

Apar Industries Limited

December 21, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long term Bank Facilities	538.90	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Long/Short term Bank Facilities	3575.00	CARE A+; Stable/CARE A1+ (Single A Plus; Outlook: Stable/A One Plus)	Reaffirmed
Total Facilities	4113.90 (Rs. Four Thousand One hundred and Thirteen crore and Ninety Lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Apar Industries Ltd. (Apar) continue to derive strength due to its strong business profile-being one of the largest players in Transformer & Specialty Oil and Conductor segments along with established position in the Cable segment and vast experience of the promoters in the Transmission sector. The rating also takes into account its diversified revenue profile, long term relationship with customers, strong order book position (in the conductors segment) and improving albeit moderate financial risk profile.

However, the aforementioned strengths are partially tempered by elongated working capital cycle resulting into reliance on short term funds leading to moderate current ratio and inherent business risk on account of its exposure to the raw material price risk, foreign currency volatility and increasing competition in the industry.

The ability of the company to maintain steady state operating margin and the overall financial risk profile in view of the high volatility in raw material prices remains a key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management: Late Mr. Dharmsinh D. Desai, the founder of Apar Group, started his industrial activity in 1942 as a sole proprietor of the Hindustan Electric Co. Ltd., which today is well known as Asea Brown Boveri (ABB). He was the founder Chairman of 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 Desai (grandsons of Mr. D. D. Desai) who are both well qualified and have substantial industrial experience.

Strong business profile being one of largest players especially in Transformer Oil and Conductor segment: Apar is one of the established companies engaged in manufacturing of Transformer & other Specialty Oils, Transmission & distribution overhead Conductors and Cables. In the Transformer Oil business, Apar has a market share of about 45% in India with a total capacity of 542,000 KL p.a. and a 22% market share in its conductors segment with a total capacity of 165,000 MT. It is the largest supplier of cables to the renewable energy sector and leading telecommunication cables player under its Uniflex Cables unit in India with a capacity of 150,000 KM of power cables p.a. as well as 144,000 KM of optic fibre cables. In the conductors division, APAR caters to prominent customers like Power Grid Corporation of India Limited (PGCIL), various state government entities, Adani Group, and prominent turnkey operators with whom it has a long standing relationship. Apar also exports in the regions of Middle East, Latin America, and Africa among others and has presence in more than 100 countries.

Diversified revenue profile and strong order-book position in conductor segment: APAR business segments comprise of 1) Transformer and Speciality Oils (TSO), 2) Conductors and 3) Cables. Its revenue profile is diversified with Conductor

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

segment contributing around 47% to revenue in FY17 (vis-à-vis 50% in FY16), TSO segment contributing 35% in FY17 and FY16, and Cables segment contributing around 18% in FY17 (vis-à-vis 14% in FY16). Furthermore, it has a strong order-book position of Rs.1406 crore as on September 30, 2017 in the conductor segment. The diversity in the revenue profile reduces dependence on the cash flows from any one segment. Geographic diversification reduces reliance on a particular geography helping the company maintain reasonable growth. However, the same also exposes it to the vagaries of the international market.

Improved but moderate financial risk profile: Over the past three years, APAR has consistently improved its profitability and retained majority of the profits leading to improvement in capital structure and debt coverage indicators as exhibited by overall gearing (incl. acceptances) of 1.75x as on March 31, 2017 (vis-à-vis 1.89x as in March 31, 2016), total debt to GCA of 7.96x as on March 31, 2017 (vis-à-vis 9.66x as on March 31, 2016), and interest coverage of 3.38x during FY17 (vis-à-vis 2.22x during FY15). The company's total debt primarily comprises of working capital borrowings and LC backed creditors forming ~90% of total debt as on March 31, 2017.

Key Rating Weaknesses

Elongated working capital cycle: APAR's WC cycle continues to remain stretched due to funding gap created by 60-90 day credit offered to customers and about 60 days of inventory holding. During FY17, its gross current asset days increased to 161 days as against 151 days in FY16 on account of increase in inventory period due to larger procurement of base oil during Q4FY17 anticipating a price increase. The aforementioned funding gap requires the company to rely significantly on LC accepted supplier credit leading to a weak current ratio. However, some comfort can be derived from the fact that APAR has an unencumbered cash and bank balance of Rs.110 crore and investments in money market instruments of Rs.118 crore as on March 31, 2017.

Susceptibility to volatility in raw material prices and foreign currency fluctuation: APAR's primary raw materials comprise of Aluminium and Base Oils. Aluminium, which is a major raw material for conductors, has shown a lot of volatility in the past few years. However, in the conductor segment, the company can pass on the increase in prices of raw material to certain extent to the end customer (by cost pass through contract). The base oil prices to a large extent depend on crude oil prices, which are highly volatile. Also, addition in global refining capacities has resulted in a mismatch in demand and supply, which has an effect on base oil prices. However the company limits its size of parcel in order to limit the downside in case of a price fall. Furthermore, APAR is exposed to volatility in foreign exchange rates on account of its imports and borrowings in foreign currency, as majority of its raw materials are imported, and export is a relatively smaller portion to facilitate a natural hedge. APAR uses forward exchange contracts to hedge its currency risk. Being a net importer, the ability of the company to successfully manage its foreign exchange fluctuation risk remains key monitorable from credit perspective.

Analytical approach: Consolidated

For assessing the credit risk profile, CARE has considered the consolidated financials of Apar Industries Limited due to operational and financial linkages between parent and subsidiaries, common management and fungible cash-flows.

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 Industries Limited (APAR), founded by Mr. Dharmsinh D. Desai in 1958, is engaged in three broad business segments-Transformer and Speciality Oils (TSO), Conductors segment, and Power/Telecom cables. APAR is the fourth-

largest manufacturer of transformer oil in the world, holding a 45% stake in the Indian transformer oil market. It is among the world's top three largest conductor manufacturers and 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.

Manufacturing facilities are located at Rabale (Maharashtra), Silvassa (Union Territory of Dadra and Nagar Haveli), Athola, Umbergaon, Khatalwada (Gujarat), Jharsuguda (Odisha) and Sharjah (UAE).

It is listed on BSE and has a market capitalisation of Rs.3110.54 crore as on December 12, 2017.

During FY17, the company successfully rolled out its Automotive Lubricants segment and entered into a licensing agreement with ENI, Italy for its ENI brand. It commissioned its conductor plant of 30,000 MT in Jharsuguda, Odisha in September 2016 and commissioned its port based Sharjah plant in January 2017.

Brief Financials (Rs. crore) - Consolidated	FY16 (A)	FY17 (A)
Total operating income	4834	5096
PBILDT	389	441
PAT	122	177
Overall gearing (times)	1.89	1.75
Interest coverage (times)	2.22	3.38

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

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.

Analyst Contact:

Name: Mr. Murtuza Patrawala

Tel: 022-67543456

Email: murtuza.patrawala@careratings.com

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

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	-	3575.00	CARE A+; Stable / CARE A1+
Fund-based - LT-Cash Credit	-	-	-	400.00	CARE A+; Stable
Fund-based - LT-External Commercial Borrowings	-	-	May 2018	112.23	CARE A+; Stable
Term Loan-Long Term	-	-	September 2019	26.67	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	-	-	-	-	-	-	-
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	3575.00	CARE A+; Stable / CARE A1+	-	1)CARE A+ / CARE A1+ (24-Oct-16)	1)CARE A+ / CARE A1+ (28-Sep-15)	1)CARE A+ / CARE A1+ (30-Dec-14) 2)CARE A+ / CARE A1+ (14-Nov-14)
3.	Fund-based - LT-Cash Credit	LT	400.00	CARE A+; Stable	-	1)CARE A1+ (24-Oct-16)	1)CARE A1+ (28-Sep-15)	1)CARE A1+ (30-Dec-14) 2)CARE A1+ (14-Nov-14)
4.	Non-fund-based - LT-Bank Guarantees	-	-	-	-	-	-	1)CARE A+ (14-Nov-14)
5.	Fund-based - LT-External Commercial Borrowings	LT	112.23	CARE A+; Stable	-	1)CARE A+ (24-Oct-16)	1)CARE A+ (28-Sep-15)	1)CARE A+ (30-Dec-14) 2)CARE A+ (14-Nov-14)
6.	Term Loan-Long Term	LT	26.67	CARE A+; Stable	-	1)CARE A+ (24-Oct-16)	1)CARE A+ (28-Sep-15)	1)CARE A+ (30-Dec-14)

CONTACT**Head Office Mumbai**

Ms. Meenal Sikchi
 Cell: + 91 98190 09839
 E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
 Cell: + 91 98196 98985
 E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
 Cell: + 91 99675 70636
 E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
 Cell: + 91 98209 98779
 E-mail: saikat.roy@careratings.com

CARE Ratings Limited**(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
 Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD

Mr. Deepak Prajapati
 32, Titanium, Prahaladnagar Corporate Road,
 Satellite, Ahmedabad - 380 015
 Cell: +91-9099028864
 Tel: +91-79-4026 5656
 E-mail: deepak.prajapati@careratings.com

JAIPUR

Mr. Nikhil Soni
 304, Pashupati Akshat Heights, Plot No. D-91,
 Madho Singh Road, Near Collectorate Circle,
 Bani Park, Jaipur - 302 016.
 Cell: +91 – 95490 33222
 Tel: +91-141-402 0213 / 14
 E-mail: nikhil.soni@careratings.com

BENGALURU

Mr. V Pradeep Kumar
 Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
 No. 30, M.G. Road, Bangalore - 560 001.
 Cell: +91 98407 54521
 Tel: +91-80-4115 0445, 4165 4529
 Email: pradeep.kumar@careratings.com

KOLKATA

Ms. Priti Agarwal
 3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
 10A, Shakespeare Sarani, Kolkata - 700 071.
 Cell: +91-98319 67110
 Tel: +91-33- 4018 1600
 E-mail: priti.agarwal@careratings.com

CHANDIGARH

Mr. Anand Jha
 SCF No. 54-55,
 First Floor, Phase 11,
 Sector 65, Mohali - 160062
 Chandigarh
 Cell: +91 85111-53511/99251-42264
 Tel: +91- 0172-490-4000/01
 Email: anand.jha@careratings.com

NEW DELHI

Ms. Swati Agrawal
 13th Floor, E-1 Block, Videocon Tower,
 Jhandewalan Extension, New Delhi - 110 055.
 Cell: +91-98117 45677
 Tel: +91-11-4533 3200
 E-mail: swati.agrawal@careratings.com

CHENNAI

Mr. V Pradeep Kumar
 Unit No. O-509/C, Spencer Plaza, 5th Floor,
 No. 769, Anna Salai, Chennai - 600 002.
 Cell: +91 98407 54521
 Tel: +91-44-2849 7812 / 0811
 Email: pradeep.kumar@careratings.com

PUNE

Mr. Pratim Banerjee
 9th Floor, Pride Kumar Senate,
 Plot No. 970, Bhamburda, Senapati Bapat Road,
 Shivaji Nagar, Pune - 411 015.
 Cell: +91-98361 07331
 Tel: +91-20- 4000 9000
 E-mail: pratim.banerjee@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
 T-3, 3rd Floor, Manchester Square
 Puliakulam Road, Coimbatore - 641 037.
 Tel: +91-422-4332399 / 4502399
 Email: pradeep.kumar@careratings.com

CIN - L67190MH1993PLC071691

HYDERABAD

Mr. Ramesh Bob
 401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
 Hyderabad - 500 029.
 Cell : + 91 90520 00521
 Tel: +91-40-4010 2030
 E-mail: ramesh.bob@careratings.com