December 31, 2020

APL Apollo Tubes Limited: Ratings reaffirmed and outlook revised to Positive from Stable; rated amount enhanced and rating on NCDs withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture Programme	195.0	0.0	[ICRA]AA- (Stable); Withdrawn
Non-Convertible Debenture Programme	125.0	0.0	[ICRA]AA- (Stable); Withdrawn
Commercial Paper	300.0	300.0	[ICRA]A1+; reaffirmed
Fund - based-Term Loan	288.0	207.0	[ICRA]AA-; reaffirmed and outlook revised to Positive from Stable
Fund- based - Working Capital Facilities	1050.0	1200.0	[ICRA]AA-/ [ICRA]A1+; reaffirmed and outlook revised to Positive from Stable
Non-fund Based - Working Capital Facilities	350.0	494.0	[ICRA]A1+; reaffirmed
Total	**2308.0**	**2201.0**	

**Instrument details are provided in Annexure-1*

Rationale

APL Apollo Tubes Limited (AATL) and its wholly-owned subsidiaries, namely Shri Lakshmi Metal Udyog Limited[1] (SLMUL) and Apollo Metalex Private Limited[2] (AMPL), are in similar lines of businesses and have significant operational and financial linkages. Further, SLMUL holds a 55.8% stake in Apollo Tricoat Tubes Limited[3] (ATTL) as on September 30, 2020. Thus, ICRA has taken a consolidated view for the credit risk assessment of the abovementioned entities, which are collectively referred to as the Group/APL.

ICRA has withdrawn the long-term rating for the non-convertible debentures (NCDs) of APL Apollo Tubes Limited (AATL) as the instruments have been repaid in full and there is no amount outstanding against the rated instruments. The rating was withdrawn at the request of the company and as per ICRA's policy on the withdrawal and suspension of credit ratings.

The revision in the outlook to Positive factors in the expectation that the Group will be able to sustain the improvement in its working capital cycle along with consistent revenue growth and steady profitability. In H1 FY2021, APL was able to reduce its working capital cycle by reducing its receivable days to around days, which resulted in significant release of working capital. This further translated into a strong liquidity position as reflected by its free cash position of around Rs. 500 crore as on September 30, 2020. Moreover, the Group prepaid a

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1 Rated at [ICRA]AA-(Positive)/A1+

2 Rated at [ICRA]AA-(Positive)/A1+

3 Rated at [ICRA]A+(Positive)/A1

sizeable portion of its debt, leading to a net debt position of around Rs. 300 crore as on September 30, 2020. This is likely to strengthen the credit metrics further, going forward.

The reaffirmation of the ratings continues to factor in the Group's leadership position in the electric resistance welded (ERW) pipes segment and its geographically-diversified manufacturing base across India. The Group continues to make efforts to improve its product mix in favour of higher margin products like hollow sections, triple-coated tubes, pre-galvanised (GP) and galvanised iron (GI) pipes, which along with optimisation of fixed-cost structure, are expected to aid in improvement in OPBITDA/tonne over the long run. Further, APL reported healthy growth in its sales volumes at a compounded annual growth rate (CAGR) of 16.3% over FY2016–FY2020 on the back of consistent capacity expansions (consolidated installed capacity stood at 26.5 million tonnes per annum (MTPA) as on September 30, 2020). Also, APL endeavours to create new markets for its products to drive its future growth.

Moreover, the Group has been able to reduce its gross working capital cycle, both in terms of receivable days as well as inventory days, on the back of efficient working capital management. However, the sustainability of the same remains a key monitorable. Notwithstanding the consistent revenue growth exhibited by the Group, its working capital requirements continue to be modest and it continues to have financial flexibility with some cushion available in working capital limits vis-à-vis drawing power.

The rating, however, is impacted by the intense competition in the pipes and tubes industry with presence of both organised and unorganised players. Also, limited value addition resulting in moderate pricing power as well as profitability despite the Group's focus on improving the product mix to higher value products, impacts the rating. The ratings also consider the susceptibility of margins to the movement in steel HRC prices. The company has undertaken sizeable expansion of capacities and utilisation of the same would be critical for achieving adequate return indicators.

Key rating drivers and their description

Credit strengths

Market leadership in ERW pipes segment with consistent enhancement in capacities and extensive distribution network – APL has a well-established position in the ERW segment and controls a significant market share in the same. Moreover, the Group has consistently expanded its manufacturing capacities to keep pace with the market growth, with a total capacity of 2.65 MTPA as on September 30, 2020. Being one of the largest players in India, APL has a pan-India presence with a large network of around 800 dealer distributors and over 50,000 retailers spread across the country.

Diversified geographical manufacturing presence and product profile – The Group manufactures over 1,500 varieties of products primarily categorised as Apollo Standard, Apollo Structural, Apollo Z, Apollo Galv and Apollo Tricoat. Further, APL is making consistent efforts to increase the share of value-added products such as Apollo Tricoat, Apollo Z and Apollo Galv to their product mix which garner better margins. APL is thus well poised to serve new market segments in the long term. Further, as the capacities are geographically diversified with the South being at 42% followed by the North at 30%, the West at 15% and the East at 13%, the Group remains relatively insulated from regional demand–supply dynamics.

Considerable improvement in working capital cycle – The Group has shown considerable improvement in gross working capital cycle, both in terms of receivable days and inventory days, especially in the current fiscal. APL has been able to improve their receivable days to around seven in H1 FY2021 against 23 days in FY2020, primarily by offering cash discount on advance or immediate payments along with slight improvement in inventory days on the back of better planning and management. However, sustainability of the same remains to be seen.

Improvement in credit metrics in H1 FY2021 – The coverage metrics of the Group have improved with interest coverage ratio of 6.5x in H1 FY2021 against 4.5x in FY2020 and total debt/OPBIDTA of 1.7x in H1 FY2021 against 1.8x in FY2020 owing to healthy profitability. Further, capital structure of APL has improved with total debt/TNW of 0.5x as on September 30, 2020 against 0.6x as on March 31, 2020.

Credit challenges

Vulnerability of operating profitability to raw material price movement – The Group, being a steel convertor, is exposed to volatility in steel prices on account of a lag in price adjustments following fluctuations in price of hot rolled coils in addition to maintenance of inventory to cater to market demand in a timely manner. Hence, prudent working capital management is crucial to safeguard against any significant price movements; thus, the Group is making constant efforts to improve its inventory turnover.

Intense competition from large as well as unorganised players – The ERW pipes market is inherently competitive with the presence of multiple large established players like Surya Roshni, Jindal Pipes, Welspun Corp., etc. Furthermore, as ERW pipes are standardised products and do not warrant a capital-intensive manufacturing process, barriers to entry for new players are low and resultantly, competition from unorganised players is also high.

Liquidity position: Strong

The Group's liquidity is **strong** with cash and bank balance of over Rs. 330 crore as on November 30, 2020 along with expected positive cash flows from operations aided by a shortened working capital cycle. APL's working capital utilisation levels have remained moderate compared to drawing power, lending some flexibility (average cushion available is around Rs. 190 crore). However, the Group has capex plans of Rs. 120–150 crore per annum over medium term to expand further, primarily planned to be funded from internal accruals.

Rating sensitivities

Positive triggers – ICRA could upgrade the company's rating if the company demonstrates consistent growth in operating income along with expansion in operating margins leading to improvement in RoCE over 20% on a sustained basis.

Negative triggers – Outlook can be revised to stable in case of deterioration in profitability and cash accruals, or any sizeable debt-funded capex which result in increase in total debt/OPBDITA to more than 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Ferrous Metals Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	Consolidated

About the company

AATL is a listed public limited company which manufactures steel pipes and tubes. The Group's product range includes GI pipes, GP pipes and black pipes in both round and hollow pipes (rectangular and square cross section) within the ERW pipe segment. AATL has steadily enhanced its capacities and widened its presence across geographies by way of acquisition—Lloyd Line Pipes Limited (LLPL; acquired in FY2011) in Murbad (Maharashtra), SLMUL (acquired in FY2008) in Bangalore (Karnataka) and AMPL (acquired in FY2007) in Sikandarabad (Uttar Pradesh). In addition, the company has established new units in Hosur (Tamil Nadu) in 2011 and in Raipur (Chhattisgarh) in 2018. In FY2020, APL purchased 200,000 MTPA capacity located in Hyderabad, from Shankara Building Products Limited. Further, APL has also set up capacity of 350,000 MTPA for triple coated tubes in ATTL, subsidiary of SLMUL. Including these, AATL's aggregate capacity stands at 2,650,000 MTPA on a consolidated basis as on September 30, 2020.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	7152.3	7723.2
PAT (Rs. crore)	148.3	256.0
OPBDIT/OI (%)	5.5%	6.2%
PAT/OI (%)	2.1%	3.3%
Total Outside Liabilities/Tangible Net Worth (times)	1.88	1.25
Total Debt/OPBDIT (times)	2.18	1.75
Interest Coverage (times)	3.47	4.45

Source: Company and Group financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years									
		Type	Amount Rated	Amount Outstanding*	Rating	FY2020		FY2019			FY2018				
					Dec 31, 2020	Nov 19, 2019	May 27, 2019	Feb 26, 2019	Nov 01, 2018	May 16, 2018	Jan 05, 2018	Nov 07, 2017	Sep 19, 2017	Sep 05, 2017	Aug 04, 2017
1	NCD	Long Term	195.0	0.0	[ICRA]AA- (Stable); Withdrawn	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)		-	-	-	-
2	NCD	Long Term	125.0	0.0	[ICRA]AA- (Stable); Withdrawn	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Commercial Paper	Short Term	300.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+ (SO)	[ICRA]A1+ (SO)	[ICRA]A1+ (SO)
4	Fund - based- Term Loan	Long Term	207.0	205.2	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
5	Fund- based - Working Capital Facilities	Long/ Short Term	1200.0	-	[ICRA]AA- (Positive)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+
6	Non-fund Based - Working Capital Facilities	Short Term	494.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
7	Unallocated limits	Long/ Short Term	-	-	-	-	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	-	-	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+

Amount in Rs. crore
*as on November 30, 2020

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE702C07040 INE702C07057	NCD	July 2018	8.65% 8.68%	NA	195.0	[ICRA]AA- (Stable); Withdrawn
INE702C07024	NCD	Mar 2017	8.20%	NA	50.0	[ICRA]AA- (Stable); Withdrawn
NA	NCD	NA	NA	NA	75.0	[ICRA]AA- (Stable); Withdrawn
NA	Commercial Paper	NA	NA	7-365 days	300.0	[ICRA]A1+
NA	Fund - based- Term Loan	FY2017-FY2020	7.25%-7.55%	FY2024-FY2025	207.0	[ICRA]AA- (Positive)
NA	Fund- based - Working Capital Facilities	NA	NA	NA	1200.0	[ICRA]AA- (Positive)/ [ICRA]A1+
NA	Non-fund Based - Working Capital Facilities	NA	NA	NA	494.0	[ICRA]A1+

Source: AATL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
A APL Apollo Tubes Limited	100.00%	Full Consolidation
B Shri Lakshmi Metal Udyog Limited (SLMUL)	100.00%	Full Consolidation
C Apollo Metalex Private Limited	100.00%	Full Consolidation
D Apollo Tricoat Tubes Limited*	50.86%	Full Consolidation
E Blue Ocean Projects Private Limited	100.00%	Full Consolidation
F APL Apollo Building Products Private Limited	100.00%	Full Consolidation
G. APL Apollo Tubes FZE.	100.00%	Full Consolidation

** Subsidiary of SLMUL, Shareholding as on March 31, 2020*

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