27th February 2023 | CMP – ₹1,218.60 /- | View – **Buy on Dip**

Q3FY23 Result Update Summary

- De-bottlenecking at legacy plants to improve utilization
- Capacity to expand in FY-24E as new plants go online
- Cash Flows to improve as Raipur Plant becomes fully operational
- New Super value added products launched which will drive realization
- Infra push at the macro level to keep orders elevated for foreseeable future

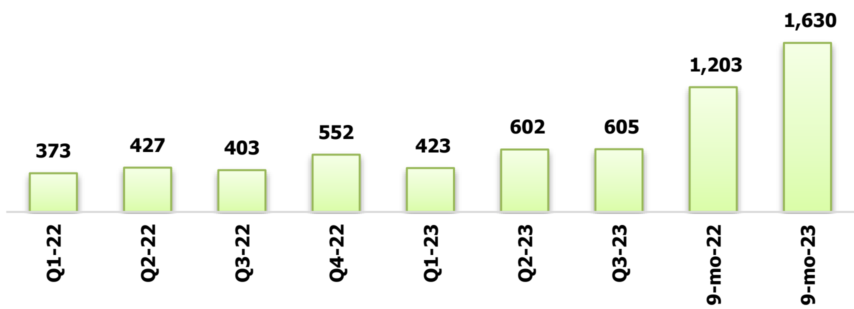
Important Statistics

M.CAP (₹ bn)	~₹299.87
52 Week H/L (₹)	1,338/771
NSE Code	APLAPOLLO
BSE Code	533758

Shareholding Pattern (%)	Dec22
Promoter	31.15
FII	24.31
DII	10.42
Public	34.14

Quarterly revenue increased 34 % YoY to ₹43.2bn, owing to a 50% YoY growth in volume as stabilization in global steel prices has led to a reduction in destocking by channel partners. Additionally, with the new Raipur complex becoming operational in the quarter, blended EBITDA / ton rose 17% QoQ to ₹4,510, but was 10% lower on a YoY basis, as a larger part of the sales mix, ~44%, comprised of the lower margin General Structure products vs. 35% last year.

Volume (K. Tons)



Source: *Company, Way2Wealth Research*

- **De-bottlenecking of Current Capacity –** APL Apollo continued to test its max capacity, and had a volume of over 0.22mn tons per month in the quarter gone by. Thus, it is now looking to de-bottleneck its processes, which will allow it to expand its production volume till the time the new plants come online.
- **New Plants to Open in FY-24E –** APL Apollo's capacity expansion target includes the opening of 2 new plants in Dubai and Kolkata, which will have an operational capacity of 0.2mn tons and 0.3mn tons respectively. The Dubai plant is expected to become operational around mid-FY24E while the Kolkata plant will be operational only in Q4-24E.

  The company will exit FY-24E with a capacity of 4mn+ tons, but we will likely see the full effect of the capacity expansion take place in FY-25E.
- **Raipur Plant Complex becomes Fully Operational –** With all 3 complexes of the Raipur plant being complete and fully operational, the pressure on APL Apollo's cash flow shall reduce significantly.

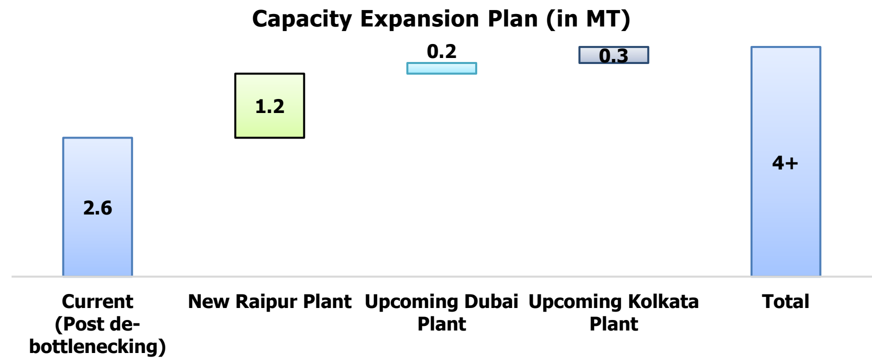
  The plant has a total capacity of 1.2 million tons – all of which became operational in the quarter gone by. Latest month's utilization stood at 30% with an EBITDA / ton of ₹3,000. However, as utilization of the plant continues is ramped up, we can expect fixed cost leverage to kick in, boosting profitability.

W2W Lighthouse - A Quick Perspective

2/3rd of the plant's capacity will be towards producing tubes ranging from 10mm*10mm to 1,000mm*1,000mm with a thickness ranging from 0.23 to 0.40mm.

The remaining 1/3rd of the capacity will be used for producing roofing sheets and solar sheets.

In Q4-23E, the plant is expected to generate 1 lakh ton of the company's targeted volume. In FY-24E, the Raipur plant's average quarterly targeted volume is expected to increase by ~50%, reducing the capacity burden on the legacy plants.

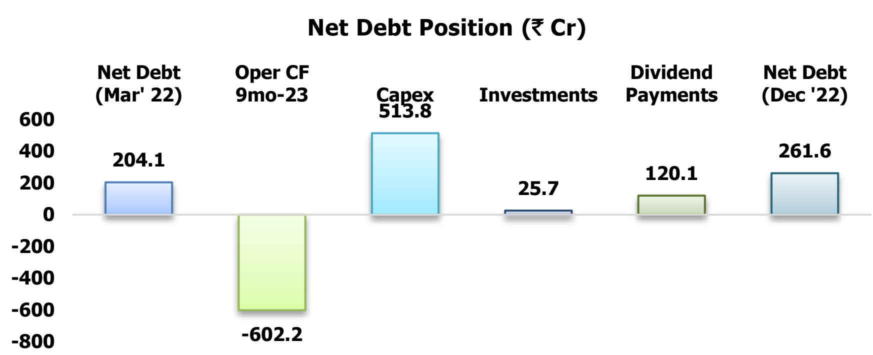


Source: Company, Way2Wealth Research

- **Free Cash to Improve Going Ahead –** During the year, the company had generated ₹6bn in Operating Cash Flow. On the flipside, it spent ₹5bn in Cap-ex and ₹1bn in Dividend payments thus causing the Free Cash Flow number to slip into negative territory.

  The Raipur complex becoming fully operational is a double bonanza for the company's Cash Flow as it will no longer be as cap-ex intensive and will also boost the company's production volume and profits.

  While the 2 new plants of Dubai and Kolkata and the de-bottlenecking exercise at the legacy plants will require an additional cap-ex of ₹4bn, the management is confident that it will be able to get its Free Cash Flow in the black and subsequently reduce debt.



Source: Company, Way2Wealth Research

- **Super Value Added Products –** APL Apollo plans to launch 2 new super value added products.

  The first is a 500 square dia, which will be housed under their Heavy Structural segment. APL is a pioneer in this product with its Raipur plant being the first ever plant in India to manufacture 500 square dia., thus allowing the company to sell this product at a premium over the regular 300 sq dia tubes.

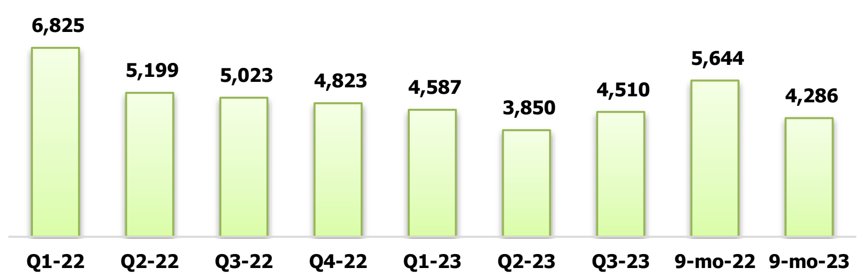
  The second product is in the company's Apollo Z segment – which currently consists of pre-galvanized, zinc-coated tubes. The company is launching new products which will consist of a combination of zinc and aluminium – called aluzinc. These aluzinc tubes are a significantly more premium product than Apollo Z and hence command superior margins.

  APL has begun promoting these products aggressively in its stronghold markets, as the new Raipur complex will allow it to produce both these new products at scale without hindering the production of legacy products.

  Eventually, these super value added products will generate ~5-10% of the company's revenue, but drive profitability in a significant way.

  Given these products' monopolistic position, the company believes that it will be able to monetize them at a significant premium over its regular products - net realization of ₹70,000-80,000 / ton at an EBITDA margin of 18-20%, thus generating an EBITDA / ton of ₹15,000-18,000. The monetization of these products will be vital for the company to achieve its target of a blended EBITDA / ton of ₹5,000+ in FY-24E and ₹6,000 in FY-25E / FY-26E.

EBITDA / Ton (₹)



Source: *Company, Way2Wealth Research*

- **Large Infrastructure to be a Major Impetus –** The large outlay allocated towards infrastructure projects in the nation's budget is a major impetus for the company as its tubes are used across various segments such as railways, airports, the high-speed bullet train project, water-storage and roadways.

  Of the 50 railway stations allotted last year for expansion, upgrades and repairs, APL is already aiding in the infrastructure design of 10-15 station. Each station's FOBs, concourse building and overhead canopies can generate ~3,000 tons of demand for APL's products. A 100 more stations are likely to be allotted in the coming years.

  APL also commands a large market share in the airport infrastructure segment, as the roofing and ceiling of many of the terminals and other airport infrastructure developed in the last 5 years at major airports such as Bangalore, Delhi and Hyderabad are constructed using its products.

Risks

Even though APL has the largest market share in the steel pipes / tubes industry, the industry is fraught with low-barriers to entry – pipes are a largely standardized product and do not require capital-intensive manufacturing processes. It also faces intense competition from other organized players who are equally equipped to take on large projects, thus limiting its ability to improve profit margins without providing value-adds.

View

With destocking coming to an end and commodity prices stabilizing, we believe that the uptrend in Revenue should continue. Given the company's strong presence in the sector, we believe that it will be able to monetize its new super value added products in the market, thereby driving up realization and margins substantially. With no major capex needs forthcoming from the Raipur plant, the company is poised to bring its Free Cash Flow into the black and reduce debt, boosting its profit margins further. **This double bonanza backed by the government's impetus in infrastructure – which will drive the micro and macro demand environment – affirms our BUY rating on APL Apollo.**

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Financials

(₹ Cr)

Particulars	9MFY23	9MFY23	9MFY23 Y-o-Y	Q3FY23	Q3FY22	Q3FY23 Y-o-Y	Q2FY23	Q3FY23 Q-o-Q	FY22	FY21
Volume ('000 Tons)	*1,630*	*1,203*	*35%*	*605*	*403*	*50%*	*602*	*0%*	*1,755*	*1,640*
Income from Operating (net)	11,735	8,849	33%	4,327	3,230	34%	3,969	9%	13,063	8,500
Material Cost	**10,236**	**7,540**	36%	**3,769**	**2,810**	34%	**3,475**	8%	**11,223**	**7,165**
Employees exp	147	112	31%	55	39	42%	47	18%	153	130
Total Operating Expenses	**11,036**	**8,169**	35%	**4,054**	**3,028**	34%	**3,737**	8%	**12,118**	**7,821**
EBITDA	**699**	**679**	3%	**273**	**202**	35%	**232**	18%	**945**	**679**
% Margin	*6%*	*8%*	*(22)%*	*6%*	*6%*	*1%*	*6%*	*8%*	*7%*	*8%*
EBITDA / Ton (₹)	*4,286*	*5,644*	*(24)%*	*4,510*	*5,023*	*(10)%*	*3,850*	*17%*	*5,386*	*4,138*
Depreciation	92	81	13%	35	27	27%	28	25%	109	103
Other Income	29	29	-1%	9	8	18%	12	-20%	41	36
Finance Cost	42	34	23%	19	11	71%	14	37%	44	66
EBT	**594**	**593**	0%	**229**	**172**	33%	**202**	13%	**832**	**546**
PAT	**440**	**442**	-1%	**169**	**128**	32%	**150**	13%	**619**	**408**
% Margin	*4%*	*5%*	-25%	*4%*	*4%*	-1%	*4%*	3%	*5%*	*5%*
EPS	15.9	16.0	-1%	6.1	4.6	32%	5.4	13%	22.3	14.7

Source: *Company, Way2wealth Research*

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Disclosure of Interest Statement APL Apollo Tubes Ltd. as on February 27, 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 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
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