Initiating Coverage

Chemcon Speciality Chemicals Ltd.

Sep 12, 2022

RETAILRESEARCH

Chemcon Speciality Chemicals Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Chemicals	Rs 412	Buy in the band of Rs 412-418 & add more on dips of Rs 361	Rs 465	Rs 503	2-3 quarters

HDFC Scrip Code	CHEMCON
BSE Code	543233
NSE Code	CHEMCON
Bloomberg	CHEMCON IN
CMP Sep 09, 2022	412
Equity Capital (Rs cr)	36.6
Face Value (Rs)	10
Equity Share O/S (cr)	3.66
Market Cap (Rs cr)	1509
Book Value (Rs)	114
Avg. 52 Wk Volumes	331638
52 Week High	482
52 Week Low	262

Share holding Pattern % (Jun, 2022)	
Promoters	74.5
Institutions	0.3
Non Institutions	25.2
Total	100.0

* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst
Kushal Rughani
kushal.rughani@hdfcsec.com

Our Take:

Chemcon Speciality Chemicals is a manufacturer of specialised chemicals, such as HMDS (hexamethyl disilazane) and CMIC (chloromethyl isopropyl carbonate), which are mainly used in pharmaceuticals industry. It also manufacturers inorganic bromides namely Calcium Bromide, Zinc Bromide and Sodium Bromide, which are used as completion fluids in the oilfields industry. Top-5 customers contributed to < 50% of revenue while top-10 clients' contribution was at < 65% in FY22. Top-7 customers' have been with the company for more than 4 years. Chemcon derived 49% of revenue from HMDS, 27% from CMIC and 24% from Oil-well chemicals.

Chemcon is setting up two new units P-9 and P-10 for Pharma Intermediate Chemicals. P-9 is expected to get commercialised by Oct-2022 and P-10 may get commisioned by Mar-2023. These additional plants will manufacture chemicals for pharmaceutical industry. Company aims to expand the sale of products to other industries. For instance, for HMDS, the company aims to market products for end-use applications in the industries including the rubber and semiconductor manufacturing industry. New products, new customers, new applications and new opportunities could lead to long term sustainable growth in the coming years. Company has guided for strong double digit volume growth along with strong margins in the medium term.

Valuation & Recommendation:

Chemcon has leadership position in its key products with large market share in India as well as in the World. We remain positive on the company on the back of strong position in top products and expected launch of new products, which is expected to drive growth in the next 2 years. We estimate strong double digit revenue growth along with robust operating margin at around 32-33.5% in the next 2 years on the back of capacity expansion and strong demand. We expect the company to register 25% CAGR in revenue led by strong growth in volumes. We estimate EBITDA and PAT CAGR of 26.5%/23% respectively over FY22-24E. Chemcon had cash & equivalents of ~Rs 220cr as on Mar-2022, and the company may use the cash for aggressive capacity expansion or inorganic growth opportunities. We feel investors can buy the stock in the band of Rs 412-418 and add more on declines to Rs 361 (14x FY24E EPS) for base case target of Rs 465 (18x FY24E EPS) and bull case target of Rs 503 (19.5x FY24E EPS) over the next two quarters.

Financial Summary

Particulars	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Revenues	89	57	56.3	89	0.3	303	262	244	257	339	414
EBITDA	34	18	86.8	28	21.8	66	70	81	82	113	130
Depreciation	2	2	27.0	2	13.5	3	5	6	6	8	10
Other Income	3	2	42.1	3	-0.7	2	4	5	9	8	8
Interest Cost	0	0	-21.7	0	80.0	4	5	4	1	1	1
Tax	9	5	87.1	7	22.5	18	16	20	21	29	33
APAT	25	13	89.6	21	19.2	43	49	56	63	83	94
EPS (Rs)						13.5	15.4	15.4	17.1	22.7	25.8
RoE (%)						57.1	40.1	22.6	16.3	18.5	18.2
P/E (x)						30.4	26.8	26.7	24.1	18.2	16.0
EV/EBITDA (x)						20.1	18.9	16.4	16.3	11.8	10.2

(Source: Company, HDFC sec)

Production (MT)	Q1FY23	Q1FY22	YoY	Q4FY22	QoQ
HMDS	512	592	-13.5	544	-5.9
CMIC	504	372	35.5	380	32.6
Oilwell	1035	464	123.1	959	7.9

Contribution (%)	Q1 FY23	Q1 FY22	Q4 FY22
Pharma Chemicals	68	90	71
Oilwell Chemicals	31	10	27
Others	1	0	2

Q1FY23 result update

Chemcon reported highest ever quarterly performance on the back of strong demand across products. Revenue for the quarter grew 56.3% YoY at Rs 89.4cr. Operating margin expanded 630bps YoY at 37.5%. Gross margin surged 730bps YoY at 57.3%. Net profit increased 90% YoY at Rs 25.4cr. Oilwell chemicals volume increased 123% YoY at 1035 MT. CMIC volume grew 35.5% YoY at 504 MT. HMDS volume declined 13.5% YoY at 512 MT. Company derived 53% of revenue from domestic market and 47% from exports.

Key Triggers

FY22 Concall Update

HMDS contributed around Rs. 122 crores of revenue in FY22. Company commenced commercial operation at P-8 unit with capacity of 2400 MT of TMCS. Company had been one of the biggest importers of TMCS and this addition will help in reducing TMCS import. In HMDS, the company has capacity of 4200 MT and the volume stood at 2068 MT for FY22. The company guides for 2800-3000 MT sales volume for FY23.

CMIC contributed to around Rs. 68 crores of revenues in the year. Global supply chain disrupted many pharma MNCs and their overall business momentum. The overall demand for the CMIC chemical continues to remain strong. Company added an additional capacity of 1200 MT at P-8 facility and that made the company as the world's largest CMIC producer with a total capacity of 3000 MT per annum. Company guides for 2100-2500 MT volume for FY23 vs 1300 MT for FY22.

Bromide business registered revenue of Rs 60cr in FY22. Company has healthy enquiries for various bromides and expect meaningful contribution in FY23. In FY22, volume stood at 2700 MT and capacity utilization at just 18%. Company guides for > 3500 MT volume for FY23.

Both 4 CBC and 2, 5 DHT are still in the early stages and expect these products to perform well in FY23.

Management has ambitious target to reach revenue to about Rs 1000cr along with healthy margin in the next 4-5 years.

Company expects P-10 unit to get commercialised by Mar-2023. Capex will be about Rs 15cr for the said project. Total capacity addition would be 1200 MT. Management expects asset-turnover of ~4x.

Company plans to manufacture import substitute products and it would have similar level margin.

In the unit P-9 and P-10, the company said that they would manufacture three products. One will be in inorganic chemicals and two other products will be for Pharma segment.

For CMIC, the major raw material is methyl chloroformate (MCF) and it is imported and also manufactured by Paushak in India. To maintain parallel supplies, the company has overseas suppliers and domestic supplier as Paushak Ltd.

Established market position with large clientele, and track record of over three decades

Chemcon has been manufacturing specialty chemicals for more than three decades and has established itself as a reliable supplier of specialty chemicals, these products are used in end user industries such as Pharmaceutical, oil exploration and refining. Company derives around 35% of its revenues from exports and commands healthy operating margin over 34% over the last two years.

High entry barriers

The specialty chemicals industry in which the company operates has high entry barriers. It is due to (a) the involvement of complex chemistry in the manufacture of Products, which is difficult to commercialize on a large scale and; (b) a long gestation period to be enlisted as a supplier with the customers, particularly with the customers of Pharmaceutical Chemicals. The products have application in the pharmaceutical, oil-well drilling, semi-conductor and electronic-chemical industries where they are used to manufacture high value proprietary and specialised products. It is a sticky business as any change in the vendor of the product may require significant time and cost for the customer. Hence, customer acquisition involves a long gestation period, resulting in a very few players being involved in manufacturing of the products. Over the years, the company has built strong relationships with its key customers. Some of the raw materials such as bromine, MCF and TMCS are highly corrosive and toxic chemicals. Therefore, handling these chemicals requires a high degree of technical skills and expertise.

Manufacturing Facilities

Plant	Product	Product Manufactured	Installed Capacity (MT)
P-3 & P-7	Pharma Chemicals	HMDS and ancillary products	4200
P-2		HMDS (hi-purity)	600
P-4		CMIC	3200
P-6		Multipurpose facility	
P-8		Multipurpose facility (TMCS and CMIC)	3600
P-9		Proposed Multipurpose facility	Q2 FY23E
P-10		Proposed Multipurpose facility	Q4 FY23E
P-5	Oilwell Completion Chemicals	Bromides	14400
P-1		Calcium Bromide (powder)	600

Business and its outlook

Chemcon Speciality Chemicals is a manufacturer of specialised chemicals, such as HMDS and CMIC, which are mainly used in pharmaceuticals industry. It also manufacturers Bromide chemicals, which are predominantly used as completion fluids in the oilfields industry. Top-5 customers contributed to < 50% of revenue while top-10 clients' contribution was at < 65% in FY22. Top-7 customers' have been with the company for more than 4 years.

Company is only manufacturer of HMDS in India and are the third largest manufacturer of HMDS worldwide in terms of production. The Company is the largest manufacturer of CMIC in India and worldwide, in terms of production and capacity. Further, The Company is only manufacturer of Zinc Bromide and the largest manufacturer of Calcium Bromide in India, in terms of production.

Company has added the production capacity of 2,400 MT of TMCS and 1,200 MT of CMIC. This expansion of production capacity will result in reduction of imports of TMCS and increase in production of HMDS. The Company is now the largest manufacturer of CMIC in the world with a total capacity of 3,000 MT. Company is setting up two new units P-9 and P-10 for Pharma Intermediate Chemicals. P-9 is expected to get commercialised by Oct-2022 and P-10 is likely to get commisioned by Mar-2023. These additional plants will manufacture chemicals for pharmaceutical industry. Company aims to expand the sale of products to other industries. For instance, for HMDS, the company aims to market products for end-use applications in the industries including the rubber and semiconductor manufacturing industry. Chemcon has commissioned a new plant specifically to produce high purity HMDS which finds usage in semiconductor industry.

Company has strong visibility in its products and remain confident to carry the momentum in FY23. Out of the total revenue, the company derived about Rs 68 crore revenue from CMIC. In the year gone by, global supply chain has disrupted many pharmaceutical MNCs and their overall business momentum. The overall demand for CMIC chemical is strong and continues to have healthy enquiries for the upcoming year.

During FY21, the company had commissioned P-2 with a capacity to manufacture 600 MTPA of Hi-Purity HMDS. Company has increased CMIC and TMCS capacity by commissioning of plant P-8.

Expansion into newer geographies to aid growth ahead

The trade dispute between the USA and China, may influence China's HMDS exports to the USA and could indirectly help India boost its exports. The company has already started the supply of HMDS to the customers in the US based on the opportunity created due to such trade dispute and China+1 policy.

Further, the company is also planning to introduce its oil field chemicals to newer markets such as Nigeria, Malaysia, China and Ghana. Since the oil field chemical plant has been operating at ~20% utilisation level, any positive development towards gaining new customers would aid operating leverage to the group performance.

HMDS

HMDS or hexamethyl disilazane (also known as bis(trimethylsilyl)amine) is an organosilicon compound with the molecular formula [(CH3)3Si]2NH. The molecule is a derivative of ammonia with trimethylsilyl groups in place of two hydrogen atoms. This color-less liquid is a reagent and a precursor to bases that are popular in organic synthesis and organometallic chemistry. HMDS, a weak trimethylsilyl donor, was the first reagent used to prepare TMS derivatives. HMDS has the desirable property of reacting more selectively, in some instances, than other reagents. HMDS can be used alone, but derivatization usually will proceed faster with a catalyst. HMDS also is useful for conditioning glassware or silica. HMDS reacts with many carbonyl containing organic compounds to generate gaseous ammonia. It may be incompatible with isocyanates, halogenated organics, peroxides, phenols (acidic), epoxides, anhydrides and acid halides. The process directly synthesizes hexamethyl disilazane by using trimethylchlorosilane and liquid ammonia as raw materials.

HMDS is widely used in manufacturing of antibiotics such as penicillin, cephalosporins and other types of penicillin derivatives. SARS-CoV-2 is a respiratory virus responsible for Covid-19. Viral respiratory infections often lead to bacterial pneumonia. Globally, antibiotics are used on a large scale to cure Covid-19 patient for bacterial infections generated out of Covid-19 virus. Amoxicillin is used to treat a wide variety of bacterial infections. In India doctors are treating the Sars-Cov-2 virus with a combination of three-drug - anti-viral, anti-bacterial and anti-malarial. Covid led to growth in consumption of Amoxicillin and other derivatives of penicillin-type antibiotic.

India has high dependence on China for Imports of HMDS to manufacture vital antibiotics resulting on a strong impact on the industry. Local supply of HMDS will be crucial in Pandemic and times ahead.

HMDS also finds wide application in semiconductor processing. The semiconductor industry is among the many sectors that have had to adjust their production as COVID-19 impacts demand for major semiconductor end applications. China accounts for than the half of worldwide semiconductor consumption. HMDS is used in the semiconductor electronics industry as CVD (Chemical Vapor Deposition)/ALD (Atomic Layer Deposition) precursors and photoresist adhesion promoters mainly for ultra-low K dielectrics, low temperature oxides and litho spacers. With the use of HMDS, companies have been able to enable powerful yet small chips inside computers, tablets and smartphones to work better on a consistent basis.

Company has increased its capacity for HMDS from 1800 MT to 4800 MT (includes 600 MT high purity HMDS).

CMIC Chemicals

CMIC is mainly used in pharmaceutical industry as a key intermediate for anti-AIDS and anti-hepatitis B drug Tenofovir. There are also many chemicals which are used for manufacturing of Anti-Retroviral (ARV). During the pandemic situation also, the consumption of Anti-viral medicines had increased in general, resulting in a favourable situation for raw material producers of these drugs including companies manufacturing CMIC and other chemicals used in manufacturing of Anti-Viral Drugs.

Tenofovir is regarded as a revolutionary drug for curing and preventing HIV. Tenofovir disoproxil has been used worldwide as an antiretroviral medication and has also proven to be helpful in fighting against another chronic disease named hepatitis B. CMIC is an important pharma intermediate which is used in the manufacturing of Tenofovir. Tenofovir is medically indicated in addition to other antiretroviral medications for the treatment of HIV-1 infection. It is even known to treat paediatric patients that are at least 12 years in age. This medication is in huge demand nowadays due to the fact that chronic diseases are also becoming very common.

Company added an additional capacity of 1200 MT at P-8 facility and that made the company as the world's largest CMIC producer with a total capacity of 3000 MT per annum. Company guides for 2100-2500 MT volume for FY23. It was at 1300 MT for FY22.

Oil-well Chemicals

Well completion is a critical stage in oil well construction and consists of a systematic process that begins with drilling into the oil containing layers, running casing, injecting cement and proceeds through perforation and the running of production string. The well completion string is run as a final step to allow for hydrocarbon flow to the surface. When the hydrocarbon reservoirs have been tested and the oilfield is considered ready for commercial development, the wells that have been drilled and explored need to be completed in order to be able to achieve optimal commercial production. Oil-well completion chemicals are used to complete the well and is normally a salty solution made up of chlorides or bromides. Completion Chemical should be compatible with the innate formation fluids and rock, as other type of fluids (drilling fluids) can damage the productive zones. In addition to cleaning the wellbore, after the drilling is finished, completion chemical is used to control the pressure down-hole, prior to and while well-completion operations are in progress.

There is no established direct correlation between Bromides and Crude Oil prices. Bromides are used largely as oil well completion chemicals and hence, the active rig count can act as a leading indicator of demand for products used in drilling, completing, producing and processing hydrocarbons. When drilling rigs are active, they consume products and services produced by the oil service industry. Oil rigs have a positive relationship with crude oil prices and oil production.

In FY22, volume stood at 2700 MT and capacity utilization at just 18%. Company guides for > 3500 MT volume for FY23.

Chemcon raised Rs 340cr through IPO in Sep-2020

Chemcon Speciality Chemicals came out with an IPO at Rs 340 per share and raised Rs 318cr through the issue in Sep-2020. Company raised Rs 165cr through fresh issuance of equity shares and Rs 153cr via offer for sale (OFS). Post issue, the promoters' holding reduced to 74.5%. Company used Rs 41cr towards capacity expansion and Rs 90cr for working capital (W/C) requirements.

Key Concerns

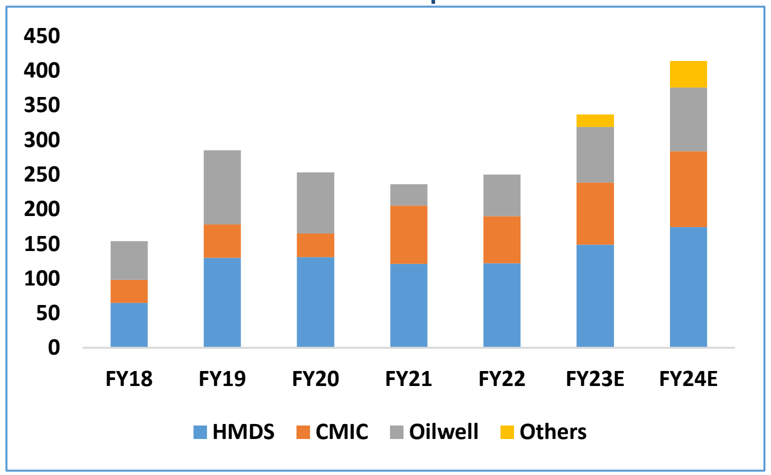
- Chemcon has concentration on limited products (HMDS and CMIC) and if any of products do not continue to perform as expected or if competing products gain wider market acceptance then revenues and profitability may get impacted.
- Company derives a significant portion of revenue from a few customers and the loss of one or more such customers, or reduction in demand for its products may adversely affect the business and cash flows.

- Factors affecting the level of oil and gas exploration, development and production activities would affect the commercial success of Oil-well Completion Chemicals as it is dependent on the level of oil and gas exploration, development and production activities. Sales volumes of Oil-well chemicals has been falling after peaking in FY19.
- Any shortfall in the supply or an increase in raw material costs, or other input costs, may adversely affect the pricing and supply of products and have an adverse effect.
- Any significant fall in global prices of company's key products may have a material adverse effect.
- Some of the raw materials as well as finished products are corrosive and flammable and require expert handling and storage, there is a risk of fire and other accidents, at manufacturing facility and warehouses. Any accidents may result in loss of property of Company and/or disruption in the manufacturing processes which may have a material adverse effect.
- Adverse currency movements could impact overall profitability as the company derived around 35% of sales from International markets.
- Super Scientific Works Private Limited, an entity qualifying as a Promoter Group entity of the Company, has lodged a formal complaint with SEBI against Naresh Vijaykumar Goyal, a Promoter Group member of the Company and any negative outcome of this complaint may have an adverse impact on the stock price of Chemcon.

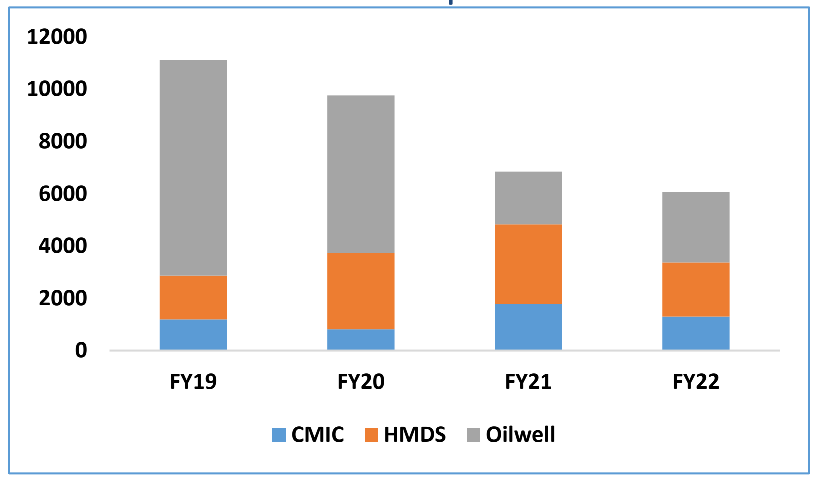
Company Background

Chemcon Speciality Chemicals is a manufacturer of specialised chemicals, such as HMDS and CMIC, which are mainly used in pharmaceuticals industry. It also manufacturers Bromide chemicals, which are predominantly used as completion fluids in the oilfields industry. Chemcon supply its products to domestic customers and also export its products to countries including USA, Italy, South Korea, Germany, China, Japan, United Arab Emirates, Russia, Spain, Thailand and Malaysia. Top customers include Hetero Labs, Laurus Labs, Aurobindo Pharma, Sanjay Chemicals (India) Private Limited, Vivin Drugs & Pharmaceuticals Limited and Macleods Pharmaceuticals Limited and the key customers of its Oilwell Completion Chemicals include Water Systems Specialty Chemical DMCC and CC Gran LLC.
Company has 8 operational plants of which two plants are dedicated to the manufacturing of HMDS and ancillary products (including one plant dedicated to manufacturing of hi-purity HMDS), one multipurpose plant, currently being used for manufacturing of HMDS and other pharmaceutical chemicals, two plants are dedicated to the manufacturing of CMIC and two plants dedicated to the manufacturing of its Oilwell Completion Chemicals, along with three warehouses for the storage of products and raw materials. It also has an in-house laboratory at their manufacturing facility to test raw materials procured, as well as products at the various stages of the manufacturing process. Further, the company has six owned and two leased warehouses in India.

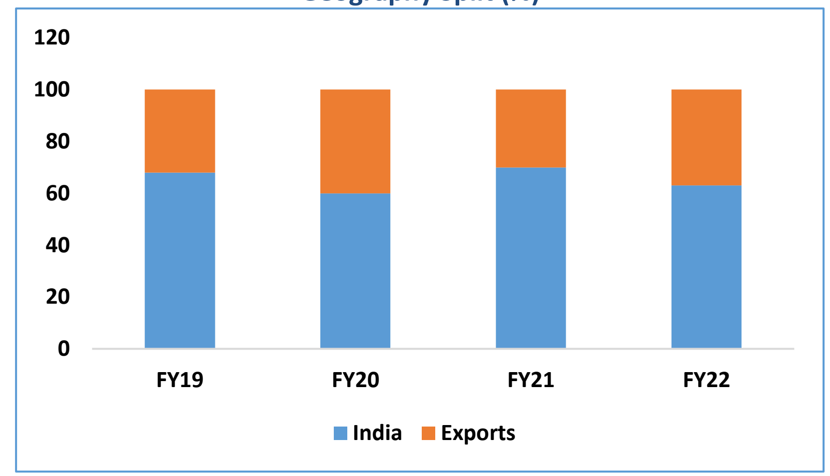
Revenue Split



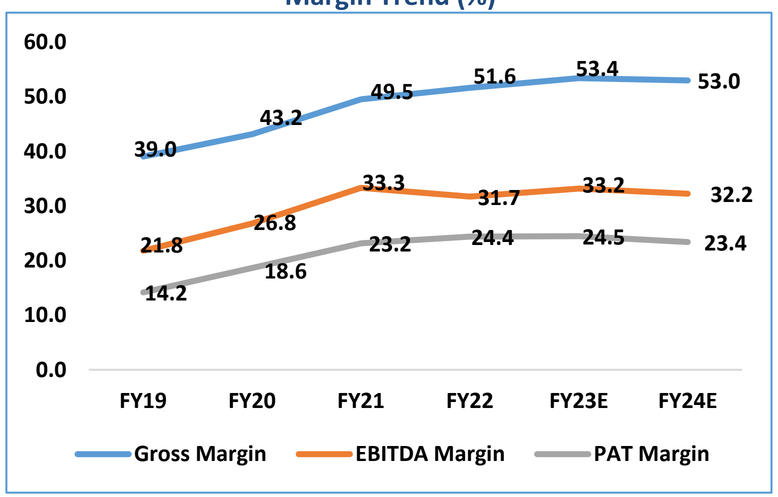
Volume Split



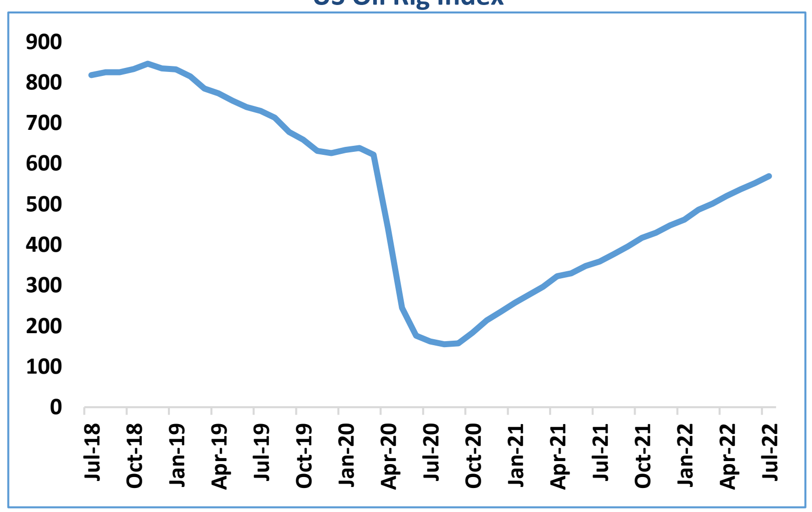
Geography Split (%)



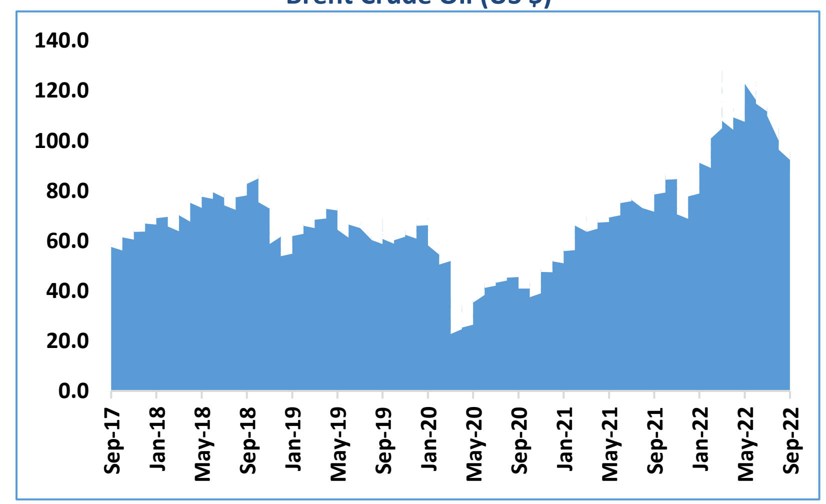
Margin Trend (%)



US Oil Rig Index



Brent Crude Oil (US $)



(Source: Company, HDFC sec)

Market Overview

	HMDS	CMIC	Oilwell Completion Chemicals
Global Market Capacity (CY19)	~35,700 MT	~6,880 MT	~362,000 MT
Global Market Production (CY19)	~25,390 MT	~3,927 MT	~246,000 MT
Chemcon Production (FY22)	2,068 MT	1,295 MT	2,703 MT
Chemcon Share in Global Market	> 5%	> 30%	~1%
Domestic Import (CY19)	~1,622 MT	~1,574 MT	-

Financials

Income Statement

(Rs Cr)	FY20	FY21	FY22	FY23E	FY24E
Net Revenue	262	244	257	339	414
Growth (%)	-13.6	-7.1	5.6	32	22
Operating Expenses	192	162	176	227	274
EBITDA	**70**	**81**	**82**	**113**	**130**
Growth (%)	6.3	15.4	0.6	38.1	15.6
EBITDA Margin (%)	26.8	33.3	31.7	33.2	32.2
Depreciation	5	6	6	8	10
EBIT	66	75	75	104	120
Other Income	4	5	9	8	8
Interest expenses	5	4	1	1	1
PBT	65	76	84	112	127
Tax	16	20	21	29	33
PAT	**49**	**56**	**63**	**83**	**94**
Growth (%)	13.6	15.5	11.2	32.3	13.8
EPS	15.4	15.4	17.1	22.7	25.8

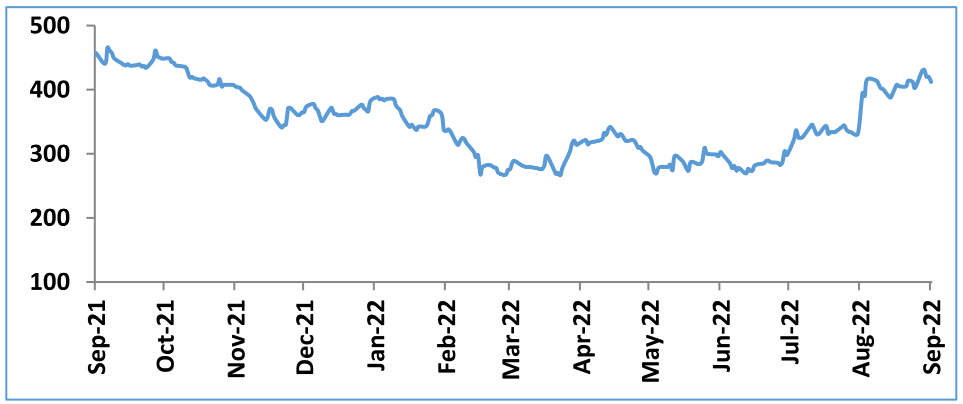
Balance Sheet

As at March	FY20	FY21	FY22	FY23E	FY24E
SOURCE OF FUNDS					
Share Capital	31.8	36.6	36.6	36.6	36.6
Reserves	115	317	381	445	517
Shareholders' Funds	**146**	**354**	**417**	**489**	**572**
Long Term Debt	15	2	1	0	0
Net Deferred Taxes	2	2	0	0	0
Long Term Provisions & Others	1	6	2	4	7
Total Source of Funds	**164**	**363**	**421**	**487**	**561**
APPLICATION OF FUNDS					
Net Block	52	75	116	139	156
Long Term Loans & Advances	1	43	6	8	12
Total Non-Current Assets	**53**	**119**	**122**	**148**	**168**
Current Investments	0	0	0	0	0
Inventories	48	59	35	58	73
Trade Receivables	89	95	103	133	154
Cash & Equivalents	14	122	224	227	252
Other Current Assets	21	9	15	18	24
Total Current Assets	**173**	**285**	**376**	**436**	**503**
Short-Term Borrowings	29	3	35	45	52
Trade Payables	26	23	24	32	36
Other Current Liab & Provisions	7	14	18	20	22
Total Current Liabilities	**62**	**40**	**78**	**97**	**110**
Net Current Assets	111	244	298	338	393
Total Application of Funds	**164**	**363**	**421**	**487**	**561**

Cash Flow Statement

(Rs Cr)	FY20	FY21	FY22	FY23E	FY24E
Reported PBT	65	76	84	112	127
Non-operating & EO items	-4	-5	-9	-8	-8
Interest Expenses	5	4	1	1	1
Depreciation	5	6	6	8	10
Working Capital Change	-41	-1	16	-37	-30
Tax Paid	-17	-16	-23	-29	-33
OPERATING CASH FLOW (a)	**12**	**65**	**74**	**47**	**68**
Capex	-16	-32	-50	-32	-26
Free Cash Flow	-4	33	24	15	42
Investments	-4	-125	-52	-2	-4
Non-operating income	4	5	9	8	8
INVESTING CASH FLOW (b)	**-16**	**-153**	**-93**	**-26**	**-22**
Debt Issuance / (Repaid)	9	110	31	2	2
Interest Expenses	-5	-4	-1	-1	-1
FCFE	0	139	54	16	43
Share Capital	0	5	0	0	0
Dividend/Buyback	0	0	0	-19	-22
FINANCING CASH FLOW (c)	**4**	**111**	**30**	**-18**	**-21**
NET CASH FLOW (a+b+c)	**0**	**23**	**11**	**3**	**25**

One Year Price Chart



Key Ratios

	FY20	FY21	FY22	FY23E	FY24E
Profitability (%)					
Gross Margin	43.2	49.5	51.6	53.4	53
EBITDA Margin	26.8	33.3	31.7	33.2	32.2
EBIT Margin	25	30.8	29.3	30.8	29.8
APAT Margin	18.6	23.2	24.4	24.5	23.4
RoE	40.1	22.6	16.3	18.5	18.2
RoCE	40	20.6	17.9	21.5	21.5
Solvency Ratio					
Net Debt/EBITDA (x)	0.4	-1.4	-2.3	-1.6	-1.5
D/E	0.3	0.01	0.1	0.1	0.1
Net D/E	0.2	-0.3	-0.5	-0.4	-0.4
PER SHARE DATA					
EPS	15.4	15.4	17.1	22.7	25.8
CEPS	16.8	17.1	18.8	24.9	28.5
BV	46	97	114	131	151
Dividend	0	0	4	4.8	5.5
Turnover Ratios (days)					
Debtor days	124	142	146	143	139
Inventory days	66	80	66	62	66
Creditors days	54	59	59	62	58
VALUATION					
P/E	26.8	26.7	24.1	18.2	16
P/BV	8.9	4.3	3.6	3.1	2.7
EV/EBITDA	18.9	16.4	16.3	11.8	10.2
EV / Revenues	5.1	5.4	5.2	3.9	3.3
Dividend Yield (%)	0	0	1	1.2	1.3
Dividend Payout	0	0	23.3	21.2	21.3

Source: Company, HDFC sec Research

KUSHAL MAHENDRA RUGHANI

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HDFC sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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