

Apar Industries

11 November 2019

Reuters: APAR.BO; Bloomberg: APR IN

Soft revenue; weak profitability

Apar Industries (Apar) reported 3% YoY decline in 2QFY20 revenue to Rs18.2bn, 14%/16% below our/consensus estimate. Lower growth was due to extended monsoon, credit crunch and delayed government payments. Conductor revenue was flat YoY at Rs9.5bn while EBITDA/MT declined 28% YoY to Rs7,789 due to low margin orders and delay in dispatches to customers having payment issues. Oil segment revenue fell 9% YoY to Rs5.7bn owing to subdued demand in domestic market. Volume declined 6% YoY to 98,156KL. EBITDA/KL jumped 117% YoY to Rs2,846, on a low base, owing to stable base oil prices and rupee. Cable segment sales fell 16% YoY to Rs3.7bn, on a high base, while EBITDA margin was sustained at 11.2%. Consolidated EBITDA was flat YoY at Rs1.1bn with an operating margin of 6%, up 20bps YoY. Higher interest cost (up 28% YoY to Rs674mn) led to 49% YoY decline in PBT to Rs222mn. Aided by tax write-back of Rs117mn, PAT grew 18% YoY to Rs339mn, below our/consensus estimate of Rs432mn/Rs453mn. Capex outlay planned for FY20 is Rs1.7bn. While 2QFY20 was a weak quarter, the company believes the market conditions are challenging owing to tepid demand and credit crunch (partly fueled by delay in receipt of payments even from government entities). We cut our earnings estimates and retain Buy rating on the stock with a revised target price of Rs705 (Rs825 earlier) based on 12x September 2021E EPS.

Conductor segment update: Conductor segment's revenue was flat YoY at Rs8.9bn (49% of total sales) as extended monsoon impacted sales in domestic market. Exports sales grew 8% YoY and formed 41% of total sales. Copper conductor constituted 22% of total sales while HEC conductor accounted for 15% of total sales (versus 11% YoY) with revenue rising 28% YoY. Order inflow was lower at Rs8.8bn (60% from exports) owing to slowdown in the domestic market. Order book fell 3% YoY to Rs26.2bn. Order book includes Rs1.8bn/Rs5.2bn copper/HEC conductors, respectively. EBITDA/MT declined 28% YoY to Rs7,789, impacted by low margin orders and delay in despatches due to customer's tight financial position. In 2QFY20, conventional conductors worth ~Rs1.2bn remained in the inventory as delivery was stalled due to customer's financial tightness. For 2HFY20, Apar expects healthy execution of HEC conductors, while copper conductor will see lower off-take owing to stock accumulation at railways' project site. Management has planned capex of Rs320mn for backward integration for its OPGW.

Oil segment update: Transformer and Specialty oil segment's revenue fell 7% YoY to Rs5.7bn (31% of total sales) owing to low demand in domestic market across sectors such as automotive, industrial, retail, FMCG and utilities. Exports formed 36% of total sales versus 32% YoY. Volume of auto lubes grew 6% YoY. The more profitable product categories of auto lubes and industrial oil collectively accounted for 23% of total sales. The capacity utilisation of Hamriyah plant increased to 65% versus 61% YoY. EBITDA/KL jumped 117% YoY to Rs2,846 (on a suppressed base) owing to stable base oil prices and rupee. Apar expects subdued demand to continue in 2HFY20 due to auto slowdown and payment delays to transformer OEMs from government.

Cable segment update: Cable segment revenue declined 16% YoY to Rs3.7bn (20% of total sales) owing to subdued demand in major segments of Telecom, Solar, Windmill and EPC. Power cable revenue was stable with good export orders and domestic copper cables orders. Cable off-take from railways was affected as they held high inventory of cables in their stores. High margin E-beam / Elastomeric and Telecom cables saw decline in revenue. Management has planned for a capex of Rs900mn for FY20 to increase E-beam cables capacities. Demand will continue to remain strong from railways and defence sector. EBITDA margin was sustained at a healthy level of 11.2% despite lower revenue growth.

Outlook: We expect Apar to post 22% earnings CAGR over FY19-FY22E, on a suppressed base. Apar offers high scalability potential and market leadership position in all its three segments.

BUY

Sector: Capital Goods

CMP: Rs521

Target Price: Rs705

Upside: 35%

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Key Data

Current Shares O/S (mn)	38.3
Mkt Cap (Rsbn/US\$m)	19.9/279.7
52 Wk H / L (Rs)	702/452
Daily Vol. (3M NSE Avg.)	14,892

Price Performance (%)

	1 M	6 M	1 Yr
Apar Industries	(0.1)	(19.9)	(12.5)
Nifty Index	7.0	4.8	12.4

Source: Bloomberg

Y/E March (Rsmn)	2QFY19	1QFY20	2QFY20	YoY (%)	QoQ (%)	1HFY19	1HFY20	YoY (%)
Net revenues	18,847	19,816	18,291	(3.0)	(7.7)	33,802	38,106	12.7
Raw material costs	15,050	15,463	14,222	(5.5)	(8.0)	26,523	29,685	11.9
Staff costs	357	415	425	19.1	2.6	722	840	16.4
Other expenses	2,350	2,568	2,549	8.4	(0.7)	4,378	5,116	16.9
Total expenditure	17,758	18,445	17,196	(3.2)	(6.8)	31,622	35,641	12.7
EBITDA	1,089	1,371	1,095	0.5	(20.1)	2,180	2,465	13.1
EBITDA margin (%)	5.8	6.9	6.0	-	-	6.4	6.5	-
Interest costs	526	569	674	28.0	18.4	1,068	1,242	16.4
Depreciation	163	199	217	33.3	9.3	319	416	30.3
Other income	33	41	18	(44.9)	(56.7)	78	59	(23.6)
PBT	433	644	222	(48.7)	(65.6)	870	866	(0.5)
Tax	146	232	(117)	NA	NA	294	115	(61.0)
PAT	286	412	339	18.4	(17.8)	576	752	30.4
PAT margin (%)	1.5	2.1	1.9	-	-	1.7	2.0	-
EPS (Rs)	7.5	10.8	8.9	18.4	(17.8)	15.1	19.6	30.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financial summary (consolidated)

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Revenues	58,185	79,639	84,746	94,810	105,841
EBITDA	4,075	4,677	4,969	5,720	6,410
Adjusted net profit	1,447	1,361	1,528	2,017	2,467
Adjusted EPS (Rs)	37.8	35.6	39.9	52.7	64.5
EPS growth (%)	(18.0)	(6.0)	12.3	32.0	22.3
EBITDA margin (%)	7.0	5.9	5.9	6.0	6.1
P/E (x)	13.8	14.7	13.1	9.9	8.1
P/BV (x)	1.8	1.7	1.5	1.4	1.2
EV/EBITDA (x)	5.0	4.2	4.1	3.5	2.9
Dividend yield (%)	1.8	1.8	2.3	2.9	3.1
RoCE (%)	24.8	27.3	27.7	30.5	32.0
RoE (%)	13.5	11.8	12.2	14.8	16.2

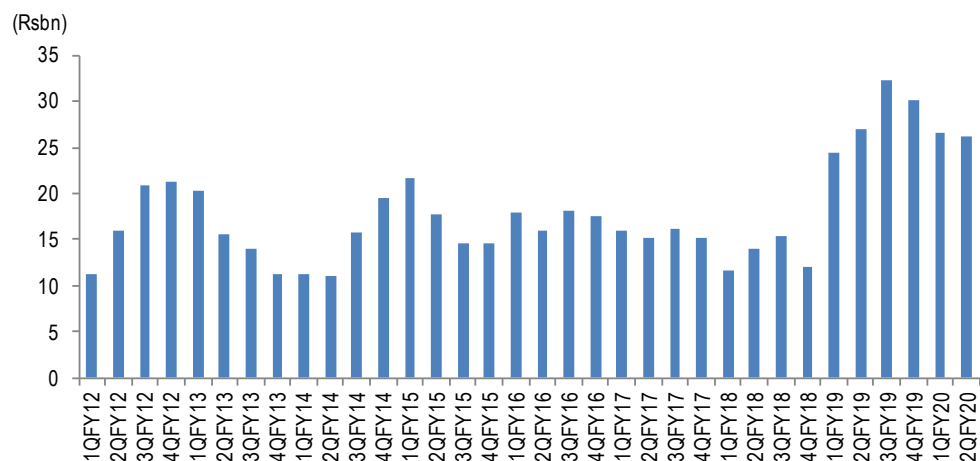
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Segment-wise snapshot (consolidated)

Y/E March	2QFY19	4QFY20	2QFY20	YoY %	QoQ %	1HFY19	1HFY20	YoY %
Revenues (Rsmn)								
Conductors	8,982	10,217	8,959	(0.2)	(12.3)	15,337	19,176	25.0
Transformer & specialty oils	6,301	6,194	5,712	(9.3)	(7.8)	12,084	11,906	(1.5)
Cables	4,373	3,939	3,689	(15.6)	(6.3)	7,542	7,628	1.1
Revenue mix (%)								
Conductors	45.7	50.2	48.8	-	-	43.9	49.5	-
Transformer & specialty oils	32.1	30.4	31.1	-	-	34.6	30.8	-
Cables	22.2	19.4	20.1	-	-	21.6	19.7	-
EBIT (Rsmn)								
Conductors	421	425	343	(18.4)	(19.2)	832	768	(7.6)
Transformer & specialty oils	141	385	291	106.7	(24.4)	458	677	47.6
Cables	457	455	357	(21.8)	(21.4)	731	812	11.1
EBIT margin (%)								
Conductors	4.7	4.2	3.8	-	-	5.4	4.0	-
Transformer & specialty oils	2.2	6.2	5.1	-	-	3.8	5.7	-
Cables	10.4	11.5	9.7	-	-	9.7	10.6	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Conductor segment's order book position



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Actual performance versus our estimates

2QFY20 (Rsmn)	Actual	Our estimate	Deviation (%)
Net sales	18,291	21,250	(13.9)
EBITDA	1,095	1,328	(17.5)
PAT	339	432	(21.6)

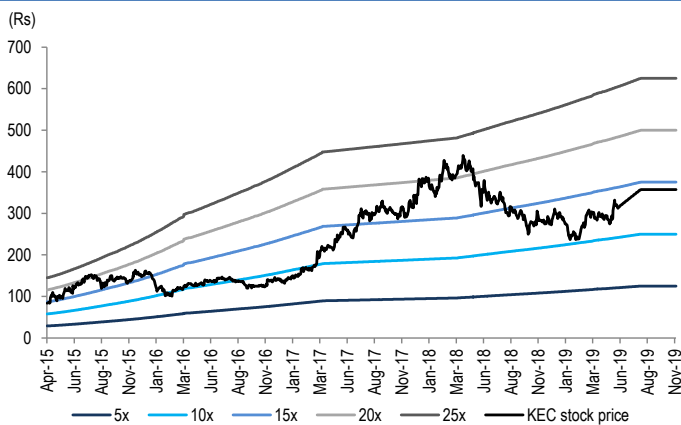
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Change in our estimates

(Rsmn)	Old			New			Deviation (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenues	92,392	100,516	107,992	84,746	94,810	105,841	(8.3)	(5.7)	(2.0)
EBITDA	5,684	6,435	7,044	4,969	5,720	6,410	(12.6)	(11.1)	(9.0)
PAT	1,993	2,452	2,817	1,528	2,017	2,467	(23.4)	(17.8)	(12.4)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: P/E charts



Source: BSE, Nirmal Bang Institutional Equities Research



Source: BSE, Nirmal Bang Institutional Equities Research

Financial statement (consolidated)

Exhibit 7: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Revenues	58,185	79,639	84,746	94,810	105,841
% growth	20.4	36.9	6.4	11.9	11.6
Raw material costs	44,950	63,360	67,034	74,521	82,979
Staff costs	1,261	1,480	1,610	1,801	2,117
Other overheads	7,899	10,121	11,133	12,768	14,335
Total expenditure	54,110	74,961	79,777	89,091	99,431
EBITDA	4,075	4,677	4,969	5,720	6,410
YoY growth (%)	(2.2)	14.8	6.2	15.1	12.1
EBITDA margin (%)	7.0	5.9	5.9	6.0	6.1
Other income	111	151	120	135	151
Interest costs	1,400	1,999	2,239	2,306	2,375
Depreciation	559	667	809	852	888
Profit before tax	2,228	2,162	2,042	2,697	3,298
Tax	780	802	515	680	831
PAT	1,447	1,361	1,528	2,017	2,467
PAT margin (%)	2.5	1.7	1.8	2.1	2.3
EPS (Rs)	37.8	35.6	39.9	52.7	64.5
YoY growth (%)	(18.0)	(6.0)	12.3	32.0	22.3

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Share capital	383	383	383	383	383
Reserves	10,700	11,641	12,617	13,946	15,678
Net worth	11,083	12,024	13,000	14,328	16,061
Short-term loans	1,698	878	778	678	578
Long-term loans	1,619	1,303	1,203	1,103	1,003
Total loans	3,316	2,181	1,981	1,781	1,581
Deferred tax liability (net)	346	403	403	403	403
Liabilities	14,745	14,608	15,384	16,512	18,045
Net block	6,438	7,068	8,794	8,542	8,253
Capital work-in-progress	195	1,035	200	200	200
Goodwill	48	21	21	21	21
Investments	0	1,869	1,869	1,869	1,869
Inventories	12,123	12,829	13,931	16,105	17,978
Debtors	17,353	21,435	22,522	24,936	27,548
Cash	2,744	2,253	1,613	1,944	3,033
Other current assets	3,859	3,705	4,068	4,551	5,080
Total current assets	36,078	40,222	42,133	47,536	53,639
Creditors	25,511	32,637	34,160	37,771	41,603
Other current liabilities & provisions	2,503	2,970	3,473	3,884	4,335
Total current liabilities	28,014	35,607	37,633	41,655	45,938
Net current assets	8,065	4,615	4,500	5,881	7,701
Total assets	14,745	14,608	15,384	16,512	18,045

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Cash flow

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
EBIT	3,517	4,010	4,160	4,867	5,522
(Inc.)/dec. in working capital	(160)	2,959	(525)	(1,050)	(732)
Cash flow from operations	3,357	6,969	3,636	3,818	4,791
Other income	111	151	120	135	151
Depreciation	559	667	809	852	888
Tax paid (-)	(895)	(745)	(515)	(680)	(831)
Net cash from operations	3,131	7,041	4,050	4,125	4,999
Capital expenditure (-)	(1,249)	(2,136)	(1,700)	(600)	(600)
Net cash after capex	1,882	4,905	2,350	3,525	4,399
Interest paid (-)	(1,400)	(1,999)	(2,239)	(2,306)	(2,375)
Dividends paid (-)	(436)	(438)	(551)	(689)	(735)
Inc./(dec.) in short-term borrowing	(167)	(819)	(100)	(100)	(100)
Inc./(dec.) in long-term borrowing	713	(316)	(100)	(100)	(100)
Inc./(dec.) in total borrowings	546	(1,135)	(200)	(200)	(200)
(Inc.)/dec. in investments	1,186	(1,869)	-	-	-
Cash from financial activities	(105)	(5,441)	(2,990)	(3,195)	(3,310)
Others	(263)	46	-	-	-
Opening cash balance	1,230	2,744	2,253	1,613	1,944
Closing cash balance	2,744	2,253	1,613	1,944	3,033
Change in cash balance	1,514	(491)	(640)	330	1,089

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Key ratios

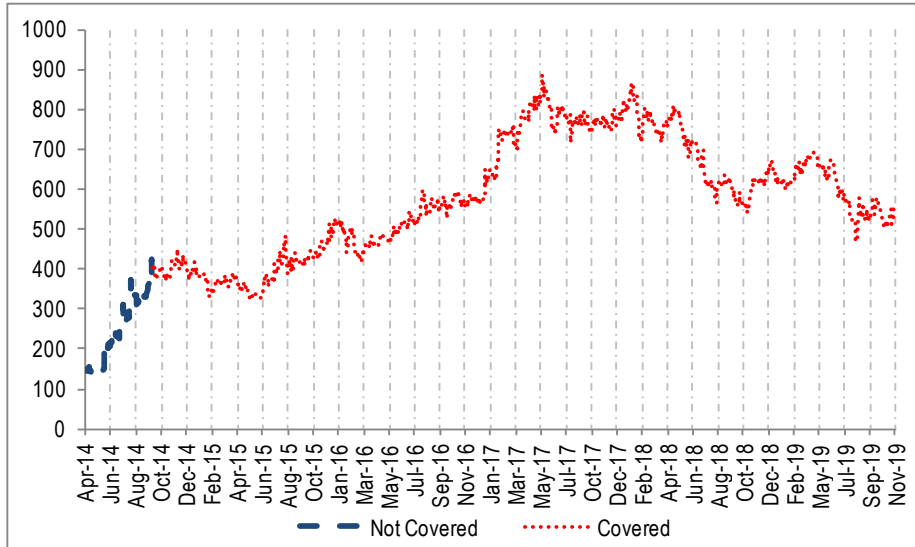
Y/E March	FY18	FY19	FY20E	FY21E	FY22E
Per share (Rs)					
EPS	37.8	35.6	39.9	52.7	64.5
Book value	289.6	314.2	339.7	374.4	419.7
Valuation (x)					
P/E	13.8	14.7	13.1	9.9	8.1
P/BV	1.8	1.7	1.5	1.4	1.2
EV/EBITDA	5.0	4.2	4.1	3.5	2.9
EV/sales	0.4	0.2	0.2	0.2	0.2
Return ratios (%)					
RoCE	24.8	27.3	27.7	30.5	32.0
RoE	13.5	11.8	12.2	14.8	16.2
RoIC	30.3	35.7	37.2	39.6	42.7
Profitability ratios (%)					
EBITDA margin	7.0	5.9	5.9	6.0	6.1
EBIT margin	6.0	5.0	4.9	5.1	5.2
PAT margin	2.5	1.7	1.8	2.1	2.3
Turnover ratios					
Total asset turnover ratio (x)	4.1	5.4	5.7	5.9	6.1
Debtor days	109	98	97	96	95
Inventory days	76	59	60	62	62
Creditor days	207	188	186	185	183
Solvency ratios (x)					
Debt-equity	0.3	0.2	0.2	0.1	0.1

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
17 September 2014	Buy	390	521
9 October 2014	Buy	406	521
7 November 2014	Buy	421	521
9 January 2015	Buy	393	521
10 February 2015	Buy	334	511
15 April 2015	Buy	377	511
21 May 2015	Buy	334	480
29 June 2015	Buy	380	480
8 July 2015	Buy	363	480
12 August 2015	Buy	415	509
12 October 2015	Buy	418	509
9 November 2015	Buy	426	512
8 January 2016	Buy	483	512
2 February 2016	Buy	500	598
12 April 2016	Buy	468	598
27 May 2016	Buy	490	598
12 July 2016	Buy	519	598
9 August 2016	Accumulate	535	600
13 October 2016	Accumulate	551	600
10 November 2016	Buy	561	690
10 January 2017	Buy	620	690
6 February 2017	Buy	657	770
14 February 2017	Buy	735	845
7 April 2017	Buy	784	845
1 June 2017	Accumulate	880	840
6 July 2017	Accumulate	770	840
14 August 2017	Buy	720	920
9 October 2017	Buy	772	920
3 November 2017	Buy	757	915
9 January 2018	Buy	852	915
31 January 2018	Buy	760	905
6 April 2018	Buy	770	905
1 June 2018	Buy	707	845
10 July 2018	Buy	696	845
14 August 2018	Buy	566	740
9 October 2018	Buy	573	740
5 November 2018	Buy	560	760
9 January 2019	Buy	624	760
31 January 2019	Buy	615	775
9 April 2019	Buy	672	865
31 May 2019	Buy	664	800
9 July 2019	Buy	570	800
13 August 2019	Buy	539	800
23 September 2019	Buy	563	825
7 October 2019	Buy	523	825
11 November 2019	Buy	521	705

Rating track graph



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