November 19, 2019

APL Apollo Tubes Limited: Ratings reaffirmed; Rated amount enhanced

Summary of rating action

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	300.0	[ICRA]A1+; reaffirmed
Fund based-Term Loan	87.51	288.0	[ICRA]AA-(Stable); reaffirmed
Fund based - Working Capital Facilities	940.0	1050.0	[ICRA]AA-(Stable)/[ICRA]A1+; reaffirmed
Non-fund based-Working Capital Facilities	300.0	350.0	[ICRA]A1+; reaffirmed
Total	2147.51	2308.0	

**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. 1688-crore bank lines (earlier Rs. 1327.51-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. 300-crore commercial paper (CP) programme of the company[1]. The outlook on the long-term rating is Stable.

Rationale

APL Apollo Tubes Limited (AATL) and its wholly-owned subsidiaries, namely Shri Lakshmi Metal Udyog Limited(SLMUL), Apollo Metalex Private Limited, are in similar lines of businesses and have significant operational and financial linkages. Further, SLMUL has recently acquired majority stake in Apollo Tricoat Tubes Limited. Thus, ICRA has taken a consolidated view for the credit risk assessment of the abovementioned entities, which is collectively referred to as the company.

The rating action continues to factor in the company's leadership position in the electric resistance welded (ERW) pipes segment and its geographically expansive manufacturing base. The company continues to make efforts to improve its product mix in favour of higher margin products like hollow sections, triple coated tubes, pre-galvanised (GP) and galvanised iron (GI) pipes, which can aid in improvement in OPBITDA/ton over the long run. The company has also been making efforts to improve its cost structure by adopting efficient technology as well as setting up Cold Rolled Hard Facilities. The company has reported healthy growth in sales volumes on the back of capacity enhancements (currently

[1] Within working capital limits of the company

at 25.5 lakh tons[2]) and new product introduction during FY2019 and H1FY2020. Notwithstanding the continued strong revenue growth exhibited by the company, its working capital requirements continue to be modest and the company has financial flexibility with moderate cushion available in working capital limits vis-a-vis drawing power.

The rating, however, is constrained by the susceptibility of the company's margins to the movement in steel prices as reflected by the inventory losses incurred in H1 FY2020 and previously in Q3FY2019. As the company had been in investment mode over the last two years, its debt levels remained elevated leading to continuing moderation of its debt coverage indicators as on March 31, 2019 and September 30, 2019 The company's interest coverage and Total debt/OPBDIT moderated to 3.47 times and 2.18 times respectively in FY2019 (4.56 times and 2.09 times respectively in FY2018) and is expected to remain in similar range in FY2020. Notwithstanding moderation in coverage metrices in recent past, the company's debt maturity profile improved in the current fiscal, as it replaced part of its NCDs which had upcoming bullet repayments with longer tenor term loans. With continuing volume growth and no further planned capex, the company's debt levels are expected to reduce which alongwith steady accrual generation is expected to result in improvement of Total Debt/OPBDIT to less than 2 times over the medium term. ICRA also notes that the promoters have completed equity infusion related to acquisition of Apollo Tricoat Tubes Limited (Apollo Tricoat) in the current fiscal. The rating continues to factor in the intensely competitive nature of the pipes and tubes industry with presence of both organised and unorganised players.

The stable outlook reflects conclusion of the company's capex and expected ramping up of utilization across expanded capacities over the medium term. Thus, the company's ability to sustain its volumetric growth, withstand the price volatility and steadily improve its EBITDA/ton and debt coverage metrics would be the key rating sensitivities.

Key rating drivers and their description

Credit strengths

Market leadership in ERW pipes segment with consistent enhancement in capacities - The company has a well-established position in the ERW segment and controls a significant market share in the 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 company has a pan-India presence with manufacturing units and a large dealer distributor network spread across the country.

Diversified product profile – The company has been enriching its product portfolio from only traditional MS Black, GI and GP pipes to adding new products color coated pipes and DFT pipes which garner better margins. The company is thus well poised to serve new market segments in the long term. Apart from increasing market penetration, the company is also targeting retail segment through its new product in Apollo Tricoat.

Consistent growth in sales volumes - The company has been able to register healthy volumetric growth at a CAGR of 20% over the period FY2015 to FY2019 on the back of capacity enhancements as well as introduction of new products. In FY2019, the company's volumes grew by 18% and in H1 FY2020 as well, the company's volumes have grown by 24% over the previous corresponding period. ICRA expects the company to continue to register volumes growth with a higher single digit CAGR over the next few years.

[2] This included capacity added in Apollo Tricoat Tubes Limited, a company in which AATL acquired majority stake in the current fiscal.

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, Galvanized Iron(GI), and Pre-Galvanized(GP) pipes, which contribute to most of the revenues.

Credit challenges

Vulnerability of operating profitability to raw material price movement – The company's margins are susceptible to movement in steel prices. The company has incurred inventory losses in Q3FY2019 and in the current fiscal which has primarily impacted the company's OPBDIT/ton metric. The company's OPBDIT/ton fell to Rs 2933 in H1 FY2020 from Rs 2104 in FY2019. As capacity utilization ramps up the company is expected to regain OPBDIT/ton in the range of Rs 2700 to Rs 3000 levels over the next few quarters.

Moderation in debt coverage indicators – The company continued to be on expansion mode in FY2019 and the current fiscal and its debt levels continued to rise in FY2019. Thus the company's debt coverage indicators have witnessed a moderation following pressure on operating margins over the past few quarters. The company's interest coverage and Total debt/OPBDIT moderated to 3.47 times and 2.18 times respectively in FY2019 as compared to 4.56 times and 2.09 times in FY2018. In H1 FY2020, the company's performance included Apollo Tricoat; these metrics stood at 3.57 times and 2.29 times respectively. However, the company's capital structure and TOL/TNW were comfortable at 0.73 times as on March 31, 2019 and 1.45 times as on September 30, 2019 (following equity infusion with respect to acquisition of Apollo Tricoat). ICRA further notes that the company replaced the NCDs which had upcoming bullet repayments in the current fiscal with longer tenor loans lending cushion to its cashflows. The company's debt levels are expected to reduce over the medium term with growing cash accruals and ongoing repayment of debt resulting in interest coverage of over 4.5 times and Total Debt/OPBDIT of less than 2 times.

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.

Liquidity position: Adequate

The company's liquidity is adequate with positive cash flow from operations which have been aided by a shortened working capital cycle. The company's working capital utilisation levels have remained moderate as compared to drawing power lending some flexibility. Further, the company's has largely concluded its capex programme and expects only routine capex requirements over the near to medium term. The company has also replaced its NCDs which had upcoming bullet repayments with longer tenor term loans which has resulted lower than before repayment obligations in the near term.

Rating sensitivities

Positive triggers – ICRA could upgrade the company's rating if the company demonstrates a sustained improvement in its product mix and capacity utilisation resulting in Total Debt/ OPBITDA below 1.5 times on a sustained basis.

Negative triggers – Negative pressure on the rating could arise if steel price volatility continues or the ramp up in capacity utilization is slower than expected resulting in a sustained decline in OPBIDTA/ton levels to Rs 2000. Further, rise in debt funded capex or investments alongwith the above factors resulting in Total Debt/OPBDIT of above 2.5 times on a sustained basis could exert negative pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology] [Rating Methodology for Entities in the Ferrous Metals Industry]
Parent/Group Support	Not applicable
Consolidation/Standalone	Consolidated

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 company has established new units in Hosur (Tamil Nadu) in 2011 and in Raipur (Chhattisgarh) in 2018. In FY2020, the company purchased 200,000 MTPA capacity located in Hyderabad, from Shankara Building Products Limited which is expected to fully stabilised by December 2019. The company has also set up capacity of 250,000 MTPA for triple coated tubes in Apollo Tricoat Tubes Limited, which is now a subsidiary of SLMUL. Including these, AATL's aggregate capacity stands at 2,550,000 MTPA on a consolidated basis.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	5334.8	7152.3
PAT (Rs. crore)	158.1	148.3
OPBDIT/OI (%)	7.0%	5.5%
RoCE (%)	22.8%	19.4%
Total Outside Liabilities/Tangible Net Worth (times)	1.60	1.88
Total Debt/OPBDIT (times)	2.09	2.18
Interest Coverage (times)	4.56	3.47
DSCR	2.88	1.58

Source: Company financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2019		FY2018	
					19-Nov-2019	01-Nov -2018	16-May-2018	19-Sep-2017	04-Aug-2017
1	NCD	Long Term	195.0	95.0	[ICRA]AA-(Stable)	[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)
3	Commercial Paper	Short Term	300.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+(SO)	[ICRA]A1+(SO)
4	Term Loans	Long Term	288.0	153.0	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+(Stable)
5	Fund based limits	Long/ Short Term	1050.0	-	[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+
6	Non-Fund based limits	Short Term	350.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
7	Unallocated limits	Long/ Short Term	-	-		[ICRA]AA-(Stable)/ [ICRA]A1+		ICRA]AA-(Stable)/ [ICRA]A1+	ICRA]AA-(Stable)/ [ICRA]A1+

Amount in Rs. crore

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	300.0	[ICRA]A1+
NA	Term Loans	NA	NA	FY2020-FY2025	288.0	[ICRA]AA- (Stable)
NA	Fund based - Cash Credit limits	NA	NA	NA	1050.0	[ICRA]AA- (Stable)/ [ICRA]A1+
NA	Non fund based limits	NA	NA	NA	350.0	[ICRA]A1+

Source: AATL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
A APL Apollo Tubes Limited	100.00%	Full Consolidation
B Shri Lakshmi Metal Udyog Limited	100.00%	Full Consolidation
C Apollo Metalex Private Limited	50.07%	Full Consolidation
D Apollo Tricoat Tubes Limited*	100.00%	Full Consolidation
E Blue Ocean Projects Private Limited	100.00%	Full Consolidation

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Analyst Contacts

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Anupama Arora
+91 124 4545 303
anupama@icraindia.com

Sheetal Sharad
+91 124 4545 374
Sheetal.sharad@icraindia.com

Relationship Contact

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

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

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999