	US\$4,481m Rs325,392m
Average daily turnover:	US\$7.7m Rs556.2m
Current shares o/s:	277.3m
Free float:	68.8%

*Source: Bloomberg

Key changes in this note

- FY23F/24F revenue raised by 14.3%/18.1%.
- FY23F EBITDA/PAT cut by 2.1%/6.8%.
- FY24F EBITDA/PAT raised by 4.1%/1.2%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	4.4	6.7	29.1
Relative (%)	2.8	6.9	24.4

Major shareholders	% held
Promoters	31.2
Smallcap World Fund Inc.	5.7
K India Opportunities Fund	2.8

Analyst(s)



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APL Apollo Tubes

Sales volume ramp-up at Raipur plant

- A better sales mix, reduction in channel incentives qoq and Raipur unit breakeven aided 3Q profitability. EBITDA stood at Rs4,510/t vs. Rs3,850/t qoq.
- 1mt at Raipur plant operated at 25% of its capacity in 3Q. The company maintained FY25F total sales volume & EBITDA/t guidance of 4mt & Rs5-6k.
- We feel the Raipur unit will account for 25%+ of FY25F volume, leading to an EPS CAGR of 47% over FY23F-25F. Retain ADD with a higher TP of Rs1,360.

Lower raw material price volatility leads to volume and margin uptick

APL Apollo Tubes (APL) posted 3QFY23 revenue/EBITDA/PAT of Rs43.3bn/Rs2.7bn/Rs1.7bn, +34%/+35%/+46% yoy, respectively. EBITDA/PAT beat our /Bloomberg consensus estimates by 6-9%/2-8%, respectively. A better sales mix (VAP volume share at 56.4%), a cut in channel incentives paid last quarter to push higher sales volume (EBITDA impact of Rs300/t in 2Q) and Raipur unit output ramp-up qoq (EBITDA loss of Rs100/t in 2Q) were the key reasons for margin improvement. EBITDA/t stood at Rs4,510, down 10% yoy while up17% qoq. The Raipur plant's sales volume stood at 46kt/65kt in 3Q/9MFY23, respectively. Avg. hot rolled coil or HRC prices in 3Q stood at Rs56k/t, flat qoq. However, the prices started rising end-Dec 2022, enabling channel restocking, and rose by ~10% till date to Rs60.4k/t. Sales volume was at 605kt, +50% yoy and flat qoq. Light hollow sections and rust-proof structures accounted for 16% and 21% of sales volume, respectively, and posted EBITDA/t of Rs5.6k and Rs7.5k, respectively.

Management maintains strong growth outlook due to upbeat demand

The gap between primary and secondary steel prices (Rs3-4k/t) fell sharply, driving the demand for APL's products. Channel inventory was low as at end-Sep 2022 and restocking picked up as HRC prices rose from end-Dec 2022. Management retained sales volume guidance of 2.2mt+/3.2mt/4mt for FY23F/24F/25F, respectively, on the back of strong demand for conventional/new products (colour-coated sheets/tubes, higher diameter steel pipes) from housing, commercial building and infrastructure segments. APL expects more orders for 100% steel-based buildings from hospital, railway & overhead water tank segments. It plans to add ~1mt of capacity by debottlenecking its existing plants and adding new plants at Dubai/Kolkata at a capex of ~Rs4bn to touch 5mt capacity by Mar 2024F.

Raise sales volume estimates for FY23F-25F

We incorporate 3QFY23 actuals and raise sales volume estimates for FY24F/25F due to improved visibility of Raipur plant ramp-up. We expect sales volume of 3.6mt (CAGR of 27% over FY23F-25F) and EBITDA of Rs5.5k/t in FY25F. This implies revenue/EPS CAGR of 19%/47%, respectively, over FY23-25F. We expect ROE/RoCE of 30-35%+ by FY25F.

Retain ADD rating with a higher target price of Rs1,360

We raise our TP to Rs1,360 (from Rs1,223) based on a P/E of 40x FY24F EPS (from 36x) given cash flow visibility. Downside risks: Raw material price volatility & capital allocation.

Financial Summary

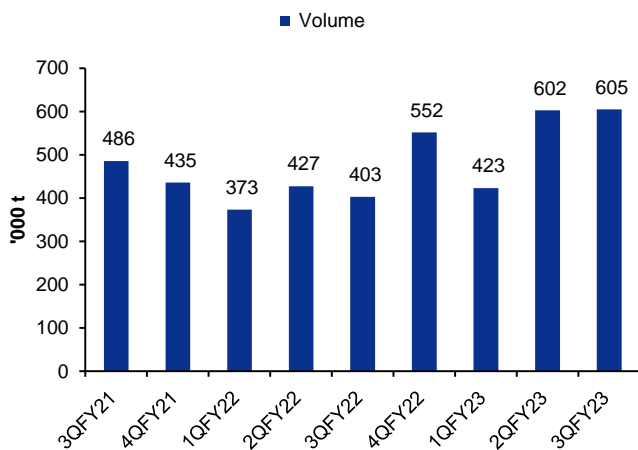
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	84,998	130,631	163,732	198,424	232,710
Operating EBITDA (Rsm)	6,787	9,451	10,053	14,465	19,757
Net Profit (Rsm)	3,602	5,571	6,294	9,437	13,631
Core EPS (Rs)	14.4	22.3	22.7	34.0	49.1
Core EPS Growth	49.5%	54.5%	2.0%	49.9%	44.4%
FD Core P/E (x)	81.45	52.72	51.70	34.48	23.87
DPS (Rs)	0.0	3.5	3.5	6.0	8.0
Dividend Yield	0.00%	0.30%	0.30%	0.51%	0.68%
EV/EBITDA (x)	43.55	31.50	32.84	22.40	15.91
P/FCFE (x)	1,525.80	161.38	233.99	74.42	60.98
Net Gearing	4.6%	8.1%	16.8%	(3.7%)	(23.4%)
P/BV (x)	17.31	12.97	11.61	9.09	6.89
ROE	23.6%	28.1%	24.8%	29.6%	32.8%
% Change In Core EPS Estimates			(7.07%)	0.97%	14.76%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

3QFY23 earnings-call highlights

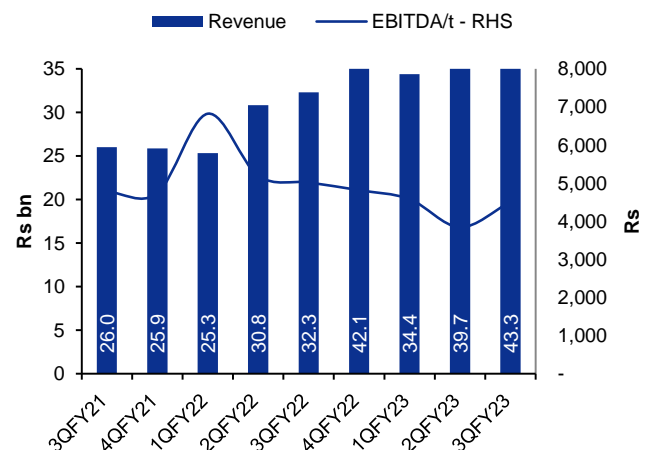
- Company’s guidance:** Management indicated that Raipur unit’s sales volume targets stood at 0.1mt/0.6mt/1mt for FY23F/24F/25F, respectively. Jan 2023 started on a strong note with 0.25mt of sales volume, and the company targets to achieve 0.7mt in 4QFY23F.
- New product market development:** APL secured more orders for 100% steel tube-based buildings from India’s largest hospital chain for its five greenfield hospital construction projects across India. Continuing its effort to increase railway business, the company has undertaken trial construction of railway stations under the railway station redevelopment project. APL expects incremental construction orders (potential of up to 50 railway stations) once the trial construction of the first railway station gets completed in the next three months. APL also secured orders for higher diameter steel tubes related to overhead water storage tank support structures. APL targets super-high, value-added product sales volume of at least 0.5mt with an EBITDA of >Rs18k/t in FY25F.
- Raw material availability:** Management indicated that ~2.5mt of raw material sourcing contracts have been signed with Indian HRC suppliers like Tata Steel, JSW Steel and the Jindal Group. Based on steel OEMs’ capex plan, APL’s management indicated an addition of ~50% capacity to the existing HR coil production of 50mt annually in India currently.
- Update on the tie-up with Shankara Building Products:** The company’s partnership with Shankara Building Products (large channel partner in South India) has yielded strong results with sales volume through Shankara’s retail stores growing by 170% yoy in 9MFY23. APL subscribed to the warrants issued by Shankara and invested Rs250m as upfront 25% of the total subscription amount in 9MFY23. The balance 75% investment of Rs750m is due any time before Sep 2023F.
- Raipur plant update:** Around 1mt of plant capacity has started commercial production, operating 25% of the total capacity in 3QFY23. Jan 2023 witnessed a 30% capacity utilization. Management indicated the fixed operational cost of the plant at Rs50m/month and expects an EBITDA/t of Rs4k+ in 4QFY23F.
- Capex:** APL targets total manufacturing capacity of 5mt by mid-2024F. The company is expanding overseas with its first plant coming up at Dubai (capacity: 300kt; capex: Rs2bn). In India, it plans to set up a plant at Kolkata (capacity: 200kt; capex: Rs1.5bn) and debottleneck its existing plants to add 300-400kt of annual capacity. The total capex budgeted is Rs4bn to reach 5mt of target capacity by Mar/Jun 2024F.
- Working capital cycle and cash:** The net working capital cycle stood at six days of sales and net debt was at Rs2.6bn as at end-Dec 2022.

Figure 1: Quarterly volume trend



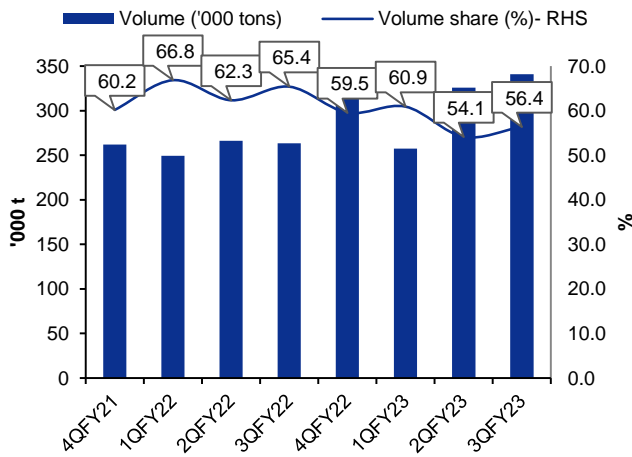
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Quarterly revenue and EBITDA/t



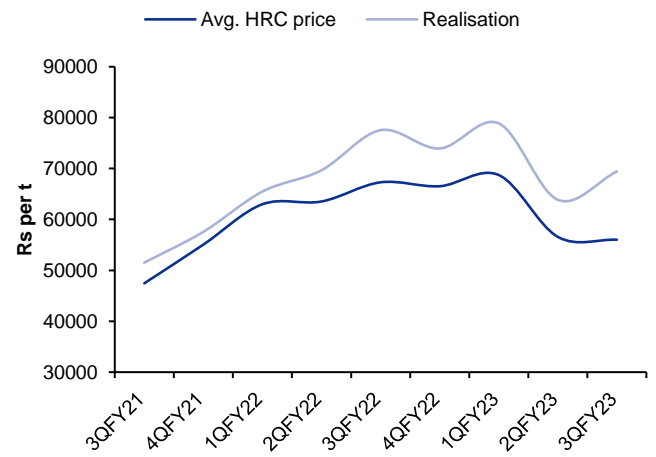
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Value-added products



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: HRC price and realization trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: 3QFY23 results snapshot

YE Mar (Rs m)	3QFY23	3QFY22	yoy (%)	2QFY23	qoq (%)	9MFY23	9MFY22	yoy (%)
Revenue	43,271	32,304	34.0	39,692	9.0	117,349	106,753	9.9
EBITDA	2,729	2,023	34.9	2,319	17.7	6,987	6,705	4.2
EBITDA margin (%)	6.3	6.3	4 bp	5.8	46 bp	6.0	6.3	-33 bp
Adj. PAT	1,692	1,156	46.3	1,502	12.6	4,265	3,941	8.2
Diluted EPS (Rs)	6.8	4.6		6.0		17.0	15.8	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: 3QFY23 sales volume and mix snapshot

Sales Volume ('000 t)	3QFY23	3QFY22	yoy (%)	2QFY23	qoq (%)
Apollo structure (hollow sections)					
- Heavy	46	35	32.1	41	13.0
- Light	96	76	25.3	109	(12.1)
- General	264	139	89.4	276	(4.5)
Sub-total	406	251	61.9	426	(4.7)
Apollo Z (GP – pre-galvanized)					
- Rust-proof structure	125	135	(7.0)	137	(8.8)
Apollo Galvanized	28	17	61.8	27	4.1
Apollo Build/New Raipur	46	-	NA	12	281.7
Total	605	403	50.2	602	0.5
Volume mix (%)					
Apollo structure (hollow sections)					
- Heavy	7.7	8.7	-105 bp	6.8	85 bp
- Light	15.8	19.0	-314 bp	18.1	-225 bp
- General	43.6	34.6	902 bp	45.9	-225 bp
Sub-total	67.1	62.3	482 bp	70.8	-366 bp
Apollo Z (GP - pre galvanized)					
- Rust-proof structure	20.7	33.5	-1275 bp	22.8	-210 bp
Apollo Galvanized	4.6	4.2	33 bp	4.4	16 bp
Apollo Build/New Raipur	7.6	0.0	760 bp	2.0	560 bp
Total	100.0	100.0		100.0	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: EBITDA/t

	3QFY23	3QFY22	yoy (%)	2QFY23	qoq (%)
Apollo structure (hollow sections)					
- Heavy	7,568	7,531	0.5	6,926	9.3
- Light	5,580	5,970	(6.5)	5,344	4.4
- General	2,284	1,524	49.9	1,388	64.6
Sub-total					
Apollo Z (GP - pre galvanized)					
- Rust-proof structure	7,492	7,319	2.4	6,816	9.9
Apollo Galvanized	5,659	6,051	(6.5)	4,966	14.0
Apollo Build/New Raipur	3,146	-	-	-	-
Total	4,510	5,023	(10.2)	3,850	17.1

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Actuals vs. our estimates

Rs m	3QFY23A	3QFY23F	Var (%)
Revenue	43,271	39,883	8.5
EBITDA	2,729	2,492	9.5
EBITDA margin (%)	6	6.2	6 bp
Adj. PAT	1,692	1,566	8.0

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 9: Actuals vs. Bloomberg consensus estimates

Rs m	3QFY23A	3QFY23C	Var (%)
Revenue	43271	37,884	14.2
EBITDA	2729	2,570	6.2
EBITDA margin (%)	6	6.8	-48 bp
Adj. PAT	1692	1,657	2.1

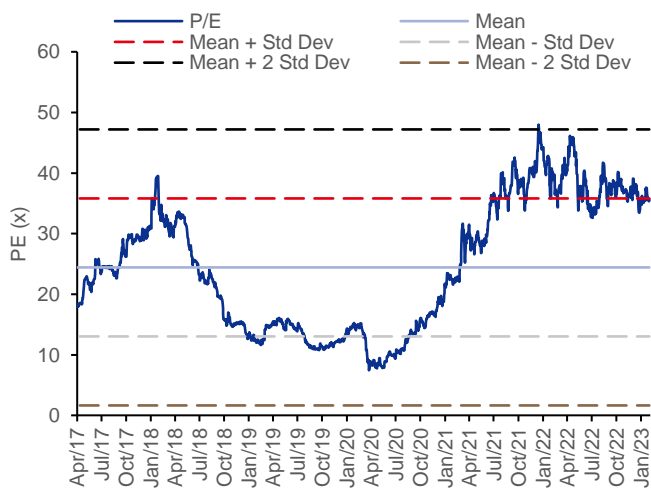
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 10: Our revised estimates

	New estimates			Old estimates			Change (%)		
	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F
Revenue	163,732	198,424	232,710	143,223	167,991	200,524	14.3	18.1	16.1
EBITDA	10,053	14,465	19,757	10,269	13,893	16,984	-2.1	4.1	16.3
Adjusted consol. PAT	6,294	9,437	13,631	6,756	9,323	11,848	-6.8	1.2	15.0
EPS	22.7	34.0	49.1	24.4	33.7	42.8	-7.1	1.0	14.8
EBITDA margin (%)	6.1	7.3	8.5	7.2	8.3	8.5	-103 bp	-98 bp	2 bp

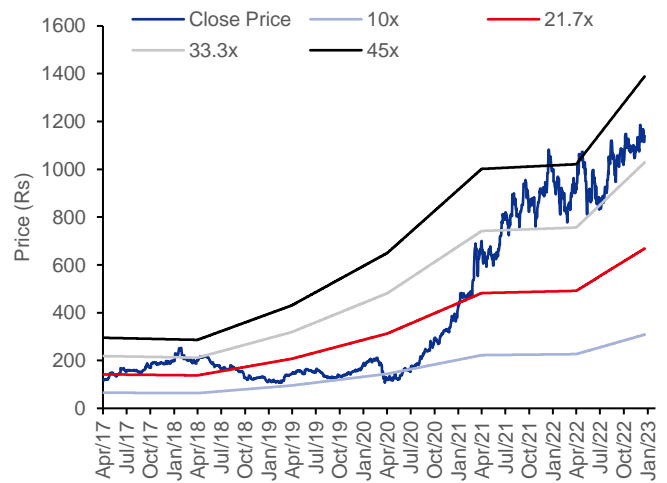
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 11: P/E SD (five-year mean P/E)



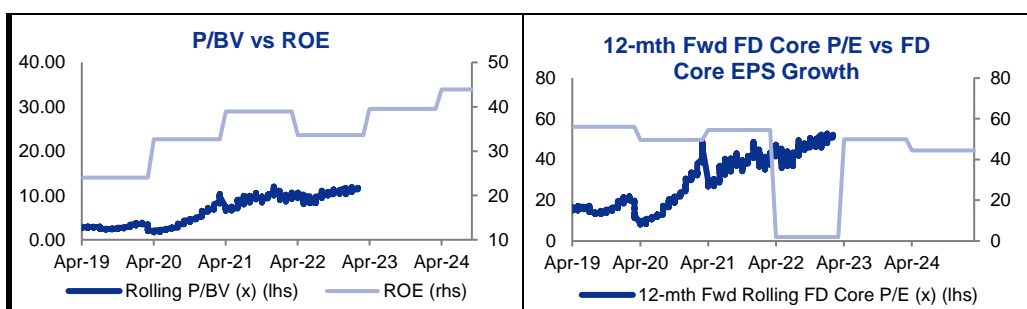
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 12: P/E band (one-year forward EPS)



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenue	84,998	130,631	163,732	198,424	232,710
Gross Profit	13,349	18,400	21,449	27,779	34,907
Operating EBITDA	6,787	9,451	10,053	14,465	19,757
Depreciation And Amortisation	(1,028)	(1,090)	(1,293)	(1,688)	(1,852)
Operating EBIT	5,759	8,361	8,760	12,777	17,905
Financial Income/(Expense)	(454)	(287)	(455)	(388)	98
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	152	248	200	210	221
Profit Before Tax (pre-EI)	5,458	8,321	8,505	12,599	18,223
Exceptional Items					
Pre-tax Profit	5,458	8,321	8,505	12,599	18,223
Taxation	(1,381)	(2,133)	(2,211)	(3,162)	(4,592)
Exceptional Income - post-tax					
Profit After Tax	4,077	6,188	6,294	9,437	13,631
Minority Interests	(475)	(617)			
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	3,602	5,571	6,294	9,437	13,631
Recurring Net Profit	3,602	5,571	6,294	9,437	13,631
Fully Diluted Recurring Net Profit	3,602	5,571	6,294	9,437	13,631

Cash Flow

(Rs m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	6,787	9,451	10,053	14,465	19,757
Cash Flow from Invt. & Assoc.					
Change In Working Capital	4,120	(1,154)	(2,537)	(1,070)	(1,058)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(395)	(74)	(2,255)	(178)	318
Net Interest (Paid)/Received	454	287	455	388	(98)
Tax Paid	(1,195)	(1,993)	(2,211)	(3,162)	(4,592)
Cashflow From Operations	9,771	6,517	3,505	10,443	14,328
Capex	(2,869)	(5,967)	(4,850)	(2,368)	(2,486)
Disposals Of FAs/subsidiaries	(72)	98			
Acq. Of Subsidiaries/investments	(3,711)	421	(1,000)	(2,000)	(2,000)
Other Investing Cashflow	183	147	168	297	494
Cash Flow From Investing	(6,469)	(5,301)	(5,682)	(4,070)	(3,992)
Debt Raised/(repaid)	(3,111)	603	3,500	(2,000)	(5,000)
Proceeds From Issue Of Shares	154	70	54		
Shares Repurchased					
Dividends Paid			(971)	(1,664)	(2,219)
Preferred Dividends					
Other Financing Cashflow	(623)	(407)	(623)	(685)	(396)
Cash Flow From Financing	(3,580)	266	1,960	(4,349)	(7,615)
Total Cash Generated	(278)	1,482	(217)	2,023	2,721
Free Cashflow To Equity	191	1,819	1,323	4,372	5,336
Free Cashflow To Firm	2,641	772	(2,800)	5,687	9,940

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	3,579	3,814	4,597	8,621	13,341
Total Debtors	1,306	3,417	2,243	2,718	3,188
Inventories	7,599	8,472	13,457	16,309	19,127
Total Other Current Assets	1,507	2,567	2,259	2,738	3,211
Total Current Assets	13,991	18,270	22,557	30,385	38,867
Fixed Assets	15,032	16,046	22,890	24,319	25,802
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	4,673	3,923	3,073
Total Non-current Assets	19,998	26,247	29,800	30,479	31,113
Short-term Debt	2,580	2,334	3,741	2,937	927
Current Portion of Long-Term Debt					
Total Creditors	7,859	10,595	11,214	13,591	15,939
Other Current Liabilities	1,344	1,352	1,694	2,053	2,408
Total Current Liabilities	11,783	14,280	16,650	18,581	19,274
Total Long-term Debt	1,835	3,472	5,565	4,369	1,379
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	930	938	938	938	938
Total Non-current Liabilities	2,765	4,410	6,503	5,307	2,317
Total Provisions	1,112	1,187	1,187	1,187	1,187
Total Liabilities	15,659	19,877	24,340	25,075	22,778
Shareholders' Equity	16,947	22,640	28,017	35,789	47,202
Minority Interests	1,383	2,000			
Total Equity	18,330	24,640	28,017	35,789	47,202

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	10.1%	53.7%	25.3%	21.2%	17.3%
Operating EBITDA Growth	42.2%	39.2%	6.4%	43.9%	36.6%
Operating EBITDA Margin	8.0%	7.2%	6.1%	7.3%	8.5%
Net Cash Per Share (Rs)	(3.34)	(7.96)	(16.98)	4.74	39.79
BVPS (Rs)	67.78	90.45	101.02	129.05	170.20
Gross Interest Cover	8.71	18.80	14.05	18.65	45.16
Effective Tax Rate	25.3%	25.6%	26.0%	25.1%	25.2%
Net Dividend Payout Ratio		11.4%	11.4%	13.2%	12.2%
Accounts Receivables Days	13.03	6.60	6.31	4.56	4.63
Inventory Days	39.33	26.13	28.13	31.83	32.69
Accounts Payables Days	39.49	30.01	27.97	26.53	27.25
ROIC (%)	23.8%	39.5%	31.4%	37.6%	50.1%
ROCE (%)	25.0%	30.7%	25.5%	31.6%	38.7%
Return On Average Assets	17.7%	21.9%	18.5%	22.9%	27.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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