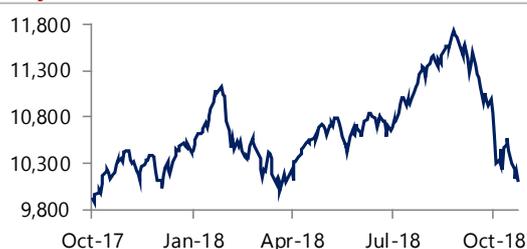


OCTOBER 26, 2018

	25-Oct	% Chg			
		1 Day	1 Mth	3 Mths	
<b>Indian Indices</b>					
SENSEX Index	33,690	(1.0)	(8.1)	(8.6)	
NIFTY Index	10,125	(1.0)	(8.5)	(9.0)	
NSEBANK Index	24,817	(1.0)	(2.0)	(8.2)	
NIFTY 500 Index	8,474	(1.0)	(8.9)	(10.3)	
CNXMcap Index	16,276	(0.6)	(8.9)	(12.0)	
BSESMCAP Index	13,603	(1.0)	(10.6)	(16.3)	
<b>World Indices</b>					
Dow Jones	24,985	1.6	(5.3)	(2.1)	
Nasdaq	7,318	3.0	(8.4)	(6.8)	
FTSE	7,004	0.6	(6.8)	(8.6)	
NIKKEI	21,269	(3.7)	(11.7)	(6.0)	
Hangseng	21,269	(3.7)	(11.7)	(6.0)	
Shanghai	24,994	(1.0)	(10.5)	(13.5)	
<b>Value traded (Rs cr)</b>					
	25-Oct	% Chg Day			
Cash BSE	2,422	(14.5)			
Cash NSE	40,814	21.9			
Derivatives	1,872,795	40.4			
<b>Net inflows (Rs cr)</b>					
	24-Oct	MTD	YTD		
FII	(1,837)	(21,154)	(36,216)		
Mutual Fund	1,847	16,756	105,011		
<b>Nifty Gainers &amp; Losers</b>					
	Price	Chg	Vol		
25-Oct	(Rs)	(%)	(mn)		
<b>Gainers</b>					
Wipro Ltd	319	3.2	14.2		
HCL Tech Ltd	1,005	2.5	3.1		
Indian Oil Corp	140	1.9	20.9		
<b>Losers</b>					
Indiabulls Housing	689	(7.3)	12.5		
Bharti Airtel	296	(6.4)	15.3		
UPL Ltd	599	(3.8)	1.7		
<b>Advances / Declines (BSE)</b>					
25-Oct	A	B	T	Total	% total
Advances	131	313	36	480	100
Declines	296	687	72	1,055	220
Unchanged	3	20	7	30	6
<b>Commodity</b>					
	25-Oct	% Chg			
		1 Day	1 Mth	3 Mths	
Crude (US\$/BBL)	76.5	(0.5)	(5.9)	2.6	
Gold (US\$/OZ)	1,232.2	(0.1)	3.2	0.8	
Silver (US\$/OZ)	14.6	(0.2)	2.1	(4.9)	
<b>Debt / forex market</b>					
	25-Oct	1 Day	1 Mth	3 Mths	
10 yr G-Sec yield %	7.9	7.9	8.1	7.8	
Re/US\$	73.3	73.2	72.7	68.8	

## Nifty



Source: Bloomberg

## News Highlights

- ▶ The government has formed a Competition Law Review Committee to ensure that the legislation is in tune with the changing business environment. Among the panel's mandate is also to look into international best practices in the competition field with a thrust on anti-trust laws, merger guidelines and handling cross-border competition issues. (ET)
- ▶ Fiscal deficit hits 95.3% of FY19 target in 6 months. Net direct tax collections in the six months ended September were at 38.6% of the budgeted estimate of ₹11.5 trillion for 2018-19. (Mint)
- ▶ India may not yield to US pressure to change import rules for dairy products. India won't allow dairy products derived from animals fed on internal organs of ruminants such as cattle and sheep. (Mint)
- ▶ The government is planning steps to give significant autonomy to Air India's (AI's) board, in terms of capital expenditure and commercial decision-making. This, along with a debt-restructuring proposal and a financial support of Rs 150 billion, will be part of a package to improve the airline's operational efficiency. (BS)
- ▶ DoT wants telecom operators to stop Aadhaar-based biometric authentication. The deadline to submit the plan was October 15 but operators have sought more time. (BS)
- ▶ RBI plan to move from wholesale cash cycle to a retail-based model. The plan will increase the velocity of cash circulation, which will boost economic activity. (BS)
- ▶ The Reserve Bank of India (RBI) has pushed back suggestions by the government nominees at its board meeting to ease the so-called Prompt Corrective Action (PCA) norms for banks. (ET)
- ▶ **Essar Steel** shareholders offer to pay Rs 543.89 bn to clear dues. The plan includes an upfront cash payment of Rs 475.07 bn to all creditors, including Rs 455.59 bn to secured financial creditors. (Mint)
- ▶ **IndiGo** drops plan to buy planes, sticks to sale-and-leaseback model. The airline believes it will help to increase liquidity and earn extra income in a volatile fare environment. (BS)
- ▶ A single court in Mumbai will hear matters pertaining to bankruptcy proceedings of 15 **Videocon** group companies pending in multiple courts, the National Company Law Tribunal. (ET)
- ▶ ArcelorMittal said that Section 12A of the Insolvency and Bankruptcy Code, under which the Ruia has proposed to withdraw **Essar Steel** from the Corporate Insolvency Resolution Process (CIRP), did not apply to the debt-ridden company. (BS)
- ▶ The board of **BHEL** approved a proposal to buy back 189.3 mn company shares, aggregating to Rs 16.28 bn, through a tender offer route. The buyback, whose price is set at Rs 86 a piece, will represent 5.16 per cent of the paid-up share capital of the company. (ET)

## What's Inside

- ▶ **Result Update:** Kajaria Ceramics Ltd, Bodal Chemicals Ltd

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

## Result Update

# KAJARIA CERAMICS LTD

PRICE Rs.361

TARGET Rs.500

BUY

### Stock Details

Market cap (Rs mn)	:	57437
52-wk Hi/Lo (Rs)	:	765 / 315
Face Value (Rs)	:	1
3M Avg. daily vol (mn)	:	976,629
Shares o/s (mn)	:	159

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	27,106	30,639	33,127
Growth (%)	6.3%	13.0%	8.1%
EBITDA	4,564	4,596	5,300
EBITDA margin (%)	16.8%	15.0%	16.0%
Net profit	2,344	2,395	2,842
EPS(Rs)	14.7	15.1	17.9
Growth(%)	9.0%	2.2%	18.7%
BVPS(Rs)	85.0	96.4	110.7
DPS (Rs)	3.0	3.0	3.0
ROE (%)	18.6	16.6	17.3
ROCE (%)	22.0	20.3	22.2
P/E (x)	24.5	24.0	20.2
EV/EBITDA (x)	13.0	12.8	10.9
P/BV (x)	4.2	3.7	3.3

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Sep-18	Jun-18	Mar-18
Promoters	47.6	47.6	47.6
FII	24.3	26.1	28.1
DII	9.7	9.6	9.2
Others	18.0	16.4	15.1

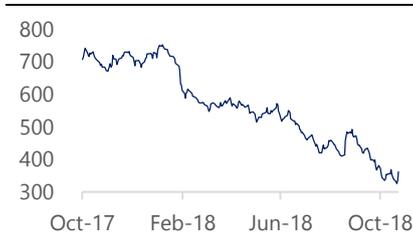
Source: Company

### Price Performance (%)

(%)	1M	3M	6M
Kajaria Ceramics	(8.0)	(18.7)	(34.6)
Nifty	(8.5)	(9.0)	(4.2)

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

### Teena Virmani

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Kajaria Ceramics results were in line with our estimates led by healthy volume growth and sequential improvement in average realization. Margins decline on YoY basis was expected due to sharp hike in gas prices. Going ahead, we expect volumes to start witnessing traction on improved demand. High gas prices may continue to impact margins but benefits to margins will come from improvement in JV performance. Company had offloaded its stake in its subsidiary Soriso Ceramics for Rs 110 mn and has booked an exceptional loss of Rs 34 mn during the quarter.

### Key highlights

Revenue growth of 8.1% YoY was led largely by 12.2% YoY volume growth. Realizations from owned plants and outsourced facilities have declined only marginally which indicates that prices have largely bottomed out. However, JV plant realizations have declined sharply. Operating margins stood at 15% vs 18.2% same period last year due to higher gas prices. Net profit performance on YoY basis was impacted by fall in margins but stood in line with our estimates.

### Consolidated financial highlights

(Rs mn)	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
<b>Net Sales</b>	<b>7253.1</b>	<b>6712.3</b>	<b>8.1%</b>	<b>6570.2</b>	<b>10.4%</b>
Total Expenditure	6164.0	5492.1	12.2%	5601.9	10.0%
<b>EBITDA</b>	<b>1089.1</b>	<b>1220.2</b>	<b>-10.7%</b>	<b>968.3</b>	<b>12.5%</b>
EBITDA %	15.0%	18.2%		14.7%	
Depreciation	225.3	215.7		226.7	
<b>EBIT</b>	<b>863.8</b>	<b>1004.5</b>	<b>-14.0%</b>	<b>741.6</b>	<b>16.5%</b>
Interest	45.2	63.9		41.7	
EBT(exc other income)	818.6	940.6	-13.0%	699.9	17.0%
Other Income	11.8	11.3		23.8	
<b>PBT</b>	<b>830.4</b>	<b>951.9</b>	<b>-12.8%</b>	<b>723.7</b>	<b>14.7%</b>
Tax	324.1	382.4		269.8	
Tax%	39.0%	40.2%		37.3%	
<b>PAT</b>	<b>506.3</b>	<b>569.5</b>	<b>-11.1%</b>	<b>453.9</b>	<b>11.5%</b>
Minority Interest	4.3	-67.5		-1.6	
Consolidated Net Profit	502.0	637.0	-21.2%	455.5	10.2%
NPM%	6.9%	9.5%		6.9%	
Equity Capital	159.0	158.9		159.0	
Face Value (In Rs)	1.00	1.00		1.00	
Basic EPS before Extraordinary Items	3.16	4.01	-21.2%	2.86	10.2%

Source: Company

### Valuation and outlook

Stock is currently trading at valuations of 24x and 20.2x P/E on FY19 and FY20 estimates respectively. We maintain our estimates and target price of Rs 500 on FY20 estimates. We believe that though the shift from unorganized to organized players post GST and e-way bill implementation has not happened to a large extent so far, but with improved compliance towards e-way bill implementation post elections, organized players like Kajaria Ceramics are likely to benefit with market leading position and wide offering of products. We remain positive on the company and maintain **BUY**.

We expect the sector to witness these challenges further for 1-2 quarters more and once complete compliance begins towards e-way bill, then organized players will start witnessing increased volumes and improved realizations. Key risks to our estimates and recommendation would come from further hike in gas prices.

### Revenue growth led by volume improvement

Revenue growth of 8.1% YoY was led largely by 12.2% YoY volume growth. Company sells nearly 12% of its volumes in Kerala and hence the impact of floods is also reflected in the performance. Volume growth is likely to be better in coming quarters.

Sequentially, realizations have started improving. Realizations from owned plants and outsourced facilities have declined only marginally YoY which indicates that prices have largely bottomed out. However, JV plant realizations have declined sharply. Average realization for Q2FY19 stood at Rs 371 per sq m, down by 3.7% YoY but up by 1.2% QoQ. We believe that sequential improvement in prices also corroborates the fact that prices have also largely bottomed out with most players operating at break-even level in the GVT category.

### Realization (Rs/msm)

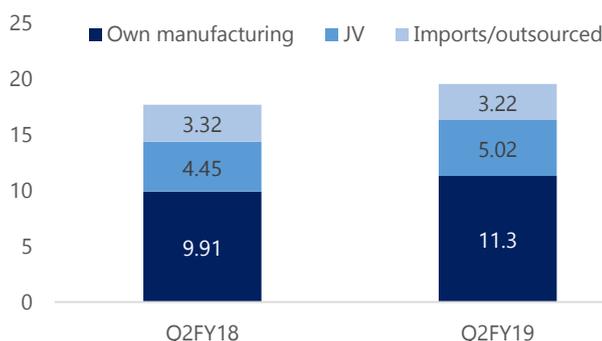
	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
Own manufacturing	381	388	-1.8%	370	2.9%
JV	315	352	-10.5%	326	-3.2%
Imports/outsourced	290	292	-0.9%	278	4.2%
Average	371	386	-3.7%	367	1.2%

Source: Company, Kotak Securities – Private Client Research

**Volume details** - Volumes were up by 12.2% YoY largely led by volume improvement from owned plants and JV plants. Sequentially, volumes were up by 9% with improvement being witnessed across all plants.

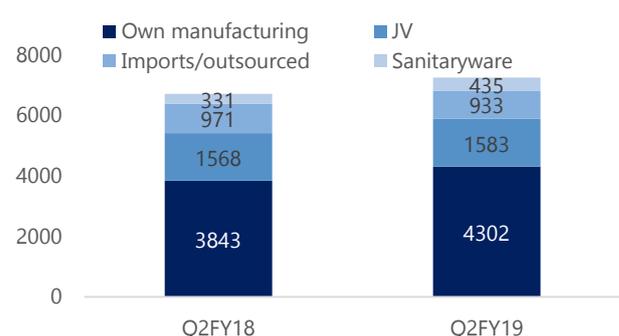
- Revenues from own production improved by 12% YoY and was led by volume gains of 14% YoY.
- Revenues from JVs improved by 1% YoY as volume gains were offset by pricing decline. Utilization levels are improving from the JV plants now.
- Revenues from outsourced segment has gone down by 4% YoY due to lower volumes as compared to own plants.
- Sanitaryware and faucets division has reported 32% YoY improvement in revenues. Volumes are likely to improve going forward with improved demand. Kajaria Sanitaryware has also increased its capacity at its existing location from 5.4 lacs pieces per annum to 6 lacs pieces per annum with ability to produce more value added products.

### Volumes (mn sq m)



Source: Company

### Revenues (Rs mn)



Source: Company

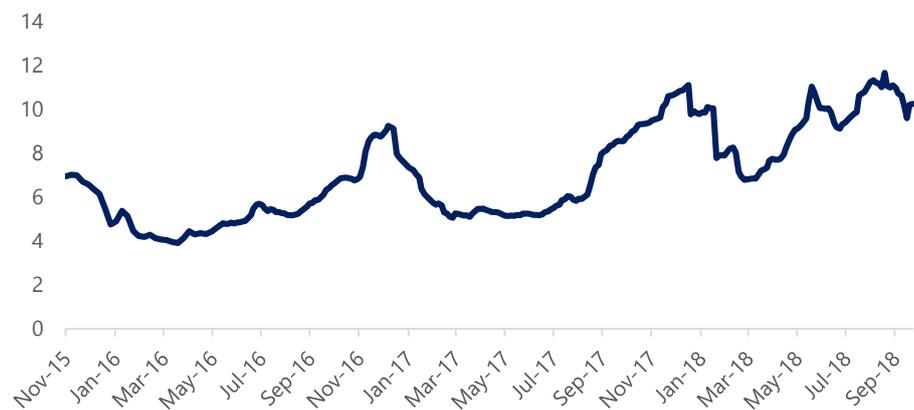
The expansion plan of 5mn sq m in AP is progressing on time and is expected to commission by Q1FY20. Kajaria ceramics plans to reach 100 mn sq m by 2021 through incremental additions and outsourcing. It can be through brown field or green field expansion in North while in south and western region, they can have a JV. It expects a capex of Rs 1.5 bn in FY19 and a branding spend Rs 1.1-1.15 bn in FY19.

We maintain our estimates and expect volumes to grow at a CAGR of 11.2% and revenues to grow at a CAGR of 10.6% between FY18-20.

### **Margins impacted by higher gas prices and pressure on realization on YoY basis**

Operating margins for the quarter stood at 15% vs 18.2% for Q2FY18. Margins were impacted due to higher gas prices as well as pressure on realizations. We maintain our estimates and expect margins of 15%/16% for FY19/20 respectively. Improved product mix and improvement in JV performance is likely to aid margins going forward despite higher gas prices.

#### **Spot LNG prices (US\$/mmbtu)**



Source: Bloomberg

### **Net profit performance in line with our estimates**

Net profit performance on YoY basis was impacted by fall in margins but boosted by lower interest expense. Company has turned net cash positive during the quarter. Loss making JVs have aided the operating profits during Q2FY19 and company expects to make profits in these JV's going forward. We maintain our estimates and expect net profits to grow at a CAGR of 10.1% between FY18-20.

### **Valuation and outlook**

Stock is currently trading at valuations of 24x and 20.2x P/E on FY19 and FY20 estimates respectively. We maintain our estimates and target price of Rs 500 based on 28x FY20 estimates. We believe that though the shift from unorganized to organized players post GST and e-way bill implementation has not happened to a large extent so far, but with improved compliance towards e-way bill implementation post elections, organized players like Kajaria Ceramics are likely to benefit with market leading position and wide offering of products. We remain positive on the company and maintain BUY.

We expect the sector to witness these challenges further for 1-2 quarters more and once complete compliance begins towards e-way bill, then organized players will start witnessing increased volumes and improved realizations. Key risks to our estimates and recommendation would come from further hike in gas prices.

**About the company**

Kajaria Ceramics is the largest manufacturer of ceramic/vitrified tiles in India and the 9th largest in the world. It has an annual capacity of 68 mn. sq. meters presently, distributed across eight plants - one in Sikandrabad (UP), one in Gailpur (Rajasthan), one in Malutana (Rajasthan), four in Morbi (Gujarat) and one in Vijaywada (AP).

## Financials: Consolidated

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Revenues</b>	<b>25,496</b>	<b>27,106</b>	<b>30,639</b>	<b>33,127</b>
% change YoY	6.0	6.3	13.0	8.1
<b>EBITDA</b>	<b>4,963</b>	<b>4,564</b>	<b>4,596</b>	<b>5,300</b>
% change YoY	8.0	(8.1)	0.7	15.3
Other Income	154	116	100	100
Depreciation	814	885	964	1,076
<b>EBIT</b>	<b>4,303</b>	<b>3,794</b>	<b>3,732</b>	<b>4,325</b>
% change YoY	9.0	(11.8)	(1.6)	15.9
Net interest	340	241	191	105
Profit before tax	3,963	3,553	3,541	4,219
% change YoY	10.0	(10.3)	(0.3)	19.2
Tax	1,425	1,267	1,204	1,435
as % of PBT	36.0	35.7	34.0	34.0
Profit after tax	2,538	2,286	2,337	2,785
Minority interest and other CI	17	(58)	(58)	(58)
<b>Net income</b>	<b>2,521</b>	<b>2,344</b>	<b>2,395</b>	<b>2,842</b>
% change YoY	9.0	(7.0)	2.2	18.7
Shares outstanding (m)	158.9	159.0	159.0	159.0
<b>EPS (reported) (Rs)</b>	<b>15.9</b>	<b>14.7</b>	<b>15.1</b>	<b>17.9</b>
CEPS (Rs)	21.0	20.3	21.1	24.6
DPS (Rs)	3.00	3.00	3.00	3.00

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBIT	4,286	3,852	3,790	4,382
Depreciation	814	885	964	1,076
Change in working capital	(303)	(1,305)	71	(482)
Changes in other net current assets	39	(207)	325	-
<b>Operating cash flow</b>	<b>4,836</b>	<b>3,226</b>	<b>5,149</b>	<b>4,976</b>
Interest	(340)	(241)	(191)	(105)
Tax	(1,425)	(1,267)	(1,204)	(1,435)
<b>Cash flow from operations</b>	<b>3,071</b>	<b>1,718</b>	<b>3,754</b>	<b>3,437</b>
Capex	(1,386)	(657)	(2,500)	(2,000)
(Increase)/decrease in investments	-	-	-	-
<b>Cash flow from investments (1,386)</b>	<b>(657)</b>	<b>(2,500)</b>	<b>(2,000)</b>	<b>(2,000)</b>
Proceeds from issue of equity	-	0	-	-
Increase/(decrease) in debt	(991)	(173)	(1,000)	(1,000)
Proceeds from share premium	-	(12)	-	-
Dividends	(381.4)	(572.0)	(572.4)	(572.4)
<b>Cash flow from financing (1,372)</b>	<b>(757)</b>	<b>(1,572)</b>	<b>(1,572)</b>	<b>(1,572)</b>
Opening cash	199	520	824	506
<b>Closing cash</b>	<b>512</b>	<b>824</b>	<b>506</b>	<b>370</b>

Source: Company, Kotak Securities – Private Client Research

### Balancesheet(Rsmn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	520	824	506	370
Accounts receivable	3,389	4,507	4,463	4,825
Inventories	3,720	3,785	4,242	4,586
Loans and Adv & Others	795	574	621	648
Current assets	8,424	9,689	9,830	10,429
Other non-current assets	121	82	82	82
LT investments	1	4	4	4
Net fixed assets	11,856	11,627	13,163	14,087
<b>Total assets</b>	<b>20,401</b>	<b>21,403</b>	<b>23,080</b>	<b>24,603</b>
Payables	2,921	2,578	3,108	3,360
Others	655	580	580	580
Current liabilities	3,576	3,158	3,688	3,940
Provisions	308	248	572	572
LT debt	2,900	2,728	1,728	728
Min. int and def tax liabilities	1,866	1,759	1,759	1,759
Equity	159	159	159	159
Reserves	11,592	13,351	15,174	17,444
<b>Total liabilities</b>	<b>20,401</b>	<b>21,403</b>	<b>23,080</b>	<b>24,603</b>
BVPS (Rs)	74.0	85.0	96.4	110.7

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	19.5	16.8	15.0	16.0
EBIT margin (%)	16.9	14.0	12.2	13.1
Net profit margin (%)	9.9	8.6	7.8	8.6
Receivables (days)	43.9	53.2	53.2	53.2
Inventory (days)	54.1	50.5	50.5	50.5
Sales/assets (x)	2.2	2.3	2.3	2.4
Interest coverage (x)	12.7	15.7	19.6	41.1
Debt/equity ratio(x)	0.3	0.2	0.2	0.1
ROE (%)	23.6	18.6	16.6	17.3
ROCE (%)	27.0	22.0	20.3	22.2
EV/ Sales (x)	2.3	2.2	1.9	1.7
EV/EBITDA (x)	12.0	13.0	12.8	10.9
Price to earnings (x)	22.8	24.5	24.0	20.2
Price to book value (x)	4.9	4.2	3.7	3.3
Price to Cash Earnings (x)	17.2	17.8	17.1	14.6

Source: Company, Kotak Securities – Private Client Research

## Result Update

### Stock Details

Market cap (Rs mn)	:	14363
52-wk Hi/Lo (Rs)	:	190 / 95
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	309,575
Shares o/s (mn)	:	122

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	11,661	13,291	14,963
Growth (%)	(12.9)	14.0	12.6
EBITDA	1,944	2,241	2,582
EBITDA margin (%)	16.7	16.9	17.3
PAT	1,246	1,335	1,595
EPS	10.2	10.9	13.0
EPS Growth (%)	(6.3)	7.1	19.5
BV (Rs/share)	57	67	79
Dividend/share (Rs)	0.8	0.8	0.8
ROE (%)	17.9	16.3	16.9
ROCE (%)	12.0	12.0	12.9
P/E (x)	11.6	10.8	9.0
EV/EBITDA (x)	8.3	6.8	5.8
P/BV (x)	2.1	1.8	1.5

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Sep-18	Jun-18	Mar-18
Promoters	55.7	55.7	54.9
FII	6.5	6.2	7.4
DII	6.4	6.5	6.7
Others	31.4	31.6	31.0

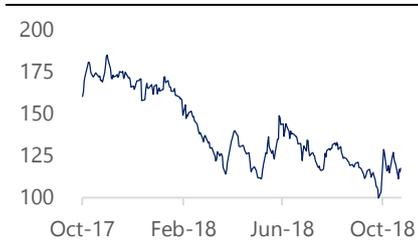
Source: Company

### Price Performance (%)

(%)	1M	3M	6M
Bodal Chemicals	10.2	(7.0)	(0.9)
Nifty	(8.5)	(9.0)	(4.2)

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

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## BODAL CHEMICALS LTD

PRICE Rs.119

TARGET Rs.130

ACCUMULATE

Bodal Chemicals Q2FY19 numbers were in line with estimates. EBITDA margin during the quarter strengthened further by 40bps QoQ, supported by a change in product mix and a higher realisation. Going ahead, we foresee contribution from new dyestuff capacity to support revenue growth.

### Key Highlights

- SPS performance improved sequentially and reported Rs305 mn of revenue and PAT of Rs16 mn (supported by increased in volume and a higher realisation), while Trion Chemicals continues with its weak performance and recovery to take some more time. Trion reported loss of Rs25mn in 2QFY19.
- Dyestuff Phase I expansion of 12,000 tonnes operated at 65% utilisation.
- The company market shares stands at 25% in domestic and 6% in global dye intermediates industry and 9% in domestic and 3% in global dyestuff industry.
- Dye intermediates realisation declined by 6-7% from the average in 2QFY19 starting October due to low demand. Second half is seasonally weak for the industry.

### Valuation & outlook

Given the future road map in terms of revenue visibility and margin expansion plans in place by undertaking an aggressive capex plan, we believe that long term story still remains intact. In the near term, the recent uptick in intermediate prices (compared to FY18) and contribution for Dyestuff expansion shall support the earnings, but a weak performance from Trion chemicals would partly offset the benefit. The stock at current valuations of 10.8x/9.0x FY19E/FY20E earnings, factors in all the potential negatives. But re-rating will take some more time. Recommend **ACCUMULATE** (earlier Reduce) with an unchanged target price Rs130.

### Quarterly performance table

Particulars (Rs Mn)	2QFY19	2QFY18	% YoY	1QFY19	% QoQ
<b>Net Sales</b>	<b>3,932</b>	<b>2,561</b>	<b>53.5</b>	<b>3,517</b>	<b>11.8</b>
Raw Materials	2,339	1,522	53.7	2,118	10.4
% to sales	59.5	59.4		60.2	
Employee Costs	171	107	59.9	159	7.6
% to sales	4.3	4.2		4.5	
Total Expenditures	3,204	2,100	52.5	2,879	11.3
<b>EBITDA</b>	<b>728</b>	<b>461</b>	<b>58.1</b>	<b>638</b>	<b>14.2</b>
EBITDA Margin	18.5	18.0		18.1	
Depreciation	54	73	(26.1)	46	18.2
<b>EBIT</b>	<b>675</b>	<b>388</b>	<b>73.9</b>	<b>592</b>	<b>13.9</b>
Interest	20	9	119.2	16	24.8
Other Income	30	14	123.5	24	26.6
<b>PBT</b>	<b>685</b>	<b>392</b>	<b>74.5</b>	<b>600</b>	<b>14.1</b>
Tax	234	137	71.1	207	13.4
<b>PAT</b>	<b>450</b>	<b>255</b>	<b>76.3</b>	<b>393</b>	<b>14.5</b>
Share of Asso	0	(7)		(9)	
<b>PAT</b>	<b>450</b>	<b>248</b>	<b>81.6</b>	<b>384</b>	<b>17.2</b>

Source: Company, Kotak Securities – Private Client Research

## Higher volume, better realisation and increased share of export boost the performance

During the quarter, the company reported highest ever quarterly production, with dye stuff production up by 54% YoY supported by the new facility. Dye intermediates production was up by 11.6% and basic chemicals registered production growth of 15.3%. This, coupled with a better realisation in dye intermediates and increase in export share to 47% (43% in 1QFY19), helped the company to report 53.5%/11.8% YoY/QoQ growth in revenue to Rs3.93 bn. Export revenue during the quarter stood at Rs1.73 bn. Viny Sulphone and H-Acid realisation stood at Rs278/kg and Rs451/kg, respectively. Current prices of both these intermediates are 6-7% lower than the average of 2QFY19.

Higher export sales, coupled with increased captive consumption of dye intermediates offset the impact of increased raw materials and employee cost and led to 58.1%/14.2% YoY/QoQ jump in EBITDA to Rs728mn, with an EBITDA margin of 18.5%. Basic chemical share in overall product basket declined to 10% from 12% in 2QFY19, on the other hand, high value product such as Dye intermediates and dye stuff, share increased from 46% and 29% in 1QFY19 to 49.5% and 35.4%, respectively. Strong operating performance resulted into 81.6%/17.2% YoY/QoQ growth in PAT to Rs450 mn.

Management expects the margin to remain in the range of 18-19%. But, we believe that, the increase in the raw material can act a key headwind in the coming months and seasonally second half is weak in terms of volume and realisation. Hence, we expect margin to be in the range of 16-17.5%.

### Operational Performance

Production	Q2FY19	Q2FY18	% YoY	Q1FY19	% QoQ
Dye Intermediates	6,031	5,403	11.6	6,217	(3.0)
Dyestuff	5,277	3,420	54.3	4,358	21.1
Basic Chemicals	51,522	44,672	15.3	50,448	2.1

Source: Company

### Revenue Break-up (Rs Mn)

Product	Q2FY19	Q2FY18	% YoY	Q1FY19	% QoQ
Dye Intermediates	1,822	1,482	22.9	1,690	7.8
Dyestuff	1,301	751	73.2	1,078	20.7
Basic Chemicals	379	208	82.2	476	(20.4)
Others	176	157	12.1	237	(25.7)

Source: Company

### Domestic vs Export

Particulars	Q2FY19	Q2FY18	% YoY	Q1FY19	% QoQ
Domestic	1,950	1,979	(1.5)	1,968	(0.9)
Export	1,730	619	179.5	1,513	14.3

Source: Company

## **Current valuation factors potential negatives; recommend ACCUMULATE**

Given the future road map in terms of revenue visibility and margin expansion plans in place, by undertaking an aggressive capex plan, we believe that long term story still remains intact. In the near term, the recent uptick in intermediate prices and contribution for Dyestuff phase I expansion shall support the earnings, but a weak performance from Trion chemicals would partly offset the benefit. The stock at current valuations of 10.8x/9.0x FY19E/FY20E earnings, factors in all the potential negatives.

### **Other Highlights:**

- **Trion Chemicals:** The company has started production at Trion, as raw material prices have softened (but still at a higher level). The management expects Trion to achieve break-even by end of FY19E. The company has increased its stake in Trion to 59% from 52%.
- **SPS:** The jump in revenue at SPS was driven by higher H-Acid realisation during the quarter. VS facility is yet to commence operation

**Dyestuff expansion:** Considering the sharp increase achieved in recently added Dyestuff capacity during the quarter, the company decided to further expand dyestuff (powder) capacity by 6000 MTPA, ahead of original schedule, at Unit- 7, at an estimated cost of Rs.260 mn. Management expect the new facility to come on stream by 1QFY20. Post the completion of the expansion, total Dyestuff capacity (powder) of the company will be 35000 MTPA.

During H1FY19, company has made capex of Rs. 743 mn including capital work in progress which includes Thionyl Chloride, new office building, and storage & infrastructure facility for Dyestuff, Land & maintenance capex. Total capex for FY19 stands at Rs1.2 bn.

The company is planning to setup a subsidiary for trading business in India for exports as well as to cater the requirements of the domestic market. The company is also looking to setup subsidiary in Bangladesh and Turkey.

### **Company Background**

Bodal Chemicals Limited is integrated company, offering end-to-end solution to our customers globally. The company is among world's largest manufacturer and exporter of Dyes Intermediate, Dyestuff and Sulphuric Acid, with vertically and horizontally integrated who provides product solutions and service solution on fastest possible route to their customers. BCL having its presence not only in India but across the globe and serving to 50+ countries with its Innovative products and services. BCL with presence across dyestuff value chain and strong domestic/exports penetration is aptly placed to take benefit of opportunities in dyestuff industry.

## Financials: Consolidated

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Net sales</b>	<b>13,392</b>	<b>11,661</b>	<b>13,291</b>	<b>14,963</b>
growth (%)	47.2	(12.9)	14.0	12.6
Operating expenses	11,132	9,718	11,050	12,381
<b>EBITDA</b>	<b>2,260</b>	<b>1,944</b>	<b>2,241</b>	<b>2,582</b>
growth (%)	50.9	(14.0)	15.3	15.2
Depreciation & amortisation	289	121	174	235
<b>EBIT</b>	<b>1,972</b>	<b>1,823</b>	<b>2,066</b>	<b>2,347</b>
Other income	105	95	49	54
Interest paid	87	53	69	56
Exceptional items	49	0	0	0
<b>PBT</b>	<b>2,038</b>	<b>1,865</b>	<b>2,046</b>	<b>2,345</b>
Tax	709	619	675	715
Effective tax rate (%)	34.8	33.2	33.0	30.5
<b>Net profit</b>	<b>1,329</b>	<b>1,246</b>	<b>1,371</b>	<b>1,631</b>
Share of Asso.	(0)	0	36	36
<b>Reported Net profit</b>	<b>1,329</b>	<b>1,246</b>	<b>1,335</b>	<b>1,595</b>
growth (%)	54.6	(6.3)	7.1	19.5

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Pre-tax profit	2,038	1,865	2,046	2,167
Depreciation	289	121	174	235
Chg in working capital	(448)	(902)	1,135	(209)
Total tax paid	698	619	675	715
Other operating activities	(12)	53	69	56
<b>Operating CF</b>	<b>1,169</b>	<b>518</b>	<b>2,750</b>	<b>1,533</b>
Capital expenditure	(531)	(1,044)	(1,685)	(1,056)
Chg in investments	0	(44)	0	0
Other investing activities	(236)	0	0	0
<b>Investing CF</b>	<b>(767)</b>	<b>(1,088)</b>	<b>(1,685)</b>	<b>(1,056)</b>
Equity raised/(repaid)	0	2,224	0	0
Debt raised/(repaid)	(101)	308	(629)	(250)
Dividend (incl. tax)	(40)	(114)	(114)	(114)
Other financing activities	(87)	(53)	(69)	(56)
<b>Financing CF</b>	<b>(228)</b>	<b>2,364</b>	<b>(813)</b>	<b>(420)</b>
Net chg in cash & bank bal.	174	1,795	252	56
<b>Closing cash &amp; bank bal</b>	<b>167</b>	<b>59</b>	<b>311</b>	<b>296</b>

Source: Company, Kotak Securities – Private Client Research

### Balancesheet (Rsmn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash & Bank balances	167	59	311	296
Other Current assets	4,366	5,672	4,654	5,064
Investments	125	169	169	169
Net fixed assets	2,306	4,553	6,063	6,884
Other non-current assets	10	264	264	264
<b>Total assets</b>	<b>6,975</b>	<b>10,717</b>	<b>11,461</b>	<b>12,678</b>
Current liabilities	1,686	1,684	1,801	2,002
Borrowings	1,490	1,808	1,179	929
Other non-current liabilities	190	244	244	244
Total liabilities	3,365	3,736	3,224	3,175
Share capital	218	218	218	218
Reserves & surplus	3,374	6,751	7,971	9,201
Shareholders' funds	3,593	6,969	8,190	9,419
Minority interest	18	11	47	83
<b>Total equity &amp; liabilities</b>	<b>6,975</b>	<b>10,716</b>	<b>11,461</b>	<b>12,678</b>

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Profitability and return ratios (%)</b>				
EBITDAM	16.9	16.7	16.9	17.3
EBITM	14.7	15.6	15.5	15.7
NPM	9.6	10.7	10.0	10.7
RoE	35.6	17.9	16.3	16.9
RoCE	19.2	12.0	12.0	12.9
<b>Per share data (Rs)</b>				
EPS	11.7	10.2	10.9	13.0
FDEPS	11.7	10.2	10.9	13.0
CEPS	14.4	11.2	12.3	15.0
BV	31.4	57.0	67.0	79.0
DPS	0.3	0.8	0.8	0.8
<b>Valuation ratios (x)</b>				
PE	10.1	11.6	10.8	9.0
P/BV	3.8	2.1	1.8	1.5
EV/EBITDA	6.3	8.3	6.8	5.8
EV/Sales	1.1	1.4	1.2	1.0
<b>Other key ratios</b>				
D/E (x)	0.4	0.3	0.1	0.1
Debtors Days	54	90	90	90

Source: Company, Kotak Securities – Private Client Research

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- ACCUMULATE** – We expect the stock to deliver 5% - 12% returns over the next 12 months
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