

Himadri Speciality Chemical

Rs 112

From coal tar pitch to advanced carbon materials

BSE Sensex: 39,067

Nifty-50: 11,755

FINANCIALS

	SALES	OPM (%)	OP	OTHER INC.	PBIDT	INTEREST	PBDT	DEP	PBT	PBT AFTER EO	TOTAL TAX	PAT	EPS (RS) *
1603 (12)	1151.84	12.30%	141.87	10.95	152.82	109.99	42.83	63.71	-20.88	-20.88	-4.52	-16.36	
1703 (12)	1324.17	17.10%	226.95	7.9	234.85	80.47	154.38	30.97	123.41	123.41	42.23	81.18	1.9
1803 (12)	1971.17	22.80%	450	7.77	457.77	70.43	387.34	31.41	355.93	355.93	113.35	242.58	5.8
1903(12P)&	2465.1	22.90%	565.62	7.88	573.5	76.28	497.22	33.2	464.01	464.01	144.63	319.38	7.6
2003(12P)&	2958.11	23.00%	680.37	7.88	688.25	85.44	602.81	38.18	564.63	564.63	186.33	378.3	9

* Annualized on equity of Rs 41.84 crore. Face Value: Rs 1 each. & Projected FY 19 and FY 20 financials are as per New Accounting Standard (P): Projections. EO: Extraordinary items. EPS is calculated after excluding EO and relevant tax. Figures in Rs crore. Source: Capitaline Databases

Himadri Speciality Chemical (formerly known as Himadri Chemicals and Industries) established in 1987, is the largest vertically integrated speciality carbon company and is primarily engaged in the business of manufacturing various grades of Coal Tar Pitch and other value added by-products derived during the distillation process.

The company has eight zero-discharge strategically located manufacturing facilities spread across India (West Bengal, Andhra Pradesh, Chhattisgarh, Odisha and Gujarat) with a total installed capacity of 500,000 tonne per annum (tpa) of coal tar distillation, 120,000 tpa of carbon black, 68,000 tpa of SNF (Sulphonated Naphthalene Formaldehyde) and 20 MW of power plant. During Q3FY19, the company debottlenecked its Coal Tar Distillation plant resulting in capacity enhancement from 4,00,000 MTPA to 5,00,000 MTPA. The new capacity is available for production from Q4FY19

Has market share of 70% in Coal tar pitch

Coal tar is the by-product derived from coke oven batteries used in the steel industry while converting coking coal into low ash metallurgical coke. The gas thereby derived, is converted into coal tar. This coal tar is distilled and developed into multiple value-added derivatives.

Himadri Speciality Chemical is India's largest coal tar pitch producer with a market share of 70% which it expects to improve in coming years catering to more than two-thirds requirements of the aluminium and graphite industries. Coal tar demand is inelastic. The aluminium smelters cannot reduce production/ shutdown during a downturn owing to significantly high cost of starting afresh. This gives the company an edge for round-the-year stable business.

The company sells its product on a fixed delta on raw materials. So if there is a change in raw material price, finished product price also changes

This product has high entry barriers, as it is a complex chemical with 22 to 25 chemical and physical properties obtained through coal tar distillation process.

The product has high import barriers also. Liquid Coal Tar Pitch needs to be handled and shipped at 2500 degree Celsius and requires special fleets.

The domestic demand for coal tar pitch grew at a robust pace of 7.5-8% between 2012 and 2017. Aluminium industry is the key driver of the domestic coal tar pitch industry. Domestic coal-tar pitch demand is expected to grow at a robust pace of ~10% CAGR



STOCK DATA

BSE Code	:	500184
BSE Group	:	A
NSE Code	:	HSCL
Bloomberg	:	HSCH IN
Reuters	:	SUPI.BO
Par Value	:	Rs 1
52-week High/Low	:	Rs 155/ Rs 94
Sector	:	Chemicals (Spl)

SHAREHOLDING PATTERN*

Category	% of equity
Foreign	: 27.78
Institutions	: 1.64
Govt Holding	: -
Corporate Holding	: 4.03
Promoters	: 48.93
Public & Others	: 17.62
Total	: 100

* as on 31-03-2019

Source: Capitaline Databases

between 2017-20. This will primarily be led by Aluminium Industry and Graphite Electrode industry.

Entered the Carbon black Industry as forward integration

Himadri Chemicals is 3rd largest manufacturer of carbon black in India catering to niche application in Tyre and non- Tyre industry. The company entered the carbon black business as a forward integration to convert coal tar oil produced in-house during distillation process into carbon black.

Carbon black is used to manufacture many rubber products like automotive tyres, printing ink, painting, paper and plastics. It imparts tensile strength, black colour and abrasion resistance to rubber.

In India, tyre industry comprises around 70% of carbon black consumption - used as a pigment and reinforcing agent in automobile tyres. This helps increase tyre life. By volume, Carbon Black forms 22-27% of the tyre and 10-12% by cost.

Indian tyre market is of the size of Rs 55000 crore and has grown at a compounded annual growth rate (CAGR) of 6% over the past five years. The tyre sales are projected to record 6-8% CAGR between 2016-17 and 2017-2022.

Foray into Speciality Carbon Black

The company has forayed into Speciality Carbon Black – a segment that throws upon high growth potential. It has allowed the Company to diversify its customer base and strengthen its high margin value added product portfolio.

Speciality Carbon Black finds its usage in various end-user industries like conductive polymers, paints and coatings, battery electrodes, printing inks, polyester fibre, speciality packaging, films and sheets and consumer-moulded parts. The plastic segment accounts for 61-63% of speciality black's global demand. The global demand for speciality blacks is expected to grow at 3.4% CAGR from 1016 KT in 2016 to 1200 KT in 2021.

The company is setting up a capacity for 60,000 metric tonne of speciality carbon black at Mahistikry in West Bengal which is expected to commission in H1FY20.

Speciality black market in India is currently small at less than 5% of Total Volume but growing rapidly. Globally, the Speciality CB market is 10-12% of Total Volume.

Forward integration in to SNF, a next generation product

Sulphonated Naphthalene Formaldehyde (SNF) is a next-generation product for the Construction Chemical Industry (Admixture), Agro chemicals, Latex and Gypsum. It improves the concrete mix workability and it's compressive flexural strength. The company is India's largest Indian manufacturer of SNF with an installed capacity of 68,000 tpa and a market share of 50%.

Naphthalene, one of the by product of Coal Tar Distillation is used inhouse to manufacture SNF.

Although concrete finds mass usage across India, the penetration of SNF admixture in concrete is less than 10% against a high global average.

India being an emerging economy, the use of SNF in construction is less as compared to the developed economies. The rapid transformation into urbanisation is expected to drive a major change in the current consumption pattern.

The growth will be largely driven by construction spends and key Government initiatives like Smart Cities, PMAY, Swachh Bharat and AMRUT, among others.

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Forward integration into Advanced Carbon Materials used in batteries for electric vehicles

The company has forward integrated into manufacturing Advanced Carbon Material from in-house produced Coal Tar. The Advance Carbon Material is used as anode materials in lithium-ion batteries, thus making Himadri, the first Indian Company to develop this material. Lithium batteries are becoming the most competitive batteries in the field of power applications. It is used in mobile phones, tablets and digital cameras, offering simplifications and cost reductions over multi-cell designs. Lithium-ion batteries are witnessing a huge growth in demand in electric vehicles and energy storage solutions. ISRO has developed technology for manufacturing lithium ion batteries in India where it has recommended uses of anode material developed by Himadri.

The company is moving ahead with setting up capacity of 20,000 metric tonne of advance carbon material over the next 2 years commissioning of which is expected to be in phases starting from H1FY20 over the next 12 months thereon. Global demand of advance carbon material is around 200,000 tonne which is growing at a CAGR of 30% to 40% per year.

Specialty carbon black and advanced carbon materials to drive margin expansion

The company is focusing to manufacture value added products, specialty carbon black and advanced carbon material, which have significantly higher realization compared to coal tar pitch and carbon black.

Advanced carbon material finds application in lithium-ion batteries for making anodes. It is in advanced stage of testing with world-leading manufacturer of lithium-ion battery. Currently, these products are manufactured by technology giants primarily based out of Japan. Advance carbon material is being sold at a price from Rs. 600,000 to Rs. 700,000 per metric tonne.

Specialty carbon black product has a good demand from international clients and will open up global market for it in future. The margin difference between normal and specialty carbon black with low end of speciality starts with 250% to 300% and goes up to 2000% plus.

December 2018 quarter performance affected by planned shutdown

For the quarter ended December 2018, Himadri Speciality Chemicals reported a 17% rise its consolidated sales to Rs 586.68 crore. This was largely realisation led growth given limitations over volume growth due to the planned shutdown. Average blended realization grew by 29% year-on-year to Rs. 68203 per metric tonne in Q3 FY2019 as compared to Rs. 52700 per metric tonne in Q3 FY2018. Total sales volume fell 10% to 83571 tonne.

OPM fell 150 basis points to 22.6% which saw OP grow 10% to Rs 132.75 crore. Other income rose 220% to Rs 15.12 crore and interest cost rose 43% to Rs 17.32 crore. After providing for depreciation (up 6% to Rs 8.41 crore), PBT rose 16% to Rs 122.14 crore. Provision for taxation grew 8% to Rs 37.79 crore, after which PAT went up 20% to Rs 84.35 crore.

For nine months ended December 2018, sales were up 26% to Rs 1793.18 crore. OPM was flat around 22.9%. Net profit rose 37% to Rs 235.1 crore.

Expanded Capacity in coal tar pitch commissioned

The company has completed its capacity expansion plan of 1,00,000 TPA and commissioned it in Q3FY19 which has taken the CTP capacity to 5,00,000 TPA (an

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increase of 25%). Planned shutdown due to expansion had led to fall in volume in December quarter and affected margins. With benefits of expansion available in March 2019 quarters, volume growth should resume.

Net debt levels has come off sharply

Net debt of the company fell from Rs 1118 crore in FY 2014 to Rs 1030 crore in FY 2015 to Rs 805 crore in FY 2016 to Rs 717 crore in FY2017 and to Rs 629 crore in FY2018. The company has further repaid debt of Rs 96 crore in nine months ended FY2019. Currently total debt stands at Rs 533 crore.

With regards to the new product lines, the company expects a capital expenditure to the tune of Rs. 600 crores in next 2 years. The funding for capital expenditure will be done through internal accrual, as cash flow remains strong and it expect no dilution in equity for the same.

Valuation

For FY 2019, we expect the company to register sales and PAT of Rs 2465.10 crore and Rs 319.38 crore respectively. For FY 2020, we expect the company to register net sales and PAT of Rs 2958.11 crore and Rs 378.30 crore respectively. This gives an expected EPS of Rs 7.6 for FY 2019 and Rs 9 for FY 2020. At current market price of Rs 112, the scrip trades at 13 times expected FY 2020 earnings.

The company has completed its capacity expansion plan of 1,00,000 TPA and commissioned it in Q3FY19 which has taken the CTP capacity to 5,00,000 TPA (an increase of 25%)

HIMADRI SPECIALITY CHEMICALS: RESULTS

PARTICULARS	1812 (03)	1712 (03)	VAR (%)	1812 (09)	1712 (09)	VAR (%)	1803 (12)	1703 (12)	VAR (%)
Net Sales	586.68	500.08	17	1793.18	1420.42	26	1971.17	1324.17	49
OPM (%)	22.6	24.1		22.9	22.8		22.8	17.1	
OP	132.75	120.49	10	411.08	323.53	27	450.00	226.95	98
Other Income	15.12	4.72	220	7.28	7.16	2	7.77	7.90	-2
PBDIT	147.87	125.21	18	418.36	330.69	27	457.77	234.85	95
Interest	17.32	12.11	43	53.58	51.51	4	70.43	80.47	-12
PBDT	130.55	113.10	15	364.78	279.18	31	387.34	154.38	151
Depreciation	8.41	7.91	6	24.71	23.69	4	31.41	30.97	1
PBT before EO	122.14	105.19	16	340.07	255.49	33	355.93	123.41	188
EO	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0
PBT after EO	122.14	105.19	16	340.07	255.49	33	355.93	123.41	188
Tax	37.79	35.05	8	104.97	84.16	25	113.35	42.23	168
PAT	84.35	70.14	20	235.10	171.33	37	242.58	81.18	199
EPS (Rs)*	8.1	6.7		7.5	5.5		5.8	1.9	

* Annualized on equity of Rs 41.84 crore. Face Value: Rs 1 each. EPS is calculated after excluding EO and relevant tax. Var(%) exceeding 999 is restricted to 999
Figures in Rs crore. Source: Capitaline Database