APL Apollo Tubes Limited

Instrument	Amount In Rs crore	Rating Action
Fund-based Limits	445.00 (enhanced from Rs 420.00 crore)	Upgraded to [ICRA]A+ from [ICRA] A; Outlook Stable
Term Loans	94.50 (reduced from Rs 132 crore)	Upgraded to [ICRA]A+ from [ICRA] A; Outlook Stable
Non-fund Based Limits	130.00	[ICRA]A1 reaffirmed
Total Bank Loans	**669.50 (reduced from Rs. 682.00)**	
Non-convertible Debenture	125.00	[ICRA] A+ (Stable); Assigned
Commercial Paper	50.00	[ICRA]A1; reaffirmed
Commercial Paper *	150.00	[ICRA]A1+(SO); reaffirmed

ICRA has upgraded the long-term rating to [ICRA]A+ (pronounced as ICRA A plus) from [ICRA] A (pronounced as ICRA A) and reaffirmed the short-term rating at [ICRA]A1 (pronounced as ICRA A one) for banks loans of APL Apollo Tubes Limited (AATL)[†]. ICRA has also reaffirmed the short-term rating of [ICRA]A1 (pronounced as ICRA A one) for the Rs 50.00-crore Commercial Paper programme of the company and short-term rating of [ICRA]A1+(SO) (pronounced as ICRA A one plus Structure Obligation) for the Rs. 150-crore Commercial Paper programme backed by a standby letter of credit (SBLC) from the Union Bank of India. The outlook on the long-term rating is stable. Further, ICRA has assigned ratings of [ICRA]A+ (Stable) to the proposed non-convertible debenture programme of Rs. 125 crore of AATL.

Rating Rationale

AATL and its three wholly-owned subsidiaries namely Shri Lakshmi Metal Udyog Limited, Lloyds Line Pipes Limited and Apollo Metalex Private Limited are in a similar line of business and have significant operational and financial linkages, thus, ICRA has taken a consolidated view for credit risk assessment of the group, referred to as 'APL Group' or 'the Group'.

The upgrade in the long-term ratings of the APL Group takes into consideration its leadership position in the ERW (electric resistance welded) pipes segment with steady and robust growth in revenue and profitability, increase in the scale of operations supported by healthy capacity utilisation levels, and improvement in working capital cycle of the group. In FY2016 and Q1 FY2017, the group's manufacturing volumes grew by28% and 12% respectively, offsetting the pressures on realisations on account of depressed steel prices, thereby allowing the Group to register 10% and 6.6% growth in manufacturing revenues. Further, the Group is actively looking to improve the product mix in favour of higher-margin hollow sections, pre-galvanised (GP) and galvanised iron (GI) pipes, which is reflected in the EBITDA expansion from 6% in FY2015 to 8.1%in FY2016 and further to 8.9% in Q1 FY2017. Driven by the growth in utilisation, the Group has been consistently expanding its manufacturing capacities, which stand at 1300,000 tpa currently. Given the expansion of manufacturing capacity, addition of new products, growing applications of pipes, and the Group's efforts to improve its brand and distribution network, the APL Group is expected to achieve steady growth in volumes, with improvement in EBITDA/tone. The ratings also take into consideration the significant improvement in the Group's working capital intensity with net working capital (NWC)/operating income (OI) improving to 14% in FY2016 from 21% in FY2014. The improvement has been brought about on account of tighter credit terms for dealers which has helped reduce the debtor days, and despite the increased inventory levels as at the end of FY2016, to take advantage of price arbitrage between imported and domestic steel prices before the imposition of the minimum import price (MIP) on HR coils. Since March 2016, the inventory levels have reduced consistently. This has resulted in healthy liquidity of the Group marked by working capital limit utilisation at 50-60% of drawing power. Going forward, the working capital intensity is likely to reduce further on account of transition to the dealer financing arrangement and rationalisation of warehouses upon implementation of goods and services tax (GST).

The ratings are, however, constrained by highly competitive nature of the pipes and tubes industry with presence of both organised and unorganised players resulting in significant pricing pressure. Also, the margins

[†] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

are susceptible to movement in steel prices which have seen significant volatility in the last two years and have resulted in inventory losses for the Group in FY2015 and FY2016. This, along with the inherent capital intensity, has kept the return indicators (EBIDTA margin of 6.7% in FY2016 compared to 5.8% in FY2015.) moderate. Further, constant capital expenditure has kept credit metrics at moderate levels with Debt/OPBIDTA in the range of 2.7x-3.0x, interest coverage at 4x and Net Cash Accruals (NCA) / Total Debt at 16.4% and gearing at 1.1x in FY2016. Further, the Group has plans to double its installed capacity to 25,00,000 TPA by FY2020, however, ICRA notes that the strong cash accruals will help finance a significant part of this expansion, thereby helping maintain the group's credit profile over the medium term.

Company Profile

AATL is a public limited company which makes steel pipes and tubes. AATL'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, which started its operations with a single manufacturing unit in Sikandarabad (U.P.) in 1986, has acquired three steel pipes manufacturing companies in the last decade in order to expand its capacity and widen its presence across geographies – Lloyd Line Pipes Limited (LLPL, acquired in FY2011) located in Murbad (Maharashtra), Shree Lakshmi Metal Udyog Limited (SLMUL, acquired in 2008) located in Bangalore (Karnataka) and Apollo Metalex Private Limited (AMPL, acquired in 2007) located in Sikandarabad (U.P). In addition, AATL established a new unit in Hosur (Tamil Nadu) in 2011 and is in the process of setting up a new facility in Raipur (Chattisgarh). LLPL, SLMUL, and AMPL are working as 100% subsidiaries of AATL. The Group currently has an aggregate capacity of 1,300,000 MTPA on a consolidated basis.

Recent Result

On a consolidated basis, the APL Group reported net profit of Rs. 100.6 crore on net sales of Rs 4213.6 crore in FY2016 against a net profit of Rs 63.8 crore on net sales of Rs 3138.3 crore in FY2015. During 1Q FY2017, the Group reported a consolidated PAT of Rs. 41.44 crore on an operating income of Rs. 1129.1 crore.

October 2016

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