

08<sup>th</sup> February 2024

## Apar Industries Ltd. – BUY

**CMP** :Rs.6,323.0  
**Target Price** :Rs.8,100.0  
**Upside** : 28%+  
**Stop Loss** : Rs.5,250.0 (Closing basis)

### Investment Thesis

- Apar Industries Ltd. (Apar) is a prominent player in the Indian electrical and engineering industry, renowned for its diversified portfolio of products and solutions. Established in 1958, the company initially ventured into the market as a small-scale unit but has since blossomed into a major conglomerate with a substantial global footprint.
- Apar is only Indian company to provide end-to-end telecom solutions in copper and fibre and pioneer in transformer oils in India with 60% market share in power transformer oil and 40% in distribution transformer oil in India.
- The push for electrification and renewable energy coupled with the need to upgrade outdated power transmission infrastructure is creating a substantial market opportunity for Apar. The Indian government's plans to add and upgrade transmission and distribution lines by 2028 signify a direct demand increase for conductors, a segment in which Apar holds significant expertise.
- Apar's allocation of approximately one-third of its Rs. 4 billion capex for FY24 towards the conductors segment, including both greenfield and brownfield expansion, positions the company to effectively meet the burgeoning demand. The focus on AL59 conductors, slated to be operational by FY24 end, aligns with India's specific infrastructure needs.
- Apar's significant role in supplying cables and wires for the Vande Bharat trainsets, combined with its status as an approved supplier for global giants like Siemens AG and Bombardier, underscores its competency and trustworthiness in high-profile, technologically advanced projects.
- With a 64% revenue surge in FY23 and a dominant 70% market share in specialty cables for domestic wind energy applications, Apar's ambition to rank among the top 3 cables & wires manufacturers in India is well-founded. This growth trajectory is underpinned by the increasing demand for cables in diverse applications.

### Financials

- Revenue of Apar has seen strong growth, increasing from Rs. 6,388 cr in FY21 to Rs. 14,352 cr in FY23, reflecting a CAGR of around 25%. Growth is likely driven by increased demand across Apar's business segments.

Consl. (Rs.Cr)	FY21	FY22	FY23	FY24E	FY25E
Revenue	6,388	9,317	14,352	16,209	18,640
EBITDA	440	578	1,267	1,558	1,714
EBITDA Margin (%)	6.9%	6.2%	8.8%	9.6%	9.2%
PAT	160	257	638	847	914
EPS (Rs.)	42.1	67.6	167.9	222.8	240.6
P/E (x)	152.5	94.9	38.2	28.8	26.7
RoE (%)	11.4%	15.0%	28.5%	34.5%	33.9%

### Stock Data

Market Cap (Rs. Cr)	25,399
Market Cap (\$ mn)	3,107
Shares O/S (in Cr)	4.02
Avg. Volume (3 month)	1,51,000
52-Week Range (Rs.)	6,516 / 2,100

### Shareholding Pattern

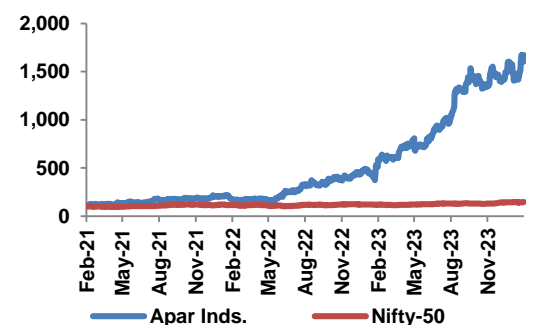
Promoters	57.77%
FII's	10.98%
Institutions	18.62%
Others (incl. body corporate)	12.63%

### Key Ratios

Div Yield	0.62%
TTM PE	30.5x
ROE	32.3%
TTM EPS (Rs.)	215/-

### Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	8.5	23.4	227.6
NIFTY	1.0	13.0	23.4



- EBITDA has increased from Rs. 440 cr in FY21 to Rs. 1,267 cr in FY23. EBITDA margins have expanded from 6.9% in FY21 to 8.8% in FY23, indicating the company is improving profitability
- Profit after tax (PAT) has jumped from Rs 161 cr in FY21 to Rs 638 cr in FY23, reflecting robust bottom-line growth.
- Earnings per share has grown rapidly from Rs 42.1 in FY21 to Rs 167.9 in FY23. Return on equity has improved from 11.4% in FY21 to an 28.5% in FY23, showing higher capital efficiency.

## Key Business Highlights

- The global shift towards decarbonization in the power sector presents additional opportunities for Apar. As the industry moves towards cleaner energy sources and more efficient power transmission systems, Apar's expertise and product range in conductors, specialty oils and cables position it well to capitalize on these trends.
- The government's focus on improving electricity access and strengthening transmission infrastructure is driving demand for Apar's conductors and power cables. India is expected to add significant power generation and T&D capacity over the next decade.
- The upcoming 5G rollout in India will require extensive fiberization and network upgrades by telecom operators, driving demand for Apar's telecom cables.
- Apar has delivered consistent revenue growth, strong profitability and healthy return ratios in recent years. It has a debt free balance sheet.

## Valuation

Apar Industries has delivered strong revenue growth at a CAGR of 25%/20%/12% during the last 3/5/10 years, respectively.

We are expecting strong future outlook of Apar which will be driven by key developments such as investments into renewable energy, electrification, decarbonization, infrastructure spending, China+1 policy and 5G rollout.

The higher valuation multiples reflect Apar's strong growth outlook across its conductors, cables and specialty oils business segments. Management has guided for 25% segmental CAGR growth in Cable business and 12% segmental CAGR growth in specialty oils segment whereas for conductors segment it guided for 32% CAGR growth for the next few years. The company is well positioned to capitalize on India's infrastructure and power sector capex cycle over the medium to long term.

The stock is currently trading at TTM P/E of 31.0x while its median PE is 22.8x, which seems reasonable given its growth prospects. While estimating its PE at 28.8x and 26.7x for FY24E and FY25E, respectively, with an EPS of Rs. 222.8 and Rs. 240.6.

We expect a target price of Rs. 8,100, an upside of 28%.

## Risk & Concern

- India's infrastructure and power sector spending has a major impact on Apar's growth. Any slowdown in projects can reduce demand for Apar's cables and conductor products.
- Key raw materials like aluminum and crude oil see volatile pricing. Any sharp increase in input costs difficult for Apar to fully pass on, impeding margin expansion.
- As Apar aims to increase share of value-added offerings, it faces risks in scaling up production and marketing of the new products. Delayed execution can affect growth plans.

## Graphs & Charts

Figure 1: Net Sales Trend

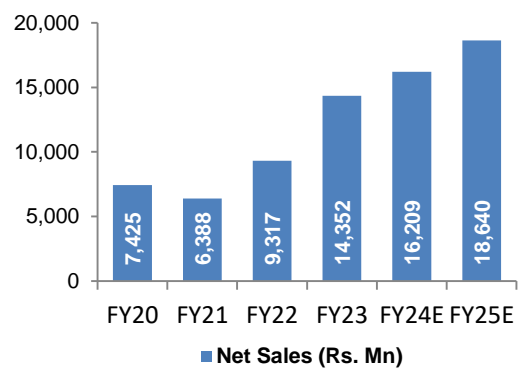


Figure 2: EBITDA & EBITDA Margin Trend

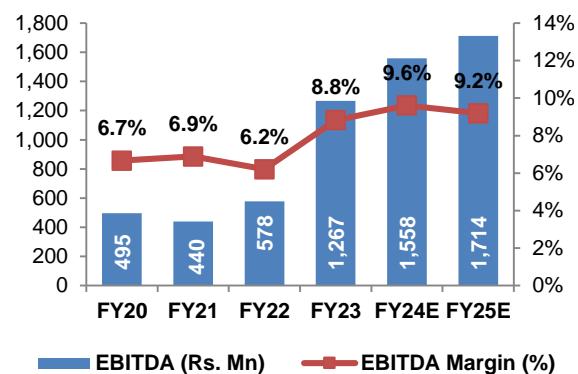


Figure 3: PAT Trend

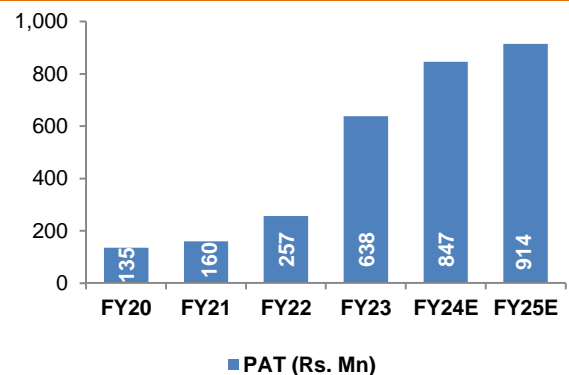
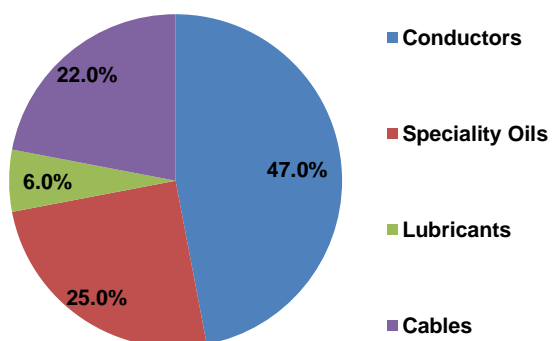


Figure 4: Segment-wise Revenue (FY23)



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