August 09, 2020
Result Report Q1 FY21 | Sector: Diversified

YES SECURITIES
INSTITUTIONAL EQUITIES

Apar Industries Limited

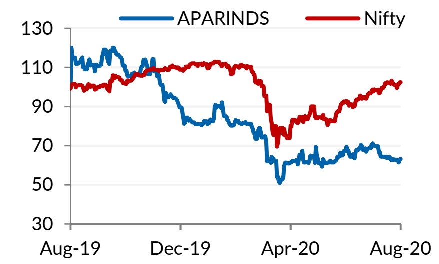
BUY	CMP Rs304	Target Rs360	Upside 18.3%

HIGHLIGHTS	✓ Apar Industries reported a topline de-growth of ~35% yoy during Q1 FY21 primarily due to national lockdown in Apr'20 which impacted domestic sales. Delays in execution at Customer end due to labor issues and logistical challenges also impacted business. ✓ While the Conductor segment reported 31% decline in revenues, Oil and Cables segment reported de-growth of ~43% and ~37% respectively. The decline across segments was due to COVID-19 impact. Exports, however, grew 11% yoy and share of exports rose to 47% in Q1 FY21 (27% in Q1 FY20). ✓ Overall margin on consolidated basis declined 397 bps yoy (to 2.9%) primarily due to COVID related costs and higher overhead expenses. ✓ During the quarter, the Company received new orders worth ~Rs.3.2bn in Conductor segment. New order inflows were significantly lower yoy with delays in awarding new tender due to postponement of meetings at government authorities end. ✓ With better labor availability and cost reduction initiatives, the Company expects normalcy to return during Q2 FY21.
Our View	✓ We expect all segments to be under pressure in the near term owing to COVID related impact. We believe there would be gradual pick up in execution from H2 FY21. ✓ Operating margin is likely to remain under pressure during H1 FY21 as fixed costs continue with lower volume offtake. However, we expect some pressure on margins to be offset by increasing share of value added products in conductor segment and cost cutting initiatives. Overall, we expect margins to return to normalized levels only from H2 FY21 onwards.
Valuation	✓ Considering the significant COVID impact across all the segments, we cut our estimates for FY21 and FY22. We believe, the Company would witness only gradual pick up in supplies going forward. ✓ Increasing share of value added products to augur well in managing profitability. ✓ We maintain our BUY rating on the stock for revised target of Rs.360.
Risk to our call	✓ Delays in product offtake from clients.

Stock data (as on Aug 07, 2020)

Nifty	11,215
52 Week h/l (Rs)	595 / 239
Market cap (Rs/USD mn)	11634 / 155
Outstanding Shares (mn)	38
6m Avg t/o (Rs mn):	9
Div yield (%):	3.1
Bloomberg code:	APR IN
NSE code:	APARINDS

Stock performance



	1M	3M	1Y
Absolute return	-11.3%	-0.3%	-35.5%

Shareholding pattern (As of Jun'20 end)

Promoter	59.7%
FII+DII	29.2%
Others	11.1%

Δ in earnings estimates

	FY20	FY21e	FY22e
EPS (New)	35.3	14.0	32.7
EPS (Old)	35.3	24.7	38.4
% change	-	(43.5)	(14.8)

Exhibit 1: Result table (Consolidated)

Y/e 31 Mar (Rs mn)	Q1 FY21	Q1 FY20	yoy(%)	Q4 FY20	qoq (%)
Revenue	12,930	19,816	(34.8)	18,145	(28.7)
Operating Profit	381	1,371	(72.2)	1,061	(64.0)
OPM (%)	2.9	6.9	-397 bps	5.8	-290 bps
Other Income	12	41	(70.9)	11	8.1
Depreciation	(228)	(199)	14.7	(231)	(1.1)
Interest	(472)	(569)	(17.1)	(516)	(8.7)
PBT	(306)	644	NA	325	NA
Tax	76	(232)	NA	(91)	NA
Reported PAT	(231)	412	NA	233	NA

Source: Company, YES Sec – Research

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Exhibit 2: Segmental performance (Consolidated)

Particular	Q1 FY21	Q1 FY20	yoy(%)	Q4 FY20	qoq (%)
Revenue (Rs. mn)					
Conductors	7,091	10,217	(30.6)	8,361	(15.2)
Specialty Oil	3,516	6,194	(43.2)	5,448	(35.5)
Cables	2,498	3,939	(36.6)	4,467	(44.1)
Revenue Mix (%)					
Conductors	54.1%	50.2%		45.7%	
Specialty Oil	26.8%	30.4%		29.8%	
Cables	19.1%	19.4%		24.4%	
EBIT (Rs. mn)					
Conductors	146	425	(65.7)	403	(63.9)
Specialty Oil	49	385	(87.4)	211	(77.0)
Cables	18	455	(96.0)	374	(95.2)
EBIT Margin (%)					
Conductors	2.1%	4.2%		4.8%	
Specialty Oil	1.4%	6.2%		3.9%	
Cables	0.7%	11.5%		8.4%	

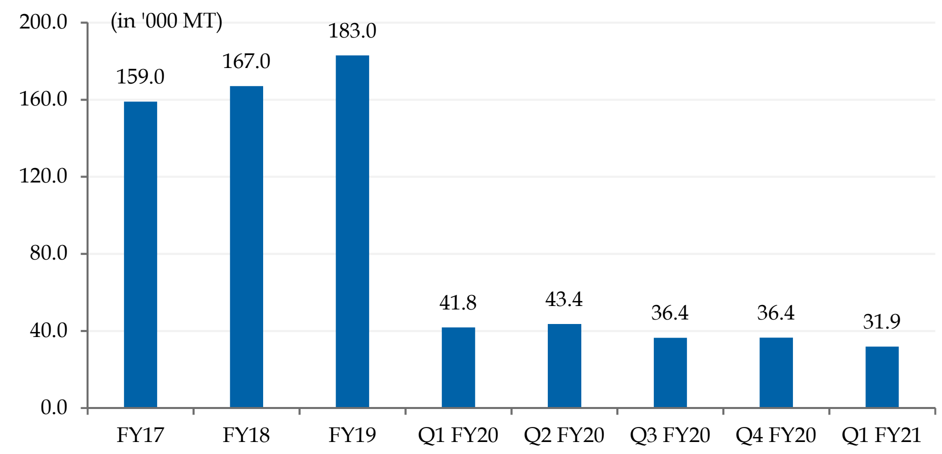
Source: Company, YES Sec – Research

CON-CALL HIGHLIGHTS

- ✓ Apar's performance during Q1 FY21 was largely impacted by national wide lockdown owing to Covid-19 pandemic. Also, customer execution got delayed due to migratory labour issues, logistical challenges, and continued credit challenges. However, partial production resumed in all of its domestic plants from May'20 and currently running at ~65% for most of its product segments.
- ✓ Operating margin has drastically declined to 2.9% (down 397 bps) with lower volumes, higher-priced inventory, and higher fixed and covid-19 related costs. With lower levels of high-priced inventory and cost-reduction initiatives, the management expects margin improvement going forward.
- ✓ In the Conductor segment, revenue during Q1 FY21 declined 31% yoy (to ~Rs.7.1bn) with subdued sales volume (down 24% yoy to 31,861 MT). Delay in customer execution due to lockdown, migratory labour and logistical challenges impacted sales volumes. The management expects supplies to normalize from H2 FY21.
- ✓ Adj. EBITDA per MT (for open period forex) in the conductor segment has witnessed sharp decline of 49% yoy (to Rs.6,185) mainly impacted by higher (Rs.160mn) covid-19 related expense incurred during the quarter. Covid-19 related expenses include ~Rs.37.5mn towards price variation loss in copper conductor segment, ~Rs.40mn towards manufacturing and EPC overheads, and ~Rs.75mn towards duty free material.
- ✓ HEC and copper conductor contribution to the total conductor revenue stood at 14% and 24% during Q1 FY21 respectively, whereas export markets contributed ~53% to the total revenue during Q1 FY21 (vis-à-vis 30% in Q1 FY20)
- ✓ The management expects share of high margin products such as HEC, OPGEW and copper conductor to rise in the near-to-medium term with increasing acceptance from customers.
- ✓ Order book at the end of Jun'20 in the Conductor segment stood at ~Rs.16 bn. However, the inflows were down by 47% yoy during Q1 FY21 (to Rs.3.2bn) due to delays in awarding new tenders (with postponement of meetings at various government authorities).

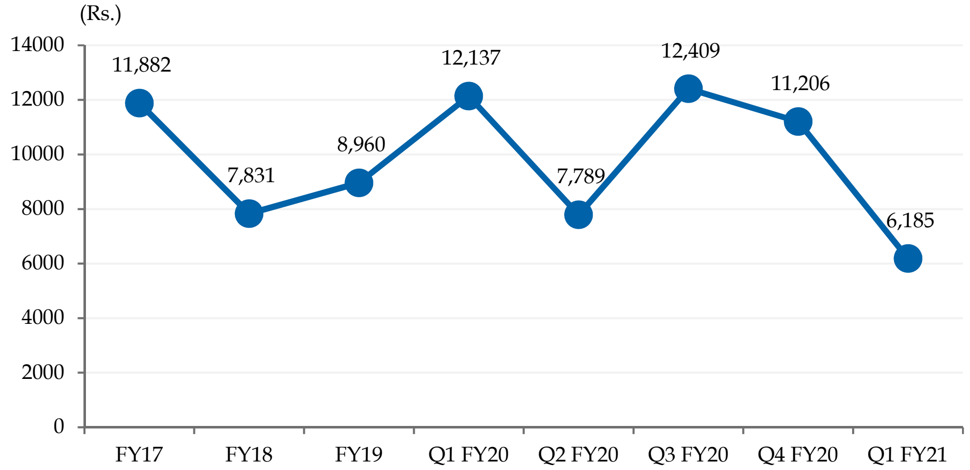
- Specialty oil segment has witnessed volume decline of ~42% yoy (to 61,624 KL) during Q1 FY21 owing to subdued demand in domestic market across its user industries. Gradual re-opening saw ~50% volumes in May'20 and 75% volumes in Jun'20 in the domestic plants.
- Hamriyah plant's utilization during Q1 FY21 stood low at ~55% as dispatches got affected with congestions on ports. With decent order book and better port scenario, the management expects plant utilizations to improve.
- Adjusted EBITDA per KL for Specialty Oil segment was down 81% yoy with lower volumes and high cost of inventory (ordered prior to Apr'20). The management expects profitability to improve with better volumes and benefits accruing from lower cost of inventory.
- Cable revenues fell 37% yoy to Rs.2.5bn largely impacted by subdued demand from domestic market. However, the revenue got support from increased export revenue (up 109% yoy). The management focus remains on export market especially in regions where Chinese cables have a higher market share.
- The management expects recessionary trend in the market for all varieties of cables owing to a) payment issues with customers especially the EPC, Solar segment, and b) postponement of deliveries to Railway coach manufacturing facilities. However, cable segment performance is likely to improve in H2 FY21 with higher export revenues and decent demand arising from solar segment.
- EBITDA margin in the Cable segment fell to 2.9% during Q1 FY21 from 13.2% during same period last year. With cost cutting measures and focus on profitability orders, the management expects margin to improve going forward.
- Debt at the end of Jun'20 stood at Rs.3.5bn (including Rs.1.3bn of short term debt).

Exhibit 3: Conductor volumes de-grew 24% yoy during Q1 FY21



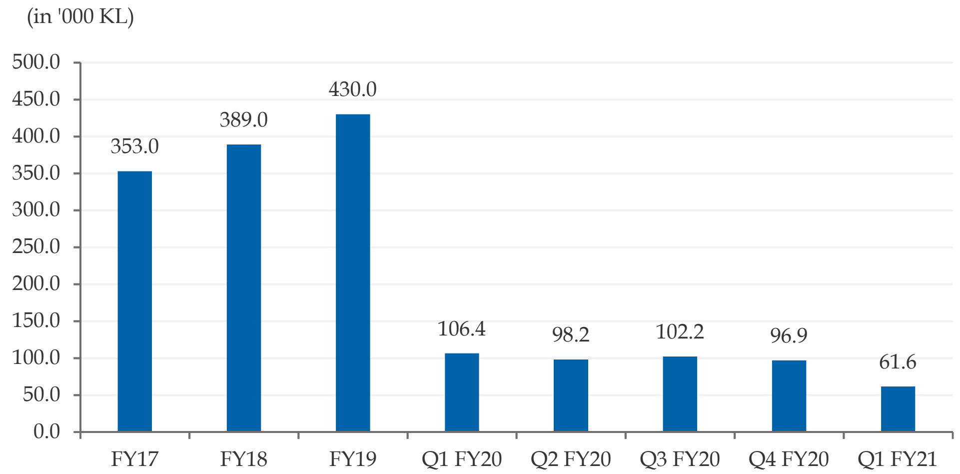
Source: Company, YES Sec – Research

Exhibit 4: EBITDA/ton* in Conductor segment fallen sharply during Q1 FY21



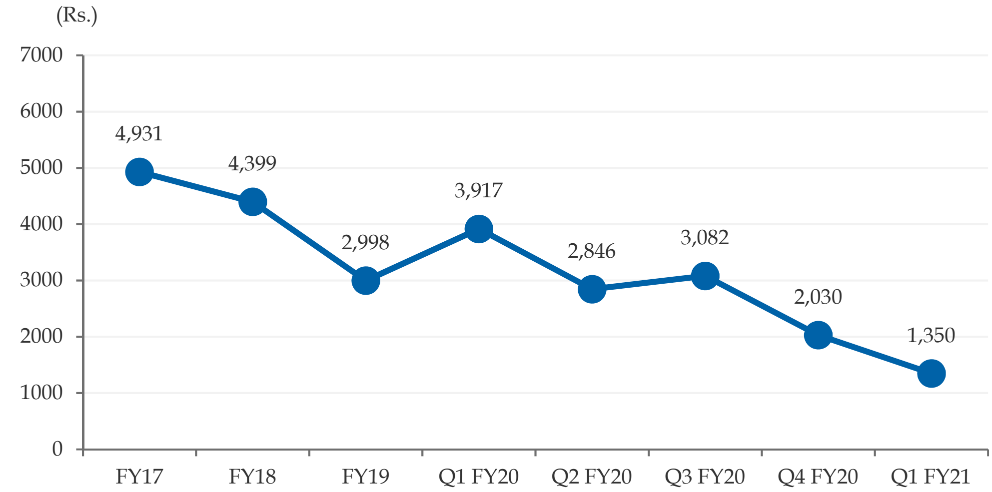
Source: Company, YES Sec – Research; * After adjusting open period forex

Exhibit 5: Specialty oil volumes de-grew 42% yoy during Q1 FY21



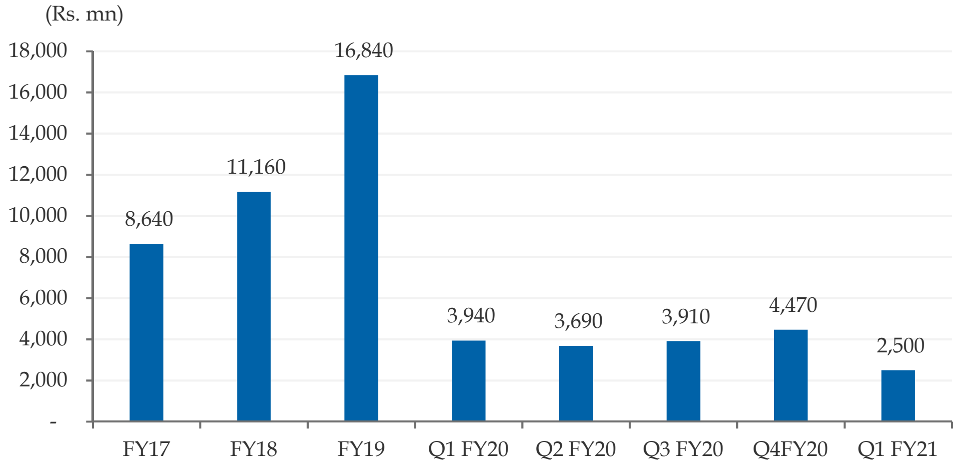
Source: Company, YES Sec – Research

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



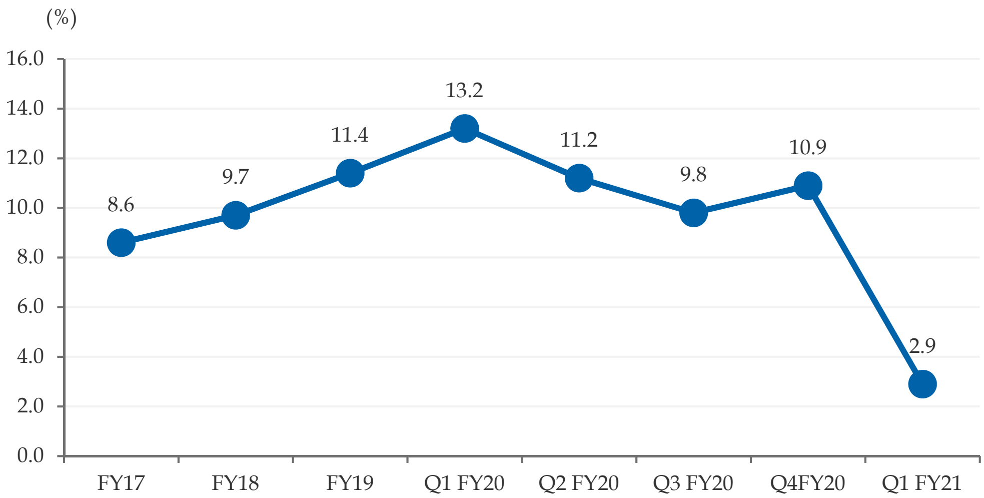
Source: Company, YES Sec – Research

Exhibit 6: Cable segment revenue declined 37% yoy during Q1 FY21



Source: Company, YES Sec – Research

Exhibit 7: Cable segment margin sharply fallen sharply



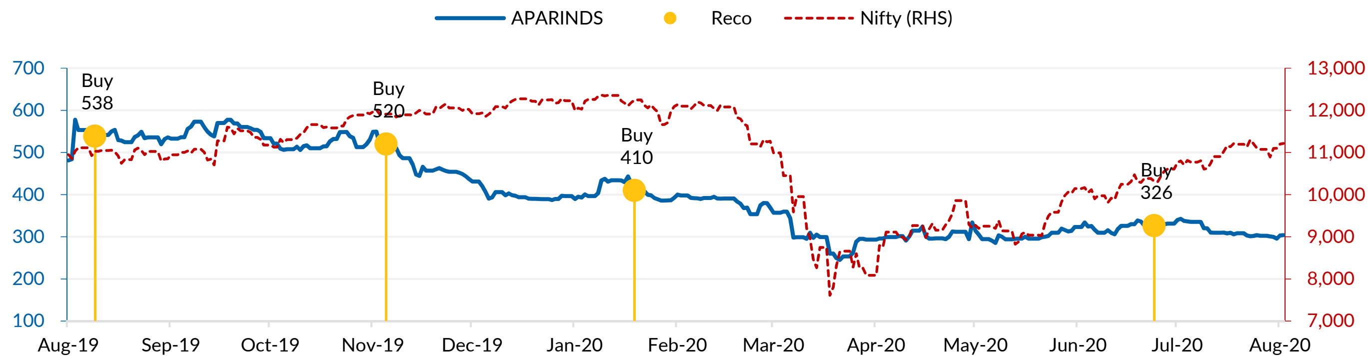
Source: Company, YES Sec – Research

Exhibit 8: Financial Summary (Consolidated)

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E
Revenues	79,639	74,617	63,728	73,450
yoy growth (%)	36.9	(6.3)	(14.6)	15.3
Operating profit	4,677	4,758	3,719	4,678
OPM (%)	5.9	6.4	5.8	6.4
Adjusted PAT	1,361	1,351	534	1,252
yoy growth (%)	(6.0)	(0.7)	(60.5)	134.4
EPS (Rs)	35.6	35.3	14.0	32.7
P/E (x)	8.6	8.6	21.8	9.3
EV/EBITDA (x)	2.1	2.7	3.3	2.7
Debt/Equity (x)	0.2	0.2	0.2	0.2
RoE (%)	11.8	11.4	4.6	10.4

Source: Company, YES Sec – Research

Recommendation Tracker



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