

Brief Overview

CMP(INR) <small>(6th Mar'20)</small>	404.9
Target (INR)	536.0
Upside(%)	32%
Recommendation	Strong Buy
Holding Period	6 Months

BSE Code	538566
Reuters Ticker	POIF.BO
Bloomberg Ticker	APOLTRI IN

Stock Scan

Market cap (INR Cr.)	1231.05
Outstanding Shares (Cr.)	3.04
Face Value (INR)	2.00
Dividend Yield(%)	0.00
TTM P/E (x)	38.84
Industry P/E (x)	20.42
Debt/Equity	0.45
Beta vs. Sensex	1.00
52 Week High/ Low (INR)	503.0/138.0
Avg. Daily Vol. (NSE)/1 yr.	64,820

Shareholding Pattern (%)

	Dec 2019	Sep 2019	Jun 2019
Promoters	61.77	62.76	63.90
Institutions	5.69	0.00	0.00
Non-institutions	32.54	37.24	36.10

Investment Rationale

Access to advanced Tricoat technology:

It is the first company in India and amongst the 4-5 companies globally which produces coated pipes using the galvant and tricoat process. The technology allows the production of galvanized steel pipes, tubes and other products in a continuous single line process based on high quality standards. With access to the advanced technology Co. has competitive edge over its peers as Tricoat products have greater strength, eco-friendly nature, extended life (high corrosion resistance) and enhanced load bearing capacity.

Currently, Apollo Tricoat has a total installed capacity of 250,000 MTPA, which primarily manufactures specialized and niche products (read high margin) like Apollo Signature, Apollo Chaukhat, Apollo Elegant, Apollo Tricoat and Apollo Plank. Furthermore, the Company will be launching three other new innovative brands — Apollo Hybrid, Apollo Scaff and Apollo Alpha in the upcoming quarters which will add capacity of 50,000 MTPA. Going ahead, these said new product launches and expanded capacity at manufacturing locations will enable a healthy and sustainable volume performance along with elevated EBITDA margin.

(Rationale Continued...)

Company Overview

Apollo TriCoat Tubes Limited (formerly known as Best Steel Logistics Limited) is a subsidiary of Shri Lakshmi Metal Udyog, which is a wholly owned subsidiary of APL Apollo Tubes Ltd., one of India's leading branded steel tube manufacturers. It offers steel products such as closed door frames, designer pipes that can be used in furniture, designer hand railings, roofing, fencing and also in electrical conduiting.

The Company has established its first greenfield manufacturing facility in Malur, Bangalore with an initial capacity of **150,000 MTPA of In-line Galvanized and Designer Galvanized pipes**. It has further expanded its value-added product portfolio by establishing **100,000 MTPA capacity of Narrow sections and Door Frames at Dujana, UP**. It is in the process of adding another 50,000 MTPA by the end of FY21 to meet the rising demand of its innovative products.

Financial Performance at a glance (Standalone)

Particulars (INR Cr.)	FY18	FY19	FY20E	FY21E	FY22E
Net Sales	191.1	7.2	678.0	881.4	1,101.8
Growth(%)	212.0%	-96.2%	9358.8%	30.0%	25.0%
EBITDA (Ex OI)	11.6	(0.0)	77.2	109.4	156.2
EBITDA Margin (%)	6.1	(0.3)	11.4	12.4	14.2
Net Profit	7.0	2.6	52.5	70.9	107.1
Net Profit Margin (%)	3.7	37.0	7.8	8.0	9.7
EPS	2.72	1.02	20.25	27.32	41.27
BVPS	43.72	51.25	71.71	99.03	140.30
P / E (x)	149.11	396.79	20.00	14.82	9.81
P / BV (x)	9.26	7.90	5.65	4.09	2.89
ROE (%)	6.2	2.0	28.2	27.6	29.4
ROCE (%)	8.8	1.7	17.5	17.8	19.6
EV / EBITDA (x)	86.8	262.5	14.1	10.3	6.8

Source: Company data, SMIFS Research

Investment Rationale

Strong Parentage:

Apollo Tricoat is a subsidiary of APL Apollo Tubes Limited, largest producer of Electric Resistance Welded (ERW) steel pipes & tubes with strong presence in India as well as 20 other countries globally. **APL Apollo has an established sales network of ~790 distributors in India.** Apollo Tricoat offers products which are first of its kind in Indian market and branding plays a crucial role in generating product awareness. Having access to parent's extensive domestic sales network allows the Co. to leverage the well-recognized brand name of the parent and accelerate penetration without making significant marketing expenses.

Apart from that Co. shares an agreement with its parent to use **Mr. Amitabh Bachchan** as a brand ambassador to promote Apollo Chaukhat and other upcoming products in television commercials which will help Apollo Tricoat gain much needed mass connect and visibility.

Innovative Product line:

Currently, Co. offers a series of unique products and is planning to add three more one of kind products in its product basket in upcoming quarters. In Q3FY20, Co. achieved a volume growth of 71% on a QoQ basis due to robust demand from innovative home improvement products such as '**Apollo Signature**', '**Apollo Chaukath**', '**Apollo Plank**' and '**Apollo Elegant**'.

Apollo Chaukath, a ground breaking product developed by using Direct Forming Technology, is more customizable compared to traditional wooden doors and the frames are easy to fit, lighter in weight, fire resistant, cost effective with longer life cycle. Unlike wooden doors it can also be installed post construction and it is expected to have big share in the replacement segment. The Co. forayed into this segment in Mar'19 with 50000 MTA capacity and currently sells around **2 lakh Chaukaths per month**. Considering the huge demand for this product the management has decided to double its capacity by FY21 by making an investment worth **INR40 crore**. Apart from this Co. has decided to offer complete door solutions as well as window frames in coming 3-6 months and all the relevant parts will be manufactured in-house. **With increased in-house activity, rise in operating leverage and insignificant presence of peers EBITDA/ton is expected to improve significantly going forward.**

(Rationale Continued...)

Valuation & Outlook

We strongly believe the Co. is likely to experience significant growth in the topline along with steady improvement in EBITDA/ton in coming 3-5 years owing to its innovative product line, attractive upcoming launches, huge untapped market, well penetrated distribution system and lack of competitive intensity. Strategy to share brand ambassador (read Mr. Amitabh Bachchan) along with parent APL Apollo is expected to give the emerging brand of Apollo TriCoat much needed publicity and visibility while keeping marketing expenses at check. Increasing demand for its niche products will not only widen its product offering but also will boost the sales momentum going forward. In addition to that the existing and upcoming products of the Co. are high margin value added products, given its niche product applications in India. So, increased portfolio of value-added products will further improve profitability and margins for the company going forward.

Considering the huge untapped potential for its products owing to rising environmental concerns (read lower usage of wood), well penetrated distribution network, lack of competition, sustainable high margin and experienced parental lineage we are assigning a PE of 13(x) to FY22E EPS of INR41.27 to arrive at a Target Price of INR536.

Investment Rationale

Sustainable high margin:

Co. produces innovative, value added products with superior quality which cater to the niche market and it allows the Co. to enjoy higher EBITDA/ton compared to other companies which offer traditional steel products. Even though it currently caters to a small segment of the market but its products have the potential to serve a much bigger pie of the market on the back of the competitive pricing and its ability to replace traditional products. On an average products made out of TriCoat technology delivers significantly higher margin compared to products made out of GI pipes. Above all **Co. follows a dynamic pricing strategy that allows the Co. to reset its product price within 7days of steel price change and it helps the Co. to maintain a stable EBITDA/ton.** With bouquet of high margin innovative product offering, presence in the market with limited competitive intensity and dynamic pricing strategy Co. is likely to deliver sustainable elevated operating margin going forward.

Investment Risk

- Poor acceptance of the upcoming products
- Slower than expected recovery in the economic activity
- Failure to achieve desired level of operating activity
- Rise in competitive intensity

Q3FY20 Result Analysis (Standalone)

Particulars (in INR Crore)	Quarter Ended					Nine Months Ended		
	Q3 FY20	Q3 FY19	YoY %	Q2 FY20	QoQ %	Dec-19	Dec-18	YoY %
Net sales	229.0	0.5	42304.8%	153.7	49.0%	434.4	4.2	10193.9%
Other operating income	-	-	-	-	-	-	-	-
Total operating income	229.0	0.5	42304.8%	153.7	49.0%	434.4	4.2	10193.9%
Cost of materials consumed	180.0	0.0	59986800.0%	130.2	38.2%	357.3	1.7	20849.9%
(Increase)/decrease in inventories	0.5	-	-	(0.4)	-202.1%	(5.1)	0.8	-738.3%
Gross Profit	48.6	0.5	8899.9%	23.9	103.2%	82.1	1.7	4673.7%
<i>Gross Profit margin (%)</i>	<i>21.21</i>	<i>99.94</i>	<i>-7873 bps</i>	<i>15.6</i>	<i>565 bps</i>	<i>18.9</i>	<i>40.8</i>	<i>-2187 bps</i>
Employee benefit expense	4.5	0.0	16265.1%	2.0	129.2%	7.7	0.1	8974.1%
Other expenses	15.6	0.1	15350.1%	6.5	140.7%	24.6	0.2	10269.1%
Total Expenses	200.6	0.1	155041.9%	138.2	45.1%	384.5	2.8	13531.4%
EBITDA (Ex OI)	28.4	0.4	6812.0%	15.4	84.0%	49.9	1.4	3465.7%
<i>EBITDA margin (%)</i>	<i>12.40</i>	<i>76.06</i>	<i>-6366 bps</i>	<i>10.04</i>	<i>236 bps</i>	<i>11.49</i>	<i>33.16</i>	<i>-2167 bps</i>
Other income	0.1	0.2	-63.0%	0.3	-78.5%	0.6	1.9	-70.1%
Depreciation & amortization	2.7	0.1	4840.4%	2.2	25.1%	6.0	0.1	3995.5%
EBIT	25.7	0.5	4829.4%	13.5	90.0%	44.4	3.2	1288.9%
<i>EBIT Margin (%)</i>	<i>11.24</i>	<i>96.69</i>	<i>-8545 bps</i>	<i>8.81</i>	<i>243 bps</i>	<i>10.23</i>	<i>75.79</i>	<i>-6557 bps</i>
Interest cost	2.2	0.0	157864.3%	0.5	303.3%	2.8	0.0	30080.9%
Profit before tax	23.5	0.5	4418.0%	13.0	81%	41.6	3.2	1204.1%
<i>PBT margin (%)</i>	<i>10.27</i>	<i>96.43</i>	<i>-8615 bps</i>	<i>8.46</i>	<i>182 bps</i>	<i>9.57</i>	<i>75.57</i>	<i>-6600 bps</i>
Tax	5.5	0.1	10213.3%	3.6	54%	10.5	0.7	1363.4%
Profit after tax	18.0	0.5	3755.7%	9.4	91.2%	31.1	2.5	1158.1%
<i>PAT margin (%)</i>	<i>7.87</i>	<i>86.54</i>	<i>-7867 bps</i>	<i>6.13</i>	<i>174 bps</i>	<i>7.17</i>	<i>58.64</i>	<i>-5148 bps</i>
EPS	5.93	0.18	3194.4%	3.35	77.0%	10.35	0.96	978.1%
EPS (Diluted)	5.93	0.15	3853.3%	3.10	91.3%	10.35	0.81	1177.8%

Source: Company data, SMIFS Research

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