

## Buy

<b>Price</b>	<b>Rs231</b>
<b>Target Price</b>	<b>Rs274</b>
<b>Investment Period</b>	<b>12 Months</b>

### Stock Info

Sector	Chemicals
Market Cap (Rs cr)	327
Beta	0.34
52 WK High / Low	420 / 207
Avg Daily Volume	3208
Face Value (Rs)	10
BSE Sensex	13,454
Nifty	4,016
BSE Code	524667
NSE Code	SAVITACHEM
Reuters Code	SAVC.BO
Bloomberg Code	SVCH IN

### Shareholding Pattern (%)

Promoters	71.5
MF/Banks/Indian FIs	9.2
FII/ NRIs/ OCBs	3.0
Indian Public	16.3

Abs.	3m	1yr	3yr
Sensex (%)	(14.4)	(10.8)	85.1
Savita Chem. (%)	(5.6)	(9.2)	26.9

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## Performance Highlights

- Revenues jump 14.7%:** Savita Chemicals reported a 14.7% yoy jump in Revenues for 4QFY2008 to Rs264.6cr (Rs230.8cr) driven by higher volumes but a marginal increase in realisations.
- OPM spurts by a whopping 650bp to 12.1%:** The company registered a phenomenal Operating performance wherein its OPM spiked 650bp yoy to 12.1% (5.6%). Stable base oil prices and favourable exchange rates were the primary factors responsible for such a superlative performance. During 4QFY2007, the company's performance was hit by the steep rise in the base oil prices. During 4QFY2008, Staff costs increased substantially by over 126.3% yoy to Rs5.6cr (Rs2.5cr) due to the bonuses and increments. Other Operating expenses stood at Rs23.0cr (Rs21.2cr). Overall, Operating Profits surged 148.7% yoy to Rs32.1cr (Rs12.9cr).
- High Depreciation; Interest costs in line:** The company has been investing in augmenting its capacity and hence the Depreciation was high at Rs4.8cr (Rs2.9cr). Interest expenses were also in line moving up 18.3% yoy to Rs0.6cr (Rs0.5cr).
- Adjusted PAT increases 66.6% to Rs23.3cr:** PAT yoy growth of 66.6% to Rs23.3cr (Rs14.0cr) came on the back yoy expansion in OPM. The company also had a tax write back of Rs1.6cr during 4QFY2007, excluding which the PAT was up by 87.9% yoy.

### Exhibit 1: Key Financials

Y/E March (Rs cr)	FY2007	FY2008	FY2009E	FY2010E
<b>Net sales</b>	<b>814</b>	<b>919</b>	<b>1,102</b>	<b>1,257</b>
% chg	34.2	12.9	19.9	14.1
<b>Net Profit</b>	<b>47.5</b>	<b>62.0</b>	<b>63.9</b>	<b>72.7</b>
% chg	26.8	30.5	3.1	13.9
<b>EPS (Rs)</b>	<b>32.5</b>	<b>42.4</b>	<b>43.8</b>	<b>49.8</b>
EBITDA Margin (%)	6.9	9.8	8.4	8.4
P/E (x)	7.1	5.5	5.3	4.6
RoE (%)	22.8	24.7	21.9	21.4
RoCE (%)	18.4	20.5	18.3	18.2
P/BV (x)	1.6	1.3	1.2	1.0
EV/ Sales (x)	0.5	0.4	0.3	0.3
EV/ EBITDA	6.7	4.0	4.1	3.6

Source: Company, Angel Research

**Outlook and Valuation**

Savita Chemicals has reported an above average performance for FY2008. Although Revenues increased by a mere 12.9% yoy to Rs919cr (Rs814cr), PAT surged 30.5% yoy to Rs62.0cr (Rs47.5). The good performance was mainly on account of the rise in the product prices, almost stable base oil prices and favourable exchange rate. However, we believe the high OPMs of 9.8% reported by the company are not sustainable and are likely to decline in the near future. This is because the high crude oil prices may push up the base oil prices, which would adversely impact the company's OPMs.

We believe that the company will be able to report over 17% CAGR in Top-line over FY2008-10 driven by strong demand for transformer oils. Operating Margins are expected to hover at around 8.5% over the next couple of years. Bottom-line growth over FY2008-10 will be restricted to a CAGR of 8.4% due to the above average performance during FY2008. Based on the recent market turmoil and de-rating of the broader indices, we are lowering our Target multiple for the stock to 5.5x. At Rs231, the stock is available at 4.6x FY2010E EPS of Rs49.8. Based on our revised numbers, and reduced Target multiple on account of the overall valuation correction witnessed in the market, **we maintain a Buy on the stock, with a revised Target Price of Rs274 (Rs340).**

**Exhibit 1 : 4QFY2008 Performance**

Y/E March (Rs cr)	Q4FY2008	Q4FY2007	%chg	FY2008	FY2007	%chg
<b>Net Sales</b>	<b>264.6</b>	<b>230.8</b>	<b>14.7</b>	<b>919.0</b>	<b>814.0</b>	<b>12.9</b>
COGS	204.0	194.3	5.0	725.2	676.3	7.2
Total Operating Expenditure	232.6	217.9	6.7	828.0	757.6	9.3
<b>EBITDA</b>	<b>32.1</b>	<b>12.9</b>	<b>148.7</b>	<b>90.9</b>	<b>56.4</b>	<b>61.2</b>
<i>EBITDA Margin (%)</i>	12.1	5.6		9.9	6.9	
Other Income	5.6	6.5	(14.8)	11.9	15.7	(24.2)
Depreciation	4.8	2.9	64.9	14.4	9.9	45.5
Interest	0.6	0.5	18.3	3.5	1.5	133.3
<b>PBT</b>	<b>32.2</b>	<b>16.0</b>	<b>101.5</b>	<b>85.0</b>	<b>60.5</b>	<b>40.5</b>
<i>PBT Margin (%)</i>	11.9	6.7		9.1	7.3	
Total Tax	8.7	3.4	153.7	22.6	14.4	56.9
<i>% of PBT</i>	27.2	21.6		26.6	23.8	
FBT	0.1	0.1	15.9	0.4	0.4	7.4
<b>PAT</b>	<b>23.3</b>	<b>12.4</b>	<b>87.9</b>	<b>62.0</b>	<b>45.9</b>	<b>35.0</b>
Exceptional items	0.0	(1.6)		0.0	(1.6)	
<b>Adj. PAT</b>	<b>23.3</b>	<b>14.0</b>	<b>66.6</b>	<b>62.0</b>	<b>47.5</b>	<b>30.5</b>
<i>PAT Margin (%)</i>	8.6	5.9		6.7	5.7	

Source: Company, Angel Research



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<b>Ratings (Returns) :</b>	<b>Buy (Upside &gt; 15%)</b>	<b>Accumulate (Upside upto 15%)</b>	<b>Neutral (5 to -5%)</b>
	<b>Reduce (Downside upto 15%)</b>	<b>Sell (Downside &gt; 15%)</b>	