

Rating matrix	
Rating	: Buy
Target	: ₹ 540
Target Period	: 12 months
Potential Upside	: 14%

What's changed?	
Target	Changed from ₹ 650 to ₹ 560
EPS FY19E	Changed from ₹ 22.8 to ₹ 20.5
EPS FY20E	Changed from ₹ 26.2 to ₹ 24.4
Rating	Unchanged

Quarterly performance					
	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	164.1	137.9	19.0	160.1	2.5
EBITDA	16.8	17.3	-3.0	19.6	-14.3
EBITDA (%)	10.3	12.6	(590) bps	12.3	(470) bps
PAT	10.0	13.3	-24.9	10.1	-1.2

Key financials				
₹ Crore	FY17	FY18	FY19E	FY20E
Revenues	390.1	526.2	626.7	695.2
EBITDA	28.9	63.8	72.1	83.4
Net Profit	19.1	38.6	42.6	50.7
EPS (₹)	9.2	18.6	20.5	24.4

Valuation summary				
	FY17	FY18	FY19E	FY20E
P/E	51.7	25.5	23.1	19.4
Target P/E	58.7	29.0	26.3	22.1
EV / EBITDA	34.6	15.2	13.9	11.9
P/BV	4.4	4.0	4.0	3.6
RoNW (%)	8.6	16.1	17.2	18.5
RoCE (%)	10.0	20.8	21.5	22.3

Stock data	
Particular	Amount
Market Capitalization (₹ Crore)	985
Total Debt (FY19E) (₹ Crore)	30.0
Cash and Investments (FY19E) (₹ Crore)	14.8
EV (FY19E) (₹ Crore)	1,000
52 week H/L	668 / 440
Equity capital (₹ Crore)	10.4
Face value (₹)	5.0

Price performance (%)				
	1M	3M	6M	12M
Apcotex Industries	(8.5)	(8.1)	(13.5)	(0.1)

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Apcotex Industries (APCLAT)

₹ 475

Weak operating performance...

- Apcotex Industries (AIL) reported weak operating numbers in Q3FY19 despite continued growth in topline numbers (highest-ever quarterly sales). This was mostly due to higher input costs that rose 27.1% YoY
- EBITDA declined 3% YoY and 14.3% QoQ despite revenue growth of 19% YoY and 2.5% QoQ. This was led by gross margins declining 460 bps YoY, 130 bps QoQ. Employee expenses also increased 11.1% YoY. Absolute revenue, EBITDA came in at ₹ 164.1 crore, ₹ 16.8 crore, respectively. EBITDA margins came in at 10.3% vs. 12.6% YoY
- Other income declined 47.5% YoY to ₹ 2.4 crore for the quarter. Accordingly, PAT declined 24.9% YoY to ₹ 10.1 crore (weak operating performance plus lower other income)

High inventory of imported RMs leads to weak operating performance

AIL's raw materials are crude linked derivatives that have significantly spiked over the last three to six months. This, coupled with a slowdown in rubber and automotive segment led to a weak operating performance for the quarter. AIL also continued to witness a demand revival across all industries in the domestic market (except auto/rubber) like paper/paper board, construction, speciality, footwear, rice rolls, etc. Continued efforts to address quality related issues have helped maintain margins. For Q3FY19, AIL witnessed a continued uptick in exports. For full year FY19E, the management expects a strong performance in this segment. For FY18, exports formed 14.2% of topline, up from 9.3% in FY17. Continued traction in exports is expected on the back of new product introductions and higher sales to existing geographies (Middle East & South East Asia).

Higher utilisation, 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 80-85% in the SL & HSR segment and ~100% in the NR segment. To meet increasing demand in the NR segment, AIL is executing a capex of ₹ 70 crore (₹ 31 crore already spent till Q3FY19) at its Valia facility, Gujarat. This is likely to increase NBR capacity by over 40%. This will also help AIL gain over 40% market share in the NR segment (to be completed by June 2019).

Capex on track, receivables & debt increase, strong earnings in FY18-20E

Over FY20-23, AIL plans to spend ₹ 200-250 crore to significantly expand its nitrile rubber (~15000 T) and synthetic latex (~40000 T) capacity. The H1FY19 balance sheet witnessed some deterioration in working capital as receivables plus inventories have increased by ~₹ 27 crore. Short-term debt has also increased by ~₹ 13 crore to ₹ 30.3 crore. Going forward, we expect AIL to deliver accelerated earnings of 14.9%, 14.4% and 14.5% in sales, EBITDA and PAT, respectively, in FY18-20E. AIL may face some margin volatility due to fluctuating prices of its key raw materials like Styrene, Butadiene and Acrylonitrile rubber. The company intends to partly offset this impact via efficient raw material purchase and increase the contribution of high margins exports. Accordingly, we remain positive on AIL. We value the company at 22x FY20E earnings to arrive at a target price of ₹ 540/share. We maintain **BUY** recommendation on the stock.

Variance analysis

	Q3FY19	Q3FY19E	Q3FY18	YoY (%)	Q2FY19	QoQ (%)	Comments
Total Revenue	164.1		137.9	19.0	160.1	2.5	All reported highest ever quarterly sales
Raw materials costs	118.0		92.8	27.1	113.0	4.4	
Employees Cost	9.4		8.5	11.1	9.4	0.3	
Other Expenses	19.9		19.3	3.3	18.1	10.0	
Total Expenditure	147.3		120.5	22.2	140.4	4.9	
EBITDA	16.8		17.3	-3.0	19.6	-14.3	
EBITDA margins (%)	10.3		12.6	-233 bps	12.3	-201 bps	EBITDA margins were under pressure due to a combination of slowdown in rubber/automotive segments and high inventory of imported RMs
Depreciation	2.9		3.0	-2.8	3.0	-0.1	
Interest	0.6		0.4	39.2	0.4	26.6	
Other Income	2.4		4.7	-47.5	-0.4	-755.3	
PBT after Exceptional Items	15.8		18.6	-15.1	15.9	-0.7	
Total Tax	5.8		5.3	9.6	5.8	NA	
PAT	10.0		13.3	-24.9	10.1	-1.2	

Source: Company, ICICI Direct Research

Change in estimates

₹ Crore)	FY17	FY18	FY19E			FY20E		
	Actual	Actual	Old	New	% Change	Old	New	% Change
Revenue	390.1	526.2	626.7	626.7	0.0	721.6	695.2	-3.7
EBITDA	28.9	63.8	77.7	72.1	-7.3	90.2	83.4	-7.5
EBITDA Margin (%)	7.4	12.1	12.4	11.5	-90 bps	12.5	12.0	-50 bps
PAT	19.1	38.6	47.4	42.6	-10.2	54.3	50.7	-6.6
EPS (₹)	9.2	18.6	22.8	20.5	-9.9	26.2	24.4	-6.7

Source: Company, ICICI Direct Research

Company Analysis

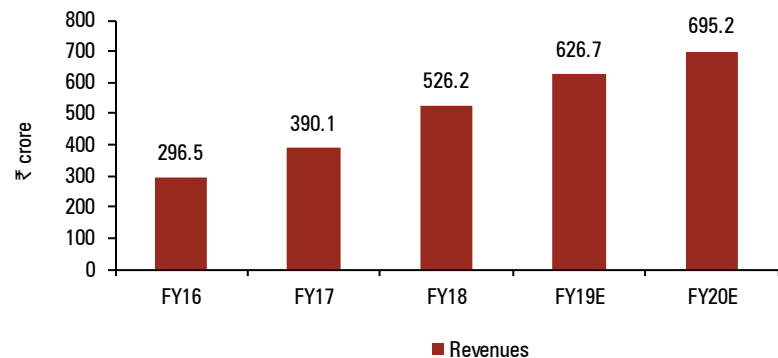
Leading producer of emulsion polymers

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.

Revenue to grow at 14.9% CAGR in FY18-20E

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, AIL has planned a capex of ₹ 60 crore towards de-bottlenecking of its capacity, and adding new capacity. Our interaction with the management suggests this increased capacity is 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 FY18-20E. Even on the export front, AIL is seeing strong demand for its products from geographies like Middle East, South East Asia, etc. For FY18, AIL clocked exports revenue of ₹ 76 crore (against ₹ 40 crore in FY17). 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 1: Revenue trend

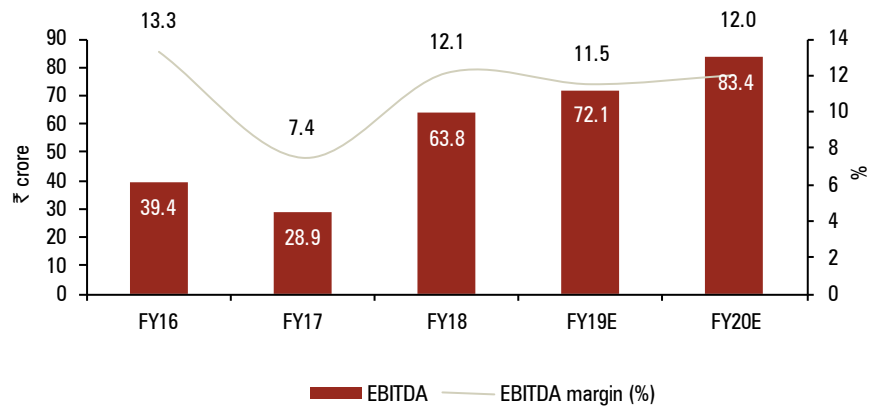


Source: Company, ICICI Direct Research

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 be stable at 11.5-12.5% in FY18-20E. We expect absolute EBITDA to grow at 14.5% CAGR in FY18-20E. We estimate absolute EBITDA of ₹ 83.4 crore by FY20E.

Exhibit 2: EBITDA & EBITDA margin trend

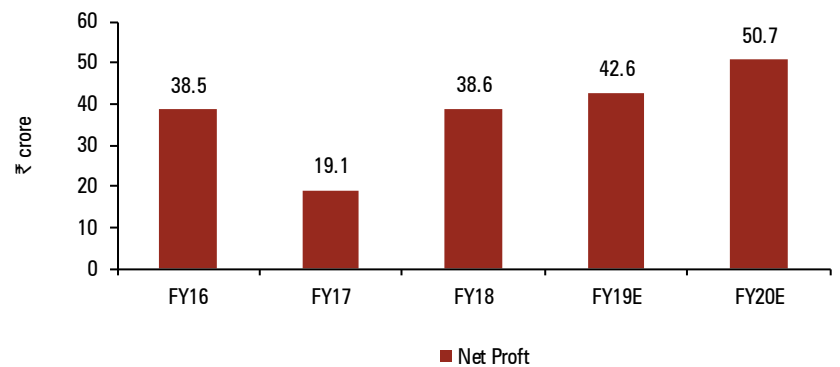


Source: Company, ICICI Direct Research

PAT expected to grow at 14.5% CAGR over FY18-20E

We expect PAT to grow at 14.5% CAGR over FY18-20E.

Exhibit 3: PAT trend

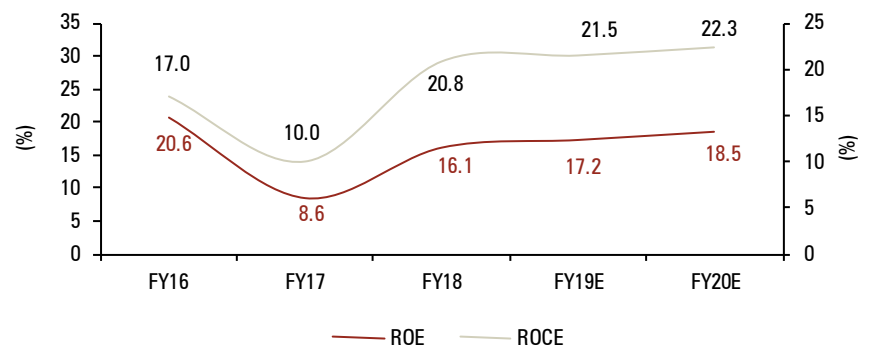


Source: Company, ICICI Direct Research

Return ratios trend

We expect RoEs and RoCEs to improve to 18.5% and 22.3%, respectively, in FY20E.

Exhibit 4: Return ratios trend



Source: Company, ICICI Direct Research

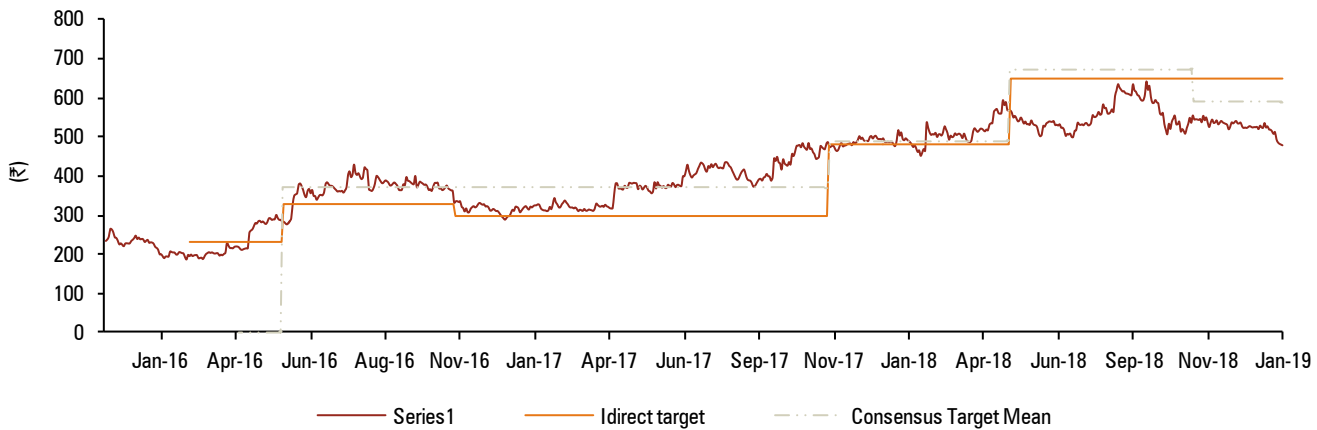
Outlook and Valuation

Apcotex Industries is one of the leading producers of emulsion polymer products viz. 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.

Over FY20-23, AIL plans to spend ₹ 200-250 crore to significantly expand its nitrile rubber (~15000 T) and synthetic latex (~40000 T) capacity. The H1FY19 balance sheet witnessed some deterioration in working capital as receivables plus inventories have increased by ~₹ 27 crore. Short-term debt has also increased by ~₹ 13 crore to ₹ 30.3 crore. Going forward, we expect AIL to deliver accelerated earnings of 14.9%, 14.4% and 14.5% in sales, EBITDA and PAT, respectively, in FY18-20E. AIL may face some margin volatility due to fluctuating prices of its key raw materials like Styrene, Butadiene and Acrylonitrile rubber. The company intends to partly offset this impact via efficient raw material purchase and increase the contribution of high margins exports. Accordingly, we remain positive on AIL. We value the company at 22x FY20E earnings to arrive at a target price of ₹ 540/share. We maintain **BUY** recommendation on the stock.

Recommendation history vs. consensus



Source: Bloomberg, Company, ICICI Direct Research, Initiated coverage on July 18, 2014

Key events

Month-Year	Event
May-16	Increases synthetic latex capacity from 30,000 tonnes to 40,000 tonnes
May-16	Stock split in 1:1 ratio
May-16	Increases synthetic latex capacity from 40,000 tonnes to 55,000 tonnes
Apr-16	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
Jul-16	Apcotex board approves bonus in 1:1 ratio
Feb-16	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, ICICI Direct Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position	Change
1	Choksey (Atul Champaklal)	31-12-2018	15.00%	3.11M	0
2	Choksey (Parul Atul)	31-12-2018	14.04%	2.91M	0
3	Choksey (Abhiraj Atul)	31-12-2018	13.00%	2.70M	0
4	Jalan (Devanshi Anant Veer)	31-12-2018	11.00%	2.28M	0
5	Kedia (Vijay Kishanlal)	31-12-2018	1.12%	0.23M	0
6	Shah (Mita Dipak)	31-12-2018	1.01%	0.21M	0
7	Abhiraj Trading & Investment Pvt. Ltd.	31-12-2018	0.56%	0.12M	0
8	Apco Enterprises, Ltd.	30-09-2018	0.54%	0.11M	0
9	L&T Investment Management Limited	30-11-2018	0.37%	0.08M	0
10	Essel Finance AMC Limited	31-12-2018	0.07%	0.02M	+0.00M

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
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	0.5	0.7
Others	42.1	42.1	42.1	41.6	41.5

Recent Activity

Investor Name	Buys		Sells	
	Value	Shares	Value	Shares
Essel Finance AMC Limited	+0.01M	+0.00M		

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement		₹ Crore			
₹ crore	FY17	FY18	FY19E	FY20E	
Net Sales	388.7	526.2	626.7	695.2	
Other Operating Income	1.5	-	-	-	
Total Revenue	390.1	526.2	626.7	695.2	
<i>Growth YoY (%)</i>		<i>34.9%</i>	<i>19.1%</i>	<i>10.9%</i>	
Raw Material Expenses	269.2	360.6	441.8	486.6	
Employee Expenses	29.3	33.8	37.6	41.7	
Other Expenses	62.6	68.0	75.2	83.4	
Total Operating Expenditure	361.2	462.4	554.6	611.8	
EBITDA	28.9	63.8	72.1	83.4	
<i>Growth YoY (%)</i>		<i>120.5%</i>	<i>13.0%</i>	<i>15.8%</i>	
Interest	2.9	1.6	2.6	3.3	
Other Income	8.3	7.1	6.0	5.5	
PBDT	34.3	69.4	75.5	85.6	
Depreciation	12.1	12.1	11.9	13.2	
Total Tax	3.1	17.1	21.0	21.7	
PAT	19.1	38.6	42.6	50.7	
<i>Growth YoY (%)</i>		<i>102.6%</i>	<i>10.2%</i>	<i>19.0%</i>	
EPS	9.2	18.6	20.5	24.4	

Source: Company, ICICI Direct Research

Balance sheet		₹ Crore			
₹ crore	FY17	FY18	FY19E	FY20E	
Equity Capital	10.4	10.4	10.4	10.4	
Reserve and Surplus	212.5	236.0	236.7	264.2	
Total Shareholders funds	222.9	246.4	247.1	274.6	
Secured Loan	-	-	-	-	
Unsecured Loan	22.2	17.4	30.0	30.0	
Others	4.9	9.9	9.9	9.9	
Total Liabilities	250	274	287	314	
Gross Block	198.4	198.4	240.0	270.0	
Accumulated Depreciation	110.6	110.6	122.5	135.7	
Net Block	87.8	78.2	117.5	134.3	
Capital WIP	6.7	9.6	15.0	15.0	
Total Fixed Assets	94.5	87.8	132.5	149.3	
Non-current Investments	39.8	49.9	24.9	14.9	
Inventory	44.5	49.3	60.1	68.6	
Debtors	78.1	98.2	123.6	137.1	
Loans and Advances	-	-	-	-	
Cash	6.6	32.7	14.8	22.0	
Total Current Assets	139.5	190.5	209.8	239.7	
Creditors	22.2	48.1	51.5	57.1	
Provisions	2.1	2.5	2.7	3.0	
Total Current Liabilities	47.0	75.5	83.8	93.0	
Net Current Assets	92.5	115.0	126.0	146.7	
Total Assets	250	274	287	314	

Source: Company, ICICI Direct Research

Cash flow statement		₹ Crore			
₹ crore	FY17	FY18	FY19E	FY20E	
Profit/(Loss) after taxation	19.1	38.6	42.6	50.7	
Add: Depreciation & Amortization	12.1	12.1	11.9	13.2	
Add: Interest Paid	2.9	1.6	2.6	3.3	
Cash Flow before WC changes	34.1	52.3	57.1	67.2	
Net Increase in Current Assets	13.4	(18.2)	(37.2)	(22.7)	
Net Increase in Current Liabilities	(34.2)	28.4	8.3	9.2	
Net cash flow from operations	13.3	62.6	28.2	53.6	
(Purchase)/Sale of Fixed Assets	(11.9)	(15.0)	(45.0)	(30.0)	
Net CF from Investing Activities	(42.7)	(17.2)	(20.0)	(20.0)	
Proceeds/(Repayment) Loans	-	-	-	-	
Dividend and Dividend Tax	-	(15.0)	(17.4)	(19.2)	
Interest Paid	(2.9)	(1.6)	(2.6)	(3.3)	
Net CF from Financing Activities	19.0	(21.6)	(31.9)	(26.5)	
Net Cash flow	(10.4)	23.8	(23.6)	7.2	
Cash at the beginning	25.1	14.7	38.5	14.8	
Cash at the end	14.7	38.5	14.8	22.0	

Source: Company, ICICI Direct Research

Key ratios		FY17	FY18	FY19E	FY20E
Per Share Data					
Reported EPS		9.2	18.6	20.5	24.4
Cash EPS		15.0	24.5	26.3	30.8
BV per share		107.5	118.8	119.2	132.4
Dividend per share		-	6.0	7.0	7.7
Operating Ratios					
EBITDA / Net Sales		7.4	12.1	11.5	12.0
PAT / Net Sales		4.9	7.5	6.8	7.3
Return Ratios					
RoE		8.6	16.1	17.2	18.5
RoCE		10.0	20.8	21.5	22.3
RoIC		7.1	21.5	21.6	23.3
Valuation Ratios					
EV / EBITDA		34.6	15.2	13.9	11.9
P/E (Adjusted)		51.7	24.9	23.1	19.4
EV / Net Sales		2.6	1.8	1.6	1.4
Market Cap / Sales		2.5	1.9	1.6	1.4
Price to Book Value		4.4	4.0	4.0	3.6
Turnover Ratios					
Asset turnover		1.5	2.0	2.1	2.2
Solvency Ratios					
Debt / Equity		0.1	0.1	0.1	0.1
Current Ratio		5.5	3.0	3.5	3.5

Source: Company, ICICI Direct Research

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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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