

National Peroxide Ltd

Industry	CMP	Recommendation	Add on Dips to band	Sequential Targets	Time Horizon
Hydrogen peroxide	Rs.2232.50	Buy at CMP and add on declines	Rs.1975-2000	Rs.2585 & 2860	3-4 quarters

HDFC Scrip Code	NATPEREQNR
BSE Code	500298
NSE Code	NA
Bloomberg	NPL:IN
CMP as on 3 rd Jan 2018	2232.50
Eq. Capital (Rs.Cr)	5.7470
Face Value (Rs)	10
Eq. Sh. Outs. (Cr)	0.5747
Market Cap (Rs.Cr)	1283
Book Value (Rs)	473.8
Avg. 52 Wk Volume	5678
52 Week High	2898
52 Week Low	782

Shareholding Pattern-% (30 th Sept) 2017	
Promoters	70.68
Institutions	0.05
Non Institutions	29.26
Total	100

Fundamental Research Analyst

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National Peroxide Limited (NPL) is a manufacturer of hydrogen peroxide, sodium perborate, compressed hydrogen gas and per acetic acid. The Company operates through two divisions: manufacturing of peroxygens and hydrogen gas, and others, which consists of investing activities. The Company manufactures hydrogen peroxide with current installed capacity of 95,000 metric tons per annum (MTPA) on 50% weight per weight (w/w) basis. NPL's integrated manufacturing site for hydrogen peroxide is located at Kalyan in Maharashtra (India).

Investment Rationale:

- Capacity expansion program at Kalyan plant from 95000 TPA to 1,50,000 TPA could boost sales volumes from FY19-FY20
- Anti-dumping duty on imports from 6 nations gives it protection from cheap imports
- Higher demand from Paper & Pulp industry provides visibility for hydrogen peroxide
- Robust Financials and credit Metrics
- Hydrogen peroxide prices on the up after levy of ADD

Concerns:

- Intense competition from local and foreign sources
- MD asked to resign due to Rs.35 cr defalcation, New MD appointed
- Raw material Price increase
- Slowdown in demand for paper

View and Valuation:

NPL enjoys ~42% market share in the hydrogen peroxide market in India and is one of the pioneer in producing Peroxygen chemicals. It is raising its current capacity of 95,000 tonne to 1,50,000 tonne that will give a lift to both of its topline and bottom-line figures in the coming years. NPL is a part of the renowned Wadia group. Anti-dumping duty levied on imports from six countries provides the company a shield. Due to considerable reduction in cost of production, the domestic manufacturers are now price competitive with respect to the imports. In addition to it, increased demand from the paper & pulp industry also augurs well for demand for the company's products.

Apart from this, NPL also holds investments in mutual funds and equity stake in companies including group companies BBTC and Bombay dyeing, whose per share value works out to Rs.463.

We feel investors could buy the stock at the CMP and add on dips to Rs.1975-2000 band (11.5X FY20E EPS + value of investments) for sequential targets of Rs.2585 (15x FY20E EPS+ value of investments) and Rs.2860 (18x FY20E EPS + value of investments) over the next 3-4 quarters. At the CMP of Rs.2232.50 the stock trades at 15.6x FY20E EPS.

Financial Summary:

Particulars (Rs cr)	Standalone					Consolidated				
	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ (%)	FY15	FY16	FY17	FY18E	FY19E
Operating Income	67.54	59.60	13.3%	58.70	15.1%	196.8	234.0	255.9	283.8	308.8
EBITDA	14.48	14.07	2.9%	13.11	10.4%	22.4	36.3	67.1	98.5	106.7
PAT	15.70	7.04	122.9%	7.88	99.2%	6.7	18.4	48.3	68.6	73.8
EPS (Rs)	27.31	12.25	122.9%	13.71	99.2%	11.6	32.1	84.1	119.4	128.4
P/E (x)						192.0	69.5	26.6	18.7	17.4
RoE (%)						3.1%	8.2%	17.7%	21.4%	19.8%

(Source: Company, HDFC sec)

Company Description:

National Peroxide limited (NPL) was started and jointly promoted by The Bombay Dyeing & Manufacturing Company and Laporte Industries, UK. The peroxygens division of the company manufactures hydrogen peroxide and persalts. The first plant, manufacturing hydrogen peroxide using the electrolytic process, was set up in 1956. In 1972, NPL adopted the latest auto oxidation technology. A captive hydrogen gas plant was set up in 1987. After a series of expansions, the capacity of the hydrogen peroxide plant increased to 15,000 TPA. In 1970, Laporte joined hands with Solvay, Belgium, and formed a joint venture known as Interlox Coordination. In 1992, Solvay took over Interlox Coordination and became a shareholder of NPL with a 25.10% stake.

It established an integrated R&D centre in Kalyan in 1979 to promote the applications of Hydrogen Peroxide and Persalts in various industries and to carry out process development.

The Company manufactures hydrogen peroxide with current installed capacity of 95,000 metric tons per annum (MTPA) on 50% weight per weight (w/w) basis. NPL's integrated manufacturing site for hydrogen peroxide is located at Kalyan in Maharashtra (India). The Company manufactures hydrogen peroxide in approximately four different forms, which include 50% w/w (Concentrated), 60% w/w (Concentrated), 35% w/w (Concentrated) and 70% w/w (Distillate). National Peroxide is the largest producer of Hydrogen Peroxide in the country with ~42% market share.

What is Hydrogen Peroxide and its uses:

Hydrogen peroxide is a pale blue clear liquid slightly more viscous than water. Hydrogen Peroxide is mainly used as a non-polluting oxidizing agent and is used as an oxidizer, bleaching agent and disinfectant. It is used for refining non-edible oil, water and effluent treatment, paper pulp bleaching, chemical synthesis, textile bleaching industry, sugar bleaching industry and metallurgy industry. Hydrogen peroxide is the simplest form of peroxide constitute only hydrogen and oxygen in the world which has application in almost all the types of food and beverages.

Hydrogen peroxide is used to make sodium perborate and sodium percarbonate, which are further utilized as a bleaching agent in detergents. Industrial Hydrogen Peroxide market is expected to witness an escalating demand among the consumers because of its broad use and increasing presence paper and pulp industry throughout the world. Industrial Hydrogen Peroxide market is driven by the growing adaptation in paper and pulp industry. Companies all around the world are getting attracted towards Industrial Hydrogen Peroxide because of easy to use features and great usage which is driving the market. Use in making detergent bleaches, textile bleaching and purification of water are giving a push to Industrial Hydrogen Peroxide market. Countries like India and China are the manufacturing hub for Industrial Hydrogen Peroxide and thus a promising market for Industrial Hydrogen Peroxide.

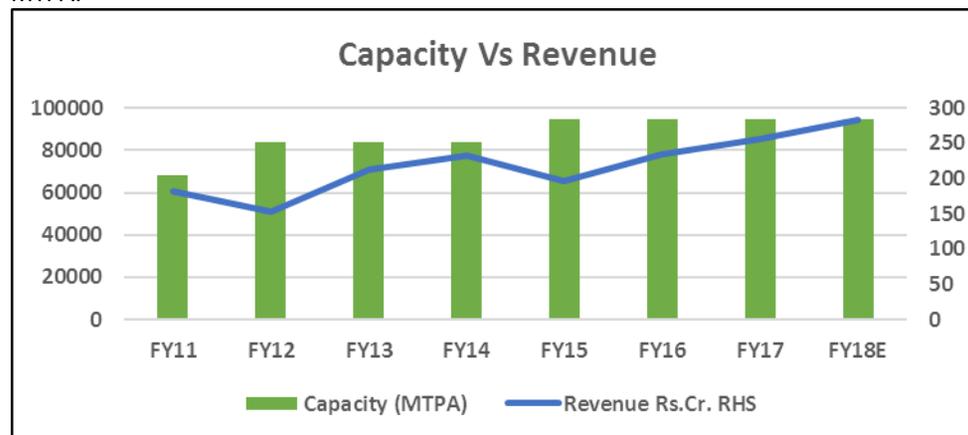
The imports of hydrogen peroxide contribute nearly 20% of demand in India. The imports majorly come from Thailand, Bangladesh, Pakistan, Korea and Taiwan.

The key raw material of Hydrogen peroxide is Natural Gas. The manufacturing process involves the catalysis of the reaction of H₂ (obtained from processing Natural Gas) with atmospheric O₂ to give H₂O₂.

Investment Rationale:

Capacity expansion program at Kalyan plant would raise its capacity from 95000 TPA to 1,50,000 TPA thereby, increasing visibility for sales growth:

National Peroxide, one of the largest manufacturers of hydrogen peroxide in India, is undertaking expansion activity at its Kalyan plant, in Maharashtra, to increase hydrogen peroxide capacity from 95,000 tonnes to 1,50,000 tonnes. NPL has done expansions even before in the year of 2006, 2011 and 2014. In the previous expansion in 2014 the company raised its capacity from 84,000 MTPA to 95,000 MTPA.



Here we can see how increase in capacity has led to increased revenue (with a lag of 2 years), thus, the currently announced expansion would take some two years of time to get reflected in revenues.

Revenue during FY15 decreased due to sluggish market condition, lower realizations and shut-down of the Kalyan plant from 28th April, 2014 to 29th June, 2014. The plant resumed its production from 29th September, 2014. Anyhow, due to expansion revenue picked pace from the next fiscal rising 18.9%. The next expansion would provide cost effectiveness, as higher capacity would lead to higher economies of scale leading to higher topline growth and reduced cost of production, thereby uplifting margins. The past expansions have also resulted in better control of effluent quality & better utilization of existing assets at higher loads.

Anti-dumping facility from 6 nations that gives it protection shield to run business smoothly:

National Peroxide Limited and Hindustan Organic Chemicals Ltd (hereinafter also referred to as the applicants) had jointly filed an application before Directorate General of Anti-Dumping & Allied Duties for initiation of anti-dumping investigation and imposition of Anti-dumping duty concerning imports of Hydrogen Peroxide, originating in or exported from Bangladesh, Taiwan, Korea, Indonesia,

Pakistan and Thailand. The India's revenue department of ministry of finance issued a gazette notification slapping the duty on the same on these six countries that are Bangladesh, Taiwan, South Korea, Indonesia, Pakistan and Thailand.

As per the recommendations made by Directorate General of Anti- Dumping and Allied Duties in April India's government has approved imposition of anti-dumping duty in June 2017 of up to \$118 per tonne on import of hydrogen peroxide from Bangladesh and five other countries. The duty — in the range of \$16.91-117.94 per tonne of the chemical — will remain in place for five years. The petition was supported by Gujarat Alkalies & Chemicals Ltd. The definitive anti-dumping duty, which will be valid for a period of five years, ranges from \$16.91 per tonne to \$117.94 per tonne, depending on the producer and exporter. This duty will protect the margins of domestic manufacturers including National Peroxide.

Stable cost of gas prices has helped increase its margins:

Hydrogen is a key raw material for Hydrogen Peroxide, which is obtained from processing Natural Gas. NPL has entered into a long term agreement with GAIL (India) Limited (GAIL) for purchase of Natural Gas. The agreement is valid till 30th April, 2028. The natural gas spot prices fell below floor following the drop in crude prices in FY15 and FY16. However, NPL had to buy natural gas at the floor price. The pricing mechanism was changed in January 2016; natural gas prices are now aligned in line with its spot price. This has resulted in reduced input cost and the consequent improvement in the profitability margins are visible.

Gas price could remain soft over the near/medium term, despite rising oil prices in the backdrop of rising gas production. Gas demand from the European market has also been tepid, given increasing penetration of solar and wind energy and availability of cheap coal. In addition to it, government initiatives is also backing to give a rebound in the domestic gas output. Stability in gas prices backed with increased domestic supply would ensure lower cost and continued supply in raw material for NPL.

Higher demand from Paper & Pulp industry will raise the demand for hydrogen peroxide:

Paper and pulp industry is the key user of Hydrogen peroxide in India. The Indian Paper Industry is now a vast industry comprising more than 750 pulp and paper mills. However, only 50 of these mills have a capacity of 50,000 metric tonnes per annum or more. While demand for newsprint paper is being lost as readers move online, the ever-increasing migration by consumers to make purchases online is generating demand growth for transport packaging.

The domestic Paper & pulp industry has been doing well over the past few quarters. Hydrogen Peroxide is initially used to ease the preparation of paper which is nowadays the biggest reason for Industrial Hydrogen Peroxide market growth. Almost all the paper and pulp manufacturers use hydrogen peroxide as an ingredient in the manufacturing process. It is useful in a variety of oxidation possibilities and pH ranges in which it can be utilized as an oxidizer.

Moreover, paper mills had added over 3 million tonnes of annual production capacity in printing and writing paper at an investment of about \$5 billion. The expansion, by 2015, which took total production capacity to 12 mt, has been absorbed by the market. The total annual domestic demand for paper, including newsprint, is about 15 mt, according to industry estimates.

Tissue paper demand is estimated at a little over 100,000 tonnes a year, but growing at nearly 17%, while packaging board demand is estimated at 7.5 mt and growing at 9.4%. Printing and writing paper demand is estimated at about 4.6 mt and growing at about 5%. The overall demand is growing at about 6% a year. The domestic market / consumption of paper is over 16 million tonnes per annum (TPA), with over 2 million TPA being imported.

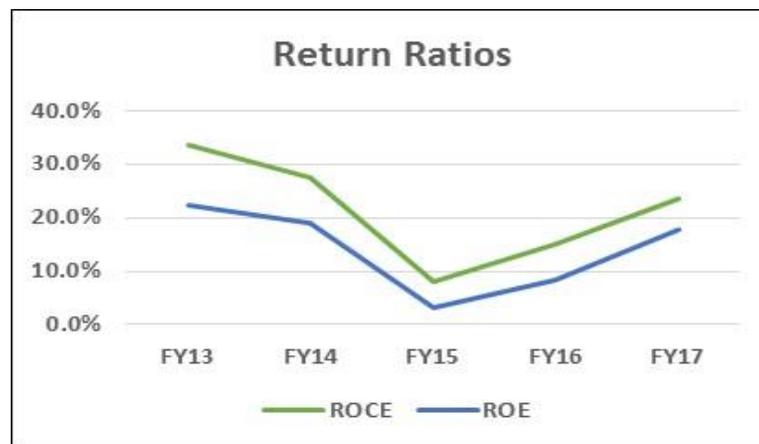
The performance of the paper industry has improved on the back of increased demand, softening raw material and lower coal prices. With increasing focus on education, the CAGR of Indian paper industry is expected to be around 7% during the next 5 years. Demand is expected to reach 20 million tonnes from the level of 13.9 million tonnes in 2014-15. Thus, there is large scope for NPL and its peers to capture this rising market demand.

National Peroxide is the largest producer of Hydrogen Peroxide in the country with ~42% market share:

National Peroxide Limited is the largest producer of Hydrogen Peroxide in the country. In addition to being well-known in the industry as a pioneer, its product commands a strong brand image. It has been in the forefront in the development of technology for manufacture of Hydrogen Peroxide. Due to the efforts made by the Company in new applications development, the domestic market has significantly developed over the years. The total production capacity of the four producers manufacturing Hydrogen Peroxide in the country as on 31st March, 2017 is estimated at 2,19,500 MTPA. The domestic demand is expected to grow by 5-6% during 2017-18. Gujarat Alkalies has announced setting up of additional capacity of 15,000 MTPA (from its current capacity of 39000 tonnes) which is expected to be operational during FY19. Meghmani Organics and Chemplast Sanmar have evinced interest in setting up Hydrogen Peroxide plants in India.

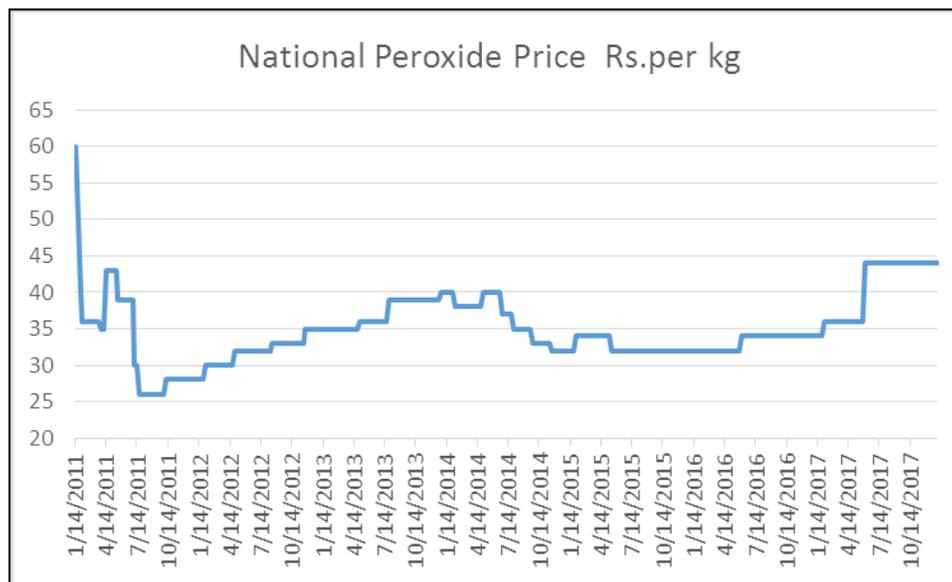
Robust Financials and credit Metrics:

NPL's EBIDTA and PAT margins have increased sharply from FY15, where, it was 11.4% and 3.4% to 26.2% and 18.9% respectively in FY17 and to 41.2% and 27.5% in HY18. NPL is a zero debt company. NPL has no plans to borrow any further funds. Due to this Debt-equity ratio also improved from 0.2 to 0. Its return ratios at ~18% and ~24% (RoNW and RoCE respectively) for FY17 are healthy.



Hydrogen peroxide prices on the up after levy of ADD:

National Peroxide is benefitted from Anti-Dumping duty as it has been levied on Hydrogen Peroxide for a period of 5 years on imports from six countries i.e. Bangladesh, Taiwan, South Korea, Indonesia, Pakistan, and Thailand. In India imports of hydrogen peroxide contribute nearly 20% of demand. The domestic prices of Hydrogen Peroxide have risen since early June 2017 and are steady at these levels.



Risks & Concerns:

Intense competition:

Surplus in the neighboring countries such as Pakistan, Bangladesh and in Thailand and domestic competition there is intense pressure on the domestic prices. Moreover there is also competition on the domestic front, as, companies like Gujarat Alkalies & chemicals Ltd one of the companies manufacturing similar products is also increasing capacities.

MD asked to resign due to Rs.36 Cr embezzlement:

On November 07, 2017, NPL informed that funds of the Company have been embezzled by an employee of the Company Mr. Nipul S. Trivedi and others, if any, who are yet to be identified and there might be a potential loss to the Company of approx. Rs.36 cr.

On Dec 15, 2017, as per the management, the earlier MD Mr. S R Lohokare had to resign due to his careless manner, wherein, he signed large number of bearer cheques. Also he did not follow the procedures laid down due to which was found guilty.

While this loss may have to be written off (subject to any insurance claim and/or recoveries if any made), it will be considered an extraordinary loss.

Turmoil in the top management may take a few weeks to settle down.

Raw material prices increase:

From Oct 01, 2017, natural gas prices in India have been raised by 16 per cent to \$2.89 per unit for the six months period, in first hike in three years. However prices of Hydrogen Peroxide have also been on the up and hence the gas price hike effect has been nullified so far.

Slowdown in demand for Paper:

Paper industry is the key user industry for Hydrogen peroxide. Any slowdown in Paper industry can affect the demand for NPL's products.

View and Valuation:

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Investments Table:

		Consolidated	Consolidated	CMP	Fair value
	Quantity (units)	Book Value	Market Value	Rs.	Rs.cr.
<u>Mutual fund Investments (Unquoted):</u>					
		Rs.cr	Rs.cr		
Kotak Bond Scheme	71,668	0.23			0.23
DHFL Pramerica Short Maturity Fund	903,524	1.93			1.93
Kotak Income Opportunity Fund	507,378	0.90			0.90
ICICI Equity Arbitrage Fund	325,457	0.46			0.46
<u>Other equities quoted:</u>					
HDFC Ltd	600	0.0002	0.10	1,702.05	0.10
HDFC Bank Ltd	2,500	0.0005	0.47	1,872.70	0.47
Technojet Consultants Limited	3,000	0.0031	0.00		0.00
Tata Chemicals Limited	56	0.0002	0.00408	728.50	0.00408
ACC Limited	300	0.0009	0.05	1,736.60	0.05
Jaykay Enterprises Limited	233	0.0002	0.00	9.59	0.00
ICICI Bank Limited	4,665	0.0051	0.14	309.25	0.14
<u>Other equities Non Quoted:</u>					
FCD in Sunflower Investments & textiles Pvt Ltd	393	0.0039	0.00		0.00
BRT Ltd	1,000	0.01	0.00		0.00
Equity in Group companies					
BBTC (holding company discount at 40% since holds direct and indirect stake in Bombay Dyeing and Britannia Inds)	1,895,900	1.03	308.84	1,629.00	185.31
Bombay Dyeing (holding company discount @50%)	5,460,600	1.12	153.17	280.50	76.58
Total		5.69			266.18
Number of shares of National peroxide cr					0.5747
Per share value					463.16

(Source: Company, HDFC sec)

**Financials-
Income Statement (Annual consolidated):**

Particulars(Rs in Cr)	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Income from operations	212.9	235.9	196.8	234.0	255.9	283.8	308.8	357.8
Material Cost	51.4	75.0	67.1	80.2	59.6	67.8	73.2	85.2
Employee Cost	13.9	16.8	17.1	19.4	23.1	24.7	26.1	29.3
Other expenses	78.4	91.4	82.1	98.5	101.1	92.2	101.3	120.6
Total expenses	145.5	173.5	174.4	197.7	188.8	185.3	202.1	235.8
EBITDA	67.4	62.4	22.4	36.3	67.1	98.5	106.7	122.0
Depreciation	11.0	9.7	7.2	9.0	8.9	9.7	10.5	12.9
EBIT	56.4	52.6	15.2	27.4	58.2	88.8	96.2	109.1
Other Income	4.7	6.1	6.4	8.1	6.0	8.5	9.0	8.9
Interest	0.3	0.2	4.7	5.4	2.1	0.6	0.5	0.3
EBT	60.7	59.7	16.9	29.2	66.0	96.7	104.7	117.8
Tax Expenses	20.6	19.8	10.2	10.7	17.7	28.0	30.9	35.3
PAT	40.1	39.9	6.7	18.4	48.3	68.6	73.8	82.4
EPS	69.7	69.5	11.6	32.1	84.1	119.4	128.4	143.5

(Source: Company, HDFC sec)
Balance Sheet:

Particulars, Rs in Cr	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
LIABILITIES								
Shareholders' Funds:	179.8	209.7	212.5	224.0	272.3	320.8	373.4	432.8
Long Term Borrowings	0.0	0.0	30.0	10.0	0.0	0.0	0.0	0.0
Other Long Term Liabilities	17.6	18.8	29.0	31.5	33.8	34.7	35.7	36.6
Non-Current Liabilities:	17.6	18.8	59.0	41.5	33.8	34.7	35.7	36.6
Short Term Borrowings	1.0	4.0	23.0	0.3	1.1	1.2	1.3	1.1
Other Current Liabilities	39.6	40.1	53.1	48.5	36.0	46.3	46.4	45.6
Current Liabilities:	40.6	44.2	76.1	48.9	37.1	47.5	47.7	46.7
Total	238.1	272.6	347.6	314.3	343.2	403.0	456.7	516.2
ASSETS:								
Fixed Assets:	113.6	157.5	191.3	182.8	180.1	191.8	236.5	268.8
Other Non Current Assets	11.4	18.5	13.0	10.7	7.6	15.8	16.7	8.8
Non-Current Assets:	125.0	176.0	204.3	193.5	187.7	207.6	253.2	277.6
Current Assets:	113.1	96.6	143.3	120.8	155.4	195.4	203.5	238.6
Total	238.1	272.6	347.6	314.3	343.1	403.0	456.7	516.2

(Source: Company, HDFC sec)

Cash Flow:

Particulars(Rs in Cr)	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
EBT	60.7	59.7	16.9	29.2	66.0	96.7	104.7	117.8
Depreciation	11.0	9.7	7.2	9.0	8.9	9.7	10.5	12.9
Int & Others	-4.1	-5.7	0.0	-0.3	-2.6	0.6	0.5	0.3
Change in working capital	-5.1	-16.3	2.0	-7.4	1.2	-24.6	-4.3	-35.4
Tax expenses	20.6	18.3	4.6	7.2	13.7	-28.0	-30.9	-35.3
CF from Operating activities	41.9	29.1	21.5	23.3	59.7	110.4	142.2	130.9
Net Capex	-4.2	-56.4	-36.0	-1.3	-6.8	-9.9	-19.1	-43.3
(Purchase)/Sale of Investment & Others	-30.5	28.6	-45.3	23.5	-31.6	-66.9	-96.2	-73.0
Div & int rec	4.7	6.0	6.3	7.3	5.7	0.0	0.0	0.0
CF from Investing activities	-30.0	-21.8	-75.0	29.5	-32.7	-76.8	-115.2	-116.3
Borrowings / (Repayments)	-4.2	3.0	69.0	-42.7	-19.3	-8.3	-1.0	8.3
Dividends paid Interest paid	-8.3	-10.3	-14.7	-8.7	-9.0	-20.7	-21.7	-23.2
CF from Financing activities	-12.6	-7.2	54.2	-51.4	-28.2	-29.0	-22.8	-15.0
Net Cash Flow	-0.6	0.0	0.8	1.5	-1.2	4.6	4.2	-0.4
Opening Balance	0.7	-0.6	-0.6	0.2	1.7	0.5	5.1	9.3
Closing Balance	-0.6	-0.6	0.2	1.7	0.5	5.1	9.3	8.9

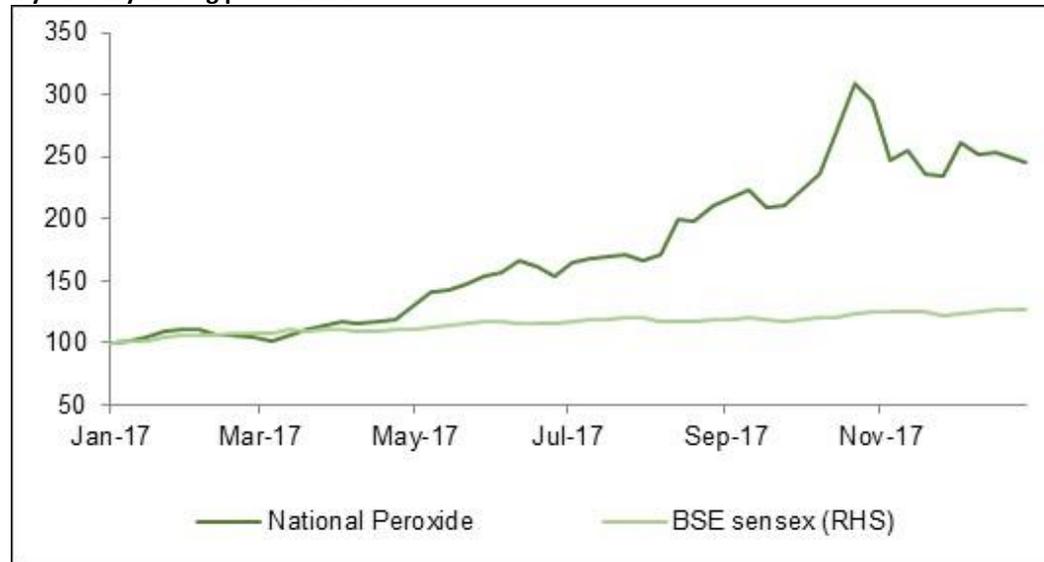
(Source: Company, HDFC sec)
Financial Ratio:

(RATIOS) Particulars(Rs in Cr)	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
No of Equity Shares-cr	0.6							
Current Market Price-Rs	2232.5							
Market Capitalization-cr	1283.0							
Enterprise Value-cr	1282.8	1285.7	1334.8	1291.7	1283.6	1279.1	1275.0	1275.2
EPS	69.7	69.5	11.6	32.1	84.1	119.4	128.4	143.5
Cash EPS (PAT + Depreciation)	51.1	49.7	13.9	27.4	57.2	78.4	84.3	95.4
Book Value Per Share(Rs.)	312.9	364.8	369.7	389.8	473.8	558.3	649.7	753.1
Core EPS	64.4	62.4	7.2	23.2	76.4	108.9	117.4	132.6
PE(x)	32.0	32.1	192.0	69.5	26.6	18.7	17.4	15.6
P/BV (x)	7.1	6.1	6.0	5.7	4.7	4.0	3.4	3.0
Mcap/Sales(x)	6.0	5.4	6.5	5.5	5.0	4.5	4.2	3.6
EV/EBITDA	19.0	20.6	59.6	35.6	19.1	13.0	12.0	10.5
EBITDAM (%)	0.3	0.3	0.1	0.2	0.3	0.3	0.3	0.3
EBITM (%)	0.3	0.2	0.1	0.1	0.2	0.3	0.3	0.3

PATM (%)	0.2	0.2	0.0	0.1	0.2	0.2	0.2	0.2
ROCE (%)	0.3	0.3	0.1	0.2	0.2	0.3	0.3	0.3
ROE (%)	0.2	0.2	0.0	0.1	0.2	0.2	0.2	0.2
Div Payout-%	0.3	0.3	0.5	0.4	0.5	0.4	0.3	0.3
Current Ratio	0.5	0.4	0.4	0.4	0.5	0.5	0.4	0.5
Quick Ratio	1.4	2.0	1.8	2.4	2.8	3.2	3.4	4.2
Debt-Equity	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0

(Source: Company, HDFC sec)

1 year daily closing price Chart:



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