

March 31, 2024

APL Apollo Building Products Private 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 Debentures	200.00	200.00	[ICRA]AA (Positive); reaffirmed
Long term Fund-based: Term Loan	--	250.00	[ICRA]AA (Positive); assigned
Long/short term Fund-based: Working Capital Facilities	--	100.00	[ICRA]AA (Positive)/[ICRA]A1+; Ratings assigned
Total	200.00	550.00	

*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 Private Limited (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. Details of various entities operating under the Group, which have been consolidated, are given in Annexure II.

The rating action reflects ICRA's expectation of healthy volume growth in the near to medium term, driven by the ramp-up of the recently commissioned Raipur capacity. The volume increase is expected to support the Group's sustained healthy operating performance, financial risk profile and comfortable liquidity position, owing to its low working capital intensity. The Group is expected to report double digit revenue growth in the current fiscal, following a robust 24% YoY revenue growth (on the back of 30% volume growth) reported in FY2023. Further, its profitability is likely to remain healthy over the medium term with expected OPBITDA/tonne of Rs.4,500-5,000, supported by the likely increase in the proportion of value-added products and better operational efficiency arising from higher scale.

ICRA expects the Group's financial risk profile to improve further, owing to higher cash flow generation (resulting from increased scale of operations and sustained profitability), scheduled amortisation of debt and no major capex plans in the upcoming fiscals. 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. ICRA also notes that the company's lower than expected sales volumes in Q3 FY2024, due to short-term demand pressure, may result in slightly lower-than-previously-estimated sales volumes in FY2024. Nonetheless, ICRA expects the Group to continue to report robust debt coverage metrics, as corroborated by an interest cover of ~9 times and DSCR of ~3.5 times likely in FY2024. The rating also 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, its recently commissioned capacities in Raipur (Chhattisgarh) have increased the Group's total domestic capacity to ~4.1 MTPA from ~2.65 MTPA earlier, enhancing its leadership position in the industry.

Despite its 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. In addition, the Group's ability to ramp up the Raipur capacity to optimal levels in the near to medium term remains a key rating monitorable.

The Positive outlook on the long-term rating reflects ICRA's expectation that the company would be able to grow its volumes at a healthy pace driven by the addition of its new capacities. Further, the Group is expected to maintain its leadership position in the organised sector in the ERW pipe segment with increasing focus on value-added products.

Key rating drivers and their description

Credit strengths

Healthy growth in revenues and volumes in FY2023; momentum likely to continue in the current fiscal – The Group reported a sustained growth in performance in FY2023, recording its highest ever sales volume of 2.28 mtpa, which was 30% higher on a YoY basis. It also recorded the highest ever revenues of Rs. 16,166 crore (consolidated) in FY2023, a YoY growth of 24%. The Group reported healthy growth in the current fiscal as well, reporting a sales volume of 1.9 mtpa (a YoY growth of ~19%) and revenues of ~Rs.13,353 crore in 9M FY2024. The growth has largely been driven by the continued pick-up in sales volumes from ABPPL. The Group continues to report a robust improvement in the return on capital employed (RoCE) from the previous years (~36% in H1 FY2024 and 31% in FY2023 against ~28% in FY2021) on the back of its sustained healthy performance in the last few fiscals. With a steady ramp-up of the Raipur facility to its full potential, the RoCE is expected to remain healthy in the medium term.

Market leadership in ERW pipes segment 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 and is now one of the largest structural steel tubes and pipes players globally, with a capacity of 4.4 mtpa (including Dubai). Additionally, it has established a large network of more than 800 dealer distributors and over 50,000 retailers across the country over three decades of its existence.

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), colour-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. This apart, the Group has set up a 0.3-mtpa ERW pipe plant in Dubai in the current fiscal to diversify globally and enter new markets.

Sustained low working capital intensity – The Group has consistently maintained a low working capital intensity, as corroborated by its net working capital, which stood at ~2% of its operating income (NWC/OI), over the last three fiscals. This was possible on the back of a fall in its gross working capital cycle by reducing its receivable as well as inventory turnover period over the past three fiscals. The Group's receivable days have remained at less than 10 from FY2021 from ~30 days in the prior fiscals, led by its strategic shift to the cash-and-carry model. Further, the inventory turnover period has also reduced in the recent fiscals and stood at 30 days in H1 FY2024 and 37 days in FY2023, from more than 40 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 0.4 times as on September 30, 2023 [provisional/unaudited] and total debt/OPBDITA of 0.9 times in H1 FY2024 [provisional/unaudited]) and healthy coverage metrics (interest cover and DSCR of ~12 times and ~6 times in H1 FY2024, respectively [provisional/unaudited]). A healthy growth in turnover along 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's debt level increased in the current fiscal. However, expectations of healthy cash flow

from operations and sustained profitability in the medium term are likely to reduce the company's reliance on debt with ongoing scheduled repayments. Its capitalisation and coverage metrics are likely to remain healthy.

Credit challenges

Vulnerability of operating profitability to raw material price movement – Being a steel convertor, the Group 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 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, the 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. 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 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 production and ensure a healthy scale-up of operations, will remain crucial for its return and coverage metrics, going forward. However, ICRA draws comfort from its 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 and liquid investments (including FDs of more than 12 months) of ~Rs.812 crore as on September 30, 2023. With no major capex plans in the upcoming fiscals, ICRA expects the company's cash flow from operations to be adequate to meet the scheduled debt repayment obligations in the upcoming fiscals. The liquidity profile is also supported by an adequate cushion in the form of undrawn working capital limits, averaging ~Rs. 300 crore against the drawing power in the six-month period ended in February 2024. The scheduled repayment obligations are expected to be ~Rs.200 crore in FY2025.

Rating sensitivities

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

Negative factors – A rating downgrade is unlikely in the near term, given the Positive outlook. However, downward pressure on the rating could emerge 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 1.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
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 II), 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 mtpa 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 manufacturers 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)

AATL Consolidated	FY2022	FY2023	9M FY2024*
Operating Income (Rs. crore)	13,063	16,166	13,353
PAT (Rs. crore)	619	642	562
OPBDIT/OI (%)	7.2%	6.3%	6.8%
PAT/OI (%)	4.7%	4.0%	4.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.9	--
Total Debt/OPBDIT (times)	0.6	0.9	--
Interest Coverage (times)	21.3	15.2	11.1

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)*	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 31, 2024	Dec 29, 2023			
1	Non-Convertible Debentures	Long term	200.00	200.00	[ICRA]AA (Positive)	[ICRA]AA (Positive)	[ICRA]AA (Stable)	-	-
2	Fund-based: Term Loan	Long term	250.00	250.00	[ICRA]AA (Positive)	-	-	-	-
3	Fund-based: Working Capital Facilities	Long/short term	100.00	--	[ICRA]AA (Positive)/[ICRA]A1+	-	-	-	-

*Outstanding as on March 31, 2024

Complexity level of the rated instrument

Instrument	Complexity Indicator
Non-Convertible Debentures	Simple
Long term Fund-based: Term Loan	Simple
Long/short term Fund-based: Working Capital Facilities	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 I: Instrument details

ISIN No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE0P7E08013	Non-Convertible Debentures	April 25, 2023	7.8%*	April 24, 2026	200.00	[ICRA]AA (Positive)
NA	Long term Fund-based: Term Loan	FY2024	--	FY2029	250.00	[ICRA]AA (Positive)
NA	Long/short term Fund-based: Working Capital Facilities	NA	NA	NA	100.00	[ICRA]AA (Positive)/[ICRA]A1+

Source: Company and Group Financials *linked to RBI Repo rate

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Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
APL Apollo Tubes Limited	100.00%	Full Consolidation
Apollo Metalex Private Limited	100.00%	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
APL Apollo Mart Limited	100.00%	Full Consolidation
APL Apollo Tubes Company LLC	100.00%	Full Consolidation

Source: Company and Group Financials

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

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