India Midcaps

VISIT NOTE

APL APOLLO

Smoking the growth pipe

India Equity Research | Miscellaneous

We recently met the APL Apollo (APL) management to get an update on the company. The company attributed the robust 45.6% revenue CAGR over FY07-11 primarily to the 6 fold increase in capacity via organic and inorganic growth. Its strategically located manufacturing facilities not only help APL penetrate the market more effectively, but also result in freight cost savings and trim working capital requirement. We do not have a recommendation on the stock as it is currently not under our coverage.

Riding growth wave via 6 fold surge in capacity

APL has aggressively expanded its production capacity by more than 6x from 80000 MT to 4, 80,000 MT over 2007-10 driven by addition of 165,000tpa through inorganic growth and the balance via organic route. During Q2FY11, the company fully commissioned its 200,000tpa state-of–the-art Hosur plant, doubling its installed capacity. The greenfield plant, built at a capital expenditure of INR1bn funded by a mix of GDR and internal accruals, has helped APL cater to the market in South India and expand its market share.

Strategically located plant helps trim logistics cost

The company has direct marketing presence in over 15 countries with a vast distributor network comprising ~ 300 dealers and more than 10,000 retail network across India. APL's exports to 35 countries are supported by distribution networks in US, UK, France, Germany, Ireland, UAE and Sri Lanka. Prior to commissioning of the plant in Tamil Nadu, the company had limited presence in the South. However, now with its manufacturing facilities strategically located in North and South India and recently in West India via acquisition has helped APL save freight costs and reduce working capital requirement.

Outlook and valuations: Positive

With evolution of newer applications complemented by strategically located plants and strong developing distribution network, APL is poised for strong growth over the next few years. At CMP the stock is valued at 6.8x FY11 earnings and 5.9x FY11 EV/EBIDTA. The stock is currently not under our coverage.

Financials

Year to March	FY08	FY09	FY10	FY11
Net revenues (INR mn)	2,737	5,267	6,180	9,052
Revenue growth (%)	*35.8*	*92.5*	*17.3*	*46.5*
EBITDA (INR mn)	296	280	572	892
Net profit (INR mn)	161	25	298	431
Share outstanding (mn)	11	20	20	20
EPS (INR)	15.0	1.3	14.7	21.2
EPS growth (%)	*(28.7)*	*(91.7)*	*1,073.5*	*44.7*
P/E (x)	9.6	116.0	9.9	6.8
EV/EBITDA (x)	7.9	13.5	7.4	5.9
ROAE (%)	41.7	2.2	16.7	20.6

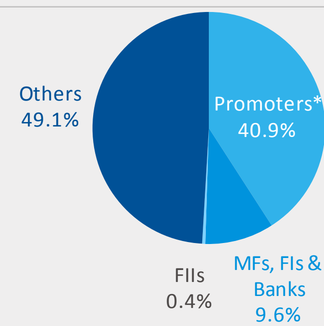
EDELWEISS RATING

Absolute Rating	Not Rated

MARKET DATA *(R: APLA. BO, B: APAT IN)*

CMP	:	INR 145
Target Price	:	Not Rated
52-week range (INR)	:	167 / 109
Share in issue (mn)	:	20.2
M cap (INR bn/USD mn)	:	3 / 56
Avg. Daily Vol. BSE/NSE ('000)	:	76.8

SHARE HOLDING PATTERN (%)



* *Promoters pledged shares (% of share in issue)* : *9.9*

RELATIVE PERFORMANCE (%)

	Sensex	Stock	Stock Over Sensex
1 month	(8.1)	(6.2)	1.9
3 months	(1.8)	(1.6)	0.2
12 months	(17.9)	5.6	23.5

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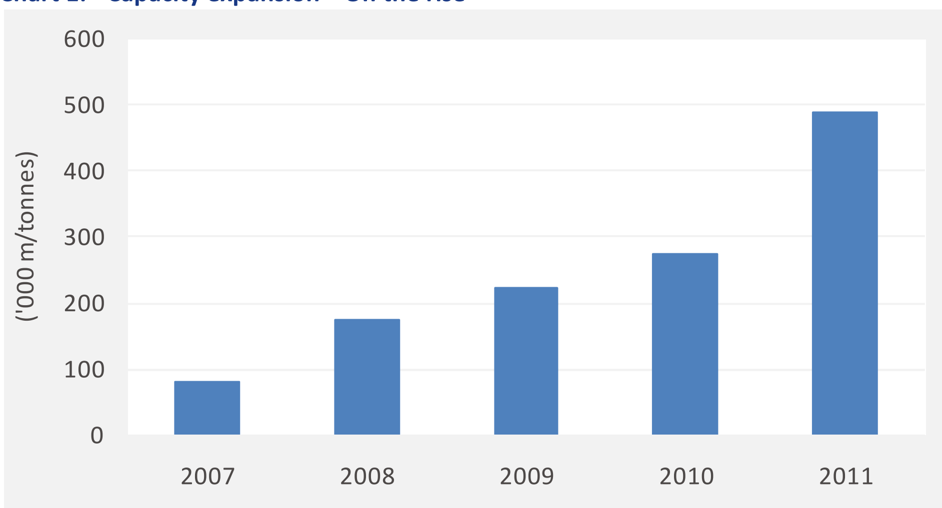
Significant expansion in capacity drives growth

Capacity expansion by 6x from 80,000MT to 4, 80,000 MT drives growth.

APL has aggressively expanded its production capacity by more than 6x over 2007-10 from 80000 MT to 4, 80,000 MT through organic and inorganic routes. The company has added 165,000 tpa capacity through inorganic expansion and the balance through organic initiatives. During Q2FY11, it fully commissioned its 200,000tpa Hosur plant, doubling its installed capacity. The greenfield plant, built at a capital expenditure of INR1bn funded by a mix of GDR and internal accruals, will enable it to cater to the market in South India and thus improve market share in the region.

The company also acquired API certified 90,000tpa manufacturing facilities of Lloyds Pipes based in Murbad (Maharashtra) for INR400mn in Nov 2010. It is also planning an 110,000mtpa expansion in Maharashtra to cater to the western India market. Further, on the anvil is production of lower diameter high thickness tubes.

Chart 1: - Capacity expansion—On the rise



Source: Company, Edelweiss research

Strong distribution, strategically located plant help reduce logistics cost

Strong distribution network of more than 300 dealers and 10000 retailers.

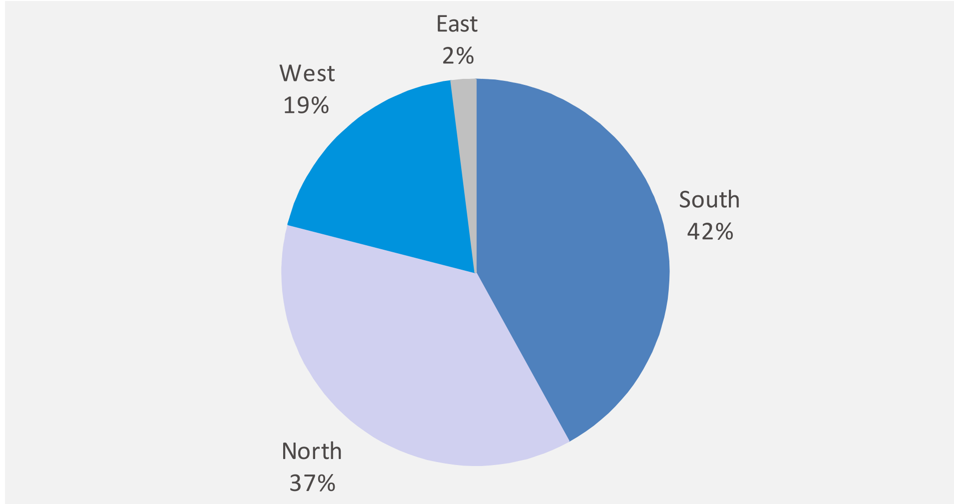
APL's products enjoy high brand equity in the market. The company has direct marketing presence in over 15 countries with a vast distributor network comprising ~ 300 dealers and more than 10,000 retail network across India. Its exports to 35 countries are supported by distribution networks in US, UK, France, Germany, Ireland, UAE and Sri Lanka.

With 25 years of existence, APL has a well established network in North India. In South India, its Hosur plant is the largest steel tubes plant and is located in close proximity to suppliers as well as customers.

With strategically located manufacturing facilities in North and South India and now in Western India as well via the recent acquisition, APL is in a sweet spot to capture the opportunities arising in nearby regions and expand its footprint. Its pan-India presence, well established distribution network and close proximity to suppliers and customers will help save freight costs and reduce working capital requirement.

Pan India presence and newer applications help de risk business model

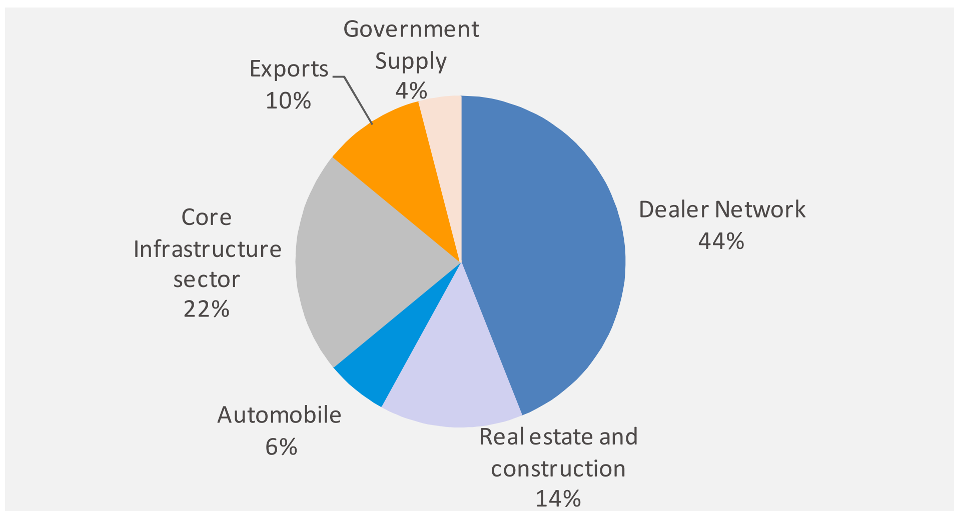
Chart 2: Geographical reach—Expanding footprint to yield dividends



Source: Company, Edelweiss research

Traditionally, steel tubes and pipes were used primarily in water infrastructure, construction and management. However, in recent years it has evolved into a full fledged infrastructure material with diverse applications across industries like oil & gas, sewage, windmills, bus bodies, fire fighting, hotels, walkways, greenhouses, metro rail, airports etc. The rise in new applications has helped APL derisk its model for future growth.

Chart 3: Industry wise revenue break up



Source: Company, Edelweiss research

Key Risks

Slowdown in economy may hamper growth prospects

Any slowdown in GDP growth may affect user industries (construction, auto, real estate), which in turn will impact demand for steel pipes. This may hamper the pace of APL's growth.

Sharp spurt in steel prices

HR coil is the key raw material for manufacturing pipes. Any sharp surge in its prices may adversely impact APL's margins as the company may not be able to pass on the increase completely.

Shift from galvanised pipes to PVC pipes

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

Competitive intensity may reduce pricing power

APL manufactures products like ERW black, galvanised pipes and hollow section pipes which are highly competitive in nature with significant presence of unorganized players, thereby limiting pricing power. Ergo, APL's margin may be affected in an inflationary scenario.

Company Description

APL, formerly Bihar Tubes, a manufacturer of steel pipes and tubes, was established in 1986 in Sikandarabad (Uttar Pradesh) and promoted by Mr. Sudesh Kumar Gupta. It initially catered to the steel industry, but has recently expanded its product range to cater to various sectors including infrastructure, agriculture, engineering, oil & gas, automobiles and construction. The company currently has five plants in India—two in Uttar Pradesh and one each in Karnataka, Tamil Nadu and Maharashtra—with aggregate capacity of 4,90,000tpa. It manufactures more than 250 variants of tubes (0.5" to 14" outer diameter) through these plants. APL has over 13 production lines with the ability to produce the largest range of hollow sections in all variants (ERW black, galvanised and pre-galvanised and hollow section pipes). The company has installed high speed mills based on technology from Kusakabe, Japan which ensures faster delivery of a wide range of superior quality tubes and pipes in a cost effective manner following Indian as well as international standards. It has an established customer base both in India and international markets, with exports to over 35 countries like US, Colombia, Nigeria, Ireland and Germany.

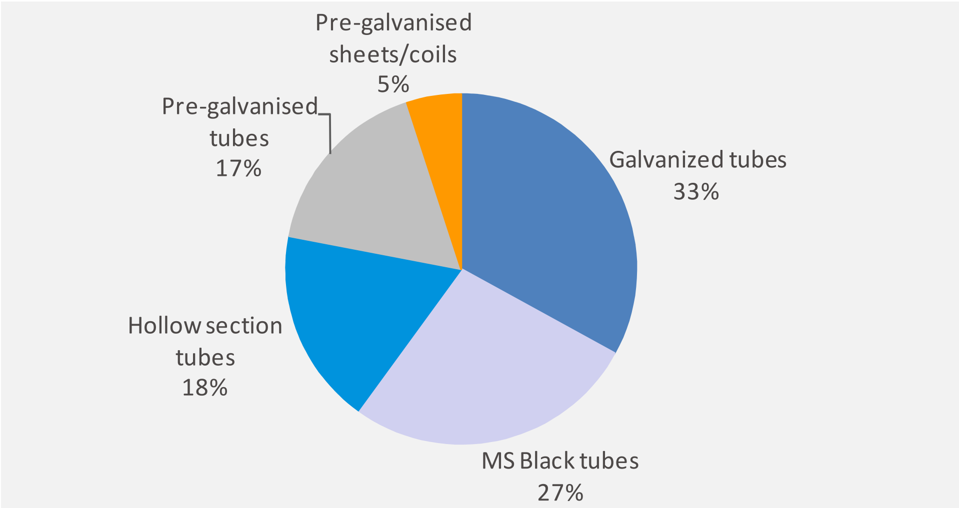
The company has also preferentially allotted close to 1.7mn shares to promoters at INR176/share to shore up their holding in the company.

Table 1: Product profile

Product	Use	Major Clients
Hot dipped Galvanized	Water,Gas,Oil transportation	BSNL,BHEL,UP Jal Nigam,Gujarat Gas,HPCL,IGL,Era Infra
Pre Galvanized	Fencing,Cabling and Ducting,Automobiles & Greenhouses	Tata Marcopolo,Ashok Leyland,Jain Irrigation,ACGL
ERQ Black	Fire fighting,Conveyor systems,Scaffolding,Transmission Towers,Power Projects and Industrial Uses	DMRC,BMRC,BHEL,HPCL,BPCL,L&T,Gammon,Airtel
Hollow Section	Infrastructure,Metro,Airports,Stadiums and Industrial Applications	Suzlon,Adani,L&T,B.L.Kashyap,Moser Baer,Simplex

Source: Company, Edelweiss research

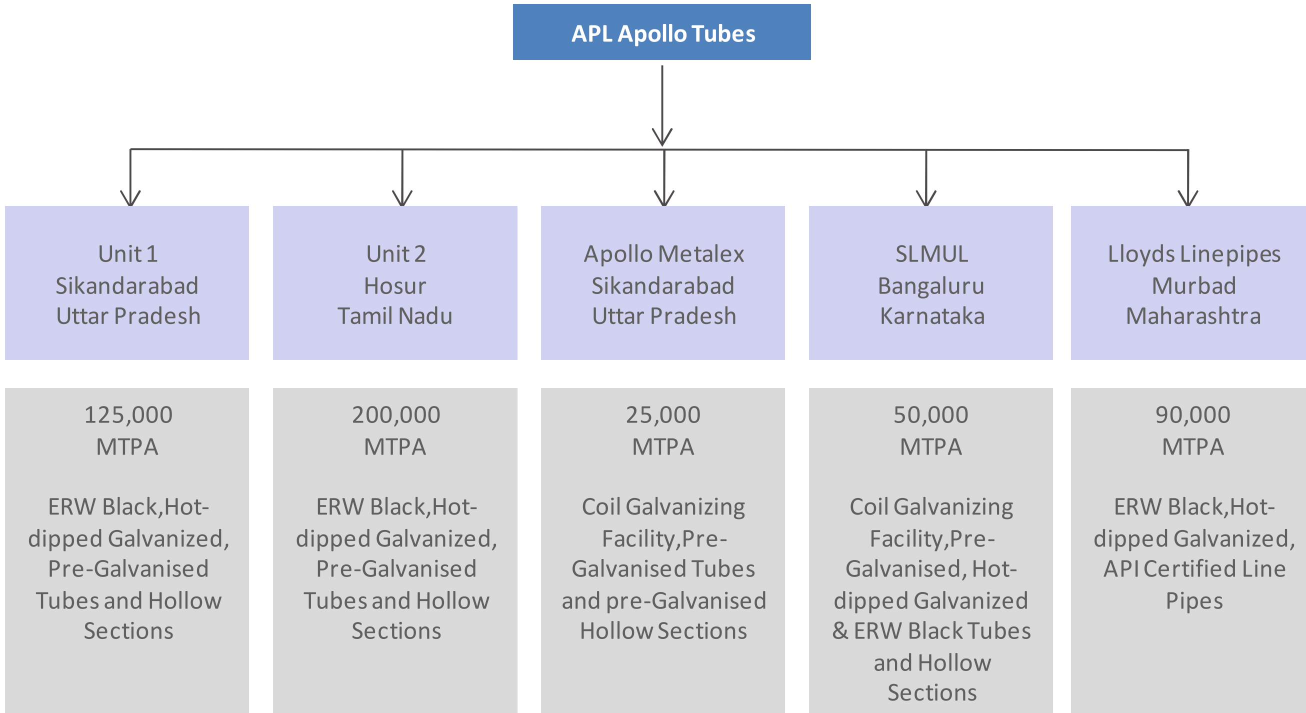
Chart 4: Product wise revenue break up



Source: Company, Edelweiss research

Miscellaneous

Fig. 1: Plant locations



Source: Company, Edelweiss research

Management Description

Mr. Sanjay Gupta, Managing Director

Mr. Sanjay Gupta is the Managing Director of the company. A Commerce graduate, he has more than 15 years experience in various segments of the steel industry.

Mr. Vinay Gupta, Non- Independent, Non-Executive Director

Mr. Vinay Gupta, a Commerce graduate, has more than 12 years experience in export and international markets. He has in depth knowledge of manufacturing and trading of pipes, tubes, sheets and other steel products.

Mr. Sameer Gupta, Non- Independent, Non-Executive Director

Mr. Sameer Gupta, a Commerce graduate, has experience of more than 10 years in various segments of the tube industry and has wide knowledge of manufacturing and trading of pipes, tubes and other steel products.

Mr. C. S. Johri, Independent, Non-Executive Director

Mr. C.S. Johri, a Law graduate and post graduate in Arts, is an independent director associated with the company. He has worked with Bank of India as Asst. General Manager at the Zonal Office and has expert knowledge of banking, finance, management and administration.

Mr. S. T. Gerela, Independent, Non-Executive Director

Mr. S.T. Gerela, M.A., L.L.B and C.A.I.I.B, has been associated with various regulatory authorities like SEBI, RBI, BSE and others. He has rich experience of capital market, banking industry, regulatory affairs, economic analysis and policy, management services, administration and investor relations. He has been a member of various committees, study groups, delegates constituted by government/semi government authorities. Mr. Gerela has authored several articles, research papers and books on capital market and economic affairs.

Mr. Aniq Husain, Independent, Non-Executive Director

Mr. Aniq Husain is B. Tech (Mechanical) from IIT Kharagpur and Master in Industrial Engineering & Management. He has wide experience in industrial projects, engineering and management affairs. Mr. Husain has been associated with various ventures in different capacities and is conversant with the latest industrial techniques.

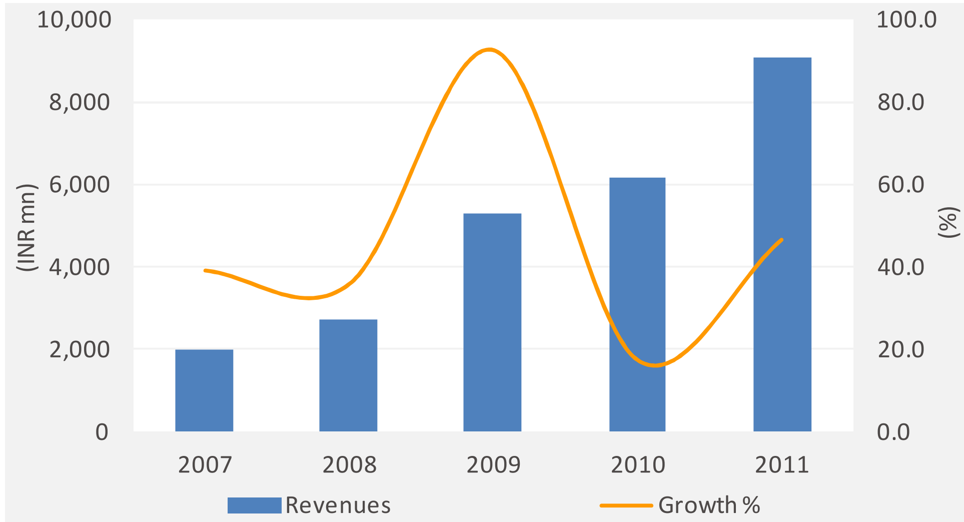
Financial Outlook

Volume surge, strong brand, innovations drive revenue growth

Strong revenue growth over last 4 years

APL has posted robust revenue CAGR of 45.6% over FY07-11, primarily driven by more than 6 fold increase in production capacity via organic and inorganic routes.

Chart 5: Consolidated sales growth trend



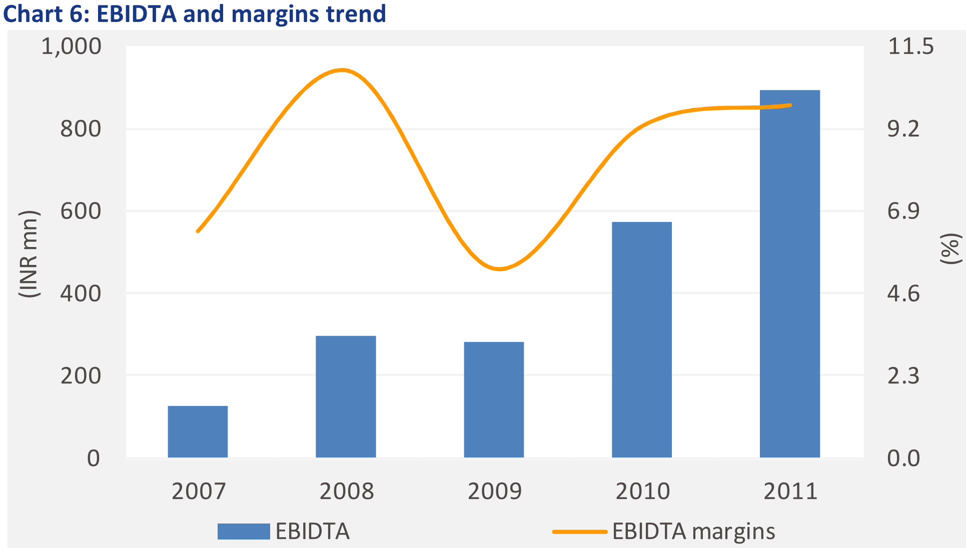
Source:- Edelweiss research

EBIDTA margin likely to sustain going forward

Margins to sustain at current levels

The company's consolidated EBIDTA margin has improved from 6.3% in FY07 to 9.9% in FY11 primarily due to improved revenue mix, introduction of value-added products and benefit on account of economies of scale.

Chart 6: EBIDTA and margins trend



Source:- Edelweiss research

Financial Statements

Income statement (INR mn)

Year to March	FY07	FY08	FY09	FY10	FY11
Net revenues	2,016	2,737	5,267	6,180	9,052
Raw material costs	1,711	2,177	4,544	5,050	7,354
Gross profit	305	560	723	1,130	1,698
Employee expenses	3	3	10	16	35
Other expenses	174	261	433	542	771
Operating expenses	177	264	443	557	806
Total expenditure	1,888	2,440	4,987	5,608	8,160
EBITDA	128	296	280	572	892
Depreciation & amortisation	7	11	21	36	57
EBIT	121	285	259	536	835
Interest expense	36	66	186	108	209
Other income	18	29	6	26	1
Profit before tax	103	248	78	455	626
Provision for tax	36	88	52	157	195
Core profit	67	161	25	298	431
Profit after tax	67	161	25	298	431
Profit after minority interest	67	161	25	298	431
Equity shares outstanding (mn)	3	11	20	20	20
EPS (INR) basic	21.1	15.0	1.3	14.7	21.2
Diluted shares (mn)	3	11	20	20	20
EPS (INR) diluted	21.1	15.0	1.3	14.7	21.2
CEPS	23.8	16.9	3.7	18.8	26.5
DPS	1.0	-	-	2.0	2.0
Dividend payout (%)	4.7	-	-	13.6	9.4

Common size metrics (% net revenues)

Year to March	FY07	FY08	FY09	FY10	FY11
Cost of goods sold	84.9	79.5	86.3	81.7	81.2
Operating expenses	8.8	9.6	8.4	9.0	8.9
EBITDA margins	6.3	10.8	5.3	9.3	9.9
Depreciation & amortisation	0.3	0.4	0.4	0.6	0.6
Interest	1.8	2.4	3.5	1.8	2.3
Net profit margin	3.3	5.9	0.5	4.8	4.8

Growth metrics (%)

Year to March	FY07	FY08	FY09	FY10	FY11
Revenues	-	35.8	92.5	17.3	46.5
EBITDA	-	131.3	(5.6)	104.7	55.8
PBT	-	140.7	(68.6)	483.8	37.7
Net profit	-	138.0	(84.2)	1,073.5	44.7
EPS	-	(28.7)	(91.7)	1,073.5	44.7

Miscellaneous

Balance sheet					(INR mn)
As on 31st March	**FY07**	**FY08**	**FY09**	**FY10**	**FY11**
Total equity capital	32	107	203	203	203
Total equity share warrants	-	64	-	-	72
Reserves & surplus	123	509	1,457	1,708	2,093
Shareholder's equity	155	680	1,660	1,911	2,368
Secured loans	405	662	1,789	1,573	2,402
Unsecured loans	48	131	0	-	61
Total debt	454	792	1,789	1,573	2,463
Deferred tax liability (net)	17	25	57	109	180
Sources of funds	**626**	**1,498**	**3,506**	**3,592**	**5,010**
Gross fixed assets	170	317	665	1,109	1,798
Accumulated depreciation	30	41	70	102	181
Net fixed assets	141	276	595	1,007	1,617
Capital work in progress	31	31	115	202	318
Total fixed assets	171	307	710	1,209	1,934
Investments	-	18	20	-	23
Inventories	324	594	444	805	1,465
Accounts receivable	215	413	727	782	1,013
Cash and cash equivalents	9	50	939	272	218
Loans and advances	49	342	756	769	441
Other current assets	36	78	111	106	267
Current assets	633	1,478	2,978	2,733	3,405
Current liabilities	125	150	163	189	370
Provisions	54	156	40	169	199
Current liabilities & provisions	178	305	202	358	569
Net current assets	455	1,173	2,775	2,376	2,836
Goodwill	-	-	-	-	200
Miscellaneous expenditure	-	0	0	7	17
Uses of funds	**626**	**1,498**	**3,506**	**3,592**	**5,010**
Book value per share (INR)	49	58	82	94	113

Free cash flow					(INR mn)
Year to March	**FY07**	**FY08**	**FY09**	**FY10**	**FY11**
Net profit	67	161	25	298	431
Add: Depreciation	7	11	21	36	57
Add: Others	60	76	147	300	278
Gross cash flow	134	248	193	634	766
Less: Changes in working capital	(197)	(574)	(181)	(495)	(432)
Operating cash flow	(63)	(327)	12	139	334
Less: Capex	(81)	(294)	(642)	(376)	(859)
Free cash flow	**(144)**	**(621)**	**(630)**	**(238)**	**(526)**

Cash flow metrics					
Year to March	**FY07**	**FY08**	**FY09**	**FY10**	**FY11**
Operating cash flow	(63)	(327)	12	139	334
Financing cash flow	146	680	1,522	(441)	706
Investing cash flow	(81)	(312)	(645)	(365)	(1,093)
Net cash flow	2	42	889	(667)	(54)
Capex	(81)	(294)	(642)	(376)	(859)
Dividends paid	(4)	-	–	(47)	(47)

Profitability ratios

Year to March	FY07	FY08	FY09	FY10	FY11
ROACE (%)	38.7	27.1	10.4	15.2	19.5
ROAE (%)	#REF!	41.7	2.2	16.7	20.6
ROA (%)	21.6	15.1	1.0	8.4	10.0
Current ratio	3.5	4.8	14.7	7.6	6.0
Quick ratio	1.7	2.9	12.5	5.4	3.4
Cash ratio	0.0	0.2	4.6	0.8	0.4
Receivable turnover (x)	18.7	8.7	9.2	8.2	10.1
Inventory turnover (x)	10.6	4.7	8.8	8.1	6.5
Payables turnover (x)	19.2	9.0	17.9	18.0	15.9
Receivables (days)	20	42	40	45	36
Inventory (days)	35	77	42	45	56
Payables (days)	19	41	20	20	23
Cash conversion cycle (days)	35	78	61	69	70
Debt-equity (x)	2.9	1.2	1.1	0.8	1.0
Debt/EBITDA	3.5	2.7	6.4	2.7	2.8
Adjusted debt/Equity	2.9	1.2	1.1	0.8	1.0
Long term debt / Capital employed (%)	72.5	52.9	51.0	43.8	49.2
Total debt / Capital employed (%)	103.7	75.0	58.4	56.8	64.1
Interest coverage (x)	3.4	4.3	1.4	5.0	4.0

Operating ratios (x)

Year to March	FY07	FY08	FY09	FY10	FY11
Total asset turnover	6.4	2.6	2.1	1.7	2.1
Fixed asset turnover	28.7	13.1	12.1	7.7	6.9
Equity turnover	-	7.1	4.6	3.5	4.3

Du pont analysis

Year to March	FY07	FY08	FY09	FY10	FY11
NP margin (%)	3.35	5.87	0.5	4.8	4.8
Total assets turnover	6.44	2.58	2.1	1.7	2.1
Leverage multiplier	-	2.76	2.2	2.0	2.1
ROAE (%)	-	41.68	2.2	16.7	20.6

Valuation parameters

Year to March	FY07	FY08	FY09	FY10	FY11
Diluted EPS (INR)	21.1	15.0	1.3	14.7	21.2
Y-o-Y growth (%)	-	*(28.7)*	*(91.7)*	*1,073.5*	*44.7*
CEPS (INR)	23.8	16.9	3.7	18.8	26.5
Diluted P/E (x)	6.9	9.6	116.0	9.9	6.8
P/BV (x)	3.0	2.5	1.8	1.5	1.3
EV/Sales (x)	0.5	0.9	0.7	0.7	0.6
EV/EBITDA (x)	7.1	7.9	13.5	7.4	5.9
Dividend yield(%)	0.7	0.0	-	1.4	1.4

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Coverage group(s) of stocks by primary analyst(s): Miscellaneous

Bharat Electronics, EssDee Aluminium, Educomp Solutions, Everonn Systems, EID Parry India, Elecon Engineering Co Ltd, Escorts, Jain Irrigation, KPR Mills, Opto Circuits India Ltd, PI Industries, Shree Renuka Sugars, Supreme Industries, Sintex Industries Ltd, Sterlite Technologies, TIL Ltd, TRF Ltd, Usher Agro, United Phosphorus, VIP Industries

Recent Research

Date	Company	Title	Price (INR)	Recos
21-Nov-11	**KPR Mills**	Cotton yarn exports stitch; up margins; *Result Update*	96	Hold
11-Aug-11	**VIP Industries**	A goody bag quarter *Result Update*	762	Hold
25-Jul-11	**Supreme Industries**	Bumper quarter; *Result Update*	206	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	119	47	15	184

* 3 stocks under review

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	111	57	16

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

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