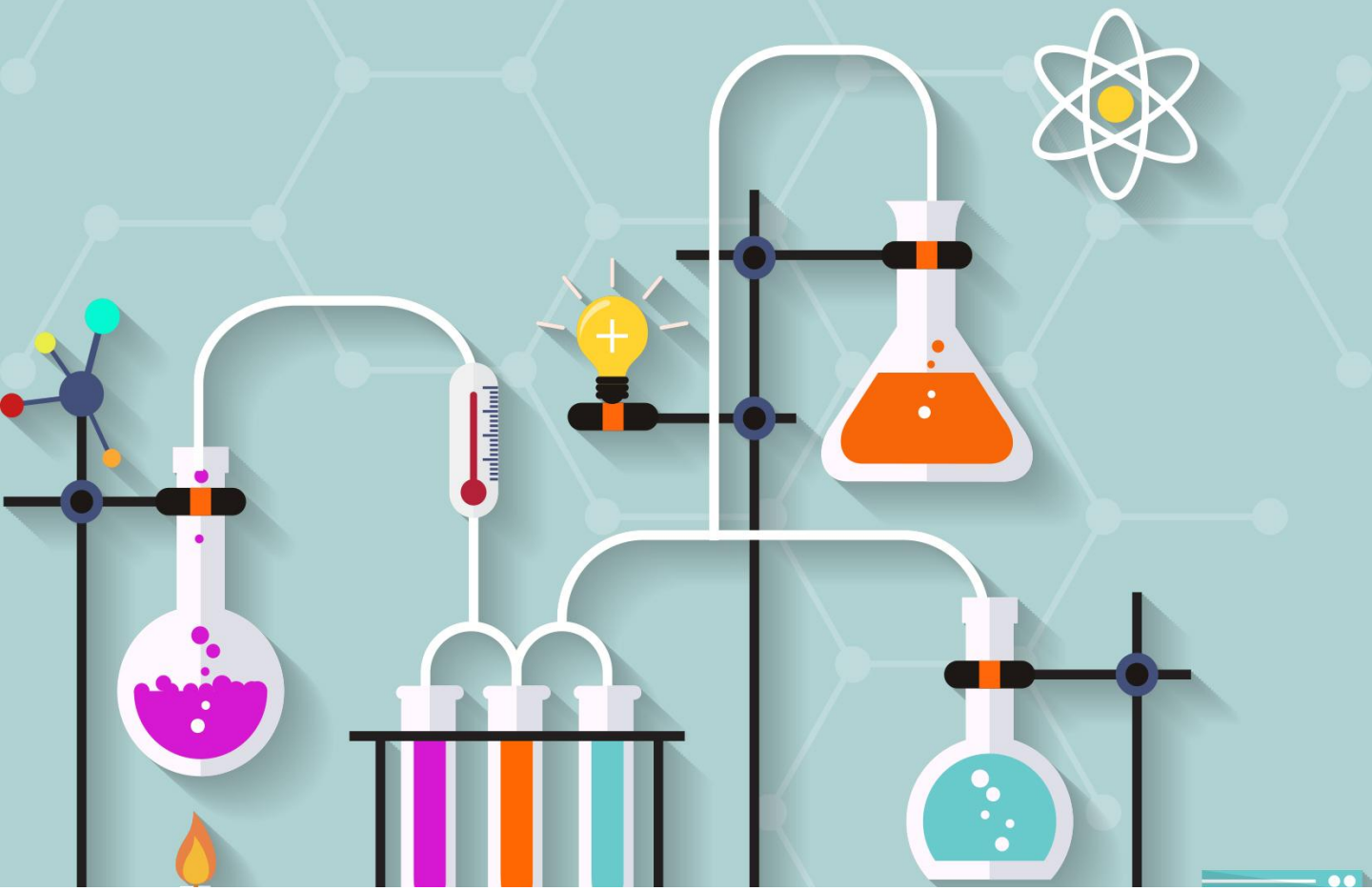
KRChoksey | INSTITUTIONAL

Himadri Speciality Chemical Ltd.



INITIATING COVERAGE

26th September 2017

Himadri Speciality Chemical Ltd.

Evolution of Carbon Conglomerate

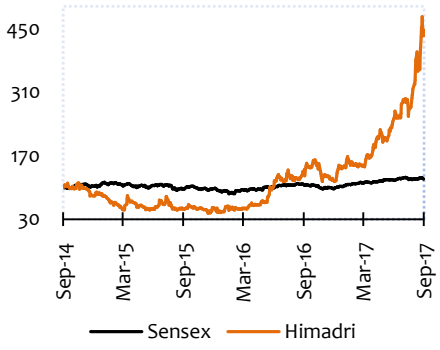
CMP	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 128	**INR 184**	**43.7%**	**56,276**	**Buy**	**Specialty Chemicals**

Himadri Speciality Chemical Limited (HSCL), the largest manufacturer and only organized player of coal tar pitch in India, has created business value through developing a forward integrated business model. HSCL has emerged as a carbon conglomerate leveraging its competence in diversified businesses including coal tar pitch, chemical oils, carbon black, naphthalene and advanced carbon material with the use of single raw material -coal tar. HSCL enjoys a healthy market share of 70% in Coal Tar Pitch segment and 17% in Carbon Black segment. Further, the Company is the only manufacturer of Advanced Carbon Material (ACM) in India which is utilized as anode material in lithium-ion batteries and possesses tremendous growth potential. Going ahead, we believe that the Company will be able to capitalise business opportunities owing to accelerated demand from its end user segments (aluminium, graphite electrodes, rubber, tyres, lithium-ion batteries and so on) clocking a revenue growth of 16.22% over FY17-FY20E.

MARKET DATA

Shares outs (Mn)	418
Equity Cap (INR Mn)	418
Mkt Cap (INR Mn)	56276
52 Wk H/L (INR)	143/33
Volume Avg (3m K)	1925.9
Face Value (INR)	1
Bloomberg Code	HSCH IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	31627
NIFTY	9873

Investment Rationale

Forward integrated business model; robust industry outlook : HSCL, emerging as one of the leading manufacturers in the carbon chemical space, has been able to develop multiple products through vertical integration with the use of one raw material – coal tar. The Company possesses a coal tar distillation capacity of 4,00,000 Metric Tonnes Per Annum (MTPA) out of which ~55%/33%/9% is utilized for manufacturing of coal tar pitch/chemical oils/napthalene while the rest being moisture. These products find applications in an impressive parade of industries ranging from aluminium, graphite electrodes, tyres, industrials and rubber applications. Coal Tar Pitch manufactured by the Company is utilized in carbon anodes and graphite electrodes for manufacturing aluminium and steel respectively. We believe that the demand for aluminium should improve on account of healthy prospects of power sector/infrastructure sector/auto sector while the demand for graphite electrode should burgeon on account of robust steel production outlook. Consequently, these factors should fare well for the coal tar pitch segment of the Company which we believe will grow at 10.6% CAGR over FY17-FY20E replicating the growth of aluminium and graphite industries.

Additionally, HSCL is the third largest manufacturer of Carbon Black (CB) with a capacity of 1,20,000 MTPA enjoying 17% market share in overall CB industry as of FY17. The Company derives 40% of the CB revenues from tyre industry while the balance is contributed from non-tyre sectors like rubber, paints, belts, hoses, inks and plastics. Introduction of new variants i.e. specialty carbon black products with niche applications has assisted the Company to earn higher realizations thereby improving the margins under the CB segment. With this, HSCL stands at a competitive advantage to capitalize opportunities from these upcoming user industries. Further, the Company has a manufacturing capacity of 68,000 MTPA for its downstream product i.e. Sulphonated Napthalene Formaldehyde (SNF). It is a specialty construction chemical that helps improve concrete mixes increasing its strength and durability. Going forward, with increased infrastructure segment, we expect the penetration of SNF & PCE to pick up in construction chemicals.

The Company plans to expand its current coal tar distillation capacity from 4,00,000 MTPA to 5,00,000 MTPA by FY18E through de-bottlenecking which should boost its top-line.

Advanced Carbon Material; a game changer: Advanced Carbon Material (ACM) is a high quality carbon which enjoys downstream application in production of Lithium ion (Li+) batteries. HSCL is the only producer of ACM in India and one of very few ones globally, for anode material for lithium ion batteries. We believe that the Company will enjoy high operating margins on manufacturing of ACM on account of vertically integrated manufacturing facility.

SHARE HOLDING PATTERN (%)

Particulars	Jun 17	Mar 17	Dec 16
Promoters	48.95	48.95	48.95
FIIs	1.4	0.72	0.34
DIIs	1.54	0.1	0.15
Others	48.12	50.23	50.56
Total	100	100	100

16.2%

Revenue CAGR between FY17 and FY20E

31.2%

EBITDA CAGR between FY17 and FY20E

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Himadri Speciality Chemical Ltd

Further, power is the second major component that is required for developing ACM impacting its quality. For this, HSCL is well equipped with two power plants of 12 MW and 8 MW located at MahiStikry. During Q1FY18, the Company fully sold 5 tonnes per month of intermediate carbon material (upto carbonization) contributing by only a miniscule portion to the company's turnover. From H2FY18 onwards, HSCL plans to sell 50 metric tonnes per month on account of shift from batch processing to continuous processing. Further, the Company plans to expand its ACM capacity to 20,000 MTPA by 2020 on account of robust demand for Li+ batteries.
We believe, the lithium ion battery market is poised to grow at 20% CAGR over FY17-FY20E on account of rising demand for Li+ batteries in electronic sector, electric vehicles and energy sector across countries including China, US, Japan and other developed economies. Owing to the immense potential for Li+ batteries, it is estimated that the demand for anode material will augment at 26% CAGR over FY17-FY20E providing HSCL significant headroom for growth.

Consequently, we expect the company's total volumes to surge at 8.6% from 3,56,902 MPTA to 4,57,084 MPTA over FY17-FY20 on account of a.) bright prospects of aluminium and graphite electrode industry, b.) pick-up in tyre industry coupled with turnaround in industrial sector, c.) robust demand scenario in construction sector and d.) ramp-up in capacity by the Company in ACM segment. Likewise, we expect revenues to grow from INR 13,430 mn to INR 21,084 mn at 16.22% CAGR over FY17-FY20E.

Expansion in margins led by entry into thriving segments: Over FY12-FY16, the Company witnessed a steep fall in EBITDA/tonne from INR ~8900/tonne to INR ~5300/tonne primarily on account of depreciating currency and forex losses. Likewise, EBITDA and PAT margins declined from 19%/5% in FY12 to 13%/negative 3% in FY16 respectively on account of higher depreciation and increased finance costs. However, during FY17, HSCL achieved turnaround in their business with EBITDA/tonne at INR 7322/tonne and EBITDA & PAT margins bounced back at improved levels touching 19.46% and 6.14% respectively. This occurred mainly on account of operating efficiencies coupled with increased revenues from higher realization non-tyre carbon black segment and speciality carbon black. Post recovery from major setbacks, going forward, we believe the Company's revenue mix will shift with its undivided focus on margin lucrative segments like specialized CB and ACM while revenue contribution from coal tar pitch segment still being the highest (i.e. more than 50%). Consequently, we estimate EBITDA for the Company to grow at 31.22% CAGR to INR 5904 mn in FY20E from INR 2613 mn in FY17 and the EBITDA Margins to swell by 738.76 bps to 28% in FY20 from 19.46% in FY17. Additionally, we believe PAT should augment from INR 1321 mn in FY17 to INR 3502 mn by FY20E on account of elimination of foreign exchange losses and decrease in overall debt levels.

Surge in return ratios; financial deleveraging to continue : Despite recording bottom line losses over FY14-FY16 , the Company was able to reduce its debt from INR 11,850 mn in FY14 to INR 7780 mn in FY16 primarily on account of healthy operating profits and strong free cash flows. HSCL has laid out a capex plan of INR 200 mn for FY18E towards debottlenecking which will increase the Coal Tar Distillation capacity by 25% funded through internal accruals. Going forward, in order to meet the rising demand of sectors like aluminium, graphite, tyre, industrials, construction and Li+ batteries, we believe the Company will enhance its capacity and incur INR 5500 mn over FY18E-20E. We believe that the Company will generate free cash flow to the tune of INR 3365 mn over FY18E-FY20E which will be deployed towards reduction of debt. Consequently, we estimate the total debt to further reduce to INR 5752 mn by FY20 from its current level of INR 7452 mn. Subsequently, we expect the total debt/equity ratio to fall to 0.3x from 0.7x and interest coverage ratio to enhance to 10.7x from 2.9x over FY17-FY20.

Key Financials

Particulars (INR Mn)	FY15	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	14,379.8	11,834.3	13,430.1	15,268.8	18,358.5	21,084.3
EBITDA	1,310.6	1,582.4	2,613.1	3,502.2	4,974.2	5,903.5
APAT	-124.3	-337.3	1,321.0	1,810.5	2,896.0	3,501.7
EPS	-0.3	-0.8	3.2	4.3	6.9	8.4
P/E (x)	N.A.	N.A.	30.8	29.8	18.6	15.4
EV/EBITDA (x)	12.2	8.8	9.7	17.1	11.9	10.1

Source: Company Data, KRChoksey Research

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Himadri Speciality Chemical Ltd

Valuations and Outlook:

Himadri Speciality Chemical Ltd, incorporated in 1987, is one of the largest vertically integrated manufacturers of Coal Tar Pitch, Carbon Black (CB), SNF and ACM in India that has created business value with the use of one raw material – coal tar. The Company has an installed capacity of 4,00,000 MTPA for distillation of coal tar, out of which ~55%/33%/9% is utilized for manufacturing of coal tar pitch/chemical oils used as feedstock for CB/napthalene for Refined Napthalene and SNF while the rest being moisture. Further, the Company possesses 20 MW captive power plant bringing down the power and fuel costs.

Coal tar pitch finds its application in the use of aluminium manufacturing as it is used as a binder for production of carbon anodes which in turn is used in the electrolysis process of extracting aluminium from alumina. Like carbon electrodes, coal tar pitch is used as a binder and impregnating agent for graphite electrodes as well which is used in the production of steel through EAF route. Out of the total coal tar pitch produced, 85% is catered to aluminium industry while 15% is supplied to graphite electrode industry. The Company has a market share of 70% in coal tar pitch segment and is the only organized player in India. Going ahead, we expect a sizeable growth of 10.4% over FY17-FY20 of aluminium production in India on account of a.) central Government's enhanced thrust on the power sector, b.) growth in per capita income coupled with surge in GDP creating substantial demand for transport sector, c.) expected turnaround in the real estate sector post implementation of RERA, and d.) environmental and supply side restrictions in China leading to higher export market potential for India. Similarly, steel production in India is expected to grow at a healthy pace on account of surge in investments in infrastructure and railway sector creating robust demand for graphite electrodes (~60% of steel in India is manufactured through EAF route). Consequently, it is estimated that the demand for graphite electrodes will grow at 7.3% over 2016-2019. Likewise, we believe that coal tar pitch volumes for the Company should grow at 10.6% CAGR over FY17-FY20E. In terms of peer comparison, there are no listed players under the coal tar pitch segment. The Company has established a strong relationship with its clients including Hindalco, Vedanta, NALCO, Graphite India, HEG and so on.

In the carbon black segment, HSCL is the third largest player in India with a capacity of 1,20,000 MTPA and a market share of 17%. The Company manufactures carbon black through coal tar oils as compared to its peers manufacturing CB through Carbon Black feed stock (crude oil derivative) with a sulphur content of ~3% as compared to ~0.2% for HSCL. On account of this, CB manufactured by HSCL is much cleaner thus aiding the Company to gain a healthy market share of 17% within a short span of time (company started sales of CB from 2012 onwards). Further, 60% of CB revenues for the Company are derived from non-tyre segments like rubber, paints, belts, hoses, inks and plastics while the balance 40% from tyre segment. In case of its peers, 65% of CB revenues are derived from tyre segments while the rest from non-tyre segment. Further introduction of Specialized CB has led to HSCL gaining a mammoth market share of ~65% for specific sectors within non-tyre CB segment that demand high realizations. Further, we estimate CB revenues to grow at a 10.7% over FY17-20E on account of superior quality product with enhanced realizations and robust demand from tyre sector together with industrial segment. The company's clientele includes players like MRF, Apollo Tyres, CEAT, GoodYear, Birla Tyres, CooperStandard, Huber Group, Blend colors, Clariant, ALP and so on.

HSCL is India's largest manufacturer of SNF with an installed capacity of 68,000 MTPA and one of the very few producers of PCE in India. The end user industry include construction chemical industry, agrochemicals, latex and gypsum. However, penetration of SNF admixture is less than 10% against 50% in developed economies. The Government of India has mandated the use of SNF admixture in highly intensive constructions like bridges and so on. Going forward, with demand for high quality and high strength constructions growing, we expect the penetration of SNF & PCE to pick up in construction chemicals resulting into good growth potential for the Company.

With its unique advantage of having in house raw material and best in class propriety technology, Himadri offers high quality customer centric products emerging as the only manufacturer of anode material for lithium ion batteries in India. Production of anode material involves processing of coal tar into advanced carbon material by carbonization, classification and graphitization. Himadri is one of the very few manufacturers of ACM globally, competing with few players in Japan and China and is the only player in India. During Q1FY18, the Company fully sold 5 tons per month of intermediate carbon material (upto carbonization) contributing by only a miniscule portion to the company's turnover. Going ahead, due to the shift from batch processing to continuous processing, the capacity of ACM is expected to increase from 60 MTPA to 600 MTPA post H2FY18. Further, the Company plans to expand its ACM capacity to 20,000 MTPA by 2020 on account of robust demand for Li+ batteries. The lithium ion battery market is poised to grow at 20% CAGR over FY17-FY20E on account of rising demand for Li+ batteries in electronic sector, electric vehicles and energy sector across countries including China, US, Japan and other developed economies. Similarly, the anode material industry is expected to grow from 143 KT in 2016 to 369 KT in 2020E translating into a CAGR of 26% providing HSCL huge headroom for growth.

Exhibit 1: Weightage of HSCL's product in various industries

Industry	HSCL's product	In terms of Volume	In terms of Value
Aluminium	CTP	100 kgs : 1000kgs	2-3%
Graphite electrodes		440 kgs : 1000 kgs	17-18%

Source: Company Data, KRChoksey Research

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Himadri Speciality Chemical Ltd

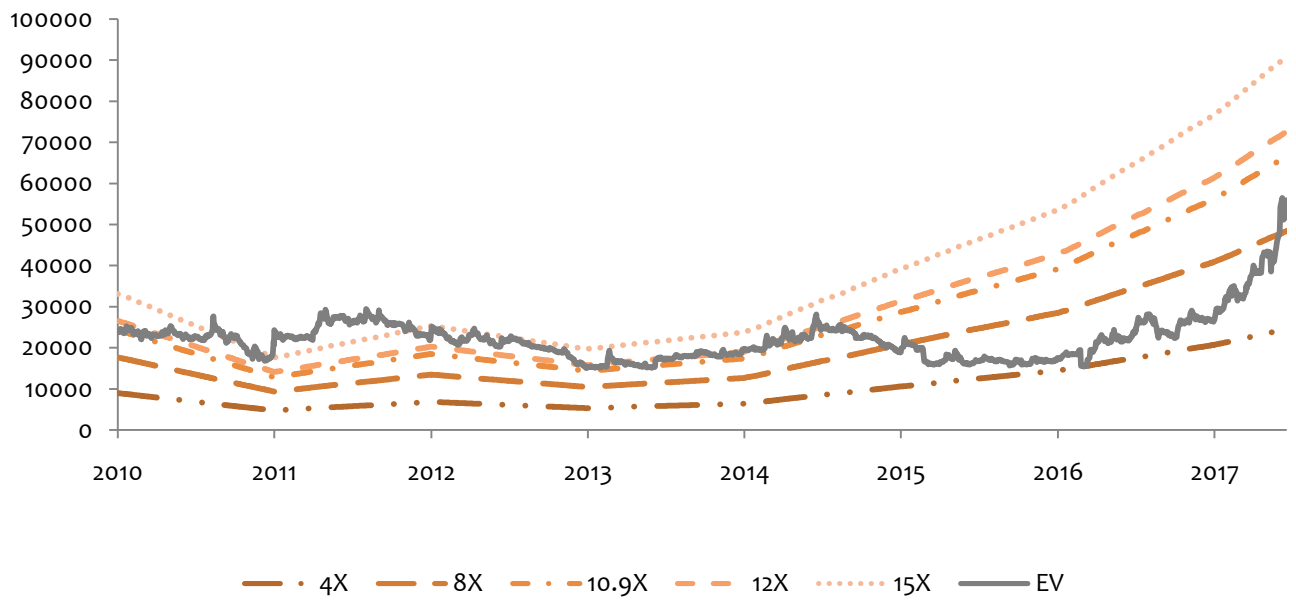
HSCL trading at two year forward EV/EBITDA of 10.1x as against an average of 11.03x.

The company's manufacturing plants were running at a capacity utilization of ~82% on a blended basis during FY17. Going ahead, the Company plans to increase its capacity from 4,00,000 MTPA in FY17 to 5,00,000 MTPA by FY18 end in-order to meet the growing demand of aluminium, graphite, tyre and industrial sectors. Consequently, we reckon volumes/sales for the Company to grow at 8.6%/16.22% over FY17-FY20E. Further, with increasing share of revenues from specialty carbon black segment and ACM coupled with operating leverage, we estimate EBITDA to grow at 31.22% from INR 2613.1 mn to INR 5904 mn and EBITDA margins to swell by 738.7 bps over FY17-FY20E. Subsequently, on account of financial de-leveraging, elimination of forex losses and improvement in operating efficiencies, we believe that the PAT for the Company should grow from INR 1321 mn to INR 3502 mn at 38.40% CAGR over the same period.

We factor in a capex of INR 5500 mn and free cash flow generation of INR 3263 mn over FY18E-FY20E resulting into net debt reduction from INR 7084.8 mn currently to INR 5533 mn by FY20E. On the valuation front, the Company currently trades at an EV/EBITDA of 10.1x as against its average valuation of 11.03x over FY11-FY17. We believe HSCL should fetch premium valuations as compared to its historic valuations on account of i.) robust demand outlook of end-user industries, ii.) strategic entry into lithium-ion batteries, iii.) enhancement in operating efficiencies on account of change in revenue mix, iv.) financial de-leveraging, and v) surge in return ratios.

We initiate coverage on Himadri Speciality Chemical Ltd with a "**BUY**" rating and value the Company at an EV/EBITDA of 14x on FY20E (implied P/E of 21.9x) and arrive at a target price of **INR 184/share** translating into an upside of **43.7%** from CMP of **INR 128/share.**

Exhibit 2: Two-year forward EV/EBITDA band



Source: KRChoksey Research

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Himadri Speciality Chemical Ltd

Investment Rationale

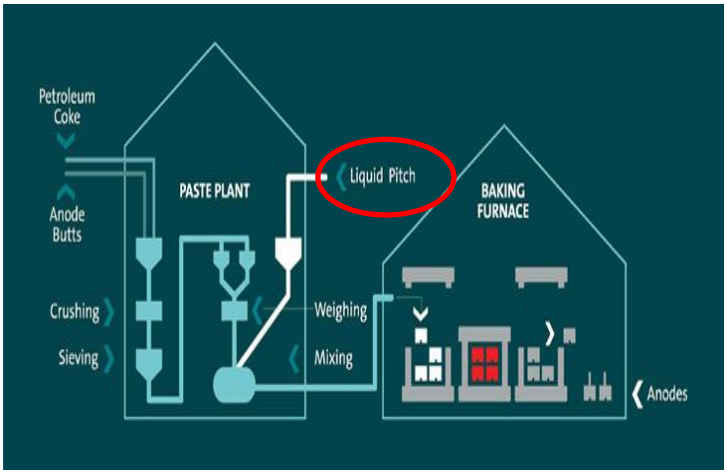
1) Forward integrated business model; robust industry outlook :

Himadri Speciality Chemicals Limited (HSCL) is the one of the largest vertically integrated manufacturer of coal tar pitch in India. Since inception, the Company was involved in the manufacturing of coal tar pitch only. However, by leveraging its carbon competence to accelerate its growth, HSCL was able to diversify into several profitable businesses including coal tar pitch, chemical oils, carbon black, naphthalene, advanced carbon material, corrosion protection and SNF over the years. Presently, the Company has eight manufacturing facilities with a total installed capacity of 400,000 MTPA of Coal Tar Distillation, 120,000 MTPA of Carbon Black, 68,000 MTPA of Sulphonated Napthalene Formaldehyde (SNF) and a captive power plant of 20 MW. The Company possesses a forward integrated business model; manufacturing over multiple finished products with the same raw material. HSCL addresses demand from various sectors ranging from aluminium, graphite, infrastructure, tyre, industrial, automobile, rubber applications and lithium ion batteries. However, majority of the Company's revenue is derived from the Coal Tar Pitch segment and the contribution of the same is expected to continue on account of increased demand in the end user segments (aluminium and graphite industries).

Aluminium Industry Overview

During the recent years, applications for Aluminium has been rising steadily due to its properties of being light weight, unswerving strength, electrical conductivity and corrosion resistance. It is widely used in sectors like transport, construction, electrical, packaging and so on. Coal tar pitch finds its application in the use of aluminium manufacturing as it is used as a binder for production of carbon anodes which in turn is used in the electrolysis process of extracting aluminium from alumina.

Exhibit 3: Use of Coal Tar Pitch in manufacturing of carbon anodes



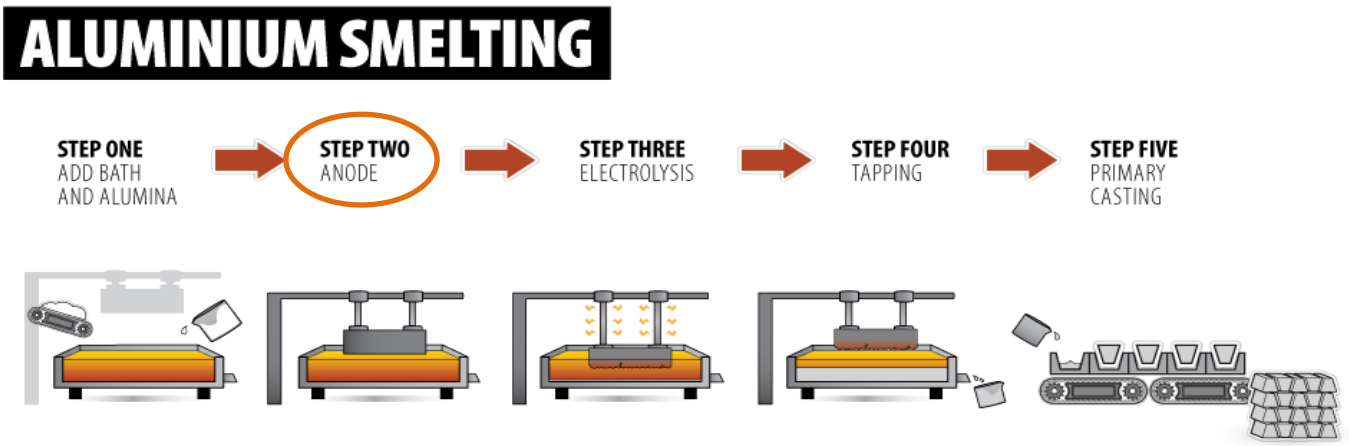
Source: KRChoksey Research

Coal Tar Pitch is a complex mixture of hydrocarbons with 22–25 chemical and physical properties obtained through distillation of coal tar. Coal tar pitch binds the coke particles by entering the pores and filling the cavities between them. The presence of insoluble substances in coal tar pitch exerts a strong influence upon the microstructure and other properties of carbon anode.

Adding good quality pitch to the anode material is exceptionally crucial as it improves the purity of the metal. Likewise, it also has an impact on the power consumption (one of the major input costs for smelters) for aluminium manufacturing and life of the anode itself.

Coal Tar Pitch accounts for almost 2% of the cost of production of aluminium. Likewise, for producing 1 metric tonne of aluminium, 100 kgs of coal tar pitch is required.

Exhibit 4: Carbon anodes utilization in extraction of Aluminium



Source: Company Data, KRChoksey Research

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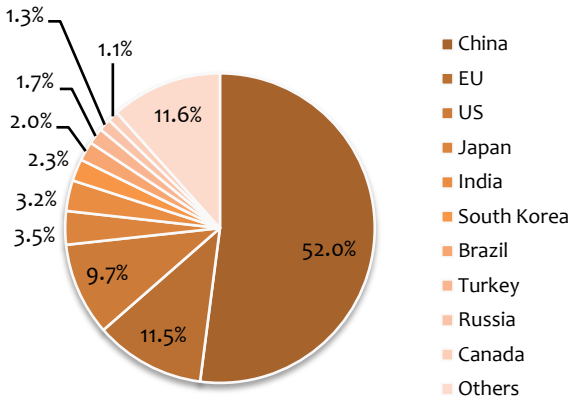
Global Overview

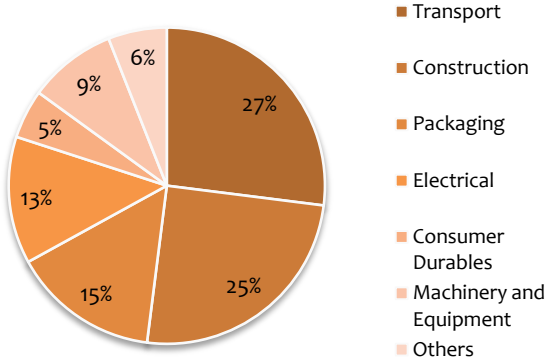
Over FY11-FY16, global aluminium consumption grew by 6.97% scaling to a market size of approximately 57.7 Million Tonnes Per Annum (MnTPA). Production growth slowed down in 2016 to 5.2% on account of demand de-growth in China. Of the overall production, China/EU/US account for 52%/11.5%/9.7% respectively followed by Japan, India and others. Globally, sectors like transport/construction/packaging/ electrical account for 27%/25%/15%/13% of the overall consumption of aluminium, respectively. Further, the usage of aluminium is maximum in countries like Germany/Taiwan/US/Japan with per capita consumption of 42.1/33.3/28.7/28.1 kgs respectively. The consumption in India is very low with per capita consumption of 1.4 kgs as against the global average of ~8 kgs providing India significant headroom for future growth.

Exhibit 5: Global Aluminium Production



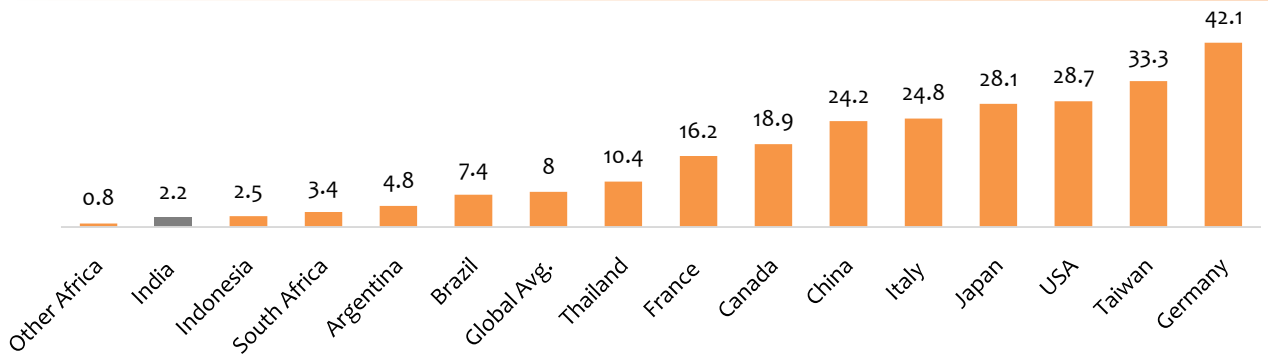
Source: IBEF, KRChoksey Research

Exhibit 6: Segmental Aluminium Consumption



Source: IBAAS, KRChoksey Research

Exhibit 7: Global Per Capita Consumption (in kgs)



Source: IBAAS, KRChoksey Research

Indian Overview

Compared to the global market, aluminium industry is miniscule in India accounting for 3.2% of the overall demand. Over 2010-2017, the aluminium production grew ~8% in line with the growth recorded from key end user segments (power, automobiles and infrastructure – together accounting for 65-70% of the domestic demand). Indian aluminium industry is dominated by Hindalco, Vedanta and NALCO catering to ~95% of the overall aluminium market demand. Compared to global end users segments, India's primary end user segment include electrical sector accounting for ~38% followed by transportation/ construction/packaging accounting for 32%/9%/8% of the overall demand. Going ahead, we expect a significant growth in aluminium production in India on account of a.) central Government's enhanced thrust on the power sector, b.) growth in per capita income coupled with surge in GDP creating substantial demand for transport sector, c.) expected turnaround in the real estate sector post implementation of RERA, and d.) environmental and supply side restrictions in China leading to higher export market potential for India. Industry estimates suggest that aluminium production will grow from 2.75 MnTPA in FY17 to 4 MnTPA by end of 2019 primarily on account of capacity ramp up by Vedanta. However, we expect the aluminium production to grow at 10.4% over FY17-FY20 scaling to a market size of 3.7 MnTPA.

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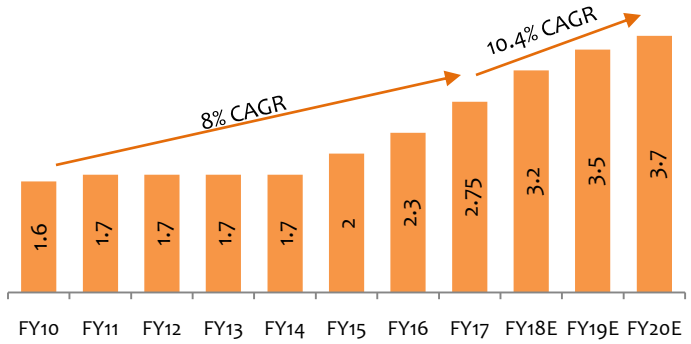
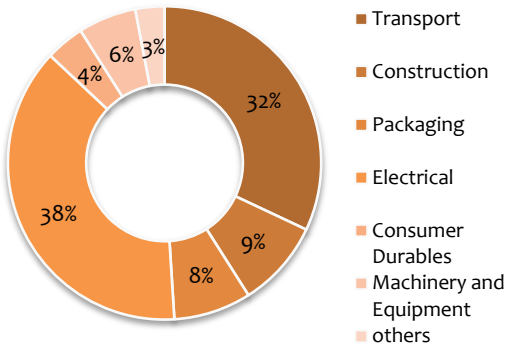
Exhibit 8: Indian Aluminium Production



Source: IBEF, KRChoksey Research

Exhibit 9: India's Segmental Consumption



Source: IBAAS, KRChoksey Research

Key growth drivers:

1.) Surge in investments in Power sector:

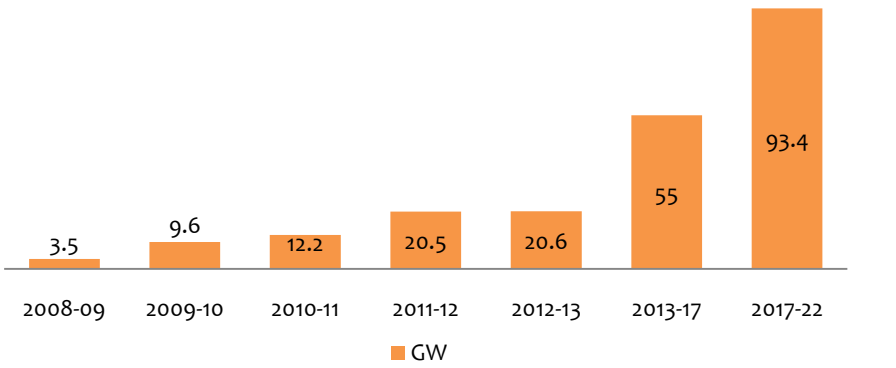
Power sector is the biggest user of aluminium industry currently contributing 38% of the total consumption. Additionally, the Power Grid Corporation of India (PGCIL) has recently approved investments worth USD 4.5 billion to expand and modernise the national power grid over the next 36-48 months. which will drive demand in the wire and cable segment.

2.) Turnaround in infrastructure segment :

Globally, construction accounts for ~25% globally, while in India, construction sector accounts for a meagre 9% of the total consumption of aluminium providing India huge headroom for potential growth. With the Government's push towards infrastructure, boost for affordable housing, implementation Goods & Services Tax, Introduction of RERA and so on, Real Estate Industry is expected to show robust demand.

In terms of volume, currently ~1 MnTPA of Aluminium is utilized in power sector. Going ahead, as per industry estimates, Indian power sector is expected to witness 11.2% CAGR over FY17-FY22 from 55 GW to 93.4 GW.

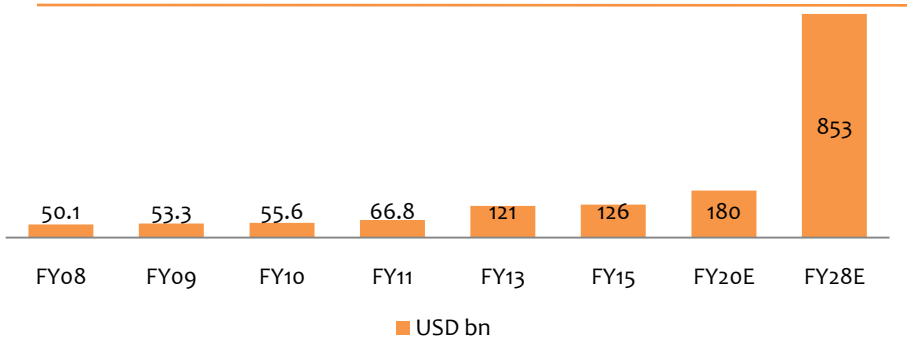
Exhibit 10: Power generation in India



Source: IBAAS, KRChoksey Research

With the boost in infrastructure sector and implementation of RERA it is estimated that the real estate market will grow from USD 126 bn to USD 853 bn by FY28E translating into a CAGR of 15.8%

Exhibit 11: Real estate market in India



Source: IBEF, KRChoksey Research

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3.) Robust growth from the Automobile Sector.

Globally, automobile (transport) sector contributes by 27% of total the aluminium consumption while in India, automobile sector is the second largest consumer of aluminium standing at 32% after electrical sector. Due to lightness of the metal, aluminium finds immense use in the auto sector. Post H2FY17, the auto sector witnessed a major hit on account of demonetization, BS-III ban and Implementation of GST. However, going forward, we expect the automobile sector to witness a CAGR of 10% over FY17-20 primarily on account of growing demand for Passenger vehicles coupled with reviving demand from commercial vehicle segment. Additionally, we believe mounting popularity of e-vehicles will be a key driver for expansion of automobile industry in the years to come.

Graphite Industry Overview

After aluminium, the second largest consumer of coal tar pitch is Graphite electrodes that are used in steel production. Like carbon electrodes, coal tar pitch is used as a binder and impregnating agent for graphite electrodes as well; thereby increasing its density and strength.

Exhibit 12: Impregnation of Pitch in production of Graphite Electrodes

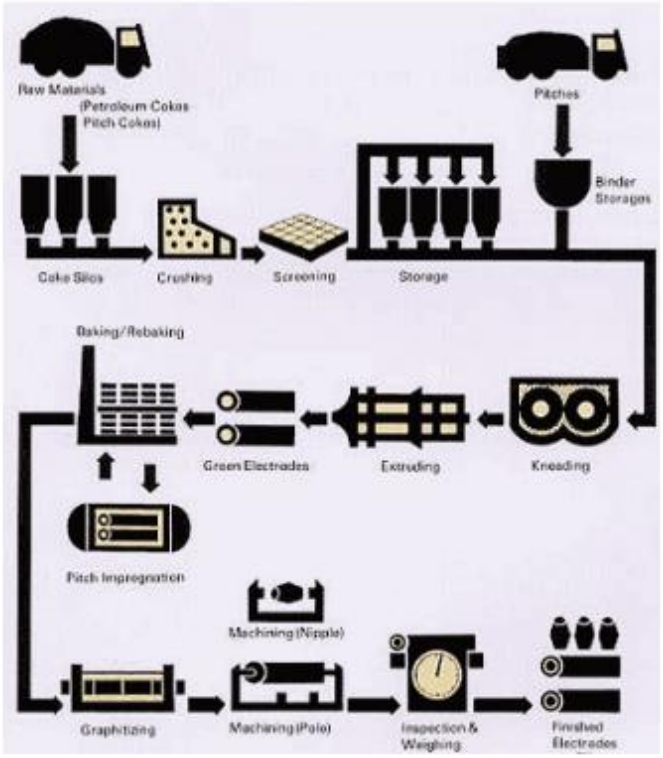
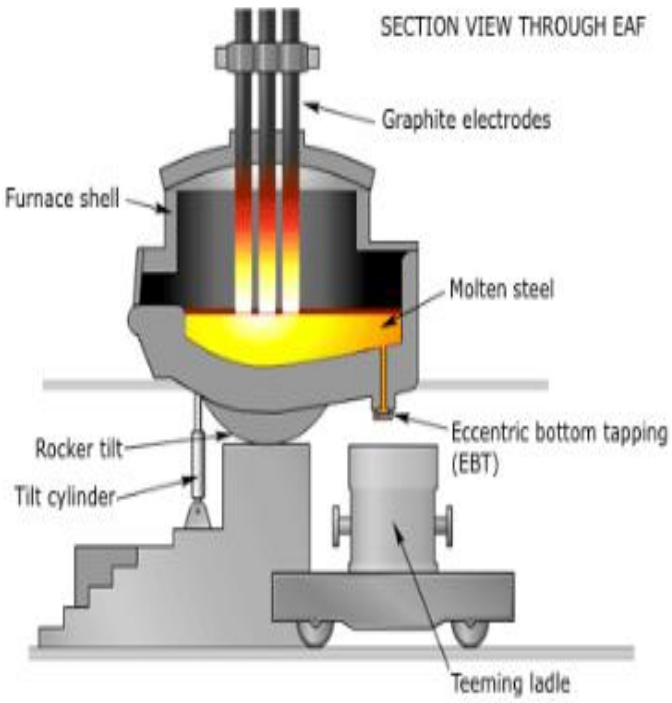


Exhibit 13: Downstream application of Graphite electrodes



Source: KRChoksey Research

Graphite electrodes are used in the production of steel through the Electric Arc Furnace Route (EAF). Over 2011-2015, China witnessed significant steel output resulting into subdued production growth in US/EU/India. Consequently, graphite electrodes endured benign demand scenario as China manufactures only ~6% of the total steel output through EAF route as compared to US/EU/India manufacturing ~65%/40%/60% of their steel through EAF route. Going ahead, with China cutting down on its steel production capacity in-order to tackle pollution; it would result into better production growth prospects for US/EU/India. Thereupon, it would lead to better demand scenario for graphite electrodes and coal tar pitch as well. Coal Tar Pitch constitutes for 17-18% of cost of production of graphite on value terms. Further, for every 1 metric tonne of Graphite ; 440 kgs of Coal Tar Pitch is utilized on volume front.

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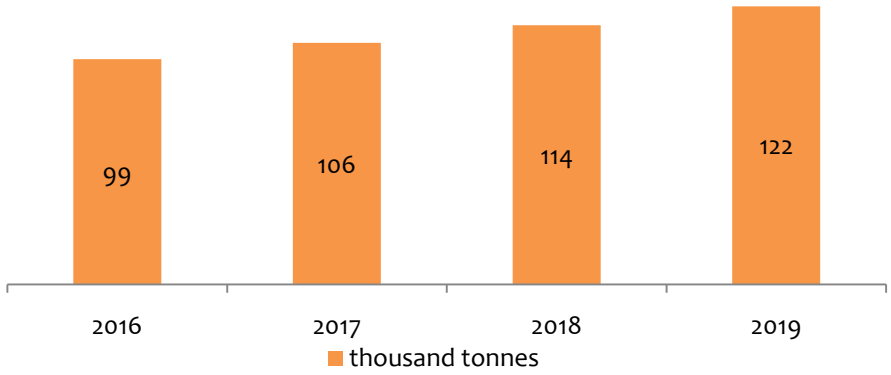
Going ahead, steel production in India is expected to grow at a healthy pace on account of surge in investments in infrastructure and railway sector. Consequently, industry estimates suggest that graphite electrode demand in India will grow at 7.3% CAGR over 2016-2019.

Exhibit 14: Graphite electrode demand in India



Source: Company Data, KRChoksey Research

Himadri's Presence in Aluminium and Graphite Industry

HSCL is the largest producer of coal tar pitch in India with a distillation capacity of 4,00,000 MTPA. Himadri manufactures various grades of coal tar pitch through its state of art technologies that finds its applications in Aluminium and Graphite Industries which in turn is used in automobiles, televisions, radio components, beverage cans, wires, cables and so on. In India, the Company enjoys a market share of 70% in coal tar pitch catering to the top manufacturers of aluminium and graphite electrodes. HSCL is the only organized player in India with pitch manufacturing capacity of approximately 20000 tonnes/month.

It also supplies as high as 95% of coal tar pitch requirements of certain smelters and is among the few global manufacturers to produce zero QI (Quinolene Insoluble). Out of the total coal tar pitch manufactured by the Company, approximately 85% of it caters to the demand in aluminium industry whereas the rest 15% is supplied to the graphite industry. Himadri also manufactures specialised coal tar pitch which is used in long war head missiles used by DRDO. Further, the entry barriers are high for imports as liquid coal tar pitch needs to be handled and shipped at 250 degree Celsius and requires special fleets. Himadri owns a fleet size of 148 vehicles to transport the liquid coal tar pitch.

Exhibit 15: Himadri's Customer Base for Coal Tar Pitch Segment

Source: Company Data, KRChoksey Research

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During 2014-15, India experienced a lot of dumping of napthalene from China thus witnessing a steep fall in prices from ~80,000/tonne to ~40,000/tonne affecting HSCL's realization/tonne

Napthalene Industry

Napthalene, one of the by-products released through distillation of coal tar pitch acts as a value added product for the Company. Around 8-10% of napthalene is released during the process. Napthalene is widely used as chemical intermediate in production of pthalic anhydride, napthalene balls and super plasticizer among others. HSCL has forward integrated into manufacturing of various grades of refined napthalene catering customer's niche requirements in dyestuff & dyes intermediates and refined quality moth balls for pharmaceutical applications.

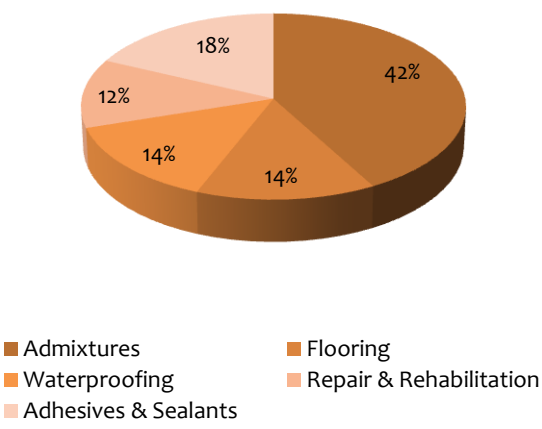
Sulphonated Napthalene Formaldehyde (SNF) and Poly Carboxylate Ether (PCE) Industry

SNF & PCE are specialty construction chemicals that helps improve concrete mixes increasing its strength and durability. The size of India's construction chemical market stood at USD 573.2 million in 2014. India's construction chemical sector is largely driven by admixtures which accounts for largest segment with a 42% share, followed by flooring (14%), waterproofing (14%), repairs & Rehabilitation (12%) and adhesives and sealants (18%).

HSCL is the largest manufacturer of SNF & PCE in India with an installed capacity of 68,000 TPA. The end user industry include construction chemical industry, agrochemicals, latex and gypsum. However, penetration of SNF admixture is less than 10% against 50% in developed economies. During FY17, SNF segment contributing nearly 4-5% of the total turnover of the Company. Additionally, HSCL manufactures 5 variants of PCE based admixtures under the Brand **Himflowcrete.**

The Government of India has mandated the use of SNF admixture in highly intensive constructions like bridges and so on. Going forward, with demand for high quality and high strength constructions growing, we expect the penetration of SNF & PCE to pick up in construction chemicals.

Exhibit 16: Indian Construction Chemicals Market Share as of 2014



Source: FICCI, KRChoksey Research

Particulars	Opportunities	Challenges
Napthalene Industry	• India's napthalene market is expected to witness 18% CAGR over FY14-19 due to its increasing use in construction industry, textile exports and production of SNF.	• Owing to profuse dumping of napthalene from producing countries mainly China, the domestic markets is suffering serious worries in terms of prices hampering competition.
SNF & PCE Industry	• Historically, Indian construction chemicals market has shown a 5 year CAGR of 17% over 2008-13. • We believe Government's push towards infrastructure, affordable housing will further boost the growth of construction chemicals industry. • The Government of India has mandated the use of SNF admixture in highly intensive constructions.	• The lack of consumer awareness about the quality of construction chemicals for durable structures poses a challenge for the SNF and PCE industry. • Raw materials for PCE – based admixtures are not easily available in India.
Himadri	• HSCL is India's largest manufacturer of SNF with an installed capacity of 68,000 MTPA and one of the very few producers of PCE in India. • SNF, high quality products that improve the concrete mix. HSCL has the benefit of in-house raw material with huge potential to clock the growth in the ensuing years. • PCE – based admixtures, cost effective product is gaining popularity in the recent days.	• Currently, the penetration of SNF in the Indian markets is below 10% as against 50% in developed economies. • Along with napthalene, SNF also suffers from heavy dumping; another area of concern for the Company.

Source: Company Data, KRChoksey Research

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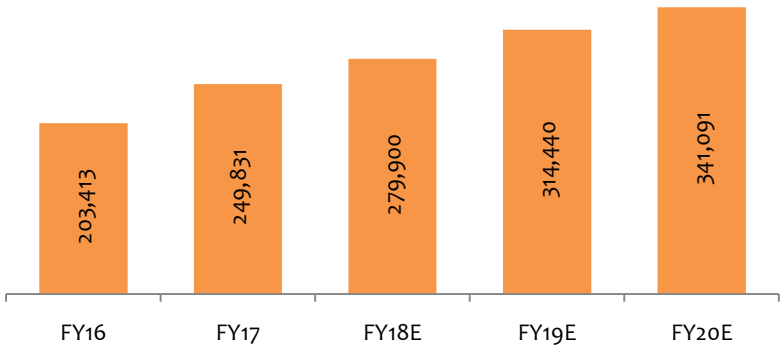
Over FY10-FY17, coal tar distillation capacity for the Company grew from 1,05,450 MTPA to 4,00,000 MTPA at 7.6% CAGR. Going ahead, in order to meet the rising demand; the Company laid out a minimal capex of INR 200 mn towards debottlenecking. Consequently, the company's coal tar distillation capacity is expected to increase to 5,00,000 MTPA by FY18 from 4,00,000 MTPA in FY17. Over FY17-FY20E, we expect the aluminium industry to grow at 10.4% while the graphite electrode industry is estimated to grow at 7.3%. Consequently, we reckon that the coal tar pitch volumes on composite basis (including napthalene, refined napthalene & SNF) for the Company will grow at 11% over the same period from 2,49,831 MTPA to 3,41,091 MTPA.

Going forward, we reckon that the coal tar pitch volumes on composite basis for the Company will grow at 11% over FY17-20E from 2,49,831 MTPA to 3,41,091 MTPA supported by tremendous growth potential from aluminium and graphite electrodes industry combined with increasing customer awareness for SNF and PCE based products.

Exhibit 17: Composite Coal Tar Pitch Volumes



Source: Company Data, KRChoksey Research

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Carbon Black Industry

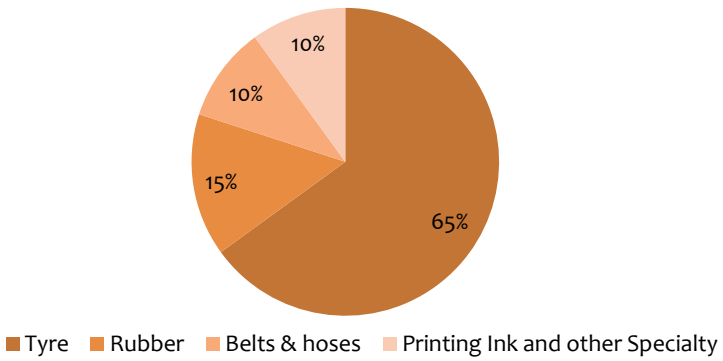
Indian Industry Overview

Carbon Black (CB) is a black, pure form of elemental carbon manufactured through incomplete combustion or thermal decomposition of hydrocarbons. It is manufactured by using carbon black feed stock (CBFS) which is a crude oil derivative or by Coal Tar oil which is derived from distillation of coal tar. Global demand for CB stood at ~12 MTPA while Indian demand stood at ~ 1 MTPA during FY16 accounting for a small portion of the global demand. CB is one of the critical raw materials that finds applications in an array of products – tyres being the leading consumer, followed by rubber, plastics, inks, coatings, belts, hoses and so on. Due to its inherent ability to conduct heat away from tread and belt area and reducing thermal damage, CB has emerged as one of the important industrial chemicals that finds widespread applications.

Over the years, Chinese players had a competitive advantage due to lower raw material prices. To manufacture CB, Chinese players used coal tar oil which has a higher yield as compared to CBFS used by Indian players. However, with decrease in crude oil prices, environmental issues in China, increase of duty on imported CB and improving macro economic factors; Indian CB industry stands at competitive advantage. Additionally, signs of revival of auto industry, especially from 2 wheeler segments and PVs coupled with bright prospects in industrial segment bodes well for CB industry leading to increased demand. CB industry is dominated by 5 players with Phillip Carbon having the highest market share followed by SKI India (Birla Carbon), HSCL, CCIL and Ralson Carbon.

Tyres generates the maximum demand for carbon black as CB accounts for 23% of the total manufacturing costs of tyres. This is followed by rubber/belts & hoses/printing ink and other specialty applications generating 15%/10%/10% of CB demand.

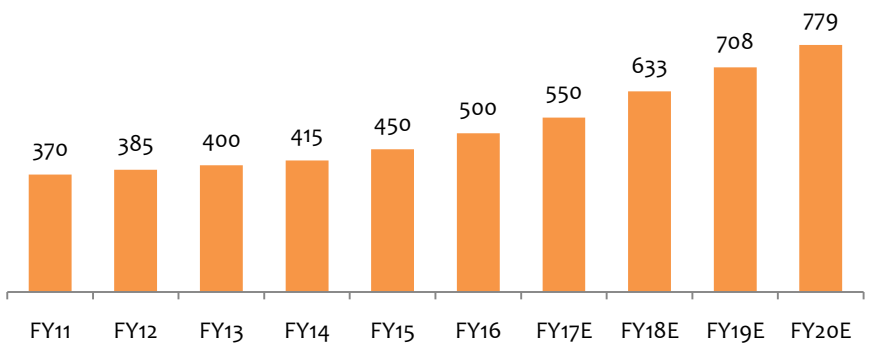
Exhibit 18: Industry utilization of Carbon Black



Source: Company Data, KRChoksey Research

Historically, Indian tyre industry has witnessed a 5 year CAGR of ~6% over FY11-FY16. Currently, the size of Indian tyre industry stands at INR 500 bn. Going forward, as per industry estimates, the outlook for the said industry is estimated to grow at a CAGR of 11.7% over FY16-FY20 from INR 500 bn to INR 779 bn.

Exhibit 19: Indian Tyre Industry (INR Billions)



Source: Company Data, KRChoksey Research

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Himadri's presence in carbon black industry:

HSCL is the third largest producer of carbon black in India with a capacity of 1,20,000 MTPA enjoying a healthy 17% market share in the said industry as of FY17. In India, tyre Industry accounts for nearly 65% of the demand of Carbon Black followed by rubber (15%), belts & hoses (10%) and printing ink, and other speciality chemicals (10%). Whereas, in case of HSCL, 60% of the total carbon black manufactured is catering to non tyre industries like rubber, paints, belts, hoses, inks and plastics while 40% to tyre industry. On account of this, the Company enjoys a mammoth market share of 65% for specific sectors like MRG, profiles within the non-tyre CB industry. The Company manufactures carbon black through coal tar oils as compared to CBFS used by its peers. Consequently, carbon black manufactured by the Company is much cleaner due to lesser sulphur content in its feedstock (0.2% sulphur content for HSCL vis-à-vis 2-3% sulphur content for other domestic CB manufacturers) and higher product acceptability in specialized segment. Increased share of revenues from non-tyre segment has led to higher realizations for the Company thereby improving the margins under CB segment.

Until 2012, the Company used to supply carbon black oil to other carbon black manufacturers. However, post 2012, Himadri forward integrated to convert carbon black oil into manufacturing carbon black and gained a healthy 17% market share in overall CB industry while 65% market share for specific sectors within non-tyre CB industry over a period of 5 years on account of its superior quality product. Himadri stands at an advantage from availability of superior quality in-house raw material thereby reducing its input costs. HSCL has leveraged R&D capabilities to develop a range of Specialty CB products that finds niche applications in moulded rubber goods, plastic master-batches, fibre, wire & cable, engineering plastics, films inks, coatings and so on. During FY17, HSCL introduced four grades of specialty CB that caters to non-tyre segments demanding higher realization per metric tonne. The company's clientele includes players like MRF, Apollo Tyres, CEAT, GoodYear, Birla Tyres, CooperStandard, Huber Group, Blend colors, Clariant, ALP and so on.

Exhibit 20: Industry CB utilization split vis-a-vis HSCL's CB utilization split

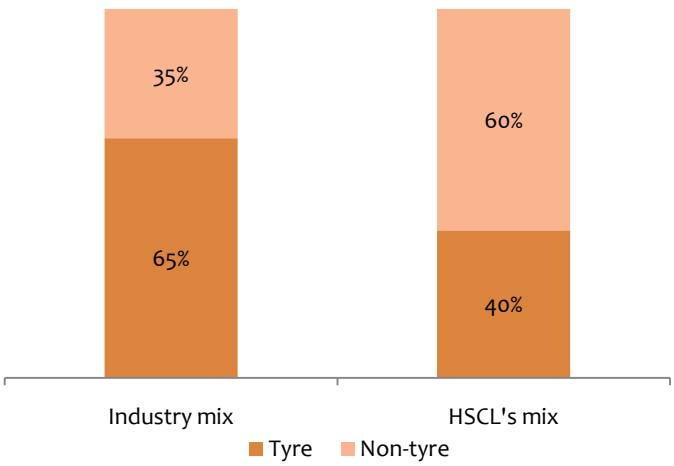
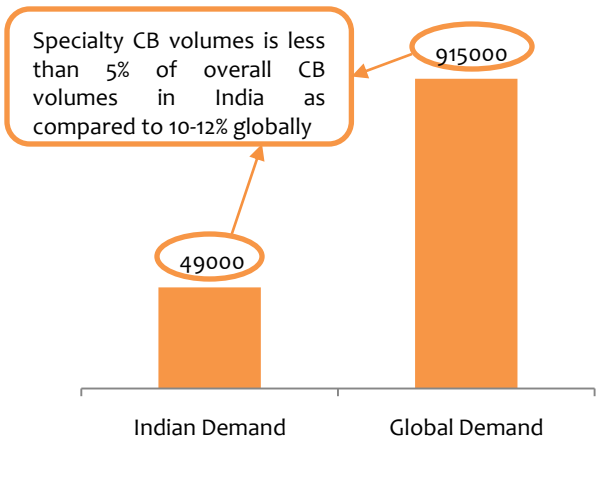


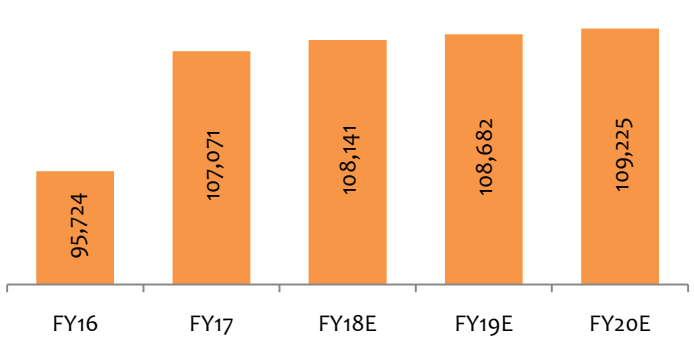
Exhibit 21: Specialty Carbon Black Market Size (in MTPA)



Source: Company Data, KRChoksey Research

Going forward, we expect Carbon black volumes to witness a flattish trend reaching to 1,09,225 MTPA by FY20 from 1,07,071 MTPA in FY17. Further, HSCL stands at an competitive edge over its peers on account of superior quality product that demand high realization per tonne from specialty CB segment. Consequently, we estimate CB revenues to grow at 10.7% CAGR over FY17-20E.

Exhibit 22: Carbon Black Sales Volumes (in MTPA)



Source: Company Data, KRChoksey Research

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2) Advance Carbon Material; a game changer :

Advanced Carbon Material (ACM) is a high quality carbon which enjoys downstream application in production of anode material of Lithium ion batteries. Himadri is one of the very few manufacturers of ACM globally, competing with few players in Japan and China and is the only player in India. On account of vertically integrated manufacturing facility, the Company has expanded and developed manufacturing of ACM from coal tar.

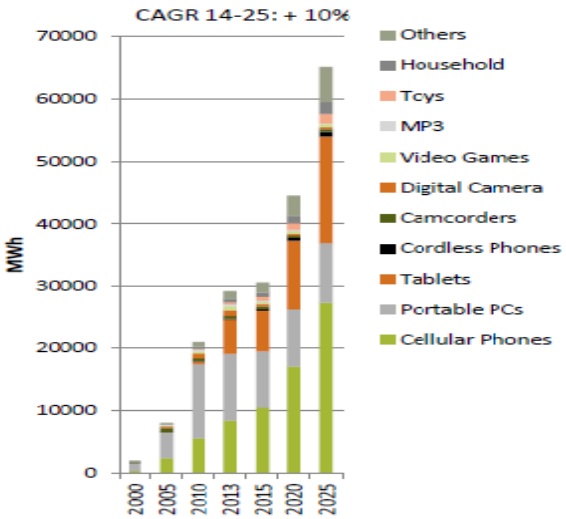
Industry Overview

Lithium ion batteries are rechargeable batteries commonly found in portable electronics with high energy density, tiny memory effect and low self discharge. The demand for these batteries are expected to witness a significant growth owing to its increasing use in smartphones, laptops, tablets, electric vehicles and so on. Recently, Lithium ion batteries are gaining popularity in electric vehicles and hybrid vehicles as automobile manufacturers are shifting their focus on lighter weight and environmental friendly vehicles coupled with economical advantage. The demand is currently led by three user industries – 1) electronics (laptops, smartphones and cameras), 2) electric vehicles and 3) energy storage solutions. In terms of material segmentation, the lithium ion battery market comprises of 1) cathode, 2) anode, 3) electrolyte and 4) others. The lithium ion battery market is poised to grow at 20% CAGR over FY17-FY20E on account of rising demand for Li+ batteries in electronic sector, electric vehicles and energy sector across countries including China, US, Japan and other developed economies.

Exhibit 23: Applications of lithium-ion battery

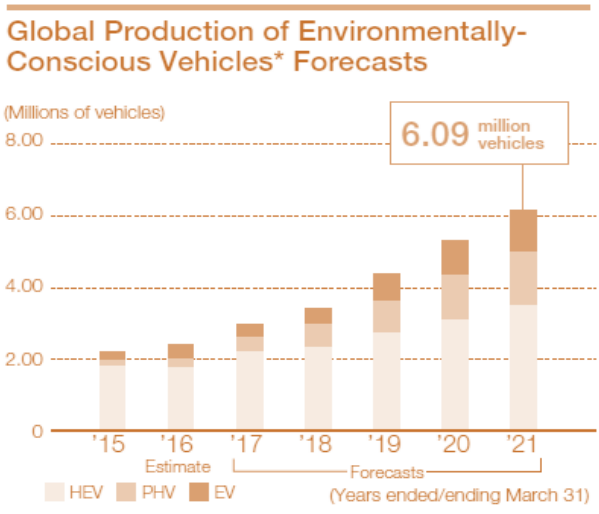
Source: Company Data, KRChoksey Research

Exhibit 24: Electronics to witness decent growth



Source: Industry Estimates, KRChoksey Research

Exhibit 25: Significant turnaround in electric vehicles



Source: Industry Estimates, KRChoksey Research

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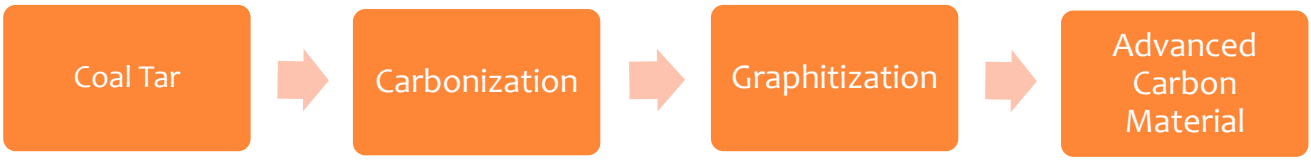
Himadri's Presence in Lithium ion batteries:

With its unique advantage of having in house raw material and best in class propriety technology, Himadri offers high quality customer centric products emerging as the only manufacturer of anode material for lithium ion batteries in India. Production of anode material involves processing of coal tar into advanced carbon material by carbonization, classification and graphitization. Currently, the Company has a capacity of 60 MTPA through continuous processing. During Q1FY18, the Company fully sold 5 tons per month of intermediate carbon material (upto carbonization) contributing by only a miniscule portion to the company's turnover. Going ahead, due to the shift from batch processing to continuous processing, the capacity of ACM is expected to increase from 60 MTPA to 600 MTPA post H2FY18. As per Management's guidance, HSCL has already set it's footprint in the market by supplying intermediate carbon material creating a presence among lithium ion battery manufacturers. Currently, it is at nascent stage of developing the finished product which has the potential to realize ~INR 7 lakhs per tonne. We believe the Company will be able to achieve the same by FY19E post ramp up of capacity.

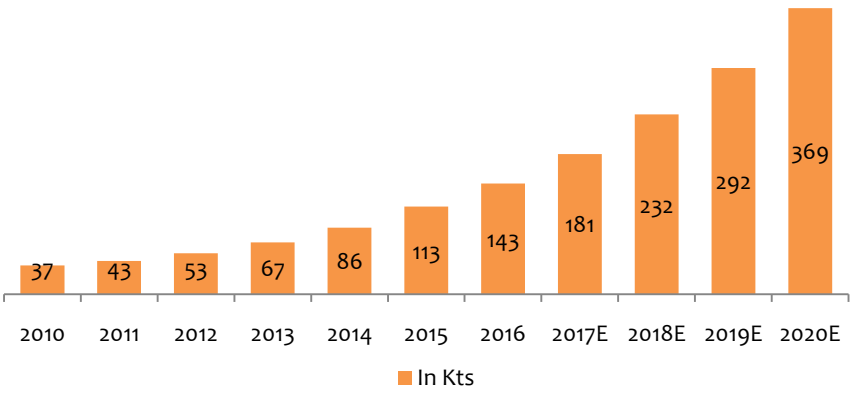
Exhibit 26: Advanced Carbon Manufacturing Process



The Company would enjoy high gross margins on manufacturing of ACM on account of vertically integrated manufacturing facility. Further, power is the second major component that is required for developing ACM impacting its quality. For this, HSCL is well equipped with two power plants of 12 MW and 8 MW located at MahiStikry. The plants run on gas produced during processing of Carbon Black and give out green and clean power that is consumed for captive purpose by the Company while the excess is sold to the State Grid. With this, we believe, HSCL has two major benefits in terms of costs 1) reduced energy costs and 2) availability of raw material to help develop next generation carbon materials.

Exhibit 27: Global Shipments of Lithium ion Battery Anode Material

The anode material industry is expected to grow from 37KT in 2010 to 369 KT in 2020E translating into a CAGR of 26% providing HSCL huge headroom for growth.



Source: Company Data, KRChoksey Research

Going forward, we expect a change in the company's revenue mix on account of higher contribution from ACM vertical – a game changer for the Company. Owing to the immense potential for lithium ion batteries, it is estimated that the demand for anode material should advance at a CAGR of 26% over FY10-FY20E. Subsequently, we expect HSCL's volumes for Advanced Carbon Material to augment from 300 MTPA in FY17 to ~ 6,700 MTPA in FY20E backed by further ramp up of capacity for ACM vertical.

Consequently, we expect the company's total volumes to surge at 8.6% from 3,56,902 MPTA to 4,57,084 MPTA over FY17-FY20 on account of a.) bright prospects of aluminium and graphite electrode industry, b.) pick-up in tyre industry coupled with turnaround in industrial sector, c.) robust demand scenario in construction sector and d.) ramp-up in capacity by the Company in ACM segment. Likewise, we expect revenues to grow from INR 13,430 mn to INR 21,084 mn at 16.22% CAGR over FY17-FY20E.

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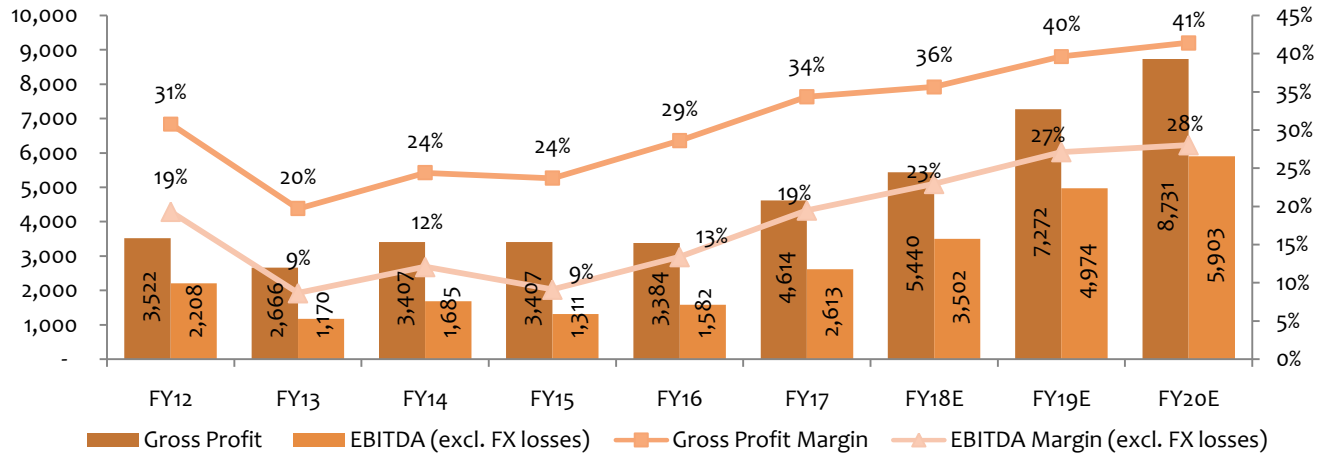
3) Expansion in margins led by entry into thriving segments

Since inception, HSCL was pre-dominantly involved in manufacturing of Coal Tar Pitch. Over the years, the Company has leveraged its carbon competence to accelerate its growth into eight diversified and profitable businesses. However, HSCL observed a steep fall in gross profit margins over FY12-13 from 31% to 20% on account of significant depreciation of Indian rupee; increasing the costs of imported raw material (which the Company couldn't pass on). Subsequently, EBITDA/tonne observed a drop from INR ~8900/tonne in FY12 to INR ~4400/tonne in FY13 while the EBITDA margins for the Company declined from 19% to 9% over the same period. Post that, the Company changed its raw material procurement mix as well as revenue mix with EBITDA/tonne reaching INR 7322/tonne thereby leading to steady growth in gross margins from 20% to 34% and EBITDA margins from 9% to 19% over FY13-FY17. Entry into thriving segments like Specialized CB and ACM led to an improvement in the realizations and operating margins.

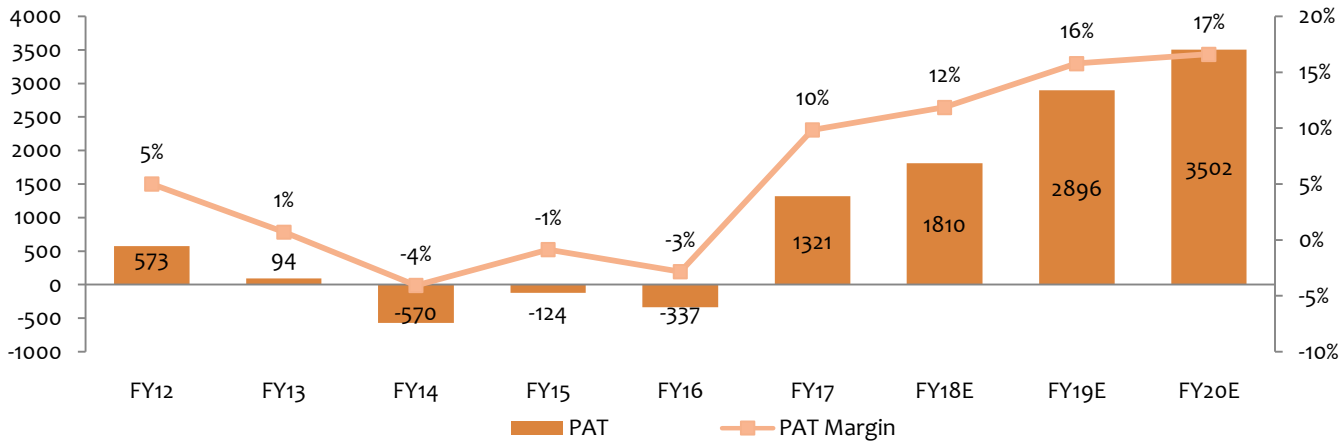
Likewise, the company's PAT margins endured a free fall from 5% to negative 3% over FY12-FY16 on account of compression in EBITDA margins and foreign exchange loss (un-hedged foreign debt being 95% of total debt) to the tune of INR 5000 mn over the same period. However, out of the total debt currently, the Company possesses only 30% hedged foreign debt while the remaining being domestic.

Exhibit 28: Surge in Operating Margins on account of improvement in realizations



Source: Company Data, KRChoksey Research

Exhibit 29: Enhancement in PAT margins due to elimination of Forex losses



Source: Company Data, KRChoksey Research

Post recovery from major setbacks, going forward, we believe the Company's revenue mix will shift with its undivided focus on margin lucrative segments like specialized CB and ACM while revenue contribution from coal tar pitch segment still being the highest (i.e. more than 50%). Consequently, we estimate EBITDA for the company to grow at 31.22% CAGR to INR 5903 mn in FY20 from INR 2613 mn in FY17 and the EBITDA Margins to swell by 738.76 bps to 28% in FY20E from 19.46% in FY17. Additionally, we believe PAT should augment from INR 1321 mn in FY17 to INR 3502 mn by FY20E on account of elimination of foreign exchange losses and decrease in overall debt levels.

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Himadri Speciality Chemical Ltd

4) Surge in return ratios; financial deleveraging to continue :

Over FY12-FY17, HSCL has reduced its total debt from INR 10,602 mn to INR 7,452 mn with total debt/equity ratio declining from 1.19x to 0.72x. Despite recording losses, the Company was able to reduce its long term debt over FY14-FY17 primarily on account of healthy operating profits and strong free cash flows. With this, HSCL's interest coverage ratio expanded from 1.0x in FY14 to 2.9x in FY17. Going forward, we factor in a capex of INR 5500 mn over FY18E-FY20E towards expansion of its existing coal tar distillation capacity and ramp up of ACM manufacturing facilities. We believe that the Company will generate free cash flow to the tune of INR 3263 mn over FY18E-FY20E which will be deployed towards reduction of debt. Consequently, we estimate the total debt to further reduce to INR 5,752 mn by FY20E from its current level of INR 7,452 mn in FY17. Subsequently, we expect the total debt/equity ratio to fall to 0.3x and interest coverage ratio to further enhance to 10.7x over the same period.

Exhibit 30: Robust FCF to improve Total Debt/Equity Ratio

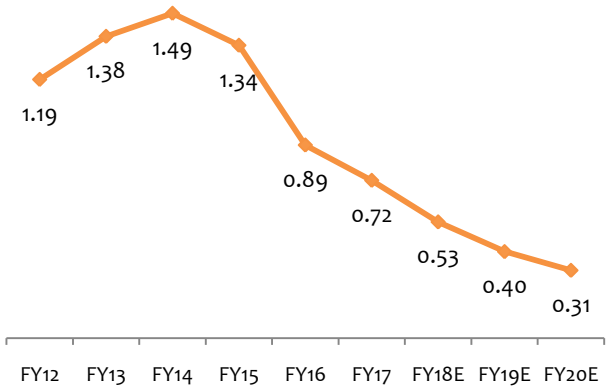
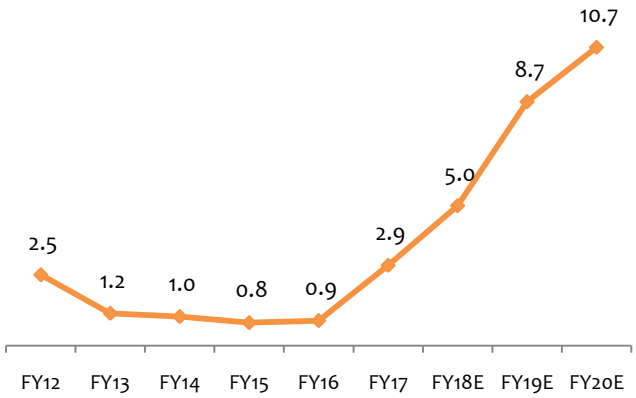


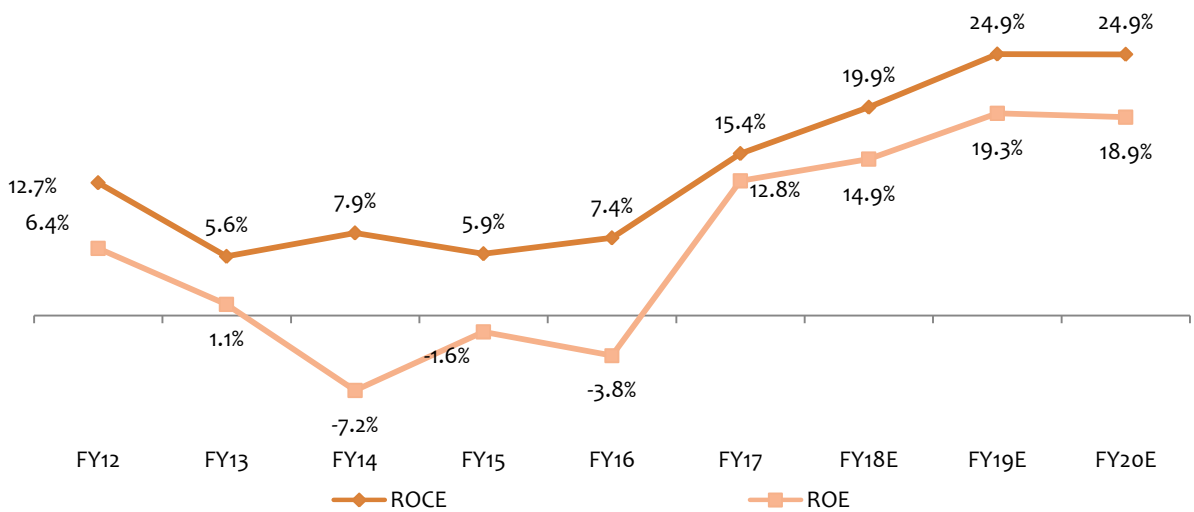
Exhibit 31: Enhancement in Interest Coverage Ratio



Source: Company Data, KRChoksey Research

Further, the return ratios also witnessed a sharp drop over the years with ROCE falling to 7.4% and ROE to (3.8%) in FY16 from 12.7% and 6.4% in FY12 respectively. However, with the turnaround in business during FY17, the return ratios of the Company augmented with ROCE increasing to 15.4% and ROE surging to 12.8%. Going forward, we expect a further swell in the ratios on account of a.) higher share of revenues from CB and ACM and b.) reduction in debt. Likewise, we estimate ROCE to stand at 24.9% and ROE at 18.9% by FY20E owing to 1) increased demand from end user segments thereby giving boost for Company products, 2) entry into high realization segments like specialised carbon black and ACM thereby enhancing margins and 3) free cash flow to be deployed towards reduction in debt leading to financial deleveraging.

Exhibit 32: Return Ratios to bounce back on account of financial deleveraging



Source: Company Data, KRChoksey Research

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Himadri Speciality Chemical Ltd

Key Risks:

1. **Raw material Availability:** Coal Tar is obtained from steel manufacturing plants as a by-product while processing coking coal into low ash metallurgical coke in a recovery coke oven plant. During FY11-15, the steel industry witnessed subdued growth on account of excess steel production in China coupled with slowdown in domestic macro – economic environment keeping the availability of Coal Tar tight in the domestic market. As a result, unavailability of the same would impact the business operations crushing the margins of the Company.

2. **Slowdown in economic growth:** Any slowdown is the macro-economic growth of the country will lead to the slowdown in the end user segments i.e. aluminium industry, graphite industry, infrastructure industry, Auto industry, tyre & non-tyre industry and Lithium ion battery market on account of slack in domestic consumption. Consequently, this would in turn hamper the demand for Company's product leading to lower utilizations and impacting the financials of the Company.

3. **Foreign Currency Fluctuations:** Over FY14-16, the Company had witnessed foreign currency fluctuations disturbing the profitability of the Company. However, the Company has strategically reduced its forex exposure to 31% of the total borrowing from 91% over the same period and now is completely hedges against all forex exposures. Nevertheless, we believe unfavorable foreign currency movements would still pose a threat to the Company leading notional MTM losses and thereby impacting the profitability of the Company.

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Himadri Speciality Chemical Ltd

Q1FY18 Result update

Particulars (INR Mn)	Q1FY18	Q4FY17	Q1FY17	Q-o-Q	Y-o-Y
Total Sales	**5026.7**	**4152.8**	**2823.4**	**21.04%**	**78.04%**
Total Expenditure					
Cost of Raw Materials	3082.7	2454.3	1868.4	25.60%	64.99%
Changes in inventory, FGs, WIPs	125.3	69.9	-256.40	79.26%	-
Excise Duty	503.5	396.8	272.8	26.89%	84.57%
Employee Benefit Expenses	98.4	95.7	81.1	2.82%	21.33%
Other expenses	213	411.8	345.3	-48.28%	-38.31%
PBIDT (Excl OI)	**1003.8**	**724.3**	**512.2**	**38.59%**	**95.98%**
EBITDA Margins (%)	*19.97%*	*17.44%*	*18.14%*	*252.81 bps*	*182.81 bps*
Depreciation	79.8	77.3	77.8	3.23%	2.57%
Other Income	11.8	19.7	19.8	-40.10%	-40.40%
EBIT before Exceptional Item	**935.8**	**666.7**	**454.2**	**40.36%**	**106.03%**
Foreign Exchange Fluctuation	5.5	71.9	41.8	-92.35%	-86.84%
Exceptional Items	0.00	0.00	0.00	0.00	0.00
EBIT after Exceptional Item	**930.3**	**594.8**	**412.4**	**56.41%**	**125.58%**
Interest	185.9	138.3	235.5	34.42%	-21.06%
EBT	**744.4**	**456.5**	**176.9**	**63.07%**	**320.80%**
Tax	245	152.5	60.6	60.66%	304.29%
PAT	**499.4**	**304**	**116.3**	**64.28%**	**329.41%**
PAT Margin (%)	*9.93%*	*7.32%*	*4.12%*	*261.46 bps*	*581.58 bps*
EPS	**1.2**	**0.73**	**0.28**	64.38%	328.57%

Source: Company Data, KRChoksey Research

Key takeaways from Conference call:

- The Company witnessed an exceptional quarter recording top line growth of 78.04% YoY supported by increased volumes (up by 25.3% YoY) coupled with enhanced realization/tonne from Coal tar pitch segments as well as CB segment.
- EBITDA for the quarter was up by 95.98% YoY touching INR 1003.8 mn in Q1FY18 as against INR 512.2 mn in Q1FY17 while the PAT augmented by 329.41% from INR 116.3 mn in Q1FY17 to INR 499.4 mn in Q1FY18. Likewise, the EBITDA and PAT margins surged by 182.81 bps and 581.58 bps respectively over the same period. This was primarily on account of better product mix with higher share of margin lucrative products and elimination of forex debt.
- Further, on account of improved operational efficiencies and higher capacity utilizations, the Company's EBITDA/tonne on composite basis elaborated from INR~6200/tonne in Q1FY17 to INR ~10,500/tonne in Q1FY18.
- The Company plans to increase its Coal Tar Pitch Distillation capacity by 25% from 400,000 MTPA to 500,000 MTPA with a minimal capex of INR 200 mn to be expensed towards debottlenecking which is expected to be completed by FY18. Further, on ACM segment, the Company envisions to sell 50 tonnes/month of intermediate ACM from 5 tonnes/month from H2FY18 onwards, on account of shift from batch processing to continuous processing together with growing demand for Li+ batteries.
- The current long term debt stands at INR 3100 mn with working capital loan of INR 4950 mn taking its total debt to INR 8050 mn and net debt to INR 7870 mn.
- The management believes that with the demand for aluminium picking up on account of ramp up of capacity from 2.75 MnTPA to 4 MnTPA by FY19E, the company's core business (CTP segment) is expected to grow in line with the aluminium industry. Additionally, the outlook for CB segment as well as ACM segment remains strong and robust with growing emphasis on eco-friendly environment driving the demand for electric vehicles and energy storage solutions.

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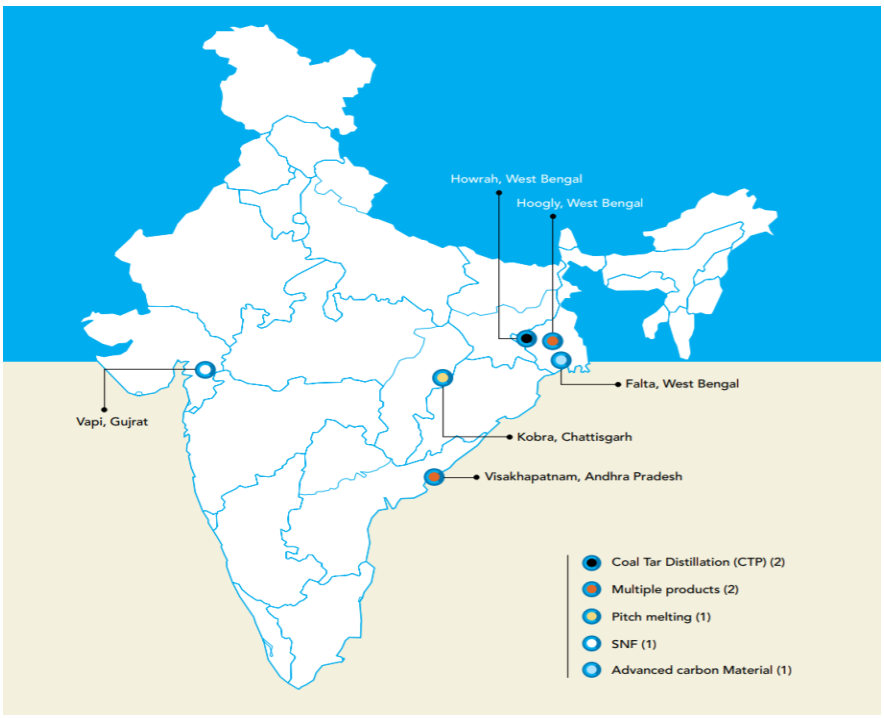
Himadri Speciality Chemical Ltd

Company Background

Himadri Speciality Chemicals Limited, a Kolkata based Company was incorporated in 1987 as a coal Tar pitch manufacturer. In 2017, the Company has emerged as the largest vertically integrated manufacturing Company in the carbon space with eight manufacturing facilities. The Company plants are strategically located its plants in the state of West Bengal (2 CTP distillations plants, 2 multiple products plants and 1 facility for production of ACM), in Chhattisgarh and in Odisha (1 pitch melting facility each), in Andhra Pradesh (1 Multiple product plant) and one in Gujarat for producing SNF . Over the years, the Company has forward integrated to include new innovative products in its product mix ranging from manufacturing of different grades of coal tar pitch to carbon black and advanced and specialty carbon material. Himadri addresses demand from various sectors like aluminium, graphite, infrastructure, tyre and non tyre sectors, rubber applications and lithium ion batteries.

All facilities are Zero-Discharge facilities ensuring no wastage and re-use of all products offered by the Company.

CTP needs to be mitigated at 250 degree Celsius. For this, HSCL has in place 148 specialized tankers to deliver the same to its customers.



Source: Company Data, KRChoksey Research

Management Team:

Name	Designation	Executive / Non-Executive
Shyam Sundar Choudhary	Executive Director	Executive
Bankey Lal Choudhary	Managing Director	Executive
Vijay Kumar Choudhary	Executive Director	Executive
S K Banerjee	Independent Director	Non-Executive
H S Mann	Independent Director	Non-Executive
Rita Bhattacharya	Nominee (LIC)	Non-Executive
Santimoy Dey	Independent Director	Non-Executive
Hanuman Mal Choraria	Independent Director	Non-Executive
Krishnava Dutt	Independent Director	Non-Executive
B L Sharma	Company Secretary	NA

Source: Company Data, KRChoksey Research

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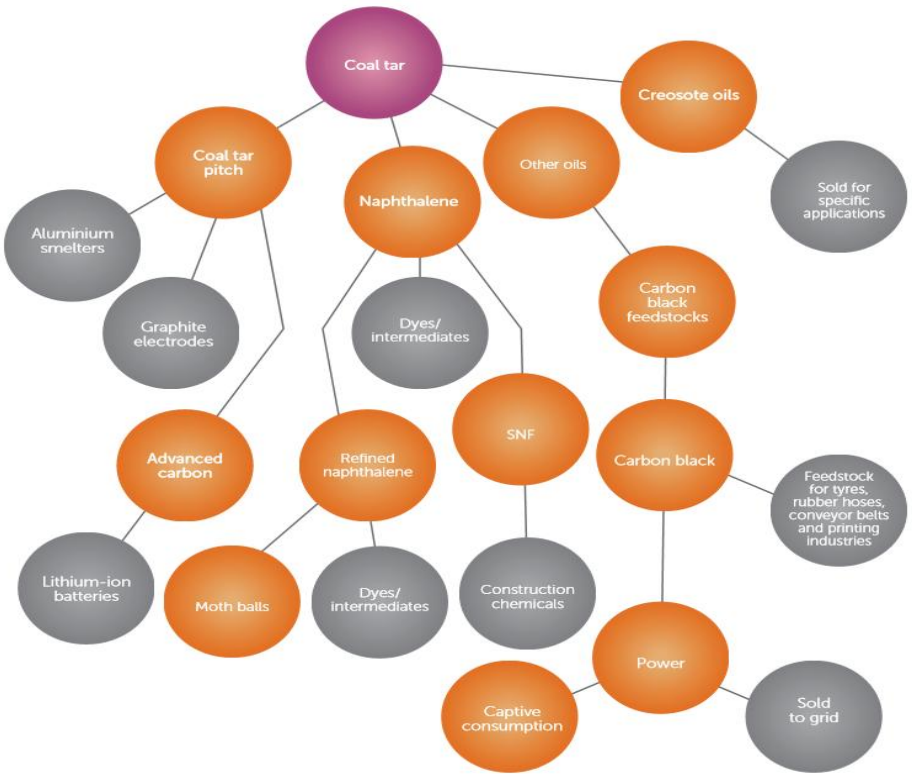
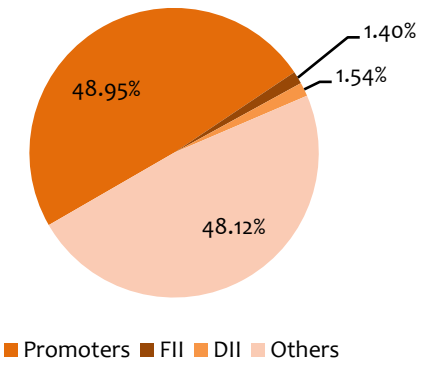
Exhibit 33: HSCL product value chain centered around one raw material – Coal Tar



Source: Company Data, KRChoksey Research

Exhibit 34: Share Holding Pattern:



Source: Company Data, KRChoksey Research

Top Fund Holding:

Top Fund Holding (As on July 2017)	Market Value (INR Mn)	No of Shares
Principal PNB Mutual Fund	163.75	1893000
SBI Mutual Fund	198.95	2300000
Sundaram Mutual Fund	162.71	1881059

Source: Company Data, KRChoksey Research

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Himadri Speciality Chemical Ltd

Exhibit 35: Key Financials

Balance Sheet (INR Mn)	FY15	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS						
Share Capital	386	418	418	418	418	418
Reserves	7499	8369	9883	11689	14581	18078
Minority Interest	3	-1	-4	-4	-4	-4
Total Shareholders Funds	**7888**	**8786**	**10297**	**12104**	**14995**	**18493**
Long Term Borrowings	5321	3660	3870	3097	2678	2588
Net Deferred Tax liability	522	476	897	897	897	897
Other long term liabilities	698	597	91	91	91	91
Long term provisions	8	10	18	20	24	28
Current Liabilities and Provisions						
Short term borrowings	5263	4119	3582	3355	3274	3164
Trade Payables	1085	1153	1783	2020	2380	2733
Other Current Liabilities	1627	1814	1363	1548	1861	2137
Total Current Liabilities	**7983**	**7092**	**6730**	6925	7517	8037
Total Liabilities	**22421**	**20622**	**21904**	**23134**	**26203**	**30134**
APPLICATION OF FUNDS :						
Net Block	12283	11799	11738	11603	12736	16288
Capital Work in Progress	141	314	130	130	130	130
Non-current investments	20	317	866	866	866	866
Deferred tax assets	1132	180	188	188	188	188
Long term loans and advances	84	962	1178	1178	1178	1178
Current Assets, Loans & Advances						
Current Investments	210	210	4	4	4	4
Inventories	3675	3196	3959	4174	4918	5648
Sundry Debtors	3213	2039	2212	2594	3118	3581
Cash and Bank	413	466	367	930	1298	219
Short term Loans and Advances	1223	110	135	167	201	231
Other Current assets	27	1029	1127	1297	1559	1791
Total Current Assets	**8761**	**7050**	**7804**	**9166**	**11098**	**11474**
Total Assets	**22421**	**20622**	**21904**	**23134**	**26203**	**30134**

Source: Company Data, KRChoksey Research

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Himadri Speciality Chemical Ltd

Income Statement (INR Mn)	FY15	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues	**14380**	**11834**	**13430**	15269	18358	21084
Cost Of Revenues (incl Stock Adj)	10973	8450	8816	9829	11581	13301
Gross Profit	**3407**	**3384**	**4614**	**5440**	**7272**	**8731**
Employee Cost	326	320	373	410	462	508
Other Operating Expenses	1770	1482	1628	1527	1836	2319
EBITDA	**1311**	**1582**	**2613**	3502	4974	5904
Other Income	131	89	58	60	60	60
EBITDA, including OI	**1441**	**1671**	**2672**	**3562**	**5034**	**5964**
Depreciation	592	671	328	336	366	448
Net Interest Exp.	1026	1111	816	645	536	518
Forex (gain)/ loss	68	124	281	0	0	0
EBT	**-245**	**-235**	**1247**	**2582**	**4132**	**4998**
Taxes	-120	-49	419	771	1236	1496
Tax Rate (%)	49.2%	20.8%	33.6%	29.9%	29.9%	29.9%
Other Comprehensive Income	-	(151.50)	493.20	-	-	-
Net Income	**-124**	**-337**	**1321**	**1811**	**2896**	**3502**
Diluted EPS (INR)	-0.3	-0.8	3.2	4.3	6.9	8.4

Source: Company Data, KRChoksey Research

Cash Flow Statement (INR Mn)	FY15	FY16	FY17	FY18E	FY19E	FY20E
PBT & Extraordinary	**(245)**	**(210)**	**1247**	2582	4132	4998
Depreciation	592	670	328	336	366	448
(Inc) / Dec in Working Capital	733	1298	(1400)	(375)	(887)	(821)
Taxes	25	(4)	(1)	(774)	(1240)	(1499)
Others	41	196	691	645	536	518
Cash from Ops.	**2125**	**2963**	**1680**	**2413**	**2907**	**3643**
Purchase of Fixed Assets	(281)	(151)	(267)	(200)	(1500)	(4000)
Others	27	31	184	0	0	0
Cash from Investing	**1279**	**(47)**	**(632)**	**(200)**	**(1500)**	**(4000)**
Proceeds from issue of shares	0	0	0	0	0	0
Borrowings (Net)	(2616)	(1940)	(327)	(1000)	(500)	(200)
Others	(865)	(855)	(816)	(645)	(536)	(518)
Cash from Financing	**(3481)**	**(2795)**	**(1147)**	**(1649)**	**(1040)**	**(722)**
Net Change in Cash	(77)	121	(99)	563	367	(1079)
Effects of foreign currency translation	0	0	0	0	0	0
BF Cash	248	174	466	367	930	1298
END Cash	**174**	**466**	**367**	930	1298	219

Source: Company Data, KRChoksey Research

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Himadri Speciality Chemical Ltd

Key Ratios	FY15	FY16	FY17	FY18E	FY19E	FY20E
Profitability						
Return on Assets (%)	0.4	-2.3	-0.6	7.8	11.1	11.6
Return on Capital (%)	5.6	7.9	5.9	19.9	25.0	25.0
Return on Equity (%)	1.1	-7.2	-1.6	15.0	19.3	18.9
Margin Trend						
Gross Margin (%)	19.7	24.4	23.7	35.6	39.6	41.4
EBITDA Margin (%)	8.6	12.1	9.1	22.9	27.1	28.0
Net Margin (%)	0.7	-4.1	-0.9	11.9	15.8	16.6
Liquidity						
Current Ratio	1.4	1.2	1.1	1.3	1.5	1.4
Quick Ratio	0.8	0.8	0.6	0.7	0.8	0.7
Debtor Days	66	92	82	62	62	62
Inventory Days	138	134	122	155	155	155
Creditor Days	16	36	36	75	75	75
Working Capital Days	214	169	158	139	139	139
Solvency						
Total Debt / Equity	1.4	1.5	1.3	0.5	0.4	0.3
Interest Coverage	1.2	1.0	0.8	5.0	8.7	10.7
Valuation Ratios						
P/E	50.7	(14.0)	(46.5)	29.8	18.6	15.4
P/B	0.5	1.0	0.7	4.5	3.6	3.2
EV/EBITDA	12.18	8.78	9.70	17.0	11.8	10.1

Source: Company Data, KRChoksey Research

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Analyst Certification

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