

Shree Pushkar Chemicals

BSE Code: 539334

CMP : ₹214.50

Face Value : ₹10

Target price: ₹325

HP* : Two years

About The Company

Our Pearl Pick for the month of May is Shree Pushkar Chemicals Ltd. The company is engaged in the business of manufacturing and trading of chemicals, dyes and dyes intermediate, cattle feeds, fertilisers and soil conditioner. In 9MFY18, the revenue mix comprised of dye intermediates (51 per cent), dyestuff (26 per cent), fertiliser (16 per cent), others (3 per cent), acid complex (2 per cent) and cattle feed (2 per cent). The company has a total dyestuff capacity of 6,000 MTPA and dye Intermediates capacity of around 9000 MTPA, which includes vinyl sulphone (1000 MTPA) and H-acid (750 MTPA) plants which are used for captive consumption.

Why to invest

Gradual shift towards dyestuff augurs well for the company : The company is in the process of ramping up its presence in its higher margin dyestuff segment which contributes around 37 per cent of the total revenue in Q3FY18. In March 2016, it has commissioned phase-1 of the fully-integrated dyestuff facility having capacity of 3000 MTPA. Further in Q3FY18, it has commissioned the phase-2 and doubled its dyestuff manufacturing capacity to 6000 MTPA. The utilisation of original dyestuff plant in Q3FY18 stood at nearly 85-90 per cent. The management has guided 60-65 per cent utilisation of total dyestuff capacity in FY19E. So, we believe that the gradual shift towards dyestuff augurs well for the company as it offers better stability in terms of margins as compared to dye intermediates.

Geographical diversification : The company has acquired 100 per cent stake in Kisan Phosphate Pvt Ltd for Rs 9 crore, which had a business parallel to that of Shree Pushkar Chemicals. The target entity has a capacity of one lakh tonne single super phosphate, 3,000-tonne cattle feed capacity and 6000-tonne soil conditioner capacity in Hisar, Haryana. This acquisition will help the company to expand its business in Punjab, UP, Haryana, Rajasthan and Himachal Pradesh, which would drive its topline going ahead.

Introduction of textile chemicals : The company has started test marketing of auxiliary textile chemicals in Q2FY18 and the demand for the same is slowly catching up. It is also planning to set up a plant for the same in the near future. The total production of textile chemicals stood at 129 tonnes as on Q3FY18. This foray into textile chemicals is likely to build its position as a textile solutions provider. The management expects to broaden the market reach through intensive marketing initiatives in this segment and targets a substantial increase in the sales of textile chemicals by FY19E.

Cost rationalisation and SOP expansion to drive fertiliser segment : To reorganize the fertilizer business, the company is planning to put up a sulphuric acid plant (100 TPD capacity), of which 50 per cent would be for captive consumption and co-generation captive power plant of 700 KW. This would help in cutting raw material and power costs by nearly 12 per cent, hence improving operating performance. Further, the company has started the sulphate of potash (SOP) plant with a capacity of 10,000 MTPA, which has commenced commercial production in September 2016. The management aims to double the SOP capacity to 20,000 MTPA by FY19E.

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* HP : Holding Period

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Chinese slowdown an advantage : China's share in the global colorant industry was once around 1/3rd of the total supply, but it has declined significantly over the years due to the Chinese government's action against polluting industries. The resultant supply constraint creates enormous opportunities for Indian players. We believe Shree Pushkar is well-equipped to capitalise on this opportunity.

Industry development

The Indian dyestuff sector, which previously used to cater to the needs of domestic textile industry, now not only has enhanced its reach in the domestic market, but it has gradually made a dent in the global arena. The future of dyes sector totally depends on the performance of end-users like paints, textiles, printing inks, paper, plastics and foodstuffs. India accounts for approximately 16 per cent of the world production of dyestuff and dye intermediates, particularly for reactive acid and direct dyes. The development of new manufacturing processes of dye intermediates and applications is estimated to propel the dye intermediates market. However, the volatility in prices of raw materials is expected to inhibit the market.

Investing in the stock

The company has a share capital of Rs 30.22 crore, with promoters' holdings at 63 per cent. Therefore, the available free float comes to 1.12 crore shares. The two-week average traded quantity comes to around 38,000 shares. We urge our investors to enter the stock in a staggered manner and accumulate as per the table given below.

Price	Accumulation
185-195	30 per cent
175-185	25 per cent
165-175	25 per cent
<165	20 per cent

Financial performance

During 9MFY18 period, the company's revenue came in at Rs 268 crore, registering an increase of 21.7 per cent YoY. Its EBITDA for 9MFY18 jumped by 24.7 per cent YoY to Rs 47 crore and its EBITDA margin for 9MFY18 stood at 17.7 per cent. The PAT for 9MFY18 came in at Rs 27 crore, a jump of 20.3 per cent YoY. Looking at the recently concluded quarter, Q3FY18, we see that the company's revenue jumped by 23.4 per cent to reach Rs 94 crore, while its EBITDA rose by 34 per cent to Rs 17 crore. Further, the net profit came in at Rs 9 crore, up by 30.8 per cent YoY.

Valuation and outlook

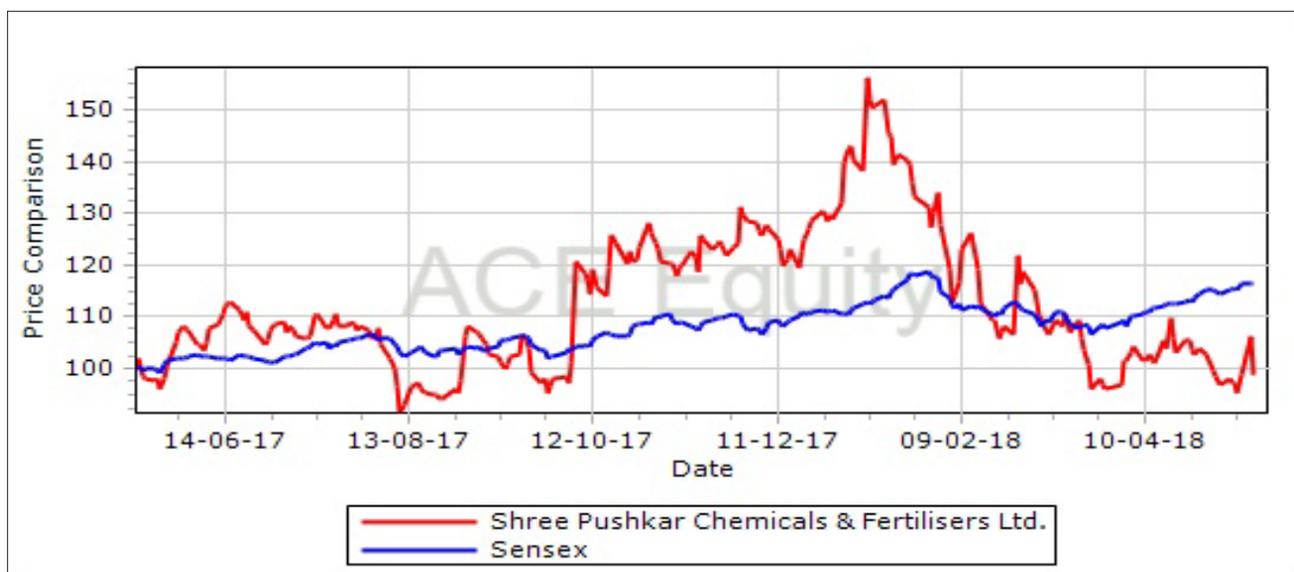
The company is trading at a TTM P/E of 18.3x with TTM EPS of Rs. 11.4. Going ahead, the geographical diversification and cost control initiatives would improve overall profitability. Further, the recent dyestuff and SOP expansion would drive revenue growth. Also, we expect price of intermediates to go up in the coming quarters on account of the China factor, which will help the dye industry. Considering all the aspects, we see an upside of 50 per cent with a target price of Rs 325 over the next two years.

Inc/Exp Statement(Standalone) (Rs in Crore)					
Description	201703	201603	201503	201403	201303
Net Sales	313.02	248.76	266.52	210.09	175.98
Total Income	315.14	251.30	266.81	210.37	176.57
Total Expenditure	260.69	216.39	234.97	180.92	153.26
PBIDT	54.45	34.91	31.84	29.45	23.31
PAT	30.50	22.29	18.65	10.44	7.24
Dividend %	15.00	10.00			
Adj. EPS(Rs)	10.09	7.38	9.01	5.04	3.50

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Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201712	201709	Q on Q Var%	201612	Y on Y Var%
Net Sales	93.80	96.38	-2.68	74.81	25.38
Total Expenditure	77.19	78.96	-2.25	62.68	23.14
PBIDT (Excl OI)	16.61	17.42	-4.63	12.13	36.95
PAT	9.46	10.39	-9.00	7.07	33.79
PBIDTM% (Excl OI)	17.71	18.07	-1.99	16.21	9.25
PBIDTM%	18.11	18.55	-2.37	16.83	7.61
PATM%	10.08	10.78	-6.49	9.45	6.67
Adj. EPS(Rs)	3.13	3.44	-9.01	2.34	33.76



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