APL Apollo Tubes Limited

September 09, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings1	Rating Action
Long-term Bank Facilities	426.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	149.00	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**575.00 (Rs. Five hundred seventy five crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & 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 continuously increasing market share and diversified product profile with an increasing share of high-yielding value-added products thereby leading to better margins. The same coupled with continuously shortening working capital cycle has resulted in improvement in return ratios which are expected to remain healthy over the medium term on the back of steady growth in the company's sales volumes and its margins 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 with prepayment of debt during FY21 (refers to the period April 01 to March 31) aided by healthy operational cash flows and its strong liquidity position. Going forward, CARE Ratings believes that the company shall be able to fuel its growth and meet working capital requirements largely through internal accruals and hence it shall be able to maintain a low leverage profile over the medium term. These rating strengths, however, continue to be tempered by APL's exposure to steel price volatility and competitive nature of the pipes and tubes industry. The ratings also take cognizance of the ongoing internal accrual funded capex to expand the capacity by 900,000 MTPA by March 2023, and the successful completion of the project within time and cost estimates shall remain key monitorable.

Rating Sensitivities

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

- Growth in the scale of operations with sales volumes beyond 2 million tonnes.
  - Improvement in PBILDT per tonne above Rs.4,500 per tonne and return on capital employed (ROCE) above 25% on sustained basis.
- Sustained improvement in gearing below 0.30x.

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

- Reduction in PBILDT per tonne below Rs.3,000 on 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.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management: APL was originally incorporated by late Mr S.K. Gupta and Mrs Saroj Rani Gupta. After the demise of Mr S. K. Gupta, its management was taken over by his son Mr 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, Mr Rahul Gupta, holds an industry experience of 7 years and handles the Tricoat division of the company. Mr Vinay Gupta, brother of Mr Sanjay Gupta, has an extensive experience of more than two decades and looks after the pre-galvanized and international market business of the company. Mr Sanjay is supported by an experienced team of professional with extensive experience in electric resistance welded (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: 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

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

forayed into manufacturing of galvanized iron pipes (GI), pre-galvanized pipes (GP), hollow sections, etc. As on June 30, 2021, 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 15.31% and 12.79%, respectively, over FY16-FY21.

Diversified operations and product portfolio: The production facilities of the company are well diversified geographically as it has ten 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 more than 800 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 amid Covid-19: The PBILDT margin of the company improved by 197 bps to 8.24% in FY21 due to improved PBILDT per tonne from Rs.2,968 in FY20 to Rs.4,356 in FY21 on the back of higher contribution of value-added products including the high-margin Tricoat products. Moreover, it has witnessed y-o-y growth of 10.26% in its total operating income (TOI) to Rs.8,523.41 crore in FY21 from Rs.7,730.46 crore in FY20 backed by increase in the sales realization as a result of increase in the price of steel pipes and increase in the contribution of high-price value-added products (57% in FY21 and 45% in FY20). Notwithstanding disruption caused by covid-19 pandemic, the company was able to report marginal growth in its sales volume from 16.33 lakh tonne in FY20 to 16.40 lakh tonne in FY21. Furthermore, during Q1FY22 (refers to the period April 01 to June 30), the TOI improved significantly by 128% y-o-y due to low base effect and continued surge in the prices of steel and pipes. Resultantly, the PBILDT margin also improved from 6.81% in Q1FY21 to 10.41% in Q1FY22 (Rs.6,825 per tonne). While the Q1FY22 margins appear elevated temporarily due to inventory gains and strong upcycle in the industry and margins may normalize in coming quarters, nonetheless, the company is expected to maintain healthy profitability profile on the back of expected contribution from its value-added products and its cost-efficient operations.

Healthy financial risk profile: APL's overall gearing improved significantly to 0.42x as on March 31, 2021, from 0.80x as on March 31, 2020, on account of prepayment of its term debt obligation coupled with accretion of healthy profits into net worth of the company. Consequently, coverage indicators also improved and stood comfortable with interest coverage and total debt to PBILDT of 10.93x and 1.02x as on March 31, 2021 as against 4.53x and 2.18x, respectively, as on March 31, 2020. Going forward, the company's debt level is expected to remain low as it does not have any significant debt-funded capex plans in the medium term.

Shortening 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 14 days in FY21 (PY: 28 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 13 days in FY21 (PY: 24 days). APL has been able to improve its working capital cycle consistently over the last five financial 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 effectively manage these volatilities through 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 organized and unorganized players and expanding applications of various types of steel pipes. Although over the years, the industry has become more organized with the share of unorganized 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 organized players in the industry.

Project risk: The company has undertaken capex to extend its manufacturing capacity through a greenfield expansion in Raipur, Chhattisgarh, by 900,000 tonne, which includes manufacturing line for High Diameter High Thickness Tubes, Narrow Cold Rolled Tubes and Colour Coated Products. Total cost of the project is estimated to be around Rs.688 crore which will be funded largely through internal accruals and the commercial production is expected to commence by March 31, 2023. As the company is not planning to raise any major debt for the project, the same shall not impact its leverage profile. However, timely completion of the project within the estimated cost shall be crucial to fuel the company's future growth and shall remain a key monitorable.

Industry Prospects *(source: www.careratings.com)*
The overall steel tubes and pipes industry size has grown at double-digit over the last four years and is currently estimated to be around Rs.60,000 crore. While the covid-19 pandemic has caused certain disruptions, the industry witnessed a V-shape recovery post the removal of restrictions and surpassed pre-covid levels as evident by 16.61% growth in steel tube and pipe consumption in March 2021 as compared with March 2020. However, the industry registered a degrowth of nearly 15% during the fiscal year 2020-21 due to muted production and consumption in the lockdown period. Going forward, CARE Ratings believes that the industry is resilient enough to be back on a growth path although it remains to be seen how far the industry players can combat with a steep increase in raw material prices and protect their margins. The global steel pipe and tubes market is valued at USD 90 billion and is projected to grow at a CAGR of 4% in the next three years to which the domestic market will contribute to around 9%-10% of the global consumption. The demand will largely be driven by water transportation, oil and gas, firefighting, construction, and infrastructure segments, among others.

Strong Liquidity: APL Apollo has strong liquidity market by healthy cash accruals of Rs.519.31 crore during FY21 (PY: Rs.326.59 crore). The company expects gross cash accruals of Rs.567 crore in FY22 against repayment obligations aggregating to Rs.79 crore in FY21. The total free cash and cash equivalent of the company increased from Rs 44.39 crore as on March 31, 2020 to Rs.357.42 crore as on March 31, 2021, as it generated healthy cash flow from operations of Rs.977.11 crore during FY21 as compared with Rs.509.55 crore in FY20. The company has recently announced capex of Rs.688 crore to be spent over FY21-FY24, which will be funded entirely though the internal accruals. Its current ratio stood at 1.16x as on March 31, 2021 (PY: 1.17x).

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 company's subsidiaries getting consolidated under APL are shown below.

Name of companies/ Entities	% of holding
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

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

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 electric resistance welding (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 June 30, 2021, on a consolidated basis. It has a pan-India presence with ten manufacturing units located in Sikandarabad (3 units), Bengaluru, Hyderabad, Hosur, Raipur and Murbad.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	7730.46	8523.41
PBILDT	484.75	702.41
PAT	255.99	407.70
Overall gearing (times)	0.80	0.42
Interest coverage (times)	4.53	10.93

A: Audited

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Working Capital Limits	-	-	-	426.00	CARE AA; Stable
Non-fund-based-Short Term	-	-	-	149.00	CARE A1+

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.	Fund-based - LT-Working Capital Limits	LT	426.00	CARE AA; Stable	-	1)CARE AA; Stable (30-Dec-20)	1)CARE AA-; Stable (04-Oct-19) 2)CARE AA-; Stable (03-Apr-19)	1)CARE AA-; Stable (04-Apr-18)
2.	Non-fund-based-Short Term	ST	149.00	CARE A1+	-	1)CARE A1+ (30-Dec-20)	1)CARE A1+ (04-Oct-19) 2)CARE A1+ (03-Apr-19)	1)CARE A1+ (04-Apr-18)
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)	1)CARE AA-; Stable (04-Apr-18)
4.	Commercial Paper	ST	-	-	-	-	-	1)Withdrawn (04-Apr-18)

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

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

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

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:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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