



# APL Apollo Tubes Ltd.

BSE SENSEX  
26242.38

S&P CNX  
8061.30

**CMP: INR913 TP: INR1248 (+37%) Buy**

(INR CRORES)

Y/E MARCH	FY16	FY17E	FY18E
Revenue	4,103	4,500	5,340
EBITDA	282	329	406
EBITDA Margin	6.9%	7.3%	7.6%
NP (Adj.)	126	146	195
EPS (Adj.)	42.9	62.5	83.2
EPS Growth	97%	16%	33%
BV/share	242	291	355
Core ROE (%)	24	23	26
Core ROCE (%)	22	21	25
P/E (x)	21.3	14.6	11.0
P/BV (x)	3.8	3.1	2.6

## KEY FINANCIALS

Diluted Shares (cr)	2.3
Market Cap. (Rs cr)	2,140
Market Cap. (US\$ m)	314
Past 3 yrs Sales Growth (%)	27%
Past 3 yrs NP Growth (%)	22%

## STOCK DATA

52-W High/Low Range (INR)	1008/557
Major Shareholders (as of Sep 2016)	
Promoter	38.8
Institutions	17.9
Public & Others	43.3
Average Daily Turnover(6 months)	
Volume	16,077
Value (INR cr)	1.5
1/6/12 Month Rel. Performance (%)	1/1/21
1/6/12 Month Abs. Performance (%)	2/1/24

**We recommend to BUY APL Apollo Tubes for a target of INR 1,248 - 15x on FY18E EPS (+37% Upside).**

**Market leader in ERW pipes:** APL is the largest manufacturer of Electric resistance welded (ERW) pipes in India (Market size INR 300 bn/~7.5 mt) with a capacity of 1.3 mt and enjoys a market share of ~15% in domestic market ahead of Tata steel (6%), DP Jindal group (7%) and Surya Roshni (6%). It has a diversified product portfolio that includes MS black (22% of Revenues), Galvanised tubes (13% Revenues), Pre galvanised tubes (18% Revenues) and Hollow sections (48% Revenues). We expect the domestic ERW pipe market to grow at a CAGR of ~9% over FY16-19E. The bulk of the growth will come from the construction and infra segments (airports, mall & prefabricated structures) using the structural pipes & demand from traditional applications (water supply, sewage and oil & gas). As pipes are the most convenient way for city gas distribution (CGD), increasing investment in the CGD segment and expanding CGD network will support steel pipe demand.

**Pan India presence - Significant competitive advantage:** APL is the only player to have pan India presence as it derives 44% of revenues from South, 27% from West and 20% from North. It has an extensive distribution network (2x compared to peers) of +400 distributors, 26 warehouses and over 10,000 retail networks across India.

**Growing successfully through capacity expansion:** APL has been increasing its market share over last 5 years by expanding capacities. It has expanded capacity by 165% to 1.3 mt in last 5 years. It is expanding its capacity further to 2.0 mt which is likely to be completed Q1 FY18. It is setting up a greenfield plant with 200,000 tpa capacity at Raipur in Chhattisgarh. The company is also enhancing its capacity by another 500,000 tpa at its existing locations using the direct forming technology (DFT) to produce pipes for structurals. With new capacity at Raipur, the firm will target Central & East India markets where its presence is low. We expect a volume CAGR of ~20% over next 3-4 years as the capacity utilization improves.

**Valuations & View:** APL is well placed to gain from expected recovery in demand owing to infrastructure push by the government. Timely capacity expansion along with plans of doubling the dealer network will help it capture growth opportunity. We initiate coverage on the stock with a 'BUY' rating valuing the company at 15x FY 18E EPS of INR 83.2 with for a per share target price of INR 1,248, giving an upside of around 37%.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

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## STRENGTH

**Healthy financials:** The company has delivered a CAGR of 14% in revenues since FY10; during the same period PAT delivered a CAGR of 27%. Strong focus on costs and tight control over working capital has yielded desired operating efficiencies for the company. Sound balance sheet management has led to sharp improvement in return ratios over the years. [ROE increased from 18% in FY12 to 24% in FY16, ROCE increased from 19% in FY12 to 22% in FY16].

**DFT Technology to aid margin expansion:** DFT technology will help in reducing ~10% conversion cost on account of lower wastage and raw material usage. It will also provide the flexibility to cater to more customized and small sized orders, helping it to earn higher margin. Further, it plans to increase volume of high margin galvanized pipes in its product profile going forward.

## INVESTMENT CONCERNS

**Sharp rise in steel prices may lead to lower margin:** Raw material is a major cost for the company, accounting for 83-85% of overall revenue. APL's key raw material is HR coils or strips, which are used to manufacture pipes and tubes. Although the company is a convertor, any sharp fluctuations in steel prices directly may impact profitability.

**Shift from galvanised pipes to PVC pipes:** PVC tubes are increasingly being used in agriculture, infrastructure, construction, and sewage sectors as a replacement for galvanised pipes. This could negatively impact the company's growth prospects.

**Delay in projects could hamper growth:** About 70% of APL's sales volume is from the structural segment, used in construction activities and building modern infrastructure, such as airports, malls and ports. Any delay in project execution or slowdown in investments can have a direct bearing on overall sales.

## Company background:

APL Apollo Tubes is the largest producer of ERW steel & tubes in India with a capacity to produce around 1.3mn tones per annum . The Company has 6 manufacturing facilities in Sikandarabad (Uttar Pradesh), Hosur (Tamil Nadu), Bengaluru (Karnataka), and Murbad (Maharashtra). The Company's key product categories include more than 300 varieties of MS Black pipes, Galvanized Tubes, Pre Galvanized Tubes, and Hollow Sections. Company's key focus is on producing structural ERW steel tubes. Products manufactured are largely sold in Tier II and Tier III cities of India via 3-tier distribution network comprised of more than 300 dealers.

## APL Apollo Tubes Ltd. Financials &amp; Valuation

INCOME STATEMENT						RATIOS					
(INRCR)											
Y/E MARCH	FY14	FY15	FY16	FY17E	FY18E	Y/E MARCH	FY14	FY15	FY16	FY17E	FY18E
<b>Net sales</b>	<b>2,497</b>	<b>3,029</b>	<b>4,103</b>	<b>4,500</b>	<b>5,340</b>	Adjusted EPS (INR)	25.2	27.2	42.9	62.5	83.2
Growth	24%	21%	35%	10%	19%	Book Value	181	211	242	291	355
COGS	2,231	2,681	3,559	3,825	4,528	Div Per Share	5.0	6.0	10.0	11.6	15.4
Employee Cost	34	41	63	72	85	Dividend Payout	20%	22%	23%	19%	19%
Other Expenses	68	235	310	342	401	Net Debt / Equity	1.1	0.8	1.1	0.8	0.5
<b>EBITDA</b>	<b>165</b>	<b>182</b>	<b>282</b>	<b>329</b>	<b>406</b>	P/E	36.3	33.6	21.3	14.6	11.0
EBITDA Margin	6.6%	6.0%	6.9%	7.3%	7.6%	P/BV	5.0	4.3	3.8	3.1	2.6
Depreciation	16	22	34	53	62	Dividend Yield	0.5%	0.7%	1.1%	1.3%	1.7%
Other Income	2	5	10	11	13	ROCE	17%	16%	22%	21%	25%
Interest Cost	61	66	70	65	61	ROE	15%	14%	24%	23%	26%
<b>PBT</b>	<b>89</b>	<b>98</b>	<b>188</b>	<b>222</b>	<b>296</b>	Debtor days	36	21	20	20	20
Tax	30	34	62	75	100	Inventory days	16	17	39	37	32
Rate	34%	35%	33.1%	34.0%	34.0%	Creditor days	20	28	26	24	25
<b>Adjusted PAT</b>	<b>59</b>	<b>64</b>	<b>126</b>	<b>146</b>	<b>195</b>	W.Cap cycle	33	11	33	32	27
Growth	-15%	8%	97%	16%	33%						
<b>PAT Margin</b>	<b>2.4%</b>	<b>2.1%</b>	<b>3.1%</b>	<b>3.3%</b>	<b>3.7%</b>						

BALANCE SHEET						CASH FLOW					
(INRCR)						(INRCR)					
Y/E MARCH	FY14	FY15	FY16	FY17E	FY18E	Y/E MARCH	FY14	FY15	FY16	FY17E	FY18E
Share Capital	23	23	23	23	23	<b>PBT</b>	<b>89</b>	<b>98</b>	<b>188</b>	<b>222</b>	<b>296</b>
Reserves	402	472	544	658	810	Adjustments	75	84	93	107	110
<b>Networth</b>	<b>425</b>	<b>495</b>	<b>568</b>	<b>682</b>	<b>833</b>	(Inc)/Dec in W.Cap	1	171	(227)	67	(51)
Minority interest	0	0	0	0	0	Others	(15)	(15)	6	(8)	20
Loans	477	433	599	549	489	Pre Tax OCF	151	337	61	387	375
Less Net Def. Tax Liab	52	74	86	86	86	Tax Paid	(18)	(22)	(50)	(75)	(100)
Less other long term liability	2	4	6	6	6	<b>CF from Operations</b>	<b>133</b>	<b>315</b>	<b>11</b>	<b>312</b>	<b>275</b>
<b>SOURCES OF FUNDS</b>	<b>957</b>	<b>1,007</b>	<b>1,258</b>	<b>1,322</b>	<b>1,414</b>	(Inc)/Dec in FA	(128)	(184)	(126)	(172)	(100)
Net Fixed Assets	400	571	623	602	712	Net investments	0	0	0	0	0
Capital WIP	25	20	32	172	72	Others	2	5	10	11	13
Goodwill	20	43	43	43	43	<b>CF from Investing act.</b>	<b>(126)</b>	<b>(199)</b>	<b>(101)</b>	<b>(161)</b>	<b>(87)</b>
Inventories	287	320	594	493	571	Equity issuance/ Share buy back1	0	0	0	0	0
Debtors	249	175	220	247	293	Inc/(Dec) in Debt	53	(44)	165	(50)	(60)
Cash & Investments	10	19	1	9	39	Interest Paid	(61)	(66)	(70)	(65)	(61)
Loans & Advances	68	0	0	0	0	Divd Paid (incl Tax)	(14)	(17)	(28)	(27)	(36)
Other Curr Assets	12	70	69	77	91	Others	9	21	4	(2)	0
Current investments	0	19	5	6	7	<b>CF from Financing act.</b>	<b>(12)</b>	<b>(107)</b>	<b>72</b>	<b>(144)</b>	<b>(157)</b>
Curr. Assets	627	603	890	830	1,000	Inc/(Dec) in Cash	(4)	9	(18)	8	30
Creditors and Prov.	193	316	402	404	492	Add: Opening Balance	14	10	19	1	9
<b>Net Current Assets</b>	<b>434</b>	<b>287</b>	<b>487</b>	<b>426</b>	<b>508</b>	<b>Closing Balance</b>	<b>10</b>	<b>19</b>	<b>1</b>	<b>9</b>	<b>39</b>
Other LT assets	78	85	72	79	79						
<b>APPLICATION OF FUNDS</b>	<b>957</b>	<b>1,007</b>	<b>1,258</b>	<b>1,322</b>	<b>1,414</b>						

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1. Analyst ownership of the stocks mentioned above	No
2. Served as an officer, director or employee	No

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