

April 28, 2023

Apollo Pipes Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Letter of credit	45.00 [^]	-	-
Invoice discounting	5.00	-	-
Non-fund based - Working capital facilities	-	55.00 [#]	[ICRA]A(Positive)/A1; Reaffirmed/assigned
Fund-based - Working capital facilities	-	80.00	[ICRA]A(Positive)/A1; Reaffirmed/assigned
Total	50.00	135.00	

* Instrument details are provided in Annexure-1, [^] Interchangeable with fund-based facility to the extent of Rs 22.5 crore; [#] Interchangeable with fund-based facility to the extent of Rs 21.0 crore

Rationale

The ratings for the debt programmes of Apollo Pipes Limited (APL) have been reaffirmed, factoring in expectations of a healthy growth in its revenues and profits over the medium term amid a comfortable credit profile. ICRA notes that the expansion in revenues and profits in FY2024-FY2025 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.

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 1,31,200 MTPA as on December 31, 2022 (March 31, 2022: 1,25,200 MTPA), across many of its plants, which is expected to further increase to ~1,50,000 MTPA in FY2024 with the completion of a new plant near the Dadri unit. Thus, the company has 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 further in 9M FY2023. 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 0.16 times as on December 31, 2022, healthy debt coverage metrics and a favourable liquidity profile. Although moderated operating profits and cash accruals in 9M FY2023 weighed on the coverage metrics, the company's dependence on borrowings remains limited. Moreover, the company's Board of Directors approved a preferential allotment of equity aggregating Rs. 259 crore to be infused over the next two years for funding its capex and growth requirements.

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 9M FY2023 pursuant to the contraction in PVC resin prices, leading to inventory losses and lower sales realisations. As the PVC resin prices are expected to have bottomed out in Q4 FY2023, APL is expected to revert to a normalised OPM range of ~10-12%.

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 FY2020-9M FY2023 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.

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 450 distributors of which 47% is in the north, followed by west (18%), south (17%), central (9%) and east (8%) 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. 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 and stainless-steel kitchen sinks that are immune from seasonality compared to traditional PVC pipes.

Steady growth in operating income and comfortable capital structure and coverage indicators – APL's operating income (OI) grew at a CAGR of 24% in the last seven years to an estimated over Rs. ~900 crore in FY2023 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. In 9M FY2023, the company posted an OI of Rs. 663 crore (9MFY2022: Rs.537 crore, an increase of 23% YoY) and is expected to report a growth of over ~23% YoY in FY2023 basis ICRA's estimates for Q4 FY2023, supported by healthy volumes driven by both higher demand and increased realisations. Additionally, strong growth (around 30%) is expected for FY2024 given the expanding demand for APL's products along with increased penetration in geographies other than North India and the planned capacities becoming operational.

Further, APL's capital structure has remained quite comfortable with a gearing of 0.16 times as on December 31, 2022 (0.10 times as on Mar 31, 2022) in light of higher WC debt, which is estimated to have reverted back to 0.10 times as on March 31, 2023 due to reduction in WC debt. However, APL's operating profit margin deteriorated to 5.8% in 9M FY2023 due to a sharp decline in PVC resin prices leading to inventory losses and resulting in moderation in coverage indicators. While the interest coverage declined to Rs 6.0 times in 9M FY2023 (21.5 times in FY2022) and the debt/OPBIDTA deteriorated to 1.8 times (0.6 times in FY2022), the coverage indicators are expected to improve significantly to the previous levels Q4 FY2023 onwards on expectations of the OPM normalising with the bottoming out of OVC resin prices. Going forward as well, a healthy OPBIDTA is expected to keep the coverage and leverage comfortable.

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 9M FY2023. 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: Strong

APL’s liquidity position is strong with free cash balance of Rs. ~30 crore as on March 31, 2023 in addition to a drawing power of ~Rs. 53 crore over the 12 months ended December 31, 2022, which is estimated to be at a similar healthy level over the next 12 months. Further, the cash accruals are expected to remain adequate to cover the miniscule debt repayments during FY2024 of ~Rs. 1.11 crore. The company plans to incur capex of Rs ~100 crore annually over the next couple of years, which is to be funded entirely by planned 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. Further, the ratings may be downgraded if the core ROCE is lower than 15% on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	ICRA has considered the standalone financial statements of APL

About the company

Apollo Pipes Limited (APL), incorporated in 2000, belongs to the Sudesh Group. It is a listed entity and has its headquarters in Delhi. APL has an established presence and brand equity in the piping and related products segment under the brand name of APL Apollo. The company had an aggregate installed capacity of 1,31,200 TPA as on December 31, 2022. It has manufacturing facilities in Dadri, Sikanderabad, Ahmedabad, Raipur and Bengaluru that manufacture polyvinyl chloride (PVC) pipes, chlorinated polyvinyl chloride (cPVC) pipes, high density polyethylene (HDPE) pipes, bath fittings, solvent cement and water tanks. The products cater 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 across more than 450 distributors.

Key financial indicators (audited)

Standalone	FY2021	FY2022
Operating income (Rs. crore)	518.1	784.1
PAT (Rs. crore)	44.5	49.8
OPBDIT/OI (%)	14.4%	12.0%
PAT/OI (%)	8.6%	6.3%
Total outside liabilities/Tangible net worth (times)	0.4	0.3
Total debt/OPBDIT (times)	0.8	0.4
Interest coverage (times)	16.4	21.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation, A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current Rating (FY2024)			Chronology of Rating History for the past 3 years			
		Amount Rated (Rs. crore)	Amount Outstanding as on Dec 31, 2022 (Rs. crore)	Date & Rating on	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
					April 28, 2023	April 07, 2022	April 07, 2021	-
1 Letter of credit	Long Term/ Short Term	-	-	-	[ICRA]A(Positive) /A1	[ICRA]A(Stable) /A1	-	
2 Invoice discounting	Short Term	-	-	-	[ICRA]A1	[ICRA]A1	-	
3 Non-fund based - Working capital facilities	Long Term/ Short Term	55.0#	-	[ICRA]A(Positive)/ A1	-	-	-	
4 Fund-based - Working capital facilities	Long Term/ Short Term	80.0	-	[ICRA]A(Positive)/ A1	-	-	-	

Source: Company; # Interchangeable with fund-based facility to the extent of Rs 21.0 crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-fund based - Working capital facilities#	Simple
Fund-based - Working capital facilities	Simple

Interchangeable with fund-based facility to the extent of Rs 21.0 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-1: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Non-fund based - Working capital facilities#	NA	NA	NA	55.0#	[ICRA]A(Positive)/A1
NA	Fund-based - Working capital facilities	NA	NA	NA	80.0	[ICRA]A(Positive)/A1

Source: Company data; # Interchangeable with fund-based facility to the extent of Rs 21.0 crore

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

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