

Pondy Oxides & Chemicals Ltd

Q3FY12 First cut – Profitability lower than expected

Fundamental Grade 2/5 (Moderate fundamentals)

Valuation Grade 5/5 (CMP has strong upside)

Industry Chemicals

Pondy Oxides & Chemicals Ltd's (POCL's) Q3FY12 standalone revenues were in line with CRISIL Research's expectations, while operating profitability and PAT were lower than expected. Margins declined mainly due to higher raw material (mostly imported) cost resulting from the rupee depreciation; the company was not able to fully pass on this increase, which affected its profitability. We may lower our estimates post interaction with the management. We maintain our fundamental grade of **2/5**.

Q3FY12 result analysis (standalone)

- Revenue declined by 1.5% y-o-y to Rs 630 mn driven by 7% and 20% y-o-y de-growth in metal oxide and plastic additives, respectively. However, metal business revenue grew by 10.5 % y-o-y.
- EBITDA margin declined by 187 bps y-o-y to 2.9% mainly due to increase in raw material cost. Raw material cost as a % of revenue increased to 87.7% in the current quarter from 85.6% in Q3FY11.
- Metal segment EBIT margin declined by 300 bps y-o-y while EBIT margins of metal oxide and plastic additives improved by 103 bps and 274 bps, respectively.
- The company reported PAT of Rs 3 mn against Rs 11 mn in Q3FY11. Accordingly, EPS was Rs 0.3 vis-a-vis Rs 1.1 in Q3FY11.

Valuation: Current market price has strong upside

We continue to use the discounted cash flow method to value POCL and maintain fair value of Rs 34. At the current market price of Rs 26, the valuation grade is **5/5**.

KEY FORECAST

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Operating income	1,662	2,225	3,226	3,554	3,775
EBITDA	(15)	229	195	221	249
Adj PAT	(71)	113	68	75	92
Adj EPS-Rs	(7.1)	11.2	6.8	6.8	8.3
EPS growth (%)	(245.3)	(258.7)	(39.7)	(0.2)	22.3
Dividend yield (%)	4.5	5.5	4.5	4.8	5.9
RoCE (%)	(6.8)	29.0	18.0	18.4	19.0
RoE (%)	(34.4)	45.2	19.4	19.0	20.7
PE (x)	(1.6)	2.0	4.6	3.9	3.2
P/BV (x)	0.6	0.7	0.8	0.7	0.6
EV/EBITDA (x)	(23.0)	3.5	4.4	4.2	3.6

NM: Not meaningful; CMP: Current market price

Source: Company, CRISIL Research estimate

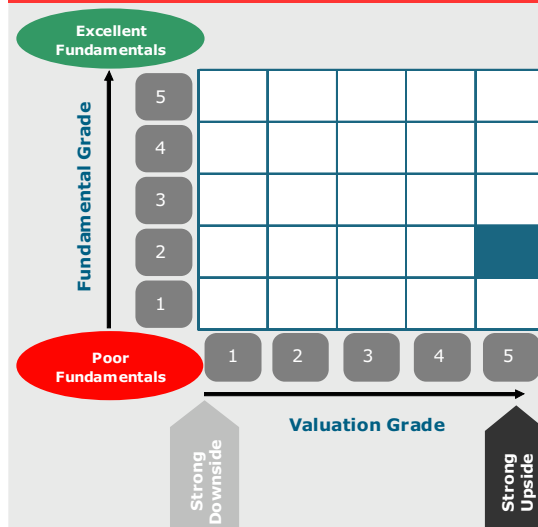


February 10, 2012

Fair Value Rs 34

CMP Rs 26

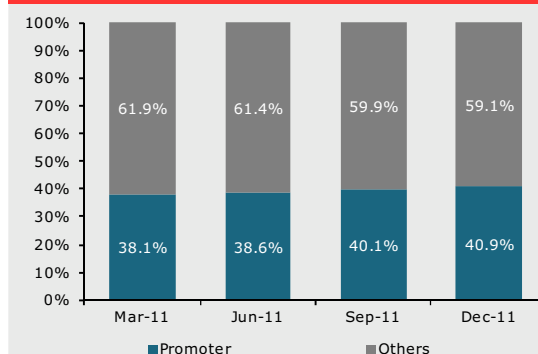
CFV MATRIX



KEY STOCK STATISTICS

NIFTY / SENSEX	5382/17749
NSE / BSE ticker	PONDYOXIDE/ PONDYOXC
Face value (Rs per share)	10
Shares outstanding (mn)	10
Market cap (Rs mn)/(US\$ mn)	265/5
Enterprise value (Rs mn)/(US\$ mn)	785/16
52-week range (Rs) (H/L)	38/20
Beta	0.8
Free float (%)	59.1%
Avg daily volumes (30-days)	7,901
Avg daily value (30-days) (Rs mn)	0.2

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
POCL	4%	-5%	-14%	15%
NIFTY	11%	3%	4%	3%

ANALYTICAL CONTACT

Chetan Majithia (Head) chetanmajithia@crisil.com

Vinay Chhawchharia vchhawchharia@crisil.com

Arun Vasu avas@crisil.com

Client servicing desk

+91 22 3342 3561 clientservicing@crisil.com