

June 25, 2023

**VISIT UPDATE** | Sector: Capital Goods

# Apar Industries

## Bright prospects for conductors and cables

Update on our interactions with Plant heads and senior officials during our visit to Apar Industries' Conductors plant, Silvassa, and Cables plant, Khatalwad, Gujarat

### Conductors plant visit: Key takeaways

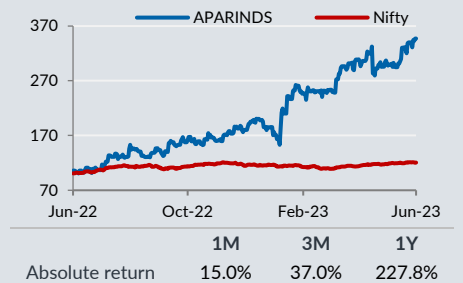
- Started in 2013, the Silvassa conductor plant has a monthly production of ~7,000 tons, and current capacity utilization of ~80%
- The plant manufactures conventional ACSR conductors and premium AAAC, ACCC and HTLS conductors which find application in T&D. As a 100% export-oriented unit, it caters to key markets of US, Australia, Scandinavia, and to an extent, Africa. The other two strategically located facilities in Odisha cater to the domestic market
- Manufacturing process involves melting of aluminum ingots for casting into rods, which are further processed into wires of varying levels of thickness based on customer specifications. Alloy conductors involve additional steps in the form of ageing and annealing, where the conductor is subjected to temperatures of 1600C and 4000C respectively to increase strength and ductility
- The average life of a conductor is ~30 years. The company enjoys healthy replacement demand and premiumization in India as reconductoring is taking place in urban areas marked by limited right of way, and erecting new poles and towers entail additional costs. Apar has a dedicated team to reconductor live lines to ensure minimal disruption
- As HTLS conductors are used for renewable installations, demand for premium conductors would be buoyant going forward. Notably, the company has supplied 4,000km worth of HTLS conductors to renewable energy projects in Rajasthan
- The fact that US is investing in overhauling its infrastructure, coupled with growing renewable energy capacity, augurs well for Indian players like Apar and Sterlite. Notably, Chinese imports to the US have tapered off significantly in the wake of geopolitical tensions, and the situation is unlikely to reverse in the near to medium term. As US lacks any meaningful bauxite reserves, and also given high labour costs, the possibility of the US onshoring conductor manufacturing is minimal

Reco	: <b>ADD</b>
CMP	: Rs 3,190
Target Price	: Rs 3,738
Potential Return	: +17%

### Stock data (as on June 23, 2023)

Nifty	18,726
52 Week h/l (Rs)	3288 / 891
Market cap (Rs/USD mn)	120468 / 1460
Outstanding Shares (mn)	38
6m Avg t/o (Rs mn):	343
Div yield (%)	1.5
Bloomberg code:	APR IN
NSE code:	APARINDS

### Stock performance



### Shareholding pattern (As of Mar'23 end)

Promoter	60.6%
FII+DII	24.6%
Others	14.8%

### Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	3,738	3,451

### Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Revenues	143,522	180,834	221,842
Yoy growth (%)	54.0	26.0	22.7
OPM (%)	8.5	8.3	8.3
EPS (Rs)	166.6	220.4	287.6
EPS growth	148.4	32.3	30.5
P/E (x)	19.1	14.5	11.1
EV/EBITDA (x)	9.8	8.0	6.2
Debt/Equity (x)	0.1	0.1	0.1
RoE (%)	37.5	33.4	30.4
RoCE (%)	32.7	29.7	28.0

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## Cables plant visit: Key takeaways

- The Khatalwad cables facility manufactures a variety of cables which find application in diverse sectors including railways, renewable energy, defence, oil & gas, marine, and mining. ~90% of the plant's production is made to order as per customer specifications
- The plant houses 4 e-beam machines, all of which have been procured from China, and a fifth one is currently being installed
- E-beam cables offer three key advantages over conventional cables viz. a) longer life (~50 years vs ~20 years), b) 30-40% higher load carrying capacity and c) improved safety with better fire resistance. Further, even from the cost perspective, it is only ~10% higher which is not a huge deterrent for customers
- Though Apar is the first Indian player to adopt this technology and enjoys first-mover advantage, its peers like RR Kabel, Polycab, and Havells have recently acquired e-beam machines. However, installation and commissioning of these machines has been delayed as Chinese engineers required for the same are not able to secure Indian visas due to simmering tensions between the two countries
- Compared to conventional and e-beam cables which have copper as the key input, optical ground wires (OPGW) are made from a combination of silica and glass. They find applications in 5G, GPS, signalling, railways, telecom, and the like
- The fibres in an OPGW have a breadth of 0.9mm which is not easily discernible to the human eye. For perspective, the breadth of a strand of human hair is 9mm. In an optical wire, higher number of fibres translates to a higher data carrying capacity
- As per management, the Cables segment is poised to clock in ~25-30% CAGR over the next 5 to 6 years on the back of a robust opportunity pipeline across end-user industries like solar, wind, railways, defence, and infrastructure, both in India and overseas

## VALUATION & VIEW

- Over the years, Apar Industries has commendably moved up the value chain by offering superior products and increasing its export footprint
- Apar continues to be a proxy play on the domestic power sector as a huge chunk of its revenues are linked to power infrastructure. The company's focus on value-added products will help it mitigate the risk from lower-margin business and help it gain market share both in India and globally on the wings of its wide array of premium products
- The company is reaping the benefits of product innovation and investment in R&D in the form of higher share of premium conductors and growing share of exports in both cables and conductors. Additionally, it enjoys strong traction in sunrise sectors such as green energy, EV, and data centres along with traditional sectors such as railways, mining, and defence
- At CMP, the stock trades at a P/E of 14.5x/11.1x and EV/EBITDA of 8.0x/6.2x for FY24E/FY25E. We maintain our ADD rating on the stock with a revised TP of Rs3,451. We reassign it a target multiple of 13x FY25E (vs 12x earlier) based on the strong pipeline and near-term visibility for both Conductors and Cables, both in India and overseas

## FINANCIALS

### Exhibit 1: Balance Sheet (Consolidated)

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Sources of Funds					
Equity capital	383	383	383	383	383
Reserves	13,613	16,770	21,981	30,265	41,071
Non Controlling Int.	0	0	0	0	0
Net worth	13,995	17,152	22,364	30,647	41,454
Debt	2,642	2,529	3,042	3,542	3,342
Deferred tax liab (net)	202	523	217	217	217
Total liabilities	16,839	20,204	25,623	34,406	45,012
Application of Funds					
Gross Block	12,282	13,184	14,924	17,924	20,924
Depreciation	3,521	4,387	5,430	6,685	8,149
Fixed Asset	8,779	8,814	9,507	11,239	12,774
CWIP	287	383	991	991	991
Investments	604	305	543	42	42
Net Working Capital	7,169	10,702	14,582	22,134	31,206
Inventories	15,627	21,387	25,756	32,203	39,506
Sundry debtors	18,683	25,424	32,256	42,112	51,662
Cash & equivalents	2,225	2,666	5,301	5,725	11,636
Loans & Advances	595	1,968	661	3,617	4,437
Other Current Asset	3,191	5,128	7,161	9,946	12,201
Sundry creditors	30,381	41,225	52,066	64,407	79,012
Provisions	112	187	164	181	222
Other current liabilities	2,659	4,459	4,324	6,881	9,002
Total Assets	16,839	20,204	25,623	34,406	45,012

Source: Company, YES Sec

## Exhibit 2: Income statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	63,880	93,200	143,522	180,834	221,842
% Change YoY	(14.0)	45.9	54.0	26.0	22.7
Operating profit	4,191	5,479	12,270	14,919	18,302
EBITDA margins	6.6	5.9	8.5	8.3	8.3
% Change YoY	(9.9)	30.7	124.0	21.6	22.7
Depreciation	934	978	1,043	1,255	1,465
EBIT	3,257	4,500	11,226	13,664	16,837
EBIT margins	5.1	4.8	7.8	7.6	7.6
Interest expense	1,360	1,406	3,055	2,833	2,673
Other income	186	325	375	434	532
Profit before tax	2,083	3,419	8,546	11,265	14,696
Taxes	478	853	2,168	2,830	3,692
Effective tax rate (%)	22.9	24.9	25.4	25.1	25.1
Net profit	1,605	2,566	6,377	8,435	11,005
Minorities and other	0	1	(0)	0	0
Net profit after minorities	1,605	2,565	6,378	8,435	11,005
Exceptional items	0	0	0	0	0
Net profit	1,605	2,565	6,378	8,435	11,005
% Change YoY	18.8	59.8	148.4	32.3	30.5
EPS (Rs)	41.9	67.1	166.6	220.4	287.6

Source: Company, YES Sec

## Exhibit 3: Cash Flow Statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Profit before Tax	2,083	3,419	8,546	11,265	14,696
Interest	562	608	1,553	2,833	2,673
Depreciation	935	979	1,043	1,255	1,465
Other Items	147	480	794	-	-
(Inc)/Dec in WC	(471)	(2,140)	(2,763)	(7,129)	(3,160)
Direct Taxes Paid	441	908	2,190	2,830	3,692
CF from Oper. Activity	2,814	2,438	6,983	5,395	11,982
(Inc)/Dec in FA	(558)	(1,305)	(2,478)	(3,000)	(3,000)
Free Cash Flow	2,256	1,133	4,505	2,395	8,982
(Pur)/Sale of Invest.	(589)	399	(211)	501	-
CF from Inv. Activity	(1,147)	(906)	(2,689)	(2,499)	(3,000)
Change in Network	-	-	-	-	-
Inc/(Dec) in Debt	(514)	(171)	33	500	(200)
Interest Paid	(663)	(474)	(1,200)	(2,833)	(2,673)
Dividends Paid	(1)	(364)	(574)	(152)	(198)
Others	(53)	(56)	(100)	13	0
CF from Fin. Activity	(1,232)	(1,064)	(1,841)	(2,472)	(3,071)
Inc/(Dec) in Cash	435	468	2,453	424	5,911
Opening cash Balance	1,639	2,070	2,532	4,988	5,412
Others	(4)	(7)	3	-	-
Closing cash Balance	2,070	2,532	4,988	5,412	11,323

Source: Company, YES Sec

## Exhibit 4: Du-pont Analysis

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Tax burden (x)	5.3	4.0	3.9	3.6	3.4
Interest burden (x)	0.1	0.2	0.2	0.2	0.2
EBIT margin (x)	0.1	0.0	0.1	0.1	0.1
Asset turnover (x)	3.8	4.6	5.6	5.3	4.9
Financial leverage (x)	1.2	1.2	1.1	1.1	1.1
RoE (%)	17.9%	19.7%	37.5%	33.4%	30.4%

Source: Company, YES Sec

## Exhibit 5: Ratio Analysis

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
<b>Basic (Rs)</b>					
EPS	41.9	67.1	166.6	220.4	287.6
Dividend per share	9.5	15.0	40.0	4.0	5.2
Cash EPS	58.1	69.7	138.5	149.6	304.1
Book value per share	365.7	448.2	584.4	800.8	1,083.2
Div. payout (%)	22.7	22.4	24.0	1.8	1.8
<b>Valuation ratios (x)</b>					
P/E	76.1	47.6	19.1	14.5	11.1
P/CEPS	54.9	45.8	23.0	21.3	10.5
P/B	8.7	7.1	5.5	4.0	2.9
EV/EBIDTA	29.2	22.3	9.8	8.0	6.2
Dividend yield (%)	0.3	0.5	1.3	0.1	0.2
<b>Profitability Ratios (%)</b>					
RoIC	14.9	18.5	34.9	30.2	28.4
RoE	17.9	19.7	37.5	33.4	30.4
RoCE	14.9	16.7	32.7	29.7	28.0
<b>Liquidity ratios</b>					
Debtor (days)	107	100	82	85	85
Inventory (days)	89	84	66	65	65
Creditor (days)	174	161	132	130	130
Net working Capital (days)	41	42	37	45	51
Asset Turnover (x)	3.8	4.6	5.6	5.3	4.9

Source: Company, YES Sec

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