APL Apollo Tubes Limited

January 25, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term Bank Facilities	445 (enhanced from 25)	**CARE A+; Stable [Single A Plus, Outlook: Stable]**	**Reaffirmed**
Short-term Bank Facilities	130 (enhanced from 1)	**CARE A1+ [A One Plus]**	**Reaffirmed**
Total Facilities	**575 (Rupees Five Hundred Seventy Five crore only)**		
Non-Convertible Debentures (NCDs)	75	**CARE A+; Stable [Single A Plus, Outlook: Stable]**	**Reaffirmed**
Commercial Paper Programme*	200	**CARE A1+ [A One Plus]**	**Assigned**

** carved out of the sanctioned working capital limits of the company*
Details of instruments/facilities in Annexure-1

Detailed Rationale

The ratings assigned to the bank facilities/instruments of APL Apollo Tubes Limited (APL) continues to derive strength from the extensive experience of APL's promoters, the company's long track record of diversified operations and its established market position with strong brand name, wide product range and widespread distribution network. The ratings also factor in the company's strong operational performance reflected by healthy increase in total operating income with moderate profitability margins, its moderate financial risk profile and healthy liquidity position. However, the ratings are constrained by the company's exposure to raw material price volatility risk and highly competitive nature of the industry.

Going forward, the company's ability to sustain growth in total operating income, improve its profitability margins amid competition and maintain a moderate gearing shall remain the key rating sensitivities.

Detailed description of the key rating drivers

APL is the flagship company of Sudesh group which is promoted by experienced promoters with more than two decades of experience in the steel pipe industry. On a consolidated basis it has installed capacity of manufacturing ERW pipes and tubes of 1.30 MTPA, as on September 30, 2016 which makes it one of the largest manufacturers of ERW pipes in India. Also, the production facilities of the company are well diversified geographically with manufacturing plants spread over North, South and West India along with 26 warehouses cum branches across India. Furthermore, the well diversified product portfolio with widespread applications across different sectors protects its revenues from depending on single segment and ensures better revenue visibility.

APL's consolidated total operating income grew by 40% to Rs.4,226 crore during FY16 (refers to the period April 01 to March 31) largely backed by healthy growth in sales volumes which grew by 39% on a y-o-y basis. Its PBILDT margin also improved by 99 bps to 6.90% during FY16 on the back of higher scale of operations, lower raw material prices and high contribution from value added products. Consequently, its PAT margin also improved to 2.38% in FY16 (PY: 2.03%).

On a consolidated basis, the overall gearing improved and stood moderate at 1.45x as on March 31, 2016 (PY: 1.67x) on account of healthy accretion of profits in net-worth. The lower interest cost coupled with increase in PBILDT margin resulted in improvement of interest coverage to 4.20x in FY16 (PY: 2.79x). The debt coverage indicators continued to remain at moderate levels. APL's working capital management has been efficient as reflected by continuous reduction in operating cycle which stood at 40 days in FY16 (PY: 43 days). The company's average utilization of fund based limits stood low at 55% for the trailing 12 months ended December 2016.

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

Analytical approach: Consolidated. *APL and its subsidiaries viz. Apollo Metalex Pvt Ltd (AMPL), Shri Lakshmi Metal Udyog Ltd (SLMUL) and Lloyd Line Pipes Ltd (LLPL) are engaged in a similar line of business with a common management. Due to significant operational and financial linkages among these companies, CARE has considered a consolidated approach in the credit risk assessment.*

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[CARE's methodology for manufacturing companies]
[Rating Methodology: Factoring Linkages in Ratings]
[Financial ratios – Non-Financial Sector]

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. It acquired AMPL in June 2007 and SLMUL in April 2008 to increase its capacity and diversify 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 LLPL. APL undertakes manufacturing of steel pipes and tubes with a capacity of 0.60 million tonnes per annum (MTPA) on a standalone basis and 1.30 MTPA on a consolidated basis as on September 30, 2016. 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.
During FY16, on a consolidated total operating income of Rs.4,226 crore, the company reported a PBILDT and PAT of Rs.292 crore and Rs.101 crore, respectively. Furthermore, during H1FY17 (refers to the period April 01 to September 30) (provisional), on a consolidated total operating income of Rs.2,083 crore, the company reported a PBILDT and PAT of Rs.172 crore and Rs.75 crore, respectively.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Mr Anil Kumar Bansal, who is a Director in APL Apollo Tubes Ltd, is an Independent Director of CARE. Independent/Non-Executive directors of CARE are not part of CARE's rating committee and do not participate in the rating process. Hence, this note is not sent to Mr Anil Kumar Bansal.

Rating History (Last three years): Please refer Annexure-2

Note on complexity levels of the rated instrument: *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.*

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

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.

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	-	-	-	445.00	CARE A+; Stable
Non-fund-based-Short Term	-	-	-	130.00	CARE A1+
Debentures-Non Convertible Debentures	September 29, 2015	11%	September 28, 2019	75.00	CARE A+; Stable
Commercial Paper	November 04, 2016, November 07, 2016	7%	7-364 days	200.00	CARE A1+

Annexure-2

Rating History for last three years:-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based - LT-Working Capital Limits	LT	445.00	CARE A+; Stable	1)CARE A+ (06-Oct-16)	1)CARE A (06-Jan-16) 2)CARE A (13-Oct-15)	1)CARE A (16-Jan-15)	-
2.	Non-fund-based-Short Term	ST	130.00	CARE A1+	1)CARE A1+ (06-Oct-16)	1)CARE A1 (06-Jan-16) 2)CARE A1 (13-Oct-15)	1)CARE A1 (16-Jan-15)	-
3.	Debentures-Non Convertible Debentures	LT	75.00	CARE A+; Stable	1)CARE A+ (06-Oct-16)	1)CARE A (25-Jun-15)	-	-
4.	Commercial Paper	ST	200.00	CARE A1+	-	-	-	-

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