

August 17, 2010

### NOT RATED

Price <b>Rs 507</b>	Target Price <b>NR</b>
<b>Sensex</b>	<b>18,051</b>

### Price Performance

(%)	1M	3M	6M	12M
Absolute	1	(2)	29	49
Rel. to Sensex	1	(8)	14	27

Source: Bloomberg

### Stock Details

Sector	Agri Input & Chemicals
Reuters	HMCH.BO
Bloomberg	HCI@IN
Equity Capital (Rs mn)	386
Face Value(Rs)	10
No of shares o/s (mn)	39
52 Week H/L	574/269
Market Cap (Rs bn/USD mn)	20/427
Daily Avg Volume (No of sh)	12976
Daily Avg Turnover (US\$m)	0.1

### Shareholding Pattern (%)

	J'10	M'10	D'09
Promoters	44.6	44.6	53.4
FII/NRI	27.0	39.1	14.7
Institutions	1.0	1.1	1.1
Private Corp	17.7	5.4	19.0
Public	9.6	9.8	11.8

Source: Capitaline

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- Himadri reported 81.5% yoy growth in revenues to Rs1.5 bn and RPAT declined 19.3% yoy to Rs183 mn - performance was below estimates
- Key reasons for lacklustre performance (1) 45 days shut down at the Naphthalene facility and (2) marginal contribution from expanded distillation capacity
- Changes in expansion of distillation capacity - implementing 150,000 MTPA greenfield capacity instead of brownfield earlier
- Downgrade FY11E and FY12E earnings by 7-8% - Maintain positive bias amidst strong near term catalysts and attractive valuations

### APAT increased 24.9% yoy to Rs256 mn – but below our estimate

Himadri reported 81.5% yoy growth in revenues to Rs1.5 bn and RPAT declined 19.3% yoy to Rs183 mn - performance was below estimates. The key reason for deviation was – 45 days shut down at the Naphthalene facility for synchronization of expanded coal-tar distillation capacity, marginal contribution from expanded distillation capacity and foreign currency loss of Rs72.6 mn in Q1FY11 versus gain of Rs22.2 mn in Q1FY10. Excepting this, performance was satisfactory elsewhere – sale of approximately 24,800 MT of CTP (23,700 MT in Q1FY11) and 9500 MT of Carbon Black during the quarter.

### Carbon Black production stabilized, but 45 days loss of production at Naphthalene facility impacted revenue growth

Himadri commenced commercial production at its 50,000 MTPA carbon black in Q2FY10. Production at the new carbon black facility is now stabilized with better utilization - produced 9500 MT of Carbon Black at ~Rs61,500/Ton. However, the Naphthalene facility was shut down for 45 days for synchronization of 80,000 MTPA distillation capacity.

### Changes in timelines for expansion, delayed the distillation capacity

Himadri has communicated few changes in expansion of its coal-tar distillation capacity. Instead of 230,000 MTPA brown-field expansion in 3 phases at West Bengal, Himadri is setting up 150,000 MTPA greenfield distillation capacity in Orissa, closer to Aluminum smelters. Whereas, 80,000 MTPA brownfield capacity at West Bengal has commenced operations. The greenfield unit will commence operations in FY13E instead of FY12E earlier. Other expansion remain intact i.e. (1) Carbon Black expansion from 50,000 MTPA to 90,000 MTPA and (2) SNF expansion from 18,000 MT to 95,000 MT. Himadri will incur total capex of Rs7.5 bn, spread-out in FY11E and FY12E

### Financial Snapshot

Rs Mn

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
Mar										
FY09	4,354	1,398	32.1	468	24.3	-6.6	20.2	20.9	13.9	4.2
FY10P	5,059	1,827	36.1	1,073	27.9	14.6	14.2	18.2	11.2	2.6
FY11E	7,548	2,502	33.1	1,440	33.3	19.6	15.0	15.2	9.2	2.3
FY12E	9,190	3,252	35.4	1,955	45.2	35.8	17.0	11.2	7.7	1.9

**Strong near-term catalysts, expect acceleration in growth momentum**

Strong near-term catalysts are (1) full utilization of the 50,000 MTPA Carbon Black facility in FY11E (2) full utilization of the 12-MW Power plant in FY11E (3) expansion of SNF capacity from 8,000 MT to 18,000 MT and (4) commencement of 81,000 MTPA Coal Tar Distillation unit in FY11. This would accelerate the growth momentum in coming quarters.

**Downgrade earning estimates for FY11E and FY12E estimates**

Consequent to changes in capacity expansion program (greenfield distillation capacity of 150,000 MTPA versus brownfield expansion earlier), benefits from expansion will flow down in FY13E instead of FY12E earlier. Consequently, we have downgraded FY11E and FY12E earnings by 7% (from Rs35.7/Share to Rs33.3/Share) and 8% (from Rs49.4/Share to Rs45.2/Share) respectively. The earning estimate for Himadri is based on our modeling for demand and supply in India and accompanying expansions undertaken by the company. The China JV for 100,000 MTPA green-field distillation capacity would trigger upside to earnings estimates. Himadri is available at attractive valuations of PER 15.2X FY11E and 11.2X FY12E. We continue to hold positive bias.

**Revision in Earning Estimates**

Rs mn	FY11E			FY12E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	7,924	7,548	-4.7	10,130	9,190	-9.3
EBITDA	2,638	2,502	-5.2	3,497	3,252	-7.0
EBITDA Margin (%)	33.3	33.1	-10 bps	34.5	35.4	90 bps
APAT	1,540	1,440	-6.5	2,136	1,955	-8.5
EPS	35.7	33.3	-6.7	49.4	45.2	-8.4

**Quarterly Results**

	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Net Sales	849	1,250	1,453	1,570	1,541	81.5	-1.9
Expenditure	477	744	947	1,127	1,085	127.5	-3.7
Material Cost	392	489	605	762	783	99.5	2.8
% of Sales	46.2	39.1	41.6	48.5	50.8	460 bps	230 bps
Employee Expenses	13	21	24	25	25	93.1	0.8
% of Sales	1.5	1.7	1.6	1.6	1.6	10 bps	0 bps
Other Expenses	72	234	318	341	277	286.9	-18.6
% of Sales	8.4	18.7	21.9	21.7	18.0	950 bps	-370 bps
Operating Profit	372	506	506	443	456	22.6	2.9
Depreciation	41	65	69	73	83	103.4	13.8
EBIT	331	441	437	370	372	12.6	0.7
Other Income	24	5	5	89	-56	-330.3	-162.2
Interest	49	82	78	69	73	47.9	5.2
PBT	306	364	364	390	244	-20.2	-37.4
Tax	79	86	97	117	61	-22.6	-48.0
APAT	227	278	267	272	183	-19.3	-32.8
RPAT	227	283	291	272	183	-19.3	-32.8
Adjusted EPS	7.0	8.6	8.3	7.1	4.7	-32.5	-32.8
Reported EPS	7.0	8.8	9.0	7.1	4.7	-32.5	-32.8

Margins (%)						(bps)	(bps)
EBIDTA	43.8	40.5	34.8	28.2	29.6	-1420 bps	140 bps
EBIT	41.8	35.7	30.4	29.2	20.6	-2120 bps	-870 bps
EBT	36.0	29.1	25.0	24.8	15.8	-2020 bps	-900 bps
PAT	26.7	22.2	18.4	17.3	11.9	-1480 bps	-550 bps
Effective Tax rate	25.8	23.6	26.7	30.1	25.0	-80 bps	-510 bps

**Key Financials****Income Statement**

Y/E, Mar (Rs. mn)	FY09	FY10P	FY11E	FY12E
<b>Net Sales</b>	<b>4,354</b>	<b>5,059</b>	<b>7,548</b>	<b>9,190</b>
Growth (%)	1.2	16.2	49.2	21.8
<b>Total Expenditure</b>	<b>2,956</b>	<b>3,233</b>	<b>5,046</b>	<b>5,939</b>
Materials Cost	1,962	2,248	3,451	3,978
% of sales	45.1	44.4	45.7	43.3
Other Mfg Exps	944	901	1,471	1,774
% of sales	21.7	17.8	19.5	19.3
Manpower Exps	49	83	125	187
% of sales	1.1	1.6	1.7	2.0
<b>EBIDTA</b>	<b>1,398</b>	<b>1,827</b>	<b>2,502</b>	<b>3,252</b>
Growth (%)	12.1	30.7	36.9	30.0
EBIDTA margin %	32.1	36.1	33.1	35.4
Depreciation	157	248	305	376
EBIT	1,241	1,579	2,197	2,875
EBIT margin %	28.5	31.2	29.1	31.3
Other income	-132	152	152	200
Interest	133	279	347	365
<b>EBT</b>	<b>938</b>	<b>1,452</b>	<b>1,947</b>	<b>2,644</b>
Tax	105	379	51	69
<b>EAT</b>	<b>774</b>	<b>1,073</b>	<b>1,440</b>	<b>1,955</b>
E/O items	-306	0	0	0
Minority Interest	0	0	0	0
<b>Adjusted PAT</b>	<b>468</b>	<b>1,073</b>	<b>1,440</b>	<b>1,955</b>
Growth (%)	-44	129.5	34.1	35.8
EAT (%)	17.8	21.2	19.1	21.3

**Cash Flows**

Y/E, Mar (Rs. mn)	FY09	FY10P	FY11E	FY12E
<b>Profit before Tax</b>	<b>632</b>	<b>1,453</b>	<b>1,947</b>	<b>2,644</b>
Add : Depreciation	210	294	359	442
Add : Non Cash	52	46	55	66
Less: Tax Paid	-110	-379	-508	-690
Net changes in WC	37	-794	-500	-441
<b>Operational Cash Flows</b>	<b>77</b>	<b>57</b>	<b>130</b>	<b>196</b>
Capital expenditure	-2,111	-1,200	-1,650	-3,835
Investments	0	0	0	0
<b>Investing Cash Flows</b>	<b>-2,111</b>	<b>-1,200</b>	<b>-1,650</b>	<b>-3,835</b>
Borrowings	1,281	650	-79	200
Issue of shares	0	67	46	0
Add/Redn of Reserves	70	2,638	579	0
Dividend paid	-74	-39	-43	-43
<b>Financing Cash Flows</b>	<b>1,276</b>	<b>3,317</b>	<b>503</b>	<b>157</b>
changes in cash	-66	2,691	152	-1,723
Opening balance	156	90	2,781	2,933
<b>Closing balance</b>	<b>90</b>	<b>2,781</b>	<b>2,933</b>	<b>1,210</b>

**Balance Sheet**

Y/E, Mar (Rs. mn)	FY09	FY10P	FY11E	FY12E
Equity share capital	319	386	432	432
Reserves & surplus	3520	7188	9163	11075
<b>Shareholders Funds</b>	<b>3839</b>	<b>7574</b>	<b>9595</b>	<b>11507</b>
Minority Interest	0	0	0	0
Secured Loans	3127	3777	3699	3899
Unsecured Loans	319	365	420	485
<b>Loan Funds</b>	<b>3447</b>	<b>4142</b>	<b>4118</b>	<b>4384</b>
<b>Total Liabilities</b>	<b>7286</b>	<b>11716</b>	<b>13713</b>	<b>15890</b>
Gross Block	3262	5824	7624	9874
Less: Acc Depreciation	618	866	1171	1547
<b>Net block</b>	<b>2644</b>	<b>4957</b>	<b>6453</b>	<b>8326</b>
Capital WIP	2562	1200	1050	2635
<b>Investment</b>	<b>20</b>	<b>20</b>	<b>20</b>	<b>20</b>
<b>Current Assets</b>	<b>2918</b>	<b>6350</b>	<b>7128</b>	<b>5949</b>
Inventories	956	1495	1940	2362
Sundry Debtors	748	956	1137	1259
Cash and Bank	96	2781	2933	1210
Loans and Advances	1118	1118	1118	1118
<b>Current Liab &amp; Prov</b>	<b>610</b>	<b>563</b>	<b>689</b>	<b>791</b>
Current liabilities	499	452	578	680
Provisions	111	111	111	111
<b>Net current assets</b>	<b>2308</b>	<b>5787</b>	<b>6439</b>	<b>5157</b>
Miscellaneous Exps	13	13	13	13
Net Deferred Taxes	-261	-261	-261	-261
<b>Total Assets</b>	<b>7286</b>	<b>11716</b>	<b>13713</b>	<b>15890</b>

**Key Ratios**

Y/E, Mar	FY09	FY10P	FY11E	FY12E
EPS (Rs)	24.3	27.9	33.3	45.2
CEPS (Rs)	30.4	35.5	41.6	55.5
Book Value Per Share (Rs)	120.5	196.3	222.1	266.3
Dividend Per Share (Rs)	1.0	1.0	1.0	1.0
<b>Valuations Ratios (x)</b>				
PER	20.9	18.2	15.2	11.2
P/CEPS	16.7	14.3	12.2	9.1
P/BV	4.2	2.6	2.3	1.9
EV/EBIDTA	13.9	11.2	9.2	7.7
EV/Sales	4.5	3.6	3.1	2.7
M-Cap/EBIDTA				
M-Cap/sales	3.7	3.4	2.9	2.4
<b>Financial ratios</b>				
RoCE (%)	16.7	18.2	18.0	20.3
RoNW (%)	20.2	14.2	15.0	17.0
Debt/Equity	0.9	0.5	0.4	0.4
Dividend yield (%)	0.2	0.2	0.2	0.2

**Recommendation History: Himadri Chemicals – HCI IN**

Date	Reports	Reco	CMP	Target
02.06.2010	<a href="#">Himadri Chemicals Q4FY10 Result Update</a>	Not Rated	505	NR
02.02.2010	<a href="#">Himadri Q3FY10 Result Update</a>	Not Rated	400	NR
21.10.2009	<a href="#">Himadri Q2FY10 Result Update</a>	Not Rated	338	NR
23.07.2009	<a href="#">Himadri Q1FY10 Result Update</a>	Not Rated	330	NR

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
02.08.2010	<a href="#">Jubilant FoodWork Q1FY11 Result Update</a>	Accumulate	370	400
30.07.2010	<a href="#">Titan Industries Q1FY11 Result Update</a>	Accumulate	2,813	3,074
29.07.2010	<a href="#">Marico Q1FY11 Result Update</a>	Hold	126	128
29.07.2010	<a href="#">Asian Paints Q1FY11 Result Update</a>	Hold	2,585	2,510

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