

Realizations Remains Nimble, Volume Growth at Discretion; Maintain Hold
Est. Vs. Actual for Q4FY24: Revenue – **BEAT**; EBITDA – **INLINE**; PAT – **BEAT**
Change in Estimates post Q4FY24
FY25E/FY26E: Revenue: -7.6%/5%; EBITDA: -16.7%/3.0%; PAT: -22.2%/1%

Recommendation Rationale

- Nitrile Latex continues to drag margins:** Destocking by glove manufacturers persists, while increased capacity by latex players limits realizations from nitrile latex. Management plans to prioritize cost reduction and secure new customer approvals to boost volumes and operating margins. Additionally, the consideration to repurpose assets for producing styrene butadiene latex and styrene acrylic latex instead of nitrile latex at the Valia plant is contingent upon industry conditions. If the industry slowdown persists, this strategic shift may impact performance for 3-6 months.
- NBR impacted by Chinese imports:** NBR's performance has been affected by a surge in Chinese dumping, driven by China's domestic slowdown, which has led to excess capacity being exported. This situation has impacted realizations and margins for Indian players. To address this, the company has initiated debottlenecking efforts to enhance capacity, as it is currently operating at full capacity.
- Exports gain momentum:** The company attained its highest quarterly exports, marking a significant 71% YoY increase in export volume. Revenue surged by 21% during the quarter, driven by higher volumes with a growth rate of 34% YoY, a favorable product mix, and improved price realization. However, EBITDA declined by 8% YoY, mainly due to reduced margins in certain product categories influenced by market dynamics.

Outlook & Guidance: We are closely monitoring the fluctuations in Latex and NBR prices, as well as the prices of key raw materials such as Styrene and Butadiene. These prices have remained subdued for over a year due to overcapacity following the Covid-19 pandemic. However, market dynamics have led to the elimination of weaker players, which is expected to support price recovery. Management anticipates increased volume uptake, capacity expansion, and improved margins for FY25.

Current Valuation: 15x FY26E

Current TP: Rs 450 (Earlier TP: Rs 475)

Recommendation: We maintain our Hold rating on the stock as broader headwinds are expected to persist in H1FY25.

Outlook: Despite being an import substitute in approximately 45% of its product offering, Apcotex Industries Ltd faces the challenge of remaining price competitive against imports, resulting in lower realizations. However, with changing demand-supply dynamics globally, we anticipate the company's margin profile to rebound to historical levels in the coming quarters. This rebound is expected as Nitrile Latex prices normalize and other segments scale up, potentially improving the company's competitive position and profitability.

Valuation & Recommendation: We revise our estimates on several fronts as industry headwinds persist in H1FY25. We change the outlook on the company's performance as well. We roll forward our estimates to 15x FY26E earnings, valuing the company at Rs 450/share. The TP implies a limited upside of 4% from the CMP. **We maintain our HOLD rating on the stock.**

Key Financials (Consolidated)

(Rs Cr)	Q4FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	310.6	20.9%	21.3%	269.1	15.4%
EBITDA	31.3	22.9%	-8.1%	31.8	-1.4%
EBITDA Margin	10.1%	17bps	-323bps	11.8%	-172bps
Net Profit	15.3	37.6%	-34.0%	13.0	18.2%
EPS (Rs)	3.0	37.6%	-34.0%	2.5	18.2%

Source: Company, Axis Research

(CMP as of 7 th May, 2024)	
CMP (Rs)	430
Upside /Downside (%)	4%
High/Low (Rs)	589/400
Market cap (Cr)	2,232
Avg. daily vol. (1m)Shrs.	36,924
No. of shares (Cr)	5.18

Shareholding (%)

	Sept-23	Dec-23	Mar-24
Promoter	58.2	58.2	58.2
FII	0.5	0.5	0.5
Others	41.3	41.3	41.3

Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	1,125	1,326	1,610
EBITDA	114	159	232
Net Profit	54	93	155
EPS (Rs)	10.4	18.0	30.0
PER (x)	47.4	27.4	16.4
P/BV (x)	4.9	4.3	3.7
EV/EBITDA (x)	23.9	16.5	11.0
ROE (%)	14.2%	19.3%	25.3%

Change in Estimates (%)

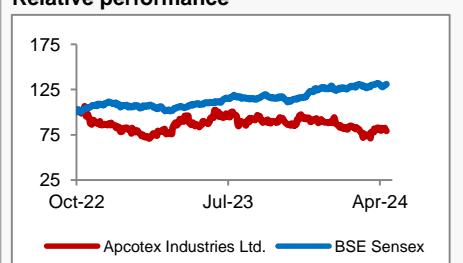
Y/E Mar	FY25E	FY26E
Sales	-7.6%	-5.0%
EBITDA	-16.7%	3.0%
PAT	-22.2%	1.0%

ESG disclosure Score**

Environmental Disclosure	1.2
Social Disclosure Score	15.8
Governance Disclosure Score	83.6
Total ESG Disclosure Score	33.6
Sector Average	44.7

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 2022 disclosures.

Relative performance


Source: ACE Equity, Axis Securities

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Financial Performance

Apcotex Industries Ltd exceeded our expectations in Q4FY24, achieving significant growth in both revenue and profitability. Revenue reached Rs 311 Cr, marking a notable 21% increase YoY and QoQ. However, gross margins experienced a slight decline, standing at 30.3%, down by 119bps compared to the previous quarter.

Apcotex reported an EBITDA of Rs 31 Cr, representing an 8% decrease YoY but a notable 23% increase QoQ. This figure was in line with our estimate of Rs 32 Cr. Despite this, the company reported EBITDA margins of 10.1%, down by 323 basis points YoY but up by 17bps QoQ. The company's Profit After Tax (PAT) amounted to Rs 15 Cr, reflecting a 34% decrease YoY and a substantial 38% increase QoQ, surpassing our estimate of Rs 13 Cr.

Recommendation Rationale & Key Highlights

- **Revenue Mix** stand at Domestic 70% and Export 30%
- **End User Industry Mix for FY24:** Latex 66% and rubber 34% of overall Revenue
- **Nitrile Latex:** Revenue contribution from Nitrile Latex segment is less than 10%. The Nitrile Latex segment is pulling down the EBITDA. Nitrile Latex's current utilization level in Q4FY24 was around 40-45% and 30% for the FY24.
- **Taloja plant** - Currently company is at 60% capacity utilization at the new plant for the Quarter and 45% for the FY24. Valia Plant: Utilisation level of the Valia plant for the Nitrile Latex was 45% during the quarter and 30% during the year.
- **Trade Receivables** increased to Rs. 203 crs mainly due to large volume growth from export sales.
- The board has recommended a final dividend of Rs 3.50/share.
- **Apcobuild:** Apcobuild has shown growth of 18-20% during the year; however, it contributes Small portion to overall revenue.

Key Risks to our Estimates and TP

- Improvement in Latex Margins and other product margins
- In addition to ADD on the company's product, the company has filed a petition for the same.
- Faster-than-expected ramp up in utilisation level in new plants

Change in Estimates

	Revised		Old		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net Sales	1,326	1,610	1,436	1,695	-8%	-5%
EBITDA	159	232	191	225	-17%	3%
EBITDA Margin (%)	12.0	14.4	13.3	13.3	-10%	8%
PAT	93	155	120	154	-22%	1%
EPS	18.0	30.0	23.1	30	-22%	1%

Source: Company, Axis Securities

Results Review

(Rs Cr)	Q4FY23	Q3FY23	Q4FY24 Axis Est	Q4FY24 Actual	YoY %	QoQ %	Axis Var %
Revenue	256.1	257.0	269.1	310.6	21.3%	20.9%	15.4%
Net Raw Material consumed	168.2	176.0	179.5	216.4	28.7%	23.0%	
Employee	14.4	16.8	17.5	17.2	19.8%	2.4%	
Other Expenses	39.4	38.6	40.4	45.6	15.7%	-99.6%	
Total Expenditure	222.0	231.5	237.3	279.3	25.8%	-99.9%	
EBITDA (core)	34.1	25.5	31.8	31.3	-8.1%	22.9%	-1.4%
EBITDAM	13.3%	9.9%	11.8%	10.1%	-323bps	17bps	-172bps
Add: Other income	1.3	2.0	2.0	2.1	57.3%	5.6%	
EBITDA	35.4	27.4	33.8	33.4	-5.7%	21.7%	
Less: Depreciation	4.1	8.2	11.1	8.1	98.6%	-1.3%	
EBIT	31.3	19.2	22.7	25.3	-19.3%	31.5%	
Less: Net Interest	0.6	3.8	4.9	3.9	564.3%	1.4%	
Profit Before Extraordinary Items and Tax	30.7	15.4	17.8	21.4	-30.3%	39.0%	
Less: Extraordinary Expense (net)	-	-	-	-			
Profit Before Tax	30.7	15.4	17.8	21.4	-30.3%	39.0%	
Less: Total Tax	7.5	4.3	4.8	6.1	-18.9%	42.7%	
Profit After Tax	23.2	11.1	13.0	15.3	-34.0%	37.6%	18.2%
Reported EPS (Rs)	4.48	2.15	2.50	2.95	-34.0%	37.6%	18.2%

Source: Company, Axis Securities

Financials (Consolidated)

Profit & Loss	(Rs Cr)			
Y/E March	FY23	FY24	FY25E	FY26E
Net Sales	1,080	1,125	1,326	1,610
COGS	708	778	895	1,063
Staff costs	56	65	77	90
Other Expenditure	157	168	195	225
Total Expenditure	921	1,011	1,167	1,378
EBITDA	159	114	159	232
EBITDA Margin %	14.7%	10.1%	12.0%	14.4%
Depreciation	15.2	31.5	34.5	34.1
EBIT	143	82	125	198
EBIT Margin %	13.3%	7.3%	9.4%	12.3%
Interest	5	16	16	10
Other Income	7	8	16	20
PBT	146	75	125	208
Tax	38	21	31	52
Tax Rate %	25.8%	27.7%	25.2%	25.2%
PAT	108	54	93	155
EPS	20.8	10.4	18.0	30.0

Source: Company, Axis Securities

Balance Sheet
(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Share Capital	10	10	10	10
Reserves & Surplus	466	511	580	685
Net Worth	476	522	590	696
Short Term Borrowings	27	89	20	10
Trade Payables	102	135	127	154
Other Current Liability	13	12	27	32
Total Current Liability	180	272	211	233
Long Term Borrowings	125	94	155	105
Deferred Tax Liability (Net)	12	20	20	20
Total Non-Current Liability	147	128	189	139
Total Liabilities	327	400	400	372
Total Equity + Liabilities	803	922	990	1,068
Assets				
Net Block	383	384	379	375
Financial Assets: Investments	73	89	89	89
Total Non-Current Assets	481	496	483	479
Inventories	105	125	127	154
Trade Receivable	137	203	182	221
Investments	15	22	22	22
Cash and Cash Equivalents	15	15	111	118
Other Current Assets	35	35	43	53
Total Current Assets	323	426	507	589
Total Assets	803	922	990	1,068

Source: Company, Axis Securities

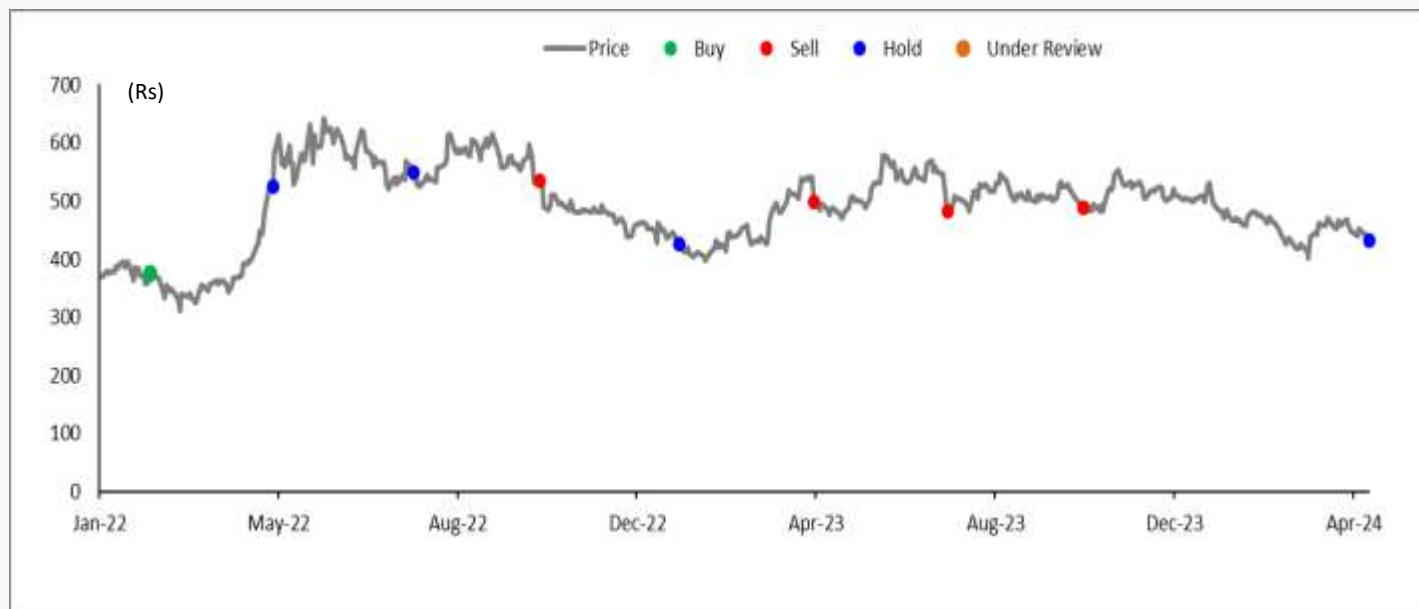
Cash Flows		(Rs Cr)		
Y/E March		FY23	FY24	FY25E
PBT		146	75	125
Depreciation & Amortization		15	32	35
Provision for Taxes		5	16	16
Chg in Deferred tax		-2	-2	-20
Chg in Working cap		-8	-63	56
Direct tax paid		-35	-16	-31
Cash flow from operations		121	40	179
Chg in Gross Block		-187	-28	-30
Chg in Investments		32	-18	0
Chg in WIP		-24	27	0
Cash flow from investing		-179	-20	-30
Proceeds / (Repayment) of Short-Term Borrowings (Net)		7	0	-10
Repayment of Long-Term Borrowings		102	31	0
Finance Cost paid		-5	-15	-16
Dividends paid		-26	-28	-46
Cash flow from financing		71	-13	-71
Chg in cash		13	8	74
Cash at start		17	30	38
Cash at end		30	38	111

Source: Company, Axis Securities

Ratio Analysis					(%)
Y/E March	FY23	FY24	FY25E	FY26E	
Net Sales	12.9%	4.1%	18.0%	21.4%	
EBITDA	13.4%	-28.1%	39.7%	45.6%	
APAT	9.2%	-50.1%	73.3%	66.5%	
Per Share Data (Rs)					
Adj. EPS	20.8	10.4	18.0	30.0	
BVPS	91.8	100.6	113.8	134.2	
DPS	4.1	5.7	8.8	13.6	
Profitability (%)					
EBITDA Margin	14.7%	10.1%	12.0%	14.4%	
Adj. PAT Margin	9.8%	6.6%	8.6%	10.9%	
ROCE	17.8%	8.9%	12.6%	18.5%	
ROE	22.2%	14.2%	19.3%	25.3%	
ROIC	20.2%	10.2%	15.9%	23.1%	
Valuations (X)					
PER	23.7	47.4	27.4	16.4	
P/BV	5.4	4.9	4.3	3.7	
EV / EBITDA	17.0	23.9	16.5	11.0	
EV / Net Sales	2.5	2.4	2.0	1.6	
Turnover Days					
Asset Turnover	3	2	3	3	
Inventory days	32	35	35	35	
Debtors days	50	50	50	50	
Creditors days	34	35	35	35	
Working Capital Days	49	50	50	50	
Gearing Ratio					
Total Debt to Equity (x)	0.3	0.3	0.1	0.0	

Source: Company, Axis Securities

Apcotex Industries Price Chart and Recommendation History



Source: Axis Securities

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