November 17, 2022

Shri Lakshmi Metal Udyog Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based limits - Working Capital Facilities	90.0	90.0	[ICRA]AA (Stable); reaffirmed
Non-fund-based limits - Working Capital Facilities	13.0	13.0	[ICRA]A1+; reaffirmed
Unallocated	50.0	50.0	[ICRA]AA (Stable)/[ICRA]A1+; reaffirmed
Total	**153.0**	**153.0**	

*Instrument details are provided in Annexure-1

Rationale

To arrive at the ratings, ICRA has taken a consolidated view of the business and financial risk profiles of APL Apollo Tubes Limited (AATL), its wholly-owned subsidiaries, including Shri Lakshmi Metal Udyog Limited (SLMUL) and Apollo Metalex Private Limited (AMPL), and its step-down subsidiary, Apollo Tricoat Tubes Limited (ATTL). 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 ratings reaffirmation continues to factor in the Group's healthy financial risk profile, sustained healthy operating performance and a comfortable liquidity position, supported by its low working capital intensity. After a robust 53% YoY growth in revenues along with a sustained healthy operating margin in FY2022 on the back of a surge in realisations, increased volumes and higher share of value-added products, the Group's performance continued to be healthy in H1 FY2023 as it reported a 32% YoY growth in revenues, supported by a strong volumetric growth of 28% YoY. Moreover, the ratings continue to factor in ICRA's expectation of a sustained healthy performance in the current and upcoming fiscals, supported by healthy volumetric growth on the back of optimal utilisation of its existing capacities and from phased out commissioning of the additional ~1.5 million tonnes per annum (mtpa) capacities (~55% of the Group's existing capacities) in the value-added segment, under its wholly-owned subsidiary, APL Apollo Building Products Private Limited, in Raipur (Chhattisgarh). Besides, the Group has been able to sustain its low gross working capital cycle since the last two 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 ~21 times and DSCR of more than ~6 times in FY2022.

Further, the ratings continue to reflect the Group's leadership position in the domestic electric resistance welded (ERW) pipes segment, corroborated by its 2.65-mtpa 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 ongoing capacity expansion in Raipur (Chhattisgarh) at an estimated outlay of Rs. 1,050 crore, being funded in a debt-to-equity ratio of 40:60 will increase the Group's total capacity to ~4 mtpa by FY2024. While the capex exposes the company to associated project risks, ICRA draws comfort from the company's established track record of successful commissioning of greenfield/brownfield capacities and running its plants at healthy capacity utilisation. 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 phased out commissioning of new capacities in the value-added segment, ramping up of its already operational capacities 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 and commanding 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 reduction 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 FY2022 and FY2021 from ~30 days till FY2019, led by cash discounts on advance or immediate payments, the inventory turnover period shrunk to ~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 – AATL 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. Supported by continued growth in volumes, the company continues to grow at a healthy pace in the current fiscal amid some moderation seen in realisations in Q2 FY2023. Owing to the incremental debt drawn for the ongoing capex in Raipur, the Group witnessed increased debt levels in H1 FY2023. 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 the 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 large as well as unorganised players – The ERW pipes market is inherently competitive with the presence of several large 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.

Sizeable capex (under wholly-owned subsidiary) and associated risks – The Group's ongoing capex at its Raipur plant under its wholly-owned subsidiary at an estimated outlay of around Rs. 1,050 crore and being funded in a debt:equity ratio of 40:60, exposes it to associated project risks. The said capex will enhance the company's steel tubes/value-added products making capacities by 55% to ~4 million tonnes per annum by FY2024. Though the Group's established track record in successfully commissioning greenfield/brownfield capacities in the past provides comfort, the project remains exposed to the risk of time and cost overruns.

Liquidity position: Strong

The Group's liquidity position is strong, corroborated by sizeable cash and bank balances of more than Rs. 600 crore as on September 30, 2022. ICRA expects the company's cash flow from operations to be adequate to fund its capex requirements as well as the scheduled debt repayment obligations of ~Rs.65 crore in the current fiscal and Rs.112 crore in the next fiscal. The liquidity profile is also supported by adequate cushion in the form of undrawn working capital limits, averaging over Rs. 260 crore vis-à-vis the drawing power in the six-month period ended August 2022.

Rating sensitivities

Positive factors – ICRA could upgrade the company's ratings 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 revise the outlook to stable or downgrade the ratings 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 time 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 the various Group entities (as mentioned in Annexure-2), given the close business, financial and managerial linkages among these.

About the company

Shri Lakshmi Metal Udyog Limited (SLMUL) is a 100% subsidiary of APL Apollo Tubes Limited (AATL). The company was acquired by APL Apollo in FY2008 and owns a pipe manufacturing unit with an installed capacity of 100,000 mtpa. On February 27, 2021, AATL had announced the merger of SLMUL and ATTL with itself, as on date the merger is in the concluding stage, as the said entities had already obtained NOCs from stock exchanges, lenders, shareholders etc for the transaction and on October 14, 2022, National Company Law Tribunal, New Delhi Bench pronounced the order approving the aforesaid Scheme of Amalgamation and Arrangement.

APL Apollo Tubes Limited (AATL) was incorporated in February 1986 as Bihar Tubes Private Limited with its headquarters in Delhi-NCR. AATL is the largest ERW pipe/ structural steel tube manufacturer in India. The company operates 11 manufacturing facilities across India with a total installed capacity of 2.65 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.

AATL has steadily enhanced its capacities and widened its presence across geographies over the years by way of acquisitions— Lloyd Line Pipes Limited (LLPL; acquired in FY2011) at Murbad (Maharashtra), Shree Lakshmi Metal Udyog Limited (SLMUL;

acquired in FY2008) in Bengaluru (Karnataka) and Apollo Metalex Private Limited (AMPL; acquired in FY2007) at Sikandarabad (Uttar Pradesh). 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
Operating Income (Rs. crore)	8,500	13,063
PAT (Rs. crore)	408	619
OPBDIT/OI (%)	8.0%	7.2%
PAT/OI (%)	4.8%	4.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.8
Total Debt/OPBDIT (times)	0.8	0.6
Interest Coverage (times)	10.3	21.3

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

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
					Nov 17, 2022	Nov 18, 2021	Mar 08, 2021	Dec 31, 2020	Nov 19, 2019
1	FB: Term Loan	Long Term	-	-	-	-	[ICRA]AA- (Positive)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)
2	FB: Working Capital Facilities	Long Term	90.0	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)
3	NFB: Working Capital Facilities	Short Term	13.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Unallocated limits	Long/ Short Term	50.0	-	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	-	-	-

**Outstanding as on March 31, 2022*

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund based limits - Working Capital Facilities	Simple
Non-fund-based limits - Working Capital Facilities	Very Simple
Unallocated	Not Applicable

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

Bank Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based limits - Working Capital Facilities	NA	NA	NA	90.0	[ICRA]AA (Stable)
NA	Non-fund-based limits - Working Capital Facilities	NA	NA	NA	13.0	[ICRA]A1+
NA	Unallocated	NA	NA	NA	50.0	[ICRA]AA (Stable)/[ICRA]A1+

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*	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*

** Subsidiary of SLMUL, Shareholding as on March 31, 2022*

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