

HOLD
 TP: Rs 650 | ▲ 4%

APOLLO PIPES

| Building Materials

| 30 July 2024

Weak Q1FY25; return ratio to remain weak over medium term

- Weak Q1FY25 as APOLP continued to lose market share even after selling its products at a discount to its peers
- Target revenue to grow at 67% YoY in FY25, which appears overly optimistic based on its poor show in Q1 (+18.5%)
- Maintain HOLD and TP of Rs 650 due to weak ROE profile on rising competitive intensity and margin-dilutive KML acquisition

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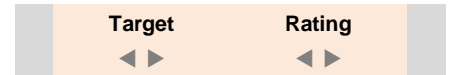
Weak quarter: APOLP missed our Q1FY25 revenue/EBITDA/PAT estimates by 19%/1%/8% due to lower-than-expected sales volume (+25.2% YoY vs 50.3% estimated) on account of general election-impacted infra pipe sales. Overall, APOLP revenue/EBITDA grew by 18.5%/10.7% YoY due to the impact of consolidation of Kisan Moulding (KML) operations, but APAT fell by 10.3% YoY in Q1FY25.

Key highlights: APOLP’s standalone pipe volume fell by 1.3% YoY in Q1FY25. Despite relatively superior product mix, APOLP EBITDA per unit (at Rs 10.9/kg) turned out to be lower than Finolex’s (Rs 15.7/kg) in Q1FY25, indicating the company has been losing market share for the past three consecutive quarters even after selling its products at a discount in the market.

Over-optimistic guidance: The company has maintained its revenue growth guidance of 25% for its standalone operations for FY25, implying an asking run rate of 37% YoY for the remaining 9MFY25. KML’s revenue is expected to be Rs 4.5bn-5bn for FY25, which implies an asking run rate of 104% YoY for the remaining 9MFY25. APOLP expects standalone EBITDA margin to be 10% for FY25-FY26 and 12-13% over the medium term once the new capacity gets fully ramped up. The company expects KML’s EBITDA margin to be around 7-8% in the near future and improve to 10%-12% over the medium term. The company targets improving its ROCE from 11.0% in FY24 to 25-30% over the next three to four years, but we believe it would be an uphill task for APOLP to achieve its twin objectives of growing volume at a better pace than the industry and improving its return ratio profile.

Maintain HOLD and TP of Rs 650: We expect APOLP’s sales volume to grow at a strong 26% CAGR over FY24-FY2E, but we maintain our HOLD rating on the stock due to its weak ROE profile (8.0%-11.5% for FY25E-FY27E) in view of rising competition in the sector and the margin-dilutive acquisition of KML. At CMP, the stock trades at 39.5x on 1Y forward P/E vs the 5Y average of 41.5x. We have slightly cut our EPS estimates (0.1%/-1.7% for FY25E/FY26E), but have kept our TP unchanged at Rs 650 as we roll forward our valuation from Mar’26 to Jun’26. Our target P/E remains unchanged at 30x.

Key changes



Ticker/Price	APOLP IN/Rs 623
Market cap	US\$ 295.9mn
Free float	49%
3M ADV	US\$ 0.7mn
52wk high/low	Rs 799/Rs 588
Promoter/FPI/DII	46%/4%/17%

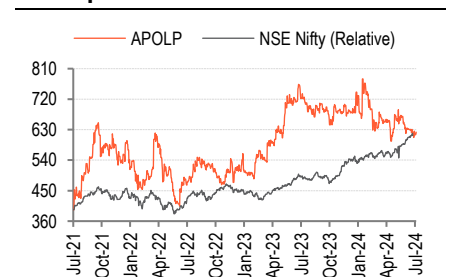
Source: NSE | Price as of 30 Jul 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	9,869	13,685	17,180
EBITDA (Rs mn)	958	1,302	1,774
Adj. net profit (Rs mn)	426	555	796
Adj. EPS (Rs)	10.8	13.9	20.0
Consensus EPS (Rs)	10.8	16.4	23.2
Adj. ROAE (%)	8.3	8.0	9.4
Adj. P/E (x)	57.4	44.7	31.1
EV/EBITDA (x)	25.8	19.0	14.1
Adj. EPS growth (%)	78.1	28.5	43.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance – Consolidated

(Rs mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Operating income	3,085	2,603	18.5	2,556	20.7
Raw-Material expense	2,162	1,904	13.5	1,881	14.9
Gross Profit	923	699	32.1	675	36.8
Employee expense	234	152	53.5	143	63.3
Other expense	400	285	40.2	278	44.0
EBITDA	290	262	10.7	254	14.0
D&A	99	67	49.2	85	17.3
EBIT	190	195	(2.5)	170	12.3
Interest cost	22	15	46.6	15	51.2
Other income	10	12	(16.3)	3	200.6
PBT	178	192	(7.2)	158	12.6
Tax	39	52	(25.4)	89	(56.0)
Reported PAT	139	139	(0.3)	69	101.2
Adjusted PAT	125	139	(10.3)	67	85.8
As % of net revenues			(bps)		(bps)
Gross margin	29.9	26.9	307	26.4	352
Employee cost	7.6	5.8	173	5.6	197
Other cost	13.0	11.0	201	10.9	210
EBITDA margin	9.4	10.1	(66)	9.9	(55)
Tax rate	22.0	27.4	(538)	56.4	(3435)
APAT margin	4.0	5.3	(130)	2.6	142

Source: Company, BOBCAPS Research

Fig 2 – Per unit analysis (Rs/kg)

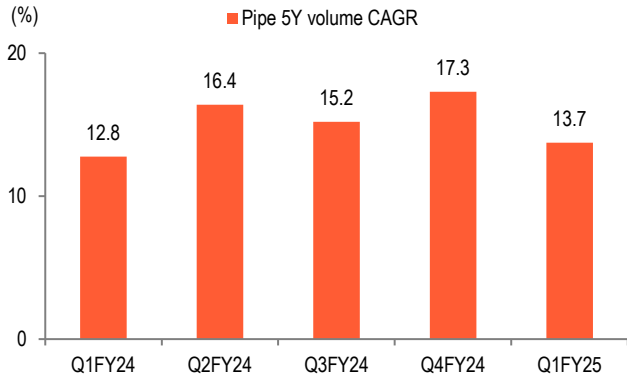
Particulars	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Sales Volumes (ktpa)	26.6	21.2	25.2	21.3	24.4
Realisation	116.1	122.7	(5.3)	119.7	(3.0)
Raw Materials	81.4	89.7	(9.3)	88.1	(7.6)
Gross Profit	34.8	32.9	5.5	31.6	9.9
Employee	8.8	7.2	22.7	6.7	31.2
Others	15.1	13.4	12.0	13.0	15.7
EBITDA per unit (Rs/kg)	10.9	12.3	(11.6)	11.9	(8.4)

Source: Company, BOBCAPS Research

Earnings call highlights

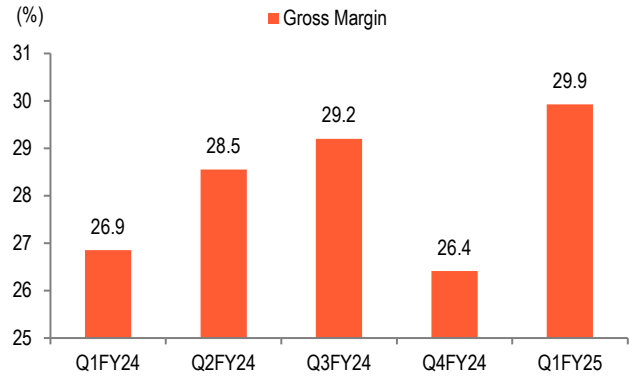
- **Demand scenario:** APOLP registered weak pipe volume growth in Q1FY25 due to lower infra pipe sales volumes for its standalone operations on account of general elections and changing KML's sales mix from B2B to B2C.
- **Revenue outlook:** Management maintained its guidance of growing its volume at 25% YoY for FY25 for standalone operations. It expects KML revenue to be Rs 4.5bn-5bn in FY25, Rs 6bn-6.5bn in FY26, and Rs 7.5bn-8.0bn in FY26. Overall, the company expects its consolidated revenue to grow from Rs 9.9bn in FY24 to Rs 26bn in FY27, driven by increase in existing standalone operations (from Rs 9.8bn in FY24 to Rs 16bn in FY27, and incremental contribution of Rs 3bn from its ongoing capex programme and Rs 7.5bn-8.0bn from KML).
- **Margin outlook:** APOLP expects the standalone EBITDA margin to be 10% for FY25-FY26 and to improve to 12-13% over the medium term once the new capacity gets fully ramped up. The company expects KML's EBITDA margin to be around 7-8% in the near future and to improve to 10%-12% over the medium term.
- **Return ratio outlook:** The company expects its ROCE to improve from 11.0% in FY24 to 25-30% over the next three to four years.
- **Product-mix:** The share of agri to non-agri mix for APOLP standalone operations was 45:55 and 70:30 for KML in Q1FY25. The company aims to reduce the share of agri pipe for KML from 70% at present to 60% over the medium term.
- **CPVC:** Pipe revenue grew by 20% YoY in Q1FY25.
- **Channel inventory** is low at present due to volatile resin prices.
- **PVC resin price:** The company believes PVC resin prices are near the bottom level and expects it to pick up from next month.
- **Capex:** APOLP plans to (1) increase its pipe capacity from 216ktpa in Jun'24 to 286ktpa by Mar'26 through the commissioning of a 30ktpa greenfield pipe plant in Mirzapur, Uttar Pradesh, in Q4FY25, (2) put up O-PVC (Oriented Poly Vinyl Chloride) pipes, and (3) UPVC (unplasticised polyvinyl chloride) doors and profiles. Capex cost is estimated to be Rs 1.0bn-1.5bn per annum for the next three years. Furthermore, the company plans to set up a pipe plant in South India, which would entail capex of at least Rs 2bn.
- **O-PVC pipes:** APOLP entered this product category as it is used for water supply applications and acts as a substitute for ductile iron pipes. The company targets this product to account for 5%/10% of its consolidated sales in FY25/FY26.

Fig 3 – APOLP’s pipe volumes up 25.2% YoY and 13.7% on a 5Y CAGR basis in Q1FY25 due to KML acquisition



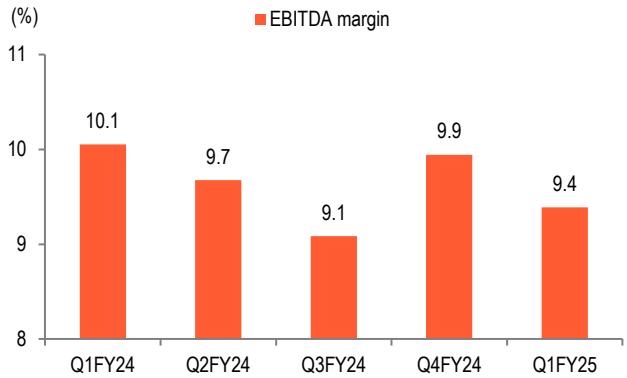
Source: Company, BOBCAPS Research

Fig 4 – APOLP gross margin improved sharply in Q1FY25 due to improved demand for value-added products



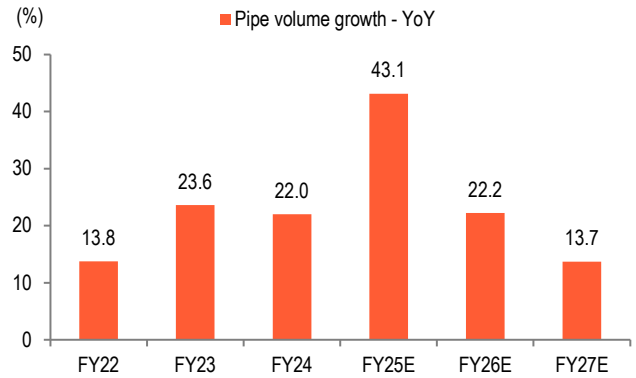
Source: Company, BOBCAPS Research

Fig 5 – However, EBITDA margin was down in Q1 due to higher employee cost and negative operating leverage



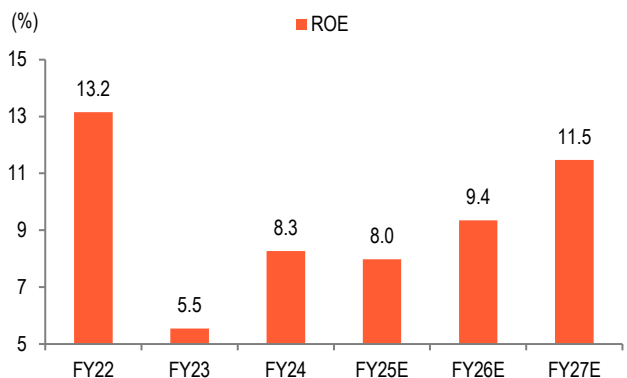
Source: Company, BOBCAPS Research

Fig 6 – Despite our assumption of a strong pipe volume CAGR of 26% over FY24-FY27E...



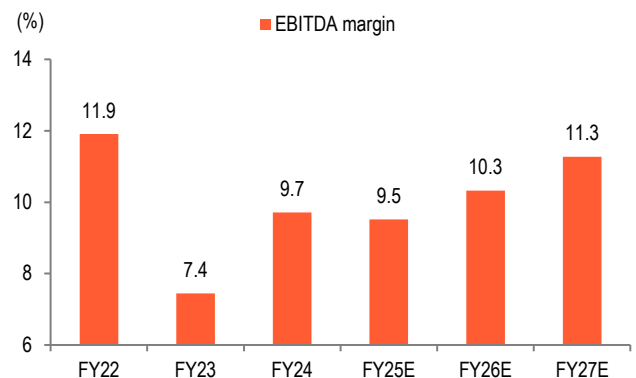
Source: Company, BOBCAPS Research

Fig 7 – ... APOLP’s ROE profile is forecast to remain weak over FY25E-FY27E due to intense competition...



Source: Company, BOBCAPS Research

Fig 8 – ... and margin-dilutive acquisition of KML operations



Source: Company, BOBCAPS Research

Valuation methodology

We expect APOLP's sales volume to grow at a strong 26% CAGR over FY24-FY2E, but we maintain our HOLD rating on the stock due to weak ROE profile (8.0%-11.5% for FY25E-FY27E) in view of rising competition in the sector and margin-dilutive acquisition of KML. Further, we believe the stock is a de-rating candidate as it would be an uphill task to achieve the twin objectives of outpacing industry volume growth and improving the return ratio profile over the medium term in an increasingly competitive environment. At CMP, the stock trades at 39.5x on 1Y forward P/E vs 5Y average of 41.5x.

We have slightly cut our EPS estimates (0.1%/-1.7% for FY25E/FY26E), but have kept our TP unchanged at Rs 650 as we roll forward our valuation from Mar'26 to Jun'26. Our target P/E remains unchanged at 30x. We have introduced FY27 estimates.

Fig 9 – Revised estimates

Consolidated (Rs mn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Operating income	13,685	17,180	14,810	17,559	(7.6)	(2.2)
EBITDA	1,302	1,774	1,207	1,737	7.9	2.1
EBITDA Margin	9.5	10.3	8.2	9.9	136bps	43bps
EPS (Rs)	13.9	20.0	13.9	20.3	0.1	(1.7)

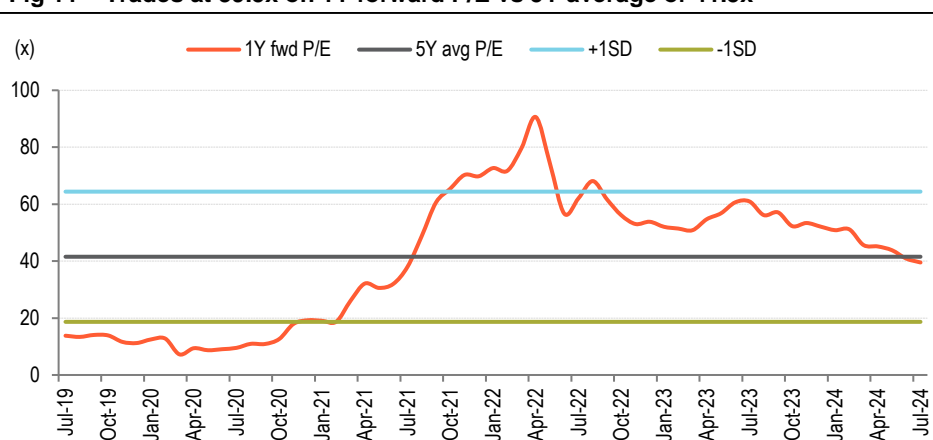
Source: BOBCAPS Research

Fig 10 – Key assumptions

Particulars (%)	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Sales volume growth	13.8	23.6	22.0	43.1	22.2	13.7
Realisation growth	33.0	(5.6)	(11.6)	(3.1)	2.7	3.0
EBITDA per unit (Rs/kg)	17.3	10.2	11.8	11.2	12.5	14.0
Pre-tax ROCE	15.8	8.4	11.5	11.1	13.1	15.7
Pre-tax ROIC	18.7	9.8	15.3	15.2	17.8	18.7

Source: Company, BOBCAPS Research

Fig 11 – Trades at 39.5x on 1Y forward P/E vs 5Y average of 41.5x



Source: Bloomberg, BOBCAPS Research

Key risks

- Fast turnaround of KML operations would be a key upside risk to our estimates.
- Market share loss and slow ramp up of existing capacity would be a key downside risk to our estimates.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Apollo Pipes	APOLP IN	0.3	623	650	HOLD
Astral	ASTRA IN	7.0	2,194	2,200	HOLD
Century Plyboards	CPBI IN	1.9	718	700	HOLD
Cera Sanitaryware	CRS IN	1.4	9,081	7,700	HOLD
Finolex Industries	FNXP IN	2.4	322	325	HOLD
Greenlam Industries	GRLM IN	0.9	569	560	HOLD
Greenpanel Industries	GREENP IN	0.5	356	340	HOLD
Greenply Industries	MTLM IN	0.5	325	320	BUY
Hindware Home Innovation	HINDWARE IN	0.4	451	600	BUY
Kajaria Ceramics	KJC IN	2.9	1,515	1,450	HOLD
Prince Pipes & Fittings	PRINCP IN	0.9	670	750	HOLD
Somany Ceramics	SOMC IN	0.4	773	900	BUY
Supreme Industries	SI IN	8.1	5,326	5,400	HOLD

Source: BOBCAPS Research, NSE | Price as of 30 Jul 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	9,145	9,869	13,685	17,180	20,124
EBITDA	680	958	1,302	1,774	2,269
Depreciation	284	299	448	527	614
EBIT	396	660	854	1,247	1,655
Net interest inc./(exp.)	(89)	(51)	(77)	(77)	(77)
Other inc./(exp.)	20	39	39	39	39
Exceptional items	0	0	0	0	0
EBT	327	648	816	1,209	1,618
Income taxes	88	220	205	312	415
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	(2)	(56)	(101)	(132)
Reported net profit	239	426	555	796	1,071
Adjustments	0	0	0	0	0
Adjusted net profit	239	426	555	796	1,071

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	1,179	1,669	2,315	2,906	3,404
Other current liabilities	364	881	881	881	881
Provisions	5	79	110	138	161
Debt funds	437	632	870	1,088	1,271
Other liabilities	64	1,104	1,104	1,104	1,104
Equity capital	393	394	398	398	398
Reserves & surplus	4,179	5,347	7,768	8,464	9,416
Shareholders' fund	4,572	5,740	8,166	8,863	9,814
Total liab. and equities	6,619	10,106	13,445	14,979	16,635
Cash and cash eq.	348	560	1,285	264	(349)
Accounts receivables	658	796	1,103	1,385	1,622
Inventories	1,708	1,987	2,514	3,197	3,744
Other current assets	590	367	495	612	711
Investments	401	516	516	516	516
Net fixed assets	2,506	4,567	5,119	6,591	7,977
CWIP	56	84	1,184	1,184	1,184
Intangible assets	301	401	401	401	401
Deferred tax assets, net	0	396	396	396	396
Other assets	53	432	432	432	432
Total assets	6,620	10,106	13,445	14,979	16,635

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	739	1,890	754	898	1,361
Capital expenditures	(712)	(2,488)	(2,100)	(2,000)	(2,000)
Change in investments	(359)	(115)	0	0	0
Other investing cash flows	20	39	39	39	39
Cash flow from investing	(1,052)	(2,564)	(2,061)	(1,961)	(1,961)
Equities issued/Others	0	0	5	0	0
Debt raised/repaid	50	195	238	218	183
Interest expenses	(89)	(51)	(77)	(77)	(77)
Dividends paid	(24)	(39)	(80)	(100)	(119)
Other financing cash flows	303	783	1,890	(101)	(132)
Cash flow from financing	241	888	1,975	(60)	(145)
Chg in cash & cash eq.	(72)	214	669	(1,122)	(745)
Closing cash & cash eq.	348	560	1,285	264	(349)

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	6.1	10.8	13.9	20.0	26.9
Adjusted EPS	6.1	10.8	13.9	20.0	26.9
Dividend per share	0.6	1.0	2.0	2.5	3.0
Book value per share	116.3	145.9	205.0	222.5	246.4

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	2.7	2.5	1.8	1.5	1.2
EV/EBITDA	36.5	25.8	19.0	14.1	10.8
Adjusted P/E	102.3	57.4	44.7	31.1	23.1
P/BV	5.4	4.3	3.0	2.8	2.5

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	73.1	65.8	68.0	65.9	66.2
Interest burden (PBT/EBIT)	82.6	98.2	95.6	97.0	97.7
EBIT margin (EBIT/Revenue)	4.3	6.7	6.2	7.3	8.2
Asset turnover (Rev./Avg TA)	138.2	97.7	101.8	114.7	121.0
Leverage (Avg TA/Avg Equity)	1.5	2.0	1.9	1.8	1.8
Adjusted ROAE	5.5	8.3	8.0	9.4	11.5

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	16.6	7.9	38.7	25.5	17.1
EBITDA	(27.2)	40.9	35.9	36.2	27.9
Adjusted EPS	(51.9)	78.1	28.5	43.5	34.5
Profitability & Return ratios (%)					
EBITDA margin	7.4	9.7	9.5	10.3	11.3
EBIT margin	4.3	6.7	6.2	7.3	8.2
Adjusted profit margin	2.6	4.3	4.1	4.6	5.3
Adjusted ROAE	5.5	8.3	8.0	9.4	11.5
ROCE	8.3	11.0	9.9	12.9	15.3
Working capital days (days)					
Receivables	26	29	29	29	29
Inventory	68	73	67	68	68
Payables	47	62	62	62	62
Ratios (x)					
Gross asset turnover	2.7	2.0	2.1	2.1	2.0
Current ratio	1.7	1.1	1.3	1.1	1.0
Net interest coverage ratio	4.5	13.0	11.1	16.1	21.4
Adjusted debt/equity	0.0	0.0	(0.1)	0.1	0.2

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

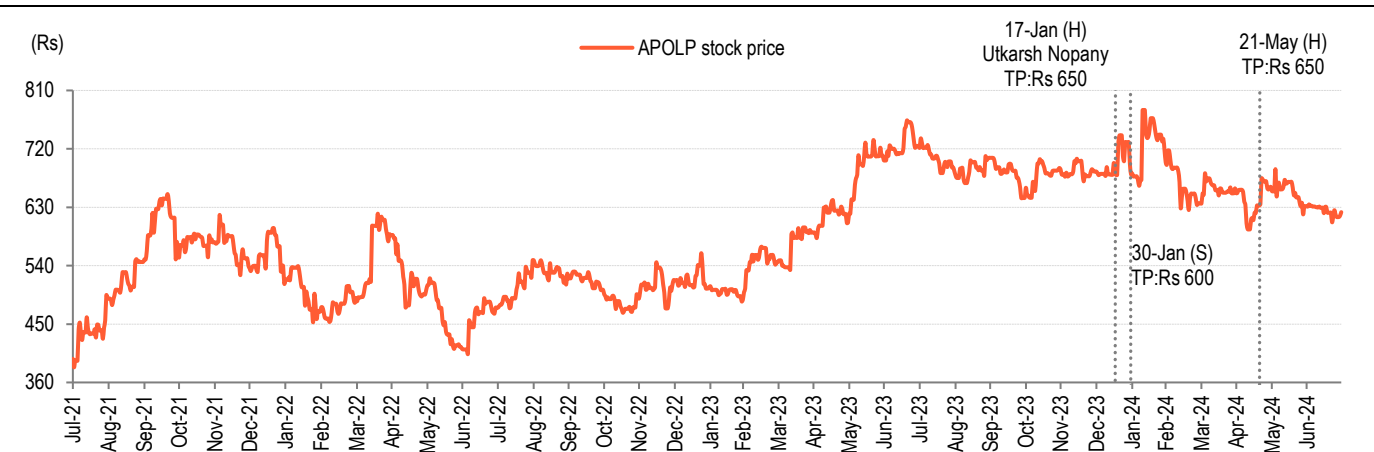
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): APOLLO PIPES (APOLP IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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