

Strong Growth Outlook; Demand Bouncing Back

For Q1FY22, Apcotex Industries (APCOTEX) missed our top-line estimates but beat EBITDA and PAT estimates. The revenues came in at Rs 185 Cr, reporting a 209% growth YoY largely on a lower base. On a sequential basis, the top-line was flattish as the volumes were lower as compared to Q4FY21 due to the second wave of COVID-19 and a partial maintenance shutdown at the Taloja plant in Jun'21. The EBITDA came in at Rs 29 Cr (our estimate: Rs 28 Cr) vs. a loss of Rs 4.3 Cr in the corresponding period last year, same quarter. On a sequential basis, the EBITDA fell by 2.4%. The EBITDA Margin came in at 15.8% (our estimate: 13.8%) witnessing a mere 24 bps contraction on a QoQ basis. Reported PAT stood at Rs 22 Cr (our estimate: Rs 20 Cr) as against a loss of Rs 7.3 Cr during the corresponding period last year. On a sequential basis, the PAT dropped by 3.2%. During the quarter, the contribution of the export to the top-line stood the highest ever, coming in at 24%. The management indicated that all de-bottlenecking plans will be completed by Q2FY22 which is expected to add 15-20% additional capacity and will result in additional revenue of ~Rs. 60-70 Cr once complete. Additionally, APCOTEX has received environmental approvals in Q1FY22 to start construction for 2 brownfield projects, one at Valia and the other at Taloja, resulting in the total capital outlay of ~Rs 140-150 Cr over the next 4 quarters. With regards to the anti-dumping duty (ADD), for both the petitions, the Ministry of Finance decided not to notify the duties resulting in no ADD existing for NBR imports in India at this point in time. Factoring in the strong performance despite the destruction caused by COVID-19, we expect healthy volume and price growth in upcoming quarters. We revise our FY22/23 estimates upwards and introduce FY24E to factor in growth over FY21-24E. This results in a rating upgrade to BUY (HOLD earlier) and revision in TP to Rs 410 (Rs 315 earlier) as we roll forward our estimates and multiple to FY24E EPS. The key downside risk to our estimates – Uncertainties caused by the second COVID-19 wave globally while an upside risk to our TP is a favourable ADD outcome.

Our Take On Q1FY22 Results Concall

- Expansion Plans:** APCOTEX has received all clearances for a brownfield expansion for XNB Latex plants, one at Taloja and the other at Valia. In the first phase, capacity addition of 50,000 tons p.a. will be done at Valia with a capital outlay of Rs 110 Cr. Additionally, the company has plans of adding 10,000 capacity at its Taloja Plant for an outlay of Rs 35 Cr. Both the plants will be commercialized by Q1FY23 and are expected to result in an incremental revenue opportunity of Rs 500 Cr. The Capex will be funded by both internal accruals and debt. The company has plans of achieving peak utilization in less than 2 years given the healthy demand prospects.
- Strong Demand Outlook:** Industries like Paper & Paperboard (packaging), Tyre, Footwear, Auto, and Construction helped the company in recording strong growth in the current quarter. Along with the current strong demand, the diversification in the end-user industries that the company caters to will help it maintain the growth levels for the next 3-5 years. The growing opportunities in the domestic, as well as export market, are expected to further boost the company's top-line.
- Guidance:** The management is confident of achieving a 12-15% top-line growth with EBITDA Margins in the range of 14%-16% in FY22.

Key Financials

(Rs. Cr)	FY21	FY22E	FY23E	FY24E
Net Sales	541	641	875	1,116
EBITDA	69	85	119	159
Net Profit	44	54	74	104
EPS (Rs.)	8.5	10.5	14.4	20.1
PER (x)	18.4	32.6	23.8	17.1
EV/EBITDA (x)	11.8	20.9	15.6	11.7
P/BV (x)	2.7	5.1	4.3	3.6
ROE (%)	14.4%	15.5%	18.2%	21.1%

Source: Company, Axis Research

(CMP as of 29th July, 2021)

CMP (Rs)	341
Upside /Downside (%)	20%
High/Low (Rs)	384/108
Market cap (Cr)	1,768
Avg. daily vol. (6m) Shrs.	87,412
No. of shares (Cr)	5.2

Shareholding (%)

	Dec-20	Mar-20	Jun-21
Promoter	58.2	58.2	58.2
FIs	-	-	1.4
MFs / UTI	0.4	0.4	0.0
Banks / FIs	0.0	0.0	0.0
Others	41.5	41.5	40.4

Financial & Valuations

Y/E Mar (Rs. Cr)	2022E	2023E	2024E
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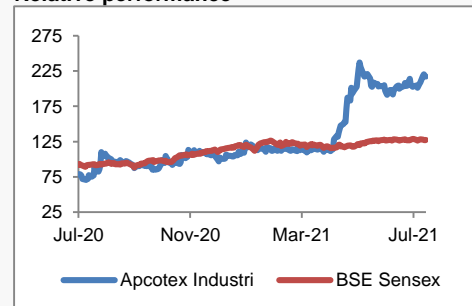
ESG disclosure Score**

Environmental Disclosure	N/A
Social Disclosure Score	N/A
Governance Disclosure Score	N/A
Total ESG Disclosure Score	N/A

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly, and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance



Source: Capitaline, Axis Securities

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Q1FY22 Financials

	Q1FY22	Q1FY22 Axis Estm	Var (%)	Q1FY21	% Change (Y-o-Y)	Q4FY21	% Change (Q-o-Q)
Net Sales	185.2	200.3	(7.5)	59.9	209.4	186.9	(0.9)
Expenditure							
Net Raw Material	116.8			41.5	181.4	116.6	0.2
Gross Profit	68.5	67.8	1.0	18.4	272.7	70.3	(2.7)
Gross Margin (%)	37.0	33.8	313bps	30.7	628bps	37.6	-67bps
Employee Expenses	11.1			9.2	20.6	10.9	2.0
Other Exp	28.1	23.3		13.5	108.0	29.4	-4.7
Total Expenditure	115.9			64.2	310.0	156.9	-2.5
EBITDA	29.3	27.7	6.0	-4.3	--	30.0	-2.4
EBITDA Margin (%)	15.8	13.8	203bps	-7.2	--	16.1	-24bps
Oth. Inc	2.4			1.9	27.2	2.0	17.1
Interest	0.8			0.9	-7.8	0.8	1.2
Depreciation	3.3			3.7	-9.7	3.3	2.9
PBT	27.6			-7.0	--	28.0	-1.7
Tax	5.7			0.3	1593.6	5.4	4.7
PAT	21.9	20.1	9.0	-7.3	--	22.6	-3.2
EPS	4.2	3.9		-1.4		4.4	

Source: Company, Axis Research

Valuation & Outlook

In Q1FY22, Apcotex Ltd. posted a good set of numbers on Revenue, EBITDA, and PAT front as well as on the Exports front as the company reported the highest ever export contribution to the top-line led by growing demand as well as the capacity utilization running near full capacity at both the facilities. Currently, the domestic players only cater to 30-40% of the demand and thus, with the current Capex, the company will partly be able to cater to more demand. The exports market, too, is expected to gain momentum on account of traction gained in the gloves and carpet segment in the current quarter. Thus, on account of capacity expansion plans, product portfolio expansion (XNBR Latex), and high market share, we revise our FY22/23 estimates upwards and introduce FY24E to factor in growth over FY21-24E. This results in a rating upgrade to BUY (HOLD earlier) and revision in TP to Rs 410 (Rs 315 earlier) as we roll forward our estimates and multiple to FY24E EPS. The key downside risk to our estimates is uncertainty on COVID's second wave globally while upside risk to our TP is a favourable outcome on ADD going forward.

Other Key Concall Takeaways

- **Market Share:** The Company's market share ranges between 40%-75% amongst different products and the Company is no. 1 or a strong no.2 in India for most of the products they provide.
- **Future Plans:** There are various opportunities for the company and have other products on the horizon but are at a premature stage. The new products under consideration are specialty and more of a niche product which is expected to be a huge enough opportunity for a company like Apcotex.
- **Exports** –formed 24% of total revenues and the growth momentum in exports is likely to sustain driven by robust demand for medical gloves (XNBR Latex). The company paid higher logistics and shipping cost during last few quarters due to COVID, however, the logistic and shipping cost has now come down drastically. Despite higher shipping costs APCOTEX has not reported any loss of sale or business.
- **EBITDA Margin Guidance:** Management mentioned improvement in EBITDA/ton is expected to sustain going ahead. The company's target is close to 14-16% on a consistent basis.
- **Demand Outlook:** The company will continue to grow as some of its key end-user industries like construction, auto, tyre, and paper & paper board have a good potential to grow over the longer term.
- **Sales mix in Q1FY22:** Latex: Rubber contribution was roughly 55%:45%
- **NBR Performance:** The automotive segment forms 30-35% of NBR consumption. The segment is not back to the historic margin level as the automotive industry in the north has suffered. The company is expected to receive the environmental clearance by April 2022, post which the company will decide on whether to go forward with Capex. Additionally, one of the large domestic competitors with a market share of 8% is getting out of the NBR business by December which will aid the company in increasing its market share from the current 25%. The company is currently selling NBR at import price and if the company decides to go forward with the Capex plan, it will be doubling its capacity which may give them better economies of scale.
- **Customer Addition:** In the current quarter, the company added new customers for nitrile latex and in other business segments it adds new customers every quarter.

Financials

Profit & Loss

(Rs Cr)

Y/E March	FY21	FY22E	FY23E	FY24E
Total Net Sales	541	641	875	1,116
% Change	9%	18.5%	36.6%	27.5%
Total Raw material Consumption	339	412	560	711
Staff costs	43	50	67	81
Other Expenditure	90	94	130	165
Total Expenditure	472	556	756	958
EBITDA	69	85	119	159
% Change	105.5	23.3	40.8	33.2
EBITDA Margin %	12.7	13.2	13.6	14.2
Depreciation	14.5	17.8	24.8	28.0
EBIT	54	67	94	131
% Change	170.6	23.5	41.2	38.5
Interest	4	2	5	5
Other Income	6	8	11	13
(as % of PBT)	11	11	11	10
PBT	57	73	99	139
Tax	13	18	25	35
Tax Rate %	22.2	25.0	25.0	25.0
APAT	44	54	74	104

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY21	FY22E	FY23E	FY24E
Share Capital	10	10	10	10
Reserves & Surplus	295	338	398	481
Net Worth	305	349	408	491
Total Loan funds	11	31	91	89
Deferred Tax Liability	11	11	11	11
Long Term Provisions	3	3	3	3
Other Long Term Liability	4	4	4	4
Capital Employed	335	398	517	598
Net Block	144	178	253	271
Investments	75	54	74	95
Sundry Debtors	105	105	156	190
Cash & Bank Bal	15	45	12	18
Loans & Advances	0	0	0	0
Inventory	56	65	84	107
Other Current Assets	16	19	26	33
Total Current Assets	213	256	299	369
Current Liab & Prov	117	115	140	157
Net Current Assets	96	141	159	211
Capital Deployed	335	398	517	598

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY21	FY22E	FY23E	FY24E
PBT	57	73	99	139
Depreciation & Amortization	15	18	25	28
Provision for Taxes	4	2	5	5
Chg in Deferred tax	-3	0	0	0
Chg in Working cap	15	5	-71	-67
Direct Tax Paid	-12	-18	-25	-35
Cash flow from operations	75	79	34	70
Chg in Gross Block	-24	-56	-107	-36
Chg in WIP	22	0	0	0
Cash flow from investing	-37	-56	-107	-36
Proceeds/(Repayment) of ST Borrowing (Net)	-14	0	0	0
Finance Cost paid	-4	-2	-5	-5
Dividends paid	-8	-11	-15	-21
Dividend Distribution Tax paid	0	0	0	0
Cash flow from financing	-46	7	40	-28
Chg in cash	-8	30	-33	6
Cash at start	33	25	55	22
Cash at end	25	55	22	28

Source: Company, Axis Securities

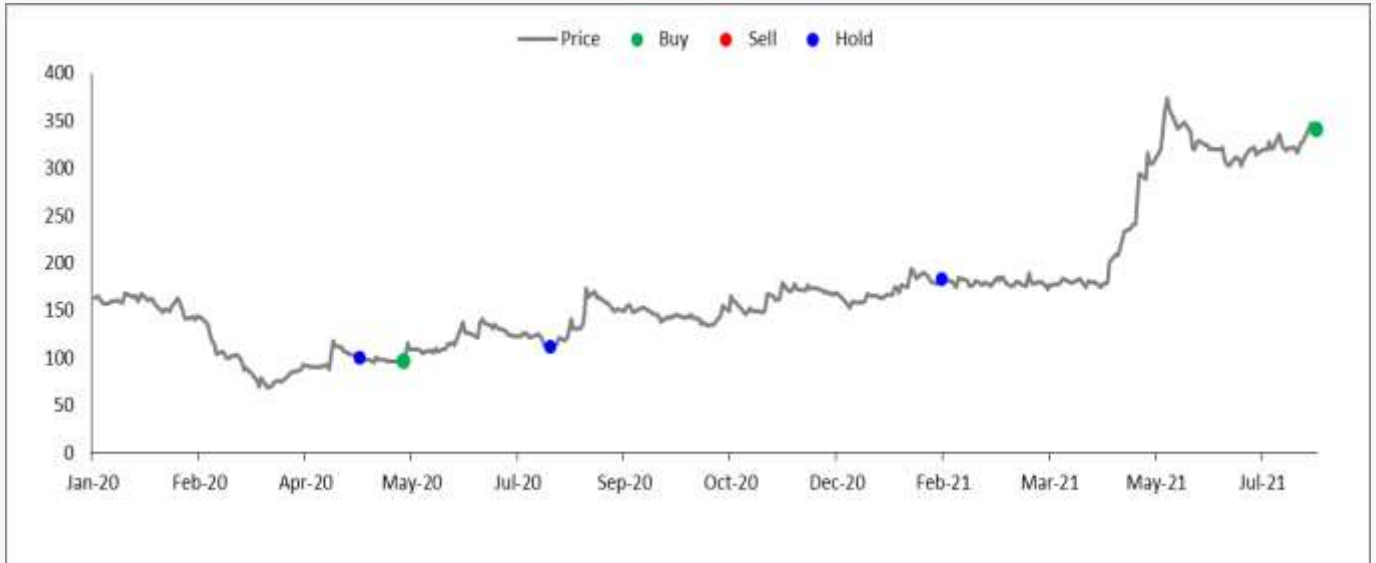
Ratio Analysis

(%)

Y/E March	FY21	FY22E	FY23E	FY24E
Growth (%)				
Net Sales	9.0	18.5	36.6	27.5
EBITDA	105.5	23.3	40.8	33.2
APAT	165.6	23.3	36.8	39.6
Per Share Data (Rs.)				
Adj. EPS	8.5	10.5	14.4	20.1
BVPS	58.9	67.3	78.7	94.7
Profitability (%)				
EBITDA Margin	12.7	13.2	13.6	14.2
Adj. PAT Margin	8.1	8.5	8.5	9.3
ROCE	16.2	16.8	18.2	21.8
ROE	14.4	15.5	18.2	21.1
ROIC	21.7	22.1	21.7	26.7
Valuations (X)				
PER	18.4	32.6	23.8	17.1
P/BV	2.7	5.1	4.3	3.6
EV / EBITDA	11.8	20.9	15.6	11.7
EV / Net Sales	1.5	2.8	2.1	1.7
Turnover Days				
Inventory days	39.0	37.0	35.0	35.0
Debtors days	65.5	60.0	65.0	62.0
Creditors days	35.4	33.0	33.0	30.0
Working Capital Days	69.0	64.0	67.0	67.0
Gearing Ratio				
Net Debt to Equity (x)	0.0	0.0	0.2	0.2

Source: Company, Axis Securities

Apcotex Industries Chart and Recommendation History



Date	Reco	TP	Research
05-May-20	HOLD	104	Event Update
26-May-20	BUY	114	Result Update
03-Aug-20	HOLD	104	Result Update
30-Oct-20	HOLD	174	Result Update
03-Feb-21	HOLD	204	Result Update
30-Jul-21	BUY	410	Result Update

About the analyst**Analyst:** Suvarna Joshi**Contact Details:** suvarna.joshi@axissecurities.in**Sector :** FMCG, Consumption sector, Sp. Chemicals, Mid-Caps**Analyst Bio:** Suvarna Joshi is MBA (Finance) from Mumbai University with about 10years of experience in Equity market and research.**About the analyst****Analyst:** Darshita Shah**Contact Details:** darshita.shah@axissecurities.in**Sector:** Specialty Chemicals, Mid-Caps**Analyst Bio:** Darshita Shah is CFA Level III candidate and has over a year experience in Equity Market and Research.**Disclosures:**

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HOLD	Between 10% and -10%
SELL	Less than -10%
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