APL Apollo Tubes Limited

January 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	420.00	CARE AA; Positive	Reaffirmed; Outlook revised from Stable
Short-term bank facilities	155.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

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 return ratios which are expected to remain comfortable over the medium term on the back of steady growth in the company's sales volumes with stable margins. 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. CARE Ratings Limited (CARE Ratings) takes cognisance of the fact that company has successfully commissioned its Raipur plant, with full capacity which shall enable it to fuel its growth. Further, company has plans to establish small plants in Dubai, Kolkata, Jammu and Ahmedabad for 2 lakh metric tonnes per annum (MTPA) capacity each in next 2-3 years to cater different geographies. Total capex outlay is expected to be around ₹500 crore in next 2-3 years which is expected to be met through internal accruals and hence company should be able to maintain a low leverage profile over the medium term in the absence of any large debt-funded capex.

The above rating strengths, however, continue to be tempered by APL's exposure to steel price volatility and competitive nature of the pipes and tubes industry with limited value addition.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Net debt to PBILDT below 0.50x.
- Growth in scale of operations with increase in sales volume by more than 15% p.a. on a sustained basis.
- Improvement in PBILDT per tonne above ₹5,000 per tonne and return on capital employed (ROCE) above 25% on a sustained basis.

Negative factors

- Increase in net debt to PBILDT above unity.
- Reduction in PBILDT per tonne below ₹3,000 on a sustained basis.
- Sales volume remaining below 2 million tonne on a sustained basis.

Analytical approach: Consolidated

CARE Ratings has considered a consolidated approach in the credit risk assessment of APL due to common management, significant operational and financial linkages among the companies. The list of entities considered in consolidation is mentioned in **Annexure-6**.

Outlook: Positive

The revision in outlook to 'Positive' from 'Stable' factors in expectations of continued healthy growth in total operating income backed by higher sales volume while improving PBILDT margin and expectation of improvement in the overall financial profile of the company in near to medium term.

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

Detailed description of the key rating drivers:
Key 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 building division of the group. Vinay Gupta, brother of Sanjay Gupta, has an extensive experience of more than two decades and looks after the pre-galvanised and international business of the company. Sanjay Gupta 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:
APL has been operational for more than 35 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-galvanised pipes (GP), hollow sections, etc. As on September 30, 2023, it has installed capacity of 41.50 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 16% and around 12%, respectively, over FY21-FY23 (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 more than 850 direct distributors/dealers and over 50,000 retailers and fabricators. It has a well-diversified product portfolio consisting of four primary product segments with different specification as per the customer needs 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 declined by ~17% to ₹4,536 in FY23, compared with ₹5,468 in FY22, on the back of cooling off of raw material prices after peaking out in FY22. However, PBILDT/tonne of the company remained within the company stipulated guidance of Rs.4,500-5,000. Total operating income (TOI) of the company increased at a healthy rate of ~24% in FY23 on a year-on-year basis on the back of healthy demand. The volume sold saw a year-on-year increase of ~29% in FY23. Furthermore, during H1FY24 (refers to the period April 01 to September 30), the TOI further improved by ~24% on a y-o-y basis on the back of higher volumes sales and improvement in realisations. Accordingly, The PBILDT/tonne also improved in H1FY24 to ₹4,728. Going forward, CARE Ratings expects the margins 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 marginally moderated but stood comfortable to 0.39x, as on March 31, 2023, and 0.43x as on September 30, 2023, as compared to 0.35x as on March 31, 2022. The moderation in overall gearing is on account of increase in total debt due to term debt availed by the company for the capex at Raipur. Consequently, the coverage indicators also moderated but stood comfortable with interest coverage and total debt to PBILDT at 15.42x and 1.09x, as on March 31, 2023, as against 21.58x and 0.85x as on March 31, 2022, 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 2 days in FY23 (PY: 4 days). The company introduced cash discount to its customers for upfront payment which resulted in faster recovery and significant decline in the

average collection period to 5 days in FY23 from 7 days in FY22 and 13 days in FY21. 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.

Liquidity: Strong

APL has strong liquidity marked by healthy gross cash accruals of ₹783 crore in FY23 (₹735 crore during FY22). Total free cash and liquid investments of the company stood at around ₹620 crore, as on September 30, 2023 (~₹400 cr, as on March 31, 2023) compared to total term debt principal repayment obligation of around ₹161 crore in FY24. The cash flow from operations stood at ₹830 crore in FY23, compared to ₹654 crore in FY22. Average utilisation of its fund based, and non-fund-based working capital limits stood comfortable at 40% and 39%, respectively, during the last 12 months period ended October 2023. The company is setting up small plants in Dubai, Kolkata, Jammu and Ahmedabad of 2 lakh metric tonnes per annum (MTPA) capacity each in next 2-3 years to cater different geographies. Total capex outlay is expected to be around ₹500 crore in next 2-3 years which shall be funded entirely through the internal accruals on the back of its strong liquidity.

Key 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 with limited value addition:

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 with limited value addition. 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.

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 five years. 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 already 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.

Environment, social, and governance (ESG) risks

Risk Factors	Actions taken by the company
Environmental	▪ Company has plans to operate all manufacturing plants using renewable power. Currently 38% of the total power requirement is sourced from renewable sources. Company has its target of increasing that to 47% by FY25. ▪ All manufacturing facilities are expected to become zero-liquid discharge by 2025. All plants are equipped with rainwater harvesting facilities
Social	▪ Company invested ~111 million in CSR initiatives which includes 12 different CSR projects. Total beneficiaries of these projects are ~6000 personnel's so far. ▪ To achieve gender diversity, female workforce is being hired and emphasis has been given to CSR initiatives in local communities. ▪ Focused on creating an equitable work environment. The Company is committed to having at least 5% of the overall workforce as female employees by 2025.

Governance	▪ The company is managed by professional board of directors who have extensive experience in industry. The Board comprises of 10 Directors including 2 women directors. The independent Directors are more than 50% of the total number of Directors. ▪ There is audit committee, nomination and remuneration committee, Corporate social responsibility committee; risk management committee, Stakeholder relationship committee.

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

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital goods	Industrial products	Iron & steel products

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 41.50 lakh MTPA as on September 30, 2023, on a consolidated basis. It has a pan-India presence with eleven manufacturing units located in Sikandarabad, Bengaluru, Hyderabad, Hosur, Raipur and Murbad. Also, it has commenced operations from its plant in Dubai in 9MFY24.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	H1FY24 (UA)
Total operating income	13,077.36	16,177.22	9,175.80
PBILDT	959.67	1,033.77	632.75
PAT	618.98	641.86	396.49
Overall gearing (times)	0.35	0.39	0.43
Interest coverage (times)	21.58	15.42	11.77

A: Audited UA: Unaudited; Note: 'the above results are latest financial results 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: Annexure-4

Lender details: Annexure-5

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; Positive
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 2023-2024	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
1	Fund-based - LT-Working Capital Limits	LT	420.00	CARE AA; Positive	-	1)CARE AA; Stable (07-Dec-22)	1)CARE AA; Stable (09-Sep-21)	1)CARE AA; Stable (30-Dec-20)
2	Non-fund-based-Short Term	ST	155.00	CARE A1+	-	1)CARE A1+ (07-Dec-22)	1)CARE A1+ (09-Sep-21)	1)CARE A1+ (30-Dec-20)

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

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

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

Note on the 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.

Annexure-6: List of companies getting consolidated with APL

Sr. No.	Name of the Company	Percentage (%) of Holding of APL as on March 31, 2023
1	Apollo Metalex Private Limited	100.00%
2	APL Apollo Mart Limited	100.00%
3	Blue Ocean Projects Private Limited	100.00%
4	APL Apollo Tubes FZE	100.00%
5	APL Apollo Building Products Private Limited	100.00%
6	APL Apollo Tubes Company LLC	100.00%

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About us:

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