APL Apollo Tubes Limited

November 01, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture Programme	195.0	195.0	[ICRA]AA-(Stable); Reaffirmed
Non-Convertible Debenture Programme	125.0	125.0	[ICRA]AA-(Stable); Reaffirmed
Commercial Paper	500.0	500.0	[ICRA]A1+; Reaffirmed
Fund based-Term Loan	121.0	87.51	[ICRA]AA-(Stable); Reaffirmed
Fund based - Working Capital Facilities	510.0	750.0	[ICRA]AA-(Stable)/[ICRA]A1+; Reaffirmed
Non-fund based-Working Capital Facilities	130.0	300.0	[ICRA]A1+; Reaffirmed
Unallocated limits	0.0	190.0	[ICRA]AA-(Stable)/[ICRA]A1+; Reaffirmed
Total	**1581.0**	**2147.51**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]AA- (pronounced ICRA double A minus) and short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 1327.51-crore bank lines (earlier Rs. 761.0 crore) of APL Apollo Tubes Limited (AATL). ICRA has also reaffirmed the long-term rating of [ICRA]AA- (pronounced ICRA double A minus) for the Rs. 320-crore non-convertible debenture (NCD) programmes and short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 500-crore commercial paper (CP) programme 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 the credit risk assessment of the Group, which is collectively 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. During FY2018, the group reported a growth of 36% in its turnover. It has been undertaking capex to enhance its manufacturing capacities, which are ramping up steadily. The capacities for manufacturing pipes and tubes stood at 17.5 lakh tonne as of September 2018. With focus on improving capacity utilisation levels, the volume growth is expected to be healthy going forward. In addition, the Group has been focusing on geographical expansion in the eastern Indian markets, addition of new products, growing application of pipes, and brand promotion.

The ratings continue to be supported by 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 4.56 times, Debt/OPBDITA of 2.09 times, and NCA/Debt of 25% as on March 31, 2018). While the company has bullet NCD repayments in FY2020, these are expected to be comfortably covered as its liquidity is expected to remain strong and the cash flow generation is expected to be healthy amid limited capex plans in the medium term.

Moreover, the rating continues to take into account the Group's leadership position in the electric resistance welded (ERW) pipes segment and its geographically expansive 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 can aid in improvement in EBITDA per tonne over the long run. The rating also captures the fact that the Group has always focussed on introduction of 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 the 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 elevated. This in turn has resulted in slight moderation of the debt coverage indicators as on March 31, 2018, though these remain strong. Further, higher product realisations are expected to keep the profitability metrics subdued as well as result in high working capital borrowing levels. 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 September 30, 2018.

Outlook: Stable

ICRA notes that the Group has sizeable capacities in place and the major capex for the capacity expansion is largely over. Thus, ICRA expects steady ramping up of capacities, leading to growth in volumes and in turn, improvement in turnover. Furthermore, the Group's ability to steadily improve its EBITDA per tonne while keeping its debt levels in check 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 track record of over three decades 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, South India. It recently set up its facility in eastern India as well. 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 22% over the last five years. In FY2018, the OI grew by 36% to Rs. 5,335 crore.

Healthy debt coverage indicators - With increase in debt levels due to rise in working capital borrowings, the coverage indicators witnessed slight moderation, but remained healthy as reflected by interest coverage of 4.56 times (4.62 times as on March 31, 2017), debt/OPBDITA of 2.09 times (1.79 times), NCA/Debt of 25% (29%) and DSCR of 2.88 times (2.19 times) as on March 31, 2018..

Comfortable liquidity position – The liquidity position of the Group remains comfortable with sizeable cushion in working capital limits of around Rs. 200 crore against the drawing power. This, along with healthy cash flow generation and limited capex plans in the medium term, will result in adequate liquidity position of the company.

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 rang bound - The growth in OI remained healthy in the past, while margins remained range bound. The company has been focusing on volume growth to consolidate is capacity utilisation levels as well as on penetration into newer markets. Thus, the EBITDA per tonne has remained steady, despite an increase in contribution of value-added products.

Elevated debt levels - The ongoing debt-funded capex for enhancing capacities and increasing working capital requirements, mainly on account of an increase in steel prices, has kept the debt levels elevated at Rs. 775 crore as on March 31, 2018 (Rs. 594 crore as March 2017).

Relatively low promoter holding - Reduction in promoter shareholding over the last one year to 37.25% as of September 30, 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. The Group'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 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, the Group has established new units in Hosur (Tamil Nadu) in 2011 and in Raipur (Chhattisgarh) in 2018. At present, it has an aggregate capacity of 1,750,000 MTPA on a consolidated basis.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	3923.9	5334.8
PAT (Rs. crore)	152.1	158.1
OPBDIT/OI (%)	8.5%	7.0%
RoCE (%)	23.6%	22.8%
Total Debt/TNW (times)	0.85	0.93
Total Debt/OPBDIT (times)	1.79	2.09
Interest Coverage (times)	4.62	4.56
NWC/OI (%)	14%	15%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2019)					Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar'18 (Rs. crore)	Date & Rating		Date & Rating in FY2018			Date & Rating in FY2017	Date & Rating in FY2016
					Nov 2018	May 2018	Jan 2018	Sep 2017	Aug 2017	Oct 2016	Dec 2015
1	NCD	Long Term	195.0	0.0	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-	-	-	-	-
2	NCD	Long Term	125.0	50.0	[ICRA]AA- (Stable)	[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+	[ICRA]A1+ (SO)	[ICRA]A1+(SO)	[ICRA]A1 / [ICRA]A1 +(SO)	[ICRA]A1 / [ICRA]A1 +(SO)
4	Term Loans	Long Term	87.51	116.7	[ICRA]AA- (Stable)	[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	750.0	-	[ICRA]AA- (Stable)/ [ICRA]A1+	[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	300.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A1
7	Unallocated limits	Long/ Short Term	190.0	-	[ICRA]AA- (Stable)/ [ICRA]A1+	-	-	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [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
INE702C07040 INE702C07057	NCD	July 2018	8.65% 8.68%	July 2021	195.0	[ICRA]AA- (Stable)
INE702C07024	NCD	Mar 2017	8.20%	Feb 2020	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	NA	NA	FY2019-FY2024	87.51	[ICRA]AA- (Stable)
NA	Fund based - Cash Credit limits	NA	NA	NA	750.0	[ICRA]AA- (Stable)/ [ICRA]A1+
NA	Non fund based limits	NA	NA	NA	300.0	[ICRA]A1+
NA	Unallocated limits	NA	NA	NA	190.0	[ICRA]AA- (Stable)/ [ICRA]A1+

* yet to be issued

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

Source: APL Apollo Tubes Limited

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About ICRA Limited:

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