June 13, 2024

Apollo Pipes Limited: Long Term Rating Upgraded to [ICRA]A+ (Stable); Short Term Rating Reaffirmed; Outlook Revised to Stable; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term – Non-Fund Based Limits^	55.00	70.00^	[ICRA]A+ (Stable)/[ICRA]A1; Upgraded from [ICRA]A (Positive)/[ICRA]A1; Outlook Revised to Stable from Positive; Short-term rating reaffirmed; Assigned for enhanced amount
Long-term/Short term – Fund Based – Working Capital Facilities	80.00	80.00	[ICRA]A+ (Stable)/[ICRA]A1; Upgraded from [ICRA]A (Positive)/[ICRA]A1; Outlook Revised to Stable from Positive; Short-term rating reaffirmed
Total	**135.00**	**150.00**	

**Instrument details are provided in Annexure-I; ^ Interchangeable with fund-based facility to the extent of Rs 55.0 crore.*

Rationale

The revision in the ratings of Apollo Pipes Limited (APL) factors in the expectations of a healthy growth in its revenues and profits over the medium term amid a comfortable credit profile. There has been a healthy volume growth in FY2024, which is likely to continue going forward as well, supported by its own growth as well as addition of volumes from the recently acquired Kisan Mouldings Limited (KML) along with the ongoing greenfield expansions of APL. ICRA notes that the expansion in revenues and profits going forward would be supported by higher volumes, given the growing demand for APL's products and its increasing presence beyond North India due to the planned capacity expansion. ICRA also expects turnaround in the operations of KML, with improvement in profitability from previous years. Further, limited debt on the books of the company and the equity infusion (planned Rs. 260 crore of which around Rs. 147.5 crore has already been infused) is likely to keep the credit profile comfortable going forward, despite the elevated capex levels.

The ratings continue to factor in APL's established position in the domestic polyvinyl chloride (PVC) pipes industry under the brand name of APL Apollo, supported by its expansive product profile, strong dealership network and a comfortable financial profile. Additionally, APL has increased its overall manufacturing capacity to 1,56,000 MTPA as on March 31, 2024 (March 31, 2023: 1,36,200 MTPA), across many of its plants (in Dadri, Ahmedabad, Bangalore and Raipur), which is expected to further increase to ~2,00,000 MTPA over FY2025-FY2026 with the completion of a new Varanasi plant. Further the company acquired 53.57% stake in Kisan Mouldings Limited for a cash consideration of Rs 118.4 crore, which also operates in the PVC industry in western India, with a capacity of ~60,000 MTPA. Thus, the company will have a pan-India manufacturing presence, addressing demand in various regions while keeping the logistics costs under check. Its product basket comprising PVC pipes, chlorinated polyvinyl chloride (cPVC) pipes and high-density polyethylene (HDPE) pipes addresses the requirements of the agriculture, housing and water management segments with agriculture being the highest end-user segment, though the dependence on agriculture reduced over the years and it contributes to less than 50% of the total sales now.

Over the last few years, APL has also ventured into value-added products such as bathroom fittings, water tanks and kitchen sinks to improve its product mix and reduce the inherent seasonality of the business.

Further, the ratings consider the steady growth in its scale of operation on the back of a deeper penetration in the market, besides expanding the geographic reach with new capacities. The capital structure has also been comfortable with a gearing of ~0.10 times as on March 31, 2024, healthy debt coverage metrics and a favourable liquidity profile. The company's dependence on borrowings remains limited and the same is likely to continue going forward as well. With OPM having normalised to 9.8% in FY2024 (7.6% in FY2023) after a few weak quarters witnessed during FY2023, interest coverage improved to 18.8 times in FY2024 (7.3 times in FY2023). Given the limited reliance on debt and expectation of operating margins in the range of 8-9% going forward on a consolidated basis (including KML), the debt coverage metrics are likely to continue to remain healthy going forward as well. Moreover, the company's Board of Directors had approved a preferential allotment of equity aggregating Rs. 259 crore to be infused over FY2024-H1FY2025 for funding its capex and growth requirements, of which Rs 65 crore were infused in FY2024 and Rs. 82.5 crore have been infused in Q1FY2025.

However, the company's revenues and margins are exposed to the price fluctuation in key raw materials such as PVC/CPVC resins and HDPE granules, which are crude oil derivatives, apart from the commoditised nature of the industry. This was also evident from the sharp decline in the operating profit margin (OPM) in FY2023 pursuant to the contraction in PVC resin prices, leading to inventory losses and lower sales realisations, amidst inventory destocking market environment. OPM recovered to 9.8% in FY2024 even as PVC prices continued to decline. As the decline was gradual the prices were largely passed onto the customers, unlike in FY2023. As the PVC resin prices are not expected to be volatile going forward, APL on a standalone basis is expected to revert to a normalised OPM range of ~10-10.5%.

The ratings are further constrained by the geographical concentration as most of its revenues are from Uttar Pradesh (though the concentration has reduced to ~47-55% over FY2020-FY2024 from FY2019 level of 62%) and intense competition in the PVC pipe industry due to the presence of various organised and unorganised players. Additionally, APL is exposed to foreign currency fluctuation risk due to its dependence on imported raw material. Moreover, the ability of the company to turnaround operations in KML will remain a key monitorable.

The stable outlook on the rating factors in the ICRA's expectation that the company will continue to report healthy growth in volumes with comfortable profitability metrics resulting in adequate cash flow generation along with maintaining a comfortable credit profile.

Key rating drivers and their description

Credit strengths

Established position in domestic PVC pipes industry; strong dealership network – APL manufactures and markets PVC, HDPE pipes and fittings. The company shares the Apollo brand with APL Apollo Tubes Limited (market leader in ERW pipes) which is well-recognised, especially in North India. Further, the company's position is supported by a strong dealership network all over India with more than 400 distributors of which 46% are in the north, followed by west (16%), south (19%), central (9%) and east (11%) India. Other than North India, the foray into the other regions has been recent.

Pan-India manufacturing presence and diversified product profile – The company has five manufacturing facilities, one each in Dadri, Sikandrabad, Ahmedabad, Bengaluru and Raipur, with another one at Varanasi being set up. While starting out as a North India-based player, APL has expanded its presence in other geographies through the organic and inorganic route and is thus well poised to serve new market segments in the long term. Further, the increased penetration in geographies other than North India will keep the company better insulated from the regional demand-supply dynamics. The company's product profile is expansive with presence in PVC and HDPE pipes catering to the agriculture, housing, water management segments. Also, the company has ventured into value-added products like bathroom fittings, water tanks, UPVC window and door profiles, O-OPVC (Oriented Unplasticized Polyvinyl Chloride) pipes, that are immune from seasonality compared to traditional PVC pipes.

Healthy volume growth, comfortable profitability profile– APL's operating income (OI) grew at a CAGR of over 20% in the last eight years to Rs. ~987 crore in FY2024 (+8% YoY) from Rs. 208 crore in FY2016, mainly due to a deeper penetration in the market and expansion into new geographies by setting up new capacities in South and Central India. Additionally, healthy growth is expected going forward as well given the expanding demand for APL's products along with increased penetration in geographies other than North India and the planned capacities becoming operational. Volume growth has remained healthy in FY2024 and is likely to continue going forward as well.

Further, APL's operating profit margin also improved to 9.7% in FY2024 from 7.6% in FY2023. Margins were subdued in FY2023 due to a sharp decline in PVC resin prices leading to inventory losses and resulting in moderation in coverage indicators. While, the PVC resin prices continued to decline in FY2024, the decline was gradual during FY2024 and the same was largely passed onto the customers. With bottoming out of PVC resin prices, which have started picking up, the company is expected to report normalised OPM of ~10-10.5% during FY2025.

Comfortable capital structure and coverage indicators - APL's capital structure has remained quite comfortable with a gearing of ~0.10 times as on March 31, 2024 (~0.10 times as on Mar 31, 2023 as well). The interest coverage improved to Rs ~19 times in FY2024 (7.3 times in FY2023), while the debt/OPBIDTA remained stable at 0.7 time in FY2024 (0.6 times in FY2023). The improvement was along expected lines. Going forward as well, a healthy OPBIDTA is expected to keep the coverage and leverage comfortable.

Moreover, the company's Board of Directors had approved a preferential allotment of equity aggregating Rs. 259 crore to be infused over FY2024-H1FY2025 for funding its capex and growth requirements, of which Rs 65 crore were infused in FY2024 and Rs. 82.5 crore have been infused in Q1FY2025. Expected equity infusion is expected to improve the capital structure further.

Credit challenges

High geographical concentration; stiff competition from large and established brands – The company has a high geographic concentration with majority of revenues from Uttar Pradesh (45-55% of total sales), followed by Rajasthan (8-10% of total sales). Further, the company faces stiff competition in the pipe industry from other established branded players such as Supreme, Astral, Prince pipes etc. owing to low product differentiation. Moreover, this industry is characterised by low entry barriers given the low fixed capital intensity and supply glut that limits the pricing power. However, the pressure is mitigated to an extent by the established market position of the APL Apollo brand and the management's endeavors to expand its geographic presence and offer an expansive product basket for a higher share of value-added products.

Profitability indicators exposed to volatility in raw material prices and forex fluctuation – The company's revenues and margins are exposed to the price fluctuation in key raw materials such as PVC resin and HDPE granules. Any adverse movement in the prices of raw materials could have an adverse impact on the company's margins, considering the highly competitive industry as well as lag in passing on higher raw material prices to customers, evident from the adverse movement of PVC resin prices, leading to a sharp decline in operating profitability in FY2023, which recovered to a large extent during FY2024. Also, APL imports ~40-50% of the raw material from countries like Japan, South Korea, Europe, the US etc. Hence, with insignificant exports, APL is exposed to any adverse movement in foreign exchange rates. However, the same is mitigated partially through forex hedging done by APL on a case-to-case basis.

Liquidity position: Adequate

APL's liquidity position is **adequate** with free cash balance of Rs. ~21 crore as on March 31, 2024, in addition to a comfortable cushion in the working capital borrowings. Expected cash accruals are expected to more than adequately cover working capital requirements. Further, there are nil term debt repayments. The company plans to incur capex of Rs ~250-300 crore over the next two years which is proposed to be funded by equity infusion and internal accruals.

Rating sensitivities

Positive factors – ICRA could upgrade APL's ratings if the company continues to expand its scale of operations while maintaining its profitability and debt metrics and a healthy liquidity position.

Negative factors – Pressure on APL's ratings could arise if there is a decline in the scale of operations, along with a moderation in profitability. Any further stretch in the working capital cycle, or any sizeable debt-funded capital expenditure, or inorganic investments that can moderate the coverage metrics and weaken the liquidity position could be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	ICRA has considered the consolidated financial statements of APL.

About the company

Apollo Pipes Limited (APL), incorporated in 2000, belongs to Sudesh Group is a listed entity based out of Delhi NCR. APL has an established presence and enjoys brand equity in piping and related products segment under brand name of APL Apollo. The company has aggregate installed capacity of ~1,56,000 TPA as on March 31, 2024, at Dadri, Sikanderabad, Ahmedabad, Raipur and Bengaluru engaged in the manufacturing of polyvinyl chloride (PVC) pipes, chlorinated polyvinyl chloride (cPVC) pipes, high density polyethylene (HDPE) pipes, bath fitting, solvent cement and water tanks. APL is also in the process of setting up a new plant at Varanasi with a capacity of 30,000 TPA. It caters to various requirements such as water and sewerage transportation, irrigation, and plumbing applications in domestic and commercial construction. APL's product profile includes over 1,500 product varieties of cPVC, uPVC, and HDPE pipes, PVC taps and fittings which cater to an array of industrial applications such as Agriculture, Water Management, Construction, Infrastructure, and Telecom ducting segments. The Company's extensive distribution network spreads for about 600+ channel partners.

APL had acquired a 53.57% majority stake in Kisan Mouldings Ltd (KML) for Rs. 118.40 crore on March 26, 2024, aiming to bolster its position in the PVC pipes and fittings sector. KML has a total capacity of 60,000 MTPA. The proceeds of equity infusion were utilised towards a one-time settlement (OTS) process with the lenders, thereby becoming a debt free entity.

Key financial indicators (audited)

APL Consolidated	FY2022	FY2023	FY2024*
Operating income	784.1	914.5	986.9
PAT	49.8	23.9	42.8
OPBDIT/OI	12.0%	7.6%	9.7%
PAT/OI	6.3%	2.6%	4.3%
Total outside liabilities/Tangible net worth (times)	0.3	0.4	0.5
Total debt/OPBDIT (times)	0.4	0.6	0.7
Interest coverage (times)	21.4	7.3	18.9

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; * Kisan Mouldings Ltd has been consolidated only wef March 26, 2024; FY2022 and FY2023 standalone and consolidated financials are same*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Jun 13, 2024	Apr 28, 2023	Apr 07, 2022	Apr 07, 2021
1	**Non-Fund Based Limits^**	Long term and short term	70.00	-	**[ICRA]A+ (Stable)/ [ICRA]A1**	**[ICRA]A (Positive)/ [ICRA]A1**	-	-
2	**Fund Based – Working Capital Facilities**	Long term and short term	80.00	-	**[ICRA]A+ (Stable)/ [ICRA]A1**	**[ICRA]A (Positive)/ [ICRA]A1**	-	-
3	**Letter of Credit**	Long term and short term	-	-	-	-	**[ICRA]A (Positive)/ [ICRA]A1**	**[ICRA]A (Stable)/ [ICRA]A1**
4	**Invoice Discounting**	Short term	-	-	-	-	**[ICRA]A1**	**[ICRA]A1**

^ Interchangeable with fund-based facility to the extent of Rs 55.0 crore.

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Short-term – Non-Fund Based Limits^	Simple
Long-term/Short-term – Fund Based – Working Capital Facilities	Simple

^ Interchangeable with fund-based facility to the extent of Rs 55.0 crore.

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here]

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Non-Fund Based Limits^**	NA	NA	NA	70.00	[ICRA]A+ (Stable)/[ICRA]A1
NA	**Fund Based – Working Capital Facilities**	NA	NA	NA	80.00	[ICRA]A+ (Stable)/[ICRA]A1

Source: Company; ^ Interchangeable with fund-based facility to the extent of Rs 55.0 crore.

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	APL Ownership	Consolidation Approach
Kisan Mouldings Limited	53.57%	Full Consolidation

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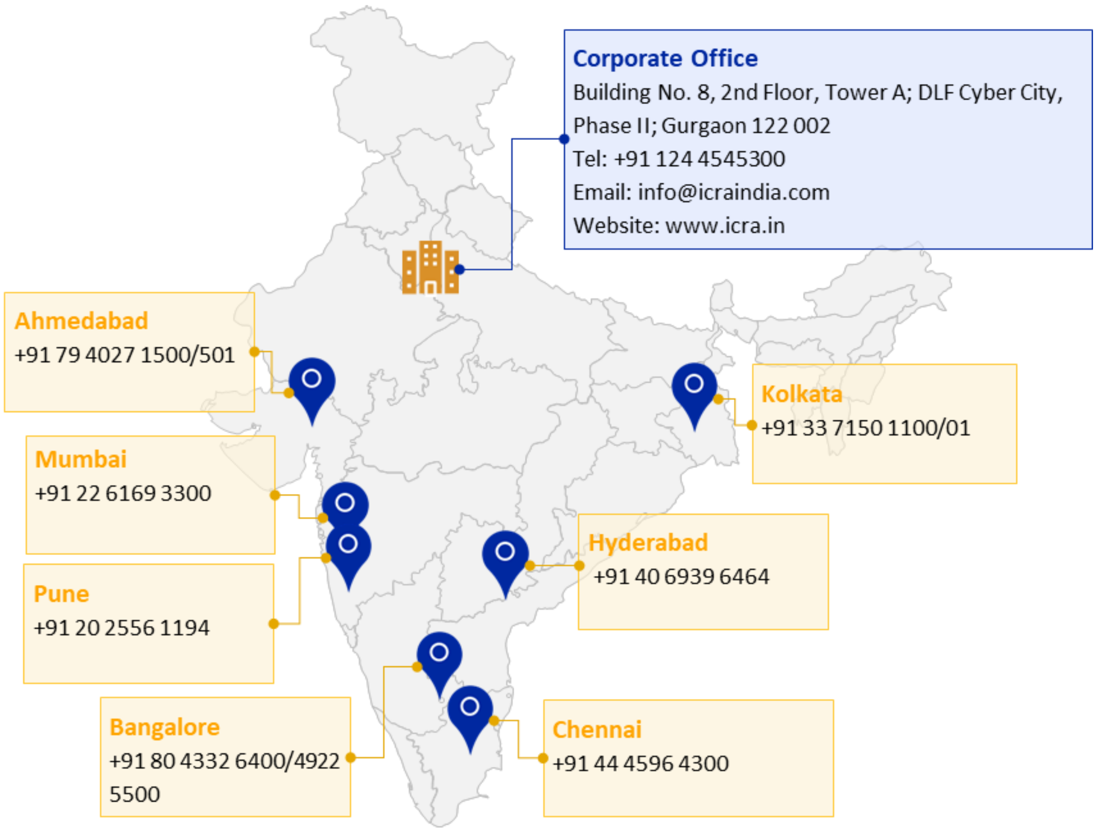

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