

July 28, 2021

Q1FY22 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	790		696	
Sales (Rs. m)	69,200	76,699	66,661	73,906
% Chng.	3.8	3.8		
EBITDA (Rs. m)	5,674	6,289	5,466	6,060
% Chng.	3.8	3.8		
EPS (Rs.)	61.6	65.8	53.8	58.0
% Chng.	14.4	13.4		

Key Financials - Consolidated

Y/e Mar	FY20	FY21	FY22E	FY23E
Sales (Rs. m)	74,255	63,880	69,200	76,699
EBITDA (Rs. m)	4,650	4,149	5,674	6,289
Margin (%)	6.3	6.5	8.2	8.2
PAT (Rs. m)	1,352	1,605	2,357	2,519
EPS (Rs.)	35.3	41.9	61.6	65.8
Gr. (%)	(0.7)	18.8	46.9	6.8
DPS (Rs.)	6.6	6.8	7.1	8.2
Yield (%)	1.0	1.0	1.0	1.2
RoE (%)	11.4	12.5	15.7	14.8
RoCE (%)	26.3	20.9	26.9	26.4
EV/Sales (x)	0.4	0.4	0.4	0.3
EV/EBITDA (x)	5.8	6.1	4.4	4.2
PE (x)	19.2	16.2	11.0	10.3
P/BV (x)	2.2	1.8	1.6	1.4

Key Data

APAR.BO | APR IN

52-W High / Low	Rs.722 / Rs.278
Sensex / Nifty	52,444 / 15,709
Market Cap	Rs.26bn / \$ 350m
Shares Outstanding	38m
3M Avg. Daily Value	Rs.158.68m

Shareholding Pattern (%)

Promoter's	59.80
Foreign	5.57
Domestic Institution	10.97
Public & Others	23.66
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	30.6	91.0	125.6
Relative	31.3	70.7	65.6

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Value added products drives margin

Quick Pointers:

- Increasing contribution from value added products across verticals resulted in gross margin expansion of 484bps YoY.
- Exports gaining momentum as capacity utilization at Hamriyah plant increased 120% and it surpass domestic revenue for first time in Q1FY22.

Apar Industries (APR) reported a strong set of numbers led by pickup in Oil & Conductor segment realizations, given better product mix. Conductor segment reported stellar adj. EBITDA per ton of Rs14,243/MT, despite decline in revenue (down 3.6% YoY) owing to increasing share of high value products. Specialty Oil revenue was up 34% over pre Covid level, led by growth in exports and lubricant business primarily driven by export volumes. Going forward, domestic volumes are expected to pickup, as and how automotive segment recovers. Cables segment reported 12% decline in volume compared to pre Covid level, owing to high competition and low domestic demand. Management indicated growth will be driven by higher investment from 1) increasing ESG investment 2) Indian railways 3) Automotive 4) Telecom 5) Defence and 6) exports market.

We believe APR's focus towards value added product would help it de-risk from low margin traditional business as well as gain market share with its superior product quality, first mover advantage and strong brand positioning both internationality and domestically. We expect revenue/PAT CAGR of 10%/26% over FY21-23E given 1) its global leadership position, 2) robust prospects of value-added products, 3) strong positioning across product categories. The stock is currently trading at 11.0x/10.3x FY22E/23E. Given strong quarterly performance and rising share of value added products, we revise our estimates upwards by 14.4%/13.4% for FY22E/23E and maintain 'BUY' rating on the stock with a revised TP of Rs790 (earlier Rs696).

Stellar performance across verticals: Sales came in at Rs18.1bn (up 40% YoY) (PLe of ~Rs15.8bn) primarily led by strong growth in Transformer & Specialty Oil segment (up 137% YoY) and Cable segment (up 60% YoY). While Conductors segment reported decline of 4.2% YoY. Despite steep rise in raw material price, gross margin expanded by 484bps YoY to 24.6% in Q1FY22 led by better realization in Oil & conductor business. EBITDA came in at Rs1,292mn (PLe ~Rs700mn), with EBITDA margins expanding by 420bps YoY to 7.1% vs 2.9% in Q1FY21, led by gross margin expansion. PBT came in at Rs791mn, led by higher other income (up 9x YoY) and lower interest cost (down 18.8% YoY). PAT came in at Rs623mn (PLe ~Rs68mn) owing to stellar operating performance.

HEC orders drives OI during the quarter: Conductor segment reported strong OI of Rs15.5bn (up 389% YoY on low base), mainly driven by HEC orders (50.7% of total OI). OB stands healthy at Rs21.2bn (up 35% YoY), of which premium products like HEC, OPGW, Cu Conductor and CTC accounts for 56% of total OB.

Exhibit 1: Gross margin expansion boost profitability

Y/e March (Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY gr. (%)	QoQ gr. (%)	FY21	FY20	YoY gr. (%)
Revenue	12,930	14,807	17,140	18,995	18,096	40.0	(4.7)	63,880	74,255	(14.0)
Total Revenues	12,930	14,807	17,140	18,995	18,096	40.0	(4.7)	63,880	74,255	(14.0)
Expenditure	12,550	13,618	15,533	17,987	16,804	33.9	(6.6)	59,732	69,605	(14.2)
<i>as % of sales</i>	<i>97.1</i>	<i>92.0</i>	<i>90.6</i>	<i>94.7</i>	<i>92.9</i>			<i>93.5</i>	<i>93.7</i>	
Consumption of RM	10,381	10,789	12,359	14,484	13,653	31.5	(5.7)	48,001	57,073	(15.9)
<i>as % of sales</i>	<i>80.3</i>	<i>72.9</i>	<i>72.1</i>	<i>76.3</i>	<i>75.4</i>			<i>75.1</i>	<i>76.9</i>	
Employee Cost	406	411	360	426	434	6.9	1.8	1,604	1,688	(5.0)
<i>as % of sales</i>	<i>3.1</i>	<i>2.8</i>	<i>2.1</i>	<i>2.2</i>	<i>2.4</i>			<i>2.5</i>	<i>2.3</i>	
Other expenditure	1,763	2,418	2,814	3,078	2,717	54.1	(11.7)	10,127	10,843	(6.6)
<i>as % of sales</i>	<i>13.6</i>	<i>16.3</i>	<i>16.4</i>	<i>16.2</i>	<i>15.0</i>			<i>15.9</i>	<i>14.6</i>	
EBITDA	380	1,189	1,607	1,007	1,292	240.3	28.3	4,149	4,650	(10.8)
Depreciation	228	231	235	241	239	4.9	(0.6)	934	871	7.3
EBIT	152	958	1,372	767	1,053	594.8	37.3	3,214	3,779	(14.9)
Other Income	12	30	52	95	121	910.8	28.0	223	180	23.7
Interest	472	296	369	224	383	(18.8)	70.8	1,360	2,277	(40.2)
PBT	(308)	692	1,055	637	791	NA	24.1	2,076	1,682	23.5
Total Tax	(76)	159	233	162	168	NA	4.0	478	343	39.4
Adjusted PAT	(232)	533	822	476	623	NA	31.0	1,599	1,339	19.4
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	-	-	-
PAT after MI	(232)	533	822	476	623	NA	31.0	1,599	1,339	19.4
Extra ordinary items	2	2	2	1	-	NA	NA	6	12	(48.4)
Reported PAT	(231)	535	825	476	623	NA	30.8	1,605	1,352	18.8
Adjusted EPS	(6.1)	13.9	21.5	12.4	16.3	NA	31.0	41.8	35.0	19.4
Margins (%)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Bps	bps	FY21	FY20	bps
EBIDTA	2.9	8.0	9.4	5.3	7.1	420	184	6.5	6.3	23
EBIT	1.2	6.5	8.0	4.0	5.8	464	178	5.0	5.1	(6)
EBT	-2.4	4.7	6.2	3.4	4.4	NA	102	3.3	2.3	99
PAT	-1.8	3.6	4.8	2.5	3.4	NA	94	2.5	1.8	69
Effective Tax rate	24.5	22.9	22.1	25.4	21.3	(328)	(413)	23.0	20.4	264

Source: Company, PL

Exhibit 2: Speciality Oil and Cables business reported strong revenue growth

Segmental Performance	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY gr. (%)	QoQ gr. (%)	FY21	FY20	YoY gr. (%)
Conductor										
Volume (MT)	31,861	33,797	31,671	31,131	21,901	(31.3)	(29.6)	128,460	158,104	(18.7)
Revenue	7,051	6,280	7,370	8,370	6,800	(3.6)	(18.8)	29,080	36,005	(19.2)
EBITDA	230	390	400	(20)	350	52.2	NA	1,000	1,860	(46.2)
<i>EBITDA margin (%)</i>	<i>3.2</i>	<i>6.2</i>	<i>5.4</i>	<i>(0.2)</i>	<i>5.1</i>			<i>3.4</i>	<i>5.1</i>	
EBITDA (Rs/MT)	7,089	11,502	12,614	(538)	15,797	122.8	NA	7,764	11,784	(34.1)
Speciality Oil & Lubricant										
Volume (KL)	61,624	113,897	120,205	103,488	114,478	85.8	10.6	399,214	403,626	(1.1)
Revenue	3,520	5,990	6,920	7,190	8,320	136.4	15.7	23,638	23,110	2.3
EBITDA	80	730	980	1,020	890	1,012.5	(12.7)	2,810	1,340	109.7
<i>EBITDA margin (%)</i>	<i>2.4</i>	<i>12.3</i>	<i>14.1</i>	<i>14.2</i>	<i>10.7</i>			<i>11.9</i>	<i>5.8</i>	
EBITDA (Rs/KL)	1,350	6,438	8,124	9,841	7,814	478.8	(20.6)	7,043	3,317	112.3
Cables										
Revenue	2,500	2,540	3,220	4,435	4,000	60.0	(9.8)	12,695	15,999	(20.7)
EBITDA	90	110	270	140	260	188.9	85.7	600	1,800	(66.7)
<i>EBITDA margin (%)</i>	<i>3.4</i>	<i>4.3</i>	<i>8.3</i>	<i>3.2</i>	<i>6.5</i>			<i>4.8</i>	<i>11.2</i>	

Source: Company, PL

Conference Call Highlights

- Management indicated going forward growth will be driven by 1) increasing ESG investment 2) Indian railways 3) automotive industry 4) telecom Industry 5) increasing spend in defense sector and 6) exports market.
- Domestic revenue grew 56.3% YoY (on low base) while exports revenue grew 22.6% YoY, mainly driven by strong growth in Oil segment.
- Focus on value added products resulted in margin expansion in Q1FY22.
- Domestic transformer oil sales remained weak due to low demand for transformers from state utilities which is expected to pick up from H2 onwards. While volume grew for Industrial (up 96% YoY) and Automotive (up 62% YoY).
- Hamriyah plant capacity utilisation increased to 120% due to shift of orders from India to Hamriyah plant for ensuring smooth logistic of product delivery in export market.
- In conductor business management will be focusing on domestic market and premium product like HTLS, OPWG and HTLS service and targets EBITDA/ton of Rs12,000, going forward.
- As on Jun'21 total acceptance stands at Rs18.6bn (of which Rs12.2bn forex interest bearing and Rs 6.4bn Domestic acceptance). Total borrowing stands at Rs3.3bn (long term- Rs2.2bn and short term- Rs1.1bn).
- Conductors:** Revenue declined 3.6% YoY, due to 27.7%YoY decline in exports sales on account of execution challenges arising due to higher sea freights and shortage of container. Domestic sales declined 2.5% YoY, due to disruption in supplies and re-conducting projects. Railway conductor segment declined 25.6% YoY due to withdrawal of 107 sq mm contact wire by RDSO. Despite rise in logistic, aluminium and steel cost, EBITDAM came in at 5.1% due to increased share of high value products. Management indicated it is trying to pass on rise in freight cost to clients. OI came in at Rs15.5bn (up 161% of pre covid level), mainly led by orders from HEC products. OB stands at Rs21.2bn (up34.7% YoY) as on Q1FY22.
- Speciality Oil:** Revenue was up 34% over pre-covid levels driven by exports and lubricants segment. For the first time Exports volume (52% of total volume) surpassed domestic volume which is expected to come down in Q2 with automotive segment picking up. Higher contribution from Industrial and Automotive lubricant resulted in adj. EBITDA of Rs7,406/KL in Q1FY22. Management indicated exports to be impacted due to increase in container freight cost and exports customer buying locally in FY22.
- Cables:** Revenue grew 60.2% YoY (low base) led by increase in revenue from Elastomeric and OFC. Volumes were down 12% over pre covid level due to excess supply in the system. Domestic competition remains intense especially XLPE cables. Opportunity from exports market stands strong.
- Outlook:** Management expects cable revenue and volume to be higher in FY22 compared to FY20. While for lubricant segment volumes are expected surpass FY21 level.

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Net Revenues	74,255	63,880	69,200	76,699
YoY gr. (%)	(6.8)	(14.0)	8.3	10.8
Cost of Goods Sold	57,073	48,001	51,554	57,141
Gross Profit	17,181	15,879	17,646	19,558
Margin (%)	23.1	24.9	25.5	25.5
Employee Cost	1,688	1,604	1,592	1,764
Other Expenses	10,843	10,127	10,380	11,505
EBITDA	4,650	4,149	5,674	6,289
YoY gr. (%)	0.1	(10.8)	36.8	10.8
Margin (%)	6.3	6.5	8.2	8.2
Depreciation and Amortization	871	934	996	1,041
EBIT	3,779	3,214	4,678	5,248
Margin (%)	5.1	5.0	6.8	6.8
Net Interest	2,277	1,360	1,842	2,192
Other Income	180	223	311	307
Profit Before Tax	1,694	2,083	3,148	3,363
Margin (%)	2.3	3.3	4.5	4.4
Total Tax	343	478	791	845
Effective tax rate (%)	20.2	22.9	25.1	25.1
Profit after tax	1,352	1,605	2,357	2,519
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,352	1,605	2,357	2,519
YoY gr. (%)	(0.7)	18.8	46.9	6.8
Margin (%)	1.8	2.5	3.4	3.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,352	1,605	2,357	2,519
YoY gr. (%)	(0.7)	18.8	46.9	6.8
Margin (%)	1.8	2.5	3.4	3.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,352	1,605	2,357	2,519
Equity Shares O/s (m)	38	38	38	38
EPS (Rs)	35.3	41.9	61.6	65.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Non-Current Assets				
Gross Block	11,480	12,300	13,282	13,882
Tangibles	11,456	12,282	13,282	13,882
Intangibles	24	18	-	-
Acc: Dep / Amortization	2,634	3,521	4,517	5,558
Tangibles	2,634	3,521	4,517	5,558
Intangibles	-	-	-	-
Net fixed assets	8,847	8,779	8,765	8,324
Tangibles	8,822	8,761	8,765	8,324
Intangibles	24	18	-	-
Capital Work In Progress	547	287	287	287
Goodwill	-	-	-	-
Non-Current Investments	-	4	4	4
Net Deferred tax assets	(7)	(202)	(202)	(202)
Other Non-Current Assets	441	514	554	614
Current Assets				
Investments	-	600	-	-
Inventories	13,314	15,627	17,063	18,912
Trade receivables	19,017	18,690	18,959	21,014
Cash & Bank Balance	1,762	2,218	3,539	2,764
Other Current Assets	2,311	3,199	3,460	3,835
Total Assets	46,538	50,087	52,976	56,137
Equity				
Equity Share Capital	383	383	383	383
Other Equity	11,282	13,709	15,595	17,610
Total Networkth	11,664	14,092	15,978	17,993
Non-Current Liabilities				
Long Term borrowings	1,879	1,916	2,631	3,131
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	940	215	-	-
Trade payables	28,480	30,381	30,334	30,470
Other current liabilities	3,568	3,281	3,831	4,342
Total Equity & Liabilities	46,538	50,087	52,976	56,137

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
PBT	1,694	2,083	3,148	3,363
Add. Depreciation	871	935	996	1,041
Add. Interest	1,515	1,002	1,842	2,192
Less Financial Other Income	180	223	311	307
Add. Other	534	(52)	-	-
Op. profit before WC changes	4,614	3,967	5,986	6,596
Net Changes-WC	(2,875)	(291)	(1,679)	(3,730)
Direct tax	797	441	791	845
Net cash from Op. activities	942	3,235	3,516	2,021
Capital expenditures	(1,446)	(551)	(982)	(600)
Interest / Dividend Income	-	-	-	-
Others	1,898	(554)	600	-
Net Cash from Inv. activities	452	(1,105)	(382)	(600)
Issue of share cap. / premium	-	-	-	-
Debt changes	580	(514)	500	500
Dividend paid	(875)	(1)	(471)	(504)
Interest paid	(1,540)	(1,103)	(1,842)	(2,192)
Others	(54)	(53)	-	-
Net cash from Fin. activities	(1,888)	(1,672)	(1,813)	(2,195)
Net change in cash	(494)	458	1,321	(774)
Free Cash Flow	(511)	2,677	2,534	1,421

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Net Revenue	14,807	17,140	18,995	18,096
YoY gr. (%)	(19.0)	(6.7)	6.0	40.0
Raw Material Expenses	10,789	12,359	14,484	13,653
Gross Profit	4,018	4,781	4,511	4,443
Margin (%)	27.1	27.9	23.7	24.6
EBITDA	1,189	1,607	1,007	1,292
YoY gr. (%)	9.1	30.7	(3.9)	240.3
Margin (%)	8.0	9.4	5.3	7.1
Depreciation / Depletion	231	235	241	239
EBIT	958	1,372	767	1,053
Margin (%)	6.5	8.0	4.0	5.8
Net Interest	296	369	224	383
Other Income	30	52	95	121
Profit before Tax	694	1,057	638	791
Margin (%)	4.7	6.2	3.4	4.4
Total Tax	159	233	162	168
Effective tax rate (%)	22.9	22.0	25.4	21.3
Profit after Tax	535	825	476	623
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	533	822	476	623
YoY gr. (%)	59.6	125.1	104.7	(368.0)
Margin (%)	3.6	4.8	2.5	3.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	533	822	476	623
YoY gr. (%)	59.6	125.1	104.7	(368.0)
Margin (%)	3.6	4.8	2.5	3.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	533	822	476	623
Avg. Shares O/s (m)	38	38	38	38
EPS (Rs)	13.9	21.5	12.4	16.3

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21	FY22E	FY23E
Per Share(Rs)				
EPS	35.3	41.9	61.6	65.8
CEPS	58.1	66.4	87.6	93.0
BVPS	304.8	368.2	417.5	470.2
FCF	(13.3)	70.0	66.2	37.1
DPS	6.6	6.8	7.1	8.2
Return Ratio(%)				
RoCE	26.3	20.9	26.9	26.4
ROIC	24.0	19.8	25.2	23.0
RoE	11.4	12.5	15.7	14.8
Balance Sheet				
Net Debt : Equity (x)	0.1	0.0	(0.1)	0.0
Net Working Capital (Days)	19	22	30	45
Valuation(x)				
PER	19.2	16.2	11.0	10.3
P/B	2.2	1.8	1.6	1.4
P/CEPS	11.7	10.2	7.8	7.3
EV/EBITDA	5.8	6.1	4.4	4.2
EV/Sales	0.4	0.4	0.4	0.3
Dividend Yield (%)	1.0	1.0	1.0	1.2

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jul-21	BUY	696	540
2	01-Jun-21	BUY	696	524
3	06-Feb-21	BUY	543	373

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	UR	-	1,758
2	Ahluwalia Contracts (India)	Accumulate	410	392
3	Apar Industries	BUY	696	540
4	Ashoka Buildcon	BUY	160	115
5	Bharat Electronics	BUY	208	181
6	BHEL	Sell	34	64
7	Capacite's Infraprojects	BUY	270	213
8	Container Corporation of India	Hold	607	634
9	Cummins India	UR	-	869
10	Engineers India	BUY	129	79
11	GE T&D India	Hold	141	140
12	H.G. Infra Engineering	BUY	476	414
13	IRB Infrastructure Developers	BUY	179	158
14	ITD Cementation India	BUY	97	88
15	J.Kumar Infraprojects	BUY	272	190
16	Kalpataru Power Transmission	UR	-	422
17	KEC International	UR	-	420
18	KNR Constructions	Accumulate	253	245
19	Larsen & Toubro	BUY	1,855	1,598
20	NCC	BUY	111	91
21	PNC Infratech	UR	-	306
22	Power Grid Corporation of India	BUY	205	170
23	Sadbhav Engineering	Accumulate	97	82
24	Siemens	Accumulate	2,101	2,029
25	Thermax	Accumulate	1,559	1,484
26	Triveni Turbine	BUY	156	125
27	Voltamp Transformers	Accumulate	1,565	1,462

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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