

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 (%)

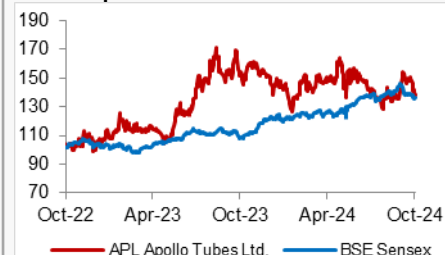
	Mar-24	Jun-24	Sep-24
Promoter	29.44	28.33	28.32
FII	30.69	31.53	31.92
Mutual Funds / UTI	8.76	9.47	10.90
Financial Institutions	0.00	0.00	0.02
Others	31.11	30.67	28.84

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

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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 Concall 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	FY27E
PBT	978	953	1,701	2,086
Depreciation & Amortization	176	192	205	210
Incr/(Decr) in Deferred Tax Liability	-	-	-	-
(Incr)/Decr in Working Capital	124	194	(187)	(129)
Net Cash Flow from Operating	1,112	1,132	1,270	1,593
(Incr)/ Decr in Gross PP&E incl Capital Advances	(695)	(450)	(200)	(100)
(Incr)/Decr In Work in Progress	-	-	-	-
(Incr)/Decr In Investments	(5)	(65)	(51)	(34)
(Incr)/Decr in Other Non-Current Assets	-	(66)	(84)	(58)
Cash Flow from Investing	(916)	(467)	(167)	(26)
(Decr)/Incr in Borrowings	259	(300)	(100)	(100)
Dividend	(139)	(56)	(56)	(56)
Cash Flow from Financing	27	(471)	(257)	(249)
Cash at the Start of the Year	123	345	538	1,385
Cash at the End of the Year	345	538	1,385	2,703

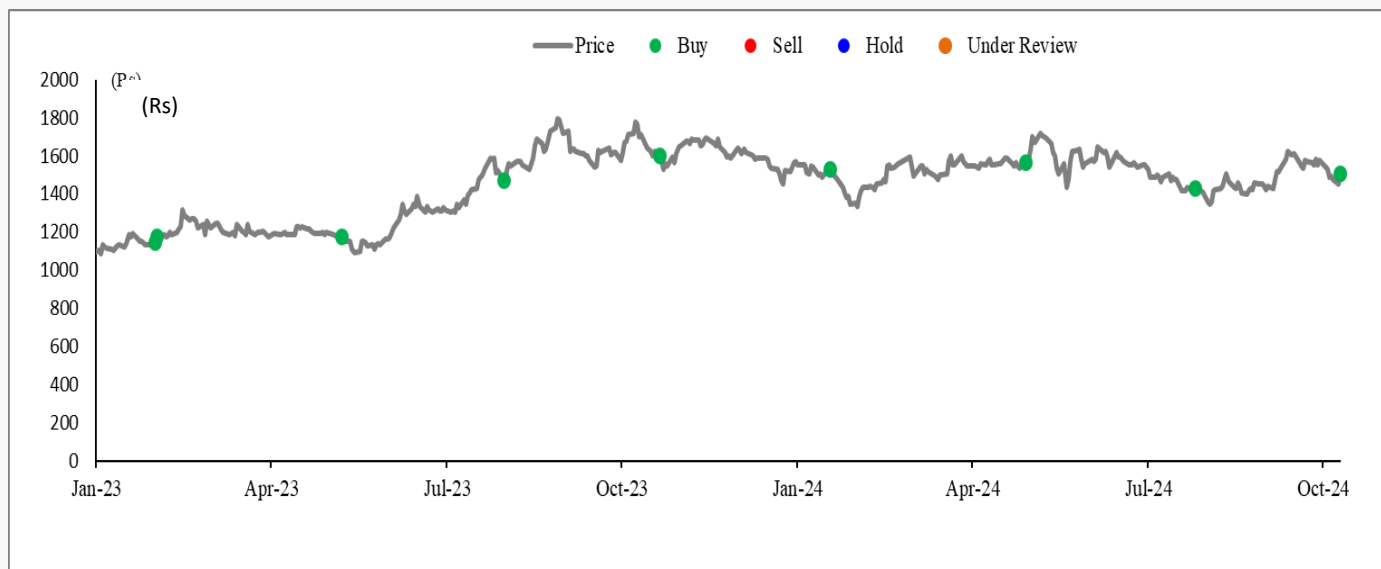
Source: Company, Axis Securities

Ratio Analysis
(%)

Ratios	FY24	FY25E	FY26E	FY27E
Growth (%)				
Sales	12.1	15.8	30.3	15.7
EBITDA	16.7	-1.4	61.5	19.2
APAT	14.1	-2.4	76.3	22.6
Profitability (%)				
EBITDA Margin	6.6	5.6	6.9	7.2
Adj. Net Profit Margin	4.0	3.4	4.6	4.9
ROCE	22.8	19.3	28.8	28.6
ROE	22.2	18.2	25.9	24.9
Per Share Data (Rs.)				
AEPS	26.4	25.7	45.4	55.7
Reported CEPS	32.9	32.6	53.2	63.8
BVPS	129.9	153.6	197.0	250.7
Valuations (x)				
PER (x)	56.7	58.9	33.4	27.2
PEG (x)	4.0	-24.3	0.4	1.2
P/BV (x)	11.5	9.9	7.7	6.0
EV/EBITDA (x)	35.8	36.5	22.5	18.9
Dividend Yield (%)	0.37%	0.13%	0.13%	0.13%
Turnover days				
Inventory Days	34.1	31.0	27.9	29.5
Debtor Days	2.9	3.3	3.7	3.9
Payable Days	42.4	39.3	34.1	36.0
Gearing Ratio				
D/E	0.3	0.2	0.1	0.1

Source: Company, Axis Securities

APL Apollo tubes Price Chart and Recommendation History



Source: Axis Securities

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

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