APL Apollo Tubes Limited

February 26, 2019

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); Outstanding
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	87.51	87.51	[ICRA]AA-(Stable); Outstanding
Fund based - Working Capital Facilities	750.0	940.0	[ICRA]AA-(Stable)/[ICRA]A1+; Outstanding
Non-fund based-Working Capital Facilities	300.0	300.0	[ICRA]A1+; Outstanding
Unallocated limits	190.0	0.0	[ICRA]AA-(Stable)/[ICRA]A1+; Outstanding
Total	**2147.51**	**2147.51**	

*Instrument details are provided in Annexure-1

Material Event

APL Apollo Tubes Limited announced its quarterly results on February 14, 2019. The company reported an operating income (OI) of Rs. 1691 crore with OPBDITA of Rs. 59.0 crore and PAT of Rs. 13 crore in Q3FY2019 against operating income of Rs. 1314 crore with OPBDITA of Rs. 89 crore and PAT of Rs 36 crore in Q3FY2018. There has been a deterioration in OPBDITA in Q3FY2019 owing to inventory losses.

Impact of the Material Event

The profitability in Q3FY2019 has been lower than expectations and Q3FY2018 on account of an inventory loss of Rs. 41 crore following the decline in steel prices during the latter part of the quarter. This has resulted in erosion in OPBDITA/ton to Rs. 1,881 for Q3FY2019 vis-à-vis Rs. 3,284 for FY2018. This quarter's underperformance follows from a subdued Q2FY2019 leading to 9MFY2019 OPBDITA lower by 5% vis-à-vis 9MFY2018. The performance in Q3FY2019 underlines the inherent vulnerability to raw material price movements. The muted profitability along with increase in debt levels (from Rs. 775 crore as on March 31, 2018 to Rs. 925 crore as on December 31, 2018), partly on account of increase in scale of operations, has led to moderation in debt coverage indicators as reflected by interest coverage of 3.01x (4.57x), debt/OPBDITA of 2.73x (1.94x) and NCA/Debt of 19% (29%) as on December 31, 2018 (9-month annualized). However, ICRA takes comfort from the adequate liquidity position as indicated by sufficient cushion in the working capital limits vis-à-vis the drawing power. ICRA also notes that the company has been delivering healthy volumes growth, which has been in line with the capacity enhancements and translates into consistent improvement in operating income (from Rs. 3,815 crore in 9MFY2018 to Rs. 5,058 crore in 9MFY2019). Further, ICRA also believes that the capex for the capacity enhancements is over with only routine maintenance capex is expected over next one-to-two years. Going forward, the company's ability to improve its OPBDITA/ton and thus operating margins while maintaining volumes growth and keeping the debt levels under check would remain key rating sensitivities.

ICRA will continue to monitor the performance and will take a suitable rating action as and when required.

The previous detailed rating rationale is available on the following link: Click here

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