



*the fastest growing manufacturer of ERW steel tubes,  
pipes and hollow sections in India*



# *Investor Presentation*

April 2015

NSE Symbol: APLAPOLLO | BSE Code: 533758 | ISIN: INE702C01019

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*the fastest growing manufacturer of ERW steel tubes,  
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*Industry*

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# Industry Space

- Steel Pipes

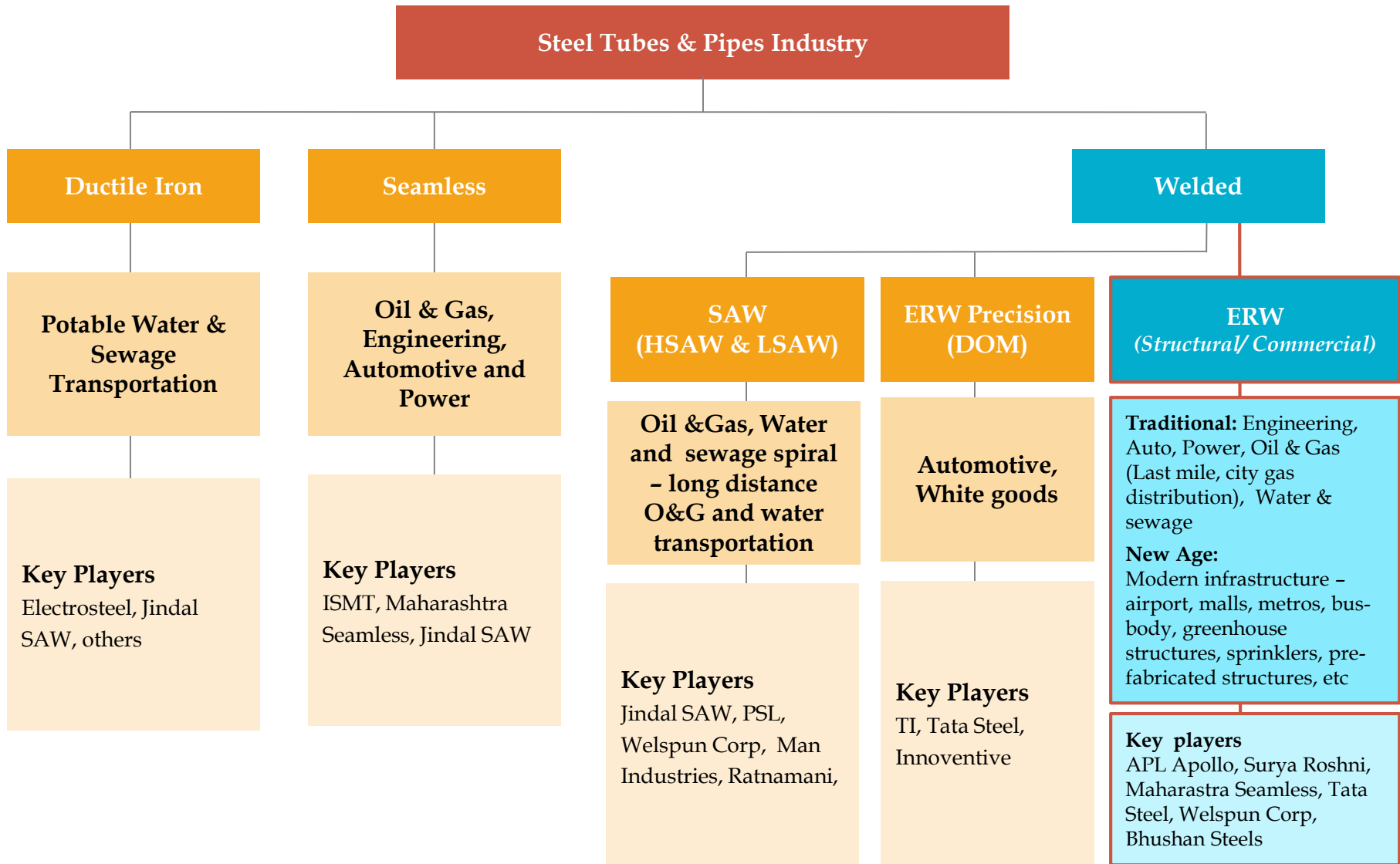
- Steel pipes were traditionally used for transportation of water, liquids, Oil and gases



- Lately steel pipes have found applications in newer areas like structural support systems



# Industry Structure - Steel Tubes & Pipes



# ERW Pipes – Advantages



- ERW pipes are manufactured using HRC (Hot Rolled coils)
  - Thin walled pipes can be manufactured with closer tolerance to seamless pipes
  - HRC can be used to make any shape of pipe
- Pipes offer greater economy
  - Usage of HRC prevents wastage of material hence the scrap produced is very less
  - Scrap from pipe is recycled and gets about 60% of steel price
- ERW pipes are no lesser in strength
  - Newer applications in structural areas have proved the strength of ERW pipes as compared to seamless pipes
- Versatile applications
  - Not dependent on any one industry/sector
  - The same ERW pipes can be used in multiple industries such as irrigation, construction, fabrication, scaffoldings and many more

# Market Size

Global steel market (1,700 mn tonnes) / \$1,000 bn



Welded steel (170 mn tonnes / \$100 bn)



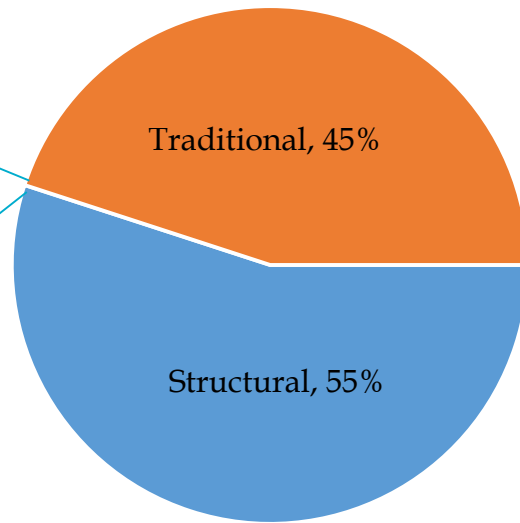
Indian ERW Steel tubes market ( 7 mn tonnes / \$5  
bn/Rs. 30,000 crore)

- India is among the leading ERW steel tubes manufacturing hubs in the world
  - Other bigger manufacturers include China, Turkey, Italy and US

Source: Steel Ministry, Company Information as of FY 2014.



# Application of ERW Pipes



**APL Apollo's  
Focus Area**





*the fastest growing manufacturer of ERW steel tubes,  
pipes and hollow sections in India*

# *Operations*

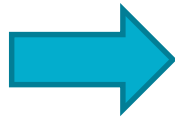
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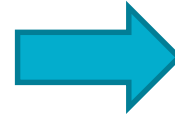
# Pipe Making Process



HR Coil



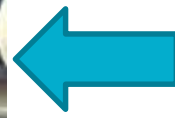
Folding Sheets



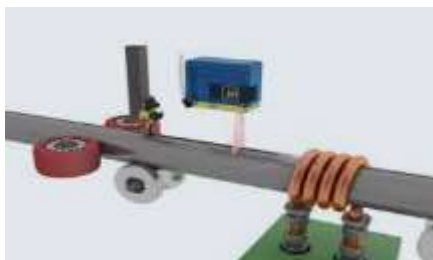
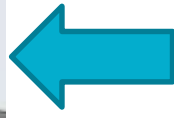
Welding



Shaping



Cooling



Testing/Cut Off

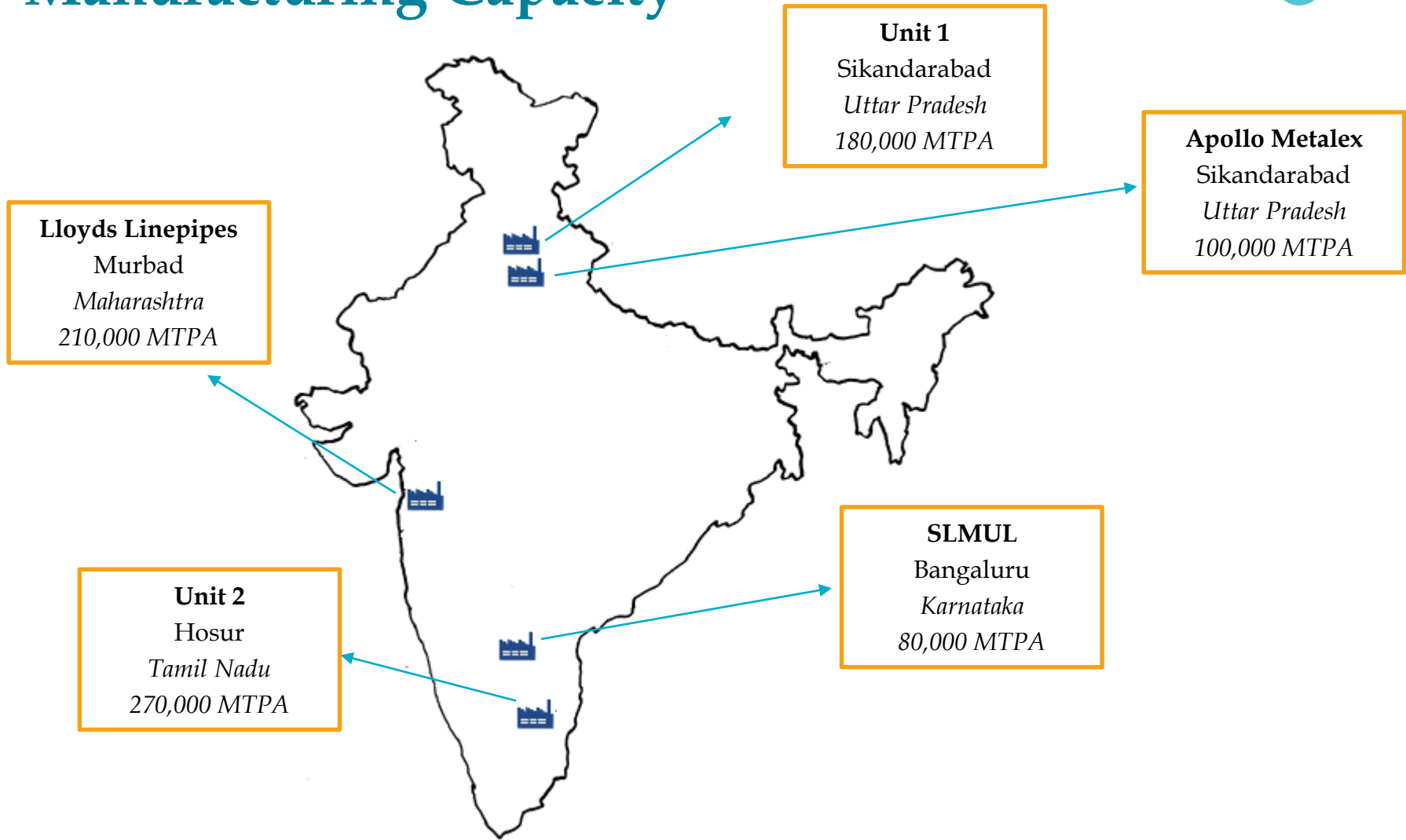
# Manufacturing Facilities



Hosur, Tamil Nadu  
Unit No. 2



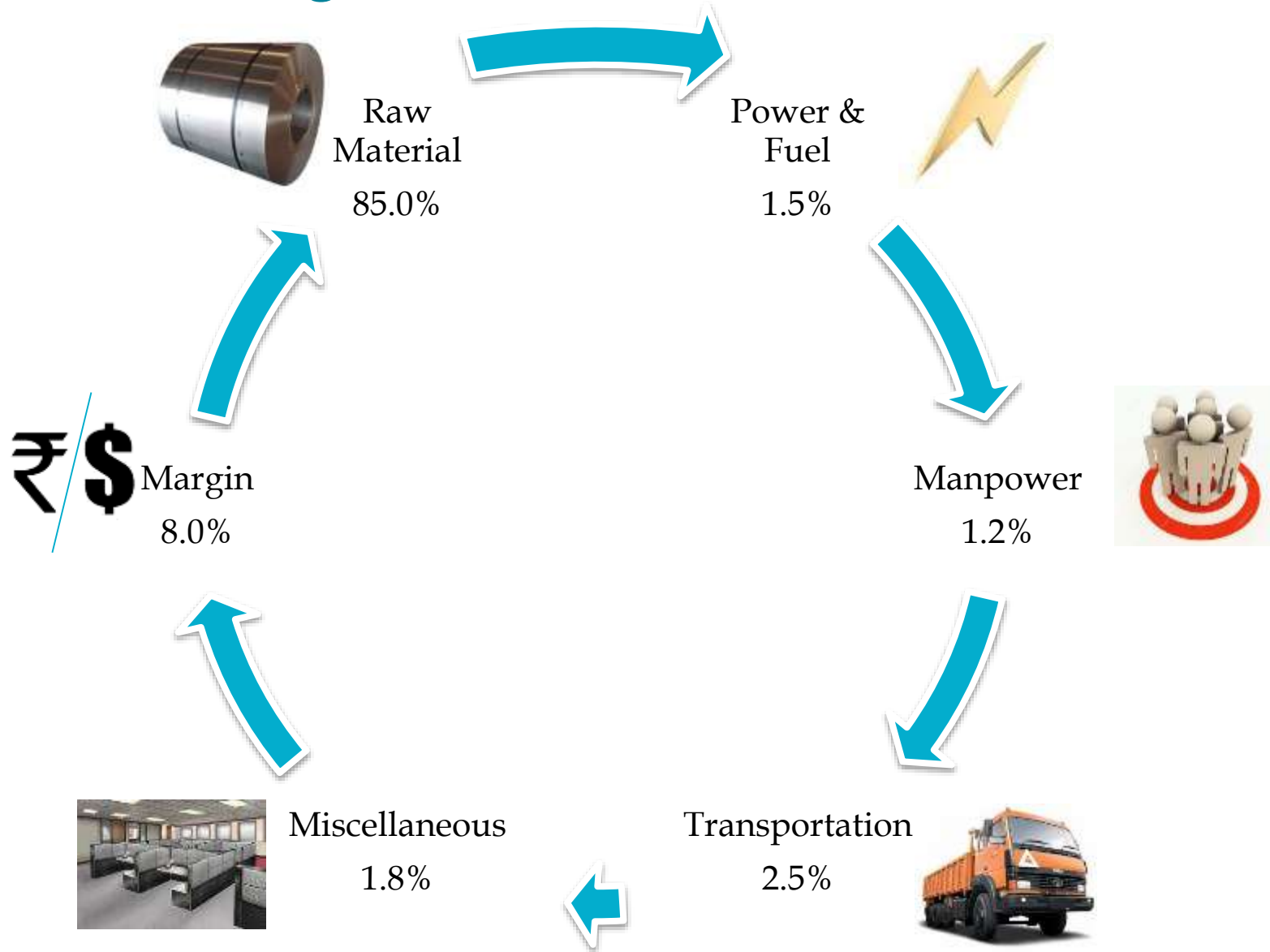
# Manufacturing Capacity



Only player with manufacturing facilities across North, South and West India. Current capacity utilization is 85%.

\*Manufacturing capacity as on March, 2015

# Manufacturing Value Chain



# Pricing



- Related to raw material price
  - Direct linkage – HR coils prices are directly linked to steel prices (Updated on 1<sup>st</sup> of every month)
  - The increase / decrease in prices is directly passed on to customers
- 80 – 85% is raw material cost
- Transportation cost have a significant impact on total costs.
  - Ranges between 4-8%. So the marginal players find it to difficult to compete on an all India scale
- APL sells its products directly to distributors

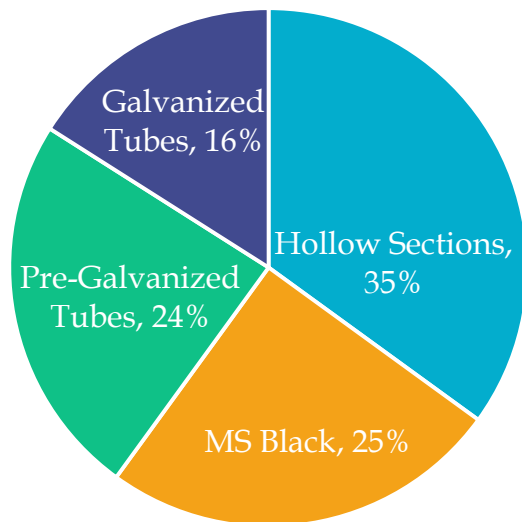
# Product Information

Products	MS Black	Galvanized Tubes	Pre-Galvanized Tubes	Hollow Sections
Size Range	21.3 – 335 mm	21 – 273 mm	19 – 127 mm	15x15 - 250 x 250 mm 15x 10 – 300x 200 mm
Products				
Uses	Construction, Water & Sewage treatment, Conveyors, Automobiles	Over and underground piping, Agriculture, General Engineering	Fencing, Cabling and Ducting, Green house structures, Electric Conduit Pipes	Construction, Transportation systems, Mining, Process Engineering

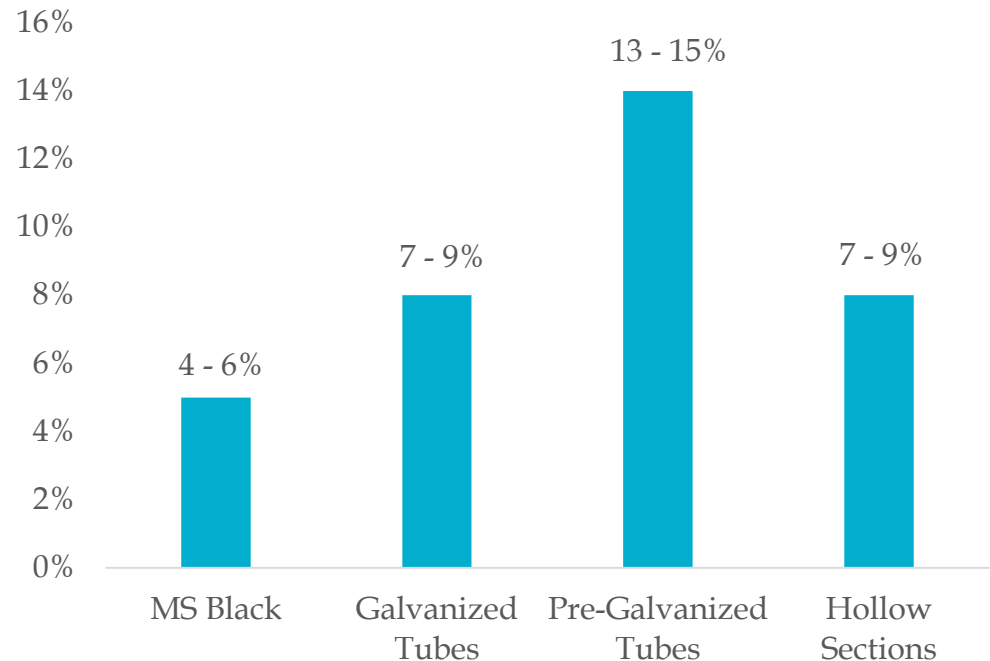


# Revenue Breakup & Margin Profile

## Revenue Break Up Product-wise (FY14)



## Product Margin Profile (FY14)

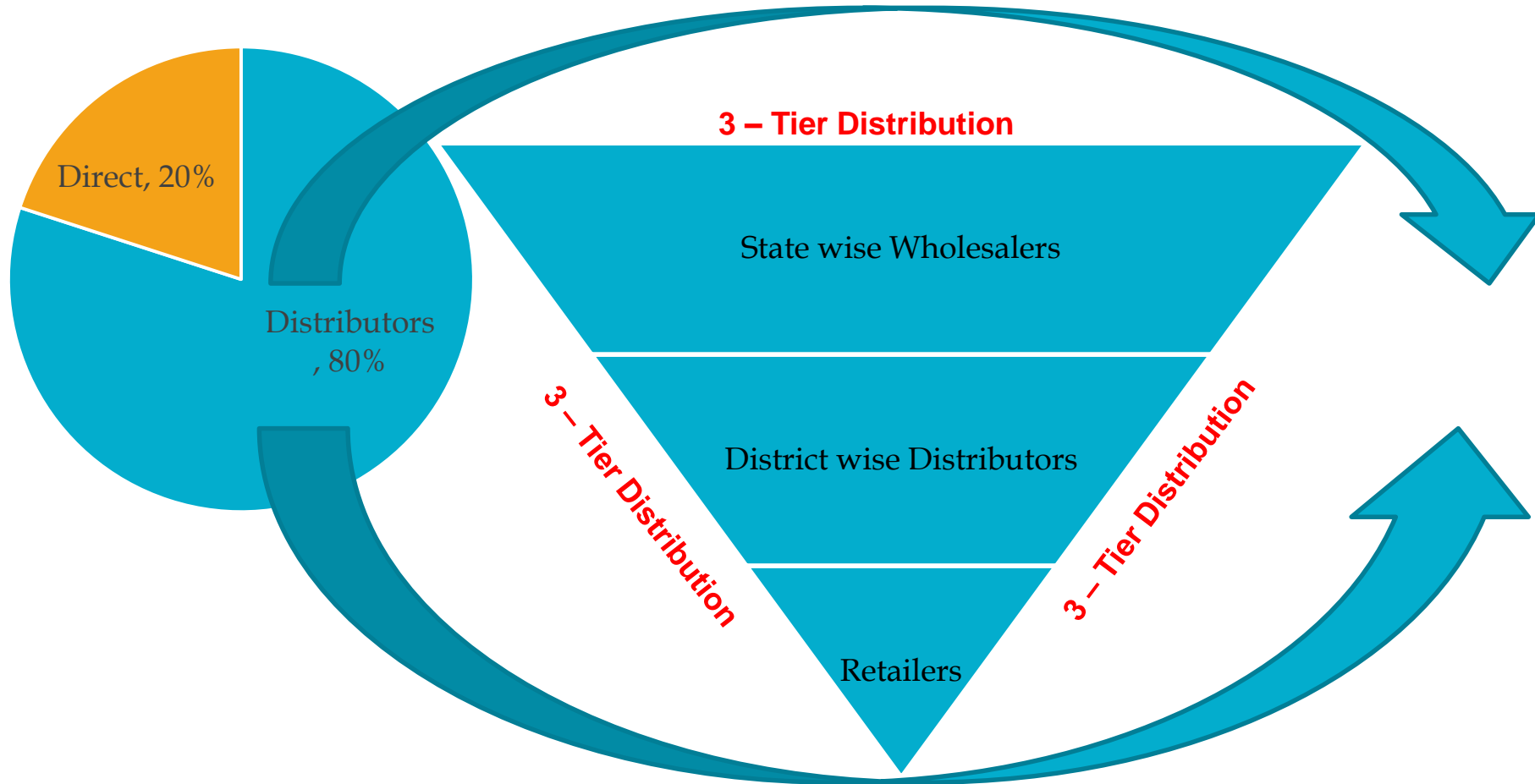


- Company plans to almost double its galvanized tube production capacity in near future.

# APL - The Key Differentiators



# Supply Chain

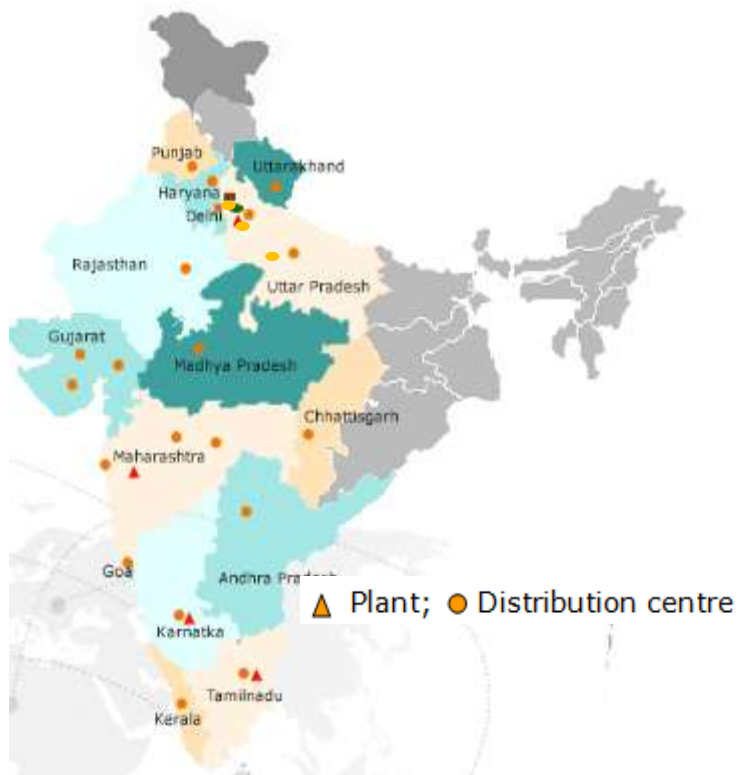


- APL Apollo had 300 distributors and 26 warehouses as of FY 2014

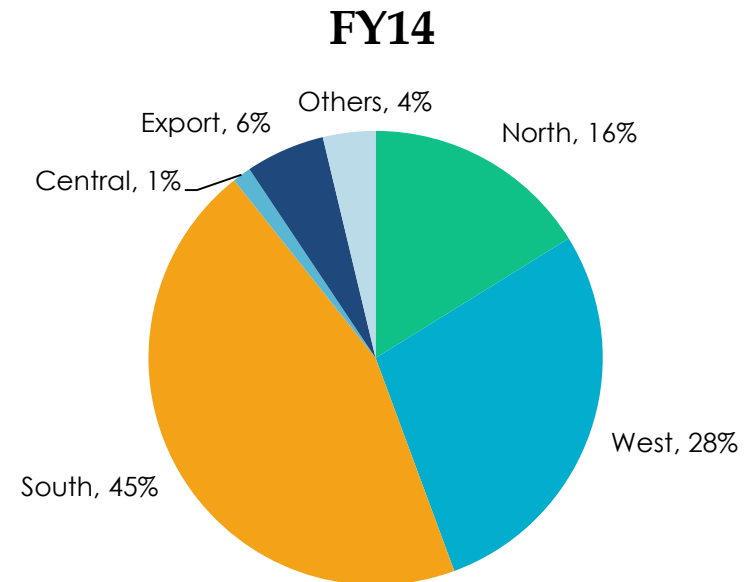
Source: Company Information as of FY 2014.

# Extensive distribution network

## Distribution network



## Zone-wise sales break-up



- Wider geographical reach offers advantage over competitors by reducing logistics cost and lead time
- Proximity to key raw material procurement and client base ensures quicker delivery and lower risk of transit damage

# Significant Range

400 + varieties of tubes  
across wide range of  
diameters and thickness

Recent developments:

- Colour-coated tubes
- Designer tubes
- Steel frames for doors
- Dynamically balanced tubes
- API Tubes

## Diameter



APL – ½" to 14"



2<sup>nd</sup> Largest peer –  
½" to 20"



Varied diameters

## Thickness



APL – 0.7 mm to 10 mm



2<sup>nd</sup> largest peer –  
2mm to 12mm



Local players –  
2mm to 4mm

# Low Production Costs

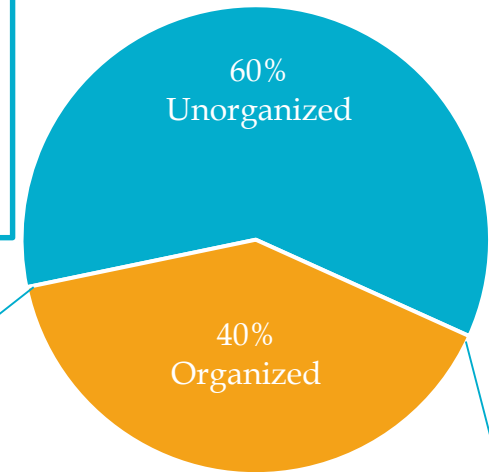


- The company has cost advantages with respect to peers due to the following reasons:
  - Country wide manufacturing facilities -> Access to raw material and dispatch of finished goods cheaper than competition
  - Inline galvanizing facilities → Reduces manufacturing costs for zinc coating
  - Low maintenance → Lesser upkeep capex

# Fragmented Industry

- The industry is highly fragmented with few large players holding ~40% of the pie
- Industry has not seen significant capacity addition over past 10 – 12 years, primarily due to
  - Low margin high volumes business
  - Need for strong R&D expenses
  - Setting up of pan-country distribution channel

There are ~1,000 SMEs (Small and Medium enterprises) operating in unorganized segment



Source: Steel Ministry, Company Information as of FY 2014.

# Competitive Landscape

Players	ERW segment
Surya Roshni	<ul style="list-style-type: none"> <li>• Company has diversified interests such as lighting, home appliances, and PVC pipes</li> <li>• Operates with an installed capacity of 6,00,000 T. P.A. of ERW pipes</li> </ul>
Bhushan Steel	<ul style="list-style-type: none"> <li>• Company's financial status is not stable</li> <li>• A possible target for acquisition</li> </ul>
Jindal India (B.C. Jindal Group)	<ul style="list-style-type: none"> <li>• Manufactures only large diameter pipes, fusion bonded epoxy coated pipes, black and galvanized steel pipes</li> </ul>
Jindal Pipes (D.P. Jindal Group)	<ul style="list-style-type: none"> <li>• Manufactures Black, Galvanized steel tubes apart from hollow sections</li> <li>• Operates with an installed capacity of 2,50,000 T.P.A of ERW pipes</li> </ul>
TATA	<ul style="list-style-type: none"> <li>• Tata Pipes and Tata Structural steel hollow sections are manufactured by the High Frequency Induction Welding (HFIW) process</li> <li>• Tubes are a small part of the entire steel business</li> </ul>

- The competitors are not very active / aggressive in ERW space
  - Competitors are focusing on selling the products in Tier I cities whereas APL is focusing purely on Tier II & III cities
  - Company has entered into focussed branding to compete aggressively with its peers



# New Products

- **Door Frames:** The Company has designed and patented door frames for use in low-cost housing for the first time ever in India. These offer the following benefits:
  - Cheaper by a third compared to wooden door frames
  - Better strength and durability and can last close to 20 years without any wear and tear
  - High resale value of scrap
- **Colour Coated Pipes:** This will also be a first in India and offers the following benefits:
  - Pipe is colour coated at the production stage itself
  - This results in better finish, longer life and lowers costs
  - This is an established format in European countries where ERW pipes are sold in a pre coloured format

# New Products



Single Door Frame



Double Door Frame



Hand Rail



Window L Section

# Branding



- Intense focus on branding to garner a larger share of the market
- Targeting about 30,000 signage boards across the country for higher visibility
- Focused efforts at sponsoring plumbing meets and dealer meets and participation in exhibitions in India and across the world
- One-of-a-kind “Fabricators and Plumbers” meet is being organized across the length and breadth of the country to generate interest in APL Apollo’s products among end users.
- The above meets have at least 100-150 participants and our technical and marketing team give insights on products along with the advantages of using these products
- Star Cruise for 4 days organized for over 1000 dealers and distributors in Singapore and Malaysia
- Approximate budget for branding in the current fiscal is about Rs. 10 crore.

# Branding



Branding on Buses



Signages on Highways



Fabricators Meet



Fabricators Meet



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pipes and hollow sections in India*

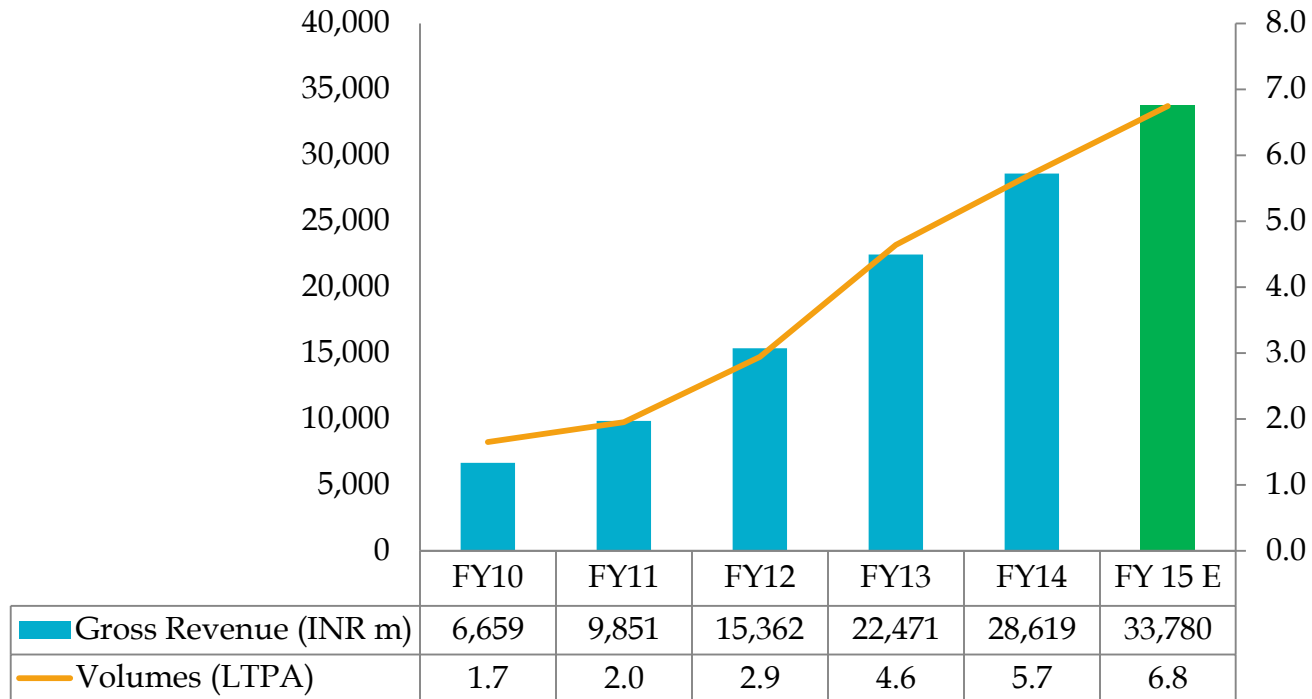
# *Financials*

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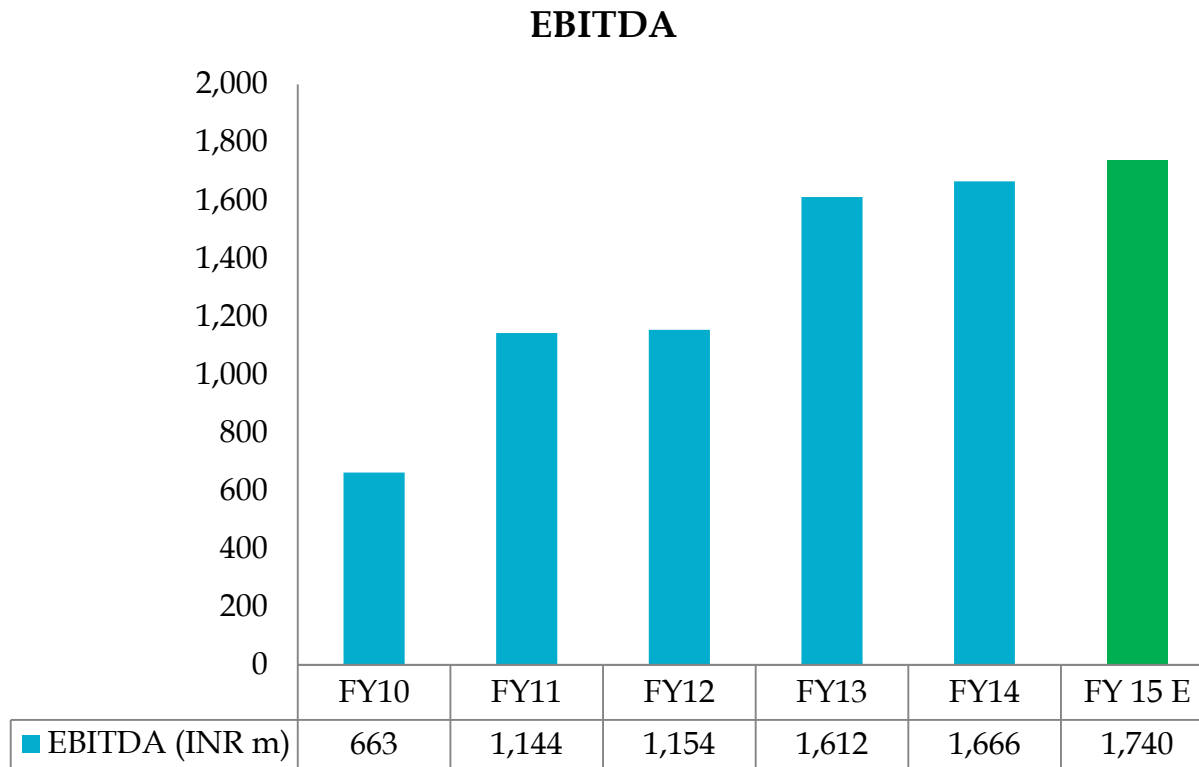
# Continuous Growth

## Sales/Volume



LTPA – Lakh Tonnes Per Annum

- **Gross Revenue is expected to grow at a CAGR of 38% while volume CAGR is expected to be around 32% from FY10 to FY15 E**
- Company was able to maintain the growth momentum in spite of slowness of demand in the industry in last 2-3 years



- Incremental EBITDA growth have been under pressure due to increase in raw material cost, adverse industry conditions and capital expenditure
  - EBITDA margin ranges between 6.5 - 7.0% however efforts are on to move it back to 8% again by optimizing product mix. **EBITDA CAGR for FY 10 - FY 15 E is about 22%**
- Realized EBITDA per tonne is about Rs. 3,400

# Q3 2015 Highlights

## 9 M Analysis ( Dec 2014 vs Dec 2013)



Particulars (INR mn.)	Dec 2014	Dec 2013	YoY (%)
Net Revenue	22,880	18,950	<b>21%</b>
EBITDA	1,480	1,233	<b>20%</b>
Margin %	6.5%	6.5%	
PAT	570	448	<b>27%</b>
EPS	24.3	19.1	<b>27%</b>

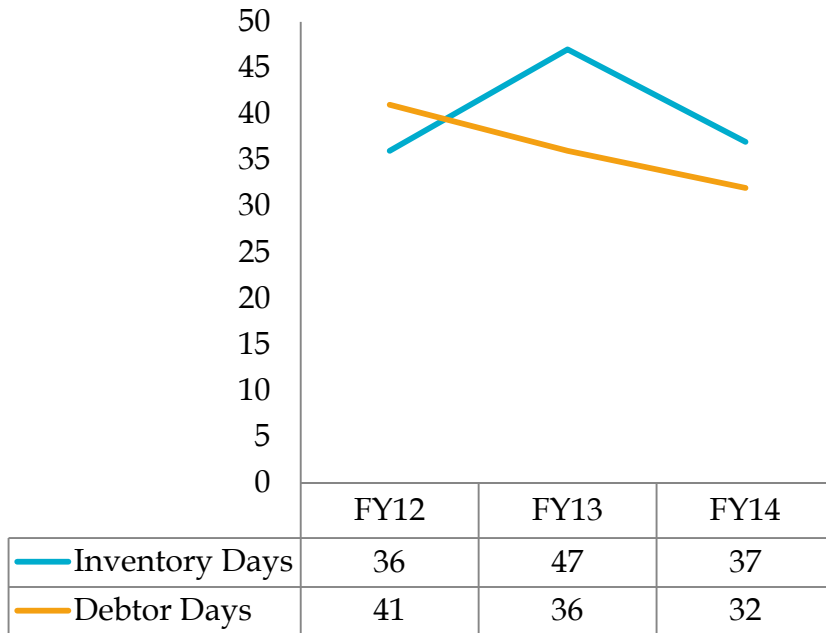
- Consistent Revenue growth - 20% YoY growth over corresponding quarter
- EBITDA has also grown by 20% for the same period
- EPS has shown a sharp uptick of 27% to finish at 24.3 for the period ending Dec 31, 2014



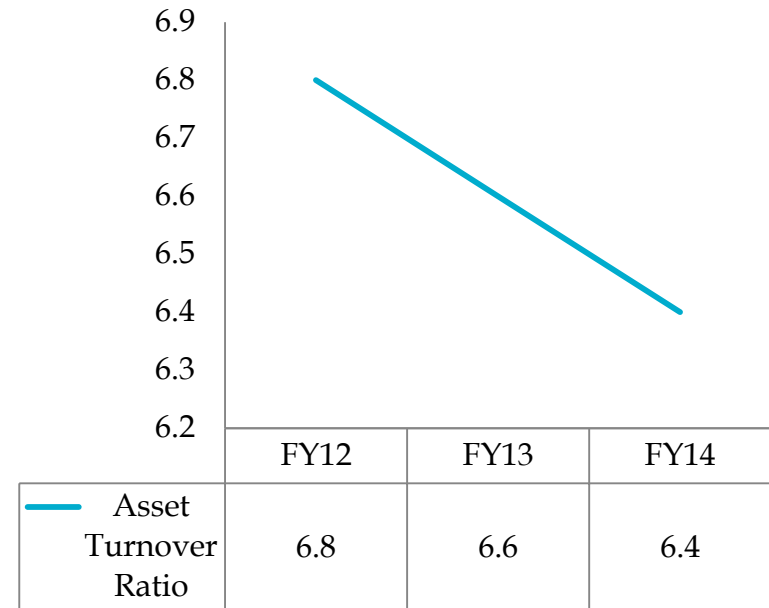
# Working Capital Management



Inventory / Debtor Days



Asset Turnover Ratio

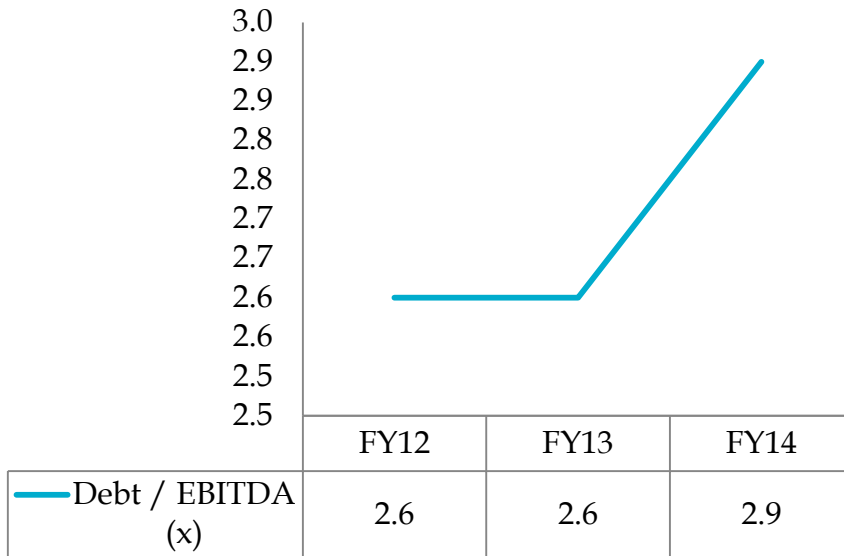


- Working capital cycle is efficiently managed with tight operating guidelines

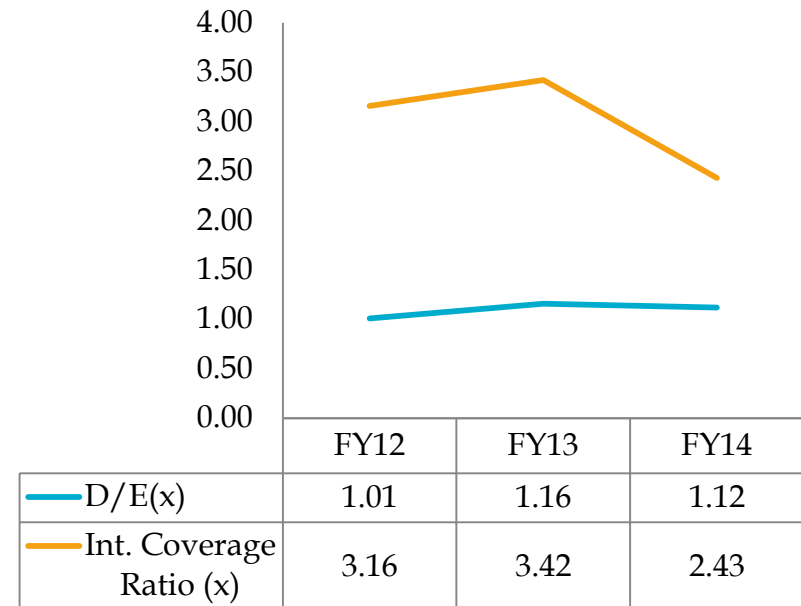
- Fixed Asset turnover is among the highest in our industry

# Debt / EBITDA and Optimal Leverage

Debt/EBITDA



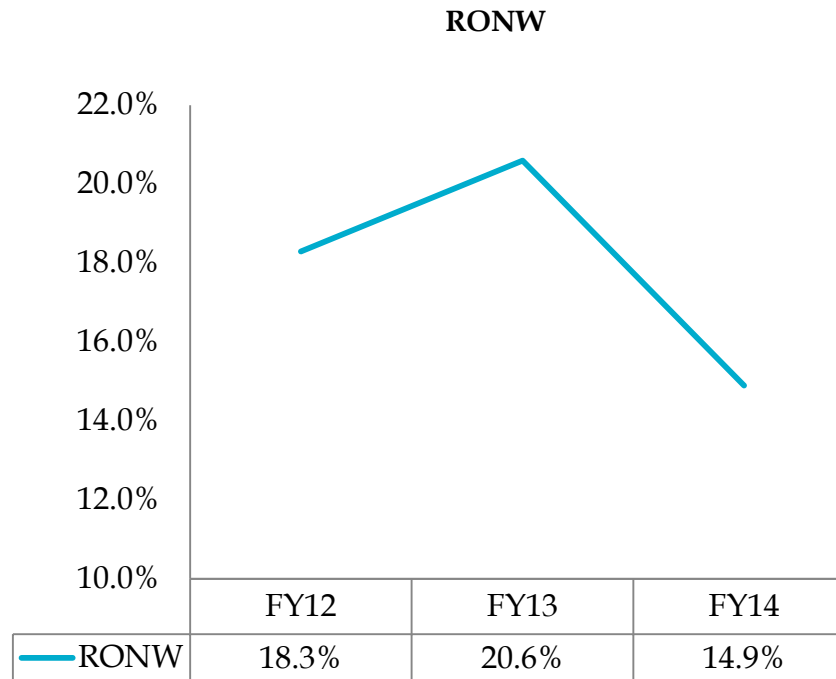
Leverage Ratios



- Debt / EBITDA has been maintained in the range of 2.4 - 2.9 for last 5 years.

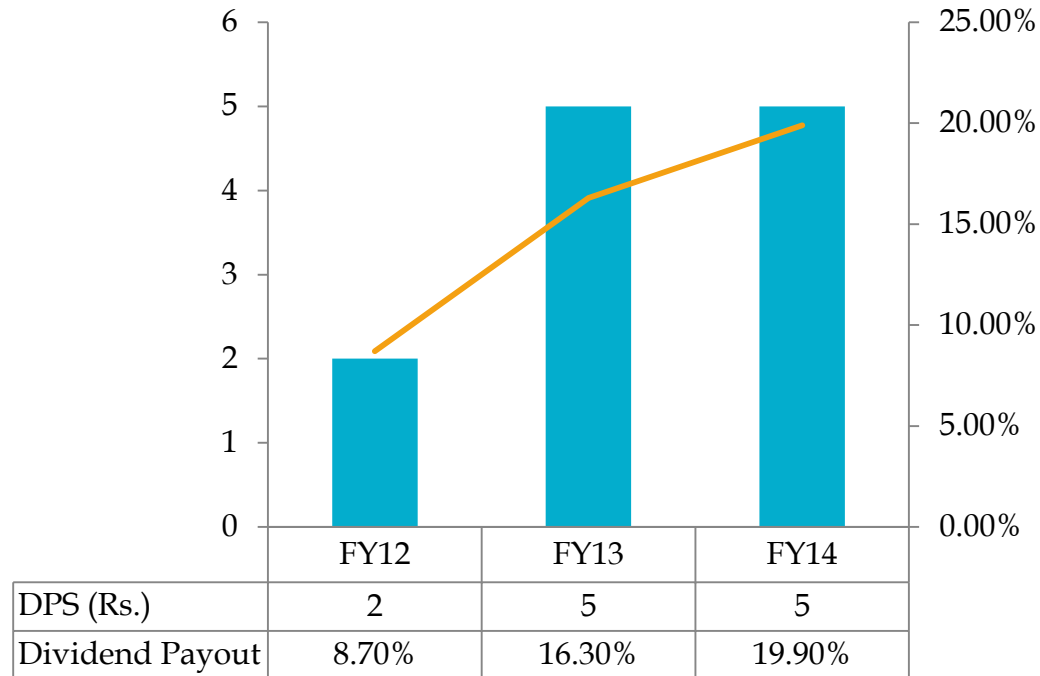
- Optimal leverage with D/E kept close to 1x
  - Long-term Debt (FY14): Rs.1,396 mn.
  - Working-capital Loan (FY14): Rs. 3,403 mn.

# Higher Returns



- RONW expected to move back to 18-20% levels in the coming years

# Dividend Payout



- The Company has been a regular on the dividend list rewarding shareholders
- Dividend payout ratio is at 20% levels and company plans to maintain the same going forward

# Income Statement

Particulars (INR mn.)	2011-12	2012-13	2013-14
Net Revenue	13,930	20,083	25,689
Growth %	53.9%	44.2%	27.9%
EBITDA	1,154	1,612	1,666
Growth %	7.9%	39.3%	3.1%
Margin %	8.3%	8.0%	6.5%
PAT	491	686	590
PAT %	3.5%	3.4%	2.3%
EPS	20.9	29.9	25.1

- Consistent revenue growth which will be maintained going forward
- Margins to improve on the back of product mix rationalization and introduction of new products

# Balance Sheet

Particulars (INR mn.)	2011-12	2012-13	2013-14
Share Capital	213	223	234
Reserve & Surplus	2,698	3,414	4,018
<b>Net Worth</b>	<b>2,911</b>	<b>3,637</b>	<b>4,252</b>
Long Term Debt	737	859	1,396
Working Capital Debt	2,242	3,403	3,403
<b>Total Borrowings</b>	<b>2,979</b>	<b>4,262</b>	<b>4,799</b>
Gross Fixed Assets	2,753	3,570	4,825
Capital WIP	455	151	279

- Significant capacity additions have resulted into higher growth in Fixed Assets
- Company has policy to operate under strict control on additional borrowings
  - The same has resulted into one of the lowest levels of debt in the industry

# Peer Comparison

Peers / Metrics	APL Apollo	Jindal SAW	Surya Roshni	Tube Investments
Revenue (FY14) (INR mn.)	25,689	66,558	20,527	12,375
EBITDA (FY14) (INR mn.)	1,666	6,401	1,045	1,752
Market Cap (INR mn.)	10,641	16,490	4,852	70,470
P / E	11.5x	NM*	10.1x	19.0 x
ROCE (FY 14)	12.5%	5.4%	8.0%	6.1%
RONW (FY 14)	14.9%	NM*	7.1%	7.8%

- APL Apollo has fared much better on giving higher shareholder's return as compared to all its peers.
- APL trades almost at par with its peers i.e. the stock is not expensive on P/E basis.

Note: Surya Roshni & Tube Investments Revenue & EBITDA has been taken only for the tube business however the other metrics are on company level.

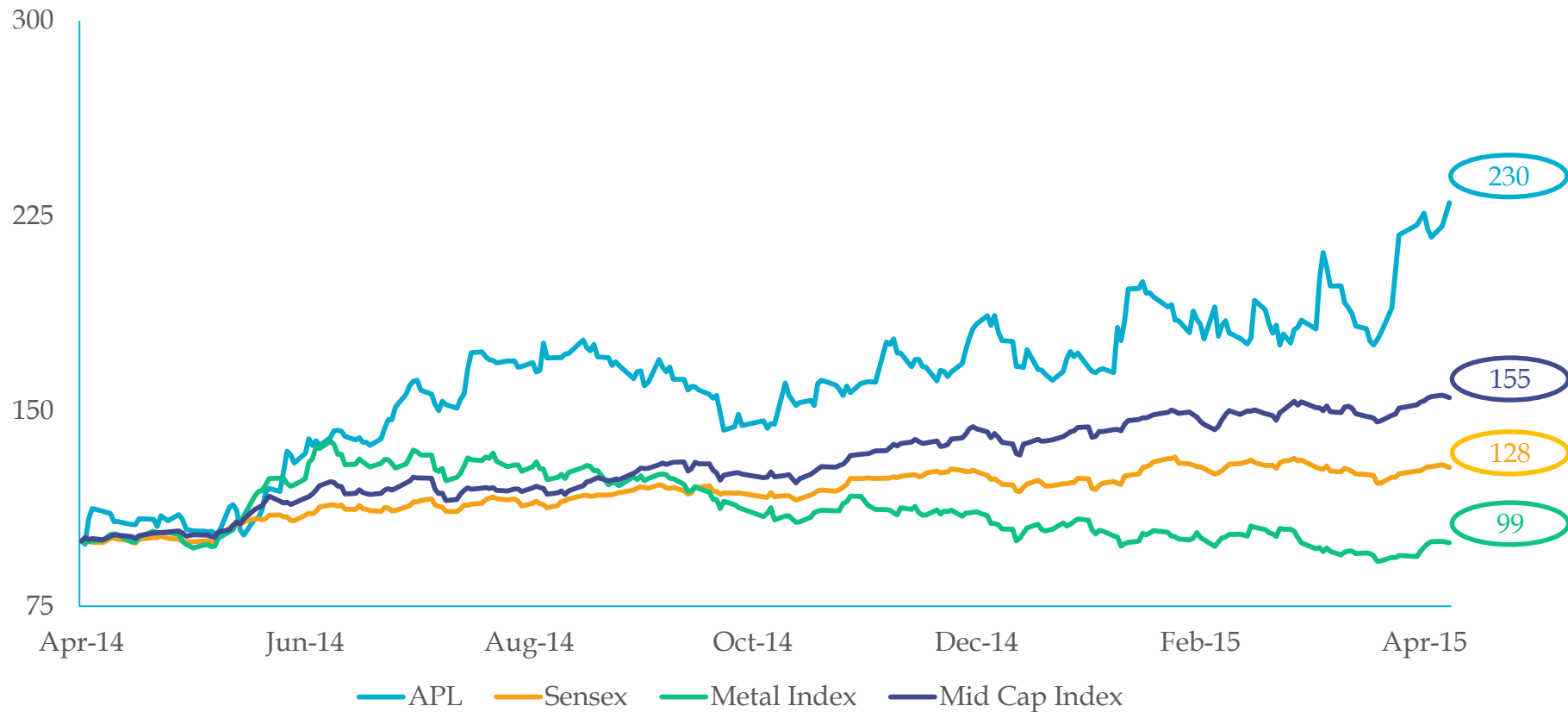
NM: Not meaningful. Jindal SAW reported loss in FY14.

Market Cap as on 15 April, 2015.

# Stock Price Performance



## LTM Stock Price Performance



- APL Apollo outperformed Sensex , BSE Metal Index and Mid Cap Index over past one year
  - The share price has more than doubled from Rs.195 on April 2, 2014 to Rs 454 on April 15, 2015

Source: BSE.

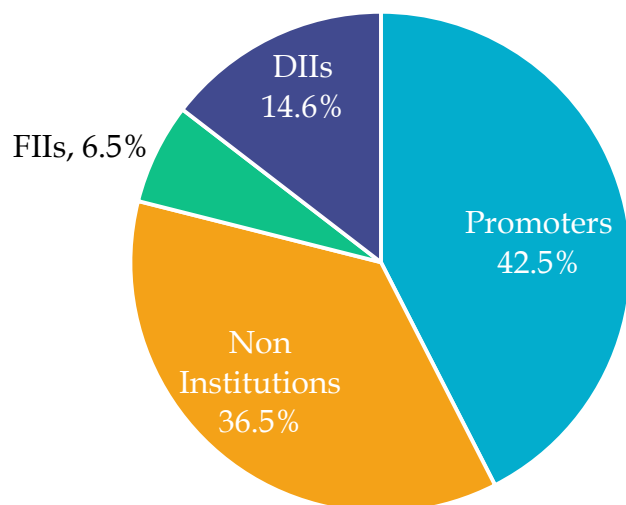


# Market Summary

IPO Details	Particulars
IPO Date	November, 1995
Shares Issued	Rs.2.19 mn.
Amount Raised	Rs.65.7 mn.
Face Value of Share	Rs. 10
Market Cap (15 <sup>th</sup> April, 2015)	Rs. 1,064.1 cr

Top 10 Public Shareholders (more than 1%)	% held
Kitara Capital	12.8%
IDFC	6.8%
Emblem	4.3%
Kotak Mahindra (Intl)	3.6%
DSP Blackrock	3.5%
HDFC Trustee Fund	3.3%
FIL Investments	2.6%
Sameer Mahendra Sampat	2.4%
Systematix Fincorp India Ltd	1.8%
Abha Bhanshali	1.6%

Shareholding Pattern (31<sup>st</sup> Mar,2015 )



As on 31<sup>st</sup> March,2015



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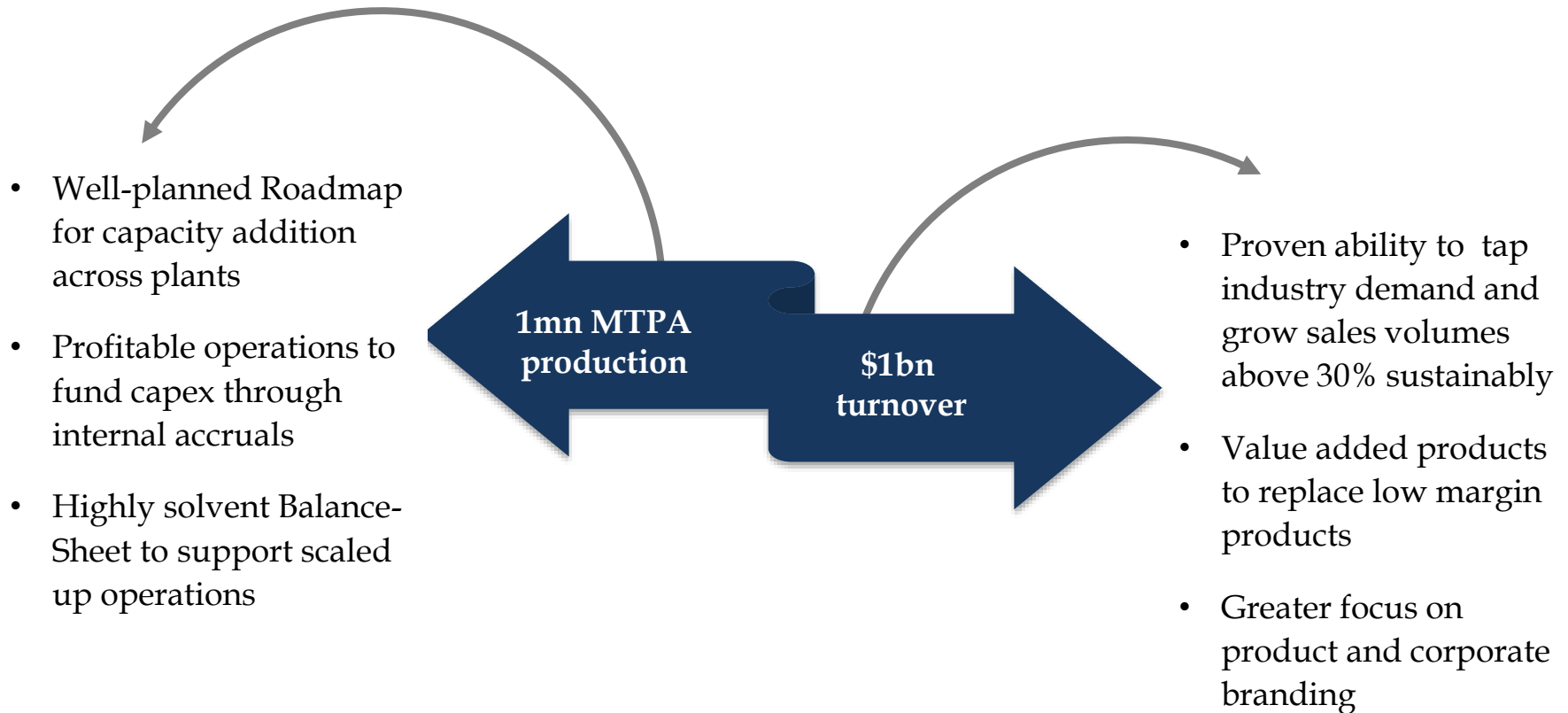
## *Road Ahead*

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# Vision FY 17: 1MTPA

*Achieve 1MTPA production by FY 2017  
and volume growth of over 25% p.a.*



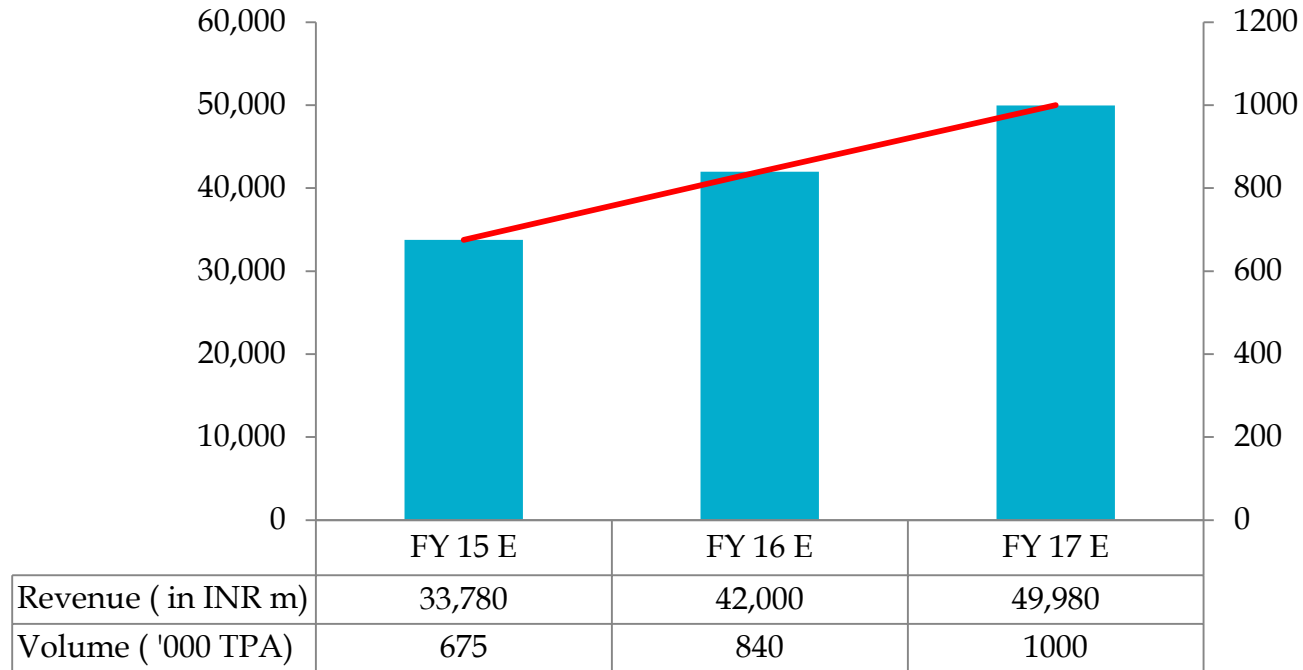
*Transformation into a Consumer Products Company*

# Investments Required



- Planning greenfield projects of approximately 1 – 1.2 LTPA each in Eastern India and Middle East (Dubai)
- Capital cost of Rs. 100 crore for the two plants to be funded through internal accruals

# Financial Estimates



- **Revenue and Volume are expected to grow at a CAGR of roughly 22% for the period 2015 - 2017.**

# Investment Rationale



- Largest player in the ERW segment in India
- Nation wide operations with 5 plants across the length and breadth of the country
- Strong distribution network with over 400+ distributors and 26 dealers
- Wide variety of products (400+) catering both to structural applications and traditional usage
- Strong revenue and volume growth expected for the next 3 years
- Consistent dividend payout ratio
- Stock has outperformed all the indices on the market over the last 12 months

# Contact



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Thank You