Apar Industries

BUY	CMP Rs373	Target Rs449	Upside 20%

Strong show - BUY

- **Conductor Segment:** The revenue declined by 15% yoy. The domestic revenue declined by 28% yoy driven by subdued demand for conventional conductors and HEC. Exports were down 6% yoy while share stood at 50% vs 44% yoy. The company's conventional conductor business may remain stagnant but have invested in the newer segments like HEC (15% share), Copper conductor for Railways (11% share), OPGW and the CPC for transformers. Rods revenue grew by 22% (14% share). EBITDA/MT stood at Rs.13,022 while EBITDA stood at Rs.410mn, down 9% yoy. Margins stood at 5.6%. Conductors new order inflow at Rs.10.47 bn, up 68% yoy of which exports share stood at 35%. Copper conductor for Railways contributed 46% to order inflow. The orderbook stood at Rs. 21.2 bn vs ~Rs17 bn in Q2FY21. Exports share at 55%.

  The company is getting more approvals from utilities and transformer OEMs in the copper transport and conductor segment. The company increased the execution and utilization of other segments. The company has no hedge against the sharp price hikes in steel while freight cost will hit under DDP and CFR contracts particularly with government and semi government utilities as these contracts don't have freight cost escalation clause. The freight and shipping cost have increased in recent months.

- **Specialty Oil Segment:** Revenue grew 18% in Q3 FY21 with strong global demand with Exports revenues growing 30% yoy (contribution increasing to 41% versus 37% in Q3 FY20). The segment benefited from its Hamriyah plant where the capacity utilization jumped to 99% during Q3 FY21 vs 65% in Q3 FY20. Domestic revenues grew 10% YoY driven by agri-lube demand. The white oil volumes grew by 24% yoy while Transformer Oils volumes grew 5%. The volumes growth in Transformer Oils was on account of exports. Domestic volumes declined due to both demand and cash flow issues. The company has maintained cautious order-booking. EBITDA improved significantly due to tightness in Base Oil market. Adj EBITDA/kl stood at Rs.8158, up 165% yoy. The management keep an inventory of 60 days for base oil. Sharp prices increase was seen in the commodities like steel, base oil, aluminum and copper. The company is in position to pass the price hike in base oil as supply chain is tight resulting into tight inventory at industry level. The market leader Castrol has also announced the second price increase in two months. The margins are non sustainable and may come down to Rs.4500/kl. The base oil volumes in Q4FY21 will be not be not be like Q3FY21 as restocking will be done and sales impacted by disrupted supply chain. The backlog stood at 8-10% in Jan-21 which can impact the volumes if corrective actions not taken quickly.

- **Lubricants:** Lubricants (Automotive & Industrial Oils) revenue grew 29% yoy led by 28% yoy growth in volumes. Industrial Oil volumes were up 19% yoy while Automotive volumes up 31% YoY driven by both agricultural and retail segment. Strategic focus on the agri lube segment has helped deliver strong performance despite COVID 19 lockdowns during 9M FY21.

- **Cables Segment:** The Company witnessed weak demand for cable with highly un-remunerative prices. However, Power cables continued to remain competitive while Elasto/ Ebeam cables see low demand from Railways, Defence and Solar segment. OFC/ Telecom cables revenue up 71% YoY. The Exports contribution improved to 16% vs 13% yoy. Order inflow strong in Q4FY21. The company has no plans to enter into extra high-voltage (EHV) segment. The company is witnessing good demand on the solar power cable side but the demand in railways and defense may not be that strong in Q4 vs Q3FY21.

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- **Way Going ahead:** The production of railway, locomotives and coaches has been at a very low level due to pandemic and the management expects to see a jump from Q4 onwards. T&D companies have received orders of about Rs 86 bn. The management opines that the newer segments will start picking up along with growth from Hamriyah facility which will benefit the company's profitability in the longer run. The focus will be to improve the RoE and profitability.
- **Overall Revenues:** Revenues impacted by delayed tendering/lack of Central/State funding in domestic market. Domestic demand expected to improve in coming quarters. Exports was up 6% yoy, contributing 40% to revenues vs 35% yoy.
- **Finance Cost:** Finance costs down due to favourable LIBOR & local rates and focus on working capital. The company has taken necessary actions to bring the finance cost down. The debt stands at Rs.2bn long term, Rs1.85bn short term and Rs.2.4bn cash. LCM outstanding stands at Rs11.8bn of which Rs.8.27 is towards LIBOR and Rs.3.5bn for domestic.
- **Hamriyah facility:** The export of transformer oil going from India to Gulf countries has increased. Currently the company is the market leader with 80% share. New customer addition seen. The plant is automated thus if capacity increases via debottlenecks, the cost will not increase much.
- **Other Highlights:** 1) The company is eyeing opportunities coming from Latin and Central America. 2) The capacity utilization in conductor is 72%, oil at ~72%, and cable is 55%. OPGW and PTC is only 2%. 3) The payment cycle has improved and are back to normal levels. 2) The demand in locos and coaches will increase with an increase in outlay in coming years. 4) The company commissioned its 3rd electron beam. 5) Capex for 9M stands at Rs.300 mn.

Our View: We expect pick up in execution across segments backed by strong order book, supportive budget and demand uptake. The company is focusing on the cost control measures which would support overall profitability. The expected increase in the share of Value added products to also help realizations. We roll forward our estimates to FY23 and maintain our BUY rating for target of Rs. 449.

Apar Industries Q3 FY21 result summary

- Apar Industries reported topline of Rs17.1 bn (down 7% yoy), largely in-line with our estimates of Rs.17.5 bn topline.
- While Conductor and Cables segment revenues declined by 15% and 18% yoy respectively, strong growth was seen in Specialty Oil segment which grew 18% yoy.
- Profitability saw a sharp improvement with blended Operating margins improving 281 bps yoy to 9.5% during the quarter.
- EBIT Margins improved primarily on account of Specialty segment whereas Cables margin was under pressure.
- The sharp decline in finance costs saw PAT jump 125% yoy to Rs.825 mn.

Apar Industries

Exhibit 1: Result table (Consolidated)

Y/e 31 Mar (Rs mn)	Q3 FY21	Q3 FY20	yoy(%)	Q2 FY21	qoq (%)
Revenue	17,142	18,366	(6.7)	14,807	15.8
Operating Profit	1,630	1,231	32.4	1,191	36.9
OPM (%)	9.5	6.7	281 bps	8.0	147 bps
Other Income	31	14	125.4	30	5.1
Depreciation	(235)	(225)	4.5	(231)	1.5
Interest	(369)	(518)	(28.7)	(296)	24.8
PBT	1,057	502	110.5	694	52.4
Tax	(233)	(136)	71.7	(159)	46.7
Reported PAT	825	367	124.8	535	54.1

Exhibit 2: Segmental Performance

Particulars	Q3 FY21	Q3 FY20	yoy(%)	Q2 FY21	qoq (%)
Revenue (Rs. mn)					
Conductors	7,374	8,683	(15.1)	6,284	17.3
Specialty Oil	6,919	5,874	17.8	5,986	15.6
Cables	3,220	3,913	(17.7)	2,541	26.7
Revenue Mix (%)					
Conductors	42.1%	47.0%		42.4%	
Specialty Oil	39.5%	31.8%		40.4%	
Cables	18.4%	21.2%		17.2%	
EBIT (Rs. mn)					
Conductors	321	404	(20.5)	312	2.8
Specialty Oil	941	318	195.7	698	34.8
Cables	195	360	(46.0)	39	404.1
EBIT Margin (%)					
Conductors	4.4%	4.7%		5.0%	
Specialty Oil	13.6%	5.4%		11.7%	
Cables	6.0%	9.2%		1.5%	

Exhibit 3: Financial Summary (Consolidated)

Y/e 31 Mar (Rs m)	FY20	FY21E	FY22E	FY23E
Revenues	74,617	63,728	73,450	84,858
yoy growth (%)	(6.3)	(14.6)	15.3	15.5
Operating profit	4,758	3,719	4,678	5,643
OPM (%)	6.4	5.8	6.4	6.7
Adjusted PAT	1,351	1,013	1,735	2,456
yoy growth (%)	(0.7)	(25.0)	71.3	41.5
EPS (Rs)	35.3	26.5	45.3	64.2
P/E (x)	10.6	14.1	8.2	5.8
EV/EBITDA (x)	3.2	3.9	3.1	2.4
Debt/Equity (x)	0.2	0.2	0.2	0.1
RoE (%)	11.4	8.5	13.5	17.1

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