

No. CARE/DRO/RL/2020-21/3157

**Shri Deepak Goyal**

**Chief Financial Officer**

**APL Apollo Tubes Limited**

36, Kauhambi, Near Anand Vihar Terminal,  
Ghaziabad, Uttar Pradesh 201010

December 28, 2020

**Confidential**

Dear Sir,

**Credit rating for bank facilities**

On the basis of recent developments including operational and financial performance of your Company for FY20 (Audited) and H1FY21 (unaudited), our Rating Committee has reviewed the following ratings:

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	426.00 (Reduced from 445.00)	CARE AA; Stable (Double A; Outlook: Stable)	Revised from CARE AA-; Stable (Double A Minus; Outlook: Stable)
Short Term Bank Facilities	149.00 (Enhanced from 130.00)	CARE A1+ (A One Plus)	Reaffirmed
Total Facilities	575.00 (Rs. Five Hundred Seventy- Five Crore Only)		

2. Refer **Annexure 1** for details of rated facilities.
3. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

**CARE Ratings Ltd.**

enclosed for your perusal as **Annexure 2**. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by December 29, 2020, we will proceed on the basis that you have no any comments to offer.

4. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.
5. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the bank facilities, CARE shall carry out the review on the basis of best available information throughout the life time of such bank facilities. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the aforementioned rating actions in any manner considered appropriate by it, without reference to you.
6. CARE ratings do not take into account the sovereign risk, if any, attached to the foreign currency loans, and the ratings are applicable only to the rupee equivalent of these loans.
7. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.
8. Users of this rating may kindly refer our website [www.careratings.com](http://www.careratings.com) for latest update on the outstanding rating.
9. CARE ratings are **not** recommendations to sanction, renew, disburse or recall the concerned bank facilities.

If you need any clarification, you are welcome to approach us in this regard.

**CARE Ratings Ltd.**

Thanking you,

Yours faithfully,



**Bhavya Bansal**

Analyst

bhavya.bansal@careratings.com



**Ajay Dhaka**

Associate Director

ajay.dhaka@careratings.com

Encl.: As above

**Disclaimer**

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

**CARE Ratings Ltd.**

## Annexure 1

## Details of Rated Facilities

## 1. Long Term Facilities

## 1.A. Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Remarks
1.	State Bank of India	251.00	one way interchangeability to non-fund based
2.	Axis Bank Ltd.	175.00	both way interchangeability between fund-based and non-fund based
	<b>Total</b>	<b>426.00</b>	

**Total Long Term Facilities: Rs.426.00 crore**

## 2. Short Term Facilities

## 2.A. Non-Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Remarks
1.	Axis Bank Ltd.	75.00	both way interchangeability between fund-based and non-fund based
2.	State Bank of India	74.00	
	<b>Total</b>	<b>149.00</b>	

**Total Short Term Facilities: Rs.149.00 crore**

**Total Facilities (1.A+2.A): Rs.575.00 crore**

**APL Apollo Tubes Limited**

December 28, 2020

**Ratings**

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	426.00 (Reduced from 445.00)	CARE AA; Stable (Double A; Outlook: Stable )	Revised from CARE AA- ; Stable (Double A Minus; Outlook: Stable)
Short Term Bank Facilities	149.00 (Enhanced from 130.00)	CARE A1+ (A One Plus )	Reaffirmed
<b>Total Bank Facilities</b>	<b>575.00</b> <b>(Rs. Five Hundred</b> <b>Seventy-Five Crore</b> <b>Only)</b>		

*\*Details of instruments/facilities in Annexure-1*
**Detailed Rationale & Key Rating Drivers**

The revision in the long-term ratings assigned to the bank facilities of APL Apollo Tubes Limited (APL) factors in the improvement in the operating performance characterized by steady growth in the sales volume – including successful operationalisation of the recently acquired Apollo Tricoat facility – and healthy PBILDT per-tonne. APL has a strong pan-India distribution network and it has been increasing its market share in the structural tubes segment leading to cost efficiencies which coupled with an increasing contribution from value-added products has resulted in strong growth in profits and cash accruals. The revision in the rating also takes into consideration improvement in the financial risk profile marked by reduction in overall gearing and improved debt coverage metrics, subsequent to infusion of equity and repayment of debt, and strong liquidity position aided by healthy operational cash flow from operations during H1FY21 (refers to the period from April 1 to September 30) and relatively leaner working capital cycle of the company. The ratings continue to derive strength from the experience of its promoters and management in steel tubes industry, the company's long track record of operations and its diversified product profile with continuous addition of new high yielding value-added products in its repertoire. The ratings, however, continue to remain constrained by APL's exposure to steel price volatility and highly competitive nature of the pipes and tubes industry.

**Rating Sensitivities**

*Positive Factors - Factors that could lead to positive rating action/upgrade:*

- Increase in scale of operations supported by improvement in capacity utilization above 85% on a sustained basis

**CARE Ratings Ltd.**

CORPORATE OFFICE: 4<sup>th</sup> Floor, Godrej Coliseum, Somaiya  
Hospital Road, Off Eastern Express Highway, Sion (E), Mumbai -  
400 022.  
Tel.: +91-22- 6754 3456 • Fax: +91-22- 022 6754 3457  
Email: care@careratings.com • www.careratings.com

13th Floor, E-1 Block, Videocon Tower  
Jhandewalan Extension, New Delhi - 110 055.  
Tel: +91-11-4533 3200 • Fax: +91-11-4533 3238

CIN-L67190MH1993PLC071691

- Improvement in gearing below 0.30x and improvement in PBILDT per tonne above Rs.4,500 per tonne on sustained basis.
- Substantial improvement in liquidity position

*Negative Factors- Factors that could lead to negative rating action/downgrade:*

- Reduction in PBILDT per tonne below Rs. 2,500 on sustained basis.
- Any sizeable debt funded capex or acquisition resulting in deterioration in gearing beyond 0.5x
- Increase in total debt to PBILDT above unity.
- Significant deterioration in asset turnover ratio

## Detailed description of the key rating drivers

### Key Rating Strengths

**Consistently improving operating performance:** APL's consolidated gross sales have grown at a CAGR of 12.90% over the period of FY16-FY20 driven by continuous expansion in the capacity coupled with higher production. The company witnessed the highest ever sales volume registering a growth in sales volumes of pipes from 13.39 lakh MT in FY19 to 16.33 lakh MT in FY20 on the back of strong demand recovery and increase in contribution from hollow section, direct forming technology (DFT) and galvanized iron (GI) pipes. The operationalization of its newly acquired subsidiary – Apollo Tricoat Tubes Limited – in June, 2019 further contributed to increased sales volume and revenue. The PBILDT per tonne of the company was marginally improved at Rs. 2,968 in FY20 (PY: 2,955), despite substantial volatility in steel prices through the year and the impact of Covid-19 towards the end of the year.

Further, notwithstanding the persistence of the Covid-19 pandemic, the company has reported strong consolidated PBILDT per tonne of Rs. 3528 per tonne during H1FY21 (H1FY20: Rs. 2738 per tonne) and sales volume of 7.19 lakh MT on back of recovery of demand in Q2FY21 and the company's established ability to continue gaining market share from smaller players due to its cost efficiencies, a wide product portfolio and strong marketing network. The company reported healthy cash accruals of Rs. 177.31 crores during H1FY21 (H1FY20: Rs. 127.82 crore).

**Improvement in financial risk profile:** APL's overall gearing improved from 1.07x as on March 31, 2019 to 0.80x as on March 31, 2020 which further improved to 0.67x as on September 30, 2020 owing to equity infusion to the tune of Rs.172 crore during FY20, continued improvement in profitability and accretion of profits to reserves. The coverage indicators improved and stood comfortable with interest coverage and total debt to PBILDT of 4.53x and 2.18x as on March 31, 2020 as against 3.54x and 2.55x respectively as on March 31, 2019. Going forward, CARE expects the company's debt level to reduce further and remain low as it doesn't have any further acquisition or capex plans in the medium term and focus shall remain on consolidating the operations and debt reduction.

**Shortening working capital cycle:** Although pipe manufacturing business is working capital intensive, the company has an efficient working capital management as reflected by an improved operating cycle of 28 days in FY20 (PY 34 days) leading to moderate average working capital utilization of ~60% for the trailing 12 months ended September 2020. It has been able to improve its working capital consistently over the last four financial years on account of better inventory

CARE Ratings Ltd.



management and efficient collections partially supported through channel financing made available to its larger dealers.

**Experienced promoters and management:** APL was originally incorporated by late Mr. S.K. Gupta and Mrs. Saroj Rani Gupta. After the demise of Mr. S. K. Gupta, its management was taken over by his son Mr. Sanjay Gupta, who has been managing the company for the past two decades. He has more than 23 years of professional experience in the steel tubes industry. He is supported by an experienced team of professional with extensive experience in electric resistance welded (ERW) industry segment. Under his leadership and support from strong management team, the company has evolved from a small steel tube manufacturer into a leader of branded steel tube products.

**Long track record of operations and established market position:** APL has been operational for more than 25 years; it began with manufacturing of MS black pipes using the ERW technique with a capacity of 6,000 MT in 1986 and over the years, has forayed into manufacturing of Galvanized Iron pipes (GI), pre-galvanized pipes (GP), hollow sections etc. As on September 30, 2020 it has India's largest capacity of 26.50 lakh MTPA at a consolidated level which has been gained through key strategic acquisitions by the company, making it the largest ERW pipe manufacturer in the country.

**Diversified operations and product portfolio:** The production facilities of the company are well diversified geographically as it has 10 manufacturing facilities spread over North, East, West and South India along with warehouses cum branches in over 29 cities across India. The company has a network of more than 800 direct distributors/dealers and over 50,000 retailers and fabricators. The company's channel financing initiative for the dealers has also assisted volume growth in FY20. APL has well diversified operations with product portfolio comprising of 4 primary products with different specification as per the customer need in each primary product category. Its product range includes MS tubes, galvanized, tricoat, plank, signature, chaukhat and pre-galvanized tubes and hollow sections in the ERW segment. The company's products find widespread application in industries like infrastructure, water & sewage projects, structures, general engineering, transportation system, housing, greenhouses, solar plants, etc. The geographic diversification of operations enables continuous production and mitigates the risk of interruption due to anomalies of operating in single geography besides saving in freight costs. Also, the well diversified product portfolio with widespread applications across different sectors protects its revenues from depending on single segment and ensures better revenue visibility.

#### Key Rating Weaknesses

**Raw material price volatility risk:** The major raw materials for APL's products are HR coils, galvanised coils and zinc, the prices of which are volatile. The prices of the HR coils are market linked and determined on a periodic basis, thus exposing the company to the volatility in the prices of raw materials which has a bearing on its profitability margins. Besides, raw material, the company is exposed to loss of value on raw material inventories held by it in case of any sharp downward movement in the prices. However, the company being one of the largest buyers of HRC in India has demonstrated its ability to effectively manage these volatilities through passing on the increase in steel prices to its customers and maintaining an optimal inventory level.

**Highly competitive industry scenario:** The steel pipes industry is highly competitive due to presence of various organized and unorganized players and expanding applications of various types

CARE Ratings Ltd.

of steel pipes. Although, over the years the industry has become more organized with the share of unorganized and smaller players reducing yet the prevalent competition has a bearing on the margins due to fragmentation of the industry. However, APL with its bigger size, wider and innovative product range, diversified and widespread marketing network has a certain edge over small players and even the other large organized players in the industry.

**Liquidity: Strong:** APL Apollo has strong liquidity market by healthy cash accruals of 326.59 during FY20. During the year, the company concluded the infusion of Rs. 172 crore by an entity belonging to promoter category in APL Apollo through preferential allotment of equity and convertible warrants. The company further expects gross cash accruals of Rs. 415 crore in FY21 against repayment obligations aggregating to Rs.250 crore in FY21, a large part of which has already been repaid. The total free cash and bank balance of the company increased from Rs.44.39 crore as on March 31, 2020 to Rs. 504.92 crore as on September 30, 2020, as it generated healthy cash flow from operations of Rs. 652 crore in H1FY21 as compared to Rs. 510 crore in FY20. It doesn't have any major capex or acquisition plans in medium term and its maintenance/sustenance capex are expected to be funded through internal accruals. Its current ratio stood at 1.17x as on March 31, 2020 (PY: 1.01x). The company has not availed any moratorium under RBI's covid relief scheme.

**Analytical approach:** CARE has taken a consolidated view of APL due to common management, significant operational and financial linkages with its subsidiaries. List of company's subsidiaries getting consolidated under APL are shown below.

Name of companies/ Entities	% of holding
Apollo Metalex Private Limited	100.00
Shri Lakshmi Metal Udyog Limited	100.00
Blue Ocean Projects Private Limited	100.00
APL Apollo Tubes FZE	100.00
APL Apollo Building Products Private Limited	100.00
Apollo Tricoat Tubes Limited (acquired in Q1FY20)	50.56

### Applicable Criteria

[Criteria on assigning outlook and credit watch to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Short Term Instruments](#)

[Factoring Linkages Parent Sub JV Group](#)

[Rating Methodology- Consolidation](#)

[Rating Methodology- Manufacturing Companies](#)

### About the Company

APL was incorporated as Bihar Tubes Pvt Ltd on February 24, 1986, and started its operations with a unit at Sikandrabad (Uttar Pradesh) to manufacture electric resistance welding (ERW) pipes with a capacity of 6,000 MT. APL is the flagship company of the Sudesh Group. Currently, APL is engaged in manufacturing of steel pipes and tubes with a capacity of 26.50 lakh MTPA as on September 30,

**CARE Ratings Ltd.**



2020 on a consolidated basis. The company's growth during FY20 through key acquisitions and merger including the acquisition of Taurus Value Steel & Pipes located in Hyderabad in May, 2020 with a production capacity of 2 lakh tonnes per annum which operationalized from Q2FY20, and acquisition of Apollo Tricoat Tubes Ltd (through a wholly-owned subsidiary) with existing and new production capacity of 2 lakh tonnes per annum. It has a PAN-India presence with 10 manufacturing units located in Sikandarabad (3 units), Bengaluru, Hyderabad, Hosur, Raipur and Murbad.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	7152.75	7730.46
PBILDT	395.69	484.75
PAT	148.25	255.99
Overall gearing (times)	1.07	0.80
Interest coverage (times)	3.54	4.53

A: Audited;

**Status of non-cooperation with previous CRA:** NA

**Any other information:** N.A

**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 for this company:** Annexure 4

#### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Working Capital Limits	-	-	-	426.00	CARE AA; Stable
Non-fund-based-Short Term	-	-	-	149.00	CARE A1+

#### Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Working Capital Limits	LT	426.00	CARE AA; Stable	-	1)CARE AA-; Stable (04-Oct-19) 2)CARE AA-;	1)CARE AA-; Stable (04-Apr-18)	-

**CARE Ratings Ltd.**

						Stable (03-Apr-19)		
2.	Non-fund-based-Short Term	ST	149.00	CARE A1+	-	1)CARE A1+ (04-Oct-19) 2)CARE A1+ (03-Apr-19)	1)CARE A1+ (04-Apr-18)	-
3.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (10-Dec-19) 2)CARE AA-; Stable (04-Oct-19) 3)CARE AA-; Stable (03-Apr-19)	1)CARE AA-; Stable (04-Apr-18)	-
4.	Commercial Paper	ST	-	-	-	-	1)Withdrawn (04-Apr-18)	-

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA**

**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Working Capital Limits	Simple
2.	Non-fund-based-Short Term	Simple

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

### Contact us

#### Media Contact

Mradul Mishra

Contact no. – +91-22-6837 4424

Email ID – [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

#### Analyst Contact

Mr. Ajay Dhaka

Contact no. - +91-11-45333218

Email ID- [ajay.dhaka@careratings.com](mailto:ajay.dhaka@careratings.com)

**CARE Ratings Ltd.**

**Business Development Contact**

Ms. Swati Agrawal

Contact no. - +91-11-4533 3200

Email ID- [swati.agrawal@careratings.com](mailto:swati.agrawal@careratings.com)**About CARE Ratings:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

**Disclaimer**

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**

**CARE Ratings Ltd.**

13th Floor, E-1 Block, Videocon Tower, Jhandewalan Extension, New Delhi - 110 055.

Tel: +91-11-4533 3200 • Fax: +91-11-4533 3238