

BSE Code: 533758
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APL Apollo Tubes Ltd is one of the leading manufacturers of branded steel tubes in India with a total capacity of 1.8 million tons per annum (MTPA). Apart from this, it is the largest producer of Electric Resistance Welded (ERW) steel pipes and sections in India.

Investment Rationale

☞ Transitioned into a value-added branded player

The company has transitioned itself from being a low-end commodity player to a value-added-branded product (high-margin) player by increasingly focusing on structural steel segment and newer application segments. This has been achieved through sustained focus on new product innovations and adoption of latest global technologies in production. With the adoption of DFT, the company has developed over 150 new customizable sizes taking the total product offerings to more than 1,000 varieties. Further the company's continuous focus on R&D has resulted in patenting eight designs thereby strengthening the product portfolio and expanding addressable market.

☞ Capitalizing on robust growth opportunities

The domestic market size of ERW steel tubes stood at USD 5 bn/Rs. 30,000 crore and the industry is expected to grow at a CAGR of ~10%. The demand of ERW steel tubes & pipes will be driven by increasing thrust of Indian government on the infrastructure development, development of smart cities, usage of renewable energy, thriving automobile and refining sectors. Sensing robust demand opportunities, APL has significantly increased its capacity to 1.8 MTPA (more than 30% CAGR over the last decade) and is further expanding its capacity to 2.5 MTPA of tubes and pipes by FY20. Further with adoption of latest technology, wider reach, diversified product portfolio, product distribution through three-tier supply chain, we believe the company is well placed to benefit from the pent-up demand.

☞ Volume-led growth going forward

APL's consolidated revenue has grown at a robust CAGR of 21% over FY14-18 primarily driven by healthy growth in volumes (19% CAGR). Going forward, we expect overall consolidated revenue growth of the company to stay robust at 19% CAGR over FY18-20E owing to traction in volumes due to its capacity expansion drive, growing steel pipe demand, focus on new product launches, tapping potential opportunities across OEMs & export markets through DFT and widening of domestic geographical presence.

Valuation: Given strong demand and healthy volume growth visibility given capacity expansion, we forecast revenue/net profit cagr of 10%/12% over FY18-20E. Currently the stock is trading at an attractive valuation and we expect the company to enjoy higher valuation owing to strong earnings growth trajectory, healthy free cashflow generation and improvement in return ratios going ahead. We recommend ACCUMULATE rating on the stock with a target price of Rs. 1,835, based on 16x FY20E EPS.

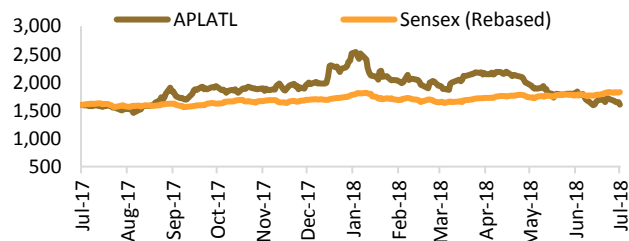
Market Data

Rating	ACCUMULATE
CMP (Rs.)	1,620
Target (Rs.)	1,835
Potential Upside(%)	13%
Duration	Long Term
Face Value (Rs.)	10.0
52 week H/L (Rs.)	2,587/1,465
Decline from 52WH (%)	37.4
Rise from 52WL (%)	10.6
Beta	1.0
Mkt. Cap (Rs.Cr)	3,844

Fiscal Year Ended

Y/E	FY17	FY18	FY19E	FY20E
Revenue (Rs.Cr)	4,545	5,339	6,354	7,604
Net profit (Rs.Cr)	146	160	203	272
EPS (Rs.)	61.8	67.4	85.6	114.7
P/E (x)	26.2	24.0	18.9	14.1
P/BV (x)	5.3	4.6	3.8	3.1
ROE (%)	22.7	20.5	22.0	24.2

One year Price Chart



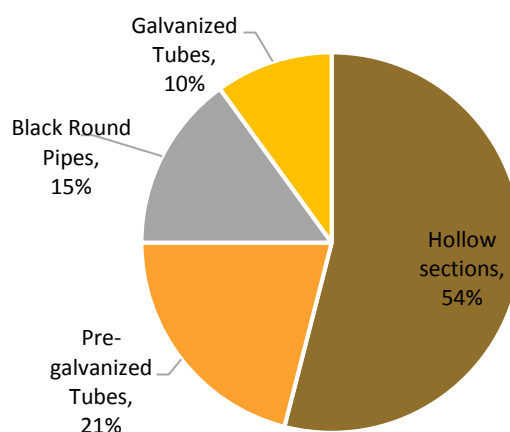
Shareholding Pattern

	Jun-18	Mar-18	Chg.
Promoters (%)	37.3	37.3	-
FII (%)	0.1	0.0	0.1
DII (%)	11.8	14.7	(2.9)
Public (%)	13.9	14.4	(0.5)
Other (%)	36.9	33.6	3.3

APL Apollo Tubes Ltd: Business Overview

Founded in 1986, APL Apollo Tubes Ltd is one of the leading manufacturers of branded steel tube in India with a total capacity of 1.8 million tons per annum. Apart from this, it is the largest producer of ERW steel pipes and sections in India. The company boasts of a diversified product portfolio of over 500 product variants of MS Black pipes, Galvanized Tubes, Pre-Galvanized Tubes, Structural ERW Steel tubes and Hollow Sections. It has a pan-Indian presence with six manufacturing plants strategically located in Sikandarabad (3 units), Bangalore, Hosur and Murbad. Further it has a wide spread distribution reach in India with more than 600 dealers and above 40,000 retailers. It has a diversified product portfolio, thus offering a 'one-stop shop' for a wide spectrum of steel tube products, catering to multiple sectors including urban infrastructure, automobile, construction, housing, energy, irrigation, solar plants, greenhouses and engineering.

APL's product wise volume mix



Source: Company, In-house research

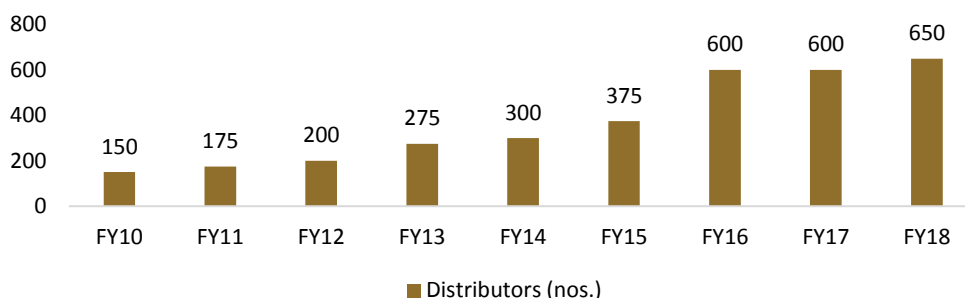
Well diversified product portfolio

The company boasts of a diversified portfolio of product variants of MS Black pipes, Galvanized Tubes, Pre-Galvanized Tubes, Structural ERW Steel tubes, Hollow Sections and special products including door & window frames, pipe dimensions, etc. APL is the first company to introduce color coated pipes (for aesthetics and rust prevention), as well as pre-galvanised pipes and DFT technology in India. Its products come in numerous shapes & sizes that vary from round tubes to hollow section to special frames. Also the company has transitioned itself from being a low-end commodity player to a value-added-branded product (high-margin) player by increasingly focusing on structural steel segment and newer application segments. This has been achieved through sustained focus on new product innovations and adoption of latest global technologies in production. With the adoption of DFT, the company has developed over 150 new customizable sizes taking the total product offerings to more than 1,000 varieties. Further the company's continuous focus on R&D has resulted in patenting eight designs thereby strengthening the product portfolio and expanding addressable market. The company is aiming to increase the contribution from value added products to 90% by FY20.

Strong brand recall and wide distribution reach

The company has a wide spread distribution network of more than 600 distributors and 40,000 retailers with presence across 300 cities/towns throughout the country. This resulted in meeting 92% of the retail requirements from its distributors, while the balance is met directly by the OEM and export. Further the company has rapidly increased the number of warehouses to 27 which has helped it in meeting the increasing demand for its products, across various industrial as well as household applications. Its pan India presence and proximity to distributors, dealers and suppliers enables in reducing transportation cost and delivery time. Apart from this, APL is constantly investing in branding across markets for higher visibility and stronger market share gains. The company's well thought out dealer expansion strategy and significant investment in brand building over the years provides the company an edge over competitors while placing it in leading position in the market.

Expanding distribution muscle to bolster market share



Source: Company, In-house research

Robust capacity expansion

APL has continuously augmented its capacity over the years in order to capitalise on incremental demand. To strengthen its presence in the steel tubes manufacturing space, the company has undertaken aggressive expansion resulting in an impressive growth of more than 30% CAGR in capacity over the last decade. Its plans to further scale up its production capacity to 2.5 MTPA of tubes and pipes by FY20 which includes addition of capacity using the latest global technology DFT. In FY18 it has commissioned 6 DFT lines across existing facilities of Raipur, Hosur, and Murbad and has lined up two more lines of DFT to be commissioned across existing facilities of Sikandarabad and Hosur in H1FY19, taking the overall capacity to 2 MTPA. We believe the capacity expansion drive will not only help the company in capturing any incremental demand but also aid in augmenting market share.

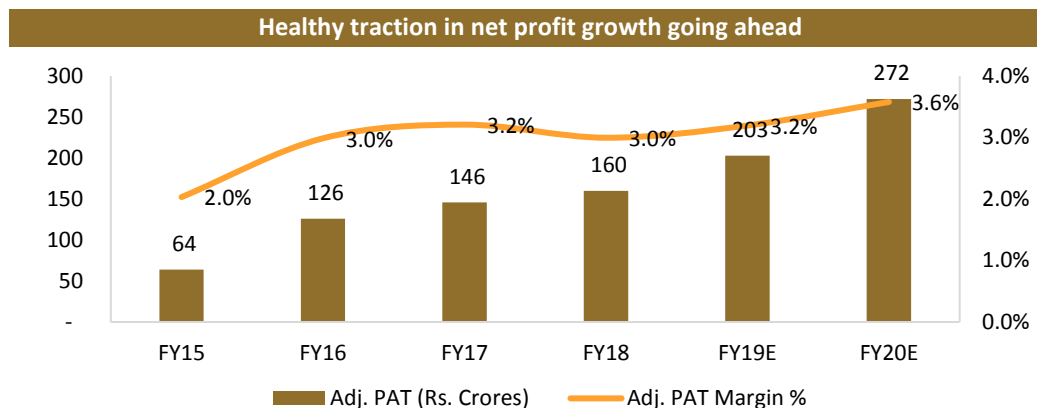
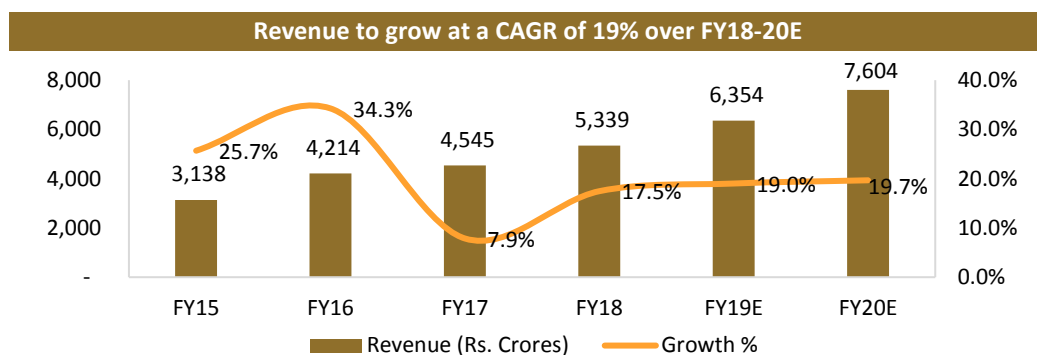
DFT to provide edge

In 2016, APL brought global renowned technology - DFT for making hollow sections (both square and rectangular) for the first time in India. In conventional technology, initially the round pipe is formed which is then converted to square and rectangular shape, however, in DFT, square and rectangular sections are formed directly through welding with high production speed. DFT will not only supplement its presence in the existing product categories but also enables the company to produce superior quality products as per customer requirement. Hence, the company is in a position to produce customized sizes, even in small quantities through just-in-time delivery program and at a lower cost, thus resulting in direct material savings of ~3-7%. Further this technology has opened an array of opportunities across various sectors including unlocking a vast potential across OEM (Original Equipment Manufacturers) and export markets.

Revenue to grow at 19% CAGR

APL's consolidated revenue has grown at a robust CAGR of 21% over FY14-18 primarily driven by healthy growth in volumes (19% CAGR). Going forward, we expect overall consolidated revenue growth of the company to stay robust at 19% CAGR over FY18-20E owing to traction in volumes due to its capacity expansion drive, growing steel pipe demand and focus on new product launches. Further, PAT is estimated to grow at a healthy CAGR of 30% over FY18-20E led by robust growth in revenue and healthy operating performance.

Further the return ratios of the company have shown significant improvement over the years with ROE improving to 20.5% in FY18 from ~14% in FY14. Likewise, ROCE grew remarkably to 23.2% in FY18 from ~18% in FY14. Going forward, we expect RoE to improve further to 24.2% in FY20E owing to improvement in profitability.



Source: Company, In-house research

Key Risks:

- Volatility in steel prices could impact margins
- It caters to various sectors including construction, infrastructure, energy, automobiles, agriculture and slowdown in these sectors could weigh on revenue growth.
- Delay in capacity addition would impact volumes.

Profit & Loss Account (Consolidated)

Y/E (Rs.Cr)	FY17	FY18	FY19E	FY20E
Total operating Income	4,545	5,339	6,354	7,604
Raw Material cost	3,800	4,548	5,403	6,483
Employee cost	72	86	103	123
Other operating expenses	348	329	393	431
EBITDA	324	375	456	567
Depreciation	51	53	65	73
EBIT	273	321	391	494
Interest cost	68	81	88	88
Other Income	4	4	7	9
Profit before tax	209	244	310	416
Tax	63	84	107	143
Profit after tax	146	160	203	272
Minority Interests	-	-	-	-
P/L from Associates	-	-	-	-
Reported PAT	146	160	203	272

Balance Sheet (Consolidated)

Y/E (Rs.Cr)	FY17	FY18	FY19E	FY20E
Paid up capital	24	24	24	24
Reserves and Surplus	697	813	982	1,220
Net worth	720	837	1,006	1,244
Minority Interest	-	-	-	-
Total Debt	571	673	673	673
Other non-current liabilities	8	37	37	37
Total liabilities	1,299	1,548	1,717	1,955
Net fixed assets	668	852	937	1,014
Capital WIP	122	46	46	46
Goodwill	67	23	23	23
Investments	13	12	12	12
Net Current Assets	441	605	689	850
Deferred tax assets (net)	(91)	(100)	(100)	(100)
Other non-current assets	79	110	110	110
Total Assets	1,299	1,548	1,717	1,955

Cash Flow Statement (Consolidated)

Y/E (Rs.Cr)	FY17	FY18E	FY19E	FY20E
Pretax profit	209	244	310	416
Depreciation	51	53	65	73
Chg in Working Capital	90	(160)	(73)	(106)
Others	54	86	81	79
Tax Paid	(65)	(71)	(107)	(143)
Cash flow from operating activities	338	153	276	318
Capital expenditure	(36)	(161)	(150)	(150)
Chg in investments	(24)	1	-	-
Other investing activities	(128)	4	7	9
Cash flow from investing activities	(188)	(156)	(143)	(141)
Equity raised/(repaid)	7	0	-	-
Debt raised/(repaid)	(62)	103	-	-
Dividend paid	(28)	(34)	(34)	(34)
Other financing activities	(69)	(81)	(88)	(88)
Cash flow from financing activities	(152)	(13)	(122)	(122)
Net chg in cash	(1)	(16)	11	56

Key Ratios (Consolidated)

Y/E	FY17	FY18	FY19E	FY20E
Growth (%)				
Net Sales	7.8	16.5	19.3	20.0
EBITDA	15.2	15.6	21.6	24.5
Net profit	15.9	9.7	26.9	34.0
Margin (%)				
EBITDA	7.1	7.0	7.2	7.5
EBIT	6.0	6.0	6.2	6.5
NPM	3.2	3.0	3.2	3.6
Return Ratios (%)				
RoE	22.7	20.5	22.0	24.2
RoCE	22.5	23.2	25.0	28.0
Per share data				
EPS	61.8	67.4	85.6	114.7
DPS	10.0	12.0	12.0	12.0
Valuation(x)				
P/E	26.2	24.0	18.9	14.1
EV/EBITDA	13.5	12.0	9.9	7.8
EV/Net Sales	1.0	0.9	0.7	0.6
P/B	5.3	4.6	3.8	3.1
Turnover Ratios (x)				
Net Sales/GFA	5.8	5.6	5.5	5.8
Sales/Total Assets	2.5	2.6	2.7	2.9

Rating Criteria

Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	Buy	More than equal to 15%
Hold	Upside or downside is less than 10%	Accumulate*	Upside between 10% & 15%
Reduce	Less than equal to -10%	Hold	Between 0% & 10%
		Reduce/sell	Less than 0%

* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

* APL is a small-cap company.

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