

Dear Member,

We are pleased to inform you that Value Pick of Nov 2017 is released by our team today on 30th Dec 2017. Value Pick stock of the month is Shree Puskar Chemicals and Fertilizers Ltd (**BSE Code: 539334, NSE Code: SHREEPUSHK**). Shree Pushkar Chemicals & Fertilisers Ltd has a market capital of Rs. 819 crores and operates in chemicals and fertiliser segment.

1. Company Background

Shree Pushkar Chemicals & Fertilisers (formerly known as Shree Pushkar Petro Products Ltd.), founded in 1994 is an established market leader in manufacturing and trading activities in Dyes & Dyes Intermediates in India with zero waste. The company is India's large manufacturers of k-acid, a dye intermediate used to manufacture reactive dyes for dyeing of textiles. The company operates mainly in four verticals i.e.

- i) Dyestuff (More than 30 different shades in Reactive dyes)
- ii) Dyes Intermediaries (Gamma Acid, K- Acid, RSalt, Vinyl Sulphone, H- Acid)
- iii) Acid Complex (Sulphuric, Oleum, Chloro Sulphonic Acid)
- iv) Fertilizers (Single Super Phosphate, Sulphate of Potash, Soil Conditioner)

The company also produces Di-Calcium Phosphate which is mainly used as a dietary supplement in animal feed products by cattle and poultry feed manufacturers.

Shree Pushkar Chemicals came out with an IPO in Aug 2015 to raise Rs.70 crore through a book building issue, its expansion plans were well planned and company executed its capex plan gradually and successfully under a defined time frame. The fertilizer segment prudently converts waste generated in other processes and is instrumental in making SPCL a zero waste discharge company.

The company has state-of-the-art integrated manufacturing facilities at Lote Parshuram, Maharashtra. Over the years, backward and forward integration has helped it to diversify into a wide range of products: many of the intermediate products are used to manufacture other value-added products, leading to cost efficiencies and low dependence on raw materials from external sources.

Shree Pushkar Chemicals is jointly run by Punit Makharia (chairman and managing director) and Gautam Makharia (joint managing director). Punit Makharia has experience of over 45 years in this industry and Gautam Makharia has experience of over 15 years. They have expanded the business, growing existing lines and adding new products to the portfolio. At present, the company has four plants located in close proximity at Lote Parshuram (Ratnagiri, Maharashtra)

2. Recent Development

i) Increase in Capacity of Dyes Plant – Nov 2017

The company has recently informed that an additional capacity of 3000 MTA of the dyes plant has been created at its unit no. III at B-97, MIDC Lote Parshuram and the plant has commenced trial runs by end November 2017.

ii) Promoters increasing stake in the Company – Oct 2017

Promoters have increased their shareholding in the company by 1.11% since March 2017. Moreover, recently on 16th Oct'17, Promoter as well as Director of the company, Mr Gautam Makharia, has bought 40,000 shares. Continuous increase in shareholding by promoters through open market purchase indicates robust growth prospects of the business in future.

iii) Acquisition of Kisan Phosphate Pvt Ltd – Sept 2017

The Board of Directors of Shree Pushkar Chemicals & Fertilisers Ltd, in the meeting held on 4th Sept 2017, have approved the proposal of acquiring 100% Equity Capital of Kisan Phosphate Private Limited thereby making it a wholly owned subsidiary of the company.

Shree Pushkar Chemicals inorganically expanded its fertilizer business by acquiring 100% equity of Kisan Phosphate Pvt Limited with investment of around 9 crores. The acquisition being smaller in size with around 1.3% equity dilution will not have major impact on financials. Kisan Phosphate is in similar business segment in separate geographical region.

3. Financial Performance

Shree Pushkar Chemicals & Fertilizers standalone net profit rises 15.19% in the September 2017 quarter

Net profit of Shree Pushkar Chemicals & Fertilizers rose 15.19% to Rs 10.39 crore in the quarter ended September 2017 as against Rs 9.02 crore during the previous quarter ended September 2016. Sales rose 22.08% to Rs 96.38 crore in the quarter ended September 2017 as against Rs 78.95 crore during the previous quarter ended September 2016.

Shree Pushkar Chemicals & Fertilizers standalone net profit rises 15.89% in the June 2017 quarter

Net profit of Shree Pushkar Chemicals & Fertilizers rose 15.89% to Rs 7.00 crore in the quarter ended June 2017 as against Rs 6.04 crore during the previous quarter ended June 2016. Sales rose 23.64% to Rs 77.57 crore in the quarter ended June 2017 as against Rs 62.74 crore during the previous quarter ended June 2016.

In first 6 months of FY17-18, total revenue of the company increased by 22.7% to 174.42 crores with EBIDTA of Rs. 30.74 crores and PAT of 17.39 crores. The company reported EBITDA margin of 17.6% and PAT margin 10%. We expect PAT margins to improve over next 24 months with higher realization from dyestuff business.

4. Investment Rationale

i) The Dye & Dye Intermediates Industry largely caters to the textile industry and is concentrated in China, India and other smaller Asian countries. The dominance by these countries is further driven by the fact that the global textile industry is also concentrated here. China has a dominant position in production and consumption of dyes globally which is steadily shrinking mainly due to enforcement of stringent norms by Chinese Government to curb environmental pollution by chemical companies resulted in the shutting down of large capacities within the Dyestuff / Dye Intermediates Industry. China's share in the global colorant industry was once about one third of the total supply, but has gradually declined over the years. This will augur well for companies like Shree Pushkar Chemicals with rise in global demand of dyes and dyes intermediates.

ii) The company has been focusing on increasing revenue from the higher margin dyes business through the export and domestic markets. Dyestuff contribution is around 21% whereas Dye Intermediates contribute around 56% in total revenue. The key raw materials used in dyestuffs are also manufactured in-house as dye intermediates. The dye intermediates plant, with an installed capacity for over 8,900 TPA, is a zero-effluent plant as the company recycles effluents thus increasing cost-efficiency. The company is leveraging its marketing capabilities and working towards branding its dyestuff to capture more value.

iii) The company continue to expand its presence rapidly in the dyestuff segment. With introduction of textile chemicals, the company is gaining better market approach. The company has doubled its capacity to manufacture dyestuff with commissioning of additional capacity in Nov 2017. Total capacity is increased to 6000 TPA with a quality control lab. Moreover, the company has begun test marketing auxiliary chemicals and plans to set up a plant for the same in FY19 with a vision to become a complete textile solution provider.

iv) Shree Pushkar Chemicals ventured into fertilizer segment with introduction of Single Super Phosphate (100000 MTPA) and soil conditioner (12000 MTPA) in FY11. Company has expanded its fertilizer portfolio by commissioning nitrogen phosphorus potassium (18000 MTPA) and Sulphate of Potash (10000 MTPA) plants in FY16. To utilize HCL

generated in Sulphate of Potash, the company set up a granular calcium chloride plant. The plant has a capacity of 6500 MTPA and commenced its commercial production in Feb 2017.

v) Shree Pushkar Chemicals has marketing tie-ups for some of its fertiliser products and chemicals which reduces the marketing cost of the company and helps regular sales. The company tied up with DCM Shriram for marketing of Single Super Phosphate in Maharashtra and Karnataka and nitrogen phosphorus potassium fertilizer in Maharashtra. The company has an established clientele like Atul Ltd, DCM Shriram, Vinati Organics Ltd, Meghmani Dyes and Intermediaries Ltd, Gharda Chemicals Ltd, etc.

vi) The company inorganically expanded its fertilizer business by acquiring 100% equity of Kisan Phosphate Pvt Limited with investment of around 9 crores. Kisan Phosphate is in similar business segment in separate geographical region and manufactures Single Super Phosphate (SSP), Di Calcium Phosphate (DCP) and Soil Conditioner. The acquisition shall help the company to expand its business to northern belt (Punjab, UP, Haryana, Rajasthan and Himachal Pradesh) of the country with augmented sales network. The company is in process of setting 100 TPD Sulphuric acid plant.

vii) The company has paid dividend of Rs. 1.50 in Aug 2017. Dividend payout is increased by 50% as company paid Rs. 1.00 per share as dividend last year. The dividend yield at current market price is 0.55%. The company has registered sales CAGR of 15.7% and profit CAGR of 41.7% with ROE of 18.3% over last 5 years. With recent expansion in Dyestuff business, we expect company to achieve revenue sales CAGR of 25% and profit CAGR of 34% over next 3 years. The company is debt free with debt to equity nearly nil and healthy balance sheet.

viii) As of Sept'17, promoter's shareholding in the company is 62.72%. Promoters have increased their shareholding in the company by 1.11% since March 2017. Moreover, recently on 16th Oct'17, Promoter as well as Director of the company, Mr Gautam Makharia, has bought 40,000 shares. Continuous increase in shareholding by promoters is positive and indicate strong growth prospects of the company in coming years. Institutions shareholding in the company is at 7.36% as on Sept 2017.

5. Key Concerns & Risks

i) Shree Pushkar Chemicals has all its integrated manufacturing facilities at Lote Parshuram, Maharashtra. As all manufacturing facilities are located in one location, any adverse effect related to this geography could impact company's operations.

ii) Crude oil is the basic raw material used in production of dye and dye intermediates. Any sharp rise in crude oil prices further could impact the raw material prices and affect the margins of the company if the rise is not passed on to customers.

6. Saral Gyan Recommendation

As per our estimates, Shree Pushkar Chemicals is expected to deliver PAT of Rs. 41.8 crores in FY17-18 and Rs. 50.6 crores in FY18-19 with annualized EPS of Rs. 13.8 and Rs. 16.7 respectively. At current price of 271.05, stock is available at forward P/E multiple of 16.2X based on FY18-19 earnings and looks attractively valued with high earning visibility over next 2 years.

Dyestuff is a high-margin business and the company is constantly trying to increase its revenue share from this segment through export and domestic market. The opportunity for auxiliary textiles chemicals is large and the management has already begun test marketing these chemicals and plans to set up a plant for the same in FY19. Management has a good track record in past and working with a well-planned strategy to achieve robust business growth in coming years. Considering strong growth outlook of dyestuff industry, management focus on increasing revenue contribution from higher margin dyestuff and auxiliary textile chemicals with objective to become the complete solution provider to the textiles industry, better earning visibility with increase in revenues and reasonable valuations, Saral Gyan team recommends "Buy" on Shree Pushkar Chemicals and Fertilisers Ltd at current market price of Rs. 271.05 for target of 430 over a period of 12 to 24 months.

Buying Strategy:

- 75% at current market price of Rs. 271.05
- 25% at price range of Rs. 200 – 230 (in case of correction in stock price in near term)

Portfolio Allocation: 3% of your equity portfolio.

Regards,

Team – Saral Gyan,
Saral Gyan Capital Services.

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