Apar Industries Limited

September 22, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1,240.50 (Enhanced from 796.00)	CARE A+; Stable	Revised from CARE A; Positive
Long-term / Short-term bank facilities	8,045.00 (Enhanced from 6,940.00)	CARE A+; Stable / CARE A1	Revised from CARE A; Positive / CARE A1

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to Apar Industries Limited (APAR) factors strong improvement in operating performance with 53.9% growth in the total operating income (TOI) in FY23 led by increased volumes sold and premiumisation of product mix across segments. Export revenue increased by 97% Y-o-Y backed by improved mix of premium products. Segment wise, cable increased by 64%, conductors segment increased by 67%, and the transformer and specialty oil (TSO) segment grew by 31% Y-o-Y. The PBILDT margins also improved in FY23 mainly due to improvement in product mix for the cable and conductor segment followed by correction in logistics cost and augmented premium of raw materials prices. Furthermore, the revenue in Q1FY24 increased by 22% Y-o-Y to ₹3,773 crore led by higher volumes with 92.1% increase in the cable division exports and 57.7% increase in the conductor segment. The upgrade also factors improvement in the debt coverage metrics, improved interest coverage and lower net debt/EBITDA at 3.13x (PY: 4.82x) as on March 31, 2023.

The ratings continue to factor APAR's established and leadership position in conductors and TSO segments, diversified revenue streams product-wise and geographically, with exports contributing 48.7% in FY23, long-standing experience of the promoters and healthy growing order book which stood at ₹5,356 crore for the conductor division and ₹930 crore for the cables division as on June 30, 2023.

The above strengths are tempered by high working capital intensive operations with nature of business resulting in higher reliance on working capital borrowing (in the form of acceptances) leading to higher leverage indicators. The overall gearing (including LC Acceptances) increased marginally to 2.02x in FY23 (PY: 1.82x) on a consolidated basis. The TOI increased by 54% Y-o-Y, while the LC acceptance increased by 50%. 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 also take cognisance of the inherent business risk on account of its exposure to the raw material price risk, foreign currency volatility, increasing competition in the industry and freight charge volatility. The ratings further note the margins are exposed to fluctuation in raw material prices, though APAR's hedging policy and natural hedge mitigates the risk to an extent.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in total outside liability (TOL)/ tangible net worth (TNW) to 1.50x.
- Sustained improvement in operating profit above 10% and healthy scale growth.

Negative factors – Factors that could lead to negative rating action/downgrade:

- TOL/ TNW below 2.75x on a sustained basis coupled with decline in overall gearing.
- Decline in the operating margin below 6%.

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has considered the consolidated financials of APAR, as its wholly-owned subsidiaries have substantial operational and financial linkages with it. The list of subsidiaries is presented in Annexure-6.

Outlook: Stable

The Stable outlook reflects that scale and operating margins will continue supported by healthy order book and its strong market position in conductors and specialty oil segment with increasing share from premium products in the near to medium term.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Furthermore, CARE Ratings expects the favourable demand prospects from the industry in power and distribution with sizeable capex to provide further growth opportunities to the company.

Detailed description of the key rating drivers:

Key strengths

One of the largest players in the conductor segment

APAR is one of the largest companies, engaged in the manufacturing of TSO and Transmission & Distribution Overhead Conductors with a total installed capacity of 542,000 KL and 180,000 MT, respectively, as on March 31, 2023. In the conductor division, APAR caters to prominent customers like Power Grid Corporation of India Limited (PGCIL; rated 'CARE AAA; Stable/ CARE A1+'), various state government entities, Larsen & Tuobro Limited, and prominent turnkey operators with whom it has a long-standing relationship. APAR also exports to major geographies with focus on Australia, South East Asia, Middle East, Latin America, North America and Africa among others and has presence in more than 140 countries.

Long-standing experience of promoters in business

APAR was established in 1958 by Late Dharamsinh D Desai in the name of Power Cables Private Limited. He was the founder of Dharamsinh Desai University, Nadiad, in Gujarat. Over the years, APAR has established itself as one of the leading producers of conductors and TSO segments. The promoter group has been in the conductor business over six decades and the operations are currently being managed by third generation of the Desai family – namely, Kushal N. Desai, who is the Chairman & Managing Director, and Chaitanya N. Desai, who is the Managing Director (grandsons of Dharmsinh D. Desai). Both are well qualified and have substantial industrial experience of 33 years and 28 years, respectively, in the TSO and Conductor business. Furthermore, APAR has a qualified management team comprising industry personnel with over decades of experience.

Well-established market position across segments

APAR is amongst the top three producers of conductors and speciality oils in the world. In the transformer oil segment, it has a product offering of over 500+ grades with varied application in the industrial oil sub segment. To cater to the need of growing demand in Middle East and African markets, APAR commissioned its port-based plant at Hamriyah, Sharjah in FY18. It has also entered into a brand and manufacturing alliance for its automotive lubricant segment with the global energy leader, ENI S.P.A, Italy.

In the conductor segment, APAR enjoys long-standing relationship with customers like PGCIL, Kalpataru Power Transmission Limited, KEC International Limited. In the cables segment, APAR is engaged in electrical and telecom cables as well as elastomer cables. This division supplies to various industry segments in India viz., power utilities, petrochemicals, steel, cement, nuclear power, defence, telecommunication, metros and shipbuilding, railways, renewable energy sector, etc. Major clients include Adani Group, Tata Power, Larsen & Toubro Limited, BHEL and Sterlite Technologies Limited, etc.

Diversified revenue profile

APAR's business segments comprise conductors, TSO and cables. The conductor segment contributed 47% to the gross sales of FY23 (PY: 43%), TSO segment contributed 31% in FY23 (PY: 36%), and the balance was from the cables segment. APAR has incremental income coming from high-margin product for the conductor segment, which has increased the segment's revenue by 67% in FY23. Similarly, the revenue from cables also increased by 64% led by higher sale of optical fibre cable (OFC). The total order stood at ₹5,356 crore for the conductor division and ₹930 crore for the cables division as on June 30, 2023. The TSO segments revenue increased by 31% Y-o-Y in FY23 owing to increased exports.

Improved overall performance led by increase in volume and value

The TOI improved by 54% in FY23 Y-o-Y owing to increased volumes of sold and premiumisation of product mix. In FY23, the revenue from conductor segment reached ₹7,013 crore led by increased revenue from exports, revenue from TSO was at ₹4,657 crore and revenue from cable segment reached ₹3,264 crore driven by increased sale of OFC and Elasto/E-beam cable sub-segment. Export revenue grew by 97% in FY23.

The overall operating margins increased by 266.85 bps in FY23. Conductor segment recorded a strong EBITDA per MT of ₹44,700 in FY23 (PY: ₹18,131/MT) led by increased contribution of exports and increase in share of premium products. Speciality oil segment recorded a decline in EBITDA/KL to ₹5,102 in FY23 (PY: ₹6,287/KL) led by increase in global inflation and rising interest rates. Cable segment posted an EBITDA growth of 216% to ₹348 crore (PY: ₹110 crore) led by improved order/product mix and scale economies. CARE Ratings also observes that stabilisation in the cost of logistics and increase in steel and aluminium prices augmented higher margins.

Key weaknesses

Working capital intensity of operations

The operations of the company continue to be working capital intensive due to the inherent problems in the industry in which it operates, such as delays in order execution, delays in obtaining clearances and in funding arrangements by engineering, procurement, and construction (EPC) players. High working capital utilisation makes this clear. The business uses packing credit limits and Letters of Credit to meet its working capital needs (LC acceptances in the form of supplier credit).

Moderate debt coverage indicators

Due to increase in LC-backed acceptances in FY23, the overall gearing ratio increased to 2.02x in FY23 (PY: 1.82x). The majority of APAR's raw materials are imported, and they are financed mostly by supplier credit that is guaranteed by LC. As the scale of business increased, LC-backed acceptance also increased to ₹4,136.57 crore. The size of operations directly correlates with LC-backed acceptances. TOL/ TNW reduced to 2.67x as on March 31, 2023 (PY: 2.82x). Due to stronger PBILDT and cash accruals, the total debt/GCA and total debt/PBILDT improved in FY23 to 6.14x and 3.56x, respectively, as compared with FY22. Similarly, other indicators like return on net worth (RONW) and return on capital employed (ROCE) also increased due to effective scaling of operations. Interest coverage improved to 3.68x as on March 31, 2023 (PY: 3.44x).

Susceptibility of margins to volatility in raw material prices

The raw material cost to TOI stood at 78.39% in FY23 (PY: 81.57%). The price of aluminium and copper, which are major raw materials for conductors, have shown a lot of volatility in the past few years. In order to hedge against the volatility in the metal price, APAR books the metal at the LME rates on the day the order is booked for fixed-price orders. In the TSO segment, APAR uses base oil as its raw material. The base oil prices depend on crude oil prices to a certain extent, which are highly volatile. CARE Ratings notes that due to the intense competition in the segment, APAR is not always able to pass on the entire raw material price rise to the customers. Even otherwise, the company can pass on majority of raw material increase to the customers only with a time lag.

Exposure to foreign exchange fluctuation

APAR is exposed to the volatility in foreign exchange rates on account of its imports and borrowings in foreign currency. Majority of its raw materials are imported making APAR a net importer. APAR is affected by the price volatility of certain commodities, viz., aluminum, copper and oil. Being a net importer, CARE Ratings will continue to monitor the ability of the company to successfully manage its foreign exchange fluctuation risk, which remains critical from the credit perspective. The company is exposed to the currency risk on account of its borrowings and other payables in foreign currency. The company uses forward exchange contracts to hedge its currency risk, most with a maturity of less than one year from the reporting date.

Liquidity: Adequate

The liquidity for APAR is adequate as evinced from gross cash accruals (GCA) of over around ₹900 crore expected to be generated in FY24. Furthermore, APAR had cash and cash equivalents (unencumbered) of ₹550.47 crore as on March 31, 2023. As against the same, the company has debt repayment obligations to the tune of ₹65 crore (including lease liability) on a consolidated basis for FY24. The company maintains a comfortable of cash balance of ₹250-350 crore month-on-month after the committed payments towards LC acceptances.

Environment, social, and governance (ESG) risks

The company has laid out six main opportunities that they want to address when it comes to the environmental impact:

- Reduce the carbon emission intensity by around 25% from the current carbon footprint of 104,928 tCO_2.
- Renewable energy is to contribute 15% of electricity mix through the collaboration with M/s Clean Max Enviro Energy Solutions Pvt Ltd. Combining a 3.30-MW solar wind turbine and 1.80 MWp of solar energy.
- Zero liquid discharge and waste reduction and ensure compliance with the Plastic Waste Management Rules 2016 through collaboration with certified recyclers and employee recycling processes to effectively manage and mitigate impact of plastic packaging waste.
- Reduce the water footprint intensity by 6%. Water consumption has decreased from 24.40 KL/ ₹ crore revenue to 22.88 KL/ ₹ crore displaying efficient water management.
- Implementation of rainwater harvesting capable of capturing and recharging 72,000 KL of water annually.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector

Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Electrical Equipment	Other Electrical Equipment

Founded by Dharmsinh D. Desai in 1958, APAR is engaged in three broad business segments-transformer oils and specialty oils (TSO), conductors segment, and power/telecom cables. Apart from being a market leader in India, the company has a global presence, exporting to over 140 countries. APAR has total installed capacity of 542,000 KL of transformer oils and 180,000 MT of conductors as on March 31, 2023. Its manufacturing facilities are located at Rabale (Maharashtra), Silvassa, Athola and Rakholi (Dadra and Nagar Haveli), Umbergaon and Khatalwad (Gujarat), Jharsugoda and Lapanga (Orissa), and Hamriyah (Sharjah). Furthermore, APAR has commissioned the continuously transposed conductors facility, a value-added product, with total installed capacity of 7000 MT for supply of copper conductors to transformer industry.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	9,316.57	14,352.15	3,786.87
PBILDT	547.85	1,226.95	360.02
PAT	256.73	637.72	197.43
Overall gearing (inc. LC acceptance) (times)	1.82	2.02	NA
Interest coverage (times)	3.44	3.68	5.17

A: Audited UA: Unaudited NA: Not Applicable; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit		-	-	-	705.00	CARE A+; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	8045.00	CARE A+; Stable / CARE A1
Term loan-Long term		-	-	05-06-2026	535.50	CARE A+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Non-fund-based - LT/ ST-BG/LC	LT/ST*	8045.00	CARE A+; Stable / CARE A1	-	1)CARE A; Positive / CARE A1 (05-Dec-22)	1)CARE A; Stable / CARE A1 (07-Oct-21)	1)CARE A; Stable / CARE A1 (18-Dec-20)
2	Fund-based - LT-Cash credit	LT	705.00	CARE A+; Stable	-	1)CARE A; Positive (05-Dec-22)	1)CARE A; Stable (07-Oct-21)	1)CARE A; Stable (18-Dec-20)
3	Term loan-Long term	LT	535.50	CARE A+; Stable	-	1)CARE A; Positive (05-Dec-22)	1)CARE A; Stable (07-Oct-21)	1)CARE A; Stable (18-Dec-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Non-fund-based - LT/ ST-BG/LC	Simple
3	Term loan-Long term	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of subsidiaries which are consolidated.

Name of the subsidiary	Country	% holding
Petroleum Specialties Pte. Limited (PSPL)	Singapore	100%
Petroleum Specialty FZE	UAE	100% subsidiary of PSPL
Apar Transmission and Distribution Projects Pvt. Ltd	India	100%
Apar Distribution & Logistics Private Limited	India	100%
Ampoil Apar Lubricants Private Limited (Associate from 19th September 2020)	India	APAR holds 40% of equity share capital of the JV
Cema Wires & Cables Inc.	USA	100%

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Saikat Roy Senior Director **CARE Ratings Limited** Phone: +91-22-67543404 E-mail: saikat.roy@careedge.in	Pulkit Agarwal Director **CARE Ratings Limited** Phone: 022- 6754 3505 E-mail: pulkit.agarwal@careedge.in Arti Roy Associate Director **CARE Ratings Limited** Phone: 022- 6754 3456 E-mail: arti.roy@careedge.in Harneel Desai Analyst **CARE Ratings Limited** Phone: 022 - 6754 1567 E-mail: Harneel.Desai@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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