SMART SYNC SERVICES

Apcotex Q3FY21

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)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	166	111	49.55%	130	27.69%	358	385	-7.01%
PBT	21	-2	1150%	14	50.00%	29	19	52.63%
PAT	17	-1	1800%	12	41.67%	22	14	57.14%

Detailed Results:

1. The revenues for the quarter were up 49.6% YoY.
2. PBT & PAT showed tremendous improvement in Q3. They were up 50% and 42% QoQ respectively.
3. The company had its highest-ever revenues, volumes sold, EBITDA, PBT & PAT in a quarter in Q3.
4. The operating EBITDA margin improved 14.21% YoY to 14.76% in Q3.
5. 9MFY21 performance was mixed from 9MFY20 due to the poor performance in Q1 from the lockdown. Revenues were down 7% YoY while profits were up 57% YoY.
6. The design phase for XNBR Latex for Gloves in the Valia plant is done.
7. Directorate General of Trade Remedies (DGTR) recommended extending duty for another 5 years on November 24, 2020 from South Korea. Apcotex has applied for similar duties against Russia, China, Japan & EU.
8. The company has announced an interim dividend of Rs 1.5 per share.

Investor Conference Call Highlights:

1. The company is aiming at delivering ROCE of 20-25%.
2. The management has stated that the company maintains its top 2 position in almost all operating categories. 80-85% of sales are domestic while 15-20% are from exports.
3. Although the company had a good quarter, the management was cautious and admitted that the low base in Q3FY20 also helped make the YoY growth number more noticeable.
4. The current revenue mix is around 55% latex and 45% synthetic rubber.
5. Currently there still isn't any anti-dumping duty on NBR in India.
6. The management is confident that the govt will take steps to ensure the stability of local manufacturers and will crackdown on dumping in the industry.
7. Almost all of the end industries that Apcotex caters to have bounced back well especially the auto industry with the resurgence of 2 wheelers & passenger vehicles.
8. The high margins in Q3 were a result of many factors which include:
    a) Pent-up demand post reopening.
    b) Construction industry rising post monsoons.
    c) Low raw material prices.

   d) Better product mix with a shift towards latex.

9. Q3 capacity utilization was at 90-95% across all lines for Apcotex.
10. The debottlenecking project in Taloja is expected to be done by May or June 2021.
11. The company has plans ready to double NBR capacity but the management decided to pause it till the situation regarding dumping gets better.
12. During the year when the demand for construction and plastic products was low the company was able to repurpose the spare capacity to make XNB latex for gloves which has since grown tremendously in demand.
13. Currently 8% to 10% comes from XNB latex for gloves. The company is planning to expand this steadily and also invest in developing adjacent products.
14. Most projections show that the glove industry is going to do extremely well in the next 3 to 4 years. The full capacity sales from the XNB project is expected to be Rs 300-350 Cr per year.
15. In Phase 1, the full capacity revenue generation is at Rs 100 Cr for XNB.
16. In the 45% sales from synthetic rubber, 35% is from NBR and 10% is from high styrene rubber. In NBR, around half is from auto and the rest is from other applications.
17. In the 55% sales from latex, 20% is from paper, 10% is from construction, 10% is from tires, 10% is from nitrile latex where 7-8% is from textiles.
18. Volumes growth in Q3 was above 40% YoY.
19. In NBR imports, 40-50% of imports come from South Korea and 40% come from Japan, China, Russia and EU combined.
20. Apcobuild is still a small part of the overall sales for the company and although it has been growing, the company is looking to build it slowly and profitably due to high competition and the rigors of building up a portfolio and distribution network in the space. It is now operating in Maharashtra, Gujarat and Goa only.
21. The management looks to maintain an asset turn of at least between 3% and 5% turnover ratio when there are new investments for expansion. This can rise to up to 7 times once the expansions are fully integrated.
22. The current quarter was also the best on record in terms of EBITDA per ton for Apcotex.
23. According to the management, the 2 main core competencies for Apcotex are:
    a) The wide range of products on offer with the capability to switch between products with the same machinery.
    b) The depth of knowledge about customer technology and processes enabling products to evolve with customer preferences.
24. Raw material costs will continue to for at least 60-70% of costs for the company as it is a B2B business and it will stay so unless the company changes its business model.
25. The company remains cash positive and has liquid reserves above Rs 20 Cr.
26. The management has stated that the projected new capacities will come online in a step by step fashion and these steps have been planned to be able to meet expected demand at different points in the upcoming timeline. The only factor that can delay the demand expectations is customer approvals.

Analyst's View:

Apcotex is one of the very few synthetic rubber makers in India. The company had its best ever quarter with its highest revenues, sales volumes, EBITDA and profits on record. The margins have also risen above 14% for the company due to better product mix and low RM prices. The company is now focusing on capitalizing on the strong demand for gloves and is concentrating on expanding sales for XNB latex for gloves. The antidumping petition by the company is still pending approval and this has caused the management to maintain its pause on its plans to expand NBR production lines. 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. 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.