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Game Changer Stock Idea

Date: 18th January, 2021

The Dharamsi Moraji Chemical Co. Ltd.

More than just a Bulk Chemical Company

Inside the Report

Delayed Gratification

An ability to think long term, set long term goals/expectations and a capacity and a willingness to suffer (or reinvest) to meet those long term goals are an important assessment of management quality. In some cases, an ability to set and manage long term expectations alleviates a need to suffer, although more often than not, suffering is inevitable until a company can establish a certain reputation.

This idea of "Capacity to suffer" is closely connected with the idea of "delayed gratification". Delayed gratification happens when someone resists the temptation of an immediate reward in preference for a later reward. Delayed gratification is associated with resisting a smaller but more immediate gain in order to receive a larger or more enduring reward later.

Capacity to suffer was introduced by Tom Russo, a pre-eminent value investor of our times who manages over US$ 12 billion as a partner at Gardner Russo & Gardner.

Russo's focus is on businesses that can delay the gratification, i.e., they have the capacity to suffer. A business that has the capacity to suffer can continue to reinvest their returns at high rates of return. Such businesses forego the opportunity to take a short-term profit, i.e., suffer in the short term, in favor of investing for the long term, and have the wherewithal to do that year after year even in the bad years. Looking for the capacity to suffer in a business is nothing but looking for the margin of safety.

"The Investment we are making will result hopefully for greater shareholder value long term which is far exceed any of the any short term benefit of dividend."

"The next 2-3years we are of course optimistic that's why we are putting a significant amount of money, significant amount of resources and after becoming a zero debt company we are again taking on debt, so we believe the market is out there, we believe we are well positioned to take advantage of some growth in some sectors therefore we have a positive outlook." – *Bimal Goculdas, 99th AGM*

Our latest Game Changer recommendation "Dharamsi Moraji Chemical Company" is going through this phase of suffering and delayed gratification.

The company has been undergoing the biggest capex ever done in its 100 year history. This is not only going to take care of its bulk chemical supply in the foreseeable future but also will provide a strong foundation for the development and production of value added downstream products. The management has already proven its competence in turning around the company from loss making to one of the largest global specialty player in Sulphur chemistry.

We believe they can replicate this success in its other categories and diversify its revenue streams.

Company Snapshot

- **Total Weightage % in portfolio = 6%**
- **Best buying range = Buy 4% between 185-200 and add 2% if price corrects to 120-130 range.**
- **Price target =Around 350-400 in next 12-18 months, 800+ in next 3-4 years and 10x in next 5-6 years.**

Market Price on 14th Jan 2021 (Reco date) – 185

BSE Code - 506405

Bloomberg Code - DMCC:IN

Market Cap (INR Cr.) – 496.00

52 Week High / Low – 225.00 / 52.00

Promoter's Holding – 53.30%

Pledged Percentage - 0%

Business : Incorporated in 1919, Dharamsi Moraji Chemical Company Ltd. (DMCC) was the first producer of Sulphuric Acid & Phosphate Fertilizers in the country. Predominantly known for Single Superphosphate (fertilizer) for almost entirety of its life. **DMCC currently is a fully-integrated specialty chemical player in Sulphur, Boron and Ethanol chemistry.** The company has 2 manufacturing units and exports its products to over 25+ countries. DMCC is backward integrated for its value added products.

Management : **DMCC is led by Mr. Bimal Goculdas. Mr. Bimal has been instrumental in turning around the company from loss making to a preferred global supplier in specialty chemicals.** Over the years he has demonstrated his competence by scaling up the specialty chemicals division and R&D capabilities of the company. He comes across an owner-operator that we want to piggy back.

Valuation : **The company is currently available at a PE of less than 15, which we believe is because the market still considers DMCC as a bulk chemical company but not as a specialty chemical company.** We expect the company's valuation to improve as they develop newer specialty products while maintaining its leadership in existing key products. Turning around its underperforming Boron business will also boost the earning potential of the company.

Risks : Execution Risk, Product Concentration. Commodity Prices Fluctuation and Forex Volatility

Is it India's time in Specialty Chemicals?

China has cracked down on environment scofflaws, forcing some small chemical makers there to shut down; US President Donald Trump is making it hard to do business with China through a combination of import tariffs and intellectual property prosecutions; and COVID-19 is making all chemical buyers rethink and diversify their supply chains.

India's specialty chemical companies are gaining favor with global multinational corporations because of the geopolitical shift after the new coronavirus outbreak as the world looks to reduce its dependence on China. However, one must not think that this change is going to happen overnight.

Indian companies still have a long way because of China's superior position in the global chemical market. India's neighbor accounts for around 35% of the world's chemical markets and 17-18% of the world's exportable specialty chemicals material. In comparison, domestic industry has a mere 5-6% share. While this means the country has large scope of improvement, it also has to face short-term and longer-term challenges to reach its potential.

India has many hurdles to clear—environmental, safety, logistical, and political—before it becomes a preferred chemical supplier around the globe. Companies also have to focus on improving efficiency, bringing in new technology and expanding portfolio.

Costlier logistics due to inadequate infrastructure, modest size, limited raw material availability, and high power costs are some hurdles that the companies have to cross.

India has some inherent growth drivers, including a huge local demand base, significant exports with room to expand, and significant imports with scope for domestic substitution.

Cost of manufacturing in India is among the lowest globally. While costs are low for China as well, they are expected to increase due to high overheads for adhering to stricter environmental rules.

"As I mentioned the Indian Chemical industry is well placed as an alternative to China. Apart from India there is no other viable alternative, people do talk about Vietnam, Philippines, Malaysia but they don't have the scale or the depth". – ***Bimal Goculdas***

"An important factor in favor of Indian companies is their growing competitiveness vis-à-vis producers from other countries" - *Rajendra Gogri, chairman of Aarti Industries*

Tailwinds In Motion

Being a B2B business industry, the growth of the industry tends to mimic the growth of its end-user industry. We believe that companies supplying specialty chemicals to pharmaceutical and agrochemical industries are in a sweet spot due to (1) steady growth and (2) stringent regulations that create entry barriers for competitors. Additionally, strong technical and technological expertise and track record in the export markets would bode well for long-term growth.

When compared globally, India contributes ~3% of global chemical sales despite being the sixth largest chemical industry globally, behind China, EU, the US, Japan and South Korea. India is the third largest consumer of polymers in the world, fourth largest producer of agrochemicals in the world and sixth largest producer of chemicals in the world. The analysis of India's chemical exports and imports opens up doors to two opportunities: (1) building self-sufficiency in chemicals and petrochemicals to plug the domestic supply shortfall and (2) increasing exports in value-added products and specialty chemicals.

Initially, Indian specialty chemical manufacturers became 'tollers' for their customers as they provided them with the advantage of being low-cost producers. Gradually, specialty chemical companies started focusing on aspects beyond the traditional cost advantages. Since then, these companies have shown remarkable results in areas of technological proficiency, ability to create brands and distribution network, developing scale and creating operational efficiencies. This shift has enabled them to secure the confidence of their customers and step up their position in the value chain to become 'custom chemical producers’.

We remain positive on the fact that any shift is a tailwind for R&D driven companies in the specialty chemicals space, who are collaborating with global innovators through contract research/manufacturing/custom synthesis business models. A lower cost base, availability of technically skilled manpower and stronger intellectual property laws position Indian companies as capable partners for global players.

Indian manufacturers import a large share of their raw materials and API intermediates from China. Disruptions over the last two years have added significantly to the challenges, and we are seeing trends among manufacturers to shift their raw material sourcing to other geographies or become self sufficient. As a response, we see several companies undertaking capex for products which will be import substitutes.

India’s market share in key products like API intermediates, agrochemicals and colorants range from around a half to a third of China’s market share. It’s relatively better position in specialty chemicals (as compared to bulk chemicals) implies better market penetration by Indian companies and hence could lead to more engagements with global players going forward.

Investment Rationale

Tailwinds

Chemical Shutdown in China & West

Growing Technological Expertise & Economies of Scale of Indian Players

China +1 = Partner of Choice

Intermediates Opportunity – Agrochemicals & Pharmaceuticals

Fully Backward Integrated – Lowest Cost Manufacturer

Increasing focus towards specialty chemicals

Continued Leadership in Top 3 products

Entry Barriers – High Lead time and Stringent Regulatory Compliances

Undergoing Biggest Capex in its history

Turning around underperforming Boron business

Evolution

FOCUS ON FERTILIZER BUSINESS

- Incorporated in the year 1919, commenced operations as a manufacturer of Sulphuric Acid and Single Superphosphate Fertilizers.
- For majority of its existence, the company focused on the fertilizer business, which at point contributed ~ 75% of the revenues.
- Debt heavy balance sheet and stretched working capital
- Company was consistently making losses since 2006.

RESTRUCTURING AND TRANSITION TIMEFRAME 2007-2011

- New CEO from promoter family inducted – Bimal Goculdas
- Exited the loss making fertilizer business in 2009 and focused on strengths.
- Strategy to backward integrate and to be the preferred global supplier (in top 3) in all key products
- Repaired balance sheet – became debt free and started to pay dividends after 2 decades.
- Deployed incremental funds only towards expanding specialty chemicals segment.

FOCUS ON SPECIALTY CHEMICALS

- Actively working to expand its product portfolio in the specialty chemicals segment.
- Portfolio of 35 products catering to diverse industries.
- Focusing only on Chemicals where the company envisages an operating margin of 30% + and a payback period of no more than 3 years.
- Lined up a Capex on INR 100 Cr. Once completed no further investment required for bulk chemicals. The capex will take care of captive needs for downstream products for the foreseeable future.

Product Portfolio

	Bulk Chemicals	Specialty Chemicals	Products from Boron Chemistry
About	The company is one of the oldest manufacturers of Sulphuric acid in the country. These products are sold domestically, within a limited radius from the manufacturing site. Almost 50% of the production is sold off in the markets and rest is consumed captively.	The sulfonating agents manufactured by the company are reacted with organic substrates like Phenol, Benzene, and Methanol to get downstream products. 65-70% of these products are exported. The company is backward integrated into this process.	Boron Chemistry is handled by Borax Morarji. The company is working to add downstream products in Boron Chemistry as well.
Key Products	❑ Sulphuric Acid ❑ Sulphuric Anhydride ❑ Oleum ❑ Chloro Sulphonic Acid	❑ Benzene Sulfonyl chloride (World's Largest Producer) ❑ Benzene Sulfonic Acid ❑ Phenol Sulfonic Acid ❑ Sodium Benzene Sulfonate ❑ Sodium Phenol Sulfonate ❑ Menthyl Lactate ❑ Thiophenol ❑ Lasamide ❑ Diethyl Sulfate (Among Top 3 producers globally) ❑ Diphenyl Sulfone ❑ Sodium Vinyl Sulfonate (Among Top 3 producers globally)	❑ Boric Acid ❑ Borax Pentahydrate ❑ Borax Decahydrate ❑ Trimethyl Borate ❑ Zinc Borate
Applications	Detergents, Dyes, Fertilizers, etc.	Agro-chemicals, Detergents, Dyes, Pigments, Pharmaceuticals, Cosmetics, etc.	Thermal Power Stations, Detergents, Ceramic & Tiles Industries, Steel Industries, Electroplating, etc.

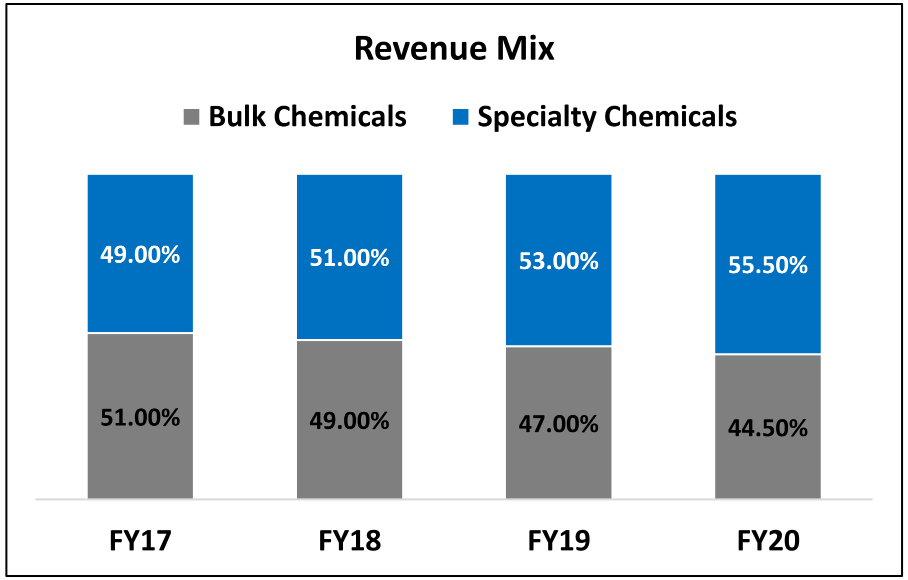
Expert in Sulphur Chemistry

The company has streamlined its focus towards the specialty chemicals that offer higher and stable margins.

Presence in niche chemicals with low opportunity size acts as an entry barrier and safeguards margins. Being one of the few manufacturers of specific specialty chemicals globally, coupled with an advantage of backward integration operations has strategically made DMCC the preferred choice for global giants.

Having backward integrated operations helps the company maintain its cost leadership position in the market. Also given the small market size of the end downstream products, we believe no manufacturer would like to spend heavily on backward integrations for bulk chemicals.

Majority of the products produced by the company are hazardous in nature which requires high level technical know-how and skill sets for handling and transportation.



Due to the technical and complex nature of the products, the customer approvals take long periods. However, once the relationship is established, it becomes difficult for the other player to take the market share. Due to its long track record and presence in the markets DMCC enjoys a long-standing relationship with majority of its customers. The management has also been pushing to grab long term sales contracts for specialty chemicals which will enable them to pass on fluctuating raw material costs.

The company is one of the oldest and largest manufacturers of Sulphuric acid in the country. These products are sold domestically, within a limited radius from the manufacturing site. Almost 50% of the production is sold off in the markets and rest is consumed captively. DMCC has built its specialty chemical division over its expertise in these bulk chemicals. This focus has opened up a huge market opportunity and also reduced dependency on limited number of products. The company is also able to price its products at a premium due to this expertise.

DMCC is the world's largest manufacturers of Benzene Sulfonyl Chloride. They are also amongst the largest manufacturers of Sodium Vinyl Sulfonate and Diethyl Sulfate.

Turning around Boron Chemistry

The merger of Boraxi Moraji was done in order to replicate a similar strategy of focusing on a segment where the company believes itself to be an expert. The company is currently looking to add downstream products in the Boron chemistry.

As per management commentary, Indian Boron market is to the tune of INR 200 – 300 Cr. In FY20, Boron segment of the company did a turnover of INR 50 Cr.

The Chinese slowdown has impacted the bulk chemicals business of this segment. China is the largest importer of boron products and slowdown caused a huge globally glut. Since economically viable deposits of borax have not been established in the country, India also imports Boron to meet its domestic needs. Global suppliers had started dumping Boron products in the Indian market which has resulted in price crash to unprecedented low levels.

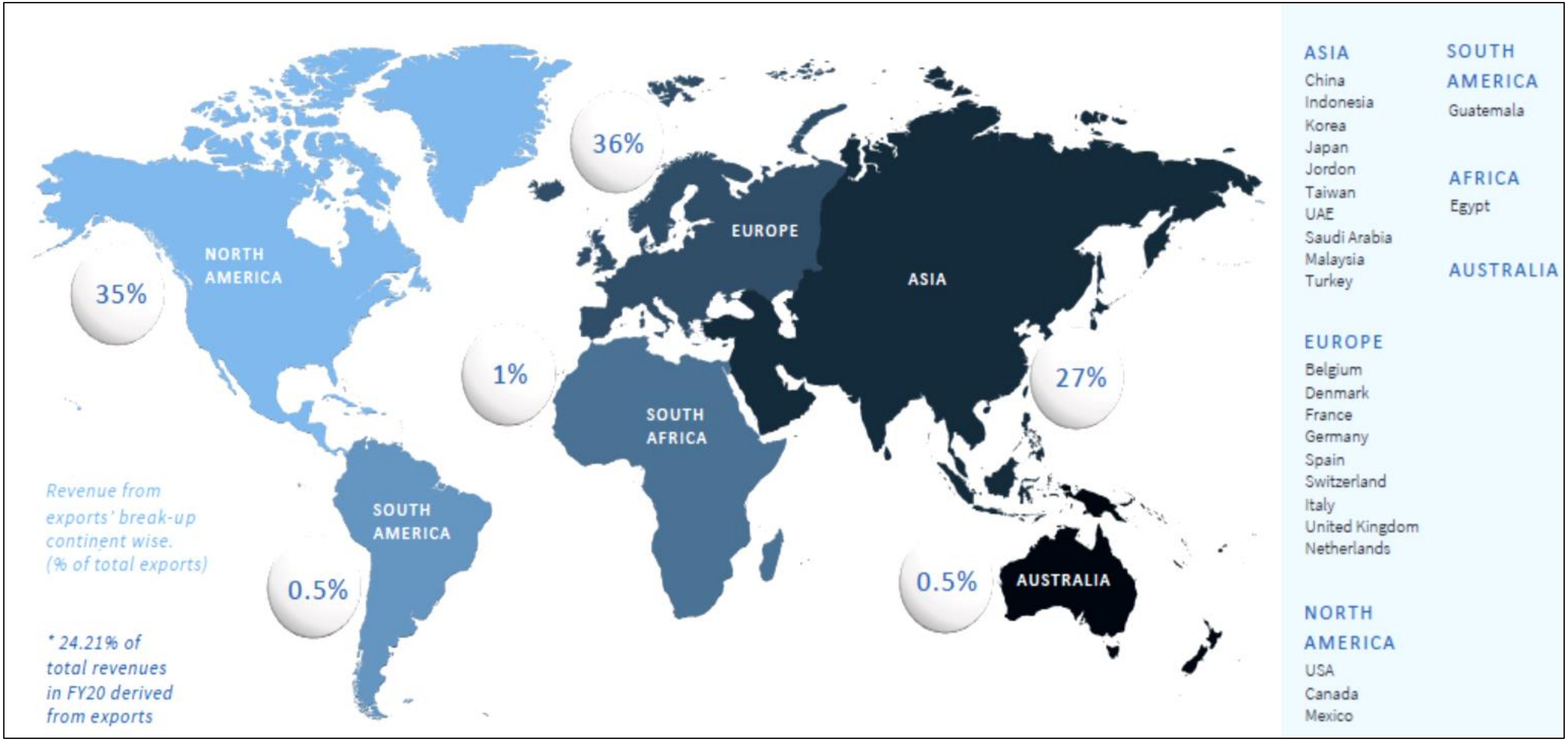
Performance of Boron business has continued to remain below par due to restrictions on the availability of imported boric acid, as well as sluggish market sentiment. This has further forced the company to expand into value added products of Boron. We believe a similar strategy of building specialty chemical products over its bulk Boron business will shield the company from the volatile and commoditized nature of its products.

Consumption of borates is expected to increase, spurred by strong demand in agriculture, ceramic and glass markets in Asia and South America. Continued investment in new refine and technologies and the continued increase in demand were expected to fuel growth in world production for the foreseeable future.

Nature of Contracts with Customers and Suppliers

- Long term contracts of more than 1 year - 70% of the contracts are for more than 1 year, the company is trying to move away from spot contracts to 100% >1yr contracts
- With customers – quarterly adjustments are done with regard to change in raw material prices, which maintains fixed EBITDA per ton. Also the company doesn't take forex fluctuation risk with key customers. That is also baked in to the quarterly pricing revision
- Major raw materials are Ethanol, Benzene and Sulphur, thus no bargaining power and there are monthly pricing adjustments.

Preferred Global Supplier



Diversified Clientele

ALKYL Alkyl Amines Chemicals Limited	apcotex industries limited	ARKEMA	AUROBINDO	Celanese	BASF The Chemical Company	DEEPAK FERTILISERS AND PETROCHEMICALS CORPORATION LIMITED	DEEPAK NITRITE
DOW	DRT-ANTHEA AROMA CHEMICALS	EXCEL	Hansol Paper	HETERO	LANXESS	Mangalam Drugs & Organics Ltd.	MEGHMANI
MITSUBISHI CHEMICAL	Pidilite	ROHM HAAS	saltigo customized competence	SOLVAY	UNICHEM LABORATORIES LTD.	VINATI ORGANICS LIMITED	WEYLCHEM

Manufacturing Facilities


Roha Facility

- Situated on 88,355 Sq. mt. plot
- Product Category: Sulphur Chemistry
- 10 Dedicated & 3 Multi-Purpose plants
- 300 MT/Day

Dahej Facility

- Situated on 1,03,327 Sq. mt. plot
- Product Category: Boron Chemistry
- 2 Dedicated & 2 Multi-Purpose plants
- Acquired through Amalgamation of Boraxi Moraji

34 Products manufactured catering to multiple sectors - Fully Backward Integrated – Lowest cost manufacturer in its key products

- Amalgamation of Borax Morarji with DMCC facilitated the availability of unutilized land parcel at Dahej, on the site of existing plant.
- Out of a total 1 Lakh Sq. Mt. site at Dahej facility 80% is available for further expansion.
- Multi purpose plants provides greater flexibility to the company to develop new products without affecting the production of existing products.
- No single sector contributes to more than 8-10% of top line.

Focus on R&D

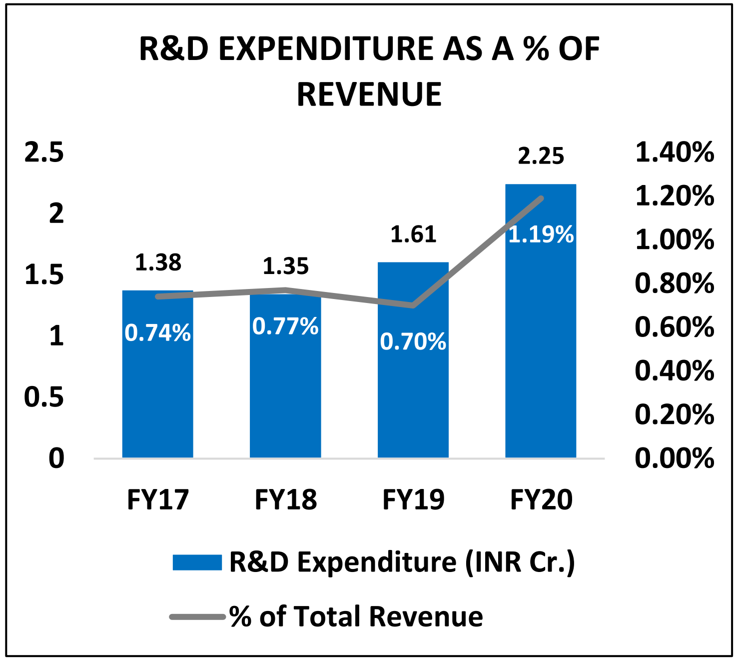
The company has in-house R&D centre at its manufacturing facility in Roha, with key focus on process improvement (for existing products) and new process development (for product additions). All the products are based on internally developed processes.

DMCC's experience and proven ability to safely and responsibly handle hazardous chemicals has resulted in customers approaching us as a preferred supplier of custom and toll manufacturing services.

Apart from manufacturing as per specifications given by customers, DMCC also undertakes toll manufacturing (where the customer supplies raw materials and process details) and process development.

With the installation of multipurpose manufacturing facilities, DMCC could cater to changing customer requirements, as well as low volume high value products.

Dedicated manufacturing plants for regular products are based on continuous processes, while multipurpose plants are based on batch processes. Kilo-to-ton lots are available at short notice for seed marketing and application development.



Products Under Pipeline	Applications
Sulfones	Widely used as solvents, polymers, and biopharmaceutical agents. Several drug molecules containing sulfone groups are used for the treatment of leprosy, dermatitis herpetiformis, and tuberculosis.
Amides	Used as intermediates, stabilizers, release agents for plastics, films, surfactants and soldering fluxes.
Thiols	These generally have a strong smell and are used as an odorant to help detect natural gas leaks. Also extensively used to synthesize degradable polymers with wide-ranging biomedical applications.

Update on Capex

Bulk chemicals at Dahej	Specialty chemicals at Dahej	Debottlenecking at Roha	Multipurpose plants at Dahej	Intermediates
❑ The company will be investing INR 50 cr. in adding incremental capacity in bulk chemicals segment. ❑ Expansion in Sulphuric acid will be a one-time investment. It will take care of captive needs for downstream products for the foreseeable future. ❑ The company has been facing certain challenges in terms of delays from vendors, however the company is on track to complete the project by June 2021	❑ The company will invest INR 20. cr. in a dedicated plant at Dahej facility. ❑ Incremental Capital to be deployed only towards specialty and downstream products. ❑ The company will use this facility for contract manufacturing. The products to be manufactured and other details remain confidential as the company has signed an NDA. ❑ The plant is expected to begin commercial production in the 2nd half of 2021	❑ The company will invest INR ~10 cr. on this project. ❑ Due to certain challenges faced, there is a delay in execution of this project. This is now expected to complete by March 2021	❑ The company will further invest INR 10 cr. in 2 multipurpose plants at the Dahej facility. ❑ Due to certain challenges faced, there is a delay in execution of this project. This is now expected to complete by March 2021	❑ The company has plans to invest INR 20 cr. for expansion to manufacture intermediates for pharmaceutical and agrochemical industry. ❑ This project is expected to be completed by December 2021 ❑ The company had earlier decided to invest this amount in Sulfones. However with a downturn in international markets for the product category, that plan has been put on hold.

Financial Analysis (1/2)

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Revenue (INR Cr.)	42.96	81.33	85.59	101.00	120.00	108.00	175.00	178.00	228.00	188.00
Operating Profit (INR Cr.)	1.11	2.06	-17.68	14.10	18.52	15.58	29.65	22.74	53.46	27.82
Operating Profit Margins (%)	3.96	4.05	47.74	15.49	16.40	15.39	17.25	13.35	23.95	18.14
Net Profits (INR Cr.)	-4.80	-3.98	33.25	16.06	13.98	11.97	17.05	12.30	46.14	31.46
Net Profit Margins (%)	-11.16	-4.90	38.85	15.85	11.65	11.13	9.73	6.90	20.27	16.77
Cash flow from Operating Activities (INR Cr.)	-14.82	6.40	-20.22	12.72	22.00	17.14	28.95	18.34	20.80	27.04
Free Cash Flow (INR Cr.)	-15.84	5.06	18.88	46.92	22.34	9.38	43.36	10.66	6.95	10.24
EPS (INR)	-2.26	-1.87	15.64	7.55	6.58	5.63	6.83	4.92	18.47	12.63

- The company started to focus on its specialty division from FY11 and this shift in focus is clearly visible in its financials. Before FY11, the company was making losses and had a debt heavy balance sheet.
- Sales have grown at a CAGR of 18% while Operating profits has increased at a CAGR of 43% from FY11 – FY20.
- The commodity division of the company is still a drag on the company’s margins. However, these products are a necessary evil on which the company has built its specialty chemical segment. We believe as the company diversifies and develops newer specialty chemical products, volatility in its margins and profitability will reduce.
- Both Cash flow from operations and free cash flow have been positive in each of the past 7 years. If we compare the cumulative Net Profits and CFO for last 10 years, we realize that company has not been able to collect cash more than its profits.
- Rise in maintenance costs is mainly on account of certain expenses carried out for planned annual shutdown (now postponed to Q3 of 2020-21 FY) and expenses at Dahej for reconfiguring the plants to modify product mix as per the market requirements.

Financial Analysis (2/2)

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Debt to Equity	-1.10	-0.88	25.73	1.69	0.84	0.42	0.50	0.34	0.19	0.17
ROCE (%)	-9.90	-6.17	90.04	35.69	55.97	42.15	33.87	20.21	36.95	16.89
ROIC (%)	-14.15	-13.50	-63.41	34.80	63.12	42.51	29.24	16.17	37.28	17.15
ROE (%)	16.99	12.37	31.96	93.92	45.58	28.07	28.49	16.90	39.85	21.72
Asset Turnover	0.51	0.98	1.03	1.41	1.94	1.59	1.18	1.14	1.21	0.89
Cash Conversion Cycle	-121.00	-50.66	-31.95	-3.68	14.37	21.97	-21.19	-4.21	15.65	53.85

- Debt to equity ratio of DMCC has been reducing consistently from 25.73 in 2013 to 0.17 in 2020 as the company is using the cash generated from profits to pay off its debt.
- While the management has been successful in bringing down debt in its books, we expect to see a spike in borrowings during the ongoing capex. We also expect this to affect the free cashflows and margins of the company. Two-third of the current capex is serviced through debt. We also expect the margins to suffer in the near term on the back of ongoing capex.
- Interest coverage of the company have been increasing over the years and this gives us comfort over the borrowing capabilities of the company.
- The management is keenly focused on keeping working capital low so if there is a customer with a lengthy credit cycle it will add a distributor in between.
- Return ratios have also been fluctuating owing to the commoditized nature of the company's certain product categories. The company is also been able to pass on the benefits of favorable commodity environment which is visible in the one off high returns.
- The company continues to receive revenues from engineering services and brand licensing of fertilizers. In FY20 this was to the tune of INR 1.5 Cr.

Management Analysis & Shareholding Pattern

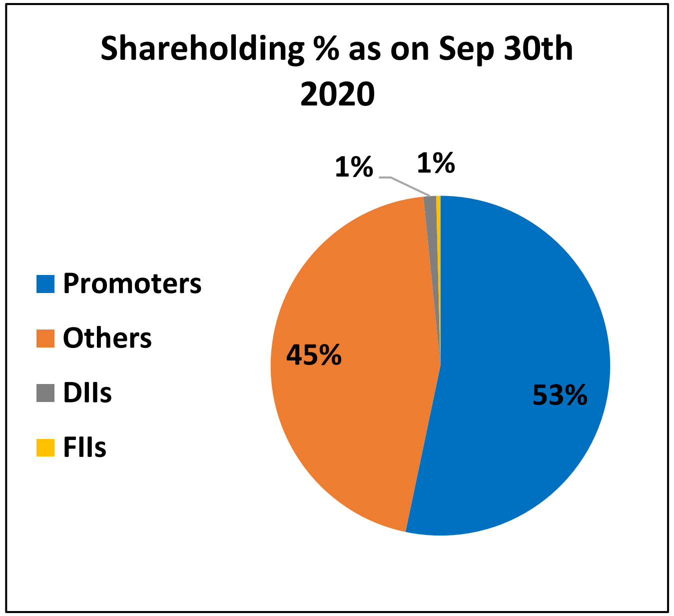
DMCC is promoted by Mr. Bimal Goculdas. He is the Managing Director and CEO of the company.

He plays an active role in the management of DMCC and has been instrumental in turning around the company from being loss making and debt heavy to a global preferred supplier and market leader.

It was under his leadership that DMCC started to focus on the chemistries where they were fundamentally strong. Mr. Bimal's induction to the company also saw a change in strategy to expand only in value-added product line, but only in products where they have certainty of an edge over competition. He has been conservative and has walked the talk by sticking to his strategy.

The promoters have been fair in their dealing with the company and has time and again helped the company sail through turbulent times. Interest free loans, preferred interest waiver and conversion of preference shares only after the company turned around shows the long term mentality of the management.

The board consists of eight directors. Three directors are of promoter's group and five are independent directors.



- **Promoter Shareholding :** Current shareholding of promoters in the company is 53.28% (September 30th, 2020).
- **Management compensation:** The management compensation is under 10% of the company's net profits. The remuneration of the MD also includes a performance based part which we believe is in accordance with good governance.
- **Capital allocation record:** The management has been conservative in terms of its capital allocation. The recent huge capex was greenlit as the management thinks that there is a huge opportunity due to recent shift in global customer behavior to de-risk their raw material sourcing from China.
- **Shareholder communication:** Adequate
- **Pledged Shares:** Nil

Sources of Risks

Execution Risk

Our Investment thesis on DMCC revolves around the management's ability to scale up its specialty chemicals division and Boron business. Any unforeseen events will hugely impact the profitability and operations of the company.

Commodity Prices Fluctuation

Majority of the raw materials of the company are basic commodities. The company has no control over the pricing of these commodities and any adverse fluctuations will impact the margins of the company.

Product Concentration

DMCC is an expert in Sulphur chemistry and majority of its downstream products are built upon this expertise. The recent push towards Boron chemistry is to reduce this overdependence on Sulphur based specialty products.

Forex Volatility

Future Outlook

In the recent times, COVID-19 has aggravated the ongoing declining situation and has become a threat to global economic growth. However most analysts see Indian Chemical Industry manufacturers to benefit from the current situation and remain in focus, provided these players handle the opportunities well.

Going forward, more support in terms of fiscal incentives like tax breaks and special incentives through petroleum, chemicals and petrochemicals investment regions or special economic zones to encourage setting up of downstream units, will certainly enhance production capacity and help overall development of the industry.

DMCC has already laid the foundation for its specialty chemical segment. Its continued focus on R&D and technological expertise has bear fruits in de-risking its business.

The management's decision to venture into complex intermediaries will not only help in stabilizing its margins but also will ensure there are enough entry barriers to keep the competition at bay.

"So we are directly supplying to the Pharma and Agrochemical company you know some of them are listed on the presentation , but you name it and we are supplying to them globally as well as locally and so there is nothing in between. We do not make the actual APIs but we make one step or two step before the API , but we supply directly to Pharma company." – *Bimal Goculdas, Q2FY21 Investor Conference Call*

The margins and return ratios of the company shows a fluctuating trend due to its underlying businesses. However, we believe in the long term the company will look different in terms of its product offerings and manufacturing capabilities.

These are the types of companies that will test the patience of any long term investor. **In a span of 10 years, the management has scaled up its specialty chemical division. We believe a similar set of events to take place in its future projects.**

With the government's growing focus to scale the specialty chemicals industry in the country, there is enough tailwinds for DMCC to ride on and take advantage off. Specialty chemicals are the leading Indian chemical export segment, making up more than half (55%) of total chemical export value in 2018. Yet they contribute only 3% of the total export value of specialty chemicals worldwide. Compared to 13% for China, 11% for Germany and 5% for Japan. There is enough room for growth for companies operating in this segment.

This long-term optimistic scenario bodes well for chemical companies, especially in the light of a long investment cycle.

Statutory Disclosure

SEBI Research Analyst Registration No. : INH200006451

1. At the time of writing this article, **the analyst have no position in the stock** covered by this report.
2. The analyst has not traded in the recommended stock in the last 30 days.
3. The research analyst does not have any material conflict of interest at the time of publication of the research report.
4. The research analyst has not received any compensation from the subject company in the past twelve months.
5. The research analyst or its associates has not managed or co-managed public offering of securities, has not received any compensation for investment banking or merchant banking or brokerage services nor received any third party compensation. The subject company was not a client during twelve months preceding the date of distribution of the research report.
6. The research analyst has not served as an officer, director or employee of the subject company.
7. The research analyst or research entity has not been engaged in market making activity for the subject company.
8. The research analyst or research entity or its associates or relatives does not have actual/beneficial ownership of one per cent or more in the securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance.
9. The analyst does not own more than 1% equity in the said company.