



CMP	1586	Rating	Unrated
Target	Unrated	Upside	Unrated

We recently met with the management of APL Apollo Tubes Ltd (APL) to help us understand the business in detail. During the meeting, it was highlighted that the company is one of the fastest growing manufacturers of ERW pipes. It has 7 manufacturing facilities located in all the regions in India. APL has distribution network spread across 20 cities in India enabling them access to all markets. The company has a 1.3 MTPA capacity as on FY17, with 0.7 MTPA capacity expansions in the pipeline, scheduled to be fully operational by FY18. They have a 400+ product portfolio with more than 600 distributors to market the portfolio, thereby relying on the B2B channel to enhance brand recognition. APL caters to an array of sectors viz. Infrastructure, Construction, Automobile, Energy, Agriculture, etc, with major presence in the Infrastructure and Construction (~50%). Going ahead, the company aims to shift its focus from being a commodity branded product to a Value-Added Branded Product, with potential entry into precision tubes for automotive applications. With the addition of new lines of Direct Forming Technology to the existing facilities, the company looks to be in a good position to deliver on their promise of value additive products.

STOCK DETAILS	
BSE Code	533758
NSE Code	APLAPOLLO
Market Cap (Rs.bn)	37.3
Sector	Iron & Steel Products
Group/Index	B/ S&P BSE 500
Year End	March
52 w.High/Low	1738/814
Avg Monthly Turnover (Rs.mn)	161.6
Shares in Issue (mn)	23.6
BSE Sensex	32,021
NSE Nifty	9,886

About the Company: Established in 1986, APL Apollo is the fastest growing steel tube manufacturer in India, and has attained pole position in this category. The company is headquartered in Delhi NCR, and has 7 manufacturing facilities that are located in Sikandarabad (3 units) (Uttar Pradesh), Bangalore (Karnataka), Hosur (Tamil Nadu) and Murbad (Maharashtra) with one more coming up in Raipur. APL's vast distribution network is spread all across India, with warehouses cum- branch offices in 20 cities. Their product basket today boasts of over 400 products. The company believes that developing new and innovative products is a key driver to profitable growth. These products find widespread use in structural applications in urban infrastructures, housing, irrigation, solar plants, greenhouses and engineering applications.

SHAREHOLDING PATTERN			
%	Jun-17	Mar-17	
Promoter	37.47	37.47	
FII	Nil	0.42	
DII	15.23	15.34	
Others	47.30	46.77	

CONSOLIDATED FINANCIALS				
Rs Mn.	FY16	FY17	FY18E	FY19E
Revenue	42.2	45.5	53.6	63.7
EBIDTA	2.8	3.2	4.7	5.7
EBIDTA(%)	6.7	7.1	8.7	8.9
PAT	1.0	1.5	1.9	2.4
PAT(%)	2.4	3.2	3.5	3.7
EPS	42.90	62.13	80.75	104.33
P/E(x)	37.0	25.5	19.6	15.2

Source: Company, Bloomberg Consensus

Management Meet Key Takeaways:

Industry Dynamics: The steel pipes and tubes manufacturing are among the fastest growing industries across the globe, and India is one of the leading ERW Steel tubes manufacturing hubs in the world. The domestic ERW steel pipes & tubes are used extensively across industries and fields. The domestic industrial production capacity as on FY17 is ~7 MTPA, out of which APL Apollo has ~1.3 MTPA, thus exhibiting a significant market share. This industry which has equally divided organized and unorganized players, is slated to grow at a CAGR of ~9% through FY19, with the current domestic market size being ~\$5bn (Rs. 300bn). ERW pipes are used in various industries including infrastructure, construction, Oil & gas distribution, Engineering, Agriculture, etc. Further, depending on the requirement of the users these pipes & tubes are available in all thicknesses, diameters and qualities., and with the ever-increasing pent-up demand led by increased infrastructure, construction, thriving automobile and refining sectors, this industry may get a good impetus going ahead.

Pan-India footprint: APL Apollo is the only ERW tube player with a pan India presence. The company has 7 manufacturing facilities dispersed across all four regions of the country with 3 units in Sikandarabad (Uttar Pradesh), 1 unit at Hosur (Tamil Nadu), 1 unit at Bengaluru (Karnataka), 1 unit at Murbad (Maharashtra), and one newly commissioned plant at Raipur (Chattisgarh). The company has a vast 3-tier distribution network spread across India with 26 warehoused cum branch offices spread across 20 cities, with an expansive distribution network reaching to 600 direct distributors and 40,000 retailers. Going ahead, the company plans to acquire 10-12 additional warehouses, and extend their existing dealer network by 300+.

Diversified Product Offerings: APL Apollo is the only company to offer a vast product portfolio of over 400 varieties, which is ~2x the product basket of the closest competitor. The current basket includes 4 major sections like Black Hollow Section, Black Round, Pre-Galvanized and Galvanized tubes. The company recently launched color coated pipes in India for the 1st time; also APL is the first to introduce pre-galvanized pipes in the domestic markets and also the first to introduce the latest global technologies such as DFT and In-line galvanizing. The company has been awarded patents for never-seen-before designs for 6 products. Apart from offering a diversified product range the company has also adopted the latest imported packaging technology to improve aesthetics of the offered product range.

Capacity Expansion: As on FY17, the company had a production Capacity of 1.3 MTPA dispersed over 6 facilities throughout India viz. 3 units at Sikandarabad (UP), 1 unit at Hosur (Tamil Nadu), 1 unit at Murbad (Maharashtra) and 1 unit at Bengaluru (Karnataka). Despite being so widely dispersed, the company managed to reduce freight costs by building depots close to these hubs. Post FY17, APL has established its

presence in niche territories by setting up a Greenfield plant in Raipur (Chattisgarh) to the tune of 200,000 TPA, for which APL has earmarked ~Rs. 1,250mn. Further, the company is also planning to add lines of the new DFT Technology Mills at the existing sites in Sikandarabad, Hosur and Murbad for which another ~Rs. 1,250mn have been allocated. APL plans to fully commission these new additions by Q3FY18, post which the full effect of the expansion would be seen.

The Technological Edge: Historically, APL has been a leader in adopting the latest technology from around the globe. Living up to that, the company has introduced latest technologies like High speed mills from Europe which increase the speed by 5x, Strip Galvanizing lines and the unique rotary sizing mills. Post FY17, additional lines of Direct Forming Technology (DFT) to the tune of 500,000 TPA in the existing facilities to make superior quality and value additive projects. There are several advantages cited by the management of this technology ranging from superior quality, customized products, customized sizes, and reduced rollover time from 24-48 hours to ~ 20 mins and a direct material savings of ~ 3-7%. Further, the introduction of DFT at existing facilities has led to opening of an array of opportunities across various sectors such as Metros/ Airports/ Pre-Fab Buildings, Agriculture Implements/ Construction Equipment- Tower crane, Gym/Sport Equipment/ Solar tracking systems, Truck & Bus body/ Heavy vehicle Axles, Export market across USA, Japan, etc.

Brand Recognition: APL since 2013 has focused on aggressive branding to market its products and target consumer memory. The company had developed a focused Branding Strategy in the year 2013, serving a 2-fold objective of creating awareness & brand visibility and providing consumers a firsthand feel of products. APL aims at driving market share gains through various brand building and brand awareness initiatives which include; Large Scale Fabricator meets, Participation in global and domestic exhibitions, rural brand van activation programs, etc. In FY2017, the company has appointed a reputed Marketing Consultant to spearhead the company's overall Branding strategy. Going ahead, the company is targeting about 30,000 signage boards across the country for higher visibility. As of FY17, Ad spends account for ~3-4% of the total operating revenue, and the same level is expected to sustain going ahead. APL believes that a strong brand awareness and widened distribution network will help diversify the 'APL Apollo' brand reach which in turn will drive higher growth.

Financial Matrix: APL's operating revenue has grown at a CAGR of ~36% (FY07-FY17), and now stands at ~Rs. 50bn. The EBITDA for the company has also grown at a CAGR of ~36% (FY07-FY17) and is ~Rs. 3bn. The OPM of the company for year ended FY17 is ~7%, but with the focus of the company shifting towards higher margin accretive products like precision tubes for automotive industry and the introduction of DFT the margins are expected to receive an additional fillip and are expected to sustain around ~10%. The current Debt-Equity ratio for APL is ~0.8, however with the management's target of being debt free by 2020, we could see a significant reduction in this ratio for the next 24 months. Going ahead, APL expects the topline to grow by ~20-25% for the next 24 months, and with the introduction of an additional facility and new technology, we could see this growth in Revenue to sustain in the long run. Of the expected ~20-25% growth in topline, the management expects to attribute half the growth to existing markets and the remaining half to new markets.

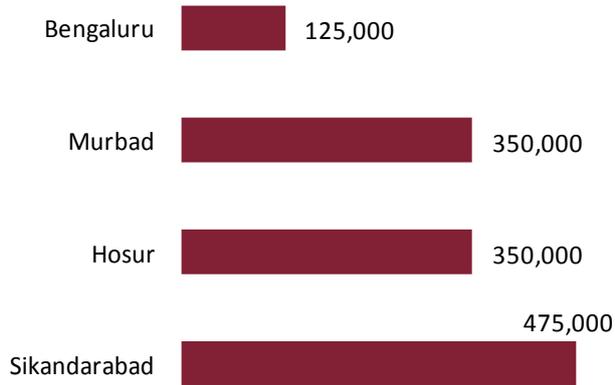
Valuation:

APL Apollo Tubes Limited over the years has made its name by being one of the fastest growing manufacturers of ERW pipes. Leveraging on its existing manufacturing facilities and its vast distribution network, the company aims to be the largest global player in the ERW segment by 2020. The company has recently expanded its production capacity by ~54% from 1.3 MTPA to 2.0 MTPA, by adding a Greenfield plant in Raipur and also adding line of DFT to existing plants. This aggressive expansion bodes well for APL as this helps them in penetrating new markets and adds to their already diversified product offering.

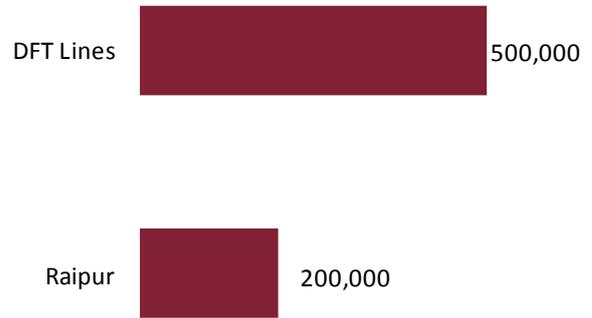
From the margins standpoint, the company made an OPM of ~7% in FY17, which is line with its peers like Goodluck India Ltd (7%), and Rama Steel Tubes Ltd (8%). With the increase in focus on margin accretive products and the introduction of DFT, we expect the margins to increase and sustain at ~10%. APL has RONW of ~22% and a ROCE of ~23% which is significantly higher than its peers i.e Goodluck India (RONW-9%, ROCE-12%) and Rama Steel Tubes Ltd (RONW-17%, ROCE- 4%). Further, the return ratios are expected to touch ~30% through reduction of debt in line with the Vision 2020 program of the management.

At CMP of Rs. 1,586 the stock trades at 19.6x FY18E and 15.2x FY19E. We like the company because of its proficient internal capabilities and its vast product offering. With the capacity expansion to finish by Q3FY18, we expect the full impact of the revamped facilities to kick in post Q3FY18, which will further drive margins upwards. With brand strengthening exercises in play, we believe APL Apollo is in a good position to capitalize on opportunities going ahead. We hold a positive view on the stock.

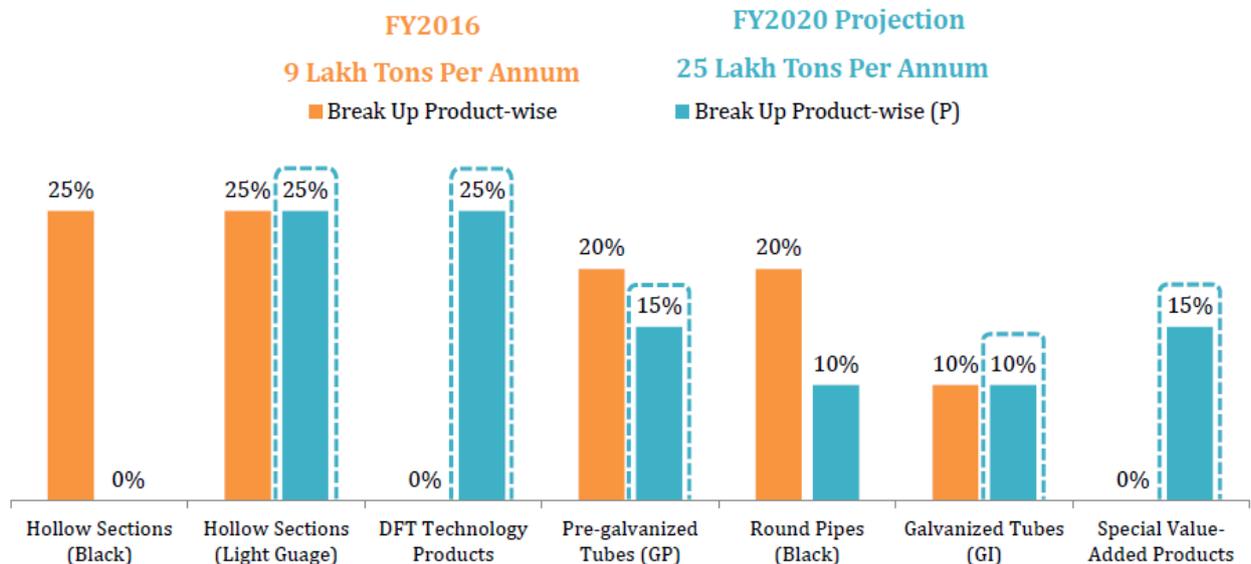
Existing Capacity (MTPA)



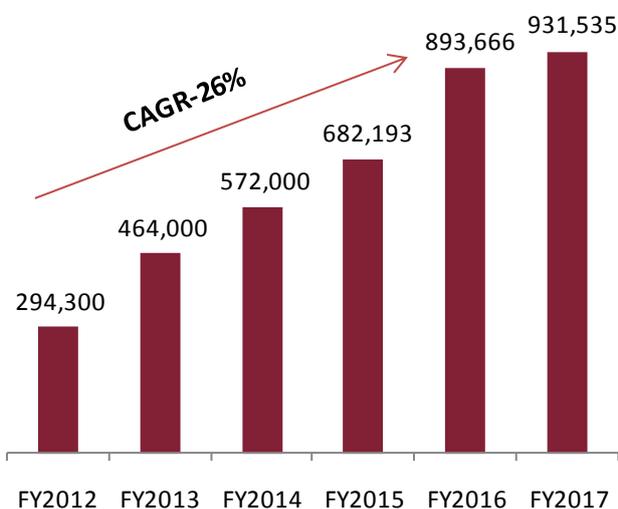
Upcoming Capacity (MTPA)



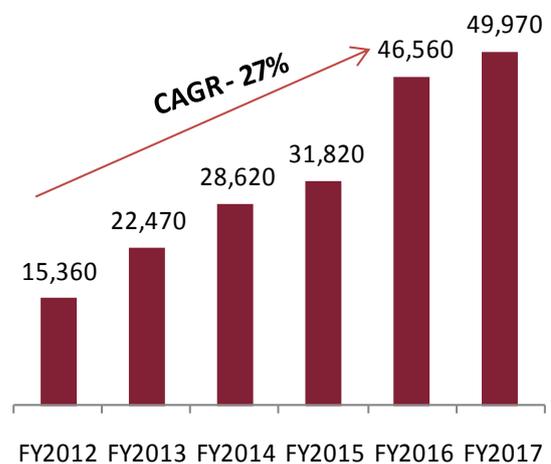
Shift Towards Value Added Products



Production (MTPA)



Revenue (Rs. In Mn)



Source: Company, Indsec Research

INDSEC Rating Distribution

BUY : Expected total return of over 25% within the next 12 months.

ACCUMULATE : Expected total return between 10 to 25% within the next 12 months.

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