Apar Industries Limited

October 08,2018

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings[1]**	**Remarks**
Long term Bank Facilities	616.67 (enhanced from 524.17)	**CARE A; Stable [Single A; Outlook: Stable]**	**Revised from CARE A+; Stable [Single A Plus; Outlook:Stable]**
Long term Bank Facilities (External Commercial Borrowings)	-	**-**	**Withdrawn**
Long/Short term Bank Facilities	4125.00 (enhanced from 3575.00)	**CARE A; Stable/CARE A1 [Single A; Outlook: Stable/A One]**	**Revised from CARE A+; Stable/CARE A1+ [Single A Plus; Outlook: Stable/ A One Plus]**
Total Facilities	**4741.67 (Rs. Four Thousand seven hundred forty one crore and sixty seven lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Apar Industries Ltd. (APAR) reflects the increase in the working capital intensity of operations, and pricing pressure being witnessed on account of stiff competition in the industry, including tariff based competitive bidding, and rising commodity prices. The rating revision also factors in the deterioration in APAR's capital structure and debt coverage indicators on account of increased reliance on working capital borrowings. Further, the ratings factor in the susceptibility of margins to volatility in raw material prices and foreign exchange rates.

The ratings, however, continue to derive strength from the experience of the promoters and management, APAR's diversified business profile, established position in the segments it operates in, and healthy order book position in the conductors segment.

The ability of the company to improve its business and financial risk profiles and liquidity position in light of the challenging operating environment shall remain the key rating sensitivity.

CARE has also withdrawn the rating assigned to APAR's external commercial borrowings (ECB) with immediate effect, as the company has repaid the ECB in full and there are no amount outstanding under the facility as on date.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management

Late Mr. Dharmsinh D. Desai, the founder of Apar Group was also the chairman of Asea Brown Boveri (ABB). In 1958, he established a company by the name of Power Cables Pvt. Ltd., which is now known as Apar Industries Ltd. Currently, APAR is managed by Mr. Kushal N. Desai and Mr. Chaitanya N. Desai (grandsons of Late Mr. Dharmsinh D. Desai) who are well qualified and have substantial industrial experience.

Well established market position across segments

APAR is amongst the top 3 producers of conductors and speciality oils in the world. In the transformer oil segment it has a product offering of 400 products with varied application in industrial oil sub segment. To cater the need of growing demand in Middle East and African markets, APAR commissioned its port based plant at Hamariyah, Sharjah in FY18. It has also entered into a brand and manufacturing alliance for its automotive lubricant segment with the global energy leader ENI S.P.A Italy. In the conductor segment, APAR enjoys long standing relationship with customers like PGCIL, Kalpataru Power Transmission Limited, KEC International Limited. In the cables segment, APAR is engaged in electrical and telecom cables as well as elastomer cables. This division supplies to various industry segments in India viz., power utilities, petrochemicals, steel, cement, nuclear power, defence, telecommunication, metros, and shipbuilding etc. Major clients include PGCIL, KEC, Larsen & Toubro and Kalpataru.

Diversified revenue profile

APAR's business segments comprise Conductors, Transformer and Speciality Oils (TSO), and Cables. APAR reported 20.82% growth in the total operating income in FY18 driven by revenue growth in all the segments. The conductor

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

segment contributed 44% to the gross sales of FY18. The conductor segment's revenues increased marginally by 6.23%. During FY18 the conductor segment's PBIT margin declined by 227 bps to 5% in FY18, due to rising inflationary pressures in commodity prices (primarily steel and aluminium) which could not be entirely passed on to customers due to the shift to tariff based competitive bidding, along with delay in execution of orders. In Q1FY19 also, the overall performance of the segment remained muted.

The TSO segment contributed 36% to the gross sales in FY18.The TSO segment reported a revenue growth of around 15% in FY18 primarily due to increase in the volumes sold during FY18 driven by addition of new OEM clients as well as increased distribution network. However, the segmental PBIT margin declined by 196 bps to 7.58% in FY18, on account of volatility in crude oil prices. The PBIT margin declined further to 5.51% in Q1FY19 due subdued demand.

The cables segment contributed 19% to the gross sales of FY18. The segment reported healthy revenue growth of 22% in FY18 and segmental PBIT margin also improved to 8.03% in FY18. This is a result of increase in demand from Discoms, Railways, Defense, Telecom and Solar sectors. However, revenue from elastomer cables declined due to subdued demand from wind sector. The growth trajectory in this segment continued in Q1FY19 with revenue of Rs.318.92 crore (18% increase vis-à-vis Q1FY18) and PBIT margin of 8.59%.

Healthy order book position in the conductors segment

Order book for the conductors segment stood at Rs.2,436 crore as on June 30, 2018. Out of the total order book 60% is expected to be executed in FY19. Timely execution of the order book will remain a key credit monitorable.

Key Rating Weaknesses

Increase in working capital intensity of operations

During FY18 and Q1FY19, APAR procured excess raw material in anticipation of execution of orders in conductor segment. However, the order execution was delayed by EPC players during FY18 and Q1FY19 due to delays in getting clearances and funding arrangements. Also, EPCs for fixed price orders are holding on the execution in anticipation of decline in LME prices. This led to significant increase in work in progress inventory and raw material inventory during FY18 and Q1FY19. The collection period too increased due to the above mentioned delays in order execution. In absolute terms, the receivables position increased from Rs.1254.32 crore as on March 31, 2017 to Rs.1727.88 crore as on March 31, 2018. The company funds the working capital requirements by using CC limits as well as LC acceptances (in the form of supplier credit). The average maximum utilisation of the fund based working capital limit was 32% in the 12 months ended July 2018 while the average maximum utilisation of the LC/BG limit during this same period was around 86%.

Deterioration in capital structure and debt coverage indicators

The overall gearing ratio deteriorated from 1.75x as on March 31, 2017 to 2.01x as on March 31, 2018 primarily on account of increase in the LC backed acceptances on the balance sheet date. This is a result of large portion of APAR's raw material being imported, the financing of which is largely done using supplier credit backed by LC. The LC acceptances increased significantly to Rs.1857.27 crore as on March 31, 2018 and are expected to increase further with the increase in the scale of operations.

This coupled with the increase in LIBOR rate and interest rate hikes by RBI led to an increase in the interest cost by 22% in FY18. As a result, interest coverage ratio declined from 3.38x in FY17 to 2.73x in FY18. Total debt to GCA also deteriorated from 7.96x in FY17 to 10.92x in FY18. With increase in the interest rates in Q1FY19, interest coverage and total debt to GCA ratios further deteriorated to 2.10x and 11.97x respectively in Q1FY19.

Susceptibility of margins to volatility in raw material prices

In FY18, the raw material cost to total operating income stood at 78% in FY18. The price of aluminium which is a major raw material for conductors, has shown a lot of volatility in the past few years. In FY18, bidding process changed to tariff based competitive bidding, which constrains APAR's ability to pass on the increase in the raw material prices to the customers in entirety. In order to hedge against the volatility in the metal price, APAR books the metal at the LME rates on the day the order is booked for fixed price orders. 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. 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.

Exposure to foreign exchange fluctuation

APAR is exposed to volatility in foreign exchange rates on account of its imports and borrowings in foreign currency. Imports formed 66% of total raw material cost in FY18 as against which exports constituted 36% of total sales in FY18. Being a net importer, ability of the company to successfully manage its foreign exchange fluctuation risk remains critical from the credit perspective.

Stiff competition in the industry
The power sector is rife with competition, especially with the bidding process changing to tariff based competitive bidding. Successful implementation of above mentioned schemes and polices in the light of the stiff competition is a key monitorable.

Analytical approach: CARE has considered the consolidated financials of APAR, as its wholly owned subsidiaries have substantial operational and financial linkages with it.

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 and specialty oils (TSO), conductors segment and power/telecom cables. APAR is the fourth-largest manufacturer of transformer oil in the world, with a 45% share in the Indian transformer oil market. It is amongst the world's top three conductor manufacturers and the largest aluminium conductor exporter from India. It is a leading player in cables (especially in the elastomeric cables segment) and the largest in cables in the renewable energy sector. Apart from being a market leader in India, the company has a strong global presence, exporting to over 100 countries.
APAR has total installed capacity of 3,72,773 KL of transformer oils, 180,000 MT of conductors, 1,85,667 km of power cables, and 1,80,000 km of optic fibre cables on March 31, 2018. 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 is developing a facility at Silvassa for production of CTC (Continuously transposed conductors), a value added product. This facility is expected to be operational by end of FY19 with initial capacity of 7,000 MT with capex amount of Rs.45 crore.

Brief Financials-Consolidated (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	4,833.69	5,840.34
PBILDT	441.34	432.12
PAT	176.56	144.74
Overall gearing (times)	1.75	2.01
Interest coverage (times)	3.38	2.73

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.*

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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
Term Loan-Long Term	-	-	March 8, 2024	116.67	CARE A; Stable
Fund-based - LT-Cash Credit	-	-	-	500.00	CARE A; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	4125.00	CARE A; Stable / CARE A1
Fund-based - LT-External Commercial Borrowings	-	-	-	-	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.	Non-fund-based - LT/ ST-BG/LC	LT/ST	4125.00	CARE A; Stable / CARE A1	-	1)CARE A+; Stable / CARE A1+ (21-Dec-17)	1)CARE A1+ (24-Oct-16)	1)CARE A1+ (28-Sep-15)
2.	Fund-based - LT-Cash Credit	LT	500.00	CARE A; Stable	-	1)CARE A+; Stable (21-Dec-17)	1)CARE A+ / CARE A1+ (24-Oct-16)	1)CARE A+ / CARE A1+ (28-Sep-15)
3.	Fund-based - LT-External Commercial Borrowings	LT	-	-	-	1)CARE A+; Stable (21-Dec-17)	1)CARE A+ (24-Oct-16)	1)CARE A+ (28-Sep-15)
4.	Term Loan-Long Term	LT	116.67	CARE A; Stable	-	1)CARE A+; Stable (21-Dec-17)	1)CARE A+ (24-Oct-16)	1)CARE A+ (28-Sep-15)

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