

# APL Apollo Tubes Ltd

*"Structurally" Strong growth*

# Buy

Target Price: Rs. 2,195

CMP : Rs. 1,695  
Potential Upside : 30%

## MARKET DATA

No. of Shares : 2.36 Cr.  
Market Cap : Rs. 4,069 Cr.  
Free Float : 59%  
Avg. daily vol (6mth) : 22,149  
52-w High / Low : 1,948/814  
Bloomberg : APAT IN  
Promoter holding : 37.5%  
FII / DII : 15.2%

# APL Apollo Tubes Ltd

Sector: Building Material

“Structurally” Strong Growth

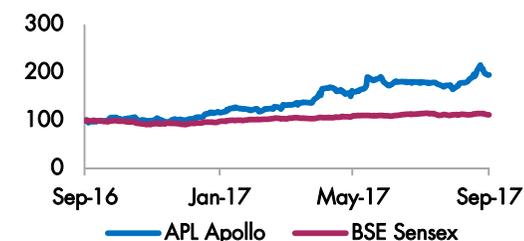
## Financial Summary

Y/E March	Net Sales (Rs Cr)	EBITDA (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	Change (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs)
FY15	3,029	182	64	27.2	6%	64	14%	17%	25.6	6.0
FY16	4,103	282	101	42.9	58%	40	19%	24%	16.5	10.0
FY17	4,425	324	146	62.2	45%	28	23%	22%	14.3	12.0
FY18E	5,092	395	191	81.1	30%	21	24%	25%	11.8	16.2
FY19E	6,462	512	272	115.2	42%	15	28%	30%	9.1	23.0

Source: Company, Axis Securities

CMP as on Sep 28, 2017

## Price performance



## Shareholding pattern

	June-17	Q-o-Q Chg
Promoters	37.47%	0.0%
FPIs	0.00%	-100.0%
MFs / UTI	15.20%	-0.8%
Banks / FIs	0.03%	50.0%
Others	47.30%	1.1%

## Investment Rationale

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### Largest manufacturer of ERW Pipes; revenue growth aided by strong Volumes & capacity expansion

- Total Industry size in value /volume terms for ERW Pipes is Rs. 32,500 Cr./ 8MTPA resp.
- APL Apollo Tubes has a total installed capacity of 1.3MTPA which by FY18E will expand to 2.0MTPA
- Indian ERW market growing @ 9-10% p.a., APL reported volume growth of +20%, capacity expansion (36% CAGR, 10 yrs)
- We expect, Company to report volume CAGR of ~22% over FY17-FY19E at 1.4mn tonnes; led by 1) new technologies, 2) branding, 3) Distribution expansion

### Pioneer in bringing Innovative Technology to Indian markets

- Pioneers in launching colour coated and Pre-Galvanized pipes in the domestic markets.
- First to introduce latest global technology 'Direct Forming Technology (DFT)' and 'In-line Galvanizing in India.
- Introduction of new technology allows APL to expand its addressable market thus aiding volume growth target of over ~20-25% over the next few years

### Widespread Distribution Network ; diverse Product basket a key 'moat'

- Over 600 distributors ; a niche created by APL Apollo in the steel tubes and pipes industry is a key economic moat
- Diverse product basket of over 400+ SKUs in steel tubes and pipes segment provides a one-stop-solution to customers for their end-use purposes across diverse industries and sectors
- Industry functions on wholesaler/ B2B model instead of a B2C model (a three-tier distribution network) which is similar to the distribution network of some companies/ businesses present in the building materials space

### Declining Leverage Levels to improve Return Ratios

- We expect, Net Debt : Equity to decline from 1.1x in FY16 to 0.5x in FY19E with interest coverage ratios improving from 3.6x to 7.6x over the same period
- RoE's/RoCE's expected to improve steadily from 19%/24% in FY16 to 28%/30% in FY19E in our opinion

## Investment Rationale

### Branding initiative; right foot forward

- Largest manufacturer of ERW pipes in the Indian markets; offering wide product specifications to its customers, APL has earned a distinctive name for itself in the domestic steel tubes & pipes industry
- Various branding initiatives over last couple years has lead to turnaround in image of APL Apollo Tubes from a pure commodity player to a branded steel tubes and value added products manufacturer

### Better product mix, high volume growth to drive EBITDA/ton

- Over FY14-17, EBITDA/ton witnessed marked improvement from Rs. 2,800/ton in FY14 to Rs. 3300/ton in FY17
- Improvement led by **better product mix ,driven by a conscious strategy to shift from low margin Black Pipes to higher margin GI/GP pipes**
- We remain positive on the company's operating profitability sustenance largely due to 1) introduction of DFT, a technological edge over peers; 2) higher contribution from Value Added Products; 3) brand awareness amongst end customers to allow pricing power vis-à-vis peers

### Government Thrust on Infrastructure to support strong volume growth

- Government initiatives towards urbanisation via schemes like – Housing for All, AMRUT, City Gas Distribution to support growth
- Encouraging Government investments and pick-up in construction, oil & gas and infrastructure like roads, ports, highways etc augur well for APL Apollo over the medium to long term

### Strong Operating Performance; to aid Earnings CAGR of 35% over FY17-FY19E

- We expect APL Apollo to post Revenue/EBITDA/Earnings CAGR of 21%/26%/36% respectively over FY17-FY19E driven by
  - o **Robust demand, higher volumes with capacity additions, improved profitability and lower interest costs**
- Reported an earnings CAGR in excess of 30% over FY14-FY17
- Consistent ROE improvement to 23% in FY17 over FY14; momentum to continue in FY18E/FY19E
- We initiate coverage on APL Apollo Tubes with "BUY" rating & target price of Rs. 2,195 / share ; upside 30% over 9-12 months

## Company Brief

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- ◆ APL Apollo Tubes Ltd. was established in 1986 as Bihar Tubes Pvt. Ltd. and started the production of MS Black pipes at its Sikandarabad unit with an initial capacity of 6,000 MTPA. Within 3 years it scaled up its capacity to 24,000 MTPA and today with total installed capacity of 2,000,000 MTPA it is the leading manufacturer of ERW Steel tubes and pipes in India. The capacity expansion and Pan-India presence has been a result of both organic and inorganic growth; APL has three wholly owned subsidiaries:
  - **Apollo Metalex Pvt. Ltd.** – Acquired in 2007 as a measure of backward integration
  - **Shri Lakshmi Metal Udyog Ltd.** – Acquired in 2008 for penetrating in South India
  - **Lloyds Line Pipes Ltd.** – Acquired in 2010 to extend footprint to West India
  
- ◆ It has been a pioneer in bringing advanced global technologies to India and has also successfully forayed into manufacturing niche steel products (window and door frames) apart from its pipes and tubes portfolio. APL has also, over the years established a vast distribution network which today is made up of about 625 distributors, 40,000 retailers and 26 warehouses cum branches that give a country wide presence to its portfolio of over 400 products. It also exports to over 35 countries worldwide.

## Company Brief

### ♦ Pan India Manufacturing Presence & Warehouses:

- Amongst the peers in the Indian ERW pipe segment, APL Apollo is the only company which has a pan India manufacturing presence ensuring proximity to its end customers and to also localize supply thereby fast tracking its growth. Currently the company has a total capacity of 1.3MTPA which following commercialization of green field plant at Raipur and installation of DFT Technology lines will enhance the total capacity to 2.0MTPA allowing it to march well ahead of peers in the segment.

### Manufacturing Capacity and Expansion timeline

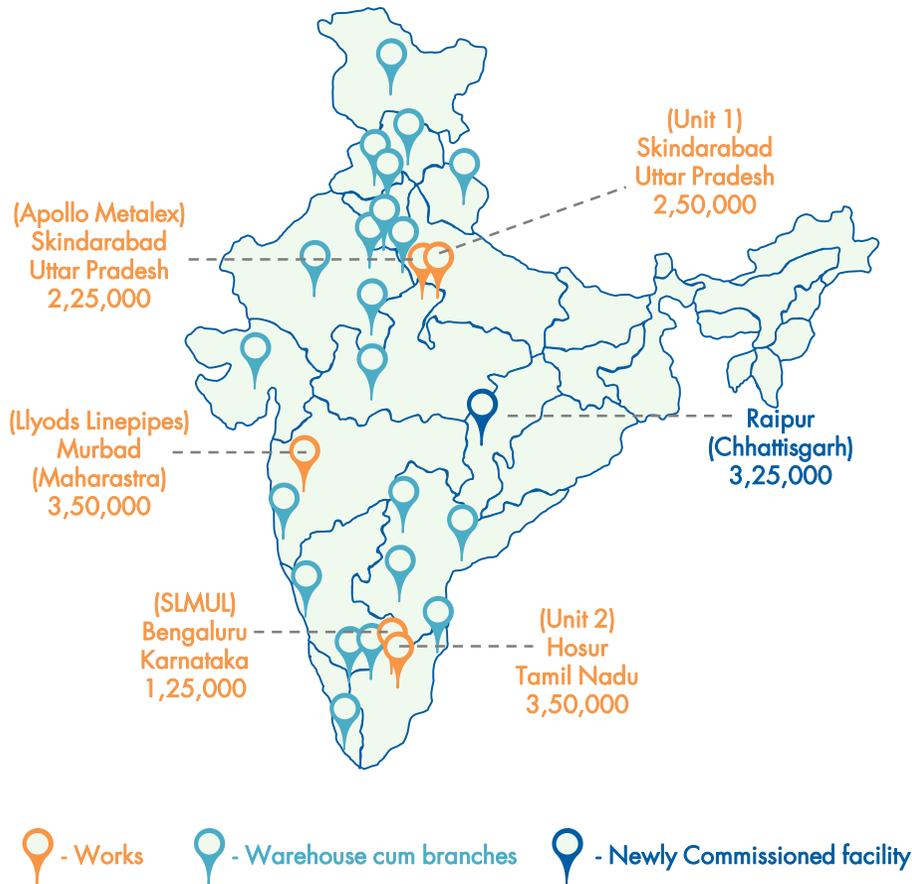
Zone	Manufacturing Plant	Location	Capacity (TPA)	DFT (Planned)	Total Capacity (TPA)
North	Unit 1	Sikandarabad, UP	2,50,000	25,000	2,75,000
	Apollo Metalex	Sikandarabad, UP	2,25,000	50,000	2,75,000
West	Lloyds Line Pipes	Murbad, Maharashtra	3,50,000	1,00,000	4,50,000
South	Unit 2	Hosur, Tamil Nadu	3,50,000	1,25,000	4,75,000
	SLMUL	Bengaluru, Karnataka	1,25,000	-	1,25,000
East	Raipur	Raipur, Chhatisgarh	2,00,000	2,00,000	4,00,000
<b>Total</b>			<b>15,00,000</b>	<b>5,00,000</b>	<b>20,00,000</b>

Source : Company; Axis Securities Research; SLMUL - Shri Laxmi Metal Udyog Limited

As a part of its **VISION 2020 plan**, APL plans to increase the total installed capacity to 2.5MTPA by FY2020 to become the largest ERW pipe manufacturer in the world. This, we believe would be achievable only on the back of its ability to sustain the faster than industry growth rate it has reported thus far and that would be driven by various initiatives taken by the management (thrust on OEMs, Exports, Branding initiative etc) to remain ahead of the curve.

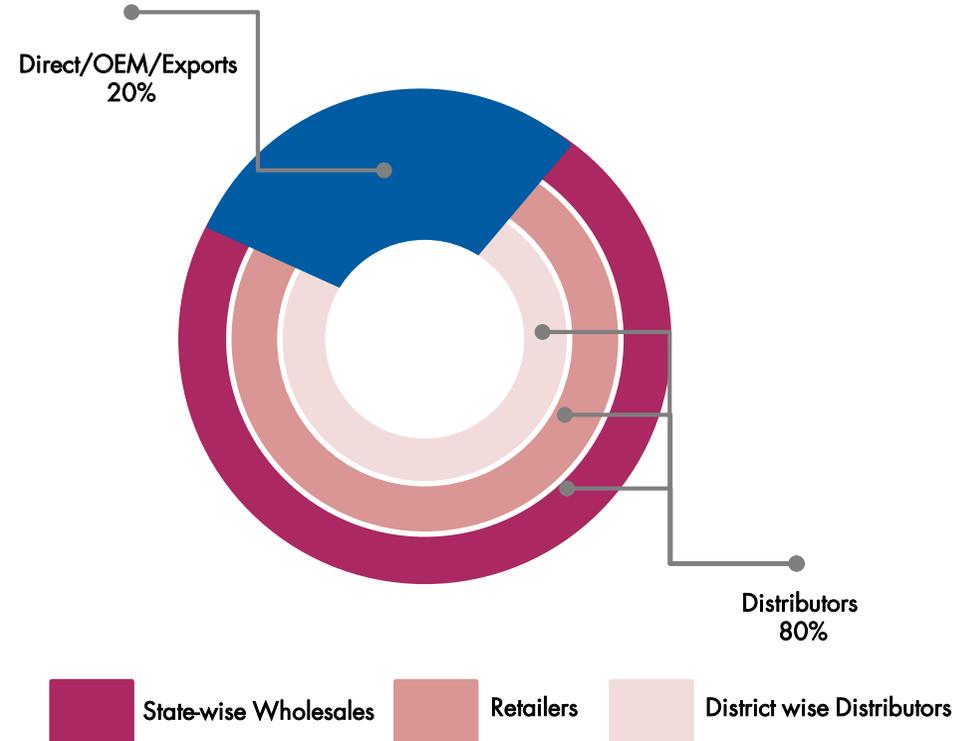
## Distribution Network

### Pan- India Manufacturing Footprint



Source : Company; Axis Securities Research

### Local Market Presence closer to market



*Current network 625 distributors and 27 warehouses (FY2017)*

## Key End User Industries : Core Sectors of Indian Economy

### Infrastructure



- ◆ Metros
- ◆ Buildings
- ◆ Airports
- ◆ Ports
- ◆ Greenhouses
- ◆ Prefabricated
- ◆ Smart Cities

### Construction



- ◆ Conduit
- ◆ Support Structures
- ◆ Fencing
- ◆ Railings
- ◆ Cranes
- ◆ Green Construction

### Automobile



- ◆ Truck & Bus body
- ◆ Heavy Vehicle Axles

### Energy



- ◆ Power
- ◆ Water Transport
- ◆ Solar Plants
- ◆ City Pipeline

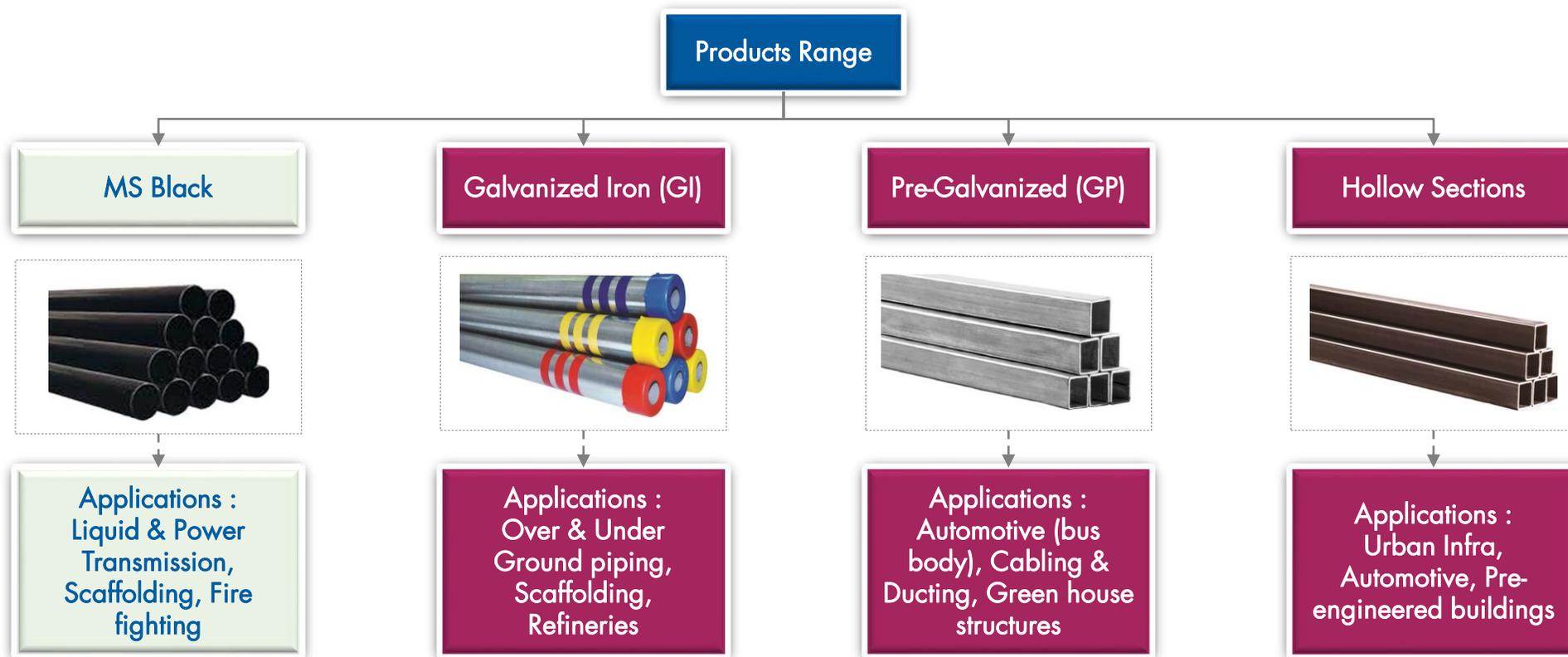
### Agriculture



- ◆ Agriculture Implements
- ◆ Drip Irrigations
- ◆ Water Distributor
- ◆ Pump & Water Conveyance

Source : Company; Axis Securities Research

## Diverse Products Range edge over competition



- Largest capacity of 2.0MTPA by FY18E (closest competitor is half APL Apollo Tubes size) in a highly unorganized industry
- Amongst the leading players in the Indian ERW Industry, has over 400 products across various shapes, sizes and properties
- Thrust on square and rectangular hollow sections manufactured using the DFT technology, a 1<sup>st</sup> in India

Source : Company; Axis Securities Research

## Types of Steel Tubes & Pipes

### ◆ MS Black Tubes

- First product manufactured by APL when it commenced operations in 1987 and today amongst the largest manufacturers of MS Black. Coated with protective oil or a black lacquer base, these tubes are rust free and require low maintenance. Extremely competitive domestic market for MS Black with large number of players & shrinking export potential. APL's management has taken a conscious decision to focus on fast growing GI/GP pipes and tubes and Hollow Sections products

### ◆ Galvanized Iron (GI) Tubes

- Galvanized tubes are steel tubes that are dipped in molten zinc (galvanization process) to impart a layer of zinc which protects the tube from aging and rusting. Owing to their resistance to corrosion, GI Tubes are preferred by designers and builders for structural applications. Management has alluded on plans to increase GI capacity from current 120,000 MTPA to 200,000 MTPA in the coming year

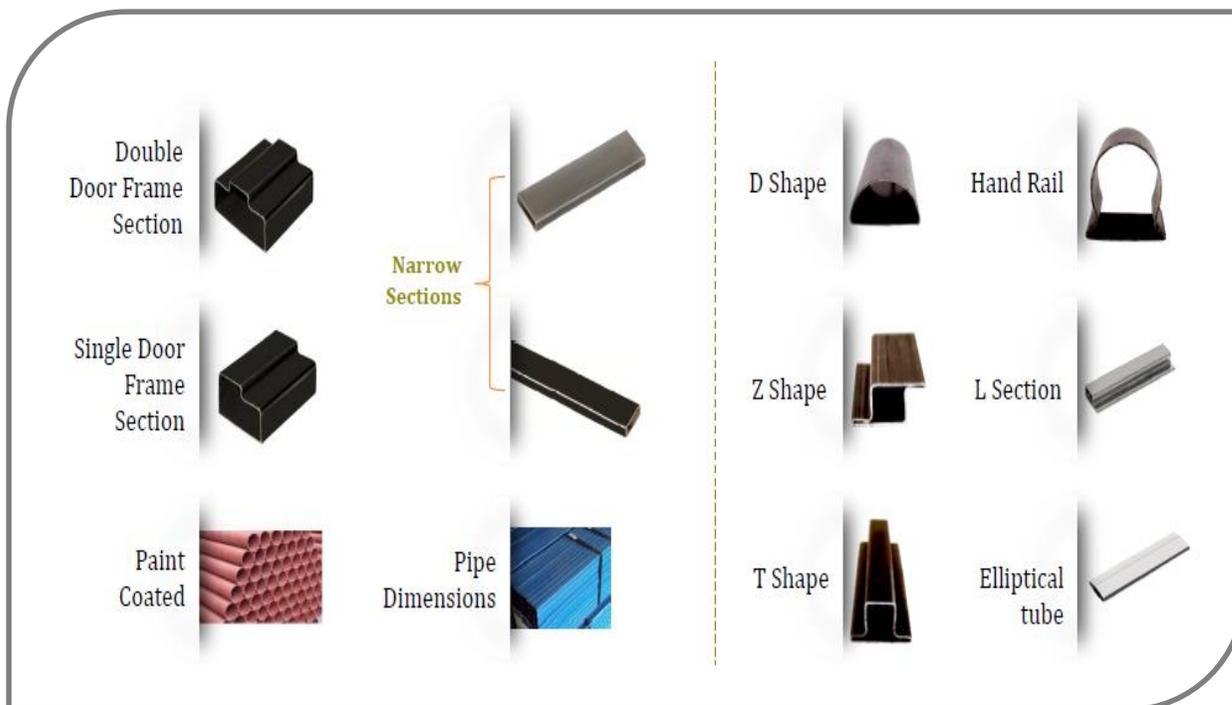
### ◆ Pre-Galvanized (GP) Tubes

- In contrast to GI tubes which are dipped in a zinc bath for galvanizing, GP Tubes are made from pre-galvanized sheets. APL was the first company to introduce GP Tubes in the country and its two subsidiaries (Apollo Metalex and Shri Lakshmi Metal Udyog) were integrated backwards with in-house sheet galvanizing facilities. APL Coastguard is one such successful brand under which the company has been selling GP pipes in Kerala and its surrounding coastal regions. Moreover, the company has ramped up its GP capacity from ~180,000 MTPA to ~240,000 MTPA by end of FY17



## Types of Steel Tubes & Pipes

### Most Diversified Product Basket of 400+ varieties



We note, the company's products are unique and thus face limited competition from both organized as well as unorganized players in the ERW pipe segment.

*70% of APL Apollo's product portfolio has limited competition*

### ◆ Hollow Sections

- Square and Rectangular Hollow Sections emerged as an excellent alternative to steel channels, angles and beams in construction and engineering applications owing to their high compressive strength, tensile capacity and superior fire resistance. Augmenting its play in this category, APL is bringing to India the latest global technology (Direct Forming Technology) to manufacture square and rectangular hollow sections by customizing them as per end user requirements.



## Marquee Clientele



**TATA MOTORS**



**ASHOK LEYLAND**



सेल SAIL



### Industry

### Clientele

#### Infrastructure

Delhi Metro, Mumbai Metro, Bengaluru Metro, Hyderabad Metro, Kolkata Metro and Jaipur Metro  
L&T, Gammon, Afcons, BL Kashyap, CPWD, GMR, Engineers India, MHADA, ACE etc.

#### Pre-Engineering

Zamil, Kirby, Tigar, Pennar to name a few

#### Power & Gas

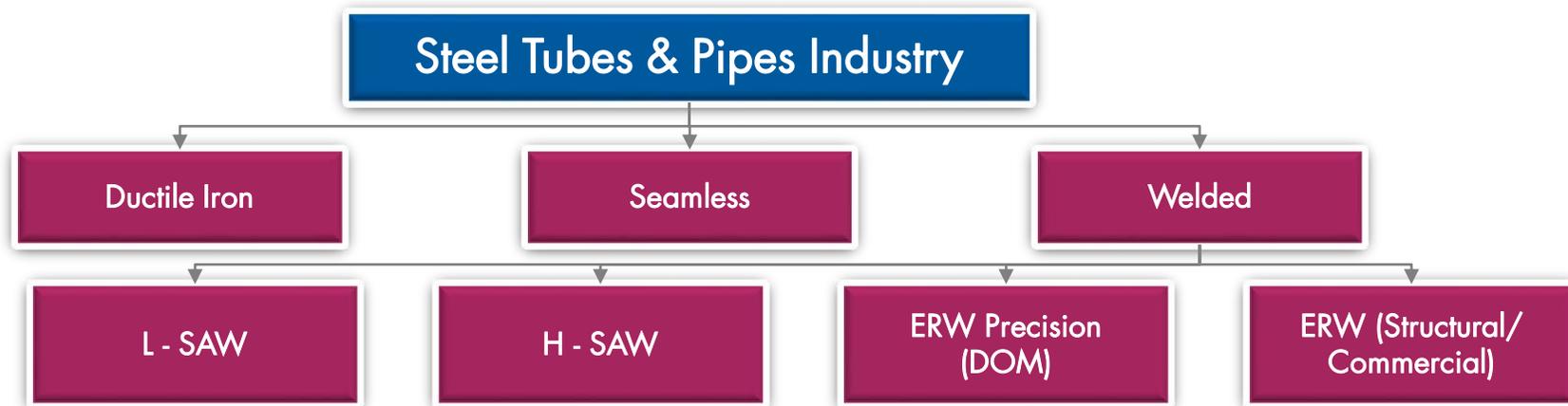
BHEL, HP, IGL, MRPL, NTPC, Gujarat Gas, BP, Suzlon, Cairn Energy, Susten

#### Corporates

Tata, Ashok Leyland, SAIL, DLF, Adani, Reliance,

## Industry Structure & Dynamics

- Pipes and Tubes are most commonly used for flowing materials including Oil & Gas, water, chemicals etc., besides the engineering and infrastructure applications. The Industry can be broadly segmented into Plastic and Steel Pipes and Tubes, both with distinct properties, applications, benefits and drawbacks. Plastic pipes which use Polyvinyl chloride (PVC) as the major raw material largely find use in irrigation for agriculture, potable water supply and waste water treatment. Whereas because of their resistance to corrosion, high tensile strength and longevity, Steel pipes and tubes are preferred for Oil & Gas, power, engineering and structural support system applications.



- While, the industry is diverse having different types of pipes, the exhibit below showcases, the presence of APL Apollo Tubes in the industry against some of the listed and unlisted players across the segments.
- The global steel tubes industry has an approximate market size of \$1,00,000 Cr. in value terms and in terms of volumes it is approximately 1,700 million tonne. Of the total steel industry across the world, welded steel segment has a value market of USD 100 billion and volume market of 170 million tonnes. Of this, the Indian ERW steel industry market has a total market size of 8 million tonnes in terms of volumes which translates into \$500 Cr (~Rs. 32,500 Cr.) of this Indian market, APL Apollo Tubes is the leader.

## APL Apollo Tubes Industry Positioning vis-a-vis peers

	Ductile Iron (DI)	Seamless	LSAW	HSAW	ERW Precision (DOM)	ERW (Structural/ Commercial)
<b>Size (Diameter)</b>	3" - 40"	0.5"-14"	16"-50"	18"-120"	0.5"-4.5"	0.5"-22"
<b>Key Raw Material</b>	Pig Iron/ Cast Iron/ Sponge Iron	Steel Billets	Steel Plates	HR Coils	HR Coils	HR Coils
<b>Application</b>	Potable Water & Sewage Transportation	Oil & Gas, Engineering Power & Automotive	Oil & Gas Transport	Oil & Gas/ Water Transportation	Automotive & White Goods	Urban Infrastructure, Industrial, General Engineering, Oil & Gas (city gas distribution)
<b>Key Players</b>	Jindal SAW, Electrosteel	Maharashtra Seamless, Jindal SAW,	Jindal SAW, Welspun Corp, Man Industries	Jindal SAW, Welspun Corp, Man Industries, PSL, Ratnamani Metals	Tata Steel, Innoventive, TII	<b>APL Apollo Tubes</b> Surya Roshni, Tata Steel, Welspun Corp, Jindal Pipes, Maharashtra Seamless

## ERW Pipes and Tubes Applications

Areas	Applications	Attributes
Urban Infrastructure	<ul style="list-style-type: none"> <li>• Airport Terminals</li> <li>• Foot Over Bridges</li> <li>• Metro Stations</li> <li>• Sports Stadiums</li> <li>• Sign Support Structure</li> </ul>	<ul style="list-style-type: none"> <li>• High tensile strength</li> <li>• Ease of Fabrication</li> <li>• Lightweight</li> </ul>
Industrial	<ul style="list-style-type: none"> <li>• Factory Sheds</li> <li>• Material Storage Racks</li> <li>• Conveyor Gantry</li> <li>• Drilling Rig</li> </ul>	<ul style="list-style-type: none"> <li>• High strength-to-weight ratio</li> <li>• Free from sharp edges</li> <li>• Ease of erection</li> </ul>
General Engineering	<ul style="list-style-type: none"> <li>• Truck &amp; Bus Body</li> <li>• Automobile Chassis</li> <li>• Greenhouse Structures</li> <li>• Scaffolding</li> <li>• Gym Equipment</li> </ul>	<ul style="list-style-type: none"> <li>• Aesthetic Appeal</li> <li>• Lightweight</li> <li>• Ease of Fabrication</li> </ul>

## Competitive Scenario versus other Pipe Manufacturers

- ◆ Industry wide, steel tubes & pipes are relatively higher priced than PVC/CPVC/UPVC Pipes
- ◆ *Basic functionality of Steel Tubes & Pipes is to provide strength and durability to the structure constructed (O&G space, deep water transportation, scaffoldings, CGD etc)*
- ◆ On the other hand PVC Pipes find wider application is surfacial transport of liquids, irrigation system, residential plumbing
- ◆ Further, major cost item of Steel Tubes & Pipes is HR Coil while for PVC pipes it is polymer

### Competitive Positioning of APL Apollo Tubes vis-à-vis Peers

Particulars	AP Apollo Tubes	Competing Steel Tubes Manufacturers	CPVC Pipe Manufacturers
Sales/Kg	Rs. 42 per Kg	Rs. 42-50 per Kg	Rs. 100-165 per Kg
Cost/Kg	Rs. 38 per Kg	Rs. 35-42 per Kg	Rs. 85-140 per Kg
EBITDA/Kg	Rs. 4 per Kg	Rs. 2-8 per Kg	Rs. 35-40 per Kg

## Thrust on End-user Industries

1

- Growth in construction & infrastructure segment to boost demand:** *Steel pipes have lately found applications in real estate, construction, telecom, power, energy, entertainment zones, metros, airports and ports. They are used in the building, construction & infrastructure segments and have a variety of applications, such as conduits, support structures, fencing, railings and scaffolding.* Delay in project awards, clearances and poor company financials slowed investments in the construction segment over the past couple of years. With the government's renewed focus on the infrastructure segment aided by a slew of policy reforms, we expect investments and construction in the infrastructure segment to gather pace. The Indian Government, under the 'Make in India' campaign has announced \$1 trillion investments for infrastructure sector. Significant increase in allocation for key infrastructure-focused sectors like roads, highways and urban development by Government bodes well. *It is projected that India would need about \$ 64,600 Cr worth of investment in the infrastructure sector over the next five years of which 70% would be towards power, roads and urban infrastructure sectors.*



2

- Oil & Gas** is the largest user of pipes and tubes as pipelines are the major mode of transport for petroleum, oil and lubricant products. The global Oil & Gas industry has over the years been a significant revenue generator for the Indian steel tubes and pipes industry. While the Seamless category of pipes have been used in exploration and production, Horizontal Submerged Arc Welded (HSAW), Longitudinal Submerged Arc Welded (LSAW) and Electric Resistance Welded (ERW) pipes have come to use for transportation. The domestic market potential isn't any less promising with India's energy demand burgeoning, propelled by a growing economy and demographic expansion.



3

- More recently, apart from the traditional use for transportation of liquids and gases, *steel tubes and pipes, particularly the ERW category has increasingly found application as hollow support structure at airports, malls, metro stations, pre-engineered buildings etc.* **Besides these urban infrastructure applications, ERW pipes and tubes are fast emerging as replacements to certain traditional aluminum and wooden parts in trucks and bus bodies.** Today India is counted as one of the leading ERW steel tubes manufacturing countries alongside China, Turkey, Italy and US with a domestic production capacity of ~8mn MTPA.



## Thrust on End-user segments

### New Metro Projects

Project	Length (km)	Estimated Cost (Rs. Bn)
Nagpur Metro Rail	38.22	86.80
Ahmedabad Metro Rail – Phase 1	35.96	107.70
Lucknow Metro Rail	22.88	69.28
Pune Metro Rail	31.25	114.20
Jaipur Metro – Phase 2	35.01	97.32
Bhopal Metro	39.00	80.00
Indore Metro	107.00	150.00
Patna Metro	60.00	115.45
Mumbai Metro – Line 2	42.20	173.96
Mumbai Metro – Line 3	33.50	231.36
Mumbai Metro – Line 4	32.32	145.49
Bangaluru Metro – Phase 2	42.30	264.05
Chennai Metro – Extension to Phase 1	9.05	37.00

### Metro rails - demand for new wagons:

- Increasing urbanization and an inability to widen roads demands higher investments in alternative modes of transport, such as metros. With the success of the Delhi Metro, India has planned to invest \$ 3,000 Cr. over the next five years into metro projects. Demand for new wagons for these projects will boost demand for steel pipes.

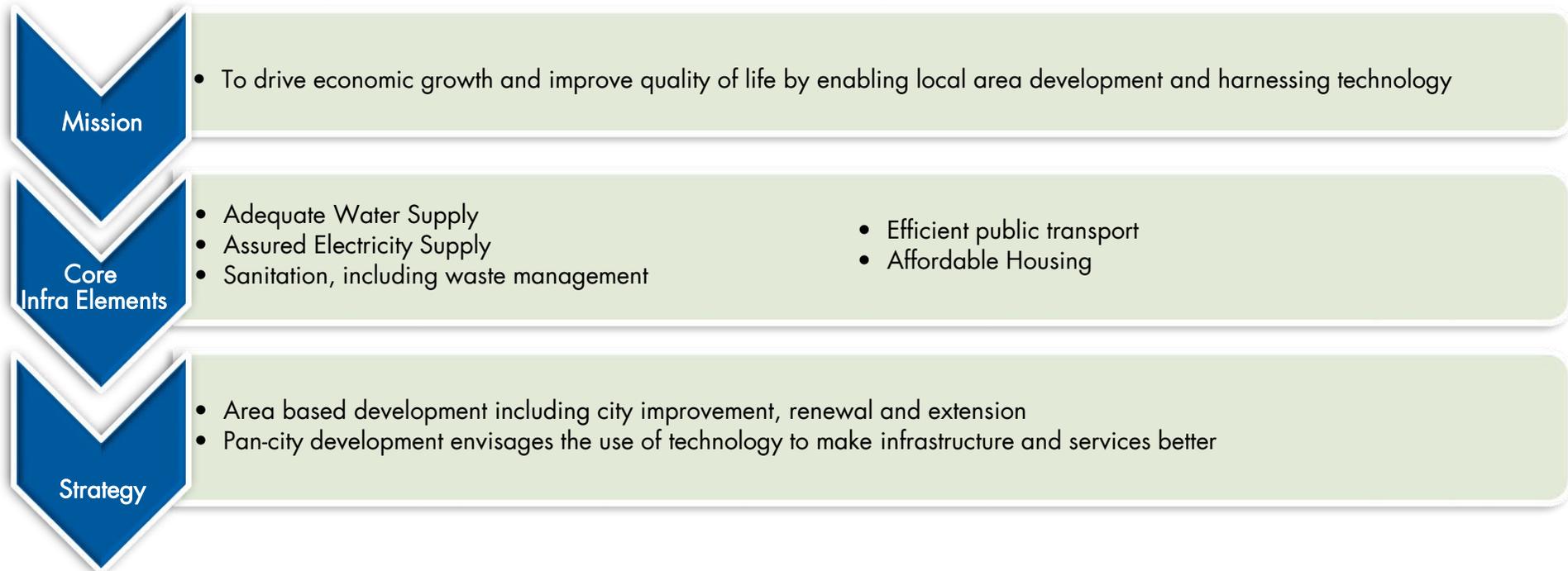
### Foray into the future growth driver – Solar Energy

- The government's focus on the usage of renewable energy resources to fuel the economic development while reducing the carbon footprints has led to the ambitious target of generating 100 GW of solar energy by 2022. This is a mammoth opportunity for manufacturing steel companies to cater the huge demand of meeting India's solar power energy requirement.



## Smart Cities to support steel pipe demand

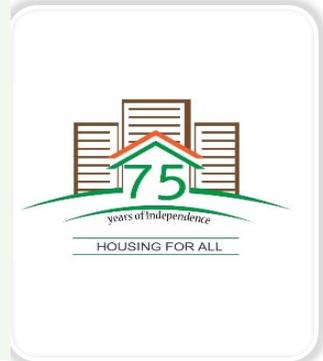
- ♦ The **Smart City Mission** was launched in June 2015 and plans to develop 100 smart cities across India under this program within five years at an estimated cost of Rs. 48,000 Cr. Within a year of its launch, 33 cities have already been selected in the first phase, Although we do not expect work to be completed within the stipulated time, there has been good headway and investments to drive construction activities (as most proposals indicate projects are construction-intensive), which likely will support demand for steel pipes, especially in the structurals segment. 17 out of 33 cities have already formed their special purpose vehicles (SPV) and a few also have floated tenders for some projects. The development of Smart Cities also entails developing a better infrastructure and thus will witness growing demand for Airports and commercial complexes thereby leading to growing demand for steel structures.



## Government Initiatives a Booster for Hollow Sections

1

- Housing for All by 2022** to boost steel pipe demand: The Pradhan Mantri Awas Yojna (Urban) programme launched by the Ministry of Housing and Urban Poverty Alleviation in June 2015 envisions providing affordable housing for urban poor. Aiming to construct 20mn houses, this program also augurs well for steel pipes, which are used as structurals. In addition to this, water supply and sanitation too would be necessary to ensure quality of life for the beneficiaries of the Housing for All by 2022 project (namely Economically Weaker Sections and Low Income Group housing projects). Thus to provide for drinking water, sanitation and sewage infrastructure, steel pipes which augurs well for steel tubes and pipe manufacturers like APL Apollo. **As per Census 2011, about 53% of households lack sanitation facilities**



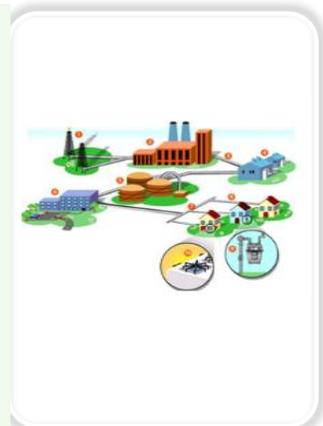
2

- AMRUT Scheme:** Initiated in June 2015, the Atal Mission for Rejuvenation and Urban Transformation (AMRUT) scheme focuses on creating adequate infrastructure for water & sewage supply and transportation. Its target is to ensure tap water supply and sewerage facilities for everyone. Steel pipes are an integral part of the water & sewage transport system and this augurs well for steel pipe demand.

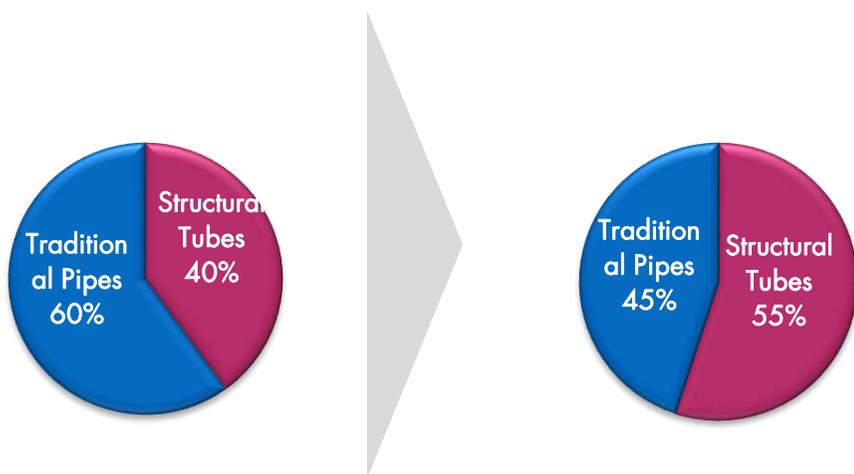


3

- City gas distribution (CGD) to drive demand for transportation pipes:** CGD network is the downstream gas retail network in India which broadly consists of CNG stations, cooking gas pipelines and retail market for industrial demand. The sector is highly regulated by PNGRB. CGD network is active or developing in 74 cities currently (few cities had CGD networks prior to the formation of PNGRB). Owing to the need to switch to cleaner fuels and gas being cheaper alternative to oil fuels, the government has been promoting the development of CGD network and various policy changes have been introduced. **NITI Aayog has recently recommended expanding the CGD network to 326 cities by 2022.** Pipes are the most convenient way to transport gas, and increasing investment in the CGD segment to expand network will in turn create demand for steel pipes

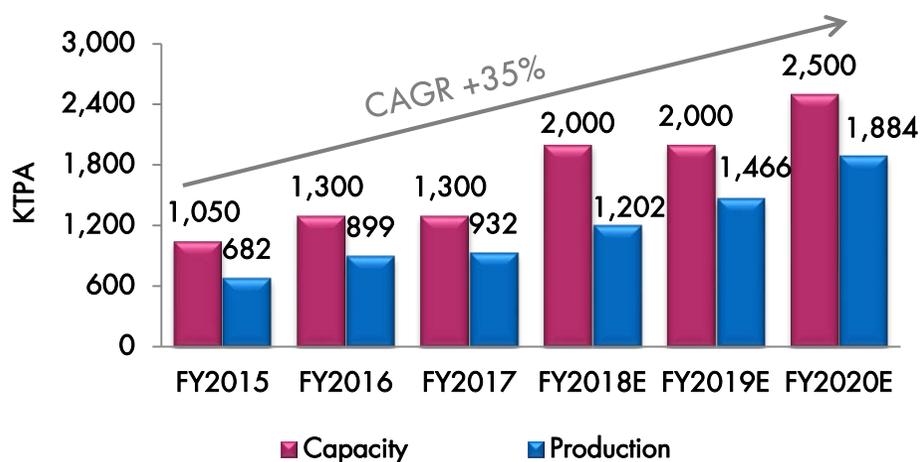


## APL Apollo's Distinctive Business Model

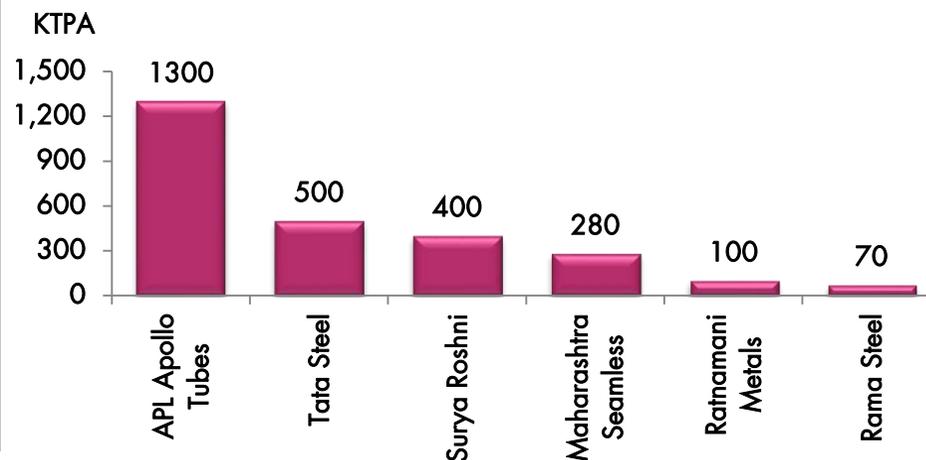


- ◆ Largest manufacturer of ERW pipes in India supported by strong volume growth and capacity expansions: ERW Pipes has a total industry size of Rs. 32,500 Cr/ 8MTPA. APL, the largest with an expanded 2.0MTPA capacity by FY2018 end
- ◆ Indian ERW market is growing at a rate of 9-10% while, APL Apollo Tubes has been growing over 20%
- ◆ APL Apollo Tubes is primarily focused on the structural space, which currently accounts for ~70% of its overall portfolio vs ~55% in FY13

### Strong Volume Growth supported by continued Capacity Expansion



### Existing Capacities of Key ERW Pipe Manufacturers in India



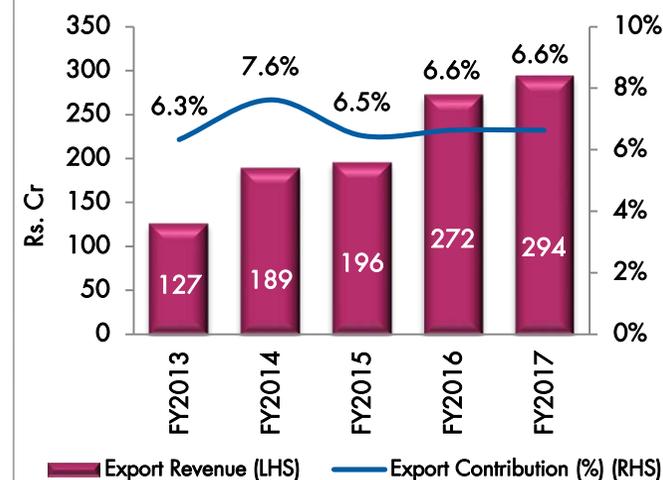
## First Mover Advantage in introduction of Global Technology

- ◆ Direct Forming Technology (DFT) used in manufacturing Hollow Sections is the latest technology that APL is betting upon and is the first company to bring DFT to India. Earlier, to manufacture square and rectangular pipes, it had to first form round pipes and then process it to get the desired shape.
  - **3-10% Savings on RM:** DFT eliminates the wastage which earlier used to gather at the edges when round pipes were converted into square or rectangular pipes. Savings in the range of 3-10% on RM costs are expected on the back of this.
  - **Customized/Small orders to drive market share gains:** Introduction of DFT enables APL to produce pipes in smaller batches (10-20MT )against the traditional requirement of 400-550MT before making any changes. This allows APL to accept small orders in customized sizes and thus serve a larger part of the untapped market. *Testimony to this customization is the introduction of 300x300mm size in India for the 1<sup>st</sup> time in India and thereby the only producer.* This has led the company to develop 12 new sizes that can be leveraged going forward.
  - **Export opportunities:** DFT products are well accepted in export markets of Europe, Japan and USA. This provided level playing field to APL compared to global players. Management targets exports to grow at over 50% due to DFT, a key catalyst for topline growth over FY17-FY20E

### Direct Forming Technology



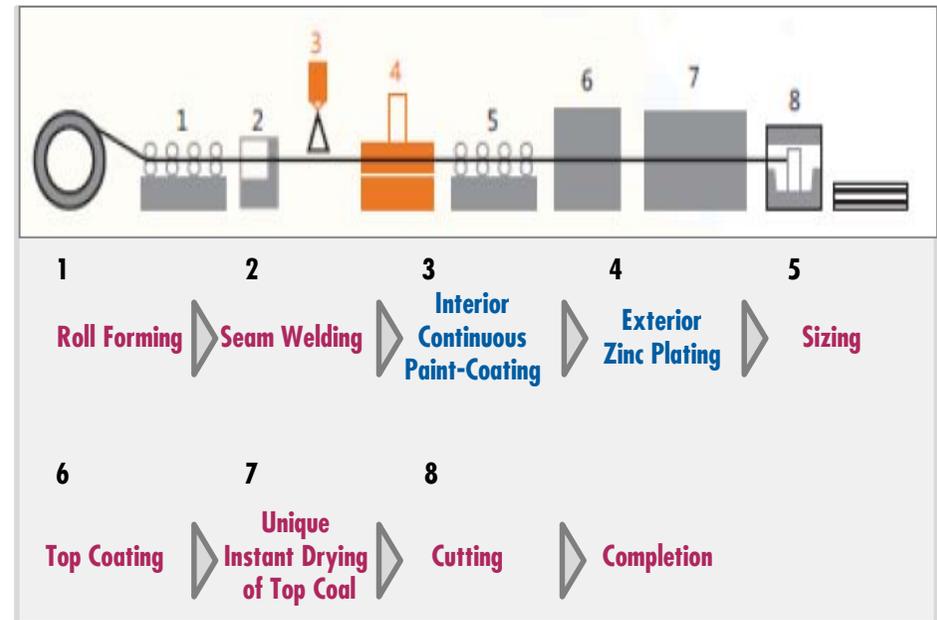
### Export pie of Total Revenue



## First Mover Advantage in introduction of Global Technology

- ◆ First to introduce 'In-line Galvanizing' technology in India for making hollow section / pipes of superior quality which reduces rollover time significantly.
- ◆ In-line Galvanizing Technology is the latest zinc plating and coating technology where in tube making and galvanizing is performed simultaneously thereby making the process of secondary operations of hot-dip galvanizing after tube is formed redundant. Due to this, the In-line Galvanizing Technology offers key benefits to customers by way of offering a superior quality product (minimal human intervention) with cost efficiency at its core.
- ◆ *Entry into new industries* - Inroads likely to be into new industries such as Truck & Bus Body, Agricultural Implements, Gym/Sports Equipment, Solar Tracking systems etc. due to acceptance of the superior quality products as a result of the new technology

### In-Line Galvanizing Manufacturing Process



### Benefits to Customers

*Minimal Human Error; Time Savings; Cost -Effective*

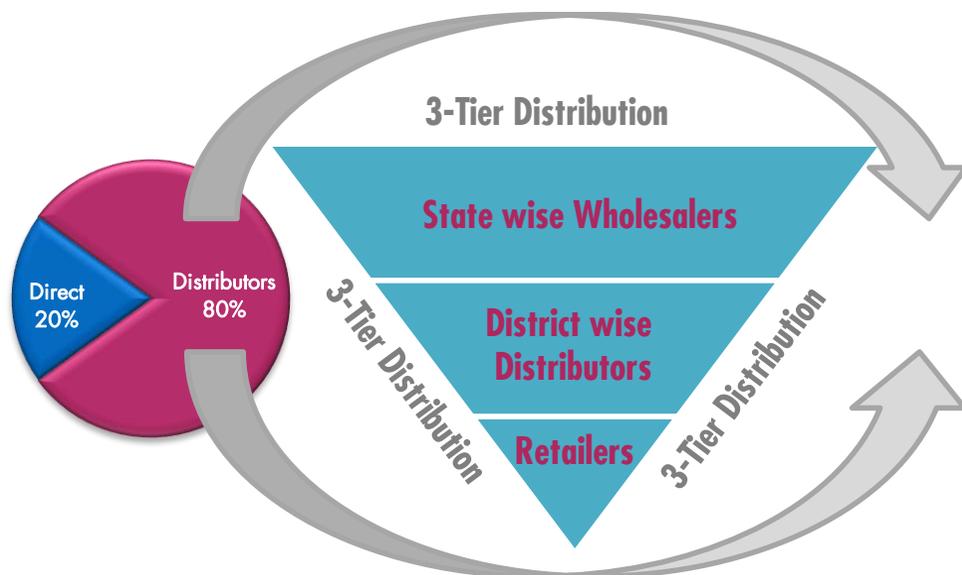
## Distribution Network & Branding – heads up over peers

### 3-Tier Distribution Network key moat

- ◆ Close to 625 distributors as of FY2017, a niche amongst peers in the steel tubes & pipe industry and comparable to building materials players
- ◆ APL Apollo functions on a B2C Model unlike peers operating through a B2B model
- ◆ B2C model not easy to replicate given the penetration in the market. This is similar to some of the building material companies distribution network.
- ◆ Diverse set of consumer across the Indian geography is a daunting task to replicate.
- ◆ Fabricators key drivers of business for APL Apollo owing to its strong brand image

### Patented Products a feather in a cap

- ◆ Products catering to affordable housing like Door Frames, Window Frames, Hand Rail, T-Section, Colour Coated Pipes, Narrow & Small Sections
- ◆ Innovation by APL led to lowering cost of Door Frames by 1/3 compared to wooden frames
- ◆ Color coated pipes allows end consumer to have better aesthetic value for the homes, lower cost with longer product life.



### Branding initiative; right foot forward

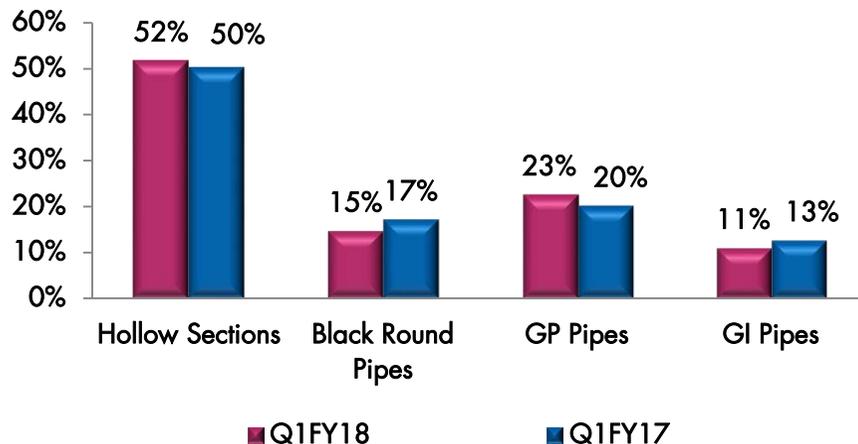
- ◆ Already the largest manufacturer with wide product basket has made APL Apollo a distinctive edge over peers.
- ◆ To remain ahead of competition APL Apollo has taken initiatives to turnaround its brand image from a pure commodity manufacturer to Value Added Products player across sizes & shapes
- ◆ 80% sales come from distributors while 20% from direct sales
- ◆ Invested Rs. 25 Cr. towards branding activity; appointed consultant.
- ◆ APL Coastguard an established brand. Expected to launch brands APL Bheem, Apollo Agritech, Apollo Fabritech

## GST a boon to strengthen market presence

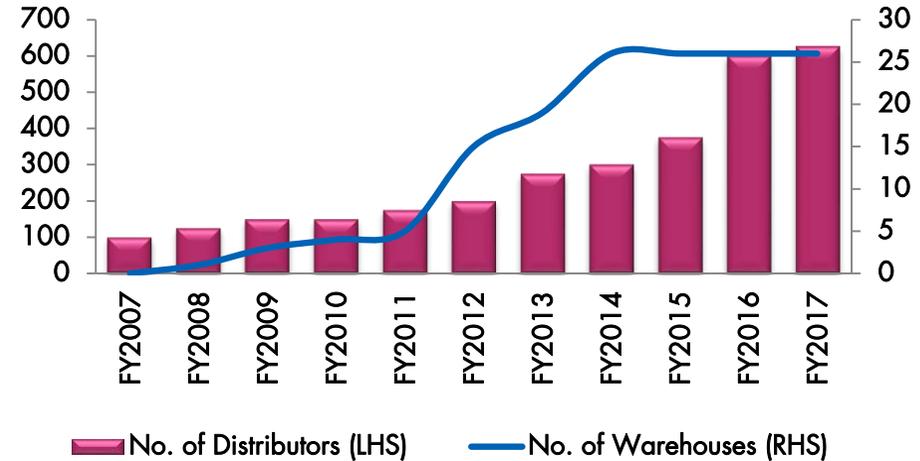
### GST a boon for APL

- ◆ Unorganized market forms ~40% of total industry in India
- ◆ GST, India's biggest and most notable tax reform has opened up new opportunities for APL Apollo.
- ◆ Shift of business from unorganised to organized segment to be a notable trend under GST regime.
- ◆ Current market share of APL Apollo ~12% which owing to GST to further increase and thus strengthen its leadership position in the Indian Steel Tubes and Pipes segment.
- ◆ Post GST implementation, APL Apollo reported a robust +27% volume growth in July and August 2017

### Q1FY18 - Sales Volume Break-Up



### Consistently growing no. of distributors and warehouses



### Further strengthening market presence

- ◆ Plans to add over 12 new warehouses; c26 warehouses of company Pan-India
- ◆ To grow distributors by ~17% YoY to 700 by end FY18E
- ◆ FY17 end no. of retailers at 40,000; to add 15,000 more by FY18E

	FY17	Additions	Target FY18
Warehouses	26	12	38
Distributor/Dealers	600	100	700
Retailers	40,000	15,000	55,000

## Moving towards Vision 2020

### Tech Tie-Up a Strategic move

- ◆ APL Apollo Tubes forms JV with 'one-to-one holdings' for latest '*In-Line Galvanizing Technology*'
- ◆ Background of o2Oh :
  - A Singapore based holding company of Japan based Daiwa Steel Tubes Industries and US based Superior Technology
  - 66:34 JV to be owned between APL Apollo Tubes and o2Oh
  - JV to be called Apollo Daiwa Eco Tubes Pvt. Ltd.
- ◆ Objective of JV :
  - To develop, manufacture and commercialize the In-line Galvanizing Technology
  - Margins in In-Line Galvanizing are better than traditional Round Black pipes
  - To establish 1 line of 50,000 MTPA by H1FY19
  - Expect to gain in-roads in garnering higher share of OEM and Export business

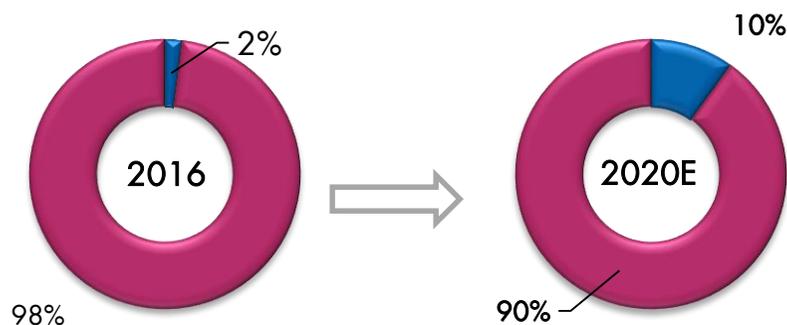
### Raipur Green-field Capacity – gateway to Eastern & Central India

- ◆ Raipur greenfield expansion ensures APL Apollo to be only player with Pan-India manufacturing footprint.
- ◆ Capacity at Raipur 0.325MTPA (3 DFT Lines & 3 Regular Lines of 0.2MTPA to become fully operational by Q4FY18
- ◆ Total capex earmarked is Rs. 120-135 Cr. funded through internal accruals.
- ◆ Will lead to being closer to market and thus savings on transport and freight cost of ~2%
- ◆ Total market size of Central & Eastern India 1-1.25MTPA
- ◆ Focus to be on manufacturing high margin GI/GP Pipes, DFT Products than existing MS Black pipes offered by existing unorganized players in Eastern & Central India.

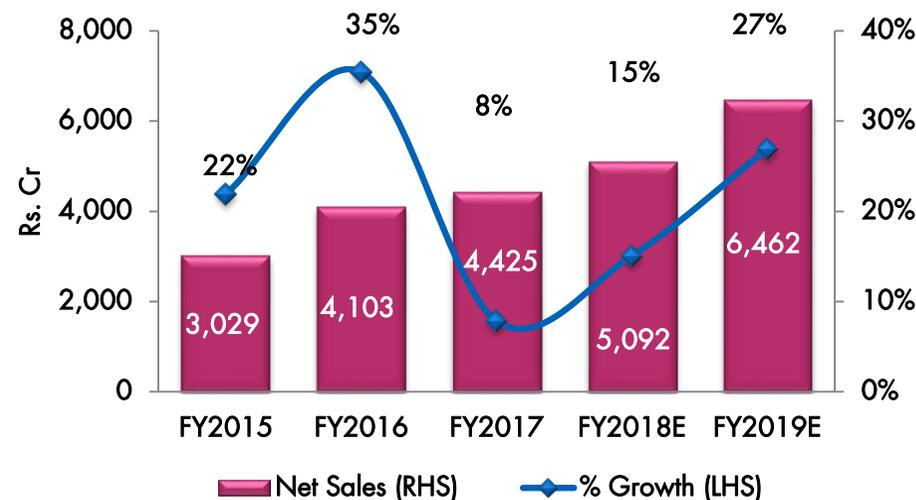
## Financial Commentary

- Volume CAGR ~21% over FY17-FY19E to drive topline:
  - Aggressively expanded capacities by 36% CAGR over FY06-17 leading to strong volume growth.
  - Additionally, shift from unorganized producers to organized ones like APL Apollo to report volumes of over 9mn tonnes in FY17.
  - Greenfield plant at Raipur will add to volume production – east and central Indian markets are underpenetrated.
  - Besides, addition of 9 DFT line across its manufacturing plant augurs well for scaling its OEM & Export Sales over FY17-FY20E.

### Vision 2020 – Rising OEM Share



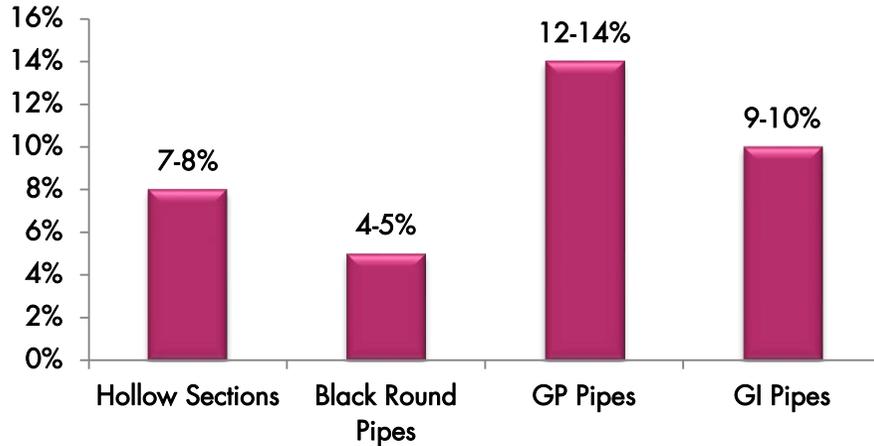
### Topline growth of 21% CAGR over FY17-19E



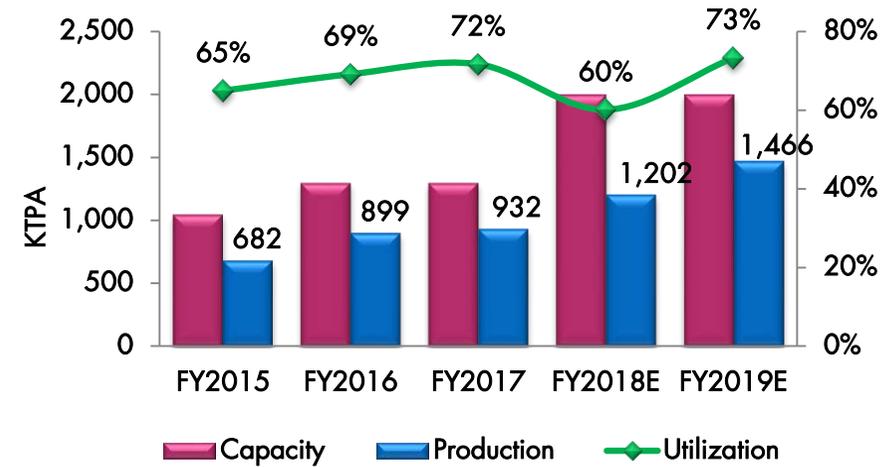
- OEM Opportunity awaiting unlocking driven by DFT
  - cVolume ~3% of total production; largely to solar panel manufacturers & large residential projects
  - Revenue contribution expected to reach 10% by FY2020E
  - Strategic partnership with NEXTracker Inc. a leading solar tracking company – step in right direction; renewable energy market as hugely untapped potential
  - Strategy to penetrate OEM market segment like Automobile, Solar Power through DFT enabled customization of shapes and sizes

## EBITDA/Ton improves led by better product mix; operating efficiency

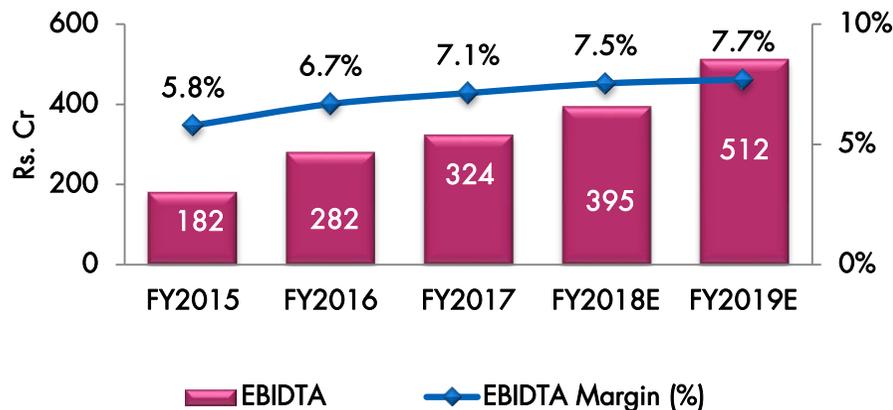
### Conscious shift to higher margin products....



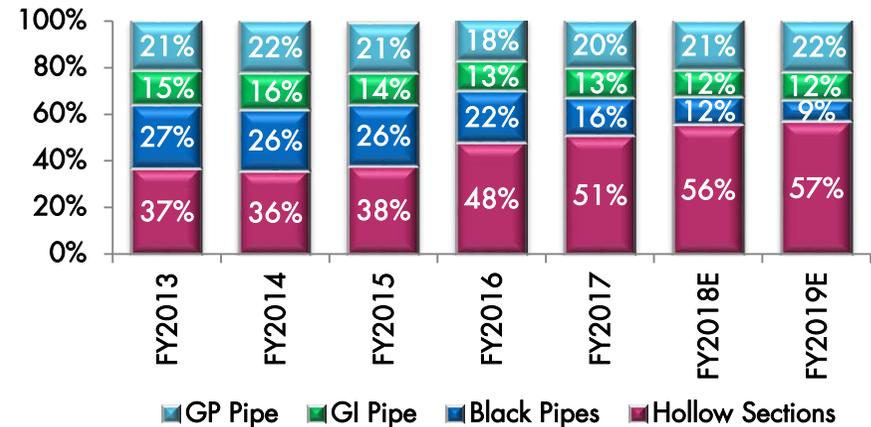
### ....with improving utilization levels



### ....leading to improving EBITDA Margin and EBITDA/tonne



### Hollow Sections continue to dominate product mix in FY19E



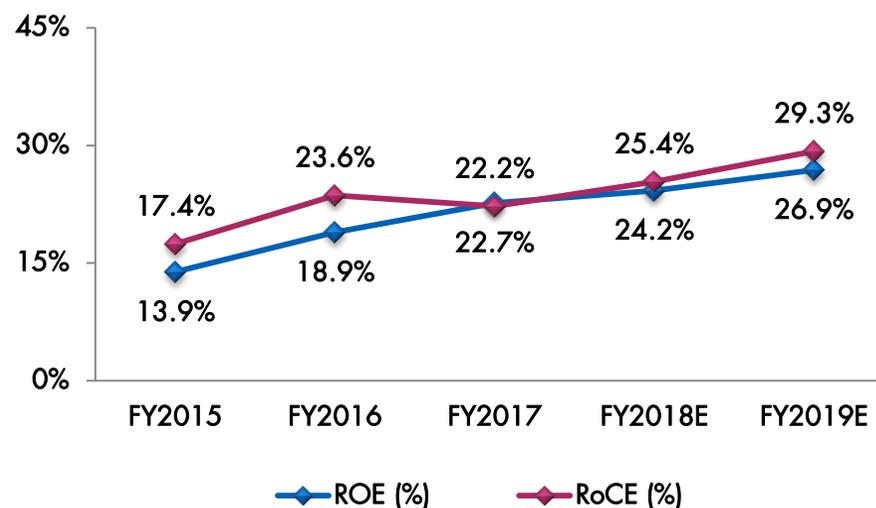
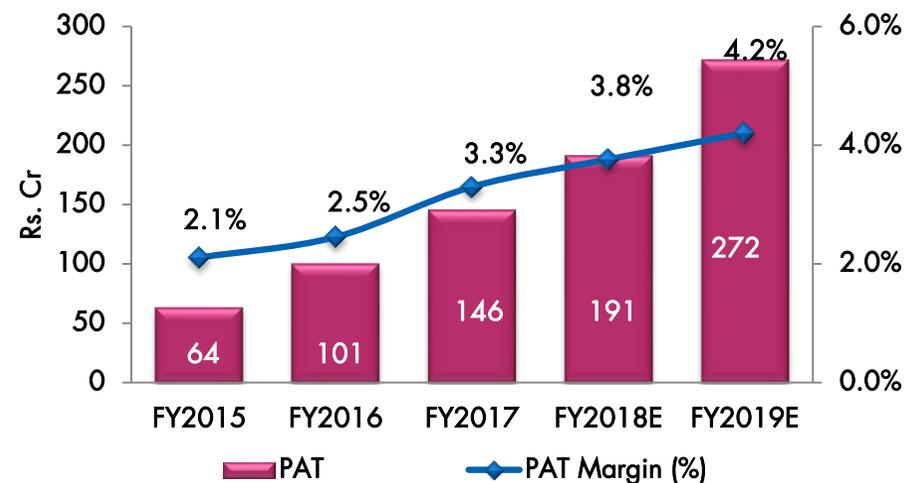
## Financial Commentary

### Earnings CAGR of 36% over FY17-19E

- ◆ APL recorded a profit CAGR of 21% during FY13-17 as a part of the operating profit was eaten away largely by interest cost.
- ◆ We estimate APL to start generating free cash flows from FY19E as major capex will be over by FY18E,
- ◆ Net Profit is estimated to report 36% CAGR over FY17-19E to Rs. 272 Cr.

### Higher profitability to improve Return Ratios

- ◆ ROE's to improve to ~27% in FY19E from ~19% in FY16, driven by better operating profit (net margin to improve to 4.3% in FY19E from 2.5% in FY16)

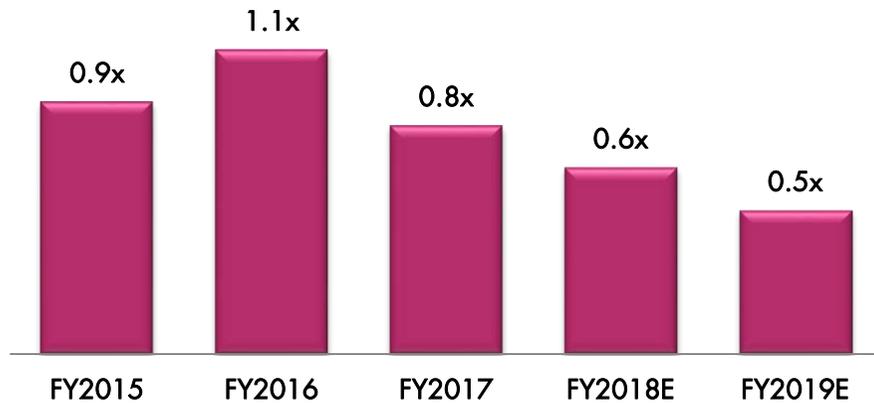


## Financial Commentary

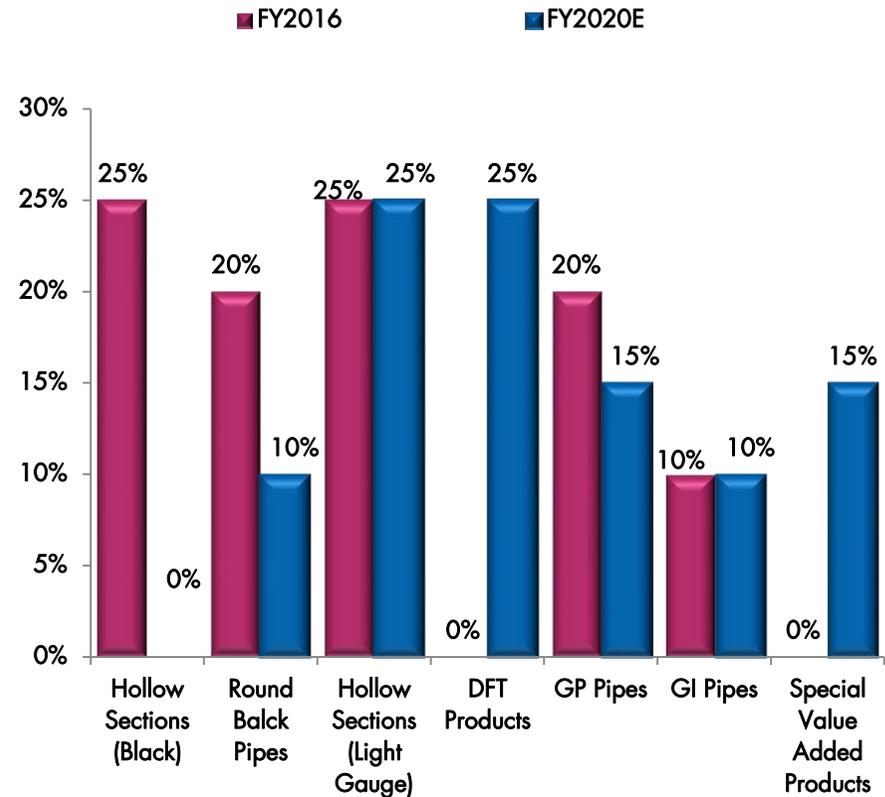
### Strong balance sheet; may deleverage further

- ◆ APL has maintained strong balance sheet despite aggressive growth in capacity creation. Its Net Debt-Equity ratio remained in the range of 0.9-1.2x from FY13-FY17.
- ◆ Improving cash flows, Balance sheet to further deleverage over FY17-FY20E.
- ◆ We expect the Net Debt-Equity ratio to go down to 0.5x in FY19E from 1.1x in FY16.
- ◆ Improvement in Credit rating adds to our conviction

### Declining Debt:Equity a healthy balance sheet



### Vision 2020 : Shift towards Value Added Products



90% contribution from Value Added Product envisaged by FY2020E

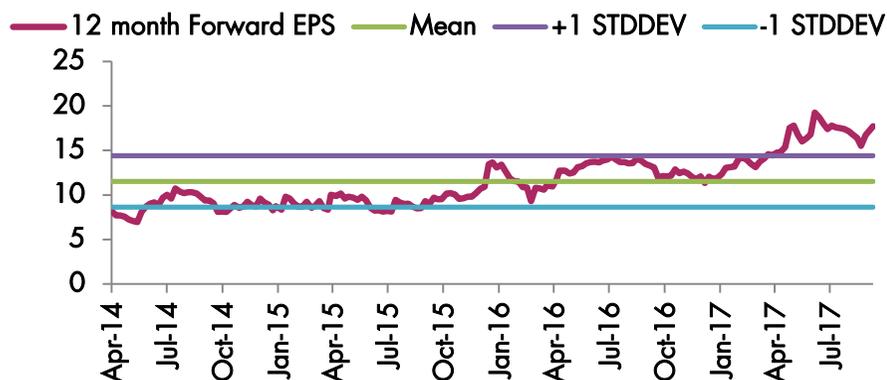
## Peer Comparison

	As of 28th Sept 2017		FY2017						TTM		FY2018E		FY2019E		
	Market Cap (Full) Rs. Cr	CMP	Net Sales (Rs.cr)	YoY Sales (%)	EBITDA Margin	PAT (Rs. cr)	Debt: Equity (x)	ROE (%)	ROCE (%)	P/E	EV/ EBITDA	P/E	EV/ EBITDA	P/E	EV/ EBITDA
APL Apollo	3,977	1,686	4,425	8%	7.1%	146	0.8x	23%	30%	27.1x	14.0x	20.6x	11.5x	14.5x	8.9x
Surya Roshni	1,290	294	3,145	6%	7.2%	66	1.1x	9%	11%	18.9x	9.6x	16.6x	7.7x	14.7x	7.2x
Ratnamani Metals	4,065	870	1,412	-18%	18.2%	144	0.0x	12%	17%	26.8x	14.8x	24.2x	13.0x	20.7x	11.2x
Maharashtra Seamless	2,877	408	1,434	41%	15.7%	116	0.2x	4%	5%	23.5x	12.1x	16.4x	8.0x	13.6x	6.7x
Goodluck India	182	82	1,205	9%	7.3%	22	1.5x	9%	11%	8.8x	6.7x	7.1x	5.2x	5.9x	4.4x

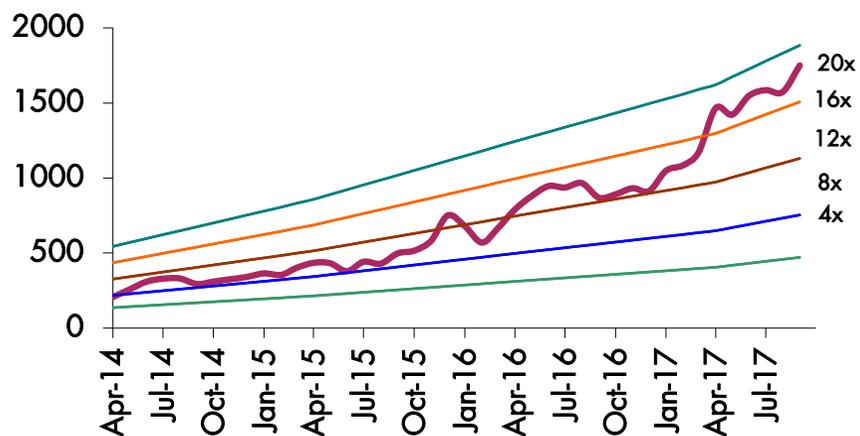
Source : Company; Axis Securities Research; Bloomberg

## Outlook & Valuations

### P/E band



### 12mth fwd P/E (x)



### Valuation

- ◆ We estimate APL Apollo Tubes to post Total Revenues CAGR of 21% and bottom-line at 36% over FY17-FY19E
- ◆ We expect the company to report EBITDA Margin of ~7.7% by FY19E versus 7.1% in FY17 (+60bps)
- ◆ ROEs are estimated to increase to +25% over FY17-FY19E
- ◆ We value APL Apollo at 19.1x FY19E EPS given the growth prospects and arrive at a **price target of Rs. 2,195 (30% Upside)**

### Risk Factors

- ◆ Volatility in HR Coil Prices a key RM forming ~85% of Total RM Cost
- ◆ Relatively low entry barriers due to commodity nature of business. However, APL Apollo has mitigated this risk by using advanced technology, distribution network and image turnaround from B2B to B2C company,
- ◆ Delay in capacity expansion could impact volumes growth trajectory

## Management Bandwidth

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### Executive Chairman

Founder & Promoter of APL Apollo Tubes since inception. Has a diverse experience across the steel industry segments of over 20 years. Instrumental in driving APL towards the growth path. He spearheads the company in strategic road map and formulating business plans

**Mr. Sanjay Gupta**

### Managing Director

A steel industry veteran with over 30 years of experience in the industry. He has worked in various senior managerial positions at companies like SAIL, Bhushan Steel, LN Mittal (African Continent), Jindal etc. A Master's in Science (Physics) and masters in management from AIMA

**Mr. Ashok Gupta**

### Director

He has over 18 years of experience in exports and international market. He possesses in-depth knowledge of manufacturing and trading pipes, tubes, sheets and other steel products. He has been specifically assigned with the development of pre-galvanized business.

**Mr. Vinay Gupta**

### Chief Financial Officer

Chartered Accountant by profession, he has been a CFO of the company since February 2015 prior to which he was the General Manager Accounts

**Mr. Deepak Goyal**

## Financials (Consolidated)

### Profit & Loss

(Rs Cr)

YE March	FY15	FY16	FY17	FY18E	FY19E
<b>Net Sales</b>	<b>3,029</b>	<b>4,103</b>	<b>4,425</b>	<b>5,092</b>	<b>6,462</b>
<i>Growth %</i>	<i>22%</i>	<i>35%</i>	<i>8%</i>	<i>15%</i>	<i>27%</i>
Total Operating Costs	2,957	3,932	4,221	4,849	5,950
<i>Growth %</i>	<i>27%</i>	<i>33%</i>	<i>7%</i>	<i>15%</i>	<i>23%</i>
<b>EBITDA</b>	<b>182</b>	<b>282</b>	<b>324</b>	<b>395</b>	<b>512</b>
<i>Growth %</i>	<i>10%</i>	<i>55%</i>	<i>15%</i>	<i>22%</i>	<i>30%</i>
Depreciation on Tangible Assets	22	34	51	52	52
<b>Operating Profit (EBIT)</b>	<b>164</b>	<b>258</b>	<b>277</b>	<b>352</b>	<b>472</b>
<i>Growth %</i>	<i>9%</i>	<i>57%</i>	<i>7%</i>	<i>27%</i>	<i>34%</i>
Finance Costs	66	70	68	63	61
Profit before taxes (before exceptional items)	98	188	209	290	411
<i>Growth %</i>	<i>9%</i>	<i>93%</i>	<i>11%</i>	<i>39%</i>	<i>42%</i>
<b>Profit Before Taxes (PBT)</b>	<b>98</b>	<b>163</b>	<b>209</b>	<b>290</b>	<b>411</b>
Provision for Tax	34	62	63	98	139
<b>Profit After Tax</b>	<b>64</b>	<b>101</b>	<b>146</b>	<b>191</b>	<b>272</b>
<i>Growth %</i>	<i>8%</i>	<i>58%</i>	<i>45%</i>	<i>31%</i>	<i>42%</i>
<b>Diluted EPS</b>	<b>27.2</b>	<b>42.9</b>	<b>62.2</b>	<b>81.1</b>	<b>115.2</b>
<i>Growth %</i>	<i>6%</i>	<i>58%</i>	<i>45%</i>	<i>30%</i>	<i>42%</i>

Source: Company, Axis Securities

### Balance Sheet

(Rs Cr)

YE March	FY15	FY16	FY17	FY18E	FY19E
<b>Non-current assets</b>					
Fixed Assets	571	623	668	741	789
CWIP	24	32	122	122	122
Other	62	59	79	79	79
<b>Total Non Current Assets</b>	<b>719</b>	<b>771</b>	<b>949</b>	<b>1,022</b>	<b>1,071</b>
<b>Current assets</b>					
Cash and Cash Equivalent	19	1	2	18	28
Trade Accounts Receivable	175	220	295	296	364
Inventories	320	594	470	559	687
<b>Total Current Assets</b>	<b>603</b>	<b>890</b>	<b>901</b>	<b>1,007</b>	<b>1,213</b>
<b>Total Assets</b>	<b>1,323</b>	<b>1,660</b>	<b>1,850</b>	<b>2,029</b>	<b>2,284</b>
<b>Current liabilities</b>					
Trade Accounts Payable	205	254	370	401	464
Other Current liabilities	87	104	82	82	82
Short-Term Borrowing	293	411	466	462	441
<b>Total Current Liabilities</b>	<b>609</b>	<b>813</b>	<b>926</b>	<b>953</b>	<b>995</b>
<b>Non-current liabilities</b>					
Long-term borrowing	141	188	105	104	99
Long-term provisions	3	5	7	7	7
<b>Total Non-Current Liabilities</b>	<b>219</b>	<b>280</b>	<b>204</b>	<b>203</b>	<b>198</b>
<b>Total Liabilities</b>	<b>828</b>	<b>1,093</b>	<b>1,130</b>	<b>1,156</b>	<b>1,193</b>
<b>Total Shareholders' Equity</b>	<b>495</b>	<b>568</b>	<b>720</b>	<b>873</b>	<b>1,091</b>
<b>Total Equity and Liabilities</b>	<b>1,323</b>	<b>1,660</b>	<b>1,850</b>	<b>2,029</b>	<b>2,284</b>

## Financials (Consolidated)

Cash Flow	(Rs Cr)				
	YE March	FY15	FY16	FY17	FY18E
Profit Before Taxes (PBT)	98	163	209	290	411
Non-cash adjustments	87	103	121	114	112
Change in operating working capital	48	(233)	69	(59)	(133)
<b>Cash flows from Operating Activities</b>	<b>271</b>	<b>11</b>	<b>338</b>	<b>247</b>	<b>250</b>
(Purchase) of fixed assets incl Cap Adv. & CWIP	(35)	(126)	(36)	(125)	(100)
<b>Cash flow generated / (used) in Investment Activities</b>	<b>(33)</b>	<b>(93)</b>	<b>(188)</b>	<b>(125)</b>	<b>(100)</b>
Proceeds/(Repayment) of Short Term Borrowings (Net)	(5)	120	48	(4)	(20)
Finance Cost Paid	(66)	(70)	(69)	(63)	(61)
Dividend Paid	0	(8)	(23)	(38)	(54)
<b>Cash flow generated / (used) in Financing Activities</b>	<b>(201)</b>	<b>90</b>	<b>(152)</b>	<b>(106)</b>	<b>(140)</b>
<b>Change in cash and cash equivalents</b>	<b>36</b>	<b>9</b>	<b>(1)</b>	<b>16</b>	<b>11</b>
<b>Net Financial position at the beginning of the period</b>	<b>160</b>	<b>196</b>	<b>205</b>	<b>204</b>	<b>220</b>
<b>Net Financial position at the end of the period</b>	<b>196</b>	<b>205</b>	<b>204</b>	<b>220</b>	<b>230</b>

Source: Company, Axis Securities

Ratio Analysis	FY15					FY19E
	FY15	FY16	FY17	FY18E	FY19E	
<b>Return Ratios</b>						
Asset Turnover	2.45x	2.75x	2.52x	2.64x	2.93x	
ROE (%)	13.9%	18.9%	22.7%	24.2%	26.9%	
ROCE (%)	17.4%	23.6%	22.2%	25.4%	29.3%	
ROA (%)	5.2%	6.7%	8.3%	10.0%	12.3%	
<b>Profitability Ratios (%)</b>						
EBITDA Margin %	5.8%	6.7%	7.1%	7.5%	7.7%	
Net Margin (%)	2.1%	2.5%	3.3%	3.8%	4.2%	
<b>Leverage Ratios</b>						
Debt - Equity Ratio	0.9x	1.1x	0.8x	0.6x	0.5x	
Interest Coverage	2.4x	3.6x	4.0x	5.5x	7.4x	
<b>Valuation Ratios</b>						
EV/EBITDA	25.2x	16.2x	14.1x	11.5x	9.1x	
EV/Sales	1.5x	1.1x	1.0x	0.9x	0.7x	
P/E	62.3x	39.5x	27.2x	20.5x	15.1x	
<b>Liquidity Ratios</b>						
Current Ratio	1.0x	1.1x	1.0x	1.1x	1.2x	
Quick Ratio	0.5x	0.6x	0.5x	0.6x	0.8x	

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