

02 December 2016

Initiating Coverage (BUY)

ULTRAMARINE & PIGMENTS LTD

CMP

INR 170

Target Price

INR 226

Stock Details

Industry	SPECIALTY CHEMICALS
Bloomberg Code	UMP:IN
BSE Code	506685
Face Value (Rs.)	2.00
Market Cap. (Rs. mn)	5035.3
52wk. Low/High (Adjusted) ((Rs.))	88.60/212.00

Shareholding Pattern Sept '16

Promoter (%)	52.54
FII (%)	0.00
DII (%)	0.00
Public - Other (%)	47.46
No. of Share Outstanding (mn)	29.20

Valuation Summary

	FY 15A	FY 16A	FY 17P	FY 18P
P/E (x)*	09.64	18.09	17.00	15.00
EV/EBITDA (x)	5.28	11.35	9.80	9.10
P/BV (x)	1.82	4.32	4.14	4.25

*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	1,722	2,202	2,643	3,171
EBITDA	312	426	495	655
Net Profit	187	274	320	439
EPS (Rs.)*	6.4	9.4	11.0	15.0

*Un adjusted

Key Ratios

	FY 15A	FY 16A	FY 17P	FY 18P
EBITDA Margin (%)	17.9	18.9	18.7	20.3
EBIT Margin (%)	16.1	17.5	17.4	19.1
Net Pro. Margin (%)	10.8	12.1	12.1	13.6
Debt/Equity (x)	0.00	0.00	0.00	0.00
RoNW (%)	19.6	25.6	26.0	30.7
RoCE (%)	18.1	23.8	24.2	28.7

One Year Price / Volume



We recommend 'BUY' on ULTRAMARINE & PIGMENTS LTD for a target of INR 226 - valuing the company at P/E 15x of FY18E Earning.

INVESTMENT RATIONALE:

- Ultramarine & Pigments Ltd is one of the largest Pigment and Surfactant manufacturing company of Indian origin.
- Efforts to bring in more value added products in Pigment division.
- Utilization of the sulphonation plant capacity will also improve due to committed off take of sulphonated products by leading corporates.
- High profitability and revenue.
- Renewed focus on improving the operational efficiency, broadening of customer base and enhancing the revenues of the domestic division.
- Company has been maintaining a healthy dividend payout.

VALUATIONS AND VIEW:

Ultramarine & Pigments Ltd is one of the largest Pigment and Surfactant manufacturing company of Indian origin. It endeavor to serve the customers with range of inorganic pigments, detergents and cosmetic grade surfactants. It also offers dry mix detergents. The company provides IT enabled and business process outsourcing services, as well as generates power from wind turbines. **We value the business at 15x FY18E EPS and recommend a BUY rating on the stock with a target price of INR 226 per share.**

RISK & CONCERNS:

- **Competition:** The domestic market for pigments continued to pose challenge both in the form of competition from unorganised sector & shrinking demand for laundry and white washing applications.
- **Volatility in crude prices:** Availability of Alpha Olefin, a key imported raw- material of Sulphonation division continues to be erratic & volatility in crude price may result in inventory loss; these are beyond our control. Any increase in sales volume through traders impacts the collection cycle & debtors outstanding.
- **Shrinking Demand:** Shrinking demand for laundry and white washing applications, and slowdown in manufacturing sector.
- **Erratic supply:** Erratic supply of Alpha Olefin due to fluctuations in crude pricing, which has an adverse impact on surfactants division.
- **Limited revenues:** Overheads for retail sales promotions and distributions remain prohibitively high, and are currently limiting revenues from our retail sales.

COMPANY BACKGROUND:

Ultramarine & Pigments Ltd incorporated in 1960, is one of the largest Pigment and Surfactant manufacturing company of Indian origin. It endeavor to serve the customers with range of inorganic pigments, detergents and cosmetic grade surfactants. It also offers dry mix detergents. The company provides IT enabled and business process outsourcing services, as well as generates power from wind turbines.

Ultramarine & Pigments Ltd. was exporting to the Soviet Union. At present, the company exports its products the US and Europe. This is the only company in India to receive the ISO 9002 certification for both laundry and industrial grades of ultramarine blue. It endeavor to constantly meet the needs and expectations of their customers by offering quality products and services, and do so within an uncompromising social commitment.

Products-

- Pigments
- Surfactants
- Detergents

INDUSTRY OVERVIEW:

The chemical industry in India is a key constituent of Indian economy, accounting for about 2.11 per cent of the gross domestic product (GDP). In terms of volume of production, Indian chemical industry is the third largest producer in Asia and sixth largest in the world. India's growing per capita consumption and demand for agriculture-related chemicals offers huge scope of growth for the sector in the future. Lured by the size and returns of the Indian market, foreign firms have strengthened their presence in India.

The Government of India has been supportive to the sector. 100 per cent FDI is permissible in the Indian chemicals sector while manufacturing of most chemical products is de-licensed. The government has also been encouraging Research and Development (R&D) in the sector. Moreover, the government is continuously reducing the list of reserved chemical items for production in the small-scale sector, thereby facilitating greater investment in technology up-gradation and modernisation. The Government has launched the Draft National Chemical Policy, which aims to increase chemical sector's share in country's GDP.

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.	642	39.1	32,916.3	0.65	231.2	13.15	1,417.7	7.52	10.02
Solar Inds.	666	34.8	6,028.0	0.68	36.9	0.19	328.3	(0.98)	6.33
NOCIL	70	11.8	1,135.1	1.70	46.0	67.00	181.3	(0.04)	2.11
Sudarshan Chem.	315	23.4	2,178.6	0.95	26.7	45.31	339.4	5.00	5.66
Meghmani Organ.	42	11.5	1,071.9	0.71	25.2	10.07	388.0	7.64	1.56
INEOS Styrolut.	598	15.1	1,052.4	0.67	19.2	29.29	393.3	(2.08)	1.91
Ultramarine Pig.	174	15.9	5,447.8	2.02	8.9	24.26	63.7	15.96	4.32

*TTM

FINANCIAL OVERVIEW

Q4 FY16 Performance Highlight							
(in Million)	4Q FY15	1Q FY16	2Q FY16	3Q FY16	4Q FY16	YoY (%)	QoQ (%)
Revenue	54.95	59.21	55.15	56.25	63.72	15.96%	13.28%
Other Income	1.27	1.41	1.76	0.46	0.35		
Total Income	56.22	60.62	56.91	56.71	64.07	13.96%	12.98%
Expenditure	-45.34	-48.50	-46.00	-44.90	-50.13		
As a % of Sales	82.51%	81.91%	83.41%	79.82%	78.67%		
Interest	-0.06	-0.06	-0.15	--	-0.03	-50.00%	
PBDT	10.82	12.06	10.76	11.81	13.91		
As a % of Sales	19.69%	20.37%	19.51%	21.00%	21.83%		
Depreciation	-0.76	-0.81	-0.92	-0.98	-1.03		
PBT	10.06	11.25	9.84	10.83	12.88	28.03%	18.93%
As a % of Sales	18.31%	19.00%	17.84%	19.25%	20.21%		
Tax	-2.93	-3.46	-2.63	-3.59	-4.02	37.20%	11.98%
Net Profit	7.13	7.79	7.21	7.24	8.86	24.26%	22.38%
As a % of Sales	12.98%	13.16%	13.07%	12.87%	13.90%		
Equity	5.84	5.84	5.84	5.84	5.84	0.00%	0.00%
EPS (Rs)	2.44	2.67	2.47	2.48	3.03	24.18%	22.18%
CEPS (Rs)	2.7	2.95	2.78	2.82	3.39		
OPM %	19.8	20.47	19.78	21	21.88		
NPM %	12.98	13.16	13.07	12.87	13.9		

Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17P	FY 18P
Net Sales	1,399	1,505	1,722	2,202	2,643	3,171	3,742
Other Operating Income	38	31	17	50	-	55	62
Expenditure	1,190	1,254	1,428	1,826	2,148	2,571	2,991
EBITDA	247	282	312	426	495	655	814
Depreciation	58	56	32	32	35	38	41
EBIT	189	225	280	394	460	618	773
Interest Expenses	16	10	5	4	6	6	8
PBT	174	216	275	390	454	612	765
Tax	52	72	88	117	133	172	210
Other Income	-	-	-	-	-	-	-
Extraordinary Items	-	-	-	-	-	-	-
Net Income Before Adjustment	121	144	187	274	320	439	555
Minority Int./Income from Assoc.	-	-	-	-	-	-	-
Adjusted PAT	121	144	187	274	320	439	555

Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17P	FY 18P
Equity share capital	58	58	58	58	58	58	58
Reserves & surplus	805	863	936	1,087	1,258	1,492	1,787
Share Warrants	-	-	-	-	-	-	-
Misc. Expenditure	-	-	-	-	-	-	-
Net worth	863	922	995	1,145	1,316	1,550	1,845
Minority Interest	-	-	-	-	-	-	-
Share Application Money	-	-	-	-	-	-	-
Loan Funds	20	-	-	-	2	0	(2)
Net deferred tax liability	54	50	58	79	79	79	79
Other Long-term Liabilities	-	-	-	-	-	-	-
Long-term Provisions	32	33	11	13	16	19	23
Total Liabilities	969	1,006	1,065	1,240	1,414	1,650	1,947
Net block	430	421	397	545	563	630	693
Investment, Loan & Adv.	204	218	217	233	119	143	169
Total Current Assets	557	630	771	750	1,348	1,598	1,917
Current Liabilities & Provisions	221	266	321	291	617	723	834
Net Current Assets	335	365	450	459	730	875	1,083
Total Assets	969	1,006	1,065	1,240	1,414	1,650	1,947

Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 15A	FY 16E	FY 17P	FY 18P
Operating Cash Flow	269	426	314	562
Cash Flow from Investments	(82)	60	(129)	(131)
Cash Flow from Financing	(232)	(4)	(158)	(215)
Net Changes in Cash	(45)	482	27	215
Opening Cash	161	116	598	625
Closing Cash Balance	116	598	625	840

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