

Dynamic Industries Ltd. ₹ 40**History Repeats !****Buy**

Apr 29, 2016

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.

Key Highlights

- ➔ The rise in prices of the products manufactured by Dynamic is good enough to initiate some growth. Products, Acid Dyes which form a base of sale of Dynamic have appreciated a lot in the market. This spells out a lot of good news for the company.
- ➔ Just like it happened in the last year China has recently tweaked its environmental policy pertaining to the Chemical segment as an aftermath of consecutive large scale chemical disasters in less than a years time. All these have made china to initiate a comply or close regime with 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 13	Mar 14	Mar 15
Revenue (INR mn)	433.9	1,046.0	708.5
Rev. growth (%)	3.53	141.07	(32.27)
EBITDA (INR mn)	36.3	86.7	72.8
Net profit (INR mn)	8.5	40.0	22.5
Shares outstanding (mn)	3.0	3.0	3.0
EPS (INR)	2.8	13.2	7.4
EPS growth (%)	(37.04)	370.59	(43.75)
P/E (x)	3.03	1.57	3.18
RONW (%)	2.06	25.39	12.18
ROCE (%)	1.03	12.95	7.64

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Info Codes

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

Market Data

52 Wk Range (₹)	: 24 / 56
Shares in Issue (mn)	: 3.0
Mkt. Cap (₹ bn)	: 0.12
BSE 2 Wk Avg Vol	: 1170

Share Holding Pattern (%)

Promoters	: 50.43
Public	: 49.57
Others	: 00.00

Past Performance

Recommended as BUY on Jan 16, 2015 at Rs 41. Peaked at Rs 56 during its 52 week recommendation period.

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 last 3 months specially dyes & intermediates. With recent policy changes in China the Chinese Government has put up comply or close rule on chemical manufacturers, this is a radical change in the scenario & 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 compliant approach. We therefore maintain a Buy on the firm in the near horizon.

Enjoying China Shutdown show !

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 13	Mar 14	% Chg	Mar 15	% Chg
Total Sales + Excise	433.6	1,103.0	154.4	729.6	(33.9)
Other Income	8.6	1.5	(82.6)	11.0	633.3
Change in Stocks	34.5	21.1	(38.8)	(42.6)	(301.9)
Raw Material Con.	281.0	655.8	133.4	416.2	(36.5)
Employee Exp.	16.3	20.7	27.0	22.0	6.3
Indirect Taxes	8.6	59.3	589.5	43.2	(27.2)
Other Exp.	134.5	303.1	125.4	143.8	(52.6)
Operating Exp.	405.9	1,017.8	150.8	667.8	(34.4)
Operating Profit	27.7	85.2	207.6	61.8	(27.5)
Total Interest	15.6	19.2	23.1	24.1	25.5
Gross Profit	20.7	67.5	226.1	48.7	(27.9)
Net Dep.	6.5	9.6	47.7	10.0	4.2
Total Taxation	5.7	17.9	214.0	16.2	(9.5)
Net Profit/Loss	8.5	40.0	370.6	22.5	(43.8)

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 12	Mar 13	Mar 14	Mar 15
SOURCES OF FUNDS	254.7	290.3	332.0	262.0
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	101.6	110.1	146.7	165.5
Long Term Loans	54.1	11.1	15.7	9.4
Short Term Loans	68.7	138.8	139.3	56.8
USES OF FUNDS	254.7	290.3	332.0	262.0
Gross Block	309.4	314.1	326.7	323.8
Less : Revaluation Reserves	169.3	167.6	165.9	164.2
Less : Accumulated Depreciation	61.7	69.7	77.7	86.8
Net Block	78.4	76.8	83.1	72.8
Capital Work in Progress	0.0	0.0	0.3	0.0
Investments	0.0	0.5	0.5	0.5
Current Assets	257.8	373.4	620.3	264.8
Less : Current Liabilities	81.5	160.4	372.2	76.1
Total Net Current Assets	176.3	213.0	248.1	188.7
Misc. Expenses not writtenoff	0.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	0.0	0.5	0.5	0.5
Mkt Val. Quoted Investments	0.0	0.0	0.0	0.0
Contingent Liabilities	32.8	43.0	59.4	32.4
Dividend (%)	0.0	0.0	10.0	10.0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Mar 15	Jun 15	Sep 15	Dec 15
Net Sales	89.3	76.5	130.6	76.4
Cost Of Sales	73.0	69.8	119.5	71.0
Operating Profit	16.3	6.7	11.1	5.4
Other Income	4.0	2.7	3.3	5.8
Adjusted PBDIT	20.3	9.4	14.4	11.2
Financial Expenses	2.3	1.2	0.9	0.7
Depreciation	3.4	2.3	2.2	2.2
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	14.6	5.9	11.3	8.3
Tax Charges	5.1	1.8	3.9	0.0
Adjusted PAT	9.5	4.1	7.4	8.3
Non Recurring Items	(10.4)	(0.5)	0.0	(7.0)
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Net Profit	(0.9)	3.6	7.4	1.3

52 Week Index Relative Percentage Appreciation



Dynamic vs SENSEX

Risks Associated

- 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.
- 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.
- 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.
- 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 in the last 3 months 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

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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