

May 31, 2019

Q4FY19 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	795		762	
Sales (Rs. m)	89,917	98,667	81,119	88,854
% Chng.	10.8	11.0		
EBITDA (Rs. m)	5,395	6,209	5,367	6,129
% Chng.	0.5	1.3		
EPS (Rs.)	47.4	58.9	46.0	56.4
% Chng.	3.1	4.4		

Key Financials

	FY18	FY19	FY20E	FY21E
Sales (Rs. m)	58,185	79,639	89,917	98,667
EBITDA (Rs. m)	4,076	4,677	5,395	6,209
Margin (%)	7.0	5.9	6.0	6.3
PAT (Rs. m)	1,448	1,361	1,816	2,254
EPS (Rs.)	37.8	35.6	47.4	58.9
Gr. (%)	(17.9)	(6.0)	33.4	24.2
DPS (Rs.)	9.5	8.9	11.9	14.7
Yield (%)	1.4	1.3	1.8	2.2
RoE (%)	13.5	11.8	14.3	16.0
RoCE (%)	25.5	28.0	31.6	33.8
EV/Sales (x)	0.5	0.3	0.3	0.2
EV/EBITDA (x)	6.4	5.2	4.2	3.6
PE (x)	17.7	18.8	14.1	11.4
P/BV (x)	2.3	2.1	1.9	1.7

Key Data

APAR.BO | APR IN

52-W High / Low	Rs.737 / Rs.535
Sensex / Nifty	39,714 / 11,923
Market Cap	Rs.26bn / \$ 367m
Shares Outstanding	38m
3M Avg. Daily Value	Rs.10.05m

Shareholding Pattern (%)

Promoter's	58.55
Foreign	5.87
Domestic Institution	24.69
Public & Others	10.89
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	0.5	8.8	(5.0)
Relative	(1.3)	(0.8)	(15.5)

Ashwani Sharma

ashwanisharma@plindia.com | 91-22-66322247

Khushboo Parekh

khushbooparekh@plindia.com | 91-22-66322257

PAT inline, Conductor and Oil profitability likely to improve

Apar Industries (Apar) reported 39% YoY growth in Q4FY19 revenues to Rs25bn, higher than our estimate. The top-line growth was driven by 51% YoY rise in Power/Telecom cables segment sales to Rs5.1 bn, Conductors revenues grew 49% YoY to Rs13.3bn while Transformer & specialty oil segment's sales rose 31% YoY to Rs7bn. However, EBITDA margin fell 163 bps YoY to 5.5% YoY owing to volatility in raw material prices and execution of lower-margin order. PAT for the quarter grew 9% YoY to Rs0.4 bn, in-line with our estimates, largely due to margin contraction, lower interest expense, higher other income and a higher tax rate. The company expects to improve its revenue mix by increasing share of high-margin products in all the three segments in FY20, thus leading to higher profitability. We have raised EPS estimates by 3%/4% for FY20/21E to capture higher revenue growth in FY19. The stock is currently trading at 14/11x FY20/21E. We maintain our Accumulate rating on the stock with revised TP of Rs 795.

Conductor segment profitability to improve: Conductor segment's revenues grew 49% YoY at Rs13bn driven by high order inflow in the quarter by both exports and domestic market. High-margin HEC conductor constituted 11% of sales and is likely to rise owing to a healthy tender pipeline. EBITDA/MT was higher at Rs6680 (vs Rs5732 YoY) with increasing share of Copper conductors. Overall volume was up 12% YoY at 63048MT as new sub segments gained traction. EBITDA/MT is likely to improve to Rs12,300 in FY21E versus Rs8960 in FY19 mainly on account of higher contribution coming from high margin HEC and Copper conductors. Order inflow for the quarter was up 52% YoY at Rs10.5 bn (includes fresh Rs2.1bn of Copper Conductor orders for Railways). Order book stands at Rs30.2bn (to be executed over nine months), up 2.5x YoY. Order books for Copper conductor/HEC/Conventional stood at Rs5.7bn/ 5.3bn/ 20bn, respectively. The company is targeting a 35% contribution from higher-margin Copper Conductor and HEC businesses in FY20. The company won new orders of Rs10.5bn (up 52% YoY), which.

High cost inventory contracts Oil margins: Transformer and specialty oil segment's revenues grew 18% YoY to Rs7 bn as volumes were up 27% YoY to 115625KL. Auto Lubes and Industrial oil posted volume growth of 15%/7%, respectively, and collectively accounted for 21% of total sales. However, EBITDA/KL was lower at Rs3,391 (verses Rs5,280 YoY) due to continued impact of high-cost inventory of base oil price volatility in Q2 and Q3 (January and February 2019). For FY20/21E, management has guided for volume growth of 5% and EBITDA per KL to be stabilised at Rs4,000.

Cable Segment outperforms: The Cable segment's revenues grew 51% YoY to Rs5.1bn led by Power cables (up 52% YoY), Elastomeric cables (up 42% YoY) and Telecom/OFC (up 80% YoY). EBITDA margin rose 336bps YoY to 13.7% in 4QFY19, with improved order/product mix. This segment is poised to be the fastest-growing segment of APR over the next 3-4 years on the back of Elastomeric cable which is mainly supplied to Wind, Shipbuilding, Mining, Defence etc with FY20/21E revenue target of Rs20/25bn growth of 10-11%. Management has guided for 11.5% EBITDA margin in the segment for FY20.

Other key conference call highlights:

- Capex planned for Conductor segment is Rs300mn for FY20 towards CTC project and capacity de-bottlenecking.
- For oil segment capex planned is Rs400mn for FY20 towards increasing capacity of the above two products from 4,500KL per month to 10,000KL per month.
- Planned a capex of Rs800mn including Rs300mn for new e-beam machine.
- 4) Overall debt stands at Rs2,450mn, out of which short-term debt is Rs800mn.
- LC-based financing, which is linked to Libor, stands at Rs13.3bn and rupee denominated at Rs9.4bn.

Exhibit 1: Q4FY19 Result Overview (Rs mn)

Y/e March	Q4FY19	Q4FY18	YoY gr. (%)	Q3FY19	FY19	FY18	YoY gr. (%)
Net Revenue	24,646	17,675	39.4	21,191	79,639	58,185	36.9
EBITDA	1,353	1,259	7.5	1,144	4,677	4,076	14.8
<i>EBITDA Margin (%)</i>	<i>5.5</i>	<i>7.1</i>		<i>5.4</i>	<i>5.9</i>	<i>7.0</i>	
Other Income	42	27	55.6	31	151	111	35.5
Depreciation	176	148	19.1	171	667	559	19.3
Interest	514	536	(4.1)	417	1,999	1,400	42.8
Profit before Tax	705	601	17.2	587	2,162	2,228	(3.0)
Tax	271	230	18.0	240	802	780	2.7
Reported PAT	437	400	9.2	347	1,361	1,448	(6.0)
Adjusted PAT	437	400	9.2	347	1,361	1,448	(6.0)
<i>Net Margin (%)</i>	<i>1.8</i>	<i>2.3</i>		<i>1.6</i>	<i>1.7</i>	<i>2.5</i>	
Adjusted EPS	11.42	10.46	9.2	9.07	35.55	37.83	(6.0)

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	58,185	79,639	89,917	98,667
YoY gr. (%)	20.4	36.9	12.9	9.7
Cost of Goods Sold	44,950	63,360	-	-
Gross Profit	13,235	16,279	89,917	98,667
Margin (%)	22.7	20.4	100.0	100.0
Employee Cost	1,261	1,480	1,671	1,834
Other Expenses	7,928	10,152	11,816	12,677
EBITDA	4,076	4,677	5,395	6,209
YoY gr. (%)	(2.2)	14.8	15.3	15.1
Margin (%)	7.0	5.9	6.0	6.3
Depreciation and Amortization	559	667	729	814
EBIT	3,517	4,010	4,666	5,395
Margin (%)	6.0	5.0	5.2	5.5
Net Interest	1,400	1,999	2,038	2,109
Other Income	111	151	166	182
Profit Before Tax	2,228	2,162	2,793	3,468
Margin (%)	3.8	2.7	3.1	3.5
Total Tax	780	802	978	1,214
Effective tax rate (%)	35.0	37.1	35.0	35.0
Profit after tax	1,448	1,361	1,816	2,254
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,448	1,361	1,816	2,254
YoY gr. (%)	(17.9)	(6.0)	33.4	24.2
Margin (%)	2.5	1.7	2.0	2.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,448	1,361	1,816	2,254
YoY gr. (%)	(17.9)	(6.0)	33.4	24.2
Margin (%)	2.5	1.7	2.0	2.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,448	1,361	1,816	2,254
Equity Shares O/s (m)	38	38	38	38
EPS (Rs)	37.8	35.6	47.4	58.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Non-Current Assets				
Gross Block	6,446	6,695	6,865	7,151
Tangibles	6,420	6,695	6,865	7,151
Intangibles	27	-	-	-
Acc: Dep / Amortization	-	-	-	-
Tangibles	-	-	-	-
Intangibles	-	-	-	-
Net fixed assets	6,446	6,695	6,865	7,151
Tangibles	6,420	6,695	6,865	7,151
Intangibles	27	-	-	-
Capital Work In Progress	186	1,035	1,035	1,035
Goodwill	48	21	21	21
Non-Current Investments	9	19	19	19
Net Deferred tax assets	(346)	(346)	(346)	(346)
Other Non-Current Assets	341	412	418	424
Current Assets				
Investments	-	-	-	-
Inventories	12,123	12,437	14,535	16,490
Trade receivables	17,279	21,491	24,758	27,708
Cash & Bank Balance	2,744	3,468	5,001	4,917
Other Current Assets	3,325	4,634	5,233	5,542
Total Assets	42,693	50,491	58,148	63,637
Equity				
Equity Share Capital	383	383	383	383
Other Equity	10,700	11,649	12,915	14,488
Total Networkth	11,083	12,032	13,298	14,870
Non-Current Liabilities				
Long Term borrowings	1,619	1,303	1,203	1,103
Provisions	49	67	76	83
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	1,698	878	778	678
Trade payables	25,511	33,165	39,424	43,260
Other current liabilities	2,362	2,675	2,998	3,271
Total Equity & Liabilities	42,693	50,491	58,148	63,637

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
EBITDA	4,076	4,677	5,395	6,209
Less Financial Other Income	111	151	166	182
Add. Other	-	-	-	-
Op. profit before WC changes	4,076	4,677	5,395	6,209
Net Changes-WC	(296)	2,485	645	(1,161)
Direct tax	(883)	(803)	(978)	(1,214)
Net cash from Op. activities	2,897	6,359	5,062	3,835
Capital expenditures	(1,249)	(1,764)	(900)	(1,100)
Interest / Dividend Income	-	-	-	-
Others	1,415	81	159	176
Net Cash from Inv. activities	165	(1,682)	(741)	(924)
Issue of share cap. / premium	-	-	-	-
Debt changes	562	(1,059)	(200)	(200)
Dividend paid	(438)	(412)	(549)	(682)
Interest paid	-	-	-	-
Others	(1,688)	(1,999)	(2,038)	(2,109)
Net cash from Fin. activities	(1,564)	(3,470)	(2,787)	(2,991)
Net change in cash	1,498	1,207	1,534	(80)
Free Cash Flow	1,648	4,596	4,162	2,735

Source: Company Data, PL Research

Quarterly Financials (Rs m)

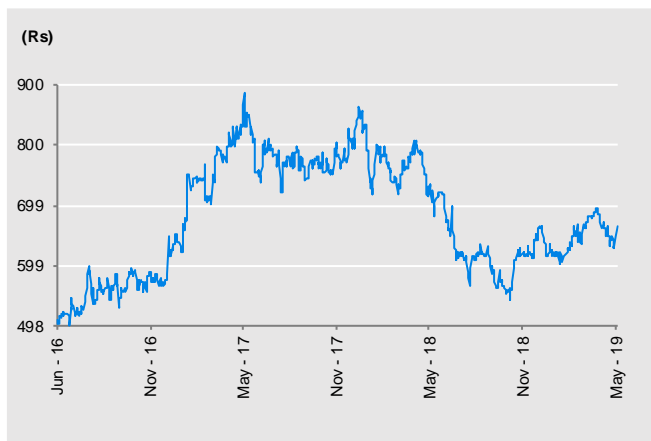
Y/e Mar	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Net Revenue	14,956	18,847	21,191	24,646
YoY gr. (%)	14.7	51.0	41.4	39.4
Raw Material Expenses	11,473	15,050	16,973	19,865
Gross Profit	3,483	3,797	4,218	4,781
Margin (%)	23.3	20.1	19.9	19.4
EBITDA	1,091	1,089	1,144	1,353
YoY gr. (%)	(13.3)	(0.2)	5.0	18.3
Margin (%)	7.3	5.8	5.4	5.5
Depreciation / Depletion	156	163	171	176
EBIT	935	926	973	1,177
Margin (%)	6.2	4.9	4.6	4.8
Net Interest	542	526	417	514
Other Income	45	33	31	42
Profit before Tax	438	433	587	704
Margin (%)	2.9	2.3	2.8	2.9
Total Tax	148	146	240	267
Effective tax rate (%)	33.8	33.8	40.9	37.9
Profit after Tax	290	286	347	437
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	290	286	347	437
YoY gr. (%)	(25.6)	9.3	(12.1)	9.2
Margin (%)	1.9	1.5	1.6	1.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	290	286	347	437
YoY gr. (%)	(25.6)	9.3	(12.1)	9.2
Margin (%)	1.9	1.5	1.6	1.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	290	286	347	437
Avg. Shares O/s (m)	38	38	38	38
EPS (Rs)	7.6	7.5	9.1	11.4

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	37.8	35.6	47.4	58.9
CEPS	52.4	53.0	66.5	80.2
BVPS	289.6	314.4	347.5	388.6
FCF	43.1	120.1	108.8	71.5
DPS	9.5	8.9	11.9	14.7
Return Ratio(%)				
RoCE	25.5	28.0	31.6	33.8
ROIC	20.7	23.3	31.1	31.7
RoE	13.5	11.8	14.3	16.0
Balance Sheet				
Net Debt : Equity (x)	0.1	(0.1)	(0.2)	(0.2)
Net Working Capital (Days)	24	4	(1)	3
Valuation(x)				
PER	17.7	18.8	14.1	11.4
P/B	2.3	2.1	1.9	1.7
P/CEPS	12.8	12.6	10.1	8.4
EV/EBITDA	6.4	5.2	4.2	3.6
EV/Sales	0.5	0.3	0.3	0.2
Dividend Yield (%)	1.4	1.3	1.8	2.2

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	5-Apr-19	Accumulate	762	681

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Reduce	1,320	1,454
2	Apar Industries	Accumulate	762	681
3	Bharat Electronics	BUY	112	97
4	BHEL	Hold	77	73
5	Cummins India	Accumulate	841	757
6	Engineers India	BUY	139	108
7	GE T&D India	Reduce	257	263
8	Kalpataru Power Transmission	BUY	565	457
9	KEC International	BUY	352	295
10	Larsen & Toubro	BUY	1,744	1,356
11	Power Grid Corporation of India	BUY	224	190
12	Siemens	Accumulate	1,263	1,253
13	Thermax	Accumulate	1,147	988
14	Triveni Turbine	Accumulate	124	110
15	Voltamp Transformers	BUY	1,380	1,125

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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