

Company Update

Apar Industries Ltd

Bloomberg Code: APR IN

India Research - Stock Broking

BUY

Margins to Recover in H2FY19...

Apar's revenue grew 51.0% YoY with a strong base of volumes and growth across the segments. The conductors segment ends the quarter with the highest ever order book, revenue growth and realization growth of 81%/34% respectively. The oil segment grew by 24.5% YoY but EBITDA/KL was impacted by higher commodity and base oil cost. The cables segment is in its best ever phase and has grown by 80.6% YoY with margins improvement of 335 bps. The consolidated EBITDA has grown by 22.8% but with a fall in margins by 133 bps. The margins saw a decline due to inflationary pressure in input cost & lag in passing on the higher input prices. The interest cost was higher by 43.9% due to higher LIBOR rate and working capital blockage on account of GST. PAT is up by 9.3% with margins at 1.5%.

Conductors Segment: Revenues are up by 81.5% YoY with a volume growth of 34% to reach 40150 MT. Order book at an all time high of Rs. 26960 mn provides a strong revenue visibility for coming quarters. The current order book of Rs. 26960 mn is for a total volume of 130000 MT. The company has gained orders of Rs. 10590 mn for the quarter from domestic as well as export markets. Apar is witnessing a healthy order inflow for copper conductors from Indian Railways and current order book includes Rs. 2890 mn orders for copper conductors. The revenue from high efficiency conductors (HEC) stood at 11% of total conductors revenues. The management guided a volume of 175000-180000 MT for FY19 for a EBITDA/MT of 11500. The guidance looks easily achievable for such a strong order book.

Robust Growth in Cables segment: Revenue is up by 80% due to growth from Elastomeric cables (106%), Power cables (78%) and OFC (66%). Elastomeric cables growth was driven by demand from solar, windmill, defence and railways. The company expects huge order inflows from windmill and railways sector. EBITDA margins are at 10.4% during Q2FY19 translating to an improvement of 335 bps. The management guides the revenues to be at Rs. 15000 mn for a margin of 10.5%.

Valuation and Risks

We maintain our estimates and expect the margins to recover in H2FY19. Apar currently trades at 11.6x to FY20E EPS. We reiterate our **"BUY"** rating for a target price of Rs. 727 valuing the company at 14x to FY20 EPS representing an upside potential of 20%.

Exhibit 1: Valuation Summary

YE Mar (Rs. Mn)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	50785	48320	58185	60692	65930
EBITDA	3620	4037	4045	4248	4879
EBITDA Margin (%)	7.1	8.4	7.0	7.0	7.4
Net Profit	1202	1763	1447	1519	1976
EPS (Rs.)	31.2	45.8	38.0	39.9	51.9
RoE (%)	14.1	17.0	13.1	12.4	14.5
PE (x)	14.9	16.4	19.1	15.3	11.7

Source: Company, Karvy Research; *Represents multiples for FY16 - FY18 are based on historic market price

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Recommendation (Rs.)

CMP (as on Nov 09, 2018)	606
Target Price	727
Previous Target Price	727
Upside (%)	20

Stock Information

Mkt Cap (Rs.mn/US\$ mn)	23206 / 320
52-wk High/Low (Rs.)	869 / 538
3M Avg. daily value (Rs. mn)	13.3000
Beta (x)	0.7
Sensex/Nifty	35159 / 10585
O/S Shares(mn)	38.3
Face Value (Rs.)	10.0

Shareholding Pattern (%)

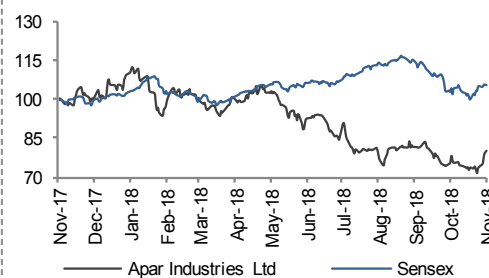
Promoters	58.2
FIIIs	6.3
DIIIs	23.8
Others	11.8

Stock Performance (%)

	1M	3M	6M	12M
Absolute	6	3	(23)	(21)
Relative to Sensex	4	11	(23)	(26)

Source: Bloomberg

Relative Performance*



Source: Bloomberg; *Index 100

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Oils and Lubricants: The revenue growth of 25% YoY was led by the growth in volumes of white oils, rubber oil, industrial oil and automotive oil. EBITDA/KL has declined by 58% due to inflationary pressure on account of base oil prices, rupee depreciation, packing material, additive cost and delay in passing on the higher input prices to customers in the market. The company has already taken up the price hikes and is further expected to take up in the coming quarters which would be rationalizing margins for the coming quarters. Apar has guided a volume of 408000 KL for FY19 with EBITDA/KL margins of Rs. 3400. Due to reflection of price hikes, EBITDA /KL for H2FY19 is expected at 4200/KL.

Key takeaways from quarterly earnings

- Power grid has targeted a capex of Rs. 250000 mn in FY19 of which Rs. 64210 mn has been executed in Q1FY19.
- As per the management, wind sector is in early stages of revival after a gap of almost 6 quarters. The change from feed in tariff method to auction regime has been favoring the wind sector.
- The interest cost has boosted because of higher LIBOR rates and increased inventory levels. Company expects average interest cost of Rs. 350 mn every quarter. As per the management, interest cost to be stabilized after September quarter with release of funds on account of GST and volumes off take.
- The higher input cost relating to oils and lubricants will be passed partially in Q2 and Q3 post which margins to be rationalized in the segment.

Exhibit 2: Q2FY19

YE Mar (Rs. Mn)	Q2FY19	Q1FY19	QoQ (%)	Q2FY18	YoY (%)
Turnover (net)	18847	14956	26.0	12478	51.0
Op. Expenditure	17758	13865	28.1	11591	53.2
EBITDA	1089	1091	(0.2)	887	22.8
Depreciation	163	156	4.2	137	18.9
Interest	526	542	(2.9)	366	43.9
Other Income	33	45	(27.8)	28	14.8
PBT	433	438	(1.2)	413	4.8
Tax (net)	146	148	(1.2)	151	(3.1)
PAT	286	290	(1.2)	262	9.3
EBITDA Margin (%)	5.8	7.3	(152) bps	7.1	(133) bps
EBIT Margin (%)	5.1	6.5	(146) bps	6.2	(202) bps
PAT Margin (%)	1.5	1.9	(42) bps	2.1	(559) bps

Source: Company, Karvy Research

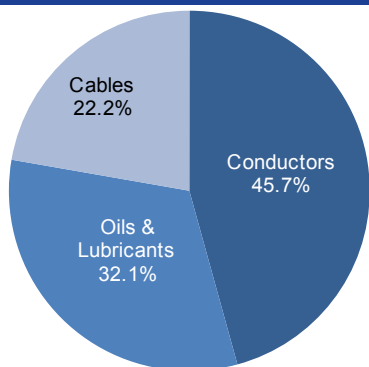
Conductors & oil segment grew well but margins got impacted due to higher input cost.

Exhibit 3: Segmental Financials

YE Mar (Rs. Mn)	Q2FY19	Q1FY19	QoQ (%)	Q2FY18	YoY (%)
Segment-wise revenues					
Conductors	8982	6355	41.3	4948	81.5
Transformers	6301	5763	9.3	5062	24.5
Cables	4373	3189	37.1	2421	80.6
Segment-wise EBIT					
Conductors	421	411	2.3	291	44.7
Transformers	141	318	(55.6)	354	(60.2)
Cables	457	274	66.8	172	166.0
Segment-wise EBIT Margin (%)					
Conductors	4.7	6.5	(178) bps	5.9	(119) bps
Transformers	2.2	5.5	(327) bps	7.0	(475) bps
Cables	10.4	8.6	186 bps	7.1	335 bps

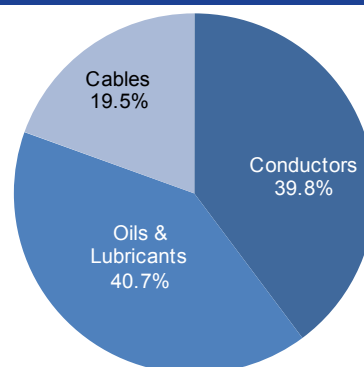
Source: Company, Karvy Research

Exhibit 4: Revenue - Q2FY19



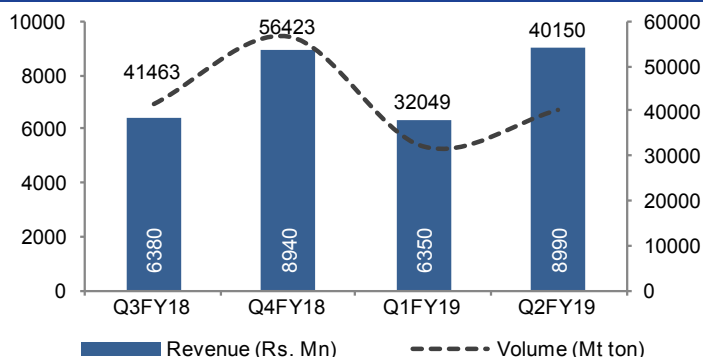
Source: Company, Karvy Research

Exhibit 5: Revenue - Q2FY18



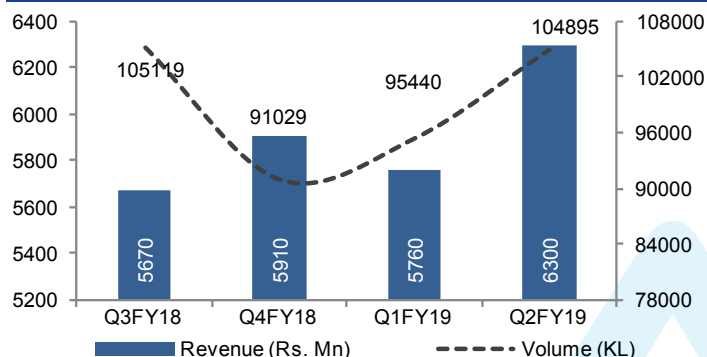
Source: Company, Karvy Research

Exhibit 6: Conductors Quarterly Revenues and Volumes



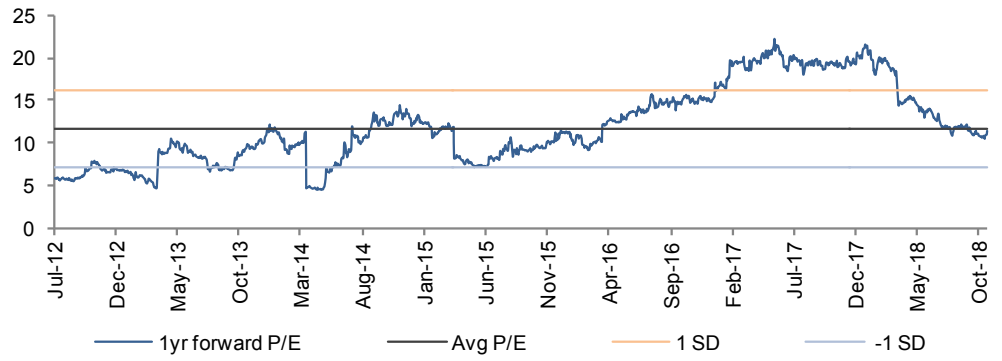
Source: Company, Karvy Research

Exhibit 7: Oils & Lubes Quarterly Revenues and Volumes



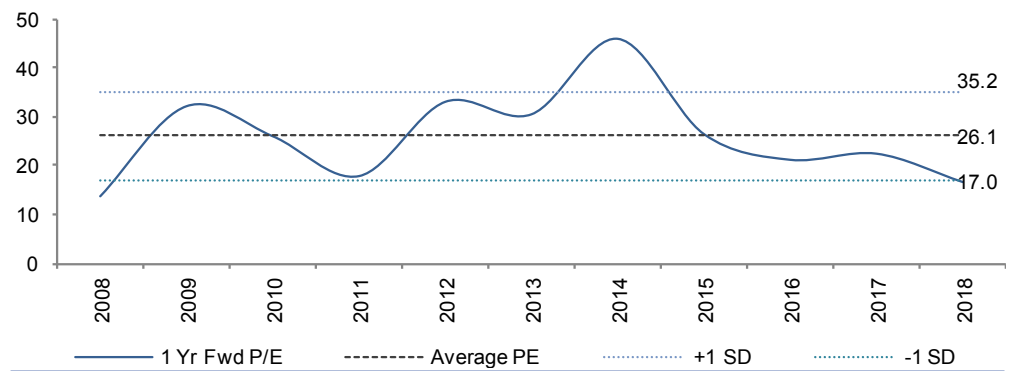
Source: Company, Karvy Research

Exhibit 8: 6 yr PE Band



Source: Bloomberg, Karvy Research

Exhibit 9: S&P BSE Capital Goods Index - 10 yr PE Valuation



Source: Company, Karvy Research

Financials

The margins are expected to recover in H2FY19 and for FY19 the margins are expected to remain flat.

Exhibit 10: Income Statement

YE Mar (Rs. Mn)	FY16	FY17	FY18	FY19E	FY20E
Revenues	50785	48320	58185	60692	65930
Growth (%)	(0.0)	(4.9)	20.4	4.3	8.6
Operating Expenses	47165	44283	54140	56443	61051
EBITDA	3620	4037	4045	4248	4879
Growth (%)	43.6	11.3	0.2	5.0	14.8
Depreciation & Amortization	378	450	559	675	735
Other Income	101	160	111	139	167
EBIT	3242	3588	3487	3573	4144
Interest Expenses	1573	1144	1400	1445	1361
PBT	1775	2734	2168	2267	2950
Tax	573	972	780	748	973
Adjusted PAT	1202	1763	1447	1519	1976
Growth (%)	0.9	47.9	(17.9)	4.9	30.1

Source: Company, Karvy Research

Exhibit 11: Balance Sheet

YE Mar (Rs. Mn)	FY16	FY17	FY18	FY19E	FY20E
Cash & Equivalents	1339	1230	2744	2467	2837
Sundry Debtors	10904	12543	17279	14965	16257
Inventory	7698	9935	12123	10199	10872
Loans & Advances	2179	2147	3100	3149	3220
Investments	1125	1186	0	0	0
Net Block	3878	5665	6438	6885	7150
CWIP	561	278	195	195	195
Miscellaneous	158	506	158	140	123
Total Assets	27841	33488	41939	38000	40652
Current Liabilities & Provisions	15446	19899	27124	22376	23889
Debt	3473	2770	3316	2981	2687
Other Liabilities	376	530	418	434	442
Total Liabilities	19294	23199	30858	25790	27018
Shareholders Equity	385	383	383	383	383
Reserves & Surplus	8154	9978	10699	11827	13251
Total Networth	8539	10361	11082	12210	13634
Total Networth & Liabilities	27841	33488	41939	38000	40652

Source: Company, Karvy Research

Exhibit 12: Cash Flow Statement

YE Mar (Rs. Mn)	FY16	FY17	FY18	FY19E	FY20E
PBT	1775	2734	2228	2267	2950
Depreciation	378	450	559	675	735
Interest	831	779	890	1445	1361
Inc/dec in Net WC	1587	400	(849)	(752)	(611)
Other non cash items	(385)	(1139)	(512)	(887)	(1140)
Cash flow from operating activities	4186	3225	2315	2749	3295
Inc/dec in capital expenditure	(1236)	(1710)	(1280)	(1000)	(1000)
Inc/dec in investments	718	35	3	0	0
Others	(1004)	19	1232	139	167
Cash flow from investing activities	(1522)	(1656)	(46)	(861)	(833)
Inc/dec in borrowings	(977)	(714)	(1358)	(2063)	(1941)
Issuance of equity	0	(151)	0	0	0
Dividend paid	(65)	0	(78)	(74)	(74)
Interest paid	(1197)	(716)	746	(81)	(77)
Cash flow from financing activities	(2239)	(1581)	(689)	(2218)	(2092)
Net change in cash	425	(13)	1580	(331)	370

Source: Company, Karvy Research

Exhibit 13: Key Ratios

YE Mar	FY16	FY17	FY18	FY19E	FY20E
EBITDA Margin (%)	7.1	8.4	7.0	7.0	7.4
EBIT Margin (%)	6.4	7.4	6.0	5.9	6.3
Net Profit Margin (%)	2.4	3.6	2.5	2.5	3.0
Dividend Payout Ratio (%)	17.6	14.2	17.1	16.3	12.5
Net Debt/Equity (x)	0.2	0.1	0.1	0.0	(0.0)
RoE (%)	14.1	17.0	13.1	12.4	14.5
RoCE (%)	10.0	13.4	10.1	10.0	12.1

Source: Company, Karvy Research

Exhibit 14: Valuation Parameters

YE Mar	FY16	FY17	FY18	FY19E	FY20E
EPS (Rs.)	31.2	45.8	38.0	39.9	51.9
DPS (Rs.)	5.5	6.5	6.5	6.5	6.5
BVPS (Rs.)	222.5	246.1	281.8	306.1	339.6
PE (x)	14.9	16.4	19.1	15.3	11.7
P/BV (x)	2.1	3.0	2.6	2.0	1.8
EV/EBITDA (x)	5.5	7.5	7.0	5.6	4.7
EV/Sales (x)	0.4	0.6	0.5	0.4	0.3

Source: Company, Karvy Research; *Represents multiples for FY16 - FY18 are based on historic market price

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: < 5%

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