

APL Apollo Tubes (APAT) reported strong Q3 numbers. Revenues grew 25.8% YoY and 28.8% QoQ to Rs 20,405m driven by volume growth. EBITDA stood at Rs 1,605m, as against Rs 592m in Q3FY19 (+171%) and Rs 720m in Q2FY20 (+122.9%). Despite improvement in gross margins by 690bps YoY and 370bps QoQ, EBITDAM expanded by 410bps YoY and 320bps QoQ to 7.6% due to an increase in other expenses (higher branding expenses and change in trade policy). PAT increased to Rs 832m as against Rs 129m in Q3FY19 (+546.9%) and Rs 599m in Q2FY20 (+39.1%).

Sales volumes stood at 480,225 MT up 52.6% YoY and 31.9% QoQ. Volumes increased on account of production efficiency, foray into new locations, increased branding expenditure, re-stocking at dealer end and improvement in demand scenario. The company is on track to surpass its volume guidance of 20+% growth. EBITDA/ton stood at Rs 3,342 up 77.6% YoY and 69% QoQ on account of improved product mix (Increased sales of Apollo Z and Apollo Build) and operating leverage gains.

We expect revenue/EBITDA/PAT to grow at 2-year CAGR of 16.6%/23.5%/32.3% to Rs 109.8bn/ Rs 8.1bn/ Rs 4.5bn over FY20E-22E respectively. We expect EBITDA/ton to improve from Rs 3,092 in FY20E to Rs 3,572 in FY22E on back of better realizations as demand environment improves, higher contribution of large diameter products and other value added products, increase in volumes of Apollo Tricoat and operating leverage. With no major capex now, APAT is expected to generate free cash of Rs 8.1bn over FY21E-22E which will be utilized towards debt repayment. However interest cost is likely to stay flat as repayment of long term debt will be off-set by increase in borrowings for working capital.

At CMP, the stock is trading at EV/EBITDA of 8.0x FY21E and 6.4x FY22E. We maintain our BUY rating with a TP of Rs 2,605. (8.0x FY22E EBITDA).

Key financials (Y/e March)	2019	2020E	2021E	2022E
Revenues (Rs m)	71,523	80,682	96,666	1,09,768
Growth (%)	34.1	12.8	19.8	13.6
EBITDA (Rs m)	3,928	5,325	6,786	8,123
PAT (Rs m)	1,482	2,566	3,621	4,490
EPS (Rs)	62.2	105.8	149.3	185.2
Growth (%)	(6.2)	70.2	41.1	24.0
CEPS (Rs)	89.1	145.7	191.3	234.3
Net DPS (Rs)	14.0	13.8	13.8	13.8
Profitability & Valuation	2019	2020E	2021E	2022E
EBITDA margin (%)	5.5	6.6	7.0	7.4
RoE (%)	16.5	23.0	25.3	25.0
RoCE (%)	27.7	29.4	32.2	32.8
EV / sales (x)	0.8	0.7	0.6	0.5
EV / EBITDA (x)	14.6	10.7	8.0	6.4
PE (x)	33.2	19.5	13.8	11.2
P / BV (x)	5.1	3.9	3.1	2.5
Net dividend yield (%)	0.7	0.7	0.7	0.7

Source: Company Data, PL Research

Q3FY20 Result Update

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Rating	BUY
Price	Rs 2,066
Target Price	Rs 2,605
Implied Upside	26%
Sensex	41,155
Nifty	12,119
Bloomberg Code	APAT:IN
Reuters Code	APLA.NS
<i>(Prices as on January 27, 2020)</i>	

Tracking Data

Market Cap (Rs bn)	50.1
Shares O/s (m)	24.3
3M Avg. Daily Value (Rs m)	106.2

Major Shareholders

Promoters	38.4
Domestic Inst.	14.8
Public & Others	47.8

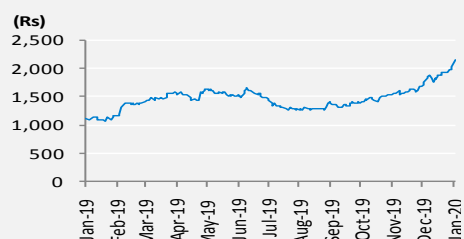
Stock Performance

(%)	1M	6M	12M
Absolute	14.5	40.3	83.2
Relative	14.5	31.7	69.6

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2021E	149.3	126.7	17.8
2022E	185.2	166.6	11.2

Price Chart



Double digit volume growth to sustain going forward

The company has delivered 34.1% volume growth in 9MFY20 on back of steady demand, stable macro environment and investment in branding which is now yielding results. Going ahead, the management is confident of sustaining double digit volume growth and has sufficient capacity for the same.

Focus on Large Diameter Products

APAT is currently focused on strengthening its presence in the large diameter pipes which consists of 150*150mm to 300*300mm range. Being pioneers of large diameter pipes in India, they have successfully seeded demand for these products and believe there is further potential to grow.

This segment currently accounts for 7-8% of APL's volumes and 3-4% of the industry. It is expected to increase to ~15% by setting up a separate team that will look into branding, marketing and sales. Mr P. K. Singh (ex – chairman Steel Authority of India) has been appointed as the executive director. EBITDA/ton on large diameter products is double the company's average and hence as volumes grow, it will boost the overall profitability of the company.

Volume ramp up from Apollo Tricoat

During 9MFY20, it reported volumes of 84,963 MT driven by quick ramp up of products. They are expected to further improve as the facilities stabilize. New product launches will also assist volumes growth. Apollo Tricoat follows a 'Cost Plus' model to price its products which allows them to enjoy a stable per ton EBITDA. Average EBITDA/ton for the nine months stood at ~Rs 6,100.

Branding expense to continue going forward

APAT has budgeted branding expenses of Rs 400-500m for FY20 of which Rs 270m was incurred during 9MFY20. Nation-wide branding campaign has helped the company grow volumes and market share (36% in FY19 vs 40% currently). The management expects to further grow market share at the cost of unorganised players.

Promoter infusion utilized towards working capital

During Q3FY19, the promoters converted 500,000 warrants into equity shares by infusing Rs 750m. The total promoter infusion stands at Rs 1,720m. The money has been used to meet the working capital requirements of the company. Net working capital days reduced during 9MFY20 to ~28 days from 34days in FY19.

No major capex going forward

APAT incurred majority of its FY20 capex in the first 9 months itself and capex for Q4FY20 is expected to be minimal. At current utilisation levels, there is headroom for the company to grow volumes in double digits for the next 12-15 months. Hence no major capex is expected during FY21E. In case of pickup in demand, the company can set up 1-2 mills at the land in Raipur at a low cost within a short period of time.

Surplus cash to be utilized for deleveraging

During 9MFY20 APAT reduced its borrowings by ~Rs 1.1bn (excl Apollo Tricoat) and going forward the management expects borrowings to further reduce on the back of strong cash flows generation and minimal capex in FY21E.

Financial Overview

We expect revenue/EBITDA/PAT to grow at 2-year CAGR of 16.6%/23.5%/32.3% to Rs 109.8bn/ Rs 8.1bn/ Rs 4.5bn over FY20E-22E respectively. We expect EBITDA/ton to improve from Rs 3,092 in FY20E to Rs 3,572 in FY22E on back of better realizations as demand environment improves, higher contribution of large diameter products and other value added products, increase in volumes of Apollo Tricoat and operating leverage. With no major capex now, APAT is expected to generate free cash of Rs 8.1bn over FY21E-22E which will be utilized towards debt repayment. However interest cost is likely to stay flat as repayment of long term debt will be off-set by increase in borrowings for working capital.

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Q3FY20 Result Overview (Rs m)							
Y/e March	Q3 '20	Q3'19	YoY gr. (%)	Q2 '20	9M'20	9M'19	YoY gr. (%)
Gross Sales	20,405	16,216	25.8	15,838	56,179	48,705	15.3
Other Operating Income	754	696	8.4	635	2,169	1,877	15.6
Net Revenue	21,159	16,912	25.1	16,473	58,347	50,582	15.4
Expenditure							
Raw Material Cost	17,633	15,257	15.6	14,334	49,918	44,894	11.2
<i>% of revenue</i>	<i>83.3</i>	<i>90.2</i>		<i>87.0</i>	<i>85.6</i>	<i>88.8</i>	
Employee Cost	382	259	47.1	354	1,036	793	30.7
<i>% of revenue</i>	<i>1.8</i>	<i>1.5</i>		<i>2.1</i>	<i>1.8</i>	<i>1.6</i>	
Other Expense	1,539	804	91.5	1,065	3,818	2,354	62.2
<i>% of revenue</i>	<i>7.3</i>	<i>4.8</i>		<i>6.5</i>	<i>6.5</i>	<i>4.7</i>	
Total Expenditure	19,553	16,320	19.8	15,753	54,772	48,041	14.0
EBITDA	1,605	592	171.0	720	3,575	2,541	40.7
<i>Margin (%)</i>	<i>7.6</i>	<i>3.5</i>		<i>4.4</i>	<i>6.1</i>	<i>5.0</i>	
Depr. & Amortization	262	157	67.1	240	704	471	49.7
EBIT	1,343	435	208.5	481	2871	2,071	38.7
Net Interest	280	271	3.3	269	832	844	-1.5
Other Income	47	32	44.4	46	139	89	56.1
Exceptional Items							
Profit before Tax	1,109	196	465.1	258	2178	1,315	65.6
Total Tax	277	68	309.3	(341)	225	450	(49.9)
<i>Effective tax rate (%)</i>	<i>24.9</i>	<i>34.4</i>		<i>(132.0)</i>	<i>10.3</i>	<i>34.2</i>	
Profit after Tax	832	129	546.9	599	1952	865	125.6
<i>PAT Margin (%)</i>	<i>3.9</i>	<i>0.8</i>		<i>3.6</i>	<i>3.3</i>	<i>1.7</i>	
EPS	33.5	5.2	546.9	24.1	79.7	35.6	124.0

Source: Company Data, Idea Research

Q2FY20 Operating Metrics							
Y/e March	Q3 '20	Q3 '19	YoY gr. (%)	Q2'20	9M'20	9M'19	YoY gr. (%)
Volumes (MTPA)	480,225	314,707	52.6	363,994	1,234,730	920,819	34.1
EBITDA/ton (Rs)	3,342	1,882	77.6	1,978	2,895	2,760	4.9

Source: Company Data, Idea Research

Income Statement (Rs m)

Y/e March	2019	2020E	2021E	2022E
Net Revenue	71,523	80,682	96,666	1,09,768
Raw Material Expenses	63,077	68,660	82,166	93,193
Gross Profit	8,446	12,022	14,500	16,575
Employee Cost	1,079	1,452	1,595	1,756
Other Expenses	3,439	5,244	6,119	6,696
EBITDA	3,928	5,325	6,786	8,123
Depr. & Amortization	643	967	1,017	1,192
Net Interest	1,134	1,113	1,113	1,113
Other Income	117	185	185	185
Profit before Tax	2,269	3,430	4,841	6,003
Total Tax	787	864	1,220	1,513
Profit after Tax	1,482	2,566	3,621	4,490
Avg. Shares O/S (m)	23.9	24.3	24.3	24.3
EPS (Rs.)	62.2	105.8	149.3	185.2

Cash Flow Abstract (Rs m)

Y/e March	2019	2020E	2021E	2022E
C/F from Operations	3,632	4,802	4,559	5,819
C/F from Investing	(2,236)	(4,452)	(238)	(2,038)
C/F from Financing	(987)	(464)	(1,715)	(1,715)
Inc. / Dec. in Cash	409	(114)	2,606	2,066
Opening Cash	69	478	364	2,971
Closing Cash	478	364	2,971	5,037
FCFF	1,396	350	4,321	3,781

Key Financial Metrics

Y/e March	2019	2020E	2021E	2022E
Growth				
Revenue (%)	34.1	12.8	19.8	13.6
EBITDA (%)	5.9	35.6	27.4	19.7
PAT (%)	(6.2)	73.1	41.1	24.0
EPS (%)	(6.2)	70.2	41.1	24.0
Profitability				
EBITDA Margin (%)	5.5	6.6	7.0	7.4
PAT Margin (%)	2.1	3.2	3.7	4.1
RoCE (%)	27.7	29.4	32.2	32.8
RoE (%)	16.5	23.0	25.3	25.0
Balance Sheet				
Net Debt : Equity	0.8	0.5	0.3	0.1
Net Wrkg Cap. (days)	27	21	21	21
Valuation				
PER (x)	33.2	19.5	13.8	11.2
P / B (x)	5.1	3.9	3.1	2.5
EV / EBITDA (x)	14.6	10.7	8.0	6.4
EV / Sales (x)	0.8	0.7	0.6	0.5
Earnings Quality				
Eff. Tax Rate	34.7	25.2	25.2	25.2
Other Inc / PBT	0.1	0.1	0.0	0.0
Eff. Depr. Rate (%)	5.5	6.0	6.2	6.5

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2019	2020E	2021E	2022E
Non-Current Assets	12,849	16,690	16,158	17,257
Net fixed assets	10,078	13,600	12,857	13,740
Capital Work In Progress	275	275	275	275
Intangible Assets	29	27	25	23
Goodwill on Consolidation	230	230	230	230
Investments	494	644	794	944
Loans	5	10	15	20
Other financial assets	404	444	489	538
Non Current Tax Asset	7	132	145	159
Other Non-Current Assets	1,329	1,329	1,329	1,329
Current Assets	14,786	12,937	17,923	21,971
Inventories	7,835	6,499	7,787	8,842
Trade receivables	5,433	4,931	5,907	6,708
Cash & Bank Balance	478	364	2,971	5,037
Loans	13	15	16	18
Other financial assets	60	66	72	80
Other Current Assets	966	1,063	1,169	1,286
Assets held for sale	104	104	104	104
Total Assets	27,739	29,731	34,185	39,332

Equity

Equity Share Capital	239	243	243	243
Other Equity	9,402	11,566	14,785	18,873
Non Controlling Interest	-	897	897	897
Total Networkth	9,641	12,705	15,924	20,012
Non-Current Liabilities	3,528	3,802	3,366	2,936
Long Term borrowings	1,745	2,195	1,695	1,195
Other Financial Liability	7	7	8	9
Provisions	99	109	120	132
Deferred tax liabilities	1,200	965	965	965
Other Non Current liabilities	478	525	578	636
Current Liabilities	14,570	13,225	14,895	16,383
ST Debt / Current of LT Debt	5,356	5,056	5,356	5,656
Trade payables	6,989	5,722	6,847	7,766
Other Financial liabilities	1,832	2,015	2,216	2,438
Short term provisions	8	9	10	11
Other current liabilities	307	337	371	408
Current Tax Liability	78	86	94	104
Total Equity & Liabilities	27,739	29,731	34,185	39,332

Quarterly Financials (Rs m)

Y/e March	Q4FY19	Q1FY20	Q2FY20	Q3FY20
Net Revenue	20,241	19,936	16,473	21,159
EBITDA	1,387	1,250	720	1,605
% of revenue	6.9	6.3	4.4	7.6
Depr. & Amortization	172	202	240	262
Net Interest	289	283	269	280
Other Income	28	46	46	47
Profit before Tax	954	810	258	1,109
Total Tax	337	289	(341)	277
Profit after Tax	617	521	599	832

Source: Company Data, PL Research.

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