

September 04, 2024

APL Apollo Tubes Limited: Long-term rating upgraded to [ICRA]AA+; short-term rating reaffirmed; outlook revised to Stable; rated amount enhanced for CP

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	300.0	600.0	[ICRA]A1+; reaffirmed and assigned for enhanced amount
Fund-based: Working Capital Facilities	1,400.00	1,400.00	[ICRA]AA+ /[ICRA]A1+; long-term rating upgraded from [ICRA]AA; short-term rating reaffirmed; outlook revised to Stable from Positive
Fund-based (FB): Term Loan	101.56	101.56	[ICRA]AA+; rating upgraded from [ICRA]AA; outlook revised to Stable from Positive
Short term Non-fund Based Facilities	1,000.00	1,000.00	[ICRA]A1+; reaffirmed
Unallocated	18.78	18.78	[ICRA]AA+ /[ICRA]A1+; long-term rating upgraded from [ICRA]AA; short-term rating reaffirmed; outlook revised to Stable from Positive
Total	2,820.34	3,120.34	

*Instrument details are provided in Annexure-I

Rationale

ICRA has taken a consolidated view of the business and financial risk profiles of APL Apollo Tubes Limited (AATL) and its wholly-owned subsidiaries, including Apollo Metalex Private Limited (AMPL) and APL Apollo Building Products Private Limited (ABPPL), to arrive at the ratings. These entities, collectively referred to as the Group/APL/company, are in similar lines of businesses and have significant operational and financial linkages.

The upgrade in the long-term rating reflects ICRA's expectation of a healthy demand outlook for the end-user industries and the APL Group's leadership position in the domestic electric resistance welded (ERW) pipes segment, which would support its scale of operations over the medium term. This, along with the deleveraging of APL's balance sheet as seen in FY2024 and Q1 FY2025, is expected to result in a sustained improvement in the Group's credit metrics. Further, the volume growth is expected to support the Group to maintain its strong operating and financial performance, thereby generating healthy returns. Also, the low working capital intensity of the Group would enable it to maintain a strong liquidity position. The Group is expected to report healthy revenue growth in the current fiscal, following a robust 12.1% YoY growth (on the back of 15% volume growth) reported in FY2024. Further, its profitability is expected to remain healthy over the medium term with expected OPBITDA/tonne of Rs.4,300-4,500/tonne, supported by the likely increase in the proportion of value-added products and better operational efficiency arising from the higher scale.

ICRA expects the Group's financial risk profile to remain strong owing to healthy cash flow generation (resulting from increased scale of operations and sustained profitability), scheduled amortisation of debt and no major debt-funded capex plans in the medium term. Besides, the Group has been able to sustain its low gross working capital cycle in the recent fiscals on the back of an efficient working capital management, which has supported its cash flow generation. Consequently, the credit metrics are expected to remain strong in the near to medium term.

The ratings also reflect the Group's sizeable steel tube/pipe making capacity across its geographically diversified manufacturing base in India and a large network of more than 800 dealers across the country. In addition, with the commissioning of the capacity in Raipur (Chhattisgarh) in FY2023, the Group's total domestic capacity increased to ~4.15 mtpa from ~2.65 mtpa

earlier. The capacities are expected to increase by ~0.5 mtpa from the ongoing capex in Gorakhpur and Silliguri, to be commissioned in H2 FY2026, which will further enhance its leadership position in the industry.

Despite its established position in the steel tubes and pipes industry, the ratings are constrained by the intense competition in the industry due to the presence of a large number of both organised and unorganised players. This moderates the Group's pricing power, making it more vulnerable to the volatility in steel prices. In addition, the Group's ability to ramp up the Raipur capacity to optimal levels in the near to medium term remains a key rating monitorable.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company would maintain its leadership position in the organised sector in the ERW pipe segment with increasing focus on value-added products.

Key rating drivers and their description

Credit strengths

Healthy growth in revenues and volumes in FY2024; momentum likely to continue in the current fiscal – The Group reported a sustained growth in performance in FY2024, recording its highest sales volume of 2.62 mtpa, which was 15% higher on a YoY basis. It also recorded the highest revenue of Rs. 18,119 crore (consolidated) in FY2024, a YoY growth of 12%. The Group reported healthy growth in the current fiscal as well, reporting a sales volume of 0.7 mtpa (a YoY growth of ~9%) and revenues of ~Rs. 4,974 crore in Q1 FY2025. The growth has largely been driven by the continued pick-up in sales volumes from ABPPL. The Group continues to report a robust return on the capital employed (RoCE; 27% in FY2024 and 32% in FY2023) on the back of its sustained healthy performance in the last few fiscals. With a steady ramp-up of the Raipur facility to its full potential, the RoCE is expected to remain healthy in the medium term

Market leadership in ERW pipes segment and extensive distribution network – The Group has a well-established position in the domestic ERW pipes segment and controls a substantial market share. The Group has been able to consistently expand its manufacturing capacities over the years to keep pace with the market growth and is now one of the largest structural steel tubes and pipes players globally, with a capacity of 4.15 mtpa. Additionally, it has established a large network of more than 800 dealer distributors and over 50,000 retailers across the country over three decades of its existence.

Geographically-diversified manufacturing presence and product profile – The Group has an established manufacturing base with 10 plants in 6 locations across the country and 1 plant in Dubai, through organic as well as inorganic expansions, over the fiscals. The company has also been strengthening its product portfolio from standard MS Black, GI and GP pipes to new value-added products such as large-diameter pipes (1000x1000 mm), colour-coated pipes and products, patented products for building material applications as well as products to cater to the retail requirements in the home décor segment like door frame, staircase steps, furniture, plank, designer tubes etc. Besides facilitating better margins due to higher OPBITDA/tonne from value-added products, the diversification allows the company to be better placed to serve new market segments. This apart, the Group has set up a 0.3-mtpa ERW pipe plant in Dubai in the current fiscal to diversify globally and enter new markets.

Sustained low working capital intensity – The Group has consistently maintained a low working capital intensity, as corroborated by its net working capital, which stood at ~0-2% of its operating income (NWC/OI), over the last three fiscals. This was possible on the back of a fall in its gross working capital cycle by reducing its receivable as well as inventory turnover period over the past three fiscals. The Group's receivable days have remained at less than 10 in recent fiscals from ~30 days earlier, led by its strategic shift to the cash-and-carry model. Further, the inventory turnover period has also reduced to less than 40 days in recent fiscals from more than 40 days on the back of better planning and management.

Strong financial risk profile – The Group has a strong financial risk profile, characterised by a conservative capital structure (debt/net worth of 0.2 times as on March 31, 2024 and total debt/OPBDITA of 1.0 time in FY2024 and healthy coverage metrics (interest cover and DSCR of ~10 times and 3.5 times in FY2024, respectively). A healthy growth in turnover along with improved profitability and a prudent working capital management enabled the company to generate robust free cash flows. Owing to

the incremental debt drawn for the capex in Raipur, the Group's debt level had increased in FY2024. However, expectations of healthy cash flow from operations and a sustained profitability in the medium term are likely to reduce the company's reliance on debt with the ongoing scheduled repayments. Its capitalisation and coverage metrics are likely to remain healthy.

Credit challenges

Vulnerability of operating profitability to raw material price movement – Being a steel convertor, the Group is exposed to the volatility in steel prices on account of a lag in price adjustments following fluctuations in the price of hot-rolled coils, in addition to inventory maintenance. Hence, prudent working capital management is crucial to safeguard against any significant price movement. The company's focus on working capital management and increasing the proportion of value-added products in the revenue mix mitigate the risk to some extent. Nevertheless, in case of an adverse demand-supply scenario, the inability to pass on the raw material price hike to its buyers could affect the profitability.

Intense competition from organised and unorganised players – The ERW pipes market is inherently competitive with the presence of several established players. As ERW pipe manufacturing is not a capital-intensive process, the entry barriers are low and, hence, the industry has many unorganised players.

Risks associated with additional capacities and scaling up of volumes – Although the commissioning of ABPPL's capacities is expected to strengthen the Group's consolidated operational profile, it is exposed to execution and stabilisation risks in the near term. Therefore, the Group's ability to steadily ramp up production and ensure a healthy scale-up of operations will remain crucial for its return and coverage metrics, going forward. However, ICRA draws comfort from its demonstrated track record of successful implementation and ramp-up of the past capacity expansion/acquisition.

Environmental and Social Risks

Environmental considerations - The Group, owing to its presence in the steel tubes industry, remains dependent on the consumption of power and fuel for running its mills. The manufacturing process emits carbon and discharges other chemicals (for example lubricants). However, it has been undertaking various initiatives to address the environmental issues. As per the disclosures made by the company, its operating units are compliant with all the environmental regulations and various statutory approvals/permits granted by the authorities. It also aims to reduce CO2 emissions, in-sync with its approach towards building a sustainable ecosystem through efficient energy consumption and optimum utilisation of natural resources, such as solar and wind energy. AATL has invested in securing renewable energy at all its production units and plans to scale it up further. The company has also invested in water recycling facilities at all its plants and aims to make all its operating units zero liquid discharge facilities over the medium term.

Social considerations - APL Apollo is exposed to reputational risks arising on account of various factors such as deviation in the quality of products, digital media impact and non-compliance with safety norms. Health and safety concerns, human rights issues and inability to ensure diversity, while providing equal opportunity, could also pose social risks for the company.

Liquidity position: Strong

The Group's liquidity position is strong, corroborated by free cash and bank balances and liquid investments (including FDs of more than 12 months) of ~Rs. 1,140 crore as on March 31, 2024. With no major debt-funded capex plans in the upcoming fiscals, ICRA expects the company's cash flow from operations to be adequate to meet the scheduled debt repayment obligations and capex requirements in the upcoming fiscals. The liquidity profile is also supported by an adequate cushion in the form of undrawn working capital limits, averaging ~Rs. 300 crore against the drawing power in the six-month period ended July 2024. The scheduled repayment obligations are expected to be ~Rs. 200 crore in FY2025 and ~Rs. 160 crore in FY2026.

Rating sensitivities

Positive factors – ICRA could upgrade the company’s rating if it demonstrates a significant growth in its operating income and profitability, along with strong liquidity and coverage metrics.

Negative factors – Pressure on the ratings could emerge in case of a sustained deterioration in profitability and cash accruals, or if any sizeable debt-funded capex/investment/acquisition results in an increase in the total debt/OPBDITA to more than 0.75 times on a sustained basis.

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 combined the business and financial profiles of various Group entities (as mentioned in Annexure II), given the close business, financial and managerial linkages among these

About the company

APL Apollo Tubes Limited (AATL) was incorporated in February 1986 as Bihar Tubes Private Limited with its headquarters in Delhi-NCR. AATL is among the largest ERW pipe/structural steel tube manufacturers in India. The company operates 11 manufacturing facilities across India with a total installed capacity of 4.1 mtpa. The Group’s product offerings include 1,100+ varieties for structural steel applications. These tubes have a wide spectrum of usage in urban infrastructure and real estate, rural housing, commercial construction, greenhouse structures and engineering applications. The Group has also established a large pan-India distribution network of more than 800 dealer distributors and over 50,000 retailers over the years.

Key financial indicators (audited)

AATL Consolidated	FY2023	FY2024
Operating income	16,166	18,119
PAT	642	732
OPBDIT/OI	6.3%	6.6%
PAT/OI	4.0%	4.0%
Total outside liabilities/Tangible net worth (times)	0.9	1.0
Total debt/OPBDIT (times)	0.9	1.0
Interest coverage (times)	15.2	10.5

Source: Company, ICRA Research; All ratios as per ICRA’s calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024		Date & rating in FY2023			Date & rating in FY2022
			Sep 04, 2024	Mar 31, 2024	Dec 29, 2023	Mar 30, 2023	Nov 17, 2022	Jun 29, 2022	Nov 18, 2021
1 CP	ST	600.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2 FB: Term loan	LT	101.56	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3 FB: Working capital facilities	LT/ST	1,400.00	[ICRA]AA+ (Stable)/[ICRA]A1+	[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+
4 Non-fund based facilities	ST	1,000.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5 Unallocated limits	LT/ST	18.78	[ICRA]AA+ (Stable)/[ICRA]A1+	[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+

LT: Long term ST: Short term

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial paper	Very Simple
Fund-based - Term loan	Simple
Fund-based - Working capital facilities	Simple
Short term non-fund based facilities	Very Simple
Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
Unplaced	Commercial paper	NA	NA	NA	600.00	[ICRA]A1+
NA	Fund-based - Term loan	FY2018-FY2022	7.00%-8.00%	FY2024-FY2027	101.56	[ICRA]AA+ (Stable)
NA	Fund-based - Working capital facilities	NA	NA	NA	1,400.00	[ICRA]AA+ (Stable)/ [ICRA]A1+
NA	Short term non-fund based facilities	NA	NA	NA	1,000.00	[ICRA]A1+
NA	Unallocated	NA	NA	NA	18.78	[ICRA]AA+ (Stable)/ [ICRA]A1+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
APL Apollo Tubes Limited	100.00%	Full Consolidation
Apollo Metalex Private Limited	100.00%	Full Consolidation
Blue Ocean Projects Private Limited	100.00%	Full Consolidation
APL Apollo Building Products Private Limited	100.00%	Full Consolidation
APL Apollo Tubes FZE.	100.00%	Full Consolidation
APL Apollo Mart Limited	100.00%	Full Consolidation
APL Apollo Tubes Company LLC	100.00%	Full Consolidation

Source: Company and Group Financials

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

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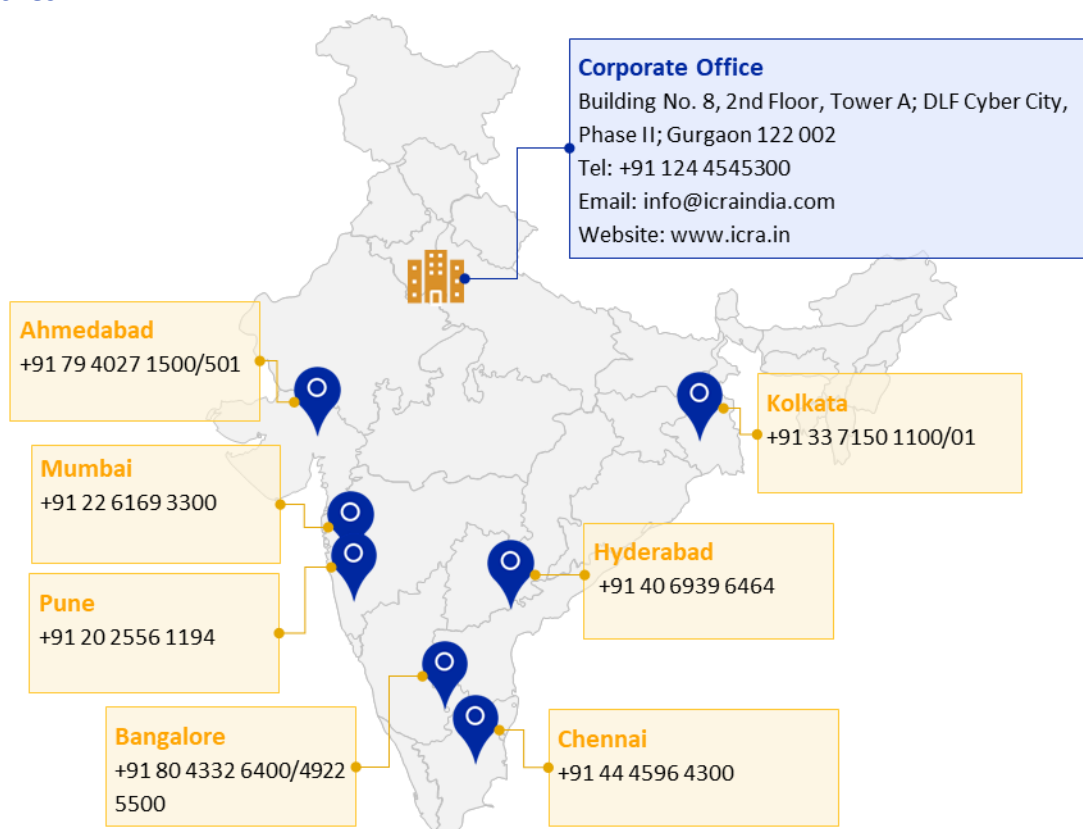


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