

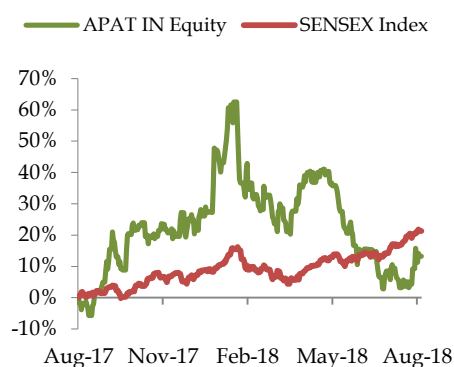
**Result Update**
**BUY**

Sector- Iron and Steel Products	
CMP	1,749
Target Price	2,615
% Up Side	50%
Bloomberg Code	APAT IN

Stock Info	
Market Cap ( INR Mn)	41,495
Mkt Cap ( USD Mn)	593
Beta	0.9
52 Week High/ Low	2,587/ 1,437
Average Daily Volume	36,232
Sensex	37,645
NIFTY	11,356

Shareholding Pattern (%)	
Promoters	37.3
DIs	14.8
FIs	0
Others	47.9

% Change	1 Mths	6Mths	1 Years
Absolute	3	-14	15
Relative	0	-25	-5


**Result Highlights**

- APL Apollo's revenue for the quarter stood at INR 16,765Mn higher than our estimate of INR 15,132Mn. However, top-line grew by 45% YoY and 10.7% QoQ. Company's growth was driven by Hollow sections (22% YoY), followed by Black Round Pipes while Galvanized Tubes declined by (21% YoY)
- Company's EBITDA stood at INR 1087Mn up by 38.1% YoY and 6% QoQ. Company's EBITDA margin stood at 6.5% which was 82bps lower than our estimate of 7.3%. EBITDA margins declined 33bps YoY and 27bps QoQ. Margin was impacted on back of higher RM cost, mainly on account of higher steel prices.
- Company's PAT stood at INR 470Mn which grew 21% YoY but improved 5.6% QoQ. Company's PAT was largely impacted by higher finance cost resulting into less than expected bottom-line growth.

**Stability in GI Tubes and DFT lines to propel growth from H2FY19E, unorganized players still remains a worry:** APL over the years has followed aggressive strategy in gaining market share by expanding capacities and providing better quality products. We believe going forward APL is likely to grow higher than the industry (~8%) on back of strong demand from Solar, Power Transmission, etc, due to its strong brand image and quality. Stabilization of new GI tubes and DFT is likely to come in next quarter, driving back the growth and momentum from H2FY19E. However, threat of mushrooming unorganized (despite GST and E-way bill) followed by smaller players remain a worry point, which may result in lower than expected volume. We believe APL will try to leverage its brand and may register 18.2% of volume CAGR between FY18 to FY20E, while revenues are likely to grow by 22% CAGR for the same period.

**Higher RM cost & competition to cap margins, DFT the only hope:** Increasing steel prices remain a cause of worry though a large extent of it remains a pass through. However, expansion of capacities by smaller players and as unorganized players escape the new Tax norms remain a worry point for APL, taking away the level playing field. APL's new DFT lines should start stabilizing in 2-3 quarters resulting into better EBITDA/ton, till then we expect EBITDA/ton to remain range bound between INR 3,200 to 3,400 per ton. However, post stabilization we see EBITDA/ton going up to INR ~3,800/ton by FY20E.

**Valuations & View:** We continue to believe in APL's earnings growth story backed by infrastructure spending and by increasing capacities with new technology. Company's huge distribution network followed by high brand awareness amongst the consumers and robust return ratios (ROE of 22.4% and ROCE of 20% in FY18) deserves a premium over other listed pipe players. We expect company's Revenue/EBITDA/Earnings CAGR to grow at 20%/22%/29% CAGR between FY18 to FY20E. We have applied PE methodology on APL's common stock and assign a multiple of 19.x on FY20E EPS of INR 137 to arrive at a **target of INR 2,615** indicating an upside of 37% from current levels.

**Key Financials:**

Rs In Mn	FY16	FY17	FY18	FY19E	FY20E
<b>Net Sales</b>	<b>42,136</b>	<b>45,450</b>	<b>53,348</b>	<b>63,849</b>	<b>78,447</b>
EBITDA	2,563	3,244	3,711	4,406	5,884
<b>Net profit</b>	<b>1,006</b>	<b>1,459</b>	<b>1,600</b>	<b>2,206</b>	<b>3,266</b>
EPS ( Rs)	42.9	61.8	67.4	93.0	137.6
PE	36.21	28.00	25.69	18.73	12.65
<b>EBITDA Margin</b>	<b>6.1%</b>	<b>7.1%</b>	<b>7.0%</b>	<b>6.9%</b>	<b>7.5%</b>
PAT Margin	2.4%	3.2%	3.0%	3.5%	4.2%
ROE	21.93	23.05	20.84	24.49	31.05

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Source: Company, SMC Institutional Research

### Quarterly Update (INR Mn)

Particulars (Mn)	Q1FY19	Q4FY18	Q1FY18	Q-o-Q	Y-o-Y
<b>Net Sales</b>	16172	14546	11191	11.2%	44.5%
<b>Other operating income</b>	593	648.3	365	-8.5%	62.5%
Net Sales & Other Operating Income	<b>16765</b>	<b>15194</b>	<b>11556</b>	10.3%	45.1%
<b>Total Expenditure</b>	15679	14168	10769	10.7%	45.6%
<b>(Increase) / Decrease In Stocks</b>	-323	-544	-598	-40.7%	-46.1%
<b>Purchase of Finished Goods</b>	151	117	31	28.8%	389.6%
<b>Cost of Raw Materials</b>	14829	13718	10310	8.1%	43.8%
<b>Operating &amp; Manufacturing Expenses</b>	760	643	814	18.3%	-6.7%
<b>Employee Cost</b>	261	234	212	11.6%	23.3%
PBIDT (Excl OI)	<b>1087</b>	<b>1026</b>	<b>787</b>	5.9%	38.1%
<b>EBITDA Margins (%)</b>	6.5%	6.8%	6.8%	-27bps	-33bps
<b>Depreciation</b>	152	149.6	122	1.6%	24.6%
EBIT & Exceptional Item	<b>935</b>	<b>877</b>	<b>665</b>	6.6%	40.5%
<b>Other Income</b>	37	19	95	96.8%	-60.8%
EBIT	<b>972</b>	<b>896</b>	<b>760</b>	<b>8.5%</b>	<b>27.8%</b>
<b>Interest</b>	263	226.0	177	16.4%	48.7%
EBT	709	670	583	5.9%	21.5%
<b>Tax</b>	239	225	195	6.4%	22.6%
PAT	<b>470</b>	<b>445</b>	<b>388</b>	5.6%	21.0%
<b>PAT Margin (%)</b>	2.8%	2.9%	3.4%	-13bps	-56bps
EPS	<b>19.80</b>	<b>19.19</b>	<b>16.40</b>	3.2%	20.7%

Source: Company, SMC Institutional Research

### Key Con-call Highlights:

- Company in Q1FY19 stocked higher Raw Materials to avoid any supply disruption arising out of closure of Bhushan Steel, as it remains a supplier to company.
- DFT technology has started its commercial production while only one line remaining to get stabilized
- Company is in talks with various customers for its DFT product and is now getting enquiry from Oil & Gas refinery.
- Company's new GI line started in May and additional line is expected to commercialize by September. Management expects real positive impact of GI Tubes to start from October i.e. Q3 FY19E.
- Company is investing in digital medium and has started operations in digital space. Management has guided a budget of INR 200-250Mn for advertisement into mainstream. Company has started branding activity in Kerala for brand "Costal Guard".
- Company doesn't have any big capex plan other than a backward integration of thinner capacity for GI Tubes
- Management is expecting strong demand revival from Eastern and Northern markets. Company's distributor network now stands at 400 distributors with majority based out of 2-3 cities.

### Financial Details (INR Mn)

Income Statement INR Mn	FY17	FY18	FY19E	FY20E
<b>Total Sales</b>	<b>45,450</b>	<b>53,348</b>	<b>63,849</b>	<b>78,447</b>
Total Raw Materials	38,005	45,483	53,633	65,111
COGS	39,154	45,483	55,165	66,994
<b>EBITDA</b>	<b>3,244</b>	<b>3,711</b>	<b>4,406</b>	<b>5,884</b>
Depreciation	512	534	749	804
Amortization	-	-	-	-
Interest & Finance charges	683	813	712	772
Other Income	38	80	231	392
Extraordinary items	-	-	-	-
EBT (as reported)	2,086	2,444	3,175	4,700
Tax	627	844	968	1,433
<b>PAT</b>	<b>1,459</b>	<b>1,600</b>	<b>2,206</b>	<b>3,266</b>
Min. Int.	-	-	-	-
Share in gain/loss of assoc.	-	-	-	-
RPAT	1,459	1,600	2,206	3,266
Extra ordinaries adj.	(6)	(5)	5	5
<b>APAT</b>	<b>1,465</b>	<b>1,605</b>	<b>2,201</b>	<b>3,261</b>

Source: Company, SMC Institutional Research

Balance Sheet INR Mn	FY17	FY18	FY19E	FY20E
Equity Share Capital	236	237	237	237
Reserves	6,798	8,132	9,373	11,159
Net worth	7,034	8,370	9,610	11,396
Total loans	5,689	6,734	5,934	6,434
Deferred tax liability (Net)	813	1,003	1,082	1,200
<b>Capital Employed</b>	<b>13,653</b>	<b>16,480</b>	<b>16,846</b>	<b>19,298</b>
Gross Block	8,268	10,962	11,962	12,762
Depreciation	1,570	2,104	2,853	3,657
Net block	6,698	8,858	9,109	9,105
CWIP	1,224	460	538	574
Investments	194	211	255	314
Inventories	4,696	5,915	6,204	8,260
Sundry debtors	2,949	4,321	4,373	5,373
Cash and bank	16	68	309	318
Loans and advances	200	239	255	314
Total Current assets	9,178	11,384	12,091	15,265
Total Current liabilities	4,793	5,332	6,296	7,451
Net Current assets	4,385	6,052	5,794	7,814
<b>Capital Deployed</b>	<b>13,653</b>	<b>16,480</b>	<b>16,846</b>	<b>19,298</b>

Source: Company, SMC Institutional Research

Cash-Flow INR Mn	FY17	FY18	FY19E	FY20E
PAT	638	1,006	1,459	1,600
Depreciation & Amortization	298	512	534	749
Incr/(Decr) in Deferred Tax Liability	114	(46)	190	79
(Incr)/Decr in Working Capital	(2,206)	1,012	(1,615)	498
(Incr)/Decr in Mis. Expense not written off	-	-	-	-
<b>Cash Flow from Operating</b>	<b>(788)</b>	<b>2,937</b>	<b>709</b>	<b>3,534</b>
(Incr)/ Decr in Gross PP&E	(819)	(548)	(2,694)	(1,000)
(Incr)/Decr In Work in Progress	(80)	(904)	764	(79)
(Incr)/Decr In Investments	59	(63)	(17)	(44)
(Incr)/Decr in Other Non-Current Assets	30	(558)	253	(250)
<b>Cash Flow from Investing</b>	<b>(810)</b>	<b>(2,073)</b>	<b>(1,694)</b>	<b>(1,373)</b>
(Decr)/Incr in Debt	1,705	(761)	1,302	(953)
(Decr)/Incr in Share Capital	-	2	1	-
(Decr)/Incr in Other reserves	(724)	(1,119)	(1,240)	-
Dividend	(281)	(340)	(360)	(420)
Cash Flow from Financing	1,424	(861)	1,037	(1,920)
Incr/(Decr) in Balance Sheet Cash	(175)	2	52	241
<b>Cash at the Start of the Year</b>	<b>14</b>	<b>16</b>	<b>68</b>	<b>309</b>
<b>Cash at the End of the Year</b>	<b>16</b>	<b>68</b>	<b>309</b>	<b>318</b>

Source: Company, SMC Institutional Research

Key Ratios	FY17	FY18	FY19E	FY20E
<b>Growth (%)</b>				
Total Sales	7.9	17.4	19.7	22.9
EBITDA	26.6	14.4	18.7	33.5
APAT	25.7	9.6	37.1	48.1
<b>Profitability (%)</b>				
EBITDA Margin	7.1	7.0	6.9	7.5
Adj. Net Profit Margin	3.2	3.0	3.4	4.2
ROCE	21.8	22.4	23.4	30.0
ROE	23.0	20.8	24.5	31.1
<b>Per Share Data (Rs.)</b>				
AEPS	62.1	67.6	92.8	137.4
Reported CEPS	85.5	95.5	127.9	176.5
BVPS	298.2	352.7	405.0	480.2
<b>Valuations (x)</b>				
PER (x)	28.0	25.7	18.7	12.6
PEG (x)	1.1	2.9	0.5	0.3
P/BV (x)	5.8	4.9	4.3	3.6
EV/EBITDA (x)	14.4	12.9	10.7	8.1
EV/Net Sales (x)	1.0	0.9	0.7	0.6
Dividend Yield (%)	0.69	0.73	0.85	0.97
<b>Turnover days</b>				
Debtor Days	20.7	25.7	24.9	22.7
Payable Days	38.7	40.6	38.5	37.4
<b>Gearing Ratio</b>				
D/E	0.81	0.80	0.62	0.56

Source: Company, SMC Institutional Research

## Key to ratings

Ratings	Defination
Buy	ESR is greater than EMR + 15%
Accumulate/ Hold	ESR falls between EMR + 5% and EMR + 15%
Sell	ESR is lesser than EMR - 5%

### Notes:

ESR = Expected Security Return

EMR = Expected Market Return, defined as 1 year domestic yield + 5% (as a proxy for market risk premium)



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