

India

ADD (no change)

| | | | |
|------------------------------|----------|--------|--------|
| Consensus ratings*: | Buy 2 | Hold 0 | Sell 0 |
| Current price: | Rs268 | | |
| Target price: | Rs385 | | |
| Previous target: | Rs717 | | |
| Up/downside: | 43.7% | | |
| InCred Research / Consensus: | -30.4% | | |
| Reuters: | APEX.NS | | |
| Bloomberg: | APEX IN | | |
| Market cap: | US\$102m | | |
| | Rs8,364m | | |
| Average daily turnover: | US\$0.4m | | |
| | Rs29.2m | | |
| Current shares o/s: | 31.3m | | |
| Free float: | 27.4% | | |
| *Source: Bloomberg | | | |

Key changes in this note

- Revise our PAT estimates by -28.8% / -35.6% for FY23F/24F.
- Cut our P/E multiple to 15x from 18x.
- Cut our target price to Rs385 from Rs717.



| | | | |
|--------------------------|--------|--------|-------|
| Price performance | 1M | 3M | 12M |
| Absolute (%) | (12.9) | (19.4) | (1.5) |
| Relative (%) | (16.1) | (23.8) | (9.7) |

| | |
|---------------------------|--------|
| 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

Ecuador tries to grab the market from India

- Ecuador's shrimp industry increases supply over demand, thereby pulling down prices.
- Andhra Pradesh government withdraws subsidy on electricity supply for the aquaculture industry and starts interfering in the industry's working.
- Retain ADD rating on Apex Frozen Foods (AFFL) with a sharply lower target price of Rs385 (Rs717 earlier) or 15x FY24F EPS (18x FY24F EPS earlier).

What went wrong?

The thesis of a strong environment for shrimp demand is weakening. Shrimp processing companies can sail through with lower sales and might even adopt the Vietnamese model.

Why did it happen?

Major players in the shrimp business are importers like China and USA and exporters such as India and Ecuador. China is in a Covid-19-related lockdown, but its demand for shrimp on a YoY basis is much higher, as seen in Fig.1. USA is holding fort with steady demand, as seen in Fig.2. India has steadily upped its game, as seen in Fig.3. However, a confident Ecuador with its secret sauce pumped up shrimp exports beyond market limits, as seen in Fig.4, pulling down shrimp prices lower. India tackled this via an intensive shrimp culture which requires electricity to be made available at a negligible cost. However, Andhra Pradesh (AP) government changed its power policy suddenly and the entire profit margin of shrimp farmers got wiped out. When the farmers began to protest, the blame game started. The state government brought in price controls over the main components of the shrimp business, such as the feed and the seed.

The way forward

With shrimp prices pushed lower by Ecuador, Indian farmers are planning a crop holiday to bring back the favourable demand-supply equilibrium. No crop means no feed sales, no seed sales, and a lower stock of raw material in the country for processing. However, the biggest drawback is the prisoner's dilemma at play. Indian farmers have planned a crop holiday, but Ecuador's farmers see an opportunity to grab market share from India. A more dangerous trend is Indian processors importing shrimp (which has already started) from Ecuador. Indian processors will ride the tide by adopting the Vietnamese model of processing imported shrimp and then exporting them if things worsen on the supply side, which we feel is likely, at least in the rest of FY23F.

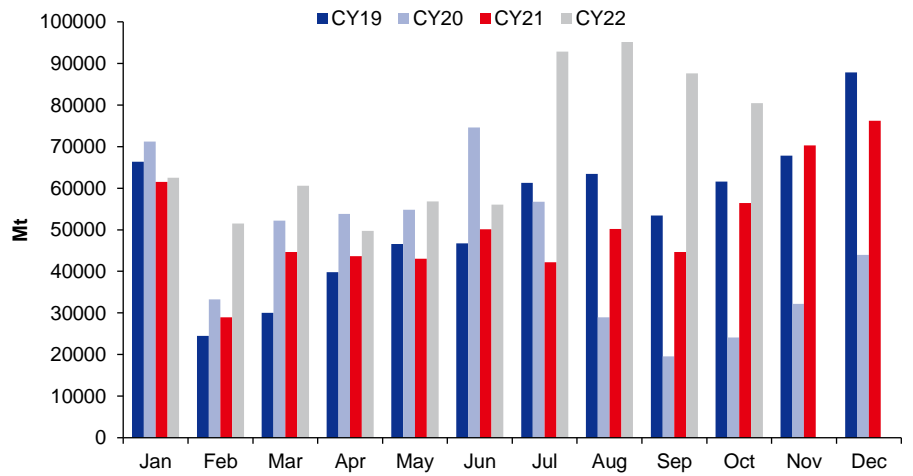
Retain ADD rating with lower target price of Rs385

We revise our PAT estimates for AFFL by -28.8% / -35.6% for FY23F/24F, respectively, based on the events post 2QFY23 results and notably, high probability of a crop holiday and oversupply of shrimp from Ecuador. Retain ADD rating on AFFL with a sharply lower target price of Rs385 (Rs717 earlier) or 15x FY24F EPS (18x FY24F EPS earlier). Downside risks: Any drop in the demand for shrimp & shrimp products, hindrance in shrimp supply in the domestic market, and any trade barriers imposed on India or AFFL's products.

| Financial Summary | Mar-20A | Mar-21A | Mar-22A | Mar-23F | Mar-24F |
|-----------------------------------|----------------|----------------|----------------|----------------|----------------|
| Revenue (Rsm) | 8,271 | 8,185 | 9,142 | 10,136 | 11,098 |
| Operating EBITDA (Rsm) | 870 | 909 | 793 | 591 | 1,272 |
| Net Profit (Rsm) | 607 | 394 | 411 | 448 | 802 |
| Core EPS (Rs) | 19.4 | 12.6 | 13.1 | 14.4 | 25.7 |
| Core EPS Growth | (0.2%) | (35.1%) | 4.4% | 9.1% | 78.8% |
| FD Core P/E (x) | 13.79 | 21.25 | 20.36 | 18.65 | 10.43 |
| DPS (Rs) | 2.0 | 1.8 | 2.6 | 1.4 | 2.6 |
| Dividend Yield | 0.75% | 0.66% | 0.98% | 0.54% | 0.96% |
| EV/EBITDA (x) | 11.23 | 10.92 | 12.53 | 15.38 | 6.68 |
| P/FCFE (x) | 35.63 | 22.86 | 42.46 | 14.66 | 28.90 |
| Net Gearing | 35.5% | 35.5% | 33.2% | 14.2% | 2.2% |
| P/BV (x) | 2.11 | 1.90 | 1.76 | 1.62 | 1.42 |
| ROE | 16.2% | 9.4% | 9.0% | 9.0% | 14.5% |
| % Change In Core EPS Estimates | | | | | |
| InCred Research/Consensus EPS (x) | | | | | |

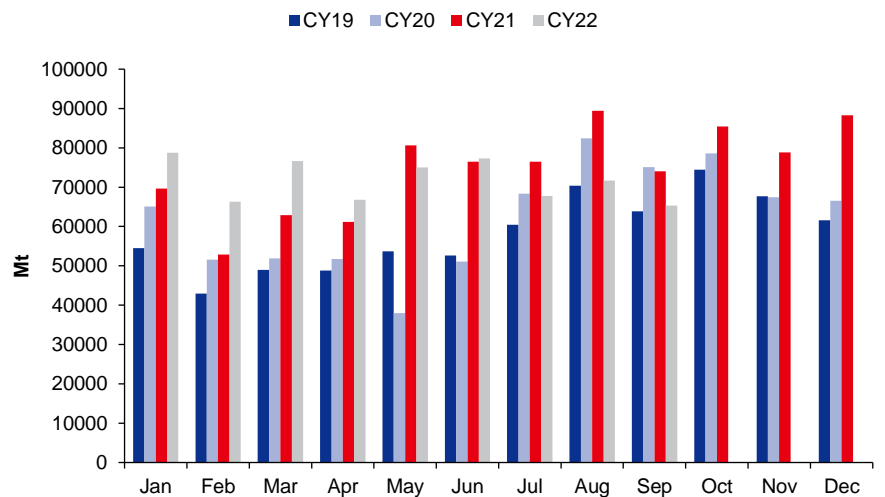
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: China's shrimp imports



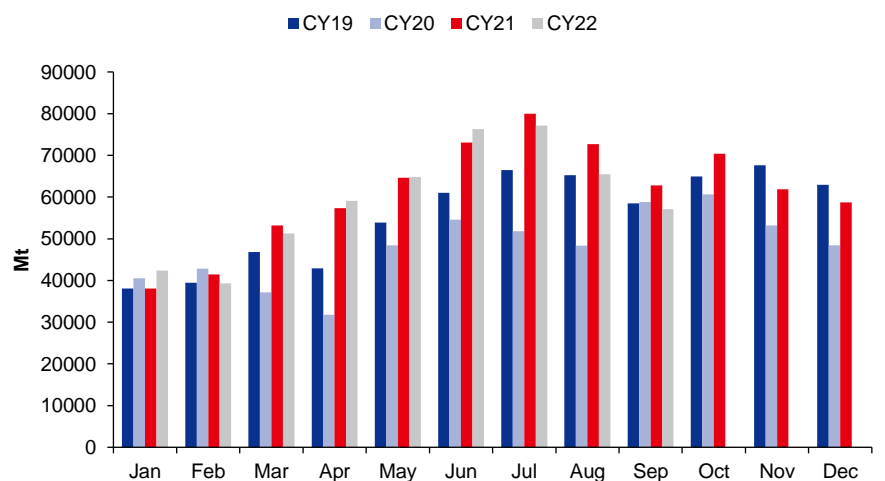
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: USA's shrimp imports



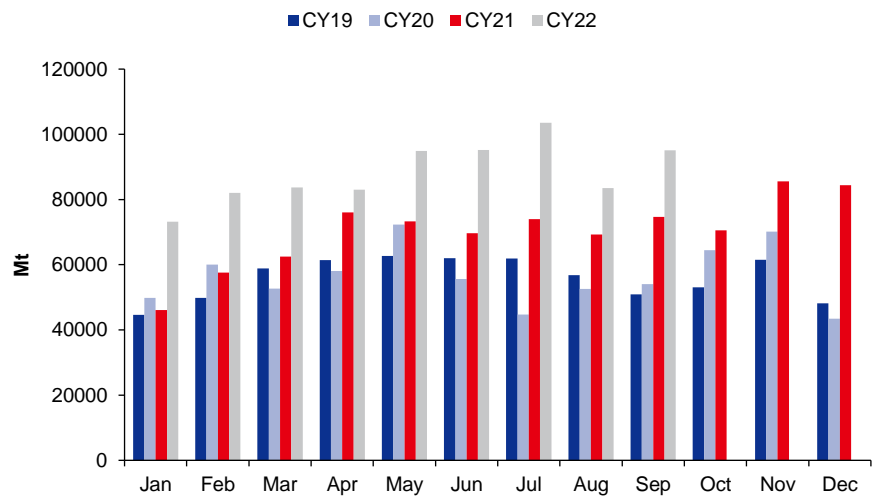
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: India's shrimp exports



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Ecuador's shrimp exports



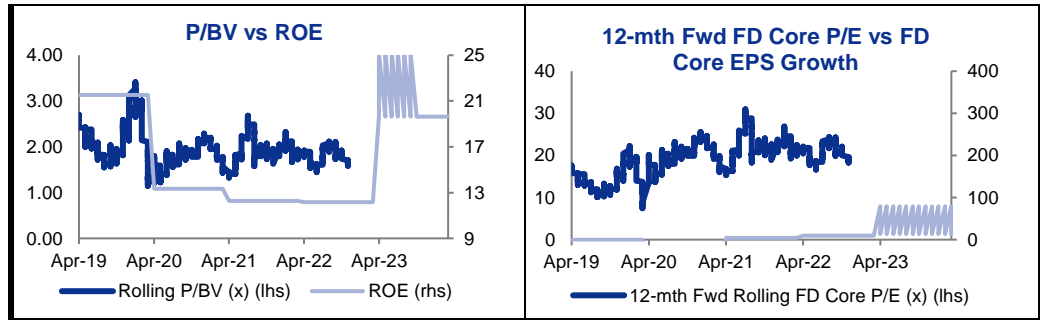
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

| Rs m | Old estimates | | New estimates | | Change (%) | |
|-------------------|---------------|--------|---------------|--------|------------|--------|
| | FY23F | FY24F | FY23F | FY24F | FY23F | FY24F |
| Revenue | 11,088 | 13,731 | 10,136 | 11,098 | -8.6% | -19.2% |
| EBITDA | 824 | 1,846 | 591 | 1,272 | -28.2% | -31.1% |
| EBITDA Margin (%) | 7.4% | 13.4% | 5.8% | 11.5% | -160bp | -198bp |
| PAT | 630 | 1,246 | 448 | 802 | -28.8% | -35.6% |
| EPS (Rs) | 20 | 40 | 14 | 26 | -28.8% | -35.6% |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

| (Rs m) | Mar-20A | Mar-21A | Mar-22A | Mar-23F | Mar-24F |
|---|--------------|--------------|--------------|---------------|---------------|
| Total Net Revenue | 8,271 | 8,185 | 9,142 | 10,136 | 11,098 |
| Gross Profit | 2,535 | 2,654 | 2,992 | 2,994 | 3,329 |
| Operating EBITDA | 870 | 909 | 793 | 591 | 1,272 |
| Depreciation And Amortisation | (146) | (220) | (185) | (215) | (192) |
| Operating EBIT | 724 | 690 | 608 | 376 | 1,081 |
| Financial Income/(Expense) | 84 | (133) | (46) | 227 | 3 |
| Pretax Income/(Loss) from Assoc. | | | | | |
| Non-Operating Income/(Expense) | | | | | |
| Profit Before Tax (pre-EI) | 808 | 557 | 562 | 603 | 1,083 |
| Exceptional Items | | | | | |
| Pre-tax Profit | 808 | 557 | 562 | 603 | 1,083 |
| Taxation | (201) | (163) | (151) | (155) | (282) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 607 | 394 | 411 | 448 | 802 |
| Minority Interests | | | | | |
| Preferred Dividends | | | | | |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | | | | | |
| Net Profit | 607 | 394 | 411 | 448 | 802 |
| Recurring Net Profit | 607 | 394 | 411 | 448 | 802 |
| Fully Diluted Recurring Net Profit | 607 | 394 | 411 | 448 | 802 |

Cash Flow

| (Rs m) | Mar-20A | Mar-21A | Mar-22A | Mar-23F | Mar-24F |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|
| EBITDA | 870 | 909 | 793 | 591 | 1,272 |
| Cash Flow from Invt. & Assoc. | | | | | |
| Change In Working Capital | (455) | (546) | (471) | 950 | (262) |
| (Incr)/Decr in Total Provisions | | | | | |
| Other Non-Cash (Income)/Expense | | | | | |
| Other Operating Cashflow | | | | | |
| Net Interest (Paid)/Received | 190 | 26 | 128 | 408 | 111 |
| Tax Paid | (163) | (81) | (116) | (155) | (282) |
| Cashflow From Operations | 441 | 309 | 334 | 1,794 | 839 |
| 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) | | | (45) | (80) |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | (94) | (146) | (174) | (180) | (108) |
| Cash Flow From Financing | 9 | 36 | (205) | (725) | (688) |
| Total Cash Generated | 66 | 220 | 23 | 346 | 101 |
| Free Cashflow To Equity | 235 | 366 | 197 | 571 | 289 |
| Free Cashflow To Firm | 56 | 184 | 228 | 1,071 | 789 |

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

| Balance Sheet | | | | | |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| (Rs m) | Mar-20A | Mar-21A | Mar-22A | Mar-23F | Mar-24F |
| Total Cash And Equivalents | 72 | 99 | 74 | 420 | 521 |
| Total Debtors | 791 | 1,546 | 1,372 | 1,389 | 1,520 |
| Inventories | 1,840 | 1,612 | 2,028 | 1,111 | 1,216 |
| Total Other Current Assets | 698 | 603 | 700 | 776 | 849 |
| Total Current Assets | 3,402 | 3,860 | 4,175 | 3,695 | 4,107 |
| Fixed Assets | 2,802 | 2,504 | 2,360 | 3,114 | 2,972 |
| Total Investments | | | | | |
| Intangible Assets | | | | | |
| Total Other Non-Current Assets | 62 | 204 | 258 | 13 | 13 |
| Total Non-current Assets | 2,864 | 2,708 | 2,619 | 3,127 | 2,985 |
| Short-term Debt | 1,197 | 1,380 | 1,361 | 861 | 361 |
| Current Portion of Long-Term Debt | 40 | | | | |
| Total Creditors | 603 | 374 | 251 | 361 | 395 |
| Other Current Liabilities | | | | | |
| Total Current Liabilities | 1,841 | 1,754 | 1,611 | 1,222 | 756 |
| 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 | 152 | 166 |
| Total Liabilities | 2,307 | 2,170 | 2,039 | 1,664 | 1,213 |
| Shareholders' Equity | 3,959 | 4,398 | 4,754 | 5,158 | 5,879 |
| Minority Interests | | | | | |
| Total Equity | 3,959 | 4,398 | 4,754 | 5,158 | 5,879 |

| Key Ratios | | | | | |
|---------------------------|----------------|----------------|----------------|----------------|----------------|
| | Mar-20A | Mar-21A | Mar-22A | Mar-23F | Mar-24F |
| Revenue Growth | (5.4%) | (1.0%) | 11.7% | 10.9% | 9.5% |
| Operating EBITDA Growth | (2.9%) | 4.6% | (12.8%) | (25.4%) | 115.2% |
| Operating EBITDA Margin | 10.5% | 11.1% | 8.7% | 5.8% | 11.5% |
| Net Cash Per Share (Rs) | (45.01) | (49.98) | (50.48) | (23.42) | (4.19) |
| BVPS (Rs) | 126.69 | 140.74 | 152.14 | 165.05 | 188.14 |
| Gross Interest Cover | 6.83 | 4.33 | 3.50 | 2.09 | 9.98 |
| Effective Tax Rate | 24.9% | 29.3% | 26.9% | 25.7% | 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 | 49.71 | 47.83 |
| Inventory Days | 92.38 | 113.92 | 108.03 | 80.22 | 54.67 |
| Accounts Payables Days | 29.22 | 32.25 | 18.54 | 15.63 | 17.77 |
| ROIC (%) | 15.4% | 12.3% | 10.0% | 5.8% | 17.9% |
| ROCE (%) | 14.4% | 12.0% | 9.8% | 5.9% | 16.8% |
| Return On Average Assets | 12.8% | 10.7% | 9.1% | 5.5% | 15.5% |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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