

29 Sept 2018

Initiating Coverage (BUY)

APCOTEX INDUSTRIES LTD

CMP

INR 585

Target Price

INR 657

Stock Details

Industry	Other Industrial Goods
Bloomberg Code	APCO:IN
BSE Code	523694
Face Value (Rs.)	5.00
Market Cap. (Rs. mn)	12,127.1
52wk. Low/High (Adjusted) (Rs.)	420.20/668.75

Shareholding Pattern June '18

Promoter (%)	57.92
FII (%)	0.00
DII (%)	0.00
Public - Other (%)	42.08
No. of Share Outstanding (mn)	20.73

Valuation Summary

	FY 17A	FY 18A	FY 19P	FY 20P
P/E (x)*	19.00	31.40	28.00	23.00
EV/EBITDA (x)	11.18	16.70	15.03	12.74
P/BV (x)	3.22	4.92	4.33	4.05

*TTM for Current Year

 Based on Market Price as on 1st Apr is taken for Each FY

Key Financial

Rs. Mn	FY 17A	FY 18A	FY 19P	FY 20P
Net Sales	4,310	5,382	5,921	6,513
EBITDA	590	709	758	969
Net Profit	350	386	451	592
EPS (Rs.)*	16.9	18.6	21.7	28.6

*Un adjusted

Key Ratios

	FY 17A	FY 18A	FY 19P	FY 20P
EBITDA Margin (%)	12.8	13.0	12.7	14.4
EBIT Margin (%)	10.2	10.8	11.3	13.1
Net Pro. Margin (%)	7.6	7.1	7.5	8.8
Debt/Equity (x)	0.00	0.01	0.01	0.01
RoNW (%)	17.8	17.1	16.8	18.4
RoCE (%)	17.2	16.3	16.0	17.7



We recommend 'BUY' on APCOTEX INDUSTRIES LTD for a target of INR 657 - valuing the company at P/E 23x of FY20E Earning.

INVESTMENT RATIONALE:

- Apcotex is a leading producer of emulsion polymers
- Higher utilisation, newer capacity, increased market share.
- The company has one of the broadest ranges of products in the industrial segment and caters to a wide range of industries.
- New products, client stickiness to help maintain margins
- AIL keeps introducing newer products in the emulsion polymer segments, which helps it to command better margins.
- The company intends to partly offset this impact via efficient raw material purchase and increase the contribution of high margins exports.
- AIL witnessed a continued demand revival (volume & value driven) across all industries in the domestic market.
- Sturdy performance continues for another quarter
- Capacity expansion to help drive topline growth

VALUATIONS AND VIEW:

Apcotex is one of the leading producers of Synthetic Rubber (NBR & HSR) and Synthetic Latex (Nitrile, VP latex, XSB & Acrylic latex) in India. Apcotex Industries has one of the broadest range of Emulsion Polymers available in the market today. Apcotex has significant global presence and for last few years has done business in all continents and several countries. **We value the business at 23x FY20E EPS and recommend a BUY rating on the stock with a target price of INR 657 per share.**

RISK & CONCERNS:

- **Procurement Risks:** Major risks arise from a few main raw materials like Styrene, Acrylonitrile and Butadiene that are used in several products. There is an availability risk associated with all since Styrene and Acrylonitrile are not manufactured in the country and have to be completely imported.
- **Environment, Health and Safety (EHS):** The Company is committed to protecting the environment and ensuring the health and safety of its employees, customers, neighbours and public. Some of major raw materials are hazardous and flammable and some safety risks are inherent in the manufacturing processes.
- **Dependence on Single Manufacturing facility:** While company has two manufacturing facilities, some of its products can be manufactured only at a single location. Due to incidents such as strikes, political instability, terrorist attacks or natural calamities the operations of the Company may be materially affected.

COMPANY BACKGROUND:

Apcotex Industries Incorporated in 1986 as a division of Asian Paints India, Apcotex Lattices (ALL) was separated from the former in 1991 to enable closer management focus. Apcotex is one of the leading producers of Synthetic Rubber (NBR & HSR) and Synthetic Latex (Nitrile, VP latex, XSB & Acrylic latex) in India. The company has one of the broadest range of Emulsion Polymers available in the market today. The various grades of Synthetic Rubber find application in products such as Automotive Components, Hoses, Gaskets, Rice De-husking Rollers, Printing and Industrial Rollers, Friction Materials, Belting and Footwear.

Apcotex state-of-the-art manufacturing plants are strategically located on the western coast of India. Over the past several years, it developed a strong Research & Development base, which has enabled it to develop, manufacture and export products and compete effectively against global players. Through its technical service team and well-equipped application laboratory, it believe in providing value added services to enable customers to constantly improve the quality of their final product. Apcotex has significant global presence and for last few years has done business in all continents and several countries.

Apcotex has been awarded the prestigious “TPM Excellence Award, Category A” and “TPM Consistency Award” by the Japan Institute of Plant Maintenance (JIPM), Japan. Apcotex, an ISO 9001:2015 certified company, is also certified for ISO 14001:2015 (Environmental Management Systems) and OHSAS 18001:2007 (Occupational Health and Safety Management Systems). Apcotex is a Responsible Care certified company.

Products

- Synthetic Rubber
- Synthetic Latex

INDUSTRY OVERVIEW:

For industry structure analysis, the natural rubber industry is comparatively fragmented by manufacturers, but, it is concentrated by regions. A variety of manufacturers ranging from large multinational corporations to small privately owned companies compete in this industry. Regionally, Thailand is the biggest production area of natural rubber, about 30.41% production market share of the global production in 2016, also the leader in the whole natural rubber industry. Then Indonesia, Vietnam, Malaysia, China and Indian are the main production regions in turn. The global production of natural rubber has reached 13030.2 K MT by the end of year 2016, with annual growth rate around 2-3% during the past years. For the market, the global natural rubber market is worth over \$26.6 Billion in 2016, according to our survey. The application can be classified based on end users, which are automotive, medical industrial use, consumer goods. Automotive use has been in traditional ways, about 65.74% of the all application, while consumer goods application is more diversified. Generally, the growth in medical use would keep increasing in the following years, as the surging demand in both developed and developing areas.

PEER COMPARISON

Company	CMP (Rs)	P/E*	Mcap (Rs Cr)	Div Yld (%)	NP Qtr (Rs Cr)	Qtr Profit Var (%)	Sales Qtr (Rs Cr)	Qtr Sales Var (%)	CMP/BV
HEG	3,599	7.7	14,382.8	2.22	770.3	9,237.60	1,587.4	672.97	7.95
Graphite India	846	16.0	16,525.0	2.01	957.0	-	1,965.0	-	6.05
AIA Engg.	1,763	36.2	16,628.4	0.45	104.8	18.16	715.2	25.49	5.53
SKF India	1,708	28.1	8,770.8	0.70	80.9	25.81	755.0	13.28	4.77
Vesuvius India	1,150	25.2	2,335.4	0.59	22.2	(18.18)	236.1	(1.64)	3.38
Orient Refrac.	240	31.5	2,879.4	1.04	21.9	34.42	174.1	22.86	8.92
IFGL Refractor	279	-	-	-	16.2	38.92	208.4	18.07	-
Apcotex Industri	585.0	28.0	1,212.7	1.01	11.3	114.69	150.1	24.99	4.92

*TTM

FINANCIAL OVERVIEW

Q2 FY18 Performance Highlight							
(in Million)	June FY17	Sept FY17	Dec FY17	Mar FY18	June FY18	YoY (%)	QoQ (%)
Revenue	1,321.41	1,289.89	1,378.95	1,392.23	1,500.65	13.56%	7.79%
Other Income	22.19	16.31	46.59	-16.83	18.36		
Total Income	1,343.60	1,306.20	1,425.54	1,375.40	1,519.02	13.06%	10.44%
Expenditure	-1,240.80	-1,143.35	-1,209.55	-1,173.47	-1,326.21		
As a % of Sales	93.90%	88.64%	87.72%	84.29%	88.38%		
Interest	-5.08	-4.59	-4.06	-1.97	-4.37	-13.98%	121.83%
PBDT	102.81	162.85	216	201.93	192.8		
As a % of Sales	7.78%	12.63%	15.66%	14.50%	12.85%		
Depreciation	-31.18	-31.19	-30.33	-28.73	-28.61		
PBT	71.63	131.66	185.67	173.2	164.19	129.22%	-5.20%
As a % of Sales	5.42%	10.21%	13.46%	12.44%	10.94%		
Tax	-19.27	-46.82	-52.73	-52.57	-51.74	168.50%	-1.58%
Net Profit	52.35	84.84	132.94	120.62	112.46	114.82%	-6.77%
As a % of Sales	3.96%	6.58%	9.64%	8.66%	7.49%		
Equity	--	--	--	--	--	#VALUE!	#VALUE!
EPS (Rs)	2.52	4.09	6.41	5.82	5.42	115.08%	-6.87%
CEPS (Rs)	--	--	--	--	--		
OPM %	7.78	12.63	15.66	14.5	12.85		
NPM %	3.96	6.58	9.64	8.66	7.49		

Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 15A	FY 16A	FY 17A	FY 18A	FY 19E	FY 20P	FY 21P
Net Sales	3,534	2,949	4,310	5,382	5,921	6,513	7,034
Other Operating Income	73	98	299	71	59	199	217
Expenditure	3,136	2,570	4,019	4,745	5,222	5,743	6,196
EBITDA	470	477	590	709	758	969	1,054
Depreciation	90	94	121	121	84	89	91
EBIT	381	383	469	588	674	880	963
Interest Expenses	32	24	29	16	27	25	30
PBT	348	359	440	572	646	855	933
Tax	101	(27)	84	171	196	264	289
Extraordinary Items	-	-	(5)	(14)	-	-	-
Net Income Before Adjustment	247	385	350	386	451	592	644
Minority Int./Income from Assoc.	-	-	-	-	-	-	-
Adjusted PAT	247	385	350	386	451	592	644

Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 15A	FY 16A	FY 17A	FY 18A	FY 19E	FY 20P	FY 21P
Equity share capita	52	104	104	104	104	104	104
Reserves & surplus	945	1,768	1,959	2,360	2,811	3,403	4,047
Share Warrants	-	-	-	-	-	-	-
Misc Expenditure	-	-	-	-	-	-	-
Net worth	998	1,872	2,063	2,464	2,915	3,507	4,151
Minority Interest	-	-	-	-	-	-	-
Loan Funds	84	-	-	30	32	30	28
Net deferred tax liability	56	-	34	18	18	18	18
Other Long-term Liabilities	13	14	31	51	56	61	66
Long-term Provisions	18	20	26	22	24	27	29
Total Liabilities	1,168	1,907	2,156	2,586	3,045	3,644	4,294
Net block	651	947	937	878	879	827	771
Investment, Loan & Adv.	373	412	344	708	230	164	190
Total Current Assets	782	1,521	1,541	1,905	3,012	3,813	4,563
Current Liabilities & Provisions	639	975	667	906	1,077	1,163	1,232
Net Current Assets	143	546	874	999	1,935	2,651	3,331
Total Assets	1,168	1,907	2,156	2,586	3,045	3,644	4,294

Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 18A	FY 19E	FY 20P	FY 21P
Operating Cash Flow	532	555	591	660
Cash Flow from Investments	(102)	389	26	(64)
Cash Flow from Financing	(175)	8	10	0
Net Changes in Cash	254	953	626	596
Opening Cash	56	310	1,263	1,888
Closing Cash Balance	310	1,263	1,888	2,485

Research Analyst Details

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