

Apar Industries Limited

December 18, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	776.50 (Reduced from 803.34)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	5,500.00	CARE A; Stable / CARE A1 (Single A ; Outlook: Stable / A One)	Reaffirmed
Total Facilities	6,276.50 (Rs. Six Thousand Two Hundred Seventy-Six Crore and Fifty Lakhs 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, diversified revenue streams, long-standing experience of promoters and their ability to expand the product portfolio and optimize the operations. The ratings also factor in the recovery witnessed by APAR in Q2FY21 especially in the Transformer and Specialty Oils (TSO) segment post muted performance in Q1FY21 due to COVID-19, and expected revival in operating performance in H2FY21 coupled with increased focus on exports.

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, and working capital intensive nature of business resulting in higher reliance on working capital borrowing (largely non fund based limits) leading to higher leverage indicators. Overall gearing stood at 1.82x at the end of March 31, 2020 (PY: 2.29x) on a consolidated basis and was lower as compared to the previous year due to lower level of Letter of Credit (LC) backed acceptances during the latter half of the year. The ratings also take 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.

Rating Sensitivities
Positive rating sensitivities
Improvement in the collection period to 75 days on a sustained basis
Improvement in overall gearing to 1.30x on a sustained basis
Negative rating sensitivities
Deterioration in overall gearing to 2.30x on a sustained basis
Deterioration in PBILD interest cover to below 2x on a sustained basis
Detailed description of the key rating drivers
Key Rating Strengths
One of the largest players in conductor segment

APAR is one of the largest companies, engaged in manufacturing of TSO and Transmission & Distribution overhead Conductors with a total installed capacity of 5,44,000 KL and 1,94,560 MT respectively as on March 31, 2020. In the conductor 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.

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

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 conductors and TSO segments. The promoter group has been in conductor business over six decades and the operations are currently being managed by third generation of the Desai family – namely Mr. Kushal N. Desai who is the Chairman & Managing Director and Mr. Chaitanya N. Desai who is the joint Managing Director (grandsons of Mr. Dharamsinh D. Desai). Both 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.

Well established market position across segments

APAR is amongst the top 4 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 to the need of growing demand in Middle East and African markets, APAR commissioned its port based plant at Hamriyah, 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 International Limited, Larsen & Toubro Limited and Kalpataru Power Transmission Limited.

Diversified revenue profile and improving order book position from Q3FY21

APAR's business segments comprise Conductors, TSO and Cables. The conductor segment contributed 48% to the gross sales of FY20. However, APAR has a greater proportion of revenue contribution coming from the conventional conductors which typically have lower operating margins. The order book position was lower in H1FY21 impacted by COVID-19 and due to delay in projects and postponement of tenders. However, it started improving from Q3FY21 onwards. In Q3FY21, APAR also received an order from Indian Railways to the tune of ~Rs.600 crore. The total order book for conductors stood at Rs.2180 crore as on October 31, 2020 and that for cables stood at Rs.375 crore as on October 31, 2020.

Key Rating Weaknesses**Weak financial performance in FY20 and H1FY21**

The financial performance in FY20 was impacted due to slowdown in the economic activity leading to lower order off-take in all the segments in the year which was further exacerbated by COVID-19 pandemic which struck in Q4FY20. During FY20, the PBILDT margin improved marginally on the back of higher contribution coming from high value products.

The operating performance in H1FY21 was also impacted due to weaker revenue in Q1FY21 mainly due to COVID-19 which impacted execution and delayed tenders. However recovery was witnessed in Q2FY21 especially in the TSO segment. In Q2FY21, on a consolidated basis, APAR reported 14.6% improvement in Total Operating Income on a QoQ basis, while on a YoY basis, it was -19%. However, in terms of profitability, it reported PAT growth of 57.8% on a YoY basis on a consolidated basis.

Working capital intensity of operations

Owing to the inherent issues in the sector in 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 high working capital utilization. The company funds the working capital requirements by using Cash Credit (CC) limits as well as Letter of Credit (LC acceptances in the form of supplier credit). The utilization levels were high till November 2019 and thereafter have been moderate at about 65% till September 2020 as commodity prices softened in second half of FY20 and H1FY21. Furthermore, the level of activity was also low in H1FY21.

Adequate debt coverage indicators

The need for higher working capital coupled with regular funding requirement for capex has resulted in the company's leverage and debt coverage indicators remaining at moderate levels for the extended period. The overall gearing ratio improved as at year end FY20 to 1.82x (from 2.29x as at year end FY19) on a consolidated basis due to significantly lower LC backed creditors as on March 31, 2020. Large portion of APAR's raw material is imported, the financing of which is largely done using supplier credit backed by LC. LC backed acceptances have a direct co-relation with the scale of operations. Higher interest cost in FY20 led to deterioration in the interest cover to 1.99x (PY: 2.20x) on a consolidated basis. Total debt/GCA improved as at year end FY20 due to substantially lower debt. In H1FY21 lower interest costs led to improvement in PBILDT interest coverage to 2.1x vis-à-vis 2.0x in FY20. As total debt levels (including acceptances) declined significantly to Rs.1,756.3 crore as at September 30,

2020 (Rs.2,114.8 crore as at 31 March 31, 2020), overall gearing also strengthened to 1.38x as on same date (March 31, 2020: 1.82x).

Susceptibility of margins to volatility in raw material prices

The raw material cost to total operating income stood at 79% in FY20 (PY: 83%). The price of aluminium and copper which are a major raw material for conductors, have shown a lot of volatility in the past few years. 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. Even otherwise, the company can pass on majority of raw material increase to the customers only with a time lag.

Exposure to foreign exchange fluctuation

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 54.5% of total raw material purchase in FY20 (as against that of 59.6% of total purchase in FY19). Against this exports constituted 33.8% of total sales in FY20 (as against that of 30.7% in FY19), making APAR a net importer.

APAR is affected by the price volatility of certain commodities viz. Aluminum, Copper and Oil. Being a net importer, ability of the company to successfully manage its foreign exchange fluctuation risk remains critical from the credit perspective. The company is exposed to currency risk on account of its borrowings and other payables in foreign currency. The company uses forward exchange contracts to hedge its currency risk, most with a maturity of less than one year from the reporting date.

Liquidity: Adequate

The liquidity for APAR is adequate as evinced from Gross Cash Accruals of over Rs.200 crore expected to be earned in FY21. Further, APAR had cash and cash equivalents (unencumbered) of Rs.130.18 crore as on September 30, 2020. As against the same, the company has debt repayment obligations to the tune of Rs.41.04 crore (including lease liabilities) on a consolidated basis for FY21.

As on September 30, 2020, the outstanding LC backed creditors were Rs.1243 crore; however the collection from debtors in H1FY21 has been on an improving trend which provides comfort. APAR had availed moratorium under Phase 1 as per RBI circular dated March 27, 2020. The moratorium dues were cleared off by August 2020.

Analytical approach: Consolidated

CARE has considered the consolidated financials of APAR, as its wholly owned subsidiaries have substantial operational and financial linkages with it. The list of subsidiaries is presented in Annexure 5.

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology - Manufacturing Companies](#)

[Rating Methodology: Consolidation](#)

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 5,44,000 KL of transformer oils and 194,560 MT of conductors as on March 31, 2020. Its manufacturing facilities are located at Rabale (Maharashtra), Silvassa, Athola and Rakholi (Dadra and Nagar Haveli), Umbergaon and Khatalwad (Gujarat), Jharsugoda and Lapanga (Orissa), Hamriyah (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.

Brief Financials-Consolidated (Rs. crore)	FY19 (A)	FY20 (A)	H1FY21 (UA)
Total operating income	7,964.03	7,461.74	2,777.82
PBILDT	491.47	505.07	161.03
PAT	136.06	135.15	30.43

Overall gearing (times)	2.29	1.82	1.38
Interest coverage (times)	2.20	1.99	2.10

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

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	ISIN	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 8, 2024	76.50	CARE A; Stable
Term Loan-Long Term	-	-	-	March 5, 2026	200.00	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 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.	Non-fund-based - LT/ ST-BG/LC	LT/ST	5500.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (01-Oct-19)	1)CARE A; Stable / CARE A1 (08-Oct-18)	1)CARE A+; Stable / CARE A1+ (21-Dec-17)
2.	Fund-based - LT-Cash Credit	LT	500.00	CARE A; Stable	-	1)CARE A; Stable (01-Oct-19)	1)CARE A; Stable (08-Oct-18)	1)CARE A+; Stable (21-Dec-17)
3.	Fund-based - LT-External Commercial Borrowings	LT	-	-	-	-	1)Withdrawn (08-Oct-18)	1)CARE A+; Stable (21-Dec-17)
4.	Term Loan-Long Term	LT	276.50	CARE A; Stable	-	1)CARE A; Stable (01-Oct-19)	1)CARE A; Stable (08-Oct-18)	1)CARE A+; Stable (21-Dec-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not available

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - LT/ ST-BG/LC	Simple
3.	Term Loan-Long Term	Simple

Annexure 5: List of subsidiaries which are consolidated

Name of the subsidiary	% holding in subsidiary
Petroleum Specialties Pte. Limited (PSPL)	100%
Petroleum Specialty Products FZE	100% subsidiary of PSPL
Apar Transmission and Distribution Projects Pvt. Ltd	100%
Apar Distribution & Logistics Private Limited	100%
Ampoil Apar Lubricants Private Limited (Associate from 19 th September 2020)	APAR holds 40% of equity share capital of the JV

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.

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