

15th February 2024

₹1,388.55/-

View – **Hold**

Key Highlights – Q3FY24

- Dealer de-stocking in the first 2 months of the quarter stagnated sales volume growth to 605k tons leading to a muted (3)% revenue growth of ₹4.2bn.
- New high-margin products continued to gain traction and aided the 380+bps EBITDAM expansion.
- First 100k ton phase of the 300k tons Dubai plant is online, driving future export volumes; remaining two-third likely to come online in 6 months.
- Raipur plant commissioned the production of APL's fourth industry-first product – 'thicker coated sheets'.

Important Statistics

Nifty	21,840
Sensex	71,823
M.CAP (₹ bn)	~390.00
52 Week H/L (₹)	1800/1047
NSE Code	APLAPOLLO
BSE Code	533758
Bloomberg Code	APAT:IN

Shareholding Pattern (%)		Dec'23
Promoter		29.57
FII		29.25
DII		13.76
Public		27.42

Sales volume

The first 2 months of the quarter witnessed relatively higher steel prices in the domestic market versus the international market prices leading to dealers de-stocking their existing inventories in order to leverage the higher price advantage.

These de-stocking measures proved counter-intuitive for APL Apollo since volume sales were significantly diminished. However, with prices correcting in December, they were able to gain some ground in volumes, thereby reaching a volume of 605k tons for the quarter, similar to last year's Q3 volume of 604k tons, but significantly lower than Q2-24's volume of 675k tons.

	9M FY24	9M FY23	9M FY24 y-o-y	Q3 FY24	Q2 FY24	Q1 FY24	Q3 FY23	Q2 FY23	Q1 FY23
Volume ('000 Tons)	1,941	1,630	19%	604	675	662	605	602	423
Heavy Structures	158	121	31%	62	51	45	46	41	33
Super Heavy	16	-	N/A	7	5	4	-	-	-
Light Structures	319	263	21%	95	113	111	96	109	59
Gen. Products	832	705	18%	249	301	282	264	276	165
Rust-proof Structures, Sheets	438	404	8%	124	144	170	125	137	141
Agri/ Industrial	78	72	8%	30	29	19	28	27	18
Coated Products	98	65	51%	36	32	30	46	12	7

Source: Company, Way2Wealth Research

Capacity Ramp Up

Commissioning of one-third of the Dubai plant in December will be a major boon for APL's export volumes. The new plant enables direct sales to APL's international clients at globally competitive prices. With the remaining two-third of the 300k ton capacity poised to come online over the next two quarters, APL will continue to incur capex before it can leverage the full potential of the plant. Given the leverage that the plant enables for APL in terms of feeder prices and geo-location, we believe that the plant will become a key component in driving incremental sales, hereon.

On the domestic front, APL commissioned the production of its fourth first-to-manufacture product – 'thicker coated sheets' - from its new Raipur plant.

Financials

(₹ Cr)					
Particulars	FY22	FY23	FY24E	FY25E	FY26E
Revenue	13,063	16,166	18,070	23,630	26,460
EBITDA	945	1,022	1,180	1,774	2,039
% Margin	7%	6%	6.5%	7.5%	7.7%
PAT	619	642	718	1,165	1,327
EPS	22.3	23.1	25.9	42.0	47.8
RoE (%)	25%	21%	21%	28%	26%
RoCE (%)	28%	23%	23%	30%	30%
P/E (x)	61x	59x	53x	33x	29x
P/BV (x)	15x	13x	11x	9x	7x
EV/ EBITDA (x)	40x	38x	33x	22x	19x

Source: Company, Way2Wealth Research

Relative Performance

Return (%)	1 Yr	3Yr	5 Yr
APLAPOLLO	14.5%	197.2%	1,129.4%
Nifty 50	21.3%	45.2%	103.7%
SENSEX	17.2%	39.3%	101%

Source: Company, Way2Wealth

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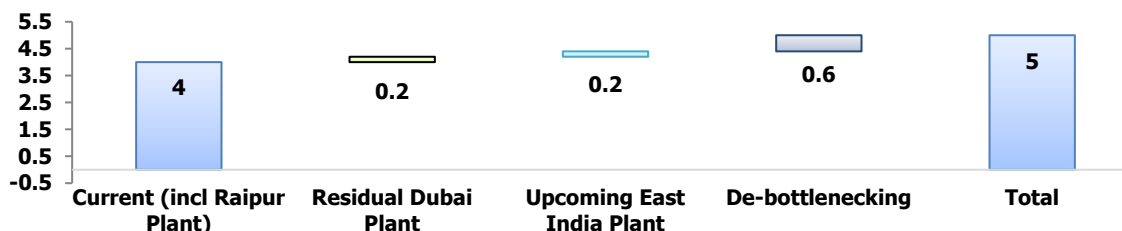
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The other three products - 'heavy structural tubes' (50% utilization), 'super light tubes' (30% utilization) and 'roofing sheets' (70% utilization) – continue to witness strong traction driving APL's scale, offerings and profit margins simultaneously.

At this rate, APL's production capacity currently stands at 4mn tons or 80% of its planned FY-26 capacity. With the new East India plant to be commissioned soon along with the de-bottlenecking at legacy plants and the commissioning of the residual part of the Dubai plant – we believe that APL should reach its targeted 5mn ton capacity well in time.

Capacity Expansion Plan (mn. Tons)



Source: Company, Way2Wealth Research

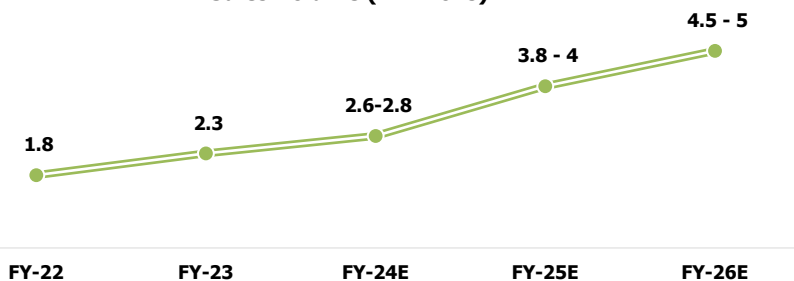
Cap-Ex Commitments to Continue

APL continues to fund its expansion projects through internal accruals – incurring ₹1.5bn in the current quarter and a cumulative ₹5bn in the 9mo-24. For the quarter to come, APL has already envisaged a cap-ex commitment of ₹1.5bn, closing the year FY-24E with a cumulative cap-ex quantum of ~₹6.5bn. The implementation of the residual two-third Dubai plant and de-bottlenecking of legacy plants will continue to require significant and continued cap-ex commitments in the near future as well.

Future Outlook

In spite of a weak quarter, APL was able to generate a sales volume of 605k bringing the fiscal YTD volume to 1,941k. We estimate that in Q4, APL will be able to generate a similar performance at least while the previously guided full year FY-24E sales volume of ~2,800k will require APL to fire on all engines supplemented by favourable tailwinds. However, for FY25E/FY26E, the management is confident that with the new production facilities online coupled with a strong positive macro-environment, APL will be able to achieve its guided sales volume of 4,000k / 5,000k tons respectively.

Sales Volume (Mn. Tons)



Source: Company, Way2Wealth Research

Risks

Volatility in commodity prices will continue to play a key role in the supply chain. Since APL's new Dubai plant procures steel at global rates, the company has, in a way, limited the price arbitrage between global and domestic prices for export sales. However, supplies, in the domestic market, remain exposed to the differential pricing and a key watch out going ahead.

At the CMP, APL Apollo continues to trade at a significant premium to its peers. On a forward looking basis, the stock currently trades at a P/E (FY-25E) of 33x and a P/E (FY-26E) of 29x which we believe is fairly priced given APL's business outlook and guidance and any strong up move from here will only be on the back of sustained outperformance in the business.

	M. Cap (₹ Bn)	P/BV	P/E	P/S	Avg. ROE (%) – Past 5 yrs
APL Apollo Tubes	380	11.6	50.0	2.14	24%
JSW Steel	1,968	2.6	18.2	1.12	19%
Tata Steel	1,722	1.9	89.0	0.74	15%
Jindal Steel	752	1.8	13.5	1.5	8%
S A I L	502	0.9	14.9	0.47	11%
Jindal Stainless	477	3.6	16.9	1.23	22%
Shyam Metalics	188	2.1	17.6	1.45	23%
Jindal Saw	157	1.8	11.2	0.76	6%
Surya Roshni	69	3.5	18.2	0.88	14%
Jayaswal Neco	58	2.6	27.0	0.96	0%
Prakash Industries	32	1	10.2	0.85	8%
Mukand	24	2.7	12.1	0.46	-43%
Industry Avg.		2.6	17.0		

Source: Company, Way2Wealth Research

View

With the Raipur plant witnessing a blended utilization rate of 50% and the new products witnessing continued strong traction, the management is confident of generating strong incremental sales for these products. Fundamentally, APL is poised to witness strong growth but it will require consistent macro-economic tailwinds to achieve its ambitious targets. Volatility in feeder prices and dealer de-stocking remains a key headwind. At the current level, APL's stock is trading at a trailing 50x P/E (9mo-24), significantly higher than its peers. At 33x P/E (FY-25E) and 29x P/E (FY-26E), we believe that the stock is fully priced in with limited upside. **We thus recommend a HOLD on the stock. Those looking to move to greener pastures can begin partial profit booking as well.**

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Financials

(₹ Cr)

Particulars	9MFY24	9MFY23	9MFY24 y-o-y	Q3FY24	Q2FY24	Q1FY24	Q3FY23	Q2FY23	Q1FY23	Q3FY24 y-o-y	Q3FY24 q-o-q
Revenue	13,353	11,735	14%	4,178	4,630	4,545	4,327	3,969	3,439	-3%	-10%
Material Cost	11,485	10,236	12%	3,585	3,978	3,921	3,769	3,475	2,992	-5%	-10%
Employees exp	188	147	28%	64	63	60	55	47	45	16%	3%
Op-Exp	12,441	11,036	13%	3,898	4,305	4,238	4,054	3,737	3,245	-4%	-9%
EBITDA	912	699	31%	280	325	307	273	232	194	2%	-14%
% Margin	7%	6%	15%	6.691%	7%	7%	6.306%	6%	5.64%	6%	-5%
Depreciation	129	92	41%	47	41	41	35	28	29	36%	14%
EBIT	782	607	29%	232	284	266	238	204	165	-2%	-18%
% Margin	6%	5%	13%	6%	6%	6%	6%	5%	5%	1%	-9%
EBT	756	594	27%	219	277	261	229	202	163	-4%	-21%
PAT	562	440	28%	166	203	194	169	150	121	-2%	-18%
% Margin	4%	4%	12%	4%	4%	4.26%	4%	4%	3.51%	1%	-10%
EPS - Adjusted	20.3	15.9	28%	6.0	7.3	7.0	6.1	5.4	4.4	-2%	-18%

Particulars	FY21	FY22	FY23	FY-24E	FY-25E	FY-26E
Revenue	8,500	13,063	16,166	18,070	23,630	26,460
Material Cost	7,165	11,223	14,018	15,450	20,156	22,491
Employees exp	130	153	206	240	300	330
Op. Expenses	7,821	12,118	15,144	16,890	21,856	24,421
EBITDA	679	945	1,022	1,180	1,774	2,039
% Margin	8%	7%	6%	6.5%	7.5%	7.7%
Depreciation	103	109	138	180	220	250
EBIT	576	836	883	1,000	1,554	1,789
Other Income	36	41	47	80	100	90
Finance Cost	66	44	67	110	100	110
EBT	546	832	863	970	1,554	1,769
Tax Expense / (Credit)	138	213	221	252	388	442
PAT	408	619	642	718	1,165	1,327
% Margin	5%	5%	4%	4%	5%	5%
EPS - Adjusted	14.7	22.3	23.1	25.9	42.0	47.8
Net Worth	1,695	2,453	3,006	3,472	4,230	5,092
Total Borrowings	520	581	873	900	880	880
Total Capital Employed	2,215	3,033	3,879	4,372	5,110	5,972
RoE (%)	24%	25%	21%	21%	28%	26%
RoCE (%)	26%	28%	23%	23%	30%	30%
P/E	93x	61x	59x	53x	33x	29x
P/B	22x	15x	13x	11x	9x	7x
EV/EBITDA	56x	40x	38x	33x	22x	19x

Source: Company, Way2wealth Research

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View – Hold

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Disclosure of Interest Statement: APL Apollo Tubes Ltd. as on February 15, 2024

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
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
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