March 14, 2022

APL Infrastructure Private Limited: Rating upgraded to [ICRA]A+(Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	57.5	-	-
Working Capital	125.0	150.0	[ICRA]A+(Stable); upgraded from [ICRA]A(Stable)
Total Bank Facilities	**182.5**	**150.0**	

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade factors in the improvement in the credit profile of APL Infrastructure Private Limited's (AIPL) key investee company, APL Apollo Tubes Limited (AATL)[1], which is the largest electric resistance welded (ERW) pipe/ structural steel tube manufacturer in India and the principal operating company of the APL Apollo Group. AATL's credit profile has benefitted from the continued improvement in the Group's financial risk profile, led by sustained healthy operating performance, improved working capital management and ongoing deleveraging of its balance sheet. Further, AIPL's rating upgrade factors in its enhanced financial flexibility as a result of increased market value of its investments in AATL (~Rs. 6,350 crore as on February 23, 2022 compared to Rs. 3,280 crore as on December 11, 2020) despite sale of part stake during the last 12-15 months. This provides AIPL with a strong cover, viz. the market value of its shareholding in AATL to the quantum of the rated debt programme. While AIPL has sold close to ~4.6% stake in AATL in December 2020, it continues to be the holding company and the major shareholder with a ~31.2% stake (promoters' total stake in AATL being ~34.5%), with the stated intent to maintain at least 30% stake in the entity going forward. Besides short-term investment opportunities, sale proceeds have been used by the company to deleverage the balance sheet, which further enhanced its financial flexibility. While there is uncertainty on the use of liquid funds available with the company, ICRA draws comfort from the company's strengthened net worth base. In addition to profit on sale of shares, Rs. 98-crore fresh equity infusion received in FY2021 also contributed to the company's enhanced net worth.

The rating, however, continues to be constrained by the susceptibility of AIPL's financial flexibility to fluctuations in the share price movement of its only investee company, AATL. Further, being a holding company, the dividend income from AATL remains a key source of income for AIPL. However, this along with other income sources like rentals, warehouse income etc., have varied in the past and have not been a consistent source of revenues for the company. In this context, it is noted that AIPL ventured into trading of steel products from FY2021, which supported its revenues despite AATL not declaring dividends in the current and previous fiscals. Further, the Group's access to financial markets at a short notice provides some comfort. As AATL's performance is likely to have a significant impact on AIPL's dividend income and the market value buffer of its investments, it remains a key rating sensitivity for the company. Further, any further material reduction in the stake in AATL by AIPL would remain a key monitorable.

The Stable outlook on the rating reflects ICRA's belief that the company will continue to benefit from the buffer of a significant market value on its investments in AATL along with comfortable revenues from trading operations, dividend income, interest income and rentals, with limited reliance on debt, thereby helping it maintain a strong credit profile and financial flexibility.

[1] ICRA upgraded the long-term rating for the bank facilities of AATL to [ICRA]AA(Stable) from [ICRA]AA-(Positive), while reaffirming the short-term rating at [ICRA]A1+ in November 2021. For details, please refer to ICRA's website – www.icra.in.

Key rating drivers and their description

Credit strengths

Strong business and financial position of AATL– As the holding company of AATL (the key investee company and the principal contributor of dividend income) and with a stake of more than 30% maintained over the years, the dividend income from AATL has been the primary source of income for AIPL, barring FY2021 and the current fiscal till date. As the flagship company of the Group, AATL manufactures steel pipes and tubes. The strong business profile of AATL is marked by its leadership position in the ERW pipe industry, a consistent growth in its manufacturing income and a healthy financial risk profile, demonstrated by a strong liquidity position, healthy debt coverage indicators amid low working capital intensity of operations. Notwithstanding the absence of dividend payouts for FY2021 and FY2022, ICRA expects AIPL to continue to benefit from steady dividend flows from AATL going forward, with additional revenues expected from steel trading business, rent from investments in properties and interest income from FDs, loans and advances given to related parties.

Strong financial flexibility marked by limited reliance on debt, sizeable investment buffer and history of promoter support – AIPL used stake sale proceeds to deleverage its balance sheet (repaying/prepaying debt of ~Rs. 350 crore in FY2021), besides short-term investment opportunities, which enhanced its financial flexibility. While the company had Rs. 125-crore short-term debt outstanding as on March 31, 2021, the limit has remained largely unutilised during the current fiscal. Further, the market value of AIPL's investment in AATL stood at ~Rs. 6,350 crore (as on February 23, 2022), offering sizeable financial flexibility to the holding company to raise debt, if required. Further, limited incremental funding requirements in the key investee company over the near term and the promoter support, historically evident in form of fund infusion to support cash flows, continue to support AIPL's financial flexibility.

Credit challenges

High dependence on dividend payout from a single investee company – As AATL forms a substantial portion of its overall investments and almost entire portion of its investment in financial assets (apart from short-term loans and advances extended in FY2021), dividend income from AATL remains one of the primary sources of revenue from its investments in financial assets. It is noted that the company has created some diversity in its sources of revenues from FY2021 as it forayed into steel trading business. This contributed a large portion to the company's operating income in FY2021 in the absence of dividend income from AATL. This apart, the company is also expected to generate revenues from interest on FDs and loans and advances to related parties, going forward.

Susceptibility to volatility in steel prices – AIPL's steel trading business remains exposed to vagaries of the sector and volatility in steel prices, which may result in volatility in its operating profitability.

Market value of investments in listed company remains susceptible to volatility in stock market – AIPL's financial flexibility, in terms of its cover, depends on AATL's share price movement. While a strong cover is currently maintained, any substantial erosion in the market value buffer of investments, and increased debt-funded investments, may reduce its financial flexibility and hence, remains a key rating sensitivity.

Liquidity position: Strong

AIPL's liquidity position is **strong**, corroborated by largely unutilised Rs.125-crore fund-based bank limits during the current fiscal, along with estimated fixed deposits of ~Rs. 400-500 crore as on February 28, 2022. While it is noted that the liquid balances would moderate from the current levels with the company deploying the same in investment opportunities, ICRA expects the company to maintain a healthy liquidity cushion in its working capital lines. Further, the liquidity is aided by absence of repayment obligations, and the fact that the company can access financial institutions, leveraging the financial flexibility based on market value of its investments.

Rating sensitivities

Positive factors – A rating upgrade can be triggered in case of diversification of AIPL's investment portfolio and income sources with enhanced revenue visibility, improvement in credit profile of its key investee company, AATL, and a sustained improvement in the market value of AIPL's investment in AATL.

Negative factors –Pressure on AIPL's rating could arise in case of a deterioration in the credit profile of its key investee company, AATL, or a significant erosion of the market value of AIPL's investments in AATL, resulting in reduced financial flexibility of the company. Further, the rating could be downgraded in case of a significant addition of debt, leading to higher refinancing risk and a deterioration in debt coverage metrics.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Holding Companies
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

Incorporated in 2006, APL Infrastructure Private Limited (AIPL) is the holding company of APL Apollo Tubes Limited (AATL), the largest ERW pipe/ structural steel tube manufacturer in India, with a 31.2% stake in the latter. AIPL is a closely-held company, majorly owned by the Gupta family, led by Mr. Sanjay Gupta. From FY2021, AIPL also started trading in steel products. At present, AIPL's revenue stream mainly comprises dividend income from AATL and other minor equity investments, interest income, trading income and rental income from its owned warehouses and guest houses that it has leased to AATL.

Key financial indicators (audited)

	FY2020	FY2021
Operating Income (Rs. crore)	18.1	86.9
PAT (Rs. crore)	14.4	348.4^
OPBDIT/OI (%)	74.3%	11.1%
PAT/OI (%)	79.7%	400.7%
Total Outside Liabilities/Tangible Net Worth (times)	5.4	0.3
Total Debt/OPBDIT (times)	26.3	13.2
Interest Coverage (times)	6,325.0	7.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
Note: ^Income from sale of shares has been classified under non-operating/ extraordinary income
Source: AIPL's financial statements, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Rating	FY2021	FY2020	FY2019
					Mar 14, 2022	Dec 31, 2020	Jun 13, 2019	April 02, 2018
1	Term Loan	Long term	-	-	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Working capital	Long term	150.0	125*	[ICRA]A+ (Stable)	[ICRA]A (Stable)	-	-

** Amount outstanding as on March 31, 2021*

Complexity level of the rated instrument

Instrument	Complexity Indicator
Working Capital	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA’s 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	Working Capital	Sep 2020	-	-	150.0	[ICRA]A+ (Stable)

Source: APL Infrastructure Private Limited

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

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