

19<sup>th</sup> May 2023

CMP – ₹1,114.45/-

View – **Buy**

**Highlights**

- Quarterly Net Profit crossed the ₹2bn+ mark growing 19% QoQ and 14% YoY.
- Quarterly EBITDA / Ton increased 10% QoQ to ₹4,970 as sales of high value products rose.
- APL to expand its footprint in the international market – key to doubling sales volume over the next 3 years.
- Push sales strategy increased sales volume in the latter half of the year; FY-23 EBITDA crossed the ₹10bn mark, while margin contraction narrowing to 92bps.
- Timeline to develop 2 new production plants – Dubai and East India – remains intact with initial operations to begin in 12-18 months.
- With the Raipur plant becoming operational, cap-ex intensity has decreased and near-term capacity expansion projects can be developed via internal funding.

**Important Statistics**

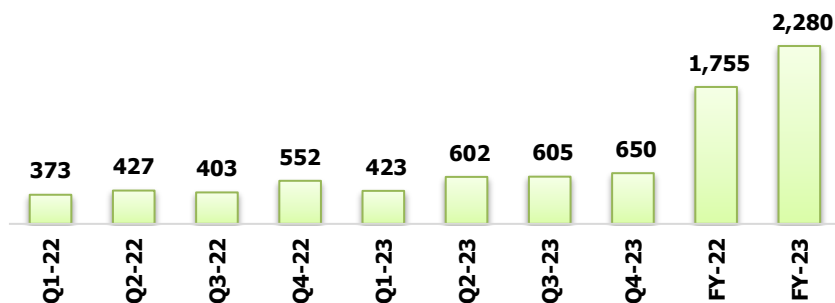
<b>M.CAP (₹ bn)</b>	~₹305
<b>52 Week H/L (₹)</b>	1,337.90/816.50
<b>NSE Code</b>	APLAPOLLO
<b>BSE Code</b>	533758

<b>Shareholding Pattern (%)</b>	<b>Mar'23</b>
Promoter	31.15
FII	25.72
DII	11.08
Public	32.05

**Overview**

- With demand for steel tubes continuing to improve in the quarter, APL Apollo tubes delivered a good set of results driven by its highest ever sales volume of 6.5L tons. Revenue for the quarter thus continued its upward trajectory crossing the ₹44bn mark.
- Operational commencement of the new Raipur plant, which produces the high value Super Heavy structure products along with colour coated products and roofing solutions, drove up the EBITDA / ton to the ₹4,970 mark.
- FY-23 results were dismal YoY as the beginning of the year witnessed a severe meltdown in steel prices from ~₹75,000/ton to ~₹55,000. The aggressive push sales strategy applied by APL Apollo in the latter quarters of FY-23 to de-stock channel inventory lead to the revenue jumping 24% YoY to ₹161bn.

**Volume (K. Tons)**

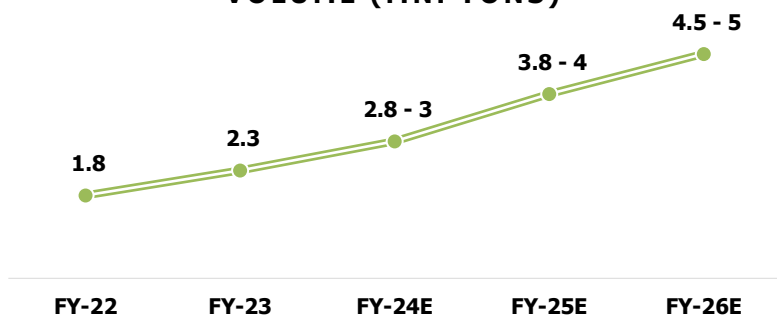


Source: Company, Way2Wealth Research

**Aggressive Sales Strategy to Drive Volume in New Key Markets**

- APL plans to double its sales volume from the current 2.3mn tons to over 4.5mn tons over the next 2.5-3 years, primarily by expanding its sales in the international market.
- Currently, exports form ~3% (~60,000 tons) of the overall sales volume. APL’s longstanding history and expertise in the steel tubes domain supported by the upcoming production plant in Dubai – where it intends to source feedstock at an economical rate – will be the primary drivers in its endeavour to crack the global steel market and increase ex-India sales by 3-4x.
- On the domestic front, APL has undertaken an aggressive market creation strategy for all its products – high dia tubes, color-coated products, building solutions – through influencers and by pushing products to distributors. APL’s success in creating a strong market for its new products will be crucial to its trajectory of achieving a 4.5mn+ ton sales volume in FY-26E (2.8-3mn tons in FY-24E, 3.8-4mn tons in FY-25E).
- The new Raipur plant continues to play a key role in expanding the company’s high-value product offerings – APL introduced the new thicker and premium 500 dia square tubes, colour-coated products for roofing and wall cladding, and is foraying into 1000 dia square tubes. Thus, aiming to elevate blended EBITDA / ton to ~₹5,400-5,600 in the coming fiscal.

**VOLUME (MN. TONS)**



Source: Company, Way2Wealth Research

**Expansion of Production Capacity**

- With the 1mn ton Raipur plant becoming operational, APL Apollo’s current production capacity stands at 3.6mn tons and the stress on incremental cash flows reduces significantly thereby strengthening the firm’s balance sheet. At 30% utilization in Q4-23, the Raipur plant produced 73,000 tons, short of the 1 lakh target envisaged in Q3-23 owing to the pending commission of one large machine in the plant. 80% of the year’s ₹8.4bn cap-ex was dedicated towards completion of the Raipur plant leading to Net Debt increasing 20% to ₹2.4bn.
- The upcoming 0.3mn ton Dubai plant is pivotal in APL’s 3-4x export growth strategy – from 60,000 tons to 200,000+ tons as the cheaper raw material supported by the area’s economic infrastructure, logistics and personnel cost provides the advantage APL needs when competing with other economic global players, such as Chinese and Turkish producers.

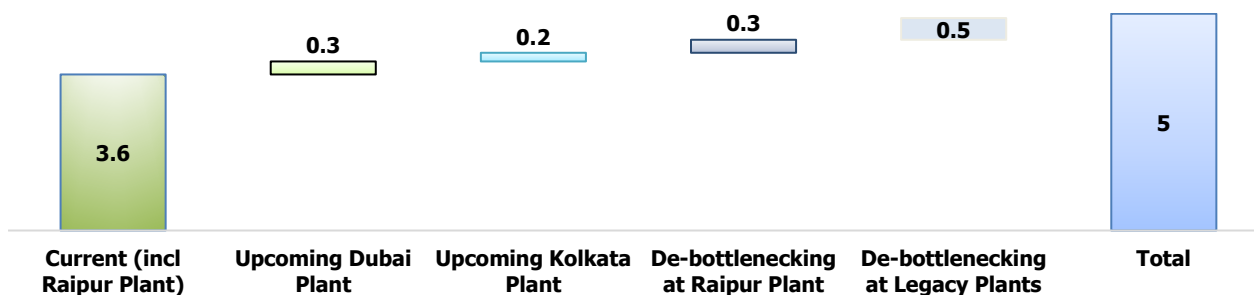
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- To ensure that the company has sufficient resources to support the planned sales strategy, APL will also be de-bottlenecking its processes at its legacy and Raipur plants, expanding capacity by another 0.8mn tons.
- The development of the 2 new plants – Dubai and East India – will be funded entirely through internal accruals and APL envisages initial operations to commence in the next 15-18 months.
- Overall, APL Apollo plans to increase capacity to ~5mn tons over the next 18 months, with an estimated cap-ex of ₹5-6bn, funded entirely via internal accruals.

**Capacity Expansion Plan (in MT)**



Source: Company, Way2Wealth Research

**Industry Landscape**

With large and regional players ramping up their steel tubes capacity, APL Apollo will continue to face strong competition from domestic players.

The large use case for tubes - railways, airports, the high-speed bullet train project, water-storage and roadways – supported by an equally large infrastructure outlay will, however, provide sufficient opportunity for nearly all producers.

**Risks**

- The low barriers to entry and the homogeneity of the steel pipes / tubes products translates to a highly competitive market – from small, unorganized players to large industrial behemoths.
- The success of the market creation initiative for APL’s new 500/1,000 dia tubes, colour coated products and roofing solutions will be critical in shifting the sales mix towards these high-value products and keeping profitability growth on the intended slope.
- APL’s endeavour to ramp up exports will need to be assessed through a long term lens as the initial months will likely witness strong headwinds from established global players. With the ambitious production capacity ramp up likely to consuming a significant chunk of APL’s cash flow, APL will have to continue to fire on all engines to keep its free cash flow in the black.


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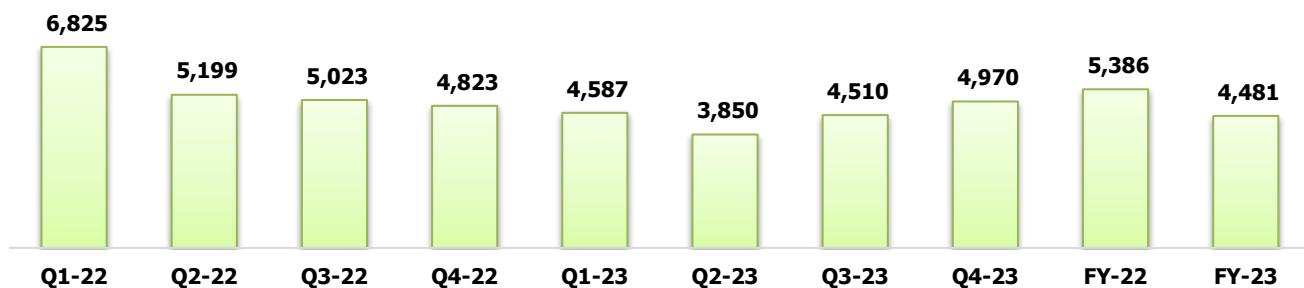
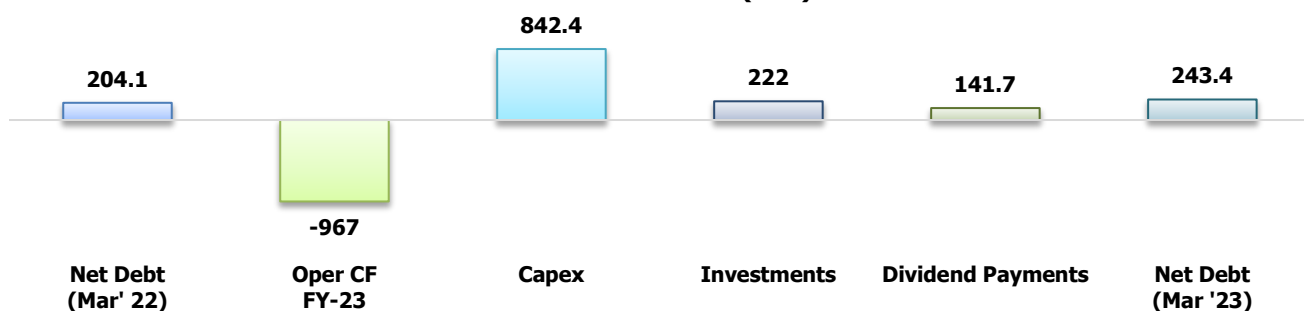
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**View**

An aggressive push sales strategy, commissioning of the Raipur plant and the launch of new high-value products saw APL Apollo end FY-23 on a high note in spite of the crash in steel prices witnessed in the beginning of the year. The coming year will be significant for the company as it pushes itself to the next level on both – volume and margin front. The push into the export market will drive incremental volumes while high value products becoming a larger part of the sales mix will elevate profitability. We remain cautiously optimistic in APL's ability to navigate itself in international waters, but believe that APL's established history and significant brand value in the domestic market will help drive sales for the new products. **We continue to recommend a BUY rating on the stock.**

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**Financials**
**EBITDA / Ton (₹)**

**Net Debt Position (₹ Cr)**


Particulars	(₹ Cr)							
	FY23	FY22	FY23 Y-o-Y	Q4FY23	Q3FY23	Q4FY23 Q-o-Q	Q4FY22	Q4FY23 Y-o-Y
Volume ('000 Tons)	2,280	1,755	30%	650	605	7%	552	18%
Revenue	16,166	13,063	24%	4,431	4,327	2%	4,215	5%
<b>Material Cost</b>	<b>14,018</b>	<b>11,223</b>	25%	<b>3,782</b>	<b>3,769</b>	0%	<b>3,683</b>	3%
Employees exp	206	153	35%	59	55	7%	41	45%
<b>Total Op-Ex</b>	<b>15,144</b>	<b>12,118</b>	25%	<b>4,108</b>	<b>4,054</b>	1%	<b>3,949</b>	4%
<b>EBITDA</b>	<b>1,022</b>	<b>945</b>	8%	<b>323</b>	<b>273</b>	18%	<b>266</b>	21%
% Margin	6%	7%	-13%	7%	6%	16%	6%	15%
EBITDA / Ton (₹)	4,481	5,386	-17%	4,970	4,510	10%	4,823	3%
<b>EBIT</b>	<b>883</b>	<b>836</b>	6%	<b>276</b>	<b>238</b>	16%	<b>238</b>	16%
Other Income	47	41	16%	18	9	93%	11	63%
Interest Expense	67	44	51%	25	19	34%	10	147%
<b>EBT</b>	<b>863</b>	<b>832</b>	4%	<b>269</b>	<b>229</b>	18%	<b>239</b>	13%
<b>PAT (Reported)</b>	<b>642</b>	<b>619</b>	4%	<b>202</b>	<b>169</b>	19%	<b>177</b>	14%
EPS	23.1	22.3	4%	7.3	6.1	19%	6.4	14%
RoE	21%	25%	-15%	27%	N/A	N/A	29%	-7%
ROCE	24%	29%	-17%	30%	N/A	N/A	33%	-8%

Source: Company, Way2wealth Research

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