

Bodal Chemicals Ltd
Dyes & Dye Intermediates
CMP - Rs. 47.85 Cum Rights, Target Price – Rs. 78 Ex Rights
Buy
Price Chart

Stock Details

BSE Code	524370
NSE Code	NA
Bloomberg	BODL IN
Price (Rs) as on 02/07/2007	47.85
Equity Capital (Rs Mn)	10.4
Face Value (Rs)	10
Eq. Shares O/s (mn)	104
Market Cap (Rs Cr)	41.24
Book Value (Rs)	23.2
Avg Dly Vol (3 Mths)	2384
52 wk H/L	49.40 / 14.30
EPS for FY07	10.72

Shareholding Pattern

(as on 31 Mar 2007)

Foreign	0.0
Institutions	0.2
Govt Holding	0
Non Promoter Corp Hold	2.9
Promoters	74.3
Public & Others	22.6
Total	100

Bod-ing a bright future !!
Company Background

Bodal Chemicals Ltd (BCL) is a Gujarat based company involved in the manufacture of dyes and dye intermediates like direct dyes, reactive dyes and acid dyes that find applications in the textile, leather and paper industries. It has 7 manufacturing units with an installed capacity of 21,635 mtpa and is soon coming out with a rights issue to fund further expansion plans.

Triggers

- BCL is one of the largest dye and dye intermediate manufacturers in India with an installed capacity of 21,635 mtpa which is expected to go up to 29,435 mtpa as a result of its **ongoing capex** of Rs. 35 cr at its plant in Padra, Gujarat due to be completed by early July.
- BCL plans to amalgamate with itself, Milestone Organics Limited; a Baroda based Dyestuff Company, effective from Jan 1, 2007. This will give BCL a cheap access to additional ready-made capacity to the extent of 900 mtpa and will result in **better economies of scale** and **increased capacity utilization**.
- BCL **exports over 51% of its production** to over 25 countries all over the world and this segment is likely to grow based on changed global dynamics.
- In order to fund future expansion or acquisition plans, BCL is coming out with a **rights issue** for its shareholders at a price of Rs. 20 per share.
- The Indian dye industry has witnessed a **growth of over 15%** in the past decade and BCL is well posed to take advantage of this surge in demand.
- BCL has shown a significant **improvement in EBITDA margins** in Q407 due to reduced China dumping in the domestic market. Margins going forward to remain sustainable in the 10% range.

Recommendation

BCL is slated to grow its topline by about 49% in FY08 (E) and 22% in FY09 (E), with a PAT growth of over 54% in FY08 (E) and 38% in FY09 (E). Due to the expected rights issue and conversion of warrants, the growth in EPS could be a more subdued 2-3%. BCL also offers more than 5% dividend yield at the current price. At the current price of Rs. 47.85, BCL is available at 4.4 times FY08 (E) EPS and 4.2 times FY09 (E) EPS. We recommend a buy on the stock at the current levels with a price target of Rs. 78 within 1 year.

Financials at a Glance

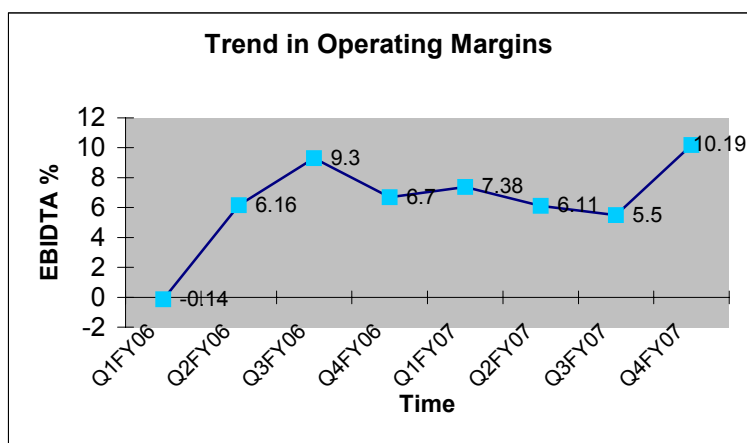
	FY06	FY07	FY08 (E)	FY09 (E)
Revenue	147.45	254.17	379.56	464.56
% chg y-o-y		72.38	49.33	22.39
EBITDA	9.93	20.23	36.42	48.83
% chg y-o-y		103.73	80.03	34.07
PAT	2.43	11.15	17.23	23.81
% chg y-o-y		358.85	54.53	38.19
EPS	2.34	10.72	10.98	11.39
% chg y-o-y		358.73	2.42	3.79
P/E			4.35	4.20

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Investment Rationale

Changing Global Dynamics to aid in growing topline and stabilizing margins

India and China have emerged as two of the large manufacturer of Dyes/Dyes intermediates after the manufacture of these were gradually shut down in the West due to pollution concerns. China has been a tough competitor for Indian manufacturers in the global and domestic arena. Recent events have however resulted in a change in the dynamics with China forcing pollution control norms due to the forthcoming Olympics. This has resulted in a shut down of a number of units in China over the past 2 quarters. The recent move by China to adjust export tax rebate rates on some commodities wef Jul 01, 2007 affecting 2,831 commodities (about 37% of all customs goods) brings good news for Indian Dyes and Dyestuff manufacturers. Of these commodities, tax rebates are cancelled for 553 commodities with high-energy consumption, high pollution and resource consumption-including cement, dyestuff, metal carbides, activated carbon products and leather. These in turn could mean a booster for the topline and a stabilizing factor for the margins of companies like BCL. The graph below demonstrates the volatility in the EBITDA % of BCL over 2 years. Going forward, we expect these margins to remain sustainable in the 9.5% - 11% range.



Amalgamation with Milestone Organics Ltd:

BCL has decided to amalgamate with itself Milestone Organic Limited (MOL), which is a Baroda based company engaged in the manufacture of dyes. MOL has been a loss making company, as it lacked focus and management. As a result of this amalgamation BCL will have benefits, which include a ready-made capacity of 9,00,000 kgs for the manufacture of VAT dyes, without the need to reapply for regulatory permissions. The acquired plant will only need some minor modifications. The plant is located on a 21,000 sq. meter land of which a large chunk is unutilized and thus can be used to set up an additional plant in the future. Further, BCL will have benefits of carried forward losses of MOL, which has sizeable tax saving benefits for the company to the extent of Rs. 7 cr. BCL has already taken advantage of this tax benefit in FY07 on the premise that the merger will be approved by the necessary authorities. Once BCL makes optimum utilization of the MOL facilities it has the potential to add Rs. 30 - Rs. 40 cr to the topline of the business. BCL will take on debt in the form of loans and debentures to the extent of about Rs. 5.5 cr with interest payable at 10% p.a. The 25-30 employees of MOL will also get absorbed into the merged entity. The share capital of MOL is Rs. 6.8 cr for which BCL will issue shares with face value of Rs. 9.07 lakhs. BCL will allot / issue 1 equity share of Rs. 10 each credited as fully paid-up for every 75 equity share of Rs. 10 each fully paid-up held by the members of MOL. This amalgamation is effective from Jan 01, 2007.

[BCL to come out with a Rights Issue:](#)

BCL has filed a draft letter of offer for right issue with warrants which can be exchanged against shares, aggregating to Rs. 20.80 crore. For every 2 equity shares held, the shareholder will be entitled to 1 Equity Share and 1 Detachable Warrant. The total number of equity shares and warrants to be issued is 52,01,352 each at a price of Rs. 20. The warrant conversion period is July 2008.

Behavior of equity capital after Rights Issue and Amalgamation of MOL with the company:

Equity Shares	FY07	FY08 (E)	FY09 (E)
Outstanding as of 31.03. of fiscal	1,04,02,704	1,04,02,704	1,56,94,723
Eq. Shares issued due to Rights Issue	-	52,01,352	-
Eq. Shares issued to the shareholders of MOL as per the scheme of Arrangement	-	90,667	-
Eq. Shares issued as a result of warrant conversion in July 08.	-		52,01,352
Total Diluted Equity O/s:	1,04,02,704	1,56,94,723	2,08,96,075

The purpose of the rights issue is to raise long term resources for general corporate purposes including acquisitions and expansion and to meet the expenses of the issue. **BCL intends to scout for, identify and acquire/merge viable units** which are in the same/similar business which may be profitably carried on by the company and invest therefore or therein to add/modernize and operate them. Further, in case there are suitable opportunities BCL may adopt the opportunistic acquisition route by acquiring companies for furthering inorganic growth. While BCL has not identified such opportunities at present, it is continuously on the look out for such opportunities. Further the company may also invest some funds in strengthening its marketing and other infrastructure / set up.

BCL is also contemplating buying industrial land in Chemical SEZ at Dahej, Gujarat or adjacent to it, for its future expansion, to avail benefits offered by Chemical SEZ. Out of the issue proceeds BCL intends to use up to Rs. 2040.54 lacs for these purposes. However, no definitive plans have been made.

[Planned capex – achieving greater economies of scale:](#)

BCL has production units at 4 locations in Ahmedabad, one unit at Ankleshwar, and one at Panoli. Further, it is setting up a new plant in Vadodara at a cost of Rs. 35 crores to produce different kinds of dye intermediates like H. Acids, Vinyl Sulphone (para base) with an installed capacity of 7,800 metric tones per annum. The project has been appraised and financed by Union Bank of India, I F Branch, and Ahmedabad. As per the appraisal and sanction by the bank, BCL's contribution to the project is Rs.9.90 crores, which has been met from internal accruals of the company. While the project was expected to be completed in Oct 2007, it has already been completed and production of the H. Acid plant has been commissioned in June 2007 and the Vinyl Sulphone plant is expected to start production by July 2007.

The proposed manufacturing facility is located at Padra, which is 40 km from Vadodara. The total land is around 36.39 acre. Present land is sufficient even for future expansions. The site is in close proximity to acidic and liquid raw materials like Aniline Oil, Chloro Sulphuric Acid, Ethylene Oxide, and Caustic Lye etc. These raw materials are purchased from various manufacturers located in South Gujarat cities/industrial areas like Vapi, Valsad, Aankleshwar, Bharuch, and Vadodara. Hence lower transportation costs and no octroi compared to Ahmedabad or other areas. The GAIL pipeline of gas is nearer to the new site so gas can be used as fuel.

Further, BCL is contemplating another project at Padra, Baroda itself for a **1,000 MT per month** dyes manufacturing unit at a very preliminary investment of Rs. 25 crore and intends to complete the project, once finalized, during April-June 2008. This with existing Dyes manufacturing capacities of BCL of 500 mt per month will make BCL, the largest Dyes Manufacturing Capacity holding Company in India.

Capacities at BCL's different production units:

Product Range	Production Capacity Per Annum in MT							Capacity Per Annum (in MT)
	Unit I	Unit II	Unit III	Unit IV	Unit V	Unit VI	Unit VII Padra	Total
Vinyl Sulphone	3000	-	3000	-	2000	1800	4800	14600
H. Acid	-	-	-	-	-	-	3000	3000
Other Intermediates	3525	3310	-	-	-	-	-	6835
Reactive & Acid Dyes	1000	-	-	4000	-	-	-	5000
Grand Total	7525	3310	3000	4000	2000	1800	7800	29435

Thus, given the increase in capacity, BCL can achieve better economies of scale and increase its export share. Moreover to this capacity of 29,435 Mt, BCL also has the advantage of a ready-made add on capacity to the extent of 900 Mt from MOL. The debt outstanding in BCL's books including the bank loans taken for Unit VII at Padra is about Rs. 60 cr as of Mar 2007.

Positive Industry Outlook & Export Potential:

The Indian Dyestuff Industry, which was primarily started to cater to the needs of the domestic textile industry, now not only meets more than 95% of the requirements of the domestic market but gradually has also made a dent in the global market. The dyes and dyestuff industry is made up of around 900 small scale units and 50 large organized units and produces around 80,000 tonnes of dyestuff per annum. **Two western states, Maharashtra and Gujarat (Chiplun to Mehsana belt), account for over 90% of dyestuff production in the country. India's share in the world market is estimated at 5-6%.** The major users of dyes in India are textile, paper and leather industries. Pigments are used mostly by the paint, printing ink, plastic and polymer industries.

The main products which the small scale sector concentrates are reactive dyes, acid dyes and direct dyes, while large companies mainly concentrate on Vat, disperse dyes, pigment dyes, etc. The Indian Dye industry achieved a **growth rate of more than 15% during the last decade** and emerged as the second largest producer of dyes and dye intermediates in the Asian Region. The Indian Dyestuff Industry can realistically aim to realize about 10 per cent of share of the world market in the next five years. Considering that the dyestuff industry can realize \$ 2 billion by the year 2010 and on the basis that half of the value production is exported, it would mean **tripling of present level of exports in the next five years.** The Indian Dye Industry is gearing itself to be a global player, both due to its own intrinsic strengths and also due a change in the circumstances of industry giants in developed countries. The developed countries have begun sourcing their supplies from the developing countries on account of economical considerations and growing production costs. Germany, U.S., Japan, Switzerland and the U.K. account for two-thirds of the world production of dyestuff of 85,000 tonnes. Today, the share of the developed countries in world production of dyes has come down from 65% to 50% and is likely to go down further as countries like China, South Korea, Taiwan and India emerge as large producers.

Bodal has earned a name for CRQTD i.e. Consistency, Reliability, Quality and Timely Delivery, in the domestic and export markets. Because of this, Bodal has been able to charge higher price for several of its products than its competitors. Bodal is currently exporting about 51% of its production to about 25 countries all over the world. Bodal is a star export house recognized by DGFT and is availing all benefits and incentives for the export of its products. The major markets for Indian dyestuffs are the European Union, U.S.A., Indonesia, Hong Kong, South Korea and Egypt. **The U.S. takes almost 20% of India's exports.** China is the closest rival with a more competitive price but poorer quality of product. Going forward, given BCL's expansion plans and amalgamation with MOL, we expect BCL's exports to be about 55-60% of its total production.

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Customers of BCL:

Domestic Customers	Export Customers
Kiri Dyes & Chemicals Ltd	Clariant Chemicals
Metrochem Inds	Dystar
Meghmani Organics	Ciba Speciality Chemicals

Company Background

Bodal Chemicals Limited (BCL) started its operations as Dintex Dyechem Private Limited in 1986 and became a public limited company – Dintex Dyechem Limited (DDL) – in 1992. DDL is engaged in the manufacture of various dyes and dye intermediates viz. reactive and direct dyes like Red 195, Yellow 145, Black 210, Black 22 etc, and dye intermediates viz. Acetanilide, Vinyl Sulphone. After the initial years, their operations faced problems due to high cost of manufacturing vis-à-vis market price, which had crashed due to dumping of products by China. This led to continuous losses from 1999-2000. With a view to get various inputs like financial resources, management, marketing and manufacturing expertise that are needed for turning around and growth **Bodal Chemicals Pvt. Ltd. (BCPL) which was a profit making and growing company in the same product line was amalgamated with Dintex Dyechem** and the name thus changed to Bodal Chemicals Ltd (2004).

BCPL had been a growth-oriented company with 5 expansions in 10 years prior to amalgamation and all from internal accruals & own resources. BCPL was in production of Dyes and Dye Intermediates viz. Vinyl Sulphone, DASA, FC Acid, Gamma Acid, 6 Nitro etc. **Thus due to the amalgamation of BCPL, the product range of the company expanded and now includes dyes viz. reactive and direct dyes like Red 195, Yellow 145, Black 210, Black 22 etc, and dye intermediates viz. Acetanilide, Vinyl Sulphone, DASA, FC Acid, Gamma Acid, 6 Nitro etc.** The business of the company has grown since amalgamation and exports also increased. **The production capacity has jumped from 6,000 MTPA (Pre Amalgamation) to present 29,435 MTPA (including Padra Project).** Today, BCL is one of the leading dyes and dye Intermediates manufacturers in India having manufacturing units at **7 locations** at Vatva Ahmedabad Gujarat and one new unit at Padra near Vadodara Gujarat.

Business

BCL is in the business of manufacturing Dyes and Dyes Intermediates like Direct dyes, Reactive Dyes and Acid Dyes and also dye intermediates including Vinyl Sulphone, DASA, FC Acid, Gamma Acid, 6 Nitro, Acetanilide etc. which in turn finds application in the Textile (80-90%), Leather (10-20%) and Paper industries. BCL runs 3 shifts at its various manufacturing locations. The installed capacity and capacity utilization as on 31.03.2006 is provided below.

Product	Installed Capacity in MTPA	Utilized Capacity in MTPA	Capacity Utilization %
Vinyl Sulphone	9800	7362	75%
Reactive / Direct / Acid Dyes	5000	2491	50%
Other Intermediates	6835	4342	64%
Total:	21635	14195	66%

Risks and Concerns

Vulnerable to volatility in prices of raw materials and supply constraints. The main raw materials used in the manufacture of dyes and intermediate products are Aniline oil, Acetanilide, Chloro Sulphuric acid, Ethylene acid, Caustic Soda. The raw

materials cost accounts for more than 70% of the net sales of BCL. The raw material being derived from crude oil and naphtha, the prices of these inputs tend to be volatile and move in line with their feedstock costs. Thus, any adverse movement in the price of crude oil could impact the EBITDA margins of BCL.

Susceptible to foreign exchange fluctuations, which could result in BCL incurring foreign exchange losses. Substantial part (51%) of BCL's sales revenue is from exports. Their sales are denominated in US Dollars and purchases are denominated in Indian Rupees and US Dollars. Thus any significant adverse fluctuation in the USD against Indian Rupees will result in foreign exchange losses to BCL, which will adversely impact its performance. Results for the June quarter could reflect pressure on margins due to the recent Rupee appreciation. However BCL is confident of overcoming this partly by adjusting the finished goods prices and also by volume growth.

Teething problems in amalgamation scheme: BCL plans to amalgamate with itself MOL and benefit from tax shields and synergies of amalgamation, which include better operating efficiencies and higher capacity utilization. Any delay or temporary setback in this scheme can adversely affect BCL's operations.

Client concentration in respect of BCL's sales revenues (43% of domestic sales was to 7 clients and 59% of export sales to 6 clients) subjecting BCL to associated risks such as competitiveness and exposure. BCL has been exporting to these clients for over 5 years and thus have long standing relationships though there are no marketing contracts or agreements with them. In view of the concerns on environmental pollution, many manufacturers of the products they make, have closed down their units in these countries during the last few years leading to these clients looking for association with suppliers like BCL.

Competition: BCL faces competition from domestic companies such as Dynamic Industries, Vidhi Dyestuff, Shreyas Intermediates etc. Further, even one of BCL's customers / competitors – Kiri Dyes and Chemicals is coming out with a public issue some time in the near future.

Environmental Risks: BCL's operations are subject to environmental and health related laws and regulations. Compliance with such laws and regulations may be expensive and any non-compliance exposes the company and the Directors and key personnel to criminal liability. Further, it can also lead to a temporary or permanent shut down of the plant / plants of BCL.

Other Risks: The risks in the dye industry are stringent regulations for environment protection, less scope for higher value addition, change in consumer preferences of end products where products are used and possibility of dumping by other countries like China. However, China is does not seem to be an immediate threat as owing to internal regulations and pollution issues a number of dyes plants in China have been shut down.

Recommendation & Conclusion

BCL is on the verge of a large growth in topline and bottomline due to its recent organic and inorganic growth initiatives. It is available cheaply in comparison to its peers. Investors have an opportunity to acquire BCL shares cum-Rights and participate in its Rights offer and bring down their cost of acquisition further. We expect the gap in valuations between BCL and its peers to narrow over the next few quarters. BCL is slated to grow its topline by about 49% in FY08 (E) and 22% in FY09 (E), with a PAT growth of over 54% in FY08 (E) and 38% in FY09 (E). Due to the expected rights issue and conversion of warrants, the growth in EPS could be subdued. BCL also offers more than 5% dividend yield at the current price. At the current price of Rs. 47.85, BCL is available at 4.4 times FY08 (E) EPS and 4.2 times FY09 (E) EPS. We recommend a buy on the stock at the current levels with a price target of Rs. 89 within 1 year.

Peer Comparison

Company Name	Sales (Rs. cr)	CMP	EPS	P/E	OPM %	NPM %	FV	BV**
Dynamic Industries	53.04	51.50	2.57	20.04	5.56	1.47	10.00	34.20
Shreyas Intermediates	67.34	67.55	3.12	21.65	12.65	7.42	10.00	15.1
Metrochem Inds	240.13	70.90	4.47	15.86	10.60	2.13	10.00	76.40
Bodal Chemicals Ltd	191.80	47.85	10.72	4.46	6.16	3.11	10.00	23.20
Meghnami Organics*	389.16	28.55	1.91	14.95	17.1	9.9	10.00	13.80

(Source: Capitaline Database)

* Meghnami Organics results are based on FY06 numbers, while the others are based on TTM numbers.

** BV for all is as on Mar 31, 2006

Financials

	(Rs. in cr)			
Income Statement	FY06	FY07	FY08 (E)	FY09 (E)
Sales	147.45	254.17	379.56	464.56
% Ch Y-o-Y		72.38	49.33	22.39
Other income	5.69	3.97	5.9	7.7
% Ch Y-o-Y		-30.23	48.61	30.51
Total Income	153.14	258.14	385.46	471.56
% Ch Y-o-Y		68.56	49.32	22.34
Raw Materials	114.9	201.98	296.89	358.26
% Ch Y-o-Y		75.79	46.99	20.67
Decrease / (Increase) in Stock in Trade	-1.29	-2.91	-3.3	-4.8
% Ch Y-o-Y		125.58	13.40	45.45
Manufacturing Expenses	19.22	25.05	36.52	45.56
% Ch Y-o-Y		30.33	45.79	24.75
Staff Cost	1.14	1.67	2.42	3.56
% Ch Y-o-Y		46.49	44.91	47.11
SG&A	9.24	12.12	16.51	20.15
% Ch Y-o-Y		31.17	36.22	22.05
Total Operating Expenditure	143.21	237.91	349.04	422.73
% Ch Y-o-Y		66.13	46.71	21.11
EBITDA	9.93	20.23	36.42	48.83
% Ch Y-o-Y		103.73	80.03	34.07
Margins %	6.73	7.96	9.60	10.51
Interest	1.42	3.37	6.89	7.7
% Ch Y-o-Y		137.32	104.45	11.76
Depreciation & Non Cash Charges	3.65	3.87	5.7	7.95
% Ch Y-o-Y		6.03	47.29	39.47
PBT	4.86	12.99	23.83	33.18
% Ch Y-o-Y		167.28	83.45	39.24
Taxation-	2.43	1.84	6.6	9.37
% Ch Y-o-Y		-24.28	258.70	41.97
Avg tax rate (%)	50.00	14.16	27.70	28.24
Net Profit (Reported)	2.43	11.15	17.23	23.81
% Ch Y-o-Y		358.85	54.53	38.19
Margins %	1.65	4.39	4.54	5.13
EPS (Reported)	2.34	10.72	10.98	11.39
% Ch Y-o-Y		358.85	2.42	3.79
Latest Equity (Rs mn)	104.027	104.027	156.95	208.96
Cash EPS	5.84	14.44	14.61	15.20
P/E			4.35	4.20
Cash PE(X)			3.28	3.12

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