

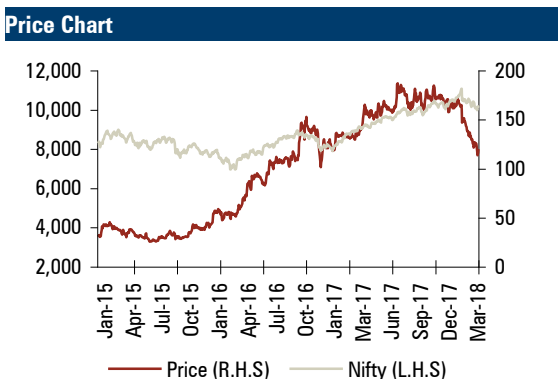
Rating matrix	
Rating	: Buy
Target	: ₹ 150
Target Period	: 12-18 months
Potential Upside	: 27%

What's changed?	
Target	Changed from ₹ 225 to ₹ 150
EPS FY18E	Changed from ₹ 10.1 to ₹ 9.2
EPS FY19E	Changed from ₹ 12.1 to ₹ 10.4
EPS FY20E	Changed from ₹ 13.1 to ₹ 11.5
Rating	Unchanged

Key financials (Consolidated)				
₹ crore	FY17	FY18E	FY19E	FY20E
Net Sales	1236	1171	1296	1391
EBITDA	226	204	223	243
Net Profit	129	113	127	142
EPS (₹/share)	11.8	9.2	10.4	11.5

Valuation summary				
	FY17	FY18E	FY19E	FY20E
P/E	10.0	12.8	11.4	10.2
Target P/E	12.7	16.3	14.5	13.0
EV / EBITDA	7.0	6.9	6.6	5.7
P/BV	3.6	2.1	1.9	1.7
RoNW	34.9	17.4	16.5	16.1
RoCE	38.5	21.7	21.5	22.0
ROIC	38.4	31.2	26.3	25.5

Stock data	
Stock Data	₹ crore
Market Capitalization	1447
Total Debt (FY17)	149.0
Cash and Cash Equivalent (FY17)	17.0
Enterprise Value	1578.7
52 week H/L	194 / 112
Equity Capital	24.5
Face Value	₹ 2
MF Holding (%)	6.2
FII Holding (%)	7.9



Research Analyst

Chirag J Shah
shah.chirag@icicisecurities.com

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

Bodal Chemicals (BODCHE)

₹ 118

Growth to rebound from FY19E onwards...

- Bodal is the largest integrated manufacturer of dyestuff and dye-intermediates in India. It has undertaken multiple expansions in its core business and diversified areas with subsequent ramp expected to fuel next leg of growth in FY19E-20E
- As of 9MFY18, its core business of dyestuff and dye intermediates continued to witness satisfactory growth in volume terms
- However, partial resumption of Chinese capacity in FY18E led to softening of product realisations (down 10% YoY) thereby resulting in marginal decline in topline in FY18E (absolute basis)
- Bodal has successfully commissioned its 12,000 tonne dyestuff facility along with a 5 megawatt (MW) power plant slightly ahead of schedule. This augurs well for the company as it will provide incremental sales at a more stable margin profile over FY19E-20E

Slow execution in diversification projects

In the past, Bodal has announced and executed certain diversification projects that are witnessing business specific headwinds and expected to ramp up at a gradual pace in FY18-20E. In the LABSA segment, the company is yet to stabilise amid demand headwinds and raw material supply issue. The management expects to clock a turnover of ~ ₹ 50 crore in this segment by FY20E. In the liquid dyestuff segment, the ramp up is slow amid a long contract cycle of paper mills and stiff competition in the marketplace. Margins in this segment are robust. The management expects a slow ramp up in this domain. In Trion Chemicals (associate company), the company has temporarily shut down operations due to unprecedented increase in price of raw material (chlorine, caustic soda). It hopes to restart operations from Q1FY19. In the SPS domain (subsidiary), vinyl sulphone (VAS) capacity of 4200 tonne is due to be commissioned in FY19E with incremental sales and profit, going forward.

China story; more structural in nature; sustainable moat!

An environmental clampdown in China due to excessive production and non-adherence to pollution control norms had led to supply disruptions & shortage of essential industrial chemicals. This is an opportunity playing out in the Indian chemical space and looks more structural in nature thereby developing as a sustainable moat, going forward. Moreover, major chemical sourcing companies are looking at India as an alternate credible supplier & intend to widen the procurement base thereby acting as a shot in the arm for domestic chemical players, including Bodal.

Healthy balance sheet; robust return ratios; growth visibility; retain BUY

Bodal successfully raised ₹ 225 crore by way of a QIP issue in October, 2017 to fund an impressive capex plan. Given the healthy product demand and conducive environment post GST for organised players, we expect it to clock sales, EBITDA & PAT CAGR of 9.0%, 9.2% & 12.0%, respectively, in FY18-20E. On the balance sheet front, post the QIP issue, Bodal has a cash surplus of ~₹ 50 crore with corresponding gross debt: equity at 0.2x as of FY18E. The company has a capital efficient business model wherein it realises ~2.2x asset turnover and records ~15%+ EBITDA margins amid controlled working capital cycle (~75 days) thereby resulting in core return ratios in excess of 20%. It also generates healthy cash flows, with present CFO yield of ~10%. We value the company at ₹ 150 i.e. 13.0x P/E on FY20E EPS of ₹ 11.5/share. We have a **BUY** rating on the stock. We also derive comfort from an increase in core promoter stake, environmentally compliant chemical manufacturing facilities and strong customer profile like BASF in the dyestuff space.

Financial summary (Consolidated)

Profit and loss statement		₹ Crore			
(Year-end March)	FY17	FY18E	FY19E	FY20E	
Total Operating Income	1236.3	1171.3	1295.6	1390.6	
Growth (%)	35.9	-5.3	10.6	7.3	
Raw Material Expenses	797.3	740.2	824.3	885.2	
Employee Expenses	42.9	44.8	48.8	52.5	
Other Operating Expense	170.3	182.7	199.4	210.1	
Total Operating Expenditure	1,010.5	967.8	1,072.5	1,147.8	
EBITDA	225.8	203.5	223.1	242.8	
Growth (%)	50.6	-9.9	9.6	8.8	
Depreciation	28.9	29.3	34.2	36.3	
Interest	8.7	6.3	7.8	6.0	
Other Income	6.8	12.5	12.4	13.6	
PBT	195.0	180.4	193.6	214.0	
Exceptional Item	-4.9	7.0	0.0	0.0	
Total Tax	71.3	59.0	65.8	72.8	
PAT	128.6	114.4	127.8	141.3	
Minority Interest	0.0	-1.0	2.0	3.8	
Profit from associates	0.0	-2.7	1.3	4.1	
PAT att to Bodal	128.6	112.7	127.1	141.6	
Growth (%)	48.5	-12.4	12.7	11.4	
EPS (₹)	11.8	9.2	10.4	11.5	

Source: Company, ICICIdirect.com Research

Balance sheet		₹ Crore			
(Year-end March)	FY17	FY18E	FY19E	FY20E	
Liabilities					
Equity Capital	21.8	24.5	24.5	24.5	
Reserve and Surplus	337.4	649.5	747.2	852.0	
Total Shareholders funds	359.2	674.0	771.7	876.5	
Total Debt	149.0	167.9	142.9	97.9	
Deferred Tax Liability	19.0	19.0	19.0	19.0	
Minority Interest / Others	1.8	0.8	2.8	6.6	
Total Liabilities	528.9	861.7	936.3	999.9	
Assets					
Gross Block	490.0	529.2	714.2	814.2	
Less: Acc Depreciation	268.5	298.1	332.3	368.6	
Net Block	221.5	231.0	381.8	445.5	
Capital WIP	9.2	100.0	100.0	25.0	
Total Fixed Assets	230.7	331.0	481.8	470.5	
Investments	12.5	199.8	111.2	160.3	
Inventory	130.8	144.4	159.7	171.4	
Debtors	230.6	240.7	266.2	285.7	
Loans and Advances	71.7	76.1	58.3	62.6	
Other Current Assets	3.6	3.5	3.9	4.2	
Cash	17.0	20.7	24.4	25.3	
Total Current Assets	453.6	485.4	512.5	549.3	
Current Liabilities	165.7	152.7	167.1	177.8	
Provisions	2.9	2.9	3.2	3.4	
Current Liabilities & Prov	168.6	155.6	170.2	181.2	
Net Current Assets	285.1	329.8	342.3	368.1	
Others Assets	1.0	1.0	1.0	1.0	
Application of Funds	528.9	861.7	936.3	999.9	

Source: Company, ICICIdirect.com Research

Cash flow statement		₹ Crore			
(Year-end March)	FY17	FY18E	FY19E	FY20E	
Profit after Tax	128.6	112.7	127.1	141.6	
Add: Depreciation	28.9	29.3	34.2	36.3	
(Inc)/dec in Current Assets	-124.6	-28.1	-23.4	-35.8	
Inc/(dec) in CL and Provisions	51.5	-12.9	14.6	10.9	
Others	8.7	6.3	7.8	6.0	
CF from operating activities	93.2	107.4	160.3	159.0	
(Inc)/dec in Investments	-10.9	-187.3	88.7	-49.1	
(Inc)/dec in Fixed Assets	-68.0	-130.0	-185.0	-25.0	
Others	4.4	-1.0	2.0	3.8	
CF from investing activities	-74.5	-318.3	-94.3	-70.3	
Issue/(Buy back) of Equity	0.0	2.7	0.0	0.0	
Inc/(dec) in loan funds	6.1	18.9	-25.0	-45.0	
Interest & Dividend paid	-19.0	-28.4	-37.2	-42.8	
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0	
Others	6.3	221.5	0.0	0.0	
CF from financing activities	-6.6	214.6	-62.2	-87.8	
Net Cash flow	12.1	3.7	3.7	0.9	
Opening Cash	4.8	17.0	20.7	24.4	
Closing Cash	17.0	20.7	24.4	25.3	

Source: Company, ICICIdirect.com Research

Key ratios					
(Year-end March)	FY17	FY18E	FY19E	FY20E	
Per share data (₹)					
EPS	11.8	9.2	10.4	11.5	
Cash EPS	14.4	11.6	13.2	14.5	
BV	32.9	55.0	62.9	71.5	
DPS	0.9	1.8	2.4	3.0	
Cash Per Share (Incl Invst)	2.7	18.0	11.1	15.1	
Operating Ratios (%)					
EBITDA Margin	18.3	17.4	17.2	17.5	
PAT Margin	10.4	9.8	9.9	10.2	
Inventory days	39.0	45.0	45.0	45.0	
Debtor days	68.8	75.0	75.0	75.0	
Creditor days	46.4	45.0	45.0	45.0	
Return Ratios (%)					
RoE	34.9	17.4	16.5	16.1	
RoCE	38.5	21.7	21.5	22.0	
RoIC	38.4	31.2	26.3	25.5	
Valuation Ratios (x)					
P/E	10.0	12.8	11.4	10.2	
EV / EBITDA	7.0	6.9	6.6	5.7	
EV / Net Sales	1.3	1.2	1.1	1.0	
Market Cap / Sales	1.2	1.2	1.1	1.0	
Price to Book Value	3.6	2.1	1.9	1.7	
Solvency Ratios					
Debt/EBITDA	0.7	0.8	0.6	0.4	
Debt / Equity	0.4	0.2	0.2	0.1	
Current Ratio	2.8	3.2	3.0	3.0	
Quick Ratio	1.9	2.2	2.0	2.0	

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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

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

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

Hold: Up to +/-10%;

Sell: -10% or more;



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICIdirect.com Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

ANALYST CERTIFICATION

We /I, Chirag Shah PGDBM; Shashank Kanodia CFA MBA (Capital Markets), Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with Sebi Registration Number – INH000000990. ICICI Securities is a wholly-owned subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

It is confirmed that Chirag Shah PGDBM; Shashank Kanodia CFA MBA (Capital Markets) Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

It is confirmed that Chirag Shah PGDBM; Shashank Kanodia CFA MBA (Capital Markets), Research Analysts do not serve as an officer, director or employee of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.