

Apar Industries Ltd

Strong combination of domestic and export tailwinds; Upgrade to Add

Our view

Apar Industries Ltd (APR) reported a strong Q2FY24 print beating our expectations on both revenue and PAT front. This was driven by better than expected export revenue growth driving a surprise on margin. The company performance continues to be driven by volume led growth across its domestic and export businesses. Despite the de-stocking trend in large distributors, the company has levers to report a robust export growth by expanding further into newer geographies and exploring newer channels through direct EPC or utility business. Strong structural drivers remain intact and will play out over the medium to long term driven by target to increase renewable energy contribution across major geographies. 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 25.6x/17.2x and EV/EBITDA of 12.8x/9.6x for FY24E/25E. We upgrade our FY25 earnings estimates factoring in a) higher share of exports and b) rising premiumization within domestic market. We upgrade the stock to ADD with a revised TP of Rs6,000 based on 20x FY25E earnings.

Result Highlights

- Revenue growth of 21% YoY in Q2FY24 moderates from last year (54% revenue growth in FY23). Conductor (+35% YoY) and cables segment (+16% YoY) stole the show while Transformer & Speciality oil (TSO) segment saw muted revenue growth of ~2% YoY.
- Gross margin remained broadly stable both sequentially and on YoY basis at 24.1%. EBITDA grew by 55% YoY at Rs3.5bn (YSLe Rs2.8bn). EBITDA margin expanded 190bps YoY to 8.9% driven by operating leverage.
- PBT grew by 68% YoY to Rs2.4bn helped by operating performance, leverage on depreciation while interest costs saw notable increase of 45% YoY to Rs1.03bn.
- PAT came in at Rs1.74bn (vs YSLe of Rs1.45bn) recording growth of 69% YoY.

Exhibit 1: Actual vs Estimate

Rs mn	Actual	Estimate		% variation		Comments
		YSec	Consensus	YSec	Consensus	
Sales	39,260	36,601	39,038	7.3	0.6	Topline growth led by strong volumes
EBITDA	3,498	2,805	3,024	24.7	15.7	
EBITDA margin %	8.9	9.1	7.7	-21 bps	116 bps	
Adj. Pat	1,744	1,445	1,451	20.6	20.2	

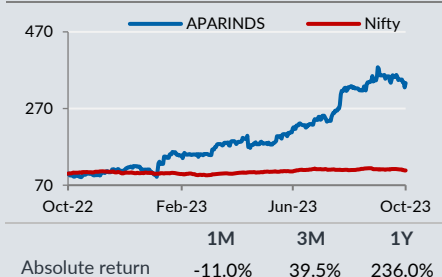
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 5,165
Target Price	: Rs 6,000
Potential Return	: +16%

Stock data (as on Oct 26, 2023)

Nifty	18,857
52 Week h/l (Rs)	6020 / 1352
Market cap (Rs/USD mn)	191070 / 2295
Outstanding Shares (mn)	38
6m Avg t/o (Rs mn)	608
Div yield (%)	0.8
Bloomberg code:	APR IN
NSE code:	APARINDS

Stock performance



Shareholding pattern (As of Sep'23 end)

Promoter	60.6%
FII+DII	26.1%
Others	13.2%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	NEUTRAL
Target Price	6,000	4,022

Δ in earnings estimates

	FY24E	FY25E
EPS (New)	202.1	299.6
EPS (Old)	165.4	229.7
% change	22.2	30.4

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Revenues	143,522	177,442	224,709
YoY growth (%)	54.0	23.6	26.6
OPM (%)	8.5	8.5	8.8
EPS (Rs)	166.6	202.1	299.6
EPS growth (%)	148.4	21.3	48.2
P/E (x)	31.0	25.6	17.2
EV/EBITDA (x)	15.9	12.8	9.6
Debt/Equity (x)	0.1	0.1	0.1
RoE (%)	28.5	27.1	30.4
RoCE (%)	32.7	32.0	33.2

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Exhibit 2: Quarterly snapshot (Consolidated)

Rs mn	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY gr. (%)	QoQ (%)	FY23	FY22	YoY gr. (%)
Revenue	32,349	39,389	40,886	37,730	39,260	21.4	4.1	143,556	93,200	54.0
Total Revenues	32,349	39,389	40,886	37,730	39,260	21.4	4.1	143,556	93,200	54.0
Expenditure	30,090	35,957	36,647	34,269	35,762	18.9	4.4	131,252	87,739	49.6
as % of sales	93.0	91.3	89.6	90.8	91.1			91.4	94.1	
Consumption of RM	24,517	29,377	29,820	28,475	29,793	21.5	4.6	107,088	72,078	48.6
as % of sales	75.8	74.6	72.9	75.5	75.9			74.6	77.3	
Employee Cost	507	515	700	657	724	42.6	10.2	2,205	1,725	27.8
as % of sales	1.6	1.3	1.7	1.7	1.8			1.5	1.9	
Other expenditure	5,066	6,065	6,127	5,137	5,246	3.5	2.1	21,960	13,936	57.6
as % of sales	15.7	15.4	15.0	13.6	13.4			15.3	15.0	
EBITDA	2,259	3,432	4,239	3,462	3,498	54.8	1.0	12,304	5,461	125.3
Depreciation	261	261	273	272	282	8.1	3.5	1,043	978	6.6
EBIT	1,998	3,171	3,966	3,189	3,216	60.9	0.8	11,261	4,482	151.2
Other Income	122	66	107	139	188	53.5	35.4	340	343	(0.8)
Interest	711	940	791	696	1,031	44.9	48.1	3,055	1,406	117.3
PBT	1,409	2,298	3,282	2,632	2,373	68.4	(9.8)	8,546	3,419	150.0
Total Tax	383	599	855	657	629	64.3	(4.3)	2,168	874	148.0
Adjusted PAT	1,026	1,699	2,428	1,975	1,744	69.9	(11.7)	6,377	2,544	150.6
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	-	-	-
PAT after MI	1,026	1,699	2,428	1,975	1,744	69.9	(11.7)	6,377	2,544	150.6
Extra ordinary items	-	-	-	-	-	-	-	-	-	-
Reported PAT	1,026	1,699	2,428	1,975	1,744	69.9	(11.7)	6,377	2,544	150.6
Adjusted EPS	26.8	44.4	63.4	51.6	45.4	69.4	(11.9)	166.6	66.5	150.5
Margins (%)										
EBIDTA	7.0	8.7	10.4	9.2	8.9	193	(27)	8.6	5.9	271
EBIT	6.2	8.1	9.7	8.5	8.2	201	(26)	7.8	4.8	303
EBT	4.4	5.8	8.0	7.0	6.0	169	(93)	6.0	3.7	228
PAT	3.2	4.3	5.9	5.2	4.4	127	(79)	4.4	2.7	171
Effective Tax rate	27.2	26.1	26.0	25.0	26.5	(66)	154	25.4	25.6	(20)

Source: Company, YES Sec

Exhibit 3: Segmental Performance

Segmental Performance	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY gr. (%)	QoQ (%)	FY23	FY22	YoY gr. (%)
Conductor										
Volume (MT)	30,227	44,538	49,489	45,565	54,074	78.9	18.7	160,131	107,356	49.2
Revenue	14,390	19,120	21,210	17,740	19,430	35.0	9.5	70,200	42,010	67.1
EBITDA	1,230	2,270	2,820	1,770	2,110	71.5	19.2	7,170	1,950	267.7
EBITDA margin (%)	8.5	11.9	13.3	10.0	10.9	231	88	10	5	557
EBITDA (Rs/MT)	40,531	50,886	56,926	38,740	39,160	(3.4)	1.1	172,013	72,162	138.4
Speciality Oil & Lubricant										
Volume (KL)	113,360	126,731	131,132	130,654	133,788	18.0	2.4	486,582	461,589	5.4
Revenue	11,760	12,450	11,790	11,980	11,990	2.0	0.1	46,560	35,600	30.8
EBITDA	580	270	460	780	660	13.8	(15.4)	2,480	2,900	(14.5)
EBITDA margin (%)	4.9	2.2	3.9	6.5	5.5	12	(15)	5.3	8.1	(282)
EBITDA (Rs/KL)	5,083	2,099	3,528	5,996	4,909	(3.4)	(18.1)	5,102	6,287	(18.8)
Cables										
Revenue	7,620	9,210	9,430	9,670	8,820	15.7	(8.8)	32,640	19,930	63.8
EBITDA	720	1,090	1,150	1,100	990	37.5	(10.0)	3,480	1,100	216.4
EBITDA margin (%)	9.4	11.8	12.2	11.4	11.2	18.8	(1.3)	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	240,197	324,265
Growth	-19%	-16%	49%	50%	35%
Specialty Oils volumes	399,214	461,589	486,582	559,569	615,526
Growth	-1%	16%	5%	15%	10%
Cables revenues	12,695	19,930	32,630	42,419	55,145
Growth	-21%	57%	64%	30%	30%

Source: Company, YES Sec

CONCALL HIGHLIGHTS

- No guidance given on account of restrictions around fund raise.
- Improved reconductoring execution in this quarter – higher productivity. Part of premiumization efforts.
- **Transformer Oil EBITDA per KL** – Apar's supplier refinery issue resulted in lesser supplies. Had to buy from spot market. Supplies have started to improve from September onwards.
- **Orderbook for Conductor** – 51% from exports. 40-45% is premium products in revenue and order book.
- **Freight** - No major freight increase in container freight. Some increase in bulk freight.
- EBITDA per ton increase due to premiumization and export increase. Higher execution in OPGW and HEC.
- **Exports slowing but still growing strong**
 - Exports grew 26% YoY contributing 49.2% to revenue during Q2FY24.
 - Distributor channel destocking continued and expected to continue for a few more months.
 - Fresh order intake has been slower especially from the distributors who stock and sell.
 - Freight rates have been in a certain range after April 2023. Some customers have shifted to FOB.
 - Order inflow coming in more for longer dated delivery. Renewable capacity addition taking place in US and Europe driving strong demand. US contributed 16% to overall revenue in FY23.
 - **Conductors** - Order Inflow 43% from exports in Q2FY24 – six to seven months.
- **Capex** – 170cr in H1FY24, 350-400cr in FY24 whole. Primarily in Cables and Conductors. FY25 start revenue would flow in from these. Capex to turnover ratio is 10-12x.
- Elastomeric cables grew 41% YoY in H1FY24.
- Interest rate increased on discounting. Also, volume was higher of procurement. Exchange rate also increased.

FINANCIALS

Exhibit 5: Balance Sheet (Consolidated)

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Sources of Funds						
Equity capital	383	383	383	383	383	383
Reserves	11,185	13,613	16,770	21,981	28,170	37,343
Non Minority Controlling Int.	0	0	0	0	0	0
Net worth	11,568	13,995	17,152	22,364	28,552	37,726
Debt	3,172	2,642	2,529	3,042	3,542	3,342
Deferred tax liab (net)	7	202	523	217	217	217
Total liabilities	14,746	16,839	20,204	25,623	32,311	41,284
Application of Funds						
Gross Block	11,456	12,282	13,184	14,814	18,314	21,314
Depreciation	2,634	3,521	4,387	5,320	6,602	8,094
Fixed Asset	8,847	8,779	8,814	9,507	11,712	13,220
CWIP	547	287	383	991	991	991
Investments	0	604	305	543	42	42
Net Working Capital	5,352	7,169	10,702	14,582	19,567	27,032
Inventories	13,314	15,627	21,387	25,756	31,599	40,017
Sundry debtors	18,955	18,683	25,424	32,256	41,322	52,329
Cash & equivalents	1,770	2,225	2,666	5,301	7,735	12,122
Loans & Advances	875	595	1,968	661	1,420	1,798
Other Current Asset	2,134	3,191	5,128	7,161	9,759	12,359
Sundry creditors	28,387	30,381	41,225	52,066	65,629	83,111
Provisions	96	112	187	164	177	225
Other current liabilities	3,212	2,659	4,459	4,324	6,462	8,257
Total Assets	14,746	16,839	20,204	25,623	32,311	41,284

Source: Company, YES Sec

Exhibit 6: Income statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Revenue	74,255	63,880	93,166	143,522	177,442	224,709
% Change YoY	(6.8)	(14.0)	45.8	54.0	23.6	26.6
Operating profit	4,650	4,191	5,479	12,270	15,083	19,774
EBITDA margins	6.3	6.6	5.9	8.5	8.5	8.8
% Change YoY	0.1	(9.9)	30.7	124.0	22.9	31.1
Depreciation	871	934	978	1,043	1,282	1,492
EBIT	3,779	3,257	4,500	11,226	13,801	18,282
EBIT margins	5.1	5.1	4.8	7.8	7.8	8.1
Interest expense	2,277	1,360	1,406	3,055	3,896	3,509
Other income	180	186	325	375	426	539
Profit before tax	1,682	2,083	3,419	8,546	10,331	15,313
Taxes	343	478	853	2,168	2,595	3,847
Effective tax rate (%)	20.4	22.9	24.9	25.4	25.1	25.1
Net profit	1,339	1,605	2,566	6,377	7,736	11,466
Minorities and other	0	0	1	(0)	0	0
Net profit after minorities	1,339	1,605	2,565	6,378	7,736	11,466
Exceptional items	12	0	0	0	0	0
Net profit	1,352	1,605	2,565	6,378	7,736	11,466
% Change YoY	(0.7)	18.8	59.8	148.4	21.3	48.2
EPS (Rs)	35.3	41.9	67.1	166.6	202.1	299.6

Source: Company, YES Sec

Exhibit 7: Cash flow statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Profit before Tax	1,694	2,083	3,419	8,546	10,331	15,313
Interest	1,515	562	608	1,553	3,896	3,509
Depreciation	871	935	979	1,043	1,282	1,492
Other Items	534	147	480	794	-	-
(Inc)/Dec in WC	(2,875)	(471)	(2,140)	(2,763)	(2,551)	(3,078)
Direct Taxes Paid	797	441	908	2,190	2,595	3,847
CF from Oper. Activity	942	2,814	2,438	6,983	10,363	13,389
Inc/(Dec) in FA	(1,453)	(558)	(1,305)	(2,478)	(3,500)	(3,000)
Free Cash Flow	(511)	2,256	1,133	4,505	6,863	10,389
(Pur)/Sale of Invest.	1,905	(589)	399	(211)	501	-
CF from Inv. Activity	452	(1,147)	(906)	(2,689)	(2,999)	(3,000)
Change in Network	-	-	-	-	-	-
Inc/(Dec) in Debt	580	(514)	(171)	33	500	(200)
Interest Paid	(1,540)	(663)	(474)	(1,200)	(3,896)	(3,509)
Dividends Paid	(875)	(1)	(364)	(574)	(1,547)	(2,293)
Others	(54)	(53)	(56)	(100)	14	0
CF from Fin. Activity	(1,888)	(1,232)	(1,064)	(1,841)	(4,929)	(6,002)
Inc/(Dec) in Cash	(494)	435	468	2,453	2,434	4,387
Opening cash Balance	2,132	1,639	2,070	2,532	4,988	7,423
Others	1	(4)	(7)	3	-	-
Closing cash Balance	1,639	2,070	2,532	4,988	7,423	11,809

Source: Company, YES Sec

Exhibit 8: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Tax burden (x)	8.8	5.3	4.0	3.9	4.0	3.6
Interest burden (x)	0.1	0.1	0.2	0.2	0.2	0.2
EBIT margin (x)	0.1	0.1	0.0	0.1	0.1	0.1
Asset turnover (x)	5.0	3.8	4.6	5.6	5.5	5.4
Financial leverage (x)	1.3	1.2	1.2	1.1	1.1	1.1
RoE (%)	26.0%	17.9%	19.7%	37.5%	36.2%	36.3%

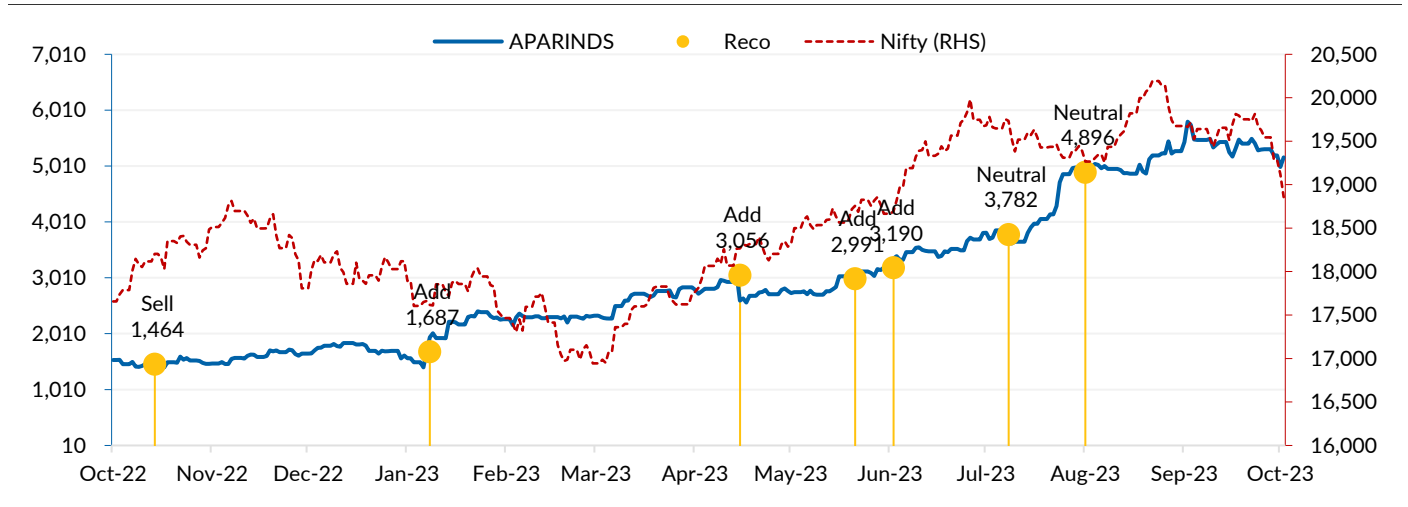
Source: Company, YES Sec

Exhibit 9: Ratio Analysis

Y/e 31 Mar	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (Rs)						
EPS	35.3	41.9	67.1	166.6	202.1	299.6
Dividend per share	9.0	9.5	15.0	40.0	40.4	59.9
Cash EPS	46.2	58.1	69.7	138.5	202.1	316.8
Book value per share	302.3	365.7	448.2	584.4	746.1	985.8
Div. payout (%)	21.1	22.7	22.4	24.0	20.0	20.0
Valuation ratios (x)						
P/E	146.3	123.2	77.0	31.0	25.6	17.2
P/CEPS	111.7	88.9	74.1	37.3	25.6	16.3
P/B	17.1	14.1	11.5	8.8	6.9	5.2
EV/EBIDTA	42.8	47.3	36.1	15.9	12.8	9.6
Dividend yield (%)	0.2	0.2	0.3	0.8	0.8	1.2
Profitability Ratios (%)						
RoIC	26.3	14.9	18.5	34.9	36.8	38.7
RoE	26.0	17.9	19.7	28.5	27.1	30.4
RoCE	20.4	14.9	16.7	32.7	32.0	33.2
Liquidity ratios						
Debtor (days)	93	107	100	82	85	85
Inventory (days)	65	89	84	66	65	65
Creditor (days)	140	174	162	132	135	135
Net working Capital (days)	26	41	42	37	40	44
Asset Turnover (x)	5.0	3.8	4.6	5.6	5.5	5.4

Source: Company, YES Sec

Recommendation Tracker



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DISCLOSURE OF INTEREST

Name of the Research Analyst : Abhijeet Singh

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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