

March 8, 2021^{Revised}

APL Apollo Tubes Limited: Update on Material Event

Summary of ratings outstanding

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Outstanding
Commercial Paper	300.0	300.0	[ICRA]A1+
Fund - based-Term Loan	207.0	207.0	[ICRA]AA- (Positive)
Fund- based - Working Capital Facilities	1200.0	1200.0	[ICRA]AA- (Positive)/ [ICRA]A1+
Non-fund Based - Working Capital Facilities	494.0	494.0	[ICRA]A1+
Total	2201.0	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 Limited¹ (SLMUL) and Apollo Metalex Private Limited² (AMPL), are in similar lines of businesses and have significant operational and financial linkages. Thus, ICRA has taken a consolidated view for the credit risk assessment of the AATL, SLMUL and AMPL. Further, SLMUL holds a 55.8% stake in Apollo Tricoat Tubes Limited³ (ATTL) as on December 31, 2020. AATL, SLMUL, AMPL and ATTL are collectively referred to as the Group/APL.

On February 27, 2021, AATL announced the merger of SLMUL and ATTL, subject to the approval from shareholders, creditors, NCLT and other statutory authorities, as may be required, with April 1, 2021 as the appointed date for the merger (swap ratio of 1:1 for ATTL's existing shareholders). Expected to be completed by Q3 FY2022, the transaction would result in some dilution in promoter shareholding in AATL. The proposed scheme of arrangement would simplify the Group structure and enable realisation of cost efficiencies.

The ratings remain unchanged at the earlier rating of [ICRA]AA-(Positive)/[ICRA]A1+ as the said merger is not expected to materially impact the Group's financial profile at the consolidated level.

The ratings 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.

The Positive outlook 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 seven days, which resulted in significant release of working capital. Moreover,

¹ Rated at [ICRA]AA-(Positive)/A1+

² Rated at [ICRA]AA-(Positive)/A1+

³ Rated at [ICRA]A+%/A1%; %=under rating watch with positive implications

the Group prepaid a sizeable portion of its debt, leading to a net debt position of around Rs. 200 crore as on December 31, 2020. This is likely to strengthen the credit metrics further, going forward.

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 hot rolled coils (HRC) prices. The company has undertaken sizeable expansion of capacities and utilisation of the same would be critical for achieving adequate return indicators.

Please refer to the following link for the previous detailed rationale that captures Key rating drivers and their description, Liquidity position, Rating sensitivities: [Click here](#)

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of the various Group entities (as mentioned in Annexure-2), given the close business, financial and managerial linkages among these

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 in Hyderabad from Shankara Building Products Limited. Further, APL has 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)

AATL Consolidated	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

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company and group financials, ICRA Research; All ratios as per ICRA calculations.

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*	Date & Rating in		Date & Rating in FY2020		Date & Rating in FY2019			Date & Rating in FY2018				
				Mar 08, 2021	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	0.0	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	0.0	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]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-(Positive)	[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-(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]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 [click here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
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: Company

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

Source: Company and Group Financials

Note: ICRA has taken a consolidated view of the parent (AATL), its subsidiaries while assigning the ratings.

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

Corrigendum

Document dated March 08, 2021 has been corrected with revisions as detailed below:

- Rephrased the analytical approach on page number 1.
- Removed the reference of “Rating Methodology for Entities in the Ferrous Metals Industry” on page number 2 as this methodology is not applicable.

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