March 22, 2023

Apar Industries Limited: [ICRA]A+(Stable)/[ICRA]A1 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term- Fund based Limits	715.00	[ICRA]A+(Stable) assigned
Long term/Short term - Non-fund based-BG/LC	6,785.00	[ICRA]A+ (Stable)/[ICRA]A1 assigned
Long term - Fund based- Term loan	250.00	[ICRA]A+(Stable) assigned
Total	**7,750.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings assigned factor in the strong market position of Apar Industries Limited (AIL) in the power transmission conductor segment, being among the leading global manufacturers of aluminium and alloy conductors. The ratings are supported by AIL's cost competitiveness because of the backward-integrated manufacturing operations. The company also has an established presence in the specialty oil segment with a 60% market share in transformer oils in India; it is the third-largest transformer oil manufacturer in the world. Additionally, AIL has expanded its business in related segments like cables and is among the larger players catering to the domestic renewable segment. The company has developed a reasonable global footprint in recent years and its revenue mix is fairly diversified across geographies with international sales accounting for 39% of the consolidated revenues in FY2022 and 47% in 9M FY2023.

The ratings consider the favourable medium-term demand outlook with increased demand from the end-users such as the power, infrastructure, railways, defence and marine sectors. The order book of the conductor segment remained strong at Rs. 4,885 crore as on December 31, 2022 with 44% pertaining to premium products. Further, an order inflow guidance supported by favourable growth opportunities provides healthy revenue growth visibility over the near term. The company has reputed clientele comprising large engineering, procurement and construction (EPC) players and major utilities like railways, defence and marine.

The ratings favourably factor in the improving coverage metrics over the years amid a moderate operating profit margin (OPM) profile. The consolidated OPM remained in the range of 6-7% between FY2018 and FY2022, improving to 7.9% in 9M FY2023 with the rising share of premium products in conductors segment. ICRA notes that the company has a hedging policy which limits the moderation in profitability, though with a lag.

The ratings are, however, constrained by the high working capital intensity with sizeable funding requirement met through interest-bearing acceptances. This was primarily on account of the elongated collection period and the high inventory levels maintained by the company for its diversified product portfolio. The ratings are further constrained by the revenues being exposed to the cyclicality in the domestic capex cycle and any economic slowdown, though the company's presence across various segments as well as its growing exports provides some comfort.

The ratings further note the vulnerability of the company's profitability to the variations in the prices of raw materials, which majorly include aluminium, copper and base oil, though AIL's hedging policy and natural hedge mitigates the risk to an extent. ICRA notes that metal prices increased substantially till March 2022 and are at a multi-year high amid some moderation seen recently.

The Stable outlook on the long-term rating reflects ICRA's opinion that AIL's revenues and accruals will be supported by its comfortable order book benefiting from its strong market position in conductors and specialty oil segment along with expectations of a healthy order inflow with focus on premium products in the near to medium term. Further, favourable demand prospects for Transmission and distribution products in domestic market as well as increased order intake internationally where sizeable capex is in infrastructure and power sector is expected to provide further growth opportunities to the company.

Key rating drivers and their description

Credit strengths

Diversified revenue mix with strong position in conductor segment; well-established market position across other segments- With operations spanning over five decades, the company's revenue mix is dominated by the conductor division (45-50% for the past five years) followed by specialty oil segment contributing 30-38% of the total revenue and the rest from cable segment. The company enjoys a strong market position in power transmission conductors and specialty oil. AIL is among the leading global manufacturers of aluminium and alloy conductors, supported by cost competitiveness from the backward-integrated manufacturing operations. The company has a 60% market share in transformer oils in India; it is the third-largest transformer oil manufacturer in the world. Over the years, the company has expanded in other segments like cables and is among the larger players in the domestic renewables segment. In conductors and cables, there are major growth opportunities from the overseas market. In specialty oil, new transmission lines and upgradation of existing transmission lines will drive revenues.

AIL has developed a reasonable global footprint in recent years and its revenue mix is diversified across geographies. Exports and overseas sales contributed to 39% of the company's total revenues in FY2022 and 47% in 9M FY2023 on a consolidated basis. The company benefits from engineering capabilities as well as technical collaborations which has allowed it to enhance its product offerings over the years.

Reputed clientele comprising large EPC players and major utilities like railways, defence and marine – The company has established relations with large EPC players like Kalpataru Power Transmission Limited, L&T, KEC International Limited among others, along with the supply of conductors and cables to all the transmission companies and major utilities like railways, defence and marine. The company is the largest supplier of copper conductors for the railway electrification programme. In specialty oil, the company is one of the largest transformer oil manufacturers. It benefits from the strong demand for power transformers, while catering to other products like white oil for food and pharma grade, industrial oil and lubricants. ICRA expects healthy demand from the power and infrastructure sectors, going forward.

Stable profitability and coverage metrics; hedging policy limits sharp variation in profitability – AIL's financial profile is characterised by a healthy revenue growth of 46% in FY2022 at Rs. 9,320 crore along with expectations of continued strong growth momentum in FY2023. The revenue growth has been fuelled by a sharp rise in realisation on the back of increased raw material prices, besides healthy volume growth. The company has been recording stable profitability and coverage metrics even as it witnessed strong growth in scale in the last few years. The consolidated operating margin remained in the range of 6-7% between FY2018 and FY2022 with a slight improvement in 9M FY2023 with a margin of 7.9%.

ICRA notes that the company has a hedging policy which limits the moderation in profitability though with a lag. With an interest coverage of 3.5 times and TD/OPBDITA of 0.9 times (annualised) as on September 30, 2022, the company exhibited stable coverage indicators even as it continued to rely sizeably on interest-bearing acceptances for funding its working capital requirements. AIL is expected to generate stable cash flows in the coming years with a scale-up in all its segments in the domestic as well as overseas market. Although the company is undertaking debt-funded capex, the healthy revenue growth expected and the steady profitability metrics are likely to keep the company's gearing level below 0.5 times along with stable coverage metrics.

Favourable demand prospects driven by sizeable investments in end-user industries – The company has favourable demand prospects, mainly driven by the sizeable investments in the power industry through increased budgetary allocation under the reform-linked distribution scheme and strengthening of power systems with growing renewable capacity. The Government's increased capital expenditure allocation is likely to fuel electricity demand growth, thereby supporting companies like AIL. The orderbook for conductors stood at Rs. 4,885 crore as of December 2022 with 44% pertaining to premium products. The company caters to the demand of end-user industries such as power, infrastructure, railways, defence and marine. With the

Government's rising budgetary allocations towards these sectors, the demand prospects for the company's products are expected to increase.

Credit challenges

High working capital intensity with sizeable funding requirement met through interest-bearing acceptances - The actual inventory and receivables have remained at around 100 days each in the last three years and the same is funded through increased reliance on LC-backed acceptances as the company imports majority of the raw material. The NWC/OI stood at 6.4% as on September 30, 2022, though the debtors and inventory days remained high because the major working capital requirements are being supported by LC-backed acceptances in the form of supplier credit.

Revenues vulnerable to cyclicality in end-user industries - AIL's revenues are exposed to the cyclicality in the domestic capex cycle and any economic slowdown could impact its revenues, as witnessed in the past. However, presence across multiple segments as well as the international market mitigates the risk to an extent.

Vulnerability of profits to raw material price and forex fluctuations - The company's margins are susceptible to the fluctuations in raw material prices due to a lag of two to three months in passing on the price increase to the customers. Its major raw materials include aluminum, copper, base oil, which are mainly imported and the prices of which have increased substantially over the past few months, though they have moderated slightly recently. Nonetheless, AIL's ability to pass through the increase in raw material prices in new orders and entering into back-to-back hedging for its aluminium and copper products once an order is received mitigates the risk to an extent.

The company hedges metal at the London Metal Exchange (LME). For base oil also, the company has a hedging policy in place. However, the company is exposed to price fluctuation for the inventory held by the company that is also evident in the variability in profits on a Q-o-Q basis. Moreover, the management strategy to focus on adding premium products and increase order intake in this segment would allow high value addition and to some extent limit the vulnerability to raw material price changes.

Further, the company remains exposed to volatility in foreign currency fluctuations. The natural hedge through growing exports and invoicing in US dollar and euro in the overseas markets mitigates the forex risk to an extent. Nevertheless, some forex risk will continue to persist. Further, ICRA notes the rising competition faced by the company from domestic and foreign players, limiting its pricing flexibility to an extent.

Environment and Social Risks

Environmental Risk - The company is exposed to the risk of tightening regulations on environment, specifically pertaining to its raw material sourcing, operations and energy consumption. Given the safety and environmental related concerns associated with conductors and specialty oil, the industry is exposed to the risk of tightening regulatory norms for production, water management, emission/waste management. Further, in the event of accidents, the litigation risks could be high. While the company has a demonstrated track record of running its operations safely, the nature of the risk weighs on its rating.

Social Risks – Social risk in this industry stems from the health and safety concerns of the employees involved in the manufacturing process. Entities like AIL are also exposed to labour-related risks and risks of protests/social issues with local communities, which could impact the expansion/modernisation plans. Though these issues have not hindered AIL's expansion plans in the past, lack of sensitivity in managing these risks could result in cost overruns, considering the company's capacity expansion plans in the near to medium term.

Liquidity position: Adequate

AIL's liquidity position remains adequate with a comfortable cash flow from operations of Rs. 73.94 crore in FY2022, and free cash and liquid investments of Rs. 283.16 crore as on March 31, 2022. Further, free cash and liquid investments as on September 30, 2022, stood at Rs. 303.2 crore. The fund-based working capital utilisation has remained low at around 5% for the past 12 months, providing adequate cushion. Further, the company has capex plans for FY2023 and FY2024 which will be funded through internal accruals and term loans, even as the liquidity is expected to remain comfortable. The repayments are expected to remain at Rs. 58.2 crore in FY2024 and Rs. 56.3 crore in FY2025, which can be comfortably met through cash accruals.

Rating sensitivities

Positive factors – ICRA could upgrade AIL's ratings if it demonstrates a significant growth in its scale of operations and profitability. An improvement in the working capital cycle that would reduce the TOL/TNW and improve the coverage metrics would be the monitorables for a favourable rating action.

Negative factors – Pressure on the ratings could arise if the company witnesses a sharp deterioration in its revenues and profitability or if its coverage metrics weaken. Further, any deterioration in the working capital cycle that weakens the liquidity position or coverage metrics may trigger a downward rating action.

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 taken a consolidated view of AIL and its wholly-owned subsidiaries, Petroleum Specialities Pte. Limited (PSPL), Petroleum Specialities FZE (wholly owned subsidiary of PSPL), Apar Transmission & Distribution Projects Private Limited, Apar Distribution & Logistics Private Limited as well as associate companies Ampoil Apar Lubricants Private Limited and CleanMax Rudra Private Limited

About the company

Apar Industries Limited (AIL) is a listed company which was founded in 1958 (originally known as Power Cables Pvt. Ltd.) to manufacture power transmission conductors. At present, it is one of the largest global manufacturers of aluminium and alloy conductors. In 1969, the company started with a speciality oil division and is the third-largest global manufacturer of transformer oil. In 1999, the company started the cables division and is now the largest domestic player in renewables. The lubricants division was started in 2010. The company is suppling to 140+ countries globally. The company has a manufacturing capacity of 1,80,000 MTPA for conductors and 5,40,000 KL capacity for speciality oils, including lubricants. Its manufacturing facilities are at Rabale (Maharashtra) for oil and lubricants, Silvassa for conductors and oils, Athola and Rakholi (Dadra and Nagar Haveli) for conductors, Umbergaon and Khatalwad (Gujarat) for wires, cables and polymers, Jharsugoda and Lapanga (Orissa) for conductors and Hamriyah (Sharjah) specialty oil.

Key financial indicators (audited)

AIL Consolidated	FY2021	FY2022	9MFY2023
Operating income	6,388.0	9,320.0	10,270.5
PAT	160.5	256.6	395.0
OPBDIT/OI	6.9%	6.2%	7.9%
PAT/OI	2.5%	2.8%	3.8%
Total outside liabilities/Tangible net worth (times)	2.6	2.9	-
Total debt/OPBDIT (times)	0.7	0.6	-
Interest coverage (times)	2.8	3.4	3.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

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 as of Mar 13, 2023 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Mar 22, 2023	-	-	-
1	**Fund-based limits**	Long term	715.0	-	**[ICRA]A+(Stable)**	-	-	-
2	**Non-fund based bank facilities - BG/LC**	Long term and short term	6785.0	-	**[ICRA]A+(Stable) /[ICRA]A1**	-	-	-
3	**Term loans**	Long term	250.0	212.4	**[ICRA]A+(Stable)**	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term Fund-based limits	Simple
Long-term/Short -term – Non-fund based bank facilities - BG/LC	Very Simple
Long-term fund-based – Term loan	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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fund based limits**	NA	NA	NA	715.0	[ICRA]A+(Stable)
NA	**Non-fund based bank facilities**	NA	NA	NA	6785.0	[ICRA]A+(Stable)/[ICRA]A1
NA	**Term loan-1**	FY2020	NA	FY2024	48.0	[ICRA]A+(Stable)
NA	**Term loan-ECB***	FY2022	NA	FY2027	202.0	[ICRA]A+(Stable)

*Source: Company; *External Commercial Borrowings*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	AIL Ownership	Consolidation Approach
Petroleum Specialities Pte. Limited (PSPL)	100%	Full Consolidation
Petroleum Specialities FZE	100%	Full Consolidation
Apar Transmission & Distribution Projects Private Limited	100%	Full Consolidation
Apar Distribution & Logistics Private Limited	100%	Full Consolidation
Ampoil Apar Lubricants Private Limited	40%	Equity Method
Clean Max Rudra Private Limited	26%	Equity Method

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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