



# Bodal Chemicals Ltd.

## Strong visibility of growth going ahead

Q4FY22 revenue grew by 38% YoY & 6.3% QoQ to Rs5.97bn majorly led by increasing utilization & better realization of DI & Dyestuff business. Gross margin expanded by 355bps YoY but contracted by 370bps QoQ to 41.3% in Q4FY22. Sequential contraction of margins is due to increase in raw material cost during the quarter. EBITDA grew by 16.5% YoY & declined by 21.3% QoQ to Rs538mn in Q4FY22. EBITDA margins contracted by 166bps YoY & 316bps QoQ to 9% in Q4FY22. Despite improvement on YoY basis in gross margins, EBITDA margins contracted led by higher employee and other expenses. Consolidated PAT grew by 31% YoY & 27% QoQ to Rs309mn in Q4FY22. Considering, the growth visibility in sight backed by strong growth in core product portfolio, inorganic acquisition & greenfield expansion, we assign BUY rating on the stock.

### Greenfield expansion and inorganic acquisitions to drive growth going ahead

- The company is undergoing a greenfield expansion into benzene downstream products having capacity of 78,960 TPA and expansion of sulphuric acid & derivatives having capacity of 3,40,000 TPA at Saykha GIDC, Bharuch, Gujarat. Total cost of the project will be around Rs4bn with revenue potential of Rs5.5bn alongwith EBITDA margins of 15-18%.
- Also, the company acquired SCC chlor alkali complex, which is a unit of Mawana Sugars Ltd, located at Rajpura, Punjab in March 2021. The complex has a capacity of 82,500 TPA alongwith manufacturing of auxiliaries like stable bleaching powder, chlorine etc.
- The company would further upgrade the plant replacing old electrolyzers and increase chlor alkali complex capacity by another 16,500 TPA which would be completed by Q3FY23. This would cost the company Rs1-1.2bn.

### Visibility in operations of major subsidiaries will help sustain the revenue growth going ahead

- SPS Processors reported revenues of Rs565mn & loss of Rs63.3mn in Q4FY22. On SPS Processors, the company VS production is ramping up. The expected revenue at peak utilization would be Rs1.2-1.4bn. As the business ramps up, we expect the company to report profits.
- Trion Chemicals reported revenues of Rs104mn in Q4FY22 and Rs346mn for FY22 which is ~209% growth on YoY basis. The major issues regarding hazardous application of TCCA in US market has been resolved and company is expecting ramp up much faster in the coming quarters.

### Valuation

- The company's major end users are textiles, leather, plastics & pigments wherein demand has witnessed robust pickup and with expansion into newer businesses like benzene derivatives & TCCA pick up we feel the sales growth would sustain going forward.
- We value the stock on PE multiple of 8.5x FY24 projections and arrive at a target price of Rs 152 per share with an upside of 62% from current levels.**
- Therefore, we maintain BUY rating on the stock.

Y/E Mar (Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)
Revenue	5,973	4,327	38.0%	5,618	6.3%
Operating cost	5,435	3,866	40.6%	4,935	10.1%
EBITDA	538	462	16.5%	683	-21.3%
EBITDA margin (%)	9.0%	10.7%	(166) bps	12.2%	(316) bps
Depreciation	119	78	53.5%	116	3.2%
Interest	64	58	11.4%	92	-30.2%
Other Income	26	-1	NA	66	-61.0%
Exceptional Items	0	0	NA	188	NA
PBT	380	325	17.0%	354	7.4%
Taxes paid	92	107	-14.7%	153	-40.2%
Reported PAT	288	217	32.7%	201	43.8%
Minority Interest	-20	-18	NA	-43	NA
Consolidated PAT	309	236	31.0%	243	26.9%

Source: Company, SMIFS Research

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	PAT	YoY (%)	EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY20	13,748	-3%	1,377	10.0%	872	-39%	7.2	9.4	9.2	11.5	8.4
FY21	12,264	-11%	1,039	8.5%	420	-52%	3.3	4.3	5.3	30.8	15.0
FY22	20,506	67%	2,196	10.7%	1,077	156%	8.8	10.2	8.5	12.7	8.8
FY23E	22,700	11%	2,645	11.7%	1,355	26%	11.1	11.5	8.1	8.5	7.9
FY24E	26,976	19%	3,680	13.6%	2,197	62%	17.9	15.9	11.2	5.2	5.1

Source: Company, SMIFS Research Estimates

Rating: BUY Upside: 62%  
 Current Price: 94 Target Price: 152

### Earlier recommendation

Previous Rating:	BUY
Previous Target Price	183
Source: SMIFS Research	

### Market data

Bloomberg:	BODL: IN
52-week H/L (Rs):	150/88
Mcap (Rs bn/USD bn):	11.5/0.15
Shares outstanding (mn):	122.3
Free float:	37.9%
Daily vol. (3M Avg.):	0.54mn
Face Value (Rs):	2
Group:	S&P BSE 500
Source: Bloomberg, SMIFS Research	

### Shareholding pattern (%)

	Mar-22	Dec-21	Sept-21	Jun-21
Promoter	59.0	59.0	59.0	59.0
FIIs	3.0	3.0	2.9	2.4
DIIIs	0.1	0.1	0.0	0.0
Public/others	37.9	37.9	38.1	38.6

Source: BSE

### Price performance (%)\*

	1M	3M	12M	36M
S&P BSE 500	-5.9	-1.9	6.3	42.5
Bodal Chemical	-14.3	-8.1	-11.9	-21.4

\*as on 27<sup>th</sup> May 2022; Source: AceEquity, SMIFS Research

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## Analyst Call Highlights

- **Demand outlook:** Demand has witnessed strong recovery over the last couple of months. During the quarter Q4FY22, major end user industries of the company like textiles, leather etc demand has witnessed healthy demand momentum. However, higher cotton prices post March 22, which is affecting textile production, could have bearing impact on dyestuff business demand going ahead.
- **VS and H-acid prices:** The average prices of VS & H-Acid is around Rs 288 per kg & Rs 474 per kg in Q4FY22 as compared to Rs 270 per kg & Rs 470 per kg in Q3FY22 as compared to Rs 231 per kg and Rs 374 per kg in Q2FY22 as compared to Rs 259 per kg and Rs 404 per kg in Q1FY22 as compared to Rs 208 per kg and Rs 395 per kg in Q4FY21 as compared to Rs 171 per kg and Rs 359 per kg in Q3FY21 as compared to Rs 159/kg and Rs 346/kg in Q2FY21 respectively.
- **Dyestuff business update:** All key products in dyestuff have performed well as utilization have picked up led by strong demand from key end user industries. The company currently enjoys 13% domestic & 3% global market share. The business operated at 57% utilization levels as on FY22 and peak utilization is around 70%. The company is focussed on increasing its market share in multi-colour dyes which will help increase its penetration.
- **Diversification in benzene derivatives:** The company is undergoing a greenfield expansion into benzene downstream products having capacity of 78,960 TPA and expansion of sulphuric acid & derivatives having capacity of 3,40,000 TPA at Saykha GIDC, Bharuch, Gujarat. Management believes these products will further enhance specialty chemicals segment and will open new growth areas for the company as they intend to further expand in specialty chemicals segment in the future. The company expect to complete the project by Q3FY23. Total cost of the project including one-time infrastructure cost will be around Rs4bn. In the business, the company would be producing PNCB, PNA, 2,4 DNCB, ONCB, OA, MPDSA etc. The major end users of these products are primarily in pharmaceuticals and agrochemicals.
- **SPS Processor VS plant update:** The SPS Processor VS plant of capacity 6,000 TPA production is progressing very well and is expected to ramp up fully in the coming months. The expected additional revenue would be Rs1.2-1.4bn. This business commercialization will lead to positive profits for the SPS Processor going ahead. SPS Processor reported revenue of Rs565mn & loss of Rs63.3mn in Q4FY22.
- **Chlor Alkali business update:** The chlor alkali business reported a robust performance in FY22, with revenue of Rs 2.5bn majorly driven by a healthy volume and higher realization of caustic soda. The capacity operated at nearly 70% utilization levels in FY22. Management is confident that the end user industries like textiles, FMCG, paper, detergents demand would be sustainable going ahead. The company would further upgrade the plant replacing old electrolyzers, infrastructure & increase chlor alkali complex capacity by another 16,500 TPA which would be completed by Q3FY23. This would cost the company another Rs1-1.2bn.
- **Raw Material:** In the overall raw materials mix, the company procures 4-5% from China. Thus, company is immune to any disruption in supply chain from China and will not have impact on the company raw material sourcing. Major raw material required by the company is Napthalene, Aniline, J-Acid, Tobias Acid, Cyanuric Acid etc.

## Valuation and Recommendations

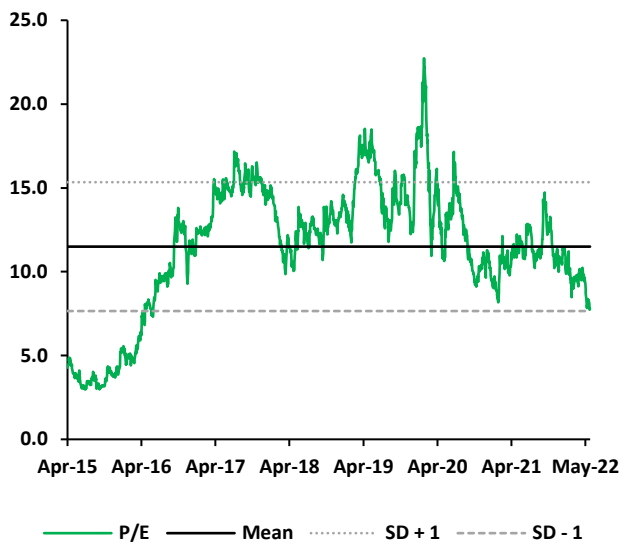
The company's major end users are textiles, leather, plastics & pigments wherein demand has witnessed robust pickup and with expansion into newer businesses like benzene derivatives & TCCA pick up we feel the sales growth would sustain going forward.

**We value the stock on PE multiple of 8.5x FY24 projections and arrive at a target price of Rs 152 per share with an upside of 62% from current levels.**

Therefore, we maintain **BUY** rating on the stock.

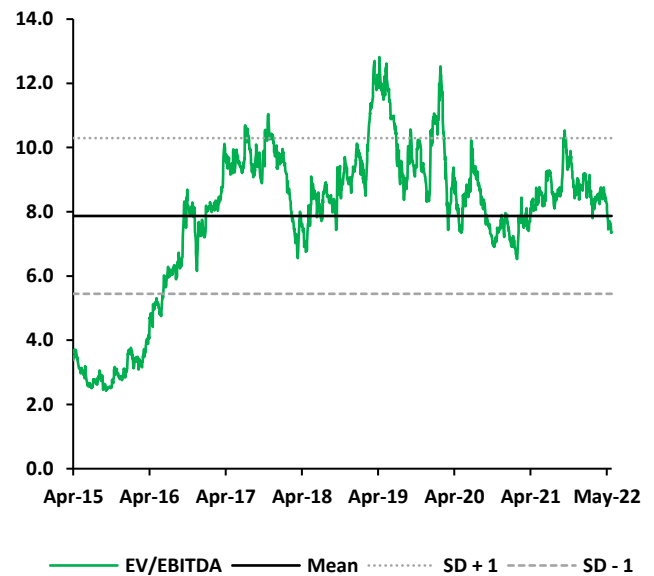
Risk to our call is unforeseen impact on the demand and sharp decline in spread.

**Fig 1: 1-year forward P/E**



Source: AceEquity, SMIFS Research

**Fig 2: 1-year forward EV/EBITDA**



Source: AceEquity, SMIFS Research

## Quarterly financials, operating metrics and key performance indicators

**Fig 3: Quarterly Financials**

Y/E March (Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
<b>Net Sales</b>	<b>1,178</b>	<b>3,097</b>	<b>3,661</b>	<b>4,327</b>	<b>4,218</b>	<b>4,697</b>	<b>5,618</b>	<b>5,973</b>
Raw Materials	946	1971	2338	2695	2257	2674	3091	3508
Employee Costs	190	189	210	189	240	284	292	288
Other Expenditure	252	711	727	982	1233	1253	1552	1639
<b>EBITDA</b>	<b>-209</b>	<b>227</b>	<b>386</b>	<b>462</b>	<b>489</b>	<b>486</b>	<b>683</b>	<b>538</b>
Depreciation	75	76	76	78	97	98	116	119
Interest	39	35	35	58	75	63	92	64
Other Income	45	46	70	-1	64	18	66	26
Exceptional items	0	0	0	0	0	0	188	0
<b>PBT</b>	<b>-279</b>	<b>162</b>	<b>346</b>	<b>325</b>	<b>381</b>	<b>342</b>	<b>354</b>	<b>380</b>
Tax	-77	51	74	107	93	106	153	92
Tax rate (%)	27.6	31.7	21.5	33.1	24.4	31.1	43.3	24.1
<b>Reported PAT</b>	<b>-202</b>	<b>110</b>	<b>272</b>	<b>217</b>	<b>288</b>	<b>236</b>	<b>201</b>	<b>288</b>
Minority interest	-5	-6	7	-18	-11	-17	-43	-20
<b>Consolidated PAT</b>	<b>-197</b>	<b>116</b>	<b>265</b>	<b>236</b>	<b>299</b>	<b>252</b>	<b>243</b>	<b>309</b>
<b>YoY Growth (%)</b>								
Revenue	-68.4	0.7	12.2	17.4	258.0	51.6	53.4	38.0
EBITDA	NA	-11.8	67.8	15.6	NA	113.6	76.9	16.5
PAT	NA	-47.9	83.4	2.1	NA	117.2	-8.3	31.0
<b>QoQ Growth (%)</b>								
Revenue	-68.0	162.9	18.2	18.2	-2.5	11.4	19.6	6.3
EBITDA	NA	NA	69.8	19.5	5.9	-0.7	40.7	-21.3
Adj. PAT	NA	NA	128.2	-11.1	26.7	-15.5	-3.6	26.9
<b>Margin (%)</b>								
EBITDA	NA	7.3	10.5	10.7	11.6	10.3	12.2	9.0
PAT	NA	3.8	7.2	5.4	7.1	5.4	4.3	5.2
Gross	19.7	36.4	36.2	37.7	46.5	43.1	45.0	41.3
Employee cost as % of sales	16.1	6.1	5.7	4.4	5.7	6.1	5.2	4.8
Other expenses as % of sales	21.4	22.9	19.9	22.7	29.2	26.7	27.6	27.4

Source: Company, SMIFS Research

## Financial Statements

Income Statement					
YE March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
<b>Revenues</b>	<b>13,748</b>	<b>12,264</b>	<b>20,506</b>	<b>22,700</b>	<b>26,976</b>
% Growth	-3.4	-10.8	67.2	10.7	18.8
Raw Materials	8,833	7,950	11,530	13,103	15,126
% of revenues	64.2	64.8	56.2	57.7	56.1
Employee cost	871	777	1,105	1,277	1,425
% of revenues	6.3	6.3	5.4	5.6	5.3
Others	2,668	2,498	5,676	5,675	6,744
% of revenues	19.4	20.4	27.7	25.0	25.0
<b>EBITDA</b>	<b>1,377</b>	<b>1,039</b>	<b>2,196</b>	<b>2,645</b>	<b>3,680</b>
EBITDA margin (%)	<b>10.0</b>	<b>8.5</b>	<b>10.7</b>	<b>11.7</b>	<b>13.6</b>
Depreciation & Amortisation	284	305	466	468	542
<b>EBIT</b>	<b>1093</b>	<b>734</b>	<b>1730</b>	<b>2177</b>	<b>3139</b>
Interest expenses	190	166	295	621	530
<b>PBT from operations</b>	<b>902</b>	<b>568</b>	<b>1,435</b>	<b>1,555</b>	<b>2,609</b>
Other income	104	159	173	227	270
<b>PBT</b>	<b>1,006</b>	<b>727</b>	<b>1,608</b>	<b>1,782</b>	<b>2,878</b>
Taxes	146	156	434	499	806
Effective tax rate (%)	14.5	21.5	27.0	28.0	28.0
<b>PAT before MI &amp; EO</b>	<b>860</b>	<b>571</b>	<b>1,175</b>	<b>1,283</b>	<b>2,073</b>
Extraordinary Items	0	173	188	0	0
Minority Interest	-11	-22	-90	-71	-124
<b>PAT</b>	<b>872</b>	<b>420</b>	<b>1,077</b>	<b>1,355</b>	<b>2,197</b>
<b>PAT Margin</b>	<b>6.3</b>	<b>3.4</b>	<b>5.3</b>	<b>6.0</b>	<b>8.1</b>
<b>Adjusted PAT</b>	<b>860</b>	<b>707</b>	<b>1,312</b>	<b>1,283</b>	<b>2,073</b>

Source: Company, SMIFS Research Estimates

Key Ratios					
YE March	FY20	FY21	FY22	FY23E	FY24E
<b>Growth Ratio (%)</b>					
Revenue	-3	-11	67	11	19
EBITDA	-42	-25	111	20	39
Adjusted Net Profit	-39	-52	156	26	62
<b>Margin Ratios (%)</b>					
EBITDA margin	10.0	8.5	10.7	11.7	13.6
PBT margin	6.6	4.6	7.0	6.9	9.7
Adjusted PAT margin	6.3	3.4	5.3	6.0	8.1
<b>Return Ratios (%)</b>					
ROE	9.4	4.3	10.2	11.5	15.9
ROCE	9.2	5.3	8.5	8.1	11.2
<b>Turnover Ratios (days)</b>					
Gross block turnover (x)	2.2	1.6	2.6	2.0	2.1
Debtor	121	139	105	100	90
Inventory	91	141	141	130	125
Creditors	119	151	112	115	120
Cash conversion cycle	92	129	134	115	95
<b>Solvency Ratio (x)</b>					
Net Debt-equity	0.2	0.3	0.5	0.8	0.5
Debt-equity	0.2	0.4	0.5	0.8	0.6
Interest Coverage Ratio	6	4	6	4	6
Gross Debt/EBITDA	1.3	3.3	2.6	3.6	2.2
Current Ratio	2.4	2.4	2.6	2.3	2.3
<b>Per share (Rs.)</b>					
Adjusted EPS (reported)	7.2	3.3	8.8	11.1	17.9
BVPS	76	80	86	96	113
CEPS	9.4	5.9	12.6	14.9	22.4
DPS	0.8	0.8	0.8	1.0	1.0
Dividend Payout	11.2	24.6	9.1	9.0	5.6
<b>Valuation (x)</b>					
P/E	11.5	30.8	12.7	8.5	5.2
P/BV	1.1	1.3	1.3	1.0	0.8
EV/EBITDA	8.4	15.0	8.8	7.9	5.1
Dividend Yield(%)	1.0	0.8	0.7	1.1	1.1

Source: Company, SMIFS Research Estimates

Balance Sheet					
YE March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
<b>Source of funds</b>					
Equity Share Capital	245	245	245	245	245
Reserves & Surplus	9073	9508	10313	11487	13561
<b>Shareholders' Fund</b>	<b>9318</b>	<b>9753</b>	<b>10558</b>	<b>11732</b>	<b>13806</b>
Non-Controlling Interest	49	46	-34	81	96
Total loan funds	1794	3467	5757	9557	8157
Deferred Tax Liabilities	376	472	515	570	677
Other Non-Current Liability	7	41	3	76	90
<b>Total Liabilities</b>	<b>11544</b>	<b>13779</b>	<b>16798</b>	<b>22015</b>	<b>22826</b>
Net Block	6376	7800	8011	11223	12782
Capital WIP	69	144	695	2576	639
Goodwill	171	168	155	155	155
Long term Investments	32	64	3	119	142
Other Non-Current Assets	467	591	1051	1163	1382
<b>Total Non-Current Asset</b>	<b>7115</b>	<b>8769</b>	<b>9915</b>	<b>15237</b>	<b>15100</b>
Inventories	2191	3072	4446	4667	5180
Trade receivables	4542	4677	5896	6219	6652
Cash and cash equivalent	195	163	151	99	960
Other current assets	653	797	814	901	1070
<b>Total Current Assets</b>	<b>7580</b>	<b>8709</b>	<b>11308</b>	<b>11885</b>	<b>13862</b>
Trade payables	2871	3291	3541	4128	4973
Other current liabilities	184	365	809	895	1064
Short term Provisions	96	42	75	84	99
<b>Total Current Liabilities</b>	<b>3151</b>	<b>3699</b>	<b>4425</b>	<b>5107</b>	<b>6136</b>
<b>Net Current Assets</b>	<b>4429</b>	<b>5010</b>	<b>6883</b>	<b>6778</b>	<b>7726</b>
<b>Total Assets</b>	<b>11544</b>	<b>13779</b>	<b>16798</b>	<b>22015</b>	<b>22826</b>

Source: Company, SMIFS Research Estimates

Cash Flow					
YE March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Operating profit before WC changes	1,514	938	2,012	2,716	3,805
Operating profit after WC changes	273	-33	250	2,899	3,636
Income taxes paid	-177	-98	-386	-499	-806
<b>Cash flow from operating activities (a)</b>	<b>96</b>	<b>-130</b>	<b>-135</b>	<b>2,399</b>	<b>2,830</b>
Adj OCF (OCF - Interest)	-94	-297	-430	1,778	2,300
Capital expenditure	-521	-1,781	-1,591	-5,561	-163
Free Cash Flow	-615	-2,078	-2,021	-3,783	2,137
<b>Cash flow from investing activities (b)</b>	<b>-805</b>	<b>-1,677</b>	<b>-1,703</b>	<b>-5,450</b>	<b>84</b>
<b>Cash flow from financing activities (c)</b>	<b>759</b>	<b>1,781</b>	<b>1,812</b>	<b>3,056</b>	<b>-2,053</b>
<b>Net chg in cash (a+b+c)</b>	<b>50</b>	<b>-26</b>	<b>-26</b>	<b>6</b>	<b>862</b>
Adjustments	50	44	58	0	0
<b>Cash equivalents at beginning of year</b>	<b>95</b>	<b>145</b>	<b>119</b>	<b>93</b>	<b>99</b>
<b>Total Cash &amp; Cash equivalents</b>	<b>195</b>	<b>163</b>	<b>151</b>	<b>99</b>	<b>960</b>

Source: Company, SMIFS Research Estimates

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