

## Apar Industries

28 February, 2023

Reuters: APAR.BO; Bloomberg: APR IN

### Cables and Conductors to drive next leg of growth; Expect structural shift in profitability

We spoke to Mr. Ramesh Iyer, CFO of Apar Industries Ltd (Apar) as part of our virtual Investor Conference to gain insights into the current business environment, demand trends, commodity costs and supply chain headwinds, besides the company's business outlook going ahead. The management highlighted that the demand scenario over the next couple of years remains strong, particularly for the Cables and Conductors segments. Apar expects to clock 10-15% volume CAGR in the Conductors segment over the next couple of years. The company expects to clock 25-30% revenue CAGR in the Cables segment over the next couple of years. Apar has the highest number of UL certificates of compliance from India for the sale of Cables in the US market. We believe that export of cables, particularly to the US market, is likely to drive growth in the Cables segment over the next decade (as US imports USD20bn worth of cables annually). Further, Apar's margin profile is likely to improve significantly as the share of Cables (which is a margin-accretive business) increases. Hence, this makes the case for re-rating of Apar. We have tweaked our numbers marginally besides upgrading Apar to BUY (from ACCUMULATE earlier) with a revised target price (TP) of Rs2,725 (vs Rs1,880 earlier), valuing the company at 15x FY25E EPS (vs 13x earlier). We have moved forward our valuation to FY25E (vs Spet'24E earlier).

#### Conductors segment update:

- The management highlighted that realizations in the Conductors segment have improved significantly on the back of premiumization and higher realizations of non-premium conductors; the latter has been driven by higher share of exports amid strong demand, particularly from Australia and the Americas.
- Apar has been focusing on technology-oriented solutions.
- The management highlighted that the company is seeing traction on the back of the China +1 theme. It further highlighted that customers tend to prefer companies like Apar due to its strong risk management framework to avoid delay of delivery.
- Volume of conductors declined to 107k MT in FY22 from 183k MT in FY19 due to higher share of premium products (which led to lower weight-to-km ratio). The management expects 10-15% volume CAGR over the next couple of years.

#### Cables segment update:

- Cables segment revenue mix: LDC/Elastomeric Cables/OFC/Power Cables – 5-6%/25-30%/10%/54-60% of total Cables segment sales.
- The share of Cables exports at the end of 9MFY23 stood at 52.3%. The management highlighted that 25-30% value CAGR is possible over the next 5-7 years. It expects margins to remain in double digits.
- Apar is the first company of offer hosing wires with e-beam technology. It has increased its presence in LDC to 13 states currently from just 2 states at the end of FY22. It has increased distributor/retail presence to 97/1,543 at the end of Dec'22 vs 19/276 at the end of Mar'22. To increase awareness about its differentiated e-beam LDC, Apar has conducted 24,371/2,309 Demos/Electrician Meets till the end of Dec'22. The management highlighted that e-beam wires are seeing good customer acceptance.
- Apar is the largest player in the Renewable Cables space. It has 40%/70% domestic market share in Solar/Windmill cables. Apar has the highest number of UL certificates of compliance from India for the sale of cables in the US market. The company has also developed torpedo fibre optic guide for submarine application. It also supports the Indian Navy by supplying specialized cables to them. The management highlighted that competitive intensity in Elastomeric Cables is less.

#### Oil segment update:

- Apar is the third largest player in the Transformer Oil segment. The company has a diversified customer base and serves multiple end user industries like OEMs, Pharma, Tyres, Cosmetics, Auto Lubricants etc.
- The management expects the Transformer Oil segment's realizations to remain in the range of Rs5,000-6,000/KL over the next 2-3 years.
- Apar has a pan-India presence in Auto Lubricants.

#### Receivables positions:

- The company's secured/unsecured receivables mix is 66.4%/33.4%. Of the 33.4% unsecured receivables, 60% are with entities where Apar has business relationships for more than three years.

**Outlook:** We expect 25.25%/39.42% revenue/earnings CAGR over FY22-FY25E. Long-term growth potential, market leadership position in key products, rising exports and ramp-up of value-added products will support Apar's valuation.

### UPGRADE TO BUY

**Sector:** Capital Goods

**CMP:** Rs2,159

**Target Price:** Rs2,725

**Upside:** 26.2%

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#### Key Data

Current Shares O/S (mn)	38.3
Mkt Cap (Rsbn/US\$mn)	82.6/999.1
52 Wk H / L (Rs)	2,434/556
Daily Vol. (3M NSE Avg.)	222,134

#### Price Performance (%)

	1 M	6 M	1 Yr
Apar Industries	28.0	61.7	243.2
Nifty Index	(1.5)	(2.1)	3.6

Source: Bloomberg

## Exhibit 1: Financial summary (consolidated)

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
Revenues	63,880	93,200	1,38,464	1,61,008	1,83,116
EBITDA	4,155	5,479	11,094	12,933	15,017
Adjusted net profit	1,605	2,566	5,086	5,921	6,955
Adjusted EPS (Rs)	41.9	67.1	132.9	154.7	181.7
EPS growth (%)	18.8	59.9	98.2	16.4	17.5
EBITDA margin (%)	6.5	5.9	8.0	8.0	8.2
P/E (x)	51.5	32.2	16.2	14.0	11.9
P/BV (x)	5.9	4.8	3.9	3.1	2.5
EV/EBITDA (x)	19.9	15.1	7.1	5.8	4.7
Dividend yield (%)	0.7	0.4	0.6	0.6	0.6
RoCE (%)	20.8	24.6	45.2	43.7	41.7
RoE (%)	12.5	16.4	26.7	25.0	23.5

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 2: Revenue mix change

% Share of revenue	FY20	FY21	FY22	FY23E	FY24E	FY25E
Conductors	48.5	45.5	45.1	45.7	45.7	43.7
Specialty oil	31.1	37.0	38.2	31.0	28.2	26.5
Cables	21.6	19.9	21.4	23.3	26.1	29.8

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 3: Profitability mix change

% Share of EBIT	FY20	FY21	FY22	FY23E	FY24E	FY25E
Conductors	36.4	23.0	31.6	49.5	41.9	34.9
Specialty oil	25.7	63.4	50.3	22.6	21.5	20.5
Cables	37.9	13.5	18.2	27.9	36.6	44.6

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 4: Change in our estimates

Description	Old			New			Variation (%)		
Y/E March (Rsmn)	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	1,38,464	1,60,646	1,82,661	1,38,464	1,61,008	1,83,116	0.0	0.2	0.2
EBITDA	11,094	12,130	13,366	11,094	12,933	15,017	0.0	6.6	12.4
<b>EBITDA Margin (%)</b>	<b>8.0</b>	<b>7.6</b>	<b>7.3</b>	<b>8.0</b>	<b>8.0</b>	<b>8.2</b>	<b>0 bps</b>	<b>48 bps</b>	<b>88 bps</b>
PAT	5,086	5,327	5,728	5,086	5,921	6,955	0.0	11.2	21.4

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 5: Scenario analysis

Assumptions									
Y/E March	Bear Case			Base Case			Bull Case		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Conductors Volume Growth (%)	31.0	10.0	10.0	31.0	12.5	12.5	31.0	15.0	15.0
Conductors Realizations (Rs/MT)	40,000	33,000	25,000	40,000	35,000	30,000	40,000	36,000	33,000
Oil Segment Volume Growth (%)	1.0	5.0	5.0	1.0	6.0	6.0	1.0	7.0	7.0
Oil Segment Realizations (Rs/KL)	5,500	5,700	5,900	5,500	5,750	6,000	5,500	5,800	6,100
Cables Revenue Growth (%)	62.0	25.0	25.0	62.0	30.0	30.0	62.0	35.0	35.0
Cables EBITDA Margin (%)	9.8	10.0	11.0	9.8	11.5	12.5	9.8	12.0	13.0

Financials									
Y/E March (Rsmn)	Bear Case			Base Case			Bull Case		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	1,38,464	1,57,330	1,74,569	1,38,464	1,61,008	1,83,116	1,38,464	1,64,686	1,91,912
EBITDA	11,094	11,658	12,550	11,094	12,933	15,017	11,094	13,455	16,462
EBITDA Margin (%)	8.0	7.4	7.2	8.0	8.0	8.2	8.0	8.2	8.6
Adj. PAT	5,086	5,036	5,269	5,086	5,921	6,955	5,086	6,243	7,872
Adj. EPS (in Rs)	132.9	131.6	137.7	132.9	154.7	181.7	132.9	163.1	205.7
Adj. EPS growth (%)	98.2	(1.0)	4.6	98.2	16.4	17.5	98.2	22.7	26.1

Valuation			
	Bear Case	Base Case	Bull Case
Valuation Multiple	<b>14</b>	<b>15</b>	<b>16</b>
TP at FY25E EPS	1,930	2,725	3,290
Upside/Downside	(10.6)	26.2	52.4

Revenue Mix (%)									
Y/E March	Bear Case			Base Case			Bull Case		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Conductors	45.7	45.7	43.9	45.7	45.7	43.7	45.7	45.7	43.6
Specialty Oil	31.0	28.6	27.2	31.0	28.2	26.5	31.0	27.9	25.7
Cables	23.3	25.7	28.9	23.3	26.1	29.8	23.3	26.5	30.7

Profitability Mix (% share of EBIT)									
Y/E March	Bear Case			Base Case			Bull Case		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Conductors	49.5	42.8	33.1	49.5	41.9	34.9	49.5	42.4	36.6
Specialty Oil	22.6	23.4	23.6	22.6	21.5	20.5	22.6	21.1	19.4
Cables	27.9	33.8	43.2	27.9	36.6	44.6	27.9	36.5	43.9

Return Ratios (%)									
Y/E March	Bear Case			Base Case			Bull Case		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
RoCE	45.2	39.5	36.0	45.2	43.7	41.7	45.2	45.3	45.0
RoE	26.7	21.7	18.9	26.7	25.0	23.5	26.7	26.2	25.9
RoIC	53.4	46.4	43.9	53.4	51.8	52.5	53.4	53.7	57.0

Source: Company, Nirmal Bang Institutional Equities Research

## Conditions for Bear Case:

**Conductors segment:** Volume growth for FY24E/FY25E is expected at 10%/10% while realizations are expected to come in at Rs33,000 per MT/Rs25,000 per MT due to lower-than-expected exports demand for non-conventional conductors.

**Specialty Oil segment:** Volume growth for FY24E/FY25E is expected at 5%/5% while realizations are expected to come in at Rs5,700 per KL/Rs5,900 per KL due to higher-than-expected volatility in base oil prices.

**Cables segment:** Revenue growth for FY24E/FY25E is expected at 25%/25% while EBITDA margin is expected to come in at ~10%/11% due to lower-than-expected exports of elastomeric cables, particularly to the US market.

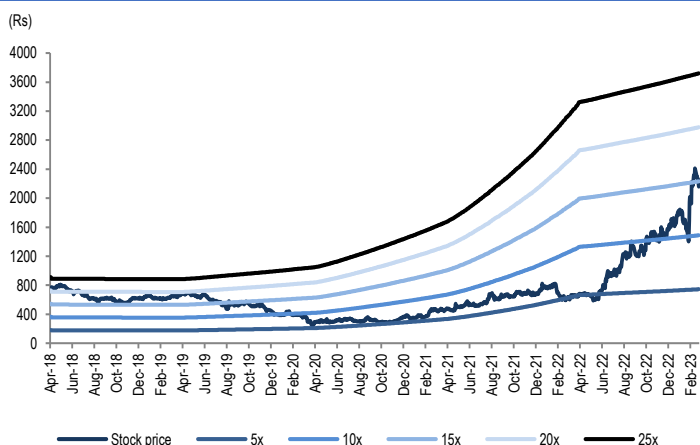
## Conditions for Bull Case:

**Conductor segment:** Volume growth for FY24E/FY25E is expected at 15%/15% while realizations are expected to come in at Rs36,000 per MT/Rs33,000 per MT due to higher-than-expected exports demand for non-conventional conductors.

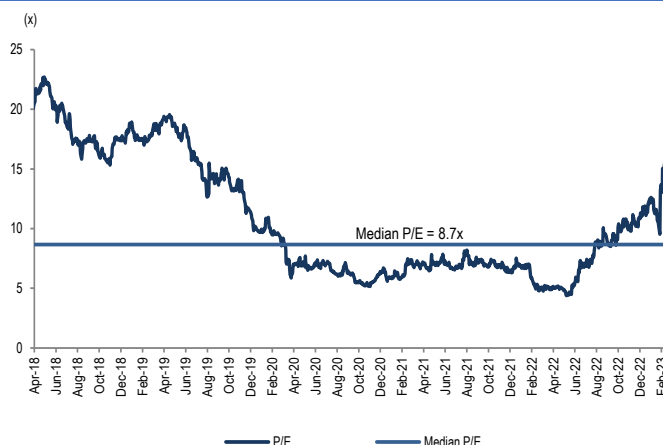
**Specialty Oil segment:** Volume growth for FY24E/FY25E is expected at 7%/7% while realizations are expected to come in at Rs5,800 per KL/Rs6,100 per KL due to lower-than-expected volatility in base oil prices.

**Cables segment:** Revenue growth for FY24E/FY25E is expected at 35%/35% while EBITDA margin is expected to come in at ~12%/13% due to higher-than-expected exports of elastomeric cables, particularly to the US market.

Exhibit 6: P/E Chart



Source: BSE, Nirmal Bang Institutional Equities Research



Source: BSE, Nirmal Bang Institutional Equities Research

## Financial statement (consolidated)

### Exhibit 7: Income statement

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Revenues</b>	<b>63,880</b>	<b>93,200</b>	<b>1,38,464</b>	<b>1,61,008</b>	<b>1,83,116</b>
% growth	(14.0)	45.9	48.6	16.3	13.7
Raw material costs	48,001	72,078	1,04,956	1,20,756	1,36,971
Staff costs	1,604	1,725	3,462	4,025	4,761
Other overheads	10,121	13,918	18,953	23,294	26,367
Total expenditure	59,725	87,721	1,27,371	1,48,075	1,68,099
<b>EBITDA</b>	<b>4,155</b>	<b>5,479</b>	<b>11,094</b>	<b>12,933</b>	<b>15,017</b>
YoY growth (%)	(10.9)	31.9	102.5	16.6	16.1
<b>EBITDA margin (%)</b>	<b>6.5</b>	<b>5.9</b>	<b>8.0</b>	<b>8.0</b>	<b>8.2</b>
Other income	223	325	260	273	287
Interest costs	1,360	1,406	3,462	4,025	4,578
Depreciation	934	978	1,095	1,268	1,431
Profit before tax	2,083	3,419	6,797	7,913	9,295
Tax	478	853	1,711	1,992	2,339
<b>PAT</b>	<b>1,605</b>	<b>2,566</b>	<b>5,086</b>	<b>5,921</b>	<b>6,955</b>
PAT margin (%)	2.5	2.8	3.7	3.7	3.8
<b>EPS (Rs)</b>	<b>41.9</b>	<b>67.1</b>	<b>132.9</b>	<b>154.7</b>	<b>181.7</b>
YoY growth (%)	18.8	59.9	98.2	16.4	17.5

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 9: Balance sheet

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
Share capital	383	383	383	383	383
Reserves	13,709	16,770	20,558	26,020	32,516
Net worth	14,092	17,152	20,941	26,403	32,899
Short-term loans	215	575	575	575	575
Long-term loans	1,916	1,954	1,954	1,954	1,754
Total loans	2,131	2,529	2,529	2,529	2,329
Deferred tax liability (net)	202	523	523	523	523
<b>Liabilities</b>	<b>16,425</b>	<b>20,204</b>	<b>23,993</b>	<b>29,455</b>	<b>35,751</b>
Net block	8,191	8,175	8,763	10,896	10,865
Capital work-in-progress	287	383	200	200	200
Intangible assets	588	639	639	639	639
Investments	604	305	305	305	305
Inventories	15,627	21,387	32,245	37,936	43,647
Debtors	18,690	25,424	37,177	42,788	48,162
Cash	2,218	2,666	6,909	9,939	15,000
Other current assets	3,882	7,096	7,477	8,694	10,987
Total current assets	40,416	56,573	83,807	99,358	1,17,796
Creditors	30,381	41,225	62,593	73,667	84,284
Other current liabilities & provisions	3,281	4,646	7,129	8,277	9,771
Total current liabilities	33,662	45,871	69,722	81,943	94,054
Net current assets	6,754	10,702	14,085	17,415	23,742
<b>Total assets</b>	<b>16,425</b>	<b>20,204</b>	<b>23,993</b>	<b>29,455</b>	<b>35,751</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 8: Cash flow

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
EBIT	3,220	4,500	9,999	11,665	13,586
(Inc.)/dec. in working capital	(1,202)	(3,499)	859	(299)	(1,266)
<b>Cash flow from operations</b>	<b>2,018</b>	<b>1,001</b>	<b>10,858</b>	<b>11,366</b>	<b>12,320</b>
Other income	223	325	260	273	287
Depreciation	934	978	1,095	1,268	1,431
Tax paid (-)	(283)	(531)	(1,711)	(1,992)	(2,339)
<b>Net cash from operations</b>	<b>2,893</b>	<b>1,774</b>	<b>10,502</b>	<b>10,915</b>	<b>11,698</b>
Capital expenditure (-)	(564)	(1,059)	(1,500)	(3,400)	(1,400)
<b>Net cash after capex</b>	<b>2,329</b>	<b>715</b>	<b>9,002</b>	<b>7,515</b>	<b>10,298</b>
Interest paid (-)	(1,360)	(1,406)	(3,462)	(4,025)	(4,578)
Dividends paid (-)	(574)	(344)	(459)	(459)	(459)
Inc./(dec.) in short-term borrowing	(725)	360	-	-	-
Inc./(dec.) in long-term borrowing	37	38	-	-	(200)
Inc./(dec.) in total borrowings	(689)	398	-	-	(200)
(Inc.)/dec. in investments	(604)	299	-	-	-
<b>Cash from financial activities</b>	<b>(3,227)</b>	<b>(1,054)</b>	<b>(3,921)</b>	<b>(4,484)</b>	<b>(5,237)</b>
Others	1,397	839	(839)	-	(0)
Opening cash balance	1,762	2,218	2,666	6,909	9,939
Closing cash balance	2,218	2,666	6,909	9,939	15,000
Change in cash balance	455	448	4,243	3,031	5,061

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 10: Key ratios

Y/E March	FY21	FY22	FY23E	FY24E	FY25E
<b>Per share (Rs)</b>					
EPS	41.9	67.1	132.9	154.7	181.7
Book value	368.2	448.2	547.2	689.9	859.7
<b>Valuation (x)</b>					
P/E	51.5	32.2	16.2	14.0	11.9
P/BV	5.9	4.8	3.9	3.1	2.5
EV/EBITDA	19.9	15.1	7.1	5.8	4.7
EV/sales	1.3	0.9	0.6	0.5	0.4
<b>Return ratios (%)</b>					
RoCE	20.8	24.6	45.2	43.7	41.7
RoE	12.5	16.4	26.7	25.0	23.5
RoIC	24.5	29.2	58.8	64.8	68.5
<b>Profitability ratios (%)</b>					
EBITDA margin	6.5	5.9	8.0	8.0	8.2
EBIT margin	5.0	4.8	7.2	7.2	7.4
PAT margin	2.5	2.8	3.7	3.7	3.8
<b>Turnover ratios</b>					
Total asset turnover ratio (x)	4.1	5.1	6.3	6.0	5.6
Debtor days	107	100	98	97	96
Inventory days	89	84	85	86	87
Creditor days	174	161	165	167	168
<b>Solvency ratios (x)</b>					
Debt-equity	0.2	0.1	0.1	0.1	0.1

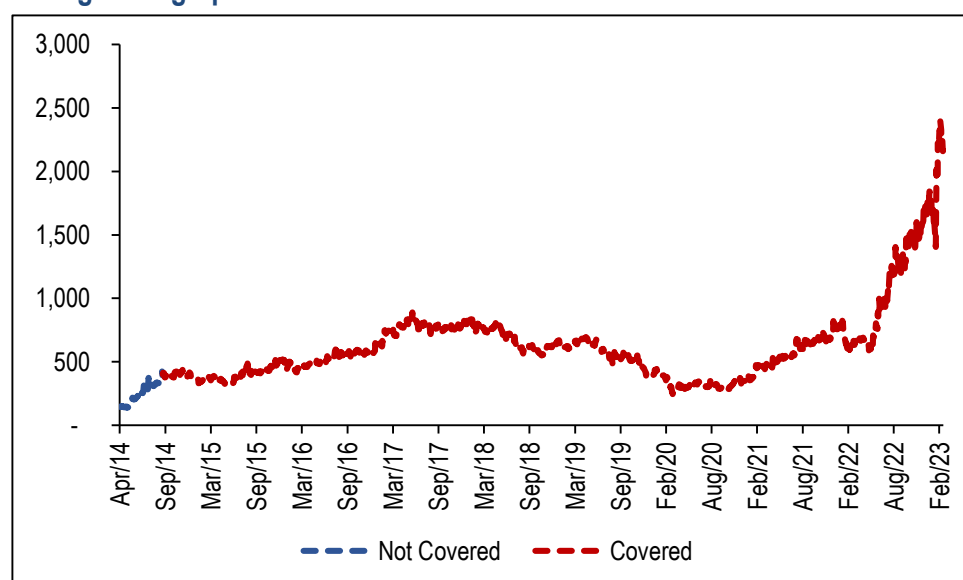
Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
17 September 2014	Buy	390	521
9 October 2014	Buy	406	521
7 November 2014	Buy	421	521
9 January 2015	Buy	393	521
10 February 2015	Buy	334	511
15 April 2015	Buy	377	511
21 May 2015	Buy	334	480
29 June 2015	Buy	380	480
8 July 2015	Buy	363	480
12 August 2015	Buy	415	509
12 October 2015	Buy	418	509
9 November 2015	Buy	426	512
8 January 2016	Buy	483	512
2 February 2016	Buy	500	598
12 April 2016	Buy	468	598
27 May 2016	Buy	490	598
12 July 2016	Buy	519	598
9 August 2016	Accumulate	535	600
13 October 2016	Accumulate	551	600
10 November 2016	Buy	561	690
10 January 2017	Buy	620	690
6 February 2017	Buy	657	770
14 February 2017	Buy	735	845
7 April 2017	Buy	784	845
1 June 2017	Accumulate	880	840
6 July 2017	Accumulate	770	840
14 August 2017	Buy	720	920
9 October 2017	Buy	772	920
3 November 2017	Buy	757	915
9 January 2018	Buy	852	915
31 January 2018	Buy	760	905
6 April 2018	Buy	770	905
1 June 2018	Buy	707	845
10 July 2018	Buy	696	845
14 August 2018	Buy	566	740
9 October 2018	Buy	573	740
5 November 2018	Buy	560	760
9 January 2019	Buy	624	760
31 January 2019	Buy	615	775
9 April 2019	Buy	672	865
31 May 2019	Buy	664	800
9 July 2019	Buy	570	800
13 August 2019	Buy	539	800
23 September 2019	Buy	563	825
7 October 2019	Buy	523	825
11 November 2019	Buy	521	705
9 January 2020	Buy	401	705
24 January 2020	Buy	409	630
26 March 2020	Buy	250	365

9 April 2020	Buy	299	365
29 June 2020	Buy	327	408
9 July 2020	Buy	337	408
10 August 2020	Buy	304	390
23 September 2020	Buy	288	420
9 October 2020	Buy	290	420
7 November 2020	Buy	300	405
7 January 2021	Buy	352	470
6 February 2021	Buy	373	530
9 April 2021	Buy	469	530
1 June 2021	Accumulate	523	520
28 July 2021	Accumulate	678	700
26 September 2021	Accumulate	647	700
02 November 2021	Accumulate	696	750
01 February 2022	Accumulate	695	750
21 February 2022	Accumulate	653	685
31 May 2022	Accumulate	691	705
1 August 2022	Accumulate	1,124	1,150
19 September 2022	Accumulate	1,196	1,335
06 November 2022	Accumulate	1,464	1,620
1 February 2023	Accumulate	1,690	1,880
28 February 2023	Buy	2,159	2,725

## Rating track graph





## DISCLOSURES

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## Disclaimer

### Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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