

# Seya Industries Limited

BSE Code: 524324

CMP : ₹540

Face Value : ₹10

Target price: ₹810

HP\* : Two years

## About the company

Our Pearl Pick for the month of December is Seya Industries Limited. It is engaged in the business of manufacturing of pigment, pharmaceuticals, agrochemicals and rubber chemicals intermediates. The company's products mainly cater to print ink industry followed by personal care & hair dye, pharma, dye intermediaries and agro chemicals. As of FY18, the company's total capacity stood at 52,400 MTPA.

## Why to invest

**Brownfield expansion on track :** The company is in the process of doubling the capacity of one of its high value and high margin product 'para-nitro aniline', which currently contributes ~20% to the total revenues. This brownfield expansion is likely to become operational in Q4FY19 and would double the capacity of the said product to 8000 tonnes.

**Improvement in operational efficiencies and debottlenecking :** The company is in the process of upgrading and debottlenecking all product plants. Also, it is upgrading its effluent treatment plant to support these capacity expansions. This debottlenecking efforts are likely to pay off in FY20, which in turn improve overall operational efficiency.

**Phase 2 expansion under execution :** The company is in the process of the Phase-2 greenfield expansion with an investment of Rs. 735 crore for additional capacity of 527,900 MTPA. Out of this, 259,000 MTPA would be used for captive consumption and 149,000 MTPA would be used as finished goods. The said expansion includes expansion of nitro chloro benzenes, sulphuric acid, etc. and is likely to become operational in H2FY20. The company has completed 67% of this expansion. The management expects to save procurement and logistic costs of around Rs 100 crore annually and power cost savings of Rs. 60 crore annually. This entire project would generate additional revenue of around Rs. 1000-1200 crore at 80% utilisation level. This expansion would lead to a rise in revenue contribution of pharma to 20% from 6-8% and revenue contribution from ink segment would come down to 25% from 49%.

## Robust financial performance

The company's standalone revenue for the second quarter of FY19 came in at Rs. 108 crore, registering an increase of 31% yoy. The jump in revenue was led by better pricing realisations and higher volume of value-added products. The EBITDA for the quarter rose by 38.7% yoy to Rs. 38 crore, with a corresponding margin expansion of 196 bps. The EBITDA margin for the quarter stood at 35%. The margin expansion was mainly due to decline in the cost of materials as a percentage of sales to 53% in Q2FY19 as against 56% in Q2FY18. The PAT for the quarter came in at Rs 24 crore, as against Rs 15 crore in the corresponding quarter last year, an increase of 56% yoy. Presently, the company's D/E stands at a comfortable level of 0.42x and the management aims to keep it at this level. Even on the higher side, the management expects it to touch to 0.45x as it is repaying its current debt.

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\* HP : Holding Period

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## Favourable industry outlook

As Chinese government continues to shut down polluting plants, which has led to supply shortage of necessary chemicals in the overall industry. This creates an enormous opportunity for the Indian players as global players are looking to shift their production facilities from China to countries like India. Seya Industries is well-positioned to grab this opportunity. Further, the end-user industries are likely to grow at ~9% CAGR over the next 7 years to reach USD 90 billion by FY23.

## Investing in the stock

The company has a share capital of Rs. 24.60 crore, with promoters' holdings at 74.53 per cent. Therefore, the available free float comes to 0.63 crore shares. The two-week average traded quantity comes to around 6716 shares. We urge our investors to enter the stock in a staggered manner and accumulate as per the table.

Price	Accumulation
480-500	40 per cent
440-480	20 per cent
420-440	20 per cent
<420	20 per cent

## Valuation and outlook

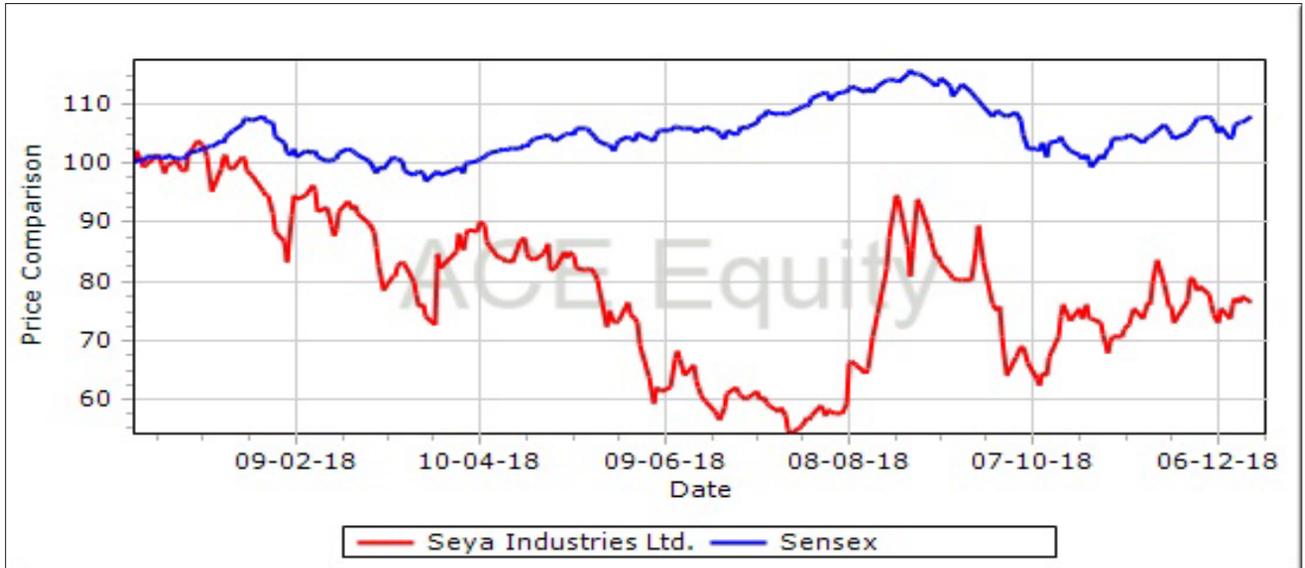
The company is trading at a TTM P/E of 17.92x with TTM EPS of Rs. 30.23. Seya is expanding its production capacity at a time when the industry is at its inflection point. Even with this expansion, the company's management aims to keep its leverage ratio at a comfortable level. We believe Seya is well-poised to capitalise the opportunity arising from the industry tailwinds and expanding its production facility would further fuel its growth engine going forward. Thus, we urge our investors to buy this stock with a potential upside of 50 per cent for a target price of Rs 810 over the next two years.

Inc/Exp Statement(Standalone) (Rs in Crore)					
Description	201803	201703	201603	201503	201403
Net Sales	346.16	308.61	275.28	247.61	131.31
Total Income	347.20	309.45	277.12	248.31	132.85
Total Expenditure	240.73	234.68	227.03	214.15	116.87
PBIDT	106.46	74.77	50.09	34.17	15.98
PAT	52.40	42.23	26.78	13.03	3.36
Dividend %	10.00	10.00	10.00		
Adj. EPS(Rs)	21.30	20.75	22.97	11.85	3.05

Quarter On Quarter (Standalone) (Rs in Crore)					
Particulars	201809	201806	Q on Q Var%	201709	Y on Y Var%
Net Sales	107.60	105.12	2.36	82.18	30.93
Total Expenditure	69.92	70.86	-1.33	55.01	27.10
PBIDT (Excl OI)	37.68	34.26	10.00	27.17	38.67
PAT	23.54	18.33	28.45	15.13	55.60
PBIDTM% (Excl OI)	35.02	32.59	7.46	33.07	5.90
PBIDTM%	35.11	32.83	6.94	33.14	5.94
PATM%	21.88	17.43	25.53	18.41	18.85
Adj. EPS(Rs)	9.57	7.45	28.46	6.15	55.61

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