Apcotex Q4FY21

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)								
	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
Sales	189	117	61.54%	166	13.86%	547	502	8.96%
PBT	28	5	460%	21	33.33%	57	25	128.00%
PAT	23	3	667%	17	35.29%	44	17	158.82%

Detailed Results:

1. The revenues for the quarter were up 61.5% YoY.
2. PBT & PAT showed tremendous improvement in Q4. They were up 4.6 times and 6.7 times YoY respectively.
3. The company had its highest-ever revenues, export volumes, EBITDA, PBT & PAT in a quarter in Q4.
4. The operating EBITDA margin improved to 16.05% in Q4 from 6.83% last year. Operating EBITDA for FY21 was at 12.67%.
5. FY21 performance was good despite the poor performance in Q1 from the lockdown. Revenues were up 9% YoY while profits were up 159% YoY.
6. The company has scaled up of production/sales of XNB latex for Gloves from existing plants with both plants running at near full capacity.
7. The hearing on the anti-dumping petition is done and the company expects a result in Q1FY22.
8. The company has announced a final dividend of Rs 2 per share.

Investor Conference Call Highlights:

1. The commissioning of the construction of new capacity for XNB latex for gloves was delayed due to a delay in obtaining the statutory clearances from the environmental department.

2. The management expects some amount of debottlenecking to happen which will allow Apcotex to be able to deliver even higher volumes than at present and thus EBITDA/ton which is high right now will have even more room to rise.

3. Since the Valia plant has not gotten clearance for XNB latex for gloves, the company is looking to increase capacity at the Taloja plant where it is being made currently. This expansion will be announced in Q1.

4. The company can expect some indirect tailwinds in the tires industry due to the announcement of anti-dumping duty in the industry.

5. Exports accounted for 20% of sales in Q4.

6. Currently, NBR accounts for 30% of sales. The anti-dumping measure sought by Apcotex is for this segment only.

7. The management has stated that with the addition of the planned capacities for XNB for latex, the annual sales figure can go up by Rs 350-500 Cr in the next 2 years.

8. The company is looking at exports to help soften the impact on domestic sales from the 2nd wave of COVID.

9. The export market share of Apcotex is very small right now and the management is optimistic about its growth prospects in the future 3- 5 years from now.

10. The management is confident of sustaining current margins going forward and has stated that Apcotex is comfortably positioned to deliver an EBITDA margin of 14-15% a year.

11. At current prices, the management is confident of delivering an asset turnover of 4+ from the XNB latex capacity.

12. The management has stated that as it gets the environmental clearances, it will start construction of the Walia capacity and will complete it within 6-8 months. It is also confident of getting the required permissions for the Taloja expansion by Q1FY22.

13. The company has a long-term debt of Rs 7-8 Cr and a cash position of 80-90 Cr.

14. The management admits that there is uncertainty as to how demand will shape up for certain industries, but it remains confident that the packaging industry and gloves demand should remain strong.

15. It also maintained that with the addition of the new pillar of gloves, the revenue stability has increased and should be much steadier now.

16. The management admits that to be able to compete with international players in the NBR space, it will need to double its capacity and be able to cater to 50-60% of the domestic market. It is planning on using the breathing space from the anti-dumping duty to do exactly this and become competitive as soon as possible.

17. The planned capex for FY22 is around Rs 100-150 Cr depending on the capacity expansion schedule. Thus, the revenues from the planned capacity additions are expected to come from FY23 onwards.

18. The management has stated that the entire industry was affected by supply chain delays due to the Suez Canal blockage. It doesn't expect any major issues arising from the raw material side in the foreseeable future.

19. The debottlenecking operation should be done by Q1 and thus the additional capacity of 5-10% will become available. The capacity expansion for NBR, should it happen, will require 3-6 months to set up.

20. Southeast Asia and the Middle East remain the main export markets for Apcotex.

21. The management is confident of achieving >10% volume growth in FY22 as volumes for Q1FY21 drags lower the total for the year.

22. Paper & paperboard accounts for 20% of sales with a large chunk of it in packaging. Tire and construction account for 10% each while footwear accounts for 10-12%. Auto accounts for 15% while other rubber applications account for 15-20%.

23. The expected cost of the potential NBR expansion is expected to be around Rs 180 Cr.

24. The management has stated that it will start looking for a 3rd plant location after all the currently planned expansions are completed.

Analyst's View:

Apcotex is one of the very few synthetic rubber makers in India. The company had its best-ever quarter again with its highest revenues, export volumes, EBITDA, and record profits. The margins have also risen above 16% for the company and the management expects it to stay in the range of 14-15% going forward. The company is now looking to start the capacity addition of the XNB latex at Walia as soon as it gets the required permits and the monsoons end. The antidumping petition by the company is still pending approval but is expected to get a decision by Q1FY22. This has caused the management to maintain its pause on its plans to expand NBR production lines. To cope with the delay in capacity expansion in XNB latex, Apcotex is looking to expand capacity by 5-10% through debottlenecking which should be over by Q1. It remains to be seen how the demand for the company's products changes going forward and whether the current margins and demand profile remains sustainable given the uncertainty in the country from the 2nd wave of COVID-19. Nonetheless, given the company's industry-leading position in the domestic market, the prudent management of the company, and the management's optimism from its on-track Capex plans, Apcotex seems to be a good chemical stock to watch out for.