

# APL APOLLO TUBES LTD

BUILDING MATERIALS

03 JULY 2019

Company Update

**BUY**

Target Price: Rs 1,897

## Healthy volume growth reported in Q1FY20; 2<sup>nd</sup> quarter in a row

APAT reported a strong volume growth of 29% YoY on consolidated basis for Q1FY20. This is the second consecutive quarter of healthy volume growth as was reported in Q4FY19 (39% YoY growth). We note that Hollow sections the core product (including DFT) of the company formed over 54% of total revenue in FY19 reported volume growth of over 31% in Q1FY20 at 219kt. Besides, growth has also been noted in products like GP (↑33% YoY @ 89ktons) and Black Round pipes (↑19% YoY @ 53kt). We note, higher focus of management towards value-added products, Hollow Sections, DFT, and new markets enhanced overall volume growth for Q1FY20.

We believe, while FY19 was a year of consolidation, FY20 could be the year of healthy volume growth with momentum to continue even in FY21 driven by consolidation of 2 acquisitions Taurus & Apollo Tricoat, distribution expansion and higher value add product focus which are key long term positives. Besides, it will also allow APAT to maintain technological edge versus competition. We introduce FY21 earnings and revise our TP to Rs. 1,897 valuing it at 13.5x FY21E EPS. Retain "BUY"

CMP	: Rs 1,616
Potential Upside	: 17%
Relative to Sector	: Positive

### MARKET DATA

No. of Shares	: 2.37 cr
FV (Rs)	: 10
Market Cap (Rs Cr.)	: 3,980
52-week High / Low	: Rs 1,842/ Rs 1,009
Avg. Daily vol. (6mth)	: 20,878 shares
Bloomberg Code	: APAT IN
Reuters Code	: APLA.BO
BSE Code	: 533758
NSE Code	: APLAPOLLO

## Q4FY19 Quick Review

- **Volumes rebound sharply; 39% YoY and 33% QoQ:** APAT reported sales volumes at 418kt during Q4FY19 reporting a healthy 39%/33% YoY and QoQ growth respectively. This healthy growth was led by a 45% YoY growth in Hollow Sections at 238kt. Hollow Sections reported healthy growth aided by the ramp up in DFT lines. Further acquisition of Shankara's production unit the share of higher margin GI/GP pipes is expected to increase post the consolidation in FY20. **Management re-iterated its volume growth guidance of over 20% over the next couple years.** Revenue growth came in higher by 38% at Rs. 2,094cr.
- **EBITDA/ton sees improvement, albeit on low base:** APAT reported EBITDA of Rs. 139crores up 35% YoY and 134% QoQ driven primarily by a robust 39% volume growth. EBITDA/ton came in at Rs. 3,316 lower by 3% YoY but sharply up on a sequential basis (Q3FY19 EBITDA/ton stood at Rs. 1,882/ton). **Management guided maintaining EBITDA/Ton between Rs. 3,400 - 3,500 per ton led by organic growth, growing DFT contribution, focus on higher margin GI/GP pipes and contributions coming in from Taurus acquisition and Apollo Tricoat post consolidation in Q2FY20/Q4FY20 resp.**

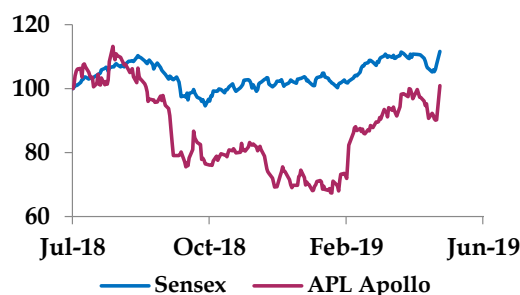
## FINANCIAL SUMMARY (Consolidated)

Y/E	Sales (Rs Cr)	EBITDA (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	Change (YoY %)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs)
March										
FY19	7,152	392	148	62.2	-6.7	28.0	21	24	12.4	14.0
FY20E	8,859	531	229	96.1	55.0	16.3	20	23	8.2	15.0
FY21E	10,764	667	324	135.6	41.1	11.5	21	25	6.6	18.0

Source: Company, Axis Securities, CMP as on 02 July, 2019

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## PRICE PERFORMANCE



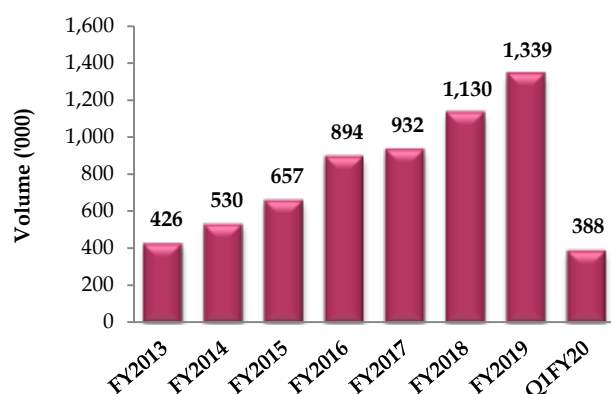
## Key Highlights (Cont'd)

- Q4FY19 PAT improved 45% YoY:** In Q4FY19, PAT came in at Rs. 62 crore higher by 45% YoY in line with improved and healthy topline and operating performance. Going forward with completion of significant capacity expansion and strategic acquisitions, APAT expects to consolidate its position in FY20. This should lead to improvement in profitability driven by pick up in utilization at existing and new capacity, lower capex requirement and improving profitability driven by focus on higher value added products, DFT, operating efficiencies and cost rationalization (backward integration).
- Acquired subsidiary of Shankara Building Products unit:** In Q4FY19, APAT acquired the Hyderabad unit of Taurus Value Steel in an all cash deal of Rs. 70 crore. Taurus Vale Steel has a total capacity of 2,00,000TPA of which GI and GP pipe capacity is at 1,55,000TPA. Management indicated that this plant currently operates at 50% utilization level and thus there is enough scope to improve utilization levels here. Shankara has agreed to purchase 250kt pipes for FY20 from APAT giving visibility on volume growth front. For FY18 the manufacturing unit clocked revenues of Rs. 780 crore thus indicating scope for improving APATs consolidated topline growth going ahead. Further, the acquisition could lead to logistic cost savings for APAT (~3%) as Hyderabad market is currently catered by APAT's Raipur and hosur facilities. Besides, it will also result in enhanced competitive advantage for APAT and thereby higher volumes.
- Healthy Market share gains:** Consistently from FY15 onwards APAT's market share has seen a marked improvement from 12% then to 18% in FY19 a 600bps increase. This gain in market share over the last 5 years has been on account of distribution expansion, expansion and customization of product portfolio (now offers more than 1,100+ SKUs ; 200 SKUs added owing to DFT in the last 18 months), brand strengthening led by media spends and pick up in its key core industries like construction activity uptick. For FY19, across product segments APAT has a market share of 28% in GP Pipes, 26% in Hollow Sections thus making it the leader in the section in the organized market, 12% in Black Pipe and 9% in GI pipes.
- Outlook and Valuation:** We expect profits to improve at a healthy rate over FY20/FY21 from the relatively lower profitability reported in FY19 impacted by one time inventory loss. We estimate the company to report 20% volume CAGR and a 23% revenue CAGR over FY19-21E. This growth in volumes is expected to be driven by organic volume growth, focus on higher margin DFT, value added products, consolidation of 2 acquisitions of Apollo Tricoat and Taurus Value Steel and distribution expansion. Further, with focus on improving operating efficiency and cost rationalization we expect the company to report an over 100-120bps EBITDA Margin improvement and EBITDA/Ton in the range of Rs. 3,200-3,450/ton over FY20E/FY21E. **We introduce FY21E and revise our TP to Rs. 1,897 valuing it at 13.5x FY21E earnings. Retain 'BUY'.**

### Key Con-call Takeaways:

- **Completion of Apollo Tricoat acquisition:** Post completion of ongoing capex in June 2019, Apollo Tricoat will have a total capacity of 3,00,000TPA. Management targets to achieve 60% utilization level for FY20 with an EBITDA/ton of Rs. 7,000/ton. Consolidation of Apollo Tricoat to commence in Q3FY20.
- **Taurus Value Steel acquisition:** Acquisition of Shankara Building Products subsidiary will consolidate from Q2FY20 as the deal has completed after having received final approvals. APAT is expecting to do 1,20,000TPA of volumes from this plant in FY20 ie a utilization of 60% during the year.
- **Capex:** with major capex being incurred, management indicated that FY20 & FY21 will be low capex years and focus will be on improving cash flows and return ratios thus highlights its intent on improving profitability. For FY20 APAT will incur a capex of Rs. 200 crore towards acquisition of Taurus but it will not include acquisition of Tricoat. Further this will be partly funded through internal accruals (Rs. 150crore) and partly promoter infused capital.
- **Working capital improvement** efforts will primarily focus on inventory rationalisation. Management believes 1.5 lakh tn of inventory (1.4 lakh tn at APAT and 0.1 lakh tn at Taurus) will be sufficient for future volume growth.
- **Distribution Network:** As of FY19 end APAT had a wide distribution network with over 790 distributors and 50,000 retailers and fabricators covering about 300 towns and cities. Further, strengthening and deepening distribution will enable APAT to grow volumes going forward.

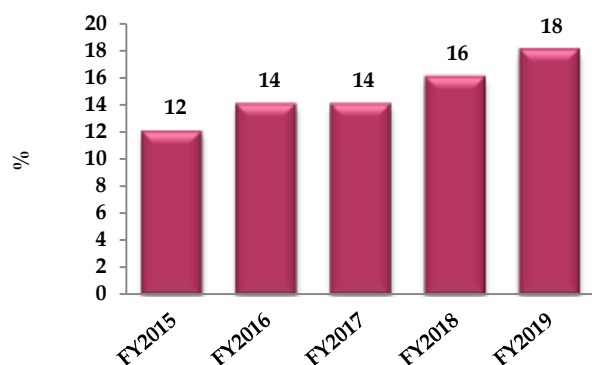
### Hollow Sections (incl. DFT) continues to drive volumes



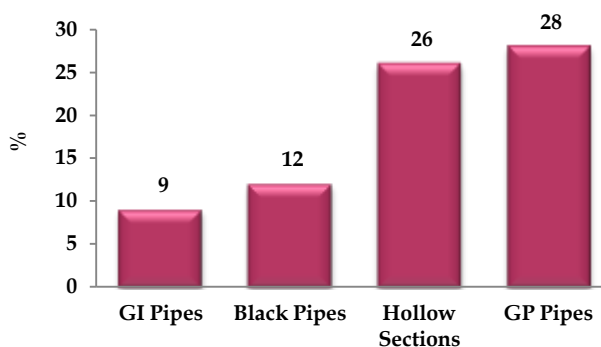
### Consistently improving key Operating Metrics

Operating Metrics	Q4FY19	Q4FY18	Y-o-Y (%)	Q3FY19
Sales Volumes ('000 Tonnes; excl Trading)	418	301	38.9	315
Blended Realization (Rs. Per Ton)	50,056	48,264	3.7	53,739
EBITDA (Rs. Per Ton) excl Trading Volumes	3,319	3,412	-2.7	1,882

### Overall Market share gains of 600bps since FY15



### Dominant share in GP Pipes and Hollow Sections



Source: Company, Axis Securities

### Q4FY19 Results Snapshot

(Rs. Crore)	Q4FY19	Q4FY18	% Change (YoY)	Q3FY19	% Change (QoQ)	FY19	FY20E	FY21E	2Yr CAGR
<b>Total Operating Income</b>	<b>2,024</b>	<b>1,455</b>	<b>39%</b>	<b>1,622</b>	<b>25%</b>	<b>7,152</b>	<b>8,859</b>	<b>10,764</b>	<b>23%</b>
<b>Expenditure</b>									
Net Raw Materials	1,818	1,329	37%	1,526	19%	6,307	7,707	9,343	
Employee Expenses	29	23	22%	26	10%	108	133	161	
Other Expenses	109	64	69%	80	35%	344	381	463	
<b>Total Expenditure</b>	<b>1,955</b>	<b>1,417</b>	<b>38%</b>	<b>1,632</b>	<b>20%</b>	<b>6,759</b>	<b>5,885</b>	<b>7,274</b>	
<b>EBITDA</b>	<b>139</b>	<b>103</b>	<b>35%</b>	<b>59</b>	<b>134%</b>	<b>393</b>	<b>531</b>	<b>667</b>	<b>30%</b>
<b>EBITDA Margin</b>	<b>6.9%</b>	<b>7.1%</b>	<b>-20bps</b>	<b>3.7%</b>	<b>320bps</b>	<b>5.5%</b>	<b>6.0%</b>	<b>6.2%</b>	
Oth. Inc.	3	2	49%	3	-12%	11.7	35.4	53.8	
Interest	29	23	28%	27	7%	11.3	11.9	12.1	
Depreciation	17	15	15%	16	10%	64.3	90.2	95.4	
<b>PBT</b>	<b>95</b>	<b>67</b>	<b>43%</b>	<b>20</b>	<b>386%</b>	<b>227</b>	<b>358</b>	<b>504</b>	<b>49%</b>
Tax	34	22	50%	7	399%	78.6	128.1	180.6	
<b>PAT</b>	<b>62</b>	<b>44</b>	<b>39%</b>	<b>13</b>	<b>379%</b>	<b>148</b>	<b>229</b>	<b>324</b>	<b>48%</b>
<b>PAT Margin</b>	<b>3.0%</b>	<b>3.1%</b>	<b>-10bps</b>	<b>0.8%</b>	<b>+280bps</b>	<b>2.1%</b>	<b>2.6%</b>	<b>3.0%</b>	
<b>EPS (Rs.)</b>	<b>26.0</b>	<b>18.7</b>	<b>39%</b>	<b>5.4</b>	<b>379%</b>	<b>62.2</b>	<b>96.1</b>	<b>135.8</b>	<b>48%</b>

Source: Company; Axis Securities

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