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CMP : INR286

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VISIT NOTE

Amulya Leasing & Finance Ltd

A strong brand in NCR & UP markets

Amulya Leasing & Finance Ltd. (AMLF) is primarily into plastic piping and caters mainly to the NCR, Uttarakhand and Uttar Pradesh markets. Its factory being located at Dadri, Uttar Pradesh, with a capacity of 55,000 MT (mainly constituting PVC pipes), AMLF is a North centric Agri PVC pipe maker with access to household CPVC/PVC and infrastructural PVC markets too. Close to 7-8% of its volume comes from CPVC with compound being sourced from KemOne, France. We recently interacted with the management post demonetization to understand the near term impact on demand and the long term strategies of the company. In mid CY17, AMLF is expected to be renamed as Apollo Pipes and through the reverse merger route, the existing listed entity would be the one representing the plastic piping business. Presently, 75% of its distribution is through the dealer route with rest of it being spread across direct supply to builders, government bodies and irrigation projects. Apollo Pipes, with the linkage to the well established APL Apollo Tubes Ltd promoters, is in a good position to leverage the established pipe brand (Apollo) along with utilising the distribution network too. Apollo Pipes is operating under the leadership of Mr. Samir Gupta, younger brother of Mr. Sanjay Gupta, the person driving APL Apollo Tubes. Following are the key takeaways:

1. Present capacity of 55,000 MT at Dadri, UP and is expected to ramp it up to 70,000 MT by FY19E in tranches with capex cost of INR60mn for each incremental 10,000 MT. FY16 production from the Dadri plant was at 30,000 MT and in 1HFY17 production was at 15,000 MT. To cater to the strong Western India markets, AMLF is envisaging a green-field project somewhere in Gujarat or Maharashtra with an initial capacity of 10,000 MT at a cost of INR150mn for the first tranche, which later can be further enhanced to 20,000 MT through incremental capex of INR100mn. Post announcement of the demonetization process, demand at ground level was severely impacted and volume declined by ~30% from normal levels and is expected to remain weak at least till mid-4QFY17. Though demand from government projects and irrigation projects is expected to resume soon, B2C demand got impacted led by lack of cash availability in the system. Thus company is expecting FY17E volume to be lower than FY16 volume (1H volume growth was flat). Also led by forthcoming elections in UP, demand is expected to remain weak in the near term. Strategically management is aiming to increase the mix of B2C business to 50% by FY19E by focusing more on household pipes and fittings down the line (fittings mix stands at ~12% currently), especially with the Western India operations start. Seasonally government orders and demand from irrigation projects tends to be higher in 4Q and thus management is hoping for some solace as rest of the household led demand is set to remain weak in 4Q. Apollo Pipes does not have any exclusive sales outlet and it operates through multi brand retail only. It has 250 dealers and in general one dealer deals with 20 end retailers. Thus ~500 touch points are presently catering to the markets of NCR, UP, MP, Haryana and Rajasthan.
2. Employee count is close to 300 now and is set to get ramped up with rise in capacity and distribution. With rising focus on household B2C segment, investment on brand building would also increase ahead. Being a follower brand behind the leaders like Supreme, Finolex, Astral, Ashirwad etc, Apollo sells its plastic pipes at ~5-10% lower rates along with providing much higher dealer incentives as compared to the leaders. Over the past couple of months, with PVC prices increasing by ~10% amid weak demand on back of demonetization, it had been pretty tough to pass on the prices as compared to the leaders. Thus going ahead with higher scale and better brand presence and recall, Apollo Pipes would be aspiring to have a better pricing power to take care of all commodity related volatilities. AMLF is presently operating at robust ~11-12% EBITDA margin levels and is confident of improving it further with scale and mix enhancement.
3. Confident of generating cash from internal accruals to fund the needs for Dadri expansion and fresh green field facility fund needs. Temporary hiccups in credit lending period getting extended led by demonetization to get resolved with demand situation normalizing. Do not see any need for equity dilution or major debt increase to fund the capex plans and grow in size as strong margin profile and visibility of strong demand for agri pipes and improved distribution for Apollo pipes would generate the necessary cash flows.

Market data

Sensex	:	26,366
Sector	:	MIDCAPS
Market Cap (INRbn)	:	1.4
Market Cap (USDbn)	:	0.021
O/S Shares (m)	:	5.0
52-wk HI/LO (INR)	:	449/95
Avg Daily Vol ('000)	:	11
Bloomberg	:	AMLF IN

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	(16)	25	90	102
Relative	(16)	32	93	99

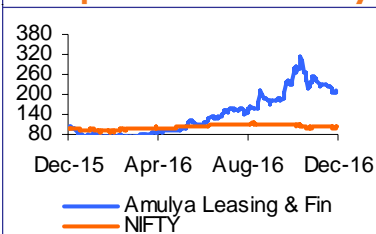
Source: Bloomberg

Shareholding pattern

Promoters	:	35%
Public	:	65%
Others	:	0%

Source: Bloomberg

Price performance vs Nifty



Source: Bloomberg, Indexed to 100

Company Background

Amulya Leasing & Finance (ALFL) is non-banking finance company and is into financing, sale and purchase of shares. The company was founded in 1985, based in New Delhi and it has recently dropped its NBFC status and acquired 50.96% stake in Apollo Pipes Ltd (a private Ltd company and have the same promoters). ALFL has been hiking its stake in the Apollo pipes since July 2014 when it acquired 16.47% stake in the company. Then in October, it acquired an additional 13.62% stake, taking its holding to 30.09%. In November 2014, it acquired an additional 20.87% stake taking its overall stake in 50.96% in Apollo Pipes. From Q3 FY15 Apollo pipes Pvt has been fully consolidated into ALFL (the whole acquisition will be a share swipe deal involving swapping of treasury shares of ALFL). Post acquisition ALFL will be renamed as Apollo Irrigation Systems Ltd (AISL). *Based on the interaction with the management, the company has good growth prospect and value unlocking going ahead. We believe the acquisition will be positive for the company and will result in value unlocking of Apollo pipes Pvt Ltd. We are positive on the company going forward and expect the company to perform well in medium to long term.*

About Apollo Pipes Pvt Ltd

Apollo Pipes Pvt Ltd is a leading manufacturer of irrigation Systems, CPVC (Chlorinated polyvinyl chloride), HDPE (High-density polyethylene), uPVC (unplasticized polyvinyl chloride), fittings for irrigation, plumbing and water transportation systems. The company started manufacturing u-PVC with a capacity of 3,600 TPA in 2,000. Since then, it has undergone impressive expansion to produce 27,000 TPA of u-PVC pipes, 1,000 ton of HDPE pipes and 2,000 TPA of CPVC pipes, manufacturing a wide range of high end and niche products The company currently has a total capacity of 30,000 tones which is going to expand to 38,000 tones in next 2 years.

The company has plant located at Dadri & Sikanderabad in Uttar Pradesh, equipped with best of machineries, sophisticated laboratories and Technical Knowhow. The plant is spacious enough to accommodate multifold expansions and additions to product base. The manufactured products of the company have been well received and renowned in market and have further potential for greater volumes.

Product Range

The product range of the company comprises of CPVC, uPVC and HDPE products. CPVC products contribution is ~7% of total capacity and has an EBITDA margin of ~12-13%. uPVC products contribute ~90% and has an EBITDA margin of ~8-9%. HDPE products contribute ~3% of total capacity and has an EBITDA margin of ~13-15%.

Product	Capacity TPA (FY14)	% of Total Capacity	EBITDA Margin Approx%
uPVC	27,000	90%	~8-9%
CPVC	2,000	7%	~12-13%
HDPE	1,000	3%	~13-15%
Total	30,000	100%	9-10%

Source: Company, BP Equities Research

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Neutral

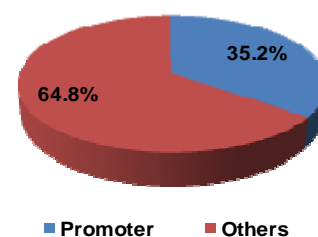
Stock

CMP (Rs)	117
Target Price (Rs)	NA
BSE code	531761
NSE Symbol	NA
Bloomberg	AMFL IN
Reuters	AMUL.BO

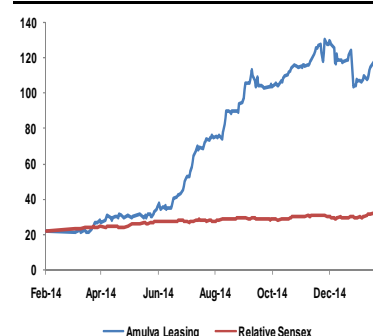
Key Data

Nifty	8,797
52WeekH/L(Rs)	135 / 21
O/s Shares (mn)	5
Market Cap (Rs mn)	595
Face Value (Rs)	10
Average volume	
3 months	57,908
6 months	45,276
1 year	37,021

Share Holding Pattern (%)



Relative Price Chart



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Amulya Leasing & Finance Ltd

Increase in capacity and launch of high margin products to boost sales and improve margins going forward

AISL has assembled one of the largest ranges of products while having one of the largest footprint in the industry. It produces a large variety of pipes across wide range of diameters and thickness. The Company has reported a capacity of 30,000 TPA in FY14, growth of ~60% CAGR over FY00 where its volume were 3,600 TPA. It has been able to maintain the growth momentum in spite of slowness of demand in the industry in the last two or three years. It is further expanding its capacity and expects to ramp up its production to 38,000 TPA by the end of FY17. Further fall in crude price will result in expansion of margins as raisin the main raw material is a petroleum product. Raw material prices has fallen by ~25-30% in the last quarter which will result in 200 bps margins expansion but realization has also dipped accordingly which will result in lower top line growth and high inventory loss in Q3 FY15.

Strong distribution network and expansion in south India to boost top line

AISL has presence mainly in north india and owns one of the largest network of dealers in the northern part of the country. Southern India is contributing very less ~10% of sales, which the company is planning to increase going forward. Hence, the company is planning a green field capacity expansion in southern India for which work will commence in the next 3 months (by start of FY16) and production to start by FY17. A wider geographical reach offers advantage over competitors by reducing logistics cost and lead time.

Valuation & Outlook

Apollo pipes is currently a private entity and has been acquired by Amulya leasing in Q3 FY15. The process of consolidated into the parent company has been done in Q3 FY15 onwards. Amulya leasing will become Apollo irrigation (AISL) and will be comparable to other irrigation as shown in the valuation table in the next page. Apollo pipes is having a robust business and is a strong player in this particular space and implementation of GST will be favorable for the company as it will eliminate small unorganized players who manipulate tax and increase competition due to lower pricing. Based on the interaction with the management, the company has good growth prospect and value unlocking going ahead. We believe the acquisition will be positive for the company and will result in value unlocking of Apollo pipes Pvt Ltd. We are positive on the company going forward and expect the company to perform well in medium to long term. The stock currently trades at a P/E of 23.0x and 16.6X FY15E and FY16E earnings which we believe is cheaply valued considering its peers (Industry average P/E of 19.8x). We give a buy rating on the stock.

Consolidated Key Financials (Apollo Irrigation Systems Ltd) (AISL)				
YE March (Rs. mn)	FY13	FY14	FY15E	FY16E
Net Sales	1,208	1,490	1,796	2,048
Sales Growth (Y-o-Y)	NA	23.3%	20.5%	14.0%
EBIDTA	102	109	147	178
EBIDTA Growth (Y-o-Y)	NA	6.9%	34.2%	21.0%
Net Profit	18	18	26	35
Net Profit Growth (Y-o-Y)	NA	0.3%	40.1%	38.6%
Diluted EPS	3.6	3.6	5.1	7.1
Diluted EPS Growth (Y-o-Y)	NA	0.3%	40.1%	38.6%
No of Diluted shares (mn)	5.0	5.0	5.0	5.0
Key Ratios				
EBIDTA (%)	8.5%	7.3%	8.2%	8.7%
NPM (%)	1.5%	1.2%	1.4%	1.7%
RoE (%)	10.2%	5.6%	7.0%	8.3%
RoCE (%)	13.4%	6.8%	7.5%	7.9%
Tax Rate %	31.8%	37.4%	37.3%	37.2%
Book Value Per share (Rs.)	60.9	68.1	78.2	92.0
Valuation Ratios				
P/E (x)		32.2x	23.0x	16.6x
EV/EBITDA		7.7x	6.4x	5.4x
P/BV (x)		1.7x	1.5x	1.3x
Market Cap. / Sales (x)		0.8x	1.0x	0.9x

Source: Company, BP Equities Research

Note: Apollo pipes a private company has been acquired by Amulya leasing and it has been renamed as Apollo Irrigation System Ltd (AISL). The company have reported consolidated numbers from Q3 FY15. We have consolidated the historical numbers i.e FY13 and FY14 and H1FY15 so that it becomes comparable.

Amulya Leasing & Finance Ltd

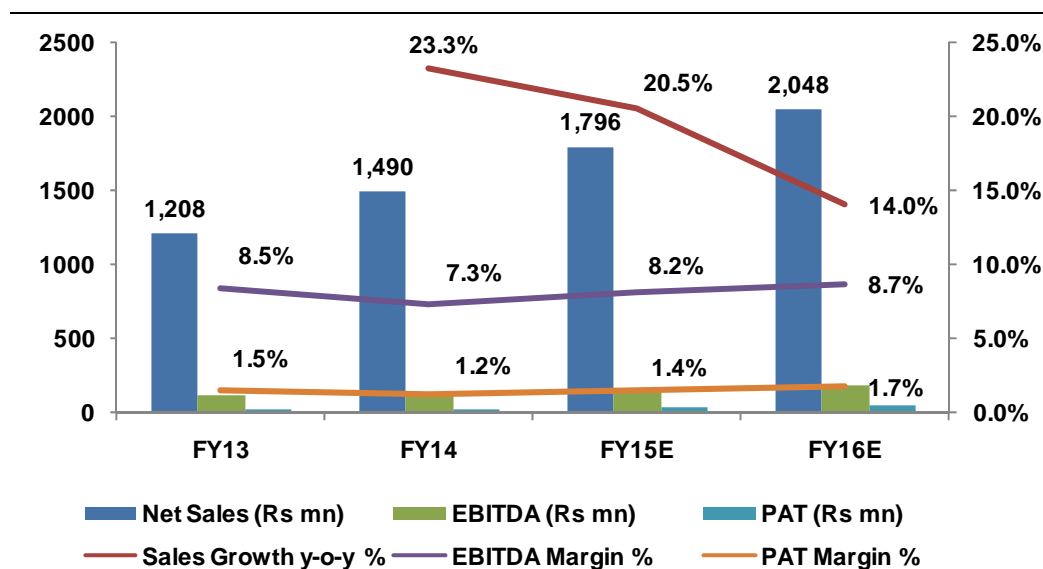
(Apollo Irrigation Systems Ltd) (AISL)

Company Name	Astral poly Technik	Supreme Industries	Jain irrigation	Finolex Industries	AISL
Year End March (Rs mn)	FY14	FY14	FY14	FY14	FY14
Net Sales	10,796	39,622	63,566	24,530	1,490
PBIDT	1,576	5,948	5,862	3,705	109
PAT	789	2,834	-398	1,702	36
Adj. EPS(Rs)	14	21	NA	13	4
PBIDTM%	14.6%	15.0%	9.2%	15.1%	7.3%
PATM%	7.3%	7.2%	-0.6%	6.9%	2.4%
ROCE%	34.4%	34.3%	9.7%	22.5%	6.8%
ROE%	27.9%	31.9%	NA	26.2%	5.6%
Latest Book Value (Rs)	27	82	47	64	68

Source: Company, Capitaline, BP Equities Research

Note: Apollo pipes pvt ltd has been acquired by Amulya Leasing and it has been renamed as Apollo Irrigation Systems Ltd (AISL)

Apollo Irrigation Systems Ltd (AISL) Revenue and EBITDA Margin %



Source: Company, BP Equities Research

Key Risks

- More than expected fall in crude oil prices will lead to high inventory loss and lower realizations
- The merger process is funded through share swap and valuation will depend on the amount of share dilution and promoter holding after consolidation process is complete. Any delay and lack of clarity during the consolidation process will hurt investor sentiment
- Delay in planned expansion plans and increased competition will hurt growth going forward

Amulya Leasing & Finance Ltd

Consolidated Profit & Loss (AISL)

Particulars (Rs. mn.)	FY13	FY14	FY15E	FY16E
Gross Revenue	1,344	1,660	2,000	2,280
Less: Excise Duty	135	170	204	232
Net Sales	1,208	1,490	1,796	2,048
Growth %		23.3%	20.5%	14.0%
EXPENDITURE :				
Increase/Decrease in Stock	2	-35	-18	-16
Purchase of Raw Materials	920	1231	1437	1618
Stores & Spares	18	2	8	9
Employee Cost	11	12	15	18
Power & Fuel	54	72	86	104
Repairs & Maintenance	15	9	10	12
Administrations & Other Ex- penses	20	26	31	37
Selling & General expenses	66	64	80	88
Total Expenditure	1,106	1,381	1,649	1,870
EBITDA	102	109	147	178
EBITDA Margin %	8.5%	7.3%	8.2%	8.7%
Depreciation	23	25	30	26
EBIT	79	84	117	151
EBIT Margin %	6.6%	5.7%	6.5%	7.4%
Other Income	5	7	8	8
Interest	31.7	34.6	44.2	48.4
Exceptional Income / Expenses	0	0	0	0
PBT	52	57	80	110
PBT Margin %	4.3%	3.8%	4.4%	5.4%
Tax	16.6	21.3	29.8	41.1
Effective Tax Rate	31.8%	37.4%	37.3%	37.2%
PAT Before Minority	36	36	50	69
Minority Interest	17	17	25	34
PAT after Minority	18	18	26	35
PAT Margin %	1.5%	1.2%	1.4%	1.7%
EPS (Rs)	3.6	3.6	5.1	7.1
Growth %		0.3%	40.1%	38.6%
No of Shares (mn)	5.0	5.0	5.0	5.0

Source: Company, BP Equities Research

Consolidated Key Ratios (AISL)

YE March (Rs. mn)	FY13	FY14	FY15E	FY16E
Key Operating Ratios				
EBITDA Margin (%)	8.5%	7.3%	8.2%	8.7%
Tax / PBT (%)	31.8%	37.4%	37.3%	37.2%
Net Profit Margin (%)	1.5%	1.2%	1.4%	1.7%
RoE (%)	10.2%	5.6%	7.0%	8.3%
RoCE (%)	13.4%	6.8%	7.5%	7.9%
Current Ratio (x)	2.3x	2.1x	2.5x	2.6x
Dividend Payout (%)	0.0%	0.0%	0.0%	0.0%
Book Value Per Share (Rs.)	60.9	68.1	78.2	92.0
Financial Leverage Ratios				
Debt/ Equity (x)	0.8x	0.8x	1.0x	0.9x
Interest Coverage (x)	3.2x	3.2x	3.3x	3.7x
Interest / Debt (%)	27.3%	13.3%	13.1%	12.1%
Growth Indicators %				
Growth in Gross Block (%)	N.A	16.9%	76.2%	0.0%
Sales Growth (%)	N.A	23.3%	20.5%	14.0%
EBITDA Growth (%)	N.A	6.9%	34.2%	21.0%
Net Profit Growth (%)	N.A	0.3%	40.1%	38.6%
Diluted EPS Growth (%)	N.A	0.3%	40.1%	38.6%
Turnover Ratios				
Debtors (Days of net sales)	28	47	43	49
Creditors (Days of Raw Materials)	49	61	58	57
Inventory (Days of Optg. Costs)	23	46	53	56

Source: Company, BP Equities Research

Consolidated Balance Sheet (AISL)

YE March (Rs. mn.)	FY13	FY14	FY15E	FY16E
EQUITY AND LIABILITIES				
Share Capital	50	50	50	50
Share Warrants & Out standings	0	0	0	0
Total Reserves	254	290	341	410
Shareholder's Funds	304	340	390	460
Long-Term Borrowings	47	50	196	163
Secured Loans	0	0	0	0
Unsecured Loans	2	2	0	0
Deferred Tax Assets / Liabilities	7	9	11	13
Long Term Provisions	7	2	2	3
Total Non-Current Liabilities	64	62	209	178
Current Liabilities				
Trade Payables	132	146	160	180
Trade Payables FROM Customers & expenses	15	13	22	24
Other Current Liabilities	40	96	50	70
Short Term Borrowings	183	235	190	250
Short Term Provisions	18	23	30	41
Total Current Liabilities	389	512	452	565
Total Liabilities	758	914	1,051	1,203
ASSETS				
Non-Current Assets				
Gross Block	249	292	514	514
Less: Accumulated Depreciation	96	122	152	178
Less: Impairment of Assets	0	0	0	0
Net Block	153	170	362	336
Capital Work in Progress	0	18	0	0
Non Current Investments	14	19	14	14
Long Term Loans & Advances	58	67	0	0
Other Non Current Assets	105	110	15	35
Total Non-Current Assets	329	384	391	384
Current Assets Loans & Advances				
Currents Investments	22	19	15	20
Inventories	140	210	271	307
Sundry Debtors	207	219	258	351
Cash and Bank	30	31	33	33
Other Current Assets	20	36	73	97
Short Term Loans and Advances	9	15	10	10
Total Current Assets	429	530	660	819
Total Assets	758	914	1,051	1,203

Source: Company, BP Equities Research

Consolidated Du Point analysis (AISL)

YE March	FY13	FY14	FY15E	FY16E
EBIDTA/Sales (%)	8.5%	7.3%	8.2%	8.7%
Sales/Operating Assets (x)	646.3%	359.1%	307.7%	273.9%
EBIDTA/Operating As- sets (%)	54.7%	26.4%	25.2%	23.8%
Operating Assets/ Net Assets(x)	63.0%	70.3%	82.0%	89.4%
Net Earnings/ EBIDTA (%)	17.7%	16.6%	17.4%	19.9%
Net Assets/ Equity (x)	167.6%	183.0%	194.8%	196.8%
Return on Equity (%)	10.2%	5.6%	7.0%	8.3%

Source: Company, BP Equities Research

Amulya Leasing & Finance Ltd

Consolidated Cash Flows (AISL)

YE March (Rs. Mn)	FY14	FY15E	FY15E
PAT	18	26	35
(Less)/Add: Extraordinary Income/Expense	0	0	0
Less: Non Operating Income	(7)	(8)	(8)
Add: Depreciation	25	30	26
Add: Interest Paid	35	44	48
Tax Adjustment	0	0	0
Operating Profit before WC Changes	71	93	103
(Inc)/Dec in Current Assets	(40)	(1)	(122)
Inc/(Dec) in Current Liabilities	65	(15)	54
Changes in Inventory	(70)	(61)	(36)
Net Cash Generated From Operations	26	16	(2)
Cash Flow from Investing Activities			
(Inc)/Dec in Fixed Assets	(42)	(222)	(0)
(Inc)/Dec in Capital Work In Progress	(18)	18	0
(Inc)/Dec in Investment (Strategic)	0	0	0
(Inc)/Dec in Investment (Others)	(5)	5	(0)
Add: Non Operating Income	7	8	8
(Inc)/Dec in Intangible Assets	(6)	95	(20)
Net Cash Flow from/(used in) Inv Activities	(64)	(96)	(13)
Cash Flow from Financing Activities			
Inc/(Dec) in Total Loans	56	101	29
Inc/(Dec) in Reserves & Surplus	18	25	34
Inc/(Dec) in Equity	0	0	0
Dividend Paid	0	0	0
Tax Paid on Dividend	0	0	0
Other Financing Activities			
Less: Interest Paid	(35)	(44)	(48)
Adjustments	(0)	(0)	0
Exceptional Item	0	0	0
Net Cash Flow from Financing Activities	39	82	15
Net Inc/Dec in cash equivalents	2	1	0
Opening Balance	30	31	33
Closing Balance Cash and Cash Equivalents	31	33	33

Source: Company, BP Equities Research



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