

Daikaffil Chem. (I) Ltd. ₹ 33

*Optically Bright Future!***Accumulate**

Sep 5, 2014

Company Background

Daikaffil Chemicals India Ltd (Daikaffil) is a chemical manufacturing Company established in 1992. It has come a long way since and established a name in the chemical industry. It has a production facility in Tarapur. and from a turnover of about 1 crore in 1992, the unit has breakthrough profits and reserves in the last few years. In the year 1993, it embraced Japanese Technology which resulted in low input costs as well as manual labour in the area of production and automation respectively and ventured into collaboration with the technology provider. Currently Daikaffil enjoys a lot of goodwill amongst all its audience, be it clients, consumers, suppliers, share holders, bankers etc. Its clientele includes established names in the industry like Clariant, KIWA, ERCA spa, DAIKA and many more. With an established clientele and a production setup of international standards, Daikaffil applied for the ISO 9001:2000 Certification, which has been approved thus adding a hallmark to Daikaffil's hard work & success.

Key Highlights

- ➔ The company has setup a modern plant at Tarapur near Mumbai with Japanese Collaboration having forward integration production facilities of various OBA's under one roof. The present production including Intermediates is exported to USA, Europe & South East Asia. Installed capacity of various OBA's is around 2000MT per annum including few important Intermediates which are manufactured exclusively for the overseas market.
- ➔ Daikaffil is a large producer of Optical Brightening Agents - OBA's, broadly used in the Cellulosic Fibers, Pulp and Paper, Detergent and Soap. The current brands of the company are similar to top European Brands, such as Uvitex of CIBA, Blankophor of Bayer and Leucophor of Clariant. While Daikaffil has always tried to maintain the quality it has managed to maintain its market position in the same.
- ➔ The recent environmental policy changes in China pertaining to the Chemical segment has initiated a comply or perish regime to a stricter set of environmental laws this will ensure that chemical companies in India are expected to dominate the segment hereon.

Key Financials

Year Ended 31 st	Mar 11	Mar 12	Mar 13
Revenue (INR mn)	197.8	215.5	307.5
Rev. growth (%)	5.16	8.95	42.69
EBITDA (INR mn)	19.7	12.0	24.1
Net profit (INR mn)	9.6	1.1	9.8
Shares outstanding (mn)	6.0	6.0	6.0
EPS (INR)	1.6	0.2	1.6
EPS growth (%)	(40.74)	(88.54)	790.91
P/E (x)	9.3	59.9	5.8
RONW (%)	10.1	0.2	10.8
ROCE (%)	8.9	0.2	8.4

Nishant Chopra

nishantc@indiratrade.com

Info Codes

Reuters	: DCHE.BO
Bloomberg	: DKCI@IN
NSE	: -
BSE	: 530825

Market Data

52 Wk Range (₹)	: 7 / 33
Shares in Issue (mn)	: 6.0
Mkt. Cap (₹ bn)	: 0.2
BSE 2 Wk Avg Vol	: 157000

Share Holding Pattern (%)

Promoters	: 32.29
FII's	: 0.00
DII's	: 0.16
Others	: 67.55

Investment Theme

Daikaffil is a company with a speciality productline and a significant growth margin. Over the years of its steady business it has expanded its production capacity as well as its revenues by over 33 times. Over the last year after China decided to phase out small & medium size polluting factories, the prices of speciality chemicals have suddenly shot up to almost 300% of their cost 1 year back. This spells out a lot of opportunity with price rise and less competition coming in. Further there is opening up of a new market "China" as China is a net importer of Chemicals and now has decided to shut off small scale polluting units.. The company appreciated more than 100% in the last 1 quarter however we still feel that there is a lot more scope in the company further. We therefore initiate an accumulate call on the company.

Special Products... Special Price!

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 11	Mar 12	% Chg	Mar 13	% Chg
Total Sales + Excise	207.1	223.9	8.11	323.4	44.44
Other Income	3.7	4.1	10.81	4.5	9.76
Change in Stocks	9.1	3.2	(64.84)	2.2	(31.25)
Raw Material Con.	121.1	136.4	12.63	180.3	32.18
Employee Exp.	15.7	15.9	1.27	20.0	25.79
Indirect Taxes	13.9	12.7	(8.63)	20.5	61.42
Other Exp.	49.5	54.2	9.49	85.2	57.20
Operating Exp.	191.1	216.0	13.03	303.8	40.65
Operating Profit	16.0	7.9	(50.63)	19.6	148.10
Total Interest	2.0	2.9	45.00	3.6	24.14
Gross Profit	17.7	9.1	(48.59)	20.5	125.27
Net Dep.	3.9	6.6	69.23	5.6	(15.15)
Total Taxation	4.2	1.4	(66.67)	5.1	264.29
Net Profit/Loss	9.6	1.1	(88.54)	9.8	790.91

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 10	Mar 11	Mar 12	Mar 13
SOURCES OF FUNDS	88.5	109.1	109.6	121.6
Equity Share capital	60.0	60.0	60.0	60.0
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	25.2	29.2	26.8	33.1
Long Term Loans	0.3	3.5	4.3	2.1
Short Term Loans	3.0	16.4	18.5	26.4
USES OF FUNDS	88.5	109.1	109.6	121.6
Gross Block	94.7	109.3	122.8	129.3
Less : Revaluation Reserves	2.5	2.5	2.5	2.5
Less : Accumulated Depreciation	61.5	64.4	69.3	73.8
Net Block	30.7	42.4	51.0	53.0
Capital Work in Progress	9.9	6.3	4.2	1.8
Investments	2.3	2.3	0.8	0.8
Current Assets	109.9	119.3	127.9	133.7
Less : Current Liabilities	64.3	61.2	74.3	67.7
Total Net Current Assets	45.6	58.1	53.6	66.0
Misc. Expenses not written	0.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	2.3	2.3	0.8	0.8
Mkt Val. Quoted Investments	0.0	0.0	0.0	0.0
Contingent Liabilities	10.0	11.3	22.4	15.3
Dividend (%)	8	5	5	8

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Jun 13	Sep 13	Dec 13	Mar 14
Net Sales	76.1	86.8	59.7	111.3
Cost Of Sales	74.0	76.6	56.6	98.8
Operating Profit	2.1	10.2	3.1	12.5
Recurring Income	2.7	0.0	1.6	0.0
Adjusted PBDIT	4.8	10.2	4.7	12.5
Financial Expenses	0.7	0.8	0.7	0.9
Depreciation	1.5	1.5	1.5	1.6
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	2.6	7.9	2.5	10.0
Tax Charges	0.8	2.6	0.8	4.3
Adjusted PAT	1.8	5.3	1.7	5.7
Non Recurring Items	0.0	0.0	0.0	(0.2)
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Net Profit	1.8	5.3	1.7	5.5

52 Week Index Relative Percentage Appreciation



Daikaffil 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.

➔ 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 and products exported the risk return of purchase / sale 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.

In a Nutshell

Daikaffil is an ISO 9001:2000 company, manufacturing Fluorescent Whiteners, Naphthols and Para Amino Benzamide, under Japanese Joint Venture. The quality of all the products is well accepted by multinational companies like Clariant, Ciba and KIWA (Japan). The plant has all the necessary equipments and infrastructure to carry out key synthesis/ processes of any Dye - Intermediaries, Dyes e.t.c, Daikaffil's Florescent Whiteners are equivalent to top multinational products like Leucophor, Uvitex, Tinopal, Blankophor. Apart from Optical Brightening Agents the company also manufactures Stilben derivatives, Dye Intermediates and Napthol the prices of which are growing steadily. The last few quarters seemed to be a real turn around for the company. The rates in the Chemical market have jumped a lot in the last year with speciality chemicals segment getting costlier by 200 to 300%. Daikaffil will benefit a lot from this as most of its products are speciality chemicals. Further Daikaffil faces low threat of competition as most of its products are made to order and consumed majorly by its own technological partner DAIKA (Japan). Thus Daikaffil though a small company caters to a more specialised segment of customers with a specialised range of products. Its good reputation in the markets stands to its name and therefore its business. The Japanese JV has helped it in terms of quality management and sales. We feel the company has a bright future.

Indira Group Offices

Registered Office : 5, Indira House, 3rd Floor, Topiwala Lane, Lamington Road, Mumbai – 400007

Tel : 022-66224202 **Fax** : 022-66224201 **Email** : im@indiratrade.com

Administrative Office : 204-205 "Amardarshan" 28/2 Old Palasia, Indore (MP) 452018

Tel : 0731-4097170 **Fax** : 0731-4215999 **Email** : customercare@indiratrade.com

Institutional Dealing Unit : 5, Indira House, 3rd Floor, Topiwala Lane, Lamington Road, Mumbai – 400007

Tel : 022-66224209 **Fax** : 022-66224201 **Email** : ie@indiratrade.com

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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