

16<sup>th</sup> August 2023

₹1,575.40/-

View – Buy

**Key Highlights – Q1FY24**

- Reduction in Raw material prices during the quarter caused channel de-stocking and an artificial demand crunch leading to lower realization.
- Confident of recouping Q1FY24's lower realization in the remaining quarters as prices have already begun normalizing. Also, the high margin products from the new Raipur plant continue generating strong demand.
- Construction of the 0.2mn ton East India plant has been pushed to FY25 due to land acquisition delays. The new Raipur plant is estimated to come fully online this quarter, as work on the final galvanization line concludes. The remaining capacity expansion endeavour to 5mn tons remains on track.
- Large opportunity coming from the railway modernization plan will be an impetus to growth in the near and long term future.

**Important Statistics**

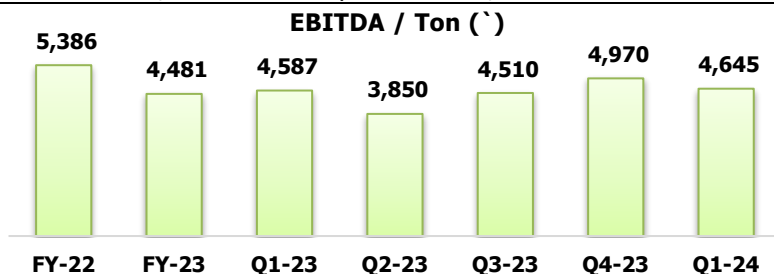
<b>M.CAP (₹ bn)</b>	~₹436
<b>52 Week H/L (₹)</b>	1600.00/941.00
<b>NSE Code</b>	APLAPOLLO
<b>BSE Code</b>	533758
<b>Shareholding Pattern (%) Jun'23</b>	
Promoter	30.62
FII	25.07
DII	12.73
Public	31.58

**Volatility in Input Cost lead to channel de-stocking**

The quarter witnessed a 5-10% reduction in global steel prices, which resulted in a substantial amount of de-stocking in the market. This generated a strong headwind on margins for APL Apollo, thereby contracting margins at the EBITDA level in this quarter. EBITDA / ton contracted to ₹4,645 vs. ₹4,970 Q-o-q. However, this short term phenomenon has played out completely in Q1-24 with profitability already returning as early as July 2023 strengthening the belief in its ability to achieve an EBITDA level of ₹~5,000/ton for this year and ₹ ~6,000/ton for FY-25.

Particulars (₹ Cr)	FY20	FY21	FY22
<b>Revenue</b>	<b>7,723</b>	<b>8,500</b>	<b>13,063</b>
<b>EBITDA</b>	<b>499</b>	<b>679</b>	<b>945</b>
EBITDAM (%)	6%	8%	7%
<b>PAT</b>	<b>256</b>	<b>408</b>	<b>619</b>
EPS	9.2	14.7	22.3
<b>RoE (%)</b>	<b>19%</b>	<b>24%</b>	<b>25%</b>
<b>RoCE (%)</b>	<b>18%</b>	<b>26%</b>	<b>28%</b>
P/E (x)	171.2	107.5	70.8
P/BV (x)	32.3	25.9	17.9
EV/ EBITDA (x)	89	65	47

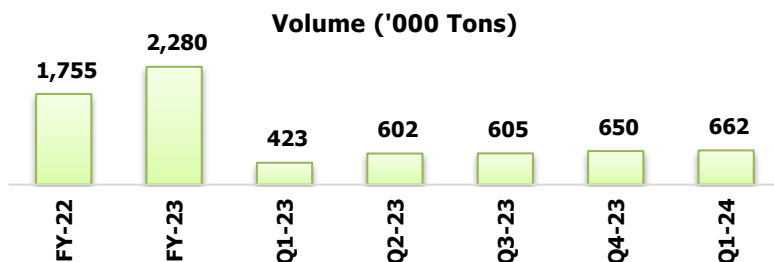
Particulars (₹ Cr)	FY23	FY-24E	FY-25E
<b>Revenue</b>	<b>16,166</b>	<b>20,300</b>	<b>26,130</b>
<b>EBITDA</b>	<b>1,022</b>	<b>1,452</b>	<b>2,008</b>
EBITDAM (%)	6%	7.2%	7.7%
<b>PAT</b>	<b>642</b>	<b>897</b>	<b>1,314</b>
EPS	23.1	32.3	47.4
<b>RoE (%)</b>	<b>21%</b>	<b>25%</b>	<b>30%</b>
<b>RoCE (%)</b>	<b>23%</b>	<b>27%</b>	<b>33%</b>
P/E (x)	68.3	48.9	33.3
P/BV (x)	14.6	12.2	9.9
EV/ EBITDA (x)	43	31	27



Source: Company, Way2Wealth Research

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With 662,000 tons of products being sold during the quarter, the company is on track to achieve its ~2.8 – 3mn ton sales target for FY-24. The strong volume growth for the quarter came on the back of strong demand for its legacy General Products supported by increasing adoption of its newer, high-margin products. Q2FY24 is slated to witness a further growth in sales volume of ~700,000 tons, while H2-FY24 is likely to witness sales of ~1.5 – 1.6 mn tons of sales volume.



Source: Company, Way2Wealth Research

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**Net Impact on Profitability**

This 57% Y-o-Y growth in volume during Q1-FY24 resulted in a 32% Y-o-Y Revenue growth to ₹45bn, while the strong headwinds from the channel de-stocking contracted the quarter's EBITDA margin by 53bps Q-o-Q to 6.7% (₹3.07bn vs. ₹3.23bn Q-o-Q). Net Profit margins contracted a mere 29bps Q-o-q to 4.3% (₹1.94bn vs. ₹2bn Q-o-Q), cushioned by improved non-operating income.

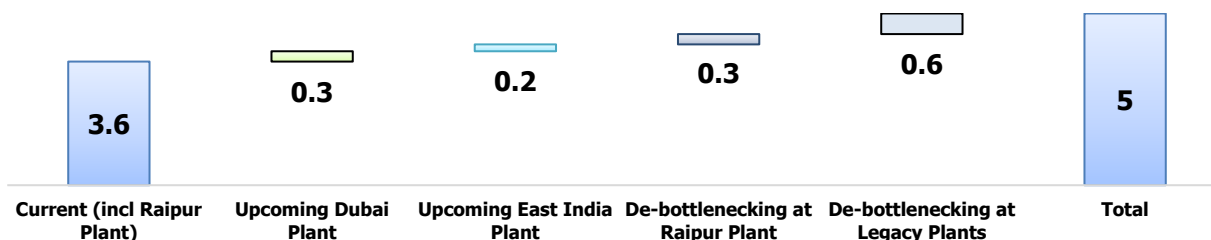
Particulars (₹ Cr)	Q1-24	Q4-23	Q1-23	FY23	FY22
Revenue	4,545	4,431	3,439	16,166	13,063
EBITDA	307	323	194	1,022	945
<b>% Margin</b>	<b>6.76%</b>	<b>7.29%</b>	<b>5.64%</b>	<b>6.32%</b>	<b>7.24%</b>
Net Profit	194	202	121	642	619
<b>% Margin</b>	<b>4.26%</b>	<b>4.55%</b>	<b>3.51%</b>	<b>3.97%</b>	<b>4.74%</b>

Source: Company, Way2Wealth Research

**Capacity Expansion Plan on Track**

Excluding the East India 200,000 ton capacity plant, whose operational date has been delayed to latter part of FY-25E owing to land acquisition delays, the group's capacity expansion plan to 5mn tons from the current 3.6mn tons remains largely on track and will likely commence operations by the end of FY-24. This includes the 300,000 ton Dubai plant, 600,000 ton brownfield expansion at legacy plants and a 300,000 ton expansion at the new Raipur plant.

**Capacity Expansion Plan (mn. Tons)**



Source: Company, Way2Wealth Research

The company re-iterated its cap-ex guidance of ₹5-6bn for the same, with ₹1.8bn spent in Q1-FY24 and ₹3-3.2bn intended for the rest of the year. The East India plant will incur a gross cap-ex of ₹0.5bn spread across the years.

**New Raipur Plant to Elevate Growth in the Immediate to Short Term**

Utilization of the new 1mn ton Raipur plant continues to increase with Q1-FY24 utilization levels increasing to 30% (75,000 tons). Subsequent quarters of this year will witness staggered increase in utilization to 100,000, 120,000 and 150,000 in Q2, Q3 and Q4 respectively. Over the coming years, utilization is poised to increase to 250,000 per quarter.

We expect a large part of this ramp up to come from the 400,000 ton narrow thicket section, which is scheduled to commence operation by the end of Q2-FY24 – once work on its final galvanization line is complete. The new line will allow APL to produce a niche, industry-first line of thicker (up to 4mm), colour coated sheets. Currently, 1.2mm is the maximum level of thickness available for colour coated sheets. The new line of colour coated sheets will help fill a large void as witnessed by APL during their pilot test runs last year. The estimated EBITDA / ton of the products from the new Raipur plant is pegged in the ₹6,000-7,000 range, thereby providing a major fillip to APL's profitability.

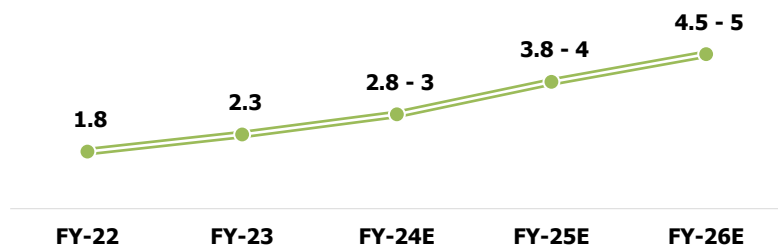
	Q1FY24	Q4FY23	Q-o-q	Q1FY23	Y-o-y
<b>Volume ('000 Tons)</b>	<b>662</b>	<b>650</b>	<b>2%</b>	<b>423</b>	<b>57%</b>
Heavy Structures	45	39	15%	33	36%
Super Heavy	4	2	100%	-	N/A
Light Structures	111	108	3%	59	88%
Gen. Products	282	299	(6)%	165	71%
Rust-proof Structures, Sheets	170	163	4%	141	21%
Agri/ Industrial	19	27	(30)%	18	6%
Coated Products	30	10	200%	7	329%

Source: Company, Way2Wealth Research

### Long Runway for Growth from Railways and Real Estate

Over the next 3 years, APL is confident of doubling its annual sales volume to ~5mn tons. In addition to the growing number of construction and modernization of real estate – the management is seeing a strong growth opportunity in the railway's modernization plans – which look to modernize over 1,500 stations. Each of these stations can require anywhere between 500-3,000 tons of steel, if not more. Larger stations, such as New Delhi, can create an opportunity of as much as 20,000-30,000 tons of steel per station. The modernized stations are poised to have a multi-storey structure with the railway platforms on the ground floor, along with an additional concourse structure on the upper floors, which will house office / retail complexes, and/or food courts. Multiple FOBs (foot-over-bridges) will also be constructed connecting the various structures. APL's upcoming plant in Dubai will be used to ramp up its international sales by 4-5x in the coming years.

**Sales Volume (Mn. Tons)**



Source: Company, Way2Wealth Research


 16<sup>th</sup> August 2023

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 View – **Buy**
**View**

With the global de-stocking phenomenon playing out completely in the first three months of the fiscal, we are confident of witnessing better numbers in the remaining quarters, which will more than make up the profit shortfall witnessed in Q1-FY24. Increasing sales volume of the high-margin products is a testament of market acceptance and APL's ability to successfully fill a void in market demand. With the capacity ramp up remaining largely on schedule and within stress limits, we believe that APL will be in a good position to capture the large upcoming opportunities from the railway infrastructure side. **The management's detailed road-map coupled with its demonstrated ability towards increasing sales and profitability re-instate our belief in the stock and the strong bottom-line growth for FY-24E and FY-25E. We therefore continue recommending a BUY on the stock.**

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**Financials**

(₹ Cr)

(₹ Cr)	Q1FY24	Q4FY23	Q-o-Q	Q1FY23	Y-o-Y	FY23	FY22	Y-o-Y
<b>Revenue</b>	<b>4,545</b>	<b>4,431</b>	<b>3%</b>	<b>3,439</b>	<b>32%</b>	<b>16,166</b>	<b>13,063</b>	<b>24%</b>
Material Cost	3,921	3,782	4%	2,992	31%	14,018	11,223	25%
<b>Gross Profit</b>	<b>624</b>	<b>649</b>	<b>(4)%</b>	<b>447</b>	<b>40%</b>	<b>2,148</b>	<b>1,840</b>	<b>17%</b>
% Margin	14%	15%	(6)%	13%	6%	13%	14%	(6)%
Employees exp	60	59	2%	45	36%	206	153	35%
<b>Total Op-Ex</b>	<b>4,238</b>	<b>4,108</b>	<b>3%</b>	<b>3,245</b>	<b>31%</b>	<b>15,144</b>	<b>12,118</b>	<b>25%</b>
<b>EBITDA</b>	<b>307</b>	<b>323</b>	<b>(5)%</b>	<b>194</b>	<b>58%</b>	<b>1,022</b>	<b>945</b>	<b>8%</b>
% Margin	6.76%	7.29%	(7)%	5.64%	20%	6.32%	7.24%	(13)%
<b>EBITDA / Ton (₹)</b>	<b>4,645</b>	<b>4,970</b>	<b>(7)%</b>	<b>4,587</b>	<b>1%</b>	<b>4,481</b>	<b>5,386</b>	<b>(17)%</b>
<b>EBIT</b>	<b>266</b>	<b>276</b>	<b>(4)%</b>	<b>165</b>	<b>62%</b>	<b>883</b>	<b>836</b>	<b>6%</b>
Other Income	22	18	21%	8	160%	47	41	16%
Finance Cost	27	25	9%	10	172%	67	44	51%
<b>EBT</b>	<b>261</b>	<b>269</b>	<b>(3)%</b>	<b>163</b>	<b>60%</b>	<b>863</b>	<b>832</b>	<b>4%</b>
<b>PAT</b>	<b>194</b>	<b>202</b>	<b>(4)%</b>	<b>121</b>	<b>60%</b>	<b>642</b>	<b>619</b>	<b>4%</b>
% Margin	4.26%	4.55%	(6)%	3.51%	21%	3.97%	4.74%	(16)%
EPS	7.0	7.3	(4)%	4.4	60%	23.1	22.3	4%

Particulars	FY21	FY22	FY23	FY24E	FY25E
<b>Revenue</b>	<b>8,500</b>	<b>13,063</b>	<b>16,166</b>	<b>20,300</b>	<b>26,130</b>
Material Cost	7,165	11,223	14,018	17,458	22,602
<b>Gross Profit</b>	<b>1,335</b>	<b>1,840</b>	<b>2,148</b>	<b>2,842</b>	<b>3,528</b>
% Margin	16%	14%	13%	14%	14%
Employees exp	130	153	206	240	320
<b>Total Op-ex</b>	<b>7,821</b>	<b>12,118</b>	<b>15,144</b>	<b>18,848</b>	<b>24,122</b>
<b>EBITDA</b>	<b>679</b>	<b>945</b>	<b>1,022</b>	<b>1,452</b>	<b>2,008</b>
% Margin	8%	7%	6%	7.2%	7.7%
<b>EBIT</b>	<b>576</b>	<b>836</b>	<b>883</b>	<b>1,232</b>	<b>1,758</b>
<b>EBT</b>	<b>546</b>	<b>832</b>	<b>863</b>	<b>1,212</b>	<b>1,753</b>
<b>PAT</b>	<b>408</b>	<b>619</b>	<b>642</b>	<b>897</b>	<b>1,314</b>
% Margin	5%	5%	4%	4%	5%
EPS	14.7	22.3	23.1	32.3	47.4
Net Worth	1,695	2,453	3,006	3,589	4,443
Borrowings	520	581	873	900	880
Net Capital Employed	2,215	3,033	3,879	4,489	5,323
RoE (%)	24%	25%	21%	25%	30%
RoCE (%)	26%	28%	23%	27%	33%

Source: Company, Way2wealth Research

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**Disclosure of Interest Statement: APL Apollo Tubes Ltd. as on August 16, 2023**

Name of the Security	APL Apollo Tubes Ltd.
Name of the analyst	Ashwini Sonawane
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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