

APL APOLLO TUBES LTD.

CMP : ₹952.70 | **Target price: ₹1440** | **HP* : Upto 3 years**

Our Vriddhi pick for the month of January 2021 is APL Apollo Tubes Limited. APL is engaged in the manufacturing of steel pipes & tubes with a capacity of 26.50 lakh MTPA as on September 30, 2020. It manufactures over 1,500 varieties of MS black pipes, galvanised tubes, pre-galvanised tubes, structural ERW steel tubes and hollow sections to serve industry applications like urban infrastructures, housing, irrigation, solar plants, greenhouses and engineering. Its capacities are geographically diversified with South being at 42 per cent, North at 30 per cent, West-15 per cent and East at 13 per cent, which keeps the company relatively insulated from regional demand-supply dynamics.

Wide distribution network with gaining market share

APL Apollo Tubes has wide & deeply entrenched 3-tier distribution network, comprising more than 800+ distributors, which is spread throughout the country, with 50,000 retailers and 2 lakh fabricators in over 20 cities, serving the growing demand for structural steel. It also enjoys a global footprint across 20 nations. The company's market share in structural steel tubing industry has increased to 50 per cent at the end of H1FY21 from 40 per cent at the end of FY20. It wants to further increase its market share by focussing in rural areas and gaining market share from smaller players. On the operating level too, significant improvement is seen. The company's management intends to increase EBITDA per tonnes from Rs 3,500 to Rs 4,000 by Q4FY21 and ultimately reach to Rs 5,000 per tonnes in FY22. Its product mix includes base products (55 per cent) and value-added products (45 per cent). The management has given a strong volume growth guidance for its value-added products in the range of 40-45 per cent in upcoming years.

Acquisitions

In FY20, the company had concluded the acquisition of a production unit in Hyderabad from Taurus Value Steel & Pipes, a subsidiary of Shankara Building Products Limited (SBPL). It has a production capacity of around 2,00,000 tonnes per annum and includes manufacturing lines for GI & GP pipes, which are APL Apollo's high-margin and value-added product segments. This unit would strengthen its presence in the large and value-added markets of South India. It commenced operations in the Q2FY20. It has installed cold-rolling capacity at its Sikandrabad unit, an essential backward integration that will help sustain the supply of quality inputs and will optimise operational costs. It also invested Rs 60 crore in acquiring additional land parcels which is nearby to its recently-commissioned Raipur manufacturing unit. This land would be utilised for greenfield expansions in future. It also further acquired the controlling stake in Apollo TriCoat, making it a wholly-owned subsidiary. This would further enhance its portfolio of value-added products.

Focus on pipe segment

The company has been focusing to widen its presence and market share

*HP : Holding Period

Company Details

Industry	Steel & Iron Products
Chairman	Sanjay Gupta
Managing Director	Sanjay Gupta
Company Secretary	Deepak C S
ISIN Code	INE702C01027
Bloomberg Code	APAT IN
BSE Code	533758

Key Market Ratio

Latest Date	14-Jan-21
Latest Price (Rs)	952.70
Previous Close (Rs)	953.80
1 Day Price Var %	-0.2
1 Year Price Var %	153.09
52 Week High (Rs)	989
52 Week Low (Rs)	205
Beta	1.01
Face Value (Rs)	2
Industry PE	25.41
TTM Period	202009
TTM EPS (Rs)	19.23
TTM CEPS(Rs)	29.59
Price/TTM CEPS(x)	32.57
TTM PE (x)	50.11
Price/BV(x)	8.4
EV/TTM EBITDA(x)	23.36
EV/TTM Sales(x)	1.82
Dividend Yield%	0
MCap/TTM Sales(x)	1.7
Latest Book Value (Rs)	114.77
Market Cap (Rs in Crores)	12026
EV (Rs)	12814
Latest no. of sharesCrores	12

Share Holding Pattern as on 202009

Promoter No of shares (Rs in Crores)	11-Jan-21
Promoter %	1.01
FII No of Shares (Rs in Crores)	2
FII %	25.41
Total No of Shares (Rs in Crores)	202009
Free Float %	19.23

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in the large diameter (150 x 150 mm to 300 x 300 mm) pipe segment. It is the fastest growing segment in the structural tubing space. In developed nations, the large-diameter pipe market is about 25-30 per cent of the structural tubing industry, while in India, it is still at 3-5 per cent. Hence, the scope for growth is immense. The large-diameter pipes account for about 7-8 per cent of the APL sales volumes as against 3-4 per cent for other players. In the next 3-4 years, APL Apollo intends to grow this segment significantly so that it contributes 15-20 per cent of the total sales volumes.

Demand drivers

The government has formed a panel to look into the upward revision of the floor space index (FSI) norms in all major cities, which would drive the number of high-rises in Indian cities. This verticalisation will give significant opportunities for APL Apollo, which is the India's largest in making structural tubes – a key component of vertical realty development. Infrastructure development has become the key focus area of the government in India over the last few years. The infrastructure segment is estimated to attract investment worth Rs 100 trillion by 2024-25. As steel structural tubes play a vital role in infrastructure development, APL Apollo has a bunch of other opportunities to grab, going ahead. Also, Airports Authority of India (AAI) has drawn up a plan to invest about Rs 19,000 crore in upgrading the airport infrastructure, especially in smaller cities, over the next three years. This should contribute to an accelerated demand for structural steel tubes in which APL Apollo Tubes is the segment leader.

Financial performance

APL Apollo Tubes' consolidated revenue for the quarter Q2FY21 came in at Rs 2,202.05 crore as against Rs 1,647.28 crore in the corresponding quarter last year, registering a 33.7 per cent YoY increase. EBITDA for the quarter grew by 134.9 per cent YoY to Rs 169.08 crore as against Rs 71.97 crore in the corresponding quarter last year, with a corresponding margin expansion of 331 bps. EBITDA margin for the quarter stood at 7.7 per cent. PAT for the quarter came in at Rs 102.63 crore as against Rs 59.83 crore in the corresponding quarter last year, with a YoY increase of 71.5 per cent.

The company's sales and net profit have grown at a CAGR of 20 per cent and 32 per cent, respectively over the last 5 years. Its debt-to-equity ratio has improved from 0.6x in FY20 to 0.2x by the end of H1FY21. The company plans to become debt-free by the end of FY21. Recently, the stock of APL Apollo was split from face value of Rs 10 to Rs 2. This was done with an intention to facilitate larger shareholder base, to increase liquidity as well as to make the shares more affordable to investors.

Inc/Exp Statement (Consolidated)

Description	202003	201903	201803	201703	201603
Net Sales	7723.23	7152.32	5334.77	3923.9	4213.59
Total Income	7745.41	7168.2	5342.78	3929.87	4223.86
Total Expenditure	7245.89	6763.65	4963.73	3590.93	3931.93
PBITD	499.52	404.55	379.05	338.94	291.93
PAT	256	148.25	158.13	152.11	100.57
Dividend %		140	140	120	100
Adj. EPS(Rs)	19.14	12.43	13.33	12.9	8.58



Market share in structural steel tubing industry has increased to 50 per cent in H1FY21 from 40 per cent in FY20



Concluded the acquisition of a production unit in Hyderabad from Taurus Value Steel & Pipes who has a production capacity of around 2,00,000 tonnes p.a.



It has further acquired the controlling stake in Apollo TriCoat, making it a wholly-owned subsidiary

Quarter On Quarter (Consolidated)

Particulars	202009	202006	Q on Q Var %	201909	Y on Y Var %
Net Sales	2130.30	1079.23	97.39	1583.81	34.50
Total Expenditure	2032.97	1038.74	95.72	1575.30	29.05
PBIDT (Excl OI)	169.08	71.07	137.91	71.98	134.90
PAT	102.63	21.89	368.84	59.83	71.54
PBIDTM% (Excl OI)	7.68	6.40	20.00	4.37	75.74
PBIDTM%	8.14	6.84	19.01	4.65	75.05
PATM%	4.66	1.97	136.55	3.63	28.37
Adj. EPS(Rs)	7.39	1.35	447.41	4.55	62.42

Outlook

In FY20, the company delivered ROE and ROCE of 22.2 per cent and 20.1 per cent, respectively. The company's strong distribution network and supply chain has enabled it to foray in the areas where the demand has been growing. It has been also successful in gaining 10 per cent market share in just six months and that too during this pandemic crisis. The recent acquisitions have helped the company in increasing its overall production capacity, which would drive the revenue and volumes in the value-added segments, going forward. The room for growth in the large diameter piping segment is huge as the segment is yet underpenetrated in India, which gives further opportunities to the company. The verticalisation and infrastructure development in India would attract huge demand for steel structural tubes that would augur well for the company in the near term. Considering all these factors, we see a potential upside of 51 per cent with a target price of Rs 1,440 for a period of three years. Also, considering the current market situation, we recommend investors to make investments in two tranches. The first one can be done soon after the recommendation while the next one can be done whenever there is a correction or dip in the stock.

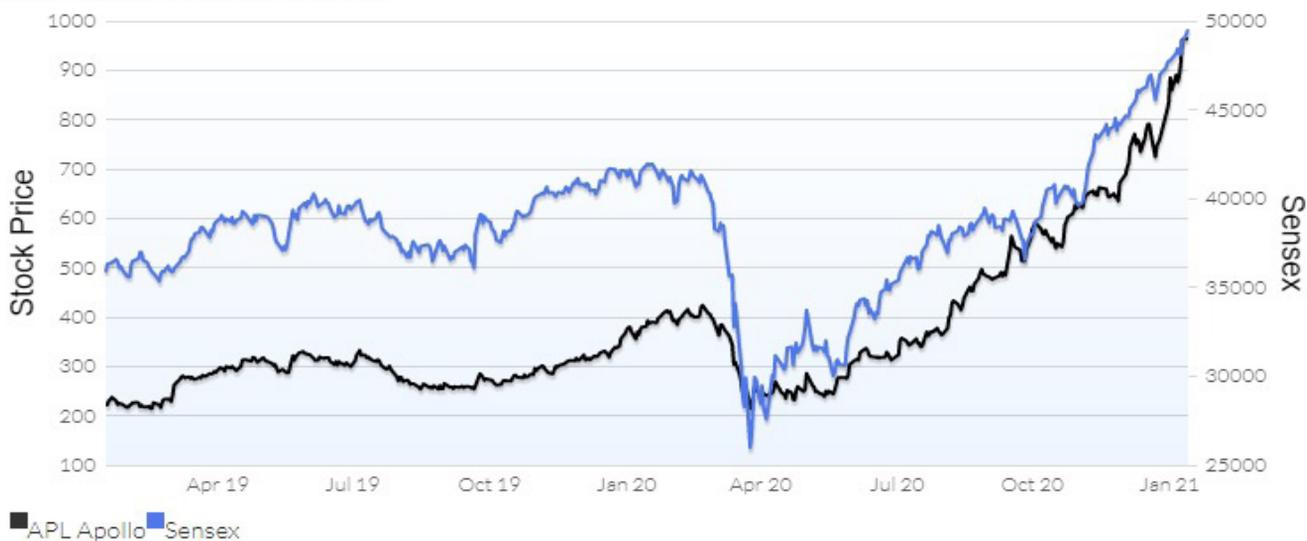
About the company

Incorporated in 1986, APL Apollo is one of India's leading building material structural steel tube brands. It has a pan-India presence with ten manufacturing units located in Sikandarabad (3 units), Bengaluru, Hyderabad, Hosur (Tamil Nadu), Raipur (Chhattisgarh) and Murbad (Maharashtra), having a total of 2.5 million TPA of structural steel tube making capacity. Its multi-product offerings have industry applications across urban infrastructures, housing, commercial, irrigation and industrials. It introduced pre-galvanised tubes (GP) in India for the first time in 2003, which is now more than a 1-MNT market. It has also introduced the discrete Fourier transform (DFT) technology, a first-of-its-kind for the Indian industry, which allow cost-effective customisation to meet client requirements.

The infrastructure segment is estimated to attract investment worth Rs 100 trillion by 2024-25

Airports Authority of India (AAI) has drawn up a plan to invest about Rs 19,000 crore in upgrading the airport infrastructure over the next three years

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