CARE Ratings
Professional Risk Opinion

CARE/HO/RR/2018-19/1909
Mr. V.K.Lele
Vice President (Finance)
Apar Industries Ltd
137/138, 13th Floor, Jolly Maker Chamber No: 2,
Nariman Point, Mumbai – 400 021.

October 10, 2018

Dear Sir,

<u>Credit rating bank facilities</u>

Please refer to our letter dated October 01, 2018 on the above subject.

1. The rationale for the rating is attached as an **Annexure-I**.

2. A write-up (Press Release) on the above rating is proposed to be issued to the press shortly. A draft of this is enclosed for your perusal as **Annexure-II**.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,

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<u>Encl.:</u> As above

Annexure-I

Rating Rationale

Apar Industries Limited

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long term Bank Facilities	616.67 (enhanced from 524.17)	**CARE A; Stable [Single A; Outlook: Stable]**	**Revised from CARE A+; Stable [Single A Plus; Outlook:Stable]**
Long term Bank Facilities (External Commercial Borrowings)	- (reduced from 14.73)	-	**Withdrawn**
Long/Short term Bank Facilities	4125.00 (enhanced from 3575.00)	**CARE A; Stable/CARE A1 [Single A; Outlook: Stable/A One]**	**Revised from CARE A+; Stable/CARE A1+ [Single A Plus; Outlook: Stable/ A One Plus]**
Total Facilities	**4741.67 (Rs. Four Thousand seven hundred forty one crore and sixty seven lakhs only)**		

Rating Rationale

The revision in the ratings assigned to the bank facilities of Apar Industries Ltd. (APAR) reflects the increase in the working capital intensity of operations, and pricing pressure being witnessed on account of stiff competition in the industry, including tariff based competitive bidding, and rising commodity prices. The rating revision also factors in the deterioration in APAR's capital structure and debt coverage indicators on account of increased reliance on working capital borrowings. Further, the ratings factor in the susceptibility of margins to volatility in raw material prices and foreign exchange rates.

The ratings, however, continue to derive strength from the experience of the promoters and management, APAR's diversified business profile, established position in the segments it operates in, and healthy order book position in the conductors segment.

The ability of the company to improve its business and financial risk profiles and liquidity position in light of the challenging operating environment shall remain the key rating sensitivity.

CARE has also withdrawn the rating assigned to APAR's external commercial borrowings (ECB) with immediate effect, as the company has repaid the ECB in full and there are no amount outstanding under the facility as on date.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

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Background

APAR, founded by Late Mr. Dharmsinh D. Desai in 1958, is engaged in three broad business segments-transformer and specialty oils (TSO), conductors segment and power/telecom cables. APAR is the fourth-largest manufacturer of transformer oil in the world, with a 45% share in the Indian transformer oil market. It is amongst the world's top three conductor manufacturers and the largest aluminium conductor exporter from India. It is a leading player in cables (especially in the elastomeric cables segment) and the largest in cables in the renewable energy sector. Apart from being a market leader in India, the company has a strong global presence, exporting to over 100 countries.

APAR has total installed capacity of 3,72,773 KL of transformer oils, 180,000 MT of conductors, 1,85,667 km of power cables, and 1,80,000 km of optic fibre cables on March 31, 2018. Its manufacturing facilities are located at Rabale (Maharashtra), Silvassa, Athola and Rakholi (Dadra and Nagar Haveli), Umbergaon and Khatalwad (Gujarat), Jharsugoda and Lapanga (Orissa), Hamariyah (Sharjah).

Further, APAR is developing a facility at Silvassa for production of CTC (Continuously transposed conductors), a value added product. This facility is expected to be operational by end of FY19 with initial capacity of 7,000 MT with capex amount of Rs.45 crore.

Analytical approach: CARE has considered the consolidated financials of APAR, as its wholly owned subsidiaries have substantial operational and financial linkages with it.

Applicable criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios - Non-Financial Sector
Rating Methodology: Factoring Linkages in Ratings

Credit Risk Assessment

Experienced promoters and management

Late Mr. Dharmsinh D. Desai, the founder of Apar Group, started his industrial activity in 1942 as a sole proprietor of the Hindustan Electric Co. Ltd., which today is known as Asea Brown Boveri (ABB). He was the founder Chairman of ABB. In 1958, he established a company by the name of Power Cables Pvt. Ltd., which is now known as Apar Industries Ltd. Currently, APAR is managed by Mr. Kushal N. Desai and Mr. Chaitanya N. Desai (grandsons of Mr. Dharmsinh D. Desai) who are well qualified and have substantial industrial experience.

Well established market position across all segments

APAR is amongst the top 3 producers of conductors and speciality oils in the world. In the conductor segment, after establishing its presence in aluminium conductors space, it has implemented new technologies for manufacturing value added products, like HEC (High Efficiency Conductors), Copper Conductors and CTC (continuously transposed conductors- Copper based). These conductors have higher profitability and find application in Defence and Railways. Also in conductor segment APAR enjoys long standing relationship with customers like PGCIL, Kalpataru Power Transmission Limited, KEC International Limited.

In the transformer oil segment it has a product offering of 400 products with varied application in industrial oil sub segment. To cater the need of growing demand in Middle East and African markets, APAR commissioned its port based plant at Hamariyah, Sharjah in FY18. It has also entered into a brand and manufacturing alliance for its automotive lubricant segment with the global energy leader ENI S.P.A Italy.

In the cables segment, APAR is engaged in electrical and telecom cables as well as elastomer cables. This division supplies to various industry segments in India viz., power utilities, petrochemicals, steel, cement, nuclear power, defence, telecommunication, metros, and shipbuilding etc. Major clients include PGCIL, KEC, Larsen & Toubro and Kalpataru.

Diversified revenue profile

APAR's business segments comprise Conductors, Transformer and Speciality Oils (TSO), and Cables. APAR reported 20.82% growth in the total operating income from FY17 to FY18 driven by revenue growth in all the segments.

The conductor segment contributed 44% to the gross sales of FY18 (as against 46% in FY17). The conductor segment's revenues increased marginally by 6.23% to Rs.2615 crore in FY18 (Rs.2461 crore in FY17). During FY18 the conductor segment's PBIT margin declined by 227 bps, from 7.27% in FY17 to 5% in FY18, due to rising inflationary pressures in commodity prices (primarily steel and aluminium) which could not be entirely passed on to customers due to the shift to tariff based competitive bidding, along with delay in execution of orders. Order execution was delayed due to lack of manufacturing clearances and delays in opening of LCs at the end of EPC players, leading to decline in the EBITDA/MT during the year. Although the EBITDA/ MT improved in Q1FY19 as compared to Q1FY18, on account of better product mix, the overall performance of the segment remained muted.

The TSO segment contributed 36% to the gross sales in FY18 (vis-à-vis 35% in FY17). The TSO segment reported a revenue growth of around 15% in FY18, from Rs.1881 crore in FY17 to Rs.2162 crore in FY18 primarily due to increase in the volumes sold during FY18 driven by addition of new OEM clients as well as increased distribution network (i.e. 450 distributors and 15,000 stockists). However, the segmental PBIT margin declined by 196 bps in FY18, from 9.54% in FY17 to 7.58% in FY18, on account of volatility in crude oil prices. Although, the prices for customers are pass-through, there is a lag in implementation of price variance due to stiff competition in the market. The PBIT margin declined further to 5.51% in Q1FY19 due subdued demand from Middle East and Africa and delay in clearances which led to delay in order processing in this segment. The White oil segment saw a decline in volumes during this period on account of delays in opening LCs by the customers in African market.

The cables segment contributed 19% to the gross sales of FY18 (as against 17% in FY17). The segment reported healthy revenue growth of 22% in FY18 to Rs.1135 crore and segmental PBIT margin also improved to 8.03% in FY18 vis-à-vis 6.61% in FY17. This is a result of increase in demand from Discoms, Railways and Defense apart from the solar sector in the power cables segment. The revenue from telecom sector increased due to increase in order execution for Bharat Broadband Network Limited (BBNL). However, revenue from elastomer cables declined due to subdued demand from wind sector. The growth trajectory in this segment continued in Q1FY19 with revenue of Rs.318.92 crore (18% increase vis-à-vis Q1FY18) and PBIT margin of 8.59%.

Healthy order book position in the conductors segment

Order book for the conductors segment stood at Rs.2,436 crore as on June 30, 2018 as compared to Rs.1162 crore as on June 30, 2017. Out of the total order book 60% (i.e. orders aggregating Rs.1,462 crore) is expected to be executed in FY19. The order book includes an order of Rs.394 crore for copper conductors from Railways for electrification of new lines. The copper conductors are expected to yield higher margins to the company vis-à-vis aluminum conductors. Timely execution of the order book will remain a key credit monitorable.

Increase in working capital intensity of operations

During FY18 and Q1FY19, APAR procured excess raw material in anticipation of execution of orders in conductor segment. However, the order execution was delayed by EPC players during FY18 and Q1FY19 due to delays in getting clearances and funding arrangements. Also, EPCs for fixed price

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orders are holding on the execution in anticipation of decline in LME prices. This led to significant increase in work in progress inventory and raw material inventory during FY18 and Q1FY19. The collection period too increased due to the above mentioned delays in order execution. In absolute terms, the receivables position increased from Rs.1254.32 crore as on March 31, 2017 to Rs.1727.88 crore as on March 31, 2018. The company funds the working capital requirements by using CC limits as well as LC acceptances (in the form of supplier credit). The average maximum utilisation of the fund based working capital limit was 32% in the 12 months ended July 2018 while the average maximum utilisation of the LC/BG limit during this same period was around 86%.

Deterioration in capital structure and debt coverage indicators

The overall gearing ratio deteriorated from 1.75x as on March 31, 2017 to 2.01x as on March 31, 2018 primarily on account of increase in the LC backed acceptances on the balance sheet date. Large portion of APAR's raw material is imported, the financing of which is largely done using supplier credit backed by LC. The LC acceptances increased significantly from Rs.1443.21 crore as on March 31, 2017 to Rs.1857.27 crore as on March 31, 2018 and are expected to increase further with the increase in the scale of operations. Further, APAR availed term loans of Rs.102.23 crore during FY18 to refinance the capex done at the molten metal plant at Lapanga which started its operation in March 2018. The capex was originally done out of internal accruals in FY17 and FY18. This coupled with the increase in LIBOR rate and interest rate hikes by RBI led to an increase in the interest cost by 22% in FY18. As a result, interest coverage ratio declined from 3.38x in FY17 to 2.73x in FY18. Total debt to GCA also deteriorated from 7.96x in FY17 to 10.92x in FY18. With increase in the interest rates in Q1FY19, interest coverage and total debt to GCA ratios further deteriorated to 2.10x and 11.97x respectively in Q1FY19.

Susceptibility of margins to volatility in raw material prices

In FY18, the raw material cost to total operating income stood at 78% in FY18 as against 77% in FY17. The price of aluminium which is a major raw material for conductors, has shown a lot of volatility in the past few years. Earlier the company could fully pass on the increase in raw material prices to the end customers in the conductor segment by cost pass through contracts. However in FY18, bidding process changed to tariff based competitive bidding, which constrains APAR's ability to pass on the increase in the raw material prices to the customers in entirety. In order to hedge against the volatility in the metal price, APAR books the metal at the LME rates on the day the order is booked for fixed price orders.

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In the TSO segment, APAR uses base oil as its raw material. The base oil prices depend on crude oil prices to a certain extent, which are highly volatile. Due to the intense competition in the segment, APAR is not always able to pass on the entire raw material price rise to the customers. Even otherwise, the company can pass on majority of raw material increase to the customers only with a time lag as the demand in the segment is not fully elastic.

Exposure to foreign exchange fluctuation

APAR is exposed to volatility in foreign exchange rates on account of its imports and borrowings in foreign currency. Majority of its raw materials are imported. Imports formed 66% of total raw material cost in FY18 (as against 64% in FY17), majority being aluminium and base oils. Against this exports constituted 36% of total sales in FY18 (as against 31% in FY17). APAR hedges the metal at LME and simultaneously hedges the foreign exchange part. In TSO segment, APAR has an open position for 90 days and hedges on net exposure basis on the 91st day. The prices of long-term buy contracts take time to correct in case of fluctuations in crude prices as formula prices are always backward looking and the company uses forward exchange contracts to hedge its currency risk. Being a net importer, ability of the company to successfully manage its foreign exchange fluctuation risk remains critical from the credit perspective.

Prospects

The Government of India has come up with new schemes to expand and ease transmission and distribution of power- like UDAY Scheme which has helped debt laden discoms reduce annual losses by 70% to around Rs 17,350 crore in last two years. Also, Power Grid has set capex target at Rs.25,000 crore in FY19 and has signed a MoU with the power ministry. At the same time the sector is rife with competition, especially with the bidding process changing to tariff based competitive bidding. Successful implementation of the government schemes and polices in the light of the stiff competition is important for the growth of companies operating in this sector. Going forward, the ability of the company to improve its business and financial risk profiles and liquidity position in light of the challenging operating environment shall remain key monitorable.

Financial Performance

(Rs. crore)

For the period ended / as at Mar.31,	*2016 (12m, A)*	*2017 (12m, A)*	*2018 (12m, A)*
Working Results			
Total Operating income	5,096.13	4,833.69	5,840.34
PBILDT	389.24	441.34	432.12
Interest	175.14	130.52	158.07
Depreciation	37.76	44.97	55.87
PBT	186.23	273.32	222.77
PAT (after deferred tax)	124.87	176.56	144.74
Gross Cash Accruals	164.52	226.04	203.61
Financial Position			
Equity Capital	38.50	38.27	38.27
Networth	841.16	1,026.57	1,101.68
Total capital employed	1358.61	1438.42	1509.72
Key Ratios			
Growth			
Growth in Total income (%)	-0.54	-5.15	20.83
Growth in PAT (after D.Tax) (%)	168.08	41.40	-18.02
Profitability			
PBILDT/Total Op. income (%)	7.64	9.13	7.40
PAT (after deferred tax)/ Total income (%)	2.45	3.65	2.48
ROCE (%)	26.53	30.32	24.04
Solvency			
Long Term Debt Equity ratio (times)	0.14	0.12	0.17
Overall gearing ratio (times)	1.89	1.75	2.01
Interest coverage(times)	2.22	3.38	2.73
Term debt/ Gross cash accruals (years)	0.73	0.52	0.95
Total debt/Gross cash accruals (years)	9.66	7.96	10.92
Liquidity			
Current ratio(times)	1.15	1.22	1.20
Quick ratio(times)	0.77	0.79	0.79
Turnover			
Average collection period (days)	82	85	93
Average inventory (days)	69	76	77
Average creditors (days)	114	130	144
Operating cycle (days)	37	32	26

A – Audited

Details of Rated Facilities

1. Long-term facilities

1.A. Rupee Term Loans

Sr. No.	Lender	Rated Amount (Rs. Crore)	Remarks	Debt Repayment Terms
1.	Kotak Mahindra Bank Ltd	16.67	Outstanding	Repayable in 15 quarterly installments starting from March 2016
2.	Kotak Mahindra Bank	100	Sanctioned	Repayable in 10 Half yearly unequal installments starting Sept 2019
	Total	**116.67**		

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1.B. Fund Based limits

Sr. No.	Name of Bank	Fund Based Limits		
		CC*	Others	Total fund based limits
1	Union Bank of India	130.00	-	130.00
2	Syndicate Bank	100.00	-	100.00
3	IDBI Bank Ltd	5.00	-	5.00
4	ICICI Bank Ltd.	5.00	-	5.00
5	Axis Bank Ltd	5.00	-	5.00
6	State Bank of India	10.00	-	10.00
7	Credit Agricole Corporate and Investment Bank	50.00	-	50.00
8	Bank of India	45.00	-	45.00
9	Kotak Mahindra Bank	20.00	-	20.00
10	IDFC bank	20.00	-	20.00
11	Societe Generale	90.00	-	90.00
12	Yes Bank	20.00	-	20.00
	Total	**500.00**	-	**500.00**

**CC=Cash credit*

Total long-term facilities (1.A+ 1.B): Rs.616.67 crore

2. Long /Short term Facilities

2.A. Non fund based limits

Sr. No	Name of Bank	Facility*	Amount (Rs. crore)
1	Union Bank of India	LC/BG	870.00
2	Syndicate Bank	LC/BG	795.00
3	IDBI Bank Ltd	LC/BG	295.00
4	ICICI Bank Ltd.	LC/BG	395.00
5	Axis Bank Ltd	LC/BG	395.00
6	State Bank of India	LC/BG	140.00
7	Credit Agricole Corporate and Investment Bank	LC/BG	150.00
8	Kotak Mahindra Bank Ltd.	LC/BG	230.00
9	Bank of India	LC/BG	280.00
10	IDFC bank	LC/BG	230.00
11	Societe Generale	LC/BG	90.00
12	Yes Bank	LC/BG	255.00
	Total		**4125.00**

**LC=Letter of Credit and BG= Bank Guarantee*

Note: There is interchangeability of limits for Letter of Credit as well as Letter of Guarantees under Non Fund Based limits in all the banks. At any time, utilization of total working capital facilities will be within the overall limit of Rs.4625 crore (Rupees Four Thousand Six hundred twenty five crore only).

Total Long term/ short term facilities (2.A): Rs.4125.00 crore

Total bank facilities: Rs.4741.67 crore

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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Annexure-II

Press Release

Apar Industries Limited

Ratings

Facilities	Amount (Rs. crore)	Ratings[2]	Remarks
Long term Bank Facilities	616.67 (enhanced from 524.17)	CARE A; Stable [Single A; Outlook: Stable]	Revised from CARE A+; Stable [Single A Plus; Outlook:Stable]
Long term Bank Facilities (External Commercial Borrowings)	- (reduced from Rs.14.73 crore)	-	Withdrawn
Long/Short term Bank Facilities	4125.00 (enhanced from 3575.00)	CARE A; Stable/CARE A1 [Single A; Outlook: Stable/A One]	Revised from CARE A+; Stable/CARE A1+ [Single A Plus; Outlook: Stable/ A One Plus]
Total Facilities	**4741.67 (Rs. Four Thousand seven hundred forty one crore and sixty seven lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Apar Industries Ltd. (APAR) reflects the increase in the working capital intensity of operations, and pricing pressure being witnessed on account of stiff competition in the industry, including tariff based competitive bidding, and rising commodity prices. The rating revision also factors in the deterioration in APAR's capital structure and debt coverage indicators on account of increased reliance on working capital borrowings. Further, the ratings factor in the susceptibility of margins to volatility in raw material prices and foreign exchange rates.

The ratings, however, continue to derive strength from the experience of the promoters and management, APAR's diversified business profile, established position in the segments it operates in, and healthy order book position in the conductors segment.

The ability of the company to improve its business and financial risk profiles and liquidity position in light of the challenging operating environment shall remain the key rating sensitivity.

CARE has also withdrawn the rating assigned to APAR's external commercial borrowings (ECB) with immediate effect, as the company has repaid the ECB in full and there are no amount outstanding under the facility as on date.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management

Late Mr. Dharmsinh D. Desai, the founder of Apar Group was also the chairman of Asea Brown Boveri (ABB). In 1958, he established a company by the name of Power Cables Pvt. Ltd., which is now known as Apar Industries Ltd. Currently, APAR is managed by Mr. Kushal N. Desai and Mr. Chaitanya N. Desai (grandsons of Late Mr. Dharmsinh D. Desai) who are well qualified and have substantial industrial experience.

Well established market position across segments

APAR is amongst the top 3 producers of conductors and speciality oils in the world. In the transformer oil segment it has a product offering of 400 products with varied application in industrial oil sub segment. To cater the need of growing demand in Middle East and African markets, APAR commissioned its port based plant at Hamariyah, Sharjah in FY18. It has also entered into a brand and manufacturing alliance for its automotive lubricant segment with the global energy leader ENI S.P.A Italy. In the conductor segment, APAR enjoys long standing relationship with customers like PGCIL, Kalpataru Power Transmission Limited, KEC International Limited. In the cables segment, APAR is engaged in

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electrical and telecom cables as well as elastomer cables. This division supplies to various industry segments in India viz., power utilities, petrochemicals, steel, cement, nuclear power, defence, telecommunication, metros, and shipbuilding etc. Major clients include PGCIL, KEC, Larsen & Toubro and Kalpataru.

Diversified revenue profile

APAR's business segments comprise Conductors, Transformer and Speciality Oils (TSO), and Cables. APAR reported 20.82% growth in the total operating income in FY18 driven by revenue growth in all the segments. The conductor segment contributed 44% to the gross sales of FY18. The conductor segment's revenues increased marginally by 6.23%. During FY18 the conductor segment's PBIT margin declined by 227 bps to 5% in FY18, due to rising inflationary pressures in commodity prices (primarily steel and aluminium) which could not be entirely passed on to customers due to the shift to tariff based competitive bidding, along with delay in execution of orders. In Q1FY19 also, the overall performance of the segment remained muted.

The TSO segment contributed 36% to the gross sales in FY18.The TSO segment reported a revenue growth of around 15% in FY18 primarily due to increase in the volumes sold during FY18 driven by addition of new OEM clients as well as increased distribution network. However, the segmental PBIT margin declined by 196 bps to 7.58% in FY18, on account of volatility in crude oil prices. The PBIT margin declined further to 5.51% in Q1FY19 due subdued demand.

The cables segment contributed 19% to the gross sales of FY18. The segment reported healthy revenue growth of 22% in FY18 and segmental PBIT margin also improved to 8.03% in FY18. This is a result of increase in demand from Discoms, Railways, Defense, Telecom and Solar sectors. However, revenue from elastomer cables declined due to subdued demand from wind sector. The growth trajectory in this segment continued in Q1FY19 with revenue of Rs.318.92 crore (18% increase vis-à-vis Q1FY18) and PBIT margin of 8.59%.

Healthy order book position in the conductors segment

Order book for the conductors segment stood at Rs.2,436 crore as on June 30, 2018. Out of the total order book 60% is expected to be executed in FY19. Timely execution of the order book will remain a key credit monitorable.

Key **Rating Weaknesses**

Increase in working capital intensity of operations

During FY18 and Q1FY19, APAR procured excess raw material in anticipation of execution of orders in conductor segment. However, the order execution was delayed by EPC players during FY18 and Q1FY19 due to delays in getting clearances and funding arrangements. Also, EPCs for fixed price orders are holding on the execution in anticipation of decline in LME prices. This led to significant increase in work in progress inventory and raw material inventory during FY18 and Q1FY19. The collection period too increased due to the above mentioned delays in order execution. In absolute terms, the receivables position increased from Rs.1254.32 crore as on March 31, 2017 to Rs.1727.88 crore as on March 31, 2018. The company funds the working capital requirements by using CC limits as well as LC acceptances (in the form of supplier credit). The average maximum utilisation of the fund based working capital limit was 32% in the 12 months ended July 2018 while the average maximum utilisation of the LC/BG limit during this same period was around 86%.

Deterioration in capital structure and debt coverage indicators

The overall gearing ratio deteriorated from 1.75x as on March 31, 2017 to 2.01x as on March 31, 2018 primarily on account of increase in the LC backed acceptances on the balance sheet date. This is a result of large portion of APAR's raw material being imported, the financing of which is largely done using supplier credit backed by LC. The LC acceptances increased significantly to Rs.1857.27 crore as on March 31, 2018 and are expected to increase further with the increase in the scale of operations.

This coupled with the increase in LIBOR rate and interest rate hikes by RBI led to an increase in the interest cost by 22% in FY18. As a result, interest coverage ratio declined from 3.38x in FY17 to 2.73x in FY18. Total debt to GCA also deteriorated from 7.96x in FY17 to 10.92x in FY18. With increase in the interest rates in Q1FY19, interest coverage and total debt to GCA ratios further deteriorated to 2.10x and 11.97x respectively in Q1FY19.

Susceptibility of margins to volatility in raw material prices

In FY18, the raw material cost to total operating income stood at 78% in FY18. The price of aluminium which is a major raw material for conductors, has shown a lot of volatility in the past few years. In FY18, bidding process changed to tariff based competitive bidding, which constrains APAR's ability to pass on the increase in the raw material prices to the customers in entirety. In order to hedge against the volatility in the metal price, APAR books the metal at the LME rates on the day the order is booked for fixed price orders. In the TSO segment, APAR uses base oil as its raw material. The base oil prices depend on crude oil prices to a certain extent, which are highly volatile. Due to the intense competition in the segment, APAR is not always able to pass on the entire raw material price rise to the customers.

Exposure to foreign exchange fluctuation

APAR is exposed to volatility in foreign exchange rates on account of its imports and borrowings in foreign currency. Imports formed 66% of total raw material cost in FY18 as against which exports constituted 36% of total sales in FY18.

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Being a net importer, ability of the company to successfully manage its foreign exchange fluctuation risk remains critical from the credit perspective.

Stiff competition in the industry

The power sector is rife with competition, especially with the bidding process changing to tariff based competitive bidding. Successful implementation of above mentioned schemes and polices in the light of the stiff competition is a key monitorable.

Analytical approach: CARE has considered the consolidated financials of APAR, as its wholly owned subsidiaries have substantial operational and financial linkages with it.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios - Non-Financial Sector
Rating Methodology: Factoring Linkages in Ratings

About the Company

APAR, founded by Mr. Dharmsinh D. Desai in 1958, is engaged in three broad business segments-transformer and specialty oils (TSO), conductors segment and power/telecom cables. APAR is the fourth-largest manufacturer of transformer oil in the world, with a 45% share in the Indian transformer oil market. It is amongst the world's top three conductor manufacturers and the largest aluminium conductor exporter from India. It is a leading player in cables (especially in the elastomeric cables segment) and the largest in cables in the renewable energy sector. Apart from being a market leader in India, the company has a strong global presence, exporting to over 100 countries.

APAR has total installed capacity of 3,72,773 KL of transformer oils, 180,000 MT of conductors, 1,85,667 km of power cables, and 1,80,000 km of optic fibre cables on March 31, 2018. Its manufacturing facilities are located at Rabale (Maharashtra), Silvassa, Athola and Rakholi (Dadra and Nagar Haveli), Umbergaon and Khatalwad (Gujarat), Jharsugoda and Lapanga (Orissa), Hamariyah (Sharjah).

Further, APAR is developing a facility at Silvassa for production of CTC (Continuously transposed conductors), a value added product. This facility is expected to be operational by end of FY19 with initial capacity of 7,000 MT with capex amount of Rs.45 crore.

Brief Financials-Consolidated (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	4,833.69	5,840.34
PBILDT	441.34	432.12
PAT	176.56	144.74
Overall gearing (times)	1.75	2.01
Interest coverage (times)	3.38	2.73

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	March 8, 2024	116.67	CARE A; Stable
Fund-based - LT-Cash Credit	-	-	-	500.00	CARE A; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	4125.00	CARE A; Stable / CARE A1
Fund-based - LT-External Commercial Borrowings	-	-	-	-	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - LT/ ST-BG/LC	LT/ST	4125.00	CARE A; Stable / CARE A1	-	1)CARE A+; Stable / CARE A1+ (21-Dec-17)	1)CARE A1+ (24-Oct-16)	1)CARE A1+ (28-Sep-15)
2.	Fund-based - LT-Cash Credit	LT	500.00	CARE A; Stable	-	1)CARE A+; Stable (21-Dec-17)	1)CARE A+ / CARE A1+ (24-Oct-16)	1)CARE A+ / CARE A1+ (28-Sep-15)
3.	Fund-based - LT-External Commercial Borrowings	LT	-	-	-	1)CARE A+; Stable (21-Dec-17)	1)CARE A+ (24-Oct-16)	1)CARE A+ (28-Sep-15)
4.	Term Loan-Long Term	LT	116.67	CARE A; Stable	-	1)CARE A+; Stable (21-Dec-17)	1)CARE A+ (24-Oct-16)	1)CARE A+ (28-Sep-15)

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