

APL Apollo Tubes Limited

Instrument	Amount In Rs Crore	Rating Action
Commercial Paper	200.0*	[ICRA]A1+(SO); Reassigned/Outstanding

*Reassigned from [ICRA]A1 for Rs. 50.0 crore

ICRA has reassigned the short term rating for Rs. 50.0 crore Commercial Paper programme from [ICRA]A1 (pronounced ICRA A one) to [ICRA]A1+(SO) (pronounced ICRA A one plus Structured Obligation); ICRA also has the rating of [ICRA]A1+(SO) (pronounced ICRA A one plus Structure Obligation) outstanding for Rs. 150.0 crore Commercial Paper programme of APL Apollo Tubes Limited (AATL)[†] backed by standby letter of credit (SBLC) from Union Bank of India. ICRA has outstanding rating of [ICRA]A+ (pronounced ICRA A plus) for Rs. 445.0 crore fund based limits, Rs. 94.5 crore term loans and Rs. 125.0 crore non-convertible debenture programme of the company. ICRA also has outstanding rating of [ICRA]A1 (pronounced ICRA A one) for the Rs. 130.0 crore non fund based limits of the company.

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 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 ratings reaffirmation take into consideration the Group's leadership position in the ERW (electric resistance welded) pipes segment with healthy growth in its revenues and profitability, increase in its scale of operations supported by healthy capacity utilization levels, and improvement in working capital cycle of the group. In FY2016 and Q1FY2017, the Group's manufacturing volumes grew by 28% and 12%% respectively, offsetting the pressures on realizations 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 galvanized iron (GI) pipes, which reflected in EBITDA expansion from 6% in FY2015 to 8.1%in FY2016 and further to 8.9% in Q1FY2017. Driven by the growth in utilization, the Group has been consistently expanding its manufacturing capacities which stand at 13,00,000 tpa currently. Given the expansion of manufacturing capacity, addition of new products, growing applications of pipes, and efforts of the Group to improve its brand and distribution network, APL Group is expected to achieve steady growth in volumes, with improvement in EBITDA/tonne. The ratings also take into consideration the significant improvement in 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 Minimum Import Price 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 utilization at 50-60% of drawing power. Going forward, the working capital intensity is likely to reduce further on account of transition to dealer financing arrangement and rationalization 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 organized and unorganized players resulting in significant pricing pressure. Also, the margins 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.

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



Company Profile

AATL is a public limited company engaged in manufacturing of 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 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, APL Group reported net profit of Rs. 100.6 crore on net sales of Rs 4213.6 crore in FY16 as against net profit of Rs 63.8 crore on net sales of Rs 3138.3 crore in FY15. During 1QFY2017, the Group reported a consolidated PAT of Rs. 41.44 crore on an operating income of Rs. 1129.1 crore.

October 2016

For further details, please contact:

Analyst Contacts:

Mr. Sabyasachi Majumdar (Tel. No. +91 124 4545304)
sabyasachi@icraindia.com

Mr. Ankit Jain, (Tel. No. +91-124 4545865)
ankit.jain@icraindia.com

Mr. Harsh Jagnani, (Tel. No. +91-124 4545394)
harshj@icraindia.com

Relationship Contacts:

Mr. Jayanta Chatterjee (Tel. No. +91-80-43326401)
jayantac@icraindia.com

© Copyright, 2016, ICRA Limited. All Rights Reserved
Contents may be used freely with due acknowledgement to ICRA

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.



Registered Office

ICRA Limited

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office

Mr. Vivek Mathur

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai

Mr. L. Shivakumar

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata

Mr. Jayanta Roy

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai

Mr. Jayanta Chatterjee

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore

Mr. Jayanta Chatterjee

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad

Mr. L. Shivakumar

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune

Mr. L. Shivakumar

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar,Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad

Mr. Jayanta Chatterjee

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500