

APL Apollo Tubes (APAT) reported good Q4FY20 results amidst tough times. Cons revenue de-grew 9.8% YoY to Rs 18,885m on back of 4.1% volume de-growth to 401,000 MT. While sales in metros have taken a back seat, Tier 2&3 cities are showing strong traction and now account for 75% of revenues (40% last year). EBITDA/ton declined 9.9% YoY to Rs 2,989 due to lower fixed cost absorption. PAT declined 1.5% YoY to Rs 608m. FY20 Revenue/EBITDA/PBT grew 8%/21.5%/30.6% to Rs77.2bn/4.8bn/2.9bn respectively. Volumes grew by 22.7% to 16,43,099 MT while realisations slipped 11.5%. EBITDA/ton slipped marginally by 1% to Rs 2,905. Production was completely stopped post March 23 and resumed from April 24.

While the management has not guided on volume growth, they will focus on growing market share above the current 40%. We do not see a reason why they cannot deliver on this as the incumbent smaller peers are reeling from a double whammy of bloated capital requirements in a weak demand environment.

Recently the industry has made a shift to cash sales only which is resulting in sharp drop in receivables which will also enable the company to grow aggressively with lower working capital requirements. No major capex is required as existing capacities are enough to grow for next two years. All cash thus generated, will be used towards repaying debt. Hence alongside growth and improving margin profile, the combined effect of lower working capital, deleveraging and high cash generation will strengthen the balance sheet and return ratios. We believe that if the management is able to deliver on these counts, the stock could see a possible rerating despite no improvement in EBITDA/ton.

We expect revenue/EBITDA/PAT to grow at 2-year CAGR of 8.9%/13.1%/10.3% with per ton EBITDA improving from Rs 2905 in FY20E to Rs 3,168 in FY22E on back of better realizations, growth in VAP sales, higher contribution of Apollo Tricoat and operating leverage. **At CMP, the stock is trading at EV/EBITDA of 6.6x FY22E. We maintain BUY with a TP of Rs 1961. (8.0x FY22E EBITDA).**

Key financials (Y/e March)	2019	2020	2021E	2022E
Revenues (Rs m)	71,523	77,232	67,964	91,625
Growth (%)	34.1	8.0	(12.0)	34.8
EBITDA (Rs m)	3,928	4,773	3,282	6,110
PAT (Rs m)	1,482	2,560	1,144	3,112
EPS (Rs)	62.2	102.9	46.0	125.1
Growth (%)	(6.2)	65.6	(55.3)	172.0
CEPS (Rs)	89.1	141.5	85.0	168.9
Net DPS (Rs)	14.0	14.0	13.5	13.5
Profitability & Valuation	2019	2020	2021E	2022E
EBITDA margin (%)	5.5	6.2	4.8	6.7
RoE (%)	16.5	21.2	7.7	18.8
RoCE (%)	27.7	22.7	12.0	26.1
EV / sales (x)	0.7	0.6	0.6	0.4
EV / EBITDA (x)	11.9	9.9	12.7	6.6
PE (x)	26.1	15.8	35.2	13.0
P / BV (x)	4.0	2.8	2.7	2.3
Net dividend yield (%)	0.9	0.9	0.8	0.8

Source: Company Data, PL Research

## Q4FY20 Result Update

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Rating	BUY
Price	Rs 1,621
Target Price	Rs 1,961
Implied Upside	21%
Sensex	35,414
Nifty	10,430
Bloomberg Code	APAT:IN
Reuters Code	APLA.NS

(Prices as on July 1, 2020)

### Tracking Data

Market Cap (Rs bn)	40.2
Shares O/s (m)	24.9
3M Avg. Daily Value (Rs m)	163.6

### Major Shareholders

Promoters	38.4
Domestic Inst.	13.7
Public & Others	47.9

### Stock Performance

(%)	1M	6M	12M
Absolute	(0.6)	(18.4)	(4.0)
Relative	(3.8)	(2.2)	9.5

### How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2021E	46.0	87.5	(47.4)
2022E	125.1	113.1	10.6

### Price Chart



### **Focus on growing Market share**

While management did not give guidance on volume growth owing to the prevalent uncertainties, they did mention that they will be focusing on growing market share above the current 40%. The company is quite confident of achieving the same given the incumbent small peers are reeling from a double whammy of bloated capital requirements in a weak demand scenario.

### **Tier 2 and Tier 3 cities drive growth**

As major metro market reel under the spread of Covid thereby impacting off-take, Tier 2 and Tier 3 cities have show far more resilience and driven growth and now account for 75% of Q4 revenues, as compared to 40% last year. Dependence on top 50 dealers has also come down significantly from 75% to 20-30% of revenues.

### **Receivables reduce sharply as credit sales are discontinued**

The entire industry has moved away from sale on credit and now sells only against cash which is resulting in lower receivables. This was an area of concern for the company previously which also prevented them from growing aggressively. However, the management has discontinued credit sales to smaller dealers while the credit period for larger ones might be reduced.

### **Focus on deleveraging balance sheet**

Net debt stood at Rs 3.7bn as on 30<sup>th</sup> June, 2020 v/s Rs 7.8bn on 31<sup>st</sup> March, 2020, (reduction of 52%). Management has indicated that all cash flows generated will now be utilized in bringing down debt and it could happen by end of FY21 itself (as working capital requirement stand reduced). They also wish to pay off the creditors which will then make the company liability-free. Should they be able to deliver on this, we feel the stock could possibly rerate.

### **Full capacity ramp-up can lead to increase in EBITDA/ton**

APAT has increased its capacity to 3x in last couple of years but was unable to ramp up utilization resulting in lower fixed cost absorption. However, now the company has sufficient capacity to grow for next 2 years and at full capacity utilization, it is likely to achieve its aspiration of Rs 5000 per ton EBITDA which currently stands at Rs 2900. In the interim we expect EBITDA/ton to improve from Rs 2905 in FY20E to Rs 3,168 in

FY22E on back of better realizations, growth in VAP sales, higher contribution of Apollo Tricoat and operating leverage

### **Low steel prices to help support margins**

Steel prices currently stand at Rs 35,000 per ton (Rs 36,000 pre-covid). The prices have significantly come down from April 2019 level of Rs 42,000 per ton. According to the management, structural steel pipes is a good alternative structural to conventional materials such as cement, RCC, aluminium and wood which are costlier. Once construction resumed, these steel pipes were the first product to be bought by contractors as they are used across various stages of construction.

### **Apollo Tricoat witnessed least volume de-growth in Q1FY21**

During Q1FY21, volumes for Apollo Tricoat de-grew 16% QoQ v/s 40-50% de-growth in other products. This was due to better demand in Q1FY21 in roofing segment (Apollo Signature) which de-grew only 8%. Q1 is a seasonally strong quarter for Apollo Tricoat since home-owners target to complete renovation and construction work before monsoon kicks in. Apollo Signature is expected to reach 100% capacity utilization by FY21 end.

### **Financial Overview**

We expect revenue/EBITDA/PAT to grow at 2-year CAGR of 8.9%/13.1%/10.3% with per ton EBITDA improving from Rs 2905 in FY20E to Rs 3,168 in FY22E on back of better realizations, growth in VAP sales, higher contribution of Apollo Tricoat and operating leverage. At CMP, the stock is trading at EV/EBITDA of 6.6x FY22E. We maintain BUY with a TP of Rs 1961. (8.0x FY22E EBITDA).

<b>Q4FY20 Result Overview (Rs m)</b>							
Y/e March	Q4 '20	Q4'19	YoY gr. (%)	Q3 '20	FY20	FY19	YoY gr. (%)
Gross Sales	18,087	20,241	(10.6)	20,405	74,265	68,946	7.7
Other Operating Income	799	700	14.1	754	2,967	2,577	15.1
<b>Net Revenue</b>	<b>18,885</b>	<b>20,941</b>	<b>(9.8)</b>	<b>21,159</b>	<b>77,232</b>	<b>71,523</b>	<b>8.0</b>
<b>Expenditure</b>							
Raw Material Cost	15,867	18,182	(12.7)	17,633	65,786	63,077	4.3
<i>% of revenue</i>	<i>84.0</i>	<i>86.8</i>		<i>83.3</i>	<i>85.2</i>	<i>88.2</i>	
Employee Cost	386	286	34.6	382	1422	1079	31.7
<i>% of revenue</i>	<i>2.0</i>	<i>1.4</i>		<i>1.8</i>	<i>1.8</i>	<i>1.5</i>	
Other Expense	1,433	1,085	32.1	1,539	5,251	3,439	52.7
<i>% of revenue</i>	<i>7.6</i>	<i>5.2</i>		<i>7.3</i>	<i>6.8</i>	<i>4.8</i>	
<b>Total Expenditure</b>	<b>17,686</b>	<b>19,554</b>	<b>(9.6)</b>	<b>19,553</b>	<b>72,459</b>	<b>67,595</b>	<b>7.2</b>
<b>EBITDA</b>	<b>1,199</b>	<b>1,387</b>	<b>(13.6)</b>	<b>1,605</b>	<b>4,774</b>	<b>3,929</b>	<b>21.5</b>
<i>Margin (%)</i>	<i>6.3</i>	<i>6.6</i>		<i>7.6</i>	<i>6.2</i>	<i>5.5</i>	
Depr. & Amortization	255	172	48.0	262	959	643	49.2
<b>EBIT</b>	<b>944</b>	<b>1,215</b>	<b>(22.3)</b>	<b>1,343</b>	<b>3,815</b>	<b>3,286</b>	<b>16.1</b>
Net Interest	241	289	(16.8)	280	1,073	1,134	(5.4)
Other Income	83	28	193.3	47	222	117	89.4
Exceptional Items	-	-			-	-	
<b>Profit before Tax</b>	<b>786</b>	<b>954</b>	<b>(17.6)</b>	<b>1,109</b>	<b>2,964</b>	<b>2,269</b>	<b>30.6</b>
Total Tax	178	337	(47.2)	277	403	787	(48.7)
<i>Effective tax rate (%)</i>	<i>22.7</i>	<i>35.3</i>		<i>24.9</i>	<i>13.6</i>	<i>34.7</i>	
<b>Profit after Tax</b>	<b>608</b>	<b>617</b>	<b>(1.5)</b>	<b>832</b>	<b>2,560</b>	<b>1,482</b>	<b>72.7</b>
<i>PAT Margin (%)</i>	<i>3.2</i>	<i>2.9</i>		<i>3.9</i>	<i>3.3</i>	<i>2.1</i>	
<b>EPS</b>	<b>24</b>	<b>25</b>	<b>(1.5)</b>	<b>34</b>	<b>103</b>	<b>60</b>	<b>72.7</b>

Source: Company Data, Idea Research

<b>Q4FY20 Operating Metrics</b>							
Y/e March	Q4 '20	Q4 '19	YoY gr. (%)	Q3'20	FY20	FY19	YoY gr. (%)
<b>Volumes (MTPA)</b>	401,000	418,355	(4.1)	480,225	1,643,099	1,339,174	22.7
<b>EBITDA/ton (Rs)</b>	2,989	3,316	(9.9)	3,342	2,922	2,934	(0.4)

Source: Company Data, Idea Research

**Income Statement (Rs m)**

Y/e March	2019	2020	2021E	2022E
<b>Net Revenue</b>	<b>71,523</b>	<b>77,232</b>	<b>67,964</b>	<b>91,625</b>
Raw Material Expenses	63,077	65,786	58,302	77,717
Gross Profit	8,446	11,447	9,662	13,908
Employee Cost	1,079	1,422	1,236	1,736
Other Expenses	3,439	5,252	5,144	6,061
<b>EBITDA</b>	<b>3,928</b>	<b>4,773</b>	<b>3,282</b>	<b>6,110</b>
Depr. & Amortization	643	959	970	1,087
Net Interest	1,134	1,073	964	964
Other Income	117	222	182	102
<b>Profit before Tax</b>	<b>2,269</b>	<b>2,963</b>	<b>1,530</b>	<b>4,161</b>
Total Tax	787	403	385	1,049
<b>Profit after Tax</b>	<b>1,482</b>	<b>2,560</b>	<b>1,144</b>	<b>3,112</b>
<b>Avg. Shares O/S (m)</b>	<b>23.9</b>	<b>24.9</b>	<b>24.9</b>	<b>24.9</b>
<b>EPS (Rs.)</b>	<b>62.2</b>	<b>102.9</b>	<b>46.0</b>	<b>125.1</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2019	2020	2021E	2022E
C/F from Operations	3,632	5,390	6,561	3,447
C/F from Investing	(2,236)	(6,832)	184	(696)
C/F from Financing	(987)	1,420	(6,423)	(2,366)
Inc. / Dec. in Cash	409	(22)	321	384
Opening Cash	69	478	456	777
Closing Cash	478	456	777	1,161
FCFF	1,396	(1,442)	6,744	2,750

**Key Financial Metrics**

Y/e March	2019	2020	2021E	2022E
<b>Growth</b>				
Revenue (%)	34.1	8.0	(12.0)	34.8
EBITDA (%)	5.9	21.5	(31.2)	86.2
PAT (%)	(6.2)	72.7	(55.3)	172.0
EPS (%)	(6.2)	65.6	(55.3)	172.0
<b>Profitability</b>				
EBITDA Margin (%)	5.5	6.2	4.8	6.7
PAT Margin (%)	2.1	3.3	1.7	3.4
RoCE (%)	27.7	22.7	12.0	26.1
RoE (%)	16.5	21.2	7.7	18.8
<b>Balance Sheet</b>				
Net Debt : Equity	0.8	0.5	0.1	0.0
Net Wrkg Cap. (days)	27	17	3	7
<b>Valuation</b>				
PER (x)	26.1	15.8	35.2	13.0
P / B (x)	4.0	2.8	2.7	2.3
EV / EBITDA (x)	11.9	9.9	12.7	6.6
EV / Sales (x)	0.7	0.6	0.6	0.4
<b>Earnings Quality</b>				
Eff. Tax Rate	34.7	13.6	25.2	25.2
Other Inc / PBT	0.1	0.1	0.1	0.0
Eff. Depr. Rate (%)	5.5	5.6	5.6	6.0

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2019	2020	2021E	2022E
<b>Non-Current Assets</b>	<b>12,849</b>	<b>18,160</b>	<b>17,227</b>	<b>16,992</b>
Net fixed assets	<b>10,078</b>	<b>14,711</b>	<b>13,842</b>	<b>13,555</b>
Capital Work In Progress	275	101	-	-
Intangible Assets	29	27	25	23
Goodwill on Consolidation	230	1,375	1,375	1,375
Right to Use Assets	-	971	971	971
Investments	494	15	15	15
Loans	5	-	5	10
Other financial assets	404	253	266	293
Non-Current Tax Asset	7	115	127	139
Other Non-Current Assets	1,329	592	602	612
<b>Current Assets</b>	<b>14,786</b>	<b>14,484</b>	<b>9,994</b>	<b>14,286</b>
Inventories	7,835	7,842	5,664	8,653
Trade receivables	5,433	4,764	2,265	3,054
Cash & Bank Balance	478	456	777	1,161
Loans	13	13	14	16
Other financial assets	60	27	30	33
Other Current Assets	966	1,382	1,244	1,368
<b>Assets held for sale</b>	<b>104</b>	<b>17</b>	<b>17</b>	<b>17</b>
<b>Total Assets</b>	<b>27,739</b>	<b>32,660</b>	<b>27,238</b>	<b>31,295</b>

**Equity**

Equity Share Capital	239	249	249	249
Other Equity	9,402	13,313	14,055	16,765
Non-Controlling Interest		954	897	897
<b>Total Net-worth</b>	<b>9,641</b>	<b>14,516</b>	<b>15,200</b>	<b>17,911</b>
<b>Non-Current Liabilities</b>	<b>3,528</b>	<b>5,897</b>	<b>2,981</b>	<b>2,374</b>
Long Term borrowings	1,745	4,043	1,043	343
Lease Liabilities	-	1	1	1
Other Financial Liability	7	7	8	9
Provisions	99	162	178	196
Deferred tax liabilities	1,200	1,012	1,012	1,012
Other Non-Current liabilities	478	672	740	814
<b>Current Liabilities</b>	<b>14,570</b>	<b>12,247</b>	<b>9,056</b>	<b>11,010</b>
Short Term borrowings	5,356	3,229	1,229	929
Lease Liabilities	-	6	6	6
Trade payables	6,989	7,644	6,316	8,419
Other Financial liabilities	1,832	1,144	1,259	1,384
Short term provisions	8	11	12	14
Other current liabilities	307	173	190	209
Current Tax Liability	78	41	45	50
<b>Total Equity &amp; Liabilities</b>	<b>27,739</b>	<b>32,660</b>	<b>27,238</b>	<b>31,295</b>

**Quarterly Financials (Rs m)**

Y/e March	Q1FY20	Q2FY20	Q3FY20	Q4FY20
<b>Net Revenue</b>	<b>20,716</b>	<b>16,473</b>	<b>21,159</b>	<b>18,885</b>
<b>EBITDA</b>	<b>1,250</b>	<b>720</b>	<b>1,605</b>	<b>1,199</b>
% of revenue	6.0	4.4	7.6	6.3
Depr. & Amortization	202	240	262	255
Net Interest	283	269	280	241
Other Income	46	46	47	83
<b>Profit before Tax</b>	<b>810</b>	<b>258</b>	<b>1,109</b>	<b>786</b>
Total Tax	289	(341)	277	178
<b>Profit after Tax</b>	<b>521</b>	<b>599</b>	<b>832</b>	<b>608</b>

Source: Company Data, PL Research.

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