APL Apollo Tubes Limited

April 03, 2019

Ratings

Facilities/ Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	445	CARE AA-; Stable [Double A Minus, Outlook: Stable]	Reaffirmed
Short-term Bank Facilities	130	CARE A1+ [A One Plus]	Reaffirmed
Total Facilities	**575 (Rupees Five Hundred Seventy Five crore only)**		
Non-Convertible Debentures (NCDs)	75	CARE AA-; Stable [Double A Minus, Outlook: Stable]	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of APL Apollo Tubes Limited (APL) continue to derive strength from the experience of its promoters and APL's established market position as the largest ERW pipe manufacturer in the country. The ratings also favourably factor in the company's long track record of operations, strong brand name with varied product portfolio 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 and moderate financial risk profile. The ratings also take cognizance of the proposed acquisition of Apollo Tricoat Tubes Limited (ATTL) which is expected to be completed in Q1FY20 (refers to the period April 1 to June 30).

The ratings, however, continue to remain constrained by APL's exposure to raw material price volatility and highly competitive nature of the pipes and tubes industry with presence of both organised and unorganised players.

Going forward, ability of the company to achieve the envisaged revenue and profitability and improve its capital structure shall remain the key rating sensitivity. Also, completion of acquisition within envisaged time without any additional debt shall also remain key monitorable.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management

APL was originally incorporated in 1986 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 (Chairman), who has been managing the company since the past 20 years. The Managing Director of APL (Mr Ashok Gupta) also has more than three decades of professional experience in the steel industry, having worked in senior management positions in various established steel companies in India.

Long track record of operations and established market position

APL has been in operation since more than 25 years; it began with manufacturing of MS black pipes using the ERW technique with a capacity of 6,000 MT in 1986 and over the years, has forayed into manufacture of Galvanized Iron pipes (GI), pre-galvanized pipes (GP), hollow sections etc. Furthermore, through its acquisition of Apollo Metalex Private Limited (AMPL) in 2007, it has undertaken backward integration into manufacturing of galvanized coils and sheets. It further acquired Shri Lakshmi Metal Udyog Limited (SLMUL) in 2008 and LLPL in 2010. As on February 28, 2019 it has installed capacity of 20,00,000 MTPA making it the largest ERW pipe manufacturer in India.

Wide product range and strong brand

The company offers a comprehensive range of steel tubes in over 400 varieties in all ERW tubes segments like black, hollow sections, galvanized and pre-galvanized tubes, which find application in a wide variety of uses. The company sells its products under the brand "APL Apollo". Since steel pipes, to an extent is a commoditized business with a large number of unorganized players, the company's strong brand identity enables it to differentiate its products in the market.

Geographically diversified operations with an established marketing network

The company, on a consolidated level has 7 manufacturing facilities spread over north, east, west and south India along with along with 29 warehouses cum branches across India. Furthermore, it has an established marketing and distribution network of more than 650 dealers all over India. The company's widespread reach enables it to gain a competitive advantage in terms of freight costs, which is a significant cost for products like steel pipes.

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

Growth in income and profitability, though profitability margins moderated

The company has reported growth in both income and profitability during FY18. The company reported a healthy growth of 35.7% in total operating income largely on account of growth in volume sales (18.5%). The volume growth was driven by APL's established brand and its widespread reach across the country. The PBILDT in absolute terms also grew by 11.65% although the margins moderated due to higher raw material prices and increased focus to boost the sales. The growth during 9MFY19 continued with a growth in total operating income of 32.6% as compared to similar period previous year, however the PBILDT margins moderated due to inventory losses on account of sharp fall in prices of HR coil. The company is a converter of HR coil into pipes and its PBILDT/Tonne in the range of Rs.2,800 to Rs.3,500 leads to shift in margins depending on the value of raw material. During 9MFY19, the company reported a PAT of Rs.87 crore on a TOI of Rs.5,067 crore as against a PAT of Rs.115 crore on a TOI of Rs.3,821 crore in similar period previous year.

Moderate financial risk profile

The company has a moderate financial risk profile characterized by moderate overall gearing and healthy debt coverage indicators. The company has overall gearing of 1.15x as on March 31, 2018 which moderated from 1.09x as on March 31, 2017. The moderation was largely on account of increase in debt to fund the capital expenditure and higher working capital to meet the enhanced working capital requirement. The coverage indicators continued to remain comfortable with interest coverage and total debt to PBILDT of 4.68x and 2.49x as on March 31, 2018 as against 4.65x and 2.21x respectively as on March 31, 2017.

Proposed acquisition of equity stake in Apollo Tricoat Tubes Limited (ATTL)

APL through its wholly owned subsidiary Shri Lakhsmi Metal Udyog Limited (SLMUL) would acquire stake in ATTL subject to fulfillment of listing conditions. This constitutes about 40.4% of the shareholding of ATTL. SLMUL will also make an open offer for acquiring more than 11% of the shareholding of ATTL in terms of the provisions of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations 2011. If fully subscribed, SLMUL acquire 51% of the share capital of ATTL on a fully diluted basis.

Liquidity

The company has generated gross cash accruals of Rs. 138 crore during 9MFY19. The company is expected to have accruals of around Rs.215 crore during FY19 against which it has repayment obligation of Rs. 101.77 crore. The average month end working capital utilization stood at 71% over the trailing 12 months ended January 2019. Also the company has free cash and cash equivalents of Rs.2.09 crore as on December 31, 2018.

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.

Highly 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 players reducing, but margins continue to be under pressure due to fragmentation of the industry. However, APL with its bigger size, wide innovative product range, diversified market and widespread marketing network has a certain edge over other large organized players in the industry.

Analytical Approach – CARE has taken a consolidated view of APL due to common management, significant operational and financial linkages with its subsidiaries. List of all companies getting consolidated under APL are shown in Annexure III.

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 has an installed capacity of 17,50,000 MT on consolidated basis as on March 31, 2018. The capacity further increased to 20,00,000 MT as on February 28, 2019. Its product range includes MS tubes, galvanized and pre-galvanized tubes and hollow sections in the ERW segment. 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.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	3,921	5,323
PBILDT	335	374
PAT	152	158
Overall gearing (times)	1.09	1.15
Interest coverage (times)	4.65	4.68

A: Audited;

Status of non-cooperation with previous CRA:
Not Applicable

Any other information:
Not Applicable

Rating History for 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.*

Analyst Contact:
Name: Sudhir Kumar
Tel: 011-45333232
Email: sudhir.kumar@careratings.com

****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 AA-; Stable
Non-fund-based-Short Term	-	-	-	130.00	CARE A1+
Debentures-Non Convertible Debentures	Sept 2015	11.50%	Sept 2019	75.00	CARE AA-; Stable

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Working Capital Limits	LT	445.00	CARE AA-; Stable	1)CARE AA-; Stable (04-Apr-18)	-	1)CARE A+; Stable (25-Jan-17) 2)CARE A+ (06-Oct-16)	1)CARE A (06-Jan-16) 2)CARE A (13-Oct-15)
2.	Non-fund-based-Short Term	ST	130.00	CARE A1+	1)CARE A1+ (04-Apr-18)	-	1)CARE A1+ (25-Jan-17) 2)CARE A1+ (06-Oct-16)	1)CARE A1 (06-Jan-16) 2)CARE A1 (13-Oct-15)
3.	Debentures-Non Convertible Debentures	LT	75.00	CARE AA-; Stable	1)CARE AA-; Stable (04-Apr-18)	-	1)CARE A+; Stable (25-Jan-17) 2)CARE A+ (06-Oct-16)	1)CARE A (25-Jun-15)
4.	Commercial Paper	ST	-	-	1)Withdrawn (04-Apr-18)	-	1)CARE A1+ (25-Jan-17)	-

Annexure 3: List of subsidiaries getting consolidated at APL level as on March 31, 2018

S.No.	Name of the Company	Shareholding as on Mar 31, 2018
1	Shri lakhshmi Metal Udyog Limited	100%
2	Apollo Metalex Private Limited	100%
3	Blue Ocean Projects Private Limited	100%

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited
(Formerly known as Credit Analysis & Research Ltd.)
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691