

CMP: INR 645

Rating: ACCUMULATE

Target Price: INR 769

Stock Info

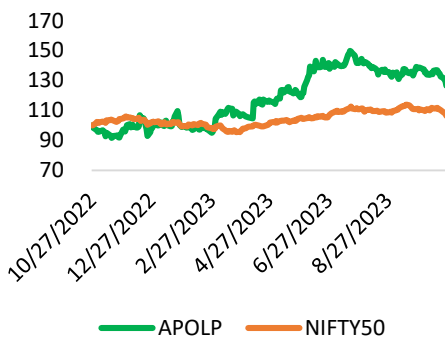
BSE	531761
NSE	APOLLOPIPE
Bloomberg	APOLP:IN
Sector	Plastic Products
Face Value (INR)	10
Mkt Cap (INR Mn)	25,384
52w H/L (INR)	775/516
Avg Daily Volume (in 000')	68

**Shareholding Pattern %
(As on June, 2023)**

Promoters	50.80
Public & Others	49.20

Stock Performance (%)	1m	6m	12m
APOLP	(8.88)	8.62	27.7
NIFTY	(2.4)	5.4	7.1

APOLP Vs Nifty



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Results Overview:

Results slightly weaker than expected

- **Volumes** came in at 19,803 (-7% QoQ) (+28% YoY)
- **Revenues** came in at INR 2,495 Mn (-4.2% QoQ) (+20.5% YoY) (-0.85% against our estimates)
- **Gross margins** came in at 28.5% (Vs 26.9% QoQ) (Vs 19.4% YoY)
- **EBITDA** came in at INR 241 Mn (-7.8% QoQ) (+869% YoY)
- **EBITDA Margins** came in at 9.68% (Vs 10.05% QoQ) (Vs 1.2% YoY) (Vs 10.47% our estimates)
- **PAT** came in at INR 129 Mn (Vs 139 Mn QoQ) (Vs -48 Mn YoY)
- **PAT Margins** came in at 5.18% (Vs 5.35% QoQ) (Vs -2.32% YoY)
- **Q2FY24 ROCE** at 15.8% | **ROE** at 10.6%
- **NWC days** at 49 (Vs 56 in FY23)
- Total 1600+ **Products** | 700+ **channel partners**

Other Highlights:

The changes in fair value of APL Infra Ltd (an investment) are accounted through FVOCI
PVC and CPVC prices were volatile during the quarter

Outlook:

Company will bring WC days under 40 and take ROCE to 25-30%. The industry may grow 30 Bn-40 Bn per annum incrementally (10-12% industry growth rate). 40% of this is unorganized. Company aims to utilize 70-75% at capacity of 286,000 tonnes by FY27-FY28 and generate INR 15-16 per Kg of EBITDA (INR 3-3.2 Bn of EBITDA). By FY26, company aims to take housing contri in business to 75% which is 55% currently. Company aims to deliver INR 12 Bn of topline in FY24. Our view is that the capex will go on till FY26 and the entire capacity of 286,000 tonnes will be available by FY27 when company will be making better margins. Prior to that, company will be in a high growth phase. On the brighter side, company will continue to improve operational efficiencies (WC days have come down, return ratios are improving). We continue to believe the company will perform well in the long run but the main hurdle is to navigate through the entire capex cycle. **We continue with our 25x multiple on FY26EEPS and arrive at a target price of INR 769 and we maintain our ACCUMULATE rating. At CMP, company trades 21x FY26EEPS**

March (INR Mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Sales (Rsm)	3,618	4,080	5,181	7,841	9,145	10,869	14,817	20,003
Net profit (Rsm)	239	285	445	498	239	512	738	1,354
EPS (Rs)	6.1	7.3	11.3	12.7	6.1	12.3	16.8	30.7
PE (x)	120.3	100.9	64.7	57.8	120.4	59.6	43.7	23.8
EVEBITDA (x)	72.2	61.0	38.6	30.7	41.9	26.0	18.3	11.3
PBV (x)	12.5	9.4	8.2	7.1	6.3	4.8	3.6	3.1
RoE (%)	10.4	9.3	12.7	12.3	5.2	8.5	9.2	14.6
RoCE (%)	12.6	11.3	15.6	16.1	8.2	11.2	12.1	18.6
Dividend yield (%)	0.1	-	-	0.1	0.1	0.1	0.2	0.2
Net debt/equity (x)	-0.2	-0.2	-0.0	-0.0	-0.1	-0	-0	-0

Apollo Pipes Q2FY24 Concall KTAs

Overview: FY24 Volumes to be 85,000 tonnes, H1 volumes at 41,022 tonnes. PVC and cPVC prices observed volatility during the quarter

Operating metrics

- Volumes for the quarter were 19,803 tonnes (-7% QoQ) (+28% YoY)
- WC days at 41 days in H1 Vs 56 days YoY
- Value wise, Housing was 55% and agri was 45%. Volume wise Housing Vs Agri at 52% Vs 48%
- During the quarter, volumes were flat for housing but 10% down for Agri QoQ
- CVPC was 15-20% of contri to sales vs 12-15% YoY

Business Highlights

- Company observed destocking in the quarter due to fall in PVC prices. October observed 10% fall in PVC prices
- Cash and Carry model has helped improve receivables. Company is in talks with 3-4 national banks, 2-3 NBFCs, 1-2 fintech companies as well for the same.
- Channel inventory was very low in September due to fall in prices. Now are better, INR 1 increase in PVC prices took place last week

Capex & Capacity expansion:

- Company is currently in process of acquiring land in east UP and Maharashtra for their greenfield expansion
- For FY24 and FY25, company will spend INR ~1.2 Bn each for capex. For the next 3 years company will spend INR 5 Bn for capex
- Company will take capacity to 142,000/200,000/225,000/286,000 tonnes in FY24/25/26/27
- Company will close land acquisition in East UP in 2-3 weeks. Maharashtra land acquisition will take time. Commercial production will start in Aug 2024 for UP plant
- UP plant currently supplies to Punjab, JK, Haryana.
- H1 capex was INR 450 Mn, H2 will be 800 Mn. Funds for same were raised through preferential issue
- All new capex is towards housing segment

Other KTAs:

- Margins are normalizing in the industry
- Company is the largest player in North India on capacity and SKU basis
- Company conducted plumber influencer program during the quarter
- Ad spends in H1 were 1.5% of sales. Q3 will be 2% and Q4 will be 2.5% (because campaign shot with Amitabh Bachchan will go live)
- Employee cost per tonne is down YoY basis (to remain INR 8,000 per tonne or above)
- Going ahead, every quarter some capacity will be added
- Company saw some inventory gain instead of loss during the quarter. May see in Q3

Outlook:

Company will bring WC days under 40 and take ROCE to 25-30%. The industry may grow 30 Bn-40 Bn per annum incrementally (10-12% industry growth rate). 40% of this is unorganized. Company aims to utilize 70-75% at capacity of 286,000 tonnes by FY27-FY28 and generate INR 15-16 per Kg of EBITDA (INR 3-3.2 Bn of EBITDA). By FY26, company aims to take housing contri in business to 75% which is 55% currently. Company aims to deliver INR 12 Bn of topline in FY24. Our view is that the capex will go on till FY26 and the entire capacity of 286,000 tonnes will be available by FY27 when company will be making better margins. Prior to that, company will be in a high growth phase. On the brighter side, company will continue to improve operational efficiencies (WC days have come down, return ratios are improving). **We continue to believe the company will perform well in the long run but the main hurdle is to navigate through the entire capex cycle. We continue with our 25x multiple on FY26EEPS and arrive at a target price of INR 769 and we maintain our ACCUMULATE rating. At CMP, company trades 21x FY26EEPS**

Exhibit 1: Income Statement

March (INR Mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net revenues (Rs m)	3,618	4,080	5,181	7,841	9,145	10,869	14,817	20,003
<i>Growth (%)</i>	27.2	12.7	27.0	51.3	16.6	18.9	36.3	35.0
Direct costs	2,625	2,888	3,618	5,732	6,928	7,770	10,538	13,802
<i>Gross Margin(%)</i>	27.5	29.2	30.2	26.9	24.2	28.5	28.9	31.0
SG&A	602	728	820	1,175	1,537	2,017	2,777	3,751
EBITDA	392	464	743	934	680	1,083	1,502	2,450
<i>EBITDA margins (%)</i>	10.8	11.4	14.3	11.9	7.4	10.0	10.1	12.2
- Depreciation	97	127	176	257	284	354	477	608
Other income	121	101	84	38	20	33	53	72
Interest Exp	59	61	44	43	89	74	89	97
PBT	339	377	607	672	327	687	990	1,818
<i>Effective tax rate (%)</i>	29.5	24.4	26.7	25.9	26.9	25.5	25.5	25.5
+ Associates/(Minorities)	-	-	-	-	-	-	-	-
Net Income	239	285	445	498	239	512	738	1,354
Adjusted income	239	285	445	498	239	512	738	1,354
Weighted Average Shares	39	39	39	39	39	42	44	44
Diluted EPS (Rs/share)	6.1	7.3	11.3	12.7	6.1	12.3	16.8	30.7
<i>Diluted EPS growth (%)</i>	8.5	19.2	55.9	11.9	(51.9)	102.0	36.4	83.5

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	6,017	8,004	9,297
Total debt (including Pref)	967	776	629	387	437	707	857	937
Minority interest	-	-	-	-	-	-	-	-
Deferred tax Liability/(Asset)	31	25	24	14	44	43	42	41
Capital Employed	3,296	3,866	4,167	4,454	5,053	6,767	8,903	10,274
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	3,236	3,975	4,813
Cash	1,474	1,280	723	418	348	914	1,744	1,550
Current Liabilities	610	956	775	985	1,567	1,781	2,226	2,880
Working capital	533	736	1,153	1,558	1,442	1,455	1,749	1,933
Capital Deployed	3,296	3,866	4,167	4,454	5,053	6,767	8,904	10,277
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	728	990	1,818
+ Non-cash items	97	127	176	257	284	354	477	608
OCF before WC	380	465	772	938	680	1,083	1,467	2,425
- Incr./(decr.) in WC	15	262	434	417	-317	3	284	174
Others including taxes	107	79	129	158	88	175	253	473
Operating cash-flow	258	124	209	363	909	904	930	1,778
- Capex	447	592	617	405	711	1,490	1,490	1,990
Free cash-flow	-189	-467	-408	-41	197	-586	-560	-212
Acquisitions								
- Dividend	-	16	-	-	24	33	48	62
+ Equity raised	560	498	-	-	-	1,298	24	-
+ Debt raised	-1,261	-221	-165	-256	50	270	150	80
- Fin Investments	-2	-	0	14	357	-	-	-
- Misc. Items (CFI + CFF)	(316)	(12)	(17)	(7)	270	51	-	-
Net cash-flow	-572	-195	-557	-304	-403	898	-435	-193
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	59.6	43.7	23.8
EV/EBITDA (x)	72.2	61.0	38.6	30.7	41.9	26.0	18.3	11.3
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	4.8	3.6	3.1
RoE (%)	10.4	9.3	12.7	12.3	5.2	8.5	9.2	14.6
RoCE (%)	12.6	11.3	15.6	16.1	8.2	11.2	12.1	18.6
ROIC	19.3	12.9	14.8	13.3	5.5	9.7	11.3	17.0
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	6.5	6.6	4.6
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	176.6	126.1	131.3
FCF:PAT%	-79.1	-163.8	-91.8	-8.3	82.5	-114.3	-75.8	-15.6

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Stock Rating Scale

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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