

**Himadri Chem & Inds Ltd. ₹ 29****Pitching up to TAR-gets !****Buy**

Jul 11, 2014

**Company Background**

Himadri Chemicals & Industries Ltd. (Himadri) was incorporated in 1987 and commenced business in 1990. The Company is headquartered in Kolkata (India). The Company leverages its extensive knowledge of carbon management with the objective to create value-added products. Himadri is the largest manufacturer of coal tar pitch in India with more than 65% share of installed capacity. Himadri has four manufacturing facilities in West Bengal and one manufacturing facility each in Andhra Pradesh, Chattisgarh and Gujarat. Internationally the Company has one manufacturing facility in Shandong province (China).

**Key Highlights**

- ➔ Himadri's is the only Company in India and among a handful in the world with the capability to manufacture the wide range of value-added specialty carbon products due to which it is able to cater to downstream industries such as metal & steel, automobiles, infrastructure, power & lithium-ion batteries.
- ➔ Coal Tar Pitch a product of Himadri is used in the Aluminium industry which experienced a downturn due to global economic downfall. However now the global aluminium production is expected to grow at a CAGR of 6%. India, Middle East and China are anticipated to be the primary contributors to the growth. Aluminium production in India is expected to grow at CAGR of 19.6%.
- ➔ In the recent budget the government has reduced the basic custom duty on the raw materials to manufacturer coal tar pitch from 10% to 5%. This would be a good benefit for the company as imports if required would become cheaper.
- ➔ Over the last few years, Himadri widened its risk from an excessive dependence on a couple of products to a number of products. The Company leveraged the growth coming out of a handful of sectors to a point where its growth is being driven by the downstream potential of a number of sectors.
- ➔ A brownfield project was initiated to expand the Company's coal tar distillation capacity in India by 60%; the facility is expected to commence operations soon. The Company generates approximately 96% of revenues through its Indian operations; it expects to generate increased revenues through international (China) operations over the next couple of years.

**Key Financials**

Year Ended 31 <sup>st</sup>	Mar 11	Mar 12	Mar 13
Revenue (INR mn)	7,120.9	11,393.1	13,397.9
Rev. growth (%)	48.36	60.00	17.60
EBITDA (INR mn)	2,074.2	2,514.5	1,545.2
Net profit (INR mn)	1,143.9	633.2	235.5
Shares outstanding (mn)	385.7	385.7	385.7
EPS (INR)	3.0	1.6	0.6
EPS growth (%)	(89.34)	(44.65)	(62.81)
P/E (x)	14.7	23.1	20.3
RONW (%)	14.4	7.3	3.1
ROCE (%)	8.0	3.5	1.4

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**Info Codes**

Reuters	: HMCH.BO
Bloomberg	: HCI@IN
NSE	: HCIL
BSE	: 500184

**Market Data**

52 Wk Range (₹)	: 12 / 37
Shares in Issue (mn)	: 385.7
Mkt. Cap (₹ bn)	: 11.18
BSE 2 Wk Avg Vol	: 149000

**Share Holding Pattern (%)**

Promoters	: 44.63
FIIs	: 0.01
DIIIs	: 0.01
Others	: 55.35

**Investment Theme**

Himadri's business model is pegged around aggressive integration where one product serves as the raw material for another product. This makes it unique within its sectoral space in the world. The Company's entire range of products has been prudently structured with an inbuilt interdependence. The result is that the products are either consumed internally by itself to manufacture downstream products or marketed to customers. The captive manufacture makes it possible to provide customized products of the right quality at a considerably lower cost. This further enables Himadri to deliver products to customers at competitive prices. Himadri is now engaged in the manufacture of more than 10 products towards the close of FY2014 compared with only two about a decade ago. We feel shortly the company with the lowest operating cost will lead the pack.

**Invest when your profits are low.**

## Financial Statements

### Income Statement

(₹ mn)

Year end	Mar 11	Mar 12	% Chg	Mar 13	% Chg
Total Sales + Excise	7717.5	12410.6	60.81	14657.0	18.10
Other Income	147.0	197.5	34.35	257.5	30.38
Change in Stocks	277.8	246.3	(11.34)	168.3	(31.67)
Raw Material Con.	4469.3	8076.3	80.71	10629.1	31.61
Employee Exp.	124.8	155.6	24.68	192.8	23.91
Indirect Taxes	748.4	1221.2	63.17	1572.5	28.77
Other Exp.	743.4	973.4	30.94	1164.8	19.66
Operating Exp.	5808.1	10180.2	75.28	13390.9	31.54
Operating Profit	1909.4	2230.4	16.81	1266.1	(43.23)
Total Interest	267.6	1210.1	352.20	805.3	(33.45)
Gross Profit	1788.8	1217.8	(31.92)	718.3	(41.02)
Net Dep.	354.7	402.3	13.42	550.5	36.84
Total Taxation	290.2	182.3	(37.18)	(67.7)	(137.14)
Net Profit/Loss	1143.9	633.2	(44.65)	235.5	(62.81)

### 4 Years Balance Sheet

(₹ mn)

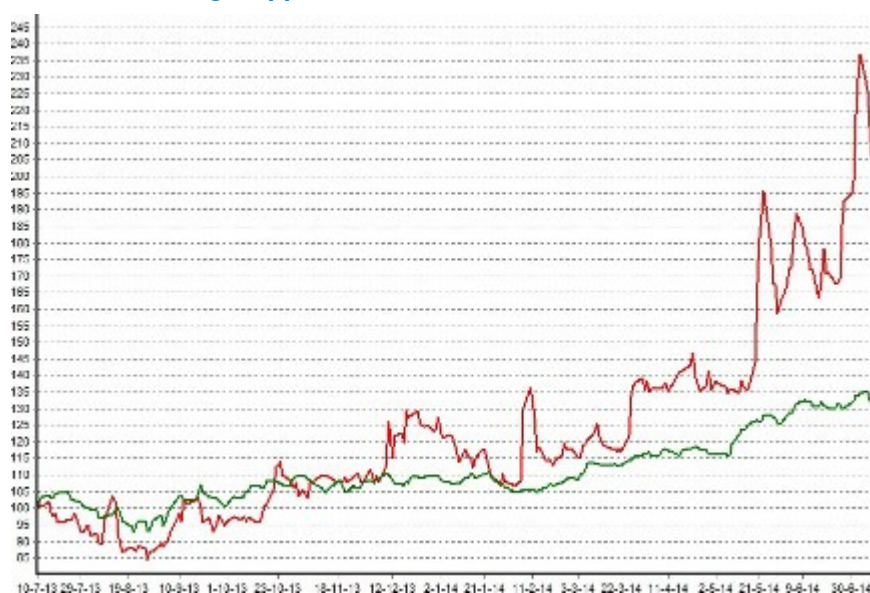
Balance Sheet as on 31 <sup>st</sup>	Mar 10	Mar 11	Mar 12	Mar 13
<b>SOURCES OF FUNDS</b>	<b>11,506.5</b>	<b>16,944.2</b>	<b>19,806.2</b>	<b>21,439.8</b>
Equity Share capital	385.7	385.7	385.7	385.7
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	6,978.3	8,072.0	8,594.1	8,629.3
Long Term Loans	2,758.9	6,325.5	9,770.7	12,122.2
Short Term Loans	1,383.6	2,161.0	1,055.7	302.6
<b>USES OF FUNDS</b>	<b>11,506.5</b>	<b>16,944.2</b>	<b>19,806.2</b>	<b>21,439.8</b>
Gross Block	6,620.1	6,824.4	9,501.8	10,656.9
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	866.0	1,203.1	1,647.2	2,166.3
Net Block	5,754.1	5,621.3	7,854.6	8,490.6
Capital Work in Progress	442.0	2,860.7	2,718.7	3,159.7
Investments	2,012.0	2,615.1	2,712.4	1,569.5
Current Assets	4,660.0	7,534.3	9,280.8	11,510.5
Less : Current Liabilities	1,361.6	1,687.2	2,760.3	3,290.5
Total Net Current Assets	3,298.4	5,847.1	6,520.5	8,220.0
Misc. Expenses not written	0.0	0.0	0.0	0.0
<b>NOTE</b>				
Bk Val Unquoted Investments	21.0	20.9	465.8	465.6
Mkt Val. Quoted Investments	1,992.0	2,670.4	2,308.9	1,115.1
Contingent Liabilities	732.9	864.9	1,924.9	1,827.1
Dividend (%)	10	10	10	10

## Quarterly Income Sheets

(₹ mn)

Quarter Ended	Jun 13	Sep 13	Dec 13	Mar 14
Net Sales	3,095.2	3,465.7	3,350.4	3,721.4
Cost Of Sales	3,408.3	3,486.3	2,809.8	3,276.3
Operating Profit	(313.1)	(20.6)	540.6	445.1
Recurring Income	82.7	92.6	173.3	151.3
Adjusted PBDIT	(230.4)	72.0	713.9	596.4
Financial Expenses	281.3	296.3	290.9	296.6
Depreciation	132.4	136.4	131.7	144.7
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	(644.1)	(360.7)	291.3	155.1
Tax Charges	0.0	0.0	73.7	0.0
Adjusted PAT	(644.1)	(360.7)	217.6	155.1
Non Recurring Items	125.6	73.6	0.0	42.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Net Profit	(518.5)	(287.1)	217.6	197.1

## 52 Week Index Relative Percentage Appreciation



Himadri vs SENSEX

## Risks Associated

## ➔ Risk of Environmental Laws

Since the company operates in the chemical sector the most important risk is of the Environmental Laws, Any change in the environmental laws of the state or country of the country of export would damage the current business position of the company.

## ➔ Increase in Raw Material Prices

Major raw materials to the company are always under inflationary pressure this is usually due to supply and demand of the raw materials which is dependant directly on the growth of the steel industry in India.

## ➔ The Fluctuating Rupee

Considering the fact that some of its raw materials are imported the risk return of purchase is tied up to the fluctuating Rupee any depreciation in the Currency would bring in pressures on margins.

## ➔ Competition

The risk of competition is the basic of any industry. Especially in the Chemical Zone, manufacturers from China which is known as the Chemical Hub of the world pose a definitive risk of dumping raw material.

**In a Nutshell**

Himadri has explored deeper into its business, integrated a lot with downstreaming just to get the most out its products which will help it keep steady in the market downturn. Himadri's decision to manufacture a product is based on demanding chemistry characteristics, which serves as a competitive barrier for other players. The Company's products address critical and precise applications, translating into customized manufacturing. Himadri manufacture products that address either large moderately-growing spaces or nascent fast-growing applications in large downstream spaces. Himadri capitalizes on these opportunities either through the most competitive price-value proposition or customized product manufacture to enhance customer satisfaction. Thus Himadri is entering enter niche business spaces, providing it with the scope and space to emerge among the largest manufacturers in the world. It has also started expanding its facilities accordingly. During FY 2014, the Company embarked on decisively strengthening its competitive advantage. Himadri is expanding its distillation capacity by 60%, which will increase carbon black input availability and reduce corresponding purchases. This increase in the captive availability of input material will moderate the break-even point, increase the operating surplus and strengthen the Company's position as a viable player in a sector primarily dominated by international players with considerably larger capacities. Its financials have already shown the directions the company plans to follow in the last 2 quarters.

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**Rating Interpretation**

<b>Buy</b> : Expected to appreciate 20% or more over 12-months	<b>Reduce</b> : Expected to depreciate up to 10% over 12-months
<b>Accumulate</b> : Expected to appreciate 10% to 20% over 12-months	<b>Sell</b> : Expected to depreciate 10% or more over 12-months
<b>Trade Buy</b> : Expected to appreciate more than 10% over 45-days	<b>Trade Sell</b> : Expected to depreciate more than 10% over 45-days

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