

November 4, 2022

Q2FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		UNDER REVIEW	
Target Price	1,834		-	
Sales (Rs. m)	1,25,912	1,40,503	1,18,090	1,32,027
% Chng.	6.6	6.4		
EBITDA (Rs. m)	8,663	9,920	7,451	8,793
% Chng.	16.3	12.8		
EPS (Rs.)	110.8	131.0	85.3	110.1
% Chng.	30.0	18.9		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	93,200	1,16,503	1,25,912	1,40,503
EBITDA (Rs. m)	5,479	7,491	8,663	9,920
Margin (%)	5.9	6.4	6.9	7.1
PAT (Rs. m)	2,566	3,461	4,241	5,012
EPS (Rs.)	67.1	90.4	110.8	131.0
Gr. (%)	59.9	34.9	22.5	18.2
DPS (Rs.)	4.5	6.0	7.5	7.5
Yield (%)	0.3	0.4	0.5	0.5
RoE (%)	16.4	19.8	22.2	22.6
RoCE (%)	25.1	31.5	33.3	33.6
EV/Sales (x)	0.6	0.5	0.4	0.4
EV/EBITDA (x)	10.1	7.5	6.4	5.6
PE (x)	21.8	16.2	13.2	11.2
P/BV (x)	3.3	3.2	2.7	2.4

Key Data

APAR.BO | APR IN

52-W High / Low	Rs.1,590 / Rs.556
Sensex / Nifty	60,950 / 18,117
Market Cap	Rs.56bn / \$ 680m
Shares Outstanding	38m
3M Avg. Daily Value	Rs.182.89m

Shareholding Pattern (%)

Promoter's	60.64
Foreign	6.30
Domestic Institution	16.77
Public & Others	16.29
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	2.0	126.2	110.9
Relative	(2.8)	106.6	107.8

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Strong growth, led by exports and premium products

Quick Pointers:

- Revenue grew 42.6% YoY, driven by higher volumes, price pass through and growth in export cable business.
- Conductor segment EBITDA/ton were highest at Rs29,786/ton, mainly due to Improved mix of premium products, higher conventional conductors margin.

Apar Industries (APR) reported a robust quarterly performance driven by healthy exports growth, increasing contribution of premium products, price pass through and volume growth. Conductor segment reported a volume growth of 4% YoY, while it was flat for Speciality oil segment (down 0.5% YoY). Speciality oil segment margins are likely to be impacted in Q3FY23 owing to higher inventory cost and expected to normalize from Q4FY23. On volume front, given the strong conductors volume growth in H1FY23 (up 29% YoY to 66,104MT) management has revised upwards its guidance for conductor volumes from ~1,30,000MT to ~1,40,000MT for FY23. Cables business is likely to clock strong revenues of Rs30bn for FY23 and thereafter grow at ~25-30%, driven by healthy demand for Low Duty Cables, Elastomeric cables from Railways, defense & renewables and strong exports growth.

We believe APR's focus towards value added products and exports business likely to benefit in long run and aid profitability going forward. We revise upwards our EPS estimates by 18.3%/30% for FY23/24, factoring in increasing contribution from premium products, expanding international footprints, strong outlook for cables business and management focus on profitable growth. The stock is currently trading at PE of 16.2x/13.2x/11.2x FY23/24/25E. We roll forward our TP to FY25E with revised TP of Rs1,834 (Under Review earlier), valuing it at PE of 14x FY25E and assign BUY rating on stock.

Exports and premium products drives growth: Consolidated sales grew 42.6% YoY to Rs32.3bn (vs PL estimate of Rs31.6bn). Gross margin expanded by 227bps YoY to 24.2% aided by better product and geography mix. EBITDA grew 77% YoY to Rs2.3bn (vs PL estimate of Rs2.3bn), with EBITDA margins expanding by 136bps YoY to 7%, owing to better gross margins. PAT grew 80.4% YoY to Rs1bn (vs PL estimate ~Rs1.1bn), led by strong operational performance and higher other income (up 161.1% YoY).

Strong growth witnessed in conductors and Cables segment: Conductors segment reported a growth of 33.2% YoY to Rs14.4bn, owing to healthy growth in premium product and exports. Cables reported a 79.1% YoY growth to Rs7.6bn owing to strong growth in exports and elastomeric products. Speciality oil segment revenue grew 31.4% YoY to Rs11.8bn, driven by higher base oil price.

Exhibit 1: Exports and premium products drives growth

Y/e March (Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	YoY gr. (%)	QoQ gr. (%)	H1FY23	H1FY22	YoY gr. (%)
Revenue	22,691	22,288	30,125	30,932	32,349	42.6	4.6	63,281	40,787	55.1
Total Revenues	22,691	22,288	30,125	30,932	32,349	42.6	4.6	63,281	40,787	55.1
Expenditure	21,415	21,118	28,389	28,558	30,090	40.5	5.4	58,648	38,219	53.5
as % of sales	94.4	94.7	94.2	92.3	93.0			92.7	93.7	
Consumption of RM	17,711	17,271	23,443	23,374	24,517	38.4	4.9	47,891	31,365	52.7
as % of sales	78.1	77.5	77.8	75.6	75.8			75.7	76.9	
Employee Cost	411	443	437	483	507	23.4	5.1	990	845	17.1
as % of sales	1.8	2.0	1.5	1.6	1.6			1.6	2.1	
Other expenditure	3,293	3,404	4,509	4,702	5,066	53.8	7.8	9,768	6,010	62.5
as % of sales	14.5	15.3	15.0	15.2	15.7			15.4	14.7	
EBITDA	1,276	1,171	1,736	2,374	2,259	77.0	(4.9)	4,633	2,568	80.4
Depreciation	242	249	248	249	261	7.6	4.5	510	481	5.9
EBIT	1,034	922	1,487	2,125	1,998	93.3	(5.9)	4,123	2,086	97.6
Other Income	47	73	89	45	122	161.1	172.8	167	168	(0.7)
Interest	310	256	458	613	711	129.7	16.0	1,325	693	91.3
Extra ordinary items	-	-	-	-	-	NA	NA	-	-	-
PBT	771	739	1,118	1,556	1,409	82.8	(9.5)	2,966	1,562	89.9
Total Tax	202	190	293	332	383	89.6	15.4	715	370	93.1
PAT	569	549	826	1,225	1,026	80.4	(16.2)	2,251	1,192	88.9
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	-	-	-
PAT after JV	569	549	826	1,225	1,026	80.4	(16.2)	2,251	1,192	88.9
Adjusted PAT	569	549	826	1,225	1,026	80.4	(16.2)	2,251	1,192	88.9
Adjusted EPS	14.9	14.4	21.6	32.0	26.8	80.4	(16.2)	58.8	31.1	88.9
Margins (%)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Bps	bps	H1FY23	H1FY22	bps
EBIDTA	5.6	5.3	5.8	7.7	7.0	136	(69)	7.3	6.3	103
EBIT	4.6	4.1	4.9	6.9	6.2	162	(69)	6.5	5.1	140
EBT	3.4	3.3	3.7	5.0	4.4	96	(68)	4.7	3.8	86
PAT	2.5	2.5	2.7	4.0	3.2	67	(79)	3.6	2.9	63
Effective Tax rate	26.2	25.7	26.2	21.3	27.2	97	585	24.1	23.7	40

Source: Company, PL

Exhibit 2: Segmental Performance

Segmental Performance	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	YoY gr. (%)	QoQ gr. (%)	H1FY23	H1FY22	YoY gr. (%)
Conductor										
Volume (MT)	29,191	22,415	33,850	35,877	30,227	3.5	(15.7)	66,104	51,092	29.4
Revenue	10,800	9,390	15,034	15,480	14,390	33.2	(7.0)	29,870	17,600	69.7
EBITDA	510	440	592	850	1,230	141.2	44.7	2,080	860	141.9
EBITDA margin (%)	4.7	4.7	3.9	5.5	8.5			7.0	4.9	
EBITDA (Rs/MT)	17,303	19,835	19,227	23,670	40,531	134.2	71.2	31,380	16,657	88.4
Speciality Oil & Lubricant										
Volume (KL)	113,981	116,109	117,021	115,359	113,360	(0.5)	(1.7)	228,719	228,459	0.1
Revenue	8,950	9,050	9,284	10,680	11,760	31.4	10.1	22,440	17,270	29.9
EBITDA	560	740	765	1,180	580	3.6	(50.8)	1,760	1,450	21.4
EBITDA margin (%)	6.3	8.2	8.2	11.0	4.9			7.8	8.4	
EBITDA (Rs/KL)	4,942	6,401	6,033	10,238	50,830	928.5	396.5	7,683	6,381	20.4
Cables										
Revenue	4,250	4,860	6,827	6,380	7,620	79.1	19.4	14,000	8,250	69.7
EBITDA	180	160	225	520	720	300.0	38.5	1,240	440	181.8
EBITDA margin (%)	4.2	3.3	3.3	8.2	9.4			8.8	5.3	

Source: Company, PL

Conference call highlights

- Revenue growth was driven by higher volumes, price pass through and growth in export cable business.
- Exports' revenue (47% in Q2FY23 of total revenue vs 36% in Q2FY22) was up by 85% YoY driven by 206% increase in cable division and 97% increase in conductor division.
- **Growth drivers:** Focus on product premiumization, geography mix, increasing infrastructure spending globally will be key growth driver for company going forward.
- **Conductors:** Revenue growth (up ~33% YoY) was driven by higher share of premium products and exports. High value products contribution was at 44% in Q2FY23. EBITDA per ton was at highest level owing to improved mix of premium products, higher conventional conductors margins and low cost of logistics and lower steel & Aluminium premium. Company has maintained volume outlook of 140k MT for FY23.
 - Management has increased its EBITDA/ton guidance for conductor segment from ~Rs17,000/ton to Rs21,000-22,000/ton in the long run driven by increasing share of premium product and export markets.
- **Speciality Oil:** Revenue growth (up 31% YoY) was driven by base oil prices while volumes were flat YoY. EBITDA post forex adjustment was maintained at INR 4,550 per KL despite volatility in base oil price.
 - Industrial volume up 24% YoY, Automotive volume down by 11% YoY due to demand compression across all speciality oil and lubricant categories in India and global markets.
 - Oil margins are likely to be impacted in Q3FY23, due to higher inventory cost, though it is expected to normalize by Q4FY23.
- **Cables:** Revenue reported strong growth of 79% YoY due to significant increase in Elastomeric products and exports
 - Elastomeric cables revenue up 55% YoY, due to increased business in renewable energy installations, railways & defence.
 - New electromeric cables line and e-beam cable line is likely to be commissioned in Q3FY23, which is likely to add revenue from Q4FY23 onwards.
- Management targets for cable revenue of Rs30bn in FY23 and to grow ~25% going forward driven by healthy demand from railways, defence, wind energy, construction and export markets such as US and Africa. EBITDA margin for FY23 to be ~9-9.5%.

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	93,200	1,16,503	1,25,912	1,40,503
YoY gr. (%)	45.9	25.0	8.1	11.6
Cost of Goods Sold	72,078	88,542	95,316	1,06,066
Gross Profit	21,122	27,961	30,597	34,437
Margin (%)	22.7	24.0	24.3	24.5
Employee Cost	1,725	2,062	2,392	2,698
Other Expenses	13,918	18,407	19,542	21,820
EBITDA	5,479	7,491	8,663	9,920
YoY gr. (%)	30.7	36.7	15.6	14.5
Margin (%)	5.9	6.4	6.9	7.1
Depreciation and Amortization	978	1,117	1,237	1,336
EBIT	4,500	6,375	7,426	8,583
Margin (%)	4.8	5.5	5.9	6.1
Net Interest	1,406	2,085	2,159	2,304
Other Income	325	338	403	422
Profit Before Tax	3,419	4,628	5,670	6,701
Margin (%)	3.7	4.0	4.5	4.8
Total Tax	853	1,166	1,429	1,689
Effective tax rate (%)	24.9	25.2	25.2	25.2
Profit after tax	2,566	3,461	4,241	5,012
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	2,566	3,461	4,241	5,012
YoY gr. (%)	59.9	34.9	22.5	18.2
Margin (%)	2.8	3.0	3.4	3.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,566	3,461	4,241	5,012
YoY gr. (%)	59.9	34.9	22.5	18.2
Margin (%)	2.8	3.0	3.4	3.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,566	3,461	4,241	5,012
Equity Shares O/s (m)	38	38	38	38
EPS (Rs)	67.1	90.4	110.8	131.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	13,201	13,801	14,401	15,201
Tangibles	13,184	13,784	14,384	15,184
Intangibles	16	16	16	16
Acc: Dep / Amortization	4,387	5,503	6,740	8,076
Tangibles	4,387	5,503	6,740	8,076
Intangibles	-	-	-	-
Net fixed assets	8,814	8,298	7,661	7,124
Tangibles	8,798	8,281	7,644	7,108
Intangibles	16	16	16	16
Capital Work In Progress	383	383	383	383
Goodwill	-	-	-	-
Non-Current Investments	5	5	5	5
Net Deferred tax assets	(523)	(523)	(523)	(523)
Other Non-Current Assets	1,173	699	755	843
Current Assets				
Investments	300	300	300	300
Inventories	21,387	24,577	26,907	30,025
Trade receivables	25,424	29,046	30,702	34,260
Cash & Bank Balance	2,666	2,406	3,307	3,656
Other Current Assets	5,841	6,408	7,177	7,868
Total Assets	66,075	72,238	77,387	84,676
Equity				
Equity Share Capital	383	383	383	383
Other Equity	16,770	17,383	20,140	23,398
Total Network	17,152	17,766	20,522	23,780
Non-Current Liabilities				
Long Term borrowings	1,954	2,404	2,704	2,904
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	575	575	575	575
Trade payables	41,225	45,963	47,950	51,197
Other current liabilities	4,646	5,008	5,112	5,697
Total Equity & Liabilities	66,075	72,238	77,387	84,676

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	3,419	4,628	5,670	6,701
Add. Depreciation	979	1,117	1,237	1,336
Add. Interest	608	2,085	2,159	2,304
Less Financial Other Income	325	338	403	422
Add. Other	480	-	-	-
Op. profit before WC changes	5,486	7,829	9,066	10,341
Net Changes-WC	(2,140)	(1,840)	(2,792)	(3,645)
Direct tax	908	1,166	1,429	1,689
Net cash from Op. activities	2,438	4,823	4,844	5,007
Capital expenditures	(1,293)	(600)	(600)	(800)
Interest / Dividend Income	-	-	-	-
Others	386	-	-	-
Net Cash from Inv. activities	(906)	(600)	(600)	(800)
Issue of share cap. / premium	-	-	-	-
Debt changes	(226)	450	300	200
Dividend paid	(364)	(796)	(1,484)	(1,754)
Interest paid	(474)	(2,085)	(2,159)	(2,304)
Others	-	(2,052)	-	-
Net cash from Fin. activities	(1,064)	(4,483)	(3,343)	(3,858)
Net change in cash	468	(260)	901	349
Free Cash Flow	1,133	4,223	4,244	4,207

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Revenue	22,288	30,125	30,932	32,349
YoY gr. (%)	30.0	58.6	70.9	42.6
Raw Material Expenses	17,271	23,443	23,374	24,517
Gross Profit	5,017	6,682	7,558	7,832
Margin (%)	22.5	22.2	24.4	24.2
EBITDA	1,171	1,736	2,374	2,259
YoY gr. (%)	(27.2)	66.2	83.8	77.0
Margin (%)	5.3	5.8	7.7	7.0
Depreciation / Depletion	249	248	249	261
EBIT	922	1,487	2,125	1,998
Margin (%)	4.1	4.9	6.9	6.2
Net Interest	256	458	613	711
Other Income	73	89	45	122
Profit before Tax	739	1,118	1,556	1,409
Margin (%)	3.3	3.7	5.0	4.4
Total Tax	190	293	332	383
Effective tax rate (%)	25.7	26.2	21.3	27.2
Profit after Tax	549	826	1,225	1,026
Minority interest	-	-	-	-
Share Profit from Associates	1	1	-	-
Adjusted PAT	550	826	1,225	1,026
YoY gr. (%)	(33.3)	73.5	96.6	80.4
Margin (%)	2.5	2.7	4.0	3.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	550	826	1,225	1,026
YoY gr. (%)	(33.3)	73.5	96.6	80.4
Margin (%)	2.5	2.7	4.0	3.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	550	826	1,225	1,026
Avg. Shares O/s (m)	38	38	38	38
EPS (Rs)	14.4	21.6	32.0	26.8

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	67.1	90.4	110.8	131.0
CEPS	92.6	119.6	143.1	165.9
BVPS	448.2	464.2	536.3	621.4
FCF	29.6	110.3	110.9	109.9
DPS	4.5	6.0	7.5	7.5
Return Ratio(%)				
RoCE	25.1	31.5	33.3	33.6
ROIC	22.5	27.2	29.8	29.8
RoE	16.4	19.8	22.2	22.6
Balance Sheet				
Net Debt : Equity (x)	0.0	0.0	0.0	0.0
Net Working Capital (Days)	22	24	28	34
Valuation(x)				
PER	21.8	16.2	13.2	11.2
P/B	3.3	3.2	2.7	2.4
P/CEPS	15.8	12.2	10.2	8.8
EV/EBITDA	10.1	7.5	6.4	5.6
EV/Sales	0.6	0.5	0.4	0.4
Dividend Yield (%)	0.3	0.4	0.5	0.5

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Oct-22	UR	-	1,445
2	30-Jul-22	Accumulate	1,194	1,124
3	05-Jul-22	UR	-	941
4	31-May-22	BUY	855	691
5	08-Apr-22	BUY	830	666
6	11-Jan-22	BUY	790	780

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	3,115	3,100
2	Apar Industries	UR	-	1,445
3	Bharat Electronics	BUY	125	107
4	BHEL	Sell	36	62
5	Cummins India	Accumulate	1,296	1,214
6	Engineers India	BUY	89	65
7	GE T&D India	Hold	102	129
8	Kalpataru Power Transmission	BUY	442	419
9	KEC International	Accumulate	473	440
10	Larsen & Toubro	BUY	2,384	2,023
11	Praj Industries	BUY	520	434
12	Siemens	Accumulate	3,116	2,750
13	Thermax	Accumulate	2,190	2,199
14	Triveni Turbine	BUY	328	283
15	Voltamp Transformers	Hold	2,748	2,616

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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