



Company Name	: Bodal chemicals
BSE Code	: 524370
Time Duration	: 2 year
CMP	: ₹117.50 (as on 01 November, 2018)
Target Price	: ₹165

The Upstream Pick for the month of November is Bodal Chemicals. Bodal is the largest manufacturers and exporters of dye intermediaries and dyestuff. Its main segments contributing to the revenue are dye intermediaries 54%, dyestuff – 31%, basic chemicals – 10% and other – 5%. In the Indian dye intermediates industry, the company holds market share of 25%. It provides solutions to customers present in the downstream industries such as textiles, leather, paper, detergent and water treatment. The company has ROCE of 26.4% and ROA of 11.3%. It is also seeing higher domestic demand leading to revenue mix change to 53%/47% domestic/exports as compared with 76%/24% in the previous quarter last year.

Dye Intermediaries segment – The company exports 41.2% of the produce and serves companies like BASF and Meghmani Organics. 22,344 MT of intermediaries was produced in FY18.

The company is a leading manufacturer of reactive, acid and direct dyes. It has capacity to manufacture more than 150 variants of dyestuff which are principally used as raw materials in textiles, leather, paper and other dyestuff consuming industries

The company expects to commence production at the new vinyl sulphone plant at Kosi, Mathura, which will help increase the capacity by 6000 MTPA. The production of both H acid as well as vinyl sulphone will allow the SPS (subsidiary of company) to utilise the effluents of the two plants into each other's production. This will help to improve efficiency due to higher revenues and reduction in costs involved in managing effluent.

Dyestuff - The company is a leading player in the segment and has annual capacity of 39,000 MT, where 29,000 MTPA is dyestuff capacity in powder and 10,000 MTPA is liquid capacity. It has installed an in-house ice plant of 500 MTs/day that provides support to dyestuff plant. The company's dyestuff manufacturing capacity at Vadodara facility (Plant VII) accounts for about 70% of the company's total production and is one of the most integrated plants for manufacturing basic chemicals, dye intermediates and dyestuff in India.

Basic chemicals: The company's entry in 2008 and its eventual expansion in 2010 in basic chemicals and sulphur chemicals division helped the company to integrate backward and become self-reliant and competitive in terms of pricing. The company has capacity to produce 1,90,000MT of basic chemicals and has achieved 94.5% capacity utilisation. This division helps the company in meeting its internal requirement for raw materials such as acetanilide, beta naphthol and chloro sulphuric acid, which serves as basic input for vinyl sulphone and dye intermediaries.

Sector outlook

Indian dyestuff and intermediary industry contributes 16% to the total world production. India is slowly becoming a preferred supplier of chemicals due to restrictions on the pollutant levels leading to closure of many chemical companies in China. The global players are looking for quality and consistent suppliers of intermediaries.

Investing to improve product mix and expand scope of applications

The company completed the expansion of dyestuff plant by 12,000 MTPA, which was started in October 2017 after raising funds through QIP. It has also completed the formalities of acquisition of the GIDC land at Saykha for around Rs. 85cr. The dyestuff industry witnessed highest growth and the company has been investing in the same to benefit from the higher demand.

During H1FY19, the company made capex of Rs. 74.3cr., which includes thionyl chloride, new office building, storage and infrastructure facility for dyestuff, land and maintenance capex. This is expected to be operational by Q4FY19.

The company also plans to upgrade dyestuff (powder) capacity by 6000 MTPA, taking the total capacity to 35000 MTPA with capex of Rs.26cr and this is expected to be operational by Q1FY20.

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Incremental gains in margins -steps ahead

The company had indicated that it is working on new product development, which is based on both forward as well as backward integration, i.e., thionyl chloride (TC) and is establishing a TC plant of 36,000 MTPA at Unit-VII. This is already in progress and can start contributing to the topline by the end of FY19. It plans to use 30% of TC produced for captive consumption and the rest 70% will be sold to chemical, pharma and agro industries. This will benefit in terms of economies of scale, lower inventory, supply quality products and reduce logistics costs.

The company consumes 45% of basic chemicals to manufacture dye intermediates and 40% of intermediates are for captive consumption for dyestuff. This captive consumption allows the company to keep a check on the raw material cost.

Also, its 5MW cogeneration power plant commissioned in the month of March 2018 is expected to reduce power cost from Rs 8 per unit to Rs 4 per unit. This can reduce operating expenses over the long term and also lower the cost of treating effluents, which is already the best for Bodal.

Dyestuff is seeing highest demand and volume growth. This can be further augmented by its expansion, which is running ahead of the target and is expected by early FY20.

We expect Trion and SPS business, acquired during FY17, to generate cash and augment margins. SPS has turned positive, while production has started in Trion leading to lower losses.

Financial performance

We see improving credit profile with current ratio improving from 1.15x in FY16 to 1.54x in FY18. Also, the interest coverage ratio improved from 12 in FY16 to 36 in FY18.

The company reported encouraging results for Q2FY19, with its revenue rising 53.52% to Rs 393.2cr as against Rs 256.13 crore during the previous quarter ended September 2017, which was largely due to higher realisation in dye Intermediates. The dyestuff expansion also aided volumes, which grew by 54%. Also, exports were up 179% from Rs.61.9cr to Rs.173cr. Overall, this lifted EBITDA by 63% to Rs.75.8cr. The net profit rose 81.57% to Rs.45.03cr as against Rs24.8cr. during the same period.

Also, the improved performance of subsidiaries SPS & Trio acquired in FY17 lifted the margins.

We see that the company's debt level decreased in Q2FY19 and now stands as Rs.21.4cr vs Rs.84.8cr in FY18. It has also increased its working capital cycle by improvement in trade receivable days from 48 to 87.

Our view

We see the company to benefit structurally from being an integrated player and increasing production of dyestuff and dye intermediaries, which it is expected to augment its market share. The better product mix, investment in high value products like linear alkyl benzene sulphonic acid (LABSA - used in detergents) and liquid dyestuff (used in paper industries) makes it more aligned to cater to demand from various industries.

With this capacity addition, we expect the captive consumption of dye intermediates to increase to 90% from 40% in the next 2-3 years, which will lead to improvement in margins.

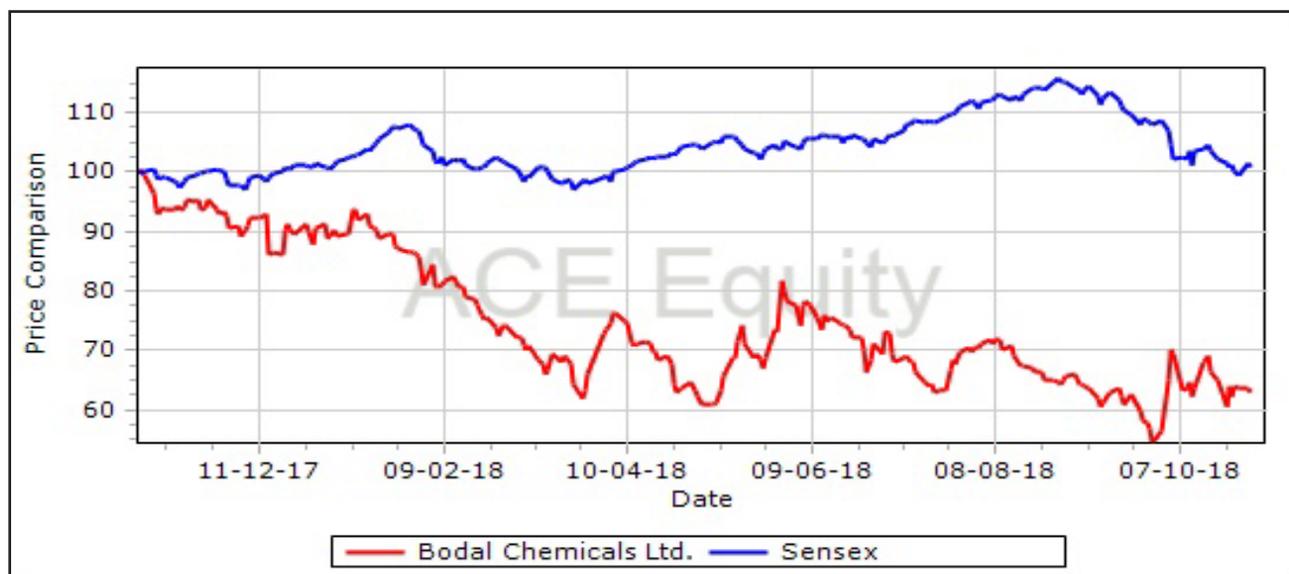
The company is trading at an attractive P/E of 9.2x and has great potential to beat the pressure on margins as many raw materials are derived from crude. We urge investors to invest in tranches and expect a target price of Rs.165 over a two-year period.

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

Description	201803	201703	201603	201503	201403
Net Sales	1121.00	1182.21	909.79	1045.31	959.50
Total Income	1132.88	1192.67	921.80	1050.03	963.20
Total Expenditure	924.41	961.62	759.86	861.05	770.49
PBIDT	208.48	231.05	161.94	188.98	192.71
PAT	127.54	132.93	86.60	92.02	30.65
Dividend %	40.00	40.00	30.00		
Adj. EPS(Rs)	10.44	12.18	7.94	8.43	2.81

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201809	201806	Q on Q Var%	201709	Y on Y Var%
Net Sales	374.26	352.98	6.03	262.51	42.57
Total Expenditure	304.69	290.28	4.97	216.14	40.97
PBIDT (Excl OI)	69.57	62.70	10.96	46.36	50.04
PAT	43.25	39.39	9.79	26.18	65.21
PBIDTM% (Excl OI)	18.59	17.76	4.67	17.66	5.27
PBIDTM%	19.08	18.52	3.02	18.34	4.03
PATM%	11.56	11.16	3.58	9.97	15.95
Adj. EPS(Rs)	3.54	3.22	9.94	2.40	47.50



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