

Current Reco	: BUY
Previous Reco	: BUY
CMP	: INR1,748
Target Price	: INR2,480
Potential Return	: 42%

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Market data

Sensex	:	37,645
Sector	:	Engineering
Market Cap (INRbn)	:	41.5
Market Cap (USDbn)	:	0.593
O/S Shares (m)	:	23.7
52-wk HI/LO (INR)	:	2587/1437
Avg Daily Vol ('000)	:	67
Bloomberg	:	APATIN

Source: Bloomberg

Valuation

	FY18	FY19e	FY20e
EPS (INR)	67.4	96.8	124.0
P/E (x)	25.9	18.1	14.1
P/BV (x)	5.0	4.1	3.4
EV/EBITDA (x)	13.0	9.9	8.3
Dividend Yield (%)	0.8	1.1	1.4

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	3	(17)	(15)	15
Relative	(0)	(21)	(22)	(5)

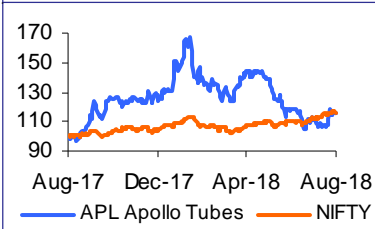
Source: Bloomberg

Shareholding pattern

Promoters	:	37%
Public	:	63%
Others	:	0%

Source: Bloomberg

Price performance vs Nifty



Source: Bloomberg Indexed to 100

1QFY19 RESULT REVIEW

APL Apollo Tubes Limited

Profitability aided by gains on inventory

Revenue at INR 16.8bn improved by 45.1% YoY, driven by higher steel pipe volumes and sharply higher realizations. Sales volume (excluding trading and scrap) stood at 302kt during the quarter, which improved 13.9% YoY with a recovery in demand across sectors and higher contribution from hollow sections including direct forming mill technology (DFT) products. EBITDA at INR 1.1bn grew 38.1% YoY and 5.9% QoQ, aided by higher volumes and gain on inventory due to higher steel prices. EBITDA was in line with expectations with an impact of lower-than-expected volumes offset by higher-than-expected profitability. EBITDA per tonne (excluding trading and scrap) stood at INR 3,597, higher 21.2% YoY and 5.4% QoQ. Adjusted PAT at INR 0.5bn improved 21.0% YoY with higher depreciation and interest charges due to commissioning of the expanded facilities. PAT was marginally below our estimates due to higher-than-expected interest costs.

Volumes grew by 14% YoY with increased contribution from hollow sections

Sales volume (excluding trading and scrap) stood at 302kt during the quarter, improving 13.9% YoY and 0.4% QoQ. Demand witnessed a recovery from a low base in 1QFY18 (which was impacted by GST implementation), aided by increased contribution from hollow sections. Hollow sections reported a growth of 22%, led by ramp-up of new DFT lines. Management has guided for a volume growth in the range of 15-25% in FY19 as compared to the previous guidance of 20% and EBITDA/tonne in the range of INR 3,300 plus/minus a couple of hundred per tonne.

EBITDA per tonne improves YoY and sequentially aided by gains on raw material inventory

EBITDA at INR 1.1bn grew 38.1% YoY and 5.9% QoQ, aided by higher volumes and gain on inventory due to higher steel prices. EBITDA per tonne (excluding trading and scrap) stood at INR 3,597, higher 21.2% YoY and 5.4% QoQ. EBITDA per tonne is expected to improve in 2HFY19 with better utilization levels and higher margin value-added products, which may be partly offset by a decline in steel prices. Niche and customized products (high dimension structurals) proportion will go up with DFT (direct forming technology) ramp-up. Higher margin galvanized tubes (GI) facilities were undergoing upgradation and modernization, impacting volumes in 1QFY19; volumes are expected to recover in 2HFY19.

Commissioned six out of eight DFT units till now, all lines to be operational by 2HFY19

APL has commissioned a total of six DFT lines at Hosur, Raipur and Murbad plants with an encouraging response from customers and balance two lines at Sikandarabad and Hosur will be operational by 2HFY19, adding a total capacity of 0.5MTPA across facilities. DFT products are gaining acceptance in the market and the technology has helped the company penetrate export markets in the US and Canada.

Valuation and outlook

We expect the profits to grow sharply over FY19-FY20, driven by higher volumes and improved profitability. APL's volumes are expected to maintain the growth rate with the commissioning and ramp-up of new capacities, geographical diversification in the Central/Eastern region, and benefits of GST implementation with the shift from unorganized to organized players. We factor in higher interest costs due to increased working capital requirements in our FY19E/FY20E financial estimates and maintain our BUY rating with a target price of INR 2,480 (INR2,598 earlier) per share at a target PE multiple of 20x FY20E EPS.

Quarterly Performance - Consolidated

INR mn	1QFY19	1QFY18	% Chg YoY	4QFY18	% Chg QoQ
Revenues	16,765	11,556	45.1	15,194	10.3
Expenditure	15,679	10,769	45.6	14,168	10.7
EBITDA	1,087	787	38.1	1,026	5.9
Other income	37	95	(60.8)	19	96.8
Depreciation	152	122	24.6	150	1.6
EBIT	972	760	27.8	896	8.5
Interest	263	177	48.7	226	16.4
PBT	709	583	21.5	670	5.9
Taxes	239	195	22.6	225	6.4
Reported PAT	470	388	21.0	445	5.6
Adjusted PAT	470	388	21.0	445	5.6
EBITDA margin (%)	6.5	6.8		6.8	
EPS (Rs)	19.4	16.0	21.0	18.4	5.6

Key ratios	1QFY19	1QFY18	Chg YoY - bps	4QFY18	Chg QoQ bps
EBITDA margin (%)	6.5	6.8	(33.0)	6.8	(27.3)
EBIT margin (%)	5.8	6.6	(78.2)	5.9	(9.7)
PAT margin (%)	2.8	3.4	(55.9)	2.9	(12.7)
EPS (Rs/share)	19.4	16.0		18.4	5.6
ETR (%)	33.7	33.4		33.5	

Source: Company, Antique

Operating metrics

	1QFY19	1QFY18	% Chg YoY	4QFY18	% Chg QoQ
Sales volume (000' tonnes)	318	278	14.3	315	1.0
Sales volume excluding trading (000' tonnes)	302	265	13.9	301	0.4
Blended realization - INR per tonne	52,731	41,544	26.9	48,264	9.3
EBITDA - INR per tonne	3,418	2,830	20.8	3,260	4.8
EBITDA - INR per tonne excluding trading volumes	3,597	2,968	21.2	3,412	5.4

Source: Company, Antique

Financials

Profit and loss account (INRm)

Year ended 31 Mar	2016	2017	2018	2019e	2020e
Revenues	42,136	45,450	53,348	65,601	75,561
Expenses	39,319	42,206	49,637	60,760	69,877
EBITDA	2,817	3,244	3,710	4,841	5,684
Depreciation & amortisation	341	512	534	603	610
EBIT	2,476	2,732	3,176	4,238	5,074
Other income	103	38	80	83	94
Interest expense	695	683	813	842	710
Profit before tax	1,883	2,086	2,443	3,480	4,457
Extraordinaries	(253.3)	-	-	-	-
Tax	624	627	844	1,183	1,516
Profit after tax	1,006	1,459	1,600	2,297	2,942
Adjusted PAT	1,259	1,459	1,600	2,297	2,942
EPS (INR)	53.7	61.8	67.4	96.8	124.0

Balance sheet (INRm)

Year ended 31 Mar	2016	2017	2018	2019e	2020e
Share Capital	234	236	237	237	237
Reserves & Surplus	3,567	5,026	6,192	7,919	10,149
Premium A/c	1,874	1,941	1,941	1,941	1,941
Networth	5,676	7,203	8,370	10,097	12,327
Debt	6,506	5,962	6,734	6,734	5,684
Deferred tax/ other liabilities	859	905	1,003	1,003	1,003
Capital Employed	13,040	14,070	16,106	17,833	19,013
Gross Fixed Assets	7,291	8,078	10,564	11,164	11,964
Accumulated Depreciation	1,058	1,402	1,936	2,539	3,149
Net Assets	6,233	6,676	8,628	8,625	8,815
Capital work in progress	320	1,224	460	360	160
Goodwill on Consolidation	429	670	230	230	230
Investments	131	127	211	211	211
Current Assets Loans & Advances					
Inventory	5,944	4,696	5,915	7,823	8,957
Debtors	2,199	2,952	4,321	4,880	5,638
Cash & Bank	14	17	68	90	33
Loans & advances and others	1,333	2,138	1,979	2,440	2,819
Current Liabilities & Provisions					
Creditors	3,071	4,275	5,625	6,728	7,738
Provisions	490	156	81	97	111
Net Current Assets	5,927	5,373	6,577	8,407	9,598
Application of Funds	13,040	14,070	16,106	17,833	19,013

Per share data

Year ended 31 Mar	2016	2017	2018	2019e	2020e
No. of shares (Mn)	23	24	24	24	24
BVPS (INR)	242.1	305.3	352.7	425.5	519.5
CEPS (INR)	68.3	83.5	89.9	122.2	149.7
DPS (INR)	10.0	12.0	14.0	20.0	25.0

Source: Company, Antique

Cash flow statement (INRm)

Year ended 31 Mar	2016	2017	2018	2019e	2020e
PBT	1,883	2,086	2,443	3,480	4,457
Depreciation	341	512	534	603	610
Interest	695	683	813	842	710
(Inc)/ Dec in working capital	(2,155)	558	(1,153)	(1,808)	(1,247)
Tax paid	(624)	(627)	(844)	(1,183)	(1,516)
CF from operating activities	140	3,212	1,794	1,933	3,015
Capex	(897)	(1,691)	(1,722)	(500)	(600)
(Inc)/ Dec in Investments	59	4	(84)	-	-
Income from investments	(253)	-	-	-	-
CF from investing activities	(1,091)	(1,687)	(1,805)	(500)	(600)
Inc/ (Dec) in share cap. and prem.	0	69	1	-	-
Inc/ (Dec) in debt	1,684	(544)	772	-	(1,050)
Dividends & Interest paid	(976)	(1,023)	(1,212)	(1,411)	(1,422)
Others	69	(23)	502	0	0
CF from financing activities	776	(1,521)	63	(1,411)	(2,472)
Net cash flow	(175)	3	51	22	(57)
Add: Opening balance	188	14	17	68	90
Closing balance	14	17	68	90	33

Growth indicators (%)

Year ended 31 Mar	2016	2017	2018	2019e	2020e
Revenue	39.9	7.9	17.4	23.0	15.2
EBITDA	54.5	15.2	14.4	30.5	17.4
PAT	100.1	15.9	9.7	43.6	28.1
EPS	100.1	15.1	9.0	43.6	28.1

Valuation (x)

Year ended 31 Mar	2016	2017	2018	2019e	2020e
P/E (x)	32.5	28.3	25.9	18.1	14.1
P/BV (x)	7.2	5.7	5.0	4.1	3.4
EV/EBITDA (x)	17.0	14.6	13.0	9.9	8.3
EV/Sales (x)	1.1	1.0	0.9	0.7	0.6
Dividend Yield (%)	0.6	0.7	0.8	1.1	1.4

Financial ratios

Year ended 31 Mar	2016	2017	2018	2019e	2020e
RoE	23.7	22.7	20.5	24.9	26.2
RoCE	15.2	15.1	14.8	17.6	19.3
Debt/Equity (x)	1.1	0.8	0.8	0.7	0.5
EBIT/Interest (x)	3.6	4.0	3.9	5.0	7.1

Margins (%)

Year ended 31 Mar	2016	2017	2018	2019e	2020e
EBITDA	6.7	7.1	7.0	7.4	7.5
EBIT	5.9	6.0	6.0	6.5	6.7
PAT	3.0	3.2	3.0	3.5	3.9

Source: Company Antique

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