

October 28, 2024

RESULT REPORT Q2 FY25 | Sector: Building Materials

Apollo Pipes Ltd

Muted H1FY25, Management optimistic on delivering 35%YoY growth; assign BUY!

Result Synopsis

Apollo Pipes Ltd (APOLP) reported a lackluster performance in Q2FY25. Volumes (82% of total) for Apollo Pipes (standalone), declined by 17%YoY to 16,430Te (2-year CAGR stands at mere 3%) due to lower agri & infra demand which constituted ~30% of volumes Vs 40-45% previously. Though ASP improved sequentially by Rs7.3/kg to Rs122.1, EBITDA/Kg declined to Rs11 as compared to Rs12.2/Rs11.6 in Q2FY24/Q1FY25 respectively, owing to low volume off-take and minor inventory loss of <RS50Mn. For H1FY25, standalone volumes declined by 9%YoY to 37,367Te. For Kisan, volumes stood at 3,722Te (18% of total volumes) as agri demand is soft during monsoons. ASP improved sequentially from Rs121/Kg to Rs137/Kg, but EBITDA/Kg contracted substantially to Rs3.5/Kg Vs Rs9/Kg in previous quarter, owing to lower volumes and volatility in resin prices. Overall volumes stood at 20,152Te with EBITDA/Kg of Rs10 for Q2FY25. For H1FY25, total volumes stood at 46,714Te with EBITDA/Kg of Rs10. (YoY nos are not comparable on consolidate basis due to acquisition of KISAN in FY25). Furthermore, higher finance and depreciation cost dented profitability. Notably, net debt increased to Rs710Mn Vs Rs70Mn as on March'24. Moreover, working capital-days expanded to 54-days Vs 19-days in FY24, due to high inventory build-up.

Management guidance

Company stated that H2FY25 should grow by 35% Vs H1FY25. Similar to stated targets growth in FY25 will also be 35% higher Vs FY24. Kisan will continue to contribute 25% of sales going ahead. On EBITDA level margins will be 8-9% wherein APL standalone should deliver 10% & Kisan is expected to operate at 5-6% margins. Post all expansions and desired product-mix, margins should expand to 11-12% by FY27 end. Moreover, with improvement in sales, working capital days should improve to 40-days. Company incurred capex of Rs650Mn in H1FY25 and for H2FY25 capex will be Rs1.8-2Bn.

Our View

Though demand is expected to improve H2FY25 onwards, owing to weak performance in H1FY25 we have revised our earnings estimates downwards by 34.5%/22% for FY25E/FY26E respectively largely due to lower volume growth. We expect Apollo Pipes standalone volumes to grow by 15%CAGR with improvement in demand and new up-coming capacities over FY24-FY27E and KISAN's performance should improve gradually. With the company's aggressive volume growth strategy and up-coming capex, we reckon EBITDA/Kg will be capped at Rs10 for the coming 2-years. At CMP, the stock trades at P/E(x) 23x on FY27E EPS of Rs21.3. We have re-valued the company at P/E(x) of 30x on FY27E EPS, arriving at a target price of Rs640. Hence, we upgrade the stock to a BUY rating.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	2,504	2,260	2,672	10.8	(6.3)	Revenue above estimates but miss on profitability.
EBITDA	194	204	241	(4.9)	(19.4)	
EBITDA Margin (%)	7.8	9.0	9.0	(128 bps)	(126 bps)	
Adjusted PAT	40	69	90	(42.7)	(55.9)	

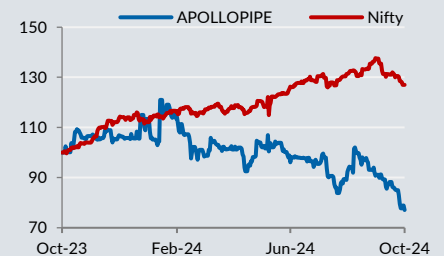
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 491
Target Price	: Rs 640
Potential Return	: +30.3%

Stock data (as on Oct 28, 2024)

Nifty	24,382
52 Week h/l (Rs)	799 / 472
Market cap (Rs/USD mn)	20,927 / 249
Outstanding Shares (mn)	41
6m Avg t/o (Rs mn):	68
Div yield (%):	0.2
Bloomberg code:	APOLP IN
NSE code:	APOLLOPIPE

Stock performance



	1M	3M	1Y
Absolute return	-16.4%	-20.2%	-23.8%

Shareholding pattern (As of Sep'24 end)

Promoter	45.9%
FII+DII	21.1%
Others	33.0%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	ADD
Target Price	640	709

Δ in earnings estimates

	FY25E	FY26E	FY27E
EPS (New)	10.2	15.6	21.3
EPS (Old)	15.6	20.0	-
% change	-34.5%	-21.8%	-

Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
Net Revenue	12,460	17,112	21,074
YoY Growth	27.5	37.3	23.2
EBITDA	1,021	1,404	1,736
EBITDA (%)	8.2	8.2	8.2
PAT	422	646	881
YoY Growth	(0.7)	53.1	36.3
ROE	5.8	7.1	9.0
EPS	10.2	15.6	21.3
P/E	48.1	31.4	23.0
BV/Share	211	227	248
P/BV	2.3	2.2	2.0

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Result Highlights

- Consolidated revenue (incl Kisan), stood at Rs2.50Bn (Vs est of Rs2.26Bn).
- EBITDA margins came in at 7.8% (as compared to our est of 9%) Vs 9.4% in previous quarter. Absolute EBITDA stood at Rs194Mn.
- Net profit stood at Rs40Mn. Adjusted PAT stood at Rs128Mn, owing to other comprehensive income of Rs89Mn.

(Note: Consolidated nos are not comparable on YoY basis)

- On a standalone basis: (Apollo pipes- excl Kisan), Revenue stood at Rs2Bn, a decline of 20%YoY.
- EBITDA margins came in at 9% Vs 9.7%/10.1% in Q2FY24/Q1FY25 respectively. Hence, absolute EBITDA declined by 25%YoY.
- Net profit stood at Rs45Mn, a degrowth of 65%YoY.

Operational Highlights for Q2FY25

- Consolidated volumes for Q2FY25 stood at 20,152Te, down 24%QoQ. Standalone volumes (82% of total volumes) for the quarter stood at 16,430Te (2 year CAGR at 3%), down by 17%YoY & 21.5%QoQ. Kisan (18% of total volumes) contributed 3722Te, a decline of 34%QoQ.
- Overall ASP stood at Rs124/Te as compared to Rs116 in Q1FY25. Standalone ASP was Rs122 Vs Rs126/Rs115 in Q2FY24/Q1FY25, respectively. Kisan ASP increased from Rs121 in Q1FY25 to Rs137.
- Consolidated EBITDA/Te reduced to Rs9.6 from Rs10.9 in the previous quarter. On a standalone basis, EBITDA/Te decreased by 9.5%YoY & 5%QoQ to Rs11. EBITDA/Te for Kisan came in at Rs3.5 Vs Rs8.9 in the previous quarter.

Exhibit 2: Quarterly Snapshot:

Rs mn	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	% yoy	% qoq	H1 FY24	H1 FY25	% yoy
Revenue	2,603	2,495	2,216	2,556	3,085	2,504	0.4	(18.8)	5,098	5,589	9.6
Expenditure	2,342	2,253	2,014	2,302	2,795	2,310	2.5	(17.4)	4,595	5,105	11.1
- RM	1,904	1,782	1,569	1,881	2,162	1,690	(5.2)	(21.8)	3,687	3,851	4.5
- Staff Cost	152	164	154	143	234	228	38.7	(2.3)	317	462	45.8
- Other cost	285	306	291	278	400	392	28.1	(1.9)	592	792	33.9
Operating Profit	262	242	201	254	290	194	(19.6)	(33.0)	503	484	(3.9)
OPM(%)	10.1	9.7	9.1	9.9	9.4	7.8	(193 bps)	(164 bps)	9.9	8.7	(121 bps)
Other Income	12	13	11	3	10	6	(51.5)	(34.7)	25	16	(34.9)
Depreciation	67	72	75	85	99	106	46.0	6.6	139	205	47.5
Interest	15	7	14	15	22	37	434.8	66.2	22	59	168.6
PBT	192	175	123	158	178	58	(67.0)	(67.5)	367	236	(35.7)
Tax	53	46	33	89	39	18	(60.4)	(53.6)	99	57	(41.7)
PAT	139	129	91	69	139	40	(69.3)	(71.4)	269	179	(33.5)

Source: Company, YES Sec

Exhibit 3: Operational Numbers (standalone):

Particulars	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	% yoy	% qoq	H1 FY24	H1 FY25	% yoy
Volumes (Te)	21,219	19,803	18,868	20,550	20,937	16,430	(17.0)	(21.5)	41,022	37,367	(8.9)
Realization (Rs/Kh)	123	126	117	120	115	122	(3.1)	6.4	124	150	20.4
EBITDA/Kg	12.3	12.2	10.7	12.1	11.6	11.0	(9.5)	(5.0)	12	13	5.5

Source: Company, YES Sec

Exhibit 4: Q2FY25 Snapshot (consolidated):

Rs mn	Apollo Pipes	Kisan Mouldings	Total
Volumes (Te)	16,430	3,722	20,152
Realization (Rs/Kg)	122	137	124
Revenue	2,010	510	2,504
EBITDA	181	13	194
EBITDA (%)	9.0%	2.5%	7.8%
EBITDA/Kg	11.0	3.5	9.6

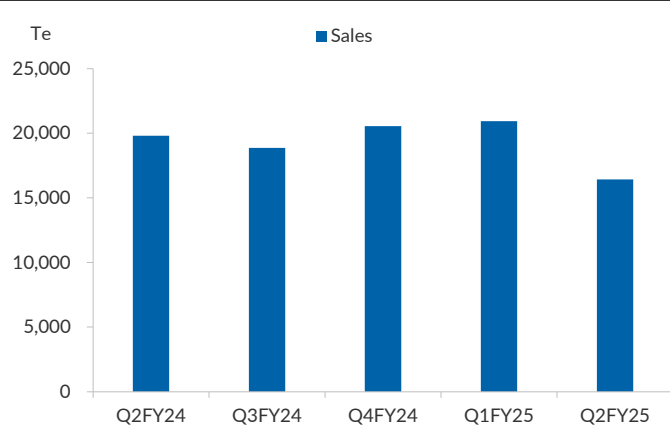
Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- Management guided for a growth of 35%YoY in H2FY25 Vs H1FY25, and along similar lines, growth for FY25 should also be 35%YoY.
- On EBITDA margins, APOLP should deliver 10% and KISAN should operate at 5-6%. Hence, blended margins will be capped at ~8-9% owing to capex plans and higher promotional spends. However, post expansion and desired product-mix, EBITDA margins should improve to 11-12% by end of FY27.
- During the quarter, management had targeted total volume sales of 27,000Te, however, due to monsoons, declining PVC prices and lower spends from government, volumes were lower than expectations.
- Working capital days expanded due to higher inventory build-up and lower sales. Management aims to improve working capital cycle to below 40-days in H2FY25 with improvement in sales.
- Capex for H1FY25 was Rs650Mn and company will spend Rs1.8-2Bn in H2FY25. By FY25 end, total capacity will be 300,000Te. Varanasi plant of 46,000Te will commence in March'25. Other brownfield capex will conclude by June'25. Incremental 2-lines of O-PVC will be operational in coming 4-months.
- Company is confident that current O-PVC capacity will ramp-up and they have approvals from 5-state government. Currently, O-PVC contribution to total sales is in single digit.
- Infra + Government + Agri used to contribute 40-45% of sales, which contracted to 30% in Q2FY25. Government projects constituted 15% of sales which has dropped below 5%.
- Currently channel inventory is still below average as the channel partners are still waiting for clarity & stability in resin prices.
- Inventory loss for Q2FY25 was less than Rs50Mn.
- Company expects to deliver operating cash flow of Rs500-600Mn in H2FY25 and Rs1Bn from conversion of warrants, the total Rs1.5-1.6Bn will be used for capex.
- 20% of the sales are channel financed, that was started by company in past 12-15 months.
- Outlook for HDPE remains very weak as government works have slowed down considerably.
- Housing: Agri mix stood at 60%:40%.
- CPVC/Fittings each constitute 15%+ to overall sales.

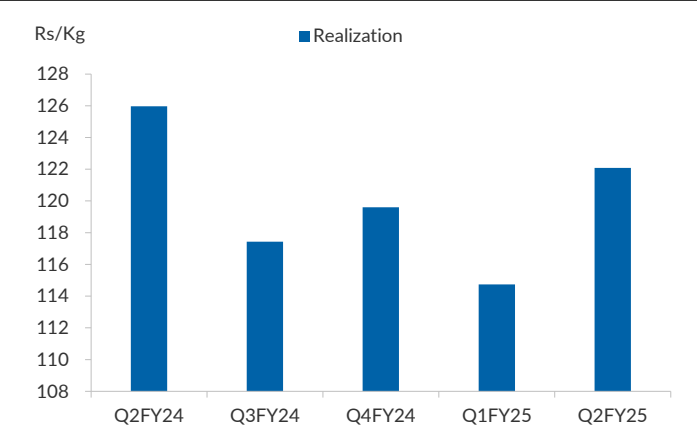
QUARTERLY TRENDS

Exhibit 5: Standalone pipe volumes down by 17%YoY...



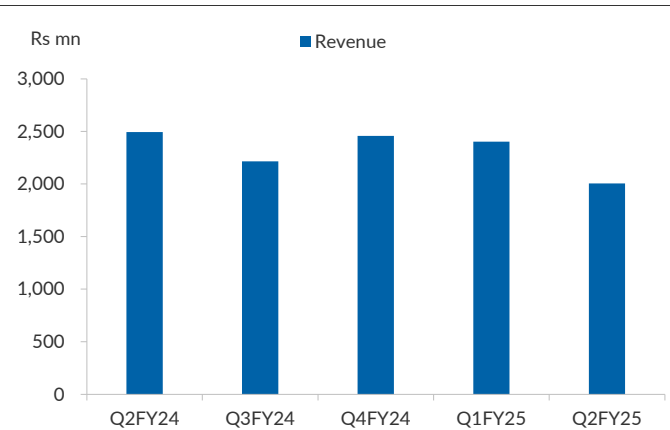
Source: Company, YES Sec

Exhibit 6: Realization came in at Rs122/kg...



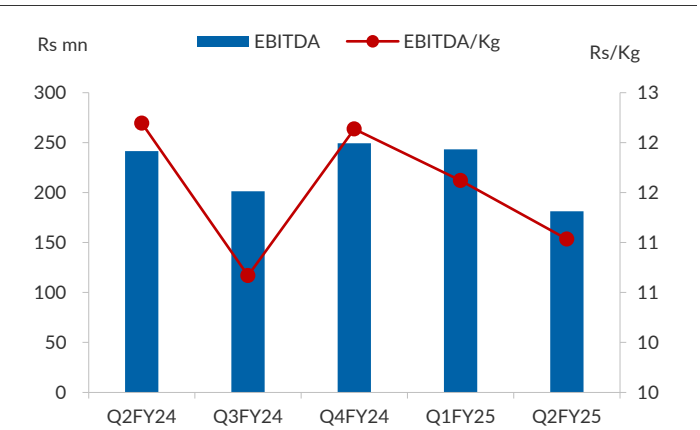
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Exhibit 7: Standalone revenue declined by 20%YoY...



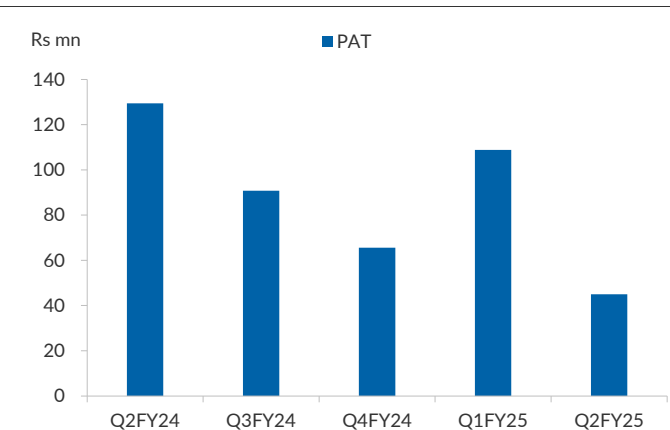
Source: Company, YES Sec

Exhibit 8: EBITDA/kg stood at Rs11...



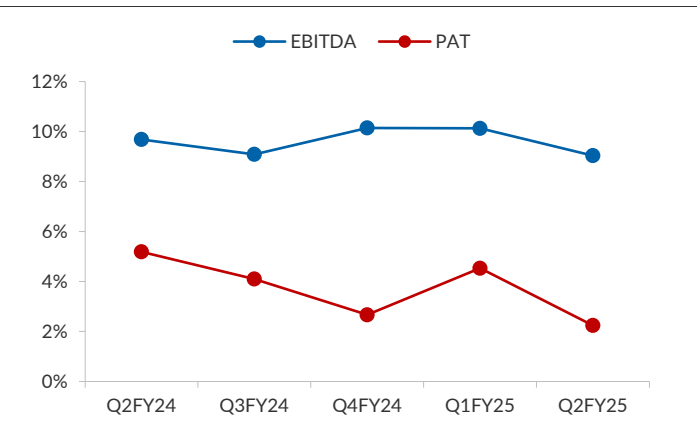
Source: Company, YES Sec

Exhibit 9: Standalone net profit was Rs45Mn...



Source: Company, YES Sec

Exhibit 10: OPM & NPM came in at 9% & 2%...



Source: Company, YES Sec

FINANCIALS

Exhibit 11: Income Statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Sales	9,145	9,771	12,460	17,112	21,074
COGS	6,927	7,051	9,143	12,648	15,258
COGS %sales	75.7	72.2	73.4	73.9	72.4
GP	2,218	2,720	3,317	4,464	5,816
GP%	24.3	27.8	26.6	26.1	27.6
EBITDA	681	954	1,021	1,404	1,736
EBITDA%	7.4	9.8	8.2	8.2	8.2
Depreciation	284	297	429	513	562
Finance Cost	89	51	79	88	69
Other Income	20	39	50	60	70
PBT	328	645	563	862	1,175
Tax	88	220	141	215	294
PAT	241	425	422	646	881
PAT%	2.6	4.4	3.4	3.8	4.2

Source: Company, YES Sec

Exhibit 12: Balance Sheet

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	393	394	414	414	414
Reserves	4,179	5,347	5,769	6,416	7,297
Equity	4,572	5,740	6,183	6,829	7,711
Payables	1,179	1,669	2,165	2,994	3,612
Provisions	5	79	79	79	79
Other current Liab	364	881	881	881	881
Total Equity & Liab	6,619	10,106	13,994	15,270	16,569
Gross Block	3,746	6,104	8,104	8,904	9,704
Acc Dep	1,240	1,537	1,966	2,480	3,041
Net Block	2,506	4,567	6,138	6,424	6,663
CWIP	56	84	84	84	84
Other Noncurrent	453	1,344	1,344	1,344	1,344
Inventory	1,708	1,987	2,577	3,565	4,300
Receivables	658	796	1,014	1,393	1,716
Cash & Bank	348	560	2,068	1,691	1,694
Loans	38	36	36	36	36
Other	553	331	331	331	331
Total Assets	6,619	10,106	13,994	15,270	16,569

Source: Company, YES Sec

Exhibit 13: Cash Flow

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	327	648	563	862	1,175
Depreciation & Amortization	284	299	429	513	562
Finance cost	89	51	79	88	69
(Incr)/Decr in Working Capital	146	444	(313)	(537)	(440)
Taxes	(143)	(180)	(141)	(215)	(294)
Cash from ops.	687	1,247	617	711	1,072
(Incr)/ Decr in PP&E	(728)	(957)	(2,000)	(800)	(800)
Cash Flow from Investing	(680)	(2,140)	(2,000)	(800)	(800)
(Decr)/Incr in Borrowings	51	(1,222)	400	(200)	(200)
Finance cost	(89)	(51)	(79)	(88)	(69)
Cash Flow from Financing	(78)	(637)	2,891	(288)	(269)
Incr/(Decr) in cash	(70)	(1,530)	1,508	(377)	3
Cash and cash equivalents at beginning of year	418	2,076	560	2,068	1,691
Cash and cash equivalents at end of year	348	546	2,068	1,691	1,694

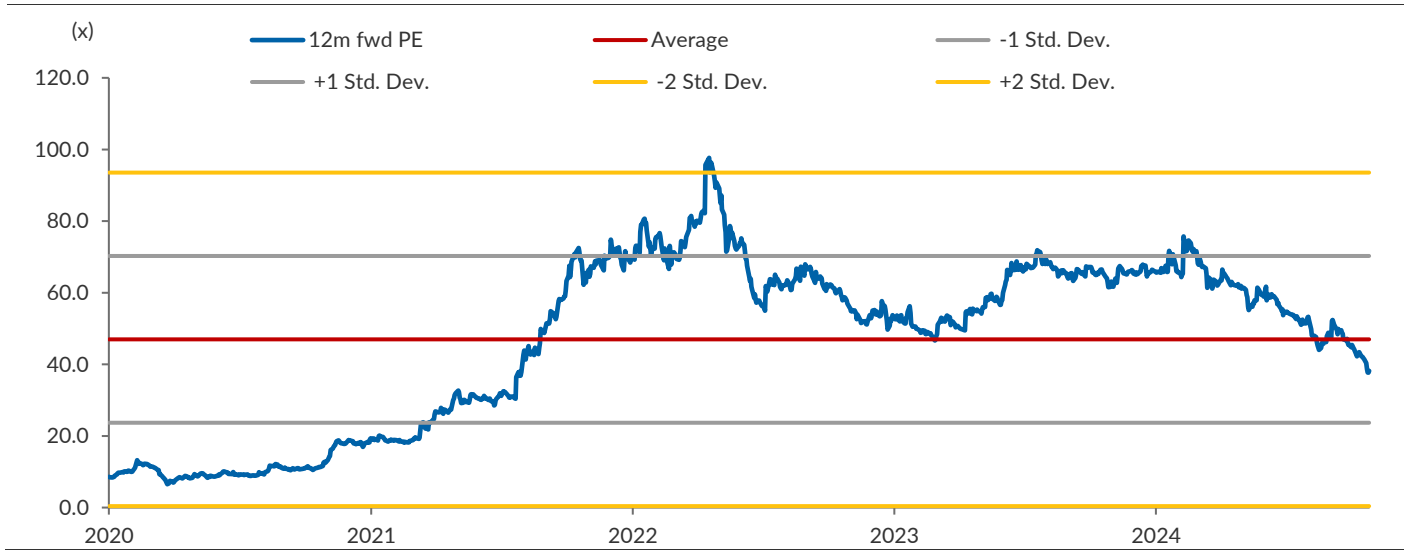
Source: Company, YES Sec

Exhibit 14: Ratios

Key Ratios	FY23	FY24	FY25E	FY26E	FY27E
Growth Matrix (%)					
Revenue growth	16.6	6.8	27.5	37.3	23.2
EBITDA growth	(27.1)	40.1	7.0	37.5	23.7
EBIT growth	(41.7)	66.9	(7.7)	48.1	31.0
PAT growth	(51.7)	76.7	(0.7)	53.1	36.3
Profitability ratios (%)					
GP margin	24.3	27.8	26.6	26.1	27.6
EBITDA margin	7.4	9.8	8.2	8.2	8.2
EBIT margin	4.6	7.1	5.2	5.6	5.9
PAT margin	2.6	4.4	3.4	3.8	4.2
RoCE	9.5	12.1	7.7	9.3	11.4
RoE	5.6	8.2	5.8	7.1	9.0
Per share values					
EPS	6.1	10.8	10.2	15.6	21.3
CEPS	13.3	18.4	20.6	28.1	34.9
BVPS	116.3	145.9	211.2	226.8	248.1
Valuation ratios (x)					
P/E	81.7	63.4	48.1	31.4	23.0
P/B	4.3	4.7	2.3	2.2	2.0
EV/EBITDA	29.0	28.3	18.9	13.9	11.1
Leverage ratios (x)					
Debt/ Equity	0.1	0.1	0.1	0.1	0.1
Net debt/Equity	0.0	0.0	(0.1)	(0.1)	(0.1)
Net debt/EBITDA	0.1	0.1	(1.0)	(0.6)	(0.6)
Int coverage	4.7	13.8	8.2	10.8	18.0
NWC days					
Receivables	26	30	30	30	30
Inventory	90	103	103	103	103
Payables	62	86	86	86	86

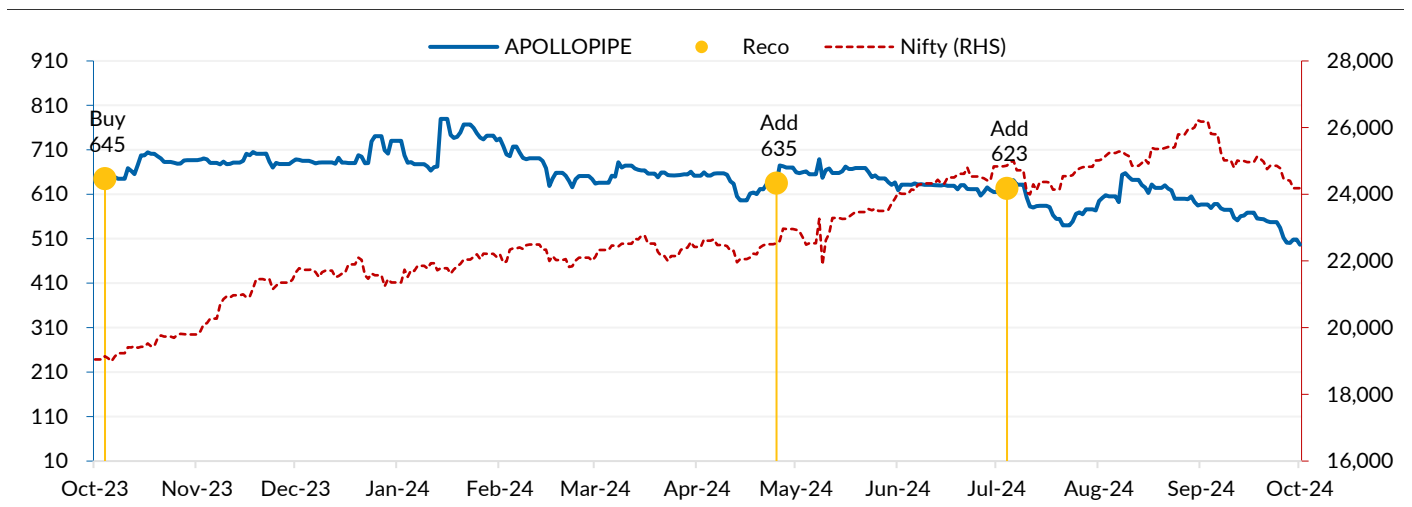
Source: Company, YES Sec

Exhibit 15: 1-year forward P/E (x) chart



Source: Company, YES Sec

Recommendation Tracker



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