May 22, 2017

Rating matrix		
Rating	:	Buy
Target	:	₹ 245
Target Period	:	12-18 months
Potential Upside	:	18%

What's changed?	
Target	Unchanged at ₹ 245
EPS FY18E	Changed from ₹ 15.5 to ₹ 14.6
EPS FY19E	Changed from ₹ 17.5 to ₹ 16.4
Rating	Unchanged

Key financials

₹ crore	FY16	FY17	FY18E	FY19E
Net Sales	248.7	313.0	429.7	463.8
EBITDA	32.4	52.3	74.2	81.0
Net Profit	22.3	30.5	44.2	49.5
EPS (₹/share)	7.4	10.1	14.6	16.4

Valuation summary

	FY16	FY17	FY18E	FY19E
P/E	28.2	20.6	14.2	12.7
Target P/E	33.2	24.3	16.7	15.0
EV / EBITDA	18.7	11.9	8.3	7.1
P/BV	3.9	3.2	2.7	2.4
RoNW	13.7	15.8	19.3	18.5
RoCE	16.7	22.3	27.2	26.4
ROIC	21.5	23.9	30.4	32.8

Stock data

Stock Data	₹ crore
Market Capitalization	628.6
Total Debt (FY17)	14.7
Cash and Cash Equivalent (FY17)	22.5
Enterprise Value	620.7
52 week H/L	241 / 108
Equity Capital	30.2
Face Value	₹ 10
MF Holding (%)	7.7
FII Holding (%)	0.5

Stock data

Return (%)	1M	3M	6M	12M
Shree Pushkar Chemicals	8.4	18.7	37.4	78.4
Kiri Industries	(4.8)	(2.4)	3.6	46.1
Bodal	6.2	26.5	48.2	81.7
Bhageria Industries	(1.7)	(3.3)	(2.6)	321.6
Aksharchem (India)	10.6	33.8	55.1	307.2

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Shree Pushkar Chemicals (SHRPUS) ₹ 208

Steady performance, robust growth journey ahead

- Shree Pushkar Chemicals & Fertilisers (SPCL) reported a steady Q4FY17 performance. Net sales for the quarter was at ₹ 92.7 crore
- EBITDA in Q4FY17 was at ₹ 14.4 crore with corresponding EBITDA margins at 15.5%. PAT in Q4FY17 was at ₹ 8.2 crore, up 43.4% YoY
- The management guided for scheduled commissioning of phase-2 of dyestuff facility (3000 tonne) by Q1FY18, which will drive the next leg of growth with phase-1 currently operating at 80% utilisation level

Dyes and dye intermediates; India in sweet spot; strategic fit

Dye intermediates find application in manufacture of dyes, which, in turn, are used as colouring agents in textiles. As per industry estimates, the global industry size for dyestuff & dye intermediates (FY16) was at ~800,000 and ~620,000 tonne per annum (TPA), respectively, growing at a CAGR of 2-3%. China and India govern the industry with a market share of ~75% and ~15%, respectively. However, stringent environmental regulations, rising labour & power costs and declining export incentives have eroded the low cost competitiveness of Chinese manufacturers. Sensing the opportunity, Indian manufacturers, including SPCL, have expanded capacities as global customers turn to India as a strategic fit to diversify their procurement base, placing India in a sweet spot.

Impressive capex up the value chain, volume led growth to follow

SPCL has moved up the value chain through the commissioning of its 3000 tonne dyestuff facility in January 2016 at a capex of ~₹ 42 crore funded through its IPO proceeds. It is an integrated facility, which includes associated dye intermediates capacities viz. vinyl sulphone (1000 tonne) and H-Acid (750 tonne), which have also been commissioned in FY17. SPCL is further augmenting this facility by additional dyestuff capacity of 3000 tonne (capex ~₹ 5 crore), which is due for commissioning by Q1FY18E. This will ensure healthy volume led growth in the dyestuff segment with its share in overall topline increasing from ~13% (₹ 40 crore) in FY17 to ~32% (₹ 149 crore) in FY19E.

Zero effluent discharge moat; fertiliser segment key contributor

The fertiliser segment prudently converts waste generated in other processes and is instrumental in making SPCL a zero waste discharge company. SPCL, in addition to its existing capacities of SSP & soil conditioners, NPK and cattle feed, has commissioned 10000 TPA sulphate of potash (SOP) and 6500 TPA granular calcium carbonate (GCC) facilities in Q2FY17 at a capex of ₹ 20 crore. On a combined basis, we expect revenues of the fertiliser division to grow at 33.6% CAGR in FY17-19E to ₹ 106 crore in FY19E (₹ 59 crore in FY17) primarily on account of the commissioning of new facilities. The profitability of this segment is relatively lower in comparison to SPCL's core dye business.

Strong earnings trajectory warrants re-rating; reiterate BUY

SPCL has a lean balance sheet with net cash of ₹ 8 crore (FY17) and is expected to be debt free on account of limited capex spend over FY17-19E. It also has a controlled working capital cycle with net working capital days of ~71 days (FY17). With commissioning of dyestuff capacity, we expect sales, EBITDA & PAT to grow at a CAGR of 21.7%, 24.4% & 27.4%, respectively, during FY17-19E. Furthermore, SPCL realises a healthy 15%+ EBITDA margins and ~2.5x asset turnover resulting in impressive return ratios profile with FY17-19E average RoCE & RoIC at ~25% & ~29%, respectively. We value SPCL at ₹ 245, i.e. 15.0x P/E on FY19E EPS of ₹ 16.4 and assign a **BUY** rating to the stock.

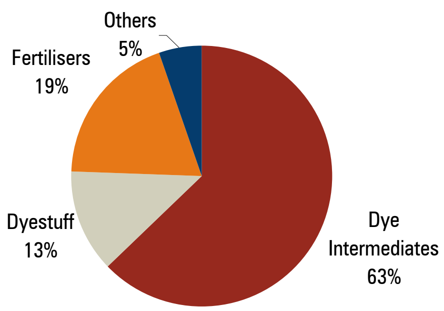
Company Analysis

Shree Pushkar Chemicals & Fertilizers was incorporated in 1993 by first generation entrepreneur Punit Makharia primarily as an importer/trader of chemical products and dye intermediates. In 2000, SPCL established its manufacturing base thereby manufacturing dye intermediates. In 2000-16, SPCL expanded its capacity both horizontally and vertically thereby evolving into a backward integrated dye intermediates manufacturing company with zero effluent discharge. SPCL has over a period of time treated its main effluents prudently thereby inventing new avenues for sales including fertilisers, soil conditioner and cattle feed. As of FY17, SPCL has set up an integrated dyestuff facility (3000 TPA) incurring a capex of ₹ 42 crore funded through the proceeds received from its IPO (₹ 62 crore) in August, 2015. At an additional cost of ~₹ 5 crore, the management plans to double the dyestuff capacity to 6000 TPA, which is expected to be commissioned by Q1FY18.

Moving higher on value chain - change in sales mix!

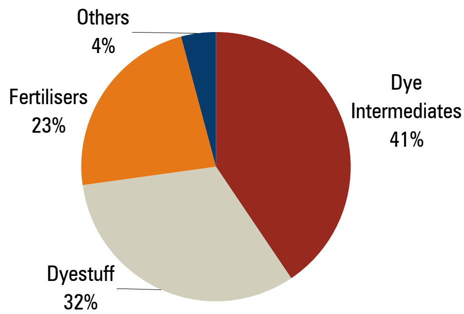
As of FY16, SPCL was predominantly a pure dye intermediates player with a topline contribution of ₹ 170.4 crore (70% of sales). The fertilisers (21% of sales), acid complex (7% of sales) and cattle feed (2% of sales) are alternate streams of revenue that have evolved as a result of SPCL's prudent use of effluents to keep their zero effluent moat alive. Thereafter, it has graduated higher in the value chain with the commissioning of its dyestuff unit that is expected to significantly alter its sales mix moving forward. Dyestuff sales are expected to increase from ₹ 40.4 crore (13% of sales) in FY17 to ₹ 148.5 crore (32% of sales) in FY19E. Overall, the gradual shift towards dyestuff augurs well for SPCL as it offers an impressive growth trajectory for the company and better stability in terms of margins compared to dye intermediates.

Exhibit 1: Sales mix in FY17



Source: Company, ICICIdirect.com Research

Exhibit 2: Sales mix in FY19E

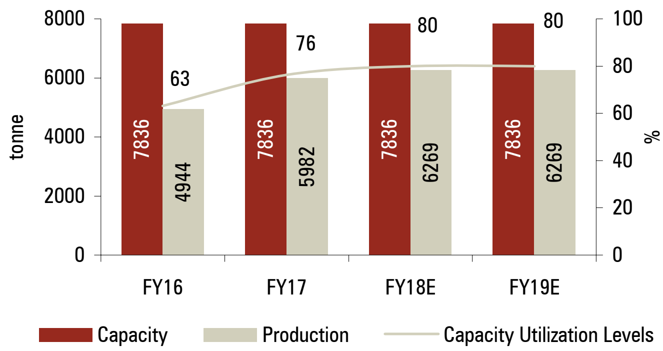


Source: Company, ICICIdirect.com Research

Dyestuff, dye intermediates to deliver volume led growth

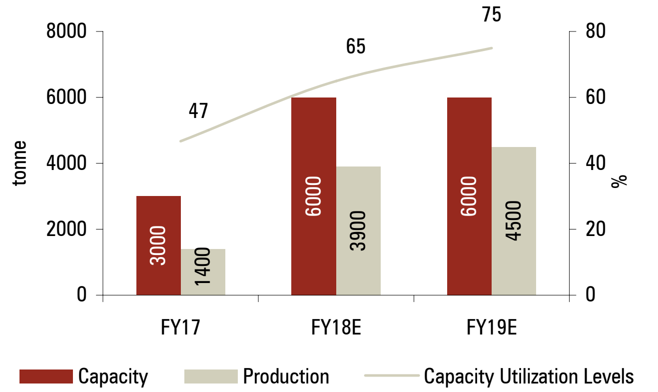
SPCL has an installed capacity of 7836 TPA of dye intermediates. It operated at 76% capacity utilisation levels in FY17. The dye intermediates market witnessed a heavy market share shift from China to India with utilisation levels of all Indian manufacturers inching upwards on the back of the stringent pollution control norms in China. Consequently, capacity utilisation is expected to reach 80% by FY19E, implying a sales volume CAGR of 2.4% in FY17-19E. On the dyestuff front, the capacity was at 3000 TPA as of FY17, which will further be augmented to 6000 TPA by Q1FY18. The entire capacity is expected to be absorbed by FY19E (75% capacity utilisation), thereby delivering healthy volume led growth over FY17-19E. This move also augurs well as SPCL will be present across the dyestuff value chain.

Exhibit 3: Dye intermediates capacity, production & utilisation levels



Source: Company, ICICIdirect.com Research

Exhibit 4: Dyestuff capacity, production & utilisation levels



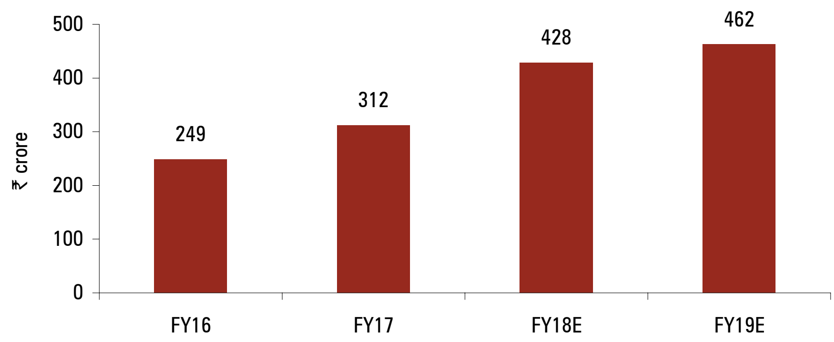
Source: Company, ICICIdirect.com Research

SPCL has a marketing tie up with DCM Shriram for the sale of SSP while it markets soil conditioner under its own brand 'Dharti Ratna' in Maharashtra.

Net sales to rise robustly; dyestuff expansion to provide alpha!

Sales growth is expected to be robust in FY17-19E on the back of an impressive capex programme in the dyestuff and fertiliser segments. The dyestuff segment at peak utilisation levels is expected to generate revenues to the tune of ₹ 148.5 crore generating RoCE in excess of 30%, thereby providing the alpha. Overall, we expect SPCL to record net sales of ₹ 462 crore in FY19E (₹ 312 crore in FY17) thereby registering a sales CAGR of 21.7% during FY17-19E.

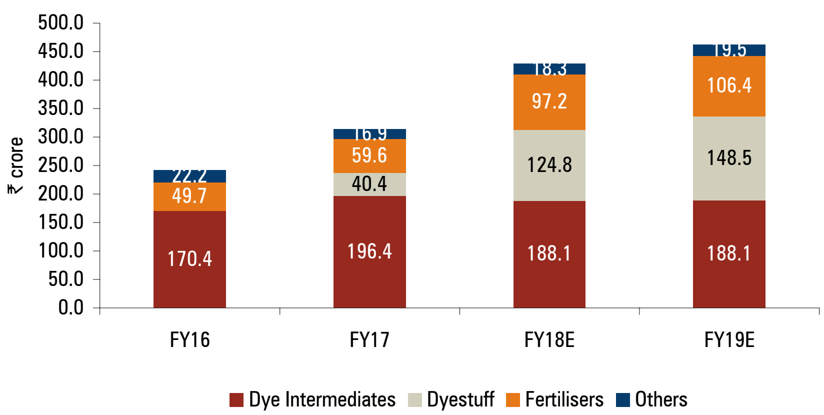
Exhibit 5: Net sales trend



Source: Company, ICICIdirect.com Research

We expect fertiliser segment to record net sales of ₹ 106.4 crore in FY19E vs. ₹ 59.6 crore in FY17. Incremental sales will largely come in from recently commissioned mixed NPK (₹ 16.8 crore in FY19E) and SOP (₹ 38.5 crore in FY19E) facility

Exhibit 6: Revenue break-up

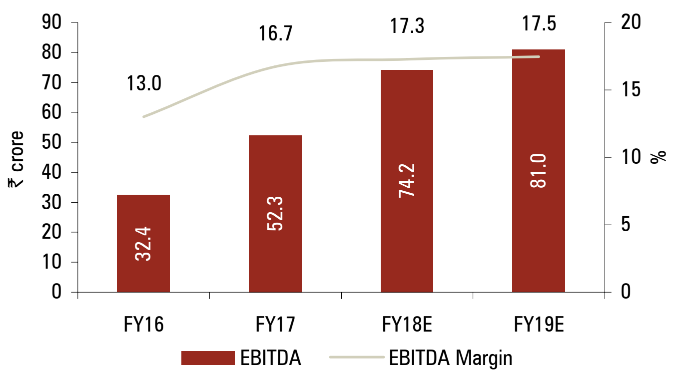


Source: Company, ICICIdirect.com Research

Margins expected to consolidate at healthy 15%+ levels, going forward

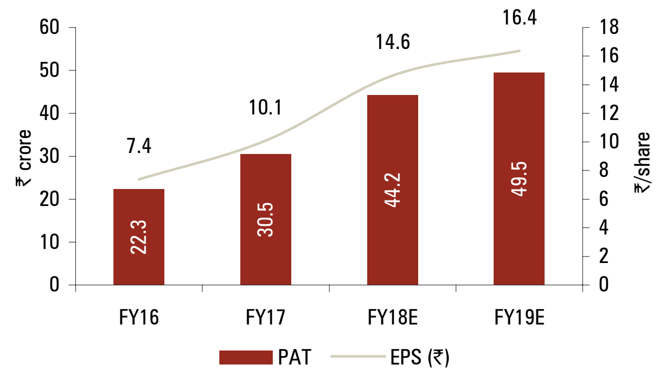
The EBITDA margin has been volatile in the past on account of SPCL being primarily a dye intermediate manufacturer. Going forward, with SPCL's intent to move up the value chain and increasing share of dyestuff in total sales, we expect EBITDA margins to stabilise at 15%+ levels. We expect EBITDA margins to improve to 17.5% in FY19E vs. 16.7% clocked in FY17. Consequent EBITDA is expected to grow at a CAGR of 24.4% over FY17-19E to ₹ 81.0 crore in FY19E.

Exhibit 7: EBITDA & EBITDA margins trend



Source: Company, ICICIdirect.com Research

Exhibit 8: PAT & EPS trend



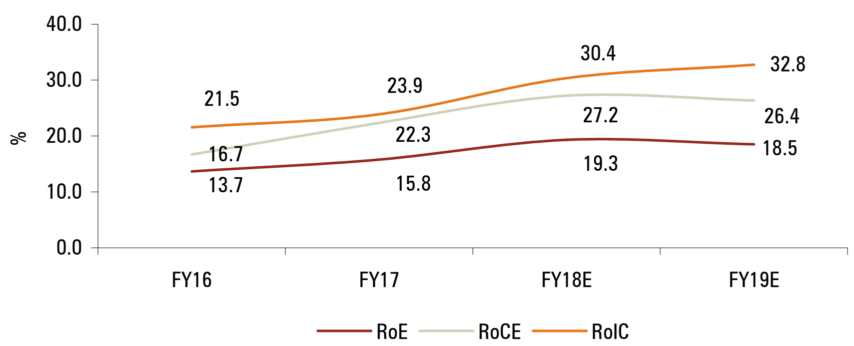
Source: Company, ICICIdirect.com Research

In FY17-19E, on account of the impressive capex program in dyestuff segment and healthy EBITDA margins at ~15%+, we expect PAT to grow at a CAGR of 27.4% to ₹ 49.5 crore in FY19E vs. ₹ 30.5 crore in FY17. Corresponding EPS is expected at ₹ 14.6 in FY18E & ₹ 16.4 in FY19E.

Increasing profitability to further boost return ratio profile

Robust sales growth, healthy EBITDA margins in excess of 15% and impressive asset turnover of ~2.5x is set to propel return ratios, going forward. Therefore, we expect average RoIC, ROE and RoCE at 29.0%, 17.9% and 25.3%, respectively, during FY17-19E.

Exhibit 9: Return ratios profile



Source: Company, ICICIdirect.com Research

Controlled net working capital cycle

SPCL enjoys a well controlled net working capital cycle with NWC days in FY16 at 57 days vs. 125 in FY14. However, in FY17, the NWC has stretched a bit (71 days) on account of the company's effort to soft market its new product profile (dyestuff). Going forward, we expect NWC days at ~70 days in FY18E and ~65 days in FY19E.

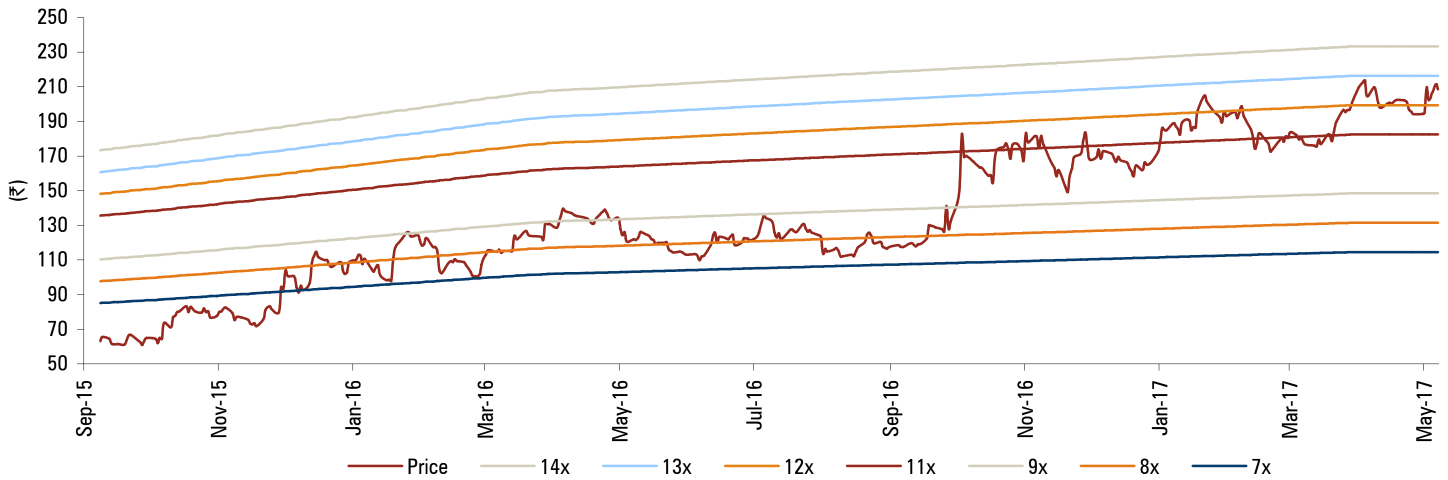
Outlook and valuation

Dye intermediates find application in the manufacture of dyes, which, in turn, is used as colouring agents in textiles. As per industry estimates, the global industry size for dyestuff and dye intermediates is ~800,000 tonne per annum (TPA) and ~620,000 TPA, respectively. China is the industry leader with a market share of ~75% followed by India that commands a market share in excess of 15%. In recent years, stringent environmental regulations and mandatory requirements to set up effluent treatment plants in China, rising labour & power costs and declining export incentives have eroded the low cost competitiveness of Chinese manufacturers. Sensing the opportunity, most Indian manufacturers, including SPCL, have expanded their capacity as global customers turn to India as a strategic alternative to diversify their procurement base.

SPCL has a lean balance sheet with net cash of ₹ 8 crore (FY17), which is expected to continue on account of limited capex during FY17-19E. It also has a controlled working capital cycle with net working capital days of ~71 days. With commissioning of dyestuff capacity, we expect sales, EBITDA & PAT to grow at a CAGR of 21.7%, 24.4% & 27.4%, respectively, during FY17-19E. Furthermore, SPCL realises a healthy 15%+ EBITDA margins and ~2.5x asset turnover resulting in impressive return ratios profile with FY17-19E average RoCE & RoIC at ~25% & ~29%, respectively. We value SPCL at ₹ 245, i.e. 15.0x P/E on FY19E EPS of ₹ 16.4. We assign a **BUY** recommendation on SPCL.

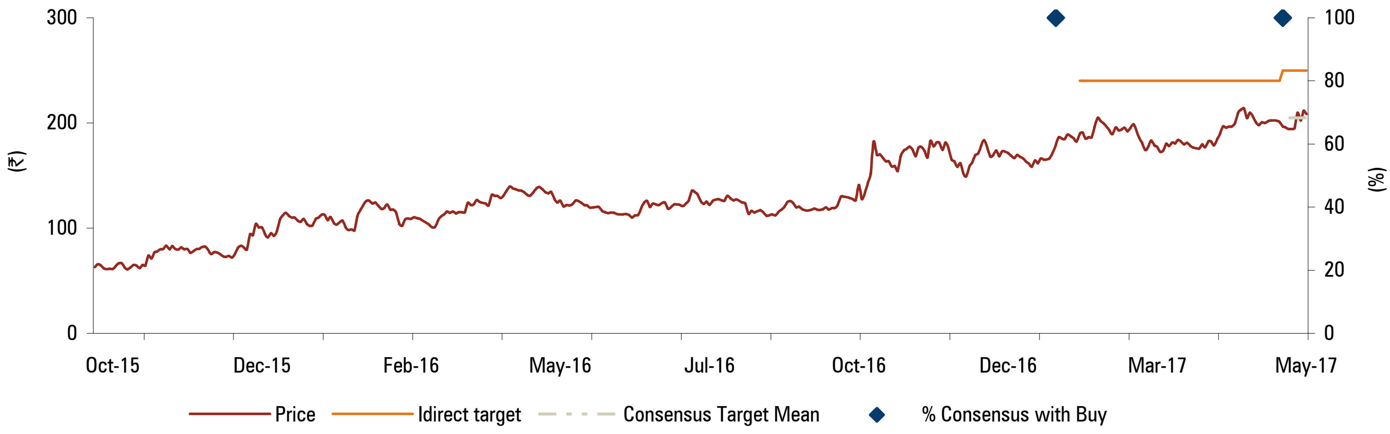
The key risk to our call is the inherent volatility associated with the dye intermediates and dyestuff realisations, which are largely crude linked.

Exhibit 10: Two year forward P/E (SPCL currently trading at 12.7x)



*Source: Bloomberg, Company, ICICIdirect.com Research; *I-direct coverage on Shree Pushkar Chemicals & Fertilisers was initiated on January 2017*

Recommendation history vs. consensus estimate



*Source: Bloomberg, Company, ICICIdirect.com Research; *I-direct coverage on Shree Pushkar Chemicals & Fertilisers was initiated on January 2017*

Key events

Date/Year	Event
1993	Incorporated as "Shree Pushkar Petro Products" in 1993 for the sole purpose of importing and trading in related chemicals products & dye intermediates
2001	Shifted focus to manufacturing by commissioning a 480 tonne Gamma Acid (dye intermediate) facility at MIDC Industrial Area Lote Parshuram
2002	Commenced manufacturing Amino G and G-Salt
2004	SPCL undertook a mega expansion and successfully commissioned its 960 tonne K-Acid and 2400 tonne vinyl sulphone (VS) facilities thereby diversifying its dye intermediates products offering
2006	Achieved backward integration through the commissioning of R-Salt and Meta Ureido Aniline facilities
2007	Commenced manufacture of Di-Calcium Phosphate (cattle feed) in order to utilise the excess Spent Acid which is released from other processes, thereby beginning its legacy as a zero discharge company.
2009	Commissioned its 2700 tonne H Acid plant. Entered into an Equity Subscription Agreement with IFCI Venture Capital Funds by allotting 56,47,600 equity shares at ₹ 26.56 per equity share in order to raise a total of ₹ 15 crore to partly fund its expansion of setting up a integrated sulphuric acid plant
2011	SPCL commenced manufacturing of Single Super Phosphate (SSP) and Soil Conditioner (Fertilizer) and commissioned a 500KW Captive Power Plant.
2012	The company launched its own brand 'Dharti Ratna' to market its soil conditioner in Western Maharashtra. The company name was changed to 'Shree Pushkar Chemicals & Fertilizers Limited' for a more accurate description of its business.
2015	In August 2015, SPCL successfully launched its IPO through fresh issue of 0.75 crore shares and OFS of 0.20 crore shares at a price of ₹ 65/share, thereby raising ₹ 62 crore. The IPO was subscribed 1.4x times
2017	SPCL forward integrated by commissioning its 3000 tonne dyestuff facility along with a captive 1000 tonne Vinyl Sulphone & 750 tonne H Acid plants at a capex of ₹ 42 crore funded through its IPO proceeds.

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Makharia (Punit)	31-Mar-17	40.9	12.4	0.0
2	Makharia (Gautam Gopikishan)	31-Mar-17	15.6	4.7	0.0
3	Reliance Nippon Life Asset Management Limit	31-Mar-17	4.9	1.5	0.0
4	Rahn+Bodmer Co.	31-Dec-16	2.5	0.8	(0.1)
5	India Max Investment Fund, Ltd.	31-Mar-17	2.5	0.8	0.8
6	Barbarik Distributors Pvt. Ltd.	31-Mar-17	1.5	0.5	0.0
7	Makharia (Bhanu Gopi)	31-Mar-17	1.4	0.4	0.0
8	Makharia (Ranjana Punit)	31-Mar-17	1.2	0.4	0.0
9	Makharia (Gopikishan)	31-Mar-17	1.2	0.4	0.0
10	Makharia (Aradhana)	31-Mar-17	1.2	0.4	0.0

Source: Reuters, ICICIdirect.com Research

Shareholding Pattern

(in %)	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Promoter	60.3	60.3	61.4	61.6	61.6
FII	0.0	0.0	0.5	0.5	0.5
DII	13.5	14.0	8.4	8.0	7.7
Others	26.2	25.8	29.7	29.9	30.3

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
India Max Investment Fund, Ltd.	+2.4M	+0.8M	J.P. Morgan Asset Management (Hong Kong) Ltd.	-0.4M	-0.1M
Makharia (Punit)	+0.0M	+0.0M	Rahn+Bodmer Co.	-0.1M	-0.1M

Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement				₹ Crore
(Year-end March)	FY16	FY17	FY18E	FY19E
Net Sales	248.7	311.8	428.4	462.5
Other Operating Income	0.0	1.2	1.3	1.3
Total Operating Income	248.7	313.0	429.7	463.8
Growth (%)	-6.7	25.9	37.3	7.9
Raw Material Expenses	175.3	212.2	292.2	314.5
Employee Expenses	10.2	12.9	16.0	17.3
Other Operating Expense	30.9	35.6	47.3	51.0
Total Operating Expenditure	216.3	260.7	355.5	382.8
EBITDA	32.4	52.3	74.2	81.0
Growth (%)	-23.7	61.7	41.8	9.1
Depreciation	3.8	5.5	7.9	8.6
Interest	2.0	2.5	2.0	1.3
Other Income	2.5	2.1	1.7	2.8
PBT	29.1	46.4	66.0	73.8
Exceptional Item	0.0	0.0	0.0	0.0
Total Tax	6.8	15.9	21.8	24.4
PAT	22.3	30.5	44.2	49.5
Growth (%)	-24.5	36.8	45.0	11.8
EPS (₹)	7.4	10.1	14.6	16.4

Source: Company, ICICIdirect.com Research

Cash flow statement				₹ Crore
(Year-end March)	FY16	FY17	FY18E	FY19E
Profit after Tax	22.3	30.5	44.2	49.5
Add: Depreciation	3.8	5.5	7.9	8.6
(Inc)/dec in Current Assets	-16.9	-30.7	-29.9	-0.5
Inc/(dec) in CL and Provisions	12.3	6.1	14.8	4.5
Others	2.0	2.5	2.0	1.3
CF from operating activities	23.5	13.9	39.0	63.3
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-29.6	-33.6	-20.0	-15.0
Others	1.6	6.0	0.0	0.0
CF from investing activities	-28.0	-27.6	-20.0	-15.0
Issue/(Buy back) of Equity	9.5	0.0	0.0	0.0
Inc/(dec) in loan funds	-7.6	-3.0	-4.2	-4.0
Interest & Dividend paid	-5.6	-8.0	-11.1	-12.2
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	46.8	5.5	0.0	0.0
CF from financing activities	43.1	-5.5	-15.2	-16.2
Net Cash flow	38.6	-19.2	3.8	32.2
Opening Cash	3.1	41.7	22.5	26.3
Closing Cash	41.7	22.5	26.3	58.5

Source: Company, ICICIdirect.com Research

Balance sheet				₹ Crore
(Year-end March)	FY16	FY17	FY18E	FY19E
Liabilities				
Equity Capital	30.2	30.2	30.2	30.2
Reserve and Surplus	132.9	163.4	198.6	237.2
Total Shareholders funds	163.1	193.6	228.8	267.4
Total Debt	17.7	14.7	10.5	6.5
Deferred Tax Liability	5.4	10.9	10.9	10.9
Minority Interest / Others	0.1	0.1	0.1	0.1
Total Liabilities	186.3	219.3	250.3	284.9
Assets				
Gross Block	105.6	150.0	165.0	180.0
Less: Acc Depreciation	21.4	26.9	34.7	43.4
Net Block	84.2	123.1	130.3	136.6
Capital WIP	10.9	0.0	5.0	5.0
Total Fixed Assets	95.1	123.1	135.3	141.6
Investments	0.1	0.1	0.1	0.1
Inventory	24.5	31.8	46.9	50.7
Debtors	43.9	62.0	82.2	82.4
Loans and Advances	13.7	19.2	12.9	9.2
Other Current Assets	1.9	1.6	2.6	2.8
Cash	41.7	22.5	26.3	58.5
Total Current Assets	125.7	137.2	170.8	203.5
Current Liabilities	29.3	33.5	46.9	50.7
Provisions	6.2	8.1	9.4	10.1
Current Liabilities & Prov	35.5	41.6	56.3	60.8
Net Current Assets	90.2	95.6	114.5	142.7
Others Assets	1.0	0.6	0.6	0.6
Application of Funds	186.3	219.3	250.3	284.9

Source: Company, ICICIdirect.com Research

Key ratios				
(Year-end March)	FY16	FY17	FY18E	FY19E
Per share data (₹)				
EPS	7.4	10.1	14.6	16.4
Cash EPS	8.6	11.9	17.2	19.2
BV	54.0	64.1	75.7	88.5
DPS	1.2	1.8	3.0	3.6
Cash Per Share (Incl Invst)	13.8	7.5	8.7	19.4
Operating Ratios (%)				
EBITDA Margin	13.0	16.7	17.3	17.5
PAT Margin	9.0	9.7	10.3	10.7
Inventory days	36.0	37.3	40.0	40.0
Debtor days	64.5	72.6	70.0	65.0
Creditor days	43.0	39.2	40.0	40.0
Return Ratios (%)				
RoE	13.7	15.8	19.3	18.5
RoCE	16.7	22.3	27.2	26.4
RoIC	21.5	23.9	30.4	32.8
Valuation Ratios (x)				
P/E	28.2	20.6	14.2	12.7
EV / EBITDA	18.7	11.9	8.3	7.1
EV / Net Sales	2.4	2.0	1.4	1.2
Market Cap / Sales	2.5	2.0	1.5	1.4
Price to Book Value	3.9	3.2	2.7	2.4
Solvency Ratios				
Debt/EBITDA	0.5	0.3	0.1	0.1
Debt / Equity	0.1	0.1	0.0	0.0
Current Ratio	2.4	2.8	2.6	2.4
Quick Ratio	1.7	2.0	1.7	1.6

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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