APL Apollo Tubes Limited

December 07,2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	420.00 (Reduced from 426.00)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Short-term bank facilities	155.00 (Enhanced from 149.00)	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	**575.00** **(₹ Five hundred seventy-five crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of APL Apollo Tubes Limited (APL) factors in extensive experience of its promoters and management in the steel tubes industry, the company's long track record of operations and its strong business risk profile with leadership position in the Electric Resistance Welding (ERW) pipes segment along with a diversified product profile. The same coupled with increasing scale of operations and continuously shortening of the working capital cycle has resulted in healthy improvement in return ratios which are expected to remain comfortable over the medium term on the back of steady growth in the company's sales volumes and margin-accretive strategy focused on value-added products. The ratings continue to factor in the comfortable financial risk profile of the company marked by low overall gearing and healthy debt coverage metrics aided by healthy operational cash flows and its strong liquidity position. Going forward, CARE Ratings Limited (CARE Ratings) believes that APL shall further strengthen its market position with full operationalisation of the Raipur facility which shall enable it to fuel its growth and meet working capital requirements largely through internal accruals and hence it should be able to maintain a low leverage profile over the medium term in the absence of any large debt-funded capex. The rating strengths, however, continue to be tempered by APL's exposure to steel price volatility and competitive nature of the pipes and tubes industry.

Rating sensitivities

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

- Sustained growth in scale of operations with sales volumes going beyond 2.5 million tonnes
- PBILDT per tonne above ₹5,000 and Return on Capital Employed (ROCE) above 25% on a sustained basis
- Sustained improvement in gearing below 0.30x and sizable build-up of liquidity position

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

- Decline in sales volumes below 1.5 million tonnes and reduction in PBILDT per tonne below ₹3,000 on a sustained basis
- Any sizable debt-funded capex or acquisition resulting in deterioration in gearing beyond 0.50x.
- Increase in net debt to PBILDT above unity.
- Significant delay in stabilization of operations from expanded capacity

Detailed description of the key rating drivers

Key rating strengths

Experienced promoters and management:

APL was originally incorporated by late S.K. Gupta and Saroj Rani Gupta. After the demise of S. K. Gupta, its management was taken over by his son Sanjay Gupta, who has been managing the company for the past two decades. He has nearly two and half decades of professional experience in the steel tubes industry. His son, Rahul Gupta, holds an industry experience of seven years and handles the Tricoat division of the company. Vinay Gupta, brother of Sanjay Gupta, has an extensive experience of more than two decades and looks after the pre-galvanised and international market business of the company. Sanjay is supported by an experienced team of professional with extensive experience in ERW industry segment. Under his leadership and support from strong management team, the company has evolved from a small steel tube manufacturer into a leader of branded steel tube products especially in structural pipes segment.

Long track record of operations and dominant market position:

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

APL has been operational for more than 26 years; it began with manufacturing of MS black pipes using the ERW technology with a capacity of 6,000 MT in 1986 and over the years, has forayed into manufacturing of galvanized iron pipes (GI), pre-galvanized pipes (GP), hollow sections, etc. As on September 30, 2022, it has installed capacity of 26.50 lakh MTPA at a consolidated level which has been gained through expansions and key strategic acquisitions made by the company, making it the largest ERW pipe manufacturer in the country. The installed capacity and sales volume of APL grew at a healthy compounded annual growth rate (CAGR) of around 15% and around 14%, respectively, over FY17-FY22 (FY refers to the period April 1 to March 31) period.

Diversified operations and product portfolio:
The production facilities of the company are geographically well diversified as it has 11 manufacturing facilities spread over north, central, west and south India along with warehouses-cum-branches in over twenty cities across India. The company has a network of around 830 direct distributors/dealers and over 50,000 retailers and fabricators. It has a well-diversified portfolio consisting of four primary product segments with different specification as per the customer need in each primary product category. Its product range includes MS tubes, galvanized pipes, tricoat pipes, plank, signature, chaukhat and pre-galvanized tubes and hollow sections in the ERW segment. The company's products find widespread application in industries like infrastructure, construction, water and sewage projects, structures, general engineering, transportation system, housing, greenhouses, solar plants, etc. The geographic diversification of operations enables continuous production and mitigates the risk of interruption due to anomalies of operating in single geography besides saving in freight costs. Also, the well-diversified product portfolio with widespread applications across different sectors protects its revenues from depending on single segment and ensures better revenue visibility and margins.

Strong operating performance:
The PBILDT/ tonne of the company improved considerably to ₹5,468 in FY22, compared to ₹4,356 in FY21, on the back of higher contribution of value- added products and inventory gains resulting in better margins. Moreover, the total operating income increased at a healthy rate of around 54% in FY22 on a year-on-year basis on the back of higher volumes and better sales realisations supported by strong upcycle on the steel industry. The volume sold saw a year-on-year increase of around 7% in FY22. Furthermore, during H1FY23 (refers to the period April 01 to September 30), the TOI improved significantly by around 32% on a y-o-y basis on the back of higher volumes on a low base of COVID-19-impacted H1FY22. The PBILD per tonne, however, moderated to ₹4,348 in H1FY23, compared to ₹6,230 in H1FY22 on account of fluctuation in steel prices leading to inventory losses. This also resulted in moderation in margins with PBILDT margins at 6% in H1FY23 (UA), compared to 8.84% in the same period last year. Going forward the margins are expected to remain firm backed by expected increase in sales from the better margin giving value-added products and the cost-efficient operations of the company.

Healthy financial risk profile:
APL's overall gearing improved to 0.35x, as on March 31, 2022, from 0.42x as on March 31, 2021, on account of accretion of healthy profits into net worth of the company in spite of increase in total debt due to term debt availed for the ongoing capex at Raipur. Consequently, the coverage indicators also improved and stood comfortable with interest coverage and total debt to PBILDT at 21.95x and 0.83x, as on March 31, 2022, as against 10.59x and 1.05x as on March 31, 2021, respectively. The solvency profile of the company is expected to remain comfortable going forward on the back of healthy cash flow generation and low reliance on debt to fund capex and for meeting the working capital requirements.

Efficient working capital cycle:
Although pipe manufacturing has traditionally been working capital intensive business, APL has been able to efficiently manage its working capital as reflected by its short operating cycle which further reduced to 4 days in FY22 (PY: 14 days). The company introduced cash discount to its customers for upfront payment from June 2020 onwards which resulted in faster recovery and significant decline in the average collection period to 7 days in FY22 from 13 days in FY21 and 24 days in FY20. APL has been able to improve its working capital cycle consistently over the last five years on account of better inventory management and efficient collections partially supported through channel financing made available to its larger dealers.

Key rating weaknesses
Raw material price volatility risk:
The major raw materials for APL's products are HR coils, galvanised coils and zinc, the prices of which are volatile. The prices of the HR coils are market linked and determined on a periodic basis, thus exposing the company to the volatility in the prices of raw materials which has a bearing on its profitability margins. Besides raw material, the company is exposed to the loss of value on inventories held by it in case of any sharp downward movement in the prices. However, the company being one of the largest buyers of HRC and largest seller of pipes in India has demonstrated its ability to better manage these volatilities through availing

bargain deals from steel makers, passing on the increase in steel prices to its customers and maintaining an optimal inventory level.

Competitive industry scenario:
The steel pipes industry is highly competitive due to presence of various organised and unorganised players and expanding applications of various types of steel pipes. Although over the years, the industry has become more organised with the share of unorganised and smaller players reducing yet the prevalent competition has a bearing on the margins due to fragmentation of the industry. However, APL with its bigger size, wider and innovative product range, diversified and widespread marketing network has a certain edge over small players and even the other large, organised players in the industry.

Project risk:
The company has undertaken a capex to expand its manufacturing capacity through a greenfield expansion at Raipur, Chhattisgarh, by 15 lakh tonne capacity, which includes manufacturing line for High Diameter High Thickness tubes, Narrow cold rolled tubes and Colour coated products. The scope of project was changed from setting up a 9 lakh tonne plant to the present 15 lakh tonne capacity. The total cost of the project is estimated to be around ₹1,080 crore which will be funded through a term loan of ₹450 cr and remaining through internal accruals/available liquidity. Though the company has started production in a phased manner, the full capacity is expected to become operational by March 2023, with major cost on the project been already incurred. Because of the healthy net-worth base and low debt-equity mix, the project debt is not expected to have much impact on the leverage profile of the company going forward. Apart from that, the company is also undertaking greenfield projects in Kolkatta and Dubai to further augment its capacities. A total cost of ₹500 cr is expected to be incurred on these two projects which will entirely be funded through internal accruals over FY23-FY25.

Industry prospects
The global steel pipes industry is expected to grow at nearly 4% in the next three years and the contribution of the domestic pipes industry in the global industry will continue to remain at 9-10%. The domestic iron and steel pipe industry is one of the key sectors in the infrastructure development of the country. From the extension of pipelines for river interlinking to providing drinking water to every household, the industry plays a critical role in the development of the nation. The overall industry size has grown at double-digit over the last four years and is currently estimated to be around ₹60,000 crore. The major growth drivers for the industry include demand emanating from domestic water infrastructure, oil exploration and transportation, construction, irrigation, infrastructure, and expansion of gas pipelines such as national gas grid and city gas distribution. While the COVID-19 pandemic had caused certain disruptions, the industry witnessed a V-shape recovery post the removal of restrictions and has surpassed pre-COVID-19 levels. The industry has witnessed consolidation with increasing dominance of larger players especially in Electric Welded Resistance (ERW) segment which has been the most fragmented segment historically.

Environmental, social & governance risks
The company has high dependence on power & fuel to run its plants, which leads to emission of carbon and other harmful chemicals in the environment. In order to address the concerns, the company has been taking various initiatives. Two of the manufacturing units have more than 85% dependency on green energy with almost all plants having rainwater harvesting facilities. Apart from that, there have been zero accidents and proper trainings have been provided to the employees at the sites and the attrition rate is also below 5%. To achieve gender diversity, female workforce is being hired and emphasis has been given to corporate social responsibility) (CSR) programmes for the local communities. As per the company, its operating units are compliant with all the environmental regulations and have various statutory approvals. The waste generated by the company in FY22 was also within the permissible limits defined by the local pollution control boards. The company aims to further reduce its carbon emission and have been taking steps in that direction. On the governance side, the company has formulated new code of conduct for all employees. APL however remains exposed to the risks arising on account of any deviation in quality of products along with health and safety concerns of the employees, human rights issues and inability to ensure diversity.

Liquidity: Strong
APL Apollo has strong liquidity marked by healthy cash accruals of ₹735 cr (₹519 crore during FY21). The company generated healthy gross cash accruals of ₹735 crore in FY22 and ₹327 cr. in H1FY23 (UA). It has a low term debt repayment obligation of ₹68 crore during FY23.The total free cash and cash equivalent of the company stood at ₹431.97 cr, as on September 30, 2022 (₹226.42 cr, as on March 31, 2022). The cash flow from operations stood at ₹654 cr, compared to ₹899 cr in FY21. Average utilization of its fund based, and non-fund based working capital limits stood comfortable at 41% and 45% respectively during the last 12 months period ended September 2022. Apart from the ongoing Raipur capex, the company shall also be undertaking two greenfield projects in Kolkatta and Dubai over the FY23-FY25 period, which shall be funded entirely through the internal accruals on the back of its strong liquidity.

Analytical approach

CARE Ratings has taken a consolidated view of APL due to common management, significant operational and financial linkages with its subsidiaries. List of the subsidiaries getting consolidated with APL are shown below.

Name of companies/ Entities	% of holding of APL as on March 31, 2022
Apollo Metalex Private Limited	100.00
Shri Lakshmi Metal Udyog Limited*	100.00
Blue Ocean Projects Private Limited	100.00
APL Apollo Tubes FZE	100.00
APL Apollo Building Products Private Limited	100.00
Apollo Tricoat Tubes Limited (subsidiary of Shri Lakshmi Metal Udyog Limited)*	55.82

**In Oct-2022, the National Company Law Tribunal (NCLT), New Delhi has pronounced the merger of Shri Lakshmi Metal Udyog Limited and Apollo Tricoat Tubes Limited, with APL, approving the scheme of amalgamation and arrangement, with the 'Appointment date' of the scheme as April 01, 2021 and the 'Effective date' as October 31, 2022.*

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

APL was incorporated as Bihar Tubes Pvt Ltd on February 24, 1986 and started its operations with a unit at Sikandrabad (Uttar Pradesh) to manufacture ERW pipes with a capacity of 6,000 MT. APL is the flagship company of the Sudesh group. Currently, APL is engaged in the manufacturing of steel pipes and tubes with a capacity of 26.50 lakh MTPA as on September 30, 2022, on a consolidated basis. It has a pan-India presence with eleven manufacturing units located in Sikandarabad, Bengaluru, Hyderabad, Hosur, Raipur and Murbad.

Brief consolidated financials (₹ crore)	FY21 (A)	FY22 (A)	H1FY23(UA)
Total operating income	8523.41	13093.64	7427.68
PBILDT	702.41	975.95	445.72
PAT	407.70	618.98	270.86
Overall gearing (times)	0.42	0.35	0.45
Interest coverage (times)	10.93	21.95	18.91

A: Audited; UA: Unaudited; Financials are reclassified as per CARE Ratings' standards

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

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-Working Capital Limits		-	-	-	420.00	CARE AA; Stable
Non-fund-based-Short Term		-	-	-	155.00	CARE A1+

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	Fund-based - LT-Working Capital Limits	LT	420.00	CARE AA; Stable	-	1)CARE AA; Stable (09-Sep-21)	1)CARE AA; Stable (30-Dec-20)	1)CARE AA-; Stable (04-Oct-19) 2)CARE AA-; Stable (03-Apr-19)
2	Non-fund-based-Short Term	ST	155.00	CARE A1+	-	1)CARE A1+ (09-Sep-21)	1)CARE A1+ (30-Dec-20)	1)CARE A1+ (04-Oct-19) 2)CARE A1+ (03-Apr-19)
3	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (10-Dec-19) 2)CARE AA-; Stable (04-Oct-19) 3)CARE AA-; Stable (03-Apr-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Nil

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Working Capital Limits	Simple
2	Non-fund-based-Short Term	Simple

Annexure-5: Bank lender details for this company

To view the lender-wise details of bank facilities please click here

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 for any clarifications.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Ajay Kumar Dhaka
Phone: +91-11-4533 3218
E-mail: ajay.dhaka@careedge.in

Relationship contact
Name: Swati Agrawal
Phone: +91-11-4533 3200
E-mail: swati.agrawal@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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