

APL Apollo Tubes (APLPO)

₹ 1215

Expanding capacity from 1.3 MTPA to 2 MTPA

We recently met the management of APL Apollo Tubes (APL) to understand its business model and long term prospects. APL is one of the leading ERW steel tubes manufacturers in India. The product range of the company comprises four major types of pipes/tubes, viz. hollow section pipes, round pipes (black), pre-galvanised tubes (GP) and galvanised tubes (GI). In terms of product-wise revenue break-up, for 9MFY17, hollow section pipes contributed 46.1% to the topline while pre-galvanised (GP), round pipes (black), galvanised tubes (GI) and others (trading & scrap) contributed 22.6%, 14.7%, 14.1% and 2.5% of the topline, respectively. The company currently has five plants in India with aggregate capacity of over 1.3 million tonnes per annum (MTPA). Two of the five plants are in Sikandrabad (UP) with total capacity of 4.75 lakh tonnes per annum (LTPA). Others are in Hosur (Tamil Nadu) with capacity of 3.5 LTPA, Murbad with a capacity of 3.5 LTPA and Bengaluru with capacity of 1.25 LTPA.

Around 80% of sales through distributor route...

APL Apollo supplies a wide spectrum of steel structural products catering to key sectors viz. infrastructure, construction, automobiles, energy, agriculture, etc. It also has a strong reach with over 600 distributors and 26 warehouses. During FY16, around 80% of the sales were through the distributor route with the balance to large projects. For 9MFY17, the company reported sales volume (excluding trading and scrap) of 6.97 lakh tonnes (up 11% YoY).

Expanded capacity to come on stream by H1FY18...

APL Apollo is currently in the process of expanding its capacity from 1.3 MTPA to 2 MTPA by H1FY18. Of the total incremental capacity of 7 LTPA, 2 LTPA of greenfield ERW capacity is being set up in Raipur while for the balance 5 LTPA capacity APL Apollo is introducing a new direct forming technology (DFT). Additional lines of new DFT technology with a capacity at 1.25 LTPA each are being set up in Raipur, Murbad, Hosur (already operational) and Sikandrabad. The capex for the greenfield ERW capacity at Raipur is expected to be ₹ 125 crore while for the DFT technology, the capex is about ₹ 125 crore. APL Apollo is planning to cater to the eastern and central Indian markets by setting up capacity at Raipur. Post commissioning, the Raipur facility will have a total capacity of 3.25 LTPA wherein 2 LTPA would be greenfield ERW capacity and the balance 1.25 LTPA would be DFT capacity.

Exhibit 1: Key Financial

| (₹ Crore) | FY13 | FY14 | FY15 | FY16 |
|------------------------|--------|--------|--------|--------|
| Total Operating Income | 2008.3 | 2568.9 | 3138.3 | 4213.6 |
| EBITDA | 159.5 | 164.6 | 181.6 | 281.7 |
| Net Profit | 68.6 | 59.0 | 63.8 | 100.6 |
| EPS (₹) | 29.1 | 25.0 | 27.0 | 42.6 |
| P/E (x) | 41.8 | 48.6 | 45.0 | 28.5 |
| Price / Book (x) | 7.8 | 6.7 | 5.8 | 5.0 |
| EV/EBITDA (x) | 22.0 | 21.4 | 19.4 | 12.5 |
| ROCE (%) | 21 | 18 | 18 | 26 |
| ROE (%) | 21 | 15 | 14 | 21 |

Source: Company, ICICIdirect.com Research

Rating matrix

| | | |
|------------------|---|---------|
| Rating | : | Unrated |
| Target | : | NA |
| Target Period | : | NA |
| Potential Upside | : | NA |

Key Financials (Consolidated)

| ₹ Crore | FY13 | FY14 | FY15 | FY16 |
|--------------|--------|--------|--------|--------|
| Net Revenues | 2008.3 | 2568.9 | 3138.3 | 4213.6 |
| EBITDA | 159.5 | 164.6 | 181.6 | 281.7 |
| PAT | 68.6 | 59.0 | 63.8 | 100.6 |
| EPS (₹) | 29.1 | 25.0 | 27.0 | 42.6 |

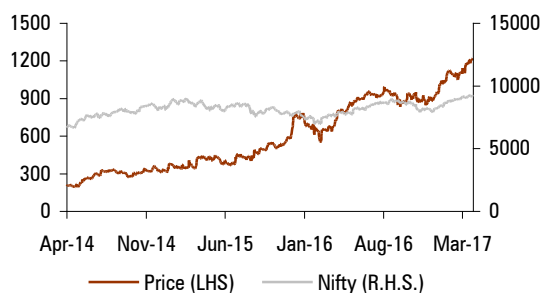
Valuation Summary (Consolidated)

| | FY13 | FY14 | FY15 | FY16 |
|-----------|------|------|------|------|
| P/E | 41.8 | 48.6 | 45.0 | 28.5 |
| EV/EBITDA | 22.0 | 21.4 | 19.4 | 12.5 |
| P/BV | 7.8 | 6.7 | 5.8 | 5.0 |
| ROCE (%) | 21 | 18 | 18 | 26 |
| RONW (%) | 21 | 15 | 14 | 21 |

Stock Data

| Particulars | Amount |
|---------------------------------------|------------|
| Market Capitalisation (₹ crore) | 2,866 |
| Total Debt (FY16) (₹ crore) | 651 |
| Cash and Investments (FY16) (₹ crore) | 1 |
| EV (₹ crore) | 3515 |
| 52 Week H / L (₹) | 1238 / 730 |
| Equity Capital (₹ crore) | 23.6 |
| Face Value (₹) | 10.0 |

Stock Price Movement



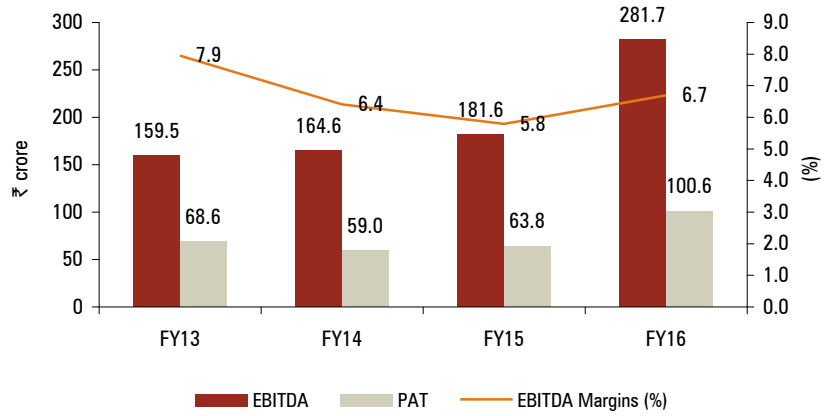
Source: Bloomberg, ICICIdirect.com Research

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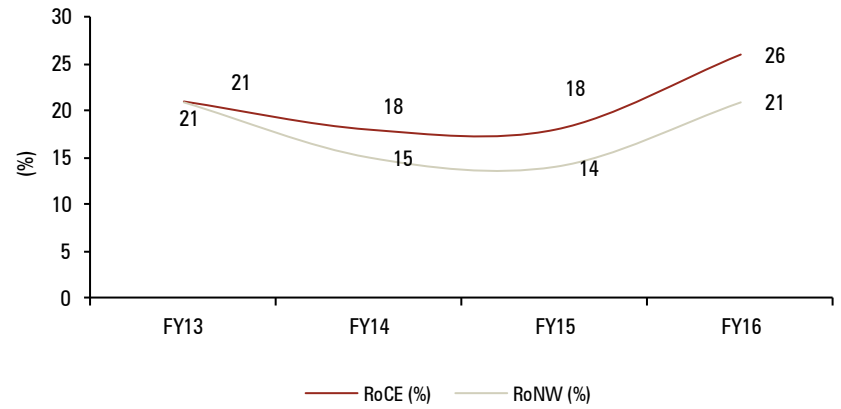
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Exhibit 2: EBITDA, EBITDA margin, PAT trend



Source: Company, ICICIdirect.com Research

Exhibit 3: RoCE and RoNW trend



Source: Company, ICICIdirect.com Research

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Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

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