

MAY 22, 2019

	21-May	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
SENSEX Index	38,970	(1.0)	(0.4)	8.6
NIFTY Index	11,709	(1.0)	(0.4)	8.5
NSEBANK Index	30,308	(1.5)	0.3	12.0
NIFTY 500 Index	9,579	(1.0)	(1.6)	7.6
CNXMcap Index	17,361	(1.1)	(4.0)	5.4
BSESMCAP Index	14,293	(0.6)	(4.9)	6.5
<b>World Indices</b>				
Dow Jones	25,877	0.8	(2.4)	(0.6)
Nasdaq	7,786	1.1	(2.9)	3.4
FTSE	7,329	0.2	(1.8)	2.1
NIKKEI	21,272	(0.1)	(3.9)	(0.4)
Hangseng	27,657	(0.5)	(7.6)	(3.9)
Shanghai	2,906	1.2	(9.9)	3.3

<b>Value traded (Rs cr)</b>	21-May	% Chg Day
Cash BSE	3,069	(11.7)
Cash NSE	37,240	(15.0)
Derivatives	532,797	(7.8)

<b>Net inflows (Rs cr)</b>	20-May	MTD	YTD
FII	1,607	(3,395)	64,827
Mutual Fund	(215)	7,641	4,980

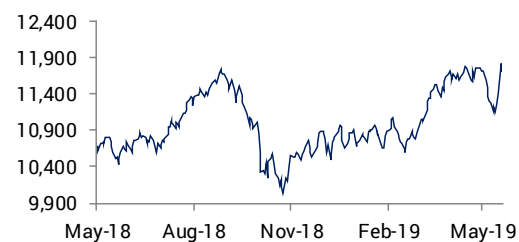
<b>Nifty Gainers &amp; Losers</b>	Price	Chg	Vol
21-May	(Rs)	(%)	(mn)
<b>Gainers</b>			
Dr Reddy's Lab	2,667	3.0	2.0
Bharti Infra	276	2.4	4.7
Britannia Ind	2,849	1.7	0.5
<b>Losers</b>			
Tata Motors	177	(7.0)	57.8
BPCL	374	(4.4)	8.4
Zee Entertainment	348	(4.1)	13.4

<b>Advances / Declines (BSE)</b>					
21-May	A	B	T	Total	% total
Advances	133	336	60	529	100
Declines	328	636	51	1,015	192
Unchanged	-	26	14	40	8

	21-May	% Chg		
		1 Day	1 Mth	3 Mths
<b>Commodity</b>				
Crude (US\$/BBL)	71.8	(0.6)	(3.1)	6.9
Gold (US\$/OZ)	1,274.7	(0.2)	(0.1)	(4.1)
Silver (US\$/OZ)	14.5	(0.1)	(3.7)	(9.2)

<b>Debt / Forex Market</b>	21-May	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.3	7.3	7.4	7.4
Re/US\$	69.7	69.7	69.7	71.2

## Nifty



Source: Bloomberg

## News Highlights

- ▶ Large corporates looking to buy back shares may now have to factor in consolidated group debt in their calculations. The Securities and Exchange Board of India (Sebi) is planning to tweak share buyback norms by proposing that it would consider consolidated numbers instead of standalone financial metrics. (ET)
- ▶ **The Punjab National Bank (PNB)** is likely to take over two to three smaller state-run banks – Oriental Bank of Commerce (OBC), Andhra Bank and Allahabad Bank – in the next three months, reports Reuters. (moneycontrol).
- ▶ **Dewan Housing Finance Ltd (DHFL)**, one of India's largest housing finance companies, announced that it has stopped accepting fresh public deposits and renewals of existing deposits with immediate effect. This, in view of the recent revision of the credit rating of its fixed deposit programme. (Livemint)
- ▶ **Larsen & Toubro's** standalone market capitalisation will touch Rs 3 trn and revenue will reach Rs 2 trn in five years as strategic initiatives like L&T NxT have helped in making giant strides, Group Chairman A M Naik said. (Livemint)
- ▶ US insurance broking firm Arthur J Gallagher & Co has agreed to pick up a minority stake in Edelweiss Insurance Brokers, a part of **Edelweiss Group** (TOI)
- ▶ **Asian Granito** to sell its 50 percent stake in its JV with Italian based Panaria Group and exit the agreement. The joint venture between both the companies was entered in February 2012. (Hindu)
- ▶ **FDC** board to consider share buyback on May 24. (Hindu)
- ▶ **Endurance Technologies** - CRISIL reaffirmed AA/Positive to the long-term bank credit facilities and A1+ to the short term credit facilities/CPs. (moneycontrol).
- ▶ **India Glycols** approved fund raising, subject to the approval of the members, for an amount not exceeding Rs 2.5 bn. (moneycontrol)
- ▶ **Vedanta:** Declared as preferred bidder for two copper blocks with a combined area of 1585 HA area in Maharashtra. (Hindu)
- ▶ Rating agency ICRA, on Tuesday, downgraded the long-term ratings of **IDFC First Bank** after the lender posted weak results. "The rating downgrade considers IDFC First Bank's weak earnings profile, given the elevated cost-to-income ratio because of the ongoing branch expansion, which has been pressurising the operating profitability, and an increase in credit provisions on account of unanticipated fresh stressed exposures identified by the bank in the fourth quarter of 2018-19," it said in a statement. (Hindu)

## What's Inside

- ▶ **Result Update:** Bodal Chemicals Ltd

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, BQ = BloombergQuint, ToI: Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

## Result Update

## BODAL CHEMICALS LTD

### Stock Details

Market cap (Rs mn)	:	14076
52-wk Hi/Lo (Rs)	:	156 / 90
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	171,321
Shares o/s (mn)	:	122

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Revenue	14,235	15,843	17,138
Growth (%)	22.1	11.3	8.2
EBITDA	2,361	2,577	2,813
EBITDA margin (%)	16.6	16.3	16.4
PAT	1,413	1,557	1,665
EPS	11.6	12.7	13.6
EPS Growth (%)	15.9	10.2	6.9
BV (Rs/share)	68	80	93
Dividend/share (Rs)	0.8	0.8	0.8
ROE (%)	17.0	15.5	13.5
ROCE (%)	11.4	11.2	9.9
P/E (x)	9.9	9.0	8.4
EV/EBITDA (x)	6.6	6.0	5.0
P/BV (x)	1.7	1.4	1.2

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	57.4	57.4	55.7
FII	6.2	6.2	6.5
DII	6.5	6.5	6.6
Others	29.9	29.9	31.3

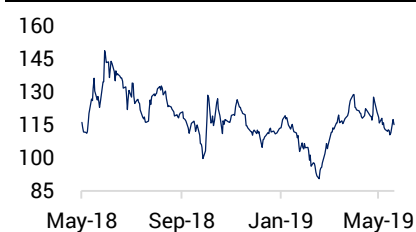
Source: Bloomberg

### Price Performance (%)

(%)	1M	3M	6M
Bodal Chemicals	(5.2)	20.2	0.3
Nifty	(0.4)	8.5	10.5

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

PRICE RS.115

TARGET RS.109

SELL

Bodal Chemicals (BCL) Q4FY19 operating performance was below our estimates due to inventory loss of Rs50-60mn and increase in other expenses, while PAT was in-line with estimates due to higher than expected other income. On the revenue front, higher contribution from Dye Intermediates and Dyestuffs led to 17.4%/3% YoY/QoQ jump in revenue.

### Key Highlights

- Dyestuffs and Dye intermediates production grew by 19% and 8% YoY, respectively, while Basic Chemicals production declined by 2% YoY in Q4FY19.
- **Subsidiaries:** SPS performance improved sequentially and reported revenue, EBITDA and PAT of Rs269 mn, Rs18 mn and Rs17 mn (loss of Rs18 mn in 3QFY19), respectively. On the other hand, Trion chemicals continue to report loss. Trion reported loss of Rs18mn in 4QFY19.
- The trial production of Thionyl Chloride (TC) capacity of 36,000 tonnes per annum started during the quarter and commercial production is expected to start in 1QFY20 (delayed by one quarter).
- **Dyestuff expansion:** The Company added dyestuff (powder) capacity of 6,000 MTPA during the quarter, thereby taking the total installed capacity to 35,000MTPA.
- **Next phase of expansion:** BCL announce its next phase of growth towards more integration of business model, diversification into new products (Chlor Alkali plant, Turquoise Blue and Sulphuric plant), and addition of marketing base at Tukey. The company is likely to spend Rs11.68 bn for the next phase of expansion over the next three years.
- Management expects, the completion of the expansion plan, will enable BCL to offer new products, expand export markets and strengthen its margin.

### Quarterly performance table

Particulars (Rs Mn)	Q4FY19	Q4FY18	% YoY	Q3FY19	% QoQ
<b>Net Sales</b>	<b>3,443</b>	<b>2,932</b>	<b>17.4</b>	<b>3,343</b>	<b>3.0</b>
Raw Materials	2,271	1,854	22.5	2,131	6.6
Employee Costs	124	127		184	
Total Expenditures	3,004	2,483		2,786	
<b>EBITDA</b>	<b>438</b>	<b>449</b>	<b>(2.5)</b>	<b>557</b>	<b>(21.4)</b>
EBITDA Margin	12.7	15.3		16.7	
Depreciation	58	(98)		55	
<b>EBIT</b>	<b>381</b>	<b>548</b>		<b>502</b>	
Interest	28	11		27	
Other Income	74	28		5	
<b>PBT</b>	<b>427</b>	<b>565</b>		<b>480</b>	
Tax	133	170		196	
<b>PAT</b>	<b>294</b>	<b>395</b>	<b>(25.7)</b>	<b>285</b>	<b>3.1</b>
Share of Asso	0	(4)		0	
<b>PAT</b>	<b>294</b>	<b>392</b>	<b>(25.0)</b>	<b>285</b>	<b>3.1</b>

Source: Company, Kotak Securities – Private Client Research

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## Valuation & outlook

Given the future road map in terms of revenue visibility and margin expansion plans in place, by undertaking an aggressive capex plan, we believe that long term story still remains intact. In the near term, contribution for Dyestuff expansion shall support the earnings, but a weak performance from Trion chemicals (BCL has not achieved breakeven also) would partly offset the benefit. Factoring 4QFY19 performance, we have revised our FY20E earnings to Rs12.7 (earlier Rs13) and introducing FY21E with earnings estimate of Rs13.6. The stock is up ~18% since our last report dated 7th Feb, 2019 (rating BUY) and at CMP, we believe that at current valuation of 9.0x/8.4X FY20E/FY21E earnings, the stock is trading at fair valuation and re-rating will take some more time. Hence, we recommend **SELL** (earlier BUY) on the stock (valuing at 8x FY21E EPS), with a revised target price of Rs109 (earlier Rs117), as we roll forward our valuation multiple to FY21E.

## Increased contribution from Dyes (intermediates and stuffs) supported revenue

During the quarter, the company reported revenue of Rs3.44 bn, up 17.4% YoY and 3% qoq, driven by higher contribution from Dye intermediates and Dyestuffs. Dyestuffs and Dye intermediates production grew by 19% and 8% YoY, however, the benefit of the same was partly offset by a decline in basic chemical volume. Export revenue during the quarter stood at Rs1.22 bn, down 22% QoQ. During the Q4FY19, high value product such as Dye intermediates and dye stuff, share increased to 48% and 37%, respectively. Vinyl Sulphone and H-Acid realisation declined and stood at Rs227 vs Rs227/kg in 3QFY19 and Rs382 vs Rs406/kg in 3QFY19, respectively.

The benefit of higher volume was offset by inventory losses (spillover effect of sharp volatility in crude oil prices during Q3FY19) and increase in other expenses, pertaining to the dyestuff expansion and trial production Thionyl Chloride unit during the quarter. As a result, EBITDA during the quarter declined 2.5% and 21.4% YoY and QoQ, respectively, to Rs438 mn, with an EBITDA margin of 12.7%. Higher than expected other income led to 3.1% QoQ increase in PAT. The jump in other income is attributed to late payment from customer (Rs30 mn) and Rs20-25 mn towards interest from subsidiaries.

## Operational Performance

### Revenue Break-up (Rs Mn)

Product	Q4FY19	Q4FY18	% YoY	Q3FY19	% QoQ
Dye Intermediates	1,539	1,299	18.5	1,729	(11.0)
Dyestuff	1,186	1,017	16.7	1,434	(17.3)
Basic Chemicals	449	367	22.3	368	22.0
Others	32	141	(77.3)	147	(78.2)

Source: Company

### Domestic vs Export

Particulars	Q4FY19	Q4FY18	% YoY	Q3FY19	% QoQ
Domestic	1,988	1,610	23.5	1,949	2.0
Export	1,218	1,214	0.3	1,729	(29.5)

Source: Company

### Management expects margin to improve

Management expects the margin profile to improve to 18%, with the commissioning of TC unit and dye stuff expansion. Post the commissioning of dyestuff, the share of high value product will increase in overall revenue. Besides this, captive consumption (30%) of the TC shall further strengthen the margin profile. But in the near term, volatility in the raw materials prices will be the key things to monitor (Caustic and Chlorine are still hovering at higher level), as it will continue to impact gross profit, as intermediates realisation are likely to remain at the current levels (VS at Rs200-220/kg and H-acid at Rs400-425/kg). We expect the company to report EBITDA margin in the range of 16-16.5%. Upside risks: Higher than expected contribution from Thionyl Chloride and earlier than expected commissioning of Vinyl Sulphone unit at SPS.

### Next phase of expansion

BCL chartered next phase of growth strategy which would strengthen its business model and enable the company to introduce new product and tap the other geographies (by acquiring 80% stake in Turkey based LLP namely ŞENER SOYA KIMYA TEKSTİL SANAYİ VE TİCARET LTD, having revenue of Rs800 mn and PAT of Rs70 mn). The company has earmarked and expansion of Rs11.68 bn over the next three years for the below mentioned projects. All these projects will start from 3QFY20.

#### Funding plan:

Internal Accruals: Rs3.3 bn

Pref Eq. & Eq. Warrants: Rs1.7 bn

Debt: Rs 7 bn

#### Table

Project	Cost (Rs Mn)	Place
300TPD Chlore Alkali with CPP of 38MW	7000	Saykha, Near Dahej
1000TPD Sulphuric acid & Derivatives	1850	Saykha, Near Dahej
Common Infrastructure Facilities	1450	Saykha, Near Dahej
1600TPM Dyestuff	920	Padra, Near Vadodra
400TPM Dyestuff (Turquoise Blue)	460	Vatva, near Ahmedabad

Source: Company

*Expects revenue, operating profit and PAT to grow by 2-3x over the next five years, with low net debt/equity*

Management indicated, that 50% of chlore alkali capacity will be consumed captive for the Trion Chemicals, this will insulate the company from the volatility in the raw material prices and help the unit to report better profitability. In addition, the company focus on increasing capacity of Dyestuff and adding more variants in the same, will help the company to report sustainable margins, post the completion and starting of the commercial production of the expansion. Besides this, increase marketing base at Turkey will help the company to expand its global reach. Management expects, in the next five years, revenue will grow 2x to Rs29 bn, with an EBITDA of Rs6.6 bn and PAT of Rs3 bn and expect Net Debt/Equity to remain low at ~0.3x.

### Other Highlights:

**Trion Chemicals:** Despite the higher production, the unit continued to report loss of Rs18 mn (vs Rs15 mn in 3QFY19). Management expects production to normalized in FY20E and expect the unit to breakeven by the end of year (which in our view could get extended to FY21E). The monthly production run-rate is in the range of 200-250 tonnes and to achieve break even, the unit need to produces 340 tonnes.

**SPS:** SPS posted profit of Rs 17mn for Q4FY19 and Rs 16mn for FY19. The company expect VS plant at should come into operation by end of 1HFY20E and benefit of the same shall flow thereafter, which should contribute to overall profitability. Key thing to watch out for VS is the approval, which is still pending, post which the company would start the construction/setting up the unit.

### **Company Background**

Bodal Chemicals Limited is an integrated company, offering end-to-end solutions to our customers globally. The company is among the world's largest manufacturers and exporters of Dyes Intermediate, Dyestuff and Sulphuric Acid, with vertically and horizontally integrated operations that provide product solutions and service solutions on the fastest possible route to their customers. BCL has its presence not only in India but across the globe and serves over 50+ countries with its innovative products and services. BCL, with its presence across the dyestuff value chain and strong domestic/export penetration, is well-placed to take advantage of opportunities in the dyestuff industry.

## Financials: Consolidated

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
<b>Net sales</b>	<b>11,661</b>	<b>14,235</b>	<b>15,843</b>	<b>17,138</b>
growth (%)	(12.9)	22.1	11.3	8.2
Operating expenses	9,718	11,874	13,266	14,325
<b>EBITDA</b>	<b>1,944</b>	<b>2,361</b>	<b>2,577</b>	<b>2,813</b>
growth (%)	(14.0)	21.5	9.1	9.2
Depreciation & amortisation	121	212	234	276
<b>EBIT</b>	<b>1,823</b>	<b>2,149</b>	<b>2,343</b>	<b>2,537</b>
Other income	95	134	80	86
Interest paid	53	91	86	125
Exceptional items	0	0	0	0
<b>PBT</b>	<b>1,865</b>	<b>2,192</b>	<b>2,338</b>	<b>2,498</b>
Tax	619	770	771	824
Effective tax rate (%)	33.2	35.1	33.0	33.0
<b>Net profit</b>	<b>1,246</b>	<b>1,422</b>	<b>1,566</b>	<b>1,674</b>
Share of Asso.	(27)	(9)	(9)	(9)
<b>Reported Net profit</b>	<b>1,219</b>	<b>1,413</b>	<b>1,557</b>	<b>1,665</b>
growth (%)	(8.3)	15.9	10.2	6.9

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19*	FY20E	FY21E
Pre-tax profit	1,865	2,192	2,338	2,498
Depreciation	121	212	234	276
Chg in working capital	(1,328)	(34)	(788)	(479)
Total tax paid	619	770	771	824
Other operating activities	31	91	86	125
<b>Operating CF</b>	<b>70</b>	<b>1,692</b>	<b>1,098</b>	<b>1,595</b>
Capital expenditure	(2,256)	(1,685)	(1,055)	(1,850)
Other investing activities	(304)	492	0	0
<b>Investing CF</b>	<b>(2,561)</b>	<b>(1,193)</b>	<b>(1,055)</b>	<b>(1,850)</b>
Equity/pref cap raised (repaid)	2,186	0	425	0
Debt raised/(repaid)	294	(251)	(267)	512
Dividend (incl. tax)	(63)	(118)	(118)	(118)
Other financing activities	(53)	(91)	(86)	(125)
<b>Financing CF</b>	<b>2,365</b>	<b>(460)</b>	<b>(45)</b>	<b>269</b>
Net chg in cash & bank bal.	(126)	39	(2)	14
<b>Closing cash &amp; bank bal</b>	<b>59</b>	<b>98</b>	<b>96</b>	<b>109</b>

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Cash & Bank balances	59	98	95	109
Other Current assets	5,672	6,121	6,792	7,459
Investments	169	62	62	62
Net fixed assets	4,553	6,341	7,184	8,391
Other non-current assets	264	281	281	281
<b>Total assets</b>	<b>10,717</b>	<b>12,903</b>	<b>14,415</b>	<b>16,303</b>
Current liabilities	1,684	2,548	2,431	2,618
Borrowings	1,808	1,696	1,567	2,217
Other non-current liabilities	244	357	357	357
<b>Total liabilities</b>	<b>3,736</b>	<b>4,600</b>	<b>4,355</b>	<b>5,192</b>
Share capital	244	244	244	244
Reserves & surplus	6,725	8,049	9,806	10,857
Shareholders' funds	6,970	8,294	10,051	11,101
Minority interest	11	9	9	9
<b>Total equity &amp; liabilities</b>	<b>10,717</b>	<b>12,903</b>	<b>14,415</b>	<b>16,303</b>

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
<b>Profitability and return ratios (%)</b>				
EBITDAM	16.7	16.6	16.3	16.4
EBITM	15.6	15.1	14.8	14.8
NPM	10.5	9.9	9.8	9.7
RoE	17.5	17.0	15.5	13.5
RoCE	11.7	11.4	11.2	9.9
<b>Per share data (Rs)</b>				
EPS	10.0	11.6	12.7	13.6
FDEPS	10.0	11.6	12.7	13.6
CEPS	11.0	13.3	14.7	15.9
BV	57.0	67.9	79.8	92.6
DPS	0.8	0.8	0.8	0.8
<b>Valuation ratios (x)</b>				
PE	11.5	9.9	9.0	8.4
P/BV	2.0	1.7	1.4	1.2
EV/EBITDA	8.1	6.6	6.0	5.0
EV/Sales	1.4	1.1	1.0	0.8
<b>Other key ratios</b>				
D/E (x)	0.3	0.2	0.2	0.2

Source: Company, Kotak Securities – Private Client Research

## RATING SCALE

### Definitions of ratings

<b>BUY</b>	–	We expect the stock to deliver more than 15% returns over the next 12 months
<b>ADD</b>	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
<b>REDUCE</b>	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
<b>SELL</b>	–	We expect the stock to deliver < -5% returns over the next 12 months
<b>NR</b>	–	<b>Not Rated.</b> Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
<b>SUBSCRIBE</b>	–	We advise investor to subscribe to the IPO.
<b>RS</b>	–	<b>Rating Suspended.</b> Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
<b>NA</b>	–	<b>Not Available or Not Applicable.</b> The information is not available for display or is not applicable
<b>NM</b>	–	<b>Not Meaningful.</b> The information is not meaningful and is therefore excluded.
<b>NOTE</b>	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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