

Current	Previous
CMP : Rs.299	
Rating : BUY	Rating : BUY
Target : Rs.444	Target : Rs.444

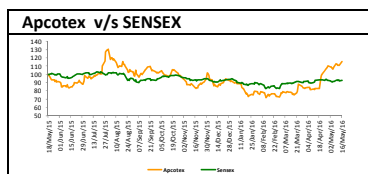
STOCK INFO	
Co. Name	Apcotex Industries
Bse	523694
Nse	APCOTEXIND
Bloomberg	APCO.BO
Reuters	APCO.IN
Sector	Chemical
Face Value (Rs)	5
Equity Capital (Rs Mn)	52
Mkt Cap (Rs Mn)	5,682
52w H/L (Rs)	361/181.5
Avg Daily Vol (BSE+NSE)	16,751

SHAREHOLDING PATTERN (as on March 2016)	%
Institutions	0.03
Others	42.1
Promoters	57.87

Source: BSE

STOCK PER. (%)	1m	3m	12m
Apcotex	21%	41%	24%
Sensex	3%	6%	-4%

Source: Capitaline, IndiaNivesh Research



Source: Capitaline, IndiaNivesh Research

Apcotex posted consolidated revenue growth of 24.6% Y/Y to Rs.956 mn driven by OMNOVA consolidation. However, on the standalone basis its revenue grew by 11.9% Y/Y largely impacted by crude oil price decline. OMNOVA's two month revenue stood at Rs.276 mn, indicating Rs.414 mn of quarterly run rate.

Consolidated EBITDA margins contracted 290 bps Y/Y to 10.8% led by consolidation of low margin OMNOVA business. In our view, margin contraction was expected, but good news is OMNOVA business has already shown a turnaround from loss to profit at EBITDA level (~+5.6% EBITDA margin).

During the quarter, depreciation/other income (Incl finance cost) stood at Rs.27 mn/Rs.59 mn [v/s Rs.22 mn / Rs5 mn in Q4FY15]. The other income looks significantly high due to the profit accrued from booking of liquid investments. In Q4FY16, the company reported tax benefit of +Rs.88 mn as compared to tax expenditure of -Rs.30 mn in Q4FY15. The tax benefit was primarily due to accumulated losses at OMNOVA level. As a result, Net profit grew by 287.9% Y/Y to Rs.224 mn [v/s Rs.58 mn in Q4FY15]. Adjusting the one-off (other income + Tax benefit), net profit stood at Rs. 77 mn (v/s Rs.83 mn in Q4FY15).

The overall investment theme largely remains on the track. Rebalancing of inventory and receivable days to the overall Apcotex level could lead to huge free cash flow generation. Despite such niche business acquisition the overall balance sheet looks stable with further decline in the debt level. In our view, OMNOVA business reaching to the steady state margin level of Apcotex will create significant shareholder value. We maintain BUY with TP of Rs.444 on the stock.

OMNOVA demonstrated EBITDA level turnaround...

The effect of new management is visible in two months - OMNOVA delivered 5.4% of EBITDA margin (v/s ~4.1% of EBITDA level loss same quarter last year). The key reason for such fast recovery was internal workout (reduction in operating expenditure) and favourable demand environment. The efficient development of manufacturing processes and enhancement of productivity should lead to Apcotex level margin going-ahead. We expect consolidated EBITDA margin at 11.3%/13.8% in FY17E/FY18E (v/s 13.3% in FY16A) with revenue CAGR of 44.1% over next two-years (FY16A-FY18E).

Interim Result (Rs Mn)	FY 15		FY 16	
Standalone V/S Consolidated	Q4	Q3	Q4	Q3
Revenue				
Standalone	767	652	680	652
OMNOVA	-	-	276	276
Consolidated	767	652	956	928
EBITDA				
Standalone	105	90	89	90
OMNOVA	-	-	15	15
Consolidated	105	90	104	105
EBITDA Margin %				
Standalone	13.7%	13.8%	13.1%	13.1%
OMNOVA	NA	NA	5.4%	5.4%
Consolidated	13.7%	13.8%	10.8%	11.3%

Source: Company filings, IndiaNivesh Research

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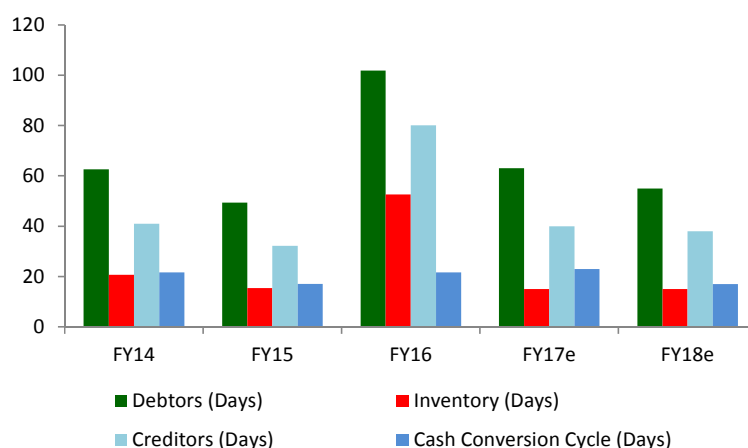
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Inventory/Debtor Days Contraction...Additional Trigger

Post OMNOVA consolidations debtors and inventory days expanded to 102/53 days from 49/15 days in FY15. This was partially offset by increase in payable days to 80 days in FY16 from 32 days in FY15. In our view, Apcotex already possess supplier and buyer power and has ability to operate at higher utilization level (Current 65% | High 85%). The consolidation will further enhance the buyer and supplier power. The combined company will emerge as monopoly player in Synthetic Rubber segment. Given the largest buyer of Styrene (360 tons) and one of the largest buyer of Butadiene (360 tons) in the country, Apcotex should further strengthen its supplier power, as input material is same for Nitrile Latex.

Working Capital Cycle (Days)



Source: Company filings, IndiaNivesh Research

Valuations

At CMP of Rs.299, the stock is trading at 19.8x FY17E and 13.4x FY18E EV/EBITDA estimates. The company's technology, experience and clientele remain the significant entry barrier. These advantages lead to lion's market share in Performance Emulsion Polymers segment in India. The management's new five year vision and track record of executing as per the plan should lead to next level of revenue growth and margin expansion going-ahead. We maintain BUY with target price of Rs.444 (20.0x FY18E) on the stock.

Quarterly Performance

Interim Result Consolidated	FY 15				FY 16			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	1023	898	846	767	667	675	652	956
Change (%) Y-o-Y	36.9%	28.2%	19.3%	-4.5%	-34.8%	-24.8%	-22.9%	24.6%
COGS	(794)	(697)	(634)	(518)	(479)	(495)	(460)	(698)
<i>As a % of sales</i>	77.6%	77.7%	74.9%	67.5%	71.8%	73.3%	70.6%	73.1%
SG&A	(131)	(102)	(116)	(144)	(95)	(89)	(101)	(154)
<i>As a % of sales</i>	12.8%	11.4%	13.7%	18.8%	14.2%	13.1%	15.6%	16.1%
R&D expenditure	0	0	0	0	0	0	0	0
<i>As a % of sales</i>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EBITDA	98	99	96	105	93	92	90	104
<i>EBITDA margin</i>	9.6%	11.0%	11.4%	13.7%	14.0%	13.6%	13.8%	10.8%
Depreciation	(24)	(23)	(21)	(22)	(21)	(25)	(22)	(27)
<i>As a % of sales</i>	2.3%	2.5%	2.5%	2.9%	3.1%	3.7%	3.4%	2.8%
EBIT	74	76	75	83	73	67	68	77
<i>EBIT Margin</i>	7.2%	8.5%	8.9%	10.8%	10.9%	10.0%	10.4%	8.1%
Net financials & Other income	8	18	10	5	10	4	1	59
Earnings before Tax	82	94	85	88	83	71	68	136
<i>PBT Margin</i>		10.4%	10.1%	11.5%	12.4%	10.6%	10.5%	14.2%
Taxes	(24)	(22)	(25)	(30)	(22)	(18)	(22)	88
<i>% of Profits</i>	29.4%	24.0%	29.1%	34.4%	26.5%	25.5%	31.7%	-65.0%
Minority Interest	-	-	-	-	-	-	-	-
Post tax exceptionals	-	-	-	-	-	-	-	-
Net Income	58	71	60	58	61	53	47	224
<i>Net Margin</i>	5.6%	7.9%	7.1%	7.5%	9.1%	7.9%	7.2%	23.5%
EPS - Basic	2.79	3.43	2.92	2.79	2.95	2.57	2.26	10.83
EPS - Diluted	2.79	3.43	2.92	2.79	2.95	2.57	2.26	10.83
Shares outstanding - Basic	20.70	20.70	20.70	20.70	20.70	20.70	20.70	20.70
Shares outstanding - Diluted	20.70	20.70	20.70	20.70	20.70	20.70	20.70	20.70

Financial Statements:**Income Statement (Consolidated)**

Y E March (Rs m)	FY14	FY15	FY16	FY17E	FY18E
Net sales	2,970	3,551	2,965	5,129	6,154
<i>Growth (%)</i>	<i>8.6</i>	<i>19.5</i>	<i>-16.5</i>	<i>73.0</i>	<i>20.0</i>
Operating expenses	-2,713	-3,128	-2,570	-4,549	-5,305
Operating profit	257	422	394	580	849
Other operating income	0	0	0	0	0
EBITDA	257	422	394	580	849
<i>Growth (%)</i>	<i>8.4</i>	<i>64.4</i>	<i>-6.7</i>	<i>47.0</i>	<i>46.5</i>
Interest	-47.1	-40.1	-24.3	-14.2	-14.2
Depreciation	-68	-90	-98	-169	-203
Other income	24	56	83	22	22
Associate Income	0	0	0	0	0
EBIT	166	348	355	418	654
Finance cost	0	0	0	0	0
Exceptional item	0	0	0	0	0
Profit before tax	166	348	355	418	654
Tax (current + deferred)	-35	-102	27	-105	-191
Profit / (Loss) for the period	131	247	381	314	463
Associates, Min Int	0	0	0	0	0
Reported net profit	131	247	381	314	463
Extraordinary item	0	0	0	0	0
Adjusted net profit	131	247	381	314	463
<i>Growth (%)</i>	<i>2.5</i>	<i>88.0</i>	<i>54.5</i>	<i>-17.8</i>	<i>47.8</i>

Source: Company, IndiaNivesh Research

Balance Sheet (Consolidated)

Y E March (Rs m)	FY14	FY15	FY16	FY17E	FY18E
Share capital	52	52	104	104	104
Reserves & surplus	801	945	1,768	1,978	2,328
Net Worth	853	998	1,872	2,082	2,432
Minority Interest	0	0	0	0	0
Total Liabilities	853	998	1,872	2,082	2,432
Non-current liabilities	506	342	204	204	204
Long-term borrowings	480	311	171	171	171
Deferred tax liabilities	0	0	0	0	0
Other Long term liabilities	27	31	34	34	34
Long term provisions	0	0	0	0	0
Current Liabilities	475	467	737	861	840
Short term borrowings	0	0	0	0	0
Trade payables	339	318	660	562	641
Other current Liabilities	136	149	76	299	199
Short term provisions	0	0	1	0	0
Total Liabilities and Equity	1,834	1,807	2,813	3,147	3,475
Non Current Assets	1,010	1,025	1,186	1,267	1,281
Net Block	689	651	947	1,028	1,042
Goodwill	0	0	0	0	0
Non-current Investments	321	373	239	239	239
Long-term loans and advances	0	0	0	0	0
Deferred tax Assets	0	0	0	0	0
Other non current Assets	0	0	0	0	0
Current Assets	824	782	1,627	1,881	2,195
Inventories	171	152	433	211	253
Sundry Debtors	517	487	838	885	927
Cash & Bank Balances	61	44	98	289	509
Other current Assets	74	99	257	496	506
Loans & Advances	0	0	0	0	0
Current Investments	0	0	0	0	0
Total (Assets)	1,834	1,807	2,813	3,148	3,476

Source: Company, IndiaNivesh Research

Cash Flow Statement (Consolidated)

Y E March (Rs m)	FY14	FY15	FY16	FY17E	FY18E
Profit before tax	189	333	296	410	646
Depreciation	68	90	98	169	203
Change in working capital	-122	-13	14	62	-116
Total tax paid	-35	-102	27	-105	-191
Others	-23	16	58	8	8
Cash flow from operations (a)	77	324	493	545	551
Capital expenditure	-124	-104	-259	-250	-217
Change in investments	0	0	0	0	0
Others	0	0	0	0	0
Cash flow from investing (b)	-124	-104	-259	-250	-217
Free cash flow (a+capex)	-47	220	234	295	334
Equity raised/(repaid)	0	0	52	0	0
Debt raised/(repaid)	7	-164	-138	0	0
Dividend (incl. tax)	-52	-73	-93	-104	-114
Others	0	0	0	0	0
Cash flow from financing (c)	-45	-237	-179	-104	-114
Net change in cash (a+b+c)	-92	-17	54	191	220
Cash at the begning	154	62	44	99	289
Cash at the end of the year	62	44	99	289	509

Source: Company, IndiaNivesh Research

Key Ratios (Consolidated)

Y E March	FY14	FY15	FY16	FY17E	FY18E
Adjusted EPS (Rs)	6.3	11.9	18.4	15.1	22.4
Growth	2.5	88.0	54.5	-17.8	47.8
Dividend/share (Rs)	2.5	7.0	4.5	5.0	5.5
Dividend payout ratio	39.5	58.7	24.4	33.0	24.6
EBITDA margin	8.6	11.9	13.3	11.3	13.8
EBIT margin	5.6	9.8	12.0	8.2	10.6
Net Margin	4.4	7.0	12.9	6.1	7.5
Tax rate (%)	21.1	29.1	-7.5	25.0	29.1
Debt/Equity(x)	0.6	0.3	0.1	0.1	0.1
Inventory Days	23	18	62	17	17
Sundry Debtor Days	64	50	103	63	55
Trade Payable Days	46	37	94	45	44
Du Pont Analysis - ROE					
Net margin	4.4	7.0	12.9	6.1	7.5
Asset turnover (x)	1.7	2.0	1.3	1.7	1.9
Leverage factor (x)	0.6	0.3	0.1	0.1	0.1
ROE(%)	15.4	24.7	20.4	15.1	19.1
RoCE (%)	12.5	26.6	17.4	18.6	25.1
Valuation (x)					
PER	47.3	25.2	16.3	19.8	13.4
PCE	222.4	131.5	92.3	91.7	66.4
Price/Book	51.9	44.4	23.6	21.3	18.2
EV/EBITDA	25.4	15.4	16.5	11.3	7.7

Source: Company, IndiaNivesh Research