

Apcotex Industries

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Company Overview

- Apcotex Industries (NSE:APCOTEXIND) was started as a division of Asian Paints in 1980. In 1991, the division was spun off as a separate entity headed by Atul Choksey, the former MD of Asian Paints.
- They are a leading producer of synthetic rubber (nitrile rubber, high styrene rubber, nitrile polyblends and nitrile powder) and synthetic latex (XSB latex, VP latex, styrene acrylics and nitrile latex) in India. The company has one of the broadest ranges of emulsion polymers. Synthetic rubber and synthetic latex have a 50-50 revenue split.
- The various grades of synthetic rubber find application in products like automotive components, hoses, gaskets, rice de-husking rollers, printing and industrial rollers, friction materials, belting and footwear.
- Synthetic latex is used in tyre, paper and paper board coating, Carpet backing, bonding and waterproofing in construction, textile finishing, paints and distempers, asbestos joining, and brake show lining. The company has a range of 50 products in synthetic latex.
- The main competitor in India is BASF. The main competitor in VP latex is Jubilant Industries.
- The plant of the company is strategically located at Taloja, which is 36 km from JNPT Port and 48 km from Mumbai Airport.
- Raw material for the product is petrochemical based. Main raw materials like Styrene, Acrylonitrile and Butadiene that are used in several products. There is an availability risk associated with all since Styrene and Acrylonitrile are not manufactured in the country and must be completely imported. Butadiene is currently available from only two manufacturers in the country and the company is exploring import arrangements.

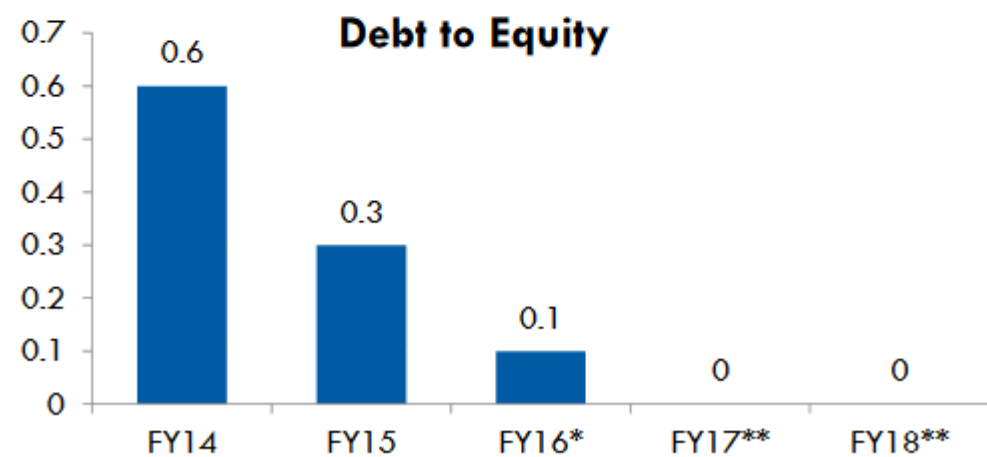
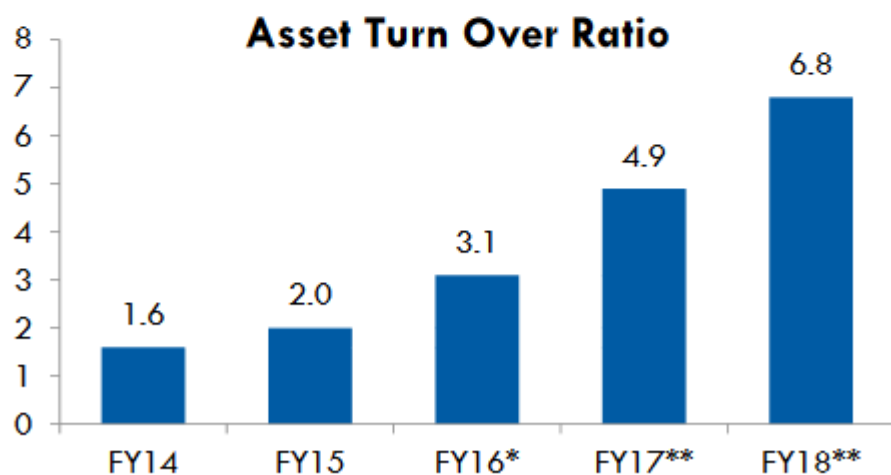
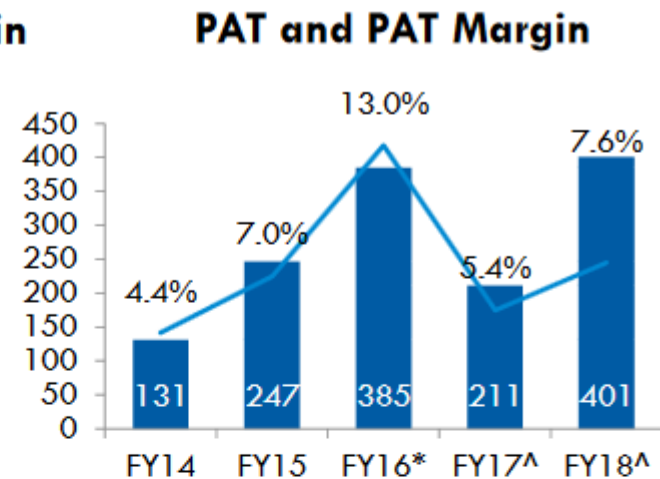
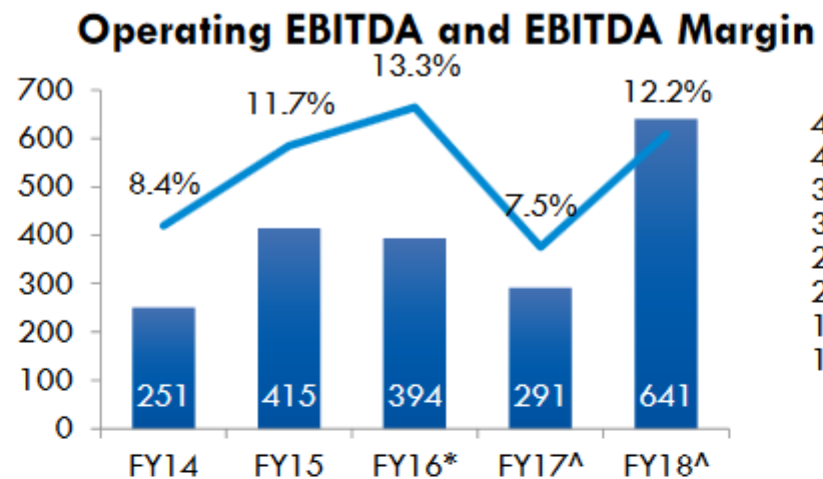
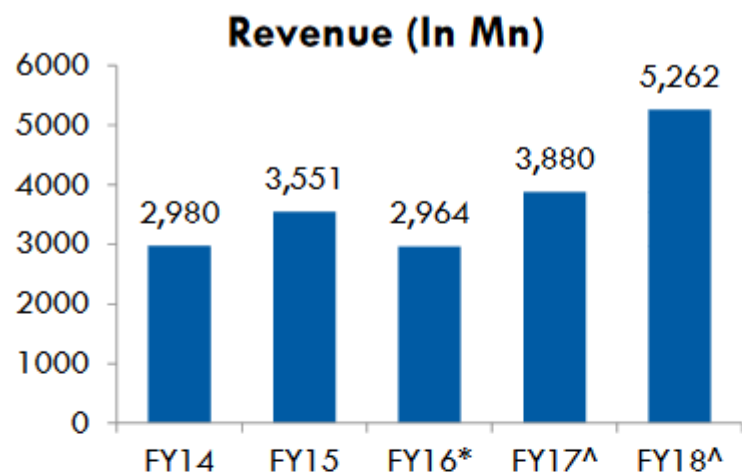
	Current Capacity	Planned Capacity	Utilization
Synthetic latex (SL)	55,000 MTPA	NA	80%
High Styrene Rubber (HSR)	7,000 MTPA	NA	80%
Nitrile Rubber	16,000 MTPA	21,000 MTPA	100%

Business & Management

- Promoter holding is 57.9%. Abhiraj Choksey, the MD, has a reasonable salary of 1.02 crs. He has been educated in the Wharton Business School.
- Vijay Kedia holds 1.12% in the company
- Debt free. Pays full tax and about 35% dividend (average of last 10 years). ROCE – 24%
- Opportunity size is significant as company makes substitute of natural rubber.
- Compounded Sales growth for last 10 years – 18.15%
- Compounded Profit growth for last 10 years – 27.68%
- Clients:
 - SYNTHETIC LATEX - ITC Ltd , BILT, JK PAPER, Pidilite Industries, MRF, SRF, Century Enka
 - SYNTHETIC RUBBER - Paragon Footwear, Ajanta Footwear, Relaxo Footwear, Jayshree Polymers, Parker Hannifin
- Dominant market share in India. Major global players are BASF, Bayer, DOW, Dupont etc
- A major export customer's operations was closed due to fire in April 2018 – this continues to affect budgeted volumes and has a 3-4% revenue impact.
- Capex spend from Phase 1 as at 30-Sep-2018 was 24crs and the remainder of 46 crs will be spent by June 2019.
- Exports comprise of about 14-15% of revenues
- Apco Build, the construction chemical business, is B2C and will be seeing management focus to drive growth.
- New product launch – Nitrile latex for gloves (Replacement of natural rubber)



The Construction Chemicals Division of Apcotex offers a wide range of products for applications in waterproofing, repair and rehabilitation of existing structures. It also offers a host of other product solutions for Exterior Coatings, Concrete Admixtures; to satisfy all construction & civil engineering related problems. In India, its offerings come under ApcoBuild Brand name, which provides Waterproofing & Tiling solutions.



*Consolidated ^ As per IndAS and the figures are excluding the recent merger of Saldhar Investment and Trading Company Pvt. Ltd.

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Financials

- Market Cap: 1,130 Cr.
- Current Price: 544.85
- Book Value: 121.82
- Stock P/E: 23.96
- Dividend Yield: 1.11 %
- ROCE: 24.04 %
- ROE: 17.22 %
- Sales Growth (3Yrs): 15.26 %
- Sales growth 5Years: 14.78 %
- Sales growth 7Years: 14.94 %
- **Profit growth 3Years: 23.32 %**
- **Profit growth 5Years: 24.51 %**
- **Profit growth 7Years: 22.25 %**
- H2 FY18 EPS = 10.3
- Expected FY18-19 EPS = 21-22
- Expected FY19-20 EPS = 24-26
- The company has had stable growth in the last 5 years.
- **Downside risk is limited at current price.**



Conclusion

- Factors in favour:
 - Consistent profit growth over last 10 years.
 - New product launch (Nitrile latex for gloves) with large market opportunity
- Valuation
 - At CMP of about 550, the stock is available around 1 PEG.
- Risks
 - Business is inherently volatile due to raw material price volatility. Price of crude and its derivatives can determine margins in the short term.
 - Availability of raw materials could be difficult.
 - They have both equity and debt investments in treasury operations, which is outsourced to other financial advisors. 70 crs of treasury investments out of which 45-50 crs is in equity.
 - It is a B2B business and as such is a price taker.
- Apcotex is a steady compounder and likely to have good results in the next 1-2 years with their added capacity and new products. It could be a good buy if it is available around 15-18 PE multiple (closer to 360-380).
- DISCLOSURE: I do not have a position but am keeping a watch to buy if at lower levels in case of an overall market correction.