

HOLD

TP: Rs 550 | ▲ 10%

APOLLO PIPES

| Building Materials

| 28 October 2024

Dismal performance for fourth consecutive quarter

- **Weak Q2FY25 due to continued loss of market share and sharp margin contraction**
- **Target volume to grow at 35% YoY in FY25, which appears overly optimistic based on its poor show in H1FY25**
- **Maintain HOLD with revised TP of Rs 550 due to weak ROE profile on rising competitive intensity and margin-dilutive KML acquisition**

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Weak quarter: APOLP missed our Q2FY25 revenue/EBITDA/APAT estimates by 20%/31%/64% due to lower-than-expected sales volume (+1.8% YoY vs 36.5% estimated) and sharp margin contraction (-193bps YoY to 7.7% vs 8.9% estimate). Overall, APOLP revenue was relatively flat (at +0.4% YoY) due to the benefit of consolidated Kisan Moulding (KML) operations, but EBITDA/APAT de-grew by 19.6%/67.7% YoY in Q2FY25.

Key highlights: APOLP has lost market share for the fourth consecutive quarter as its standalone pipe volume fell by 17.0% YoY in Q2FY25. While the company operated its plant at a sub-optimal rate of 37% in Q2FY25, it still plans to aggressively grow its pipe capacity from 216ktpa at present to 286ktpa by Jun'25. APOLP's net debt has gone up from Rs 70mn in Mar'24 to Rs 710mn in Sep'24.

Over-optimistic guidance: APOLP targets to grow its volume at 35% YoY in FY25, which implies an asking run rate of 57% YoY for H2FY25. KML is expected to account for 25% of APOLP's total volume for FY25 and FY26. The company expects its consolidated EBITDA margin to improve gradually to 10-12% by FY26 end or early FY27 due to the ramp up of new capacity. The company targets to improve 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; TP cut by 15% to Rs 550: We expect APOLP's sales volume to grow at a strong 21.5% CAGR over FY24-FY27E, but we maintain our HOLD rating on the stock due to its weak ROE profile (6.4%-10.4% for FY25E-FY27E) in view of rising competition in the sector and the margin-dilutive acquisition of KML. At CMP, the stock trades at 34.2x on 1Y forward P/E vs the 5Y average of 45.0x. We have cut our TP to Rs 550 (Rs 650 earlier) due to the downward revision in our EPS estimates (-21.0%/-12.3%/-11.6% for FY25E/FY26E/FY27E) based on the weak Q2FY25 result. Our target P/E remains unchanged at 30x on Sep'26 (Jun'26 earlier).

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	APOLP IN/Rs 501
Market cap	US\$ 237.1mn
Free float	54%
3M ADV	US\$ 0.8mn
52wk high/low	Rs 799/Rs 472
Promoter/FPI/DII	46%/4%/17%

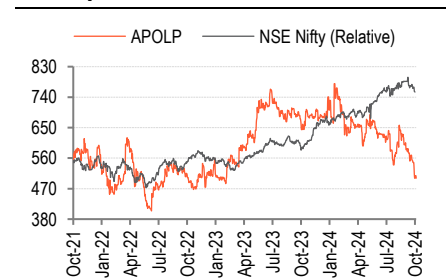
Source: NSE | Price as of 28 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	9,869	12,792	16,407
EBITDA (Rs mn)	958	1,144	1,624
Adj. net profit (Rs mn)	426	438	698
Adj. EPS (Rs)	10.8	11.0	17.5
Consensus EPS (Rs)	10.8	15.3	21.9
Adj. ROAE (%)	8.3	6.4	8.4
Adj. P/E (x)	46.2	45.5	28.6
EV/EBITDA (x)	20.8	17.4	12.4
Adj. EPS growth (%)	78.1	1.5	59.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance – Consolidated

(Rs mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)	BOBCAPS Q2FY25E	Variance (%)
Operating income	2,504	2,495	0.4	3,085	(18.8)	4,408	5,098	(13.5)	3,133	(20)
Raw-Material expense	1,690	1,782	(5.2)	2,162	(21.8)	3,073	3,687	(16.6)		
Gross Profit	815	712	14.4	923	(11.8)	1,335	1,411	(5.4)		
Employee expense	228	164	38.7	234	(2.3)	325	317	2.6		
Other expense	392	306	28.1	400	(1.9)	586	592	(0.9)		
EBITDA	194	241	(19.6)	290	(33.0)	425	503	(15.6)	280	(31)
D&A	106	72	46.0	99	6.5	174	139	25.4		
EBIT	88	169	(47.8)	190	(53.6)	250	364	(31.2)		
Interest cost	37	7	435.8	22	66.1	53	22	139.1		
Other income	6	13	(51.0)	10	(34.8)	13	25	(46.2)		
PBT	58	175	(67.1)	178	(67.6)	211	367	(42.5)		
Tax	18	46	(60.4)	39	(53.5)	57	98	(41.7)		
Reported PAT	39	129	(69.4)	139	(71.5)	154	268	(42.8)		
Minority Interest	(2)	-	-	14	(116.4)	12	-	-		
PAT after Minority Interest	42	129	(67.7)	125	(66.5)	142	268	(47.1)		
Adjusted PAT	42	129	(67.7)	125	(66.5)	154	268	(42.8)	116	(64)
As % of net revenues			(bps)		(bps)			(bps)		
Gross margin	32.5	28.5	398	29.9	260	30.3	27.7	261		
Employee cost	9.1	6.6	252	7.6	154	7.4	6.2	116		
Other cost	15.7	12.3	339	13.0	270	13.3	11.6	169		
EBITDA margin	7.7	9.7	(193)	9.4	(164)	9.6	9.9	(24)		
Tax rate	31.5	26.2	530	22.0	954	27.2	26.8	36		
APAT margin	1.7	5.2	(351)	4.0	(238)	3.5	5.3	(178)		

Source: Company, BOBCAPS Research

Fig 2 – Per unit analysis (Rs/kg)

Particulars	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)
Sales Volumes (ktpa)	20.2	19.8	1.8	26.6	(24.1)	37	41	(8.9)
Realisation	124.3	126.0	(1.3)	116.1	7.0	118.0	124.3	(5.1)
Raw-Material	83.8	90.0	(6.8)	81.4	3.0	82.2	89.9	(8.5)
Gross Profit	40.4	36.0	12.4	34.8	16.3	35.7	34.4	3.9
Employee	11.3	8.3	36.3	8.8	28.7	8.7	7.7	12.6
Others	19.5	15.5	25.9	15.1	29.3	15.7	14.4	8.7
EBITDA per unit (Rs/kg)	9.6	12.2	(21.0)	10.9	(11.7)	11.4	12.3	(7.3)

Source: Company, BOBCAPS Research

Earnings call highlights

PVC resin price outlook: Management expects a favourable outcome on the ongoing investigation into Anti-Dumping Duty (ADD) on imports of PVC resin and expects a duty of US \$150-250/t to be imposed on imports of PVC resin in the near future.

Demand scenario: APOLP recorded weak pipe volume growth in Q2FY25 for its standalone operations due to heavy monsoon, channel destocking as PVC resin prices fell sharply in Jul-Aug'24, and lower government spends on water infrastructure.

Volume outlook: The company expects its volume to grow at 35% YoY in FY25. Kisan is expected to contribute 25% of total volume in FY25 and FY26.

Margin outlook: APOLP expects its consolidated EBITDA margin to improve gradually to 10-12% by FY26 end or early FY27 due to ramp up of new capacity.

Product mix: The share of agri pipe for APOLP standalone operations was slightly less than 40% in Q2FY25.

Channel inventory: The channel inventory level is still low due to volatile PVC resin prices, but the company expects to reach a normal level in the near future.

Inventory loss: The company recorded an inventory loss of less than Rs 50mn in Q2FY25.

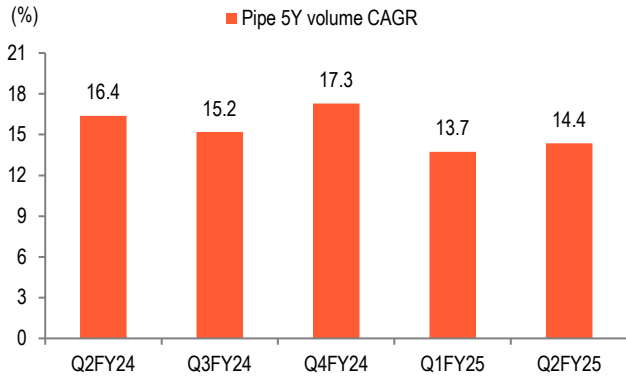
Working capital: The company targets to reduce its net working capital to 40 days in FY25 (vs 72 days in Q2FY25). The company said that its decision to use a cash-carry model for its channel partners in the north region has been beneficial. Channel financing forms about 20% of the total receivables in Q2FY25. Going ahead, the company targets receivable days to be under 20 days.

Capex: The company plans to increase its pipe capacity from 216ktpa at present to 286ktpa by Jun'25 at a cost of Rs 2.5bn (of which Rs 0.65bn was spent in H1FY25 and Rs 1.8bn-2bn is to be spent in H2FY25 and the balance by Jun'25). The greenfield Varanasi plant (30ktpa) and OPVC pipes lines, window profiles (11.5ktpa) capacity is expected to commence production by the end of Q4FY25. The brownfield expansion for CPVC/UPVC segment of 28.5ktpa is expected to be completed by Jun'25.

Net debt: APOLP's net debt has gone up from Rs 70mn in Mar'24 to Rs 710mn in Sep'24. It expects to become debt free by the end of FY26.

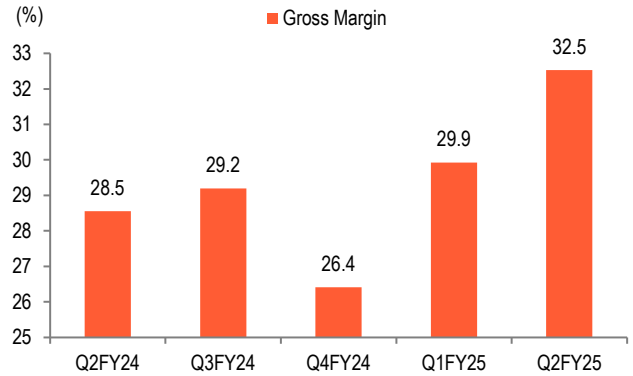
O-PVC pipes: OPVC pipe sales contributed to the growth in gross profit margin for the company in Q2FY25. The company's next two OPVC lines are expected to commence production in the next four months, and expected to contribute about 7-8% of the total revenue by FY26.

Fig 3 – APOLP’s pipe volumes up 1.8% YoY (5Y CAGR: +14.4%) in Q2FY25 due to KML acquisition



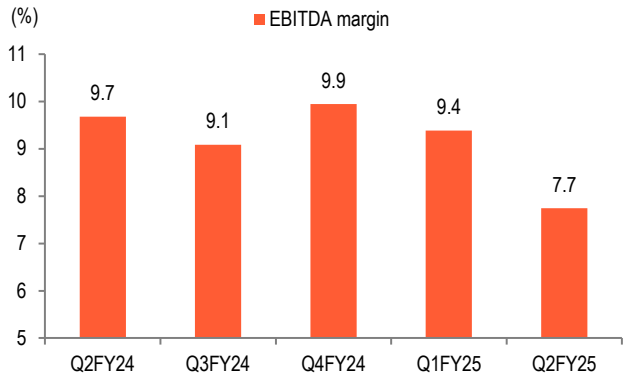
Source: Company, BOBCAPS Research

Fig 4 – APOLP’s gross margin improved sharply in Q2FY25 due to better product mix



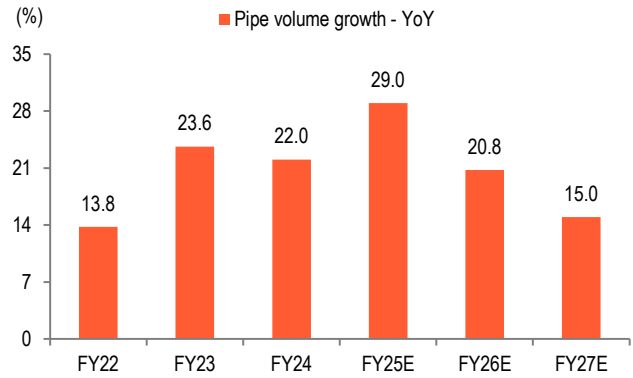
Source: Company, BOBCAPS Research

Fig 5 – However, EBITDA margin was down in Q2 due to higher employee cost and negative operating leverage



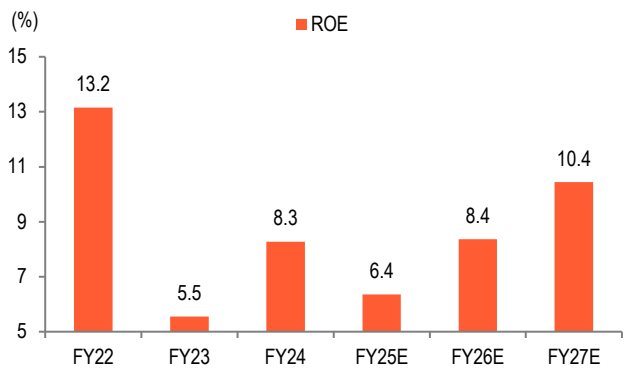
Source: Company, BOBCAPS Research

Fig 6 – Despite our assumption of a strong pipe volume CAGR of 21.5% over FY24-FY27E...



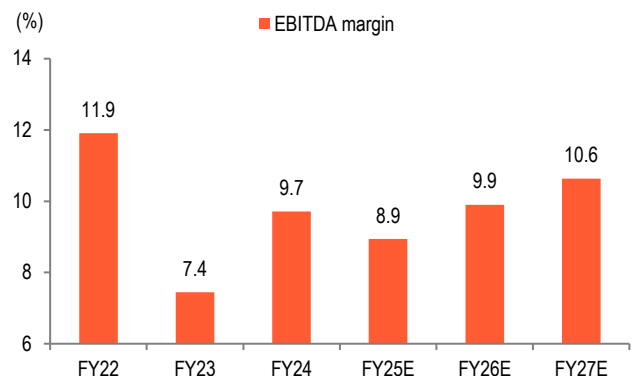
Source: Company, BOBCAPS Research

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 21.5% CAGR over FY24-FY27E, but we maintain our HOLD rating on the stock due to its weak ROE profile (6.4%-10.4% for FY25E-FY27E) in view of rising competition in the sector and the 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. At CMP, the stock trades at 34.2x on 1Y forward P/E vs the 5Y average of 45.0x.

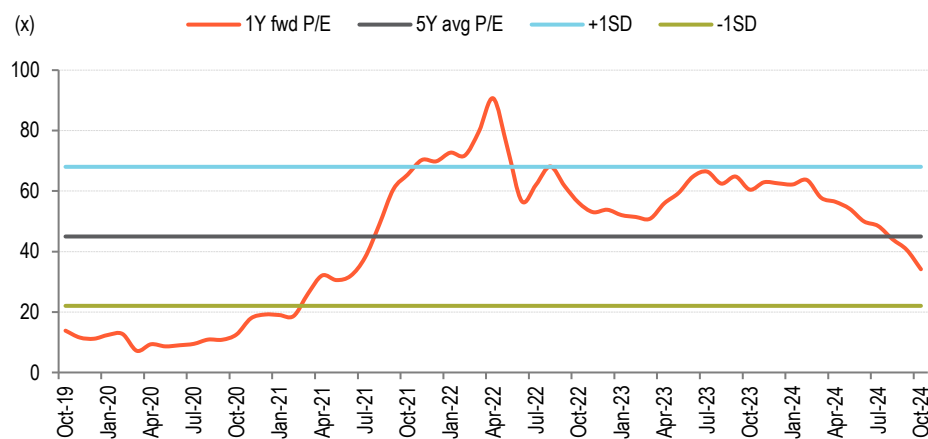
We have cut our TP to Rs 550 (Rs 650 earlier) due to the downward revision of our EPS estimates (-21.0%/-12.3%/-11.6% for FY25E/FY26E/FY27E) based on the weak Q2FY25 result. Our target P/E remains unchanged at 30x on Sep'26 (Jun'26 earlier).

Fig 9 – Revised estimates

Consolidated (Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Operating income	12,792	16,407	19,726	13,685	17,180	20,124	(6.5)	(4.5)	(2.0)
EBITDA	1,144	1,624	2,098	1,302	1,774	2,269	(12.1)	(8.4)	(7.6)
EBITDA Margin	8.9	9.9	10.6	9.5	10.3	11.3	(6.0)	(4.1)	(5.7)
Adjusted PAT	438	698	946	555	796	1,071	(21.0)	(12.3)	(11.6)
EPS (Rs)	11.0	17.5	23.8	13.9	20.0	26.9	(21.0)	(12.3)	(11.6)

Source: BOBCAPS Research

Fig 10 – Trades at 34.2x on 1Y forward P/E vs 5Y average of 45.0x



Source: Bloomberg, BOBCAPS Research

Fig 11 – Key assumptions

Particulars (%)	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Sales Volume growth	13.8	23.6	22.0	29.0	20.8	15.0
Realisation growth	33.0	(5.6)	(11.6)	0.5	6.2	4.5
EBITDA per unit (Rs/kg)	17.3	10.2	11.8	10.9	12.8	14.4
Pre-tax ROCE	15.8	8.4	11.6	9.3	11.9	14.2
Pre-tax ROIC	18.7	9.8	14.0	12.7	16.0	17.0

Source: Company, 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	0.2	501	550	HOLD
Astral	ASTRA IN	5.7	1,795	2,200	HOLD
Century Plyboards	CPBI IN	2.2	841	725	HOLD
Finolex Industries	FNXP IN	2.1	289	300	HOLD
Greenlam Industries	GRLM IN	0.8	519	560	HOLD
Greenpanel Industries	GREENP IN	0.5	373	365	HOLD
Greenply Industries	MTLM IN	0.6	383	400	HOLD
Hindware Home Innovation	HINDWARE IN	0.3	299	500	BUY
Kajaria Ceramics	KJC IN	2.4	1,248	1,450	HOLD
Prince Pipes & Fittings	PRINCP IN	0.6	486	750	BUY
Somany Ceramics	SOMC IN	0.3	674	900	BUY
Supreme Industries	SI IN	6.5	4,322	5,250	BUY

Source: BOBCAPS Research, NSE | Price as of 28 Oct 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	9,145	9,869	12,792	16,407	19,726
EBITDA	680	958	1,144	1,624	2,098
Depreciation	284	299	436	522	609
EBIT	396	660	708	1,102	1,489
Net interest inc./(exp.)	(89)	(51)	(133)	(148)	(148)
Other inc./(exp.)	20	39	29	26	26
Exceptional items	0	0	0	0	0
EBT	327	648	604	980	1,367
Income taxes	88	220	154	254	352
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	(2)	(12)	(28)	(69)
Reported net profit	239	426	438	698	946
Adjustments	0	0	0	0	0
Adjusted net profit	239	426	438	698	946

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	1,179	1,669	2,164	2,775	3,337
Other current liabilities	364	881	881	881	881
Provisions	5	79	103	132	158
Debt funds	437	632	814	1,039	1,746
Other liabilities	64	1,104	1,104	1,104	1,104
Equity capital	393	394	398	398	398
Reserves & surplus	4,179	5,347	7,651	8,250	9,077
Shareholders' fund	4,572	5,740	8,050	8,648	9,475
Total liab. and equities	6,619	10,106	13,115	14,579	16,701
Cash and cash eq.	348	560	1,245	123	(165)
Accounts receivables	658	796	1,031	1,322	1,590
Inventories	1,708	1,987	2,314	3,009	3,649
Other current assets	590	367	465	586	698
Investments	401	516	516	516	516
Net fixed assets	2,506	4,567	5,130	6,608	7,999
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	13,115	14,579	16,701

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	739	1,892	847	903	1,316
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	29	26	26
Cash flow from investing	(1,052)	(2,564)	(2,071)	(1,974)	(1,974)
Equities issued/Others	0	0	5	0	0
Debt raised/repaid	50	195	182	225	707
Interest expenses	(89)	(51)	(133)	(148)	(148)
Dividends paid	(24)	(39)	(80)	(100)	(119)
Other financing cash flows	303	783	1,934	(28)	(69)
Cash flow from financing	241	888	1,908	(50)	371
Chg in cash & cash eq.	(72)	216	684	(1,121)	(288)
Closing cash & cash eq.	348	564	1,248	127	(161)

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	6.1	10.8	11.0	17.5	23.8
Adjusted EPS	6.1	10.8	11.0	17.5	23.8
Dividend per share	0.6	1.0	2.0	2.5	3.0
Book value per share	116.3	145.9	202.1	217.1	237.9

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	2.2	2.0	1.6	1.2	1.0
EV/EBITDA	29.4	20.8	17.4	12.4	9.4
Adjusted P/E	82.3	46.2	45.5	28.6	21.1
P/BV	4.3	3.4	2.5	2.3	2.1

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	73.1	65.8	72.6	71.2	69.2
Interest burden (PBT/EBIT)	82.6	98.2	85.3	88.9	91.8
EBIT margin (EBIT/Revenue)	4.3	6.7	5.5	6.7	7.5
Asset turnover (Rev./Avg TA)	138.2	97.7	97.5	112.5	118.1
Leverage (Avg TA/Avg Equity)	1.5	2.0	1.9	1.7	1.8
Adjusted ROAE	5.5	8.3	6.4	8.4	10.4

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	16.6	7.9	29.6	28.3	20.2
EBITDA	(27.2)	40.9	19.4	42.0	29.2
Adjusted EPS	(51.9)	78.1	1.5	59.2	35.6
Profitability & Return ratios (%)					
EBITDA margin	7.4	9.7	8.9	9.9	10.6
EBIT margin	4.3	6.7	5.5	6.7	7.5
Adjusted profit margin	2.6	4.3	3.4	4.3	4.8
Adjusted ROAE	5.5	8.3	6.4	8.4	10.4
ROCE	8.3	11.0	8.3	11.6	13.5
Working capital days (days)					
Receivables	26	29	29	29	29
Inventory	68	73	66	67	68
Payables	47	62	62	62	62
Ratios (x)					
Gross asset turnover	2.7	1.9	1.8	1.9	1.8
Current ratio	1.7	1.1	1.3	1.0	1.0
Net interest coverage ratio	4.5	13.0	5.3	7.5	10.1
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%

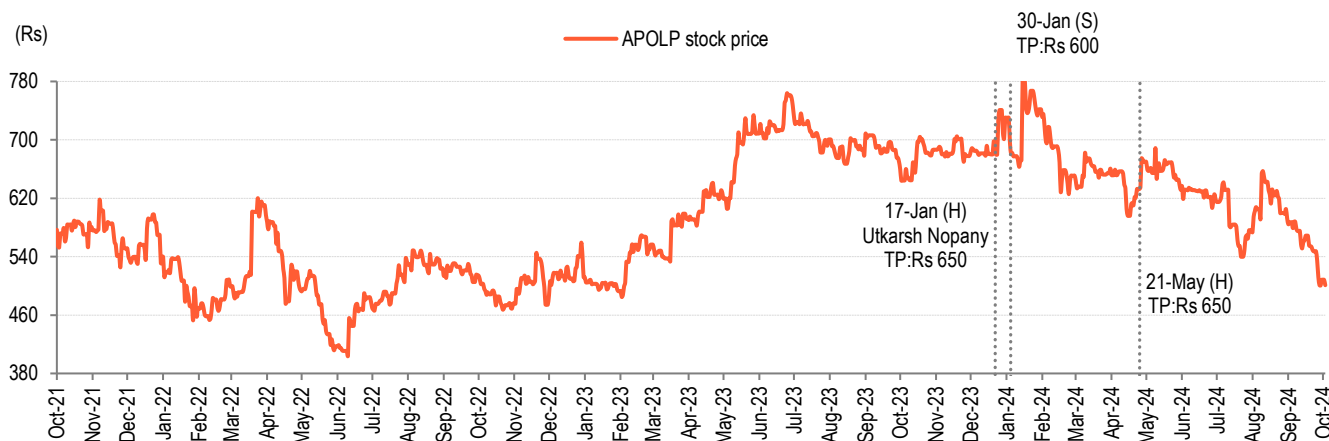
HOLD – Expected return from -6% to +15%

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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