Sector – Steel Tubes

APL Apollo Tubes Ltd.

15th November 2022 | CMP – ₹1,082/- | View – **Buy on Dip**

Performance Review for Q2FY23 vs Q2FY22

- Correction in steel prices led to de-stocking- Traction of re-stocking expected post Q3
- Increase in volume 41% YoY t0 602k tons
- Sales increased by 29% to ₹39.7bn
- EBITDA per ton was ₹3,850-26% yoy decline
- Net Profit increased by 3% YoY to ₹1.5bn
- Merger with Apollo Tricoat approved in October 2022 by NCLT

Important Statistics

M.CAP (₹ bn)	~₹299.87
52 Week H/L (₹)	1,177 / 771
NSE Code	APLAPOLLO
BSE Code	533758

Shareholding Pattern (%)	Sep'22
Promoter	34.52
FII	24.69
DII	10.91
Public	29.88

Key Highlights

- **Volume**
  - During the quarter the volumes for the company was a bit exceptional with all time high sales volume of 6.02 lac. The volume numbers are good because the distributors were still under the de-stocking mode as steel prices had not bottomed out.
  - The company mentioned that it hit a peak capacity in Sep'22 month with volume of 2.3 lac tons indicating capacities put up in last 2-3 years are near to peak utilization levels. It expects de-stocking to recover post Q3FY22 or Dec'22 when price stabilize and the channels will start re-stocking.
  - The company sticks to its robust volume growth guidance of ~30% CAGR over FY22-25E.

	FY23E	FY24E	FY25E
Volume Guidance (Mn tonne)	~2.2-2.3	~3.2	4

- **EBITDA**
  - The company saw pressure in EBITDA/ton due to the following reasons:
  - Deterioration in sales mix due to higher proportion of commoditized sales (45% in Q2 vs 35-40% historically)
  - Contribution from Raipur plant currently breaking even as plant is still ramping up
  - Discounts offered to clients because of channel de-stocking
  - The company has guided for margins in the range of ₹4,500 EBITDA/ton for FY23 and ₹5,000 EBITDA/ton in H2FY23. The company expects to achieve ₹6,000 EBITDA/ton going forward with existing facilities contributing ₹5,000 EBITDA/ton, Raipur plant ₹7000-8,000 EBITDA/ton, proposed Dubai plant ₹10,000 EBITDA/ton and Kolkata plant ₹5,000 EBITDA/ton
- **Others**
  - The company is seeing ramp up in sales volume via Shankara distribution channel with H1 sales growing 110% yoy and it is moving ahead as desired.
  - The management has guided for capex of ₹500Cr over the next three years taking overall capacity to 4.5 Mn ton. It would be incurred on residual raipur plant, combined Dubai/Kolkata plant and maintenance capex.
  - The net working capital cycle declined to 5 days vs 7 days yoy leading to better operating cashflows for H1FY23 at ₹434Cr vs ₹263Cr in H1FY22.

View

The quarter was characterized by steep decline in EBITDA/ton as company had to offer some extra sweetner discounts to gain market share. However, the company expects margins to re-gain around ₹5,000 EBITDA/ton in H2FY23 which is the previously guided range.

The long term business strategy remains intact which will revolve around capex for value added products, innovation, market creation and ESG.

The key risk would be volatility in steel prices which may impact volumes in near term due to dealer de-stocking.

Overall we remain positive on stock and we continue to re-iterate our stance on the company as a classic buy on dip stock for a long term portfolio rather than sell on rally.

Financial Performance

(₹ mn)

Profit & Loss	Q2FY23	Q2FY22	% YoY	Q1FY23	% Q0Q	FY22	FY21	% YoY
Revenue	39,692	30,839	29%	34,386	15%	1,30,633	84,998	54%
EBITDA	2,319	2,222	4%	1,939	20%	9,452	6,787	39%
EBITDA/Ton	3,850	5,199	-26%	4,587	-16%	5,386	4,138	30%
Depreciation	276	273	1%	294	-6%	1,090	1,028	6%
Interest	136	107	27%	100	36%	445	661	-33%
Tax	521	495	5%	422	23%	2,133	1,381	54%
Net Profit	1,502	1,461	3%	1,207	24%	6,190	4,077	52%

Source: Company, Way2wealth Research

Disclosure of Interest Statement APL Apollo Tubes Ltd. as on November 15, 2022

Name of the Security	APL Apollo Tubes Ltd.
Name of the analyst	Harshil Gandhi
Analysts' ownership of any stock related to the information contained Financial Interest Analyst : Analyst's Relative : Yes / No Analyst's Associate/Firm : Yes/No	NIL No No No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
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