

## Apex Frozen Foods Ltd

Recommendation	SUBSCRIBE	
Price Band	Rs 171-175	
Bidding Date	22 – 24 August	
Book Running Lead Manager	Karvy	
Registrar	Bigshare Services	
Sector	Retail	
<b>Minimum Retail Application – Details At Cut off Price</b>		
Number of Shares	80	
Application Money	14000	
Discount to retail	NIL	
Payment Mode	ASBA	
<b>Consolidated Financials (Rs Cr)</b>	<b>FY16</b>	<b>FY17</b>
Total Income	604	699
EBITDA	40.4	44.8
PAT	19.3	24.4
<b>Valuations</b>	<b>Lower Band</b>	<b>Upper Band</b>
Market Cap (Rs cr)	534.4	546.9
EPS (FY17)	7.8	7.8
BV/share (FY17)	96.8	96.8
P/BV	7.1	7.3
P/E	21.9	22.4
<b>Post Issue Shareholding Pattern</b>		
Promoters	72.08	
Public	27.92	
<b>Offer structure for different categories</b>		
QIB (Including Mutual Fund)	50%	
Non-Institutional	15%	
Retail	35%	
Post Issue Equity (Rs cr)	31.3	
Issue Size (Rs cr)	148.8-152.3	
Face Value (Rs)	10	
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## BACKGROUND

## Company Overview

Apex Frozen Foods Limited (AFFL) is one of the integrated producer and exporter of shelf stable quality aquaculture products. It supplies ready-to-cook products to a diversified customer base. The output majorly comprises of variants of processed Vannamei shrimp (White shrimp) and is sold under the brands owned by the customers and also through their own brands namely Bay fresh, Bay Harvest and BayPremium. The company strategically focuses on the market of USA, which is the largest importer of aquaculture products in the world. AFFL operates out of Andhra Pradesh, which is the most favourable state in India for aquaculture business. The integrated operations span across the hatchery and farming on 1,337.69 acres of land and currently processing of ~ 9,240 MTPA of finished products at the facility located at Kakinada. In addition AFFL has leased 6,000 MTPA processing facility.

## Objects of the Issue

The issue comprises of ~Rs 25cr (at upper price) OFS and ~Rs 127 cr fresh issue which would be utilized to fund the company's new processing facility in addition to general corporate purposes.

## Investment Rationale

- Economies of Scale and Strategically located processing plant
- Established customer relationships
- Setting up of a new facility and entry in value added products

## Valuation and Recommendation

AFFL has shown consistent growth in sales as well as profitability. Sales have grown at 28.6% CAGR between FY13-17 while PAT grew by 27.6% during the same period with consistently higher RoE of over 25%. Shrimp business in India is growing and the company has vast opportunities for exports as well. With the expansion the company is likely to maintain the sales and profitability momentum in coming years. Though there is no direct comparable listed company, we have taken Avanti Feeds (engaged in Shrimp feeding), Waterbase (Shrimp feeding) and Zeal Aqua (Shrimp farming) as peers. We like the business model of the company given its high asset turnover, customer stickiness and integrated business operations. At upper price band of Rs 175, the stock looks attractive and hence recommends investors to subscribe the issue for listing as well as long term gains.

Financial Snapshot	FY13	FY14	FY15	FY16	FY17
Revenues	255	514	599	604	699
<b>%growth</b>			<b>17%</b>	<b>1%</b>	<b>16%</b>
EBIDTA	22.2	32.5	32.6	40.4	44.8
<b>% margins</b>	<b>9%</b>	<b>6.3%</b>	<b>5.4%</b>	<b>6.7%</b>	<b>6.4%</b>
PAT	9.4	13.1	18.0	19.3	24.4
<b>% margins</b>	<b>4%</b>	<b>2.6%</b>	<b>3.0%</b>	<b>3.2%</b>	<b>3.5%</b>
EV/EBIDTA @ Rs175				15.4	14.4
P/E @ Rs175				28.4	22.4
P/BV @ Rs175				7.3	5.7

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AFFL operates out of Andhra Pradesh, which is the most favourable state in India for aquaculture business. The integrated operations span across the hatchery and farming on 1,337.69 acres of land and currently processing of approximately over 9,240 MTPA of finished products at the facility located at Kakinada. The facility is approved by the Export Inspection Council for export to all countries excluding Australia and Custom Union and is also certified with BRC Food Grade, Best Aqua Culture Practices, HACCP and ASC. In addition AFFL has leased 6,000 MTPA processing facility. Along with this, to further assuage the operations, the company has its own fleet of vehicles with freezing capabilities.

	Installed Capacity (MTPA)	Utilized Capacity (%)
FY14	7821	90.2%
FY15	9240	91.5%
FY16	9240	87.9%
FY17	9240	80.0%

## Apex Frozen Foods Ltd

**Investment Rationale****Economies of Scale and Strategically located processing plant**

AFFL has integrated operations through which it is able to achieve economies of scale. The company source approximately 15%-20% of its raw material requirements through its own farming efforts. In-house farming and association with associate farmers enable reliable and uninterrupted supply of raw shrimp to the company. It has an aggregate capacity to process of 9,240 MTPA at Kakinada unit. The operational facilities are strategically located along the coastal belt of Andhra Pradesh. All the operational facilities are located in proximity to one another, thereby enabling smooth transition of products to each stage of the product life cycle. The processing facility in Kakinada is located within a proximity of 10 to 200 kilometers from the various farms situated on owned as well as leased land which in turn catalyses the just-in-time sourcing model of raw materials. Apex has its own reefer/insulated vehicles with refrigeration capabilities which enable the company to carry out the local logistical requirements i.e., from farms to the processing facilities. The flatbed trailers assist it in transporting the reefer containers from the facilities to the ports, for the purpose of exporting the final product. The facility is approximately 20Kms from Kakinada port and approximately 150Kms from Vishakapatnam port, thereby providing a substantial logistical advantage for the transport of the finished product. Owing to the strategic location and close proximity of the operational locations to one another, travel time is curtailed to a large extent.

**Established customer relationships**

The company has long-standing relationships with numerous global customers. It exports 100% of the production to countries such as USA, UK and various European countries. Some of the major customers are Chicken of the Sea Frozen Foods (USA), Ocean World Ventures LLC (USA) and Pacific Sea Food Group (USA). For FY17, the top five customers contributed 68.91% of the total revenues. Further, majority of the finished products are sold under the brands owned by the customers. The management believes that the product quality and regulatory compliant processing facilities have fostered long-standing relationships with customers, provides it revenue stability.

**Setting up of a new facility and entry in value added products**

Keeping the overall industry growth trend in view, the Company intends to invest in increasing the processing capabilities. It is setting up new processing facility of 15,000 MTPA to continue to improve the operational efficiencies and expand the operations and sales. The company is also setting-up a facility for processing value-added products of ready-to-eat category of 5,000 MTPA. The capex for the above facilities is likely to be ~Rs 90.15 cr which will be utilized from the Issue proceeds. The facility is expected to be commercialized from next year and we believe, would contribute meaningful in the growth for the next year.

## Apex Frozen Foods Ltd

**Industry Prospects**

Seafood is an important source of nutrition for human population and it also provides livelihood for millions of people around the globe. Seafood being a vital source of protein and micronutrients, it is often referred to as a rich food for poor people due to its relatively lower cost as compared to other comparable sources of nutrition. Consequently, global seafood consumption, which stood at 151 million tonnes in 2015, has grown at a relatively faster CAGR of 3% over the past decade.

Based on the type of sourcing, seafood products can be classified as - capture fisheries and aquaculture. In 2015, the share of capture fisheries and aquaculture stood at 55% and 45%, respectively. Twenty years ago, the share was 80% for capture fisheries while the share of aquaculture was relatively low at 20%. Aquaculture has played a very important role in meeting rising global demand even as capture fisheries production has saturated.

Overfishing, or exploitation of seafood stock exceeding the maximum sustainable yield level has resulted in stagnation in marine production. While marine catch has remained stagnant over the past 10 years, increase in aquaculture production has helped meet increasing demand for seafood. Global aquaculture production has grown at 7.0% CAGR to 67-71 million tonne in the past 10 years. Consequently share of aquaculture has increased by 13 percentage points over the last decade to 45%. Going forward also, we expect this trend to continue with share of aquaculture increasing to 52% by 2020.

In terms of region-wise aquaculture production, Asia accounts for over 90%, followed by America, Europe and Africa that make the remaining 8%.

The rising demand for aquaculture products is met by top exporting countries such as China, India, Vietnam, Chile. India's share increased by ~330 bps to 7.8% between 2010 and 2015. Favourable government policies for setting up aquaculture farms, depreciation of the Indian rupee vis-à-vis the dollar, and spread of white spot disease in aquaculture farms in south-east Asia (one of the major producers of aquaculture products, especially shrimps) have helped India gain market share. By 2020, we expect the India's share in aquaculture exports to reach 10-12% on account of increasing production following rise in number of aquaculture farms.

Indian aquaculture production witnessed a 6% CAGR from 1995 to 2015. Over the next 5 years, CRISIL Research projects the domestic seafood market to grow at a CAGR of 14-15% to reach Rs 1,500-1,600 billion by 2020-21. India's exports mainly comprise frozen shrimps, cuttlefish, frozen squids and dried fish with shrimps dominating the exports basket. In 2015-16, shrimps contributed 40% in volume and 64% in value terms to total exports.

## Apex Frozen Foods Ltd

### Risks and Concerns

1. **Susceptibility to Disease:** White leg shrimps are susceptible to baculovirus and parvovirus. These diseases are difficult to treat. Though SPF (specific pathogen free) medicines are available for these viruses, their performance in the virus laden environment is doubtful. White spot syndrome virus (WSSV) is prevalent in India and difficult to treat with already available medications and drugs.
2. **International competition:** Due to ease of cultivation and maintenance, white leg shrimps are produced in most of the exporting countries, leading to fierce competition.
3. **Wafer thin margins:** The margins in processing are wafer thin and
4. **Adverse rupee movement:** Due to high exports, the revenues are directly affected by rupee movement. Rupee appreciation as against the dollar reduces the realisations and margins of the company.

### Valuation and Recommendation

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	Sales	EBITDA	Margins%	PAT	EPS	P/E	EV/EBITDA	ROE
Avanti Feeds	2754.5	351.6	12.8%	214.4	47.2	40.9	24.8	33.5%
Waterbase	331.9	24.9	7.5%	12.6	3.3	37.2	19.3	11.3%
Zeal Aqua	174.6	9.3	5.3%	1.8	4.2	104.9	24.7	4.8%
Apex Frozen Foods	699.1	44.8	6.4%	24.4	7.8	22.4	14.5	25.2%

Source: FY17, NB Retail Research

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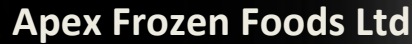
### FINANCIALS

Profit & Loss (Rs cr)	FY13	FY14	FY15	FY16	FY17
<b>Gross Sales</b>	<b>255</b>	<b>514</b>	<b>599</b>	<b>604</b>	<b>699</b>
Less: Excise Duty	-	-			
<b>Net Sales</b>	<b>255</b>	<b>514</b>	<b>599</b>	<b>604</b>	<b>699</b>
<b>growth %</b>		<b>101.5%</b>	<b>16.5%</b>	<b>0.7%</b>	<b>15.8%</b>
Stock Adjustment	(14)	(29)	0	(9)	(4)
Raw materials Consumed	195	417	475	460	536
Purchase of Stock-in-trade	9	13	14	16	18
<b>GM%</b>	<b>25.8%</b>	<b>22.0%</b>	<b>18.4%</b>	<b>22.5%</b>	<b>21.4%</b>
Employee Cost	10	23	26	23	25
<b>% to sales</b>	<b>4.1%</b>	<b>4.4%</b>	<b>4.3%</b>	<b>3.9%</b>	<b>3.6%</b>
Other Expenses	33	58	52	72	80
<b>% to sales</b>	<b>13.0%</b>	<b>11.2%</b>	<b>8.7%</b>	<b>12.0%</b>	<b>11.5%</b>
<b>Total Expenditure</b>	<b>233</b>	<b>482</b>	<b>567</b>	<b>563</b>	<b>654</b>
<b>EBIDTA</b>	<b>22</b>	<b>33</b>	<b>33</b>	<b>40</b>	<b>45</b>
<b>margins %</b>	<b>8.7%</b>	<b>6.3%</b>	<b>5.4%</b>	<b>6.7%</b>	<b>6.4%</b>
Interest	6	8	10	10	11
Depreciation	3	5	0	5	6
Other Income	0	0	5	5	11
<b>Profit Before Tax</b>	<b>14</b>	<b>20</b>	<b>28</b>	<b>30</b>	<b>38</b>
Tax	5	7	8	10	13
Deferred Tax	(0)	(0)	1	0	0
<b>PAT</b>	<b>9</b>	<b>13</b>	<b>18</b>	<b>19</b>	<b>24</b>
<b>margins %</b>	<b>3.7%</b>	<b>2.6%</b>	<b>3.0%</b>	<b>3.2%</b>	<b>3.5%</b>
MI	-	-	-	-	-
EO					
<b>PAT</b>	<b>9</b>	<b>13</b>	<b>18</b>	<b>19</b>	<b>24</b>
EPS Rs. (Post Issue)*	3.0	4.2	5.8	6.2	7.8
P/E - @ Rs 175	58.1	41.6	30.3	28.4	22.4
B.V Per share	7.8	12.1	17.9	24.1	31.0
P/BV - @ Rs 175	22.4	14.5	9.8	7.3	5.7
Debt/Equity (x)	2.5	2.0	1.6	1.0	1.1
EV/Sales	-	1.2	1.1	1.0	0.9
EV/EBIDTA	-	19.1	19.4	15.4	14.4
ROCE %	29.4%	31.3%	29.3%	30.3%	24.6%
ROE %	38.6%	34.7%	32.2%	25.6%	25.2%



## Apex Frozen Foods Ltd

Balance sheet	FY13	FY14	FY15	FY16	FY17
<b>Equity &amp; Liabilities</b>					
Share Capital	15	20	24	24	24
Reserves Total	9	18	32	51	73
<b>Total Shareholders Funds</b>	<b>24</b>	<b>38</b>	<b>56</b>	<b>75</b>	<b>97</b>
<b>Minority Interest</b>					
					-
Long term borrowing	7	15	9	12	21
Deferred Tax Liab	(0)	(0)	1	1	2
Other Long term Liab					
Long term provisions	0	0	0	0	-
<b>Total Non-current Liabilities</b>	<b>7</b>	<b>14</b>	<b>10</b>	<b>13</b>	<b>22</b>
Short term borrowings	55	63	78	64	85
Trade Payables	5	16	11	16	31
Other Current Liabilities	1	3	4	3	4
Short term provisions	2	6	6	7	18
<b>Total Current Liabilities</b>	<b>63</b>	<b>88</b>	<b>99</b>	<b>90</b>	<b>138</b>
<b>Total Equity &amp; Liabilities</b>	<b>94</b>	<b>140</b>	<b>165</b>	<b>179</b>	<b>257</b>
<b>Assets</b>					
Fixed Assets	26	40	52	63	84
- Tangible assets	21	40	52	55	83
- Intangible assets					
- CWIP	6	-	-	8	1
Goodwill on consolidation					
Non current investments					
Deferred Tax Assets					
Long term Loans & Advances					
Other non Current Assets	1	0	0	0	2
<b>Tota Non-current Assets</b>	<b>28</b>	<b>40</b>	<b>52</b>	<b>63</b>	<b>86</b>
<b>Current Investments</b>					
Inventories	22	51	50	60	64
Trade receivables	36	34	50	41	83
Cash & Bank balance	4	3	2	2	5
Short term Loans & advances	5	12	11	13	21
Other current assets					
<b>Total Current Assets</b>	<b>67</b>	<b>100</b>	<b>113</b>	<b>116</b>	<b>172</b>
<b>Total Assets</b>	<b>94</b>	<b>140</b>	<b>165</b>	<b>179</b>	<b>257</b>

Apex Frozen Foods Ltd**Disclaimer:**

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