





Table of Content

Summary on Business Profile & Explanation on why we like this company.....	2&4
Investment Rationale.....	5-12
⇒ Well placed in domestic dye industry	5-6
⇒ Dye Industry : Domestic demand and export opportunities	7
⇒ Capacity addition to garner benefits from growing dyestuff demand	8
⇒ India gaining competitiveness over Chinese counterparts	9
⇒ Creating long-term value addition through products diversification.....	10-11
⇒ Financial performance to improve further.....	12
Company Background	13-14
Key Milestone & Management Team	15
Peer Comparison, Key Concerns & PE Band	16
Valuation & Outlook	17
Financial Statements.....	18-21
Disclaimer.....	22

Company Overview

Bodal Chemicals Limited (BCL) is the most integrated Dyestuffs Company in India and also the biggest manufacturer of Dye Intermediates in India. The Company's product range covers Dyestuffs, Dye Intermediates and Basic Chemicals broadly classified under Specialty Chemicals. It has a unique and integrated product line covering forward and backward integration to dye intermediates. It contributes about 20% of India's capacity and about 5% of the world's capacity for Dye Intermediates. Bodal Chemicals has capacity of manufacturing upto about 25 varieties of Dye Intermediates and upto about 150 variants of Dyestuff which are principally used as raw materials in Textiles, Leather, Paper & other Dyestuff consuming industries. Out of the total production, about 30% is exported to over 50 countries across the world.

Investment Rationale

Well placed in domestic dye industry

BCL has presence across the value chain from basic chemicals (1,90,000 MT) to dye intermediate (30,000 MT) and finally to dyestuff (17,000 MT) manufacturing. The company has significant market share in domestic dye intermediate (~25%) and dyestuff (~9%) market. Export consist 30% of the overall revenue of the company with global reach of 50+ countries and 6% and 3% market share in global dye intermediates and dyestuff market. BCL consume 45% of basic chemicals to manufacture dye intermediates and 40% of intermediates are consumed captive for Dyestuff. This captive consumption allow the company to keep check on the RM costs. Since FY13-17, average RM costs stood at 65% of the total turnover which has reduced from high of 74% of net sales reported in FY12. Out of the raw materials utilized by the company some of them are crude linked being Napthalene, Aniline Oil and H-acid which are the key RMs. To cater to the environmental norms, BCL has in house capacities of ~1 mn ltrs/day for effluent treatment. The company has a power generation plant which supplies electricity to its sulphuric acid plant. Over the medium to long term we believe that structurally the company is poised to benefit on account of its early mover advantage owing to lower cost of environmental compliance as the company's allocation for effluents is fairly well placed compared to peers and largely operating under unorganized segment which comprises a mix of traders and manufacturers. We modeled 12%/11.5%/0.2% volume growth in dyestuff/dye intermediate and Basic chemical business with flat realization growth which will leads to 10.9% (including Specialty business) overall revenue growth over FY17-20E.

Capacity addition to garner benefits from growing dyestuff demand

BCL plans to expand its dyestuff manufacturing capacity at Vadodara facility (Plant VII) in multiple phases by 24,000 MT to reach 41,000 MT in the next 3-4 years. Plant VII accounts for about 70% of total company production and is one of the most integrated plants for manufacturing basic chemicals, dye intermediates and Dyestuff in India. The first phase of 8,000 MT capacity is expected to go on stream by Q4 2018. Management expects an additional annual turnover of about Rs 1,450mn. In the dyes intermediates space (H-Acid and Vinyl Sulphone), it recently acquired 70% stake in SPS Processors with a capacity of 3,000 MT. Environment clearance, a crucial factor in this sector, is already in place. BCL plans to expand capacity by 4200 MTPA by Q2FY18. With these plans dye intermediates capacity to reach 37,200MT in FY18. Currently, 40% of dye intermediates use for captive consumption. With these capacity addition we expect dye intermediates captive consumption increase to 90% from 40% in the next 2-3 years, which result into improvement in margins.

India gaining competitiveness over Chinese counterparts

China is the largest manufacturer and supplier of dye intermediates and dye stuff globally, with share in global supply in excess of ~80%. Chinese firms, however, of late, are losing their competitive advantage amid stringent pollution control norms and consequent requirement of setting up common effluent treatment plants (20% of cost). The crackdown on polluters in China has opened up a window of opportunity for Indian speciality chemical manufacturers, who are adding capacities aggressively. Interestingly, Indian manufacturers have started steadily capturing markets, even in China apart from others. The rapid rise in labour costs as well as declining state support have also led to its diminishing cost advantage thereby benefiting Indian players at large. Moreover, with frequent plant shutdowns in China, global customers are looking at diversifying their procurement base and increasingly targeting India as the next alternate source thereby benefiting Indian dye intermediates and dye stuff industry at large. Certain recent development in china have presented a substantial opportunity to the large and organized Indian manufacturers of Dye intermediates and Dyestuff. BCL, one of the largest and integrated Dyestuff manufacturer in India is poised to fill the gap.

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Positive

Stock

CMP (Rs)	175
Target Price (Rs)	249
BSE code	524370
NSE Symbol	BODALCHEM
Bloomberg	BODL IN
Reuters	BODA.BO

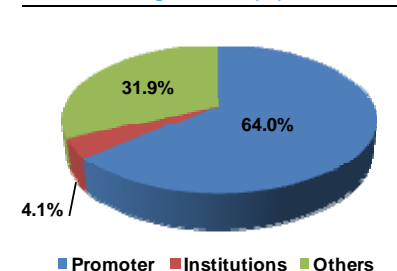
Key Data

Nifty	10,167
52 Week H/L (Rs)	194 / 99
O/s Shares (Mn)	109
Market Cap (Bn)	19.1
Face Value (Rs)	2

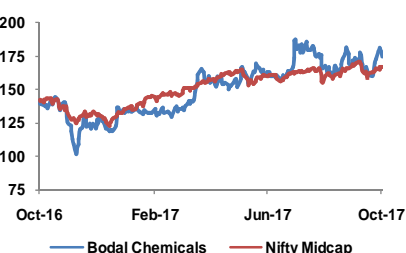
Average volume

3 months	5,81,872
6 months	5,82,311
1 year	6,70,599

Share Holding Pattern (%)



Relative Price Chart



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Creating long-term value addition through products diversification

In addition to the Dyestuff capacity expansion and in line with the long term strategy, the Company has identified new opportunities which bring with them a new growth trajectory for Bodal Chemicals. The most important of these are three new high value products namely Trion Chemicals (TCPL), Linear Alkyl Benzene Sulphonic Acid (LABSA) Project and Liquid Dyestuff. Bodal Chemicals has made an investment of Rs.150mn in TCPL, which is in the process of becoming a 42% owned associate of the Company. TCPL is engaged in the production of a compound which is a disinfectant, algacide and bactericide mainly for swimming pools as well as a bleaching agent in the textile industry and is expected to start production in H2 FY2017. Bodal Chemicals, through its wholly owned subsidiary Bodal Agrotech Limited (BAL), has started a new plant for the manufacture of LABSA which is widely used in all ranges of domestic detergents powder, cake & dish wash cleaners. The total annual capacity for this plant is 18,000 MTPA. During fiscal year 2016, LABSA generated a turnover of Rs. 8.75mn. Liquid Dyestuff is primarily used in the paper industry. By FY17, it expects to increase the capacity to about 500 MT per month and to further increase it to 1,000 MT / month within three years. We are currently exporting this product to Australia and South Africa. Given significant demand in European countries, the company is targeting that region in the near term. During the year, Bodal Chemicals also received approval by the Expert Appraisal Committee of the Ministry of Environment, Forests and Climate Change for the expansion of Dyes and Dye Intermediates manufacturing capacity from 2,200 MTPM to 6,000 MTPM and also for a 5MW Cogeneration Power Plant. With commissioning of power plant management expect it will reduce power cost from Rs 8 per unit to Rs 4per units.

Financial performance to improve further

Robust growth in EBITDA margins from 3.7% in FY13 to 18.3% in FY17 and a stable working capital cycle have led to strong return ratios with RoE and RoCE at 41.7% and 46.8%, respectively in FY17. Going forward, we expect return ratios to decline for next three years (remain above 25%) due to ongoing capex plan and earnings getting stabilize. With high margin products introduction, increasing captive consumption of dye intermediates and saving in power cost due to power plant getting on stream leads to maintain margin uptrend. Further, the debt level expected remains at same level since the company funding its capex through internal accruals and equity dilution. Over the period BCL managed to deliver above 2x asset turnover; we expect this to maintain going forward. BCL continues to be a positive Free Cash Flow company despite of large capex due to strong operating cash flows and controlled working capital requirements.

We have valued this stock by assigning 15x to its FY20 earning estimates. We arrive at a target price of Rs 249 (potential upside of 42% from CMP) for an investment horizon of 12-15 months.

Why we like this stock & valuation methodology

Ongoing capacity addition in dyestuff will help the company to strengthen its market positioning in domestic dyestuff market. Further diversification into Speciality chemicals through Trion, LABSA and Liquid dyestuff is expected to contribute from 5% in FY17 to ~20% in FY20E. Since Speciality chemicals carry better margin higher contribution from these products help to maintain EBITDA margins at ~19%. Moreover, with frequent plant shutdowns in China, global customers are looking at diversifying their procurement base and increasingly targeting India as the next alternate source thereby benefiting Indian dye intermediates and dye stuff industry at large. We believe BCL is well placed to ripe benefit from gaining market share of India's in Global chemical sector. We expect The company's Revenue/EBITDA/PAT to clock 11%/14%/12% CAGR during FY17-20E. Though BCL is a commodity player, product diversification, margin improvement trend and gaining market share in domestic dyestuff could result in further rerating of the stock going forward. At the current market price (of Rs 175) the company is trading at 12.7x its FY19E EPS of Rs 13.8 and 10.5x its FY20E EPS of Rs 16.6. We believe the valuations are attractive and the stock can give decent returns in the future. We initiate coverage on the stock & recommend 'BUY' rating by assigning 15x to its FY20E earning. We arrive at a target price of Rs 249 (potential upside of 42% from CMP) for an investment horizon of 12-15 months.



Bodal Chemicals Ltd.

Initiating Coverage

Key Financials						
YE March (Rs. mn)	FY15	FY16	FY17	FY18E	FY19E	FY20E
Revenue	10,453	9,099	12,363	12,542	14,502	16,862
Revenue Growth (Y-o-Y)	8.9%	(13.0%)	35.9%	1.4%	15.6%	16.3%
EBITDA	1,841	1,498	2,258	2,370	2,805	3,309
EBITDA Growth (Y-o-Y)	(2.5%)	(18.6%)	50.7%	4.9%	18.4%	18.0%
Net Profit	918	860	1,286	1,279	1,505	1,813
Net Profit Growth (Y-o-Y)	204.3%	(6.3%)	49.6%	(0.6%)	17.6%	20.5%
Diluted EPS	8.4	7.9	11.8	11.7	13.8	16.6
Diluted EPS Growth (Y-o-Y)	204.3%	-6.3%	49.6%	-0.6%	17.6%	20.5%
No of Diluted shares (mn)	109	109	109	109	109	109
Key Ratios						
EBITDA (%)	17.6%	16.5%	18.3%	18.9%	19.3%	19.6%
NPM (%)	8.8%	9.4%	10.4%	10.2%	10.4%	10.8%
RoE (%)	67.6%	38.1%	41.7%	30.6%	27.5%	25.9%
RoCE (%)	41.2%	32.8%	46.8%	37.5%	23.2%	22.7%
Tax Rate %	34.1%	34.1%	35.6%	35.0%	35.0%	35.0%
Book Value Per share (Rs.)	16.6	21.5	32.9	43.8	56.5	71.9
Valuation Ratios						
P/E (x)	20.8x	22.2x	14.8x	14.9x	12.7x	10.5x
EV/EBITDA	11.5x	13.7x	9.0x	8.7x	7.3x	5.8x
P/BV (x)	10.5x	8.1x	5.3x	4.0x	3.1x	2.4x
Market Cap. / Sales (x)	1.8x	2.1x	1.5x	1.5x	1.3x	1.1x

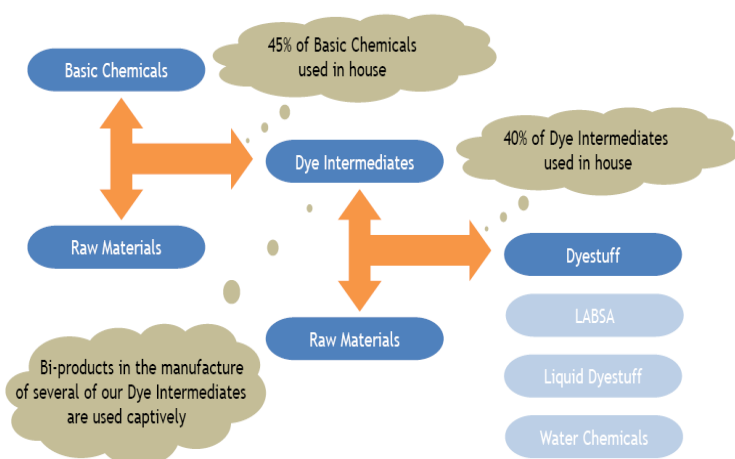
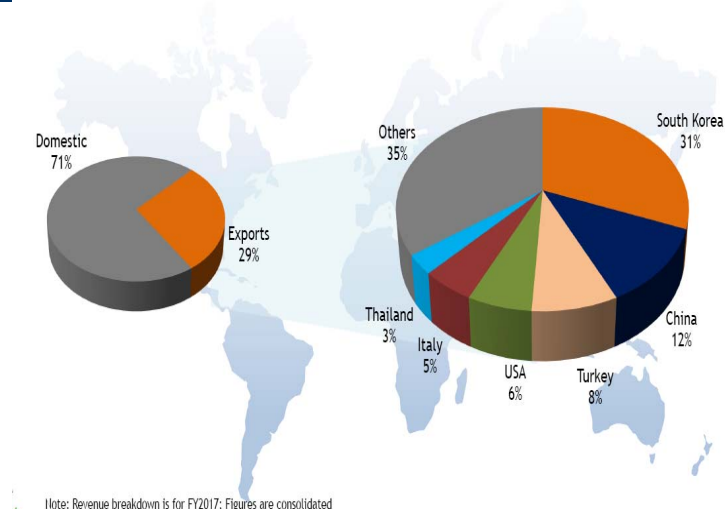
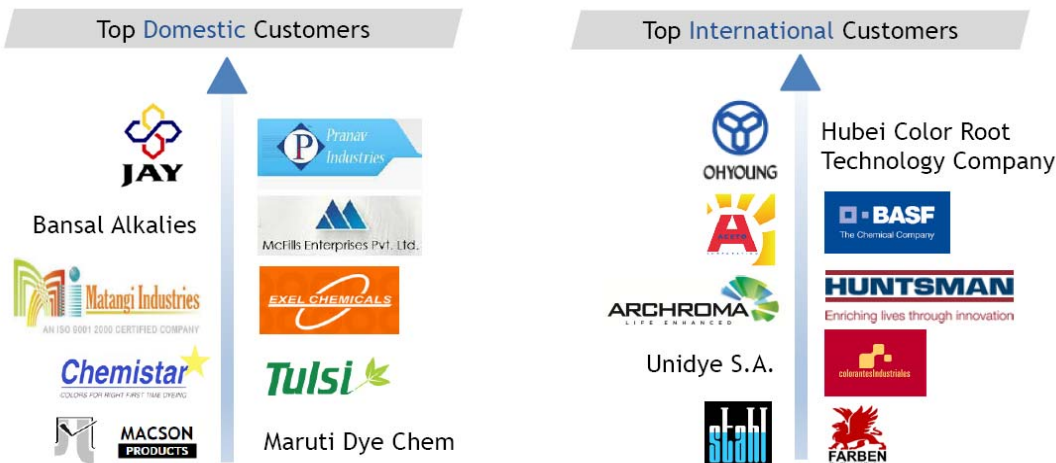
Source: Company, BP Equities Research

DuPont Analysis						
YE March	FY15	FY16	FY17	FY18E	FY19E	FY20E
EBIDTA/Sales (%)	18%	16%	18%	19%	19%	20%
Sales/Operating Assets (x)	2.66	2.41	2.94	2.40	2.23	2.12
EBIDTA/Operating Assets (%)	47%	40%	54%	45%	43%	42%
Operating Assets/ Net Assets (x)	0.94	0.95	0.91	0.89	0.91	0.92
Net Earnings/ EBIDTA (%)	50%	53%	55%	54%	54%	55%
Net Assets/ Equity (x)	3.08	1.88	1.53	1.39	1.30	1.23
Return on Equity (%)	68%	37%	41%	30%	27%	26%

Source: Company, BP Equities Research

Investment Rationale
Well placed in domestic dye industry

BCL has presence across the value chain from basic chemicals (1, 90,000MT) to dye intermediate (30,000MT) and finally to dyestuff (17,000MT) manufacturing. The company has significant market share in domestic dye intermediate (~25%) and dyestuff (~9%) market. Export consist 30% of the overall revenue of the company with global reach of 50+ countries and 6%/3% market share in global dye intermediates/dyestuff market. BCL consume 45% of basic chemicals to manufacture dye intermediates and 40% of intermediates are consumed captive for Dyestuff. This captive consumption allow the company to keep check on the RM costs. Since FY13-17, average RM costs stood at 65%to the total turnover which has reduced from high of 74% of net sales reported in FY12. Amongst the raw materials utilized by the company that are crude linked, Napthalene, Aniline Oil and H-acid are the key RMs. To cater to the environmental norms, BCL has in house capacities of ~1 mn ltrs/day for effluent treatment. Company has a power generation plant which supplies electricity to sulphuric acid plant. Over the medium to long term we believe, structurally the company is poised to benefit on account of its early mover advantage owing to lower cost of environmental compliance as the company's allocation for effluents is fairly well placed compared to peers largely operating under unorganized segment which comprises a mix of traders and manufacturers.

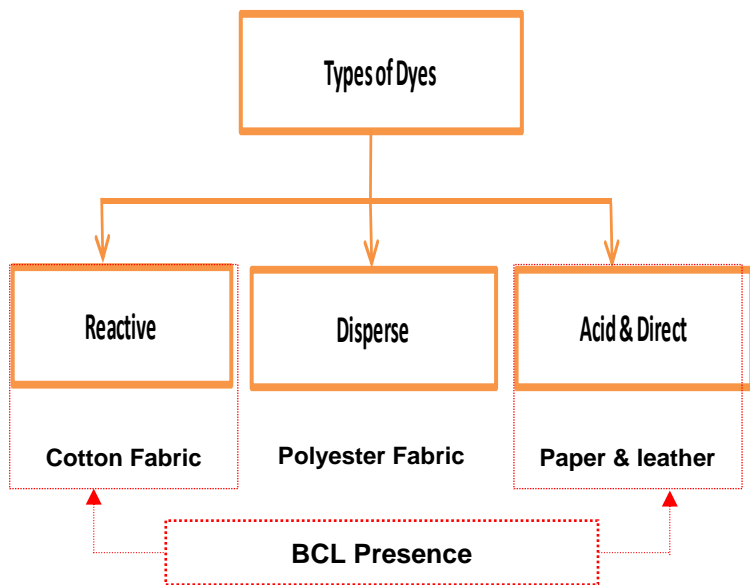
Captive consumption ensures RM supply

Geographical spread

Diversified client base


BCL export to around 375 customers from 50+ countries

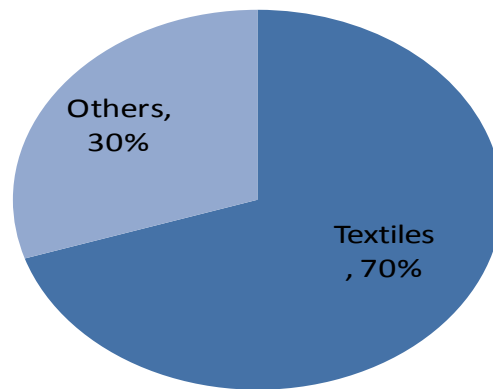
Less client concentration with top 5 clients contribution 25% and top 10 clients contributing 40% to the revenue

Source: Company, BP Equities Research

Domestic Dyestuff Industry in Chart



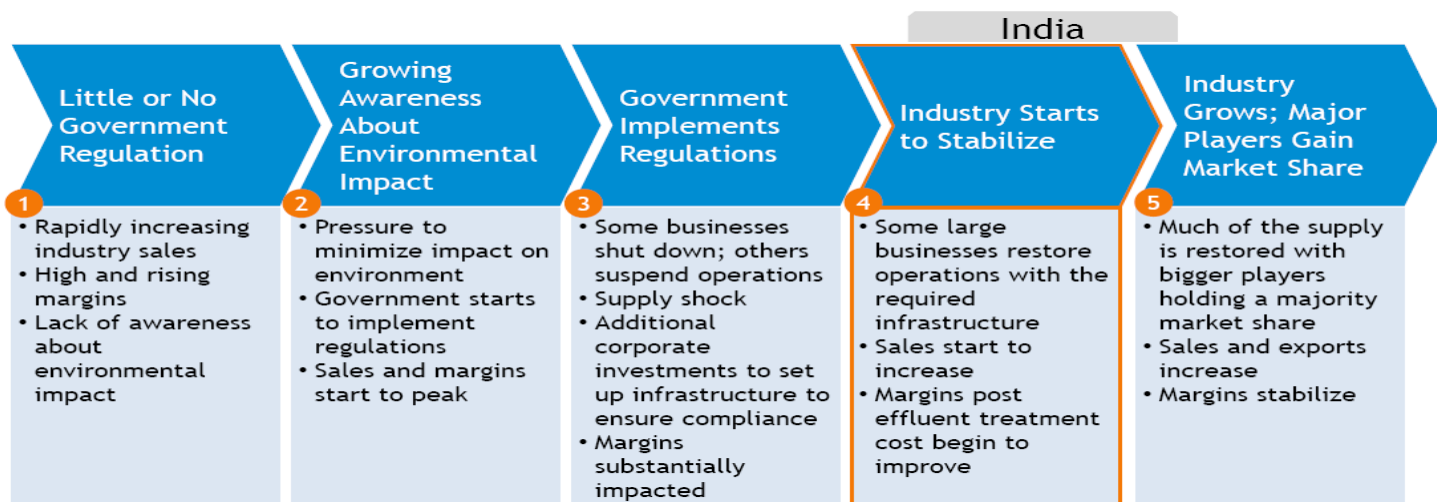
Dyestuff consumption pattern



The reactive and disperse variant of dyes are used to dye textile fibres and these dyed textile fibres are in turn used in various applications such as apparels, home textiles, agricultural textiles etc. Even as the customer concentration remains lumpy with a fairly high contribution from the textile industry, the increasing exports coupled with growth in the paint, printing and tannery industries is likely to dilute the concentration going forward.

- 16%** India's share in the global Dyestuff production
- 50%** Organized sector's share in Indian Dyestuff production
- 85%** Gujarat and Maharashtra's share in Indian Dyestuff production

Source: IBEF January 2016; Industry



Dye Industry : Domestic demand and export opportunities

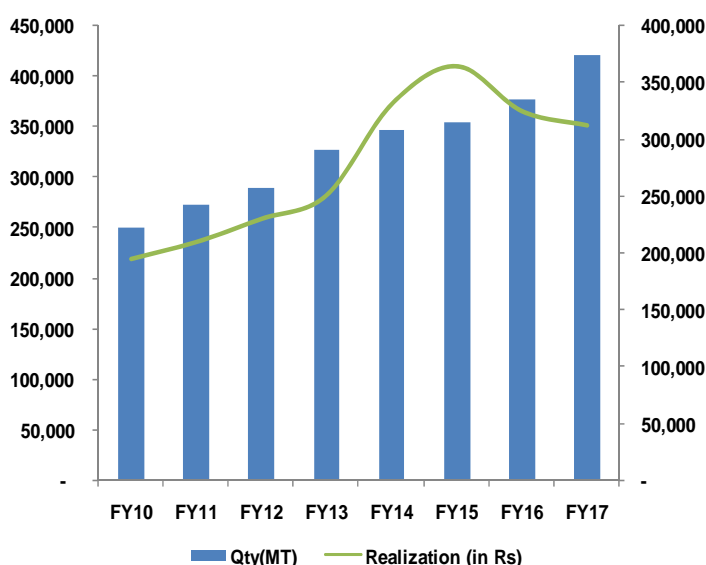
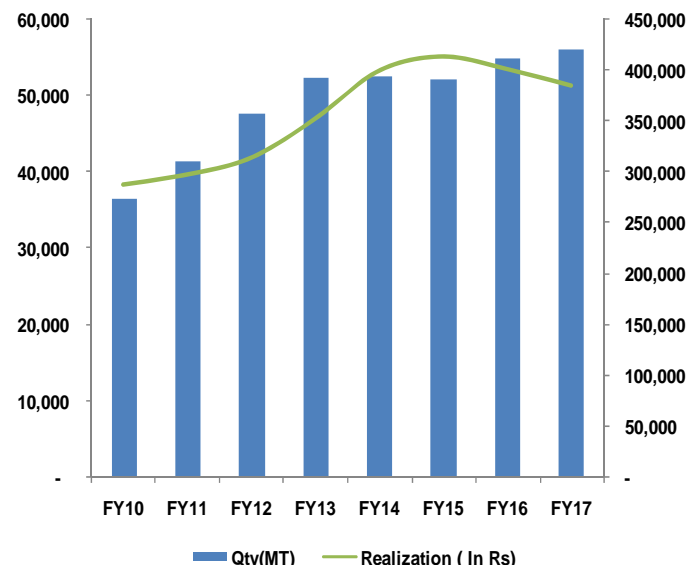
Globally, the demand for dyes and organic pigments is forecast to increase at low single digit per annum. which will have a direct bearing on the domestic production of dyes and organic pigments since a large proportion of production is exported. Moreover, after the REACH (Registration, Evaluation, Authorization and Restriction of Chemicals) regulation, costs of handling effluents have increased. As a result a large number of companies have begun to relocate their operations to the liberal or less strict Asian markets, particularly India and China. Due to a greater use of polyester and cotton-based fabrics, there has been a shift towards reactive dyes used in cotton-based fabrics and disperse dyes used in polyester. The demand for reactive and disperse dyes is expected to grow fastest due to this continued demand. The textile industry will remain the largest consumer of dyestuffs; however growth will be driven by markets such as printing inks, paints and plastics. These segments are also expected to increase the consumption of high performance pigments helping improve profitability. At around 8% growth, the Indian colorants industry (including pigments, dyes and dye intermediates) is expected to capture ~20% of the global market.

Reactive dyes are most commonly used in dyeing of cellulose like Cotton or Flax, and also Wool is dyeable with reactive dyes. India accounts for approximately 16% of the world production of dyestuff and dye intermediates, particularly for reactive acid and direct dyes. The proposed product, Reactive dyes are mainly used in dyeing operation of natural fiber. These dyes have a worldwide acceptance to the dyeing technologies for dyeing cotton.

In 2017, India produced ~3,20,000 tonnes of dyes. Of this, ~40% were reactive dyes due to the availability of important raw materials like Vinyl Sulphone, etc. Nearly 70% of the dyestuff was supplied to the textile industry while leather and paper industries accounted for the remaining. With the ever increasing standards of quality and reliability, Indian dyestuffs industry meets more than 95% of the domestic requirement, out of which textile industry consumes nearly 70% and the remaining is shared by paper, leather & other consumer industries. Gujarat and Maharashtra account for nearly 95% of the colorant production in the country.

Currently, Indian dyestuffs industry comprises about 950 units (50 in large and organized sector and 900 units under Small & Medium Enterprises (SME) Sector). These units are mainly present in the western states of Gujarat and Maharashtra, with Gujarat accounting for almost 80% of capacity. The per capita consumption of dyes in India is 50 gms as compared to 400 gms in Europe, 300 gms in Japan which shows that there is tremendous potential for the Indian market.

Major exports of dyes are to developed countries like Germany, U.K., U.S.A., Switzerland, Spain, Turkey, Singapore and Japan. Exports of Dyes to Latin American and African Countries have also started picking up.

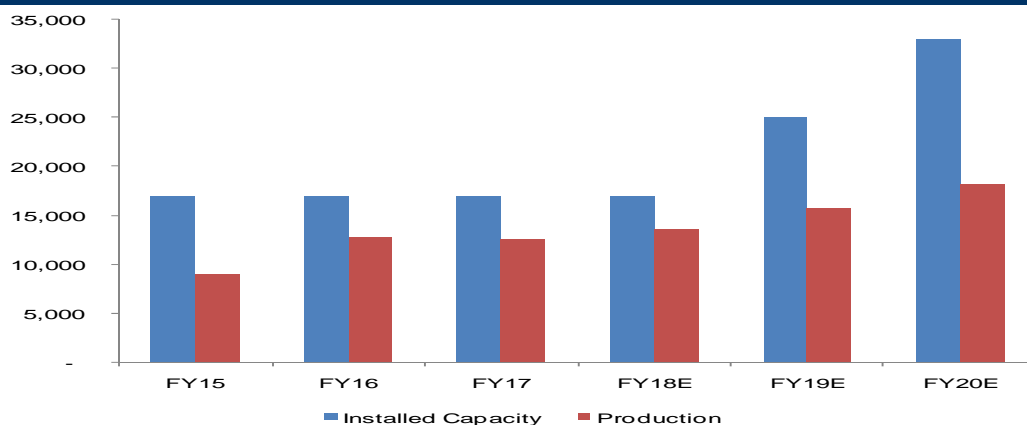
Export shown growth of ~8% CAGR with 6% realization growth

Import shown growth of 3.3% CAGR with 4% realization growth


Source: Data.gov.in, BP Equities Research

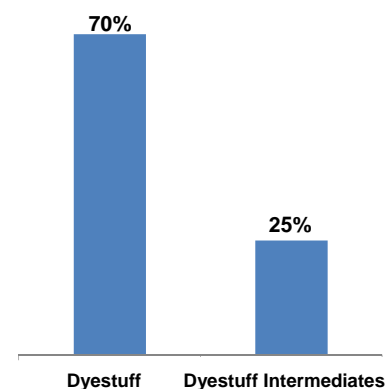
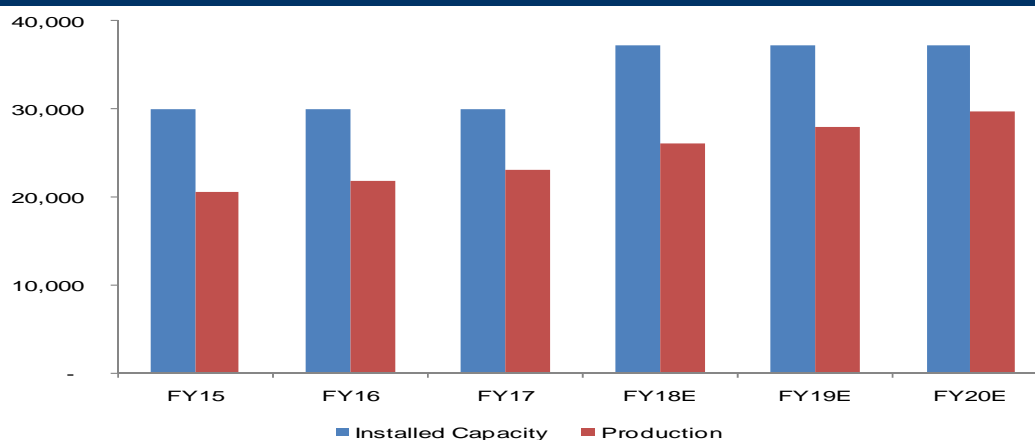
Capacity addition to garner benefits from growing dyestuff demand

BCL's current capacity for dyestuff, dye intermediates and basic chemicals stands at 17,000 MTPA, 30,000 MTPA and 1,90,000 and respectively. The company plans to expand its dyestuff manufacturing capacity at Vadodara facility (Plant VII) in multiple phases by 24,000 MT to reach 41,000 MT in the next 3-4 years. Plant VII accounts for about 70% of total company production and is one of the most integrated plants for manufacturing basic chemicals, dye intermediates and Dyestuff in India. The first phase of 8,000 MT capacity is expected to go on stream by Q4 2018. Management expects an additional annual turnover of about Rs 1,450mn. In the dyes intermediates space (H-Acid and Vinyl Sulphone), it recently acquired 70% stake in SPS Processors with a capacity of 3,000 MT. Environment clearance, a crucial factor in this sector, is already in place. BCL plans to expand capacity by 4200 MTPA by Q2FY18. With these plans dye intermediates capacity to reach 37,200MT in FY18. Currently, 40% of dye intermediates use for captive consumption. With these capacity addition we expect dye intermediates captive consumption increase to 90% from 40% in the next 2-3 years, which result into improvement in margins.

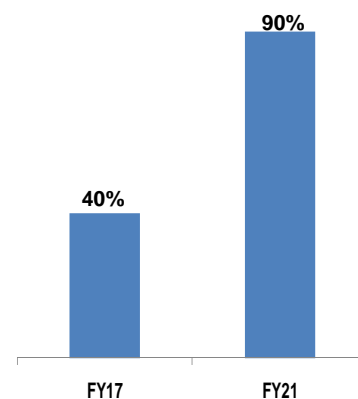
	Capacity Expansion of Dyestuff
Details	<ul style="list-style-type: none"> Capacity to be expanded by 8,000 MTPA Capex required of Rs. 28 Cr to be funded out of internal accruals Total capacity expansion of 24,000 MTPA over 3-4 yrs Expansion work has already been started and expected to be completed by Q4 FY2018
Capacity	25,000 MT (including additional DS capacity from Phase I)
End Market	Textile, Leather and Paper industry

Capacity and utilization trend of Dyestuff


Source: Company, BP Equities Research

BCL's product wise export revenue

Capacity and utilization trend of Dye intermediates


Source: Company, BP Equities Research

Increasing captive consumption of Dye intermediate to improve margins


Dye Intermediates (Captive Consumption)

India gaining competitiveness over Chinese counterparts

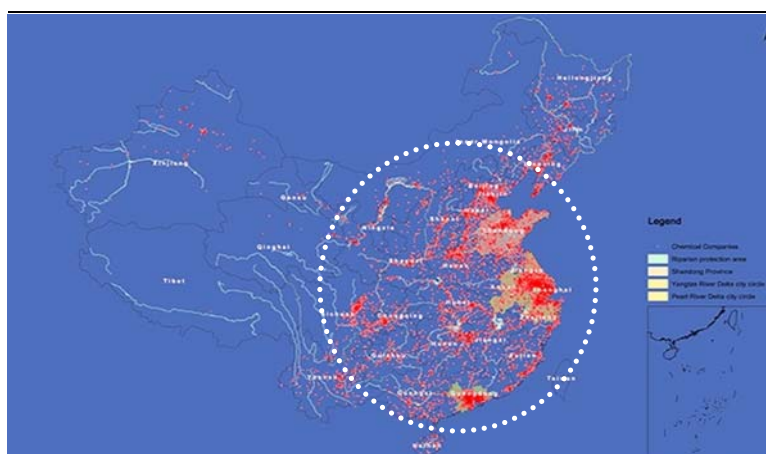
China is the largest manufacturer and supplier of dye intermediates and dye stuff globally, with share in global supply in excess of ~80%. Chinese firms, however, of late, are losing their competitive advantage amid stringent pollution control norms and consequent requirement of setting up common effluent treatment plants (20% of cost). The crackdown on polluters in China has opened up a window of opportunity for Indian speciality chemical manufacturers, who are adding capacities aggressively. Interestingly, Indian manufacturers have started steadily capturing markets, even in China apart from others. The rapid rise in labour costs as well as declining state support have also led to its diminishing cost advantage thereby benefiting Indian players at large. Moreover, with frequent plant shutdowns in China, global customers are looking at diversifying their procurement base and increasingly targeting India as the next alternate source thereby benefiting Indian dye intermediates and dye stuff industry at large. Certain recent development in china have presented a substantial opportunity to the large and organized Indian manufacturers of Dye intermediates and Dyestuff. BCL, one of the largest and integrated Dyestuff manufacturer in India is poised to fill the gap.

India's relative competitiveness has improved over the years

Metric	Phase	India	Key Competitor	Change in India's Relative Competitive Position
Export Incentive	Then	4-6%	14-15%	↑
	Now	3-4%	3-4%	
Relative Labor Cost (Rs / month.)	Then	8-10K	8-12k	↑
	Now	10-12k	20-30k	
Relative Unit Cost of Electricity (Rs.)	Then	3-5	2-3	↑
	Now	6-8	6-8	
Effluent Treatment Cost	Government regulations in China have made effluent treatment mandatory which has substantially increased the manufacturing cost for Chinese firms and eradicated the low cost advantage of the past			↑

Notes:
 1. Ranges are approximate and as per management team's best estimates
 2. Blended effluent treatment cost not quantifiable

There are almost 25,000 large chemical factories in China and around 5,000 are located in eastern coast of China in at distance of 2km from river deltas which are densely populated posing significant risk to human health. Due to recent crack down by authorities many companies now need to shift their manufacturing base in interior part toward the western side of nation. This process of transition from east to west will take considerable time as these companies need to do Greenfield expansions along with treatment plants which will also be more costly. Further the transportation and energy cost of the companies will also rise and further it may make Chinese manufacturing more expensive and their competitiveness may reduce.

Distribution of chemical factories in China

Transition from Eastern coast to western interiors


Source: Greenpeace.org, BP Equities Research

Creating long-term value addition through products diversification

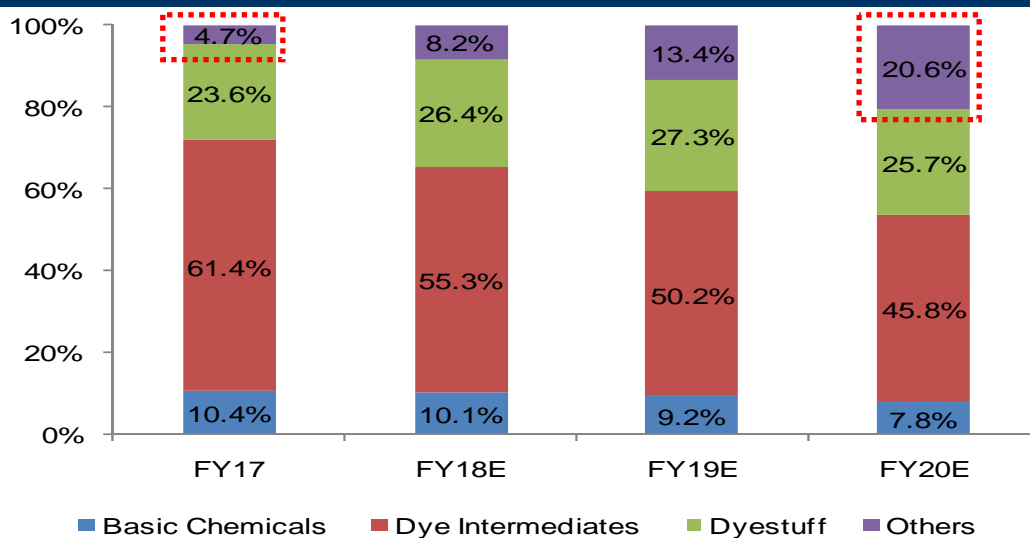
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Trion Chemicals (TCPL): Bodal Chemicals has made an investment of Rs.150mn in TCPL, which is in the process of becoming a 42% owned associate of the Company. TCPL is engaged in the production of a compound which is a disinfectant, algaecide and bactericide mainly for swimming pools. It is also used as a bleaching agent in the textile industry. TCPL is expected to start production in H2 FY2017. At optimum capacity utilisation levels, it is expected to generate an annual turnover of Rs 2.25-2.50 bn.

Linear Alkyl Benzene Sulphonic Acid (LABSA) Project: Bodal Chemicals, through its wholly owned subsidiary Bodal Agrotech Limited (BAL), has started a new plant for the manufacture of LABSA. It is an anionic surfactant widely used in all ranges of domestic detergents powder, cake & dish wash cleaners. Total annual capacity for this plant is 18,000 MTPA. BAL started the production of LABSA in March 2016 and during fiscal year 2016, generated a turnover of Rs. 8.75mn. At an optimum capacity utilisation level, BAL is expected to generate total annual turnover of Rs.1bn.

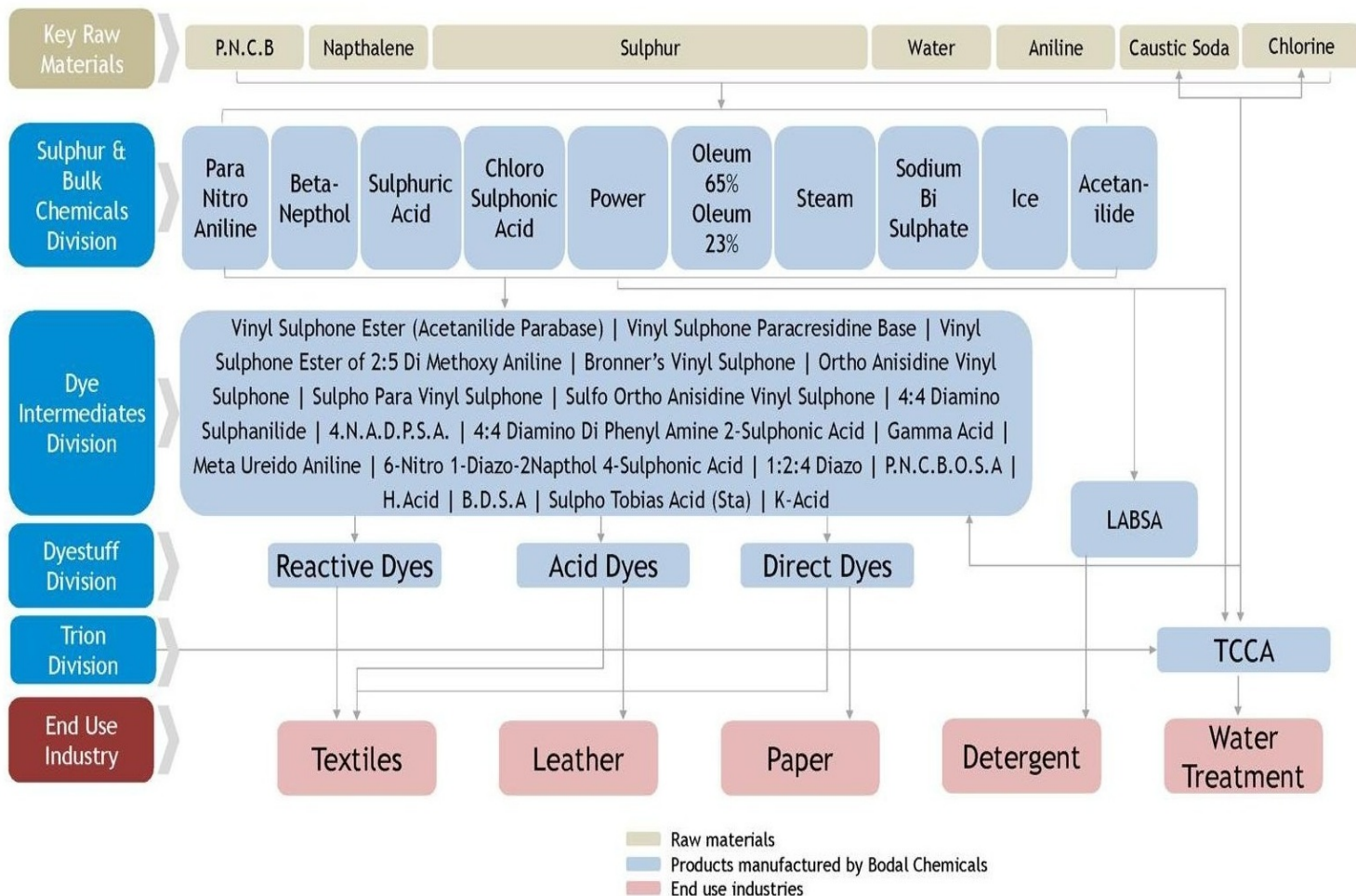
Liquid Dyestuff: The Company also manufactures Liquid Dyestuff which is primarily used in the paper industry. By FY2017, the Company expects to increase the capacity to about 500 MT per month and to further increase it to 1,000 MT / month in three years. At optimum capacity utilization levels this segment is expected to generate total annual turnover of Rs.1bn. We are currently exporting this product to Australia and South Africa. Given significant demand in European countries, the company is targeting that region in the near term.

Other Expansions: During the year, Bodal Chemicals also received approval by the Expert Appraisal Committee of the Ministry of Environment, Forests and Climate Change for the expansion of Dyes and Dye Intermediates manufacturing capacity from 2,200 MTPM to 6,000 MTPM and also for a 5MW Co-generation Power Plant (Coal based). With commissioning of power plant management expect it will reduce power cost from 5% of total revenue to 3% going forward.

Contribution from high margin products to reach 21% in FY20


Source: Company, BP Equities Research

Activity Flow chart



Source: Company

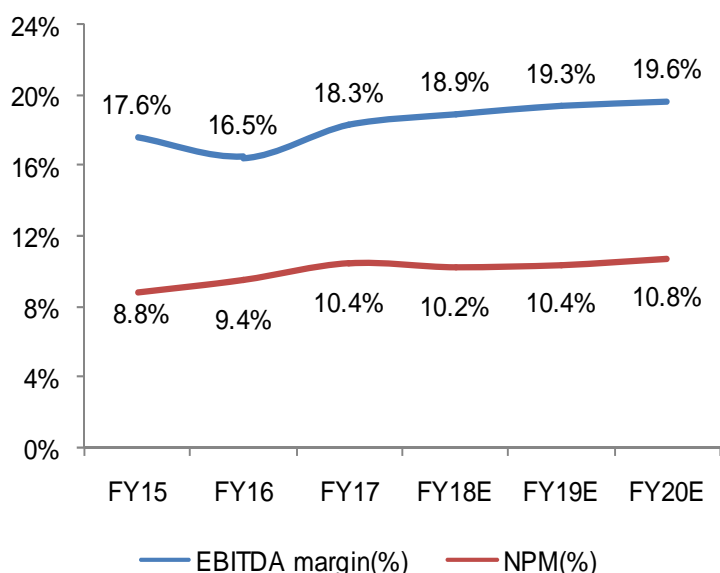
Bodal Chemicals Ltd.

Initiating Coverage

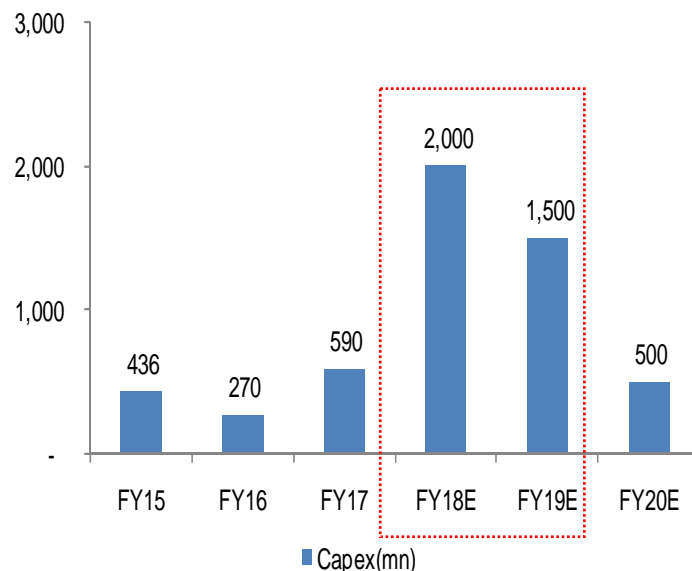
Financial performance to improve further

Robust growth in EBITDA margins from 3.7% in FY13 to 18.3% in FY17 and a stable working capital cycle have led to strong return ratios with RoE and RoCE at 41.7% and 46.8%, respectively in FY17. Going forward, we expect return ratios to decline for next three years (remain above 25%) due to on-going capex plan and earnings getting stabilize. With high margin products introduction, increasing captive consumption of dye intermediates and saving in power cost due to power plant getting on stream leads to maintain margin uptrend. Further, the debt level expected remains at same level since the company funding its capex through internal accruals and equity dilution. Over the period BCL managed to deliver above 2x asset turnover; we expect this to maintain going forward. BCL continues to be a positive Free Cash Flow company despite of large capex due to strong operating cash flows and controlled working capital requirements.

Margins to accelerate further

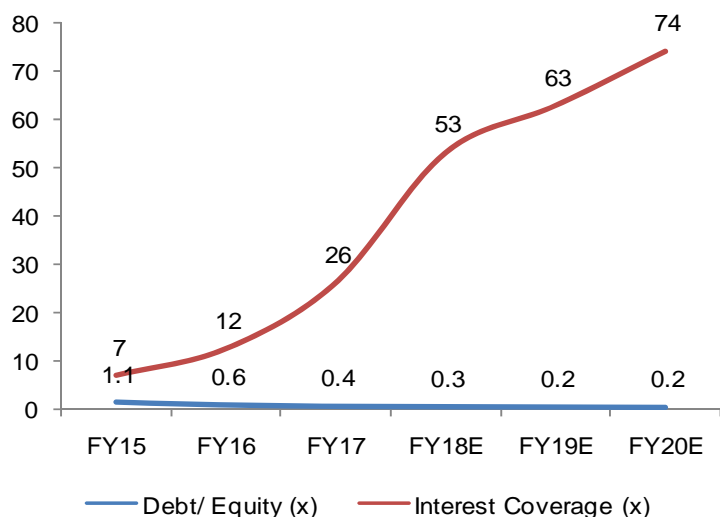


BCL to incur Rs 3,500mn capex during FY18-19

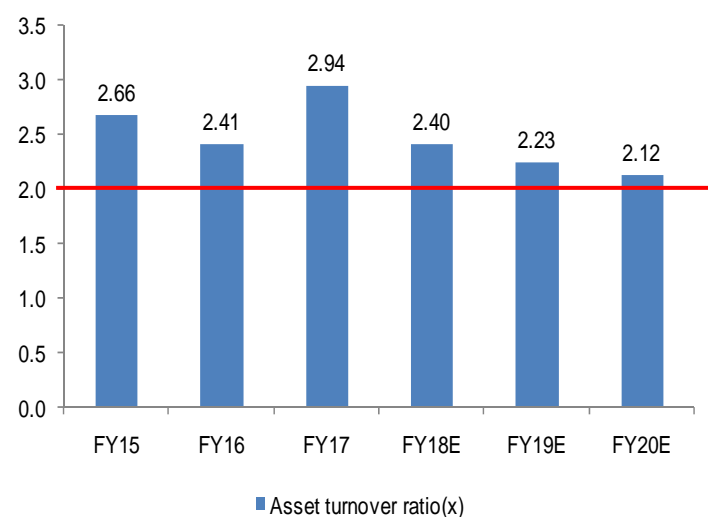


Source: Company, BP Equities Research

Comfortable financial leverage ratios



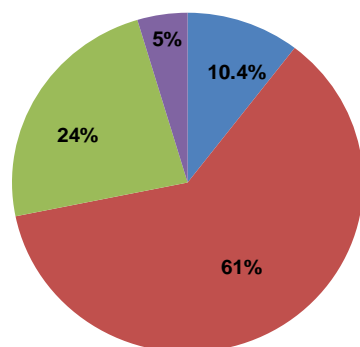
Asset turnover to remain above 2x



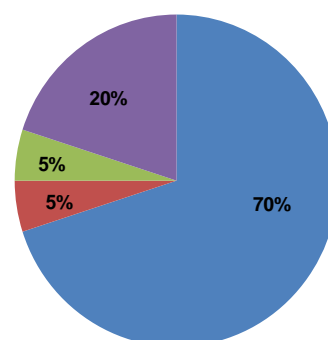
Source: Company, BP Equities Research

Company Background

Bodal Chemicals Limited (BCL) is the most integrated Dyestuffs Company in India and also the biggest manufacturer of Dye Intermediates in India. The Company's product range covers Dyestuffs, Dye Intermediates and Basic Chemicals broadly classified under Specialty Chemicals. It has a unique and integrated product line covering forward and backward integration to dye intermediates. It contributes about 20% of India's capacity and about 5% of the world's capacity for Dye Intermediates. Bodal Chemicals has capacity of manufacturing upto about 25 varieties of Dye Intermediates and upto about 150 variants of Dyestuff which are principally used as raw materials in Textiles, Leather, Paper & other Dyestuff consuming industries. Out of the total production, about 30% is exported to over 50 countries across the world.

Segment wise Revenue breakup


■ Basic Chemicals ■ Dye Intermediates ■ Dyestuff ■ Others

User Industry wise breakup


■ Textiles ■ Leather ■ Paper ■ Others

Source: Company, BP Equities Research

BCL has a total of 10 plants – 4 in Ahmedabad, 3 in Vadodara, 1 each in Bharuch, Kosi and Khambhat. The plant VII located at Vadodara which manufactures all the products (Basic Chemicals, DS and DI) is one of the most integrated Basic Chemical – DI – DS plant in India and 70% of Bodal Chemical's total production is met from this plant. Unit VII also, is equipped with the latest effluent treatment technology which is the first of its kind set up by any Dye Intermediate manufacturer in India.

Manufacturing Capabilities

Plant	Location	Basic Chemicals	Dye Intermediates	Dyestuff	LABSA	TCCA
Unit I	Ahmedabad	✓	✓	✓	.	.
Unit II	Ahmedabad	✓	✓	.	.	.
Unit III	Ahmedabad	.	✓	.	.	.
Unit IV	Ahmedabad	.	.	✓	.	.
Unit VII	Vadodara	✓	✓	✓	.	.
Unit VIII	Vadodara	.	✓	.	.	.
Unit IX	Bharuch	✓
Unit X	Vadodara	.	.	.	✓	.
SPS Processors	Kosi	.	✓	.	.	.
Trion Chemicals	Khambhat	✓

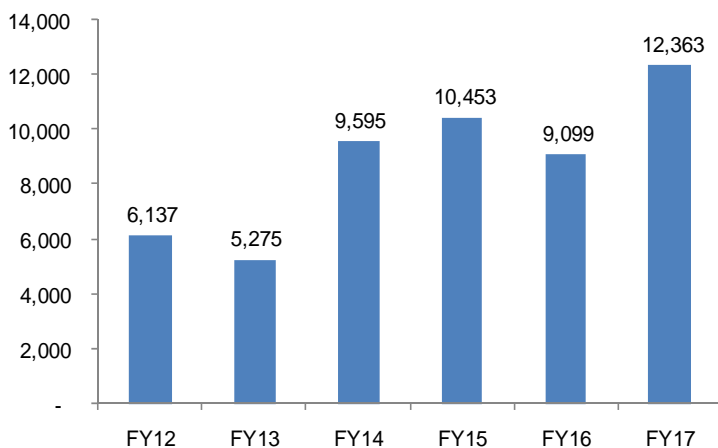
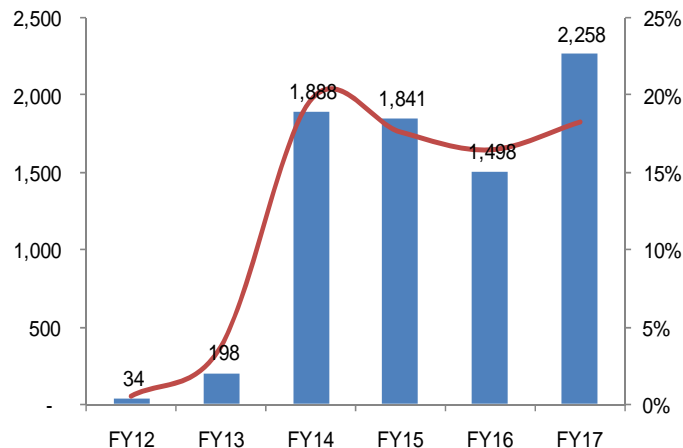
Notes:

1. Unit V closed in FY2009, sold in FY2017

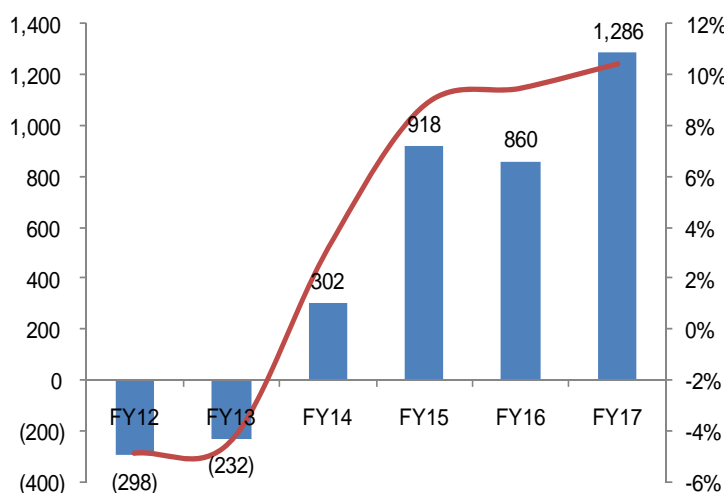
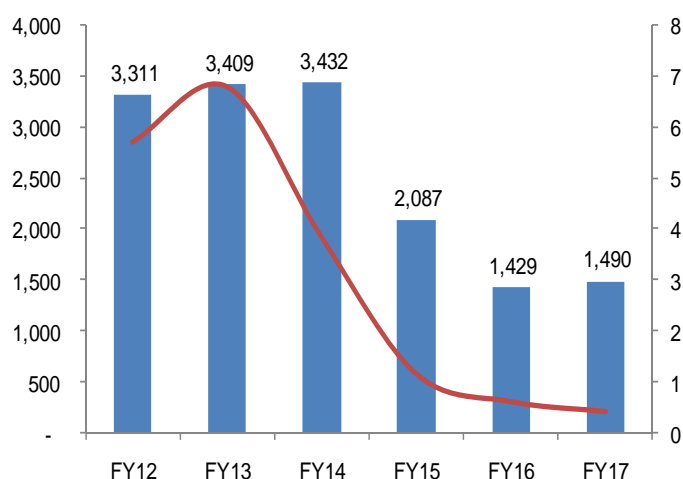
2. Unit VI closed in FY2009

3. Unit VII is one of Industry's leading integrated Plants in India; it produces substantial portion of Bodal production

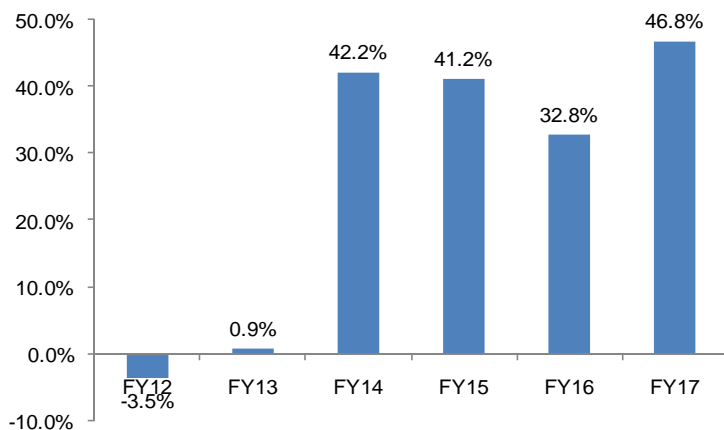
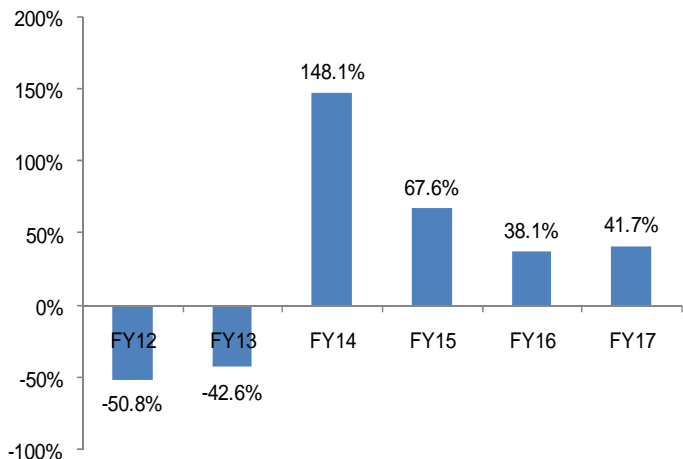
Source: Company,

Financial Highlights
Revenue (Rs in mn)

EBITDA (Rs in mn) and Margin %


Source: Company, BP Equities Research

PAT (Rs in mn) and Margin %

Debt (Rs in mn) and Debt to Equity Ratio


Source: Company, BP Equities Research

ROCE %

ROE %


Source: Company, BP Equities Research

Key Milestones

1989	Started as JK Pharma
1994	Changed name to Bodal chemical
2004	Carried out forward integration to start producing Dyestuff
2006	Reverse merger with Dintex Dye Chem and got listed on the Bse exchange; Bought Unit IV
2008	Acquired Milestone Organics Limited (Unit VIII)
2010	Carried out backward integration to start producing basic chemicals
2012	CDR approved
2014/15	Carried out one of the earliest debt repayment and exit from CDR
2016	Amalgamation of Bodal Agrotech with Bodal Chemicals
2017	Acquisition of a 70% stake in SPS processors, a intermediates
2017	Acquisition of a 42% stake in Trion Chemicals, a manufacturer of speciality chemicals

Source: Company

Bodal Chemicals Ltd - Management Details

Name	Designation	Details
Suresh J Patel	Chairman & MD	Founded Bodal Chemicals and continues to inspire the senior management team towards growth and excellence
Bhavin S Patel	Executive Director	14 years' association with Bodal Chemicals. Mr.Bhavin S.Patel heads the Dyestuff Division at the Company including production,marketing and new growth areas. He is also leading the Liquid Dyestuff and Trion Chemicals initiatives. He holds a Bachelors degree in Science.
Ankit Patel	Executive Director	10 years' association with Bodal Chemicals. Mr.Ankit S.Patel heads the Basic Chemicals Division at the company including production,marketing and new growth areas. He is also leading the LABSA initiative. He holds a Masters in Business Administration from the U.S.
Mayur B Padhya	CFO	17 years' association with Bodal Chemicals and total experience of 22 years. Mr.Mayur B.Padhya handles Finance & Corporate Affairs and supervises Accounts, Secretarial, Internal Audit and Exports. He is a Chartered Accountant and a Cost & Management Accountant

Source: Company, BP Equities Research

Bodal Chemicals Ltd.

Initiating Coverage

⇒ Peer group comparison

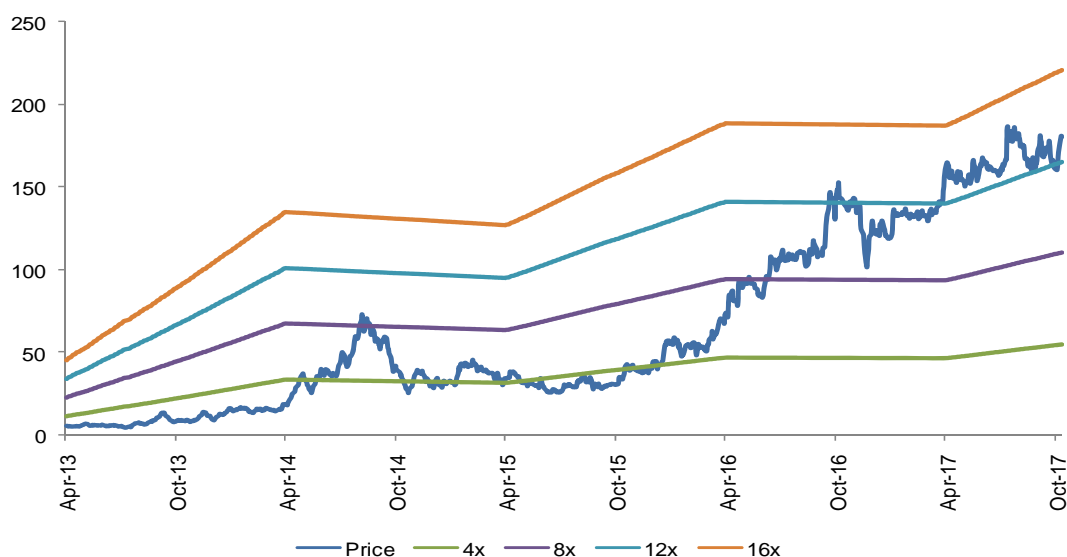
Company	CMP	M Cap	P/E		EPS		EV/EBITDA		RoE (%)	
	(Rs.)	(Rs. Bn)	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Bodal Chemicals	175	19.1	14.9	12.7	11.7	13.8	8.7	7.3	27.5	25.9
Kiri Industries	457	12.7	4.0	3.4	115.4	136.2	6.6	5.3	12.7	12.4
Sudarshan Chemicals	387	26.8	23.2	17.3	16.7	22.4	13.0	10.2	26.7	29.8

Source: BP Equities Research

⇒ PE Band

⇒

PE Band - Bodal Chemicals Ltd



Source: BP Equities Research, Ace Equity

Key Risks and concerns:

- ⇒ Petroleum and its derivatives are the primary feedstock used in the manufacture of dyestuff. Fluctuation of raw materials prices and stringent government regulations in various countries in the use of petroleum derivatives is expected to hinder the market growth during the forecast period.
- ⇒ The slowdown in growth of end user industries such as Textile and Leather industry could impact the overall growth for the company.
- ⇒ Significant appreciation in INR could impact growth as competitive advantages vis-à-vis China could reduce, thereby slowing the pace of shifting of volumes from China to India.

Bodal Chemicals Ltd.

Initiating Coverage

Valuation and Outlook

Valuation	Basis	FY17	FY18	FY19	FY20
Bodal Chemicals Ltd					
EPS		12	12	14	17
Growth in EPS (YoY %)		50%	-1%	18%	21%
Implied PE		14.4	14.5	12.3	10.2
Assigned PE	(15x PE)				15
Target Price					249
(Implied PEG Ratio considering next 3 years: 1.2)					
CMP					175
Upside Potential (%)					42.4%

Source: Company, BP Equities Research

We have valued this stock by assigning 15x to its FY20 earning estimates. We arrive at a target price of Rs 249 (potential upside of 42% from CMP) for an investment horizon of 12-15 months.

Ongoing capacity addition in dyestuff will help the company to strengthen its market positioning in domestic dyestuff market. Further diversification into Speciality chemicals through Trion, LABSA and Liquid dyestuff is expected to contribute from 5% in FY17 to ~20% in FY20E. Since Speciality chemicals carry better margin higher contribution from these products help to maintain EBITDA margins at ~19%. Moreover, with frequent plant shutdowns in China, global customers are looking at diversifying their procurement base and increasingly targeting India as the next alternate source thereby benefiting Indian dye intermediates and dye stuff industry at large. We believe BCL is well placed to ripe benefit from gaining market share of India's in Global chemical sector. We expect The company's Revenue/ EBITDA/PAT to clock 11%/14%/12% CAGR during FY17-20E. Though BCL is a commodity player, product diversification, margin improvement trend and gaining market share in domestic dyestuff could result in further rerating of the stock going forward. At the current market price (of Rs 170) the company is trading at 12.3x its FY19E EPS of Rs 13.8 and 10.2x its FY20E EPS of Rs 16.6. We believe the valuations are attractive and the stock can give decent returns in the future. We initiate coverage on the stock & recommend 'BUY' rating by assigning 15x to its FY20E earning. We arrive at a target price of Rs 249 (potential upside of 42% from CMP) for an investment horizon of 12-15 months.



Bodal Chemicals Ltd.

Initiating Coverage

Profit & Loss A/c (Standalone)						
YE March (Rs. mn)	FY15	FY16	FY17	FY18E	FY19E	FY20E
Revenue	10,453	9,099	12,363	12,542	14,502	16,862
<i>Growth %</i>	8.9%	-13.0%	35.9%	1.4%	15.6%	16.3%
Total Revenue	10,453	9,099	12,363	12,542	14,502	16,862
Less:						
Raw Material Consumed	6,579	5,706	7,973	8,125	9,355	10,861
Employee Cost	590	368	429	450	495	545
Other Expenses	1,443	1,528	1,703	1,597	1,847	2,148
Total Operating Expenditure	8,612	7,601	10,105	10,172	11,697	13,553
EBITDA	1,841	1,498	2,258	2,370	2,805	3,309
<i>Growth %</i>	-2.5%	-18.6%	50.7%	4.9%	18.4%	18.0%
Less: Depreciation	223	258	289	407	495	525
EBIT	1,619	1,240	1,969	1,963	2,310	2,784
<i>Growth %</i>	-1.0%	-23.4%	58.8%	-0.3%	17.7%	20.5%
Interest Paid	273	122	87	45	45	45
Non-operating Income	46	120	68	50	50	50
Extraordinary Income	0	68	49	0	0	0
Profit Before tax	1,392	1,305	1,999	1,968	2,315	2,790
Tax	474	445	712	689	810	976
Net Profit	918	860	1,286	1,279	1,505	1,813
Adjusted Profit	918	792	1,238	1,279	1,505	1,813
Reported Diluted EPS Rs	8.4	7.9	11.8	11.7	13.8	16.6
<i>Growth %</i>	204.3%	-6.3%	49.6%	-0.6%	17.6%	20.5%
Adjusted Diluted EPS Rs	8.4	7.3	11.3	11.7	13.8	16.6
<i>Growth %</i>	-11.7%	-13.7%	56.2%	3.3%	17.6%	20.5%

Source: Company, BP Equities Research

Common Sized Profit & Loss Account						
YE March (Rs. mn)	FY15	FY16	FY17	FY18E	FY19E	FY20E
Total Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Less:						
Raw Material Consumed	62.9%	62.7%	64.5%	64.8%	64.5%	64.4%
Employee Cost	5.6%	4.0%	3.5%	3.6%	3.4%	3.2%
Other Expenses	13.8%	16.8%	13.8%	12.7%	12.7%	12.7%
Total Operating Expenditure	82.4%	83.5%	81.7%	81.1%	80.7%	80.4%
EBITDA	17.6%	16.5%	18.3%	18.9%	19.3%	19.6%
Depreciation	2.1%	2.8%	2.3%	3.2%	3.4%	3.1%
Interest Paid	2.6%	1.3%	0.7%	0.4%	0.3%	0.3%
Non-operating Income	0.4%	1.3%	0.6%	0.4%	0.3%	0.3%
Extraordinary Items	0.0%	0.7%	0.4%	0.0%	0.0%	0.0%
Profit Before Tax	13.3%	14.3%	16.2%	15.7%	16.0%	16.5%
Current tax	4.5%	4.9%	5.8%	5.5%	5.6%	5.8%
Profit After Tax	8.8%	9.4%	10.4%	10.2%	10.4%	10.8%
Adjusted Profit	8.8%	8.7%	10.0%	10.2%	10.4%	10.8%

Source: Company, BP Equities Research



Cash Flows (Standalone)						
YE March (Rs. Mn)	FY15	FY16	FY17	FY18E	FY19E	FY20E
PAT	917.8	859.9	1,286.5	1,279.2	1,504.7	1,813.2
(Less)/Add: Extraordinary Income/Expense	0.0	(67.5)	(48.6)	0.0	0.0	0.0
Less: Non Operating Income	(46.5)	(119.7)	(68.3)	(50.0)	(50.0)	(50.0)
Add: Depreciation	222.5	257.9	288.9	406.9	495.4	524.8
Add: Interest Paid	272.8	122.0	86.9	44.7	44.7	44.7
Tax Adjustment	0.0	0.0	0.0	0.0	0.0	0.0
Operating Profit before Working Capital Changes	1,366.6	1,052.5	1,545.5	1,680.8	1,994.7	2,332.7
(Inc)/Dec in Current Assets	296.7	280.3	(452.5)	(36.8)	(403.8)	(486.0)
Inc/(Dec) in Current Liabilities	(278.4)	(146.9)	533.0	376.6	322.3	388.0
Changes in Inventory	441.7	(118.5)	(410.2)	(18.9)	(207.4)	(249.7)
Net Cash Generated From Operations	1,826.7	1,067.5	1,215.9	2,001.6	1,705.9	1,985.0
Cash Flow from Investing Activities						
(Inc)/Dec in Fixed Assets	(436.1)	(270.1)	(590.1)	(2,000.0)	(1,500.0)	(500.0)
(Inc)/Dec in Capital Work In Progress	52.1	30.4	(88.9)	0.0	0.0	0.0
(Inc)/Dec in Investment (Strategic)	0.0	0.0	0.0	0.0	0.0	0.0
(Inc)/Dec in Investment (Others)	12.3	75.5	(382.5)	(6.8)	(47.5)	(52.2)
Add: Non Operating Income	46.5	119.7	68.3	50.0	50.0	50.0
(Inc)/Dec in Intangible Assets	(8.4)	5.8	(118.7)	0.0	0.0	0.0
Net Cash Flow from/(used in) Investing Activities	(333.7)	(38.7)	(1,111.9)	(1,956.8)	(1,497.5)	(502.2)
Cash Flow from Financing Activities						
Inc/(Dec) in Total Loans	(1,221.2)	(627.7)	97.0	0.0	0.0	0.0
Inc/(Dec) in Reserves & Surplus	(1.8)	(13.3)	47.4	0.0	0.0	0.0
Inc/(Dec) in Equity	0.0	(250.0)	(0.0)	0.0	0.0	0.0
Dividend Paid	0.0	(65.5)	(87.3)	(97.4)	(114.6)	(138.0)
Less: Interest Paid	(272.8)	(122.0)	(86.9)	(44.7)	(44.7)	(44.7)
Adjustments	(1.1)	(9.8)	5.8	0.0	(0.0)	(0.0)
Exceptional Item	0.0	67.5	48.6	0.0	0.0	0.0
Net Cash Flow from Financing Activities	(1,496.8)	(1,020.8)	24.7	(142.1)	(159.3)	(182.7)
Net Inc/Dec in cash equivalents	(3.8)	8.0	128.6	(97.3)	49.1	1,300.0
Opening Balance	34.3	30.5	38.5	167.1	69.8	118.9
Closing Balance Cash and Cash Equivalents	30.5	38.5	167.1	69.8	118.9	1,418.9

Source: Company, BP Equities Research



Balance Sheet (Standalone)						
YE March(Rs. mn)	FY15	FY16	FY17	FY18E	FY19E	FY20E
Liabilities						
Equity Capital	468	218	218	218	218	218
Reserves & Surplus	1,347	2,128	3,374	4,556	5,946	7,621
Equity	1,815	2,346	3,593	4,774	6,165	7,840
Net Worth	1,815	2,346	3,593	4,774	6,165	7,840
Minority Interest	0	0	18	18	18	18
Net Deferred tax liability/(Asset)	123	154	190	190	190	190
Total Loans	2,087	1,429	1,490	1,490	1,490	1,490
Capital Employed	4,025	3,929	5,290	6,472	7,862	9,537
Assets						
Gross Block	4,039	4,309	4,899	6,899	8,399	8,899
Less: Depreciation	2,142	2,390	2,685	3,091	3,587	4,112
Net Block	1,897	1,919	2,215	3,808	4,813	4,788
Capital WIP	33	3	92	92	92	92
Investments	161	86	468	475	522	575
Others - A	23	17	135	135	135	135
Current Assets						
Inventories	780	898	1,308	1,327	1,535	1,784
Sundry Debtors	1,972	1,658	2,305	2,339	2,704	3,144
Cash and Bank Balance	30	39	167	70	119	1,419
Loans and Advances	404	419	241	244	282	328
Current Investments	42	61	44	44	44	44
Total Current Assets	3,228	3,074	4,065	4,024	4,684	6,720
Less: Current Liabilities & Provisions						
Sundry Creditors	1,125	1,080	1,554	1,928	2,230	2,593
Provisions	6	11	29	29	34	39
Other Current Liabilities	187	78	103	105	121	141
Total Current Liabilities & Provisions	1,317	1,170	1,686	2,062	2,384	2,772
Capital Applied	4,025	3,929	5,290	6,472	7,862	9,537

Source: Company, BP Equities Research



Bodal Chemicals Ltd.

Initiating Coverage

Key Ratios (Standalone)						
YE March (Rs. mn)	FY15	FY16	FY17	FY18E	FY19E	FY20E
Key Operating Ratios						
EBITDA Margin (%)	17.6%	16.5%	18.3%	18.9%	19.3%	19.6%
Tax / PBT (%)	34.1%	34.1%	35.6%	35.0%	35.0%	35.0%
Net Profit Margin (%)	8.8%	9.4%	10.4%	10.2%	10.4%	10.8%
RoE (%)	67.6%	38.1%	41.7%	30.6%	27.5%	25.9%
RoCE (%)	41.2%	32.8%	46.8%	37.5%	23.2%	22.7%
Current Ratio (x)	2.5x	2.6x	2.4x	2.0x	2.0x	2.4x
Dividend Payout (%)	0.0%	7.6%	7.6%	7.6%	7.6%	7.6%
Book Value Per Share (Rs.)	16.6	21.5	32.9	43.8	56.5	71.9
Financial Leverage Ratios						
Debt/ Equity (x)	1.1x	0.6x	0.4x	0.3x	0.2x	0.2x
Interest Coverage (x)	6.7x	12.3x	26.0x	53.0x	62.7x	74.0x
Growth Indicators %						
Growth in Gross Block (%)	12.1%	6.7%	13.7%	40.8%	21.7%	6.0%
Sales Growth (%)	8.9%	(13.0%)	35.9%	1.4%	15.6%	16.3%
EBITDA Growth (%)	(2.5%)	(18.6%)	50.7%	4.9%	18.4%	18.0%
Net Profit Growth (%)	204.3%	(6.3%)	49.6%	(0.6%)	17.6%	20.5%
Diluted EPS Growth (%)	204.3%	(6.3%)	49.6%	(0.6%)	17.6%	20.5%
Turnover Ratios						
Debtors Days	69	66	68	68	68	68
Creditors Days	39	43	56	56	56	56
Inventory Days	27	36	39	39	39	39

Source: Company, BP Equities Research

Valuation Ratios						
YE March (Rs. mn)	FY15	FY16	FY17	FY18E	FY19E	FY20E
P/E (x)	20.8x	22.2x	14.8x	14.9x	12.7x	10.5x
P/BV (x)	10.5x	8.1x	5.3x	4.0x	3.1x	2.4x
EV/EBITDA (x)	11.5x	13.7x	9.0x	8.7x	7.3x	5.8x
EV/Sales	2.0x	2.3x	1.7x	1.6x	1.4x	1.1x
Market Cap./ Sales (x)	1.8x	2.1x	1.5x	1.5x	1.3x	1.1x
Dividend Yield (%)	0.0%	0.3%	0.5%	0.5%	0.6%	0.7%

Source: Company, BP Equities Research



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