APL Apollo Tubes

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	APAT IN
Equity Shares (m)	278
M.Cap.(INRb)/(USDb)	397.7 / 4.7
52-Week Range (INR)	1806 / 1305
1, 6, 12 Rel. Per (%)	-6/-7/-33
12M Avg Val (INR M)	1430

Financials & Valuations (INR b)

Y/E Mar	FY24	FY25E	FY26E
Sales	181.2	218.2	276.1
EBITDA	11.9	14.3	19.7
PAT	7.3	9.1	13.6
EBITDA (%)	6.6	6.5	7.1
EPS (INR)	26.4	32.9	48.9
EPS Gr. (%)	14.1	24.6	48.7
BV/Sh. (INR)	130.0	156.9	199.8
Ratios			
Net D/E	0.2	-0.1	-0.3
RoE (%)	22.2	22.9	27.4
RoCE (%)	19.0	20.2	25.8
Payout (%)	18.9	18.2	12.3
Valuations			
P/E (x)	54.6	43.8	29.4
EV/EBITDA (x)	34.2	27.7	19.6
Div Yield (%)	0.3	0.4	0.4
FCF Yield (%)	1.1	3.4	2.8

Shareholding pattern (%)

As on	Jun-24	Mar-24	Jun-23
Promoter	28.3	29.4	30.6
DII	14.9	14.1	12.7
FII	31.6	30.7	25.1
Others	25.2	25.8	31.6

Note: FII includes depository receipts

CMP: INR1,433 TP: INR1,720 (+20%) Buy

Muted earnings as volume growth offset by margin contraction

Earnings below our estimates

- APL Apollo Tubes (APAT) reported healthy sales volume of 721kmt (up 9% YoY/6% QoQ) in 1QFY25, led by the ramp-up of its Raipur and Dubai plants. However, EBITDA/MT fell ~10% YoY to ~INR4,183, due to high operational expenses (high employee, freight, power cost and ad spending in 1Q).
- We cut our FY25E/FY26E earnings by 13%/12%, primarily due to lower EBITDA/MT (reduced by 8% for both years). We value the stock at 35x FY26E EPS to arrive at a TP of INR1,720. **Reiterate BUY**.

Higher operational expenses hurt margins

- Consolidated revenue grew 9% YoY/4% QoQ to INR49.7b (est. INR50b) in 1QFY25, led by volume growth of 9% YoY/6% QoQ to 721kmt.
- VAP mix stood at 60% in 1QFY25 vs. 57%/60% in 1QFY24/4QFY24. VAP mix improved YoY, led by the ramp-up of the Raipur and Dubai plants.
- Gross profit/MT stood at INR9,772 (up 4% YoY/5% QoQ), led by favorable product mix. EBITDA/MT stood at INR4,183 down 10% YoY (up 1% QoQ) due to high employee, freight and power costs and high ad spend on branding in 1Q. EBITDA fell 2% YoY (up 8% QoQ) to INR3b (est. INR3.3b).
- Adjusted PAT was flat YoY but up 13% QoQ to INR1.9b (est. INR2b).

Highlights from the management commentary

- **Demand scenario**: Demand in 2Q is expected to remain under pressure. Dealers are wary of restocking due to falling steel prices (can fall further by 3,000-4,000/MT in 2Q). 2HFY25 is expected to be solid.
- **Guidance**: APAT has lowered its volume guidance to 3.2mtpa in FY25. It targets ~20-25% volume growth in FY26 and aims to reach 5mmt by FY27. In FY25, the company targets to match EBITDA/MT of FY24. It expects net debt to be near zero by the end of FY25.
- **Market share:** APAT is expected to gain market share from secondary scrap steel manufacturers amid the narrowing pricing gap (~5%) in primary and secondary steel. If HR Coil prices stabilizes at ~INR45-48K/MT, then the company is confident of gaining this market share.

Valuation and view

- The incremental capacity from the upcoming plants and debottlenecking, along with the addition of high-margin products from the Raipur and Dubai units, should result in strong volume growth and margin expansion going forward.
- We expect a CAGR of 23%/28%/36% in revenue/EBITDA/PAT over FY24-26. We cut our FY25E/FY26E earnings by 13%/12% primarily due to lower EBITDA/MT (reduced by 8% for both years). We value the stock at 35x FY26E EPS to arrive at a TP of INR1,720. **Reiterate BUY**.