

Sweet spot in commodity cycle led by demand recovery

**CMP: INR 629**

**Rating: Accumulate**

**Outlook: Positive**

**Target Price: INR 676**

**Stock Info**

BSE	531761
NSE	APOLLOPIPE
Bloomberg	APOLP:IN
Sector	Plastic Products
Face Value (INR)	10
Mkt Cap (INR Mn)	24,743
52w H/L (INR)	636/395
Avg Daily Volume (in 000')	53

**Shareholding Pattern %**

(As on Mar, 2023)

Promoters	52.03
Public & Others	47.33

Stock Performance (%)	1m	6m	12m
APOLP	18	33.1	20.4
NIFTY	3.6	1.3	12.5

**APOLP Vs Nifty**



**Abhishek Jain**  
abhishek.jain@arihantcapital.com  
022-42254872

**Miraj Shah**  
miraj.shah@arihantcapital.com  
022-67114865

**Results Overview:**

**Apollo Pipes results were a beat on our estimates.**

- **Volumes** came in at 18,685 tonnes (Vs 18,011 tonnes QoQ) (Vs 16,409 tonnes YoY)
- **Revenue** came in at INR 2,519 Mn (+6.4% QoQ) (+1.8% YoY) (+3.12% against our estimates)
- **EBITDA** came in at INR 294 Mn (+83% QoQ) (+3.7% YoY)
- **EBITDA Margins** came in at 11.68% (Vs 6.8% QoQ) (Vs 11.47% YoY) (Vs 11.47% our estimates)
- **PAT** came in at INR 150.27 Mn (+209% QoQ) (-3.67% YoY)
- **PAT Margins** came in at 5.96% (Vs 2.06% QoQ) (Vs 6.30% YoY)
- **FY23 ROCE:** 8.7% | **FY23 ROE:** 5.5%
- **FY23 Net Working Capital Days** at 56 (Vs 68 for FY22)
- **FY23 Op. Cash Flow** at INR 690 Mn (Vs 360 Mn for FY22)

The most important part is the capex that company has announced, which is to **more than double their capacity in next 3-4 years**. This will drive the growth for the company once they reach optimum capacity utilization in existing capacity. **Company will convert the warrants (worth INR 2.596 Bn) by FY25 and will be used to fund the capex completely.**

The quarter saw **no inventory loss/gain** and the company delivered INR 15.75/Kg EBITDA per Kg. Company is comfortable to maintain EBITDA of 16-18/Kg while they are in the expansion phase.

The company is planning to scale up its CPVS and bath fittings which are higher in margins. With these plans in mind, the company is driving to create a diverse portfolio with strong demand which is less cyclical.

**Outlook:**

Apollo Pipes has been fastest growing company between FY18-22(28% revenue CAGR). We believe that the will grow 26.7%/31.5%/27.9% in Rev/EBITDA/PAT over FY22-26E. **We have a positive outlook on the company with ACCUMULATE rating and value the stock at 20x FY26EEPS of 33.8 arriving at a target price of 676.**

March (INR Mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Sales (Rsm)	3,618	4,080	5,181	7,841	9,145	11,582	14,938	20,196
Net profit (Rsm)	239	285	445	498	239	660	973	1,490
EPS (Rs)	6.1	7.3	11.3	12.7	6.1	15.8	22.1	33.8
PE (x)	103.4	86.7	55.6	49.7	103.4	39.7	28.5	18.6
EVEBITDA (x)	61.9	52.3	33.2	26.4	35.9	18.9	12.8	8.8
PBV (x)	10.8	8.1	7.0	6.1	5.4	4.0	2.9	2.5
RoE (%)	10.4	9.3	12.7	12.3	5.2	10.7	11.6	15.2
RoCE (%)	12.6	11.3	15.6	16.1	8.2	13.8	14.9	19.4
Dividend yield (%)	0.2	-	-	0.2	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

**Q4FY23 Concall KTAs**

**Company has laid out strong plans for expansion going forward. Moreover, company aims to grow 35% revenue CAGR for next 3-4 years.**

**Capex:**

Company finalized upon adding 1,50,000 tonnes of capacity which will take their total capacity to 2,86,000. This constitutes ongoing brownfield expansion for VAP in Dadri (spends of INR 1 Bn) and greenfield expansion worth INR 4 Bn.

The brownfield expansion will come online by Q4FY24 while greenfield facilities will come online Q3FY25 onwards in a staggered manner.

The greenfield facilities will be spread pan India starting with Maharashtra then south and then East.

**Total Capex** for FY24/FY25/FY26/FY27 will be INR 1.5 Bn/1.5 Bn/1.5 Bn/ 0.5 Bn. Company will not be taking on any debt for the expansion (will be funded from equity infusion and internal accruals).

**EBITDA Margins:**

Company did INR 15.75/Kg in Q4. This quarter was without Inventory loss or gain. Company aims to achieve between INR 16-17/Kg for the next 3 years since it is in expansion phase but expects to achieve INR 18-19/Kg post that once operating efficiencies are achieved.

**Working capital Cycle:**

Payable days have come down from 63 to 45 which is now at par with the industry. This is due to increase in volumes.

Company has started cash and carry model with certain distributors. It should help bringing down WC Days.

Company expects to maintain WC Days between 35-40 days going forward.

**Other KTAs**

- 70% of current sales comes from North India.
- HDPE Pipes contributed 9-11% in volume terms. HDPE pipes give lower margins (8-10%)
- Peak capacity utilization will be 70%
- No inventory gain/loss in Q4.
- Current PVC prices at ~INR 85/Kg, NSR at ~INR 135/Kg
- Demand for agri pipes looking good but company is more focused on housing and plumbing products.
- 70% of RM requirement is imported but as new capacities are added going forward, the mix will move towards domestic procurement
- Current number of direct channel partners stood at 600 which the company will take to atleast 1500-2000 to achieve 100% utilization of planned capex.
- Company will have to grow aggressively and will be providing discounts to capture more market. Company will be competing with smaller and unorganized players mainly.

**Conclusion:**

Company will be entering a high growth phase with the size of expansion announced. Apollo Pipes aims to achieve 35% rev CAGR (25-28% volume CAGR and remainder through realization) assuming same RM cost as Q4FY23 (~INR 85/Kg) with 25-30% ROCE. Management is confident of achieving improved realization (INR 4-5/Kg per year) due to better sales mix. Company is confident for visibility to clock INR 12-13 Bn in next 12 months. We believe the can achieve the targeted revenue growth with new capacities. **We have a positive outlook on the company with ACCUMULATE rating and value the stock at 20x FY25EEPS of 33.8 arriving at a target price of 676.**

## Exhibit 1: Income Statement

March (INR Mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E
<b>Net revenues (Rs m)</b>	4,080	5,181	7,841	9,145	11,582	14,938	20,196
<i>Growth (%)</i>	12.7	27.0	51.3	16.6	26.6	29.0	35.2
Direct costs	2,888	3,618	5,732	6,928	8,158	10,224	13,734
<i>Gross Margin(%)</i>	29.2	30.2	26.9	24.2	29.6	31.6	32.0
SG&A	728	820	1,175	1,537	2,150	2,906	3,868
<b>EBITDA</b>	<b>464</b>	<b>743</b>	<b>934</b>	<b>680</b>	<b>1,274</b>	<b>1,808</b>	<b>2,595</b>
<b>EBITDA margins (%)</b>	<b>11.4</b>	<b>14.3</b>	<b>11.9</b>	<b>7.4</b>	<b>11.0</b>	<b>12.1</b>	<b>12.8</b>
- Depreciation	127	176	257	284	354	477	589
Other income	101	84	38	20	35	54	73
Interest Exp	61	44	43	89	69	79	79
PBT	377	607	672	327	886	1,307	2,000
<i>Effective tax rate (%)</i>	24.4	26.7	25.9	26.9	25.5	25.5	25.5
+ Associates/(Minorities)	-	-	-	-	-	-	-
<b>Net Income</b>	<b>285</b>	<b>445</b>	<b>498</b>	<b>239</b>	<b>660</b>	<b>973</b>	<b>1,490</b>
<b>Adjusted income</b>	<b>285</b>	<b>445</b>	<b>498</b>	<b>239</b>	<b>660</b>	<b>973</b>	<b>1,490</b>
Weighted Average Shares	39	39	39	39	42	44	44
<b>Diluted EPS (Rs/share)</b>	<b>7.3</b>	<b>11.3</b>	<b>12.7</b>	<b>6.1</b>	<b>15.8</b>	<b>22.1</b>	<b>33.8</b>
<i>Diluted EPS growth (%)</i>	19.2	55.9	11.9	(51.9)	160.3	39.6	53.0

## Exhibit 2: Balance Sheet

March (INR Mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Share capital	131	131	393	393	417	440	440
Net worth	3,065	3,515	4,053	4,572	6,165	8,388	9,816
Total debt (including Pref)	776	629	387	437	707	857	857
Minority interest	-	-	-	-	-	-	-
Deferred tax Liability/(Asset)	25	24	14	44	43	42	41
<b>Capital Employed</b>	<b>3,866</b>	<b>4,167</b>	<b>4,454</b>	<b>5,053</b>	<b>6,914</b>	<b>9,286</b>	<b>10,713</b>
Net tangible assets	1,324	1,996	2,153	2,597	3,742	4,765	5,676
Net Intangible assets	217	213	211	210	210	210	210
Goodwill	-	-	-	-	-	-	-
CWIP	305	77	71	56	46	36	26
Investments (Strategic)	-	-	-	-	-	-	-
Investments (Financial)	4	5	43	401	401	401	401
Current Assets	1,692	1,928	2,543	3,008	3,405	4,002	4,853
Cash	1,280	723	418	348	980	2,113	2,452
Current Liabilities	956	775	985	1,567	1,870	2,241	2,903
Working capital	736	1,153	1,558	1,442	1,536	1,762	1,950
<b>Capital Deployed</b>	<b>3,866</b>	<b>4,167</b>	<b>4,454</b>	<b>5,053</b>	<b>6,914</b>	<b>9,287</b>	<b>10,715</b>
Contingent Liabilities	1,001	43	392	-	-	-	-
Working capital days	65	80	72	57	48	42	35

## Exhibit 3: Cash Flow Statement

March (INR Mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E
EBIT (before other income)	283	338	596	681	396	920	1,307	2,000
+ Non-cash items	97	127	176	257	284	354	477	589
OCF before WC	380	465	772	938	680	1,274	1,783	2,589
- Incr./ (decr.) in WC	15	262	434	417	-317	84	216	178
Others including taxes	107	79	129	158	88	226	333	520
Operating cash-flow	258	124	209	363	909	964	1,234	1,891
- Capex	447	592	617	405	711	1,490	1,490	1,490
Free cash-flow	-189	-467	-408	-41	197	-526	-256	401
Acquisitions								
- Dividend	-	16	-	-	24	33	48	62
+ Equity raised	560	498	-	-	-	1,298	24	-
+ Debt raised	-1261	-221	-165	-256	50	270	150	-
- Fin Investments	-2	-	0	14	357	-	-	-
- Misc. Items (CFI + CFF)	(316)	(12)	(17)	(7)	270	44	-	-
Net cash-flow	-572	-195	-557	-304	-403	964	-131	339

## Exhibit 4: Ratios

Particulars	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E
P/E (x)	103.4	86.7	55.6	49.7	103.4	39.7	28.5	18.6
EV/EBITDA (x)	61.9	52.3	33.2	26.4	35.9	18.9	12.8	8.8
EV/sales (x)	6.7	5.9	4.8	3.1	2.7	2.1	1.5	1.1
P/B (x)	10.8	8.1	7.0	6.1	5.4	4.0	2.9	2.5
RoE (%)	10.4	9.3	12.7	12.3	5.2	10.7	11.6	15.2
RoCE (%)	12.6	11.3	15.6	16.1	8.2	13.8	14.9	19.4
ROIC	19.3	12.9	14.8	13.3	5.5	12.4	14.9	19.3
DPS (Rs per share)	1.0	-	-	1.0	0.6	0.8	1.1	1.4
Dividend yield (%)	0.2	-	-	0.2	0.1	0.1	0.2	0.2
Dividend payout (%)	16.4	-	-	7.9	9.9	5.1	5.0	4.1
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	146.1	126.8	126.9
FCF: PAT%	-79.1	-163.8	-91.8	-8.3	82.5	-79.7	-26.3	26.9

## Arihant Research Desk

Email: [instresearch@arihantcapital.com](mailto:instresearch@arihantcapital.com)

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 <sup>st</sup> Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
<b>INH000002764</b>	<b>SMS: 'Arihant' to 56677</b>	<a href="http://www.arihantcapital.com">www.arihantcapital.com</a>	<a href="mailto:instresearch@arihantcapital.com">instresearch@arihantcapital.com</a>

**Disclaimer:** This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.  
1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
Andheri Ghatkopar Link Road, Chakala, Andheri (E)  
Tel. 022-42254800 Fax. 022-42254880