

Dynamic Industries Ltd. ₹ 41***Dynamism Intact !*****Buy**

Jan 16, 2015

Company Background

Dynamic Industries Ltd. (Dynamic) is a name to reckon with in the chemical intermediates industry. Dynamic delivers high quality Dyes 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. Dynamic is a leading manufacturer, exporter and supplier of Direct Dyes, Reactive Dyes etc. especially in the Blacks, Blues, Brown, Orange, Yellow, Violets & Greens. It supplies mainly to the textile, paper and leather industry worldwide. 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 Argentina, Spain, Brazil, Pakistan, Turkey, Switzerland, Russia, China, Taiwan, Italy, Korea, Germany & The US. Growth has been an integral part since the last few quarters.

Key Highlights

- ➔ The rise in prices of the products manufactured by Dynamic is good enough to sustain the growth further. Products, Acid Dyes which form a base of sale of Dynamic have appreciated to 300% in the market. 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.
- ➔ The dyes and intermediate segment is known to have cyclical prices. The last quarter saw some dips in revenues with Dynamic, however as per estimates the demand for this quarter appear quite good. The main advantage with Dynamic unlike other many small scale dye and intermediary manufacturers is its own CETP (Effluent Treatment plant which will help it sail past the newer norms which may be announced in the Chemical policy soon.

Key Financials

Year Ended 31 st	Mar 12	Mar 13	Mar 14
Revenue (INR mn)	419.1	433.9	1,045.9
Rev. growth (%)	(11.0)	3.5	141.0
EBITDA (INR mn)	43.5	36.3	86.6
Net profit (INR mn)	13.5	8.5	40.0
Shares outstanding (mn)	3.0	3.0	3.0
EPS (INR)	4.5	2.8	13.2
EPS growth (%)	(44.3)	(37.0)	370.6
P/E (x)	2.0	3.0	1.6
RONW (%)	5.8	2.1	25.4
ROCE (%)	2.8	1.0	13.0

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Info Codes

Reuters	: DYNI.BO
Bloomberg	: DNIN@IN
NSE	: -
BSE	: 524818

Market Data

52 Wk Range (₹)	: 8 / 92
Shares in Issue (mn)	: 3.0
Mkt. Cap (₹ bn)	: 0.12
BSE 2 Wk Avg Vol	: 3945

Share Holding Pattern (%)

Promoters	: 50.47
FII's	: 0.30
DII's	: 0.00
Others	: 49.23

Investment Theme

Dynamic is, 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 comply or perish regime on 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 Dynamic who are placed in India where environmental Laws are a bit more softer stand to benefit a lot from the situation. Further Dynamic follows a sustainable approach comply any change in laws. We therefore maintain a Buy.

Next show to begin !

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 12	Mar 13	% Chg	Mar 14	% Chg
Total Sales + Excise	415.5	433.6	4.36	1085.0	150.23
Other Income	7.2	8.6	19.44	1.4	(83.72)
Change in Stocks	(16.1)	34.5	(314.29)	21.1	(38.84)
Raw Material Con.	264.0	281.0	6.44	655.6	133.31
Employee Exp.	13.8	16.3	18.12	20.7	26.99
Indirect Taxes	3.6	8.6	138.89	41.5	382.56
Other Exp.	81.7	134.5	64.63	303.1	125.35
Operating Exp.	379.2	405.9	7.04	999.8	146.32
Operating Profit	36.3	27.7	(23.69)	85.2	207.58
Total Interest	19.0	15.6	(17.89)	19.1	22.44
Gross Profit	24.5	20.7	(15.51)	67.5	226.09
Net Dep.	6.4	6.5	1.56	9.6	47.69
Total Taxation	4.6	5.7	23.91	17.9	214.04
Net Profit/Loss	13.5	8.5	(37.04)	40.0	370.59

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 11	Mar 12	Mar 13	Mar 14
SOURCES OF FUNDS	262.2	254.7	290.3	332.0
Equity Share capital	30.3	30.3	30.3	30.3
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	88.1	101.6	110.1	146.7
Long Term Loans	20.8	54.1	11.1	15.7
Short Term Loans	123.0	68.7	138.8	139.3
USES OF FUNDS	262.2	254.7	290.3	332.0
Gross Block	119.6	309.4	314.1	326.7
Less : Revaluation Reserves	0.0	169.3	167.6	165.9
Less : Accumulated Depreciation	55.9	61.7	69.7	77.7
Net Block	63.7	78.4	76.8	83.1
Capital Work in Progress	5.3	0.0	0.0	0.3
Investments	0.0	0.0	0.5	0.5
Current Assets	336.9	257.8	373.4	620.3
Less : Current Liabilities	143.7	81.5	160.4	372.2
Total Net Current Assets	193.2	176.3	213.0	248.1
Misc. Expenses not writtenoff	0.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	0.0	0.0	0.5	0.5
Mkt Val. Quoted Investments	0.0	0.0	0.0	0.0
Contingent Liabilities	18.3	32.8	43.0	59.4
Dividend (%)	0	0	0	10

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Dec 13	Mar 14	Jun 14	Sep 14
Net Sales	281.9	351.7	384.6	140.0
Cost Of Sales	258.9	322.1	357.4	128.4
Operating Profit	23.0	29.6	27.2	11.6
Recurring Income	0.1	0.8	6.8	2.2
Adjusted PBDIT	23.1	30.4	34.0	13.8
Financial Expenses	3.4	4.1	5.6	4.5
Depreciation	1.8	1.7	2.3	2.2
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	17.9	24.6	26.1	7.1
Tax Charges	6.3	6.3	8.5	2.8
Adjusted PAT	11.6	18.3	17.6	4.3
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	11.6	18.3	17.6	4.3

52 Week Index Relative Percentage Appreciation



Dynamic 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.

➔ 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.



Dynamic

In a Nutshell

Dynamic Industries is a company in the business of Speciality Dye Chemicals. The product palette of Dynamic Industries primarily includes acid, direct and reactive dyes, which are a benchmark in quality. After a year or two of global economic slowdown and the aggressive competition from China, the company appears to be back on track. 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. Dynamic 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 is 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 which has itself turned out as a net importer of dyes & intermediaries. We therefore initiate a Buy on the stock.

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Rating Interpretation

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

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