

## Apar Industries Limited

December 05, 2022

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	796.00 (Enhanced from 768.00)	CARE A; Positive (Single A; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Long Term / Short Term Bank Facilities	6,940.00 (Enhanced from 5,500.00)	CARE A; Positive / CARE A1 (Single A; Outlook: Positive/ A One)	Reaffirmed; Outlook revised from Stable
<b>Total Bank Facilities</b>	<b>7,736.00</b> <b>(₹ Seven Thousand Seven Hundred Thirty-Six Crore Only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed rationale and key rating drivers

Care Ratings have revised its outlook on the long-term debt instruments of Apar Industries Limited to 'Positive' from 'Stable', while reaffirming the ratings at CARE A/CARE A1. The outlook revision factors expected improvement in business risk profile over the medium term. The Total Operating Income (TOI) increased by 46.1% YoY led by 54% increase in domestic revenue and the export revenue increased by 35% accounting for 38% of TOI. The ratings continue to factor company's well-established and dominant position in the Conductors, Transformer, and Specialty Oil (TSO) segment, diversified revenue sources, the promoters' extensive industry knowledge, the capacity to increase its product offering and an improved overall performance led by increase in volume and value.

The aforementioned strengths are constrained by limited value addition, as portion of orders are acquired through tender bidding processes, limiting the potential for profit margin expansion, and the business's dependence on working capital borrowing (in the form of acceptances), which increases leverage indicators. The overall gearing increased marginally to 1.80x in FY22 (PY:1.69x) on a consolidated basis owing to nature of business being high dependency on working capital (non-fund-based limits). The ratings also take cognizance of the inherent business risk on account of its exposure to the raw material price risk, foreign currency volatility, increasing competition in the industry and freight charge volatility.

### Rating sensitivities

#### Positive factors – Factors that could lead to positive rating action/upgrade:

- *Improvement in the collection period to 80-85 days on a sustained basis*
- *Improvement in the operating margins to 6.5%-7% on a sustained basis*

#### Negative factors – Factors that could lead to negative rating action/downgrade:

- *Deterioration in the overall gearing to 2.30x on a sustained basis*
- *Deterioration in PBILD interest cover to below 2x on a sustained basis*

### Outlook: Positive

The revision in outlook reflects expected improvement in the business risk profile over the medium term with increase in topline and healthy margins in range of 6.5-7 percent backed by healthy demand and healthy order book. Financial risk profile is expected to remain comfortable with overall gearing in the range of 2-2.3x including LC acceptance. The Outlook may be revised to 'Stable' on significant decline in topline and PBILD margins, or deterioration in capital structure due to increased debt levels or lower cash accruals.

### Detailed description of the key rating drivers

#### Key rating strengths

#### One of the largest players in conductor segment

APAR is one of the largest companies, engaged in manufacturing of TSO and Transmission & Distribution Overhead Conductors with a total installed capacity of 5,42,000 KL and 1,80,000 MT respectively as on March 31, 2022. In the conductor division, APAR caters to prominent customers like Power Grid Corporation of India Limited (PGCIL; rated CARE AAA; Stable/A1+), various state government entities, Adani Group, and prominent turnkey operators with whom it has a long-standing relationship. APAR also

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

exports to major geographies with focus on Middle East, Latin America, North America and Africa among others and has presence in more than 100 countries.

#### **Long standing experience of promoters in business**

APAR was established in 1958 by Late Mr Dharamsinh D Desai in the name of Power Cables Private Limited. Mr Dharamsinh D Desai was the founder of Dharamsinh Desai University, Nadiad in Gujarat. APAR over the years has established itself as one of the leading producers of conductors and TSO segments. The promoter group has been in conductor business over six decades and the operations are currently being managed by third generation of the Desai family – namely Mr. Kushal N. Desai who is the Chairman & Managing Director and Mr Chaitanya N. Desai who is the Managing Director (grandsons of Mr Dharamsinh D. Desai). Both are well qualified and have substantial industrial experience of 32 years and 27 years respectively in the TSO and Conductor business. Furthermore, APAR has a qualified management team comprising of industry personnel with over decades of experience.

#### **Well established market position across segments**

APAR is amongst the top three producers of conductors and speciality oils in the world. In the transformer oil segment it has a product offering of over 400 products with varied application in the industrial oil sub segment. To cater to the need of growing demand in Middle East and African markets, APAR commissioned its port-based plant at Hamriyah, Sharjah in FY18. It has also entered into a brand and manufacturing alliance for its automotive lubricant segment with the global energy leader ENI S.P.A Italy.

In the conductor segment, APAR enjoys long standing relationship with customers like PGCIL, Kalpataru Power Transmission Limited, KEC International Limited. In the cables segment, APAR is engaged in electrical and telecom cables as well as elastomer cables. This division supplies to various industry segments in India viz., power utilities, petrochemicals, steel, cement, nuclear power, defence, telecommunication, metros and shipbuilding, Railways, Renewable Energy sector etc. Major clients include Adani Group, Tata Power, Larsen & Toubro Limited, BHEL and Sterlite Technologies Limited etc.

#### **Diversified revenue profile**

APAR's business segments comprise Conductors, TSO and Cables. The conductor segment contributed 43% to the gross sales of FY22 (PY: 45%), TSO segment contributed 37% in FY22 (PY: 36%) and the balance was from the cables segment. APAR has a greater proportion of revenue contribution coming from the conventional conductors which typically have lower operating margins especially due to the volatile freight costs, however, freight costs are expected to moderate from H1FY23. The total order book for conductors stood at Rs.4,065 as on Sept 30, 2022, which includes around Rs.850 crore of high-margin conductors (HEC). The TSO segments revenue was up by 51% YoY in FY22 owing to increased exports. The cables segments TOI was also up by 57% YoY in FY22 owing to increased revenue from exports.

#### **Improved overall performance led by increase in volume and value**

The TOI improved by 46% in FY22 YoY owing to increased volumes of sold and premiumization of product mix. In FY22, revenue from conductor segment reached Rs. 4200 crores led by increased revenue from premium products, revenue from TSO was at Rs. 3560 crores and revenue from cable segment reached Rs. 1,993 crores driven by increased sale of Elasto/E-beam cable sub-segment.

Despite moderations in margins caused by volatile freight cost and ongoing geopolitical issues, the company reported a growth in revenue by 70% YoY in H1FY23 for the conductor segment led by higher contribution of HEC and healthy order book. Similar trend has been witnessed in the other segments, the oil segment revenue has gone up by 30% YoY and cable segment grew by 79% YoY in H1FY23.

#### **Key rating weaknesses**

##### **Working capital intensity of operations**

The operations of the company continue to be very working capital intensive due to the inherent problems in the industry in which it operates, such as delays in order execution, delays in obtaining clearances and in funding arrangements by engineering, procurement, and construction (EPC) players. High working capital utilisation makes this clear. The business uses packing credit limits and Letters of Credit to meet its working capital needs (LC acceptances in the form of supplier credit).

##### **Comfortable debt coverage indicators**

Due to increase in LC-backed acceptances in FY22, the overall gearing ratio increased to 1.80x in FY22 (PY: 1.69x). The majority of APAR's raw materials are imported, and they are financed mostly by supplier credit that is guaranteed by LC. The size of operations directly correlates with LC-backed acceptances. Due to stronger PBILDTA and cash accruals, the total debt/GCA and total debt/PBILDT improved in FY22 to 8.65x and 5.19x respectively as compared to FY21.

As the scale of business increased, LC backed acceptance also increased to Rs. 2,756.8 crores. However, other indicators like RONW and ROCE also increased due to effective scaling of operations. Interest coverage improved to 3.48x as on March 31, 2022 (PY: 2.78x).

##### **Susceptibility of margins to volatility in raw material prices**

The raw material cost to total operating income stood at 80.13% in FY21 (PY: 78%). The price of aluminium and copper which are a major raw material for conductors, have shown a lot of volatility in the past few years. In order to hedge against the volatility

in the metal price, APAR books the metal at the LME rates on the day the order is booked for fixed-price orders. In the TSO segment, APAR uses base oil as its raw material. The base oil prices depend on crude oil prices to a certain extent, which are highly volatile. Due to the intense competition in the segment, APAR is not always able to pass on the entire raw material price rise to the customers. Even otherwise, the company can pass on majority of raw material increase to the customers only with a time lag.

#### **Exposure to foreign exchange fluctuation**

APAR is exposed to volatility in foreign exchange rates on account of its imports and borrowings in foreign currency. Majority of its raw materials are imported making APAR a net importer. APAR is affected by the price volatility of certain commodities viz. Aluminum, Copper and Oil. Being a net importer, ability of the company to successfully manage its foreign exchange fluctuation risk remains critical from the credit perspective. The company is exposed to currency risk on account of its borrowings and other payables in foreign currency. The company uses forward exchange contracts to hedge its currency risk, most with a maturity of less than one year from the reporting date.

#### **Liquidity: Adequate**

The liquidity for APAR is adequate as evinced from Gross Cash Accruals of over ~Rs.350 crore expected to be generated in FY23. Furthermore, APAR had cash and cash equivalents (unencumbered) of Rs.303.15 crore as on Sept 30, 2022. As against the same, the company has debt repayment obligations to the tune of Rs.70 crore (including lease liability) on a consolidated basis for FY23. The company maintains a comfortable cash balance of Rs. 250-350 crores month-on-month after the committed payments towards LC acceptances

#### **Analytical approach: Consolidated**

CARE has considered the consolidated financials of APAR, as its wholly owned subsidiaries have substantial operational and financial linkages with it. The list of subsidiaries is presented in Annexure 6.

#### **Applicable criteria**

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

#### **About the company**

Apar, founded by Mr Dharmsinh D. Desai in 1958, is engaged in three broad business segments-transformer oils and specialty oils (TSO), conductors segment and power/telecom cables. Apart from being a market leader in India, the company has a global presence, exporting to over 100 countries. APAR has total installed capacity of 5,42,000 KL of transformer oils and 1,80,000 MT of conductors as on March 31, 2021. Its manufacturing facilities are located at Rabale (Maharashtra), Silvassa, Athola and Rakholi (Dadra and Nagar Haveli), Umbergaon and Khatalwad (Gujarat), Jharsugoda and Lapanga (Orissa), Hamriyah (Sharjah). Further, APAR has commissioned the Continuously transposed conductors facility, a value-added product, with total installed capacity of 7000 MT for supply of copper conductors to transformer industry.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	6,406.63	9,319.99	6,344.81
PBILD	437.75	580.34	479.98
PAT	160.50	256.73	225.09
Overall gearing (inc. LC acceptance) (times)	1.69	1.80	0.23*
Interest coverage (times)	2.78	3.48	3.62

A: Audited; UA: Unaudited

\*Excluding LC Acceptance

#### **Status of non-cooperation with previous CRA: Not Applicable**

**Any other information:** Not Applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Annexure-4

#### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	560.00	CARE A; Positive
Non-fund-based - LT/ ST-BG/LC		-	-	-	6940.00	CARE A; Positive / CARE A1
Term Loan-Long Term		-	-	June 2026	236.00	CARE A; Positive

#### Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based - LT/ ST-BG/LC	LT/ST*	6940.00	CARE A; Positive / CARE A1	-	1)CARE A; Stable / CARE A1 (07-Oct-21)	1)CARE A; Stable / CARE A1 (18-Dec-20)	1)CARE A; Stable / CARE A1 (01-Oct-19)
2	Fund-based - LT-Cash Credit	LT	560.00	CARE A; Positive	-	1)CARE A; Stable (07-Oct-21)	1)CARE A; Stable (18-Dec-20)	1)CARE A; Stable (01-Oct-19)
3	Term Loan-Long Term	LT	236.00	CARE A; Positive	-	1)CARE A; Stable (07-Oct-21)	1)CARE A; Stable (18-Dec-20)	1)CARE A; Stable (01-Oct-19)

\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable**

#### Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT/ ST-BG/LC	Simple
3	Term Loan-Long Term	Simple

#### Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

## Annexure-6: List of subsidiaries which are consolidated

Name of the subsidiary	Country	% holding
Petroleum Specialties Pte. Limited (PSPL)	Singapore	100%
Petroleum Specialty FZE	UAE	100% subsidiary of PSPL
Apar Transmission and Distribution Projects Pvt. Ltd	India	100%
Apar Distribution & Logistics Private Limited	India	100%
Ampoil Apar Lubricants Private Limited (Associate from 19 <sup>th</sup> September 2020)	India	APAR holds 40% of equity share capital of the JV

**Note on complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

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#### About us:

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