APL Apollo Tubes Ltd - BUY

Strong performance; outlook bright

APL Apollo's (APL) Q2 FY18 performance was inline with our estimates on topline and bottom-line front. Despite GST related slowdown, APL witnessed healthy revenue growth of 46% yoy during Q2 FY18 backed by strong sales volumes and improved realizations. Owing to the strong traction in hollow sections and pre-galvanized tubes, total volume grew 20% yoy to 0.28 mn tons whereas higher input prices translated into realizations growth. Strong volume growth with steady EBITDA per ton drove profitability. During Q2 FY18, two new direct forming technology (DFT) based lines have been commissioned at Raipur and Hosur plants and APL expects to commission the balance lines by end of FY18. The Company continues to focus on increasing the share of OEM and exports with the new product offerings especially through DFT. We expect the volume growth to remain strong in the second half of FY18 on back of pickup in demand. The higher capacity and established presence would allow APL to capitalize on the opportunity. The improving share of high margin value added products and higher scale of operations would drive earnings growth for APL. We roll forward our estimates to FY20 and upgrade the stock to BUY for target price of Rs.2,290.

Entire new capacity to be operational by FY18 end; EBITDA per ton to remain healthy

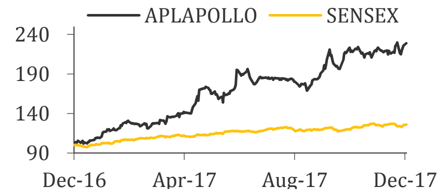
APL reported 20% volume growth during Q2 FY18 with partial contribution from the newly commissioned DFT lines. APL expects to roll-out another 4 DFT lines across existing facilities by Q4 FY18, taking its total capacity to 2 mn tons. Focus on increasing its presence in the eastern region, servicing of customized small sized and export orders using DFT would play key role in driving overall growth. EBITDA per ton is likely to improve owing to higher share of value added products.

CMP (Rs) 1,946 | 12-mts Target (Rs) 2,290 | Upside 18%

Stock data (As on Dec 13, 2017) | **Sector: Iron and Steel products**

Sensex:	33,053
52 Week h/l (Rs):	2028 / 852
Market cap (Rs mn) :	51,596
Enterprise value (Rs mn):	45,906
6m Avg t/o (Rs mn):	34.2
FV (Rs):	10
Div yield (%):	0.6
Bloomberg code:	APAT IN
BSE code:	533758
NSE code:	APLAPOLLO

Stock performance



Shareholding pattern (%)

Promoter	37.5
FII+DII	14.5
Others	48.0

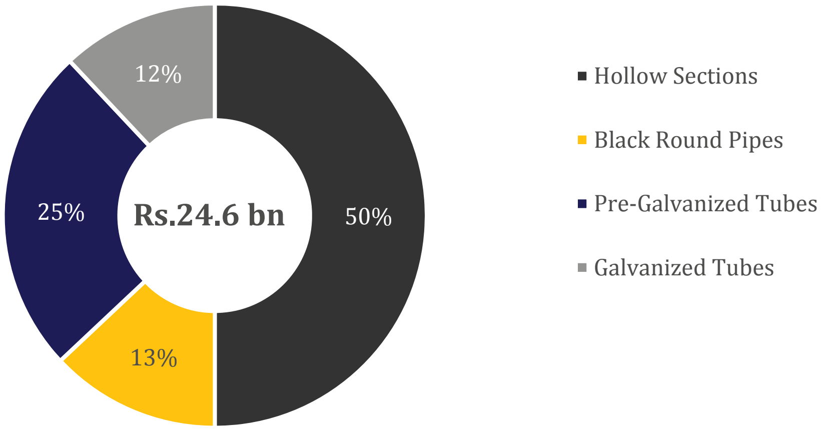
Figure 1: Result table (Cons.)

Rs mn	Q2 FY18	Q2 FY17	(%) yoy	Q1 FY18	(%) qoq
Revenue	**13,454**	**9,223**	**45.9**	**11,556**	**16.4**
Operating Profit	1,013	795	27.4	787	28.6
OPM(%)	7.5	8.6	-109 bps	6.8	71 bps
Other Income	(55)	(21)	167.0	95	(157.7)
Depreciation	(124)	(167)	(26.2)	(122)	1.2
Interest	(208)	(156)	33.0	(177)	17.4
PBT	626	451	39.0	583	7.4
Tax	(219)	(158)	39.2	(195)	12.5
Reported PAT	**407**	**293**	**38.8**	**388**	**4.8**
Adjusted PAT	**407**	**293**	**38.8**	**388**	**4.8**

Source: Company, IIFL Research

Analyst: Alok Deora, Lokesh Kashikar

Figure 2: Hollow sections drives half of the revenues in H1 FY18



Source: Company, IIFL Research

Management Concall highlights:

- After the commissioning of 2 DFT lines at its Hosur and Raipur plants during Q1 FY18, APL installed 2 new lines during Q2 FY18. Roll-out of all new capacities by Q4 FY18 will take its total capacity to ~2mn tons. DFT products have achieved volume run-rate of ~10,000 tons/month and APL expects to reach ~15,000 tons/month run-rate by FY18 end.
- The company expects volume growth of ~20% during FY18 (to ~1.15mn tons) on account of benefits arising from ramp up of new capacities and demand pickup in domestic and export markets.
- With DFT being operational, APL is looking to further penetrate the export market. Currently, domestic market contributes ~92% to the total sales. However, APL expects improvement in the export contribution to ~15% by FY19E on account of high quality DFT based products which are in high demand in export markets.
- As per the Management, GST related shift of unorganized market to organized market is likely to be gradual and would start from Q1 FY19.
- APL expects the EBITDA/ton to be in the range of Rs.3,300 to Rs.3,500 in FY18. However with the DFT based products, APL expects improvement of ~Rs.100-150 in EBITDA/ton in FY19E.
- The management has reiterated their strong focus on brand building exercise. In view of that, APL has launched two new brands: a) 'Apollo Fabritech'- hollow sections made with DFT technology and b) 'Apollo Coastguard'- for customers across coastal and hilly geographies.
- The company expects to incur capex of ~Rs.1 bn in FY18E. Out of this, the company has already incurred ~Rs.0.6 bn in H1 FY18 and remaining ~0.4 bn would be spent during H2 FY18. This would be towards the planned capacity expansion of DFT lines.

Valuation and Recommendation

The Capacity addition is well on track to be completed in FY18 which would place APL in strong position. With higher capacity and increasing demand, we expect APL to achieve 22% topline CAGR during FY17-20E. The rising share of high margin products would translate into earnings CAGR of 24% over FY17-20E, with ROE >25% by FY20E. We roll forward our estimates to FY20 and upgrade the stock to BUY for target of Rs.2,290.

Figure 3: Financial summary (Cons.)

Y/e 31 Mar (Rs m)	FY17	FY18E	FY19E	FY20E
Revenues	45,450	57,469	69,651	81,687
yoy growth (%)	7.9	26.4	21.2	17.3
Operating profit	3,244	4,171	5,165	6,151
OPM (%)	7.1	7.3	7.4	7.5
Adjusted PAT	1,459	1,871	2,418	3,103
yoy growth (%)	15.9	28.2	29.2	28.3
EPS (Rs)	61.8	79.3	102.5	131.5
P/E (x)	31.5	24.5	19.0	14.8
EV/EBITDA (x)	15.9	12.5	10.0	8.2
Debt/Equity (x)	0.8	0.8	0.7	0.5
RoE (%)	22.7	23.8	25.7	26.2

Source: Company, IIFL Research

IIFL Wealth Research bags 2 Best Analyst Awards

IIFL Wealth Research has bagged two prestigious awards at the ***Zee Business Market Excellence Awards 2016***.

Prayesh Jain was conferred the Best Analyst Award for Auto sector and **Bhavesh Gandhi** bagged the Best Analyst Award for Pharma sector.

Besides the twin awards, IIFL Wealth Research was also nominated in the categories of Oil/Gas, Banking and Industrials.

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In the past, the research team has won Zee Biz Awards under different categories; Bloomberg has rated our research as the most accurate, while we have twice been winners of Business Standard Smart Portfolios, having received awards at the hands of luminaries including President Pranab Mukherjee, Prime Minister Narendra Modi and Minister of State Piyush Goyal.

Recommendation parameters for fundamental reports:

Buy = >15%+

Accumulate = 5% to 15%

Reduce = -10% to 5%

Sell = >-10%

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