



RESEARCH REPORT

ULTRA MARINE & PIGMENTS LTD

13th April 2021

BSE : ULTRAMAR

Sector: PIGMENTS & SURFACTANTS

BSE: 506685

View - BUY

CMP : Rs. 320

Target Price: Rs 450 (In next 12 to 15 mths)

Suggested Buying Range : (Between 315-335)

BUSINESS BACKGROUND

Ultramarine Pigments is part of THIRUMALAI Group and one of the leading manufacturers of pigments and surfactants. The company is over 50 years old and currently has two manufacturing capacity units in Tamil Nadu at Chennai and Ranipet. It is engaged in manufacturing and selling of Pigments, Surfactants, IT-Enabled Services, and Business Process Outsourcing (BPO) activities. Co is the World's 3rd largest manufacturer of Ultramarine Pigments & is a leading supplier of surfactants particularly to South India based FMCG players

INVESTMENT HIGHLIGHTS

Steady Financial Performance for FY20 & Q2FY21 –

UMPL reported a steady set of FY20 numbers in a difficult year with net sales at Rs 306 crs as compared to a revenue of Rs 307 crs last year, with EBIDTA placed at Rs 76 crs from Rs 71 crs last year with the PAT placed at Rs 62 crs from Rs 56 crs. UEMPL declared a dividend of 250% for FY20.

Revenues totalled Rs 138 crs in H1 FY21 with EBIDTA of Rs 35 crs and a PAT 27 crs EBITDA margin expanded by 500 bps YoY to 29% in Q2 FY21

UMPL enjoys a strong basket of products –

The company enjoys a diversified business with the Pigments division accounting for 32% of revenue Surfactants division -53% of revenue and the IT Division about 14% of revenues

Pigments are colouring matter of animal or plant tissue) and are Used in Paints, Plastics, inks, laundry, cosmetics, etc.

The company manufactures inorganic pigments such as Ultramarine Blues, violets, Bismuth Vanadate (Pigment yellow), and various metal oxides.

Inorganic Pigments: are crystals of metal compounds or comprise most of the Earth Crust.Co also makes SURFACTANTS which reduces the surface tension of the liquid in simple words allow for increasing spreadability of liquid) & is used in detergents, fabric softeners, motor oils, soaps, paints, inks, adhesives, etc. Both Pigments & Surfactants come under Segment Laundry & Allied Products account for 85% of total revenues/

KEY DATA

FACE VALUE	Rs	2 00
DIVID YIELD %		1.51
52 WK HI/LOW		350/103
NSE CODE		ULTRAMAR
BSE CODE		ULTRAMAR
MARKET CAP		RS 965 CRS

SHAREHOLDING PATTERN

PROMOTERS	-	50%
BANKS, MFs & DIIs	-	%
FIIIs	-	1%
PUBLIC	-	49%

KEY FUNDAMENTALS

YE	FY21	FY22	FY23
Rev Gr%	-3	20	20
EBIDTA Gr%	-1	19	20
PAT Gr%	-10	18	17
EPS Gr%	-10	18	17
EPS (Rs)	19	22.4	26.12
ROE %	17	17	17
ROCE %	16	16	17
P/E(x)		14	12

Long term Drivers for DHFL look good in view of the follow18

Unique business structure provides an edge over its peers

UMPL is involved in the manufacturing of inorganic pigments, detergents and surfactants. The company primarily operates under three verticals Pigments, surfactants and ITES. In the pigments verticals, UEMPL high quality grades for use in industrial applications, and they cater to the local markets for whitewash and laundry grades.

UMPL makes over 50 grades of pigments, controlling for as many physical and chemical properties as possible, so customers can choose the best possible option suited to their needs

In surfactants company makes liquid, paste, noodles, powder and needles, and they work with their customers to meet their high quality standards. The company is one of the largest manufacturers of the pigments and surfactants of Indian origin.

Niche play provides high growth momentum in the upcoming period

UMPL's niche product profile over the verticals gives them edge over its peers. In the pigment division company focuses on the value added products in the exports market and strengthening the cash flow.

The company also keeps the focus on the R&D which will help them to keep pace on value added products domestically and internationally. With debottlenecking the plant, company will be able to add 20% to their capacity which will help them to optimize capacity fully. UEMPL has also introduced new products, and now offer a wider variety of surfactants for the home and personal care industry

The company was able to maintain good margins over the previous period and also likely to continue in the upcoming years. The Company has optimized the ratio of captive consumption to sale to State Grid. This has resulted in reduction of power cost and outstanding dues from State electricity board. We believe that company will likely to accelerate their revenue and operating margins in the upcoming period

Ultramarine & Pigments Ltd. was exporting to the Soviet Union. At present, the company exports its products the US and Europe.

This is the only company in India to receive the ISO 9002 certification for both laundry and industrial grades of ultramarine blue. It endeavor to constantly meet the needs and expectations of their customers by offering quality products and services, and do so within an uncompromising social commitment

INDUSTRY OVERVIEW –

The chemical industry in India is a key constituent of Indian economy, accounting for about 2.11 per cent of the gross domestic product (GDP). In terms of volume of production, Indian chemical industry is the third largest producer in Asia and sixth largest in the world.

India's growing per capita consumption and demand for agriculture-related chemicals offers huge scope of growth for the sector in the future. Lured by the size and returns of the Indian market, foreign firms have strengthened their presence in India.

The Government of India has been supportive to the sector. 100 per cent FDI is permissible in the Indian chemicals sector while manufacturing of most chemical products is de-licensed.

The government has also been encouraging Research and Development (R&D) in the sector. Moreover, the government is continuously reducing the list of reserved chemical items for production in the small-scale sector, thereby facilitating greater investment in technology up-gradation and modernisation. The Government has launched the Draft National Chemical Policy, which aims to increase chemical sector's share in country's GDP.

Increasing demand for premium products in HPC industry –

UMPL's products find applications in the HPC industry, which broadly links the company's growth to consumption trends.

Wide business moats have enabled UML to generate consistent 8-10% volume CAGR over FY15-FY20, while remaining competitive and maintaining customer stickiness, despite fluctuations in commodity and currency prices.

Consumers in the HPC industry are increasingly gravitating towards premium products in emerging markets like India. UML has products in the UV absorber sunscreen, preservatives and mild-surfactants space (specialty care ingredients), which we believe have strong growth prospects post FY21E, given the increasing demand for premium products in both mature and emerging markets

Focus on increasing wallet share within existing customers -

Company caters to 1750+ customers across 70+ countries including multinational, regional leaders and local players.

Leading FMCG companies are the key clientele of UMPL's products, who benefit from the company's diversified product portfolio, strong R&D capabilities, large-scale manufacturing base and adherence to quality standard and thus are associated with the company since more than a decade.

Robust growth in Specialty care ingredients to not only improve topline but also expand margins ahead –

Specialty care ingredients (high margin business) find application in high end home & personal care products (such as sun screen, premium shampoos, cosmetics etc) and are prominent in developed countries such as USA & Europe. Specialty care products enjoy high margins (20-22%) compared to performance surfactants (8-10%)

There is a strong correlation between per capita chemical consumption and per capita GDP. With the rise in disposable incomes and an increase in urbanisation, consumer preferences will shift towards a healthier lifestyle and environmentally friendly products

It will boost the demand for value-added products from end-user industries such as paints, textiles, adhesives, personal and home care. This bodes well for the domestic consumption outlook of the chemicals industry

To cut their costs, many MNCs import basic chemicals from China, which has resulted in a high dependency on the Chinese chemical industry. Chemicals form a large part of China's exports to the US (EUR 10.9bn in CY2017) and Europe (EUR 16.4bn in CY2017).

Any disruption caused in the supply chain affects the downstream production of these global chemical companies. In the past decade, environmental crackdown (2008,2015-17), trade war (2017-2019), and the outbreak of viruses (2009, 2020) have led to a breakdown of this supply chain and impacted the business of MNCs. It could increase MNCs' urgency to reduce dependence on China and push their boards to ponder upon making other countries as their valuable partner.

There are favourable tailwinds for Indian chemical manufacturers, owing to the ongoing global trade war and changing geopolitical scenario triggered by the spread of the

pandemic, which will encourage more global chemical companies to diversify their supply sources.

Indian chemical manufacturers are in a sweet spot with policy support from the government. China is the largest chemical producer globally, contributing 35.8% of global chemical sales in 2018 with sales of EUR 1,198bn.

India's contribution is merely 3% with total sales of EUR89 bn. India's share in the global chemical market will be doubled by a shift of merely 10% of China's chemical business to India

Government initiatives to benefit players like UMPL –

The government of India has already allowed 100% FDI in the chemical sector. The total FDI in the sector till December-19 was USD 17.4bn, which implies a headroom for further investment in the sector.

The government has announced four petroleum, chemical and petrochemical investment regions (PCPIR) and six plastic parks to boost chemicals production. Out of these four PCPIRs, only the one in Dahej has received meaningful investment from industry players. We expect the Make in India initiatives from the government to encourage investment in these dedicated zones

According to news reports the Govt is in the process of making a PLI scheme for the chemical and Petrochemicals sector with a estimated outlay of Rs 5000 crs which will further improve the companies operating here once the full details are available

UMPL has commissioned its new Sulphonation plant

UMPL's new Sulphonation plant has commenced production from 8th January 2021. The expansion of 50 Cr was going on for 2 years.

This increases the capacity of surfactants division which was working at 100% capacity utilisation

The new capacity is expected to generate revenues of around Rs 150 crore annually on full capacity utilisation over the next 12 to 18 months

The Indian Surfactants market is a USD 1.35 Billion market (2015) which is expected to grow at a CAGR of 6 percent to touch USD 2.28 Billion by 2024. In terms of volumes, it is a 778 KT market growing at a CAGR of 5.8 percent and the same is expected to touch 1221 KT by 2024

The company is also embarking upon an expansion of our Pigments division and plans are in place to implement the same through a 100% subsidiary at Naidupet. The company's in house know-how and readily available technical man power will be handy in executing the project in a cost effective manner.

In terms of application, household cleaning and personal care together made up for 49 percent of the total surfactants market. Also in line with the application market, personal care surfactants market is expected to be the fastest growing market growing at a CAGR of 7.6 percent till 2024:

Most widely used surfactants in personal care and cosmetics are cationic surfactants such as fatty amines and quaternary amines. Some anionic and nonionic surfactants are also used in personal care, especially in personal cleansing.

For example, most sulphates and sulfonates (the types of anionic surfactants) can be used in personal care products and cosmetics as they are chemically stable in these products and most of them are well tolerated on the skin. Other important surfactants used in personal care and cosmetics include aminoxides, betaines, sulfosuccinates, ethercarboxylates. Surfactants play a major role as delivery systems for skin care and decorative cosmetic products.

Skin Care: Surfactants used in skin care may be categorised as "rinse off" and "leave-on" products. Conventional surfactants in rinse off categories provide effective cleansing. These are used in products like shower gels, face wash or body wash

Hair Care: There are two major developments in hair care: (i) the search for mild surfactants; and (ii) search for conditioning agents. Also the combination of surfactants with other ingredients can result in special characteristics of shampoos. Surfactants used in shampoos are normally a "gelled" surfactant solution

Oral Care: Oral Care market is dominated by toothpaste which accounts for 60 percent of the global oral hygiene business.

Household cleaning: Detergents and soaps. Detergents and soaps are used for cleaning because pure water can't remove oily and organic soiling. Further, surfactants are used in detergent additives, laundry detergents, dishwashing products, and other household cleaners including all-purpose detergents, abrasive cleansers, specialty cleaners, glass and multi-surface cleaners, tub, tile and sink cleaners, metal cleaners and oven cleaners;

Industrial and Institutional Cleaning (I&I Cleaning): The end users of industrial and institutional cleaning products are classified as commercial and industrial sector, public sector and Institutions and the Government;

Personal care products: The use of surfactants in personal care products falls into three major categories: hair care (cleansing and conditioning), skin care (cleansing and conditioning) and cosmetics

Industrial applications: The main industries which have demand on surfactants are textile/leather industry, oil industry, gasoline/fuel additives, agrichemicals, food processing industry, polymer industry, paints and coatings, inks, pharmaceuticals, construction /cement / concrete,

metalworking industry, pulp and paper industry, ore and mineral industry, and water and waste treatment

UMPL enjoys a strong Balance Sheet –

UMPL has a strong net cash positive balance sheet with healthy return ratios. In FY20, the company maintained net cash & cash equivalents/investments of Rs.125 crs. As on Sept 2020 U MPL has net cash of Rs 225 crs. The key reason for the higher return and huge cash generation was due to its unique business model and strong positioning in the Pigments and Surfactants markets .

As a result, U MPL's capital efficiency ratios are significantly ahead of the industry peers. In FY20, the company's ROCE and ROE stood at 16% and 18%. Also average debtors days stood at 47 days in FY20 as against 39 days last year

Solid financial performance - topline growth and margin expansion –

We estimate U MPL's earnings to witness a CAGR of 17-20% over FY20-23E. This will be driven by strong revenue growth (15% CAGR over FY20-23E) and a steady EBITDA margin expansion over the same period.

Over the years, the company has improved its operational performance significantly with its operating margins having remained in a range between 22 to 25% since last 3 years. Capex stood at Rs 50 crs in H1 FY21 but despite this total debt as on Dec 2020 is nil which means a large portion of the expansion has been funded by internal accruals only

Business Outlook & Stock Valuation

On a rough cut basis, in FY21, Topline will is expected to touch Rs 298 crs.

On the bottomline level we expect the company to record a PAT of Rs 55.50 crs in FY21E. Thus on a conservative basis, UMPL should record a EPS of Rs 19 for FY21E. For FY22E & FY23E our expectation is that earnings traction for UMPL would continue to be robust wherein we expect a EPS of Rs 22 & 26.

Ultramarine Pigments Ltd is one of the largest Pigment and Surfactant manufacturing company of Indian origin It endeavors to serve the customers with range of inorganic pigments, detergents and cosmetic grade surfactants. The chemical industry remains an attractive hub of opportunity even in an environment of global uncertainties.

UMPL's new Sulphonation plant has commenced production from 8th January 2021. The expansion of 50 Cr was going on for 2 years.

This increases the capacity of surfactants division which was working at 100% capacity utilisation

The new capacity is expected to generate revenues of around Rs 150 crore annually on full capacity utilisation over the next 12 to 18 months

Hence we believe that the UMPL stock should be purchased at the current price for a price target of around Rs 450 over the next 12 to 18 months

FINANCIALS

For the Year Ended March RsCrs	FY19A	FY20	FY21E	FY22E	FY23E
Net Sales	307.00	306	298.00	357.6	429.12
EBIDTA	71.00	76	75.00	89.4	107.28
EBIDTA %	23.13	24.84	25.17	25.00	25.00
Interest	1.00	2.00	1.00	1	1
Depreciation	6.00	9.00	11.00	13	16
Non Operational Other Income	16.00	12.00	11.00	11	11
Profit Before Tax	80.00	78.00	74.00	86.40	101.28
Profit After Tax	56.00	62	55.50	65.40	76.28
Diluted EPS (Rs)	19.18	21.23	19.01	22.40	26.12
Equity Capital	5.84	5.84	5.84	5.84	5.84
Reserves	379.00	297	349.50	410.90	487.18

Borrowings	0.00	0	0	0	0
GrossBlock	95.00	149	159.00	174.00	189.00
Investments	232.00	105.00	140.00	180.00	210.00

Source – Company, Our Estimates

KEY CONCERNS

Significant increase in crude oil price can impact UMPL's profitability severely

Slowdown in the FMCG Market can also impact the companys performance

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