

Apar Industries Ltd

BUY

CMP Rs326

Target Rs384

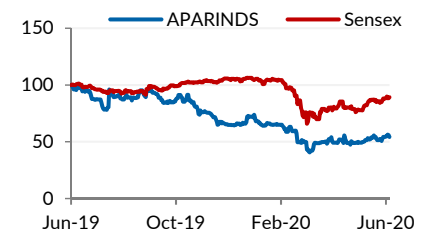
Upside 17.8%

HIGHLIGHTS	<ul style="list-style-type: none"> ✓ Apar Industries reported a topline de-growth of ~26% yoy during Q4 FY20 with weakness across its segments. While the Conductor segment reported 37% decline in revenues, Oil and Cables segment reported de-growth of ~22% and ~12% respectively. Also, the company was unable to carry inspections before dispatch during last few days of Mar'20 which impacted deliveries/revenue booking. ✓ Operating margin on consolidated basis improved 35bps yoy (to 5.8%) largely driven by the sharp improvement in profitability in the Conductor segment. Increasing share of high margin High Efficiency Conductor (HEC; contributed ~15% to Conductor revenues) supported margins. ✓ During the quarter, the company received new orders worth ~Rs.5.2 bn in Conductors which kept segmental order book decent at Rs.20 bn. New order inflows was significantly lower yoy as Company as it couldn't take up some orders requiring immediate dispatch owing to capacity constraints. ✓ Labor availability and supplies have been major issue during Apr-Jun'20 period. The Company expects Q1 FY20 to be at 50% of its usual run-rate. It expects complete normalcy to only return from H2 FY21.
Our View	<ul style="list-style-type: none"> ✓ We expect near term pressure across the segments owing to COVID related disruption. Gradual pick up in supplies likely from H2 FY21. ✓ Operating margin is likely to come under pressure during H1 FY21 as fixed costs continue with lower revenues. However, we expect some pressure on margins to be offset by increasing share of value added products in conductor segment. The margins in cable segment could also see improvement in FY22 which would support overall profitability.
Valuation	<ul style="list-style-type: none"> ✓ Considering the COVID impact across segments, we cut our estimates for FY21 and FY22. We believe, the Company see gradual pick up in supplies going forward. ✓ Focus on increasing the share of value added products to augur well in managing profitability. ✓ We maintain our BUY rating on the stock for revised target of Rs.384.
Risk to our call	<ul style="list-style-type: none"> ✓ Delays in product offtake from clients.

Stock data (as on June 26, 2020)

Sensex:	35,171
52 Week h/l (Rs)	671 / 239
Market cap (Rs/USD mn)	12483 / 165
Outstanding Shares	38
6m Avg t/o (Rs mn):	11
Div yield (%):	2.9
Bloomberg code:	APR IN
NSE code:	APARINDS

Stock performance



	1M	3M	1Y
Absolute return	9.2%	33.2%	-43.0%

Shareholding pattern (As of Mar'20 end)

Promoter	59.7%
FII+DII	29.2%
Others	11.1%

Δ in earnings estimates

	FY20	FY21e	FY22e
EPS (New)	35.3	24.7	38.4
EPS (Old)	41.7	44.8	51.8
% change	-15%	-45%	-26%

Exhibit 1: Result table (Consolidated)

Y/e 31 Mar (Rs mn)	Q4 FY20	Q4 FY19	yoy(%)	Q3 FY20	qoq (%)
Revenue	18,145	24,646	(26.4)	18,366	(1.2)
Operating Profit	1,061	1,353	(21.6)	1,231	(13.9)
OPM(%)	5.8	5.5	35 bps	6.7	-86 bps
Other Income	11	42	(73.4)	14	(19.6)
Depreciation	(231)	(176)	30.9	(225)	2.8
Interest	(516)	(514)	0.4	(518)	(0.3)
PBT	325	705	(53.9)	502	(35.4)
Tax	(91)	(267)	(65.8)	(136)	(32.6)
Reported PAT	233	437	(46.6)	367	(36.4)

Source: Company, YES Sec - Research

ALOK DEORA

Lead Analyst

alok.deora@ysil.in

+91 98205 13792



LOKESH KASHIKAR, Analyst

lokesh.kashikar@ysil.in | +91 90044 47175

AMAR AMBANI, Sr. President, Head of Research

amar.ambani@ysil.in

Exhibit 2: Segmental analysis (Consolidated)

	Q4 FY20	Q4 FY19	yoy(%)	Q3 FY20	qoq (%)
Revenue (Rs. mn)					
Conductors	8,361	13,293	(37.1)	8,683	(3.7)
Specialty Oil	5,448	6,963	(21.8)	5,874	(7.2)
Cables	4,467	5,079	(12.1)	3,913	14.2
Revenue Mix (%)					
Conductors	45.7%	52.5%		47.0%	
Specialty Oil	29.8%	27.5%		31.8%	
Cables	24.4%	20.0%		21.2%	
EBIT (Rs. mn)					
Conductors	403	362	11.4	404	(0.1)
Specialty Oil	211	320	(34.0)	318	(33.7)
Cables	374	641	(41.7)	360	3.8
EBIT Margin (%)					
Conductors	4.8%	2.7%		4.7%	
Specialty Oil	3.9%	4.6%		5.4%	
Cables	8.4%	12.6%		9.2%	

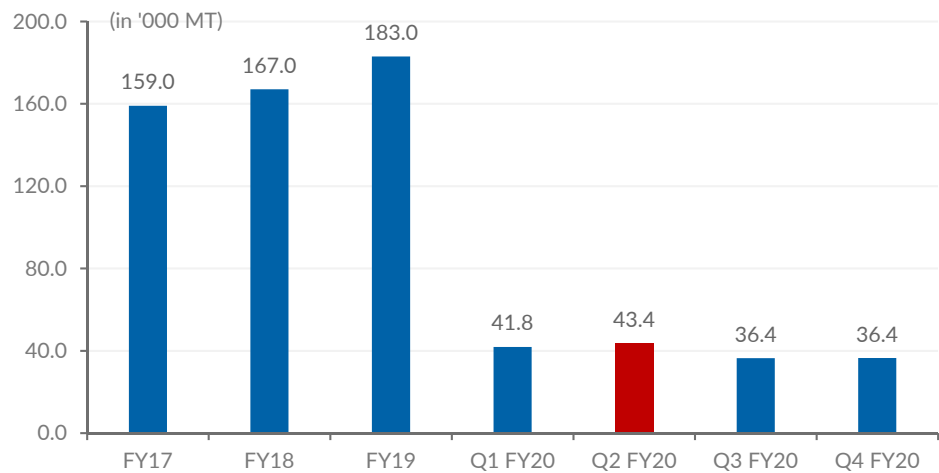
Source: Company, YES Sec - Research

CONCALL HIGHLIGHTS

- ✓ Apar reported ~26% topline de-growth (to Rs.18.1bn) during Q4 FY20, with decline in revenues across segments. Owing to COVID related shutdown, the Company was unable to complete the inspection of products required to be done before dispatch during last 10-12 days of Mar'20, in turn, impacted its performance.
- ✓ In the Conductor segment, revenue during Q4 FY20 declined 37% yoy (to ~Rs.8.4bn) with subdued sales volume (down 42% yoy to 36,444 MT). The segmental performance got impacted by slowdown in demand. The management expects supplies to normalize from H2 FY21.
- ✓ Adj. EBITDA per MT (for open period forex) in the conductor segment has witnessed sharp increase of 68% yoy to Rs. 11,206 backed by higher contribution from HEC segment (15% contribution in Q4 FY20 vis-à-vis 10% in Q4 FY19). The management expects HEC share to be elevated in the near-to-medium term.
- ✓ Order book at the end of Q4 FY20 in the Conductor segment stood at Rs.20 bn. The order inflow during Q4 FY20 halved to Rs.5.2bn. Orders for conventional conductors required delivery in Q4 itself for which capacity was unavailable and impacted ability to take orders.
- ✓ Specialty Oil segment has witnessed volume decline of ~16% yoy (to 96,921 KL) during Q4 FY20 owing to subdued demand in domestic market across its user industries. Hamriyah plant's utilization during Q4 FY20 stood at 75% levels. Adjusted EBITDA per KL was down 40% yoy with lower volumes and certain provisions related to doubtful accounts in this segment.
- ✓ Cable revenues fell 12% yoy to Rs.4.4 bn. Among the products, a) power cables largely flat despite lockdown impact, b) E-beam/ Elastomeric cables and telecom cables see sharp decline in revenues. The decline was however partially offset by a sharp pick up in export revenues which grew 2.8x during Q4 FY20.
- ✓ EBITDA margin in the Cable segment fell to 9.5% during Q4 FY20 from 13.7% during same period last year.

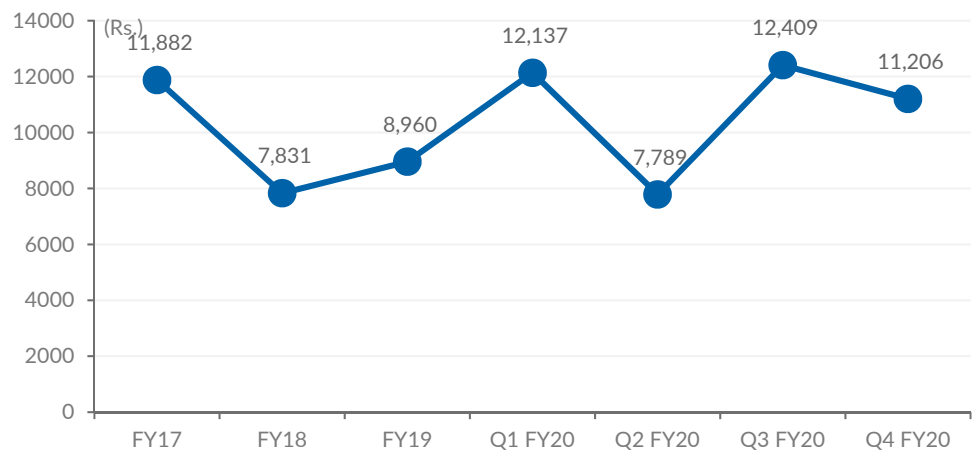
- ✓ The supplies of products across segments have been impacted due to COVID related impact. Q1 FY21 has witnessed 50% activity as compared to same period last year in terms of business. While the situation is gradually improving, normalcy is unlikely to return before H1 FY21.
- ✓ The company has incurred ~Rs.1.4bn capex during FY20 and expects no major capex in FY21. The capex for FY21 is likely to be at ~Rs.400 mn in FY21E.

Exhibit 3: Conductor volumes de-grew 42% yoy during Q4 FY20



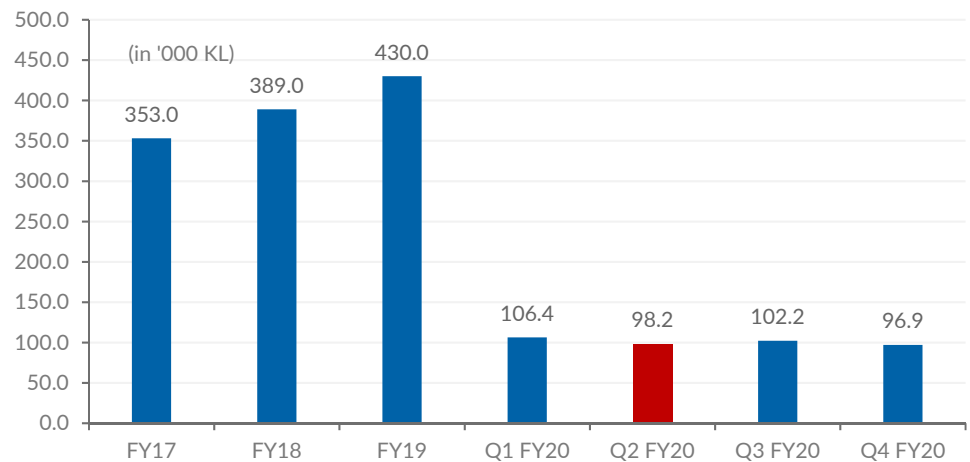
Source: Company, YES Sec – Research

Exhibit 4: EBITDA/ton* in Conductor segment remained at an elevated level



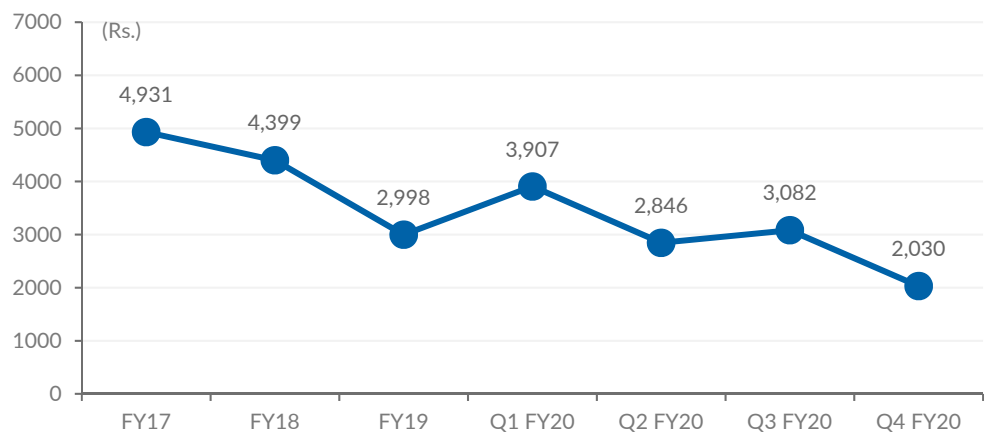
Source: Company, YES Sec – Research; * After adjusting open period forex

Exhibit 5: Specialty oil volumes de-grew 16% yoy during Q4 FY20



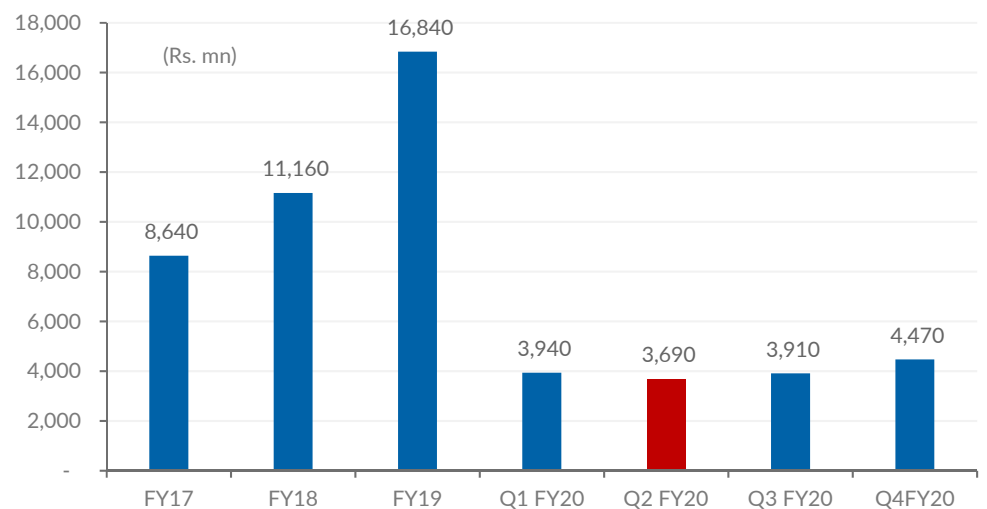
Source: Company, YES Sec - Research

Exhibit 6: EBITDA/ton* for Oil segment reached to the lowest level in the recent past



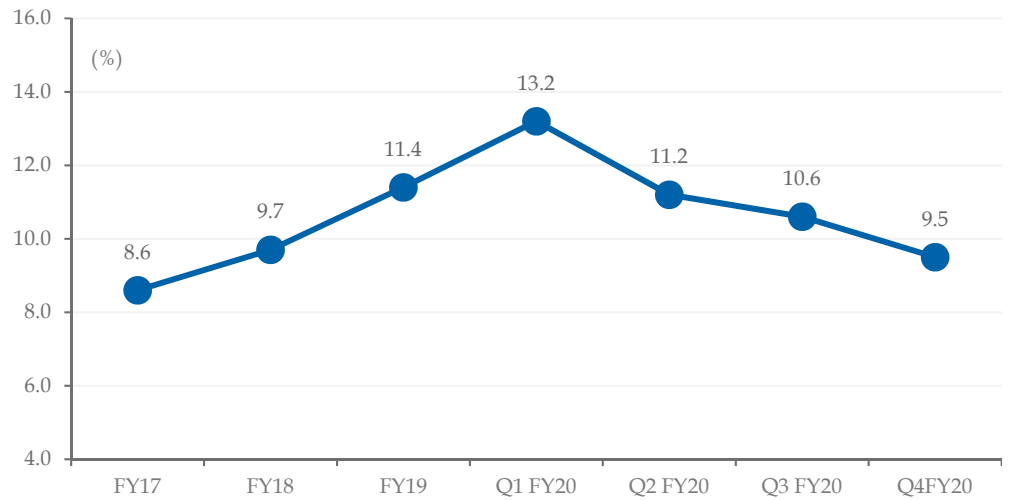
Source: Company, YES Sec - Research

Exhibit 6: Cable segment revenue declined 12% yoy during Q4 FY20



Source: Company, YES Sec - Research

Exhibit 7: Cable segment margin on declining trend



Source: Company, YES Sec – Research

Exhibit 8: Financial Summary (Consolidated)

Y/e 31 Mar (Rs m)	FY19	FY20	FY21E	FY22E
Revenues	79,639	74,617	70,942	77,490
yoy growth (%)	36.9	(6.3)	(4.9)	9.2
Operating profit	4,677	4,758	4,350	4,970
OPM (%)	5.9	6.4	6.1	6.4
Adjusted PAT	1,361	1,351	946	1,470
yoy growth (%)	(6.0)	(0.7)	(30.0)	55.4
EPS (Rs)	35.6	35.3	24.7	38.4
P/E (x)	9.2	9.2	13.2	8.5
EV/EBITDA (x)	2.3	2.8	3.0	2.6
Debt/Equity (x)	0.2	0.2	0.2	0.2
RoE (%)	11.8	11.4	8.0	11.7

Source: Company, YES Sec – Research

DISCLAIMER

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

The information and opinions in this report have been prepared by YSL and are subject to change without any notice. The report and information contained herein are strictly confidential and meant solely for the intended recipient and may not be altered in any way, transmitted to, copied or redistributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of YSL.

The information and opinions contained in the research report have been compiled or arrived at from sources believed to be reliable and have not been independently verified and no guarantee, representation of warranty, express or implied, is made as to their accuracy, completeness, authenticity or validity. No information or opinions expressed constitute an offer, or an invitation to make an offer, to buy or sell any securities or any derivative instruments related to such securities. Investments in securities are subject to market risk. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Investors should note that each security's price or value may rise or fall and, accordingly, investors may even receive amounts which are less than originally invested. The investor is advised to take into consideration all risk factors including their own financial condition, suitability to risk return profile and the like, and take independent professional and/or tax advice before investing. Opinions expressed are our current opinions as of the date appearing on this report. Investor should understand that statements regarding future prospects may not materialize and are of general nature which may not be specifically suitable to any particular investor. Past performance may not necessarily be an indicator of future performance. Actual results may differ materially from those set forth in projections.

Technical Analysis reports focus on studying the price movement and trading turnover charts of securities or its derivatives, as opposed to focussing on a company's fundamentals and opinions, as such, may not match with reports published on a company's fundamentals.

YSL, its research analysts, directors, officers, employees and associates accept no liabilities for any loss or damage of any kind arising out of the use of this report. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject YSL and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

DISCLOSURE OF INTEREST

Name of the Research Analyst : Alok Deora, Lokesh Kashikar

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

Sr. No.	Particulars	Yes/No
1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

YES Securities (India) Limited

Registered Address: Unit No. 602 A, 6th Floor, Tower 1 & 2,
Indiabulls Finance Centre, Senapati Bapat Marg, Elphinstone Road,
Mumbai - 400013, Maharashtra, India.

Contact Details: +91-22-71123123
Email: research@ysil.in | Website: <https://yesinvest.in>

Registration Nos.: CIN: U74992MH2013PLC240971 | SEBI Single
Registration No.: NSE, BSE, MCX & NCDEX : INZ000185632 | Member
Code: BSE - 6538, NSE - 14914, MCX - 56355 & NCDEX - 1289 |
MERCHANT BANKER: INM000012227 | RESEARCH ANALYST:
INH000002376 | INVESTMENT ADVISER: INA000007331 |
AMFI ARN Code - 94338

Details of Compliance Officer: Name: Vaibhav Purohit,
Email id: compliance@ysil.in, Contact No-+91-22-33479208

RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Potential return >15% over 12 months

ADD: Potential return +5% to +15% over 12 months

REDUCE: Potential return -10% to +5% over 12 months

SELL: Potential return <-10% over 12 months

NOT RATED / UNDER REVIEW

ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a SEBI registered stock broker holding membership of NSE, BSE and MCX. YSL is also a SEBI registered Category I Merchant Banker, Investment Adviser and a Research Analyst. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.