

June 1, 2021

Q4FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	696		543	
Sales (Rs. m)	66,661	73,906	76,550	84,865
% Chng.	(12.9)	(12.9)		
EBITDA (Rs. m)	5,466	6,060	5,512	6,110
% Chng.	(0.8)	(0.8)		
EPS (Rs.)	53.8	58.0	48.8	54.3
% Chng.	10.4	6.9		

Key Financials - Consolidated

Y/e Mar	FY20	FY21	FY22E	FY23E
Sales (Rs. m)	74,255	63,880	66,661	73,906
EBITDA (Rs. m)	4,650	4,149	5,466	6,060
Margin (%)	6.3	6.5	8.2	8.2
PAT (Rs. m)	1,352	1,605	2,060	2,220
EPS (Rs.)	35.3	41.9	53.8	58.0
Gr. (%)	(0.7)	18.8	28.4	7.8
DPS (Rs.)	6.6	6.8	7.1	8.2
Yield (%)	1.3	1.3	1.3	1.6
RoE (%)	11.4	12.5	13.8	13.4
RoCE (%)	26.3	20.9	25.8	25.7
EV/Sales (x)	0.3	0.3	0.2	0.2
EV/EBITDA (x)	4.5	4.7	3.0	2.5
PE (x)	14.8	12.5	9.7	9.0
P/BV (x)	1.7	1.4	1.3	1.1

Key Data

APAR.BO | APR IN

52-W High / Low	Rs.606 / Rs.278
Sensex / Nifty	51,935 / 15,575
Market Cap	Rs.20bn / \$ 275m
Shares Outstanding	38m
3M Avg. Daily Value	Rs.119.56m

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	5.9	47.6	64.0
Relative	(0.5)	26.9	5.2

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Specialty oil segment drives growth

Quick Pointers:

- Oil segment reported a healthy revenue growth of 33% YoY, owing to market share gain and increase in share of business from key customer.
- Conductor segment reported an EBITDA loss of Rs20mn, on account of legacy fixed price orders impacted owing to steep rise in raw material/freight cost.

Apar Industries (APR) reported decent set of numbers led by strong recovery in transformer oil segment and lower interest cost. With economic activity witnessing a V-shape recovery, domestic revenues grew 12% YoY while export revenues de-grew 2.8% YoY. Lower interest expense led to boost in profitability. Conductors segment reported an EBITDA loss of Rs20mn owing to steep rise in RM, 2-3x jump in freight costs and delay in clearance from customers. Specialty Oil revenue grew 33% YoY driven by exports growth, market share gain and share of business from major key customers. Margins in the cable business were impacted by subdued demand environment and covid related challenges. Going ahead, management expects conductor segment's margins to remain under pressure.

We believe APR's focus towards value added product would help de-risk itself from low margin traditional business and gain a market share given its superior product quality, first mover advantage and strong brand positioning both internationally and domestically. We expect revenue/PAT CAGR of 8%/18% over FY21-23E given 1) its global leadership position, 2) robust prospects of value-added products, 3) strong positioning across product categories and 4) consistent dividend pay-out. The stock is currently trading at 9.7x/9.0x FY22E/23E and knowing lower interest expense in FY21, we have revised our estimates upwards by 10.4%/6.9% for FY22E/23E. Maintain 'BUY' rating on the stock with a revised TP of Rs696 (earlier Rs543)

Higher other expenses drag margins: Sales grew 6.0% YoY to Rs19.0bn (PLe ~Rs20.5bn) primarily led by strong growth in Transformer & Specialty Oil segment (up 33% YoY). Conductors segment reported muted growth (up 2% YoY), while Cables segment was flat YoY. EBITDA declined by 3.9% YoY at Rs1.0bn (PLe ~Rs1.2bn) with EBITDA margins contracting by 55bps coming in at 5.3%, mainly on account higher other expenses (16.2% of sales in Q4FY21). PBT came in at Rs638mn, led by higher other income (up 305% YoY) and lower interest cost (down 56.6% YoY). PAT came in at Rs476mn, (PLe ~Rs408mn).

Order inflow impacted due to second wave of Covid: Conductor segment witnessed a decline in order inflow (down 50.6% YoY), mainly led by second wave of Covid which impacted exports and government ordering activity, followed by slowdown in ordering activity by EPC player due to sharp increase in Aluminium price. Management expects ordering activity to pick up in OPWD and HTLS segment from 2HFY22 while cable business is expected to recovery faster in FY22. In oil segment, transformer oil volume is expected to grow 5-6% while Industrial and Automotive is expected to grow in double digits.

Exhibit 1: Lower interest expense boost profitability

Y/e March (Rs mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY gr. (%)	QoQ gr. (%)	FY21	FY20	YoY gr. (%)
Revenue	17,920	12,930	14,807	17,140	18,995	6.0	10.8	63,880	74,255	(14.0)
Total Revenues	17,920	12,930	14,807	17,140	18,995	6.0	10.8	63,880	74,255	(14.0)
Expenditure	16,872	12,550	13,618	15,533	17,987	6.6	15.8	59,732	69,605	(14.2)
<i>as % of sales</i>	<i>94.2</i>	<i>97.1</i>	<i>92.0</i>	<i>90.6</i>	<i>94.7</i>			<i>93.5</i>	<i>93.7</i>	
Consumption of RM	13,651	10,381	10,789	12,359	14,484	6.1	17.2	48,001	57,073	(15.9)
<i>as % of sales</i>	<i>76.2</i>	<i>80.3</i>	<i>72.9</i>	<i>72.1</i>	<i>76.3</i>			<i>75.1</i>	<i>76.9</i>	
Employee Cost	443	406	411	360	426	(3.7)	18.4	1,604	1,688	(5.0)
<i>as % of sales</i>	<i>2.5</i>	<i>3.1</i>	<i>2.8</i>	<i>2.1</i>	<i>2.2</i>			<i>2.5</i>	<i>2.3</i>	
Other expenditure	2,779	1,763	2,418	2,814	3,078	10.8	9.4	10,127	10,843	(6.6)
<i>as % of sales</i>	<i>15.5</i>	<i>13.6</i>	<i>16.3</i>	<i>16.4</i>	<i>16.2</i>			<i>15.9</i>	<i>14.6</i>	
EBITDA	1,048	380	1,189	1,607	1,007	(3.9)	(37.3)	4,149	4,650	(10.8)
Depreciation	231	228	231	235	241	4.3	2.6	934	871	7.3
EBIT	818	152	958	1,372	767	(6.2)	(44.1)	3,214	3,779	(14.9)
Other Income	23	12	30	52	95	305.1	82.3	223	180	23.7
Interest	516	472	296	369	224	(56.6)	(39.3)	1,360	2,277	(40.2)
PBT	325	(308)	692	1,055	637	96.3	(39.6)	2,076	1,682	23.5
Total Tax	92	(76)	159	233	162	75.1	(30.5)	478	343	39.4
Adjusted PAT	232	(232)	533	822	476	104.7	(42.2)	1,599	1,339	19.4
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	-	-	-
PAT after MI	232	(232)	533	822	476	104.7	(42.2)	1,599	1,339	19.4
Extra ordinary items	1	2	2	2	1	(30.0)	(66.7)	6	12	(48.4)
Reported PAT	233	(231)	535	825	476	104.1	(42.2)	1,605	1,352	18.8
Adjusted EPS	6.0	(6.0)	13.9	21.4	12.4	104.7	(42.2)	41.8	35.0	19.4
Margins (%)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	bps	bps	FY21	FY20	bps
EBIDTA	5.8	2.9	8.0	9.4	5.3	(55)	(407)	6.5	6.3	23
EBIT	4.6	1.2	6.5	8.0	4.0	(53)	(397)	5.0	5.1	(6)
EBT	1.8	-2.4	4.7	6.2	3.4	154	(280)	3.3	2.3	99
PAT	1.3	-1.8	3.6	4.8	2.5	121	(230)	2.5	1.8	69
Effective Tax rate	28.5	24.5	22.9	22.1	25.4	(307)	333	23.0	20.4	264

Source: Company, PL

Conference Call Highlights

- Management indicated government thrust on infrastructure and initiative's such as privatization of discoms, bringing down ATC losses to 12-15% by 2025 and 100% railway electrification will give boost in ordering activity.
- Revenues for domestic markets grew by 12% YoY, led by 42.5% growth in Oil segment, while exports declined by 2.8% YoY.
- During 4Q, margin got impacted primarily in the conductor segment owing to steep increase in raw material and freight cost and is expected to continue till H1FY21 as OB comprise of legacy orders which are of mostly fixed cost in nature.
- In conductor business management will be focusing in premium product like HTLS, OPWG and HTLS service. While in conventional conductor segment it will focus on margin driven growth rather than volume and targets EBITDA/ton of Rs12,000 going forward.
- Management indicated they will be focusing on supply of electron beam cables to Automotive OEM and has started supplying it to HVM auto for is E-Bus.
- Industrial oil segment is expected to report a strong growth with recovery being witnessed in industrial machinery side due to increased private capex.
- As on Mar'21, total acceptance stands at Rs16bn (of which Rs10.3bn Libor linked and Rs 5.7bn Domestic acceptance).
- Management targets ROE to reach 20% by FY23.
- Capex of ~Rs950mn is planned over next 12-18 months in cables business mainly towards wind and solar cable capacity. With completion of this capex and increase in utilisation level of current capacity Cables business is expected to reach revenue of Rs25-30bn in next 2-3 years.
- Conductors:** Revenue grew 1.7% YoY led by lower HEC revenue contribution (12.4% of sales during quarter compared to 17.0% last year) and decline in copper conductor revenue for railway (down 31.5% YoY). During the quarter executed 220 Circuit kms with GAP type conductor for PGCIL. EBITDA post adjustment to open period forex was down 97.5% YoY to Rs 10mn, due to sharp rise in raw material cost impacting fixed cost legacy orders, 3-4x increase in global freight cost due to shortage of containers and delay by customer for clearance and dispatch of goods due to travel restriction. OI declined 50.6% YoY due to second wave of Covid impacting export ordering activity, government spending and delay in ordering activity from EPC player due to steep rise in raw material price. OI in April 2021 was Rs5bn. OB declined 17.7% at Rs16.5bn (55% exports share).
- Speciality Oil:** Revenue grew 33.1%, (42.5%/18.4% growth in domestic/exports revenue), primarily driven by market share gain and increase in share of business from key major customer. Base lube oil witness supply chain constrain till Feb21. Adj. EBITDA/KL was highest at Rs10,019/Kl led by strong revenue growth in high margin Lubricant segment (up 67.5% YoY).

- **Cables:** Revenue was flat for quarter, led by 7.1% YoY growth in domestic market, while exports reported decline of 17.9% YoY. Competition was intense with lower demand in B2B and B2G segment. Going ahead focus will be on exports markets.
- **Outlook:** Management expects Cables business to perform well in FY22 compared to FY21 and Conductor business is expected to see traction from H2FY22 mainly from HTLS and OPWG conductors. In oil segment transformer oil volume is expected to grow 5-6% while Industrial and Automotive is expected to grow in double digit.

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Net Revenues	74,255	63,880	66,661	73,906
YoY gr. (%)	(6.8)	(14.0)	4.4	10.9
Cost of Goods Sold	57,073	48,001	49,662	55,060
Gross Profit	17,181	15,879	16,998	18,846
Margin (%)	23.1	24.9	25.5	25.5
Employee Cost	1,688	1,604	1,533	1,700
Other Expenses	10,843	10,127	9,999	11,086
EBITDA	4,650	4,149	5,466	6,060
YoY gr. (%)	0.1	(10.8)	31.8	10.9
Margin (%)	6.3	6.5	8.2	8.2
Depreciation and Amortization	871	934	1,007	1,052
EBIT	3,779	3,214	4,460	5,009
Margin (%)	5.1	5.0	6.7	6.8
Net Interest	2,277	1,360	1,842	2,192
Other Income	180	223	133	148
Profit Before Tax	1,694	2,083	2,751	2,965
Margin (%)	2.3	3.3	4.1	4.0
Total Tax	343	478	691	745
Effective tax rate (%)	20.2	22.9	25.1	25.1
Profit after tax	1,352	1,605	2,060	2,220
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,352	1,605	2,060	2,220
YoY gr. (%)	(0.7)	18.8	28.4	7.8
Margin (%)	1.8	2.5	3.1	3.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,352	1,605	2,060	2,220
YoY gr. (%)	(0.7)	18.8	28.4	7.8
Margin (%)	1.8	2.5	3.1	3.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,352	1,605	2,060	2,220
Equity Shares O/s (m)	38	38	38	38
EPS (Rs)	35.3	41.9	53.8	58.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Non-Current Assets				
Gross Block	11,572	12,439	13,421	14,021
Tangibles	11,548	12,421	13,421	14,021
Intangibles	24	18	-	-
Acc: Dep / Amortization	2,725	3,660	4,666	5,718
Tangibles	2,725	3,660	4,666	5,718
Intangibles	-	-	-	-
Net fixed assets	8,847	8,779	8,754	8,303
Tangibles	8,822	8,761	8,754	8,303
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	533	591
Current Assets				
Investments	-	600	-	-
Inventories	13,314	15,627	11,871	13,161
Trade receivables	19,017	18,690	16,437	19,236
Cash & Bank Balance	1,762	2,218	6,338	7,771
Other Current Assets	2,311	3,199	2,466	2,735
Total Assets	46,538	50,087	47,025	52,458
Equity				
Equity Share Capital	383	383	383	383
Other Equity	11,282	13,709	15,357	17,134
Total Network	11,664	14,092	15,740	17,516
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	23,742	26,323
Other current liabilities	3,568	3,281	4,710	5,286
Total Equity & Liabilities	46,538	50,087	47,025	52,458

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
PBT	1,694	2,083	2,751	2,965
Add. Depreciation	871	935	1,007	1,052
Add. Interest	1,515	1,002	1,842	2,192
Less Financial Other Income	180	223	133	148
Add. Other	534	(52)	-	-
Op. profit before WC changes	4,614	3,967	5,600	6,208
Net Changes-WC	(2,875)	(291)	1,348	(1,295)
Direct tax	797	441	691	745
Net cash from Op. activities	942	3,235	6,256	4,169
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)	(412)	(444)
Interest paid	(1,540)	(1,103)	(1,842)	(2,192)
Others	(54)	(53)	-	-
Net cash from Fin. activities	(1,888)	(1,672)	(1,754)	(2,136)
Net change in cash	(494)	458	4,121	1,433
Free Cash Flow	(511)	2,677	5,274	3,569

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21	FY22E	FY23E
Per Share(Rs)				
EPS	35.3	41.9	53.8	58.0
CEPS	58.1	66.4	80.1	85.5
BVPS	304.8	368.2	411.3	457.7
FCF	(13.3)	70.0	137.8	93.2
DPS	6.6	6.8	7.1	8.2
Return Ratio(%)				
RoCE	26.3	20.9	25.8	25.7
ROIC	24.0	19.8	30.5	32.0
RoE	11.4	12.5	13.8	13.4
Balance Sheet				
Net Debt : Equity (x)	0.1	0.0	(0.2)	(0.3)
Net Working Capital (Days)	19	22	25	30
Valuation(x)				
PER	14.8	12.5	9.7	9.0
P/B	1.7	1.4	1.3	1.1
P/CEPS	9.0	7.9	6.5	6.1
EV/EBITDA	4.5	4.7	3.0	2.5
EV/Sales	0.3	0.3	0.2	0.2
Dividend Yield (%)	1.3	1.3	1.3	1.6

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Net Revenue	12,930	14,807	17,140	18,995
YoY gr. (%)	(34.8)	(19.0)	(6.7)	6.0
Raw Material Expenses	10,381	10,789	12,359	14,484
Gross Profit	2,549	4,018	4,781	4,511
Margin (%)	19.7	27.1	27.9	23.7
EBITDA	380	1,189	1,607	1,007
YoY gr. (%)	(72.2)	9.1	30.7	(3.9)
Margin (%)	2.9	8.0	9.4	5.3
Depreciation / Depletion	228	231	235	241
EBIT	152	958	1,372	767
Margin (%)	1.2	6.5	8.0	4.0
Net Interest	472	296	369	224
Other Income	12	30	52	95
Profit before Tax	(306)	694	1,057	638
Margin (%)	(2.4)	4.7	6.2	3.4
Total Tax	(76)	159	233	162
Effective tax rate (%)	24.7	22.9	22.0	25.4
Profit after Tax	(231)	535	825	476
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	(232)	533	822	476
YoY gr. (%)	(157.0)	59.6	125.1	104.7
Margin (%)	(1.8)	3.6	4.8	2.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(232)	533	822	476
YoY gr. (%)	(157.0)	59.6	125.1	104.7
Margin (%)	(1.8)	3.6	4.8	2.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	(232)	533	822	476
Avg. Shares O/s (m)	10	10	10	10
EPS (Rs)	(23.0)	52.8	81.4	47.1

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Feb-21	BUY	543	373

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Hold	1,337	1,388
2	Ahluwalia Contracts (India)	BUY	384	293
3	Apar Industries	BUY	543	373
4	Ashoka Buildcon	BUY	160	96
5	Bharat Electronics	Accumulate	110	131
6	BHEL	Hold	34	49
7	Capacite's Infraprojects	BUY	270	199
8	Container Corporation of India	Hold	607	634
9	Cummins India	Hold	796	772
10	Engineers India	BUY	115	76
11	GE T&D India	Hold	122	119
12	H.G. Infra Engineering	BUY	476	333
13	IRB Infrastructure Developers	BUY	179	106
14	ITD Cementation India	BUY	97	76
15	J.Kumar Infraprojects	BUY	272	177
16	Kalpataru Power Transmission	BUY	448	382
17	KEC International	Accumulate	420	383
18	KNR Constructions	Accumulate	253	227
19	Larsen & Toubro	BUY	1,604	1,416
20	NCC	BUY	111	83
21	PNC Infratech	BUY	295	256
22	Power Grid Corporation of India	BUY	205	170
23	Sadbhav Engineering	BUY	115	63
24	Siemens	Accumulate	1,856	1,786
25	Thermax	Accumulate	1,559	1,455
26	Triveni Turbine	BUY	98	102
27	Voltamp Transformers	BUY	1,466	1,058

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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