

# Fundamental Research Report

## Chembond Chemicals Ltd

Date : 21-05-2020



### BUY

CMP	: Rs.160
Target price	: Rs.250
Stop Loss	: Rs.130
TTM EPS	: Rs.9.57
TTM PE	: 16.7x
Recommendation	: BUY
NSE Symbol	: CHEMBOND
BSE Code	: 530871
BSE Group	: B
Face Value	: Rs.5
Book Value	: Rs.198.66
Promoter stake	: 64.59%
Pledged	: NIL

### Beneficiary if government imposes anti dumping duty.

#### Company Background:

Chembond Chemicals Limited is a known name in India, manufacturing a diverse range of specialty chemicals like water treatment, metal treatment, construction chemicals, high performance coatings and industrial biotech products. The company has excellent infrastructure facilities like a well equipped R & D laboratory, multiple regional offices and production plants, well trained personnel and references across several business segments from the best known companies in the field. It's Head Office and Research Centre is at Navi Mumbai - Maharashtra and manufacturing plants at Tarapur (Maharashtra), Mahape (Navi Mumbai), Baddi (Himachal Pradesh), Dudhwada (Vadodara, Gujarat), Ranipet (Chennai) and Uttaranchal and branches are located at Mumbai, Chennai, Delhi, Kolkata and Ahmedabad.

#### Industrial Cleaning and Hygiene:

Chembond Calvatis Industrial Hygiene Systems Limited is a joint venture between Chembond Chemicals Limited, India and Calvatis GmbH, Germany which offers industrial hygiene and cleaning

products and solutions to the Food Processing, Beverages (Alcoholic and Non-Alcoholic) and Dairy markets in India.

#### Animal Health:

A growth business for Chembond is animal nutrition business which manufactures and supplies high-quality enzymes, probiotics, and other products for the poultry and dairy industry. Chembond manufactures and markets a unique range of products to keep poultry and dairy livestock healthy and productive. Bio-security is the prevention and control of the outbreak of disease and pathogens in farms. **Chembond's biosecurity products** help achieve this by two ways - Disinfection and Water Sanitation. Disinfection comprises regular aerial and surface disinfection, fogging and foot dips, restriction of vehicles and visitors, etc. A range of products under the brand name KemRaksha+TM offer such solutions.





Meanwhile, unique products like Bromo grane™ are added to the water fed to the farm animals to further ensure no contamination takes place via water sources. **Chembond manufactures a range of vitamins and minerals** under the brand name Previte™ for supplementing poultry and dairy diet to improve eggshell quality reduce breakage, improve milk production and overall performance of the animal. Vitamin Supplements also includes Alpha D3 which is available for both water and feed supplementation. Mineral Supplement includes Prokel Selenio 10000 ppm which is organic selenium. Prokel Selenio is added in the diet of both poultry and dairy to improve reproductive performance & immunity of the animal. **Enzymes** work as catalysts. They help in improving digestibility of feed ingredients to make them available to the birds thus reducing pollution, wastage, and improve hygiene. Products include Enzimix™, a complex feed enzyme which causes digestion on non-starch polysaccharides resulting in higher nutrient availability to the animal. Poszyme™, unique yeast phytase, improves utilization of bound phosphorus & vital minerals. **Probiotics** are the natural barrier between animal's digestive system and invading pathogens. They help to protect bird's digestive tract, aid fiber digestion, stimulate immunity and maintain gut integrity. Product Kembio™ is a multi strain probiotic containing bacteria as well as yeast which suppresses colonization of E.coli, salmonella and other potential pathogens.

### Water Technologies:

Company is a pioneer of non-chromate cooling water treatment chemicals in India, introducing these products in 1980. Since then, the company has grown its product range to offer the entire range of water treatment chemicals namely boiler water treatment chemicals, membrane treatment chemicals, raw water and effluent treatment polymers and defoamers. In addition to these products and in line with building an integrated capability for water treatment and recycling, our company has invested in adding water treatment systems/equipment and in microbial remediation of high COD industrial waste water.

### Financials:

CCL has an equity capital of Rs.6.72 crore supported by reserves of Rs.260 crore. With a share book value of Rs.198.66, its P/BV ratio works out to just 0.80x. The promoters hold 64.59% of the equity capital, which leaves 35.41% stake with the investment public.

### Performance:

For the quarter ended December 2019, its sales has increased 5 per cent to Rs.68.49 crore in Q3FY20 from Rs.65.29 crore in Q2FY20. PAT for Q3FY20 stood at Rs.2.43 crore as against Rs.1.53 crore in the Q2FY20, showing an increase of 58.82 per cent. **PAT has grown at 17.21% CAGR over the last 5 years.**





### Concussions:

AT CMP of Rs.160, the stock is trading at PE of 16.7x on its EPS (TTM) of Rs.9.57 per share.

**Government may impose 15% COVID TAX as anti dumping duty on chemicals which is highly positive for Indian chemical sectors.** We are expecting huge demand in Company's Water technologies, Animal Health and Industrial cleaning and hygiene segment after Covid 19 which will translate into company's performance.

We believe Chembond Chemicals Ltd is a potential re-rating candidate. We initiate coverage with a Buy and target price of Rs.250. We are closely monitoring company's executions and keep upgrading our forecasts on the basis of earnings.

### 3 Year Financials:

INR Cr.	FY17	FY18	FY19
Sales	291	327	301
Operating Profit	17	23	26
PBT	30	28	24
PAT	19	22	17
OPM	6%	7%	8%
NPM	7%	7%	6%





### Disclosure:

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