



5 MINUTE STOCK IDEA

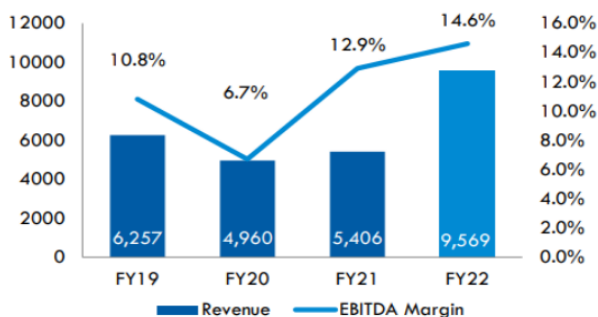
BY SMART SYNC INVESTMENT ADVISORY SERVICES

APCOTEX INDUSTRIES

WHAT WE LIKE

**RISING MARGIN PROFILE & REVENUES
DESPITE RISING INFLATION**

Operational Revenue (INR Mn) and
EBITDA Margin (%)



MASSIVE OPPORTUNITY FROM LATEX FOR GLOVES & APCOBUILD

The advent of COVID-19 badly exposed the lack of preparedness and short supply of PPE equipment and gloves. Apcotex is adding new production lines for XNB Latex for gloves which are expected to add almost 350-500 Cr in additional sales (60-100% of current yearly sales).

There is also a good export opportunity here due to its proximity to Malaysia which makes up 70% of the global demand for latex gloves.

It also has a budding opportunity in Apcobuild, the company's waterproofing solutions offering. It has good room to grow as the infra segment develops.

PRUDENT GOAL SETTING & EXPANSION

The management had mentioned in 2018 that the next 5-year goal for the company would be to reach Rs 1000 Cr in annual sales and they have been able to do so despite numerous roadblocks including COVID-19 and rising inflation.

The management has even stated that they will have to reevaluate the IRR for their capex plans so that they can do proper capital allocation and are not caught at the top of the cycle.

This highlights the management's credibility and its focus on sustainable growth for Apcotex.

MARKET CAPTURE OPPORTUNITY IN NBR

More than 80% of NBR demand in India is imported. This is a big import substitution opportunity here for Apcotex, as it is the only domestic maker of NBR currently.

WHAT WE DON'T LIKE

**KEY RAW MATERIAL (RM) PROCUREMENT
RISK & DEPENDENCE ON CRUDE OIL PRICES**

Styrene and Acrylonitrile are key RMs that are imported as they are not available in the domestic market. But both these products are now being developed in India which should provide security of supply and lower RM costs in the future.

Major RMs are petrochemical products and thus, Apcotex's business is vulnerable to high volatility in the prices of crude oil.

But despite the rising oil prices throughout FY22 especially in Q4, Apcotex has been able to maintain high EBITDA margin levels.

COMMODITY BUSINESS-NO PRICING POWER

There is no evidence of brand power or pricing power in the business due to the commodity nature of end products. Thus, the only way to create a sustainable competitive advantage is through cost efficiencies and scale.

With the lack of pricing power, rising input costs are expected to erode margins, which has not happened for Apcotex so far. How long will Apcotex be able to maintain high margins despite rising input costs? Only time will tell.

**NBR DUMPING BY INTERNATIONAL
COMPETITORS**

As mentioned around 80% of NBR in India is imported. This is mainly because competitors from EU & South Korea dump the product at market bottom prices. The company has petitioned the Govt for anti-dumping measures to curb these cheap imports & help local manufacturers. Although no anti-dumping duty is instated by the govt yet, the company is looking to increase its existing NBR capacity to be able to compete effectively with these international players.

**HAZARDOUS AND INFLAMMABLE RAW
MATERIAL**

Some of the raw materials which the company uses in its processes are hazardous and inflammable. While company claims that they follow safety and control norms, risk still persists.

In the past, National Green Tribunal levied a penalty to non-functional Talaja Central Effluent Treatment Plant (Taloja CETP) which had treated the panic in the industrial belt where Apcotex has its plant.

Due to the toxic nature of materials used, the company has to obtain environmental permits each time it plans to setup new facilities which may cause unwanted delays for the company.

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