

EBITDA/t Miss on Inventory Loss; Headwinds Largely Behind
Est. Vs. Actual for Q2FY25: Revenue – **MISS**; EBITDA/t – **MISS**; PAT – **MISS**
Change in Estimates post Q2FY25:
FY25E/FY26E: Revenue: -6%/-3%; EBITDA: -23%/-8%; PAT: -29%/-9%.

Recommendation Rationale

- EBITDA/t Miss led by inventory loss:** Q2FY25 EBITDA/t declined to an all-time low of Rs 1,821/t (down 62%/56% YoY/QoQ) led by the impact of inventory loss and sales discount as traders were in destocking mode amidst falling steel prices. Steel prices declined by ~Rs 7,500/t QoQ in Q2FY25. Management believes that the worst is now behind and expects margins to expand to a normalised level of Rs 4,500-5,000/t over the next 2-3 quarters. These margins will be sustained throughout FY26. The company targets EBITDA/t of Rs 5,040/t by FY27.
- EBITDA/t to normalise in future quarters** as 1) Management now expects range-bound steel prices with limited downside risk given the depressed profitability of steel mills while the upside could be limited as ~12 Lc tonnes per month HR coil capacity from various steel mills is in pipeline which will keep HR coil prices in check. 2) The gap between HRC and low-grade sponge iron-based steel pipes (Patra) has narrowed down to 5-6%, which leads APL to target an additional market of 500kt on a monthly basis as HRC-based pipes become affordable against the Patra, and 3) Channel partners are now sitting on low inventory levels which will help in volume off-take in coming quarters.
- Strategy to penetrate newer markets:** To cater to East India two greenfield plants are coming in Siliguri and Gorakhpur, and one plant in Bangalore for a lighter section. These three plants will provide an incremental market of ~1.5MTPA and it will be ramped up in the next 2-3 years.

Sector Outlook: Cautiously Positive

Company Outlook & Guidance: The company's existing capacity is 4.3MT and will increase to 5MT in FY26 with a residual capex of Rs 3.0-3.5 Bn which will be spent over the next 6-7 months from the internal cash flows. Volume trend in H2FY25 shall remain strong with FY25 sales volume guidance at 3.2MT. FY26 and FY27 sales volume guidance are 4.0 and 5.0MT respectively.

Current Valuation: 33x P/E Sep'26 EPS (From Mar'26)

Current TP: Rs 1,680/share (From Rs 1,650)

Recommendation: We maintain our **BUY** rating on the stock.

Financial Performance: APL Apollo Tubes reported weak numbers with EBITDA/t of Rs 1,821/t (down 62%/56% YoY/QoQ) missing our/consensus estimate by 50%/43% respectively. The weaker-than-expected EBITDA/t was driven by the more-than-expected impact of inventory loss of Rs 1,981/t and sales discount of Rs 493/t in the quarter due to traders de-stocking amidst falling steel prices. Revenue at Rs 4,628 Cr (up 3% YoY, down 3% QoQ) missed our estimate by 3% led by lower realisations due to lower steel prices while VAP share stood flat YoY at 55%. EBITDA at Rs 138 Cr (down 58%/54% YoY/QoQ) missed our estimate by 50% on inventory losses and higher employee expenses. PAT stood at Rs 54 Cr (down 73% YoY/QoQ each). Net Debt stood at ~Rs 300 Cr (vs. net cash of 18.5 Cr as of Mar'24), however, Net Debt/Equity is comfortable at 0.1x.

Key Financials (Consolidated)

(Rs Cr)	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	4,628	-3%	3%	4,762	-3%
EBITDA	138	-54%	-58%	277	-50%
EBITDA/t (Rs/t)	1,821	-56%	-62%	3,651	-50%
Net Profit	54	-72%	-73%	167	-68%
EPS (Rs)	1.94	-72%	-73%	6.02	-68%

Source: Company, Axis Securities

(CMP as of 29th October 2024)

CMP (Rs)	1,516
Upside /Downside (%)	11%
High/Low (Rs)	1,773/1,253
Market cap (Cr)	42,075
Avg. daily vol. (6m) Shrs.	6,29,823
No. of shares (Cr)	27.7

Shareholding (%)

	Mar-24	Jun-24	Sep-24
Promoter	29.44	28.33	28.32
FII	30.69	31.53	31.92
Mutual Funds / UTI	8.76	9.47	10.90
Financial Institutions	0.00	0.00	0.02
Others	31.11	30.67	28.84

Financial & Valuations

(Rs. Cr)	2025E	2026E	2027E
Net Sales	20,981	27,344	31,650
EBITDA	1,176	1,898	2,263
Net Profit	715	1,260	1,545
EPS (Rs.)	25.7	45.4	55.7
PER (x)	58.9	33.4	27.2
EV/EBITDA (x)	36.5	22.5	18.9
P/BV (x)	9.9	7.7	6.0
ROE (%)	18.2	25.9	24.9

Change in Estimates (%)

Y/E Mar	FY25E	FY26E	FY27E
Sales	-6%	-3%	NA
EBITDA	-23%	-8%	NA
PAT	-29%	-9%	NA

Relative performance


Source: ACE Equity, Axis Securities

Aditya Welekar

Sr. Research Analyst

Email: aditya.welekar@axissecurities.in

Outlook

- The company's vision is to expand its capacity to 10 MTPA by FY30, providing a growth tailwind in the longer term. We cut our FY25/26 EBITDA as we trim our volumes and factor in slightly higher RM costs. We introduce FY27 numbers with EBITDA/t of Rs 4,800/t and volume of 4.7MT (vs. company guidance of 5.0MT) and roll forward our valuation to Sep'26. Resultantly, our TP increases to Rs 1,680/share.

Valuation & Recommendation:

- We now value the company on Sept'26 EPS (From Mar'26) using a 1-year forward P/E target of 33x (the stock is trading at 36x 12MF consensus P/E) to arrive at our Sep'25 TP of Rs 1,680/share (from Rs 1,650/share). Our TP implies an upside of 11% from the CMP. **We maintain our BUY rating on the stock.**

Key Concail Highlights

- Raipur facility ramp-up:** Raipur plant utilization is now at 53% on an expanded capacity of 1.2 MnT from 1.1 MnT in the last quarter.
- Discounts rolled back:** The Discounts offered in Q2FY25 as an incentive for traders is rolled back now. However, the discount on general products that compete with Patra will continue till Oct'24 end.
- Employee expenses:** In Q2FY25, employee expenses stood elevated at Rs 87 Cr (up 39%/9% YoY/QoQ). Management said that out of the Rs 87 Cr, ~Rs 7 Cr is for the notional ESOP expense. Going forward, ~Rs 80 Cr per quarter employee expense run rate can be assumed.
- Product Innovation:** The company has introduced a specialized structure for the Solar power industry: i) Precoated thicker sheet which will replace the existing galvanized sheet and ii) Solar tracker tubes.
- Net Debt** stood at ~Rs 300 Cr (vs. net cash of 18.5 Cr as of Mar'24), management said that the company will achieve a Net cash position by the end of FY25 as Operating cash flow will improve led by the normalisation of EBITDA/t in H2FY25.
- APL Apollo** being the largest steel buyer can negotiate with steel suppliers at competitive terms as Indian upstream steel capacity increases in coming years.
- India's structural steel tube market is expected to grow by 10% CAGR from 9.0MT to 17.3MT over 2024-30:** Out of this, the Hot rolled coil-based structural steel tube market (APL Apollo's addressable market) is expected to grow faster at a 20% CAGR over the same period, increasing from 4.5MT to 13.3MT. This growth is anticipated due to several factors: i) Superior quality of HR coil-based tubes, ii) Better cost efficiencies for blast furnace HRC mills over local scrap steel melting mills, and iii) Commissioning of new blast furnace HR mills in the next 3-4 years, which will increase the supply of HR coils in India.
- Other result details:** Net WC for H1FY25 increased to 3 days from 1 day in FY24, while VAP share stood at 55% in Q2FY25 which stood flat YoY.

Key Risks to Our Estimates and TP

- Failure to ramp up the Raipur plant as guided by the company.
- Steep fall in regional HRC prices compared to domestic HRC prices leading to destocking by traders.
- Macroeconomic risk impacting the demand for structural steel.

Change in Estimates

Rs. Cr	Revised			Old			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Net Sales	20,981	27,344	31,650	22,227	28,324	NA	-6%	-3%	NA
EBITDA	1,176	1,898	2,263	1,536	2,053	NA	-23%	-8%	NA
EBITDA/t	3,669	4,630	4,815	4,625	4,948	NA	-21%	-6%	NA
PAT	715	1,260	1,545	1,004	1,388	NA	-29%	-9%	NA
EPS (Rs.)	26	45	56	36	50	NA	-28%	-9%	NA
Sales Volume (kt)	3,204	4,100	4,700	3,321	4,150	NA	-4%	-1%	NA

Source: Company, Axis Securities

Results Review

Consolidated (Rs Cr)	Q2FY24 Actual	Q1FY25 Actual	Q2FY25 Axis Sec Est	Q2FY25 Consensus	Q2FY25 Actual	% Change (YoY)	% Change (QoQ)	Variance (%)	Vs Cons (%)
Sales Volumes (tonnes)	6,74,761	7,21,064	7,58,267	7,58,267	7,58,267	12%	5%	0%	0%
Sale of products	4,489	4,777	4,762	5,079	4,628	3%	-3%	-3%	-9%
Other operating income	141	197	181		146	3%	-26%	-19%	NA
Net Operating Revenue	4,630	4,974	4,943		4,774	3%	-4%	-3%	NA
ASP (Rs/t)	66,527	66,251	62,802	66,976	61,031	-8%	-8%	-3%	-9%
Expenditure									
Net Raw Material	3,978	4,270	4,266		4,242	7%	-1%	-1%	NA
Employee Expenses	63	80	79		87	39%	9%	10%	NA
Other Exp	264	323	321		307	16%	-5%	-5%	NA
EBITDA	325	302	277	241	138	-58%	-54%	-50%	-43%
EBITDA Margin (%)	7.0%	6.1%	5.6%		2.9%				
EBITDA per tonne (Rs/tonne)	4,817	4,183	3,651	3,179	1,821	-62%	-56%	-50%	-43%
Depreciation	41	47	51		47	13%	1%	-7%	NA
Interest	27	28	21		36	37%	31%	76%	NA
Other Income	20	25	20		15	-25%	-40%	-25%	NA
PBT	277	252	225		70	-75%	-72%	-69%	NA
Tax	74	59	58		16	-79%	-73%	-73%	NA
Tax Rate (%)	26.7%	23.4%	25.9%		22.7%				
PAT	203	193	167		54	-73%	-72%	-68%	NA
MI	-	-	-		-	NA	NA	NA	NA
Attrib PAT	203	193	167	145	54	-73%	-72%	-68%	-63%
EPS (Rs.)	7.31	6.96	6.02		1.94	-73%	-72%	-68%	NA

Source: Company, Axis Securities, Bloomberg Consensus

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
Total Sales	18,119	20,981	27,344	31,650
Total Raw Materials	15,617	18,172	23,454	27,124
COGS	16,669	19,475	25,081	28,975
EBITDA	1,192	1,176	1,898	2,263
EBITDA per tonne	4,553	3,669	4,630	4,815
Depreciation	176	192	205	210
Interest & Finance charges	113	115	101	94
Other Income	75	84	109	127
EBT (as reported)	978	953	1,701	2,086
Tax	245	238	441	541
RPAT	732	715	1,260	1,545

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
Equity Share Capital	56	56	56	56
Reserves	3,549	4,208	5,413	6,902
Net worth	3,605	4,264	5,468	6,958
Total loans	1,125	825	725	625
Deferred tax liability (Net)	126	126	126	126
Capital Employed	5,029	5,418	6,581	8,012
Net block	3,031	3,289	3,284	3,174
Investments	103	168	219	253
Inventories	1,638	1,667	2,173	2,515
Sundry debtors	139	230	300	347
Cash and cash equivalents	345	538	1,385	2,703
Total Current assets	3,341	3,220	4,866	6,730
Total Current liabilities	2,157	2,037	2,650	3,066
Net Current assets	1,184	1,183	2,216	3,664
Capital Deployed	5,029	5,418	6,581	8,012

Source: Company, Axis Securities

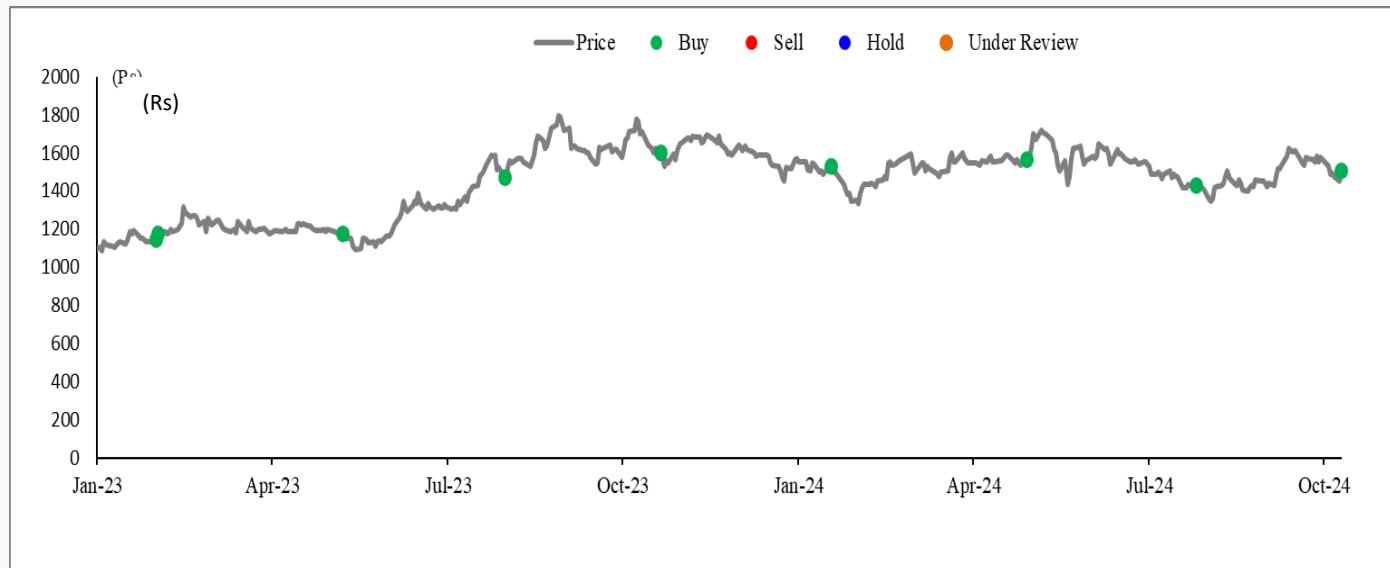
Cash Flow		(Rs Cr)		
Y/E March		FY24	FY25E	FY26E
PBT		978	953	1,701
Depreciation & Amortization		176	192	205
Incr/(Decr) in Deferred Tax Liability		-	-	-
(Incr)/Decr in Working Capital		124	194	(187)
Net Cash Flow from Operating		1,112	1,132	1,270
(Incr)/ Decr in Gross PP&E incl Capital Advances		(695)	(450)	(200)
(Incr)/Decr In Work in Progress		-	-	-
(Incr)/Decr In Investments		(5)	(65)	(51)
(Incr)/Decr in Other Non-Current Assets		-	(66)	(84)
Cash Flow from Investing		(916)	(467)	(167)
(Decr)/Incr in Borrowings		259	(300)	(100)
Dividend		(139)	(56)	(56)
Cash Flow from Financing		27	(471)	(257)
Cash at the Start of the Year		123	345	538
Cash at the End of the Year		345	538	1,385
2,703				

Source: Company, Axis Securities

Ratio Analysis		(%)		
Ratios		FY24	FY25E	FY26E
Growth (%)				
Sales		12.1	15.8	30.3
EBITDA		16.7	-1.4	61.5
APAT		14.1	-2.4	76.3
Profitability (%)				
EBITDA Margin		6.6	5.6	6.9
Adj. Net Profit Margin		4.0	3.4	4.6
ROCE		22.8	19.3	28.8
ROE		22.2	18.2	25.9
Per Share Data (Rs.)				
AEPS		26.4	25.7	45.4
Reported CEPS		32.9	32.6	53.2
BVPS		129.9	153.6	197.0
Valuations (x)				
PER (x)		56.7	58.9	33.4
PEG (x)		4.0	-24.3	0.4
P/BV (x)		11.5	9.9	7.7
EV/EBITDA (x)		35.8	36.5	22.5
Dividend Yield (%)		0.37%	0.13%	0.13%
Turnover days				
Inventory Days		34.1	31.0	27.9
Debtor Days		2.9	3.3	3.7
Payable Days		42.4	39.3	34.1
Gearing Ratio				
D/E		0.3	0.2	0.1

Source: Company, Axis Securities

APL Apollo tubes Price Chart and Recommendation History



Date	Reco	TP	Research
01-Jan-23	BUY	1,240	Top Picks
02-Feb-23	BUY	1,345	Top Picks
03-Feb-23	BUY	1,345	Result Update
15-May-23	BUY	1,380	Result Update
08-Aug-23	BUY	1,630	Result Update
31-Oct-23	BUY	1,950	Result Update
30-Jan-24	BUY	1,900	Result Update
14-May-24	BUY	1,790	Result Update
13-Aug-24	BUY	1,650	Result Update
30-Oct-24	BUY	1,680	Result Update

Source: Axis Securities

Axis Securities Limited is a subsidiary company of Axis Bank Ltd. Axis Bank Ltd. is a listed public company and one of India's largest private sector banks and has its various subsidiaries engaged in businesses of Asset management, NBFC, Merchant Banking, Trusteeship, Venture Capital, Stock Broking, the details in respect of which are available on www.axisbank.com.

Axis Securities Limited, is registered as a

- Stock Broker, Depository Participant, Portfolio Manager, Investment Adviser and Research Analyst with Securities and Exchange Board of India
- Corporate Agent with Insurance Regulatory and Development Authority of India
- Point of Presence with Pension Fund Regulatory and Development Authority
- Distributor for Mutual Funds with AMFI

Registration Details:

SEBI Single Reg. No.- NSE, BSE,MSEI, MCX & NCDEX – INZ000161633 | SEBI Depository Participant Reg. No. IN-DP-403-2019 | Portfolio Manager Reg. No.- INP00000654 | Investment Advisor Reg No. INA000000615 | SEBI-Research Analyst Reg. No. INH00000297 | IRDA Corporate Agent (Composite) Reg. No. CA0073| PFRDA – POP Reg. No. POP387122023 | Mutual Fund Distributor ARN- 64610.

Compliance Officer Details: Name – Mr. Maneesh Mathew, Tel No. – 022-68555574, Email id – compliance.officer@axisdirect.in;

Registered Office Address – Axis Securities Limited, Unit No.002, Building- A, Agastya Corporate Park, Piramal Realty, Kamani Junction, Kurla (W), Mumbai – 400070.

Administrative office address: Axis Securities Limited, Aurum Q Parc, Q2 Building, Unit No. 1001, 10th Floor, Level – 6, Plot No. 4/1 TTC, Thane – Belapur Road, Ghansoli, Navi Mumbai, Pin Code – 400710.

In case of any grievances please call us at 022-40508080 or write to us helpdesk@axisdirect.in.

We hereby declare that our activities were neither suspended nor we have defaulted with any stock exchange authority with whom we are registered in last five years. However, SEBI, Exchanges, Clearing Corporations and Depositories etc. have conducted the routine inspection and based on their observations have issued advise/warning/show cause notices/deficiency letters/ or levied penalty or imposed charges for certain deviations observed in inspections or in normal course of business, as a Stock Broker / Depository Participant/Portfolio Manager. We have not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has our certificate of registration been cancelled by SEBI at any point of time.

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

By referring to any particular sector, Axis Securities does not provide any promise or assurance of favourable view for a particular industry or sector or business group in any manner.

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. None of the research recommendations promise or guarantee any assured, minimum or risk-free return to the investors. Our research should not be considered as an advertisement or advice, professional or otherwise. This research report and its respective content by Axis Securities made available on this page or otherwise do not constitute an offer to sell or purchase or subscribe for any securities or solicitation of any investments or investment services for the residents of Canada and / or USA or any jurisdiction where such an offer or solicitation would be illegal.

Subject company(ies) may have been client during twelve months preceding the date of distribution of the research report. Derivatives are a sophisticated investment device. The investor is requested to take into consideration all the risk factors before actually trading in derivative contracts.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment of its original date of publication by ASL and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments.

The information and opinions in this report have been prepared by Axis Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of Axis Securities. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite, investment objective or the particular circumstances of an individual investor. The investor is requested to take into consideration all the risk factors including their financial condition, suitability to risk return profile and the like and take professional advice before investing.

While we would endeavour to update the information herein on a reasonable basis, Axis Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent Axis Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or Axis Securities policies, in circumstances where Axis Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained in good faith from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Axis Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Axis Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Axis Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months. Axis Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction. Axis Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months. Axis Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. Axis Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither Axis Securities nor Research Analysts and / or their relatives have any material conflict of interest at the time of publication of this report. Please note that Axis Securities has a proprietary trading desk. This desk maintains an arm's length distance with the Research team and all its activities are segregated from Research activities. The proprietary desk operates independently, potentially leading to investment decisions that may deviate from research views.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

Research Analyst may have served as an officer, director or employee of subject company(ies). Axis Securities or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report. Since associates of Axis Securities and Axis Securities as an entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest in various companies including the subject company/companies mentioned in this report. Axis Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. Certain transactions -including those involving futures, options and other derivatives as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Reports based on technical analysis centres on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

We and our affiliates/associates, officers, directors, and employees, Research Analyst(including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of Research Report or at the time of public appearance. Axis Securities may have proprietary long/short position in the above mentioned scrip(s) and therefore may be considered as interested. This should not be construed as invitation or solicitation to do business with Axis Securities. Axis Securities is also a Portfolio Manager. Portfolio Management Team (PMS) takes its investment decisions independent of the PCG research and accordingly PMS may have positions contrary to the PCG research recommendation.

RATING SCALE: Definitions of ratings

Ratings	Expected absolute returns over 12 – 18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	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
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.