

**Margins Pressures to Persist in Near Term; Maintain HOLD**
**Est. Vs. Actual for Q2FY25:** Revenue: **INLINE**; EBITDA: **MISS**; PAT: **MISS**
**Change in Estimates post Q2FY25**
**FY25E/FY26E:** Revenue: 0%/0%; EBITDA: -15%/-24%; PAT: -19%/-28%

**Recommendation Rationale**

- Increase in freight costs adding to the woes:** Despite achieving 26% YoY revenue growth driven by increased volume and an improved product mix, the company reported a 13% drop in EBITDA for the quarter. EBITDA margins declined by 161bps QoQ and 351bps YoY. Management attributed this decline to ongoing margin and pricing pressures due to market dynamics and elevated ocean freight costs. Notably, beyond Nitrile Latex, the company also faced margin pressures in its Carpet and Paper product ranges, impacted by a significant drop in paper prices.
- Margin pressures may persist for couple of quarters:** Looking ahead, management anticipates gradual improvement in market dynamics, though uncertainty around a recovery remains. The company has advocated for the addition of Anti-Dumping Duty (ADD) on NBR imports from China and is hopeful for a favorable outcome, though a resolution could take nine to 12 months. Additionally, the company sees potential for improvement in the gloves market, as the USA is set to impose a 50% ADD on Chinese gloves starting January 2025. Greater clarity around a recovery, supported by these and other market factors, is expected to emerge by the end of FY25.

**Outlook & Guidance:** We continue to monitor the prices for latex, NBR, and key raw materials such as Styrene and Butadiene. While the management is taking measures such as adding high-margin speciality products to the product mix and passing on the raw material price increase to customers, the margins are likely to remain subdued during rest of the year.

**Current Valuation:** 15x FY27E (Earlier 15x FY26E)

**Current TP:** Rs 415 (Earlier TP: Rs 451)

**Recommendation:** We maintain our HOLD rating on the stock.

**Financial Performance**

The company reported revenue of Rs 351 Cr, a notable 26% increase YoY and 4% QoQ, aligning with estimates. However, gross margins declined to 24.3%, down by 242bps QoQ. Apcotex reported an EBITDA of Rs 27 Cr, reflecting a 13% degrowth YoY and QoQ, falling short of the estimated Rs 33 Cr. EBITDA margins stood at 7.8%, a decline of 351bps YoY and 161bps QoQ. PAT came in at Rs 11 Cr, marking a substantial decrease of 28% YoY and 26% QoQ, significantly missing the estimated Rs 16 Cr.

**Valuation & Recommendation:** We have rolled forward our estimates to FY27E and marginally revised our estimates for FY25E and FY26E to reflect the expectations of prolonged margin pressures. While we remain optimistic about a rebound in profitability in FY26E, we remain cautious about further delay in the recovery. Our estimates also factor in the expected revenue and EBITDA contribution from the Valia project. We value the company at 15x FY27E earnings (earlier 15x FY26E earnings), which translates into a target price of Rs 415/share, implying an upside of 5% from the CMP. **We maintain our HOLD rating on the stock.**

**Key Financials (Consolidated)**

(Rs Cr)	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	351	4%	26%	348	1%
EBITDA	27	-13%	-13%	33	-17%
EBITDA Margin	7.8%	-161bps	-351bps	9.5%	-167bps
Net Profit	11	-26%	-28%	16	-33%
EPS (Rs)	2.1	-26%	-28%	3.2	-33%

Source: Company, Axis Securities Research

 (CMP as of 25<sup>th</sup> October 2024)

CMP (Rs)	397
Upside /Downside (%)	5%
High/Low (Rs)	563/383
Market cap (Cr)	2,004
Avg. daily vol. (1m) Shrs.	33,935
No. of shares (Cr)	5.18

**Shareholding (%)**

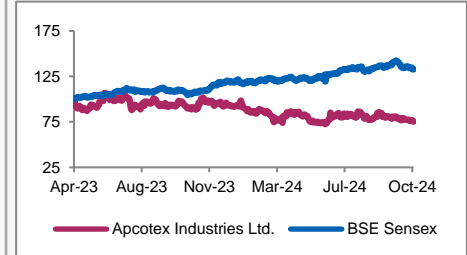
	Mar-24	June-24	Sept-24
Promoter	58.2	58.2	58.2
FII	0.5	0.5	0.5
Others	41.3	41.3	41.3

**Financial & Valuations**

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	1,125	1,351	1,696
EBITDA	114	132	173
Net Profit	54	73	112
EPS (Rs)	10.4	14.2	21.5
PER (x)	47.4	34.8	22.9
P/BV (x)	4.9	4.5	4.0
EV/EBITDA (x)	23.9	20.2	15.4
ROE (%)	14.2%	13.0%	17.6%

**Change in Estimates (%)**

Y/E Mar	FY25E	FY26E
Sales	0%	0%
EBITDA	-15%	-24%
PAT	-19%	-28%

**Relative performance**


Source: ACE Equity, Axis Securities Research

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## Outlook

With excess capacity in the market, the industry continues to operate at suboptimal capacity utilization levels. Consequently, despite rising RM prices, players are unable to fully pass on the cost increases as they work to remain competitive. Apcotex is making a conscious effort to conduct business only where reasonable margins are achievable and is implementing cost-cutting measures. In the near term, competitive pressures are expected to persist, with a potential improvement beginning in FY26 as utilization rates increase and freight costs ease.

## Key Highlights

- **Financial Performance:** The company reported a 26% YoY growth in revenues in Q2FY25, primarily driven by record quarterly volume growth of 12% YoY and a favorable product mix. Exports rose by 31% YoY, with export revenues accounting for 34% of total revenue. However, EBITDA declined by 13% YoY, with margins at 7.8%, down from 11.3% in Q2FY24 and 9.04% in Q1FY25. Operating profits faced pressure during the quarter, mainly due to margin challenges in the Nitrile Latex, Carpet, and Paper product lines, along with high ocean freight costs.
- **Revenue Mix** stands as: Domestic business: 66%; Export: 34%. Increasing share of speciality products is helping the revenue growth.
- **Nitrile Latex:** The nitrile latex business operated at approximately 60% utilization in Q2FY25, with margins under pressure due to increased capacity from China and Malaysia. Nitrile latex contributes less than 15% to total sales. Management also indicated that the gloves market may experience positive traction following the implementation of ADD on Chinese-imported gloves in the US.
- **NBR:** For NBR, Anti-dumping case initiated by DGTR in September 2024. The management stated that the outcome of the same is expected in next 9-12 months.
- **Margins:** EBITDA growth for the quarter was significantly impacted by margin pressures in the Nitrile Latex, Paper, and Carpet segments. The Paper industry faced challenges due to an influx of materials from China and increased competitor capacity. The Carpet segment was affected by the ongoing Middle East conflict and elevated shipping rates, which surged to 7-8 times higher than last year. However, management noted that shipping rates now appear to be stabilizing.
- **Outlook:** End product prices are rising, but margins remain stable due to increased RM costs. The gloves industry overall is seeing improvement, with an optimistic outlook. The company also anticipates that other challenges, such as high freight costs, will ease over the next few quarters. Although capacity utilization may stay low given industry dynamics, an improving product mix is expected to support revenue growth.
- **Capex:** No major capex is anticipated this year, aside from maintenance capex and projects focused on reducing operating costs. Management plans to allocate funds primarily toward revamping its R&D center at the Taloja facility. Additional details regarding investments in the R&D center will be provided in the coming days.

### Key Risks to Our Estimates and TP

- Prolonged weakness in Latex and other product margins forcing the company to switch to other products/reduced utilization levels.
- Imposition of Anti Dumping Duties (ADD) resulting in improved competitive position.
- Faster-than-expected ramp-up in utilisation level in new plants.

### Change in Estimates

	Revised		Old		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net Sales	1,351	1,696	1,351	1,696	0%	0%
EBITDA	132	173	155	227	-15%	-24%
EBITDA Margin (%)	9.8	10.2	11.5	13.4	-15%	-24%
PAT	73	112	91	156	-19%	-28%
EPS	14.2	21.5	17.5	30	-19%	-28%

Source: Company, Axis Securities Research

**Results Review**

(Rs Cr)	Q2FY24	Q1FY25	Q2FY25 Axis Est	Q2FY25 Actual	YoY %	QoQ %	Axis Var %
Revenue	279	337	348	351	26%	4%	1%
Net Raw Material consumed	188	247	249	266	41%	8%	
Employee	17	16	19	18	6%	11%	
Other Expenses	42	42	47	39	-6%	-100%	
Total Expenditure	248	305	315	324	31%	-100%	
EBITDA (core)	32	32	33	27	-13%	-13%	-17%
EBITDAM	11.3%	9.4%	9.5%	7.8%	-351bps	-161bps	-167bps
Add: Other income	2	2	3	3	63%	34%	
EBITDA	33	34	36	30	-9%	-11%	
Less: Depreciation	8	10	10	11	36%	9%	
EBIT	26	24	26	20	-23%	-18%	
Less: Net Interest	4	4	4	4	1%	10%	
Profit Before Extraordinary Items and Tax	21	20	22	15	-28%	-24%	
Less: Extraordinary Expense (net)		-	-	-			
Profit Before Tax	21	20	22	15	-28%	-24%	
Less: Total Tax	6	5	6	4	-27%	-18%	
Profit After Tax	15	15	16	11	-28%	-26%	-33.5%
Reported EPS (Rs)	3.0	2.9	3.2	2.1	-28%	-26%	-33.5%

Source: Company, Axis Securities Research

## Financials (Consolidated)

<b>Profit &amp; Loss</b>						<b>(Rs Cr)</b>
<b>Y/E March</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25E</b>	<b>FY26E</b>	<b>FY27E</b>	
<b>Net Sales</b>	<b>1,080</b>	<b>1,125</b>	<b>1,351</b>	<b>1,696</b>	<b>1,848</b>	
COGS	708	778	939	1,174	1,266	
Staff costs	56	65	78	98	102	
Other Expenditure	157	168	201	251	268	
Total Expenditure	921	1,011	1,218	1,523	1,636	
<b>EBITDA</b>	<b>159</b>	<b>114</b>	<b>132</b>	<b>173</b>	<b>213</b>	
<b>EBITDA Margin %</b>	<b>14.7%</b>	<b>10.1%</b>	<b>9.8%</b>	<b>10.2%</b>	<b>11.5%</b>	
Depreciation	15.2	31.5	34.5	34.1	33.8	
EBIT	143	82	98	139	179	
EBIT Margin %	13.3%	7.3%	7.2%	8.2%	9.7%	
Interest	5	16	16	10	10	
Other Income	7	8	16	20	22	
PBT	146	75	98	149	191	
Tax	38	21	25	38	48	
<i>Tax Rate %</i>	<i>25.8%</i>	<i>27.7%</i>	<i>25.2%</i>	<i>25.2%</i>	<i>25.2%</i>	
<b>PAT</b>	<b>108</b>	<b>54</b>	<b>73</b>	<b>112</b>	<b>143</b>	
EPS	20.8	10.4	14.2	21.5	27.5	

Source: Company, Axis Securities Research

<b>Balance Sheet</b>						<b>(Rs Cr)</b>
<b>Y/E March</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25E</b>	<b>FY26E</b>	<b>FY27E</b>	
<b>Share Capital</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>	
Reserves & Surplus	466	511	555	622	708	
Net Worth	476	522	566	633	718	
Short Term Borrowings	27	89	79	69	69	
Trade Payables	102	135	130	153	167	
Other Current Liability	13	12	14	17	19	
Total Current Liability	180	272	259	277	292	
Long Term Borrowings	125	94	94	46	44	
Deferred Tax Liability (Net)	12	20	20	20	20	
Total Non-Current Liability	147	128	128	80	78	
Total Liabilities	327	400	387	357	370	
Total Equity + Liabilities	803	922	953	990	1,088	
<b>Assets</b>						
Net Block	383	384	379	375	371	
Financial Assets: Investments	73	89	89	89	89	
Total Non-Current Assets	481	496	491	487	483	
Inventories	105	125	133	163	172	
Trade Receivable	137	203	185	232	253	
Investments	15	22	22	22	22	
Cash and Cash Equivalents	15	15	54	7	74	
Other Current Assets	35	35	42	53	57	
Total Current Assets	323	426	462	502	605	
Total Assets	803	922	953	990	1,088	

Source: Company, Axis Securities Research

**Cash Flows**
**(Rs Cr)**

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
PBT	146	75	98	149	191
Depreciation & Amortization	15	32	35	34	34
Provision for Taxes	5	16	16	10	10
Chg in Deferred tax	-2	-2	-22	2	-2
Chg in Working cap	-8	-63	0	-60	-20
Direct tax paid	-35	-16	-25	-38	-48
<b>Cash flow from operations</b>	<b>121</b>	<b>40</b>	<b>101</b>	<b>98</b>	<b>165</b>
Chg in Gross Block	-187	-28	-30	-30	-30
Chg in Investments	32	-18	0	0	0
Chg in WIP	-24	27	0	0	0
<b>Cash flow from investing</b>	<b>-179</b>	<b>-20</b>	<b>-30</b>	<b>-30</b>	<b>-30</b>
Proceeds / (Repayment) of Short-Term Borrowings (Net)	7	0	0	-50	0
Repayment of Long-Term Borrowings	102	31	-10	-10	0
Finance Cost paid	-5	-15	-16	-10	-10
Dividends paid	-26	-28	-29	-45	-57
<b>Cash flow from financing</b>	<b>71</b>	<b>-13</b>	<b>-55</b>	<b>-115</b>	<b>-67</b>
<b>Chg in cash</b>	<b>13</b>	<b>8</b>	<b>16</b>	<b>-47</b>	<b>68</b>
Cash at start	17	30	38	54	7
Cash at end	30	38	54	7	74

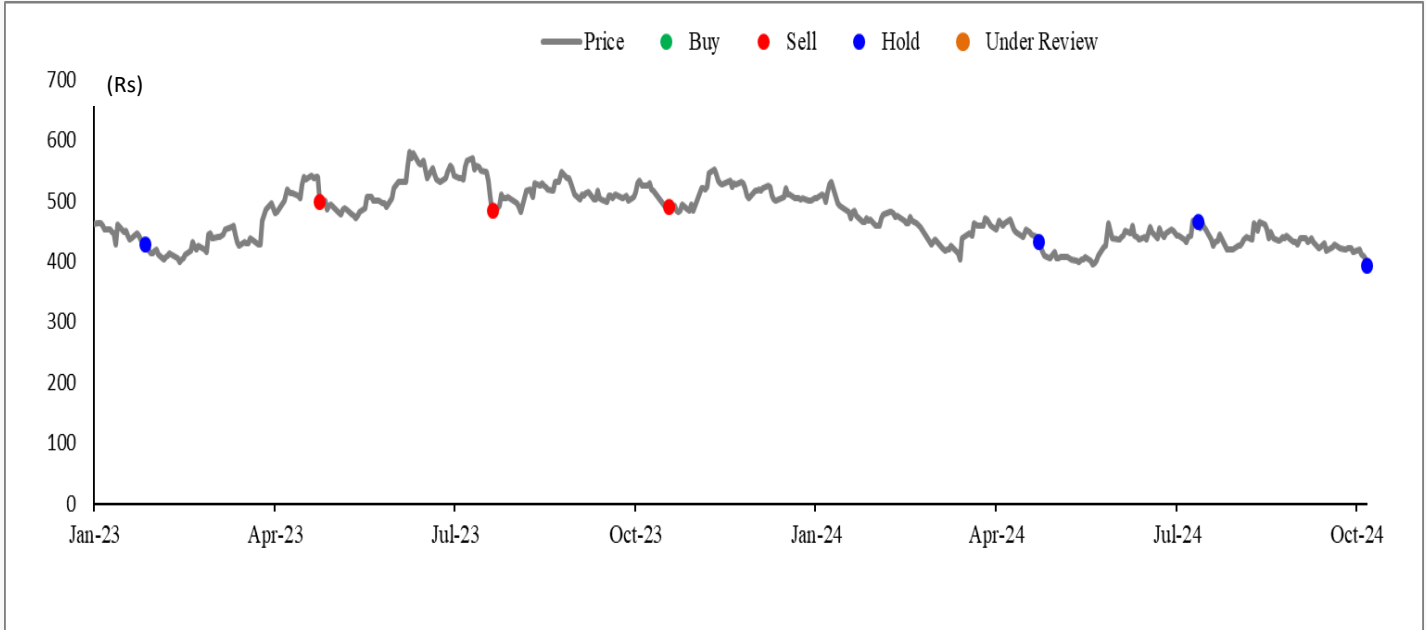
Source: Company, Axis Securities Research

**Ratio Analysis**
**(%)**

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	12.9%	4.1%	20.1%	25.6%	9.0%
EBITDA	13.4%	-28.1%	15.9%	31.0%	22.8%
APAT	9.2%	-50.1%	36.4%	51.8%	28.0%
<b>Per Share Data (Rs)</b>					
Adj. EPS	20.8	10.4	14.2	21.5	27.5
BVPS	91.8	100.6	109.1	122.1	138.6
DPS	4.1	5.7	5.7	8.6	11.0
<b>Profitability (%)</b>					
EBITDA Margin	14.7%	10.1%	9.8%	10.2%	11.5%
Adj. PAT Margin	9.8%	6.6%	5.4%	6.6%	7.7%
ROCE	17.8%	8.9%	10.2%	14.0%	16.4%
ROE	22.2%	14.2%	13.0%	17.6%	19.9%
ROIC	20.2%	10.2%	12.1%	15.7%	19.5%
<b>Valuations (X)</b>					
PER	19.1	38.2	28.0	18.4	14.4
P/BV	4.3	3.9	3.6	3.3	2.9
EV / EBITDA	13.8	19.5	16.5	12.5	9.9
EV / Net Sales	2.0	2.0	1.6	1.3	1.1
<b>Turnover Days</b>					
Asset Turnover	3	2	3	3	3
Inventory days	32	37	36	35	34
Debtors days	50	55	50	50	50
Creditors days	34	38	35	33	33
Working Capital Days	49	54	51	52	51
<b>Gearing Ratio</b>					
Total Debt to Equity (x)	0.3	0.3	0.2	0.2	0.1

Source: Company, Axis Securities Research

## Apcotex Industries Price Chart and Recommendation History



Date	Reco	TP	Research
30-Jan-23	HOLD	400	Result Update
02-May-23	SELL	440	Result Update
27-Jul-23	SELL	440	Result Update
30-Oct-23	SELL	400	Result Update
08-May-24	HOLD	450	Result Update
30-Jul-24	HOLD	451	Result Update
28-Oct-24	HOLD	415	Result Update

Source: Axis Securities Research

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BUY	More than 10%
HOLD	Between 10% and -10%
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NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.