

Hope hinges on commissioning of new projects...

Himadri Speciality Chemical (HSCL) reported a steady Q4FY19 performance. The positive surprise was smart control in net working capital cycle with consequent reduction in absolute debt to the tune of ~₹ 200 crore in FY19. Total carbon sales volume for the quarter came in at 88800 tonne. Total revenues in Q4FY19 came in at ₹ 583.4 crore, up 6% YoY. EBITDA in Q4FY19 came in at ₹ 123.3 crore with corresponding EBITDA margins at 21.1%, down 150 bps QoQ. PAT in Q4FY19 came in flat at ₹ 72 crore.

Moving up value chain, margin accretive!

HSCL has a coal tar distillation capacity of 5 lakh tonne (FY19), manufacturing coal tar pitch and carbon black as its major product profile. Coal tar pitch finds application in the aluminium as well as graphite industry while carbon black is used as a reinforcement agent in the tyre as well as other rubber applications. With valuable experience and indigenous research, HSCL has developed value added products in the carbon chain viz. speciality carbon black (SCB) and advance carbon material (ACM). SCB is used in paints, inks, etc, and fetches remunerative prices and margin profile. ACM, on the other hand, has intended use in manufacturing Li-ion batteries for electric vehicles and consumer electronics (mobile phones). These two products form the innovative pipeline at HSCL. When in full swing i.e. FY21E, this will put HSCL into a new orbit with a true global footprint.

Sales volume to rebound over FY19-21E!

Total carbon sales witnessed a decline in FY19 to 363 KT from 380 KT in FY18 primarily driven by temporary disruption of production due to de-bottlenecking exercise undertaken in Q3FY19. Lower volumes can also be attributed to muted demand in the aluminium as well as domestic tyre segment in H2FY20E. Going forward, with commissioning of value added projects (VAP), we expect volume growth to rebound. We expect carbon sales volume of 390 KT in FY20E and 415 KT in FY21E, implying a sales volume CAGR of 6.9% over FY19-21E. Given better realisations in VAP we expect consecutive topline CAGR of 15.7% over FY19-21E.

Valuation & Outlook

HSCL, through internal efficiencies as well as robust product demand, has successfully transformed itself into a steady and capital efficient business model realising ~20% margins and ~20% return ratios. It has a lean balance sheet with debt: equity at 0.3x as of FY19. Given healthy double digit topline and bottomline growth prospects (15% CAGR), we remain positive on the stock and maintain our **BUY** rating. We value HSCL at ₹ 125 i.e. 13.0x P/E on FY21E EPS of ₹ 9.7/share. We also derive comfort from average CFO yield over FY19-21E at >5%.



Particulars

Stock Data	₹ crore
Market Capitalization	4351
Total Debt (FY19P)	458
Cash and Cash Equivalent (FY19P)	226
Enterprise Value	4584
52 week H/L	152 / 94
Equity Capital	41.9
Face Value	₹ 10

Key Highlights

- HSCL is being consistently clocking ~20%+ EBITDA margins thereby clocking healthy return ratios profile
- Net working capital savings results in decline in debt to the tune of ~₹ 200 crore in FY19
- We keenly await commissioning of new projects in the speciality carbon black and advance carbon material domain
- Retain BUY with target price of ₹ 125, valuing it at 13x P/E on FY21E EPS of ₹ 9.7/share

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Key Financial Summary

(Year-end March)	FY17	FY18	FY19P	FY20E	FY21E	CAGR (FY19P-21E)
Net Sales (₹ crore)	1,318.5	1,971.2	2,376.6	2,651.8	3,183.0	15.7%
EBITDA (₹ crore)	227.0	450.3	537.4	576.8	698.7	14.0%
EBITDA Margins (%)	17.2	22.8	22.6	21.8	22.0	
Net Profit (₹ crore)	81.2	242.6	307.3	327.5	407.1	
EPS (₹)	1.9	5.8	7.3	7.8	9.7	15.1%
P/E (x)	53.6	17.9	14.2	13.3	10.7	
RoNW (%)	7.5	16.7	18.3	16.4	17.0	
RoCE (%)	10.6	18.2	22.7	20.6	22.6	

Source: ICICI Direct Research, Company

Exhibit 1: Variance Analysis

Standalone Numbers	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
Sales	583.4	572.5	550.8	5.9	586.7	-0.6	Sales for the quarter were broadly in line with our estimates primarily tracking robust realisations amid muted volume
Other Operating Income	0.0	0.0	0.0		0.0		
Total Operating Income	583.4	572.5	550.8	5.9	586.7	-0.6	
Total Raw Material Expenses	387.9	380.7	362.0	7.2	389.2	-0.3	RM costs came in on expected lines at 66.5% of sales
Employee Cost	15.8	14.3	13.8	14.7	15.4	2.6	
Other operating expense	56.5	46.9	50.7	11.5	49.4	14.4	Other expenses came in higher at 9.7% of sales
Total Expenditure	460.1	441.9	426.4	7.9	453.9	1.4	
EBITDA	123.3	130.5	124.4	-0.9	132.8	-7.1	
EBITDA Margin (%)	21.1	22.8	22.6	-145 bps	22.6	-149 bps	Margins came in lower, tracking higher overhead costs viz. higher employee as well as other expenses
Depreciation	7.8	8.4	7.7	1.3	8.4	-7.0	
Interest	17.0	15.9	18.9		17.3		
Non Operating Expenses	0.0	0.0	0.0		0.0		
Other Income	6.4	2.4	2.7	137.6	15.1	-57.4	Other income came in ahead of our estimates
PBT	104.9	108.6	100.4	4.5	122.1	-14.1	
Taxes	32.8	33.1	29.2	12.2	37.8	-13.4	
PAT	72.2	75.5	71.2	1.3	84.3	-14.4	PAT for the quarter was nearly flat at ₹ 72 crore
Key Metrics							
Total Carbon Product Sales volume (tonne)	88,800	96,363	97,505	-8.9	83,571	6.3	Volumes came in lower than our estimates primarily tracking muted demand prospects
Blended Realisations (₹/tonne)	65,278	57,851	56,034	16.5	69,713	-6.4	Realisations came in robust at ₹ 65,278/tonne in Q4FY19

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	Old	New	FY20E	FY21E	Comments
			% Change	Introduced	
Revenues	2,622.7	2,651.8	1.1	3,183.0	Broadly maintain estimates for FY20E. Introduce FY21E numbers. We expect sales to grow at a CAGR of 15.7% over FY19-21E
EBITDA	591.4	576.8	-2.5	698.7	
EBITDA Margin (%)	22.6	21.8	-85 bps	22.0	Lower margin estimates in FY20E primarily tracking Q4FY19 numbers. Introduce FY20E margins at 22% primarily driven by new value added products that are margin accretive
PAT	360.0	327.5	-9.0	407.1	
EPS (₹)	8.6	7.8	-9.0	9.7	Lower margin estimates leads to downward revision in earnings estimates for FY20E. Introduce FY21E numbers. We expect earnings to grow at a CAGR of 15.1% over FY19-21E

Source: Company, ICICI Direct Research

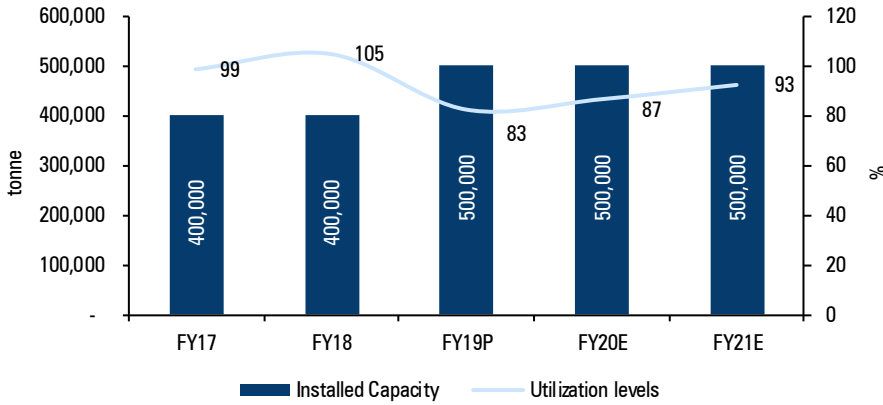
Exhibit 3: Assumptions

	FY18	FY19	FY20E	Current FY21E	Earlier FY20E	Comments
Total Carbon Product Sales volume (tonne)	379680	363146	389942	415542	420833	Lower our sales volume estimates tracking cautious demand outlook and delay in commissioning of new projects
Blended Realization (₹/tonne)	51439	63762	67364	75877	61727	Adjusted realisations tracking prevailing realisation scenario

Source: Company, ICICI Direct Research

Financial story in charts

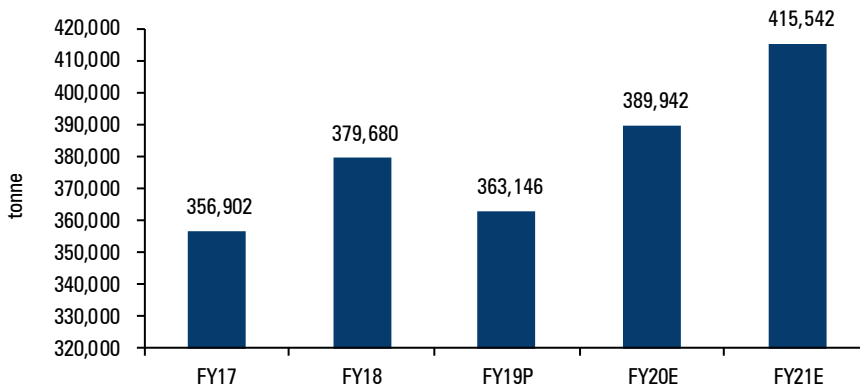
Exhibit 4: Distillation capacity and utilisation levels



With incremental distillation capacity in place and stabilisation period behind us, we expect utilisation levels to improve, going forward

Source: Company, ICICI Direct Research

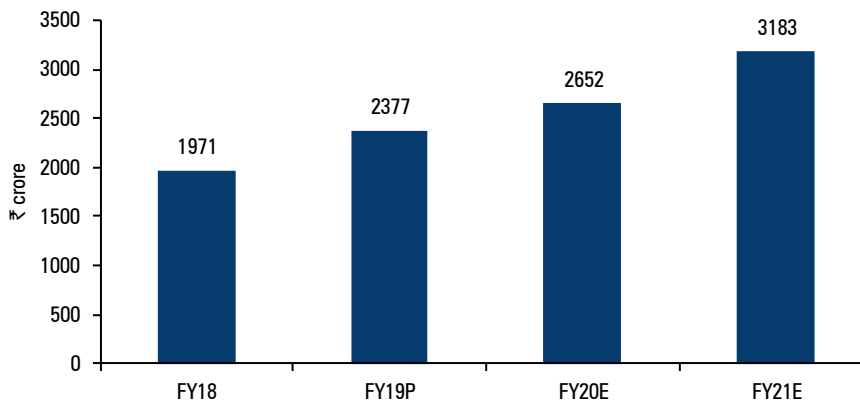
Exhibit 5: Carbon sales volume trend



We expect carbon sales volumes to grow at a CAGR of 6.9% in FY19-21E to 415.5 KT in FY21E vs. 363 KT in FY19P

Source: Company, ICICI Direct Research

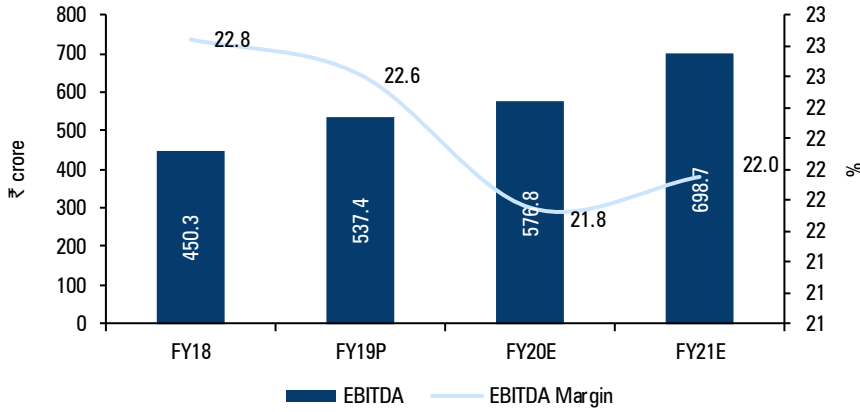
Exhibit 6: Sales trend



Topline growth expected at 15.7% CAGR in FY19-21E

Source: Company, ICICI Direct Research

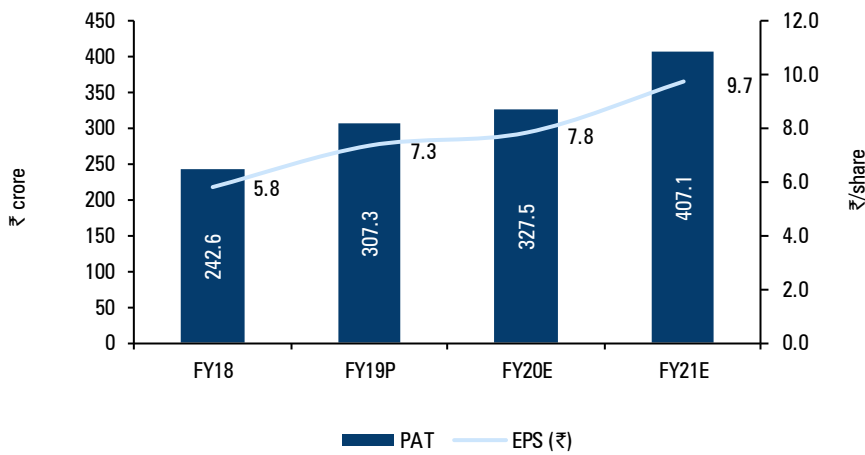
Exhibit 7: EBITDA & EBITDA margin trend



EBITDA margin profile largely stable at ~22% of sales

Source: Company, ICICI Direct Research

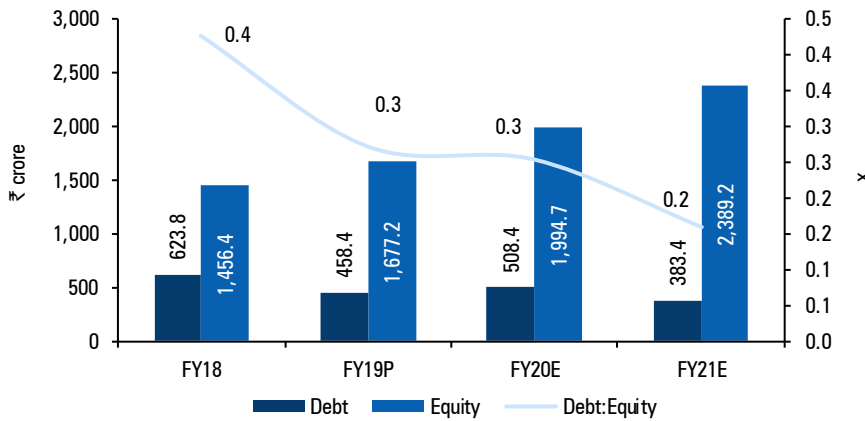
Exhibit 8: PAT & EPS trend



Earnings CAGR expected at 15.1% over FY19-21E

Source: Company, ICICI Direct Research

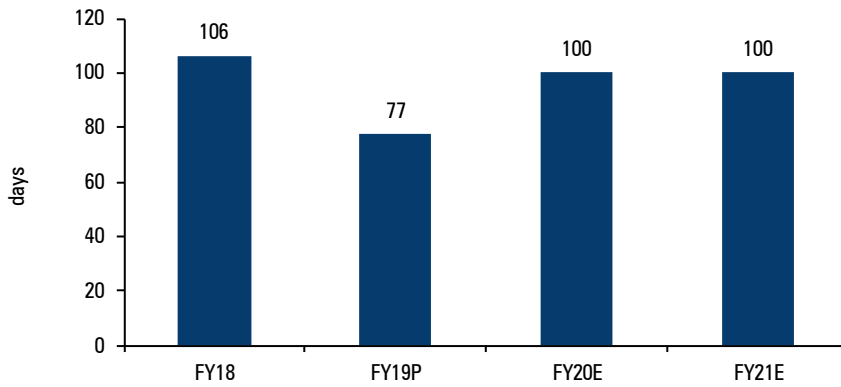
Exhibit 9: Debt leverage profile



Leverage controlled with FY19 debt: equity at 0.3x, which is further expected to draw down to 0.2x in FY21E

Source: Company, ICICI Direct Research

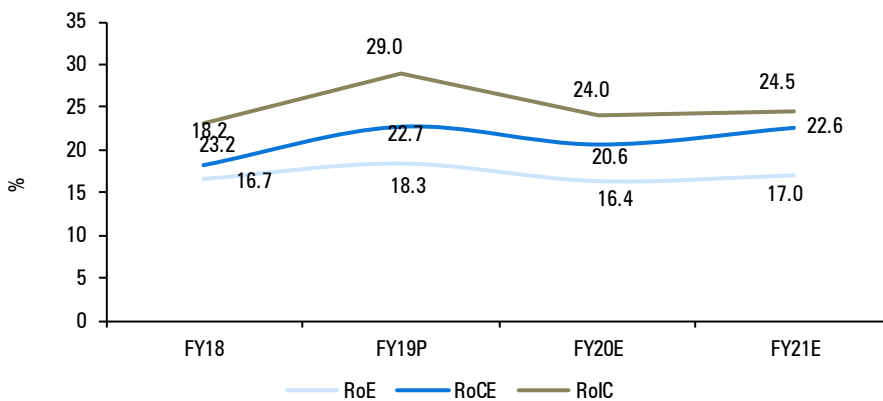
Exhibit 10: Net working capital days



The steep decline in NWC days in FY19P is a one-offs and is not sustainable in nature. NWC, however, expected to be controlled at ~100 days, going forward

Source: Company, ICICI Direct Research

Exhibit 11: Return ratio trend



Return ratio profile healthy with RoCE comfortably placed at ~20%+

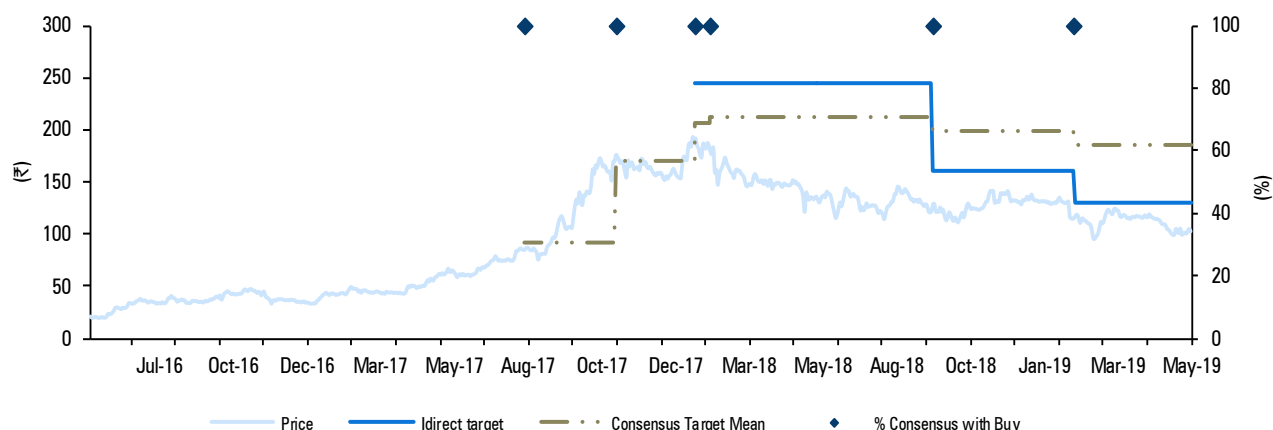
Source: Company, ICICI Direct Research

Exhibit 12: Key valuation metrics

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	1971.2	15.0	5.8	198.8	17.9	10.4	16.7	18.2
FY19P	2376.6	20.6	7.3	26.7	14.2	8.5	18.3	22.7
FY20E	2651.8	11.6	7.8	6.6	13.3	8.3	16.4	20.6
FY21E	3183.0	20.0	9.7	24.3	10.7	6.7	17.0	22.6

Source: Bloomberg, ICICI Direct Research

Exhibit 13: Recommendation history vs. consensus



Source: Reuters, ICICI Direct Research

Exhibit 14: Top 10 shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Modern Hirise Pvt Ltd	31-Mar-19	43.6	182.6	182.6
2	Bain Capital Private Equity, LP	31-Mar-19	24.6	103.2	0.0
3	Himadri Dyes & Intermediates, Ltd.	31-Dec-18	23.5	98.3	0.0
4	Himadri Group of Industries	31-Mar-19	2.3	9.5	-84.3
5	Franklin Templeton Asset Management (India) Pvt. Lt	31-Mar-19	1.6	6.6	1.5
6	Lakhi (Dilipkumar)	31-Mar-19	1.4	5.7	0.0
7	HSBC Global Asset Management (Hong Kong) Limited	31-Mar-19	1.0	4.1	-0.1
8	Choudhary (Vijay Kumar)	31-Mar-19	0.8	3.3	0.0
9	Choudhary (Shyam Sundar)	31-Mar-19	0.8	3.2	0.0
10	Dimensional Fund Advisors, L.P.	30-Apr-19	0.4	1.7	0.0

Source: Reuters, ICICI Direct Research

Exhibit 15: Recent activity

Buys			Sells		
Investor name	Value (US\$ M)	Shares (M)	Investor name	Value (US\$ M)	Shares (M)
Modern Hirise Pvt Ltd	307.0	182.6	Himadri Group of Industries	-141.7	-84.3
Franklin Templeton Asset Mgmt (India) Pvt. Ltd.	2.4	1.5	Principal Asset Management Private Limited	-2.6	-1.4
BlackRock Institutional Trust Company, N.A.	0.1	0.0	HSBC Global Asset Management (Hong Kong) Ltd	-0.2	-0.1
Mellon Investments Corporation	0.0	0.0	BOI AXA Investment Managers Private Limited	-0.2	-0.1
State Street Global Advisors (US)	0.0	0.0	Lakhi (Dilipkumar)	0.0	0.0

Source: Reuters, ICICI Direct Research

Exhibit 16: Shareholding pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	49.0	49.0	49.0	49.0	48.9
FII	2.2	2.4	2.5	2.4	2.4
DII	0.6	0.4	1.2	1.3	1.6
Others	48.3	48.3	47.4	47.4	47.1

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 17: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19P	FY20E	FY21E
Net Sales	1971.2	2376.6	2651.8	3183.0
Other Operating Income	0.0	0.0	0.0	0.0
Total Operating Income	1971.2	2376.6	2651.8	3183.0
Growth (%)	49.0	20.6	11.6	20.0
Raw Material Expenses	1,324.8	1,587.8	1,790.0	2,140.6
Employee Expenses	46.6	58.1	66.3	79.6
Other Operating Expense	149.5	193.3	218.8	264.2
Total Operating Expenditure	1,520.9	1,839.2	2,075.0	2,484.3
EBITDA	450.3	537.4	576.8	698.7
Growth (%)	98.0	19.4	7.3	21.1
Depreciation	31.4	32.5	43.3	53.2
Interest	70.4	70.6	62.8	58.0
Other Income	7.5	10.7	10.9	11.1
PBT	355.9	445.0	481.6	598.7
Exceptional Item	0.0	0.0	0.0	0.0
Total Tax	113.4	137.7	154.1	191.6
PAT	242.6	307.3	327.5	407.1
Growth (%)	198.8	26.7	6.6	24.3
EPS (₹)	5.8	7.3	7.8	9.7

Source: Company, ICICI Direct Research

Exhibit 18: Cash flow statement				
	₹ crore			
(Year-end March)	FY18	FY19P	FY20E	FY21E
Profit after Tax	242.6	307.3	327.5	407.1
Add: Depreciation	31.4	32.5	43.3	53.2
(Inc)/dec in Current Assets	-113.1	-282.0	-105.4	-211.2
Inc/(dec) in CL and Provisions	-14.4	284.7	-110.4	60.0
Others	70.4	70.6	62.8	58.0
CF from operating activities	216.9	413.0	217.8	367.0
(Inc)/dec in Investments	-161.7	94.0	150.0	20.0
(Inc)/dec in Fixed Assets	-36.6	-132.1	-330.0	-180.0
Others	-40.8	-37.3	0.0	0.0
CF from investing activities	-239.0	-75.4	-180.0	-160.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-130.3	-165.5	50.0	-125.0
Interest & Dividend paid	-75.5	-78.1	-72.9	-70.5
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	140.9	-78.9	0.0	0.0
CF from financing activities	-64.8	-322.5	-22.9	-195.5
Net Cash flow	-87.0	15.2	15.0	11.5
Opening Cash	118.4	31.4	46.6	61.6
Closing Cash	31.4	46.6	61.6	73.1

Source: Company, ICICI Direct Research

Exhibit 19: Balance Sheet				
	₹ crore			
(Year-end March)	FY18	FY19P	FY20E	FY21E
Liabilities				
Equity Capital	41.8	41.9	41.9	41.9
Reserve and Surplus	1,414.5	1,635.4	1,952.8	2,347.3
Total Shareholders funds	1456.4	1677.2	1994.7	2389.2
Total Debt	623.8	458.4	508.4	383.4
Deferred Tax Liability	252.5	130.8	130.8	130.8
Minority Interest / Others	6.1	4.0	4.0	4.0
Total Liabilities	2338.8	2270.4	2637.9	2907.4
Assets				
Gross Block	1,554.4	1,577.9	1,884.3	2,204.3
Less: Acc Depreciation	455.2	487.8	531.0	584.2
Net Block	1099.2	1090.1	1353.2	1620.1
Capital WIP	17.7	126.4	150.0	10.0
Total Fixed Assets	1,116.9	1,216.5	1,503.2	1,630.1
Investments	353.2	259.2	109.2	89.2
Inventory	415.2	538.9	581.2	697.6
Debtors	277.9	374.0	435.9	523.2
Loans and Advances	49.9	54.2	58.3	63.7
Other Current Assets	110.4	168.3	165.3	167.4
Cash	31.4	46.6	61.6	73.1
Total Current Assets	884.9	1,182.1	1,302.4	1,525.0
Current Liabilities	225.9	513.0	394.4	452.7
Provisions	3.0	0.6	8.7	10.5
Current Liabilities & Prov	228.9	513.5	403.2	463.1
Net Current Assets	656.0	668.5	899.2	1061.9
Others Assets	212.7	126.2	126.2	126.2
Application of Funds	2338.8	2270.4	2637.9	2907.4

Source: Company, ICICI Direct Research

Exhibit 20: Key ratios				
(Year-end March)	FY18	FY19P	FY20E	FY21E
Per share data (₹)				
EPS	5.8	7.3	7.8	9.7
Cash EPS	6.5	8.1	8.9	11.0
BV	34.8	40.1	47.7	57.1
DPS	0.1	0.2	0.2	0.3
Cash Per Share (Incl Invst)	9.2	7.3	4.1	3.9
Operating Ratios (%)				
EBITDA Margin	22.8	22.6	21.8	22.0
PAT Margin	12.3	12.9	12.3	12.8
Inventory days	76.9	82.8	80.0	80.0
Debtor days	51.5	57.4	60.0	60.0
Creditor days	22.2	62.8	40.0	40.0
Return Ratios (%)				
RoE	16.7	18.3	16.4	17.0
RoCE	18.2	22.7	20.6	22.6
RoIC	23.2	29.0	24.0	24.5
Valuation Ratios (x)				
P/E	17.9	14.2	13.3	10.7
EV / EBITDA	10.4	8.5	8.3	6.7
EV / Net Sales	2.4	1.9	1.8	1.5
Market Cap / Sales	2.2	1.8	1.6	1.4
Price to Book Value	3.0	2.6	2.2	1.8
Solvency Ratios				
Debt/EBITDA	1.4	0.9	0.9	0.5
Debt / Equity	0.4	0.3	0.3	0.2
Current Ratio	6.1	2.4	3.6	3.6
Quick Ratio	2.7	1.1	1.7	1.7

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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