

Apar Industries Ltd.

Sensex: 36252

CMP: INR 608



Capital Goods

Dominant player across business lines at global scale

Apar is 3rd largest manufacturer of Conductors and 4th largest manufacturer of transformer oil in the world. In conductors business, its market share stands at 23% in domestic market with installed capacities of 1.8lac MT. It is the largest manufacturer and exporter of conductors from India. In case of specialty oils, its market share stood at 45% with 5.4lac KL installed capacity (including 1lac KL capacity overseas at Sharjah). In FY'18, Conductors business formed 44% of revenue & Specialty oil, 37%. It entered cables business through inorganic route by acquiring Uniflex Cables in 2008 and 19% revenue were contributed by this division. It is one of the upcoming players in auto lubricants with licensing agreement from ENI, Italy and this business formed 6% of revenue. Revenue base has been very well diversified with export @ 36% of revenue in FY'18.

Substantial jump in order inflows of conductors business during H1FY'19 leading to robust order book of ~ Rs 27bn

Strong order inflows to the tune of Rs 28.2bn during H1FY'19 vs Rs 9bn during the corresponding period last year has led to robust order book of Rs 27bn (up 92% YoY) at 1x FY'18 revenue of conductors business providing decent revenue visibility.

Strong bounce back in revenue growth across businesses in H1FY'19, likely to sustain going forward

In H1FY'19, sales volumes in conductors business rose 6% YoY to ~ 73,000 MT. In revenue terms, there was 48% YoY increase to Rs

1,534 crores with exports contributing 42%. Management has guided for ~7% sales volume growth for FY'19. EBITDA/MT is estimated at ~ Rs 11,500 very much in line at Rs 11,400 reported for H1FY'19. Though Specialty oil business' sales volumes rose in low single digit at 3% YoY to 1,99,000 KLs, revenue rose 20% to Rs 1,206 crores led by higher realisations. In H2FY'19, EBITDA/KL is estimated to improve considerably and normalise in the vicinity of Rs 4,200/KL that had witnessed sharp decline in H1 due to steep rise in base oil prices & INR depreciation. Cables division revenue jumped 53% YoY to Rs 756 crores with all sub-segments strongly contributing to growth. Normalised EBITDA margin for cables division crossed double digit for the first time & settled at 10.5%. For FY'19, management has guided for 35% top line growth for Cables division with EBITDA margin at 10.5%.

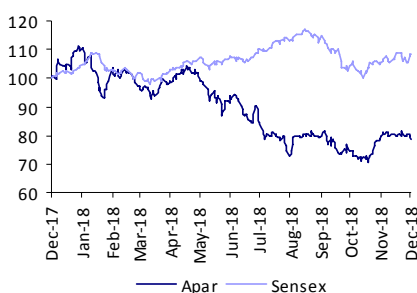
Outlook

We estimate earnings to compound at 22% annually over FY'18-'20 led by strong tailwinds from domestic power T&D sector as well as robust growth in overseas business. Apar's strong global positioning in conductors as well as specialty oil business and robust growth in earnings of cables business (through successful turnaround of Uniflex Cables that it had acquired in 2008) leads us to recommend **ACCUMULATE** on the stock with PT of Rs 700 (13x FY'20 E EPS).

Key Risks

Volatility in input costs & exchange rates

Shareholding (%)	Sep-18
Promoters	58.00
FII's	6.00
DII's	24.00
Others	12.00

Relative Price Performance

Key Data	
BSE Code	532259
NSE Code	APARINDS
Bloomberg Code	APR IN
Reuters Code	APAR.BO
Shares Outstanding (mn)	38.3
Face Value	10
Mcap (INR Cr)	2340
52 Week H/L	870 / 535
2W Avg. Vol, BSE	326

(Rs in Crs)	FY 17	FY 18	FY 19E	FY20E
Net Sales	4832	5819	6250	6750
Growth		20.4%	7.4%	8.0%
EBITDA	403.7	404.5	437.5	499.5
EBITDAM	8.4%	7.0%	7.0%	7.4%
Adj. PAT	176.3	144.7	165	215
Growth		35.8%	37.7%	43.0%
Adj. EPS (INR)	45.8	38	43.1	56.1
P/E(x)	13.3	16.0	14.1	10.8

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