

November 9, 2017

Apcotex Industries (APCLAT)

₹ 468

Strong performance...

- Apcotex Industries (AIL) reported strong Q2FY18 results. Revenues came in at ₹ 129 crore for Q2FY18, up 39.5% YoY. Higher revenues were on account of good growth witnessed across all industries (auto, industrials, consumer, construction, paper, etc) in domestic markets. Exports also witnessed strong traction due to the sales efforts of the management over the last few quarters
- EBITDA came in at ₹ 15.1 crore, up 227% YoY. This was due to a 200 bps increase in gross margins and sharp decline in 'other expenses' during the quarter. Gross margins improved due to efficient buying of raw materials for the quarter. Other expenses as percentage of sales declined from 16.1% in Q2FY17 to 11.8% in Q2FY18. Accordingly, EBITDA margins came in at 11.7% for the quarter vs. 5% in Q2FY17
- PAT was at ₹ 8.5 crore, up 138% YoY (against EBITDA growth of 227% YoY) as the company paid higher taxes during quarter (₹ 4.7 crore in Q2FY18 vs. ₹ 0.1 crore in Q2FY17)

Upbeat exports, strong domestic revival lead to better performance

AIL witnessed strong demand from export markets in Q2FY18 (and H1FY18). The management indicated that on a YoY basis, exports grew over 90%. AIL had clocked exports revenue of ₹ 27 crore in Q2FY17. Going forward, exports are likely to continue with accelerated growth rate due to new product introductions and higher sales to existing geographies (Middle East and South East Asia). The company has seen demand revival (volume driven) across all industries in the domestic market like paper/ paper board, carpet, construction, tyre cord, speciality, automobile, footwear, rice rolls, etc. Segment-wise nitrile rubber witnessed highest volumes due to strong domestic demand and partly due to shortage of imports in this segment. The management has also indicated at a partial revival in sales to one of the largest client in the paper & paper board industry. As indicated in earlier reports, sales to this client had almost stopped due to financial stress faced by the client.

Higher utilisations, newer capacity, increased market share

AIL's current capacity is at 55,000 MTPA in synthetic latex (SL), 7,000 MTPA in high styrene rubber (HSR) and 16,000 MTPA in nitrile rubber (NR) and allied products. Due to strong demand across segments, AIL is witnessing utilisation levels of over 85% in the SL & HSR segment and ~100% in the NR segment. We believe such higher utilisation levels augur well for the company. To meet increasing demand in the NR segment, AIL has also planned a capex of ₹ 30 crore at its Valia facility, Gujarat, which is likely to increase the capacity by ~40%. An additional amount of ₹ 30 crore is also likely to be utilised towards modernisation of facilities to improve product quality and reduce operating costs. These efforts are likely to help AIL gain over 50% market share in this segment.

Maintain HOLD on rich valuations

We expect AIL to deliver accelerated performance over FY17-20E. We estimate sales, EBITDA and PAT to grow at a CAGR of 16.6%, 42.1% and 16.8% over FY17-20E. Strong performance coupled with healthy balance sheet (net debt-free status) augurs well for the company. Accordingly, we value the company at 21x FY20E earnings to arrive at a fair value of ₹ 480 per share. We have a **HOLD** recommendation on the company.

Rating matrix		
Rating	:	Hold
Target	:	₹ 480
Target Period	:	12 months
Potential Upside	:	3%

What's changed?		
Target	Changed from ₹ 300 to ₹ 480	
EPS FY19E	Changed from ₹ 15.9 to ₹ 21.5	
EPS FY20E	Introduced at ₹ 23	
Rating	Unchanged	

Quarterly performance					
	Q2FY18	Q2FY17	YoY (%)	Q1FY18	QoQ (%)
Revenue	129.0	92.5	39.5	120.1	7.4
EBITDA	15.1	4.6	227.2	8.6	76.3
EBITDA (%)	11.7	5.0	672 bps	7.1	458 bps
PAT	8.5	3.6	138.2	5.2	61.8

Key financials					
₹ Crore	FY17	FY18E	FY19E	FY20E	
Revenues	390.1	507.6	560.0	622.1	
EBITDA	28.9	63.4	73.1	83.0	
Net Profit	19.1	39.7	44.6	47.7	
EPS (₹)	9.2	19.2	21.5	23.0	

Valuation summary					
	FY17	FY18E	FY19E	FY20E	
P/E	52.7	24.5	21.9	20.4	
Target P/E	55.5	25.1	22.3	20.9	
EV / EBITDA	34.2	17.9	15.1	13.4	
P/BV	4.7	4.5	4.0	3.6	
RoNW (%)	9.2	15.7	16.7	16.5	
RoCE (%)	10.0	19.0	19.7	19.9	

Stock data	
Particular	Amount
Market Capitalization (₹ Crore)	975
Total Debt (FY17) (₹ Crore)	22.0
Cash and Investments (FY17) (₹ Crore)	6.8
EV (FY17) (₹ Crore)	990
52 week H/L	510 / 282
Equity capital (₹ Crore)	10.4
Face value (₹)	5.0

Price performance (%)				
	1M	3M	6M	12M
Apcotex Industries	5.3	22.6	33.0	45.4

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Variance analysis

	Q2FY18	Q2FY18E	Q2FY17	YoY (%)	Q1FY18	QoQ (%)	Comments
Total Revenue	129.0		92.5	39.5	120.1	7.4	Higher growth as domestic demand witnessed a pick-up across all industries (auto, industrial, consumer, etc). Exports also witnessed a pick-up in H1FY18
Raw materials costs	89.2		65.3	36.6	89.2	0.0	
Employees Cost	9.3		7.7	21.3	8.0	17.0	
Other Expenses	15.3		14.8	3.2	14.3	6.9	
Total Expenditure	113.9		87.8	29.6	111.5	2.1	
EBITDA	15.1		4.6	227.2	8.6	76.3	
EBITDA margins (%)	11.7		5.0	672 bps	7.1	458 bps	Efficient buying of RMs this quarter helped in improvement of margins
Depreciation	3.1		3.1	1.8	3.1	0.0	
Interest	0.5		0.7	-36.4	0.5	-9.7	
Other Income	1.6		2.8	-42.6	2.2	-26.5	
PBT after Exceptional Items	13.2		3.7	258.3	7.2	83.7	
Total Tax	4.7		0.1	3,884.7	1.9	NA	
PAT	8.5		3.6	138.2	5.2	61.8	

Source: Company, ICICIdirect.com Research

Change in estimates

	FY17		FY18E			FY19E		FY20E
(₹ Crore)	Actual	Old	New	% Change	Old	New	% Change	Introduced
Revenue	390.1	424.6	507.6	19.5	489.8	560.0	14.3	622.1
EBITDA	28.9	39.5	63.4	60.6	53.6	73.1	36.3	83.0
EBITDA Margin (%)	7.4	11.4	12.5	110 bps	11.0	13.1	205 bps	13.4
PAT	19.1	23.7	39.7	67.6	32.9	44.6	35.6	47.7
EPS (₹)	9.2	11.4	19.2	68.1	15.9	21.5	35.2	23.0

Source: Company, ICICIdirect.com Research

Assumptions

	FY16	FY17	Current	FY19E	FY20E
			FY18E		
Sales Volume (tonnes)	47,000	59,000	77,000	79,500	83,000
Capacity utilisation (%)	76	76	99	96	100

Source: Company, ICICIdirect.com Research

Company Analysis

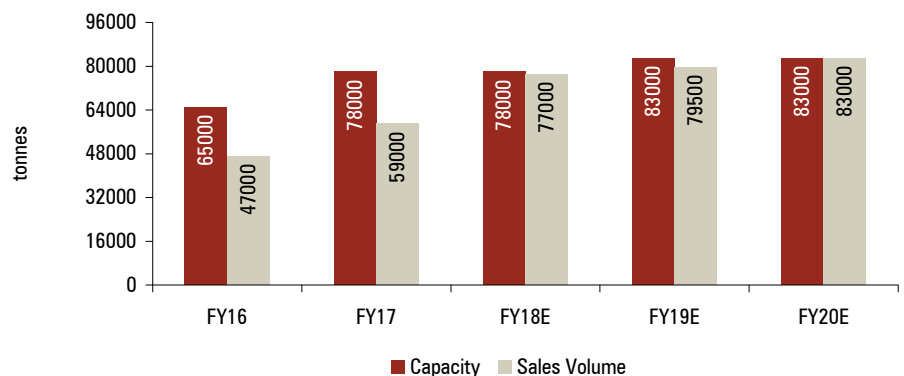
Leading producer of emulsion polymers

Apcotex Industries (Apcotex) is a leading producer of synthetic rubber (nitrile rubber, high styrene rubber, nitrile polyblends and nitrile powder) and synthetic latex (XSB latex, VP latex, styrene acrylics and nitrile latex) in India. The company has one of the broadest ranges of emulsion polymers. The various grades of synthetic rubber find application in products like automotive components, hoses, gaskets, rice de-husking rollers, printing and industrial rollers, friction materials, belting and footwear.

Capacity expansion to help drive topline growth

In the past four years (FY13-17), AIL witnessed capex growth of 13.5% CAGR, though mostly driven by the synthetic latex segment. Capacity in the synthetic latex segment has grown at 8.3% CAGR in FY13-17, driven by steady growth rates in consuming industries like paper (15-20%), construction (~15%) and carpet segment (8-12%). With the acquisition of OSIPL, the company has added capacity of 16000 MTPA in nitrile rubber segment. Going forward, the company intends to scale up the production of nitrile rubber to 21000 MT with a capex of ₹ 60 crore). The current production of nitrile rubber is at ~16000 MTPA.

Exhibit 1: Total capacity & sales volume trend

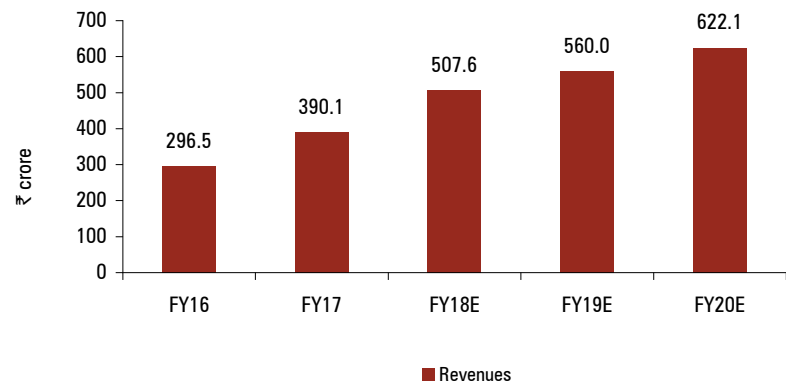


Source: Company, ICICIdirect.com Research

Revenue to grow at 16.6% CAGR over FY17-20E

The company is witnessing strong demand for all its products - synthetic latex (Taloja), synthetic rubber (HSR) (Taloja) and nitrile rubber (NRB) (Valia) across most of its user industries. Accordingly, the company has planned a capex of ₹ 60 crore towards de-bottlenecking of its capacity, and adding new capacity. Our interaction with the management suggests these increased capacities are likely to see significant utilisation of over 90% in FY19E-20E. This coupled with new product introductions in the domestic markets is likely to help the company deliver consistent growth in topline in FY18E-20E. Even on the export front, AIL is seeing strong demand for its products from geographies like Middle East, South East Asia, etc. For FY18E, we expect AIL to clock exports revenue of ₹ 100 crore (exports for FY17 at ₹ 40 crore). Going forward, exports growth is likely to continue, albeit at a slower rate due to new product introductions, higher sales to existing geographies and sales to newer geographies.

Exhibit 2: Revenue trend

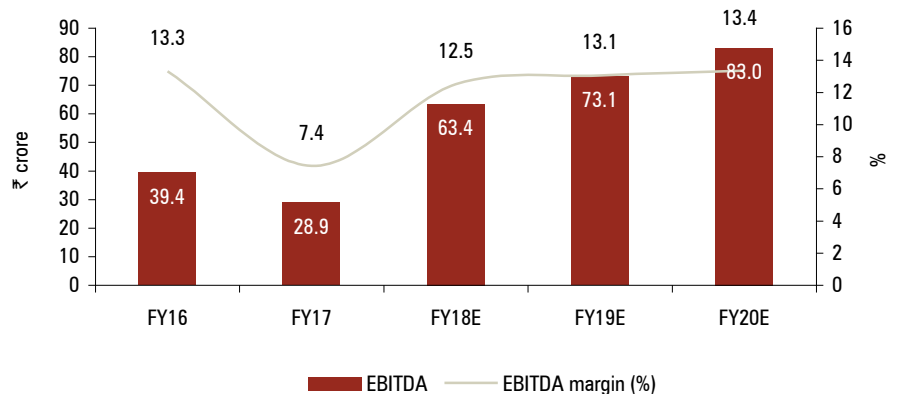


Source: Company, ICICIdirect.com Research

New products & client stickiness to help maintain margins

AIL keeps introducing newer products in the emulsion polymer segments, which helps it to command better margins. The company also offers customisation in new and existing products to its existing clients leading to higher client stickiness. Given the consistent product quality and higher client stickiness, **AIL has been able to manage the volatility of raw material prices well. The same is evident from the fact that from quarterly pricing of input and final product, the company has been successful in getting a monthly revision of inputs and final products.** Accordingly, we expect consolidated EBITDA margins to increase to 13.4% in FY20E from 12.5% in FY18E.

Exhibit 3: EBITDA & EBITDA margin

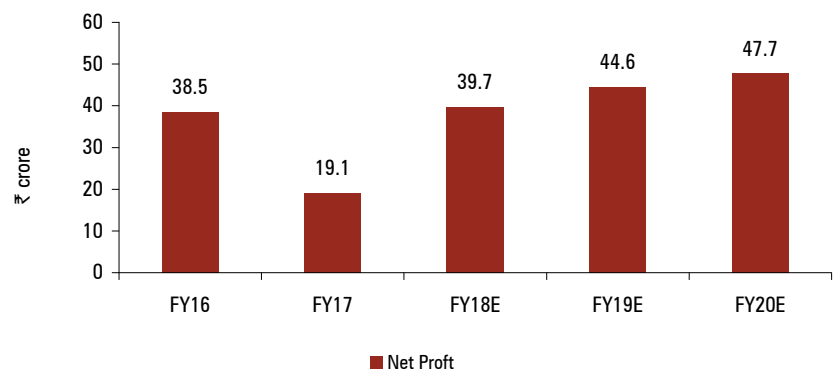


Source: Company, ICICIdirect.com Research

PAT expected to grow at 16.8% CAGR over FY17-20E

We expect PAT to grow at 16.8% CAGR over FY17-20E. PAT growth is likely to be lower than EBITDA growth on account of lower other income and high tax rates in FY19E and FY20E. AIL booked other income of ₹ 8.3 crore in FY17 on account of sale of non-current investments. The current value of non-current investments is ~₹ 24 crore. As these are equity investments, we have not factored in any growth in other income from liquidation of these investments. We also estimate higher tax rates for FY19E and FY20E at 27% and 30%, respectively (average tax rates for FY14-17 at ~15%). Thus, higher tax rates and lower other incomes are likely to keep PAT growth rates significantly lower than EBITDA growth rates in FY17-20E.

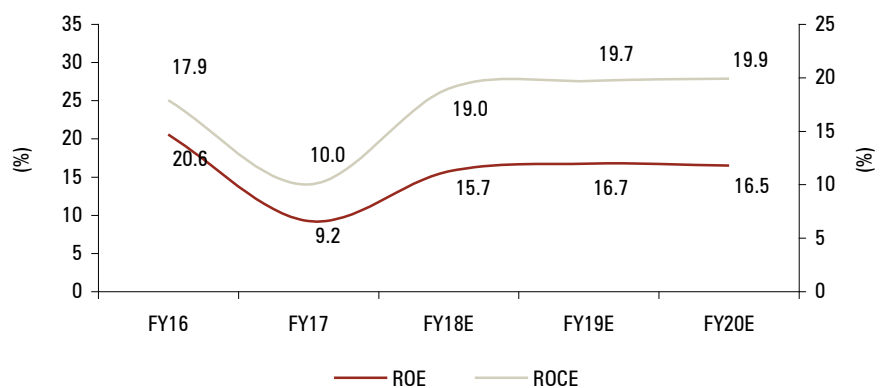
Exhibit 4: PAT trend



Source: Company, ICICIdirect.com Research

We expect RoEs and RoCEs to recover to 16.5% and 19.9%, respectively, in FY20E.

Exhibit 5: Return ratios trend



Source: Company, ICICIdirect.com Research

Outlook and Valuation

Apcotex Industries is one of the leading producers of emulsion polymer products namely, synthetic latexes (Vinyl Pyridine Latex, Carboxylated Styrene Butadiene Latex, Styrene Acrylic Latex, Nitrile Latex, etc.) and synthetic rubber (High Styrene Rubber, Nitrile Butadiene Rubber, NBR Powder and Nitrile Polyblends) in India. The company has one of the broadest ranges of products in the industrial segment and caters to a wide range of industries.

The company's synthetic latex products are used, among other applications, for tyre cord dipping, paper and paperboard coating, carpet backing, concrete modification/water proofing, non-wovens, textile finishing, paints, etc. Various grades of synthetic rubber find application in products like footwear, automotive components, rice rolls, moulded items, v-belts, conveyor belts, hoses, etc. The company's major raw materials are petrochemical products while its business could be vulnerable to high volatility in prices of crude oil and its downstream products. Over the years, a number of steps have been taken by the management to improve the operational efficiency of the company, which is visible in the past 10 year's financial history of the company.

For augmenting growth, the company has taken several organic and inorganic steps over the past several years. AIL's net debt free status, sound operating cash flow generation from the business of ~₹ 30 crore over the next two years (FY18E & FY19E) and its modernisation & efficiency plans give us reasonable confidence about the prospects of the company.

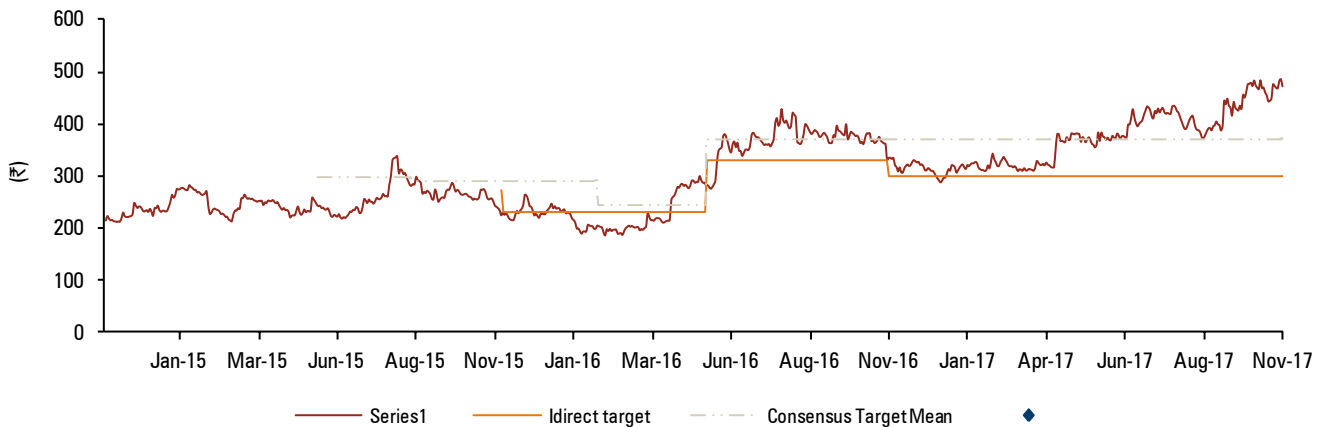
Accordingly, we expect AIL to deliver an accelerated performance over FY17-20E. We estimate sales, EBITDA and PAT to grow at a CAGR of 16.6%, 42.1% and 16.8% over FY17-20E. Strong performance coupled with healthy balance sheet augurs well for the company. Accordingly, we value the company at 21x FY20E earnings to arrive at a fair value of ₹ 480 per share. We have a **HOLD** recommendation on the company.

Exhibit 6: Valuations

Year	Sales (₹ Crore)	Sales Gr. (%)	EPS (₹)	EPS Gr. (%)	PE	(x) EV/EBITDA	(x) RoNW (%)	RoCE (%)
FY17	390.1	31.6	9.2	(50.5)	52.7	34.2	9.2	10.0
FY18E	507.6	30.1	19.2	86.3	24.5	17.9	15.7	19.0
FY19E	560.0	10.3	21.5	12.2	21.9	15.1	16.7	19.7
FY20E	622.1	11.1	23.0	6.9	20.4	13.4	16.5	19.9

Source: Company, ICICIdirect.com Research

Recommendation history vs. consensus



Source: Bloomberg, Company, ICICIdirect.com Research, Initiated coverage on 18th July 2014

Key events

Date/Year	Event
12-May	Increases synthetic latex capacity from 30,000 tonnes to 40,000 tonnes
13-May	Stock split in 1:1 ratio
14-May	Increases synthetic latex capacity from 40,000 tonnes to 55,000 tonnes
15-Apr	Strong FY15 performance with 20% YoY growth in revenues and 88% YoY growth in PAT led by expansion in EBITDA margins by 320 bps primarily due to a decline in raw material prices & better inventory management. Increase in capacity utilisations & good volume growth also contributed to the strong performance
15-Jul	Apcotex board approves bonus in 1:1 ratio
16-Feb	Acquires 100% stake of Omnova Solutions India Pvt Ltd (OSIPL) at EV of ₹ 36 crore. The acquisition gives Apcotex an opportunity to grow in new adjacencies in emulsion polymers. The company plans to invest around additional ₹ 40 crore in the acquired business

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position	Change
1	Saldhar Investments & Trading Company Pvt. Ltd.	30-Sep-2017	51.11%	10.60M	0
2	Kedia (Vijay Kishanlal)	30-Sep-2017	1.12%	0.23M	0
3	Jalan (Devanshi Anant Veer)	30-Sep-2017	0.71%	0.15M	0
4	Abhiraj Trading & Investment Pvt. Ltd.	30-Sep-2017	0.56%	0.12M	0
5	Apco Enterprises, Ltd.	30-Sep-2017	0.54%	0.11M	0
6	Choksey (Abhiraj Atul)	30-Sep-2017	0.53%	0.11M	0
7	Choksey (Parul Atul)	30-Sep-2017	0.35%	0.07M	0
8	Choksey (Atul Champaklal)	30-Sep-2017	0.34%	0.07M	0
9	Choksey (Abhiraj Atul) HUF	30-Sep-2017	0.07%	0.01M	0
10	Colortek India Ltd	07-Mar-2017	0%	0.00M	+0.00M

Source: Reuters, ICICIdirect.com Research

Shareholding Pattern

(in %)	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
Promoter	57.9	57.9	57.9	57.9	57.9
FII	0.0	0.0	0.0	0.0	0.0
DII	0.0	0.0	0.0	0.0	0.0
Others	42.1	42.1	42.1	42.1	42.1

Recent Activity

Buys			Sells		
Investor Name	Value	Shares	Investor Name	Value	Shares

Source: Company, ICICIdirect.com Research

Financial summary

Profit and loss statement ₹ Crore				
₹ crore	FY17	FY18E	FY19E	FY20E
Net Sales	388.7	507.6	560.0	622.1
Other Operating Income	1.5	-	-	-
Total Revenue	390.1	507.6	560.0	622.1
<i>Growth YoY (%)</i>		<i>30.1%</i>	<i>10.3%</i>	<i>11.1%</i>
Raw Material Expenses	269.2	324.8	358.4	398.1
Employee Expenses	29.3	39.1	42.8	47.6
Other Expenses	62.6	80.2	85.7	93.3
Total Operating Expenditure	361.2	444.1	486.9	539.0
EBITDA	28.9	63.4	73.1	83.0
<i>Growth YoY (%)</i>		<i>119.3%</i>	<i>15.2%</i>	<i>13.6%</i>
Interest	2.9	3.4	3.7	4.7
Other Income	8.3	8.8	9.2	9.2
PBDT	34.3	68.8	78.6	87.5
Depreciation	12.1	15.8	17.5	19.4
Total Tax	3.1	13.2	16.5	20.4
PAT	19.1	39.7	44.6	47.7
<i>Growth YoY (%)</i>		<i>86.3%</i>	<i>12.2%</i>	<i>6.9%</i>
EPS	9.2	19.2	21.5	23.0

Source: Company, ICICIdirect.com Research

Balance sheet ₹ Crore				
₹ crore	FY17	FY18E	FY19E	FY20E
Equity Capital	10.4	10.4	10.4	10.4
Reserve and Surplus	195.9	215.3	239.8	267.0
Total Shareholders funds	206.3	225.7	250.2	277.5
Secured Loan	-	-	-	-
Deferred Tax Liability	3.4	3.4	3.4	3.4
Total Liabilities	235	260	289	321
Gross Block	198.4	224.4	251.4	281.4
Accumulated Depreciation	110.6	126.5	143.9	163.3
Net Block	87.8	97.9	107.4	118.0
Capital WIP	6.0	5.0	6.0	6.0
Total Fixed Assets	93.7	102.9	113.4	124.0
Non-current Investments	23.6	13.6	8.6	3.6
Inventory	44.5	65.4	72.1	80.1
Debtors	78.2	104.3	115.1	127.8
Loans and Advances	27.7	50.8	56.0	62.2
Cash	6.8	18.9	18.8	28.1
Total Current Assets	163.4	236.6	272.7	310.4
Creditors	22.2	41.7	46.0	51.1
Provisions	2.9	5.4	6.0	6.6
Total Current Liabilities	47.1	92.8	102.4	113.8
Net Current Assets	116.3	150.1	171.8	198.2
Total Assets	235	260	289	321

Source: Company, ICICIdirect.com Research

Cash flow statement ₹ Crore				
₹ crore	FY17	FY18E	FY19E	FY20E
Profit/(Loss) after taxation	19.1	39.7	44.6	47.7
Add: Depreciation & Amortization	12.1	15.8	17.5	19.4
Add: Interest Paid	2.9	3.4	3.7	4.7
Cash Flow before WC changes	34.1	59.0	65.8	71.8
(Increase)/Decrease in inventory	(1.2)	(20.9)	(6.7)	(8.0)
(Increase)/Decrease in debtors	5.7	(26.1)	(10.8)	(12.8)
Change in loans and advances	(9.7)	(23.0)	(5.2)	(6.2)
Net cash flow from operations	(3.7)	27.6	51.3	54.6
(Purchase)/Sale of Fixed Assets	(11.1)	(30.0)	(30.0)	(30.0)
Net CF from Investing Activities	(2.3)	(20.0)	(25.0)	(25.0)
Proceeds/(Repayment) Loans	-	-	-	-
Dividend and Dividend Tax	-	(12.1)	(13.3)	(14.6)
Interest Paid	(2.9)	(3.4)	(3.7)	(4.7)
Net CF from Financing Activities	2.3	(14.5)	(16.1)	(18.3)
Net Cash flow	(3.6)	(2.6)	(0.0)	9.3
Cash at the beginning	25.1	21.5	18.9	18.8
Cash at the end	21.5	18.9	18.8	28.1

Source: Company, ICICIdirect.com Research

Key ratios				
	FY17	FY18E	FY19E	FY20E
Per Share Data				
Reported EPS	9.2	19.2	21.5	23.0
Cash EPS	15.0	26.8	29.9	32.4
BV per share	99.5	108.8	120.7	133.8
Dividend per share	-	5.0	5.5	6.0
Operating Ratios				
EBITDA / Net Sales	7.4	12.5	13.1	13.4
PAT / Net Sales	4.9	7.8	8.0	7.7
Return Ratios				
RoE	9.2	15.7	16.7	16.5
RoCE	10.0	19.0	19.7	19.9
RoIC	6.9	14.7	15.7	16.2
Valuation Ratios				
EV / EBITDA	34.2	17.9	15.1	13.4
P/E (Adjusted)	52.7	24.5	21.9	20.4
EV / Net Sales	2.5	2.1	1.8	1.7
Market Cap / Sales	2.5	1.9	1.7	1.6
Price to Book Value	4.7	4.5	4.0	3.6
Turnover Ratios				
Asset turnover	1.6	1.8	1.8	1.9
Solvency Ratios				
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	6.2	5.0	5.0	5.0

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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