

13 September 2016

Initiating Coverage (BUY)

PODDAR PIGMENTS

CMP

INR 213

Target Price

INR 278

Stock Details

Industry	DYES & PIGMENTS
Bloomberg Code	PPG:IN
BSE Code	524570
Face Value (Rs.)	10.00
Market Cap. (Rs. mn)	937.9
52wk. High/Low (Adjusted) ((Rs.)	118.1 / 230

Shareholding Pattern Jun '16

Promoter (%)	60.85
FII (%)	0.00
DII (%)	0.00
Public - Other (%)	39.15
No. of Share Outstanding (mn)	95.71

Valuation Summary

	FY 15A	FY 16A	FY 17P	FY 18P
P/E (x)*	3.02	12.32	12.00	12.50
EV/EBITDA (x)	1.85	9.60	7.17	6.89
P/BV (x)	.52	2.06	1.95	2.01

*TTM for Current Year

Based on Market Price as on 1st Apr is taken for Each FY

Key Financial

Rs. Mn	FY 15A	FY 16A	FY 17P	FY 18P
Net Sales	3458	3553	3908	4299
EBITDA	224	236	315	354
Net Profit	163	184	207	236
EPS (Rs.)*	15.4	17.3	19.5	22.22

*Un adjusted

Key Ratios

	FY 15A	FY 16A	FY 17P	FY 18P
EBITDA Margin (%)	7.0	7.3	8.8	9.0
EBIT Margin (%)	6.2	6.4	8.0	8.3
Net Pro. Margin (%)	5.1	5.6	5.8	6.0
Debt/Equity (x)	0.00	0.04	0.04	0.03
RoNW (%)	18.5	18.0	17.5	17.2
RoCE (%)	17.6	17.1	16.7	16.6

We recommend 'BUY' on PODDAR PIGMENTS for a target of INR 278 - valuing the company at P/E of 12.5x FY18E Earning.

INVESTMENT RATIONALE:

- Well diversified portfolio.
- Largest company in masterbatch industry
- Strong financial performance
- Constant increase in Net Profit
- Strong product growth prospects
- Expanding presence in existing markets and penetrating new geographic markets.
- Development of new products have generated additional business and increased customer base.
- Enhancing capabilities through technology alliances and acquisitions.

VALUATIONS AND VIEW:

It is a company focused on manufacture Masterbatches for dope dyeing of Polypropylene, Nylon & Polyester Multifilament Yarn/ Fibers. **We value the business at 12.5x FY18E EPS and recommend a BUY rating on the stock with a target price of INR 278 per share.**



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RISK & CONCERNS:

- **No barriers to entry:** The market is highly competitive with no fiscal barriers and no barrier to entry for new players.
- **Forex rate:** Fluctuations in foreign currencies also play a major role in the profitability of the Company.
- **Raw materials:** High fluctuation in the prices of raw material.
- **Receivables turnover:** Risks in settlement of dues by dealers/customers.

COMPANY BACKGROUND:

Poddar Pigments has the unique distinction of being the first Company in India to manufacture Masterbatches for dope dyeing of Polypropylene, Nylon & Polyester Multifilament Yarn/ Fibers. An ISO 9001:2008 QMS certified company manufacturing Color & Additive Masterbatches for dope dyeing of man- made fibers.

Products-

- Polyester
- Polypropylene
- Polyamide

INDUSTRY OVERVIEW:

The Indian dyestuffs and pigments industry has transformed from being import dependent to an export driven industry. Developed countries are now focusing on sourcing dyestuffs and pigments from cost-effective Asian markets, owing to stringent measures taken on environmental issues back home. Exports have grown in double digit over the last few years. The Indian dyestuff industry which was primarily established to meet the requirements of the textile industry has now expanded catering to several end user segments such as printing, leather; construction and automobile sectors. Some of the restraints for the industry are raw material volatility as well as environmental concerns.

Going forward, availability of skilled professionals and low cost of manufacturing coupled with R&D capabilities are seen as strong demand drivers for the dyestuff and pigments industry in India. Several multinational corporations have established facilities with world-class technologies with a view to tap the growing market. Growth in the end user segments, especially paints and coatings as well as textiles, is expected to drive the growth in the dyestuffs and pigments industry.

The Indian dyestuffs industry meets more than 95% of the domestic requirements. Textile industry is the leading end user segment followed by other end user segments such as paper, leather and other consumer industries.

The main end user of pigments in India are printing inks, plastics, rubber, paints and coatings. Among inorganic pigments, consumption of carbon black was estimated 431,000 tonnes and titanium dioxide consumption stood at around 61,000 tonnes in 2013-14. High performance pigments (HPP) and special effect pigments, such as metallic and pearlescent, are used as automotive coatings and are currently a nascent market in India.

The Indian dyestuff and pigments industry is highly fragmented with large number of small players in the unorganized sector. There are around 50 players in large scale and organised sector, located mainly in Gujarat and Maharashtra.

Some of the key players in the Indian dyes and pigments industry are Atul Ltd., BASF, Bodal Chemicals Ltd., Clariant Chemicals (India) Ltd., Golchha Pigments, Kiri Industries Ltd., Meghmani Dyes and Intermediaries, Pidilite Industries Ltd., Rathi Dye Chemicals Pvt. Ltd., Sudarshan Chemical Industries Ltd.

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.	706	45.1	36,202.6	0.59	272.2	16.03	1,569.4	6.80	11.85
Solar Inds.	166	34.6	5,953.8	0.68	47.1	13.14	424.9	10.43	6.51
Vinati Organics	597	22.6	3,077.9	0.67	35.7	15.08	167.1	2.28	5.34
Meghmani Organ.	41	12.1	1,043.9	0.73	18.9	274.01	360.5	16.65	1.58
Sudarshan Chem.	393	32.0	2,717.5	0.76	31.5	73.04	336.8	14.46	7.58
NOCIL	68	13.2	1,107.6	1.74	23.2	38.59	192.8	3.64	2.26
INEOS Styrolut.	599	17.7	1,053.3	0.67	15.0	(44.72)	380.4	(17.07)	1.98
Poddar Pigments	222	12.0	236.0	1.12	5.0	33.69	85.7	13.83	2.06

*TTM

FINANCIAL OVERVIEW

Q4 FY16 Performance Highlight								
(in Million)	4Q FY15	1Q FY16	2Q FY16	3Q FY16	4Q FY16	YoY (%)	QoQ (%)	
Revenue	75.32	78.99	83.85	87.83	85.74	13.83%	-2.38%	
Other Income	0.67	1.07	1.15	1.64	1.36			
Total Income	75.99	80.06	85.00	89.47	87.11	14.63%	-2.64%	
Expenditure	-69.99	-73.74	-77.89	-80.75	-79.57			
As a % of Sales	92.92%	93.35%	92.89%	91.94%	92.80%			
Interest	-0.14	-0.1	-0.09	-0.1	-0.05	-64.29%	-50.00%	
PBDT	5.87	6.22	7.02	8.61	7.49			
As a % of Sales	7.79%	7.87%	8.37%	9.80%	8.74%			
Depreciation	-0.65	-0.66	-0.66	-0.66	-0.65			
PBT	5.22	5.57	6.36	7.95	6.84	31.03%	-13.96%	
As a % of Sales	6.93%	7.05%	7.58%	9.05%	7.98%			
Tax	-1.45	-1.45	-1.5	-2.36	-1.8	24.14%	-23.73%	
Net Profit	3.77	4.12	4.86	5.59	5.04	33.69%	-9.84%	
As a % of Sales	5.01%	5.22%	5.80%	6.36%	5.88%			
Equity	10.61	10.61	10.61	10.61	10.61	0.00%	0.00%	
EPS (Rs)	3.55	3.88	4.58	5.27	4.75	33.80%	-9.87%	
CEPS (Rs)	4.16	--	5.2	5.89	5.36			
OPM %	7.97	8	8.48	9.92	8.79			
NPM %	5	5.21	5.8	6.37	5.88			

Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16A	FY 17P	FY 18P
Net Sales	2,756	3,132	3,183	3,260	3,586	3,944	4,339
Other Operating Income	-	-	-	-	-	-	-
Expenditure	2,555	2,911	2,959	3,024	3,303	3,627	3,997
EBITDA	200	221	224	236	283	317	342
Depreciation	27	26	28	26	27	27	27
EBIT	174	195	196	210	256	290	315
Interest Expenses	17	12	6	4	6	6	7
PBT	157	183	190	206	250	284	308
Tax	47	56	56	68	76	86	94
Other Income	19	17	29	45	32	37	45
Extraordinary Items	(1)	(10)	-	-	-	-	-
Net Income Before Adjustment	128	135	163	184	207	236	259
Minority Int./Income from Assoc.	-	-	-	-	-	-	-
Adjusted PAT	128	135	163	184	207	236	259

Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16A	FY 17P	FY 18P
Equity share capita	106	106	106	106	106	106	106
Reserves & surplus	606	712	840	992	1,163	1,357	1,571
Share Warrants	-	-	-	-	-	-	-
Misc Expenditure	-	-	-	-	-	-	-
Net worth	712	818	946	1,098	1,269	1,464	1,677
Minority Interest	-	-	-	-	-	-	-
Share Application Money	-	-	-	-	-	-	-
Loan Funds	-	-	-	43	45	43	41
Net deferred tax liability	37	41	41	-	-	-	-
Other Long-term Liabilities	6	5	7	7	8	8	9
Long-term Provisions	-	-	-	-	-	-	-
Total Liabilities	755	866	995	1,149	1,322	1,517	1,729
Net block	303	282	262	253	367	350	332
Investment, Loan & Adv.	50	18	22	45	20	22	24
Total Current Assets	787	908	948	1,068	1,146	1,507	1,753
Current Liabilities & Provisions	386	342	238	219	211	364	382
Net Current Assets	401	566	710	849	935	1,143	1,371
Total Assets	755	866	995	1,149	1,322	1,517	1,729

Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 15A	FY 16A	FY 17P	FY 18P
Operating Cash Flow	44	340	335	236
Cash Flow from Investments	(81)	16	(12)	(12)
Cash Flow from Financing	(14)	(36)	(45)	(49)
Net Changes in Cash	(51)	320	278	174
Opening Cash	28	(51)	269	547
Closing Cash Balance	(23)	269	547	722

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