

Slowdown in auto to impact performance ahead

Apcotex reported a dismal topline performance with revenue falling 2% YoY to ₹ 146.7 crore, impacted by lower volume growth due to capacity constraints at Valia plant and poor realisation on the back of a fall in key raw material prices. Lower raw material prices improved gross margins to 33.4% (up 340 bps YoY) which in turn led to EBITDA margin expansion by 80 bps YoY at 12.3%. This led EBITDA growth of 5.5% YoY to ₹ 18.1 crore. Lower other income was on account of mark to market losses on equity investments. However, the same was negated by lower tax rate (28.1% vs. 31.5% in Q1FY19) to some extent during the quarter. PAT remained almost flat at ₹ 11.4 crore against ₹ 11.2 crore in Q1FY19.

New capex to provide long term visibility

The management has already approved capex of around ₹ 60 crore for nitrile latex while it has been de-bottlenecking NBR capacity by 5000-6000 MT. We expect NBR's incremental capacity to drive revenues in FY21. Nitrile latex capacity is expected to come on board within 18-24 months post environmental approval. Hence, this bodes well for growth visibility over FY23-24. We expect NBR volumes from auto to remain sluggish at least in the near term. However, the volume loss in auto segment can be recouped from other sectors such as rice de-husk, hoses, etc. Further, softness in raw material cost would keep realisation subdued. Thus, revenue growth is expected to remain subdued in the near term.

OPM to inch up to 13-14% in medium term

Given a benign input cost environment, we expect the company to maintain its gross spreads amid flattish volume growth. Coupled with the same commissioning of power plant will aid other expenses and help margins inch up to 13.5% by FY21E. However, in the longer term, a change in product mix towards NBR and nitrile latex is expected to drive operating margins.

Valuation & Outlook

Auto and construction sectors represent major share to the Apcotex revenue and given the present situation of both sectors in domestic as well as global market, we expect the company could witness subdued volume growth in NBR and construction latex. Further, sluggish demand along with fall in raw material also provides meagre realization growth visibility, in turn limited revenue growth in FY20E. Going ahead, debottlenecking of 5000-6000 MT of NBR capacity is expected to drive FY21E revenues, On the other hand, management highlighted that they may sacrifice operating margins to maintain volume growth due to ongoing turbulence in auto industry. This restricts meaningful bottom-line growth and hence, we cut our P/E multiple to 16x (implied EV/EBITDA ~9.6x) from 18x on FY21E and arrive at a target price of ₹ 205, with a potential upside of 8%. We maintain **HOLD** rating on the stock.

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 (₹)	3.7	7.6	9.0	9.7	12.7	
P/E	51.1	24.6	20.9	19.4	14.8	
RoNW (%)	8.6	16.1	16.8	18.1	20.5	
RoCE (%)	10.0	20.8	20.5	22.9	26.6	

Source: Company, ICICI Direct Research



Particulars	Amount
Market Capitalization (₹ Crore)	980
Total Debt (FY19P) (₹ Crore)	4.0
Cash and Investments (FY19E) (₹ Crore)	36.2
EV (FY19E) (₹ Crore)	948
52 week H/L	268 / 172
Equity capital (₹ Crore)	10.4
Face value (₹)	2.0

Key Highlights

- New capex to provide long term visibility
- OPM to inch up to 13-14% in medium term
- **Key risks:** Slowdown in auto sector, poor global growth outlook and subdued realisation growth visibility along with capacity constraint can put pressure on financial performance

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Exhibit 1: Variance Analysis

	Q1FY20	Q1FY20E	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
Total Revenue	146.7		149.7	-2.0	151.7	-3.3	Growth hampered by poor volume growth in NBR segment. Further, lower realisation also curtailed growth
Raw materials costs	97.8		104.8	-6.7	107.2	-8.8	Fall in Butadiene, Acrylonitrile prices led to lower RMAAT cost
Employees Cost	9.8		9.3	5.6	10.3	-4.6	
Other Expenses	21.1		18.4	14.2	20.3	3.6	
Total Expenditure	128.6		132.6	-3.0	137.8	-6.6	
EBITDA	18.1		17.2	5.5	14.0	29.7	
EBITDA margins (%)	12.3		11.5	88 bps	9.2	314 bps	EBITDA margins improved largely on account of better gross margins
Depreciation	3.0		2.9	6.5	3.0	0.6	
Interest	0.4		0.4	-8.5	0.4	13.0	
Other Income	1.1		2.6	-55.2	3.1	-62.3	Lower investment portfolio gains led to fall in other income
PBT after Exceptional Item	15.8		16.4	-3.8	13.6	16.0	
Total Tax	4.4		5.2	-14.2	-1.7	NA	
PAT	11.4		11.2	1.0	15.3	-25.6	Bottomline remained flat YoY due to lower other income. However, fall in tax rate negated adverse impact to certain

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	638	638	0.00	734	734	0.00	
EBITDA	75	75	0.00	99	99	0.00	
EBITDA Margin (%)	11.8	11.8	0 bps	13.5	13.5	0 bps	Maintain estimates for both FY20E and FY21E
PAT	50	50	0.00	66	66	0.00	
EPS (₹)	9.7	9.7	0.00	12.7	12.7	0.00	

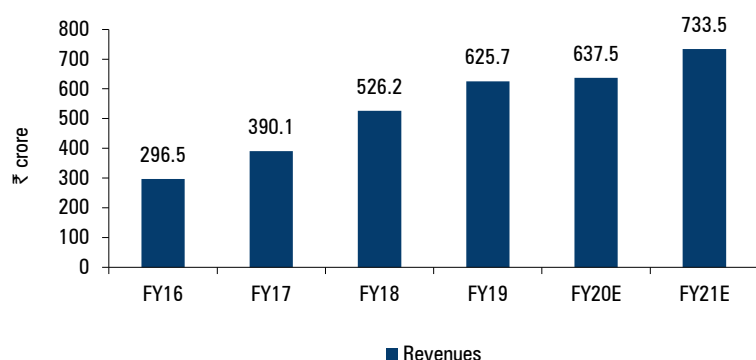
Source: Company, ICICI Direct Research

Conference Call Highlights

- The growth during the quarter remained subdued due to the sluggish environment in the auto and construction sector. The management clarified that auto & rubber industry together constitute ~30% of overall Apcotex revenue
- The company has been managing inventory on a FIFO basis. Lower raw material prices improved gross margins during the quarter
- The power plant at Valia is expected to get commissioned in October 2019. We expect it to contribute in expansion in operational performance, going ahead
- The management highlighted that it has been witnessing tough times due to the prolonged slowdown in the auto industry. The management is expecting to maintain volume growth even though they have to sacrifice margins
- The company has spent ₹ 60 crore till Q1FY20 against overall planned capex of ₹ 90 crore. The management highlighted that the balance amount will be invested in the remaining part of the year

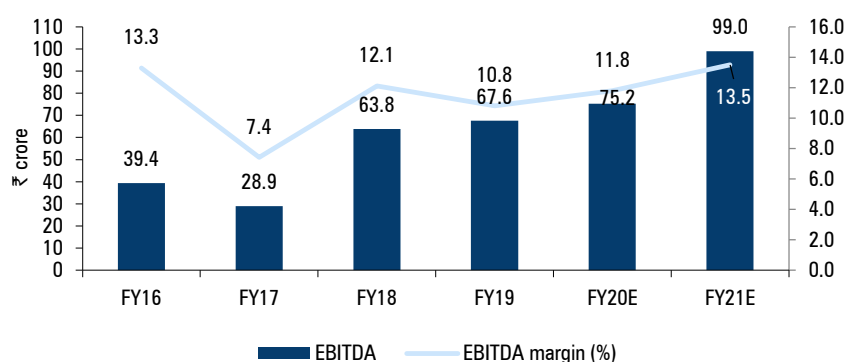
Financial story in charts

Exhibit 3: Debottlenecking NBR capacity to drive FY21E revenues



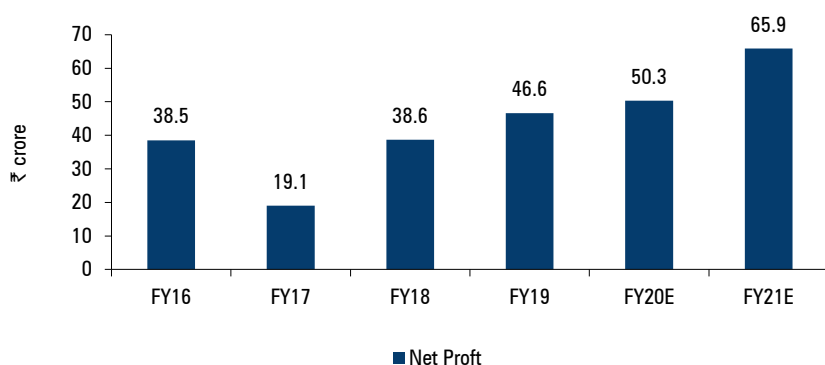
Source: Company, ICICI Direct Research

Exhibit 4: Power plant at Valia to improve operational performance



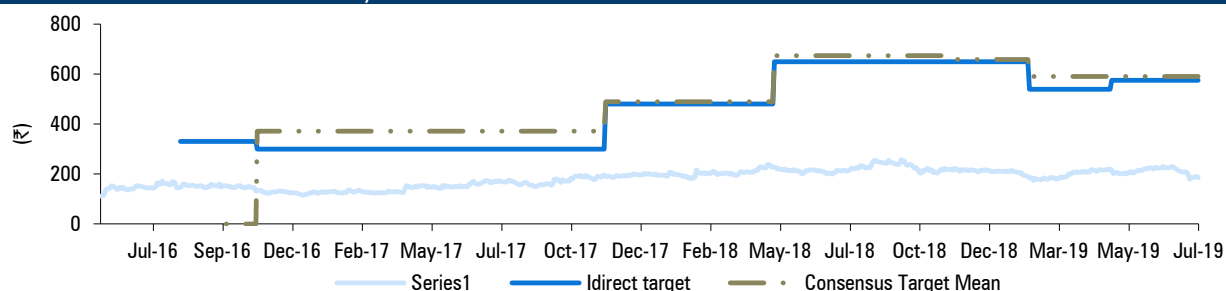
Source: Company, ICICI Direct Research

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)	30-06-2019	18.29%	7.78M	0
2	Choksey (Parul Atul)	30-06-2019	17.12%	7.28M	0
3	Choksey (Abhiraj Atul)	30-06-2019	15.85%	6.74M	0
4	Jalan (Devanshi Anant Veer)	30-06-2019	13.41%	5.70M	0
5	Kedia (Vijay Kishanlal)	30-06-2019	1.36%	0.58M	0
6	Shah (Mita Dipak)	30-06-2019	1.23%	0.52M	0
7	Abhiraj Trading & Investment Pvt. Ltd.	30-06-2019	0.68%	0.29M	0
8	L&T Investment Management Limited	30-06-2019	0.45%	0.19M	0
9	Essel Finance AMC Limited	30-06-2019	0.13%	0.05M	0
10	Choksey (Abhiraj Atul) HUF	30-06-2019	0.09%	0.04M	0

Source: Reuters, ICICI Direct Research

Exhibit 8: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	57.9	57.9	57.9	57.9	57.9
FII	0.0	0.0	0.0	0.0	0.0
DII	0.3	0.5	0.6	0.6	0.6
Others	41.8	41.6	41.5	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
<i>Growth YoY (%)</i>		<i>34.9%</i>	<i>18.9%</i>	<i>1.9%</i>	<i>15.1%</i>
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
<i>Growth YoY (%)</i>		<i>120.5%</i>	<i>5.9%</i>	<i>11.3%</i>	<i>31.6%</i>
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
<i>Growth YoY (%)</i>		<i>102.6%</i>	<i>20.6%</i>	<i>8.0%</i>	<i>30.9%</i>
EPS	3.7	7.5	9.0	9.7	12.7

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

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	3.7	7.5	9.0	9.7	12.7
Cash EPS	6.0	9.8	11.3	12.0	15.4
BV per share	43.0	47.5	53.6	53.5	61.8
Dividend per share	-	2.4	3.0	3.0	3.0
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	34.4	15.1	14.0	12.6	9.4
P/E (Adjusted)	51.4	24.7	21.0	19.5	14.9
EV / Net Sales	2.6	1.8	1.5	1.5	1.3
Market Cap / Sales	2.5	1.9	1.6	1.5	1.3
Price to Book Value	4.4	4.0	3.5	3.5	3.1
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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