

RSec Research

Apex Frozen Foods

FMCG | India

Initiating Coverage | March 06, 2018

CMP (Rs)	686
Upside/ (Downside) (%)	19
Bloomberg Ticker	APEX IN
Market Cap. (Rs Cr.)	2,144
Free Float (%)	28
Shares O/S (Cr.)	3.1

BUY 

Target Price: Rs818

Robust Demand & Capacity Expansion to Drive Earnings

Established in 1995, Apex Frozen Foods (AFF) is a leading producer and exporter of frozen shrimps. Its product portfolio mainly consists of Vannamei Shrimp (white shrimp), which it supplies to food companies, restaurants and distributors mainly across the US and European markets. AFF is expanding its processing capacity by more than double to 35,240 MT in next 9-12 months. Higher volumes, improvement in product-mix, stable input cost, increasing demand for Vannamei shrimp and operating leverage will drive AFF's revenue and earnings growth in coming years, in our view. On the back of doubling of its capacity coupled with high operating leverage, we expect AFF's revenue, EBITDA and net profit to witness 39%, 70% and 80% CAGR, respectively through FY17-20E. **We initiate coverage on the stock with a BUY recommendation and Target Price of Rs818, based on 18x FY20E earnings.**

Doubling Capacity for Shrimp Processing

AFF's total current capacity stands at 15,240MT, out of which its owned capacity stands at 9,240MT, while the balance 6,000MT is managed through processing arrangements with Royale Marine Impex. AFF is now setting up new processing plant in East Godavari district with a capacity of 20,000MT, which is expected to be commissioned by 2QFY19. This new facility will also include 5,000MT of value-added products like cooked, breaded and par-fried shrimp, along with 5,000MT of cold storage facility. Currently, AFF operates at full capacity at its existing facilities. AFF expects new plant's capacity utilisation at 40-50% and ~70-75% in FY19E and FY20E, respectively. Expansion of in-house capacity and added focus on value-added products will enable AFF to increase its realisations per unit and margins, going forward.

Strategically located Processing Plant

AFF's processing plant is located at Kakinada, AP, which is at a 10-200km distance from its shrimp sourcing ponds. Similarly, it is situated at a distance of just 20km from Kakinada port and 150km from Vizag port. This enables the Company to procure raw material at reasonable cost and save on logistics and transportation expenses for its finished products as well. AFF's new proposed plant in East Godavari district is also coming in at close proximity to its existing plant. Apart from all these factors, AFF also benefits from being located in state of AP as it receives several incentives/subsidies for establishing shrimp farm, purchasing feed, setting up processing plant and other tax benefits.

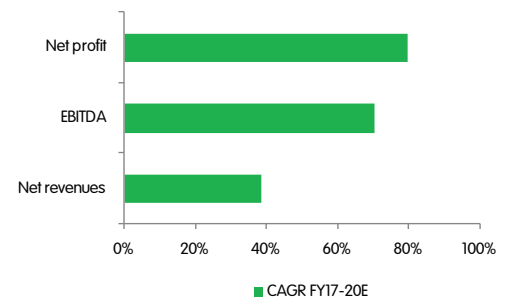
Integrated Operations with Robust Sourcing

AFF has several ponds situated in its captive area covering 1,800 acres (owned land: 110 acres), which enables the Company to procure quality shrimp at relatively lower cost. It derives 18-20% of its shrimp requirement through its owned farms, which is estimated to increase to 25% in coming years, thereby aiding margin expansion. Average procurement cost for the Company is ~Rs350-Rs380/kg, which becomes cheaper by Rs60-80/kg in case of owned farms. AFF is also adding a new Hatchery that will increase the overall capacity from 1bn seeds to 1.4bn seeds.

Outlook & Valuation

Increasing demand for Indian Vannamei shrimp in the US and EU markets, commissioning of new capacities, improved product-mix and high operating leverage will be the key growth drivers for AFF in coming years. We expect AFF to report revenues of Rs1,352 crore/ Rs1,863 crore and net profit of Rs96 crore/Rs142 crore in FY19E and FY20E respectively. Based on expected EPS of Rs45.4, the stock currently trades at 15.1x FY20E earnings. We also expect AFF's RoE to increase from 25% in FY17 to 29% in FY20E and RoCE from 24% to 39% in the same period. **We initiate coverage on the stock with BUY recommendation and Target Price of Rs818, based on 18x FY20E earnings, which implies 19% upside from the current levels.**

CAGR- FY17-FY20E (%)



Share Price (%)

	1 mth	3 mth	12 mth
Absolute Performance	(5.5)	(20.2)	-
Relative Performance	(1.8)	(22.5)	-

Shareholding Pattern (%)

	Sept'17	Dec'17
Promoter	72.1	72.4
Public	27.9	27.6

1 Year Stock Price Performance



Note: * CMP as on March 05, 2018

Key Financials (Rs cr)

	FY17	FY18E	FY19E	FY20E
Sales	699	1,027	1,352	1,863
EBITDA	45	108	151	222
Net profit	24	70	96	142
EPS (Rs)	10.2	22.2	30.6	45.4
DPS (Rs)	1.0	2.0	3.0	4.0
P/E (x)	67.4	30.8	22.4	15.1
P/B (x)	17.0	7.5	5.8	4.3
EV/EBITDA (x)	39.0	20.1	14.3	9.5
ROE (%)	25.2	24.3	25.8	28.6
ROCE (%)	24.2	30.4	34.0	39.3

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Company Overview

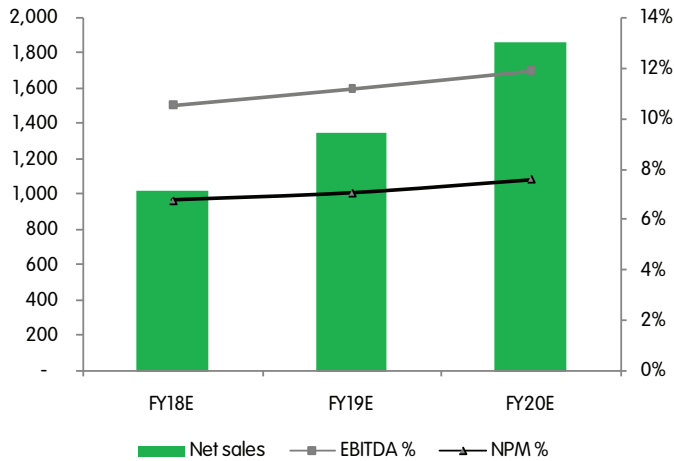
Promoted by Karuturi Satyanarayana Murthy and Karuturi Subrahmanya Chowdary, Apex Frozen Foods is a key player in the frozen shrimps business. With brands like Bay Fresh, Bay Harvest and Bay Premium, AFF is a leading suppliers to Walmart, WinCo foods, Kroger and Sysco in US and EU markets. The company is undergoing a major capacity expansion to take its overall capacity from 15,240mt to 35,240mt with focus on value added products and cold chain facility. The plant is expected to be commissioned by 2QFY19. The company is focus on increasing its in house cultivation from the current 1800 acres with a aim to increase yields and lower its raw material costs. AFF's net sales and earnings have grown at a CAGR of 11% and 22% through FY14-17, which is expected to increase substantially in the coming years on the back of new capacity addition, improved product mix and higher operating leverage.

Exhibit 1: Peers Comparison

	M.Cap (Rs cr)	Revenue (Cr)		EBITDA margin (%)		PAT (Cr)		P/E (x)		RoE (%)	
		FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Avanti Feeds	11,045	4,368	5,735	19.0	15.8	525	583	21.0	18.9	56.4	44.5
Apex Frozen Foods	2,144	1,352	1,863	11.2	11.9	96	142	22.4	15.1	25.8	28.6

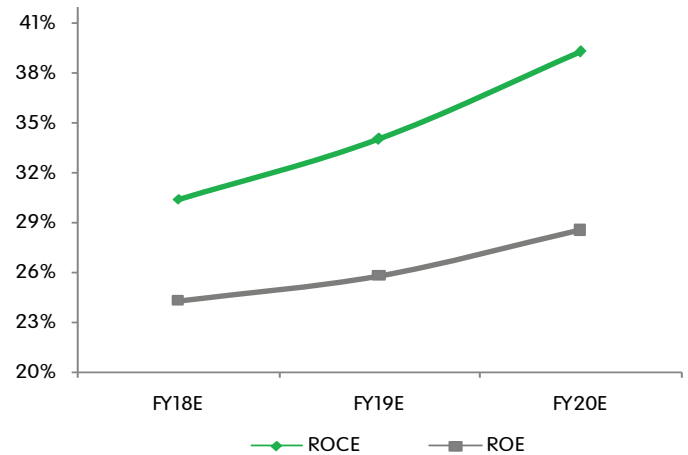
Source: RSEc Research; Bloomberg

Exhibit 2: Trend in revenues and margins



Source: Company, RSec Research

Exhibit 3: Improving Return ratios



Source: Company, RSec Research

Risks to the View

- ▶ Spreading of disease that could significantly impact its operations
- ▶ Decline in demand for shrimps in the US and European markets.
- ▶ Significant rise in procurement cost.

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Profit & Loss Statement

Y/E March (Rs cr)	FY17	FY18E	FY19E	FY20E
Net sales	699	1,027	1,352	1,863
YoY (%)	15.8	46.8	31.7	37.8
Total expenses	654	918	1,201	1,641
RM Consumed	532	729	960	1,323
Employee costs	20	33	38	44
Other exps	103	157	203	275
EBIDTA	45	108	151	222
YoY (%)	10.9	141.5	39.9	46.6
EBITDA (%)	6.4	10.5	11.2	11.9
Other income	11	18	20	22
PBIDT	55	126	171	244
Interest	11	11	10	9
Gross profit	44	115	161	235
Depreciation	6	9	14	17
PBT	38	107	147	218
(-) Tax	13	37	51	76
Tax/ PBT	36	35	35	35
PAT	24	70	96	142

Cash Flow Statement

Y/E March (Rs cr)	FY17	FY18E	FY19E	FY20E
Net profit	24	70	96	142
Depn and w/o	6	9	14	17
Change in working cap	(28)	(61)	(43)	(64)
Operating cash flow	3	17	67	94
Capital expenditure	(27)	(70)	(40)	(20)
Investments	-	-	-	-
Investing cash flow	(27)	(70)	(40)	(20)
Free cash	(24)	(53)	27	74
Dividend	(3)	(8)	(11)	(15)
Fresh equity		127	-	-
Debt/Preference shares	30	(5)	(10)	(10)
Financing cash flow	27	114	(21)	(25)
Net change in cash	3	61	6	49
Opening cash	2	5	66	72
Closing cash	5	66	72	121

Balance Sheet

Y/E March (Rs cr)	FY17	FY18E	FY19E	FY20E
Share capital	24	31	31	31
Reserves	73	254	339	466
Net worth	97	286	370	497
Total borrowings	106	101	91	81
Deferred tax liability	2	2	2	2
Total liabilities	204	388	462	579
Gross block	102	122	192	222
Less: Acc. depreciation	(19)	(27)	(42)	(58)
Net block	83	94	150	163
CWIP	1	51	21	11
Current assets	174	325	400	554
Inventories	64	103	135	186
Debtors	83	123	149	186
Cash	5	66	72	121
Other CA	23	33	44	60
Current liabilities	35	51	68	93
Provisions	18	31	41	56
Net current assets	120	243	291	405
Total assets	204	388	462	579

Key Ratios

Y/E March	FY17	FY18E	FY19E	FY20E
EPS (Rs)	10.2	22.2	30.6	45.4
CEPS (Rs)	12.8	25.0	35.2	50.7
Dividend per share (Rs)	1.0	2.0	3.0	4.0
Book value (Rs)	40.3	91.4	118.4	159.0
Interest coverage ratio	3.4	9.3	14.2	24.0
Cash conversion cycle (Days)	58.0	62.0	58.0	55.0
Debt-equity	1.1	0.4	0.2	0.2

DUPONT ANALYSIS

NPM (%)	3.5	6.8	7.1	7.6
Asset T/O ratio (x)	3.4	2.6	2.9	3.2
Equity multiplier (x)	2.1	1.4	1.2	1.2
Return on Equity (%)	25.2	24.3	25.8	28.6
ROCE (%)	24.2	30.4	34.0	39.3

Valuations

PE (x)	67.4	30.8	22.4	15.1
Cash PE (x)	53.6	27.5	19.5	13.5
Price to Book (x)	17.0	7.5	5.8	4.3
Mkt cap to sales (x)	2.4	2.1	1.6	1.2
EV/EBIDTA (x)	39.0	20.1	14.3	9.5

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Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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