

APM INDUSTRIES

TEXTILE TO THE FORE



Retail Desk

22 January 2013

Rating	Buy		
CMP (₹)	18.8		
Target Price (₹)	28.0		
Upside (%)	50.0		
Key Data			
BSE Code	523537		
NSE Code	-		
Reuters code	APMI.BO		
Bloomberg Code	APM IN		
Sensex	20101		
Face Value (₹)	2		
Mcap (₹ Cr.)	40.4		
52 week H/L (₹)	20.40/9.50		
2 Wk Avg Qty	9024		
Share holding, September '12	Holding %		
Promoters	63.1		
NRI	0.5		
Corporates	2.6		
Public	33.8		
Performance (%)	3M	6M	12M
Stock (APM)	18.0	88.1	55.1
BSE 200	7.4	17.6	22.5
BSE 500	7.1	19.0	22.4

Company Description:

Incorporated in 1974, APM Industries (APMIL), is engaged in the manufacture of synthetic blended yarn at its unit at Bhiwadi (Alwar district), Rajasthan, under the Orient Syntex brand name. APMIL has a captive power plant of 5 MW. APMIL has capacity of 50, 336 spindles.

Promoters:

APMIL is promoted by the Rajgarhia group (Orient Abrasive fame).

Group Company:

The other strong listed company of the group is Orient Abrasives (OAL) (Now split into Orient Abrasives and Orient Refractories) has a strong track record of earnings/financial and rewarding shareholders with bonus shares. OAL had to its credit, the history of 3 bonus shares all in 1:1 ratio.

Business:

It is mainly engaged in manufacturing and marketing of synthetic and blended yarn like polyester/viscose, acrylic yarn etc. It sells its yarn under the brand 'Orient Syntex'. APM's manufacturing facility is located at Bhiwadi in Alwar district of Rajasthan with its head office in Kolkata and corporate office in Delhi. Thus it has presence in North, West and the East.

Captive Power Plant:

APM has a captive power plant of around 5 MW but due to the rise in fuel oil price it alternatively buys power from Rajasthan State Electricity Board.

Q2FY13 & H1FY13 Results:

During Q2FY13, net profit shot up by 51 per cent to ₹6.2 crore on 6 per cent increased sales of ₹88 crore. EPS for Q2FY13 is ₹2.9 as against ₹1.9 in Q2FY12. OPM & NPM stood at 9.8% and 7.0% Vs 10.8% & 4.9% respectively (YoY).

During H1FY13, sales rose marginally 3.5 per cent to ₹148 crore and net profit by 13 per cent to ₹9.4 crore. OPM & NPM stood at 12.3% and 6.4% Vs 12.8% & 5.8% respectively H1FY12. EPS for H1FY13 works out to ₹4.4.

During FY12, sales rose by 5 per cent to ₹253.7 crore and net profit fell 9 per cent to ₹12.6 crore. FY12 EPS worked out to ₹5.9. A dividend of 30% was paid.

Price Chart: (One-Year)**Key Financial:**

(₹ crore)

Year-March	H1FY13A	H1FY12A	FY11A	FY12A	FY13E	FY14E
Sales	147.6	143.2	241.4	253.7	275.0	318.0
PBIDT	18.2	18.3	32.3	29.2	33.6	38.8
Interest	1.8	3.5	5.9	5.1	3.8	4.0
PBDT	16.4	14.8	26.6	24.1	29.8	34.8
Depreciation	2.3	2.3	4.7	4.6	4.6	4.9
PBT	14.1	12.5	21.9	19.5	25.2	29.9
Tax	4.7	4.2	8.1	6.9	8.0	9.5
PAT	9.4	8.3	13.8	12.6	17.2	20.4
Equity			4.3	4.3	4.3	4.3
Reserves			52.4	63.5	80.7	101.1
Book Value (₹)			26.3	31.5	39.5	49.0
EPS (₹)	4.4	3.9	6.4	5.9	8.0	9.5
OP Margin (%)	12.3	12.8	13.4	11.5	12.2	12.2
NP Margin (%)	6.4	5.8	5.7	5.0	6.3	6.4
P/E				3.2	2.4	2.0

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Expansion & Modernisation

APMIL continues to modernize its Plant and Machinery and add some balancing equipment. This would enable the company to widen its product range and improve the quality of its products.

As far as modernization is concerned, APM continues to modernize its plant and machinery under Technology Upgradation Fund Scheme (TUFS) at substantially lower rate of interest.

APM's modernization cum expansion programme from time to time to time has resulted in the increased capacity of 50, 336 form from 37,952 spindles in the last 4-5 years.

Financial

Equity capital is ₹ 4.3 cr. With reserves of ₹ 63.5 crore, the book value of the share works out to ₹ 31.5.

The value of the gross block is enormous ₹ 56 crore. (Previous year ₹ 52.4 crore).

APMIL has reduced its interest burden by 49 per cent to ₹ 1.8 crore in H1FY13 by reducing its borrowings from ₹ 34.5 crore to ₹ 19.6 crore as at H1FY13.

The debt equity ratio of 0.5:1 as at FY12 has eased to 0.25:1 as at H1FY13.

Prospects

Coming to prospects, Indian textile industry contributes about 11 per cent to industrial production, 4 per cent to the country's GDP and 16.6 per cent to export earnings.

Nearly 40 per cent of the textiles produced in the country are exported.

India's US\$ 70 billion Textile and Apparel industry has the potential to grow @11% CAGR to reach US\$ 220 Billion by 2020 according to a research report by Technopak Advisors, a leading management consultancy.

The global textile and apparel trade of US \$510 billion market in 2009 is expected to touch US \$800 billion by 2015 and \$1 trillion in 2020.

The report said that India has the potential to increase its export share in world trade from the current 4.5 per cent to 8 per cent to reach \$80 billion by 2020.

Investments to the tune of ₹ 3.10 lakh crore (\$57 billion) across the textile supply chain will be required by 2020 to tap the potential market created due to the growth of the industry and the investment required in the garment sector by 2020 is \$14 billion and for processing sector \$19 billion.

Opportunity

There is a growing demand for yarn, fabrics and ready-made garments in the global market.

Major textile business houses in the western countries are shifting their business to Asian countries in order to reduce the cost of production.

India is a preferred country for Europe and America for outsourcing their textile requirements.

Outlook

APMIL has developed new products for exporters of yarn, fabrics, furnishings and readymade garments, keeping in touch with latest trend of fabrics & ready made garment exports.

APM has also developed new varieties of yarn for direct export to various countries as well as for domestic markets.

APM is in dyed yarns, it is likely to face less competition from the low cost mass producers, who are producing mostly grey yarns.

APMIL continues to modernize its plant and machinery under Technology Upgradation Fund Scheme (TUFS). It proposes to install some balancing equipments which would help manufacture more value added products.



Valuation & Recommendation

APMIL does not face major problem on raw material front as it uses Polyester Staple Fibres, Acrylic Fibres and Viscose Staple Fibres as its main raw materials.

The prices of PTA, raw materials for above fibres in international markets have stabilised after falling. Yarn prices have also declined globally. This helps APMIL in saving raw material costs.

The cotton fibre prices have stabilized at higher levels. This will help the man-made fibre industry by way of higher demand and better realization.

The textile industry is making a strong case to the government to reduce the excise duty on fibres from 12% to 8% prices in order to enhance the country's exports going forward.

At the current market price of ₹18.80, the share is traded at a P/E of 2.4 on FY13 earnings and 2.2 on FY14 earnings. We recommend BUY with a target price of ₹28.0 at which the share will trade at a P/E of 3.0 on FY14E.

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