

October 27, 2023

RESULT REPORT Q2 FY24 | Sector: Building Materials

# Apollo Pipes Ltd

## Growth momentum to continue, Assign BUY!

### Result Synopsis

Apollo Pipes Ltd registered a healthy quarter wherein volumes increased by 28%YoY (2-year CAGR came in at 17%), largely driven by strong demand from plumbing segment. During the quarter, plumbing contributed 55% of total revenue & agri-segment constituted 45% of revenue. ASP improved sequentially to Rs126/kg due to better product-mix which resulted into better GP margins, though the same did not translate into higher operating margins owing to higher employee & other expenses. Company improved their working capital from 56-days in FY23 to 49-days in H1FY24 & management aims to further improve the same to 40-days in coming 2-3 quarters.

Management maintained their volume/value growth guidance of 25%/30% respectively over next 4-years. Company is planning to aggressively expand their market share & in order to achieve the same, Apollo Pipes will be doubling their capacities to 286,000Te by FY27. Incrementally by FY27, management aims to achieve a turnover of Rs30Bn with an EBITDA of Rs3-4Bn & ROCE of 25-30%.

We remain positive on the company & believe that Apollo Pipes will continue to outperform industry peers & further expand their market share. Hence, we expect Volume/Value CAGR of 28%/27% respectively over FY23-FY25E. Company is focusing more on plumbing segment & aims to have 75% contribution from the said segment, this will enable Apollo Pipes to expand the share of value-added products as well which will lead to better margins. We continue to value the company at P/E(x) of 35x on FY25E EPS of Rs23.6, arriving at a target price of Rs820, hence we assign a BUY rating on the stock.

### Result Highlights

- Revenue stood at Rs2.49Bn, a growth of 20.5%YoY & decline of 4.2%QoQ.
- Volume increased by 28%YoY & declined 6.7%QoQ to 19,803Te.
- ASP improved sequentially to Rs126/kg as compared to Rs123/kg in Q1FY24 & Rs134/kg in Q2FY23.
- EBITDA margins declined to 9.7% Vs 10.1% in previous quarter & 1.2% (impacted due to inventory loss) in Q2FY23. GP margins improved sequentially from 26.9% to 28.6%, however higher employee cost & other expenses weighed on the operating margins. Absolute EBITDA stood at Rs242Mn, a degrowth of 8%QoQ.
- Sequentially EBITDA/Kg remained stable at Rs12 as compared to Rs2 in Q2FY23.
- Net profit stood at Rs129Mn, a decline of 7%QoQ and as compared to loss of Rs48Mn in Q2FY23.

### Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	2,495	2,603	2,451	(4.2)	1.8	
EBITDA	242	283	256	(14.6)	(5.8)	
EBITDA Margin (%)	9.7	10.9	10.5	-119 bps	-78 bps	Beat on revenue and margin due to lower volumes.
Adjusted PAT	129	160	135	(19.0)	(4.1)	

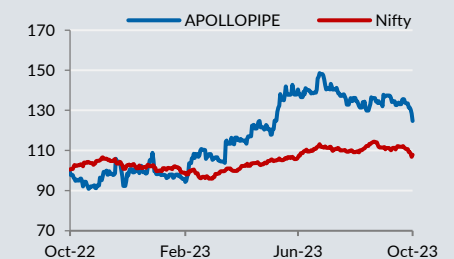
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 645
Target Price	: Rs 820
Potential Upside	: +27%

### Stock data (as on October 27, 2023)

Nifty	19,047
52 Week h/l (Rs)	790 / 437
Market cap (Rs/USD mn)	25826 / 310
Outstanding Shares (mn)	39
6m Avg t/o (Rs mn):	66
Div yield (%):	0.1
Bloomberg code:	APOLP IN
NSE code:	APOLLOPIPE

### Stock performance



	1M	3M	1Y
Absolute return	-8.3%	-10.8%	26.4%

### Shareholding pattern (As of Sep'23 end)

Promoter	50.8%
FII+DII	17.6%
Others	31.1%

### Δ in stance

(1-Yr)	New	Old
Rating	BUY	ADD
Target Price	820	820

### Δ in earnings estimates

	FY24E	FY25E	FY26E
EPS (New)	15.8	23.6	33.2
EPS (Old)	16.4	23.4	-
% change	-3.4%	0.6%	-

### Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Net Revenue	10,984	14,828	19,908
YoY Growth	20.1	35.0	34.3
EBIDTA	1,098	1,702	2,334
EBIDTA (%)	10.0	11.5	11.7
PAT	618	921	1,301
YoY Growth	156.8	49.1	41.2
ROE	11.9	13.3	16.9
EPS	15.8	23.6	33.2
P/E	40.7	27.4	19.4
BV/Share	148	204	188
P/BV	4.4	3.2	3.4

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## Exhibit 2: Quarterly Snapshot:

Rs mn	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	% yoy	% qoq	H1FY23	H1FY24	% yoy
Revenue	2,189	2,070	2,367	2,519	2,603	2,495	20.5	(4.2)	4,259	5,098	19.7
Expenditure	1,988	2,045	2,206	2,225	2,342	2,253	10.2	(3.8)	4,033	4,595	13.9
- RM	1,655	1,668	1,795	1,809	1,904	1,782	6.8	(6.4)	3,323	3,687	10.9
- Staff Cost	120	133	140	124	152	164	23.3	8.1	253	317	25.0
- Other cost	213	244	271	292	285	306	25.7	7.4	457	592	29.5
Operating Profit	201	25	161	295	262	242	862.2	(7.7)	226	503	123.0
OPM(%)	9.2	1.2	6.8	11.7	10.1	9.7	847 bps	-37 bps	5.3	9.9	457 bps
Other Income	8	4	0	7	12	13	230.0	12.8	12	25	104.1
Depreciation	64	70	74	76	67	72	3.1	8.9	134	139	3.6
Interest	22	22	21	24	15	7	(68.3)	(54.3)	43	22	(49.3)
PBT	123	(63)	66	202	192	175	(378.9)	(8.6)	60	367	509.0
Tax	35	(15)	17	51	53	46	(403.2)	(12.4)	20	99	404.2
PAT	88	(48)	49	151	139	129	(371.1)	(7.1)	41	269	559.2

Source: Company, YES Sec

## Exhibit 3: Operational Numbers:

Particulars	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	% yoy	% qoq	H1FY23	H1FY24	% yoy
Volumes (Te)	14,406	15,465	18,011	18,685	21,219	19,803	28.1	(6.7)	29,871	41,022	37.3
Realization (Rs/Kg)	152	134	131	135	123	126	(5.9)	2.7	143	124	(12.8)
EBITDA/Kg	14	2	9	16	12	12	651.4	(1.1)	8	12	62.4

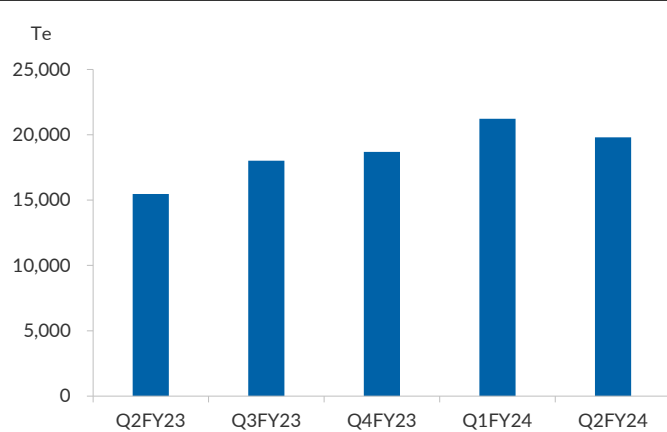
Source: Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

- **Guidance:** Management maintained Volume/Value growth guidance of 25%/30% respectively for next 4-years. For FY24, company aims to deliver volumes of ~85,000Te.
- During the quarter, volatility in PVC resin prices resulted into de-stocking by channel partners which impacted Q2FY24 volumes. Management was aiming to report volumes in the range of Q1FY24 at ~21,200Te.
- Company plans to have capacity of 286,000Te by FY27 & deliver EBITDA of ~Rs3-4Bn with ROCE of 30%.
- Apollo Pipes continues to gain market share. By FY26-27, company aims to reach turnover of Rs30Bn with a market share of 4-4.5%.
- **Capex:** Company has finalized a land for capex in Eastern UP which is likely to get procured by next month & this plant is expected to commence first line's production from Aug-24. In Maharashtra, the land is being finalized as yet.
- **Capex schedule:** FY23 capacity was 136,000Te, In FY24/FY25/FY26/FY27 capacities will be 142,000/200,000/225,000/286,000Te respectively.
- Capex in H1FY24 was Rs450Mn and in H2 the same will be Rs800Mn. Capex for FY25 will be ~Rs1.2Bn.
- Agri pipes were down by 10% while plumbing pipes were flattish over similar period.
- Mix of Plumbing and Agri in Vol/Value terms stood at 52%/55% and 48%/45% respectively.
- North constitutes 65-70% of revenue but post capex the contribution from other regions will surge.
- HDPE/CPVC constituted 10-12%/15-20% respectively.
- Advertisement spends were ~1.5%, however the same will expand to 2-2.5% going ahead as company plans to penetrate deeper in newer geographies.
- Channel was anticipating a drop in PVC pipes in Sep'23, due to which channel inventory was lower. Post increase of prices in last week, channel inventory is normalizing in Oct'23
- Capacity utilization during the quarter was 63-64%.

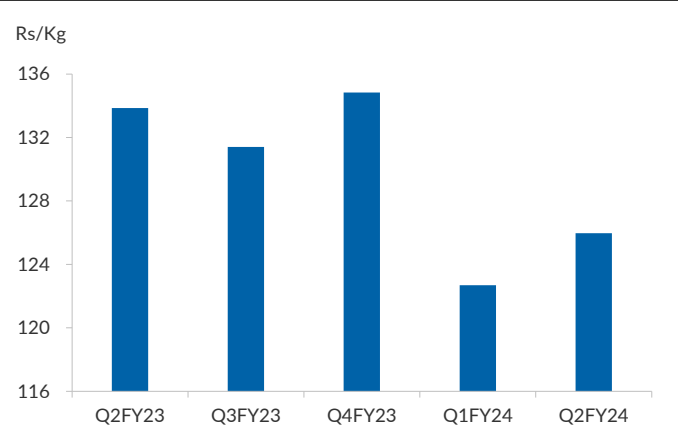
## QUARTERLY TRENDS

**Exhibit 4: Pipes volumes grew by 28% YoY...**



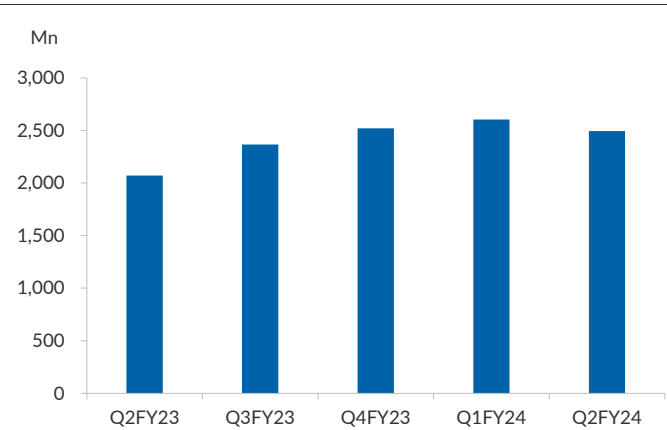
Source: Company, YES Sec

**Exhibit 5: Realization came in at Rs126/kg...**



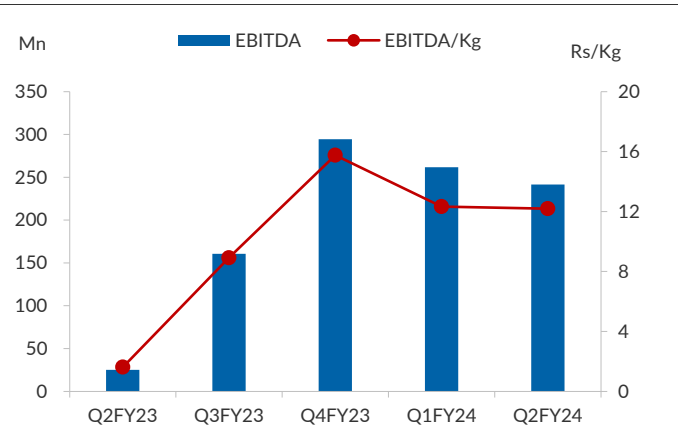
Source: Company, YES Sec

**Exhibit 6: Revenue grew by 21%YoY...**



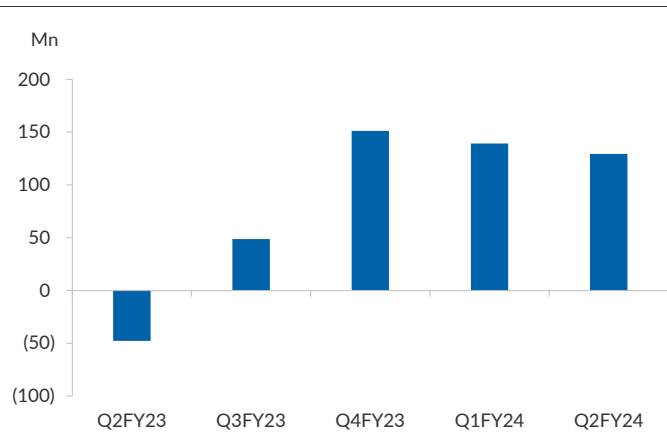
Source: Company, YES Sec

**Exhibit 7: EBITDA/kg stood at Rs12...**



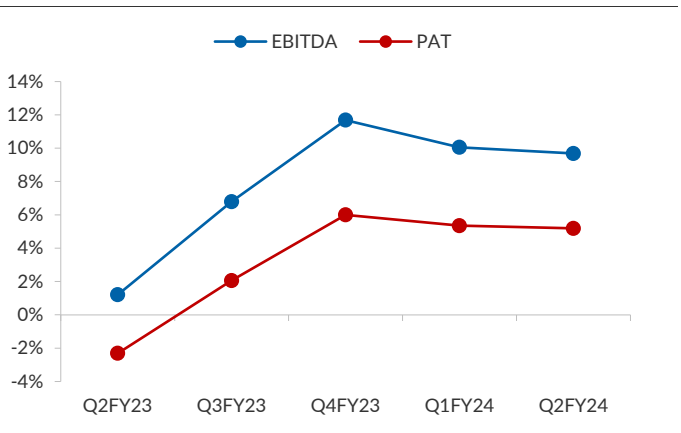
Source: Company, YES Sec

**Exhibit 8: Reported Net Profit of Rs129Mn...**



Source: Company, YES Sec

**Exhibit 9: Margins have declined marginally QoQ...**



Source: Company, YES Sec

## FINANCIALS

### Exhibit 10: Income Statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Sales	7,841	9,145	10,984	14,828	19,908
COGS	5,732	6,927	8,195	11,266	15,435
COGS %sales	73.1	75.7	74.6	76.0	77.5
GP	2,109	2,218	2,789	3,562	4,473
GP%	26.9	24.3	25.4	24.0	22.5
EBITDA	934	681	1,098	1,702	2,334
EBITDA%	11.9	7.4	10.0	11.5	11.7
Depreciation	257	284	270	480	580
Finance Cost	43	89	66	66	103
Other Income	38	20	50	55	61
PBT	672	328	813	1,212	1,712
Tax	174	88	195	291	411
PAT	498	241	618	921	1,301
PAT%	6.3	2.6	5.6	6.2	6.5

Source: Company, YES Sec

### Exhibit 11: Balance Sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	393	393	393	393	393
Reserves	3,660	4,179	4,797	5,718	7,019
Equity	4,053	4,572	5,190	6,111	7,412
Payables	550	1,179	1,394	1,917	2,626
Provisions	4	5	5	5	5
Other current Liab	415	364	364	364	364
<b>Total Equity &amp; Liab</b>	<b>5,438</b>	<b>6,619</b>	<b>8,090</b>	<b>10,809</b>	<b>11,407</b>
Gross Block	3,017	3,746	5,246	6,746	7,746
Acc Dep	956	1,240	1,510	1,989	2,569
Net Block	2,061	2,506	3,736	4,757	5,177
CWIP	71	56	56	56	56
Other Noncurrent	154	453	453	453	-
Inventory	1,316	1,708	1,796	2,469	3,383
Investments	2	-	-	-	-
Receivables	705	658	752	1,016	1,364
Cash & Bank	418	348	405	1,167	536
Loans	57	38	38	38	38
Other	352	553	553	553	553
<b>Total Assets</b>	<b>5,438</b>	<b>6,619</b>	<b>8,090</b>	<b>10,809</b>	<b>11,407</b>

Source: Company, YES Sec

## Exhibit 12: Cash Flow

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	672	327	813	1,212	1,712
Depreciation & Amortization	257	284	270	480	580
Finance cost	43	89	66	66	103
(Incr)/Decr in Working Capital	(417)	146	32	(414)	(99)
Taxes	(158)	(143)	(195)	(291)	(411)
<b>Cash from ops.</b>	<b>364</b>	<b>687</b>	<b>985</b>	<b>1,053</b>	<b>1,885</b>
(Incr)/ Decr in PP&E	(423)	(728)	(1,500)	(1,500)	(1,000)
<b>Cash Flow from Investing</b>	<b>(368)</b>	<b>(680)</b>	<b>(1,500)</b>	<b>(1,500)</b>	<b>(1,000)</b>
(Decr)/Incr in Borrowings	(256)	51	0	-	500
Finance cost	(44)	(89)	(66)	(66)	(103)
<b>Cash Flow from Financing</b>	<b>(300)</b>	<b>(78)</b>	<b>572</b>	<b>1,209</b>	<b>(1,516)</b>
<b>Incr/(Decr) in cash</b>	<b>(304)</b>	<b>(70)</b>	<b>57</b>	<b>762</b>	<b>(631)</b>
Cash and cash equivalents at beginning of year	722	418	348	405	1,167
Cash and cash equivalents at end of year	418	348	405	1,167	536

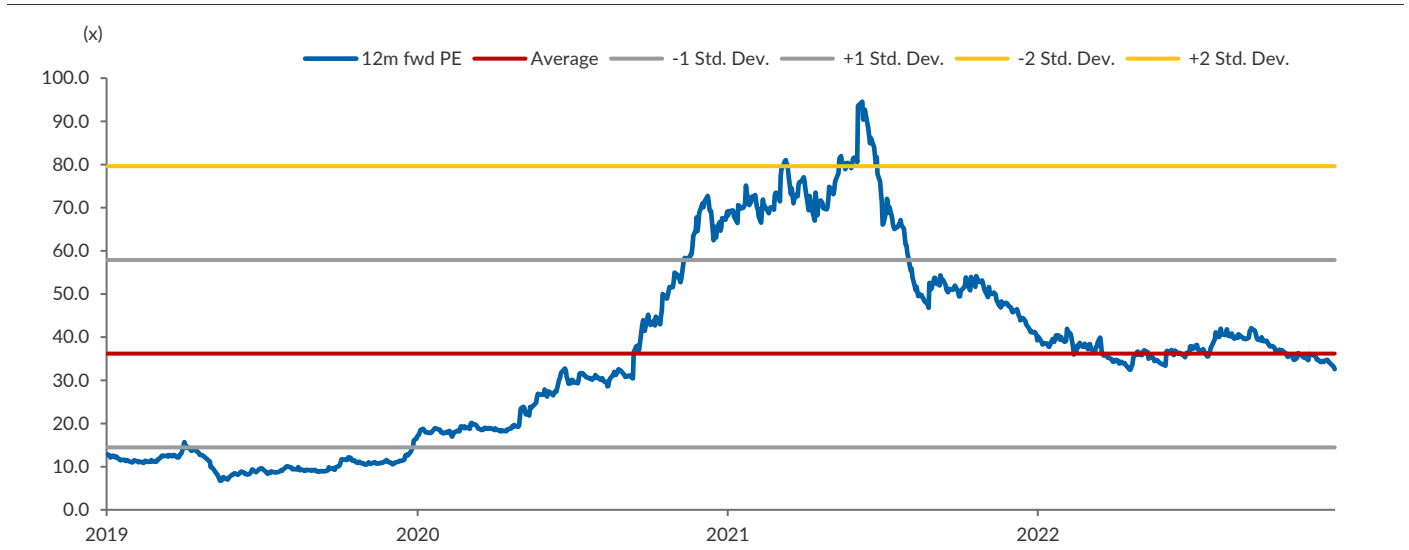
Source: Company, YES Sec

## Exhibit 13: Ratios

Key Ratios	FY22	FY23	FY24E	FY25E	FY26E
<b>Growth (%)</b>					
Total Sales	51.3	16.6	20.1	35.0	34.3
EBIDTA	25.8	(27.1)	61.3	55.0	37.1
EBIT	9.9	(41.7)	110.9	45.4	42.0
PAT	11.9	(51.7)	156.8	49.1	41.2
<b>Profitability (%)</b>					
GP Margin	26.9	24.3	25.4	24.0	22.5
EBIDTA Margins	11.9	7.4	10.0	11.5	11.7
EBIT Margins	9.1	4.6	8.0	8.6	9.1
PAT Margins	6.3	2.6	5.6	6.2	6.5
ROCE	18.1	9.5	16.7	18.3	23.3
ROE	13.2	5.6	11.9	13.3	16.9
<b>Per Share Data (Rs)</b>					
EPS	12.7	14.2	15.8	23.6	33.2
CEPS	19.2	13.3	22.6	35.6	47.8
BVPS	103.1	116.3	148.2	204.0	188.5
<b>Valuations (x)</b>					
P/E (x)	38.0	35.2	40.7	27.4	19.4
P/CEPS (x)	4.7	4.3	4.4	3.2	3.4
P/BV (x)	20.2	29.0	23.1	14.5	11.0
EV/EBIDTA	2.4	2.2	2.3	1.7	1.3
<b>Gearing Ratios</b>					
Debt/Equity	0.1	0.1	0.1	0.1	0.1
Net Debt/Equity	(0.0)	0.0	0.0	(0.1)	0.1
Net Debt/EBIDTA	(0.0)	0.1	0.0	(0.4)	0.2
Int Coverage	16.7	4.7	13.4	19.5	17.6
<b>WCC Days</b>					
Debtors	33	26	25	25	25
Inventory	84	90	80	80	80
Creditors	35	62	62	62	62

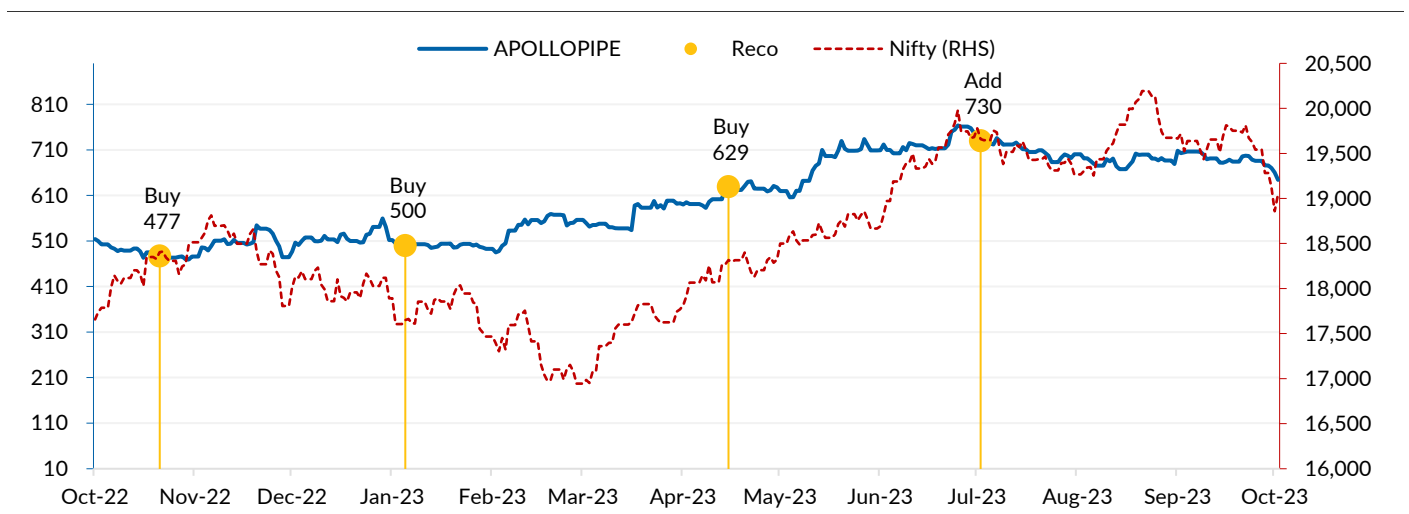
Source: Company, YES Sec

**Exhibit 14: 1-year forward P/E (x) chart**



Source: Company, YES Sec

## Recommendation Tracker



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**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

**SELL:** Downside greater than -10% over 12 months

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YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a Securities and Exchange Board of India (SEBI) registered Stock broker holding membership of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) & National Commodity & Derivatives Exchange (NCDEX). YSL is also a SEBI-registered Category I Merchant Banker, Investment Adviser and Research Analyst. YSL is also a Sponsor and Investment Manager of Alternate Investment Fund - Category III (YSL Alternates) and AMFI registered Mutual Fund Distributor. The Company is also a registered Depository Participant with CDSL and NSDL. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.