

July 31, 2023

RESULT REPORT Q1 FY24 | Sector: Capital Goods

Apar Industries Ltd

Future performance largely factored in

Our view

Apar Industries Ltd (APR) reported a decent set of numbers with revenue growth of 22% YoY aided by healthy performance across all segments viz. Conductors (up 15% YoY), Transformers & Specialty Oils (up 12% YoY) and Cables (up 52% YoY). Conductors revenue growth was entirely volume-driven on the back of improved share of higher value products and exports. Margins expanded by 150bps YoY led by operating leverage benefits. In the near term, management expects a transient dip in demand from key regions such as US and Europe owing to easing of supply chains and expectations of interest rate cuts. However, structural drivers remain intact and will play out over the medium to long term. In India, there is a continued strong traction in power transmission capex, railway infra spending and private capex recovery that will sustain demand for both conductors and cables.

We like the company given its global leadership position, robust prospects of value-added products, strong positioning across product categories and consistent dividend pay-out. At CMP, the stock is trading at a P/E of 17.1x/12.2x and EV/EBITDA of 9.6x/7.0x for FY24E/25E. We upgrade our FY25 earnings estimates factoring in a) higher share of exports and b) rising premiumization within domestic market. Given the sharp run-up in the stock price, we downgrade it to NEUTRAL (previously ADD) with a revised TP of Rs4,022 as we believe that the positives are largely priced in.

Result Highlights

- Sales came in at Rs37.7bn (up 22% YoY) above YSLe of ~Rs36bn led by strong growth in Conductors segment (up 15% YoY), Transformer & Specialty oil segment (up 12% YoY) and Cable segment (up 52% YoY)
- Gross margin expanded by ~10bps YoY to 24.5%
- EBITDA grew by 46% YoY at Rs3.5bn (YSLe Rs3.3bn), with EBITDA margin coming in at 9.2% (~150bps YoY expansion) led by operating leverage benefits
- PBT grew by 69% YoY to Rs2.6bn mainly due to robust operating performance
- PAT came in at Rs2bn (vs YSLe of Rs1.8bn)

Exhibit 1: Actual vs Estimate

Rs mn	Actual	Estimate		% variation		Comments
		YSec	Consensus	YSec	Consensus	
Sales	37,730	35,969	35,785	4.9	5.4	Topline growth led by strong volumes
EBITDA	3,462	3,278	2,544	5.6	36.1	
EBITDA margin %	9.2	9.1	7.1	6 bps	207 bps	
Adj.Pat	1,975	1,770	1,336	11.5	47.8	

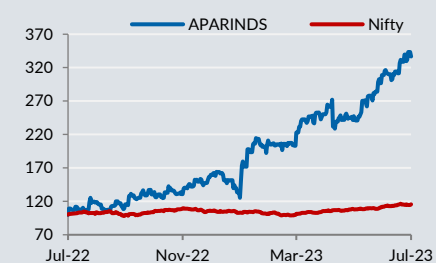
Source: Company, YES Sec

Reco	: NEUTRAL
CMP	: Rs 3,782
Target Price	: Rs 4,022
Potential Return	: +6%

Stock data (as on July 31, 2023)

Nifty	19,782
52 Week h/l (Rs)	3944 / 956
Market cap (Rs/USD mn)	147646 / 1797
Outstanding Shares (mn)	38
6m Avg t/o (Rs mn):	372
Div yield (%):	1.1
Bloomberg code:	APR IN
NSE code:	APARINDS

Stock performance



	1M	3M	1Y
Absolute return	9.0%	34.5%	236.6%

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	NEUTRAL	ADD
Target Price	4,022	3,738

Δ in earnings estimates

	FY24E	FY25E
EPS (New)	220.6	309.4
EPS (Old)	220.4	287.6
% change	0.1	7.6

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	8.8
EPS (Rs)	166.6	220.6	309.4
EPS growth (%)	148.4	32.4	40.3
P/E (x)	22.7	17.1	12.2
EV/EBITDA (x)	11.6	9.6	7.0
Debt/Equity (x)	0.1	0.1	0.1
RoE (%)	37.5	33.4	31.8
RoCE (%)	32.7	29.8	29.3

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Exhibit 2: Quarterly snapshot (Consolidated)

Rs mn	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY gr. (%)	QoQ (%)	FY23	FY22	YoY gr. (%)
Revenue	30,932	32,349	39,389	40,886	37,730	22.0	(7.7)	143,556	93,200	54.0
Total Revenues	30,932	32,349	39,389	40,886	37,730	22.0	(7.7)	143,556	93,200	54.0
Expenditure	28,558	30,090	35,957	36,647	34,269	20.0	(6.5)	131,252	87,739	49.6
as % of sales	92.3	93.0	91.3	89.6	90.8			91.4	94.1	
Consumption of RM	23,374	24,517	29,377	29,820	28,475	21.8	(4.5)	107,088	72,078	48.6
as % of sales	75.6	75.8	74.6	72.9	75.5			74.6	77.3	
Employee Cost	483	507	515	700	657	36.1	(6.2)	2,205	1,725	27.8
as % of sales	1.6	1.6	1.3	1.7	1.7			1.5	1.9	
Other expenditure	4,702	5,066	6,065	6,127	5,137	9.3	(16.2)	21,960	13,936	57.6
as % of sales	15.2	15.7	15.4	15.0	13.6			15.3	15.0	
EBITDA	2,374	2,259	3,432	4,239	3,462	45.8	(18.3)	12,304	5,461	125.3
Depreciation	249	261	261	273	272	9.2	(0.2)	1,043	978	6.6
EBIT	2,125	1,998	3,171	3,966	3,189	50.1	(19.6)	11,261	4,482	151.2
Other Income	45	122	66	107	139	209.4	29.8	340	343	(0.8)
Interest	613	711	940	791	696	13.5	(12.0)	3,055	1,406	117.3
PBT	1,556	1,409	2,298	3,282	2,632	69.1	(19.8)	8,546	3,419	150.0
Total Tax	332	383	599	855	657	98.1	(23.1)	2,168	874	148.0
Adjusted PAT	1,225	1,026	1,699	2,428	1,975	61.3	(18.7)	6,377	2,544	150.6
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	-	-	-
PAT after MI	1,225	1,026	1,699	2,428	1,975	61.3	(18.7)	6,377	2,544	150.6
Extra ordinary items	-	-	-	-	-			-	-	
Reported PAT	1,225	1,026	1,699	2,428	1,975	61.3	(18.7)	6,377	2,544	150.6
Adjusted EPS	32.0	26.8	44.4	63.4	51.6	61.2	(18.7)	166.6	66.5	150.5
Margins (%)										
EBIDTA	7.7	7.0	8.7	10.4	9.2	150	(119)	8.6	5.9	271
EBIT	6.9	6.2	8.1	9.7	8.5	158	(125)	7.8	4.8	303
EBT	5.0	4.4	5.8	8.0	7.0	194	(105)	6.0	3.7	228
PAT	4.0	3.2	4.3	5.9	5.2	127	(70)	4.4	2.7	171
Effective Tax rate	21.3	27.2	26.1	26.0	25.0	365	(107)	25.4	25.6	(20)

Source: Company, YES Sec

Exhibit 3: Segmental Performance

Segmental Performance	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY gr. (%)	QoQ (%)	FY23	FY22	YoY gr. (%)
Conductor										
Volume (MT)	35,877	30,227	44,538	49,489	45,565	27.0	(7.9)	160,131	107,356	49.2
Revenue	15,480	14,390	19,120	21,210	17,740	14.6	(16.4)	70,200	42,010	67.1
EBITDA	850	1,230	2,270	2,820	1,770	108.2	(37.2)	7,170	1,950	267.7
EBITDA margin (%)	5.5	8.5	11.9	13.3	10.0	449	(332)	10	5	557
EBITDA (Rs/MT)	23,670	40,531	50,886	56,926	38,740	63.7	(31.9)	172,013	72,162	138.4
Speciality Oil & Lubricant										
Volume (KL)	115,359	113,360	126,731	131,132	130,654	13.3	(0.4)	486,582	461,589	5.4
Revenue	10,680	11,760	12,450	11,790	11,980	12.2	1.6	46,560	35,600	30.8
EBITDA	1,180	580	270	460	780	(33.9)	69.6	2,480	2,900	(14.5)
EBITDA margin (%)	11.0	4.9	2.2	3.9	6.5	(41)	67	5.3	8.1	(282)
EBITDA (Rs/KL)	10,238	5,083	2,099	3,528	5,996	(41.4)	70.0	5,102	6,287	(18.8)
Cables										
Revenue	6,380	7,620	9,210	9,430	9,670	51.6	2.5	32,640	19,930	63.8
EBITDA	520	720	1,090	1,150	1,100	111.5	(4.3)	3,480	1,100	216.4
EBITDA margin (%)	8.2	9.4	11.8	12.2	11.4	39.6	(6.7)	5	6	(20)

Source: Company, YES Sec

Exhibit 4: Key Assumptions

Key segments	FY21	FY22	FY23	FY24E	FY25E
Conductor volumes	128,460	107,357	160,131	176,144	202,566
YoY growth	-19%	-16%	49%	10%	15%
Specialty Oils volumes	399,214	461,589	486,582	510,911	536,457
YoY growth	-1%	16%	5%	5%	5%
Cables revenues	12,695	19,930	32,630	40,788	53,024
YoY growth	-21%	57%	64%	25%	30%

Source: Company, YES Sec

CONCALL HIGHLIGHTS

- Management highlighted that higher share of exports (53% vs 42% in 1QFY24), volume growth across all divisions led to robust 1QFY24 performance. Revenue at Rs37.7bn grew by 22% YoY while margins at 9.2% expanded ~150bps YoY
- India added 14,625 circuit km of transmission lines in FY23 while for 1QFY24 the number stood at 2,796 circuit km primarily driven by the huge RE investments taking place in Gujarat, Rajasthan, Maharashtra and Himachal Pradesh. The momentum is expected to continue in the near term which provides strong visibility for both Conductors and Cables segments. Additionally, reforms and initiatives such as RDSS and Gati Shakti are providing a fillip to demand for conductors and cables
- Notably, the Central Electricity Authority (CEA) in India has upgraded the conductor requirement from the conventional ACSR to the premium AL59 for TBCB projects. In terms of competitive intensity, AL59 has 5-6 key players while ACSR has 30-35 players. Given the CEA directives, the company expects peers to foray into AL59
- Demand for both conductors and cables in key export geographies like the US and Europe is expected to witness a transient slowdown as there was a huge inventory buildup owing to supply chain disruptions and container shortages. As the situation has normalized, a correction is underway as there is no real need for customers to stock up on supplies. Additionally, contractors are delaying execution of projects in anticipation of a softening of interest rates thereby affecting demand. However, none of these factors is structural in nature and demand is expected to pick up in 3-4 months
- Despite a slight dip in demand due to the aforementioned factors, management maintained its FY24 guidance for conductor volume growth of 10% as domestic demand is robust enough to compensate for any slowdown in export markets. Similarly, baseline EBITDA/ton guidance was maintained at ~Rs25,000 plus any tailwinds. Capex guidance for the next 12-15 months was maintained at ~Rs3.5-4bn with 2/3rd earmarked for cables and the balance for conductors
- In key end markets like Africa, LatAm, etc, Chinese players have started to make a comeback however there is no material threat in the US, Australia, etc due to the prevailing anti-China sentiment
- 45% of the order book for Conductors is from premium products while 50% of the Cables order book is from exports

Segment wise

- **Conductors:** Revenue grew by 15% YoY on account of higher volumes (up 27% YoY) and exports. Exports saw an 56% growth YoY. Order book is robust at Rs53.6bn. EBITDA/ton eased to Rs38.740 from the record levels seen during FY23 led by softening of commodity prices. However, product mix and share of exports continue to be healthy
- **Specialty Oils:** Volumes and revenue both grew by 13% YoY with a 1% YoY decline in realisations. EBITDA/KL came in at Rs6,035. Company expects T-oils and industrial oils to grow faster than other categories in FY24
- **Cables:** Revenue was Rs9.67bn, grew by 52% YoY on the back of higher share of elastomeric products and exports. EBITDA post forex adj came in at Rs1.1bn. Elastomeric cables revenue was up 45% YoY led by higher share of RE installations and railways business. Order book stood at Rs9.3bn

FINANCIALS

Exhibit 5: 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	30,270	41,898
Non Minority Controlling Int.	0	0	0	0	0
Net worth	13,995	17,152	22,364	30,653	42,281
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	34,411	45,839
Application of Funds					
Gross Block	12,282	13,184	14,814	17,814	20,814
Depreciation	3,521	4,387	5,320	6,567	8,024
Fixed Asset	8,779	8,814	9,507	11,247	12,790
CWIP	287	383	991	991	991
Investments	604	305	543	42	42
Net Working Capital	7,169	10,702	14,582	22,132	32,017
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	5,724	12,613
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	6,882	9,168
Total Assets	16,839	20,204	25,623	34,411	45,839

Source: Company, YES Sec

Exhibit 6: Income statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	63,880	93,166	143,522	180,834	221,842
% Change YoY	(14.0)	45.8	54.0	26.0	22.7
Operating profit	4,191	5,479	12,270	14,919	19,411
EBITDA margins	6.6	5.9	8.5	8.3	8.8
% Change YoY	(9.9)	30.7	124.0	21.6	30.1
Depreciation	934	978	1,043	1,247	1,457
EBIT	3,257	4,500	11,226	13,672	17,954
EBIT margins	5.1	4.8	7.8	7.6	8.1
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	11,273	15,813
Taxes	478	853	2,168	2,832	3,972
Effective tax rate (%)	22.9	24.9	25.4	25.1	25.1
Net profit	1,605	2,566	6,377	8,441	11,841
Minorities and other	0	1	(0)	0	0
Net profit after minorities	1,605	2,565	6,378	8,441	11,841
Exceptional items	0	0	0	0	0
Net profit	1,605	2,565	6,378	8,441	11,841
% Change YoY	18.8	59.8	148.4	32.4	40.3
EPS (Rs)	41.9	67.1	166.6	220.6	309.4

Source: Company, YES Sec

Exhibit 7: Cash flow statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Profit before Tax	2,083	3,419	8,546	11,273	15,813
Interest	562	608	1,553	2,833	2,673
Depreciation	935	979	1,043	1,247	1,457
Other Items	147	480	794	-	-
(Inc)/Dec in WC	(471)	(2,140)	(2,763)	(7,127)	(2,996)
Direct Taxes Paid	441	908	2,190	2,832	3,972
CF from Oper. Activity	2,814	2,438	6,983	5,394	12,975
(Inc)/Dec in FA	(558)	(1,305)	(2,478)	(3,000)	(3,000)
Free Cash Flow	2,256	1,133	4,505	2,394	9,975
(Pur)/Sale of Invest.	(589)	399	(211)	501	-
CF from Inv. Activity	(1,147)	(906)	(2,689)	(2,499)	(3,000)
Change in Networkth	-	-	-	-	-
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)	(213)
Others	(53)	(56)	(100)	13	(0)
CF from Fin. Activity	(1,232)	(1,064)	(1,841)	(2,472)	(3,086)
Inc/(Dec) in Cash	435	468	2,453	423	6,889
Opening cash Balance	1,639	2,070	2,532	4,988	5,411
Others	(4)	(7)	3	-	-
Closing cash Balance	2,070	2,532	4,988	5,411	12,300

Source: Company, YES Sec

Exhibit 8: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY21	FY22E	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	4.8
Financial leverage (x)	1.2	1.2	1.1	1.1	1.1
RoE (%)	17.9%	19.7%	37.5%	33.4%	31.8%

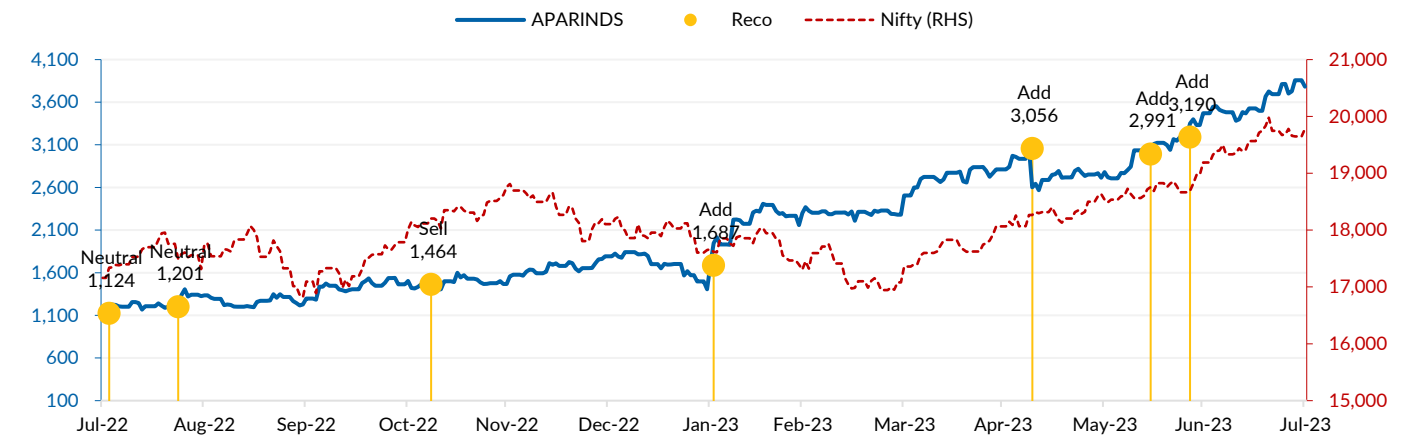
Source: Company, YES Sec

Exhibit 9: Ratio Analysis

Y/e 31 Mar	FY21	FY22E	FY23	FY24E	FY25E
Basic (Rs)					
EPS	41.9	67.1	166.6	220.6	309.4
Dividend per share	9.5	15.0	40.0	4.0	5.6
Cash EPS	58.1	69.7	138.5	149.6	329.6
Book value per share	365.7	448.2	584.4	801.0	1,104.8
Div. payout (%)	22.7	22.4	24.0	1.8	1.8
Valuation ratios (x)					
P/E	90.2	56.4	22.7	17.1	12.2
P/CEPS	65.1	54.3	27.3	25.3	11.5
P/B	10.3	8.4	6.5	4.7	3.4
EV/EBIDTA	34.6	26.4	11.6	9.6	7.0
Dividend yield (%)	0.3	0.4	1.1	0.1	0.1
Profitability Ratios (%)					
RoIC	14.9	18.5	34.9	30.2	29.8
RoE	17.9	19.7	37.5	33.4	31.8
RoCE	14.9	16.7	32.7	29.8	29.3
Liquidity ratios					
Debtor (days)	107	100	82	85	85
Inventory (days)	89	84	66	65	65
Creditor (days)	174	162	132	130	130
Net working Capital (days)	41	42	37	45	53
Asset Turnover (x)	3.8	4.6	5.6	5.3	4.8

Source: Company, YES Sec

Recommendation Tracker



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NSDL: IN-DP-653-2021 | MERCHANT BANKER: INM000012227 |
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DISCLOSURE OF INTEREST

Name of the Research Analyst : Harsh Tewaney

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

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