

New NBR capacity to support financial performance

Apcotex reported revenue growth of 9% YoY to ₹ 151.74 crore partly due to higher plant utilisation at Valia plant (NBR products) along with decent growth in the construction latex segment. There was a fall in prices of key raw materials like acrylonitrile, styrene on a QoQ basis. This led to some mark-to-mark inventory loss during the quarter, leading to lower OPM. Further, higher employee cost (up 26.7% YoY) during the quarter also put a strain on operating margins. OPM for the quarter fell 717 bps YoY to 9.2%, resulting in an EBITDA decline of 38.8% YoY to ₹ 13.96 crore. There was deferred tax credit during the quarter to the tune of ₹ 8.44 crore vs. ₹ 1.19 crore in Q4FY18. This resulted in better bottomline growth. Further, higher other income (₹ 3.05 crore vs. loss of ₹ 1.68 crore in Q4FY18) due to mark to market gain on investment portfolio also facilitated bottomline to post a positive performance for the quarter. PAT remained at ₹ 15.28 crore (up 26.7% YoY). After a slow start, growth may pan out in subsequent quarters.

Nitrile latex, debottlenecking NBR capacity, to aid topline growth in medium to long run

The company has been debottlenecking its Valia plant, which will expand NBR capacity to 22000 MTPA from 16000 MTPA. Given the realisation of NBR remains at ₹ 150-180/kg, expansion in capacity may improve topline by ₹ 100 crore at optimum utilisation. However, NBR is largely used in the automotive industry. The present slowdown in the auto sector can curtail the growth outlook, to some extent, in the short-term. Apart from this, the company entered manufacture of nitrile latex, which has a large market globally. Since Apcotex is the sole manufacturer in the domestic market, positive development in capturing potential market can support overall financial performance in the long run.

Valia power plant to improve operational performance further

Power cost constitutes ~8-10% of sales at the Valia plant against ~4% at the Taloja plant. The power plant at Valia is expected to be commissioned by June, July 2019. Since the Valia plant contributes ~35% sales to the consolidated performance, any fall in power cost can eventually improve OPM for the group, going ahead.

Valuation & Outlook

Debottlenecking of NBR plant along with nitrile latex is likely to improve revenue visibility. We expect increasing revenue traction from NBR to translate to improvement in blended realisations, gross margins and thereby OPM. Moreover, power plant at the Valia unit from next quarter could aid OPM, to a certain extent, and, thereby, return ratios. We value the stock at 18x P/E on FY21E and arrive at a target price of ₹ 575. We maintain our **HOLD** rating on the stock.



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	1,136
Total Debt (FY19) (₹ Crore)	4.0
Cash and Investments (FY19) (₹ Crore)	10.1
EV (FY19) (₹ Crore)	1,104
52 week H/L	669 / 429
Equity capital (₹ Crore)	10.4
Face value (₹)	5.0

Key Highlights

- Nitrile latex gloves and debottlenecking NBR capacity, to aid topline growth in medium-long run
- Power plant at Valia to improve operational performance further
Expect IT service margins in range of ~18% as sustainable.
- **Key Risks:** Slowdown in auto sector can put pressure on NBR volumes. Further, large capex and poor operational performance can make balance sheet more stressed.

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Key Financial Summary

Key Financials	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Net Sales	389	526	626	638	734	8%
EBITDA	29	64	68	75	99	21%
EBITDA Margins (%)	7.4	12.1	10.8	11.8	13.5	
Net Profit	19	39	47	50	66	19%
EPS (₹)	9.2	19.1	22.5	24.3	31.8	
P/E	59.6	28.7	24.4	22.6	17.2	
RoNW (%)	8.6	16.1	16.8	18.1	20.5	
RoCE (%)	10.0	20.8	20.5	22.9	26.6	

Exhibit 1: Variance Analysis

	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
Total Revenue	151.7		139.2	9.0	164.1	-7.5	Growth was partly led by higher utilisation at Valia plant. Further, decent growth from construction latex drove topline
Raw materials costs	107.2		90.7	18.2	118.0	-9.1	Mark to mark inventory loss due to a fall in acrylonitrile and styrene prices resulted in higher RMAT cost
Employees Cost	10.3		8.1	26.7	9.4	9.0	
Other Expenses	20.3		17.6	15.2	19.9	2.0	
Total Expenditure	137.8		116.4	18.3	147.3	-6.5	
EBITDA	14.0		22.8	-38.8	16.8	-17.1	
EBITDA margins (%)	9.2		16.4	-717 bps	10.3	-106 bps	EBITDA margins were under pressure due to a combination of higher employee cost and high inventory of imported RMs
Depreciation	3.0		2.9	5.5	2.9	2.7	
Interest	0.4		0.2	79.3	0.6	-37.4	
Other Income	3.1		-1.7	-281.4	2.4	24.8	
PBT after Exceptional Item	13.6		17.3	-21.3	15.8	-13.5	
Total Tax	-1.7		5.3	-131.4	5.8	NA	Tax credit during the quarter was related to Omnova acquisition
PAT	15.3		12.1	26.7	10.0	53.1	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY20E			FY21E	Comments
₹ Crore	Old	New	% Change	Introduced	
Revenue	695	638	-8.30	734	Change in FY20 estimates to factor in lower realisation growth and stable volume growth. However, zero finance cost due to better FCF generation to drive bottom-line growth
EBITDA	83	75	-9.80	99	
EBITDA Margin (%)	12.0	11.8	-171 bps	13.5	
PAT	51	50	-0.74	66	
EPS (₹)	24.4	24.3	-0.55	31.8	

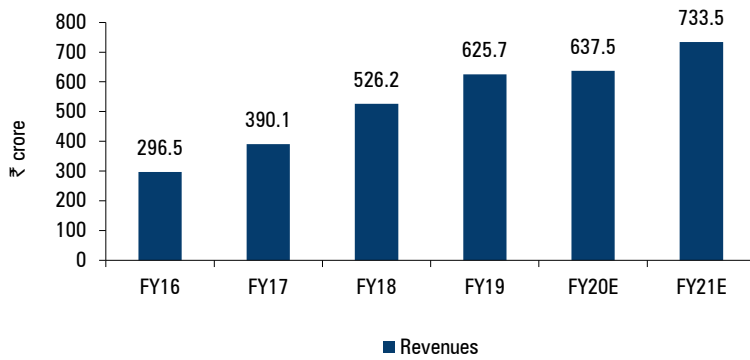
Source: Company, ICICI Direct Research

Conference Call Highlights

- The topline growth for Q4FY19 remained lower primarily due to a slowdown in the carpet industry resulting in a fall in the sales volume of XSB latex. On the other hand, the company is witnessing decent growth in the construction latex segment
- There has been a fall in acrylonitrile and styrene prices on a QoQ basis. This has led to some mark to mark inventory losses in Q4FY19
- The company has been keeping inventory of a month or two for acrylonitrile and two to three weeks of styrene
- Nitrile latex gloves demand is currently met from the Taloja plant due to capacity constraint at the Valia facility. Going ahead, the management has earmarked a capex of ₹ 50-60 crore for this segment, which can translate to overall revenues of ₹ 300 crore at optimum utilisation
- Power plant is scheduled to be commissioned in June, July 2019
- There has been a deferred tax credit during the quarter owing to Omnova acquisition. The management expects additional ₹ 0.8-0.9 crore of tax credit in Q1FY20
- The board has approved a stock split from face value of ₹ 5 to ₹ 2

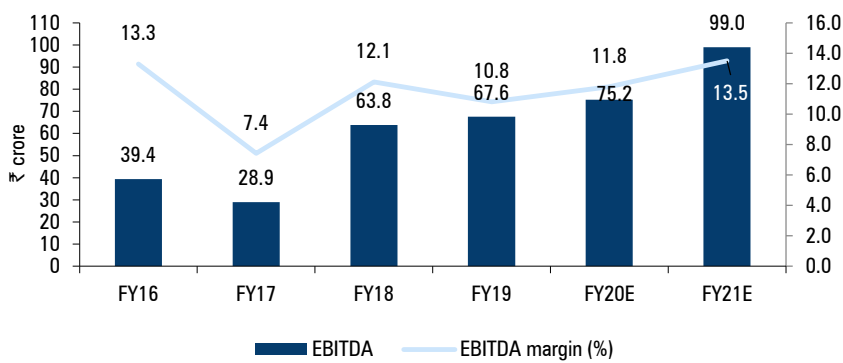
Financial story in charts

Exhibit 3: Debottlenecking NBR capacity to drive FY21E revenues



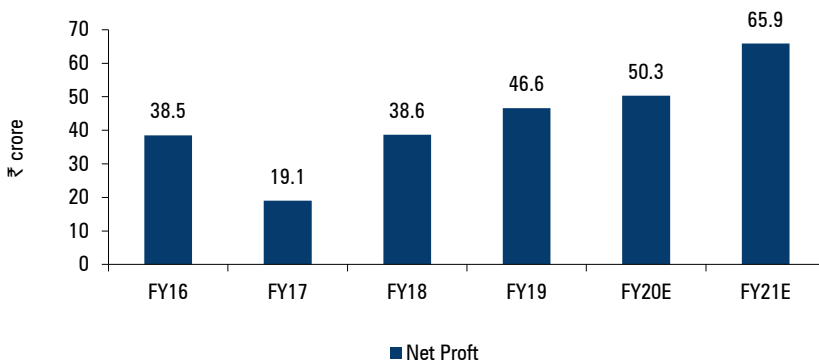
Source: Company, ICICI Direct Research

Exhibit 4: Power plant at Valia to improve operational performance



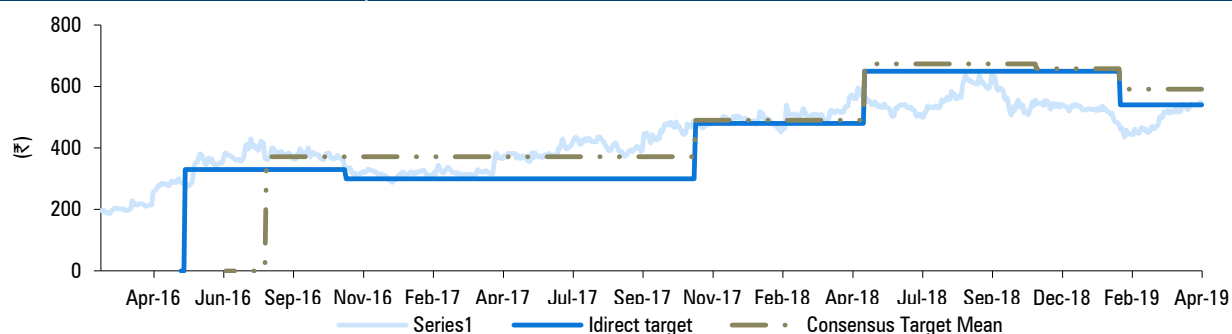
Source: Company, ICICI Direct Research

Exhibit 5: Better operational performance to drive bottomline



Source: Company, ICICI Direct Research

Exhibit 6: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 7: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position	Change
1	Choksey (Atul Champaklal)	31-03-2019	15.00%	3.11M	0
2	Choksey (Parul Atul)	31-03-2019	14.04%	2.91M	0
3	Choksey (Abhiraj Atul)	31-03-2019	13.00%	2.70M	0
4	Jalan (Devanshi Anant Veer)	31-03-2019	11.00%	2.28M	0
5	Kedia (Vijay Kishanlal)	31-03-2019	1.12%	0.23M	0
6	Shah (Mita Dipak)	31-03-2019	1.01%	0.21M	0
7	Abhiraj Trading & Investment Pvt. Ltd.	31-03-2019	0.56%	0.12M	0
8	L&T Investment Management Limited	31-03-2019	0.37%	0.08M	0
9	Essel Finance AMC Limited	31-03-2019	0.10%	0.02M	0
10	Choksey (Abhiraj Atul) HUF	31-03-2019	0.07%	0.02M	0

Source: Reuters, ICICI Direct Research

Exhibit 8: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
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	0.5	0.7	0.6
Others	42.1	42.1	41.6	41.5	41.5

Source: Company, ICICI Direct Research

Financial summary

Exhibit 9: Profit and loss statement					
₹ crore					
₹ crore	FY17	FY18	FY19	FY20E	FY21E
Net Sales	388.7	526.2	625.7	637.5	733.5
Other Operating Income	1.5	-	-	-	-
Total Revenue	390.1	526.2	625.7	637.5	733.5
Growth YoY (%)		34.9%	18.9%	1.9%	15.1%
Raw Material Expenses	269.2	360.6	443.0	443.1	498.8
Employee Expenses	29.3	33.8	38.3	42.7	47.7
Other Expenses	62.6	68.0	76.8	76.5	88.0
Total Operating Expenditure	361.2	462.4	558.1	562.3	634.5
EBITDA	28.9	63.8	67.6	75.2	99.0
Growth YoY (%)		120.5%	5.9%	11.3%	31.6%
Interest	2.9	1.6	1.8	0.2	-
Other Income	8.3	7.1	7.7	7.0	9.0
PBDT	34.3	69.4	73.5	82.0	108.0
Depreciation	12.1	12.1	11.8	12.1	13.9
Total Tax	3.1	17.1	15.1	19.6	28.2
PAT	19.1	38.6	46.6	50.3	65.9
Growth YoY (%)		102.6%	20.6%	8.0%	30.9%
EPS	9.2	18.6	22.5	24.3	31.8

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement					
₹ crore					
₹ crore	FY17	FY18	FY19	FY20E	FY21E
Profit/(Loss) after taxation	19.1	38.6	46.6	50.3	65.9
Add: Depreciation & Amortization	12.1	12.1	11.8	12.1	13.9
Add: Interest Paid	2.9	1.6	1.8	0.2	-
Cash Flow before WC changes	34.1	52.3	60.2	62.7	79.8
Net Increase in Current Assets	13.4	(18.2)	(26.5)	3.3	(39.5)
Net Increase in Current Liabilities	(34.2)	28.4	12.2	0.5	13.3
Net cash flow from operations	13.3	62.6	46.0	66.4	53.6
(Purchase)/Sale of Fixed Assets	(11.9)	(15.0)	(15.0)	(30.0)	(30.0)
Net CF from Investing Activities	(42.7)	(42.6)	(11.9)	(22.6)	(23.9)
Proceeds/(Repayment) Loans	-	-	1.0	(1.0)	-
Dividend and Dividend Tax	-	(15.0)	(18.7)	(18.7)	(18.7)
Interest Paid	(2.9)	(1.6)	(1.8)	(0.2)	-
Net CF from Financing Activities	19.0	(21.6)	(30.4)	(54.9)	(22.7)
Net Cash flow	(10.4)	(1.7)	3.6	(11.0)	7.0
Cash at the beginning	25.1	14.7	13.0	16.6	5.6
Cash at the end	14.7	13.0	16.6	5.6	12.6

*calculated, Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet					
₹ crore					
₹ crore	FY17	FY18	FY19	FY20E	FY21E
Equity Capital	10.4	10.4	10.4	10.4	10.4
Reserve and Surplus	212.5	236.0	267.4	267.1	310.2
Total Shareholders funds	222.9	246.4	277.8	277.4	320.6
Secured Loan	-	-	1.0	-	-
Unsecured Loan	22.2	17.4	3.0	-	-
Others	4.9	9.9	7.6	7.6	7.6
Total Liabilities	250	274	289	285	328
Gross Block	198.4	198.4	210.0	240.0	269.0
Accumulated Depreciation	110.6	110.6	122.4	134.5	148.5
Net Block	87.8	78.2	76.4	105.5	120.6
Capital WIP	6.7	9.6	21.2	15.0	16.0
Total Fixed Assets	94.5	87.8	97.6	120.5	136.6
Non-current Investments	39.8	49.9	42.8	32.8	22.8
Inventory	44.5	49.3	48.2	50.7	64.3
Debtors	78.1	98.2	111.2	113.5	138.7
Loans and Advances	-	-	-	-	-
Cash	6.6	7.3	10.1	5.6	12.6
Total Current Assets	139.5	165.0	194.3	186.5	233.0
Creditors	22.2	48.1	52.6	52.4	60.3
Provisions	2.1	2.5	0.4	0.4	0.5
Total Current Liabilities	47.0	75.5	87.7	88.2	101.5
Net Current Assets	92.5	89.6	106.6	98.3	131.5
Total Assets	250	274	289	285	328

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios					
	FY17	FY18	FY19	FY20E	FY21E
Per Share Data					
Reported EPS	9.2	18.6	22.5	24.3	31.8
Cash EPS	15.0	24.5	28.2	30.1	38.5
BV per share	107.5	118.8	133.9	133.8	154.6
Dividend per share	-	6.0	7.5	7.5	7.5
Operating Ratios					
EBITDA / Net Sales	7.4	12.1	10.8	11.8	13.5
PAT / Net Sales	4.9	7.5	7.4	7.9	9.0
Return Ratios					
RoE	8.6	16.1	16.8	18.1	20.5
RoCE	10.0	20.8	20.5	22.9	26.6
RoIC	7.1	21.5	22.2	24.6	29.1
Valuation Ratios					
EV / EBITDA	39.8	17.6	16.3	14.6	11.0
P/E (Adjusted)	59.6	28.7	24.4	22.6	17.2
EV / Net Sales	3.0	2.1	1.8	1.7	1.5
Market Cap / Sales	2.9	2.2	1.8	1.8	1.5
Price to Book Value	5.1	4.6	4.1	4.1	3.5
Turnover Ratios					
Asset turnover	1.5	2.0	2.4	2.5	2.6
Solvency Ratios					
Debt / Equity	0.1	0.1	0.0	-	-
Current Ratio	5.5	3.0	3.3	3.2	3.5

Source: Company, ICICI Direct Research

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