

## APL Apollo Tubes Ltd

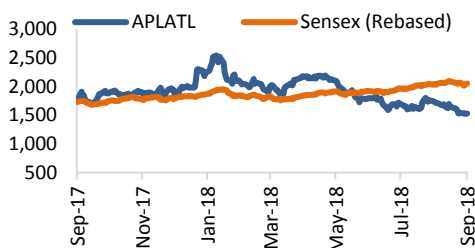
**Analyst Recommendation: ACCUMULATE**
**BSE Code: 533758      NSE: APLAPOLLO      Reuters Code: APLA.NS      Bloomberg Code: APAT:IN**
**CMP: Rs 1,558**  
**1 Year Target - Rs 1,770**

Face Value	10.0
Market Cap (Rscr)	3,697
52 week high/low	2,587/1,421
Avg. Daily Volume (6m)	0.4 lakhs
Shares O/S (Cr)	2.4
Book Value per Share (Rs)	352.7
Sensex	37,121
Nifty	11,234

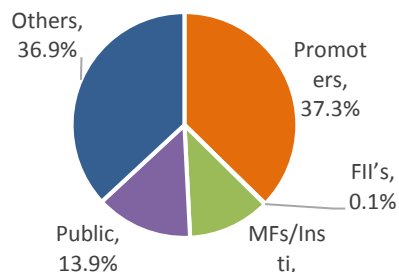
### Investor's Rationale

- **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.

### 1 yr. Price Chart of Stock and BSE



### Shareholding pattern as on 30<sup>th</sup> June 2018



**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. 1,770, based on 15.5x FY20E EPS.

	FY17	FY18	FY19E	FY20E
Revenue (Rs.Cr)	3,924	5,335	6,354	7,604
EBITDA (Rs. cr)	333	371	456	567
Adj. profit (Rs.Cr)	152	158	203	271
Adj. EPS (Rs.)	64.5	66.6	85.6	114.2
P/E (x)	23.8	23.1	18.0	13.5
P/BV (x)	5.2	4.4	3.6	2.9
EV/EBITDA (x)	12.6	11.6	9.4	7.5
ROE (%)	23.9	20.5	22.0	24.1
ROCE (%)	23.6	23.4	25.2	28.2

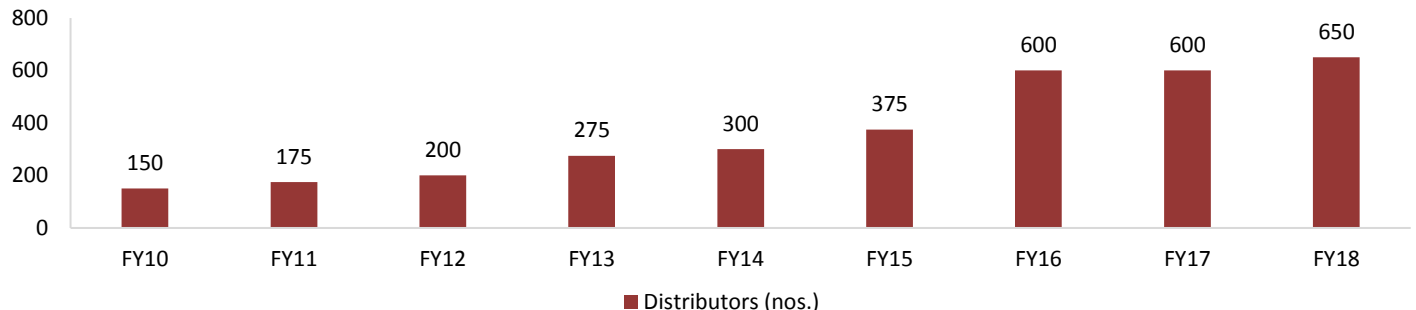
## Well diversified product portfolio

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-galvanized 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



## 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.

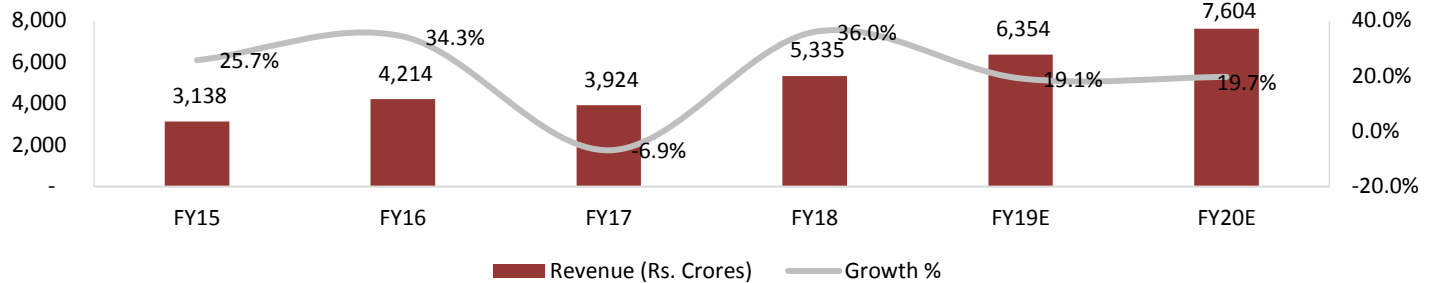
## DFT to provide edge

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.

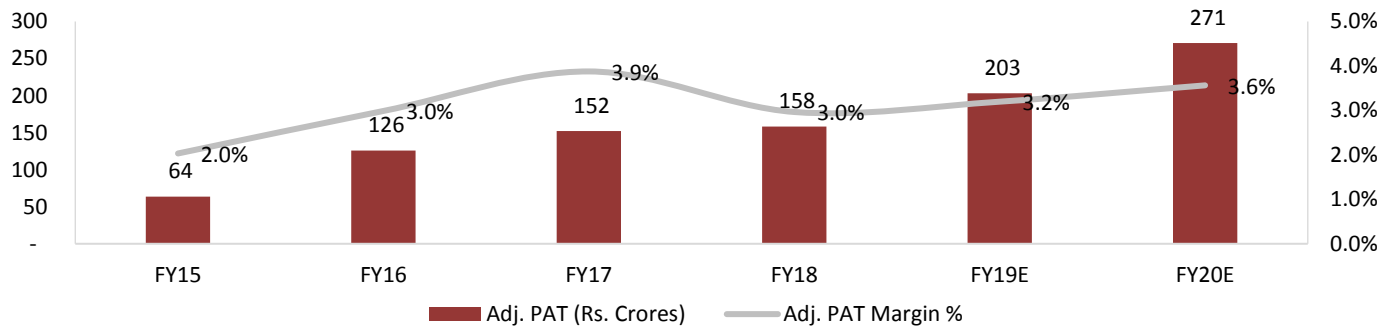
## Revenue to grow at 19% CAGR

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 31% over FY18-20E led by robust growth in revenue and healthy operating performance.

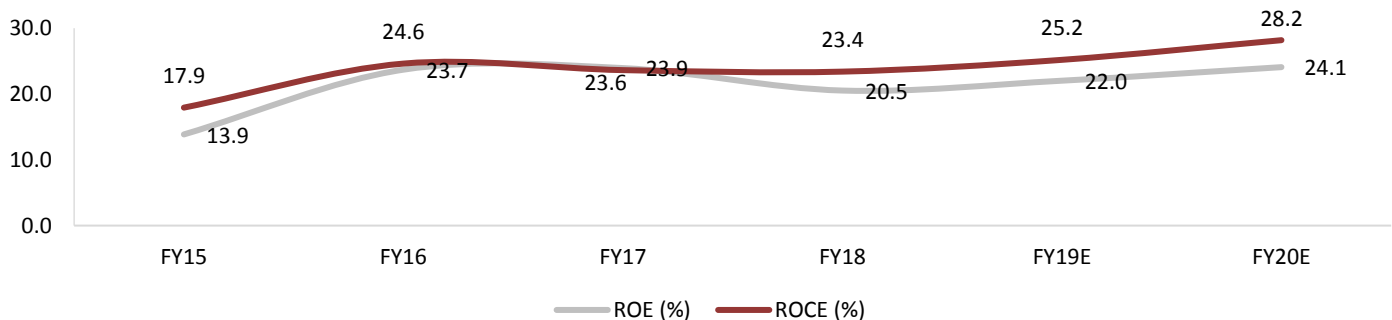
## Revenue to grow at a CAGR of 19% over FY18-20E



## Healthy traction in net profit growth going ahead



## Return ratios trend



Source: Company, In-house research

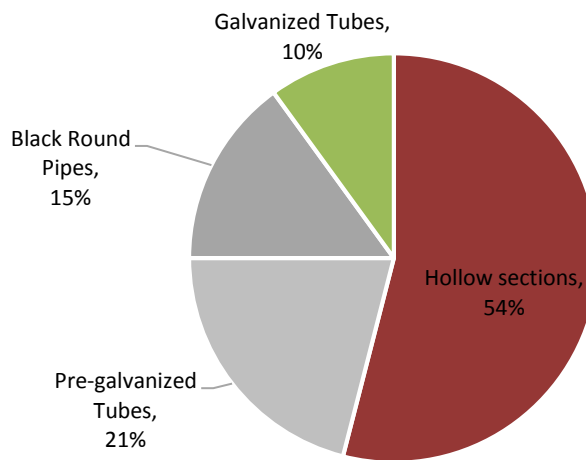
## Outlook and Valuation

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 BUY rating on the stock with a target price of Rs. 1,770, based on 15.5x FY20E EPS.

## APL Apollo Tubes Ltd - Company 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.

## Diversified product portfolio across geographies



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.

## Balance sheet (Consolidated)

(Rs crore)	FY17	FY18	FY19E	FY20E
<b>Liabilities</b>				
Paid up capital	24	24	24	24
Reserves and Surplus	680	814	983	1,220
<b>Net worth</b>	<b>703</b>	<b>838</b>	<b>1,007</b>	<b>1,244</b>
Minority interest	-	-	-	-
Total Debt	569	673	673	673
Other non-current liabilities	12	37	37	37
<b>Total Liabilities</b>	<b>1,284</b>	<b>1,549</b>	<b>1,718</b>	<b>1,954</b>
<b>Assets</b>				
Total fixed assets	635	852	937	1,014
Capital WIP	122	46	46	46
Goodwill	23	23	23	23
Investments	13	12	12	12
Net Current assets	439	605	689	849
Deferred tax assets (Net)	(81)	(99)	(99)	(99)
Other non-current assets	134	110	110	110
<b>Total Assets</b>	<b>1,284</b>	<b>1,549</b>	<b>1,718</b>	<b>1,954</b>

## Profit & Loss Account (Consolidated)

(Rs crore)	FY17	FY18	FY19E	FY20E
<b>Total operating Income</b>	<b>3,924</b>	<b>5,335</b>	<b>6,354</b>	<b>7,604</b>
Raw Material cost	3,232	4,548	5,403	6,483
Employee cost	75	86	103	123
Other operating expenses	283	329	393	430
<b>EBITDA</b>	<b>333</b>	<b>371</b>	<b>456</b>	<b>567</b>
Depreciation	51	53	65	73
<b>EBIT</b>	<b>282</b>	<b>318</b>	<b>391</b>	<b>494</b>
Interest cost	72	81	88	88
Other Income	6	8	11	13
<b>Profit before tax</b>	<b>216</b>	<b>244</b>	<b>314</b>	<b>419</b>
Tax	64	86	111	148
<b>Profit after tax</b>	<b>152</b>	<b>158</b>	<b>203</b>	<b>271</b>
Minority Interests	-	-	-	-
P/L from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>152</b>	<b>158</b>	<b>203</b>	<b>271</b>

## Cash Flow (Consolidated)

Y.E March (Rs crore)	FY17	FY18	FY19E	FY20E
Pretax profit	216	244	314	419
Depreciation	51	53	65	73
Chg in Working Capital	85	(253)	(70)	(102)
Others	26	107	77	75
Tax paid	(63)	(60)	(111)	(148)
<b>Cash flow from operating activities</b>	<b>315</b>	<b>91</b>	<b>275</b>	<b>317</b>
Capital expenditure	(177)	(173)	(150)	(150)
Chg in investments	(0)	(1)	-	-
Other investing cashflow	8	8	11	13
<b>Cash flow from investing activities</b>	<b>(170)</b>	<b>(165)</b>	<b>(139)</b>	<b>(137)</b>
Equity raised/(repaid)	11	10	-	-
Debt raised/(repaid)	(55)	181	-	-
Dividend paid	(28)	(34)	(34)	(34)
Other financing activities	(73)	(77)	(88)	(88)
<b>Cash flow from financing activities</b>	<b>(145)</b>	<b>79</b>	<b>(122)</b>	<b>(122)</b>
<b>Net chg in cash</b>	<b>0</b>	<b>5</b>	<b>14</b>	<b>58</b>

## Key Ratios & Valuations (Consolidated)

Y.E. March	FY17	FY18	FY19E	FY20E
<b>Growth (%)</b>				
Net Sales	-7.3	35.5	19.3	20.0
EBITDA	18.2	11.4	22.9	24.4
Net profit	20.8	4.0	28.4	33.4
<b>Margin (%)</b>				
EBITDA	8.5	7.0	7.2	7.5
NPM	3.9	3.0	3.2	3.6
<b>Return Ratios (%)</b>				
RoE	23.9	20.5	22.0	24.1
RoCE	23.6	23.4	25.2	28.2
<b>Per share data (Rs.)</b>				
EPS	64.5	66.6	85.6	114.2
DPS	12.0	14.0	12.0	12.0
<b>Valuation(x)</b>				
P/E	23.7	22.9	17.8	13.4
EV/EBITDA	12.5	11.6	9.4	7.4
EV/Net Sales	1.1	0.8	0.7	0.6
P/B	5.1	4.3	3.6	2.9
<b>Turnover Ratios (x)</b>				
Net Sales/GFA	5.4	6.3	6.0	6.3
Sales/Total Assets	2.2	2.6	2.7	2.8

Large Cap.	Return	Mid/Small Cap.	Return
<b>Buy</b>	More than equal to 10%	<b>Buy</b>	More than equal to 15%
<b>Hold</b>	Between 10% & -5%	<b>Accumulate*</b>	Upside between 10% & 15%
<b>Reduce</b>	Less than -5%	<b>Hold</b>	Between 0% & 10%
		<b>Reduce/sell</b>	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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