APL Apollo Tubes Limited

May 16, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture Programme (Proposed)	-	195.0	[ICRA]AA-(Stable); Assigned
Non-Convertible Debenture Programme	125.0	125.0	[ICRA]AA-(Stable); Outstanding
Commercial Paper	500.0	500.0	[ICRA]A1+; Outstanding
Fund based-Term Loan	121.0	121.0	[ICRA]AA-(Stable); Outstanding
Fund based - Working Capital Facilities	510.0	510.0	[ICRA]AA-(Stable)/[ICRA]A1+; Outstanding
Non-fund based-Working Capital Facilities	130.0	130.0	[ICRA]A1+; Outstanding
Total	**1386.0**	**1581.0**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a long-term rating of [ICRA]AA- (pronounced ICRA double A minus) to the Rs. 195-crore non-convertible debenture (NCD) programme of APL Apollo Tubes Limited (AATL). ICRA has outstanding rating of [ICRA]AA- (pronounced ICRA double A minus) for the Rs. 125-crore NCD programme of the company and outstanding rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 500-crore Commercial Paper (CP) programme of the company. ICRA also has outstanding ratings of [ICRA]AA- (pronounced ICRA double A minus) and [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 761-crore bank lines of the company. The outlook on the long-term rating is Stable.

Rationale

AATL and its wholly-owned subsidiaries, namely Shri Lakshmi Metal Udyog 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 continues to factor in the healthy growth in manufacturing income of the Group on the back of growth in volumes as well as realisations. The Group has been undertaking capex to enhance its manufacturing capacities, which are ramping up steadily. This is expected to continue to result in healthy volume growth going forward, with the Group focusing on geographical expansion in the eastern Indian markets, addition of new products, growing application of pipes, and brand promotion. While the volume growth is expected to be the primary driver for revenue expansion, the improvement in operating profitability due to economies of scale and higher value addition remains to be seen. Nevertheless, the cash flow generation is expected to be strong supported by limited capex plans in the medium term.

The ratings continue to factor in the Group's healthy liquidity position marked by sizeable cushion in the working capital limits against the drawing power and healthy debt coverage indicators (interest coverage of 4.68 times, Debt/OPBDITA of 1.94 times, and NCA/Debt of 29% as on September 30, 2017). While the company has bullet NCD repayments in FY2020, these are expected to be comfortably covered as its liquidity is expected to remain strong, keeping in view the capex plans and the estimated cash flow generation.

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), South (Bengaluru and Hosur) and East (Raipur). Further, the Group is constantly making efforts to improve its 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 over the long run. The rating also captures the fact that the Group has always focussed on coming up with new products (like colour-coated pipes, door and window frames etc.) and adoption of efficient technologies (like direct forming technology etc.).

The rating, however, is impacted by the intensely competitive nature of 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 take into account the susceptibility of margins to movement in steel HRC prices. The company has undertaken sizeable expansion of capacities and utilisation of the same would be critical for achieving adequate return indicators. Increase in raw material prices coupled with the ongoing capex has kept the debt levels high, which in turn is expected to result in slight moderation of the debt coverage indicators as on March 31, 2018. While assigning the ratings, ICRA took cognisance of the fact that the promoter holding in AATL has declined in the past one year to a relatively lower level of 37.25% as of March 31, 2018.

Outlook: Stable

ICRA notes that the Group will be completing the capex for enhancing its installed capacity to 2 million TPA by FY2019. The debt for the same has largely been availed and thus, ICRA does not expect any material increase in debt levels going forward. This apart, ICRA expects steady ramping up of capacities leading to growth in volumes and in turn improvement in turnover. Furthermore, the ability of the company to steadily improve its EBITDA per tonne while keeping a tab on its debt levels would be the key rating sensitivities for the Group.

Key rating drivers

Credit strengths

Extensive experience of promoters in 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, which contribute to most of the revenues.

Market leadership in 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. Further, with the introduction of DFT technology, the company has gained the capability to manufacture odd-sized pipes as well.

Consistent growth in operating income - With a consistent increase in sales volumes backed by higher production capacities, the company's operating income (OI) has grown at a CAGR of 27% over the last five years. During 9M FY2018, the OI grew by 34% to Rs. 3,815 crore.

Focus on process efficiencies, innovation and new technologies - The Group has been focussing on process improvements, introduction of products and adoption of new technologies. Products like colour-coated pipes, door and window frames and new technologies like the DFT not only provide cost savings but also yield superior products.

Credit challenges

Vulnerability of operating profitability to raw material price movement - The margins are susceptible to movement in steel prices as 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 a large number of unorganised and regional players.

Profitability remains moderate – The growth in OI remained healthy in the past, while margins remained at moderate levels. The company has been focusing on volumes growth to consolidate is capacity utilisation levels as well as on penetration in newer markets and thus the EBITDA per tonne has remained steady. Moreover, with increase in realisations, the profit margins appear lower on similar EBITDA per tonne levels.

Expected increase in debt levels – The ongoing debt-funded capex for enhancing capacities and increase in working capital requirements, mainly on account of increase in steel prices, is expected to keep the debt levels elevated as on March 31, 2018 (Rs. 698.9-crore as on September 2017 and Rs. 582.9-crore as March 2017), in turn moderating the debt coverage indicators.

Relatively low promoter holding - Reduction in promoter shareholding over the last one year to 37.25% as of March 31, 2018.

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

About the company

AATL is a public limited company that manufactures 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 1,750,000 MTPA on a consolidated basis.

Key financial indicators (audited)

	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%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)			Chronology of Rating History for the past 3 years					
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar'17 (Rs. crore)	Date & Rating May 2018	Date & Rating in FY2018 Jan 2018	Sep 2017	Aug 2017	Date & Rating in FY2017 Oct 2016	Date & Rating in FY2016 Dec 2015
1	NCD (Proposed)	Long Term	195.0	0.0	[ICRA]AA- (Stable)	-	-	-	-	-
2	NCD	Long Term	125.0	50.0	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-
3	Commercial Paper	Short Term	500.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+ (SO)	[ICRA]A1+ (SO)	[ICRA]A1/ [ICRA]A1+ (SO)	[ICRA]A1/ [ICRA]A1+ (SO)
4	Term Loans	Long Term	121.0	49.0	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
5	Fund based limits	Long/ Short Term	510.0	-	[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	[ICRA]A (Stable)/ [ICRA]A1
6	Non-Fund based limits	Short Term	130.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	NCD#	NA	NA	NA	195.0	[ICRA]AA- (Stable)
INE702C07024	NCD	FY2017	8.2%	FY2020	50.0	[ICRA]AA- (Stable)
NA	NCD*	NA	NA	NA	75.0	[ICRA]AA- (Stable)
NA	Commercial Paper	NA	NA	7-365 days	500.0	[ICRA]A1+
NA	Term Loans	FY2015	NA	FY2023	121.0	[ICRA]AA- (Stable)
NA	Fund based - Cash Credit limits	NA	NA	NA	510.0	[ICRA]AA- (Stable)/ [ICRA]A1+
NA	Non fund based limits	NA	NA	NA	130.0	[ICRA]A1+

* yet to be issued

- Proposed

Non fund based limits to be used as fund based limits also

Source: APL Apollo Tubes Limited

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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.

For more information, visit www.icra.in

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