

**APL Apollo Tubes Ltd.** (APL) one of the leading manufacturers of ERW pipes in India, reported its Q1 FY18 numbers, which was in-line to our expectations. The company reported a 11.3% Y-o-Y fall in the earnings on a 18.4% rise in total operating revenue.

#### Q1 FY18 Result Analysis:

**Top-line growth aided by higher volume and realization:** The sales volume during the quarter was to some extent impacted by the implementation of GST, to report a 10.7% Y-o-Y rise in the sales volume to 0.28mn tonnes. Sales realization increased 8% Y-o-Y, thereby reporting a top-line growth of 18.4% Y-o-Y to Rs. 11,556.2mn, as against our anticipation of 8.8% Y-o-Y growth.

**Higher operating expenditure led to a contraction in EBITDA margin:** Higher raw material cost during Q1 FY18, mainly led to 35.7% rise in the cost of goods sold. Consequently, total operating expenditure increased by 22% Y-o-Y, leading to 15.6% Y-o-Y fall in EBITDA to Rs. 787.1mn. We had expected an EBITDA of Rs. 845.7mn for the quarter.

EBITDA margin contracted by 275bps to 6.8% in Q1 FY18 as against to our expectation of 6.9%. Sequentially, the company reported 114bps expansion in the EBITDA margin. In the corresponding quarter last year, it reported higher than normal margin, mainly due to the benefit from the MIP on HR Coil.

**PAT declined by 11.3%:** With the commissioning of new capacities, the company reported 20.1% Y-o-Y rise in the depreciation charges. This was offset by lower financial charge, which declined by 11.5% Y-o-Y and higher other income (+134.2% Y-o-Y). Consequently, adjusted PAT declined by 11.3% Y-o-Y to Rs. 388.5mn with a margin 3.4% (contraction of 112bps Y-o-Y) in Q1 FY18. Sequentially, PAT margin expanded by 23bps. We had forecasted a PAT of Rs. 379.9mn with a margin of 3.1%.

**Whole DFT capacity to be commissioned by FY18 end:** As of Q1 FY18 end, APL operationalized two DFT lines, one each in South India and East India. It has started producing India's largest diameter hollow section pipes (300x300mm size) on DFT platform at the Raipur facility and currently it is the sole manufacturer in the country. This opens-up a huge opportunity for the company to almost entirely replace imports of such high diameter sections.

DFT lines are expected to add a capacity of 0.5 tonnes to the existing capacity. With two line commissioned, the company has guided to commission and operationalize the pending capacities by the end of FY18. With this expansion, it is targeting to have a capacity of 2mn tonnes by FY18 end as compared to a capacity of 1.3mn tonnes in FY17.

**Announcement of new JV for in-line galvanizing plant:** Maintaining its position of pioneer in adapting advanced new technologies in the production process in India, APL has once again formed a JV with One to One Holdings (o2Oh) to develop, manufacture and commercialize the in-line galvanizing technology for the first time in India. o2Oh is a Singapore based, holding company of Japan based Daiwa Steel Tubes Industries (100% holding) and US based Superior Technologies. In-line galvanizing technology is a latest cost-effective zinc plating and coating technology with added benefits of minimal human error, significant time savings and a healthy margin business segment. The JV will be in the name of Apollo Daiwa Eco Tubes Pvt. Ltd., with APL holding 66% and rest by o2Oh. The JV targets to have a capacity of 0.05mn tonnes by H1 FY19 on an investment of Rs. 1bn.

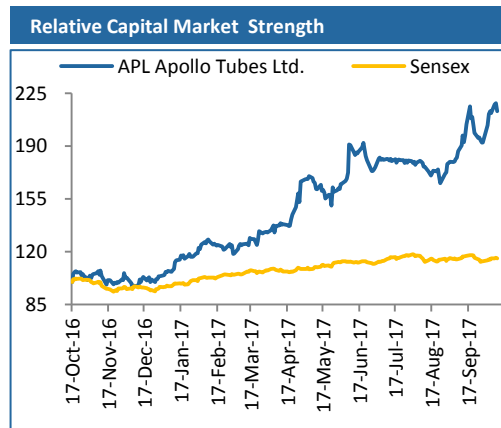
**Valuation:** At a CMP of Rs. 1,912.1, the company's share is trading at TTM P/E multiple of 31.5x. Moreover, it is trading at a P/BVPS and EV/EBITDA multiple of 6.3x and 16.2x, respectively. Anticipating higher acceptance of the DFT products and the volume growth guided by the management, we have increased the EV/EBITDA valuation multiple from 7.8x to 8.5x. Applying the same to FY20E EBITDA, we arrive at a target price of Rs. 1,850.4 per share. Thus we reiterate our **"HOLD"** rating on the stock.

Rating Matrix	
CMP (Rs.)	1,912.1
MCAP (Rs. mn)	45,106
Rating	HOLD
Potential price (Rs.)	1,850.4
Upside potential	-3.2%
52 week H/L (Rs.)	1,951.2 / 830
Face value (Rs.)	10
Category	Mid Cap
Sector	Iron & Steel Products

Shareholding Pattern				
Particulars	Sep-17	Jun-17	Mar-17	Dec-16
Promoters	37.5%	37.5%	37.5%	38.8%
FIIIs	0.0%	0.0%	0.4%	0.5%
DIIIs	14.5%	15.2%	15.3%	17.5%
Non institutions	48.1%	47.3%	46.8%	43.2%

Financial Snapshot (Rs. bn)						
Projections	FY15	FY16	FY17	FY18E	FY19E	FY20E
Revenue	30.4	42.1	45.5	54.8	63.2	71.2
EBITDA	1.8	2.8	3.2	3.9	5.0	5.7
Adjusted PAT	0.6	1.3	1.5	1.8	2.4	2.9
EBITDA (%)	6.0%	6.7%	7.1%	7.2%	7.9%	8.0%
PAT (%)	2.1%	3.0%	3.2%	3.2%	3.8%	4.1%
EPS	27.0	53.4	61.8	75.5	102.7	123.4
BVPS	209.9	240.6	305.3	369.2	455.9	560.2
RoNW (%)	12.9%	22.2%	20.3%	20.5%	22.5%	22.0%
RoCE (%)	22.6%	29.2%	29.6%	31.0%	33.6%	33.0%
P/E				25.3	18.6	15.5
P / BVPS				5.2	4.2	3.4
EV/EBITDA				12.8	10.0	8.6

Recommendation History			
Date	Rating	CMP (Rs.)	Target Price (Rs.)
17-Oct-2017	HOLD	1,912.1	1,850.4
29-May-2017	HOLD	1,407.2	1,436.5
11-Mar-2017	BUY	1,100.2	1,436.5



## Q4 FY17 Quarter Performance:

Particulars (Rs. mn)	Q1 FY18	Q4 FY17	Q1 FY17	Q-o-Q (%)	Y-o-Y (%)	FY16	FY17	Y-o-Y (%)
<b>Total Operating Revenue</b>	<b>11,556.2</b>	<b>13,158.7</b>	<b>9,758.3</b>	<b>-12.2%</b>	<b>18.4%</b>	<b>42,135.9</b>	<b>45,450.0</b>	<b>7.9%</b>
Total Operating Expenditure	(10,769.1)	(12,413.0)	(8,825.4)	-13.2%	22.0%	(39,319.4)	(42,206.1)	7.3%
<b>EBITDA</b>	<b>787.1</b>	<b>745.7</b>	<b>932.9</b>	<b>5.6%</b>	<b>-15.6%</b>	<b>2,816.5</b>	<b>3,243.9</b>	<b>15.2%</b>
Depreciation Expenses	(122.0)	(131.9)	(101.6)	-7.5%	20.1%	(341.0)	(512.1)	50.2%
<b>EBIT</b>	<b>665.1</b>	<b>613.8</b>	<b>831.3</b>	<b>8.4%</b>	<b>-20.0%</b>	<b>2,475.5</b>	<b>2,731.8</b>	<b>10.4%</b>
Finance Cost	(176.9)	(163.8)	(199.9)	8.0%	-11.5%	(695.2)	(683.3)	-1.7%
Other Income	95.3	17.0	40.7	460.6%	134.2%	102.7	37.8	-63.2%
Exceptional Items	0.0	0.0	0.0			(253.3)	0.0	-100.0%
<b>PBT</b>	<b>583.5</b>	<b>467.0</b>	<b>672.1</b>	<b>24.9%</b>	<b>-13.2%</b>	<b>1,629.8</b>	<b>2,086.3</b>	<b>28.0%</b>
Tax Expenses	(195.0)	(54.6)	(234.3)	257.1%	-16.8%	(624.2)	(627.3)	0.5%
<b>Adjusted PAT</b>	<b>388.5</b>	<b>412.4</b>	<b>437.8</b>	<b>-5.8%</b>	<b>-11.3%</b>	<b>1,259.0</b>	<b>1,459.0</b>	<b>15.9%</b>
Adjusted EPS (Rs.)	16.5	17.5	18.6	-5.8%	-11.3%	53.4	61.8	15.9%
EBITDA Margin (%)	6.8%	5.7%	9.6%	114 bps	(275) bps	6.7%	7.1%	45 bps
Adjusted PAT Margin (%)	3.4%	3.1%	4.5%	23 bps	(112) bps	3.0%	3.2%	22 bps

Source: Choice Broking Research

## Quarterly Earning Call Highlights:

- Exports & OEM contributed 7% to the total sales volume in Q1 FY18. During the quarter, major growth came from the OEM and project sales in the domestic market. Due to higher steel prices in domestic market as compared to international market, the company focused more on the domestic OEM sales. However, currently, the domestic prices are in-line with international prices and thus the company is looking for a significant increase in business from exports market apart from the OEMs market.
- The company is expected to add 0.7mn tonnes in the rest of the fiscal.
- Business of value added higher margin products from NEXTracker is expected to start from Oct. 2017.
- DFT technology is expected to contribute 12-15% to the FY18 annual sales volume. For FY19, the guided capacity utilization for the DFT line is around 30-40%.
- The management has guided a volume growth rate of 20-25% for FY18. Sales volume guidance for FY18 is 1.2mn tonnes. In Q1 FY18, the volume growth was 10.7%. The volume growth shortfall to be compensated in rest of the year.
- The company achieved robust 27% volume growth in July and Aug. 2017. the management has guided a volume growth of 20-22% in Q2 FY18.
- During the quarter, it has raised Rs. 2bn through NCD. Proceeds from this will be utilized to meet the rising business requirement and replace of high cost debt with low cost debt.
- Capex guidance for FY18 set at around Rs. 1bn.

## Financial Statement

Consolidated Profit and Loss Statement						
Rs. mn	FY15	FY16	FY17	FY18E	FY19E	FY20E
<b>Total Operating Income</b>	<b>30,359.9</b>	<b>42,135.9</b>	<b>45,450.0</b>	<b>54,835.8</b>	<b>63,175.3</b>	<b>71,195.2</b>
(Increase) / Decrease In Stocks	40.1	211.2	(123.0)	466.0	515.4	580.8
Cost of Services & Raw Materials	(26,941.2)	(28,113.8)	(31,580.3)	(42,319.7)	(49,402.3)	(56,107.6)
Purchase of Finished Goods	(109.1)	(7,643.2)	(6,301.4)	(4,794.7)	(4,426.5)	(4,426.5)
Operating & Manufacturing Expenses	(1,126.0)	(3,144.9)	(3,480.9)	(3,510.7)	(4,029.6)	(4,541.1)
Employee Cost	(392.4)	(628.7)	(720.5)	(750.3)	(860.6)	(969.9)
<b>EBITDA</b>	<b>1,831.3</b>	<b>2,816.5</b>	<b>3,243.9</b>	<b>3,926.5</b>	<b>4,971.8</b>	<b>5,731.0</b>
Depreciation Expenses	(220.1)	(341.0)	(512.1)	(606.9)	(712.0)	(773.5)
<b>EBIT</b>	<b>1,611.2</b>	<b>2,475.5</b>	<b>2,731.8</b>	<b>3,319.6</b>	<b>4,259.9</b>	<b>4,957.6</b>
Interest Expenses	(664.6)	(695.2)	(683.3)	(676.2)	(646.9)	(617.6)
Interest / Dividend Income	0.0	0.0	0.0	8.9	0.6	5.0
Other Income	30.0	102.7	37.8	46.3	53.3	60.1
Exceptional Items	0.0	(253.3)	0.0			
<b>EBT</b>	<b>976.6</b>	<b>1,629.8</b>	<b>2,086.3</b>	<b>2,698.6</b>	<b>3,666.9</b>	<b>4,405.1</b>
Tax Expenses	(339.2)	(624.2)	(627.3)	(916.5)	(1,244.0)	(1,494.4)
<b>PAT</b>	<b>637.4</b>	<b>1,005.6</b>	<b>1,459.0</b>	<b>1,782.1</b>	<b>2,422.9</b>	<b>2,910.7</b>
<b>Adjusted PAT</b>	<b>637.4</b>	<b>1,258.9</b>	<b>1,459.0</b>	<b>1,782.1</b>	<b>2,422.9</b>	<b>2,910.7</b>

Source: Choice Broking Research

Consolidated Balance Sheet Statement						
Rs. mn	FY15	FY16	FY17	FY18E	FY19E	FY20E
Share Capital	234.4	234.4	235.9	235.9	235.9	235.9
Share Warrants & Outstandings	0.0	0.0	0.0	0.0	0.0	0.0
Total Reserves	4,716.6	5,441.1	6,967.1	8,472.6	10,519.4	12,978.3
Long-Term Borrowings	1,406.2	1,875.9	1,049.2	786.9	524.6	262.3
Deferred Tax Assets / Liabilities	744.6	859.0	905.0	1,139.7	1,313.0	1,479.7
Other Long Term Liabilities	10.6	10.4	10.4	10.4	10.4	10.4
Long Term Provisions	29.2	50.7	72.1	60.1	69.2	78.0
Trade Payables	2,045.4	2,542.8	3,703.6	2,525.8	3,158.3	3,759.0
Other Current Liabilities	867.6	1,041.1	815.4	1,098.0	1,265.0	1,425.6
Short Term Borrowings	2,925.6	4,109.1	4,657.9	4,657.9	4,657.9	4,657.9
Short Term Provisions	655.0	439.7	83.6	726.0	836.5	942.6
<b>Total Liabilities</b>	<b>13,635.2</b>	<b>16,604.2</b>	<b>18,500.2</b>	<b>19,713.3</b>	<b>22,590.2</b>	<b>25,829.8</b>
Net Block	6,140.8	6,232.8	6,675.8	8,170.6	8,688.8	8,737.5
Capital Work in Progress	203.5	319.9	1,224.3	219.3	252.7	142.4
Intangible Assets Under Development	36.2	0.0	0.0	0.0	0.0	0.0
Goodwill on Consolidation	0.0	429.0	669.6	669.6	669.6	669.6
Non Current Investments	190.6	131.3	127.4	0.0	0.0	0.0
Long Term Loans & Advances	480.2	593.0	778.3	55.9	446.1	1,314.1
Other Non Current Assets	28.1	0.7	16.6	16.6	16.6	16.6
Current Investments	0.0	0.0	0.0	9.0	71.5	210.5
Inventories	3,195.6	5,943.7	4,696.1	5,993.2	6,924.8	7,802.7
Sundry Debtors	1,752.5	2,201.4	2,951.8	4,221.1	4,635.0	4,933.6
Cash and Bank Balance	188.2	13.5	16.8	232.2	267.5	301.5
Other Current Assets	507.4	47.1	42.9	56.5	65.1	73.4
Short Term Loans and Advances	797.2	691.8	1,300.6	69.3	552.6	1,627.9
Miscellaneous Expenses not Written Off	114.9	0.0	0.0	0.0	0.0	0.0
<b>Total Assets</b>	<b>13,635.2</b>	<b>16,604.2</b>	<b>18,500.2</b>	<b>19,713.3</b>	<b>22,590.3</b>	<b>25,829.8</b>

Source: Choice Broking Research

## Financial Statement (Contd...)

Consolidated Cash Flow Statement						
Particulars	FY15	FY16	FY17E	FY18E	FY19E	FY20E
<b>Profit Before Tax</b>	<b>976.7</b>	<b>1,629.9</b>	<b>2,086.3</b>	<b>2,698.6</b>	<b>3,666.9</b>	<b>4,405.1</b>
Depreciation Expenses	220.1	341.0	512.1	606.9	712.0	773.5
Interest Expenses	664.4	695.1	683.3	676.2	646.9	617.6
Change in Working Capital	1,366.6	(2,334.7)	55.1	(2,610.1)	(261.7)	(141.9)
Others	(12.8)	213.8	(37.8)	(8.9)	(0.6)	(5.0)
Tax Expenses	(67.0)	(432.1)	(581.3)	(916.5)	(1,244.0)	(1,494.4)
<b>Cash Flow From Operations Activities</b>	<b>3,148.0</b>	<b>113.0</b>	<b>2,717.7</b>	<b>446.1</b>	<b>3,519.5</b>	<b>4,154.8</b>
Purchase of Fixed Assets	(1,839.0)	(1,256.4)	(2,272.5)	(1,096.7)	(1,263.5)	(712.0)
Change in Investments	(106.4)	151.5	756.1	118.4	(62.5)	(139.0)
Change in Loans & Advances				1,953.7	(873.5)	(1,943.2)
Interest Income	9.9	29.6	37.8	8.9	0.6	5.0
Others	26.7	148.5	0.0	0.0	0.0	0.0
<b>Cash Flow from Investing Activities</b>	<b>(1,908.8)</b>	<b>(926.8)</b>	<b>(1,478.6)</b>	<b>984.3</b>	<b>(2,198.9)</b>	<b>(2,789.2)</b>
Borrowings (Net)	(442.6)	1,672.6	(277.9)	(262.3)	(262.3)	(262.3)
Finance Costs	(664.4)	(695.1)	(683.3)	(676.2)	(646.9)	(617.6)
Dividend Paid	(117.2)	(140.6)	(235.9)	(236.6)	(321.7)	(386.5)
Others	(19.0)	(28.1)	(35.4)	(40.0)	(54.3)	(65.3)
<b>Cash Flow from Financing Activities</b>	<b>(1,243.2)</b>	<b>808.8</b>	<b>(1,232.5)</b>	<b>(1,215.1)</b>	<b>(1,285.3)</b>	<b>(1,331.6)</b>
<b>Net Cash Flow</b>	<b>(4.0)</b>	<b>(5.0)</b>	<b>6.6</b>	<b>215.4</b>	<b>35.3</b>	<b>34.0</b>
Opening Balance of Cash & Cash Balance	19.2	15.2	10.2	16.8	232.2	267.5
<b>Closing Balance of Cash &amp; Cash Balance</b>	<b>15.2</b>	<b>10.2</b>	<b>16.8</b>	<b>232.2</b>	<b>267.5</b>	<b>301.5</b>

Source: Choice Broking Research

Consolidated Financial Ratios						
	FY15	FY16	FY17	FY18E	FY19E	FY20E
<b>Profitability &amp; Return Ratios</b>						
EBITDA Margin (%)	6.5%	6.0%	6.7%	7.1%	7.2%	8.0%
Adjusted PAT Margin	2.3%	2.1%	3.0%	3.2%	3.2%	4.1%
RoNW (%)	13.9%	12.9%	22.2%	20.3%	20.5%	22.0%
RoCE (%)	24.0%	22.6%	29.2%	29.6%	31.0%	33.0%
<b>Working Capital &amp; Liquidity Ratios</b>						
Current Ratio (X)	1.2	1.0	1.1	1.0	1.2	1.4
Quick Ratio (X)	1.1	0.9	1.1	0.8	0.6	0.7
Interest Coverage Ratio	2.4	2.4	3.6	4.0	4.9	8.0
<b>Turnover &amp; Leverage Ratios</b>						
Fixed Asset Turnover (X)	5.7	4.8	6.0	5.3	6.1	7.5
Total Asset Turnover (X)	2.2	2.2	2.5	2.5	2.8	2.8
Debt Equity Ratio (X)	1.1	0.9	1.1	0.8	0.6	0.4
Dividend Pay Out Ratio	21.9%	18.4%	11.2%	16.2%	13.3%	13.3%
<b>Valuation Ratios</b>						
DPS (Rs.)	5.5	5.0	6.0	10.0	10.0	16.4
BVPS (Rs.)	180.3	209.9	240.6	305.3	369.2	560.2
EPS (Rs. Cr)	25.1	27.0	53.4	61.8	75.5	123.4
P / E (X)				25.3	18.6	15.5
P / BVPS (X)				5.2	4.2	3.4
EV / EBITDA (X)				12.8	10.0	8.6

Source: Choice Broking Research