

# Apcotex Industries Limited (APCOTEXIND)

June 6, 2022  
Time Horizon – 12 Months

CMP: ₹633  
Target: ₹772

ANAND RATHI  
INVESTMENT SERVICES

VALUE

PICK

Key Data	
Bloomberg Code	APCOTEXIND
NSE Code	APCOTEXIND
BSE Code	523694
Industry	Rubber Products
Face Value (₹)	2.0
BV per share (₹)	76.4
Dividend Yield (%)	1.1
52 Week L/H(₹)	287 / 678
Market Cap. (₹ Mn.)	32,766

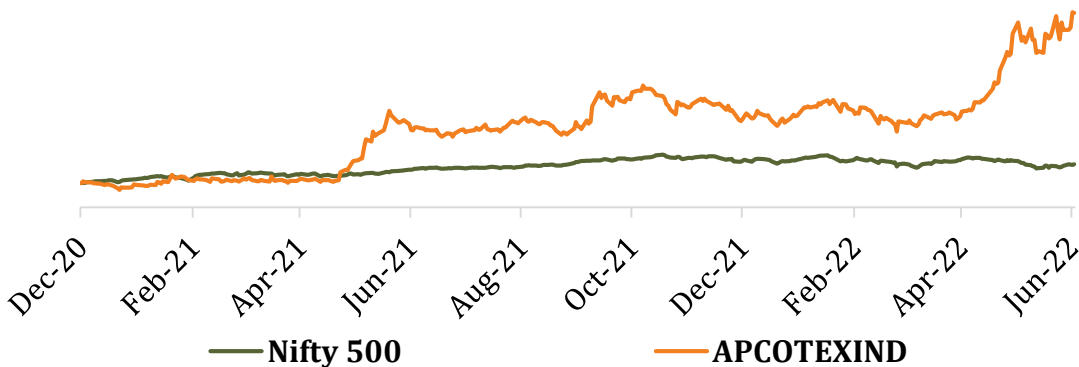
## Shareholding Pattern (as on March'22)

Particulars	Mar-22	Dec-21	Sep-21	Jun-21
Promoter	58.2%	58.2%	58.2%	58.2%
Institutions	0.9%	0.9%	0.4%	1.4%
Others	40.9%	41.0%	41.4%	40.5%
Total	100%	100%	100%	100%

Source: Company, Anand Rathi Research, Bloomberg

(In ₹ mn)	FY-21	FY-22	FY-23E	FY-24E
Net Sales	5,406	9,569	11,196	13,323
EBITDA	699	1,398	1,554	2,049
EBITDA Margin	12.9%	14.6%	13.9%	15.4%
PAT	442	988	1,076	1,429
PAT Margin	8.2%	10.3%	9.6%	10.7%
EPS (₹)	8.5	19.1	20.8	27.6
P/E (x)	74.2	33.2	30.5	22.9

## Relative stock performance (Jun'22=100)



## A niche player in synthetic latex & rubber products

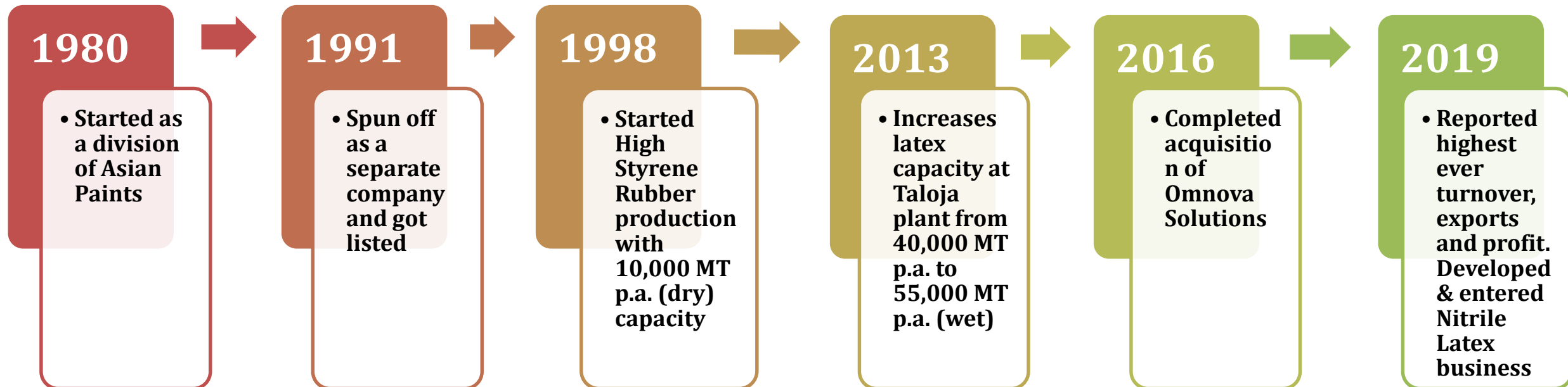
- ❖ Apcotex Industries Limited (AIL) is one of the leading producers of Synthetic Rubber (NBR & HSR) and Synthetic Latex (Nitrile, VP latex, XSB & Acrylic latex) in India. Started as a division of Asian Paints in 1980 for producing Vinyl Pyridine latex and Carboxylated Styrene-Butadiene latex in India. It has transformed itself into a niche synthetic latex & rubber producer and as of today the company is one of the few companies to produce broadest range of emulsion polymers.
- ❖ The company's Synthetic Rubber finds application in broad range of products such as Automotive Components, Hoses, Gaskets, Rice De-husking Rollers, Printing and Industrial Rollers, Friction Materials, Belting and Footwear. Apcotex's range of Latexes are used for Paper / Paperboard Coating, Carpet Backing, Tyre Cord Dipping, Construction, Gloves-examination, surgical and industrial use etc. Apart from having a diversified clientele Apcotex is present across diversified industries which protects Apcotex from any slowdowns in a single industry. As of FY21 no single industry contributed above 20% of its revenues.
- ❖ Apcotex has a strong global presence in South East Asia, Middle East & Africa and intends to tap the Asian Markets. Asia Pacific leads production of the global synthetic rubber industry with the automobile sector leading the growth. With the rise in population, large manufacturing base of the automobile industry and the availability of competitive labour, India offers great opportunities for synthetic rubber product manufacturers. With increasing R&D investments backed by strong infrastructure, the country is poised to become a leader in rubber products manufacturing in the years ahead. It manufactures specialty synthetic rubbers i.e. Nitrile Butadiene Rubber (NBR) and High Styrene Rubber (HSR) etc.
- ❖ In India, around 70% of Nitrile Butadiene Rubber (NBR) is imported, which creates good potential for Indian manufacturers of Nitrile Rubber. Notwithstanding the recent slowdown due to Covid-19 and other reasons, the long-term growth of this segment can be attributed to the growing demand for NBR across automotive, industrial and agricultural applications.
- ❖ Apcotex's strong technology & management, extensive experience, and high-profile clientele have aided it in building major entry barriers for potential competitors and new entrants. As a result, it has a significant market share in each of the industrial verticals in which it operates. Moreover, upcoming and ongoing new capacity additions, growing export demand for NBR related products (Nitrile & XNBR latex etc.) and improving domestic demand in underlying industries like paper, carpets, construction etc, is expected to drive further growth for the company. We expect Apcotex's Revenue/EBITDA/PAT to grow at a CAGR of 18%/21%/16% respectively by FY24 with margins being relatively stable. We initiate our coverage on Apcotex Industries Limited (APCOTEXIND) with a **BUY** rating and a target price of **₹772 per share**.

## Evolution of Apcotex

Apcotex was established in 1980 as a division of Asian Paints (India) Limited. In 1991, the division was spun off as a separate company.

It enjoys a strong market presence in the Indian synthetic rubber and synthetic latex market with a leading capacity of 65,000 mtpa for Synthetic Latex & 28000 mtpa for Synthetic Rubber.

Apcotex has a significant global presence and for last few years and has done business in all continents and several countries.



## Overview of Apcotex

- ❖ Apcotex Industries Ltd (AIL) is a four decade old company operating in emulsion polymer industry manufacturing synthetic latex (XSB latex, VP latex, styrene acrylics and nitrile latex) and synthetic rubber (nitrile rubber, high styrene rubber, nitrile polyblends and nitrile powder).
- ❖ Synthetic rubber finds application in footwear, automobile and rice roll industries, while Synthetic latex finds application in construction gloves, paper and paperboards, textiles, carpets, construction and tyre cord industries.
- ❖ Apcotex has one of the broadest range of Emulsion Polymers available in the market, It is the only Indian manufacturer of XNB Latex which is used in construction gloves. There are five to six international companies with the same technology as Apcotex.
- ❖ Apcotex has a strong global presence in South East Asia, Middle East & Africa and intends to tap the Asian Markets. Asia Pacific leads production of the global synthetic rubber industry with the automobile sector leading the growth. With the rise in population, large manufacturing base of the automobile industry and the availability of competitive labour,
- ❖ The company has two manufacturing facilities one each at Taloja in Maharashtra and Valia in Gujarat. AIL manufactures synthetic latex and high styrene rubber from the Taloja facility, and nitrile rubber and its allied products from the Valia facility.



## Emulsion Polymer Industry Value Chain

### Sources of Raw Materials



**CRUDE  
OIL**

### Key Raw Materials

Styrene

Butadiene

Acrylonitrile

Styrene & Butadiene are sourced from local supplied (No import risk involved) and Acrylonitrile is imported from South Korea, USA & Japan.

### Final Products



Synthetic  
Latex



Carpet



Construction



Tyre Cord



Gloves



Speciality



Synthetic  
Rubber



NBR Polyblend



Nitrile Rubber



High Styrene  
Rubber



NBR Powder

## Synthetic Latex

- ❖ Manufactured from downstream petrochemicals unlike natural latex made from natural rubber.
- ❖ Includes Styrene Butadiene latex, VP latex, Styrene Acrylic latex and Nitrile latex.
- ❖ Paper- Provides excellent wet and dry binding strength; provides high gloss and strength to coated paper.
- ❖ Carpet- Used in backing of various types of carpets to provide excellent binding strength.
- ❖ Construction- Provides excellent water impermeability; enhances bonding between new and old concrete.
- ❖ Tyre Cord- High performance latex for dipping of tyre cords used in bias tyres.
- ❖ Gloves- For manufacturing of various range of gloves – examination, surgical and industrial.
- ❖ Speciality- Used in a range of specialty applications such as gaskets, nonwoven fabrics, abrasive paper, textile finishing, cork sheets, etc.

## Synthetic Rubber

- ❖ Synthetic Rubber is basically an artificial elastometer which are mainly polymers synthesized from petroleum by-products. It produces various kinds of Synthetic rubber from cold NBR to hot NBR.
- ❖ Nitrile Rubber (NBR)- NBR is used in the automotive industry as well as several other industrial applications to make fuel and oil handling hoses, seals and various rubber products where ordinary rubbers cannot be used.
- ❖ NBR Polyblend-Cost effective medium ACN blend used for general purpose automotive and industrial moulded and extruded products, footwear products etc. for general purpose automotive and industrial goods as well as Fire Hoses.
- ❖ High Styrene Rubber- Provides various degrees of hardness and excellent processibility for Hawaii slippers and Micro-cellular sheets.
- ❖ NBR Powder- Used in joining sheets, PVC modification, brake pads, friction materials, adhesives and other rubber applications.

## Marquee Clients & Strategically located facilities

### Paper



### Construction



### Rubber



All's clientele has remained diversified with the top 10 customers contributing ~30-35% of the revenues in the last two years.

### Tyres /Cord Dipper

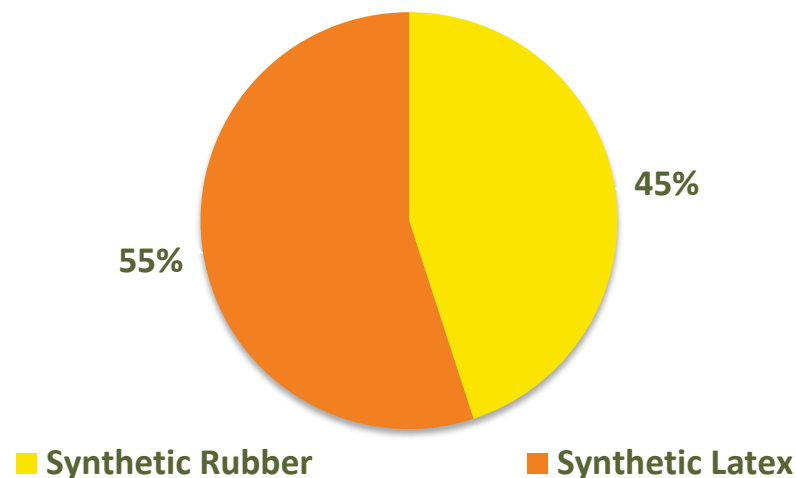


### Others

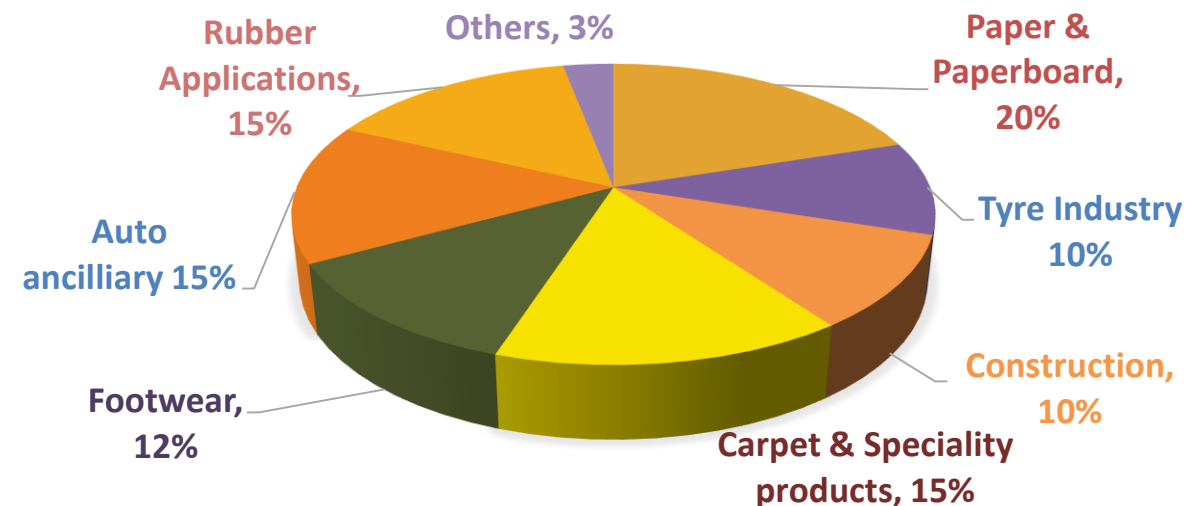


## Well-Diversified Revenue & Industry mix

### Revenue Mix



### Industry-wise Revenue



- ❖ The Company's Synthetic Latex products are used for tyre cord dipping, paper and paperboard coating, carpet backing, concrete modification/ water proofing, non-wovens, textile finishing, paints, gloves and a few other specialty applications. Synthetic Rubber finds application in products such as footwear, automotive components, rice rolls, moulded items, v-belts, conveyor belts, hoses, etc. Apart from having a diversified clientele Apcotex is present across diversified industries which protects Apcotex from any slowdowns in a single industry. As of FY21 no single industry contributed above 20% of its revenues.
- ❖ The acquisition of OMNOVA solutions gave Apcotex a dominant position in Synthetic Rubber and access to proprietary Nitril Latex manufacturing technology. Apcotex's experience with Styrene and Butadiene, as well as its technique to emulsify oil with water, places a considerable barrier to entrance for competitors. Significant client stickiness is a result of leading market share across end-user industrial segments and a service-driven approach. Emulsion Polymer has a wide range of applications, and its leadership position in Nitrile Rubber indicates that it will have a large scale in the medium to long term.

Aiming to build its own brands

ApcoBuild Products

Water Proofing Polymer Products

- ❖ ApcoBuild Seal N Safe
- ❖ ApcoBuild Apcogaurd

Water Proofing Coatings

- ❖ ApcoBuild Terracoat
- ❖ ApcoBuild BeautyGuard

Admixtures

- ❖ ApcoBuild Suplast RW
- ❖ Apcobuild Hydrotite IWC

Repair Products

- ❖ ApcoBuild Repairo 45
- ❖ ApcoBuild Micro Repairo

The Fixing Product

- ❖ ApcoBuild TileCem
- ❖ ApcoBuild Tileman

**ApcoBuild**  
Build Smarter

PRODUCTS	APPLICATIONS	PRODUCTS	APPLICATIONS
ApcoBuild Apcoguard	Basement waterproofing	ApcoBuild Terracoat	Transparent UV Resistant on Roof China Mosaic Chip waterproof coating

## Emulsion Polymer Industry

- ❖ The global polymer emulsion market size is estimated at USD 25.2 billion in 2020 and projected to reach USD 38.1 billion by 2025, at a CAGR of 8.6%.
- ❖ The synthetic latex & rubber polymers market is expected to grow at a CAGR of 4.6% and 4.9% respectively between 2020 to 2025.
- ❖ There is a rising demand for electronics and construction sectors in developing countries and a growing demand for synthetic latex polymers used in coatings and paints globally.
- ❖ Growing investments in the advancement of commercial infrastructure. Restoration of solvent based adhesives Growth in healthcare industry for producing latex gloves and bio-adhesives can drive emulsion polymers industry.
- ❖ Apcotex is eyeing to build significant capacity for XNBR latex which is a raw material used in making surgical, industrial, construction gloves mainly catering to exports.
- ❖ The global nitrile gloves market size was estimated at USD 8.76 billion in 2021 and is expected to expand at a compound annual growth rate (CAGR) of 5.7% from 2022 to 2030. The market growth is expected to be driven by growing healthcare expenditure, increased significance of workplace safety, and the rising awareness of healthcare-associated infections.

## Global Emulsion Polymer Market

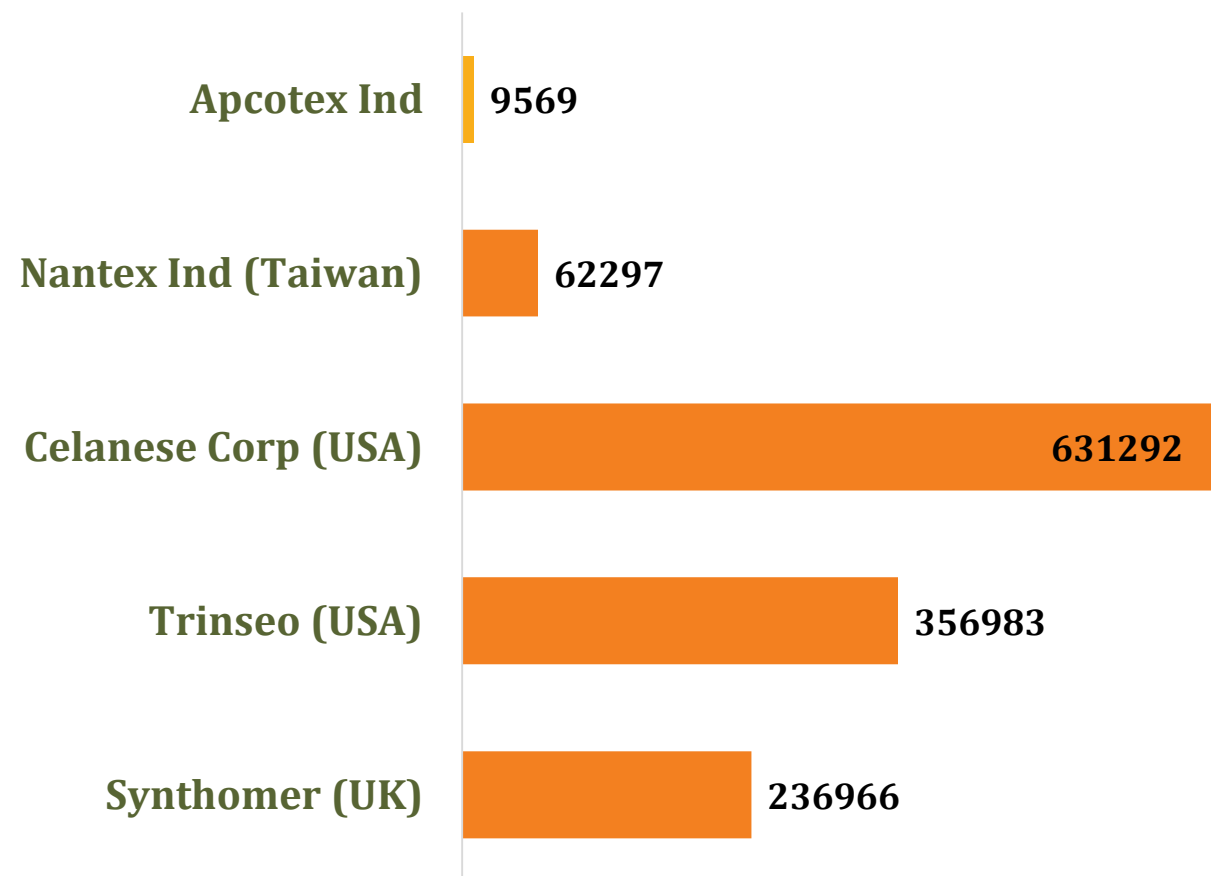


Source: [Markets and Markets](#)

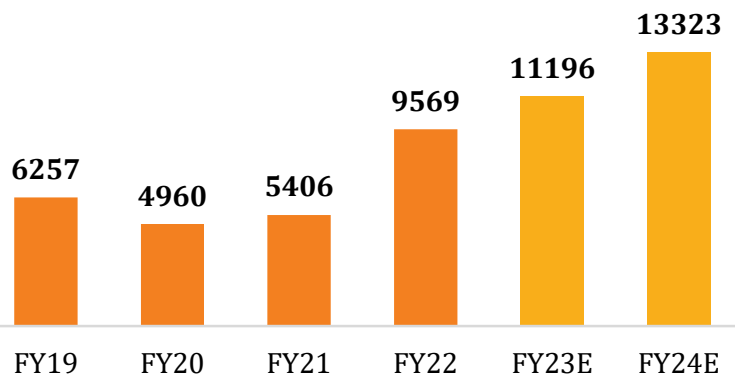
## Size of Global Opportunity

- ❖ When we compare Apcotex Industries with its global peers like Synthomer, Trinseo, Celanese Corp and Nantex Ind there seems to be a huge gap in terms of revenues and penetration levels in the domestic market.
- ❖ The total addressable market size of Nitrile Gloves Latex in Europe is ~Rs22bn. Synthomer is the only player with a dominant market share of ~50% and as a result Apcotex could emerge as the second substitute to the manufacturer of Nitrile latex gloves.
- ❖ Globally, Synthomer is the nearest competitor to Apcotex. Few other global companies that are competing in similar business are Celanese, Nantex, Versalis and Trinseo.
- ❖ Emulsion Polymers contain 50% water, which results in high transportation cost. Therefore, Apcotex has its plants in close proximity to the markets, which in turn has protected it from import competition and enabling it to establish a formidable presence in its core competency.
- ❖ Apcotex has grown its exports from nearly zero levels a decade ago to 21% of its total revenues now. It now expects exports to contribute Rs.1500-2000 Mn to its top line as the company's next phase of growth is expected to come from Nitrile latex market for gloves. However, demand also remains strong in current industries (paper, carpet, construction).

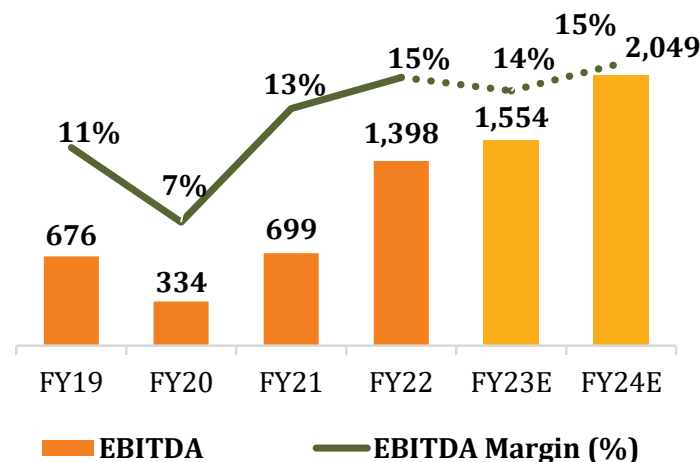
## Apcotex vs Global Peers Revenue (Mn)



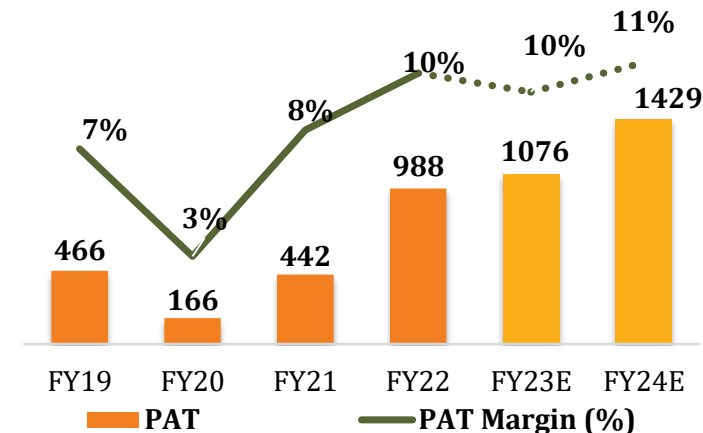
### Revenue (Mn)



### EBITDA & Margin

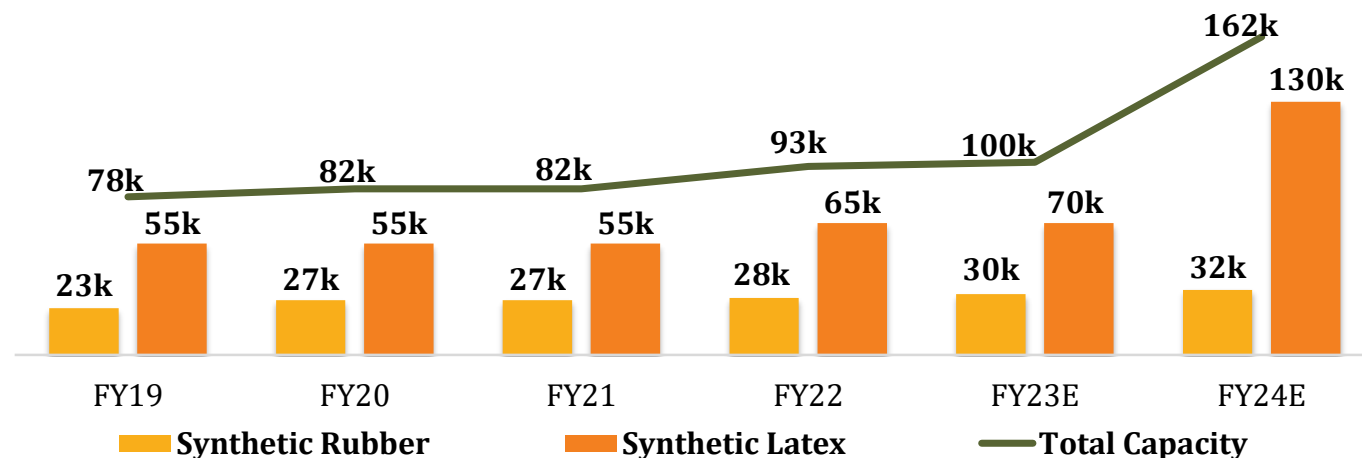


### PAT & Margin



- ❖ During FY19 - FY22 Apcotex has shown a remarkable Revenue/EBITDA/PAT growth of 15%/27%/28% respectively, coupled with healthy growth in RoE and RoCE of ~17%/~22% over the past five years. Majority of the growth in the past five years came from growing regional demand for latex & rubber products, acquisition of US based Omnova solutions and an impressive growth from its exports segment.
- ❖ Apcotex's strong technology, extensive experience, and high-profile clientele have aided it in building major entry barriers for potential competitors and new entrants. As a result, it has a significant market share in each of the industrial verticals in which it operates. Moreover, upcoming and ongoing new capacity additions, growing export demand for NBR related products (Nitrile & XNBR latex etc.) and improving domestic demand in underlying industries like paper, carpets, construction etc, is expected to drive further growth for the company. We expect Apcotex's Revenue/EBITDA/PAT to grow at a CAGR of 18%/21%/16% respectively by FY24 with margins being relatively stable.






## Huge Upcoming Capex



- ❖ Apcotex is aiming to double its Synthetic Latex capacity from 65,000 MT in FY22 to 1,30,000 Mt by FY24 which includes a brownfield expansion plant for Nitrile latex for an additional capacity of 60,000 MT at its Taloja facility which is expected to be fully commissioned by the start of FY24. The company also plans to increase capacities for Nitrile Rubber to cater to domestic and export market.
- ❖ The company's both the plants are currently running at 100% capacity utilization, All the expansion plans including a de-bottlenecking capex which is to be commissioned by Q2FY23 are expected to generate ~Rs.5,000-7,000 Mn of additional revenue once both the plants are fully-utilized. The management is confident of fully ramping up its new capacities by H2FY24 or H1FY25.
- ❖ Apcotex's management remains confident on the demand front as the demand across paper, carpet and construction continues to remain very strong. In Q3FY22 the company had to let go of some orders for the first time due to lack of capacity. Domestic as well export demand continues to show strong momentum.
- ❖ One of the few competitive advantages like switching from one industry product to another quickly has given Apcotex the flexibility in utilizing its capacities very efficiently. For eg, some of its reactors were earlier used to supply of paper related products or specifically used for tire industry but after the recent bottlenecking variety of products like carpet or paper or tire can be produced from a single reactor in turn reducing costs and increasing efficiency.

## Strong Management Backing

- ❖ In 1991, the division was spun off as a separate company, headed by **Mr. Atul Choksey**, the former Managing Director of Asian Paints Limited. Mr. Choksey has more than four decades' experience in the paints and chemicals industry. The current Managing Director of the company, **Mr. Abhiraj Choksey**, and other management personnel who are experts in the field of chemicals, bring valuable experience to the company.

	<b>MR. ATUL C. CHOKSEY</b> Chairman	•He is a Chemical Engineer from Illinois Institute of Technology, Chicago, USA and has more than four decades of experience in managing the affairs of the Company. He is on the board of reputed companies like Ceat.		<b>MR. ABHIRAJ A. CHOKSEY</b> Managing Director	•He is a Bachelor of Science in Economics from Wharton Business School and also Bachelor of Science in Engineering from the Engineering School, University of Pennsylvania in U.S.A.
	<b>MR. AMIT C. CHOKSEY</b> Director	•He is a Bachelor of Commerce and has over 30 years of experience in managing industries manufacturing various types of construction chemicals, specialty water proofing compounds and inorganic pigments. He is the Chairman of Mazda Colours Ltd.		<b>MR. SHAILESH S. VAIDYA</b> Independent Director	•He is a law graduate from Government Law College and became Solicitor in the year 1983 and has been practicing as Advocate and Solicitor. He is one of the senior partner at Kanga & Co.
	<b>DR. S. SIVARAM</b> Independent Director	•He obtained his MSc degree from IIT-Kanpur followed by PhD and DSc degrees from Purdue University, W. Lafayette, Indiana, USA. He was the Director of CSIR-NCL from 2002-10 and is presently an INSA Senior Scientist and Professor at the Indian Institute of Science Education and Research, Pune. He has over fifty years of R&D experience in the area of chemicals and polymers. The President of India bestowed on him the coveted civilian honour Padma Shri in 2006.		<b>MS. PRIYAMVADA BHUMKAR</b> Independent Director	•She is a graduate in Chemistry and MBA in Finance from Mumbai University having 25 years of rich experience in the field of colour dispersions. She is Managing Director of Soujanya Color Pvt. Ltd., the well-known Indian colorant manufacturing company.
	<b>MR. KAMLESH S. VIKAMSEY</b> Independent Director	•He is a Chartered Accountant and a Senior Partner in reputed firm of Khimji Kunverji & Co. He was member of the Central Council of ICAI from 1998 to 2007 and held the post of president in 2005.		<b>MR. RAVISHANKAR SHARMA</b> Executive Director	•He is a Chemical Engineer from Laxminarayan Institute of Technology, Nagpur, passed out in 1988 and PGDBM from Goa Institute of Management, Goa (Executive MBA) in 2009 and has more than 30 years of rich experience in the field of Production, Projects, Specialty Chemicals, operations and Manufacturing.
	<b>MR. UDAYAN D. CHOKSI</b> Independent Director	•He is a graduate in Economics from Warwick University. In addition to his CA degree, he also holds an LLB from Mumbai University. He is a senior indirect tax professional and practising counsel, and was previously at Big 4 – accounting and prominent law firms. He is a Partner at Khaitan & Co.			

## Key Risks

- ❖ Volatility in key raw materials prices can adversely impact profitability- Raw material consumption accounts for ~70% of the sales, exposing AIL's profitability to price fluctuation risks.
- ❖ Intense competition from domestic players and overseas suppliers- The company's top line and profitability were adversely impacted in FY2020 by the aggressive dumping of NBR by overseas suppliers.
- ❖ Any significant slowdown in underlying segment sales of Paper & Carpets, Construction, Auto ancilliary, Footwear etc can adversely impact the company's revenues.
- ❖ Regulatory changes in environmental clearance for upcoming future projects.

## Consolidated Financials

(In ₹ mn)	FY-21	FY-22	FY-23E	FY-24E
Net Sales	5,406	9,569	11,196	13,323
Operating Expense	4,708	8,171	9,641	11,273
EBITDA	699	1,398	1,554	2,049
Other Income	52	79	101	133
Depreciation	145	141	172	198
EBIT	605	1,336	1,483	1,985
Interest	38	33	63	99
PBT	567	1,304	1,420	1,886
Tax	126	316	344	456
PAT	442	988	1,076	1,429

Margins	FY-21	FY-22	FY-23E	FY-24E
Sales Growth %	9.0%	77.0%	17.0%	19.0%
Operating Margin %	12.9%	14.6%	13.9%	15.4%
Net Margin %	8.2%	10.3%	9.6%	10.7%

Source: Company, Anand Rathi Research

(In ₹ mn)	FY-21	FY-22	FY-23E	FY-24E
<b><u>Liabilities</u></b>				
Equity Share Capital	104	104	104	104
Reserves & Surplus	2,950	3,858	4,934	6,363
Total Shareholder's Funds	<b>3,054</b>	<b>3,962</b>	<b>5,038</b>	<b>6,467</b>
Long-Term Liabilities	60	264	764	1,264
Other Long-term Liabilities	75	94	94	94
Deferred Tax Liability	105	81	81	81
Short-term Liabilities	1,223	1,648	2,040	2,427
<b>Total</b>	<b>4,517</b>	<b>6,049</b>	<b>8,016</b>	<b>10,334</b>
<b><u>Assets</u></b>				
Net Fixed Assets	1,563	2,192	2,441	2,916
Long-Term L&A	125	-	-	-
Non Current Investments	682	822	822	822
Other Non-Current Assets	12	-	-	-
Current Asset	2,134	3,035	4,752	6,595
<b>Total</b>	<b>4,517</b>	<b>6,049</b>	<b>8,016</b>	<b>10,334</b>

APCOTEXIND rating history & price chart



NOTE: Prices are as on 6 June 2022 close.

Source: Bloomberg, Anand Rathi Research

APCOTEXIND rating details

Date	Rating	Target Price (₹)	Share Price (₹)
6-Jun-22	BUY	772	633

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Ratings Guide (12 months)	Buy	Hold	Sell
<b>Large Caps (&gt;₹300Bn.)</b>	15%	5%-10%	Below 5%
<b>Mid/Small Caps (&lt;₹300 Bn.)</b>	20%	10%-15%	Below 10%

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