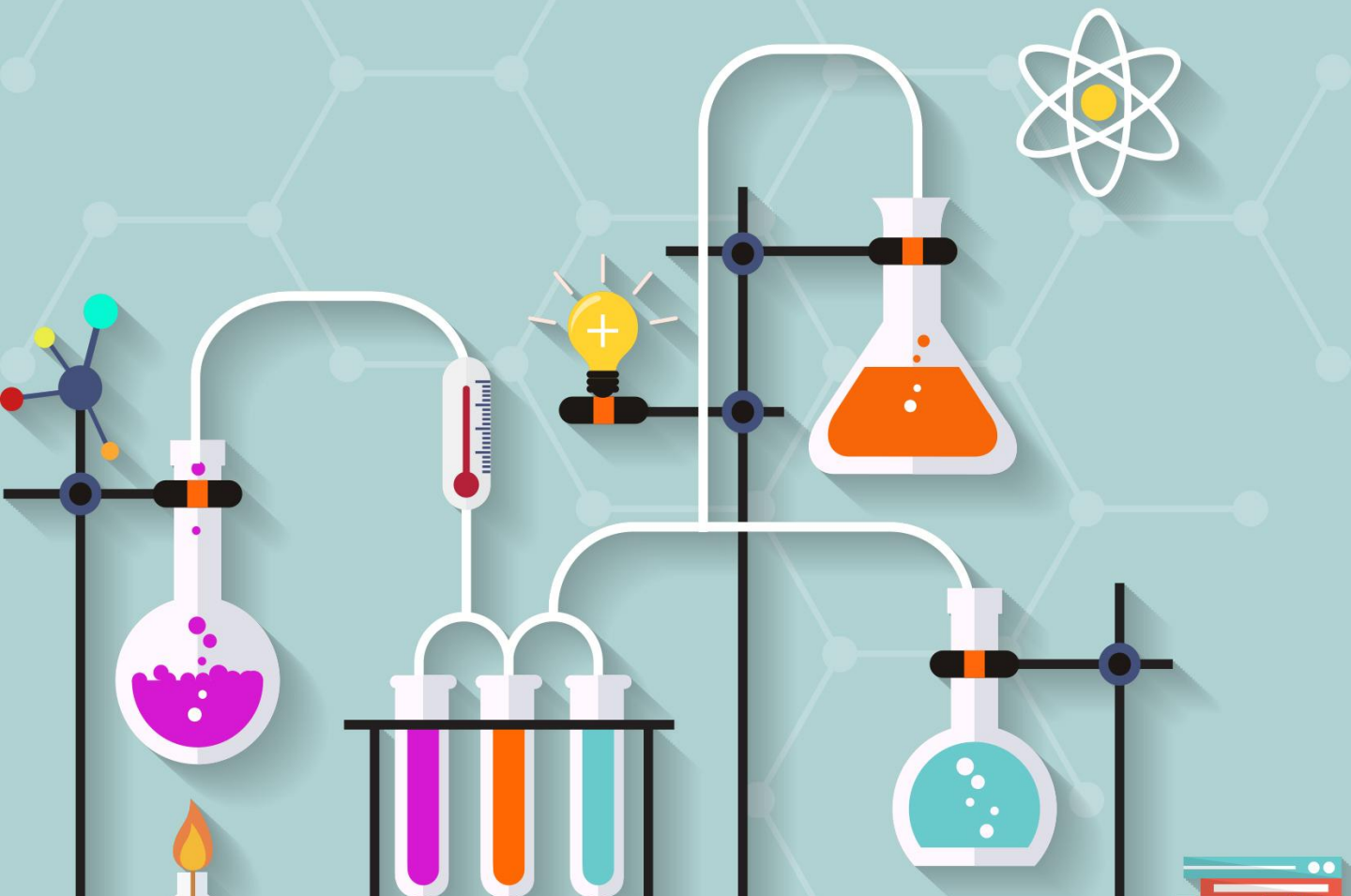


Apcotex Industries Ltd.



Apcotex Industries Ltd.

Exports, NBR and Nitrile latex to drive further growth !!

CMP INR 565	Target INR 673	Potential Upside 19%	Market Cap (INR mn) 11,521	Recommendation BUY	Sector Chemicals
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Result highlights

- Apcotex reported a revenue growth of 25% YoY to INR 150cr as against our estimates of INR 154cr. The growth was largely led by both NBR and latex segments.
- OPM expanded by 478bps YoY to 11.9% primarily due to operating leverage at Valia plant resulting into EBITDA to up by 108.7% YoY to INR 17.9cr against our estimates of INR 24cr. The variance is primarily on account of higher RMAT cost (+18% YoY) due to increase in butadiene prices.
- PAT was increased by 114.9% YoY to INR 11.3cr against our estimates of INR 12.7cr, largely supported by strong operational performance and higher other income.

MARKET DATA

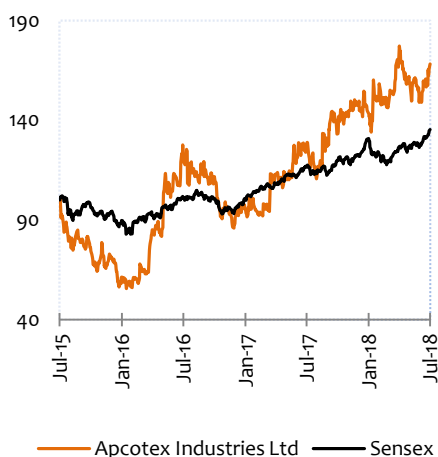
Shares outs (mn)	20
Equity Cap (INR mn)	104
Mkt Cap (INR mn)	11521
52 Wk H/L (INR)	611/370
Volume Avg (3m K)	10
Face Value (INR)	5
Bloomberg Code	APCO IN

KEY FINANCIALS

Particulars (INR mn)	FY15	FY16	FY17	FY18	FY19E	FY20E
Net Revenues	3,550.8	2,683.5	3,880.4	5,261.8	6,430.3	7,422.2
EBITDA	414.7	374.4	290.6	637.9	869.7	1,051.0
APAT	246.8	246.7	355.3	400.7	560.5	700.2
AEPS	23.6	11.9	17.1	19.2	26.9	33.6
OPM	11.7%	14.0%	7.5%	12.1%	13.5%	14.2%
ANPM	7.0%	9.2%	9.2%	7.6%	8.7%	9.4%
P/E	23.9	47.6	33.1	29.3	21.0	16.8

Source: Company data, KRChoksey Research

SHARE PRICE PERFORMANCE



Sturdy performance continues for another qtr:

Despite there was a fire at one of export client's plant, APCO managed to record 25% YoY growth in revenues. The growth was largely supported by both NBR and latex segments. The management highlighted that revenues was led by higher volumes with minimal price growth in Q1FY19. In terms of plant utilization, Valia has been operating at optimum utilization, while Taloja has been operated at around 85-90%. Going ahead, debottlenecking of NBR plant (Valia) to support better top-line growth. Further, despite there has been 20-25% increase in the butadiene price, the company has been able to pass on nominal price increase, which we expect to realize in Q2FY19 and hence stream of better financial performance is likely to continue in the coming qtrs.

OPM below than expectations:

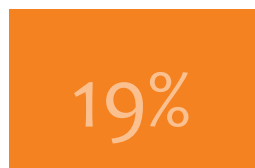
OPM surged by 478bps YoY to 11.9% resulting into EBITDA growth of 108.7% YoY to INR 17.9cr. There has been increase in butadiene price by 20-25% in Q1FY19 and butadiene being the key RM constituting 50% to the overall COGS had impacted gross margins for the qtr. GM dipped by 472bps QoQ to 30.1% resulting into EBITDA to miss our estimates. Going ahead, we expect complete pass on of incremental RMAT cost can improve GM and thereby better operational performance. Further, power plant at valia is expected to commission by Q1FY20 and additional improvement in OPM can be expected thereafter.

MARKET INFO

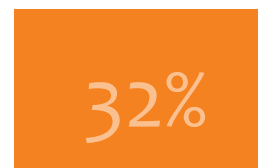
SENSEX	37494
NIFTY	11320

SHARE HOLDING PATTERN (%)

Particulars	Jun 18	Mar 18	Dec 17
Promoters	57.92	57.92	57.92
FIIIs	0.01	0	0
DIIIs	0.34	0.25	0.44
Others	41.74	41.84	41.65
Total	100	100	100



Revenue CAGR between FY 18 and FY 20E



PAT CAGR between FY 18 and FY 20E

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Apcotex Industries Ltd.

Valuation & View:

APCO has launched its new product NBR latex last qtr, which we believe is likely to gain momentum in the coming next 2-3 qtrs. Further, debottlenecking of NBR plant will also get completed in the next qtr resulting into improvement in the revenue visibility. We expect increasing revenue traction from NBR would translate into improvement in the blended realizations, GM and thereby OPM. Moreover, power plant at valia unit from next year could aid OPM to certain extent and thereby the return ratios.

APCO is trading at 21x FY19E and 16.8x FY20E of our earning estimates. We have maintained our estimates and valued the company at 20x on FY20e and arrived a target price of INR 673, potential upside of 19% from CMP of INR 565.

Q1FY19 Result Snapshot

Particulars	Q1 FY19	Q4 FY18	Q1 FY18	Q-o-Q change %	Y-o-Y change %
Net Sales & Other Operating Income	1,500.7	1,392.2	1,200.7	7.8%	25.0%
Total Expenditure	1,321.9	1,164.3	1,115.0	13.5%	18.6%
Cost of Raw Materials	1,013.5	971.9	836.0	4.3%	21.2%
(Increase) / Decrease In Stocks	35.0	-64.8	56.2	-154.0%	-37.7%
Employee Cost	91.8	80.9	79.6	13.5%	15.3%
Other Expenses	181.6	176.4	143.2	3.0%	26.8%
EBIDTA	178.8	227.9	85.7	-21.5%	108.7%
EBITDA Margins (%)	11.9%	16.4%	7.1%	-446bps	478bps
Depreciation	28.6	28.7	31.2	-0.4%	-8.3%
EBIT	150.2	199.2	54.5	-24.6%	175.5%
Other Income	18.4	-16.8	22.2	-209.3%	-17.1%
Interest	4.4	2.0	5.1	122.9%	-13.4%
PBT	164.2	173.2	71.6	-5.2%	129.2%
Tax	51.7	52.6	19.3	-1.7%	168.3%
PAT before Exceptional	112.5	120.6	52.4	-6.7%	114.9%
PAT Margin (%)	7.5%	8.7%	4.4%	-117bps	314bps
EPS	5.40	5.79	2.52	-6.7%	114.9%

Source: Company, KRChoksey Research

Key takeaways from Conference call:

- Commercialized new product in latex called XNBR latex gloves. Opportunity for XNBR latex gloves is large. It will largely be export oriented with largest consumption market being in South-east Asia at ~1MT consumption. The expected EBITDA margins for the new product line can be higher than present product baskets.
- Phase 2 of capex is on track to commission power plant and debottlenecking. About INR 70 crore could be spent in FY19. Power plant could be commissioned in Q1FY20.
- De-bottlenecking should happen by Q2FY19 and thereby NBR capacity could be increased from 16,000 to 21,000 MT.
- The company is looking at INR 250 crore expansion plans starting in FY20 which will take 18 months to commission once started with expected additional revenue of INR 500 crores. Capacity addition could be 15,000 for NBR and 40,000 for latex.

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Apcotex Industries Ltd.

Key Financials

Consolidated Profit & Loss (INR mn)	FY15	FY16	FY17	FY18	FY19E	FY20E
Net Revenues	3551	2684	3880	5262	6430	7422
Cost Of Revenues (incl Stock Adj)	2502	1755	2692	3606	4332	4983
Gross Profit	1049	928	1188	1656	2098	2439
Employee Cost	141	152	292	338	392	445
Other Operating Expenses	493	402	606	680	836	943
EBITDA	415	374	291	638	870	1051
Other Income	56	74	299	71	81	114
EBITDA, including OI	470	448	590	709	951	1165
Depreciation	90	89	121	121	137	157
Net Interest Exp.	32	24	29	16	12	7
EBT	348	334	434	558	801	1000
Taxes	101	88	84	171	240	300
Tax Rate	29.1%	26.2%	19.4%	30.7%	30.0%	30.0%
Net Income	247	247	350	386	560	700
NI Excl Extra Items	247	247	355	401	560	700
NI Incl Extra Items	247	247	350	386	560	700
Basic EPS (INR)	23.6	11.9	17.1	19.2	26.9	33.6
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	FY18	FY19E	FY20E
Share Capital	52	104	104	104	104	104
Reserves	945	1768	2125	2360	2770	3320
Total Shareholders Funds	998	1872	2229	2464	2874	3424
Long Term Borrowings	84	0	0	0	0	0
Net Deferred Tax liability	56	0	9	18	18	18
Other long term liabilities	13	14	40	80	35	41
Long term provisions	18	20	18	22	53	61
Current Liabilities and Provisions						
Short term borrowings	144	171	222	174	124	74
Trade Payables	203	341	222	481	581	712
Other Current Liabilities	199	318	228	248	352	407
Short Term Provisions	93	144	3	4	4	5
Total Liabilities	1807	2881	2971	3491	4042	4741
Net Block	633	947	878	785	1098	991
Capital Work in Progress	19	0	60	91	0	0
Non-current investments	308	178	398	499	499	499
Deferred tax assets	0	67	0	0	0	0
Long term loans and advances	63	106	0	0	123	142
Other Non Current Assets	3	61	239	209	35	41
Current Assets, Loans & Advances						
Inventories	152	433	445	493	493	630
Sundry Debtors	487	838	781	982	1286	1525
Cash and Bank	44	98	66	327	242	606
Loans and Advances	56	74	0	0	141	163
Other Current assets	43	77	103	102	123	142
Total Assets	1807	2881	2971	3491	4042	4741

Source: Company data, KRChoksey Research

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Consolidated Cash Flow (INR mn)	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT & Extraordinary	348	334	434	558	801	1000
Depreciation	90	89	121	121	137	157
(Inc) / Dec in Working Capital	(6)	(955)	16	106	(225)	(242)
Taxes	(98)	(70)	(69)	(171)	(240)	(300)
Others	(14)	(43)	(63)	16	12	7
Cash from Ops.	320	(644)	439	630	486	622
Purchase of Fixed Assets	(76)	(65)	(113)	(61)	(359)	(50)
Others	0	928	21	0	0	0
Cash from Investing	(76)	863	(91)	(61)	(359)	(50)
Borrowings (Net)	(167)	(57)	(32)	(49)	(50)	(50)
Others	(93)	(111)	(140)	(166)	(163)	(158)
Cash from Financing	(260)	(168)	(172)	(215)	(213)	(208)
Net Change in Cash	(16)	51	176	355	(86)	365
BF Cash	61	44	98	66	327	242
END Cash	44	98	66	327	242	606

Source: Company data, KRChoksey Research

Ratio Analysis	FY15	FY16	FY17	FY18	FY19E	FY20E
Profitability						
Return on Assets (%)	13.7	8.6	11.8	11.1	13.9	14.8
Return on Capital (%)	32.6	18.8	20.4	22.7	27.3	28.4
Return on Equity (%)	24.7	13.2	15.7	15.7	19.5	20.5
Margin Trend						
Gross Margin (%)	29.5	34.6	30.6	31.5	32.6	32.9
EBITDA Margin (%)	11.7	14.0	7.5	12.1	13.5	14.2
Net Margin (%)	7.0	9.2	9.0	7.3	8.7	9.4
Liquidity						
Current Ratio	1.2	1.6	2.1	2.1	2.2	2.6
Quick Ratio	1.0	1.1	1.4	1.6	1.7	2.0
Debtor Days	50	115	73	68	73	75
Inventory Days	16	59	42	34	28	31
Creditor Days	21	47	21	33	33	35
Cash conversion cycle	45	127	94	69	68	71
Solvency						
Total Debt / Equity	0.2	0.1	0.1	0.1	0.0	0.0
Interest Coverage	11.7	14.8	16.3	37.4	65.7	NM
Valuation Ratios						
EV/EBITDA	14.7	31.6	41.0	18.2	13.4	10.7
P/E	47.8	47.6	33.6	30.4	21.0	16.8
P/B	5.9	6.3	5.3	4.8	4.1	3.4

Source: Company data, KRChoksey Research

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Apcotex Industries Ltd.

Apcotex Industries Ltd.				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
31-Jul-18	565	673	BUY	Buy	More than 15%
07-May-18	570	673	BUY	Accumulate	5% – 15%
13-Feb-18	537	598	ACCUMULATE	Hold	0 – 5%
09-Nov-17	487	598	BUY	Reduce	-5% – 0
21-Aug-17	402	447	ACCUMULATE	Sell	Less than – 5%
19-June-17	373	447	BUY		

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