

Equity Tips



# CHD CHEMICAL RESEARCH REPORT

BSE Symbol

CHDCHEM

BSE Code

539800

CMP

39

Target(ShortTerm)

100

Target(LongTerm)

125

BUY

Recommendation

# ABOUT CHD CHEMICAL COMPANY



## BUY

BSE Symbol	CHDCHEM
BSE Code	539800
Recommendation	BUY
CMP	39
Target(ShortTerm)	100
Target(Long Term)	125
Face Value	10.00
Book Value	360
Promoter Stake	61
Pledged	NIL

**CHD Chemicals Limited, formerly CHD Chemicals Private Limited, is a chemicals and dyes trading and distribution company. The Company is engaged in the sale of industrial chemicals. It is engaged in the trading and distribution of chemicals and dyes for textiles industry, leather and paper industries. It also deals in construction chemicals. The Company offers a range of products, which include Auxiliaries: dyeing; Auxiliaries: Easy Care Finishing; Auxiliaries: Finishing; Auxiliaries Flame Retardant; Auxiliaries: optical Brightener; Auxiliaries: Pigment printing; Auxiliaries: Per-treatment; Auxiliaries: Printing (other); Auxiliaries Softener; Auxiliaries: Water Repellent; Auxiliaries: Acid Dye; Auxiliaries: Direct Dye; Auxiliaries: Disperse Dye; Auxiliaries: Ink for Digital printing; Auxiliaries: Reactive Dye; Auxiliaries: Vat Dye; Auxiliaries: Anti foaming/Deaerating; Auxiliaries: Detergent (Per-Treatment), and Basic chemicals. It caters to retailers in Northern region of India.**

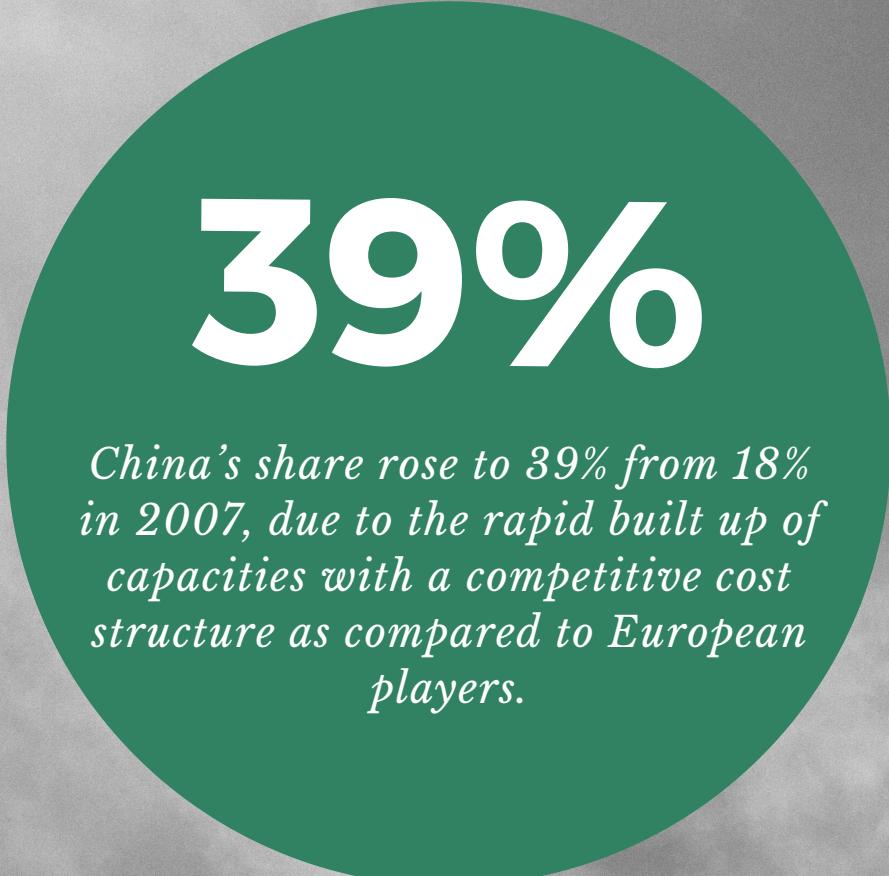
# KEY INVESTMENT HIGHLIGHTS

## WAYS TO PLAY THE GROWTH IN THE CHEMICAL SECTOR

We believe that companies exposed to pharmaceutical and agrochemical industries, which appear to be bright spots, could provide good investment opportunities. Additionally, strong technical and technological expertise and track record in the export markets would bode well for long-term growth. However, given the strength in business model and earnings visibility of a few such companies, valuation levels may fairly represent the growth and the play will be mostly on their earnings momentum.

## VALUATION & OUTLOOK

Year to March (INR crore)	FY18	FY19	FY20	FY21E	FY22E
Net revenue	3,806	4,705	4,620	4,208	5,212
EBITDA	699	965	977	1,091	1,419
Adjusted PAT	332	491	536	537	752
EBITDA margin (%)	14.5	17.0	17.1	20.2	21.5
PAT margin (%)	9.0	10.7	11.8	13.0	14.7
EPS basic(%)	20.4	28.3	30.9	31.0	43.4
Diluted P/E (x)	45.1	32.5	29.8	29.7	21.2
EV /EBITDA (x)	24.5	18.3	18.0	16.4	12.1
RoCE (%)	16.6	18.1	16.0	16.2	18.9



**39%**

*China's share rose to 39% from 18% in 2007, due to the rapid built up of capacities with a competitive cost structure as compared to European players.*



**3%**

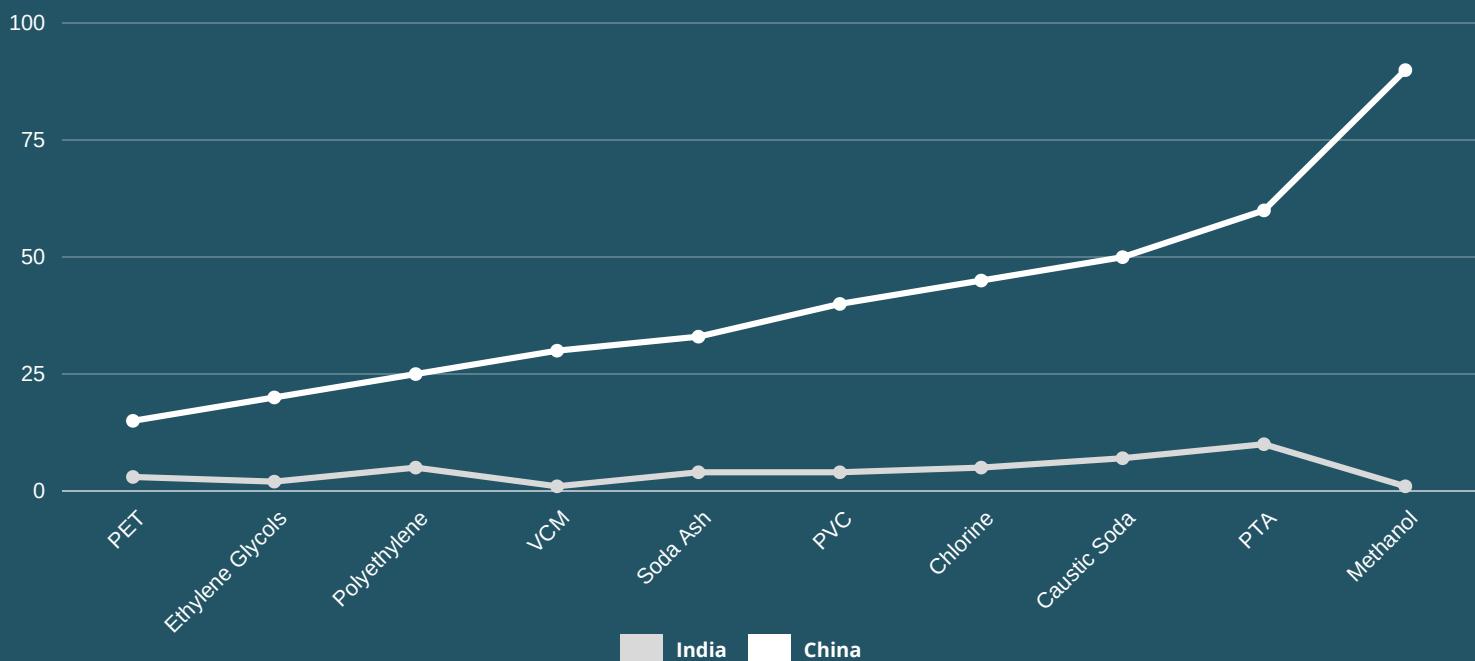
*India contributes ~3% of global chemical sales despite being the the sixth largest chemical industry globally, behind China, EU, the US, Japan and South Korea*

# CAPACITIES OF SOME KEY CHEMICALS IN INDIA AND CHINA

Owing to this, we believe China will continue to be a formidable player in bulk chemicals. Any incremental demand for bulk chemicals in the export market for Indian producers would need to be supplemented by sizeable capital expenditures, which would come with a lead time.

**57%**  
*stock maturity*

**38%**  
*finance growth*

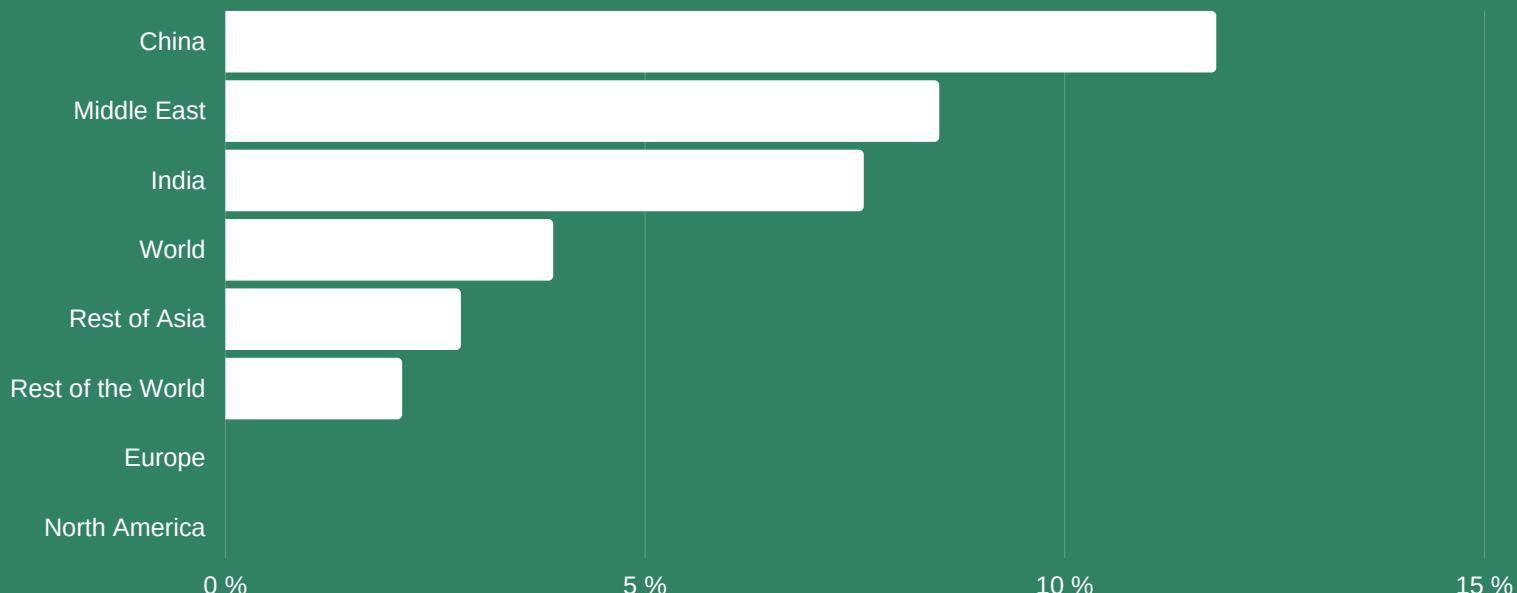


Owing to this, we believe China will continue to be a formidable player in bulk chemicals. Any incremental demand for bulk chemicals in the export market for Indian producers would need to be supplemented by sizeable capital expenditures, which would come with a lead time. We expect that competition for grabbing this part of the pie will also be higher among geographies. However, given the difference in the scale of capacities between China and India, we believe a small shift from China to India would bode well for Indian manufacturers in the bulk chemical segment.

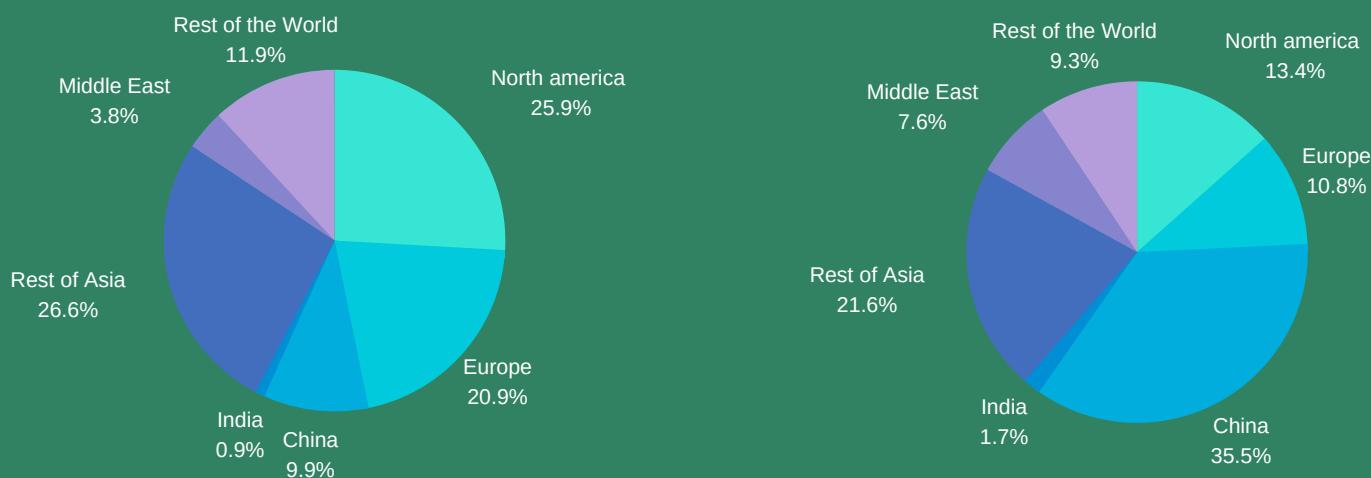
Parallelly, Indian manufacturers are well positioned to capture market share in specialty chemicals, which are smaller volume products with generally a higher margin profile as compared to bulk chemicals.

In comparison, Indian capacities are considerably lower and several of them are running close to optimum utilisation for most products.

## GROWTH IN PRODUCTION VOLUME OVER (2000-17)



## CAPACITY GROWTH IN GLOBAL CHEMICAL INDUSTRY OVER 2000-17 (IN MT)



## STATISTICS

- The compounded annual growth rate (CAGR) in production volumes of the Indian industry was quite strong (at 7.6%) and almost twice the rate of global growth (at 3.8%), but was behind that of China (sole key country recording a double-digit growth of 11.8%) and Middle East (~8.5%) over 2000-2017. In comparison, the same for developed countries in Europe and North America remained flat at an aggregate level.
- In the process, Indian capacities almost quadrupled over this period to 39 MT from 11 MT. India, China and Middle East were the key regions that helped in doubling the global capacity during this period. While Middle East's capacities rose to 494 MT in 2017 from 316 MT in 2000, China's volumes increased an astonishing 8x during this period.

# A GLOBAL REVIEW

End-user segment	Near-term impact	Comment
Pharmaceuticals		Limited impact on the demand side. Sourcing raw material from China can be challenging in some cases.
Agrochemicals		Limited impact on the demand side. Sourcing raw materials from China can be challenging in some cases.
Hygiene and personal care		Demand can be high due to greater focus on hygiene: soaps and hand sanitisers
Flavours and Fragrances, Food additives		Low impact on the demand side. Some discretionary consumption may see softened demand in the short term
Alkali Chemicals		Some impact may be visible due to lower demand from glass (used in auto sector), which may be offset by higher demand from detergents.
Colourants		Moderate impact may come from lower demand from automobiles/textiles.
Polymers and additives		Moderate impact may come from lower demand from auto and aviation segments.
Rubber Chemicals		Moderate to high impact seen from lower tyre sales to original equipment manufacturers (OEMs), partly offset by replacement demand.

The company has developed capabilities in undertaking reactions like chlorination and nitration (which contributes 30%) as well as in areas like ammonolysis, hydrogenation and halex chemistry. The company continues to focus on research and development, demonstrated by opening a new R&D centre with focus on newer chemistries like photochlorination, which could be a revenue contributor from FY23 onwards. A diverse set of products reduces product concentration risks with the top-10 products contributing 55% revenue in the speciality chemicals segment. AIL's products go to a host of end-industries like agrochemicals, dyes and pigments, polymer additives, etc. The company has a fast-growing pharma business, which exports a large share to both regulated and non-regulated markets. Products in this segment are in the area of APIs, active ingredients as well as xanthine derivatives.

**BUY** CHDCHEM  
BSE CODE 539800

**₹ 100**

One Month  
Target

**₹ 125**

Two Month  
Target

**₹ 150**

SHORT TERM

**₹ 200**

LONG TERM