Apar Industries Limited

September 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1,203.58 (Reduced from 1,240.50)	CARE AA-; Stable	Revised from CARE A+; Stable
Long-term / Short-term bank facilities	8,061.00 (Enhanced from 8,045.00)	CARE AA-; Stable / CARE A1+	Revised from CARE A+; Stable / CARE A1

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in ratings assigned to bank facilities of Apar Industries Limited (APAR) factors significant improvement in its financial and business risk profiles in FY24 and Q1FY25. This is evidenced by a notable improvement in its debt coverage metrics (including letter of credit [LC] acceptances) and increased net worth, driven by a Qualified Institutional Placement (QIP) issue of about ₹1,000 crore and improved profitability. Its total outside liabilities to tangible net worth (TOL/TNW) improved to 1.48x as on March 31, 2024, from 2.67x in previous year and is expected to be maintained even with expected growth in its scale of operations in the near-to-medium term.

Ratings continue to draw strength from diversified and established market position of APAR across three major business segments; conductors, cables and transformer and speciality oils (TSO), where it has leadership positions in conductors and TSO segments, long-standing experience of its promoters, significant growth in its scale of operations in the last few years with improving profitability, improving exports with premiumisation of its product profile, healthy order book position and strong liquidity. These strengths are tempered by working capital intensive operations given the nature of business, resulting in higher reliance on working capital borrowing (in the form of acceptances) leading to higher leverage indicators. Ratings also take cognisance of inherent business risk considering its exposure to raw material price risk, foreign currency volatility, increasing competition in the industry and freight charge volatility.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growing scale of operations on a sustained basis.
- Improving TOL/TNW to 1.00x on a sustained basis.

Negative factors

- Declining profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin below 8% on a sustained basis.
- Deteriorating TOL/ TNW to 1.75x and above.

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has considered APAR's consolidated financials, as its wholly owned subsidiaries have substantial operational and financial linkages with it. The list of subsidiaries is presented in **Annexure-6**.

Outlook: Stable

The Stable outlook reflects that APAR's scale of operations and operating margins will continue to be supported by healthy order book and its strong market position in conductors and TSO segments with increasing share from premium products in the near-to-medium term. CARE Ratings expects the favourable demand prospects from power sector with sizeable capex to provide further growth opportunities to the company.

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

Detailed description of key rating drivers:

Key strengths

One of leading players in conductor segment

APAR is one of the leading companies, engaged in manufacturing TSO and transmission & distribution overhead conductors with a total installed capacity of 861,600 KL and 358,526 MT, respectively, as on March 31, 2024. In the conductor division, APAR caters to prominent customers such as Power Grid Corporation of India Limited (PGCIL; rated 'CARE AAA; Stable/ CARE A1+'), state government entities, Larsen & Tuobro Limited, and prominent turnkey operators with whom it has a long-standing relationship. APAR also exports to major geographies with focus on Australia, South East Asia, the Middle East, Latin America, North America and Africa among others and has presence in over 140 countries.

Long-standing experience of promoters in business:

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

Well-established market position across segments

APAR is among the top three producers of conductors and speciality oils in the world. In the transformer oil segment, it has a product offering of over 500+ grades with varied application in the industrial oil sub segment. To cater to the growing demand in the Middle Eastern and African markets, APAR commissioned its port-based plant at Hamriyah, Sharjah in FY18. It also entered 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 such as PGCIL, Kalpataru Projects International Limited, KEC International Limited, and Tata Projects Limited. In the cables segment, APAR is engaged in electrical and telecom cables and elastomer cables. This division supplies to industry segments in India, power utilities, petrochemicals, steel, cement, nuclear power, defence, telecommunication, metros and shipbuilding, railways, renewable energy sector, among others. Major clients include Adani Group, Tata Power Solar Systems Limited, Larsen & Toubro Limited, Torrent Power Limited and Siemens Limited, among others.

Diversified revenue profile

APAR's business segments comprise conductors, TSO and cables. The conductor segment contributed 48% to the gross sales of FY24 (PY: 47%), TSO segment contributed 29% in FY24 (PY: 31%), and the balance was from the cables segment. APAR has incremental income coming from high-margin product for the conductor segment, which has increased the segment's revenue by 15% in FY24. Revenue from cables also increased by 18% led by higher sale of elastomeric products. The total order book stood at ₹6,725 crore for the conductor division and ₹1,571 crore for the cables division as on June 30, 2024. TSO segments' revenue increased marginally by 4% Y-o-Y in FY24.

Improved overall performance led by increase in volume and value

Total operating income (TOI) improved by 12.76% in FY24 Y-o-Y owing to increased volumes and premiumisation of product mix. In FY24, the revenue from conductor segment reached ₹8,031 crore (PY: ₹7,013 crore) led by increased revenue from exports and premiumisation, revenue from TSO was at ₹4,837 crore (PY: ₹4,641 crore) driven by improved volume growth and revenue from cable segment reached ₹3,859 crore (PY: ₹3,263 crore) driven by increase in revenue from elastomeric products. While the domestic revenue grew by 20%, export revenue grew by 5% in FY24. Overall operating margins increased by 94 bps in FY24. The conductor segment recorded a marginal drop in earnings before interest, taxation, depreciation, and amortisation (EBITDA) per MT to ₹42,248 in FY24 but remains strong considering a good mix of premium products and exports. The TSO segment recorded improvement in EBITDA/KL by 20% Y-o-Y to ₹5,746 in FY24 led in improvement in exports. Cable segment EBITDA margins improved to 11.4% in FY24 as compared to 10.5% in FY23 led by improved order/product mix and better economies of scale.

Improvement capital structure and debt coverage indicators in FY24

On a consolidated basis, APAR's debt profile primarily consists of LC backed acceptances. Majority of APAR's raw materials are imported and financed mostly by supplier credit that is guaranteed by LC. As the scale of business increased, LC-backed acceptances are also expected to increase. However, LC backed acceptances decreased to ₹3,946 crore as on March 31, 2024, from ₹4,137 crore as on March 31, 2023, despite improving TOI by 12.76% from ₹14,336.30 crore in FY23 to ₹16,165.68 crore in FY24 considering QIP issue of ₹1,000 crore. Overall gearing (including LC acceptances) and TOL/TNW improved to 1.14x (PY: 2.02x) and 1.48x (PY: 2.67x), respectively, as on March 31, 2024, as compared to March 31, 2023, primarily considering an increase in the company's tangible net worth due to QIP issue and accretion of profits to reserves. Due to stronger PBILDT and cash accruals, the total debt/GCA and total debt/PBILDT improved in FY24 to 4.75x (PY: 6.14x) and 2.80x (PY: 3.56x), respectively, as compared to FY23. Going forward, even with expected growth in its scale of operations and planned capex, its capital structure and debt coverage indicators are expected to be maintained in the near-to-medium term.

Liquidity: Strong

APAR's liquidity is adequate as evinced from gross cash accruals (GCA) of ~₹850 crore expected to be generated in FY25. APAR had cash and cash equivalents (unencumbered) of ₹418 crore as on June 30, 2024. As against this, the company has term debt repayment obligations to the tune of ₹76.62 crore (including lease liability) on a consolidated basis for FY25. The company maintains a comfortable cash balance of ₹250-350 crore even after the committed payments towards LC acceptances.

Key weaknesses

Working capital intensity of operations

The company's operations continue to be working capital intensive due to the inherent nature of the industry in which it operates, such as delays in order execution, competitive pressure, delays in obtaining clearances and in funding arrangements by engineering, procurement, and construction (EPC) players. It results in high working capital limit utilisation. in 12-months ended July 2024 utilisation of its non-fund based working capital limit stood at ~80% while there was negligible utilisation of its fund based working capital limits in this period considering improved liquidity due to QIP issue.

Susceptibility of margins to raw material price volatility and exchange rate fluctuations

The raw material cost to TOI stood at 77.57% in FY24 (PY: 77.26%). Prices of aluminium and copper, which are major raw materials for conductors, have shown a lot of volatility in the last few years. To hedge against metal price volatility, APAR books metal at LME rates on the day the order is received for fixed-price contracts. 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. CARE Ratings notes that due to the 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 price increase to the customers only with a time lag. To mitigate this risk, the company mainly caters to high voltage transformer manufacturers/ users where quality plays over price and the company is better positioned to pass on the price increase easily.

APAR is exposed to the volatility in foreign exchange rates considering its imports and borrowings in foreign currency. Majority of its raw materials are imported making APAR a net importer traditionally. However, due to increase in exports, APAR turned net exporter in FY24. The company uses forward exchange contracts to hedge its currency risk, most with a maturity of less than one year from the reporting date. CARE Ratings will continue to monitor the company's ability to successfully manage its foreign exchange fluctuation risk, which remains critical from the credit perspective.

Environment, social, and governance (ESG) risks

Environment:

With a focus on promoting circular economy through increased recycling, the company actively reduces waste and conserves resources. It drives efforts to lower Scope-1 and Scope-2 Green House Gas (GHG) emissions within its operational boundaries to help combat climate change. APAR has laid out focus areas, when it comes to environmental impact:

- Share of renewable energy consumption increased from 4% in FY23 to 7.3% in FY24. Two wind-solar hybrid projects are being commissioned, ensuring a significant increase in the share of renewable energy consumption by June 2025.
- Reducing 4% energy intensity in the manufacturing processes for cable and conductors. This improvement is attributed to measures undertaken at plants, including energy audits and implementing energy audit findings.
- Absolute water consumption reduced by 3% from 385,974 KL in FY23 to 376,139 KL in FY24. In addition, water intensity reduced by over 13%, from 26.89 KL/₹ crore turnover to 23.29 KL/ ₹ crore turnover. APAR have taken initiatives at all its facilities, which include reducing demand through process improvement, recycling through increased usage of Sewage and Effluent Treatment Plants (ETP and STP) and Rainwater Harvesting (RWH). There has been a significant reduction in its water footprint intensity in the last two years.

- Scope-1 and Scope-2 emission intensity, in terms of physical output, has decreased from 0.289 tCO_2e/ MT to 0.275 tCO_2e/ MT (4.84%) due to measures taken at the plants. This is in line with the company's journey following a low carbon pathway.

Social:
On the social front, the company undertakes initiatives to empower marginalised communities and the society at large in its key areas of operations with focus on four core areas: healthcare, education, rural development and gender equality.

Governance:
On its board, 50% comprises independent directors (three of six directors) and one women director.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Withdrawal Policy
Short Term Instruments

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Industrials	Capital goods	Electrical equipment	Other electrical equipment

Founded by Dharmsinh D. Desai in 1958, APAR 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 140 countries. APAR has total installed capacity of 861,600 KL of transformer oils, 358,526 MT of conductors and 6,81,780 KM of cables as on March 31, 2024. Its manufacturing facilities are at Rabale (Maharashtra), Silvassa, Athola and Rakholi (Dadra and Nagar Haveli), Umbergaon and Khatalwad (Gujarat), Jharsugoda and Lapanga (Orissa), and Hamriyah (Sharjah).

Brief Financials (₹ crore): Consolidated	FY23 (A)	FY24 (A)	Q1FY25 (UA)
Total operating income	14,336.30	16,165.98	4,010.52
PBILDT	1,267.06	1,581.35	375.63
PAT	637.71	825.11	202.54
Overall gearing (times)	2.02	1.14	NA
Interest coverage (times)	3.68	3.66	4.16

A: Audited UA: Unaudited NA: Not available; Note: these are latest available financial results

Status of non-cooperation with previous CRA:
Not applicable

Any other information:
Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of 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-Cash Credit	-	-	-	-	730.00	CARE AA-; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	8061.00	CARE AA-; Stable / CARE A1+
Term Loan-Long Term	-	-	-	05-06-2026	473.58	CARE AA-; Stable

Annexure-2: Rating history for 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 2024-2025	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
1	Non-fund-based - LT/ ST-BG/LC	LT/ST	8061.00	CARE AA-; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1 (22-Sep-23)	1)CARE A; Positive / CARE A1 (05-Dec-22)	1)CARE A; Stable / CARE A1 (07-Oct-21)
2	Fund-based - LT-Cash Credit	LT	730.00	CARE AA-; Stable	-	1)CARE A+; Stable (22-Sep-23)	1)CARE A; Positive (05-Dec-22)	1)CARE A; Stable (07-Oct-21)
3	Term Loan-Long Term	LT	473.58	CARE AA-; Stable	-	1)CARE A+; Stable (22-Sep-23)	1)CARE A; Positive (05-Dec-22)	1)CARE A; Stable (07-Oct-21)

LT: Long term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the 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: Lender details

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

Annexure-6: List of entities consolidated

<table>
<tr><th>Sr No</th><th>Name of the entity</th><th>Extent of consolidation</th><th>Rationale for consolidation</th></tr>
<tr><td>1</td><td>Petroleum Specialities Pte. Limited, Singapore</td><td rowspan="6">Full</td><td rowspan="6">Wholly owned subsidiaries with strong linkages</td></tr>
<tr><td>2</td><td>Petroleum Specialities FZE, Sharjah</td></tr>
<tr><td>3</td><td>APAR Transmission & Distribution Projects Private Limited, India</td></tr>
<tr><td>4</td><td>APAR Distribution & Logistics Private Limited, India</td></tr>
<tr><td>5</td><td>CEMA Wires & Cables LLC, USA</td></tr>
<tr><td>6</td><td>Apar Industries Middle East Limited, Saudi Arabia</td></tr>
<tr><td>7</td><td>Ampoil Apar Lubricants Private Limited, India</td><td rowspan="2">Equity method</td><td rowspan="2">Associates with strong linkages</td></tr>
<tr><td>8</td><td>Clean Max Rudra Private Limited, India</td></tr>
</table>

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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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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