



**Choice**

Nurturing Financial Excellence

# IPO REPORT



**“AVOID” to**

**Neogen Chemicals Ltd.**

Fully priced issue; Highly working capital intensive business operations

## Salient features of the IPO:

- **Neogen Chemicals Ltd. (NCL)**, one of India's leading manufacturers of bromine and lithium chemical compounds, is planning to raise up to Rs. 1,320mn through an IPO, which will open on 24<sup>th</sup> Apr. and close on 26<sup>th</sup> Apr. 2019. The price band is Rs. 212 - 215 per share.
- Issue is a combination of fresh and OFS. The company will not receive any proceeds from the OFS part. Of the net proceeds from fresh issue - around Rs. 205mn would be utilized for the prepayment or repayment of certain borrowings availed by the company; Rs. 115mn would be used for the early redemption of fully redeemable cumulative preference shares and around Rs. 200mn would be utilized for meeting the long term working capital requirement. Rest of the funds would be utilized for general corporate purposes.

## Key competitive strengths:

- Experienced promoters with domain knowledge
- Large and diverse array of products
- Diversified and stable customer base
- Growth led by continuous investment in R&D
- Specialized business model with high entry barriers
- Established and stable relationship with suppliers

## Risk and concerns:

- Subdued economic expansion
- Unfavorable sales-mix and margins
- Inability to pass on the rise in the raw material prices
- Volatility in forex rates
- Working capital intensive business
- Competition

**Peer comparison and valuation:** At the higher price band of Rs. 215 per share, NCL's share is valued at a P/E multiple of 47.8x (to its restated FY18 EPS of Rs. 4.5), which is at a premium to its peer average of 38.8x.

## Below are few key observations of the issue: (continued in next page)

- Over FY15-18, the domestic specialty chemicals sector grew at 6-7% CAGR. With increased demand from pharmaceuticals, agrochemicals, textiles and personal care ingredients, this sector is projected to accelerate by around 9.5-10.5% CAGR over FY19-21.
- NCL is one of India's leading manufacturers of bromine-based and lithium-based specialty chemicals compounds. The company commenced its business operations in 1991, with a few bromine and lithium compounds. Over the years, it has expanded its range of products and presently manufactures an extensive range of specialty chemicals. As on 28<sup>th</sup> Feb. 2019, NCL manufactured an aggregate of 198 products - comprising of 181 organic chemicals and 17 inorganic chemicals. Because of its expanded product profile, its revenue-mix is diversified across various chemical molecules.
- Apart from manufacturing bromine and lithium compounds, NCL also undertakes custom synthesis and contract manufacturing of organic chemical compounds. In custom synthesis the product is developed and customized primarily for a specific customer, but process know-how and technical specifications are developed in-house by the company. In contract manufacturing, the product is developed under confidentiality for a single customer using the process know-how and the technical specifications provided by the customer.
- Through its diversified product offerings, the company caters to diverse customers across a wide array of user industries such as pharmaceutical, agrochemical, aroma chemical, electronic-chemical, construction chemicals, specialty polymer and vapor absorption machines original equipment manufacturers. This helps NCL to mitigate risks emanating from customer, industry and geographic concentration. Over the past 25 years of operations, the company has established a customer base of around 1,363 customers across the above industries. Its clientele includes Austin Chemical Company Inc., USA; CBC Co. Ltd., Japan; Divi's Laboratories Ltd., Laurus Labs Ltd., Solvay Specialties India Pvt. Ltd, Thermax Ltd. and Voltas Ltd. Since 1986, Thermax is the customer of the company with business expanding from Rs. 1mn to Rs. 100mn.

Recommendation	AVOID	
Price Band (Rs.)	Rs. 212 - 215 per Share	
Face Value (Rs.)	Rs. 10	
Shares for Fresh Issue (mn)	3.256 - 3.302mn Shares	
Shares for OFS (mn)	2.90mn Shares	
Fresh Issue Size (Rs. mn)	Rs. 700mn	
OFS Issue Size (Rs. mn)	Rs. 614.8 - 623.5mn	
Total Issue Size (Rs. mn)	6.156 - 6.202mn Shares (Rs. 1,314.8 - 1,323.5mn)	
Bidding Date	24 <sup>th</sup> Apr. - 26 <sup>th</sup> Apr. 2019	
MCAP at Higher Price Band	Rs. 5,017mn	
Enterprise Value at Higher Price Band	Rs. 5,106mn	
Book Running Lead Manager	Inga Advisors Pvt. Ltd. and Batlivala & Karani Securities India Pvt. Ltd.	
Registrar	Link Intime India Pvt. Ltd.	
Sector/Industry	Specialty Chemicals	
Promoters	Mr. Haridas Thakarshi Kanani and Mr. Harin Haridas Kanani	
Pre and post - issue shareholding pattern		
	Pre – Issue	Post - Issue
Promoter & Promoter Group	95.79%	70.00%
Public	4.21%	30.00%
Total	100.00%	100.00%
Retail application money at higher cut-off price per lot		
Number of Shares per Lot	65	
Application Money	Rs. 13,975 per Lot	
Analyst		

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## Peer comparison and valuation (Contd...):

Company Name	Face Value (Rs.)	CMP (Rs.)	MCAP (Rs. mn)	EV (Rs. mn)	Stock Return (%)				Total Operating Revenue (Rs. mn)	EBITDA (Rs. mn)	PAT (Rs. mn)	EBITDA Margin (%)	PAT Margin (%)
					1M	3M	6M	1Y					
Neogen Chemicals Ltd.	10	215	5,017	5,106					1,640.1	289.9	105.0	17.7%	6.4%
Aarti Industries Ltd.	5	1,638	141,955	153,368	15.6%	5.6%	27.8%	28.3%	38,060.6	6,991.0	3,329.6	18.4%	8.7%
Atul Ltd.	10	3,542	105,049	104,657	7.8%	2.4%	5.4%	30.7%	32,957.7	5,051.9	2,764.8	15.3%	8.4%
Navin Fluorine International Ltd.	2	716	35,421	33,097	1.3%	6.3%	8.5%	-6.9%	9,126.9	2,149.5	1,797.8	23.6%	19.7%
Paushak Ltd.	10	2,201	6,783	6,762	0.6%	-9.7%	-8.1%	48.7%	1,034.2	292.3	214.7	28.3%	20.8%
Vinati Organics Ltd.	2	1,740	89,431	88,213	6.0%	10.4%	31.9%	87.9%	7,433.6	2,118.9	1,438.8	28.5%	19.4%
<b>Average</b>												<b>22.8%</b>	<b>15.4%</b>
Company Name	EPS (Rs.)	BVPS (Rs.)	DPS (Rs.)	Debt Equity Ratio	Fixed Asset Turnover Ratio	RoE (%)	RoCE (%)	P / E (x)	P / B (x)	EV / Sales (x)	EV / EBITDA (x)	MCAP / Sales (x)	Earning Yield (x)
Neogen Chemicals Ltd.	4.5	52.1	1.4	0.7	2.4	8.6%	15.9%	47.8	4.1	3.1	17.6	3.1	2.1%
Aarti Industries Ltd.	38.4	191.0	0.9	1.2	1.6	20.1%	15.5%	42.6	8.6	4.0	21.9	3.7	2.3%
Atul Ltd.	93.2	763.2	12.0	0.0	2.9	12.2%	16.9%	38.0	4.6	3.2	20.7	3.2	2.6%
Navin Fluorine International Ltd.	36.4	198.9	6.6	0.0	2.3	18.3%	14.4%	19.7	3.6	3.6	15.4	3.9	5.1%
Paushak Ltd.	69.7	367.1	3.8	0.0	2.8	19.0%	22.6%	31.6	6.0	6.5	23.1	6.6	3.2%
Vinati Organics Ltd.	28.0	155.0	4.5	0.0	1.5	18.1%	23.1%	62.2	11.2	11.9	41.6	12.0	1.6%
<b>Average</b>			<b>5.6</b>	<b>0.2</b>	<b>2.2</b>	<b>17.5%</b>	<b>18.5%</b>	<b>38.8</b>	<b>6.8</b>	<b>5.8</b>	<b>24.6</b>	<b>5.9</b>	<b>3.0%</b>

Note: All financials and ratio based on FY18 data; Source: Choice Broking Research

- Currently, the company has two manufacturing facilities i.e. at Mahape (Maharashtra) and Vadodara (Gujarat) with an aggregate organic and inorganic chemical manufacturing capacity of 0.13mn liters and 1.2mn kg per annum, respectively. In FY18, its inorganic chemical capacity operated at around 94% utilization level, while its organic chemicals capacities operated at around 67% utilization level. To further capture the market growth, with its expansion at the Vadodara facility, NCL is planning to double its organic chemical capacity to 0.26mn liters. It has also proposed a greenfield expansion at Dahej (Gujarat), which will also the double the inorganic chemical capacity to 2.4mn kg per annum. Vadodara capacity expansion is a brownfield expansion and has the required regulatory approvals in place, whereas recently, the company has received the environmental clearance for the Dahej greenfield expansion.
- The specialty chemicals industry is highly knowledge intensive. This along with the nature of the application of NCL's product (which requires stringent quality standards) creates a natural entry barrier from competition. The average rejection rate of the company's products was 0.4% and 0.7% during FY18 and 9M FY19, respectively.
- The company markets and sells its products in India and export primarily to Europe, USA and Japan. Currently, the operating revenue is evenly distributed across domestic and exports business.
- On financial performance front, the company has demonstrated a robust financial track record over the last five years. With increased capacity through expansion and acquisition, the company reported 19.7% Y-o-Y CAGR rise in consolidated operating revenue over FY14-18 to Rs. 1,640.1mn in FY18. Consolidated EBITDA increased by 26.1% CAGR during the period to Rs. 289.9mn in FY18. EBITDA margin improved from 14.4% in FY14 to 17.7% in FY18. Reported PAT increased by 30.3% CAGR over FY14-18 to Rs. 105mn in FY18. PAT margin expanded from 4.6% in FY14 to 6.4% in FY18. Cash flow from operations was positive over FY14-18 and increased by 41.8% CAGR. Average annual operating cash flow during the period stood at around Rs. 64.5mn. Return on invested capital (RoIC) stood at 19.1% in FY18 as compared to 29.2% in FY14. Fall in RoIC was mainly due to the acquisition of Vadodara facility. Average RoIC over the period stood at 23.2%. RoE improved from 18.6% in FY14 to 21% in FY18, while RoCE stood at 27.3% in FY18 as compared to 37.8% in FY14.
- NCL's business operations are highly working capital intensive. The company has an average working capital cycle of around 120 days over FY14-18, which is very high compared to the peer average of around 70 days. Inventory, debtor and trade payables are around 29.1%, 21.3% and 20.8% of the top-line, respectively, over FY14-18.
- For 9M FY19, the company reported a top-line of Rs. Rs. 1,592.3mn, with EBITDA and PAT margin of Rs. 17% and 7.7%, respectively. Extrapolating the same, we arrive at a top-line of Rs. 2,123.1mn in FY19E (a growth of 29.4% over FY18). EBITDA and PAT margin are expected at 17.4% and 7.3%, respectively, in FY19E as against respective margins of 17.7% and 6.4% in FY18. Similarly, FY20E top-line is forecasted to be at Rs. 2,718.7mn (a growth of 28.1% over FY19E), while EBITDA and PAT margin are anticipated to be at 16.6% and 7.1%, respectively.
- NCL would be the first listed entity engaged in the manufacturing of bromine and lithium chemical compounds in India. The above peers are selected based on their area of operations i.e. specialty and commodity chemicals. Thus, based on the product profile there is no apple-to-apple comparison between the company and the above peers.

Coming to the valuation, based on the higher price band, NCL is demanding a P/E valuation of 47.8x (to its FY18 EPS of Rs. 4.5), which is at a premium to its peer average of 38.8x. Based on FY19E and FY20E EPS, the stock is valued at P/E multiple of 32.2x and 26x, respectively, which again is available at a premium to peer average. However, considering its historical growth profile, proposed expansion activities and the demanded valuations we feel that the issue is fully priced. Thus we assign a **"AVOID"** rating for the issue. The issue size (around Rs. 1,300mn) being lower than Rs. 2,500mn, the shares will be listed in "I" group, there will be some restrictions on the price movements.

## About the issue:

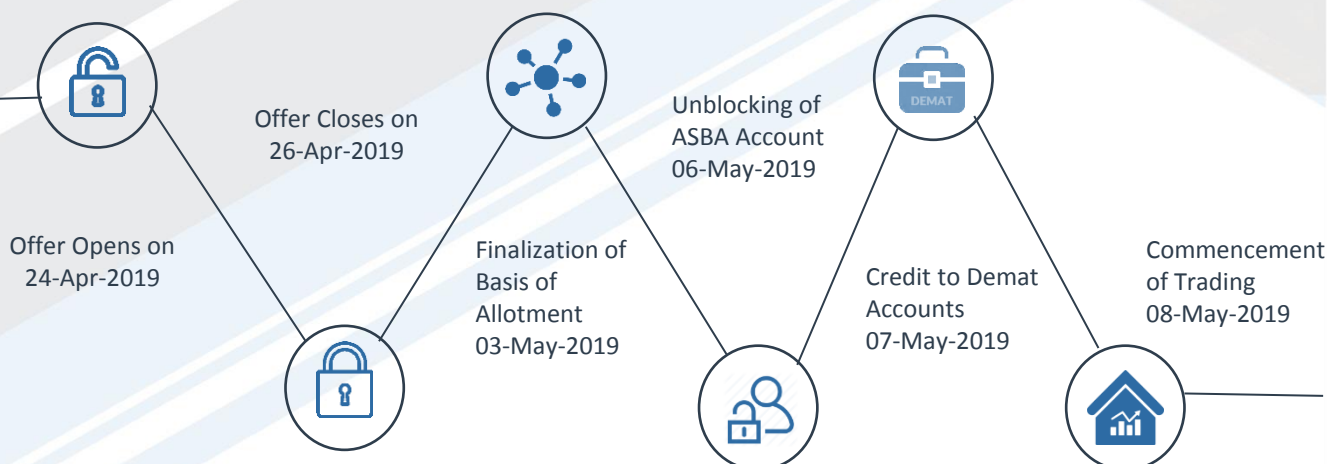
- NCL is coming up with an initial public offering (IPO) with around 6.16 - 6.20mn shares (fresh issue: 3.26 - 3.30; OFS shares: 2.90mn shares) in offering. The offer represents around 26.38% of its post issue paid-up equity shares of the company. Total IPO size is Rs. 1,314.8 - 1,323.5mn.
- The issue will open on 24<sup>th</sup> Apr. 2019 and close on 26<sup>th</sup> Apr. 2019.
- The issue is through book building process with a price band of Rs. 212 - 215 per share.
- Issue is a combination of fresh and OFS. The company will not receive any proceeds from the OFS part. Of the net proceeds from fresh issue - around Rs. 205mn would be utilized for the prepayment or repayment of certain borrowings availed by the company; Rs. 115mn would be used for the early redemption of fully redeemable cumulative preference shares and around Rs. 200mn would be utilized for meeting the long term working capital requirement. Rest of the funds would be utilized for general corporate purposes.
- 50% of the net issue shall be allocated on a proportionate basis to qualified institutional buyers, while rest 15% and 35% is reserved for non-institutional bidders and retail investors, respectively.
- Promoter holds 95.79% stake in the company and post-IPO this will come down to 70%. Public holding will increase from current 4.21% to 30%.

**Pre and post issue shareholding pattern (%)**

	Pre Issue	Post Issue (at higher price band)
Promoter & Promoter Group (%)	95.79%	70.00%
Public (%)	4.21%	30.00%

Source: Choice Equity Broking

## Indicative IPO process time line:



## Company introduction:

NCL manufactures specialty organic bromine-based chemical compounds (bromine compounds) and other specialty organic chemical compounds as well as specialty inorganic lithium-based chemicals compounds (lithium compounds). The company commenced its business operations in 1991, at its Mahape, Navi Mumbai manufacturing facility with a few bromine and lithium compounds. Over the years, NCL has expanded its range of products and, presently, manufacture an extensive range of specialty chemicals which find application across various industries in India and globally. As on 28<sup>th</sup> Feb. 2019, the company manufactured an aggregate of 198 products comprising 181 organic chemicals and 17 inorganic chemicals. It markets and sells its products in India and exports primarily to Europe, USA and Japan.

Specialty chemicals product offerings comprise:

- **Organic chemicals:** These are chemicals containing carbon in combination with hydrogen, and, or, other elements with a covalent bond (i.e. a chemical bond between atoms sharing at least one pair of electrons between them). NCL's product offering in this segment comprises bromine compounds and other organic compounds containing chlorine, fluorine and iodine-based and combinations thereof. Additionally, it also manufactures niche products such as grignard reagents. The company's specialty organic chemical compounds find use in application industries such as pharmaceutical, agrochemical, flavor and fragrance and electronic-chemical.
- **Inorganic chemicals:** These are chemicals with an ionic bond (i.e. a chemical bond between a non-metal and a metal ion involving transfer of electron from one element to another, creating positively and negatively charged ions which together form the compound). The company's product offering in this segment primarily comprises lithium compounds, which are used in eco-friendly vapor absorption machines for cooling air/water/process equipment and find application in industries such as heating ventilation & air-conditioning and refrigeration, construction chemicals, pharmaceutical and specialty polymer.

In addition to manufacturing its standard products, NCL also undertakes custom synthesis and contract manufacturing. In custom synthesis the product is developed and customized primarily for a specific customer, but process know-how and technical specifications are developed in-house by the company. Further, more recently, NCL commenced contract manufacturing where, the product is developed under confidentiality for a single customer using the process know-how and the technical specifications provided by the customer. With contract manufacturing, the company has enabled it to increase the bouquet of product offering. NCL differentiate itself in the contract manufacturing space by additionally offering process innovation, which, generally, reduces the overall operating costs for its customers.

NCL operate out of its manufacturing facilities located in Mahape, Navi Mumbai in Maharashtra and Karakhadi, Vadodara in Gujarat. Presently, the company is developing a green-field manufacturing unit in Dahej SEZ, in Gujarat and is also proposing to expand its operations in Karakhadi, Vadodara. The company's aggregate manufacturing capacity, and a break-up of its capacity, across the manufacturing units is set out below:

Manufacturing Plant		Product	Unit of Capacity Measurement	Capacity
Mahape, Navi Mumbai*		Organic chemicals	Reactor volume in litres	45,000
Karakhadi, Vadodara**		Organic chemicals	Reactor volume in litres	85,400
Mahape, Navi Mumbai*		Inorganic chemicals	Kg. production per annum	1,200,000

Facility	Nature of the product	Unit for capacity measurement	Capacity utilisation (%)			
			9 month period ended December 31, 2018	Fiscal 2018	Fiscal 2017	Fiscal 2016
Mahape	Organic chemicals	Reactor volume in Litres	85.10	78.66	79.64	94.01
Vadodara	Organic chemicals	Reactor volume in Litres	67.51	56.01	28.85	-
Mahape	Inorganic chemicals	Kg. production per annum	74.10	93.85	91.19	81.39

Source: Company RHP



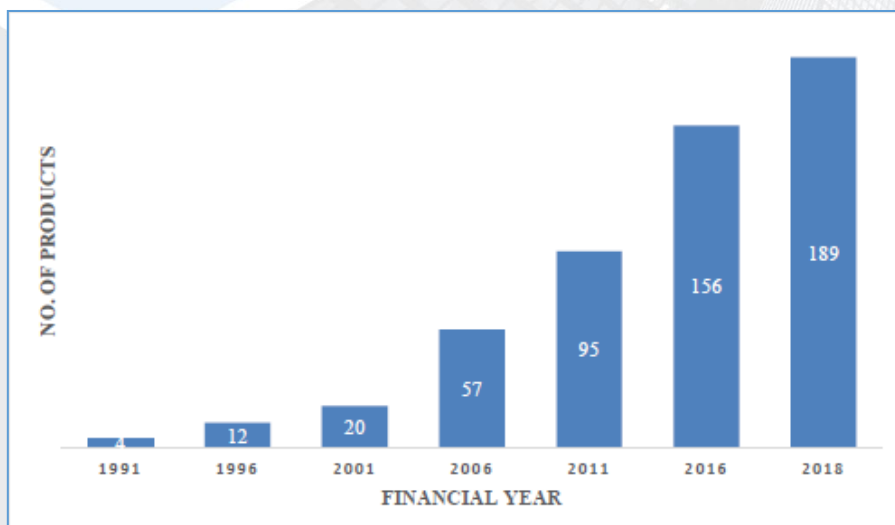
## Company introduction (Contd...):

Set out below is break-up of NCL's operating revenue (in Rs. mn) from the sale of organic and inorganic chemicals:

Particulars	9 month period ended December 31, 2018		Fiscal 2018		Fiscal 2017		Fiscal 2016	
	Revenue from Operations	%	Revenue from Operations	%	Revenue from Operation	%	Revenue from Operations	%
Organic chemicals	1,259.35	78.65	1,056.23	64.82	634.20	57.30	732.18	72.62
Inorganic chemicals	341.86	21.35	573.18	35.18	472.57	42.70	276.07	27.38
<b>Total</b>	<b>1,601.21</b>	<b>100.00</b>	<b>1,629.41</b>	<b>100.00</b>	<b>1,106.77</b>	<b>100.00</b>	<b>1,008.25</b>	<b>100.00</b>

Source: Company RHP

Set out below is a graphic representation of the growth in product portfolio since inception:



Source: Company RHP

Proposed expansion of manufacturing facilities at Vadodara and Dahej:

Manufacturing plant	Product	Unit of capacity measurement	Projected capacity when commissioned
Proposed Dahej Facility	Inorganic chemicals	Kg. production per annum	1,200,000
Proposed Vadodara Facility	Organic chemicals	Reactor volume in litres	126,000

Source: Company RHP

**Customers:** Over the last 25 years, NCL has established a customer base of about 1,363 customers of which about 1,237 are domestic customers and 126 customers are international customers. Its customers are spread across a wide array of application industries such as pharmaceutical, agrochemical, aroma chemical, electronic-chemical, specialty polymer, construction chemicals and VAM original equipment manufacturers and include Austin Chemical Company Inc., USA; CBC Co. Ltd., Japan; Divi's Laboratories Ltd., Laurus Labs Ltd., Solvay Specialties India Pvt. Ltd, Thermax Ltd. and Voltas Ltd.

**Competition:** The company is one of the leading manufacturers of bromine-based and lithium-based specialty chemicals and faces competition from domestic and international operators. Its major competitors in India include Aarti Industries Ltd., Atul Ltd., Mody Chemi Pharma Pvt. Ltd., Navin Fluorine International Ltd. and Pacific Organics Pvt. Ltd.

## Company introduction (Contd...):

**Financial performance:** With increased capacity through expansion and acquisition, the company reported 19.7% Y-o-Y CAGR rise in consolidated operating revenue over FY14-18 to Rs. 1,640.1mn in FY18. Average business from organic and inorganic compounds stood at 68% and 32% respectively, over FY14-18. For the 9M FY19, consolidated operating revenue stood at Rs. 1,592.3mn.

Cost of raw materials, which forms an average of 55.5% of the top-line increased by 20.6% CAGR during FY14-18. Other expenses, forming around 25% of the top-line increased by 11.8% CAGR, while employee benefit expenses increased by 26.1% during the period. As a result, total operating expenditure increased by 18.5% CAGR, thereby leading to a 26.1% CAGR rise in consolidated EBITDA over FY14-18 to Rs. 289.9mn in FY18. EBITDA margin improved from 14.4% in FY14 to 17.7% in FY18. In 9M FY19, consolidated EBITDA stood at Rs. 271.3mn with a margin of 17%.

With an expansion in capacities, depreciation & amortization charges increased by 20.4% CAGR over FY14-18. With higher debt levels, finance charge too increased by 21.5% CAGR, while other income increased by 12.8% CAGR. Consequently, the company reported a 30.3% CAGR rise in reported PAT over FY14-18 to Rs. 105mn in FY18. PAT margin expanded from 4.6% in FY14 to 6.4% in FY18. 9M FY19, reported PAT stood at Rs. 122.2mn with a margin of 7.7%.

Cash flow from operations was positive over FY14-18 and increased by 41.8% CAGR. Average annual operating cash flow during the period stood at around Rs. 64.5mn. Return on invested capital (RoIC) stood at 19.1% in FY18 as compared to 29.2% in FY14. Fall in RoIC was mainly due to the acquisition of Vadodara facility. Average RoIC over the period stood at 23.2%. RoE improved from 18.6% in FY14 to 21% in FY18, while RoCE stood at 27.3% in FY18 as compared to 37.8% in FY14.

(Rs. mn)	FY14	FY15	FY16	FY17	FY18	9M FY18	CAGR (%)	Y-o-Y (%)
Revenue from Operations	799.0	914.8	1,088.9	1,214.7	1,640.1	1,592.3	19.7%	35.0%
EBITDA	114.8	126.6	141.1	199.9	289.9	271.3	26.1%	45.0%
Reported PAT	36.4	50.8	51.8	76.8	105.0	122.2	30.3%	36.6%
Restated Adjusted EPS	1.6	2.2	2.2	3.3	4.5	5.2	30.3%	36.6%
Cash Flow from Operating Activities	29.3	86.5	85.9	2.1	118.5	(62.7)	41.8%	5651.9%
NOPLAT	72.5	79.5	87.0	133.5	178.9	188.1	25.3%	33.9%
FCF		16.1	49.1	(260.8)	55.2			-121.2%
RoIC (%)	29.2%	26.9%	24.8%	16.1%	19.1%	17.0%	(1,014) bps	296 bps
Revenue Growth Rate (%)		14.5%	19.0%	11.6%	35.0%			
EBITDA Growth Rate (%)		10.3%	11.5%	41.7%	45.0%			
EBITDA Margin (%)	14.4%	13.8%	13.0%	16.5%	17.7%	17.0%	331 bps	122 bps
EBIT Growth Rate (%)		11.1%	11.8%	42.5%	44.8%	-7.5%		
EBIT Margin (%)	13.2%	12.8%	12.0%	15.4%	16.5%	15.7%	328 bps	112 bps
Adjusted PAT Growth Rate (%)		39.6%	1.9%	48.3%	36.6%			
Adjusted PAT Margin (%)	4.6%	5.6%	4.8%	6.3%	6.4%	7.7%	184 bps	7 bps
Inventories Turnover Ratio (x)	2.1	2.2	2.2	1.8	2.1	1.2	0.0%	18.1%
Trade Receivable Turnover Ratio (x)	4.8	5.3	6.4	5.1	4.5	3.7	-1.9%	-11.8%
Accounts Payable Turnover Ratio (x)	5.6	3.2	3.2	2.4	2.8	3.3	-15.8%	15.6%
Fixed Asset Turnover Ratio (x)	5.8	6.9	6.0	2.1	2.4	2.0	-19.9%	14.2%
Total Asset Turnover Ratio (x)	1.3	1.3	1.4	0.8	0.9	0.7	-8.0%	14.2%
Current Ratio (x)	1.3	1.4	1.4	1.4	1.3	1.2	0.0%	-5.4%
Debt to Equity (x)	1.3	1.0	1.0	1.6	1.6	1.9	6.0%	-0.2%
Net Debt to EBITDA (x)	2.1	1.7	1.7	3.3	2.8	4.2	7.7%	-16.0%
RoE (%)	18.6%	21.6%	18.8%	18.3%	21.0%	19.9%	237 bps	266 bps
RoA (%)	5.8%	7.4%	6.4%	5.0%	5.8%	5.1%	4 bps	79 bps
RoCE (%)	37.8%	36.8%	35.9%	21.3%	27.3%	21.2%	(1,047) bps	608 bps

Source: Choice Equity Broking



## Competitive strengths:

- Experienced promoters with domain knowledge
- Large and diverse array of products
- Diversified and stable customer base
- Growth led by continuous investment in R&D
- Specialized business model with high entry barriers
- Established and stable relationship with suppliers

## Business strategy:

- Expansion of production capacities
- Increase in contract manufacturing portfolio
- Augmenting growth in domestic and global markets
- Improving financial performance through focus on operational efficiencies and functional excellence
- Focus on advanced specialty intermediates which offer higher value addition



## Risk and concerns:

- Subdued economic expansion
- Unfavorable sales-mix and margins
- Inability to pass on the rise in the raw material prices
- Volatility in forex rates
- Working capital intensive business
- Competition



## Financial statements:

### Consolidated profit and loss statement (Rs. mn)

	FY14	FY15	FY16	FY17	FY18	9M FY19	CAGR over FY14 - 18 (%)	Annual Growth over FY17 (%)
<b>Revenue from Operations</b>	<b>799.0</b>	<b>914.8</b>	<b>1,088.9</b>	<b>1,214.7</b>	<b>1,640.1</b>	<b>1,592.3</b>	<b>19.7%</b>	<b>35.0%</b>
Cost of Material Consumed	(465.4)	(526.5)	(652.3)	(695.6)	(1,025.6)	(1,110.7)	21.8%	47.4%
Change in Inventories of Finished Goods, Work-in-Progress and Stock-in-Trade	17.2	29.1	41.4	55.3	77.3	171.4	45.6%	39.8%
Employee Benefits Expense	(34.4)	(47.6)	(45.4)	(54.5)	(87.0)	(81.2)	26.1%	59.7%
Other Expenses	(201.7)	(243.3)	(291.5)	(320.0)	(314.9)	(300.5)	11.8%	-1.6%
<b>EBITDA</b>	<b>114.8</b>	<b>126.6</b>	<b>141.1</b>	<b>199.9</b>	<b>289.9</b>	<b>271.3</b>	<b>26.1%</b>	<b>45.0%</b>
Depreciation and Amortization Expense	(9.2)	(9.4)	(10.0)	(13.1)	(19.4)	(21.1)	20.4%	48.0%
<b>EBIT</b>	<b>105.5</b>	<b>117.2</b>	<b>131.1</b>	<b>186.8</b>	<b>270.5</b>	<b>250.2</b>	<b>26.5%</b>	<b>44.8%</b>
Finance Costs	(47.8)	(46.5)	(47.9)	(75.2)	(104.2)	(85.6)	21.5%	38.6%
Other Income	4.1	10.0	1.6	3.1	6.6	4.6	12.8%	115.3%
Share of Profit/(Loss) of Investments Accounted for Using Equity Method				0.4	0.4	1.3		0.0%
<b>PBT</b>	<b>61.9</b>	<b>80.6</b>	<b>84.8</b>	<b>115.1</b>	<b>173.4</b>	<b>170.5</b>	<b>29.4%</b>	<b>50.7%</b>
Tax Expenses	(25.5)	(29.8)	(33.0)	(38.2)	(68.4)	(48.3)	28.0%	78.9%
<b>Reported PAT</b>	<b>36.4</b>	<b>50.8</b>	<b>51.8</b>	<b>76.8</b>	<b>105.0</b>	<b>122.2</b>	<b>30.3%</b>	<b>36.6%</b>

### Consolidated balance sheet statement (Rs. mn)

	FY14	FY15	FY16	FY17	FY18	9M FY18	CAGR over FY14 - 18 (%)	Annual Growth over FY17 (%)
Equity Share Capital	45.0	45.0	200.0	200.0	200.0	200.8	45.2%	0.0%
Other Equity	150.9	189.9	75.5	219.7	300.6	414.1	18.8%	36.9%
Long Term Borrowings	64.9	58.5	63.7	389.0	409.9	479.2	58.5%	5.4%
Other Non Current Financial Liabilities		1.7	1.7	21.7	21.7	20.0		0.0%
Long Term Provisions	1.7	3.3	2.4	11.8	17.3	18.3	78.7%	45.9%
Deferred Tax Liabilities (Net)	16.6	20.4	21.7	36.5	40.3	45.4	24.7%	10.4%
Short Term Borrowings	190.0	183.4	200.6	301.5	412.2	677.0	21.4%	36.7%
Trade Payables	143.6	163.6	218.4	309.8	366.7	477.4	26.4%	18.4%
Other Current Financial Liabilities	5.8	1.3	8.9	14.9	9.4	23.2	12.9%	-36.9%
Other Current Liabilities	10.5	18.1	8.2	15.4	15.3	9.5	9.9%	-0.8%
Short Term Provisions	0.3	2.5	3.7	2.8	7.0	9.1	114.8%	151.1%
<b>Total Liabilities</b>	<b>629.3</b>	<b>687.6</b>	<b>804.8</b>	<b>1,523.2</b>	<b>1,800.5</b>	<b>2,374.1</b>	<b>30.1%</b>	<b>18.2%</b>
Property, Plant and Equipment	136.2	131.8	174.2	563.2	666.4	810.4	48.7%	18.3%
Intangible Assets	0.1	0.1	0.1	0.0	0.6	0.9	43.4%	1733.3%
Capital Work-in-Progress	0.4	1.3	6.9	12.6	13.8	0.5	147.1%	9.5%
Long Term Investments				4.9	4.2	5.5		-13.3%
Long Term Loans and Advances	1.7	9.3	13.8	21.4	18.5	34.1	80.9%	-13.5%
Other Non Current Financial Assets				22.6	23.1	25.2		2.2%
Other Non Current Assets	29.3	14.4	0.8	1.3	6.3	6.9	-32.0%	395.3%
Inventories	212.3	243.0	317.6	400.1	499.9	772.2	23.9%	24.9%
Trade Receivables	165.9	179.7	158.5	321.6	413.6	424.7	25.7%	28.6%
Cash and Bank Balances	17.9	24.0	24.7	30.8	18.2	10.0	0.3%	-40.9%
Short Term Loans and Advances	6.4	2.9		4.0	0.8	2.8	-40.3%	-79.9%
Other Current Financial Assets	1.8	5.5	2.6	1.8	1.6	9.4	-2.3%	-10.4%
Other Current Assets	57.2	75.7	105.8	138.8	133.5	271.6	23.6%	-3.9%
<b>Total Assets</b>	<b>629.3</b>	<b>687.6</b>	<b>804.8</b>	<b>1,523.2</b>	<b>1,800.5</b>	<b>2,374.1</b>	<b>30.1%</b>	<b>18.2%</b>

Source: Choice Equity Broking

## Financial statements:

### Consolidated cash flow statement (Rs. mn)

Particulars (Rs. mn)	FY14	FY15	FY16	FY17	FY18	9M FY19	CAGR over FY14 - 18 (%)	Annual Growth over FY17 (%)
Cash Flow Before Working Capital Changes	117.5	132.3	145.7	190.5	292.5	278.2	25.6%	53.5%
Change in Working Capital	(74.3)	(20.3)	(28.3)	(149.4)	(134.0)	(314.8)	15.9%	-10.3%
<b>Cash Flow from Operating Activities</b>	<b>29.3</b>	<b>86.5</b>	<b>85.9</b>	<b>2.1</b>	<b>118.5</b>	<b>(62.7)</b>	<b>41.8%</b>	<b>5651.9%</b>
Purchase of Property , Plant & Equipment	(13.7)	(22.2)	(40.4)	(324.2)	(138.9)	(171.3)	78.4%	-57.2%
<b>Cash Flow from Investing Activities</b>	<b>(12.4)</b>	<b>(17.9)</b>	<b>(44.1)</b>	<b>(329.2)</b>	<b>(126.8)</b>	<b>(173.0)</b>	<b>78.9%</b>	<b>-61.5%</b>
<b>Cash Flow from Financing Activities</b>	<b>(16.8)</b>	<b>(62.5)</b>	<b>(41.1)</b>	<b>333.2</b>	<b>(4.3)</b>	<b>227.4</b>	<b>-28.8%</b>	<b>-101.3%</b>
<b>Net Cash Flow</b>	<b>0.1</b>	<b>6.1</b>	<b>0.7</b>	<b>6.1</b>	<b>(12.6)</b>	<b>(8.2)</b>		<b>-308.3%</b>
Opening Balance of Cash and Bank Balances	17.8	17.9	24.0	24.7	30.8	18.2	14.7%	24.5%
<b>Closing Balance of Cash and Bank Balances</b>	<b>17.9</b>	<b>24.0</b>	<b>24.7</b>	<b>30.8</b>	<b>18.2</b>	<b>10.0</b>	<b>0.3%</b>	<b>-41.0%</b>

### Consolidated financial ratios

Particulars (Rs. mn)	FY14	FY15	FY16	FY17	FY18	9M FY19
Revenue Growth Rate (%)		14.5%	19.0%	11.6%	35.0%	
EBITDA Growth Rate (%)		10.3%	11.5%	41.7%	45.0%	
EBITDA Margin (%)	14.4%	13.8%	13.0%	16.5%	17.7%	17.0%
EBIT Growth Rate (%)		11.1%	11.8%	42.5%	44.8%	-7.5%
EBIT Margin (%)	13.2%	12.8%	12.0%	15.4%	16.5%	15.7%
Adjusted PAT Growth Rate (%)		39.6%	1.9%	48.3%	36.6%	
Adjusted PAT Margin (%)	4.6%	5.6%	4.8%	6.3%	6.4%	7.7%
<b>Liquidity ratios</b>						
Current Ratio	1.3	1.4	1.4	1.4	1.3	1.2
Debt Equity Ratio	1.3	1.0	1.0	1.6	1.6	1.9
Net Debt to EBITDA	2.1	1.7	1.7	3.3	2.8	4.2
<b>Turnover ratios</b>						
Inventories Days	172.9	167.1	167.5	204.6	173.2	222.0
Debtor Days	75.8	68.9	56.7	72.1	81.8	72.0
Payable Days	(116.9)	(112.7)	(114.1)	(150.5)	(130.2)	(137.2)
Cash Conversion Cycle	131.8	123.3	110.0	126.2	124.8	156.7
Fixed Asset Turnover Ratio (x)	5.8	6.9	6.0	2.1	2.4	2.0
Total Asset Turnover Ratio (x)	1.3	1.3	1.4	0.8	0.9	0.7
<b>Return ratios</b>						
RoE (%)	18.6%	21.6%	18.8%	18.3%	21.0%	19.9%
RoA (%)	5.8%	7.4%	6.4%	5.0%	5.8%	5.1%
RoCE (%)	37.8%	36.8%	35.9%	21.3%	27.3%	21.2%
<b>Per share data</b>						
Restated Reported EPS (Rs.)	1.6	2.2	2.2	3.3	4.5	5.2
Restated DPS (Rs.)	0.4	0.4	0.4	0.2	1.4	1.3
Restated BVPS (Rs.)	8.4	10.1	11.8	18.0	21.5	26.4
Restated Operating Cash Flow Per Share (Rs.)	1.3	3.7	3.7	0.1	5.1	(2.7)
Restated Free Cash Flow Per Share (Rs.)		0.7	2.1	(11.2)	2.4	
Dividend Payout Ratio	24.7%	17.7%	19.9%	5.0%	30.3%	25.5%

Note: Ratios calculated on pre-issue data; Source: Company RHP

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