

Apar Industries

14 August 2018

Reuters: APAR.BO; Bloomberg: APR IN

Healthy Performance Of Conductor And Cable, But Oil Segment Falters

Apar Industries (Apar) reported 15% YoY growth in 1QFY19 revenues to Rs15bn, broadly in line with our estimate. The top-line was driven by 18% YoY rise in cable segment sales to Rs3.2bn (21% of total sales). Conductor revenues grew 8% YoY to Rs6.4bn (41% of total sales) while oil segment's sales rose 4% YoY to Rs5.7bn (38% of total sales). Profitability was healthy in conductor segment (EBITDA/MT of Rs12,073 versus Rs10,980 YoY) and cable segment (EBITDA margin rose 140bps YoY to 9.5%). However, oil segment was adversely impacted (EBITDA/KL of Rs3,100 versus Rs4,072 YoY) because of higher input cost and deferment of price hike. Consolidated EBITDA margin remained flat YoY at 7.3%. EBITDA grew 14% YoY to Rs1.1bn, 6% above our estimate. Higher interest costs (up 124% YoY at Rs542mn including Rs160mn forex impact) led to 26% YoY decline in PAT to Rs290mn, below our estimate of Rs372mn. For FY19, the management expects a healthy performance in conductor (180,000MT volume with EBITDA/MT of at least Rs10,000) and cable segment (25% YoY sales growth with 9.5% EBITDA margin). Oil segment is likely to underperform with a volume of 400,000KL-415,000KL (5% growth) while EBITDA/KL is expected to remain flat (Rs4,400 in FY18) in a best-case scenario. We have cut our earnings estimates for FY19/FY20 by 9%/12%, respectively, because of lower profitability in oil segment and higher interest costs. We have retained Buy rating on the stock with a revised target price of Rs740 (from Rs845 earlier) based on 13x FY20E EPS.

Conductor segment update: The conductor segment's revenues were up 8% YoY (17% GST-adjusted) at Rs6.4bn driven by 30% YoY surge in exports to Rs3.1bn (49% of sales versus 44% YoY). High-margin HEC conductor constituted 13% of sales in 1QFY19 (versus 18% YoY) and is likely to rise owing to a healthy tender pipeline. EBITDA/MT was higher at Rs12,073 (versus Rs10,980 YoY) as better-margin orders were executed. While the volume was down 16% YoY at 32,281MT, owing to a delay in customer off-take, the management expects to achieve annual target of 180,000MT (8% growth) led by strong order book. EBITDA/MT is likely to improve to Rs10,000 in FY19E versus Rs7,831 in FY18. The order inflow was robust at Rs17.5bn aided by Apar's maiden Rs3.9bn (7,700MT) copper conductor order from CORE (Indian Railways). The order book stood at a life-time high of Rs24.4bn (128,000MT), up 101% QoQ (36% exports) with an execution cycle of 9-12 months. Apar has planned capex of Rs450mn in FY19 to set up a high-margin continuously transposed conductor (CTC) plant having a capacity of 7,000MT which can generate revenues of Rs1.5bn in FY20E.

Oil segment update: Transformer and specialty oil segment's revenues grew 4% YoY (15% GST-adjusted) to Rs5.8bn as volume fell 2% YoY to 94,251KL. While the growth was robust in industrial oil (60% rise) and auto lubes (44% rise), the two large categories of transformer oil and white oil faced a slowdown in demand, especially from MENA region. Auto lubes and industrial oil collectively accounted for 16% of oil segment's volume and 24% of value and is likely to grow 25% in FY19E. EBITDA/KL was low at Rs3,100 (verses Rs4,072 YoY) because of higher input cost and deferment of price hike. The management expects to pass on the input cost rise over the next two quarters and hopes to sustain EBITDA/KL of FY18 (Rs4,400) in FY19 along with a volume of 400,000KL-415,000KL (5% growth).

Cable segment update: The cable segment's revenues grew 18% YoY (26% GST-adjusted) to Rs3.2bn led by power cables (up 34% YoY) and optic fibre cables (up 83% YoY). While elastomeric cable sales fell 16% YoY, the outlook remains bright driven by rising demand from wind, solar, railways and defence sectors. EBITDA margin rose 140bps YoY to 9.5% in 1QFY19, which the management expects to sustain in FY19. Cable is poised to be the fastest-growing segment of Apar over the next five years with FY19E revenue target of Rs14bn (25% YoY growth) and FY20E revenue target of Rs16bn.

Outlook: We expect Apar to post 23% earnings CAGR over FY18-FY20E. Owing to healthy transmission capex likely over the next few years in India as well as overseas markets, all three segments of Apar offer high scalability potential with its market leadership position. Apar trades at a reasonable valuation considering future growth prospects, healthy return ratios and free cash flow.

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BUY

Sector: Capital Goods

CMP: Rs566

Target Price: Rs740

Upside: 31%

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Key Data

Current Shares O/S (mn)	38.3
Mkt Cap (Rsbn/US\$m)	21.6/309
52 Wk H / L (Rs)	870/560
Daily Vol. (3M NSE Avg.)	18,294

Price Performance (%)

	1 M	6 M	1 Yr
Apar Industries	(13.0)	(28.8)	(21.8)
Nifty Index	3.1	7.7	16.9

Source: Bloomberg

Y/E March (Rsmn) (Consolidated)	1QFY18	4QFY18	1QFY19	YoY (%)	QoQ (%)
Revenues	13,043	17,675	14,956	14.7	(15.4)
Raw material costs	9,914	13,651	11,473	15.7	(16.0)
Staff costs	307	329	365	18.8	10.9
Other expenses	1,868	2,437	2,028	8.5	(16.8)
Total expenditure	12,089	16,417	13,865	14.7	(15.5)
EBITDA	954	1,259	1,091	14.3	(13.3)
EBITDAM (%)	7.3	7.1	7.3	-	-
Interest costs	242	536	542	124.1	1.0
Depreciation	134	148	156	17.0	5.7
Other income	23	27	45	100.0	67.9
PBT	601	601	438	(27.2)	(27.1)
Tax	212	201	148	(30.1)	(26.2)
PAT	390	400	290	(25.6)	(27.6)
PAT margin (%)	3.0	2.3	1.9	-	-
EPS (Rs)	10.1	10.4	7.6	(25.1)	(27.1)

Source: Company, Nirmal Bang Institutional Equities Research

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Exhibit 1: Financial summary (consolidated)

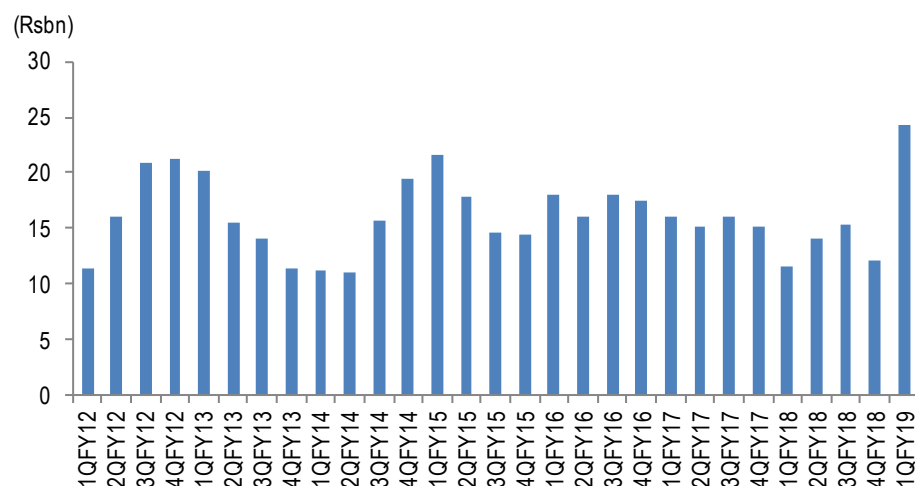
Y/E March (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
Revenues	50,785	48,320	58,185	63,988	69,389
EBITDA	3,625	4,168	4,075	4,671	5,294
Adjusted net profit	1,217	1,766	1,447	1,770	2,179
Adjusted EPS (Rs)	31.8	46.1	37.8	46.3	56.9
EPS growth (%)	144.6	45.1	(18.0)	22.3	23.1
EBITDA margin (%)	7.1	8.6	7.0	7.3	7.6
P/E (x)	17.8	12.3	15.0	12.2	9.9
P/BV (x)	2.5	2.1	2.0	1.8	1.6
EV/EBITDA (x)	6.6	5.6	5.5	4.8	4.2
Dividend yield (%)	1.1	1.8	1.7	2.7	3.5
RoCE (%)	26.3	28.7	24.8	26.8	28.7
RoE (%)	15.4	18.7	13.5	15.2	17.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Segment-wise snapshot (consolidated)

Y/E March	1QFY18	4QFY18	1QFY19	YoY %	QoQ %	FY17	FY18	YoY %
Revenues (Rsmn)								
Conductors	5,878	8,942	6,355	8.1	(28.9)	24,615	26,155	6.3
Transformer & specialty oils	5,553	5,323	5,763	3.8	8.3	18,810	21,622	14.9
Cables	2,710	3,359	3,189	17.7	(5.1)	9,269	11,346	22.4
Revenue mix (%)								
Conductors	41.6	50.7	41.5	-	-	46.7	44.2	-
Transformer & specialty oils	39.3	30.2	37.6	-	-	35.7	36.6	-
Cables	19.2	19.1	20.8	-	-	17.6	19.2	-
EBIT (Rsmn)								
Conductors	389	386	411	5.6	6.6	1,790	1,308	(26.9)
Transformer & specialty oils	340	510	318	(6.6)	(37.8)	1,689	1,638	(3.0)
Cables	164	316	274	66.6	(13.4)	614	911	48.3
EBIT margin (%)								
Conductors	6.6	4.3	6.5	-	-	7.3	5.0	-
Transformer & specialty oils	6.1	9.6	5.5	-	-	9.0	7.6	-
Cables	6.1	9.4	8.6	-	-	6.6	8.0	-

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

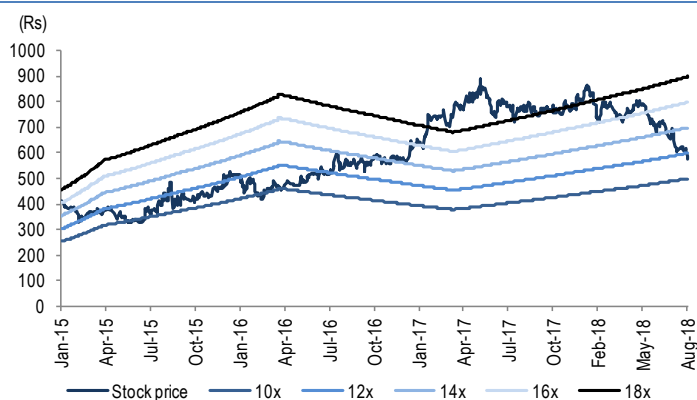
1QFY19 (Rsmn)	Actual	Our estimate	Deviation (%)
Net sales	14,956	14,529	2.9
EBITDA	1,091	1,028	6.1
PAT	290	372	(22.1)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Change in our estimates

(Rsmn)	Old		New		Deviation (%)	
Y/E March	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Revenues	66,041	72,408	63,988	69,389	(3.1)	(4.2)
EBITDA	4,829	5,659	4,671	5,294	(3.3)	(6.5)
PAT	1,939	2,484	1,770	2,179	(8.7)	(12.3)

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)	FY16	FY17	FY18	FY19E	FY20E
Revenues	50,785	48,320	58,185	63,988	69,389
% growth	(0.8)	(4.9)	20.4	10.0	8.4
Raw material costs	39,047	35,728	44,950	49,719	53,985
Staff costs	910	1,074	1,261	1,472	1,665
Other overheads	7,203	7,350	7,899	8,127	8,445
Total expenditure	47,160	44,152	54,110	59,317	64,095
EBITDA	3,625	4,168	4,075	4,671	5,294
YoY growth (%)	43.8	15.0	(2.2)	14.6	13.3
EBITDA margin (%)	7.1	8.6	7.0	7.3	7.6
Other income	101	160	111	128	147
Interest costs	1,573	1,144	1,400	1,470	1,426
Depreciation	378	450	559	605	662
Profit before tax	1,775	2,734	2,228	2,723	3,353
Tax	573	972	780	953	1,174
PAT	1,203	1,763	1,447	1,770	2,179
Share of associate's profit	14	3	-	-	-
Adjusted net profit	1,217	1,766	1,447	1,770	2,179
YoY growth (%)	144.6	45.1	(18.0)	22.3	23.1
Adjusted net profit margin (%)	2.4	3.7	2.5	2.8	3.1
Adjusted EPS (Rs)	31.8	46.1	37.8	46.3	56.9
YoY growth (%)	144.6	45.1	(18.0)	22.3	23.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Balance sheet

Y/E March (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
Share capital	385	383	383	383	383
Reserves	8,154	9,979	10,700	11,781	13,042
Net worth	8,539	10,361	11,083	12,164	13,425
Short-term loans	2,638	1,865	1,698	1,598	1,498
Long-term loans	835	906	1,619	1,499	1,399
Total loans	3,473	2,770	3,316	3,096	2,896
Deferred tax liability (net)	311	461	346	346	346
Liabilities	12,323	13,593	14,745	15,606	16,667
Gross block	6,503	8,739	10,071	11,166	12,066
Depreciation	2,625	3,075	3,633	4,238	4,901
Net block	3,878	5,665	6,438	6,927	7,165
Capital work-in-progress	561	278	195	200	200
Goodwill	101	74	48	48	48
Investments	1,125	1,186	-	-	-
Inventories	7,698	9,935	12,123	13,148	14,068
Debtors	10,904	12,562	17,287	18,758	19,961
Cash	1,339	1,230	2,744	2,314	2,491
Other current assets	3,581	3,553	3,859	4,351	4,718
Total current assets	23,522	27,280	36,012	38,571	41,238
Creditors	13,959	17,725	25,511	27,516	29,137
Other current liabilities & provisions	2,904	3,165	2,437	2,625	2,847
Total current liabilities	16,863	20,890	27,948	30,140	31,984
Net current assets	6,659	6,391	8,065	8,431	9,254
Total assets	12,323	13,593	14,745	15,606	16,667

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Cash flow

Y/E March (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
EBIT	3,248	3,718	3,517	4,065	4,632
(Inc.)/dec. in working capital	1,974	159	(160)	(796)	(646)
Cash flow from operations	5,221	3,877	3,357	3,269	3,986
Other income	101	160	111	128	147
Depreciation	378	450	559	605	662
Tax paid (-)	(536)	(821)	(895)	(953)	(1,174)
Associate income	14	3	-	-	-
Net cash from operations	5,178	3,669	3,131	3,049	3,621
Capital expenditure (-)	(986)	(1,953)	(1,249)	(1,100)	(900)
Net cash after capex	4,192	1,716	1,882	1,949	2,721
Interest paid (-)	(1,573)	(1,144)	(1,400)	(1,470)	(1,426)
Dividends paid (-)	(301)	(461)	(436)	(689)	(918)
Inc./(dec.) in short-term borrowing	(1,229)	(773)	(167)	(100)	(100)
Inc./(dec.) in long-term borrowing	(113)	71	713	(120)	(100)
Inc./(dec.) in total borrowings	(1,342)	(703)	546	(220)	(200)
(Inc.)/dec. in investments	(1,072)	(61)	1,186	-	-
Minority interest	(12)	-	-	-	-
Cash from financial activities	(4,300)	(2,370)	(105)	(2,379)	(2,544)
Others	442	546	(263)	-	-
Opening cash balance	1,005	1,339	1,230	2,744	2,314
Closing cash balance	1,339	1,230	2,744	2,314	2,491
Change in cash balance	334	(109)	1,514	(430)	177

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Key ratios

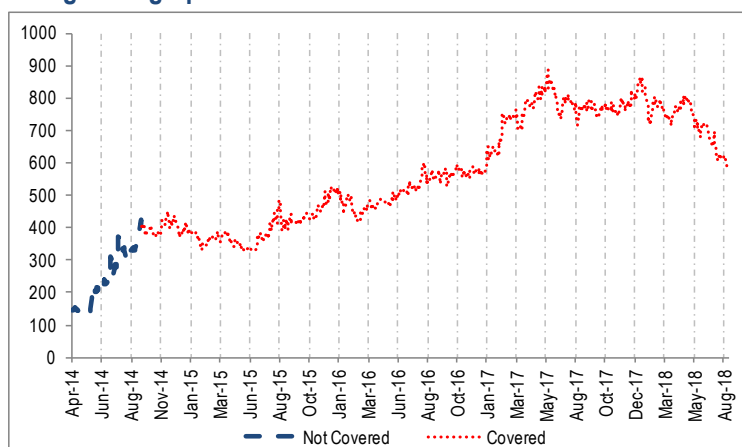
Y/E March	FY16	FY17	FY18	FY19E	FY20E
Per share (Rs)					
EPS	31.8	46.1	37.8	46.3	56.9
Book value	223.1	270.7	289.6	317.8	350.8
Valuation (x)					
P/E	17.8	12.3	15.0	12.2	9.9
P/BV	2.5	2.1	2.0	1.8	1.6
EV/EBITDA	6.6	5.6	5.5	4.8	4.2
EV/sales	0.5	0.5	0.4	0.4	0.3
Return ratios (%)					
RoCE	26.3	28.7	24.8	26.8	28.7
RoE	15.4	18.7	13.5	15.2	17.0
RoIC	30.6	35.3	30.3	32.1	33.7
Profitability ratios (%)					
EBITDA margin	7.1	8.6	7.0	7.3	7.6
EBIT margin	6.4	7.7	6.0	6.4	6.7
PAT margin	2.4	3.7	2.5	2.8	3.1
Turnover ratios					
Total asset turnover ratio (x)	4.1	3.7	4.1	4.2	4.3
Debtor days	78	95	108	107	105
Inventory days	55	75	76	75	74
Creditor days	130	181	207	202	197
Solvency ratios (x)					
Debt-equity	0.4	0.3	0.3	0.3	0.2

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

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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