

APL Apollo Tubes

India | Pipes | Result Update | Rating Upgrade



Oasis of growth

20 January 2025

APL Apollo Tubes (APAT IN) registered a strong recovery in Q3FY25 after a weak Q2, primarily on the back of robust volume growth. As a result, EBITDA jumped ~24% YoY/150% QoQ to ~INR 3.5bn, largely-in-line with our/Consensus estimates of ~INR 3.5bn/3.4bn, respectively. Net debt stood at ~INR 1.0bn versus INR 3.0bn as of end-Q2FY25 and net cash of ~INR 0.2bn as of end-FY24. We believe APAT's earnings growth is an oasis within the Metals and Building Products industry, which is struggling with weak demand and margin pressure, and this should favorably impact APAT's valuations. Therefore, we upgrade APAT to **Buy** from Accumulate with a higher TP of INR 1,909 from INR 1,682.

Market share gain from secondary firms bolsters volume: Sales volume jumped ~37% YoY/9% QoQ to ~0.8mn tonnes. The management expects volume growth to be healthy going ahead, driven by increased acceptance of primary steel pipes, improved exports volume, focus on increasing volume of round pipes, ramp-up in innovative products from its Chhattisgarh based Raipur unit, narrowing of price gap between primary and secondary steel pipes and completion of ongoing capacity expansion projects. Management expects to achieve sales volume of 3.1-3.2mn tonnes in FY25, followed by 4mn tonnes in FY26 and 5mn tonnes in FY27.

Reduction of inventory doubles EBITDA/tonne QoQ: Realization declined ~5% YoY but grew ~4% QoQ to INR 63,596/tonne. Operating cost was down ~5% YoY but was largely flat QoQ to INR 61,424/tonne. EBITDA/tonne declined ~10% YoY but surged ~129% QoQ to INR 4,173, largely-in-line with our estimates of INR 4,213. As per management, there is a potential operating leverage benefit of INR 400-500/tonne in the next one year and any improvement in demand from current levels could further enhance APAT's margin profile in the future.

On track to reach 5mn tonnes capacity by FY26: APAT's capacity is expected to reach 5mn tonnes by FY26 from 4.3mn tonnes at present through greenfield expansions of: 1) 0.3mn tonnes in New Bengaluru, Karnataka, 2) 0.2mn tonnes at Siliguri, West Bengal, and 3) ~0.1mn tonnes in Gorakhpur, Uttar Pradesh along with brownfield expansion of 90,000 tonnes.

Revise to Buy with a higher TP of INR 1,909: Expect APAT's earnings to improve further by ~18% QoQ and ~50% YoY in Q4FY25E, driven by market share gain, pent-up demand from value added products and operating leverage. We revise APAT to **Buy** from Accumulate.

As we roll-over to March 2027E from September 2026E, our TP is raised to INR 1,909 from INR 1,682, on 30x (unchanged) March 2027E P/E. We largely retain our estimates. Fluctuation in steel prices, a slowdown in demand and increased competition are key risks to our call.

Key Financials

YE March	FY23	FY24	FY25E	FY26E	FY27E
Revenue (INR mn)	156,744	175,069	203,854	264,398	325,469
YoY (%)	24.2	11.7	16.4	29.7	23.1
EBITDA (INR mn)	10,216	11,922	11,971	19,870	25,061
EBITDA margin (%)	6.5	6.8	5.9	7.5	7.7
Adj. PAT (INR mn)	6,419	7,324	7,203	13,662	17,661
YoY (%)	3.7	14.1	(1.7)	89.7	29.3
Adj EPS (INR)	23.1	26.4	26.0	49.2	63.6
ROE (%)	23.5	22.2	18.5	28.6	28.6
ROCE (%)	25.2	23.8	20.7	31.7	33.2
ROIC (%)	29.9	28.1	23.0	35.7	41.0
P/E (x)	68.7	60.3	61.3	32.3	25.0

Note: Pricing as on 20 January 2025; Source: Company, Elara Securities Estimate

Rating: **Buy**

Target Price: **INR 1,909**

Upside: **20%**

CMP: **INR 1,590**

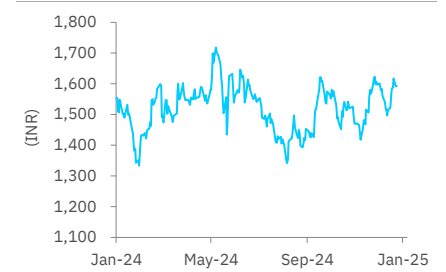
As on 20 January 2025

Key data

Bloomberg	APAT IN
Reuters Code	APLA.NS
Shares outstanding (mn)	278
Market cap (INR bn/USD mn)	441/5099
Enterprise Value (INR bn/USD mn)	449/5192
Avg daily volume 3M (INR mn/USD mn)	868/10
52 week high/low	1729/1253
Free float (%)	72

Note: as on 20 January 2025; Source: Bloomberg

Price chart



Source: Bloomberg

Shareholding (%)	Q4	Q1	Q2	Q3
	FY24	FY25	FY25	FY25
Promoter	29.4	28.3	28.3	28.3
% Pledged	0.0	0.0	0.0	0.0
FII	37.3	38.1	38.5	31.7
DII	14.2	15.1	15.9	16.5
Others	19.1	18.5	17.3	23.5

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	(6.1)	(4.8)	8.2
APL Apollo Tubes	0.9	6.8	3.3
NSE Mid-cap	(6.0)	(1.4)	14.7
NSE Small-cap	(6.4)	(2.9)	15.1

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Financials (YE March)

Income Statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Revenue	156,744	175,069	203,854	264,398	325,469
Operating profit	5,300	5,803	5,040	10,616	15,297
Add:- Other operating Income	4,916	6,119	6,931	9,254	9,764
EBITDA	10,216	11,922	11,971	19,870	25,061
Less :- Depreciation & Amortization	1,383	1,759	1,939	2,170	2,309
Add: Other income	472	749	824	1,111	1,181
EBIT	9,304	10,911	10,856	18,811	23,933
Less:- Interest Expenses	671	1,134	1,379	835	695
PBT	8,633	9,777	9,477	17,976	23,238
Less :- Taxes	2,215	2,453	2,275	4,314	5,577
Reported PAT	6,419	7,324	7,203	13,662	17,661
Adjusted PAT	6,419	7,324	7,203	13,662	17,661
Balance Sheet (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	555	555	555	555	555
Reserves	29,501	35,491	41,167	53,303	69,299
Borrowings	8,729	11,246	9,646	7,046	6,846
Deferred Tax (Net)	1,171	1,258	1,359	1,386	1,400
Other liabilities	1,405	1,745	1,863	1,879	1,895
Total Liabilities	41,362	50,294	54,590	64,168	79,994
Gross Block	30,087	38,468	45,468	48,468	51,468
Less:- Accumulated Depreciation	5,658	7,034	8,973	11,143	13,451
Net Block	24,430	31,435	36,496	37,326	38,017
Add:- Capital work in progress	3,740	2,030	1,980	980	980
Non-current investments	960	1,027	1,027	1,027	1,027
Net Working Capital	2,128	434	2,037	2,771	8,101
Cash & current investments	6,295	11,406	9,062	18,050	27,064
Other assets	3,809	3,963	3,989	4,015	4,806
Total Assets	41,362	50,294	54,590	64,168	79,994
Cash Flow Statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Cash profit adjusted for non-cash items	8,388	9,914	9,798	15,583	19,498
Add/Less : Working Capital Changes	(1,475)	1,202	(1,603)	(734)	(5,330)
Operating Cash Flow	6,913	11,116	8,195	14,849	14,167
Less:- Capex	(8,424)	(6,618)	(6,950)	(2,000)	(3,000)
Free Cash Flow	(1,511)	4,497	1,245	12,849	11,167
Financing Cash Flow	1,434	266	(4,387)	(4,945)	(2,544)
Investing Cash Flow	(334)	(2,538)	798	1,084	389
Net change in Cash	(410)	2,225	(2,344)	8,988	9,013
Ratio Analysis	FY23	FY24	FY25E	FY26E	FY27E
Income Statement Ratios (%)					
Revenue Growth	24.2	11.7	16.4	29.7	23.1
EBITDA Growth	39.3	8.1	16.7	0.4	66.0
Adj. PAT Growth	3.7	14.1	(1.7)	89.7	29.3
EBITDA Margin	6.5	6.8	5.9	7.5	7.7
Adj. Net Margin	4.1	4.2	3.5	5.2	5.4
Return & Liquidity Ratios (%)					
Net Debt/Equity (x)	0.1	(0.0)	0.0	(0.2)	(0.3)
ROE	23.5	22.2	18.5	28.6	28.6
ROCE	25.2	23.8	20.7	31.7	33.2
Per Share data & Valuation Ratios					
Adjusted EPS (INR)	23.1	26.4	26.0	49.2	63.6
EPS Growth (%)	(6.4)	14.0	(1.7)	89.7	29.3
BVPS (INR)	99	119	140	172	223
DPS (INR)	5.0	5.5	5.5	6.0	6.0
P/E Ratio (x)	68.7	60.3	61.3	32.3	25.0
EV/EBITDA (x)	43.3	36.9	36.8	21.6	16.8
EV/Sales (x)	2.8	2.5	2.2	1.6	1.3
P/BV(x)	16.1	13.4	11.3	9.2	7.1

Robust volume growth to bolster revenue

Return ratios likely to bounce back

Note: Pricing as on 20 January 2025; Source: Company, Elara Securities Estimate

Sharp QoQ margin recovery in Q3 led by lower inventory loss

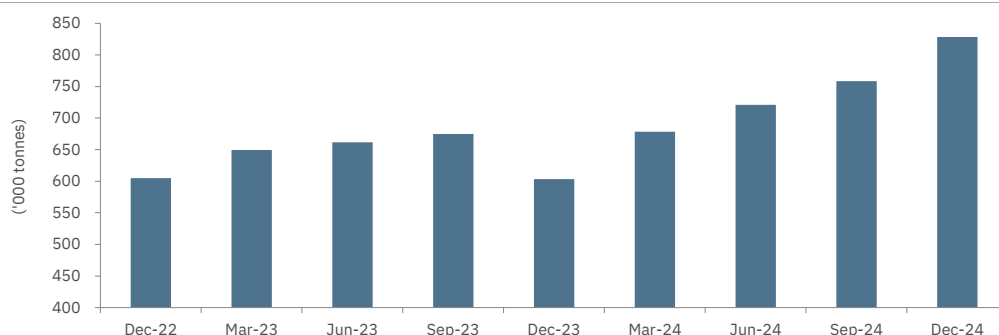
APAT reports double-digit YoY volume growth for the second quarter

Quarterly financials

YE March (INR mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	Q3FY25E	Variance (%)
Net sale	52,670	40,478	30.1	46,278	13.8	48,625	8.3
Operating expenses	50,872	38,982	30.5	46,359	9.7	46,670	9.0
% of sales	96.6	96.3		100.2		96.0	
EBITDA	3,456	2,796	23.6	1,381	150.3	3,489	(1.0)
EBITDA margins (%)	6.6	6.9		3.0		7.2	
Other income	217	150	44.1	148	46.5	151	43.6
Interest	368	285	29.1	364	1.2	346	6.5
Depreciation	503	471	6.9	469	7.4	473	6.3
PBT	2,801	2,190	27.9	696	302.5	2,821	(0.7)
Tax	631	535	18.0	158	300.1	705	(10.5)
Effective tax rate (%)	22.5	24.4		22.7		25.0	
Adjusted PAT	2,170	1,655	31.1	538	303.2	2,116	2.5
Reported PAT	2,170	1,655	31.1	538	303.2	2,116	2.5
NPM (%)	4.1	4.1		1.2		4.4	

Source: Company, Elara Securities Estimate

Exhibit 1: Q3FY25 volume at all time high



Source: Company, Elara Securities Research

Exhibit 2: Narrowing of price gap versus secondary pipes props general structural volume

('000 tonnes)	Q3FY25	Q3FY24	YoY(%)	Q2FY25	QoQ (%)
Apollo Structural	582.9	413.8	40.9	528.1	10.4
Apollo Galv	33.6	29.8	12.5	28.9	16.3
Apollo Z	211.7	160.0	32.3	201.3	5.2
Total pipes volume	828.2	603.7	37.2	758.3	9.2

Source: Company, Elara Securities Research

Exhibit 3: Valuation summary

Particulars	March-27E
EPS (INR)	63.6
Target P/E (x)	30.0
TP (INR)	1,909
CMP (INR)	1,590
Upside (%)	20.1

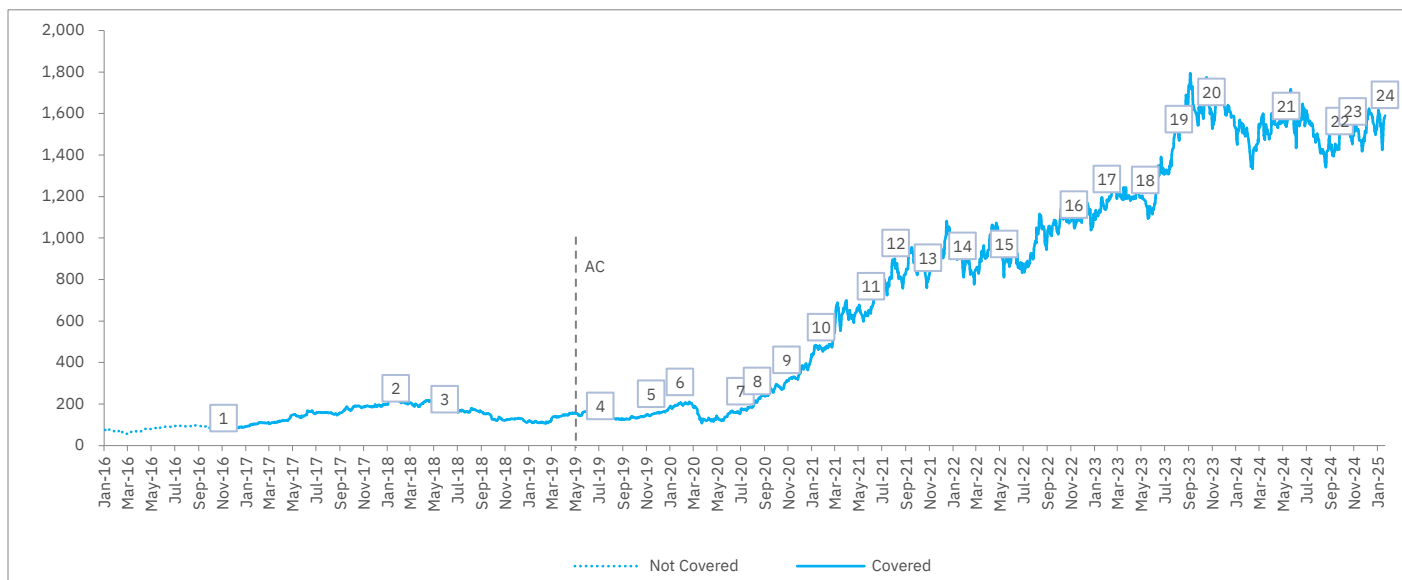
Note: Pricing as on 20 January 2025; Source: Elara Securities Estimate

Exhibit 4: Change in estimates

(INR mn)	Earlier			Revised			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Net Revenue	199,579	258,800	318,577	203,854	264,398	325,469	2.1	2.2	2.2
EBITDA	12,098	19,540	24,688	11,971	19,870	25,061	(1.0)	1.7	1.5
PAT	7,420	13,570	17,555	7,203	13,662	17,661	(2.9)	0.7	0.6
TP (INR)	1,682			1,909			13.5		
Rating	Accumulate			Buy					

Source: Elara Securities Estimate

Coverage History



Date	Rating	Target Price	Closing Price	
17	2-Feb-2023	Buy	INR 1,421	INR 1,184
18	12-May-2023	Buy	INR 1,459	INR 1,180
19	7-Aug-2023	Accumulate	INR 1,599	INR 1,477
20	30-Oct-2023	Accumulate	INR 1,679	INR 1,604
21	10-May-2024	Accumulate	INR 1,628	INR 1,535
22	26-Sep-2024	Accumulate	INR 1,736	INR 1,517
23	29-Oct-2024	Accumulate	INR 1,682	INR 1,510
24	20-Jan-2025	Buy	INR 1,909	INR 1,590

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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