

SELL
 TP: Rs 600 | ▼ 12%

APOLLO PIPES

| Building Materials

| 30 January 2024

Disappointing result on all fronts

- **Weak Q3 performance on rise in competitive intensity in a tepid demand environment**
- **Medium-term growth and ROCE guidance remains unchanged, but unlikely to be achieved in our view**
- **Downgrade to SELL and cut TP by 8% to Rs 600 on weak operating performance and expensive valuation**

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Weak quarter: APOLP missed our Q3FY24 revenue/EBITDA/PAT estimates by 12%/11%/20% due to lower-than-expected sales volume growth of 5% YoY (vs. 15% estimated), as competitive intensity sharpened in a weak demand environment. Revenue declined 6% YoY whereas EBITDA/PAT grew 25%/86% YoY owing to a weak base. The company’s net cash balance has reduced slightly from Rs 540mn in Sep’23 to Rs 480mn in Dec’23.

Key result highlights: APOLP lost market share in Q3FY24 as it reported a sequential decline in pipe volumes (-5% QoQ) vs. sharp growth posted by its major peers (FNXP: +29%, SI: +19%). Despite a higher share of non-agricultural pipe sales, the company’s EBITDA per unit fell by 12% QoQ to Rs 10.7/kg due to the rise in competitive intensity and negative operating leverage.

Guidance trimmed: APOLP has lowered its FY24 volume growth guidance from 30% to 25% based on the weak Q3 performance but expects to clock strong volume growth of 35% YoY in Q4FY24. Management maintained its medium-term guidance of growing revenue at a 25-30% CAGR, achieving EBITDA per unit of Rs 12-13/kg in the near future and Rs 17-18/kg over the next 3-4 years, and scaling ROCE up to 25-30% over the next 3-4 years. However, we believe it would be an uphill task for the company to achieve its twin objectives of stepping up volumes at a better pace than the industry and improving its return ratio profile over the medium term.

Downgrade to SELL; TP cut to Rs 600: We downgrade our rating on the stock from HOLD to SELL as (a) APOLP has been struggling to meet its target of volume growth ahead of industry leader SI for the past few quarters, (b) we expect weak ROE of 10-11% over FY24-FY26, and (c) current valuations look expensive at 39.9x on 1Y forward P/E vs. the 5Y average of 35.2x. We cut our TP to Rs 600 (earlier Rs 650) due to a downward revision in our EPS estimates by 1%/7%/1% for FY24/FY25/FY26 based on a weak Q3FY24. Our target P/E multiple remains unchanged at 30x on Sep’25E EPS – a discount to the stock’s 5Y average.

Key changes

Target	Rating
▼	▼

Ticker/Price	APOLP IN/Rs 681
Market cap	US\$ 329.7mn
Free float	49%
3M ADV	US\$ 0.7mn
52wk high/low	Rs 790/Rs 481
Promoter/FPI/DII	49%/2%/13%

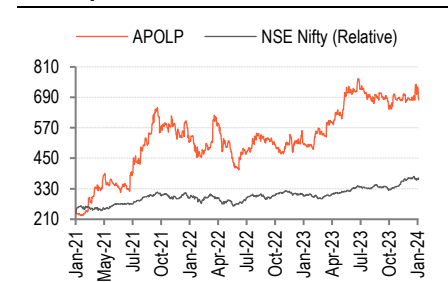
Source: NSE | Price as of 30 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	9,145	10,194	11,855
EBITDA (Rs mn)	680	1,027	1,288
Adj. net profit (Rs mn)	239	542	707
Adj. EPS (Rs)	6.1	13.6	17.8
Consensus EPS (Rs)	6.1	15.9	21.9
Adj. ROAE (%)	5.5	10.5	10.1
Adj. P/E (x)	111.9	50.0	38.3
EV/EBITDA (x)	39.9	26.3	21.1
Adj. EPS growth (%)	(51.9)	123.6	30.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance – Standalone

(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Operating income	2,216	2,367	(6.4)	2,495	(11.2)	7,314	6,626	10.4
Raw Material expense	1,569	1,794	(12.6)	1,782	(12.0)	5,255	5,118	2.7
Gross Profit	647	572	13.0	712	(9.2)	2,058	1,508	36.5
Employee expense	154	140	10.1	164	(6.2)	471	393	19.7
Other expense	291	271	7.3	306	(4.9)	883	728	21.2
EBITDA	201	161	25.1	241	(16.6)	704	386	82.5
D&A	75	74	1.1	72	3.6	214	208	2.7
EBIT	126	87	45.7	169	(25.3)	490	178	176.1
Interest cost	14	21	(33.0)	7	100.9	36	64	(44.0)
Other income	11	0	5337.5	13	(17.0)	36	12	188.4
PBT	123	66	86.2	175	(29.6)	490	126	289.6
Tax	33	18	85.7	46	(29.3)	131	37	253.9
Reported PAT	91	49	86.4	129	(29.7)	359	89	304.5
Adjusted PAT	91	49	86.4	129	(29.7)	359	89	304.5
As % of net revenues			(bps)		(bps)			(bps)
Gross margin	29.2	24.2	501	28.5	65	28.1	22.8	539
Employee cost	7.0	5.9	104	6.6	37	6.4	5.9	50
Other cost	13.1	11.5	168	12.3	87	12.1	11.0	108
EBITDA margin	9.1	6.8	229	9.7	(59)	9.6	5.8	381
Tax rate	26.4	26.4	(7)	26.2	12	26.7	29.4	(270)
APAT margin	4.1	2.1	204	5.2	(108)	4.9	1.3	357

Source: Company, BOBCAPS Research

Fig 2 – Per unit analysis

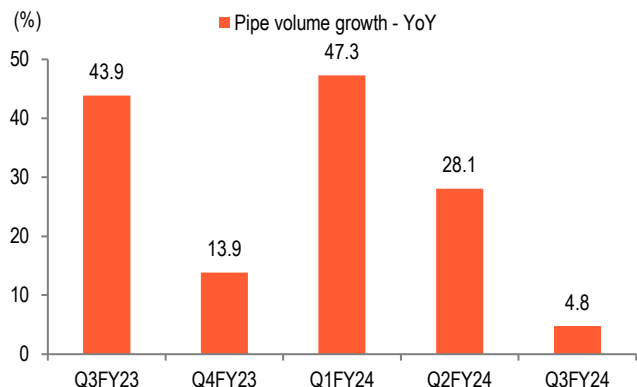
Particulars	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Sales volumes (ktpa)	19	18	4.8	20	(4.7)	60	48	25.1
Realisation (Rs/kg)	117	131	(10.6)	126	(6.8)	122	138	(11.8)
Raw Material cost (Rs/kg)	83	100	(16.5)	90	(7.6)	88	107	(17.9)
Gross Profit (Rs/kg)	34	32	7.9	36	(4.7)	34	31	9.1
Employee cost (Rs/kg)	8	8	5.1	8	(1.5)	8	8	(4.3)
Others (Rs/kg)	15	15	2.5	15	(0.2)	15	15	(3.1)
EBITDA per unit (Rs/kg)	10.7	8.9	19.4	12.2	(12.5)	11.8	8.1	45.9

Source: Company, BOBCAPS Research

Earnings call highlights

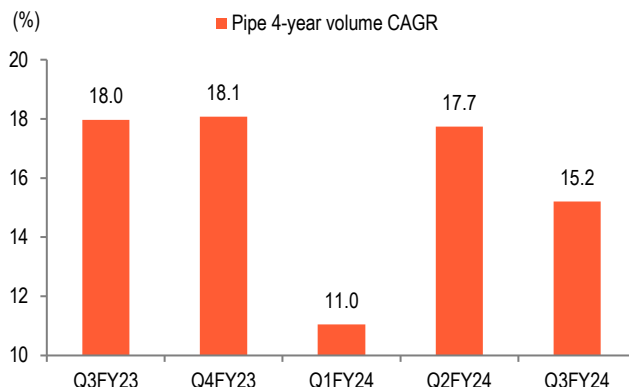
- **PVC resin:** Global PVC resin prices are near a bottom and APOLP expects them to remain range-bound over the next two quarters.
- **Demand:** APOLP registered weak pipe volume growth in Q3FY24 due to lean channel inventories on account of falling resin prices, weak housing construction outside metros, low exposure to project business (as more than 90% of sales comes from the retail segment), and increased competitive intensity in the industry. However, the company has observed a pickup in demand over the past two months (Dec-Jan) and expects to register strong volume growth of 35% YoY in Q4FY24.
- **Guidance:** Management has cut its volume growth guidance from 30% to 25% for FY24 based on the weak Q3 performance. However, the company maintained its revenue growth guidance of 25-30% CAGR along with its target of improving ROCE to 25-30% over the next 3-4 years.
- **Capex:** The company plans to spend Rs 5bn over FY24-FY26 (Rs 1.3bn in FY24, Rs 2.1bn in FY25, Rs 1.6bn in FY26) to more than double its pipe capacity from 136ktpa in Q3FY24 to 286ktpa by Mar'26. The 25ktpa Dadri brownfield project is expected to be completed by Sep'24 and the eastern Uttar Pradesh project by Mar'25 (land acquisition by Feb'24). While land for greenfield units in Maharashtra and the south has not yet been finalised, management estimates project completion by Mar'26.
- **Working capital:** The company aims to improve the working capital cycle from 46 days in 9MFY24 to less than 40 days over the next 2-3 quarters.
- **Geographical split:** Revenue contribution from the northern region is expected to come down from 65-70% at present to 45-50% once the new plant in Eastern UP/Maharashtra/South becomes operational.
- **MTM inventory loss:** No major MTM inventory loss was booked in Q3FY24.

Fig 3 – APOLP’s pipe volumes grew only 4.8% YoY in Q3FY24 due to weak demand and intense competition...



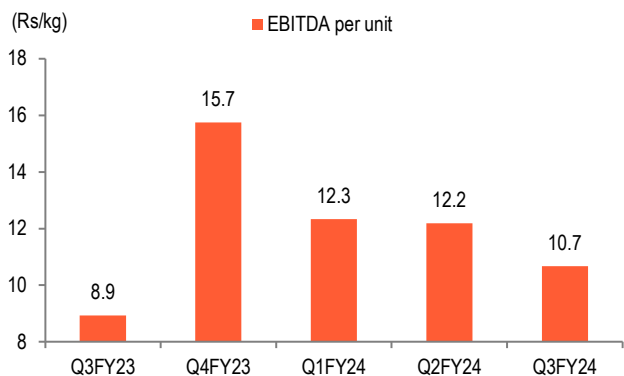
Source: Company, BOBCAPS Research

Fig 4 – ...but clocked a healthy growth rate of 15.2% on a 4Y CAGR basis



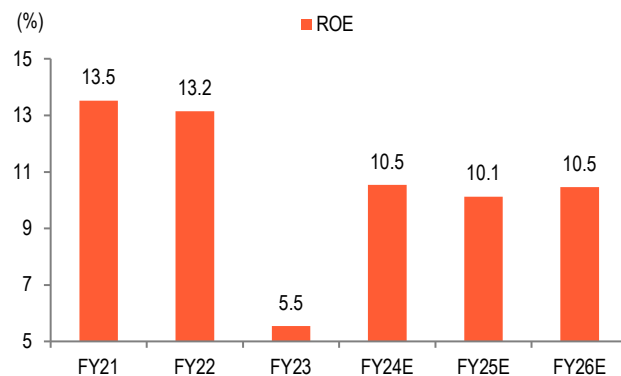
Source: Company, BOBCAPS Research

Fig 5 – EBITDA per unit fell by 12.5% QoQ in Q3FY24 due to a rise in industry competitive intensity



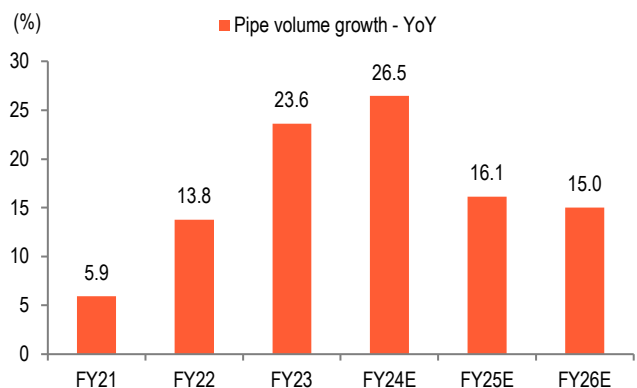
Source: Company, BOBCAPS Research

Fig 6 – ROE profile is expected to remain weak over the next 3Y...



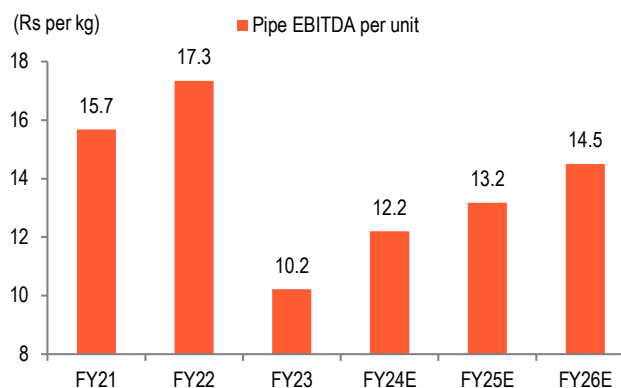
Source: Company, BOBCAPS Research

Fig 7 – ...despite our assumption of a strong pipe volume CAGR of 19% over FY23-FY26E...



Source: Company, BOBCAPS Research

Fig 8 – ...and gradual improvement in pipe EBITDA per unit to Rs 14.5/kg in FY26E



Source: Company, BOBCAPS Research

Valuation methodology

We downgrade our rating on the stock from HOLD to SELL as (a) APOLP has been struggling to meet its target of growing volumes ahead of industry leader SI for the past few quarters, (b) we expect the company to generate weak ROE of 10-11% over FY24-FY26, and (c) current valuations look expensive at 39.9x one-year forward P/E vs. the stock’s five-year average of 35.2x. Further, we believe the stock is a candidate for derating as it would be an uphill task for management to achieve its twin objectives of outpacing industry volume growth and improving the return ratio profile over the medium term.

We cut our TP to Rs 600 (earlier Rs 650) due to a downward revision in our EPS estimates by 1%/7%/1% for FY24/FY25/FY26 based on the weak Q3FY24 result. Our target P/E multiple remains unchanged at 30x on Sep’25E EPS – a 15% discount to the stock’s five-year average.

Fig 9 – Revised estimates

Standalone (Rs mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Operating income	10,194	11,855	13,939	10,380	12,370	14,545	(1.8)	(4.2)	(4.2)
EBITDA	1,027	1,288	1,630	1,031	1,352	1,649	(0.4)	(4.8)	(1.2)
EBITDA Margin	10.1	10.9	11.7	9.9	10.9	11.3	14bps	(7bps)	36bps
Adjusted PAT	542	707	908	549	758	917	(1.4)	(6.7)	(1.0)
EPS (Rs)	13.6	17.8	22.8	13.8	19.1	23.0	(1.4)	(6.7)	(1.0)

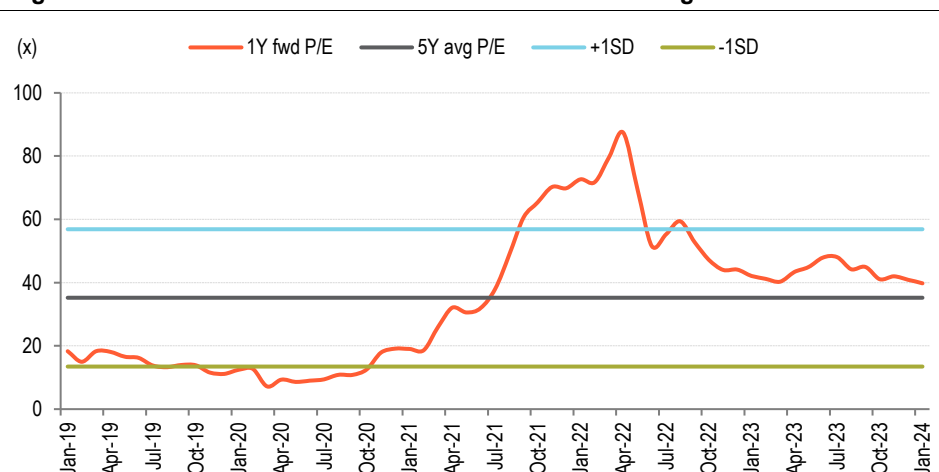
Source: BOBCAPS Research

Fig 10 – Key assumptions

Particulars (%)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Sales volume growth	5.9	13.8	23.6	26.5	16.1	15.0
Realisation growth	19.9	33.0	(5.6)	(11.9)	0.1	2.2
EBITDA per unit (Rs/kg)	15.7	17.3	10.2	12.2	13.2	14.5
Pre-tax ROCE	14.0	15.8	8.4	13.2	12.8	13.2
Pre-tax ROIC	19.8	18.7	9.8	17.3	20.1	19.8

Source: Company, BOBCAPS Research

Fig 11 – Trades at 39.9x on 1Y forward P/E vs. the 5Y average of 35.2x



Source: Bloomberg, BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- large market share gains along with a sharp improvement in return ratios, and
- fast completion of growth capex projects within the budgeted cost.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Apollo Pipes	APOLP IN	0.3	681	600	SELL
Astral	ASTRA IN	6.1	1,876	2,000	HOLD
Century Plyboards	CPBI IN	2.1	785	800	HOLD
Cera Sanitaryware	CRS IN	1.3	8,224	8,100	HOLD
Finolex Industries	FNXP IN	1.6	215	230	HOLD
Greenpanel Industries	GREENP IN	0.6	408	400	HOLD
Greenply Industries	MTLM IN	0.4	246	300	BUY
Hindware Home Innovation	HINDWARE IN	0.4	465	700	BUY
Kajaria Ceramics	KJC IN	2.6	1,351	1,450	HOLD
Prince Pipes & Fittings	PRINCP IN	0.9	699	800	HOLD
Somany Ceramics	SOMC IN	0.3	685	900	BUY
Supreme Industries	SI IN	6.5	4,210	4,300	HOLD

Source: BOBCAPS Research, NSE | Price as of 30 Jan 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	7,841	9,145	10,194	11,855	13,939
EBITDA	934	680	1,027	1,288	1,630
Depreciation	257	284	290	331	405
EBIT	677	396	737	957	1,225
Net interest inc./(exp.)	(43)	(89)	(50)	(55)	(55)
Other inc./(exp.)	38	20	47	44	44
Exceptional items	0	0	0	0	0
EBT	672	327	734	945	1,213
Income taxes	174	88	192	238	305
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	498	239	542	707	908
Adjustments	0	0	0	0	0
Adjusted net profit	498	239	542	707	908

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	837	1,179	1,314	1,528	1,797
Other current liabilities	126	364	364	364	364
Provisions	4	5	5	6	7
Debt funds	387	437	474	552	649
Other liabilities	30	64	64	64	64
Equity capital	393	393	398	398	398
Reserves & surplus	3,660	4,179	5,307	7,876	8,684
Shareholders' fund	4,053	4,572	5,705	8,274	9,082
Total liab. and equities	5,437	6,619	7,925	10,786	11,961
Cash and cash eq.	420	348	619	1,246	226
Accounts receivables	705	658	733	852	1,002
Inventories	1,316	1,708	1,593	1,839	2,162
Other current assets	407	590	653	754	880
Investments	41	401	401	401	401
Net fixed assets	2,061	2,506	2,716	3,385	4,980
CWIP	71	56	856	1,956	1,956
Intangible assets	303	301	301	301	301
Deferred tax assets, net	0	0	0	0	0
Other assets	113	53	53	53	53
Total assets	5,438	6,620	7,925	10,786	11,961

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	345	739	946	800	995
Capital expenditures	(405)	(712)	(1,300)	(2,100)	(2,000)
Change in investments	(38)	(359)	0	0	0
Other investing cash flows	38	20	47	44	44
Cash flow from investing	(1)	(19)	0	0	0
Equities issued/Others	262	0	5	0	0
Debt raised/repaid	(242)	50	38	77	97
Interest expenses	(43)	(89)	(50)	(55)	(55)
Dividends paid	(39)	(24)	(60)	(80)	(100)
Other financing cash flows	(182)	303	646	1,941	0
Cash flow from financing	(244)	241	579	1,883	(58)
Chg in cash & cash eq.	100	961	1,525	2,683	937
Closing cash & cash eq.	420	348	619	1,246	226

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	12.7	6.1	13.6	17.8	22.8
Adjusted EPS	12.7	6.1	13.6	17.8	22.8
Dividend per share	1.0	0.6	1.5	2.0	2.5
Book value per share	103.1	116.3	143.3	207.9	228.2

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	3.5	3.0	2.7	2.3	2.0
EV/EBITDA	29.3	39.9	26.3	21.1	16.9
Adjusted P/E	53.8	111.9	50.0	38.3	29.8
P/BV	6.6	5.9	4.7	3.3	3.0

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	74.1	73.1	73.8	74.8	74.8
Interest burden (PBT/EBIT)	99.3	82.6	99.6	98.7	99.0
EBIT margin (EBIT/Revenue)	8.6	4.3	7.2	8.1	8.8
Asset turnover (Rev./Avg TA)	144.2	138.2	128.6	109.9	116.5
Leverage (Avg TA/Avg Equity)	1.4	1.5	1.5	1.5	1.4
Adjusted ROAE	13.2	5.5	10.5	10.1	10.5

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	51.3	16.6	11.5	16.3	17.6
EBITDA	25.8	(27.2)	51.0	25.4	26.6
Adjusted EPS	11.9	(51.9)	123.6	30.6	28.4
Profitability & Return ratios (%)					
EBITDA margin	11.9	7.4	10.1	10.9	11.7
EBIT margin	8.6	4.3	7.2	8.1	8.8
Adjusted profit margin	6.3	2.6	5.3	6.0	6.5
Adjusted ROAE	13.2	5.5	10.5	10.1	10.5
ROCE	16.1	8.3	12.7	11.3	13.0
Working capital days (days)					
Receivables	33	26	26	26	26
Inventory	61	68	57	57	57
Payables	39	47	47	47	47
Ratios (x)					
Gross asset turnover	2.8	2.7	2.6	2.5	2.2
Current ratio	2.3	1.7	1.7	1.9	1.5
Net interest coverage ratio	15.8	4.5	14.8	17.3	22.1
Adjusted debt/equity	0.0	0.0	0.0	(0.1)	0.0

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

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

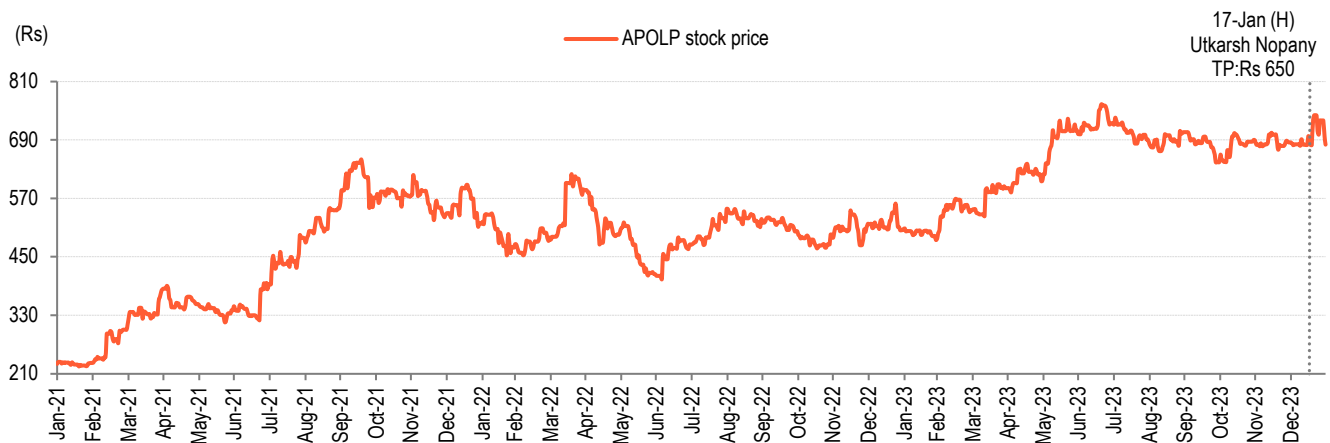
HOLD – Expected return from -6% to +15%

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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