

**Aggressive on volumes, competitive in margins**

**CMP: INR 681**

**Rating: ACCUMULATE**

**Target Price: INR 761**

**Stock Info**

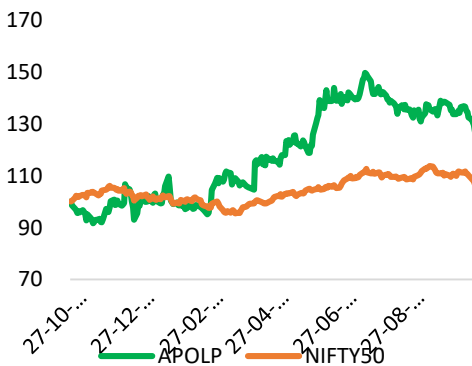
BSE	531761
NSE	APOLLOPIPE
Bloomberg	APOLP:IN
Sector	Plastic Products
Face Value (INR)	10
Mkt Cap (INR Mn)	25,384
52w H/L (INR)	787/481
Avg Daily Volume (in 000')	68

**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 weaker than expected but margin profile improved.** Q4FY24 to be the best quarter ever, FY24 to register 25% volume growth. Coming few years to see 25% volume growth and 35% value growth.

- **Volumes** came in at 18,868 (-5% QoQ) (+5% YoY)
- **Revenues** came in at INR 2.21 Bn (-6.4% QoQ) (-11.2% YoY) (-21% against our estimates)
- **Gross margins** came in at 29.2% (Vs 28.5% QoQ) (Vs 24.2% YoY)
- **EBITDA** came in at INR 201 Mn (-16.6% QoQ) (+25.2% YoY)
- **EBITDA Margins** came in at 9.09% (Vs 9.09% QoQ) (Vs 6.79% YoY) (Vs 9.58% our estimates)
- **PAT** came in at INR 91 Mn (-29.7% QoQ) (+86.6% YoY)
- **PAT Margins** came in at 4.1% (Vs 5.18% QoQ) (Vs 2.06% YoY)
- **9MFY24 (annualized) ROCE** at 14.1% | **ROE** at 9.4%
- **NWC days** at 46 (Vs 56 in FY23)
- Total 1600+ **Products** | 700+ **channel partners**

**Other KTAs:**

- Minor inventory loss in Q3, FY24 till date has had better gross margins because RM prices have stabilized (and less volatile). PVC prices are at bottom. Minor issues in RM sourcing from Red Sea area.

**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 17-18 per Kg of EBITDA (INR 3-3.2 Bn of EBITDA). Company aims to deliver 25% volume growth in FY24. Our view is that the capex will go on beyond FY26 and the entire capacity of 286,000 tonnes will be available by FY27 (end) 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. Bath fittings, water tanks and OPVC pipes will bring in incremental revenues and margins to reach 17-18/Kg EBITDA. Current quarter faced slowdown in topline due to drop in PVC prices but margins were protected. **At CMP, company trades 26.8x FY26EEPS. We revise our target price to INR 761 (30x FY26EEPS) and continue with our ACCUMULATE rating.**

**Financials**

March (INR Mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Sales (Rsm)	3,618	4,080	5,181	7,841	9,145	10,111	13,128	18,116
Net profit (Rsm)	239	285	445	498	239	463	628	1,118
EPS (Rs)	6.1	7.3	11.3	12.7	6.1	11.1	14.2	25.4
PE (x)	120.3	100.9	64.7	57.8	120.4	65.9	51.4	28.9
EVEBITDA (x)	72.2	61.0	38.6	30.7	41.9	27.6	20.4	13.0
PBV (x)	12.5	9.4	8.2	7.1	6.3	4.8	3.7	3.2
RoE (%)	10.4	9.3	12.7	12.3	5.2	7.8	8.0	12.6
RoCE (%)	12.6	11.3	15.6	16.1	8.2	10.3	10.6	16.2
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 Q3FY24 Concall KTAs**

**Overview:** Q4FY24 to be the best quarter ever, FY24 to register 25% volume growth. Coming few years to see 25% volume growth and 35% value growth.

**Operating metrics**

- Volumes for the quarter were 18,868 (-5% QoQ) (+5% YoY)
- WC days at 46 (Vs 56 in FY23)
- Value wise, Housing was 58% and agri was 42%
- CVPC was 18% of contri to sales, getting better

**Business Highlights**

- Business environment has been challenging due to weak offtake by channel partners.
- PVC prices fell by INR 11 during the quarter, cPVC prices fell by 5%
- Home improvement segment remained weak but is expected to see better quarters going ahead.
- Company acknowledged the shortfall in meeting expected performance during Q2 and Q3 but is extremely confident of achieving guidance in Q4. Full year volume growth to be 25% (~83,000 tonnes)
- OPVC pipes, company has ordered machinery and is setting up business model. Phase 1 will start next quarter, Phase 3 will start Dec 2024. FY25 will have OPVC contribution. Approx OPVC realisations of INR 200/Kg. OPVC will replace iron pipes
- Current EBITDA per tonne of ~INR 12/KG, target INR 17-18 per Kg. Gross margins of INR 39/Kg will give 17-18/Kg EBTIDA.
- Turnaround time from acquisition of land to commercialization of production is 15 months. From here on, every 9 months will have an announcement of new plant (approx.)
- cPVC & bath fittings sales improving. Home improvement and innovation growth was affected last 2 quarters but December onwards growth has shown positive trend.
- Q3 was soft due to festive season and construction activity was soft. Company is working towards project sales approval

**Capex & Capacity expansion:**

- 9M capex at INR 820 Mn, Q4 will have another INR 500 Mn in capex (total FY24 capex will have INR 400-500 Mn in land capex)
- FY25 will have INR 2.1 Bn (of which INR 1 Bn will be towards land in Maha)
- FY26 will have INR ~1.6 Bn
- 3 plants to come up: Banaras, Maharashtra and South. Post completion and commercialization, North plant will have 50% capacity and remainder 3 will have 50% cumulative capacity.
- Varanasi plant to start by end of FY25, brownfield expansion to finish by FY25, West and South plant to finish by FY26
- All new plants will have high VAP. Dadri plant is increasing CPVC and Varanasi plant is adding cPVC

**Other KTAs:**

- ROCE goal of 25-30%, volume growth guidance of 25%, value growth guidance of 35%.
- Value growth guidance given keeping in mind that the PVC prices are at bottom
- Company acknowledges that competition is doing better since they have been in business much longer and have better cPVC sales mix. Peers operate at higher utilization levels as well while company's fixed costs are higher since they keep increasing capacity.
- Projects doing good sales, HDPE pipes used 100% in projects
- Minor inventory loss in Q3, FY24 till date has had better gross margins because RM prices have stabilized (and less volatile). PVC prices are at bottom. Minor issues in RM sourcing from Red Sea area.
- Nal se Jal contri at 10-12%
- Company has 700 distributors today and will reach 1000 in 2-3 years
- Agri sales were down QoQ due to drop in PVC prices which led to destocking
- Warrants will be converted 18 months from issues, 6 months have passed.
- Q4 strong demand beyond metros. Once election is completed, projects business may slowdown. Currently less than 10% is projects business. Distributors are helping push project sales.

**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 17-18 per Kg of EBITDA (INR 3-3.2 Bn of EBITDA). Company aims to deliver 25% volume growth in FY24. Our view is that the capex will go on beyond FY26 and the entire capacity of 286,000 tonnes will be available by FY27 (end) 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. Bath fittings, water tanks and OPVC pipes will bring in incremental revenues and margins to reach 17-18/Kg EBITDA. Current quarter faced slowdown in topline due to drop in PVC prices but margins were protected. **At CMP, company trades 26.8x FY26EEPS. We revise our target price to INR 761 (30x FY26EEPS) and continue with our ACCUMULATE rating.**

Apollo Pipes - Quarterly Results					
(Rs mn)	Q3FY24	Q2FY24	Q3FY23	% QoQ	% YoY
<b>Operating matrices</b>					
Volume (tons)	18,868	19,803	18,011	(5)	5
Realisation (Rs /kg)	117	126	131	(7)	(11)
EBITDA (Rs /kg)	10.7	12.2	8.9	(12)	20
<b>P&amp;L</b>					
<b>Total Income</b>	<b>2,216</b>	<b>2,495</b>	<b>2,367</b>	(11)	(6)
Raw material costs	1,569	1,782	1,794	(12)	(13)
Employee costs	154	164	140	(6)	10
Other expenses	291	306	271	(5)	7
<b>EBITDA</b>	<b>201</b>	<b>241</b>	<b>161</b>	(17)	25
Depreciation	75	72	74	4	1
Finance costs	14	7	21	101	(33)
Other income	11	13	0	(17)	4,508
<b>PBT</b>	<b>123</b>	<b>175</b>	<b>66</b>		
Tax	33	46	17		
<b>PAT</b>	<b>91</b>	<b>129</b>	<b>49</b>		
EPS (Rs)	2.3	3.3	1.2		
<b>As % Total Income</b>				<b>QoQ (bps)</b>	<b>YoY (bps)</b>
<b>Gross margin</b>	<b>29.2</b>	<b>28.5</b>	<b>24.2</b>	<b>65</b>	<b>502</b>
Employee costs	7.0	6.6	5.9	<b>37</b>	<b>104</b>
Other expenses	13.1	12.3	11.5	<b>87</b>	<b>168</b>
<b>EBITDA margin</b>	<b>9.1</b>	<b>9.7</b>	<b>6.8</b>	<b>(59)</b>	<b>229</b>
Depreciation	3.4	2.9	3.1	<b>48</b>	<b>25</b>
Finance costs	0.6	0.3	0.9	<b>35</b>	<b>(25)</b>
Other income	0.5	0.5	0.0	<b>(3)</b>	<b>48</b>
<b>PBT</b>	<b>5.6</b>	<b>7.0</b>	<b>2.8</b>	<b>(146)</b>	<b>277</b>
Effective tax rate	26.4	26.2	26.4	<b>12</b>	<b>(8)</b>
<b>PAT</b>	<b>4.1</b>	<b>5.2</b>	<b>2.1</b>	<b>(108)</b>	<b>204</b>

## 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	10,111	13,128	18,116
<i>Growth (%)</i>	27.2	12.7	27.0	51.3	16.6	10.6	29.8	38.0
Direct costs	2,625	2,888	3,618	5,732	6,928	7,178	9,114	12,500
<i>Gross Margin(%)</i>	27.5	29.2	30.2	26.9	24.2	29.0	30.6	31.0
SG&A	602	728	820	1,175	1,537	1,921	2,644	3,461
<b>EBITDA</b>	<b>392</b>	<b>464</b>	<b>743</b>	<b>934</b>	<b>680</b>	<b>1,012</b>	<b>1,369</b>	<b>2,155</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>10.0</b>	<b>10.4</b>	<b>11.9</b>
- Depreciation	97	127	176	257	284	348	486	624
Other income	121	101	84	38	20	30	47	65
Interest Exp	59	61	44	43	89	74	89	97
PBT	339	377	607	672	327	621	842	1,500
<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>463</b>	<b>628</b>	<b>1,118</b>
<b>Adjusted income</b>	<b>239</b>	<b>285</b>	<b>445</b>	<b>498</b>	<b>239</b>	<b>463</b>	<b>628</b>	<b>1,118</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>11.1</b>	<b>14.2</b>	<b>25.4</b>
<i>Diluted EPS growth (%)</i>	8.5	19.2	55.9	11.9	(51.9)	82.6	28.3	78.1

## 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	5,968	7,845	8,901
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
<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>6,717</b>	<b>8,743</b>	<b>9,878</b>
Net tangible assets	949	1,324	1,996	2,153	2,597	3,568	5,183	6,139
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	3,055	3,595	4,420
Cash	1,474	1,280	723	418	348	1,124	1,344	1,340
Current Liabilities	610	956	775	985	1,567	1,686	2,024	2,654
Working capital	533	736	1,153	1,558	1,442	1,369	1,571	1,765
<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>6,718</b>	<b>8,745</b>	<b>9,881</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	665	842	1,500
+ Non-cash items	97	127	176	257	284	348	486	624
OCF before WC	380	465	772	938	680	1,012	1,328	2,124
- Incr./ (decr.) in WC	15	262	434	417	-317	-83	192	184
Others including taxes	107	79	129	158	88	158	215	392
Operating cash-flow	258	124	209	363	909	937	921	1,547
- Capex	447	592	617	405	711	1,310	2,090	1,570
Free cash-flow	-189	-467	-408	-41	197	-373	-1,169	-23
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	53	-	-
Net cash-flow	-572	-195	-557	-304	-403	1,108	-1,044	-4
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	65.9	51.4	28.9
EV/EBITDA (x)	72.2	61.0	38.6	30.7	41.9	27.6	20.4	13.0
EV/sales (x)	7.8	6.9	5.5	3.7	3.1	2.8	2.1	1.5
P/B (x)	12.5	9.4	8.2	7.1	6.3	4.8	3.7	3.2
RoE (%)	10.4	9.3	12.7	12.3	5.2	7.8	8.0	12.6
RoCE (%)	12.6	11.3	15.6	16.1	8.2	10.3	10.6	16.2
ROIC	19.3	12.9	14.8	13.3	5.5	9.0	9.7	14.0
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	7.2	7.7	5.5
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	202.4	146.7	138.4
FCF: PAT%	-79.1	-163.8	-91.8	-8.3	82.5	-80.6	-186.3	-2.0

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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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