

APL Apollo Tubes

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NDR Feedback: All Eyes on DFT technology

- We hosted a 1-day NDR for APAT in Mumbai. APAT maintained its FY18-20 guidance of 20-25% volume CAGR and remains upbeat on its latest technology, Direct Forming Technology (DFT).
- The next generation DFT was one of the most favourite topic. DFT has enabled APAT to offer customized products at a lower cost and in less time than its competitors. It has also given access to overseas markets including US, Europe and Middle East. APAT expects to make 8-10% better margins using this technology.
- Investors also discussed 2QFY18 results which were in line with expectations. APAT reported impressive sales volume growth of 18% and earnings growth of 21% YoY despite GST implementation headwinds.
- The management highlighted that most of its 400 products are specialized and are used in high-growth sectors. We maintain our earnings forecasts with TP of Rs2,812, implying 49% share price upside.

Next generation DFT is the key catalyst

APAT is the first company to bring DFT in India. It is used in manufacturing hollow sections with more efficiency (RM savings and lesser time). The company added lines of new DFT technology mills at the existing sites in the North, South and West regions of India. It spent total capex of Rs1.5bn for DFT capacity of 500k tons. The high quality customized shapes and sizes of products, achieved through DFT, will help penetrate OEMs and export markets.

Sales volume outlook remains strong

APAT expects its production capacity to increase 54% this year. We expect sales volume of 18% CAGR FY18-20E as new capacity ramps-up. This will drive EPS to grow more than double in a span of three years. ROE/ROCE will improve to 27.1/30.5% in FY20 from 22.7/20.6% in FY17. The FY18 started on strong note with 1H volume growth of 15% YoY. The EBITDA margins were not comparable YoY due to one-off inventory gains in 1HFY17. The debt will normalize to Rs6bn by end-FY18 (from Rs7bn in Sept-2017) as there was inventory build-up in 1H due to high steel prices.

Valuation

Reiterate BUY. APAT's valuation is attractive despite the share price run-up in the past one year. Stock trades at a PER of 18.8x/13.4x FY19/20E, even though we forecast EPS will increase by 19%/36%/40% in FY18/19/20. APAT maintained its guidance to improve EBITDA spread to Rs4k/ton from current Rs3.5k/ton in next 3 years. Catalysts are new product launches, margin expansion and pick up in residential construction activity.

Financial Snapshot (Consolidated)

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	42,136	45,450	52,730	61,913	73,430
EBITDA	2,817	3,244	3,857	4,766	5,987
EBITDA Margin (%)	6.7	7.1	7.3	7.7	8.2
APAT	1,259	1,459	1,730	2,368	3,322
EPS (Rs)	53.7	61.8	73.3	100.4	140.8
EPS (% chg)	97.4	15.1	18.6	36.9	40.3
ROE (%)	23.7	22.7	21.8	24.4	27.1
P/E (x)	35.2	30.6	25.8	18.8	13.4
EV/EBITDA (x)	18.0	15.5	13.0	10.2	7.7
P/BV (x)	7.8	6.2	5.2	4.2	3.2

Source: Company, Emkay Research

CMP	Target Price
Rs 1,890 as of (December 18, 2017)	Rs 2,812 (■) 12 months
Rating	Upside
BUY (■)	48.8 %

Change in Estimates

EPS Chg FY18E/FY19E (%)	NA
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY18E	FY19E
Emkay	73.3	100.4
Consensus	79.5	104.2
Mean Consensus TP (12M)	Rs 2,325	

Stock Details

Bloomberg Code	APAT IN
Face Value (Rs)	10
Shares outstanding (mn)	24
52 Week H/L	2,029 / 876
M Cap (Rs bn/USD bn)	45 / 0.70
Daily Avg Volume (nos.)	25,762
Daily Avg Turnover (US\$ mn)	0.8

Shareholding Pattern Sep '17

Promoters	37.5%
FII's	-%
DII's	14.5%
Public and Others	48.1%

Price Performance

(%)	1M	3M	6M	12M
Absolute	1	-	15	108
Rel. to Nifty	(1)	(2)	6	63

Relative price chart



Source: Bloomberg

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Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	42,136	45,450	52,730	61,913	73,430
Expenditure	39,319	42,206	48,873	57,147	67,443
EBITDA	2,817	3,244	3,857	4,766	5,987
Depreciation	341	512	681	731	762
EBIT	2,476	2,732	3,175	4,035	5,226
Other Income	103	38	40	42	44
Interest expenses	695	683	633	543	312
PBT	1,883	2,086	2,582	3,534	4,957
Tax	624	627	852	1,166	1,636
Extraordinary Items	(253)	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	1,006	1,459	1,730	2,368	3,322
Adjusted PAT	1,259	1,459	1,730	2,368	3,322

Balance Sheet

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Equity share capital	234	236	236	236	236
Reserves & surplus	5,442	6,967	8,414	10,499	13,538
Net worth	5,677	7,203	8,650	10,735	13,773
Minority Interest	(1)	0	0	0	0
Loan Funds	6,506	5,707	5,807	4,307	1,637
Net deferred tax liability	859	905	1,229	1,682	2,360
Total Liabilities	13,040	13,815	15,687	16,724	17,770
Net block	6,662	7,345	9,389	9,458	9,196
Investment	131	127	140	154	170
Current Assets	9,488	9,803	11,593	13,493	15,971
Cash & bank balance	14	17	240	164	165
Other Current Assets	48	60	68	79	91
Current liabilities & Provision	3,561	4,685	5,435	6,381	7,566
Net current assets	5,927	5,118	6,158	7,112	8,405
Misc. exp	0	0	0	0	0
Total Assets	13,040	13,815	15,687	16,724	17,770

Cash Flow

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
PBT (Ex-Other income) (NI+Dep)	1,780	2,049	2,543	3,492	4,914
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(2,041)	858	(492)	(577)	(614)
Operating Cashflow	152	3,475	2,512	3,023	3,737
Capital expenditure	(942)	(2,100)	(1,500)	(800)	(500)
Free Cash Flow	(791)	1,375	1,012	2,223	3,237
Investments	59	4	(13)	(14)	(15)
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(781)	(2,058)	(1,473)	(772)	(472)
Equity Capital Raised	0	69	0	0	0
Loans Taken / (Repaid)	1,684	(798)	100	(1,500)	(2,670)
Dividend paid (incl tax)	(281)	(283)	(283)	(283)	(283)
Other Financing Cash Flow	(253)	283	0	0	0
Financing Cashflow	455	(1,413)	(816)	(2,326)	(3,265)
Net chg in cash	(175)	3	223	(76)	1
Opening cash position	188	14	17	240	164
Closing cash position	14	17	240	164	165

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY16	FY17	FY18E	FY19E	FY20E
EBITDA Margin	6.7	7.1	7.3	7.7	8.2
EBIT Margin	5.9	6.0	6.0	6.5	7.1
Effective Tax Rate	33.1	30.1	33.0	33.0	33.0
Net Margin	3.0	3.2	3.3	3.8	4.5
ROCE	21.9	20.6	21.8	25.2	30.6
ROE	23.7	22.7	21.8	24.4	27.1
RoIC	22.0	21.8	22.9	25.5	30.9

Per Share Data (Rs)	FY16	FY17	FY18E	FY19E	FY20E
EPS	53.7	61.8	73.3	100.4	140.8
CEPS	68.3	83.5	102.2	131.4	173.1
BVPS	242.2	305.3	366.7	455.1	583.9
DPS	10.0	10.0	10.0	10.0	10.0

Valuations (x)	FY16	FY17	FY18E	FY19E	FY20E
PER	35.2	30.6	25.8	18.8	13.4
P/CEPS	27.7	22.6	18.5	14.4	10.9
P/BV	7.8	6.2	5.2	4.2	3.2
EV / Sales	1.2	1.1	1.0	0.8	0.6
EV / EBITDA	18.0	15.5	13.0	10.2	7.7
Dividend Yield (%)	0.5	0.5	0.5	0.5	0.5

Gearing Ratio (x)	FY16	FY17	FY18E	FY19E	FY20E
Net Debt/ Equity	1.1	0.8	0.6	0.4	0.1
Net Debt/EBIDTA	2.3	1.8	1.4	0.9	0.2
Working Cap Cycle (days)	51.2	41.0	41.0	41.0	41.0

Growth (%)	FY16	FY17	FY18E	FY19E	FY20E
Revenue	34.3	7.9	16.0	17.4	18.6
EBITDA	55.1	15.2	18.9	23.6	25.6
EBIT	55.1	10.3	16.2	27.1	29.5
PAT	57.7	45.1	18.6	36.9	40.3

Quarterly (Rs mn)	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Revenue	9,555	11,461	13,159	11,556	13,454
EBITDA	822	777	746	787	1,013
EBITDA Margin (%)	8.6	6.8	5.7	6.8	7.5
PAT	337	296	412	388	406
EPS (Rs)	14.3	12.5	17.5	16.5	17.2

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
Promoters	38.8	38.8	37.5	37.5	37.5
FIs	0.6	0.5	0.4	-	-
DIs	17.3	17.5	15.3	15.2	14.5
Public and Others	43.3	43.2	46.8	47.3	48.1

Source: Capitaline

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BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

Completed Date:

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