March 30, 2023

APL Apollo Building Products Private Limited: [ICRA]AA (Stable); assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debentures	200.00	[ICRA]AA (Stable); assigned
Total	**200.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has taken a consolidated view of the business and financial risk profiles of APL Apollo Tubes Limited (AATL), its wholly-owned subsidiaries, including Apollo Metalex Private Limited (AMPL) and APL Apollo Building Products (ABPPL) to arrive at the ratings. Collectively referred to as the Group/APL/company, these entities are in the similar lines of businesses and have significant operational and financial linkages.

The assigned rating factors in the Group's healthy financial risk profile, sustained healthy operating performance and a comfortable liquidity position, supported by its low working capital intensity. The rating factors in ICRA's expectation of a sustained robust performance in the upcoming fiscals, supported by healthy volumetric growth on the back of optimal utilisation of its existing capacities and steady ramp-up of the additional ~1.5-million-tonnes-per-annum (MTPA) capacities in the value-added segment, commissioned in the current fiscal under its wholly owned subsidiary, APL Apollo Building Products Private Limited. The Group is expected to report a double-digit revenue growth in FY2023, following a robust 54% growth in FY2022, on the back of a healthy volumetric growth in the current fiscal. Despite some moderation expected in the operating margin due to higher volume share of standard products in the current fiscal compared to FY2022, ICRA expects that the company's margin will get support over the medium term with an increase in the proportion of value-added products from phased ramping up of ABPPL facilities . Besides, the Group has been able to sustain its low gross working capital cycle in the recent fiscals on the back of an efficient working capital management, which has supported its cash flow generation. Together with healthy return metrics, this translated into robust debt coverage metrics for the Group, which reported an interest cover of more than ~16 times in 9M FY2023 (provisional estimates) and DSCR of more than ~6 times in 9M FY2023 (provisional estimates).

Further, the rating reflects the Group's leadership position in the domestic electric resistance welded (ERW) pipes segment, corroborated by its sizeable steel tube/pipes making capacity across its geographically diversified manufacturing base in India and a large network of more than 800 dealers across the country. In addition, the Group's recently commissioned capacities in Raipur (Chhattisgarh) have increased the Group's total capacity to ~4.1 MTPA from 2.65 MTPA earlier, further enhancing its leadership position in the industry. Despite the Group's established position in the steel tubes and pipes industry, the ratings are constrained by the intense competition in the industry due to the presence of a large number of both organised and unorganised players. This moderates the Group's pricing power, making it more vulnerable to the volatility in steel prices.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company would be able to maintain its leadership position in the organised sector in the ERW pipe segment with increasing focus on value-added products. Further, the Group's planned phased out ramping up of new capacities in the value-added segment and limited dependence on debt are expected to help it maintain healthy capitalisation and coverage metrics.

Key rating drivers and their description

Credit strengths

Market leadership in ERW pipes segment, with regular enhancement in capacities and extensive distribution network – The Group has a well-established position in the domestic ERW pipes segment and controls a substantial market share. The Group has been able to consistently expand its manufacturing capacities over the years to keep pace with the market growth. Additionally, over three decades of its existence, the Group has established a large network of more than 800 dealer distributors and over 50,000 retailers across the country.

Geographically diversified manufacturing presence and product profile – The Group has an established manufacturing base with 11 plants in 10 locations across the country through organic as well as inorganic expansions. The company has also been strengthening its product portfolio from standard MS Black, GI and GP pipes to new value-added products such as large-diameter pipes (500x500 mm), color-coated pipes and products, patented products for building material applications as well as products to cater to the retail requirements in the home décor segment like door frame, staircase steps, furniture, plank, designer tubes etc. Besides facilitating better margins due to higher OPBITDA/tonne from value-added products, the diversification allows the company to be better placed to serve new market segments.

Continued ability to maintain low working capital intensity since last few fiscals – The Group has been able to consistently maintain low working capital intensity, as corroborated by its net working capital being 3% of its operating income (NWC/OI), over the last three fiscals. This has been achieved on the back of fall in its gross working capital cycle by reducing its receivable as well as inventory turnover period over the past three fiscals. While the receivable days remained less than 10 in FY2021, FY2022 and 9M FY2023 (provisional estimates) from ~30 days till FY2019, led by cash discounts on advance or immediate payments, the inventory turnover period shrunk to ~30 days in 9M FY2023 (provisional estimates) and ~27 days in FY2022 from more than ~35 days in the prior fiscals on the back of better planning and management.

Strong financial risk profile – The Group has a strong financial risk profile, characterised by a conservative capital structure (debt/net worth of 0.2 times as on March 31, 2022 and total debt/OPBDITA of 0.6 times in FY2022) and robust debt coverage metrics (interest cover and DSCR of ~21 times and ~6.3 times in FY2022, respectively). A healthy growth in turnover together with improved profitability and prudent working capital management enabled the company to generate robust free cash flows. Owing to the incremental debt drawn for the ongoing capex in Raipur, the Group witnessed increased debt level in the current fiscal. However, expectations of healthy cash flow from operations along with expectations of sustained profitability in the medium term are likely to reduce the company's reliance on debt with repayments starting from FY2024. Its capitalisation and coverage metrics are likely to remain healthy.

Credit challenges

Vulnerability of operating profitability to raw material price movement – The Group, being a steel convertor, is exposed to the volatility in steel prices on account of a lag in price adjustments following fluctuations in the price of hot-rolled coils, in addition to the inventory maintenance. Hence, prudent working capital management is crucial to safeguard against any significant price movement. The company's focus on working capital management and increasing the proportion of value-added products in the revenue mix mitigate the risk to some extent. Nevertheless, in case of an adverse demand-supply scenario, inability to pass on the raw material price hike to its buyers could adversely impact the profitability.

Intense competition from organised as well as unorganised players – The ERW pipes market is inherently competitive with the presence of several established players like Surya Roshni, Tata Steel, Jindal Pipes, Welspun Corp. etc. Further, as ERW pipe manufacturing is not a capital-intensive process, the entry barriers are low and hence, the industry has many unorganised players.

Risks associated with ramp-up of additional capacities and scaling up of volume under the subsidiary – Although with the commissioning of ABPPL's capacities, the Group's consolidated operational profile is expected to strengthen, it is exposed to execution and stabilisation risks in the near term given the sizeable addition to capacities (~55% addition to the Group's earlier 2.65-mtpa capacity). Therefore, the Group's ability to steadily ramp up the production and ensure healthy scale-up of operations, will remain crucial for its return and coverage metrics, going forward. However, ICRA draws comfort from the Group's demonstrated track record of successful implementation and ramp-up of the past capacity expansion/acquisitions.

Liquidity position: Strong

The Group's liquidity position is strong, corroborated by free cash and bank balances of more than Rs. 500 crore as on December 31, 2022. With no major capex plans in the upcoming fiscal, ICRA expects the company's cash flow from operations to be adequate to meet the scheduled debt repayment obligations in the upcoming fiscal. The liquidity profile is also supported by adequate cushion in the form of undrawn working capital limits, averaging over Rs. 200 crore vis-à-vis the drawing power in the six-month period ended in December 2022, compared to the scheduled repayment obligation of ~Rs.16 crore in Q4 FY2023 and ~Rs.159 crore in FY2024.

Rating sensitivities

Positive factors – ICRA could upgrade the company's rating if it demonstrates a sustained healthy growth in its operating income while maintaining healthy profitability, and strong liquidity profile and coverage metrics.

Negative factors – ICRA could downgrade the rating in case of a sustained deterioration in profitability and cash accruals, or if any sizeable debt-funded capex/ investment/ acquisition results in an increase in total debt/OPBDITA to more than 1 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Approach: Consolidation
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has combined the business and financial profiles of various Group entities (as mentioned in Annexure-2), given the close business, financial and managerial linkages among these.

About the company

APL Apollo Building Products Private Limited was incorporated in FY2020 as a wholly owned subsidiary of APL Apollo Tubes Limited. ABPPL houses 1.5 million tonnes per annum ERW/structural tubes capacity in the value-added segment in Raipur (Chhattisgarh).

APL Apollo Tubes Limited (AATL) was incorporated in February 1986 as Bihar Tubes Private Limited with its headquarters in Delhi-NCR. AATL is among the largest ERW pipe/ structural steel tube manufacturer in India. The company operates 11 manufacturing facilities across India with a total installed capacity of 4.1 mtpa. The Group's product offerings include 1,100+ varieties for structural steel applications. These tubes have a wide spectrum of usages in urban infrastructure and real estate, rural housing, commercial construction, greenhouse structures and engineering applications. The Group has also established a large pan-India distribution network of more than 800 dealer distributors and over 50,000 retailers over the years.

Key financial indicators (audited)

Consolidated	FY2021	FY2022	9M FY2023*
Operating Income (Rs. crore)	8,500	13,063	11,735
PAT (Rs. crore)	408	619	440
OPBDIT/OI (%)	8.0%	7.2%	6.0%
PAT/OI (%)	4.8%	4.7%	3.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.8	0.8
Total Debt/OPBDIT (times)	0.8	0.6	0.8
Interest Coverage (times)	10.3	21.3	16.6

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation   *Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)*	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Mar 30, 2023			
1	Non-Convertible Debentures	Long Term	200.00	-	[ICRA]AA (Stable)			

**Outstanding as on December 31, 2022*

Complexity level of the rated instrument

Instrument	Complexity Indicator
Non-Convertible Debentures	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, are available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Unplaced	Non-Convertible Debentures	NA	NA	NA	200.00	[ICRA]AA (Stable)

Source: Company and Group Financials

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
APL Apollo Tubes Limited	100.00%	Full Consolidation
Shri Lakshmi Metal Udyog Limited (SLMUL)*	100.00%	Full Consolidation
Apollo Metalex Private Limited	100.00%	Full Consolidation
Apollo Tricoat Tubes Limited (ATTL)*	55.82%	Full Consolidation
Blue Ocean Projects Private Limited	100.00%	Full Consolidation
APL Apollo Building Products Private Limited	100.00%	Full Consolidation
APL Apollo Tubes FZE.	100.00%	Full Consolidation

Source: *Company and Group Financials*

Note: *ICRA has taken a consolidated view of the parent (AATL), its subsidiaries and step-subsidiaries while assigning the ratings*

**Subsequent to the NCLT order dated October 14, 2022, SLMUL and ATTL have been merged with AATL with April 01, 2021 as the appointed date for the merger.*

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