September 05, 2017

APL Apollo Tubes Limited

Summary of rated instruments

Instrument*	Rated Amount (in Rs. crore)	Rating Action
Cash Credit Limits	445.0	[ICRA]A+ (Stable)/[ICRA]A1+ outstanding
Term Loans	121.0 (earlier Rs. 94.5 crore)	[ICRA]A+ (Stable) assigned/outstanding
Non-fund Based Limits	130.0	[ICRA]A1+ outstanding
Unallocated Limits	65.0	[ICRA]A+ (Stable)/[ICRA]A1+ outstanding
Non-convertible Debenture	125.0	[ICRA]A+ (Stable) outstanding
Commercial Paper	200.0	[ICRA]A1+(SO) outstanding

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a long-term rating of [ICRA]A+ (pronounced ICRA A plus) for Rs. 121.0-crore [1] (enhanced from Rs. 94.5-crore) term loans of APL Apollo Tubes Limited (AATL). ICRA has outstanding ratings of [ICRA]A+ (pronounced ICRA A plus) and [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 640.0-crore bank lines of the company. ICRA also has outstanding rating of [ICRA]A+ (pronounced ICRA A plus) for Rs. 125.0-crore Non-convertible Debentures (NCD) and rating of [ICRA]A1+ (SO) (pronounced ICRA A one plus {Structured Obligation}) for Rs. 200.0-crore Commercial Paper (CP) programme of AATL. The outlook on the long term rating is Stable.

Rationale

The SO rating is credit enhanced by a Standby Letter of Credit (SBLC) from Union Bank of India. The rated instrument does not involve a structured payment mechanism.

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 lines of businesses and have significant operational and financial linkages. Thus, ICRA has taken a consolidated view for credit risk assessment of the Group, referred to as the ‘APL Group’ or ‘the Group’.

The rating action takes into account the improvement in the Group’s liquidity position following strong internal accruals generation due to continued improvement in the scale of operations, economies of scale benefits, and reduction in working capital intensity. The cash flows have been utilised towards funding the working capital requirements and capex leading to reduction in debt levels. These factors have provided by sizeable cushion in the working capital limits against the drawing power and improvement in debt coverage indicators (interest coverage of 4.75 times, Debt/OPBDITA of 1.84 times, DSCR of 2.20 times and NCA/Debt of 33% as on March 31, 2017). While the company has bullet NCD repayments in

[1] *100 lakh = 1 crore = 10 million*

FY2020, these are expected to be comfortably covered as the liquidity of the company is expected to remain strong keeping in view the capex plans and the estimated cash flow generation. After witnessing a healthy growth of 28% in sales volumes in FY2016, the Group registered a growth of 4% in FY2017, impacted by demonetisation and volatility in steel prices. Nevertheless, expansion in manufacturing capacities, coupled with addition of new products, growing application of pipes and efforts made by the Group to improve its brand and distribution network are expected to aid in steady growth in operating income (OI). Moreover, the rating continues to take into account the Group's leadership position in the electric resistance welded (ERW) pipes segment, and its strong manufacturing base with plants in North (Sikandarabad, UP), West (Murbad, Maharashtra) and South (Bengaluru and Hosur) and one planned in East (Raipur). Further, the Group is constantly making efforts to improve the product mix in favour of higher-margin products like hollow sections, pre-galvanised (GP) and galvanised iron (GI) pipes, which are expected to aid in improvement in EBITDA per tonne. The rating also captures the fact that the Group has always focussed on introducing new products (like colour-coated pipes, door and window frames, etc.) and adoption of efficient technologies (like direct forming technology, inline galvanising, etc.).

The rating, however, is constrained by the highly-competitive nature of the pipes and tubes industry with presence of both organised and unorganised players as well as moderate value-addition resulting in moderate pricing power and range-bound profitability. The ratings also take into account the susceptibility of margins to movement in steel prices given the high raw material intensity and levels of inventory required to be maintained. The company has undertaken sizeable expansion of capacities, and utilisation of the same would be critical to maintaining return on capital. This would require the company to garner a high market share as well as expand in the market through new products, new uses and new technologies, all of which remain to be seen. While assigning the ratings, ICRA took cognisance of the fact that the promoter holding in AATL has witnessed a decline in the past one year and stood at a relatively lower level of 37.5% as of June 30, 2017.

ICRA notes that the Group has plans to increase its installed capacity to 2 million TPA by FY2019. However, the funding for the same is largely to be met from internal accruals, which would result in an improvement in the capital structure going forward. This apart, growth in turnover and EBITDA per tonne, and any new sizeable capex or investment would be rating sensitivities for the Group.

Key rating drivers

Credit strengths

- **Extensive experience of the promoters in the pipes industry**: Incorporated in 1986, the company has over three-decade-long track record of operations in the pipes industry. The Group manufactures ERW black pipes, hollow sections and GI/GP pipes with the hollow sections contributing to most of the revenues.
- **Market leadership in the ERW pipes segment with consistent enhancement in capacities:** The APL Group has a well-established position in the ERW segment and controls a significant market share in this same. Moreover, the group has consistently expanded its manufacturing capacities to keep pace with the market growth.
- **Expansive manufacturing base with extensive distribution network:** The Group has a pan-India presence with manufacturing units in North, West and South India. The unit in eastern India is under implementation. This apart, the Group has 26 warehouses and around 600 dealers across the country.
- **Diversified product profile**: The Group manufactures MS black pipes, GI pipes, GP pipes and hollow sections with constant focus on value-added products. This has resulted in an increase in the proportion of such products in the product portfolio.
- **Reduction in debt levels and considerable improvement in liquidity position:** With strong accrual generation, the debt levels of the Group have witnessed a decline and the trend is expected to

continue. Further, the working capital limits are sufficiently cushioned, which along with healthy cash flow position reflect improvement in the Group's liquidity position.

- **Consistent growth in OI and manufacturing profitability margins:** With a consistent increase in sales volumes backed by higher production capacities, the company's OI has grown at a CAGR of 27% over the last five years. In FY2017, the OI grew by 8% to Rs. 4,545 crore, while the operating margins improved to 7.1% in FY2017 on the back of economies of scale and increase in the proportion of value-added products, resulting in improvement in EBITDA per tonne.
- **Focus on process efficiencies, innovation and new technologies:** The Group has been focussing on process improvements, introduction of new products and adoption of new technologies. Products like colour-coated pipes, door and window frames and new technologies like the DFT and proposed inline galvanising technology not only provide cost savings but also yield superior products.
- **Consistent reduction in working capital intensity with improvement in receivables period:** Over the years, there has been a consistent improvement in the receivables period, which resulted in improvement in working capital intensity of operations as reflected by NWC/OI of 11% as of March 31, 2017 as against 14% as of March 31, 2016.

Credit weaknesses

- **Vulnerability of operating profitability to raw material price movement:** The margins are susceptible to movement in steel prices as was witnessed in FY2015 and FY2016, when the Group incurred inventory losses.
- **Intense competition from large as well as unorganised players:** The ERW pipes market is inherently competitive with the presence of large established players like Surya Roshni, Jindal Pipes, Welspun Corp. etc., in addition to large number of unorganised and regional players.
- **Relatively low promoter holding**: Reduction in promoter shareholding over the last one year to 37.5% as of June 30, 2017

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria

Corporate Credit Rating Methodology
Rating Methodology for Entities in the Ferrous Metals Industry
ICRA's Approach for Rating Commercial Papers
Approach for rating debt instruments backed by third-party explicit support

About the company

AATL is a public limited company involved in manufacturing steel pipes and tubes. Its 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. The company 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), Shree Lakshmi Metal Udyog Limited (SLMUL, acquired in FY2008) in Bangalore (Karnataka) and Apollo Metalex Private Limited (AMPL, acquired in FY2007) in Sikandarabad (Uttar Pradesh). 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 (Chhattisgarh). LLPL, SLMUL, and AMPL are 100% subsidiaries of AATL. At present, the Group has an aggregate capacity of 1,300,000 MTPA on a consolidated basis.

Key Financial Indicators

Consolidated (Rs. Crore)	FY2016	FY2017
Operating Income (Rs. crore)	4213.6	4545.0
PAT (Rs. crore)	100.6	145.9
OPBDIT/ OI (%)	6.7%	7.1%
RoCE (%)	18.9%	22.7%
Total Debt/ TNW (times)	1.15	0.83
Total Debt/ OPBDIT (times)	2.31	1.84
Interest coverage (times)	4.05	4.75
NWC/ OI (%)	14%	11%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years

Table

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. Crore)	Date &Rating		Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015	
				Sep 2017	July 2017	Oct 2016	Dec 2015 /Jan 2016	Mar 2015	Sep 2014
1	Fund-based Limits	Long/ Short Term	445.0	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)	[ICRA]A- (Stable)
2	Term loans	Long Term	121.0	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)
3	Non-fund Based Limits	Short Term	130.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
4	Unallocated limits	Long/ Short Term	65.0	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1	-	-	
5	Non Convertible Debenture	Long Term	125.0	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	-	
6	Commercial Paper	Short Term	200.0	[ICRA]A1+ (SO)	[ICRA]A1+ (SO)	[ICRA]A1+ (SO)/ [ICRA]A1	[ICRA]A1+ (SO)/ [ICRA]A1	[ICRA]A1	[ICRA]A1

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	Date of Issuance / Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
	Fund-based Limits	-	-	-	445.0	[ICRA]A+ (Stable)/ [ICRA]A1+
	Term loans	FY2015-FY2017	-	FY2019-FY2023	121.0	[ICRA]A+ (Stable)
	Non-fund Based Limits	-	-	-	130.0	[ICRA]A1+
	Unallocated limits	-	-	-	65.0	[ICRA]A+ (Stable)/ [ICRA]A1+
	Commercial Paper	26/07/17	-	27/09/17	50.0	[ICRA]A1+ (SO)
	Commercial Paper*	-	-	-	150.0	[ICRA]A1+ (SO)
INE702C07024	Non Convertible Debenture	FY2017	8.2%	FY2020	50.0	[ICRA]A+ (Stable)
	NCD*	-	-	-	75.0	[ICRA]A+ (Stable)

Source: APL Apollo Tubes Limited
Note - There is a one way interchangeability from fund based to non fund based limits
* - yet to be issued

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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