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DEMOCRATIZING WEALTH CREATION

VALUE PICK

CHASING VALUE, NOT PRICES

February 2018

Company Name	:	**THIRUMALAI CHEMICALS**
BSE Code	:	**500412**
Time Duration	:	**1 year**
CMP	:	**₹1997 (as on 08 Feb., 2018)**
Target Price	:	**₹2520**

The Value Pick for the month of February is Thirumalai Chemicals Ltd. (TMCL). It is the second largest manufacturer of phthalic anhydride (PAN) having market share of ~40%. While PAN contributed almost 91% of the company's revenue in FY17, it also manufactures value added derivatives like maleic anhydride (MAN), diethyl phthalate (DEP) and food acids. The company's profit has grown at a CAGR of 75.8% over FY15-17. In the past one month, the stock has corrected by ~35%, despite robust performance in the recent quarters. Currently, it is trading at attractive valuations as compared to other listed peers with high ROE. Looking at the stellar financial performance in the recent quarters, we expect the company will continue to deliver robust performance going forward. We see that, at the current level, investors have a good opportunity to enter the stock.

Capacity Expansion to drive volumes

The company's current capacity of PAN is 1,40,000 MT. It is planning to add 60,000 MT of capacity in Dahej, the first phase of which will be completed in 2019. It has also increased the food ingredients and fine chemicals capacity by 40% during the current year. Till next year, it is planning to further increase the capacity, which will be funded through internal accruals. The uptick in volumes is expected once the expanded capacity gets fully operational.

In early FY18, Asian Paints, one of the foremost companies in paints, had closed its PAN manufacturing facility in Gujarat. This development provided an opportunity for TMCL to capture the demand and supply additional units in the market. This has been one of the reasons for the growth in the topline and margins during 9MFY18.

Growing contribution from Malaysian subsidiary

The company has a subsidiary in Malaysia named Optimistic Organic. In FY17, this subsidiary had contributed 18% of the total revenue of the company. On TTM basis, it is seen that this contribution has increased to 25%. It had expanded its capacity of MAN from 42,000 MT to 45,000 MT in FY17. It is also introducing the food ingredients and fine chemicals segment in Malaysia using parent company's latest technology. This expansion at Malaysian facility will trigger volumes of MAN and contribute to the topline and profitability of the company.

Availability of raw material at lower cost

The major raw material required for manufacturing PAN is ortho xylene. India has easy availability of this raw material, which will cover up the domestic demand of PAN in the upcoming years. This has also enabled the company to procure the raw material at a lower cost. In FY16 and FY17, low raw material cost has enabled it to earn high operating profits and maintain margin at a high level as compared to the earlier years.

Industrial applications of the company's products

PAN is used across various industries, including dyes & pigments, flame retardants, herbicides & insecticides, plasticizers, automobiles, paints & costings. PAN's domestic market size is of 3,50,000 MT and has huge demand in India. Of the total demand, 20% of the demand is met through imports. Thus, Indian manufacturers such as TMCL have a huge opportunity for expansion to cater to the growing domestic demand and thereby reduce dependence on imports. MAN has application in industries such as construction chemicals, paints, food & beverage acidulants and marine. Unsaturated polyester resin (UPR) is the largest application segment of MAN, which is supposed to trigger the demand in upcoming 8-10 years.

Financial Performance

Although the company's topline has not shown any specific growth trend, the profitability has shown tremendous growth from net loss in FY15. In FY15, the EBITDA margin stood at 3.5% which improved to 15.3% in FY17. The EBITDA margin has increased as raw material prices had declined steeply. The company's debt has reduced, which led to a decline in interest costs. The PAT in FY17 was Rs 70.54 cr., as against net loss of Rs 13.7 cr. The PAT margin stood at 6.3% in FY17. Its receivable days have improved from 67.5 days in FY14 to 43.5 days in FY17. The debt-equity ratio improved from 1.15x in FY14 to 0.2x in FY17.

It has delivered robust performance in all the three quarters of FY18. The revenue in Q3FY18 grew by 39.3% YoY to Rs 345.6 cr from Rs 248.2 cr in Q3FY17. Its EBITDA has increased by 97.2% YoY to Rs 79.67 cr, The EBITDA margin stood at 16.3% in Q3FY17, which has improved to 23.05% in Q3FY18. The PAT has jumped by 162.6% YoY to Rs 70.8 cr. Its PAT margin in Q3FY17 stood at 5.5% and has improved drastically to 14.8% in Q3FY18.

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DSIJ Pvt. Ltd. : C - 305, Trade Center, North Main Road, Near Axis Bank, Opp. Lane no. 6, Koregaon Park, Pune - 411001 I **For Customer Service : 020-49072626 OR service@dsij.in**

Registered Office Address: 419-A, 4th Floor, Arun Chambers, Tardeo, Next to AC Market, Mumbai - 400034

CIN No. : CIN-U22120MH2003PTC139276 SEBI Registration No: INA000001142

DSIJ INVESTMENT ADVISORY UNIT (CRU)

Valuation

The company is trading at TTM P/E of 12.45x with TTM EPS of Rs 144.28. The industry's average P/E is 28.04x, which shows the company is undervalued as compared to the peers in the industry. It has delivered ROE and ROCE of 27.4% and 37.7%, respectively, in FY17. Considering the robust financial performance, capacity expansion and attractive valuations, we recommend our investors to buy this scrip. We see an upside of 26% with target price of Rs 2,520 over a period of one year.

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

Description	201703	201603	201503	201403	201303
Net Sales	1032.76	944.17	1072.26	1276.24	1371.31
Total Income	1036.89	949.36	1079.95	1280.87	1376.08
Total Expenditure	874.76	846.34	1034.21	1194.47	1236.48
PBIDT	162.13	103.02	45.73	86.40	139.61
PAT	70.54	32.15	-13.72	11.87	43.81
Dividend %	187.50	100.00	40.00		75.00
Adj. EPS(Rs)	68.90	31.40	-13.40	11.59	42.79

Quarter On Quarter (Consolidated) (Rs in Crore)

Particulars	201712	201709	Q on Q Var%	201612	Y on Y Var%
Net Sales	345.62	312.36	10.65	270.11	27.96
Total Expenditure	265.95	233.94	13.68	229.70	15.78
PBIDT (Excl OI)	79.67	78.42	1.59	40.41	97.15
PAT	51.46	46.31	11.12	15.09	241.02
PBIDTM% (Excl OI)	23.05	25.11	-8.20	14.96	54.08
PBIDTM%	23.61	25.76	-8.35	15.27	54.62
PATM%	14.89	14.83	0.40	5.59	166.37
Adj. EPS(Rs)	47.71	46.36	2.91	17.27	176.26