

Retail Equity Research (South India Focus)

Apex Frozen Foods Ltd

Aquaculture

BSE CODE : 540692 NSE CODE: APEX
BLOOMBERG CODE: APEX:IN SENSEX : 40,359

Buy

12M Investment Period Rating as per Small Cap
CMP Rs.302 TARGET Rs.380 RETURN 26 % ↑
(Closing: 22-11-19)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↓

New capacity will improve volume & realisation

Apex Frozen Foods Ltd (Apex) is an integrated producer and exporter of processed shrimps in Andhra Pradesh.

- Q2FY20 revenue grew by 5.4%YoY aided by growth in both volumes (2%YoY) and realization (2%YoY).
- EBITDA margin improved by 410bps YoY supported by improvement in realization, backward integration (hatchery & farms), reduction in storage & processing cost and stable currency.
- Apex has commenced commercial production from the new capacity (20,000MT, ~2x existing capacity), but waiting for certain approvals for export to US and EU which is expected by December.
- From the new capacity, 5000MT is for ready to eat (will improve realisation & margin) and management expects no major delay in utilising this capacity as customers are already in place.
- We reduce our volume assumptions to factor delay in new capacity utilization. Expect revenue/PAT to grow at 17%/23% CAGR over FY19-21E.
- Given improved outlook on industry and company, we increase our valuation to 13x on FY21E and arrive at a new target of Rs380 (earlier Rs272) and maintain Buy.

Volume stabilises...New capacity to aid growth.

For Q2FY20, revenue grew by 5.4% YoY aided by growth in both volumes (~2% YoY) & realisation (~2%YoY). Apex had completed its new capacity of 20,000MT (more than 2 times its existing capacity) in Q1FY20 and has commenced commercial production in Q2FY20. Currently the new facility is used only for non-US and non-EU markets as the company is awaiting certain regulatory approvals which is expected by December. From the new facility, 5,000MT is for ready to eat, for which the company expects no major delay in utilisation as the customers are already in place. And, the company is shifting its leased capacity of 6,000MT to the new facility. Apex expects the optimum utilisation of the new facility by next 1.5-2years time. Apex is also expanding to other markets like China and Canada. We have reduced our volume assumptions to factor delay in utilisation of the new capacity. We expect revenue to grow at 17% CAGR over FY19-21E aided by new capacity addition and entry into newer markets.

Margin improves aided by multiple factors...

For Q2FY20, EBITDA margin improved by 410bps on account of multiple factors including improvement in realization, benefit from backward integration, savings in storage and processing cost which were paying to third-party and stable currency (foreign exchange deficit was higher last year). The company has commenced two new hatcheries in North and South of AP in FY19. The SPF (Specific Pathogen Free) seed from the new hatcheries has been received very well by the farmers in AP, Orissa and West Bengal. The company expects to increase the sales and hence has started phase II construction at one facility (Ongole, South AP) recently. The company is shifting its lease facility of 6000MT capacity to its new own facility which will reduce the processing and storage cost by ~7-8cr. Apex has also in-house farming and ~18-20% of total raw material is sourced from this. Apart from cost benefit, backward integration also ensures supply and allows flexibility in production plans based on customer needs. Further, the value-added products (ready to eat) from the new facility will improve realisation and margins going forward. We expect adjusted EBITDA/Kg will improve from Rs60 in FY19 to Rs79 in FY21E.

Valuations & outlook...

Considering the improved outlook on industry and the company, we increase our valuations to 13x on FY21E EPS and arrive at a new target of Rs380 (earlier Rs272) and maintain Buy rating.

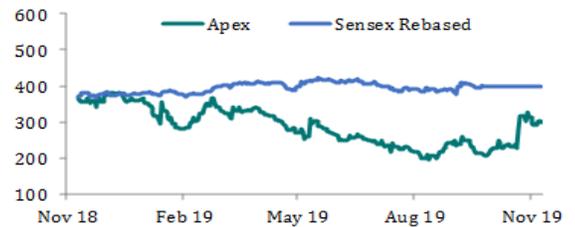
Company Data

Market Cap (cr)	Rs.944
Enterprise Value (cr)	Rs.1,053
Outstanding Shares (cr)	3.1
Free Float	28%
Dividend Yield	0.66%
52 week high	Rs.399
52 week low	Rs.190
6m average volume (cr)	0.02
Beta	1.06
Face value	Rs10

Shareholding (%)	Q4FY19	Q1FY20	Q2FY20
Promoters	72.59	72.59	72.59
FII's	0.03	0.00	0.00
MFs/Insti	8.30	9.36	9.58
Public	15.14	15.62	15.77
Others	3.94	2.42	2.06
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	43.5%	1.9%	-18.2%
Absolute Sensex	1.3%	-3.5%	9.0%
Relative Return*	42.2%	5.4%	-27.2%

*over or under performance to benchmark index



Standalone (cr)	FY19A	FY20E	FY21E
Sales	875	989	1,203
Growth (%)	(12.4)	13.0	21.7
EBITDA	90	105	136
EBITDA Margin(%)	10.2	10.6	11.3
PAT Adj.	60.8	68.1	91.7
Growth (%)	(23.2)	12.0	34.8
Adj.EPS	19.4	21.8	29.4
Growth (%)	(23.2)	12.0	34.8
P/E	15.5	13.9	10.3
P/B	2.7	2.3	1.9
EV/EBITDA	11.7	9.8	7.3
ROE (%)	18.5	17.7	20.0
D/E	0.3	0.3	0.2

Vincent Andrews
Research Analyst

Quarterly Financials (Standalone)

Profit & Loss

Rs (cr)	Q2FY20	Q2FY19	YoY Growth (%)	Q1FY20	QoQ Growth (%)	H1FY20	H1FY19	YoY Growth (%)
Sales	269	256	5.4%	222	21.4%	491	495	-0.7%
EBITDA	37	25	48.9%	12	202.4%	49	57	-13.7%
EBITDA margins	13.8%	9.7%	410bps	5.5%	830bps	10.0%	11.6%	(80bps)
Depreciation	3	3	14.5%	3	5.9%	6	5	14.5%
EBIT	34	22	53.1%	9	265.1%	43	52	-16.6%
Interest	4	2	110.2%	2	112.8%	6	4	63.0%
Other Income	5	9	-40.0%	4	24.7%	9	13	-30.1%
Exceptional Items	0	0	NA	0	NA	0	0	NA
PBT	35	29	21.6%	12	202.9%	47	62	-24.1%
Tax	13	9	45.7%	3	300.7%	17	21	-19.7%
Reported PAT	22	20	10.6%	8	163.9%	30	41	-26.3%
Adjustments	0	0	NA	0	NA	0	0	NA
Adj PAT	22	20	10.6%	8	163.9%	30	41	-26.3%
No. of Shares	3.1	3.1	0.0%	3.1	0.0%	3.1	3.1	0.0%
EPS (Rs)	7.0	6.3	10.6%	2.7	163.9%	9.7	13.1	-26.3%

Per Kg analysis

Rs (cr)	Q2FY20	Q2FY19	YoY Growth (%)	Q1FY20	QoQ Growth (%)
Shrimp sales volumes (Ton)	3745	3688	1.5%	3609	3.8%
Raw materials	486	478	1.7%	456	6.6%
Employee expenses	35	33	5.3%	28	23.1%
Other expenses	100	115	-13.1%	97	3.0%
Total expenses	620	625	-0.8%	581	6.8%
Realisation	719	693	3.8%	615	17.0%
EBITDA	99	68	46.6%	34	191.4%

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	1,054	1,392	989	1203	-6.2%	-13.6%
EBITDA	107	147	105	136	-1.7%	-7.7%
Margins (%)	10.7	11.2	10.6%	11.3%	(10bps)	10bps
Adj. PAT	71	106	68	92	-4.2%	-13.5%
EPS	23	34	22	29	-5.3%	-13.7%

Standalone Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Sales	699	999	875	989	1,203
% change	16	43	-12	13	22
EBITDA	44	110	90	105	136
% change	10	148	-19	17	29
Depreciation	6	9	11	14	24
EBIT	38	101	79	91	111
Interest	11	9	7	14	13
Other Income	11	20	21	20	24
PBT	37	113	94	97	122
% change	26	201	-17	4	26
Tax	12	33	33	29	31
Tax Rate (%)	33	30	34	30	25
Reported PAT	25	79	61	68	92
Adj.*	0	0	0	0	0
Adj. PAT	25	79	61	68	92
% change	31	215	-23	12	35
No. of shares (cr)	2	3	3	3	3
Adj EPS (Rs)	10	25	19	22	29
% change	31	142	-23	12	35
DPS (Rs)	0	2	2	2	2

CASH FLOW

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	31	88	72	82	116
Non-cash adj.	22	39	40	43	44
Other adjustments	4	3	7	14	13
Changes in W.C	-30	-46	-32	-24	-45
C.F. Operation	14	33	46	72	84
Capital exp.	-27	-57	-110	-44	-25
Change in inv.	-2	-1	0	0	0
Other invest.CF	0	0	0	0	0
C.F - Investment	-29	-58	-110	-44	-25
Issue of equity	0	127	0	0	0
Issue/repay debt	-10	-16	-7	-14	-13
Dividends paid	-3	0	-7	-7	-7
Other finance.CF	0	0	0	0	0
C.F - Finance	17	85	6	-11	-30
Chg. in cash	3	60	-58	18	29
Closing cash	5	64	7	24	53

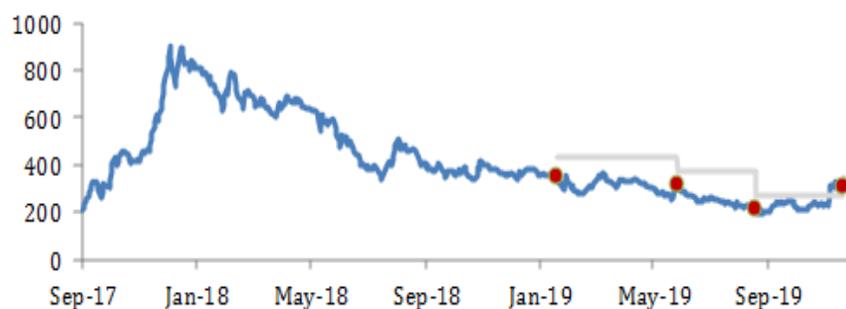
BALANCE SHEET

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	1	3	7	24	53
Accounts Receivable	83	67	94	114	129
Inventories	64	102	106	114	132
Other Cur. Assets	43	119	58	64	77
Investments	-	-	-	-	-
Gross Fixed Assets	102	138	153	303	328
Net Fixed Assets	83	111		251	251
CWIP	1	21	116	10	10
Intangible Assets	-	-	-	-	-
Def. Tax (Net)	-	-	-	-	-
Other Assets	2	5	11	12	14
Total Assets	277	428	507	588	665
Current Liabilities	55	46	49	60	63
Provisions	-	-	-	-	-
Debt Funds	106	81	103	113	103
Other Liabilities	6	-2	-1	-1	-1
Equity Capital	24	31	31	31	31
Reserves & Surplus	85	271	324	385	469
Shareholder's Fund	109	302	355	416	501
Total Liabilities	277	428	507	588	665
BVPS	46	97	114	133	160

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Profitab & Return					
EBITDA margin (%)	6.3	11.0	10.2	10.6	11.3
EBIT margin (%)	5.5	10.2	9.0	9.2	9.3
Net profit mgn.(%)	3.6	7.9	6.9	6.9	7.6
ROE (%)	26.1	38.4	18.5	17.7	20.0
ROCE (%)	12.4	17.8	10.3	11.5	13.8
W.C & Liquidity					
Receivables (days)	32.5	27.4	33.6	38.3	36.8
Inventory (days)	32.2	30.2	43.4	40.6	37.2
Payables (days)	16.1	14.9	18.2	18.8	18.4
Current ratio (x)	1.4	2.4	1.8	2.1	2.7
Quick ratio (x)	0.6	0.6	0.7	0.9	1.3
Turnover & Leverage					
Gross asset T.O (x)	8.3	8.3	6.0	4.3	3.8
Total asset T.O (x)	3.0	2.8	1.9	1.8	1.9
Int. covge. ratio (x)	3.4	11.7	12.0	6.7	8.4
Adj. debt/equity (x)	1.0	0.3	0.3	0.3	0.2
Valuation					
EV/Sales (x)	1.5	1.0	1.2	1.0	0.8
EV/EBITDA (x)	23.7	9.3	11.7	9.8	7.3
P/E (x)	28.8	11.9	15.5	13.9	10.3
P/BV (x)	6.6	3.1	2.7	2.3	1.9

Recommendation Summary



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
31 st January 2019	Buy	434
30 th May 2019	Buy	375
22 nd August 2019	Buy	272
25 th November 2019	Buy	380

Investment Criteria

Large Cap Stocks;		Mid Cap and Small Cap;			
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Neutral- The analyst has no investment opinion on the stock under review

General Disclosures and Disclaimers

CERTIFICATION

I, Vincent K A, author of this Report, hereby certify that all the views expressed in this research report reflect our personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

COMPANY OVERVIEW

Geojit Financial Services Limited (hereinafter Geojit), a publically listed company, is engaged in services of retail broking, depository services, portfolio management and marketing investment products including mutual funds, insurance and properties. Geojit is a SEBI registered Research Entity and as such prepares and shares research data and reports periodically with clients, investors, stake holders and general public in compliance with Securities and Exchange Board of India Act, 1992, Securities And Exchange Board Of India (Research Analysts) Regulations, 2014 and/or any other applicable directives, instructions or guidelines issued by the Regulators from time to time.

DISTRIBUTION OF REPORTS

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Geojit will not treat the recipients of this report as clients by virtue of their receiving this report.

GENERAL REPRESENTATION

The research reports do not constitute an offer or solicitation for the purchase or sale of any financial instruments, inducements, promise, guarantee, warranty, or as an official confirmation of any transaction or contractual obligations of any kind. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. We have also reviewed the research report for any untrue statements of material facts or any false or misleading information. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

RISK DISCLOSURE

Geojit and/or its Affiliates and its officers, directors and employees including the analyst/authors shall not be in any way be responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Investors may lose his/her entire investment under certain market conditions so before acting on any advice or recommendation in these material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. This report does not take into account the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved). The price, volume and income of the investments referred to in this report may fluctuate and investors may realize losses that may exceed their original capital.

FUNDAMENTAL DISCLAIMER

We have prepared this report based on information believed to be reliable. The recommendations herein are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. The stocks always carry the risk of being upgraded to buy or downgraded to a hold, reduce or sell. The opinions expressed are subject to change but we have no obligation to tell our clients when our opinions or recommendations change. This report is non-inclusive and does not consider all the information that the recipients may consider material to investments. This report is issued by Geojit without any liability/undertaking/commitment on the part of itself or anyof its entities. We may have issued or may issue on the companies covered herein, reports, recommendations or information which is contrary to those contained in this report.

The projections and forecasts described in this report should be evaluated keeping in mind the fact that these are based on estimates and assumptions and will vary from actual results over a period of time. The actual performance of the companies represented in the report may vary from those projected. These are not scientifically proven to guarantee certain intended results and hence, are not published as a warranty and do not carry any evidentiary value whatsoever. These are not to be relied on in or as contractual, legal or tax advice. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

JURISDICTION

The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. Distributing/taking/sending/dispatching/transmitting this document in certain foreign jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Failure to comply with this restriction may constitute a violation of any foreign jurisdiction laws. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. Investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk.

REGULATORY DISCLOSURES:

Geojit's Associates consists of privately held companies such as Geojit Technologies Private Limited (GTPL- Software Solutions provider), Geojit Credits Private Limited (GCPL- NBFC Services provider), Geojit Investment Services Limited (GISL- Corporate Agent for Insurance products), Geojit Financial Management Services Private Limited (GFMSL) & Geojit Financial Distribution Private Limited (GFDPL), (Distributors of Insurance and MF Units). In the context of the SEBI Regulations on Research Analysts (2014), Geojit affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports /research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities.

In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership*:

Geojit confirms that:

It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.

It/its associates have no actual beneficial ownership greater than 1% in relation to the subject company (ies) covered herein.

Further, the Analyst confirms that:

he/his associates/his relatives holds shares in the subject companies/has other financial interest in the subject companies.

he, his associates and his relatives have no actual/beneficial ownership greater than 1% in the subject company covered

2. Disclosures regarding Compensation:

During the past 12 months, Geojit or its Associates:

(a) Have not received any compensation from the subject company; (b) Have not managed or co-managed public offering of securities for the subject company (c) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company. (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

3. Disclosure by Geojit regarding the compensation paid to its Research Analyst:

Geojit hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that I, Vincent K A, Research Analyst(s) of Geojit have not served as an officer, director or employee of the subject company

5. Disclosure regarding Market Making activity:

Neither Geojit/its Analysts have engaged in market making activities for the subject company.

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing.

Geojit Financial Services Ltd. (formerly known as Geojit BNP Paribas Financial Services Ltd.), Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: www.geojit.com. For investor queries: customercare@geojit.com, For grievances: grievances@geojit.com, For compliance officer: compliance@geojit.com.

Corporate Identity Number: L67120KL1994PLC008403, SEBI Stock Broker Registration No INZ000104737, Research Entity SEBI Reg No: IN-H200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, Depository Participant: IN-DP-325-2017, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226