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Date: 08/07/2020
Company: APL Apollo Tubes Ltd.
Industry: Iron & Steel Products

Result Snapshot

Amt. in Rs. Crs.	Q4FY20	Q3FY20	Q-o-Q(%)	Q4FY19	Y-o-Y(%)
Revenue	1888.50	2115.85	-10.75%	2094.12	-9.82%
Other Income	8.33	4.68		2.84	
Total Income	1896.83	2120.53	-10.55%	2096.96	-9.54%
EBITDA	119.86	160.51	-25.33%	138.74	-13.61%
EBIDTA (%)	6.35%	7.59%		6.63%	
EBIT	94.37	134.28	-29.72%	121.52	-22.34%
PBT	78.61	110.90	-29.12%	95.42	-17.62%
PAT	60.79	83.23	-26.96%	61.70	-1.47%
PAT%	3.22%	3.93%		2.95%	

Result / Con-call Highlights:

1) Result Update:

APL Apollo Tubes reported a topline of Rs. 1896.83 cr sequentially down 9.54% compared to same period last year. EBITDA for the quarter ended March 2020, came in at Rs. 119.86 cr with EBITDA margin of 6.35%. The company reported PAT of Rs. 60.79 cr in Q4 FY20, down 1.47% on Q-o-Q basis from Rs. 61.70 cr reported in Q4 FY19.

The company also announced its sales volume performance for the quarter ending June 30, 2020. It registered sales volume of 238,311 tons in Q1FY21 (61% of Q1FY20 volume and 59% of Q4FY20 volume).

2) Industry Working Capital Cycle Changes:

APL Apollo Particulars (Rs. Cr.)	31-Mar-2020	30-June-2020
Net Debt	784.1	370.0
Debtors	476.4	115.0
Inventory	784.2	660.0
Creditors	764.4	635.0

APL Apollo being the market leader in steel pipes with 40% market share in FY20 made changes in the operating cycle of the company. Having 800+ distributors, the company decided to supply products only on cash basis and no credit due to Covid-19 pandemic. This resulted in debtors coming down to Rs 115 cr in Q1 FY21 from Rs. 476 cr in Q4 FY20. On the other hand, steel companies supplying raw materials are sitting with ample of capacities and there is no burden on the company to reduce credit cycle. This would enable the company to reduce the working capital days even further from FY20 levels of 20 days.

The management has guided that in next 6 – 9 months they only want to supply products on cash basis (spot basis). This shift in strategy would lead to strengthening of balance sheet, better return ratios, more free cash flow generation and accelerate company's growth plan. APL Apollo's first priority is to become debt free.

Result / Con-call Highlights: (Continued)

3) Better Volumes and Greater Market Share in future:

Particular	FY16	FY17	FY18	FY19	FY20	Q1 FY21
Capacity (mn ton)	1.3	1.3	1.8	2.1	2.5	2.5
EBITDA/ton (Rs.)	3,267	3,639	3,354	3,021	3,058	
Market Share	29%	28%	32%	36%	40%	~60%

The company has always strived to achieve higher market share. As of FY20, APL Apollo's market share was 40% whereas its closest competitor had a market share of merely 12%. Due to the swiftness in opening up its factories, the company was able to grab even further market share and plans to maintain it as the dust settles due to the pandemic.

As the company had continuous expansion plans over the past 4 years, benefits of economies of scale have not come in to picture. EBITDA per ton which were in the range of Rs. 3000-3500 can go up to Rs. 5000 given the company operates at full capacity utilisation of 2.5 mn tons. This would also improve the EBITDA margins from current levels of ~6.5%. Also, the company is looking at its fixed cost expenditures in the current economic environment. Monthly fixed cost of the company including finance cost has been brought down to Rs. 14 – 15 cr in the month of June from an average monthly fixed cost of Rs. 22 cr.

Steel prices do play a variable impacting EBITDA per ton; however the quantum of impact has been continuously reducing as the company has grown in size over the past 4 years. Steel's landed cost which was ~Rs 42,000 per ton in Q1 FY20 is currently trading at Rs. 35,000 per ton.

4) Demand Scenario:

Building material companies which constitute 70% of the sales volume (45% Building Material Housing & 25% Building Material Commercial) are guiding for 25-30% volume decline. The rural India is showing tremendous recovery with Tier 2 cities and below contributing to almost 75% of the revenue this year compared to 40% of the revenue last year.

5) Outlook:

With strengthening balance sheet, plans to becoming debt free, improving free cash flow and better working capital cycle; management is touching all the right points to take the company ahead. We believe the fall in demand outlook of building material segment would be recovered by market share gains from competitors and increasing infrastructure segment sales. As the company trades at fair valuation of 18.22x FY20 earnings of Rs. 238 cr we recommend to Buy on Dips.

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