Rating matrix		
Rating	:	Buy
Target	:	250
Target Period	:	12-18 months
Potential Upside	:	32%

What's changed?	
Target	Changed from ₹ 360 to ₹ 250
EPS FY19E	Changed from ₹ 17.6 to ₹ 15.3
EPS FY20E	Changed from ₹ 19.4 to ₹ 15.7
Rating	Unchanged

Key financials

₹ crore	FY17	FY18	FY19E	FY20E
Net Sales	313.0	395.3	497.6	503.7
EBITDA	52.3	61.1	84.4	85.6
Net Profit	30.5	36.5	47.0	48.1
EPS (₹/share)	10.1	12.1	15.3	15.7

Valuation summary

	FY17	FY18	FY19E	FY20E
P/E	18.8	15.7	12.4	12.1
Target P/E	24.8	20.7	16.3	15.9
EV / EBITDA	10.8	10.1	7.3	7.3
P/BV	3.0	2.4	2.0	1.8
RoNW	15.8	15.4	16.3	14.7
RoCE	22.3	17.4	21.2	18.6
ROIC	23.9	18.5	24.9	24.1

Stock data

Stock Data	₹ crore
Market Capitalization	574.2
Total Debt (FY18)	64.6
Cash and Cash Equivalent (FY18)	19.4
Enterprise Value	619.4
52 week H/L	338 / 172
Equity Capital	30.2
Face Value	₹ 10
MF Holding (%)	6.7
FII Holding (%)	1.0

Stock data

Return (%)	1M	3M	6M	12M
Shree Pushkar Chemicals	(13.4)	(18.3)	(26.9)	(22.0)
Kiri Industries	14.5	0.2	(4.7)	81.8
Bodal	5.2	7.8	(13.4)	(14.4)
Bhageria Industries	7.0	3.7	12.6	(4.9)
Aksharchem (India)	-	(6.4)	(12.5)	(27.0)

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Shree Pushkar Chemicals (SHRPUS) ₹ 190

Q4FY18 dents otherwise steady FY2018!!

- Shree Pushkar Chemicals & Fertilisers Ltd (SPCL) reported muted Q4FY18 performance at the standalone level primarily driven by muted realisations and high raw material prices in the dye intermediates space. Net sales in Q4FY18 stood at ₹ 102.0 crore.
- EBITDA in Q4FY18 came in at ₹ 9.7 crore (down 32.0% YoY) with corresponding EBITDA margins at 9.5% (down 600 bps YoY).
- PAT in Q4FY18 stood at ₹ 6.3 crore, down 23.0% YoY partly aided by lower effective tax rate which came in at 19.0%.
- On a consolidated basis, for full year FY18, net sales stood at ₹ 395.3 crore, EBITDA at ₹ 61.1 crore and PAT at ₹ 36.5 crore (EPS: ₹12.1).

China environmental curbs result in realisation surge, Indian players gain!

Dye Intermediates find application in the 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) stood 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. Since 2015, the stringent environmental regulations have resulted in erratic and unreliable supply patterns from major Chinese manufacturers resulting in doubling of realisations of certain key products (Vinyl Sulphone and H Acid) from time to time. This phenomenon has been perceived as a structural shift resulting in India gaining significant market share over the last three years. Sensing this 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.

Expanded dyestuff capacity to drive growth supported by high realisation

SPCL has moved up the value chain through the commissioning of its 6000 tonne integrated dyestuff facility, which includes associated dye intermediates capacities. This segment has witnessed robust ramp up in FY18 with total dyestuff sales at ₹ 101.2 crore (27.0% of sales) in FY18 from ₹41.5 crore in FY17. Going forward, management is confident of achieving peak utilisations in the next couple of years with FY20E sales at ~₹ 163 crore i.e. ~32.4% of sales. This will be derived from ~22% volume CAGR and ~4% price CAGR over FY18-20E. However, the ramp up of dyestuff capacities will come at a cost of partial cannibalisation of the dye intermediates sales volume that is expected to de-grow at a CAGR of 6.5% over FY18-20E. Therefore, we expect incremental sales of ~₹ 43 crore in FY20E in their core business of dye & dye intermediates after accounting for normalisation of high current realisations.

Double digit top line and PAT growth underway, retain BUY!

Balance sheet has got stretched a bit at SPCL in FY18, owning to amalgamation of Kisan phosphate, managements strategic focus to hold onto low cost inventory in anticipation of price surge and working capital needs in the fertilizer segment. We expect the situation to partially improve over FY18-20E. With expanded dyestuff capacity & subsumed Kisan Phosphate, we expect sales, EBITDA & PAT to grow at a CAGR of 12.9%, 18.4% & 14.8% respectively during FY18-20E. We value SPCL at ₹ 250, i.e. 16.0x P/E on FY19E & FY20 average EPS of ₹ 15.5 and assign a **BUY** rating on the stock. We have factored in surge in dye intermediates prices in FY19E (for full year basis, 15% YoY) and expect the prices to normalised in FY20E as manufacturing facilities in China adapt to new environmental norms. We also drive comfort from preferential allotment to promoter group @ ₹211.6/share amounting to ~₹11 crore in May 2018.

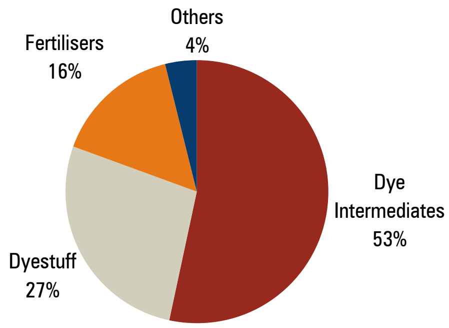
Company Analysis

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 FY2017, SPCL set up an integrated dyestuff facility of 3000 TPA at a capex of ₹ 42 crore funded through the IPO proceeds (₹62 crore) in August, 2015. At an additional cost of ~₹ 5 crore the management doubled the dyestuff capacity to 6000 TPA that was commissioned in Q2FY18.

Moving higher on the value chain- Change in sales mix!!

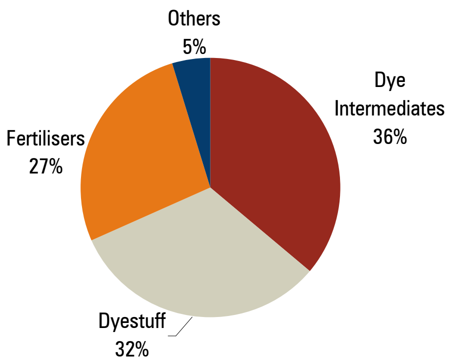
As of FY16, SPCL was predominantly a pure dye intermediates player with a topline contribution of ₹ 170.4 crore (70% of sales). The fertilisers (21% of sales), acid complex (7% of sales) and cattle feed (2% of sales) are alternate streams of revenue that have evolved as a result of SPCL's prudent use of effluents to keep their zero effluent moat alive. Post commissioning of the 6000 tonne dyestuff capacity, it has graduated higher on the value chain that has significantly altered its sales mix. Dyestuff sales are expected to increase from ₹ 101.2 crore (27% of sales) in FY2018 to ₹ 163.2 crore (32.4% of sales) in FY2020E. 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 as compared to dye intermediates.

Exhibit 1: Sales mix in FY 2018



Source: Company, ICICI Direct Research

Exhibit 2: Sales mix in FY 2020E



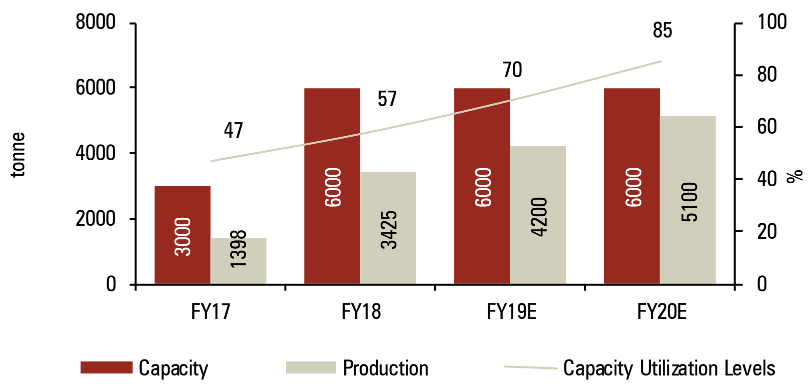
Source: Company, ICICI Direct Research

Dyestuff to drive volume led growth at SPCL!!

SPCL has an installed capacity of 7236 TPA of dye intermediates and it operated at 85%+ capacity utilization levels in FY18. Stringent pollution control norms in China have resulted in heavy market share shift in dyestuff & dye intermediates domain with utilisation levels at all Indian manufacturers inching upwards. Given the company's strategic focus to expand its stable margin dyestuff portfolio a certain portion of dye intermediates would be utilised for captive consumption, implying a sales volume CAGR of -6.5% in FY18-20E. On the dyestuff front, the capacity stands at 6000 TPA as of FY18. The entire capacity is expected to be absorbed by FY2020E (85% capacity utilisation), thereby delivering a healthy 22.0% volume CAGR over FY18-20E. This move also augurs well as SPCL will be present across the dyestuff value chain.

We expect fertiliser segment to record net sales of ₹ 135.8 crore in FY20E vs. ₹ 58.8 crore in FY18. Incremental sales to largely come better utilisation levels at its existing fertiliser segment and recently merged promoter entity company Kisan Phosphate.

Exhibit 3: Dyestuff capacity, production & utilisation levels

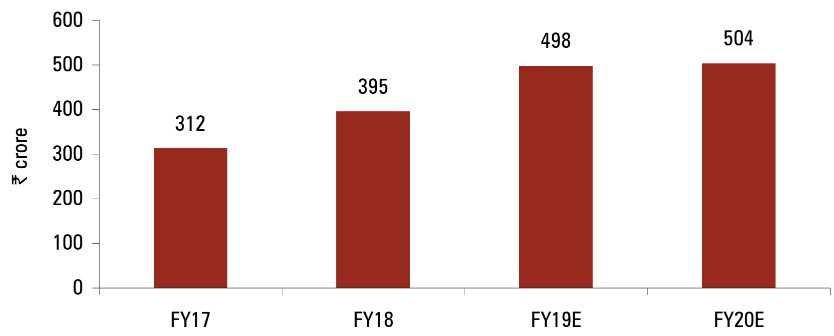


Source: Company, ICICI Direct Research

Net Sales to rise at a healthy pace on the back of dyestuff expansion!

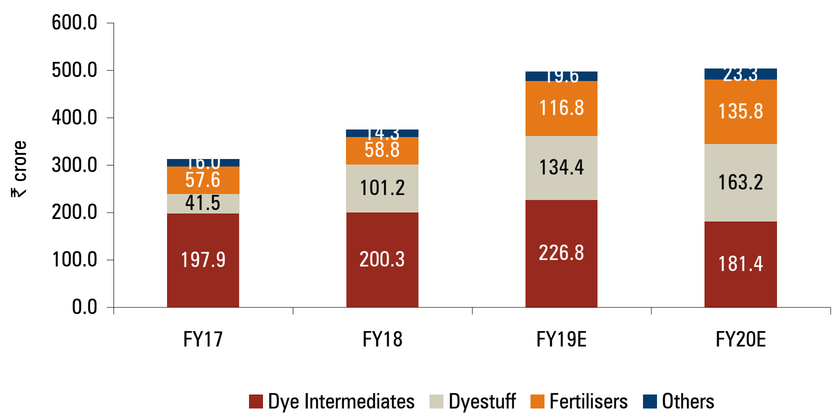
Sales growth is expected to be robust in FY18-20E on the back of an impressive capex programme in the dyestuff and fertiliser segments. The dyestuff segment at peak utilisation levels is expected to generate revenues to the tune of ₹ 163.2 crore generating RoCE in excess of 30%, thereby providing the alpha. Overall, we expect SPCL to record net sales of ₹ 504 crore in FY20E (₹ 395 crore in FY18) thereby registering a sales CAGR of 12.9% during FY18-20E period.

Exhibit 4: Net sales trend



Source: Company, ICICI Direct Research

Exhibit 5: Revenue Break-up

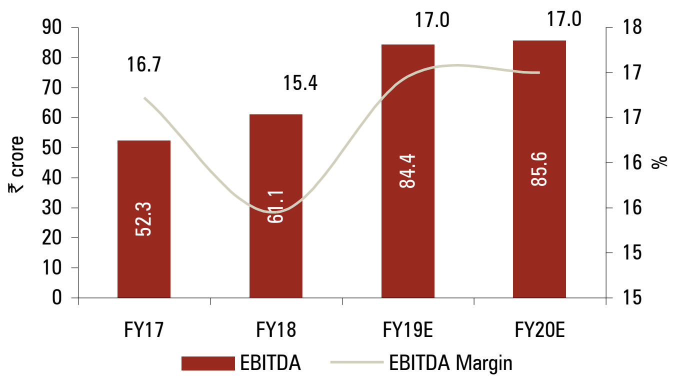


Source: Company, ICICI Direct Research

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

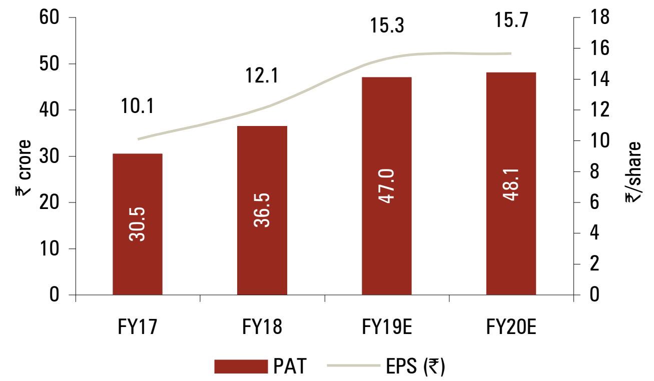
EBITDA margin at SPCL has been volatile in the past on account of SPCL being primarily a dye intermediate manufacturer. Going forward, with SPCL's intent to move up the value chain and increasing share of dyestuff in the total sales, we expect the EBITDA margins to stabilise at SPCL at 15%+ levels. We expect EBITDA margins to improve to 17.0% in FY20E vs. 15.4% clocked in FY18. Consequent EBITDA is expected to grow at a CAGR of 18.4% over FY18-20E to ₹ 85.6 crore in FY20E.

Exhibit 6: EBITDA & EBITDA margins trend



Source: Company, ICICI Direct Research

Exhibit 7: PAT & EPS trend



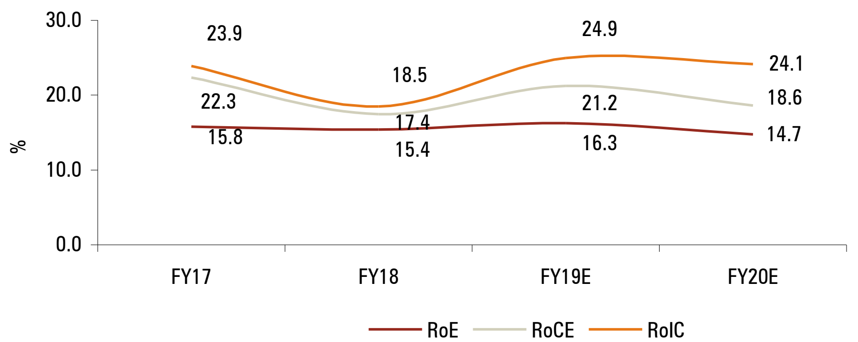
Source: Company, ICICI Direct Research

In FY18-20E, post impressive capex program and subsequent ramp up in dyestuff segment coupled with steady EBITDA margins of ~15%+, we expect PAT to grow at a CAGR of 14.8% to ₹ 48.1 crore in FY20E vs. ₹ 36.5 crore in FY18. Corresponding EPS is expected at ₹ 15.3 in FY19E & ₹ 15.7 in FY20E.

Increasing profitability to further boost Return ratios profile

Robust sales growth, healthy EBITDA margins in excess of 15% and impressive asset turnover of ~2.5x is set to propel return ratios at SPCL going forward. Therefore, we expect average RoIC, ROE and RoCE at 22.5%, 15.5% and 19.1% respectively during the FY2018-20E period.

Exhibit 8: Return ratios profile



Source: Company, ICICI Direct Research

Net working capital cycle to undergo strategic shift!!

SPCL traditionally enjoyed a well controlled net working capital cycle with NWC days in FY17 at 71 days given the higher contribution from dye intermediates and DCM Shriram tie up in fertiliser segment that required much lower inventory days. Going forward, given the ramp up in dyestuff contribution we expect NWC days to undergo a strategic shit and remain at elevated levels of ~100 days in FY19E & FY20E.

Outlook and valuation

Dye Intermediates find application in the 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) stood 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. Since 2015, the stringent environmental regulations have resulted in erratic and unreliable supply patterns from major Chinese manufacturers resulting in doubling of realisations of certain key products (Vinyl Sulphone and H Acid) from time to time. This phenomenon has been perceived as a structural shift resulting in India gaining significant market share over the last three years. Sensing this 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.

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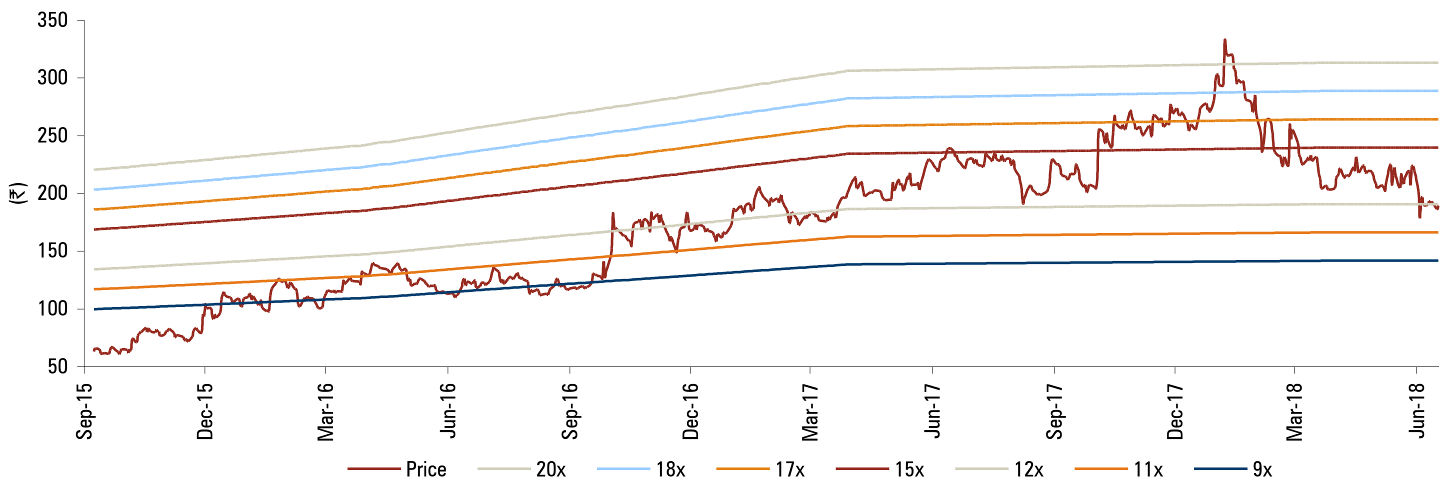
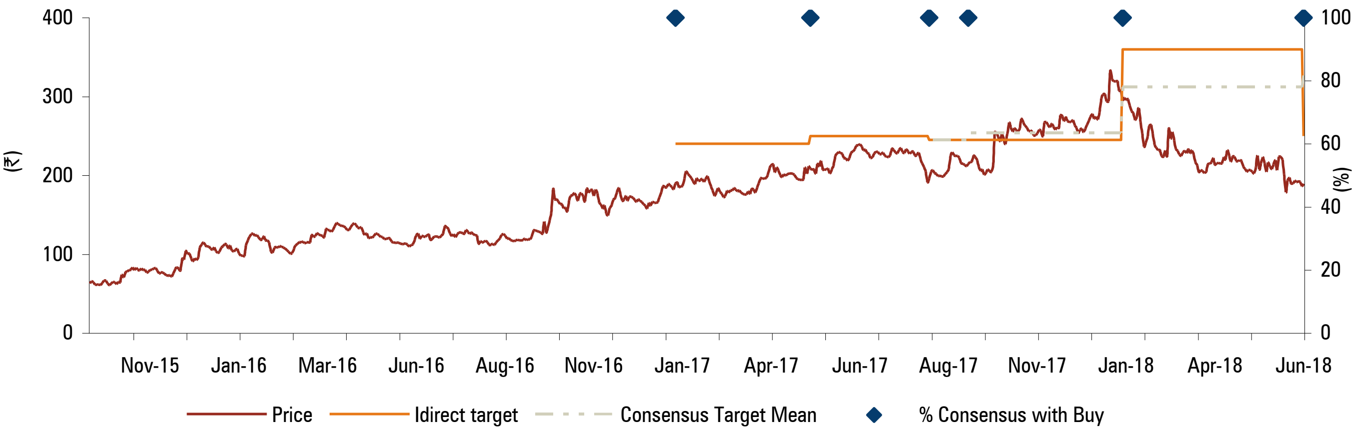
Exhibit 9: Two year forward P/E (SPCL currently trading at 12.1x)



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

Recommendation history vs. consensus estimate



*Source: Bloomberg, Company, ICICI Direct 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.
2018	The company further doubled its dyestuff capacity to 6000 tonne at a minimal capex of ~₹ 5 crore. SPCL also acquired Kisan Phosphate Pvt Ltd (KPPL) a promoter run company at an equity valuation of ~₹ 9 crore through a share swap deal (issuance of 5.1 lakh shares, ~1.7% of the present equity base of SPCL) to the promoter entity. KPPL operates in a similar line of business to SPCL with a 1 lakh tonne single super phosphate capacity, 3000 tonne cattle feed capacity and 6000 tonne soil conditioner capacity in Hisar, Haryana

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Makharia (Punit)	10-May-18	40.9	12.6	0.2
2	Makharia (Gautam Gopikishan)	10-May-18	17.4	5.3	0.2
3	Reliance Nippon Life Asset Management Limit	31-Mar-18	5.3	1.6	0.0
4	Makharia (Bhanu Gopi)	10-May-18	1.5	0.5	0.0
5	Barbarik Distributors Pvt. Ltd.	31-Mar-18	1.5	0.5	0.0
6	Makharia (Ranjana Punit)	10-May-18	1.3	0.4	0.0
7	Makharia (Gopikishan)	10-May-18	1.2	0.4	0.0
8	India Max Investment Fund, Ltd.	31-Mar-18	1.2	0.4	0.0
9	Makharia (Aradhana)	31-Mar-18	1.2	0.4	0.0
10	Edelweiss Asset Management Ltd.	31-Oct-16	0.4	0.1	0.0

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Promoter	61.6	61.6	61.4	61.6	61.6
FII	0.5	0.5	0.5	0.5	1.0
DII	7.6	7.0	6.9	6.6	6.7
Others	30.3	30.9	31.2	31.3	30.8

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Makharia (Punit)	+0.6M	+0.2M			
Makharia (Gautam Gopikishan)	+0.6M	+0.2M			
Makharia (Bhanu Gopi)	+0.1M	+0.0M			
Makharia (Ranjana Punit)	+0.1M	+0.0M			
Makharia (Gopikishan)	+0.1M	+0.0M			

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement				₹ Crore
(Year-end March)	FY17	FY18	FY19E	FY20E
Net Sales	311.8	395.3	497.6	503.7
Other Operating Income	1.2	0.0	0.0	0.0
Total Operating Income	313.0	395.3	497.6	503.7
Growth (%)	25.9	26.3	25.9	1.2
Raw Material Expenses	212.2	272.1	336.5	342.5
Employee Expenses	12.9	18.7	22.4	22.7
Other Operating Expense	35.6	43.4	54.3	52.9
Total Operating Expenditure	260.7	334.2	413.2	418.0
EBITDA	52.3	61.1	84.4	85.6
Growth (%)	61.7	16.7	38.2	1.5
Depreciation	5.5	7.8	8.9	9.4
Interest	2.5	2.9	6.2	6.5
Other Income	2.1	1.8	1.5	1.6
PBT	46.4	52.2	70.7	71.3
Exceptional Item	0.0	0.0	0.0	0.0
Total Tax	15.9	15.7	23.7	23.2
PAT	30.5	36.5	47.0	48.1
Growth (%)	36.8	19.7	28.8	2.3
EPS (₹)	10.1	12.1	15.3	15.7

Source: Company, ICICI Direct Research

Cash flow statement				₹ Crore
(Year-end March)	FY17	FY18	FY19E	FY20E
Profit after Tax	30.5	36.5	47.0	48.1
Add: Depreciation	5.5	7.8	8.9	9.4
(Inc)/dec in Current Assets	-30.7	-75.8	-32.6	-5.3
Inc/(dec) in CL and Provisions	6.1	22.5	12.6	2.8
Others	2.5	2.9	6.2	6.5
CF from operating activities	13.9	-6.1	42.1	61.6
(Inc)/dec in Investments	0.0	-0.4	0.0	0.0
(Inc)/dec in Fixed Assets	-33.6	-49.4	-35.0	-60.0
Others	6.0	-1.2	0.0	0.0
CF from investing activities	-27.6	-51.1	-35.0	-60.0
Issue/(Buy back) of Equity	0.0	0.0	0.5	0.0
Inc/(dec) in loan funds	-3.0	50.0	-5.0	18.0
Interest & Dividend paid	-8.0	-2.9	-11.7	-17.6
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	5.5	7.0	10.2	0.0
CF from financing activities	-5.5	54.1	-6.0	0.4
Net Cash flow	-19.2	-3.1	1.1	2.0
Opening Cash	41.7	22.5	19.4	20.5
Closing Cash	22.5	19.4	20.5	22.5

Source: Company, ICICI Direct Research

Balance sheet				₹ Crore
(Year-end March)	FY17	FY18	FY19E	FY20E
Liabilities				
Equity Capital	30.2	30.2	30.7	30.7
Reserve and Surplus	163.4	206.9	258.6	295.7
Total Shareholders funds	193.6	237.1	289.3	326.4
Total Debt	14.7	64.6	59.6	77.6
Deferred Tax Liability	10.9	14.0	14.0	14.0
Minority Interest / Others	0.1	0.1	0.1	0.1
Total Liabilities	219.3	315.9	363.1	418.1
Assets				
Gross Block	150.0	196.0	199.4	219.4
Less: Acc Depreciation	26.9	34.6	43.5	53.0
Net Block	123.1	161.4	155.9	166.5
Capital WIP	0.0	3.4	35.0	75.0
Total Fixed Assets	123.1	164.8	190.9	241.5
Investments	0.1	5.4	5.4	5.4
Inventory	31.8	82.3	88.6	89.7
Debtors	62.0	86.0	109.1	110.4
Loans and Advances	19.2	20.5	22.4	25.2
Other Current Assets	1.6	1.7	3.0	3.0
Cash	22.5	19.4	20.5	22.5
Total Current Assets	137.2	209.8	243.5	250.8
Current Liabilities	33.5	50.5	61.3	62.1
Provisions	8.1	13.6	15.3	17.4
Current Liabilities & Prov	41.6	64.1	76.7	79.5
Net Current Assets	95.6	145.8	166.9	171.4
Others Assets	0.6	0.0	0.0	0.0
Application of Funds	219.3	315.9	363.1	418.1

Source: Company, ICICI Direct Research

Key ratios				
(Year-end March)	FY17	FY18	FY19E	FY20E
Per share data (₹)				
EPS	10.1	12.1	15.3	15.7
Cash EPS	11.9	14.7	18.2	18.7
BV	64.1	78.5	94.2	106.2
DPS	1.8	0.0	1.8	3.6
Cash Per Share (Incl Invst)	7.5	8.2	8.4	9.1
Operating Ratios (%)				
EBITDA Margin	16.7	15.4	17.0	17.0
PAT Margin	9.7	9.2	9.5	9.6
Inventory days	37.3	76.0	65.0	65.0
Debtor days	72.6	79.4	80.0	80.0
Creditor days	39.2	46.6	45.0	45.0
Return Ratios (%)				
RoE	15.8	15.4	16.3	14.7
RoCE	22.3	17.4	21.2	18.6
RoIC	23.9	18.5	24.9	24.1
Valuation Ratios (x)				
P/E	18.8	15.7	12.4	12.1
EV / EBITDA	10.8	10.1	7.3	7.3
EV / Net Sales	1.8	1.6	1.2	1.2
Market Cap / Sales	1.8	1.5	1.2	1.1
Price to Book Value	3.0	2.4	2.0	1.8
Solvency Ratios				
Debt/EBITDA	0.3	1.1	0.7	0.9
Debt / Equity	0.1	0.3	0.2	0.2
Current Ratio	2.8	3.0	2.9	2.9
Quick Ratio	2.0	1.7	1.8	1.7

Source: Company, ICICI Direct Research

RATING RATIONALE

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