

India

ADD (no change)

Consensus ratings*: Buy 2 Hold 0 Sell 0

| | |
|------------------------------|----------------------|
| Current price: | Rs320 |
| Target price: ▲ | Rs780 |
| Previous target: | Rs755 |
| Up/downside: | 143.8% |
| InCred Research / Consensus: | 30.5% |
| Reuters: | |
| Bloomberg: | APEX IN |
| Market cap: | US\$138m Rs9,989m |
| Average daily turnover: | US\$0.4m Rs30.2m |
| Current shares o/s: | 31.3m |
| Free float: | 27.4% |

*Source: Bloomberg

Key changes in this note

- ▶ PAT estimates adjusted by 4.6% / 3.2% for FY23F/FY24F.
- ▶ Revise target price to Rs780 (Rs755 earlier).

| Price performance | 1M | 3M | 12M |
|-------------------|-------|------|------|
| Absolute (%) | 4.4 | 14.0 | 26.4 |
| Relative (%) | (1.9) | 3.8 | 17.3 |

| Major shareholders | % held |
|---------------------------|--------|
| Promoter & Promoter Group | 72.6 |
| Nippon Mutual Fund | 5.3 |
| Invesco Mutual Fund | 1.5 |

Analyst(s)



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Apex Frozen Foods Ltd

The worst phase is finally over

- Apex Frozen Foods reported a strong set of 1QFY23 numbers, in line with our expectations, because of logistics problems easing.
- The transportation problem, which worsened in 4QFY22, eased to some extent in 1QFY23 and seems to be getting better.
- Retain Add rating on the stock with a higher TP of Rs780 or 18x FY24F P/E.

Strong performance

Apex Frozen Foods Ltd (AFFL) came out with a strong set of numbers for 1QFY23, in line with our expectations. The tailwinds for the shrimp processing sector are strong. Demand from USA remained steady while in case of China it went through the roof. Production gained pace with demand after a long time. Logistics cost played spoilsport but has now eased and is expected to decline further. We expect AFFL to keep the movement going and post still better results in coming quarters. However, as demand still outpaces supply (shrimp supply), some raw material inflation is likely for shrimp processing going ahead. We expect AFFL to top 15,000mtpa in sales, in volume terms, in FY23F and 20,000mtpa sales in FY24F, even as recessionary fears loom large because of the shift in meat pricing dynamics. Shrimp was out of reach for most consumers a decade ago but has now become more affordable when compared with other protein foods.

Export-incentive math

Net duty drawback and the proportion of ROTDEP (Remission of Duties and Taxes on Export Products) received were the export incentives booked by AFFL in 1QFY23. ROTDEP incentive was not fully booked since the past six quarters. AFFL intends to book these incentives on a receipt basis, as per management, because of which we foresee the export incentive booking to turn lumpy in coming quarters.

Reiterate Add rating on the stock with higher target price of Rs780

We adjust our PAT estimates by 4.6% & 3.2% for FY23F & FY24F, respectively, based on 1QFY23 numbers. We retain Add rating on AFFL with a higher target price of Rs780 (Rs755 earlier) or 18x FY24F P/E. AFFL is likely to have an expanded capacity of 35,000mtpa by 4QFY23F. The undercurrent in terms of shrimp demand is strong, pricing power has returned for the company's products, transportation problems seem to be stabilizing, and there should be a positive momentum in the stock price going ahead, in our view. Downside risks: Any drop in demand for shrimp and shrimp products, hindrance in supply of shrimp in domestic market, and any trade barriers imposed on India or the company's products.

Financial Summary

| | Mar-20A | Mar-21A | Mar-22A | Mar-23F | Mar-24F |
|-----------------------------------|---------|---------|---------|---------|---------|
| Revenue (Rsm) | 8,271 | 8,185 | 9,142 | 11,568 | 14,709 |
| Operating EBITDA (Rsm) | 870 | 909 | 793 | 1,095 | 1,983 |
| Net Profit (Rsm) | 607 | 394 | 411 | 749 | 1,354 |
| Core EPS (Rs) | 19.4 | 12.6 | 13.1 | 24.0 | 43.3 |
| Core EPS Growth | (0.2%) | (35.1%) | 4.4% | 82.3% | 80.8% |
| FD Core P/E (x) | 16.47 | 25.38 | 24.31 | 13.33 | 7.38 |
| DPS (Rs) | 2.0 | 1.8 | 2.6 | 2.4 | 4.3 |
| Dividend Yield | 0.63% | 0.55% | 0.82% | 0.75% | 1.36% |
| EV/EBITDA (x) | 13.10 | 12.70 | 14.58 | 9.90 | 5.21 |
| P/FCFE (x) | 42.56 | 27.30 | 50.70 | 20.87 | 40.28 |
| Net Gearing | 35.5% | 35.5% | 33.2% | 15.6% | 5.2% |
| P/BV (x) | 2.52 | 2.27 | 2.10 | 1.84 | 1.50 |
| ROE | 16.2% | 9.4% | 9.0% | 14.7% | 22.4% |
| % Change In Core EPS Estimates | | | | | |
| InCred Research/Consensus EPS (x) | | | | | |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly summary

| Rs m | 1QFY23 | 4QFY22 | %QoQ | 1QFY22 | %YoY |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| Revenue From Operations | 3,058 | 2,068 | 47.9% | 2,228 | 37.3% |
| Cost of Goods Sold | 2,072 | 1,415 | 46.4% | 1,550 | 33.7% |
| Employee Expenses | 119 | 108 | 9.8% | 119 | -0.2% |
| Other Expenses | 713 | 382 | 86.6% | 469 | 52.0% |
| EBITDA | 155 | 163 | -4.6% | 91 | 71.4% |
| Depreciation | 51 | 46 | 12.6% | 46 | 11.8% |
| EBIT | 104 | 117 | -11.2% | 45 | 132.5% |
| Other Income | 192 | 25 | 661.6% | 47 | 309.7% |
| Interest Expenses | 48 | 39 | 24.2% | 45 | 8.3% |
| Profit Before Tax | 248 | 104 | 139.4% | 47 | 426.8% |
| Tax Expenses | 62 | 30 | 105.0% | 14 | 341.6% |
| Profit After Tax | 185 | 73 | 153.8% | 33 | 463.4% |
| Key Ratios | 1QFY23 | 4QFY22 | %QoQ | 1QFY22 | %YoY |
| EBITDA Margin | 5.1% | 7.9% | -279bp | 4.1% | 101bp |
| EBIT Margin | 3.4% | 5.7% | -227bp | 2.0% | 139bp |
| PBT Margin | 8.1% | 5.0% | 310bp | 2.1% | 599bp |
| PAT Margin | 6.1% | 3.5% | 253bp | 1.5% | 459bp |
| Tax Rate | 25.2% | 29.4% | -422bp | 30.0% | -486bp |

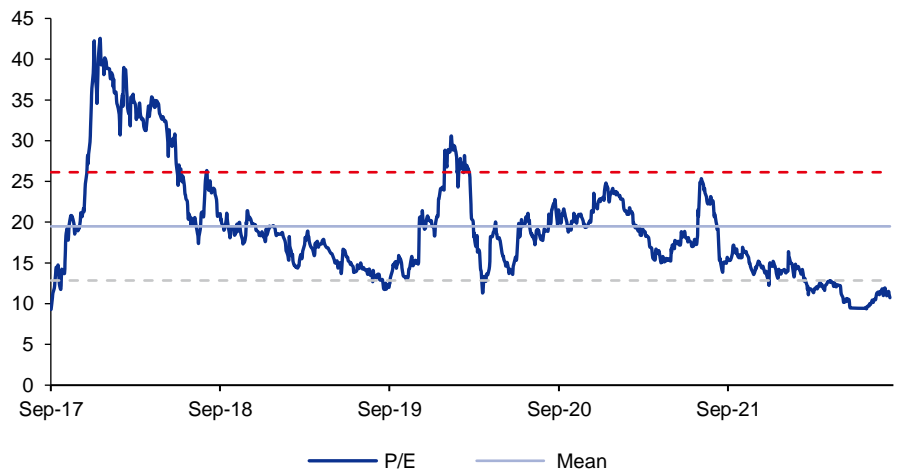
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

| Rs m | Old estimates | | New estimates | | Change (%) | |
|-------------------|---------------|--------|---------------|--------|------------|-------|
| | FY23F | FY24F | FY23F | FY24F | FY23F | FY24F |
| Revenue | 11,006 | 14,317 | 11,568 | 14,709 | 5.1% | 2.7% |
| EBITDA | 1,205 | 1,929 | 1,095 | 1,983 | -9.2% | 2.8% |
| EBITDA Margin (%) | 10.9% | 13.5% | 9.5% | 13.5% | -149bp | 1bp |
| PAT | 716 | 1,312 | 749 | 1,354 | 4.6% | 3.2% |
| EPS (Rs) | 23 | 42 | 24 | 43 | 4.6% | 3.2% |

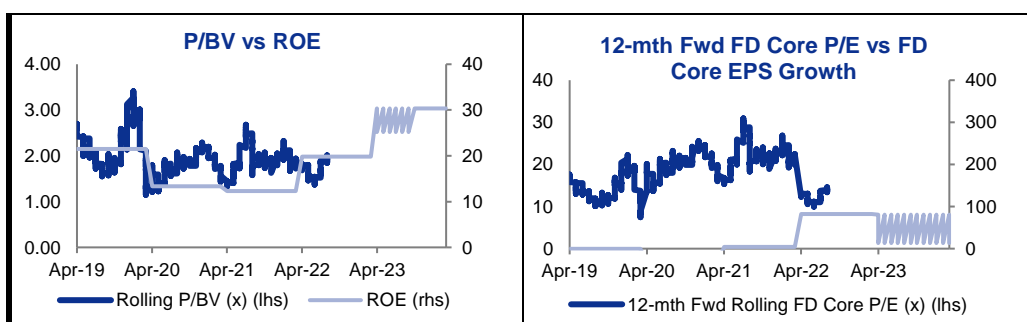
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: One-year forward P/E



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

| (Rs mn) | Mar-20A | Mar-21A | Mar-22A | Mar-23F | Mar-24F |
|---|--------------|--------------|--------------|---------------|---------------|
| Total Net Revenues | 8,271 | 8,185 | 9,142 | 11,568 | 14,709 |
| Gross Profit | 2,535 | 2,654 | 2,992 | 3,625 | 4,707 |
| Operating EBITDA | 870 | 909 | 793 | 1,095 | 1,983 |
| Depreciation And Amortisation | (146) | (220) | (185) | (219) | (192) |
| Operating EBIT | 724 | 690 | 608 | 876 | 1,791 |
| Financial Income/(Expense) | 84 | (133) | (46) | 134 | 39 |
| Pretax Income/(Loss) from Assoc. | | | | | |
| Non-Operating Income/(Expense) | | | | | |
| Profit Before Tax (pre-EI) | 808 | 557 | 562 | 1,010 | 1,830 |
| Exceptional Items | | | | | |
| Pre-tax Profit | 808 | 557 | 562 | 1,010 | 1,830 |
| Taxation | (201) | (163) | (151) | (260) | (476) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 607 | 394 | 411 | 749 | 1,354 |
| Minority Interests | | | | | |
| Preferred Dividends | | | | | |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | | | | | |
| Net Profit | 607 | 394 | 411 | 749 | 1,354 |
| Recurring Net Profit | 607 | 394 | 411 | 749 | 1,354 |
| Fully Diluted Recurring Net Profit | 607 | 394 | 411 | 749 | 1,354 |

Cash Flow

| (Rs mn) | Mar-20A | Mar-21A | Mar-22A | Mar-23F | Mar-24F |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|
| EBITDA | 870 | 909 | 793 | 1,095 | 1,983 |
| Cash Flow from Invt. & Assoc. | | | | | |
| Change In Working Capital | (455) | (546) | (471) | 560 | (856) |
| (Incr)/Decr in Total Provisions | | | | | |
| Other Non-Cash (Income)/Expense | | | | | |
| Other Operating Cashflow | | | | | |
| Net Interest (Paid)/Received | 190 | 26 | 128 | 308 | 147 |
| Tax Paid | (163) | (81) | (116) | (260) | (476) |
| Cashflow From Operations | 441 | 309 | 334 | 1,702 | 798 |
| Capex | (385) | (125) | (106) | (724) | (50) |
| Disposals Of FAs/subsidiaries | | | | | |
| Acq. Of Subsidiaries/investments | | | | | |
| Other Investing Cashflow | | | | | |
| Cash Flow From Investing | (385) | (125) | (106) | (724) | (50) |
| Debt Raised/(repaid) | 178 | 182 | (31) | (500) | (500) |
| Proceeds From Issue Of Shares | | | | | |
| Shares Repurchased | | | | | |
| Dividends Paid | (75) | | | (75) | (135) |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | (94) | (146) | (174) | (174) | (108) |
| Cash Flow From Financing | 9 | 36 | (205) | (749) | (744) |
| Total Cash Generated | 66 | 220 | 23 | 229 | 4 |
| Free Cashflow To Equity | 235 | 366 | 197 | 479 | 248 |
| Free Cashflow To Firm | 56 | 184 | 228 | 979 | 748 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

| Balance Sheet | | | | | |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| (Rs mn) | Mar-20A | Mar-21A | Mar-22A | Mar-23F | Mar-24F |
| Total Cash And Equivalents | 72 | 99 | 74 | 304 | 308 |
| Total Debtors | 791 | 1,546 | 1,372 | 1,585 | 2,015 |
| Inventories | 1,840 | 1,612 | 2,028 | 1,268 | 1,612 |
| Total Other Current Assets | 698 | 603 | 700 | 885 | 1,126 |
| Total Current Assets | 3,402 | 3,860 | 4,175 | 4,042 | 5,061 |
| Fixed Assets | 2,802 | 2,504 | 2,360 | 3,110 | 2,969 |
| Total Investments | | | | | |
| Intangible Assets | | | | | |
| Total Other Non-Current Assets | 62 | 204 | 258 | 13 | 13 |
| Total Non-current Assets | 2,864 | 2,708 | 2,619 | 3,124 | 2,982 |
| Short-term Debt | 1,197 | 1,380 | 1,361 | 861 | 361 |
| Current Portion of Long-Term Debt | 40 | | | | |
| Total Creditors | 603 | 374 | 251 | 412 | 524 |
| Other Current Liabilities | | | | | |
| Total Current Liabilities | 1,841 | 1,754 | 1,611 | 1,273 | 885 |
| Total Long-term Debt | 241 | 281 | 291 | 291 | 291 |
| Hybrid Debt - Debt Component | | | | | |
| Total Other Non-Current Liabilities | | | | | |
| Total Non-current Liabilities | 241 | 281 | 291 | 291 | 291 |
| Total Provisions | 225 | 135 | 137 | 173 | 220 |
| Total Liabilities | 2,307 | 2,170 | 2,039 | 1,737 | 1,396 |
| Shareholders Equity | 3,959 | 4,398 | 4,754 | 5,429 | 6,647 |
| Minority Interests | | | | | |
| Total Equity | 3,959 | 4,398 | 4,754 | 5,429 | 6,647 |

| Key Ratios | | | | | |
|---------------------------|----------------|----------------|----------------|----------------|----------------|
| | Mar-20A | Mar-21A | Mar-22A | Mar-23F | Mar-24F |
| Revenue Growth | (5.4%) | (1.0%) | 11.7% | 26.5% | 27.2% |
| Operating EBITDA Growth | (2.9%) | 4.6% | (12.8%) | 38.0% | 81.1% |
| Operating EBITDA Margin | 10.5% | 11.1% | 8.7% | 9.5% | 13.5% |
| Net Cash Per Share (Rs) | (45.01) | (49.98) | (50.48) | (27.14) | (11.00) |
| BVPS (Rs) | 126.69 | 140.74 | 152.14 | 173.71 | 212.71 |
| Gross Interest Cover | 6.83 | 4.33 | 3.50 | 5.02 | 16.55 |
| Effective Tax Rate | 24.9% | 29.3% | 26.9% | 25.8% | 26.0% |
| Net Dividend Payout Ratio | 7.8% | 9.9% | 14.6% | 7.4% | 7.4% |
| Accounts Receivables Days | 38.10 | 52.11 | 58.25 | 46.65 | 44.66 |
| Inventory Days | 92.38 | 113.92 | 108.03 | 75.73 | 52.54 |
| Accounts Payables Days | 29.22 | 32.25 | 18.54 | 15.22 | 17.08 |
| ROIC (%) | 15.4% | 12.3% | 10.0% | 13.5% | 27.8% |
| ROCE (%) | 14.4% | 12.0% | 9.8% | 13.5% | 25.8% |
| Return On Average Assets | 12.8% | 10.7% | 9.1% | 12.6% | 23.6% |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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