APL Apollo Tubes Limited

April 04, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	445	CARE AA-; Stable [Double A Minus, Outlook: Stable]	Revised from CARE A+ [Single A Plus]
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]	Revised from CARE A+ [Single A Plus]
Commercial Paper Programme*	-	-	Withdrawn

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

Detailed Rationale & Key Rating Drivers

The revision in the ratings for the bank facilities and instruments of APL Apollo Tubes Limited (APL) factors in the improvement in its financial risk profile during FY17 (refers to the period April 1 to March 31) and 9MFY18 (refers to the period April 1 to December 31) characterized by growth in the revenues, profitability, solvency and debt coverage indicators. The ratings continue to derive strength from the experience of the promoters of APL and its established market position as largest ERW pipe manufacturer in the country. The ratings also favourably factor in the long track record of operations, strong brand name with diversified product portfolio and widespread distribution network.

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, the company's ability to complete the on-going capex within the time and cost estimates and achieve the envisaged revenue and profitability while improving its capital structure shall remain the key rating sensitivities.

Further, CARE has withdrawn the rating assigned to the commercial paper of APL on company's request as there is no outstanding in the commercial paper.

Detailed description of the key rating drivers

Key Rating Strengths

Improvement in the overall financial risk profile during FY17 and 9MFY18

APL has reported improvement in its financial risk profile during FY17 and 9MFY18characterized by growth in the revenues, profitability, solvency and debt coverage indicators. The company achieved a growth of 8% in total operating income on y-o-y basis to Rs.4,545cr during FY17 (PY: Rs. 4,227cr) on account of higher sales volumes and realizations. The volume growth was driven by APL's established brand and its widespread reach across the country. During 9MFY18 also the company continued its growth trajectory and reported a PAT of Rs.115 crore on a TOI of Rs.3,953 crore as against a PAT of Rs.102 crore on a TOI of Rs.3,172 crore in similar period previous year.

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

Improvement in solvency and debt coverage indicators

The overall gearing for the company improved to 1.14x as on March 31, 2017 as against 1.45x as on March 31, 2016 on account of improvement in networth coupled with scheduled repayment of term loans. The networth of APL has witnessed an improvement of 24% over FY17 and stood healthy at Rs.649.64cr during FY17. The coverage indicators also improved with interest coverage and total debt to gross cash accruals of 4.84x and 3.68x as on March 31, 2017 as against 4.25x and 5.18x respectively as on March 31, 2016.

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, 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 AMPL in 2007, it has undertaken backward integration into manufacturing of galvanized coils and sheets. As on December 31, 2017 it has installed capacity of 17,50,000 MTPA making it the largest ERW pipe manufacturer.

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, west and south India along with along with 26 warehouses cum branches across India. Furthermore, it has an established marketing and distribution network of more than 600 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.

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 product range, diversified market and widespread marketing network has a certain edge over other large organized players in the industry.

Analytical Approach Followed – Consolidated. *APL and its subsidiaries viz. Apollo Metalex Pvt Ltd (AMPL) and Shri Lakshmi Metal Udyog Ltd (SLMUL) 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 March 31, 2017. The capacity has increased to 1.75 MTPA as on December 31, 2017. 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)	FY16 (A)	FY17 (A)
Total operating income	4226.86	4545.74
PBILDT	295.12	331.01
PAT	100.56	145.89
Overall gearing (times)	1.45	1.14
Interest coverage (times)	4.25	4.84

A: Audited;

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.

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 AA-; Stable
Non-fund-based-Short Term	-	-	-	130.00	CARE A1+
Debentures-Non Convertible Debentures	Sept 2015	11%	Sept 2019	75.00	CARE AA-; Stable
Commercial Paper	-	-	-	0.00	Withdrawn

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 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+ (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 A+; Stable (25-Jan-17) 2)CARE A+ (06-Oct-16)	1)CARE A (25-Jun-15)
4.	Commercial Paper	ST	-	-	-	-	1)CARE A1+ (25-Jan-17)	-

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