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HOLD
TP: Rs 450 | ⮝ 8%

APOLLO PIPES | Building Materials | 28 January 2025

Mixed quarter; maintain HOLD on weak ROE profile

- **Despite strong volume (+43% YoY), PAT de-grew by 31.6% YoY in Q3FY25 due to margin pressure and higher capital charge**
- **Over-optimistic guidance as the company targets to grow its volume at 25% CAGR and improve ROCE to 25% over the next two years**
- **Maintain HOLD with revised TP of Rs 450 due to weak ROE profile on rising competitive intensity and margin-dilutive KML acquisition**

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Mixed quarter: APOLP beats our topline estimates (+2%) for Q3FY25 due to higher volume (+43% YoY vs +33% estimate), but it missed our EBITDA (-6%)/APAT (-14%) estimates due to margin contraction (-153bps YoY to 7.6% vs 8.2% estimate). Overall, APOLP revenue/EBITDA grew by 39.0%/15.6% YoY due to consolidation of Kisan Moulding's (KML) operations, but APAT de-grew by 31.6% YoY in Q3FY25.

Key highlights (Standalone): Despite higher volume (+12.8%), APOLP standalone EBITDA grew by only 4.4% YoY in Q3FY25 on account of contraction in EBITDA margin (-19 bps QoQ to 7.6%) due to inferior product mix. Standalone PAT was down for the fourth straight quarter (-34.2% YoY) due to higher capital charge.

Capex: APOLP plans to aggressively grow its pipe capacity from 216ktpa at present to 360-370ktpa over the next 2-3 years. The company has incurred capex of Rs 1.3bn in 9MFY25 and plans to spend another Rs 4bn over the next 3 years, which would be funded out of a fresh equity issue of Rs 1.1bn (at an exercise price of Rs 550 per share) and the remaining through internal accruals.

Over-optimistic guidance: APOLP targets its volume to grow at 25% CAGR over the next 2-3 years. Standalone EBITDA per unit is expected to improve to Rs 11-12/kg in FY26 (vs Rs 9.9/kg in Q3FY25) and KML EBITDA per unit to Rs 6-7/kg (vs Rs 3.9/kg in Q3FY25) over the next 2.0-2.5 years. The company targets to improve its ROCE to 25% over the next 2 years.

Maintain HOLD; TP cut to Rs 450: We expect APOLP's sales volume to grow at a strong 22.4% CAGR over FY24-FY27E, but we maintain our HOLD rating on the stock due to its weak ROE profile (6.1%-10.3% for FY25E-FY27E) in view of rising competition in the sector and the margin-dilutive acquisition of KML. At CMP, the stock trades at 30.2x on 1Y forward P/E vs 5Y average of 48.8x. We have cut our TP to Rs 450 (earlier Rs 550) due to the earnings downgrade (-18.7%/-15.7%/-11.5% for FY25E/FY26E/ FY27E) based on the weak Q3FY25 result. We have valued APOLP at 27x on Dec'26 EPS estimates (Sep'26 earlier).

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	APOLP IN/Rs 416
Market cap	US$ 198.6mn
Free float	54%
3M ADV	US$ 0.3mn
52wk high/low	Rs 799/Rs 402
Promoter/FPI/DII	46%/4%/15%

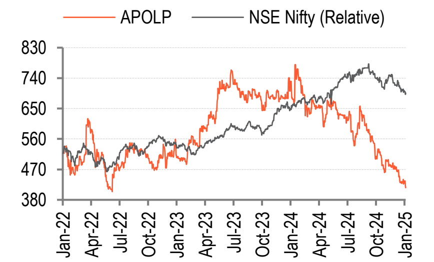
Source: NSE | Price as of 28 Jan 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	9,869	12,266	15,342
EBITDA (Rs mn)	958	1,076	1,597
Adj. net profit (Rs mn)	426	394	681
Adj. EPS (Rs)	10.8	8.9	14.8
Consensus EPS (Rs)	10.8	9.5	15.5
Adj. ROAE (%)	8.3	6.1	8.4
Adj. P/E (x)	38.4	46.5	28.1
EV/EBITDA (x)	17.9	15.9	10.6
Adj. EPS growth (%)	78.1	(17.5)	65.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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Fig 1 – Quarterly Financial Snapshot (Rs mn)

	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	9MFY25	9MFY24	YoY (%)	BOBCAPS Q2FY25E	Variance (%)
Operating income	**3,079**	**2,216**	**39.0**	**2,504**	**23.0**	**8,669**	**7,314**	**18.5**	**3,022**	**1.9**
Raw-Material expense	2,152	1,569	37.2	1,690	27.4	6,004	5,255	14.2		
Gross Profit	927	647	43.3	815	13.8	2,665	2,058	29.5		
Employee expense	245	154	58.7	228	7.4	707	471	50.1		
Other expense	449	291	54.3	392	14.5	1,242	883	40.6		
EBITDA	**233**	**201**	**15.6**	**194**	**20.0**	**716**	**704**	**1.7**	**249**	**(6.4)**
D&A	118	75	57.0	106	11.4	323	214	50.9		
EBIT	115	126	(9.0)	88	30.2	393	490	(19.8)		
Interest cost	31	14	125.4	37	(15.5)	90	36	151.7		
Other income	3	11	(74.5)	6	(56.9)	19	36	(46.7)		
PBT	86	123	(29.9)	58	49.8	322	490	(34.3)		
Tax	23	33	(30.6)	18	24.0	80	131	(39.0)		
Reported PAT	64	91	(29.7)	39	61.7	242	359	(32.6)		
Minority Interest	2	-	-	(2)	(179.0)	13	-	-		
PAT after Minority Interest	62	91	(31.6)	42	48.6	229	359	(36.3)		
Adjusted PAT	**62**	**91**	**(31.6)**	**42**	**48.6**	**229**	**359**	**(36.3)**	**72**	**(14.1)**
As % of net revenues			**(bps)**		**(bps)**			**(bps)**		
Gross margin	30.1	29.2	91	32.5	(242)	30.7	28.1	260		
Employee cost	8.0	7.0	99	9.1	(116)	8.2	6.4	171		
Other cost	14.6	13.1	145	15.7	(108)	14.3	12.1	225		
EBITDA margin	7.6	9.1	(153)	7.7	(19)	8.3	9.6	(137)		
Tax rate	26.1	26.4	(26)	31.5	(544)	24.8	26.7	(191)		
APAT margin	2.0	4.1	(208)	1.7	35	2.6	4.9	(227)		

Source: Company, BOBCAPS Research

Fig 2 – Per Unit Analysis (Rs/kg)

	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	9MFY25	9MFY24	YoY (%)
Sales Volumes (KTPA)	27.0	18.9	43.0	20.2	33.9	74	60	23.1
Realisation	114.1	117.4	(2.8)	124.3	(8.2)	117.6	122.1	(3.7)
Raw-Material	79.8	83.1	(4.1)	83.8	(4.9)	81.5	87.7	(7.2)
Gross Profit	34.4	34.3	0.2	40.4	(15.0)	36.2	34.4	5.2
Employee	9.1	8.2	11.0	11.3	(19.8)	9.6	7.9	21.9
Others	16.7	15.4	7.8	19.5	(14.5)	16.9	14.7	14.3
EBITDA per unit (Rs/kg)	8.6	10.7	(19.2)	9.6	(10.4)	9.7	11.8	(17.4)

Source: Company, BOBCAPS Research

Earnings call highlights

Pipe demand scenario: The company expects the industry demand scenario to improve in agri and housing segments in the near future.

PVC resin: Management expects a favourable outcome on the ongoing investigation into Anti-Dumping Duty (ADD) on imports of PVC resin and expects an impact of Rs 6-8/kg in PVC resin prices over the next 2-3 months.

Volume outlook: The company expects its volume to grow at 25% CAGR over the next 2-3 years due to the ramp-up of new capacities.

Margin outlook: The company expects its standalone EBITDA per unit to improve to Rs 11-12/kg in FY26 (Rs 9.9/kg in Q3FY25). Kisan Moulding's EBITDA per unit is expected to be in the range of Rs 6-7/kg over the next 2-2.5 years (vs Rs 3.9/kg in Q3FY25).

ROCE outlook: APOLP's return ratio appears to be weak in Q3FY25 due to low capacity utilisation, ongoing capex, margin pressures and weak macro environment. However, the company targets its ROCE to improve to 25% over the next two years.

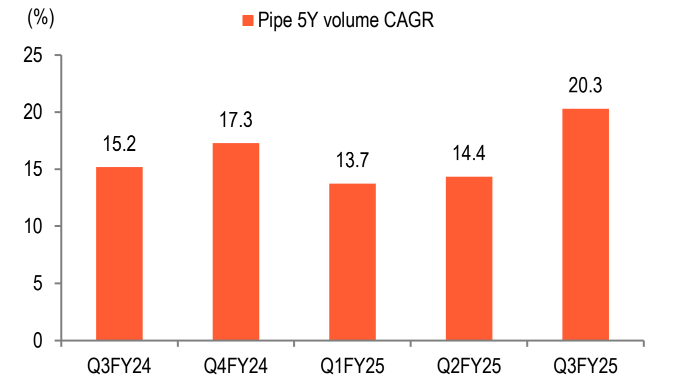
O-PVC Pipes: APOLP has two lines in place and the third line is expected to commence in the next 1-2 months. O-PVC forms 4-5% of APOLP's standalone revenue in Q3FY25 and the company expects it to increase to 7-9% in the next 1-2 years. Management believes the payback period on this segment is 2-3 years.

Working capital: Roughly 10-15% of APOLP's dealers have opted for channel financing (vs 5-10% in FY24). 90% of APOLP's revenue is generated through dealers/distributors. The company provides a credit period of 30-35 days.

Capex: The company plans to increase its capacity from 216ktpa at present to 360-370ktpa over the next 2-3 years through (a) the addition of a greenfield pipe plant of 30ktpa in Varanasi, Uttar Pradesh, by FY26; (b) OPVC pipes and UPVC window & door profiles of 11.5ktpa by FY26; (c) brownfield expansion of 28.5ktpa; (d) new greenfield pipe plant of 70ktpa in the South region; and (e) brownfield expansion of 10-15ktpa. The company has spent Rs 1.3bn in capex in 9MFY25. The company has planned a capex outlay of Rs 4bn for the next 2-3 years, of which Rs 1.1bn is through equity infusion by the Oman-based fund Kitara Capital and the balance is through operating cash flow.

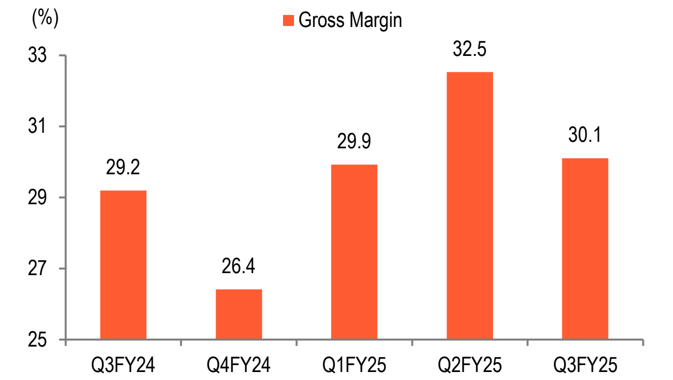
Net debt: APOLP had net cash of Rs 120mn in Dec'24 vs net debt of Rs 710mn in Sep'24 mainly due to fund infusion of Rs 1.1bn on account of receipt of balance amount related to outstanding convertible preferential warrants. Going ahead, the company plans to further raise Rs 1.1bn by issuing fresh convertible warrants at an exercise price of Rs 550 per share to fund its ongoing capex programme.

Fig 3 – APOLP's pipe volumes up 43.0% YoY (5Y CAGR: +20.3%) in Q3FY25 due to Kisan Moulding acquisition



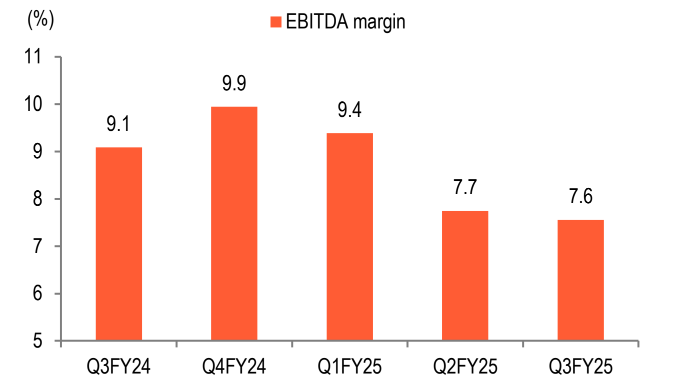
Source: Company, BOBCAPS Research

Fig 4 – APOLP's gross margin improved by 91bps YoY to 30.1% in Q3FY25 due to better product mix



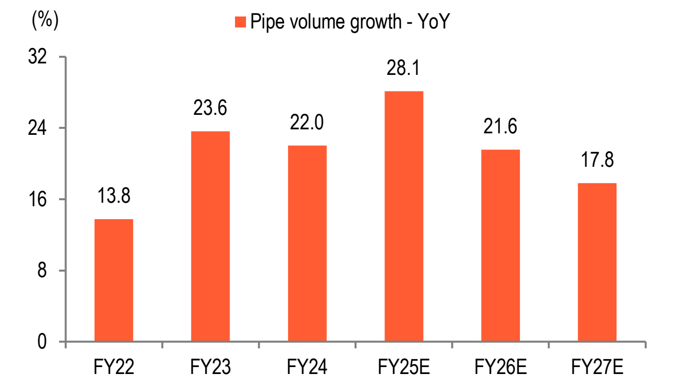
Source: Company, BOBCAPS Research

Fig 5 – However, EBITDA margin was down in Q3 due to consolidation of Kisan Moulding operations



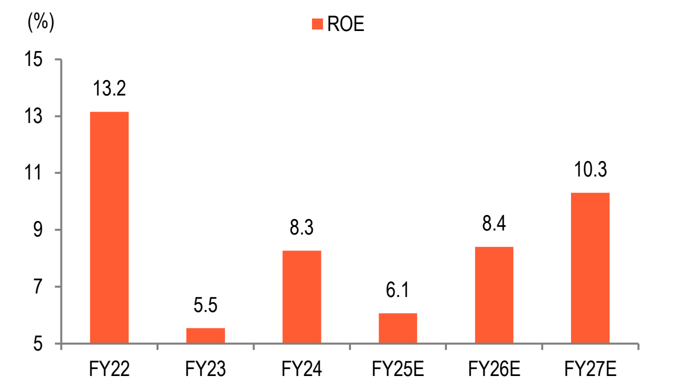
Source: Company, BOBCAPS Research

Fig 6 – Despite our assumption of a strong pipe volume CAGR of 22.4% over FY24-FY27E…



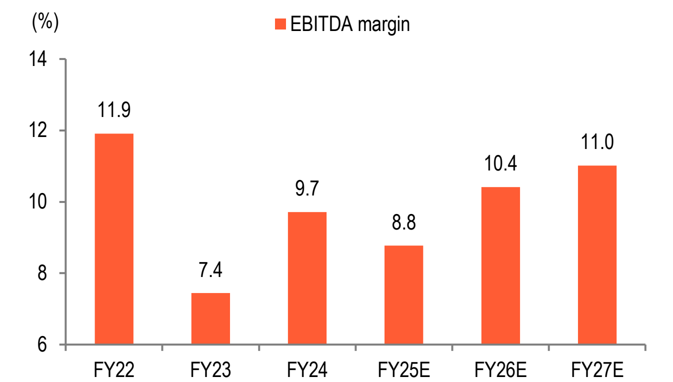
Source: Company, BOBCAPS Research

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 Kisan Moulding operations



Source: Company, BOBCAPS Research

Valuation methodology

We expect APOLP's sales volume to grow at a strong 22.4% CAGR over FY24-FY27E, but we maintain our HOLD rating on the stock due to its weak ROE profile (6.1%-10.3% 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 30.2x on 1Y forward P/E vs 5Y average of 48.8x.

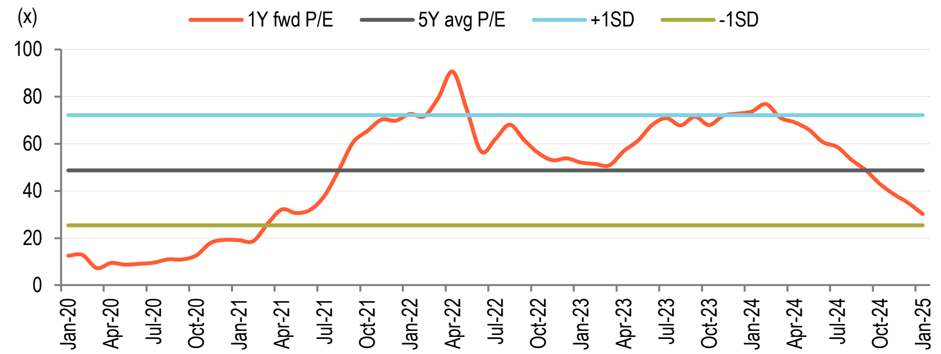
We have cut our TP to Rs 450 (Rs 550 earlier) due to earnings downgrade (-18.7%/-15.7%/-11.5% for FY25E/FY26E/ FY27E) based on the weak Q3FY25 result. We value APOLP at 27x on Dec'26 EPS estimates (Sep'26 earlier).

Fig 9 – Revised estimates

Consolidated	New			Old			Change (%)		
(Rs mn)	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Operating income	12,266	15,342	18,993	12,792	16,407	19,726	(4.1)	(6.5)	(3.7)
EBITDA	1,076	1,597	2,093	1,144	1,624	2,098	(6.0)	(1.6)	(0.3)
EBITDA Margin	8.8	10.4	11.0	8.9	9.9	10.6	(17bps)	51bps	38bps
Adjusted PAT	394	681	968	438	698	946	(10.1)	(2.5)	2.3
EPS (Rs)	8.9	14.8	21.0	11.0	17.5	23.8	(18.7)	(15.7)	(11.5)

Source: BOBCAPS Research

Fig 10 – Trades at 30.2x on 1Y forward P/E vs 5Y average of 48.8x



Source: Bloomberg, BOBCAPS Research

Fig 11 – Key assumptions

(%)	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Sales Volume growth	13.8	23.6	22.0	28.1	21.6	17.8
Realisation growth	33.0	(5.6)	(11.6)	(3.0)	2.9	5.1
EBITDA per unit (Rs/kg)	17.3	10.2	11.8	10.3	12.6	14.0
Pre-tax ROCE	15.8	8.4	11.6	9.0	12.0	13.8
Pre-tax ROIC	18.7	9.8	14.0	11.7	15.9	17.2

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.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	**9,145**	**9,869**	**12,266**	**15,342**	**18,993**
EBITDA	680	958	1,076	1,597	2,093
Depreciation	284	299	428	519	606
EBIT	396	660	648	1,078	1,486
Net interest inc./(exp.)	(89)	(51)	(122)	(125)	(125)
Other inc./(exp.)	20	39	22	23	23
Exceptional items	0	0	0	0	0
EBT	327	648	548	976	1,385
Income taxes	88	220	139	253	356
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	(2)	(16)	(42)	(60)
Reported net profit	**239**	**426**	**394**	**681**	**968**
Adjustments	0	0	0	0	0
Adjusted net profit	**239**	**426**	**394**	**681**	**968**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	1,179	1,669	2,075	2,595	3,212
Other current liabilities	364	881	881	881	881
Provisions	5	79	98	123	152
Debt funds	437	632	781	973	1,701
Other liabilities	64	1,104	1,104	1,104	1,104
Equity capital	393	394	440	460	460
Reserves & surplus	4,179	5,347	6,807	8,498	9,375
Shareholders' fund	4,572	5,740	7,247	8,959	9,835
Total liab. and equities	**6,619**	**10,106**	**12,187**	**14,635**	**16,885**
Cash and cash eq.	348	560	480	526	253
Accounts receivables	658	796	989	1,237	1,531
Inventories	1,708	1,987	2,202	2,772	3,485
Other current assets	590	367	448	551	673
Investments	401	516	516	516	516
Net fixed assets	2,506	4,567	5,139	6,620	8,014
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**	**12,187**	**14,635**	**16,885**

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	**739**	**1,892**	**873**	**968**	**1,254**
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	22	23	23
Cash flow from investing	**(1,052)**	**(2,564)**	**(2,078)**	**(1,977)**	**(1,977)**
Equities issued/Others	0	0	47	20	0
Debt raised/repaid	50	195	149	192	727
Interest expenses	(89)	(51)	(122)	(125)	(125)
Dividends paid	(24)	(39)	(44)	(69)	(92)
Other financing cash flows	303	783	1,094	1,038	(60)
Cash flow from financing	**241**	**888**	**1,125**	**1,055**	**450**
Chg in cash & cash eq.	**(72)**	**216**	**(80)**	**46**	**(273)**
Closing cash & cash eq.	**348**	**564**	**484**	**530**	**257**

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	6.1	10.8	8.9	14.8	21.0
Adjusted EPS	6.1	10.8	8.9	14.8	21.0
Dividend per share	0.6	1.0	1.0	1.5	2.0
Book value per share	116.3	145.9	164.5	194.6	213.6

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	1.9	1.7	1.4	1.1	0.9
EV/EBITDA	25.4	17.9	15.9	10.6	8.0
Adjusted P/E	68.3	38.4	46.5	28.1	19.8
P/BV	3.6	2.9	2.5	2.1	1.9

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	73.1	65.8	71.8	69.7	69.9
Interest burden (PBT/EBIT)	82.6	98.2	84.6	90.5	93.1
EBIT margin (EBIT/Revenue)	4.3	6.7	5.3	7.0	7.8
Asset turnover (Rev./Avg TA)	138.2	97.7	100.7	104.8	112.5
Leverage (Avg TA/Avg Equity)	1.5	2.0	1.9	1.8	1.8
Adjusted ROAE	5.5	8.3	6.1	8.4	10.3

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	16.6	7.9	24.3	25.1	23.8
EBITDA	(27.2)	40.9	12.3	48.5	31.0
Adjusted EPS	(51.9)	78.1	(17.5)	65.3	42.2
Profitability & Return ratios (%)					
EBITDA margin	7.4	9.7	8.8	10.4	11.0
EBIT margin	4.3	6.7	5.3	7.0	7.8
Adjusted profit margin	2.6	4.3	3.2	4.4	5.1
Adjusted ROAE	5.5	8.3	6.1	8.4	10.3
ROCE	8.3	11.0	8.3	11.1	13.1
Working capital days (days)					
Receivables	26	29	29	29	29
Inventory	68	73	66	66	67
Payables	47	62	62	62	62
Ratios (x)					
Gross asset turnover	2.7	1.9	1.7	1.8	1.8
Current ratio	1.7	1.1	1.1	1.1	1.1
Net interest coverage ratio	4.5	13.0	5.3	8.6	11.9
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.1

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

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BUY – Expected return >+15%

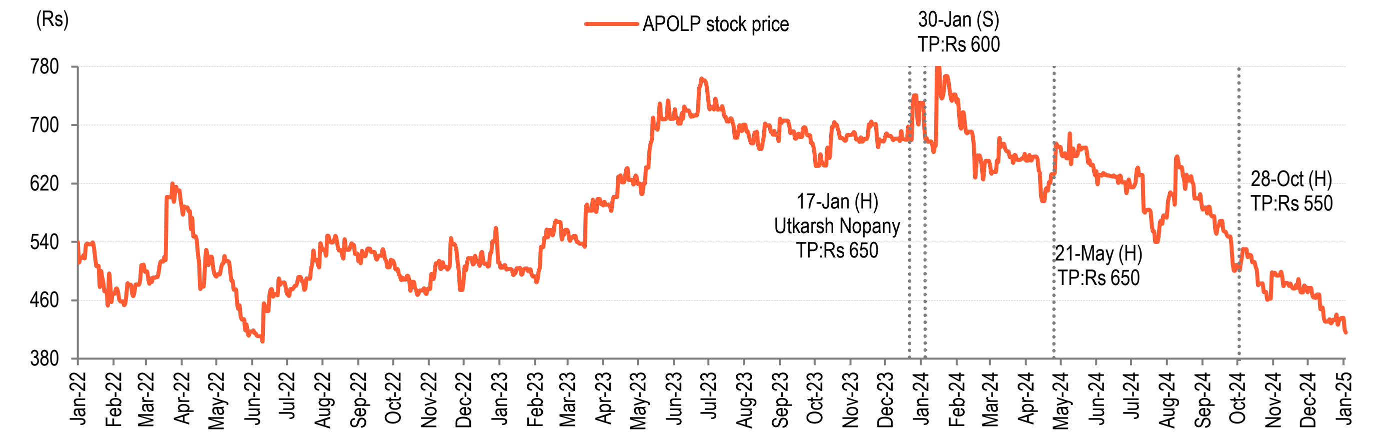
HOLD – Expected return from -6% to +15%

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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