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|---------------|-----------------------------------|
| COMPANY NAME | : National Peroxide |
| BSE Code | : 500298 |
| Time Duration | : 1 year |
| CMP | : ₹3,862.55 (as on 17 Jan., 2019) |
| Target Price | : ₹5465 |

This month's Mid Bridge idea of investment is National Peroxide Limited (NPL). It manufactures hydrogen peroxide, sodium perborate, compressed hydrogen gas and per acetic acid. It operates through two business units, one engaged in the manufacturing of peroxygens and hydrogen gas while the other one takes care of investing activities. The company manufactures hydrogen peroxide with a current installed capacity of 95,000 metric tons per annum (MTPA) on 50 per cent weight per weight (w/w) basis. NPL's integrated manufacturing site for hydrogen peroxide is located at Kalyan in Maharashtra.

Financial Performance

National Peroxide posted very good numbers for Q2FY19 with strong growth in the top line. The company's major product is hydrogen peroxide, which saw sales growth of 94 per cent YoY. Revenue for the period stood at Rs. 134.30 crore as against Rs. 69.08 crore. Such a strong growth was on account of both factors; higher sales volume and realizations. The prices of hydrogen peroxide saw a strong uptick in the domestic market due to factors such as import duty from government and anti-dumping duty to reduce cheap imports. At the operational level, the company had EBITDA of Rs. 88.68 crore for second quarter of FY19. The corresponding year's figure was Rs. 30.64 crore. The operating margin saw an expansion of more than 2000 bps YoY. The EBITDA margin for the quarter stood at 66 per cent. The net profit for the period stood at Rs. 56.03 crore as against Rs. 19.15 crore. The net profit margin for the period was noted at 41 per cent.

Imposing of Anti-dumping and Allied duties

The government has approved the imposition of an anti-dumping duty of up to US\$118 per tonne on import of hydrogen peroxide from Bangladesh and five other countries, in 2017. The duty in the range of US\$16.91-117.94 per tonne of the chemical will remain in place for five years. The definitive anti-dumping duty, which will be valid for a period of five years ranges from US\$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.

Raw material Prices

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 for its requirements of raw material. The pricing mechanism for natural gas was changed and aligned with spot price in 2016. 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-term, despite rising oil prices in the backdrop of rising gas production. In addition to that, government initiatives are also aiding an increase in the domestic gas output. Stability in gas prices backed with increased domestic supply would ensure lower cost and continued supply of raw material for NPL.

Valuation and Outlook

NPL enjoys nearly 42 per cent market share in India and is a major player in producing peroxygen chemicals. It is raising its current capacity of 95,000 tonne to 1,50,000 tonne which will give expand the company's topline as well as bottom-line figures in the near future. The anti-dumping duty levied on imports from six countries provides the company with much support through domestic production in the unorganized sector. With a decline in the cost of manufacturing, the domestic players are now competitive with respect to the imports. In addition to that, increased demand from the paper and pulp industry also help NPL's sales growth.

Currently, the stock is trading at PE multiple of 14.6x. While TTM EPS of the company is Rs. 272. If we consider the operation of the plant post-expansion, the company's revenue is expected to rise by a further 20 per cent on an annual basis. This rise can be expected to negate any impacts of a decline in price realization. Further, natural gas prices are expected to be stable. Natural gas is a by-product of crude oil which has corrected from its recent highs. Any further hike in prices may not impact the margins of the company as it is already on its low base as against crude oil prices. With a 20 per cent expected rise in revenue and fairly constant margins, EPS is expected to grow by a further 20 to 30 per cent, annually. Hence, we expect the company to maintain good margins and strong EPS growth. We feel investors could buy the stock at the CMP and add on dips with an outlook for targets of Rs. 5,465.

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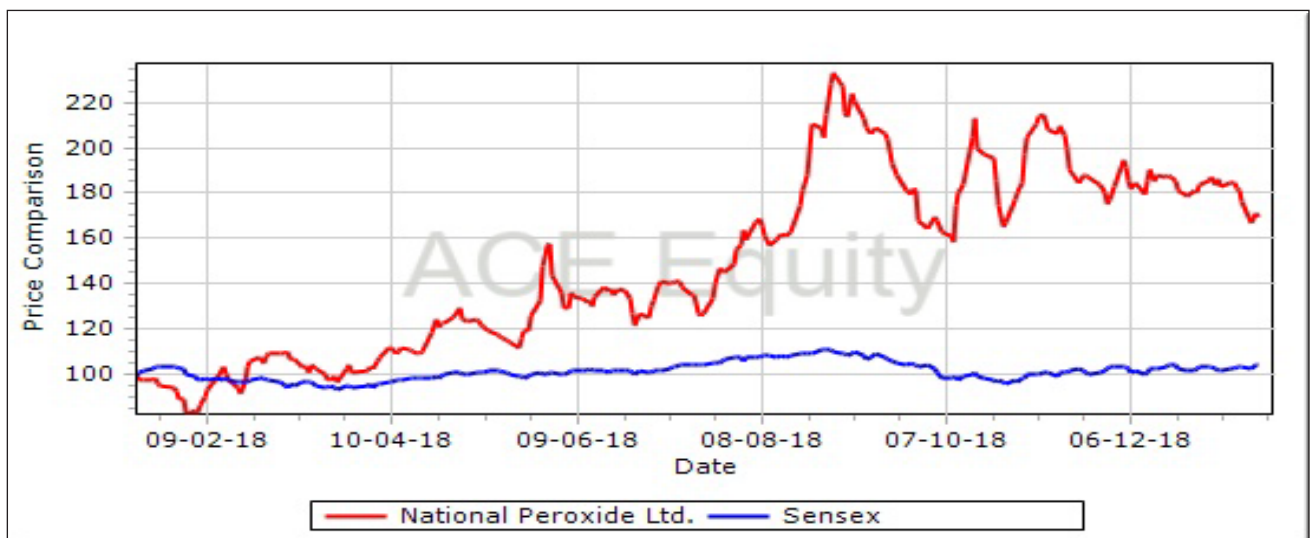
DSJ INVESTMENT ADVISORY UNIT (CRU)

Inc/Exp Statement(Standalone) (Rs in Crore)

| Description | 201803 | 201703 | 201603 | 201503 | 201403 |
|-------------------|--------|--------|--------|--------|--------|
| Net Sales | 301.88 | 232.31 | 233.53 | 196.30 | 234.52 |
| Total Income | 312.02 | 238.49 | 241.61 | 202.78 | 240.71 |
| Total Expenditure | 157.15 | 162.62 | 197.66 | 174.48 | 173.58 |
| PBIDT | 154.86 | 75.87 | 43.96 | 28.30 | 67.13 |
| PAT | 95.12 | 37.88 | 17.97 | 6.23 | 38.62 |
| Dividend % | 650.00 | 340.00 | 100.00 | 50.00 | 150.00 |
| Adj. EPS(Rs) | 165.51 | 65.92 | 31.27 | 10.85 | 67.20 |

Quarter On Quarter (Standalone) (Rs in Crore)

| Particulars | 201809 | 201806 | Q on Q Var% | 201709 | Y on Y Var% |
|-------------------|--------|--------|-------------|--------|-------------|
| Net Sales | 129.39 | 104.98 | 23.25 | 66.46 | 94.69 |
| Total Expenditure | 45.62 | 40.38 | 12.98 | 38.45 | 18.64 |
| PBIDT (Excl OI) | 83.77 | 64.60 | 29.68 | 28.00 | 199.14 |
| PAT | 56.03 | 42.56 | 31.64 | 19.14 | 192.71 |
| PBIDTM% (Excl OI) | 64.74 | 61.53 | 5.22 | 42.14 | 53.63 |
| PBIDTM% | 68.54 | 64.27 | 6.64 | 46.08 | 48.74 |
| PATM% | 43.30 | 40.54 | 6.81 | 28.80 | 50.35 |
| Adj. EPS(Rs) | 97.49 | 74.06 | 31.64 | 33.31 | 192.67 |



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