KamayaKya

UPSIDE POTENTIAL 30 PERCENT

VIDHI SPECIALTY FOOD INGREDIENTS LIMITED
COLOURS You Can Trust For Your Food

CHEMICAL INDUSTRY

Vidhi Specialty Food Ingredients

AS ON 07/11/2022 MCap : ₹ 1922.88Cr Risk Profile : Medium

NSE: VIDHIING BSE: 531717 BUY PRICE: 385.00 Target Price: Rs.500.77 Duration: 12 months

EV/EBITDA: 24.1	OPM: 14.8%	D/E: 0.42	ROCE: 33.2%	Promoter Holding: 64.28 %
Price to Sales: 3.46	NPM: 10.1%	Interest Coverage Ratio: 20.98	ROE: 30.96%	DII/ + FII: 0.20%

FUNDAMENTAL NOTES

Vidhi is a globally renowned player in the food colour industry and a leading manufacturer of synthetic colours including Synthetic Water Soluble Colours, Aluminium Lakes, FD&C Colours, FD&C lakes, D&C Colours, Blends, Co-blended Lakes & Co-blended Granules. Its business is manufacturing of food colours as an ingredient for foodstuffs, pharmaceuticals, confectionery, pet foods, healthcare, dairy, soft drinks, cosmetic industries, etc. and trading of food colours and trading in chemicals. The colours are being distributed and consumed in over 80 countries across 6 continents. The manufacturing facilities of the Company are spread over an area of 1,76,000 square feet, located in Dhatav Village of Raigad District in the State of Maharashtra - India. Over the last 27 years, it has established strong relationships with global majors like Nestle, Britannia, Pepsi, Cipla, Parle G, Unilever, ITC and many others. The company is owned and operated by the Manek family with a corporate office in Mumbai.

TRIGGERS

The Synthetic Food Colour Market is gradually shifting to India for manufacturing. Every year incremental demand of ₹1,500 to ₹1,700 crores is expected to generate globally for Food colour. Global market of food colour/food colouring agents/powders is valued at US$ 3.7 billion in 2017. It is projected to reach US$ 5.1 billion by 2023 registering a CAGR of +6%. Synthetic food colours market is projected during the years 2021 to 2028 at a CAGR of 4.50%. The increasing food consumption across the globe due to growing population is escalating the growth of synthetic food colours market. Indian firms would be a huge beneficiary.

The company has an existing capacity of 3500 MTPA and is increasing it by around 8500 MTPA, which should be completed by end of FY23:

Project 1: The 4320 MTPA plant in Dahej SEZ is expected to have been completed by H1FY23. The cost of ₹30 crores was funded through internal accruals.

Project 2: The 4200 MTPA plant in Roha (Raigad District) is located next to the existing capacity. The Terms of Reference from MPCB have been received and it should be operational by end of FY23. This capacity is for higher margin products. The cost of ₹30-₹40 crores would be funded through internal accruals.

Assuming a Fixed Asset Turnover Ratio of 5.5x, these two facilities should generate ₹330 crores in revenue at full capacity utilisation. Further, the manufacturing business is expected to have an EBITDA Margin of 22%, adding an EBITDA of ₹73 crores. The Current EBITDA is ₹85 crores, therefore in around two years, the EBITDA could nearly double.

The company's increased focus on manufacturing would reduce the revenue from the trading business, which should release working capital and thereby improve the company's free cash flow. This should lead to a valuation re-rating due to shift from trading to manufacturing business.

RISKS

Delay in Environmental Clearance: A delay in Environmental Clearance could push growth estimates back by a few quarters, impacting the value of the company. This is common among chemical companies.

Delay in Full Capacity Utilisation: A slower offtake in capacity utilisation could push growth estimates back by a few quarters, impacting the value of the company. This has not happened with the company previously.

Increase in Raw Material Prices: An increase in raw material prices, without the ability to pass these costs on to the customers could hurt operating margins. The company has been able to pass on raw material price increases, if any.