

Investment Idea

Clariant Chemicals India Limited (CCIL)

- CCIL, 63.4% subsidiary of Clariant AG, Switzerland (World leader in Specialty chemicals) reported excellent performance for Q3 CY 2008. Net Sales grew @ 25.2% to Rs. 254.89 crore (Rs. 212.97 crore) led by increased domestic demand. Intermediates & Colours turnover grew @ 29.8% to Rs. 107.54 crore (Rs. 82.85 crore). Dyes & Specialty Chemicals sales rose by 10.2% to Rs. 135.19 crore (Rs. 122.70 crore). OPM% improved considerably to 15.16% (9.62%) because of sharp reduction in other expenses to 11.52% of sales (14.1%) due to shifting of plant at Roha (which is huge plant) and lower material cost (as company could pass on cost hike) of 43.3% of sales (44.73%). There was substantial improvement in PBIT% of Intermediates & Colours segment to 17.8% (6.9%). Consequently, PBT (before extra ordinary items) shot up by 87.6% to Rs. 38.19 crore (Rs. 20.36 crore). In absence of extra ordinary expenses (Rs. 29.79 crore being termination benefits to employees & write off of assets), PAT zoomed to Rs. 25.16 crore (Loss of Rs. 7.69 crore).
- For 9 month ending Sep. 2008, Net Sales increased by 11.2% to Rs. 720.98 crore (Rs. 648.24 crore). OPM% enhanced to 13.9% (9.7%) due to proactive measures initiated by company to combat rising cost of inputs. As a result, PBT (before extra ordinary items) surged by 57.8% to Rs. 102.14 crore (Rs. 64.72 crore). PAT more than tripled to Rs. 66.82 crore (Rs. 21.39 crore).
- CCIL is one of India's leading specialty chemicals companies. Company deals in pigment dyestuffs & their dispersions and diketene derivatives. Company has strong presence in organic pigments and serves needs of paints, printing inks, plastics, rubber, detergents, cosmetics & other industries. It is a leader in diketene chemistry and has capacity to manufacture large volumes of this important building block, in a wide range of derivative forms. It is therefore, pre-eminent player in the diketene based intermediates business serving Pharmaceuticals, agrochemicals, dyes and pigment industries in India.
- As far as specialty chemical segment is concerned, CCIL is developing competence in Technical Textiles as this is becoming an upcoming segment where usage of fluoro chemicals and coating based products will be in focus. Denim Segment is looking for more innovation finishes and color effects and ecology friendly concepts for which Clariant will be in focus on Sulphur Dyes and breathable coating.
- Moreover, trend towards home textile market development in India and economical mass market of apparel is leading to more continuous operations where CCIL has specific packages to offer in preparation dyeing and finishing. Also with home textile boom, printing segment is also under focus.
- Clariant AG is global leader in pigments and additives, textiles, paper and leather chemicals, master batches and intermediates for pesticides formulations. Company enjoys strong technological support and product offerings from its parent with applications in different industries ranging from plastics, inks, paints, agrochemicals, pharma, textiles, dyes, chemicals and packaging. Parent company has increased its focus on fast growing countries like India and is likely to be a sourcing hub for global operations of its parent company. This spells huge opportunities for CCIL in terms of outsourcing of chemicals, new product introductions and strong parent & and commitment in company's various growth endeavours. India will play more leading part in special market i.e. countries like Kenya, South Africa, Iran
- CCIL is a cash rich company having net surplus cash of Rs. 45 crore as on Dec. 31, 2007. This status will augment further with more focus on profitable growth and improving cash flow. Besides, as company does not have major capex plan for next couple of years, one can expect more dividend (100% in CY 2007). At CMP of Rs. 161.50, dividend yield works out to be 6.2%.
- At CMP of Rs. 161.50, the share is trading at 4.69 times CY 2008 expected EPS of Rs. 34.50 and 4.1 times CY 2009 expected EPS of Rs. 39.3. In view of promising future prospects, we recommend to "BUY" the share at CMP.

Disclosures:

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