

March 08, 2021

Apollo Tricoat Tubes Limited - Ratings placed on watch with positive implication; Positive outlook removed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Term Loan	66.0	66.0	[ICRA]A+%; Placed on watch with Positive implication and Positive outlook removed
Fund-based/Non-fund based - Working Capital Facilities	215.0	215.0	[ICRA]A+%/A1%; Placed on watch with Positive implication and Positive outlook removed
Total	281.0	281.0	

*Instrument details are provided in Annexure-1

Rationale

APL Apollo Tubes Limited (AATL; rated [ICRA]AA-(Positive)/[ICRA]A1+) announced the merger of Apollo Tricoat Tubes Limited (ATTL) and Shri Lakshmi Metal Udyog Limited (SLMUL; rated [ICRA]AA-(Positive)/[ICRA]A1+), subject to the approval from shareholders, creditors, NCLT and other statutory authorities, as may be required, with April 1, 2021 as the appointed date for the merger (swap ratio of 1:1 for ATTL's existing shareholders). The transaction, which is expected to be completed by Q3 FY2022, would result in some dilution in promoter shareholding in AATL. The proposed scheme of arrangement would simplify the Group structure and enable realisation of cost efficiencies.

ICRA has taken note of the above event and has placed the outstanding ratings on rating watch with positive implications and has removed from Positive outlook. ICRA will continue to monitor the development of the merger process as well as the timelines involved and will take the appropriate action as may be required. Further, the ratings of ATTL would be withdrawn post completion of the merger process as the entity would cease to exist.

The ratings continue to factor in the parentage of ATTL as a 55.82% subsidiary of SLMUL, a wholly-owned subsidiary of AATL. ICRA also considers the benefits derived by the entity from operational synergies as well as its financial flexibility with the ultimate parent company. AATL along with SLMUL, Apollo Metalex Private Limited (AMPL – wholly-owned subsidiary of AATL; rated [ICRA]AA-(Positive)/[ICRA]A1+) and ATTL is referred as the Group/APL. ATTL contributed around 24% to the Group's OPBITDA in 9M FY2021, becoming strategically important for the Group.

The ratings also factor in the Group's leadership position in the electric resistance welded (ERW) pipes segment and its geographically-expansive manufacturing base in addition to an extensive distribution network. APL continues to make efforts to improve its product mix in favour of higher margin products manufactured in ATTL, which are expected to aid the improvement in OPBITDA/tonne in the long run. Further, ATTL has demonstrated better-than-expected ramp-up of operations and reported healthy volume growth in the last four to five quarters with operating margin of around 11%. ATTL has a portfolio of value-added products, which command OPBITDA/tonne of more than Rs. 6,000/tonne and have aided favourable profitability metrics.

The ratings, however, is constrained by the limited track record of the ATTL's operations with facilities commissioned during the last fiscal. Notwithstanding the favourable initial response, the acceptability of triple coated tubes and related products in the targeted markets is yet to be established. The rating also factors in the susceptibility of the Group's margins to the movement in steel prices (being a steel convertor) coupled with the intensely competitive nature of the pipes and tubes industry with presence of both organised and unorganised players.

Please refer to the following link for the previous detailed rationale that captures Key rating drivers and their description, Liquidity position, Rating sensitivities: [Click here](#)

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Ferrous Metals Industry Impact of Parent or Group Support on Issuers rating
Parent/Group Support	The rating assigned to ATTL factors in the support from AATL, given majority ownership, reputation sensitivity and the close business linkages between the entities.
Consolidation/Standalone	Standalone

About the company

ATTL, a listed entity, is currently a part of the APL as a 55.82% subsidiary of SLMUL (a 100% subsidiary of AATL). AATL has enhanced the capacity by 100,000 TPA at Dadri, in addition to the existing capacity of 250,000 TPA at Bengaluru, taking the total manufacturing capacities to 3,50,000 TPA for triple coated tubes as on September 30, 2020. Including this, AATL's aggregate capacity stands at 2,650,000 MTPA on a consolidated basis. The company sells its products under following brand names—Signature, Chaukhat, Elegant, Tricoat and Plank.

Key financial indicators (audited)

ATTL	FY2019	FY2020
Operating Income (Rs. crore)	7.2	663.3
PAT (Rs. crore)	2.6	42.3
OPBDIT/OI (%)	-0.3%	11.2%
PAT/OI (%)	37.0%	6.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.67	1.29
Total Debt/OPBDIT (times)	-ve	1.52
Interest Coverage (times)	-ve	12.35

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
Source: Company, ICRA Research; All ratios as per ICRA calculations*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)			Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Date & Rating in		Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Mar 08, 2021	Dec 31, 2020	Nov 20, 2019	Nov 13, 2018	Sep 27, 2017
1	Fund – based - Term Loan	Long Term	66.0	64.5*	[ICRA]A+ %	[ICRA]A+ (Positive)	[ICRA]A (Stable)	[ICRA]A(SO) (Stable)	[ICRA]A(SO) (Stable)
2	Fund - based/Non-fund based - Working Capital Facilities	Long Term	215.0		[ICRA]A+% / [ICRA]A1%	[ICRA]A+ (Positive)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A(SO) (Stable)/A1	-
3	Non-Fund based limits	Short Term	0.0						[ICRA]A1 (SO)

%= Under watch with positive implications

Amount in Rs. crore

*as on November 30, 2020

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Fund – based - Term Loan	FY2018	NA	FY2025	66.0	[ICRA]A+%
NA	Fund - based/Non-fund based - Working Capital Facilities	NA	NA	NA	215.0	[ICRA]A+ %/ [ICRA]A1%

Source: Company

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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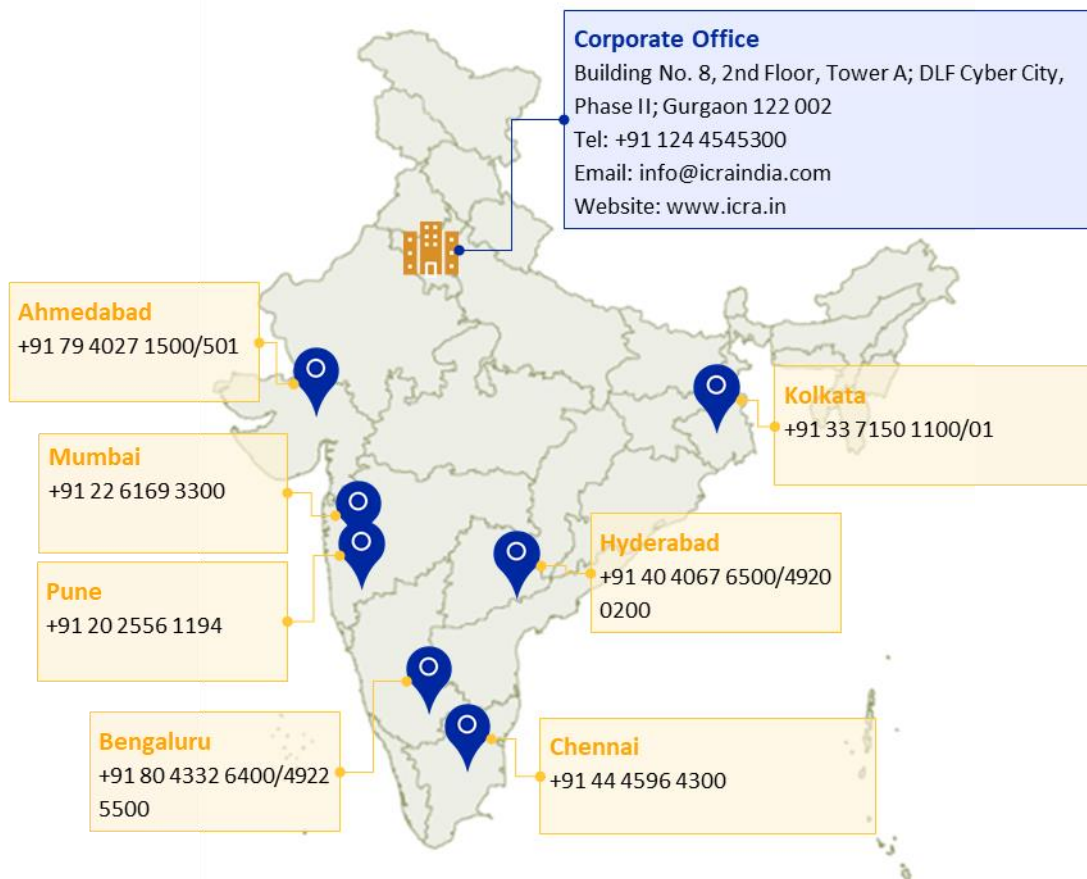
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