November 18, 2021

APL Apollo Tubes Limited: Long-term rating upgraded to [ICRA]AA(Stable); Short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	300.0	300.0	[ICRA]A1+; reaffirmed
Fund-based: Working Capital Facilities	1,200.0	1,100.0	[ICRA]AA(Stable), upgraded from [ICRA]AA-(Positive)/ [ICRA]A1+ reaffirmed
Fund-based (FB): Term Loan	207.0	145.0	[ICRA]AA(Stable); upgraded from [ICRA]AA-(Positive)
Non-fund Based (NFB): Working Capital Facilities	494.0	494.0	[ICRA]A1+; reaffirmed
Unallocated	-	162.0	[ICRA]AA(Stable), upgraded from [ICRA]AA-(Positive)/ [ICRA]A1+ reaffirmed
Total	**2,201.0**	**2,201.0**	

**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, namely 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 companies are in similar lines of businesses and have significant operational and financial linkages.

The rating upgrade factors in the continued improvement in the group's financial risk profile, led by sustained healthy operating performance, improved working capital management and ongoing de-leveraging of its balance sheet. ICRA expects the trend in improvement to continue over the medium term, with the revised rating more closely reflecting an updated view on the company's credit profile. The group is set to report a robust double-digit growth along with sustained healthy margins in FY2022 following a 10% growth in operating income and a ~180-basis-points (bps) improvement in operating margins in FY2021 amid the pandemic-led disruptions. The growth will be spurred by a surge in realisations, continued volumetric ramp-up and increasing proportion of value-added products. Further, the commissioning of the Raipur facility by the end of FY2022 with focus on higher value-added products is expected to support growth and margins over the medium term.

The group also expects to conclude the merger of SLMUL and ATTL with AATL by the end of the current fiscal, which would simplify the group structure and provide operational synergies. Moreover, the group has considerably reduced its gross working capital cycle over the past two fiscals on the back of an efficient working capital management, which has supported its cash flow generation. This in turn helped the company prepay part of its debt obligations, facilitating faster deleveraging of its balance sheet. Together with healthy return metrics, this translates into robust debt coverage metrics for the group.

The ratings continue to reflect the group's leadership position in the domestic electric resistance welded (ERW) pipes segment and its geographically-diversified manufacturing base across India.

The ratings, however, are constrained by the intense competition in the pipes and tubes industry due to the presence 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 focus on value-added products and successfully enhance its capacities in the upcoming fiscals through internal accruals. Further, the company's phased-out capex plans and limited incremental borrowing requirements 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 consistently expanded its manufacturing capacities to keep pace with the market growth. Additionally, over three decades of its existence, the group has established a large distribution network of around 800 dealer distributors and over 50,000 retailers across the country.

Diversified geographical manufacturing presence and product profile – The group has established manufacturing base 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 adding new value-added products such as large-diameter pipes, color-coated pipes and DFT pipes, 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, the diversification allows the company to be better placed to serve new market segments.

Considerable improvement in working capital cycle - The group has achieved considerable improvement in its gross working capital cycle by reducing its receivable as well as inventory turnover period over the past two fiscal years (FY2020 and FY2021). While the receivable days declined to six days in FY2021 from ~30 days till FY2019 led by cash discounts on advance or immediate payments, the inventory turnover period shrunk to ~37 days in FY2021 from ~44 days in FY2019 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 0.3x as on March 31, 2021 and total debt/OPBDITA of 0.8x in FY2021) and robust debt coverage metrics (interest cover and DSCR of 10.3x and 3.4x [adjusted for prepayments] in FY2021, respectively). A healthy growth in turnover together with improved profitability and prudent working capital management in FY2021 enabled the company to generate robust free cash flows. The company used the surplus liquidity to partly prepay its debt obligations, deleveraging its balance sheet. Supported by continued growth in volumes and a significant increase in realisations, the company continues to grow at a healthy pace in the current fiscal as well. The growth pace along with expectations of sustained profitability is expected to keep the company's incremental reliance on debt low for the planned capital expenditure requirements and 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 maintenance of inventory to cater to the market demand in a timely manner. Hence, prudent working capital management is crucial to safeguard against any significant price movements. 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 the case of an adverse demand-supply scenario, the inability to pass on the raw material price hike to its buyers could adversely impact 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, Jindal Pipes, Welspun Corp. etc. Furthe, as ERW pipe-manufacturing is not a capital-intensive process, the barriers to the entry of new players are low and, hence, the industry has many unorganised players too.

Liquidity position: Strong

AATL's liquidity position is strong, corroborated by sizeable cash & bank balances of ~Rs.440 crore as on September 30, 2021. 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. The liquidity profile is also supported by adequate cushion in the form of undrawn working capital limits, averaging over Rs. 200 crore vis-à-vis the drawing power in the six-month period ended August 2021, compared to scheduled repayment obligations of Rs. 79 crore in FY2022.

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 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

APL Apollo Tubes Limited (AATL) was incorporated in February 1986 as Bihar Tubes Private Limited with its headquarters at Delhi-NCR. AATL is the largest ERW pipe/ structural steel tube manufacturer in India. The company operates 10 manufacturing facilities across India with a total installed capacity of 2.65 million tons per annum (MTPA). The group's product offerings include 1,500+ varieties for structural steel applications. These tubes have a wide spectrum of application 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 around 800 dealer distributors and over 50,000 retailers over the years.

Key financial indicators (audited)

Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	7,723	8,500
PAT (Rs. crore)	256	408
OPBDIT/OI (%)	6.2%	8.0%
PAT/OI (%)	3.3%	4.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.25	0.9

Total Debt/OPBDIT (times)	1.75	0.8
Interest Coverage (times)	4.45	10.3

Source: APL Apollo's Annual Report

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current Rating (FY2022)					Rating History for the Past 3 Years						
	Instrument	Type	Amount Rated	Amount Outstanding	Date & Rating	Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019		
					Nov 18, 2021	Mar 08, 2021	Dec 31, 2020	Nov 19, 2019	May 27, 2019	Feb 26, 2019	Nov 01, 2018	May 16, 2018
	NCD	Long Term	0.0	0.0	-	-	[ICRA]AA-(Stable); withdrawn	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
	NCD	Long Term	0.0	0.0	-	-	[ICRA]AA-(Stable); withdrawn	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
1	CP	Short Term	300.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	FB: Term Loan	Long Term	145.0	145.0	[ICRA]AA (Stable)	[ICRA]AA-(Positive)	[ICRA]AA-(Positive)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
3	FB: Working Capital Facilities	Long/ Short Term	1100.0	-	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA-(Positive)/ [ICRA]A1+	[ICRA]AA-(Positive)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+
4	NFB: Working Capital Facilities	Short Term	494.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Unallocated limits	Long/ Short Term	162	-	[ICRA]AA (Stable)/ [ICRA]A1+		-	-	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Commercial Paper	Very Simple
Fund - based-Term Loan	Simple
Fund- based - Working Capital Facilities	Simple
Non-fund Based - 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, is available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs Crore)	Current Rating and Outlook
INE702C14BW4	Commercial Paper	NA	NA	Dec 13, 2021	175.0	[ICRA]A1+
Unplaced	Commercial Paper	NA	NA	NA	125.0	[ICRA]A1+
NA	Fund - based-Term Loan	FY2017-FY2020	7.25%-7.55%	FY2024-FY2025	145.0	[ICRA]AA (Stable)
NA	Fund- based - Working Capital Facilities	NA	NA	NA	1100.0	[ICRA]AA (Stable)/ [ICRA]A1+
NA	Non-fund Based - Working Capital Facilities	NA	NA	NA	494.0	[ICRA]A1+
NA	Unallocated	NA	NA	NA	162.0	[ICRA]AA (Stable)/ [ICRA]A1+

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 September 30, 2021*

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1100
jayanta@icraindia.com

Pavethra Ponniah
+91 9940 014401
pavethrap@icraindia.com

Nidhi Marwaha
+91 9818 455224
nidhim@icraindia.com

Devanshu Gupta
+91 9818 994824
devanshu.gupta@icraindia.com

RELATIONSHIP CONTACT

Mr. Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91 9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited

Registered Office

B-710, Statesman House 148, Barakhamba Road New Delhi-110001
Tel: +91 11 23357940-45

Branches