

February 6, 2021

Q3FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY21E	FY22E
Rating	BUY		BUY	
Target Price	543		587	
Sales (Rs. m)	76,550	84,865	89,373	94,595
% Chng.	(14.3)	(10.3)		
EBITDA (Rs. m)	5,512	6,110	5,343	5,719
% Chng.	3.2	6.8		
EPS (Rs.)	48.8	54.3	45.6	48.9
% Chng.	6.8	10.9		

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	74,617	68,396	76,550	84,865
EBITDA (Rs. m)	4,746	4,925	5,512	6,110
Margin (%)	6.4	7.2	7.2	7.2
PAT (Rs. m)	1,352	1,776	1,866	2,077
EPS (Rs.)	35.3	46.4	48.8	54.3
Gr. (%)	(0.7)	31.4	5.0	11.3
DPS (Rs.)	6.6	6.8	7.1	8.2
Yield (%)	1.8	1.8	1.9	2.2
RoE (%)	11.4	14.4	13.5	13.5
RoCE (%)	27.0	25.9	26.1	26.1
EV/Sales (x)	0.2	0.2	0.2	0.1
EV/EBITDA (x)	3.2	2.7	2.3	2.0
PE (x)	10.6	8.0	7.7	6.9
P/BV (x)	1.2	1.1	1.0	0.9

Key Data

APAR.BO | APR IN

52-W High / Low	Rs.418 / Rs.235
Sensex / Nifty	50,732 / 14,924
Market Cap	Rs.14bn / \$ 196m
Shares Outstanding	38m
3M Avg. Daily Value	Rs.79.57m

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	4.4	26.3	(4.8)
Relative	(0.3)	(6.2)	(22.8)

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Ordering momentum to pickup

Quick Pointers:

- Strong specialty oils segment growth led by recovery in demand, tightness in base oil market and rise in contribution from Lubricant segment.
- Management expect demand to pick up domestically and internationally, as revival in the economy continues.

Apar Industries (APR) reported strong set of numbers led by strong recovery in transformer oil segment. De-growth in consolidated revenue by 6.7% YoY impacted due to supply chain challenges amidst pandemic in the domestic market (down, 6% YoY) while exports market (up, 7% YoY) is gradually returning to normalcy. Lower RM cost and cost rationalisation measures led to boost in profitability. Conductors segment declined by 28% YoY owing to supply side constraint, subdued demand for conventional conductors and HEC. Specialty Oil revenue grew by 17.7% YoY driven by 30% growth in exports across all its product range. High competitive pricing and subdued demand led to 18% decline in revenue of cables business. Going ahead, management expects margins to remain under pressure led by steep rise in raw materials and freight expenses.

We believe the company's focus towards value added product would help de-risk itself from low margin traditional business and help them gain market share given its superior product quality, first mover advantage and strong brand positioning both internationally and domestically. We expect revenue/PAT CAGR of 4%/15% over FY20-23E given its global leadership position, robust prospects of value-added products, strong positioning across product categories and consistent dividend pay-out. The stock is currently trading at 8x/7.7x/6.9x FY21E/22E/23E. Given strong 9M performance and moving towards value added products we have revised our estimates upwards by 6.8%/10.9% for FY22E/23E. We roll our estimates to FY23 and maintain BUY rating on the stock with a TP of Rs543.

Margins improve by 280bps: Sales de-grew by 6.7%YoY at Rs17.1bn (our estimate was Rs16bn) primarily led by strong growth in Specialty Oil segment (17.8% YoY) which was offset by decline of 15.1%/17.7% in Conductors/Cables segments. EBITDA increased by 32.4% YoY to Rs1.6bn (PLe ~Rs882mn) with EBITDA margins coming at 9.5% vs 6.7% in 3QFY20 led by lower RM cost and better cost rationalisation measures. PBT increased by 110% YoY to Rs1.1bn owing to lower interest cost (down, 28.7% YoY). PAT came in at Rs825mn (PLe ~Rs159mn), up 125% YoY.

Pick-up in demand across segments: Conductors segments witness strong OI (up, 68% YoY) led by uptick in demand from export markets, railways and EPC companies. OB stands healthy at Rs21.2bn (55% export share). Management indicated improvement in conductors and cables segment OI due to recovery across segments. Management witnessed an uptick in demand from Solar, Wind energy, Railways and Defence segment driven by rise in ordering activity from domestic as well as export markets.

Exhibit 1: Lower RM and cost control measures boots profitability (Rs mn)

Y/e March	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	YoY gr. (%)	QoQ gr. (%)	9MFY21	9MFY20	YoY gr. (%)
Revenue	18,366	18,145	12,930	14,807	17,142	(6.7)	15.8	44,879	56,473	(20.5)
Total Revenues	18,366	18,145	12,930	14,807	17,142	(6.7)	15.8	44,879	56,473	(20.5)
Expenditure	17,135	17,083	12,549	13,616	15,512	(9.5)	13.9	41,676	52,776	(21.0)
<i>as % of sales</i>	<i>93.3</i>	<i>94.1</i>	<i>97.1</i>	<i>92.0</i>	<i>90.5</i>			<i>92.9</i>	<i>93.5</i>	
Consumption of RM	13,947	13,878	10,381	10,789	12,336	(11.6)	14.3	33,505	43,632	(23.2)
<i>as % of sales</i>	<i>75.9</i>	<i>76.5</i>	<i>80.3</i>	<i>72.9</i>	<i>72.0</i>			<i>74.7</i>	<i>77.3</i>	
Employee Cost	406	443	406	411	360	(11.2)	(12.4)	1,178	1,246	(5.5)
<i>as % of sales</i>	<i>2.2</i>	<i>2.4</i>	<i>3.1</i>	<i>2.8</i>	<i>2.1</i>			<i>2.6</i>	<i>2.2</i>	
Other expenditure	2,783	2,762	1,761	2,416	2,816	1.2	16.6	6,994	7,899	(11.5)
<i>as % of sales</i>	<i>15.2</i>	<i>15.2</i>	<i>13.6</i>	<i>16.3</i>	<i>16.4</i>			<i>15.6</i>	<i>14.0</i>	
EBITDA	1,231	1,062	381	1,191	1,630	32.4	36.9	3,202	3,696	(13.4)
Depreciation	225	231	228	231	235	4.5	1.5	694	641	8.3
EBIT	1,007	831	153	960	1,395	38.6	45.4	2,508	3,056	(17.9)
Other Income	14	11	12	30	31	125.4	5.1	73	73	(0.4)
Interest	518	516	472	296	369	(28.7)	24.8	1,136	1,760	(35.4)
PBT	502	326	(306)	694	1,057	110.5	52.4	1,445	1,368	5.6
Total Tax	136	92	(76)	159	233	71.7	46.7	316	250	26.3
Adjusted PAT	367	233	(231)	535	825	124.8	54.1	1,129	1,118	0.9
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	-	-	-
PAT after MI	367	233	(231)	535	825	124.8	54.1	1,129	1,118	0.9
Extra ordinary items	-	-	-	-	-	-	-	-	-	-
Reported PAT	367	233	(231)	535	825	124.8	54.1	1,129	1,118	0.9
Adjusted EPS	9.5	6.1	(6.0)	13.9	21.4	124.8	54.1	29.3	29.1	0.9
Margins (%)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	bps	bps	9MFY21	9MFY20	bps
EBIDTA	6.7	5.9	2.9	8.0	9.5	281	147	7.1	6.5	59
EBIT	5.5	4.6	1.2	6.5	8.1	266	166	5.6	5.4	18
EBT	2.7	1.8	-2.4	4.7	6.2	343	148	3.2	2.4	80
PAT	2.0	1.3	-1.8	3.6	4.8	281	120	2.5	2.0	54
Effective Tax rate	27.0	28.4	24.7	22.9	22.0	(498)	(86)	21.9	18.3	358

Source: Company, PL

Conference Call Highlights:

- During 3Q, management indicated some supply chain challenges amidst pandemic in the domestic market, while exports market continues to shine as recovery improves.
- Revenues for domestic markets decline by 6% given pandemic challenges, while export market grew by 7% YoY.
- Export markets such as Latin America, Australia, Europe, Germany, etc. are seeing good traction in order inflows.
- Management believes government's thrust on infrastructure and recent budgetary announcement will give much need impetus to the sector.
- Orders inflows improved for conductors as well as cables segments.
- Lubricant segment continues to drive growth for the Transformer & Specialty oil business.
- Margins improved by 280bps led by better revenue mix across segment, price hike and cost rationalisation measures.
- Management expects margins to remain under pressure led by steep rise in raw material and freight expenses going forward.
- Finance cost decreased by 47% YoY due to lower rate of interest and improvement in working capital.
- Total LC exposure stands at ~Rs12bn comprising of Rs8.7bn LIBOR based while balance Rs3.2bn rupee based.
- **Conductors:** Revenue decline by 28% YoY particular due to supply side constraint, subdued demand for conventional conductors and HEC during the quarter. Exports declined marginally at 6% YoY but contributed 50% v/s 44% in 3QFY20. OI witnessed a strong uptick in demand from export markets, railways and EPC companies resulting in 68% YoY growth in OI. OB stands healthy at Rs21.2bn (55% export share). During 3Q, management saw a significant improvement in WC cycle resulting into lower interest cost.
- **Speciality Oil:** Revenue grew by 17.7% YoY driven by 30% growth in exports across all its product range. Company reported highest sales volume and EBITDA/KL for quarter, led by pickup in utilisation at Hamriyah plant to 99%, strong orders, tightness in base oil market and rise in contribution from high margin Lubricant segment.
- **Cables:** High competitive pricing and subdued demand led to 18% decline in revenue. Management witnessed an uptick in demand from Solar, Wind energy, Railways and Defence segment as ordering momentum is picking up from domestic as well as export markets.
- **Outlook-** Management expects better tendering in 4QFY21 and higher utilisation in railways and defence facilities. Company revived demand in Mining, Wind power and solar segment. Execution of export orders to be better for Cables business.

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	74,617	68,396	76,550	84,865
YoY gr. (%)	(6.3)	(8.3)	11.9	10.9
Cost of Goods Sold	57,510	50,613	57,796	64,073
Gross Profit	17,107	17,783	18,755	20,792
Margin (%)	22.9	26.0	24.5	24.5
Employee Cost	1,688	1,573	1,761	1,952
Other Expenses	10,673	11,285	11,483	12,730
EBITDA	4,746	4,925	5,512	6,110
YoY gr. (%)	2.1	3.8	11.9	10.9
Margin (%)	6.4	7.2	7.2	7.2
Depreciation and Amortization	871	929	977	1,025
EBIT	3,874	3,996	4,535	5,086
Margin (%)	5.2	5.8	5.9	6.0
Net Interest	2,277	1,726	2,101	2,376
Other Income	84	103	57	64
Profit Before Tax	1,694	2,372	2,492	2,774
Margin (%)	2.3	3.5	3.3	3.3
Total Tax	343	596	626	697
Effective tax rate (%)	20.2	25.1	25.1	25.1
Profit after tax	1,352	1,776	1,866	2,077
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,352	1,776	1,866	2,077
YoY gr. (%)	(0.7)	31.4	5.0	11.3
Margin (%)	1.8	2.6	2.4	2.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,352	1,776	1,866	2,077
YoY gr. (%)	(0.7)	31.4	5.0	11.3
Margin (%)	1.8	2.6	2.4	2.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,352	1,776	1,866	2,077
Equity Shares O/s (m)	38	38	38	38
EPS (Rs)	35.3	46.4	48.8	54.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	11,008	11,608	12,208	12,808
Tangibles	11,008	11,608	12,208	12,808
Intangibles	-	-	-	-
Acc: Dep / Amortization	2,590	3,518	4,495	5,520
Tangibles	2,590	3,518	4,495	5,520
Intangibles	-	-	-	-
Net fixed assets	8,419	8,090	7,713	7,289
Tangibles	8,419	8,090	7,713	7,289
Intangibles	-	-	-	-
Capital Work In Progress	547	547	547	547
Goodwill	-	-	-	-
Non-Current Investments	521	521	521	521
Net Deferred tax assets	(1)	(1)	(1)	(1)
Other Non-Current Assets	472	547	612	679
Current Assets				
Investments	-	-	-	-
Inventories	13,314	13,117	13,632	15,113
Trade receivables	18,991	16,865	18,875	22,088
Cash & Bank Balance	1,762	4,217	5,224	6,211
Other Current Assets	2,311	2,531	2,832	3,140
Total Assets	46,635	46,776	50,339	56,011
Equity				
Equity Share Capital	383	383	383	383
Other Equity	11,282	12,703	14,195	15,857
Total Networth	11,664	13,085	14,578	16,240
Non-Current Liabilities				
Long Term borrowings	1,879	3,320	3,820	4,320
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	940	-	-	-
Trade payables	28,480	26,234	27,265	30,226
Other current liabilities	3,671	4,136	4,676	5,225
Total Equity & Liabilities	46,636	46,776	50,339	56,011

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	1,694	2,372	2,492	2,774
Add. Depreciation	762	929	977	1,025
Add. Interest	1,515	1,726	2,101	2,376
Less Financial Other Income	84	103	57	64
Add. Other	643	-	-	-
Op. profit before WC changes	4,614	5,027	5,569	6,174
Net Changes-WC	(2,875)	205	(1,363)	(1,599)
Direct tax	797	596	626	697
Net cash from Op. activities	942	4,636	3,581	3,878
Capital expenditures	(1,446)	(600)	(600)	(600)
Interest / Dividend Income	-	-	-	-
Others	1,901	-	-	-
Net Cash from Inv. activities	455	(600)	(600)	(600)
Issue of share cap. / premium	-	-	-	-
Debt changes	580	500	500	500
Dividend paid	(875)	(355)	(373)	(415)
Interest paid	(1,540)	(1,726)	(2,101)	(2,376)
Others	(54)	-	-	-
Net cash from Fin. activities	(1,888)	(1,581)	(1,974)	(2,291)
Net change in cash	(492)	2,454	1,007	987
Free Cash Flow	(511)	4,036	2,981	3,278

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	35.3	46.4	48.8	54.3
CEPS	58.1	70.7	74.3	81.0
BVPS	304.8	341.9	380.9	424.3
FCF	(13.3)	105.5	77.9	85.7
DPS	6.6	6.8	7.1	8.2
Return Ratio(%)				
RoCE	27.0	25.9	26.1	26.1
ROIC	24.6	26.7	27.9	28.7
RoE	11.4	14.4	13.5	13.5
Balance Sheet				
Net Debt : Equity (x)	0.1	(0.1)	(0.1)	(0.1)
Net Working Capital (Days)	19	20	25	30
Valuation(x)				
PER	10.6	8.0	7.7	6.9
P/B	1.2	1.1	1.0	0.9
P/CEPS	6.4	5.3	5.0	4.6
EV/EBITDA	3.2	2.7	2.3	2.0
EV/Sales	0.2	0.2	0.2	0.1
Dividend Yield (%)	1.8	1.8	1.9	2.2

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Net Revenue	18,145	12,930	14,807	17,142
YoY gr. (%)	601.2	(34.8)	(19.0)	(6.7)
Raw Material Expenses	13,878	10,381	10,789	12,336
Gross Profit	4,267	2,549	4,018	4,806
Margin (%)	23.5	19.7	27.1	28.0
EBITDA	1,062	381	1,191	1,630
YoY gr. (%)	205.9	(72.2)	8.8	32.4
Margin (%)	5.9	2.9	8.0	9.5
Depreciation / Depletion	231	228	231	235
EBIT	831	153	960	1,395
Margin (%)	4.6	1.2	6.5	8.1
Net Interest	516	472	296	369
Other Income	11	12	30	31
Profit before Tax	326	(306)	694	1,057
Margin (%)	1.8	(2.4)	4.7	6.2
Total Tax	92	(76)	159	233
Effective tax rate (%)	28.4	24.7	22.9	22.0
Profit after Tax	233	(231)	535	825
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	233	(231)	535	825
YoY gr. (%)	(27.4)	(155.9)	57.8	124.8
Margin (%)	1.3	(1.8)	3.6	4.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	233	(231)	535	825
YoY gr. (%)	(27.4)	(155.9)	57.8	124.8
Margin (%)	1.3	(1.8)	3.6	4.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	233	(231)	535	825
Avg. Shares O/s (m)	10	10	10	10
EPS (Rs)	23.1	(22.8)	53.0	81.6

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
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Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Hold	880	1,303
2	Ahluwalia Contracts (India)	BUY	288	263
3	Ashoka Buildcon	BUY	147	94
4	Bharat Electronics	Accumulate	110	132
5	BHEL	Hold	34	39
6	Capacite's Infraprojects	BUY	270	180
7	Container Corporation of India	BUY	468	378
8	Cummins India	Hold	546	666
9	Engineers India	BUY	115	73
10	GE T&D India	Hold	86	132
11	H.G. Infra Engineering	BUY	311	219
12	IRB Infrastructure Developers	BUY	157	116
13	ITD Cementation India	BUY	67	64
14	J.Kumar Infraprojects	BUY	176	142
15	Kalpataru Power Transmission	BUY	437	336
16	KEC International	Accumulate	402	360
17	KNR Constructions	BUY	336	337
18	Larsen & Toubro	BUY	1,526	1,361
19	NCC	BUY	83	62
20	PNC Infratech	BUY	219	176
21	Power Grid Corporation of India	BUY	205	170
22	Sadbhav Engineering	BUY	87	64
23	Siemens	Accumulate	1,516	1,633
24	Thermax	Accumulate	1,008	1,207
25	Triveni Turbine	BUY	98	88
26	Voltamp Transformers	BUY	1,283	1,254

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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