

APL Apollo Tubes

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A strong start

CMP	Target Price
Rs 1,732 as of (August 8, 2018)	Rs 3,000 (■) 12 months
Rating	Upside
BUY (■)	73.2 %

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In-line quarter, adjusting for inventory gains; BUY

- 1QFY19 earnings growth of 21% YoY is ahead of our estimate, with the inventory gains on account of high steel prices.
- We are still impressed with the normalized quarterly EBITDA spreads which improved 16% YoY/3% QoQ (adj for inventory gains).
- The sales volume momentum would further accelerate in 2H which is seasonally strong. 1Q sales volume growth of 14% YoY was on expected lines.
- We keep our FY19/20 earnings forecasts unchanged and expect EPS CAGR of 35% FY18-20E. This will be backed by 20% sales volume and 25% EBITDA growth pa.
- The current valuations of 13.9x PER and 7.9x EV/EBITDA FY20E are unjustified for strong earnings growth and 26%/25% ROE/ROCE profile business.

Sales volume momentum continues

1Q sales volume of 302k ton was record high and increased 14% YoY. DFT products witnessed a successful run across business segments, especially OEMs and export markets. The sales volume growth would accelerate further in 2H which is seasonally strong. The company maintains FY19 sales volume guidance of 1.3m ton (+20% YoY). In our view, the 2Q volume could be slightly under pressure due to transport strike and heavy monsoon which impacted construction activity across the country.

Earnings CAGR of 35% FY18-20E

1Q forms 22% of our full-year earnings forecast of Rs2.1bn (+32% YoY). The FY19/20 EPS growth of 32%/40% will be driven by capacity ramp-up and improvement in EBITDA spread (value added products sale). The ROE will improve to 25.7% in FY20 from 20.8% in FY18. The reported 1Q EBITDA was Rs3,600/ton which includes some inventory gains. The normalized EBITDA was on expected lines at Rs3,500/ton.

Attractive long term story

We continue to believe APAT is an attractive long-term sales volume growth and margin expansion story. The stock deserves better valuation as we forecast EPS will increase by 32%/40% in FY19/20. Positive triggers are new product launches, margin expansion and pick up in residential construction activity.

Financial Snapshot (Consolidated)

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	39,239	53,348	64,527	79,594	96,494
EBITDA	3,330	3,711	4,655	5,978	7,461
EBITDA Margin (%)	8.5	7.0	7.2	7.5	7.7
APAT	1,521	1,600	2,110	2,966	4,054
EPS (Rs)	64.5	67.4	88.9	125.0	170.8
EPS (% chg)	20.0	4.6	31.9	40.6	36.7
ROE (%)	23.9	20.8	22.7	25.7	27.5
P/E (x)	26.9	25.7	19.5	13.9	10.1
EV/EBITDA (x)	14.1	13.2	10.4	7.9	6.0
P/BV (x)	5.8	4.9	4.0	3.2	2.5

Source: Company, Emkay Research

Change in Estimates

EPS Chg FY19E/FY20E (%)	-/-
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY19E	FY20E
Emkay	88.9	125.0
Consensus	89.2	120.2
Mean Consensus TP (12M)	Rs 2,521	

Stock Details

Bloomberg Code	APAT IN
Face Value (Rs)	10
Shares outstanding (mn)	24
52 Week H/L	2,587 / 1,437
M Cap (Rs bn/USD bn)	41 / 0.60
Daily Avg Volume (nos.)	25,496
Daily Avg Turnover (US\$ mn)	0.7

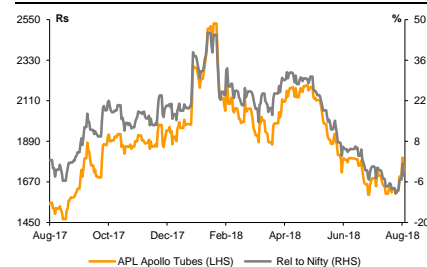
Shareholding Pattern Jun '18

Promoters	37.3%
FIIIs	-%
DIIIs	11.9%
Public and Others	50.8%

Price Performance

(%)	1M	3M	6M	12M
Absolute	3	(18)	(22)	8
Rel. to Nifty	(4)	(24)	(28)	(6)

Relative price chart



Source: Bloomberg

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Exhibit 1: Actual vs Estimates for 1QFY19

(Rsmn)	Actual	Estimate		% variation	
		Emkay	Consensus	Emkay	Consensus
Sales	16,765	15,131	16,535	11%	1%
EBITDA	1,087	1,058	1,086	3%	0%
EBITDA Margin	6.5%	7.0%	6.6%	-51 bps	-9 bps
PAT	470	441	421	7%	12%

Source: Company, Emkay Research

Exhibit 2: Changes in Earnings Estimates

All fig in Rs mn (except % and EPS)	FY19E			FY20E		
	Old	New	% change	Old	New	% change
Revenues	64,527	64,527	0%	79,594	79,594	0%
EBITDA	4,655	4,655	0%	5,978	5,978	0%
EBITDA margins, %	7.2%	7.2%	0 bps	7.5%	7.5%	0 bps
Net profits	2,110	2,110	0%	2,966	2,966	0%
EPS	88.9	88.9	0%	125.0	125.0	0%

Source: Company, Emkay Research

Exhibit 3: Key Assumptions

	FY16	FY17	FY18	FY19E	FY20E	FY21E
Sales Volume ('000 ton)	958	979	1,185	1,414	1,725	2,070
Realisation (Rs/ton)	36,745	40,451	45,564	46,327	46,930	47,483
EBITDA (Rs/ton)	3,020	3,375	3,352	3,459	3,641	3,787

Source: Company, Emkay Research

Exhibit 4: Summary of Quarterly Results

All fig in Rs mn (except % and EPS)	Q1FY18	Q4FY18	Q1FY19	QoQ%	YoY%	FY19 (YTD)	FY18 (YTD)	YoY%
Revenue (in US\$ mn)	181	235	248	6%	38%	248	181	38%
Revenue	11,556	15,194	16,765	10%	45%	16,765	11,556	45%
Cost of revenue	9,955	13,525	14,919	10%	50%	14,919	9,955	50%
as % of sales	86%	89%	89%	0%	3%	89%	86%	3%
Other expenses	814	643	760	18%	-7%	760	814	-7%
as % of sales	7%	4%	5%	7%	-36%	5%	7%	-36%
EBITDA	787	1,026	1,087	6%	38%	1,087	787	38%
Depreciation	122	150	152	2%	25%	152	122	25%
EBIT	665	877	935	7%	41%	935	665	41%
Other Income	95	19	37	97%	-61%	37	95	-61%
Interest cost	177	226	263	16%	49%	263	177	49%
PBT	584	670	709	6%	21%	709	584	21%
Total Tax	195	225	239	6%	23%	239	195	23%
Adjusted PAT	389	445	470	6%	21%	470	389	21%
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	na
APAT after MI	389	445	470	6%	21%	470	389	21%
Extra ordinary items	-	-	-	-	-	-	-	na
Reported PAT	389	445	470	6%	21%	470	389	21%
Other comprehensive income / (loss)	(0)	9	-	-100%	-100%	-	(0)	-100%
Net Profit after OCI/L	388	454	470	4%	21%	470	388	21%
Reported EPS	16.5	19.1	19.8	4%	20%	19.8	16.5	20%

Margins (%)				bps	bps			bps
EBITDA	6.8%	6.8%	6.5%	(27)	(33)	6.5%	6.8%	(33)
EBIT	5.8%	5.8%	5.6%	(20)	(18)	5.6%	5.8%	(18)
PBT	5.0%	4.4%	4.2%	(18)	(82)	4.2%	5.0%	(82)
PAT	3.4%	2.9%	2.8%	(13)	(56)	2.8%	3.4%	(56)
Effective Tax rate	33.4%	33.5%	33.7%	18	30	33.7%	33.4%	30

Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	39,239	53,348	64,527	79,594	96,494
Expenditure	35,909	49,637	59,872	73,616	89,033
EBITDA	3,330	3,711	4,655	5,978	7,461
Depreciation	509	534	628	764	807
EBIT	2,821	3,177	4,027	5,214	6,654
Other Income	60	80	84	88	93
Interest expenses	720	813	889	773	555
PBT	2,160	2,444	3,222	4,530	6,191
Tax	639	844	1,112	1,564	2,137
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	1,521	1,600	2,110	2,966	4,054
Adjusted PAT	1,521	1,600	2,110	2,966	4,054

Balance Sheet

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Equity share capital	236	237	237	237	237
Reserves & surplus	6,798	8,132	9,958	12,639	16,408
Net worth	7,034	8,370	10,195	12,876	16,646
Minority Interest	0	0	0	0	0
Loan Funds	6,185	7,987	7,437	6,137	3,870
Net deferred tax liability	813	1,003	1,323	1,859	2,541
Total Liabilities	14,032	17,360	18,954	20,872	23,057
Net block	6,575	8,749	8,921	8,657	8,350
Investment	127	120	132	145	160
Current Assets	10,519	12,483	15,255	18,631	22,462
Cash & bank balance	16	68	88	84	126
Other Current Assets	2,659	1,940	2,226	2,584	2,983
Current liabilities & Provision	4,414	4,452	5,354	6,561	7,915
Net current assets	6,105	8,031	9,901	12,070	14,547
Misc. exp	0	0	0	0	0
Total Assets	14,032	17,360	18,954	20,872	23,057

Cash Flow

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
PBT (Ex-Other income) (NI+Dep)	2,100	2,364	3,138	4,441	6,098
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(222)	(1,683)	(1,531)	(1,636)	(1,753)
Operating Cashflow	2,469	1,184	2,012	2,778	3,571
Capital expenditure	(1,326)	(1,944)	(341)	(500)	(500)
Free Cash Flow	1,142	(760)	1,671	2,278	3,071
Investments	4	7	(12)	(13)	(15)
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(1,263)	(1,856)	(268)	(425)	(422)
Equity Capital Raised	2	1	0	0	0
Loans Taken / (Repaid)	(320)	1,802	(550)	(1,300)	(2,267)
Dividend paid (incl tax)	(283)	(399)	(285)	(285)	(285)
Other Financing Cash Flow	118	133	0	0	0
Financing Cashflow	(1,204)	725	(1,723)	(2,358)	(3,107)
Net chg in cash	2	52	20	(4)	42
Opening cash position	14	16	68	88	84
Closing cash position	16	68	88	84	126

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY17	FY18	FY19E	FY20E	FY21E
EBITDA Margin	8.5	7.0	7.2	7.5	7.7
EBIT Margin	7.2	6.0	6.2	6.6	6.9
Effective Tax Rate	29.6	34.5	34.5	34.5	34.5
Net Margin	3.9	3.0	3.3	3.7	4.2
ROCE	21.3	20.7	22.6	26.6	30.7
ROE	23.9	20.8	22.7	25.7	27.5
RoIC	22.4	21.6	22.7	26.5	30.7

Per Share Data (Rs)	FY17	FY18	FY19E	FY20E	FY21E
EPS	64.5	67.4	88.9	125.0	170.8
CEPS	86.1	89.9	115.4	157.2	204.9
BVPS	298.2	352.7	429.6	542.6	701.5
DPS	10.0	14.0	10.0	10.0	10.0

Valuations (x)	FY17	FY18	FY19E	FY20E	FY21E
PER	26.9	25.7	19.5	13.9	10.1
P/CEPS	20.1	19.3	15.0	11.0	8.5
P/BV	5.8	4.9	4.0	3.2	2.5
EV / Sales	1.2	0.9	0.8	0.6	0.5
EV / EBITDA	14.1	13.2	10.4	7.9	6.0
Dividend Yield (%)	0.6	0.8	0.6	0.6	0.6

Gearing Ratio (x)	FY17	FY18	FY19E	FY20E	FY21E
Net Debt/ Equity	0.9	0.9	0.7	0.5	0.2
Net Debt/EBIDTA	1.9	2.1	1.6	1.0	0.5
Working Cap Cycle (days)	56.6	54.5	55.5	55.0	54.5

Growth (%)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	(6.9)	36.0	21.0	23.3	21.2
EBITDA	18.2	11.4	25.5	28.4	24.8
EBIT	13.9	12.6	26.8	29.5	27.6
PAT	51.2	5.2	31.9	40.6	36.7

Quarterly (Rs mn)	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Revenue	11,556	13,454	13,144	15,194	16,765
EBITDA	787	1,013	885	1,026	1,087
EBITDA Margin (%)	6.8	7.5	6.7	6.8	6.5
PAT	388	406	358	454	470
EPS (Rs)	16.5	17.2	15.2	19.1	19.8

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Promoters	37.5	37.5	37.3	37.3	37.3
FIs	-	-	-	-	-
DIs	15.2	14.5	13.6	14.8	11.9
Public and Others	47.3	48.1	49.1	47.9	50.8

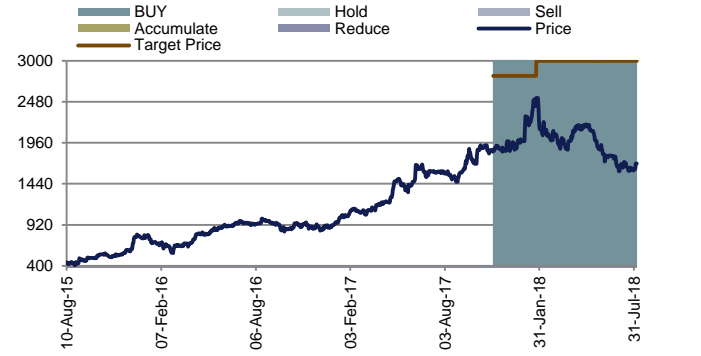
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
13-Jun-18	1,799	3,000	12m	Buy	Anubhav Gupta
25-May-18	1,876	3,000	12m	Buy	Anubhav Gupta
02-Apr-18	2,048	3,000	12m	Buy	Anubhav Gupta
25-Jan-18	2,529	3,000	12m	Buy	Anubhav Gupta
03-Nov-17	1,861	2,812	12m	Buy	Anubhav Gupta

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

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.

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