

Apar Industries

5 November 2018

Reuters: APAR.BO; Bloomberg: APR IN

Conductor & Cable Segment Outperforms; Oil Segment's Margin Falters

Apar Industries (Apar) reported 51% YoY jump in 2QFY19 revenues to Rs18.9bn, much above our estimate of Rs14.7bn. The strong top-line was driven by robust volume growth, higher commodity costs which aided sales in value terms as well as the low-base effect (sales had declined 3% YoY in 2QFY18). Strong growth in cable segment continued with lifetime-high quarterly sales at Rs4.4bn (up 81% YoY) as well as EBIT margin (up 330bps YoY at 10.4%). Conductor revenues grew 82% YoY to Rs9bn aided by 34% volume growth, while an improved product mix led to 21% YoY rise in EBITDA/MT at Rs10,839. Oil revenues rose 25% YoY to Rs6.3bn (9% volume growth), but EBITDA/KL was adversely impacted (down 65% YoY at Rs1,312) owing to high base oil price, higher input costs, rupee depreciation and deferment of price hike. Consolidated EBITDA grew 23% YoY to Rs1.1bn with 130bps YoY decline in margin to 5.8%. Impacted by higher interest costs (up 44% YoY at Rs526mn including Rs80mn forex impact), PAT was up only 9% YoY at Rs286mn. However, the bottom-line was above our estimate of Rs238mn owing to a better top-line. For FY19, the management expects a healthy performance in conductor (6%-8% volume growth with EBITDA/MT of Rs11,500) and cable segment (35% YoY sales growth with 10.5% EBITDA margin). Profitability of oil segment is likely to normalise in 2HFY19 with 5% volume growth in FY19. We have cut our earnings estimates for FY19/FY20 by 1%/5%, respectively, and rolled forward our valuation to September 2020E earnings. We have retained Buy rating on the stock with a revised target price of Rs760 (from Rs740 earlier) based on 13x P/E.

Conductor segment update: The conductor segment's revenues were up 82% YoY at Rs9bn (46% of total sales) driven by 34% volume growth. HEC conductor constituted 11% of sales at Rs989mn, up 67% YoY. EBITDA/MT was up 21% YoY at Rs10,839 led by a better product mix (higher share of HEC and copper conductor). In 1HFY19, conductor volume rose 6% YoY to 72,695MT, translating to 48% YoY rise in revenues at Rs1.5bn (42% exports). The management expects FY19 sales volume at 175,000MT to 180,000MT (6% to 8% growth) led by execution of robust order book. EBITDA/MT in FY19 is expected to be Rs11,500, a significant rise from Rs7,831 in FY18 (Rs11,387 in 1HFY19, up 13% YoY). Led by strong order inflow of Rs10.6bn, the order book jumped to a lifetime-high level of Rs27bn (1,30,000MT) having an execution cycle of nine months. Apar is witnessing a healthy order inflow of copper conductors from Indian Railways (Rs4.2bn in 1HFY19) and HEC conductors (from India and Bangladesh) which will aid margins as they are more profitable.

Oil segment update: Transformer and specialty oil segment's revenues grew 25% YoY to Rs6.3bn (32% of total sales) led by 9% volume growth to 104,347KL. Volume growth was driven by rubber processing oil (27% rise), industrial oil (23% rise) and white oil (20% rise). Auto lubes volume grew 16% YoY to 9,491KL. Auto lubes and industrial oil (two more profitable product categories) collectively accounted for 14% of oil segment's volume and 22% of value. EBITDA/KL was down 65% YoY at Rs1,312 in 2QFY19 and 45% YoY at Rs2,160 in 1HFY19 owing to high base oil prices, higher input costs, rupee depreciation and deferment of price hike (as spot prices were higher than contract prices). However, after a 5%-12% price hike in 3QFY19, the management expects EBITDA/KL to normalise to Rs4,200 in 2HFY19. For FY19, EBITDA/KL of Rs3,400 is expected along with a volume of 408,000KL (5% growth). Hamriyah plant's capacity utilisation was 61%.

Cable segment update: The cable segment's revenues grew 81% YoY to a life-high level of Rs4.4bn (22% of total sales) led by elastomeric cables (up 106%), power cables (up 78% YoY) and optic fibre cables (up 66% YoY). The outlook remains bright driven by rising demand from wind, solar, railways and defence sectors. EBITDA margin rose 250bps YoY to a lifetime-high level of 11.4% in 2QFY19. For FY19, the management expects a top-line of Rs15bn (35% growth) and EBITDA margin of 10.5% (up 80bps YoY).

Outlook: We expect Apar to post 18% earnings CAGR over FY18-FY21E. Apar stock trades at a reasonable valuation considering the high scalability potential and market leadership position in all its three segments.

Y/E March (Rsmn)	2QFY18	1QFY19	2QFY19	YoY (%)	QoQ (%)	1HFY18	1HFY19	YoY (%)
Net revenues	12,478	14,956	18,847	51.0	26.0	25,521	33,802	32.4
Raw material costs	9,519	11,473	15,050	58.1	31.2	19,434	26,523	36.5
Staff costs	312	365	357	14.4	(2.0)	619	722	16.6
Other expenses	1,760	2,028	2,350	33.6	15.9	3,628	4,378	20.7
Total expenditure	11,591	13,865	17,758	53.2	28.1	23,680	31,622	33.5
EBITDA	887	1,091	1,089	22.8	(0.2)	1,841	2,180	18.4
EBITDA margin (%)	7.1	7.3	5.8	-	-	7.2	6.4	-
Interest costs	366	542	526	43.9	(2.9)	607	1,068	75.8
Depreciation	137	156	163	18.9	4.2	271	319	18.0
Other income	28	45	33	14.8	(27.8)	51	78	52.6
PBT	413	438	433	4.8	(1.2)	1,014	870	(14.2)
Tax	151	148	146	(3.1)	(1.2)	363	294	(18.8)
PAT	262	290	286	9.3	(1.2)	652	576	(11.6)
PAT margin (%)	2.1	1.9	1.5	-	-	2.6	1.7	-
EPS (Rs)	6.8	7.6	7.5	9.3	(1.2)	17.0	15.1	(11.6)

Source: Company, Nirmal Bang Institutional Equities Research

BUY

Sector: Capital Goods

CMP: Rs560

Target Price: Rs760

Upside: 36%

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Key Data

Current Shares O/S (mn)	38.3
Mkt Cap (Rsbn/US\$mn)	21.4/295.3
52 Wk H / L (Rs)	870/535
Daily Vol. (3M NSE Avg.)	25,348

Price Performance (%)

	1 M	6 M	1 Yr
Apar Industries	(2.0)	(29.8)	(25.9)
Nifty Index	(4.1)	(1.5)	1.2

Source: Bloomberg

Exhibit 1: Financial summary (consolidated)

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Revenues	48,320	58,185	69,109	74,407	79,630
EBITDA	4,168	4,075	4,740	5,284	5,893
Adjusted net profit	1,766	1,447	1,758	2,059	2,407
Adjusted EPS (Rs)	46.1	37.8	45.9	53.8	62.9
EPS growth (%)	45.1	(18.0)	21.5	17.1	16.9
EBITDA margin (%)	8.6	7.0	6.9	7.1	7.4
P/E (x)	12.1	14.8	12.2	10.4	8.9
P/BV (x)	2.1	1.9	1.7	1.6	1.4
EV/EBITDA (x)	5.5	5.4	5.1	4.4	3.8
Dividend yield (%)	1.8	1.7	2.1	2.7	3.2
RoCE (%)	28.7	24.8	26.4	27.3	28.5
RoE (%)	18.7	13.5	15.0	15.9	16.7

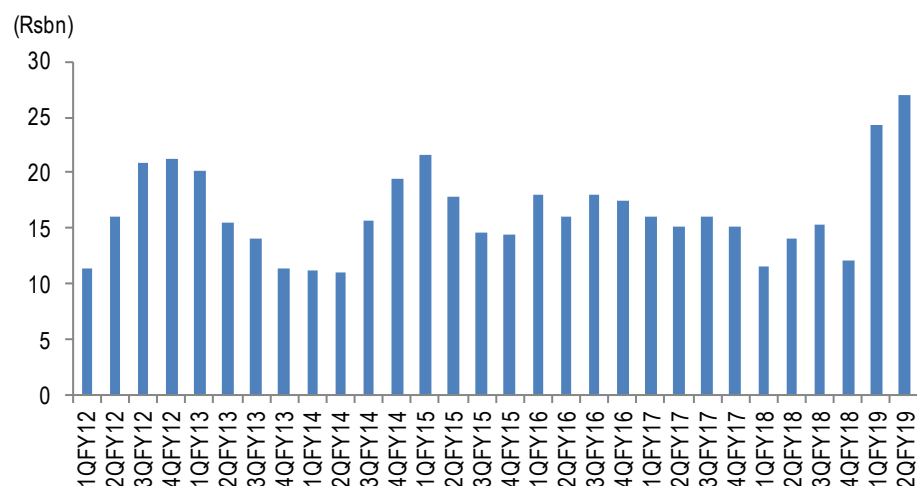
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Segment-wise snapshot (consolidated)

Y/E March	2QFY18	1QFY19	2QFY19	YoY %	QoQ %	1HFY18	1HFY19	YoY %
Revenues (Rsmn)								
Conductors	4,948	6,355	8,982	81.5	41.3	10,827	15,337	41.7
Transformer & specialty oils	5,062	5,763	6,301	24.5	9.3	10,615	12,064	13.6
Cables	2,421	3,189	4,373	80.6	37.1	5,130	7,562	47.4
Revenue mix (%)								
Conductors	39.8	41.5	45.7	-	-	40.7	43.9	-
Transformer & specialty oils	40.7	37.6	32.1	-	-	39.9	34.5	-
Cables	19.5	20.8	22.2	-	-	19.3	21.6	-
EBIT (Rsmn)								
Conductors	291	411	421	44.7	2.3	680	832	22.3
Transformer & specialty oils	354	318	141	(60.2)	(55.6)	694	458	(33.9)
Cables	172	274	457	166.0	66.8	336	731	117.4
EBIT margin (%)								
Conductors	5.9	6.5	4.7	-	-	6.3	5.4	-
Transformer & specialty oils	7.0	5.5	2.2	-	-	6.5	3.8	-
Cables	7.1	8.6	10.4	-	-	6.5	9.7	-

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

2QFY19 (Rsmn)	Actual	Our estimate	Deviation (%)
Net sales	18,847	14,717	28.1
EBITDA	1,089	1,041	4.6
PAT	286	238	20.3

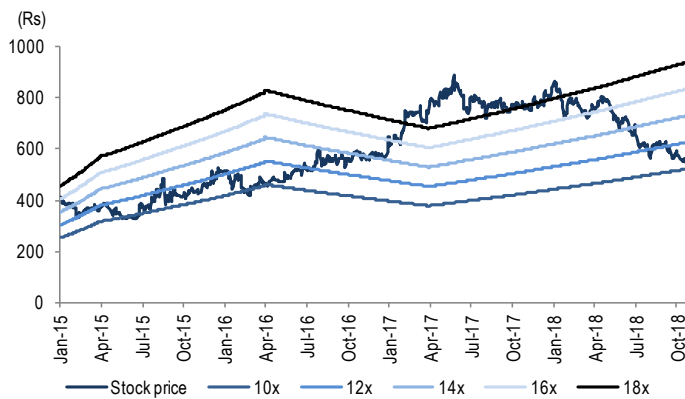
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Change in our estimates

(Rsmn)	Old		New		Deviation (%)	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Revenues	63,988	69,389	69,109	74,407	8.0	7.2
EBITDA	4,671	5,294	4,740	5,284	1.5	(0.2)
PAT	1,770	2,179	1,758	2,059	(0.7)	(5.5)

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	FY19E	FY20E	FY21E
Revenues	48,320	58,185	69,109	74,407	79,630
% growth	(4.9)	20.4	18.8	7.7	7.0
Raw material costs	35,728	44,950	53,698	57,666	61,554
Staff costs	1,074	1,261	1,590	1,860	2,070
Other overheads	7,350	7,899	9,082	9,597	10,113
Total expenditure	44,152	54,110	64,369	69,123	73,737
EBITDA	4,168	4,075	4,740	5,284	5,893
YoY growth (%)	15.0	(2.2)	16.3	11.5	11.5
EBITDA margin (%)	8.6	7.0	6.9	7.1	7.4
Other income	160	111	144	159	175
Interest costs	1,144	1,400	1,540	1,602	1,650
Depreciation	450	559	640	674	714
Profit before tax	2,734	2,228	2,705	3,168	3,704
Tax	972	780	947	1,109	1,296
PAT	1,763	1,447	1,758	2,059	2,407
Share of associate's profit	3	-	-	-	-
Adjusted net profit	1,766	1,447	1,758	2,059	2,407
YoY growth (%)	45.1	(18.0)	21.5	17.1	16.9
Adjusted net profit margin (%)	3.7	2.5	2.5	2.8	3.0
Adjusted EPS (Rs)	46.1	37.8	45.9	53.8	62.9
YoY growth (%)	45.1	(18.0)	21.5	17.1	16.9

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Share capital	383	383	383	383	383
Reserves	9,979	10,700	11,907	13,277	14,857
Net worth	10,361	11,083	12,289	13,659	15,240
Short-term loans	1,865	1,698	2,198	2,098	1,998
Long-term loans	906	1,619	1,499	1,399	1,299
Total loans	2,770	3,316	3,696	3,496	3,296
Deferred tax liability (net)	461	346	346	346	346
Liabilities	13,593	14,745	16,332	17,502	18,882
Net block	5,665	6,438	6,993	7,019	7,004
Capital work-in-progress	278	195	200	200	200
Goodwill	74	48	48	48	48
Investments	1,186	-	-	-	-
Inventories	9,935	12,123	14,769	15,493	16,362
Debtors	12,562	17,287	19,881	20,997	22,253
Cash	1,230	2,744	1,122	1,770	2,508
Other current assets	3,553	3,859	4,699	5,060	5,415
Total current assets	27,280	36,012	40,471	43,320	46,538
Creditors	17,725	25,511	28,688	30,334	32,042
Other current liabilities & provisions	3,165	2,437	2,691	2,751	2,866
Total current liabilities	20,890	27,948	31,379	33,084	34,908
Net current assets	6,391	8,065	9,092	10,235	11,630
Total assets	13,593	14,745	16,332	17,502	18,882

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Cash flow

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
EBIT	3,718	3,517	4,100	4,610	5,178
(Inc.)/dec. in working capital	159	(160)	(2,648)	(496)	(656)
Cash flow from operations	3,877	3,357	1,452	4,114	4,522
Other income	160	111	144	159	175
Depreciation	450	559	640	674	714
Tax paid (-)	(821)	(895)	(947)	(1,109)	(1,296)
Associate income	3	-	-	-	-
Net cash from operations	3,669	3,131	1,290	3,838	4,115
Capital expenditure (-)	(1,953)	(1,249)	(1,200)	(700)	(700)
Net cash after capex	1,716	1,882	90	3,138	3,415
Interest paid (-)	(1,144)	(1,400)	(1,540)	(1,602)	(1,650)
Dividends paid (-)	(461)	(436)	(551)	(689)	(827)
Inc./(dec.) in short-term borrowing	(773)	(167)	500	(100)	(100)
Inc./(dec.) in long-term borrowing	71	713	(120)	(100)	(100)
Inc./(dec.) in total borrowings	(703)	546	380	(200)	(200)
(Inc.)/dec. in investments	(61)	1,186	-	-	-
Cash from financial activities	(2,370)	(105)	(1,711)	(2,490)	(2,676)
Others	546	(263)	-	-	-
Opening cash balance	1,339	1,230	2,744	1,122	1,770
Closing cash balance	1,230	2,744	1,122	1,770	2,508
Change in cash balance	(109)	1,514	(1,621)	648	739

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Key ratios

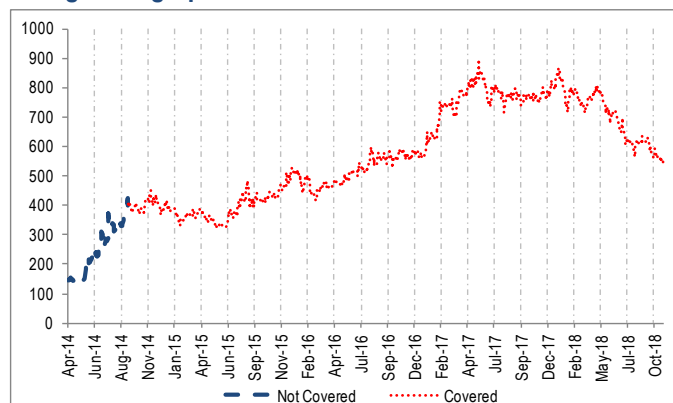
Y/E March	FY17	FY18	FY19E	FY20E	FY21E
Per share (Rs)					
EPS	46.1	37.8	45.9	53.8	62.9
Book value	270.7	289.6	321.1	356.9	398.2
Valuation (x)					
P/E	12.1	14.8	12.2	10.4	8.9
P/BV	2.1	1.9	1.7	1.6	1.4
EV/EBITDA	5.5	5.4	5.1	4.4	3.8
EV/sales	0.5	0.4	0.3	0.3	0.3
Return ratios (%)					
RoCE	28.7	24.8	26.4	27.3	28.5
RoE	18.7	13.5	15.0	15.9	16.7
RoIC	35.3	30.3	30.1	29.8	32.3
Profitability ratios (%)					
EBITDA margin	8.6	7.0	6.9	7.1	7.4
EBIT margin	7.7	6.0	5.9	6.2	6.5
PAT margin	3.7	2.5	2.5	2.8	3.0
Turnover ratios					
Total asset turnover ratio (x)	3.7	4.1	4.4	4.4	4.4
Debtor days	95	108	105	103	102
Inventory days	75	76	78	76	75
Creditor days	181	207	195	192	190
Solvency ratios (x)					
Debt-equity	0.3	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
9 October 2018	Buy	573	740
5 November 2018	Buy	560	760

Rating track graph



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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