

August 14, 2019

Q1FY20 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	795		795	
Sales (Rs. m)	89,917	98,667	89,917	98,667
% Chng.	-	-	-	-
EBITDA (Rs. m)	5,395	6,209	5,395	6,209
% Chng.	-	-	-	-
EPS (Rs.)	47.4	58.9	47.4	58.9
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY18	FY19	FY20E	FY21E
Sales (Rs. m)	58,185	79,639	89,917	98,667
EBITDA (Rs. m)	4,076	4,677	5,395	6,209
Margin (%)	7.0	5.9	6.0	6.3
PAT (Rs. m)	1,448	1,361	1,812	2,255
EPS (Rs.)	37.8	35.6	47.4	58.9
Gr. (%)	(17.9)	(6.0)	33.2	24.4
DPS (Rs.)	9.5	8.9	11.8	14.7
Yield (%)	1.8	1.7	2.2	2.7
RoE (%)	13.5	11.8	14.3	16.0
RoCE (%)	25.5	28.0	31.7	33.9
EV/Sales (x)	0.4	0.2	0.2	0.2
EV/EBITDA (x)	5.2	4.0	3.6	3.1
PE (x)	14.2	15.1	11.4	9.1
P/BV (x)	1.9	1.7	1.6	1.4

Key Data

APAR.BO | APR IN

52-W High / Low	Rs.702 / Rs.452
Sensex / Nifty	36,958 / 10,926
Market Cap	Rs.21bn/ \$ 289m
Shares Outstanding	38m
3M Avg. Daily Value	Rs.15.11m

Shareholding Pattern (%)

Promoter's	58.55
Foreign	5.86
Domestic Institution	24.86
Public & Others	10.72
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(6.0)	(12.7)	(4.7)
Relative	(1.4)	(14.6)	(2.4)

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Strong quarter in challenging environment

Apar Industries (Apar) reported strong set of numbers for 1QFY20 with revenue/PAT up 33%/42% YoY to Rs20bn/Rs412 mn (PLe Rs17bn/Rs334 mn). The top-line growth was led by growth across segments that is Conductors/Transformers Specialty Oils/Power Telecom Cables which grew by 61%/8%/24% YoY respectively. EBITDA margin of 6.9% was higher than PLe of 6.6% due to improvement in Cable segment (+370bps YoY). PAT for the quarter grew 42% YoY to Rs0.4 bn (PLe Rs0.3 bn). Going ahead, management indicated of weak demand, mainly in the power sector related segments (Conductor and Transformer Oil) due to delay in payments by state utilities. However, strong capex in Railways and Defence augers well for Cable segment. Improving revenue mix by increasing share of high-margin products in all the three segments in FY20 to improve overall profitability. We have maintained our earnings estimates for FY20/21E. The stock is currently trading at 11.4/9.1x FY20/21E. We maintain our Accumulate rating on the stock with TP of Rs 795.

Conductor segment drive 1QFY20 operating performance: Conductor segment's revenues grew 61% YoY at Rs10 bn driven by strong growth in domestic markets. High-margin HEC conductor constituted 13% of sales and is likely to rise owing to a healthy tender pipeline. EBITDA/MT was flat YoY at Rs12,137 (vs Rs12,073). Overall volumes were up 29% YoY at 41,802MT as new sub segments gained traction. Management expects profitability to improve with higher contribution from high margin HEC. Order inflow for the quarter was down 66% YoY at Rs5.9 bn due to general elections that paused new ordering. Order book stands at Rs26.6bn (to be executed over eight months), up 9% YoY. Order book for Copper conductor/HEC stood at Rs3.7 bn/Rs4.7 bn, respectively. The company is targeting more than 15% contribution from HEC and about 18000MT volume from Copper conductors. In 1QFY20 CTC (Continuously Transposed Conductors) project was commission and production for trial orders have begun and management had indicated revenue potential of Rs3.5 bn.

Update on Oil business: Transformer and specialty oil segment's revenues grew 8% YoY to Rs6.2 bn as volumes were up 13% YoY to 1,06,354KL with White oil/Rubber process oil grew by 30%/10% respectively. Automotive and Industrial oils contributed 23% of total sales. EBITDA/KL was higher at Rs3,907 (vs. Rs3,100) due to stable oil prices and rupee. Going ahead management is cautious on maintaining margins due to slowdown in demand across industries like Automotive, Industrial, Retail, FMCG and Utilities.

Cable Segment margins up at 13.2%: Cable segment's revenues grew 24% YoY to Rs3.9 bn led by Power cables (up 20% YoY), Elastomeric cables (up 62% YoY) due to strong demand from Railways and Defence segments. Telecom/OFC revenue was flat as challenges faced by few customers like BSNL. EBITDA margin rose 370bps YoY to 13.2% in 1QFY20, with improved product mix. This segment is poised to be the fastest-growing and most profitable segment of APR over the next 3-4 years on the back of Elastomeric cable which will be mainly driven by Railway Defence segment.

Exhibit 1: Q1FY20 Result Overview (Rs mn)

Y/e March	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19	FY20E	FY19	YoY gr. (%)
Net Revenue	19,816	14,956	32.5	24,646	89,917	79,639	12.9
EBITDA	1,371	1,091	25.6	1,353	5,395	4,677	15.3
<i>EBITDA Margin (%)</i>	<i>6.9</i>	<i>7.3</i>		<i>5.5</i>	<i>6.0</i>	<i>5.9</i>	
Other Income	41	45	(8.2)	42	166	151	10.0
Depreciation	199	156	27.1	176	733	667	10.0
Interest	569	542	5.0	514	2,039	1,999	2.0
Profit before Tax	644	438	47.1	705	2,788	2,162	28.9
Tax	220	135	62.8	271	976	802	21.7
Reported PAT	412	290	42.3	437	1,812	1,361	33.2
Adjusted PAT	412	290	42.3	437	1,812	1,361	33.2
Net Margin (%)	2.1	1.9		1.8	2.0	1.7	
Adjusted EPS	10.8	7.6		11.4	47.35	35.55	

Source: Company, PL

Exhibit 2: Segmental Breakup (Rs mn)

Y/e March	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19
Revenue (Rs mn)				
Conductors	10,217	6,355	60.8	13,293
Transformer & Speciality Oils	6,194	5,763	7.5	6,963
Power/Telecom Cables	3,939	3,189	23.5	5,079
Other Unallocable Income	65	155	(58.5)	83
Total	20,414	15,463	32.0	25,419
Less : Inter Segment Revenues	598	507		773
Net Revenue	19,816	14,956	32.5	24,646
EBIT (Rs mn)				
Conductors	424.9	411.1	3.4	362.2
Transformer & Speciality Oils	385.2	317.5	21.3	319.7
Power/Telecom Cables	454.6	273.8	66.0	641.2
Others	3.6	17.4	(79.3)	-5.6
EBIT margins				
Conductors	4.2	6.5		2.7
Transformer & Speciality Oils	6.2	5.5		4.6
Power/Telecom Cables	11.5	8.6		12.6

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	58,185	79,639	89,917	98,667
YoY gr. (%)	20.4	36.9	12.9	9.7
Cost of Goods Sold	44,950	63,360	71,034	77,947
Gross Profit	13,235	16,279	18,883	20,720
Margin (%)	22.7	20.4	21.0	21.0
Employee Cost	1,261	1,480	1,671	1,834
Other Expenses	7,928	10,152	11,816	12,677
EBITDA	4,076	4,677	5,395	6,209
YoY gr. (%)	(2.2)	14.8	15.3	15.1
Margin (%)	7.0	5.9	6.0	6.3
Depreciation and Amortization	559	667	733	814
EBIT	3,517	4,010	4,661	5,396
Margin (%)	6.0	5.0	5.2	5.5
Net Interest	1,400	1,999	2,039	2,109
Other Income	111	151	166	182
Profit Before Tax	2,228	2,162	2,788	3,469
Margin (%)	3.8	2.7	3.1	3.5
Total Tax	780	802	976	1,214
Effective tax rate (%)	35.0	37.1	35.0	35.0
Profit after tax	1,448	1,361	1,812	2,255
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,448	1,361	1,812	2,255
YoY gr. (%)	(17.9)	(6.0)	33.2	24.4
Margin (%)	2.5	1.7	2.0	2.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,448	1,361	1,812	2,255
YoY gr. (%)	(17.9)	(6.0)	33.2	24.4
Margin (%)	2.5	1.7	2.0	2.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,448	1,361	1,812	2,255
Equity Shares O/s (m)	38	38	38	38
EPS (Rs)	37.8	35.6	47.4	58.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Non-Current Assets				
Gross Block	7,664	8,891	8,981	9,348
Tangibles	7,637	8,861	8,981	9,348
Intangibles	27	30	-	-
Acc: Dep / Amortization	1,217	1,824	733	814
Tangibles	1,217	1,824	733	814
Intangibles	-	-	-	-
Net fixed assets	6,446	7,067	8,248	8,534
Tangibles	6,420	7,037	8,248	8,534
Intangibles	27	30	-	-
Capital Work In Progress	186	1,035	1,035	1,035
Goodwill	48	21	21	21
Non-Current Investments	9	19	19	19
Net Deferred tax assets	(346)	(403)	(346)	(346)
Other Non-Current Assets	341	412	418	424
Current Assets				
Investments	-	1,869	-	-
Inventories	12,123	12,829	14,977	16,975
Trade receivables	17,279	21,416	24,695	27,638
Cash & Bank Balance	2,744	2,253	3,202	3,080
Other Current Assets	3,325	2,821	5,233	5,542
Total Assets	42,693	50,215	58,111	63,600
Equity				
Equity Share Capital	383	383	383	383
Other Equity	10,700	11,641	12,886	14,459
Total Networkth	11,083	12,024	13,269	14,842
Non-Current Liabilities				
Long Term borrowings	1,619	1,303	1,203	1,103
Provisions	49	60	68	74
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	1,698	878	778	678
Trade payables	25,511	32,637	39,424	43,260
Other current liabilities	2,362	2,877	2,998	3,271
Total Equity & Liabilities	42,693	50,215	58,111	63,600

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	4,076	4,677	5,395	6,209
Add. Depreciation	-	-	-	-
Add. Interest	-	-	-	-
Less Financial Other Income	111	151	166	182
Add. Other	-	-	-	-
Op. profit before WC changes	4,076	4,677	5,395	6,209
Net Changes-WC	(296)	2,780	(37)	(1,198)
Direct tax	(883)	(747)	(1,032)	(1,214)
Net cash from Op. activities	2,897	6,710	4,325	3,797
Capital expenditures	(1,249)	(2,136)	(1,914)	(1,100)
Interest / Dividend Income	-	-	-	-
Others	1,415	(1,788)	2,029	176
Net Cash from Inv. activities	165	(3,924)	115	(924)
Issue of share cap. / premium	-	-	-	-
Debt changes	562	(904)	(356)	(200)
Dividend paid	(438)	(412)	(548)	(682)
Interest paid	-	-	-	-
Others	(1,688)	(1,999)	(2,066)	(2,109)
Net cash from Fin. activities	(1,564)	(3,314)	(2,969)	(2,991)
Net change in cash	1,498	(528)	1,471	(118)
Free Cash Flow	1,648	4,574	2,412	2,697

Source: Company Data, PL Research

Quarterly Financials (Rs m)

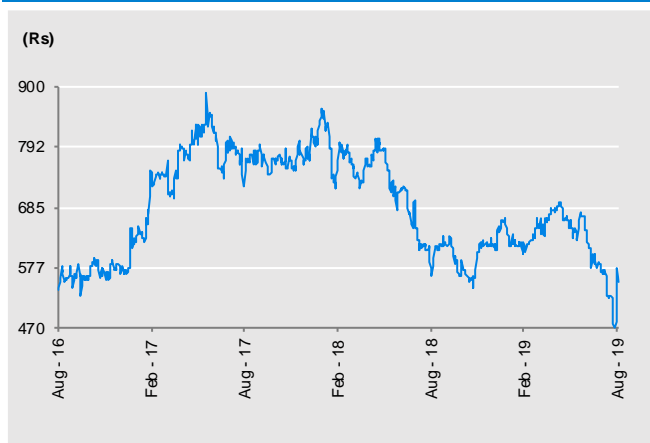
Y/e Mar	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Net Revenue	18,847	21,191	24,646	19,816
YoY gr. (%)	51.0	41.4	39.4	32.5
Raw Material Expenses	15,050	16,973	19,865	15,463
Gross Profit	3,797	4,218	4,781	4,353
Margin (%)	20.1	19.9	19.4	22.0
EBITDA	1,089	1,144	1,353	1,371
YoY gr. (%)	22.8	17.3	7.5	25.6
Margin (%)	5.8	5.4	5.5	6.9
Depreciation / Depletion	163	171	176	199
EBIT	926	973	1,177	1,172
Margin (%)	4.9	4.6	4.8	5.9
Net Interest	526	417	514	569
Other Income	33	31	42	41
Profit before Tax	433	587	704	644
Margin (%)	2.3	2.8	2.9	3.3
Total Tax	146	240	267	232
Effective tax rate (%)	33.8	40.9	37.9	36.0
Profit after Tax	286	347	437	412
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	286	347	437	412
YoY gr. (%)	9.3	(12.1)	9.2	42.3
Margin (%)	1.5	1.6	1.8	2.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	286	347	437	412
YoY gr. (%)	9.3	(12.1)	9.2	42.3
Margin (%)	1.5	1.6	1.8	2.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	286	347	437	412
Avg. Shares O/s (m)	38	38	38	38
EPS (Rs)	7.5	9.1	11.4	10.8

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	37.8	35.6	47.4	58.9
CEPS	52.4	53.0	66.5	80.2
BVPS	289.6	314.2	346.7	387.8
FCF	43.1	119.5	63.0	70.5
DPS	9.5	8.9	11.8	14.7
Return Ratio(%)				
RoCE	25.5	28.0	31.7	33.9
ROIC	20.7	24.8	26.3	27.3
RoE	13.5	11.8	14.3	16.0
Balance Sheet				
Net Debt : Equity (x)	0.1	(0.2)	(0.1)	(0.1)
Net Working Capital (Days)	24	7	1	5
Valuation(x)				
PER	14.2	15.1	11.4	9.1
P/B	1.9	1.7	1.6	1.4
P/CEPS	10.3	10.2	8.1	6.7
EV/EBITDA	5.2	4.0	3.6	3.1
EV/Sales	0.4	0.2	0.2	0.2
Dividend Yield (%)	1.8	1.7	2.2	2.7

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	4-Jul-19	Accumulate	795	588
2	31-May-19	Accumulate	795	670
3	5-Apr-19	Accumulate	762	681

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Reduce	1,296	1,394
2	Apar Industries	Accumulate	795	588
3	Bharat Electronics	Accumulate	120	98
4	BHEL	Hold	56	57
5	Cummins India	Hold	619	604
6	Engineers India	BUY	139	120
7	GE T&D India	Hold	179	175
8	Kalpataru Power Transmission	BUY	624	482
9	KEC International	BUY	352	294
10	Larsen & Toubro	BUY	1,710	1,400
11	Power Grid Corporation of India	BUY	224	211
12	Siemens	BUY	1,263	1,101
13	Thermax	Accumulate	1,147	1,091
14	Triveni Turbine	Accumulate	124	103
15	Voltamp Transformers	BUY	1,505	1,160

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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