

HOLD

TP: Rs 650 | ▲ 2%

APOLLO PIPES

| Building Materials

| 21 May 2024

Another disappointing quarter on all fronts

- **Weak Q4 performance on loss of market share due to rise in competitive intensity in the sector**
- **Target volume to grow at 25% CAGR (ex. KML acquisition) and improve ROCE to 25-30% – which appears to be overly optimistic, in our view**
- **Upgrade to HOLD and raise TP by 8% to Rs 650, mainly due to roll forward of our valuation**

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Weak quarter: APOLP missed our Q4FY24 revenue/EBITDA/PAT estimates by 4%/18%/61% due to lower-than-expected sales volume (+14.2% YoY vs 20% estimated) and sharp gross margin pressure (-176 bps YoY/-279 bps QoQ to 26.4%) on account of rise in competitive intensity in the sector. Overall, APOLP's revenue grew by 1.5% YoY, but EBITDA/APAT fell by 13.6%/55.3% YoY in Q4FY24.

Key highlights: Despite sharp gross margin pressure, APOLP reported weak volumes for the second consecutive quarter compared to its major peers, which indicates the company has been losing market share even after selling its product at a discount in the market.

Over-optimistic guidance: On a standalone basis, APOLP guided for growing its volume at 25% CAGR over the next 3-4 years with EBITDA margin of 10% and ROCE of 25-30%. The company expects Kisan Moulding's (KML) volume to grow from 25kt in FY24 to 35-40kt in FY25 and 55-60kt in FY26 with EBITDA margin of 10% by H2FY26. We believe it would be an uphill task for APOLP to achieve its twin objectives of growing volume at a better pace than the industry and improving its return ratio profile over the medium term. We believe the KML acquisition to be a margin-dilutive step for APOLP due to an inferior product-mix profile.

Upgrade to HOLD; TP raised by 8% to Rs 650: Post the correction in APOLP's stock price over the past three months, we upgrade the rating to HOLD from SELL. We expect APOLP's sales volume to grow at a strong 32% CAGR over FY24-FY26, but we still do not have a constructive view on the stock as (a) we expect APOLP's ROE profile to be quite weak at 8.0-9.5% over FY25-FY26 in view of the rise in competitive intensity in the sector and margin-dilutive acquisition of KML; and (b) expensive valuations (trades at 42.3x on 1Y forward P/E vs 5Y average of 40.7x). We have lowered our EPS estimates (-21.6%/-10.8% for FY25/FY26) to account for the KML acquisition, but we have increased our TP to Rs 650 (Rs 600 earlier) due to the roll forward of our valuation from Sep'25 to Mar'26. Our target P/E remains unchanged at 30x on Mar'26E EPS.

Key changes

Target	Rating
▲	▲

Ticker/Price	APOLP IN/Rs 635
Market cap	US\$ 307.6mn
Free float	49%
3M ADV	US\$ 0.4mn
52wk high/low	Rs 799/Rs 588
Promoter/FPI/DII	49%/2%/13%

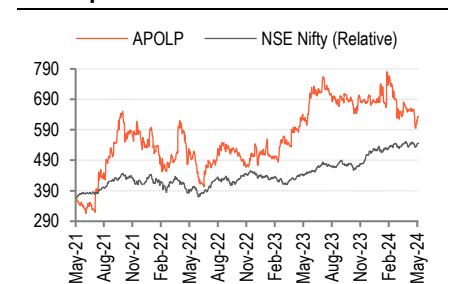
Source: NSE | Price as of 21 May 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	9,869	14,810	17,559
EBITDA (Rs mn)	958	1,207	1,737
Adj. net profit (Rs mn)	426	554	810
Adj. EPS (Rs)	10.8	13.9	20.3
Consensus EPS (Rs)	10.8	19.3	23.5
Adj. ROAE (%)	8.3	8.0	9.5
Adj. P/E (x)	58.6	45.6	31.2
EV/EBITDA (x)	26.3	20.9	14.6
Adj. EPS growth (%)	78.1	28.4	46.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance – Consolidated

Particulars (Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Operating income	2,556	2,519	1.5	2,216	15.4	9,771	9,145	6.8
Raw-Material expense	1,881	1,810	3.9	1,569	19.9	7,051	6,928	1.8
Gross Profit	675	710	(4.9)	647	4.3	2,720	2,218	22.7
Employee expense	143	124	15.4	154	(7.3)	613	517	18.5
Other expense	278	292	(4.7)	291	(4.6)	1,154	1,020	13.1
EBITDA	254	294	(13.6)	201	26.2	953	680	40.2
D&A	85	76	12.0	75	12.8	297	284	4.7
EBIT	170	219	(22.5)	126	34.2	656	396	65.6
Interest cost	15	24	(39.7)	14	6.2	51	89	(42.8)
Other income	3	7	(54.3)	11	(69.8)	39	20	99.4
PBT	158	201	(21.5)	123	28.2	644	327	96.9
Tax	89	51	74.0	33	174.1	220	88	149.4
Reported PAT	69	150	(54.1)	91	(24.0)	424	239	77.5
Adjusted PAT	67	150	(55.3)	91	(26.0)	424	239	77.5
As % of net revenues			(bps)		(bps)			(bps)
Gross margin	26.4	28.2	(176)	29.2	(279)	27.8	24.2	359
Employee cost	5.6	4.9	68	7.0	(137)	6.3	5.7	61
Other cost	10.9	11.6	(70)	13.1	(228)	11.8	11.2	66
EBITDA margin	9.9	11.7	(174)	9.1	86	9.8	7.4	232
Tax rate	56.4	25.4	3094	26.4	2999	34.1	27.0	719
APAT margin	2.6	6.0	(333)	4.1	(147)	4.3	2.6	173

Source: Company, BOBCAPS Research

Fig 2 – Per unit analysis

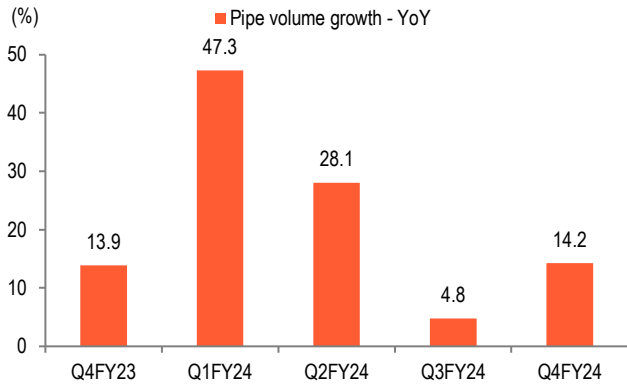
Particulars	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Sales Volumes (KTPA)	21	19	14.2	19	13.1	80	67	20.8
Realisation	119.7	134.8	(11.2)	117.4	2.0	121.5	137.4	(11.6)
Raw-Material	88.1	96.8	(9.0)	83.1	6.0	87.7	104.1	(15.8)
Gross Profit	31.6	38.0	(16.8)	34.3	(7.8)	33.8	33.3	1.5
Employee	6.7	6.6	1.0	8.2	(18.0)	7.6	7.8	(2.0)
Others	13.0	15.6	(16.6)	15.4	(15.7)	14.3	15.3	(6.4)
EBITDA per unit (Rs/kg)	11.9	15.7	(24.4)	10.7	11.6	11.9	10.2	16.0

Source: Company, BOBCAPS Research

Earnings call highlights

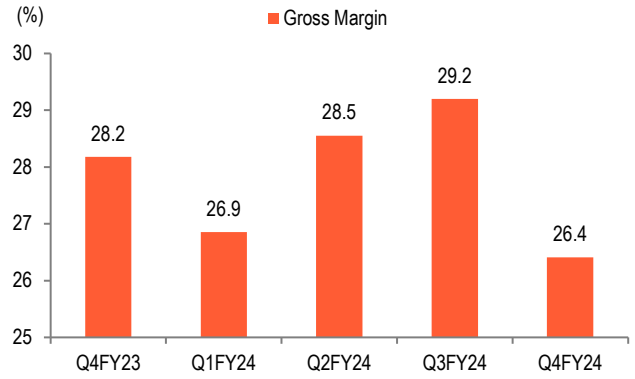
- **Demand scenario:** APOLP registered weak pipe volume growth in Q4FY24 due to lower sales volume from project sales in the agri and infrastructure segment. However, the company observed 15% YoY volume growth in the home construction segment.
- **Guidance:** Management targets volume to grow at 25% CAGR with EBITDA margin of 10% and ROCE of 25-30% over the next 3-4 years on a standalone basis. This apart, the company expects the KML volume to grow from 25kt in FY24 to 35k-40kt in FY25 and 55k-60kt in FY26 with EBITDA margin of 10% by H2FY26.
- **KML:** Management plans to increase KML pipe capacity from 60ktpa at present to 80ktpa by Mar'26 at a cost of Rs300mn-400mn, which is likely to be funded out of internal accruals. The erstwhile promoter will manage the operations of the company with a similar brand name (i.e. Kisan, as there is no plan to consolidate the brand name with Apollo Pipes over the medium term).
- **Product-mix:** The company aims to reduce the share of agri pipes for APOLP (to 30% by FY27 from 45% in FY24) and KML (to 55% by FY27 from 70% in FY24).
- **Project sales mix** was 10% for APOLP and 15-20% for KML in FY24.
- **Dealer network:** The company added 57 net dealers in FY24. Going ahead, management aims to increase the dealer count from 700-750 at present to 800 for APOLP and 200 to 300 for KML in FY25.
- **Ad spend:** The company plans to increase the brand spend from 1.5-1.75% of sales in FY24 to 2.0-2.25% in FY25.
- **Capex:** APOLP's pipe capacity has gone up to 216ktpa in Mar'24, from 136ktpa in Dec'23, due to the acquisition of a 53.6% stake in KML (operates 60ktpa pipe capacity) and commissioning of a 30ktpa greenfield pipe plant in Mirzapur, Uttar Pradesh. The company plans to spend Rs 2bn in FY25 and Rs 0.6bn in FY26 towards putting up O-PVC (Oriented Poly Vinyl Chloride) pipes, UPVC (unplasticised polyvinyl chloride) doors and profiles and a 30ktpa greenfield pipe capacity in Varanasi, Uttar Pradesh.
- **O-PVC pipes:** APOLP has entered this product category as it is used for water supply applications and acts as a substitute for ductile iron pipes. The company targets generating revenue of Rs 1.25bn from O-PVC pipes with EBITDA margin of 25% by FY26.

Fig 3 – APOLP’s pipe volumes grew by 14.2% YoY and 17.3% on a 5Y CAGR basis in Q4FY24



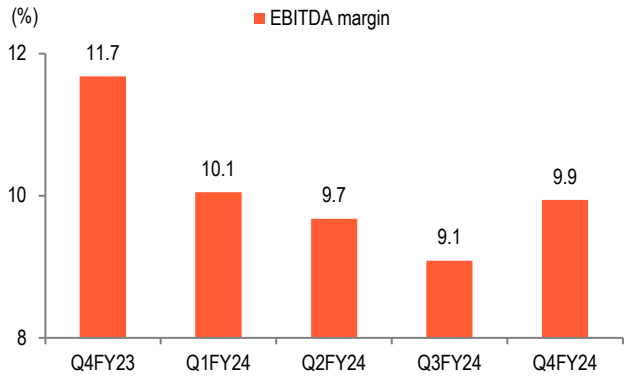
Source: Company, BOBCAPS Research

Fig 4 – APOLP gross margin fell sharply on QoQ basis in Q4FY24 due to rise in competitive intensity in the sector



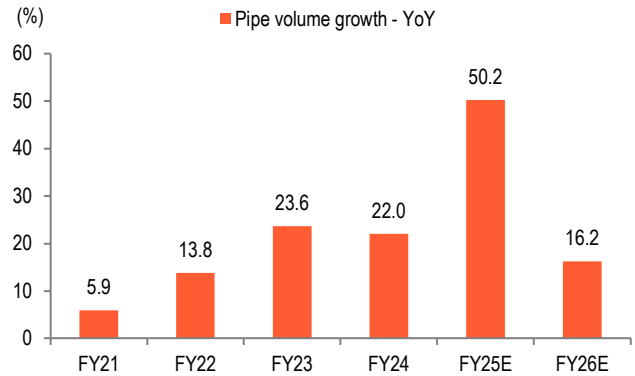
Source: Company, BOBCAPS Research

Fig 5 – However, EBITDA margin improved on QoQ basis in Q4FY24 due to lower employee and other expenses



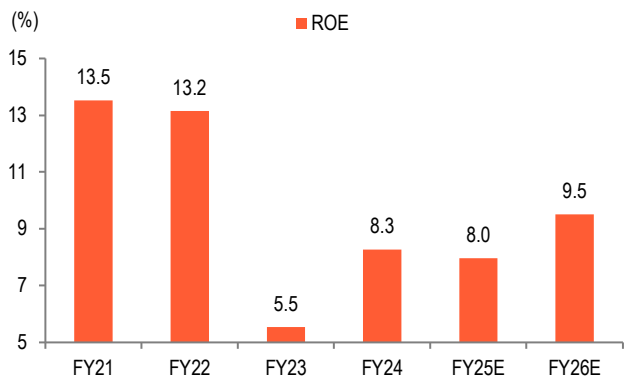
Source: Company, BOBCAPS Research

Fig 6 – Despite our assumption of a strong pipe volume CAGR of 32% over FY24-FY26E...



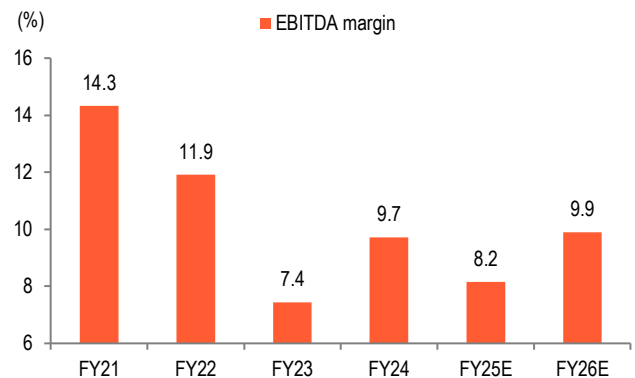
Source: Company, BOBCAPS Research

Fig 7 – ...APOLP’s ROE profile is forecast to remain weak over FY25-FY26 due to intense competition...



Source: Company, BOBCAPS Research

Fig 8 – ...and margin-dilutive acquisition of Kisan Moulding



Source: Company, BOBCAPS Research

Valuation methodology

Post the correction in APOLP's stock price over the past three months, we upgrade the rating to HOLD from SELL. We expect APOLP's sales volume to grow at a strong 32% CAGR over FY24-FY26, but we still do not have a constructive view on the stock as (a) we expect its ROE profile to be quite weak at 8.0-9.5% over FY25-FY26 in view of the rise in competitive intensity in the sector and margin-dilutive acquisition of KML; and (b) expensive valuations (trades at 42.3x on 1Y forward P/E vs 5Y average of 40.7x). Further, we believe the stock is a de-rating candidate as it would be an uphill task to achieve twin objectives of outpacing industry volume growth and improving the return ratio profile over the medium term in an increasingly competitive environment.

We have reduced our EPS estimates (-21.6%/-10.8% for FY25/FY26) to account for the KML acquisition, but we have increased our TP to Rs 650 (Rs 600 earlier) as we roll forward our valuation from Sep'25 to Mar'26. Our target P/E remains unchanged at 30x on Mar'26E EPS.

Fig 9 – Revised estimates

Consolidated (Rs mn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Operating income	14,810	17,559	11,855	13,939	24.9	26.0
EBITDA	1,207	1,737	1,288	1,630	(6.2)	6.6
EBITDA Margin	8.2	9.9	10.9	11.7	(271bps)	(180bps)
Adjusted PAT	554	810	707	908	(21.6)	(10.8)
EPS (Rs)	13.9	20.3	17.8	22.8	(21.6)	(10.8)

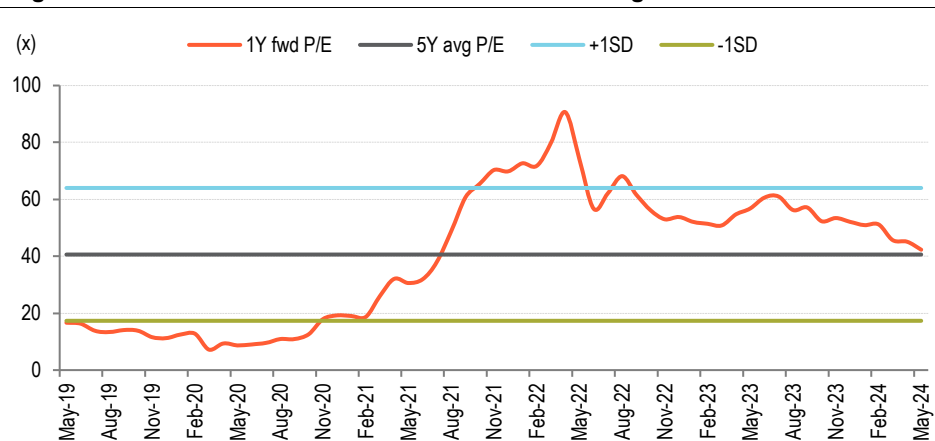
Source: BOBCAPS Research

Fig 10 – Key assumptions

Particulars (%)	FY21A	FY22A	FY23A	FY24A	FY25E	FY26E
Sales volume growth	5.9	13.8	23.6	22.0	50.2	16.2
Realisation growth	19.9	33.0	(5.6)	(11.6)	(0.1)	2.0
EBITDA per unit (Rs/kg)	15.7	17.3	10.2	11.8	9.9	12.2
Pre-tax ROCE	14.0	15.8	8.4	11.5	11.4	11.5
Pre-tax ROIC	19.8	18.7	9.8	15.3	18.2	17.5

Source: Company, BOBCAPS Research

Fig 11 – Trades at 42.3x on 1Y forward P/E vs 5Y average of 40.7x



Source: Bloomberg, BOBCAPS Research

Key risks

- Fast turnaround of KML operations would be a key upside risk to our estimates.
- Market share loss and slow ramp-up of existing capacity would be key downside risks to our estimates.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Apollo Pipes	APOLP IN	0.3	635	650	HOLD
Astral	ASTRA IN	6.8	2,078	2,000	HOLD
Century Plyboards	CPBI IN	1.8	667	700	HOLD
Cera Sanitaryware	CRS IN	1.1	7,122	7,700	HOLD
Finolex Industries	FNXP IN	2.3	305	265	HOLD
Greenlam Industries	GRLM IN	0.9	584	500	HOLD
Greenpanel Industries	GREENP IN	0.5	305	340	HOLD
Greenply Industries	MTLM IN	0.4	255	300	BUY
Hindware Home Innovation	HINDWARE IN	0.3	393	600	BUY
Kajaria Ceramics	KJC IN	2.5	1,297	1,400	BUY
Prince Pipes & Fittings	PRINCP IN	0.9	641	750	HOLD
Somany Ceramics	SOMC IN	0.4	719	900	BUY
Supreme Industries	SI IN	8.6	5,582	4,650	HOLD

Source: BOBCAPS Research, NSE | Price as of 21 May 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Total revenue	7,841	9,145	9,869	14,810	17,559
EBITDA	934	680	958	1,207	1,737
Depreciation	257	284	299	466	538
EBIT	677	396	660	742	1,200
Net interest inc./(exp.)	(43)	(89)	(51)	(77)	(77)
Other inc./(exp.)	38	20	39	40	40
Exceptional items	0	0	0	0	0
EBT	672	327	648	704	1,162
Income taxes	174	88	220	185	300
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	(2)	35	(53)
Reported net profit	498	239	426	554	810
Adjustments	0	0	0	0	0
Adjusted net profit	498	239	426	554	810

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Accounts payables	837	1,179	1,669	2,505	2,970
Other current liabilities	126	364	881	881	881
Provisions	4	5	79	119	141
Debt funds	387	437	632	940	1,111
Other liabilities	30	64	1,104	1,104	1,104
Equity capital	393	393	394	398	398
Reserves & surplus	3,660	4,179	5,347	7,767	8,477
Shareholders' fund	4,053	4,572	5,740	8,166	8,876
Total liab. and equities	5,437	6,619	10,106	13,714	15,083
Cash and cash eq.	420	348	560	1,035	238
Accounts receivables	705	658	796	1,194	1,415
Inventories	1,316	1,708	1,987	2,852	3,347
Other current assets	407	590	367	533	625
Investments	41	401	516	516	516
Net fixed assets	2,061	2,506	4,567	5,101	6,563
CWIP	71	56	84	1,184	1,184
Intangible assets	303	301	401	401	401
Deferred tax assets, net	0	0	396	396	396
Other assets	113	53	432	432	432
Total assets	5,438	6,620	10,106	13,645	15,118

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash flow from operations	345	739	1,890	504	1,063
Capital expenditures	(405)	(712)	(2,488)	(2,100)	(2,000)
Change in investments	(38)	(359)	(115)	0	0
Other investing cash flows	38	20	39	40	40
Cash flow from investing	(405)	(1,052)	(2,564)	(2,060)	(1,960)
Equities issued/Others	262	0	0	5	0
Debt raised/repaid	(242)	50	195	308	171
Interest expenses	(43)	(89)	(51)	(77)	(77)
Dividends paid	(39)	(24)	(39)	(80)	(100)
Other financing cash flows	(182)	303	783	1,911	53
Cash flow from financing	(244)	241	888	2,067	47
Chg in cash & cash eq.	(305)	(72)	214	510	(850)
Closing cash & cash eq.	420	348	560	1,035	238

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24A	FY25E	FY26E
Reported EPS	12.7	6.1	10.8	13.9	20.3
Adjusted EPS	12.7	6.1	10.8	13.9	20.3
Dividend per share	1.0	0.6	1.0	2.0	2.5
Book value per share	103.1	116.3	145.9	205.0	222.9

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24A	FY25E	FY26E
EV/Sales	3.3	2.8	2.6	1.7	1.4
EV/EBITDA	27.3	37.2	26.3	20.9	14.6
Adjusted P/E	50.2	104.4	58.6	45.6	31.2
P/BV	6.2	5.5	4.4	3.1	2.8

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24A	FY25E	FY26E
Tax burden (Net profit/PBT)	74.1	73.1	65.8	78.7	69.7
Interest burden (PBT/EBIT)	99.3	82.6	98.2	95.0	96.9
EBIT margin (EBIT/Revenue)	8.6	4.3	6.7	5.0	6.8
Asset turnover (Rev./Avg TA)	144.2	138.2	97.7	108.5	116.1
Leverage (Avg TA/Avg Equity)	1.4	1.5	2.0	2.0	1.8
Adjusted ROAE	13.2	5.5	8.3	8.0	9.5

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24A	FY25E	FY26E
YoY growth (%)					
Revenue	51.3	16.6	7.9	50.1	18.6
EBITDA	25.8	(27.2)	40.9	26.0	43.9
Adjusted EPS	11.9	(51.9)	78.1	28.4	46.1
Profitability & Return ratios (%)					
EBITDA margin	11.9	7.4	9.7	8.2	9.9
EBIT margin	8.6	4.3	6.7	5.0	6.8
Adjusted profit margin	6.3	2.6	4.3	3.7	4.6
Adjusted ROAE	13.2	5.5	8.3	8.0	9.5
ROCE	16.1	8.3	11.0	8.6	12.4
Working capital days (days)					
Receivables	33	26	29	29	29
Inventory	61	68	73	70	70
Payables	39	47	62	62	62
Ratios (x)					
Gross asset turnover	2.8	2.7	2.0	2.2	2.2
Current ratio	2.3	1.7	1.1	1.3	1.1
Net interest coverage ratio	15.8	4.5	13.0	9.6	15.5
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.1

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%

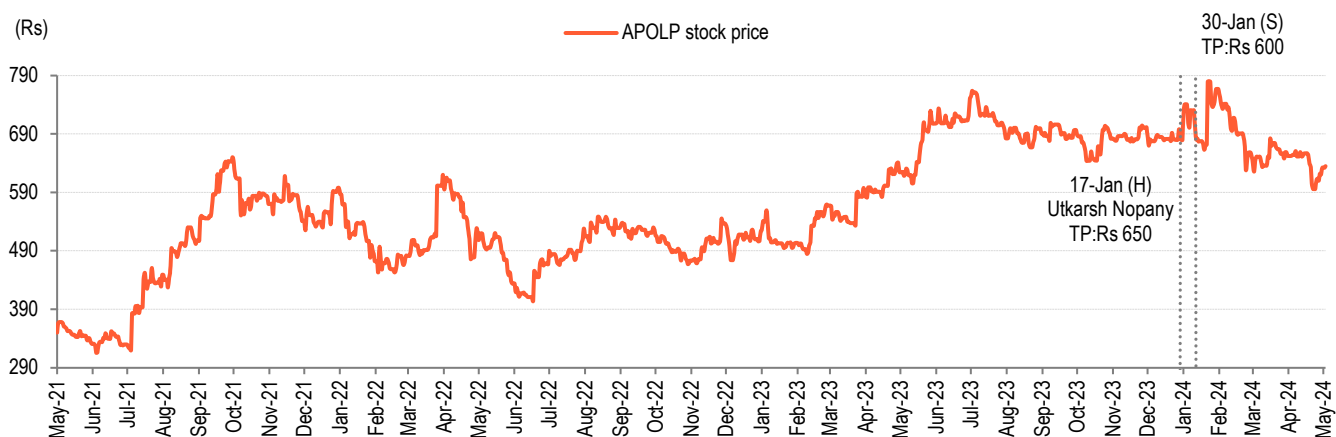
HOLD – Expected return from -6% to +15%

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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