

SECTOR UPDATE

Chemicals – 2Q Review, Sector Outlook & Top Picks

Overall volume growth remains subdued;
medium-term growth story still remains
intact...

02 December 2019



Ranjit Cirumalla
Research Analyst
ranjit.cirumalla@bksec.com
+91-22-40317127

Parth Adhiya
Research Analyst
parth.adhiya@bksec.com
+91-22-40317167

Sanket Kabra
Research Analyst
sanket.kabra@bksec.com
+91-22-40317130

Overall volume growth remains subdued; medium-term growth story still remains intact...

The 2Q'20 earnings season turned out to be mixed for overall chemical companies with aggregate sales and EBITDA declining by 1.2% and 3.9% YoY, respectively, while PAT grew by 13.6% YoY as some of the companies adopted new tax rate. Sales decline was on account of correction in the crude oil prices by 17.5% YoY and 9.6% QoQ and subdued demand in chemicals having exposure to automobile and agrochemicals segment, while sluggishness in profitability was partly on account of inventory loss owing to correction in product prices and subdued demand.

From our **active coverage** universe, **Clariant Chemicals (India), Navin Fluorine International and Sudarshan Chemical Industries** reported strong profitability by posting YoY EBITDA growth of 135.4%, 33.7% and 18.7%, respectively. **SRF** continued to deliver strong performance in specialty chemicals business driven by strong exports. The chemicals segment (Refrigerants + Specialty chemicals) reported growth of 25.1% YoY to Rs 6.78 bn while EBIT grew by 107.8% YoY Rs 1.30 bn. Refrigerant witnessed growth of low single digit thereby indicating a very strong growth in specialty chemicals business. EBIT margins expansion of 770 bps YoY to 19.3% underlines this. **Atul** demonstrated its ability to shield most of the 1Q'20 gains into 2Q'20 and reported healthy EBITDA margins of 21.5%. **Aarti Industries'** revenues were impacted by falling realisations, while EBITDA remained subdued due to tepid volume growth. However, while the absolute EBITDA was under pressure, the margins expanded on account of changing product mix with contribution from value-added down-stream products going up to 75.0% from 72.0%. **Gujarat Fluorochemicals** registered weak performance owing to headwinds faced in PTFE segment on account of slowdown in the automobile segment and US-China Trade war impacting realisations. This coupled with declining caustic soda realisations dented EBITDA (down 34.7% QoQ). **BASF India's** performance continued to be subdued despite strong sales growth of 23.9% as profitability across segments remained under pressure.

In the **passive coverage universe**, the performance of companies operating in Chlor-Alkali segment was impacted by declining caustic soda realisation (rising imports) as well as high base. The impact was largest in **Gujarat Alkalies and Chemicals** and **DCM Shriram**.

Soda ash market continued to be balanced as **Tata Chemicals'** basic chemistry (62% of revenues) segment reporting subdued sales growth (muted domestic and Europe sales). Higher realisations in North American and Magadi coupled with declining energy costs resulted into EBIT margin expansion of 360 bps YoY.

Pigments and Dyes companies' performance was impacted by falling realisation as well as demand slowdown. **Bodal Chemicals'** revenues were impacted by declining product prices (on account of excess supply) as well as slowdown in the demand. **Meghmani Organics** reported decent revenue growth across segments led by volume growth while profitability remained under pressure across segments hit by falling realisations.

Deepak Nitrite reported strong set of numbers led by Performance Products segment (which was driven by higher DASDA realisation) and revenues from Phenolics. Performance was subdued on a sequential basis on account of maintenance shut down at the Phenol plant.

Companies operating in **Amines** chemistry reported subdued sales growth on account of poor realisations while PAT growth was supported by lower tax rate.

The performance of **Rubber chemicals** manufacturing companies' viz. **Apcotex Industries, NOCIL** and **Phillips Carbon Black** got impacted due to slowdown in the auto sector.

Among the specialty chemical companies, **Galaxy Surfactants** and **Fine Organic and Industries** reported margin expansion on account of richer product mix and benign raw material prices. Both also got benefited by lower tax rate. **Vinati Organics** reported subdued performance as sales of IBB and ATBS were impacted due to disturbance in user industry. Profitability too was under pressure sequentially due to poor operating leverage. **SH Kelkar and Company** reported subdued performance due to poor demand; however, raw material pressure have started to ease during the quarter. **Neogen Chemicals** continued to report strong performance led by higher capacity utilisation.

Sector outlook: Though the overall sectors performance remained subdued during 1H'20, there were pockets of outperformance with six companies namely Atul, Clariant Chemicals (India), Sudarshan Chemical Industries, Alkyl Amines Chemicals, Deepak Nitrite and Neogen Chemicals delivering very healthy performance. While Atul and Deepak Nitrite continued to enjoy high profitability owing to higher than normal product prices, the other companies were benefited by lower base. The companies having exposure to automobile industry witnessed severe pressure while companies having exposure to agrochemicals were mixed (SRF delivered strong results, while Aarti's volume growth was tepid). The near-term outlook for the sector remains subdued owing to falling product prices and uncertain demand environment (largely attributable to automobile). However, we expect the pockets of outperformance to continue with companies having diversified exposure delivering healthy performance. The medium-term growth story for the sector remains intact with bulk of the capacity expansion getting commercialised by the end of FY20 or early FY21. We therefore continue to remain positive on the sector and remain selective in top picks. **Atul and Aarti Industries remains our top picks.**

Atul

Key investment argument: Sensing opportunities arising out of China slowdown, Atul has been the first in the industry to expand capacities and incurred capex of Rs 8.0 bn in the last five years. It is now incurring further capex of ~Rs 4.0 bn which provides visibility and confidence to FY22E estimates. The capex is less than expected EBITDA for FY20. These projects once completed, at full capacity has potential to generate sales of ~Rs 7.0 bn. The bulk of these capex have been funded through internal cash accruals and Atul continues to remain a net cash company. Atul continues to enjoy dominant market share globally in some of its products, namely Para-Cresol, 2,4-D and Epoxies and has been benefiting from supply tightness arising out of China. We continue to remain positive on Atul from medium-term perspective as we expect the company to reap benefits of strong operating leverage in the next couple of years.

Maintain Buy with a target price of Rs 5,200. At the current market price of Rs 4,044 it is trading at 18.8x FY21E EPS of Rs 215.1 and 16.0x FY22E EPS of Rs 252.8.

Aarti Industries

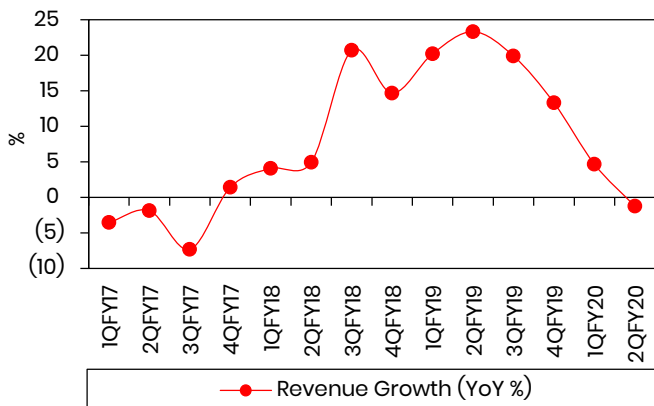
Key investment argument: We continue to remain positive on Aarti Industries as it remains one of the very few companies that provide earnings visibility beyond FY21E. The capex intensity continues unabated with the company going ahead with its planned capex of about Rs 10-12 bn in FY20E. It includes capex for two long-term contracts, chlorination and specialty chemical plant at Jhagadia, API and specialty chemicals de-bottlenecking at Vapi and Tarapur and one R&D centre. ARTO has integrated capacities of their processes and therefore has flexibility to change its product mix according to the prevailing market conditions. This flexibility, over the years, has turned out to be a key strength and ARTO now intends to leverage these processes and optimise profitability.

Maintain Hold rating with a target price of Rs 910. At the current market price of Rs 844 it is trading at 21.7x FY21E EPS of Rs 38.8 and 18.5x FY22E EPS of Rs 45.6.

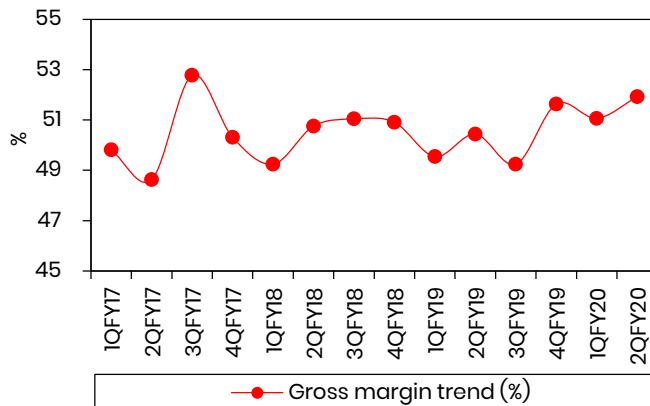
Chemicals: Quarterly trend

Below is the trend of 25 chemical companies over a few quarters. In 2QFY20, chemical companies have reported decline in Sales and EBITDA by 1.3% and 3.9% YoY while PAT grew by 13.6% YoY as some of the companies adopted new tax regime.

Revenue growth trend

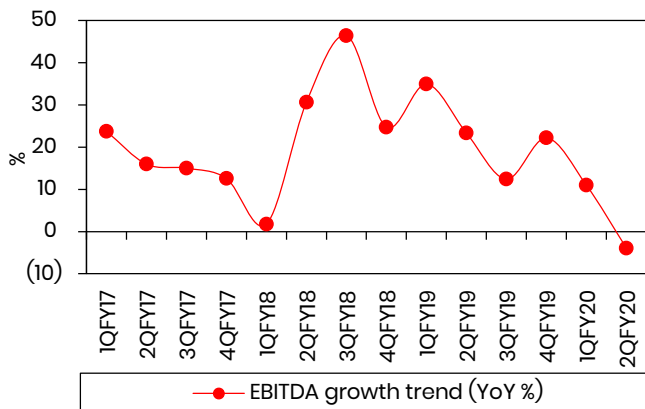


Gross margin trend



Source: B&K Research

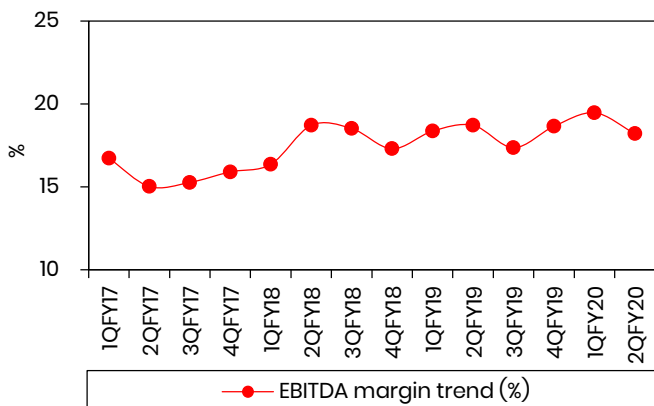
EBITDA growth trend



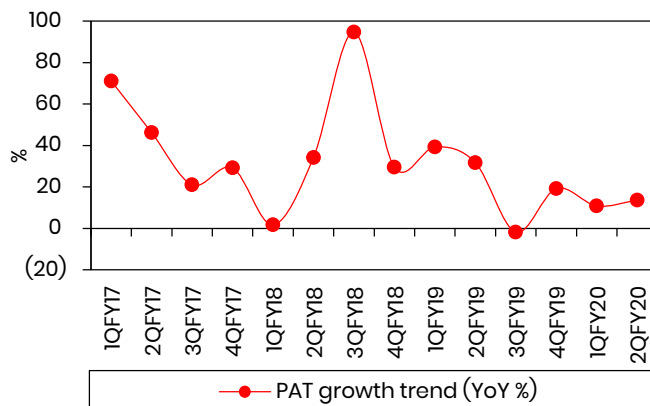
Sluggishness in EBITDA was partly on account of inventory loss owing to correction in product prices and subdued demand

Source: B&K Research

EBITDA margin trend



PAT growth trend



Source: B&K Research

Index	Page No.
B&K Chemical Universe.....	6
Chemicals: 2QFY20 and 1HFY20 snapshot.....	7
Change in estimates post 2QFY20 results.....	8
Tax rate change for chemical companies.....	9
Active coverage companies – 2QFY20 performance	11-44
Aarti Industries.....	11
Atul.....	15
BASF India.....	18
Clariant Chemicals (India).....	23
Gujarat Fluorochemicals.....	26
Navin Fluorine International.....	30
Sudarshan Chemical Industries.....	35
SRF.....	39
Passive coverage companies – 2QFY20 performance	45-106
Alkyl Amines Chemicals.....	45
Apcotex Industries.....	48
Balaji Amines.....	51
Bodal Chemicals.....	55
DCM Shriram.....	59
Deepak Nitrite.....	64
Fine Organic industries.....	69
Galaxy Surfactants.....	72
Gujarat Alkalies and Chemicals.....	75
Meghmani Organics.....	78
Neogen Chemicals.....	82
NOCIL.....	86
Phillips Carbon Black.....	89
S H Kelkar and Company.....	92
Tata Chemicals.....	96
Thirumalai Chemicals.....	101
Vinati Organics.....	104
Chemical peer valuation	107

B&K Chemical Universe

Company	Reco.	CMP (Rs)	Mkt cap (US\$ mn)	Target price (Rs)	EPS (Rs)			Earnings CAGR (%) FY19-21E	P/E(x)		
					FY19	FY20E	FY21E		FY19	FY20E	FY20E
Aarti Industries	DG* to Hold	817	1,995	910	28.4	31.8	38.8	17.3	27.5	25.7	21.1
Atul	BUY	4,068	1,692	5,200	145.6	209.3	215.1	21.5	24.5	19.4	18.9
BASF India	Hold	981	595	1,110	(11.5)	12.8	28.1	NA	(128.6)	77.1	35.2
Clariant Chemicals	Hold	333	108	360	8.0	21.5	24.7	75.3	45.3	15.5	13.5
Gujarat Fluorochemicals	Hold	483	744	575	41.6	24.8	35.8	(7.3)	-	19.5	13.5
Navin Fluorine International	Hold	890	615	850	30.2	37.6	44.3	21.1	23.3	23.7	20.1
SRF	Hold	3,165	2,546	3,055	111.6	142.5	177.7	26.1	21.5	22.2	17.8
Sudarshan Chemical	BUY	397	385	480	12.0	23.2	24.1	41.5	28.6	17.1	16.5

*DG – Downgrade

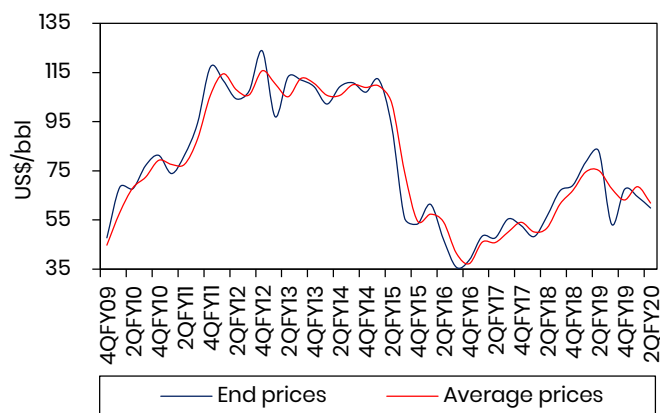
Currency and Crude Oil

	Quarter ending rate				Quarterly average rate			
	USD/INR	USD/CNY	CNY/INR	Crude Oil (US\$/bbl)	USD/INR	USD/CNY	CNY/INR	Crude Oil (US\$/bbl)
2QFY20	70.9	7.1	9.9	59.9	70.3	7.0	10.0	61.9
1QFY20	69.0	6.9	10.1	64.4	69.6	6.8	10.2	68.5
2QFY19	72.5	6.9	10.6	82.95	70.1	6.8	10.3	75.3
YoY (%)	(2.2)	2.8	(6.1)	(27.8)	0.4	2.5	(2.6)	(17.9)
QoQ (%)	2.7	3.5	(1.4)	(7.1)	1.1	2.6	(1.5)	(9.7)

Average USD/INR depreciated by 0.4% YoY



Average crude oil price is down 17.9% YoY



Source: Bloomberg, B&K Research

Chemicals – 2QFY20 and 1HFY20 snapshot

(%)	2QFY20					1HFY20				
	Volume growth	Sales growth	EBITDA growth	PBT growth	PAT growth	Volume growth	Sales growth	EBITDA growth	PBT growth	PAT growth
Aarti Industries	(12.0)	(18.8)	(3.5)	7.2	9.9	(1.3)	(10.0)	8.7	27.2	27.3
Atul	1.5	1.0	12.6	11.8	70.9	3.3	7.1	32.6	31.8	75.0
BASF India	–	23.9	11.5	(73.8)	41.7	–	11.8	(2.9)	(69.4)	(17.8)
Clariant Chemicals (India)	–	6.1	135.4	177.8	263.5	–	9.1	70.4	72.8	84.9
Gujarat Fluorochemicals*	(7.4)	(2.6)	(37.2)	(84.1)	(65.5)	0.1	2.0	(23.4)	(56.6)	(47.9)
Navin Fluorine International	–	7.7	33.7	30.8	27.0	–	2.9	12.5	13.3	20.2
Sudarshan Chemical Industries [^]	6.0	10.5	35.8	26.9	121.8	–	10.3	20.0	(24.9)	89.2
SRF	–	(1.1)	10.2	23.2	56.1	–	1.8	14.3	27.3	45.5
Alkyl Amines	–	7.7	17.2	22.9	105.8	15.0	26.5	35.6	47.7	106.5
Apcotex Industries	–	(22.5)	(64.9)	(65.7)	(64.1)	–	(12.6)	(32.1)	(34.2)	(29.8)
Balaji Amines	22.6	5.0	(0.1)	(66.3)	0.0	6.2	(5.5)	(20.5)	(44.8)	0.0
Bodal Chemicals	–	(21.7)	(64.6)	(78.6)	(50.8)	–	(8.7)	(45.3)	(56.6)	(40.6)
DCM Shriram [#]	25.0	2.9	(28.7)	(37.1)	(29.6)	23.0	(3.2)	(11.4)	(14.8)	(12.2)
Deepak Nitrite	–	117.6	290.4	408.7	532.7	–	122.1	331.2	489.1	563.1
Fine Organic Industries	–	3.1	8.5	8.9	74.3	–	2.2	3.4	1.2	21.2
Galaxy Surfactants	10.2	(5.3)	1.3	(1.6)	44.8	7.3	(6.3)	4.8	6.4	30.0
Gujarat Alkalies & Chemicals	–	(9.4)	(45.6)	(42.0)	(41.5)	–	(5.1)	(28.7)	(26.9)	(27.1)
Meghmani Organics	–	6.2	(5.6)	8.0	53.9	–	17.5	1.9	8.7	19.2
Neogen Chemicals	–	34.5	47.5	68.7	53.4	–	47.4	56.6	80.8	66.9
NOCIL	–	(22.9)	(38.6)	(44.8)	4.0	(7.0)	(18.7)	(33.9)	(39.2)	(15.4)
Phillips Carbon Black	0.4	(2.0)	(26.6)	(32.9)	(28.3)	4.9	6.8	(27.2)	(34.5)	(29.9)
S H Kelkar and Company	6.5	(2.1)	1.4	(44.2)	(46.5)	–	5.7	19.8	(22.9)	(28.7)
Tata Chemicals ^{\$}	(1.7)	7.6	13.3	18.9	8.4	(1.3)	6.6	16.6	15.5	13.0
Thirumalai Chemicals	–	(26.1)	(74.0)	(81.0)	(81.3)	–	(10.2)	(63.2)	(73.1)	(73.9)
Vinati Organics	–	(1.5)	10.1	4.8	69.2	–	5.4	24.0	16.4	48.8

Note: Volume growth for – * PTFE (Regular + Value-added); [^] Specialty and non-specialty pigments; [#] Caustic soda; ^{\$} Soda ash.

Changes in estimates post 2QFY20 results

(Rs mn)	New		Old		Change (%) FY20E	Change (%) FY21E
	FY20E	FY21E	FY20E	FY21E		
Aarti Industries						
Sales	46,770	56,539	52,341	61,883	(10.6)	(8.6)
EBITDA	9,833	11,553	10,351	12,733	(5.0)	(9.3)
EBITDA margin (%)	21.0	20.4	19.8	20.6	–	–
PAT	5,547	6,761	5,490	7,215	1.0	(6.3)
EPS (Rs)	31.8	38.8	31.5	41.4	1.0	(6.3)
Atul						
Sales	43,847	50,040	44,514	50,803	(1.5)	(1.5)
EBITDA	8,816	9,720	8,654	10,036	1.9	(3.2)
EBITDA margin (%)	20.1	19.4	19.4	19.8	–	–
PAT	6,212	6,384	5,031	5,828	23.5	9.6
EPS (Rs)	209.3	215.1	169.5	196.4	23.5	9.6
BASF India						
Sales	65,731	70,202	66,582	72,117	(1.3)	(2.7)
EBITDA	3,125	3,893	3,412	3,984	(8.4)	(2.3)
EBITDA margin (%)	4.8	5.5	5.1	5.5		
PAT	556	1,217	1,187	1,596	(53.1)	(23.7)
EPS (Rs)	12.8	28.1	27.4	36.9	(53.1)	(23.7)
Clariant Chemicals (India)						
Sales	11,449	12,345	11,568	12,754	(1.0)	(3.2)
EBITDA	1,133	1,252	987	1,145	14.8	9.3
EBITDA margin (%)	9.9	10.1	8.5	9.0	–	–
PAT	496	571	391	489	26.9	16.6
EPS (Rs)	21.5	24.7	16.9	21.2	26.9	16.6
Navin Fluorine International						
Sales	10,800	12,350	10,800	12,350	0.0	0.0
EBITDA	2,542	2,931	2,431	2,897	4.6	1.2
EBITDA margin (%)	23.5	23.7	22.5	23.5	–	–
PAT	1,858	2,187	1,775	2,073	4.7	5.5
EPS (Rs)	37.6	44.3	35.9	42.0	4.7	5.5
SRF						
Sales	74,836	91,094	83,131	97,819	(10.0)	(6.9)
EBITDA	15,685	18,809	16,677	19,230	(6.0)	(2.2)
EBITDA margin (%)	21.0	20.6	20.1	19.7	–	–
PAT	8,184	10,203	8,475	10,320	(3.4)	(1.1)
EPS (Rs)	142.5	177.7	147.6	179.7	(3.4)	(1.1)

(Rs mn)	New		Old		Change (%) FY20E	Change (%) FY21E
	FY20E	FY21E	FY20E	FY21E		
Sudarshan Chemical Industries						
Sales	16,317	18,452	16,473	18,944	(0.9)	(2.6)
EBITDA	2,651	3,120	2,507	2,980	5.7	4.7
EBITDA margin (%)	16.2	16.9	15.2	15.7	–	–
PAT	1,608	1,666	1,239	1,568	29.7	6.3
EPS (Rs)	23.2	24.1	17.9	22.6	29.7	6.3

Tax rate change for chemical companies

Company	Standalone		Consolidated		Consolidated		Remarks
	FY18	FY19	FY18	FY19	2QFY19	2QFY20	
Aarti Industries	19.3	18.6	19.3	18.9	18.8	17.0	Continues to pay tax as per old tax regime.
Advanced Enzymes	18.1	25.4	32.7	28.4	29.4	23.5	The company and one of its subsidiary viz. JC Biotech Private Limited has decided to exercise the option of new tax regime of 25.17%.
Aksharchem India	28.2	32.4	NA	NA	(23.8)	34.2	Evaluating new tax rate option.
Alkyl Amines	32.9	35.7	32.9	36.1	35.5	(9.0)	Adopted new tax regime.
Apcotex Industries	30.7	24.4	NA	NA	36.3	33.4	Due to MAT credit entitlement, the company will stick to earlier tax regime. The management expects lower than 25% effective tax rate due to MAT credit entitlement.
Asahi Songwon	27.8	30.3	NA	NA	31.0	(25.2)	Adopted new tax regime.
Atul	31.9	34.2	32.1	36.2	35.2	1.1	Adopted new tax regime.
Balaji Amines	31.8	30.4	31.8	30.6	19.3	8.0	During 2QFY20, the company reported Rs 43.4 mn as adjustments of earlier year tax provisions.
BASF India	5.6	NA	NA	NA	21.0	25.4	No clarity yet.
Bhageria Industries	35.4	31.4	NA	NA	30.6	8.8	Continues to pay tax as per old tax regime.
Bhansali Engineering Polymers	35.4	39.9	35.4	39.9	34.9	(17.3)	Adopted new tax regime.
Bodal Chemicals	33.8	35.2	33.2	35.1	34.2	(45.5)	Adopted new tax regime.
Camlin Fine Sciences	NA	24.4	NA	81.7	80.7	12.1	Post commercialisation of Dahej facility, the company will evaluate the option of exercising new tax regime.
Clariant Chemicals	35.3	38.4	NA	NA	51.6	36.7	Continues to pay tax as per old tax regime.
DCM Shriram	22.3	23.2	22.9	23.5	28.6	20.3	Continues to pay tax as per old tax regime.
Deepak Nitrite	31.6	34.7	28.7	35.2	37.5	22.2	Adopted new tax regime.
Fairchem Specialty	24.9	26.4	32.4	37.8	16.5	2.6	Adopted new tax regime.
Fine Organic	35.5	42.2	36.9	41.0	45.4	8.1	Adopted new tax regime.
Galaxy Surfactants	31.6	33.8	27.8	31.0	32.5	0.7	Adopted new tax regime.
GHCL	12.3	33.3	12.5	33.9	35.3	14.4	Adopted new tax regime.

Company	Standalone		Consolidated		Consolidated		Remarks
	FY18	FY19	FY18	FY19	2QFY19	2QFY20	
GNFC	32.1	9.5	32.1	9.5	14.3	6.6	Due to MAT credit entitlement, the company has not yet adopted new tax regime.
Gujarat Alkalies	28.7	32.1	28.6	32.1	31.0	30.2	–
Gujarat Fluorochemicals	23.4	NA	14.1	NA	NA	57.5	Would not shift to new tax rate as it has Rs 6.5 bn MAT credit available.
Himadri Chemicals	31.8	30.9	31.4	29.8	29.2	27.3	Continues to pay tax as per old tax regime.
IG Petrochemicals	36.5	37.5	36.6	37.4	34.2	32.9	Continues to pay tax as per old tax regime.
Ineos Styrolution	35.8	NA	NA	NA	34.6	(40.2)	Adopted new tax regime.
Meghmani Organics	36.7	24.1	27.0	27.7	33.3	2.6	Adopted new tax regime.
National Peroxide	35.0	35.0	34.8	34.8	35.1	37.9	Evaluating new tax rate option.
Navin Fluorine International	31.8	34.5	31.5	34.3	33.9	32.0	The company is evaluating multiple options by the end of the year through which they may be able to accrue tax benefits.
Neogen Chemicals	39.0	28.3	37.0	28.4	24.0	29.4	The company is evaluating new tax rate option.
NOCIL	33.4	33.5	33.3	33.4	30.8	(30.2)	Adopted new tax regime
Oriental Carbon Black	28.7	28.1	28.7	27.6	27.9	20.6	Tax rate for the company was already came down in Budget 2019 from 35% to 29%. The company will not opt for new tax regime due to MAT credit available to it for next few years.
Phillips Carbon Black	24.4	27.9	24.4	28.2	29.7	25.0	During the quarter, tax rate declined from 29.7% to 25% YoY.
Plastiblends India	28.1	25.1	NA	NA	20.8	30.9	Continues to pay tax as per old tax regime.
Poddar Pigments	32.6	29.9	NA	NA	30.5	26.7	Continues to pay tax as per old tax regime.
Seya Industries	28.8	16.7	NA	NA	18.7	21.6	Continues to pay tax as per old tax regime.
S H Kelkar and Company	33.2	27.7	35.3	23.5	14.7	19.5	The company reported deferred tax reversal of Rs 120.6 mn.
Shree Pushkar Chemicals	33.2	28.1	30.0	26.8	26.5	28.9	Continues to pay tax as per old tax regime.
SRF	20.9	25.4	20.6	22.4	22.6	2.0	Continues to pay tax as per old tax regime.
Sudarshan Chemical Industries	32.2	29.8	33.6	33.0	31.4	1.3	The company would be adopting the new tax rate regime next year onwards and has re-assessed deferred tax assets and liabilities resulting into a lower tax rate.
Supreme Petrochem	35.1	35.4	NA	NA	35.3	(62.4)	Adopted new tax regime.
Tata Chemicals	30.9	24.8	3.8	21.1	24.4	28.3	Adopted new tax regime.
TGV SRAAC	31.6	25.6	NA	NA	24.8	(20.8)	Adopted new tax regime.
Thirumalai Chemicals	33.9	32.8	32.6	32.7	34.0	35.0	Continues to pay tax as per old tax regime.
Transpek Industries	24.6	35.1	24.6	35.1	22.7	8.2	Adopted new tax regime.
Ultramarine Pigments	31.2	29.7	NA	NA	28.9	11.6	Adopted new tax regime.
Vinati Organics	29.3	33.6	NA	NA	34.2	(6.2)	Adopted new tax regime.

Share Data

Price (Rs)	817
BSE Sensex	40,889
Reuters code	ARTI.BO
Bloomberg code	ARTO IN
Market cap. (US\$ mn)	1,984
6M avg. daily turnover (US\$ mn)	1.8
Issued shares (mn)	174
Target price (Rs)	910

Performance (%)	1M	3M	12M
Absolute	(6)	9	13
Relative	(10)	(2)	(2)

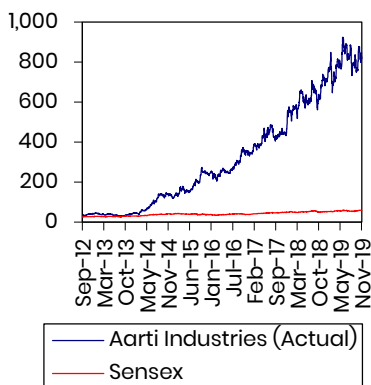
Valuation Ratios

Yr to 31 Mar	FY20E	FY21E	FY22E
EPS (Rs)	31.8	38.8	45.6
+/- (%)	12.2	21.9	17.4
PER (x)	25.6	21.0	17.9
PBV (x)	4.5	3.7	3.1
Dividend/Yield (%)	0.7	0.7	0.8
EV/Sales (x)	3.4	2.8	2.4
EV/EBITDA (x)	16.2	13.8	11.7

Major Shareholders (%)

Promoters	48
FII's	8
MFs	15
BFSI's	1
Public & Others	28

Relative Performance



Aarti Industries

Maintain Hold

Reinstates guidance, ramp-up in dedicated plants remains key now...

Aarti Industries (ARTO) is a chemical company, manufacturing benzene based intermediates that find application on various Agro chemicals, Pharma, Dyes and Polymer products. It ranks in the top 1-5 suppliers for most of its products and enjoys the status of being a strategic supplier.

2QFY20 performance

Aarti Industries (ARTO) consolidated sales and EBITDA declined by 18.8% and 3.5% YoY to Rs 10.7 bn and Rs 2.54 bn, respectively, while PAT rose by 9.9% YoY to Rs 1.47 bn. The company has now provided the base numbers i.e. 2Q'19 and 1H'19. The numbers are not comparable on YoY basis as the base quarter includes the performance from Home and Personal care business and does not include Nascent Chemicals numbers. The gross margins expanded by 810 bps YoY to 48.8%, while EBITDA margins expansion was limited to 380 bps YoY as staff cost went up by 26.8% YoY to Rs 740 mn (this was on account of merger of Nascent Chemicals as well as hiring of new employees for upcoming projects).

Specialty Chemicals business EBIT grew by 5.3% QoQ to Rs 2.13 bn and the margins expanded by 130 bps to 23.9%. Pharmaceutical business EBIT grew by 5.3% QoQ to Rs 337 mn and the margins expanded by 180 bps QoQ to 18.5%. The changing product mix also contributed to margin expansion as contribution from Nitration and Chlorination products declined from 28% to 25% of sales.

Financial highlights

(Rs mn)	2QFY19	2QFY20	YoY (%)	1QFY20	QoQ (%)	1HFY19	1HFY20	YoY (%)
Net sales	13,265	10,768	(18.8)	11,355	(5.2)	24,590	22,123	(10.0)
Gross profit	5,399	5,254	(2.7)	5,313	(1.1)	9,830	10,567	7.5
Gross margin (%)	40.7	48.8	-	46.8	-	40.0	47.8	-
Total expenditure	10,632	8,227	(22.6)	8,854	(7.1)	19,954	17,081	(14.4)
EBITDA	2,633	2,541	(3.5)	2,501	1.6	4,637	5,042	8.7
EBITDA margin (%)	19.8	23.6	-	22.0	-	18.9	22.8	-
Other income	7	56	654.1	25	125.9	12	81	576.5
Interest	518	311	(39.9)	310	0.3	986	621	(37.0)
Depreciation	417	457	9.5	432	5.7	823	889	8.0
PBT	1,706	1,829	7.2	1,784	2.5	2,840	3,613	27.2
Tax	320	311	(2.7)	365	(14.7)	522	676	29.5
Tax rate (%)	18.8	17.0	-	20.4	-	18.4	18.7	-
Adjusted PAT	1,343	1,476	9.9	1,381	6.8	2,244	2,857	27.3
NPM (%)	10.1	13.7	-	12.2	-	9.1	12.9	-
Adjusted EPS (Rs)	16.5	16.9	2.5	15.9	6.3	27.6	32.9	19.1

Adjusted PAT grew by 9.9% YoY to Rs 1.47 bn on the back of lower interest cost (down 39.9% YoY to Rs 311 mn) and higher other income (up 7.5x YoY to Rs 56 mn) despite higher depreciation (up 9.5% YoY to Rs 457 mn). The tax rate stood lower at 17.0% against 18.8% in 2QFY19.

1HFY20 performance

The company reported sales of Rs 22.1 bn, down 10.0% YoY. Gross margins expanded by 780 bps YoY to 47.8% while EBITDA margin expansion was restricted to 390 bps YoY to 22.8%. This resulted into EBITDA growth of 8.7% YoY to Rs 5.0 bn. Higher other income by 576.5% YoY to Rs 81 mn and lower interest cost by 37.0% YoY to Rs 621 mn allowed the company to report PAT growth of 27.3% YoY to Rs 2.85 bn.

Long-term and short-term borrowings decreased by Rs 1.69 bn and Rs 1.28 bn, respectively, from March 2019. According to the cash flow statement, the loan repayment was about Rs 2.58 bn. Net cash inflow from operations was Rs 3.79 bn against Rs 2.3 bn in 1HFY19. Cash generation from operation improved on account of better cash cycle management. The company incurred a capex of Rs 5.1 bn against Rs 3.3 bn in 1HFY19.

Outlook

Though, the management came back with specific growth guidance in 2Q'20, it was largely in line with our expectation and hence does not change our FY20 estimates. However, the management also indicated the ramp-up in the two dedicated plants could be lower as it would be the first year of operation even at the client end and therefore has guided for gradual ramp-up. We continue to remain positive on Aarti Industries as it remains one of the very few companies that provide earnings visibility beyond FY21E. The capex intensity continues unabated with the company going ahead with its planned capex of about Rs 10-12 bn in FY20. It includes capex for two long-term contracts, chlorination and specialty chemical plant at Jhagadia, API and specialty chemicals de-bottlenecking at Vapi and Tarapur and one R&D centre. Maintain Hold rating with a target price of Rs 910.

Concall highlights

- The production volumes for NCB and Nitro toluene were impacted on account of de-bottlenecking of the plant (from 75,000 mtpa to 108,000 mtpa) and shortage of nitric acid due to water supply cuts at Taloja impacting production of Deepak Fertilisers (company procures Nitric Acid from Deepak Fertilisers). ARTO had to buy expensive nitrated product for downstream manufacturing. Nitric acid supply has normalised from November.
- The revenue decline for the quarter is attributed to three factors mainly 1) de-merger of HPC business, 2) drop in raw material prices passed on to the customers and 3) higher contribution downstream products in specialty chemicals resulting in lower volumes.
- The raw material price drop impacted specialty chemicals revenue to the extent of 7.0% (passed on to the customers) while the decline on account of volumes was about 12.0%.
- Pharma revenues were impacted by changing product mix (focus towards value-added products) while the profitability remained strong. The plant continues to operate at higher capacity utilisation levels as certain new products which were due for validations are undergoing trials.
- The company continues to push sales of downstream products. The capacity expansion of NCB to 108,000 mtpa would take care of growth for the next five-seven years. The NCB de-bottlenecking is being carried out in 2 phases with a total capex of Rs 1.5 bn.
- The agro intermediate facility for multiyear contract is expected to get commissioned by 4QFY20 and would reach full utilisation level by FY22E.

- The R&D centre in Navi Mumbai would be operational in 2HFY20 and the specialty complex in Dahej along with Chlorination complex would be commissioned in 2HFY20.
- The employee benefit expenses during the quarter were higher on account of merger of Nascent Chemicals as well as hiring of new employees for upcoming projects.
- Incremental profit at EBITDA level due to higher realisation of PDA was about Rs 150 mn.
- 50% of the APIs is sold to regulated markets like US and Europe.
- The export contribution during the quarter has gone from 36.0% to 44.0% YoY leading to higher working capital (working capital for exports is higher).
- The company has incurred capex of Rs 5.0 bn in 1HFY20 and full year capex guidance is Rs 10.0-12.0 bn.

Segmental performance (Consolidated)

(Rs mn)	2QFY19	2QFY20	YoY (%)	1QFY20	QoQ (%)	1HFY19	1HFY20	YoY (%)
Specialty (Performance) chemicals	10,661	8,947	(16.1)	9,444	(5.3)	19,686	18,391	(6.6)
% of total	80.4	83.1	–	83.2	–	80.1	83.1	–
Pharmaceuticals	1,923	1,821	(5.3)	1,911	(4.7)	3,419	3,732	9.2
% of total	14.5	16.9	–	16.8	–	13.9	16.9	–
Home and Personal Care	682	–	–	–	–	1,485	–	–
% of total	5.1	–	–	–	–	6.0	–	–
Total	13,265	10,768	(18.8)	11,355	(5.2)	24,590	22,123	(10.0)
EBIT								
Performance chemicals	2,299	2,137	(7.0)	2,133	0.2	3,902	4,270	9.4
Margins (%)	21.6	23.9	–	22.6	–	19.8	23.2	–
Pharmaceuticals	292	337	15.4	320	5.3	552	657	19.0
Margins (%)	15.2	18.5	–	16.7	–	16.1	17.6	–
Home and Personal Care	(37.5)	–	–	–	–	(17.6)	–	–
Margins (%)	(5.5)	–	–	–	–	(1.2)	–	–
Total	2,553	2,474	(3.1)	2,453	0.8	4,436	4,926	11.0

Aarti Industries

Income Statement (Consolidated)

Period end (Rs mn)	Mar 19	Mar 20E	Mar 21E	Mar 22E
Net Sales	47,055	46,770	56,539	65,011
Growth (%)	23.6	(0.6)	20.9	15.0
Operating expenses	(37,404)	(36,936)	(44,986)	(51,775)
Operating profit	9,651	9,833	11,553	13,236
EBITDA	9,651	9,833	11,553	13,236
Growth (%)	38.0	1.9	17.5	14.6
Depreciation	(1,627)	(1,822)	(1,979)	(2,147)
Other income	21	191	210	231
EBIT	8,045	8,202	9,784	11,320
Finance Cost	(1,825)	(1,281)	(1,345)	(1,412)
Profit before tax	6,220	6,921	8,439	9,908
Tax (current + deferred)	(1,178)	(1,384)	(1,688)	(1,982)
Profit/(Loss) for the period	5,042	5,537	6,751	7,926
P/L of Associates, Min Int, Pref Div	(124)	10	10	10
Reported Profit/(Loss)	4,917	5,547	6,761	7,936
Adjusted Net profit	4,917	5,547	6,761	7,936
Growth (%)	47.7	12.8	21.9	17.4

Balance Sheet (Consolidated)

Period end (Rs mn)	Mar 19	Mar 20E	Mar 21E	Mar 22E
Share Capital	433	436	436	436
Reserves & surplus	25,872	31,419	38,180	46,116
Shareholders' funds	26,306	31,855	38,616	46,552
Minority Int, Share Appl, Pref Capital	842	923	923	923
Non-Current Liabilities	12,111	12,111	12,111	12,111
Long-term borrowings	8,148	8,148	8,148	8,148
Other Long term liab, Prov, DTL	3,963	3,963	3,963	3,963
Current liabilities	19,322	21,087	22,547	23,636
Short-term borrowings, Curr Maturity	15,863	16,213	16,563	16,563
Other Current Liab + Provi	3,459	4,874	5,985	7,073
Total (Equity and Liab.)	58,579	65,975	74,197	83,221
Non-current assets	32,808	41,598	46,899	50,222
Fixed assets (Net block)	29,408	37,121	41,940	45,092
Non-current Investments	332	332	332	332
Long-term loans and advances	3,064	4,142	4,623	4,795
Other non-current assets, DTA, Goodwill	4	4	4	4
Current assets	25,771	24,377	27,298	32,999
Cash & Current Investment	8,042	7,012	7,855	12,245
Other current assets	17,729	17,365	19,443	20,754
Total (Assets)	58,579	65,975	74,197	83,221
Total Debt	24,011	24,361	24,711	24,711
Capital Employed	55,121	61,101	68,212	76,148

Cash Flow Statement (Consolidated)

Period end (Rs mn)	Mar 19	Mar 20E	Mar 21E	Mar 22E
Profit before Tax	6,220	6,921	8,439	9,908
Depreciation	1,627	1,822	1,979	2,147
Change in working capital	(2,171)	(1,273)	(1,449)	(394)
Total tax paid	(1,022)	(1,384)	(1,688)	(1,982)
Others	242	445	187	1,184
Cash flow from oper. (a)	6,462	7,367	8,626	11,091
Capital expenditure	(7,186)	(9,534)	(6,798)	(5,298)
Change in investments	141	0	0	0
Cash flow from inv. (b)	(7,046)	(9,534)	(6,798)	(5,298)
Free cash flow (a+b)	(584)	(2,168)	1,827	5,793
Equity raised/(repaid)	7,416	0	0	0
Debt raised/(repaid)	3,181	350	350	0
Dividend (incl. tax)	(525)	721	(1,254)	(1,359)
Others	(1,767)	67	(81)	(43)
Cash flow from fin. (c)	8,305	1,137	(985)	(1,402)
Net change in cash (a+b+c)	7,721	(1,030)	843	4,391

Key Ratios (Consolidated)

Period end (%)	Mar 19	Mar 20E	Mar 21E	Mar 22E
Period end (Rs mn)	Mar-19	Mar-20E	Mar-21E	Mar-22E
Adjusted EPS (Rs)	28.4	31.8	38.8	45.6
Growth	38.5	12.2	21.9	17.4
CEPS (Rs)	37.8	42.3	50.2	57.9
Book NAV/share (Rs)	151.6	182.7	221.5	267.1
Dividend/share (Rs)	2.6	6.0	6.0	6.5
Dividend payout ratio	10.8	22.6	18.6	17.1
EBITDA margin	20.5	21.0	20.4	20.4
EBIT margin	17.1	17.5	17.3	17.4
Tax Rate	18.9	20.0	20.0	20.0
RoCE	17.0	14.1	15.1	15.7
Total debt/Equity (x)	0.9	0.7	0.6	0.5
Net debt/Equity (x)	0.6	0.5	0.4	0.3
Du Pont Analysis – RoE				
Net margin	10.5	11.9	12.0	12.2
Asset turnover (x)	0.9	0.8	0.8	0.8
Leverage factor (x)	2.4	2.1	2.0	1.8
Return on equity	23.4	19.1	19.2	18.6

Valuations (Consolidated)

Period end (x)	Mar 19	Mar 20E	Mar 21E	Mar 22E
PER	27.5	25.6	21.0	17.9
PCE	20.6	19.3	16.3	14.1
Price/Book	5.1	4.5	3.7	3.1
Yield (%)	0.3	0.7	0.7	0.8
EV/EBITDA	15.7	16.2	13.8	11.7

Share Data

Price (Rs)	4,100
BSE Sensex	40,889
Reuters code	ATLP.BO
Bloomberg code	ATLP IN
Market cap. (US\$ mn)	1,696
6M avg. daily turnover (US\$ mn)	1.2
Issued shares (mn)	30
Target price (Rs)	5,200

Performance (%)	1M	3M	12M
Absolute	(3)	15	17
Relative	(7)	3	2

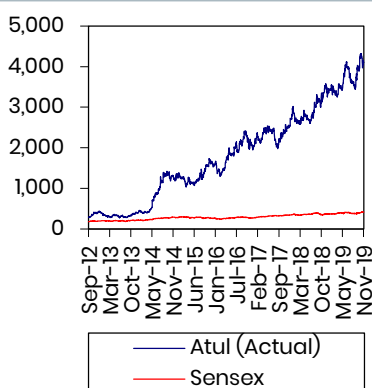
Valuation Ratios

Yr to 31 Mar	FY20E	FY21E	FY22E
EPS (Rs)	209.3	215.1	252.8
+/- (%)	43.7	2.8	17.5
PER (x)	19.6	19.1	16.2
PBV (x)	3.8	3.2	2.7
Dividend/Yield (%)	0.7	0.5	0.5
EV/Sales (x)	2.7	2.2	1.9
EV/EBITDA (x)	13.2	11.5	9.6

Major Shareholders (%)

Promoters	45
FII's	7
MF's	22
BFSI's	1
Public & Others	25
Pledge	4

Relative Performance



Atul

Maintain BUY

Shields profitability despite subdued demand, tax cut propels PAT...

Atul Ltd. (ATLP) a Lalbhai group company established in 1947 is chemical conglomerate and has one of the biggest integrated chemical plants in Asia. It has a well-diversified product portfolio of around 1,000+ products spanning across Life Science Chemicals and Performance & Other Chemicals. It caters to diversified industries like textile, paints, agriculture, fragrance & flavours, tyres, paper, pharma, aerospace, construction, etc.

2QFY20 performance

ATLP delivered a stable performance with consolidated sales, EBITDA and PAT growth of 1.0%/12.6%/70.9% to Rs 10.45 bn/Rs 2.2 bn/Rs 2.09 bn, respectively. Gross margins expanded by 350 bps YoY to 51.5% clearly indicating benefits of higher realisations. However, EBITDA margins expansion was limited to 230 bps to 21.5% YoY on account of deteriorating operational leverage. The company has adopted new tax regime and has accordingly recomputed deferred tax assets/liabilities. This has resulted into lower tax rate of 1% for the quarter thereby shooting up the PAT upwards to Rs 2.1 bn, a growth of 70% YoY.

Consolidated performance was impacted by Life Science Chemicals revenues declined by 8.4% while EBIT grew by just 5.2% YoY. The performance was supported by Performance and Other chemicals which witnessed 4.2 % growth in sales, while EBIT grew by 14.9% YoY.

Financial highlights

(Rs mn)	2QFY19	2QFY20	YoY (%)	1QFY20	QoQ (%)	1HFY19	1HFY20	YoY (%)
Net sales	10,355	10,456	1.0	10,406	0.5	19,483	20,862	7.1
Gross profit	4,968	5,383	8.4	5,329	1.0	9,262	10,712	15.7
Gross margin (%)	48.0	51.5	-	51.2	-	47.5	51.3	-
Total expenditure	8,363	8,212	(1.8)	8,003	2.6	15,979	16,215	1.5
EBITDA	1,992	2,244	12.6	2,403	(6.6)	3,504	4,647	32.6
EBITDA margin (%)	19.2	21.5	-	23.1	-	18.0	22.3	-
Other income	200	210	5.0	100	110.8	348	310	(11.0)
Interest	20	20	2.0	19	8.6	39	39	1.3
Depreciation	285	323	13.3	318	1.7	569	641	12.6
PBT	1,888	2,111	11.8	2,166	(2.5)	3,245	4,277	31.8
Tax	665	24	(96.4)	689	(96.5)	1,208	713	(41.0)
Tax rate (%)	35.2	1.1	-	31.8	-	37.2	16.7	-
Adjusted PAT	1,222	2,090	70.9	1,473	41.8	2,036	3,563	75.0
NPM (%)	11.8	20.0	-	14.2	-	10.5	17.1	-
Adjusted EPS (Rs)	41.2	70.5	70.9	49.7	41.8	68.7	120.1	75.0

1HFY20 performance

During 1HFY20, the company reported sales growth of 7.1% YoY to Rs 20.8 bn. Gross margins have expanded by 380 bps YoY to 51.3% while EBITDA margin expanded by 430 bps YoY to 22.3%. Though, other income declined by 11.0% YoY to Rs 310 mn and depreciation rose by 12.6% YoY to Rs 641 mn, lower tax rate of 16.7% compared to 37.2% in 1HFY19 allowed the company to report PAT growth of 75.0% YoY to Rs 3.56 bn.

The cash flows from operations increased by Rs 1.55 bn to Rs 4.16 bn and the company incurred a capex of Rs 2.08 bn in 1HFY20. In order to fund the operations the borrowings increased from Rs 431.4 mn to Rs 834.9 mn; however, the company remains a net cash company.

Outlook

Sensing opportunities arising out of China slowdown, Atul has been the first in the industry to expand capacities and incurred capex of Rs 8.0 bn in the last five years. It is now incurring further capex of ~Rs 4.0 bn which provides visibility and confidence to FY21E estimates and beyond. The capex is less than expected EBITDA for FY20. These projects once completed, at full capacity has potential to generate sales of ~Rs 7.0 bn. The bulk of these capex have been funded through internal cash accruals and Atul continues to remain a net cash company. We maintain Buy rating on the stock with a target price of Rs 5,200.

Segmental performance (Consolidated)

(Rs mn)	2QFY19	2QFY20	YoY (%)	1QFY20	QoQ (%)	1HFY19	1HFY20	YoY (%)
Life Science Chemicals	3,604	3,301	(8.4)	3,448	(4.3)	6,709	6,799	1.3
Performance & Other Chemicals	7,172	7,473	4.2	7,459	0.2	13,722	14,801	7.9
Others	89	129	45.5	103	25.0	163	185	13.5
Inter-segment	510	447	(12.2)	431	3.9	1,111	923	(16.9)
Total Revenue	10,355	10,456	1.0	10,580	(1.2)	19,483	20,862	7.1
Segment result								
Life Science Chemicals	592	623	5.2	733	(14.9)	1,021	1,325	29.8
EBIT (%)	16.4	18.9	–	21.2	–	15.2	19.5	–
Performance & Other Chemicals	1,236	1,420	14.9	1,091	30.2	2,123	2,888	36.0
EBIT (%)	17.2	19.0	–	14.6	–	15.5	19.5	–
Others	32	50	59.0	(20)	NA	53	61	16.8
EBIT (%)	35.5	38.8	–	NA	–	32.3	33.2	–
Total EBIT	1,860	2,094	12.6	1,803	16.1	3,196	4,274	33.7

Atul

Income Statement (Consolidated)

Period end (Rs mn)	Mar 19	Mar 20E	Mar 21E	Mar 22E
Net sales	39,838	43,847	50,040	56,335
Growth (%)	23.0	10.1	14.1	12.6
Operating expenses	(32,710)	(35,031)	(40,320)	(45,172)
Operating profit	7,128	8,816	9,720	11,163
Other operating income	540	0	0	0
EBITDA	7,668	8,816	9,720	11,163
Growth (%)	51.8	15.0	10.3	14.8
Depreciation	(1,189)	(1,338)	(1,553)	(1,653)
Other income	349	450	427	427
EBIT	6,827	7,927	8,593	9,937
Finance cost	(74)	(82)	(84)	(84)
Profit before tax	6,753	7,845	8,510	9,853
Tax (current + deferred)	(2,443)	(1,643)	(2,150)	(2,520)
Profit/(Loss) for the period	4,310	6,202	6,359	7,333
P/L of Associates, Min Int, Pref Div	12	10	25	170
Reported Profit/(Loss)	4,322	6,212	6,384	7,503
Adjusted net profit	4,322	6,212	6,384	7,503
Growth (%)	56.3	43.7	2.8	17.5

Balance Sheet (Consolidated)

Period end (Rs mn)	Mar 19	Mar 20E	Mar 21E	Mar 22E
Share capital	297	297	297	297
Reserves & surplus	26,760	31,909	37,527	44,120
Shareholders' funds	27,057	32,206	37,824	44,416
Minority interest and others	238	238	238	238
Non-current liabilities	2,372	2,372	2,372	2,372
Long-term borrowings	431	431	431	431
Other non-current liabilities	1,941	1,941	1,941	1,941
Current liabilities	5,772	7,664	8,591	9,262
ST borrowings, Curr maturity	115	115	115	115
Other current liabilities	5,657	7,549	8,475	9,147
Total (Equity and Liab.)	35,440	42,480	49,025	56,289
Non-current assets	18,817	19,107	19,315	18,824
Fixed assets (Net block)	12,574	12,864	13,071	12,580
Non-current Investments	5,532	5,532	5,532	5,532
Long-term loans and advances	2	3	3	3
Other non-current assets	709	709	709	709
Current assets	16,623	23,373	29,710	37,465
Cash & current investment	2,633	6,016	10,038	14,856
Other current assets	13,990	17,357	19,671	22,609
Total (Assets)	35,440	42,480	49,025	56,289
Total debt	547	547	547	547
Capital employed	29,783	34,931	40,550	47,142

Cash Flow Statement (Consolidated)

Period end (Rs mn)	Mar 19	Mar 20E	Mar 21E	Mar 22E
Profit before tax	6,753	7,845	8,510	9,853
Depreciation	1,189	1,338	1,553	1,653
Change in working capital	(846)	(1,476)	(1,388)	(2,267)
Total tax paid	(2,299)	(1,643)	(2,150)	(2,520)
Others	(79)	(168)	(143)	(143)
Cash flow from oper. (a)	4,718	5,897	6,381	6,576
Capital expenditure	(2,650)	(1,573)	(1,719)	(1,119)
Change in investments	(2,841)	0	0	0
Others	229	195	185	185
Cash flow from inv. (b)	(5,262)	(1,379)	(1,535)	(935)
Free cash flow (a+b)	(544)	4,518	4,847	5,642
Debt raised/(repaid)	388	0	0	0
Dividend (incl. tax)	(519)	(1,007)	(695)	(695)
Others	726	(128)	(130)	(130)
Cash flow from fin. (c)	595	(1,135)	(824)	(824)
Net chg in cash (a+b+c)	51	3,383	4,022	4,817

Key Ratios (Consolidated)

Period end (%)	Mar 19	Mar 20E	Mar 21E	Mar 22E
Adjusted EPS (Rs)	145.6	209.3	215.1	252.8
Growth	56.3	43.7	2.8	17.5
CEPS (Rs)	185.7	254.4	267.4	308.5
Book NAV/share (Rs)	911.6	1,085.1	1,274.4	1,496.5
Dividend/share (Rs)	15.0	29.0	20.0	20.0
Dividend payout ratio	12.1	16.2	10.9	9.3
EBITDA margin	19.2	20.1	19.4	19.8
EBIT margin	17.1	18.1	17.2	17.6
Tax rate	36.2	20.9	25.3	25.6
RoCE	25.1	24.5	22.8	22.7
Net debt/Equity (x)	(0.1)	(0.2)	(0.2)	(0.3)
Du Pont Analysis – RoE				
Net margin	10.8	14.2	12.8	13.3
Asset turnover (x)	1.2	1.1	1.1	1.1
Leverage factor (x)	1.3	1.3	1.3	1.3
Return on equity	17.5	21.0	18.2	18.2

Valuations (Consolidated)

Period end (x)	Mar 19	Mar 20E	Mar 21E	Mar 22E
PER	24.5	19.6	19.1	16.2
PCE	19.2	16.1	15.3	13.3
Price/Book	3.9	3.8	3.2	2.7
Yield (%)	0.4	0.7	0.5	0.5
EV/EBITDA	13.6	13.2	11.5	9.6

Share Data

Price (Rs)	978
BSE Sensex	40,889
Reuters code	BASF.BO
Bloomberg code	BASF IN
Market cap. (US\$ mn)	590
6M avg. daily turnover (US\$ mn)	0.2
Issued shares (mn)	43
Target price (Rs)	1,110

Performance (%)	1M	3M	12M
Absolute	2	(5)	(36)
Relative	(2)	(14)	(44)

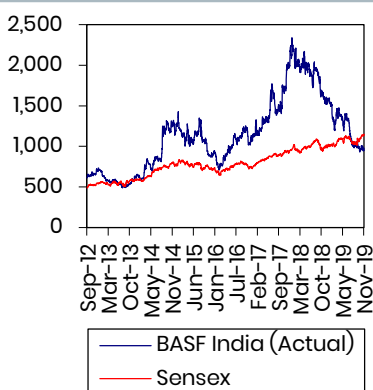
Valuation Ratios

Yr to 31 Mar	FY19	FY20E	FY21E
EPS (Rs)	(11.5)	12.8	28.1
+/- (%)	NA	NA	118.9
PER (x)	(128.6)	77.1	35.2
PBV (x)	4.6	3.0	2.8
Dividend/Yield (%)	0.2	0.1	0.1
EV/Sales (x)	1.2	0.7	0.7
EV/EBITDA (x)	44.2	15.7	12.4

Major Shareholders (%)

Promoters	73
FII's	2
MF's	3
BFSI's	6
Public & Others	16

Relative Performance



BASF India

Maintain Hold

Profitability continues to remain under pressure...

BASF India Ltd., is the Indian subsidiary of BASF SE, world's largest specialty company with revenues of more than US\$ 100 bn. The operations in India are highly diversified and cater to various end user industries such as agriculture, paper, paints, pharma, auto, consumer durables, construction, leather, textiles etc.

2QFY20 performance

BASF India's performance continued to be under pressure. While the company delivered a strong sales growth of 23.9% YoY to Rs 20.6 bn, profitability was under pressure as gross margins at 17.8% contracted by 510 bps YoY and EBITDA margins at 3.7% contracted by 40 bps YoY. EBITDA growth was limited to 11.5% YoY to Rs 761 mn. Adjusted PAT grew by 41.7% YoY to Rs 133 mn. Adjusted PAT grew by 41.7%. The company recorded an exceptional loss of Rs 110 mn on account of write-down of certain assets related to Optical Brightening Agents (OBA) business.

BASF India has regrouped its business segments into seven segments and provided comparable. **Agricultural Solution Business** revenues were up 16.9% YoY to Rs 3.93 bn while EBIT was flat at Rs 397 mn. EBIT margins contracted by 170 bps YoY to 10.1%. **Materials segment** revenues were at Rs 4.14 bn, down 7.0% YoY and reported a loss of Rs 285.9 mn at EBIT level against a loss of Rs 223 mn in 2QFY19.

Financial highlights

(Rs mn)	2QFY19	2QFY20	YoY (%)	1QFY20	QoQ (%)	1HFY19	1HFY20	YoY (%)
Net sales	16,694	20,687	23.9	16,095	28.5	32,894	36,782	11.8
Gross profit	3,830	3,672	(4.1)	3,591	2.3	7,854	7,263	(7.5)
Gross margin (%)	22.9	17.8	-	22.3	-	23.9	19.7	-
Total expenditure	16,074	19,983	24.3	15,320	30.4	31,401	35,303	12.4
EBITDA	682	761	11.5	818	(7.0)	1,626	1,578	(2.9)
EBITDA margin (%)	4.1	3.7	-	5.1	-	4.9	4.3	-
Other income	29	63	112.9	55	14.2	52	117	127.5
Interest	223	226	1.7	242	(6.3)	466	468	0.5
Depreciation	370	456	23.2	455	0.2	742	911	22.7
PBT	119	31	(73.8)	113	(72.4)	470	144	(69.4)
Tax	25	8	(68.4)	31	(74.1)	131	38	(70.8)
Tax rate (%)	21.0	25.4	-	27.1	-	28.0	26.7	-
Adjusted PAT	94	133	41.7	145	(8.4)	338	278	(17.8)
NPM (%)	0.6	0.6	-	0.9	-	1.0	0.8	-
Adjusted EPS (Rs)	2.2	3.1	41.7	3.4	(8.4)	7.8	6.4	(17.8)

Industrial Solution Business revenues stood at Rs 3.19 bn, up 9.7% YoY while EBIT stood at Rs 125 mn, down 16.9% YoY. EBIT margins contracted by 130 bps YoY to 3.9%. **Surface Technologies Business** revenue was up 2.6% YoY to Rs 1.9 bn, while the company reported a profit of Rs 21 mn against a loss of Rs 26 mn in 2QFY19.

Nutrition & Care segment reported growth of 81.8% YoY to Rs 3.65 bn with EBIT of Rs 33 mn against a loss of Rs 73 mn in 2QFY19. **Chemicals Business** revenues were up ~8x YoY to Rs 3.14 bn; EBIT was up 110.5% to Rs 98 mn. EBIT margins contracted by 870 bps YoY to 3.1%.

1HFY20 performance

Sales grew by 11.8% YoY to Rs 11.8 bn driven by strong growth in Nutrition & Care (up 47.7% to Rs 5.75 bn) and Chemicals business (388.7% to Rs 4.17 bn) followed by 8.8% growth in Agricultural Solution and 3.1% in Industrial solution. Revenue from materials segment declined by 4.8% to Rs 8.2 bn while Surface Technologies revenue was flat at Rs 4.0 bn.

Gross margin contracted by 420 bps while EBITDA margins contraction was limited to 60 bps on account of improved operating leverage.

Profitability was under pressure across all the segments expect for Surface Technologies (margins expanded by 260 bps to 4.2%) and Nutrition & Care (reported a profit of Rs 38 mn against a loss of Rs 143 mn in 1HFY19).

PAT declined by 17.8% YoY to Rs 278 mn on account of higher depreciation (up 22.7% YoY to Rs 911 mn) despite higher other income (up 127.5% YoY to Rs 117 mn) and lower tax rate (26.7% against 28% in 1HFY19).

Key highlights from Balance Sheet and Cash Flow statement

- Long-term borrowing came down by Rs 1.86 bn while short-term borrowings went up by Rs 1.47 bn from 1HFY19. According to the cash flow statement, net borrowings increased by Rs 746 mn.
- Trade receivables, inventories and trade payables increased by Rs 2.5 bn, Rs 1.32 bn and Rs 3.1 bn to Rs 15.6 bn, Rs 11.3 bn and Rs 15.5 bn, respectively. Working capital increased marginally by Rs 730 mn to Rs 11.4 bn YoY.
- BASF incurred a capex of Rs 333.2 mn in 1HFY20 against Rs 422.4 mn in 1HFY19.
- The company generated cash inflows of Rs 1.06 bn from the operations in 1HFY20 instead of using cash of Rs 636.4 mn for operations in 1HFY19.

Outlook

The financial performance of the company has been subdued since quite some time now owing to divestments of business segments and weak sentiments in the user industries. The lack of growth visibility and no clear road map by the Parent company for the listed business has been hurting the stock performance. While the company has announced capacity expansion of Polymer Dispersion (doubling the capacity) at Dahej, the product forms a very small part of the folio and we do not expect it to have any meaningful impact. The plant is expected to come up in 2021. While we remain hopeful of the gradual improvement in the performance of the company, rich valuation and lack of near-term growth trigger limits upside.

Highlights from BASF SE (Parent) results

BASF SE (Parent) reported 2% decline in revenue, led by prices decline in Materials and Chemicals segment (isocyanates prices declined considerably) as volume growth was flat YoY. The company was able to maintain its sales volumes on YoY basis despite poor demand from key consumer markets. EBIT declined by 24% YoY on account of lower contribution from Chemicals and Material. Surface Technologies, Agricultural

Solution, Industrial Solutions and Nutrition & Care segments performed well. We maintain Hold rating on the stock with a target price of Rs 1,400.

Agricultural Solution

Strong revenue growth of 26% was driven by 21% volume growth as well as 8% growth from portfolio effect from the acquisition of significant businesses and assets from Bayer in August 2018. This offset 6% decline in the prices. In Europe, sales were at the level of the prior-year quarter. Portfolio effects were able to offset lower sales volumes for herbicides and fungicides, mainly as a result of a decline in cultivation area for canola (oilseed rape), as well as a lower price level and negative currency effects. North America sales volumes went up marginally thereby offsetting lower prices along with positive currency and portfolio effects. Asian sales grew YoY on account of volume growth especially for herbicides and positive portfolio effects. Positive currency effects also contributed to the increase in sales. Overall, higher sales led to profit at EBIT level as compared to a loss in 3QCY18. The company had a very strong start to the season in South America as the demand came in earlier than expected.

Chemicals

Revenue declined by 22% YoY on account of poor performance by both the divisions (Intermediates and Petrochemicals). The sales decrease was due to lower volumes (substantial drop) in both divisions, primarily in the Petrochemicals division due to the scheduled turnarounds of steam crackers in Port Arthur, Texas and Europe, and significantly lower capacity utilisation of the condensate splitter in Port Arthur, Texas. Volumes also declined in the Intermediates division, particularly of amines and butanediol & derivatives.

Materials

The segment was largely impacted by the lower prices. Sales decline of 13% was impacted largely by lower price in monomers (down 25%) on account of high supply in the market. Performance material sales declined on account of decrease in the raw material prices

Surface Technologies

Revenue grew by 22% YoY, largely driven by 38% growth in Catalyst business on the back of increased precious metal prices as well as increased volumes in mobile emissions catalysts as well as battery business. EBIT grew by 35% YoY driven by coatings division on account of lower fixed costs. While the world automotive industry is growing at 2% BASF's automotive business is growing at 6%. With new emission regulation in India which is positive for the Catalyst business, as the company has put new capacities into India which are now getting filled.

Segmental performance

(Rs mn)	2QFY19	2QFY20	YoY (%)	1QFY20	QoQ (%)	1HFY19	1HFY20	YoY (%)
Revenues								
Agricultural Solution	3,367	3,938	16.9	3,490	12.8	6,828	7,427	8.8
Materials	4,451	4,139	(7.0)	4,082	1.4	8,638	8,222	(4.8)
Industrial Solutions	2,913	3,197	9.7	2,756	16.0	5,775	5,953	3.1
Surface Technologies	1,949	1,999	2.6	2,017	(0.9)	4,020	4,016	(0.1)
Nutrition & Care	2,012	3,658	81.8	2,092	74.8	3,893	5,750	47.7
Chemicals	396	3,144	694.6	1,024	207.1	853	4,167	388.7
Others	1,668	669	(59.9)	677	(1.2)	3,020	1,346	(55.4)
Total	16,756	20,743	23.8	16,138	28.5	33,027	36,881	11.7
EBIT								
Agricultural Solution	396	398	0.4	171	133.1	892	568	(36.3)
PBIT margin (%)	11.8	10.1	–	4.9	–	13.1	7.6	–
Materials	(223)	(286)	28.0	(28)	935.9	(413)	(314)	(24.0)
PBIT margin (%)	(5.0)	(6.9)	–	(0.7)	–	(4.8)	(3.8)	–
Industrial Solutions	151	125	(16.9)	116	7.5	331	241	(27.0)
PBIT margin (%)	5.2	3.9	–	4.2	–	5.7	4.1	–
Surface Technologies	(26)	21	(182.6)	148	(85.6)	65	169	161.1
PBIT margin (%)	(1.3)	1.1	–	7.3	–	1.6	4.2	–
Nutrition & Care	(73)	33	(146.0)	4	676.7	(143)	38	(126.4)
PBIT margin (%)	(3.6)	0.9	–	0.2	–	(3.7)	0.7	–
Chemicals	47	98	110.5	41	138.7	111	139	25.7
PBIT margin (%)	11.8	3.1	–	4.0	–	13.0	3.3	–
Others	143	61	(57.4)	50	22.9	261	111	(57.5)
PBIT margin (%)	8.6	9.1	–	7.3	–	8.6	8.2	–

BASF India

Income Statement

Period end (Rs mn)	Mar 18	Mar 19	Mar 20E	Mar 21E
Net sales	55,397	59,988	65,731	70,202
Growth (%)	9.5	8.3	9.6	6.8
Operating expenses	(52,375)	(58,610)	(62,876)	(66,577)
Operating profit	3,022	1,378	2,856	3,624
Other operating income	437	269	269	269
EBITDA	3,459	1,647	3,125	3,893
Growth (%)	41.9	(52.4)	89.8	24.6
Depreciation	(1,534)	(1,471)	(1,831)	(1,783)
Other income	229	80	250	250
EBIT	2,154	256	1,544	2,360
Finance cost	(1,130)	(851)	(880)	(800)
Exceptional & Extraordinary	1,586	1,261	(173)	0
Profit before tax	2,610	666	491	1,560
Tax (current + deferred)	(145)	99	(108)	(343)
Profit/(Loss) for the period	2,465	764	383	1,217
Reported Profit/(Loss)	2,465	764	383	1,217
Adjusted Net profit	879	(496)	556	1,217
Growth (%)	NA	NA	NA	118.9

Balance Sheet

Period end (Rs mn)	Mar 18	Mar 19	Mar 20E	Mar 21E
Share Capital	433	433	433	433
Reserves & surplus	13,006	13,696	14,027	15,192
Shareholders' funds	13,439	14,129	14,460	15,625
Non-current liabilities	4,356	3,723	4,359	4,216
Long-term borrowings	3,207	3,034	2,534	2,034
Other Long term liab, Prov, DTL	1,149	689	1,825	2,182
Current liabilities	20,669	20,663	19,594	18,882
Short-term borrowings, curr maturity	5,470	6,088	4,285	4,285
Other current liab + provi	15,199	14,575	15,309	14,597
Total (equity and liab.)	38,464	38,515	38,413	38,723
Non-current assets	13,356	12,413	10,462	9,600
Fixed assets (net block)	11,448	9,992	9,152	8,259
Long-term loans and adv.	231	214	213	213
Other non-current assets, DTA, Goodwill	1,677	2,207	1,097	1,128
Current assets	25,108	26,101	27,951	29,123
Cash & current investment	86	132	531	822
Other current assets	25,021	25,969	27,420	28,301
Total (assets)	38,464	38,515	38,413	38,723
Total debt	8,677	9,122	6,819	6,319
Capital employed	23,265	23,940	23,104	24,126

Cash Flow Statement

Period end (Rs mn)	Mar 18	Mar 19	Mar 20E	Mar 21E
Profit before tax	2,610	666	491	1,560
Depreciation	1,534	1,471	1,831	1,783
Change in working capital	2,046	(1,595)	(768)	(1,593)
Total tax paid	(606)	(80)	(108)	(343)
Others	4,000	647	1,835	647
Cash flow from oper. (a)	6,611	1,313	2,326	2,207
Capital expenditure	(430)	(15)	(990)	(890)
Others	(701)	(352)	1,110	(31)
Cash flow from inv. (b)	(1,130)	(367)	120	(921)
Free cash flow (a+b)	5,480	946	2,446	1,286
Debt raised/(repaid)	(4,069)	445	(2,303)	(500)
Dividend (incl. tax)	(52)	(157)	0	(52)
Others	(1,524)	(1,189)	256	(443)
Cash flow from fin. (c)	(5,645)	(900)	(2,047)	(995)
Net chg. in cash (a+b+c)	(165)	46	399	291

Key Ratios

Period end (%)	Mar 18	Mar 19	Mar 20E	Mar 21E
Adjusted EPS (Rs)	20.3	(11.5)	12.8	28.1
Growth	NA	NA	NA	118.9
CEPS (Rs)	55.7	22.5	55.1	69.3
Book NAV/share (Rs)	301.9	317.8	325.4	352.4
Dividend/share (Rs)	1.0	3.0	1.0	1.0
Dividend payout ratio	2.1	20.5	13.6	4.3
EBITDA margin	6.2	2.7	4.8	5.5
EBIT margin	3.9	0.4	2.3	3.4
Tax Rate	8.0	174.6	(13.2)	22.0
RoCE	8.9	1.1	6.6	10.0
Total debt/Equity (x)	0.6	0.6	0.5	0.4
Net debt/Equity (x)	0.6	0.6	0.4	0.4
Du Pont Analysis - ROE				
Net margin	1.6	(0.8)	0.8	1.7
Asset turnover (x)	1.4	1.6	1.7	1.8
Leverage factor (x)	3.3	2.9	2.8	2.6
Return on equity	7.4	(3.7)	4.0	8.3

Valuations

Period end (x)	Mar 18	Mar 19	Mar 20E	Mar 21E
PER	94.2	(128.6)	77.1	35.2
PCE	34.3	65.5	18.0	14.3
Price/Book	6.3	4.6	3.0	2.8
Yield (%)	0.1	0.2	0.1	0.1
EV/EBITDA	26.4	44.2	15.7	12.4

Share Data

Price (Rs)	337
BSE Sensex	40,889
Reuters code	CLAC.BO
Bloomberg code	CLRC IN
Market cap. (US\$ mn)	109
6M avg. daily turnover (US\$ mn)	0.2
Issued shares (mn)	23
Target price (Rs)	360

Performance (%)	1M	3M	12M
Absolute	21	17	(13)
Relative	16	5	(24)

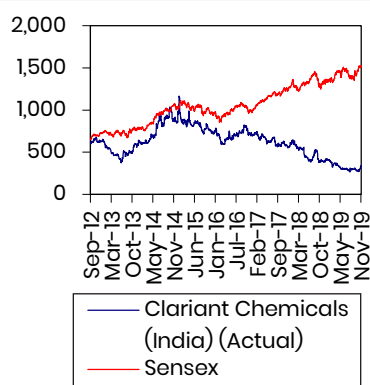
Valuation Ratios

Yr to 31 Mar	FY19	FY20E	FY21E
EPS (Rs)	8.0	21.5	24.7
+/- (%)	(14.1)	167.3	15.0
PER (x)	45.3	15.7	13.6
PBV (x)	1.4	1.2	1.1
Dividend/Yield (%)	2.7	3.0	3.0
EV/Sales (x)	0.8	0.6	0.5
EV/EBITDA (x)	13.8	6.2	5.2

Major Shareholders (%)

Promoters	51
MFs	1
BFSI's	6
Public & Others	43

Relative Performance



Clariant Chemicals (India)

Maintain Hold

Continues to post improved performance...

Clariant Chemicals India (CLRC) operates in the business areas of Care Chemicals (BU Industrial & Consumer Specialties), Plastics & Coatings (BU Pigments, BU Masterbatches and BU Additives), Natural Resources (BU Functional Minerals, BL Mining Services) and Catalysis (BU Catalysts).

2QFY20 performance

Clariant Chemicals (India) Ltd. (CLRC) continued to post improvement in its performance. Though sales growth remained lower at 6.1% YoY, low base coupled with price hikes aided EBITDA and PAT growth of 135.4% and 177.8% YoY, respectively, to Rs 297 mn and Rs 133 mn.

Plastics and Coatings segment posted 7.8% YoY growth to Rs 2.6 bn while Specialty Chemicals reported 22.3% decline in sales to Rs 109 mn. Plastics and Coatings reported EBIT margins of 7.7% against loss last year while Specialty Chemicals EBIT margins improved from 2.4% in 2Q'19 to 14.6%.

Gross margins improved by 330 bps YoY and 90 bps QoQ to 38.3%. This coupled with lower overheads partly on account of Ind AS 116 adoption resulted into 600 bps YoY EBITDA margin expansion to 10.9%. The adoption of Ind AS 116 has resulted into decrease in profit before tax by Rs 6.6 mn for 2Q'20 and Rs 13.7 mn during 1H'20. Other income declined by 10.3% YoY to Rs 39.0 mn while depreciation increased by 24.8% YoY to Rs 115.0 mn resulting into 185.5% YoY growth in EBIT to Rs 220.0 mn.

Financial highlights

(Rs mn)	2QFY19	2QFY20	YoY (%)	1QFY20	QoQ (%)	1HFY19	1HFY20	YoY (%)
Net sales	2,564	2,721	6.1	2,958	(8.0)	5,207	5,679	9.1
Gross profit	899	1,041	15.9	1,108	(6.0)	1,874	2,149	14.7
Gross margin (%)	35.0	38.3	-	37.4	-	36.0	37.8	-
Total expenditure	2,438	2,425	(0.5)	2,673	(9.3)	4,866	5,098	4.8
EBITDA	126	297	135.4	285	4.1	341	582	70.4
EBITDA margin (%)	4.9	10.9	-	9.6	-	6.6	10.2	-
Other income	44	39	(10.3)	26	49.4	76	65	(14.7)
Interest	1	10	600.0	11	(6.7)	3	20	576.7
Depreciation	92	115	24.8	116	(0.9)	186	231	24.3
PBT	76	211	177.8	184	14.3	229	395	72.8
Tax	39	77	97.4	72	7.8	95	149	56.0
Tax rate (%)	51.6	36.7	-	38.8	-	41.8	37.7	-
Adjusted PAT	37	133	263.5	113	18.4	133	246	84.9
NPM (%)	1.4	4.9	-	3.8	-	2.6	4.3	-
Adjusted EPS (Rs)	1.6	5.8	263.5	4.9	18.4	5.8	10.7	84.9

The company continued to remain in the higher tax regime with the company reporting tax rate of 36.7% for 2Q'20. Reported PAT stood at Rs 133.0 mn, up 263.5% YoY. EPS for the quarter stood at Rs 5.78.

The Board unanimously approved the sale of Business Unit namely Additives (BU – Additives) to Clariant India Limited, a Related Party, on a going concern basis for a consideration of Rs 168.4 mn (0.6x sales and 4.7x PAT). The said unit had sales of Rs 265.2 mn (~2.7% of total sales) and PAT of Rs 36.1 mn (~12.0% of PAT) in FY19. The transaction is expected to get completed by end of FY20.

1HFY20 performance

Performance improved significantly on the back of price hikes and weak base. Revenue grew by 9.1% YoY to Rs 5.7 bn as the company took price hikes and passed on the raw material price increase.

Price hikes led to gross margins expansion of 180 bps to 37.8%, while controlled expenses and adoption of Ind AS 116 has resulted into further expansion in EBITDA margin by 600 bps to 10.9%.

PAT grew by 84.9% YoY to Rs 246 mn despite higher depreciation (up 24.3% to Rs 231 mn) and interest cost (up 576% to Rs 20 mn) and lower other income (down 14.7% to Rs 65 mn).

Key highlights from Balance Sheet and Cash Flow statement

- The company has capitalised Rs 114.6 mn during 1H'20 with CWIP coming down to Rs 84.3 mn.
- The working capital improves as the company reports improved cash flows from operation (after working capital changes) to Rs 490.9 mn (up Rs 364.6 mn YoY).
- The company has created lease liabilities worth Rs 280.4 mn under non-current liabilities.
- Cash inflow from operations went up from Rs 605 mn in 1HFY19 to Rs 3.86 bn. As per the cash flow statement, CLRC incurred a capex of Rs 1.86 bn in 1HFY20 as against Rs 1.28 bn in 1HFY19.

Outlook

The financial performance of CLRC has been subdued for quite some time as rising raw material prices, subdued demand and ban on one-time use plastics in many states took toll on the financial performance. The news flow from the parent company regarding divestment of the pigment and Masterbatch business (~90% of the total revenue of the Indian entity) further adds to the uncertainty for the Indian business. Nonetheless, we remain watchful and expect gradual improvement in the ensuing quarters. Maintain Hold with a target price of Rs 360.

Segmental performance

(Rs mn)	2QFY19	2QFY20	YoY (%)	1QFY20	QoQ (%)	1HFY19	1HFY20	YoY (%)
Revenue								
Plastics and Coatings	2,423	2,612	7.8	2,758	(5.3)	4,900	5,370	9.6
% of revenue	94.5	96.0	–	93.2	–	94.1	94.6	–
Specialty Chemicals	141	109	(22.3)	200	(45.4)	307	309	0.8
% of revenue	5.5	4.0	–	6.8	–	5.9	5.4	–
Total	2,564	2,721	6.1	2,958	(8.0)	5,207	5,679	9.1
EBIT								
Plastics and Coatings	67	202	200.1	236	(14.4)	222	439	98.1
EBIT (%)	2.8	7.7	–	8.6	–	4.5	8.2	–
Specialty Chemicals	3	16	488.9	26	(38.8)	(1)	42	NA
EBIT (%)	1.9	14.6	–	13.0	–	(0.3)	13.6	–
Total	70	218	211.3	262	(16.8)	221	481	117.9

Clariant Chemicals (India)

Income Statement

Period end (Rs mn)	Mar 18	Mar 19	Mar 20E	Mar 21E
Net sales	10,136	10,281	11,449	12,345
Growth (%)	3.3	1.4	11.4	7.8
Operating expenses	(9,696)	(9,707)	(10,317)	(11,093)
Operating profit	440	574	1,133	1,252
EBITDA	440	574	1,133	1,252
Growth (%)	(34.5)	30.5	97.4	10.5
Depreciation	(377)	(374)	(465)	(476)
Other income	277	108	113	119
EBIT	340	308	782	895
Finance cost	(6)	(6)	(41)	(43)
Profit before tax	334	301	741	852
Tax (current + deferred)	(118)	(116)	(244)	(281)
P/(L) for the period	216	186	496	571
Reported Profit/(Loss)	216	186	496	571
Adjusted net profit	216	186	496	571
Growth (%)	(11.8)	(14.1)	167.3	15.0

Balance Sheet

Period end (Rs mn)	Mar 18	Mar 19	Mar 20E	Mar 21E
Share capital	231	231	231	231
Reserves & surplus	6,015	5,933	6,429	7,000
Shareholders' funds	6,246	6,164	6,660	7,231
Non-current liabilities	331	283	283	283
Other non-current liabilities	331	283	283	283
Current liabilities	2,349	2,498	2,581	2,670
Other current liabilities	2,349	2,498	2,581	2,670
Total (Equity and Liab.)	8,926	8,945	9,524	10,183
Non-current assets	3,429	3,403	3,275	3,115
Fixed assets (Net block)	2,934	2,904	2,775	2,615
Long-term loans and advances	93	97	97	97
Other non-current assets	402	402	402	402
Current assets	5,497	5,542	6,249	7,069
Cash & current investment	685	472	788	1,276
Other current assets	4,811	5,070	5,462	5,793
Total (Assets)	8,926	8,945	9,524	10,183
Capital employed	6,577	6,447	6,943	7,514

Cash Flow Statement

Period end (Rs mn)	Mar 18	Mar 19	Mar 20E	Mar 21E
Profit before tax	334	301	741	852
Depreciation	377	374	465	476
Change in working capital	(495)	(108)	(309)	(242)
Total tax paid	(92)	(170)	(244)	(281)
Others	(43)	(17)	16	18
Cash flow from oper. (a)	82	380	668	822
Capital expenditure	(184)	(331)	(323)	(302)
Change in investments	745	287	0	0
Others	21	11	11	11
Cash flow from inv. (b)	583	(33)	(311)	(291)
Free cash flow (a+b)	665	347	357	531
Dividend (incl. tax)	(669)	(268)	(268)	(268)
Others	(36)	(6)	227	225
Cash flow from fin. (c)	(705)	(274)	(41)	(43)
Net chg in cash (a+b+c)	(40)	73	316	488

Key Ratios

Period end (%)	Mar 18	Mar 19	Mar 20E	Mar 21E
Adjusted EPS (Rs)	9.4	8.0	21.5	24.7
Growth	(11.8)	(14.1)	167.3	15.0
CEPS (Rs)	25.7	24.3	41.6	45.3
Book NAV/share (Rs)	270.6	267.1	288.6	313.3
Dividend/share (Rs)	25.0	10.0	10.0	10.0
Dividend payout ratio	309.9	144.2	54.0	46.9
EBITDA margin	4.3	5.6	9.9	10.1
EBIT margin	3.4	3.0	6.8	7.2
Tax rate	35.4	38.4	33.0	33.0
RoCE	5.0	4.7	11.7	12.4
Net debt/Equity (x)	(0.1)	(0.1)	(0.1)	(0.2)
Du Pont Analysis – RoE				
Net margin	2.1	1.8	4.3	4.6
Asset turnover (x)	1.1	1.2	1.2	1.3
Leverage factor (x)	1.4	1.4	1.4	1.4
Return on equity	3.3	3.0	7.7	8.2

Valuations

Period end (x)	Mar 18	Mar 19	Mar 20E	Mar 21E
PER	57.2	45.3	15.7	13.6
PCE	20.8	15.0	8.1	7.4
Price/Book	2.0	1.4	1.2	1.1
Yield (%)	4.7	2.7	3.0	3.0
EV/EBITDA	26.6	13.8	6.2	5.2

Share Data

Price (Rs)	483
BSE Sensex	40,889
Reuters code	GUJLBO
Bloomberg code	FLUROCH IN
Market cap. (US\$ mn)	744
6M avg. daily turnover (US\$ mn)	NA
Issued shares (mn)	110
Target price (Rs)	575

Performance (%) 1M 3M 12M

Absolute	(30)	n/a	n/a
Relative	(33)	n/a	n/a

Valuation Ratios

Yr to 31 Mar	FY20E	FY21E	FY22E
EPS (Rs)	24.8	35.8	42.9
+/- (%)	(40.4)	44.2	19.9
PER (x)	19.5	13.5	11.3
PBV (x)	1.4	1.2	1.0
Dividend/Yield (%)	0.7	0.8	1.2
EV/Sales (x)	2.3	2.0	1.6
EV/EBITDA (x)	10.5	7.3	5.7

Major Shareholders (%)

Promoters	69
FIs	5
MFs	5
Public & Others	21

Gujarat Fluorochemicals

Maintain Hold

Drop in realisations dent profitability...

Gujarat Fluorochemicals Ltd. (FLUROCH) got listed as a spin-off chemical entity during 2QFY20. The company includes along with erstwhile chemical business, Gujarat Fluorochemicals Americas LLC (engaged in the business of processing and marketing of PTFE products manufactured by GFL, in United States of America), Gujarat Fluorochemicals GmbH (engaged in business of trading as well as processing, distribution, marketing and storage of polymers to its German and EU customers) and Morocco Mines (fluorspar mines).

2QFY20 performance

Consolidated Net Sales/EBITDA/Adjusted PAT declined by 0.8%/34.7%/60.4% to Rs 6.68 bn/Rs 1.9 bn/Rs 970 mn, respectively. Standalone Net Sales/EBITDA/Adjusted PAT declined by 3.4%/32.6%/46.4% to Rs 6.57 bn/Rs 1.33 bn/Rs 597 mn, respectively. The quarter had exceptional item of Rs 260 mn pertaining to one-off de-merger expenses.

Revenues from Caustic Soda, Refrigerants, PTFE and value-added products declined sequentially by 18.6%, 4.6%, 15.9% and 10.8%, respectively, led by falling realisations. PTFE, one of the key growth drivers in the last couple of years reported both volume and realisations decline owing to slowdown in automobile and US-China trade war impacting realisations in Europe.

Financial highlights

(Rs mn)	2QFY19	2QFY20	YoY (%)	1QFY20	QoQ (%)	1HFY19	1HFY20	YoY (%)
Net sales	6,802	6,624	(2.6)	7,400	(10.5)	13,750	14,024	2.0
Gross profit	4,773	4,299	(9.9)	5,098	(15.7)	9,600	9,396	(2.1)
Gross margin (%)	70.2	64.9	-	68.9	-	69.8	67.0	-
Total expenditure	4,826	5,384	11.6	5,499	(2.1)	9,648	10,882	12.8
EBITDA	1,977	1,241	(37.2)	1,901	(34.7)	4,102	3,142	(23.4)
EBITDA margin (%)	29.1	18.7	-	25.7	-	29.8	22.4	-
Other income	429	40	(90.6)	29	36.4	565	70	(87.7)
Interest	171	248	44.8	193	28.2	290	441	51.8
Depreciation	399	481	20.5	471	2.1	786	952	21.2
PBT	1,835	292	(84.1)	1,266	(77.0)	3,591	1,558	(56.6)
Tax	(2,773)	168	(106.0)	146	15.0	(2,170)	313	(114.4)
Tax rate (%)	(151.1)	57.5	-	11.5	-	(60.4)	20.1	-
Adjusted PAT	1,114	384	(65.5)	797	(51.7)	2,267	1,181	(47.9)
NPM (%)	16.4	5.8	-	10.8	-	16.5	8.4	-
Adjusted EPS (Rs)	10.1	3.5	(65.5)	7.2	(51.7)	20.6	10.7	(47.9)

The value-added products too witnessed sequential decline owing to lower off-take and resulted into overall sequential decline in sales of 10.5% to Rs 6.6 bn.

Caustic soda segment which has been among the most profitable segment last year has seen correction in realisation severely impacted profitability. The management indicated that the performance also got impacted by high cost inventory which resulted into inventory loss. Negative operating leverage resulted into EBITDA margins contraction of 1,050 bps to 18.6%.

Profits were impacted by one-time de-merger cost and Income Tax credits worth Rs 3.49 bn in base quarter. Adjusting for these, adjusted PAT declined by 60.4% YoY to Rs 385 mn.

1HFY20 performance

Consolidated revenues grew by 2.0% YoY to Rs 14.0 bn while EBITDA and adjusted PAT declined by 23.4% and 47.9% YoY to Rs 3.1 bn and Rs 1.2 bn, respectively. Revenue growth was stunted on account of 10.5% decline in Caustic Soda revenues and 9.2% decline in PTFE revenues as well as muted growth of 3.1% in Chloromethane on account of lower realisation in all the segments. Revenues from Refrigerant segment grew by 11.6% to Rs 2.1 bn and value-added products by 33.5% to Rs 2.3 bn. Others grew by 15.4% to Rs 600 mn.

Gross margins contracted by 280 bps to 22.4% and EBITDA margins further contracted by 740 bps on account of poor operating leverage.

PAT declined on account of high interest cost (up 51.8% to Rs 441 mn) and depreciation (up 21.2% to Rs 952 mn) as well as low other income (down 87.7% to Rs 70 mn).

Key highlights from Balance Sheet and Cash Flow statement

- The historical numbers of balance sheet and cash flow statement are not provided.
- On standalone basis, the long-term borrowings have come down by Rs 312 mn while the short-term borrowings went up by Rs 4.57 bn; according to the cash flow statement, net borrowings went up by Rs 4.26 bn. On consolidated basis, debt stands at Rs 13.0 bn. The company has tax assets worth Rs 5.3 bn which are largely advanced taxes as well as MAT credits which are due.
- The company incurred capex of Rs 7.2 bn in 1HFY20; cash flow from operations was about Rs 3.7 bn.
- Net working capital went up marginally by Rs 39 mn.

Outlook

The company's performance has been weak and is expected to remain subdued in the near-term. PTFE segment, the key growth engine is witnessing headwinds with regards to slowdown in the automobile and US-China trade issue leading to lower realisations. The situation is expected to stabilise in the next couple of quarter, as per the management. We believe the valuations are attractive for a long-term investment and recovery in the financial performance remains a key near-term trigger.

Concall highlights

- PTFE segment performance was impacted by slowdown in the EU auto market; the company had not anticipated such sharp drop in realisations; 3QFY20 would be similarly subdued and the company expects revival from 4QFY20 onwards.
- The sales volume of PTFE was about 3,600 MT and the weighted average realisations were about Rs 680,000/MT against Rs 740,000 MT. 47% was regular grade while 53% was value-added.
- Further, the raw material prices declined during the quarter. Due to volatile nature of raw material, the company keeps four-five months of inventory which resulted into inventory loss.

- There was sharp jump in the fluorochemicals intermediates revenue as the company launched 6 products in 1HFY20. The company intends to launch 3 products in 3QFY20, 4QFY20 and 1QFY21, consecutively.
- Caustic soda realisations have dropped significantly and the company does not expect any revival in the prices soon.
- The capex guidance for the year has gone up from Rs 1.25 bn to Rs 7.0 bn. The company has now planned new project for Dahej which would be carried out in a phased manner and has placed orders for wind power plant in order to save power cost. As per the management, the company would save about 35% of its power cost. Capex guidance for rest of the year is about Rs 300 mn/month.
- The capex for Phase 1 for Dahej would be Rs 3.5 bn and would be incurred in FY20, largely for setting up civil infrastructure and utilities. Rs 1.5 bn would be used towards de-bottlenecking of current products. The Ranjitnagar plant would require further capex of Rs 400-500 mn.
- The power cost currently in Gujarat is about Rs 7/unit. The new wind power plant (60 MW) is expected to be operational by the end of FY20E.
- The debt on the books has gone up by Rs 9.0 bn to Rs 13.0 bn.
- The company would not shift to the new tax regime as it has Rs 6.5 bn worth of MAT credit. It intends to exhaust it over the next three-four years.

Segmental performance

(Rs mn)	3QFY18	4QFY18	1QFY19*	2QFY19*	3QFY19	4QFY19	1QFY20*	2QFY20*
Segment revenue								
Caustic Soda	1,284	1,329	1,140	1,150	1,214	1,120	1,130	920
YoY (%)	49.0	42.7	NA	NA	(5.5)	(15.7)	(0.9)	(20.0)
% of total	24.4	22.3	16.6	17.2	18.0	16.5	15.3	13.9
Chloromethanes	758	756	700	920	1,060	840	820	850
YoY (%)	25.9	36.5	NA	NA	39.8	11.1	17.1	(7.6)
% of total	14.4	12.7	10.2	13.8	15.7	12.4	11.1	12.8
Refrigerants	676	963	1,110	780	737	980	1,080	1,030
YoY (%)	113.9	36.2	NA	NA	9.0	1.8	(2.7)	32.1
% of total	12.8	16.1	16.2	11.7	10.9	14.4	14.6	15.6
PTFE	1,853	1,890	2,800	2,940	2,750	2,690	2,830	2,380
YoY (%)	55.1	28.0	NA	NA	48.4	42.3	1.1	(19.0)
% of total	35.2	31.7	40.8	44.0	40.8	39.6	38.2	36.0
Value-added products	474	740	930	770	769	980	1,200	1,070
YoY (%)	256.4	473.6	NA	NA	62.2	32.4	29.0	39.0
% of total	9.0	12.4	13.5	11.5	11.4	14.4	16.2	16.2
Other Products	224	290	280	240	206	190	290	310
YoY (%)	64.7	95.9	NA	NA	(8.0)	(34.5)	3.6	29.2
% of total	4.3	4.9	4.1	3.6	3.1	2.8	3.9	4.7
Contra on Consolidation	-	-	(90)	(120)	-	-	50	60
Total Segment Revenue	5,269	5,968	6,870	6,680	6,736	6,800	7,400	6,620

*Consolidated figures.

Gujarat Fluorochemicals

Income Statement (Consolidated)

Period end (Rs mn)	Mar 19	Mar 20E	Mar 21E	Mar 22E
Net sales	27,305	27,936	31,086	34,666
Growth (%)	32.8	2.3	11.3	11.5
Operating expenses	(19,469)	(21,701)	(22,722)	(24,785)
Operating profit	7,836	6,235	8,364	9,882
EBITDA	7,836	6,235	8,364	9,882
Growth (%)	35.3	(20.4)	34.1	18.1
Depreciation	(1,616)	(1,905)	(2,053)	(2,533)
Other income	1,322	180	207	238
EBIT	7,542	4,511	6,517	7,587
Finance cost	(557)	(950)	(903)	(857)
Exceptional & extraordinary	(82)	(260)	0	0
Profit before tax	6,902	3,301	5,615	6,730
Tax (current + deferred)	(2,414)	(835)	(1,684)	(2,019)
Profit/(Loss) for the period	4,488	2,466	3,930	4,711
Reported Profit/(Loss)	4,488	2,466	3,930	4,711
Adjusted net profit	4,570	2,726	3,930	4,711
Growth (%)	37.2	(40.4)	44.2	19.9

Balance Sheet (Consolidated)

Period end (Rs mn)	Mar 19	Mar 20E	Mar 21E	Mar 22E
Share capital	110	110	110	110
Reserves & surplus	46,980	38,547	44,238	53,869
Shareholders' funds	47,090	38,657	44,348	53,979
Minority interest and others	0	(59)	(59)	(59)
Non-current liabilities	1,801	1,831	1,631	1,431
Long-term borrowings	1,590	1,482	1,282	1,082
Other non-current liabilities	211	348	348	348
Current liabilities	11,467	17,017	14,365	11,246
ST borrowings, Curr maturity	7,576	11,644	8,844	5,844
Other current liabilities	3,891	5,373	5,521	5,402
Total (Equity and Liab.)	60,357	57,445	60,285	66,597
Non-current assets	41,886	43,185	43,346	46,247
Fixed assets (Net block)	24,118	28,296	28,457	28,858
Non-current Investments	8,938	3,282	3,282	3,782
Long-term loans and advances	68	80	80	80
Other non-current assets	8,762	11,527	11,527	13,527
Current assets	18,471	14,260	16,939	20,350
Cash & current investment	330	1,078	2,441	4,182
Other current assets	18,141	13,182	14,498	16,168
Total (Assets)	60,357	57,445	60,285	66,597
Total debt	9,166	13,126	10,126	6,926
Capital employed	56,466	52,072	54,763	61,194

Cash Flow Statement (Consolidated)

Period end (Rs mn)	Mar 19	Mar 20E	Mar 21E	Mar 22E
Profit before tax	6,902	3,301	5,615	6,730
Depreciation	1,616	1,905	2,053	2,533
Change in working capital	(2,864)	6,413	(1,168)	(1,789)
Total tax paid	(7,720)	(852)	(1,684)	(2,019)
Others	(591)	770	696	619
Cash flow from oper. (a)	(2,656)	11,536	5,511	6,074
Capital expenditure	(3,314)	(6,083)	(2,214)	(2,934)
Change in investments	(1,025)	5,004	0	(500)
Others	(1,803)	(2,494)	207	(1,762)
Cash flow from inv. (b)	(6,142)	(3,573)	(2,007)	(5,196)
Free cash flow (a+b)	(8,799)	7,963	3,504	878
Debt raised/(repaid)	1,668	3,960	(3,000)	(3,200)
Dividend (incl. tax)	(450)	(450)	(514)	(771)
Others	7,693	(11,377)	1,373	4,834
Cash flow from fin. (c)	8,911	(7,867)	(2,141)	863
Net chg in cash (a+b+c)	112	96	1,363	1,741

Key Ratios (Consolidated)

Period end (%)	Mar 19	Mar 20E	Mar 21E	Mar 22E
Adjusted EPS (Rs)	41.6	24.8	35.8	42.9
Growth	37.2	(40.4)	44.2	19.9
CEPS (Rs)	56.3	42.1	54.4	65.9
Book NAV/share (Rs)	428.7	351.7	403.5	491.2
Dividend/share (Rs)	3.5	3.5	4.0	6.0
Dividend payout ratio	10.0	18.3	13.1	16.4
EBITDA margin	28.7	22.3	26.9	28.5
EBIT margin	27.6	16.1	21.0	21.9
Tax rate	34.6	23.5	30.0	30.0
RoCE	14.9	8.3	12.2	13.1
Total debt/Equity (x)	0.2	0.3	0.2	0.1
Net debt/Equity (x)	0.2	0.3	0.2	0.1
Du Pont Analysis – RoE				
Net margin	16.7	9.8	12.6	13.6
Asset turnover (x)	0.5	0.5	0.5	0.5
Leverage factor (x)	1.3	1.4	1.4	1.3
Return on equity	11.2	6.4	9.5	9.6

Valuations (Consolidated)

Period end (x)	Mar 19	Mar 20E	Mar 21E	Mar 22E
PER	0.0	19.9	13.8	11.5
PCE	0.0	11.7	9.1	7.5
Price/Book	0.0	1.4	1.2	1.0
Yield (%)	–	0.7	0.8	1.2
EV/EBITDA	1.1	10.6	7.4	5.8

Share Data

Price (Rs)	887
BSE Sensex	40,889
Reuters code	NAFLBO
Bloomberg code	NFIL IN
Market cap. (US\$ mn)	611
6M avg. daily turnover (US\$ mn)	0.7
Issued shares (mn)	49
Target price (Rs)	890

Performance (%) 1M 3M 12M

Absolute	4	29	25
Relative	0	16	9

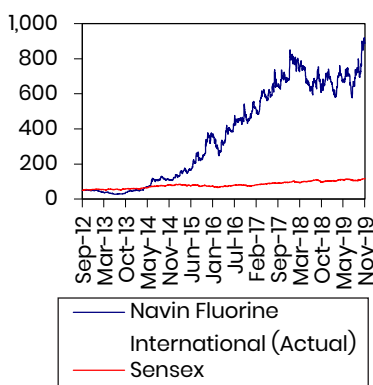
Valuation Ratios

Yr to 31 Mar	FY19	FY20E	FY2IE
EPS (Rs)	30.2	37.6	44.3
+/- (%)	(17.2)	24.6	18.0
PER (x)	23.3	23.6	20.0
PBV (x)	3.2	3.6	3.2
Dividend/Yield (%)	1.1	1.0	1.2
EV/Sales (x)	3.3	3.8	3.2
EV/EBITDA (x)	14.9	16.1	13.6

Major Shareholders (%)

Promoters	31
FII's	17
MF's	16
BFSI's	2
Public & Others	34
Pledge	4

Relative Performance



Navin Fluorine International **Maintain Hold**

Specialty chemicals drives growth...

Navin Fluorine International Ltd. (NFLI), an Arvind Mafatlal Group company was established in 1967 to manufacture Fluorochemicals. Over the years, the company has diversified into Refrigerants, Inorganic Fluorides, Specialty Fluorochemicals and CRAMS businesses.

2QFY20 performance

Navin Fluorine International (NFLI) reported healthy performance with consolidated Sales/EBITDA/PAT growth of by 7.7%/33.7%/27.0% to Rs 2.7 bn/ Rs 681 mn/Rs 473 mn, respectively. Revenues from CRAMS declined by 6% YoY to Rs 470 mn; however, the performance improved sequentially on account of weak base and healthy order book. The performance was yet again led by Specialty Chemicals BU as revenues grew by 20.5% YoY to Rs 940 mn on the back of strong volume growth as well as good order flow from both Life Science and Crop Science segments.

The company has passed on the input cost inflation through price hikes in the last quarter of FY19. This coupled with strong performance from new products in specialty chemicals segment drove gross margin expansion of 360 bps YoY. The EBITDA margins further expanded by 490 bps as the company took several cost reduction initiatives during the start of FY20E. Standalone Sales/EBITDA/PAT grew by 9.1%/34.3%/35.6% YoY to Rs 2.63 bn/Rs 676 mn/Rs 464 mn, respectively. The tax rate stood at 32% as the company is still evaluating options and is likely to take a call by the end of the year.

Financial highlights

(Rs mn)	2QFY19	2QFY20	YoY (%)	1QFY20	QoQ (%)	1HFY19	1HFY20	YoY (%)
Net sales	2,534	2,729	7.7	2,515	8.5	5,095	5,245	2.9
Gross profit	1,267	1,463	15.5	1,313	11.4	2,665	2,776	4.2
Gross margin (%)	50.0	53.6	-	52.2	-	52.3	52.9	-
Total expenditure	2,024	2,048	1.2	1,904	7.5	3,946	3,952	0.2
EBITDA	510	681	33.7	611	11.5	1,149	1,292	12.5
EBITDA margin (%)	20.1	25.0	-	24.3	-	22.6	24.6	-
Other income	82	92	12.1	68	34.3	122	160	31.4
Interest	1	4	167.4	5	(24.2)	3	9	209.2
Depreciation	67	85	26.6	82	3.3	141	167	18.4
PBT	523	684	30.8	592	15.6	1,127	1,276	13.3
Tax	177	219	23.3	196	11.6	374	415	10.9
Tax rate (%)	33.9	32.0	-	33.1	-	33.2	32.5	-
Adjusted PAT	373	473	27.0	431	9.7	753	905	20.2
NPM (%)	14.7	17.3	-	17.1	-	14.8	17.3	-
Adjusted EPS (Rs)	7.5	9.6	27.0	8.7	9.7	15.2	18.3	20.0

While the issues at the Piramal JV plant were resolved during the last quarter, the company had taken a planned shut down during the quarter which impacted the performance. Further, the tax provisions for 1HFY20 were entirely considered in 2QFY20E thereby impacting the JV performance. The JV reported a profit of Rs 8 mn a decline of ~71% YoY limiting consolidated PAT growth to 27% YoY to Rs 473 mn.

1HFY20 performance

Revenue grew by 2.9% YoY to Rs 5.2 bn as revenue from CRAMS BU declined by 16.3% due to poor performance in 1QFY20 despite 13.2% growth in specialty chemicals BU. Revenue from Refrigerants BU grew by 5.0% YoY to Rs 1.5 bn and Inorganic Fluorides by 6.1% to Rs 1.0 bn.

Gross margins expanded marginally by 60 bps to 52.9%. EBITDA margin further expanded by 170 bps to 24.6%. EBITDA grew by 12.5% YoY to Rs 1.3 bn.

PAT grew by 20.2% to Rs 905 mn despite higher depreciation (up 18.4% to Rs 167 mn) and interest cost (up 209.2% to Rs 9.0 mn) as other income grew by 31.4% to Rs 160 mn. Tax rate stood at 32.5% against 33.2% in 1HFY19.

Key highlights from Balance Sheet and Cash Flow statement

- Inventory days decreased by 3 days to 85 days while the receivable days increased by 1 day to 65 days. Payable days increased by 8 days to 37 days. The overall cash conversion cycle decreased by 11 days to 113 days.
- The core capital employed stood at Rs 8.95 bn and annualised core RoCE stood at 25.12%.
- Cash generated from operations during the period was about Rs 597 mn against Rs 394 mn during 1HFY19.
- Net cash used in investing activities was about Rs 309 mn; the company sold Rs 2.23 bn worth of investments and spent about Rs 670 mn towards PPE.
- The company repaid all of its short-term borrowing during the period (Rs 41.3 mn) and is currently a zero debt company.

Outlook

CRAMS remains the growth driver for the company going ahead and with the management commentary turning optimistic for CRAMS BU, the outlook remains positive. The long-term agreement with US client is a milestone for the company as it is the first molecule which has overcome the long R&D gestation and is getting launched next year. A successful launch by the customer would make the business sticky. However, we believe the ramp-up would be gradual and incremental investments would be required for sustainable performance. We would therefore be eagerly looking forward to further growth plans by the company. Maintain Hold with a revised target price of Rs 890.

Concall highlights

Specialty Chemicals BU

- The jump in the domestic revenue came in due to product mix shift which varies quarter on quarter. The product which underwent de-bottlenecking during the last quarter is a 100% export product and the company spent about Rs 100 mn towards de-bottlenecking. Majority of the growth in the BU came in from 4 products, 3 of which are multi consumer products. Two of those products contribute to the domestic revenue, 1 product contributes to the exports revenue and 1 contributes to the both.

- Going ahead, the company plans to incur a small capex in Surat and a large capex for greenfield expansion in Dahej for specialty chemicals and a certain other segment which is not a part of any existing BU. The plans are yet to firm up and the company would make the announcements by 3QFY20.
- There were certain increases in the product realisation during the quarter on account of supply shortage in the market of one of the key products of the company. However, majority of the growth came in on the back of strong volume growth and cost reduction.
- The order book visibility in specialty chemicals is comparatively stronger as compared to other BUs and the company is looking forward to enter into supply contracts with their customers; however, they would not be focusing on long-term contracts as the company wants to diversify this BU in terms of products and customers.

CRAMS BU

- The new supply contract signed by the company is a 5-year contract and would start to contribute to the revenue from 3Q end or 4Q onwards and hence the 2QFY20 revenue of CRAMS does not reflect the revenue from the long-term contract. The second customer that delayed the campaign is reworking on their project and would reconnect by the end of November or early December.
- The commissioning of the new cGMP facility has been delayed from October 2019 to December 2019 post which it would start fulfilling the order book back log piled up due to the delay. The company decided to delay order fulfilment as the new cGMP3 plant is larger than the current cGMP2 plant and further many other capabilities.
- Large number of CRAMS opportunity gets initiated from MOL for customers who do not directly come to India for solutions; and for this reason, the company is planning to make an investment in 1HCY20 in MOL to upgrade its capabilities.

Inorganic Fluorides BU

Despite the subdued demand from the domestic stainless steel industry the growth came in as the company maintained their volumes and realisations. The company expects to maintain them going forward as well.

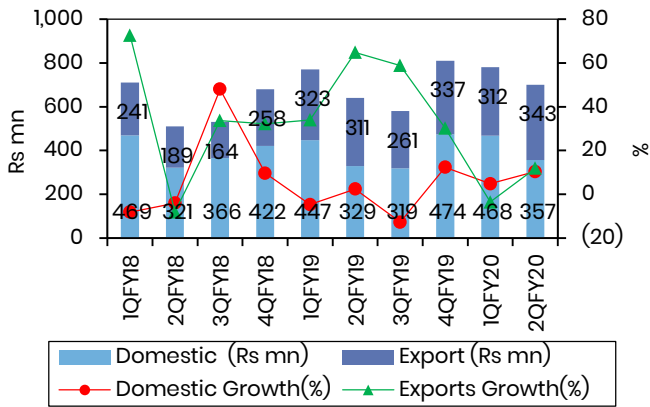
Refrigerants BU

The pricing in the refrigerants BU was better in the domestic as well as exports market. The export contribution to the revenues of the BU jumped to 49% from 40% sequentially.

Other highlights

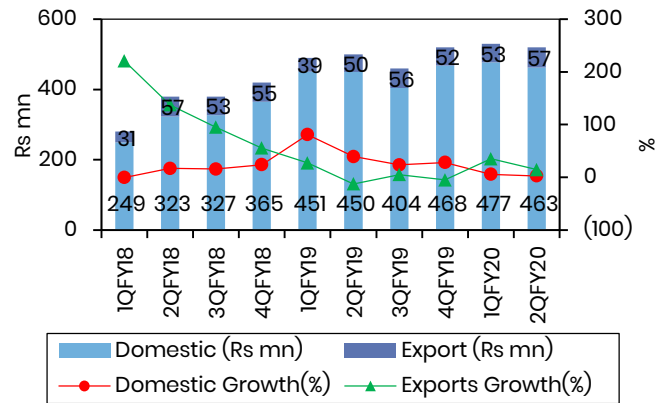
- The standalone tax rate stood at 34.9% as the company has yet not adopted the new tax rate of 25.17% despite having not MAT credit entitlement or Deferred Tax Asset; the company is evaluating multiple options by the end of the year through which they may be able to accrue tax benefits.
- The reported other income of Rs 86 mn includes Rs 14 mn of one of gain towards sale of investment as well as Rs 37 mn of MTM gain.

Refrigerant BU

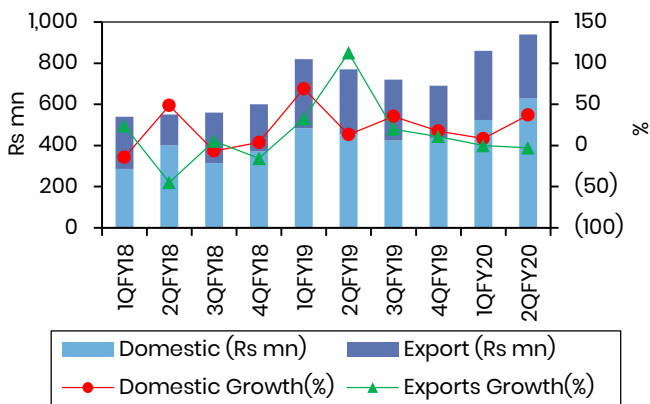


Source: Company, B&K Research

Inorganic Fluorides BU

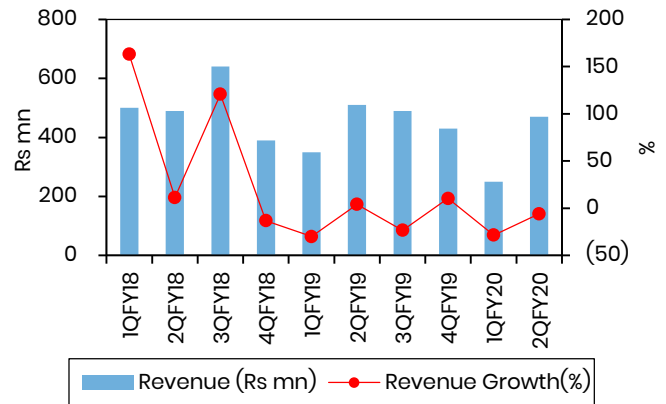


Specialty Chemicals BU



Source: Company, B&K Research

CRAMS BU



Navin Fluorine International

Income Statement (Consolidated)

Period end (Rs mn)	Mar 18	Mar 19	Mar 20E	Mar 21E
Net Sales	9,127	9,959	10,800	12,350
Growth (%)	23.1	9.1	8.4	14.4
Operating expenses	(6,977)	(7,776)	(8,258)	(9,419)
Operating profit	2,150	2,184	2,542	2,931
EBITDA	2,150	2,184	2,542	2,931
Growth (%)	35.4	1.6	16.4	15.3
Depreciation	(398)	(275)	(341)	(375)
Other income	925	344	389	434
EBIT	2,677	2,252	2,590	2,989
Finance Cost	(12)	(8)	(15)	(12)
Profit before tax	2,665	2,244	2,575	2,977
Tax (current + deferred)	(840)	(770)	(800)	(890)
Profit/(Loss) for the period	1,825	1,474	1,775	2,087
P/L of Associates, Min Int, Pref Div	(27)	17	83	100
Reported Profit/(Loss)	1,798	1,491	1,858	2,187
Adjusted Net profit	1,798	1,491	1,858	2,187
Growth (%)	31.6	(17.1)	24.6	17.7

Balance Sheet (Consolidated)

Period end (Rs mn)	Mar 18	Mar 19	Mar 20E	Mar 21E
Share Capital	99	99	99	99
Reserves & surplus	9,736	10,626	11,992	13,572
Shareholders' funds	9,835	10,724	12,091	13,671
Non-Current Liabilities	607	579	581	583
Long-term borrowings	42	0	0	0
Other Long term liab, Prov, DTL	565	579	581	583
Current liabilities	2,114	1,769	1,805	1,922
Short-term borrowings,	84	41	0	0
Curr Maturity				
Other Current Liab + Provi	2,030	1,727	1,805	1,922
Total (Equity and Liab.)	12,556	13,072	14,477	16,176
Non-current assets	6,905	7,465	7,742	7,872
Fixed assets (Net block)	3,027	3,256	3,551	3,655
Non-current Investments	2,780	2,953	2,941	2,930
Long-term loans and advances	117	271	265	303
Other non-current assets,	981	985	985	985
DTA, Goodwill				
Current assets	5,651	5,607	6,735	8,304
Cash & Current Investment	2,450	2,253	2,861	3,806
Other current assets	3,200	3,354	3,874	4,498
Total (Assets)	12,556	13,072	14,477	16,176
Total Debt	127	41	0	0
Capital Employed	10,526	11,345	12,672	14,254

Cash Flow Statement (Consolidated)

Period end (Rs mn)	Mar 18	Mar 19	Mar 20E	Mar 21E
Profit before Tax	2,665	2,244	2,575	2,977
Depreciation	398	275	341	375
Change in working capital	(1,001)	(612)	(433)	(542)
Total tax paid	(804)	(729)	(800)	(890)
Others	(1,809)	(1,110)	(877)	(1,045)
Cash flow from oper. (a)	855	1,134	1,698	1,932
Capital expenditure	902	(504)	(636)	(479)
Change in investments	(1,630)	57	11	11
Others	241	11	0	0
Cash flow from inv. (b)	(487)	(436)	(625)	(467)
Free cash flow (a+b)	368	698	1,073	1,465
Equity raised/(repaid)	40	28	0	0
Debt raised/(repaid)	(59)	(85)	(41)	0
Dividend (incl. tax)	(577)	(451)	(492)	(607)
Others	183	(194)	68	88
Cash flow from fin. (c)	(412)	(702)	(465)	(519)
Net change in cash (a+b+c)	(44)	(4)	608	945

Key Ratios (Consolidated)

Period end (%)	Mar 18	Mar 19	Mar 20E	Mar 21E
Adjusted EPS (Rs)	36.4	30.2	37.6	44.3
Growth	30.6	(17.2)	24.6	18.0
CEPS (Rs)	44.5	35.7	44.5	51.9
Book NAV/share (Rs)	199.3	216.9	244.5	277.0
Dividend/share (Rs)	10.0	7.8	8.5	10.5
Dividend payout ratio	32.1	30.3	26.5	27.8
EBITDA margin	23.6	21.9	23.5	23.7
EBIT margin	29.3	22.6	24.0	24.2
Tax Rate	31.5	34.3	31.1	29.9
RoCE	27.3	20.6	21.6	22.2
Net debt/Equity (x)	(0.2)	(0.2)	(0.2)	(0.3)
Du Pont Analysis – RoE				
Net margin	19.7	15.0	17.2	17.7
Asset turnover (x)	0.8	0.8	0.8	0.8
Leverage factor (x)	1.3	1.2	1.2	1.2
Return on equity	19.8	14.5	16.3	17.0

Valuations (Consolidated)

Period end (x)	Mar 18	Mar 19	Mar 20E	Mar 21E
PER	20.8	23.3	23.6	20.0
PCE	17.0	19.7	19.9	17.1
Price/Book	3.8	3.2	3.6	3.2
Yield (%)	1.3	1.1	1.0	1.2
EV/EBITDA	16.3	14.9	16.1	13.6

Share Data

Price (Rs)	385
BSE Sensex	40,889
Reuters code	SDCH.BO
Bloomberg code	SCHI IN
Market cap. (US\$ mn)	371
6M avg. daily turnover (US\$ mn)	0.5
Issued shares (mn)	69
Target price (Rs)	480

Performance (%)	1M	3M	12M
Absolute	(3)	21	6
Relative	(7)	9	(7)

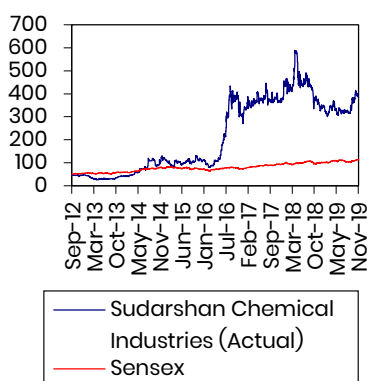
Valuation Ratios

Yr to 31 Mar	FY19	FY20E	FY21E
EPS (Rs)	12.0	23.2	24.1
+/- (%)	(1.8)	93.2	3.6
PER (x)	28.6	16.6	16.0
PBV (x)	4.2	3.7	3.1
Dividend/Yield (%)	1.0	1.0	1.0
EV/Sales (x)	1.9	1.9	1.6
EV/EBITDA (x)	13.0	11.6	9.6

Major Shareholders (%)

Promoters	53
FII's	8
BFSI's	1
Public & Others	37

Relative Performance



Sudarshan Chemical Industries

Maintain BUY

Sequential recovery visible...

Sudarshan Chemicals (SCHI) started manufacturing Pigments in 1952 and currently has a wide range of organic pigments, inorganic pigments, high performance pigments, effect pigments etc. Sudarshan Chemicals is the 4th largest pigment manufacturing company in the world and currently is the largest pigment producer in India.

2QFY20 performance

The revenue growth was on the back of 6% volume growth in both specialty and non-specialty pigments portfolio. Price hikes were undertaken in Azo pigments while profitability in non-specialty pigments continued to remain under pressure. Exports contribution for the quarter was about 48%.

The gross margins on consolidated basis, contracted by 10 bps YoY to 41.6%, as the raw material prices continue to remain high on account of shortage from China. However, the margins expanded sequentially by 80 bps, on the back of raw material prices increases being passed on by the company to the customers as well as improved product mix.

EBITDA margins expanded on YoY basis by 290 bps to 15.7%, on the back of lower other expenses (down 7.2% YoY to Rs 744 mn). EBITDA margins were flat sequentially as higher other expenses as % of net sales eroded gross margin expansion.

Financial highlights

(Rs mn)	2QFY19	2QFY20	YoY (%)	1QFY20	QoQ (%)	1HFY19	1HFY20	YoY (%)
Net sales	3,560	3,935	10.5	3,903	0.8	7,109	7,838	10.3
Gross profit	1,485	1,638	10.3	1,594	2.8	3,025	3,232	6.8
Gross margin (%)	41.7	41.6	-	40.8	-	42.6	41.2	-
Total expenditure	3,164	3,372	6.6	3,343	0.9	6,187	6,716	8.5
EBITDA	464	630	35.8	621	1.5	1,042	1,251	20.0
EBITDA margin (%)	13.0	16.0	-	15.9	-	14.7	16.0	-
Other income	16	11	(34.6)	34	(68.6)	62	45	(28.2)
Interest	26	33	28.9	33	1.4	66	66	(0.9)
Depreciation	159	169	6.5	169	0.1	317	338	6.5
PBT	346	439	26.9	647	(32.1)	1,445	1,086	(24.9)
Tax	109	6	(94.7)	193	(97.0)	456	198	(56.5)
Tax rate (%)	31.4	1.3	-	29.8	-	31.6	18.3	-
Adjusted PAT	208	462	121.8	277	67.0	391	739	89.2
NPM (%)	5.9	11.7	-	7.1	-	5.5	9.4	-
Adjusted EPS (Rs)	3.0	6.7	121.8	4.0	67.0	5.6	10.7	89.2

Adjusted PAT grew by 121.8% to Rs 462 mn despite lower other income (down 34.6% YoY to Rs 11 mn) and higher depreciation (up 6.5% to Rs 169 mn) and interest cost (up 29% to Rs 33 mn) on account of lower tax rate.

1HFY20 performance

Revenue growth came in at 10.3% to Rs 7.8 bn as the company passed on the raw material prices increases to the customers. EBITDA grew by 20.0% to Rs 1.2 bn. While the gross margin contracted by 140 bps to 41.2%, EBITDA margin expanded by 130 bps to 16.0% on the back of improved operating leverage.

PAT grew 89.2% to Rs 739 mn despite lower other income (down 28.2% to Rs 45 mn) and higher depreciation (up 6.5% to Rs 338 mn), as the tax rate was lower at 18.3%. The company re-assessed deferred tax assets and liabilities which resulted into lower tax rate for 2QFY20.

Key highlights from Balance Sheet and Cash Flow statement

- The long-term borrowings have gone up by Rs 1.16 bn while the short-term borrowings came down marginally by Rs 71 mn. As per the cash flow statement, the net borrowings went up by Rs 1.0 bn.
- The company incurred a capex of Rs 942 mn in 1HFY20 as against Rs 330 mn in 1HFY19.
- There was an increase of Rs 206 mn in working capital which stood at Rs 4.3 bn. Trade receivables, inventories and trade payables went up by Rs 168 mn, Rs 254 mn and Rs 217 mn to Rs 3.63 bn, Rs 3.33 bn and Rs 2.63 bn, respectively.
- Cash inflow from continuing operations were about Rs 726 mn against Rs 436 mn in 1HFY19.

Outlook

While the high raw material costs continued to impact the profitability, sequential improvement in gross margin was seen as the company passed on the raw material price increases to the customers and further expects to take price increases in certain products. The company introduced a Yellow HPP pigment which is expected to get launched by the end of November 2019 and expects to launch 2 more products. One is an organic HPP pigment which would be launched by March 2020 and another large molecule would be launched by June 2020, thereby increasing the focus towards specialty products portfolio. While the management is working towards improving margins via fixed cost optimisation as well as skewing product mix towards value-added products, decrease in the raw material prices remains key for improvement in the performance. Maintain Buy with a revised target price of Rs 480.

Concall highlights

- The revenue growth was on the back of 6% volume in both specialty and non-specialty pigments portfolio. Price hikes were undertaken in Azo pigments while profitability in non-specialty pigments continued to remain under pressure. Exports contribution for the quarter was about 48%. The exports are largely focused towards Europe and in coatings segment.
- The performance during the quarter was impacted by rescheduling of the orders of Masterbatch from 2QFY20 to 3QFY20 on account of indecision caused by impending ban of single use plastics. The growth on account of plastics segment remained flat despite it being the highest growth segment for the company in the past. There is still a lot of ambiguity in the market related to the definition of 'Single use' which has led to a subdued market sentiment.
- The contribution of the automotive coatings to the revenue is considerably less and hence the impact of the auto industry slowdown on the performance of the company was not significant.
- The raw material prices during the quarter were stable and the company expects gross margins to normalise going ahead. Other expenses have gone up from historical levels as the insurance cost for

the chemical companies have gone up 7-8x; the minimum wages for the labours have gone up as well. Adjusting for the forex gains and losses, Rs 1.5 bn of other expenses in 1HFY20 is expected to recur for 2HFY20 as well.

- Capex incurred during the quarter was about Rs 550 mn; capex of about Rs 500 mn which was to be incurred in August and September has been pushed to 3QFY20 due to prolonged rainfall. The company has announced further capex of Rs 1.25 bn in order to expand the capacity at Mahad and Roha.
- The company has introduced a Yellow HPP pigment which is expected to get launched by the end of November 2019. SCHI is one of the only 2 companies in the world to manufacture this product. The product finds application in coatings and plastics and the market size is about Rs 2.5 bn. It was developed in 18 months using in-house R&D. The ramp-up for the product would be gradual. The time taken for the approval for the product from the coatings customers would be about 6-12 months while for plastics customers it would be about six months.
- SCHI expects to launch 2 more products, one is an organic HPP pigment which would be launched by March 2020 and another large molecule would be launched by June 2020.
- The entire capex for FY20 is about Rs 3.0-3.25 bn out of which more than 50% would be revenue generating capex. The expected asset turnover is about 2.5-3.0x.
- The pigment industry in India is growing at a rate of 7-8% while the global pigment industry is growing at 2-4%.
- The company has not yet adopted the new tax rate regime; however, they have re-assessed deferred tax assets and liabilities which have resulted into lower tax rate for the quarter. The company has about Rs 100 mn of benefit still left. The effective tax rate for the company would be about 28-29%.
- The gross debt of the company is about Rs 4.57 bn while the net debt is about Rs 3.6 bn. The company had to borrow Rs 1.0 bn at the end of September for capex as there was a mismatch in cash flows. The funds are being invested in mutual fund till the time it would be utilised for the capex.
- The current asset utilisation rate is about 75-80% and the company can sweat the assets up to 90%.

Sudarshan Chemical Industries

Income Statement (Consolidated)

Period end (Rs mn)	Mar 18	Mar 19	Mar 20E	Mar 21E
Net sales	13,056	14,531	16,317	18,452
Growth (%)	4.5	11.3	12.3	13.1
Operating expenses	(11,421)	(12,657)	(13,917)	(15,583)
Operating profit	1,634	1,875	2,401	2,870
Other operating income	239	234	250	250
EBITDA	1,873	2,108	2,651	3,120
Growth (%)	1.7	12.6	25.7	17.7
Depreciation	(577)	(649)	(708)	(860)
Other income	92	57	90	108
EBIT	1,387	1,516	2,032	2,367
Finance cost	(234)	(152)	(135)	(149)
Exceptional & extraordinary	0	723	193	0
Profit before tax	1,153	2,087	2,090	2,218
Tax (current + deferred)	(384)	(690)	(330)	(552)
P/L form discontinuing oper.	78	(46)	(3)	0
Profit/(Loss) for the period	847	1,351	1,758	1,666
Reported Profit/(Loss)	847	1,351	1,758	1,666
Adjusted net profit	847	832	1,608	1,666
Growth (%)	(16.4)	(1.8)	93.2	3.6

Balance Sheet (Consolidated)

Period end (Rs mn)	Mar 18	Mar 19	Mar 20E	Mar 21E
Share capital	138	138	138	138
Reserves & surplus	4,261	5,539	6,967	8,353
Shareholders' funds	4,400	5,677	7,106	8,492
Non-current liabilities	2,530	1,855	2,624	2,624
Long-term borrowings	1,820	1,131	1,900	1,900
Other non-current liabilities	711	724	724	724
Current liabilities	6,177	6,072	6,108	6,279
ST borrowings, Curr maturity	2,489	2,499	2,700	2,500
Other current liabilities	3,688	3,573	3,408	3,779
Total (Equity and Liab.)	13,107	13,604	15,837	17,394
Non-current assets	5,211	5,231	6,557	6,724
Fixed assets (Net block)	4,712	4,889	6,215	6,382
Non-current Investments	5	0	0	0
Long-term loans and advances	9	7	7	7
Other non-current assets	484	335	335	335
Current assets	7,896	8,373	9,280	10,670
Cash & current investment	142	81	592	947
Other current assets	7,754	8,291	8,687	9,723
Total (Assets)	13,107	13,604	15,837	17,394
Total debt	4,309	3,631	4,600	4,400
Capital employed	9,419	10,031	12,429	13,616

Cash Flow Statement (Consolidated)

Period end (Rs mn)	Mar 18	Mar 19	Mar 20E	Mar 21E
Profit before tax	1,153	2,087	2,090	2,218
Depreciation	577	649	708	860
Change in working capital	(673)	(670)	(562)	(666)
Total tax paid	(246)	(592)	(330)	(552)
Others	215	141	98	104
Cash flow from oper. (a)	1,026	1,616	2,004	1,964
Capital expenditure	(798)	(828)	(2,037)	(1,031)
Change in investments	(0)	5	0	0
Others	202	13	37	45
Cash flow from inv. (b)	(596)	(810)	(1,999)	(985)
Free cash flow (a+b)	430	806	4	979
Debt raised/(repaid)	(17)	(678)	969	(200)
Dividend (incl. tax)	(280)	(296)	(323)	(323)
Others	(145)	108	(140)	(101)
Cash flow from fin. (c)	(441)	(867)	506	(624)
Net chg in cash (a+b+c)	(11)	(61)	511	355

Key Ratios (Consolidated)

Period end (%)	Mar 18	Mar 19	Mar 20E	Mar 21E
Adjusted EPS (Rs)	12.2	12.0	23.2	24.1
Growth	(16.4)	(1.8)	93.2	3.6
CEPS (Rs)	20.6	21.4	33.4	36.5
Book NAV/share (Rs)	63.6	82.0	102.7	122.8
Dividend/share (Rs)	3.5	3.5	4.0	4.0
Dividend payout ratio	33.5	21.0	18.4	19.4
EBITDA margin	14.1	14.3	16.0	16.9
EBIT margin	10.6	10.4	12.5	12.8
Tax rate	33.3	35.6	15.1	24.9
RoCE	15.3	15.6	18.1	18.2
Total debt/Equity (x)	1.0	0.6	0.6	0.5
Net debt/Equity (x)	0.9	0.6	0.6	0.4
Du Pont Analysis – RoE				
Net margin	6.5	5.7	9.9	9.0
Asset turnover (x)	1.0	1.1	1.1	1.1
Leverage factor (x)	3.1	2.7	2.3	2.1
Return on equity	20.6	16.5	25.1	21.3

Valuations (Consolidated)

Period end (x)	Mar 18	Mar 19	Mar 20E	Mar 21E
PER	36.0	28.6	16.6	16.0
PCE	21.4	16.1	11.5	10.5
Price/Book	6.9	4.2	3.7	3.1
Yield (%)	0.8	1.0	1.0	1.0
EV/EBITDA	18.5	13.0	11.6	9.6

Share Data

Price (Rs)	3,152
BSE Sensex	40,889
Reuters code	SRFLBO
Bloomberg code	SRF IN
Market cap. (US\$ mn)	2,527
6M avg. daily turnover (US\$ mn)	15.6
Issued shares (mn)	57
Target price (Rs)	3,055

Performance (%)	1M	3M	12M
Absolute	11	12	52
Relative	6	1	32

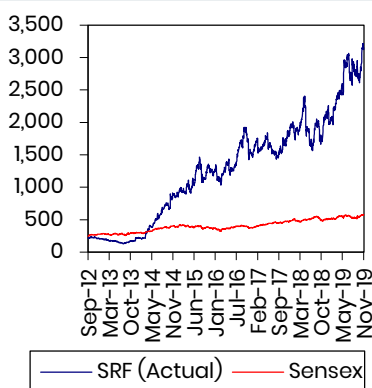
Valuation Ratios

Yr to 31 Mar	FY19	FY20E	FY21E
EPS (Rs)	111.6	142.5	177.7
+/- (%)	38.8	27.7	24.7
PER (x)	21.5	22.1	17.7
PBV (x)	3.3	3.8	3.3
Dividend/Yield (%)	0.5	0.8	1.0
EV/Sales (x)	2.2	2.9	2.3
EV/EBITDA (x)	12.7	13.7	11.1

Major Shareholders (%)

Promoters	52
FII's	19
MF's	11
BFSI's	1
Public & Others	17

Relative Performance



SRF

Maintain Hold

Specialty chemicals delivers yet again...

SRF began as Shri Ram Fibres in 1970. Over the years, the company expanded its product line in technical textiles. Over the years it has also diversified into other businesses like Chemicals, Packaging Films and Engineering Plastics.

2QFY20 performance

SRF delivered encouraging results by reporting flattish sales at Rs 17.0 bn while EBITDA and PAT grew 10.2% and 56.1% YoY to Rs 3.3 bn and Rs 2.0 bn, respectively. The tax rate was low at 2%; however, the company has not yet adopted new tax structure. The chemicals segment (Refrigerants + Specialty chemicals) reported growth of 25.1% YoY to Rs 6.78 bn while EBIT grew by 107.8% YoY Rs 1.30 bn.

Technical Textiles Business performance was weak with revenues declining by 28.8% YoY to Rs 3.23 bn with EBIT declining by 69.9% YoY to Rs 209 mn. EBIT margin contracted by 880 bps YoY to 6.5%. During the quarter, SRF Industries (Thailand) has decided to close the operations of the unit located at Rayong, Thailand w.e.f. 21st October 2019. The financial information of the said business has been classified as Discontinued Operations. The business reported sales of Rs 467.0 mn and EBIT loss of Rs 72.0 mn during the quarter. Further, the company lost a case in Supreme Court pertaining to demand for stamp duty related to tyre cord division worth Rs 288.2 mn and provided for the same during the quarter.

Financial highlights

(Rs mn)	2QFY19	2QFY20	YoY (%)	1QFY20	QoQ (%)	1HFY19	1HFY20	YoY (%)
Net sales	17,215	17,022	(1.1)	17,322	(1.7)	33,745	34,344	1.8
Gross profit	7,214	8,187	13.5	7,789	5.1	14,530	15,977	10.0
Gross margin (%)	41.9	48.1	-	45.0	-	43.1	46.5	-
Total expenditure	14,547	14,068	(3.3)	14,036	0.2	28,267	28,104	(0.6)
EBITDA	3,003	3,310	10.2	3,597	(8.0)	6,045	6,907	14.3
EBITDA margin (%)	17.4	19.4	-	20.8	-	17.9	20.1	-
Other income	29	220	650.5	152	44.9	68	372	447.4
Interest	491	550	12.1	515	6.8	933	1,065	14.2
Depreciation	877	929	6.0	925	0.5	1,756	1,854	5.6
PBT	1,664	2,051	23.2	2,310	(11.2)	3,424	4,360	27.3
Tax	377	41	(89.1)	556	(92.6)	839	597	(28.8)
Tax rate (%)	22.6	2.0	-	24.1	-	24.5	13.7	-
Adjusted PAT	1,287	2,009	56.1	1,753	14.6	2,585	3,763	45.5
NPM (%)	7.5	11.8	-	10.1	-	7.7	11.0	-
Adjusted EPS (Rs)	22.4	35.0	56.1	30.5	14.6	45.0	65.5	45.5

Further, there was an inventory loss of Rs 100 mn on account of decline in Caprolactam prices from US\$ 2,000/MT to US\$ 1,400/MT. Adjusting for this, EBIT would have been at Rs 597 mn (down 14.1% YoY instead of down 69.9%) and margins healthy at 18.5% instead of 6.5%.

Packaging Films Business reported stable performance with revenues declining by 4.8% YoY to Rs 6.62 bn EBIT of Rs 1.29 bn, up 7.9% YoY. EBIT margins expanded by 230 bps YoY to 19.6%. The business has started to feel the pinch of declining spreads on account of capacity expansions in the industry as EBIT margins witnessed contraction of 110 bps QoQ. The performance; however, has been better than expectation with the company limiting the contraction to 110 bps only.

The tax rate was low at 2%; however, the company has not yet adopted new tax structure. It had carrying forward long-term capital losses of Rs 1.86 bn which were offset but no deferred tax asset was recognised till previous quarter. Pursuant to long-term capital gain, a tax credit of Rs 434.0 mn has been recognised during the current quarter resulting into lower taxes for the quarter.

The company has announced three capex

- 1) Rs 400 mn for high volume specialty product and derivatives which would be used as key raw materials in several of the upcoming products.
- 2) Rs 1.25 bn for TCF value chain. This is an enhancement of the capex of Rs 815.8 mn approved by the Board at its meeting held on 04 February 2019, to cater to the customer requirements from India as the Technical Textiles Business operations of SRF Industries (Thailand) Ltd. have been shut down due to economic unviability.
- 3) Rs 3.5 bn for setting up 45,000 mtpa BoPP film line in Thailand. Earlier investors used to react negatively to any capex in the Polyfilms business; however, the reaction to the last two capex in Polyfilms business has been neutral. We therefore do not expect any negative reaction to this announcement.

1HFY20 performance

Performance was driven largely by specialty chemicals as chemicals business revenue grew by 25.7% to Rs 12.8 bn. Revenue growth was subdued at 1.8% to Rs 34.3 bn as Technical Textiles revenues declined by 26.2% YoY, hit by slowdown in auto industry as well as muted growth of 2.8% in Packaging Film Business. EBITDA growth came in 14.3% to Rs 6.9 bn.

Though revenue growth was subdued, gross margins expanded by 340 bps to 46.5%. EBITDA margins expansion was limited to 220 bps to 20.1% on account of poor operating leverage in 2QFY20.

PAT grew by 45.5% YoY to Rs 3.7 bn on the back of higher other income (up 447.4% to Rs 372 mn) and lower tax rate (13.7% against 24.5% in 1HFY19) despite higher interest cost and depreciation.

Key highlights from Balance Sheet and Cash Flow statement

- The long-term borrowings and short-term borrowings have come down by Rs 3.03 bn and Rs 1.0 bn, respectively. As per the cash flow statement, the net repayment of loans stands at Rs 276 mn.
- The company incurred a capex of Rs 6.43 bn during 1H'20 as against Rs 4.94 bn in 1HFY19.
- Trade receivables are lower by Rs 2.86 bn to Rs 9.25 bn, trade payables are lower by Rs 1.5 bn to Rs 12.1 bn. Inventory is down marginally by Rs 251 mn to Rs 12.4 bn. Working capital is down by Rs 1.6 bn to Rs 9.37 bn.

Outlook

Strong performance of the specialty chemicals segment has been a key re-rating trigger for SRF in the past. Though the company has been consistently delivering earnings, the performance of specialty chemicals business remained bumpy. However, things have turned around since 4QFY19 with the company

continuing to report strong numbers. This is very much evident from the company maintaining its full year growth guidance of 40–50%. Further, capex of Rs 4.2 bn for setting up PTFE facility and Rs 400 mn for intermediate has enhanced growth visibility beyond FY21 (commissioning in October 2021 and benefits likely in FY22 and FY23). This has enhanced quality of earnings growth from FY20 onwards. We therefore believe the multiple re-rating would sustain and expect SRF to trade at higher multiple (17x, 3-year mean PE multiple) leading it to be an earnings compounding story. Maintain Hold with a target price of Rs 3,055.

Concall highlights

Specialty Chemicals

- Both Agro and Pharma products gained momentum during the quarter while bulk of the growth came in from emerging markets viz. Brazil and Latin America. Sales in North American were impacted by adverse weather condition.
- The impact from North America was lower for the company as its customer base is more skewed towards Europe. The company; however, continues to focus on customer acquisition in North America by expanding product offerings. It expects the scenario to improve in 2HFY20.
- The performance improved during the quarter on account of improved traction in 5–6 key products while other products continued to do well.
- The agro intermediates facility commissioned in October 2019 is expected to ramp-up at a faster pace and expected to contribute significantly to profitability.
- Fluorspar contracts are in place to safeguard supply and the prices are currently stable.

Fluorochemicals

- Revenue was driven on the back of increased domestic volumes as well as market share gains. The performance was stable despite auto slowdown and drop in global prices of refrigerants.
- The volumes and realisations for R22 went up on account of ensuing phase down from January 2020.
- R134a refrigerant sales were impacted on account of production loss of about 800–1,000 MT as the reactor was not operating up to the mark. 70–80% of the issue has been resolved and the production is expected to normalise by 4QFY20.
- The slowdown in the auto segment was offset by good pick-up in the refrigerant gasses used for domestic ACs.
- The facility doubling its refrigerant capacity was commissioned in October 2019. The full ramp-up is expected over 18–24 months.

Packaging Films Business (PFB)

- The performance was driven by high volumes as well as margins on account of cost control and richer product mix.
- Both exports and domestic market in BoPET and BoPP segments delivered steady contribution to operating profits. The company witnessed significant growth in value-added products sales; the delta of value-added products is expected to go up in future.
- The impact on the margins due to new BoPET lines coming on-stream is expected to impact profitability in 2HFY20. The two new lines, one by Jindal and another by Polyplex, were commissioned in August and October 2019, respectively.
- The oversupply scenario in the BoPP segment is expected to get normalised soon. The profitability is therefore expected to improve in the next 12–18 months.

- The Hungary and Thailand BoPET projects are on track and as per schedule and the machine erection has started.
- The company's products do not form a part of single use plastic items as defined by the government and hence are not under threat.

Technical Textiles Business (TTB)

- The NTCF business was impacted due to slowdown in auto industry on account of which the tyre companies shut/cut their production by 10-25%. The replacement demand was impacted due to financing issues.
- Inventory loss stood at Rs 90-100 mn as Caprolactam prices dropped from US\$ 2,000/MT to US\$ 1,400/MT.
- The volume loss was about 800-1,000 MT/month and is expected to normalise by 4QFY20.
- The 3Q is expected to be subdued; however, the performance is expected to normalise from 4QFY20 onwards.
- During the quarter, the company announced closure of its Thailand operations as it was becoming economically unviable to run the plant. This is expected to improve profitability as the margin profile in India business is better compared to the Thailand business.
- Belting fabric performance improved on account of higher sales of value-added products.
- Polyester Yarn segment performance was impacted due to domestic slowdown as well as intense competition from Chinese players.

Others

- SRF continues to maintain its price and volume leadership in Coated Fabrics; however, the company faced challenges in the sale of truck tarpaulin on account of low movement of new chassis.
- The sales volume in laminated fabrics grew despite adverse market situation (continued oversupply in the segment as well as competition from new players).

Discontinued operations

- During the quarter, SRF completed the sale of Engineering plastic division and Profit after Tax of Rs 1.75 bn from disposal of this business was recorded under discontinued operations.
- The company also shut its Thailand plant and the net loss of Rs 763 mn was recorded under discontinued operations. Overall, reported PAT was higher by Rs 1.0 bn on account of discontinued operations as well as lower tax rate.

Capex and Capital allocation

- The company commissioned HFC facility at a cost of Rs 4.77 bn which got approved for Rs 3.56 bn. The cost and time overrun was on account of change in original design in order to create scope for capacity enhancement at a future date as well as increase in the steel and cement prices.
- SRF also commissioned the agrochemical intermediates facility at Dahej in October 2019 at a cost of Rs 1.66 bn. The project was approved at Rs 1.4 bn and due to changes in the original design and installation of additional effluent treatment equipment, there was cost overrun.
- The company has approved a capex of Rs 400 mn towards a high volume specialty chemical which finds application in agro and pharma intermediates and would be used to manufacture several upcoming products; the project is expected to get commissioned by July 2020.

- The company also announced capex of Rs 3.5 bn towards setting up 45,000 mtpa BoPP film line in Thailand. Thailand is a net importer of BoPP and the company expects BoPP scenario to improve in 12-18 months. The plant is expected to come up by September 2021.

Segmental performance

(Rs mn)	2QFY19	2QFY20	YoY (%)	1QFY20	QoQ (%)	1HFY19	1HFY20	YoY (%)
Revenues								
TTB	4,535	3,230	(28.8)	3,821	(15.5)	9,549	7,051	(26.2)
CB	5,420	6,780	25.1	6,032	12.4	10,194	12,812	25.7
PFB	6,959	6,627	(4.8)	7,017	(5.6)	13,277	13,643	2.8
Others	650	744	14.5	772	(3.7)	1,321	1,516	14.8
Revenue mix (%)								
TTB	25.8	18.6	–	21.7	–	27.8	20.1	–
CB	30.9	39.0	–	34.2	–	29.7	36.6	–
PFB	39.6	38.1	–	39.8	–	38.7	39.0	–
Others	3.7	4.3	–	4.4	–	3.8	4.3	–
EBIT								
TTB	695	209	(69.9)	569	(63.3)	1,416	778	(45.1)
CB	630	1,308	107.8	787	66.3	1,416	2,095	47.9
PFB	1,204	1,299	7.9	1,456	(10.8)	2,177	2,755	26.5
Others	50	81	63.0	101	(20.0)	104	182	75.5
EBIT margin (%)								
TTB	15.3	6.5	–	14.9	–	14.8	11.0	–
CB	11.6	19.3	–	13.0	–	13.9	16.4	–
PFB	17.3	19.6	–	20.7	–	16.4	20.2	–
Others	7.7	10.9	–	13.1	–	7.9	12.0	–

SRF

Income Statement (Consolidated)

Period end (Rs mn)	Mar 18	Mar 19	Mar 20E	Mar 21E
Net Sales	55,890	76,927	74,836	91,094
Growth (%)	15.9	37.6	(2.7)	21.7
Operating expenses	(46,828)	(63,375)	(59,151)	(72,285)
Operating profit	9,062	13,552	15,685	18,809
EBITDA	9,062	13,552	15,685	18,809
Growth (%)	(10.2)	49.5	15.7	19.9
Depreciation	(3,158)	(3,669)	(3,951)	(4,067)
Other income	1,151	401	520	572
EBIT	7,056	10,285	12,254	15,314
Finance Cost	(1,239)	(2,016)	(2,150)	(1,800)
Profit before tax	5,817	8,269	10,104	13,514
Tax (current + deferred)	(1,200)	(1,853)	(1,920)	(3,311)
P/L form discontinuing Oper.	0	0	1,002	0
Profit/(Loss) for the period	4,617	6,416	9,186	10,203
Reported Profit/(Loss)	4,617	6,416	9,186	10,203
Adjusted Net profit	4,617	6,416	8,184	10,203
Growth (%)	(10.3)	39.0	27.6	24.7

Cash Flow Statement (Consolidated)

Period end (Rs mn)	Mar 18	Mar 19	Mar 20E	Mar 21E
Profit before Tax	5,817	8,269	10,104	13,514
Depreciation	3,158	3,669	3,951	4,067
Change in working capital	(1,394)	(3,285)	284	(2,617)
Total tax paid	(1,303)	(1,360)	(1,920)	(3,311)
Others	549	638	3,945	(633)
Cash flow from oper. (a)	6,365	8,907	14,049	12,881
Capital expenditure	(13,274)	(10,520)	(9,566)	(3,566)
Change in investments	741	212	0	0
Others	704	(519)	520	572
Cash flow from inv. (b)	(11,830)	(10,827)	(9,046)	(2,994)
Free cash flow (a+b)	(5,464)	(1,920)	5,003	9,887
Equity raised/(repaid)	(0)	1	(1)	0
Debt raised/(repaid)	7,456	5,884	(1,000)	(2,000)
Dividend (incl. tax)	(829)	(832)	(1,712)	(2,134)
Others	(1,156)	(2,111)	(2,707)	(2,509)
Cash flow from fin. (c)	5,471	2,941	(5,419)	(6,643)
Net change in cash (a+b+c)	6	1,021	0	3,244

Balance Sheet (Consolidated)

Period end (Rs mn)	Mar 18	Mar 19	Mar 20E	Mar 21E
Share Capital	584	585	584	584
Reserves & surplus	35,061	40,708	46,623	53,984
Shareholders' funds	35,645	41,293	47,208	54,568
Non-Current Liabilities	22,663	25,600	24,600	22,600
Long-term borrowings	19,073	21,613	20,613	18,613
Other Long term liab, Prov, DTL	3,590	3,986	3,986	3,986
Current liabilities	25,322	31,987	30,263	32,902
Short-term borrowings,	12,346	15,689	15,689	15,689
Curr Maturity				
Other Current Liab + Provi	12,976	16,298	14,574	17,214
Total (Equity and Liab.)	83,630	98,879	102,070	110,069
Non-current assets	59,371	67,155	72,771	72,270
Fixed assets (Net block)	56,763	63,588	69,204	68,703
Non-current Investments	1	1	1	1
Long-term loans and advances	362	388	388	388
Other non-current assets,	2,245	3,178	3,178	3,178
DTA, Goodwill				
Current assets	24,260	31,724	29,299	37,799
Cash & Current Investment	2,184	2,994	2,578	5,821
Other current assets	22,075	28,730	26,722	31,978
Total (Assets)	83,630	98,879	102,070	110,069
Total Debt	31,418	37,302	36,302	34,302
Capital Employed	70,654	82,581	87,496	92,856

Key Ratios (Consolidated)

Period end (%)	Mar 18	Mar 19	Mar 20E	Mar 21E
Adjusted EPS (Rs)	80.4	111.6	142.5	177.7
Growth	(10.3)	38.8	27.7	24.7
CEPS (Rs)	135.4	175.5	211.3	248.5
Book NAV/share (Rs)	620.8	718.4	822.1	950.3
Dividend/share (Rs)	12.0	12.0	25.7	32.0
Dividend payout ratio	18.0	13.0	18.6	20.9
EBITDA margin	16.2	17.6	21.0	20.6
EBIT margin	12.6	13.4	16.4	16.8
Tax Rate	20.6	22.4	21.1	24.5
RoCE	10.9	13.4	14.4	17.0
Total debt/Equity (x)	0.9	0.9	0.8	0.6
Net debt/Equity (x)	0.8	0.8	0.7	0.5
Du Pont Analysis – RoE				
Net margin	8.3	8.3	10.9	11.2
Asset turnover (x)	0.7	0.8	0.7	0.9
Leverage factor (x)	2.3	2.4	2.3	2.1
Return on equity	13.7	16.7	18.5	20.1

Valuations (Consolidated)

Period end (x)	Mar 18	Mar 19	Mar 20E	Mar 21E
PER	24.3	21.5	22.1	17.7
PCE	14.4	13.7	14.9	12.7
Price/Book	3.1	3.3	3.8	3.3
Yield (%)	0.6	0.5	0.8	1.0
EV/EBITDA	15.6	12.7	13.7	11.1

Share Data

Price (Rs)	1,020
BSE Sensex	40,889
Reuters code	ALKY.BO
Bloomberg code	AACL IN
Market cap. (US\$ mn)	290
6M avg. daily turnover (US\$ mn)	02
Issued shares (mn)	20

Performance (%) 1M 3M 12M

Absolute	11	40	37
Relative	7	25	19

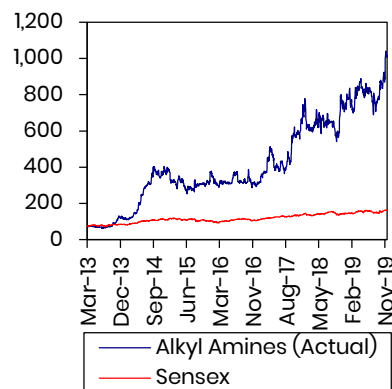
Valuation Ratios

Yr to 31 Mar	FY17	FY18	FY19
EPS (Rs)	25.3	32.1	42.2
+/- (%)	3.1	27.0	31.4
PER (x)	17.9	18.5	19.7
PBV (x)	3.6	3.9	4.5
Dividend/Yield (%)	1.1	0.8	0.8
EV/Sales (x)	2.1	2.3	2.2
EV/EBITDA (x)	11.2	12.1	11.4

Major Shareholders (%)

Promoters	74
MFs	1
Public & Others	25

Relative Performance



Alkyl Amines Chemicals

Not Rated

Benefits from lower raw material prices...

Alkyl Amines Chemicals Limited (AACL) is the largest manufacturer of Ethyl Amines in India and is one of the leading manufacturers of Diethyl Hydroxy Amine (DEHA), DMA HCL, Acetonitrile and has a wide array of Amines and Amine derivatives in its product basket. The products of the company find application across rubber chemicals, agrochemicals, pharmaceuticals industries. The company has three manufacturing sites with 12 plants in western Maharashtra and Gujarat.

2QFY20 performance

Sales stood at Rs 2.3 bn, up 7.7% YoY. Gross margins expanded by 300 bps YoY to 51.1% while EBITDA margins expanded by 200 bps YoY to 24.6%. EBITDA came in at Rs 577 mn, up 17.2% YoY. Interest cost reduced by 33.2% YoY while reversal of deferred and current tax of Rs 1.48 bn and Rs 80.7 mn, respectively, due to adoption of new tax regime allowed the company to report PAT growth of 103.4% YoY to Rs 539 mn.

The company has divested 29,77,996 equity shares representing 30.44% stake in its associate company Diamines and Chemicals Ltd. during November 2019.

Financial highlights

(Rs mn)	2QFY19	2QFY20	YoY (%)	1QFY20	QoQ (%)	1HFY19	1HFY20	YoY (%)
Net sales	2,181	2,350	7.7	2,662	(11.7)	3,963	5,012	26.5
Gross profit	1,050	1,201	14.4	1,191	0.8	1,933	2,392	23.8
Gross margin (%)	48.1	51.1	-	44.7	-	48.8	47.7	-
Total expenditure	1,689	1,773	5.0	2,071	(14.4)	3,101	3,843	23.9
EBITDA	492	577	17.2	592	(2.4)	862	1,169	35.6
EBITDA margin (%)	22.6	24.6	-	22.2	-	21.7	23.3	-
Other income	1	3	373.4	13	(77.7)	1	16	1,762.2
Interest	39	26	(33.2)	36	(28.6)	78	62	(20.3)
Depreciation	56	65	15.7	64	1.7	112	129	15.5
PBT	398	489	22.9	505	(3.1)	673	994	47.7
Tax	141	(44)	(131.1)	154	(128.6)	239	110	(54.2)
Tax rate (%)	35.5	(9.0)	-	30.4	-	35.6	11.0	-
Adjusted PAT	267	549	105.8	367	49.8	444	916	106.5
NPM (%)	12.2	23.4	-	13.8	-	11.2	18.3	-
Adjusted EPS (Rs)	13.1	26.9	105.8	18.0	49.8	21.7	44.9	106.5

1HFY20 performance

During 1HFY20, the company reported sales growth of 26.5% YoY to Rs 5.0 bn. Gross margins have contracted by 110 bps YoY to 47.7%; however, EBITDA margins have expanded by 160 bps YoY to 23.3%. EBITDA came in at Rs 1.17 bn, up 35.6% YoY. Depreciation cost increased by 15.5% YoY to Rs 129 mn while interest cost declined by 20.3% YoY to Rs 62 mn. Further, lower tax rate of 11.0% compared to 35.6% allowed the company to report PAT growth of 106.5% YoY.

During 1HFY20, D/E ratio came down from 0.43x to 0.19x as the long-term borrowings declined from Rs 1.0 bn to Rs 600 mn YoY. The company incurred a capex of Rs 207 mn. Working capital days have come down from 29 days to 25 days YoY. Cash flow from operations gone up from Rs 6.3 bn to Rs 10.5 bn YoY.

Growth drivers

In the short-term, the company is expected to benefit from lower raw material prices, while the planned expansion and de-bottlenecking of Acetonitrile, Methyl amines and its derivatives over FY20-22E would support volume growth in the medium-term. We do not have rating on the stock.

Concall highlights

- The volume growth for 1HFY20 was slightly above 15% YoY while for 2QFY20 there was a sequential drop in volumes on account of fire and flood at Kurkumbh and Patalganga, respectively. The company has filed for insurance claim.
- The capex for FY20E is about Rs 1.0-1.2 bn; tentative capex planned for FY21E is about Rs 1.0-1.2 bn; however, the company is yet to map out the final capex plans for FY21E. The asset turnover of the capex to be incurred is about 1.5-2.0x.
- The current capacity utilisation for Methyl amine is about 80-85%; it was at about 70% last year.
- The company is de-bottlenecking the methyl amine capacity which would add about 15,000 mtpa to the current capacity of 30,000 mtpa. The additional capacity is expected to come up in 1QFY21E.
- While some of the plants are operating at full capacity utilisations, the company has 10-20% of head room for the production of all the products.
- INOES plans Acrylonitrile plant which led to an increase in the feedstock prices for acetonitrile. The competition from China is increasing and is putting prices under pressure. The company is able to fetch good price for the product and is able to sustain margins.
- The company has not launched any product this year; however, the product pipeline continues to remain strong.
- The demand for methyl amine is about 70,000 mtpa in India and the capacity is about 85,000 tpa; the prices for methanol are stable currently.
- Going ahead, the recurring tax rate for the company would be about 22-24% as they would further accrue some benefit from deferred tax assets write-back.
- Gross margins improved YoY on account of stable alcohol prices and increased volumes; improved product mix as well as better realisations further aided margins expansion.
- EBITDA margins going ahead would be sustainable at 18-20% levels.
- The company is setting up a plant to manufacture acetonitrile at Dahej and expects to commission it in the next two years.
- AACL acquired Diamines when it was a sick facility and turned it around into a profitable company, it divested the stake in the company as they want to focus on their own business and also gain from current valuations.

Alkyl Amines Chemicals

Income Statement

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Net sales	4,836	5,006	6,162	8,464
Growth (%)	3.3	3.5	23.1	37.4
Operating expenses	(3,926)	(4,056)	(4,986)	(6,821)
Operating profit	910	951	1,176	1,644
EBITDA	910	951	1,176	1,644
Growth (%)	4.8	4.5	23.7	39.7
Depreciation	(129)	(143)	(168)	(233)
Other income	26	11	27	23
EBIT	807	819	1,035	1,433
Finance cost	(80)	(81)	(81)	(148)
Profit before tax	726	739	953	1,286
Tax (current + deferred)	(227)	(236)	(315)	(465)
P/(L) for the period	500	503	638	821
P/L of Associates, Min Int, Pref Div	1	13	17	40
Reported Profit/(Loss)	500	516	655	861
Adjusted net profit	500	516	655	861
Growth (%)	10.9	3.1	27.0	31.4

Balance Sheet

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Share capital	102	102	102	102
Reserves & surplus	1,989	2,443	2,985	3,689
Shareholders' funds	2,091	2,545	3,087	3,791
Non-current liabilities	760	1,061	1,604	1,358
Long-term borrowings	447	662	1,082	790
Other non-current liabilities	313	398	521	567
Current liabilities	1,306	1,606	1,795	2,477
ST borrowings, Curr maturity	860	789	1,091	1,191
Other current liabilities	446	817	705	1,287
Total (Equity and Liab.)	4,157	5,212	6,486	7,626
Non-current assets	2,303	2,962	4,102	4,517
Fixed assets (Net block)	2,033	2,548	3,736	4,196
Non-current Investments	129	410	362	316
Long-term loans and adv.	142	3	4	5
Current assets	1,853	2,250	2,384	3,109
Cash & current investment	58	30	32	202
Other current assets	1,795	2,221	2,351	2,908
Total (Assets)	4,157	5,212	6,486	7,626
Total debt	1,307	1,451	2,173	1,981
Capital employed	3,711	4,395	5,781	6,340

Cash Flow Statement

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Profit before tax	726	739	953	1,286
Depreciation	129	143	168	233
Change in working capital	(116)	90	(259)	27
Total tax paid	(148)	(195)	(237)	(363)
Others	69	70	70	137
Cash flow from oper. (a)	661	846	696	1,320
Capital expenditure	(355)	(659)	(1,356)	(693)
Change in investments	(2)	(281)	48	46
Others	11	11	11	11
Cash flow from inv. (b)	(346)	(929)	(1,297)	(637)
Free cash flow (a+b)	315	(83)	(601)	683
Equity raised/(repaid)	(129)	0	0	0
Debt raised/(repaid)	(28)	144	722	(191)
Dividend (incl. tax)	(246)	(123)	(123)	(172)
Others	52	33	5	(150)
Cash flow from fin. (c)	(351)	54	604	(514)
Net chg in cash (a+b+c)	(36)	(29)	3	169

Key Ratios

Period end (%)	Mar 16	Mar 17	Mar 18	Mar 19
Adjusted EPS (Rs)	24.5	25.3	32.1	42.2
Growth	10.9	3.1	27.0	31.4
CEPS (Rs)	30.8	32.3	40.4	53.6
Book NAV/share (Rs)	102.4	124.7	151.2	185.7
Dividend/share (Rs)	10.0	5.0	5.0	7.0
Dividend payout ratio	49.1	23.8	18.7	20.0
EBITDA margin	18.8	19.0	19.1	19.4
EBIT margin	16.7	16.4	16.8	16.9
Tax rate	31.2	31.9	33.0	36.1
RoCE	22.7	20.2	20.3	23.6
Total debt/Equity (x)	0.6	0.6	0.7	0.5
Net debt/Equity (x)	0.6	0.6	0.7	0.5
Du Pont Analysis – RoE				
Net margin	10.3	10.3	10.6	10.2
Asset turnover (x)	1.2	1.1	1.1	1.2
Leverage factor (x)	2.1	2.0	2.1	2.1
Return on equity	25.5	22.3	23.3	25.0

Valuations

Period end (x)	Mar 16	Mar 17	Mar 18	Mar 19
PER	12.7	17.9	18.5	19.7
PCE	10.1	14.0	14.7	15.5
Price/Book	3.0	3.6	3.9	4.5
Yield (%)	3.2	1.1	0.8	0.8
EV/EBITDA	8.4	11.2	12.1	11.4

Share Data

Price (Rs)	162
BSE Sensex	40,889
Reuters code	APCI.BO
Bloomberg code	APCO IN
Market cap. (US\$ mn)	117
6M avg. daily turnover (US\$ mn)	01
Issued shares (mn)	52

Performance (%)	1M	3M	12M
Absolute	(6)	(21)	(25)
Relative	(9)	(29)	(34)

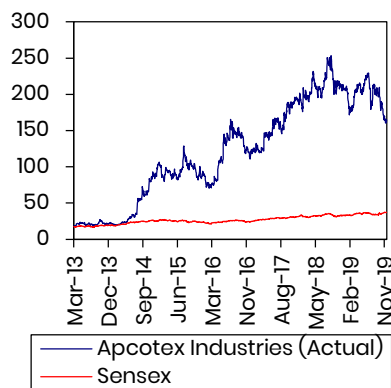
Valuation Ratios

Yr to 31 Mar	FY17	FY18	FY19
EPS (Rs)	17.0	19.1	22.5
+/- (%)	43.6	12.3	17.6
PER (x)	7.3	10.0	9.2
PBV (x)	1.2	1.6	1.5
Dividend/Yield (%)	2.0	1.1	2.9
EV/Sales (x)	0.7	0.7	0.6
EV/EBITDA (x)	9.4	6.0	5.9

Major Shareholders (%)

Promoters	58
Public & Others	41

Relative Performance



Apcotex Industries

Not Rated

Slowdown in auto drags performance...

Apcotex Industries Limited (APCO) was established in the year 1980 as a division of Asian Paints and later spun-off as a separate company in 1991. The company's product range includes VP latex, Carboxylated & Non-Carboxylated SB latexes, Acrylic latexes, Nitrile latex and Synthetic Rubber.

2QFY20 performance

During 2QFY20, the company reported sales at Rs 1.24 bn, down 22.5% YoY. Gross margins have contracted by 10 bps YoY to 29.3% while the EBITDA margin was at lowest in the last 10 quarters, contracted by 670 bps YoY to 5.6%. This was on account of higher other expenses and staff cost by 10.2% and 5.9% YoY, respectively. EBITDA came in at Rs 69 mn, down 64.9% YoY. Other income came in at Rs 21 mn as against loss of Rs 4 mn in 2QFY19 while tax rate came in higher at 33.4% as the company reported deferred tax of Rs 17 mn. Adjusted PAT reported de-growth of 64.1% YoY to Rs 36 mn.

1HFY20 performance

During 1HFY20, the sales came in at Rs 2.7 bn, down 12.6% YoY. Gross margins have expanded by 180 bps YoY; however, EBITDA margins have contracted by 270 bps YoY to 9.2%. EBITDA came in at Rs 250 mn, down 32.1% YoY. Other income grew by 48.9% YoY to Rs 33 mn while tax rate came in at 29.5% as against 33.9% in 1HFY19 which restricted PAT de-growth to Rs 150 mn, down 29.8% YoY.

Financial highlights

(Rs mn)	2QFY19	2QFY20	YoY (%)	1QFY20	QoQ (%)	1HFY19	1HFY20	YoY (%)
Net sales	1,601	1,241	(22.5)	1,467	(15.5)	3,098	2,708	(12.6)
Gross profit	471	364	(22.7)	489	(25.6)	920	853	(7.2)
Gross margin (%)	29.4	29.3	-	33.4	-	29.7	31.5	-
Total expenditure	1,404	1,172	(16.6)	1,286	(8.9)	2,730	2,458	(10.0)
EBITDA	196	69	(64.9)	181	(61.9)	368	250	(32.1)
EBITDA margin (%)	12.3	5.6	-	12.3	-	11.9	9.2	-
Other income	(4)	21	(666.5)	11	83.9	22	33	48.9
Interest	4	3	(23.4)	4	(14.5)	9	7	(16.0)
Depreciation	30	32	9.4	30	6.1	58	63	8.0
PBT	159	54	(65.7)	158	(65.6)	323	212	(34.2)
Tax	58	18	(68.5)	44	(59.1)	109	63	(42.8)
Tax rate (%)	36.3	33.4	-	28.1	-	33.9	29.5	-
Adjusted PAT	101	36	(64.1)	114	(68.1)	214	150	(29.8)
NPM (%)	6.3	2.9	-	7.7	-	6.9	5.5	-
Adjusted EPS (Rs)	4.9	1.7	(64.1)	5.5	(68.1)	10.3	7.2	(29.8)

During 1HFY20, Inventory days have gone up from 44 days to 54 days YoY while creditor's days increased from 28 days to 30 days YoY. Overall, cash conversion days increased from 80 days to 92 days YoY. Asset turnover came down from 0.9x to 0.7x YoY. The company reported net operating cash flow of Rs 59.4 mn against Rs 34.7 mn YoY.

Growth drivers

Short-term challenges like slowdown in the auto industry (30-35% of revenue), higher cost raw material inventory and poor realisations of the products continues to affect the performance of the company; however, commissioning of captive power plant is expected to improve margins. We do not have rating on the stock.

Concall highlights

- The company reported marginal growth in volume. The topline de-grew mainly due to decrease in realisations of NBR while margins got impacted due to change in product mix. Compared to 1QFY20, revenue mix has changed from 50:50 NBR: Latex to 45:50.
- After many quarters, the company witnessed de-growth in exports mainly on account of exports ban to Pakistan from August 2019. The prices of Butadiene are lower than US\$ 100/MT for European competitors, which made the company non-competitive in exports market.
- The company has direct 15% sales to automobile industry (without considering tyre industry). Slowdown in auto and allied industry also affected NBR sales.
- During the quarter, the company continues to utilise its NBR capacity at 100% and has increased the inventory for the same. NBR prices have corrected from US\$ 2,300/MT to US\$ 1,700/MT in the last few months. According to the management, the raw material prices in Europe have started increasing while domestically raw material prices are moving in the downward direction.
- In India, 80% of Nitrile Butadiene Rubber (NBR) is imported, which creates good potential for the company as it is the sole manufacturer in India. However, lower prices of imports are hurting the company's margins currently. The company is working with the government to increase ADD on imports.
- One of the biggest producers of NBR in Korea has called for one month of plant shut down which is expected to balance the demand supply situation.
- The company is in the process of expanding its NBR capacities while has been delayed by six months.
- The capex spend for the first phase post-acquisition was planned for Rs 1.0 bn (for FY17-18, FY18-19 and FY19-20) out of which the company already spent Rs 740 mn till 2QFY20, remaining amount will be spent in the next six months. The company raised term loan of Rs 200 mn for ongoing expansion.
- CPP commissioning delayed to 3Q due to heavy and extended monsoons as well as delays in environment clearances.
- Due to MAT credit entitlement, the company will stick to earlier tax regime.
- In India, the company is number one player for sale of many latex products and commands market share of over 40-70%.

Apcotex Industries

Income Statement

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Net sales	2,670	3,865	5,243	6,231
Growth (%)	(24.4)	44.8	35.6	18.8
Operating expenses	(2,309)	(3,590)	(4,624)	(5,581)
Operating profit	361	276	619	650
Other operating income	13	15	19	26
EBITDA	374	291	638	676
Growth (%)	(9.7)	(22.4)	119.5	5.9
Depreciation	(89)	(121)	(121)	(118)
Other income	74	299	71	77
EBIT	358	469	588	635
Finance cost	(24)	(29)	(16)	(18)
Exceptional & extraordinary	0	(5)	(14)	0
Profit before tax	334	434	558	617
Tax (current + deferred)	(88)	(84)	(171)	(151)
P/(L) for the period	247	350	386	466
Reported Profit/(Loss)	247	350	386	466
Adjusted net profit	247	354	396	466
Growth (%)	(0.0)	43.6	11.9	17.6

Balance Sheet

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Share capital	104	104	104	104
Reserves & surplus	2,613	2,125	2,360	2,674
Shareholders' funds	2,717	2,229	2,464	2,778
Non-current liabilities	46	67	70	86
Long-term borrowings	0	0	0	10
Other non-current liabilities	46	67	70	76
Current liabilities	860	675	906	907
ST borrowings, Curr maturity	254	222	174	30
Other current liabilities	606	452	733	877
Total (Equity and Liab.)	3,623	2,971	3,440	3,770
Non-current assets	2,109	1,576	1,535	1,624
Fixed assets (Net block)	947	937	877	976
Non-current Investments	899	399	500	428
Other non-current assets	262	239	159	220
Current assets	1,514	1,395	1,905	2,147
Cash & current investment	111	66	327	362
Other current assets	1,402	1,329	1,577	1,785
Total (Assets)	3,623	2,971	3,440	3,770
Total debt	254	222	174	40
Capital employed	3,017	2,519	2,707	2,893

Cash Flow Statement

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Profit before tax	334	434	558	617
Depreciation	89	121	121	118
Change in working capital	(411)	(74)	26	(59)
Total tax paid	(143)	(76)	(162)	(155)
Others	17	(260)	(43)	(25)
Cash flow from oper. (a)	(113)	146	500	496
Capital expenditure	(386)	(92)	(3)	(195)
Change in investments	(592)	752	(364)	64
Others	(253)	40	91	(38)
Cash flow from inv. (b)	(1,230)	700	(277)	(169)
Free cash flow (a+b)	(1,343)	846	223	326
Equity raised/(repaid)	3	0	(0)	0
Debt raised/(repaid)	(57)	(32)	(49)	(134)
Dividend (incl. tax)	(104)	(69)	(63)	(149)
Others	1,567	(790)	(104)	(16)
Cash flow from fin. (c)	1,410	(891)	(216)	(298)
Net chg in cash (a+b+c)	67	(45)	7	28

Key Ratios

Period end (%)	Mar 16	Mar 17	Mar 18	Mar 19
Adjusted EPS (Rs)	11.9	17.0	19.1	22.5
Growth	(49.8)	43.6	12.3	17.6
CEPS (Rs)	16.1	22.8	25.0	28.2
Book NAV/share (Rs)	130.5	107.1	118.8	133.9
Dividend/share (Rs)	4.5	2.5	2.2	6.0
Dividend payout ratio	44.4	20.1	16.7	32.2
EBITDA margin	14.0	7.5	12.2	10.8
EBIT margin	13.4	12.1	11.2	10.2
Tax rate	26.2	19.2	30.2	24.4
RoCE	16.2	16.9	22.5	22.7
Total debt/Equity (x)	0.1	0.1	0.1	0.0
Net debt/Equity (x)	0.1	0.1	(0.1)	(0.1)
Du Pont Analysis – RoE				
Net margin	9.2	9.2	7.6	7.5
Asset turnover (x)	1.0	1.2	1.6	1.7
Leverage factor (x)	1.5	1.3	1.4	1.4
Return on equity	13.3	14.3	16.9	17.8

Valuations

Period end (x)	Mar 16	Mar 17	Mar 18	Mar 19
PER	6.9	7.3	10.0	9.2
PCE	5.0	5.4	7.7	7.4
Price/Book	0.6	1.2	1.6	1.5
Yield (%)	5.5	2.0	1.1	2.9
EV/EBITDA	4.9	9.4	6.0	5.9

Share Data

Price (Rs)	342
BSE Sensex	40,889
Reuters code	BAMN.BO
Bloomberg code	BLA IN
Market cap. (US\$ mn)	154
6M avg. daily turnover (US\$ mn)	02
Issued shares (mn)	32

Performance (%) 1M 3M 12M

Absolute	7	36	(27)
Relative	2	22	(36)

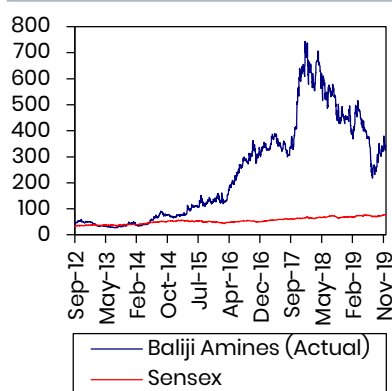
Valuation Ratios

Yr to 31 Mar	FY17	FY18	FY19
EPS (Rs)	25.4	34.9	36.1
+/- (%)	42.9	37.4	3.4
PER (x)	14.6	15.8	13.6
PBV (x)	3.4	3.8	2.8
Dividend/Yield (%)	0.6	0.5	0.6
EV/Sales (x)	1.9	2.2	1.9
EV/EBITDA (x)	8.4	10.1	9.1

Major Shareholders (%)

Promoters	54
FII's	2
Public & Others	45

Relative Performance



Balaji Amines

Not Rated

Poor realisations hurts performance...

Balaji Amines Ltd. (BLA) is an ISO 9001: 2008 certified company, specialised in manufacturing of Methylamines, Ethylamines, derivatives of Specialty Chemicals and Natural Products. BLA also has facilities for manufacturing derivatives of amines, which are downstream products for various Pharma/Pesticide industries apart from user specific requirements. BLA commenced manufacture of Methyl Amines in the year 1989 and subsequently added facilities for manufacture of Ethyl Amines and other derivatives of Methyl Amines and Ethyl Amines.

2QFY20 performance

During 2QFY20, the company reported sales of Rs 2.27 bn, up 5% YoY; this was on the back of 22.7% YoY growth in volumes. Revenue from amines division was up by 6.2% YoY to Rs 2.25 bn while hotel division revenues were up by 17.3% YoY to Rs 57 mn. Balaji Specialty reported revenue of Rs 83 mn in 2QFY20 as against Rs 19 mn in 1QFY20. Gross margin contracted by 220 bps YoY to 45.2% while EBITDA margin contraction was limited to 100 bps YoY to 19.7%. Though, interest cost increased by 137.7% YoY to Rs 72 mn while depreciation cost increased by 65.3% YoY to Rs 78 mn, lower tax rate of 8.0% as against 19.3% restricted the adjusted PAT decline of 7.2% YoY to Rs 287 mn.

Financial highlights

(Rs mn)	2QFY19	2QFY20	YoY (%)	1QFY20	QoQ (%)	1HFY19	1HFY20	YoY (%)
Net sales	2,163	2,273	5.0	2,230	1.9	4,762	4,502	(5.5)
Gross profit	1,025	1,027	0.2	928	10.7	2,212	1,954	(11.6)
Gross margin (%)	47.4	45.2	-	41.6		46.4	43.4	-
Total expenditure	1,715	1,825	6.4	1,855	(1.6)	3,728	3,680	(1.3)
EBITDA	448	448	(0.1)	375	19.3	1,035	823	(20.5)
EBITDA margin (%)	20.7	19.7	-	16.8	-	21.7	18.3	-
Other income	13	15	9.6	14	4.0	23	29	24.1
Interest	30	72	137.7	33	120.7	62	104	67.4
Depreciation	47	78	65.3	57	37.0	94	135	43.4
Tax	74	25	(66.3)	115	(78.3)	253	140	(44.8)
Tax rate (%)	19.3	8.0	-	38.3	-	28.1	22.8	-
Adjusted PAT	310	287	(7.2)	185	55.5	648	472	(27.1)
NPM (%)	14.3	12.6	-	8.3	-	13.6	10.5	-
Adjusted EPS (Rs)	9.6	8.9	(7.2)	5.7	55.5	20.0	14.6	(27.1)

1HFY20 performance

During 1HFY20, the company reported sales at Rs 4.5 bn, down 5.5% YoY. Gross margin contracted by 300 bps YoY to 43.4% while EBITDA margin contracted by 350 bps YoY to 18.3% with EBITDA declining by 20.5% YoY to Rs 823 mn. Though, interest and depreciation cost rose by 67.4% YoY and 43.4% QoQ to Rs 104 mn and Rs 135 mn, lower tax rate of 22.8% restricted decline in PAT of 27.1% YoY to Rs 472 mn.

During 1HFY20, the company generated cash flow from operation of Rs 421 mn as against Rs 322 mn in 1HFY19 and has incurred a capex of Rs 300 mn. Inventory days have gone up from 46 days to 56 days YoY while creditors' days have come down from 54 days to 38 days YoY.

Growth drivers

The company is expected to report strong revenue growth in FY21 and FY22 due to start of Balaji Specialty Chemicals Pvt. Ltd. plant and expected potential revenue from Phase-I of mega project plant. However, FY20 performance would remain subdued on account of poor product prices. We do not have rating on the stock.

About Balaji Specialty Chemicals Private Limited

Balaji Specialty is subsidiary of Balaji Amines (holds 55%). The subsidiary recently received environmental clearance for manufacturing Ethylenediamine (EDA), Piperazine (PIP), Diethylenetriamine (DETA) and a very small quantity of Aninoethylpiperazine (AEP). The subsidiary has already completed capex of Rs 2.5 bn. In FY20 and FY21, the management expects revenue of Rs 700 mn with margin of 16–18% while in FY21, expects revenue of ~Rs 4.0 bn with margin of 18–20% at optimum utilisation.

About mega greenfield project

The company got mega project status for 90-acre greenfield project. In the first phase, the company will use 8-10 acres of land and would invest Rs 2.0 bn which would be funded through both debt and internal accruals. The company would borrow Rs 1.2 bn for the project. The management expects project to come on stream by the end of FY21 and expects Rs 3.5 bn revenue in FY22. In Phase-I, the company would be producing 50 tpd (~18,000 tpa) of Ethyl amines and few other import substitute products.

Key concall highlights

- Total volumes for 2QFY20 stood at 21,376 MT as against 17,426 MT in 2QFY19. For 2QFY20, the amines, amines derivatives and specialty chemicals volume stood at 4,631 MT, 9,024 MT, 7,720 MT, respectively.
- In 2QFY20, amines constituted 21.7% of sales, amines derivatives constituted 42.2% and 36.1% of sales was from specialty chemicals. End-user industry-wise, API contributed about 50–56% of revenue followed by agrochemicals at 19%. Other segments like dyes, textile, animal feed, water treatment chemicals and refinery contributed about 5% each.
- Several pharmaceutical manufacturers have voluntarily stopped supplies of ranitidine to gauge the level of NDMA impurities and in some cases recalled products while this has not impacted 2QFY20 performance; however, the management expects some impact in 3QFY20.
- The company has 10,000 mtpa of Morpholine capacity out of which, it would be manufacturing 7,000–8,000 MT of Morpholine. Other than China, there are only three players making this product in the world. In India itself, there is a shortfall of 5,000 MT of supply of Morpholine. The company has started exporting Morpholine to other countries including China and USA.
- The company started manufacturing of fungible products like Acetonitrile and THF, the company has licenced capacity of 18,000 mtpa. In FY20, the company would be manufacturing 4,000–5,000 MT of Acetonitrile. Total demand of Acetonitrile in India is around 12,000 MT. Due to high volatility in prices of

Acetonitrile; the company has developed another fungible product called Tetrahydrofuran (THF), which can be manufactured on the same manufacturing line as Acetonitrile. If the volatility persists, the company plans to manufacture Acetonitrile and THF for six months alternatively. THF will be produced for first time in India and there is a demand for 15,000 mtpa.

- The company got the clearance for manufacturing Di-Methyl Hydrochloride for additional 7,500 mtpa capacities; however, it is waiting for the market demand to improve to increase the capacity.
- Balaji Specialty Chemicals Private Limited, subsidiary of the company has commenced production of niche products like Ethylenediamine (EDA), Piperazine (PIP) and Diethylenetriamine (DETA) and it expect gradual ramp-up going ahead. With these products, Balaji Amines would be substituting the products that are currently being imported in India. The company undertook capex of Rs 2.5 bn for the subsidiary company. At peak utilisation level, the margin profile of the subsidiary company will be similar to that of Balaji Amines.
- India is currently importing 29,000 tonnes of EDA, which goes into end use industry of agrochemicals. UPL, Coromandel International and Indofil are the major consumers of EDA. The other two products are consumed by pharmaceutical, polymer, coatings, etc. BLA will be the only company in India manufacturing EDA, PIP and DETA. India is importing 7,000–8,000 MT of Piperazine and 3,000–4,000 MT of DETA. These two products have good demand in other countries also.
- The company is expecting environmental clearance for 90 acres greenfield project in the month of November 2019. Once the company starts the land digging for the construction of greenfield project, it will take ~15 months' time to commence production. This project has received "Mega Project" status. The total capex for Phase-I of greenfield project is Rs 2.0 bn, out of which Rs 1.2 bn will be borrowed from banks, while the rest will be financed through internal accruals. In the first phase, the company will be manufacturing two products – 50 tpd of Ethyl Amines and 50 tpd of Iso Propyl Alcohol (IPA) or Mono Iso-propyl Amine (MIPA).
- The hotel business has now started contributing to the bottomline. The hotel business constituted 2.5% of the total revenue in 2QFY20. The average revenue for room stood at Rs 3,381 and revenue per available room was Rs 2,108. The occupancy rate in 2QFY20 stood at 62.3%. The cash profit from hotel division in 2QFY20 was Rs 14.1 mn.

Segmental performance

(Rs mn)	2QFY19	2QFY20	YoY (%)	1QFY20	QoQ (%)	1HFY19	1HFY20	YoY (%)
Amines	2,116	2,247	6.2	2,262	(0.6)	4,666	4,509	(3.4)
Hotel division	48	57	17.3	53	7.7	98	109	11.9
CFL Lamps & Capsules	–	0	–	–	–	–	0	–
BSCPL subsidiary	–	83	–	19	346.3	–	101	–
Sub-total	2,164	2,387	–	2,315	3.1	4,764	4,702	–
Less: Inter-segmental	0	114	–	103	10.7	–	(0)	–
Revenue from operations	2,163	2,273	5.0	2,211	2.8	4,762	4,484	(5.8)
Segmental result								
Amines	423	429	1.6	339	26.5	974	769	(21.1)
EBIT margin (%)	20.0	19.1	–	15.0	27.3	20.9	17.1	–
Hotel division	(5)	2	(139.8)	1	39.2	(3)	3	(196.5)
EBIT margin (%)	(10.2)	3.5	–	2.7	29.3	(3.6)	3.1	–
CFL Lamps & Capsules	(4)	(4)	4.2	(4)	(0.2)	(7)	(8)	4.3
BSCPL subsidiary	–	(44)	–	(5)	779.2	–	(48)	–
Total	414	384	(7.2)	332	15.7	963	716	(25.7)

Balaji Amines

Income Statement

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Net Sales	6,431	6,705	8,612	9,431
Growth (%)	3.9	4.3	28.4	9.5
Operating expenses	(5,164)	(5,178)	(6,717)	(7,496)
Operating profit	1,267	1,527	1,895	1,934
EBITDA	1,267	1,527	1,895	1,934
Growth (%)	24.5	20.5	24.1	2.1
Depreciation	(194)	(197)	(193)	(196)
Other income	28	50	41	42
EBIT	1,101	1,379	1,743	1,781
Finance Cost	(222)	(129)	(90)	(130)
Exceptional & Extraordinary	0	7	6	36
Profit before tax	880	1,257	1,658	1,686
Tax (current + deferred)	(303)	(433)	(527)	(516)
P/(L) for the period	576	824	1,132	1,171
Reported Profit/(Loss)	576	824	1,132	1,171
Adjusted Net profit	576	824	1,132	1,171
Growth (%)	67.9	42.9	37.4	3.4

Balance Sheet

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Share Capital	65	65	65	65
Reserves & surplus	2,815	3,474	4,608	5,675
Shareholders' funds	2,880	3,539	4,673	5,740
Minority Int, Share Appl, Pref Capital	0	0	180	180
Non-Current Liabilities	1,089	735	1,061	1,455
Long-term borrowings	464	168	425	833
Other Long term liab, Prov, DTL	625	566	636	621
Current liabilities	2,078	2,077	2,565	3,084
Short-term borrowings, Curr Maturity	1,012	662	997	1,072
Other Current Liab + Provi	1,066	1,415	1,568	2,012
Total (Equity and Liab.)	6,047	6,350	8,478	10,459
Non-current assets	3,594	3,531	4,860	5,963
Fixed assets (Net block)	3,571	3,506	4,397	5,892
Other non-current assets, DTA, Goodwill	23	25	463	71
Current assets	2,453	2,819	3,618	4,496
Cash & Current Investment	86	35	312	206
Other current assets	2,368	2,784	3,306	4,290
Total (Assets)	6,047	6,350	8,478	10,459
Total Debt	1,476	830	1,422	1,906
Capital Employed	4,981	4,935	6,910	8,447

Cash Flow Statement

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Profit before Tax	880	1,257	1,658	1,686
Depreciation	(194)	(197)	(193)	(196)
Change in working capital	308	(68)	(368)	(541)
Total tax paid	(250)	(430)	(532)	(560)
Others	465	(172)	(621)	(779)
Cash flow from oper. (a)	1,344	1,085	1,038	907
Capital expenditure	(320)	(132)	(1,084)	(1,690)
Others	8	(2)	(434)	396
Cash flow from inv. (b)	(312)	(134)	(1,518)	(1,294)
Free cash flow (a+b)	1,032	951	(481)	(387)
Equity raised/(repaid)	0	0	(57)	0
Debt raised/(repaid)	(757)	(645)	591	484
Dividend (incl. tax)	(65)	(71)	(84)	(91)
Others	(195)	(285)	308	(113)
Cash flow from fin. (c)	(1,017)	(1,002)	758	281
Net chg in cash (a+b+c)	16	(51)	278	(107)

Key Ratios

Period end (%)	Mar 16	Mar 17	Mar 18	Mar 19
Adjusted EPS (Rs)	17.8	25.4	34.9	36.1
Growth	67.9	42.9	37.4	3.4
CEPS (Rs)	23.8	31.5	40.9	42.2
Book NAV/share (Rs)	88.9	109.2	144.2	177.2
Dividend/share (Rs)	2.0	2.2	2.6	2.8
Dividend payout ratio	11.2	8.7	7.4	7.8
EBITDA margin	19.7	22.8	22.0	20.5
EBIT margin	17.1	20.6	20.2	18.9
Tax Rate	34.5	34.5	31.8	30.6
RoCE	21.7	27.8	29.4	23.2
Total debt/Equity (x)	0.9	1.3	0.7	0.5
Net debt/Equity (x)	0.5	0.2	0.3	0.3
Du Pont Analysis – RoE				
Net margin	9.0	12.3	13.1	12.4
Asset turnover (x)	1.0	1.1	1.2	1.0
Leverage factor (x)	2.4	1.9	1.8	1.8
Return on equity	22.3	25.7	27.6	22.5

Valuations

Period end (x)	Mar 16	Mar 17	Mar 18	Mar 19
PER	9.7	14.6	15.8	13.6
PCE	7.3	11.8	13.5	11.7
Price/Book	2.0	3.4	3.8	2.8
Yield (%)	1.2	0.6	0.5	0.6
EV/EBITDA	5.5	8.4	10.1	9.1

Share Data

Price (Rs)	68
BSE sensex	40,889
Reuters code	BODA.BO
Bloomberg code	BODL IN
Market cap. (US\$ mn)	117
6m avg. daily turnover (US\$ mn)	0.2
Issued shares (mn)	122

Performance (%)	1M	3M	12M
Absolute	(10)	3	(40)
Relative	(14)	(8)	(48)

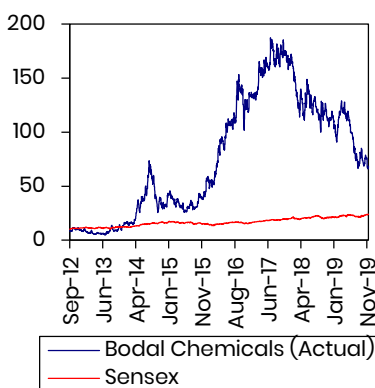
Valuation Ratios

Yr to 31 Mar	FY17	FY18	FY19
EPS (Rs)	11.7	10.0	11.4
+/- (%)	61.5	(14.9)	13.9
PER (x)	13.7	12.1	11.1
PBV (x)	5.1	1.7	1.5
Dividend/Yield (%)	0.3	0.7	0.8
EV/Sales (x)	1.5	1.4	1.2
EV/EBITDA (x)	8.3	8.5	7.2

Major Shareholders (%)

Promoters	58
FII's	6
MF's	6
Public & Others	30
Pledge	2

Relative Performance



Bodal Chemicals

Not Rated

Subdued demand delays capex plans...

Bodal Chemicals (BODL) is the largest integrated manufacturer of dyestuff and dye intermediates player in India and manufactures over 25 varieties of Dye Intermediates and around 150 variants in Dyestuff. The company exports to 151 customers from 41 countries (like the US, the UK, Germany, China, Turkey etc.) and is an approved supplier for many global players. BODL has nine manufacturing units in Gujarat, four in Ahmedabad, three in Vadodara and two in Ankleshwar.

2QFY20 performance

- Consolidated Sales/EBITDA/PAT declined by 21.7%/64.6%/50.8% YoY to Rs 3.08 bn/Rs 258 mn/Rs 224 mn, respectively. Standalone Sales/EBITDA/PAT declined by 31.2%/63.9%/44.1% YoY to Rs 2.6 bn/Rs 251 mn/Rs 242 mn, respectively. Standalone revenues declined as Dye intermediate revenues dipped by 50.1% YoY on account decline in Dye intermediate prices and 16.4% drop in Basic chemicals revenues on account of lower Caustic soda realisation.
- Consolidated gross margins contracted by 340 bps to 37.1% while on standalone basis the margins expanded by 80 bps to 40.2%. The prices started correcting in 2QFY20 and currently are at their lowest level. EBITDA margins contracted by 1,010 bps to 8.4% as the employee cost as well as other expenses as % of net sales went up by 200 bps and 480 bps YoY.

Financial highlights

(Rs mn)	2QFY19	2QFY20	YoY (%)	1QFY20	QoQ (%)	1HFY19	1HFY20	YoY (%)
Net sales	3,932	3,077	(21.7)	3,723	(17.3)	7,449	6,800	(8.7)
Gross profit	1,593	1,142	(28.3)	1,309	(12.8)	2,992	2,451	(18.1)
Gross margin (%)	40.5	37.1	-	35.2	-	40.2	36.0	-
Total expenditure	3,204	2,819	(12.0)	3,233	(12.8)	6,083	6,053	(0.5)
EBITDA	728	258	(64.6)	489	(47.3)	1,366	747	(45.3)
EBITDA margin (%)	18.5	8.4	-	13.1	-	18.3	11.0	-
Other income	30	0	(99.9)	19	(99.9)	54	19	(65.2)
Interest	20	45	119.1	30	47.5	37	75	104.1
Depreciation	54	67	24.3	66	0.8	100	134	34.1
PBT	685	146	(78.6)	412	(64.5)	1,284	558	(56.6)
Tax	234	(67)	(128.4)	147	(145.2)	441	81	(81.7)
Tax rate (%)	34.2	(45.5)	-	35.8	-	34.3	14.5	-
Adjusted PAT	456	224	(50.8)	275	(18.4)	840	499	(40.6)
NPM (%)	11.6	7.3	-	7.4	-	11.3	7.3	-
Adjusted EPS (Rs)	3.7	1.8	(50.8)	2.2	(18.4)	6.9	4.1	(40.6)

- PAT was impacted on account of higher interest cost (up 119% to Rs 45 mn) and depreciation (up 24% YoY to Rs 67 mn).
- Bodal Chemicals (BODL) decided to adopt the new tax rate regime and received overall tax refund of about Rs 67 mn.

1H FY20 performance

- Consolidated Sales/EBITDA/PAT declined by 8.7%/45.3%/42.8% YoY to Rs 6.8 bn/Rs 747 mn/Rs 499 mn, respectively.
- Gross margins contracted by 420 bps to 36% and EBITDA margins further contracted by 730 bps on account of poor operating leverage.
- The overall performance was impacted on account of subdued 2QFY20 performance.

Key highlights from Balance Sheet and Cash Flow statement

- Long-term borrowings came down by Rs 9.3 mn to Rs 121.3 mn, from March 2019, short-term borrowings increased by Rs 914 mn to Rs 1.7 bn.
- Cash flow from operations stood at Rs 1.37 bn in 1H FY19.

Growth drivers

The performance of the company has been impacted on account of declining Dyes and Dye intermediate prices due to slowdown in the demand. While the demand is subdued, the supply from China has restarted and there is ample supply in the market. Looking at the scenario, the company has put the capex plan on hold and is reassessing the flow of capex. SPS' Vinyl Sulphone plant has been put on hold as well on account of lower realisation. Trion continues to incur losses as the plant faces technical issues. It is expected to be operational by the next quarter.

Concall highlights

- The company has deferred capex plans announced in May 2019 on account of subdued market and demand scenario.
- The total production was up 2% YoY while 64,109 MT; however, dyestuff production was down 25% YoY mainly on account of lower demand slowdown in the application industry.
- Production in Thionyl chloride plant has picked up and reached 50% capacity utilisation.
- The average prices of Vinyl Sulphone (VS) during the quarter were about Rs 197/kg, down from Rs 311/kg in 2QFY19. H-Acid prices during the quarter were down from Rs 502/kg in 2QFY19 to Rs 380/kg in 2QFY20. The average price for Thionyl chloride during the quarter was about Rs 13/kg to Rs 14/kg.
- Currently, the prices are lower compared to the 2QFY20 levels. However, along with the product prices, raw material prices have also come down and are currently at their historical low. H-Acid currently is at Rs 350/kg and VS prices come down to Rs 180/kg. Raw material cost is about 60-62% of sales.
- Margins going ahead are expected to be at the 2Q levels in the coming quarters despite the fall in the dye intermediate prices, as the raw material prices have declined as well.
- On account of changing business model (shifting product mix towards dyestuff), working capital has increased as the credit period for dyestuff sales is higher and the inventory level to be maintained is also high. Wherever there is a slowdown, inventory days increase.
- The company has adopted the new tax rate regime and would save about 5-7% on the income tax; SPS Processors has some MAT balance (Rs 20-30 mn) and once that is utilised BODL would opt for the new regime for SPS Processors.

- 50% of the dyestuff produced by the company goes into textiles, 35% goes into leather and 15% goes into paper.
- The company enjoys 2% Merchandise Exports from India Scheme (MEIS) on their exports.

Segmental performance

	2QFY19	2QFY20	YoY (%)	1QFY20	QoQ (%)	1HFY19	1HFY20	YoY (%)
Revenue (Rs mn)								
Dye Intermediates	1,822	909	(50.1)	1,227	(25.9)	3,512	2,136	(39.2)
% of total sales	49.5	35.9	–	38.6	–	49.1	37.4	–
Dyestuff	1,301	1,238	(4.8)	1,533	(19.2)	2,379	2,771	16.5
% of total sales	35.4	48.9	–	48.3	–	33.2	48.5	–
Basic Chemicals	379	317	(16.4)	342	(7.3)	855	659	(22.9)
% of total sales	10.3	12.5	–	10.8	–	11.9	11.5	–
Other	176	68	(61.4)	74	(8.1)	413	142	(65.6)
% of total sales	4.8	2.7	–	2.3	–	5.8	2.5	–
Total	3,678	2,532	(31.2)	3,176	(20.3)	7,159	5,708	(20.3)
Production (MT)								
Dye Intermediates	6,031	6,765	12.2	5,277	28.2	12,248	12,042	(1.7)
Dyestuff	5,277	3,938	(25.4)	5,417	(27.3)	9,635	9,355	(2.9)
Basic Chemicals	51,522	53,405	3.7	49,291	8.3	102,010	102,696	0.7

Bodal Chemicals

Income Statement (Consolidated)

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Net sales	8,970	12,344	11,422	14,235
Growth (%)	(13.4)	37.6	(7.5)	24.6
Operating expenses	(7,601)	(10,083)	(9,478)	(11,874)
Operating profit	1,369	2,260	1,944	2,361
Other operating income	129	0	0	0
EBITDA	1,498	2,260	1,944	2,361
Growth (%)	(18.6)	50.9	(14.0)	21.5
Depreciation	(258)	(289)	(121)	(212)
Other income	120	105	89	129
EBIT	1,360	2,076	1,912	2,278
Finance cost	(122)	(87)	(53)	(91)
Exceptional & extraordinary	68	49	0	0
Profit before tax	1,305	2,038	1,859	2,187
Tax (current + deferred)	(445)	(709)	(619)	(770)
Profit/(Loss) for the period	860	1,329	1,240	1,417
P/L of Associates, Min Int, Pref Div	0	(0)	(20)	(28)
Reported Profit/(Loss)	860	1,329	1,220	1,390
Adjusted net profit	792	1,280	1,220	1,390
Growth (%)	(13.7)	61.5	(4.7)	13.9

Balance Sheet (Consolidated)

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Share capital	218	218	244	244
Reserves & surplus	2,128	3,409	6,725	8,049
Shareholders' funds	2,346	3,627	6,970	8,294
Minority interest and others	0	18	11	9
Non-current liabilities	160	261	287	584
Long-term borrowings	7	79	10	138
Other non-current liabilities	154	182	277	445
Current liabilities	2,592	3,162	3,482	4,100
ST borrowings, curr maturity	1,422	1,412	1,808	1,567
Other current liabilities	1,170	1,750	1,674	2,532
Total (equity and liab.)	5,099	7,067	10,750	12,986
Non-current assets	2,025	3,015	5,376	6,829
Fixed assets (net block)	1,922	2,307	4,552	6,341
Non-current investments	16	174	139	56
Long-term loans and adv.	86	165	326	12
Other non-current assets	0	369	358	421
Current assets	3,074	4,053	5,374	6,157
Cash & current investment	39	167	89	104
Other current assets	3,036	3,885	5,286	6,054
Total (assets)	5,099	7,067	10,750	12,986
Total debt	1,429	1,490	1,818	1,706
Capital employed	3,929	5,317	9,076	10,454

Cash Flow Statement (Consolidated)

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Profit before tax	1,305	2,038	1,859	2,187
Depreciation	258	289	121	212
Change in working capital	16	(270)	(1,477)	91
Total tax paid	(414)	(680)	(557)	(657)
Others	107	61	19	23
Cash flow from oper. (a)	1,271	1,438	(34)	1,856
Capital expenditure	76	(991)	(2,528)	(1,686)
Change in investments	2	(158)	4	108
Others	20	(342)	78	55
Cash flow from inv. (b)	97	(1,491)	(2,445)	(1,523)
Free cash flow (a+b)	1,368	(53)	(2,479)	333
Equity raised/(repaid)	(250)	0	2,097	(98)
Debt raised/(repaid)	(659)	61	328	(113)
Dividend (incl. tax)	(92)	(65)	(117)	(147)
Others	(359)	186	63	63
Cash flow from fin. (c)	(1,360)	182	2,371	(294)
Net chg in cash (a+b+c)	8	129	(108)	39

Key Ratios (Consolidated)

Period end (%)	Mar 16	Mar 17	Mar 18	Mar 19
Adjusted EPS (Rs)	7.3	11.7	10.0	11.4
Growth	(13.7)	61.5	(14.9)	13.9
CEPS (Rs)	9.6	14.4	11.0	13.1
Book NAV/share (Rs)	17.6	31.5	72.4	82.5
Dividend/share (Rs)	0.7	0.5	0.8	1.0
Dividend payout ratio	10.7	4.9	9.6	10.6
EBITDA margin	16.5	18.3	17.0	16.6
EBIT margin	15.2	16.8	16.7	16.0
Tax rate	36.0	35.6	33.3	35.2
RoCE	34.2	44.9	26.6	23.3
Total debt/Equity (x)	0.6	0.4	0.3	0.2
Net debt/Equity (x)	0.6	0.4	0.2	0.2
Du Pont Analysis – ROE				
Net margin	8.8	10.4	10.7	9.8
Asset turnover (x)	1.7	2.0	1.3	1.2
Leverage factor (x)	2.9	2.3	1.7	1.6
Return on equity	44.6	47.8	23.9	18.7

Valuations (Consolidated)

Period end (x)	Mar 16	Mar 17	Mar 18	Mar 19
PER	10.1	13.7	12.1	11.1
PCE	7.6	11.2	11.0	9.7
Price/Book	4.2	5.1	1.7	1.5
Yield (%)	1.0	0.3	0.7	0.8
EV/EBITDA	6.3	8.3	8.5	7.2

Share Data

Price (Rs)	359
BSE Sensex	40,889
Reuters code	DCMS.BO
Bloomberg code	DCMS IN
Market cap. (US\$ mn)	781
6M avg. daily turnover (US\$ mn)	1.0
Issued shares (mn)	156

Performance (%)	1M	3M	12M
Absolute	(4)	(4)	2
Relative	(8)	(14)	(11)

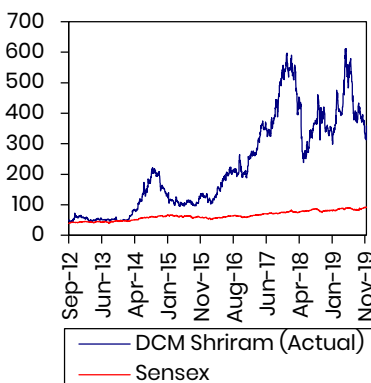
Valuation Ratios

Yr to 31 Mar	FY17	FY18	FY19
EPS (Rs)	34.0	41.2	55.8
+/- (%)	83.8	21.1	35.4
PER (x)	8.3	10.0	7.4
PBV (x)	1.8	2.2	1.9
Dividend/Yield (%)	0.7	0.2	0.2
EV/Sales (x)	1.0	1.1	1.0
EV/EBITDA (x)	7.2	7.0	5.7

Major Shareholders (%)

Promoters	67
FII's	5
MF's	1
BFSI's	8
Public & Others	19
Pledge	77

Relative Performance



DCM Shriram

Not Rated

Revival in Chlor-Alkali segment remains a key...

DCM Shriram Ltd. (DCMS) is an integrated business entity, mainly presence across the Agri value chain and Chloro-Vinyl industry. The company has added innovative value-added businesses domains primarily Bioseed and Fenesta. Access to captive power at all key manufacturing units enables the businesses to optimise competitive edge. The company has manufacturing facilities of Fertiliser, Chloro Vinyl & Cement in Kota (Rajasthan), Chlor-Alkali in Bharuch (Gujarat), and Sugar in Central Uttar Pradesh.

2QFY20 performance

- Consolidated sales grew by 2.9% YoY to Rs 17.4 bn while EBITDA and PAT declined by 28.7% and 29.6% YoY to Rs 2.1 bn and Rs 1.2 bn. Standalone sales grew by 3.0% YoY to Rs 17.3 bn while EBITDA and PAT declined by 27.6% and 28.5% YoY to Rs 2.2 bn and Rs 1.2 bn.
- Chlor vinyl segment revenues grew by 1.9% YoY to Rs 5.6 bn; EBIT declined by 11.9% to Rs 1.7 bn; EBIT margins contracted by 480 bps to 30.6%.
- Sugar segment revenues de-grew by 8.3% YoY to Rs 4.4 bn; EBIT declined by 169.3% to Rs 268 mn; EBIT margins contracted by 1,210 bps to 6.1%.
- Bioseed segment revenues grew by 41.9% YoY to Rs 1.2 bn; segment reported a profit of Rs 54 mn against a loss of Rs 40 mn in 2QFY19 at EBIT level.
- Fertiliser segment revenues grew by 13.9% YoY to Rs 2.2 bn; EBIT declined by 14.0% to Rs 151 mn; EBIT margins contracted by 170 bps to 5.4%.
- Other segment revenues grew by 3.4% YoY to Rs 2.1 bn; EBIT grew by 88.6% to Rs 240 mn; EBIT margins expanded by 490 bps to 11.6%.

Financial highlights

(Rs mn)	2QFY19	2QFY20	YoY (%)	1QFY20	QoQ (%)	1HFY19	1HFY20	YoY (%)
Sales	16,949	17,449	2.9	18,932	(7.8)	37,567	36,381	(3.2)
Gross margin (%)	55.1	49.7	-	54.6	-	50.9	52.2	-
EBITDA	2,963	2,114	(28.7)	3,499	(39.6)	6,337	5,613	(11.4)
EBITDA margin (%)	17.5	12.1	-	18.5	-	16.9	15.4	-
Other income	172	318	84.8	242	31.6	270	559	107.5
Interest	411	422	2.7	368	14.8	766	790	3.1
Depreciation	376	532	41.5	502	6.0	740	1,034	39.7
PBT	2,348	1,477	(37.1)	2,871	(48.5)	5,101	4,348	(14.8)
Tax	670	300	(55.2)	671	(55.3)	1,245	971	(22.0)
Tax rate (%)	28.6	20.3	-	23.4	-	24.4	22.3	-
Adjusted PAT	1,687	1,187	(29.6)	2,211	(46.3)	3,870	3,398	(12.2)
EPS (Rs)	10.7	7.5	(29.6)	14.1	(46.5)	24.1	21.6	(10.2)

1HFY20 performance

- Consolidated Sales, EBITDA and PAT declined by 3.2% YoY, 11.4% and 12.2% to Rs 36.3 bn, Rs 5.6 bn and Rs 3.4 bn, respectively.
- Chlor vinyl segment revenues grew by 7.6% YoY to Rs 12.5 bn; EBIT declined by 6.7% to Rs 4.4 bn; EBIT margins contracted by 540 bps to 35.0%.
- Sugar segment revenues de-grew by 16.0% YoY to Rs 9.2 bn; EBIT grew by 17.5% to Rs 994 mn; EBIT margins expanded by 310 bps to 10.8%.
- Bioseed segment revenues declined by 21.1% YoY to Rs 2.9 bn; EBIT declined by 20% YoY to Rs 350 mn; EBIT margins expanded by 20 bps to 12.2%.
- Fertiliser segment revenues declined by 6.9% YoY to Rs 4.4 bn; segment reported a loss of Rs 74 mn against a profit of Rs 262 mn at EBIT level in 1HFY19.
- Other segment revenues grew by 7.2% YoY to Rs 4.3 bn; EBIT grew by 78.1% to Rs 437 mn; EBIT margins expanded by 400 bps to 10.1%.

Key highlights from Balance Sheet and Cash Flow statement

- While the short-term borrowings increased by Rs 3.2 bn YoY to Rs 6.0 bn, short-term borrowings increased by Rs 4.7 bn to Rs 10.1 bn.
- Cash flow from operations stood at Rs 7.1 bn in 1HFY20 against Rs 8.7 bn in 1HFY19.
- The company incurred a capex of Rs 3.8 bn against Rs 4.0 in 1HFY19.

Growth drivers

The two major segments in which the company operates are under pressure. The Chlor vinyl segment is impacted by lower Caustic soda realisations on account of increasing imports. The sugar business is under pressure on account of excess inventory in the market. While the outlook for Caustic soda remains uncertain, Sugar segment may see some relief going ahead on the back of initiatives taken by the government to solve the excess supply scenario in the market by allowing sugar exports as well as incentivising ethanol production. The company is also planning to get into chlorine derivatives to improve ECU realisations; however, nothing concrete has been announced as of now. Revival on the Chlor vinyl segment remains key for the company as the segment contributes more than 70% at the BEIT level.

Concall highlights

Performance was subdued on account of lower ECU realisations in chemicals and lower sales of sugar and ethanol.

Chemicals

The import of caustic soda has gone up post the BIS approvals to international manufacturers; the ECU realisations have dropped significantly and are stable since last two months. About 1.69L MT of caustic soda was imported in 1HFY20; total imports for FY19 was about 2.35L MT. The exports of caustic soda from the country have also been adversely affected due to sharp drop in global caustic prices. Chlorine prices have been volatile as well from negative to Rs 3/kg.

On account of lower prices, the company shut down its operations in Gujarat (about 100 MT capacity) as they do not have a captive power plant there. DCM Shriram (DCMS) does not expect any increase in prices in the short-term. The realisations have fallen from average Rs 33/kg in FY19 to Rs 26/kg, currently.

New capacities are expected to come up which may cause short-term disturbances in the market. About 1 mn mt would be added over the next two-three years. The capacity expansion is taking place in India and some of the producers in South East Asia. The global growth rate has come down from 2.5% to 1.5%.

Volumes of caustic soda are up 25% YoY. ECU realisations are down 20% YoY and 24% QoQ; caustic soda flakes price premium over liquid has also dropped sharply. The consumption in the aluminium industry is high and hence they have been importing the material as well. Consumption in the paper industry is lower on account of recycling of the paper.

The company is still waiting for board's approval for chlorine downstream capex.

The company is incurring a capex of Rs 2.5 bn for a coal-based power plant at Kota which would be operational from December. Further, a capex of Rs 10.7 bn would be incurred towards 700 tpd caustic soda expansion at Bharuch and 10 MW power plant.

Plastics

The domestic PVC prices have improved since April 2019, supported by upward movements in global prices, additional custom duty from July 2019 and favourable currency movements.

Performance has improved YoY as last year was impacted by the issues relating to use of Pet Coke and shut down of one of the power plants at Kota.

Sugar

The industry continues to face excess supply situation. The carryover stock on September 2019 was about 14.5 mn mt compared to a normal level of about 4.5 mn mt.

Despite the government issuing lower advance estimate for cane production (down 5.6%) for the next sugar season, ISMA expects higher production level and even with expected exports of 6 mn mt, there would be excess stock by September 2020; the quota for exports is about 125,000 mt and DCMS would stick to it.

The company is expecting to commission 200 klpd distillery by end of November 2019, thereby providing full integration.

Sugar revenues declined 8% YoY due to lower volumes in distillery and sugar sales. Sugar volumes stood 6% lower due to lower releases.

Capex

The company has completed most of the capex for the projects which would be commissioned in 3QFY20.

The company is incurring a capex of Rs 2.5 bn for a coal-based power plant at Kota which would be operational from December. Further, a capex of Rs 10.7 bn would be incurred towards 700 tpd caustic soda expansion at Bharuch and 10 MW power plant; this would be commissioned in April 2021.

Segmental performance

(Rs mn)	2QFY19	2QFY20	YoY (%)	1QFY20	QoQ (%)	1HFY19	1HFY20	YoY (%)
Segment revenue								
Chlor Vinyl	5,532	5,635	1.9	6,915	(18.5)	11,661	12,550	7.6
% of sales	32.3	31.9	–	35.9	–	30.9	34.3	–
Sugar	4,789	4,392	(8.3)	4,819	(8.9)	10,970	9,210	(16.0)
% of sales	28.0	24.8	–	25.0	–	29.1	25.2	–
Shriram Farm Solutions	1,569	1,595	1.6	1,970	(19.0)	3,683	3,565	(3.2)
% of sales	9.2	9.0	–	10.2	–	9.8	9.8	–
Bioseed	828	1,174	41.9	1,705	(31.1)	3,647	2,879	(21.1)
% of sales	4.8	6.6	–	8.8	–	9.7	7.9	–
Fertiliser	2,471	2,815	13.9	1,603	75.6	4,747	4,418	(6.9)
% of sales	14.4	15.9	–	8.3	–	12.6	12.1	–
Others	1,915	2,073	8.2	2,267	(8.6)	4,049	4,339	7.2
% of sales	11.2	11.7	–	11.8	–	10.7	11.9	–
Total	17,103	17,683	3.4	19,279	(8.3)	38,758	36,961	(4.6)
Less: Inter-segment revenue	102	154	–	254	–	1,078	408	–
Total	17,001	17,529	3.1	19,025	(7.9)	37,680	36,554	(3.0)
Segment results								
Chloro-Vinyl	1,958	1,725	(11.9)	2,668	(35.3)	4,707	4,393	(6.7)
EBIT margin (%)	35.4	30.6	–	38.6	–	40.4	35.0	–
Sugar	874	268	(69.3)	726	(63.1)	846	994	17.5
EBIT margin (%)	18.2	6.1	–	15.1	–	7.7	10.8	–
Shriram Farm Solutions	13	82	518.9	48	72.0	112	129	15.8
EBIT margin (%)	0.8	5.1	–	2.4	–	3.0	3.6	–
Bioseed	(40)	54	(234.4)	297	(82.0)	438	350	(20.0)
EBIT margin (%)	(4.8)	4.6	–	17.4	–	12.0	12.2	–
Fertiliser	176	151	(14.0)	(225)	(167.1)	262	(74)	(128.3)
EBIT margin (%)	7.1	5.4	–	(14.0)	–	5.5	(1.7)	–
Others	127	240	88.6	197	21.9	246	437	78.1
EBIT margin (%)	6.7	11.6	–	8.7	–	6.1	10.1	–
Total	3,108	2,520	(18.9)	3,710	(32.1)	6,610	6,230	(5.8)

DCM Shriram

Income Statement

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Net sales	57,342	57,577	68,580	77,433
Growth (%)	2.3	0.4	19.1	12.9
Operating expenses	(52,755)	(50,174)	(58,655)	(64,025)
Operating profit	4,587	7,403	9,925	13,409
Other operating income	463	308	424	278
EBITDA	5,050	7,711	10,349	13,687
Growth (%)	26.6	52.7	34.2	32.2
Depreciation	(980)	(1,137)	(1,407)	(1,572)
Other income	407	468	561	876
EBIT	4,477	7,041	9,504	12,992
Finance cost	(854)	(715)	(830)	(1,189)
Profit before tax	3,622	6,326	8,673	11,802
Tax (current + deferred)	(619)	(804)	(1,987)	(2,776)
Profit/(Loss) for the period	3,004	5,522	6,687	9,026
P/L of Associates, Min Int, Pref Div	0	0	0	29
Reported Profit/(Loss)	3,004	5,522	6,687	9,055
Adjusted net profit	3,004	5,522	6,687	9,055
Growth (%)	42.5	83.8	21.1	35.4

Balance Sheet

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Share capital	326	326	326	314
Reserves & surplus	20,583	24,951	30,068	34,943
Shareholders' funds	20,909	25,277	30,395	35,257
Minority Int, Share Appl, Pref Capital	22	21	16	7
Non-current liabilities	4,312	6,626	7,442	11,863
Long-term borrowings	2,638	4,762	5,272	9,368
Other Long term liab, Prov, DTL	1,674	1,864	2,170	2,495
Current liabilities	24,827	23,814	18,664	24,238
Short-term borrowings, curr maturity	8,947	7,031	1,341	5,379
Other current liab + provi	15,881	16,783	17,323	18,859
Total (equity and liab.)	50,071	55,739	56,517	71,364
Non-current assets	19,942	23,166	25,548	32,835
Fixed assets (net block)	17,927	20,158	22,566	29,403
Non-current investments	30	2,302	298	376
Long-term loans and adv.	1,931	0	99	120
Other non-current assets, DTA, Goodwill	54	706	2,585	2,936
Current assets	30,129	32,573	30,969	38,529
Cash & current investment	398	2,115	1,486	4,159
Other current assets	29,731	30,458	29,483	34,370
Total (assets)	50,071	55,739	56,517	71,364
Total debt	11,585	11,793	6,613	14,747
Capital employed	34,190	38,956	39,194	52,505

Cash Flow Statement

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Profit before tax	3,622	6,326	8,673	11,802
Depreciation	(980)	(1,137)	(1,407)	(1,572)
Change in working capital	(2,719)	1,367	1,777	(3,235)
Total tax paid	(819)	(1,806)	(2,005)	(2,776)
Others	(2,011)	1,134	2,008	(3,250)
Cash flow from oper. (a)	1,611	7,459	10,682	8,552
Capital expenditure	(3,829)	(1,760)	(3,914)	(8,430)
Change in investments	28	(2,272)	2,004	(78)
Others	312	308	(1,876)	(312)
Cash flow from inv. (b)	(3,488)	(3,724)	(3,786)	(8,819)
Free cash flow (a+b)	(1,877)	3,736	6,896	(267)
Equity raised/(repaid)	0	(350)	0	(13)
Debt raised/(repaid)	3,221	209	(5,180)	8,134
Dividend (incl. tax)	(626)	(393)	(157)	(151)
Others	(1,274)	(1,484)	(2,188)	(5,031)
Cash flow from fin. (c)	1,321	(2,018)	(7,525)	2,940
Net chg in cash (a+b+c)	(556)	1,717	(629)	2,673

Key Ratios

Period end (%)	Mar 16	Mar 17	Mar 18	Mar 19
Adjusted EPS (Rs)	18.5	34.0	41.2	55.8
Growth	42.5	83.8	21.1	35.4
CEPS (Rs)	24.5	41.0	49.8	65.4
Book NAV/share (Rs)	126.6	155.6	187.2	217.1
Dividend/share (Rs)	3.2	2.0	0.8	0.8
Dividend payout ratio	20.8	7.1	2.4	1.7
EBITDA margin	8.8	13.4	15.1	17.7
EBIT margin	7.8	12.2	13.9	16.8
Tax Rate	17.1	12.7	22.9	23.5
RoCE	13.9	19.3	24.3	28.3
Total debt/Equity (x)	0.1	0.6	1.6	0.6
Net debt/Equity (x)	0.6	0.5	0.2	0.4
Du Pont Analysis – RoE				
Net margin	5.2	9.6	9.8	11.7
Asset turnover (x)	1.2	1.1	1.2	1.2
Leverage factor (x)	2.4	2.3	2.0	1.9
Return on equity	15.5	24.1	24.0	27.6

Valuations

Period end (x)	Mar 16	Mar 17	Mar 18	Mar 19
PER	7.0	8.3	10.0	7.4
PCE	5.3	6.9	8.3	6.3
Price/Book	1.0	1.8	2.2	1.9
Yield (%)	2.5	0.7	0.2	0.2
EV/EBITDA	6.4	7.2	7.0	5.7

Share Data

Price (Rs)	346
BSE sensex	40,889
Reuters code	DPNT.BO
Bloomberg code	DN IN
Market cap. (US\$ mn)	658
6M avg. daily turnover (US\$ mn)	1.7
Issued shares (mn)	136

Performance (%) 1M 3M 12M

Absolute	1	26	33
Relative	(3)	13	16

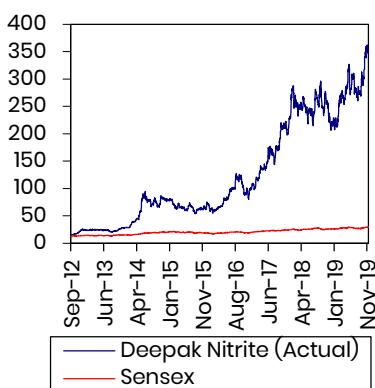
Valuation Ratios

Yr to 31 Mar	FY17	FY18	FY19
EPS (Rs)	2.0	5.6	12.7
+/- (%)	(63.4)	182.4	128.1
PER (x)	65.0	43.8	21.4
PBV (x)	2.4	3.6	3.5
Dividend/Yield (%)	0.9	0.5	0.7
EV/Sales (x)	1.7	2.6	1.8
EV/EBITDA (x)	16.8	21.6	11.8

Major Shareholders (%)

Promoters	46
FII's	9
MFs	16
BFSI's	1
Public & Others	29

Relative Performance



Deepak Nitrite

Not Rated

Continues to benefit from higher DASDA prices...

Deepak Nitrite (DN) headquartered in Vadodara, incorporated in 1970 is a multi-division, multi-product company. DN has global footprint in 21 countries. The company is a market leader for Sodium Nitrite, Sodium Nitrate and Nitro Toulens in India and among the top three global producers of Xylidines, Cumidines and Oximes. It is also the largest Phenol producer in India.

2QFY20 performance

- Consolidated Sales/EBITDA/PAT grew by 117.6%/290.4%/532.7% YoY to Rs 10.3 bn/Rs 2.5 bn/Rs 1.5 bn, respectively. The revenue and EBITDA declined on sequential basis by 4.5% and 1.3% on account of maintenance shut down at the phenol plant.
- Standalone Sales/EBITDA/PAT grew by 31.5%/210.7%/536.5% YoY to Rs 5.7 bn/Rs 2.13 bn/Rs 1.8 bn, respectively.
- Revenue growth was driven by 118% growth in the Performance products by DASDA realisation and 17.0% growth in Basic chemicals as well as revenue from phenolics. Fine & Specialty products revenue declined by 3.9% YoY to Rs 1.38 bn.
- Consolidated gross margins expanded by 190 bps YoY to 46.7%. EBITDA margins further expanded by 1,110 bps to 25.0%.
- Margins expanded across segment with 670 bps, 150 bps and 4,050 bps expansion in Bulk chemicals, Fine & Specialty Chemicals and Performance Products to 24.6%, 27.4% and 55.1%, respectively.

Financial highlights

(Rs mn)	2QFY19	2QFY20	YoY (%)	1QFY20	QoQ (%)	1HFY19	1HFY20	YoY (%)
Sales	4,611	10,033	117.6	10,510	(4.5)	9,250	20,543	122.1
Gross margin (%)	44.8	46.7	-	44.2	-	41.0	45.4	-
EBITDA	642	2,505	290.4	2,538	(1.3)	1,170	5,043	331.2
EBITDA margin (%)	13.9	25.0	-	24.2	-	12.6	24.5	-
Other income	3	78	2,202.9	116	(32.4)	12	194	1,574.1
Depreciation	135	351	160.9	332	5.8	263	684	159.5
Interest	130	298	128.8	310	(3.9)	248	607	144.9
PBT	380	1,934	408.7	2,012	(3.9)	670	3,946	489.1
Tax	143	430	201.9	696	(38.2)	245	1,126	360.5
Tax rate (%)	37.5	22.2	-	34.6	-	36.5	28.5	-
Adjusted PAT	238	1,504	532.7	1,316	14.3	425	2,820	563.1
EPS (Rs)	1.7	11.0	532.7	9.6	14.3	3.1	20.7	563.1

- PAT came in higher despite higher interest cost (up 129% YoY to Rs 298 mn) as well as depreciation (up 161% YoY to Rs 351 mn).
- Tax rate came in lower at 22.2%, against 37% in 2QFY19.

1HFY20 performance

- Consolidated Sales/EBITDA/PAT grew by 122.1%/331.2%/563% YoY to Rs 20.5 bn/Rs 5.0 bn/Rs 2.8 bn, respectively.
- Revenue growth was driven by 146.7% growth in the Performance products and 8.9% growth in Basic chemicals as well as revenue from phenolics business. Fine & Specialty products revenue declined by 4.6% YoY to Rs 2.5 bn.
- Gross margins expanded by 440 bps to 45.4% and EBITDA margins further expanded by 1,190 bps on account of improved operating leverage.
- Margins expanded across segment with 440 bps, 20 bps and 1,690 bps expansion in Bulk chemicals, Fine & Specialty Chemicals and Performance Products to 20.5%, 24.9% and 56.6%, respectively.

Key highlights from Consolidated Balance Sheet and Cash Flow statement

- Short-term borrowings came down by Rs 58 mn to Rs 2.49 bn, from March 2019, and the long-term borrowings increased by Rs 252 mn to Rs 8.4 bn.
- Cash flow from operations stood at Rs 3.16 bn in 1HFY20.
- Incurred a capex of Rs 1.53 bn against Rs 2.78 bn in 1HFY19.
- Working capital increased Rs 1.32 bn to Rs 6.1 bn on account of lower trade payables (down Rs 1.26 bn YoY to Rs 3.7 bn in 1HFY20) while Trade receivables and Inventories were largely flat at Rs 5.7 bn and Rs 4.16 bn, respectively.

Growth drivers

The performance of Deepak Nitrite (DN) has been strong in the last couple of quarter on the back of high DASDA realisations coupled with revenue stream from phenol plant. Going ahead, we expect the prices of DASDA to correct on account of capacities restarting in China. The company intends to move towards downstream value-added products in the phenolics division which, we believe would be the next growth driver.

Concall highlights

The company performed well despite headwinds arising out of US-China trade war, Brexit and slowing Europe economy.

The domestic revenues grew by 22.0% amidst slowing economic growth as the volume growth across products remained strong.

Exports grew by 52.0% largely contributed by DASDA. Further, enhanced volumes, diverse customer base and improved product mix contributed to the growth in exports.

The company expects improved performance from each segment in 2HFY20. While the value growth has been significant in recent quarters, the growth going ahead is expected to come in from volume.

Basic Chemistry segment

The segment revenues grew by 17.0% YoY and the volume growth stood at 10% YoY. Strong volume growth accompanied by higher realisations drove the performance of the segment. The profitability has improved and the company expects margins to normalise at 18-20% going ahead. The company plans to de-bottleneck the capacities which would increase the capacity by 20.0%.

Fine & Specialty Chemicals

While the performance for 1Q was subdued, the company maintained its guidance of 15–20% revenue growth for the year. The sequential growth in the volumes was about 12% while the value growth was about 8%.

Performance Products

Performance Products (PP) segment was the key growth driver for the quarter. The growth in revenue was about 119% YoY and the volume growth was just about 10%. The value growth was on account of high DASDA prices which are expected to sustain till 3Q. Post 3Q, the prices may go down.

OBA continued to do well and the company is deriving benefits of having an integrated OBA–DASDA facility. DN is moving away from their US focus strategy for OBA (which wasn't fruitful) and focusing on domestic and nearby markets.

The DASDA plant is operating at full utilisation levels and the company is able to sell all of its produce in the market, despite the high prices. DN is planning to de-bottleneck the DASDA plant.

Deepak Phenolics

During the quarter, the company took a planned shut down of about 14 days leading to a decline in the revenue and EBITDA on sequential basis. However, the plant touched capacity utilisation of more than 100% (adjusting for the shut down) and achieved highest ever level of production in a single day in September 2019.

The spreads during the quarter were lower on account of prolonged monsoon as well as slowdown in the application industry. The company expects the spreads to increase post November as the effect of monsoon diminishes and the growth in the infra and real estate sectors revives.

The margins in the Phenolics division are expected to reach about 14–15% going ahead. The spreads for the company are higher than normal as the company has more cost effective process technology for production.

The domestic demand continues to be strong as India is a net importer of Phenol.

Capex and Debt

The company is forward integrating into acetone derivative and the expansion would be completed by the end of FY20E. The capacity has a potential to generate revenue of about Rs 1.0–1.5 bn at full utilisation level. 25% of the Acetone would be used captively for the downstream product.

The company is also into the process of acquiring land for their future capex.

The total capex for FY20 would be Rs 4.0 bn, Rs 2.5 bn for standalone entity and Rs 1.5 bn for Deepak Phenolics. The capex for FY21E is expected to be at similar levels.

The net debt/equity for standalone entity stands at 0.18x down from 0.48x and for consolidated entity stands at 0.86x. The company is comfortable at these levels of leverage.

Segmental performance

(Rs mn)	2QFY19	2QFY20	YoY (%)	1QFY20	QoQ (%)	1HFY19	1HFY20	YoY (%)
Segment revenue								
Basic Chemicals	2,017	2,363	17.1	2,495	(5.3)	4,243	4,620	8.9
% of total	45.6	23.2	–	24.5	–	47.5	22.5	–
Fine & Specialty Chemicals	1,438	1,381	(3.9)	1,211	14.0	2,661	2,540	(4.6)
% of total	33.2	13.8	–	12.0	–	29.8	12.4	–
Phenolics	–	4,342	NA	5,224	(16.9)	429	9,349	2,080.2
% of total	–	43.3	–	51.8	–	4.8	45.5	–
Performance Products	968	2,118	118.8	1,260	68.0	1,773	4,375	146.7
% of total	22.4	21.1	–	12.5	–	19.8	21.3	–
Total	4,423	10,204	130.7	10,191	0.1	9,106	20,884	129.3
Less: Inter-segment revenue	96	170	–	108	–	172	341	–
Total	4,327	10,033	131.9	10,083	(0.5)	8,934	20,543	129.9
Segment results								
Bulk Chemicals & Commodities	361	581	61.1	364	59.5	684	945	38.2
EBIT (%)	17.9	24.6	–	16.1	–	16.1	20.5	–
Fine & Specialty Chemicals	372	378	1.8	255	48.2	658	634	(3.7)
EBIT (%)	25.9	27.4	–	22.0	–	24.7	24.9	–
Phenolics	–	242	NA	590	(59.0)	(35)	832	(2,484.2)
EBIT (%)	NA	5.6	–	11.8	–	(8.1)	8.9	–
Performance Products	142	1,168	724.3	1,310	(10.8)	172	2,478	1,336.4
EBIT (%)	14.6	55.1	–	58.0	–	9.7	56.6	–
Total	874	2,369	171.1	2,519	(5.9)	1,479	4,888	230.5

Deepak Nitrite

Income Statement

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Net sales	13,642	13,536	16,107	26,752
Growth (%)	3.6	(0.8)	19.0	66.1
Operating expenses	(12,061)	(12,352)	(14,551)	(22,860)
Operating profit	1,580	1,183	1,555	3,892
Other operating income	88	172	408	247
EBITDA	1,668	1,355	1,963	4,139
Growth (%)	19.8	(18.8)	44.9	110.8
Depreciation	(395)	(480)	(526)	(778)
Other income	16	109	123	151
EBIT	1,288	983	1,560	3,512
Finance cost	(397)	(341)	(451)	(832)
Exceptional & extraordinary	0	705	0	0
Profit before tax	891	1,347	1,109	2,680
Tax (current + deferred)	(262)	(382)	(347)	(943)
Profit/(Loss) for the period	629	965	761	1,737
P/L of Associates, Min Int, Pref Div (2)	(1)	0	0	0
Reported Profit/(Loss)	627	963	761	1,737
Adjusted net profit	627	258	761	1,737
Growth (%)	18.6	(58.8)	194.7	128.1

Balance Sheet

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Share capital	233	261	273	273
Reserves & surplus	4,496	6,887	8,949	10,443
Shareholders' funds	4,729	7,149	9,221	10,716
Non-current liabilities	2,233	2,653	6,208	9,726
Long-term borrowings	1,589	2,184	5,505	8,699
Other non-current liabilities	644	469	704	1,027
Current liabilities	5,980	8,073	10,476	8,836
ST borrowings, curr maturity	3,699	5,055	4,361	3,167
Other current liabilities	2,281	3,018	6,115	5,670
Total (equity and liab.)	12,941	17,875	25,906	29,278
Non-current assets	7,130	10,369	15,977	17,661
Fixed assets (net block)	6,297	9,351	15,421	17,497
Non-current investments	28	37	23	24
Long-term loans and adv.	805	14	13	14
Other non-current assets	0	967	520	126
Current assets	5,812	7,506	9,929	11,617
Cash & current investment	903	1,288	776	261
Other current assets	4,909	6,218	9,153	11,356
Total (assets)	12,941	17,875	25,906	29,278
Total debt	5,288	7,239	9,865	11,865
Capital employed	10,660	14,856	19,791	23,608

Cash Flow Statement

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Profit before tax	891	1,347	1,109	2,680
Depreciation	395	480	526	778
Change in working capital	(48)	250	164	(2,614)
Total tax paid	(159)	(575)	(294)	(616)
Others	385	296	396	813
Cash flow from oper. (a)	1,465	1,798	1,901	1,040
Capital expenditure	(816)	(3,541)	(6,596)	(2,854)
Change in investments	(694)	(287)	903	295
Others	10	(933)	472	402
Cash flow from inv. (b)	(1,499)	(4,761)	(5,221)	(2,157)
Free cash flow (a+b)	(34)	(2,964)	(3,320)	(1,117)
Equity raised/(repaid)	807	1,464	1,463	0
Debt raised/(repaid)	(157)	1,951	2,627	2,000
Dividend (incl. tax)	(168)	(189)	(214)	(329)
Others	(410)	(183)	(219)	(778)
Cash flow from fin. (c)	72	3,044	3,657	893
Net chg in cash (a+b+c)	37	80	337	(224)

Key Ratios

Period end (%)	Mar 16	Mar 17	Mar 18	Mar 19
Adjusted EPS (Rs)	5.4	2.0	5.6	12.7
Growth	6.6	(63.4)	182.4	128.1
CEPS (Rs)	8.8	5.7	9.4	18.4
Book NAV/share (Rs)	40.6	54.7	67.6	78.6
Dividend/share (Rs)	1.2	1.2	1.3	2.0
Dividend payout ratio	26.8	19.6	28.1	18.9
EBITDA margin	12.1	10.0	12.2	15.5
EBIT margin	9.4	7.3	9.7	13.1
Tax rate	29.4	59.6	31.3	35.2
RoCE	12.8	7.7	9.0	16.2
Total debt/Equity (x)	1.1	1.0	1.1	1.1
Net debt/Equity (x)	0.9	0.8	1.0	1.1
Du Pont Analysis – RoE				
Net margin	4.6	1.9	4.7	6.5
Asset turnover (x)	1.1	0.9	0.7	1.0
Leverage factor (x)	3.0	2.6	2.7	2.8
Return on equity	15.3	4.4	9.3	17.4

Valuations

Period end (x)	Mar 16	Mar 17	Mar 18	Mar 19
PER	12.2	65.0	43.8	21.4
PCE	7.5	22.7	25.9	14.8
Price/Book	1.6	2.4	3.6	3.5
Yield (%)	1.8	0.9	0.5	0.7
EV/EBITDA	7.2	16.8	21.6	11.8

Share Data

Price (Rs)	1,978
BSE Sensex	40,889
Reuters code	FINO BO
Bloomberg code	FINEORG IN
Market cap. (US\$ mn)	846
6M avg. daily turnover (US\$ mn)	0.4
Issued shares (mn)	31

Performance (%) 1M 3M 12M

Absolute	4	39	74
Relative	(0)	25	51

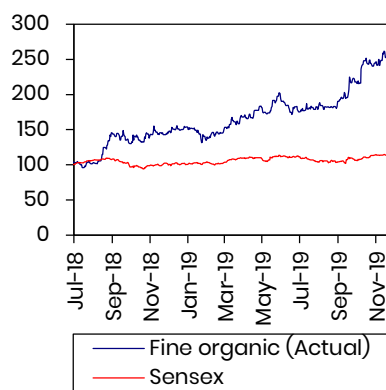
Valuation Ratios

Yr to 31 Mar	FY17	FY18	FY19
EPS (Rs)	25.4	31.1	44.4
+/- (%)	2.3	22.3	42.8
PER (x)	77.8	63.6	44.5
PBV (x)	18.5	15.3	12.1
Dividend/Yield (%)	0.4	0.4	0.4
EV/Sales (x)	7.8	7.2	5.7
EV/EBITDA (x)	42.0	38.5	26.4

Major Shareholders (%)

Promoters	75
FII's	5
MF's	15
BFSI's	1
Public & Others	3

Relative Performance



Fine Organic Industries

Not Rated

Margin expansion continues...

Fine Organic Industries (FINEORG) is the largest manufacturer of oleochemical-based additives in India and one of the few large players, globally. The company has basket of 400+ products which constitute of wide range of oleochemical-based additives used in food, plastic, cosmetics, paint, ink, coatings, etc.

2QFY20 performance

During 2QFY20, FINEORG reported Sales/EBITDA/PAT growth of 3.1%/8.5%/74.3%, respectively. In the benign raw material price environment, gross margins have expanded by 330 bps YoY and 100 bps QoQ to 41.1%; however, EBITDA margin expansion was restricted to 120 bps YoY while contracted by 40 bps sequentially to 23.8%. Depreciation rose by 52.0% YoY to Rs 65 mn on account of commissioning of third Ambernath facility during the quarter. PAT grew by 74.3% YoY as the company has exercised the option of lower tax rate and accordingly re-measured its tax expenses.

1HFY20 performance

During 1HFY20, the company reported Sales/EBITDA/PAT growth of 2.2%/3.4%/21.2%, respectively. Gross margin have expanded by 160 bps YoY to 40.6%. While EBITDA margin expansion was restricted to 30 bps YoY to 24.0%. Though, other income declined by 13.8% YoY to Rs 102 mn and depreciation cost increased by 17.2% YoY to Rs 99 mn, the PAT grew by 21.2% YoY to Rs 946 mn.

Financial highlights

(Rs mn)	2QFY19	2QFY20	YoY (%)	1QFY20	QoQ (%)	1HFY19	1HFY20	YoY (%)
Net sales	2,658	2,740	3.1	2,506	9.3	5,133	5,246	2.2
Gross profit	1,005	1,126	12.0	1,006	11.9	2,001	2,132	6.5
Gross margin (%)	37.8	41.1	-	40.1	-	39.0	40.6	-
Total expenditure	405	474	17.2	400	18.7	784	874	11.4
EBITDA	601	651	8.5	606	7.4	1,216	1,258	3.4
EBITDA margin (%)	22.6	23.8	-	24.2	-	23.7	24.0	-
Other income	33	58	74.9	44	33.6	118	102	(13.8)
Interest	5	7	19.1	4	47.4	15	11	(25.7)
Depreciation	43	65	52.0	34	94.3	84	99	17.2
PBT	586	638	8.9	612	4.2	1,235	1,250	1.2
Tax	252	52	(79.2)	213	(75.5)	448	266	(40.7)
Tax rate (%)	43.0	8.2	-	34.8	-	36.3	21.2	-
Adjusted PAT	327	570	74.3	376	51.8	781	946	21.2
NPM (%)	12.3	20.8	-	15.0	-	15.2	18.0	-
Adjusted EPS (Rs)	10.7	18.6	74.3	12.3	51.8	25.5	30.9	21.2

During 1HFY20, the company incurred capex of Rs 5.2 bn. cash flow from operations rose from Rs 10.4 bn in 1HFY19 to Rs 15.1 bn in 1HFY20. Cash conversion days have gone up from 69 days to 77 days YoY. This was mainly on account of increase in inventory days from 52 days to 56 days while creditor's days have gone down from 38 days to 32 days.

Growth drivers

The company has developed strong business model in niche oleochemical-based additives industry on the back of strong R&D capability, proprietary technology and experienced management team. Going ahead, the company is expected to report healthy growth on the back of ongoing doubling of capacities and healthy demand from the end-user industries. We do not have rating on the stock.

Current operational facility

Plant	Capacity (tpa)	Remarks
1st Ambernath facility	49,500	
Badlapur facility	6,400	
Dombivli facility	8,400	Acquired on sub-lease basis
2nd Ambernath facility	5,000	Acquired on sub-lease basis
3rd Ambernath facility	32,000	Commenced operation
Total capacity	101,300	

Proposed expansion

Plant	Capacity (tpa)	Expected commercialisation
Patalganga facility	10,000	FY21E
German facility	10,000	FY22E

Fine Organic Industries

Income Statement (Consolidated)

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Net sales	6,596	7,790	8,516	10,603
Growth (%)	7.3	18.1	9.3	24.5
Operating expenses	(5,139)	(6,343)	(6,932)	(8,301)
Operating profit	1,457	1,448	1,584	2,302
Other operating income	2	1	0	0
EBITDA	1,458	1,449	1,584	2,302
Growth (%)	28.0	(0.6)	9.3	45.3
Depreciation	(298)	(236)	(200)	(175)
Other income	79	40	160	198
EBIT	1,239	1,253	1,544	2,326
Finance cost	(71)	(44)	(32)	(18)
Profit before tax	1,168	1,209	1,512	2,308
Tax (current + deferred)	(406)	(429)	(559)	(945)
P/(L) for the period	762	780	954	1,363
P/L of Associates, Min Int, Pref Div	0	0	0	(0)
Reported Profit/(Loss)	762	780	954	1,362
Adjusted net profit	762	780	954	1,362
Growth (%)	33.5	2.3	22.3	42.8

Balance Sheet (Consolidated)

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Share capital	48	48	153	153
Reserves & surplus	2,496	3,235	3,803	4,849
Shareholders' funds	2,545	3,283	3,956	5,002
Non-current liabilities	516	0	0	967
Long-term borrowings	516	0	0	928
Other non-current liabilities	0	0	0	39
Current liabilities	1,129	1,164	1,305	1,054
ST borrowings, Curr maturity	425	403	536	202
Other current liabilities	704	761	768	852
Total (Equity and Liab.)	4,190	4,447	5,261	7,024
Non-current assets	1,678	1,638	1,959	2,682
Fixed assets (Net block)	1,304	998	1,200	1,845
Non-current Investments	0	111	111	100
Long-term loans and adv.	345	490	600	736
Other non-current assets	30	39	48	2
Current assets	2,512	2,809	3,301	4,342
Cash & current investment	436	179	124	1,092
Other current assets	2,076	2,630	3,177	3,250
Total (Assets)	4,190	4,447	5,261	7,024
Total debt	941	403	536	1,130
Capital employed	3,486	3,686	4,492	6,172

Cash Flow Statement (Consolidated)

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Profit before tax	1,168	1,209	1,512	2,308
Depreciation	298	236	200	175
Change in working capital	(191)	(642)	(663)	(185)
Total tax paid	(430)	(439)	(556)	(838)
Others	70	33	26	1
Cash flow from oper. (a)	916	398	519	1,460
Capital expenditure	(284)	70	(401)	(819)
Change in investments	0	(111)	1	11
Others	0	10	5	17
Cash flow from inv. (b)	(284)	(31)	(396)	(791)
Free cash flow (a+b)	632	367	124	669
Equity raised/(repaid)	0	0	105	0
Debt raised/(repaid)	(5)	(539)	133	594
Dividend (incl. tax)	(268)	(277)	(277)	(258)
Others	43	192	(141)	(38)
Cash flow from fin. (c)	(230)	(624)	(179)	299
Net chg in cash (a+b+c)	402	(257)	(55)	968

Key Ratios (Consolidated)

Period end (%)	Mar 16	Mar 17	Mar 18	Mar 19
Adjusted EPS (Rs)	24.9	25.4	31.1	44.4
Growth	26.2	2.3	22.3	42.8
CEPS (Rs)	34.6	33.1	37.6	50.1
Book NAV/share (Rs)	83.0	107.1	129.0	163.2
Dividend/share (Rs)	7.3	7.5	7.5	7.0
Dividend payout ratio	35.1	35.5	29.0	18.9
EBITDA margin	22.1	18.6	18.6	21.7
EBIT margin	18.8	16.1	18.1	21.9
Tax rate	34.8	35.5	36.9	41.0
RoCE	38.9	34.9	37.8	43.6
Total debt/Equity (x)	0.4	0.1	0.1	0.2
Net debt/Equity (x)	0.2	0.1	0.1	0.0
Du Pont Analysis – RoE				
Net margin	11.6	10.0	11.2	12.8
Asset turnover (x)	1.7	1.8	1.8	1.7
Leverage factor (x)	1.8	1.5	1.3	1.4
Return on equity	34.0	26.8	26.3	30.4

Valuations (Consolidated)

Period end (x)	Mar 16	Mar 17	Mar 18	Mar 19
PER	79.6	77.8	63.6	44.5
PCE	57.2	59.7	52.6	39.5
Price/Book	23.8	18.5	15.3	12.1
Yield (%)	0.4	0.4	0.4	0.4
EV/EBITDA	41.9	42.0	38.5	26.4

Share Data

Price (Rs)	1,518
BSE Sensex	40,889
Reuters code	GALX NS
Bloomberg code	GALSURF IN
Market cap. (US\$ mn)	750
6M avg. daily turnover (US\$ mn)	0.3
Issued shares (mn)	35

Performance (%)	1M	3M	12M
Absolute	(2)	17	27
Relative	(6)	5	11

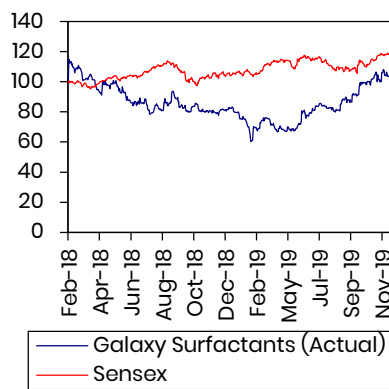
Valuation Ratios

Yr to 31 Mar	FY17	FY18	FY19
EPS (Rs)	41.6	44.6	53.9
+/- (%)	46.6	7.1	20.9
PER (x)	36.5	34.1	28.2
PBV (x)	9.4	7.5	6.1
Dividend/Yield (%)	0.3	0.2	0.8
EV/Sales (x)	2.6	2.3	2.0
EV/EBITDA (x)	21.0	19.6	15.9

Major Shareholders (%)

Promoters	71
FII's	3
MFs	11
BFSI's	2
Public & Others	13

Relative Performance



Galaxy Surfactants

Not Rated

Volume growth led by AMET, margin expansion continues...

Incorporated in 1986, Galaxy Surfactants (GALSURF) has developed secular business through long standing relationships with multinationals, regional and local players. The company emerged as one of the leading manufacturer of surfactants and other specialty ingredients which caters to entire gamut of home and personal care (HPC) industry.

2QFY20 performance

During 2QFY20, the company reported volume growth of 10.2% YoY on the back of 11.2% and 8.4% volume growth in performance surfactants and specialty care product segment; however, the sales de-grew by 5.3% YoY on account of lower lauryl alcohol prices. Gross margin have expanded by 380 bps YoY to 33.3%; however, EBITDA margin expansion was restricted to 90 bps YoY. This resulted into flat EBITDA growth of 1.3% YoY to Rs 880 mn. PAT grew by 44.8% to Rs 671 mn on account of lower tax rate of 0.7% as the company has exercised the option of lower tax rate.

Financial highlights

(Rs mn)	2QFY19	2QFY20	YoY (%)	1QFY20	QoQ (%)	1HFY19	1HFY20	YoY (%)
Net sales	6,853	6,488	(5.3)	6,650	(2.4)	14,015	13,138	(6.3)
Gross profit	2,020	2,158	6.8	2,222	(2.9)	3,968	4,380	10.4
Gross margin (%)	29.5	33.3	-	33.4	-	28.3	33.3	-
Total expenditure	5,984	5,608	(6.3)	5,690	(1.4)	12,259	11,297	(7.8)
EBITDA	869	880	1.3	961	(8.4)	1,757	1,841	4.8
EBITDA margin (%)	12.7	13.6	-	14.4	-	12.5	14.0	-
Other income	19	13	(31.2)	13	4.0	2	26	1,400.0
Interest	73	64	(12.0)	60	7.7	150	124	(17.6)
Depreciation	128	154	19.9	149	3.4	254	302	19.0
PBT	687	675	(1.6)	765	(11.7)	1,354	1,440	6.4
Tax	224	5	(97.9)	239	(98.0)	434	244	(43.7)
Tax rate (%)	32.5	0.7	-	31.3	-	32.0	16.9	-
Adjusted PAT	463	671	44.8	526	27.6	920	1,196	30.0
Adjusted EPS (Rs)	13.1	18.9	44.8	14.8	27.6	26.0	33.7	30.0

Segmental volumes

(mtpa)	2QFY19	2QFY20	YoY (%)	1QFY20	QoQ (%)	1HFY19	1HFY20	YoY (%)
Performance Surfactants	32,290	35,919	11.2	33,771	6.4	65,944	69,690	5.7
Specialty Care Products	19,502	21,148	8.4	20,996	0.7	38,325	42,144	10.0
Total	51,792	57,067	10.2	54,767	4.2	104,269	111,834	7.3

1HFY20 performance

During 1HFY20, the company registered overall volume growth of 7.3% YoY. The volume of performance surfactants and specialty care product segment grew by 5.7% and 10.0%, respectively; however, sales came in at Rs 13.1 bn, down 6.3% YoY. Gross margin expanded by 500 bps YoY to 33.3%; however, EBITDA margin contracted by 150 bps YoY to 14.0%. EBITDA came in at Rs 1.8 bn, up 4.8% YoY. Adjusted PAT came in at Rs 1.2 bn, up 30.0% YoY on account of lower tax rate of 16.9% as against 32.0% YoY.

During 1HFY20, debt-to-equity came down from 0.44x to 0.29x whereas overall working capital days have gone up from 40 days to 48 days. Cash from operating activities has gone up from Rs 857.4 mn to Rs 1.01 bn YoY.

Growth drivers

GALSURF is the professionally managed company with strong management pedigree and has developed long standing relations with the customers, which provides confidence in the business, while consistent free cash flow generation allows the company to fund capex, pay dividend and reduce debt. In the near-term, the sales are expected to remain sluggish on account of lower lauryl alcohol prices but the volume growth is expected to remain healthy backed by expansion into new geographies. Further, focus on specialty chemical segment is expected to improve margins of the company in the medium-term.

Concall highlights

- The company witnessed increase in premiumisation. The premium product demand continues to rise while demand for mass and mastige product was weak. Despite slowdown, the company registered volume growth across regions and is able to log in 10.2% volume growth.
- EBITDA/MT has come down to Rs 15,654 mainly due to 1) change in product mix, 2) last year in same period the company reported Rs 35.4 mn of forex gain which was absent this year and 3) increase in cost of newly started Jhagadia plant.
- Egypt geography is showing steady recovery. The company registered 29.7% YoY growth from the region. The growth was on the back of low base. The management expects momentum to continue.
- Raw material prices are currently at multiyear low (6-7 years low). Raw material prices remained stable sequentially while declined by US\$ 200/MT YoY. Any disruption in weather or harvesting would impact the palm oil plantation which in turn would increase the raw material prices. The management expect raw material prices to move up slightly and then stabilise.
- In India, sales from performance surfactant and specialty chemicals segment accounts in the ratio of 80:20. In India, mass and mastige products are sold in bulk; however, the premiumisation trend is slowly gaining traction. Rest of the world continued the volume growth momentum.
- The company has witnessed good growth coming in from baby care, mens grooming and natural products and also witnessed emergence of smaller players on e-commerce platform.
- The company has guided for 6-8% volume growth in FY20 and full year tax rate of ~25%.
- During 1HFY20, the company incurred capex of Rs 700 mn and is expected to spend the similar amount in 2HFY20.
- In Egypt, the company sells performance surfactants to the tier-1 customers. The customers in Egypt are slowly gaining their market share which was loosed earlier.
- The company has been reviewing projects for inorganic expansion but nothing is on plate as of now. During 2QFY20, the overall capacity utilisation stood at 63%.

Galaxy Surfactants

Income Statement (Consolidated)

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Net sales	17,787	21,613	24,339	27,630
Growth (%)	(4.5)	21.5	12.6	13.5
Operating expenses	(15,694)	(18,900)	(21,462)	(24,096)
Operating profit	2,092	2,714	2,877	3,534
Other operating income	223	0	0	0
EBITDA	2,315	2,714	2,877	3,534
Growth (%)	23.2	17.2	6.0	22.8
Depreciation	(452)	(472)	(485)	(512)
Other income	59	104	101	47
EBIT	1,922	2,346	2,493	3,069
Finance cost	(312)	(272)	(306)	(300)
Profit before tax	1,610	2,074	2,188	2,769
Tax (current + deferred)	(603)	(598)	(607)	(859)
P/(L) for the period	1,007	1,476	1,580	1,910
Reported Profit/(Loss)	1,007	1,476	1,580	1,910
Adjusted net profit	1,007	1,476	1,580	1,910
Growth (%)	49.2	46.6	7.1	20.9

Balance Sheet (Consolidated)

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Share capital	355	355	355	355
Reserves & surplus	4,149	5,395	6,833	8,413
Shareholders' funds	4,503	5,749	7,188	8,767
Non-current liabilities	2,247	1,632	1,072	1,323
Long-term borrowings	1,936	1,285	722	892
Other non-current liabilities	311	348	350	430
Current liabilities	4,347	5,491	6,294	5,590
ST borrowings, Curr maturity	1,424	2,048	2,197	1,640
Other current liabilities	2,924	3,443	4,097	3,950
Total (Equity and Liab.)	11,098	12,872	14,554	15,680
Non-current assets	5,234	5,308	5,365	6,706
Fixed assets (Net block)	4,662	4,638	4,693	5,988
Non-current Investments	1	1	1	0
Long-term loans and adv.	511	602	613	644
Other non-current assets	59	67	58	74
Current assets	5,864	7,564	9,189	8,974
Cash & current investment	160	261	276	257
Other current assets	5,704	7,303	8,913	8,717
Total (Assets)	11,098	12,872	14,554	15,680
Total debt	3,360	3,333	2,919	2,532
Capital employed	8,174	9,429	10,457	11,729

Cash Flow Statement (Consolidated)

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Profit before tax	1,610	2,074	2,188	2,769
Depreciation	452	472	485	512
Change in working capital	(513)	(1,160)	(994)	57
Total tax paid	(619)	(563)	(574)	(830)
Others	295	269	288	292
Cash flow from oper. (a)	1,224	1,092	1,393	2,800
Capital expenditure	(455)	(447)	(541)	(1,807)
Change in investments	(1)	(0)	0	1
Others	17	4	18	8
Cash flow from inv. (b)	(439)	(444)	(522)	(1,798)
Free cash flow (a+b)	786	648	871	1,002
Debt raised/(repaid)	(382)	(27)	(413)	(388)
Dividend (incl. tax)	(256)	(171)	(128)	(513)
Others	(177)	(350)	(314)	(120)
Cash flow from fin. (c)	(816)	(548)	(856)	(1,020)
Net chg in cash (a+b+c)	(30)	100	15	(19)

Key Ratios (Consolidated)

Period end (%)	Mar 16	Mar 17	Mar 18	Mar 19
Adjusted EPS (Rs)	28.4	41.6	44.6	53.9
Growth	49.2	46.6	7.1	20.9
CEPS (Rs)	41.2	54.9	58.3	68.3
Book NAV/share (Rs)	127.0	162.2	202.8	247.3
Dividend/share (Rs)	6.0	4.0	3.0	12.0
Dividend payout ratio	25.4	11.6	8.1	26.9
EBITDA margin	12.9	12.6	11.8	12.8
EBIT margin	10.8	10.9	10.2	11.1
Tax rate	37.5	28.8	27.8	31.0
RoCE	24.3	26.7	25.1	27.7
Total debt/Equity (x)	0.7	0.6	0.4	0.3
Net debt/Equity (x)	0.7	0.5	0.4	0.3
Du Pont Analysis – RoE				
Net margin	5.7	6.8	6.5	6.9
Asset turnover (x)	1.6	1.8	1.8	1.8
Leverage factor (x)	2.7	2.3	2.1	1.9
Return on equity	24.8	28.8	24.4	23.9

Valuations (Consolidated)

Period end (x)	Mar 16	Mar 17	Mar 18	Mar 19
PER	53.5	36.5	34.1	28.2
PCE	36.9	27.6	26.1	22.2
Price/Book	11.9	9.4	7.5	6.1
Yield (%)	0.4	0.3	0.2	0.8
EV/EBITDA	24.6	21.0	19.6	15.9

Share Data

Price (Rs)	401		
BSE sensex	40,889		
Reuters code	GALK.BO		
Bloomberg code	GALK IN		
Market cap. (US\$ mn)	411		
6M avg. daily turnover (US\$ mn)	0.3		
Issued shares (mn)	73		
Performance (%)	1M	3M	12M
Absolute	(8)	3	(27)
Relative	(11)	(7)	(37)

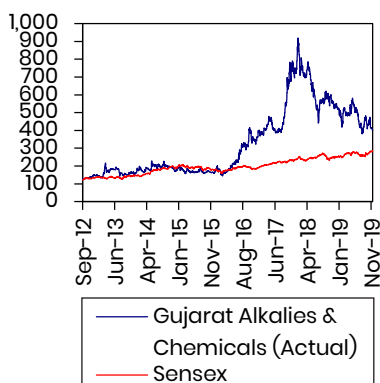
Valuation Ratios

Yr to 31 Mar	FY17	FY18	FY19
EPS (Rs)	42.0	72.9	93.9
+/- (%)	40.1	73.7	28.9
PER (x)	9.7	9.6	5.3
PBV (x)	0.9	1.3	0.8
Dividend/Yield (%)	1.1	0.7	1.3
EV/Sales (x)	1.6	2.2	1.2
EV/EBITDA (x)	7.2	6.7	3.2

Major Shareholders (%)

Promoters	46
GOI	0
FII's	2
MF's	6
BFSI's	2
Public & Others	44

Relative Performance



Gujarat Alkalies and Chemicals

Not Rated

Realisations under pressure; recovery uncertain...

Gujarat Alkalies and Chemicals Ltd. (GALK) was established in 1973 and over a period of time, it has emerged as one of the largest producers of Caustic Soda in India. The company produces 35 different products which include Chloromethanes, Sodium Cyanide, Caustic Potash (Lye and Flakes), Potassium Carbonate, Hydrogen Peroxide, Phosphoric Acid, Poly Aluminium Chloride, Aluminium Chloride, Chlorinated Paraffins, Benzyl Alcohol, Sodium Chlorinate and other chemicals.

2QFY20 performance

- Sales/EBITDA/PAT declined by 9.4%/45.6%/41.5% YoY to Rs 6.9 bn/Rs 1.5 bn/Rs 1.0 bn, respectively. The revenue was impacted on account of high base as well as poor realisation on account of over-supply in the market due to large amount of imports from now BIS compliant international companies.
- Gross margins contracted by 1,180 bps to 61.6% on account of poor realisation in Caustic soda. EBITDA margins further contracted by 1,410 bps to 21.7% as the employee cost as well as other expenses as % of net sales went up by 30 bps and 260 bps YoY. The margins are; however, expected to stay at current levels.

Financial highlights

(Rs mn)	2QFY19	2QFY20	YoY (%)	1QFY20	QoQ (%)	1HFY19	1HFY20	YoY (%)
Net sales	7,717	6,988	(9.4)	7,486	(6.6)	15,246	14,474	(5.1)
Gross profit	5,667	4,307	(24.0)	5,358	(19.6)	11,051	9,665	(12.5)
Gross margin (%)	73.4	61.6	-	71.6	-	72.5	66.8	-
Total expenditure	4,936	5,474	10.9	4,965	10.3	9,590	10,439	8.9
EBITDA	2,782	1,514	(45.6)	2,521	(40.0)	5,655	4,035	(28.7)
EBITDA margin (%)	36.0	21.7	-	33.7	-	37.1	27.9	-
Other income	139	367	163.7	169	117.0	226	536	136.9
Interest	39	32	(17.2)	40	(19.3)	78	72	(7.8)
Depreciation	356	383	7.7	370	3.6	684	754	10.2
PBT	2,526	1,465	(42.0)	2,280	(35.7)	5,119	3,745	(26.9)
Tax	782	442	(43.5)	691	(36.0)	1,544	1,133	(26.6)
Tax rate (%)	31.0	30.2	-	30.3	-	30.2	30.3	-
Adjusted PAT	1,750	1,023	(41.5)	1,588	(35.6)	3,583	2,611	(27.1)
NPM (%)	22.7	14.6	-	21.2	-	23.5	18.0	-
Adjusted EPS (Rs)	23.8	13.9	(41.5)	21.6	(35.6)	48.8	35.6	(27.1)

- PAT declined despite 163.7% increase in other income and 17.2% decline in interest cost. Depreciation was higher at Rs 383 mn, up 7.7%.
- Tax rate was lower at 30.2% against 31% in 2QFY19.

1HFY20 performance

- Consolidated Sales/EBITDA/PAT declined by 5.1%/28.7%/27.1% YoY to Rs 14.4 bn/Rs 4.03 bn/Rs 2.6 bn, respectively.
- Gross margins contracted by 570 bps to 66.8% and EBITDA margins further contracted by 920 bps to 27.9 on account of poor operating leverage.

Key highlights from Balance Sheet and Cash Flow statement

- The long-term borrowings came down by Rs 660 mn YoY to Rs 1.6 bn, while short-term borrowings decreased marginally by Rs 29 mn to Rs 24 mn.
- Cash flow from operations stood at Rs 4.21 bn against Rs 5.3 bn in 1HFY19; the company incurred a capex of Rs 1.1 bn in 1HFY20 against Rs 2.9 bn in 1HFY19.

Growth drivers

The performance of the company has been impacted significantly on account of operations impacted due to heavy flooding, pressure on prices due to large imports and high base. In order to improve realisation, the company has taken up new projects towards chlorine derivatives such as Aluminium chloride, Chlorotoulene, etc. which would lead to ECU realisation improvement. The Rs 20.0 bn project with National Aluminium Company (Nalco) is moving as per schedule. Nalco has agreed to purchase at least 50% of the produce. Recovery in the prices remains a key challenge for the company.

Management commentary

- The plant was shut for 5 days due to heavy flooding; however, the major impact was on account of fall in the demand as well as increase in the imports as the international companies (Japanese, Iranian, etc.) are getting BIS complaint.
- The aluminium projects which the company expected to come online have been delayed; these projects are expected to come on-stream in FY21. All the capex plans are as per schedule.
- The revenue growth for 2HFY20 would be subdued; however, the margins are expected to remain at 22-23% level.
- Last year, due to BIS non-compliance, the imports were lower and the company was able to sell huge quantities to importers like Vedanta. This has stopped as they have started importing caustic soda again.

Gujarat Alkalies and Chemicals

Income Statement

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Net sales	19,557	20,200	24,046	31,023
Growth (%)	1.2	3.3	19.0	29.0
Operating expenses	(16,616)	(16,206)	(16,678)	(20,462)
Operating profit	2,941	3,994	7,368	10,561
Other operating income	398	502	499	591
EBITDA	3,338	4,496	7,867	11,152
Growth (%)	21.9	34.7	75.0	41.8
Depreciation	(1,074)	(1,109)	(1,273)	(1,400)
Other income	462	559	1,057	608
EBIT	2,726	3,946	7,651	10,360
Finance cost	(99)	(128)	(149)	(209)
Profit before tax	2,627	3,818	7,502	10,150
Tax (current + deferred)	(428)	(737)	(2,152)	(3,254)
Profit/(Loss) for the period	2,199	3,081	5,350	6,896
Reported Profit / (Loss)	2,199	3,081	5,350	6,896
Adjusted net profit	2,199	3,081	5,350	6,896
Growth (%)	(3.5)	40.1	73.7	28.9

Balance Sheet

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Share capital	734	734	734	734
Reserves & surplus	28,547	32,833	37,492	42,232
Shareholders' funds	29,281	33,568	38,226	42,967
Non-current liabilities	6,181	6,713	6,715	7,274
Long-term borrowings	2,225	2,843	2,298	1,846
Other Long term liab, Prov, DTL	3,957	3,869	4,417	5,428
Current liabilities	3,483	4,086	4,782	5,080
Short-term borrowings, curr maturity	729	690	608	629
Other current Liab + Provi	2,753	3,395	4,174	4,451
Total (equity and liab.)	38,945	44,366	49,723	55,320
Non-current assets	29,962	34,238	36,974	39,219
Fixed assets (net block)	19,015	22,242	23,561	26,077
Non-current investments	8,460	10,059	11,449	10,648
Long-term loans and advances	1	8	6	16
Other non-current assets, DTA, Goodwill	2,486	1,929	1,958	2,478
Current assets	8,984	10,128	12,750	16,101
Cash & current Investment	502	1,311	1,341	2,710
Other current assets	8,482	8,817	11,409	13,391
Total (assets)	38,945	44,366	49,723	55,320
Total debt	2,954	3,534	2,906	2,474
Capital Employed	36,192	40,971	45,549	50,869

Cash Flow Statement

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Profit before tax	2,627	3,818	7,502	10,150
Depreciation	(1,074)	(1,109)	(1,273)	(1,400)
Change in working capital	(2,225)	403	(1,709)	(1,653)
Total tax paid	(509)	(926)	(1,706)	(2,304)
Others	(2,023)	155	(3,051)	(2,956)
Cash flow from oper. (a)	604	3,973	4,451	7,194
Capital expenditure	(2,812)	(4,337)	(2,592)	(3,915)
Change in investments	(117)	(1,600)	(1,389)	800
Others	97	1,116	1,029	88
Cash flow from inv. (b)	(2,831)	(4,821)	(2,953)	(3,027)
Free cash flow (a+b)	(2,227)	(848)	1,498	4,166
Debt raised/(repaid)	1,363	580	(627)	(432)
Dividend (incl. tax)	(398)	(398)	(442)	(575)
Others	(107)	1,475	(399)	(1,790)
Cash flow from fin. (c)	859	1,657	(1,468)	(2,797)
Net chg in cash (a+b+c)	(1,368)	809	30	1,369

Key Ratios

Period end (%)	Mar 16	Mar 17	Mar 18	Mar 19
Adjusted EPS (Rs)	29.9	42.0	72.9	93.9
Growth	(3.5)	40.1	73.7	28.9
CEPS (Rs)	44.6	57.1	90.2	113.0
Book NAV/share (Rs)	398.7	457.1	520.5	585.1
Dividend/share (Rs)	4.5	4.5	5.0	6.5
Dividend payout ratio	18.1	12.9	8.3	8.3
EBITDA margin	17.1	22.3	32.7	35.9
EBIT margin	13.9	19.5	31.8	33.4
Tax Rate	16.3	19.3	28.7	32.1
RoCE	7.9	10.2	17.7	21.5
Total debt/Equity (x)	0.2	1.1	1.5	2.9
Net debt/Equity (x)	0.1	0.1	0.1	0.1
Du Pont Analysis – ROE				
Net margin	11.2	15.3	22.3	22.2
Asset turnover (x)	0.5	0.5	0.5	0.6
Leverage factor (x)	1.3	1.3	1.3	1.3
Return on equity	7.7	9.8	14.9	17.0

Valuations

Period end (x)	Mar 16	Mar 17	Mar 18	Mar 19
PER	5.5	9.7	9.6	5.3
PCE	3.7	7.1	7.7	4.4
Price/Book	0.4	0.9	1.3	0.8
Yield (%)	2.7	1.1	0.7	1.3
EV/EBITDA	4.4	7.2	6.7	3.2

Share Data

Price (Rs)	52
BSE Sensex	40,889
Reuters code	MEGH.BO
Bloomberg code	MEGH IN
Market cap. (US\$ mn)	185
6M avg. daily turnover (US\$ mn)	0.6
Issued shares (mn)	254

Performance (%) 1M 3M 12M

Absolute	5	19	(20)
Relative	0	7	(30)

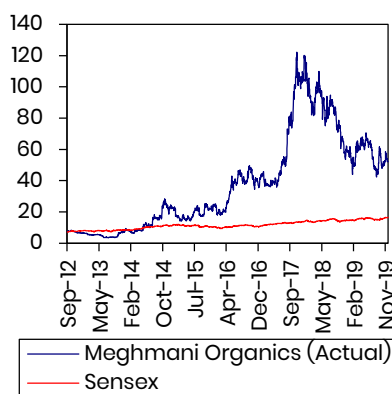
Valuation Ratios

Yr to 31 Mar	FY17	FY18	FY19
EPS (Rs)	3.6	6.8	10.5
+/- (%)	10.9	88.4	54.9
PER (x)	10.1	12.2	5.8
PBV (x)	1.3	2.4	1.5
Dividend/Yield (%)	1.1	0.5	0.7
EV/Sales (x)	0.9	1.3	1.0
EV/EBITDA (x)	4.7	5.6	4.0

Major Shareholders (%)

Promoters	48
FII's	8
Public & Others	44

Relative Performance



Meghmani Organics

Not Rated

Falling realisations dent profitability...

Meghmani Organics (MEGH) has diversified business operations with presence in Pigments, Agrochemicals and Basic Chemicals. MEGH has vertically integrated operations in the Agrochemicals including intermediate, technical grade and formulations (bulk and branded) and has the 4th largest Caustic-Chlorine capacity in India.

2QFY20 performance

- During the quarter, net sales grew by 6.2% YoY to Rs 5.32 bn. While EBITDA declined by 5.6% YoY to Rs 1.1 bn, PAT grew by 53.9% YoY to Rs 844 mn as the company adopted new tax rate regime.
- While decent revenue growth came in across all the segments (largely driven by volumes); profitability across all the segments was under pressure.
- Though, pigment production during the quarter was lower, revenues grew (up 6.4% YoY to Rs 1.64 bn) on account of higher sales volume (up 18.0% YoY). Realisations declined by 11.6% YoY and EBIT declined by 8.2% to Rs 213 mn). EBIT margins contracted by 200 bps to 13%. Exports declined by 7.6% YoY to Rs 1.2 bn while domestic sales grew by 79.5% to Rs 444 mn.

Financial highlights

(Rs mn)	2QFY19	2QFY20	YoY (%)	1QFY20	QoQ (%)	1HFY19	1HFY20	YoY (%)
Net sales	5,014	5,324	6.2	6,162	(13.6)	9,779	11,486	17.5
Gross profit	2,496	2,471	(1.0)	2,492	(0.8)	4,967	4,963	(0.1)
Gross margin (%)	49.8	46.4	-	40.4	-	50.8	43.2	-
Total expenditure	3,846	4,221	9.8	4,811	(12.3)	7,371	9,032	22.5
EBITDA	1,168	1,103	(5.6)	1,351	(18.4)	2,408	2,454	1.9
EBITDA margin (%)	23.3	20.7	-	21.9	-	24.6	21.4	-
Other income	171	179	4.3	38	373.2	313	217	(30.8)
Interest	168	61	(64.0)	74	(17.5)	303	134	(55.7)
Depreciation	245	220	(10.0)	219	0.8	488	439	(10.0)
PBT	926	1,000	8.0	1,097	(8.8)	1,930	2,097	8.7
Tax	309	26	(91.7)	319	(92.0)	542	344	(36.5)
Tax rate (%)	33.3	2.6	-	29.1	-	28.1	16.4	-
Adjusted PAT	548	844	53.9	569	48.4	1,185	1,413	19.2
NPM (%)	10.9	15.9	-	9.2	-	12.1	12.3	-
Adjusted EPS (Rs)	2.2	3.3	53.9	2.2	48.4	4.7	5.6	19.2

- Volumes in agrochemicals grew by 26.5% YoY; however, lower realisation limited segment revenue growth to 12.6% YoY (Rs 2.18 bn). EBIT grew by 9.6% to Rs 488 mn. EBIT margins contracted by 60 bps to 22.4%. Domestic revenues declined by 19.6% YoY to Rs 546 mn while exports grew by 30.0% YoY to Rs 1.6 bn.
- Basic chemicals segment reported strong volume growth of 37.6%; however, Revenue growth of 4.4% was impacted due to falling realisation during the quarter. EBIT declined by 9.8% to Rs 400 mn. EBIT Margins contracted by 390 bps YoY to 25.0%. Exports of basic chemicals declined by 47.8% to Rs 64.1 mn while domestic revenues grew by 8.9% to Rs 1.5 bn.

1HFY20 performance

- Net sales/EBITDA/PAT for the period grew by 17.5%/1.9%/19.2% YoY to Rs 11.5bn/Rs 2.5 bn/Rs 1.41 bn during the period.
- Revenues from the pigment segment grew by 8.3% YoY to Rs 3.2 bn was driven by volumes growth of 18.0%. Realisation declined by ~9.7% and EBIT declined by 16.8% to Rs 358 mn. Margins contracted by 330 bps. Exports declined by 3.6% to Rs 2.6 bn while domestic sales grew by 62.4% to Rs 873 mn.
- Revenues from agrochemicals grew by 44.0% to Rs 5.1 bn led by 24.6% volume growth. EBIT grew by 14.7% to Rs 920 mn while margins contracted by 460 bps to 18% on account of poor margins of 14.8% in 1QFY20. Growth in the revenue was driven by exports which grew by 68.1% to Rs 3.9 bn while domestic sales declined by 2.6% to Rs 1.2 bn.
- Basic chemicals segment reported strong volume growth of 21.9%; however, Revenue growth of 2.9% was impacted due to falling realisation during the period. EBIT remained flat at Rs 1.1 bn. EBIT margins contracted by 90 bps to 31.7%. Exports of basic chemicals declined by 17.7% to Rs 133 mn while domestic revenues grew by 4.0% to Rs 3.2 bn.

Key highlights from Balance Sheet and Cash Flow statement

- Long-term borrowings went up by Rs 1.7 bn YoY, while short-term borrowings came down by Rs 961 mn.
- The company incurred a capex of Rs 2.86 bn as compared to Rs 1.27 bn YoY.
- Cash generated from operations in 1HFY20 was about Rs 3.3 bn as against Rs 1.87 bn in 1HFY20.
- Working capital came down by Rs 383 mn as trade payables went up by Rs 600 mn to Rs 3.18 bn while inventories went up by just Rs 214 mn. Trade receivables were flat at Rs 4.14 bn.

Growth drivers

The company is incurring capex of Rs 1.27 bn in Agrochemicals (2,4D capacity doubling, to be operational by June 2020) and Rs 6.4 bn in Chlor Alkali segment in 3 phases to be completed by 4QFY20. In the first phase, the company completed the expansion of the CMS facility by 50,000 mtpa in July 2019 to produce MDC, Chloroform and Carbon Tetra Chloride. In the second phase, the company would expand the caustic soda facility to 271,600 mtpa and CPP capacity to 96 MW which is expected to be operational by 4QFY20. In the last phase, the company is setting up Hydrogen Peroxide capacity of 30,000 mtpa which is also expected to come up by 4QFY20.

Segmental performance

(Rs mn)	2QFY19	2QFY20	YoY (%)	1QFY20	QoQ (%)	1HFY19	1HFY20	YoY (%)
Pigment	1,547	1,645	6.4	1,588	3.6	2,986	3,233	8.3
% of total	29.3	29.5	–	24.9	–	29.2	27.0	–
Agrochemicals	1,939	2,183	12.6	2,925	(25.4)	3,546	5,108	44.0
% of total	36.8	39.1	–	45.9	–	34.7	42.7	–
Basic Chemicals	1,534	1,602	4.4	1,736	(7.7)	3,244	3,337	2.9
% of total	29.1	28.7	–	27.2	–	31.7	27.9	–
Others/Unallocated	255	154	(39.7)	124	24.5	442	278	(37.2)
% of total	4.8	2.8	–	1.9	–	4.3	2.3	–
Total	5,276	5,584	5.8	6,372	(12.4)	10,218	11,956	17.0
Inter-segmental	262	260	(0.7)	210	23.4	439	470	7.1
Net sales	5,014	5,324	6.2	6,162	(13.6)	9,779	11,486	17.5
EBIT								
Pigment	233	213	(8.2)	144	47.8	430	358	(16.8)
EBIT (%)	15.0	13.0	–	9.1	–	14.4	11.1	–
Agrochemicals	445	488	9.6	432	13.0	802	920	14.7
EBIT (%)	23.0	22.4	–	14.8	–	22.6	18.0	–
Basic Chemicals	444	400	(9.8)	658	(39.2)	1,058	1,059	0.1
EBIT (%)	28.9	25.0	–	37.9	–	32.6	31.7	–
Others/Unallocated	2	10	311.6	2	374.6	4	12	204.7
EBIT (%)	0.9	6.3	–	1.6	–	0.9	4.2	–
Total	1,124	1,111	(1.1)	1,237	(10.2)	2,294	2,348	2.4

Meghmani Organics

Income Statement (Consolidated)

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Net sales	13,133	14,196	18,033	20,880
Growth (%)	1.5	8.1	27.0	15.8
Operating expenses	(10,714)	(11,308)	(13,722)	(15,435)
Operating profit	2,419	2,888	4,312	5,445
Other operating income	189	0	0	0
EBITDA	2,608	2,888	4,312	5,445
Growth (%)	28.4	10.7	49.3	26.3
Depreciation	(768)	(907)	(948)	(973)
Other income	255	124	303	332
EBIT	2,095	2,105	3,667	4,804
Finance cost	(631)	(509)	(399)	(560)
Exceptional & extraordinary	0	(38)	(11)	(159)
Profit before tax	1,464	1,558	3,257	4,086
Tax (current + deferred)	(351)	(396)	(878)	(1,131)
Profit / (Loss) for the period	1,113	1,162	2,379	2,954
P/L of Associates, Min Int, Pref Div	(288)	(285)	(666)	(441)
Reported Profit / (Loss)	825	877	1,713	2,513
Adjusted net profit	825	915	1,724	2,672
Growth (%)	87.1	10.9	88.4	54.9

Balance Sheet (Consolidated)

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Share capital	254	254	254	254
Reserves & surplus	6,058	6,930	8,451	9,782
Shareholders' funds	6,312	7,185	8,705	10,036
Minority interest and others	1,263	1,547	2,214	1,492
Non-current liabilities	2,483	1,600	2,741	5,164
Long-term borrowings	2,168	1,217	2,183	4,506
Other non-current liabilities	315	383	558	658
Current liabilities	5,877	5,521	4,524	7,075
ST borrowings, Curr maturity	3,613	3,392	1,710	2,916
Other current liabilities	2,265	2,129	2,814	4,159
Total (Equity and Liab.)	15,935	15,853	18,184	23,768
Non-current assets	8,476	8,450	14,632	13,292
Fixed assets (Net block)	8,273	7,972	13,823	12,780
Non-current Investments	6	6	6	6
Long-term loans and adv.	144	103	108	105
Other non-current assets	53	368	696	402
Current assets	7,459	7,403	8,392	10,296
Cash & current investment	110	387	813	1,347
Other current assets	7,349	7,016	7,578	8,949
Total (Assets)	15,935	15,853	23,024	23,588
Total debt	5,781	4,610	3,894	7,422
Capital employed	13,671	13,724	15,371	19,609

Cash Flow Statement (Consolidated)

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Profit before tax	1,464	1,558	3,257	4,086
Depreciation	768	907	948	973
Change in working capital	(600)	242	127	1
Total tax paid	(317)	(377)	(733)	(1,060)
Others	601	468	357	519
Cash flow from oper. (a)	1,915	2,797	3,956	4,518
Capital expenditure	(998)	(606)	(6,798)	70
Change in investments	176	(275)	(418)	725
Others	43	(232)	(274)	252
Cash flow from inv. (b)	(780)	(1,113)	(7,490)	1,047
Free cash flow (a+b)	1,135	1,684	(3,534)	5,565
Debt raised/(repaid)	(617)	(1,171)	(716)	3,528
Dividend (incl. tax)	(92)	(122)	(122)	(122)
Others	(473)	(399)	(470)	(2,705)
Cash flow from fin. (c)	(1,182)	(1,692)	(1,308)	702
Net chg in cash (a+b+c)	(47)	(8)	(4,842)	6,267

Key Ratios (Consolidated)

Period end (%)	Mar 16	Mar 17	Mar 18	Mar 19
Adjusted EPS (Rs)	3.2	3.6	6.8	10.5
Growth	87.1	10.9	88.4	54.9
CEPS (Rs)	6.3	7.2	10.5	14.3
Book NAV/share (Rs)	24.8	28.3	34.2	39.5
Dividend/share (Rs)	0.3	0.4	0.4	0.4
Dividend payout ratio	11.1	13.9	7.1	4.9
EBITDA margin	19.6	20.3	23.9	26.1
EBIT margin	16.0	14.8	20.3	23.0
Tax rate	24.0	24.8	26.9	26.7
RoCE	15.7	15.4	25.2	27.5
Total debt/Equity (x)	0.8	0.5	0.4	0.6
Net debt/Equity (x)	0.7	0.5	0.3	0.5
Du Pont Analysis – RoE				
Net margin	6.3	6.4	9.6	12.8
Asset turnover (x)	0.8	0.9	0.9	0.9
Leverage factor (x)	2.6	2.4	2.4	2.5
Return on equity	14.1	13.6	21.7	28.5

Valuations (Consolidated)

Period end (x)	Mar 16	Mar 17	Mar 18	Mar 19
PER	6.8	10.1	12.2	5.8
PCE	3.5	5.1	7.8	4.2
Price/Book	0.9	1.3	2.4	1.5
Yield (%)	1.4	1.1	0.5	0.7
EV/EBITDA	4.3	4.7	5.6	4.0

Share Data

Price (Rs)	371
BSE Sensex	40,889
Reuters code	NEOE.NS
Bloomberg code	NEOGEN IN
Market cap. (US\$ mn)	121
6M avg. daily turnover (US\$ mn)	0.4
Issued shares (mn)	23

Performance (%) 1M 3M 12M

Absolute	(7)	20	NA
Relative	(10)	7	NA

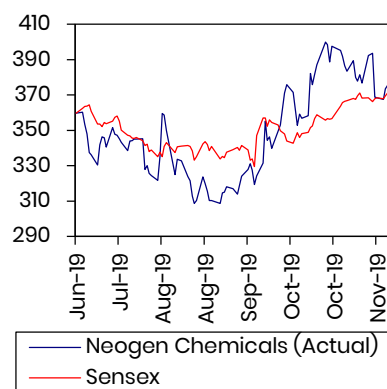
Valuation Ratios

Yr to 31 Mar	FY17	FY18	FY19
EPS (Rs)	3.8	5.5	10.4
+/- (%)	48.3	43.0	89.9
PER (x)	102.6	71.7	37.8
PBV (x)	18.8	15.6	11.3
Dividend/Yield (%)	0.0	0.3	0.4
EV/Sales (x)	7.7	5.4	3.8
EV/EBITDA (x)	42.6	29.9	20.8

Major Shareholders (%)

Promoters	70
MF	18
Public	12

Relative Performance



Neogen Chemicals

Not Rated

Strong growth continues...

Neogen Chemicals Limited (NEOGEN) started its operations in 1991, is one of India's leading manufacturers of bromine and lithium-based specialty chemicals. The company has fungible manufacturing plants located in Mahape, Maharashtra and Vadodara, Gujarat. The company's products are mainly used in Pharmaceutical, Agrochemicals, Refrigerants, Construction chemicals, Aroma chemical, Speciality polymer and Electronic-chemical industries.

2QFY20 performance

During 2QFY20, the company reported sales growth of 34.5% YoY to Rs 771 mn. The sales growth was on the back of 53.6% YoY growth in organic chemicals segment; however, Inorganic chemicals segment reported sales de-growth of 15.1% YoY. Gross margins contracted by 380 bps YoY to 38.8%; however, lower other expenses (down 10.7% YoY to Rs 105 mn) allowed the company to register EBITDA margin expansion of 160 bps YoY. EBITDA grew by 47.5% YoY to Rs 148 mn. Other income declined by 73.3% YoY to Rs 0.45 mn while Interest cost declined by 13.3% YoY to Rs 26 mn. Depreciation cost rose by 86% YoY to Rs 13.0 mn while tax rate has gone up YoY from 24.0% to 29.4%, which restricted PAT growth to 53.4% YoY. The company has not yet adopted the new tax regime.

Financial highlights

(Rs mn)	2QFY19	2QFY20	YoY (%)	1QFY20	QoQ (%)	1HFY19	1HFY20	YoY (%)
Net sales	573	771	34.5	644	19.6	960	1,415	47.4
Gross profit	244	299	22.6	262	14.2	408	561	37.4
Gross margin (%)	42.6	38.8	-	40.6	-	42.5	39.6	-
Total expenditure	473	623	31.8	529	17.7	793	1,153	45.4
EBITDA	100	148	47.5	115	28.3	168	263	56.6
EBITDA margin (%)	17.5	19.1	-	17.8	-	17.5	18.6	-
Other income	2	0	(73.3)	0	53.4	2	1	(64.7)
Interest	30	26	(13.3)	32	(17.6)	56	58	4.3
Depreciation	7	13	85.8	9	39.6	13	22	73.1
PBT	65	109	68.7	74	46.7	101	183	80.8
Tax	15	32	106.8	20	59.9	24	52	120.3
Tax rate (%)	24.0	29.4	-	26.9	-	23.3	28.4	-
Adjusted PAT	50	77	53.4	55	41.2	79	132	66.9
NPM (%)	8.8	10.0	-	8.5	-	8.2	9.3	-
Adjusted EPS (Rs)	2.5	3.3	31.9	2.7	21.5	3.9	6.0	53.2

Segmental sales

(Rs mn)	2QFY19	2QFY20	YoY (%)	1QFY20	QoQ (%)	1HFY19	1HFY20	YoY (%)
Organic Chemicals	414	636	53.6	483	31.7	679	1,119	64.8
% of sales	72.3	82.5	–	75.0	–	70.7	79.1	–
Inorganic Chemicals	159	135	(15.1)	161	(16.1)	281	296	5.3
% of sales	27.7	17.5	–	25.0	–	29.3	20.9	–
Total	573	771	–	644	19.7	960	1,415	47.4

1HFY20 performance

During 1HFY20, the company reported sales of Rs 1.45 bn, up 47.4% YoY. The growth is on the back of 65.0% and 5.0% growth in Organic and Inorganic segment, respectively. Gross margin contracted by 290 bps YoY to 39.6%. However, lower other expenses allowed EBITDA margin expansion of 110 bps YoY to 18.6%. EBITDA grew by 56.6% YoY to Rs 263 mn. Other income declined by 64.7% YoY to Rs 1 mn while interest and depreciation cost increased by 4.3% and 73.1% YoY to Rs 58 mn and Rs 22 mn, respectively. Further, increase in tax rate from 23.3% to 28.4% YoY restricted PAT growth to 66.9% YoY to Rs 132 mn. The company has adopted IND AS-116, due to which profit before tax for 1HFY20 is lower by Rs 2.55 mn.

During 1HFY20, the company incurred capex of Rs 48.8 mn. Debt-to-equity improved from 1.64x in 4QFY19 to 0.64x in 2QFY20. Inventories have gone up from Rs 724 mn in 4QFY19 to Rs 1.09 bn in 2QFY20. Cash outflow from operating activities have gone up from Rs 586 mn to Rs 1.76 bn YoY.

Growth drivers

The company has been focussing on establishing core competencies, building on research capabilities and expanding product portfolio with newer compounds. With capacity expansion, the company is well poised to capture opportunities in organic as well as inorganic chemicals. Post doubling of the capacity at Dahej, the revenues are expected to increase in line with capacities. Further, improved focus on advanced intermediate and custom synthesis business would likely to improve the margins of the company. Currently, we do not have rating on the stock.

Concall highlights

- The quarter witnessed, healthy growth on lower base as major overhaul got completed in 1HFY19. Both plants are operating at high utilisation since 2HFY19.
- The company witnessed positive demand from the customers and higher capacity utilisation which improved performance during the quarter.
- Lithium prices have come down which were passed on to the customers. This resulted into lower sales from Inorganic segment. Currently, the lithium prices are very volatile and are changing on quarterly basis as against yearly basis earlier.
- The management expects revenue of Rs 3.0 bn in FY20. Second half of every year remains strong compared to first half. Expect revenue of Rs 1.6 bn in 2HFY20. The management continues to maintain EBITDA margin guidance of 18.5%.
- To utilise capacity continuously and support the demand in 2HFY20, the inventory has gone up. The inventory days are expected to come down in second half and will be in line with the last year. The company is trying to improve upon the receivable days.
- With improvement in product mix as well as scale, the inventory days would reduce from 120 days to 100 days.

- The company has been spending Rs 150 mn for expansion of inorganic chemical capacity by 1,200 mtpa. The trial runs for the same have started and expect the commercial production from 4QFY20. For organic chemicals, the company would be spending Rs 700 mn to expand capacities by 126,000 litres which is expected to come on stream in December 2020. The work on organic chemical plant will start soon.
- The company does not have capacity to support growth in FY21; however, if organic chemical capacity comes on stream during December 2020, then it will add to the revenue from 4QFY21 onwards. New inorganic chemical capacity is expected to add revenue of ~Rs 200 mn in FY21.
- The company has planned to support demand coming in for new organic capacity from both new as well as existing customers.
- The company has availability of land both at Dahej and Vadodara for future expansion. The company will look for the demand scenario once the organic capacity comes on stream and then take a decision for new capex.
- Advanced intermediate business contributed ~26% during 1HFY20.
- There are many products at different stages in R&D which has huge revenue potential.
- The company has large customer base from the pharmaceutical industry. In the last two-three years, the company witnessed growth mainly from pharmaceutical industry. Going ahead, with new organic capacity, customers from the agrochemical industry are expected to increase.

Neogen Chemicals

Income Statement (Consolidated)

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Net sales	1,003	1,101	1,612	2,391
Growth (%)	19.5	9.7	46.4	48.3
Operating expenses	(862)	(901)	(1,322)	(1,956)
Operating profit	141	200	290	434
EBITDA	141	200	290	434
Growth (%)	11.5	41.7	45.1	49.8
Depreciation	(10)	(13)	(19)	(28)
Other income	2	3	7	5
EBIT	133	190	278	411
Finance cost	(48)	(75)	(104)	(119)
Profit before tax	85	115	174	292
Tax (current + deferred)	(33)	(38)	(64)	(83)
P/(L) for the period	52	76	109	208
P/L of Associates, Min Int, Pref Div	0	0	0	1
Reported Profit / (Loss)	52	77	110	209
Adjusted net profit	52	77	110	209
Growth (%)	1.9	48.3	43.0	90.7

Balance Sheet (Consolidated)

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Share capital	200	200	200	201
Reserves & surplus	75	220	304	501
Shareholders' funds	275	420	504	702
Non-current liabilities	74	438	464	595
Long-term borrowings	48	368	385	506
Other non-current liabilities	26	70	79	89
Current liabilities	456	666	836	1,167
ST borrowings, Curr maturity	201	301	412	652
Other current liabilities	255	364	423	516
Total (Equity and Liabilities)	805	1,523	1,804	2,464
Non-current assets	196	626	736	867
Fixed assets (Net block)	181	576	684	832
Non-current Investments	0	5	4	5
Long-term loans and adv.	15	45	48	29
Current assets	609	897	1,068	1,598
Cash & current investment	25	31	18	20
Other current assets	584	866	1,049	1,577
Total (Assets)	805	1,523	1,804	2,464
Total debt	248	669	797	1,158
Capital employed	550	1,159	1,381	1,949

Cash Flow Statement (Consolidated)

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Profit before tax	85	115	174	292
Depreciation	10	13	19	28
Change in working capital	(11)	(194)	(121)	(414)
Total tax paid	(32)	(23)	(61)	(75)
Others	46	74	102	118
Cash flow from oper. (a)	99	(16)	112	(51)
Capital expenditure	(58)	(408)	(127)	(176)
Change in investments	0	(5)	1	(1)
Others	2	2	2	1
Cash flow from inv. (b)	(57)	(411)	(124)	(176)
Free cash flow (a+b)	42	(427)	(12)	(227)
Equity raised/(repaid)	155	0	0	1
Debt raised/(repaid)	18	421	128	360
Dividend (incl. tax)	(11)	0	(24)	(37)
Others	(203)	13	(105)	(95)
Cash flow from fin. (c)	(41)	433	(1)	229
Net chg in cash (a+b+c)	1	6	(13)	2

Key Ratios (Consolidated)

Period end (%)	Mar 16	Mar 17	Mar 18	Mar 19
Adjusted EPS (Rs)	2.6	3.8	5.5	10.4
Growth	(77.1)	48.3	43.0	89.9
CEPS (Rs)	3.1	4.5	6.4	11.8
Book NAV/share (Rs)	13.8	21.0	25.2	35.0
Dividend/share (Rs)	0.5	0.0	1.0	1.5
Dividend payout ratio	20.9	0.0	22.2	17.8
EBITDA margin	14.1	18.2	18.0	18.2
EBIT margin	13.2	17.2	17.3	17.2
Tax rate	38.9	33.3	37.0	28.5
RoCE	25.5	22.2	21.9	24.7
Total debt/Equity (x)	0.9	1.6	1.6	1.6
Net debt/Equity (x)	0.8	1.5	1.5	1.6
Du Pont Analysis – RoE				
Net margin	5.2	7.0	6.8	8.8
Asset turnover (x)	1.3	0.9	1.0	1.1
Leverage factor (x)	2.9	3.3	3.6	3.5
Return on equity	20.3	22.1	23.8	34.7

Valuations (Consolidated)

Period end (x)	Mar 16	Mar 17	Mar 18	Mar 19
PER	152.1	102.6	71.7	37.8
PCE	127.5	87.6	61.4	33.3
Price/Book	28.6	18.8	15.6	11.3
Yield (%)	0.1	0.0	0.3	0.4
EV/EBITDA	57.4	42.6	29.9	20.8

Share Data

Price (Rs)	103
BSE Sensex	40,889
Reuters code	NOCILBO
Bloomberg code	NOCIL IN
Market cap. (US\$ mn)	238
6M avg. daily turnover (US\$ mn)	11
Issued shares (mn)	166

Performance (%) 1M 3M 12M

Absolute	(9)	31	(37)
Relative	(13)	17	(45)

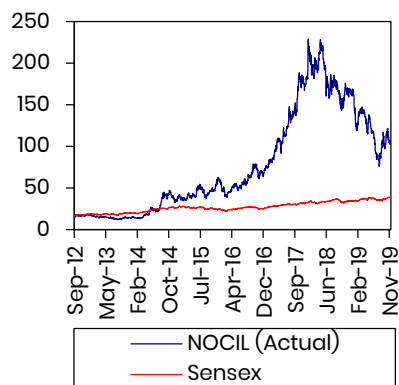
Valuation Ratios

Yr to 31 Mar	FY17	FY18	FY19
EPS (Rs)	6.2	10.3	11.2
+/- (%)	39.7	67.8	8.2
PER (x)	15.2	18.6	13.1
PBV (x)	2.6	3.0	2.0
Dividend/Yield (%)	1.9	0.9	1.7
EV/Sales (x)	1.9	3.0	2.2
EV/EBITDA (x)	8.9	10.9	7.8

Major Shareholders (%)

Promoters	34
FII's	3
MF's	2
BFSI's	2
Public & Others	59
Pledge	24

Relative Performance



NOCIL

Not Rated

Removal of ADD and slowdown in auto impacts performance...

NOCIL Limited (NOCIL) is the largest rubber chemical manufacturers in India with more than four decades of experience. NOCIL has manufacturing facilities at TTC Industrial Area in Navi Mumbai, Maharashtra and Dahej, Gujarat. The products of the company are mainly consumed by tyre industry.

2QFY20 performance

During 2QFY20, the company reported sales of Rs 2.1 bn, down by 22.9% YoY. Gross margins expanded by 160 bps YoY and 130 bps QoQ to 57.7%; however, EBITDA margins have contracted by 590 bps YoY to 23.1% due to negative operating leverage resulting into EBITDA decline of 38.6% YoY to Rs 485 mn. Though, other income declined by 35.3% YoY to Rs 21 mn and depreciation cost increased by 43.6% YoY to Rs 80 mn, the company reported PAT growth of 4.0% YoY as it exercised the option of lower tax rate and accordingly reversed deferred tax of Rs 240 mn.

Financial highlights

(Rs mn)	2QFY19	2QFY20	YoY (%)	1QFY20	QoQ (%)	1HFY19	1HFY20	YoY (%)
Net sales	2,720	2,097	(22.9)	2,296	(8.7)	5,401	4,393	(18.7)
Gross profit	1,526	1,211	(20.7)	1,294	(6.5)	3,017	2,505	(17.0)
Gross margin (%)	56.1	57.7	-	56.4	-	55.9	57.0	-
Total expenditure	1,931	1,613	(16.5)	1,734	(7.0)	3,812	3,343	(12.3)
EBITDA	789	485	(38.6)	562	(13.7)	1,589	1,051	(33.9)
EBITDA margin (%)	29.0	23.1	-	24.5	-	29.4	23.9	-
Other income	32	21	(35.3)	25	(16.2)	59	47	(20.5)
Interest	1	3	153.8	3	3.1	4	7	62.5
Depreciation	56	80	43.6	77	5.0	113	160	41.1
PBT	764	422	(44.8)	507	(16.7)	1,530	931	(39.2)
Tax	236	(128)	(154.1)	180	(171.0)	493	53	(89.3)
Tax rate (%)	30.8	(30.2)	-	35.5	-	32.2	5.6	-
Adjusted PAT	528	549	4.0	327	68.0	1,038	878	(15.4)
NPM (%)	19.4	26.2	-	14.2	-	19.2	20.0	-
Adjusted EPS (Rs)	3.2	3.3	4.5	2.0	68.0	6.3	5.3	(14.9)

1HFY20 performance

During 1HFY20, the sales were down by 18.7% YoY to Rs 4.4 bn. Gross margins expanded by 110 bps YoY to 57.0%; however, EBITDA margins contracted by 550 bps YoY to 23.9%. EBITDA declined by 34.4% YoY to Rs 1.04 bn. Though, depreciation cost rose by 39.2% YoY to Rs 154 mn, lower tax rate of 5.5% restricted the PAT decline of 15.2% YoY to Rs 879 mn.

During 1HFY20, the company capitalised capex of Rs 143 mn. Cash conversion days have moved up from 45 days to 62 days YoY due to increase in inventory days by 57 days to 67 days YoY while debtors days have gone up from 84 days to 89 days. Net cash flow from operating activities has gone up from Rs 777 mn to Rs 1.3 bn YoY.

Growth drivers

The company's performance has been impacted by slowdown in auto sector and removal of anti-dumping duty (ADD). However, expected commercial production from Phase-II, Dahej plant from 4QFY20 onwards would improve volumes. Further, revival in auto industry remains key as it would lead to better utilisation and positive operating leverage. We do not have rating on the company.

Concall highlights

- Volumes declined by 8% during 1HFY20. The management has guided for 0% to 5% de-growth for FY20.
- The domestic volume de-growth of 8% during the quarter coupled with two months without ADD on few products has impacted sales. The management expects sequentially flattish trend in 3QFY20.
- The company reported 10% volume growth in exports.
- Better product mix and stable raw material prices helped the company to report gross margin expansion.
- The company has exported ~500 MT and is targeting 1,500 MT to the US.
- ADD is still sub-judice and pending in Supreme Court. ADD on some of the products is removed after July 2019. Post removal of ADD, the prices have come down which has affected the realisations. Impact of expiry of ADD is about Rs 450 mn per annum.
- The company has completed the Phase-I and Phase-II capex worth Rs 4.25 bn. The Phase-I came on stream in January 2019 while the Phase-II capacities are on trial runs. The commercial production is expected post approval from the customers.
- The capacity ramp-up is delayed due to slowdown in auto sector.
- From end of September 2019, the Chinese domestic rubber prices remained stable. Imports of rubber chemical in India remained steady; however, the end user market has shrunk which resulted in poor domestic volumes.
- International prices of rubber chemicals have been correcting in the last three-four quarters. The management opines the prices to have bottomed out.

NOCIL

Income Statement

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Net Sales	7,078	7,313	9,552	10,304
Growth (%)	(1.6)	3.3	30.6	7.9
Operating expenses	(5,758)	(5,828)	(7,022)	(7,502)
Operating profit	1,320	1,485	2,530	2,802
Other operating income	0	109	124	125
EBITDA	1,320	1,594	2,654	2,927
Growth (%)	16.5	20.8	66.4	10.3
Depreciation	(146)	(152)	(240)	(243)
Other income	35	95	146	100
EBIT	1,209	1,537	2,559	2,784
Finance Cost	(93)	(22)	(12)	(6)
Exceptional & Extraordinary	0	197	0	0
Profit before tax	1,115	1,712	2,547	2,777
Tax (current + deferred)	(407)	(507)	(848)	(929)
P/(L) for the period	709	1,204	1,699	1,849
Reported Profit/(Loss)	709	1,204	1,699	1,849
Adjusted Net profit	709	1,007	1,699	1,849
Growth (%)	24.2	42.2	68.7	8.8

Balance Sheet

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Share Capital	1,608	1,636	1,645	1,654
Reserves & surplus	3,091	4,325	8,822	9,976
Shareholders' funds	4,699	5,961	10,467	11,630
Non-current liabilities	816	735	1,200	1,244
Long-term borrowings	150	50	0	0
Other Long term liab, Prov, DTL	666	685	1,200	1,244
Current liabilities	1,303	1,191	1,644	1,549
Short-term borrowings, Curr Maturity	9	0	0	0
Other Current Liab + Provi	1,294	1,191	1,644	1,549
Total (Equity and Liab.)	6,818	7,887	13,311	14,423
Non-current assets	3,680	3,713	6,579	8,585
Fixed assets (Net block)	3,127	3,092	5,697	7,878
Non-current Investments	224	423	529	232
Long-term loans and adv.	329	199	354	474
Current assets	3,138	4,173	6,732	5,838
Cash & current investment	154	1,220	2,609	1,469
Other current assets	2,985	2,954	4,123	4,369
Total (assets)	6,818	7,887	13,311	14,423
Total debt	159	50	0	0
Capital employed	5,524	6,695	11,607	12,874

Cash Flow Statement

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Profit before Tax	1,115	1,712	2,547	2,777
Depreciation	(146)	(152)	(240)	(243)
Change in working capital	511	(88)	(727)	(351)
Total tax paid	(356)	(472)	(322)	(876)
Others	359	(481)	(942)	(1,077)
Cash flow from oper. (a)	1,475	1,231	1,605	1,700
Capital expenditure	(78)	13	(3,001)	(2,545)
Change in investments	0	(199)	(2,394)	1,540
Others	35	95	146	100
Cash flow from inv. (b)	(43)	(91)	(5,249)	(905)
Free cash flow (a+b)	1,432	1,140	(3,644)	795
Equity raised/(repaid)	45	57	57	70
Debt raised/(repaid)	(1,101)	(109)	(50)	0
Dividend (incl. tax)	(232)	(352)	(355)	(497)
Others	(65)	329	3,111	(1)
Cash flow from fin. (c)	(1,353)	(74)	2,764	(427)
Net chg in cash (a+b+c)	78	1,066	(880)	368

Key Ratios

Period end (%)	Mar 16	Mar 17	Mar 18	Mar 19
Adjusted EPS (Rs)	4.4	6.2	10.3	11.2
Growth	24.2	39.7	67.8	8.2
CEPS (Rs)	5.3	7.1	11.8	12.6
Book NAV/share (Rs)	29.2	36.4	63.8	72.0
Dividend/share (Rs)	1.2	1.8	1.8	2.5
Dividend payout ratio	32.8	29.2	20.9	26.9
EBITDA margin	18.6	21.8	27.8	28.4
EBIT margin	17.1	21.0	26.8	27.0
Tax Rate	36.5	41.2	33.3	33.4
RoCE (%)	21.0	25.2	27.8	22.4
Total debt/Equity (x)	0.0	0.0	0.0	0.0
Du Pont Analysis – RoE				
Net margin	10.0	13.8	17.8	17.9
Asset turnover (x)	1.0	1.0	0.9	0.7
Leverage factor (x)	1.6	1.4	1.3	1.2
Return on equity	16.0	18.9	20.7	16.5

Valuations

Period end (x)	Mar 16	Mar 17	Mar 18	Mar 19
PER	10.5	15.2	18.6	13.1
PCE	8.7	13.2	16.3	11.6
Price/Book	1.6	2.6	3.0	2.0
Yield (%)	2.6	1.9	0.9	1.7
EV/EBITDA	5.6	8.9	10.9	7.8

Share Data

Price (Rs)	124
BSE Sensex	40,889
Reuters code	PHILBO
Bloomberg code	PHCB IN
Market cap. (US\$ mn)	298
6M avg. daily turnover (US\$ mn)	1.8
Issued shares (mn)	172

Performance (%) 1M 3M 12M

Absolute	4	9	(43)
Relative	(0)	(2)	(50)

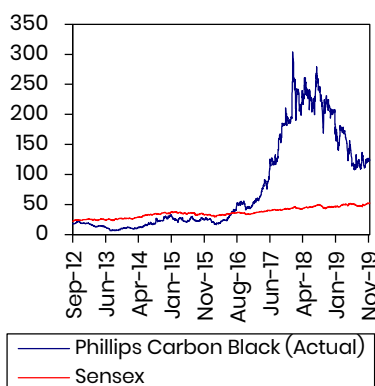
Valuation Ratios

Yr to 31 Mar	FY17	FY18	FY19
EPS (Rs)	4.0	13.3	22.3
+/- (%)	63.4	230.2	67.7
PER (x)	16.4	16.4	7.9
PBV (x)	1.0	2.7	1.8
Dividend/Yield (%)	2.6	2.8	2.0
EV/Sales (x)	0.9	1.7	1.0
EV/EBITDA (x)	6.9	11.3	5.8

Major Shareholders (%)

Promoters	54
GOI	1
FII's	11
MF's	2
Public & Others	32

Relative Performance



Phillips Carbon Black

Not Rated

Poor demand from tyre industry impacts performance...

Phillips Carbon Black Limited (PCBL) incorporated in 1962, is a part of RP-Sanjiv Goenka Group, and is India's largest carbon black producer and 7th largest carbon black company globally by sales. The company provides a complete portfolio of products to meet the specific end requirements across Rubber, Plastics, Coatings, Inks and other niche industries, globally.

2QFY20 performance

During the quarter, domestic demand was weak led by the weakness in tyre industry. However, the company was able to push volumes in the international markets with export volumes registering a growth of 35% YoY. The overall volume grew by 4.7% YoY and 2.9% QoQ. Sales at Rs 8.6 bn, were down 2.0% YoY while gross margin contracted by 460 bps YoY; however, expanded by 190 bps QoQ to 32.7%. Better product mix and customer segmentation led to rise in margins QoQ. EBITDA came in at Rs 1.2 bn, down 26.6% YoY while EBITDA margin contracted by 500 bps YoY to 14.9%. Though, interest cost increased by 27.5% YoY to Rs 91 mn, lower tax rate of 24.8% as against 29.7% during last year restricted the decline in PAT by 28.3% YoY to Rs 775 mn.

Financial highlights

(Rs mn)	2QFY19	2QFY20	YoY (%)	1QFY20	QoQ (%)	1HFY19	1HFY20	YoY (%)
Net sales	8,803	8,630	(2.0)	9,115	(5.3)	16,617	17,745	6.8
Gross profit	3,285	2,826	(14.0)	2,807	0.7	6,179	5,633	(8.8)
Gross margin (%)	37.3	32.7	-	30.8	-	37.2	31.7	-
Total expenditure	7,054	7,346	4.1	7,985	(8.0)	13,299	15,330	15.3
EBITDA	1,749	1,284	(26.6)	1,131	13.6	3,318	2,415	(27.2)
EBITDA mgn. (%)	19.9	14.9	-	12.4	-	20.0	13.6	-
Other income	35	56	62.4	84	(32.8)	75	140	85.7
Interest	71	91	27.5	127	(28.5)	153	218	42.1
Depreciation	175	218	24.7	212	2.9	330	430	30.5
PBT	1,537	1,031	(32.9)	875	17.8	2,910	1,907	(34.5)
Tax	456	256	(43.8)	207	23.8	852	463	(45.6)
Tax rate (%)	29.7	24.8	-	23.7	-	29.3	24.3	-
Adjusted PAT	1,081	775	(28.3)	668	16.0	2,058	1,443	(29.9)
NPM (%)	12.3	9.0	-	7.3	-	12.4	8.1	-
Adjusted EPS (Rs)	6.3	4.5	(28.3)	3.9	16.0	11.9	8.4	(29.9)

1HFY20 performance

During 1HFY20, sales came in at Rs 17.7 bn, up 6.8% YoY. Gross margin contracted by 550 bps YoY to 31.7% while EBITDA margins further contracted by 640 bps YoY to 13.6%. EBITDA came in at Rs 2.4 bn, down 27.2% YoY. Though interest cost increased by 42.1% YoY to Rs 218 mn, higher other income of Rs 140 mn, up 85.7% YoY and lower tax rate of 24.3% as against 29.3% during 1HFY19 restricted the PAT de-growth by 29.9% YoY to Rs 1.44 bn.

During 1HFY20, D/E ratio was down from 0.43x to 0.33x. The company repaid Rs 430 mn of non-current borrowings and Rs 4.04 bn of current borrowings which resulted into net cash outflow from financing activities of Rs 1.75 bn. Net cash flows from operating activities stood at Rs 2.87 bn.

Growth drivers

In the short-term, slowdown in the automobile and tyre industry would continue to impact the company's performance; however, the company is expected to partially mitigate the impact by focussing on export market and increase sale of high performance, high margin products. Going ahead, the company's thrust on expansion of high margin specialty carbon products along with timely commercialisation of 30,000 MT brownfield project of specialty carbon black at Palej in 3QFY20 and likely recovery in auto industry during FY21 would improve the overall performance of the company.

Management commentary

- The company was able to achieve a higher capacity utilisation of 90% in 2QFY20.
- Power realisations remained flat at Rs 3.14/unit in 2QFY20 with sale volumes of 75 MU.
- Continued focus on R&D led to increased sales volume from the Specialty Carbon Black portfolio which stood at 5,300 MT during the quarter.
- The company is witnessing weak demand from the domestic tyre market. The company has been focusing on export market to maintain volumes.
- The company continues to expand its product portfolio of high-performance high-margin grades for both rubber and specialty black applications.

Quarterly volumes

(MT)	Jun 18	Sep 18	Dec 18	Mar 19	Jun 19	Sep 19
Production	103,492	101,871	102,648	102,787	103,678	106,706
Capacity utilisation	95.0	93.0	NA	86.0	88.0	90.0
YoY (%)	5.9	3.0	1.7	0.5	0.2	4.7
Total sales volume	99,746	99,854	101,917	101,906	107,077	102,321
Domestic sales volume	78,957	78,760	78,223	72,136	78,696	69,747
% of total sales	79.2	78.9	76.8	70.8	73.5	68.2
Export sales volume	20,789	21,094	23,694	29,770	28,381	32,574
% of total sales	20.8	21.1	23.2	29.2	26.5	31.8

Phillips Carbon Black

Income Statement

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Net sales	18,947	19,270	25,579	35,286
Growth (%)	(23.3)	1.7	32.7	37.9
Operating expenses	(17,297)	(16,688)	(21,811)	(29,124)
Operating profit	1,650	2,581	3,768	6,162
Other operating income	196	0	0	0
EBITDA	1,845	2,581	3,768	6,162
Growth (%)	(2.6)	39.9	46.0	63.5
Depreciation	(550)	(606)	(605)	(664)
Other income	179	186	288	199
EBIT	1,475	2,161	3,451	5,697
Finance Cost	(709)	(514)	(414)	(368)
Profit before tax	766	1,647	3,036	5,329
Tax (current + deferred)	(342)	(960)	(740)	(1,503)
P/(L) for the period	424	687	2,296	3,827
P/L of Associates, Min Int, Pref Div	0	6	(8)	10
Reported Profit/(Loss)	424	693	2,288	3,837
Adjusted Net profit	424	693	2,288	3,837
Growth (%)	(14.9)	63.4	230.2	67.7

Balance Sheet

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Share capital	345	345	345	345
Reserves & surplus	4,883	10,915	13,432	16,154
Shareholders' funds	5,228	11,259	13,776	16,499
Min. Int, Share Appl, Pref capital	0	0	66	59
Non-current liabilities	2,588	3,998	3,922	5,287
Long-term borrowings	2,049	1,902	1,643	2,707
Other Long term liab, Prov, DTL	539	2,096	2,280	2,580
Current liabilities	11,469	10,362	10,950	12,027
Short-term borrowings, curr maturity	8,165	5,680	5,226	4,550
Other Current Liab + Provi	3,304	4,682	5,723	7,477
Total (equity and liab.)	19,285	25,619	28,714	33,871
Non-current assets	10,234	16,976	18,436	19,725
Fixed assets (net block)	8,728	14,613	14,616	16,709
Non-current Investments	724	2,140	3,202	2,615
Long-term loans and adv.	244	179	132	137
Other non-current assets, DTA, Goodwill	539	44	486	264
Current assets	9,051	8,643	10,277	14,147
Cash & current investment	1,486	1,201	1,726	2,206
Other current assets	7,565	7,442	8,552	11,941
Total (assets)	19,285	25,619	28,714	33,871
Total debt	10,215	7,582	6,869	7,257
Capital employed	15,981	20,938	22,991	26,394

Cash Flow Statement

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Profit before tax	766	1,647	3,036	5,329
Depreciation	(550)	(606)	(605)	(664)
Chg. in working capital	2,755	1,328	(63)	(1,634)
Total tax paid	(129)	596	(514)	(1,208)
Others	3,730	2,858	154	(2,010)
Cash flow from oper. (a)	4,496	4,505	3,190	3,319
Capital expenditure	(246)	(6,247)	(608)	(2,757)
Change in investments	(980)	(1,387)	(112)	(464)
Others	112	681	(154)	422
Cash flow from inv. (b)	(1,114)	(6,953)	(874)	(2,799)
Free cash flow (a+b)	3,382	(2,448)	2,317	520
Equity raised/(repaid)	0	(0)	(2,241)	0
Debt raised/(repaid)	(1,983)	(2,633)	(713)	388
Dividend (incl. tax)	(104)	(353)	(1,241)	(724)
Others	(905)	5,177	3,354	(755)
Cash flow from fin. (c)	(2,991)	2,192	(841)	(1,091)
Net change in cash (a+b+c)	391	(256)	1,475	(571)

Key Ratios

Period end (%)	Mar 16	Mar 17	Mar 18	Mar 19
Adjusted EPS (Rs)	2.5	4.0	13.3	22.3
Growth (%)	(14.9)	63.4	230.2	67.7
CEPS (Rs)	5.7	7.5	16.8	26.1
Book NAV/share (Rs)	30.3	65.3	79.9	95.7
Dividend/share (Rs)	0.5	1.7	6.0	3.5
Dividend payout ratio (%)	24.5	50.9	54.2	18.9
EBITDA margin (%)	9.7	13.4	14.7	17.5
EBIT margin (%)	7.8	11.2	13.5	16.1
Tax Rate (%)	44.6	58.3	24.4	28.2
RoCE (%)	8.8	11.7	15.7	23.1
Total debt/Equity (x)	0.4	0.6	0.5	0.5
Net debt/Equity (x)	2.0	0.7	0.5	0.4
Du Pont Analysis – ROE				
Net margin (%)	2.2	3.6	8.9	10.9
Asset turnover (x)	1.0	0.9	0.9	1.1
Leverage factor (x)	3.8	2.7	2.2	2.1
Return on equity (%)	8.2	8.4	18.3	25.3

Valuations

Period end (x)	Mar 16	Mar 17	Mar 18	Mar 19
PER	7.8	16.4	16.4	7.9
PCE	3.4	8.8	12.9	6.8
Price/Book	0.6	1.0	2.7	1.8
Yield (%)	2.6	2.6	2.8	2.0
EV/EBITDA	6.5	6.9	11.3	5.8

Share Data

Price (Rs)	113
BSE Sensex	40,889
Reuters code	SHKE BO
Bloomberg code	SHKL IN
Market cap. (US\$ mn)	224
6M avg. daily turnover (US\$ mn)	0.2
Issued shares (mn)	141

Performance (%) 1M 3M 12M

Absolute	(14)	(4)	(39)
Relative	(18)	(14)	(47)

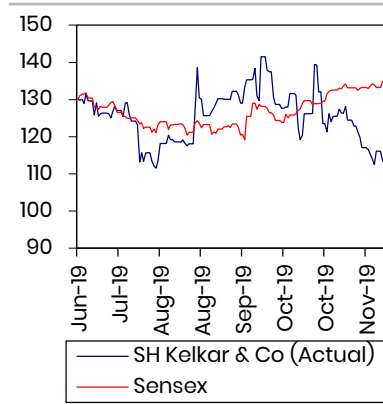
Valuation Ratios

Yr to 31 Mar	FY17	FY18	FY19
EPS (Rs)	7.2	6.5	6.1
+/- (%)	43.5	(10.4)	(5.8)
PER (x)	40.9	39.9	25.1
PBV (x)	5.3	4.4	2.6
Dividend/Yield (%)	0.6	0.7	0.0
EV/Sales (x)	4.3	3.8	2.4
EV/EBITDA (x)	25.6	24.0	19.0

Major Shareholders (%)

Promoters	58
FII's	20
MFs	6
Public & Others	16

Relative Performance



S H Kelkar and Company

Not Rated

Raw material price stabilises, recovery in sight

S H Kelkar and Company Limited (SHKL) is the largest Indian-origin Fragrance and Flavour company which produces 9,700+ products. Its fragrance products and ingredients are used as a raw material in personal wash, fabric care, skin and hair care, fine fragrances and household products. Its flavour products are used as a raw material by producers of baked goods, dairy products, beverages and pharmaceutical products. The company offers products under SHK, Cobra and Keva brands.

2QFY20 performance

During 2QFY20, the company reported sales at Rs 2.76 bn, down 2.1% YoY, this was on the back of flat YoY sales in Fragrance segment to Rs 2.5 bn while Flavours segment reported de-growth of 24.6% YoY to Rs 212 mn. Gross margin expanded by 40 bps YoY to 42.7%. EBITDA margin has also expanded in line with gross margin to 13.8%. EBITDA came in at Rs 383 mn, up 1.4% YoY. EBIT margin of Fragrance division declined from 14.4% to 10.6% YoY whereas for Flavours segment it increased from 8.1% to 12.4% YoY. Adjusted PAT came in at Rs 154 mn, down 46.5% YoY mainly on account of increase in interest cost by 277.2% YoY to Rs 71 mn and increase in tax rate from 14.7% to 19.5% YoY.

Financial highlights

(Rs mn)	2QFY19	2QFY20	YoY (%)	1QFY20	QoQ (%)	1HFY19	1HFY20	YoY (%)
Net sales	2,821	2,762	(2.1)	2,715	1.7	5,181	5,477	5.7
Gross profit	1,192	1,179	(1.1)	1,155	2.1	2,230	2,334	4.6
Gross margin (%)	42.3	42.7	-	42.5	-	43.0	42.6	-
Total expenditure	2,468	2,410	(2.3)	2,280	5.7	4,502	4,691	4.2
EBITDA	377	383	1.4	464	(17.5)	707	846	19.8
EBITDA margin (%)	13.4	13.8	-	17.1	-	13.6	15.4	-
Other income	50	6	(87.9)	14	(55.8)	83	20	(76.1)
Interest	19	71	277.2	70	1.9	34	141	315.6
Depreciation	76	131	73.4	121	8.2	144	253	76.2
PBT	333	186	(44.2)	286	(35.0)	612	472	(22.9)
Tax	49	36	(25.8)	96	(62.4)	149	133	(11.0)
Tax rate (%)	14.7	19.5	-	33.7	-	24.3	28.1	-
Adjusted PAT	288	154	(46.5)	185	(16.4)	475	339	(28.7)
NPM (%)	10.2	5.6	-	6.8	-	9.2	6.2	-
Adjusted EPS (Rs)	2.0	1.1	(46.5)	1.3	(16.4)	3.3	2.3	(28.7)

1HFY20 performance

During 1HFY20, sales came in at Rs 5.5 bn, up 5.7% YoY. Gross margin contracted by 40 bps YoY to 42.6%; however, EBITDA margin expanded by 180 bps YoY to 15.4%. EBITDA came in at Rs 846 mn, up 19.8%. Other income declined by 76.1% YoY to Rs 20 mn while interest cost increased by 315.6% YoY to Rs 141 mn. Further, increase in tax rate from 28.1% as against 24.3% in 1HFY19, resulted into adjusted PAT de-growth of 28.7% YoY to Rs 339 mn.

During 1HFY20, D/E ratio increased from 0.32x to 0.51x YoY. The company incurred capex of Rs 700 mn while cash from operating activities declined to Rs 276 mn against Rs 378 mn YoY.

Growth drivers

The company witnessed poor growth on account of weak FMCG demand in the domestic market. With stabilisation of raw material situation globally along with the steps taken by the company to reduce the cost of producing ingredients by shifting production from Netherlands to India and increase in exports of high value-added products, is expected to improve the operating performance of the company. However, higher inventory level remains the key concern. We do not have rating on the stock.

Concall highlights

- During 2QFY20, the promoters have bought 0.2 mn shares which increased promoters holding from 56.91% to 57.49%. The promoters also released pledge on 5.55 mn shares. Remaining pledge on 0.33 mn shares would be released in due course.
- In the Fragrance business, the company reported 6% decline in the volume due to subdued demand. While international business witnessed 15% growth.
- In the Flavours business, domestic market witnessed de-growth of 54% mainly on account of seasonality as well as poor demand during Diwali.
- The company remains hopeful of achieving 12% volume growth. The 12% volume growth may not translate into 12% sales growth on account of declining realisations. The selling prices of the products are correcting due to benign raw material price.
- Raw material pressure eased during the quarter and also the raw material availability improved in the last 1-1.5 months.
- The company has taken steps for inventory reduction which would free up cash of Rs 300 mn. Also, the management expects tax related dues to get refunded in 2HFY20 which will further add cash to the business. The management is targeting Rs 1.35 bn free cash flow by end of FY20.
- Net debt has gone up from Rs 3.4 bn to Rs 4.0 bn. The company intends to reduce the debt level with generation of free cash flow.
- In 2QFY20, the company reported Rs 60 mn of non-recurring cost on account of some changes in organisation. It includes change in employee cost structure (added variable cost component) and one time freight and forwarding cost for transport of inventories/equipment as Mahad facility came on stream.
- The capacity utilisation of Mulund plant was at 50% while utilisation at other facilities stood at 75%. The Netherlands facility is running at very low capacity utilisation.
- The management expects EBITDA margin to recover to 18-20% in the next two quarters. The company is on track to achieve Rs 1.0 bn revenue in the next four-five quarters. It has been taking steps to achieve it through product development, organisation restructuring, etc.

- Inventory levels stays normally in the range of three-four months, as the company receives some raw material once in the year and some products needs to be produced at once depending on the requirements.

Segmental performance

(Rs mn)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Segment revenue										
Fragrance	2,027	2,187	2,546	2,550	2,113	2,539	2,269	2,420	2,435	2,550
YoY (%)	(15.2)	12.5	–	12.5	4.3	16.1	(10.9)	(5.1)	15.2	0.4
Flavours	312	332	272	277	247	282	276	266	280	212
YoY (%)	(13.8)	25.0	–	(33.7)	(21.0)	(15.2)	1.5	(4.1)	13.6	(24.6)
Total	2,339	2,519	2,818	2,827	2,360	2,821	2,545	2,686	2,715	2,762
Other operating income	4	11	13	6	4	14	3	3	29	31
Sales/Income from oper.	2,343	2,529	2,831	2,833	2,364	2,835	2,548	2,689	2,744	2,793
Segment results										
Fragrance	365	365	396	327	295	366	366	274	356	271
Margin (%)	18.0	16.7	15.5	12.8	14.0	14.4	16.1	11.3	14.6	10.6
Flavours	63	63	69	37	39	23	43	50	37	26
Margin (%)	20.1	18.9	25.5	13.4	15.6	8.1	15.5	18.8	13.3	12.4
Total	428	428	465	364	333	389	409	323	393	297
Less: Finance cost	6	6	7	16	15	19	45	61	70	71
Add/ (Less): Other unallocable income net of	22	22	41	16	31	33	47	51	39	36
Total Profit before tax from ordinary activities	401	401	416	332	287	337	318	212	284	190
Capital employed										
Fragrance	7,928	7,928	8,452	8,848	9,272	10,086	11,125	10,695	11,476	11,583
Flavours	1,045	1,045	1,108	1,279	1,301	1,204	1,080	1,204	1,207	966
Unallocated	(553)	(553)	(954)	(1,556)	(1,933)	(2,613)	(3,504)	(3,157)	(3,805)	(4,104)
Total	8,420	8,419	8,606	8,571	8,641	8,676	8,701	8,742	8,879	8,445

S H Kelkar and Company

Income Statement

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Net sales	9,249	9,805	10,193	10,412
Growth (%)	11.0	6.0	4.0	2.1
Operating expenses	(7,751)	(8,147)	(8,629)	(9,115)
Operating profit	1,498	1,658	1,564	1,296
Other operating income	0	0	58	25
EBITDA	1,498	1,658	1,622	1,321
Growth (%)	27.1	10.7	(2.2)	(18.6)
Depreciation	(297)	(194)	(238)	(312)
Other income	105	116	216	279
EBIT	1,305	1,579	1,600	1,288
Finance cost	(202)	(52)	(40)	(140)
Exceptional & extraordinary	0	0	(129)	0
Profit before tax	1,103	1,528	1,432	1,149
Tax (current + deferred)	(372)	(480)	(506)	(270)
Profit/(Loss) for the period	731	1,048	926	878
P/L of Associates, Min Int, Pref Div	0	0	13	6
Reported Profit/(Loss)	731	1,048	939	885
Adjusted net profit	731	1,048	939	885
Growth (%)	3.6	43.5	(10.4)	(5.8)

Balance Sheet

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Share capital	1,446	1,446	1,446	1,446
Reserves & surplus	6,182	6,671	7,125	7,187
Shareholders' funds	7,628	8,118	8,571	8,634
Minority interest and others	0	0	0	108
Non-current liabilities	402	230	583	907
Long-term borrowings	296	92	482	700
Other non-current liabilities	106	139	101	208
Current liabilities	2,602	2,441	3,645	4,802
ST borrowings, curr maturity	436	532	1,161	2,640
Other current liabilities	2,167	1,909	2,484	2,162
Total (equity and liab.)	10,633	10,789	12,799	14,451
Non-current assets	3,477	3,543	5,814	6,748
Fixed assets (net block)	2,070	2,832	3,756	4,459
Non-current investments	0	0	1,092	1,097
Long-term loans and adv.	463	22	23	27
Other non-current assets	944	689	944	1,165
Current assets	7,156	7,246	6,985	7,703
Cash & current investment	1,168	1,051	254	424
Other current assets	5,988	6,194	6,731	7,279
Total (assets)	10,633	10,789	12,799	14,451
Total debt	732	623	1,643	3,340
Capital employed	8,466	8,879	10,315	12,289

Cash Flow Statement

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Profit before tax	1,103	1,528	1,432	1,149
Depreciation	297	194	238	312
Change in working capital	(604)	(15)	(10)	(872)
Total tax paid	(414)	(356)	(544)	(340)
Others	202	52	40	140
Cash flow from oper. (a)	584	1,403	1,156	387
Capital expenditure	(301)	(956)	(1,162)	(1,015)
Change in investments	(345)	(152)	(611)	(4)
Others	(1)	(430)	(192)	122
Cash flow from inv. (b)	(647)	(1,538)	(1,965)	(897)
Free cash flow (a+b)	(63)	(135)	(810)	(510)
Equity raised/(repaid)	32	0	0	0
Debt raised/(repaid)	(1,404)	(109)	1,019	1,697
Dividend (incl. tax)	(173)	(201)	(201)	0
Others	1,671	177	(324)	(1,017)
Cash flow from fin. (c)	126	(133)	494	680
Net chg in cash (a+b+c)	63	(268)	(316)	170

Key Ratios

Period end (%)	Mar 16	Mar 17	Mar 18	Mar 19
Adjusted EPS (Rs)	5.1	7.2	6.5	6.1
Growth	1.3	43.5	(10.4)	(5.8)
CEPS (Rs)	7.1	8.6	8.1	8.3
Book NAV/share (Rs)	52.7	56.1	59.3	59.7
Dividend/share (Rs)	1.5	1.8	1.8	0.0
Dividend payout ratio	23.6	19.2	21.5	0.0
EBITDA margin	16.2	16.9	15.9	12.7
EBIT margin	14.1	16.1	15.7	12.4
Tax rate	33.8	31.4	35.3	23.5
RoCE	16.5	18.2	16.7	11.4
Total debt/Equity (x)	0.1	0.1	0.2	0.4
Net debt/Equity (x)	(0.1)	(0.1)	0.2	0.3
Du Pont Analysis – ROE				
Net margin	7.9	10.7	9.2	8.5
Asset turnover (x)	0.9	0.9	0.9	0.8
Leverage factor (x)	1.6	1.4	1.4	1.6
Return on equity	11.5	13.3	11.3	10.3

Valuations

Period end (x)	Mar 16	Mar 17	Mar 18	Mar 19
PER	45.0	40.9	39.9	25.1
PCE	32.0	34.5	31.8	18.5
Price/Book	4.3	5.3	4.4	2.6
Yield (%)	0.7	0.6	0.7	0.0
EV/EBITDA	21.7	25.6	24.0	19.0

Share Data

Price (Rs)	661
BSE Sensex	40,889
Reuters code	TTCH.BO
Bloomberg code	TTCH IN
Market cap. (US\$ mn)	2,350
6M avg. daily turnover (US\$ mn)	5.4
Issued shares (mn)	255

Performance (%) 1M 3M 12M

Absolute	8	20	(5)
Relative	4	7	(18)

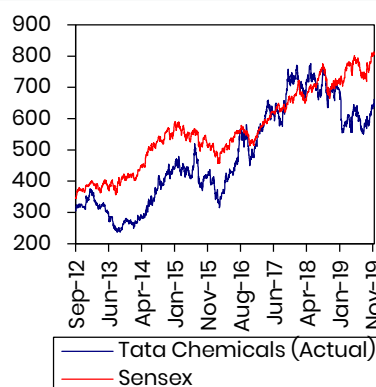
Valuation Ratios

Yr to 31 Mar	FY17	FY18	FY19
EPS (Rs)	34.5	48.1	45.4
+/- (%)	26.3	39.4	(5.7)
PER (x)	17.3	14.1	13.0
PBV (x)	1.9	1.6	1.2
Dividend/Yield (%)	1.8	3.2	1.9
EV/Sales (x)	1.8	1.8	1.4
EV/EBITDA (x)	8.8	8.3	7.6

Major Shareholders (%)

Promoters	31
FII's	9
MFs	24
BFSI's	15
Public & Others	21

Relative Performance



Tata Chemicals

Not Rated

Focus shifts towards specialty chemicals...

Tata Chemicals (TTCH) is one of the largest producers of Soda Ash globally and operates under 3 segments viz. Basic Chemistry Products, Consumer Products and Specialty Products. The company was started as Okhamandal Salt Works in 1927 and then was taken over by Tatas to incorporate Tata Chemicals Ltd. In 1994, a fertiliser plant was set up at Babrala. In 2003, TTCH acquired Hind Chemicals and got an entry into DAP and other complex fertilisers. TTCH operates in North America, Europe and Kenya through its subsidiaries. In 2018, the company completely exited from the fertiliser business and shifted their focus towards consumer products and specialty chemicals. In 2019, the company announced the transfer of consumer business to Tata Global Beverages Ltd. and plans to become a specialty play company. The transaction would be completed in 2020.

2QFY20 performance

- Consolidated revenues grew by only 4.1% YoY to Rs 30.8 bn on account of subdued standalone revenue growth (up 0.7% YoY to Rs 10.2 bn) coupled with decline in Tata Chemicals Europe revenues (down 4.5% YoY to Rs 3.4 bn). TCNA revenues grew by 3.3% YoY to Rs 8.9 bn while Magadi and Rallis reported strong revenue growth of 8.6% YoY and 14.2% YoY respectively to Rs 1.4 bn and Rs 7.5 bn.

Financial highlights

(Rs mn)	2QFY19	2QFY20	YoY (%)	1QFY20	QoQ (%)	1HFY19	1HFY20	YoY (%)
Net sales	29,607	30,835	4.1	28,969	6.4	57,051	59,804	4.8
Gross profit	23,661	23,701	0.2	23,608	0.4	45,353	47,309	4.3
Gross margin (%)	79.9	76.9	-	81.5	-	79.5	79.1	-
Total expenditure	23,586	24,486	3.8	23,046	6.2	46,121	47,532	3.1
EBITDA	6,020	6,349	5.5	5,924	7.2	10,930	12,272	12.3
EBITDA margin (%)	20.3	20.6	-	20.4	-	19.2	20.5	-
Other income	1,233	925	(25.0)	879	5.3	2,297	1,804	(21.5)
Interest	921	872	(5.3)	944	(7.6)	1,808	1,817	0.5
Depreciation	1,417	1,668	17.7	1,635	2.0	2,768	3,302	19.3
PBT	4,916	4,734	(3.7)	4,143	14.3	8,650	8,877	2.6
Tax	1,199	388	(67.6)	1,301	(70.2)	2,457	1,689	(31.2)
Tax rate (%)	24.4	8.2	-	31.4	-	28.4	19.0	-
Adjusted PAT	3,217	3,550	10.3	2,477	43.3	5,277	6,027	14.2
NPM (%)	10.9	11.5	-	8.6	-	9.3	10.1	-
Adjusted EPS (Rs)	12.6	13.9	10.3	9.7	43.3	20.7	23.7	14.2

- Gross margins contracted by 300 bps YoY while EBITDA margins expanded by 30 bps on account of improved operating leverage (energy costs in India have started to normalise).
- EBITDA and PAT grew by 5.5% and 10.3% YoY to Rs 6.3 bn and Rs 3.5 bn, respectively.
- Basic Chemistry revenue grew by 1.0% YoY to Rs 20.5 bn; EBIT grew by 27.9% YoY to Rs 3.5 bn; EBIT margins expanded by 360 bps YoY to 17.3%.
- Consumer products revenue grew by 11.7 % YoY to Rs 5.1 bn; EBIT declined by 15.0% YoY to Rs 734 mn; EBIT margins contracted by 450 bps YoY to 14.3%.
- Specialty products revenue grew by 13.7% YoY to Rs 7.6 bn; EBIT declined by 15.9% YoY to Rs 884 mn; EBIT margins contracted by 410 bps YoY to 11.6%.

1HFY20 performance

- Consolidated Revenue/EBITDA/PAT grew by 4.8%/12.3%/14.2% YoY to Rs 59.8 bn/Rs 12.3 bn/Rs 6.0 bn, respectively.
- Gross margins contracted by 40 bps YoY to 79.1% on account of lower margins in 2QFY20.
- EBITDA margins expanded by 130 bps YoY to 20.5% on account of lower base impacted by poor 1QFY19 margins.
- Basic Chemistry revenue grew by 1.1% YoY to Rs 39.9 bn; EBIT grew by 21.7% YoY to Rs 6.7 bn; EBIT margins expanded by 280 bps YoY to 16.8%.
- Consumer products revenue grew by 12.3% YoY to Rs 10.1 bn; EBIT declined by 13.5% YoY to Rs 1.5 bn; EBIT margins contracted by 430 bps YoY to 14.5%.
- Specialty Products revenue grew by 11.5% YoY to Rs 13.9 bn; EBIT declined by 4.8% YoY to Rs 1.6 bn; EBIT Margins contracted by 200 bps YoY to 11.8%

Key highlights from Balance Sheet and Cash Flow statement

- Long-term borrowings came down by Rs 23.5 bn to Rs 32.4 bn while short-term borrowings went up by Rs 247 mn to Rs 1.64 bn.
- Tata Chemicals (TTCH) incurred a capex of Rs 6.2 bn in 1HFY20 against Rs 4.3 bn in 1HFY19; cash flow generation from operations was about Rs 11.5 bn against Rs 7.6 bn in 1HFY19.
- Working capital in 1HFY20 increased by Rs 1.7 bn to Rs 17.2 bn; inventories increased by Rs 1.58 bn to Rs 16.43 bn while trade receivables and payables decreased by Rs 323 mn and Rs 436 mn, respectively, to Rs 16.4 bn and Rs 15.6 bn.

Growth drivers

While the Soda Ash business is expected to be under pressure in the short-term, the demand supply in the medium-term is expected to be tight. Many large players have globally have announced large capacity expansions in the last couple of months which would be coming on-stream over the next 18-24 months years. This reaffirms that the companies expect tightness in Soda ash market. The next leg of growth is expected to come in from the specialty chemicals division as the Nutraceutical and Specialty Silica facilities as well as Rallis' Metribuzine facility is expected to come on-stream by the end of FY20E. The Lithium battery project is still in a pilot stage.

Concall highlights

Basic Chemistry

- Indian operations revenue were lower on account of routine maintenance carried out at the plant
- The margins however expanded on the back of higher realisations as well as declining energy costs; the energy costs which had gone up significantly have been declining since a couple of quarters and have stabilised.
- Further, the market continues to be balanced, as all the new capacities have been absorbed in the market.
- Tata Chemicals Europe revenues were lower as the company stopped trading of Soda Ash; however, the margins expanded as most of the EBITDA is contributed by the salt business which performed well.
- TCML and TCNA performance improved as the sales volume as well as realisation of soda ash improved.
- The company has taken price increases in the North America region and these new prices would kick in as the contracts renew further.
- The realisations for Magadi improved as the contracts got renewed at the higher prices of South East Asia; 1/3rd of the revenue come in from long-term contracts; 1/3rd comes in from three-six months contracts and rest is based on spot prices.
- The domestic auto industry contributes about 15% to the soda ash revenue and hence six-eight months of soda ash won't make a difference. Slowdown in consumer goods demand would lead to a shift towards value products – low value detergent – where the content of soda ash is higher thereby beneficial for soda ash manufacturers.
- The TCNA plant usually operates at a low utilisation level in winters; however, after certain modifications, the plants are expected to run at optimal capacities in winter and the company expects to achieve its target on annual basis.
- The domestic soda ash market is current at 4 mn MT and growing at 4-5%.
- The company does not expect to take any price cuts in the domestic market.
- The planned capex to be incurred at Mithapur is about Rs 24.0 bn out of which Rs 10.0 bn has already been incurred; most of the capex is expected to come online by the end of FY22E.
- The capex announced by the global companies will take at least three years to come online and the demand, at this rate, is expected to catch up by then.

Specialty Products

- The revenue from the pilot plant of Nutraceutical was about Rs 119 mn. The large scale commercial plant at Nellore is undergoing trial production.
- The Silica plant at Cuddalore is expected to commence commercial production by the end of FY20E.
- Majority of the revenue stream in the Specialty Products comes in from Rallis. EBITDA margin for the quarter impacted due to higher input prices and higher competitive intensity, in select products both in India and Internationally exerted pressure on the margins and profitability.
- The metribuzine capacity – 50% of it has come on-stream while rest of it is expected to come on-stream by the end of the year.
- The asset turnover for the Nutraceutical and Materials business is about 1.7-2.0x.
- The company has planned a capex of Rs 2.5 bn for Nutraceutical and Materials each, out of which it has fully incurred the capex for Nutraceutical business and about Rs 1.5 bn for Materials business.

- The company is foraying into energy business and planning to incur a capex of Rs 8.0 bn over the years to set up a 2 GW plant, starting with a 300–350 MW plant for 1/3rd of the cost; The land has been allotted the company at Dholera, can be used to set up a plant up to 5–6 GW.
- The company has currently recycled about 500 kg of batteries and plans to set up a facility to recycle 500 MT of batteries.

Consumer business

- The business was impacted by higher marketing spends in order to push volumes
- The business was also impacted by certain one off fixed cost related to transactions (de-merger); the transaction cost YTD is about Rs 70 mn and by the end of the year it is expected to be about Rs 150 mn.
- The company has received nod from the shareholders for the de-merger and now would be working towards completing further formalities with NCLT.
- The revenue growth in the pulses and spice segment was about 25%.

Other highlights

- Other income was lower on account of following factors:
 - Timing of dividend received Rs 240 mn in 1QFY20 which the company received in 2Q of last year.
 - Last year, the company received one-off income tax repayment of about Rs 120 mn.
 - The bank income reduced by Rs 150 mn.
- Tax rate: the company had Rs 390 mn of deferred tax liability on their balance sheet which brought down the effective tax rate.
- The strategy of the company is to improve the RoCE of Basic Chemistry at all locations and invest in growing the Specialty Products.

Segmental performance (Consolidated)

(Rs mn)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (%)	QoQ (%)
Basic Chemistry Products	19,203	20,327	21,417	22,144	19,455	20,520	1.0	5.5
% of sales	65.3	64.3	70.4	72.8	63.3	61.7	–	–
Consumer Products	4,382	4,595	4,709	4,787	4,952	5,130	11.7	3.6
% of sales	14.9	14.5	15.5	15.7	16.1	15.4	–	–
Specialty Products	5,820	6,686	4,292	3,466	6,337	7,603	13.7	20.0
% of sales	19.8	21.2	14.1	11.4	20.6	22.9	–	–
Total	29,404	31,608	30,418	30,397	30,745	33,254	5.2	8.2
Inter-segment	2,007	2,073	2,118	2,836	1,811	2,471	19.2	36.4
Unallocated	48	72	19	33	36	52	(27.4)	47.3
Total Revenue from operations	27,444	29,607	28,319	27,594	28,969	30,835	4.1	6.4
Basic Chemistry Products	2,753	2,779	2,831	4,673	3,182	3,553	27.9	11.7
EBIT margin (%)	14.3	13.7	13.2	21.1	16.4	17.3	–	–
Consumer Products	823	864	590	862	725	734	(15.0)	1.4
EBIT margin (%)	18.8	18.8	12.5	18.0	14.6	14.3	–	–
Specialty Products	671	1,051	94	(95)	755	884	(15.9)	17.1
EBIT margin (%)	11.5	15.7	2.2	(2.7)	11.9	11.6	–	–

Tata Chemicals

Income Statement (Consolidated)

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Net sales	147,151	102,120	101,810	112,179
Growth (%)	(13.0)	(30.6)	(0.3)	10.2
Operating expenses	(127,812)	(82,518)	(80,790)	(92,013)
Operating profit	19,339	19,603	21,020	20,166
EBITDA	19,339	19,603	21,020	20,166
Growth (%)	3.3	1.4	7.2	(4.1)
Depreciation	(5,261)	(5,122)	(5,179)	(5,707)
Other income	1,253	1,661	1,595	4,116
EBIT	15,331	16,142	17,435	18,576
Finance cost	(5,255)	(2,973)	(3,256)	(3,631)
Exceptional & extraordinary	0	0	643	703
Profit before tax	10,077	13,169	14,823	15,649
Tax (current + deferred)	(2,484)	(3,460)	(601)	(3,469)
P/L form discontinuing oper.	742	1,135	11,425	(80)
Profit/(Loss) for the period	8,335	10,844	25,646	12,100
P/L of Associates, Min	(2,207)	(2,254)	(2,202)	(1,317)
Int, Pref Div				
Reported Profit/(Loss)	6,128	8,591	23,444	10,782
Adjusted net profit	5,386	7,456	11,376	10,159
Growth (%)	76.9	38.4	52.6	(10.7)

Balance Sheet (Consolidated)

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Share capital	2,548	2,548	2,548	2,548
Reserves & surplus	65,995	76,534	108,469	120,865
Shareholders' funds	68,543	79,082	111,017	123,413
Minority interest and others	25,985	26,239	27,172	29,147
Non-current liabilities	99,558	81,019	90,374	78,365
Long-term borrowings	67,797	43,610	53,940	47,829
Other non-current liabilities	31,761	37,409	36,434	30,536
Current liabilities	49,466	49,764	30,224	38,125
ST borrowings, Curr maturity	17,879	7,211	1,402	3,525
Other current liabilities	31,587	42,554	28,821	34,600
Total (Equity and Liab.)	243,552	236,105	258,786	269,049
Non-current assets	167,828	177,898	179,720	188,101
Fixed assets (Net block)	120,196	112,731	114,358	124,386
Non-current Investments	21,785	25,726	27,765	33,901
Long-term loans and advances	24	80	97	79
Other non-current assets	25,824	39,361	37,500	29,735
Current assets	75,724	58,207	79,067	80,948
Cash & current investment	12,748	18,854	45,749	42,045
Other current assets	62,976	39,354	33,318	38,903
Total (Assets)	243,552	236,105	258,786	269,049
Total debt	85,676	50,821	55,342	51,354
Capital employed	211,965	193,551	229,965	234,449

Cash Flow Statement (Consolidated)

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Profit before tax	10,077	13,169	14,823	15,649
Depreciation	5,261	5,122	5,179	5,707
Change in working capital	(8,052)	35,025	(8,783)	(1,499)
Total tax paid	(2,663)	(3,241)	(1,125)	(2,051)
Others	4,131	1,710	2,266	2,375
Cash flow from oper. (a)	8,753	51,785	12,360	20,179
Capital expenditure	(11,295)	2,343	(6,807)	(15,735)
Change in investments	2,054	(6,052)	(752)	(27,742)
Others	1,554	(12,791)	3,377	9,983
Cash flow from inv. (b)	(7,687)	(16,499)	(4,182)	(33,494)
Free cash flow (a+b)	1,067	35,286	8,177	(13,314)
Debt raised/(repaid)	7,581	(34,855)	4,521	(3,989)
Dividend (incl. tax)	(3,073)	(3,380)	(6,761)	(3,380)
Others	(6,769)	6,945	22,244	(4,625)
Cash flow from fin. (c)	(2,261)	(31,291)	20,005	(11,994)
Net chg in cash (a+b+c)	(1,195)	3,995	28,182	(25,309)

Key Ratios (Consolidated)

Period end (%)	Mar 16	Mar 17	Mar 18	Mar 19
Adjusted EPS (Rs)	21.1	29.3	44.6	39.9
Growth	76.9	38.4	52.6	(10.7)
CEPS (Rs)	41.8	49.4	65.0	62.3
Book NAV/share (Rs)	269.0	310.3	435.7	484.3
Dividend/share (Rs)	10.0	11.0	22.0	11.0
Dividend payout ratio	50.1	39.4	28.8	31.4
EBITDA margin	13.1	19.2	20.6	18.0
EBIT margin	10.4	15.8	17.1	16.6
Tax rate	26.6	28.7	29.2	23.1
RoCE	7.4	8.0	8.2	8.0
Total debt/Equity (x)	0.9	0.5	0.4	0.3
Net debt/Equity (x)	0.8	0.3	0.1	0.1
Du Pont Analysis – RoE				
Net margin	3.7	7.3	11.2	9.1
Asset turnover (x)	0.6	0.4	0.4	0.4
Leverage factor (x)	3.6	3.2	2.6	2.3
Return on equity	8.0	10.1	12.0	8.7

Valuations (Consolidated)

Period end (x)	Mar 16	Mar 17	Mar 18	Mar 19
PER	17.7	20.5	17.1	19.2
PCE	8.9	12.1	11.8	12.3
Price/Book	1.4	1.9	1.8	1.6
Yield (%)	2.7	1.8	2.9	1.4
EV/EBITDA	8.7	9.4	9.7	10.1

Share Data

Price (Rs)	63
BSE Sensex	40,889
Reuters code	THRM.BO
Bloomberg code	TMC IN
Market cap. (US\$ mn)	90
6M avg. daily turnover (US\$ mn)	0.4
Issued shares (mn)	102

Performance (%) 1M 3M 12M

Absolute	(10)	13	(46)
Relative	(14)	1	(53)

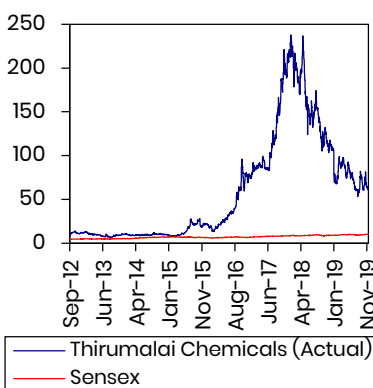
Valuation Ratios

Yr to 31 Mar	FY17	FY18	FY19
EPS (Rs)	7.0	16.6	11.1
+/- (%)	123.9	136.7	(33.4)
PER (x)	12.6	10.2	8.0
PBV (x)	2.3	3.0	1.4
Dividend/Yield (%)	0.0	1.1	2.3
EV/Sales (x)	0.9	1.3	0.7
EV/EBITDA (x)	5.7	6.0	4.2

Major Shareholders (%)

Promoters	42
FII's	2
Public & Others	56

Relative Performance



Thirumalai Chemicals

Not Rated

Sluggish demand and volatility in raw material prices impacted performance...

Thirumalai Chemicals Limited (TMC) was set up in 1972, is the second largest producers of Phthalic Anhydride (PA) in India with market share of ~40% and produces Maleic Anhydride in India and Malaysia. The company has distinctive characteristic of producing food ingredients from effluent of PA.

2QFY20 performance

During 2QFY20, the company reported sales at Rs 2.7 bn, down 26.1% YoY. Gross margin contracted by 980 bps YoY to 30.5% while EBITDA margin contracted by 1,570 bps YoY to 8.5% mainly on account of higher other expenses and increase in employee cost by 10.5% YoY. EBITDA came in at Rs 229 mn, down 74.0% YoY. Though, interest cost increased by 55.4% YoY to Rs 72 mn, other income increased by 71.9% YoY to Rs 72 mn which restricted the decline in PAT to Rs 121 mn, down 61.4% YoY.

During the quarter, the company has invested € 25,000 (Rs 20.03 mn) in TCL Global BV, a wholly owned subsidiary located in Amsterdam, Netherlands.

Financial highlights

(Rs mn)	2QFY19	2QFY20	YoY (%)	1QFY20	QoQ (%)	1HFY19	1HFY20	YoY (%)
Net sales	3,634	2,686	(26.1)	2,901	(7.4)	6,218	5,587	(10.2)
Gross profit	1,464	820	(44.0)	896	(8.5)	2,628	1,716	(34.7)
Gross margin (%)	40.3	30.5	-	30.9	-	42.3	30.7	-
Total expenditure	2,754	2,457	(10.8)	2,607	(5.7)	4,798	5,065	5.5
EBITDA	880	229	(74.0)	293	(22.1)	1,420	522	(63.2)
EBITDA margin (%)	24.2	8.5	-	10.1	-	22.8	9.3	-
Other income	42	72	71.9	23	211.7	90	95	5.0
Interest	24	37	55.4	31	20.3	40	68	72.9
Depreciation	93	110	18.3	94	17.3	188	204	8.6
PBT	804	153	(81.0)	192	(20.1)	1,283	345	(73.1)
Tax	273	54	(80.4)	71	(24.2)	439	124	(71.7)
Tax rate (%)	34.0	35.0	-	36.9	-	34.2	36.1	-
Adjusted PAT	531	99	(81.3)	121	(17.8)	844	220	(73.9)
NPM (%)	14.6	3.7	-	4.2	-	13.6	3.9	-
Adjusted EPS (Rs)	5.2	1.0	(81.3)	1.2	(17.8)	8.2	2.2	(73.9)

1HFY20 performance

During 1HFY20, sales came in at Rs 5.6 bn, down 10.2% YoY. Gross margin contracted by 1,160 bps YoY to 30.7% while EBITDA margin contracted by 1,350 bps YoY to 9.3%. EBITDA came in at Rs 522 mn, down 63.2% YoY. PAT further declined by 73.9% YoY to Rs 220 mn on account of increase in interest cost by 72.9% YoY to Rs 68 mn and increase in tax rate from 36.1% to 34.2% YoY.

During 1HFY20, the company incurred a capex of Rs 480 mn. D/E ratio remains comfortable at 0.28x. Working capital days have come down from 95 days to 81 days YoY. Cash flow from operating activities came down to Rs 5.49 bn from Rs 15.04 bn YoY.

Growth drivers

The performance of the company was impacted due to sluggish demand and high volatility in raw material prices. The company has revamped the four decade old Ranipet plant which would increase the utilisation and reduce the operating cost while PA plant at Dahej with capacity of 20,000 mtpa is expected to come on stream in 4QFY20. The plant would significantly reduce logistic cost as it is situated in the proximity of its key customers. Further, the company is planning to increase Maleic Anhydride capacity at Malaysian subsidiary by 50% in two years to cater to the demand coming in from Middle East and European markets. The major concern for the company remains the imports from Far East countries which is impacting the realisations.

Thirumalai Chemicals

Income Statement (Consolidated)

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Net sales	9,372	10,193	13,033	12,610
Growth (%)	(12.0)	8.8	27.9	(3.2)
Operating expenses	(8,526)	(8,694)	(10,224)	(10,552)
Operating profit	847	1,499	2,809	2,059
Other operating income	69	92	87	0
EBITDA	916	1,591	2,896	2,059
Growth (%)	140.8	73.6	82.1	(28.9)
Depreciation	(189)	(359)	(306)	(364)
Other income	52	41	68	115
EBIT	779	1,273	2,658	1,810
Finance cost	(231)	(167)	(128)	(122)
Profit before tax	548	1,106	2,530	1,689
Tax (current + deferred)	(227)	(386)	(826)	(553)
Profit/(Loss) for the period	322	720	1,704	1,136
Reported Profit/(Loss)	322	720	1,704	1,136
Adjusted net profit	322	720	1,704	1,136
Growth (%)	NA	124.0	136.7	(33.4)

Balance Sheet (Consolidated)

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Share capital	102	102	102	102
Reserves & surplus	2,965	3,880	5,627	6,576
Shareholders' funds	3,068	3,982	5,730	6,679
Non-current liabilities	731	608	1,081	1,449
Long-term borrowings	236	117	500	784
Other Long term liab, Prov, DTL	495	491	581	665
Current liabilities	2,514	3,275	1,441	3,281
Short-term borrowings, curr Maturity	672	499	1	1
Other current liab + provi	1,842	2,776	1,440	3,280
Total (equity and liab.)	6,313	7,865	8,252	11,408
Non-current assets	4,041	4,169	4,874	6,814
Fixed assets (net block)	3,383	3,260	3,543	5,420
Non-current investments	333	565	894	919
Other non-current assets, DTA, Goodwill	325	345	437	475
Current assets	2,272	3,696	3,377	4,595
Cash & current investment	140	564	619	1,168
Other current assets	2,132	3,131	2,759	3,427
Total (assets)	6,313	7,865	8,252	11,408
Total debt	908	616	501	785
Capital employed	4,470	5,089	6,811	8,129

Cash Flow Statement (Consolidated)

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Profit before tax	548	1,106	2,530	1,689
Depreciation	(189)	(359)	(306)	(364)
Change in working capital	572	(76)	(958)	1,171
Total tax paid	(12)	(465)	(750)	(471)
Others	940	(39)	(1,329)	1,131
Cash flow from oper. (a)	1,489	1,067	1,200	2,819
Capital expenditure	(966)	(229)	(588)	(2,240)
Change in investments	(279)	(439)	(268)	(463)
Others	(286)	83	(28)	18
Cash flow from inv. (b)	(1,531)	(585)	(884)	(2,684)
Free cash flow (a+b)	(43)	482	317	135
Debt raised/(repaid)	(508)	(292)	(115)	284
Dividend (incl. tax)	(173)	0	(231)	(247)
Others	757	27	146	(62)
Cash flow from fin. (c)	77	(265)	(201)	(24)
Net change in cash (a+b+c)	34	217	116	111

Key Ratios (Consolidated)

Period end (%)	Mar 16	Mar 17	Mar 18	Mar 19
Adjusted EPS (Rs)	3.1	7.0	16.6	11.1
Growth	NA	123.9	136.7	(33.4)
CEPS (Rs)	5.0	10.5	19.6	14.6
Book NAV/share (Rs)	30.0	38.9	55.9	65.2
Dividend/share (Rs)	1.4	0.0	1.9	2.0
Dividend payout ratio	53.7	0.0	13.6	21.7
EBITDA margin	9.8	15.6	22.2	16.3
EBIT margin	8.3	12.5	20.4	14.4
Tax Rate	41.4	34.9	32.6	32.7
RoCE	19.3	26.6	44.7	24.2
Total debt/Equity (x)	1.6	1.7	2.4	3.6
Net debt/Equity (x)	0.3	0.2	0.1	0.1
Du Pont Analysis – RoE				
Net margin	3.4	7.1	13.1	9.0
Asset turnover (x)	1.6	1.4	1.6	1.3
Leverage factor (x)	2.4	2.0	1.7	1.6
Return on equity	12.9	20.4	35.1	18.3

Valuations (Consolidated)

Period end (x)	Mar 16	Mar 17	Mar 18	Mar 19
PER	5.7	12.6	10.2	8.0
PCE	3.6	8.4	8.7	6.0
Price/Book	0.6	2.3	3.0	1.4
Yield (%)	7.8	0.0	1.1	2.3
EV/EBITDA	2.9	5.7	6.0	4.2

Share Data

Price (Rs)	1,939
BSE sensex	40,889
Reuters code	VNTI.BO
Bloomberg code	VO IN
Market cap. (US\$ mn)	1,390
6M avg. daily turnover (US\$ mn)	1.1
Issued shares (mn)	51

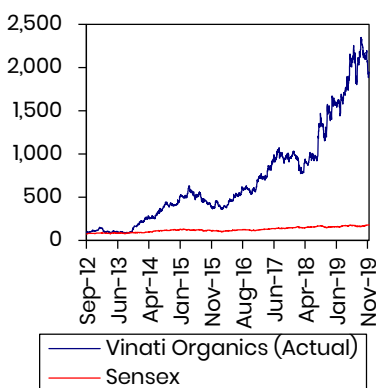
Performance (%)	1M	3M	12M
Absolute	(8)	(6)	31
Relative	(11)	(16)	14

Valuation Ratios

Yr to 31 Mar	FY17	FY18	FY19
EPS (Rs)	27.2	28.0	54.8
+/- (%)	6.6	2.9	95.7
PER (x)	27.6	32.0	29.9
PBV (x)	5.7	5.8	8.0
Dividend/Yield (%)	0.1	0.5	0.4
EV/Sales (x)	6.1	6.1	7.5
EV/EBITDA (x)	17.6	22.7	20.6

Major Shareholders (%)

Promoters	74
FII's	5
MFs	6
BFSI's	1
Public & Others	15

Relative Performance

Vinati Organics

Not Rated**Lowers guidance; butylated phenols to drive growth...**

Established in 1989, Vinati Organics Limited (VO) is a global leader in the production of Isobutyl Benzene (IBB) with global market share of ~65%, 2-Acrylamido 2 Methylpropane Sulfonic Acid (ATBS) with global market share ~55% & Domestic leader in the production of Iso Butylene with domestic market share of ~70%.

2QFY20 performance

- Sales declined by 1.5% YoY and 15.7% QoQ to Rs 2.45 bn.
- Gross margins expanded by 550 bps YoY and 220 bps QoQ to 59.9%.
- EBITDA grew by 10.1% YoY to Rs 999 mn while it declined by 16.9%, sequentially.
- EBITDA margins expansion was limited to 420 bps YoY and a contraction of 60 bps QoQ on account of higher staff cost (up 110 bps YoY and 130 bps QoQ) and other expenses (up 10 bps and 150 bps) as % of net sales.
- PBT growth was limited to by 4.8% YoY to Rs 1.03 bn on account of lower other income (down 26.7% YoY to Rs 112 mn) and higher depreciation (up 4.2% to Rs 71.9 mn); PBT declined by 16.7%, sequentially.
- PAT growth of 69.2% YoY and 33.2% QoQ came in as the company chose to exercise the option of the new tax rate and had reversed deferred tax liabilities amounting to Rs 225.6 mn due to reduction in corporate tax rate.

Financial highlights

(Rs mn)	2QFY19	2QFY20	YoY (%)	1QFY20	QoQ (%)	1HFY19	1HFY20	YoY (%)
Net sales	2,487	2,451	(1.5)	2,907	(15.7)	5,085	5,358	5.4
Gross profit	1,353	1,467	8.4	1,677	(12.5)	2,640	3,144	19.1
Gross margin (%)	54.4	59.9	-	57.7	-	51.9	58.7	-
Total expenditure	1,581	1,452	(8.1)	1,706	(14.9)	3,311	3,158	(4.6)
EBITDA	907	999	10.1	1,202	(16.9)	1,774	2,200	24.0
EBITDA margin (%)	36.5	40.7	-	41.3	-	34.9	41.1	-
Other income	153	112	(26.7)	114	(2.0)	324	226	(30.2)
Interest	2	3	11.8	3	(9.1)	4	6	35.4
Depreciation	69	72	4.2	70	2.9	136	142	3.8
PBT	988	1,036	4.8	1,243	(16.7)	1,957	2,279	16.4
Tax	338	(64)	(119.0)	419	(115.3)	664	355	(46.5)
Tax rate (%)	34.2	(6.2)	-	33.7	-	33.9	15.6	-
Adjusted PAT	650	1,100	69.2	824	33.6	1,293	1,924	48.8
NPM (%)	26.1	44.9	-	28.3	-	25.4	35.9	-
Adjusted EPS (Rs)	12.7	21.4	69.2	16.0	33.6	25.2	37.4	48.8

Segmental performance

(Rs mn)	2QFY19	2QFY20	YoY (%)	1QFY20	QoQ (%)	1HFY19	1HFY20	YoY (%)
IBB	323	270	(16.6)	494	(45.5)	843	764	(9.4)
ATBS	1,517	1,446	(4.7)	1,570	(7.9)	2,842	3,016	6.1
IB	224	147	(34.3)	233	(36.8)	406	380	(6.4)
HP MTBE	99	98	(1.5)	87	12.4	177	185	4.4
Customised Products	224	294	31.4	291	1.1	510	585	14.8
TBA and others	0	0	NA	0	NA	52	0	NA
Others	99	196	97.0	233	(15.7)	255	429	67.9
Total	2,487	2,451	(1.5)	2,907	(15.7)	5,085	5,358	5.4

1HFY20 performance

- Sales/EBITDA/PAT grew by 5.4%/24.0%/48.8% YoY to Rs 5.35 bn/Rs 2.2 bn/Rs 1.92 bn.
- Gross margins expanded by 680 bps YoY to 58.7%, while EBITDA margins expansion was limited to 620 bps YoY to 41.1%.
- PBT growth was limited to 16.4% YoY to Rs 2.27 bn on account of lower other income (down 30.2% to Rs 226 mn) and higher depreciation (up 3.8% to Rs 142 mn). Tax rate stood at 15.6% against 33.9% YoY.

Key highlights from Balance Sheet and Cash Flow statement

- Short-term borrowings declined by Rs 7.0 mn YoY; the company repaid Rs 35.4 mn of working capital loan.
- Cash from operations went up to Rs 2.4 bn from Rs 933 mn in 1HFY19. The company incurred a capex of Rs 1.9 bn against Rs 152 mn in 1HFY19.
- Working capital came down to Rs 2.5 bn from Rs 2.7 bn on account of Rs 351 mn decline in Trade receivables to Rs 1.8 bn and Rs 159 mn increase in Trade payables to Rs 293 mn. Inventories increased by Rs 333 mn to Rs 1.0 bn.

Growth drivers

The performance was impacted by lower IBB and ATBS sales, both impacted due to user industry (customer plant shut down in IBB and poor demand from Oil & Gas for ATBS). The sale of both the products are expected to increase in the coming quarters. The butylated phenol project has been commissioned in 2QFY20 and would ramp-up by the end of the year. While the project is expected to add up to Rs 4.0 bn to the topline at full capacity level, the margins would be lower compared to the current products.

Management commentary

- Revenue declined significantly on account of lower sales in IBB segment as few of the major customers had a shut down. However, one of the customers has restarted their plant and another would restart in the coming quarter. The IBB sales are expected to pick-up from the coming quarter.
- ATBS sales de-grew by single digit rate on account of slowdown of the demand from the Oil & Gas industry. 2H would be better than the current quarter.
- Butylated phenol plant which commenced operations in 2QFY20, would ramp-up in 3QFY20 and would contribute to the revenue. Revenue contribution for FY20 would be about Rs 1.0 bn while at full capacity it would generate revenue of about Rs 4.0 bn.
- Management expects margins to be in the range of 30-35% for the next couple of years and have lowered the guidance from 15-20% revenue growth to about 10% revenue growth for FY20E.

Vinati Organics

Income Statement

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Net sales	5,782	6,258	7,287	11,076
Growth (%)	(23.8)	8.2	16.4	52.0
Operating expenses	(4,242)	(4,238)	(5,324)	(7,045)
Operating profit	1,540	2,020	1,963	4,030
Other operating income	527	150	10	6
EBITDA	2,068	2,170	1,973	4,036
Growth (%)	7.9	4.9	(9.1)	104.6
Depreciation	(185)	(216)	(234)	(284)
Other income	62	125	307	500
EBIT	1,944	2,078	2,045	4,252
Finance cost	(79)	(19)	(12)	(9)
Profit before tax	1,866	2,060	2,033	4,242
Tax (current + deferred)	(550)	(657)	(595)	(1,428)
Profit/(Loss) for the period	1,316	1,403	1,438	2,815
Reported Profit/(Loss)	1,316	1,403	1,438	2,815
Adjusted Net profit	1,316	1,403	1,438	2,815
Growth (%)	13.7	6.6	2.5	95.7

Balance Sheet

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Share capital	103	103	103	103
Reserves & surplus	5,340	6,697	7,863	10,409
Shareholders' funds	5,443	6,800	7,966	10,512
Non-current liabilities	712	877	840	875
Long-term borrowings	133	0	0	0
Other Long term liab, Prov, DTL	579	877	840	875
Current liabilities	676	534	993	889
Short-term borrowings, Curr Maturity	290	23	152	37
Other current Liab + Prov.	385	511	841	852
Total (equity and liab.)	6,830	8,211	9,799	12,276
Non-current assets	4,166	4,941	5,171	6,965
Fixed assets (net block)	4,004	4,750	4,918	6,657
Long-term loans and advances	61	0	0	32
Other non-current assets, DTA, Goodwill	101	191	253	277
Current assets	2,664	3,270	4,629	5,310
Cash & current Investment	769	666	1,370	1,003
Other current assets	1,895	2,605	3,259	4,308
Total (assets)	6,830	8,211	9,800	12,276
Total debt	423	23	152	37
Capital employed	6,445	7,700	8,958	11,424

Cash Flow Statement

Period end (Rs mn)	Mar 16	Mar 17	Mar 18	Mar 19
Profit before tax	1,866	2,060	2,033	4,242
Depreciation	185	216	234	284
Change in working capital	319	(438)	(471)	(1,070)
Total tax paid	(451)	(456)	(482)	(1,390)
Others	132	(659)	(707)	(2,167)
Cash flow from oper. (a)	1,997	1,401	1,326	2,076
Capital expenditure	(717)	(962)	(402)	(2,024)
Change in investments	(6)	(585)	(699)	353
Others	(94)	(90)	(62)	(23)
Cash flow from inv. (b)	(817)	(1,636)	(1,163)	(1,694)
Free cash flow (a+b)	1,181	(235)	163	382
Equity raised/(repaid)	0	0	(237)	0
Debt raised/(repaid)	(230)	(400)	129	(115)
Dividend (incl. tax)	(466)	(31)	(278)	(433)
Others	(21)	(21)	228	153
Cash flow from fin. (c)	(717)	(452)	(158)	(396)
Net change in cash (a+b+c)	464	(688)	5	(14)

Key Ratios

Period end (%)	Mar 16	Mar 17	Mar 18	Mar 19
Adjusted EPS (Rs)	25.5	27.2	28.0	54.8
Growth	13.7	6.6	2.9	95.7
CEPS (Rs)	29.1	31.4	32.5	60.3
Book NAV/share (Rs)	105.5	131.8	155.0	204.6
Dividend/share (Rs)	4.0	0.5	4.5	7.0
Dividend payout ratio	18.9	2.2	19.4	15.4
EBITDA margin	32.8	33.9	27.0	36.4
EBIT margin	30.8	32.4	28.0	38.4
Tax Rate	29.5	31.9	29.3	33.6
RoCE	32.9	29.4	24.6	41.7
Total debt/Equity (x)	0.1	0.0	0.0	0.0
Net debt/Equity (x)	(0.1)	(0.1)	(0.2)	(0.1)
Du Pont Analysis – RoE				
Net margin	22.8	22.4	19.7	25.4
Asset turnover (x)	0.9	0.8	0.8	1.0
Leverage factor (x)	1.3	1.2	1.2	1.2
Return on equity	26.9	22.9	19.5	30.5

Valuations

Period end (x)	Mar 16	Mar 17	Mar 18	Mar 19
PER	15.1	27.6	32.0	29.9
PCE	13.2	24.0	27.5	27.2
Price/Book	3.7	5.7	5.8	8.0
Yield (%)	1.0	0.1	0.5	0.4
EV/EBITDA	9.4	17.6	22.7	20.6

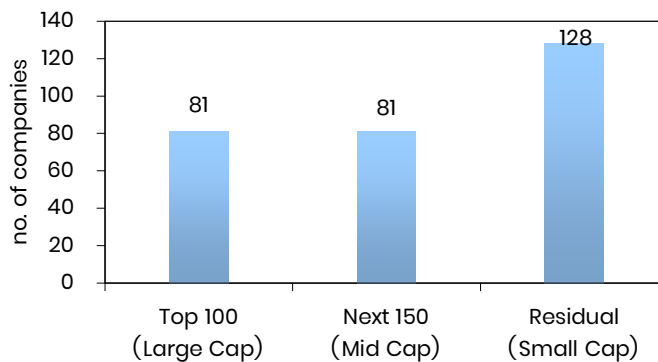
Chemical peer valuation

Company	Rating	CMP (Rs)	TP (Rs)	Mkt. Cap (US\$ mn)	Net sales (Rs mn)				EBITDA (%)				Adjusted PAT (Rs mn)			
					FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E
Aarti Industries	Hold	844	910	2,048	38,061	47,055	46,770	56,539	18.4	20.5	21.0	20.4	3,330	4,917	5,547	6,761
Atul	BUY	4,044	5,200	1,673	32,402	39,838	43,847	50,040	15.3	19.2	20.1	19.4	2,765	4,322	6,212	6,384
BASF India	Hold	1,000	1,110	603	55,397	59,988	65,731	70,202	8.9	1.3	6.6	10.0	879	(443)	556	1,217
Clariant Chemicals	Hold	333	360	107	10,136	10,281	11,449	12,345	5.0	4.7	11.7	12.4	216	186	496	571
Gujarat Fluorochemicals	Hold	434	575	664	20,556	27,305	27,936	31,086	28.2	28.7	22.3	26.9	3,332	4,570	2,726	3,930
Navin Fluorine Int'l	Hold	872	850	601	9,127	9,959	10,800	12,350	23.6	21.9	23.5	23.7	1,798	1,491	1,858	2,187
SRF	Hold	3,202	3,055	2,562	55,890	76,927	74,836	91,094	16.2	17.6	21.0	20.6	4,617	6,416	8,184	10,203
Sudarshan Chemical	BUY	395	480	381	13,056	14,531	16,317	18,452	15.3	15.6	18.1	18.2	847	832	1,608	1,666

Company	Adjusted EPS (Rs)				PER (x)				RoE (%)				RoCE (%)			
	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E
Aarti Industries	20.5	28.4	31.8	38.8	27.6	27.5	26.5	21.7	22.7	23.4	19.1	19.2	15.7	17.0	14.1	15.1
Atul	93.2	145.6	209.3	215.1	27.8	24.5	19.3	18.8	13.1	17.5	21.0	18.2	17.6	25.1	24.5	22.8
BASF India	20.3	(10.2)	12.8	28.1	94.2	(144.0)	77.1	35.2	7.4	(3.3)	4.0	8.3	8.9	1.3	6.6	10.0
Clariant Chemicals	9.4	8.0	21.5	24.7	57.2	45.3	15.5	13.5	3.3	3.0	7.7	8.2	5.0	4.7	11.7	12.4
Gujarat Fluorochemicals	30.3	41.6	24.8	35.8	4.2	4.2	17.5	12.1	10.2	11.2	6.4	9.5	12.7	14.9	8.3	12.2
Navin Fluorine Int'l	36.4	30.2	37.6	44.3	20.8	23.3	23.2	19.7	19.8	14.5	16.3	17.0	27.3	20.6	21.6	22.2
SRF	80.4	111.6	142.5	177.7	24.3	21.5	22.5	18.0	13.7	16.7	18.5	20.1	10.9	13.4	14.4	17.0
Sudarshan Chemical	12.2	12.0	23.2	24.1	36.0	28.6	17.0	16.4	20.6	16.5	25.1	21.3	15.3	15.6	18.1	18.2

Company	Total debt (Rs mn)				Net debt/EBITDA (x)				Price/Book Value (x)				EV/EBITDA (x)			
	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E
Aarti Industries	20,830	24,011	24,361	24,711	2.9	1.7	1.8	1.5	5.8	5.1	4.6	3.8	16.1	15.7	16.7	14.2
Atul	159	547	547	547	(0.1)	(0.3)	(0.6)	(1.0)	3.4	3.9	3.7	3.2	15.2	13.6	13.0	11.4
BASF India	8,677	8,971	6,819	6,319	2.5	5.4	2.0	1.4	6.3	4.6	3.0	2.8	26.4	44.1	15.7	12.4
Clariant Chemicals	0	0	0	0	(1.6)	(0.8)	(0.7)	(1.0)	2.0	1.4	1.2	1.1	26.6	13.8	6.1	5.1
Gujarat Fluorochemicals	7,497	9,166	13,126	10,126	1.3	1.1	1.9	0.9	0.4	0.4	1.2	1.1	3.6	3.6	9.6	6.6
Navin Fluorine Int'l	127	41	0	0	(1.1)	(1.0)	(1.1)	(1.3)	3.8	3.2	3.6	3.1	16.3	14.9	15.8	13.4
SRF	31,418	37,302	36,302	34,302	3.2	2.5	2.2	1.5	3.1	3.3	3.9	3.4	15.6	12.7	13.9	11.3
Sudarshan Chemical	4,309	3,631	4,600	4,400	2.2	1.7	1.5	1.1	6.9	4.2	3.8	3.2	18.5	13.0	11.8	9.9

B&K Universe Profile – by AMFI Definition



B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.

Disclaimer: This report was prepared, approved, published and distributed by Batlivala & Karani Securities India Private Limited (“B&K”) located outside of the United States (a “non-US Group Company”), which accepts responsibility for its contents. It is distributed in the U.S. by Enclave Capital, a U.S. registered broker dealer, on behalf of B&K, only to major U.S. institutional investors (as defined in Rule 15a-6 under the U.S. Securities Exchange Act of 1934 (the “Exchange Act”)) pursuant to the exemption in Rule 15a-6. Neither the report nor any analyst who prepared or approved the report is subject to U.S. legal requirements or the Financial Industry Regulatory Authority, Inc. (“FINRA”) or other regulatory requirements pertaining to research reports or research analysts. No non-US Group Company is registered as a broker-dealer under the Exchange Act or is a member of the Financial Industry Regulatory Authority, Inc. or any other U.S. self-regulatory organization. Outside the United States, this report is distributed by B&K or an authorized affiliate of B&K.

The report has been compiled or arrived from sources believed to be reliable and in good faith, but no representation or warranty, express or implied is made as to their accuracy, completeness or correctness. B&K has not verified the factual accuracy, assumptions, calculations or completeness of the information. Accordingly, B&K accepts no liability whatsoever for any direct or consequential loss or damage arising from (i) the use of this communication (ii) reliance on any information contained herein, (iii) any error, omission or inaccuracy in any such information or (iv) any action resulting there from. B&K provides the information for the purpose of the intended recipient’s analysis and review and recipients are advised to verify the factual accuracy, assumptions, calculations and completeness of the information.

This report was produced by B&K solely for information purposes and for the use of the recipient. It is not to be reproduced under any circumstances and is not to be copied or made available to any person other than the recipient. All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document. Emerging securities markets may be subject to risks significantly higher than more established markets. In particular, the political and economic environment, company practices and market prices and volumes may be subject to significant variations. The ability to assess such risks may also be limited due to significantly lower information quantity and quality. By accepting this document, you agree to be bound by all the foregoing provisions. This document does not constitute an offer of, or an invitation by or on behalf of B&K or its affiliates or any other company to any person, to buy or sell any security.

The views of any Analyst reflected in this report are given in compliance with the Research Analyst Regulations, 2014. All analysts covering the securities/companies mentioned in this report have complied with the appropriate set of rules, regulations & procedures in their detailed coverage report(s) of the respective securities/companies.

Analyst Certification: Each of the analysts identified in this report certifies, with respect to the companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report.

Disclosures, applying to B&K and the Analyst (together with associates and family members)

Ownership interest in the issuer of the securities mentioned	< 1%
Other financial interest in the issuer	None
Other material conflict of interest	None
Compensation/benefits received from issuer/3rd Parties in past 12 months:	
Public offerings managed/co-managed for issuer	None
Fees for merchant banking, investment banking or brokerage services (as percentage of issuer’s turnover)	< 0.1%
Compensation for other services (as percentage of issuer’s turnover)	< 0.1%
Analyst service as officer, director or employee of the issuer	None
Involvement in market-making in the issuer’s securities	None

- B&K or its Affiliates have not recently been the beneficial owners of 1% or more of the securities mentioned in this report.
- B&K or its Affiliates have not managed or co-managed a public offering of the securities mentioned in the report in the past 12 months.
- B&K or its Affiliates have not received compensation for investment banking services from the issuer of these securities in the past 12 months and do not expect to receive compensation for investment banking services from the issuer of these securities within the next three months.
- However, one or more person of B&K or its affiliates may, from time to time, have a long or short position in any of the securities mentioned herein and may buy or sell those securities or options thereon either on their own account or on behalf of their clients.
- B&K or its Affiliates may, to the extent permitted by law, act upon or use the above material or the conclusions stated above or the research or analysis on which they are based before the material is published to recipients and from time to time provide investment banking, investment management or other services for or solicit to seek to obtain investment banking, or other securities business from, any entity referred to in this report.
- As of the publication of this report, Enclave Capital does not make a market in the subject securities.

Important US Regulatory Disclosures on Subject Companies

Enclave Capital is the distributor of this document in the United States of America. Any US customer wishing to effect transactions in any securities referred to herein or options thereon should do so only by contacting a representative of Enclave Capital and any transaction effected by a U.S. customer in the securities described in this report must be effected through Enclave Capital (19 West 44th Street, suite 1700, New York, NY 10036. Tel No: (646) 454 8600).

B & K Securities India Private Ltd.

Equity Research Division: City Ice Bldg., 298, Ground/1st Floor, Perin Nariman Street, Behind RBI, Fort, Mumbai – 400 001, India. Tel: 91-22-4031 7000, Fax: 91-22-2263 5020/30.

Registered Office: Room No. 3/4, 7 Lyons Range, Kolkata – 700 001. Tel.: 91-33-2243 7902.

SEBI Registration No. for Batlivala & Karani Securities India Pvt. Ltd. (Research Entity) is INH300000211

B&K Research is also available on Bloomberg <BNKI>, Thomson First Call & Investext.