

Initiating Coverage

APL Apollo Tubes Ltd

The largest pipe player in the ERW Steel Tube Space

JHP RESEARCH | INDIA

Investment Rationale

APL Apollo Tubes Ltd (APL Apollo) with a capacity of 1.3 million tpa is India's leading steel tubes manufacturer and is the largest player in the Electric Resistance Welded (ERW) steel tubes & pipe industry. APL Apollo has 6 manufacturing units spread across India and is the fastest growing player in the space.

To cater to the growing demand, APL Apollo has consistently added capacities over the past 10 years. From an installed capacity of 80,000 tons in FY07, APL Apollo capacities recorded a whopping 32% CAGR over the last 10 years. The production of steel tubes increased from 59,000 tons in FY07 to 165,000 tons in FY10, recording a 41% CAGR. Since then, production has grown at a 28% CAGR.

APL Apollo is the market leader in the organized sector. APL Apollo is the largest producer of ERW steel tubes & pipes in India. The 2nd largest player is Surya Roshni with a capacity of about 600,000 tpa however it is diversified and has other business interests in Electrical Appliances as well.

APL Apollo is in the process of expanding its capacities. A Greenfield facility with a capacity of 200,000 tpa in Raipur will be commissioned by March - 2018. An additional capacity of 500,000 tpa with Direct Foam Technology (DFT) (125,000 tons each) is getting commissioned in the existing locations of Sikandarabad, Hosur, Murbad and Raipur by March - 2018. The total capacity will be 2 mn tpa by March – 2018. In 1QFY18, APL Apollo started production from 110,000 tons of capacity commissioned in 1QFY18. Volume grew by 11% during 1QFY18 and 27% during July – Aug 2017.

APL Apollo is the only company in the sector to offer vast product portfolio of over 400 varieties. About 70% of its product portfolio are in niche area and have limited competition. Hollow section is the dominant product with 52% share used primarily in infrastructure, bus bodies, solar panels and households.

We expect a revenue growth of 27% CAGR between FY17-19. However, EBITDA and PAT are expected to clock 31% and 43% CAGR respectively during the same period. Reduction in debt leading to lower finance cost is expected to drive higher profitability at the PAT level.

Outlook & Valuation – A potential upside of 15%

We initiate coverage on APL Apollo Tubes Ltd (APL Apollo) with a BUY rating and a target price of INR1988 based on 9x FY19 EV/EBITDA. APL Apollo has a 5 and 3 years average EV/EBITDA ratio of 7 and 8 respectively. However, APL Apollo has been trading at 9x over the last 1 year. We assign a multiple of 9x considering strong revenue & earnings visibility, declining debt and consistently high asset turnover ratio, high ROCE and ROE. At CMP, the stock is trading at 10.8x & 7.9x EV/EBITDA for FY18 and FY19 respectively.

Financial Highlights –

Y/E (INR mn)	FY15	FY16	FY17	FY18	FY19
Net Sales	31383	42136	45450	59044	73081
Growth	25.68%	34.27%	7.87%	29.91%	23.77%
EBITDAM	5.8%	6.7%	7.1%	7.1%	7.6%
Adj. PAT	638	1006	1459	2045	2980
Growth	8.1%	57.8%	45.0%	40.1%	45.7%
Adj. EPS (INR)	27.20	42.91	61.84	86.67	123.84
P/E (x)	63.7	40.4	28.0	20.0	13.7
EV/EBIDTA	24.6	16.5	14.4	10.8	7.9
ROCE	16.8	22.9	21.0	25.1	31.2
ROE	13.9	23.7	22.7	25.3	29.0

CMP: INR 1732 TARGET: INR 1988
SENSEX: 32,242 RATING: BUY

KEY DATA

Bloomberg Code :	APAT IN
Reuters Code :	APLA.BO
52-Wk Range(H/L):(INR)	1775 / 814
Market Cap (INR mn) :	40,905
Shares O/S (mn) :	23.59
Free Float (%) :	63
3M Avg. volume (mn) :	0.01
Face Value (INR):	10

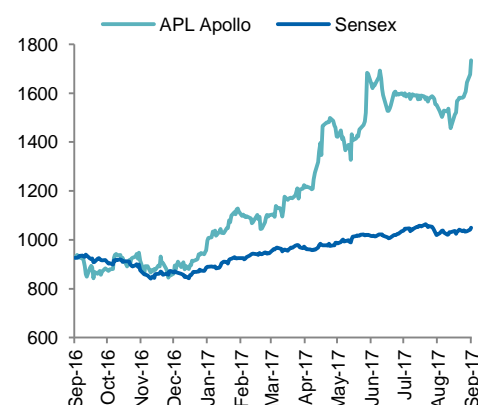
LATEST SHAREHOLDING PATTERN

Promoter:	37%
FII's:	22%
DII's:	15%
Others	26%

PRICE PERFORMANCE %

	1MTH	3MTH	1YR
ABS	11.7	7.0	87.3
REL	8.7	3.6	73.9

PRICE PERFORMANCE RELATIVE TO SENSEX



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APL Apollo Tubes Ltd: Company and its Business

Largest Player in the Electric Resistance Welded (ERW) Steel Pipe Space

Founded in 1986, **APL Apollo Tubes Ltd (APL Apollo)** with a capacity of 1.3 million tpa is India's leading steel tubes manufacturer and is the largest player in the Electric Resistance Welded (ERW) steel tubes. APL Apollo has 6 manufacturing units spread across India.

APL Apollo has 3 subsidiaries in India

APL Apollo has three 100% owned subsidiaries acquired during 2007 - 2010. APL Apollo acquired 100% stake in **Apollo Metalex Private Ltd** in June 2007 followed by **Shri Lakshmi Metal Udyog Ltd.** in April 2008. The last of the acquisition was of Lloyds Line Pipes Ltd. in Nov 2010 in Murbad near Mumbai.

Journey so Far

Exhibit 1: Milestones – Organic Growth

Key Milestones	Organic Events
1986	Year of Incorporation. Set up the 1st manufacturing plant in Sikandarabad, Ghaziabad
1994-95	Commissioned a new galvanizing plant, Listed on the stock exchanges
2000-02	Commissioned a new tube mill and modern gallium mills
2003-04	Developed in house hollow sections across wide range of designs. First to launch Pre-Galvanized pipes
2007-08	Acquired Apollo Metalex Pvt Ltd and Acquired Shri Lakshmi Metal Udyog Ltd
2009-10	Commissioned a state of the art greenfield plant at Hosur, Tamil Nadu. Started multiple warehouses across India
2011-12	Acquired Lloyds line Pipes Ltd in Murbad
2013-14	Launched Door & Window frames
2015	Achieved a capacity of 1 MTPA steel pipe
2016-17	First to introduce Direct Forming Technology and In-line Galvanizing in India

Source: Company & JHP Research

Management Background – Well experienced professionals from the steel industry

The senior management team has over decades of experience in the steel industry particularly in the ERW Steel Tube & Pipe Industry. They are backed by a large pool of steel and finance professionals who are well equipped to execute the expansions which are underway currently.

Exhibit 2: Top Management & their area of expertise

Name	Designation	Professional Experience
Mr. Sanjay Gupta	Executive Chairman	2 decades of experience in various steel industry segments
Mr. Ashok K Gupta	Managing Director	More than 3 decades of experience. Worked at senior management position at SAIL, Bhushan Steel, LN Mittal Group
Mr. Vinay Gupta	Director	More than 16 years of experience in steel tubes, pipes sheets and other steel products. Focuses more on exports and international markets.
Mr. Deepak Goyal	VP & CFO	

Source: Company & JHP Research

APL Apollo is in a single business, i.e. Steel Tube & Pipe Industry

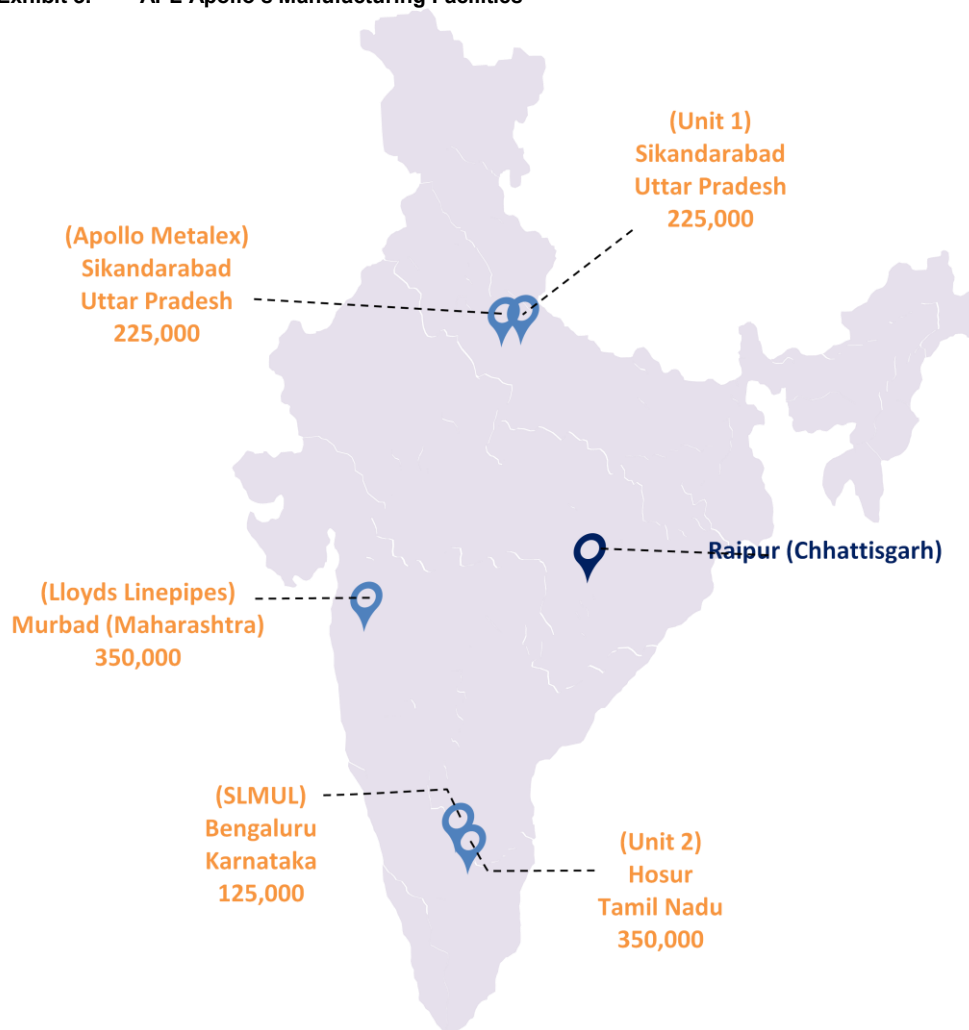
APL Apollo is a market leader in the ERW space and is a leading branded steel tube manufacturer. It caters to a wide array of sectors such as Infrastructure, construction, Auto, Energy and Agriculture. Infrastructure & Construction accounts for 60% of the demand for its products while Auto accounts for 10% and Energy & Agriculture accounts for 15% each.

APL Apollo Tubes Ltd.: Largest Player in the ERW Space

APL Manufacturing Facilities: Spread across India closer to demand centres

APL Apollo has 5 manufacturing facilities in northern, western and southern India.

Exhibit 3: APL Apollo's Manufacturing Facilities



Source: Company & JHP Research

Capacity Expansion by 700,000 tpa by March 2018

A Greenfield facility with a capacity of 200,000 tpa in Raipur will be commissioned by March - 2018. An additional capacity of 500,000 tpa with Direct Foam Technology (DFT) (125,000 tons each) is getting commissioned in the existing locations of Sikandarabad, Hosur, Murbad and Raipur by March - 2018. The total capacity will be 2 mn tpa by March – 2018

APL Apollo commissioned 110,000 tons in 1QFY18

In 1QFY18, APL Apollo started production from 110,000 tons of capacity commissioned in 1QFY18. The company plans to start production from rest of enhanced capacity by end of 2HFY8, i.e. Mar -2018 From its Raipur facility, APL Apollo started manufacturing 300 x 300 mm largest diameter hollow section pipes, only company in India to do so.

APL Apollo has Pan India Presence

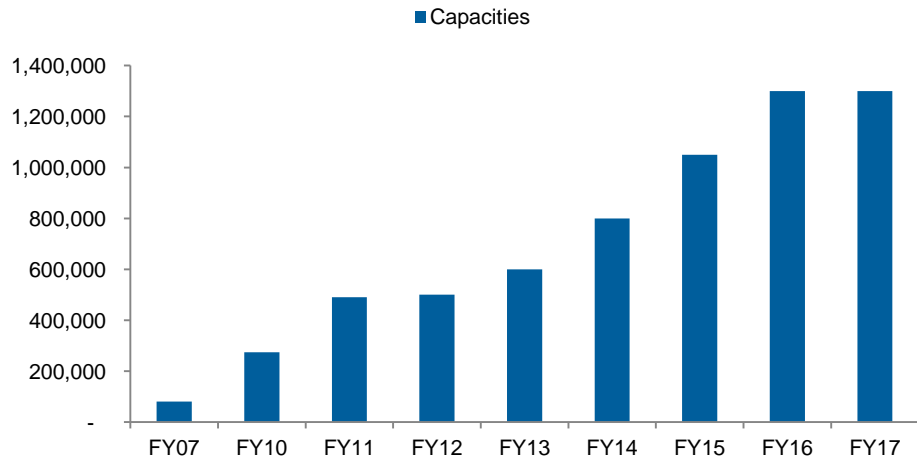
A network of over 600 direct distributors and 40,000 retailers enables a direct presence across India in over 300 cities & towns. APL Apollo sells 80% of its products through these distributors/dealers/retailers and the remaining 20% is sold directly in domestic market/exports/OEMs.

Increased capacities, diverse products and new technologies

Strong growth in Capacities over the past 10 years

With an aim to cater to the growing demand, APL Apollo has consistently added capacities over the past 10 years.

Exhibit 4: Installed Capacity, tons



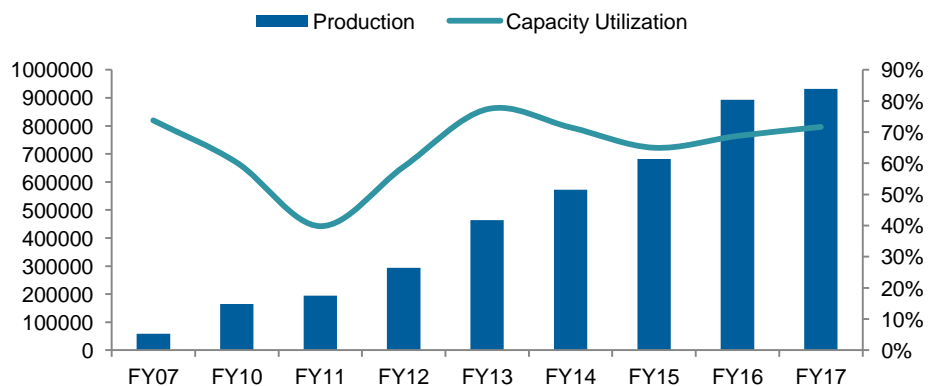
Source: Company & JHP Research

From an installed capacity of 80,000 tons in FY07, APL Apollo today has a capacity of 1.3 million tons recording a whopping 32% CAGR over the last 10 years. The company has added capacities consistently since FY10, increasing from 0.27 mn tons in FY10 to reach 1.3 mn tons in FY17.

Production too has kept pace clocking a 32% CAGR

The company has maintained its strong growth in production as well. The production of steel tubes increased from 59,000 tons in FY07 to 165,000 tons in FY10, recording a 41% CAGR. Since then, production has grown at a 28% CAGR

Exhibit 5: Production and Utilization



Source: Company & JHP Research

The Capacity utilization has remained steady over the years. After declining to 40% in FY11, Capacity utilization peaked at 77% in FY13. Capacity Utilization has been stable over the past 3 years and is hovering around 72% as of FY17.

APL Apollo has wide varieties of products

APL Apollo is the only company to offer vast product portfolio of over 400 varieties. It has a product portfolio which is twice the product basket of its nearest competitor. However, the entire product portfolio can be divided into 4 broad categories.

Exhibit 6: Product Portfolio

Product Portfolio	Share
Hollow Section	52%
Black Round Pipes	15%
Pre Galvanized Tubes	23%
Galvanized Tubes	10%

Source: Company & JHP Research

Hollow section is the dominant product with over 50% share and is used mainly in infrastructure, bus bodies, solar panels and households.

Exhibit 7: Product-wise sales volume trend

Sales Volume (tons)	FY16	FY17	Growth (%)
Hollow Section	425513	474851	12
Black Round Pipes	194031	150760	-22
Pre Galvanized Tubes	159457	188534	18
Galvanized Tubes	114665	117390	2
Finished Products	893666	931535	4
Others	64170	47406	-26
Total	957836	978941	2

Source: Company & JHP Research

The demand for hollow section has been strong as it caters to new age demand in infra and constructions. Moreover, it is a low commoditized and low competition product. Hollow Section sales volume rose 12% in FY17 over FY16. In 1QFY18, sales volume grew at a much faster pace of 14%. There was a de-growth in Black Round Pipes (demand mainly from agri sector) of about 22% primarily due slower growth in water transportation, high competition, demonetization drive and volatile steel prices particularly in the 2nd half of FY17

APL Apollo is moving towards innovative and value added products

APL Apollo has over the years introduced innovative products to cater to the wide varieties of customers. With this in mind, APL Apollo introduced Door Frames and Colour coated pipes

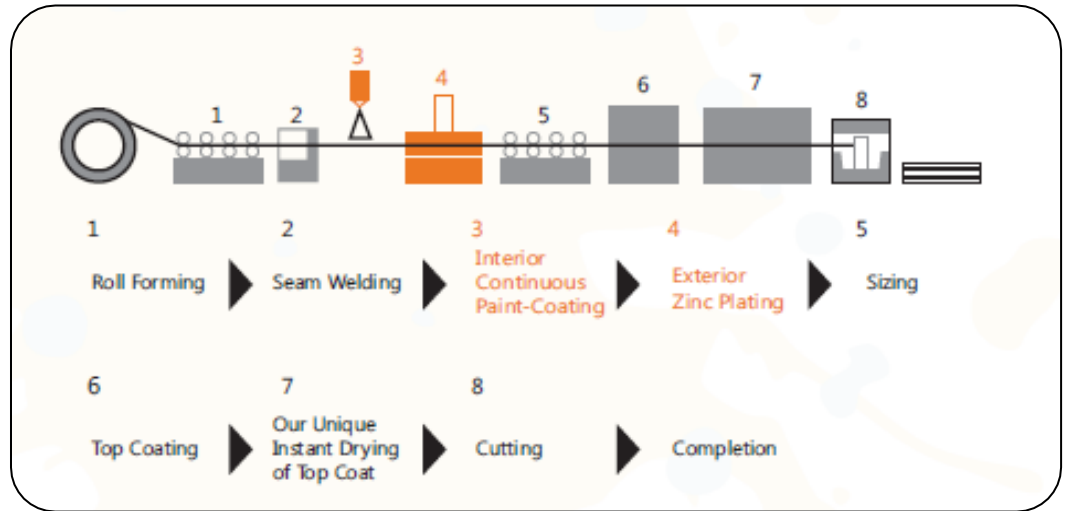
Door frames – The door frames can either be single door frame or double door frame. These products replace traditionally made wooden door frames. The advantages that steel door frames provide are manifold - it is cheaper, has a longer life, and can easily be recycled. Moreover, these door frames are approximately 30% cheaper than traditional wooden door frames. The company holds a patent for door frame design. APL expects its share of value added products to increase from the current 1% of revenue to 15% by 2020.

Color coated pipes – APL Apollo was the first company to bring color coated pipe technology to India. Steel pipes are generally available in raw state, in steel neutral color. These are then painted on site for aesthetics and rust prevention. Most of the products such as Black round and hollow sections, galvanized and pre galvanized pipes can be color coated. Color coated pipes find usage in Architectural and structural applications, roofing, airports, warehouse, expo centers, fire fighting etc.

At the forefront of adopting new technology: In-Line Galvanizing of Tubes

APL Apollo has been a pioneer in adopting the latest technology. APL Apollo introduced latest technologies such as High speed mills from Europe which increased speed by 5x, or the unique Rotary sizing mills which help in producing the best quality rolled tubes. It was the first company to introduce ‘In line Galvanizing of Tubes’ in India.

Exhibit 8: New Technology Process Flow



Source: Company & JHP Research

This technology helps to galvanize (zinc coating) the steel pipes on a continuous basis during the production process, without dipping them in a hot zinc bath. This technology will save time and cost of galvanization. Moreover this will improve productivity, enable cost savings while driving and exploring newer markets.

Introduction of Direct Forming Technology

APL Apollo introduced the latest global technology for manufacturing Hollow sections of superior quality. Direct Forming Technology can form square and rectangular pipes directly without forming the round cross section initially. This brings certain advantages like the line can produce even smaller order sizes of 10-20 tonnes unlike traditional technology wherein larger batches of 400-500 tonnes had to be run before any change could be done to maintain productivity.

Leads to saving of raw materials

This technology allows the company to save raw material which earlier used to gather at the edges when round cross sections were converted into square or rectangular cross sections. This saving in raw material is around 3-7%, depending on the product profile.

Exhibit 9: Direct Forming Technology



Source: Company & JHP Research

Customer benefits and substantial time savings

The Rollover time due to usage of new technology has reduced to 20 minutes vis-a-vis 48 hours using conventional technology. The adoption of new Direct Forming Technology has brought in a range of customer benefits such as size customization and addressing to specific orders. This has allowed APL Apollo to deliver “**Whatever product, Whenever and Wherever**”

Exhibit 10: Products



Black Hollow Section



Black Round



Pre – Galvanized



Galvanized

Source: Company & JHP Research

Robust product offering across 400 plus varieties



[Double Door frame section](#)



[Single door frame Section](#)



[Paint Coated Pipes](#)

Competitive Intensity is low for APL Apollo Tubes

India is a leading ERW Steel Tubes manufacturer in the world

India is one of the leading ERW steel tubes manufacturing centers in the world. The total production in the ERW Steel Tube space is about 7 million tons. In terms of value the total size of the domestic ERW steel pipe is Rs. 300 billion. There are about 13 players in the organized space accounting for 50% of the capacity. The unorganized sector accounts for the remaining 50% of the market share.

APL Apollo is a market leader in the organized sector

With a capacity of 1.3 mn tons, APL Apollo is the largest producer of ERW steel tubes in India. The 2nd largest player is Surya Roshni with about 605, 000 tpa

Exhibit 11: Key Players in the ERW space with their capacities

ERW Steel Pipe	Capacities
APL Apollo	1300000
Surya Roshni	605000
Jindal Industries Ltd	300000
Tata Steel	400000
Welspun Corp	200000
Jindal India Ltd	300000
Jindal Pipes	200000

Source: Company & JHP Research

Most of the above players barring APL Apollo have other businesses and are diversified as well. For example, Surya Roshni is into Home Appliances, Fans and Lighting to name a few. Welspun Corp has presence in others Submerged welded pipes (SAW)

Multiple Entry Barriers exist margins remain the biggest entry barrier

The margins in the ERW steel tube business is in the range of 7 - 8% which acts as a big deterrent for new entrants given the current capital costs. The existence of wide varieties of products too restricts new players from getting into this business. Most large players are concentrating on the pure steel business and are not willing to get into such businesses given the low margin profile and higher capital outlay.

Unorganized players facing multiple problems

Smaller players are losing market share with the demand shifting to bigger players due to wide range of quality products, timely delivery of products and shorter lead times. Small players also face problems due to adverse movement in HRC prices. Small companies are also facing capital constraints for growth as they operate on very low margins. Organized players have become more cost efficient due to updated technology, which smaller players have not implemented.

The quality of products is not up to the mark for unorganized sector

Most unorganized players used cheap quality raw material MS Strips "Patra" for manufacturing of ERW steel tubes. While trying to save on raw material cost, they do not buy HR Coils from established players thus producing inferior quality of products. Moreover, they operate on wafer thin margins and cannot compete with organized players. We believe in the times to come 50% of the mills may shut down.

GST: a major boost to the organized sector

The implementation of GST on July 1st 2017 will be a boon for the organized players. In the earlier regime (pre GST), the leading players in the organized sector such as APL Apollo paid taxes to buy Hot Rolled Coils and charge applicable taxes to the distributor and to direct customers. The unorganized players were evading these taxes through cash based transactions and under invoicing. This is being plugged with the implementation of Goods & Services tax network (GSTN). With low margins, players in the unorganized may find the going quite tough.

Multiple growth drivers at play for APL Apollo

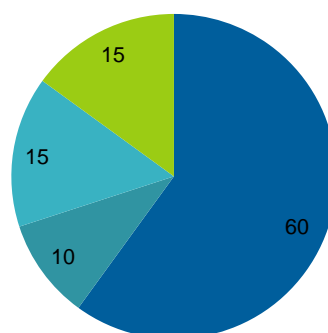
New age demand coming to the fore

In the past, steel tubes and pipes had traditional usage in water transportation, oil & gas, sewage etc. These are known as traditional usage. However, in recent times, steel tubes and pipes have found new age usage in airports, metros, malls, modern buildings, auto, solar panels etc to name a few. These are better known as **Structurals**.

Current demand for APL Apollo emanates 55% from Structurals and 45% from Traditional. The demand for APL Apollo products comes from Infra, Construction, Auto, Energy and Agricultural sectors.

Exhibit 12: Demand Drivers, %

■ Infrastructure & Construction ■ Automobiles ■ Energy ■ Agriculture



Source: Company & JHP Research

Infrastructure push in FY18

The central government has significantly enhanced its focus towards infrastructure development and has increased its budgetary allocation for roads and highways. The government announced an outlay of INR 2.41 trillion for transportation sector as a whole (rail, roads and shipping) in FY18. The outlay for Railways was INR. 1.31 trillion –

Metro Projects in India

The need for safe and rapid inter-city public transport across fast developing cities in India is on the rise. One of the most successful modes is Rapid Transit System. Current metro development works are approved for eight cities in India. As per industry data total of **USD 7.7 billion** worth of Metro projects are under development in India and this would further grow. The National Highways Authority of India (NHAI) in July 2017 has in-principle approval for a very ambitious Delhi-Panipat and Delhi-Alwar Regional Rapid Transit Systems (RRTS) projects worth INR 53.5 billion.

Airport Development on the feverish pace

The domestic passenger traffic of India is growing over 23% YoY, making India the third-largest aviation market after the US and China. With this passenger traffic growth, the government expects these volumes to triple in the next 10-15 years. The government's strategy to deal with the burgeoning traffic is threefold: Streamline and modernise existing terminals, build new terminals at existing airports and develop Greenfield airports. The government has granted "in-principle" approval for setting up of the 18 Greenfield airports.

Housing for All

The central government in June 2015 announced its program to make India slum free by building a home for every Indian by 2022. The project started as 'Housing for All' was renamed as Pradhan Mantri Awaas Yojana (Urban & Grameen). Under this scheme the central government has planned to build 20 million houses for urban poor and 29.5 million houses in rural India.

Smart City Projects to offer tremendous opportunities

Smart Cities Mission is an urban renewal and retrofitting program by the Government of India with a **mission** to develop 109 **cities** all over the country making them citizen friendly and sustainable. These smart city projects will also propel demand for PVC pipes & fittings as the same will be used for sewerage lines and 24x7 uninterrupted supplies of drinking water, gas connections and laying of cables.

Steel Tube & Pipe Industry: Diverse Product & Usage

The steel Tubes & Pipe industry can be divided into 3 broad segments:

Exhibit 13: Structure of the steel Tube & Pipe Industry

Steel Tube & Pipe Industry		
Category	Application/New Age Usage	Players
Ductile Iron	Portable Water & Sewage Transportation	Electrosteel, Jindal Saw
Seamless	Oil & Gas, Engineering, Automotive, Power	ISMT, Maharashtra Seamless & Jindal Saw
Welded	3 types Welded Steel	
SAW	Oil & Gas, Water Transportation, Sewage	Jindal Saw, PSL, Welspun & MAN Industries
ERW Precisions	Automotive & White Goods	TI, Tata Steel
ERW Structural & Commercial	Engineering, Auto, Power, Oil & Gas, Gas Distribution & Sewage	APL Apollo, Surya Roshni, Tata Steel, Bhushan Steel, Welspun Corp
ERW Structural & Commercial	Modern Infra, Airports, Malls, Metros, Bus Bodies & Sprinklers	APL Apollo, Surya Roshni, Maharashtra Seamless, Jindal Pipes Welspun Corp

Source: Company & JHP Research

Welded Steel is divided into 3 sub categories: Submerged Arc Welded (SAW), Electric Arc Welded Precisions (ERW) and Electric Resistance Welded (ERW) Structural/Commercial.

Market Size Indian ERW Steel: Rs 300 billion and to grow at 9% between FY17 to FY22E

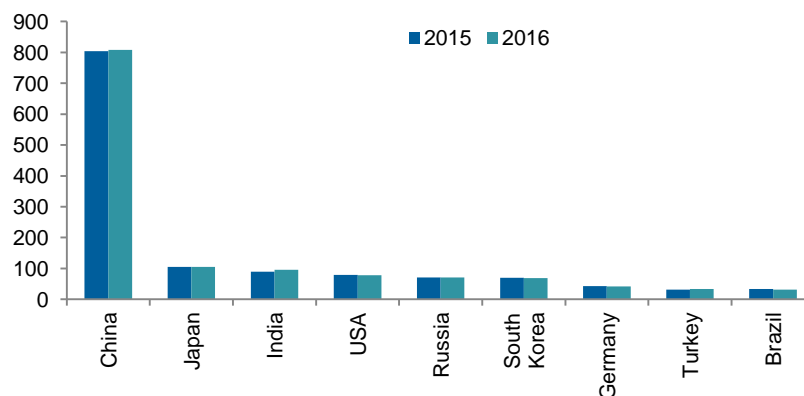
The global market size of the Welded Steel is 170 mn tones (USD 100 mn). The market size of the Indian ERW steel tube market is 7 mn tones in volume terms and Rs 300 bn in value terms. We expect ERW steel tube market to clock a 9% CAGR to reach Rs 460 bn

Steel Industry: Demand & HRC prices have been stable

India is the 3rd largest producer of Steel

With a production of 96 million tones, India is world's third largest producer of crude steel after China and Japan. India accounts for 6% of steel production globally.

Exhibit 14: Global Steel Production



Source: World Steel & JHP Research

APL Apollo Tubes Ltd.: Largest Player in the ERW Space

While the growth in global steel production remains muted, India has been the only bright spot. India's steel production grew by 7.9% vis-à-vis China's grew by 0.50% in 2016

Steel demand continues to remain sedate

The demand-supply scenario in India has been steady for the past 5 years. Steel demand (apparent consumption) in India over the last 5 years (FY12-FY17) clocked a CAGR of 4.3%

Exhibit 15: Steel Demand in India (mn tons)

Particulars	FY12	FY13	FY14	FY15	FY16	FY17
Production	75.7	81.68	87.67	92.16	90.98	97
Imports	6.86	7.93	5.45	9.32	11.71	7.4
Exports	4.59	5.37	5.98	5.59	4.08	8.2
Apparent Consumption	77.97	84.24	87.14	95.89	98.61	96.2

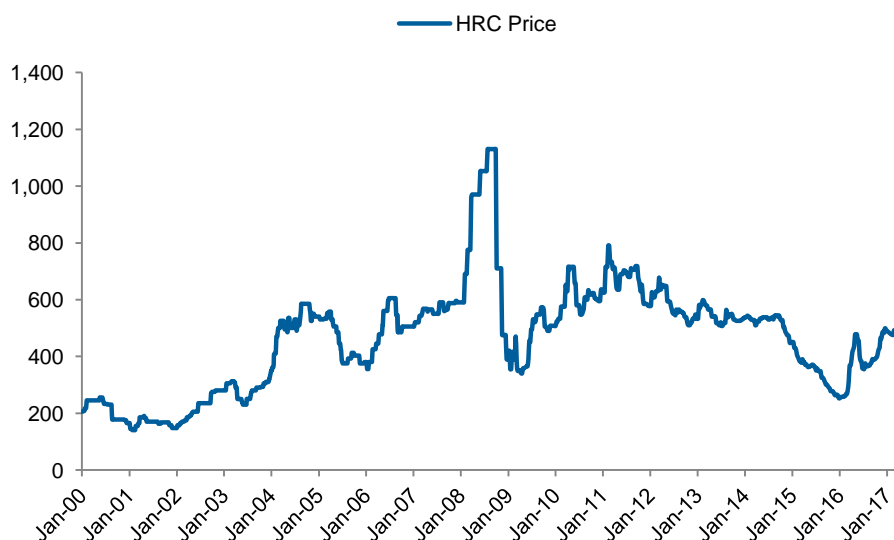
Source: Company & JHP Research

Steel production grew at a faster pace of about 5.1% during the same period. Exports grew at a much faster pace, at about 12% per annum over the last 5 years. The share of exports in total production rose from 6% in FY12 to 8.5% in FY17.

Global HRC Coil prices remain stable

Global HRC prices declined at a 6% CAGR during June 2012– June 2017, from USD 592 to USD 432. From the lows of USD 255 in Jan 2016, steel prices have risen 70% and were hovering around USD at USD 455 in June 2017. In the last one year prices have risen by 8%.

Exhibit 16: Global HRC Price Trend, USD/Ton



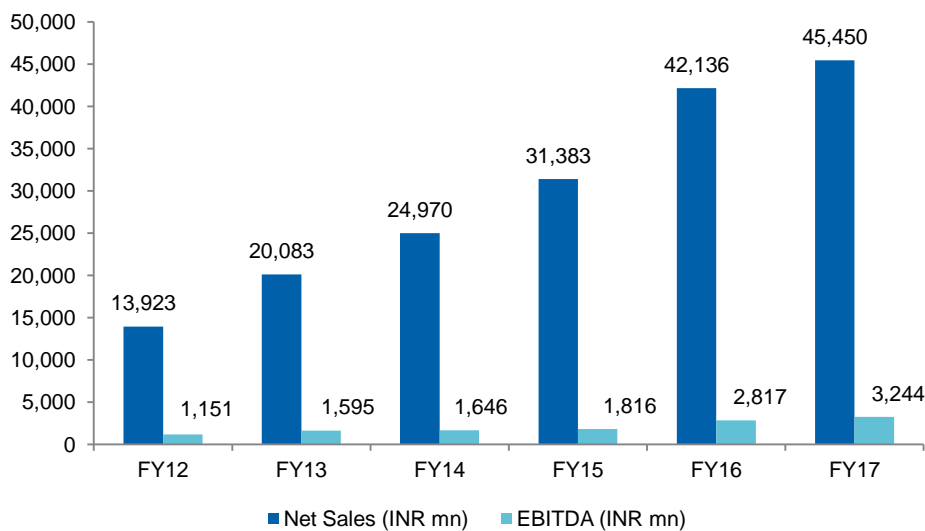
Source: Company & JHP Research

Strong Growth accompanied by low debt and impeccable capital efficiency ratios

Very Strong Growth in Net Sales and Operating Profit

During FY14-17, APL Apollo clocked an impressive CAGR of 22% & 25% in Net Sales and EBITDA respectively. With strong growth prospects, we expect APL Apollo to intensify its growth momentum going forward and clock a 27% and 31% CAGR in Net Sales and EBITDA respectively between FY17-19E.

Exhibit 17: Strong growth in Revenue and EBITDA

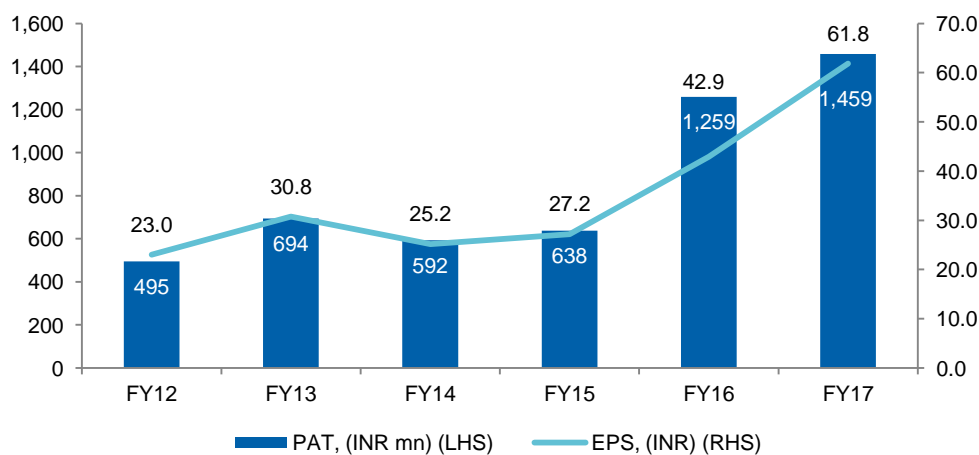


Source: Company & JHP Research

Strong Growth in Profitability

APL Apollo operating profit and net profit has moved up steadily over the last three years. During FY14 – FY17, net profit posted a CAGR of 25%. We expect APL Apollo to report a PAT CAGR of 43% during FY17-19E.

Exhibit 18: PAT clocked a 24% CAGR during FY12 – FY17

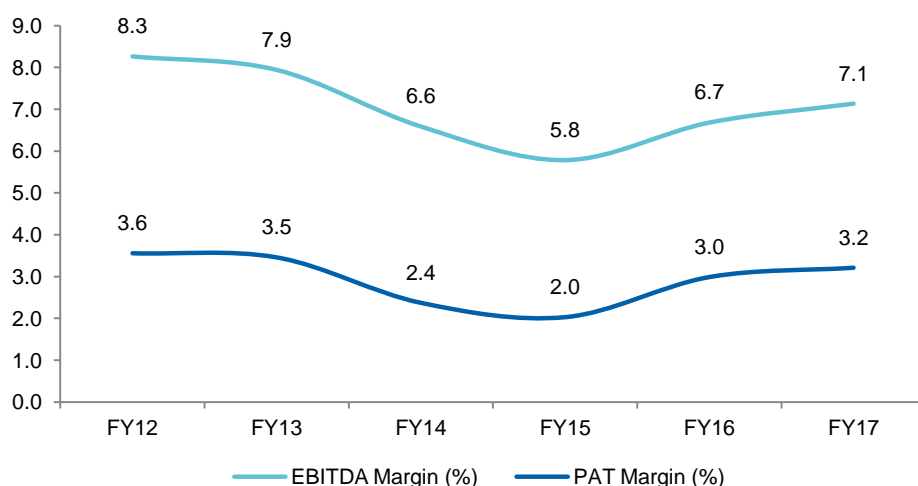


Source: Company & JHP Research

EBITDA margins improving through operational efficiencies as HRC prices are pass-through

APL Apollo’s main raw material for its product is HR Coil. The company is not vertically integrated to manufacture its own HR Coil. APL Apollo therefore procures most of its requirement of HR Coil in the domestic market preferably from companies close to its manufacturing facilities. The company buys HR Coils from steel companies at market rate. The company accordingly pass on the HR Coil prices to its customers directly or through its dealers. APL Apollo has been able to marginally increase its margins over the last 3 years through operational efficiencies. The efficiencies in production due to the use of superior technologies has led to an increase in EBITDA per ton from INR 2662 in FY15 to INR 3482 in FY17, a CAGR of 14% per annum.

Exhibit 19: Improvement in margins in the last 3 years

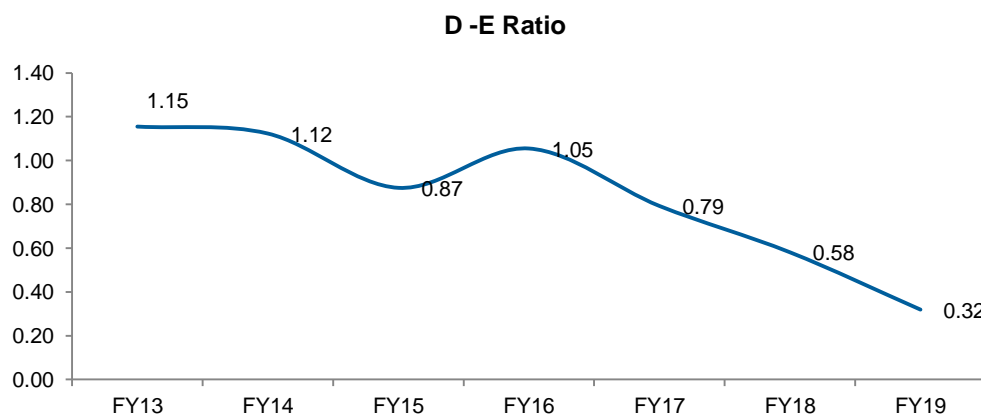


Source: Company & JHP Research

APL Apollo debt level has been declining over the years.

APL Apollo’s has reduced its debt from Rs 5985 mn in FY16 to Rs 5707 mn in FY17.

Exhibit 20: Debt has been declining over the last 5 years



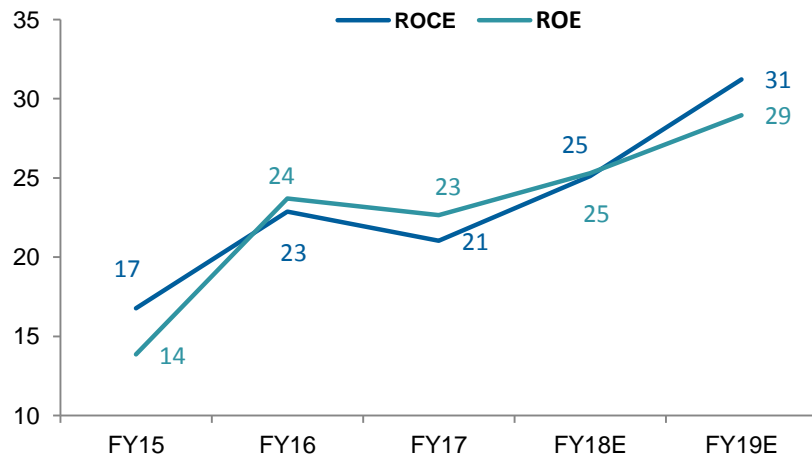
Source: Company & JHP Research

The expansion in Raipur at the cost of Rs 2000 mn is funded through internal accruals. We expect the overall debt to reduce from current level to Rs 3707mn by FY19E.

APL Apollo has best in class capital efficiency ratio

APL Apollo has sweated its assets very well. Its asset turnover ratio has increased from 2.8 x in FY13 to 3.5 x in FY17.

Exhibit 21: Best in class capital efficiency ratios



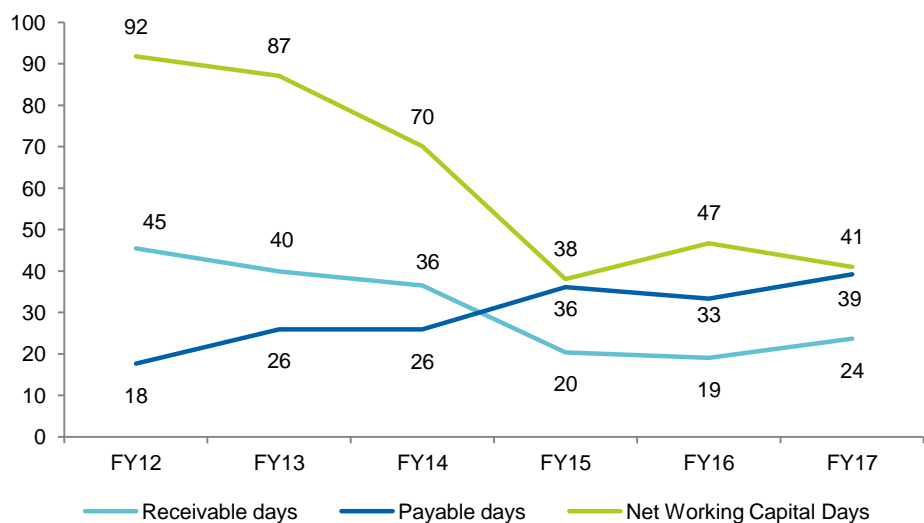
Source: Company & JHP Research

APL Apollo average ROCE and ROE during FY15 – FY17 has been 20% driven largely by better asset turnover ratio. We expect ROCE and ROE to reach 31% and 29% respectively by FY19E.

Steadily improving working capital cycle

APL Apollo’s working capital cycle has significantly improved over the last few years. The net working capital days has moved down from 92 in FY12 to 41 in FY17. The receivable days has also witnessed a similar improvement where it came down from 45 days in FY12 to 24 days in FY17.

Exhibit 22: Impeccable short term capital management



Source: Company & JHP Research

Key Risks

Sluggishness in Infrastructure Sector

The infrastructure sector is amongst the key contributors to steel pipe demand holding 60% share in the total consumption. The growth in infrastructure sector is largely driven by government spending and a delayed approval or clearances would have an adverse impact on the infrastructure sector growth which would have an adverse impact on steel pipe demand.

Increase in Input Cost

Raw Material cost constitutes of close to 90% of the total operating cost. Any significant increase in prices of major input material i.e. HR Coils may have an adverse impact on the Company's margins if it is unable to pass on the incremental prices.

Increase in Cost of Funds

With consumer price inflation well in control, India is currently in a lower interest rate cycle. However, if inflation spikes up RBI may increase the policy interest rates. This will increase the cost of finance for the steel tube and pipe industry.

Outlook & Valuation: A potential upside of 15%

We initiate coverage on APL Apollo Tubes Ltd (APL Apollo) with a BUY rating and a target price of INR1988 based on 9x FY19 EV/EBITDA

APL Apollo is a market leader in the ERW steel tube and pipe segment. APL is going to be a major beneficiary from the growth in infrastructure, construction, Auto, energy and agriculture, the key industries/sectors which APL Apollo caters to. We believe strong growth in overall economy driven by infra, construction, auto and agricultural bodes augurs well for API Apollo. We strongly believe with a virtual dominance in the ERW steel tube and pipe space and consistent high ROCE & ROE will ensure APL Apollo to command premium valuation.

We expect a revenue growth of 27% CAGR between FY17-19. However, EBITDA and PAT are expected to clock 31% and 43% CAGR respectively during the same period. Reduction in debt leading to lower finance cost is expected to drive higher profitability at the PAT level.

APL Apollo has a 5 and 3 years average EV/EBITDA ratio of 7 and 8 respectively. However, APL Apollo has been trading at 9x over the last 1 year.

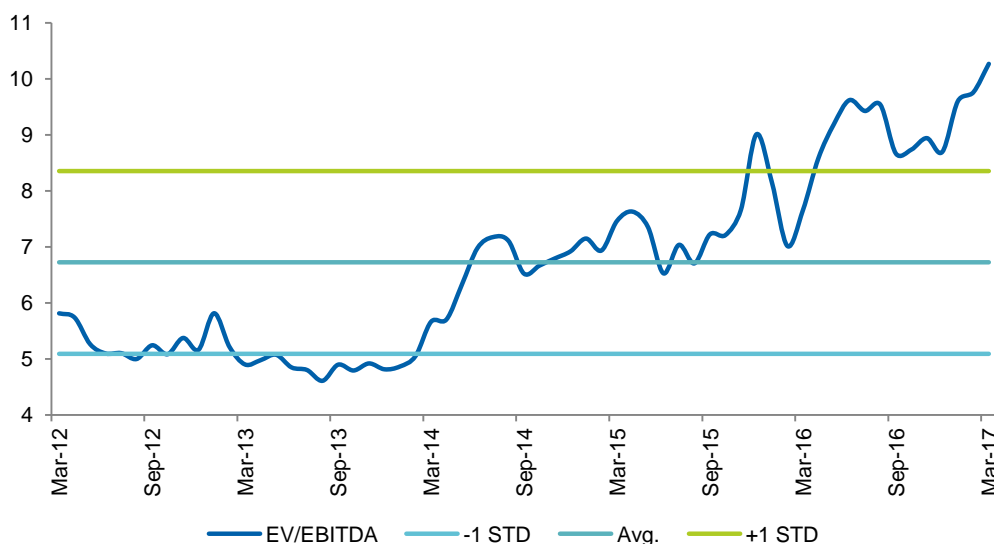
Exhibit 23: Relative Valuation on a trailing basis

FY17	Capacity, tons	Mkt Cap, INR mn	Debt, INR mn	EBITDA (%)	EV/EBITDA	ROCE	ROE
APL Apollo	1300000	40905	5707	7.1%	14.36	21.0%	22.66
Surya Roshni	600000	13390	8520	6.7%	9.45	11.1%	9.16%
Jindal Pipes	200000	87552	6400	14%	41.72	7.0%	4%
Welspun	200000	36974	17410	8.68%	10.17	5.4%	0.34%

Source: Company & JHP Research

We assign a multiple of 9x considering strong revenue & earnings visibility, declining debt and consistently high asset turnover ratio, high ROCE and ROE. At CMP, the stock is trading at 10.8 x & 7.9 EV/EBITDA for FY18 and FY19 respectively.

Exhibit 24: EV/EBITDA band



Source: Company & JHP Research

APL Apollo Tubes Ltd.: Largest Player in the ERW Space

Consolidated Financials

Exhibit 25: Profit & Loss and Balance Sheet

Income Statement

Y/E March (INR mn)	FY15	FY16	FY17	FY18E	FY19E
Net Sales	31383	42136	45450	59044	73081
Expenditure	29567	39319	42206	54852	67526
EBITDA	1816	2817	3244	4192	5554
Depreciation	220	341	512	592	659
EBIT	1596	2476	2732	3600	4895
Other Income	45	103	38	40	42
Interest Expense	664	695	683	655	535
PBT	977	1883	2086	2985	4402
Tax	339	624	627	940	1422
Extraordinary items	0	253	0	0	0
Minority Int / Income from Associates	0	0	0	0	0
Reported PAT	638	1006	1459	2045	2980
Adjusted PAT	638	1006	1459	2045	2980

Balance Sheet

Y/E March (INR mn)	FY15	FY16	FY17	FY18E	FY19E
Equity Capital	234	234	236	236	236
Reserves & Surplus	4717	5441	6967	8729	11378
Net Worth	4951	5676	7203	8965	11614
Minority Interest	0	0	0	0	0
Borrowings	4332	5985	5707	5207	3707
Net Deferred Tax Liability	745	859	905	995	1127
Other Long term provisions / Liabilities	40	61	83	83	83
Total Liabilities	10067	12581	13898	15249	16530
Net Block	5952	6553	7900	9233	9668
Investments	191	131	127	127	127
Other long term L&A / Goodwill / provisions	1052	1022	1465	1465	1465
Current Assets	6033	8896	9008	9230	10979
Cash & Bank Balance	188	14	17	607	626
Other Current Assets	704	692	1301	1301	1301
Current Liabilities & Provisions	3160	4021	4603	4806	5709
Net Current Assets	2872.9	4874.7	4405.6	4423.6	5270.4
Misc Expense	0	0	0	0	0
Total Assets	10067	12581	13898	15249	16530

Source: Company, JHP Research

APL Apollo Tubes Ltd.: Largest Player in the ERW Space

Exhibit 26: Cash Flow and Ratios

Cash Flow					
Y/E March (INR mn)	FY15	FY16	FY17E	FY18E	FY19E
Profit before tax (PBT)	932	1781	2048	2945	4359
Depreciation	885	1,036	1,195	1,247	1,194
Chg in working cap	1748	-2011	338	662	-696
Tax Paid	-339	-624	-627	-940	-1480
Other Operating cash flow	-76	-69	114	46	148
(a) Net Operating Cash Flow	3147.99	113.00	3068.70	3959.57	3525.97
Capital Expenditure	-1817	-1097	-2100	-1925	869
Free Cash Flow	1330.59	-983.50	968.60	2034.42	4394.66
Investments	-15	59	4	0	0
Other Investing cash flows	15	-59	897	0	-1,963
(b) Cash Flow from Investing	-1817	-1096.5	-1200	-1925	-1094
Equity Capital Raised / (Repaid)	0	0	0	0	0
Debt raised / (Repaid)	-443	1,653	-278	-500	-1,500
Dividend paid (incl tax)	169	281	283	283	330
Other Financing Cash Flow	-969	-1,126	-1,871	-1,227	-1,243
Cash Flow from Financing	-1,243	809	-1,866	-1,444	-2,413
Net change in cash	87.39	-174.70	3.30	590.18	19.05
Opening cash	101	188	14	17	607
Closing Cash	188	14	17	607	626
Key Ratios					
Per Share Data (INR)	FY15	FY16	FY17E	FY18E	FY19E
EPS	27.20	42.91	61.84	86.67	123.84
Cash EPS	36.59	68.26	83.55	111.77	151.78
BV/share	211.22	242.13	305.34	380.01	492.34
DPS	6.00	10.00	12.00	12.00	14.00
Valuation (x)	FY15	FY16	FY17E	FY18E	FY19E
P/E	63.7	40.4	28.0	20.0	13.7
Cash P/E	47	25	21	16	11
EV/Sales	1.43	1.11	1.02	0.77	0.60
EV/EBITDA	24.6	16.5	14.4	10.8	7.9
Dividend Yield (%)	0.35	0.58	0.69	0.69	0.81
Return Ratio (%)	FY15	FY16	FY17E	FY18E	FY19E
ROCE	16.77	22.87	21.03	25.12	31.23
ROE	13.85	23.70	22.66	25.29	28.39
RoIC	17.28	23.03	22.30	28.07	38.06
Growth (%)	FY15	FY16	FY17E	FY18E	FY19E
Revenue	25.68	34.27	7.87	29.91	23.77
EBITDA	10.36	55.10	15.17	29.23	32.47
EBIT	7.75	55.12	10.34	31.78	35.95
PAT	8.09	57.77	45.05	40.15	42.88
Profitability (%)	FY15	FY16	FY17E	FY18E	FY19E
EBITDA margin	5.79	6.68	7.14	7.10	7.60
EBIT margin	5.09	5.88	6.01	6.10	6.70
PAT margin	2.03	2.99	3.21	3.46	4.00
Leverage & Working Capital (%)	FY15	FY16	FY17E	FY18E	FY19E
Net Debt / Equity	0.84	1.05	0.79	0.51	0.27
Current Ratio	2.08	2.32	2.09	2.05	2.03
Debtors (Days)	20	19	24	20	20
Creditors (Days)	36	33	39	31	30
Working Capital Turnover (Days)	38	47	41	28	27

Source: Company, JHP Research

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