

Slowdown in auto to impact performance ahead...

Apcotex registered a revenue decline of 24% YoY to ₹ 116 crore, largely impacted by sluggish growth from NBR segment due to slowdown in the auto sector along with a fall in realisation due to passing on of benefit of lower RMAT prices. Further, fall in tyre latex along with carpet latex revenue also weighed on the overall performance. The company was struggling to maintain its historic gross margins of 30-32% in the last few quarters due to increase in NBR imports from Europe at lower prices leading the company to sell NBR at losses or breakeven level in the last few quarters. This was curtailed during the quarter due to fall in spread of butadiene between South East Asia and Europe, resulting in gross margins of 31.8% vs. 24.3% in Q3FY20 and 29.4% in Q4FY19. This has helped overall operating margins to remain at 6.8% vs. 0.5% in Q3FY20 and 9.2% in Q4FY19. Lower OPM YoY is due to higher other cost of around 300 bps YoY. We expect that is largely due to MTM forex impact. EBITDA remained at ₹ 7.9 crore (-43% YoY). Higher taxes along with increase in the depreciation post commissioning of ₹ 50 crore capex and increase in finance cost impacted bottomline, which was at ₹ 3.1 crore (-80% YoY).

Capex in latex, NBR to support growth ahead

The company has announced a capex of ₹ 10-12 crore to increase latex capacity at Taloja by 20% to 66000 tonnes. We believe since this is a brownfield expansion and given the cost is around ₹ 12000/tonne realisation remains ~₹ 65000-70000/tonne. This expansion should provide incremental revenues of ₹ 50-60 crore in the next fiscal. Apart from this, the company is also planning to install reactor to convert NBR into latex for nitrile gloves given that auto demand is subdued and thereby NBR consumptions. Since gloves are in more demand currently due to Covid-19 and thus, this should protect the downside performance, to a certain extent. We believe even assuming ₹ 70/kg realisation of latex for nitrile gloves, incremental revenue visibility should be around ₹ 35 crore if the entire 5000 tonnes are converted into latex. Further, we expect latex gloves to be more margin accretive than NBR. Thus, an improvement in OPM cannot be ruled out.

Valuation & Outlook

We believe since Europe and SEA spread of key raw materials are narrowed, one can expect stability in gross margins for coming quarters. However, we believe Apcotex is largely a converter and less into specialty portfolio. Thus, it can fetch around 6-7x EV/EBITDA. Further, it is also exposed to auto along with carpet, construction sectors, which seem under pressure due to ongoing turbulent time. Thus, this can expose it to earnings vulnerability. Further, it plans to do a capex of ₹ 90-100 crore in the next 12-18 months, which we believe can expose it to balance sheet risk due to poor FCF. Thus, we value the company at 7x EV/EBITDA to arrive a target price of ₹ 80. We have a **SELL** rating on the stock.



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	493
Total Debt (FY20P) (₹ Crore)	42.0
Cash and Investments (FY20)	37.1
EV (FY20) (₹ Crore)	498
52 week H/L	245 / 65
Equity capital (₹ Crore)	10.4
Face value (₹)	2.0

Key Highlights

- Slowdown in auto to impact performance ahead
- Capacity expansion in latex and NBR to support growth ahead
- Revise our rating on the stock from REDUCE to SELL with a target price of ₹ 80

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Key Financial Summary

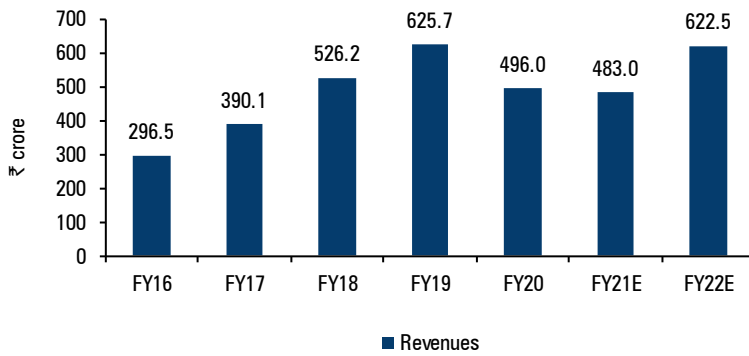
(₹ Crore)	FY17	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	389	526	626	496	483	623	12%
EBITDA	29	64	68	33	27	60	34%
EBITDA Margins (%)	7.4	12.1	10.8	6.7	5.5	9.6	
Net Profit	19	39	47	17	11	33	40%
EPS (₹)	3.7	7.6	9.0	3.2	2.1	6.3	
P/E	25.8	12.4	10.6	29.6	44.4	15.0	
RoNW (%)	8.6	16.1	16.8	6.6	4.8	13.5	
RoCE (%)	10.0	20.8	20.5	7.9	5.7	14.0	

Conference Call Highlights

- There was a loss in sales of ₹ 17 crore and ₹ 4 crore in bottomline due to lockdown in the last week of March
- An anti-dumping duty has been filed against Korea while investigation has been initiated. However, it will take at least another two quarters for any anti-dumping to materialise
- Taloja incremental capacity would take six to eight months. The incremental capacity would be for sectors like paper board, construction, tyre, carpet
- HSR plant has been operating at 60-70% utilisation currently. NBR business contribution to revenue is around 30%
- It is changing reactor to make nitrile latex so it can be converted from NBR to NBR latex
- The export contribution for the last full year was around 12-13%

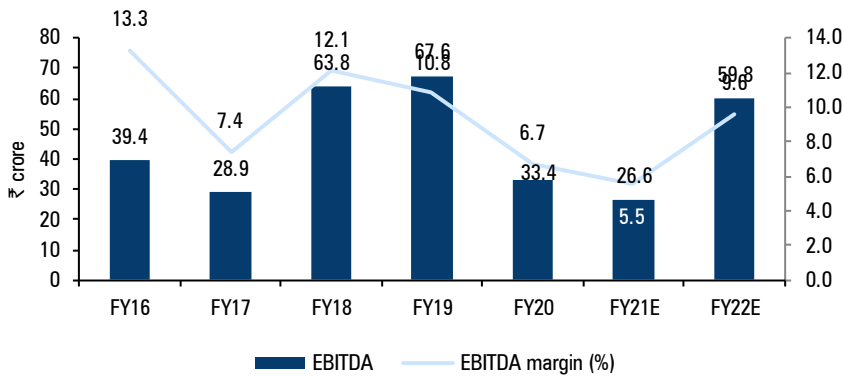
Financial story in charts

Exhibit 1: Debottlenecking NBR capacity to drive FY21E revenues



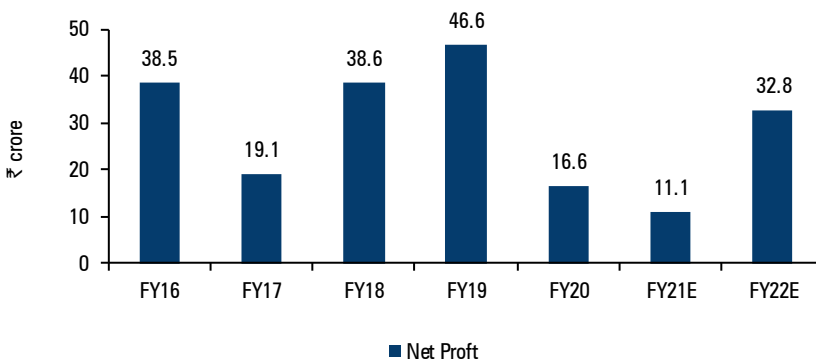
Source: Company, ICICI Direct Research

Exhibit 2: Power plant at Valia to improve operational performance



Source: Company, ICICI Direct Research

Exhibit 3: Better operational performance to drive bottomline



Source: Company, ICICI Direct Research

Financial summary

Exhibit 4: Profit and loss statement				
₹ crore				
₹ crore	FY19	FY20	FY21E	FY22E
Net Sales	625.7	496.0	483.0	622.5
Other Operating Income	-	-	-	-
Total Revenue	625.7	496.0	483.0	622.5
Growth YoY (%)	18.9%	-20.7%	-2.6%	28.9%
Raw Material Expenses	443.0	347.2	338.1	429.5
Employee Expenses	38.3	39.4	41.1	44.8
Other Expenses	76.8	76.0	77.3	88.4
Total Operating Expenditure	558.1	462.6	456.4	562.7
EBITDA	67.6	33.4	26.6	59.8
Growth YoY (%)	5.9%	-50.6%	-20.4%	125.0%
Interest	1.8	1.3	2.2	2.5
Other Income	7.7	5.9	5.5	5.0
PBDT	73.5	38.0	29.8	62.3
Depreciation	11.8	13.4	14.0	15.4
Total Tax	15.1	8.0	4.8	14.1
PAT	46.6	16.6	11.1	32.8
Growth YoY (%)	20.6%	-64.3%	-33.3%	195.6%
EPS	9.0	3.2	2.1	6.3

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement				
₹ crore				
₹ crore	FY19	FY20	FY21E	FY22E
Profit/(Loss) after taxation	46.6	16.6	11.1	32.8
Add: Depreciation & Amortization	11.8	13.4	14.0	15.4
Add: Interest Paid	1.8	1.3	2.2	2.5
Cash Flow before WC changes	60.2	31.3	27.3	50.7
Net Increase in Current Assets	(26.5)	16.0	26.0	(42.6)
Net Increase in Current Liabilities	12.2	4.0	(10.2)	27.0
Net cash flow from operations	46.0	51.4	43.1	35.1
(Purchase)/Sale of Fixed Assets	(15.0)	(50.7)	(20.0)	(35.0)
Net CF from Investing Activities	(11.9)	(23.4)	(23.1)	(37.3)
Proceeds/(Repayment) Loans	1.0	21.6	(4.6)	12.0
Dividend and Dividend Tax	(18.7)	(18.7)	(18.7)	(18.7)
Interest Paid	(1.8)	(1.3)	(2.2)	(2.5)
Net CF from Financing Activities	(30.4)	(7.0)	(40.9)	(8.2)
Net Cash flow	3.6	21.0	(20.9)	(10.4)
Cash at the beginning	13.0	16.6	37.7	16.8
Cash at the end	16.6	37.7	16.8	6.3

Exhibit 6: Balance sheet				
₹ crore				
₹ crore	FY19	FY20	FY21E	FY22E
Equity Capital	10.4	10.4	10.4	10.4
Reserve and Surplus	267.4	240.9	221.8	231.9
Total Shareholders funds	277.8	251.3	232.1	242.2
Secured Loan	1.0	22.6	18.0	30.0
Unsecured Loan	3.0	18.9	15.0	20.0
Others	7.6	12.4	12.4	12.4
Total Liabilities	289	305	278	305
Gross Block	210.0	260.7	279.7	308.7
Accumulated Depreciation	122.4	135.8	149.8	165.2
Net Block	76.4	124.9	129.9	143.5
Capital WIP	21.2	19.3	16.0	16.0
Total Fixed Assets	97.6	144.2	145.9	159.5
Non-current Investments	42.8	33.4	33.4	33.4
Inventory	48.2	59.7	47.6	61.4
Debtors	111.2	89.1	83.4	110.9
Loans and Advances	-	-	-	-
Cash	10.1	16.0	16.8	6.3
Total Current Assets	194.3	184.2	158.9	191.1
Creditors	52.6	45.9	37.1	51.2
Provisions	0.4	0.5	0.4	0.5
Total Current Liabilities	87.7	91.7	81.6	108.6
Net Current Assets	106.6	92.4	77.4	82.6
Total Assets	289	305	278	305

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
	FY19	FY20	FY21E	FY22E
Per Share Data				
Reported EPS	9.0	3.2	2.1	6.3
Cash EPS	11.3	5.8	4.8	9.3
BV per share	53.6	48.5	44.8	46.7
Dividend per share	3.0	3.0	3.0	3.0
Operating Ratios				
EBITDA / Net Sales	10.8	6.7	5.5	9.6
PAT / Net Sales	7.4	3.4	2.3	5.3
Return Ratios				
RoE	16.8	6.6	4.8	13.5
RoCE	20.5	7.9	5.7	14.0
RoC	22.2	7.3	4.8	14.6
Valuation Ratios				
EV / EBITDA	6.8	14.9	18.3	8.5
P/E (Adjusted)	10.6	29.6	44.4	15.0
EV / Net Sales	0.7	1.0	1.0	0.8
Market Cap / Sales	0.8	1.0	1.0	0.8
Price to Book Value	1.8	2.0	2.1	2.0
Turnover Ratios				
Asset turnover	2.4	1.6	1.8	1.9
Solvency Ratios				
Debt / Equity	0.0	0.2	0.1	0.2
Current Ratio	3.3	3.5	3.6	3.5

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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