

Apar Industries

31 May 2019

Reuters: APAR.BO; Bloomberg: APR IN

Cable Segment Outperforms; Conductor And Oil Margin Likely To Revive

Apar Industries (Apar) reported 39% YoY jump in 4QFY19 revenues to Rs24.6bn, 16% above our estimate. Conductor revenues surged 49% YoY to highest ever quarterly sales of Rs13.3bn, aided by 12% volume growth. EBITDA/MT was up 17% YoY at Rs6,680 led by a rising share of copper conductors. Oil segment revenues rose 31% YoY to Rs7bn (27% YoY volume growth) led by a higher share of auto lubes and industrial oils. EBITDA/KL was adversely impacted (down 36% YoY at Rs3,391) owing to high-cost inventory of base oil. Cable segment posted highest-ever quarterly sales (at Rs5.1bn, up 51% YoY) and EBITDA margin (at 13.7%, up 330bps YoY) led by improved product mix. Consolidated EBITDA grew 8% YoY at Rs1.4bn, while PAT grew 9% YoY at Rs437mn, in line with our estimate. Apar aims to improve its revenue mix (increase share of high-margin products) in all the three segments in FY20, which would lead to much higher profitability. We have cut our earnings estimates for FY20/FY21 by 6%/7%, respectively. We retain Buy rating on the stock with a revised target price of Rs800 (from Rs865 earlier) based on 13x FY21E EPS.

Conductor segment update: The conductor segment's revenues were up 49% YoY at Rs13.3bn (53% of total sales) aided by 12% YoY volume growth. HEC/copper conductor constituted 11%/17% of sales in 4QFY19, respectively. EBITDA/MT rose 17% YoY to Rs6,680 in 4QFY19 and 14% YoY at Rs8,960 in FY19. In FY19, conductor volume rose 10% YoY to its highest ever level of 1,82,977MT, translating to 53% YoY rise in revenues at Rs39.1bn (40% exports). Order inflow for 4QFY19 rose 52% YoY to Rs10.5bn driven by exports and domestic market. Apar witnessed significant order inflows for copper conductors at Rs1.1bn/Rs11.5bn for 4QFY19/FY19, respectively from Indian Railways. Order inflow in FY19 surged 134% YoY to Rs54.5bn. Order book grew 150% YoY to Rs30.2bn (1,34,000MT in volume terms) with an execution period of nine months. 4QFY19 profitability was impacted by: (a) Higher execution of low margin conventional conductors and (b) Lower share of HEC conductors (at 11% versus 13% YoY) due to deferment by clients.. Apar expects to improve the share of high margin HEC and copper conductors from 25% in FY19 to 35% in FY20, which would improve EBITDA/MT to Rs10,000. Capex outlay planned for conductor is Rs300mn for FY20 towards CTC project and capacity de-bottlenecking.

Oil segment update: Transformer and specialty oil segment's revenue grew 31% YoY to Rs7bn (28% of total sales) led by 27% volume growth to 115,625KL. Exports formed 28% of total sales. The more profitable product categories of auto lubes and industrial oil posted volume growth of 15%/7%, respectively, and collectively accounted for 21% of total sales. High-cost inventory of base oil resulted in EBITDA/KL to fell 36% YoY at Rs3,391 in 4QFY19 and Rs32% YoY to Rs2,998. Hamriyah plant's profitability was impacted by suppressed demand from GCC nations and forex volatility in Africa. It operated at a capacity utilisation of 62%. Apar expects to improve the share of high margin auto lubes and industrial oils from 21% in FY19 to 25% in FY20, which would improve EBITDA/KL to Rs4,000. Capex outlay planned for oil segment is Rs400mn for FY20 towards increasing capacity of the above two products from 4,500KL per month to 10,000KL per month.

Cable segment update: Cable revenues grew 51% YoY to Rs5.1bn (19% of total sales) led by optic fibre cables (up 80% YoY), elastomeric cables (up 42%) and power cables (up 52% YoY). The outlook remains bright driven by rising demand from solar, railway, defence and telecom sectors. EBITDA margin in 4QFY19 rose 330bps YoY to 13.7% led by better product mix. FY19 revenues rose 48% YoY to Rs16.8bn with EBITDA margin of 11.3%, up 170bps YoY. Apar expects EBITDA margin of 11.5%-12% in FY20. It has planned a capex of Rs800mn including Rs300mn for new e-beam machine.

Outlook: We expect Apar to post 32% earnings CAGR over FY19-FY21E, on a suppressed base. Apar offers high scalability potential and market leadership position in all its three segments.

BUY

Sector: Capital Goods

CMP: Rs664

Target Price: Rs800

Upside: 21%

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Key Data

Current Shares O/S (mn)	38.3
Mkt Cap (Rsbn/US\$mn)	25.4/363.5
52 Wk H / L (Rs)	737/535
Daily Vol. (3M NSE Avg.)	7,404

Price Performance (%)

	1 M	6 M	1 Yr
Apar Industries	(0.4)	7.8	(8.0)
Nifty Index	1.7	9.8	12.5

Source: Bloomberg

Y/E March (Rsmn)	4QFY18	3QFY19	4QFY19	YoY (%)	QoQ (%)	FY18	FY19	YoY (%)
Net revenues	17,675	21,191	24,646	39.4	16.3	58,185	79,639	36.9
Raw material costs	13,651	16,973	19,865	45.5	17.0	44,950	63,360	41.0
Staff costs	329	375	383	16.6	2.2	1,261	1,480	17.4
Other expenses	2,437	2,699	3,044	24.9	12.8	7,899	10,121	28.1
Total expenditure	16,417	20,047	23,292	41.9	16.2	54,110	74,961	38.5
EBITDA	1,259	1,144	1,353	7.5	18.3	4,075	4,677	14.8
EBITDA margin (%)	7.1	5.4	5.5	-	-	7.0	5.9	-
Interest costs	536	417	514	(4.1)	23.4	1,400	1,999	42.8
Depreciation	148	171	176	19.1	3.0	559	667	19.3
Other income	27	31	42	55.6	33.2	111	151	35.5
PBT	601	587	705	17.2	20.0	2,228	2,162	(2.9)
Tax	201	240	267	33.3	11.3	780	802	2.7
PAT	400	347	437	9.2	25.9	1,447	1,361	(6.0)
PAT margin (%)	2.3	1.6	1.8	-	-	2.5	1.7	-
EPS (Rs)	10.5	9.1	11.4	9.2	25.9	37.8	35.6	(6.0)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financial summary (consolidated)

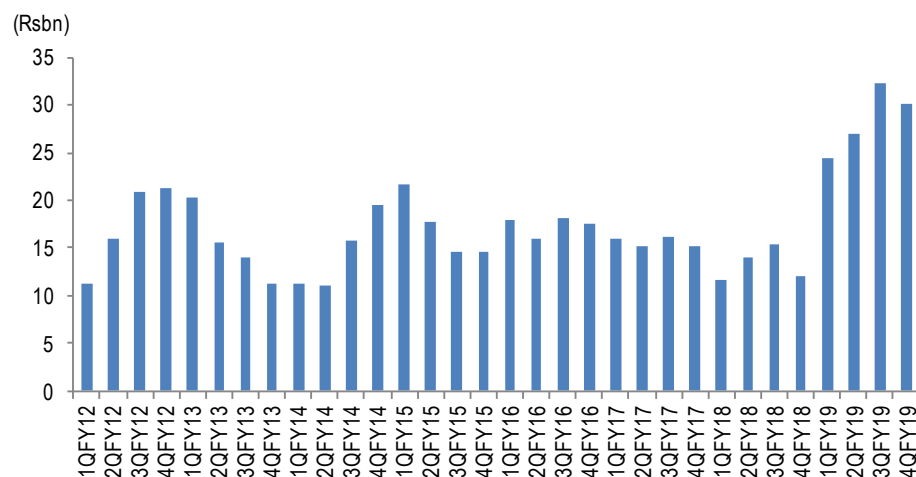
Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Revenues	48,320	58,185	79,639	90,231	100,990
EBITDA	4,168	4,075	4,677	5,628	6,435
Adjusted net profit	1,766	1,447	1,361	1,908	2,361
Adjusted EPS (Rs)	46.1	37.8	35.6	49.9	61.7
EPS growth (%)	45.1	(18.0)	(6.0)	40.2	23.8
EBITDA margin (%)	8.6	7.0	5.9	6.2	6.4
P/E (x)	14.4	17.6	18.7	13.3	10.8
P/BV (x)	2.5	2.3	2.1	1.9	1.7
EV/EBITDA (x)	6.5	6.4	5.4	4.5	3.8
Dividend yield (%)	1.5	1.4	1.4	1.8	2.3
RoCE (%)	28.7	24.8	27.3	32.4	34.3
RoE (%)	18.7	13.5	11.8	15.0	16.6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Segment-wise snapshot (consolidated)

Y/E March	4QFY18	3QFY19	4QFY19	YoY %	QoQ %	FY18	FY19	YoY %
Revenues (Rsmn)								
Conductors	8,942	10,522	13,293	48.7	26.3	26,155	39,152	49.7
Transformer & specialty oils	5,323	7,273	6,963	30.8	(4.3)	21,622	26,299	21.6
Cables	3,359	4,198	5,079	51.2	21.0	11,346	16,839	48.4
Revenue mix (%)								
Conductors	50.7	47.8	52.5	-	-	44.2	47.6	-
Transformer & specialty oils	30.2	33.1	27.5	-	-	36.6	32.0	-
Cables	19.1	19.1	20.0	-	-	19.2	20.5	-
EBIT (Rsmn)								
Conductors	386	313	362	(6.1)	15.8	1,308	1,507	15.2
Transformer & specialty oils	510	408	320	(37.3)	(21.5)	1,638	1,186	(27.6)
Cables	316	359	641	102.8	78.8	911	1,731	90.0
EBIT margin (%)								
Conductors	4.3	3.0	2.7	-	-	5.0	3.8	-
Transformer & specialty oils	9.6	5.6	4.6	-	-	7.6	4.5	-
Cables	9.4	8.5	12.6	-	-	8.0	10.3	-

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

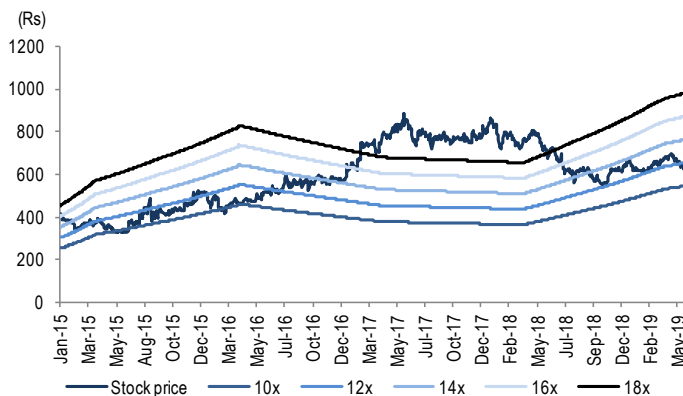
4QFY19 (Rsmn)	Actual	Our estimate	Deviation (%)
Net sales	24,646	21,158	16.5
EBITDA	1,353	1,291	4.8
PAT	437	439	(0.4)

Source: Company, Nirmal Bang Institutional Equities Research

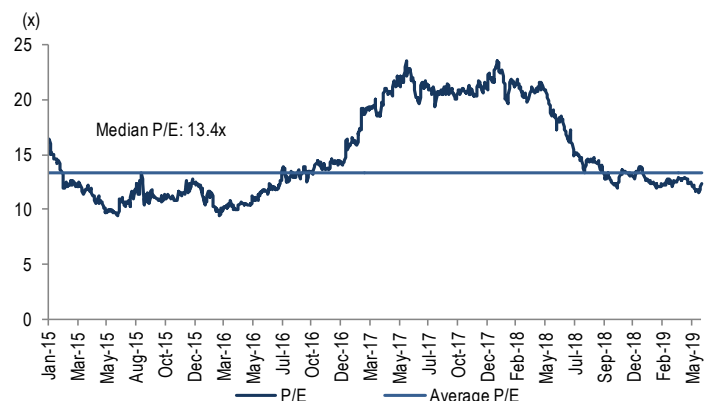
Exhibit 5: Change in our estimates

(Rsmn)	Old		New		Deviation (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Y/E March						
Revenues	83,422	92,709	90,231	100,990	8.2	8.9
EBITDA	5,684	6,550	5,628	6,435	(1.0)	(1.8)
PAT	2,033	2,540	1,908	2,361	(6.2)	(7.0)

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)	FY17	FY18	FY19	FY20E	FY21E
Revenues	48,320	58,185	79,639	90,231	100,990
% growth	(4.9)	20.4	36.9	13.3	11.9
Raw material costs	35,728	44,950	63,360	71,373	79,378
Staff costs	1,074	1,261	1,480	1,714	1,919
Other overheads	7,350	7,899	10,121	11,516	13,258
Total expenditure	44,152	54,110	74,961	84,603	94,555
EBITDA	4,168	4,075	4,677	5,628	6,435
YoY growth (%)	15.0	(2.2)	14.8	20.3	14.3
EBITDA margin (%)	8.6	7.0	5.9	6.2	6.4
Other income	160	111	151	169	189
Interest costs	1,144	1,400	1,999	2,159	2,223
Depreciation	450	559	667	702	767
Profit before tax	2,734	2,228	2,162	2,936	3,633
Tax	972	780	802	1,027	1,272
PAT	1,763	1,447	1,361	1,908	2,361
Share of associate's profit	3	-	-	-	-
Adjusted net profit	1,766	1,447	1,361	1,908	2,361
YoY growth (%)	45.1	(18.0)	(6.0)	40.2	23.8
Adjusted net profit margin (%)	3.7	2.5	1.7	2.1	2.3
Adjusted EPS (Rs)	46.1	37.8	35.6	49.9	61.7
YoY growth (%)	45.1	(18.0)	(6.0)	40.2	23.8

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Share capital	383	383	383	383	383
Reserves	9,979	10,700	11,641	12,998	14,671
Net worth	10,361	11,083	12,024	13,381	15,053
Short-term loans	1,865	1,698	878	778	678
Long-term loans	906	1,619	1,303	1,203	1,103
Total loans	2,770	3,316	2,181	1,981	1,781
Deferred tax liability (net)	461	346	403	403	403
Liabilities	13,593	14,745	14,608	15,765	17,237
Net block	5,665	6,438	7,068	8,700	8,433
Capital work-in-progress	278	195	1,035	200	200
Goodwill	74	48	21	21	21
Investments	1,186	-	1,869	1,869	1,869
Inventories	9,935	12,123	12,829	14,832	17,155
Debtors	12,562	17,353	21,435	23,979	26,562
Cash	1,230	2,744	2,253	1,895	2,515
Other current assets	3,553	3,859	3,705	4,331	4,848
Total current assets	27,280	36,078	40,222	45,038	51,078
Creditors	17,725	25,511	32,637	36,371	40,233
Other current liabilities & provisions	3,165	2,503	2,970	3,693	4,131
Total current liabilities	20,890	28,014	35,607	40,063	44,364
Net current assets	6,391	8,065	4,615	4,974	6,714
Total assets	13,593	14,745	14,608	15,765	17,237

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Cash flow

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
EBIT	3,718	3,517	4,010	4,926	5,668
(Inc.)/dec. in working capital	159	(160)	2,959	(717)	(1,120)
Cash flow from operations	3,877	3,357	6,969	4,209	4,547
Other income	160	111	151	169	189
Depreciation	450	559	667	702	767
Tax paid (-)	(821)	(895)	(745)	(1,027)	(1,272)
Associate income	3	-	-	-	-
Net cash from operations	3,669	3,131	7,041	4,052	4,232
Capital expenditure (-)	(1,953)	(1,249)	(2,136)	(1,500)	(500)
Net cash after capex	1,716	1,882	4,905	2,552	3,732
Interest paid (-)	(1,144)	(1,400)	(1,999)	(2,159)	(2,223)
Dividends paid (-)	(461)	(436)	(438)	(551)	(689)
Inc./(dec.) in short-term borrowing	(773)	(167)	(819)	(100)	(100)
Inc./(dec.) in long-term borrowing	71	713	(316)	(100)	(100)
Inc./(dec.) in total borrowings	(703)	546	(1,135)	(200)	(200)
(Inc.)/dec. in investments	(61)	1,186	(1,869.20)	-	-
Cash from financial activities	(2,370)	(105)	(5,441)	(2,910)	(3,112)
Others	546	(263)	46	-	-
Opening cash balance	1,339	1,230	2,744	2,253	1,895
Closing cash balance	1,230	2,744	2,253	1,895	2,515
Change in cash balance	(109)	1,514	(491)	(358)	620

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Key ratios

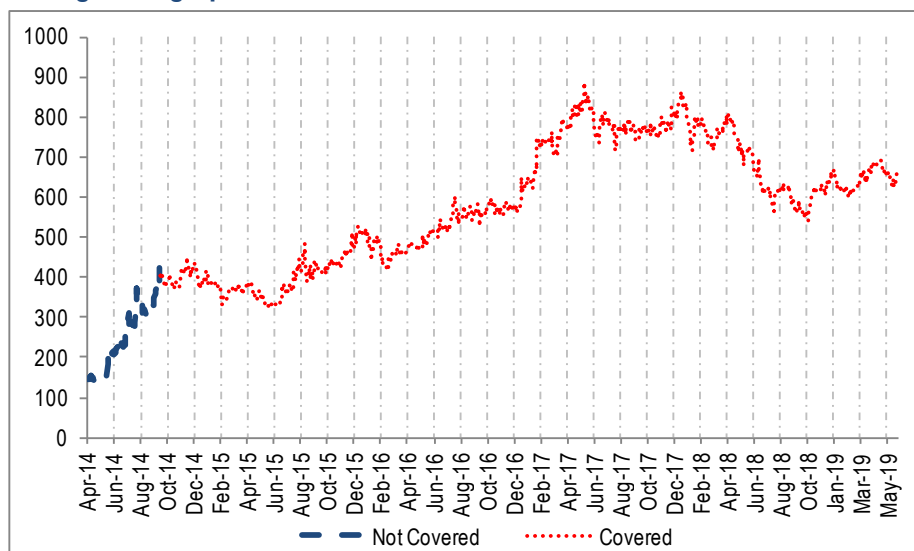
Y/E March	FY17	FY18	FY19	FY20E	FY21E
Per share (Rs)					
EPS	46.1	37.8	35.6	49.9	61.7
Book value	270.7	289.6	314.2	349.6	393.3
Valuation (x)					
P/E	14.4	17.6	18.7	13.3	10.8
P/BV	2.5	2.3	2.1	1.9	1.7
EV/EBITDA	6.5	6.4	5.4	4.5	3.8
EV/sales	0.6	0.4	0.3	0.3	0.2
Return ratios (%)					
RoCE	28.7	24.8	27.3	32.4	34.3
RoE	18.7	13.5	11.8	15.0	16.6
RoIC	35.3	30.3	35.7	43.8	45.6
Profitability ratios (%)					
EBITDA margin	8.6	7.0	5.9	6.2	6.4
EBIT margin	7.7	6.0	5.0	5.5	5.6
PAT margin	3.7	2.5	1.7	2.1	2.3
Turnover ratios					
Total asset turnover ratio (x)	3.7	4.1	5.4	5.9	6.1
Debtor days	95	109	98	97	96
Inventory days	75	76	59	60	62
Creditor days	181	207	188	186	185
Solvency ratios (x)					
Debt-equity	0.3	0.3	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

Rating track graph



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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