17th November, 2021
Q2FY22 RESULT UPDATE

Retail Equity Research (South India Focus)

Apex Frozen Foods Ltd

Aquaculture

BSE CODE: 540692 | NSE CODE: APEX
Bloomberg CODE: APEX:IN | SENSEX: 60,322

BUY

12Month Investment period | Rating as per Small Cap

CMP Rs. 286 | TARGET Rs. 355 | RETURN 24%
(Closing: 16-11-21)

KEY CHANGES: TARGET ↑ | RATING ↔ | EARNINGS ↓

Profitability recovers, aided by growth in realisation

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

- **We maintain Buy rating with a revised Target of Rs.355, factoring recovery in profitability, improving outlook and attractive valuation.**
- **Q2FY22 revenue grew by 2%YoY (+20%QoQ) supported by improvement in shrimp export prices. Volumes de-grew by 3.5% YoY due to current issues in sea transport but grew by 9%QoQ.**
- **EBITDA de-grew by 14%YoY and EBITDA margin declined by 250bps YoY to 13.7% due to higher export expenses and drop in export incentive but grew by 970bps QoQ from 4.1%.**
- **Margin impact is temporary and likely to recover when the container shortage issue gets normalized and will improve further with higher contribution from the ready-to-eat products.**
- **Industry outlook has improved given the re-opening of restaurants in export markets along with stable demand from retail customers and strong shrimp export prices.**
- **Currently, the stock trades at 11x 1Yr Fwd P/E (3Yr Avg=16x). We value the stock at 11X FY23E EPS, factoring the current logistic issues.**

Current marine logistic issues impacted volumes

Q2FY22 revenue grew by 2% YoY (+20%QoQ) despite current sea transport issues aided by improvement in realisation (~6%YoY). Volumes de-grew by 3.5%YoY partially impacted by the non-availability of shipping containers which we believe is temporary. In export markets, demand is picking up with re-opening of restaurants & Caterings segments which had seen a sharp contraction during lockdown period. Export prices have also improved supported by better demand, better product mix and partially compensate for higher freight charge. Ramp-up in the newly added capacity along with higher contribution of value-added products will support future growth. We expect revenue growth of 24% CAGR over FY21-23E.

Margin recovers sequentially despite higher freight costs

EBITDA margin improved sequentially by 970bps to 13.7% on higher realisation but declined by 250bps YoY on account of higher shipping freight rates due to shortage of containers and drop in export incentive. We believe the shortage issue is temporary and stabilize in the coming quarters which will normalise margin as well as volumes. The company will continue to benefit from the backward integration (Hatchery) and from the discontinuation of the leased plants due to addition of own capacity (by 20,000MT). Hatchery sales were at Rs.3cr in the quarter. The shrimp export prices improved strongly supported by recent pick-up in demand, improved product mix (21% in Q2FY22 Vs 15% in FY21) and partially compensate for higher freight cost. Ramp up in ready-to-eat products (5,000MT out of 20,000MT new capacity is ready-to-eat) and receipt of export incentive under new scheme (RoDTEP) will improve margin going forward.

Valuation & Outlook

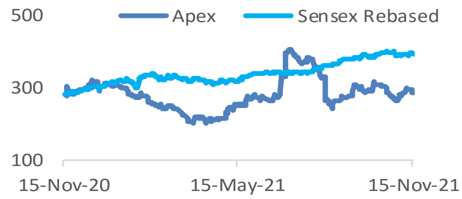
We believe the current issue of shortage in shipping containers is temporary and industry outlook has improved given the re-opening of restaurants & caterings in export markets along with strong shrmp export prices. Apex currently trades at 11x 1Yr Fwd P/E (3Yr Avg=16x). We value at 11x on FY23E EPS considering current uncertain situation in the short-term, arrived at a revised Target of Rs.355, and maintain Buy rating.

Company Data	
Market Cap (Rs.cr)	891
Enterprise Value (Rs.cr)	1049
Outstanding Shares (cr)	3.1
Free Float	27%
Dividend Yield	0.7%
52 week high Rs.	435
52 week low Rs.	200
6m average volume (cr)	0.03
Beta	1.2
Face value Rs.	10

Shareholding %	Q4FY21	Q1FY22	Q2FY22
Promoters	72.6	72.6	72.6
FII's	0.1	0.0	0.1
MFs/Insti	5.9	5.7	7.5
Public	17.7	16.6	17.5
Others	4.0	5.1	2.0
Total	100	100	100
Promotor pledge	NIL	NIL	NIL

Price Performance	3 Month	6 Month	1 Year
Absolute Return	8.3%	11.0%	0.4%
Absolute Sensex	8.4%	21.7%	38.2%
Relative Return*	-0.1%	-10.7%	-37.9%

*over or under performance to benchmark index



Standalone (cr)	FY21	FY22E	FY23E
Sales	818	929	1,310
Growth (%)	-1.0	13.5	40.9
EBITDA	91	91	152
EBITDA Margin (%)	11.1	9.8	11.6
Adj. PAT	44	46	101
Growth (%)	-27.0	3.2	120.8
Adj. EPS	14.2	14.6	32.3
Growth (%)	-27.0	3.2	120.8
P/E	20.1	19.5	8.8
P/B	2.0	1.9	1.6
EV/EBITDA	11.5	11.1	6.3
ROE (%)	10.6	10.0	19.2
D/E	0.4	0.4	0.2

Vincent Andrews
Research Analyst

Quarterly Financials (Standalone)

Profit & Loss

Rs cr)	Q2FY22	Q2FY21	YoY Growth (%)	Q1FY22	QoQ Growth (%)	H1FY22	H1FY21	YoY Growth (%)
Sales	**267**	**262**	**1.9**	**223**	**19.9**	**490**	**480**	**2.0**
EBITDA	**37**	**43**	**-13.9**	**9**	**304.3**	**46**	**61**	**-25.3**
EBITDA margins %	13.7	16.2	(250bps)	4.1	970bps	9.3	12.7	100bps
Depreciation	5	7	-30.2	5	1.8	9	12	.
EBIT	**32**	**36**	**-10.9**	**4**	**614.5**	**36**	**49**	**-25.4**
Interest	5	4	43.7	4	14.3	10	8	26.8
Other Income	3	2	78.2	5	-40.7	7	4	78.1
Exceptional Items	0	0	0.0	0	0.0	0	0	0.0
PBT	**30**	**34**	**-12.5**	**5**	**530.3**	**34**	**46**	**-24.5**
Tax	8	9	-12.2	1	441.8	9	12	-23.7
Share of profit from associates	0	0	NA	0	NA	0	0	0.0
Minority interest	0	0	NA	0	NA	0	0	0.0
Reported PAT	22	25	-12.6	3	568.3	25	34	-24.8
Adjustments	0	0	0.0	0	0.0	0	0	0.0
Adj PAT	**22**	**25**	**-12.6**	**3**	**568.3**	**25**	**34**	**-24.8**
No. of Shares	3	3	0.0	3	0.0	3	3	0.0
Adj EPS (Rs)	**7.0**	**8.1**	**-12.6**	**1.1**	**568.3**	**8.1**	**10.8**	**-24.8**

Per Kg Analysis

	Q2FY22	Q2FY21	YoY Growth (%)	Q1FY22	QoQ Growth (%)
Cement Volume (MT)	**3542**	**3671**	**-3.5**	**3262**	**8.6**
Cost of materials consumed	479	474	1.1	475	0.9
Employee Expenses	28	32	-12.6	36	-22.4
Other expenses	143	92	55.4	144	-0.4
Total expenses	651	598	8.7	655	-0.7
Realisation (inc. RMC)	754	714	5.6	683	10.4
EBITDA	103	116	-10.8	28	272.4

Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs cr	**FY22E**	**FY23E**	**FY22E**	**FY23E**	**FY22E**	**FY23E**
Revenue	*991*	*1,441*	*929*	*1,310*	*-6*	*-9*
EBITDA	*97*	*158*	*91*	*152*	*-6*	*-4*
Margins (%)	*9.8*	*11*	*9.8*	*11.6*	*70bps*	*140bps*
Adj. PAT *	*56*	*108*	*46*	*101*	*-18*	*-7*
EPS	*17.9*	*35*	*14.6*	*32.3*	*-18.3*	*-6.7*

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PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	**875**	**827**	**818**	**929**	**1,310**
% change	-12.4	-5.4	-1.0	13.5	40.9
EBITDA	**90**	**87**	**91**	**91**	**152**
% change	-18.6	-2.9	4.5	0.3	66.7
Depreciation	11	15	22	20	21
EBIT	**79**	**72**	**69**	**71**	**131**
Interest	7	11	16	20	17
Other Income	21	19	8	12	24
PBT	**94**	**81**	**61**	**63**	**137**
% change	-16.8	-13.8	-24.9	4.2	117.8
Tax	32.9	20.1	16.3	17.4	36.6
Tax Rate (%)	35.10	24.91	26.92	27.60	26.60
Reported PAT	60.8	60.6	44.3	45.7	100.9
Adj*	**0**	**0**	**0**	**0**	**0**
Adj PAT	60.8	60.6	44.3	45.7	100.9
% change	-23.2	-0.2	-27.0	3.2	120.8
No. of shares (cr)	3.1	3.1	3.1	3.1	3.1
Adj EPS (Rs.)	**19**	**19**	**14**	**15**	**32**
% change	-23.2	-0.2	-27.0	3.2	120.8
DPS (Rs.)	**2**	**2**	**2**	**2**	**2**
CEPS (Rs.)	22.9	24.1	21.2	21.0	38.9

BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	7	7	10	55	51
Accounts Receivable	94	79	155	153	144
Inventories	106	184	161	169	216
Other Cur. Assets	58	65	60	59	76
Investments	0	0	0	0	0
Gross Fixed Assets	153	333	325	340	350
Net Fixed Assets	115	280	250	245	235
CWIP	116	3	15	10	10
Intangible Assets	0	0	0	0	0
Def. Tax (Net)	0	0	0	0	0
Other Assets	11	5	3	4	8
Total Assets	**507**	**623**	**654**	**695**	**739**
Current Liabilities	49	72	51	47	53
Provisions	0	0	0	0	0
Debt Funds	103	159	166	171	116
Other Liabilities	-1	-3	-2	-2	-2
Equity Capital	31	31	31	31	31
Reserves & Surplus	324	365	409	447	541
Shareholder's Fund	355	396	440	478	572
Total Liabilities	**507**	**623**	**654**	**695**	**739**
BVPS (Rs.)	**114**	**127**	**141**	**153**	**183**

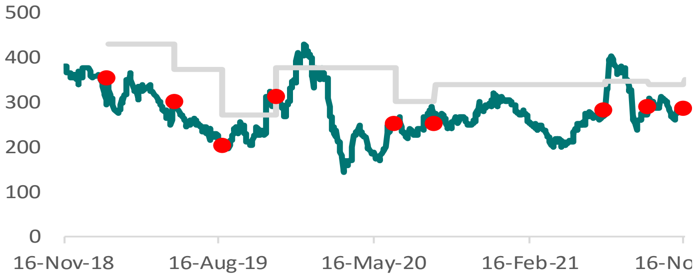
CASH FLOW

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY22E
Net inc. + Depn.	**72**	**75**	**66**	**66**	**122**
Non-cash adj.	0	-1	-5	0	0
Other adjustments	7	9	14	20	17
Changes in W.C	-32	-46	-57	-9	-53
C.F. Operation	**46**	**45**	**13**	**77**	**86**
Capital exp.	-110	-45	-15	-10	-10
Change in inv.	0	1	1	0	0
Other invest.CF	0	0	0	0	0
C.F - Investment	**-110**	**-44**	**-14**	**-10**	**-10**
Issue of equity	0	0	0	0	0
Issue/repay debt	13	13	4	-15	-72
Dividends paid	-7	-8	0	-7	-7
Other finance.CF	0	0	0	0	0
C.F - Finance	**6**	**-1**	**4**	**-23**	**-80**
Chg. in cash	-58	1	3	45	-4
Closing cash	7	7	10	55	51

RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY22E
Profitab. & Return					
EBITDA margin (%)	10.2	10.5	11.1	9.8	11.6
EBIT margin (%)	9.0	8.8	8.4	7.7	10.0
Net profit mgn.(%)	6.9	7.3	5.4	4.9	7.7
ROE (%)	18.5	16.1	10.6	10.0	19.2
ROCE (%)	10.3	10.5	7.5	7.6	13.0
W.C & Liquidity					
Receivables (days)	33.6	38.1	52.1	60.4	41.3
Inventory (days)	43.4	64.1	77.0	64.8	53.6
Payables (days)	18.2	24.4	24.8	17.9	13.4
Current ratio (x)	1.8	1.6	2.0	2.2	3.2
Quick ratio (x)	0.7	0.4	0.9	1.1	1.3
Turnover & Leverage					
Gross asset T.O (x)	6.0	3.4	2.5	2.8	3.8
Total asset T.O (x)	1.9	1.5	1.3	1.4	1.8
Int. coverage ratio (x)	12.0	6.8	4.3	3.5	7.5
Adj. debt/equity (x)	0.3	0.4	0.4	0.4	0.2
Valuation					
EV/Sales (x)	1.1	1.3	1.3	1.1	0.7
EV/EBITDA (x)	11.1	12.0	11.5	11.1	6.3
P/E (x)	14.7	14.7	20.1	19.5	8.8
P/BV (x)	2.5	2.2	2.0	1.9	1.6

Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research

Dates	Rating	Target
22-Aug-19	Buy	272
25-Nov-19	Buy	380
23-Jun-20	Buy	305
2-Sep-20	Buy	340
30-Jun-21	Buy	350
13-Sept-21	Buy	340
17-Nov-21	Buy	355

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.
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