IDBI capital

Initiating Coverage

APL Apollo Tubes BUY

Capacities in-place; poised for strong volume growth

Summary

We initiate coverage on APL Apollo Tubes (APL) with a BUY rating and a target price of Rs1,920. APL is India's largest manufacturer of Electric Resistance Welded (ERW) pipes. It is also one of the lowest cost producers of ERW pipes with wide range of products and a large distribution network. In the past decade, APL has outperformed industry growth by gaining market share from small and unorganized players. These factors have resulted in strong return ratios for APL (Average ROE of 19% over FY10-19). With expanded capacity in place, we expect its volumes to grow at a CAGR of 20% over FY19-21E. Also, its EBITDA/net profit are expected to grow at CAGR of 24%/45% over FY19-21E, respectively. Lastly, its return ratios are expected to show remarkable improvement over FY19-21E.

Key Highlights and Investment Rationale

- **Robust business model:** APL has the ability to grow at a faster rate than its peers due to its strong reach. It has a distribution network of 790 distributors and 50,000 retailers spread across India. Apart from being a lowest cost producer, APL has been in the forefront to introduce new products and adopt new technologies. It introduced Direct Forming Technology (DFT) in FY16 which allows it to lower cost, offer wider range of products and lowers processing time.
- **Well-poised for strong volume growth:** Over FY12-19, APL has grown its volumes at CAGR of 21% driven by higher demand as well as market share gains. APL's ROCE has averaged 21% over FY12-FY19 which is far superior compared to its peers. Although APL's market share has increased from 12% in FY15 to 18% in FY19, however, market share of small and unorganized players is still high at 40%. We believe APL will continue to outperform the industry growth and we forecast its volumes to grow at a CAGR of 20% to 1.9 mn tonnes over FY19-21E.
- **Valuation attractive:** APL's stock is trading at an attractive valuation of 11x FY21E P/E given that we forecast its EPS to grow at CAGR of 43% over FY19-21E and ROE to improve to 22.7% in FY21 (16.5% in FY19). Further, its net debt to equity is expected to decline from 0.7x in FY19 to 0.3x by FY21. We value the stock at PER of 15x (15% discount to its last 5-year average one-year forward PE) FY21E to derive a target price of R1,920.

TP	**Rs1,920**
CMP	**Rs1,425**
Potential upside / downside	+35%

V/s Consensus

EPS (Rs)	FY20E	FY21E
IDBI Capital	89.1	128.0
Consensus	90.2	126.3
% difference	*(1.3)*	*1.3*

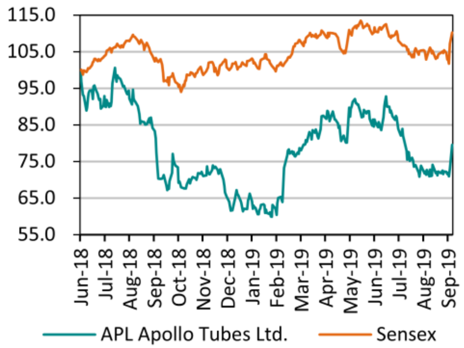
Key Stock Data

Bloomberg / Reuters	APAT IN /APLA.BO
Sector	Iron & Steel Products
Shares o/s (mn)	24
Market cap. (Rs mn)	34,559
Market cap. (US$ mn)	499
3-m daily average value (Rs mn)	28.4
52-week high / low	Rs1,683 / 1,009
Nifty / Sensex	39,090 / 11,600

Shareholding Pattern (%)

Promoters	37.2
FII	0.0
DII	11.2
Public	51.6

Relative to Sensex (%)



Price Performance (%)

	-1m	-3m	-12m
Absolute	9.4	(7.2)	(5.6)
Rel to Sensex	2.9	(6.9)	(11.7)

Financial snapshot **(Rs mn)**

Year	FY17	FY18	FY19	FY20E	FY21E
Revenue	38,051	51,561	68,946	80,587	98,290
EBITDA	3,330	3,710	3,928	4,769	6,083
EBITDA (%)	8.8	7.2	5.7	5.9	6.2
Adj. PAT	1,521	1,581	1,482	2,162	3,104
EPS (Rs)	64.5	66.6	62.2	89.1	128.0
EPS Growth (%)	20.1	3.3	(6.7)	43.4	43.6
PE (x)	22.1	21.4	22.9	16.0	11.1
Dividend Yield (%)	1.0	1.2	1.2	1.7	2.0
EV/EBITDA (x)	11.8	10.9	10.3	8.5	6.5
RoE (%)	23.9	20.5	16.5	19.7	22.7
RoCE (%)	21.6	21.2	18.9	19.9	23.5

Source: Company; IDBI Capital Research

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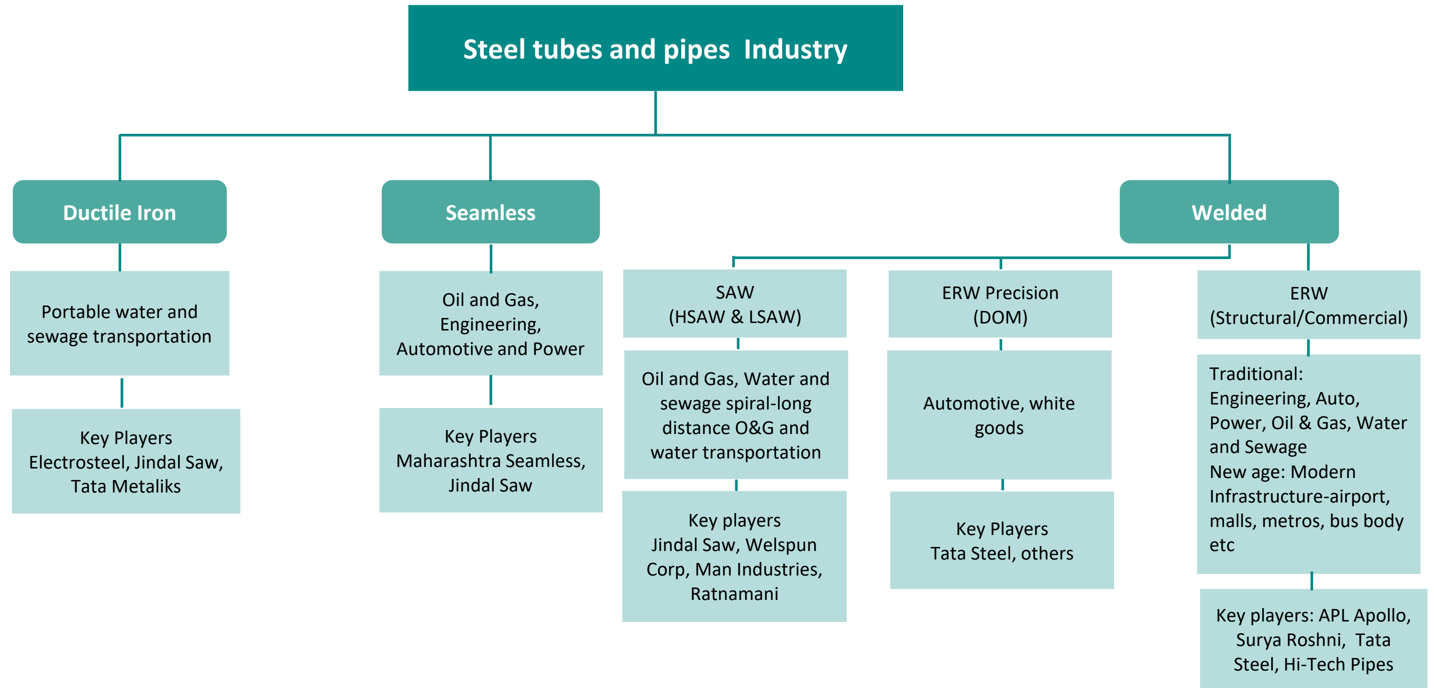
Industry overview

Steel pipes industry

Steel tubes and pipes can be classified into ductile iron, seamless and welded pipes. Welded pipes can be further classified into SAW (HSAW and LSAW) and ERW pipes. ERW pipes are formed by rolling plate and welding the seam. They are mainly used in the form of structural in the construction commercial buildings - airport, malls, metros, bus body, greenhouse structures, sprinklers, prefabricated structures, etc.

Exhibit 1: Classification of steel pipes industry



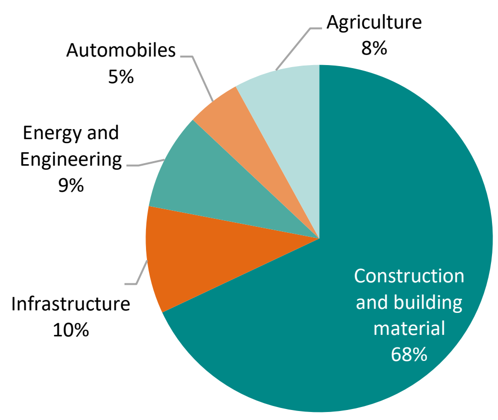
Source: Company, Industry data, IDBI Capital Research

ERW pipes demand is expected to grow at a CAGR of 8-10% over coming five years

ERW pipes to grow at a CAGR of 8-10% over coming five years

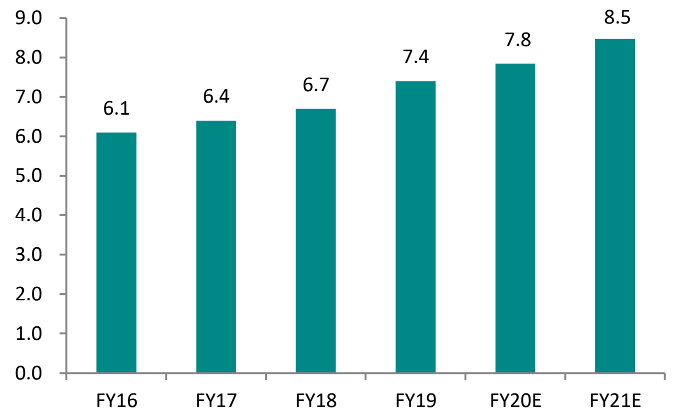
Domestic ERW pipes industry demand stood at 7.4 mn tonnes in FY19 with a market size of Rs400 bn. Demand for ERW pipes is driven by construction, building materials, infrastructure, automobile and energy sectors. Until last decade, ERW pipes were mainly used in sewage transportation, last mile gas distribution and automobiles. However, in the last decade, ERW pipes have found applications in infrastructure, commercial real estate, pre-fabricated structures and furniture due to increased load-bearing capacity. The key players in the industry are APL Apollo Tubes, Surya Roshni, Hi-Tech Pipes and Tata Steel. Crisil Research expects ERW pipes demand to grow at a CAGR of 8-10% over the coming five years driven by investments in water supply, irrigation, infrastructure projects, etc.

Exhibit 2: Uses of ERW pipes in different industries



Source: Company; IDBI Capital Research

Exhibit 3: ERW pipes industry growth trend (mn tonnes)



Source: Industry, Company, IDBI Capital Research

ERW structural pipes find application in various infrastructure and construction activities.

Exhibit 4: Uses of ERW structural pipes

Uses of ERW Pipes in various sectors

Construction and Building Material:
- Green construction
- Building/Smart cities
- Structural steel
- Scaffolding
- Fencing
- Roofing
- Window/Door frame
- Ducting
- Furniture
- Fire Fighting

Infrastrucure:
- Metros
- Airport
- Ports
- Prefabricated
- Gas Pipelines
- Telecom Towers
- Poles
- Stadiums

Energy and Engineering:
- Solar Plants
- Power Plants
- Cranes
- Gym Equipments
- Heavy Engineering Goods

Automobiles:
- Truck and Bus Body
- Heavy Vehicle Axle

Agriculture:
- Agricultural Implements
- Drip Irrigation
- Water Distributors
- Pump and Water Conveyance
- Greenhouses

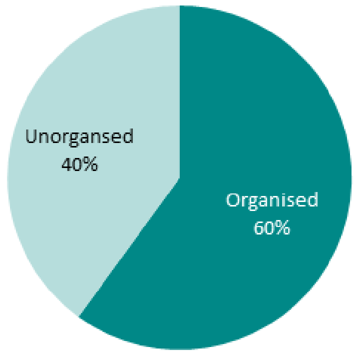
Source: Company, Industry, IDBI Capital Research

Share of small and unorganized players high

Share of unorganised players remains high in ERW pipes industry

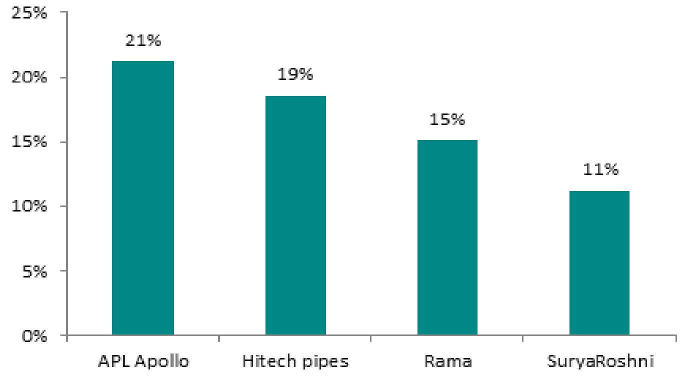
ERW pipes industry is largely a regional industry due to low operating margins (5-8%). Logistics costs can make it unviable to transport over long distances; hence proximity to end user is critical. Smaller and unorganized players face issues such as tight working capital, low capacity utilization, old technology, high cost of raw materials/ logistics, etc. Hence, organized players have recorded strong growth in the last five-seven years as they gained share from unorganized players and also due to growth in end markets. However, nearly 40% market share is still held by unorganized players indicating opportunities to penetrate further for organized players.

Figure 5: Market share of unorganized players remains high



Source: Company, Industry, IDBI Capital Research

Figure 6: Sales CAGR of key players over FY12-19



Source: Companies, IDBI Capital Research; Note: sales CAGR of Surya Lakhsmi for its Pipes segment only

The two largest players in the ERW pipes are APL and Surya Roshni. APL is dominant in GI Pipes and hollow sections with domestic market shares of 28% and 26%, respectively. Surya Roshni is India's largest exporter of ERW pipes and largest producer of GI pipes in India. It also manufactures API & Spiral pipes which find application in Oil & Gas.

Exhibit 7: Product profile of key players in ERW pipes

	APL Apollo	Surya Roshni	Tata Steel	Hi-Tech Pipes	Rama Tubes
Hollow section	Yes	Yes	Yes	Yes	Yes
Rounds	Yes	Yes	Yes	No	Yes
GP (Pre galvanized)	Yes	No	Yes	Yes	Yes
GI (galvanized)	Yes	Yes	No	Yes	Yes
API & Spiral	No	Yes	No	No	No
In line galvanizing pipes	Yes	No	No	No	No
Designer galvanized pipes	Yes	No	No	No	No

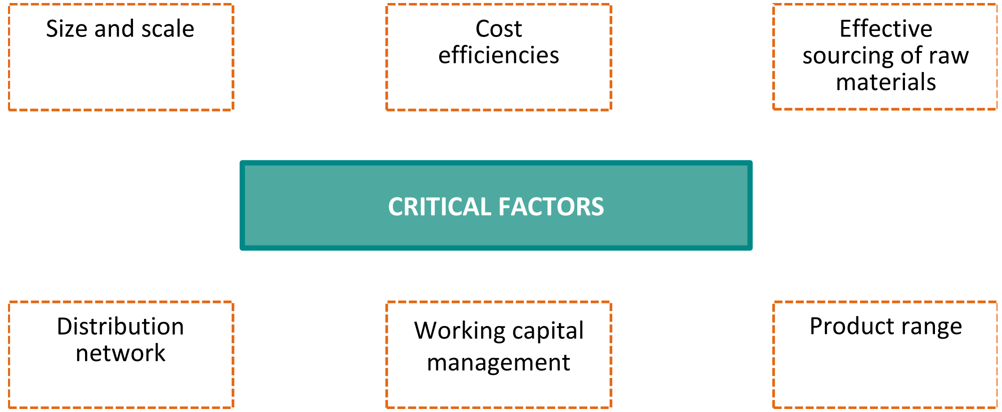
Source: Companies, IDBI Capital Research

Distribution network plays a key role in the ERW industry

Sales and distribution network critical to company's sales

ERW industry is largely domestic in nature with little threat from imports. Infact, the industry can be classified as regional in nature given wafer thin operating margins (5-8%) – logistics costs can make it unviable to transport the products over long distances. While manufacturing steel pipes is not a barrier to entry, working capital management, distribution network, scale and efficiencies play a critical role in the industry. The players compete amongst themselves on the basis on range of products and distribution reach.

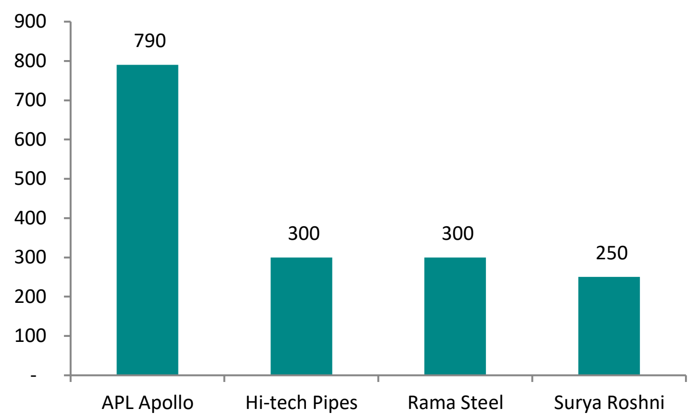
Exhibit 8: Critical factors in ERW pipes industry



Source: Company, IDBI Capital Research

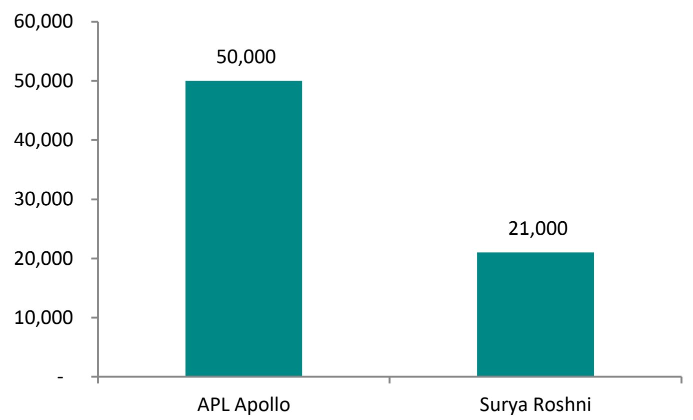
It is noteworthy that unlike steel companies, steel tubes and pipes are sold through a large network of distributors and retailers. APL sells nearly 85% of its products through dealers/ distributors; even for Surya Roshni, nearly 70% of its pipe sales are B2C.

Exhibit 9: Number of dealers/ distributors



Source: Companies, IDBI Capital Research

Exhibit 10: Number of retailers that sell APL and Surya Roshni products



Source: Companies, IDBI Capital Research

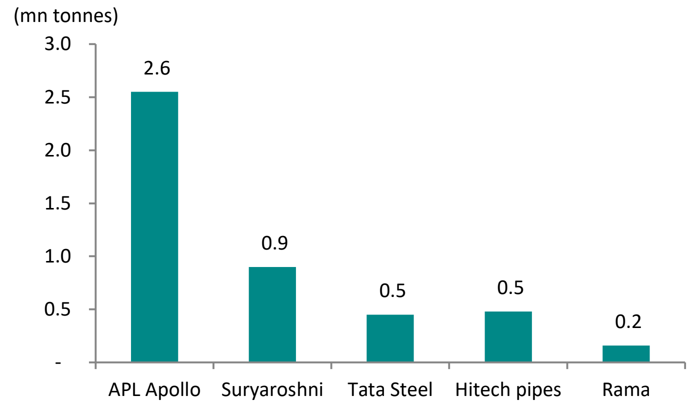
Investment thesis

Largest player in the industry with proven track record

APL has gradually gained market share from unorganized players over the years

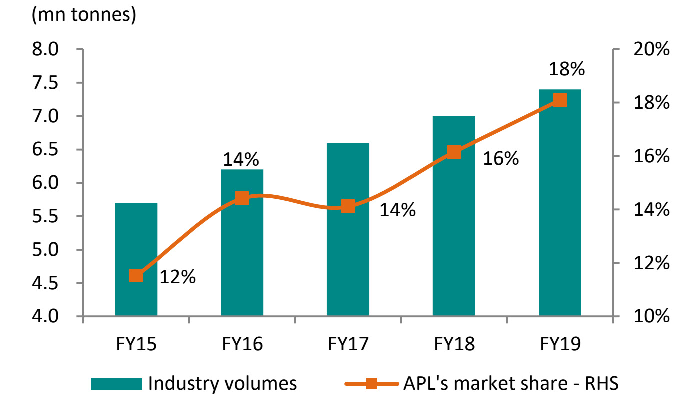
APL is by far the largest ERW pipe manufacturer in the country with a capacity of 2.6 mn tonnes. In the last decade, the company foresaw an opportunity in the ERW pipes as it was dominated by small and unorganized players. Over FY07-19, it has added capacities and grown its sales faster than the industry by gaining market share from unorganized players. Its market share increased from 12% in FY15 to 18% by FY19.

Exhibit 11: APL is by far the largest ERW pipe maker



Source: Company, IDBI Research

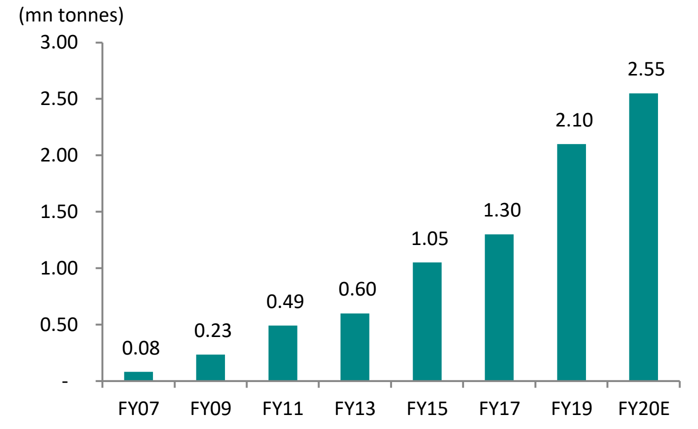
Exhibit 12: APL has outperformed ERW industry growth by gaining market share



Source: Company, IDBI Research

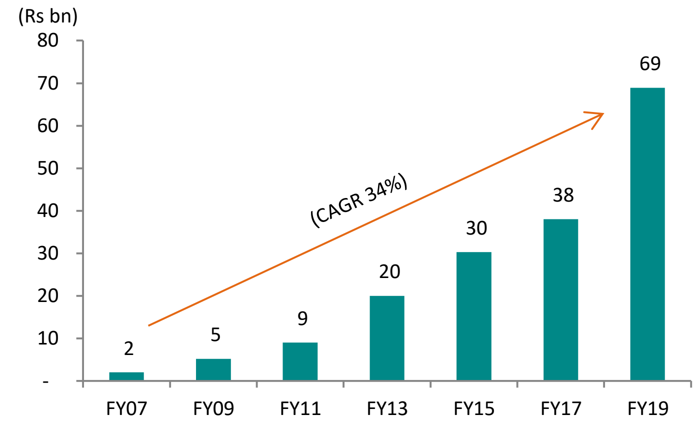
APL added capacities aggressively (organic as well as through acquisitions) and has managed to ensure offtake, thus proving its execution skills.

Exhibit 13: APL has expanded capacity aggressively..



Source: Company, IDBI Research

Exhibit 14: .. and grown sales at a strong rate

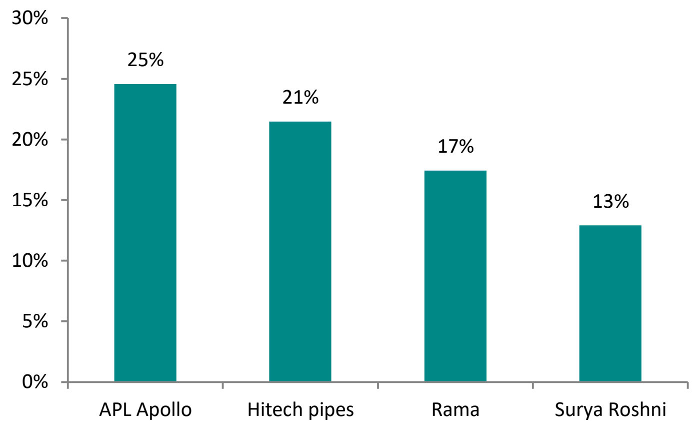


Source: Company, IDBI Research

APL has grown at a faster rate than competitors over FY12-19

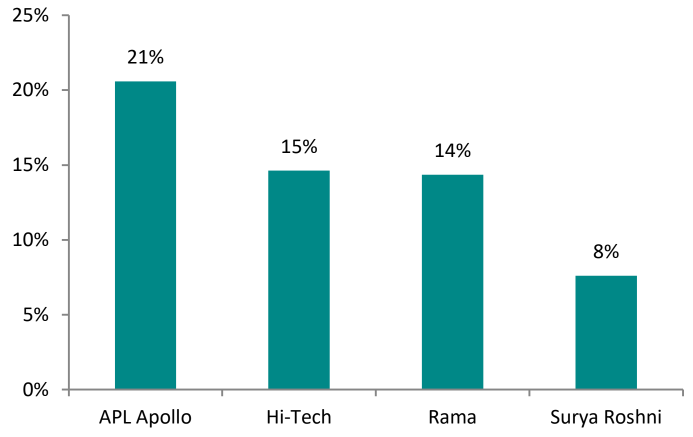
The organized players have witnessed strong growth over the past decade; APL has outperformed sales growth of its competitors. APL's ROCE's have been highest among Indian peers as it has reaped benefits of economies of scale, low cost, distribution network and technology-led efficiencies. It is noteworthy that APL's ROCE has averaged 21% over FY12-FY19 which is far better than its peers.

Exhibit 15: Sales CAGR has been strongest for APL (FY12-19)



Source: Company, IDBI Research; Note: Sales growth of Surya Lakhsmi for only Pipes segment

Exhibit 16: Even ROCE's have been superior than peers (Average - FY12-19)



Source: Company, IDBI Research; Note: ROCE of Surya Lakhsmi for its Pipes segment only

Technology led cost efficiencies

APL has been one-step ahead of its competitors to adopt new technologies. Apart from being the first company to offer pre-galvanised and colour-coated pipes, it has introduced the latest technology, DFT in FY16. Using DFT the company can manufacture pipes of different sizes in shorter time which is unmatched by other Indian players. In India, APL is the only company using this technology. We saw glimpses of DFT when we visited APL's Murbad plant (0.45 mtpa) in August 2019. DFT enables APL to: 1) offer customized sizes to customers, 2) lower cost and 3) save processing time.

Exhibit 17: Benefits of DFT

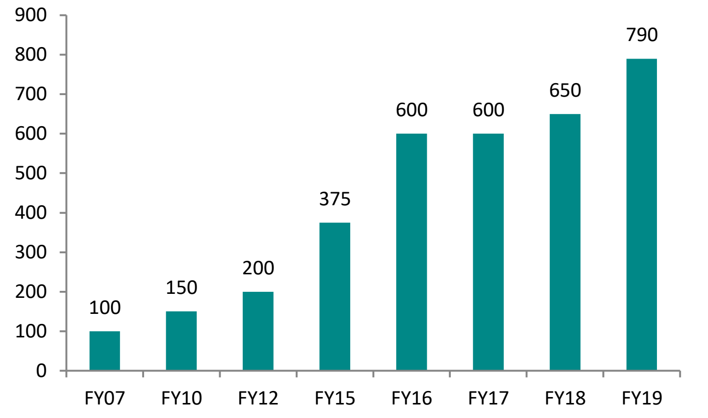
Customised orders	With DFT, APL can produce pipes in small batches allowing it to accept smaller orders
3-8% savings	DFT eliminates the wastage at the edges when round pipes are converted into square /rectangular pipes
Exports	DFT makes APL globally competitive and can undertake exports. APL sees opportunities in Middle East region
New products	APL can cater to new products which find application in gym, sports equipment, solar tracking system, truck and bus body due to DFT
Time	DFT can process smaller orders in 30-40 minutes which takes 6-8 hours using traditional methods as it involves multiples steps

Source: Company, IDBI Capital Research

Strong distribution reach ensures pan-India presence

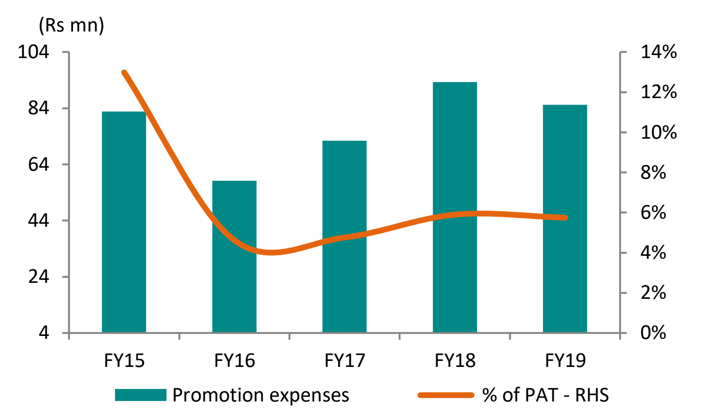
APL has wide coverage through 790 distributors and 50,000 retailers in 300 cities (far higher than the nearest competitor). It has expanded distribution reach and warehouses in line with expanded capacity. Sale of pipes is through warehouses that cater to dealers/distributors who in turn sell to retailers. The company derives ~85% of sales from distributors who sell to fabricators. Also, APL continues to promote its products through advertising in television, hoardings, etc. The numbers of SKUs is over 1,100 (unmatched by any of its peers).

Exhibit 18: Distributors growth has been in line with capacity expansions



Source: Company; IDBI Capital Research

Exhibit 19: Promotional expenses have averaged ~5% of PAT during FY16-19



Source: Company; IDBI Capital Research

Wide product basket aids competitiveness

APL constantly introduces new products and is on the forefront to adopt new technologies

It is noteworthy that APL constantly introduces new products to meet requirements of customers. It has one of the widest product portfolios in the industry. Application of DFT has enabled APL to offer pipes of new shapes and sizes at competitive prices.

Recently, the company has also introduced new products including door frame, window frame, handrail, T-section, narrow and small sections catering to the low cost housing segment.

Our channel check indicates that APL offers better incentives to the distributors who in turn push APL's products. While APL's products are priced similar to its peers, its cost advantages allow it to incentivize distributors/dealers better than its peers.

Our channel checks suggest APL has strong relationships with distributors

Exhibit 20: Key takeaways from channel check

Product prices	APL's product prices are comparable to other organized players; however, the prices are higher than those offered by unorganized/ smaller players
Range of products	APL's range of products in structural ERW is unmatched. It can offer shapes and sizes which others find it unviable to offer.
Dealer/Distributor incentives	APL engages its dealer/ distributors in variety of ways including higher commissions, foreign trips on meeting specific targets, training, etc.
Timely availability	APL ensures timely availability of products to its dealers/distributors.
Quality of products	APL's products are on par with large organized players while the quality is better than small and marginal players

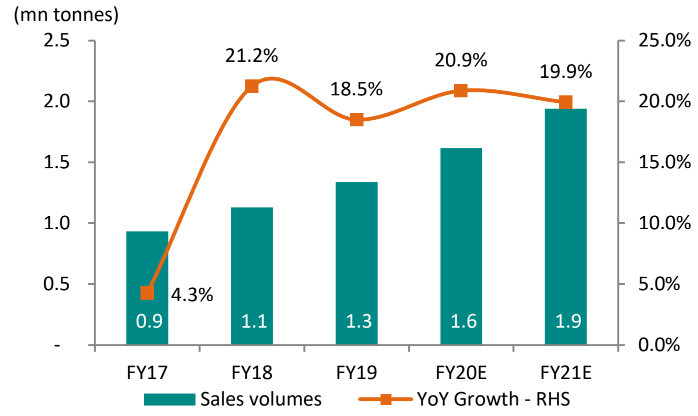
Source: Company, IDBI Capital Research

- **Capacities in place; volumes to grow at a CAGR of 20% over FY19-21E**

The company's capacity has increased from 1.3 mn tonnes in FY17 to 2.6 mn tonnes as of 30 June 2019 led by 1) DFT lines (600 kt), 2) Greenfield expansion at Raipur (350 kt), 3) acquisition of Shankara's Hyderabad unit (200 kt) and 4) acquisition of majority stake in Tricoat (250 kt).

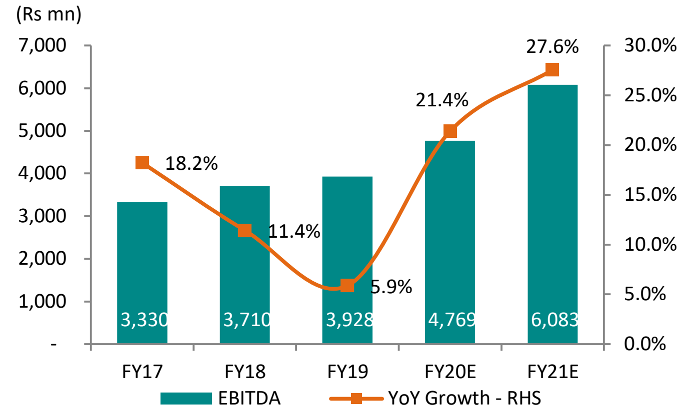
APL's cost efficiencies and distribution network has ensured it gained market share over the past decade. Looking ahead we believe it will continue to gain market share given its cost advantages, long-standing relationships with distributors, wide range of products and branding initiatives. Hence, we forecast APL's sales volumes to grow at a CAGR of 20% over FY19-21E. Even though we expect only modest improvement in EBITDA/tonne over FY19-21E, its EBTIDA is estimated to grow at CAGR of 24% over FY19-21E.

Exhibit 21: Volumes to grow at a CAGR of 20% over FY19-21E



Source: Company; IDBI Capital Research

Exhibit 22: EBITDA to grow at a CAGR of 24% over FY19-21E



Source: Company; IDBI Capital Research

- **Acquisition of Shankara's unit and majority stake in APL Tricoat widens product portfolio**

APL has a history of turning around sick units

Historically, APL Apollo has acquired plants which were struggling due to various reasons such as obsolete technology, working capital issues, high cost of production, etc. APL Apollo has been successfully in turning around atleast three such plants successfully.

Exhibit 23: APL Apollo has a history of turning around acquired plants

Year of acquisition	Acquired company	Acquisition price	Revenues (FY19)	Net profit (FY19)
2007	Apollo Metalex Pvt. Ltd.	Rs25 mn	Rs11,127 mn	Rs289 mn
2008	Shri Laxmi Udyog Pvt. Ltd.	Rs100 mn	Rs8,145 mn	Rs265 mn
2011	Lloyds Line Pipes Ltd.	Rs400 mn	Rs15,000 mn*	NA
2019	Taurus Value Steel Ltd.	Rs700 mn	NA	NA
2019	Apollo Tricoat	Rs1,870 mn	Rs72 mn	Rs26 mn

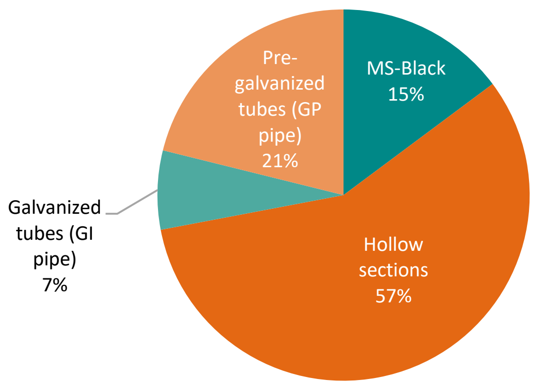
*Source: Company; IDBI Capital Research; Note: * Estimated value*

During April 2019, APL acquired Shankara Building Products's (Taurus Value Steel) 200 kt Hyderabad unit for Rs700 mn. The unit has line to produce high-margin GI and GP pipes. The company has order book from Shankara ensuring assured offtakes and quick turn-around.

In October 2018, Shri Lakshmi Metal Udyog Limited (SLMUL), wholly owned subsidiary of APL, had announced the acquisition of 8.0 mn shares and subscribed to 4.3 mn warrants of Apollo Tricoat Tubes. The 4.3 mn warrants were converted into equity shares during Q1FY20 bringing SLMUL's stake in APL Tricoat to 50.6%. The acquisition was partly funded after the promoter of APL infused Rs970 mn by way of 0.4 mn shares (preferential issue) at a price of Rs1,800. Also, APL has issued 0.5 mn warrants to promoters at a price of Rs2,000.

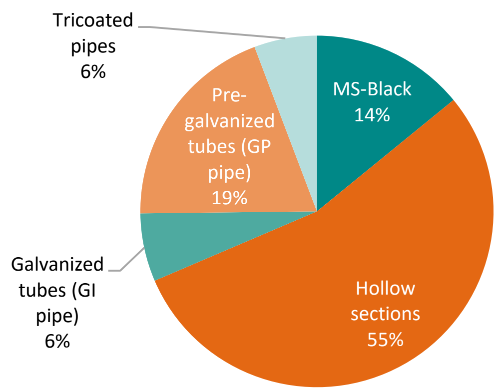
Over FY19-21E, we expect APL's product mix to improve in favour of high margin products as it ramps up production from Apollo Tricoat.

Exhibit 24: Product mix – FY19



Source: Company; IDBI Capital Research

Exhibit 25: Product mix – FY21E

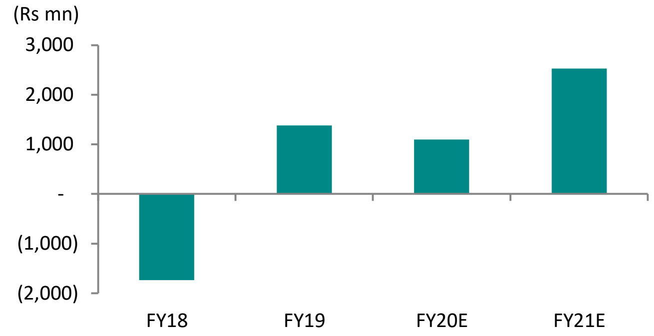


Source: Company; IDBI Capital Research

- **FCFF to improve; Leverage to come off;**

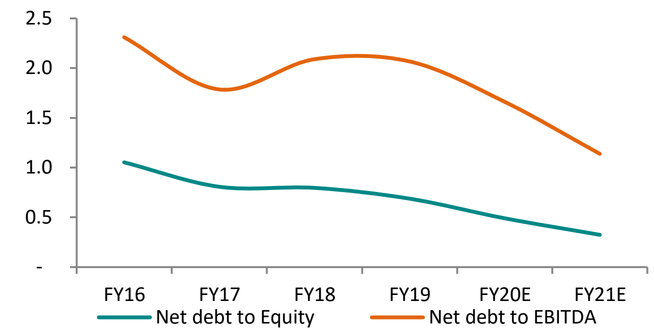
With recent acquisitions, APL has capacities in place to grow volumes at a healthy rate for the coming three years. The capex from FY21 would be only towards maintenance activities. Hence, we expect strong free cash flows from FY21. Further, its return ratios and credit profile is also likely to witness strong improvement.

Exhibit 26: FCFF to continue to improve in FY21



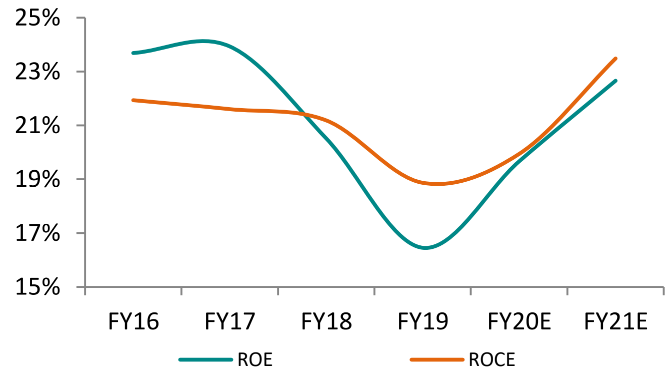
Source: Company; IDBI Capital Research

Exhibit 27: Leverage ratios to continue to improve



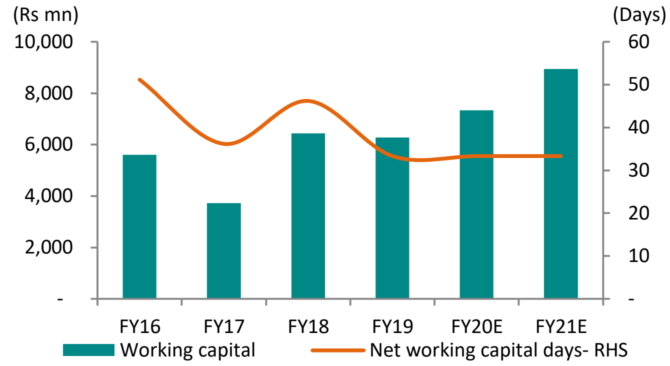
Source: Company; IDBI Capital Research

Exhibit 28: ROCE and ROE to shoot up



Source: Company; IDBI Capital Research

Exhibit 29: Working capital days to remain steady



Source: Company; IDBI Capital Research

Exhibit 30: Key assumptions

	Unit	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Sales volumes	Mn tonnes	0.4	0.5	0.7	0.9	0.9	1.1	1.3	1.6	1.9
Net Sales	Rs mn	20,017	24,849	30,294	41,031	38,051	51,561	68,946	80,587	98,290
EBITDA/tonne	Rs	3,749	3,107	2,766	3,152	3,574	3,283	2,933	2,946	3,134

Source: Company, IDBI Capital Research

Corporate governance check

Independent directors' representation on the board

Family owned businesses that have independent board members are frequently among the best governed companies. Independent Directors constituted 56% of APL's Board of Directors in the last five years indicating higher role of professionals compared to the promoters.

Exhibit 31: Representation of independent directors and promoters

	FY14	FY15	FY16	FY17	FY18	FY19
Promoters group Directors	2	2	4	6	4	4
Independent Directors	8	5	4	4	5	5
Total Directors	**10**	**7**	**8**	**10**	**9**	**9**
Share of promoter directors (%)	*20*	*29*	*50*	*60*	*44*	*44*
Share of independent directors (%)	*80*	*71*	*50*	*40*	*56*	*56*

Source: Company; IDBI Capital Research

Promoter group compensation analysis

APL's promoters' compensation as a percentage of net profits was on the higher side at 6% during FY14-15. Nevertheless, over FY15-18, with rise in profits, the compensation of promoters as a percentage of net profits has declined from 6% to 2%. However, in FY19, the compensation of promoters has risen due to Rs35 mn remuneration paid to Mr. Ashok Gupta.

Exhibit 32: Promoters group compensation

(Rs mn)	FY14	FY15	FY16	FY17	FY18	FY19
Mr. Sanjay Gupta	24	24	24	30	30	35
Mr. Ashok Kumar Gupta	11	11	2	-	-	35
Mr. Vinay Gupta	0	0	1	0	0	0
Total compensation	**35**	**36**	**26**	**30**	**30**	**70**
Total compensation as a percentage of net profit	*6*	*6*	*3*	*2*	*2*	*5*

Source: Company data, IDBI Capital Research

Related party transactions

We find that there have been no related party transactions that have a material impact on the company's financials, other than those related to fully-owned subsidiaries.

Exhibit 33: Related party transactions

(Rs mn)	FY14	FY15	FY16	FY17	FY18	FY19
Related party transactions (other than fully owned subsidiaries)	46	28	32	39	29	8
Net profit	590	638	1,006	1,521	1,581	1,483
Related party transactions as a % of net profit	*8*	*4*	*3*	*3*	*2*	*1*

Source: Company; IDBI Capital Research

Contingent liabilities

The company's contingent liabilities are not significant as a proportion of net worth. In FY17, the contingent liabilities had increased sharply as it had received a demand of Rs1,144 mn under Central Sales Tax Act, 1956 on account of non-submission of some statutory forms. Nevertheless, in FY18, APL deposited required forms and said demand was withdrawn by the sales tax authority.

Exhibit 34: Contingent liabilities

(Rs mn)	FY14	FY15	FY16	FY17	FY18	FY19
Contingent liabilities (Rs mn)	94	422	447	1,626	433	387
Net worth (Rs mn)	**4,252**	**4,951**	**5,676**	**7,034**	**8,379**	**9,641**
Contingent liabilities as a % of net worth	*2*	*9*	*8*	*23*	*5*	*4*

Source: Company; IDBI Capital Research

The board has appointed E&Y as its internal auditor in August 2019. We believe this is a positive step by the board to improve corporate governance practices.

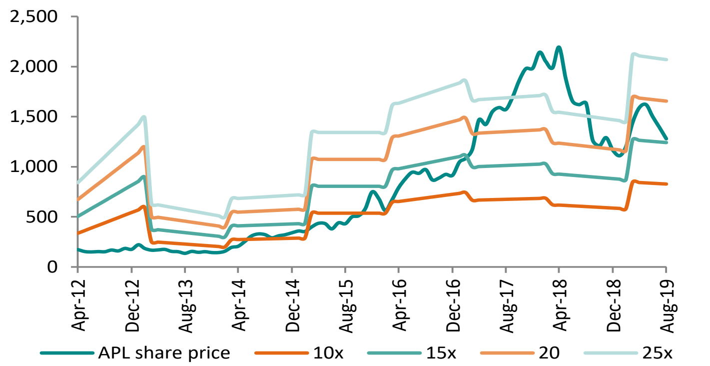
Valuation and Outlook

APL's net profit is expected to double over FY19-21E

- **Initiate coverage with a target price of Rs1,920**

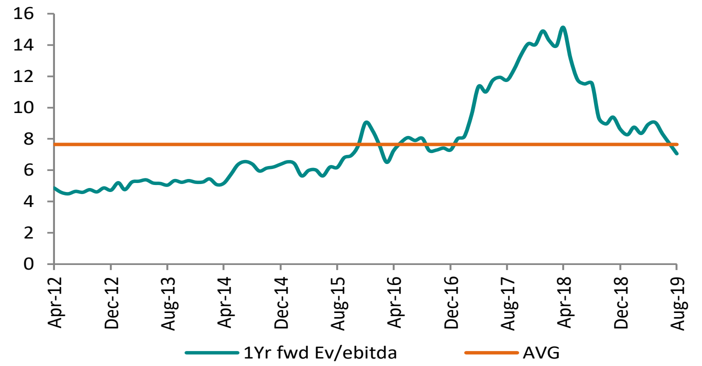
APL is the largest ERW steel pipe manufacturer in India with a proven track record. APL's stock is trading at an attractive valuations of 11.1x FY21E P/E given that we anticipate its EPS to grow at CAGR of 43% over FY19-21E and ROE to improve to 22.7% in FY21 (16.5% in FY19). We value the stock at PE multiple of 15x (15% discount to its last 5-year average one-year forward PE) on our FY21E EPS to derive a target price of Rs1,920.

Exhibit 35: One year forward PE multiple



Source: Bloomberg; IDBI Capital Research

Exhibit 36: One year forward EV/EBITDA multiple



Source: Bloomberg; IDBI Capital Research

Exhibit 37: Peer comparison

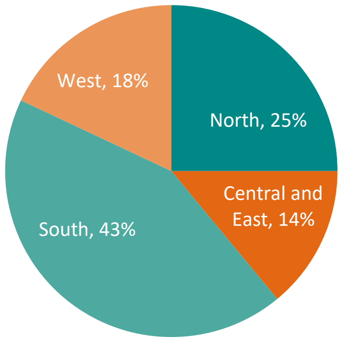
	Market Cap (Rs bn)	EV/EBITDA			PE			ROE(%)		
		FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
APL Apollo	34	10.3	8.5	6.5	22.9	16.0	11.1	16.5	19.7	22.7
Surya Roshni	10	4.9	4.9	4.4	8.3	6.9	5.8	11.0	11.5	12.4
Ratnamani Metals and Tubes	44	8.7	8.3	7.2	17.6	15.2	13.6	17.9	18.0	17.0
Tata Metalliks	16	4.6	4.6	3.9	7.8	9.0	7.5	32.3	20.9	19.3
Maharashtra Seamless	28	5.9	5.9	4.9	10.7	7.0	5.6	7.8	10.7	11.9
Average		**6.9**	**6.4**	**5.4**	**13.5**	**10.8**	**8.7**	**17.1**	**16.2**	**16.6**

Source: Bloomberg consensus estimates, IDBI Capital Research

About the Company

Established in 1986, APL is India's largest producer of ERW steel pipes. It is the only company which has pan-India presence with warehouses and branch offices in 29 cities. It operates manufacturing facilities at 8 locations with a total capacity of 2.55 mtpa. Its products including hollow sections, black round pipes, GI and GP pipes find application in construction, infrastructure projects, energy and engineering. The company has 790 direct distributors/dealers and 50,000 retailers. Nearly 85% of sales are through dealer/distributors.

Exhibit 38: Zone wise sales break up- FY19



Source: Company; IDBI Capital Research

Exhibit 39: Table showing plant location and corresponding capacity (mn tonnes)

Raipur (Greenfield capacity)	0.35
Murbad (Lloyds Pipelines)	0.45
Hosur (Unit 2)	0.55
Sikandarabad (Unit 1)	0.35
Sikandarabad (Apollo Metalex-Unit 1 &2)	0.30
Bengaluru (SLMUL)	0.10
Bengaluru & Dadri (Apollo Tricoat)	0.25
Hyderabad (Shankara)	0.20
Total capacity	**2.55**

Source: Company; IDBI Capital Research

Key risks

- **A sharp fall in steel prices:** A sudden fall in steel prices results in inventory losses (affecting margins) as witnessed in Q3FY19. Similarly, steel prices are estimated to decline 7-10% QoQ in Q2FY20; hence, we expect inventory losses in the quarter.
- **Slower than expected volume growth:** Over the past 7 years, APL's volumes have grown at a rate of 12-20%. We continue to expect similar growth rates in the coming three years. However, in case the company's volumes grow at a slower pace, it could de-rate the stock.

Financial Summary

Profit & Loss Account (Rs mn)

Year-end: March	FY18	FY19	FY20E	FY21E
Net sales	**51,561**	**68,946**	**80,587**	**98,290**
Growth (%)	*35.5*	*33.7*	*16.9*	*22.0*
Operating expenses	(49,637)	(67,595)	(78,639)	(95,647)
EBITDA	**3,710**	**3,928**	**4,769**	**6,083**
Growth (%)	*11.4*	*5.9*	*21.4*	*27.6*
Depreciation	(534)	(643)	(828)	(925)
EBIT	**3,176**	**3,286**	**3,941**	**5,158**
Interest paid	(813)	(1,134)	(1,123)	(1,031)
Other income	80	117	123	124
Pre-tax profit	**2,443**	**2,269**	**2,941**	**4,251**
Tax	(862)	(787)	(740)	(1,070)
Effective tax rate (%)	*35.3*	*34.7*	*25.2*	*25.2*
Minority interest	-	-	(39)	(77)
Net profit	**1,581**	**1,482**	**2,162**	**3,104**
Adjusted net profit	**1,581**	**1,482**	**2,162**	**3,104**
Growth (%)	*4.0*	*(6.2)*	*45.8*	*43.6*
Shares o/s (mn)	*23.7*	*23.9*	*24.3*	*24.3*

Cash Flow Statement (Rs mn)

Year-end: March	FY18	FY19	FY20E	FY21E
Pre-tax profit	2,443	2,269	2,941	4,251
Depreciation	533	643	828	925
Tax paid	(681)	(581)	(680)	(1,057)
Chg in working capital	(2,046)	865	(1,120)	(1,571)
Other operating activities	593	(793)	(362)	(374)
Cash flow from operations (a)	**842**	**2,403**	**1,607**	**2,173**
Capital expenditure	(1,943)	(2,045)	(2,000)	(1,000)
Chg in investments	7	(374)	-	-
Other investing activities	-	-	-	-
Cash flow from investing (b)	**(1,935)**	**(2,419)**	**(2,000)**	**(1,000)**
Equity raised/(repaid)	101	58	974	-
Debt raised/(repaid)	1,045	368	(100)	(1,000)
Dividend (incl. tax)	(400)	(402)	(584)	(700)
Chg in minorities	-	-	(39)	(77)
Other financing activities	-	-	-	-
Cash flow from financing (c)	**746**	**24**	**251**	**(1,778)**
Net chg in cash (a+b+c)	**(348)**	**8**	**(142)**	**(605)**

Balance Sheet

(Rs mn)

Year-end: March	FY18	FY19	FY20E	FY21E
Net fixed assets	9,209	10,611	11,783	11,858
Investments	120	494	494	494
Other non-curr assets	1,099	1,739	1,739	1,739
Current assets	**11,384**	**14,895**	**17,473**	**20,913**
Inventories	5,915	7,835	9,115	11,087
Sundry Debtors	4,321	5,433	6,350	7,745
Cash and Bank	68	478	959	1,132
Loans and advances	12	18	18	18
Total assets	**21,812**	**27,739**	**31,490**	**35,004**
Shareholders' funds	**8,378**	**9,641**	**12,344**	**15,046**
Share capital	237	239	243	243
Reserves & surplus	8,141	9,403	12,102	14,804
Total Debt	**6,734**	**7,101**	**7,001**	**6,001**
Secured loans	782	1,745	1,645	645
Unsecured loans	5,952	5,356	5,356	5,356
Other liabilities	1,290	1,684	1,753	1,771
Curr Liab & prov	**5,410**	**9,313**	**10,391**	**12,186**
Current liabilities	5,165	9,128	10,201	11,992
Provisions	245	186	190	193
Total liabilities	**13,433**	**18,098**	**19,145**	**19,958**
Total equity & liabilities	**21,812**	**27,739**	**31,490**	**35,004**
Book Value (Rs)	**353**	**404**	**509**	**620**

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY18	FY19	FY20E	FY21E
Adj. EPS (Rs)	66.6	62.2	89.1	128.0
Adj. EPS growth (%)	*3.3*	*(6.7)*	*43.4*	*43.6*
EBITDA margin (%)	*7.2*	*5.7*	*5.9*	*6.2*
Pre-tax margin (%)	*4.7*	*3.3*	*3.6*	*4.3*
ROE (%)	*20.5*	*16.5*	*19.7*	*22.7*
ROCE (%)	*21.2*	*18.9*	*19.9*	*23.5*
Turnover & Leverage ratios (x)				
Asset turnover (x)	2.6	2.8	2.7	3.0
Leverage factor (x)	2.6	2.7	2.7	2.4
Net margin (%)	*3.1*	*2.2*	*2.7*	*3.2*
Net Debt/Equity (x)	0.8	0.7	0.5	0.3
Working Capital & Liquidity ratio				
Inventory days	42	41	41	41
Receivable days	31	29	29	29
Payable days	28	38	38	38

Valuation

Year-end: March	FY18	FY19	FY20E	FY21E
P/E (x)	21.4	22.9	16.0	11.1
Price / Book value (x)	4.0	3.5	2.8	2.3
PCE (x)	16.0	16.0	11.6	8.6
EV / Net sales (x)	0.8	0.6	0.5	0.4
EV / EBITDA (x)	10.9	10.3	8.5	6.5
Dividend Yield (%)	*1.2*	*1.2*	*1.7*	*2.0*

Notes

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Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto ±5%; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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