Apar Industries Limited

October 01, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	803.34 (enhanced from Rs.616.67 crore)	**CARE A; Stable (Single A; Outlook: Stable)**	Reaffirmed
Long/Short term Bank Facilities	5,500.00 (enhanced from Rs.4,125 crore)	**CARE A; Stable/CARE A1 (Single A; Outlook: Stable/A One)**	Reaffirmed
Total Facilities	**6303.34 (Rs. Six Thousand Three Hundred and Three crore and Thirty Four Lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to bank facilities of Apar Industries Limited (Apar; CIN No. L91110GJ1989PLC012802) continue to factor in the established and leadership position in Conductors and Transformer Oil segment, long-standing experience of promoters and their ability to expand the product portfolio and optimize the operations.

The rating also favorably factors in the healthy sales volume backed growth reported by Apar in FY19 & Q1FY20 coupled with consistent and healthy order book position providing medium term revenue visibility.

The aforementioned strengths are tempered by limited value addition, as large part of orders are acquired by tender bidding process translating into limited scope for profit margin expansion. Working capital intensive nature of business resulting in higher reliance on working capital borrowing (largely non fund based limits) leading to higher leverage indicators as on Mar. 31, 2019 for Apar. The rating also takes cognizance of inherent business risk on account of its exposure to the raw material price risk, foreign currency volatility and increasing competition in the industry.

CARE would closely monitor the debt coverage indicators. Decline of interest cover (PBILDT / Interest) below 2x would trigger the review.

Detailed description of the key rating drivers

Key Rating Strengths

One of the large player in conductor segment with consistent export sales

Apar is one of the established company, engaged in manufacturing of TSO and Transmission & distribution overhead Conductors with a total installed capacity of 3,72,733 KL and 1,94,560 MT respectively as on March 31, 2019. In the conductors division, Apar caters to prominent customers like Power Grid Corporation of India Limited (PGCIL; rated CARE AAA; Stable/A1+), various state government entities, Adani Group, and prominent turnkey operators with whom it has a long standing relationship. Apar also exports to major geographies with focus on Middle East, Latin America, and Africa among others and has presence in more than 100 countries, with exports accounting for 30.9% of total revenue in FY19.

Long standing experience of promoters in business

Apar was established in 1958 by Late Mr. Dharamsinh D Desai in the name of Power Cables Private Limited. Mr. Dharamsinh D Desai was the founder of Dharamsinh Desai University, Nadiad in Gujarat. Apar over the years has established itself as one of the leading producers of conductor and Transformer oil and Speciality oil segments. The promoter group has been in conductor business over six decades and the operations are currently being managed by third generation entrepreneur. Mr. Kushal N. Desai who is the Chairman & Managing Director & Mr. Chaitanya N. Desai who is the managing director (grandsons of Mr. Dharmsinh D. Desai), who are well qualified and have substantial industrial experience of 30 years and 25 years respectively in the TSO and Conductor business. Furthermore, Apar has a qualified management team comprising of industry personnel with over decades of experience.

Diversified revenue profile coupled with healthy order-book position

Apar operates with diversified revenue wherein, Conductors contribute 50%, Transformer, Specialty Oils (TSO) contributes 28%, and rest was contributed through Cables. Moreover, Apar also has sufficient geographic diversification with focus on South East Asia, Middle east, Africa and South America.The diversity in the revenue profile reduces dependence on the cash flows from any one segment.Furthermore, it has a healthy order-book position of Rs.2,343 crore (as on August 01, 2019) in the conductor segment.

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

Healthy growth in Total Operating Income with consistent RoCE

Apar's Total Operating Income (TOI) on a consolidated basis registered a YoY growth of ~36% in FY19, led by healthy volume growth particularly in conductors and cables segment. The PBILDT margin has witnessed the consistent weakness during last couple of years (FY17 to FY19). It is to be noted that company charges fixed conversion charges per unit for both its conductor as well as TSO segment, hence, the PBILDT margin looks to be suppressed / weak in an increasing commodity pricing scenario. The prices of commodity especially Alluminium, copper, oil and GP sheets (Galvanised plain steel) has been increasing in recent past. However, the Return on Capital Employed (RoCE) has remained consistent and has witnessed improvement in FY19. In line with declining trend in PBILDT margins coupled with higher interest cost owing to increased reliance on LC based purchase the PAT margin also has remained on declining trend since FY17.

Key Rating Weaknesses

Working capital intensive nature of operations, resulting in weak debt coverage indicators

Owing to the inherent issues in the sector to which the company operates, such as delays in order execution by EPC (Engineering Procurement and Construction) players, delays in getting clearances and funding arrangements, the operations of the company continue to remain highly working capital intensive in nature. The same is evident from higher share of net working capital (Excluding debt funded trade payables up on total capital employed including acceptances at 66% as on March 31, 2019. Also, the average of maximum utilisation of fund based and non fund based limits put to- gether during the last 12 months remained high and rose to 91.74% for the last 12 months ended July 2019.

Furthermore, Apar's debt profile on a consolidated basis primarily consists of LC backed acceptances as large portion of Apar's raw material is imported, which is largely done using supplier credit backed by LC. Led by increased working capital borrowings owing to increase in revenue, the overall gearing ratio deteriorated from 2.02x as on March 31, 2018 to 2.25x as on March 31, 2019. Consequent to higher reliance on working capital borrowing coupled with increase in LIBOR rate, the interest cost of Apar on consolidated basis rose by 41% on a YoY basis in FY19. As a result of the above, the PBILDT interest cover declined from 2.73x in FY18 to 2.24x in FY19; albeit; improvement witnessed in Q1FY20 to 2.48x(PY:2.10x)and the Total Debt (TD) to Gross Cash Accruals (GCA) also deteriorated from 10.92x in FY18 to 13.03x in FY19.

Susceptibility of margins to volatility in raw material prices and foreign exchange fluctuation

The raw material cost to total operating income stood at 83% in FY19 as against 79% in FY18 .The price of Alluminium and copper which are a major raw material for conductors, has shown a lot of volatility in the past few years. In the TSO segment, Apar uses base oil as its raw material. The base oil prices depend on crude oil prices to a certain extent, which are highly volatile. Although, the company charges fixed conversion charge per unit to its customers under TSO and conductor segment, however, due to the intense competition in the segment, Apar is not always able to pass on the entire raw material price rise to the customers, hence margin remain susceptible to volatility in raw material prices.

Apar is exposed to volatility in foreign exchange rates on account of its imports and borrowings in foreign currency. Majority of its raw materials are imported. Imports formed 60% of total raw material purchase in FY19 (i.e., Rs.3,622 crore) (as against 63% of total purchase in FY18), majority being aluminium and base oils. Against this exports constituted 30.9% of total sales in FY19 (i.e., Rs.2,443 crore)(as against 35.7% in FY18), making Apar a net importer. For fixed price orders on exports in the conductors segment, Apar takes LME hedge positions 90 days ahead. In TSO segment, Apar has an open position for 90 days and hedges on net exposure basis on the 91st day. The prices of long-term buy contracts take time to correct in case of fluctuations in crude prices as formula prices are always backward looking and the company uses forward exchange contracts to hedge its currency risk. Being a net importer, ability of the company to successfully manage its foreign exchange fluctuation risk remains critical from the credit perspective.

Capital Expenditure to enhance product diversification

Apar had incurred a total capital expenditure of Rs.200 crore in FY19. The project was funded by internal accruals however; the same has been refinanced with debt of Rs.100 crore in FY19. Further, Apar plans to invest about Rs.168 crore during FY20 and also incur a maintenance capital expenditure of approximately about Rs.50 crore in FY21 and FY22. Out of the total capex in FY20, actual outflow would be to an extent of Rs.125 crore as about Rs.30 to Rs.35 crore already forms part of CWIP (Capital Work In Prgoress) incurred in FY19. In line with earlier expansion initially the afore said capex in FY20 will be done from internal accruals and the same will be reimbursed by raising a term loan later. Accordingly, the company plans to raise about Rs.200 crore in FY21 and FY22.Given the relatively small size of project (i.e., Rs.125-130 crore ;excluding maintenance capex) accounting for 11% of total tangible net worth as on March 31, 2019, successful execution of similar projects by management in the past and also with company projected GCA of Rs.230 to Rs.300 crore per annum in coming years up to FY22 the project risk remain low.

Liquidity: Adequate

Apar's cash and cash equivalent (unencumbered) as on March 31, 2019 was about Rs.213 crore and liquid investment of Rs.186 crore as on March 31, 2019. Further, the liquidity is marked by strong accruals of Rs.230 crore to Rs. 300 crore in projected period up to FY22, with a total internal accruals committed for capex of about Rs. 125 crore in FY20 and Rs.60 crore each in FY21 & FY22. Further, the company has a total scheduled repayment of Rs.35 crore on its existing term loan in FY20 and an estimated repayment of Rs. 60 to Rs.81 crore (including the proposed loan of Rs.200 crore).

Analytical approach: Consolidated
CARE has considered consolidated financials for arriving at the rating owing to operations of its subsidiaries in similar line of business and business linkages that exists with its subsidiaries.
List of subsidiaries as on March 31, 2019 is as below:

Company	Relation	Apar's Holding (%)
Petroleum Specialties Pte. Ltd, Singapore (PSPL),	Subsidiary	100
Petroleum Specialties FZE, Hamriyah, Sharjah, UAE (PSF) – 100% subsidiary of PSPL	Step down subsidiary	100
Apar Transmission & Distribution Projects Private Limited (ATDPPL)	Subsidiary	100

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios - Non-Financial Sector
Rating Methodology: Factoring Linkages in Ratings

About the Company
Apar, founded by Mr. Dharmsinh D. Desai in 1958, is engaged in three broad business segments-transformer oils and specialty oils (TSO), conductors segment and power/telecom cables. Apart from being a market leader in India, the company has a global presence, exporting to over 100 countries. Apar has total installed capacity of 3,72,733 KL of transformer oils and 194,560 MT of conductors as on March 31, 2019. Its manufacturing facilities are located at Rabale (Maharashtra), Silvassa, Athola and Rakholi (Dadra and Nagar Haveli), Umbergaon and Khatalwad (Gujarat), Jharsugoda and Lapanga (Orissa), Hamariyah (Sharjah). Further, Apar has commissioned the Continuously transposed conductors facility, a value added product, with total installed capacity of 7000 MT for supply of copper conductors to transformer industry. Further, the trial production on the aforesaid facility is informed to have begun from May 2019.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)	Q1FY20 (UA)
Total operating income	5,840.34	7,972.14	1985.71
PBILDT	432.12	499.58	141.19
PAT	144.74	136.06	41.24
Overall gearing (times)	2.02	2.25	2.32
Interest coverage (times)	2.73	2.24	2.48

A: Audited, UA=Un-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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT/ ST-BG/LC	-	-	-	5500.00	CARE A; Stable / CARE A1
Fund-based - LT-Cash Credit	-	-	-	500.00	CARE A; Stable
Term Loan-Long Term	-	-	March 2026	303.34	CARE A; 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 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-Cash Credit	-	-	-	-	-	-	-
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	5500.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (08-Oct-18)	1)CARE A+; Stable / CARE A1+ (21-Dec-17)	1)CARE A1+ (24-Oct-16)
3.	Fund-based - LT-Cash Credit	LT	500.00	CARE A; Stable	-	1)CARE A; Stable (08-Oct-18)	1)CARE A+; Stable (21-Dec-17)	1)CARE A+ / CARE A1+ (24-Oct-16)
4.	Fund-based - LT-External Commercial Borrowings	LT	-	-	-	1)Withdrawn (08-Oct-18)	1)CARE A+; Stable (21-Dec-17)	1)CARE A+ (24-Oct-16)
5.	Term Loan-Long Term	LT	303.34	CARE A; Stable	-	1)CARE A; Stable (08-Oct-18)	1)CARE A+; Stable (21-Dec-17)	1)CARE A+ (24-Oct-16)

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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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.

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