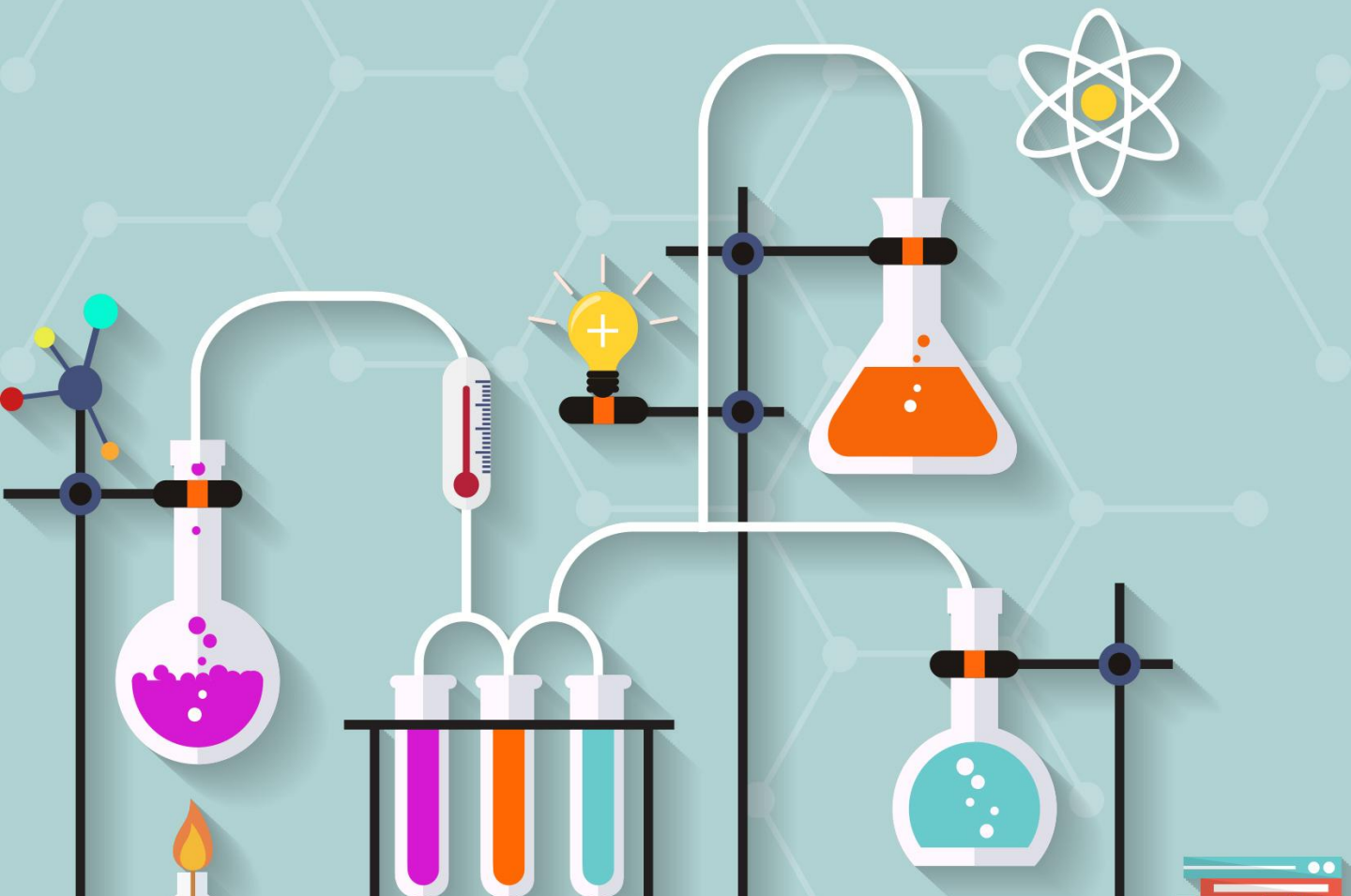


Apcotex Industries Ltd.



Apcotex Industries Ltd.

Stellar show begins

CMP INR 487	Target INR 598	Potential Upside 23%	Market Cap (INR mn) 10,117	Recommendation BUY	Sector Chemicals
-----------------------	--------------------------	--------------------------------	--------------------------------------	------------------------------	----------------------------

Result highlights

- Apcotex reported revenues of INR 1289.9 mn (+40% YoY) broadly in line with our estimates of INR 1224 mn. The revenue growth is on account of restocking of inventory post GST implementation along with an increase in the revenue from NBR in domestic market post low imports from EU and SEA during the qtr.
- During the quarter, OPM expanded by 668bps YoY to ~11.7% primarily on account of low cost inventory (-152bps YoY). Further changes in product mix also assisted improvement in the overall operational performance. This helped EBITDA to surge by 225% YoY to INR 151.1mn.
- Higher tax rate (36% v/s 3% in Q2FY17) dragged bottom-line performance, which was up by 81% YoY to INR 84.8mn lower than operating profit growth.

MARKET DATA

Shares outs (mn)	21
Equity Cap (INR mn)	104
Mkt Cap (INR mn)	10117
52 Wk H/L (INR)	510/282
Volume Avg (3m K)	20.6
Face Value (INR)	5
Bloomberg Code	APCO IN

KEY FINANCIALS

Particulars (INR mn)	FY15	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues	3,551	2,684	3,901	5,093	5,864	6,845
EBITDA	415	374	289	526	708	954
PAT	247	247	191	379	530	733
EPS	11.8	11.9	9.2	18.2	25.5	35.2
OPM	11.7%	14.0%	7.4%	10.3%	12.1%	13.9%
NPM	7.0%	9.2%	4.9%	7.4%	9.0%	10.7%

Source: Company data, KRChoksey Research

Revenue surpassed expectations primarily increasing share from NBR:

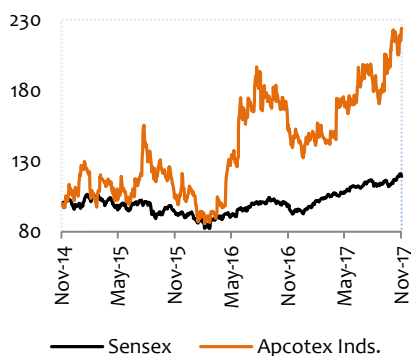
Apcotex has shown strong revenue growth of 40% YoY to INR 1289.9 mn mainly on account of restocking of inventory post GST implementation, which led to a favorable surge in domestic volumes. Additionally, low imports of NBR products largely from countries like Europe and East Asia provided opportunity for APCO to gain market share in India. Apart from this, strong export growth in latex segment improved top-line performance to certain extent during the qtr. The management highlighted growth in exports at ~95-100% YoY in Q2FY18. We expect NBR to be a major catalyst for revenue growth along with decent volumes from Latex segment going ahead. Hence, we estimate revenue to grow by ~21% CAGR over FY17-FY20E to INR 6845.5mn.

Margins well above expectations:

OPM expanded by 668bps YoY to ~11.7% primarily on account of low cost inventory (-152bps YoY). Further changes in product mix also assisted improvement in the overall operational performance. This helped EBITDA to surge by 225% YoY to INR 151.1mn. The Management highlighted that changes in product mix along with operational efficiency could aid margins going forward. We expect OPM could expand by 652bps over FY17-20E to 13.9%.

In terms of profitability, PAT rose by 81% YoY to INR 84.8mn, while NPM remained at ~6.6% (+150bps YoY).

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	33219
NIFTY	10303

SHARE HOLDING PATTERN (%)

Particulars	Sep 17	Jun 17	Mar 17
Promoters	57.92	57.91	57.9
FIIIs	0	0	0
DIIIs	0.38	0.19	0.07
Others	41.71	41.9	42.03
Total	100	100	100

20.6%

Revenue CAGR between FY 17 and FY 20E

56.6%

PAT CAGR between FY 17 and FY 20E

ANALYST

Dhavan Shah, dhavan.shah@krchoksey.com, +91-22-6696 5574
Bhavik Shah, bhavik.shah@krchoksey.com, +91-22-6696-5568

KRChoksey Research

is also available on Bloomberg KRCS<GO>
Thomson Reuters, Factset and Capital IQ

+91-22-6696 5555 / +91-22-6691 9576
www.krchoksey.com

Apcotex Industries Ltd.

Valuation & View:

APCO's growth will be largely driven by NBR segment along with new product launches in the long run. Currently, management has been focusing on improving the quality of NBR, for which, 2 capex plans have been initiated at a total cost of INR 60 crores over the next 2 years. Management highlighted that capex plan is for debottlenecking and process improvement along with increasing capacity of NBR to 21000-22000 MTPA from current 16000 MTPA. This is expected to revamp OPM along with better top-line performance. Additionally, the growth in exports, which was up by ~95-100% YoY in Q2FY18, is a positive sign depicting the performance of recently formed export team. Since exports are price lucrative, it will aid margins to some extent going forward. Further, the commissioning of power plant at Valia by Dec'17 is expected to cut power & fuel costs, thereby, considerable improvement in the operational performance is expected over medium to long term. We expect all these factors to help in expanding revenues by 20.6% CAGR from FY17-FY20E to INR 6845.5mn along with improvement in OPM by ~652bps from FY17-20E to ~13.9% vis-à-vis ~7.4% in FY17.

At CMP of INR 487, the stock has been trading at 13.7x on FY20E of our earnings estimates. We believe valuations are reasonable given the strong outlook of NBR segment along with other new products launches. However, considering the volatility of raw material price (mainly Butadiene) post uptick in the crude price, **we have assigned p/e multiple of 17x on FY20E. We have arrived a target price of INR 598, an upside potential of 23%. We have 'BUY' rating on the stock.**

Q2FY18 Result Snapshot

Particulars	Q2 FY18	Q1 FY18	Q2 FY17	Q-o-Q change %	Y-o-Y change %
Net Sales & Other Operating Income	1,289.9	1,200.7	923.7	7.4%	39.6%
Total Expenditure	1,138.8	1,115.0	877.2	2.1%	29.8%
Cost of Raw Materials	848.8	836.0	626.3	1.5%	35.5%
(Increase) / Decrease In Stocks	43.6	56.2	26.9	-22.3%	62.4%
Employee Cost	93.2	79.6	76.5	17.0%	21.7%
Other Expenses	153.1	143.2	147.5	6.9%	3.8%
EBIDTA	151.1	85.7	46.5	76.4%	225.2%
EBITDA Margins (%)	11.7%	7.1%	5.0%	458bps	668bps
Depreciation	31.2	31.2	30.6	0.0%	1.8%
EBIT	119.9	54.5	15.9	120.0%	656.6%
Other Income	16.3	22.2	39.5	-26.5%	-58.8%
Interest	4.6	5.1	7.2	-9.7%	-36.7%
PBT	131.7	71.6	48.2	83.8%	173.4%
Tax	46.8	19.3	1.3	142.9%	3566.4%
PAT before Exceptional	84.8	52.4	46.9	62.1%	81.0%
PAT Margin (%)	6.6%	4.4%	5.1%	222bps	150bps
EPS	4.08	2.52	2.25	62.1%	81.0%

Source: Company, KRChoksey Research

ANALYST

Dhavan Shah, dhavan.shah@krchoksey.com, +91-22-6696 5574
Bhavik Shah, bhavik.shah@krchoksey.com, +91-22-6696-5568

KRChoksey Research

is also available on Bloomberg KRCS<GO>
Thomson Reuters, Factset and Capital IQ

+91-22-6696 5555 / +91-22-6691 9576
www.krchoksey.com

Apcotex Industries Ltd.

Key takeaways from Conference call:

- Surge in domestic and export Volumes (mainly Middle East and South-East Asia) supported revenues during the qtr. Moreover, low cost inventory built up in Q4FY17 & Q1FY18 along with changes in the revenue mix led an improvement in the operational performance for the qtr.
- One of the largest paper customer (was contributing ~5% to the overall revenue) still remain uncertain. Presently, this customer contributes less than 50% (which was more than 50% earlier) of revenue from Paper & Paperboard sector.
- The management highlighted improvement in receivables in H1FY18 to around 60-70 days from 73 days in FY17, which has reduced working capital cycle to certain extent during the qtr.
- The company has initiated first phase of capex worth INR 30 crores for debottlenecking which will reduce operating cost and will improve the product quality of valia plant. The phase 1 capex plan will be completed by Mar'18. The company is also setting up power plant at Valia to reduce power & fuel cost, which is expected to commission at the end of Dec'17.
- The company is also considering Phase 2 capex of INR 30cr, which will increase NBR plant capacity by 35-40% to 21000-22000MT.
- The management is expecting better margins this year as compared to previous year and targeting 13-14% OPM in 2-3 years from 7.4% in FY17.
- The company is targeting gross revenues of around INR 5.5-6bn this fiscal against INR 3.9bn in FY17.
- During the qtr, exports witnessed a strong growth, which we believe is expected to continue for remaining part of the year.

ANALYST

Dhavan Shah, dhavan.shah@krchoksey.com, +91-22-6696 5574
Bhavik Shah, bhavik.shah@krchoksey.com, +91-22-6696-5568

KRChoksey Research

is also available on Bloomberg KRCS<GO>
Thomson Reuters, Factset and Capital IQ

+91-22-6696 5555 / +91-22-6691 9576
www.krchoksey.com

Apcotex Industries Ltd.

Key Financials

Consolidated Profit & Loss (INR mn)	FY15	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues	3551	2684	3901	5093	5864	6845
Cost Of Revenues (incl Stock Adj)	2502	1755	2692	3548	4053	4693
Gross Profit	1049	928	1209	1544	1810	2152
Employee Cost	141	152	293	356	399	445
Other Operating Expenses	493	402	626	662	704	753
EBITDA	415	374	289	526	708	954
Other Income	56	74	83	79	92	104
EBITDA, including OI	470	448	372	605	801	1058
Depreciation	90	89	121	125	143	164
Net Interest Exp.	32	24	29	18	12	0
EBT	348	334	222	462	646	893
Taxes	101	88	31	83	116	161
Tax Rate	29.1%	26.2%	14.1%	18.0%	18.0%	18.0%
Net Income	247	247	191	379	530	733
NI Excl Extra Items	247	247	191	379	530	733
NI Incl Extra Items	247	247	191	379	530	733
Basic EPS (INR)	11.8	11.9	9.2	18.2	25.5	35.2
Shares Outstanding	10.4	20.8	20.8	20.8	20.8	20.8

Source: Company data, KRChoksey Research

Consolidated Balance Sheet (INR mn)	FY15	FY16	FY17	FY18E	FY19E	FY20E
Share Capital	52	104	104	104	104	104
Reserves	945	1768	1959	2188	2530	3049
Total Shareholders Funds	998	1872	2063	2292	2634	3154
Long Term Borrowings	84	0	0	0	0	0
Net Deferred Tax liability	56	0	34	34	34	34
Other long term liabilities	13	14	31	42	32	38
Long term provisions	18	20	26	28	48	56
Current Liabilities and Provisions						
Short term borrowings	144	171	222	142	92	0
Trade Payables	203	341	222	488	530	656
Other Current Liabilities	199	318	220	279	321	375
Short Term Provisions	93	144	3	3	4	5
Total Liabilities	1807	2881	2822	3309	3696	4318
Net Block	633	947	937	813	920	1056
Capital Work in Progress	19	0	0	0	0	0
Non-current investments	308	178	236	236	236	236
Deferred tax assets	0	67	0	0	0	0
Long term loans and advances	63	106	86	112	112	131
Other Non Current Assets	3	61	21	28	32	38
Current Assets, Loans & Advances						
Inventories	152	433	445	433	450	581
Sundry Debtors	487	838	782	1060	1173	1407
Cash and Bank	44	98	62	418	532	588
Loans and Advances	56	74	191	112	129	150
Other Current assets	43	77	61	98	112	131
Total Assets	1807	2881	2822	3309	3696	4318

Source: Company data, KRChoksey Research

ANALYST

Dhavan Shah, dhavan.shah@krchoksey.com, +91-22-6696 5574
Bhavik Shah, bhavik.shah@krchoksey.com, +91-22-6696-5568

KRChoksey Research

is also available on Bloomberg KRCS<GO>
Thomson Reuters, Factset and Capital IQ

+91-22-6696 5555 / +91-22-6691 9576
www.krchoksey.com

Apcotex Industries Ltd.

Consolidated Cash Flow (INR mn)	FY15	FY16	FY17	FY18E	FY19E	FY20E
PBT & Extraordinary	348	334	222	462	646	893
Depreciation	90	89	121	125	143	164
(Inc) / Dec in Working Capital	(6)	(955)	16	83	(71)	(236)
Taxes	(98)	(70)	(69)	(83)	(116)	(161)
Others	(14)	(43)	(63)	18	12	0
Cash from Ops.	320	(644)	227	605	613	661
Purchase of Fixed Assets	(76)	(65)	(113)	0	(250)	(300)
Others	0	928	21	0	0	0
Cash from Investing	(76)	863	(91)	0	(250)	(300)
Borrowings (Net)	(167)	(57)	(32)	(80)	(50)	(92)
Others	(93)	(111)	(140)	(168)	(199)	(213)
Cash from Financing	(260)	(168)	(172)	(248)	(249)	(305)
Net Change in Cash	(16)	51	(36)	357	114	56
BF Cash	61	44	98	62	418	532
END Cash	44	98	62	418	532	588

Source: Company data, KRChoksey Research

Ratio Analysis	FY15	FY16	FY17	FY18E	FY19E	FY20E
Profitability						
Return on Assets (%)	13.7	8.6	6.8	11.5	14.3	17.0
Return on Capital (%)	32.6	18.8	11.6	20.1	23.9	27.2
Return on Equity (%)	24.7	13.2	9.3	16.5	20.1	23.2
Margin Trend						
Gross Margin (%)	29.5	34.6	31.0	30.3	30.9	31.4
EBITDA Margin (%)	11.7	14.0	7.4	10.3	12.1	13.9
Net Margin (%)	7.0	9.2	4.9	7.4	9.0	10.7
Liquidity						
Current Ratio	1.2	1.6	2.3	2.3	2.5	2.8
Quick Ratio	1.0	1.1	1.6	1.8	2.1	2.2
Debtor Days	50	115	73	76	73	75
Inventory Days	16	59	42	31	28	31
Creditor Days	21	47	21	35	33	35
Cash conversion cycle	45	127	94	72	68	71
Solvency						
Total Debt / Equity	0.2	0.1	0.1	0.1	0.0	0.0
Interest Coverage	11.7	14.8	8.8	26.6	56.9	NM
Valuation Ratios						
EV/EBITDA	12.6	27.0	35.3	18.6	13.6	9.9
P/E	40.9	40.8	52.7	26.5	19.0	13.7
P/B	5.1	5.4	4.9	4.4	3.8	3.2

Source: Company data, KRChoksey Research

ANALYST

Dhavan Shah, dhavan.shah@krchoksey.com, +91-22-6696 5574
Bhavik Shah, bhavik.shah@krchoksey.com, +91-22-6696-5568

KRChoksey Research

is also available on Bloomberg KRCS<GO>
Thomson Reuters, Factset and Capital IQ

+91-22-6696 5555 / +91-22-6691 9576
www.krchoksey.com

Apcotex Industries Ltd.

Apcotex Industries Ltd.				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
09-Nov-17	487	598	BUY	Buy	More than 15%
21-Aug-17	402	447	ACCUMULATE	Accumulate	5% – 15%
19-June-17	373	447	BUY	Hold	0 – 5%
				Reduce	-5% – 0
				Sell	Less than – 5%

ANALYST CERTIFICATION:

We, Dhavan Shah [B.Com, MS(Finance)], research analyst and Bhavik Shah [MMS(Finance), CFA (level 3 passed)], research associate, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & Conditions and other disclosures:

KRChoksey Shares and Securities Pvt. Ltd (hereinafter referred to as KRCSSPL) is a registered member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited and MCX Stock Exchange Limited. KRCSSPL is a registered Research Entity vides SEBI Registration No. INH000001295 under SEBI (Research Analyst) Regulations, 2014.

We submit that no material disciplinary action has been taken on KRCSSPL and its associates (Group Companies) by any Regulatory Authority impacting Equity Research Analysis activities.

KRCSSPL prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analyst covers. The information and opinions in this report have been prepared by KRCSSPL and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KRCSSPL. While we would endeavor to update the information herein on a reasonable basis, KRCSSPL is not under any obligation to update the information. Also, there may be regulatory, compliance or other reasons that may prevent KRCSSPL from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or KRCSSPL policies, in circumstances where KRCSSPL might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KRCSSPL will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. KRCSSPL accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Our employees in sales and marketing team, dealers and other professionals may provide oral or written market commentary or trading strategies that reflect opinions that are contrary to the opinions expressed herein, .In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

Associates (Group Companies) of KRCSSPL might have received any commission/compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of brokerage services or specific transaction or for products and services other than brokerage services.

KRCSSPL or its Associates (Group Companies) have not managed or co-managed public offering of securities for the subject company in the past twelve months

KRCSSPL encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. KRCSSPL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither KRCSSPL nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that, Dhavan Shah [B.Com, MS(Finance)], research analyst and Bhavik Shah [MMS(Finance), CFA (level 3 passed)], research associate, of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific brokerage service transactions.

KRCSSPL or its associates (Group Companies) collectively or its research analyst do not hold any financial interest/beneficial ownership of more than 1% (at the end of the month immediately preceding the date of publication of the research report) in the company covered by Analyst, and has not been engaged in market making activity of the company covered by research analyst.

It is confirmed that, Dhavan Shah [B.Com, MS(Finance)], research analyst and Bhavik Shah [MMS(Finance), CFA (level 3 passed)], research associate, do not serve as an officer, director or employee of the companies mentioned in the report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other Jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject KRCSSPL and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform them of and to observe such restriction.

Please send your feedback to research.insti@krchoksey.com
Visit us at www.krchoksey.com
Kisan Ratilal Choksey Shares and Securities Pvt. Ltd
Registered Office:
1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.
Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.
Corporate Office:
ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.
Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.