

Key Highlights – Q2FY24

- New value added products continued to elevate topline by 24% Y-o-Y to ₹46bn in this quarter with Heavy, Super Heavy and Coated products continuing to see strong traction.
- Profitability in APL's General products' segment, which forms 40% of sales volume, was significantly impacted by the softening in prices of HRC steel resulting in softening of FY-24E volume guidance.
- Construction of Raipur plant is now complete with the entire 1.2mn capacity being available; however at 28% utilization in the quarter, its output has significant room to grow.
- Capex focus has now shifted to developing the Dubai plant to aid exports in international markets.

Important Statistics

Nifty	19,231
Sensex	64,364
M.CAP (₹ bn)	~₹440
52 Week H/L (₹)	1800.00/987.95
NSE Code	APLAPOLLO
BSE Code	533758
Bloomberg Code	APAT:IN

Shareholding Pattern (%) Sep'23	
Promoter	29.67
FII	28.66
DII	12.69
Public	28.99

Softening Guidance

APL Apollo reported a stellar quarter, generating 675,000 tons worth of sales volume in Q2-24 alone. However, APL has softened its FY-24E business volume guidance to the lower end of its previously stated 2.8-3mn ton band. This is largely temporary and is driven by the reduction in the price of HRC (Hot Rolled Coil) steel. Reduction in HRC prices is followed by a decline in steel products' prices. Thus, dealers and stockists undertake destocking activities - clearing out their old high-priced inventory rapidly while being reluctant in accepting new stock. As channel partners look to clear their inventory, a large flow of supply causes steel price to dip further. The greatest impact from these activities is witnessed in APL's General Products segment, which constitutes 40% of overall sales volume. This is a temporary setback, once the excessive supply is consumed, the consistent demand will elevate steel prices back to the norm.

Volume ('000 Tons)	H1 FY24	H1 FY23	Y-o-Y	Q2 FY24	Q1 FY24	Q2 FY23	Q1 FY23	Q2 FY24 Y-o-Y	Q2 FY24 Q-o-Q
Heavy Structures	96	74	30%	51	45	41	33	24%	13%
Super Heavy	9	-	N/A	5	4	-	-	N/A	N/A
Light Structures	224	168	33%	113	111	109	59	4%	2%
Gen. Products	583	441	32%	301	282	276	165	9%	7%
Rust-proof Structures, Sheets	314	278	13%	144	170	137	141	5%	-15%
Agri/ Industrial	48	45	7%	29	19	27	18	7%	53%
Coated Products	62	19	226%	32	30	12	7	167%	7%
Total	1,337	1,025	30%	675	662	602	423	12%	2%

Source: Company, Way2Wealth Research

Aggressive Marketing Campaign

APL has initiated an aggressive marketing campaign for its entire product range. Owing to this, APL will be doubling its Ad & Marketing budget to ₹50-60 crs vs. FY23s ₹30 crs. A large chunk of the incremental cost is due to the roping in of mega A-list celebrities such as Akshay Kumar and Amitabh Bachchan as faces of the campaign. To ensure maximum reach, this will be undertaken across all media channels – TV, Digital, Online and offline. With the Raipur plant complete, the initiative will provide the fuel needed to elevate awareness and demand for its high-margin products in existing geographies while expanding APL's awareness to new geographies. This is in line with APL's goal for 5mn ton annual sales volume by FY-26E.

Financials

(₹ Cr)

Particulars	FY21	FY22	FY23	FY-24E	FY-25E
Revenue	8,500	13,063	16,166	19,710	26,373
EBITDA	679	945	1,022	1,386	2,054
% Margin	8%	7%	6%	7.0%	7.8%
PAT	408	619	642	885	1,383
EPS	14.7	22.3	23.1	31.9	49.9
RoE (%)	24%	25%	21%	25%	31%
RoCE (%)	26%	28%	23%	27%	35%
P/E (x)	105x	69x	67x	48x	31x
P/BV (x)	25x	17x	14x	12x	10x
EV/ EBITDA (x)	63x	45x	42x	31x	21x

Source: Company, Way2Wealth Research

Relative Performance

Return (%)	1 Yr	3Yr	5 Yr
APLAPOLLO	45%	388%	1156%
Nifty 50	7%	58%	84%
SENSEX	6%	54%	85%

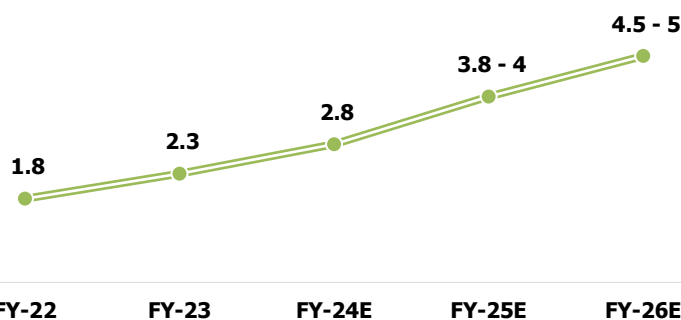
Source: Company, Way2Wealth

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Sales Volume (Mn. Tons)

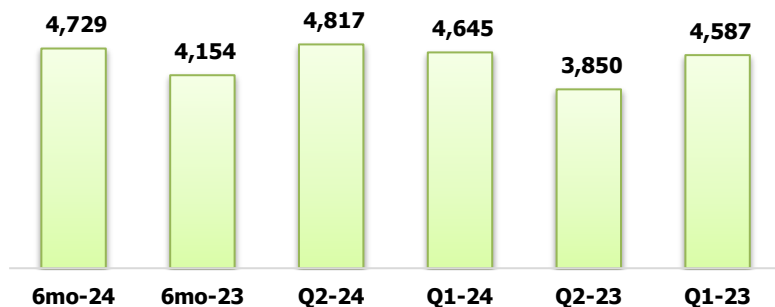


Source: Company, Way2Wealth Research

Pricing Impact

With the price of HRC (Hot Rolled Coil) steel reducing, the price of general steel products across the industry will witness significant price reductions as well. In order to stay competitive, APL will have to follow suit. On the flipside, we expect this reduction to have negligible impact on the company’s average EBITDA / Ton as the ramp up in the high-margin products will help offset the downtrend to an extent.

EBITDA / Ton (₹)



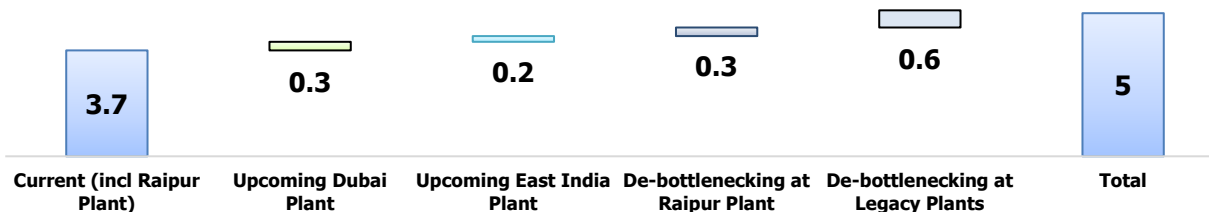
Source: Company, Way2Wealth Research

Production Capacity Update

The final complex of the Raipur plant which consists of producing thicker coated sheet and super light tube commenced initial commercial production. With the completion and commencement of production, the entire 1.2mn production capacity of the Raipur plant now becomes operational. This brings APL’s total production capacity to 3.7mn tons. APL remains on track in its expansion plans to 5mn ton production capacity by FY-25E.

Amongst the new products that are coming out of APL’s Raipur plant, the utilization level of the roofing sheets (50%+ of capacity) continues to witness strong growth. Similarly, the utilization level of the 500 square mill heavy structural tubes is also ramping up to 25% of capacity.

Capacity Expansion Plan (mn. Tons)



Source: Company, Way2Wealth Research

Unlocking Export Potential

To promote its export initiative, the company will now shift its entire focus in developing its Dubai plant, which will eventually cater to the international demand. While export revenue grew 28% Y-o-y, it forms a small share of the revenue pie. With feeder prices being higher than that in the Middle East, APL’s competitive power is limited without an international presence. Given the large number of infrastructure projects being executed in the region, the demand for tubes and pipes will continue to remain strong and we thus believe that with an intended production capacity of 300,000 tons and a full stack of tube pipe SKUs – starting from 15x15 mm dia pipes tube to 30x30mm dia pipes tube – the Dubai plant will play a key role in growing APL’s international business.

View

The reduction in HRC prices has caused some apprehension in APL’s volume and profitability for the current fiscal. However, we maintain this volatility to be a temporary phenomenon as demand-supply forces eventually course correct prices. The new marketing campaign will be pivotal in APL’s strategy for 5mn ton sales volume by FY-26E. While we acknowledge short-term volatility, the initiatives undertaken by APL today will ensure that its strategy for long term, profitable growth remains steadfast. **We thus continue to recommend a BUY at 31x FY25 P/E.**

7th November 2023

₹1,594/-

View – Buy

Financials

(₹ Cr)									
Particulars	H1FY24	H1FY23	Y-o-Y	Q2FY24	Q1FY24	Q2FY23	Q1FY23	Y-o-Y	Q-o-Q
Revenue	9,175	7,408	24%	4,630	4,545	3,969	3,439	17%	2%
Total Material Cost	7,899	6,466	22%	3,978	3,921	3,475	2,992	14%	1%
Gross Profit	1,276	942	36%	652	624	495	447	32%	4%
<i>% Margin</i>	14%	13%	9%	14%	14%	12%	13%	13%	3%
Employees exp	123	91	35%	63	60	47	45	34%	4%
TOTAL Op-Ex	8,543	6,982	22%	4,305	4,238	3,737	3,245	15%	2%
EBITDA	632	426	48%	325	307	232	194	40%	6%
<i>% Margin</i>	7%	6%	20%	7%	6.76%	6%	5.64%	20%	4%
<i>EBITDA / Ton (₹)</i>	4,729	4,154	14%	4,817	4,645	3,850	4,587	25%	4%
EBIT	550	369	49%	284	266	204	165	39%	7%
EBT	538	365	47%	277	261	202	163	37%	6%
PAT	396	271	46%	203	194	150	121	35%	5%
<i>% Margin</i>	4%	4%	18%	4%	4.26%	4%	3.51%	16%	3%
EPS - Adjusted	14.3	9.8	46%	7.3	7.0	5.4	4.4	35%	5%

Particulars	FY21	FY22	FY23	FY24E	FY25E
Revenue	8,500	13,063	16,166	19,710	26,373
Material Cost	7,165	11,223	14,018	16,734	22,548
Gross Profit	1,335	1,840	2,148	2,976	3,824
<i>% Margin</i>	16%	14%	13%	15%	15%
Employees exp	130	153	206	240	270
TOTAL Op-Ex	7,821	12,118	15,144	18,324	24,318
EBITDA	679	945	1,022	1,386	2,054
<i>% Margin</i>	8%	7%	6%	7.0%	7.8%
EBIT	576	836	883	1,216	1,864
EBT	546	832	863	1,196	1,844
PAT	408	619	642	885	1,383
<i>% Margin</i>	5%	5%	4%	4%	5%
EPS	14.7	22.3	23.1	31.9	49.9
Net Worth	1,695	2,453	3,006	3,581	4,480
Borrowings	520	581	873	900	880
Net Capital Employed	2,215	3,033	3,879	4,481	5,360
RoE (%)	24%	25%	21%	25%	31%
RoCE (%)	26%	28%	23%	27%	35%

Source: Company, Way2wealth Research

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Disclosure of Interest Statement: APL Apollo Tubes Ltd. as on November 07, 2023

Name of the Security	APL Apollo Tubes Ltd.
Name of the analyst	Dhananjay Kansara
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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