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DEMOCRATIZING WEALTH CREATION

PEARLPICK
Milking the liquidity premium

April 2019

DIL Limited

BSE Code: 506414	CMP : ₹**765**	Face Value : ₹**5**	Target price: ₹**1150**	HP* : **Two years**

About the company

Our Pearl Pick for the month of April is DIL Limited. DIL holds 91.2% equity stake in Fermenta Biotech Limited (FBL), which is engaged in manufacturing of vitamin D3, other specialty APIs, biological enzymes and also offers integrated biotech based environmental solutions. DIL's revenue mix as of Q3FY19 comprised of bulk drugs/chemicals (95%), property (4%) and others (1%). On the geographical front, the company derived 20% revenue from India and the remaining through exports.

Why to invest

Sole player in India for vitamin-D3 : Fermenta Biotech is the sole player for manufacturing and supply of vitamin-D3 API in India and amongst the top few manufacturers in the world. Remarkably, FBL commands robust market share (around 25-30 per cent) in terms of volume globally in the human feed segment. On the other hand, it has around 6-7 per cent volume market share in the animal feed vitamin-D3 segment.

The shutdown of Chinese facilities on account of pollution control has created further legroom for the company to accelerate its growth further. In 9MFY19 period, the company recorded astonishing growth of 70 per cent and 46 per cent in the human feed and animal feed divisions, respectively. The pricing from Chinese players would remain high owing to higher operating cost, which paves the way for players like FBL to reap the benefit from this opportunity. The company's management believes that vitamin-D3 segment has the potential to clock a revenue growth of around 15-17 per CAGR over the next 5 years owning to volume growth, led by structural demand and applications in personal care and nutrition.

Capex on appropriate time : The company's management believes that it can provide uninterrupted supply of vitamin-D3 to its clients and consequently it expects revenue to grow at a CAGR of 15-17 per cent in the coming five years. Thus, to capitalise the growth opportunity, DIL has taken decision to expand its capacity. For FY19, FBL had earmarked nearly Rs 45 crore, and for FY20E, the company is expected to spend around Rs 60-70 crore on capex to ramp up production facility at Dahej and Sayakha. At Sayakha the company has entered into 99-year lease for acquiring land of around 40,000 sq mt for future growth. With this capacity expansion, the company's overall capacity is likely to increase by 20-25 per cent. In addition to this expansion, the company's management aims to incur annual capex of around Rs 10-12 crore. For funding this capex, the company would most likely rely on external commercial borrowing, but the management is of the opinion that current net debt-to-equity of 1.1x provides more headroom for the capex. Also, the company expects its net D/E to remain under 1x even with planned capex.

Promising outlook for other small contributing businesses : The company's other business division such as speciality APIs and enzyme (biotech) and environment division, which at present contribute nearly 12 per cent and 3 per cent, respectively, are likely to scale up business operations going ahead. Speciality APIs, which consist of phenyramidol/silicon powder is expected to witness stable growth going ahead owing to opportunities arising from low back pain instances, neck and shoulder pain. Though enzyme (biotech) and environment division's contribution is small for FBL, the segment generates stellar EBITDA margin of around 70 per cent. The company's management indicates that despite heightened Chinese competition, it has maintained its customer base. Going forward, the

*** HP :** Holding Period

Continued On PG 2...

management is confident of clocking mid-teen digit growth in the next foreseeable future with its high margin trajectory. The environment division, which is at a nascent stage, is likely get boost due to structural change in environmental scenario in India. Besides, the company also generates rental income, which constituted around 4 per cent of the total revenue. The company owns a 200,000 sq ft property at Thane and around 10,000 sq ft at Ceejay House. In addition to this, DIL has freehold land of around 5.5 acres in Thane, where it is looking for a partner to jointly develop the land with nil or very minor investment. Further, DIL owns freehold land parcel of around 45 acres at Takawe in Pune, which the company plans to sell in case it gets a good offer from any prospective buyer.

Financial Performance

During the recent quarter Q3FY19, DIL'S consolidated revenue came in at Rs. 111.7 crore as against Rs. 98.26 crore in the corresponding quarter last year, registering 13.7% yoy increase. The EBITDA for the quarter increased by 13.6% yoy to Rs. 44.81 crore as against Rs. 39.44 crore in the corresponding quarter last year, with a corresponding margin contraction of 2 bps. EBITDA margin for the quarter stood at 40.1%. The PAT for the quarter came in at Rs. 28.16 crore as against Rs. 26.46 crore in the corresponding quarter last year, an increase of 6.4% yoy.

Investing in the stock

The company has a share capital of Rs 2.29 crore, with promoters holding 62.59 per cent stake. Therefore, the available free float comes to 0.17 crore shares. The two-week average traded quantity comes to around 2615 shares. We urge our investors to enter the stock in a staggered manner and accumulate as per the table given.

Price	Accumulation
690-700	20 per cent
690-640	30 per cent
640-525	20 per cent
<525	30 per cent

Outlook

The merger of FBL with DIL would give direct access to core business, along with greater financial strength and optimal resource utilisation with the ability to mobilise additional resources. The disruption in supply from China provides enormous opportunities for the company to scale up its business. In addition to these factors, scaling up the small but margin accretive business of enzyme and environment division will lift DIL's profitability in the long run.

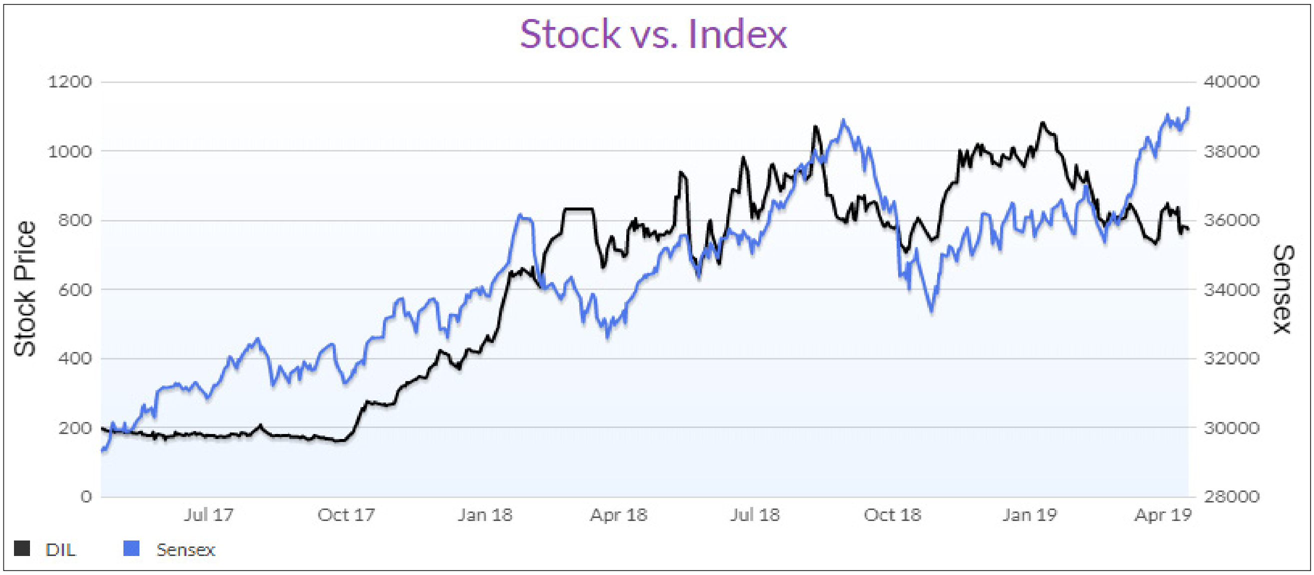
Overall Pharma industry grew by around 10.5 per cent whereas chronic segment registered a growth of 13 per cent in FY19 showing positive demand scenario for the segment. Thus, robust demand is likely to drive growth of DIL in the coming years too.

Owing to all these, we believe the stock has potential to touch the Rs 1150 mark, representing return of around 50 per cent.

Inc/Exp Statement(Consolidated) (Rs in Crore)					
Description	201803	201703	201603	201503	201403
Net Sales	302.67	164.13	154.80	141.75	139.13
Total Income	313.50	166.91	156.11	141.82	142.45
Total Expenditure	211.54	152.17	134.66	125.85	112.90
PBIDT	101.97	14.75	21.46	15.96	29.55
PAT	54.84	-8.23	2.71	0.95	11.01
Dividend %	25.00	25.00	25.00	50.00	100.00
Adj. EPS(Rs)	38.91	-12.45	-1.24	0.51	8.59

Continued On PG 3...

Quarter On Quarter (Consolidated) (Rs in Crore)					
Particulars	201812	201809	Q on Q Var%	201712	Y on Y Var%
Net Sales	111.70	121.27	-7.89	98.36	13.56
Total Expenditure	66.88	76.82	-12.94	58.82	13.72
PBIDT (Excl OI)	44.81	44.45	0.83	39.54	13.33
PAT	28.17	34.58	-18.56	26.46	6.45
PBIDTM% (Excl OI)	40.12	36.65	9.47	40.20	-0.20
PBIDTM%	41.21	44.33	-7.04	40.25	2.39
PATM%	25.22	28.52	-11.57	26.90	-6.25
Adj. EPS(Rs)	28.25	34.84	-18.92	20.68	36.61



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