

November 8, 2019

## Q2FY20 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
<b>Rating</b>	<b>ACCUMULATE</b>		<b>ACCUMULATE</b>	
<b>Target Price</b>	<b>646</b>		<b>814</b>	
Sales (Rs. m)	84,902	89,640	89,917	98,667
% Chng.	(5.6)	(9.1)		
EBITDA (Rs. m)	5,125	5,611	5,395	6,209
% Chng.	(5.0)	(9.6)		
EPS (Rs.)	44.1	53.9	54.5	67.8
% Chng.	(19.0)	(20.6)		

### Key Financials - Consolidated

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. m)	79,639	84,902	89,640	94,651
EBITDA (Rs. m)	4,677	5,125	5,611	6,012
Margin (%)	5.9	6.0	6.3	6.4
PAT (Rs. m)	1,361	1,688	2,061	2,455
EPS (Rs.)	35.6	44.1	53.9	64.2
Gr. (%)	(6.0)	24.1	22.1	19.1
DPS (Rs.)	8.9	11.0	13.5	16.0
Yield (%)	1.7	2.1	2.6	3.1
RoE (%)	11.8	13.4	14.8	15.9
RoCE (%)	28.0	29.4	30.0	29.4
EV/Sales (x)	0.2	0.2	0.2	0.2
EV/EBITDA (x)	3.8	4.1	3.6	3.2
PE (x)	14.7	11.8	9.7	8.1
P/BV (x)	1.7	1.5	1.4	1.2

### Key Data

APAR.BO | APR IN

52-W High / Low	Rs.702 / Rs.452
Sensex / Nifty	40,324 / 11,908
Market Cap	Rs.20bn/ \$ 280m
Shares Outstanding	38m
3M Avg. Daily Value	Rs.15.05m

### Shareholding Pattern (%)

Promoter's	58.68
Foreign	5.87
Domestic Institution	25.29
Public & Others	10.16
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(0.1)	(19.9)	(12.5)
Relative	(7.0)	(25.0)	(23.5)

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## Big miss on operating performance, recovery would be gradual

### Quick Pointers

- Weakness in domestic demand and liquidity impacted the performance. Exports provided some respite.
- 2HFY20 looks to be hopeful mainly due to pickup in demand from railways.

**Apar Industries (APR) reported weak set of numbers for 2QFY20. Revenue performance (-3% YoY at Rs18 bn) was impacted due to lower domestic demand, extended monsoon, extreme credit tightness and slowdown in automotive segment. All the segments of the company reported weak revenue performance with Transformers Specialty Oils/Power Telecom Cables were down by 9%/16 YoY and Conductors revenue remained flat. EBITDA margin came in at 6% against 5.8% in 2QFY19. While Interest and Depreciation increased 28%/22%, other income was down 45% YoY. Hence, PBT was down 49% YoY at Rs222 mn. PAT grew by 18% YoY at Rs340 mn mainly on account of lower tax rate due to change in the corporate tax rate. While management remains cautiously positive for 2HFY20, however we believe that the recovery would be gradual. We have cut our earnings estimates by 19%/20.6% for FY20/21 respectively. The stock is currently trading at 12x/10x for FY20/21E. We maintain Accumulate rating on the stock with revised TP of Rs646.**

**Conductor segment reported flat growth:** Conductor segment's reported flat revenue growth YoY at Rs9 bn due to lower demand in domestic markets impacted by extended monsoons and customer delays in execution (mainly railways). Contribution from Copper/HEC conductor was 22%/15% to sales. EBITDA/MT was down 28% YoY at Rs7,789 (vs Rs10,839). Overall volumes were up 8% YoY at 43,448MT as new sub segments gained traction. Management expects profitability to improve with higher contribution from high margin HEC. Order inflow for the quarter was down 17% YoY at Rs8 bn due to slack in domestic market. Exports contributed 60% to OI. Order book stands at Rs26 bn down 3% YoY. Order book for Copper conductor/HEC stood at Rs1.8 bn/Rs5.8 bn, respectively. Management believes demand would be better in H2FY20 for OPGW and HEC. In H1FY20 revenue was up 25% YoY (Contribution from HEC/Copper conductors was 14%/25%). H1FY20 order inflow was down 48% YoY at Rs1.65 bn. Management commented that there would be slowdown in Railways copper conductor dispatches in H2FY20 due to stock accumulation at Project site. The company is targeting more than 15% contribution from HEC and about 15000MT volume from Copper conductors.

**Update on Oil business:** Transformer and specialty oil segment's revenues was down 9% YoY to Rs6 bn owing to subdued demand in domestic market across sectors like Automotive, Industrial, Retail, FMCG and power utilities. Volumes were down 6% YoY to 98.156KL with volumes of ENI/Auto oils up 6% YoY, White oils stable and other segments declining in 2QFY20. Automotive Oils/Industrial oils contributed 23% to revenues. EBITDA/KL was higher at Rs2,846 (vs. Rs1,312) due to stable oil prices and INR. For H2FY20, management expects subdued demand conditions. Payments to transformer OEM's remains backlogged from government utilities.

**Cable Segment margins flat at 11.4%:** Cable segment's revenues were down 16% YoY to Rs3.6 bn on account of low demand in major Sectors-Telecom, solar, windmill and EPC. In 2QFY20 revenue from Power cables remained stable, while E-beam/Elastomeric & telecom cables declined due to poor sector performance. Railway offtake was affected as they held high inventory of cables in their stores. The company believes that there is no immediate catalyst seen which will increase the offtake of OFC, Elastomeric cables and cables for renewable energy. In 1HFY20 revenue was stable at Rs7.6 bn and margins came at 12.3% compared to 10.9% in 1HFY19. For FY20 revenue from cable segment is expected to be at similar levels that of FY19 (~Rs16.8 bn). This segment is poised to be the fastest-growing and most profitable segment of APR over the next 3-4 years on the back of Elastomeric cable which will be mainly driven by Railway & Defence segment.

**Exhibit 1: Q2FY20 Result Overview (Rs mn)**

Y/e March	Q2FY20	Q2FY19	YoY gr. (%)	Q1FY20	QoQ gr. (%)	H1FY20	H1FY19	YoY gr. (%)
<b>Net Revenue</b>	<b>18,291</b>	<b>18,847</b>	<b>(3.0)</b>	<b>19,816</b>	<b>(7.7)</b>	<b>38,106</b>	<b>33,802</b>	<b>12.7</b>
<b>EBITDA</b>	<b>1,095</b>	<b>1,144</b>	<b>(4.3)</b>	<b>1,371</b>	<b>(20.1)</b>	<b>2,465</b>	<b>2,180</b>	<b>13.1</b>
<i>EBITDA Margin (%)</i>	<i>6.0</i>	<i>5.8</i>		<i>6.9</i>		<i>6.5</i>	<i>6.4</i>	
Other Income	18	33	(44.9)	41	(56.7)	59	78	(23.6)
Depreciation	217	163	33.3	199	9.3	416	319	30.3
Interest	674	526	28.0	569	18.4	1,242	1,068	16.4
<b>Profit before Tax</b>	<b>222</b>	<b>433</b>	<b>(48.7)</b>	<b>644</b>	<b>(65.6)</b>	<b>866</b>	<b>870</b>	<b>(0.5)</b>
Tax	18	146	(87.4)	232	(92.1)	115	294	(61.0)
<b>Reported PAT</b>	<b>339</b>	<b>286</b>	<b>18.4</b>	<b>412</b>	<b>(17.8)</b>	<b>751</b>	<b>576</b>	<b>30.4</b>
<b>Adjusted PAT</b>	<b>339</b>	<b>286</b>	<b>18.4</b>	<b>412</b>	<b>(17.8)</b>	<b>751</b>	<b>576</b>	<b>30.4</b>
<i>Net Margin (%)</i>	<i>1.9</i>	<i>1.5</i>		<i>2.1</i>		<i>2.0</i>	<i>1.7</i>	
<b>Adjusted EPS</b>	<b>8.9</b>	<b>7.5</b>		<b>10.8</b>		<b>19.64</b>	<b>15.06</b>	

Source: Company, PL

**Exhibit 2: Segmental Breakup (Rs mn)**

Y/e March	Q2FY20	Q2FY19	YoY gr. (%)	Q1FY20
<b>Segmental Revenue (Rs mn)</b>				
Conductors	8,959	8,982	(0.2)	10,217
Transformer & Specialty Oils	5,712	6,301	(9.3)	6,194
Power/Telecom Cables	3,689	4,373	(15.6)	3,939
Other Unallocable Income	92	123	(25.0)	65
<b>Total</b>	<b>18,453</b>	<b>19,777</b>	<b>(6.7)</b>	<b>20,414</b>
Less : Inter Segment Revenues	162	931		598
<b>Net Revenue</b>	<b>18,291</b>	<b>18,847</b>	<b>(3.0)</b>	<b>19,816</b>
<b>EBIT (Rs mn)</b>				
Conductors	343.4	420.7	(18.4)	424.9
Transformer & Speciality Oils	291.3	140.9	106.7	385.2
Power/Telecom Cables	357.2	456.8	(21.8)	454.6
Others	5.6	9.2	(39.1)	3.6

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Net Revenues</b>	<b>79,639</b>	<b>84,902</b>	<b>89,640</b>	<b>94,651</b>
YoY gr. (%)	36.9	6.6	5.6	5.6
Cost of Goods Sold	63,360	67,073	70,815	74,775
Gross Profit	16,279	17,829	18,824	19,877
Margin (%)	20.4	21.0	21.0	21.0
Employee Cost	1,480	1,868	1,972	2,082
Other Expenses	10,152	10,837	11,241	11,783
<b>EBITDA</b>	<b>4,677</b>	<b>5,125</b>	<b>5,611</b>	<b>6,012</b>
YoY gr. (%)	14.8	9.6	9.5	7.1
Margin (%)	5.9	6.0	6.3	6.4
Depreciation and Amortization	667	807	879	961
<b>EBIT</b>	<b>4,010</b>	<b>4,317</b>	<b>4,732</b>	<b>5,050</b>
Margin (%)	5.0	5.1	5.3	5.3
Net Interest	1,999	2,207	2,134	1,939
Other Income	151	163	176	193
<b>Profit Before Tax</b>	<b>2,162</b>	<b>2,272</b>	<b>2,774</b>	<b>3,304</b>
Margin (%)	2.7	2.7	3.1	3.5
Total Tax	802	584	713	849
Effective tax rate (%)	37.1	25.7	25.7	25.7
<b>Profit after tax</b>	<b>1,361</b>	<b>1,688</b>	<b>2,061</b>	<b>2,455</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>1,361</b>	<b>1,688</b>	<b>2,061</b>	<b>2,455</b>
YoY gr. (%)	(6.0)	24.1	22.1	19.1
Margin (%)	1.7	2.0	2.3	2.6
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,361</b>	<b>1,688</b>	<b>2,061</b>	<b>2,455</b>
YoY gr. (%)	(6.0)	24.1	22.1	19.1
Margin (%)	1.7	2.0	2.3	2.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,361	1,688	2,061	2,455
<b>Equity Shares O/s (m)</b>	<b>38</b>	<b>38</b>	<b>38</b>	<b>38</b>
<b>EPS (Rs)</b>	<b>35.6</b>	<b>44.1</b>	<b>53.9</b>	<b>64.2</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>8,891</b>	<b>8,881</b>	<b>9,024</b>	<b>9,245</b>
Tangibles	8,861	8,881	9,024	9,245
Intangibles	30	-	-	-
<b>Acc: Dep / Amortization</b>	<b>1,824</b>	<b>807</b>	<b>879</b>	<b>961</b>
Tangibles	1,824	807	879	961
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>7,067</b>	<b>8,074</b>	<b>8,145</b>	<b>8,284</b>
Tangibles	7,037	8,074	8,145	8,284
Intangibles	30	-	-	-
Capital Work In Progress	1,035	1,035	1,035	1,035
Goodwill	21	21	21	21
Non-Current Investments	19	19	19	19
Net Deferred tax assets	(403)	(346)	(346)	(346)
Other Non-Current Assets	412	418	424	430
<b>Current Assets</b>				
Investments	1,869	-	-	-
Inventories	12,829	14,142	15,422	16,803
Trade receivables	21,416	23,317	25,050	26,969
Cash & Bank Balance	2,253	1,110	1,698	2,238
Other Current Assets	2,821	4,941	5,035	5,316
<b>Total Assets</b>	<b>50,215</b>	<b>53,330</b>	<b>57,156</b>	<b>61,436</b>
<b>Equity</b>				
Equity Share Capital	383	383	383	383
Other Equity	11,641	12,800	14,237	15,950
<b>Total Networkth</b>	<b>12,024</b>	<b>13,183</b>	<b>14,620</b>	<b>16,333</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	1,303	1,203	1,103	1,003
Provisions	60	64	68	71
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	878	778	678	578
Trade payables	32,637	34,891	37,329	39,935
Other current liabilities	2,877	2,839	2,986	3,144
<b>Total Equity &amp; Liabilities</b>	<b>50,215</b>	<b>53,330</b>	<b>57,156</b>	<b>61,436</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	4,677	5,125	5,611	6,012
Add. Depreciation	-	-	-	-
Add. Interest	-	-	-	-
Less Financial Other Income	151	163	176	193
Add. Other	-	-	-	-
Op. profit before WC changes	4,677	5,125	5,611	6,012
Net Changes-WC	2,780	(2,216)	(569)	(828)
Direct tax	(747)	(641)	(713)	(849)
<b>Net cash from Op. activities</b>	<b>6,710</b>	<b>2,268</b>	<b>4,329</b>	<b>4,335</b>
Capital expenditures	(2,136)	(1,814)	(950)	(1,100)
Interest / Dividend Income	-	-	-	-
Others	(1,788)	2,026	169	187
<b>Net Cash from Inv. activities</b>	<b>(3,924)</b>	<b>212</b>	<b>(781)</b>	<b>(913)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(904)	(356)	(200)	(200)
Dividend paid	(412)	(511)	(623)	(743)
Interest paid	-	-	-	-
Others	(1,999)	(2,234)	(2,134)	(1,939)
<b>Net cash from Fin. activities</b>	<b>(3,314)</b>	<b>(3,100)</b>	<b>(2,957)</b>	<b>(2,882)</b>
<b>Net change in cash</b>	<b>(528)</b>	<b>(621)</b>	<b>591</b>	<b>540</b>
Free Cash Flow	4,574	454	3,379	3,235

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

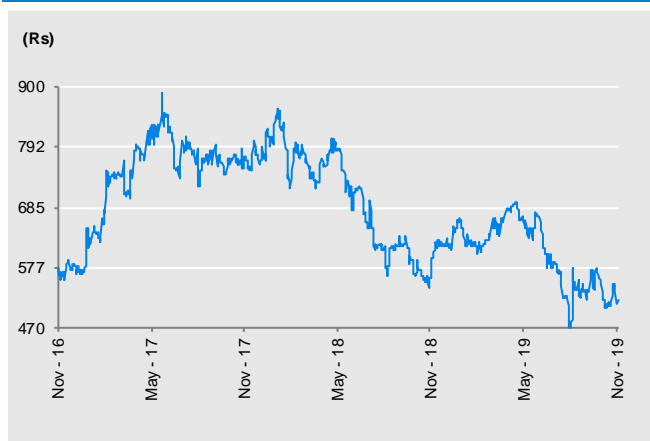
Y/e Mar	Q3FY19	Q4FY19	Q1FY20	Q2FY20
<b>Net Revenue</b>	<b>21,191</b>	<b>24,646</b>	<b>19,816</b>	<b>18,291</b>
YoY gr. (%)	41.4	39.4	32.5	(3.0)
Raw Material Expenses	16,973	19,865	15,463	14,222
Gross Profit	4,218	4,781	4,353	4,068
Margin (%)	19.9	19.4	22.0	22.2
<b>EBITDA</b>	<b>1,144</b>	<b>1,353</b>	<b>1,371</b>	<b>1,095</b>
YoY gr. (%)	17.3	7.5	25.6	0.5
Margin (%)	5.4	5.5	6.9	6.0
Depreciation / Depletion	171	176	199	217
<b>EBIT</b>	<b>973</b>	<b>1,177</b>	<b>1,172</b>	<b>877</b>
Margin (%)	4.6	4.8	5.9	4.8
Net Interest	417	514	569	674
Other Income	31	42	41	18
<b>Profit before Tax</b>	<b>587</b>	<b>704</b>	<b>644</b>	<b>222</b>
Margin (%)	2.8	2.9	3.3	1.2
Total Tax	240	267	232	(117)
Effective tax rate (%)	40.9	37.9	36.0	(52.9)
<b>Profit after Tax</b>	<b>347</b>	<b>437</b>	<b>412</b>	<b>339</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>347</b>	<b>437</b>	<b>412</b>	<b>339</b>
YoY gr. (%)	(12.1)	9.2	42.3	18.4
Margin (%)	1.6	1.8	2.1	1.9
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>347</b>	<b>437</b>	<b>412</b>	<b>339</b>
YoY gr. (%)	(12.1)	9.2	42.3	18.4
Margin (%)	1.6	1.8	2.1	1.9
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>347</b>	<b>437</b>	<b>412</b>	<b>339</b>
Avg. Shares O/s (m)	38	38	38	38
<b>EPS (Rs)</b>	<b>9.1</b>	<b>11.4</b>	<b>10.8</b>	<b>8.9</b>

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Per Share(Rs)</b>				
EPS	35.6	44.1	53.9	64.2
CEPS	53.0	65.2	76.8	89.3
BVPS	314.2	344.5	382.0	426.8
FCF	119.5	11.9	88.3	84.5
DPS	8.9	11.0	13.5	16.0
<b>Return Ratio(%)</b>				
RoCE	28.0	29.4	30.0	29.4
ROIC	24.8	23.6	25.0	25.2
RoE	11.8	13.4	14.8	15.9
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.2)	0.1	0.0	0.0
Net Working Capital (Days)	7	11	13	15
<b>Valuation(x)</b>				
PER	14.7	11.8	9.7	8.1
P/B	1.7	1.5	1.4	1.2
P/CEPS	9.8	8.0	6.8	5.8
EV/EBITDA	3.8	4.1	3.6	3.2
EV/Sales	0.2	0.2	0.2	0.2
Dividend Yield (%)	1.7	2.1	2.6	3.1

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Oct-19	Accumulate	814	550
2	14-Aug-19	Accumulate	795	538
3	4-Jul-19	Accumulate	795	588
4	31-May-19	Accumulate	795	670
5	5-Apr-19	Accumulate	762	681

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Reduce	1,442	1,461
2	Apar Industries	Accumulate	814	550
3	Bharat Electronics	Hold	118	113
4	BHEL	Hold	63	47
5	Cummins India	Hold	543	540
6	Engineers India	BUY	156	112
7	GE T&D India	Hold	202	184
8	Kalpataru Power Transmission	BUY	662	437
9	KEC International	BUY	352	271
10	Larsen & Toubro	BUY	1,800	1,432
11	Power Grid Corporation of India	BUY	224	199
12	Siemens	BUY	1,722	1,526
13	Thermax	Accumulate	1,300	1,153
14	Triveni Turbine	Accumulate	142	104
15	Voltamp Transformers	BUY	1,601	1,128

**PL's Recommendation Nomenclature (Absolute Performance)**

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



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