# HDFC sec Investor Forum

## Oil & Gas, Chemicals: Key takeaways

| | MCap (Rs bn) |
|---|---|
| **OIL & GAS** | |
| Adani Gas | 106.52 |
| GAIL (India) | 748.11 |
| Hindustan Petroleum Corporation | 365.71 |
| Indraprastha Gas | 196.74 |
| **CHEMICALS** | |
| Anthea Aromatics | |
| Apcotex Industries | 10.56 |
| Bhageria Industries | 5.89 |
| Daga Global Chemicals | |
| Gujarat Alkalies and Chemicals | 37.89 |
| Insecticides India | 13.29 |
| NOCIL | 26.50 |
| Seya Industries | 11.78 |
| Shree Pushkar Chemicals and Fertilizers | 4.47 |

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**23 Jan 2019**

# Adani Gas *Not an easy ride*

***CMP Rs 97, MCap Rs 108.00bn***

- Adani Gas currently operates in 4 GA's- Ahmedabad, Vadodara, Faridabad and Khurja with total volume of 1.44mmscmd in 1HFY19 (CNG-0.74mmscmd and PNG-0.7mmscmd).
- In the existing area of operations, the company expects a volume growth of ~10-11% YoY owing to a stable growth in its CNG and Industrial and commercial segments. Adani Gas will be able to maintain a higher EBITDA per unit margin (Rs 7.5/scm) as compared to other CGD operators due to lower operating expenditure per unit.
- The company's 50:50 JV with IOCL has obtained 9 Geographical Areas (GAs) in the recently concluded 9th round of CGD bidding. On a standalone basis, Adani owns 13 GAs.
- We believe the targets given by the company for D-PNG connections to own the GAs in 9$^{th}$ round are overly ambitious. Moreover, returns from the D-PNG segment in most cities are back-ended with long payback periods.
- The success in any GA depends on the level of industrial and commercial consumers, average commuting distance in the city, single story vs multi storied societies, among others. Mere act of setting up a CGD network does not guarantee higher returns. In our opinion, the company may not enjoy the success of IGL/MGL as these new GAs lacks the favourable geographic characteristics.
- Network development in these new 22 (9+13) GAs will require an investment of Rs 131bn over next 3-4years. OCF from the existing business is merely ~Rs 4bn. Its ambitious expansion plans, leveraged balance sheet and back ended earnings will lead to poor returns.

| Year Ending March (Rs bn) | FY15 | FY16 | FY17 | FY18 |
|---|---|---|---|---|
| Revenues | 13.38 | 11.29 | 10.87 | 13.01 |
| EBITDA | 2.19 | 2.60 | 2.77 | 3.65 |
| APAT | 0.96 | 1.04 | 1.23 | 1.73 |
| AEPS (Rs) | 0.9 | 0.9 | 1.1 | 1.6 |
| P/E (x) | 111.0 | 102.8 | 87.0 | 61.7 |
| EV/EBITDA (x) | 49.5 | 42.8 | 40.4 | 30.1 |
| RoE (%) | 16.4 | 17.3 | 18.5 | 21.6 |

Source : Company, HDFC sec Inst Research

# GAIL *A long term bet*

***CMP Rs 332, MCap Rs 748.12bn, TP Rs 410***

- Given GAIL's dominant position in India's gas pipeline network and high share of volume in the upcoming eastern corridor gas pipeline, its gas transmission business is likely to be in a sweet spot in coming years.
- PNGRB is in the advance stage of finalising transportation tariff for HVJ-GREP-DVPL including DVPL-II/GREP-II. The management expects a 15-20% upside in tariff from the current provisional tariff of Rs 25.46/mmbtu and Rs 53.65/mmbtu for HVJ-GREP-DVPL and DVPL-II/GREP-II respectively. These two pipelines contribute ~70% in transmission revenue and transmit ~65% of total NG volumes. 20% increase in tariff will increase GAIL's FY20 EBIDTA by 6.9% from Rs121.38bn to Rs 129.79bn.
- The Kochi-Mangalore pipeline commissioning (6% share in the total transmission revenue of ~Rs 4.12bn) is expected to be completed by 1QFY20, at a lag to its earlier target of 4QFY18, owing to a delay in activities because of the Kerala floods.
- A 30% QoQ jump in the Henry Hub price to USD 3.8/mmbtu owing to relatively lower levels of NG inventory ahead of winter, has currently made GAIL's US LNG costlier as against the Asian LNG. Given (1) A 100% destination swap for US LNG for FY19 and ~70% for FY20 and (2) An expected price correction owing to production growth in the US in 2019, we do not see US LNG as a stress point for the company.
- GAIL has signed Gas Supply and Purchase Agreements (GSPA) with 6 fertiliser plants for ~12mmscmd of NG. These fertiliser plants have agreed to buy the high priced US LNG. Chambal fertiliser has already started using ~0.5mmscmd of gas in 3Q which will increase to 1mmscmd by the end of 4QFY19. The other 5 plants will be operational in phases up to Dec-2020.

| Year Ending March (Rs bn) | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|
| Revenues | 536.62 | 734.60 | 775.80 | 883.77 |
| EBITDA | 76.34 | 100.38 | 110.08 | 118.82 |
| APAT | 46.00 | 64.29 | 66.47 | 71.65 |
| EPS (Rs/sh) | 20.4 | 28.5 | 29.5 | 31.8 |
| P/E (x) | 16.3 | 11.6 | 11.3 | 10.4 |
| EV/EBITDA (x) | 8.3 | 6.4 | 6.1 | 5.6 |
| RoE (%) | 11.7 | 15.1 | 14.2 | 14.0 |

Source : Company, HDFC sec Inst Research

# HPCL *A rainbow to follow*

***CMP Rs 240, MCap Rs 365.71bn, TP Rs 261***

- In last two and half years to a peak in Aug-17, HPCL stock was up 233% (Benchmark Sensex was up 14%) on account of a jump of 124% in EBITDA and 133% in PAT. Since then, the stock has corrected by 50% while the Sensex was up 15%. This could be attributable to the unpredictable earnings owing to (1) Insufficient allocation for petroleum subsidy in the Union Budget (2) Unnecessary intervention of the government in determining the marketing margin on petrol and diesel.
- Certainly, inadequate and untimely petrol and diesel retail price hikes as oil prices have surged is disturbing and an overhang on the stock. But a 30% fall in oil prices corresponding to a drop of only 17-18% in petrol/ diesel prices demonstrates that OMCs have been able to recoup their margin.
- The bottom upgradation project at the Visakh refinery with an investment of ~Rs210 will increase the share of middle distillates to ~63-65% from the current ~51% while reducing the share of heavy ends to ~5% from 18%. But this will also decrease light distillates from 25% to 19-23%. Besides, fuel and losses will also increase to 9-10% from 6-7%. Still, the management is confident that this will boost the refinery's GRM by USD3/bbl owing to (1) Increase in middle distillate cracks post the IMO regulation (2) Increase in the share of heavy and sour crude.
- Given the skepticism on the government's stance on deregulation in an election packed year, OMCs may be out of luck in a near term.

| Year Ending March (Rs bn) | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|
| Revenues | 2,193.33 | 2,695.15 | 2,958.09 | 3,131.94 |
| EBITDA | 107.38 | 79.49 | 94.54 | 114.62 |
| APAT | 63.57 | 37.93 | 42.33 | 49.05 |
| AEPS (Rs) | 41.7 | 24.9 | 27.8 | 32.2 |
| P/E (x) | 5.8 | 9.6 | 8.6 | 7.5 |
| EV/EBITDA (x) | 4.3 | 8.0 | 8.1 | 6.7 |
| RoE (%) | 28.7 | 15.1 | 15.2 | 15.9 |

Source : Company, HDFC sec Inst Research

# Indraprastha Gas *Strong present, perfect future*

***CMP Rs 281, MCap Rs 196.74bn, TP Rs 373***

- IGL's monopolistic gas supplier status in Delhi/NCR, regulatory support in the form of prioritised gas allocation, ban on petrol/diesel for public transport and ban on FO/LSHS/pet coke in favour of PNG convince us that this is a business to own for the long term.
- A volume growth of 10-11% YoY is expected over FY20-22, which will be led by (1) Private cars in the existing area (2) Industrial volumes from Rewari and Karnal (3) Expansion in Gurugram and Meerut (except areas already authorized), Muzaffarnagar & Shamali Districts. The robustness of business enables the company to maintain stable EBITDA per unit margin at ~Rs6/scm.
- The lack of land availability from the government and saturation of tie-ups with OMCs, IGL has turned towards a Dealer Own Dealer Operated (DODO) model to set up CNG stations. 15-30 year contracts with CNG station operators enforce the dealers to stick to IGL. The company's investment is restricted to the tune of ~Rs 13-20mn per CNG station i.e. only for compressor and dispensers.
- The company will remain a net cash one as OCF of Rs 9-10bn from the existing area of operation is sufficient to take care of its Rs 5-6bn per annum capex. If IGL acquires the natural gas supply business of Haryana City Gas Distribution Ltd (HCGDL), its existing cash and cash equivalent of ~Rs 17.47bn (Sep-18 ) will be sufficient.
- We do not foresee any crucial regulatory adversity in CGD either through a change in gas allocation or capping returns. This is because the superior returns in CGD will be reinvested and will help increase the share of gas in India's energy mix to 20% (from 6% currently) by 2025.

| Year Ending March (Rs bn) | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|
| Revenues | 45.92 | 56.53 | 64.14 | 71.59 |
| EBITDA | 11.13 | 12.04 | 14.45 | 16.69 |
| APAT | 6.72 | 7.34 | 8.86 | 10.32 |
| AEPS (Rs) | 9.6 | 10.5 | 12.7 | 14.7 |
| P/E (x) | 29.3 | 26.9 | 22.2 | 19.1 |
| EV/EBITDA (x) | 16.4 | 14.8 | 12.0 | 10.1 |
| RoE (%) | 20.9 | 19.6 | 20.7 | 21.1 |

Source : Company, HDFC sec Inst Research

# Anthea Aromatics

## *Leaders in Terpene Chemistry*

- Navi Mumbai-based Anthea Aromatics, founded by Vincent Paul, a former head of organic chemistry at Hindustan Lever Ltd, is an aroma chemicals marketing and manufacturing company.
- The Anthea Group has its origins in 1991 with the establishment of Anthea Aromatics Pvt. Ltd. (AAPL), a company that was set up in Navi Mumbai to manufacture specialty chemicals used in the perfumery and flavour industry.
- In 2002, a new manufacturing facility was set up in Roha, Maharashtra to manufacture a key perfumery intermediate. In 2007, AAPL entered into a 50:50 JV with DRT(website), a reputed French multinational engaged in the research, development and manufacture of ***resin and terpene*** derivatives.
- In 2008, the Anthea group took over Crown Chemicals in Tarapur MIDC and revamped this facility to manufacture synthetic Piperonal, which despite being synthetically, manufactured is the eco-friendly option.
- In 2011, DRT took a substantial stake in Crown Chemicals. Subsequently, DRT increased its stake in Crown Chemicals, which is now a 50:50 JV between DRT and the Anthea group.
- Piperonal is used in the F&F industry and also has increased usage in the manufacture of pharmaceutically active molecules. The proposed process to manufacture Piperonal uses Catechol as raw material and is a substitute for Piperonal manufactured from Sassafras Oil, which has led to expensive deforestation of the Sassafras tree in Brazil, China and South East Asia.
- Catasynth, a 100% subsidiary of Anthea group manufactures Catechol (procures from Solvay) based derivatives.
- Piperonyl Butoxide is a very important speciality chemical used world-wide as an insecticide synergist. The use of this chemical is expected to grow with the increasing use of insecticides in India and other developing economies. **Anthea is currently in the process of developing a synthetic route to manufacture Piperonyl Butoxide from 1,2-methylenedioxybenzene.** Both MDB and Piperonal are also used as starting materials to manufacture other high value speciality chemicals used in F&F, pharmaceutical, agrochemical and other industries.
- In 2016, ICICI Ventures, the private equity arm of ICICI Bank, invested about Rs 1.2bn for a minority stake in the Anthea Group.
- Anthea Aromatics recorded sales of ~Rs 3.0bn and targets achieving Rs 18.0bn in the next 5 years.

# Apcotex Industries *Capex to fuel growth*

## *CMP Rs 509, MCap Rs 10.56bn*

- Apcotex has reported a strong 1HFY19 performance on the back of strong revenue growth across its segments. Sales/EBITDA/PAT grew by 18.7/56.6/57.4% YoY to Rs 3.09bn/Rs 368mn/Rs 214mn respectively driven by economies of scale, higher realizations and efficient plant operations.
- Apcotex has ambitious capex plans and is expected to incur Rs 1.5-2.0bn to expand its Nitrile rubber capacity. Phase 1 of the de-bottlenecking plan in Nitrile rubber segment has been completed with a capex of Rs 240mn. Phase 2 expansion is expected to be completed in the next 9 months, which is essentially a co-gen power plant. The expected incremental capacity of ~6000 MTPA will take the total capacity to 22,000 MTPA.
- X-NBR Latex has wide applications in the glove industry. South East Asian markets (largest exporters of gloves globally) represent a big opportunity for this product. The company intends to serve up to only 3-4% of the global market. Apcotex is trading at 27.9x FY18 EPS.
- What works against Apcotex's favor is the closure of operations of a major export customer due to a fire in April-18 which continues to affect budgeted volumes. This could pose as a concern in the near to medium term.
- Another challenge is the inability to pass on RM inflation (which is largely linked to crude oil prices) that may have a negative bearing on margins.

| Year Ending March (Rs mn) | FY15 | FY16 | FY17 | FY18 |
|---|---|---|---|---|
| Revenues | 3,551 | 2,684 | 3,880 | 5,262 |
| EBITDA | 415 | 374 | 291 | 638 |
| APAT | 247 | 247 | 354 | 396 |
| EPS (Rs/sh) | 23.8 | 11.9 | 17.1 | 19.1 |
| P/E (x) | 21.4 | 42.8 | 29.8 | 26.6 |
| EV/EBITDA (x) | 13.4 | 28.6 | 36.9 | 16.3 |
| RoE (%) | 26.7 | 13.3 | 14.3 | 16.9 |

Source : Company, HDFC sec Inst Research

# Bhageria Industries *Play on Dye intermediates*

***CMP Rs 270, MCap Rs 5.89bn***

- 1HFY19 performance for Bhageria Industries has been encouraging on the back of higher dye intermediate prices (Vinyl Sulphone and H-acid prices were up ~30% and ~50% YoY respectively in 1HFY19). Sales/EBITDA/PAT grew by 36.6/108.9/195.8% YoY..
- The company has embarked upon a capex plan of Rs 1.0bn over the next 3 years wherein they are integrating their operations. Backward integration into Oleum is expected to improve their EBITDA margin by 100-200bps.
- Bhageria Industries has implemented a solar rooftop project with a 25 year PPA and a 4 MW capacity and had recently commissioned a PPA with Solar Energy Corporation of India (SECI) of 30 MW capacity. The company grew its solar revenues by 89.7% YoY in 1HFY19 to Rs 145mn. Depreciation costs have increased by 279.0% YoY in FY18 due to incremental depreciation from the Solar project, providing a tax shield to the company's earnings.
- The company has significantly reduced debt (by Rs 1.03bn) since Mar-17.
- We believe its 1HFY19 performance may not repeat in the near term as Dye intermediate prices have cooled off and tailwinds in prices may occur only if more Chinese capacities shut down due to environmental non-compliance.
- There are little upside risks to FY18 ROE/RoCE of 14.4/16.5 in the prevailing dynamics of dye intermediate prices. The stock is valued at 16.1XFY18EPS.
- We remain cautious of the effluent treatment compliances, which are getting stricter by the day and non-compliance of these will render the survival of chemical companies tougher.
- Besides, an aggressive comeback of the Chinese manufacturers may have a bearing on the price realizations of these companies.

| Year Ending March (Rs mn) | FY15 | FY16 | FY17 | FY18 |
|---|---|---|---|---|
| Revenues | 4,124 | 2,385 | 3,471 | 3,668 |
| EBITDA | 554 | 265 | 624 | 798 |
| APAT | 363 | 153 | 435 | 403 |
| EPS (Rs/sh) | 45.6 | 9.6 | 23.0 | 18.5 |
| P/E (x) | 5.9 | 28.1 | 11.7 | 14.6 |
| EV/EBITDA (x) | 3.7 | 16.4 | 8.7 | 8.0 |
| RoE (%) | 71.0 | 10.2 | 25.0 | 14.4 |

Source : Company, HDFC sec Inst Research

# Daga Global Chemicals

## *India Chemical story intact*

- We had the opportunity to host Mr. Satyen Daga (CMD- Daga Global Chemicals), suppliers and dealers of key chemical intermediates like Acetone, Acetic acid, Acrylonitrile, Methyl Isobutyl Ketone, Phenol, Isopropyl alcohol, among others.
- Mr. Daga has worked with the management of companies like SRF, Deepak Nitrite, and UPL. He believes that MNCs are now looking at India as a major sourcing hub which has resulted in domestic manufacturers integrating their facilities (backward and forward) to be more cost competitive.
- Regulatory overhangs persist like registration process for agro-chemicals and environmental clearances, which typically take 2-4 years to get approvals.
- All in all, Mr Daga believes that India has already emerged as a key sourcing hub and processes, efficiencies, in-roads into new chemistries have been achieved and capex cycle (sensing more opportunities) for chemical manufacturers may not end in a near term.

# GACL *Capex underway*

***CMP Rs 516, MCap Rs 37.89bn***

- GACL has been a beneficiary of the supply shortage in Caustic Soda (~50% of revenues) pursuant to the Minamata Convention which wiped off a sizeable mercury cell production capacity of Caustic Soda (and mandated companies to manufacture via membrane cell route before 31st Dec-17).
- Prices of Caustic Soda went up ~70% creating industry tailwinds for Caustic manufacturers. Chlorine (by-product in mfg of Caustic soda), which earlier was a negatively traded commodity, suddenly saw an uptick in prices and turned positive (given higher internal consumption of Chlorine) giving electrochemical unit (E.C.U) prices a further push.
- With the supply situation normalizing and prices cooling off, GACL may not be able to maintain its existing gross/EBITDA margins of 73.2/32.1% respectively.
- GACL has aggressive capex plans of ~Rs 20.0bn (expected asset turn: 1.0x).
- GACL has generated cumulative FCFF of Rs 2.09bn over FY15-18 and has cash in hand of Rs 2.3bn.
- GACL's profitability is largely dependent on the movements in E.C.U realizations and is subject to vagaries.
- Aggressive comeback of the Chinese manufacturers may have a bearing on the price realizations of these companies.

| Year Ending March (Rs mn) | FY15 | FY16 | FY17 | FY18 |
|---|---|---|---|---|
| Revenues | 19,481 | 19,955 | 20,702 | 24,545 |
| EBITDA | 2,739 | 3,338 | 4,496 | 7,867 |
| APAT | 2,279 | 2,196 | 3,073 | 5,345 |
| AEPS (Rs) | 31.0 | 29.9 | 41.8 | 72.8 |
| P/E (x) | 16.6 | 17.3 | 12.3 | 7.1 |
| EV/EBITDA (x) | 13.7 | 12.1 | 8.9 | 5.0 |
| RoE (%) | 9.7 | 7.7 | 9.8 | 14.9 |

Source : Company, HDFC sec Inst Research

# Insecticides India *New products to fuel growth*

***CMP Rs 643, MCap Rs 13.29bn, TP Rs 984***

- 4 of the 18 pesticides banned by the government are a part of IIL's product portfolio, of which two major products were Thimet and Nuvan.
- Inventory position by the end of FY18E will be higher (as company will stock up NUVAN, THIMET as they wont be allowed to manufacture those products beyond 31st Mar-19 due to govt ban).
- Insecticides India has been changing its product mix in line with the government's objective to reduce red-triangle (hazardous products).
- IIL is now focusing on tie-ups with the Japanese companies and has strategized to garner incremental revenues from 9(3) registrations. The company has a strong product pipeline and is confident of launching 6-8 products every year. The company has applied for 8 more registrations and is able to exude confidence of a strong product pipeline for the 4-5 years.
- The long term outlook of IIL in terms of their launch pipeline remains promising, however it is seldom known if the new 9(3) registrations help in a significant bottom-line growth whilst covering up for the loss of sale to the tune of Rs 1.6bn post the government ban on pesticides.
- We believe that the margin may not cross over 14.5% in the near to mid-term given the higher competition and presence of stronger brands of Dhanuka and PI Industries in the market.

| Year Ending March (Rs mn) | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|
| Revenues | 10,733 | 11,803 | 12,884 | 13,972 |
| EBITDA | 1,478 | 1,589 | 1,834 | 1,993 |
| APAT | 840 | 933 | 1,111 | 1,225 |
| AEPS (Rs) | 40.6 | 45.1 | 53.8 | 59.3 |
| P/E (x) | 15.8 | 14.3 | 12.0 | 10.9 |
| EV/EBITDA (x) | 9.6 | 8.7 | 7.4 | 6.6 |
| RoE (%) | 16.6 | 15.8 | 16.1 | 15.3 |

Source : Company, HDFC sec Inst Research

# NOCIL *Strong and sticky*

***CMP Rs 160, MCap Rs 26.50bn***

- NOCIL, spurred by a doubling of domestic market share over FY14-18 to ~50%, has embarked upon a Rs 4.25bn capex plan to double its rubber chemicals capacity (to 110KTPA).
- As per our calculations, an additional 45-50KTPA (growth rate assumption of 4%pa, total demand in FY18 was at 1.1 mn tonne) of demand will be created, which will be supported by NOCIL's capacity addition (of 55KTPA).
- The supply shortage arising from an environmental crackdown in China has raised prices. Average selling prices of China Sunsine's rubber accelerators and anti-oxidants have increased by 29.5% and 47.8% YoY respectively. ASPs of NOCIL have increased by 15.8% YoY in FY18 to Rs 235/kg.
- 6 of 20 products that NOCIL manufactures attract an anti-dumping duty. These 6 products contribute ~50% to the total sales. PILFLEX-13, which is an anti-degradant and forms ~30% of the total sales of NOCIL, also attracts an anti-dumping duty on imports from Europe, China and Korea.
- Due to (1) The commodity nature of NOCIL's product profile (2) The risk of withdrawal of anti-dumping duty leading to lower EBITDA margins and stagnating return ratios, we believe NOCIL's stock performance would remain range bound.
- NOCIL has a strong balance sheet and clean cash flows with Rs 2.5bn worth cash and cash equivalents in FY18 and is expected to generate FCFF of Rs 2.3bn+ over FY19-21E, which would take care of its Rs 4.25bn capex plan
- With the anti-dumping duty (ADD) set to expire in July-19, we believe margins could be under pressure (~400 bps on EBITDAM) if NOCIL is unable to get an ADD extension.

| Year Ending March (Rs mn) | FY15 | FY16 | FY17 | FY18 |
|---|---|---|---|---|
| Revenues | 7,190 | 7,152 | 7,422 | 9,676 |
| EBITDA | 1,119 | 1,381 | 1,580 | 2,629 |
| APAT | 567 | 777 | 968 | 1,686 |
| AEPS (Rs) | 3.5 | 4.8 | 6.0 | 10.3 |
| P/E (x) | 45.4 | 33.1 | 26.8 | 15.6 |
| EV/EBITDA (x) | 24.3 | 18.8 | 15.8 | 9.1 |
| RoE (%) | 14.4 | 13.2 | 11.6 | 17.4 |

Source : Company, HDFC sec Inst Research

# Seya Industries *Burgeoning upon huge capex*

***CMP Rs 479, MCap Rs 11.78bn***

- SEYA has planned a capex of Rs 7.25bn for capacity expansion of 527,900 MTPA from the current ~60,000 MTPA expected to be completed by H2FY20. Backward (Mono chloro benzene and Sulphuric acid) and forward integrations (Ortho Anisidine, Fast Red B Base, Di Methyl Sulphate ,Di Methyl Aniline) are expected to help in RM cost savings upto Rs 1.0bn p.a.
- Free power generation, using waste to the tune of 8 MW and 6 MW, shall be generated using the co-gen thermal power plant, which would help in power cost savings of Rs 600mn.
- Return ratios (RoCE: 6.9% in FY18) may appear weak due to continuous investments with negative free cash flows for the next 3-4 years. Total debt stood at Rs 5.69bn in FY18.
- We believe that Seya Industries' aggressive plans of entering into new products (in the same value chain) and increasing the share of existing products (wherein Seya is a market leader) are expected to fuel topline growth of ~25% YoY (as guided by the management).
- With pollution norms in India getting stricter, any violation of the norms could lead to plant shutdowns, which would be a key risk.
- Inability to pass on RM inflation (which is largely linked to crude oil prices) may have a negative bearing on margins.

| Year Ending March (Rs mn) | FY15 | FY16 | FY17 | FY18 |
|---|---|---|---|---|
| Revenues | 2,476 | 2,753 | 3,086 | 3,462 |
| EBITDA | 335 | 483 | 739 | 1,054 |
| APAT | 137 | 264 | 470 | 735 |
| AEPS (Rs) | 11.8 | 24.3 | 28.4 | 21.3 |
| P/E (x) | 40.4 | 19.7 | 16.9 | 22.5 |
| EV/EBITDA (x) | 21.5 | 22.2 | 14.9 | 16.2 |
| RoE (%) | 22.2 | 34.2 | 18.3 | 9.4 |

Source : Company, HDFC sec Inst Research

# Shree Pushkar Chemicals and Fertilizers *A complete textiles solution provider*

***CMP Rs 145, MCap Rs 4.47bn***

- SPCL has moved up the value chain by commissioning its 6,000 TPA integrated dyestuff facility, which includes associated dye intermediates as well. Further expansion in Dye intermediates and sulphur derivatives is pegged at Rs 750mn.
- 1HFY19 performance for Shree Pushkar has been encouraging on the back of higher dye intermediate prices (Vinyl Sulphone and H-acid prices were up ~30% and ~50% YoY respectively in 1HFY19).
- Acquisition of 100% equity in Kisan Phosphates has doubled its Single Superphosphate capacity. The said acquisition is expected to help SPCL grow in Punjab, UP, Haryana, Rajasthan and Himachal Pradesh along with its combined network.
- We believe that with prices of Dye intermediates normalizing, SPCL is expected to grow with the industry's volume growth (proxy to the textile industry).
- We remain cautious of the effluent treatment compliances, which are getting stricter by the day and non-compliance of these will render the survival of chemical companies tougher.
- Besides, an aggressive comeback of the Chinese manufacturers may have a bearing on the price realizations of these companies.

| Year Ending March (Rs mn) | FY15 | FY16 | FY17 | FY18 |
|---|---|---|---|---|
| Revenues | 2,665 | 2,488 | 3,056 | 3,960 |
| EBITDA | 315 | 324 | 519 | 611 |
| APAT | 187 | 223 | 302 | 365 |
| AEPS (Rs) | 9.0 | 8.5 | 10.0 | 12.0 |
| P/E (x) | 16.1 | 17.0 | 14.5 | 12.1 |
| EV/EBITDA (x) | 10.2 | 11.0 | 8.3 | 8.0 |
| RoE (%) | 24.6 | 17.8 | 17.0 | 17.0 |

Source : Company, HDFC sec Inst Research

**Disclosure:**

We, **Nilesh Ghuge, MMS, Archit Joshi, MBA, Divya Singhal, CA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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