

Shree Hari Chemicals

₹ 95

*Its a Do or Dye in China !***Buy**

Jul 25, 2014

Company Background

Shree Hari Chemicals is a name to reckon with in the chemical intermediates industry. Established in 1987, Shree Hari Chemicals Export Ltd. (Shree Hari) delivers high quality Dye Intermediates to customers worldwide. Through the help of constant research & development it has boosted its capabilities to maintain the leading edge in the industry & earn the loyalty of customers. Shree Hari is a leading manufacturer, exporter, importer and supplier of 1-Amino-8-Naphtol-3, 6 Disulfonic Acid, H Acid, Dyes Intermediates, Direct Dyes, Reactive Dyes etc. These chemicals are formulated using high grade ingredients that are sourced from authorized vendors of the market. It currently caters to a wide range of markets viz. countries like Singapore, Korea, Malaysia, Thailand, Turkey, Taiwan, Bangladesh, US, Canada, Australia, New Zealand, Italy, Dubai, UK, France.

Key Highlights

- ➔ The sale of products and the profits of Shree Hari are rising this is clearly shown by the fact that the company announced rise of 1,327.63% in standalone net profit on y-o-y basis to INR 97.29 mn, while total income climbed 464.72% y-o-y basis to INR 303.69 mn for the quarter ended March 2014. The overall share of exports is also growing. Shree Hari is a "Recognized Export House" and is fast consolidating its resources to build a market presence in the global arena.
- ➔ The rise in prices of most of the products manufactured by Shree Hari is magnificent. Products like H-acid the capacity of which is 3500 MT have appreciated from merely 300 Rs/kg to 1800 Rs/kg as per a Business Line report. This spells out a lot of good news for the company.
- ➔ The recent environmental policy changes in China pertaining to the Chemical segment as an aftermath of 3 consecutive large scale chemical disasters in less than a years time have made china to initiate a comply or perish regime to a stricter set of environmental laws this will ensure that the cost effectiveness of most companies who survive will vanish whereas the existence of the remaining is in danger. This will benefit the dyes & intermediate chemical companies in India which is expected to dominate the segment hereon.

Key Financials

Year Ended 31 st	Mar 11	Mar 12	Mar 13
Revenue (INR mn)	733.7	703.5	155.8
Rev. growth (%)	5.42	(4.12)	(77.85)
EBITDA (INR mn)	62.4	17.1	(28.7)
Net profit (INR mn)	8.1	(21.2)	(50.2)
Shares outstanding (mn)	4.5	4.5	4.5
EPS (INR)	1.8	(4.8)	(11.3)
EPS growth (%)	(4.71)	(361.73)	136.79
P/E (x)	14.8	(4.5)	(2.6)
RONW (%)	5.5	(15.2)	(48.3)
ROCE (%)	2.5	(9.4)	(41.1)

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Info Codes

Reuters	: SHCE.BO
Bloomberg	: SRHC@IN
NSE	: -
BSE	: 524336

Market Data

52 Wk Range (₹)	: 4 / 95
Shares in Issue (mn)	: 8.0
Mkt. Cap (₹ bn)	: 0.25
BSE 2 Wk Avg Vol	: 7955

Share Holding Pattern (%)

Promoters	: 43.56
FII's	: 0.00
DII's	: 0.00
Others	: 53.44

Investment Theme

Shree Hari, mainly a Dye & Intermediate company is well placed in its sales and market. Majority of its products are exported to many countries around the world. The price of products which it manufactures have risen a lot in the chemical market especially the dyes and intermediates which have appreciated nearly 300%. With recent environmental policy changes in China the Chinese Government has put up a comply or perish regime on the chemical manufacturers, this is a radical change in the scenario and will hamper the growth of dye and intermediate manufacturing companies in China, Companies like Shree Hari who are placed in India where environmental Laws are a bit more softer stand to benefit a lot from the situation. Further Shree Hari has its own effluent station to comply any change in laws. We therefore initiate a Buy on the company.

Earn 2% everyday.

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 11	Mar 12	% Chg	Mar 13	% Chg
Total Sales + Excise	731.6	702.9	(3.92)	154.8	(77.98)
Other Income	2.1	0.6	(71.43)	1.0	66.67
Change in Stocks	0.0	(12.4)	-	(20.4)	64.52
Raw Material Con.	499.2	485.5	(2.74)	7.9	(98.37)
Employee Exp.	12.4	13.7	10.48	7.3	(46.72)
Indirect Taxes	0.0	0.0	-	0.0	-
Other Exp.	159.7	174.8	9.46	148.9	(14.82)
Operating Exp.	671.3	686.4	2.25	184.5	(73.12)
Operating Profit	60.3	16.5	(72.64)	(29.7)	(280.00)
Total Interest	24.8	20.5	(17.34)	6.0	(70.73)
Gross Profit	37.6	(3.4)	(109.04)	(34.7)	920.59
Net Dep.	23.1	20.5	(11.26)	17.8	(13.17)
Total Taxation	6.4	(2.7)	(142.19)	(2.3)	(14.81)
Net Profit/Loss	8.1	(21.2)	(361.73)	(50.2)	136.79

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 10	Mar 11	Mar 12	Mar 13
SOURCES OF FUNDS	324.1	315.5	133.5	111.1
Equity Share capital	44.5	44.5	44.5	44.5
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	102.8	105.7	84.5	34.3
Long Term Loans	33.4	21.9	0.0	0.0
Short Term Loans	143.4	143.4	4.5	32.3
USES OF FUNDS	324.1	315.5	133.5	111.1
Gross Block	291.9	304.7	310.2	306.8
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	136.9	160.0	180.5	196.1
Net Block	155.0	144.7	129.7	110.7
Capital Work in Progress	15.5	0.5	0.0	0.0
Investments	3.3	3.3	3.3	3.3
Current Assets	272.7	290.0	121.4	132.7
Less : Current Liabilities	122.4	123.0	120.9	135.6
Total Net Current Assets	150.3	167.0	0.5	(2.9)
Misc. Expenses not written	0.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	3.3	3.3	3.3	3.3
Mkt Val. Quoted Investments	0.0	0.0	0.0	0.0
Contingent Liabilities	8.1	18.1	17.5	10.2
Dividend (%)	10	10	0	0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Jun 13	Sep 13	Dec 13	Mar 14
Net Sales	51.5	53.4	209.8	303.7
Cost Of Sales	53.1	55.0	153.8	175.0
Operating Profit	(1.6)	(1.6)	56.0	128.7
Recurring Income	0.0	0.1	0.3	0.8
Adjusted PBDIT	(1.6)	(1.5)	56.3	129.5
Financial Expenses	1.2	1.4	1.6	0.5
Depreciation	3.8	3.7	3.8	3.8
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	(6.6)	(6.6)	50.9	125.2
Tax Charges	0.0	0.0	0.0	27.9
Adjusted PAT	(6.6)	(6.6)	50.9	97.3
Non Recurring Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Net Profit	(6.6)	(6.6)	50.9	97.3

52 Week Index Relative Percentage Appreciation



Shree Hari 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 coupled with the fact that 90% of the competition is locally confined to just 2 states in India Gujarat & Maharashtra.

➔ 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

Being a global player, the company is also exposed to competition not only from domestic players but also large international players. Cheap imports especially from countries like China could pose problems, which would have to be faced appropriately.

Shree Hari

In a Nutshell

Incorporated in 1987 Shree Hari Chemicals is a company in the business of Organic Chemicals. It mainly manufactures dye intermediates like H.acid, Gamma acid, K.acid, J.acid, & Vinyl sulphone and dyestuffs like Reactive, Acid and Direct colors. The company was initially in smooth operations however fell prey to business headwinds some time back. One of its manufacturing unit was forced to go off production. After the revamp of the Dye and Intermediates Segment occurred due to the closing down of a lot of polluting units Domestically and Stringent Environmental Policy changes in China. The Company swung back to better form. The prices of most of the products it manufactures are rising especially the dyes and intermediates have appreciated more than 300% in the last 1 year due to the environmental policy changes in China, who has planned to shut down the small scale polluting units which encompass dyes and intermediates. Shree Hari has an inhouse effluent treatment plant and complies with one of the stringent norms applicable internationally. Further over the last two years has demonstrated that it has a lot to gain from the scenario in the near future. It was previously a recognised export house and has demonstrated some star figures in recent times. We feel not only their competition in Dye & Intermediate segment will reduce hereon but also target markets will expand considering the manufacture deficit in China. We therefore initiate a Buy on the stock.

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months

Accumulate : Expected to appreciate 10% to 20% over 12-months

Trade Buy : Expected to appreciate more than 10% over 45-days

Reduce : Expected to depreciate up to 10% over 12-months

Sell : Expected to depreciate 10% or more over 12-months

Trade Sell : Expected to depreciate more than 10% over 45-days

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