

Current Reco	: BUY
Previous Reco	: BUY
CMP	: INR1,931
Target Price	: INR2,260
Potential Return	: 17%

Dhirendra Tiwari

+91 22 4031 3436
dhirendra.tiwari@antiquelimited.com

Pallav Agarwal

+91 22 4031 3411
pallav.agarwal@antiquelimited.com

Market data

Sensex	:	33,228
Sector	:	Engineering
Market Cap (INRbn)	:	45.8
Market Cap (USDbn)	:	0.712
O/S Shares (m)	:	23.7
52-wk HI/LO (INR)	:	2029/852
Avg Daily Vol ('000)	:	41
Bloomberg	:	APAT IN

Source: Bloomberg

Valuation

	FY17	FY18e	FY19e
EPS (INR)	61.8	85.6	118.9
P/E (x)	31.2	22.6	16.2
P/BV (x)	6.3	5.2	4.1
EV/EBITDA (x)	15.1	11.7	9.2
Dividend Yield (%)	0.6	0.8	1.0

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	1	11	17	123
Relative	1	8	10	78

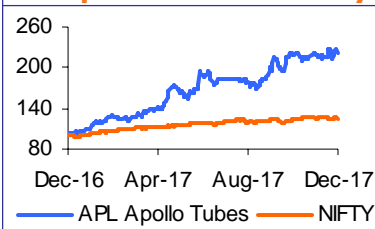
Source: Bloomberg

Shareholding pattern

Promoters	:	37%
Public	:	63%
Others	:	0%

Source: Bloomberg

Price performance vs Nifty



Source: Bloomberg

Indexed to 100

2QFY18 RESULT REVIEW

APL Apollo Tubes Limited

In line results, 2H volume outlook stronger than 1H

Revenues at INR 13.5bn improved by 45.9% YoY and 16.4% sequentially driven by higher steel pipe volumes and realizations. Sales volumes (excluding trading and scrap) stood at 283kt during the quarter which improved 20.2% YoY and 6.7% QoQ supported by new clients in the OEM segment and higher contribution from value-added products. EBITDA at INR1.0bn grew 27.4 % YoY and 28.6% QoQ aided by higher margins. EBITDA was better than our expectations. EBITDA per tonne (excluding trading and scrap sales) at INR 3,578 improved 6% YoY and 20.5% QoQ benefiting from inventory gains. Adjusted PAT at INR 0.4bn grew 38.8% YoY and 4.8% QoQ due to higher EBITDA despite lower other income. PAT was in line with our estimates. Company is on track to achieve the volume growth guidance of 20-25% in FY18. In 2HFY18, stable steel prices coupled with an uptick in demand should support stronger volume growth as compared to H1FY18.

Volumes grew by 20% YoY with new clients in the OEM segment

Sales volumes (excluding trading and scrap) stood at 283kt during the quarter which improved 20.2% YoY and 6.7% QoQ supported by new clients in the OEM segment and higher contribution from value-added products. Volumes have recovered post GST implementation with a robust 27% volume growth in July and August'17 which moderated in September due to the sharp increase in steel prices. In 2HFY18, stable steel prices coupled with an uptick in demand should support stronger volume growth as compared to H1FY18.

EBITDA per tonne recovers sequentially with higher mix of value-added products

EBITDA per tonne (excluding trading and scrap) stood at INR 3,578 higher 6% YoY and 20.5% QoQ benefiting from improved product mix and inventory gains due to the sharp increase in steel prices. EBITDA per tonne is expected to improve in FY19 with better utilization levels and higher margin value-added products. Niche products proportion will go up with DFT (direct forming technology) and focus on exports and OEM's. APL is also planning two additional production lines of Pre-Galvanized Tubes (GP) and Galvanized Tubes (GI) products at existing sites as currently the GI/GP lines are operating at close to 100% utilization levels.

Commissioned four DFT units at Hosur and Raipur till now, all lines to be operational by 4QFY18

APL has commissioned a total of four direct forming mill technology (DFT) lines at Hosur and Raipur plants till 2QFY18 with an encouraging response from customers and balance lines will be operational by 4QFY18 adding a total capacity of 0.5MTPA across facilities. APL has been a pioneer in introducing the latest global technology and DFT is expected to strengthen the company's position as the leading branded steel tubes manufacturer in India along with the proposed JV to pioneer in-line galvanizing technology in India.

Valuations and outlook

We expect the profits to grow sharply over FY18- FY19 driven by higher volumes, improved profitability and lower interest costs. APL's volumes are expected to maintain the growth rate post the short term impact of GST with the commissioning and ramp up of new capacities, geographical diversification in the Central/Eastern region and benefits of GST implementation with the shift from unorganized to organized players. We maintain our financial estimates and our Buy rating with a revised target price of INR 2,260 (2,022 earlier) per share at a target P/E multiple of 19x (17 earlier) FY19e EPS.

Quarterly Performance - Consolidated

INR mn	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ (%)
Revenues	13,454	9,223	45.9	11,556	16.4
Expenditure	12,441	8,429	47.6	10,769	15.5
EBITDA	1,013	795	27.4	787	28.6
Other income	(55)	(21)	167.0	95	(157.7)
Depreciation	124	167	(26.2)	122	1.2
EBIT	834	607	37.4	760	9.7
Interest	208	156	33.0	177	17.4
Exceptional items	-	-	-	-	-
PBT	626	451	39.0	583	7.4
Taxes	219	158	39.2	195	12.5
Reported PAT	407	293	38.8	388	4.8
Adjusted PAT	407	293	38.8	388	4.8
EBITDA margin (%)	7.5	8.6		6.8	
EPS (Rs)	16.8	12.1	38.8	16.0	4.8
Key ratios	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ (%)
EBITDA margin (%)	7.5	8.6	(109.1)	6.8	71.5
EBIT margin (%)	6.2	6.6	(38.1)	6.6	(38.1)
PAT margin (%)	3.0	3.2	(15.4)	3.4	(33.7)
EPS (Rs/share)	16.8	12.1		16.0	4.8
ETR (%)	35.0	35.0		33.4	

Source: Company, Antique

Operating metrics

	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ (%)
Sales volumes (000' tonnes)	297	246	20.8	278	6.8
Sales volumes excluding trading (000' tonnes)	283	235	20.2	265	6.7
Blended realization -INR per tonne	45,292	37,510	20.7	41,544	9.0
EBITDA -INR per tonne	3,409	3,232	5.5	2,830	20.5
EBITDA -INR per tonne excluding trading volumes	3,578	3,376	6.0	2,968	20.5

Source: Company, Antique

Financials

Profit and loss account (INRm)

Year ended 31 Mar	2015	2016	2017	2018e	2019e
Revenues	30,129	42,136	45,450	51,103	62,321
Expenses	28,306	39,319	42,206	46,967	57,096
EBITDA	1,823	2,817	3,244	4,136	5,225
Depreciation & amortisation	220	341	512	539	571
EBIT	1,603	2,476	2,732	3,597	4,654
Other income	30	103	38	58	67
Interest expense	665	695	683	596	527
Profit before tax	968	1,883	2,086	3,059	4,194
Extraordinaries	(0.5)	(253.3)	-	-	-
Tax	339	624	627	1,040	1,388
Profit after tax	629	1,006	1,459	2,019	2,806
Adjusted PAT	629	1,259	1,459	2,019	2,806
EPS (INR)	26.8	53.7	61.8	85.6	118.9

Balance sheet (INRm)

Year ended 31 Mar	2015	2016	2017	2018e	2019e
Share Capital	234	234	236	236	236
Reserves & Surplus	2,843	3,567	5,026	6,621	8,860
Premium A/c	1,874	1,874	1,941	1,941	1,941
Networth	4,951	5,676	7,203	8,797	11,037
Debt	4,822	6,506	5,962	5,416	4,788
Deferred tax/ other liabilities	745	859	905	905	905
Capital Employed	10,517	13,040	14,070	15,118	16,730
Gross Fixed Assets	6,474	7,291	8,078	9,978	10,578
Accumulated Depreciation	762	1,058	1,402	1,940	2,512
Net Assets	5,712	6,233	6,676	8,037	8,066
Capital work in progress	240	320	1,224	807	1,207
Goodwill on Consolidation	429	429	670	670	670
Investments	191	131	127	127	127
Current Assets Loans & Advances					
Inventory	3,196	5,944	4,696	5,070	6,138
Debtors	1,753	2,199	2,952	2,867	3,505
Cash & Bank	188	14	17	20	20
Loans & advances and others	1,520	1,333	2,138	1,638	2,003
Current Liabilities & Provisions					
Creditors	2,434	3,071	4,275	3,973	4,830
Provisions	276	490	156	145	176
Net Current Assets	3,946	5,927	5,373	5,477	6,660
Application of Funds	10,517	13,040	14,070	15,118	16,730

Per share data

Year ended 31 Mar	2015	2016	2017	2018e	2019e
No. of shares (Mn)	23	23	24	24	24
BVPS (INR)	211.2	242.1	305.3	372.9	467.9
CEPS (INR)	36.2	68.3	83.5	108.4	143.1
DPS (INR)	6.0	10.0	12.0	15.0	20.0

Source: Company, Antique

Cash flow statement (INRm)

Year ended 31 Mar	2015	2016	2017	2018e	2019e
PBT	968	1,883	2,086	3,059	4,194
Depreciation	220	341	512	539	571
Interest	665	695	683	596	527
(Inc)/ Dec in working capital	1,308	(2,155)	558	(101)	(1,183)
Tax paid	(339)	(624)	(627)	(1,040)	(1,388)
CF from operating activities	2,822	140	3,212	3,053	2,720
Capex	(1,889)	(897)	(1,691)	(1,483)	(1,000)
(Inc)/ Dec in Investments	(15)	59	4	-	-
Income from investments	(1)	(253)	-	-	-
CF from investing activities	(1,905)	(1,091)	(1,687)	(1,483)	(1,000)
Inc/ (Dec) in share capital and premium	230	0	69	-	-
Inc/ (Dec) in debt	(226)	1,684	(544)	(546)	(628)
Dividends & Interest paid	(833)	(976)	(1,023)	(1,020)	(1,093)
Others	(0)	69	(23)	(0)	0
CF from financing activities	(830)	776	(1,521)	(1,566)	(1,720)
Net cash flow	87	(175)	3	3	0
Add: Opening balance	101	188	14	17	20
Closing balance	188	14	17	20	20

Growth indicators (%)

Year ended 31 Mar	2015	2016	2017	2018e	2019e
Revenue	20.7	39.9	7.9	12.4	22.0
EBITDA	10.8	54.5	15.2	27.5	26.3
PAT	6.3	100.1	15.9	38.4	39.0
EPS	6.3	100.1	15.1	38.4	39.0

Valuation (x)

Year ended 31 Mar	2015	2016	2017	2018e	2019e
P/E (x)	71.9	35.9	31.2	22.6	16.2
P/BV (x)	9.1	8.0	6.3	5.2	4.1
EV/EBITDA (x)	26.2	17.6	15.1	11.7	9.2
EV/Sales (x)	1.6	1.2	1.1	0.9	0.8
Dividend Yield (%)	0.3	0.5	0.6	0.8	1.0

Financial ratios

Year ended 31 Mar	2015	2016	2017	2018e	2019e
RoE	13.7	23.7	22.7	25.2	28.3
RoCE	11.1	15.2	15.1	17.4	20.8
Debt/Equity (x)	0.9	1.1	0.8	0.6	0.4
EBIT/Interest (x)	2.4	3.6	4.0	6.0	8.8

Margins (%)

Year ended 31 Mar	2015	2016	2017	2018e	2019e
EBITDA	6.1	6.7	7.1	8.1	8.4
EBIT	5.3	5.9	6.0	7.0	7.5
PAT	2.1	3.0	3.2	3.9	4.5

Source: Company Antique

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**Antique Stock Broking Limited**

20th Floor, A Wing, Naman Midtown
Senapati Bapat Marg, Elphinstone (West)
Mumbai 400013

Tel. : +91 22 4031 3444 • Fax : +91 22 4031 3445

www.antiquelimited.com