Apar Industries Limited

October 07, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	768.00 (Reduced from 776.50)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	5,500.00	CARE A; Stable / CARE A1 (Single A; Outlook: Stable/ A One)	Reaffirmed
Total Bank Facilities	**6,268.00 (Rs. Six Thousand Two Hundred Sixty-Eight Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities of Apar Industries Limited (APAR; CIN No. L91110GJ1989PLC012802) continue to factor in the established and leadership position in Conductors and Transformer and Specialty Oil (TSO) segment, diversified revenue streams, long-standing experience of the promoters and their ability to expand the product portfolio and optimize the operations.

The aforementioned strengths are tempered by limited value addition, as large part of the orders is acquired by tender-bidding process translating into limited scope for profit margin expansion and working capital intensive nature of business resulting in higher reliance on working capital borrowing (largely non-fund-based limits) leading to higher leverage indicators. The overall gearing marginally improved to 1.69x in FY21 (PY:1.82x) on a consolidated basis. The Total Operating Income (TOI) declined by 14% on a YoY basis at the consolidated level due to lower order execution in the conductor and cables segment in FY21 as a result of COVID; however this was offset by YoY volume improvement as well as higher realizations in the TSO segment.

The ratings also take cognizance of the inherent business risk on account of its exposure to the raw material price risk, foreign currency volatility and increasing competition in the industry.

<u>Rating Sensitivities</u>

Positive Factors

- *Improvement in the collection period to 75 days on a sustained basis*
- *Improvement in the overall gearing to 1.30x on a sustained basis*

Negative Factors

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

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, 2021. 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 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 Dharmsinh D. Desai). Both are well qualified and have substantial industrial experience of 31 years and 26 years respectively in the TSO and Conductor business. Furthermore, APAR has a qualified management team comprising of industry personnel with over decades of experience.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Well -stablished 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 Ltd. etc

Diversified revenue profile
APAR's business segments comprise Conductors, TSO and Cables. The conductor segment contributed 45% to the gross sales of FY20 (PY: 48%), TSO segment contributed 46% in FY21 (PY: 34%) 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. The order execution was lower in FY21 in conductor and cables segment impacted by COVID-19. The total order book for conductors stood at Rs.2,119 crore as on June 30, 2021 which includes around Rs.900 crore of high-margin conductors. Having presence in various revenue segments has helped the company in FY21 as TSO segment performed very well in FY21 and supported the top-line as well as the bottom-line.

Key Rating Weaknesses

Weak financial performance in FY21
The financial performance in FY21 was impacted due to slowdown in the economic activity leading to lower order off-take in all the segments in the year which was further exacerbated by COVID-19 pandemic. The operating profitability was also impacted due to higher commodity prices and freight rates especially in the conductor segment majorly offset by higher realizations in TSO segment.
The TOI improved in Q1FY22 by 41% YoY albeit on a lower base. The conductor business was down due to the impact of the second wave of COVID and higher freight rates. The TSO segment grew by 137% on a YoY basis and the cables business reported revenue growth of 60% on a YoY basis. Going forward, increased revenue is expected from the cables segment due to new opportunities in the US for which capex is also being undertaken by the company in this segment. In Q1FY22, the company reported improvement in the PBILDT margin to 7.76% mainly led by higher realizations in the TSO segment.

Working capital intensity of operations
Owing to the inherent issues in the sector in which the company operates, such as delays in order execution by engineering, procurement and construction) (EPC) players, delays in getting clearances and funding arrangements, the operations of the company continue to remain highly working capital intensive in nature. The same is evident from high working capital utilization. The company funds the working capital requirements by using Cash Credit (CC) limits as well as Letter of Credit (LC acceptances in the form of supplier credit).

Adequate debt coverage indicators
The need for higher working capital coupled with regular funding requirement for capex has resulted in the company's leverage and debt coverage indicators remaining at moderate levels for the extended period. The overall gearing ratio improved as at year-end FY21 to 1.69x (PY: 1.82x) on a consolidated basis. Large portion of APAR's raw material is imported, the financing of which is largely done using supplier credit backed by LC. LC-backed acceptances have a direct co-relation with the scale of operations. The interest cover also marginally improved to 2.78x on a consolidated basis (PY: 1.99x).

Susceptibility of margins to volatility in raw material prices
The raw material cost to total operating income stood at 78% 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.250 crore expected to be earned in FY22. Furthermore, APAR had cash and cash equivalents (unencumbered) of Rs.547 crore as on June 30, 2021. As against the same, the company has debt repayment obligations to the tune of Rs.57.41 crore (principal) on a consolidated basis for FY21. The expected GCA along with the available cash balance is more than adequate to cover the debt repayments in FY22

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

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology - Manufacturing Companies
Rating Methodology: Consolidation

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-Consolidated (Rs. crore)	FY20 (A)	FY21 (A)	Q1FY22 (UA)
Total operating income	7,461.74	6,388.02	1,821.75
PBILDT	505.07	436.21	141.31
PAT	135.15	160.50	62.29
Overall gearing (times)	1.82	1.69	*
Interest coverage (times)	1.99	2.78	3.69

*A: Audited, UA=Un-Audited, * data not available*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *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	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	5500.00	CARE A; Stable / CARE A1
Fund-based - LT-Cash Credit	-	-	-	-	500.00	CARE A; Stable
Term Loan-Long Term-Rupee	-	-	-	March 8, 2024	68.00	CARE A; Stable
Term Loan-Long Term-ECB	-	-	-	June 5, 2026	200.00	CARE A; Stable`

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Non-fund-based - LT/ ST-BG/LC	LT/ST	5500.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (18-Dec-20)	1)CARE A; Stable / CARE A1 (01-Oct-19)	1)CARE A; Stable / CARE A1 (08-Oct-18)
2	Fund-based - LT-Cash Credit	LT	500.00	CARE A; Stable	-	1)CARE A; Stable (18-Dec-20)	1)CARE A; Stable (01-Oct-19)	1)CARE A; Stable (08-Oct-18)
3	Fund-based - LT-External Commercial Borrowings	LT	-	-	-	-	-	1)Withdrawn (08-Oct-18)
4	Term Loan-Long Term	LT	68.00	CARE A; Stable	-	1)CARE A; Stable (18-Dec-20)	1)CARE A; Stable (01-Oct-19)	1)CARE A; Stable (08-Oct-18)
5	Term Loan-Long Term	LT	200.00	CARE A; Stable	-	1)CARE A; Stable (18-Dec-20)	1)CARE A; Stable (01-Oct-19)	1)CARE A; Stable (08-Oct-18)

** Long Term / Short Term*

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not available

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 19th September 2020)	India	APAR holds 40% of equity share capital of the JV

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
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