

Apcotex Industries

Refer to important disclosures at the end of this report

Internal accruals key monitorable for near term projects

CMP: Rs 96
as of (May 22, 2020)

TP: Rs 120 (▲)
12 months

Rating: BUY (■)

Upside: 24.5 %

- Apcotex's Q4FY20 revenue came slightly ahead of our estimates (down 23.8% yoy), mainly due to lower realizations, with volumes holding ground (flat yoy/up qoq). Export markets, aided volume growth, due to diminished market price differentials.
- EBITDA margins came above our estimates, owing to a higher revenue base and lower raw material costs. Furthermore, gross margins expanded 250bps yoy.
- Feb-Mar'20 saw good demand for key products. However, due to the lockdown and supply chain issues, ~ Rs170mn of topline was lost, along with stretched working capital. Management sees next 1-2 quarters under stress and is laying out steps to better position Apcotex to benefit from ensuing demand post-recovery.
- Hands-on approach to maximize the capacity utilization would garner benefits in the medium term. We introduce FY23 estimates, forecasting topline growth at 23% CAGR (FY21-23E). We roll forward our valuations to arrive at a TP of Rs120 (earlier Rs114), and maintain our Buy rating, with UW in EAP.

What we liked: Steady volumes; directing idle capacity for products in demand; expansion plans for the near future; pre-Covid-19 utilization levels (90-95%)

What we did not like: Increase in liabilities

Volumes flat, realizations disappoint: APCOTEX's Q4FY20 revenues declined 23.8% yoy/ up 5.5% qoq to Rs1.16bn (est. Rs1.09bn), primarily due to growth arrest in volumes on account of the shutdown, which in turn hampered management's ability to execute client orders. In exports, volumes too saw an uptick due to negligible price differentials (Asia vs. Europe), although impacted by logistical clogs. Realizations were depressed, due to low prices of key raw materials (Styrene/Butadiene/ACN {down 38%/45%/41% yoy, Spot}). Management sees increased latex demand for medical gloves and is redirecting capital as well as capacity to cater to South East Asian markets.

Next 1-2 quarters to remain under pressure: EBITDA margins contracted by 237bps yoy to 6.8% in Q4FY20 due to higher employee and other expenses. The captive power plant had to be temporarily shut due to the lockdown. Management has also revaluated capex plans for Rs900mn for the next 12-15 months that would be funded by a mix of debt and internal accruals. Utilization levels are expected to be at 60-65% in the next 1-2 quarters and expected to improve going forward.

Capex strategy vital to market penetration: Management's clearly laid out strategy with regards to capex plans and ability to identify crucial ones instills confidence. However, external factors continue to bog down the overall performance, due to which we cut our earnings estimates by 18%/12% for FY21/22. We maintain our Buy rating, with a revised TP of Rs120 (15x FY23E P/E) and maintain UW in EAP. Key downside risks are slower recovery in automotive and construction sector, and price undercutting in export markets.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Speciality Chemicals \(page 9\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	6,257	4,960	5,108	6,413	7,696
EBITDA	676	334	430	624	803
EBITDA Margin (%)	10.8	6.7	8.4	9.7	10.4
APAT	466	166	204	324	410
EPS (Rs)	9.0	3.2	3.9	6.3	7.9
EPS (% chg)	16.3	(64.3)	22.6	59.1	26.4
ROE (%)	17.8	6.3	7.9	11.9	13.7
P/E (x)	10.7	30.1	24.5	15.4	12.2
EV/EBITDA (x)	7.4	15.9	12.9	9.3	7.4
P/BV (x)	1.8	2.0	1.9	1.8	1.6

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	(18)/(12)
Target Price change (%)	5.3
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	3.9	6.3
Consensus	4.8	7.1
Mean Consensus TP (12M)	Rs 114	

Stock Details

Bloomberg Code	APCO IN
Face Value (Rs)	2
Shares outstanding (mn)	52
52 Week H/L	245 / 63
M Cap (Rs bn/USD bn)	5 / 0.07
Daily Avg Volume (nos.)	59,708
Daily Avg Turnover (US\$ mn)	0.1

Shareholding Pattern Mar '20

Promoters	58.0%
FIIIs	-%
DIIIs	0.7%
Public and Others	41.3%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(6)	(32)	(40)	(54)
Rel. to Nifty	(5)	(9)	(21)	(40)

Relative price chart



Source: Bloomberg

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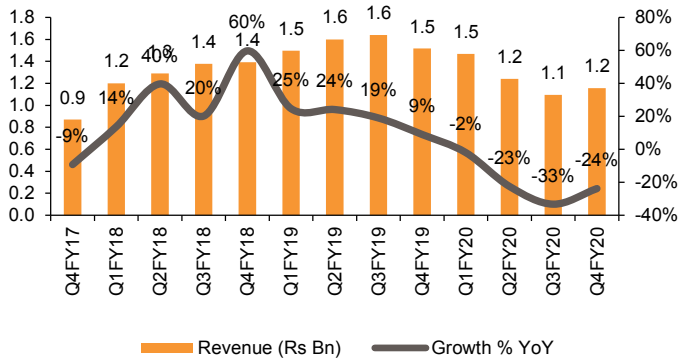
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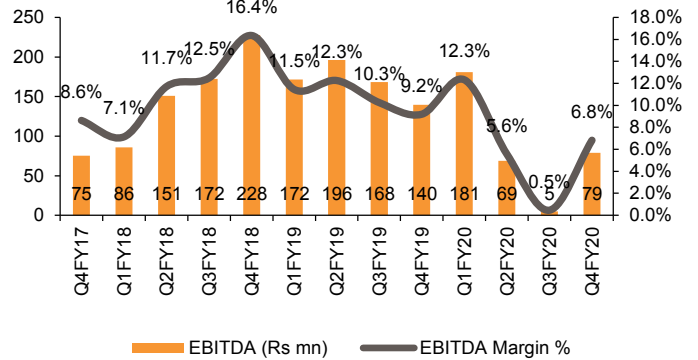
Story in Charts

Exhibit 1: Topline and growth under pressure from volumes arrest



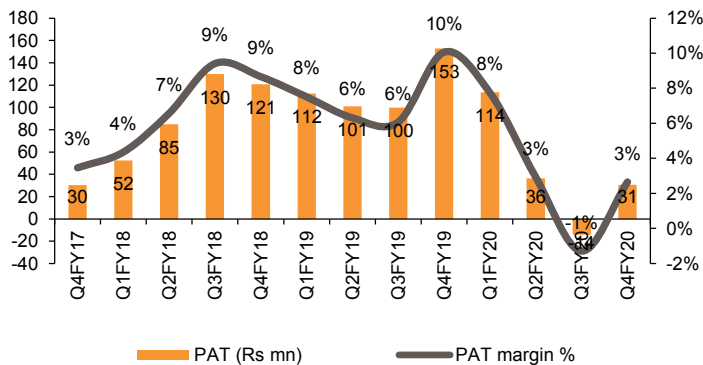
Source: Company, Emkay Research

Exhibit 2: EBITDA Margins likely to remain at current levels, next 1-2 quarters



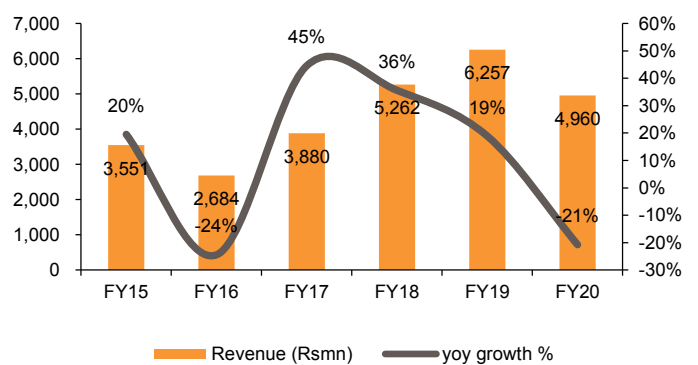
Source: Company, Emkay Research

Exhibit 3: Profitability would continue to face headwinds, from reduced demand



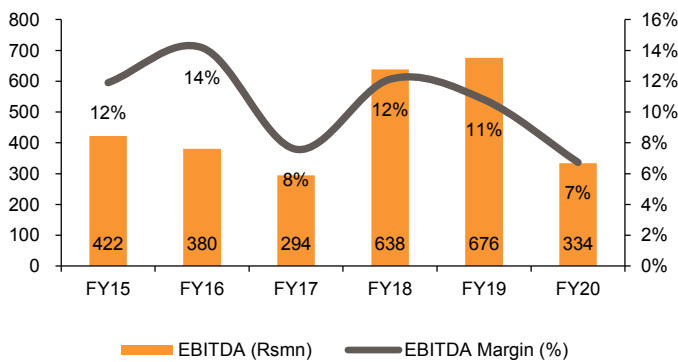
Source: Company, Emkay Research

Exhibit 4: Growth in revenue to remain under pressure in FY21, with recovery from FY22



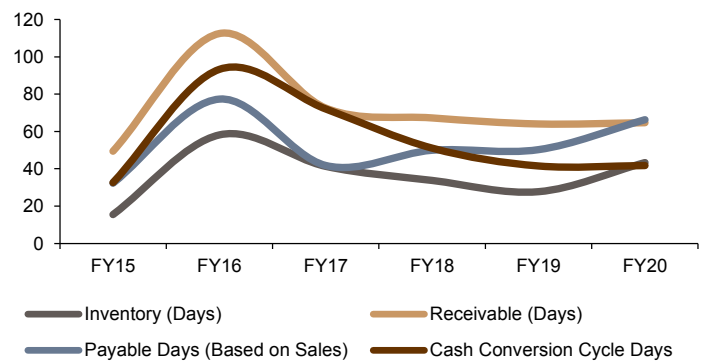
Source: Company, Emkay Research

Exhibit 5: EBITDA would continue to be in sync with top line, assuming pass through to customers



Source: Company, Emkay Research

Exhibit 6: Cash conversion days recover, on improved cash collections and creditors cycle



Source: Company, Emkay Research

Exhibit 7: Actual vs Estimates

(in Rs Mn)	Actual	Estimate (Emkay)	% Variation Emkay	Comments
Sales	1156	1094	5.7	Slightly above estimates due to higher volumes offtake, partially offset by lower realizations
EBITDA	79	55	43.5	Above estimates owing to lower RM costs and higher sales base
EBITDA margin %	6.8	5.0	179.9	
PAT	31	39.0	-21.4	Below estimates due to higher tax rates (incomparable yoy) and lower other income

Source: Company, Emkay Research

Exhibit 8: Quarterly performance (Standalone)

Rs Mn	Q4FY19	Q1FY19	Q2FY20	Q3FY20	Q4FY20	YoY (%)	QoQ (%)	FY20	FY19	YoY %
Net Sales	1,517	1,467	1,241	1,096	1,156	-23.8	5.5	4,960	6,257	-20.7
Operating Expenditure	1,072	978	877	829	789	(26.4)	(4.8)	3,472	4,430	-21.6
Gross Profit	445	489	364	267	367	-17.5	37.8	1,488	1,827	-18.6
as % of sales	29.3	33.4	29.3	24.3	31.8	2.4		30.0	29.2	
SG&A expenses	306	308	295	262	289	-5.6	10.3	1,154	1,151	0.3
as % of sales	20.1	21.0	23.8	23.9	25.0			23.3	18.4	
EBITDA	140	181	69	5	79	-43.4	1,488.8	334	676	-50.6
Depreciation	30	30	32	36	36	17.4	(0.2)	134	118	13.6
EBIT	109	151	37	-31	43	(60.3)	NA	200	558	-64.2
Other Income	31	11	21	14	13	-58.9	(11.4)	59	77	-22.8
Interest Expenses	4	4	3	2	4	11.9	129.2	13	18	-27.3
PBT	136	158	54	-18	52	(61.9)	NA	246	617	-60.1
Total Tax	-17	44	18	-4	21	NA	NA	80	151	-47.1
Reported PAT	153	114	36	-14	31	(79.9)	NA	166	466	-64.3
Reported EPS	2.95	2.19	0.70	-0.27	0.59	(79.9)	NA	2.6	6.0	-56.7
Margins (%)						(bps)	(bps)			(bps)
EBITDA	9.2	12.3	5.6	0.5	6.8	-237	637	6.7	10.8	-407
EBIT	7.2	10.3	3.0	-2.8	3.8	-345	655	4.0	8.9	-489
EBT	9.0	10.8	4.4	-1.7	4.5	-449	616	5.0	9.9	-489
PAT	10.1	7.7	2.9	-1.3	2.7	-742	394	3.4	7.4	-410
Effective Tax Rate	-12.1	28.1	33.4	22.4	41.0	5310	1855	32.4	24.4	798

Source: Company, Emkay Research

Conference call highlights

Latex and Rubber

- Apcotex holds a 20-25% market share in NBR in the domestic market. Management sees an increased export opportunity going ahead.
- Volumes were flat yoy (up qoq); however, realizations were down. Most of clogged exports have been dispatched in the current quarter.
- NBR is almost 30% of entire revenue (Automotive is half of that). Tyre product makes up 10% of entire revenue. Management expects tyre market demand to come back relatively faster, due to the replacement market.
- Realizations for latex are almost 50-60% of NBR.
- Latex for gloves project would primarily cater to South East Asian markets such as Malaysia (caters to 70% global glove demand, largest 5 manufactures), Korea and Thailand, with volumes commitments from large players. Gloves are currently sold at spot prices since the quantity is small.
- Pricing model is a combination of formula based (range of quantity) and spot. Split would be 40% formula, 60% spot (NBR largely spot basis in market).

Capex, revenue

- Capex plans for the next 12-15 months is around Rs900mn, of which Rs600mn is NBR. Latex for gloves project in Valia, Rs120-150mn for the Taloja plant expansion (20% addition) and Rs50-100mn remaining for the ongoing project (4-5ktons NBR capacity). This would be funded through a mix of debt and internal accruals and subject to developments.
- Exports stand at 12-13% of exports as of FY20 (slightly higher for Q4FY20). Working capital was stretched due to inventory hang up and reduced debtors' collections.

Covid-19

- Due to the lockdown in the last 15 days of Q4FY20, Rs170mn revenue was lost. Feb and Mar'20 were extremely good months, barring the Covid-19 effect.
- Pre-Covid-19, the capacity utilization levels were almost 90-95%, which is expected to touch 65-70% in Q1FY21.

Others

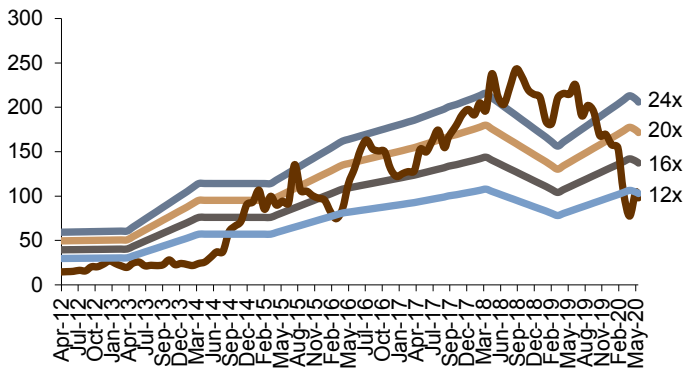
- Asian vs European price differentials have come down since Q3FY20, and this has aided export volume growth and will continue to do so.
- Anti-dumping duty has been filed against Korea and some other countries as well.
- Apcobuild remains a small part, very well received and expanded to Mumbai as well as Western and Southern regions. It has separate distribution and advertising issues.

Exhibit 9: Changes in Estimates

Rs mn	FY21E			FY22E			FY23E
	Old	New	% Change	Old	New	% Change	Introduced
Revenues	5229	5108	-2.3	6,066	6,413	5.7	7,696
EBITDA	471	430	-8.6	637	624	-2.1	803
EBITDA margins %	9.0	8.4	-6.4	10.5	9.7	-7.4	10.4
Net profits	250	204	-18.5	369	324	-12.2	410
EPS (Rs)	4.8	3.9	-18.1	7.1	6.3	-12.0	7.9

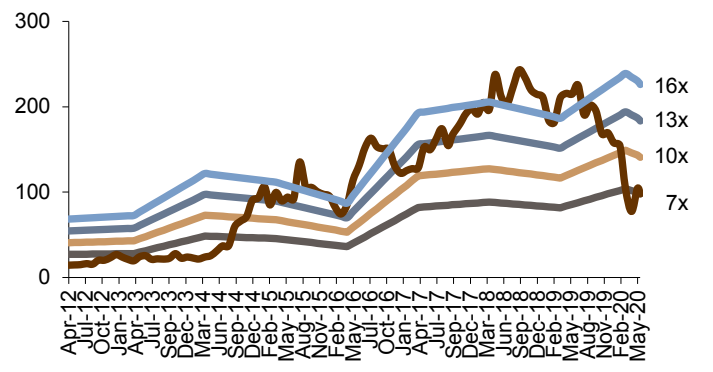
Source: Company, Emkay Research

Exhibit 10: PE band



Source: Company, Emkay Research

Exhibit 11: EV/EBITDA band



Source: Company, Emkay Research

Exhibit 12: Peer comparison

Company Name	Price (Rs)	Mkt Cap (Rs bn)	Reco	TP (Rs)	PE			PB (x)			EV/EBITDA		
					FY20e	FY21e	FY22e	FY20e	FY21e	FY22e	FY20e	FY21e	FY22e
Advanced Enzyme Tech	157.5	17.6	Buy	214	13.3	12.1	10.3	2.2	1.9	1.6	8.3	7.3	6.0
Apcotex Industries	96	5.0	Buy	120	30.1	24.5	15.4	1.8	1.7	1.7	15.9	12.9	9.3
BASF India	1013	43.9	Hold	1055	331.8	31.3	20.4	3.1	2.8	2.5	18.0	12.8	10.3
Camlin Fine Sciences	36.3	4.4	Buy	70	14.4	8.1	6.1	1.6	1.3	1.1	7.3	5.1	4.2
GHCL	99.2	9.4	Buy	155	2.4	3.2	2.4	0.4	0.4	0.3	2.6	2.9	2.0
Navin Fluorine	1497	74.0	Buy	1600	45.0	35.3	28.8	6.2	5.4	4.7	30.2	26.7	21.8
SRF	3370	193.7	Buy	3860	22.1	22.6	16.0	4.0	3.4	2.8	16.6	14.2	10.8
Tata Chemicals	283.4	72.2	Hold	302	1.0	10.5	8.0	0.6	0.5	0.5	6.5	6.9	5.7
Vinati Organics	962.5	98.9	Hold	915	31.6	34.6	26.3	7.6	6.5	5.4	24.1	25.5	19.3

Source: Emkay Research, Company

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	6,257	4,960	5,108	6,413	7,696
Expenditure	5,581	4,626	4,677	5,789	6,893
EBITDA	676	334	430	624	803
Depreciation	118	134	161	209	261
EBIT	558	200	269	415	541
Other Income	77	59	60	60	60
Interest expenses	18	13	30	42	54
PBT	617	246	300	433	547
Tax	151	80	96	109	137
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	466	166	204	324	410
Adjusted PAT	466	166	204	324	410

Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	104	104	104	104	104
Reserves & surplus	2,674	2,409	2,509	2,729	3,035
Net worth	2,778	2,513	2,613	2,833	3,139
Minority Interest	0	0	0	0	0
Loan Funds	102	482	662	912	1,062
Net deferred tax liability	0	0	0	0	0
Total Liabilities	2,880	2,995	3,274	3,745	4,201
Net block	976	1,442	1,631	2,122	2,411
Investment	689	544	544	544	544
Current Assets	2,105	1,982	2,070	2,106	2,466
Cash & bank balance	101	160	109	103	118
Other Current Assets	0	0	0	0	0
Current liabilities & Provision	891	974	971	1,028	1,221
Net current assets	1,214	1,008	1,099	1,078	1,245
Misc. exp	0	0	0	0	0
Total Assets	2,880	2,995	3,274	3,745	4,201

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	540	187	240	373	487
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(129)	266	(142)	14	(152)
Operating Cashflow	458	197	223	547	519
Capital expenditure	(216)	(727)	(189)	(491)	(289)
Free Cash Flow	242	(530)	34	56	230
Investments	65	145	0	0	0
Other Investing Cash Flow	(142)	(77)	(221)	(269)	(321)
Investing Cashflow	(152)	(455)	(350)	(700)	(550)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	(123)	380	180	250	150
Dividend paid (incl tax)	(156)	(62)	(104)	(104)	(104)
Other Financing Cash Flow	18	13	30	42	54
Financing Cashflow	(279)	317	76	146	46
Net chg in cash	28	59	(51)	(6)	15
Opening cash position	73	101	160	109	103
Closing cash position	100	160	110	103	118

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	10.8	6.7	8.4	9.7	10.4
EBIT Margin	8.9	4.0	5.3	6.5	7.0
Effective Tax Rate	24.4	32.4	32.0	25.1	25.1
Net Margin	7.4	3.4	4.0	5.1	5.3
ROCE	22.8	8.8	10.5	13.5	15.1
ROE	17.8	6.3	7.9	11.9	13.7
RoIC	28.2	9.1	11.0	14.5	16.3

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	9.0	3.2	3.9	6.3	7.9
CEPS	11.3	5.8	7.0	10.3	12.9
BVPS	53.6	48.5	50.4	54.7	60.6
DPS	3.0	1.2	2.0	2.0	2.0

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	10.7	30.1	24.5	15.4	12.2
P/CEPS	8.5	16.6	13.6	9.3	7.4
P/BV	1.8	2.0	1.9	1.8	1.6
EV / Sales	0.8	1.1	1.1	0.9	0.8
EV / EBITDA	7.4	15.9	12.9	9.3	7.4
Dividend Yield (%)	3.1	1.2	2.1	2.1	2.1

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	0.0	0.1	0.2	0.3	0.3
Net Debt/EBIDTA	0.0	1.0	1.3	1.3	1.2
Working Cap Cycle (days)	65.0	62.4	70.7	55.5	53.5

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	18.9	(20.7)	3.0	25.6	20.0
EBITDA	5.9	(50.6)	29.0	44.9	28.6
EBIT	8.0	(64.2)	34.8	54.2	30.4
PAT	11.4	(64.3)	22.6	59.1	26.4

Quarterly (Rs mn)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Revenue	1,517	1,467	1,241	1,096	1,156
EBITDA	140	181	69	5	79
EBITDA Margin (%)	9.2	12.3	5.6	0.5	6.8
PAT	153	114	36	(14)	31
EPS (Rs)	2.9	2.2	0.7	(0.3)	0.6

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoters	57.9	57.9	57.9	57.9	58.0
FIs	-	-	-	-	-
DIs	0.6	0.6	0.6	0.6	0.7
Public and Others	41.5	41.5	41.5	41.5	41.3

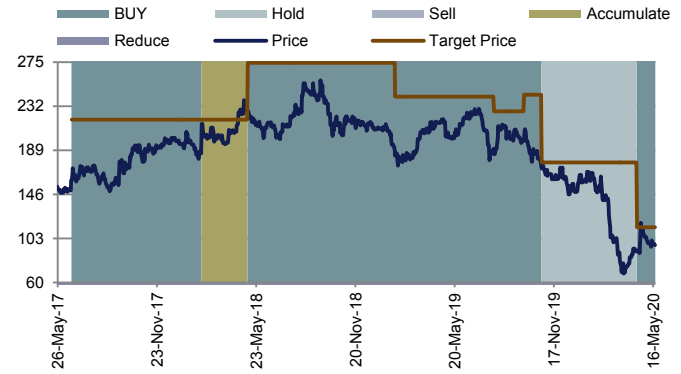
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
16-Apr-20	91	114	12m	Buy	Rohit Sinha
07-Feb-20	154	177	12m	Hold	Rohit Sinha
06-Jan-20	158	177	12m	Hold	Rohit Sinha
25-Oct-19	171	177	12m	Hold	Rohit Sinha
23-Sep-19	201	243	12m	Buy	Rohit Sinha
30-Jul-19	185	227	12m	Buy	Rohit Sinha
27-Apr-19	219	241	12m	Buy	Amar Mourya
31-Jan-19	184	241	12m	Buy	Amar Mourya
30-Jul-18	226	274	12m	Buy	Amar Mourya
09-Jul-18	207	274	12m	Buy	Amar Mourya
07-May-18	227	274	12m	Buy	Amar Mourya
12-Feb-18	215	219	12m	Accumulate	Amar Mourya
08-Nov-17	195	219	12m	Buy	Amar Mourya
19-Aug-17	161	219	12m	Buy	Amar Mourya
20-Jun-17	160	219	12m	Buy	Amar Mourya

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Speciality Chemicals



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Sector

Speciality Chemicals

Analyst bio

Rohit Sinha holds a CFA degree and comes with total four years of experience in the Specialty Chemicals sector. He currently covers nine stocks in the Specialty Chemicals space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Speciality Chemicals	0.19	0.16	-14%	-3	100.00
Advanced Enzyme Tech	0.00	0.00	NA	0	1.88
Apcotex Industries	0.00	0.00	NA	0	0.00
BASF India	0.00	0.00	NA	0	1.54
Camlin Fine Sciences	0.00	0.00	NA	0	1.58
GHCL	0.00	0.00	NA	0	0.95
Navin Fluorine	0.00	0.04	NA	4	23.01
Orient Refractories	0.00	0.00	NA	0	1.97
SRF	0.19	0.09	-53%	-10	46.69
Tata Chemicals	0.00	0.01	NA	1	6.53
Vinati Organics	0.00	0.00	NA	0	2.15
Cash	0.00	0.03	NA	3	13.70

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

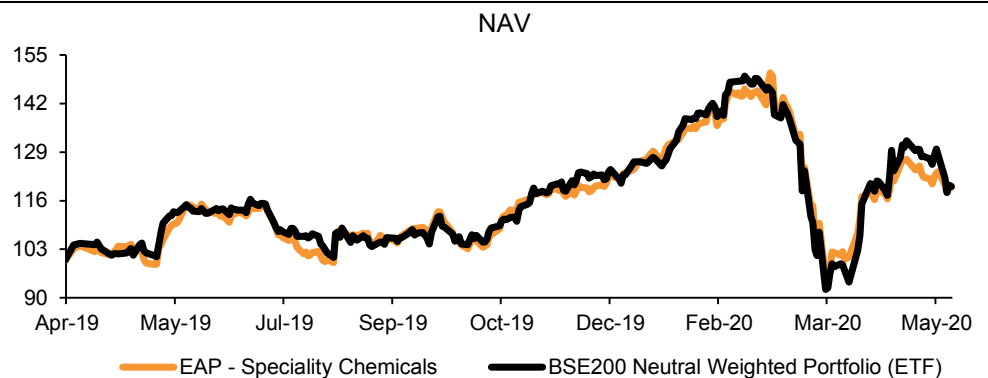
Sector portfolio NAV

	Base					Latest
	1-Apr-19	20-Aug-19	21-Nov-19	20-Feb-20	21-Apr-20	21-May-20
EAP - Speciality Chemicals	100.0	106.2	118.0	145.4	116.4	119.6
BSE200 Neutral Weighted Portfolio (ETF)	100.0	106.0	118.8	148.7	117.5	119.8

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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