

## VISIT NOTE

### MID CAP

#### Share Data

Reuters code	APLA.BO
Bloomberg code	APAT IN
Market cap. (US\$ mn)	584
6M avg. daily turnover (US\$ mn)	0.5
Issued shares (mn)	24

#### Performance (%) 1M 3M 12M

Absolute	(3)	32	68
Relative	(6)	21	46

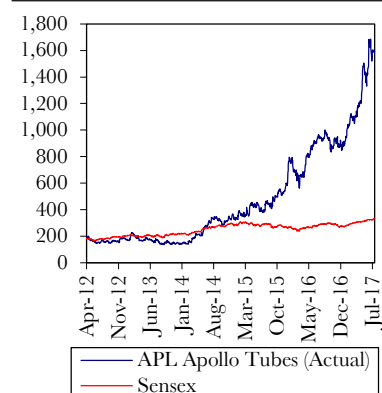
#### Valuation Ratios

Yr to 31 Mar	FY16	FY17P
EPS (Rs)	53.7	62.2
+/- (%)	97.5	15.9
PER (x)	12.5	18.9
PBV (x)	2.8	3.8
Dividend/Yield (%)	1.5	1.0
EV/Sales (x)	0.5	0.7
EV/EBITDA (x)	7.9	10.4

#### Major Shareholders (%)

Promoters	37
MFs	15
Public & Others	48

#### Relative Performance



## APL Apollo Tubes

**Not Rated**

**Price: Rs 1,576**

**BSE Index: 31,711**

**18 July 2017**

### Expanding capacity to capture impending demand

**We recently met the management of APL Apollo Tubes Ltd. and following are the key takeaways:**

**Bullish on growth prospectus:** APL Apollo Tubes (APL) is guiding for ~20% volume growth in FY18 with majority of the growth is expected to come in 2HFY18 (1H growth is expected to be around 10%). Management is expecting that infra and construction sector (solar power panels are also expected to be a big opportunity) would drive the growth going forward. A large part of demand comes from Tier II and Tier III cities which are witnessing healthy traction w.r.t. to demand. Management expect implementation of GST (as input credit will prompt buyers to buy from organised players) to aid it to capture larger market share going forward.

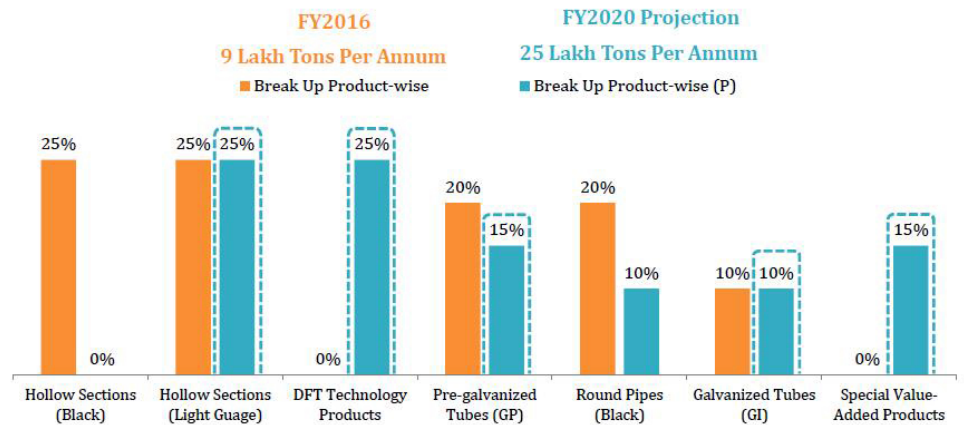
APL is also focusing on OEM's and export market to execute higher volumes. The company plans to increase OEM's share from 2% currently to 10% by 2020. At the same time it is trying to increase export share from 6% to 15%. Margins in these segments are expected to be similar.

**Increasing capacities significantly:** APL would continue to invest in increasing its capabilities. The company plans to increase its capacity from 1.3 mn tpa in FY17 to 2.0 mn tonnes by FY18 end. Nearly 0.2 mn tpa greenfield capacity is coming in Raipur (Chhattisgarh) with an eye to capture Eastern India market where APL has negligible presence with a capex of Rs 1.25 bn. Apart from that, APL is adding Direct Forming Technology (DFT) mill lines, a new technology which has several advantage over conventional mill. The total capacity of DFT mills across its existing facilities (Sikandrabad, Hosur, Murbad and Raipur) will be 0.5 mn tonnes. Eventually, APL may take up the total capacity to 2.5 mn tonnes by 2020.

**Future capacity expansion is self-sustainable:** APL is spending Rs 3.0 bn on the total expansion of 0.7 mn tpa (expecting payback period of three-four years). Out of above, the company has already spent Rs 2 bn and remaining Rs 1 bn it would spend in FY18. Post that APL would focus on increasing the utilisation levels of the plant. The business is self-sustainable; therefore management expect the capex (current as well as any future capex) to be funded by internal cash flows.

**Higher value-added sales to improve margins:** APL is gradually increasing proportion of value-added products. The company has introduced DFT technology (first time in India; value-added product having several advantage over conventional mill such as 3-7% lower weight for same pipe depending on thickness; can produce any size; set up/rollover time for different size is just 20 minutes versus 24-48 hours in traditional mills, etc.). This mill has 2-3% better margin versus other conventional products (25% of capacity by FY18 end). By 2020, APL expects to increase total value added product sales to ~90% from ~50% now.

## Shifting towards value-added products



**Contribution from value-added products expected to be over 90% by 2020**

Source: Company, B&K Research

**Large customer base and distribution network:** The company has vast customer base as no single customer's accounts for more than 5% of revenues. Lower dependence on any large single customer helps it to de-risk business model. The company has 600 distributors; 20,000 retailers and 26 warehouses across India. It is planning to open more warehouses in eastern India to capture that market as well. The company has also managed to get its dealers finance by banks to buy its products which would aid it to keep the working capital requirement in check.

### B&K's view and valuation

We expect volumes to continue to drive growth for APL. GST implementation (input credit would shift some unorganised demand to organised), government spent on infra and smart cities would act as catalyst for the demand growth. Increasing capacities without putting much pressure on balance sheet and growing PAN India presence to augur well for the company. At the current market price, the stock is currently trading at 10.6x and 8.5x FY18E and FY19E consensus (Bloomberg EV/EBITDA), respectively. We do not have rating on the stock.

### About APL Apollo Tubes

APL Apollo Tubes Ltd. (APL) is one of the largest players in Electric Resistance Welded (ERW) pipe segment having a capacity of ~1.3 mn tpa, spread across four locations namely Murbad, Hosur, Bengaluru and Sikandarabad. The key products in the portfolio include MS-Black, Galvanized Tubes, Pre-galvanized Tubes and Hollow Sections. APL products has widespread use in structural applications in infrastructures, housing, irrigation, solar plants, construction, automotive, storage system and transmission tower. The company sells ~80% of the product in retail market through its extensive distribution network.

### Existing capacities



Source: Company, B&K Research

**Note:** Raipur is a greenfield plant with a capacity of 200,000 tonnes per annum.

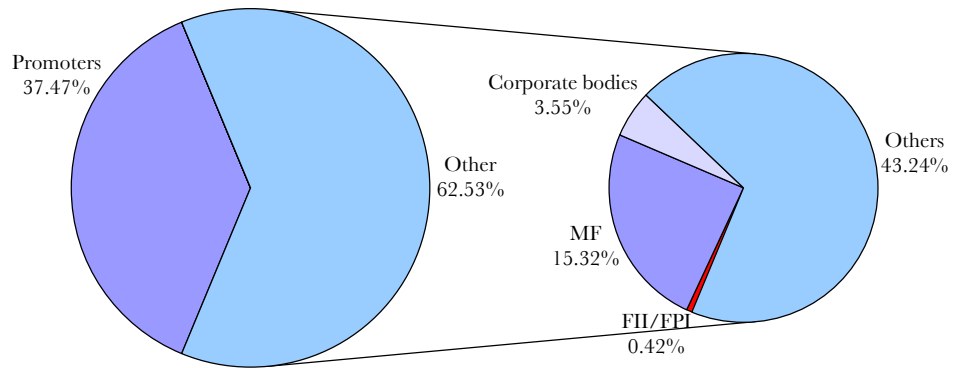
### Key management personnel

**Mr Sanjay Gupta, Executive Chairman:** He has experience of over two decades in various steel industry segments. He is instrumental in the stellar growth APL has witnessed over the last few years.

**Mr Ashok K. Gupta, Managing Director:** Mr Gupta is a steel industry veteran with over three decades of experience. Prior to joining APL, he has worked at senior management positions in SAIL, Bhushan Steel, LN Mittal Group (African Continent), Jindal, etc. He is MSc (Physics), PGDBA from AIMA.

**Mr Deepak Goyal, CFO:** A chartered accountant by profession, Mr Deepak Goyal has been the Chief Financial Officer of APL Apollo Tubes Limited since 18 February 2015. Prior to that, he was working as General Manager of Accounts at APL Apollo.

Shareholding pattern

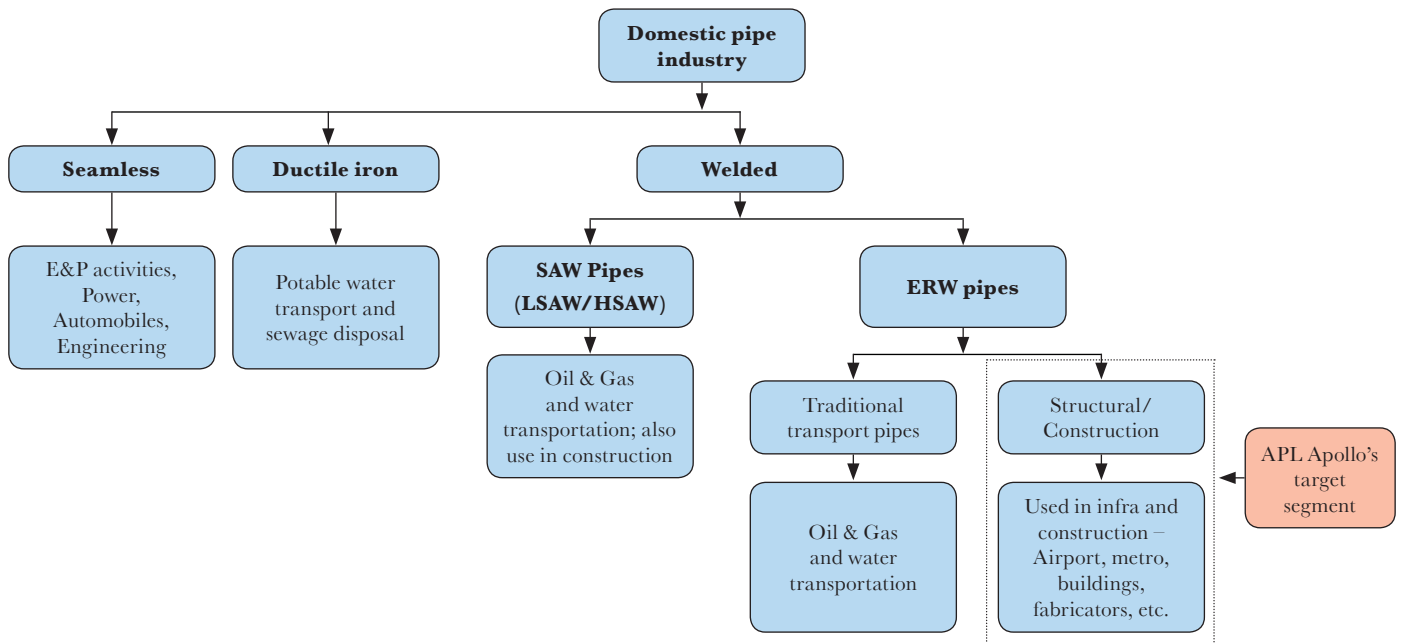


Source: Company, B&K Research

Industry

ERW pipe industry can be broadly divided into two broad categories; one is traditional which are primarily focused on oil & gas and water transportation and second is modern age applications such as structural and construction purpose – application in airports, malls, metro, bus bodies and pre-fabricated structure, etc. APL is focusing on later segment of ERW pipes and is the leader in this segment.






Industry snapshot



Source: Company, B&K Research

## Industries served by APL Apollo

### Catering to key sectors of the Indian economy

 <p><b>Infrastructure</b></p> <ul style="list-style-type: none"> <li>• Metros</li> <li>• Buildings</li> <li>• Airports</li> <li>• Ports</li> <li>• Greenhouses</li> <li>• Prefabricated</li> <li>• Smart Cities</li> </ul>	 <p><b>Construction</b></p> <ul style="list-style-type: none"> <li>• Conduit</li> <li>• Support Structures</li> <li>• Fencing</li> <li>• Railings</li> <li>• Cranes</li> <li>• Green Construction</li> </ul>	 <p><b>Automobiles</b></p> <ul style="list-style-type: none"> <li>• Truck &amp; Bus body</li> <li>• Heavy Vehicle Axles</li> </ul>	 <p><b>Energy</b></p> <ul style="list-style-type: none"> <li>• Power</li> <li>• Water Transport</li> <li>• Solar plants</li> <li>• City pipeline</li> </ul>	 <p><b>Agriculture</b></p> <ul style="list-style-type: none"> <li>• Agriculture Implements</li> <li>• Drip Irrigation</li> <li>• Water Distributor</li> <li>• Pump &amp; Water Conveyance</li> </ul>
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Source: Company, B&K Research

### Products range

<p><b>Black Hollow Section</b></p> 	<p><b>Black Round</b></p> 
<p><b>Pre-Galvanized</b></p> 	<p><b>Galvanized</b></p> 

Source: Company, B&K Research

### Robust product offering across 400+ varieties

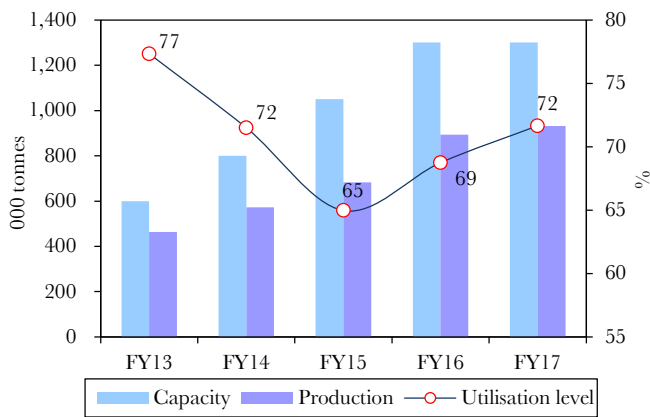
<p><b>Double Door Frame Section</b></p> 	<p><b>Narrow Sections</b></p> 	<p><b>D Shape</b></p> 	<p><b>Hand Rail</b></p> 
<p><b>Single Door Frame Section</b></p> 		<p><b>Z Shape</b></p> 	<p><b>L Section</b></p> 
<p><b>Paint Coated</b></p> 	<p><b>Pipe Dimensions</b></p> 	<p><b>T Shape</b></p> 	<p><b>Elliptical tube</b></p> 

Source: Company, B&K Research

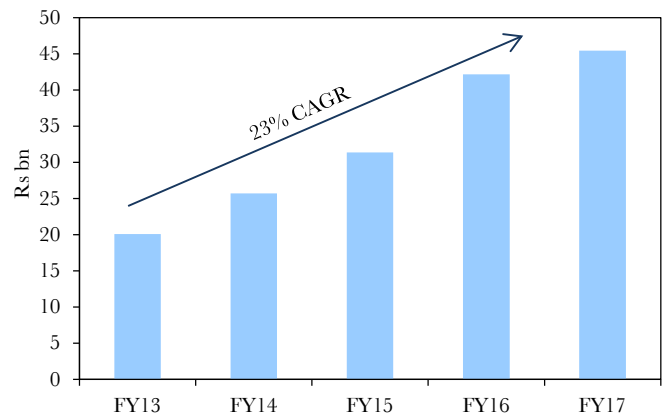
*70% of the company's products portfolio have limited competition*

### Key financial charts

#### Capacity and utilisation

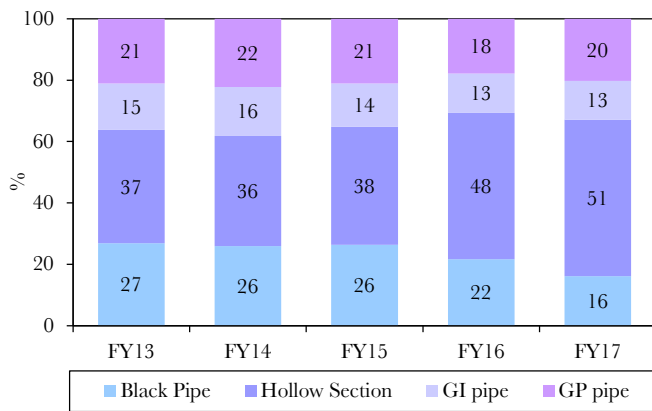


#### Revenue growth

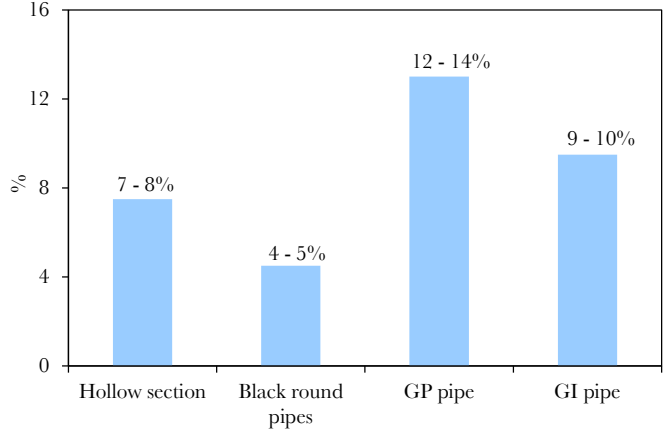


Source: Company, B&K Research

#### Sales volumes – product-wise contribution

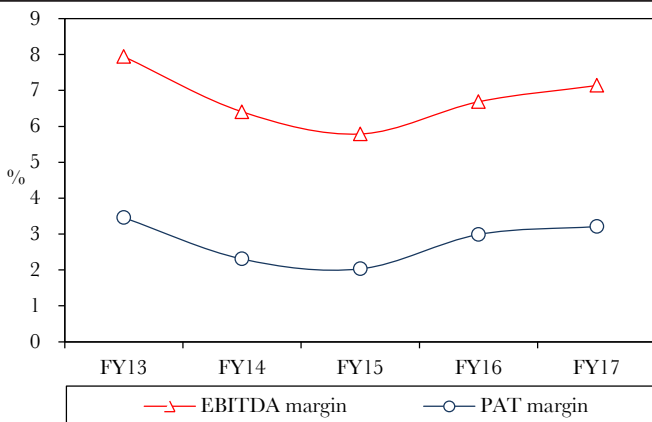


#### Product margin profile

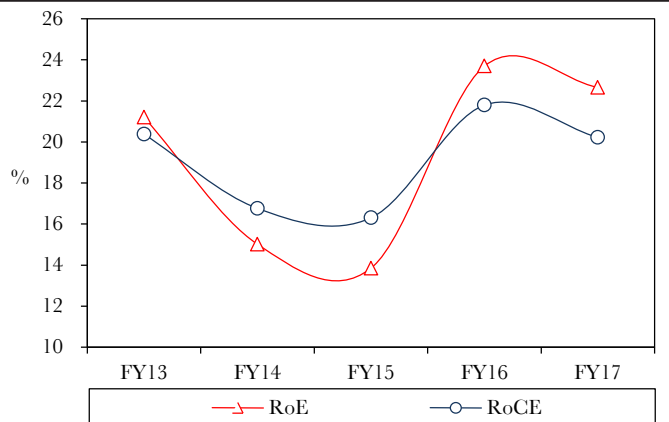


Source: Company, B&K Research

#### EBITDA and PAT margin trend

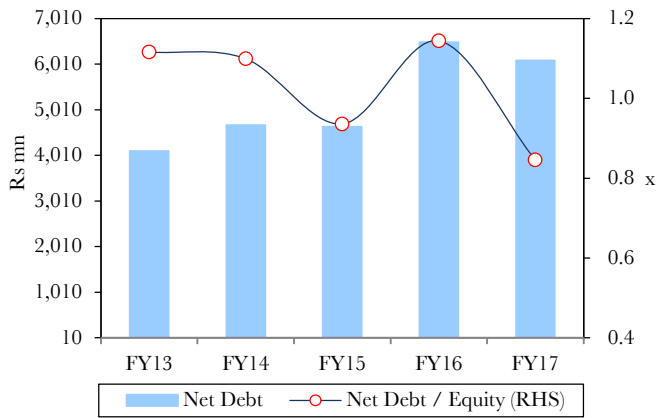


#### RoE and RoCE trend

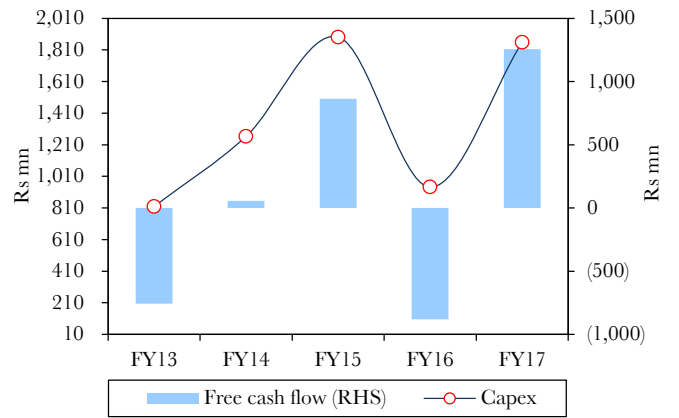


Source: Company, B&K Research

Net debt and Debt/Equity ratio



Capex and Free cash flow



Source: Company, B&K Research

**Income Statement**

Period end (Rs mn)	Mar 14	Mar 15	Mar 16	Mar 17P
<b>Net sales</b>	<b>25,689</b>	<b>31,383</b>	<b>42,136</b>	<b>45,450</b>
Growth (%)	27.9	22.2	34.3	7.9
Operating expenses	(24,043)	(29,567)	(39,319)	(42,206)
<b>Operating profit</b>	<b>1,646</b>	<b>1,816</b>	<b>2,817</b>	<b>3,244</b>
<b>EBITDA</b>	<b>1,646</b>	<b>1,816</b>	<b>2,817</b>	<b>3,244</b>
Growth (%)	3.2	10.4	55.1	15.2
Depreciation	(164)	(220)	(341)	(512)
Other income	20	45	103	38
<b>EBIT</b>	<b>1,502</b>	<b>1,641</b>	<b>2,578</b>	<b>2,770</b>
Finance cost	(609)	(664)	(695)	(683)
Exceptional & extraordinary	(3)	0	(253)	0
<b>Profit before tax</b>	<b>890</b>	<b>977</b>	<b>1,630</b>	<b>2,086</b>
Tax (current + deferred)	(300)	(339)	(624)	(627)
<b>P/(L) for the period</b>	<b>590</b>	<b>637</b>	<b>1,006</b>	<b>1,459</b>
Reported Profit/(Loss)	590	637	1,006	1,459
Adjusted net profit	592	637	1,259	1,459
Growth (%)	(14.6)	7.6	97.5	15.9

**Balance Sheet**

Period end (Rs mn)	Mar 14	Mar 15	Mar 16	Mar 17P
Share capital	234	234	234	236
Reserves & surplus	4,018	4,717	5,441	6,967
<b>Shareholders' funds</b>	<b>4,252</b>	<b>4,951</b>	<b>5,676</b>	<b>7,203</b>
<b>Non-current liabilities</b>	<b>1,918</b>	<b>2,191</b>	<b>2,796</b>	<b>2,037</b>
Long-term borrowings	1,372	1,406	1,876	1,049
Other non-current liabilities	546	784	920	988
<b>Current liabilities</b>	<b>5,333</b>	<b>6,086</b>	<b>8,130</b>	<b>9,261</b>
ST borrowings, Curr maturity	3,403	3,416	4,630	5,058
Other current liabilities	1,930	2,670	3,500	4,203
<b>Total (Equity and Liab.)</b>	<b>11,503</b>	<b>13,227</b>	<b>16,601</b>	<b>18,500</b>
<b>Non-current assets</b>	<b>5,221</b>	<b>7,194</b>	<b>7,706</b>	<b>9,492</b>
Fixed assets (Net block)	4,280	5,952	6,553	7,900
Non-current Investments	176	191	131	127
Long-term loans and advances	449	508	592	778
Other non-current assets	316	545	430	686
<b>Current assets</b>	<b>6,281</b>	<b>6,033</b>	<b>8,896</b>	<b>9,008</b>
Cash & current investment	101	188	14	17
Other current assets	6,180	5,845	8,882	8,991
<b>Total (Assets)</b>	<b>11,503</b>	<b>13,227</b>	<b>16,601</b>	<b>18,500</b>
Total debt	4,774	4,822	6,505	6,107
Capital employed	9,572	10,557	13,101	14,298

**Cash Flow Statement**

Period end (Rs mn)	Mar 14	Mar 15	Mar 16	Mar 17P
Profit before tax	890	977	1,630	2,086
Depreciation	164	220	341	512
Change in working capital	58	1,023	(2,270)	428
Total tax paid	(179)	(116)	(510)	(582)
Others	609	664	695	683
<b>Cash flow from oper. (a)</b>	<b>1,542</b>	<b>2,768</b>	<b>(114)</b>	<b>3,128</b>
Capital expenditure	(1,263)	(1,892)	(942)	(1,859)
Change in investments	(164)	(15)	59	4
Others	(61)	2	115	(16)
<b>Cash flow from inv. (b)</b>	<b>(1,487)</b>	<b>(1,905)</b>	<b>(768)</b>	<b>(1,871)</b>
<b>Free cash flow (a+b)</b>	<b>55</b>	<b>863</b>	<b>(882)</b>	<b>1,257</b>
Equity raised/(repaid)	(29)	0	0	2
Debt raised/(repaid)	529	47	1,684	(398)
Dividend (incl. tax)	(137)	(165)	(274)	(332)
Others	(458)	(659)	(702)	(525)
<b>Cash flow from fin. (c)</b>	<b>(96)</b>	<b>(776)</b>	<b>707</b>	<b>(1,254)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(41)</b>	<b>87</b>	<b>(175)</b>	<b>3</b>

**Key ratios**

Period end (%)	Mar 14	Mar 15	Mar 16	Mar 17P
Adjusted EPS (Rs)	25.3	27.2	53.7	62.2
Growth	(18.7)	7.6	97.5	15.9
CEPS (Rs)	32.3	36.6	68.3	84.1
Book NAV/share (Rs)	181.4	211.2	242.1	307.3
Dividend/share (Rs)	5.0	6.0	10.0	12.0
Dividend payout ratio	23.2	25.8	27.3	22.7
EBITDA margin	6.4	5.8	6.7	7.1
EBIT margin	5.8	5.2	6.1	6.1
Tax rate	33.6	34.7	33.1	30.1
RoCE	16.8	16.3	21.8	20.2
Total debt/Equity (x)	1.1	1.0	1.1	0.8
Net debt/Equity (x)	1.1	0.9	1.1	0.8
<b>Du Pont Analysis - ROE</b>				
Net margin	2.3	2.0	3.0	3.2
Asset turnover (x)	2.4	2.5	2.8	2.6
Leverage factor (x)	2.7	2.7	2.8	2.7
Return on equity	15.0	13.9	23.7	22.7

**Valuations**

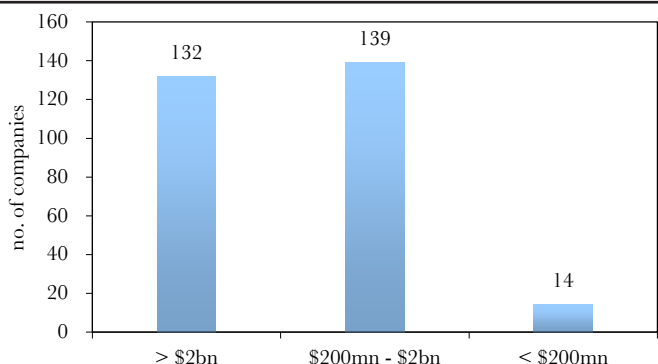
Period end (x)	Mar 14	Mar 15	Mar 16	Mar 17P
PER	7.7	14.7	12.5	18.9
PCE	6.1	10.9	9.8	14.0
Price/Book	1.1	1.9	2.8	3.8
Yield (%)	2.6	1.5	1.5	1.0
EV/EBITDA	5.6	7.7	7.9	10.4



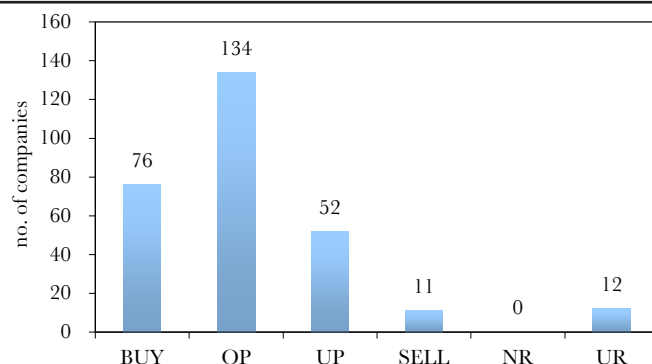
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## B&K Universe Profile

### By Market Cap (US\$ mn)



### By Recommendation



**B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.**

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	<b>LARGE CAP</b> (Market Cap > USD 2 bn)	<b>MID CAP</b> (Market Cap of USD 200 mn to USD 2 bn)	<b>SMALL CAP</b> (Market Cap < USD 200 mn)
<b>BUY</b>	>+20% (absolute returns)	>+25% (absolute returns)	>+30% (absolute returns)
<b>OUTPERFORMER</b>	+10% to +20%	+15% to +25%	+20% to +30%
<b>UNDERPERFORMER</b>	+10% to -10%	+15% to -15%	+20% to -20%
<b>SELL</b>	<-10% (absolute returns)	<-15% (absolute returns)	<-20% (absolute returns)

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