

Rating matrix	
Rating	Buy
Target	₹ 225
Target Period	12-18 months
Potential Upside	22%

What's changed?	
Target	Changed from ₹ 250 to ₹ 225
EPS FY19E	Changed from ₹ 15.3 to ₹ 14.4
EPS FY20E	Changed from ₹ 15.7 to ₹ 16.1
Rating	Unchanged

Key financials				
₹ crore	FY17	FY18	FY19E	FY20E
Net Sales	313.0	395.3	456.5	502.1
EBITDA	52.3	61.1	78.4	86.9
Net Profit	30.5	36.5	44.4	49.4
EPS (₹/share)	10.1	12.1	14.4	16.1

Valuation summary				
	FY17	FY18	FY19E	FY20E
P/E	18.3	15.3	12.8	11.5
Target P/E	22.3	18.6	15.6	14.0
EV / EBITDA	10.7	10.0	7.8	7.2
P/BV	2.9	2.4	2.0	1.7
RoNW	15.8	15.4	15.5	15.0
RoCE	22.3	17.4	19.2	18.3
ROIC	23.9	18.5	22.9	23.9

Stock data	
Stock Data	₹ crore
Market Capitalization	568.4
Total Debt (FY18)	64.6
Cash and Cash Equivalent (FY18)	19.4
Enterprise Value	613.6
52 week H/L	338 / 152
Equity Capital	30.2
Face Value	₹ 10
MF Holding (%)	6.9
FII Holding (%)	0.9

Stock data				
Return (%)	1M	3M	6M	12M
Shree Pushkar Chemicals	10.8	(8.6)	(14.2)	(30.0)
Kiri Industries	18.7	(11.4)	11.2	(14.8)
Bodal	(3.8)	(6.9)	(12.0)	(34.3)
Bhageria Industries	(7.7)	(4.1)	2.2	(0.1)
Aksharchem (India)	(6.2)	(10.5)	(23.7)	(34.1)

**Research Analyst**

Chirag J Shah  
 shah.chirag@icicisecurities.com  
 Shashank Kanodia, CFA  
 shashank.kanodia@icicisecurities.com

## Shree Pushkar Chemicals (SHRPUS) ₹ 185

### On steady growth trajectory...

- Shree Pushkar Chemicals (SPCL) reported a steady Q2FY19 performance primarily driven by volume growth in the dyestuff business. On a consolidated basis, net sales in Q2FY19 were at ₹ 115.4 crore, up 20% YoY
- EBITDA in Q2FY19 came in at ₹ 19.4 crore (up 11.5% YoY), with corresponding EBITDA margins at 16.8%
- Margins came in slightly muted against our expectation amid an increase in prices of dye intermediates in the recent past
- PAT in Q2FY19 was at ₹ 12.3 crore, up 18.2% YoY, driven by higher sales & supported by lower effective tax rate, which came in at 27.0%

#### Reducing share of dye intermediates to provide stable margins profile!

SPCL is an integrated manufacturer of textile chemicals wherein the company manufacturer dye-stuff (textile colours) as well as its key raw material i.e. dye intermediates. Prices of dye-intermediates are volatile. Hence, it is a risky business proposition. From the view of stability and to reduce volatility, SPCL ventured into dye-stuff manufacturing and currently possesses 6000 tonne per annum capacity, which is up and running. Prices of dye-stuff, though dependent on dye intermediate, are stable and, hence, reduces the volatility. With increasing acceptance of SPCL's dye-stuff in market place as well as reducing reliability of Chinese production facilities, the ramp up of this division is really fast with SPCL operating at ~55% capacity utilisation levels as of Q2FY19 end (on expanded base of 6000 tonne). We expect the share of dye-intermediate in total sales to gradually decline from 53% of sales in FY18 to 36% in FY20E amid increasing share of dye-stuff as well as fertilisers division thereby leading to stable ~15-17% EBITDA margin profile, going forward. This is indeed structurally positive in nature.

#### Capex of ₹ 75 crore in textile chemicals to keep growth intact post FY20E

Currently, China is the largest manufacturer of dye-stuff and dye intermediates. It controls ~70% of the global market. However, since 2015, stringent environmental regulations have resulted in erratic and unreliable supply patterns from major Chinese manufacturers. 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 capacity as global customers turn to India as a strategic fit to diversify their procurement base, placing India in a sweet spot. SPCL is further augmenting its capacity in this domain at a capex of ~₹ 75 crore with likely commissioning in Q4FY20E. It will involve additional capacity on the dye-intermediate front as well as sulphur chemistry. It has the potential to generate ~₹ 200 crore of revenues with likely RoCE at 20%+ thereby ensuring long term sustainable growth, going forward.

#### Healthy return ratios and earnings growth trajectory, retain BUY!

SPCL has a healthy balance sheet with controlled leverage. FY18 debt: equity was at 0.3x with absolute debt at ₹ 64 crore. By virtue of it realising ~2x asset turnover and 15%+ margins; it realises healthy ~20% return ratios thereby warranting inclusion in the midcap portfolio. Going forward, with expanded dyestuff capacity & subsumed Kisan Phosphate, on a consolidated basis, we expect sales, PAT to grow at a CAGR of 12.7%, 16.3%, respectively. We value SPCL at ₹ 225 i.e. 14x P/E on FY20E EPS of ₹ 16.1. We maintain our **BUY** rating on the stock. We also derive comfort from the preferential allotment to the promoter group @ ₹ 211.6/share amounting to ~₹ 11 crore in May 2018.

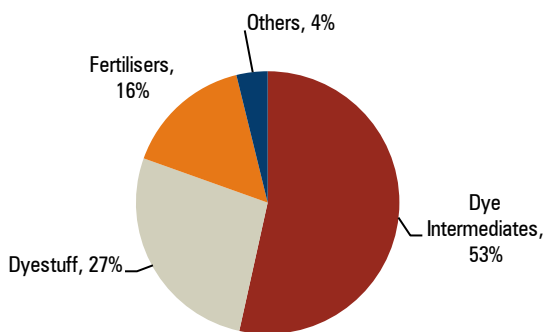
## Company Analysis

Shree Pushkar Chemicals & Fertilisers 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 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 value chain - change in sales mix

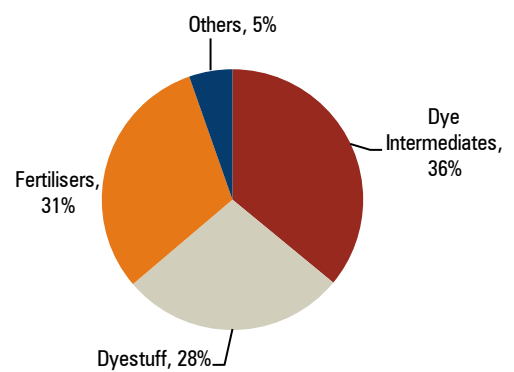
As of FY16, SPCL was predominantly a pure dye intermediates player with a topline contribution of ₹ 170.4 crore (70% of sales). The fertilisers (21% of sales), acid complex (7% of sales) and cattle feed (2% of sales) are alternate streams of revenue that have evolved as a result of SPCL's prudent use 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, significantly altering its sales mix. Dye-intermediates sales are expected to reduce from ₹ 200.3 crore (53% of sales) in FY18 to ₹ 180.7 crore (36% of sales) in FY20E. 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 FY18



Source: Company, ICICI Direct Research

Exhibit 2: Sales mix in FY20E



Source: Company, ICICI Direct Research

### Dyestuff to drive volume led growth at SPCL

SPCL has an installed capacity of 7236 TPA of dye intermediates. It operated at 85%+ capacity utilisation levels in FY18. Stringent pollution control norms in China have resulted in heavy market share shift in the dyestuff & dye intermediates domain with utilisation levels at all Indian manufacturers inching upwards. Given the company's strategic focus on expanding its stable margin dyestuff portfolio a certain portion of dye intermediates would be utilised for captive consumption, implying a sales volume CAGR of -12.5% in FY18-20E. On the dyestuff front, the capacity is at 6000 TPA as of FY18. The entire capacity is expected to be absorbed by FY20E (85% capacity utilisation), thereby delivering healthy 22.0% volume CAGR in FY18-20E. This move also augurs well as SPCL will be present across the dyestuff value chain.

### Key numbers in charts

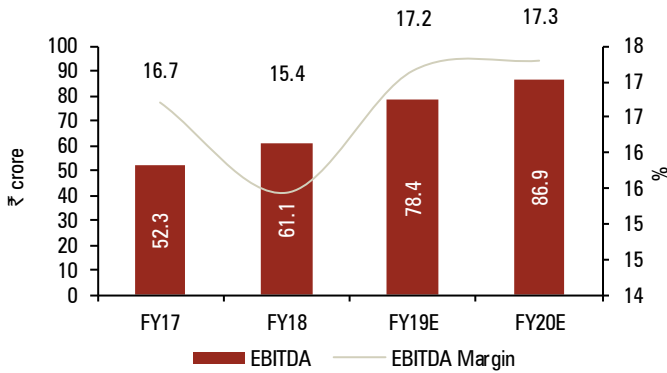
**Exhibit 3: Net sales trend**



Source: Company, ICICI Direct Research

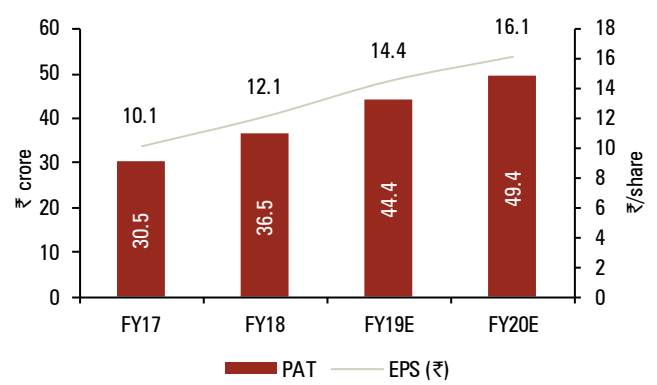
We expect fertiliser segment to record net sales of ₹ 155 crore in FY20E (31% of sales) vs. ₹ 59 crore in FY18 (16% of sales). Incremental sales are expected to largely come at better utilisation levels at its existing fertiliser segment and recently merged promoter entity company Kisan Phosphate

**Exhibit 4: EBITDA & EBITDA margins trend**



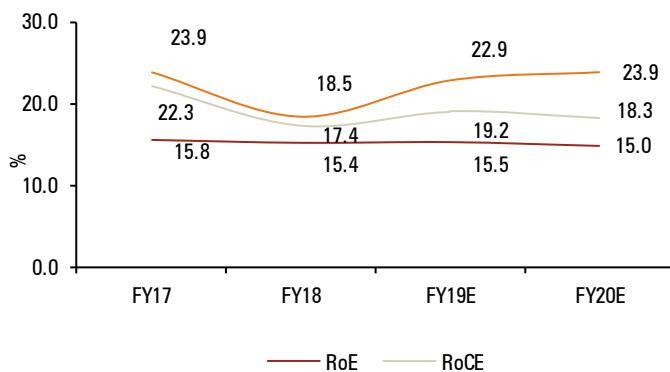
Source: Company, ICICI Direct Research

**Exhibit 5: PAT & EPS trend**



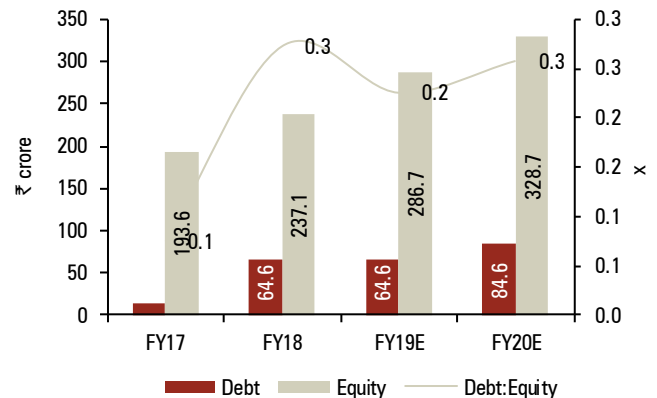
Source: Company, ICICI Direct Research

**Exhibit 6: Return ratios profile**



Source: Company, ICICI Direct Research

**Exhibit 7: Debt profile**



Source: Company, ICICI Direct Research

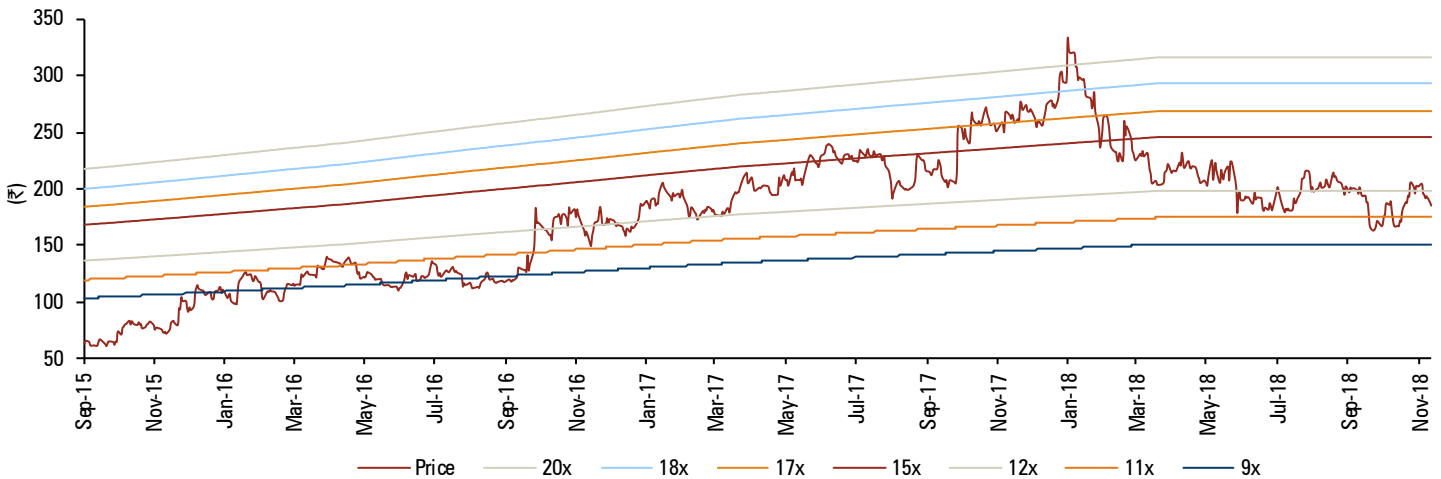
SPCL traditionally enjoyed a well-controlled net working capital cycle with NWC days in FY17 at 71 days given the higher contribution from dye intermediates and DCM Shriram tie up in fertiliser segment that required much lower inventory days. Going forward, given the ramp up in dyestuff segment and increasing share of fertilisers in the overall pie we expect NWC days to undergo a strategic shift and remain at elevated levels of ~100 days in FY19E and 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) 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. Since 2015, 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.

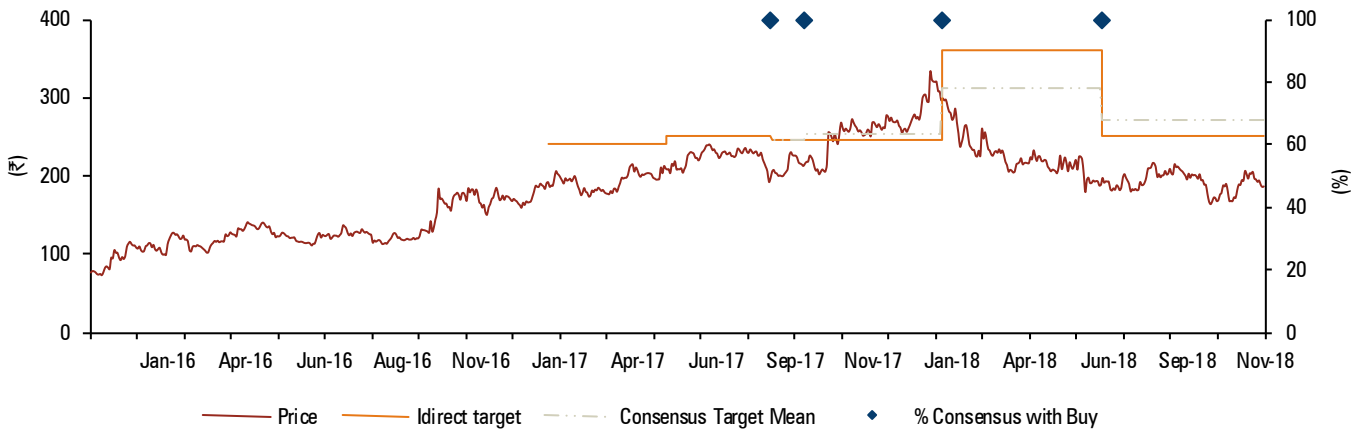
SPCL has a healthy balance sheet with controlled leverage. FY18 debt: equity was at 0.3x with absolute debt at ₹ 64 crore. By virtue of it realising ~2x asset turnover and 15%+ margins, it realises healthy ~20% return ratios thereby warranting inclusion in the midcap portfolio. Going forward, with expanded dyestuff capacity & subsumed Kisan Phosphate, on a consolidated basis, we expect sales, PAT to grow at a CAGR of 12.7%, 16.3%, respectively. We value SPCL at ₹ 225 i.e. 14x P/E on FY20E EPS of ₹ 16.1. We maintain our **BUY** rating on the stock. We also derive comfort from the preferential allotment to the promoter group @ ₹ 211.6/share amounting to ~₹ 11 crore in May 2018.

**Exhibit 8: Two year forward P/E ( SPCL currently trading at 11.5x)**



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)	30-Sep-18	40.9	12.4	0.0
2	Makharia (Gautam Gopikishan)	26-Oct-18	17.9	5.4	0.3
3	Reliance Nippon Life Asset Management Limit	30-Sep-18	5.3	1.6	0.0
4	Rajshila Realtors L.L.P	30-Sep-18	1.5	0.5	0.0
5	Makharia (Bhanu Gopi)	30-Sep-18	1.4	0.4	0.0
6	India Max Investment Fund, Ltd.	30-Sep-18	1.3	0.4	0.0
7	Makharia (Ranjana Punit)	30-Sep-18	1.2	0.4	0.0
8	Makharia (Aradhana)	30-Sep-18	1.2	0.4	0.0
9	Makharia (Gopikishan)	30-Sep-18	1.2	0.4	0.0
10	HDFC Asset Management Co., Ltd.	31-Oct-18	0.3	0.1	0.0

Source: Reuters, ICICI Direct Research

### Shareholding Pattern

(in %)	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Promoter	61.4	61.6	63.0	63.0	63.1
FII	0.5	0.5	1.0	0.7	0.9
DII	6.9	6.6	6.6	6.9	6.9
Others	30.3	31.3	29.5	29.4	29.2

### Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Makharia (Gautam Gopikishan)	+0.7M	+0.3M			
India Max Investment Fund, Ltd.	+0.0M	+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	456.5	502.1	
Other Operating Income	1.2	0.0	0.0	0.0	
<b>Total Operating Income</b>	<b>313.0</b>	<b>395.3</b>	<b>456.5</b>	<b>502.1</b>	
Growth (%)	25.9	26.3	15.5	10.0	
Raw Material Expenses	212.2	272.1	302.1	331.4	
Employee Expenses	12.9	18.7	25.3	29.6	
Other Operating Expense	35.6	43.4	50.7	54.2	
<b>Total Operating Expenditure</b>	<b>260.7</b>	<b>334.2</b>	<b>378.1</b>	<b>415.2</b>	
<b>EBITDA</b>	<b>52.3</b>	<b>61.1</b>	<b>78.4</b>	<b>86.9</b>	
Growth (%)	61.7	16.7	28.3	10.9	
Depreciation	5.5	7.8	9.9	10.4	
Interest	2.5	2.9	4.8	5.6	
Other Income	2.1	1.8	1.6	1.8	
PBT	46.4	52.2	65.2	72.7	
Exceptional Item	0.0	0.0	0.0	0.0	
Total Tax	15.9	15.7	20.8	23.2	
<b>PAT</b>	<b>30.5</b>	<b>36.5</b>	<b>44.4</b>	<b>49.4</b>	
Growth (%)	36.8	19.7	21.6	11.3	
EPS (₹)	10.1	12.1	14.4	16.1	

Source: Company, ICICI Direct Research

Cash flow statement		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Profit after Tax	30.5	36.5	44.4	49.4	
Add: Depreciation	5.5	7.8	9.9	10.4	
(Inc)/dec in Current Assets	-30.7	-75.8	-14.2	-23.0	
Inc/(dec) in CL and Provisions	6.1	22.5	-1.6	6.2	
Others	2.5	2.9	4.8	5.6	
<b>CF from operating activities</b>	<b>13.9</b>	<b>-6.1</b>	<b>43.4</b>	<b>48.7</b>	
(Inc)/dec in Investments	0.0	-0.4	0.0	0.0	
(Inc)/dec in Fixed Assets	-33.6	-49.4	-40.0	-55.0	
Others	6.0	-1.2	0.0	0.0	
<b>CF from investing activities</b>	<b>-27.6</b>	<b>-51.1</b>	<b>-40.0</b>	<b>-55.0</b>	
Issue/(Buy back) of Equity	0.0	0.0	0.5	0.0	
Inc/(dec) in loan funds	-3.0	50.0	0.0	20.0	
Interest & Dividend paid	-8.0	-2.9	-10.4	-13.0	
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0	
Others	5.5	7.0	10.2	0.0	
<b>CF from financing activities</b>	<b>-5.5</b>	<b>54.1</b>	<b>0.3</b>	<b>7.0</b>	
<b>Net Cash flow</b>	<b>-19.2</b>	<b>-3.1</b>	<b>3.8</b>	<b>0.7</b>	
Opening Cash	41.7	22.5	19.4	23.2	
<b>Closing Cash</b>	<b>22.5</b>	<b>19.4</b>	<b>23.2</b>	<b>23.9</b>	

Source: Company, ICICI Direct Research

Balance sheet		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
<b>Liabilities</b>					
Equity Capital	30.2	30.2	30.7	30.7	
Reserve and Surplus	163.4	206.9	256.0	298.0	
<b>Total Shareholders funds</b>	<b>193.6</b>	<b>237.1</b>	<b>286.7</b>	<b>328.7</b>	
Total Debt	14.7	64.6	64.6	84.6	
Deferred Tax Liability	10.9	14.0	14.0	14.0	
Minority Interest / Others	0.1	0.1	0.1	0.1	
<b>Total Liabilities</b>	<b>219.3</b>	<b>315.9</b>	<b>365.4</b>	<b>427.5</b>	
<b>Assets</b>					
Gross Block	150.0	196.0	201.0	216.0	
Less: Acc Depreciation	26.9	34.6	44.6	55.0	
Net Block	123.1	161.4	156.4	161.0	
Capital WIP	0.0	3.4	38.4	78.4	
<b>Total Fixed Assets</b>	<b>123.1</b>	<b>164.8</b>	<b>194.9</b>	<b>239.4</b>	
Investments	0.1	5.4	5.4	5.4	
Inventory	31.8	82.3	62.5	68.8	
Debtors	62.0	86.0	118.8	130.7	
Loans and Advances	19.2	20.5	20.5	25.1	
Other Current Assets	1.6	1.7	2.7	3.0	
Cash	22.5	19.4	23.2	23.9	
<b>Total Current Assets</b>	<b>137.2</b>	<b>209.8</b>	<b>227.8</b>	<b>251.5</b>	
Current Liabilities	33.5	50.5	50.0	55.0	
Provisions	8.1	13.6	12.5	13.8	
Current Liabilities & Prov	41.6	64.1	62.5	68.8	
Net Current Assets	95.6	145.8	165.3	182.7	
Others Assets	0.6	0.0	0.0	0.0	
<b>Application of Funds</b>	<b>219.3</b>	<b>315.9</b>	<b>365.4</b>	<b>427.5</b>	

Source: Company, ICICI Direct Research

Key ratios		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
<b>Per share data (₹)</b>					
EPS	10.1	12.1	14.4	16.1	
Cash EPS	11.9	14.7	17.7	19.5	
BV	64.1	78.5	93.3	107.0	
DPS	1.8	0.0	1.8	2.4	
Cash Per Share (Incl Invst)	7.5	8.2	9.3	9.5	
<b>Operating Ratios (%)</b>					
EBITDA Margin	16.7	15.4	17.2	17.3	
PAT Margin	9.7	9.2	9.7	9.8	
Inventory days	37.3	76.0	50.0	50.0	
Debtor days	72.6	79.4	95.0	95.0	
Creditor days	39.2	46.6	40.0	40.0	
<b>Return Ratios (%)</b>					
RoE	15.8	15.4	15.5	15.0	
RoCE	22.3	17.4	19.2	18.3	
RoIC	23.9	18.5	22.9	23.9	
<b>Valuation Ratios (x)</b>					
P/E	18.3	15.3	12.8	11.5	
EV / EBITDA	10.7	10.0	7.8	7.2	
EV / Net Sales	1.8	1.6	1.3	1.3	
Market Cap / Sales	1.8	1.4	1.2	1.1	
Price to Book Value	2.9	2.4	2.0	1.7	
<b>Solvency Ratios</b>					
Debt/EBITDA	0.3	1.1	0.8	1.0	
Debt / Equity	0.1	0.3	0.2	0.3	
Current Ratio	2.8	3.0	3.3	3.3	
Quick Ratio	2.0	1.7	2.3	2.3	

Source: Company, ICICI Direct Research

## **RATING RATIONALE**

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



**Pankaj Pandey**

**Head – Research**

**pankaj.pandey@icicisecurities.com**

**ICICI direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)**

## ANALYST CERTIFICATION

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