APL Apollo Tubes Limited

October 04, 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 assigned to the bank facilities/debt instruments of APL Apollo Tubes Limited (APL) continue to derive strength from the experience of its promoters and management, as well as 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 company has reported strong operational performance in FY19 reflected by consistent growth in scale of operations albeit with moderate and fluctuating profitability margins, moderate financial risk profile marked by moderate gearing as well as debt coverage metrics and an adequate liquidity position. The ratings also takes cognizance of APL's acquisition of majority stake in Apollo Tricoat Tubes Limited (ATTL) and acquisition of a production unit in Hyderabad from Taurus Value Steel & Pipes Ltd during Q1FY20 (refers to the period April 1 to June 30). The ratings, however, continue to remain constrained by APL's exposure to steel price volatility and highly competitive nature of the pipes and tubes industry.

Going forward, the ability of the company to optimally run the operations of its newly acquired assets and maintain the envisaged revenue and profitability, as well as maintain a moderate capital structure shall remain key rating sensitivities. Further, any debt-funded capex other than the envisaged routine capex will also be a key rating sensitivity.

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 (the current Chairman), who has been managing the company since the past 20 years. He is supported by an experienced team of professional with extensive experience in ERW industry segment.

Long track record of operations and established market position

APL has been in operation for more than 25 years and commenced operations with manufacturing of MS black pipes using the ERW technique with a capacity of 6,000 MT in 1986. Over the years, APL has forayed into manufacturing of diversified products including Galvanized Iron pipes (GI), pre-galvanized pipes (GP), and hollow sections. Furthermore, the company has grown inorganically through acquisition of Apollo Metalex Private Limited (AMPL) in 2007, with a backward integration into manufacturing of galvanized coils and sheets. It further acquired Shri Lakshmi Metal Udyog Limited (SLMUL) in 2008 and LLPL in 2010. Furthermore, during Q1FY20, APL through key strategic acquisitions by the company (majority stake in Apollo Tricoat Tubes Ltd and production unit of Taurus Value Steel & Pipes Ltd located in Hyderabed, augmented its total installed capacity from 21 lakh tons per annum as on March 31, 2019 to 25.50 lakh tons per annum as on June 30, 2019.

Wide product range and strong brand

The company offers a comprehensive range of steel tubes in over 1,100 varieties in all ERW tubes segments like black, hollow sections, galvanized and pre-galvanized tubes, which find application in a wide variety of end user industry including infrastructure, water & sewage projects, structures, general engineering, and transportation system. 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.

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

Geographically diversified operations with an established marketing network

The company, on a consolidated level has 11 manufacturing facilities spread over north, east, west and south India along with along with 22 warehouses cum branches across India. Furthermore, it has an established marketing and distribution network of more than 790 distributors/dealers pan 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) and service regional markets very effectively.

Strong operational performance, albeit moderation in profitability

The company's scale of operations has grown sequentially with a CAGR of around 25% during the period FY15-FY19 on the back of steady demand and supported by continuous expansion and production ramp-up. The company witnessed growth in sales volumes from 11.85 lakh MT in FY18 to 13.39 lakh MT in FY19 which was supported by an improved sales realization by 19% from Rs. 44,582 per ton in FY18 to Rs.53,406 per ton in FY19. The sales realizations improved on the back of strong demand recovery and increase in contribution from Hollow section, DFT and GI pipes. However, the inventory loss of Rs.41.70 crore during Q3FY19, on account of sharp fall in prices of HR coil pulled down the profitability for the year leading to a decline in PBILDT per ton from Rs.3,156 per ton in FY18 to Rs.2,955 per ton in FY19. The interest costs rose by around 38% in FY19 owing to significant capacity expansion and strategic acquisition of Apollo Tricoat which led to an increase in debt and the interest expenses.

Moderate financial risk profile

The company has a moderate financial risk profile characterized by an overall gearing of 1.07x as on March 31, 2019 which improved from 1.15x as on March 31, 2018 and comfortable debt coverage indicators. Besides a significant capex was executed was during Q1FY20 was achieved on the back of stable profitability and accretion of profits to reserves. The coverage indicators continued to remain comfortable with interest coverage and total debt to PBILDT of 3.54x and 2.55x as on March 31, 2019 as against 4.68x and 2.49x respectively as on March 31, 2018. During Q1FY20, an entity belonging to the promoter category infused Rs.97 crore through preferential allotment of equity and convertible warrants which is further expected to strengthen the capital base. Although pipe manufacturing business is working capital intensive, the company's working capital management has been efficient as reflected by an operating cycle of 34 days in FY19 (PY 36 days). It has been able to efficiently manage its working capital on the back of better inventory management and efficient collections.

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. Besides, raw material, the company is exposed to loss of value on raw material inventories held by it in case of any sharp downward movement in the prices.

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.

<u>Adequate Liquidity</u>

The company has adequate liquidity supported by stable gross cash accruals of Rs. 226 crore against principal repayment Rs.248 crore (of which Rs.107 crore has already been repaid till September 20, 2019). The company's free and unencumbered cash balance stood at Rs.47.30 crore. The working capital utilization for the 12-month period ended March 2019 stood moderate at about 70%. Its healthy cash accruals, cash and bank balance and sufficient cushion in working capital limits provides a buffer against any adverse market scenarios.

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 below.

Company name	**Associate/Subsidiary**	**Holding**
Shri Lakshmi Metal Udyog Ltd	Subsidiary	100%
Apollo Metalex Private Ltd	Subsidiary	100%
Blue Ocean Projects Private Ltd	Subsidiary	100%

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Rating Methodology: Factoring Linkages in Rating
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
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 25.50 lakh MT on consolidated basis as on June 30, 2019 post acquisition of key strategic stake during Q1FY20. 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.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	5323	7153
PBILDT	374	396
PAT	158	148
Overall gearing (times)	1.15	1.07
Interest coverage (times)	4.68	3.54

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	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*	INE702C07016	September 28, 2015	11.50% p.a	September 28, 2019	75.00	CARE AA-; Stable

** The aforesaid NCD's have been redeemed on September 30, 2019, however a formal confirmation from the Debenture Trustee is awaited.*

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Working Capital Limits	LT	445.00	CARE AA-; Stable	1)CARE AA-; Stable (03-Apr-19)	1)CARE AA-; Stable (04-Apr-18)	-	1)CARE A+; Stable (25-Jan-17) 2)CARE A+ (06-Oct-16)
2.	Non-fund-based-Short Term	ST	130.00	CARE A1+	1)CARE A1+ (03-Apr-19)	1)CARE A1+ (04-Apr-18)	-	1)CARE A1+ (25-Jan-17) 2)CARE A1+ (06-Oct-16)
3.	Debentures-Non Convertible Debentures	LT	75.00	CARE AA-; Stable	1)CARE AA-; Stable (03-Apr-19)	1)CARE AA-; Stable (04-Apr-18)	-	1)CARE A+; Stable (25-Jan-17) 2)CARE A+ (06-Oct-16)
4.	Commercial Paper	ST	-	-	-	1)Withdrawn (04-Apr-18)	-	1)CARE A1+ (25-Jan-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

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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