

## Retail Equity Research

# Apex Frozen Foods Ltd.

Aquaculture

BSE CODE: 540692

NSE CODE: APEX

Bloomberg CODE: APEX:IN

SENSEX: 59,745

**Accumulate**

12Month Investment period Rating as per Small Cap  
CMP Rs. 208 TARGET Rs. 250 RETURN 20% ↑  
(Closing: 22-02-23)

KEY CHANGES:

TARGET ↓

RATING ↔

EARNINGS ↓

### Muted demand, revival expects as inflation pressure eases.

Apex Frozen Foods Ltd. (Apex) is a South India (Andhra Pradesh) based integrated producer and exporter of processed shrimps with a capacity of 29,240MT.

- We revise our target price to Rs. 250 (from Rs. 364 earlier) to account for weak demand and higher cost but maintain an Accumulate rating due to recent sharp correction in stock price.
- In Q3FY23, revenue growth was flat YoY due to muted volumes and a lack of specific size raw materials.
- Margins were impacted by higher raw material costs along with decline in export prices, but rupee depreciation aided stable realization YoY.
- Margins are expected to improve with more value-added products, as Apex has expanded Ready-to-Eat (RTE) capacity to 10,000MT from 5,000MT and expects commercial productions in Q4FY23.
- Stable farm gate prices support supply, while easing inflationary pressure will improve demand. Apex is currently waiting for the approval of the RTE products for the European market.
- We reduce our volume assumptions and expect Revenue/PAT to grow at 15%/45% respectively over FY22-24E. We value Apex at 10X (3yr. Avg) FY24E EPS.

### Flat volume growth due to muted demand in key markets

Q3FY23 revenue declined by 1% YoY due to muted demand in key export markets such as USA and EU along with supply shortage of specific size raw materials, while realization was flat YoY. Rupee depreciation supported realization though the export price in dollar declined. As inflationary pressures ease, demand in key export markets is expected to normalise. Future growth will be supported by an increase in the newly added capacity as well as a greater contribution of value-added products. The company is waiting for the approval of the RTE products from the new capacity for the European market. Currently, Europe contributes only 18% of total revenue. We expect revenue growth of 15% CAGR over FY22E-24E.

### Focus on value-added products to improve margin

Gross margin declined to 24.9% from 26.8% QoQ/ 31.6%YoY. EBITDA margin declined to 1.1% Vs 4.1% QoQ and 8%YoY. Including export incentive, EBITDA margin would be 5.6% (vs. 8% YoY). The company has considered export incentive as part of other income since Q1FY23 (earlier as part of revenue) and export incentive improved to Rs.10cr Vs. Rs. 5cr YoY (Rs.35.8cr in 9MFY23). The company will continue to benefit from the backward integration (hatchery). Volumes are expected normalise as the inflationary pressure eases. This, along with the ramp up in newly added RTE capacity (5,000MT, expanded to 10,000MT and commercial production is expected in Q4FY23) will improve margin going forward. The share of value-added products improved to ~23% Vs 20% YoY.

### Valuation & Outlook

We expect the demand in key export markets to normalise as the inflationary pressure eases and the supply side concerns on raw materials are expected to be taken care of by the upcoming harvest season given stable farm-gate prices for farmers. Expect earnings to grow at 45% CAGR over FY22-24E. Apex currently trades at 9x 1Yr Fwd P/E. We value at 10x (3Yr Avg=10x) on FY24E EPS with a target price of Rs. 250, and maintain Accumulate rating.

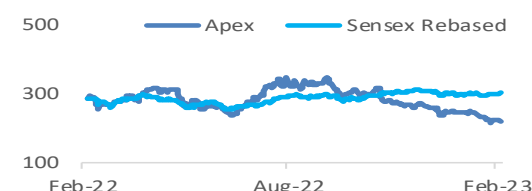
#### Company Data

Market Cap (Rs.cr)	650
Enterprise Value (Rs.cr)	808
Outstanding Shares (cr)	3.1
Free Float	27%
Dividend Yield	1.1%
52 week high Rs.	365
52 week low Rs.	202
6m average volume (cr)	0.09
Beta	1.1
Face value Rs.	10

Shareholding (%)	Q1FY23	Q2FY23	Q3FY23
Promoters	72.6	72.6	72.6
FII's	0.1	0.1	0.0
MFs/Institutions	7.3	7.3	6.3
Public	17.5	17.7	18.6
Others	2.5	2.4	2.4
Total	100.0	100.0	100.0
Promotor pledge	NIL	NIL	NIL

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-19.3%	-31.4%	-23.8%
Absolute Sensex	-1.2%	2.3%	4.9%
Relative Return*	-18.1%	-33.6%	-28.7%

\*over or under performance to benchmark index



Standalone (cr)	FY22A	FY23E	FY24E
Sales	911	1,043	1,204
Growth (%)	11.3	14.5	15.4
EBITDA	76	32	57
EBITDA Margin (%)	8.4	3.0	4.7
Adj. PAT	38	45	79
Growth (%)	-14.1	19.0	74.1
Adj. EPS	12.2	14.5	25.2
Growth (%)	-14.1	19.0	74.1
P/E	17.1	14.3	8.2
P/B	1.4	1.3	1.1
EV/EBITDA	10.6	24.1	12.7
ROE (%)	8.3	9.2	14.4
D/E	0.4	0.2	0.1

Vincent Andrews  
Research Analyst

## Quarterly Financials (Standalone)

### Profit & Loss

Rs (cr)	Q3FY23	Q3FY22	YoY Growth (%)	Q2FY23	QoQ Growth (%)	9MFY23	9MFY22	YoY Growth (%)
<b>Sales</b>	<b>215</b>	<b>218</b>	<b>-1.4</b>	<b>293</b>	<b>-26.7</b>	<b>813</b>	<b>707</b>	<b>14.9</b>
<b>EBITDA</b>	<b>2</b>	<b>17</b>	<b>-86.1</b>	<b>12</b>	<b>-80.1</b>	<b>30</b>	<b>63</b>	<b>-52.3</b>
EBITDA margins (%)	1.1	8.0	(680)bps	4.1	(300)bps	3.7	8.9	(520)bps
Depreciation	5	5	10.3	5	-1.0	16	14	11
<b>EBIT</b>	<b>-3</b>	<b>13</b>	<b>-122.0</b>	<b>7</b>	<b>-140.1</b>	<b>15</b>	<b>49</b>	<b>-70.4</b>
Interest	3	4	-22.6	5	-36.3	13	13	-6.3
Other Income	16	3	477.9	16	-0.6	52	10	403.1
Exceptional Items	0	0	0.0	0	0.0	0	0	0.0
<b>PBT</b>	<b>10</b>	<b>11</b>	<b>-9.7</b>	<b>18</b>	<b>-43.7</b>	<b>54</b>	<b>46</b>	<b>16.8</b>
Tax	3	3	-13.9	5	-45.7	14	12	12.9
Share of profit from associates	0	0	NA	0	NA	0	0	0.0
Minority interest	0	0	NA	0	NA	0	0	0.0
<b>Reported PAT</b>	<b>8</b>	<b>8</b>	<b>-8.2</b>	<b>14</b>	<b>-43.0</b>	<b>40</b>	<b>34</b>	<b>18.2</b>
Adjustments	0	0	0.0	0	0.0	0	0	0.0
<b>Adj PAT</b>	<b>8</b>	<b>8</b>	<b>-8.2</b>	<b>14</b>	<b>-43.0</b>	<b>40</b>	<b>34</b>	<b>18.2</b>
No. of Shares	3	3	0.0	3	0.0	3	3	0.0
<b>Adj EPS (Rs)</b>	<b>2.5</b>	<b>2.7</b>	<b>-8.2</b>	<b>4.4</b>	<b>-43.0</b>	<b>12.8</b>	<b>10.8</b>	<b>18.2</b>

### Per Kg Analysis

	Q3FY23	Q3FY22	YoY Growth (%)	Q2FY23	QoQ Growth (%)
<b>Cement Volume (MT)</b>	<b>2,869</b>	<b>2,833</b>	<b>1.3</b>	<b>3,565</b>	<b>-19.5</b>
Cost of materials consumed	562	525	7.0	601	-6.5
Employee Expenses	41	37	10.7	35	14.5
Other expenses	137	145	-5.5	151	-9.2
Total expenses	739	707	4.6	787	-6.1
Realisation (inc. RMC)	748	768	-2.6	821	-9.0
EBITDA	8	61	-86.2	34	-75.3

### Change in Estimates

	Old estimates		New estimates		Change (%)	
Year / Rs cr	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	1,136	1,371	1,043	1,204	-8.2	-12.2
EBITDA *	80	130	32	57	-60.3	-56.1
Margins (%)	7.0	10	3.0	4.7	(400bps)	(480bps)
Adj. PAT	77	114	45	79	-41.2	-30.8
EPS	24.5	36	14.5	25.2	-40.8	-30.6

## PROFIT & LOSS

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Revenue</b>	<b>827</b>	<b>818</b>	<b>911</b>	<b>1,043</b>	<b>1,204</b>
% change	-5.4	-1.0	11.3	14.5	15.4
<b>EBITDA</b>	<b>87</b>	<b>91</b>	<b>76</b>	<b>32</b>	<b>57</b>
% change	-2.9	4.5	-16.1	-58.3	79.6
Depreciation	15	22	19	21	21
<b>EBIT</b>	<b>72</b>	<b>69</b>	<b>58</b>	<b>11</b>	<b>36</b>
Interest	11	16	17	17	13
Other Income	19	8	13	68	84
<b>PBT</b>	<b>81</b>	<b>61</b>	<b>53</b>	<b>62</b>	<b>107</b>
% change	-13.8	-24.9	-12.2	16.1	74.1
Tax	20.1	16.3	15.1	16.4	28.6
Tax Rate (%)	24.91	26.92	28.45	26.60	26.60
<b>Reported PAT</b>	<b>61</b>	<b>44</b>	<b>38</b>	<b>45</b>	<b>79</b>
Adj*	0	0	0	0	0
<b>Adj PAT</b>	<b>61</b>	<b>44</b>	<b>38</b>	<b>45</b>	<b>79</b>
% change	-0.2	-27.0	-14.1	19.0	74.1
No. of shares (cr)	3.1	3.1	3.1	3.1	3.1
<b>Adj EPS (Rs.)</b>	<b>19.4</b>	<b>14.2</b>	<b>12.2</b>	<b>14.5</b>	<b>25.2</b>
% change	-0.2	-27.0	-14.1	19.0	74.1
DPS (Rs.)	2	2	2	2	2
CEPS (Rs.)	24.1	21.2	18.1	21.1	32.1

## BALANCE SHEET

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Cash	7	10	7	5	13
Accounts Receivable	79	155	132	151	181
Inventories	184	161	203	218	243
Other Cur. Assets	65	60	75	77	76
Investments	0	0	0	0	0
Gross Fixed Assets	333	325	329	339	349
Net Fixed Assets	280	250	236	225	214
CWIP	3	15	22	10	10
Intangible Assets	0	0	0	0	0
Def. Tax (Net)	0	0	0	0	0
Other Assets	5	3	3	3	4
<b>Total Assets</b>	<b>623</b>	<b>654</b>	<b>678</b>	<b>690</b>	<b>741</b>
Current Liabilities	72	51	39	57	72
Provisions	0	0	0	0	0
Debt Funds	159	166	165	120	85
Other Liabilities	-3	-2	-1	-1	-1
Equity Capital	31	31	31	31	31
Reserves & Surplus	365	409	444	482	554
Shareholder's Fund	396	440	475	514	585
<b>Total Liabilities</b>	<b>623</b>	<b>654</b>	<b>678</b>	<b>690</b>	<b>741</b>
<b>BVPS (Rs.)</b>	<b>127</b>	<b>141</b>	<b>152</b>	<b>164</b>	<b>187</b>

## CASH FLOW

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Net inc. + Depn.</b>	<b>75</b>	<b>66</b>	<b>57</b>	<b>66</b>	<b>100</b>
Non-cash adj.	-1	-5	-5	0	0
Other adjustments	9	14	18	17	13
Changes in W.C	-46	-57	-46	-19	-40
<b>C.F. Operation</b>	<b>45</b>	<b>13</b>	<b>28</b>	<b>65</b>	<b>72</b>
Capital exp.	-45	-15	-11	2	-10
Change in inv.	1	1	0	0	0
Other invest.CF	0	0	0	0	0
<b>C.F – Investment</b>	<b>-44</b>	<b>-14</b>	<b>-10</b>	<b>2</b>	<b>-10</b>
Issue of equity	0	0	0	0	0
Issue/repay debt	13	4	-20	-62	-48
Dividends paid	-8	0	0	-7	-7
Other finance.CF	0	0	0	0	0
<b>C.F – Finance</b>	<b>-1</b>	<b>4</b>	<b>-20</b>	<b>-69</b>	<b>-55</b>
Chg. in cash	1	3	-2	-3	8
Closing cash	7	10	7	5	13

## RATIOS

Y.E March	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	10.5	11.1	8.4	3.0	4.7
EBIT margin (%)	8.8	8.4	6.3	1.1	3.0
Net profit mgn.(%)	7.3	5.4	4.2	4.3	6.6
ROE (%)	16.1	10.6	8.3	9.2	14.4
ROCE (%)	10.5	7.5	6.3	7.2	10.3
<b>W.C &amp; Liquidity</b>					
Receivables (days)	38.1	52.1	57.4	49.6	50.5
Inventory (days)	64.1	77.0	72.9	73.6	69.9
Payables (days)	24.4	24.8	15.1	12.4	15.5
Current ratio (x)	1.6	2.0	2.4	2.9	3.7
Quick ratio (x)	0.4	0.9	0.8	1.0	1.4
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	3.4	2.5	2.8	3.1	3.5
Total asset T.O (x)	1.5	1.3	1.4	1.5	1.7
Int. coverage ratio (x)	6.8	4.3	3.3	0.6	2.9
Adj. debt/equity (x)	0.4	0.4	0.4	0.2	0.1
<b>Valuation</b>					
EV/Sales (x)	1.0	1.0	0.9	0.7	0.6
EV/EBITDA (x)	9.3	8.9	10.6	24.1	12.7
P/E (x)	10.7	14.7	17.1	14.3	8.2
P/BV (x)	1.6	1.5	1.4	1.3	1.1

## Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research

Dates	Rating	Target
2-Sep-20	Buy	340
30-Jun-21	Buy	350
13-Sept-21	Buy	340
17-Nov-21	Buy	355
08-Mar-22	Buy	360
25-Aug-22	Accumulate	364
23-Feb-23	Accumulate	250

## Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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