

April 07, 2022

Apollo Pipes Limited: Rating Reaffirmed and Outlook revised to Positive from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Letter of Credit	45.00 [^]	45.00 [^]	[ICRA]A(Positive)/A1; reaffirmed and outlook revised to Positive from Stable
Invoice Discounting	5.00	5.00	[ICRA]A1; reaffirmed
Total	50.00	50.00	

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

Rationale

The outlook for the debt programmes of Apollo Pipes Limited (APL) has been revised to Positive on expectations that the company will report 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 FY2022-FY2023 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. Additionally, APL has increased its manufacturing capacities to 1,25,200 MTPA as on December 31, 2021 (March 31, 2021: 1,18,000 MTPA) by operationalising the Raipur facilities in September 2021 which would facilitate the company to increase penetration in the eastern parts of the country. While the debt is expected to increase going forward owing to the capacity expansion and relatively high working capital intensity, a healthy OPBIDTA is likely to keep the coverage and leverage comfortable though they would moderate from the current levels in the medium term.

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. 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 for the company though dependence on agriculture reduced in 9M FY2022. APL has also recently 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 in the last five years 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 0.3 times as on December 31, 2021, healthy debt coverage metrics and a favourable liquidity profile.

The ratings are, however, constrained by geographical concentration with most of its revenues are from Uttar Pradesh (though the concentration reduced in FY2021 and 9M FY2022) and intense competition in the PVC pipe industry due to the 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 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 760 dealers of which 51% is in the north, followed by south (18%), west (14%), 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 Indian 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 recently ventured into value-added products like bathroom fittings, water tanks and S.S. kitchen sinks that are immune from seasonality compared to traditional PVC pipes segment.

Steady growth in operating income and comfortable capital structure and coverage indicators – APL's operating income (OI) has grown at a CAGR of 20% in the last five years to Rs. 518.1 crore in FY2021 from Rs. 241.1 crore in FY2017, 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 FY2022, the company posted an OI of Rs. 536.6 crore (PY: Rs.343.9 crore) and is expected to report a growth of 40-50% YoY in FY2022 supported by healthy volumes driven by both higher demand and increased realisations. Additionally, strong growth (around 25%) is expected for FY2023 given the expanding demand for APL's products along with increased penetration in geographies other than North India and planned capacities becoming operational.

Further, APL's capital structure improved with a gearing of 0.2 times as on March 31, 2021 (PY: 0.3 times) in light of both reduced debt and higher net worth. With healthy operating profits, the coverage indicators also improved in FY2021, reflected in interest coverage of 16.4 times (PY: 7.5 times), total debt/OPBITDA of 0.8 times (PY:1.9 times) and NCA/total debt of 99% (PY: 43%). However, the company's working capital utilisation increased on account of higher working capital intensity as on December 31, 2021, which resulted in moderation of the debt metrics with a gearing at 0.3 times, total debt/OPBITDA at 1.2 times. However, with lower interest outgo in 9M FY2022 and higher OPBITDA levels, the interest cover of APL enhanced to 25.1 times. Going forward, while the debt is expected to increase in the medium term owing to capacity expansion and higher working capital intensity, a healthy OPBITDA is expected to keep the coverage and leverage comfortable though they would moderate from the current levels.

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 (45-50% 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 endeavours 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. Also, APL imports 60-70% of the raw material from countries like Japan, South Korea, Europe, the US etc. Hence, with insignificant exports, APL is exposed to the adverse movements 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. 40 crore as on December 31, 2021 in addition to a drawing power of ~Rs. 70 crore over the 12 months ended December 31, 2021. Further, the cash accruals are expected to remain adequate to cover the debt repayments during FY2022-FY2023 of ~Rs. 10 crore per annum. However, the company plans to incur Rs. 40-50 crore in FY2022 and ~Rs. 100 crore in FY2023-FY2024 to increase its manufacturing capacities which is likely to be funded by internal cash accruals, existing cash balances and need-based borrowings.

Rating sensitivities

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

Negative factors – Negative 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 125,200 TPA as on December 31, 2021. 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 fitting, 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 760 channel partners.

Key financial indicators (audited)

Standalone	FY2020	FY2021	9MFY22
Operating Income (Rs. crore)	408.0	518.1	536.6
PAT (Rs. crore)	28.5	44.5	34.2
OPBDIT/OI (%)	11.8%	14.4%	12.2%
PAT/OI (%)	7.0%	8.6%	6.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.4	0.5
Total Debt/OPBDIT (times)	1.9	0.8	1.2
Interest Coverage (times)	7.5	16.4	25.1

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	Current Rating (FY2023)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Dec 31, 2021 (Rs. crore)	Date & Rating on	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					April 07, 2022	April 07, 2021	-	-
1	Letter of Credit	Long Term/Short Term	45.00*	-	[ICRA]A(Positive)/A1	[ICRA]A(Stable)/A1	-	-
2	Invoice Discounting	Short Term	5.00	-	[ICRA]A1	[ICRA]A1	-	-

Source: Company; * Interchangeable with fund-based facility to the extent of Rs 22.5 crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Letter of Credit	Very Simple
Invoice Discounting	Very Simple

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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

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

Source: Company data; * Interchangeable with fund-based facility to the extent of Rs 22.5 crore

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

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