

June 25, 2008

NOT RATED

Price

Rs385

Sensex

14,106**Price Performance**

(%)	1M	3M	6M	12M
Absolute	(3)	(12)	(38)	6
Rel. to Sensex	12	(4)	(18)	2

Source: Capitaline

Stock Details

Sector	Chemicals
Reuters	HMCH.BO
Bloomberg	HCI@IN
Equity Capital (Rs mn)	315
Face Value(Rs)	10
No of shares o/s (mn)	32
52 Week H/L	800/224
Market Cap (Rs bn/USD bn)	12.1/0.3
Daily Avg Volume (No of shares)	27961
Daily Avg Turnover (US\$mn)	0.2

Shareholding Pattern (%)

	M'08	D'07	S'07
Promoters	52.2	52.2	51.8
FII/NRI	0.4	0.9	0.6
Institutions	1.2	1.2	0.2
Private Corp	32.2	30.5	31.0
Public	14.0	15.2	16.4

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Momentum Continues

Himadri Chemicals & Industries (Himadri) Q4FY08 results were ahead of estimates- (1) revenue grew by 52.3% yoy to Rs1.1 bn, (2) net profit grew by 36.6% yoy to Rs227 mn. For FY08, Himadri reported revenues of Rs4.3 bn and net profit of Rs829 mn- ahead of estimates. We believe that, FY08 results has showcased the strength of business model which is purely contribution plus and rise in volumes has positive influence on EBIDTA and net profit.

The expansion plans has undergone further delays, consequently impacting our earnings estimates. Considering delay in expansion, we have fine tuned our estimates for FY09E and FY10E – consolidated revenue estimates revised downwards by 43% (Rs5.1 bn) and 33% (Rs10.0 bn) and consolidated net profit revised by 30% (Rs1.1 bn) and 7% (Rs2.3 bn) for FY09E and FY10E respectively. The consolidated earnings are revised to Rs28.4 and Rs61.7 for FY09E and FY10E respectively. Himadri trades at PER of 6.5X FY2010E earnings, very attractive considering (1) robust business model (2) strong earnings growth and (3) healthy return ratios.

Revenue growth at 52.3% yoy to Rs1.1 bn- ahead of estimates

The revenue growth of 52.3% yoy in Q4FY08- was ahead of estimates. Himadri reported revenues of Rs1.1 bn, ahead of expectation. The growth was driven by both better price realizations and strong volume growth. The quarter witnessed 26-27% volume growth with composite volume of 37300 MT. The realizations of CTP improved considerably during the quarter on the back of jump in CT prices. Company achieved full utilization of capacities in Q4FY08 and continues to operate at high operating levels. Himadri also benefited from higher sales volume of Refined Naphthalene and better realizations versus CTP.

Operating profit at Rs357 mn- ahead of estimates

Himadri reported strong operating performance in Q4FY08. The operating profit grew by 35.3% yoy to Rs357 mn- ahead of estimates. Strong operating performance is attributed to (1) strong volume growth in the quarter (2) highest ever yields of Refined Naphthalene- 8% in Q4FY08 (3) better realizations on by-product business and (4) sale of 30 MT of advanced carbon material. But, operating margins dropped by 390 bps to 31.1% in Q4FY08- clearly highlighting the contribution-plus nature of business model. The quarter under consideration recorded sharp improvement of CTP and CT prices- causing drop in operating margins.

Net profit grew 36.6% yoy- ahead of estimates

Strong performance at operating level – led by volume and realization growth resulted in 36.6% yoy jump in net profit to Rs227 mn. The interest expense jumped 1095% yoy to Rs48 mn- since interest expenses was net of interest income in same quarter last year. The net margins fell by 230 bps to 19.8%- in line with contraction in operating margins. Himadri reported earnings of Rs7.2/Share on equity capital of Rs315 mn.

	Gross Sales	EBITDA (Core)	EBITDA (%)	APAT	AEPS (Rs)	EV/ EBITDA	P/BV	Div Yld (%)	RoE (%)	P/E
YE-Mar										
FY2007	3,907	1,002	25.7	616	19.5	13.4	5.3	1.3	29.5	20.5
FY2008P	4,300	1,284	29.9	829	26.3	10.5	3.6	0.5	23.8	15.2
FY2009E	5,101	1,696	33.2	1,060	28.4	9.9	2.0	0.5	14.4	14.1
FY2010E	10,028	3,698	36.9	2,299	61.7	5.2	1.6	0.5	23.9	6.5

Raised funds- thru placement to promoter group and financial investor

Himadri has raised funds thru preferential placement route during FY08. Company has issued and allotted 2762000 Warrants convertible in equal number of equity shares of Rs10 each at Rs426/Share. This preferential issue was done to Citigroup Venture Capital (412000 Nos) and Promote Group (2350000 Nos). Company is likely to raise Rs1.1 bn on above preferential issue. Currently, there are 340000 Warrants awaiting conversion of the previous preferential issue. Thus, company has ongoing funding line of Rs1.2 bn- on account of conversion of quasi equity instruments. Himadri has enabling resolution for issue of Foreign Currency Convertible Bonds (FCCB) upto US\$ 80 Million. In our estimates, we have factored for equity dilution on conversion of quasi equity instruments and assumed FCCB issue of US\$ 40 Million i.e. 50% of enabling resolution.

Sold 30 MT advanced carbon materials in Q4FY08

One of the key arguments high benefits from advanced carbon material facility. Himadri successfully commenced operations at the 130 MT advanced carbon facility during Q4FY08. Company has manufactured and sold 30 MT advanced carbon material 'Mesophase Pitch' during Q4FY08. Company earned Rs10 mn from sale of advanced carbon material at average realizations of Rs370000/MT. Company aims to ramp-up volumes and improve realizations in ensuing years- by manufacturing and selling finished carbon materials against semi-finished materials currently. We have projected revenues of Rs110 mn, Rs810 mn and Rs1215 mn in FY09E, FY10E and FY11E respectively.

Further delays in expansion

The expansion plans has undergone further delays, consequently impacting our earnings estimates. China venture is delayed by twelve months, since company is constructing greenfield plant instead of acquisition of ongoing facility. India expansion of CTP, Carbon Black and Waste Heat Power Plant is delayed by two months. India expansion is expected to commercialize in December 2008 against earlier targets of August 2008. The detailed expansion plan is given herein-

	FY09E	FY10E	FY11E	FY12E
CTP Pitch (India)				
Target Capacity (MT)	249000	319000	399000	399000
Addition (MT)	80000	70000	80000	0
Capex (Rs bn)	1.2	1.1	1.2	0
Advanced Carbon (India)				
Target Capacity (MT)	650	1250	2050	4000
Addition (MT)	520	600	800	1950
Capex (Rs bn)	0.5	0.6	0.8	2.0
Carbon Black & Power				
Target Capacity (MT)	50000	50000	50000	50000
Addition (MT)	50000	0	0	0
Capex (Rs bn)	1.2	0	0	0
CTP Pitch (China)				
Target Capacity (MT)	100000	250000	350000	450000
Addition (MT)	100000	150000	100000	100000
Capex (Rs bn)	1.5	2.2	1.5	1.5
Total India Capex (Rs bn)	3.5	1.7	2.0	2.0
Total China Capex (Rs bn)	1.5	2.2	1.5	1.5
Total Capex (Rs bn)	4.9	3.9	3.5	3.4

We have fine tuned our estimates for FY09E and FY10E

Considering delay in expansion, we have fine tuned our estimates for FY09E and FY10E. The delay is accorded to China Venture, owing to inability to acquire CTP facility during FY08- which was factored in our FY09-10E estimates. Instead, company is constructing greenfield unit of 100000 MT to commence operations in FY10E. We have revised consolidated revenue estimates downwards by 43% and 33% to Rs5.1 bn and Rs10.0 bn. But, revision in consolidated net profit estimates is lower compared to revenue estimates at 30% and 7% to Rs1.1 bn and Rs2.3 bn. The consolidated earnings are revised to Rs28.4 and Rs61.7 for FY09E and FY10E respectively.

Valuations and view

We believe that, FY08 results has showcased the strength of business model which is purely contribution plus and rise in volumes has positive influence on EBIDTA and net profit. The business model has also shown resilience to volatile CTP and CT prices. We believe that, successful commercialization of advanced carbon facility and sale of 30 MT of advanced carbon material in the quarter have reaffirmed our faith in the business model and strong earnings growth thereafter.

We expect the revenue to grow at CAGR of 53% in FY08-10E period with revenues of Rs10.0 bn in FY10E. We expect the net profit to grow at CAGR of 66% in FY08-10E period and net profits of Rs2.3 billion in FY10E. Robust growth is attributed to (1) healthy volume growth with rapid expansion of CTP and (2) expansion in operating margins owing to rising contribution of advanced carbon business. Our revised earnings are Rs28.4 and Rs61.7 for FY09E and FY10E respectively. Himadri trades at PER of 6.5X FY2010E earnings, very attractive considering (1) robust business model (2) strong earnings growth and (3) healthy return ratios.

In Rs mn	Q4FY08	Q4FY07	% yoy	Q3FY08	% qoq
Gross Sales	1144.6	751.7	52.3	1077.2	6.3
Expenditure	788.1	488.3	61.4	741.8	6.2
Material Cost	637.3	404.0	57.7	489.5	30.2
% of Sales	55.7	53.7		45.4	
Employee Expenses	9.8	9.0	8.9	9.4	4.3
% of Sales	0.9	1.2		0.9	
Other Expenses	141.0	75.3	87.3	242.9	-42.0
% of Sales	12.3	10.0		22.5	
Operating Profit	356.5	263.4	35.3	335.4	6.3
OPM (%)	31.1	35.0		31.1	
Other Income	9.0	12.7	-29.1	0.1	1185.7
Interest	47.8	40.0	1095.0	24.2	97.5
Depreciation	48.4	39.6	22.2	27.9	73.5
PBT	269.3	232.5	15.8	284.0	-5.2
Tax	42.4	66.3	-35.0	66.0	-35.8
PAT	226.9	166.1	36.6	218.0	4.1
PAT (%)	19.8	22.1		20.2	
EPS (Rs/Share)	7.2	5.3	36.6	6.9	4.1

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