

Current	Previous
CMP : Rs.275	
Rating : BUY	Rating : NA
Target : Rs.444	Target : NA

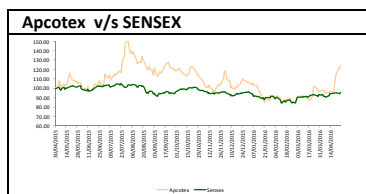
STOCK INFO	
Co. Name	Apcotex Industries
Bse	523694
Nse	APCOTEXIND
Bloomberg	APCO.BO
Reuters	APCO.IN
Sector	Chemical
Face Value (Re)	5
Equity Capital (Rs Mn)	52
Mkt Cap (Rs Mn)	5,682
52w H/L (Rs)	361/181.5
Avg Daily Vol (BSE+NSE)	16,751

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 Industries Ltd is one of the leading producers of Performance Emulsion Polymers in India. The company was established in the year 1980 as a division of Asian Paints (India) Ltd. In 1991 the division was spun-off as a separate company, which was headed by Mr. Atul Choksey, former MD of Asian Paints. The current MD & CEO of Apcotex is Abhiraj Choksey. Apcotex's products are used as applications for Tyre Cord Dipping, Paper/Board Coating, Carpet Backing, Construction (Concrete Modification, Water Proofing, etc.), Paints, Textile Finishing and Automotive Components. The company's high Styrene Synthetic Rubber finds applications in footwear, automotive components, v-belts, conveyer belts and hoses. Acquisition of OMNOVA solutions led to monopoly position in Synthetic Rubber and brings the access to unique technology to manufacture Nitrile Latex. We recommend BUY with TP of Rs.444 (20.0x FY18E) on the stock.

Investment Rationale

- OMNOVA Acquisition Key Game Changer
- Internal Workouts to Turnaround OMNOVA Bottom Line
- Sustainable Business Advantage
- Business Efficiency + Portfolio Strengthening
- Strong R&D Capability
- New Vision = Next Five Year Plan

Risk & Concerns

- Delay in OMNOVA Integration
- Failure/Delay in New Product Launch
- Leading Market Share Caps Growth Opportunity

Valuation

At CMP of Rs. 275, the stock is trading at P/E multiple of 18.0x FY17E and 12.4x FY18E estimates. The company's technology, experience and clientele have emerged as the significant entry barrier. This has led to capture of lions market share in all the industry verticals in which Apcotex is operating today. 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 recommend BUY with TP of Rs.444 (20.0x FY18E) on the stock.

Y/e	Sales (Rs Mn)	Y/Y (%)	EBITDA (Rs mn)	Margin (%)	Adj. PAT (Rs Mn)	Y/Y (%)	EPS (Rs)	Y/Y (%)	ROE (%)	ROCE (%)	P/E (x)
Mar. 31											
FY15A	3,551	19.5	422	11.9	247	88.0	11.9	88.0	24.7	28.5	23.1
FY16E	3,462	-2.5	401	11.6	228	-7.7	11.0	-7.7	19.2	21.0	25.0
FY17E	5,470	58.0	525	9.6	316	38.9	15.3	38.9	22.7	21.7	18.0
FY18E	6,564	20.0	892	13.6	460	45.5	22.2	45.5	26.4	34.2	12.4

Source: IndiaNivesh Research

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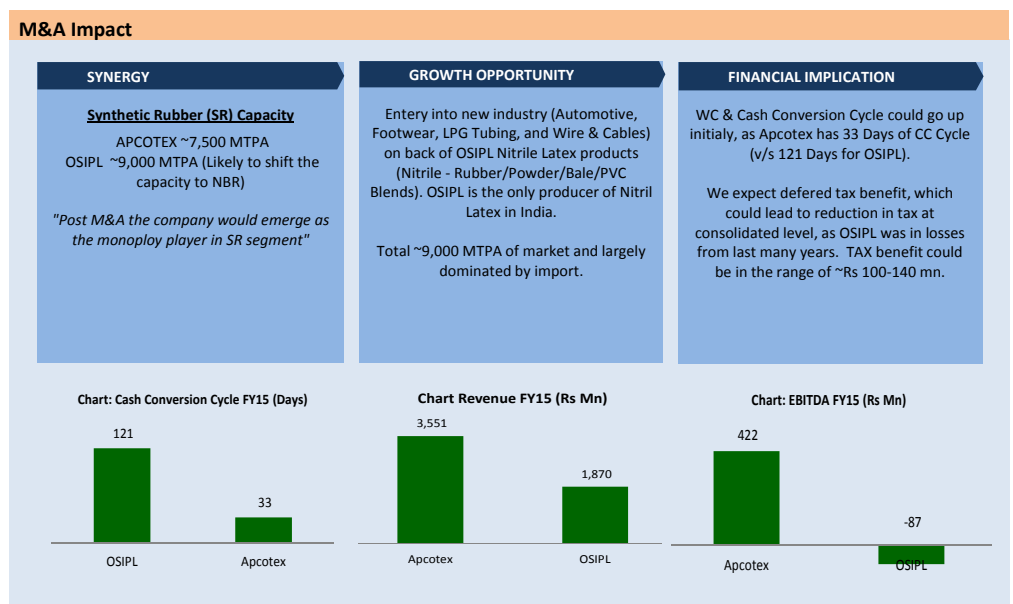
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Investment Rationale

OMNOVA Acquisition Key Game Changer...

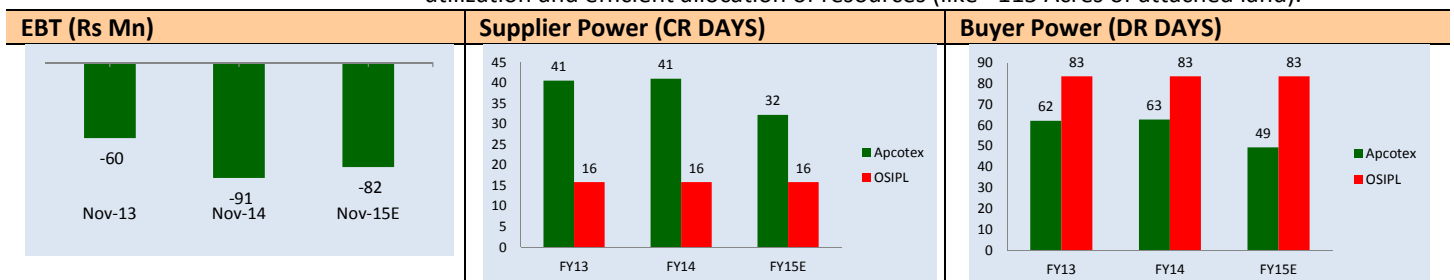
Apcotex acquired 100% stake of Omnova Solutions Pvt Ltd (OSIPL) for ~Rs 360 mn on 5th Feb., 2016. The acquisition was funded entirely through internal accruals. The company plans to invest additional ~Rs 250-300 mn over short-to-medium-term for debottlenecking and process improvement. Acquisition will help the company to get entry into high growth Automotive, Footwear, LPG Tubing, and Wire & Cables industry. In FY15, OSIPL top-line stood at Rs 1870 mn with PBT level loss of ~Rs 103 mn. Apcotex's rich distribution network, cross-selling opportunity at OSIPL level, and ability to improve quality of OSIPL existing product line should drive the revenue growth and profitability. Management targets OSIPL revenue CAGR of 25% (Rs 1870 mn in Nov FY15 to Rs 4,000 in FY18E) over next three-years. Additionally, efficient development of manufacturing processes and enhancement of productivity should lead to turnaround in profitability. The deal is closely aligned with the company's long-term strategy to tap full potential of emulsion polymers industry. OSIPL is the only producer of nitrile rubber (NRB) in India and second largest producer of high styrene rubber (HSR) after Apcotex. Thus this deal brings new growth opportunity along with operational efficiency which could lead to higher profitability.



Source: Company Filings; IndiaNivesh Research

Internal Workouts will Turnaround OSIPL Operations...

Despite operating into the niche industry (Nitrile Latex) and lions market share in Synthetic Rubber, OSIPL continued to post losses at operating level. The key reasons were as follows: (1) Lack of buyer power, (2) Lower utilization level (45-50%), (3) Lack of supplier power, and (4) Lack of experience leadership. 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. Installation of effluent treatment plant (ETP) in Valia Plant (OSIPL Plant) will lead to increase in plant utilization and efficient allocation of resources (like ~115 Acres of attached land).

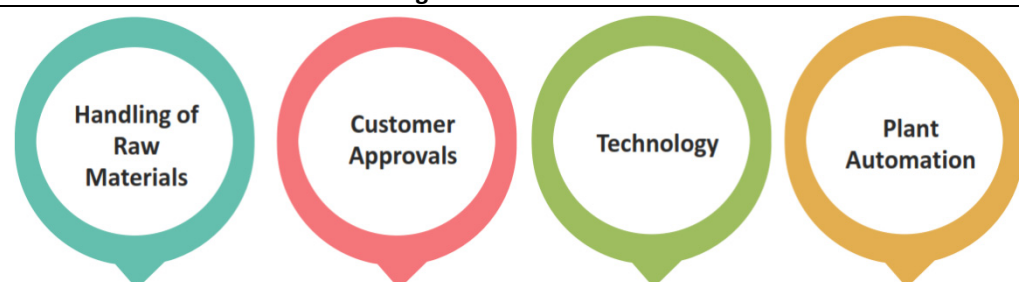


Source: Company Filings; IndiaNivesh Research

Sustainable Business Advantages...

The company has various sustainable business advantages around the business. They are as follows: (1) **Technology** – the technology to mix and handle water and oil is available only with handful players, (2) **Raw Material Handling** – creating system and facility to handle explosive, toxic & inflammable raw material (like Butadiene, Acrylic Acid, Acrylonitrile, Styrene, and 2 VP Monomers) requires special experience, (3) **Customer Approvals** – the approval cycle from client and government ranges between 6 month to 3 years. The client stickness is also very high, given that minor fluctuation in latex quality could alter the end product performance and eminence significantly, (4) **Plant Automation** – Plant automation leads to scalability of operations and reduction in per capita cost which is not easy to execute without any prior experience in the similar process.

Chart: Sustainable Business Advantage



Strong R&D Capability...

Apcotex pioneered the production of Vinyl Pyridine Latex (Tyre Latex) in India. Additionally, the company internally developed technology for Carboxylated Styrene Butadiene Latexes (Paper and Paperboards & Carpet Latex), Acrylic Latexes (Paint Latex) and Non-Carboxylated Styrene Butadiene Latexes (Nitrile Latex) along with synthetic rubber. This strengthens our view that the company has strong R&D capabilities and going-ahead we could see few more products launch in total new industry. Further, OSIPL's ultramodern R&D Centre dedicated to new types of dry-polymers, polyblends and powders should strength the product portfolio.

New Vision = Next Five Year Plain

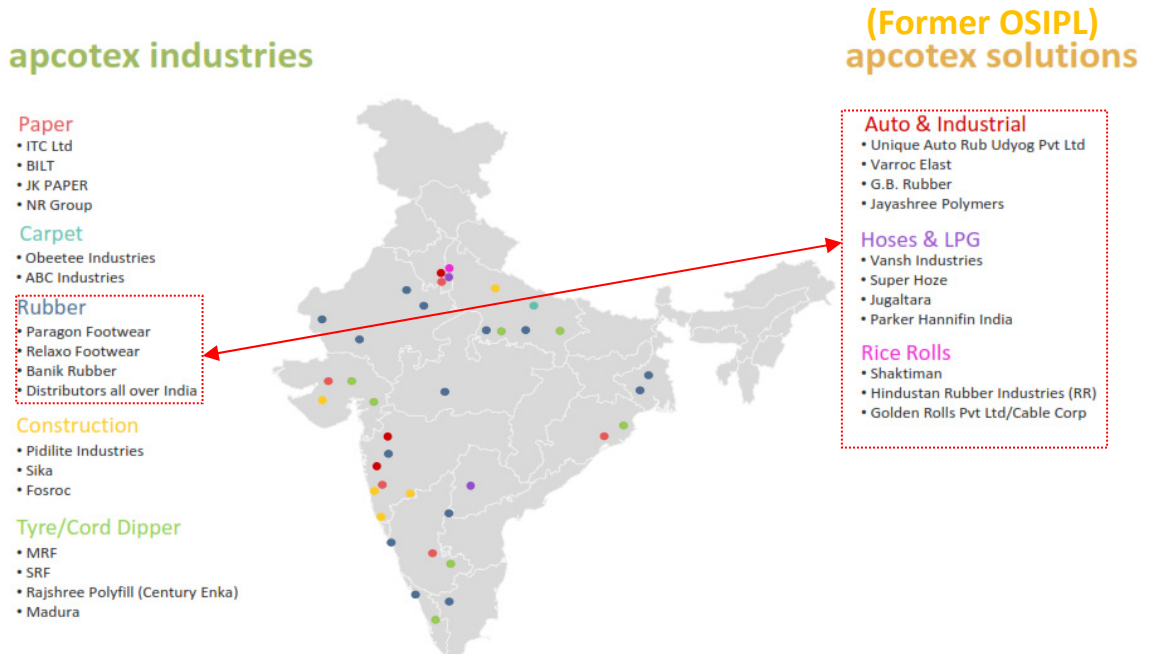
The management articulated five product strategy in past and taken their existing products market share to the significant level in last five years. Given that the first five year vision was achieved, management identified five new products in Performance Emulsion Polymers (Latex Segment) and wants to take these products market share to the next level. In order to execute these five product strategy the company has chosen inorganic route and acquired OSIPL. The deal helped the company to get entry into three new industries Automotive, LPG Tubing, and Wire & Cables. In our view, the company is positioned to deliver next level of growth and likely to reach Rs 10 bn revenue mark from Rs. 3.4 bn in FY16E. In our view, the recent acquisitions along with existing product should help the company to reach ~Rs.9.4 bn mark. Any launch of new product in performance emulsion polymers segment will further boost the revenue outlook.

Y/E 31 Mar	Revenue				
(Rs Mn)	FY16E	FY17E	FY18E	FY19E	FY20E
Apcotex	3,000	3,480	3,898	4,365	4,889
Y/Y Gr %	-15.5%	12.0%	12.0%	12.0%	12.0%
OSIPL's	311*	2,000	2,666	3,511	4,563
Y/Y Gr %	NM	16.0%	16.0%	20.0%	20.0%
Total	3,462	5,470	6,564	7,877	9,452
Y/Y Gr %	-2.5%	58.0%	20.0%	20.0%	20.0%

Source: Company filings, IndiaNivesh Research Note: *Only for 2 months

Business Efficiency + Portfolio Strengthening...

Apcotex's total market share in synthetic rubber segment is nearly 45% of total India market. Similarly, OSIPL market share stood at around 40% in synthetic rubber segment. As a result, we see significant synergies across manufacturing, raw material procurement, distribution and inventory management. Further, the acquisition strengthens the existing nitrile latex portfolio of the company. Earlier Apcotex was having only one product in the Nitrile Latex segment. Post-acquisition the company's Nitrile Latex product line expanded to total four products (See Table Below). The overall market size of the Nitrile Latex is nearly 20,000 MTPA (~Rs 1400 mn) and OSIPL is the only producer in India. As a result, we are of the view that going-ahead management could attract the significant market share in Nitrile Latex segment.



Revenue Mix (Range)		New Product Details	
Synthetic Rubber	10-12%	Product Name	Application
Paper	41-45%	APCOTEX PBN100	Automobile Gasket & Brake Shoe Lining
Tyre	8-10%	Nitrile Rubber/Powder/Bale	AUTOMOTIVE Components, Rice De-Husking Rolls, Rubber Hoses & Other Industrial Application
Carpet	9-10%	Nitrile/PVC Blends	LPG Tubing, Wire & Cables, Conveyor Belts, Door Seals, Moulded Auto Parts
Construction	9-10%	High Styrene Rubber	Hawaii Slippers, Footwear, Microcellular Sheet, and Abrasion Resistant Rubber
Auto	7-9%		
Textile	1-2%		
Paint	1-2%		

Source: Company filings, IndiaNivesh Research

Valuation

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Interim Result Consolidated	FY 14				FY 15				FY 16		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sales	747	700	709	803	1023	898	846	767	667	675	652
Change (%) Y-o-Y	4.3%	-0.4%	16.5%	14.6%	36.9%	28.2%	19.3%	-4.5%	-34.8%	-24.8%	-22.9%
COGS	(595)	(554)	(572)	(661)	(794)	(697)	(634)	(518)	(479)	(495)	(460)
<i>As a % of sales</i>	79.6%	79.2%	80.6%	82.3%	77.6%	77.7%	74.9%	67.5%	71.8%	73.3%	70.6%
SG&A	(95)	(86)	(80)	(81)	(131)	(102)	(116)	(144)	(95)	(89)	(101)
<i>As a % of sales</i>	12.8%	12.3%	11.3%	10.1%	12.8%	11.4%	13.7%	18.8%	14.2%	13.1%	15.6%
R&D expenditure	0	0	0	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%	0.0%	0.0%	0.0%
EBITDA	57	60	57	61	98	99	96	105	93	92	90
<i>EBITDA margin</i>	7.6%	8.5%	8.1%	7.5%	9.6%	11.0%	11.4%	13.7%	14.0%	13.6%	13.8%
Depreciation	(14)	(18)	(18)	(18)	(24)	(23)	(21)	(22)	(21)	(25)	(22)
<i>As a % of sales</i>	1.9%	2.5%	2.6%	2.2%	2.3%	2.5%	2.5%	2.9%	3.1%	3.7%	3.4%
EBIT	43	42	39	43	74	76	75	83	73	67	68
<i>EBIT Margin</i>	5.7%	6.0%	5.5%	5.3%	7.2%	8.5%	8.9%	10.8%	10.9%	10.0%	10.4%
Net financials & Other income	3	(3)	(0)	(0)	8	18	10	5	10	4	1
Earnings before Tax	46	39	39	43	82	94	85	88	83	71	68
<i>PBT Margin</i>						10.4%	10.1%	11.5%	12.4%	10.6%	10.5%
Taxes	(7)	(15)	(8)	(6)	(24)	(22)	(25)	(30)	(22)	(18)	(22)
<i>% of Profits</i>	14.9%	36.8%	20.4%	14.1%	29.4%	24.0%	29.1%	34.4%	26.5%	25.5%	31.7%
Minority Interest	-	-	-	-	-	-	-	-	-	-	-
Post tax exceptionals	-	-	-	-	-	-	-	-	-	-	-
Net Income	39	25	31	37	58	71	60	58	61	53	47
<i>Net Margin</i>	5.2%	3.6%	4.4%	4.6%	5.6%	7.9%	7.1%	7.5%	9.1%	7.9%	7.2%
EPS - Basic	1.87	1.20	1.49	1.76	2.78	3.43	2.91	2.79	2.94	2.57	2.25
EPS - Diluted	1.87	1.20	1.49	1.76	2.78	3.43	2.91	2.79	2.94	2.57	2.25
Shares outstanding - Basic	20.74	20.74	20.74	20.74	20.74	20.74	20.74	20.74	20.74	20.74	20.74
Shares outstanding - Diluted	20.74	20.74	20.74	20.74	20.74	20.74	20.74	20.74	20.74	20.74	20.74

Source: Company filings, IndiaNivesh Research

Consolidated Financials

Income Statement (Consolidated)

Y E March (Rs m)	FY14	FY15	FY16E	FY17E	FY18E
Net sales	2,970	3,551	3,462	5,470	6,564
Growth (%)	8.6	19.5	-2.5	58.0	20.0
Operating expenses	-2,713	-3,128	-3,061	-4,945	-5,672
Operating profit	257	422	401	525	892
Other operating income	0	0	0	0	0
EBITDA	257	422	401	525	892
Growth (%)	8.4	64.4	-5.0	30.7	70.0
Interest	-47.1	-40.1	-26.0	-26.0	-26.0
Depreciation	-68	-90	-114	-181	-217
Other income	24	56	12	0	0
Associate Income	0	0	0	0	0
EBIT	166	348	273	318	650
Finance cost	0	0	0	0	0
Exceptional item	0	0	0	0	0
Profit before tax	166	348	273	318	650
Tax (current + deferred)	-35	-102	-45	-2	-189
Profit / (Loss) for the period	131	247	228	316	460
Associates, Min Int	0	0	0	0	0
Reported net profit	131	247	228	316	460
Extraordinary item	0	0	0	0	0
Adjusted net profit	131	247	228	316	460
Growth (%)	2.5	88.0	-7.7	38.9	45.5

Source: Company, IndiaNivesh Research

Balance Sheet (Consolidated)

Y E March (Rs m)	FY14	FY15	FY16	FY17E	FY18E
Share capital	52	52	52	52	52
Reserves & surplus	801	945	1,132	1,344	1,691
Net Worth	853	998	1,184	1,397	1,743
Minority Interest	0	0	0	0	0
Total Liabilities	853	998	1,184	1,397	1,743
Non-current liabilities	506	342	342	342	342
Long-term borrowings	480	311	311	311	311
Deferred tax liabilities	0	0	0	0	0
Other Long term liabilities	27	31	31	31	31
Long term provisions	0	0	0	0	0
Current Liabilities	475	467	904	898	882
Short term borrowings	0	0	0	0	0
Trade payables	339	318	304	599	683
Other current Liabilities	136	149	599	299	199
Short term provisions	0	0	1	0	0
Total Liabilities and Equity	1,834	1,807	2,429	2,637	2,967
Non Current Assets	1,010	1,025	926	996	996
Net Block	689	651	926	996	996
Goodwill	0	0	0	0	0
Non-current Investments	321	373	0	0	0
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	1,503	1,641	1,971
Inventories	171	152	171	300	486
Sundry Debtors	517	487	465	944	989
Cash & Bank Balances	61	44	375	149	347
Other current Assets	74	99	493	249	149
Loans & Advances	0	0	0	0	0
Current Investments	0	0	0	0	0
Total (Assets)	1,834	1,807	2,429	2,637	2,967

Source: Company, IndiaNivesh Research

Cash Flow Statement (Consolidated)

Y E March (Rs m)	FY14	FY15	FY16	FY17E	FY18E
Profit before tax	189	333	287	344	676
Depreciation	68	90	114	181	217
Change in working capital	-122	-13	46	-369	-147
Total tax paid	-35	-102	-45	-2	-189
Others	-23	16	-14	-26	-26
Cash flow from operations (a)	77	324	388	128	530
Capital expenditure	-124	-104	-16	-250	-217
Change in investments	0	0	0	0	0
Others	0	0	0	0	0
Cash flow from investing (b)	-124	-104	-16	-250	-217
Free cash flow (a+capex)	-47	220	373	-122	313
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	7	-164	0	0	0
Dividend (incl. tax)	-52	-73	-41	-104	-114
Others	0	0	0	0	0
Cash flow from financing (c)	-45	-237	-41	-104	-114
Net change in cash (a+b+c)	-92	-17	331	-225	199
Cash at the beginning	154	62	44	375	149
Cash at the end of the year	62	44	375	149	347

Source: Company, IndiaNivesh Research

Key Ratios (Consolidated)

Y E March	FY14	FY15	FY16	FY17E	FY18E
Adjusted EPS (Rs)	6.3	11.9	11.0	15.3	22.2
Growth	2.5	88.0	-7.7	38.9	45.5
Dividend/share (Rs)	2.5	7.0	2.0	5.0	5.5
Dividend payout ratio	39.5	58.8	18.2	32.8	24.8
EBITDA margin	8.6	11.9	11.6	9.6	13.6
EBIT margin	5.6	9.8	7.9	5.8	9.9
Net Margin	4.4	7.0	6.6	5.8	7.0
Tax rate (%)	21.1	29.1	16.6	0.6	29.1
Debt/Equity(x)	0.6	0.3	0.3	0.2	0.2
Inventory Days	23	18	20	22	31
Sundry Debtor Days	64	50	49	63	55
Trade Payable Days	46	37	36	44	44
Du Pont Analysis - ROE					
Net margin	4.4	7.0	6.6	5.8	7.0
Asset turnover (x)	1.7	2.0	1.6	2.2	2.3
Leverage factor (x)	0.6	0.3	0.3	0.2	0.2
ROE(%)	15.4	24.7	19.2	22.7	26.4
RoCE (%)	12.5	26.6	18.3	18.6	31.6
Valuation (x)					
PER	43.4	23.1	25.0	18.0	12.4
PCE	203.8	120.5	118.6	81.6	59.9
Price/Book	47.6	40.7	34.3	29.0	23.3
EV/EBITDA	23.4	14.2	15.0	11.5	6.7

Source: Company, IndiaNivesh Research

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1	Details of business activity of IndiaNivesh Securities Limited (INSL)	INSL is a Stock Broker registered with BSE, NSE and MCX - SX in all the major segments viz. Cash, F & O and CDS segments. INSL is also a Depository Participant and registered with both Depository viz. CDSL and NSDL. Further, INSL is a Registered Portfolio Manager and is registered with SEBI.
2	Details of Disciplinary History of INSL	No disciplinary action is / was running / initiated against INSL
3	Research analyst or INSL or its relatives'/associates' financial interest in the subject company and nature of such financial interest	No (except to the extent of shares held by Research analyst or INSL or its relatives'/associates')
4	Whether Research analyst or INSL or its relatives'/associates' is holding the securities of the subject company	YES
5	Research analyst or INSL or its relatives'/associates' actual/beneficial ownership of 1% or more in securities of the subject company, at the end of the month immediately preceding the date of publication of the document.	No
6	Research analyst or INSL or its relatives'/associates' any other material conflict of interest at the time of publication of the document	No
7	Has research analyst or INSL or its associates received any compensation from the subject company in the past 12 months	No
8	Has research analyst or INSL or its associates managed or co-managed public offering of securities for the subject company in the past 12 months	No
9	Has research analyst or INSL or its associates received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months	No
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Definitions of ratings

BUY. We expect this stock to deliver more than 15% returns over the next 12 months.

HOLD. We expect this stock to deliver -15% to +15% returns over the next 12 months.

SELL. We expect this stock to deliver <-15% returns over the next 12 months.

Our target prices are on a 12-month horizon basis.

Other definitions

NR = Not Rated. The investment rating and target price, if any, have been arrived at due to certain circumstances not in control of INSL

CS = Coverage Suspended. INSL has suspended coverage of this company.

UR=Under Review. Such e invest review happens when any developments have already occurred or likely to occur in target company & INSL analyst is waiting for some more information to draw conclusion on rating/target.

NA = Not Available or Not Applicable. The information is not available for display or is not applicable.

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