AMBIT
Acumen at work

APL Apollo Tubes
BUY

INITIATING COVERAGE | APAT IN EQUITY | May 07, 2020

An 'Offer' you can't refuse

APAT's focus on innovative SKUs, control over unitary costs and attempts to expand market mirror PVC pipes/cement a decade or so back. Stellar performance of value-added products is testament to these efforts. Covid-19 provides APAT opportunity to rapidly gain share from highly leveraged/overstretched peers (debt/equity 0.8x-1.6x; WC days at 50-70 days), a trait APAT has demonstrated. Whilst margins will be volatile in the near term, volume will pick up over FY21-23E (23% CAGR) given rising application-specific products and inevitable construction recovery. Despite consistently outperforming BM peers in FY15-20E, APAT trades at a steep discount. Multiples expansion will be gradual as perception barriers remain a hindrance. Hence, hold for two years for 77% upside; our 2-year TP implies 19x FY22E EPS.

Competitive position: STRONG   Changes to this position: POSITIVE

Akin to plastic pipes/cement; experimentation and portfolio shift likely

APAT reminds us of plastic pipes/cement businesses of FY01-FY15 due to commoditized nature of product and substitution-led demand. Like plastic pipe/cement businesses of that time, APAT is investing in branding (~10% of FY20 EBITDA) and experimenting 'function-specific' SKUs (~1100), thus expanding structural steel market whilst keeping unitary costs in check (10% decline, FY16-20). Innovations will continue with APAT aiming to get into higher diameter sizes of structural tubes like 1000x1000mm.

Demand uncertain; supply destruction certain

APAT outperformed cement/PVC pipes in FY15-20 (20% volume growth vs 7%/~10% for cement/PVC pipes). Dependence on infrastructure (35% of demand, rest is home building) places it better than other BM segments. Highly leveraged scale peers like Hitech/Surya (0.8x-1.6x D/E) with high receivable/WC days (50-70 days) coupled with 50% unorganized players in the industry can lead to supply disruption.

Margins volatile; volatility is here to stay

APAT's margins dropped materially (12% drop in EBITDA/T in FY19) in volatile steel price environment. So near term margins are likely to take a hit given uncertain global steel prices. But attempts to increase margins sustainably through Apollo Tricoat are a right step. We build in 19% volume drop in FY21, building in 23% CAGR over FY21-23E. EBITDA/t should drop ~₹537/t in FY21 and gradually improve by ₹650/t to ₹ 3421/ton by FY23E.

Multiple expansion to be slow; perception barriers main hindrance

Despite continued outperformance vs BM peers (21% vs 10% EBITDA CAGR for peers) over FY15-20E, APAT trades at a discount. Reasons are: 1) doubts on Tricoat acquisition, 2) Street's inability to recognize APAT's competitive edge due to inefficient peers, 3) commoditised business (similar to cement and pipes in the early days). Street will take time to forgive 'missteps', so multiple expansion will be gradual. Weaker than expected demand and WC stretch are key risks.

Key financials

Year to March	FY18	FY19	FY20E	FY21E	FY22E	FY23E
Net Revenues (₹ mn)	53,342	71,523	77,485	60,839	81,500	97,129
Operating Profits (₹ mn)	3,711	3,929	5,424	3,974	5,566	7,111
Net Profits (₹ mn)	1,582	1,483	3,063	1,548	2,766	4,098
Diluted EPS (₹)	66	62	120	59	106	160
RoE (%)	20.3%	16.5%	27.7%	11.7%	18.2%	22.3%
P/E (x)	19	20	10	21	12	8
P/B (x)	3.6	3.1	2.4	2.1	1.8	1.5

Source: Company, Ambit Capital research

Home Building

Recommendation

Mcap (bn):	₹31/US$0.4
6M ADV (mn):	₹181/US$1.1
CMP:	₹1,247
TP (24 mths):	₹2,200
Upside (%):	77

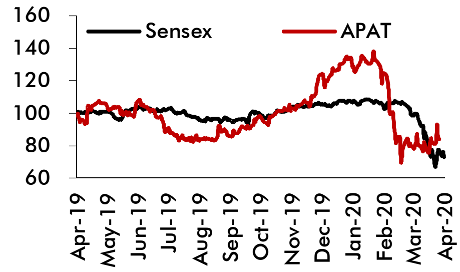
Flags

Accounting:	AMBER
Predictability:	RED
Earnings Momentum:	AMBER

Catalysts

- Exit of 20-40% levered and unorganized players from industry
- Apollo Tricoat (11% EBITDAM vs6-7% for APAT) to structurally improve overall margins
- Substitution demand to provide overall runway for growth

Performance (%)



Source: Bloomberg, Ambit Capital Research

Research Analysts

Dhruv Jain
+91 22 6623 3177
dhruv.jain@ambit.co

Nitin Bhasin
+91 22 6623 3241
nitin.bhasin @ambit.co

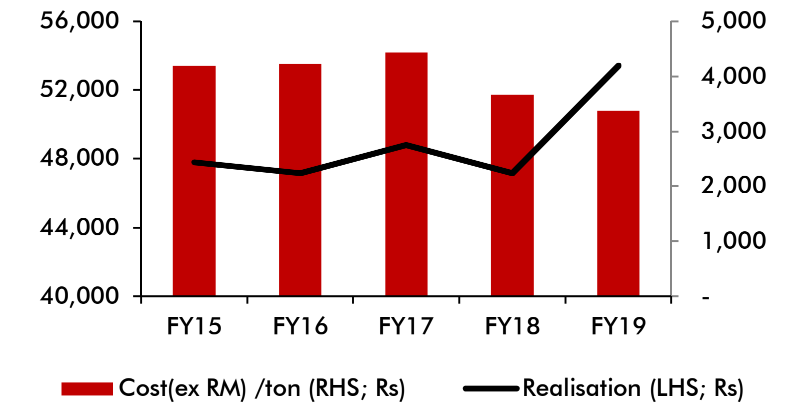
Story in Charts

Many other organized peers can be under pressure on account of high leverage and high working capital days

	Total debt (₹ mn)	Debt/ EBITDA (x)	Debt/ Equity (x)	Capacity (mn MTPA)	WC days FY19)
APAT	8,566	1.7	0.6	2.6	32
Surya Roshni	10,757	3.1	0.9	0.9	73
Hi-tech pipes	2,710	3.7	1.6	0.6	52
Rama steel	737	6.7	0.8	0.1	62
JTL infra	337	2.0	0.7	0.1	56
Bhushan Steel	Acquired by JSW steel			0.3	NA

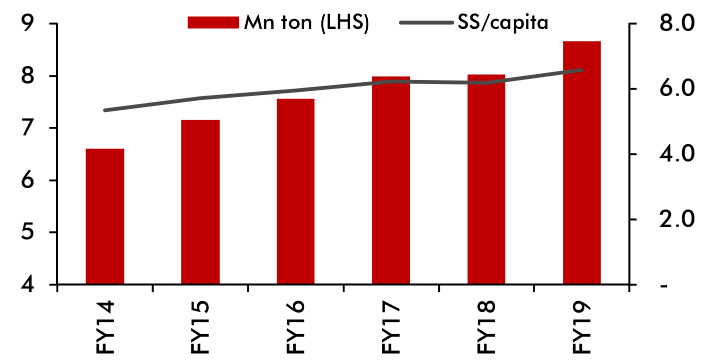
Source: Ambit Capital Research, Company, EBITDA used for calculation of Debt/EBITDA is annualized for 9M #s reported by the companies; Debt #s are as at 30-Sep-19

APAT's cost structure(ex-RM costs) in the last 5 years has come down due to scale benefits



Source: Ambit Capital Research, Company

Structural steel usage in India has increased over FY15-19 due to cost savings and better aesthetics



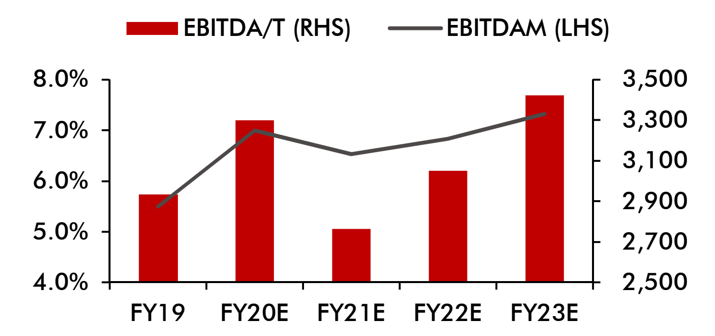
Source: Ministry of Steel, Ambit Capital Research

APAT is venturing into value added products to increase margins and create a 'niche' market

Brand	Use
Apollo Signature	Designer Roofing, Fencing, Steel Furnitur
Apollo Chaukhat	Steel-Door Frames in affordable housing segments, high-end housing, commercial buildings and industrial sheds
Apollo Elegant	Designer Hand Railing
Apollo Tricoat	Electrical Conduits
Apollo Plank	Staircase Steps, Ceilings, Truck Bodies
Apollo Hybrid	Borewell, Plumbing
Apollo Scaff	Scaffolding & Green house
Apollo Alpha	Window Frames

Source: Ambit Capital Research, Company

EBITDA/ton to recover post FY21E



Source: Ambit Capital research, Company; Note: +: least attractive, ++: moderately attractive, +++: most attractive

APAT's business segments are less attractive than other BM segments; thus it may not trade at similar multiples to paints and electricals in the near term

Segment	Market size (₹ bn)	Share of organized	EBITM (5 yr avg.)	RoCE (5 yr. avg)	Overall sector attractiveness
Paints	500	80%	17%	38%	+++
Structural Steel tubes	360	50%	5%	15%	+
Electricals	400	65%	10%	32%	+++
Tiles	250	40%	15%	21%	+
Plastic Pipes	200	75%	13%	26%	++
Plyboards	160	40%	14%	18%	+
Faucetware	80	60%	14%	18%	++
Sanitaryware	40	75%	14%	18%	+

Source: Ambit Capital research, Company; Note: +: least attractive, ++: moderately attractive, +++: most attractive

The Evolution….

APAT is India's largest structural steel pipe maker. Incorporated in 1987, the company has production capacity of 2.55mn tons. Key products are hollow sections and pre-galvanized (GP) pipes which constitute over 70% of its product mix. It also deals in other structural steel products like galvanized iron (GI) pipes, MS black pipes and newly introduced 'Tricoat' products. Sanjay Gupta, a second generation promoter, has been at the helm of the company since 2002 and the key driver of growth. Day to day operations are looked after by a team of experienced professionals but Gupta guides the company on strategy as Executive Chairman.

History of the company

Exhibit 1: Key events in the company's evolution

Year	Events
1986	Incorporated as Bihar Tubes.
1995	Listed on BSE and NSE for ₹42mn post diluting 66%stake.
2002	Sanjay Gupta took over the company from his father, Sudesh Gupta as the MD and CEO.
2004	Developed in-house Hollow Sections across a wide-range of sizes. First in India to launch Pre-Galvanised pipes
2007	Acquired 100% stake in both Apollo Metalex Private Limited for ₹72mn
2008	GDR issuance done by the company by diluting 29% of the company for ₹858mn
2008	Acquired 100% stake in Shri Lakshmi Metal Udyog Limited in a share swap agreement at investment of ₹362mn.
2010	Acquired 100% stake in Lloyd Line Pipe for ₹332mn.
2010	Commissioning of Hosur plant, in Tamil Nadu with a capacity of 0.2mn tonnes. Started multiple warehouses across India.
2012	Ashok Gupta takes charge as MD and CEO.
2015	First in India to achieve a capacity of 1 MTPA in structural steel pipes.
2017	Established India's first ever DFT (Direct Forming Technology) Line in Hosur.
2018	Made an open offer to Apollo Tricoat's shareholders to purchase majority stake in the company
2019	Acquired Shankara's facility of 0.2mn ton for ₹0.7bn

Source: Company, Ambit Capital Research

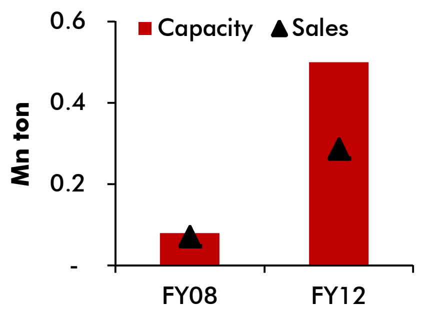
Phase I – Becoming a strong regional player (2004-2007)

Sanjay Gupta, a second generation promoter, took over management of the company post the death of his father in 2002. The company's capacity had grown at 3% CAGR over 1993-2002 before Gupta took over. However, under his leadership, the company expanded capacity at 20% CAGR from 32000 tonnes in 2002 to 80,000 in 2007, driving 36% revenue CAGR. The company expanded these capacities in its Sahibabad plant, becoming a strong regional player in the north. It became the first player to produce GP pipes in India. Its share in total sales mix improved to ~17%, which lead to 6ppt EBITDA margin expansion, from 4% to 10%. APAT also backward-integrated in 2007 with the very small acquisition of Apollo Metallex to galvanise HR coils for GP pipes. But despite the focus on value addition, traditional products like MS and GI dominated sales mix, at ~60%. With 36% revenue CAGR and 6ppt EBITDA expansion, EBITDA recorded 67% CAGR during this period. RoCE increased from 16% in FY04 to 28% in FY07. Average RoCE was 19% during this phase. Nevertheless, working capital cycle was very high at 79 days primarily due to high inventory and receivable days (39 and 58 days respectively) in FY07.

Phase II – Becoming a pan-India player (2008-12)

Timely acquisition of Shri Laxmi Metal Udyog in Bangalore gave APAT the first mover advantage in the south. Starting with an initial capacity of 36,000 tonnes, the company expanded this facility to 50,000 tonnes and set up additional capacity in Hosur (200,000 tonnes) in 2009. APAT entered the western market through acquisition of LLoyds Line Pipe in (95,000 tonnes) in 2010. Organic capacity additions as well as acquisitions increased combined its Maharashtra capacity by 34% CAGR to 400,000 tonnes. Share of high-margin GP and GI products stayed at ~40% over FY08-12. GDR issue of $20mn in 2008 reduced APAT's leverage from 5.2x in 2007 to ~2.4x in 2012. Cash conversion cycle also improved significantly (from negative in 2008 to an average of 31% over FY09-12) with reduction in working capital days from ~80 days in 2007 to ~57 days in 2012. Despite 50% revenue CAGR (42% volumes + 8% realization), EBITDA growth was a low 38% CAGR due to higher indirect cost growth (41% CAGR). RoCE, albeit volatile, was contained at ~20% during this phase owing to aggressive capex.

APAT aggressively expanded capacity through acquisitions in this phase



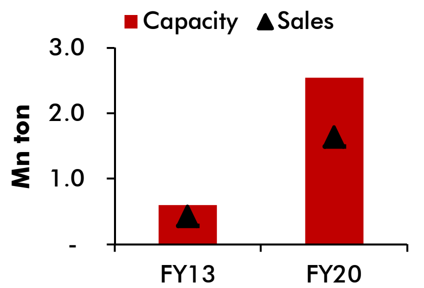
Source: Company, Ambit Capital Research

Phase III – Becoming the leader (2013-2020)

Capacity expanded from 0.5mn tonnes in 2012 to 2.55mn tonnes by 9M2020 (24% CAGR) through various brownfield/greenfield expansions (Raipur) and acquisitions. During this time, APAT also acquired Tricoat to enhance its value added product basket to increase its margin. At the same time, it also acquired Shankara's facility of 0.2mn ton for ₹0.7bn to consolidate its market share. APAT also innovated on new 'consumer' products like plank and door panels.

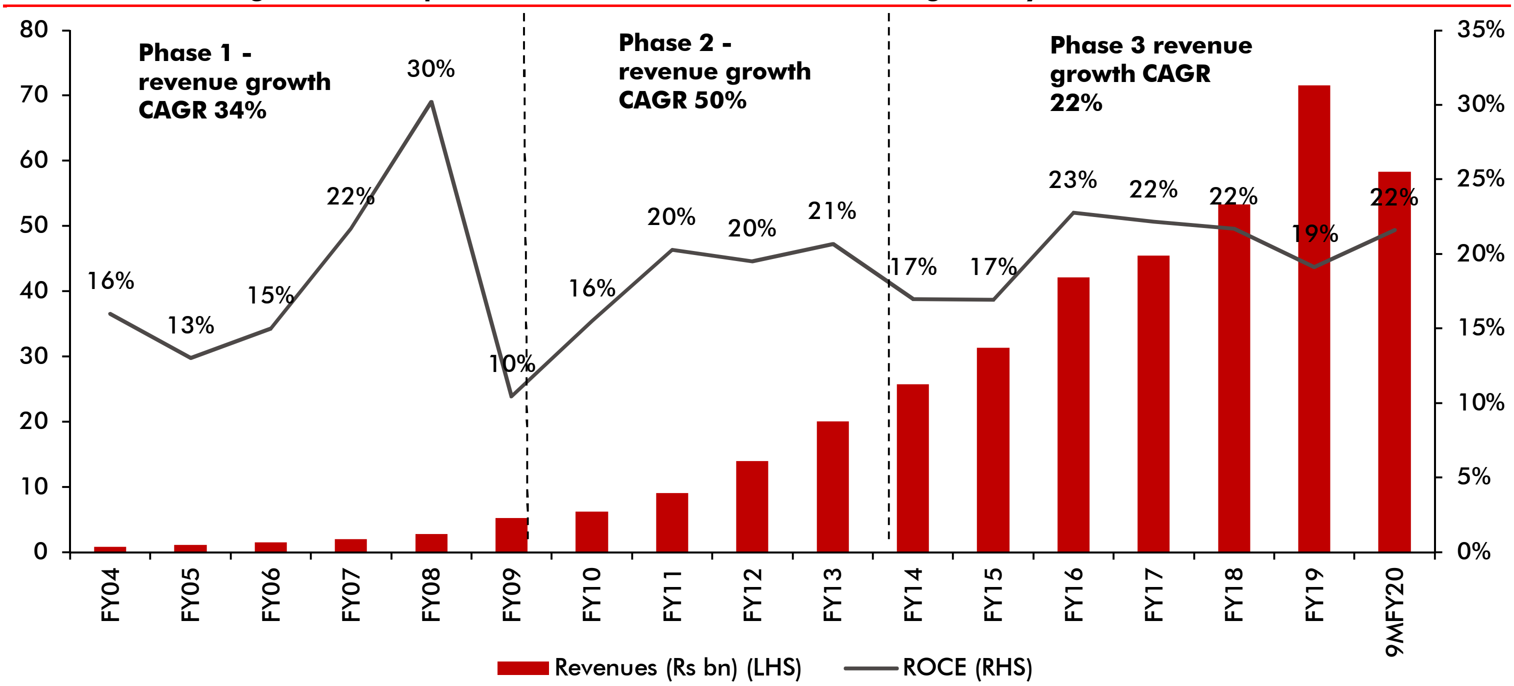
In order to improve its hollow sections' range and reduce time, DFT technology was also installed in 2017. Rising share of lower margin hollow sections in sales (34% in FY12 to over 54% in 9MFY20) led to EBITDA decline of 1.9ppt. Revenue growth of 26% CAGR led to ~19% CAGR in EBITDA and PAT. RoCE ranged from 17-24% during this phase. The 7ppt decline in RoCE seen in FY14 and FY15 was due to low EBIT margin due to inventory write-downs as steel prices collapsed. Working capital days also improved significantly during this period, down from 93 days in FY13 to 28 days in 9MFY20.

APAT continued to expand aggressively over FY13-20, becoming market leader



Source: Company, Ambit Capital Research

Exhibit 2: Revenues grew at a fast pace over FY04-9MFY20 while maintaining healthy RoCE of ~20%



Source: Company, Ambit Capital Research

A calculated bet on Tricoat acquisition

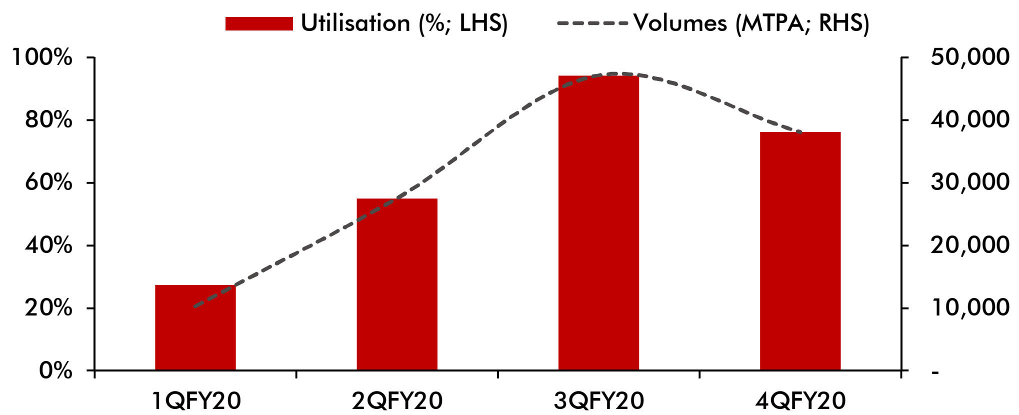
What concerned us and what did the company do?

Originally, in Jan'18, Apollo Tricoat (listed entity) was acquired by the promoter family in their personal capacity from the promoter's business associate Saket Agarwal. However, the board consequently realized the conflict of interest given that AT was in an identical business. Such missteps were remedied by the promoters by buying the promoter family's stake at the same valuation they invested and promoters infusing capital in APAT at higher valuations (40-50% premium to then market price) to significantly fund the acquisition. On a net basis, promoters infused ₹1.7bn in APAT post full conversion of warrants. Such measures removed doubts on conflict of interest between promoter and AT. However, shareholders of APAT will continue to pay the price of the promoter's initial missteps with their economic interest in AT restricted to only 51% of this business.

Apollo Tricoat has performed significantly better than expected

The promoters wanted to introduce high-end value-added products in the market through this subsidiary. Whilst there were initial doubts on the Street regarding the performance of this subsidiary, the company managed to surpass expectations. The company's new products 'Chaukhat' and 'Signature' have particularly gained traction and have been the key reason for Tricoat's initial success. The company posted volumes of 0.12mn tons in FY20 and current capacity utilization is 62%. Moreover, management intends to increase capacity and SKUs in Tricoat.

Exhibit 3: Tricoat – Impressive volume ramp-up and utilization in the first year



Source: Company, Ambit Capital Research

Acquisition could have been more efficiently done

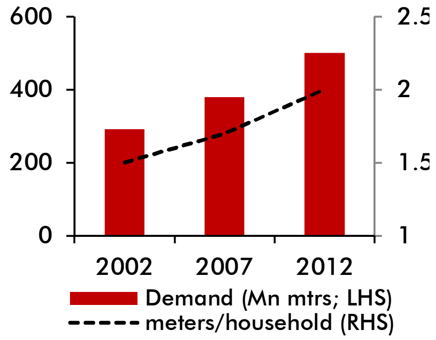
Whilst Tricoat's performance has been stellar, we continue to hold the view that the acquisition could have been done in a more efficient way. Minority shareholders will continue to reap benefits of Tricoat's acquisition. Whilst management indicated it wishes to increase stake in Tricoat, the steep valuation gap (APAT at 12x TTM P/E and Tricoat at 30x TTM P/E) has forced management to postpone the plan.

Similar to plastic pipes of 2005-15

#1 Increasing acceptance due to better quality and use

Whilst plastic pipes were an accepted phenomena in agricultural sector, its acceptance increased in plumbing during this period. This is because consumers realized that the popularly used GI pipes were prone to leakage and their installation costs were also very high and time consuming. The key roadblock in consumer's heads was GI pipes higher strength vs plastic pipes. But as companies like Supreme and Astral innovated on higher strength in their piping systems, this 'mind block' was also cleared and thus plastic pie acceptance increased.

Plastic pipe per capita consumption gradually improved over this period



Source: Astral DRHP, Ambit Capital Research

Exhibit 4: Consumers realized that UPVC/CPVC pipes were significantly better vs GI pipes due to its higher life, lower cost and ease of installation

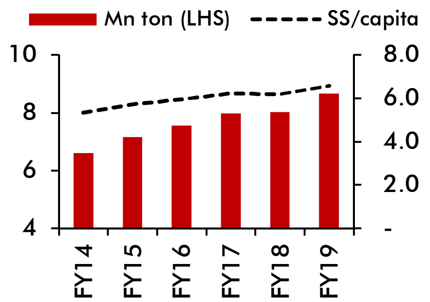
	GI pipes	UPVC pipes	CVPC pipes
Life (years)	15-20	20-25	30-35
Max operating temperature (degrees Celsius)	200-250	60-70	90-100
Strength	Higher than plastic pipes	500-600	450-550
Cost	Costlier than plastic	Cheaper than GI	Cheaper than GI, costlier than UPVC
Corrosion	Corrodes faster	No effect due to chemical resistance	Has anti-corrosive properties
Leakage	Vulnerable to leakage	Leakage-free	Leakage-free for lifetime
Bacterial growth	More prone to bacterial growth compared with plastic	Relatively low compared with GI	Extremely low compared with GI
Installation	Time- and energy-consuming	Done through cold welding	Done through cold welding
Thermal conductivity and insulation	Needs insulation as heat loss occurs faster to high thermal conductivity	Requires less insulation as low thermal conductivity reduces heat loss	Requires less insulation as low thermal conductivity reduces heat loss

Source: Prince pipes DRHP, Ambit Capital Research

A similar trend is also playing out in structural steel pipes as consumers are now realizing their advantage vs using RMC due to:

- **Cost saving:** Structural steel has higher tensile strength for the identical open section of same weight. With lower weight required for the same structural strength, this material offers cost savings to the tune of 30% (source Tata Structura). Moreover, lower construction time for structures with use of hollow sections also trickle down to savings in terms of labour and interest costs.
- **Better aesthetics:** Structural steel offers much sleeker and modern looking structures unlike RMC/RCC with use of modern materials such as glass. Consequently, government, private sector and retail consumers tend to use such structures to showcase progress and affluence.

Structural steel usage in India has also gradually increased over FY15-19



Source: Ministry of steel, Ambit Capital Research

Exhibit 5: RCC-based structures take longer time for shuttering and drying…

Source: Ambit Capital research, Company

Exhibit 6: …while hollow sections are quick to install through fittings

Source: Ambit Capital research, Company

Exhibit 7: Fabricator had to weld 2 channels to create a square shape

Source: Ambit Capital research, Company

Exhibit 8: Now square sections are readily available leading to savings in time and resources

Source: Ambit Capital research, Company

#2 Branding and awareness exercise for intermediaries and consumers

To make the intermediaries and consumers aware about the better quality of products, plastic pipes companies undertook mass training sessions and advertisement campaigns. Company's undertook TV and print media campaigns for targeting general consumer and undertook mass plumber training programs to make the intermediary understand its ease of installation and better quality.

Excerpt from FY04 annual report of Astral:

'So far, the company's awareness programmes focused the relevant industry audience including plumbers, contractors, Architects etc. However, there was need to address the user mass at large. This was not possible without media campaign through mass media. Charting a new trend, the company undertook a mass media programme on two leading Hindi news channels viz. Aaj Tak and Star News. The campaign went on air from April 2004, the election month and was in full swing during the months of April, May and June.'

Exhibit 9: Pipe companies conducted plumber meets to raise awareness about PVC pipes

Source: Ambit Capital research

Exhibit 10: Similarly they entered into brand-building exercises to raise awareness about PVC pipes

Source: Ambit Capital research

Similarly, APAT has also undertaken an advertisement campaign and has engaged Bollywood celebrity 'Amitabh Bachchan' as their brand ambassador. They have also been sponsoring various sporting events to raise awareness about their brand.

APAT has also been engaging with various intermediaries to show the various different uses of structural steel pipes.

Ashok Gupta (erstwhile MD of APAT)- "We had promised you long-time back that in due course of time you will see us more as a consumer brand. I think the journey is taking shape. You will all be happy to know that in line with that journey, we have taken a strategic shift from a commodity to consumer product, to a product made to the specific requirements of our customers. Towards that end, we are now going ahead with having a significant sustainable branding campaign"

Exhibit 11: APAT appointed Amitabh Bachchan as brand ambassador for the company

Source: Ambit Capital research, Company

Exhibit 12: APAT is also sponsoring sports teams and events to cater to a larger consumer audience

Source: Ambit Capital research, Company

Exhibit 13: APAT is also arranging fabricator meet…

Source: Ambit Capital research, Company

Exhibit 14: … to make intermediaries aware about the company

Source: Ambit Capital research, Company

#3 Newer functional products increasing the market

Astral's becoming the country's leading CPVC player was the game changer for the plastic pipe industry. With the introduction of CPVC pipes, intermediaries and consumers started appreciating plastic pipes advantages vs GI pipes which increased the market for UPVC pipes as well. This, along with launch of various specialized 'function specific' pipes which catered to specific needs of home builders, helped plastic pipes evolve from a commodity product to a 'whole plumbing system'.

Exhibit 15: Astral innovated on many products during this period which increased the plastic pipe market as a whole

Year	Product
2004	CPVC and PVC fittings, flanges and valves
2004	Solvent Chemicals
2005	Underground specialty fittings
2006	Large Diameter PVC pipes
2008	Sound Proof piping
2013	Bendable Pipes
2014	Blazemaster

Source: Ambit Capital Research, Astral, Launches are restricted till FY15

We see similar trends playing out with steel pipes as well. APL Apollo has been at the forefront of launching innovative products. They were the first in India to launch pre-galvanised steel tubes way back in 2003. They have now introduced new products and function-specific brands such as Signature, Chaukhat and Tricoat.

These initiatives will only increase acceptance of steel pipes, thus expanding the overall market for steel pipes in the country.

Exhibit 16: APAT has introduced function-specific brands to increase awareness of their products

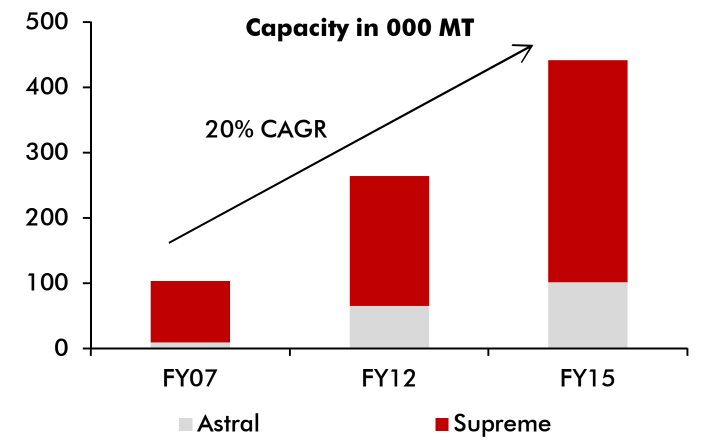
Brand	Use
Apollo Signature	Designer Roofing, Fencing, Steel Furniture
Apollo Chaukhat	Steel-Door Frames in affordable housing segments, high-end housing, commercial buildings and industrial sheds
Apollo Elegant	Designer Hand Railing
Apollo Tricoat	Electrical Conduits
Apollo Plank	Staircase Steps, Ceilings, Truck Bodies
Apollo Hybrid	Borewell, Plumbing
Apollo Scaff	Scaffolding & Green house
Apollo Alpha	Window Frames

Source: Company, Ambit Capital Research

#4 Aggressive capacity expansion; increasing bargaining power

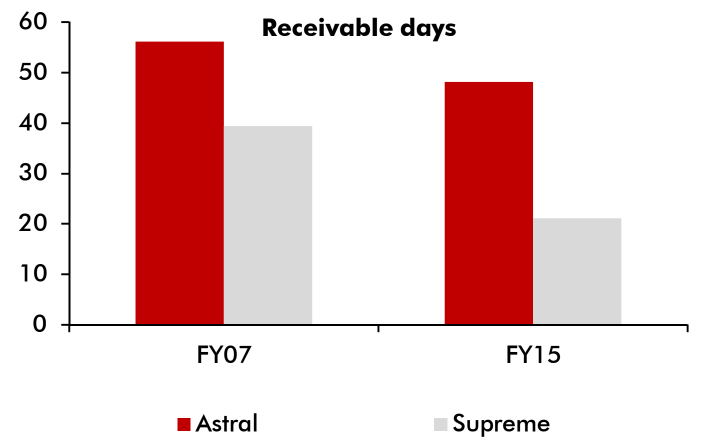
To gain market share from unorganized and sub-scale players, marquee plastic pipe companies like Astral and Supreme foresaw the opportunity and aggressively increased their capacity to tap the market. Moreover, during this period their debtor days also came off as their bargaining power amongst distributors improved.

Exhibit 17: Pipe companies expanded their capacities aggressively to cater to the surge in demand



Source: Company, Ambit Capital Research

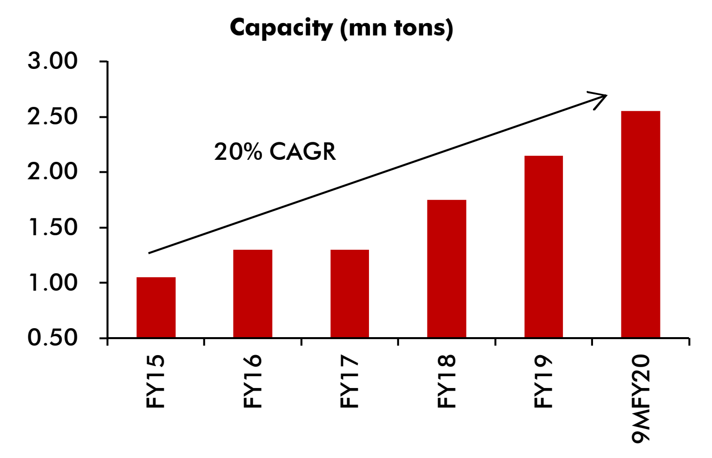
Exhibit 18: Along with this their bargaining power amongst distributors also meaningfully increased



Source: : Company, Ambit Capital Research

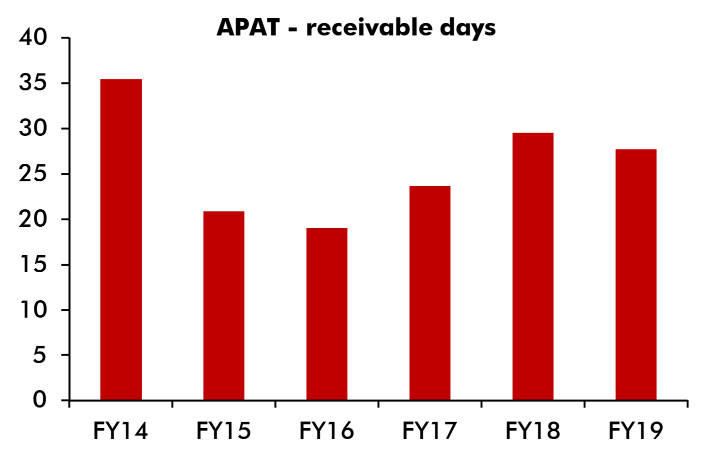
Similar trends are seen to be playing out with APAT. APAT has aggressively increased its capacity. Similarly, APAT's bargaining power with the distributors has improved significantly leading to lower working capital days.

Exhibit 19: APAT increased its capacity aggressively over FY15-9MFY20



Source: Company, Ambit Capital Research

Exhibit 20: APAT's receivable days have also been in control over the last 5 years



Source: Company, Ambit Capital Research

Evokes the cement sector of the 2000s...

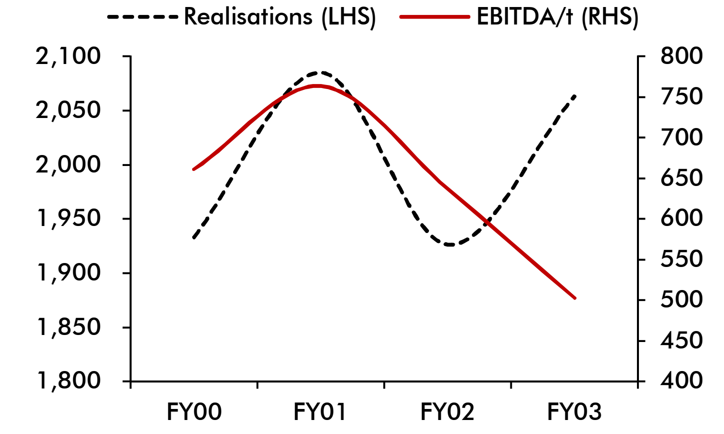
"One way a market incumbent obtains a competitive advantage is by having a lower cost structure that cannot be duplicated by potential rivals. The incumbent can earn attractive returns under prevailing market conditions — prices and sales levels — but potential entrants, thanks to their higher cost structures, cannot"
– Bruce Greenwald and Jude Kahn; Competition Demystified

We compare APAT to marquee players of the cement sector in early 2000s as both are commoditized products, and realizations are not in control of these companies. However, as both cement companies and APAT focused on tight manufacturing operations to keep costs in check, they were able to gain scale and improve their market share whilst keeping leverage in check. This helped cement companies post a sharp uptick in RoCE as the macro situation improved post 2004. Whilst uncertainty on macro headwinds remains for APAT, we believe a continued focus on tight operations will only help it improve market share hereon.

Realizations and margins for both remained volatile

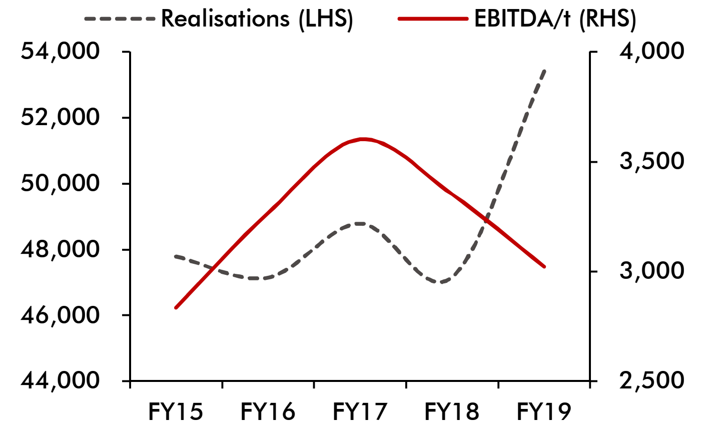
Both cement companies and APAT have witnessed periods of volatile realizations and thus volatile EBITDA/t.

Exhibit 21: Realisations and margins for both Ambuja/ACC of the 2000s...



Source: Company, Ambit Capital Research

Exhibit 22: ...and APAT have remained volatile

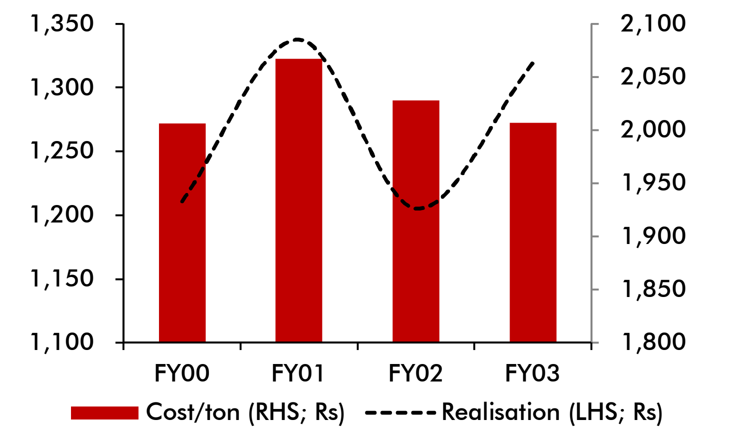


Source: Company, Ambit Capital Research

However, both managed to have a tight grip on maintenance...

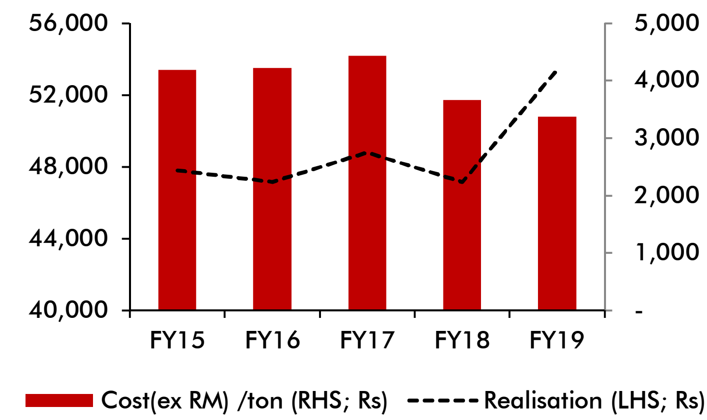
However efficient cement players like Ambuja were able to keep a tight control on its costs; a trait also found in APAT.

Exhibit 23: Ambuja' cost structure during its heydays ...



Source: Company, Ambit Capital Research

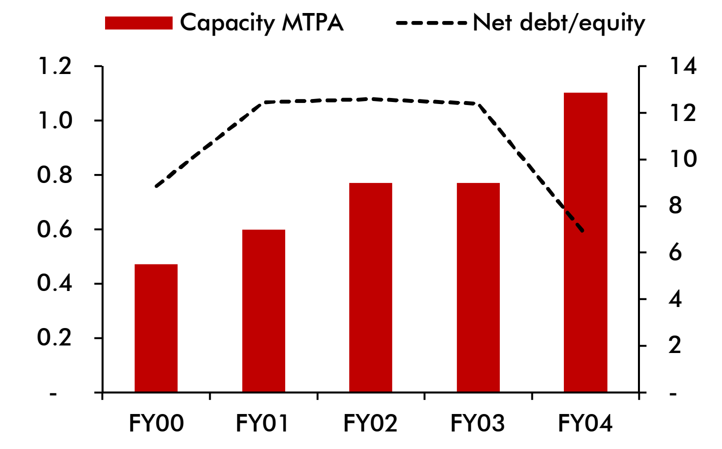
Exhibit 24: .. and APAT's cost structure in the last 5 years have largely been stable



Source: Company, Ambit Capital Research

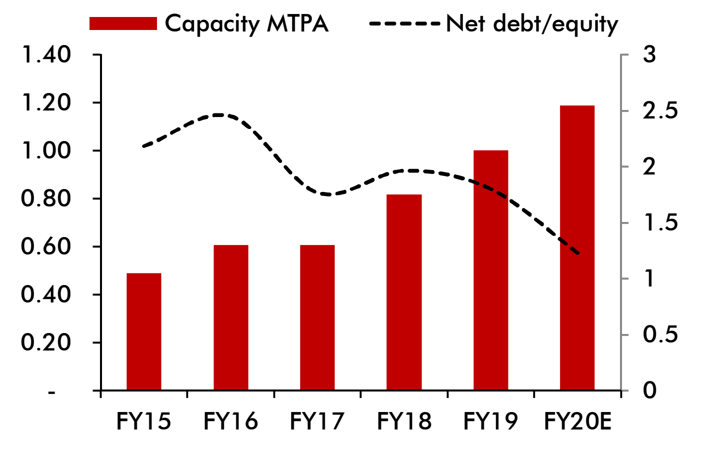
...whilst aggressively expanding and keeping leverage in check at the same time

Exhibit 25: Ambuja in its heydays....



Source: Company, Ambit Capital Research

Exhibit 26: ...and APAT aggressively expanded capacity whilst keeping debt in check

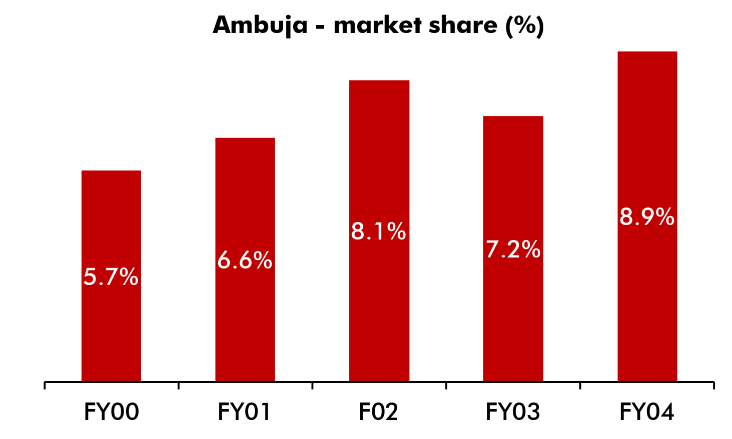


Source: Company, Ambit Capital Research

...thus gaining market share

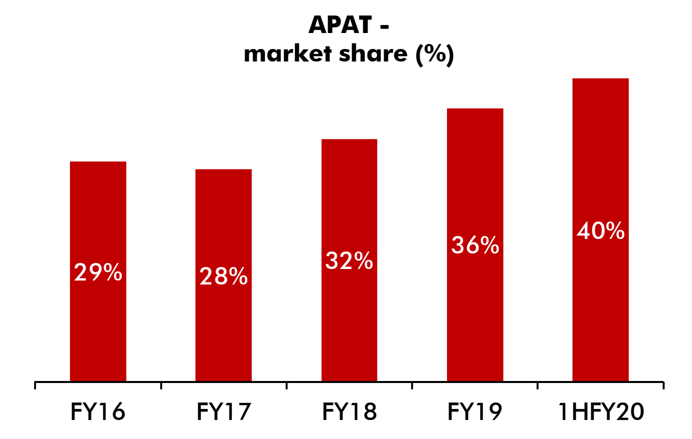
Ambuja was able to gain market share from incumbent peers by focusing on tight manufacturing operations whilst expanding capacity. APAT has been also expanded capacity whilst maintaining tight operations, and thus expanded market share.

Exhibit 27: Ambuja expanded market share by 3ppt



Source: Company, Ambit Capital Research

Exhibit 28: APAT also improved its market share



Source: Company, Ambit Capital Research

Demand uncertain, supply disruption certain

Whilst demand remains uncertain due to Covid-19 disruption, it is likely that supply consolidation will take place due to over-leveraged (debt-equity of 0.7-1.6x for peers vs 0.5x-0.6x for APAT) and over-stretched (WC days of 50-70 days for peers vs ~30 days for APAT) players in this industry. Moreover, APAT's history of successfully running acquired units makes this opportunity lucrative for APAT to consolidate the market. With APAT's debt and working capital days in check, it is only fitting that it emerges the winner post this disruption.

Covid-19 can accelerate supply consolidation

APAT has acquired and turned around many capacities in the past

APAT has demonstrated its ability to acquire and turn around many industry capacities in the past, thus becoming the industry leader. Its recent acquisition of Shankara's Hyderabad facility, through which it entered the Andhra Pradesh/Telangana market, is a testament of this.

Exhibit 29: APAT's various acquisitions have been at reasonable valuations

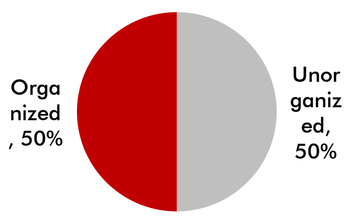
Name of the entity	Location	Year of acq.	Cost (₹ mn)	Mode of acquisition	Erstwhile capacity (ton)	Current capacity (ton)	Cost per tonne of capacity	Remarks
Apollo Metallex	Sahibabad, UP	2007	12	Cash	24,000	225,000	50	To set up sheet galvanizing facility
Shree Lakshmi Metal Udyog	Bangalore	2008	233	Share swap	36,000	125,000	6,472	Made the company only organized player in south and saving costs to the tune of ₹700 per tonne
Lloyd Line Pipe	Murbad, Maharashtra	2010	332	Cash	90,000	475,000	3,689	Expanded to western India
Taurus Value Steel (Shankara)	Hyderabad, Telangana	2019	700	Cash	NA	200,000	3,500	To expand into AP/Telangana region

Source: Company, Ambit Capital Research

Opportunity for APAT to consolidate the market

In a commodity industry, players enjoying high capacity and market share are likely to wield pricing power and thus emerge as an eventual winner. Covid-19 lockdown can be an opportunity for APAT to increase its market share from unorganized players (~50% of the market).

Industry Structure



Source: Company, Ambit Capital

Over-leveraged and over-stretched peers

Many of APAT's competitors are over-leveraged and running very high receivable/working capital days. This provides APAT the opportunity that it needs to consolidate the market.

Exhibit 30: Many other organized peers can go under on account of high leverage and high working capital days

	Total debt (₹ mn)	Debt/ EBITDA (x)	Debt/ Equity (x)	Capacity (mn MTPA)	Receivable days (FY19)	WC days (FY19)
APAT	8,566	1.7	0.6	2.6	28	32
Surya Roshni	10,757	3.1	0.9	0.9	47	73
Hi-tech pipes	2,710	3.7	1.6	0.6	28	52
Rama steel	737	6.7	0.8	0.1	37	62
JTL infra	337	2.0	0.7	0.1	49	56
Bhushan Steel	Acquired by JSW steel			0.3	NA	NA

Source: Company, Ambit Capital Research. Note: EBITDA used for calculation of debt/EBITDA is annualized for 9M numbers reported by the companies; Debt numbers are as at 30-Sep-19

Creating 'strength' for the next level

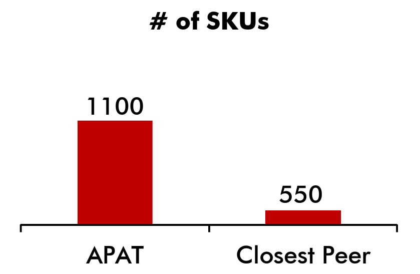
APAT has been at the forefront in innovating on new 'function specific' products and higher SKUs (APAT has 1100 SKUs v 550 SKUs for the closest per). APAT's scale in its operations (2.55mn ton capacity for APAT vs 0.9mn for the nearest competitor) helps it avail the lowest raw material cost in the industry, which APAT is now reinvesting to create a consumer brand through initiatives like branding and awareness amongst intermediaries (branding spend at ~10% of FY20 EBITDA). Its pan-India manufacturing and distribution network gives it the lowest lead time in the industry.

#1 APAT has been at the forefront of new products

APAT has been ahead of the curve in innovating on new products since its inception. In 2002, APAT introduced GP pipes in the market which generated higher margins. Over the years, APAT has been continuously innovating on new SKUs. APAT has a dedicated team of about 50 professionals who report directly to the MD and are involved in introducing new 'functionality' specific products. Thus, APAT has been able to expand its SKU basket to ~1100 in FY20.

In FY20, through its subsidiary 'Apollo Tricoat', APAT introduced products like Signature (designer roofing and steel furniture) and Chaukhat (door frames) amongst others which were a runaway hit. We believe that this trajectory will continue as APAT introduces products like Hybrid (PVC+ steel pipes), Scaff (For scaffolding and greenhouse applications) and Alpha (Window frames) next year. Moreover, APAT also has plans to install a 500x500 mm pipe (largest diameter pipe in the country) over the coming years through which it intends to cater to the needs of infrastructure and construction.

APL's SKUs are far higher than that of its nearest peer



Source: Ambit Capital Research; Industry interactions

Exhibit 31: List of new/upcoming product lines of APL Apollo Tubes

Product name	Year of introduction	Volumes sold (MTPA)	Usage
Apollo Signature	FY20	68,959	Designer roofing, steel furniture
Apollo Chaukhat	FY20	28,066	Door frames
Apollo Elegant	FY20	21,238	Hand railing
Apollo Tricoat	FY20	2,173	Electrical conduits
Apollo Plank	FY20	2,610	Staircase steps, Ceilings, Truck Bodies
Apollo Hybrid	FY21	NA	PVC +steel
Apollo Scaff	FY21	NA	Greenhouse/scaffolding
Apollo Alpha	FY21	NA	Window frames
500*500mm steel pipes	TBD	NA	
Apollo Octagonal tubes	TBD	NA	
Apollo Jumbo	TBD	NA	

Source: Company, Ambit Capital Research

"We are also shifting over our focus on consumer oriented products. As any company evolves and particularly when you evolve into a large corporation, you tend to add more and more better products to your stable."

- *Ashok Gupta (ex MD)*

#2 Focus on creating a 'consumer' brand

In FY20, APAT ramped up its brandex activities through both push and pull marketing initiatives in an attempt to create a strong 'consumer' brand. APAT spent ₹0.5-0.6bn in FY20 to launch a mass advertisement campaign across TV/print media and sponsoring sport events/teams. APAT has also started sponsoring and undertaking mass architect, fabricator and other intermediaries meets to showcase the benefits and strengths of its products.

#3 Best-in-class manufacturing and distribution architecture

APAT's manufacturing and distribution architecture is one of its key competitive advantages vs peers.

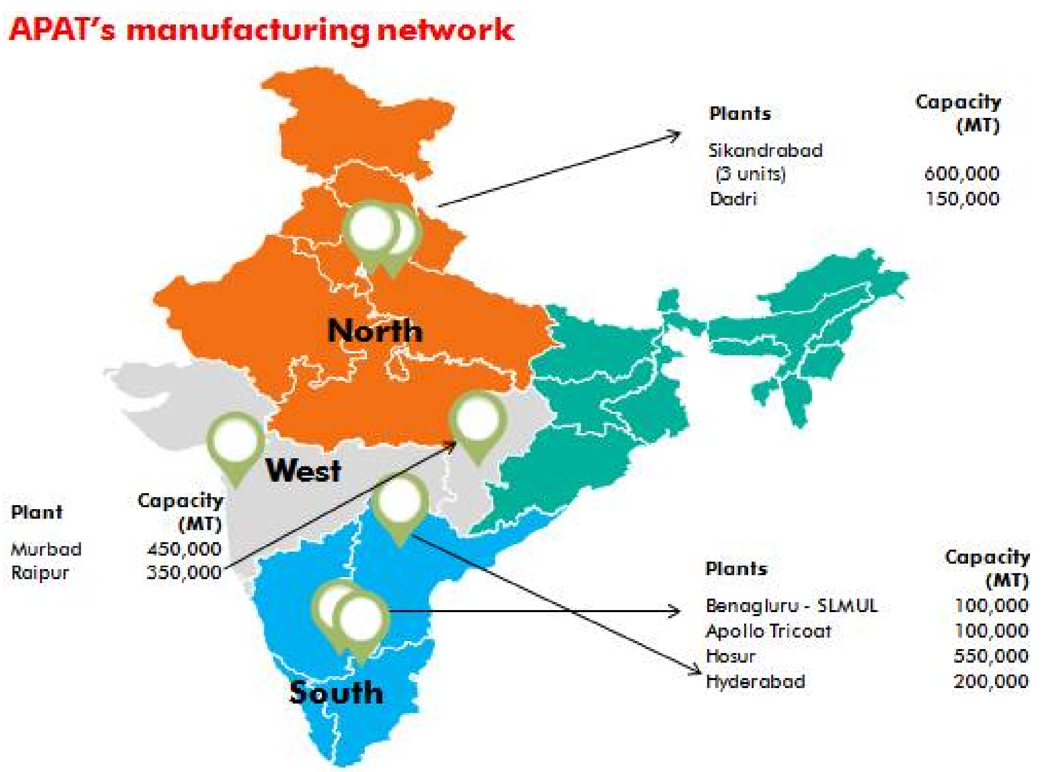
- **Manufacturing architecture:** Before APAT set up its 1st southern facility in 2008, most of the structural steel demand of the south was met by units based in the north. Realizing the opportunity to lower cost structure, APAT was the first steel pipe company to set up a manufacturing unit in the south. Post the success of its 1st southern manufacturing unit through various brownfield and greenfield manufacturing units, APAT was able to set up a pan-India manufacturing network which no other competitor has been able to replicate.

Exhibit 32: APAT has strategically placed its plants to lower lead time and freight costs

Location	Plant	Region	Capacity (ton)	Products manufactured	Raw material supplier
Sikandrabad	Apollo Metalex	North	225,000	GP, HS, MS	Bhushan Steel
Sikandrabad	Unit 1	North	375,000	GI, HS, MS	Bhushan Steel
Bengaluru	Shri Laxmi Metal	South	125,000	GP, HS, MS	JSW Steel
Hosur	Unit 2	South	550,000	GI, HS, MS	JSW Steel
Murbad	Unit 3 (Lloyds Line Pipe)	West	450,000	GI, HS, MS	JSW Steel
Raipur	Unit 4	East	350,000	GI, HS, MS	SAIL
Hyderabad	Shankara facility	South	200,000	GI, HS, MS	JSW Steel
Bengaluru	Apollo Tricoat	North	100,000	Tricoat products	JSW Steel
Dadri	Apollo Tricoat	North	150,000	Tricoat products	JSW Steel
Total			**2,550,000**		

Source: Company, Ambit Capital Research

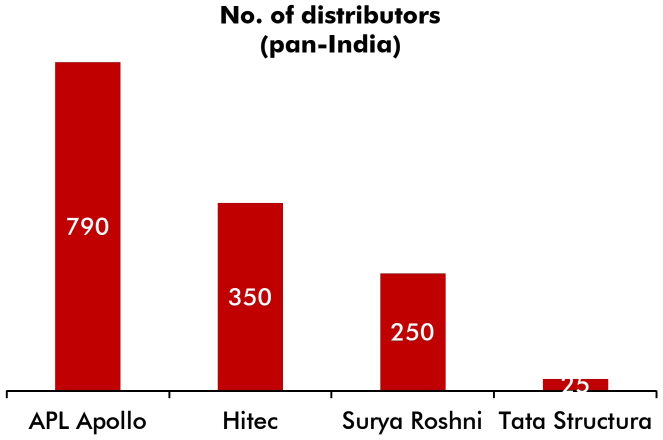
Exhibit 33: APAT's manufacturing network



Source: Company, Ambit Capital Research

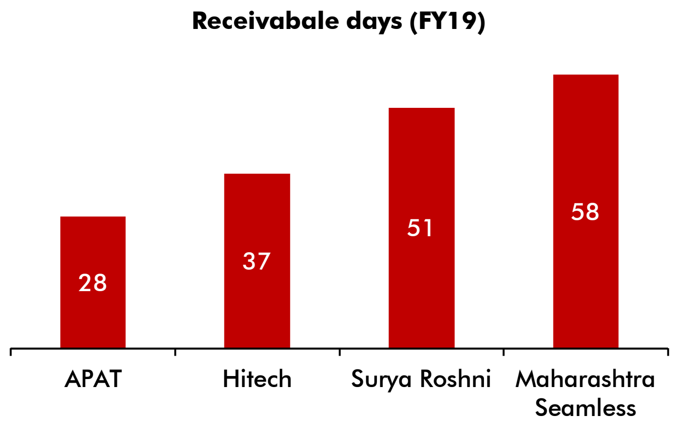
- **Distribution architecture:** APAT has the deepest distribution amongst structural steel pipe players. Whilst increasing the distribution network APAT has been able to bring down its receivable days unlike its peers. This indicates its high bargaining power amongst distributors and low dependence on institutional sales unlike other steel pipe companies.

Exhibit 34: APAT has the deepest distribution amongst its peers



Source: Company, Ambit Capital Research

Exhibit 35: APAT has the lowest receivable days amongst its peers



Source: Company, Ambit Capital Research

- **DFT technology and warehousing network:** In order to reduce delivery time to its distributors, APAT set up multiple pan-India warehousing depots. This coupled with the latest DFT technology (22% of overall capacity) has also helped APAT to reduce its overall manufacturing time. (DFT technology can produce a custom size in 45 minutes vs 8-9 hours required in the erstwhile technology). Both these initiatives introduced by APAT have helped it to become the dealer's choice for its products.

"The USP of the company is to produce and supply different SKUs in any quantity in lesser time."

- *Pipe dealer in West India*

"APAT's delivery days are significantly lower than peers with APAT delivering in 1-4 days vs 10-15 days for other peers"

- *Pipe dealer in South India*

#4 Scale separates APAT from the boys

Being the largest structural steel pipe manufacturing in India, APAT's scale separates APAT from peers. Considerable cost advantages coupled with higher asset turns have helped APAT generate significantly higher return on capital employed.

Reinvestment of raw material cost savings to gain market share: APAT has been investing savings from lower raw material costs to provide discounts to distributors, helping it gain market share in 'commodity' products. However, to maintain its margins, APAT hiked prices of non-commodity products (where it has higher market share). This helped APAT maintain margins whilst gaining market share.

Exhibit 36: APAT scores over peers due to its scale

5 year average	Rama Steel	Hitec	JTL Infra	Surya Roshni	APAT
EBITDA margin	6.4%	6.0%	4.2%	6.3%	**7.0%**
Depreciation & amortisation	0.9%	0.9%	0.4%	2.2%	**0.8%**
EBIT margin	5.5%	5.1%	3.9%	4.2%	**6.2%**
Interest burden	2.5%	3.1%	1.3%	2.6%	**1.8%**
PBT margin	3.0%	2.0%	2.6%	1.6%	**4.3%**
Tax burden	0.8%	0.6%	0.9%	0.4%	**1.4%**
PAT margin	2.2%	1.3%	1.7%	1.2%	**2.8%**
Asset turnover	2.4	2.1	2.7	2.3	**2.6**
RoA	5.2%	2.9%	4.7%	2.7%	**7.3%**
Leverage	3.7	4.9	2.9	2.4	**2.7**
RoE	17.7%	13.7%	13.7%	6.3%	**19.7%**
RoCE	16.0%	14.6%	16.6%	10.0%	**20.7%**
CFO/EBITDA – 5yr cumulative	16.5%	24.0%	23.0%	NA	**64.0%**

Source: Company, Ambit Capital Research, Ace Equity, Note: Average for Surya Roshni is 2 years

#5 Hands on promoter + experienced professionals

APAT's management consists of right mix of promoters and professionals. Sanjay Gupta, MD and Chairman, has led the company since 2002. He has moved from the day to day operations of the company to strategy and innovation.

With the exit of Ashok Gupta (professional MD), the company recently appointed head of APAT's key geography, South India, Arun Agrawal as the COO. The company's board consists of other experienced professionals like Romi Sehgal, PK Singh and Ashok Gupta who are experts in the structural steel tubes industry.

Unlike other structural steel tubes companies which are largely promoter driven, APAT has been able to groom home grown talent and hire talent from outside, which has been a key differentiator. However, like other well-run building material companies, talent is likely to be more 'home-grown' as APAT is trying to create a new market for its own.

Exhibit 37: Team of promoters with experienced professionals

Name	Designation	Total experience (APAT experience)	Joined APAT	Previous organisations
Sanjay Gupta	Managing Director	25years	1995	NA
Vinay Gupta	Director	15 years	2005	NA
Romi Sehgal	Technical Director	35 years	2008	Gallium Industries, Atlas Steel Tubes, Atma Steel Tubes, Bharat Steel Tubes Limited, Tata Tubes.
PK Singh	Executive Director	32 years	2019	SAIL
Deepak Goyal	CFO	15 years	2015	Surya Roshni.
Arun Agrawal	COO	20 years	2010	Practicing Chartered accountant
Anubhav Gupta	CSO	10 years	2019	Emkay Stock brokers
Ravinder Tiwari	VP-Marketing	8 years	2019	Ex- Hitech Pipes

Source: Company, Ambit Capital Research

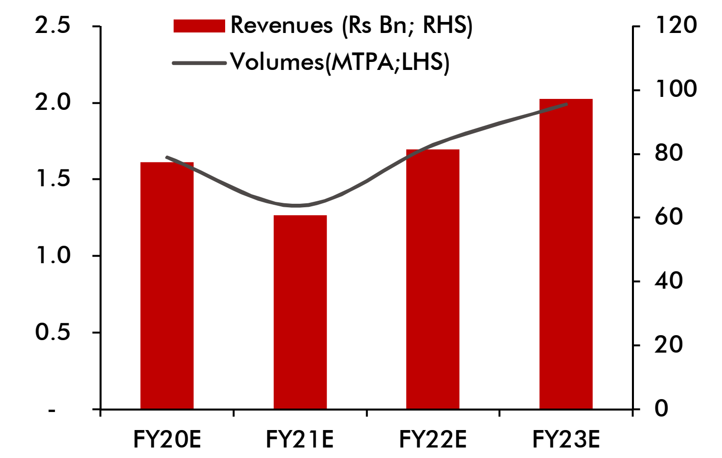
Look beyond the next year

Covid-19 outbreak will lead to a 19%/₹537/t drop in volumes/EBITDA in FY21. Working capital days may also get stretched from ~20 days in FY20 to 30 days in FY21. However, we expect volumes to recover sharply over FY21-23E, posting a volume/EBITDA CAGR of 23%/34% as construction recovers. Working capital days should also ease from 30 days in FY21 to 25 days in FY23E. FCF generation will be strong over FY21-23E as capex intensity eases.

Volume decline of 19% in FY21; 23% volume CAGR over FY21-23E

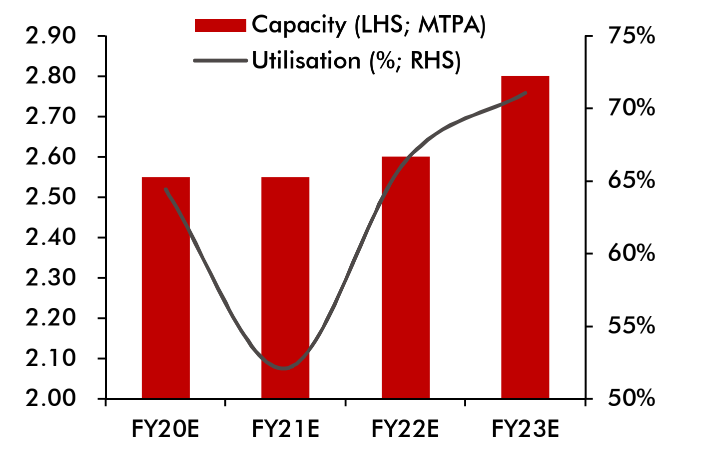
Lockdown due to Covid-19 outbreak will see volumes for APAT declining to the tune of ~19% in FY21E. However, APAT's scale of operations and market leadership will help the company post 23% volume CAGR over FY21-23E. This will aid APAT to improve its utilization levels by 19ppt to 71% over FY21-23E.

Exhibit 38: Whilst we expect a 19% volume drop in FY21, we envisage 20% volume CAGR over FY21-23E



Source: Company, Ambit Capital Research, Note: Consolidated figures

Exhibit 39: Capacity utilization to improve by 19ppt over FY21-23E

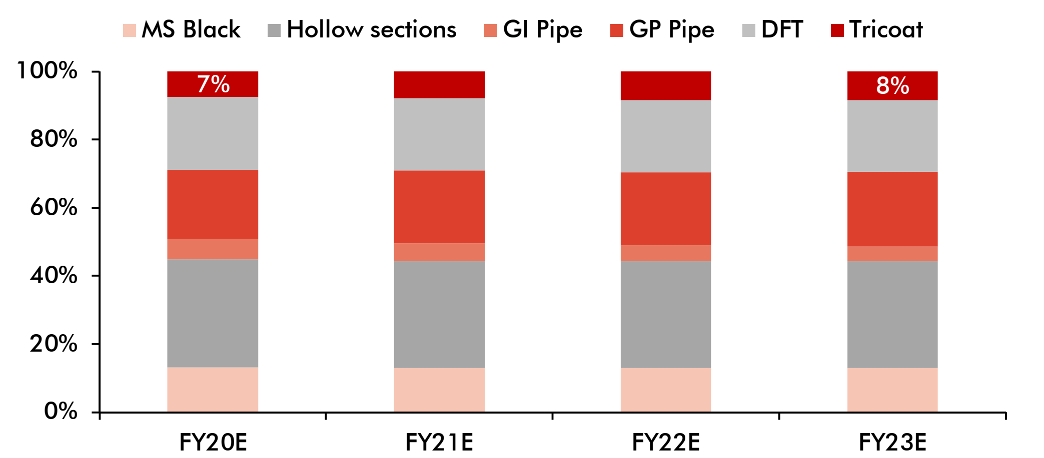


Source: Company, Ambit Capital Research, Note: Consolidated figures

Fairly stable product mix over FY20-23E

We expect the current revenue mix to remain largely stable over FY20-23E with GP and hollow sections dominating the overall volume mix. However, we build in a 1ppt volume share improvement for Tricoat as its acceptability improves over FY20-23E.

Exhibit 40: Revenue mix to remain largely stable over FY20-23E

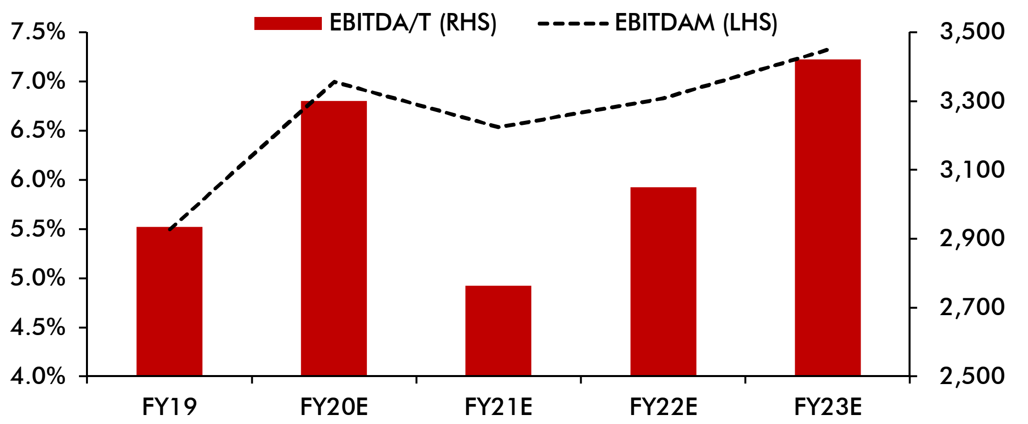


Source: Company, Ambit Capital Research

Margin drop in FY21; 130bps EBITDAM expansion over FY21-23E

Covid-19 lockdown will lead to sharp EBITDA/ton drop of ~₹ 537/ton in FY21E. We build in EBITDA/t recovery of ~650/t over FY21-23E as revenues accelerate in FY21-23E from a low base. However, we do not expect margins to expand materially above the current levels given: (i) APAT's strategy of reinvestment of margins in order to gain market share and (ii) we build in conservative inventory loss of ~₹0.3bn/year over FY21-23E due to volatility in steel prices.

Exhibit 41: We see EBITDAM recovery post FY21E for APAT

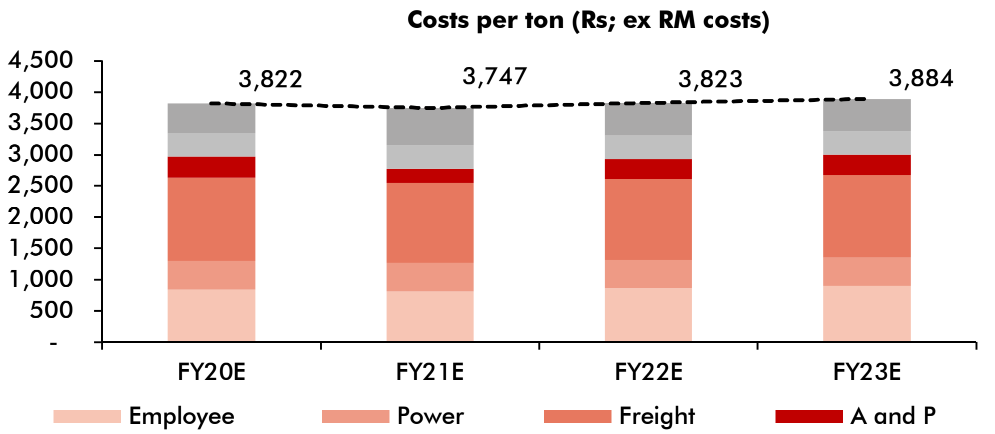


Source: Company, Ambit Capital Research

Tight manufacturing operations will lead to nominal cost hikes

APAT has demonstrated its ability to manage its cost structure. Hence, we build in only ~2% hike in unitary costs over FY20-23E.

Exhibit 42: Build in 3% hike in cost/ton over FY21-23E

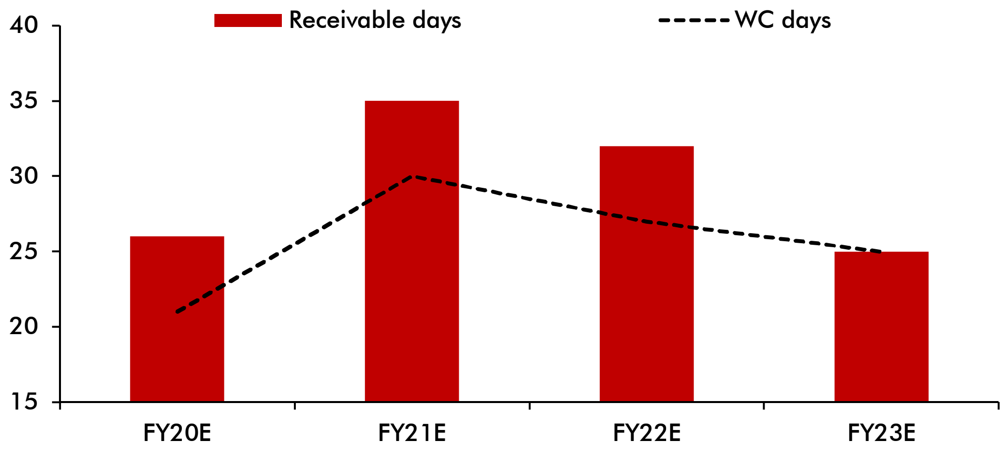


Source: Company, Ambit Capital Research

Working capital days to be stretched in FY21 and to ease over FY21-23E

APAT will have to support its distributors to lower the impact of Covid-19 lockdown. Hence we believe receivable days will stretch from ~26days in FY20 to 35days in FY21. However this will ease post FY21 with receivable days coming back to FY20 levels by FY23E. Overall working capital days will come down from 30 days in FY21 to ~25 days in FY23E.

Exhibit 43: Receivable days are expected to come off post FY21

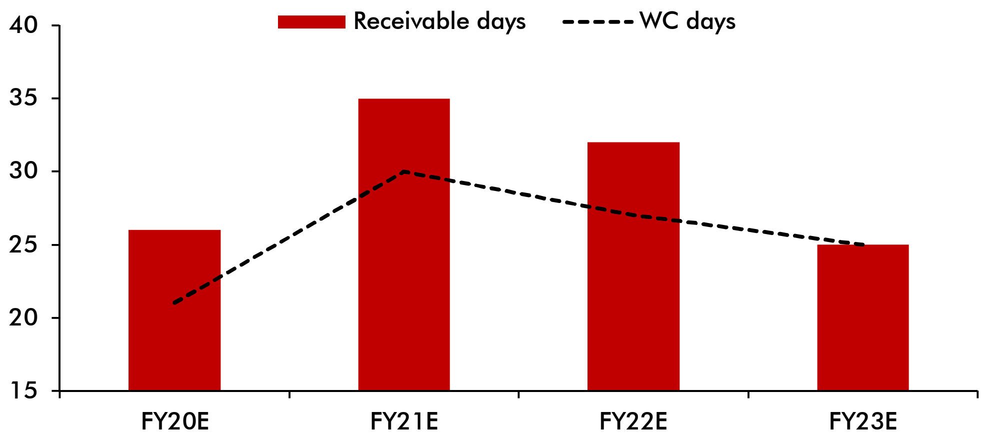


Source: Company, Ambit Capital Research

Sharp improvement in earnings over FY21-23E

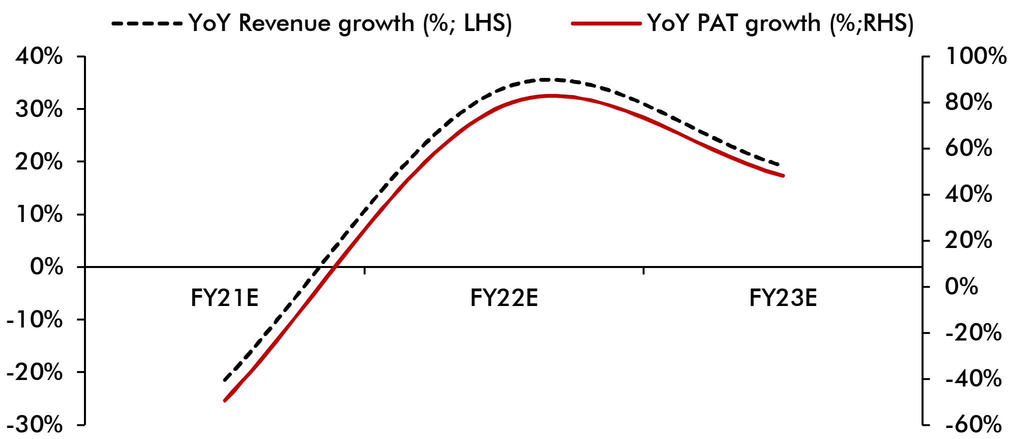
Whilst APAT is likely to witness ~50% earnings drop in FY21E, we see sharp revenue growth over FY21-23E coupled with muted cost increase leading to a sharp earnings revival over FY21-23E.

Exhibit 44: Sharp earnings revival expected over FY21E-23E



Source: Company, Ambit Capital Research

Exhibit 45: Sharp revenue and earnings jump over FY21-23E



Source: Company, Ambit Capital Research

Key assumptions

Consolidated

Exhibit 46: Key assumptions - Consolidated

Particulars	FY19	FY20	FY21E	FY22E	FY23E	Comments
Revenue assumptions						
Capacity (mn MTPA)	**2.15**	**2.55**	**2.55**	**2.60**	**2.80**	Build in capacity expansion of ~0.2mn in FY23E due to potential foray into higher size pipes and minor addition of capacity in Tricoat
Utilisation (%)		64%	52%	66%	71%	
Volume (MTPA)	**1.3**	**1.6**	**1.3**	**1.7**	**2.0**	Build in sharp volume growth revival of ~22% CAGR over FY21-23E due to eventual construction demand recovery from low base of FY21E
Volume (%; YoY)		23%	-19%	30%	15%	
Realisation (overall)	**53,408**	**47,158**	**45,801**	**47,223**	**48,809**	We build in realisation drop in FY21E by 3% as we expect steel prices to soften; Build in realisation growth of 3% over FY21-23E
Commodity pipes						
Black Pipe	48,901	44,984	43,403	45,141	46,463	
Square Pipe	47,835	46,018	44,389	45,654	47,531	
GI Pipe	57,278	46,018	44,389	45,654	47,531	
Value added pipes						
GP Pipe	57,319	48,824	47,637	48,994	50,429	
DFT	57,319	46,553	45,422	46,715	48,083	
Tricoat	-	53,907	52,289	53,858	55,474	
Realisation (%; YoY)		**-12%**	**-3%**	**3%**	**3%**	
Cost (Per ton)	**50,474**	**43,857**	**42,809**	**43,998**	**45,235**	
Raw material cost	**47,101**	**40,036**	**39,063**	**40,175**	**41,352**	We build in raw material drop in FY21E by 3% as we expect steel prices to soften. We build in steel price hike of 3% over FY21-23E
Indirect costs	**3,373**	**3,822**	**3,747**	**3,823**	**3,884**	
Employee benefits expense	806	850	820	861	904	Build in 4% employee cost drop in FY21E due to lower productivity on account of Covid-19; inflationary hike over FY21-23E
Power costs	448	450	450	450	450	
Freight costs	1,204	1,330	1,280	1,300	1,320	Expect freight cost per ton to decline from FY20 levels due to lower crude oil prices
Sales and promotion expenses	67	335	226	319	327	Sales and promotion spend/ton likely to decline going forward due to one-time expenses in FY20. Scale benefit will kick in post FY21
Consumption of spares	376	376	376	376	376	
Other expenses	472	481	595	518	507	Other expenses/ton is likely to decline as scale benefits kick in
EBITDA/t	**2,934**	**3,301**	**2,992**	**3,225**	**3,573**	
Key output						
Revenues (₹ mn)	71,523	77,485	60,839	81,500	97,129	
YoY (%)		*8.3%*	*-21.5%*	*34.0%*	*19.2%*	
EBITDA (₹ mn)	3,929	5,424	3,974	5,566	7,111	
YoY (%)		*38.0%*	*-26.7%*	*40.0%*	*27.8%*	
PAT (₹ mn)	1,483	2,856	1,402	2,516	3,787	
YoY (%)		*92.6%*	*-50.9%*	*79.5%*	*50.5%*	
Gross margins (%)	11.8%	15.1%	15.2%	15.3%	15.6%	
EBITDA margins (%)	5.5%	7.0%	6.5%	6.8%	7.3%	
RoCE (%)	19.1%	22.8%	13.3%	19.1%	24.2%	
D/E	0.8	0.6	0.5	0.4	0.2	

Source: Company, Ambit Capital Research

Apollo Tricoat

Exhibit 47: Assumptions – Apollo Tricoat

Particulars	FY20	FY21E	FY22E	FY23E	Comments
Revenue assumptions					
Capacity (MTPA)	**250,000**	**250,000**	**300,000**	**300,000**	Capacity addition of 50,000 ton in FY22E on account of Apollo Chaukhat and Signature
Utilisation (%)	64%	52%	66%	71%	
Volume (MTPA)	**123,046**	**105,437**	**146,478**	**166,591**	Volumes to dip ~14% in FY21 due to Covid-19; sharp volume growth revival of ~26% CAGR over FY21-23E as momentum of IHB demand picks up
Volume (%; YoY)		-14%	39%	14%	
Realisation (overall)	**53,907**	**52,289**	**53,858**	**55,474**	We build in realisation drop in FY21E by 3% as we expect steel prices to soften; realisation growth of 3% over FY21-23E
Realisation (%; YoY)		**-3%**	**3%**	**3%**	
Cost (Per ton)	**47,868**	**46,381**	**47,503**	**48,928**	
Raw material cost	**43,667**	**42,616**	**43,894**	**45,211**	Raw material cost to drop by 3% in FY21E as we expect steel prices to soften; we build in steel price hike of 3% over FY21-23E
Indirect costs	**4,202**	**3,765**	**3,608**	**3,717**	
Employee benefits expense	983	889	916	943	10% employee cost decline in FY21E due to lower productivity on account of Covid-19; inflationary hike over FY21-23E
Other expenses	3,218	2,876	2,693	2,774	Other expenses/ton likely to decline as scale benefits kick in
EBITDA(per ton)	**6,038**	**5,909**	**6,355**	**6,546**	
Key output					
Revenues (₹ mn)	6,633	5,513	7,889	9,241	
YoY (%)		*-16.9%*	*43.1%*	*17.1%*	
EBITDA (₹ mn)	743	623	931	1,090	
YoY (%)		*-16.2%*	*49.4%*	*17.1%*	
PAT (₹ mn)	423	298	509	635	
YoY (%)		*-29.5%*	*70.7%*	*24.7%*	
Gross margins (%)	19.0%	18.5%	18.5%	18.5%	
EBITDA margins (%)	11.2%	11.3%	11.8%	11.8%	
Pre-tax RoCE (%)	26.2%	16.3%	23.2%	25.1%	
D/E	0.5	0.6	0.4	0.2	

Source: Company, Ambit Capital Research

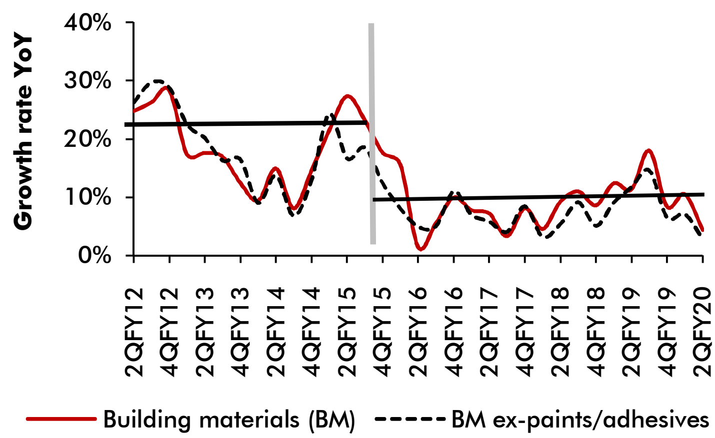
Re-rating - Slow but inevitable

Whilst APAT has outperformed building material peers (21% EBITDA CAGR over FY15-19 vs 8-11% for peers), it is at 40-60% discount to peers due to 1) inefficient peers limiting market imagination about APAT's competitive advantages, 2) promoters' missteps with respect to Tricoat acquisition, and 3) lower de-leveraging vs peers. We believe APAT's re-rating will be gradual as the market will take time to forgive promoter missteps and de-leveraging will happen only post FY21. Our 2-year TP implies 19x FY22 P/E (77% upside).

BM players face growth challenges; APAT is the outperformer

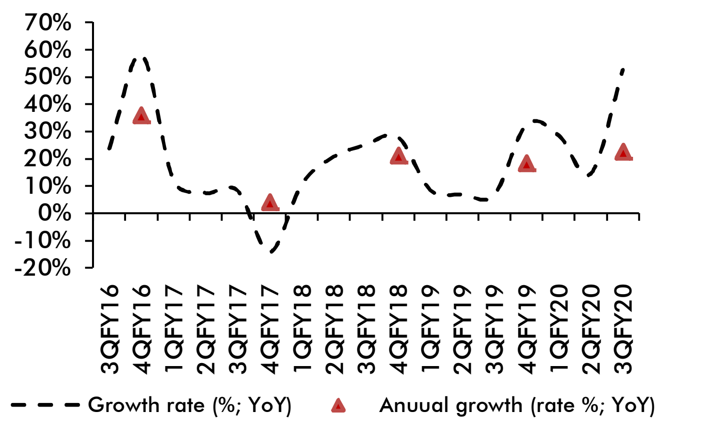
Growth of building materials companies, which was quite strong until FY15, was reset following the overall slowdown in real estate and introduction of regulatory norms such as demonetization and GST. Average quarterly growth rate for listed building material companies fell from ~19% YoY over FY12-15 to ~7% YoY over FY15-1HFY20. Whilst pain was felt across all segments, some pockets are more resilient to the overall slowdown. For example, APAT reported average quarterly growth of ~19% YoY vs single-digit growth for other BM segments.

Exhibit 48: Structural reset in growth of all building material companies post FY15



Source: Ambit Capital research, Company. Note: For sectoral growth rates, sales of listed firms in each category were considered.

Exhibit 49: APAT has outperformed the broader building material segment during FY16 to FY20E



Source: Ambit Capital research, Company

Inefficient competitors limit multiples; re-rating if outperformance continues

Whilst APAT has outperformed the industry on volume growth, inefficient players coupled with lower industry RoCE limit the Street's thought process to understand the efficiency of APAT. Thus APAT's multiples are likely to remain at a discount to other BM players. However, a re-rating will materialise if APAT continues its stellar performance.

Exhibit 50: APAT's business segments are less attractive than other BM segments; thus it may not trade at similar multiples to paints and electricals in the near term

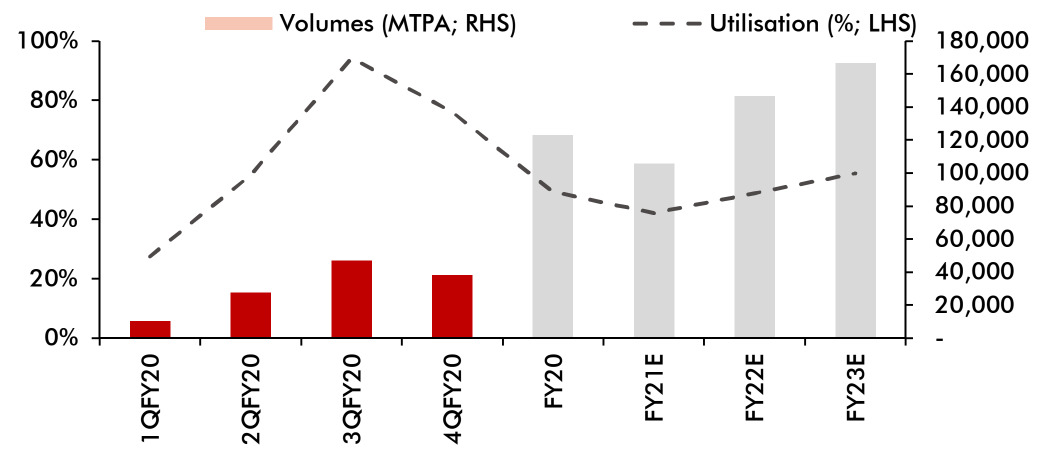
Segment	Market size (₹ bn)	Share of organized	EBITM (5 yr avg.)	RoCE (5 yr. avg)	Credible competitor	Replacement cycle	Ticket size of purchase	Brand affinity	Competitive intensity	Overall sector attractiveness
Paints	500	80%	17%	38%	+++	+++	++	+++	+++	+++
Structural Steel tubes	360	50%	5%	15%	+	+	+	+	++	+
Electricals	400	65%	10%	32%	+++	+++	+++	+++	+++	+++
Tiles	250	40%	15%	21%	++	+	+	+	++	+
Plastic Pipes	200	75%	13%	26%	+++	+	++	++	+	++
Plyboards	160	40%	14%	18%	++	+	+	+	++	+
Faucetware	80	60%	14%	18%	++	++	+++	+++	++	++
Sanitaryware	40	75%	14%	18%	++	+	++	++	+	+

Source: Ambit Capital research, Company. Note: +: least attractive, ++: moderately attractive, +++: most attractive

Street will take some time to forgive the missteps of the promoter

Whilst the promoters have alleviated doubts about the acquisition of Apollo Tricoat after preferential issue in the company, the Street will take some time to forgive the inefficient acquisition of Apollo Tricoat. Continuous outperformance and flawless execution in both parent and AT will lead to an eventual re-rating. But it is likely to be slow and gradual.

Exhibit 51: Tricoat's volume ramp-up and utilization have been impressive in the first year of operations



Source: Company, Ambit Capital Research

DCF-driven 2-year target price of ₹2,200

We value APAT on DCF for a 10-year period. Our DCF-based target price is ₹2200/share, implying 19x FY22E P/E. Our key assumptions:

Exhibit 52: DCF valuation implies two-year target price of ₹2200/share

Total EV	**64,899**
- Explicit period FCFF	27,112
- Terminal period FCFF	37,787
Net debt FY21E	7,581
Minority interest	4,890
Equity value	**52,428**
No. of shares	24
Value per share	2,200
CMP	1,247
Upside/downside %	77%

Source: Ambit Capital research, Bloomberg

Exhibit 53: DCF assumptions

Particulars	**DCF assumptions**
Risk free rate	7.0%
Beta	1.2
Market risk premium	6.4%
Cost of equity	**15%**
Current D/E	60%
Target D/E	50.0%
Cost of debt (post-tax)	9.0%
WACC	**13.0%**
Terminal growth	**4%**

Source: Ambit Capital research, Bloomberg

Exhibit 54: Implied multiples indicate 19x FY22E P/E

Implied multiples	FY19	FY20E	FY21E	FY22E	FY23E
Implied EV	64,899	64,899	64,899	64,899	64,899
Current EV	37,135	37,135	37,135	37,135	37,135
Implied M-cap	52,428	52,428	52,428	52,428	52,428
Current M-cap	29,554	29,554	29,554	29,554	29,554
PAT	1,483	3,063	1,548	2,766	4,098
Implied EV/EBITDA	16.5	12.0	16.3	11.7	9.1
Current EV/EBITDA	9.5	6.8	9.3	6.7	5.2
Implied P/E	35.4	17.1	33.9	19.0	12.8
Current P/E	19.9	9.6	19.1	10.7	7.2
Current EV/EBIT	11.3	8.3	13.1	8.6	6.4

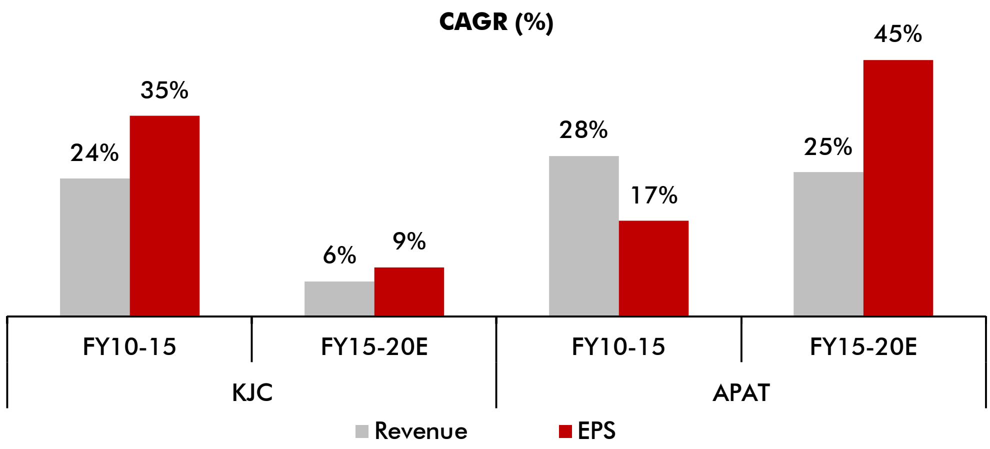
Source: Ambit Capital research, Bloomberg

Benchmarking with building material peers

Discount to KJC despite outperformance, will narrow gradually

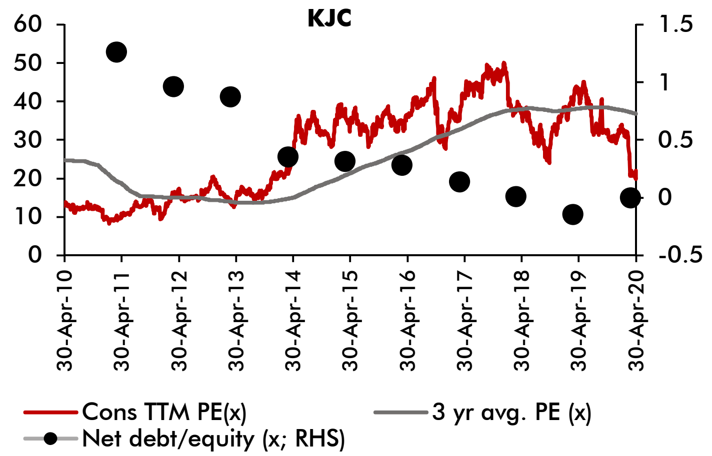
We compare APAT to another industry leader Kajaria Ceramics (KJC) enjoying similar scale and market share. KJC re-rated significantly over FY10-15 on account of stellar performance. Whilst the stock de-rated significantly post FY15 on account of weak performance, it still trades at a premium to APAT. Whist APAT has also re-rated significantly post FY10-18, it still trades at a discount to KJC which can be partly explained by (1) inefficient players in APAT's industry which limits Street's ability to appreciate APAT's competitive advantages, (2) promoter's missteps in Tricoat's acquisition, and (3) high leverage vs KJC. However, this discount is likely to come off gradually if APAT's stellar performance continues and de-leveraging takes place

Exhibit 55: Whilst KJC outperformed APAT over FY10-15, APAT significantly outperformed KJC over FY15-20E



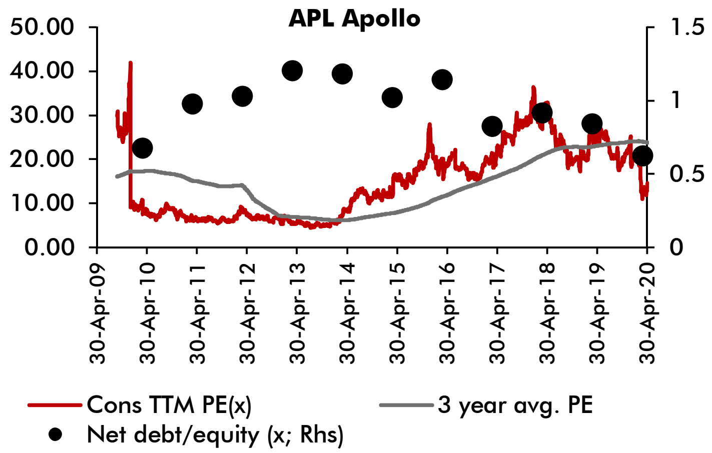
Source: Company, Ambit Capital Research

Exhibit 56: Current valuations are 'close' to both...



Source: Ambit Capital Research, Bloomberg

Exhibit 57: ... cross-cycle average P/E and P/B



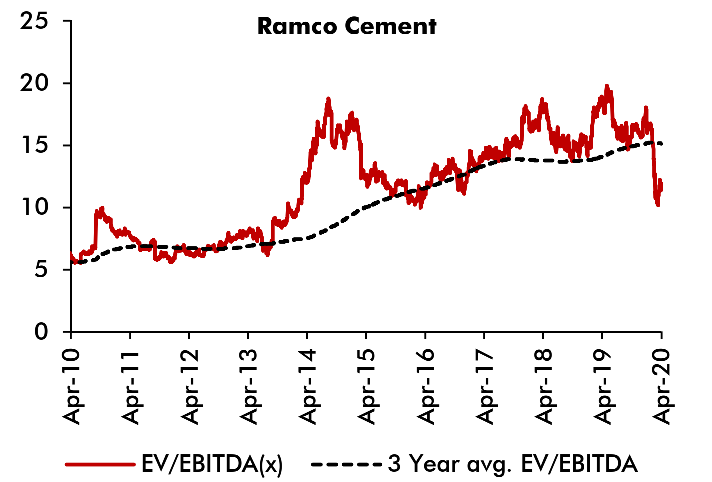
Source: Ambit Capital Research, Bloomberg

APAT's valuation discount should narrow as the market starts appreciating the differentiation in the product, cost structure stability and no more rise in debt levels.

Ramco trades at a significant premium to APAT

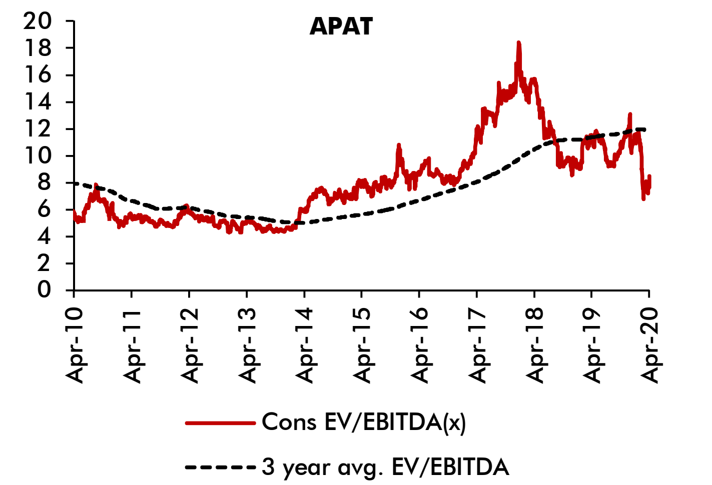
We compare APAT to mid-size cement company Ramco due to its commoditized nature. Ramco trades at a significant premium to APAT despite under-performance due to similar reasons stated above.

Exhibit 58: Ramco trades at a material premium to APAT



Source: Ambit Capital Research, Bloomberg

Exhibit 59: We agree that some premium should remain but rising leadership in profits for APAT should mean its discount would narrow



Source: Ambit Capital Research, Bloomberg

Exhibit 60: Relative valuations – APAT trades at material discount to peers

Companies	Rating	CMP	6M ADV (USD mn)	Mcap US$ mn	EV/EBITDA (x)				P/E				P/B (x)		RoE (%)				CAGR (FY19-22) (%)		
					FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	FY20E	FY21E	FY19	FY20E	FY21E	FY22E	Sales	EBITDA	EPS
PAINTS																					
Asian Paints	NR	1,550	42.1	19,523	42.3	34.4	29.3	25.5	68.9	51.6	44.2	37.8	13.6	11.9	24.1	28.0	28.3	29.2	12.2	18.4	22.2
Berger Paints	NR	435	15.6	5,550	48.2	38.1	32.4	27.9	84.9	58.6	50.3	41.9	14.6	12.5	21.3	26.5	26.7	27.2	13.4	20.0	26.5
Kansai	NR	322	2.0	2,279	23.3	20.9	18.3	16.2	37.2	30.4	27.5	24.0	4.6	4.1	14.3	15.5	16.8	16.7	9.7	13.0	15.7
Akzo Noble	**NR**	**1,844**	**0.8**	**1,102**	**23.6**	**20.0**	**18.2**	**16.6**	**40.1**	**32.6**	**30.1**	**26.5**	**6.7**	**6.1**	**17.4**	**21.3**	**21.0**	**21.7**	**5.7**	**12.4**	**14.9**
ELECTRICALS																					
Havells India	NR	499	15.6	4,099	25.7	26.7	22.1	19.0	39.7	39.2	33.3	28.5	6.6	5.9	19.8	17.7	18.8	20.1	8.7	10.7	11.8
Crompton Consumer	NR	193	5.6	1,585	20.3	17.6	15.7	14.5	30.1	22.3	20.9	18.4	8.6	7.2	42.5	41.1	36.9	32.8	10.7	11.9	17.9
Finolex Cables	NR	174	0.5	348	3.7	4.1	3.5	3.2	7.7	6.9	6.3	5.5	1.0	0.9	14.9	14.5	14.2	14.4	6.5	4.8	12.2
V-Guard	NR	156	1.2	875	29.1	21.7	19.2	16.8	40.1	30.5	26.6	23.1	6.4	5.5	20.0	21.5	21.0	20.7	10.9	20.0	20.3
Bajaj Electricals	NR	291	1.0	435	13.7	21.7	15.8	11.9	18.3	315.6	27.6	15.3	2.5	2.3	16.5	1.3	9.4	14.3	(1.7)	4.8	6.1
ADHESIVES																					
Pidilite Industries	NR	1,302	16.0	8,684	50.1	42.5	34.5	30.3	67.5	54.6	48.8	42.8	13.5	11.6	25.3	26.0	24.3	23.3	16.6	18.2	16.4
PIPES																					
Supreme Industries	SELL	870	1.0	1,451	15.6	13.9	11.7	10.1	29.0	22.7	19.5	16.3	4.6	4.1	19.0	21.5	22.2	23.2	20.9	15.5	21.2
Astral Poly	NR	807	2.6	1,596	31.9	25.1	21.4	18.2	62.0	42.0	33.3	27.6	8.2	6.7	17.1	20.2	21.0	21.6	16.2	20.6	30.9
Finolex Inds	NR	304	0.4	495	5.8	6.8	5.7	5.3	10.3	9.7	9.4	8.5	1.4	1.3	13.7	14.4	13.9	14.1	9.1	3.3	6.4
WOOD SUBSTRATE																					
Century Plyboard	NR	499	15.6	4,099	9.1	7.5	6.4	6.0	15.6	11.8	10.0	9.1	2.1	1.8	16.3	18.2	18.5	18.0	7.5	14.7	19.6
Green Ply	NR	80	0.1	129	8.3	7.1	6.3	5.6	12.3	10.3	8.2	7.0	7.5	7.0	13.1	22.4	22.4	23.4	8.0	13.8	20.6
Green Lam	NR	500	0.0	158	10.3	NA	NA	NA	15.6	13.5	11.6	NA	2.4	2.0	19.7	19.7	18.5	17.9	NA	NA	NA
Rushil Décor	NR	66	0.0	13	11.1	NA	NA	NA	6.9	NA	NA	NA	NA	NA	7.6	NA	NA	NA	NA	NA	NA
Uniply	NR	4	0.1	9	6.5	NA	NA	NA	1.6	NA	NA	NA	NA	NA	7.4	NA	NA	NA	NA	NA	NA
TILES																					
Kajaria Ceramics	NR	357	2.0	744	12.4	12.4	10.8	9.5	25.0	20.7	18.1	15.5	3.2	2.8	15.5	16.4	16.5	17.1	7.8	9.4	17.2
Somany Ceramics	NR	82	0.3	66	6.3	5.9	5.2	4.6	7.5	6.0	4.6	3.6	0.5	0.5	7.8	9.2	10.9	12.4	8.2	11.5	27.4
Orient Bell	NR	57	0.1	11	3.8	NA	NA	NA	8.8	NA	NA	NA	NA	NA	4.1	NA	NA	NA	NA	NA	NA
Asian Granito	NR	167	0.4	66	21.0	NA	NA	NA	68.7	NA	NA	NA	NA	NA	1.9	NA	NA	NA	16.3	59.5	NA
SANITARY WARE																					
Cera Sanitaryware	BUY	2,220	0.5	379	17.3	16.6	14.8	12.7	25.1	21.8	19.5	16.7	4.2	3.7	17.6	17.6	17.2	17.7	8.8	9.9	14.4
HSIL	NR	35	0.3	34	4.4	NA	NA	NA	3.7	3.2	2.4	NA	NA	NA	4.7	NA	NA	NA	NA	NA	NA
Structural Steel tubes																					
APL Apollo tubes	BUY	1,190	0.4	66	8.6	6.7	8.0	6.1	19.6	11.8	14.7	9.9	2.4	2.1	16.5	24.5	16.2	20.7	6.0	15.0	37.0

Source: Company, Ambit Capital Research

Addressing some key investor concerns

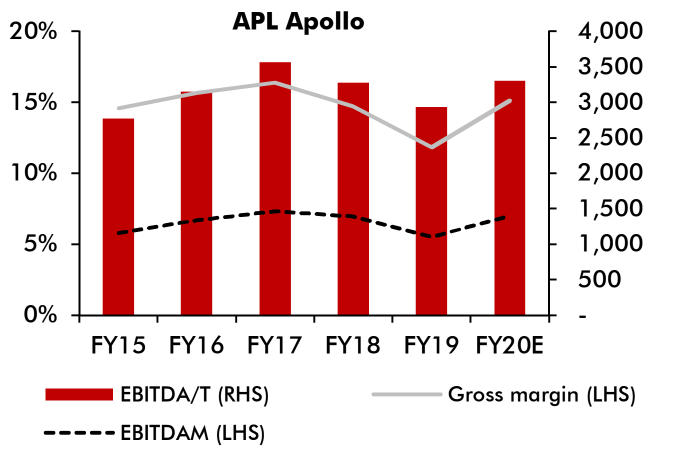
#1 Concerns related to Apollo Tricoat acquisition

Our main reason to not cover the stock in our erstwhile thematic was the concerns we had with respect to Apollo Tricoat acquisition. We continue to hold the view that the acquisition could have been done in a more efficient way and minority shareholders of Tricoat will continue to gain disproportionate benefits due to aggressive capacity expansion by APAT in Tricoat. However, our concerns with respect to the execution of Apollo Tricoat have reduced due to its stellar performance in its 1st year of operations, stable management commentary/guidance and delivery in line with guidance.

#2 Concerns regarding volatility of margins due to steel price volatility

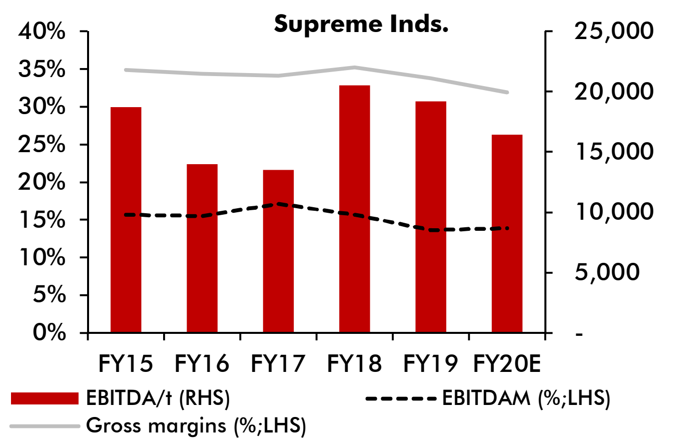
Whilst we agree that margins for APAT are volatile on account of steel price volatility, which is true for all commodity-linked business. Volatility in margins is also present in other building materials such as PVC pipes.

Exhibit 61: Margin volatility is present both in APAT...



Source: Company, Ambit Capital Research

Exhibit 62: ... and other BM businesses like PVC pipes



Source: Source: Company, Ambit Capital Research

#3 APAT's business is concentrated around promoter

Another investor pushback is that APAT's business is run entirely by its promoter. Whilst APAT has an able 2nd level professional management, this is true for other building material companies like Astral/Supreme/Kajaria too. All the other companies are also run by promoters and we believe that it is important for them to be a key part of the business as their vision is key to growth of the business. Many of these businesses are young and going through product, market and organisation transformations. It is very difficult to find talent which fits and professionals who can take bets sometimes disproportionate to annual profitability. Whilst second line management is professional and experienced, promoter-owned-promoter-run companies in this space have created wealth.

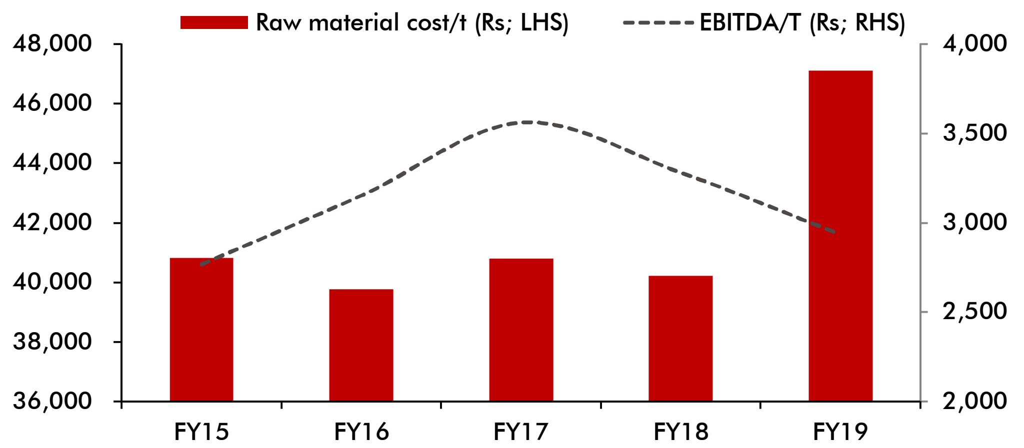
Risks & Catalysts

Risks

Covid-19 disruption lasts longer than expected: A key risk around APAT is if the Covid-19 disruption lasts longer than anticipated. This will mean that growth of the company will get further disrupted and lead to stock de-rating. Covid-19 can impact urban housing and commercial construction and even infrastructure. All of these segments are consuming gradually more structural steel.

High volatility in steel price: Due to steep fall in demand, it is likely that APAT sustains higher inventory losses. Whilst we have built in inventory loss to the tune of ₹0.3bn/year over FY21-23E, margins can get affected if the volatility in steel prices continues. In the past, margins have been affected materially due to this.

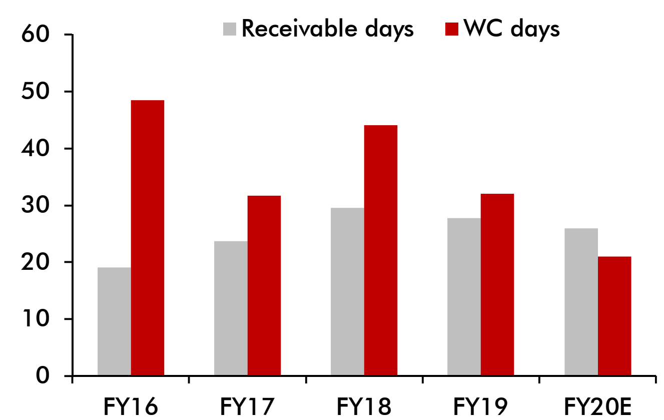
Exhibit 63: EBITDA/t significantly declined in FY19 due to volatility in steel prices



Source: Company, Ambit Capital Research

Channel disruption due to Covid-19: Whilst we have built in higher receivable days in FY21E for APAT, in case the Covid-19 outbreak extends channel disruption can lead to higher than anticipated rise in WC days for APAT.

Exhibit 64: WC days have come off over FY16-20E



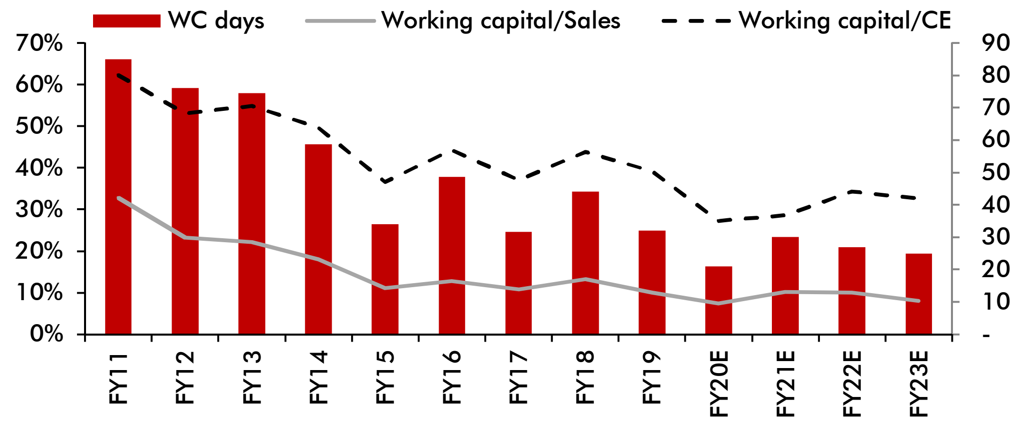
Source: Ambit Capital Research, Company

Exhibit 65: APAT will lost ~₹0.26bn of FCF on every adverse working capital days, 2 year TP does not change much

Receivable days - FY21-23	FY21-23 FCF	Change in FCF	TP (₹)
20 days	7,943		2,223
25 days	6,612	(1,331)	2,215
30 days	5,282	(1,331)	2,207
35 days	3,951	(1,331)	2,194
40 days	2,621	(1,331)	2,186
45 days	1,290	(1,331)	2,178

Source: Source: Ambit Capital Research, Company

Exhibit 66: Whilst the working capital days have structurally come down; WC days used to be as high as 84 days in FY11



Source: Ambit Capital Research, Company

Catalysts

Supply disruption in the industry: Due to presence highly overleveraged players with higher working capital days, industry will get further consolidated. This will only help APAT due to its ability to consolidate the market and its scale of operations. We expect 20-40% of the industry to come under pressure (including unorganized), hence our 24% volume CAGR estimate over FY21-23E is a function of that (we build in 5% higher volumes for FY22 vs FY20).

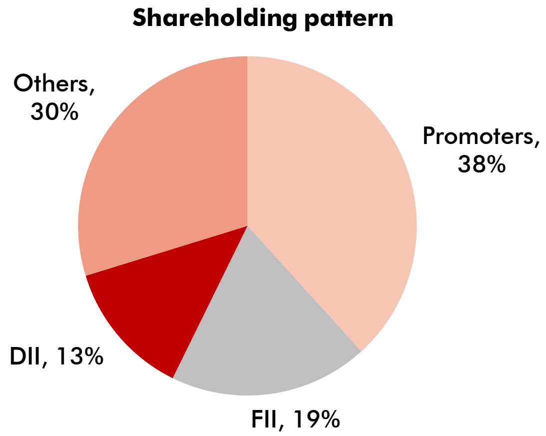
Substitution demand to accelerate growth: Substitution demand from RMC and other cement-related products with steel tubes will help APAT sustain growth. This will be a natural runway to continue APAT's growth trajectory.

Apollo Tricoat to help sustain margins: APAT's acquisition of Apollo Tricoat (margins of 11% vs APAT's 7%) will help it to sustain margins vs levels in FY15-20. We believe margins of Tricoat will be more or less flat over FY21-23E, but still materially higher than that of APAT.

Catalysts we cannot predict: There may be catalysts we are not able to predict due to market uncertainty. However, natural progression and the company's efforts on value-added products are likely to have a positive impact.

Key stock monitorables

Exhibit 67: Promoter's hold 38% of the company

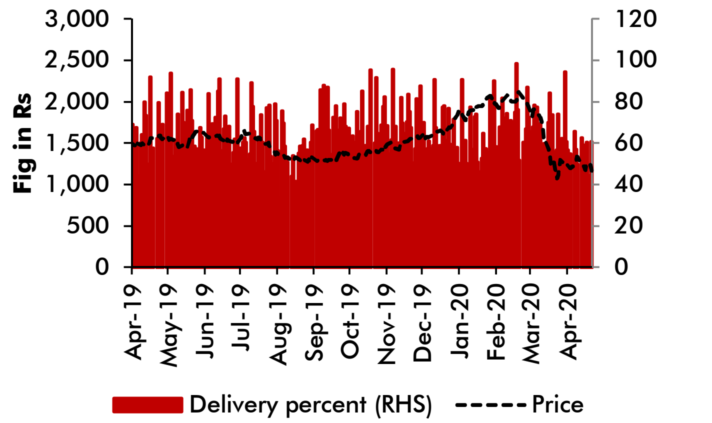


Source: Ambit Capital Research, BSE

Exhibit 68: Promoters have increased their stake in the last 12 months

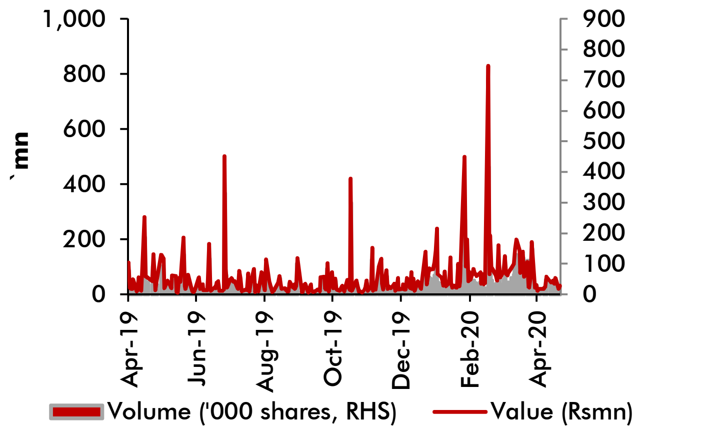
Source: Ambit Capital Research, Bloomberg

Exhibit 69: APAT's delivery has dropped in the last 3 months



Source: Ambit Capital Research, Bloomberg

Exhibit 70: Liquidity of APAT has spiked up in last 6 months



Source: Ambit Capital Research, Bloomberg

Exhibit 71: No major grievance on Watchout Investor

ENTITY	PERSON	COMPETENT AUTHORITY	REGULATORY CHARGES	REGULATORY ACTION(S) / DATE OF ORDER	FURTHER DEVELOPMENTS
APL APOLLO TUBES LTD.		BSE	DID NOT SUBMIT SHAREHOLDING PATTERN UNDER PROVISIONS OF CLAUSE 35 FOR THE QUARTER ENDED 30-SEPTEMBER-2012	PUT UP ON BSE WEBSITE FOR PUBLIC NOTICE 30-SEP-2012	NOT APPEARING IN THE LIST FOR THE QUARTER ENDED 31-DECEMBER-2012
APL APOLLO TUBES LTD.		BSE	DID NOT SUBMIT CORPORATE GOVERNANCE REPORT FOR THE QUARTER ENDED 30-SEPTEMBER-2012	PUT UP ON BSE WEBSITE FOR PUBLIC NOTICE 30-SEP-2012	NOT APPEARING IN THE LIST FOR THE QUARTER ENDED 31-DECEMBER-2012

Source: Ambit Capital Research, Watch out investor

Financials

Income Statement

Particulars	FY18	FY19	FY20E	FY21E	FY22E	FY23E
Total revenues	53,342	71,523	77,485	60,839	81,500	97,129
Gross profit	7,858	8,447	11,703	8,951	12,164	14,839
Other exps	4,148	4,518	6,279	4,977	6,598	7,729
EBITDA	3,711	3,929	5,424	3,974	5,566	7,111
Depreciation and amortization	534	643	940	1,141	1,231	1,327
EBIT	3,177	3,286	4,484	2,833	4,335	5,784
Net Finance costs	813	1,134	1,116	1,051	986	726
PBT	2,444	2,270	3,604	2,064	3,688	5,465
Tax expense	862	787	541	516	922	1,366
Restated profit/ (loss)	1,582	1,483	3,063	1,548	2,766	4,098
EPS	66	62	120	59	106	160

Source: Ambit Capital Research, Company

Balance Sheet

Particulars	FY18	FY19	FY20E	FY21E	FY22E	FY22E
Net worth	8,378	9,641	12,467	13,897	16,426	20,287
Borrowings	7,751	8,581	8,581	7,581	7,581	3,581
Other liabilities	1,368	2,293	2,444	1,929	2,576	3,053
Trade Payables	3,793	6,989	8,492	7,501	8,932	9,314
Total liabilities	**21,812**	**29,661**	**34,284**	**32,722**	**37,937**	**39,108**
Fixed assets	9,286	10,611	14,671	14,830	15,099	15,272
Other non-current assets	1,142	2,748	3,099	2,434	3,260	3,885
Current assets	11,384	16,303	16,513	15,459	19,578	19,951
- Cash and cash equivalents	67	478	794	783	1,705	512
- Inventories	5,915	7,835	7,430	6,667	7,815	9,314
- Trade receivable	4,321	5,433	5,520	5,834	7,145	6,653
- Other Current assets	1,081	2,557	2,770	2,175	2,913	3,472
Total assets	**21,812**	**29,661**	**34,284**	**32,722**	**37,937**	**39,108**

Source: Ambit Capital Research, Company

Ratios

Ratios	FY18	FY19	FY20E	FY21E	FY22E	FY22E
Gross margin	14.7%	11.8%	15.1%	14.7%	14.9%	15.3%
EBITDA margin	7.0%	5.5%	7.0%	6.5%	6.8%	7.3%
EBIT margin	6.0%	4.6%	5.8%	4.7%	5.3%	6.0%
PBT margin	4.6%	3.2%	4.7%	3.4%	4.5%	5.6%
PAT margin	3.0%	2.1%	4.0%	2.5%	3.4%	4.2%
Asset turnover (x)	2.7	2.8	2.4	1.8	2.3	2.5
Working capital turnover (x)	8.9	10.1	12.0	10.3	11.3	12.1
Capital employed turnover (x)	3.6	4.2	3.9	2.9	3.6	4.1
Gross block turnover (x)	5.6	6.4	5.3	3.4	4.2	4.7
RoA	7.9%	5.8%	9.6%	4.6%	7.8%	10.6%
Leverage	2.6	2.9	2.9	2.5	2.3	2.1
RoE	20.3%	16.5%	27.7%	11.7%	18.2%	22.3%
RoCE (pre-tax)	21.7%	19.1%	22.8%	13.3%	19.1%	24.2%
RoCE (post-tax)	15.8%	14.6%	20.1%	10.9%	15.0%	18.5%
Debt/Equity ratio (net)	0.9	0.8	0.6	0.5	0.4	0.2
CFO/EBITDA	40.9%	108.1%	128.6%	92.9%	76.0%	87.6%

Source: Ambit Capital Research, Company

Valuation Ratios

	FY18	FY19	FY20E	FY21E	FY22E	FY22E
EPS	66	62	120	59	106	160
P/E	19	20	10	21	12	8
P/B	3.6	3.1	2.4	2.1	1.8	1.5
P/S	0.6	0.5	0.4	0.5	0.4	0.3
EV/Sales	0.8	0.6	0.5	0.7	0.5	0.4
EV/EBITDA	11.0	10.4	7.5	10.3	7.3	5.7
EV/EBIT	12.8	12.4	9.1	14.4	9.4	7.0
EV/CFO	4.1	1.1	0.8	1.3	1.7	1.5
Dividend per share	14.0	14.0	10.0	5.0	10.0	10.0
Dividend yield (%)	1%	1%	1%	0%	1%	1%

Source: Ambit Capital Research, Company

Cash flow statement

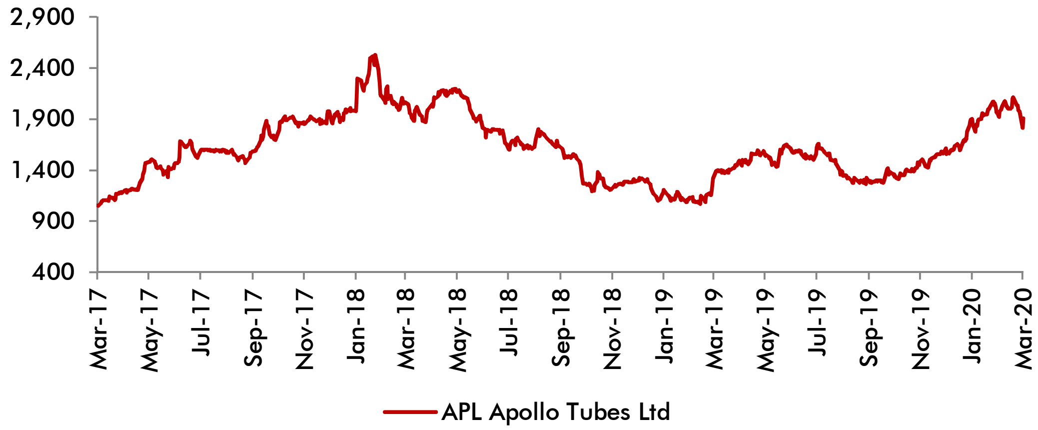
	FY18	FY19	FY20E	FY21E	FY22E	FY23E
PBT	**2,444**	**2,270**	**3,604**	**2,064**	**3,688**	**5,465**
Depreciation	534	643	940	1,141	1,231	1,327
Interest exp	813	1,134	1,116	1,051	986	726
Tax paid	(602)	(673)	(541)	(516)	(922)	(1,366)
WC Adjustment	(2,342)	287	1,550	(282)	(1,338)	(881)
CFO	**914**	**3,577**	**6,434**	**3,176**	**3,306**	**4,864**
Capex	(1,679)	(2,261)	(5,000)	(1,300)	(1,500)	(1,500)
CFI	**(1,654)**	**(2,639)**	**(4,765)**	**(1,018)**	**(1,162)**	**(1,094)**
Net borrowings	1,807	830	-	(1,000)	-	(4,000)
CFF	**792**	**(528)**	**(1,353)**	**(2,169)**	**(1,223)**	**(4,963)**
FCF	(741)	1,328	1,669	2,158	2,144	3,770

Source: Ambit Capital Research, Company

Institutional Equities Team

Research Analysts			
Name	**Industry Sectors**	**Desk-Phone**	**E-mail**
Nitin Bhasin - Head of Research	E&C / Infra / Cement / Home Building / Aviation	(022) 66233241	nitin.bhasin@ambit.co
Ajit Kumar, CFA, FRM	Banking / Financial Services	(022) 66233252	ajit.kumar@ambit.co
Amandeep Singh Grover	Mid-Caps / Hotels / Real Estate	(022) 66233082	amandeep.grover@ambit.co
Ashish Kanodia, CFA	Consumer Discretionary	(022) 66233264	ashish.kanodia@ambit.co
Ashwin Mehta, CFA	Technology	(022) 6623 3295	ashwin.mehta@ambit.co
Basudeb Banerjee	Automobiles / Auto Ancillaries	(022) 66233141	basudeb.banerjee@ambit.co
Darshan Mehta	E&C / Infrastructure / Aviation	(022) 66233174	darshan.mehta@ambit.co
Deep Shah	Media / Telecom / Oil & Gas	(022) 66233064	deep.shah@ambit.co
Dhruv Jain	Mid-Caps	(022) 66233177	dhruv.jain@ambit.co
Karan Khanna, CFA	Mid-Caps / Hotels / Real Estate	(022) 66233251	karan.khanna@ambit.co
Karan Kokane	Automobiles / Auto Ancillaries	(022) 66233028	karan.kokane@ambit.co
Kushagra Bhattar	Healthcare	(022) 66233062	kushagra.bhattar@ambit.co
Nikhil Mathur, CFA	Healthcare	(022) 66233220	nikhil.mathur@ambit.co
Pankaj Agarwal, CFA	Banking / Financial Services	(022) 66233206	pankaj.agarwal@ambit.co
Prasenjit Bhuiya	Agri & Chemicals	(022) 66233132	prasenjit.bhuiya@ambit.co
Prateek Maheshwari	Cement	(022) 66233234	prateek.maheshwari@ambit.co
Ritesh Gupta, CFA	Consumer Discretionary / Agri & Chemicals	(022) 66233242	ritesh.gupta@ambit.co
Satyadeep Jain, CFA	Metals & Mining	(022) 66233246	satyadeep.jain@ambit.co
Shreya Khandelwal	Banking / Financial Services	(022) 6623 3292	shreya.khandelwal@ambit.co
Sumit Shekhar	Economy / Strategy	(022) 66233229	sumit.shekhar@ambit.co
Udit Kariwala, CFA	Banking / Financial Services	(022) 66233197	udit.kariwala@ambit.co
Varun Ginodia, CFA	E&C / Infrastructure / Aviation	(022) 66233174	varun.ginodia@ambit.co
Vinit Powle	Strategy / Forensic Accounting	(022) 66233149	vinit.powle@ambit.co
Vivekanand Subbaraman, CFA	Media / Telecom / Oil & Gas	(022) 66233261	vivekanand.s@ambit.co
Sales			
Name	**Regions**	**Desk-Phone**	**E-mail**
Dhiraj Agarwal - MD & Head of Sales	India	(022) 66233253	dhiraj.agarwal@ambit.co
Bhavin Shah	India	(022) 66233186	bhavin.shah@ambit.co
Dharmen Shah	India / Asia	(022) 66233289	dharmen.shah@ambit.co
Abhishek Raichura	UK & Europe	(022) 66233287	abhishek.raichura@ambit.co
Pranav Verma	Asia	(022) 66233214	pranav.verma@ambit.co
USA / Canada			
Hitakshi Mehra	Americas	+1(646) 793 6751	hitakshi.mehra@ambitamerica.co
Achint Bhagat, CFA	Americas	+1(646) 793 6752	achint.bhagat@ambitamerica.co
Singapore			
Srinivas Radhakrishnan	Singapore	+65 6536 0481	srinivas.radhakrishnan@ambit.co
Sundeep Parate	Singapore	+65 6536 1918	sundeep.parate@ambit.co
Production			
Sajid Merchant	Production	(022) 66233247	sajid.merchant@ambit.co
Sharoz G Hussain	Production	(022) 66233183	sharoz.hussain@ambit.co
Jestin George	Editor	(022) 66233272	jestin.george@ambit.co
Richard Mugutmal	Editor	(022) 66233273	richard.mugutmal@ambit.co
Nikhil Pillai	Database	(022) 66233265	nikhil.pillai@ambit.co
Babyson John	Database	(022) 66233209	babyson.john@ambit.co

APL Apollo Tubes Ltd (APAT IN, BUY)



Source: Bloomberg, Ambit Capital research

Explanation of Investment Rating

Investment Rating	Expected return (over 12-month)
BUY	>10%
SELL	≤10%
NO STANCE	We have forward looking estimates for the stock but we refrain from assigning valuation and recommendation
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NOT RATED	We do not have any forward looking estimates, valuation or recommendation for the stock
POSITIVE	We have a positive view on the sector and most of stocks under our coverage in the sector are BUYs
NEGATIVE	We have a negative view on the sector and most of stocks under our coverage in the sector are SELLs

* In case the recommendation given by the Research Analyst becomes inconsistent with the rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures (like change in stance/estimates) to make the recommendation consistent with the rating legend.

Disclaimer

This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Ambit Capital Private Ltd. AMBIT Capital Private Ltd. research is disseminated and available primarily electronically, and, in some cases, in printed form.

Additional information on recommended securities is available on request.

Disclaimer

1. AMBIT Capital Private Limited ("AMBIT Capital") and its affiliates are a full service, integrated investment banking, investment advisory and brokerage group. AMBIT Capital is a Stock Broker, Portfolio Manager, Merchant Banker, Research Analyst and Depository Participant registered with Securities and Exchange Board of India Limited (SEBI) and is regulated by SEBI.
2. AMBIT Capital makes best endeavours to ensure that the research analyst(s) use current, reliable, comprehensive information and obtain such information from sources which the analyst(s) believes to be reliable. However, such information has not been independently verified by AMBIT Capital and/or the analyst(s) and no representation or warranty, express or implied, is made as to the accuracy or completeness of any information obtained from third parties. The information, opinions, views expressed in this Research Report are those of the research analyst as at the date of this Research Report which are subject to change and do not represent to be an authority on the subject. AMBIT Capital and its affiliates/ group entities may or may not subscribe to any and/ or all the views expressed herein and the statements made herein by the research analyst may differ from or be contrary to views held by other parties within AMBIT group.
3. This Research Report should be read and relied upon at the sole discretion and risk of the recipient. If you are dissatisfied with the contents of this complimentary Research Report or with the terms of this Disclaimer, your sole and exclusive remedy is to stop using this Research Report and AMBIT Capital or its affiliates shall not be responsible and/ or liable for any direct/consequential loss howsoever directly or indirectly, from any use of this Research Report.
4. If this Research Report is received by any client of AMBIT Capital or its affiliate, the relationship of AMBIT Capital/its affiliate with such client will continue to be governed by the terms and conditions in place between AMBIT Capital/ such affiliate and the client.
5. This Research Report is issued for information only and the 'Buy', 'Sell', or 'Other Recommendation' made in this Research Report as such should not be construed as an investment advice to any recipient to acquire, subscribe, purchase, sell, dispose of, retain any securities and should not be intended or treated as a substitute for necessary review or validation or any professional advice. Recipients should consider this Research Report as only a single factor in making any investment decisions. This Research Report is not an offer to sell or the solicitation of an offer to purchase or subscribe for any investment or as an official endorsement of any investment.
6. This Research Report is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied in whole or in part, for any purpose. Neither this Research Report nor any copy of it may be taken or transmitted or distributed, directly or indirectly within India or into any other country including United States (to US Persons), Canada or Japan or to any resident thereof. The distribution of this Research Report in other jurisdictions may be strictly restricted and/ or prohibited by law or contract, and persons into whose possession this Research Report comes should inform themselves about such restriction and/ or prohibition, and observe any such restrictions and/ or prohibition.
7. Ambit Capital Private Limited is registered (SEBI Reg. No.- INH000000313) as a Research Entity under the SEBI (Research Analysts) Regulations, 2014.

Conflict of Interests

8. In the normal course of AMBIT Capital's or its affiliates'/group entities' business, circumstances may arise that could result in the interests of AMBIT Capital or other entities in the AMBIT group conflicting with the interests of clients or one client's interests conflicting with the interest of another client. AMBIT Capital makes best efforts to ensure that conflicts are identified and managed and that clients' interests are protected. AMBIT Capital has policies and procedures in place to control the flow and use of non-public, price sensitive information and employees' personal account trading. Where appropriate and reasonably achievable, AMBIT Capital segregates the activities of staff working in areas where conflicts of interest may arise and maintains an arms – length distance from such areas, at all times. However, clients/potential clients of AMBIT Capital should be aware of these possible conflicts of interests and should make informed decisions in relation to AMBIT Capital's services.
9. AMBIT Capital and/or its affiliates may from time to time have or solicit investment banking, investment advisory and other business relationships with companies covered in this Research Report and may receive compensation for the same.
10. The AMBIT group may, from time to time enter into transactions in the securities, or other derivatives based thereon, of companies mentioned herein, and may also take position(s) in accordance with its own investment strategy and rationale, that may not always be in accordance with the recommendations made in this Research Report and may differ from or be contrary to the recommendations made in this Research Report.

Ownership & Material Conflicts of Interest:

i. Ambit America Inc. or its affiliates or the principals or employees of Ambit Group may have or have had positions, may "beneficially own" as determined in accordance with Section 13(d) of the Exchange Act, 1% or more of the equity securities or may conduct or may have conducted market-making activities or otherwise act or have acted as principal in transactions in any of these securities or instruments referred to herein.
ii. Ambit America Inc. or its affiliates or the principals or employees of Ambit Group may have managed or co-managed a public offering of securities or received compensation for investment banking services or expects to receive or intends to seek compensation for investment banking or consulting services or serve or have served as a director or a supervisory board member of a company referred to in this research report.
iii. As of the date of this research report Ambit America Inc. does not make a market in the security reflected in this research report.

Additional Disclaimer for Canadian Persons

(i) About AMBIT Capital:

11. AMBIT Capital is not registered in the Province of Ontario and /or Province of Québec to trade in securities and/or to provide advice with respect to securities.
12. AMBIT Capital's head office or principal place of business is located in India.
13. All or substantially all of AMBIT Capital's assets may be situated outside of Canada.
14. It may be difficult for enforcing legal rights against AMBIT Capital because of the above.
15. Name and address of AMBIT Capital's agent for service of process in the Province of Ontario is: Torys LLP, 79 Wellington St. W., 30th Floor, Box 270, TD South Tower, Toronto, Ontario M5K 1N2 Canada.
16. Name and address of AMBIT Capital's agent for service of process in the Province of Québec is Torys Law Firm LLP, 1 Place Ville Marie, Suite 1919 Montréal, Québec H3B 2C3 Canada.

(ii) About AMBIT America Inc.:

17. Ambit America Inc. is not registered in Canada
18. Ambit America Inc. is resident and registered in the United States.
19. The name and address of the Agent For Service in Quebec is: Lavery, de Billy, L.L.P., Bureau 4000, One Place Ville Marie, Montreal, Quebec, Canada H3B 4M4.
20. The name and address of the Agent For Service in Toronto is: Sutton Boyce Gilkes Regulatory Consulting Group Inc., 120 Adelaide Street West, Suite 2500, Toronto, ON Canada M5H 1T1.
21. A client may have difficulty enforcing legal rights against Ambit America Inc. because it is resident outside of Canada and all substantially all of its assets may be situated outside of Canada.

Additional Disclaimer for Singapore Persons

22. This Report is prepared and distributed by Ambit Capital Private Limited and distributed as per the approved arrangement under Paragraph 9 of Third Schedule of Securities and Futures Act (CAP 289) and Paragraph 11 of the First Schedule to the Financial Advisors Act (CAP 110) provided to Ambit Singapore Pte. Limited by Monetary Authority of Singapore.
23. This Report is only available to persons in Singapore who are institutional investors (as defined in section 4A of the Securities and Futures Act (Cap. 289) of Singapore (the "SFA")." Accordingly, if a Singapore Person is not or ceases to be such an institutional investor, such Singapore Person must immediately discontinue any use of this Report and inform Ambit Singapore Pte. Limited.

Additional Disclaimer for UK Persons

24. All of the recommendations and views about the securities and companies in this report accurately reflect the personal views of the research analyst named on the cover. No part of this research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst in this research report. This report may not be reproduced, redistributed or copied in whole or in part for any purpose.
25. This report is a marketing communication and has been prepared by Ambit Capital Private Ltd. of Mumbai, India ("Ambit"). Ambit is regulated by the Securities and Exchange Board of India and is registered as a Research Entity under the SEBI (Research Analysts) Regulations, 2014. Ambit is an appointed representative of Aldgate Advisors Limited which is authorized and regulated by the Financial Conduct Authority whose registered office is at 16 Charles II Street, London, SW1Y 4NW.
26. In the UK, this report is directed at and is for distribution only to persons who (i) fall within Article 19(5) (persons who have professional experience in matters relating to investments) or Article 49(2)(a) to (d) (high net worth companies, unincorporated associations etc.) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 (as amended).
27. Ambit is not a US registered broker-dealer. Transactions undertaken in the US in any security mentioned herein must be effected through a US-registered broker-dealer, in conformity with SEC Rule 15a-6.
28. Neither this report nor any copy or part thereof may be distributed in any other jurisdictions where its distribution may be restricted by law and persons into whose possession this report comes should inform themselves about, and observe, any such restrictions. Distribution of this report in any such other jurisdictions may constitute a violation of UK or US securities laws, or the law of any such other jurisdictions.
29. This report does not constitute an offer or solicitation to buy or sell any securities referred to herein. It should not be so construed, nor should it or any part of it form the basis of, or be relied on in connection with, any contract or commitment whatsoever. The information in this report, or on which this report is based, has been obtained from publicly available sources that Ambit believes to be reliable and accurate. However, it has not been prepared in accordance with legal requirements designed to promote the independence of investment research. It has also not been independently verified and no representation or warranty, express or implied, is made as to the accuracy or completeness of any information obtained from third parties.
30. The information or opinions are provided as at the date of this report and are subject to change without notice. The information and opinions provided in this report take no account of the investors' individual circumstances and should not be taken as specific advice on the merits of any investment decision. Investors should consider this report as only a single factor in making any investment decisions. Further information is available upon request. No member or employee of Ambit accepts any liability whatsoever for any direct or consequential loss howsoever arising, directly or indirectly, from any use of this report or its contents.
31. The value of any investment made at your discretion based on this Report, or income therefrom, maybe affected by changes in economic, financial and/or political factors and may go down as well as go up and you may not get back the original amount invested. Some securities and/or investments involve substantial risk and are not suitable for all investors.
32. Ambit and its affiliates and their respective officers directors and employees may hold positions in any securities mentioned in this Report (or in any related investment) and may from time to time add to or dispose of any such securities (or investment). Ambit and its affiliates may from time to time render advisory and other services, solicit business to companies referred to in this Report and may receive compensation for the same. Ambit has a restrictive policy relating to personal dealing. Ambit has controls in place to manage the risks related to such. An outline of the general approach taken in relation to conflicts of interest is available upon request.
33. Ambit and its affiliates may act as a market maker or risk arbitrator or liquidity provider or may have assumed an underwriting commitment in the securities of companies discussed in this Report (or in related investments) or may sell them or buy them from clients on a principal to principal basis or may be involved in proprietary trading and may also perform or seek to perform investment banking or underwriting services for or relating to those companies.
34. Ambit may sell or buy any securities or make any investment which may be contrary to or inconsistent with this Report and are not subject to any prohibition on dealing. By accepting this report you agree to be bound by the foregoing limitations. In the normal course of Ambit and its affiliates' business, circumstances may arise that could result in the interests of Ambit conflicting with the interests of clients or one client's interests conflicting with the interest of another client. Ambit makes best efforts to ensure that conflicts are identified, managed and clients' interests are protected. However, clients/potential clients of Ambit should be aware of these possible conflicts of interests and should make informed decisions in relation to Ambit services.

Additional Disclaimer for U.S. Persons

35. The Ambit Capital research report is solely a product of AMBIT Capital Pvt. Ltd. and may be used for general information only. The legal entity preparing this research report is not registered as a broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and/or the independence of research analysts.
36. Ambit Capital is the employer of the research analyst(s) who has prepared the research report.
37. Any subsequent transactions in securities discussed in the research reports should be effected through Ambit America Inc. ("Ambit America").
38. Ambit America Inc. does not accept or receive any compensation of any kind directly from US Institutional Investors for the dissemination of the AMBIT Capital research reports. However, Ambit Capital Pvt. Ltd. has entered into an agreement with Ambit America Inc. which includes payment for sourcing new MUSSI and service existing clients based out of USA.
39. Analyst(s) preparing this report are resident outside the United States and are not associated persons or employees of any US regulated broker-dealer. Therefore the analyst(s) may not be subject to Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by the research analyst.
40. In the United States, this research report is available solely for distribution to major U.S. institutional investors, as defined in Rule 15a – 6 under the Securities Exchange Act of 1934. This research report is distributed in the United States by Ambit America Inc., a U.S. registered broker and dealer and a member of FINRA. Ambit America Inc., a US registered broker-dealer, accepts responsibility for this research report and its dissemination in the United States.
41. This Ambit Capital research report is not intended for any other persons in the USA. All major U.S. institutional investors or persons outside the United States, having received this Ambit Capital research report shall neither distribute the original nor a copy to any other person in the United States. In order to receive any additional information about or to effect a transaction in any security or financial instrument mentioned herein, please contact a registered representative of Ambit America Inc., by phone at 646 793 6001 or by mail at 370, Lexington Avenue, Suite 803, New York, 10017. This material should not be construed as a solicitation or recommendation to use Ambit Capital to effect transactions in any security mentioned herein.
42. This document does not constitute an offer of, or an invitation by or on behalf of Ambit Capital or its affiliates or any other company to any person, to buy or sell any security. The information contained herein has been obtained from published information and other sources, which Ambit Capital or its Affiliates consider to be reliable. None of Ambit Capital accepts any liability or responsibility whatsoever for the accuracy or completeness of any such information. All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document. Emerging securities markets may be subject to risks significantly higher than more established markets. In particular, the political and economic environment, company practices and market prices and volumes may be subject to significant variations. The ability to assess such risks may also be limited due to significantly lower information quantity and quality. By accepting this document, you agree to be bound by all the foregoing provisions.

Disclosures

43. The analyst (s) has/have not served as an officer, director or employee of the subject company.
44. There is no material disciplinary action that has been taken by any regulatory authority impacting equity research analysis activities.
45. All market data included in this report are dated as at the previous stock market closing day from the date of this report.

Analyst Certification

The analyst(s) authoring this research report hereby certifies that the views expressed in this research report accurately reflect such research analyst's personal views about the subject securities and issuers and that no part of his or her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report.

This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Ambit Capital. AMBIT Capital Research is disseminated and available primarily electronically, and, in some cases, in printed form.

AMBIT Acumen at work