

19th November 2024

₹1,471/-

View – **Hold**

Key Highlights – Q2FY25

- APL Apollo Tubes Ltd (APAT) reported a 12% YoY and 5% QoQ increase in sales volume, totaling 758,267 tons in Q2FY25.
- Revenue rose by 3% YoY and while dropped 4% when compared on QoQ basis, totaling ₹4774crs.
- EBITDA dropped by more than half, decreasing 58% YoY and 54% QoQ to ₹138crs. Moreover, EBITDA spread was reported all-time low due to an inventory loss of ₹2,000 per ton, driven by a steep decline in steel prices of ₹7,500 per ton. This situation required the company to adjust its inventory and offer discounts of ₹500 per ton to boost sales resulting in significant EBITDA margin compression to 3% in Q2FY25 from 7% in Q2FY24 and 6% in Q1FY25.
- Net earnings were reported at ₹54crs, reflecting a 73% drop YoY and 72% sequentially.
- EBITDA/ton for the quarter at ₹1821, from ₹4815 in Q2FY24 and ₹4173 in Q1FY25.
- Value added Sales mix at 55% for the quarter.

Important Statistics

Nifty	23,454
Sensex	77,339
M.CAP (₹ bn)	~410
52 Week H/L (₹)	1774/1305
NSE Code	APLAPOLLO
BSE Code	533758
Bloomberg Code	APAT:IN

Shareholding Pattern (%)	Sep'23	Dec'23	Mar'24	Jun'24	Sep'24
Promoter	29.67	29.56	29.44	28.33	28.32
FII	28.66	29.25	30.69	31.55	31.94
DII	12.69	13.75	14.06	14.9	15.89
Public	28.99	27.41	25.81	25.23	23.84

Sales volume

APAT achieved a record sales volume of 758,267 tons in Q2FY25, exceeding the previous quarter's 721,064 tons and the 675,000 tons reported in Q2FY24. This significant milestone was accomplished despite challenging demand conditions in the construction materials sector, influenced by fluctuating raw material prices, an extended monsoon season, and a slowdown in government infrastructure spending. Looking ahead, the company is strategically targeting an increase in sales volume, aiming for 825,000 tons in Q3FY25 and 900,000 tons in Q4FY25. This objective aligns with APAT's overall sales target of 3.2mn tons for the entire fiscal year. The management has expressed confidence in achieving these targets despite the ongoing challenges in the construction materials sector.

Particulars	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	YoY	QoQ
Volume ('000 Tons)	675	604	679	721	758	12	5
Heavy	51	62	64	58	52	2	-10
Super Heavy	5	7	8	11	11	120	-
Light	113	95	102	110	127	12	15
General	301	249	272	288	338	12	17
Rust-proof	144	124	156	168	150	4	(11)
Coated	29	36	40	52	51	76	(2)
Agri/Industrial	32	30	37	34	29	-9	(15)

Source: Company, Way2Wealth Research

Capacity Ramp Up

The management has outlined an ambitious capacity ramp-up plan to enhance its production capabilities significantly. Currently, operates with a capacity of 4.3mn tons, with plans to expand this to 5mn tons by FY26. This expansion will be supported by a capital expenditure of approximately ₹300 to ₹350crs, which will be funded through internal cash flows. The ramp-up involves establishing three new plants: one in Siliguri and another in Gorakhpur to serve the East India market, including the Seven Sister States and opportunities in Nepal and Bhutan. Additionally, a new facility in Bangalore will focus on lighter sections, addressing existing capacity constraints. Collectively, these plants are expected to contribute an additional 1.5mn tons annually. APAT aims for a QoQ growth of 10%, targeting 825,000 tons in Q3FY25 and 900,000 tons in Q4FY25, aligning with its overall goal of 3.2mn tons for the fiscal year. This strategic expansion not only enhances market penetration but also positions to capitalize on increasing demand in the construction sector, despite current challenges.

Financials

Particulars	FY22	FY23	FY24	FY25E	FY26E
Revenue	13,063	16,166	18,119	20,629	26,565
EBITDA	945	1,022	1,192	1,244	1,919
% Margin	7%	6%	7%	6%	7%
PAT	619	642	732	770	1,300
EPS	25	23	26	27	46
RoE (%)	31	24	22	20	24
RoCE (%)	29	24	22	20	28
P/E (x)	61	65	57	54	32
P/BV (x)	9	11	12	10	8.2
EV/EBITDA (x)	40	42	43	36	24

Source: Company, Way2Wealth Research

Relative Performance

Return (%)	1 Yr	3Yr	5 Yr
APLAPOLLO	-11	72	978
Nifty 50	28	51	131
SENSEX	24	45	115

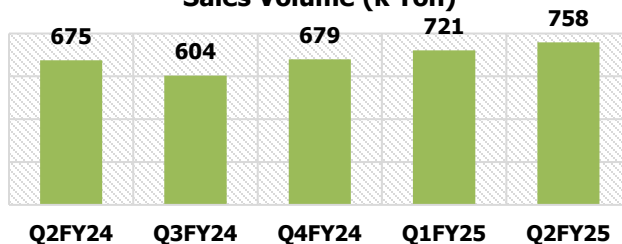
Source: Company, Way2Wealth

Dhananjay Kansara

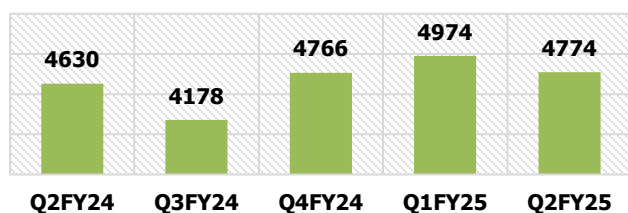
dhananjay.k@way2wealth.com
Ph: 022 – 4019 2911

Story in Charts

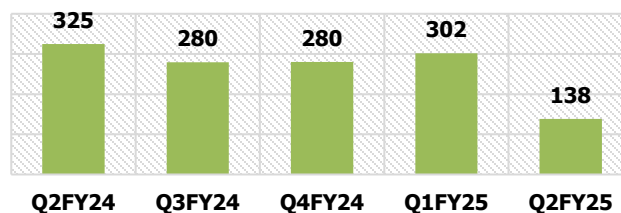
Sales Volume (k Ton)



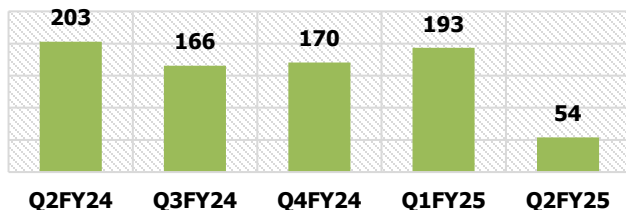
Revenue



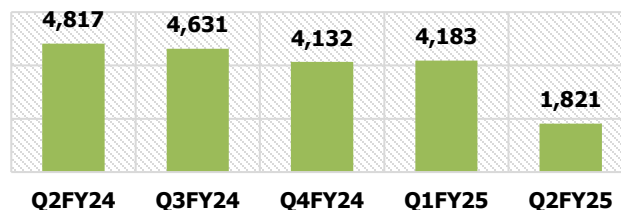
EBITDA



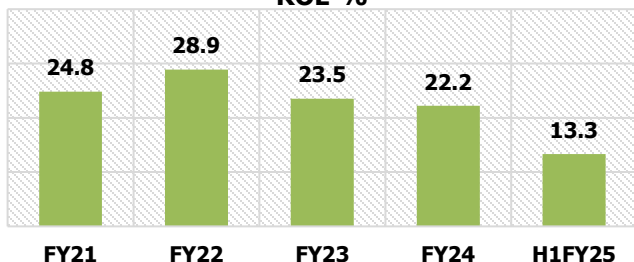
Net Profit



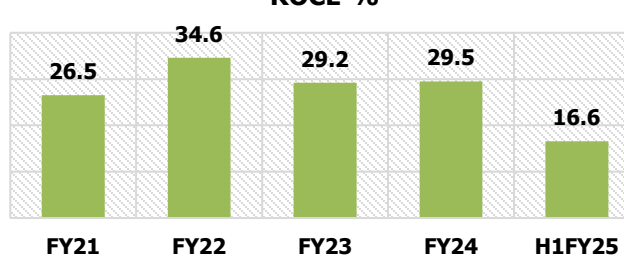
EBITDA/ton (₹)



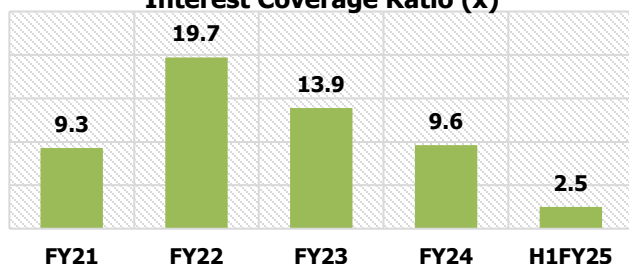
ROE %



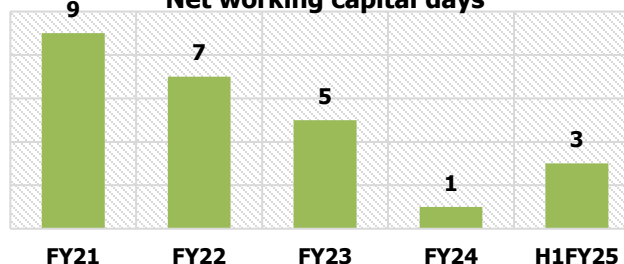
ROCE %



Interest Coverage Ratio (x)



Net working capital days



Source : Company, Way2Wealth research

Growth strategy

APAT is prioritizing product innovation as a core component of its growth strategy, particularly in the structural steel sector. The company is launching specialized products aimed at the solar power industry, including pre-coated thicker sheets designed to replace traditional galvanized sheets and innovative structures for solar tracker systems. This focus on sustainability aligns with the increasing demand for renewable energy solutions and positions them favorably in a rapidly evolving market.

Additionally, the company is enhancing its product offerings in the heavy structural steel tube space, capitalizing on the growing trend of tubular designs in major infrastructure and real estate projects across India. By diversifying its product portfolio, the company aims to address varying customer needs and capture a larger market share.

These initiatives not only aim to improve sales volume but also enhance overall profitability by providing customers with advanced, cost-effective solutions compared to traditional materials. APL Apollo's commitment to innovation is expected to drive long-term growth and strengthen its competitive edge in both domestic and international markets.

View

APAT is strongly focusing on innovation, particularly in developing specialized products for the solar power industry, such as pre-coated thicker sheets and structures for solar tracker systems, which cater to the rising demand for heavy structural steel tubes in major infrastructure projects across India. Additionally, APAT is addressing competitive pressures by narrowing the pricing gap between its products and lower-grade alternatives like sponge iron pipes, allowing them to target an incremental market of 500,000 tons monthly. The management remains optimistic about achieving normalized EBITDA margins of around ₹5,000 per ton over the next 2-3 quarters and sustaining these margins throughout FY26, positioning APAT favorably for future growth while adapting to market dynamics and maintaining robust operational efficiencies. **It is recommended to Hold the stock at its current level, trading at 24x FY26E EV/EBITDA.**

Financials

Particulars	(₹ Cr)							
	Q2FY25	Q2FY24	YoY	Q1FY25	QoQ	H1FY25	H1FY24	YoY
Revenue	4,774	4,630	3	4,974	(4)	9,748	9,175	6
Material Cost	4,242	3,968	7	4,270	(1)	8,512	7,899	8
Employees exp	87.15	52.73	65	80	9	167.23	123.17	36
Op-Exp	4,636	4,305	8	4,673	(1)	9,309	8,543	9
EBITDA	138	325	(58)	301	(54)	440	632	(30)
% Margin	2.9	7.0	(413)	6.0	(316)	4.5	6.9	(238)
Depreciation	47	41	13	47	1	93	82	14
EBIT	91	284	(68)	254	(64)	346	550	(37)
% Margin	1.9	6.1	(422)	5.1	(63)	3.6	6.0	(41)
EBT	70	277	(75)	252	(72)	322	538	(40)
PAT	54	203	(73)	193	(72)	247	396	(38)
% Margin	1.1	4.4	(325)	3.9	(276)	2.5	4.3	(179)
EPS - Adjusted	1.94	7.31	(73)	7.0	(72)	9	14	(38)

Source: Company, Way2wealth Research

19th November 2024

₹1,471/-

View – **Hold**

Disclaimer

Analyst Certification: I, Dhananjay Kansara, the research analyst and author of this report, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s), principally responsible for the preparation of this research report, receives compensation based on overall revenues of the company (Way2Wealth Brokers Private Limited, hereinafter referred to as Way2Wealth) and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

It is confirmed that Dhananjay Kansara, the author of this report has not received any compensation from the companies mentioned in the report in the preceding 12 months. Our research professionals are paid in part based on the profitability of Way2Wealth, which include earnings from other business. Neither Way2Wealth nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information contained in this report.

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Way2Wealth is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. The contents of this material are general and are neither comprehensive nor appropriate for every individual and are solely for the informational purposes of the readers. This material does not take into account the specific objectives, financial situation or needs of an individual/s or a Corporate/s or any entity/s.

This research has been prepared for the general use of the clients of the Way2Wealth and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient, you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Way2Wealth will not treat recipients as customers by virtue of their receiving this report. The distribution of this document in other jurisdictions may be restricted by the law applicable in the relevant jurisdictions and persons into whose possession this document comes should inform themselves about, and observe any such restrictions.

The report is based upon information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up to date and it should not be relied upon as such. Way2Wealth or any of its affiliates or employees makes no warranties, either express or implied of any kind regarding any matter pertaining to this report, including, but not limited to warranties of suitability, fitness for a particular purpose, accuracy, timeliness, completeness or non-infringement. We accept no obligation to correct or update the information or opinions in it. Way2Wealth or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. The recipients of this report should rely on their own investigations. In no event shall Way2Wealth be liable for any damages of any kind, including, but not limited to, indirect, special, incidental, consequential, punitive, lost profits, or lost opportunity, whether or not Way2Wealth has advised of the possibility of such damages.

This material contains statements that are forward-looking; such statements are based upon the current beliefs and expectations and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements. These uncertainties include but are not limited to the risk of adverse movements or volatility in the securities markets or in interest or foreign exchange rates or indices; adverse impact from an economic slowdown; downturn in domestic or foreign securities and trading conditions or markets; increased competition; unfavorable political and diplomatic developments; change in the governmental or regulatory policies; failure of a corporate event and such others. This is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any particular trading strategy. No part of this material may be copied or duplicated in any form by any means or redistributed without the written consent of Way2Wealth. In no event shall any reader publish, retransmit, redistribute or otherwise reproduce any information provided by Way2Wealth in any format to anyone. Way2Wealth and its affiliates, officers, directors and employees including persons involved in the preparation or issuance of this report may from time to time have interest in securities / positions, financial or otherwise in the securities related to the information contained in this report.

To enhance transparency, Way2Wealth has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement: APL Apollo Tubes Ltd. as on November 19, 2024

Name of the Security	APL Apollo Tubes Ltd.
Name of the analyst	Dhananjay Kansara
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

This information is subject to change without any prior notice. Way2Wealth reserves at its absolute discretion the right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, Way2Wealth is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.