

# DYNEMIC PRODUCTS LTD

28 Nov 2017

Initiating Coverage (BUY)

CMP

INR 182

Target Price

INR 219

Stock Details	
Industry	Specialty Chemicals
Bloomberg Code	DYPL:IN
BSE Code	532707
Face Value (Rs.)	10.00
Market Cap. (Rs. mn)	2056.6
52wk. Low/High (Adjusted) ((Rs.))	101.25/201.00

Shareholding Pattern Sept '17	
Promoter (%)	39.88
FII (%)	0.00
DII (%)	0.00
Public - Other (%)	60.12
No. of Share Outstanding (mn)	11.32

Valuation Summary				
	FY 16A	FY 17A	FY 18P	FY 19P
P/E (x)*	18.94	15.28	15.00	16.00
EV/EBITDA (x)	8.39	8.02	7.82	8.60
P/BV (x)	2.24	2.73	2.51	2.54

\*TTM for Current Year

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

Key Financial				
Rs. Mn	FY 16A	FY 17A	FY 18P	FY 19P
Net Sales	1,296	1,491	1,819	2,147
EBITDA	168	254	282	310
Net Profit	76	135	144	155
EPS (Rs.)*	06.7	11.9	12.8	13.7

\*Un adjusted

Key Ratios				
	FY 16A	FY 17A	FY 18P	FY 19P
EBITDA Margin (%)	13.0	17.0	15.5	14.4
EBIT Margin (%)	10.5	14.9	13.5	12.2
Net Pro. Margin (%)	5.8	9.0	7.9	7.2
Debt/Equity (x)	0.00	0.00	0.00	0.00
RoNW (%)	12.4	19.3	17.9	16.9
RoCE (%)	11.3	18.1	16.8	16.0

One Year Price / Volume



We recommend 'BUY' on DYNEMIC PRODUCTS LTD for a target of INR 219 - valuing the company at P/E 16x of FY19E Earning.

## INVESTMENT RATIONALE:

- Make in India campaign to supplement industry growth
- Indian Companies, in addition to catering to domestic demand growth, would also benefit for various products as Import substitutes and also increase global market share.
- The Net sales and PAT of the Company have grown and are further expected to see double digit growth in the coming few years on increasing demand for food colors in global as well as domestic markets.
- Its manufacturing facilities are well equipped and have standards and facilities that can match international norms & requirements.
- All the products manufactured by the Company meet the regulatory requirement of BIS, EU, FDA & WHO Specification, also it fulfill criteria of Kosher & Halal Certification.
- Its exports business accounted for 67% of total revenue. The exports of the Company are further expected to grow in double digit.

## VALUATIONS AND VIEW:

Dynemic stands among the major Food Colors manufacturers in India and one of the most reliable sources for entire range of Food Colors. In the span of few years company achieved success in India and overseas market. We value the business at 16x FY19E EPS and recommend a BUY rating on the stock with a target price of INR 219 per share.

## RISK & CONCERNS:

- **Exchange Fluctuation Risk:** Volatility of the Rupees vis-à-vis the Dollar and the Euro may affect our realizations.
- **Government Regulations:** Strict regulations regarding the inclusion of synthetic colors are restraining the market growth.
- **Volatility of Raw Material Prices:** Fluctuating and volatile prices of key raw materials.
- **Regulatory Environment:** Increasingly stringent regulatory environment.

## COMPANY BACKGROUND:

Dynemic Products Ltd. is an ISO 9001:2000 & HACCP Certified Company. We are one of the major manufacturer and exporter in India, offering complete range of Food Colors, Lake Colors, Blended Colors, FD&C Colors & Dye Intermediates.

In 1990 a team of directors, with expertise in every aspect of business decided to commence manufacturing of Dye Intermediates. The company started manufacturing of 1 4 SPCP (1:4 Sulphophenyl-3-Carboxy-5- Pyrazolone) & other pyrazolone based Dye Intermediates. In 1996, the time came to move one step ahead and the company decided to manufacture Synthetic Food Colors. A separate facility for the manufacturing of Food colors was set up, which marked the advent of our long journey to excellence.

In the span of few years company achieved success in India and overseas market. And today, Dynemic stands among the major Food Colors manufacturers in India and one of the most reliable sources for entire range of Food Colors.

All these goals of the company have translated into reality only because of the highly competent team of directors, headed by Mr. B.K.Patel, Managing Director and Mr. Dixit Patel, Marketing Director of the company having expertise in Marketing, Mr. R.B.Patel & Mr. D.P.Patel, who form a technical team and look after the production & quality control. What it has achieved in this long journey is customer's satisfaction by the means of providing Better Quality, Prompt Delivery & Competitive Prices.

### Segments-

- Food Colour
- Lake Colour
- Blended Colour
- FD & C Colour
- Salt Free Dyes
- Dyes Intermediates
- D&C Colour
- Natural Food Colours

## INDUSTRY OVERVIEW:

The food colors market size is projected to reach USD 3.75 Billion by 2022, at a CAGR of 8.40% from 2016. Asia-Pacific is the fastest growing region in the food colors market. Consumers in countries such as India, China, Indonesia, Australia, and Japan are gradually demanding better food products with increased shelf-life, texture, and appearance. Increase in consumer expenditures in these countries for food & beverages has been driving the market in the region. The market is expected to be of great potential in the region in the next five years and projected to grow significantly at the highest growth rate between 2016 and 2022.

## 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.	836	51.1	42,883.8	0.57	252.9	9.38	1,529.9	7.91	10.86
Solar Inds.	166	20.3	659.0	0.43	48.3	23.31	408.4	30.33	5.24
Meghmani Organ.	109	17.9	2,779.5	0.37	55.1	57.85	460.7	18.72	3.40
Himadri Specialt	169	46.6	7,064.8	0.06	51.2	168.70	468.0	36.95	5.99
Vinati Organics	975	37.6	5,012.7	0.05	29.2	(4.99)	160.7	14.92	6.77
Bodal Chemicals	172	16.9	2,104.7	0.41	31.2	(6.09)	272.0	(1.15)	5.39
<b>Dynemic Products</b>	<b>186</b>	<b>15.0</b>	<b>2,056.6</b>	<b>0.80</b>	<b>4.6</b>	<b>50.82</b>	<b>37.6</b>	<b>21.27</b>	<b>2.73</b>

\*TTM

## FINANCIAL OVERVIEW

### Q3 FY17 Performance Highlight

(in Million)	16-Sep	16-Dec	17-Mar	17-Jun	17-Sep	YoY (%)	QoQ (%)
Revenue	364.91	363.63	435.47	425.84	375.69	2.95%	-11.78%
Other Income	0.41	0.33	0.85	0.58	0.32		
Total Income	365.32	363.96	436.32	426.42	376.01	2.93%	-11.82%
Expenditure	-306.53	-298.06	-370.25	-370.07	-294.50		
As a % of Sales	84.00%	81.97%	85.02%	86.90%	78.39%		
Interest	-3.07	-3.81	-3.57	-3.93	-2.61	-14.98%	-33.59%
PBDT	55.73	62.1	66.07	56.35	81.51		
As a % of Sales	15.27%	17.08%	15.17%	13.23%	21.70%		
Depreciation	-7.89	-7.99	-8.05	-8.1	-8.38		
PBT	47.84	54.11	58.02	48.25	73.13	52.86%	51.56%
As a % of Sales	13.11%	14.88%	13.32%	11.33%	19.47%		
Tax	-17.32	-17.95	-19.64	-16.93	-27.09	56.41%	60.01%
Net Profit	30.52	36.16	38.38	31.32	46.04	50.85%	47.00%
As a % of Sales	8.36%	9.94%	8.81%	7.35%	12.25%		
Equity	113.28	113.28	113.28	113.28	113.28	0.00%	0.00%
EPS (Rs)	2.69	3.19	3.39	2.77	3.95	46.84%	42.60%
CEPS (Rs)	3.39	3.9	4.1	3.48	4.8		
OPM %	16.11	18.12	15.17	13.23	21.7		
NPM %	8.36	9.94	8.81	7.35	12.25		

## Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 14A	FY 15A	FY 16A	FY 17A	FY 18E	FY 19P	FY 20P
Net Sales	1,164	1,290	1,296	1,491	1,819	2,147	2,469
Other Operating Income	4	3	1	3	2	3	3
Expenditure	977	1,112	1,129	1,240	1,539	1,839	2,105
EBITDA	190	182	168	254	282	310	367
Depreciation	18	30	31	32	37	47	59
EBIT	172	152	137	222	245	263	307
Interest Expenses	14	22	21	15	24	25	31
PBT	158	129	116	207	221	238	277
Tax	56	35	40	72	77	83	96
Other Income	-	-	-	-	-	-	-
Net Income Before Adjustment	102	94	76	135	144	155	181
Minority Int./Income from Assoc.	-	-	-	(0)	-	-	-
Adjusted PAT	102	94	76	135	144	155	181

## Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 14A	FY 15A	FY 16A	FY 17A	FY 18E	FY 19P	FY 20P
Equity share capita	113	113	113	113	113	113	113
Reserves & surplus	376	471	527	641	747	861	994
Share Warrants	-	-	-	-	-	-	-
Misc Expenditure	-	-	-	-	-	-	-
Net worth	489	585	640	755	861	975	1,108
Minority Interest	-	1	1	1	1	1	1
Loan Funds	30	16	2	1	3	1	(1)
Net deferred tax liability	52	46	46	47	47	47	47
Other Long-term Liabilities	0	0	1	1	1	1	1
Long-term Provisions	-	-	-	-	-	-	-
Total Liabilities	572	648	690	806	913	1,026	1,158
Net block	407	438	438	446	480	654	815
Investment, Loan & Adv.	52	29	48	44	51	59	66
Total Current Assets	521	654	627	705	793	803	831
Current Liabilities & Provisions	407	474	424	392	412	492	557
Net Current Assets	114	180	203	313	381	312	274
Total Assets	572	648	690	806	913	1,026	1,158

## Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 17A	FY 18E	FY 19P	FY 20P
Operating Cash Flow	128	129	97	135
Cash Flow from Investments	(35)	(179)	(229)	(228)
Cash Flow from Financing	(96)	(19)	(12)	(25)
Net Changes in Cash	(3)	(68)	(144)	(118)
Opening Cash	26	23	(45)	(190)
Closing Cash Balance	23	(45)	(190)	(307)

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