May 27, 2019

APL Apollo Tubes Limited: Update on Material Event

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture Programme	195.0	195.0	[ICRA]AA-(Stable); Outstanding
Non-Convertible Debenture Programme	125.0	125.0	[ICRA]AA-(Stable); Outstanding
Commercial Paper	500.0	500.0	[ICRA]A1+; Outstanding
Fund based-Term Loan	87.51	87.51	[ICRA]AA-(Stable); Outstanding
Fund based - Working Capital Facilities	750.0	940.0	[ICRA]AA-(Stable)/[ICRA]A1+; Outstanding
Non-fund based-Working Capital Facilities	300.0	300.0	[ICRA]A1+; Outstanding
Unallocated limits	190.0	0.0	[ICRA]AA-(Stable)/[ICRA]A1+; Outstanding
Total	**2147.51**	**2147.51**	

*Instrument details are provided in Annexure-1

Material Event

APL Apollo Tubes Limited announced its quarterly results on May 18, 2019. The company reported an operating income (OI) of Rs. 2094 crore with OPBDITA of Rs. 139 crore and PAT of Rs. 62 crore in Q4FY2019 against operating income of Rs. 1519 crore with OPBDITA of Rs. 103 crore and PAT of Rs 45 crore in Q4FY2018.

Impact of the Material Event

After a muted performance in Q3FY2019 when the decline in steel prices adversely impacted the OPBITDA generation, the company has reported strong growth of 33% in volumes (highest ever quarterly sales of 4.2 lakh tons) and 24% in sales in Q4FY2019. The OPBDITA/ton has also improved from Rs. 1,880 in Q3FY2019 to Rs. 3,384 in Q4FY2019 which resulted in improvement in profitability from 3.5% to 6.6% over the same period. Overall, the OPBDITA/ton in FY2019 was weaker than FY2018 - Rs. 2,934 vis-à-vis Rs. 3,284. While so far, the benefits of operating leverage have not been reflected in profitability of the company, the management is of the view that Q4FY2019 volumes indicate healthy utilization of its sizeable capacities, which is sustainable, and would lead to uplift in OPBDITA per ton going forward.

The capex of the company in FY2019 and the estimates for FY2020 are significantly higher than expectations (capex towards Cold Rolled Full Hard facility in Sikanderabad, land acquisition in Raipur, and acquisition of manufacturing facility of Shankara Building Products Limited). This has impacted the free cashflow generation. Moreover, the company has completed the acquisition of majority stake in Apollo Tricoat Tubes Limited for a total consideration of around Rs. 180 crore as planned. This is to be funded entirely by promoter equity infusion – out of which Rs. 97 crore has been infused. The balance Rs. 75 crore is yet to be infused (towards 75% of the warrants already infused).

During Q4FY2019, the company demonstrated a reduction in its working capital intensity by reducing the receivable and inventory days as well as increasing the payable levels. While the management is of the view that these improvements are sustainable, the long-term trend remains to be seen. ICRA takes comfort from the adequate liquidity position as indicated by sufficient cushion in the working capital limits vis-à-vis the drawing power. However, the company faces sizeable repayment of NCDs in FY2020.

Over the coming quarters, ICRA would monitor the company's ability to maintain its volume sales, improve its OPBDITA/ton, maintain the working capital indicators at the level witnessed in Q4FY2019, and infusion of funds from promoters towards acquisition of Apollo Tricoat. Higher than anticipated capex or investments would also be a key sensitivity.

The previous detailed rating rationale is available on the following link: Click here

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About ICRA Limited:

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