APL Apollo Tubes Limited

December 30, 2020

Ratings

Facilities/Instruments	**Amount (Rs. crore)**	**Ratings**	**Rating Action**
Long Term Bank Facilities	426.00 (Reduced from 445.00)	CARE AA; Stable (Double A; Outlook: Stable)	Revised from CARE AA-; Stable (Double A Minus; Outlook: Stable)
Short Term Bank Facilities	149.00 (Enhanced from 130.00)	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**575.00 (Rs. Five Hundred Seventy-Five Crore Only)**		

**Details of instruments/facilities in Annexure-1*

Detailed Rationale & Key Rating Drivers

The revision in the long-term ratings assigned to the bank facilities of APL Apollo Tubes Limited (APL) factors in the improvement in the operating performance characterized by steady growth in the sales volume – including successful operationalisation of the recently acquired Apollo Tricoat facility – and healthy PBILDT per-tonne. APL has a strong pan-India distribution network and it has been increasing its market share in the structural tubes segment leading to cost efficiencies which coupled with an increasing contribution from value-added products has resulted in strong growth in profits and cash accruals. The revision in the rating also takes into consideration improvement in the financial risk profile marked by reduction in overall gearing and improved debt coverage metrics, subsequent to infusion of equity and repayment of debt, and strong liquidity position aided by healthy operational cash flow from operations during H1FY21 (refers to the period from April 1 to September 30) and relatively leaner working capital cycle of the company. The ratings continue to derive strength from the experience of its promoters and management in steel tubes industry, the company's long track record of operations and its diversified product profile with continuous addition of new high yielding value-added products in its repertoire. 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.

<u>Rating Sensitivities</u>

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Increase in scale of operations supported by improvement in capacity utilization above 85% on a sustained basis
- Improvement in gearing below 0.30x and improvement in PBILDT per tonne above Rs.4,500 per tonne on sustained basis.
- Substantial improvement in liquidity position

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Reduction in PBILDT per tonne below Rs. 2,500 on sustained basis.
- Any sizeable debt funded capex or acquisition resulting in deterioration in gearing beyond 0.5x
- Increase in total debt to PBILDT above unity.
- Significant deterioration in asset turnover ratio

Detailed description of the key rating drivers

Key Rating Strengths

Consistently improving operating performance: APL's consolidated gross sales have grown at a CAGR of 12.90% over the period of FY16-FY20 driven by continuous expansion in the capacity coupled with higher production. The company witnessed the highest ever sales volume registering a growth in sales volumes of pipes from 13.39 lakh MT in FY19 to 16.33 lakh MT in FY20 on the back of strong demand recovery and increase in contribution from hollow section, direct forming technology (DFT) and galvanized iron (GI) pipes. The operationalization of its newly acquired subsidiary – Apollo Tricoat Tubes Limited – in June, 2019 further contributed to increased sales volume and revenue. The PBILDT per tonne of the company was marginally improved at Rs. 2,968 in FY20 (PY: 2,955), despite substantial volatility in steel prices through the year and the impact of Covid-19 towards the end of the year.

Further, notwithstanding the persistence of the Covid-19 pandemic, the company has reported strong consolidated PBILDT per tonne of Rs. 3528 per tonne during H1FY21 (H1FY20: Rs. 2738 per tonne) and sales volume of 7.19 lakh MT on back of recovery of demand in Q2FY21 and the company's established ability to continue gaining market share from smaller players due to its cost efficiencies, a wide product portfolio and strong marketing network. The company reported healthy cash accruals of Rs. 177.31 crores during H1FY21 (H1FY20: Rs. 127.82 crore).

Improvement in financial risk profile: APL's overall gearing improved from 1.07x as on March 31, 2019 to 0.80x as on March 31, 2020 which further improved to 0.67x as on September 30, 2020 owing to equity infusion to the tune of Rs.172 crore during FY20, continued improvement in profitability and accretion of profits to reserves. The coverage indicators improved and stood comfortable with interest coverage and total debt to PBILDT of 4.53x and 2.18x as on March 31, 2020 as against 3.54x and 2.55x respectively as on March 31, 2019. Going forward, CARE expects the company's debt level to reduce further and remain low as it doesn't have any further acquisition or capex plans in the medium term and focus shall remain on consolidating the operations and debt reduction.

Shortening working capital cycle: Although pipe manufacturing business is working capital intensive, the company has an efficient working capital management as reflected by an improved operating cycle of 28 days in FY20 (PY 34 days) leading to moderate average working capital utilization of ~60% for the trailing 12 months ended September 2020. It has been able to improve its working capital consistently over the last four financial years on account of better inventory management and efficient collections partially supported through channel financing made available to its larger dealers.

Experienced promoters and management: APL was originally incorporated 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 for the past two decades. He has more than 23 years of professional experience in the steel tubes industry. He is supported by an experienced team of professional with extensive experience in electric resistance welded (ERW) industry segment. Under his leadership and support from strong management team, the company has evolved from a small steel tube manufacturer into a leader of branded steel tube products.

Long track record of operations and established market position: APL has been operational for 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 manufacturing of Galvanized Iron pipes (GI), pre-galvanized pipes (GP), hollow sections etc. As on September 30, 2020 it has India's largest capacity of 26.50 lakh MTPA at a consolidated level which has been gained through key strategic acquisitions by the company, making it the largest ERW pipe manufacturer in the country.

Diversified operations and product portfolio: The production facilities of the company are well diversified geographically as it has 10 manufacturing facilities spread over North, East, West and South India along with warehouses cum branches in over 29 cities across India. The company has a network of more than 800 direct distributors/dealers and over 50,000 retailers and fabricators. The company's channel financing initiative for the dealers has also assisted volume growth in FY20. APL has well diversified operations with product portfolio comprising of 4 primary products with different specification as per the customer need in each primary product category. Its product range includes MS tubes, galvanized, tricoat, plank, signature, chaukhat and pre-galvanized tubes and hollow sections in the ERW segment. The company's products find widespread application in industries like infrastructure, water & sewage projects, structures, general engineering, transportation system, housing, greenhouses, solar plants, etc. The geographic diversification of operations enables continuous production and mitigates the risk of interruption due to anomalies of operating in single geography besides saving in freight costs. Also, the well diversified product portfolio with widespread applications across different sectors protects its revenues from depending on single segment and ensures better revenue visibility.

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. However, the company being one of the largest buyers of HRC in India has demonstrated its ability to effectively manage these volatilities through passing on the increase in steel prices to its customers and maintaining an optimal inventory level.

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 and smaller players reducing yet the prevalent competition has a bearing on the margins due to fragmentation of the industry. However, APL with its bigger size, wider and innovative product range, diversified and widespread marketing network has a certain edge over small players and even the other large organized players in the industry.

Liquidity: Strong: APL Apollo has strong liquidity market by healthy cash accruals of 326.59 during FY20. During the year, the company concluded the infusion of Rs. 172 crore by an entity belonging to promoter category in APL Apollo through preferential allotment of equity and convertible warrants. The company further expects gross cash accruals of Rs. 415 crore in FY21 against repayment obligations aggregating to Rs.250 crore in FY21, a large part of which has already been repaid. The total free cash and bank balance of the company increased from Rs.44.39 crore as on March 31, 2020 to Rs. 504.92 crore as on September 30, 2020, as it generated healthy cash flow from operations of Rs. 652 crore in H1FY21 as compared to Rs. 510 crore in FY20. It doesn't have any major capex or acquisition plans in medium term and its maintenance/sustenance capex are expected to be funded through internal accruals. Its current ratio stood at 1.17x as on March 31, 2020 (PY: 1.01x). The company has not availed any moratorium under RBI's covid relief scheme.

Analytical approach: CARE has taken a consolidated view of APL due to common management, significant operational and financial linkages with its subsidiaries. List of company's subsidiaries getting consolidated under APL are shown below.

Name of companies/ Entities	% of holding
Apollo Metalex Private Limited	100.00
Shri Lakshmi Metal Udyog Limited	100.00
Blue Ocean Projects Private Limited	100.00
APL Apollo Tubes FZE	100.00
APL Apollo Building Products Private Limited	100.00
Apollo Tricoat Tubes Limited (acquired in Q1FY20)	50.56

Applicable Criteria
Criteria on assigning outlook and credit watch to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-financial sector entities
Short Term Instruments
Factoring Linkages Parent Sub JV Group
Rating Methodology- Consolidation
Rating Methodology- Manufacturing Companies

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. Currently, APL is engaged in manufacturing of steel pipes and tubes with a capacity of 26.50 lakh MTPA as on September 30, 2020 on a consolidated basis. The company's growth during FY20 through key acquisitions and merger including the acquisition of Taurus Value Steel & Pipes located in Hyderabad in May, 2020 with a production capacity of 2 lakh tonnes per annum which operationalized from Q2FY20, and acquisition of Apollo Tricoat Tubes Ltd (through a wholly-owned subsidiary) with existing and new production capacity of 2 lakh tonnes per annum. It has a PAN-India presence with 10 manufacturing units located in Sikandarabad (3 units), Bengaluru, Hyderabad, Hosur, Raipur and Murbad.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	7152.75	7730.46
PBILDT	395.69	484.75
PAT	148.25	255.99
Overall gearing (times)	1.07	0.80
Interest coverage (times)	3.54	4.53

A: Audited;

Status of non-cooperation with previous CRA: NA

Any other information: N.A

Rating History for last three years: Please refer Annexure-2

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

Complexity level of various instruments rated for this company: Annexure 4

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	-	-	-	426.00	CARE AA; Stable
Non-fund-based-Short Term	-	-	-	149.00	CARE A1+

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Working Capital Limits	LT	426.00	CARE AA; Stable	-	1)CARE AA-; Stable (04-Oct-19) 2)CARE AA-; Stable (03-Apr-19)	1)CARE AA-; Stable (04-Apr-18)	-
2.	Non-fund-based-Short Term	ST	149.00	CARE A1+	-	1)CARE A1+ (04-Oct-19) 2)CARE A1+ (03-Apr-19)	1)CARE A1+ (04-Apr-18)	-
3.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (10-Dec-19) 2)CARE AA-; Stable (04-Oct-19) 3)CARE AA-; Stable (03-Apr-19)	1)CARE AA-; Stable (04-Apr-18)	-
4.	Commercial Paper	ST	-	-	-	-	1)Withdrawn (04-Apr-18)	-

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

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Working Capital Limits	Simple
2.	Non-fund-based-Short Term	Simple

***Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Mr. Ajay Dhaka
Contact no. - +91-11-45333218
Email ID- ajay.dhaka@careratings.com

Business Development Contact
Ms. Swati Agrawal
Contact no. - +91-11-4533 3200
Email ID- swati.agrawal@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.

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