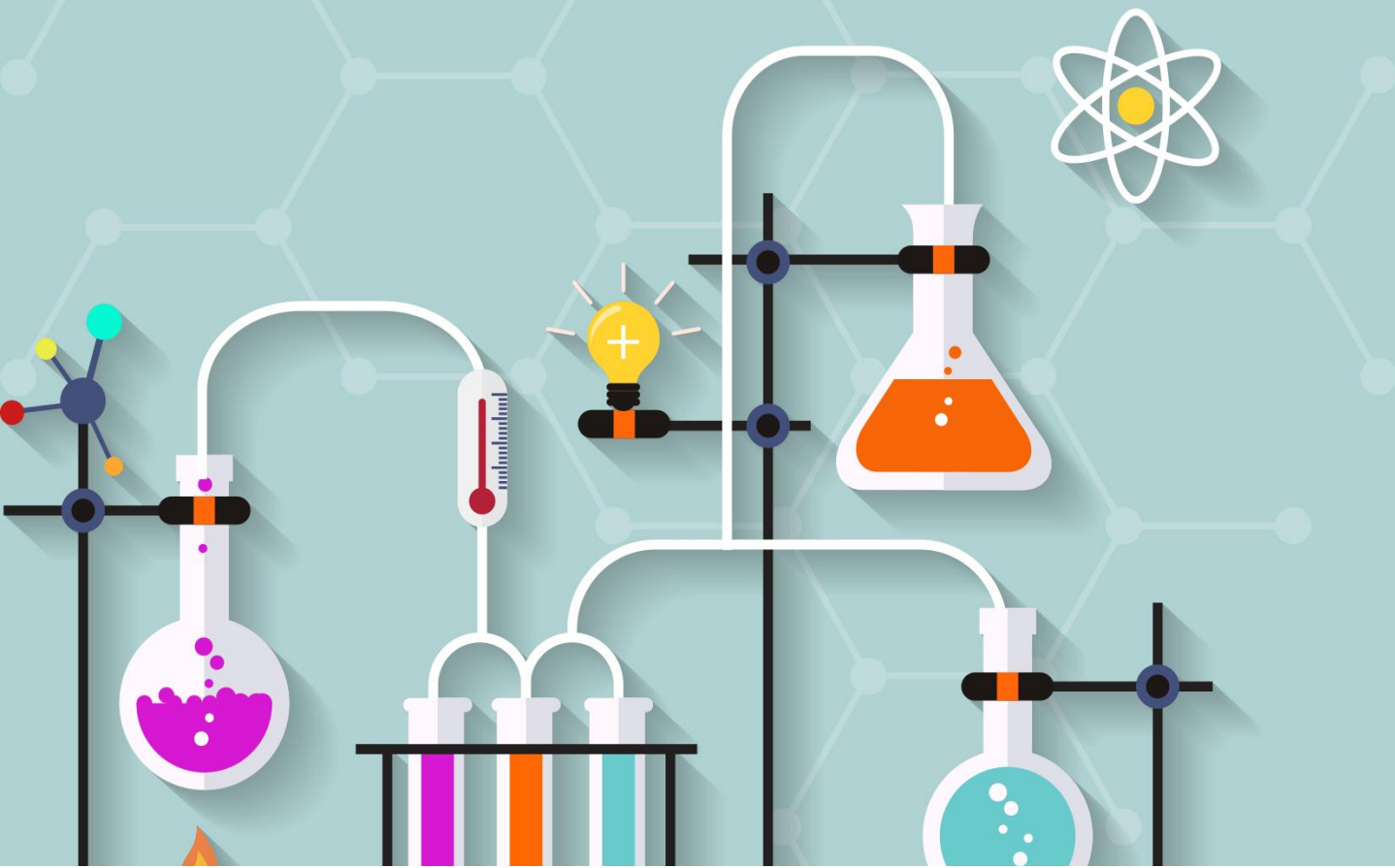


Himadri Specialty Chemical Ltd.



Himadri Speciality Chemical Ltd.

Value creation on the go!

CMP INR 137	Target INR 165	Potential Upside 20%	Market Cap (INR mn) 58,180	Recommendation BUY	Sector Specialty Chemicals
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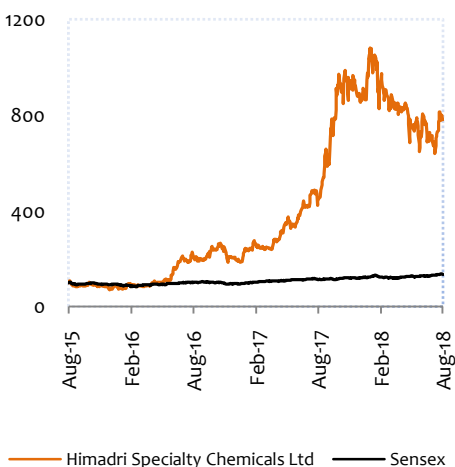
Result highlights:

- The Company reported net sales at INR 6047 mn as against our estimates of INR 5733 mn; which grew by 34% YoY and 10% QoQ. Better realizations under Specialty Carbon Black (SCB) segment and Coal Tar Pitch (CTP) segments combined with healthy volumes aided the top line growth for the company.
- EBITDA (excl. FX losses) stood at INR 1408 mn (+40% YoY; 11% QoQ). EBITDA/ton surged to INR 14,190/ton (+33% YoY; +9% QoQ). OPM came in at 23% in line with our estimates of 22.4% on the back of lower other expenses.
- PAT stood at INR 767 mn as against our estimates INR 748 mn (+53% YoY; +8% QoQ) with NPM at 12.7% mainly due to sustained finance costs.

MARKET DATA

Shares outs (mn)	418
EquityCap (INR mn)	418
Mkt Cap (INR mn)	58180
52 Wk H/L (INR)	197/72
Volume Avg (3m K)	759.1
Face Value (INR)	1
Bloomberg Code	HSCH IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	37852
NIFTY	11435

Exhibit 1: Key Financials

Particulars (INR Mn)	FY16	FY17	FY18	FY19E	FY20E
Net Revenues	11,834	13,430	20,215	22,340	26,518
EBITDA	1,582	2,613	4,524	5,029	6,204
PAT	-189	824	2476	2838	3630
EBITDA Margin (%)	13.4%	19.5%	22.4%	22.5%	23.4%
PAT Margin (%)	-1.6%	6.1%	12.2%	12.7%	13.7%
EPS	-0.8	2.0	5.9	6.8	8.7
P/E (x)	N.A.	22.2	23.3	20.3	15.9
EV/EBITDA (x)	8.8	9.7	14.0	12.6	10.2

Source: Company, KRChoksey Research

Top line led by sturdy realizations:

During the quarter, the company witnessed volume growth of 5% YoY and 2% QoQ to 99,200 Metric Tonnes Per Annum (MTPA). Revenue for Q1FY19 registered a growth of 34% YoY; 10% QoQ at INR 6047 mn marginally above our estimates of INR 5733 mn. The same was led by superior realizations (SCB and CTP segments) which improved by 28% YoY and 8% QoQ at INR 60,961 on blended basis.

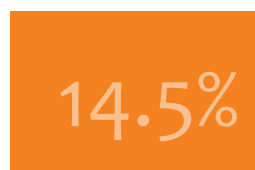
Going ahead, de-bottlenecking of CTP capacity along with ongoing capacity addition plans in SCB and Advanced Carbon Material (ACM) segment is expected to support the growing market demand from end user industries (aluminium industry, graphite industry, tyre & non-tyre industry and Lithium ion batteries). This, combined with management's constant focus on value maximization, we estimate volumes/revenue for the company to advance at 8%/15% CAGR over FY18-FY20E.

Burgeoned EBITDA/ton backed by favourable product mix:

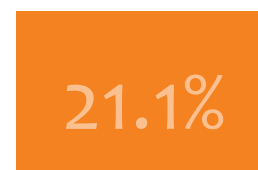
EBITDA (excl. FX losses) for Q1FY19 came in at INR 1408 mn (+40% YoY; 11% QoQ). OPM stood at 23.3% as against 23% in Q4FY18 and 22.3% in Q1FY18 mainly due to lower other expenses. OPM was largely in line with our estimates of 22.4%. We believe that the company was able to enhance their operational performance on account of increased focus on carbon value chain that entail margin lucrative products. Consequently, EBITDA/ton (excl. FX losses) burgeoned to INR 14,190/ton vis-a-vis INR 10,640/ton same quarter last year (+33%) and INR 12971/ton (+9.4%) on sequential basis. Further, bottom line stood at INR 767 mn (+53% YoY; 8% QoQ) in line with our estimates of INR 748 mn. While NPM came in at 12.7% (+162 bps YoY) on the back of sustained finance costs.

SHARE HOLDING PATTERN (%)

Particulars	Jun 18	Mar 18	Dec 17
Promoters	48.95	48.95	48.95
FIIIs	2.36	0	2.18
DIIIs	0.38	0.62	0.57
Others	48.31	50.43	48.3
Total	100	100	100



Revenue CAGR over FY18 and FY20E



PAT CAGR over FY18 and FY20E

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Himadri Speciality Chemical Ltd.

Valuation & Outlook:

Going ahead, we estimate revenue/EBITDA/PAT CAGR of 15%/17%/21% on account of 1) favorable macro outlook for end user industries; 2) on going capacity expansion plans; 3) change in product mix with continuous focus on value added products that command higher realizations; 4) operational efficiencies; and 5) steady return ratios (average ROCE/ROE of 21%/17% over FY18-FY20E). Further, we expect the company's average net debt/equity to remain stable over FY18-FY20E at 0.34x despite factoring in a total capex of INR 6000 mn over the same period.

The Company trades at an EV/EBITDA of 14x. We value the company at an EV/EBITDA of 12x (implied P/E of 19x) thereby arriving at a target price of INR 165/share resulting in an upside of 20% from CMP of INR 137. We have "BUY" rating on the stock.

Exhibit 2: Result Snapshot

Particulars	Q1FY19	Q4FY18	Q1FY18	Q-o-Q change %	Y-o-Y change %
Total Sales (Net)	6,047	5,508	4,523	10%	34%
Total Expenditure	4,640	4,243	3,515	9%	32%
Cost of Raw Materials	4,072	3,620	3,208	12%	27%
Employee Benefit Expenses	136	138	98	-1%	39%
Other expenses	431	486	209	-11%	107%
PBIDT (Excl OI)	1,408	1,265	1,008	11%	40%
EBITDA Margins (%)	23.3%	23.0%	22.3%	31.3 bps	98.5bps
Depreciation	79	77	79	%	0%
Other Income	27	27	12	1%	131%
EBIT before Exceptional Item	1,356	1,215	941	12%	44%
Foreign Exchange Fluctuation	50	21	10	138%	400%
Expectional Items	-	-	-	0%	0%
EBIT after Exceptional Item	1,306	1,194	931	9%	40%
Interest	187	189	186	-1%	1%
EBT	1,119	1,004	745	11%	50%
Tax	352	292	245	21%	44%
PAT	767	713	500	8%	53%
PAT Margin (%)	12.7%	12.9%	11.1%	(26.0) bps	161.6 bps
EPS	1.8	1.7	1.2	8%	53%

Source: Company, KRChoksey Research

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Exhibit 3: Income Statement

Particulars (INR mn)	FY16	FY17	FY18	FY19E	FY20E
Net Revenues	11834	13430	20215	22340	26518
Cost of Goods Sold	8450	8816	13653	14982	17542
Gross Profit	3384	4614	6563	7358	8976
Employee Cost	320	373	484	542	650
Other Operating Expenses	1482	1628	1555	1787	2121
EBITDA	1582	2613	4524	5113	6694
Other Income	89	58	55	61	72
Depreciation	671	328	332	410	473
EBIT	1001	2344	4247	4679	5803
Net Interest Exp.	1111	816	705	626	617
Foreign Exchange Fluctuation Loss	124	281	-68	0	0
EBT	-235	1247	3610	4054	5186
Taxes	-45	422	1134	1216	1556
Tax Rate	19.3%	33.9%	31.4%	30.0%	30.0%
Net Income	-189	824	2476	2838	3630
EPS (INR)	-0.8	2.0	5.9	6.8	8.7

Source: Company, KRChoksey Research

Exhibit 4: Balance Sheet

Particulars (INR mn)	FY16	FY17	FY18	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital	418	418	418	418	418
Reserves	8369	9883	13728	16514	20085
Total Shareholders Funds	8786	10297	14144	16930	20501
Long Term Borrowings	3660	3870	2312	2312	2254
Net Deferred Tax liability	476	897	2517	2517	2517
Other long term liabilities	597	91	61	61	61
Long term provisions	10	18	26	28	33
Current Liabilities and Provisions					
Short term borrowings	4119	3582	3642	3642	3551
Trade Payables	1153	1783	1462	1601	1922
Other Current Liabilities	1814	1363	1541	1703	2021
Short Term Provisions	7	2	4	4	5
Total Current Liabilities	7092	6730	6649	6950	7499
Total Liabilities	20622	21904	25709	28798	32865
APPLICATION OF FUNDS :					
Net Block	11799	11738	11778	14368	16894
Capital Work in Progress	314	130	224	224	224
Non-current investments	317	866	2732	2732	2732
Deferred tax assets	0	826	1595	1595	1595
Long term loans and advances	180	187	167	167	167
Other Non Current Assets	962	352	612	612	612
Current Assets, Loans & Advances					
Current Investments	210	4	0	0	0
Inventories	3196	3959	4201	4515	5287
Sundry Debtors	2039	2212	2718	2999	3487
Cash and Bank	466	367	342	106	227
Loans and Advances	110	135	32	35	41
Other Current assets	1029	1127	1308	1445	1598
Total Current Assets	7050	7804	8600	9100	10641
Total Assets	20622	21904	25709	28798	32865

Source: Company, KRChoksey Research

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Himadri Speciality Chemical Ltd.

Exhibit 5: Cash flow statement

Particulars (INR mn)	FY16	FY17	FY18	FY19E	FY20E
PBT & Extraordinary	(210)	1247	3610	4054	5186
Depreciation	670	328	332	410	473
(Inc) / Dec in Working Capital	1298	(255)	(1342)	(432)	(774)
Taxes	(4)	(234)	(792)	(1216)	(1556)
Others	196	193	704	626	617
Cash from Ops.	2963	2054	2567	3440	3945
Purchase of Fixed Assets	(151)	(47)	(628)	(3000)	(3000)
Others	31	22	16	0	0
Cash from Investing	(47)	175	(503)	(3000)	(3000)
Borrowings (Net)	(1940)	(1181)	(1209)	0	(150)
Others	(855)	(1061)	(698)	(676)	(675)
Cash from Financing	(2795)	(2332)	(1999)	(676)	(825)
Net Change in Cash	121	(103)	64	(236)	120
BF Cash	174	297	121	342	106
END Cash	297	367	342	106	227

Source: Company, KRChoksey Research

Exhibit 6: Ratio Analysis

Particulars	FY16	FY17	FY18	FY19E	FY20E
Growth (%)					
Total Sales	-18%	13%	51%	11%	19%
EBITDA	21%	65%	73%	11%	23%
APAT	171%	-345%	199%	15%	28%
Profitability (%)					
EBITDA Margin	13%	19%	22%	23%	23%
Adj. Net Profit Margin	-2%	6%	12%	13%	14%
ROCE	6%	13%	21%	20%	22%
ROE	N.A.	8%	18%	17%	18%
Per Share Data (Rs.)					
AEPS	-0.5	2.0	5.9	6.8	8.7
BVPS	21	25	34	40	49
Valuations (x)					
PE(x)	N.A.	22.2	23.3	20.4	15.9
P/BV (x)	0.8	1.8	4.1	3.4	2.8
EV/EBITDA	8.8	9.7	14.0	12.6	10.2
Turnover days					
Debtor Days	63	60	49	49	48
Inventory Days	138	164	112	110	110
Payable Days	50	74	39	39	40
Gearing Ratio					
D/E	0.9	0.7	0.4	0.4	0.3

Source: Company, KRChoksey Research

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Himadri Speciality Chemical Ltd.

Himadri Speciality Chemical Ltd.				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
16-Aug-18	137	165	BUY	Buy	More than 15%
30-Jan-18	178	230	BUY	Accumulate	5% – 15%
07-Nov-17	159	175	Accumulate	Hold	0 – 5%
26-Sep-17	128	184	BUY	Reduce	-5% – 0
				Sell	Less than – 5%

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