

# APL Apollo

16 June 2014

Reuters: ALPA.BO; Bloomberg: APAT IN

## Strong Volume Growth May Continue, Margin Improvement Likely

We organised a non-deal investor road-show for APL Apollo (APL) recently. Following are the key highlights:

**Robust volume growth likely to continue:** APL achieved a 20% volume growth in FY14, while the volume registered a 38% CAGR over FY06-FY14 driven by organic as well as inorganic acquisitions. The above factors lead to a 43% revenue CAGR over FY06-FY14 and we believe the strong revenue growth will continue in the coming years as well. The company has given volume guidance of over 700,000tn, implying a growth of 26% for FY15, while it intends to achieve a volume of 1mt by FY17.

**Expansion in margins likely from 1QFY15:** The company witnessed margin compression from 7.9% in FY13 to 6.4% in FY14 because of subdued demand environment in the infrastructure and construction segments. The company was not able to pass on the steel price hike fully to consumers in the later part of FY14, which resulted in margin compression. However, the company has also not passed on the fall in raw material prices to consumers in 1QFY15, which coupled with strong volume witnessed in the same period will result in margin expansion from 1QFY15 onwards.

**Focus on branding/value addition to increase margins further:** APL was primarily focused on volume growth all these years, but with its plan to touch 1mt capacity (currently 0.8mt), the attention has turned to branding which can fetch the company higher margins. The company is not looking at expanding its capacity beyond 1mt and it will work for improvement in margins through branding and value addition. APL is also looking at introducing several new products in India for the first time in the pipe segment, which will enable it to command pricing power in the market.

**Locational advantage and strong distribution network are key differentiators:** Freight costs play a very important role in the distribution of pipes - a voluminous product. APL has a significant cost advantage because of its pan-India presence. The company achieves 45% its revenue from the southern market and 28% from the western market. Northern market accounts for 16% of the revenue, while others (including exports) account for the rest. Besides this, the company has a 2x distribution base compared to peers, helping it to capture market share from unorganised players. The company has around 300 dealers across India and it is looking to double the dealer network in the next two years.

**Other highlights:** The company had gross long-term debt of Rs1,645mn and gross short-term debt of Rs3,403mn as of 31 March 2014. The management has estimated capex of around Rs250mn-Rs300mn for FY15 and FY16 each in order to complete the 1mt facility and the unit for value-added products. Gross debt is likely to move up from Rs5,048mn to Rs5,500mn-Rs6,000mn because of higher working capital requirement at the end of FY15E. The company has around 70-day inventory and debtor cycles, which it plans to continue in the future as well.

Cons. Y/E March (Rsmn)	FY10	FY11	FY12	FY13	FY14
Revenue	6,180	9,052	13,923	20,083	25,689
YoY (%)	19.0	46.5	53.8	44.2	27.9
EBITDA	571	897	1,151	1,595	1,646
EBITDA margin (%)	9.2	9.9	8.3	7.9	6.4
PAT	298	431	491	686	590
EPS (Rs)	14.7	21.2	23.0	30.7	25.2
YoY (%)	1,073.5	44.7	8.5	33.5	(18.1)
RoE (%)	16.7	20.5	18.8	21.0	15.0
RoCE (%)	10.1	13.9	13.3	13.6	11.3
P/E (x)	18.9	13.0	12.0	9.0	11.0
EV/ EBITDA (x)	12.1	8.8	7.8	6.6	7.0

Source: Company, Nirmal Bang Institutional Equities Research

## NOT RATED

Sector: Steel pipes

CMP: Rs277

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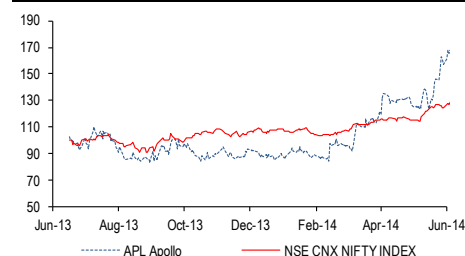
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### Key Data

Current Shares O/S (mn)	23.4
Mkt Cap (Rsbn/US\$m)	6.5/108
52 Wk H / L (Rs)	290/128
Daily Vol. (3M NSE Avg.)	48,849

### One-Year Indexed Stock Performance



### Price Performance (%)

	1 M	6 M	1 Yr
APL Apollo	37.0	89.7	69.8
Nifty Index	4.6	22.5	29.8

Source: Bloomberg

## Other highlights

### Top player in ERW segment

The management stated that the ERW (electric resistance welded) pipe market size stands at over 8mt. APL is the top player in the market followed by Tata Steel, D.P. Jindal Group and Surya Roshni Group. According to the company, around 55% of the ERW pipe capacity lies in the unorganised segment. The company believes its growth is partially driven by capturing the share of the unorganised segment, which will continue in the future as well.

### Expansion at existing locations gives firm visibility

Currently, APL has 800,000tn of pipe-making capacity spread across four locations and five plants. It has two plants in Uttar Pradesh with a total capacity of 250,000tn, while it is adding another 40,000tn unit by the end of this month, taking the total capacity to 840,000tn. It has a plant in Maharashtra whose capacity has been increased from 150,000tn to 170,000tn in 1QFY15. APL also has a plant in Karnataka (Bengaluru) with a capacity of 80,000tn and a plant in Tamil Nadu (Hosur) with a capacity of 300,000tn. The company has surplus land available in each of the locations, which will be utilised for capacity expansion up to 1mt.

### Exhibit 1: 4QFY14 operational performance

	4QFY13	3QFY14	4QFY14	YoY (%)	QoQ (%)	FY13	FY14	YoY (%)
<b>Product-wise volume (tn)</b>								
Black pipe	32,000	26,000	37,923	18.5	45.9	114,386	132,923	16.2
Square pipe	44,000	47,000	36,959	(16.0)	(21.4)	156,734	183,959	17.4
GI pipe	19,000	21,000	21,472	13.0	2.2	64,389	81,472	26.5
GP pipe	23,000	29,000	39,899	73.5	37.6	89,651	113,899	27.0
Coils & others	12,000	18,000	7,726	(35.6)	(57.1)	38,361	44,726	16.6
<b>Total volume</b>	<b>130,000</b>	<b>141,000</b>	<b>143,979</b>	<b>10.8</b>	<b>2.1</b>	<b>463,521</b>	<b>556,979</b>	<b>20.2</b>
<b>Realisation (Rs/tn)</b>								
Black pipe	40,688	41,808	41,136	1.1	(1.6)	40,820	41,385	1.4
Square pipe	41,409	41,702	41,938	1.3	0.6	41,621	43,396	4.3
GI pipe	49,895	51,619	51,230	2.7	(0.8)	49,623	53,969	8.8
GP pipe	50,174	51,483	51,129	1.9	(0.7)	50,016	52,485	4.9
Coils & others	28,000	34,278	29,770	6.3	(13.2)	29,918	32,509	8.7
<b>Blended realisation</b>	<b>42,785</b>	<b>44,262</b>	<b>45,007</b>	<b>5.2</b>	<b>1.7</b>	<b>43,190</b>	<b>45,447</b>	<b>5.2</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 2: 4QFY14 financial highlights

(Rsmn)	4QFY13	3QFY14	4QFY14	YoY (%)	QoQ (%)	FY13	FY14	YoY (%)
<b>Net sales</b>	<b>5,588</b>	<b>6,291</b>	<b>6,736</b>	<b>20.5</b>	<b>7.1</b>	<b>20,083</b>	<b>25,689</b>	<b>27.9</b>
Raw material costs	4,805	5,444	5,747	19.6	5.6	16,888	22,099	30.9
% of sales	86.0	86.5	85.3			84.1	86.0	
Employee costs	61	88	86	46.7	(2.1)	279	336	22.5
% of sales	1.1	1.4	1.3			1.4	1.3	
Other expenses	299	367	490	63.8	33.4	1,321	1,609	21.8
% of sales	5.4	5.8	7.3			6.6	6.3	
<b>EBITDA</b>	<b>424</b>	<b>391</b>	<b>413</b>	<b>(2.6)</b>	<b>5.5</b>	<b>1,595</b>	<b>1,646</b>	<b>3.2</b>
EBITDA margin (%)	7.6	6.2	6.1			7.9	6.4	
Depreciation	39	43	39	0.9	(8.8)	125	164	31.4
Interest costs	120	154	160	32.4	3.6	429	609	41.9
Other income	17	1	11			17	20	
Exceptional loss/(gain)	8	-	3			8	3	
<b>PBT</b>	<b>274</b>	<b>195</b>	<b>222</b>	<b>(18.9)</b>	<b>13.8</b>	<b>1,050</b>	<b>890</b>	<b>(15.3)</b>
Provision for tax	110	66	80	(26.8)	21.7	364	300	(17.5)
Effective tax rate	40.1	33.8	36.2			34.6	33.7	
<b>PAT before MI</b>	<b>164</b>	<b>129</b>	<b>142</b>	<b>(13.6)</b>	<b>9.7</b>	<b>686</b>	<b>590</b>	<b>(14.0)</b>
NPM (%)	2.9	2.1	2.1			3.4	2.3	
<b>EPS (Rs)</b>	<b>7.3</b>	<b>5.5</b>	<b>6.0</b>	<b>(17.7)</b>	<b>9.7</b>	<b>30.7</b>	<b>25.2</b>	<b>(18.1)</b>

Source: Company, Nirmal Bang Institutional Equities Research

## Financials (consolidated)

### Exhibit 3: Income statement

Y/E March (Rsmn)	FY10	FY11	FY12	FY13	FY14
<b>Revenue</b>	<b>6,180</b>	<b>9,052</b>	<b>13,923</b>	<b>20,083</b>	<b>25,689</b>
YoY growth (%)	19.0	46.5	53.8	44.2	27.9
Raw material costs	5,072	7,361	11,662	16,888	22,205
% of sales	82.1	81.3	83.8	84.1	86.4
Staff costs	61	117	174	279	336
% of sales	1.0	1.3	1.2	1.4	1.3
Other expenditure	476	678	936	1,321	1,503
% of sales	7.7	7.5	6.7	6.6	5.8
<b>EBITDA</b>	<b>571</b>	<b>897</b>	<b>1,151</b>	<b>1,595</b>	<b>1,646</b>
EBITDA margin (%)	9.2	9.9	8.3	7.9	6.4
Depreciation	36	62	93	125	164
<b>EBIT</b>	<b>535</b>	<b>835</b>	<b>1,058</b>	<b>1,470</b>	<b>1,481</b>
Other income	108	227	336	429	609
Interest costs	28	20	8	17	20
Exceptional loss/(gain)	-	2	4	8	3
<b>PBT</b>	<b>455</b>	<b>626</b>	<b>725</b>	<b>1,050</b>	<b>890</b>
Provision for tax	157	195	234	364	300
Effective tax rate (%)	34.5	31.2	32.3	34.6	33.7
<b>PAT</b>	<b>298</b>	<b>431</b>	<b>491</b>	<b>686</b>	<b>590</b>
YoY growth (%)	1,073.5	44.7	13.8	39.9	(14.1)
PAT margin (%)	4.8	4.8	3.5	3.4	2.3

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 5: Balance sheet

Y/E March (Rsmn)	FY10	FY11	FY12	FY13	FY14
Share capital	203	203	213	223	234
Equity share warrants	-	72	83	40	-
Reserves and surplus	1,708	2,091	2,698	3,414	4,018
<b>Shareholders' funds</b>	<b>1,911</b>	<b>2,366</b>	<b>2,994</b>	<b>3,678</b>	<b>4,252</b>
Short-term loan	1,307	2,031	2,242	3,403	3,403
Long-term loan	265	361	726	843	1,373
<b>Total loan fund</b>	<b>1,573</b>	<b>2,392</b>	<b>2,968</b>	<b>4,247</b>	<b>4,775</b>
<b>Total capital employed</b>	<b>3,483</b>	<b>4,758</b>	<b>5,962</b>	<b>7,924</b>	<b>9,028</b>
Gross block	1,109	1,798	2,298	3,416	4,546
Less: Acc. depreciation	102	181	266	386	545
Net block	1,007	1,617	2,031	3,030	4,001
Capital WIP	202	188	456	151	279
<b>Net fixed assets</b>	<b>1,209</b>	<b>1,804</b>	<b>2,487</b>	<b>3,181</b>	<b>4,280</b>
Goodwill	-	199	199	199	199
Investments	-	23	1	12	176
Cash and bank balance	272	218	51	142	101
Inventories	805	1,465	1,525	2,882	2,885
Debtors	782	1,013	1,734	2,194	2,494
Other CA and loans & adv.	838	820	1,061	1,364	1,368
<b>Total CA and loans &amp; adv.</b>	<b>2,697</b>	<b>3,517</b>	<b>4,371</b>	<b>6,582</b>	<b>6,848</b>
Creditors	106	268	351	974	1,242
Other current liabilities	83	161	301	338	411
Provisions	126	176	162	337	301
<b>Net current assets</b>	<b>2,383</b>	<b>2,911</b>	<b>3,556</b>	<b>4,932</b>	<b>4,894</b>
Deferred tax assets	(109)	(180)	(281)	(400)	(521)
<b>Total assets</b>	<b>3,483</b>	<b>4,758</b>	<b>5,962</b>	<b>7,924</b>	<b>9,028</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 4: Cash flow

Y/E March (Rsmn)	FY10	FY11	FY12	FY13	FY14
EBIT	558	835	1,058	1,470	1,481
(Inc.)/dec. in working capital	(495)	(432)	(615)	(1,121)	(40)
<b>Cash flow from operations</b>	<b>63</b>	<b>402</b>	<b>442</b>	<b>349</b>	<b>1,441</b>
Other income	5	20	8	17	20
Depreciation	36	62	93	125	164
Interest paid (-)	108	227	336	429	609
Tax paid (-)	31	130	166	257	179
Dividends paid (-)	47	47	50	50	124
<b>Net cash from operations</b>	<b>(83)</b>	<b>80</b>	<b>(8)</b>	<b>(244)</b>	<b>714</b>
Capital expenditure (-)	376	859	920	997	1,258
<b>Net cash after capex</b>	<b>(459)</b>	<b>(779)</b>	<b>(928)</b>	<b>(1,241)</b>	<b>(544)</b>
Inc./(dec.) in short-term debt	317	723	211	1,161	(1)
Inc./(dec.) in long-term debt	(533)	96	358	123	529
Investment in Subsidiaries	-	(196)	-	-	-
(Inc.)/dec. in investments	20	(23)	18	(19)	(164)
Equity issue/(buyback)	-	72	186	127	121
<b>Cash from financial activities</b>	<b>(196)</b>	<b>672</b>	<b>774</b>	<b>1,392</b>	<b>486</b>
Others	(12)	54	(13)	(60)	16
Opening cash	939	272	218	51	142
Closing cash	272	218	51	142	101
<b>Change in cash</b>	<b>(667)</b>	<b>(54)</b>	<b>(168)</b>	<b>91</b>	<b>(41)</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 6: Key ratios

Y/E March	FY10	FY11	FY12	FY13	FY14
<b>Per share (Rs)</b>					
EPS	14.7	21.2	23.0	30.7	25.2
Book value	94.1	113.0	136.7	162.9	181.4
<b>Valuation (x)</b>					
P/E	18.9	13.0	12.0	9.0	11.0
P/BV	2.9	2.5	2.0	1.7	1.5
EV/EBITDA	12.1	8.8	7.8	6.6	7.0
EV/sales	1.1	0.9	0.6	0.5	0.4
M-cap/sales	0.9	0.6	0.4	0.3	0.3
<b>Return ratios (%)</b>					
RoCE	10.1	13.9	13.3	13.6	11.3
RoE	16.7	20.5	18.8	21.0	15.0
<b>Margin ratios (%)</b>					
EBITDA margin	9.2	9.9	8.3	7.9	6.4
PBIT margin	8.7	9.2	7.6	7.3	5.8
PBT margin	7.4	6.9	5.2	5.2	3.5
PAT margin	4.8	4.8	3.5	3.4	2.3
<b>Turnover ratios</b>					
Asset turnover ratio (x)	5.6	5.0	6.1	5.9	5.7
Avg. collection period (days)	46.2	40.8	45.5	39.9	35.4
Avg. payment period (days)	7.6	13.3	11.0	21.1	20.4
<b>Solvency ratios (x)</b>					
Debt-equity	0.8	1.1	1.1	1.2	1.2
Interest coverage ratio	5.3	4.0	3.4	3.7	2.7

Source: Company, Nirmal Bang Institutional Equities Research

## Disclaimer

### Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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