APL Apollo Tubes Ltd. - BUY

WEALTH & ASSET MANAGEMENT

Strongly placed to capitalize

With a ~12% market share and strong pan India presence, APL Apollo Tubes (APL) is the market leader in the Electric Resistance Welded (ERW) pipes segment. In a move expected to become a key growth driver going forward, APL is increasing its capacity from the current 1.3 mn tons to 2 mn tons by mid FY18. This augmentation would primarily happen through Direct Forming Technology, which would not only increase APLs penetration in existing application areas (through customized manufacturing) but would also open new application areas which typically demand specifications that conventional technology can't deliver. Higher capacity, coupled with improved industry outlook, is expected to achieve a 17% top line CAGR during FY16-19E. The share of value added products in APL's product mix is constantly growing which would aid its margin performance. Increasing scale of operations and rising share of high margin products would translate into earnings CAGR of 25% over FY16-19E. With strong growth in earnings, the return ratios are likely to be robust at ~27% levels in coming years. Despite the strong growth prospects, market leadership position and opening up of new business opportunity, APL is currently trading at attractive valuation of 5.0x on FY19E EV/EBITDA. We recommend a BUY on the stock with a target price of Rs.1,275 (6.5x FY19E EV/EBITDA).

Rising ERW applications to drive industry growth; APL set to cash in

ERW pipes, which traditionally were used in applications like Engineering, Auto, Power, Oil & Gas and Water, are now being increasingly used in newer areas like Airport, malls, metros, bus body, sprinklers, prefabricated structures etc. As per industry estimates, the ERW market, which stands at 7 mn tons currently, is expected to grow at ~10% during the next few years. The expected pickup in construction segment would be the key growth driver for the industry. The growth would also be significantly supported by increasing application of ERW pipes in end use segments.

CMP (Rs) 914 | 12-mts Target (Rs) 1,275 | Upside 39.5%

Stock data (As on December 30, 2016) | **Sector: Iron and Steel Products**

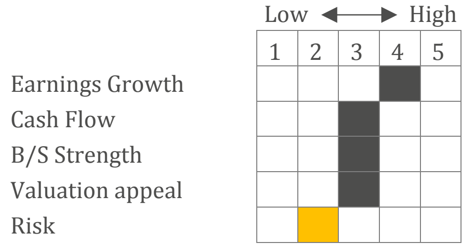
Sensex:	26,626
52 Week h/l (Rs):	1,008 / 557
Market cap (Rs mn) :	21,424
Enterprise value (Rs mn):	27,396
6m Avg t/o (Rs mn):	20.1
FV (Rs):	10
Div yield (%):	1.1

Bloomberg code:	APAT IN
BSE code:	533758
NSE code:	APLAPOLLO

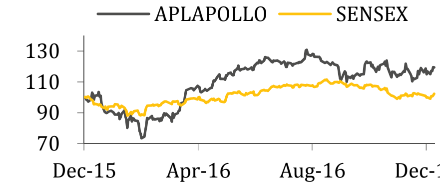
Shareholding pattern (%)

Promoter	38.8
FII+DII	17.9
Others	43.3

Company rating grid



Stock performance



	1M	3M	1Y
Absolute return (%)	0.7	6.0	22.8

Financial summary (Consolidated)

Y/e 31 Mar (Rs m)	FY15	FY16	FY17E	FY18E	FY19E
Revenues	31,402	42,146	44,079	56,002	67,622
yoy growth (%)	25.8	34.2	4.6	27.1	20.8
OPM (%)	5.8	6.7	7.8	8.1	8.2
Reported PAT	638	1,006	1,427	2,060	2,587
Adjusted PAT	638	1,259	1,427	2,060	2,587
yoy growth (%)	7.6	97.5	13.3	44.4	25.6
EPS (Rs)	27.2	42.9	60.9	87.9	110.4
P/E (x)	33.6	21.3	15.0	10.4	8.3
Price/Book (x)	4.3	3.8	3.2	2.6	2.0
EV/EBITDA (x)	14.0	9.7	8.1	6.3	5.0
Debt/Equity (x)	0.9	1.1	1.0	0.9	0.8
RoE (%)	13.9	18.9	23.0	27.4	27.0

Source: Company, IIFL Research

Analyst: Alok Deora, Lokesh Kashikar

Rising capacity to drive volumes

APL currently operates at a capacity utilization of ~85% and is the largest player in the domestic ERW market by a huge margin. To capitalize further on its dominating position, it is in advanced stages of increasing its capacity from 1.3 mn tons currently to 2 mn tons by mid FY18 and later expected to reach 2.5 mn tons by the end of FY20. The higher capacity would be utilized towards increasing its penetration in the Eastern and Central India as well as exports. APL which has relatively lower presence in this market is actively looking to increase share in these regions. The improving demand from new end-use segments coupled with the higher capacity coming on stream would be key volumes drivers for APL going forward.

Direct forming technology to increase addressable market for APL

Out of the 0.7 mn capacity being added, 0.5 mn is through Direct Forming Technology (DFT). Unlike traditional technology, DFT can be used to directly form hollow sections through welding at high speed. Also, the hollow sections of any size can be manufactured within a range of dimensions and thickness. This technology is expected to significantly increase addressable market size for APL where even small customized orders can be undertaken. The technology would also open new application areas like Agriculture Implements, Sport Equipment, Construction Equipment, Heavy Vehicle Axles etc.

Higher capacity and penetration in new regions to drive topline

While the industry is expected to grow at a decent rate of ~10% during the next few years, APL is expected to enhance its market share by increasing its presence in eastern and central region where it has low presence currently and also cater to smaller sized orders with the direct forming capacity coming on stream. Exports, which currently comprise a mere 6% of revenues, would also be key focus area for APL going forward as the company is witnessing increasing demand from export markets. Taking these factors into consideration, we expect APL to witness strong topline growth of ~17% CAGR during FY16-19E.

Higher scale of operations and increasing contribution of value added products to drive earnings

As the DFT capacity comes into play, the Company would be able to reduce wastage in the manufacturing process and may be able to pass on some of the ensuing benefits to the customer. With DFT technology, APL would be able to increase its penetration in existing applications and enter new areas of strong economies of scale. This would lead to operating earnings CAGR of 25% during FY16-19E.

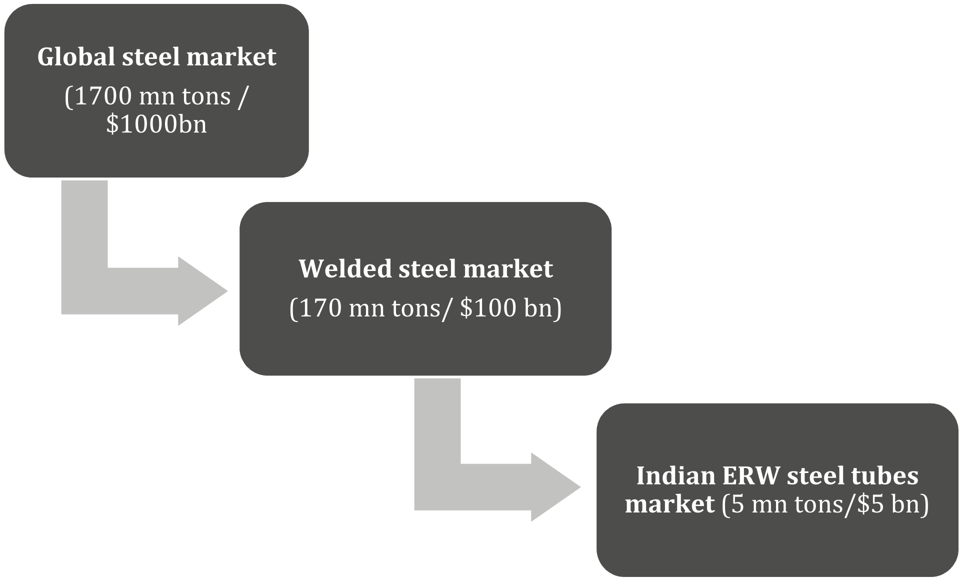
Outlook and valuation - Strong growth trajectory calls for re-rating

Backed by improving industry outlook, higher capacity coming on-stream and APL's market leadership position, we expect APL to register a whopping operating profit growth of a 25% CAGR over FY16-19E, with ROE at ~27% levels by FY19E. Despite strong growth prospects, the scrip is trading at 5.0x its FY19E EV/EBITDA. We believe re-rating is on the cards for APL. We recommend a BUY for a target price of Rs.1,275, implying a target 6.5x FY19E EV/EBITDA.

Robust ERW demand from structural applications

The ERW steel tube industry has dramatically evolved in recent times given factors like high dimensional accuracy, uniform thickness, exceptional toughness, minimum infiltration and low cost properties coupled with huge demand from user industries like real estate, construction, telecom, power, energy, entertainment zones, metros, airports and ports. The industry has reportedly witnessed ~6% CAGR over FY13-FY16. The marked shift from seamless and other segments owing to ERW's cost effectiveness, government focus on infrastructure, initiatives such as low-cost housing, and wide application areas like structural support systems are contributing to the demand pickup. The industry is also experiencing traction in traditional segments such as Oil & Gas, Power, and Water. As per industry estimates, the ERW market stands at 7 mn tons currently, with 55% of the total demand coming from structural applications and 45% from traditional applications.

Chart 1: Indian ERW steel tubes size is ~4% of welded steel market



Source: Company, IIFL Research

Chart 2: Structural application contributes 55% to the total demand

Source: Company, IIFL Research

Immense opportunities for large ERW Steel players

ERW steel tubes which traditionally were used majorly towards applications like Engineering, Auto, Power, Oil & Gas, Water and Sewage are now being increasingly used in newer areas like Airport, malls, metros, bus body, sprinklers, prefabricated structures etc. Various industry reports postulate that the Indian ERW pipes segment is likely to double by FY20E /to grow at ~10% during the next few years. This would be further boosted by the likely shift of market share from unorganized players to organized players due to GST implementation and consumer preference for quality branded pipes. Issues like tight working capital, low capacity utilization, old technology and high costs of logistics are making smaller players less competitive in the market. This translates into robust business for large ERW focused companies in significant demand-supply mismatch zones and abundant scope to swell their product portfolio in line with the widening application areas.

Strong product portfolio with wide range of products

APL, the largest ERW pipe manufacturer in India with the total capacity of 1.3 mn tons, offers a wide range of over 400 products to cater to diverse needs of different customized shapes, sizes, and applications. APL products come in round, rectangle, square and various other shapes whereas the size of pipes range from 0.5 inch to 14 inches in outer diameter for round tubes, 12x12mm to 255x255mm in square sections and 26.5x13.5mm to 300x200mm in rectangular sections, 0.6mm to 10 mm in wall thickness and 3m to 12m in length. The wide range of its products suited to different industries de-risks the company from short term economic challenges.

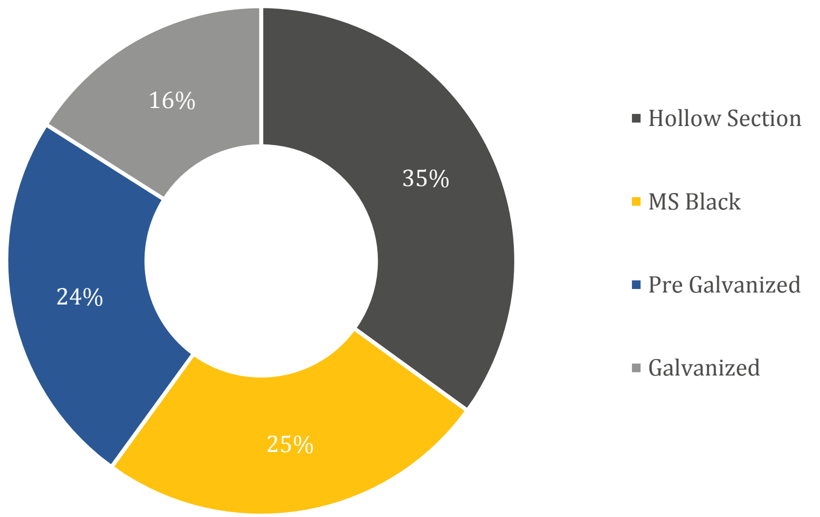
In FY16, APL launched high-margin products such as color-coated pipes, doorframe and its section, T and L section, handrail, and elliptical tubes. Recently, the company has patented designs of differentiated structural products to protect them from imitation and retain their uniqueness for a period of 10 years (extendable for an additional period of 5 years).

Table 1: Diversified product portfolio finds large industry applications

Product	Applications
Hollow sections	Transmission tower fabrication, construction, machinery, furniture
MS Black Round	Engineering structural water and sewage, fire protection, automobiles
Pre-Galvanized	Electric conduit pipes, fencing, cabling and ducting
Galvanized tubes	General engineering, underground piping, agriculture

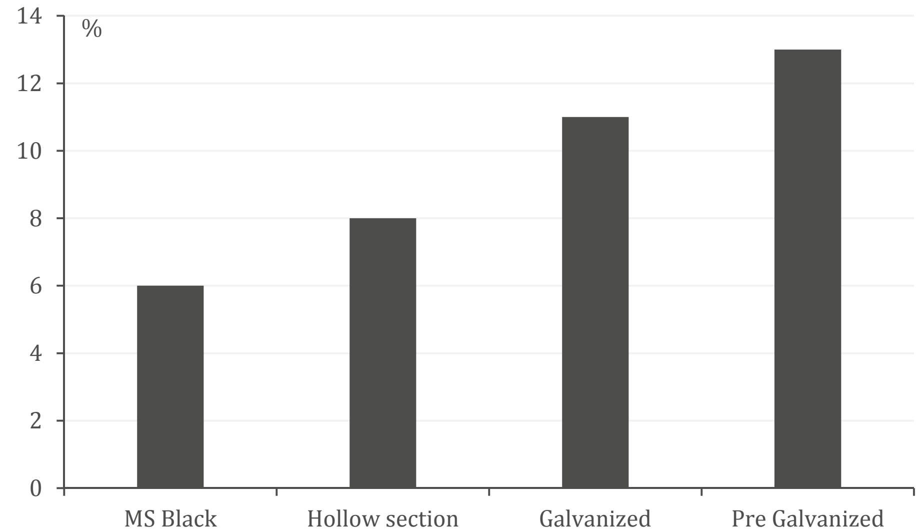
Source: Company, IIFL Research

Chart 3: MS Black leads the revenue contribution



Source: Company, IIFL Research

Chart 4: GP product margin hover in the range of 13-15%



Source: Company, IIFL Research

Extending footprint to unchartered territories

APL's capacity is currently spread across six manufacturing facilities strategically located at Sikandarabad-3 units (UP), Murbad (Maharashtra), Hosur (Tamil Nadu) and Bangalore (Karnataka). Sikandarabad with 0.5 mn tons capacity serves Northern part of India's customer whereas Murbad's 0.35 mn lakh tons capacity caters to western and most of the international clients. Hosur and Bangalore plants are located strategically to serve southern Indian client with 0.35 mn and 0.13 mn tons capacity respectively. However, to benefit from the growing demand of eastern and central market, the company is in advanced stages of setting up a Greenfield plant at Raipur (Chhattisgarh) which will make the company the first ever Pan-India ERW player. The company also plans to set up a facility at Dubai (UAE) to garner more revenues from Gulf, Europe, and the US. We believe Pan-India facilities coupled with robust warehouses-cum-branches across India provides APL with an edge over its competitors from reduced logistics cost and lead time.

Chart 5: Pan-India presence via six manufacturing facilities

Source: Company, IIFL Research

Expansions to take APL's capacity to 2 mn tons by H1FY18E

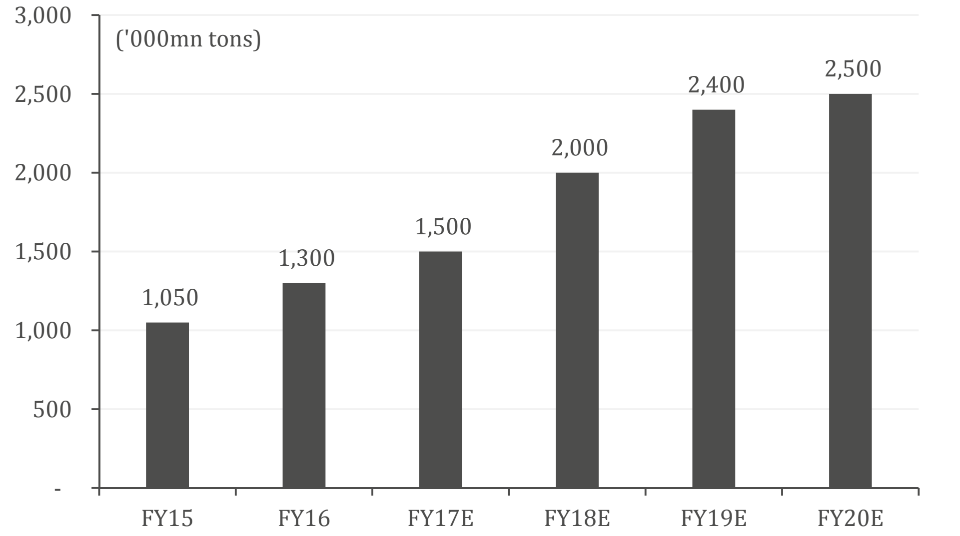
With 2.7x increase in capacity to 1.3 mn tons over the past five years, APL has emerged as the largest player in the domestic ERW market by a huge margin. Its nearest competitor is Surya Roshni with 0.8 mn tons capacity. To further capitalize on its dominating position, the company is in advanced stages of increasing its capacity from 1.3 mn tons currently to 2 mn tons by mid FY18 and later expects to reach 2.5 mn tons by the end of FY20. The increased capacity would be utilized towards increasing its penetration in the Eastern and Central India as well as exports. APL which has relatively lower presence in these markets is actively looking to increase share. The company has an estimated capex of Rs.5 bn, most of which will come through internal accruals and some through debt. We believe the expansion will help the company to cater to the increasing demand from new end-use segments and also to achieve economies of scale. In addition, the company has increased its focus on value-added, high-grade products, which should translate into better realizations and higher margins.

Table 2: Expansion plan Highlights

Year	Plans
FY17E	Greenfield expansion of 0.2 mn tons capacity at Raipur, Chhattisgarh to foray into the eastern market.
FY18E	DFT technology based expansion of cumulative 0.5 mn tons capacity to be added at Hosur, Sikandarabad, Bangalore and Raipur sites.
FY19E	Online galvanizing plant of 0.1mn tons in Bangalore provides an opportunity to foray into the conduits business. Plans to have a new plant in the UAE with a capacity of 0.3mn tons distributed across six lines to garner more revenues from Gulf, Europe, and the US.
FY20E	Intends to venture into precision tubes used in automotive applications. In this context, it has plans to set up a Greenfield site in Bangalore. Precision tubes, which are high-margin products in the range of 15-17%, will help APL improve its blended operating margins. The company has planned a total capacity of 0.1mn tons for precision tubes.

Source: Company, IIFL Research

Chart 6: Capacity to improve at an healthy pace



Source: Company, IIFL Research

DFT to improve addressable market for APL

Out of the 0.7 mn tons capacity being added till mid FY18, 0.5 mn tons is being added using DFT which is the latest technology for making hollow tubes. With DFT, hollow sections of any size within a range of dimensions and thickness can be formed directly through welding at high speeds.

The technology primarily helps the company to deliver customized products as per customer's needs and improve addressable market size significantly for even small customized orders. Further, it will need only 15-20 minutes to change into different diameter and size, unlike the current eight hours in traditional method. This process is just-in-time and thus, reduces the risk of inventory loss considerably. Another advantage of DFT is raw-material saving, as hollow sections weigh 3%-7% lesser compared with the product made with conventional technologies. DFT will enable APL to address new application areas and foray into new markets such as agricultural implements, gym and sports equipment, construction equipment and heavy vehicle axles. A contract with the Japanese firm Kusakabe has ensured exclusive supply of DFT only to AFL (which means no supply to any other company in India) for next 3 years from the date of commission. Benefits of the technology are likely to be rolled-out from FY18E.

Table 3: Direct forming technology edge over conventional method

Parameter	Conventional Method	Direct Forming Technology
Process	HRCs are first converted into round tubes & then compressed to form desired shapes	HRCs are directly converted into the rectangular or square shapes.
Raw Material	Compression requires more material	Saving of 3-7% as materials doesn't reside at corners
Time	Consumes ~6-8 hours to change machine dynamics	Saves setup time as it needs 15-20 minutes to change machine dynamics
Customers	Limited to big customers as cost to change the dynamics is high	Can cater to small customers as well as setup time requirement came down to 15-20 minutes
Risk of Inventory loss	High	Low due to just-in-time process

Source: Company, IIFL Research

Along with DFT, APL is planning to bring in-line galvanizing technology in which tube making and zinc plating are done at the same time. Here, the tube exterior is uniformly galvanized and an anticorrosion coating is applied over it. The tube interior is uniformly finished with baked coating simultaneously done, giving the tube interior a strong anti-corrosion property. We believe customized innovative offerings and tech-enabled-quality products have been APL's key differentiators and will help it strengthen its customer base.

Brand awareness via unique marketing strategy augurs well

APL supplies 80% of its products through 600+ distributors and follows a three-tier B-to-C supply chain model (state wise wholesalers, district wise distributors and retailers) and the remaining 20% of the products are sold directly. The company has come up with unique marketing strategies: it conducts meetings in a group of 150-200 participants of fabricators and plumbers across the length and breadth of the country on a regular basis. The company believes the fabricators and plumbers are the ultimate end-users, who provide suggestions on purchase of pipes to their customers. Technical team gives insights and jots down the advantages on products, while the marketing team encourages customers to purchase the products. The company also focuses on brand building with target of 30,000 signage boards for higher visibility. It is improving its presence and provide consumers a touch and feel of its products by participating in exhibitions in India and across the globe. Approximate budget for branding in the current fiscal is about Rs.100mn (~Rs. 80mn in FY16). The company also has plans to double its marketing and sales team in the next two years to support the push for new products and geographies.

Risk of Inventory loss mitigated via per-month basis sourcing

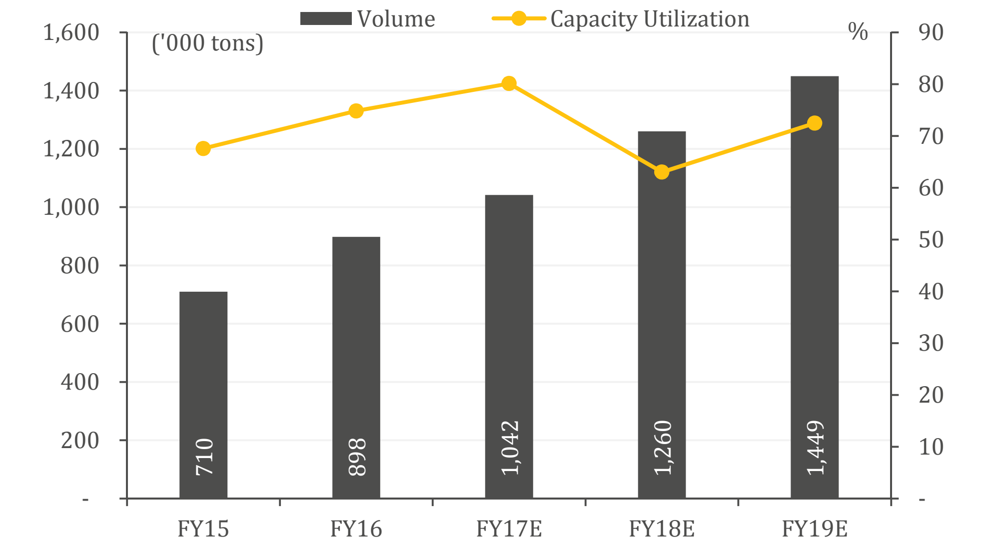
As the raw material cost generally forms 85% of total sales, APL sources bulk of its raw material requirement on the per-month basis so as to mitigate the risk of inventory loss (due to volatility in Hot Rolled Coil prices). In addition, bulk ordering gives company the better negotiation power compared with its peers, translating to lower production cost and higher negotiation power. During FY16, APL sourced 58% of its total raw material requirements from JSW Steel, 21% from Bhushan Steel, and the rest through other imports. The proximity to raw material sourcing points help company in reducing logistics cost and lead time.

Strong demand and capacity expansion improve sales volume

APL has witnessed strong pickup in product demand on the back of higher government spend in infrastructure coupled with huge demand from the user industries such as real estate, telecom, power, energy, entertainment zones, metros, airports and ports. The company has also responded in equal measure by expanding capacity at a rapid pace translating into strong 35.7% CAGR to 0.9 mn tons in volumes over FY11-FY16. Capacity utilization has also improved from 40% in FY11 to ~75% in FY16. However, the company has witnessed slowdown in H1 FY17, wherein sales volume grew 8.8% to 0.46 mn tons mainly due to fluctuating HRC prices that weakened pipe demand. MS Black pipe clocked 10.3% to 0.32 mn tons whereas GP and GI pipe grew 7.3% and 14.6% yoy respectively to 59,000 tons and 94,000 tons.

Going forward, while the industry is expected to grow at a decent rate of ~10% during the next few years, APL is expected to enhance its market share by increasing its presence in eastern and central region where it has low presence currently and also cater to smaller sized orders with the direct forming capacity coming on stream. We expect volumes to clock ~17% CAGR during FY16-19E, which will take capacity utilization to 73% in FY19E.

Chart 7: Volumes to grow at ~17% CAGR over FY16-FY19E

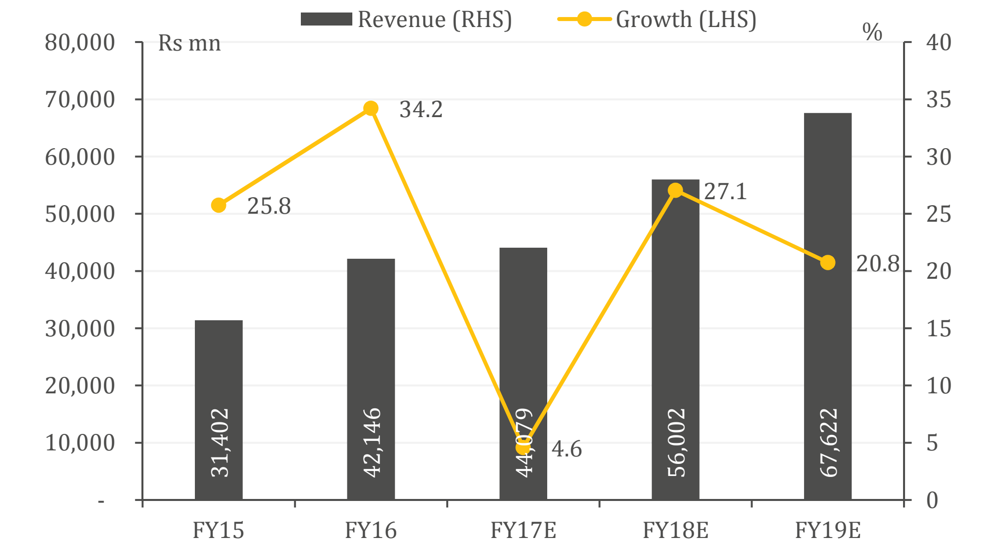


Source: Company, IIFL Research

Improved Revenues at a CAGR of 36% over FY11-FY16

APL reported revenue CAGR of 36% over FY11-16 led by a robust 35.7% CAGR in volume. During FY16, revenue grew 34.2% to Rs.42.1 bn backed by 26.6% growth in volumes. Its revenue growth got a boost from trading sales, which stood at Rs.6 bn. Excluding trading income, blended realization came in at Rs.40,310/ton (Rs. 46,933/ton non-adjusted blended realization), a decrease of 8.6% yoy, due to fall in input HRC prices. In H1 FY17, the company posted flat revenue growth at Rs2.08 bn as volume growth of 8.8% got offset by the decline in realization (down 8.3% to Rs.41,900/ton). Going forward, we expect volumes to clock ~17% CAGR over FY16-FY19E led by new capacity and higher demand for newly launched products. Further, we expect realization to increase at a CAGR of 5% on adjusted basis over FY16-19E (decline of ~0.3% on non-adjusted blended realization), owing to expected increase in HRC prices. Consequently, revenue would register 17% CAGR over FY16-FY19E.

Chart 8: Revenue to improve at a CAGR of 17% CAGR over FY16-FY19E

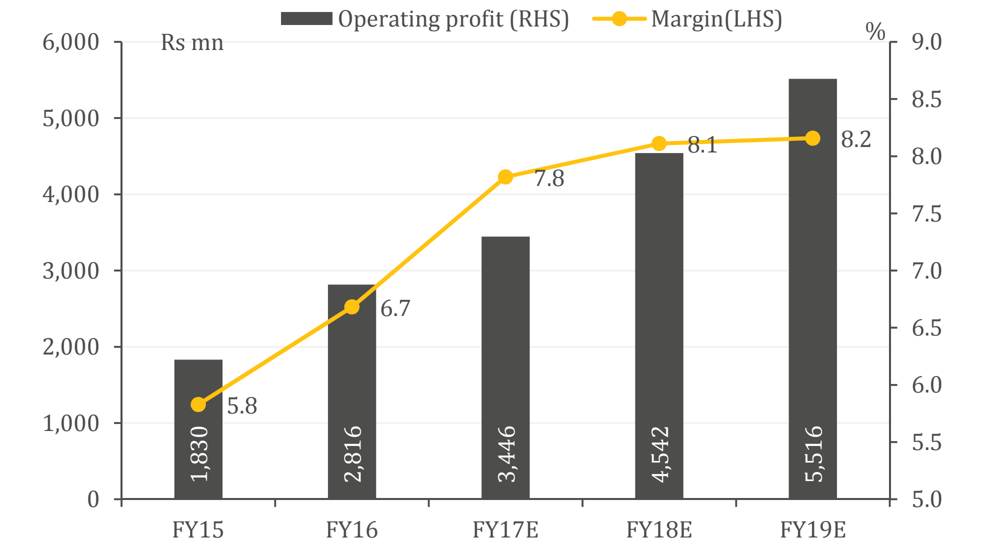


Source: Company, IIFL Research

Adoption of new technology and improvement in product mix to improve operating margin

During FY16, the Indian steel industry was suffering from weak steel prices, owing to feeble domestic demand, unabated rise in import of steel from China, South Korea, and other countries, and decrease in domestic iron ore production. The company benefited from lower cost of material, which improved operating profit margins by 85bps to 6.7%. Operating profit per ton improved by Rs.556 to Rs.3,135 during FY16. During H1 FY17, operating profit improved 37.3% yoy to Rs.1,721mn on the back of muted raw material prices while operating profit per ton improved by Rs.721 to Rs.3,463. Going ahead, as the DFT capacity comes into play, the company would be able to reduce wastage while manufacturing products and may be able to generate some benefits on that while passing on some to the customer. We expect operating profit/ton of Rs.3,603/Rs.3,805 in FY18E/FY19E on the back of improvement in product mix and benefits ensuing from economies of scale.

Chart 9: Operating margin to improve 148bps to 8.2% over FY16-FY19E



Source: Company, IIFL Research

Table 4: Per-ton analysis

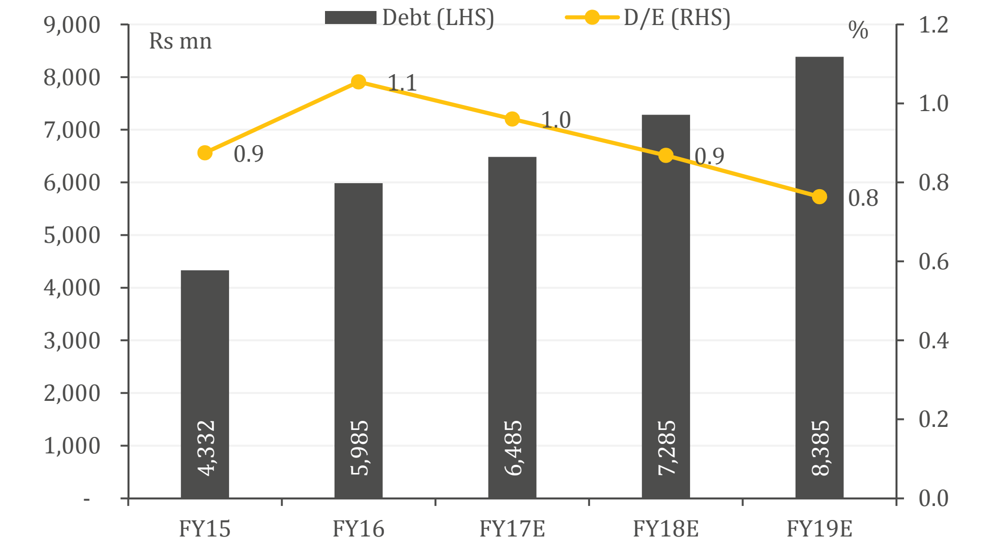
Per ton	FY15	FY16	FY17E	FY18E	FY19E
Revenue/ton	**44,253**	**46,933**	**42,315**	**44,431**	**46,652**
Raw Material	37,777	39,699	35,333	37,233	39,141
Employee cost	580	703	648	573	533
Other overhead	3,315	3,395	3,026	3,021	3,172
EBITDA/ton	**2,579**	**3,135**	**3,308**	**3,603**	**3,805**

Source: Company, IIFL Wealth Research

D/E at comfortable position

The company has managed to restrict D/E ratio to 1.1x whereas its total borrowing increased to Rs.6bn (up Rs1.7bn) despite of doubling its capacity over the period of FY13-FY16. Out of the total guided capex of Rs. 5 bn over FY16-FY20, we expect the borrowing to increase by Rs2.4 bn over FY16-FY19E (to Rs.8.4bn) in order to fund its capex requirement whereas the rest of the requirement would be funded by internal accruals. We expect the D/E to decline from its current level of 1.1x to 0.9x/0.8x in FY18E/FY19E.

Chart 10: D/E to decline going forward

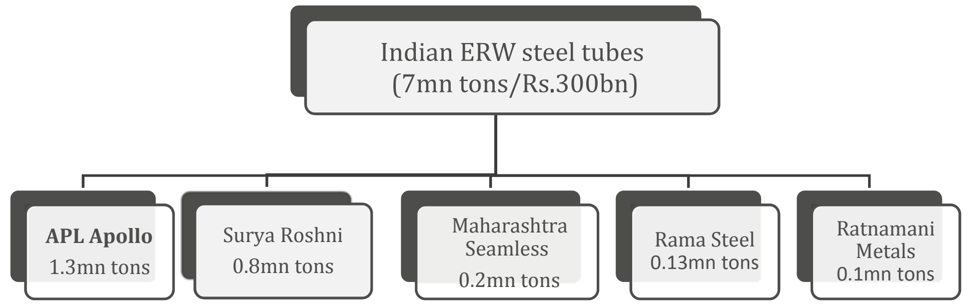


Source: Company, IIFL Research

Competitive scenario

APL is the only focused player in the Indian ERW steel tube industry that derives 100% revenue from the ERW segment. Its vast presence via 6 manufacturing facilities, 20+ warehouse-cum-branches and 600+ distributors caters to the growing demand from clients whereas adoption of new technologies like DFT and inline galvanizing provides an edge over its peers. In addition, bulk ordering gives company a better negotiation power compared to peers, translating into lower production cost and higher negotiation power.

Chart 11: Major players in the Indian ERW steel tubes industry



Source: Company, IIFL Research

Table 5: Peer comparison

Company	Mcap	Revenue CAGR FY16-18	EBITDA Margin FY18	FY18 P/E (x)	FY18 EV/ EBITDA (x)	FY18 RoE (%)
Surya Roshni	7,800	9%	8%	8.5	4.9	11%
Maharashtra Seamless	16,810	22%	10%	12.5	8.3	5%
Ratnamani Metals	30,911	3%	19%	15.7	8.5	14%
APL Apollo	**21,424**	**15%**	**8%**	**10.4**	**6.3**	**27%**

Source: Company, IIFL Research

Risks and Concerns

- **Volatility in HRC prices may impact profitability**
  As the raw material cost (majorly HRC and Zinc) forms ~85% of total sales, product demand and margins are directly affected due to volatility in steel prices. Increase in prices may affect demand as consumers can defer/ alternate their purchases whereas sharp decline in steel prices may lead to inventory loss. At times, the company may have to bear cost burden as price hikes may decrease the APL product demand due to intense competition and fragmented nature of industry.

- **Intense competition due to low entry barrier**
  Though APL is the leader with ~12% market share, the ERW Steel and tubes industry is highly fragmented with more than 50% share held by unorganized players. High asset turnover, low capex and minimum-technology requirement attracts large number of players in the growing economy. This remains a risk to APL's future growth story.

- **Delay in capacity expansion plans may affect volume growth**
  APL has expanded its capacity largely on-time in the past. However, any delay in capacity expansion timeline may affect its capability of fulfilling demand. Delay in expansion may escalate the logistic costs and deteriorate margins depending on lead distance from the other facilities to the consuming areas.

Valuation and Recommendation

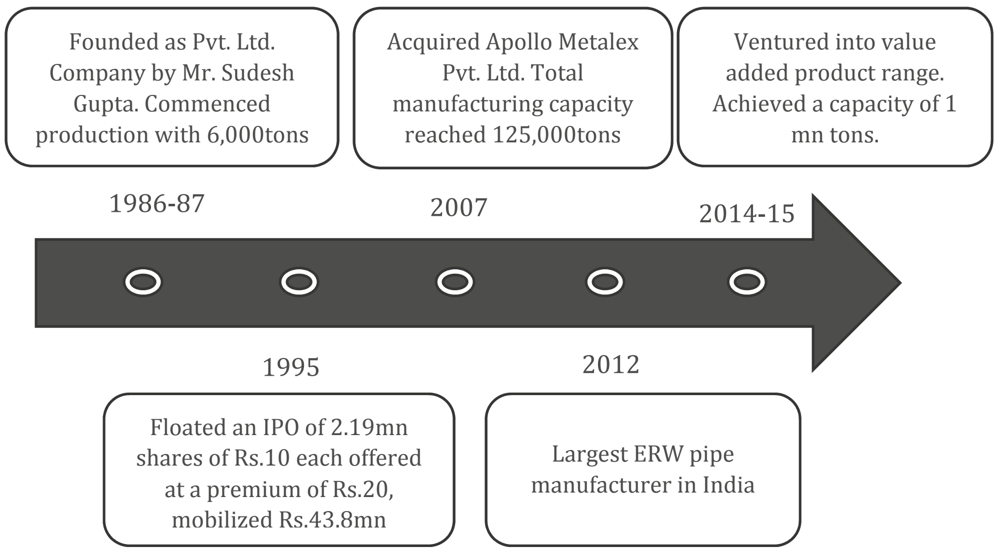
APL as a market leader in ERW steel tube manufacturer has created a niche for itself and has overcome nuances of the industry through effective practices within the industry. This has enabled the company to outperform its peers in the operating and financial parameters. During FY16, ROE stood at 18.9% and is expected to improve to 27.4% in FY18E and 27.0% in FY19E. Going forward, backed by a) improving industry outlook, b) APL's market leadership position, c) improvement in product mix and d) higher capacity coming on-stream, e) introduction of DFT and in-line galvanizing technology, we estimate the company to deliver operating profit growth of 25% CAGR over FY16-19E.

Despite the strong growth prospects, market leadership position and opening up of new business opportunity, APL is currently trading at attractive valuation of 5.0x on FY19E EV/EBITDA. We recommend a BUY on the stock with a target price of Rs.1,275 (6.5x FY19E EV/EBITDA).

Company Background

Incorporated in 1986, APL Apollo Tubes Ltd., commenced its journey with the production capacity of 6,000 tons in Sikandarabad (Uttar Pradesh), has now attained pole position in ERW steel tubes industry. Currently, the company is headquartered in Delhi NCR and its capacity of 1.3mn tons is spread across six manufacturing facilities located in Sikandrabad-3 units, Bangalore (Karnataka), Hosur (Tamil Nadu) and Murbad (Maharashtra). The products are offered in round, rectangle, square and various other shapes whereas the size of pipes ranges from 0.5 inch to 14 inches in outer diameter for round tubes, 12x12mm to 255x255mm in square sections and 26.5x13.5mm to 300x200mm in rectangular sections, 0.6mm to 10 mm in wall thickness and 3m to 12m in length. 80% of these products are supplied through 600+ distributors and follows a three-tier supply chain model (state wise wholesaler, district wise distributors and retailers whereas remaining 20% of the products are sold directly. Its clients are spread across the industry such as auto, engineering, solar power and firefighting and includes Metro (Delhi, Mumbai, Bengaluru, Hyderabad, Kolkata, Kochi & Jaipur), L&T, Gammon, GMR, Engineers India, MHADA, BHEL, IGL, Gujarat Gas, and Adani. The company has [ICRA] A rating for long term loans, CARE A rating for Non-Convertible debentures and [ICRA] A1 & ICRA A1+ [SO] rating for commercial papers showing high financial capability.

Timeline



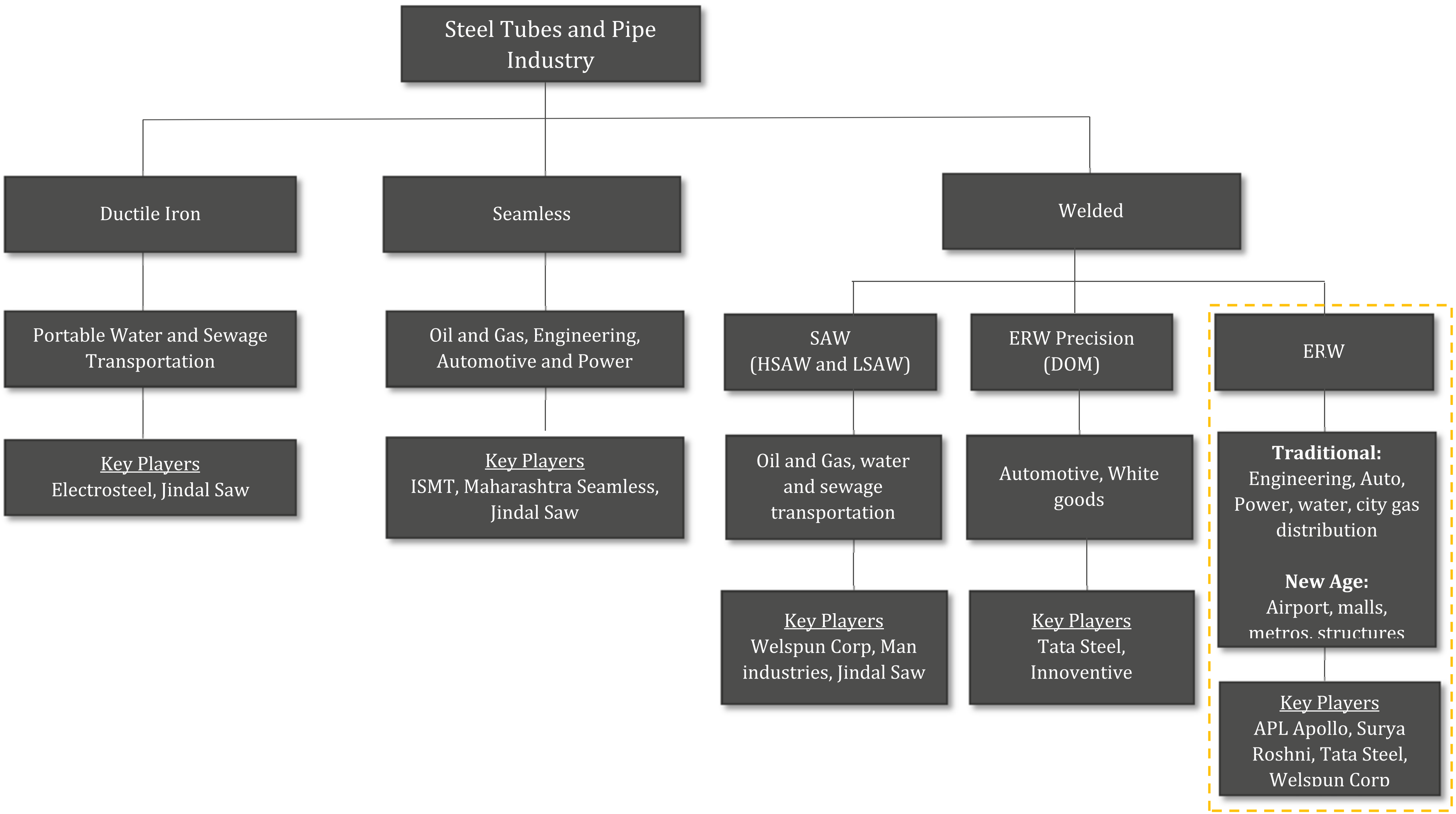
Management and Directors background

- **Sanjay Gupta- Executive Chairman:** has over 2 decades of rich experience in various steel industry segments and steers the company with a clear vision of growth in context with the changing market scenario. He spearheads the company and is responsible for formulating and implementing the business plans.

- **Ashok Gupta - Managing Director:** holds Master's degree in Physics, PGDBA from AIMA and has over three decades of experience in steel industry. He has been instrumental in transforming the organization into a modern pulsating giant, and their incremental profitability and expansions. In his illustrative career, he has worked at senior management positions in SAIL, Bhushan Steel, LN Mittal Group (African Continent) and Jindal.

- **Vinay Gupta – Director:** has over 16 years of experience in exports and international markets and possess in-depth knowledge of manufacturing and trading pipes, tubes, sheets and other steel products. He has been specifically assigned with the development of the company's pre-galvanized business & international markets.

Industry structure - Steel Tubes & Pipes



Financials (Consolidated)

Balance sheet

Y/e 31 Mar (Rs m)	FY15	FY16	FY17E	FY18E	FY19E
Equity capital	234	234	234	234	234
Reserves	4,717	5,441	6,516	8,042	10,629
Net worth	**4,951**	**5,676**	**6,750**	**8,276**	**10,863**
Other LT Liabilities	11	10	11	14	17
LT provision.	29	51	51	51	51
Borrowing	4,332	5,985	6,485	7,285	8,385
Deferred tax liab (net)	745	859	859	859	859
Total liabilities	**10,067**	**12,581**	**14,156**	**16,485**	**20,175**
Fixed assets	5,951	6,553	7,694	8,099	8,184
Intangible assets	429	429	429	429	429
Investments	191	131	131	131	131
Other Non-current Asset	693	582	707	899	1,085
Net working capital	**2,616**	**4,873**	**5,116**	**6,619**	**8,084**
Current Assets					
Inventories	3,196	5,944	6,216	7,898	9,537
Sundry debtors	1,753	2,199	2,299	2,921	3,527
Other current assets	114	87	90	115	139
ST. Loans & advances	730	665	695	883	1,066
Cash	188	13	78	307	2,261
Current Liabilities					
Sundry creditors	(2,045)	(2,540)	(2,656)	(3,375)	(4,075)
Other current liabilities	(868)	(1,041)	(1,089)	(1,384)	(1,671)
Provision	(263)	(440)	(440)	(440)	(440)
Total assets	**10,067**	**12,581**	**14,156**	**16,485**	**20,175**

Income statement

Y/e 31 Mar (Rs m)	FY15	FY16	FY17E	FY18E	FY19E
Revenue	31,402	42,146	44,079	56,002	67,622
Operating profit	**1,830**	**2,816**	**3,446**	**4,542**	**5,516**
Depreciation & Amortization	(220)	(341)	(561)	(623)	(668)
PBIT	1,610	2,475	2,885	3,919	4,848
Interest expense	(665)	(695)	(859)	(947)	(1,090)
Other income	31	104	104	104	104
Profit before tax	**977**	**1,630**	**2,129**	**3,075**	**3,861**
Taxes	(339)	(624)	(703)	(1,015)	(1,274)
Reported profit	**638**	**1,006**	**1,427**	**2,060**	**2,587**
Adj. Net profit	**638**	**1,259**	**1,427**	**2,060**	**2,587**

Cash flow statement

Y/e 31 Mar (Rs m)	FY15	FY16	FY17E	FY18E	FY19E
Cash flow from operation					
Profit before tax	977	1,630	2,129	3,075	3,861
Depreciation	220	341	561	623	668
Tax paid	(339)	(624)	(703)	(1,015)	(1,274)
Working capital Δ	1,634	(2,257)	(244)	(1,503)	(1,465)
Other operating items					
Operating cash flow	2,492	(910)	1,744	1,181	1,791
Cash flow from Investing activities					
Capital expenditure	(2,121)	(943)	(1,703)	(1,028)	(753)
Change in other non curr assets	(126)	111	(126)	(191)	(187)
Free cash flow	245	(1,742)	(85)	(39)	851
Cash flow from Financing activities					
Equity raised	230	(253)	-	0	675
Investments	(15)	59	-	-	-
Debt financing/disposal	(443)	1,653	500	800	1,100
Dividends paid	(169)	(281)	(352)	(534)	(675)
Other items	239	389	0	3	3
Net Δ in cash	**87**	**(175)**	**64**	**230**	**1,954**

WEALTH & ASSET MANAGEMENT

Ratio analysis

Y/e 31 Mar (Rs m)	FY15	FY16	FY17E	FY18E	FY19E
Growth matrix (%)					
Revenue growth	25.8	34.2	4.6	27.1	20.8
Op profit growth	11.2	53.8	22.4	31.8	21.4
EBIT growth	9.3	57.1	15.9	34.6	23.1
PBT growth	9.8	66.9	30.6	44.4	25.6
EPS growth	8.1	57.8	41.8	44.4	25.6
Profitability ratios (%)					
OPM	5.8	6.7	7.8	8.1	8.2
EBIT margin	5.2	6.1	6.8	7.2	7.3
Net profit margin	2.0	2.4	3.2	3.7	3.8
RoCE	16.7	22.8	22.4	26.3	27.0
RoNW	13.9	18.9	23.0	27.4	27.0
RoA	5.2	6.7	8.2	10.3	10.8
Per share ratios (Rs)					
EPS	27.2	42.9	60.9	87.9	110.4
Dividend per share	6.0	10.0	12.5	19.0	24.0
Cash EPS	36.6	57.5	84.8	114.5	138.9
Book value per share	211.2	242.1	288.0	353.1	463.5
Payout (%)					
Dividend payout	26.5	28.0	24.6	25.9	26.1
Tax payout	34.7	38.3	33.0	33.0	33.0
Liquidity ratios					
Debtor days	20.4	19.0	19.0	19.0	19.0
Inventory days	37.1	51.5	51.5	51.5	51.5
Creditor days	23.8	22.0	22.0	22.0	22.0
Leverage ratios (x)					
Interest coverage	2.5	3.7	3.5	4.2	4.5
Net debt / equity	0.8	1.1	0.9	0.8	0.6
Net debt / op. profit	2.3	2.1	1.9	1.5	1.1

Y/e 31 Mar (Rs m)	FY15	FY16	FY17E	FY18E	FY19E
Valuation ratios (x)					
P/E	33.6	21.3	15.0	10.4	8.3
P/BV	4.3	3.8	3.2	2.6	2.0
EV/EBITDA	14.0	9.7	8.1	6.3	5.0
Net Cash Equiv./Mcap (x)	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)
Dividend Yield	0.7	1.1	1.4	2.1	2.6
MCAP/Sales (x)	0.7	0.5	0.5	0.4	0.3

Du-Pont analysis

Y/e 31 Mar (Rs m)	FY15	FY16	FY17E	FY18E	FY19E
Tax burden (x)	0.7	0.6	0.7	0.7	0.7
Interest burden (x)	0.6	0.6	0.7	0.8	0.8
EBIT margin (x)	0.1	0.1	0.1	0.1	0.1
Asset turnover (x)	2.5	2.8	2.5	2.8	2.8
Financial leverage (x)	2.7	2.8	2.8	2.7	2.5
RoE (%)	**13.9**	**18.9**	**23.0**	**27.4**	**27.0**

IIFL Wealth Research bags 2 Best Analyst Awards

IIFL Wealth Research has bagged two prestigious awards at the ***Zee Business Market Excellence Awards 2016***.

Prayesh Jain was conferred the Best Analyst Award for Auto sector and **Bhavesh Gandhi** bagged the Best Analyst Award for Pharma sector.

Besides the twin awards, IIFL Wealth Research was also nominated in the categories of Oil/Gas, Banking and Industrials.

IIFL Wealth Research, as you know, has always prided itself on its unique value proposition in a swarming market space of cut-throat competition, among other things, on our wealth of actionable ideas, tailored portfolio approach and thorough research in line with client needs and priorities, distinctive practice of following up with Call Success post recommendations and a vast coverage universe of as many as 300 companies (comprising 70% of India's equity mcap).

In the past, the research team has won Zee Biz Awards under different categories; Bloomberg has rated our research as the most accurate, while we have twice been winners of Business Standard Smart Portfolios, having received awards at the hands of luminaries including President Pranab Mukherjee, Prime Minister Narendra Modi and Minister of State Piyush Goyal.

Recommendation parameters for fundamental reports:

Buy = >15%+

Accumulate = 5% to 15%

Reduce = -10% to 5%

Sell = >-10%

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