

Retail Equity Research

Apex Frozen Foods Ltd

Aquaculture

BSE CODE: 540692

NSE CODE: APEX

Bloomberg CODE: APEX:IN

SENSEX: 38,901

BUY

12M Investment period

Rating as per Small Cap

CMP Rs.253

TARGET Rs.340

RETURN 34% ↑

(Closing: 01-09-20)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Better than expected volumes amidst challenges...

Apex Frozen Foods Ltd (Apex) is an integrated producer and exporter of processed shrimps in Andhra Pradesh with an own capacity of 29,240MT.

- We maintain Buy rating with a revised Target of Rs.340, due to better than expected volumes and attractive valuation.
- Q1FY21 revenue de-grew by 1.6%YoY. Better realization and rupee depreciation offset the impact of 11.4%YoY decline in volumes.
- EBITDA grew by 51.6%YoY mainly aided by 620bps increase in gross margin due to better realisation and reduction in raw material cost.
- Apex has recently got all the required approvals for its newly added capacity of 20,000MT and ramp up in utilization will aid future growth.
- We increase our volume assumptions to factor gradual improvement in industry supply-chain while appreciation in INR will impact realisation. Expect revenue/PAT to grow at 15%/28% CAGR over FY20E-FY22E.
- Currently the stock trades at 13x 1Yr Fwd P/E (2Yr Avg=16x). We value the stock at 12X FY22E EPS, considering the current uncertain situation.

Covid-19 impacts volumes but better than expected

The COVID-19 pandemic has disrupted the industry supply-chain significantly due to global lock-down. Q1FY21 volumes de-grew by 11.4% YoY. April witnessed a significant impact, while May & June saw near-normal levels of operations. The revenue de-growth was mere at 1.6% YoY aided by improvement in realisation and benefit from rupee depreciation. In export markets, demand from restaurants & catering being the biggest consumers of seafood, saw a sharp contraction which was partly compensated by demand from retail segment which will continue to support in the coming quarters. Now, with gradual improvement in demand from USA & EU and steady growth from China, the management is cautiously optimistic of better performance in the coming quarters factoring current uncertain situation. The region mix has improved as revenue contribution from China & EU has increased to 20%&14% from ~5%&10% in FY20. We improve our volume assumption to factor better than expected volumes in the quarter, expect revenue to grow at 13% CAGR over FY20-22E.

Margin improves but impacted by unexpected items..

Gross margin improved by 620bps YoY to 32% (35.2% QoQ) aided by higher realisation and rupee depreciation. However, EBITDA margin improved only by 300bps to 8.5% (9.5% QoQ) mainly due to items like forex loss, increase in working capital on account of higher than normal level of inventory, lower share of value added products on account of labour shortage and additional staff welfare expenses incurred related to Covid. Excluding Forex loss of Rs.5.6cr, EBITDA margin would be at 11%. The company will continue to benefit from the backward integration (Hatchery & in-house farming) and from the discontinuation of the leased plants due to addition of own capacity (by 20,000MT). Further, ramp up in ready-to-eat products (5,000MT capacity) will improve realisation and margin going forward.

Valuation & Outlook

Demand outlook remains uncertain in the short-term, however, with gradual improvement from major export markets, demand is expected to witness healthy recovery in FY22E. The stock currently trades at 13x 1Yr Fwd P/E (2Yr Avg=16x) based on our revised estimates. We value at 12x on FY22E EPS considering current uncertain situation to arrive at a Target of Rs.340 (Rs305 earlier), and maintain Buy rating.

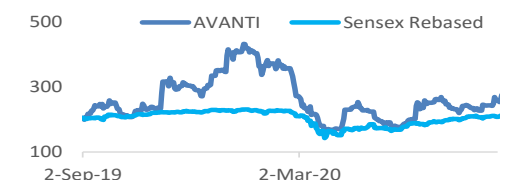
Company Data

Market Cap (Rs.cr)	786
Enterprise Value (Rs.cr)	663
Outstanding Shares (cr)	3.1
Free Float	27%
Dividend Yield	1.5%
52 week high Rs.	445
52 week low Rs.	132
6m average volume (cr)	0.04
Beta	1.6
Face value Rs.	10

Shareholding %	Q3FY20	Q4FY20	Q1FY21
Promoters	72.6	72.6	72.6
FII's	0.0	0.0	0.0
MFs/Insti	9.3	9.5	6.5
Public	15.8	15.7	17.5
Others	2.3	2.1	3.4
Total	100	100	100
Promotor pledge	NIL	NIL	0.0%

Price Performance	3 Month	6 Month	6 Month
Absolute Return	26.4%	2.7%	23.0%
Absolute Sensex	14.3%	1.4%	4.4%
Relative Return*	12.1%	1.3%	18.6%

*over or under performance to benchmark index



Standalone (cr)	FY20A	FY21E	FY22E
Sales	827	833	1,096
Growth (%)	-5.4	0.7	31.5
EBITDA	87	83	127
EBITDA Margin (%)	10.5	10.0	11.6
Adj. PAT	61	45	88
Growth (%)	-0.3	-25.8	96.8
Adj. EPS	19.4	14.4	28.3
Growth (%)	-0.3	-25.8	96.8
P/E	13.1	17.6	8.9
P/B	2.0	1.8	1.5
EV/EBITDA	10.9	10.6	6.4
ROE (%)	16.1	10.8	18.6
D/E	0.4	0.2	0.1

Vincent Andrews
Research Analyst

Quarterly Financials (Standalone)

Profit & Loss

Rs cr)	Q1FY21	Q1FY20	YoY Growth (%)	Q2FY20	QoQ Growth (%)
Sales	218	222	-1.6	141	55.2
EBITDA	19	12	51.6	13	39.3
EBITDA margins %	8.5	5.5	300bps	9.5	(100bps)
Depreciation	6	3	88.2	5	16.4
EBIT	13	9	39.9	9	52.2
Interest	4	2	117.6	2	117.1
Other Income	3	4	-36.8	5	-50.3
Exceptional Items	0	0	0.0	0	0.0
PBT	12	12	0.1	12	-3.0
Tax	3	3	-4.4	3	11.2
Share of profit from associates	0	0	NA	0	NA
Minority interest	0	0	NA	0	NA
Reported PAT	8	8	1.9	9	-7.5
Adjustments	0	0	0.0	0	0.0
Adj PAT	8	8	1.9	9	-7.5
No. of Shares	3	3	0.0	3	0.0
Adj EPS (Rs)	2.7	2.7	1.9	2.9	-7.5

Per Tonne Analysis

	Q1FY21	Q1FY20	YoY Growth (%)	Q2FY20	QoQ Growth (%)
Cement Volume (MT)	3196	3609	-11.4	2046	56.2
Cost of materials consumed	464	456	1.8	446	4.2
Employee Expenses	33	28	16.3	48	-31.5
Other expenses	128	97	32.0	129	-1.0
Total expenses	625	581	7.6	622	0.4
Realisation (inc. RMC)	683	615	11.1	687	-0.7
EBITDA	58	34	71.2	65	-10.8

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	755	1,010	833	1,096	10	9
EBITDA	81	116	83	127	3	9
Margins (%)	10.7	11.5	10.0	11.6	(70bps)	10bps
Adj. PAT *	53	84	45	88	-15	5
EPS	16.8	26.8	14.4	28.3	-14.4	5.6



PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	999	875	827	833	1,096
% change	42.9	-12.4	-5.4	0.7	31.5
EBITDA	110	90	87	83	127
% change	148.0	-18.6	-3.0	-4.4	52.8
Depreciation	9	11	15	22	23
EBIT	101	79	72	61	104
Interest	9	7	11	16	8
Other Income	20	21	19	16	23
PBT	113	94	81	61	120
% change	200.6	-16.8	-13.8	-24.7	96.8
Tax	33.5	32.9	20.1	15.8	31.1
Tax Rate (%)	2972.2%	3400.0%	2700.0%	2600.0%	2600.0%
Reported PAT	79.1	60.8	60.6	44.9	88.4
Adj*	0	0	0	0	0
Adj PAT	79.1	60.8	60.6	44.9	88.4
% change	214.8	-23.2	-0.3	-25.8	96.8
No. of shares (cr)	3.1	3.1	3.1	3.1	3.1
Adj EPS (Rs.)	25	19	19	14	28
% change	141.8	-23.2	-0.3	-25.8	96.8
DPS (Rs.)	2	2	2	2	2
CEPS (Rs.)	28.1	22.9	24.1	21.5	35.5

CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	88	72	75	67	111
Non-cash adj.	-14	0	-1	0	0
Other adjustments	5	7	9	16	8
Changes in W.C	-46	-32	-45	39	-34
C.F. Operation	33	46	45	122	85
Capital exp.	-57	-110	-45	-32	-10
Change in inv.	-1	0	1	0	0
Other invest.CF	0	0	0	0	0
C.F - Investment	-58	-110	-44	-32	-10
Issue of equity	127	0	0	0	0
Issue/repay debt	-42	13	13	-71	-67
Dividends paid	0	-7	-8	-7	-7
Other finance.CF	0	0	0	0	0
C.F - Finance	85	6	-1	-78	-74
Chg. in cash	60	-58	1	11	0
Closing cash	64	7	7	19	19

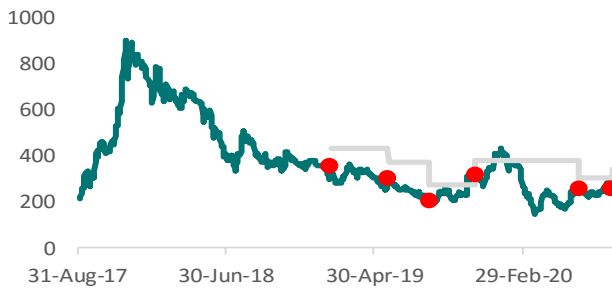
BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	3	7	7	19	19
Accounts Receivable	67	94	79	89	105
Inventories	102	106	184	127	136
Other Cur. Assets	119	58	65	59	64
Investments	0	0	0	0	0
Gross Fixed Assets	138	153	333	358	368
Net Fixed Assets	111	115	280	283	271
CWIP	21	116	3	10	10
Intangible Assets	0	0	0	0	0
Def. Tax (Net)	0	0	0	0	0
Other Assets	5	11	5	5	6
Total Assets	428	507	623	592	611
Current Liabilities	46	49	72	57	53
Provisions	0	0	0	0	0
Debt Funds	81	103	159	104	44
Other Liabilities	-2	-1	-3	-2	-1
Equity Capital	31	31	31	31	31
Reserves & Surplus	271	324	365	402	484
Shareholder's Fund	302	355	396	434	515
Total Liabilities	428	507	623	592	611
BVPS (Rs.)	97	114	127	139	165

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	11.0	10.2	10.5	10.0	11.6
EBIT margin (%)	10.2	9.0	8.7	7.3	9.5
Net profit mgn.(%)	7.9	6.9	7.3	5.4	8.1
ROE (%)	38.4	18.5	16.1	10.8	18.6
ROCE (%)	17.8	10.3	10.5	8.2	13.0
W.C & Liquidity					
Receivables (days)	27.4	33.6	38.1	36.8	32.3
Inventory (days)	30.2	43.4	64.1	68.2	43.9
Payables (days)	14.9	18.2	24.5	26.1	17.3
Current ratio (x)	2.4	1.8	1.6	1.9	3.3
Quick ratio (x)	0.6	0.7	0.4	0.7	1.3
Turnover & Leverage					
Gross asset T.O (x)	8.3	6.0	3.4	2.4	3.0
Total asset T.O (x)	2.8	1.9	1.5	1.4	1.8
Int. coverage ratio (x)	11.7	12.0	6.8	3.8	13.1
Adj. debt/equity (x)	0.3	0.3	0.4	0.2	0.1
Valuation					
EV/Sales (x)	0.9	1.0	1.1	1.1	0.7
EV/EBITDA (x)	7.9	10.0	10.9	10.6	6.4
P/E (x)	10.0	13.0	13.1	17.6	8.9
P/BV (x)	2.6	2.2	2.0	1.8	1.5

Recommendation Summary



Dates	Rating	Target
31-Jan-19	Buy	434
30-May-19	Buy	375
22-Aug-19	Buy	272
25-Nov-19	Buy	380
23-Jun-20	Buy	305
2-Sep-20	Buy	340

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

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.

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