IDEA RESEARCH

APL Apollo Tubes – The Pipe(d) Piper

APL Apollo Tubes (APAT) is the largest producer of Electric Resistance Welded (ERW) Steel Pipes and Sections in India with a manufacturing capacity of 2.55 mn MTPA. With pan India manufacturing capacities and extensive distribution network, they are able to cater to customers effectively and efficiently (95% of the revenues come from the dealer-distributor network). APAT has always been a pioneer in new technologies & innovative products which has helped it grow faster than its peers. They also invest continuously in enhancing brand awareness and develop the brand which in turn is creating entry barriers for new entrants.

Demand for ***ERW pipes is expected to grow at 8-10% CAGR on back of 1) substitution of wood by steel, 2) government push to boost consumption, infrastructure development, construction & agriculture, 3) shift of market share from unorganized to organised players and 4) development of new age applications*** such as agricultural implements, solar tracking systems, gym/sports equipments, construction equipment and automobile applications.

Coupled with enhanced capacities through in house expansion and acquisitions of Shankara and Apollo Tricoat plants, we expect volumes to grow at 2 – year CAGR of 19%. These acquisitions will help will help it to move up the value chain in existing high margin pre-galvanised (GP) and galvanised (GI) pipes segments and also foray into new, value added segments such as doors & designer pipes which will result in per ton EBITDA to improve from Rs 3,245- FY19 to Rs 3,500-FY21E.

Over the next 2 years, ***1) we expect earnings CAGR of 56.3%, 2) comfortable debt-equity ratio of 0.3x, 3) robust RoE/RoCE of 26.9%/32.7% and 4) high free cash generation of Rs2,638m*** which not only makes it attractively valued at PER of 12.9x FY20E and 9.2x FY21E earnings but also justifies a premium valuation. We initiate coverage with a ***BUY and TP of Rs 1792*** *(12x FY21E EPS)*.

Key financials (Y/e March)	2018	2019	2020E	2021E
Revenues (Rs m)	53,348	71,523	83,574	100,124
Growth (%)	*17.4*	*34.1*	*16.8*	*19.8*
EBITDA (Rs m)	3,710	3,928	5,257	6,648
PAT (Rs m)	1,581	1,482	2,587	3,621
EPS (Rs)	66.3	62.2	106.7	149.3
Growth (%)	*8.4*	*(6.2)*	*71.7*	*39.9*
CEPS (Rs)	88.7	89.1	142.7	186.7
Net DPS (Rs)	12.0	14.0	13.8	13.8
Profitability & Valuation	**2018**	**2019**	**2020E**	**2021E**
EBITDA margin (%)	*7.0*	*5.5*	*6.3*	*6.6*
RoE (%)	*20.5*	*16.5*	*24.1*	*26.9*
RoCE (%)	*32.5*	*27.7*	*30.4*	*32.7*
EV / sales (x)	0.7	0.6	0.5	0.4
EV / EBITDA (x)	10.6	10.4	7.5	5.7
PE (x)	20.7	22.1	12.9	9.2
P / BV (x)	3.9	3.4	2.8	2.2
Net dividend yield (%)	*0.9*	*1.0*	*1.0*	*1.0*

Source: Company Data, PL Research

Company Initiation

Monday, September 30, 2019

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Rating	BUY
Price	Rs 1375
Target Price	Rs 1792
Implied Upside	30.3%
Sensex	38,822
Nifty	11,512
Bloomberg Code	APAT:IN
Reuters Code	APLA.NS

(Prices as on September 27, 2019)

Tracking Data

Market Cap (Rs bn)	33.4
Shares O/s (m)	24.3
3M Avg. Daily Value (Rs m)	86.0

Major Shareholders

Promoters	37.1%
Domestic Inst.	12.6%
Public & Others	50.3%

Stock Performance

(%)	1M	6M	12M
Absolute	4.2	(5.3)	1.7
Relative	0.0	(6.4)	(3.7)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2020E	106.7	95.6	11.6
2021E	149.3	130.6	14.3

Investment Highlights

ERW pipes – growth through new age applications

The domestic markets size is 7.4mn TPA and valued at Rs 400bn. It is expected to grow at 8-10% on back of increasing demand from infrastructure construction, automobile and refining sectors. Within ERW pipes, the segment witnessing the highest growth is pre galvanised (GP) pipes primarily used in the coastal and hilly regions due to its non corrosive properties and as a replacement of wood in roofing structures. Other conventional areas of infrastructure development like metros and airports, building construction (prefab structures) are also adding to the demand.

Further new age applications such as agricultural implements, solar tracking systems, gym/sports equipments, construction equipment and automobile applications like truck and bus body and heavy vehicle axles are the other drivers of growth.

APL is also tapping the building material space through developing products for fencing, hand holding, railings, scaffolding, ducting, furniture, fire fighting, windows and door frames. Also substitution of wood with ERW pipes in products like door and window frames, tables, benches, railings etc is another factor driving growth.

Galvanised pipes (GI pipes) on the other hand are witnessing a slowdown as they are being replaced by PVC pipes in traditional applications such as irrigation, plumbing and agriculture. Black pipes are also gradually being replaced by structural pipes.

Pioneers in new technologies and creating process and cost efficiency

APAT has been a leader in adopting the latest technology from around the globe. It was the first company to offer pre - galvanized and colour coated pipes and then the first to bring Direct forming Technology (DFT) to India in 2016, which allows it to offer customized products at lower cost with shorter lead times as unlike traditional technology, where round pipes were formed first and then converted to square or rectangular, DFT enables direct formation of hollow pipes of various size and shapes. The technology will play a major role, given the fast growing construction and infrastructure sectors in the country.

There are multiple ***benefits of DFT***:

- Customized sizes which will also enable the company to produce pipes in smaller batches, take customized orders with higher margin and produce large-size tubes (200mmx200mm or 300mmx300mm), which are largely imported currently.
- Greater flexibility to modify the tube dimension without any change in the forming roll for standard sizes and non – standard sizes
- Enhances efficiency and reduces material cost by 2-10%.
  Reduces lead time as down time between design changes has got reduced significantly as plates no longer need to be changed

DFT has helped develop customisable sizes and expand product offerings

Source: Company Data, PL Idea Research

APAT acquired stake in Apollo Tricoat which is the first company to introduce global 'Galvant Technology', and will enable the company to expand its portfolio in the high margin segment.

Foraying in to new, value added segments through Apollo Tricoat

APAT through its wholly owned subsidiary Shree Lakshmi Metal Udyog Ltd (SLMUL) acquired 50.6% stake in Apollo Tricoat for Rs 1.87bn (by subscribing to 8mn shares and 4.3mn warrants which have already been converted) in October 2018. It was funded by way of equity infusion by promoters through warrants and preferential allotment.

Tricoat has a production capacity of ~2,50,000 MTPA which includes ~50,000 MTPA of In-line Galvanised pipes (ILG), 100,000 MTPA of designer pipes, ~50,000 MTPA of Door Frames and balance 50,000 MTPA of narrow sections. Per ton EBITDA on ILG and designer pipes is ~Rs 6000-7000, while that on door frames and narrow sections is lower at ~Rs 4000-5000.

During Q1FY20, this plant was operational for a period of 14 days and reported revenues of Rs 117m and volumes of 10,000 MTPA which translates into realisations of Rs 50,000/ton. The management has guided that Apollo Tricoat will fetch an EBITDA/ton of Rs 7500 based on their product mix. Going forward, they will sell ~100,000 MTPA in FY20E, 150,000 MTPA in FY21E and 200,000 MTPA in FY22E of Tricoat products.

***'Galvant technology'* to help expand presence in high margin coated pipe segment**

Source: Company Data, PL Idea Research

Tricoat is a product that provides corrosion resistance through its triple coating. It uses 'Galvant Technology' to ensure top of the line corrosion resistance. In this process, the HR coil is converted into tubes/sections, welded and coated with three layers. The inner layer of the steel tube is coated by zinc-rich polymer resin paint, while the outside of the tube is coated with zinc galvanisation which is further covered by a polymer coating - making it corrosion resistant with a smooth surface. The entire process occurs without any loss of continuity.

Acquisition of Taurus to help garner market share in the South

APAT recently concluded the acquisition of a production unit located at Hyderabad owned by Taurus Value Steel and Pipes (subsidiary of Shankara Building Products) in the month of May for Rs 700m. Commercial production began in the month of June. The acquisition has added production capacity of ~200,000 MTPA which includes black pipes (45,000 MTPA), GI pipes (30,000 MTPA) and GP pipes (125,000 MTPA). The capacity is currently operating at a monthly run rate of 10,000 tons and will gradually be ramped up to a peak of 15,000 TPM over the next two years. GP and GI pipe capacities will be operational by December-19.

The Raipur and Hosur plants are operating at peak utilisation and hence some of the production will be shifted to this plant in to order to ease out the pressure. This will result in cost savings on account of lower raw material cost as well as freight. Previously, at Hosur they procured steel from JSW where as at Hyderabad, they will buy from Tata Steel which will be cheaper by Rs 200-300/ton. There will also be freight cost saving of Rs 700/ton. The total benefit of ~Rs 1000/ton will be passed on to the customer in order to capture the market. At present there is no organised player in Hyderabad. Both Vijaywada and Hyderabad are developing markets. While initially this plant is likely to fetch EBITDA/ton of Rs 1600-1900/ton it can potentially go up to Rs 3,000/ton once operating leverage flows in. Shankara will be buying ~150,000 tons in FY20 from APL. The MoU states that they will buy 250,000 tons from APL in FY20.

Focus on cost management to help sustain margins

Pan – India presence of APAT has ensured proximity to the consuming markets, optimised logistic costs. Management has said that being the market leader APAT enjoys a discount of Rs 500-1,000 over its competitor in raw material procurement. APAT has set up a cold-rolling mill in Uttar Pradesh with a capacity of almost 2 lakh MTPA for enhancing the availability of low-thickness material (up to 1 mm). This will facilitate in significant raw material cost-savings for the company. Increased usage of renewable energy will reduce electricity and maintenance cost. On account of these cost saving strategies the company has emerged as the lowest cost producer in India.

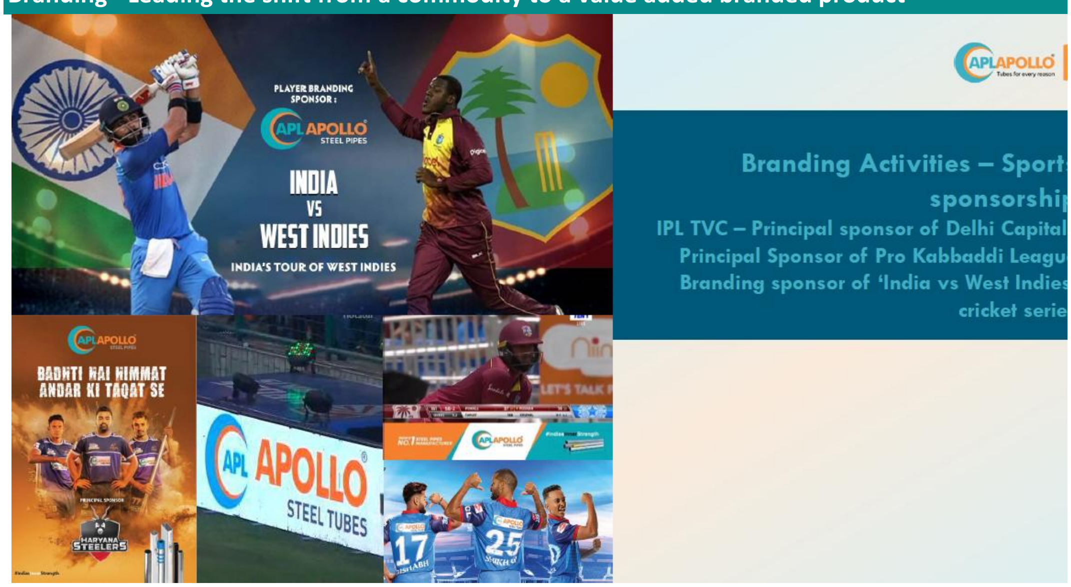
Entry barriers created through extensive distribution network and branding

Amongst its peers, APL Apollo is the only company which has a pan India dealer distributor network of roughly 790 distributors, 27 warehouses and 50,000 retailers ensuring proximity to its end customers and localizing supply thereby fast tracking its growth. They contribute to ~92% of the business, balance being direct sales to OEMs. APAT has introduced innovative incentive schemes for dealers such as multi-day international Cruise. They also have tie ups with SBI, Axis, ICICI and HDFC Bank for channel financing. Dealers get 45-60 days credit at competitive rates of interest.

A focused branding strategy has helped APAT to create awareness and visibility of its brand. The company participates in trade expos, fabricator meetings and its brand engagement programmes (rural brand van activation programmes) has helped in better sales growth in tier II and III cities.

During FY19, 'APL Apollo' TVC was launched, supporting Delhi Capitals for IPL which helped to reach mass connect and visibility. APAT also became the principal sponsor of Haryana Steelers for the 7th season of Pro Kabbadi League. The company has signed a one-year association which will see "APL Apollo" brand featuring across various platforms including the official playing kits and team jersey. During Q1FY20, APAT became branding sponsor of "India vs West Indies" cricket series through which "APL Apollo" brand will be featured when the player profile is showcased.

Branding - Leading the shift from a commodity to a value added branded product



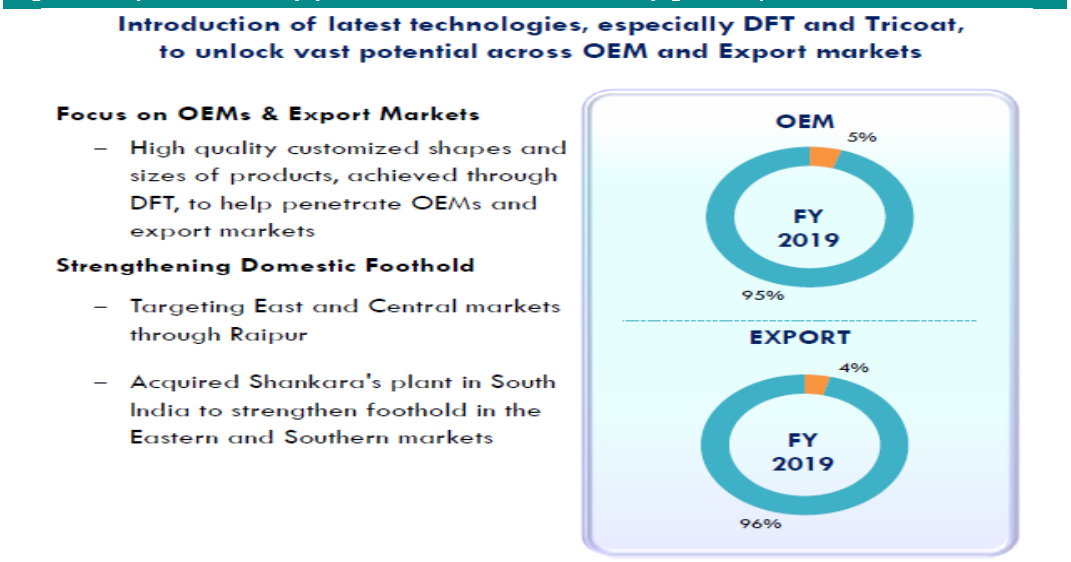
Source: Company Data, PL Idea Research

Better access to global markets and OEMs due to implementation of DFT

Previously, the company was exporting only galvanized pipes. Currently, there is a lot of demand for square and rectangular sections particularly in Middle East and Europe. DFT helps cater to this demand due to economies of scale, mainly reduction of roll-over time, less storage space and production of pipes with greater accuracy in terms of breadth and height. The new product manufactured using DFT has been well accepted in Dubai, Abu Dhabi, and other parts of Middle East. Hence the company has set up its first international warehouse in Dubai. It will help to serve customers more effectively as well as strengthen brand awareness in global markets.

The management is expecting DFT to be a key catalyst in ramping up export sales. Presently OEM sales account for 5% of revenues and exports, 4%. Since DFT has come up, export enquiries have increased significantly. Management is witnessing EBITDA/ton to be higher by as much as 10-12% than the conventional EBITDA. On new sizes, it has started getting a premium which is as much as 10-20%. These lines are producing 8,000-10,000 TPM and going forward the company plans to increase it to 15,000-20,000 TPM.

Higher acceptance of DFT pipes in overseas markets to help grow exports



Source: Company Data, PL Idea Research

Indian Steel Pipe Industry to grow at a healthy pace

The steel demand in India is expected to grow around 6-8% by FY21, of which, steel pipe accounts for 10-12%. This proportion indicates the significant opportunity for steel pipe consumption in the years to come.

Steel pipes have traditionally been used for transporting water, oil, other liquids and gases. But today they have found application as hollow structures in other industries like building materials, automobile and daily utility items such as umbrellas, chairs etc. Also, replacement of wood by steel is driving demand. Further, strong Government impetus, increasing purchasing power, improving lifestyle dynamics, among others, are likely to catalyse the demand for steel pipe products from the infrastructure, construction and building materials sectors, energy, engineering, automobile and agricultural segments.

India is the global manufacturing hub for steel pipes with a capacity of 8mn MTPA which is expected to grow 10% annually for the next 5 years. APL Apollo is a leading player of Steel Pipes and Tubes with a capacity of 2.55mn MTPA and market share of 18%. Historically the company has grown faster than its peers due to its branded, pan India presence through a strong distributor network, technological edge which helps it to deliver superior products at cost effective rates.

Further room for organised players to grow

The ERW pipes industry is characterised by low operating margins hence logistics, purchasing of raw materials at competitive prices, working capital management and technological edge play an important role. Even now ~40% of the steel pipes industry is controlled by the unorganized segment.

Organised players can purchase inputs in bulk quantities for ~Rs500-1000/ton cheaper as compared to the unorganised players which can be passed on to the customer to gain market share or retained by the company which will better margins or the savings can be deployed for other purposes. The smaller unorganised players suffer from constant stress in working capital due to non availability of credit for procurement of raw materials. They are also unable to invest in brand building. The organised players on the other hand face lower stress on working capital and are hence able to invest in brand building exercises.

Some of the key players in the organised steel pipes business are Maharashtra Seamless, Surya Roshni, Tata Steel, Hi Tech Pipes and Jindal Industries.

Other organised players in ERW pipes (Based on FY19 figures)

Name of company	Volumes (MTPA)
APL Apollo	13,39,174
Surya Roshni	600,000
Jindal Industries	300,000
Jindal Pipes + Maharashtra Seamless	300,000
Jindal India	300,000
Rama Steel	100,000
Hi Tech Pipes	200,000
Tata Pipes	500,000

Source: Company Data, PL Idea Research

Key Risks

Economic downturn to effect infrastructure spending

An economic downturn, if any, will have a direct bearing on capital allocation for future projects and release of funds for on-going project, any drop in key economic ratios curtails the demand for key infrastructure items pipes and also stretches the gap between demand and supply.

Volatility in steel prices

Since APAT is largely a converter, the focus is on EBITDA/ton. Any increase or decrease in steel prices is passed on to the customer but with a lag of a month. However, as it procures these raw materials from few suppliers, any disruption in supply of raw materials or unfavourable procurement terms could adversely affect the company. During Q1FY20 steel prices dropped Rs 1,500/ton resulting in an inventory loss of Rs 230m and the management expects a further fall of Rs 2000-2500/ton in Q2FY20.

The availability and cost of the required grade of raw material (iron, ore, coal & gas) are affected by the movement and parity of landed cost, price, freight and demand-supply gap and tariff and exchange rates. Any increase/decrease in price is directly passed on to the consumers.

India is expected to add about 15m TPA HR products capacity in the next 12-18 months and Bhushan Steel and Essar issues are expected to be evened out. Hence, the raw material supply is expected to become more stable which could help reduce the volatility in steel prices.

Dependence on Dealers and Distributors

Significant proportion of the sale is done through Dealers and Distributors. The business growth depends on the ability to attract additional dealerships/ distributorships to the network. Inability to maintain network may result in loss of market share.

Financial Overview & Valuations

Strong revenue growth led by capacity expansion

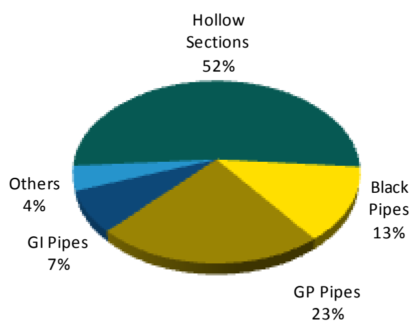
Over the last two years, capacities have been doubles from 1.3mn MTPA to 2.55mn MTPA through a series of organic and inorganic expansions. No further capex (other than maintenance capex) is planned in the immediate future or until existing capacities achieve optimal utilisation. APAT grew volumes 29% YoY in Q1FY20 and is expecting to sustain 18-20% volume growth going ahead. We expect volumes to grow by 18.9% in FY20E and 19.3% in FY21E. Revenues/EBITDA/PAT are expected to grow at CAGR 18.3%/30.1%/56.3% over the same period to Rs 100,124mn/Rs 6,648mn/Rs 3,621mn.

Richer product mix to aid margin expansion

The management is of the view that EBITDAM and PATM will improve over the next 2-3 years as the company is currently focusing on volume growth, which will result in better fixed cost absorption. Also, implementation of DFT will result in cost savings as well as higher margins due to product customization.

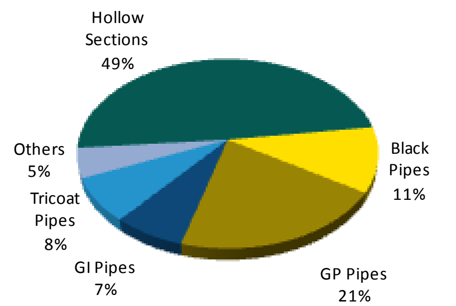
Black round pipes have the lowest EBITDA margins at 4-5% while pre-galvanized tubes (GP) have the highest margins at 12-14%. Hollow section pipes and galvanized tubes (GI) have margins of 7-8% and 8-9% respectively. Over the next two years, with the acquisition of the Apollo Tricoat plant, the company will foray in to new products like door frames, in line galvanized pipes, designer pipes and narrow sections revenues which enjoy far superior margins as compared to the existing products. We expect EBITDA/ton to improve by 8% from Rs 3,245 to Rs 3,500/ton in FY21E.

Product mix by revenues in FY19



Source: Company Data, PL Idea Research

Product mix by revenues in FY21E

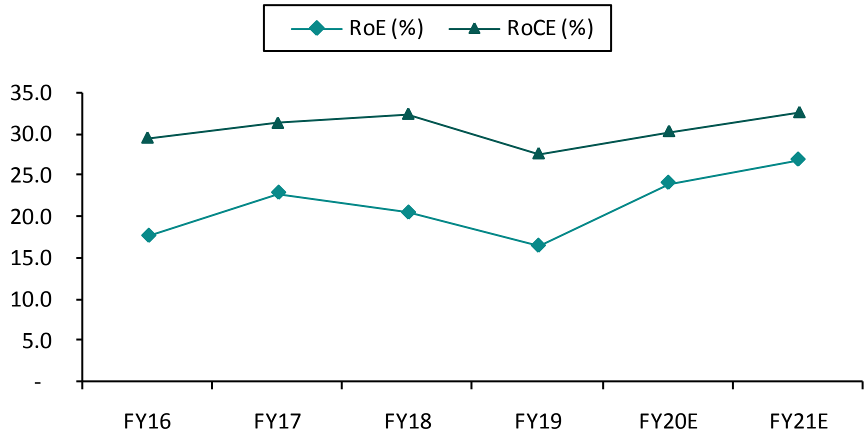


Source: Company Data, PL Idea Research

High free cash generation over the next two years

With no further capex (other than maintenance capex) and better utilisation of the acquired assets we expect the company to generate free cash of Rs 4.5bn over the next two years. RoE and RoCE is also expected to improve from 16.5%/27.7% in FY19 to 26.9 %/32.7% in FY21E. Debt to equity is also expected to come down from 0.8x to 0.3x over the same period.

Rising return ratios



Source: Company Data, PL Idea Research

Volatility in raw material affects margins but with a lag

Raw material costs have increased to 88.2% of sales, up by 290bps YoY. Due to high demand, increase in raw material cost is being passed via price hikes. Sales are being supported by rise in construction and infrastructure related activities. APL Apollo's realizations are slightly impacted by the volatility in steel prices. Its key raw material is HR coils, which is used to make pipes and tubes. In the past, the company has passed on the increase/decrease in steel prices to customers with a lag and expects to be able to do the same in future. On an average, volatility in steel price has a marginal negative impact of about Rs 10 to Rs 20 on EBITDA.

The company is trying to work out a system whereby it can insulate itself from variation in steel prices. Given the steep fall in steel prices, the company suffered an inventory loss of ~Rs 230m in Q1FY20 and is expecting a further loss of ~Rs300m in Q2FY20.

Valuations

Over the past five years, APL Apollo compounded revenues by 17.7% to 45.4bn, EBITDA by 15.3% to 3.2bn and profits by 16.3% to 1.4bn. The management has guided a 20% CAGR sales volume growth over the next few years, given the demand from Infrastructure, Construction, Automobiles, Energy and Agriculture sectors. It has commissioned 6 DFT lines taking the total manufacturing capacity to 1.75mn MTPA. The company will be commissioning another 2 lines of DFT across existing facilities translating to total installed capacity of 2mn MTPA in the next two quarters. DFT products have witnessed a successful run across business segments, specially OEMs and Export markets. Thus, with higher contribution from value added products and higher capacity utilization, the company is expected to report healthy profit growth in the next 2-3 years.

Over the next 2 years, we expect Revenues/EBITDA/PAT to grow at CAGR of 18.3%/30.1%/56.3% to Rs 100.1bn/Rs 6.6bn/Rs 3.6bn in FY21E. Comfortable debt to equity ratio at 0.3x in FY21 along with RoE/RoCE of 26.9%/32.7% and free cash generation of Rs2,638m makes it attractively valued at PER of 12.9x FY20E and 9.2x FY21E earnings. We initiate coverage with a BUY and price target of Rs 1792.

Comparative Valuation Table

Name	Price (Rs)	Mcap (Rs bn)	PER (x)		EV/EBITDA (x)		RoE (%)	Revenues (Rs bn)		EPS (Rs.)		EPS CAGR % ’19-21E
			‘20E	‘21E	‘20E	‘21E	‘20E	‘20E	‘21E	‘20E	‘21E	
APL Apollo	1375	33.4	12.9	9.2	7.5	5.7	24.1	83.6	100.1	106.9	149.3	56.3
Surya Roshni	188	10.3	7.1	5.9	5.0	4.4	11.5	68.5	77.6	26.6	32.1	20.2
Ratnamani	959	44.8	15.4	13.7	8.4	7.3	18.0	30.5	34.7	62.4	69.9	13.7
Tata Metallik	556	15.6	8.9	7.4	4.6	3.9	20.9	20.5	20.6	62.5	75.2	2.3
Hi-Tech Pipes	171	1.8	5.0	4.0	4.9	4.1	20.7	16.0	18.4	34.1	43.2	29.9

Source: Company Data, Bloomberg Consensus Estimates

Company and Management Background

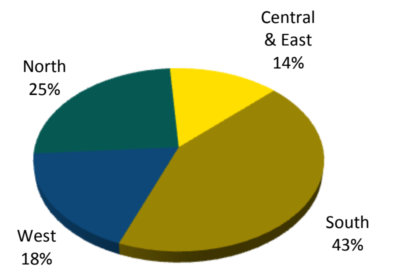
APL Apollo tubes (APAT) is the leading manufacturer of ERW steel pipes with a current capacity of 2.55 m MTPA after the acquisition of a production unit which belonged to (subsidiary of) Shankara Building. APAT has emerged as a 'one-stop shop' for a large spectrum of steel tubes catering to an array of industry applications such as urban infrastructures, housing, irrigation, solar plants, greenhouses, engineering and agricultural appliances. It has more than 790 dealers, 27 warehouses and 50,000 retailers located across the breadth and width of the country. 95% of the revenues are from distributors, balance 5% through OEMs. Exports accounts for barely 4% of revenues but is likely to be a thrust area going forward.

Plant locations and capacities (mn tons)

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

Source: Company Data, PL Idea Research

Zone wise revenue break up



Source: Company Data, PL Idea Research

Products and Services

APAT's product profile consists of:

1. Hollow sections which are used in Infrastructure fabrication, construction, machinery and furniture.
2. Pre- Galvanized tubes which are used in electric conduit pipes, fencing, cabling and rooftop.
3. Galvanized tubes which are used in general engineering, underground piping and agriculture.
4. MS Black Round pipes which are used in engineering structural water and sewage, fire fighting and automobiles.

Most of the company's products belong to the niche category having limited competition. APAT enjoys a dominant market share, with a wide range of product offerings, spanning 1,100 product variants and has an eye for innovation to meet specific customer requirements.

One – stop shop for steel structural product

Source: Company presentation, PL Research

Industry Overview

Global Industry

Global steel pipes production has grown marginally since 2015. In 2016, output dropped by 164 MT. Drop in output was caused due to reluctance of energy industry to invest across the world. Global steel tubes market is expected to grow at a CAGR of over 6% by 2020 on the back of demand from construction, transmission and distribution sectors. The consumption of steel pipes has also increased in the Oil & Gas segment due to continuous innovation in drilling technologies.

North America, the Commonwealth of Independent States, China witnessed moderate growth while European Steel producers outperformed with a growth of 4%. Stability in the prices of raw materials as well as increased investment in the energy sector has improved the outlook for the steel pipe industry.

Domestic Pipe Industry

Steel pipes and tube manufacturing is among the fastest growing industries primarily due to increased consumption in housing, infrastructure construction, automobile and energy sectors.

India is among the leading ERW steel tubes manufacturing hubs in the world due to rich raw material contents, lower cost, superior quality and geographical advantage. India has a domestic demand of ~7.5mn MTPA which is expected to grow by ~8-9% every year.

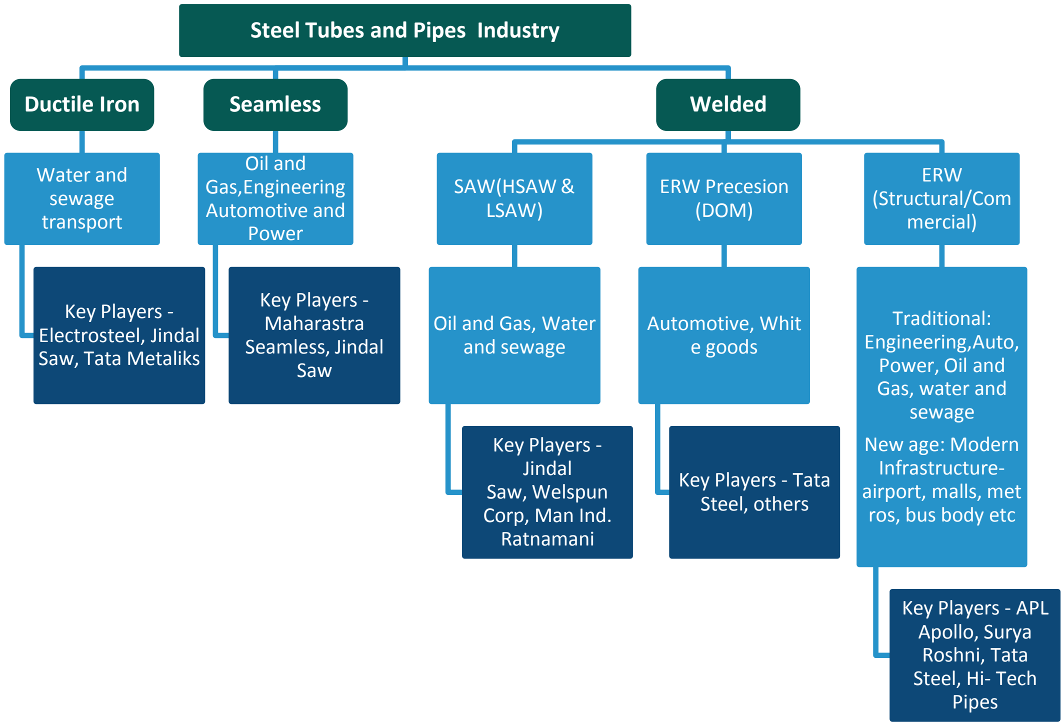
With the growing awareness about environmental conservation, there has been an increase in the frequency of use of pipes. Pipes, in many ways, are replacing wood, concrete and other building materials. Steel pipes are also finding utility in areas dominated by wood such as furniture and door frames. There is also a limited availability of wood in the market due to strict environmental norms which will improve demand for products made of steel tubes. There are a very few organized players in the domain with APAT being the largest.

Government has, in the annual budget, proposed to allocate ~Rs 100tn over the next five years towards infrastructure; it has also stated that 19.5m houses will be provided under the PM Awaas Yojna by FY22 which shall boost infrastructure development. The budget also focuses on the model of One Nation, One Grid, which will result in robust addition of transmission lines. This would further boost the demand for steel and related products in the country.

Government also intends to invest US$110 bn for improving ports and shipbuilding industry by 2020 as well as establish about 100 airports in the next 15 years at an estimated cost of Rs 4,000bn. 70 airports will be at new locations while the rest will be second airports or expansion of existing airports. These high-ticket projects are expected to drive demand for steel tubes and pipes.

Nal se Jal campaign will require large diameter ERW pipes for distribution of water and smaller diameter pipes for last mile connections and intercity connections. This campaign will therefore be beneficial for the steel pipe industry as a whole.

Classification of Steel Pipes Industry



Source: Company Data, PL Idea Research

Income Statement (Rs m)				
Y/e March	2018	2019	2020E	2021E
Net Revenue	**53,348**	**71,523**	**83,574**	**100,124**
Raw Material Expenses	45,483	63,077	73,294	87,669
Gross Profit	7,864	8,446	10,280	12,455
Employee Cost	862	1,079	1,170	1,302
Other Expenses	3,292	3,439	3,853	4,506
EBITDA	**3,710**	**3,928**	**5,257**	**6,648**
Depr. & Amortization	534	643	873	908
Net Interest	813	1,134	1,050	1,050
Other Income	80	117	125	150
Profit before Tax	**2,443**	**2,269**	**3,459**	**4,841**
Total Tax	862	787	872	1,220
Profit after Tax	**1,581**	**1,482**	**2,587**	**3,621**
Avg. Shares O/S (m)	**23.9**	**23.9**	**24.3**	**24.3**
EPS (Rs.)	**66.3**	**62.2**	**106.7**	**149.3**

Cash Flow Abstract (Rs m)				
Y/e March	2018	2019	2020E	2021E
C/F from Operations	1,905	3,698	3,721	4,136
C/F from Investing	(1,848)	(2,301)	(1,523)	(1,498)
C/F from Financing	(4)	(987)	(1,698)	(1,452)
Inc. / Dec. in Cash	54	409	500	1,186
Opening Cash	16	69	478	978
Closing Cash	69	478	978	2,164
FCFF	57	1,396	2,198	2,638

Key Financial Metrics				
Y/e March	2018	2019	2020E	2021E
Growth				
Revenue (%)	17.4	34.1	16.8	19.8
EBITDA (%)	14.4	5.9	33.8	26.5
PAT (%)	8.4	(6.2)	74.5	39.9
EPS (%)	8.4	(6.2)	71.7	39.9
Profitability				
EBITDA Margin (%)	7.0	5.5	6.3	6.6
PAT Margin (%)	3.0	2.1	3.1	3.6
RoCE (%)	32.5	27.7	30.4	32.7
RoE (%)	20.5	16.5	24.1	26.9
Balance Sheet				
Net Debt : Equity	0.8	0.8	0.5	0.3
Net Wrkng Cap. (days)	39	27	26	26
Valuation				
PER (x)	20.7	22.1	12.9	9.2
P / B (x)	3.9	3.4	2.8	2.2
EV / EBITDA (x)	10.6	10.4	7.5	5.7
EV / Sales (x)	0.7	0.6	0.5	0.4
Earnings Quality				
Eff. Tax Rate	35.3	34.7	25.2	25.2
Other Inc / PBT	0.0	0.1	0.0	0.0
Eff. Depr. Rate (%)	5.6	5.5	7.0	7.0

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)				
Y/e March	2018	2019	2020E	2021E
Non-Current Assets	**10,428**	**12,849**	**13,670**	**14,461**
Net fixed assets	**8,487**	**10,078**	**9,980**	**9,572**
Capital Work In Progress	460	275	1,000	2,000
Intangible assets	33	29	27	25
Goodwill on Consolidation	230	230	230	230
Investment Property	109	-	-	-
Investments	11	494	644	794
Loans	-	5	10	15
Other financial assets	200	404	444	489
Other Non-Current Assets	-	7	7	8
Deferred Tax Assets	899	1,329	1,329	1,329
Current Assets	**11,385**	**14,890**	**17,443**	**21,778**
Inventories	5,915	7,835	9,054	10,847
Trade receivables	4,321	5,433	6,268	7,509
Cash & Bank Balance	69	478	978	2,164
Loans	12	13	15	16
Other financial assets	228	60	66	72
Other Current Assets	841	966	1,063	1,169
Asset held for Sale	-	104	-	-
Total Assets	**21,813**	**27,739**	**31,114**	**36,238**
Equity				
Equity Share Capital	239	239	243	243
Other Equity	8,141	9,402	11,588	14,806
Total Networth	**8,380**	**9,641**	**11,830**	**15,049**
Non-Current Liabilities	**2,150**	**3,528**	**3,837**	**4,401**
Long Term borrowings	782	1,745	1,995	2,495
Other Financial Liabilities	6	7	7	8
Provisions	78	99	109	120
Deferred tax liabilities	994	1,200	1,200	1,200
Other non current liabilities	290	478	525	578
Current Liabilities	**11,283**	**14,570**	**15,447**	**16,789**
Short Term Borrowings	5,952	5,356	4,856	4,356
Trade payables	3,793	6,989	8,144	9,741
Other financial liabilities	1,248	1,832	2,015	2,216
Short term provisions	3	8	9	10
Other current liabilities	125	307	337	371
Current Tax Liability	164	78	86	94
Total Equity & Liabilities	**21,813**	**27,739**	**31,114**	**36,238**

Quarterly Financials (Rs m)				
Y/e March	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Net Revenue	**16,317**	**16,216**	**20,241**	**19,936**
EBITDA	**862**	**592**	**1,387**	**1,250**
% of revenue	*5.3*	*3.7*	*6.9*	*6.3*
Depr. & Amortization	162	157	172	202
Net Interest	310	271	289	283
Other Income	19	32	28	46
Profit before Tax	**410**	**196**	**954**	**810**
Total Tax	143	68	337	289
Profit after Tax	**267**	**129**	**617**	**521**

Source: Company Data, PL Research.

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