

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

Disclaimer: This document has been prepared by Wealth Discovery Securities Private Limited (hereinafter referred to as WD) to provide information about the company (ies) and/sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company (ies). This report is for personal information of the selected recipient/s and does not construe to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and Wealth Discovery Securities Private Limited (hereinafter referred as WD) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your general information and should not be reproduced or redistributed to any other person in any form. This report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur.

WD generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, WD generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing among other things, may give rise to real or potential conflicts of interest. WD and its affiliated company(ies), their directors and employees and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the affiliates of WD even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report. Reports based on technical and derivative analysis center on studying charts company's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamental analysis. In addition WD has different business segments / Divisions with independent research separated by Chinese walls catering to different set of customers having various objectives, risk profiles, investment horizon, etc., and therefore may at times have different contrary views on stocks sectors and markets.

Unauthorized disclosure, use, dissemination or copying (either whole or partial) of this information, is prohibited. The person accessing this information specifically agrees to exempt WD or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold WD or any of its affiliates or employees responsible for any such misuse and further agrees to hold WD or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays. The information contained herein is based on publicly available data or other sources believed to be reliable. Any statements contained in this report attributed to a third party represent WD's interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation has not been reviewed by the third party. This Report is not intended to be a complete statement or summary of the securities, markets or developments referred to in the document. While we would endeavor to update the information herein on reasonable basis, WD and/or its affiliates are under no obligation to update the information. Also there may be regulatory, compliance, or other reasons that may prevent WD and/or its affiliates from doing so. WD or any of its affiliates or employees shall not be in any way responsible and liable for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. WD or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and no infringement. The recipients of this report should rely on their own investigations.

WD and its associates have not received any compensation or other benefits from the subject company or third party in connection with the research report. Subject Company may have been a client of WD or its associates during twelve months preceding the date of distribution of the research report WD and/or its affiliates and/or employees may have interests/positions, financial or otherwise of over 1 % at the end of the month immediately preceding the date of publication of the research in the securities mentioned in this report. To enhance transparency, WD has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of WD research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues

Disclosure of Interest Statement	Ultramarine & Pigments Ltd.
1.Analyst ownership of the stocks mentioned above	No
2.Served as an officer, director or employee	No

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject WD & its group companies to registration or licensing requirements within such jurisdictions.

Wealth Discovery

Transforming Knowledge into Wealth.

COMPLETE WEALTH MANAGEMENT SOLUTIONS !



Understanding financial needs.
Optimising returns...

Head Office

Wealth Discovery Securities Pvt. Ltd.

1206, 12th Floor,
Kailash Building K.G. Marg.
Connaught Place
New Delhi-110001

Telephone:
91 +11-43444-666
91 +11-43444-623

Email:
info@wealthdiscovery.in

Website:
<http://www.wealthdiscovery.in>