Sales Note

Apar Industries Ltd

GEPL CAPITAL

22nd Nov, 2016

CMP (₹)	Target (₹)
555	655
Potential upside	**Absolute Rating**
18%	BUY

Market Info *(as on 22nd November 2016)*	
BSE Sensex	25961
Nifty S&P	8002

Stock Detail	
BSE Group	B GROUP
BSE Code	532259
NSE Code	APARINDS
Bloomberg Code	APR:IN
Market Cap (₹bn)	21.6bn
Free Float (%)	42%
52wk Hi/Low	633/406
Avg. Daily Volume (NSE)	51260
Face Value / Div. per share (₹)	10.00/6.5
Shares Outstanding (mn)	38

Shareholding Pattern	
Promoters	**Public**
58.21	41.79

Financial Snapshot (₹mn)

Y/E March	FY14A	FY15A	FY16A	FY17E
Net Sales	45813	51218	50803	50292
EBITDA	*2974*	*2520*	*3628*	*3772*
Adj PAT	*905*	*495*	*1196*	*1509*
P/E(x)	6.2	28.8	14.9	14.3
ROE (%)	13%	7%	14%	15%
EPS	23.5	12.9	31.1	39.2

Share Price Performance

Rel. Perf.	1Mth	3 Mths	6Mths	1Yr
Apar (%)	(4.6)	(3.3)	15.9	21.7
Sensex (%)	(8.1)	(7.7)	2.1	(0.2)

Source: Company data, Retail Research

Company Snapshot

Apar Industries is a Gujarat based, leading manufacturer of conductors, transformer oils & cables for domestic & overseas power T&D sector. Over the years, company has evolved into a diversified $850mn conglomerate offering value added products & services in the area of power transmission conductors & petroleum specialty products. Company has export presence in about 80 countries which includes Middle East, Africa, Europe, USA etc.

Investment Rationale

Strong presence in high growth Power Transmission & Distribution (T&D) sector

Company has strong presence in domestic power sector & especially in power T&D sector. The outlook for transmission sector looks promising due to various government initiatives. In last few years, power generation capacity has grown by 50% whereas a transmission capacity has only increased by 30%. This indicates that transmission capacity has been lagging power generation capacity. This has resulted into a huge transmission capex laid down by government in 12th & 13th five year plan. Government to incur Rs 2.6tn worth of investment in 13th 5 year plan (FY18-FY22), an increase of 44% from 12th 5year plan. Also, other government initiatives like Power for all, UDAY scheme, IPDS & DDU scheme to further improve the health of power sector. Moreover, government step to end PGCIL privileged positions in power transmission sector & allowing participation from private players will further ensure level playing field & thus further increases the scope of business for companies like Apar Ind. Going ahead, management believe that government to award project worth of Rs 500bn in coming quarters & this will augur well for company going ahead.

Contribution from value added products to improve overall revenue & margin

Apar Ind commands 23% & 45% market share in conductor & transformer oil segments respectively. Company also has presence in faster growing power & telecom cables segments. In last few years, company has strengthened its product mix by constantly improving the share of value added products across the segments. Within conductor, company has successfully executed new generation High Temperature Low Sag (HTLS) conductors, which carry more power & lower the technical loss. Further in transformer oil segment, adoption of ultra high voltage transmission line will drive demand for high voltage transformer oils. Also, license agreement with ENI S.P.A(Italy) to manufacture & sell branded auto lube in domestic market has further improve the contribution of value added product in overall specialty oil segment. Lastly in cable business, company is moving out of the commoditized business like HT/LT cables & thus entering into value added cables like elastomeric and optical cables which have usage in railways, defense, solar, wind & telecom sector etc. We believe, increasing share of high margin product will not only improve revenue growth & but also aid in improving operating margin.

Improving financial performance & healthy balance sheet

Since FY11, company's total revenue has grown at CAGR of 11% led by strong growth in cable & conductor business. Also, export revenue has grown at a CAGR of 16% & it is currently contributing 35% to total revenue. Moreover, company has incurred strategic capex of Rs 5.5bn to manufacture value added products & thus will result into incremental revenue growth in coming years. Company has also maintained a healthy balance sheet owing to robust free cash flow generation & reducing leverage ratio. Further in H1FY17, company has reported 5.6% degrowth in revenue owing to lower raw material prices. However, margin has improved from 6.6% to 8.1% in H1FY17 owing to improvement in product mix & this has resulted into 80% growth in profitability. Also, outstanding order book of the company stands at Rs 15bn, of which export constitute 30%.

Valuation

At CMP of Rs 555, Apar Industries trades at 14.2x its FY17E EPS of Rs 39.2/- We believe revival in power transmission & distribution sector on back of various government initiatives will augur well for Apar Industries. Hence, we recommend BUY rating on a stock price with a target price of Rs 655/-, thus implying 18% upside from current level.

NOTES

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Analyst Certification

The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report:

Name : Dhiral Shah

Sector : Other Electrical Equipment Product

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