

28 Apr 2016

Initiating Coverage (BUY)

## VIDHI DYESTUFFS MANUFACTURING

CMP

INR 67

Target Price

INR 80

Stock Details	
Industry	Specialty Chemicals
Bloomberg Code	VDSM:IN
BSE Code	531717
Face Value (Rs.)	1.00
Market Cap. (Rs. Mn)	3346.30
52wk. High/Low (Adjusted) ( (Rs.)	80.25 / 17.50

Shareholding Pattern Jun '15	
Promoter (%)	64.27
FII (%)	0.00
DII (%)	0.00
Public - Other (%)	35.73
No. of Share Outstanding (mn)	49.94

Valuation Summary				
	FY 14A	FY 15A	FY 16E	FY 17E
P/E (x)*	3.33	22.43	22.33	22.00
EV/EBITDA (x)	1.17	12.35	10.36	10.25
P/BV (x)	0.56	7.40	6.49	6.11

\*TTM for Current Year

Based on Market Price as on 1<sup>st</sup> Apr is taken for FY14

Key Financial				
Rs. Mn	FY 14A	FY 15A	FY 16E	FY 17E
Net Sales	1,428	1,888	2,059	2,263
EBITDA	161	267	330	370
Net Profit	60	124	159	182
EPS (Rs.)*	1.2	2.5	3.2	3.6

\*Un adjusted

Key Ratios				
	FY 14A	FY 15A	FY 16E	FY 17E
EBITDA Margin (%)	11.2	14.1	16.0	16.3
EBIT Margin (%)	9.9	13.3	15.2	15.6
Net Pro. Margin (%)	4.2	6.6	7.7	8.0
Debt/Equity (x)	0.06	0.04	0.03	0.02
RoNW (%)	17.5	30.6	31.8	30.3
RoCE (%)	15.8	28.3	30.0	29.0



We recommend 'BUY' on Vidhi Dyestuffs Manufacturing for a target of INR 80 - valuing the company at P/E of 22.0x FY17E Earning.

## INVESTMENT RATIONALE:

- Vidhi Dyestuffs Manufacturing Ltd. (VDML) is the third largest manufacturer of synthetic food grade dyes globally
- Has established strong relationships with global majors like Nestle, Mars, Pedigree and Sanofi among others.
- Investments in capacity addition and reduction in its low margin trading business
- Niche market presents opportunity
- Well laid out growth plan

## VALUATIONS AND VIEW:

VDML is the third largest manufacturer of synthetic food grade dyes globally with a capacity of 2500 MTPA. Over the last 20 years, it has established strong relationships with global majors like Nestle, Mars, Pedigree and Sanofi among others. The company has been able to grow its revenues substantially by 21% CAGR over the last five years, whereas the industry has witnessed a growth of 4-5%. Going forward, the company's investments in capacity addition and reduction in its low margin trading business would help it achieve its targeted margins of 20% plus over the next 4-5 years. Over the next 4-5 years, VDML plans to expand its capacity from the current 2500 MTPA to 8000 MTPA. In line with this objective, the company is expected to commission an additional 1300 MTPA by the end H1FY16 taking the total capacity to 3800 MTPA. Additionally, 35% of its current revenues are from trading activities currently. Going forward, with increase in capacities, the utilization for these products would improve, thus reducing revenues from the low margin trading business. The company is targeting EBITDA margins of 20% over the next 4-5 years led by decline in trading activities and its foray into niche segments like lakes, drug and cosmetic segments which are high margin products and will help boost its margins over the long run. We value the business at 22x FY17E EPS and recommend a BUY rating on the stock with a target price of INR 80 per share.

## **RISK & CONCERNS:**

- **Currency Fluctuation Risk**
- **Stringent food standard regulations by FDA**
- **Stiff competition in the market**

## **COMPANY BACKGROUND:**

Over the next 4-5 years, VDML plans to expand its capacity from the current 2500 MTPA to 8000 MTPA. In line with this objective, the company is expected to commission an additional 1300 MTPA by the end H1FY16 taking the total capacity to 3800 MTPA. Additionally, 35% of its current revenues are from trading activities currently. Going forward, with increase in capacities, the utilization for these products would improve, thus reducing revenues from the low margin trading business. The company is targeting EBITDA margins of 20% over the next 4-5 years led by decline in trading activities and its foray into niche segments like lakes, drug and cosmetic segments which are high margin products and will help boost its margins over the long run.

Vidhi Dyestuffs is a micro-cap. According to a press release, it is a manufacturer of “Superior Synthetic Food Grade Colours”. These colours are used in various industries such as Food & Beverage, Confectionary, Pharmaceuticals, Feeds, Cosmetics, Confectionary, Dairy etc. The colours are distributed and consumed in over 80 countries across 6 continents to some of the largest Consumer / Healthcare / Food & Feed companies in the world. It is also stated that Vidhi Dyestuffs is an “ISO 9001:2008, ISO 22000:2005 and HACCP certified company” and that its manufacturing facilities have been audited and found satisfactory by the U.S. FDA. Its manufacturing facilities are spread over an area of 176,000 square feet, located in Dhatav Village of Raigad District in the state of Maharashtra - India.

Vidhi Dyestuffs’ press release talks of an ambitious “Vision for 2020”. These are:

1. To be a global player of repute on the lines of Sensient, US.
2. To focus on 3Cs – Capacities, Capabilities and Customers. To be 20% of global capacities.
3. To broad base categories and deepen presence in Colors.
4. To increase margins by moving into value add segments; target EBITDA margins of 20%.
5. To be cognizant of all stakeholders and be counted as amongst the most transparent, shareholder friendly company.

## **INDUSTRY OVERVIEW:**

The Global food color market is estimated at ~USD 1.6 bn, of which colors for food and beverages account for ~70% (~USD 1.1 bn) of this market. The market is further divided into synthetic and natural dyes & pigments, where the synthetic dyes comprise of ~USD 400-600 mn while the rest is contributed by natural dyes. Vidhi Dyestuff Manufacturing Ltd (VDML) operates primarily in the synthetic color segment, and is among the few USFDA approved manufacturers of food grade colors in India. Over the last five years, the company has witnessed topline CAGR of 21%, despite the overall market growth of ~4-5%, as it seems to have taken away market share from the global leader Sensient whose color division has remained flat over the same period. VDML remains confident that the investments it has made in forging strong relationships with the global majors like Nestle, Mars, Pedigree and Sanofi, low cost of production and the global leaders’ focus on natural dyes would help the company take away market share from them over the long run and propel it to achieve its target of expanding its capacity to 20% of the global capacity going forward.

## FINANCIAL OVERVIEW

(in Million)	Q3 FY16 Performance Highlight						
	3Q FY15	4Q FY15	1Q FY16	2Q FY16	3Q FY16	YoY (%)	QoQ (%)
Revenue	48.77	50.20	60.05	38.68	49.19	0.86%	27.17%
Other Income	0.06	0.14	0.71	0.18	0.1		
Total Income	48.83	50.35	60.76	38.86	49.29	0.94%	26.84%
Expenditure	-41.65	-41.74	-52.95	-33.30	-39.84		
As a % of Sales	85.40%	83.15%	88.18%	86.09%	80.99%		
Interest	-1.45	-1.8	-1.53	-1.38	-1.32	-8.97%	-4.35%
PBDT	5.74	6.8	6.28	4.17	8.13		
As a % of Sales	11.77%	13.55%	10.46%	10.78%	16.53%		
Depreciation	-0.48	-0.44	-0.46	-0.5	-0.51		
PBT	5.25	6.36	5.81	3.67	7.63	45.33%	107.90%
As a % of Sales	10.76%	12.67%	9.68%	9.49%	15.51%		
Tax	-1.7	-2.64	-2.01	-1.26	-2.64	55.29%	109.52%
Net Profit	3.55	3.72	3.8	2.41	4.99	40.56%	107.05%
As a % of Sales	7.28%	7.41%	6.33%	6.23%	10.14%		
Equity	5	5	5	5	5	0.00%	0.00%
EPS (Rs)	0.71	0.74	0.76	0.48	1	40.85%	108.33%
CEPS (Rs)	0.81	0.83	0.85	0.58	1.1		
OPM %	14.73	17.14	13	14.36	19.22		
NPM %	7.28	7.41	6.33	6.23	10.14		

## Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17E	FY 18E
Net Sales	1,125	1,178	1,408	1,830	2,013	2,214	2,436
Other Operating Income	20	22	20	58	46	48	55
Expenditure	1,050	1,077	1,267	1,621	1,739	1,904	2,091
EBITDA	95	123	161	267	320	359	400
Depreciation	9	17	20	16	17	17	18
EBIT	86	106	141	251	304	342	383
Interest Expenses	38	46	53	61	72	76	85
PBT	48	60	87	190	232	266	297
Tax	16	22	32	69	83	94	106
Other Income	2	3	4	8	10	11	12
Extraordinary Items	-	-	-	(5)	-	-	-
Net Income Before Adjustment	34	41	60	124	159	182	204
Minority Int./Income from Assoc.	-	-	-	-	-	-	-
Adjusted PAT	34	41	60	124	159	182	204

## Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17E	FY 18E
Equity share capita	50	50	50	50	50	50	50
Reserves & surplus	241	273	309	402	497	606	727
Share Warrants	-	-	-	-	-	-	-
Misc Expenditure	-	-	-	-	-	-	-
Net worth	291	323	359	452	547	656	777
Minority Interest	-	-	-	-	-	-	-
Share Application Money	-	-	-	-	-	-	-
Loan Funds	40	27	22	20	16	14	12
Net deferred tax liability	6	11	12	12	12	12	12
Other Long-term Liabilities	-	-	-	-	-	-	-
Long-term Provisions	-	-	-	-	-	-	-
Total Liabilities	338	362	394	486	576	683	803
Net block	173	193	179	257	258	258	259
Investment, Loan & Adv.	22	10	11	13	18	17	19
Total Current Assets	631	725	813	1,039	1,200	1,380	1,587
Current Liabilities & Provisions	489	567	610	825	900	974	1,064
Net Current Assets	143	159	203	214	299	406	523
Total Assets	338	362	394	486	576	683	803

## Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 15A	FY 16E	FY 17E	FY 18E
Operating Cash Flow	172	207	204	233
Cash Flow from Investments	(96)	(26)	(21)	(25)
Cash Flow from Financing	(42)	(102)	(101)	(114)
Net Changes in Cash	34	79	81	94
Opening Cash	34	68	147	228
Closing Cash Balance	68	147	228	322

## Peer Comparison

Company	CMP (Rs)	P/E*	Mcap (Rs Cr)	Div Yld (%)	NP Qtr (Rs Cr)	Qtr Profit Var (%)	Sales Qtr (Rs Cr)	Qtr Sales Var (%)	CMP/BV
Pidilite Inds.	606	45.4	31,060.4	0.48	185.7	49.34	1,339.1	11.39	10.81
Solar Inds.	166	20.3	659.0	0.51	41.2	10.23	384.8	20.31	5.24
Vinati Organics	452	18.7	2,332.4	0.77	30.2	(2.11)	152.2	(24.68)	4.43
Meghmani Organ.	30	10.2	764.2	1.33	23.2	608.99	311.0	2.33	1.25
NOCIL	51	11.3	814.4	1.97	20.2	22.51	170.2	(3.91)	1.74
Anil	379	6.4	370.2	0.53	17.6	36.28	275.0	22.54	1.08
Sudarshan Chem.	109	14.1	752.2	1.61	13.2	21.53	272.0	10.77	2.28
Vidhi Dyestuffs	66	22.4	3,550.7	0.75	5.0	30.63	49.2	0.86	7.40

\*TTM

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1.Analyst ownership of the stocks mentioned above	No
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