Apcotex Q4FY20

Financial Results & Highlights

Introduction

Apcotex Industries Limited is one of the leading producers of Synthetic Lattices (VP Latex, Acrylic Latex, Nitrile Latex) and Synthetic Rubber (HSR, SBR) in India.

Consolidated Financials (In Crs)								
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %	FY20	FY19	YoY%
Sales	117	155	-24.52%	111	5.41%	502	633	-20.70%
PBT	5.2	13.6	-61.76%	-1.8	-388.89%	24.6	61.7	-60.13%
PAT	3.1	15.3	-79.74%	-1.4	-321.43%	16.6	46.6	-64.38%

Detailed Results:

1. The revenues for the quarter were down a lot with a fall of 24.5% YoY.
2. Similarly, the PBT fell even further at 62% YoY while PAT was down 80% YoY indicating a very difficult quarter for the company.
3. The operating EBITDA margin declined 233 bps to 6.83% in Q4, but it was up significantly from Q3 which was at 0.55%. Overall operating EBITDA margin for FY20 was at 6.73% vs 10.8% in FY19.
4. The company had its best-ever quarter in terms of exports but couldn't fulfill all orders due to lockdown.
5. Out of the Rs 100 Cr for Capex phase 1, Rs 95 Cr has been invested by 31st March 2020.
6. The Taloja plant saw its best-ever quarter in terms of volumes but some orders remained unfulfilled due to the lockdown.
7. The debottlenecking project is completed shortly which is expected to increase production capacity to 20,000 MTPA in the nitrile latex division and reduce operational costs per ton.
8. The company has been designing and applying for consent applications for 2 major projects:
    1. XNBR Latex (Rs 60 Cr)
    2. 2ndPolymerization Line (Rs 180 Cr)
9. The company is looking to add latex capacity in Taloja of 20% in FY21 at a cost of Rs 12-15 Cr.
10. Post lockdown, both plants resumed operations from 20th
11. The company is modifying both plants for manufacturing XNBR latex for gloves due to strong demand. This is expected to be completed in the next few weeks.

Investor Conference Call Highlights:

1. The management has stated that the dumping from South Korea and Europe is still going on though it has improved since Q3. The management has also mentioned that the company has applied for anti-dumping duty applications in a few countries and the investigation for the application in India has been initiated.
2. The management has stated that the long term Capex plans are now on hold and the company is focusing on immediate latex capacity expansion as it saw very good demand in Q4 where the plants were running at almost 100% utilization.

3. The management has clarified that the 20% capacity expansion is for overall latex capacity in Taloja for existing products and the latex gloves project will be done in Valia. This expansion is expected to be completed in 6-8 months.
4. The management has stated that the company now has a 20-25% market share in the NBR market in India with the rest being imported. Thus there is a big opportunity from import substitution for the company especially given that even China has instituted anti-dumping in this industry and the shift away from imports due to COVID-19.
5. The management has stated that the major industries that the Taloja plant catered to pre-COVID were paper, paperboard, construction, carpet, tires and textiles. Pre-COVID, the company saw very strong demand from construction, paper, paperboard and carpets which also was responsible for the rise in volumes in Q4.
6. In Q4, the utilization for latex was 100%, 90% and 95% in January, February and March respectively.
7. The management has stated that some of the company's footwear customers are bullish post-COVID as the company mainly caters to the cheap footwear segment which is expected to grow much faster than the premium segment in the short term.
8. The utilization level in HSR is 60-70% in Q4.
9. The management clarified that although demand from the tire industry is slowly coming back, it expects this demand to remain subdued for the next few quarters.
10. The price arbitrage opportunity for European rivals has gone down and is expected to go away soon. The management has stated that this phenomenon is cyclical in nature and not sustainable and thus it shouldn't be a big matter for concern going forward.
11. The management has stated that Q4 volumes were almost flat YoY but were up a lot QoQ. Overall net realizable value of products has gone down YoY mainly due to a drop in raw material prices.
12. Another reason for the fall in net realizable value is the shift in product mix sold towards latex which is generally sold at a cost price of 50-60% of rubber prices.
13. The company is seeing prices of key raw materials like styrene, butadiene, etc at decade-low prices.
14. The management has stated that the company will be investing Rs 60 Cr for the new NBR latex gloves project in Valia and is looking to make another Capex of Rs 90 Cr in the next 12 to 15 months.
15. The company had planned to fund the Capex plans with internal accruals but due to the fall in internal accruals, it may raise debt in the future if required. The management has stated that the company can easily raise Rs 200-300 Cr to fund the Capex plans for the next 3 years if required.
16. The effective tax rate for FY21 is expected to be around 22%.
17. Exports were only 12-13% in terms of value in FY20. The export % for Q4 is much higher.
18. The addition of 5000-ton capacity in the NBR line as part of the Capex phase 1 is almost 99% complete and just got delayed due to delay in shipment form out of state vendors in the time of lockdown.
19. The realization for NBR is around Rs 100 per kg and the realization for latex gloves is expected to be better than this figure.
20. The management has stated that the working capital days have gotten stretched due to logistical issues from the lockdown and it is expected to come down to normalized levels soon.
21. The management has stated that the company will indeed be stuck with some stock losses due to high-cost inventory being stuck and not sold due to lockdown.

22. The management has stated that around 40% of sales prices are based on a formula for customers while 60% is based on spot prices. NBR is mostly spot priced while latex is largely formula priced.
23. The management has also stated that the margins in latex for gloves will not be very high as it is not a finished product and will mostly be spot priced.
24. The company was expecting a good Q1 before COVID came in and now it expects to make sales of around 60% of January in the month of May. The company is also facing uncertainty on logistics, raw material supply and labour. But overall it is optimistic of the opportunity from the demand for latex for gloves.
25. The net cash position for the company is at Rs 35-40 Cr at the moment.
26. The power plant was commissioned before the lockdown but was shut down as the lockdown came into effect.
27. The work on the gloves project is also expected to start post monsoons like the Taloja expansion.
28. The management has stated that there are no XNBR latex makers in India and the primary destination for this product is expected to be Malaysia which makes for 70% of the global demand for gloves. There are few competitors for this product in Asia.
29. The management has clarified that it tries to keep EBITDA per ton as stable as possible.
30. The management has stated that it prefers for prices to stay low as with a stable EBITDA per ton, the EBITDA margin is higher and the working capital requirement is lower. So when prices go up, working capital requirement rises along with EBITDA per ton.
31. The management has maintained that it is engaged with all of the top 5 glove makers in Malaysia.
32. The management has stated that despite the fall in the auto industry in India, it does not expect the industry to go to 0. Even if the industry may remain subdued in India, the company can easily try and source other industry players in nearby geographies like South Asia, South East Asia, and the Middle East.
33. The management has also stated that it is better positioned currently in the NBR market as only half of NBR for the company is used in the auto industry while for many rivals in the EU, this number is greater than 70%.

Analyst's View:

Apcotex is one of the very few synthetic rubber makers in India. The company has seen a good comeback in Q4 after suffering from its worst-ever quarter in years in Q3. Exports were particularly encouraging for the company before the COVID disruption brought everything to a halt. The company is now focussing on capitalizing on the strong demand for gloves and is concentrating on establishing a direct facility for making latex for gloves in its Valia plant. The company has done well to concentrate on volumes and preserving its EBITDA per ton while commodity price falls are pushing down prices for its products. It remains to be seen how the demand for the company's products changes going forward and how the company will be navigating the issues brought up for the COVID-19 disruption. Nonetheless, given the company's industry position, the prudent management of the company, and the company's optimism going forward as deduced from its increased Capex plans, Apcotex seems to be a good chemical stock to watch out for.

If you found this report useful and would like to receive more such investing insights, you can [subscribe to our updates.]

Subscribe

Click here to Subscribe on WhatsApp