

APL Apollo Tubes Ltd - BUY

Inline performance; Outlook bright

APL Apollo (APL) reported strong set of numbers during Q1 FY19 driven by robust pickup in volumes. The company registered 45% topline growth in Q1 FY19 backed by ~14% yoy growth in overall volume and ~28% yoy increase in realization across product portfolio. Volume growth achieved in Q1 FY19 stood short of management's earlier guided level of 20% as upgradation of GI facilities impacted GI volumes, which declined 21% on yoy basis. EBITDA on per ton basis improved to ~Rs.3,600 per tonne (up ~Rs.550 yoy). At net level, higher depreciation and interest cost impacted APL's performance. The Company is in advanced stage of capacity addition program of DFT based products, which would increase application areas and also enhance margin performance. Going forward, volume growth is likely to remain strong driven by higher underlying product demand and benefits arising from ramp-up of new capacities that would cater to new end-use segments. The rise in share of high margin products would translate into robust earnings growth. At CMP, the stock is trading at 8.7x FY20E EV/EBITDA. With recent correction in price, we upgrade our rating to BUY with the target price of Rs. 2,120.

Capacity addition program near completion; EBITDA per ton to improve with larger share of high-margin products

In view of strong product demand from multiple target sectors such as building material, infrastructure, solar, and automobile, APL added ~0.5mn tons capacity at its existing facilities of Raipur, Hosur and Murbad during FY18. Moreover, the company expects to add another two lines in H1 FY19, taking total capacity to 2mn tons. Focus on servicing of customized small sized orders using DFT would play key role in driving overall growth. Larger share of high-margin products in overall sales is likely to improve EBITDA per ton.

Analyst: Alok Deora, Lokesh Kashikar



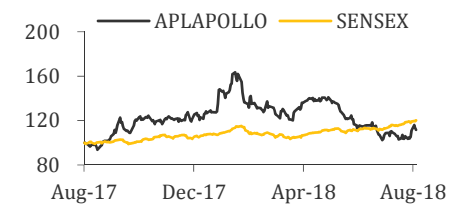
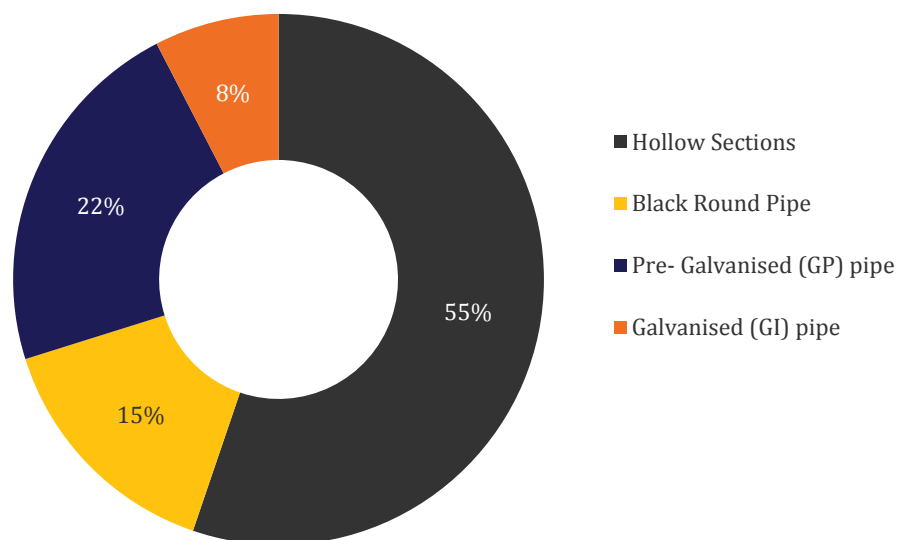
CMP (Rs) 1,757	12-mts Target (Rs) 2,120	Upside 21%	
Stock data (As on Aug 10, 2018)		Sector: Iron and Steel products	
Sensex:	37,869	Stock performance 	
52 Week h/l (Rs):	2,587 / 1,444		
Market cap (Rs mn):	41,696		
Enterprise value (Rs mn):	48,359		
6m Avg t/o (Rs mn):	115		
FV (Rs):	10		
Div yield (%):	0.7		
Bloomberg code:	APAT IN		
BSE code:	533758		
NSE code:	APLAPOLLO		
Shareholding pattern (%)			
Promoter			37.3
FII+DII			12.0
Others			50.7

Figure 1: Result table (Cons.)

Y/e 31 Mar (Rs mn)	Q1 FY19	Q1 FY18	yoy (%)	Q4 FY18	qoq (%)
Revenue	16,765	11,556	45.1	15,194	10.3
Operating Profit	1,087	787	38.1	1,026	5.9
OPM (%)	6.5	6.8	-33 bps	6.8	-27 bps
Other Income	37	95	(60.8)	19	96.8
Depreciation	(152)	(122)	24.6	(150)	1.6
Interest	(263)	(177)	48.7	(226)	16.4
PBT	709	583	21.5	670	5.9
Tax	(239)	(195)	22.6	(225)	6.4
Reported PAT	470	388	21.0	445	5.6

Source: Company, IIFL Research

Figure 2: Hollow sections contributed 55% to the overall sales volume*



Source: Company, IIFL Research *Sales volume is for Q1 FY19

Management Concall highlights:

- APL has witnessed healthy 23-28% yoy growth in realization across product portfolio mainly led by increase in HRC prices. The policy to pass-on any change in steel prices to customers to remain intact.
- EBITDA per ton during Q1 FY19 has increased to healthy ~Rs.3,600. However, the management has guided EBITDA/ton to remain in the range of ~Rs.3,300 (+/-Rs.300) during FY19.
- GI facilities’ modernization has been completed in May’19 and operations already commenced on those plants. However, the company expects healthy growth in GI volumes to kick-in only during H2 FY19 as Q2 FY19 is seasonally weak quarter.
- Expected commissioning of 2 DFT lines in H1 FY19 coupled with recently operationalized 6 lines will take APL’s total capacity to 2mn tons. The management anticipates ~15-20% volume growth to

continue over next few years backed by uptick in user industry and benefits arising from ramp-up of new capacities.

- In order to support volume growth in upcoming period, APL has commenced digital marketing to create brand image. The company expects marketing via mainstream media to commence soon. For this purpose, the company expects to spend ~Rs.250mn during FY19.

Valuation and Recommendation

APL’s capacity addition program to reach 2mn tons is likely get completed by H1 FY19. We expect APL to achieve 24% topline CAGR during FY18-20E with higher capacity and increasing demand. The rising share of high margin products would translate into earnings CAGR of 31% over FY18-20E. At CMP, the stock is trading at 8.7x FY20E EV/EBITDA. With recent correction in price, we upgrade our rating to BUY with the target price of Rs. 2,120.

Figure 3: Financial summary (Cons.)

Y/e 31 Mar (Rs m)	FY17	FY18	FY19E	FY20E
Revenues	39,239	53,348	68,419	82,476
yoy growth (%)	(6.9)	36.0	28.3	20.5
Operating profit	3,330	3,710	4,683	5,509
OPM (%)	8.5	7.0	6.8	6.7
Adjusted PAT	1,521	1,600	2,186	2,745
yoy growth (%)	20.9	5.2	36.7	25.6
EPS (Rs)	64.5	67.4	92.1	115.7
P/E (x)	27.2	26.1	19.1	15.2
EV/EBITDA (x)	14.2	13.0	10.4	8.7
Debt/Equity (x)	0.8	0.8	0.7	0.5
RoE (%)	23.9	20.8	23.7	24.0

Source: Company, IIFL Research

IIFL Wealth Research bags 2 Best Analyst Awards

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

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Recommendation parameters for fundamental reports:

Buy = >15%+

Accumulate = 5% to 15%

Reduce = -10% to 5%

Sell = >-10%

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