April 07, 2021

Apollo Pipes Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based/Non-Fund-based Limits	45.00^	[ICRA]A(Stable)/A1; assigned
Non-Fund-based Limits	5.00	[ICRA]A1; assigned
Total	50.00	

^ Interchangeable with fund-based facility to the extent of Rs 22.5 crore

**Instrument details are provided in Annexure-1*

Rationale

The assigned ratings for the bank facilities of Apollo Pipes Limited (APL) note its established position in the domestic PVC pipes industry under brand name of APL Apollo, supported by its expansive product profile, strong dealership network and a comfortable financial profile. The ratings favourably factor in the company's pan-India manufacturing presence to address demand in various regions, while keeping the logistic costs under check. Moreover, its product basket comprising polyvinyl chloride (PVC) pipes, chlorinated polyvinyl chloride (CPVC) pipes and high density polyethylene (HDPE) pipes addresses requirements in agriculture, housing, water management segments with agriculture being the highest end-user segment for the company. APL has recently ventured into value-added products such as bathroom fittings, water tanks and S.S. kitchen sinks to improve its product mix and reduce the inherent seasonality of the business. Further, the ratings consider its steady growth in scale of operation over the past five years on the back of deeper penetration in the market besides expanding geographic reach with set up of new capacities in South and Central India, along with comfortable capital structure with gearing at 0.16 times as on December 31, 2020, healthy debt coverage metrics and a favourable liquidity profile.

The ratings are, however, constrained by the geographical concentration with most of its revenue derived from Uttar Pradesh and intense competition in the PVC pipe industry due to presence of various organised and unorganised players. The ratings further note the vulnerability of the company's profitability to raw material price variations, which is a crude oil derivative. Additionally, APL is exposed to foreign currency fluctuation risk in light of significant dependence on imported raw material.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that APL will maintain its business position in the PVC pipe industry and would continue to demonstrate healthy growth in revenues, profits and cash accruals and maintain comfortable coverage metrics.

Key rating drivers and their description

Credit strengths

Established position in domestic PVC pipes industry along with strong dealership network – APL manufactures and markets PVC, HDPE pipes and fittings with its promoters having more than two decades of experience in the pipe manufacturing industry. The company shares the Apollo brand with APL Apollo Tubes Limited (market leader in ERW pipes), which is well-recognised in North India. Further, its position is supported by a strong dealership network in all over India with over 590 dealers - 62% in north, followed by south (14%) and west (11%).

Pan-India manufacturing presence and diversified product profile – The company has five manufacturing facilities each located in Dadri, Sikandrabad, Ahmedabad, Bangalore and a new greenfield unit in Raipur. While it started as a North India-based player, APL has expanded its presence in other geographies through organic as well as inorganic route. It, is thus, well poised to serve new market segments in the long term. Further, with increasing penetration in geographies other than North India, the company will be able to benefit from the favourable demand prospects across regions. Its product profile is expansive with presence in PVC and HDPE pipes catering to agriculture, housing and water management segments. APL has recently ventured into value-added products such as bathroom fittings, water tanks and S.S. kitchen sinks that are immune to seasonality compared to traditional PVC pipes.

Steady revenue growth, comfortable capital structure and coverage indicators – APL's operating income (OI) witnessed steady growth at a CAGR of 14% over the five years, increasing to Rs. 407.96 crore in FY2020 from Rs. 208.35 crore in FY2016 mainly due to deeper penetration in the market besides expanding geographic reach as it set up new capacities in South and Central India. In 9M FY2021, the company achieved an OI of Rs. 343.87 crore and is expected report a revenue growth of over 20% in the current fiscal. Further, the capital structure remains comfortable with gearing at 0.16 times as on December 31, 2020 (against 0.29 times as on March 31, 2020) owing to low debt levels and healthy net worth. Moreover, APL's coverage indicators remained comfortable as reflected by interest coverage of 13.1 times, Total Debt/OPBITDA of 0.9 times and NCA/Total Debt of 97% for 9M FY2021 with a strong liquidity. With healthy growth in revenues, profits and cash accruals driven by favourable demand prospects and its limited capex plans, its credit metrics and profitability indicators are likely to remain comfortable over the medium term.

Credit challenges

High geographical concentration; stiff competition from large and established brands – The company has a high geographical concentration with most of its revenues derived from Uttar Pradesh (55% of total sales) and Rajasthan (13% of total sales). Further, it faces stiff competition in the pipe industry with the strong presence of other established players such as Supreme Industries Limited, Astral Poly Technik Limited, Finolex Industries Limited, Prince Pipes and Fittings Limited owing to low product differentiation. Moreover, this industry is characterised by low entry barriers given the low fixed capital requirement and supply glut, which limits pricing power. However, the same is mitigated to an extent by the established market position of the APL Apollo brand and the management's endeavours to expand geographically, while offering an expansive product basket targeting increased share of value-added products.

Profitability indicators exposed to volatile raw material prices and forex fluctuation – The company's revenues and margins are exposed to fluctuation in the prices of key raw materials such as PVC resin and HDPE granules. Any adverse movement in the raw material prices could have an adverse impact on its margins, considering the intense competition in the industry and limited pricing power. APL imports around 80% of its raw material requirements from countries such as Japan, South Korea, Europe, USA (reduced to 65% in current fiscal as guided by the management in the backdrop of the Covid-19 pandemic). Therefore, its margins are susceptible to foreign exchange fluctuations as exports remain negligible. Nevertheless, the management hedges its foreign exchange exposure partially so as to limit this risk, while there is no formal hedging policy.

Liquidity position: Strong

APL's liquidity position is **strong** as reflected by sizeable unencumbered cash balance of Rs. 72.16 crore as of December 2020, along with the average cushion in the working capital limits of ~Rs. 35 crore (from November 2019 to January 2021) against its drawing power. Further, the cash accruals are expected to remain adequate to cover the debt repayments and capex of around Rs. 25 crore per annum for FY2022-FY2023.

Rating sensitivities

Positive factors – ICRA could upgrade APL's ratings if the company demonstrates significant improvement in the scale of operations and profitability on a sustained basis, while maintaining a healthy liquidity position.

Negative factors – Negative pressure on APL's ratings could arise, if there is a decline in scale of operations, along with moderation in profitability and any further elongation in the working capital cycle or any sizeable capital expenditure or inorganic investments moderates its coverage metrics and weakens the liquidity position. Further, the company's core ROCE remaining lower than 15%, on a sustained basis, may trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statement

About the company

Incorporated in 2000, APL is a part of Sudesh Group and post a reverse merger with its holding company in November 2017, it got listed on the BSE and the NSE. APL has an established presence in piping and related products segment under the brand name of APL Apollo. The company had initially started with its manufacturing unit at Dadri and Sikanderabad and thereafter has steadily enhanced its capacities and widened its presence across geographies such as Ahmedabad, Bengaluru and Raipur. It is involved in manufacturing of polyvinyl chloride (PVC) pipes, chlorinated polyvinyl chloride (CPVC) pipes, high density polyethylene (HDPE) pipes, bath fitting, solvent cement and water tanks with aggregate installed capacity of 1,00,000 TPA as on January 31, 2021.

In FY2020, the company reported a net profit of Rs. 28.53 crore on an OI of Rs. 407.96 crore compared to Rs. 23.93 crore and 361.84 crore in FY2019. In 9M FY2021, it reported a net profit of Rs. 27.84 crore on an OI of Rs. 343.87 crore.

Key financial indicators

LMJ Services Limited	FY2019	FY2020	9M FY2021
Operating Income (Rs. crore)	361.84	407.96	343.87
PAT (Rs. crore)	23.93	28.53	27.84
OPBDIT/OI (%)	10.85%	11.76%	13.77%
PAT/OI (%)	6.61%	6.99%	8.10%
Total Outside Liabilities/Tangible Net Worth (times)	0.70	0.57	0.36
Total Debt/OPBDIT (times)	2.86	1.88	0.86
Interest Coverage (times)	6.61	7.55	13.10

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Apr 7, 2021	-	-	-
1	Letter of Credit	Long Term/ Short Term	45.00*	-	**[ICRA]A(Stable)/A1**	-	-	-
2	Sales Invoice Financing	Short Term	5.00	-	**[ICRA]A1**	-	-	-

* Interchangeable with fund-based facility to the extent of Rs 22.5 crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website click here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Letter of Credit	NA	NA	NA	45.00*	[ICRA]A (Stable)/A1
NA	Sales Invoice Financing	NA	NA	NA	5.00	[ICRA]A1

* Interchangeable with fund-based facility to the extent of Rs 22.5 crore

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Anupama Arora
+91 124 4545 303
anupama@icraindia.com

Suksham Arora
+91 124 4545 300
suksham.arora@icraindia.com

Menka Sabnani
+91 79 4027 1562
menka.sabnani@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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For more information, visit www.icra.in

ICRA Limited

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches