



KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- APL Apollo Ltd Q3 FY22 consolidated revenues came in at ₹3230 Cr, up 24.2% YoY and up 4.7% QoQ.
- Op Profit for Q3FY22 stood at ₹202 Cr, down 13% YoY and -9% QoQ.
- Op margins for Q3FY22 came at 6%, -300bps YoY and -100bps QoQ.
- PAT for Q3FY22 stood at ₹116 Cr, down -12% YoY and down by 11.5% QoQ.

2. MANAGEMENT COMMENTARY:

- Management aims to reach 4 million sales volume by FY25.
- They are confident of maintaining EBITDA at minimum of Rs 5000 per tonne by FY25.
- They have no plans to raise funds as internal cash flow generation is strong and are planning to become debt free.
- Their focus is on innovating new shapes and sizes.
- Management continues to remain confident of maintaining revenue growth 20%-25% CAGR for the next 3-4 years.

3. SEGMENTAL ANALYSIS:

- Q3FY22 Revenue Breakup: Apollo structural (55%), Apollo Z (28%), Apollo tricoat (13%) and Apollo Galv (4%).

4. CONCALL SUMMARY

- Management stated 3 reasons for the decline in QoQ volume sales. 1) Channel de-stocking in anticipation of steel price correction. 2) Extended monsoon which impacted the construction activity. 3) Increase in price gap between primary and secondary steel which benefited the unorganized sector.
- Company lost almost 1,00,000 tonne sales volume due to the above reasons.
- The company has launched Apollo mart a wholly owned subsidiary. It is a tech enabled trading platform for steel building material.
- Company has already spent 50% of the total budgeted capex of 800 cr in establishing Raipur facility.
- Management is firm in maintaining their single digit receivable days and will strictly follow cash and carry model.

5. OTHER DEVELOPMENTS:

- Raipur plant is expected to be partially operational from the first half of FY23. It is going to be the largest facility and will increase the capacity by 1.5 million tonne. Full capacity will be used for the production of value added products, this will increase the sales mix of value added products to 75%.
- Company has already dispatched 10,000 tonne of structural tubes for the Delhi hospital project.

6. VALUATION AND OUTLOOK:

APL Apollo delivered average numbers in Q3FY22. The volatility in steel prices is a major risk but we believe company will deliver good performance in the coming few quarters. The merger of APL and Apollo tricoat is completed but the merged entity shares are expected to trade from Q1FY23. Union budget 22-23 also focuses on improving infrastructure which can reap benefits for the company.

We initiate a "BUY" rating on the stock and value the stock at 38.0x FY23E earnings to arrive at the target of ₹960.

RECOMMENDATION - BUY

CMP – 835
TARGET – 960 (15%)

Industry	Steel & Iron Products
NSE CODE	APLAPOLLO
BSE CODE	533758
Market Cap (₹ Cr)	20737.50
Shares Outstanding (in Cr)	25.01
52 wk High/Low (₹)	1114.55 / 470.05
P/E	40.39
P/BV	9.86
Face Value (₹)	2.00
Book Value (₹)	84.08
EPS (FY21) (₹)	14.42
Dividend Yield (%)	0.00
Debt / Equity	0.31
Interest Coverage	9.26

SHAREHOLDING PATTERN

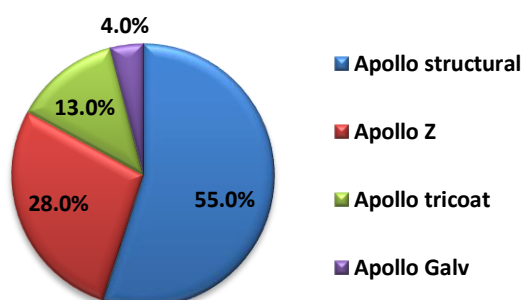
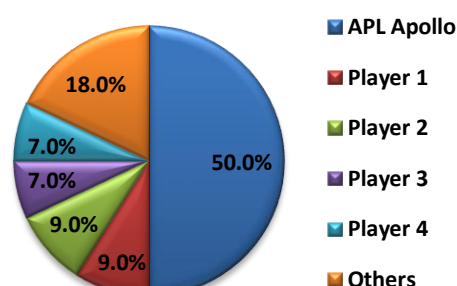
	Dec 21	Sep 21	Jun 21
Promoters	34.54	36.84	36.88
MF/ DII	6.74	4.57	5.26
FII/FPI	24.59	25.34	25.69
Retail & Others	30.14	29.40	28.04
Promoter Pledging	0.00	0.00	0.00

FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2021A	2022E	2023E
Crore			
Sales	8499.75	12048	14,458
Sales Gr. (%)	10.05	41.74%	20%
EBITDA	678.71	902	1156
EBITDA %	8.18	7.5	8
PAT	360.16	589	781
EPS (₹)	14.42	23.56	25.19
EPS Gr. (%)	50.68	63.38	6.91
BV/Sh. (₹)	135.38	91.36	98.87
Ratios			
RoE (%)	26.84	25.8	26.00
RoCE (%)	27.78	26.7	27.00
Valuation			
P/E (x)	48.57	36	38.11
P/BV (x)	10.35	9.34	9.7
EV/EBITDA	24.70	24.16	23.14

Historical & Industrial Val Ratios

Historical P/E	40.39
Industry P/E	6.31
Historical P/B	9.86
Industry P/B	1.60


REVENUE SPLIT AND MARKET SHARE (Q3 FY22)
Segmental Mix (Q3 FY22)

Market Share (Q3 FY22)

QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

Y/E March	FY21				FY22				FY21	FY22E*
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4E*		
Net sales	1,110	2,202	2,601	2,587	2,534	3,084	3,230	3,200	8500	12,048
YoY change (%)	10.94%	12.85%	8.68%	7.59%	17.60%	17.81%	26.24%	23.70%	10.05%	41.74%
Total Expenditures	1,039	2,033	2,369	2,381	2,280	2,862	3,028	2976	7,821	11,146
EBITDA	71	169	232	206	255	222	202	224	679	902
Margins (%)	6%	8%	9%	8%	10%	7%	6%	7%	8%	7.5%
Depreciation	24	25	26	28	27	27	27	28	103	109
Interest	21	16	15	14	13	11	11	11	66	46
Other income	5	10	8	13	10	11	8	9	36	38
PBT	31	138	200	177	226	196	172	194	546	785
Rate (%)	29%	26%	25%	24%	25%	25%	26%	25%	25%	25%
Adjusted PAT	17	92	132	119	147	131	116	146	360	589
EPS in Rs	0.68	3.69	5.29	4.77	5.90	5.26	4.62	5.82	14.42	23.56

Key Performance Indicators										
RM cost (% of revenue)	84%	84%	84%	85%	82%	86%	87%	86%	84%	85%
Employee cost (% of revenue)	3%	2%	1%	1%	1%	1%	1%	1%	2%	2%
EBITDA Margins%	6%	8%	9%	8%	10%	7%	6%	7%	8%	7.5%
PAT Margins %	1.5%	4.17%	5.07%	4.6%	5.8%	4.2%	3.6%	4.5%	4.23%	4.8%

Source: Company, Hem Securities Research.

***Insights into the assumptions:**

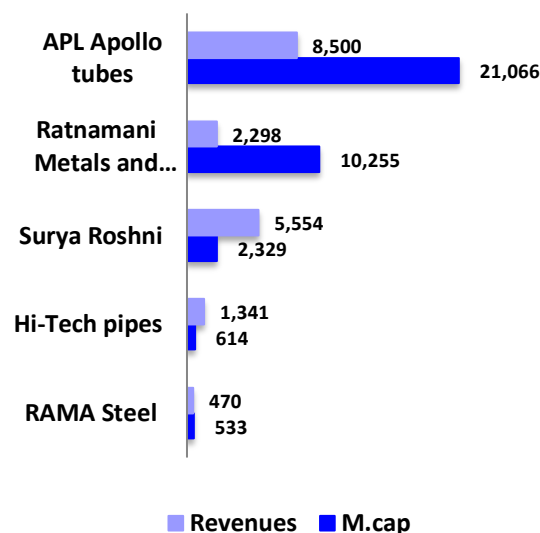
- We expect revenues to remain same or slightly improve on QoQ basis.
- We also believe that operating margins would sustain at these levels and might also improve due to management's strong future guidelines.



INDUSTRY OVERVIEW

- India has emerged as the top 3 manufacturing hubs of steel pipes in the world after Europe and Japan.
- The Indian steel pipes industry is estimated to be around 50000-55000 cr and constitutes 8-9% of global steel market.
- The Indian steel pipe industry can be subdivided into Electric resistance weld pipe (ERW) and stainless steel and submerged arc.
- Structural steel tubes have started gaining traction in the construction industry as they are more durable than traditional construction material. They are 100% recyclable and provides greater strength irrespective of their light weight.
- The use of structural steel in pre-engineered building is only 5% in India compared to 20% usage globally.
- Globally the proportion of structural steel tubes is around 10% of the total steel consumption. Whereas, in India it hovers around 4-5%.
- The Union Budget 2022-23 focuses on the development of infrastructure this can further increase the demand for structural steel tubes.
- Leading players in Indian Steel tube Industry includes APL Apollo, Surya Roshni, Hi-Tech pipes, Rama steel tubes and Gandhi special tubes etc.

Key Players in Mid & Small Space



PEER PERFORMANCE

(₹ Cr)

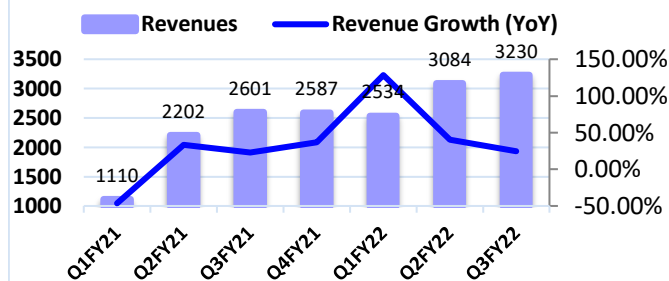
Particulars	APL Apollo Ltd.	Surya Roshni Ltd.	Rama steel tubes Ltd.	Ratnamani metals and tubes Ltd.	Hi-Tech pipes Ltd.
Market Cap	20,678.7	2,393.7	537.0	10,349.3	653.0
Net Sales	8,499.8	5,561.4	470.4	2,298.1	1,340.6
EBITDA	678.7	379.3	18.3	399.8	70.8
PAT	360.2	158.3	12.4	276.0	22.8
EPS(₹)	14.4	29.5	7.4	59.1	20.3
EBITDA MARGIN %	8.2	6.9	5.2	19.4	5.3
PAT MARGIN %	4.7	2.8	2.3	12.1	1.7
ROCE %	27.8	12.7	11.8	18.6	12.6
ROE %	26.8	12.2	11.7	14.9	12.2
P/E TTM	39.3	13.4	20.5	31.9	18.6
P/B TTM	9.6	1.7	4.5	4.8	2.7
Dividend Yield %	-	0.7	-	0.6	-
MCap/ Sales TTM	1.9	0.3	0.8	3.6	0.4

Source: Company, Hem Securities Research.

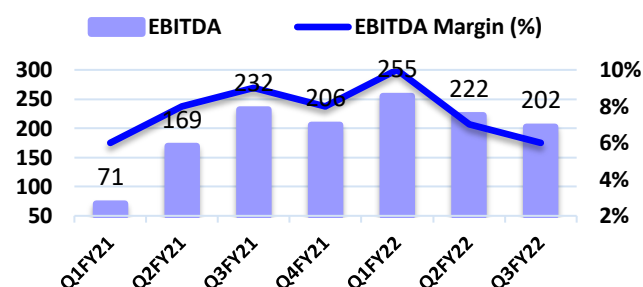


STORY IN CHARTS

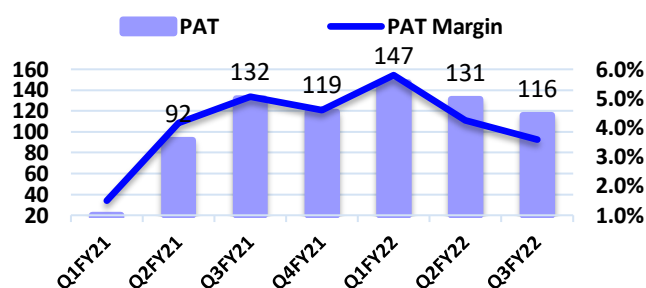
Revenue



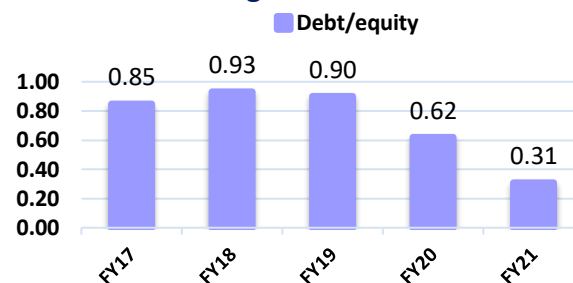
EBITDA & EBITDA Margin



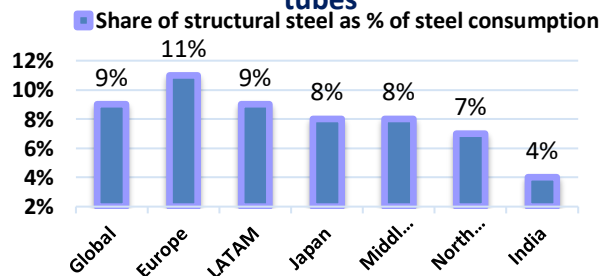
PAT & PAT Margin



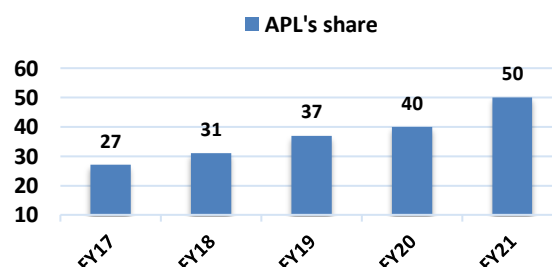
Falling financial ratio



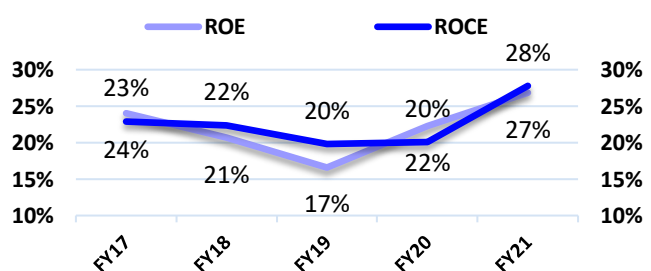
India has low penetration of steel tubes



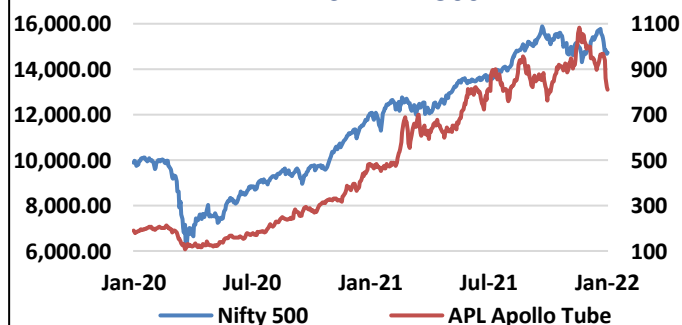
Consistent rise in market share



ROE and ROCE



APL VS NIFTY 500





INVESTMENT RATIONALE:

- The company is the largest manufacturer of structural steel pipes in India. They are aiming at 4 million volume sales by FY25
- The company has lowest debtor days of 5 days in the building product segment.
- First company in India to introduce DFT technology in the country. It helps in reducing production time and produce customized pipes as per client needs.
- Company wishes to maintain 20-25% CAGR for the next 3-4 years.
- The use of structural steel in PEB is 5% in India whereas, globally it is around 20%. Which provides lot of scope for future growth.
- Their delivery time has been reduced to 4 days from 15 days due to their own warehouses. They are planning to reduce it to 24 hours.
- Globally the average EBITDA margin in this industry is 15%. APL has only 8% margins so, it provides lot of scope for future growth.
They have the largest market share in the structural tube industry in India i.e. 50%.
- They are introducing 500mm * 500mm heavy structural tubes. Currently no one is producing this in Asia.
- The merger of APL and Apollo tricoat has led to addition of new innovative products in APL's product portfolio.
- Union budget 22-23 core focus is on the development of infrastructure projects in the country. This will lead to increase in demand for structural steel pipes.

RISK / NEGATIVE FACTORS:

- Company is going nowhere with its exports business due to rising container freight cost thus, disabling their international business.
- Major raw material for the company is HR steel coil. Current volatility in metal sector particularly in steel will affect input cost and ultimately margins.
- Reduction in demand from construction and infrastructure companies can hurt earnings. .

COMPANY RECAP

- APL Apollo is the leading manufacturer of steel products in India. They have a diverse product portfolio consisting of Apollo structural, Apollo Z, Apollo Tricoat & Apollo galv
- The company was incorporated in 1986 and set up their first manufacturing plant in Ghaziabad.
- The organization have 10 manufacturing units and operates in 20 countries across the globe.
- The company has wide distribution network comprising over 800 distributors and 50000 plus retailers.
- They have 2.6MTPA capacity which is comfortably more 2x of its nearest competitor. They are an established player and holds more than 50% share in structural steel tube industry.
- They are first company in India to introduce Direct Forming Technology to customize steel tubes as per client demands.
- They have strong brand equity and are the principle sponsor of Delhi Capitals in IPL. They have also hired Mr. Amitabh Bachchan and Mr. Tiger Shroff for promotion of their products.
- Company has very experienced and skilled leadership team including Mr. Sanjay Gupta (Chairman), Mr. Arun Agarwal (COO), Mr. Rahul Gupta (MD), Mr. Deepak Goyal (CFO), Mr. Anubhav Gupta (Chief strategic officer) etc.



ANNUAL PERFORMANCE

Financials & Valuations

Income Statement							(₹ Cr)
Y/E March	2017	2018	2019	2020	2021	2022E	2023E
Revenue from operations	3,923.90	5,334.77	7,152.32	7,723.23	8,499.75	12,048	14,458
Growth YoY (%)	-6.88	35.96	34.07	7.98	10.05	41.74	20.00
Total Expenditure	3,590.93	4,963.73	6,763.65	7,245.89	7,821.04	11,146	13,302
(%) of sales	91.51	93.04	94.57	93.82	92.01	92.5	8
EBITDA	332.97	371.04	388.67	477.34	678.71	902	1156
EBITDA Growth (%)	16.10	11.83	6.73	23.48	43.07	33	28.15
EBITDA Margin (%)	7.74	6.83	5.55	6.26	8.18	7.5	8
Depreciation	50.90	53.41	64.26	95.91	102.77	109	115
EBIT	288.04	325.64	340.29	403.61	611.88	793	1041
EBIT Growth (%)	23.89	13.05	4.50	18.61	51.60	29.7	31.27
Net Interest Expenses	72.03	81.30	113.35	107.27	66.09	46	40
Other Income	5.97	8.01	15.88	22.18	35.94	38	40
Earnings before Taxes	216.01	244.34	226.94	296.34	545.79	785	1041
EBT Margin (%)	4.93	4.40	3.11	3.72	6.24	6.5	32.6
Tax-Total	63.90	86.21	78.69	40.34	138.09	196.25	260.25
Rate of tax (%)	29.58	35.28	34.67	13.61	25.30	25.00	25.00
Net Profit	152.11	158.13	148.25	256.00	407.70	588.75	780.75
PAT Growth (%)	51.25	3.96	-6.25	72.68	59.26	44.4	32.61
PAT Margin (%)	3.47	2.85	2.03	3.21	4.66	4.8	5.4
Minority Interest	0.00	0.00	0.00	-18.03	-47.54	0.00	0.00
Adjusted PAT	152.11	158.13	148.25	237.97	360.16	588.75	780.75
EPS	6.45	6.66	6.22	9.57	14.42	23.56	25.19
EPS Growth (%)	50.28	3.34	-6.72	53.94	50.68	63.38	6.9

Balance Sheet					
Y/E March	2017	2018	2019	2020	2021
Share Capital	24	24	24	25	25
Reserves	680	814	940	1,331	1,670
Net Worth	704	838	964	1,386	1,695
Borrowings	594	775	858	834	520
Other Liabilities	547	568	952	1,075	1,184
Total Liabilities & Equity	1,845	2,181	2,774	3,266	3,399
Fixed Assets	670	886	1,034	1,708	1,736
CWIP	122	46	27	10	108
Investments	0	1	49	2	1
Other Assets	1,052	1,248	1,663	1,546	1,554
Total Assets	1,845	2,181	2,774	3,266	3,399

Source: Company, Hem Securities Research.



Ratios					
Y/E March (Basic (INR))	2017	2018	2019	2020	2021
Profitability and return ratios					
Net profit margin (%)	3.47	2.85	2.03	3.21	4.66
EBITDA margin (%)	7.74	6.83	5.55	6.26	8.18
EBIT margin (%)	6.58	5.86	4.67	5.06	7.00
ROE (%)	24.03	20.67	16.58	22.23	26.84
ROCE (%)	22.90	22.38	19.81	20.12	27.78
Working Capital & liquidity ratios					
Payables (Days)	32.85	27.92	28.67	36.50	35.78
Inventory (Days)	44.36	34.87	34.42	35.87	32.24
Receivables (Days)	21.47	23.89	24.42	23.33	12.67
Current Ratio (x)	0.98	1.01	1.02	1.18	1.16
Valuations Ratios					
EV/sales (x)	0.85	1.03	0.59	0.50	2.08
EV/EBITDA (x)	9.89	14.51	10.49	7.78	24.70
P/E (x)	18.15	29.93	23.16	13.03	48.57
P/BV (x)	3.95	5.69	3.59	2.30	10.35
Dividend Yield (%)	1.03	0.70	0.97	0.00	0.00
Leverage Ratio					
Debt/Equity (x)	0.85	0.93	0.90	0.62	0.31

Cash Flow Statement					
Y/E March	2017	2018	2019	2020	2021
CF from Operating activities (A)	315	91	358	510	977
CF from Investing Activities (B)	-170	-165	-264	-435	-646.83
CF from Financing Activities (C)	-145	79	-53	-78	-359
Net Cash Flow	0.22	5.23	40.68	-3.2	-28
Add: Opening Bal.	1	2	7	47	44
Closing Balance	2	7	47	44	16

Source: Company, Hem Securities Research.



RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

RECOMMENDATION SUMMARY

DATE	RATING	TARGET
25 Feb 2022	Buy	960

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Name of the Research Analyst: DEEPANSHU JAIN

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2.	Research Analyst or his/her relative or HSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3.	Research Analyst or his/her relative or HSL has any other material conflict of interest at the time of publication of the Research Report	No
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5.	HSL has received any compensation from the subject company in the past twelve months	No
6.	HSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7.	HSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8.	HSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9.	HSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10.	Research Analyst or HSL has been engaged in market making activity for the subject company(ies)	No

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