June 25, 2015

CARE ASSIGNS 'CARE A' RATING TO THE NCD ISSUE OF APL APOLLO TUBES LTD

Ratings

Instruments	Amount (Rs. crore)	Ratings[1]	Remarks
Proposed Non-Convertible Debentures	75.00	CARE A [Single A]	Assigned
Total Facilities	**75.00**		

Rating Rationale

APL Apollo Tubes Ltd (APL) and its subsidiaries are engaged in a similar line of business with a common sourcing and marketing network. Due to significant operational and financial linkages among APL and its subsidiaries, CARE has considered a consolidated approach in its credit risk assessment.

The ratings take into account the experience of the company's promoters and management, APL's long track record of operations and its established market position. The ratings also consider APL's diversified operations, the company's strong brand with a wide product range and its established marketing and distribution network. The ratings also factor in the consistent growth in sales and profits of the company and its moderate financial risk profile with relatively shorter operating cycle. However, the ratings are constrained by relatively low profitability margins, exposure to raw material price volatility and the highly competitive nature of the industry.

Going forward, the company's ability to improve its consolidated profitability margins amid competition, maintain a moderate capital structure and improve its debt coverage indicators on a consolidated basis shall remain the key rating sensitivities.

Background

APL was incorporated as Bihar Tubes Pvt Ltd in February 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 Metric Tonnes (MT). It acquired Apollo Metalex Pvt Ltd (AMPL) in June 2007 and Shri Lakshmi Metal Udyog Ltd (SLMUL) in April 2008 to increase its capacity and widen its geographical presence. In FY10 (refers to the period April 1 to March 31), the company commissioned its second plant at Hosur, Tamil Nadu, with a capacity of 200,000 metric tonnes per annum (MTPA) and its name was changed to APL Apollo Tubes Ltd. In November 2010, it acquired Lloyd Line Pipes Ltd (LLPL). The company is engaged into manufacturing of steel pipes and tubes with a capacity of 580,000 MT on a standalone basis and 10,50,000 MT on a consolidated basis as on March 31, 2015. The company's products find application in construction, water treatment and transportation, electrical pipes, irrigation and plumbing. The major raw materials used by the company are hot rolled (HR) and galvanized coils and zinc.

On a consolidated basis, on a total operating income of Rs.3,015.22 crore, APL reported a PBILDT and PAT of Rs.184.63 crore and Rs.63.76 crore, respectively during FY15 as against PBILDT and PAT of Rs.165.18 crore and Rs.58.98 crore respectively on a total operating income of Rs.2,497.58 crore in FY14.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Note: Mr. Anil Kumar Bansal, who is a Non-Executive Director in APL Apollo Tubes Ltd, is Chairman on CARE's Board of Directors. Independent/Non Executive directors of CARE are not part of CARE's rating committee and do not participate in the rating process.

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

Disclaimer: CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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