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**ASIAMONEY**

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**CMP: INR 732**

**Rating: Accumulate**

**Outlook: Positive**

**Target Price: INR 810**

**Stock Info**

BSE	531761
NSE	APOLLOPIPE
Bloomberg	APOLP:IN
Sector	Plastic Products
Face Value (INR)	10
Mkt Cap (INR Mn)	28,792
52w H/L (INR)	787/424
Avg Daily Volume (in 000')	53

**Shareholding Pattern %**

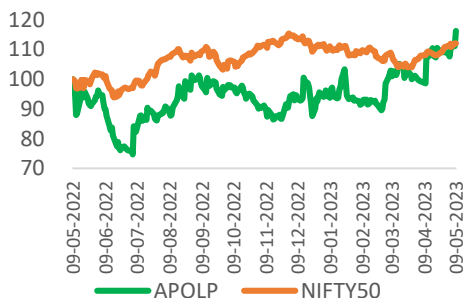
(As on June, 2023)

Promoters	50.80
Public & Others	49.20

**Stock Performance (%) 1m 6m 12m**

APOLP	1.82	45.59	57.25
NIFTY	5.08	12.32	18.82

**APOLP Vs Nifty**



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**Results Overview:**

**Results beat on topline but miss on profitability**

- **Volumes** came in at 21,219 tonnes (Vs 18,685 tonnes QoQ) (Vs 14,406 tonnes YoY)
- **Revenue** came in at INR 2,603 Mn (+3.3% QoQ) (+18.9% YoY) (+7.3% against our estimates)
- **Gross margins** came in at 26.9% (Vs 28.2% QoQ) (Vs 24.4% YoY)
- **EBITDA** came in at INR 262 Mn (-11.1% QoQ) (+30.6% YoY)
- **EBITDA Margins** came in at 10.05% (Vs 11.68% QoQ) (Vs 9.15% YoY) (Vs 11.55% our estimates)
- **PAT** came in at INR 139 Mn (-7.3% QoQ) (+57.8% YoY)
- **PAT Margins** came in at 5.35% (Vs 5.96% QoQ) (Vs 4.03% YoY)
- **Q1FY24 ROCE**: 15.6% | Q1FY24 ROE: 11.1%
- **FY23 Net Working Capital Days** at 56 (Vs 68 for FY22)
- **FY23 Op. Cash Flow** at INR 690 Mn (Vs 360 Mn for FY22)

**Other Highlights:**

The changes in fair value of APL Infra Ltd (an investment) are accounted through FVOCI

Dividend of INR 0.6 for FY23 pending approval in AGM

Highest ever quarterly volume – 21,219 tonnes (+14% QoQ)

CPVC prices corrected by INR 25/Kg in Q1

**Outlook:**

For the next 2-3 quarters, company will follow aggressive pricing model. This may continue later too but the margins will revert gradually. The growth plans of 35% CAGR for 4 years are still intact and all levers are in place for it (trigger being PVC prices). Company is adding a lot of VAP. With the total capacity reaching 286,000 tonnes, total of 60-65% of available capacity will be VAP. Currently, South, West and East region sales contribute to INR 3-4 Bn which the company aims to take to INR 15 Bn in 3-4 years. We reworked our numbers and based on our estimates, company trades 22.6x FY26EEPS of INR 32.4. **We believe the company has entered a high growth phase (observed with current quarters volumes) and will be able to achieve the ambitious targets. Hence we assign 25x multiple to FY26EEPS and arrive at a price target of INR 810. We maintain our ACCUMULATE rating**

March (INR Mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Sales (Rsm)	3,618	4,080	5,181	7,841	9,145	10,973	14,296	19,328
Net profit (Rsm)	239	285	445	498	239	609	932	1,429
EPS (Rs)	6.1	7.3	11.3	12.7	6.1	14.6	21.2	32.4
PE (x)	120.3	100.9	64.7	57.8	120.4	50.1	34.6	22.6
EVEBITDA (x)	72.2	61.0	38.6	30.7	41.9	23.2	15.4	11.0
PBV (x)	12.5	9.4	8.2	7.1	6.3	4.7	3.5	3.0
RoE (%)	10.4	9.3	12.7	12.3	5.2	10.0	11.2	14.8
RoCE (%)	12.6	11.3	15.6	16.1	8.2	13.0	14.6	18.6
Dividend yield (%)	0.1	-	-	0.1	0.1	0.1	0.2	0.2
Net debt/Eq. (x)	-0.2	-0.2	-0.0	-0.0	-0.1	-0	-0	-0

**Apollo Pipes Q1FY24 Concall KTAs****Performance Overview:**

- Company has reiterated guidance of 35% revenue growth (25% through volume growth) for the next 3-4 years with capacity expanding from current 136,000 tonnes to 286,000 tonnes in same duration. One negative is that company has reduced the guidance of EBITDA per Kg from INR 16-17/Kg (for the next 3 years) to 13-14/Kg in FY4, INR 15-16/Kg in FY25 and gradually increasing post that. Company maintains its target of 25% ROCE in 3-4 years.
- Company delivered best ever volume performance, stabilized performance at 7k tonnes per month. At the moment, company is taking aggressive pricing strategy (also including Cash & carry model and higher Ad spends) to gain more market share from unorganized players and grow faster. Due to this, company is compromising on profitability which they will focus back on after they have achieved relevant scale.

**Industry:** Currently, company is observing industry growth of 10-12%. Industry size stands at INR 350 Bn with 40% share with unorganized players

**Pricing, RM and Costs:**

- RM price stood at INR 89.7/Kg in Q1FY24
- Minor inventory loss (1%) faced this quarter. RM was significantly volatile in the quarter
- Company has signed Amitabh Bachchan as brand ambassador. Higher Ad spends will be observed in Q2.
- Q1 had increments given out to employees

**Distribution model:**

- Company has received good response in Cash and Carry model (cash discounts) which has good track record (seen with APL Apollo tubes). This will help in lowering WC days as well. WC days have come down sequentially by 7-8 days
- Channel financing has received good response in Northern region

**Capex:**

- Company has planned INR 5 Bn capex which will be funded through INR 2.6 Bn of equity infusion and INR 2.4 Bn of internal accruals
- The capex is to be completed over a period of 3-4 years
- For FY24 and FY25, company expects a capex of INR 1.5 Bn each

**Plants:**

- Dadri Phase 2 is a value add facility only which will come online by end of FY24
- **All other facilities will be having 60-70% VAP and remainder will be commodity products**
- Dadri Phase 2 will have CPVC, HDPE and Bath fittings
- In West, company is planning Maharashtra or Silvassa. In South, company is planning Bangalore, Hosur or Hyderabad. In East, company is planning Bengal, Assam, Orissa or Eastern UP.
- Once company finalizes a land parcel, it will take 12-15 months to commence operations. Roughly land parcels will be of 30-40 acres

**Other KTAs:**

- Q1 is usually heavier towards commodity products
- Construction and plumbing is heavier in Q4
- CPVC prices corrected by INR 25/Kg in Q1
- UPVC sales is 50% of volumes, CPVC is 10-15%, HDPE is 14-16%
- For Q1, 55% agri volumes, remainder construction and others
- Company doesn't bid for government orders.

**Outlook:**

For the next 2-3 quarters, company will follow aggressive pricing model. This may continue later too but the margins will revert gradually. The growth plans of 35% CAGR for 4 years are still intact and all levers are in place for it (trigger being PVC prices). Company is adding a lot of VAP. With the total capacity reaching 286,000 tonnes, total of 60-65% of available capacity will be VAP. Currently, South, West and East region sales contribute to INR 3-4 Bn which the company aims to take to INR 15 Bn in 3-4 years. We reworked our numbers and based on our estimates, company trades 22.6x FY26EEPS of INR 32.4. **We believe the company has entered a high growth phase (observed with current quarters volumes) and will be able to achieve the ambitious targets. Hence we assign 25x multiple to FY26EEPS and arrive at a price target of INR 810. We maintain our ACCUMULATE rating**

## Exhibit 1: Income Statement

March (INR Mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Net revenues (Rs m)</b>	3,618	4,080	5,181	7,841	9,145	10,973	14,296	19,328
<i>Growth (%)</i>	27.2	12.7	27.0	51.3	16.6	20.0	30.3	35.2
Direct costs	2,625	2,888	3,618	5,732	6,928	7,748	9,760	13,143
<i>Gross Margin(%)</i>	27.5	29.2	30.2	26.9	24.2	29.4	31.7	32.0
SG&A	602	728	820	1,175	1,537	2,012	2,772	3,690
<b>EBITDA</b>	<b>392</b>	<b>464</b>	<b>743</b>	<b>934</b>	<b>680</b>	<b>1,212</b>	<b>1,764</b>	<b>2,495</b>
<b><i>EBITDA margins (%)</i></b>	<b>10.8</b>	<b>11.4</b>	<b>14.3</b>	<b>11.9</b>	<b>7.4</b>	<b>11.0</b>	<b>12.3</b>	<b>12.9</b>
- Depreciation	97	127	176	257	284	354	477	608
Other income	121	101	84	38	20	33	51	70
Interest Exp	59	61	44	43	89	74	89	39
PBT	339	377	607	672	327	817	1,251	1,919
<i>Effective tax rate (%)</i>	29.5	24.4	26.7	25.9	26.9	25.5	25.5	25.5
+ Associates/(Minorities)	-	-	-	-	-	-	-	-
<b>Net Income</b>	<b>239</b>	<b>285</b>	<b>445</b>	<b>498</b>	<b>239</b>	<b>609</b>	<b>932</b>	<b>1,429</b>
<b>Adjusted income</b>	<b>239</b>	<b>285</b>	<b>445</b>	<b>498</b>	<b>239</b>	<b>609</b>	<b>932</b>	<b>1,429</b>
Weighted Average Shares	39	39	39	39	39	42	44	44
<b>Diluted EPS (Rs/share)</b>	<b>6.1</b>	<b>7.3</b>	<b>11.3</b>	<b>12.7</b>	<b>6.1</b>	<b>14.6</b>	<b>21.2</b>	<b>32.4</b>
<i>Diluted EPS growth (%)</i>	8.5	19.2	55.9	11.9	(51.9)	140.1	44.9	53.4

## Exhibit 2: Balance Sheet

March (INR Mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Share capital	120	131	131	393	393	417	440	440
Net worth	2,298	3,065	3,515	4,053	4,572	6,114	8,295	9,663
Total debt (including Pref)	967	776	629	387	437	707	857	837
Minority interest	-	-	-	-	-	-	-	-
Deferred tax Liability/(Asset)	31	25	24	14	44	43	42	41
<b>Capital Employed</b>	<b>3,296</b>	<b>3,866</b>	<b>4,167</b>	<b>4,454</b>	<b>5,053</b>	<b>6,863</b>	<b>9,193</b>	<b>10,540</b>
Net tangible assets	949	1,324	1,996	2,153	2,597	3,742	4,765	6,158
Net Intangible assets	219	217	213	211	210	210	210	210
Goodwill	-	-	-	-	-	-	-	-
CWIP	117	305	77	71	56	46	36	26
Investments (Strategic)	-	-	-	-	-	-	-	-
Investments (Financial)	4	4	5	43	401	401	401	401
Current Assets	1,143	1,692	1,928	2,543	3,008	3,260	3,858	4,672
Cash	1,474	1,280	723	418	348	999	2,089	1,876
Current Liabilities	610	956	775	985	1,567	1,794	2,164	2,799
Working capital	533	736	1,153	1,558	1,442	1,466	1,694	1,873
<b>Capital Deployed</b>	<b>3,296</b>	<b>3,866</b>	<b>4,167</b>	<b>4,454</b>	<b>5,053</b>	<b>6,864</b>	<b>9,195</b>	<b>10,543</b>
Contingent Liabilities	557	1,001	43	392	-	-	-	-

## Exhibit 3: Cash Flow Statement

March (INR Mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
EBIT (before other income)	283	338	596	681	396	858	1,251	1,919
+ Non-cash items	97	127	176	257	284	354	477	608
OCF before WC	380	465	772	938	680	1,212	1,727	2,526
- Incr./((decr.) in WC	15	262	434	417	-317	15	218	169
Others including taxes	107	79	129	158	88	208	319	499
Operating cash-flow	258	124	209	363	909	989	1,191	1,858
- Capex	447	592	617	405	711	1,490	1,490	1,990
Free cash-flow	-189	-467	-408	-41	197	-501	-299	-132
Acquisitions								
- Dividend	-	16	-	-	24	33	48	62
+ Equity raised	560	498	-	-	-	1,298	24	-
+ Debt raised	-1,261	-221	-165	-256	50	270	150	-20
- Fin Investments	-2	-	0	14	357	-	-	-
- Misc. Items (CFI + CFF)	(316)	(12)	(17)	(7)	270	51	-	-
Net cash-flow	-572	-195	-557	-304	-403	983	-174	-213
Cash classified as other asset/overdraft	-	(0)	0	(0)	(332)	332	(1,265)	(1)

## Exhibit 4: Ratios

Particulars	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	120.3	100.9	64.7	57.8	120.4	50.1	34.6	22.6
EV/EBITDA (x)	72.2	61.0	38.6	30.7	41.9	23.2	15.4	11.0
EV/sales (x)	7.8	6.9	5.5	3.7	3.1	2.6	1.9	1.4
P/B (x)	12.5	9.4	8.2	7.1	6.3	4.7	3.5	3.0
RoE (%)	10.4	9.3	12.7	12.3	5.2	10.0	11.2	14.8
RoCE (%)	12.6	11.3	15.6	16.1	8.2	13.0	14.6	18.6
ROIC	19.3	12.9	14.8	13.3	5.5	11.5	14.4	18.1
DPS (Rs per share)	1.0	-	-	1.0	0.6	0.8	1.1	1.4
Dividend yield (%)	0.1	-	-	0.1	0.1	0.1	0.2	0.2
Dividend payout (%)	16.4	-	-	7.9	9.9	5.5	5.2	4.3
Net debt/equity (x)	-0.2	-0.2	-0.0	-0.0	-0.1	-0	-0	-0
Receivables (days)	36	53	44	33	26	23	22	21
Inventory (days)	53	74	55	61	68	64	60	55
Payables (days)	36	61	34	26	47	45	43	43
WC Cycle	52	66	65	68	47	42	39	33
CFO: PAT%	107.7	43.6	46.9	73.0	380.0	162.5	127.8	130.0
FCF: PAT%	-79.1	-163.8	-91.8	-8.3	82.5	-82.3	-32.1	-9.2

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## Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

## Absolute Return

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