4th Annual Specialty Chemicals Conference

India Opportunity Infinite, Quattro - Annual: Key takeaways

INDIA | CONFERENCE UPDATE

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Surya Patra (+ 9122 6246 4121)
spatra@phillipcapital.in

Mehul Sheth (+ 9122 6246 4123)
msheth@phillipcapital.in

We organised Phillip Capital's ***4th Annual Specialty Chemicals Conference*** on 30th November 2018 in Mumbai. In this day-long event, we hosted following eminent dignitaries from the Indian specialty chemicals' sector in a panel discussion followed by board-room meetings with participating companies.

Participants in the "Panel: India Gaining Global Prominence"

- **Shri Samir Kumar Biswas,** *Joint Secretary, Ministry of Chemicals & Fertilizers*
- **Shri Satish Wagh,** *Chairman, Chemexcil*
- **Leading specialty chemicals consultant from China,** *Shanghai, China*
- **Shri Vivek Gadre,** *President Commercial, Atul Ltd*
- **Shri L. Balakrishna,** *MD, Brenntag Ingredients (India) Pvt. Ltd.*
- **Shri Amit Gandhi,** *Partner & Director, The Boston Consulting Group, India*

Boardroom meeting participants

- **Vinati Organics**
- **Camlin Fine Sciences**
- **NOCIL**
- **Bodal Chemicals**
- **Kiri Industries**
- **GMM Pfaudler**
- **SEYA Industries**
- **Vidhi Specialty food Ingredients**

Takeaways from the panel discussion

Reassures the multi-year and multiplying growth for Indian specialty chemicals

The panel discussion as well as the presentations by the chemical consultant from China and Boston consulting group reaffirmed our thesis of "Multi-year and multiplying growth for the Indian specialty chemical industry".

The panellists believed that the Indian specialty chemicals industry is set for a strong sustainable growth led by healthy domestic demand, backed by strong GDP progress, and rising per capita income. However, the panel emphasised the need to invest in technology platforms, R&D, and IPR, in order to differentiate, create greater customer value, and develop strategic partnerships with customers.

Government of India represented by Mr Samir Kumar Biswas, Joint Secretary, Ministry of Chemicals & Fertilizers highlighted its initiatives like Make-in-India and FDI through 100% automatic route but assured about the environmental protection (no relaxation in environmental requirements). Also, visualising the opportunity flowing into India as a consequence of China issues, Govt of India addressed the long standing issue of feedstock availability for Indian chemical industry by signing a $44bn refinery+petchem project with Saudi Aramco.

Additionally, a presentation by one of the leading chemical consultants from China on the ongoing challenges of the Chinese chemical industry confirmed the incremental exports opportunity for the Indian specialty chemicals industry. Key highlights about China and the inferences for the Indian industry are detailed below:

Chinese government is firm on its environmental policy implementations and don't expect any relaxations: China´s emerging middle classes are health conscious and forcing the government to fight pollution; as a consequence, regulation of the chemical industry in China has already been tightened in the recent period. Moreover, its steady GDP growth despite planned clampdown of polluting industry across the country, make the Chinese Govt remain strict and firm on environmental policy implementations.

Relocation of half of the chemical industry is the must in China that too in a time bound manner: China's govt has already made it mandatory for chemical plants to operate from chemical parks but only ~45% are complying currently, which implies major plant shutdowns or relocations going ahead. Moreover, Govt want the plant relocations to happen in a time bound manner and accordingly set the deadline of CY20 for small plants and CY25 for large ones.

Inference for the Indian industry: Given the time-bound relocation plan, the scenario of plant shutdown or relocation is likely to continue over next few years. Since Chinese export of specialty chemicals is ~10-times larger than the Indian industry, a visible slowdown in China could multiply the size of the Indian specialty industry over the next couple of years.

Rationalisations of chemical parks as well as restrictions have made things uncertain: In addition, China expects to restrict the number of chemical parks in order to reduce the overcapacity in low-end products and achieve better control over effluents. For example, Shandong province has decided to halve the number of chemical parks in the province to less than 100 and accordingly has tightened the certification criterion. Such initiatives have also made things uncertain for many industry peers.

Additionally, restrictions like prohibition of chemical production within one km of the Yangtze river (world's third-longest river that flows through **nine provinces** of China), environmental tax (imposed in Jan 2018) and specific emission norms (implemented wef July 2018) have added to the woos of chemical players in China.

<u>Inference for the Indian industry</u>: Not only the environmental policy initiatives, but also the selective restrict practices by various provinces as well as the rationalization chemical parks have made the functioning of a large set of chemical players uncertain. Additionally, China has no longer holds the age-old cost advantage. Consequently, MNCs (sourcing of input chemicals from China) are forced to de-risk their procurement (which is yet to be played out). India, being the cost effective manufacturing base and having presence across the segments, is well positioned to grab the huge export opportunity.

Not only had the regulations tightened, the implementation has really became stricter: The discovery of facts that ~55% of chemical companies (out of inspected 45000 nos over H2CY17) and the consequent anti-corruption campaign initiated by Xi Jinping during early 2018 has already made the evasion of regulation via bribery and/or local connections much more difficult.

Started another round of inspections across China in June 2018 and that will continue until April 2019. For the purpose, Central govt has built a team of ~18000 inspectors (covered under 200 teams).

Govt's concerns over pollution and overcapacity make sure that most of the plants closed in the course of the environmental campaigns will not be reopened: While environmental protection and safe chemical production remains the core objective for China Govt, overcapacity in polluting chemical industry and presence of large no of fringe chemical manufactures are considered to be hurdles. Hence, to do away with these issues, China Govt created entry barriers such as scale/size and investment restrictions for players with weak market competitiveness and small scale. For example – Shandong province imposed the minimum investment restriction of 300 million RMB (about 40 million Euros). Similarly, Fujian province wants consolidation in its chemical industry.

Additionally, Central Govt has decided to disallow the relocation of chemical manufacturers into chemical parks (implying complete closure) who are found guilty of not complying with the waste disposal norms during the countrywide inspections.

Inference for the Indian industry: China's planned efforts to reduce overcapacity in basic chemicals have already reduced the concern of dumping, leading to stabilisation in prices of various basic chemicals. This would supplement Indian companies having exposure in the space of Dyes, amines, carbon black, chloromethane, Fluorine/Nitrogen compounds, benzene derivatives, etc.

Chemical prices in China have already appreciated and likely to remain firm going ahead: Given the continuing clampdown and consequent shortages in various chemicals coupled with rising operating cost caused by environment compliance and relocation has already boosted the chemical prices in the range of 25-40%. Even if such prices may not sustain in the long term, the pricing scenario to remain firm compared to earlier levels as most of the policy changes and their consequences (in terms of cost escalation) are of structural nature.

The benefit of rising prices can be observed from the fact that, the aggregated profit for Chinese chemical industry during YTD CY18 saw 15% yoy growth while the aggregated sales growth was just 6% and this was despite the shutdown of 6% no of chemical companies.

China has become the market with huge opportunities: While the tightened environmental regulation in China may have a negative effect on companies sourcing chemicals from China, it also has some benefits for foreign firms in competition with Chinese chemical producers. Additionally, in some cases increased environmental regulation has turned China from an exporter to an importer, providing a positive outlook for demand as well as pricing scenario.

Inference for the Indian industry: Weakening competitiveness of Chinese players (caused by operating restrictions), shortage of various chemicals (due to continued clampdown), significant rise in chemical prices (prevailing higher than international market prices) and the sheer size of China market (~$1.5tn i.e. ~45% of global size) offers a great value/volume opportunity for selective Indian peers with market presence in China. Specifically, leading peers like Aarti Industries and Vinati Organics having established market presence in China should be the key beneficiaries. Simultaneously, China has been reported to import dye raw materials such as vinyl sulfone and H-Acid (dye intermediates) from India, reversing its previous role as an exporter to India (as local production of these chemicals declined by 50-60%). This should benefit leading integrated dye peers like Bodal Chemicals, Kiri Industries, etc

Environmental changes are not just a temporary phenomena; it's already in the mindset of local officials: China Central Govt has already made the surprise inspections of chemical manufacturers a regular phenomena and established a team ~18000 inspectors. Accordingly, the mindset of governing body at provinces, local officials and administrative bodies at specific chemical parks is well aligned with the central policy.

China to remain the global leader in chemicals but may not be export oriented: Given the upward shift in operating cost structure in China, the chemical prices shoot up domestically beyond the price levels in international markets. This offers better realisation to chemical peers in the domestic market where they have well established supply chains and most chemicals produced also have their biggest market in China. Hence, China expects to become self sufficient in chemicals with limited focus on exports.

Inference for the Indian industry: Given the limited focus of China towards chemical exports that is worth ~US$210bn (~6 times of India) as per CY17, India could prove to be the leading beneficiaries of visible export opportunity.

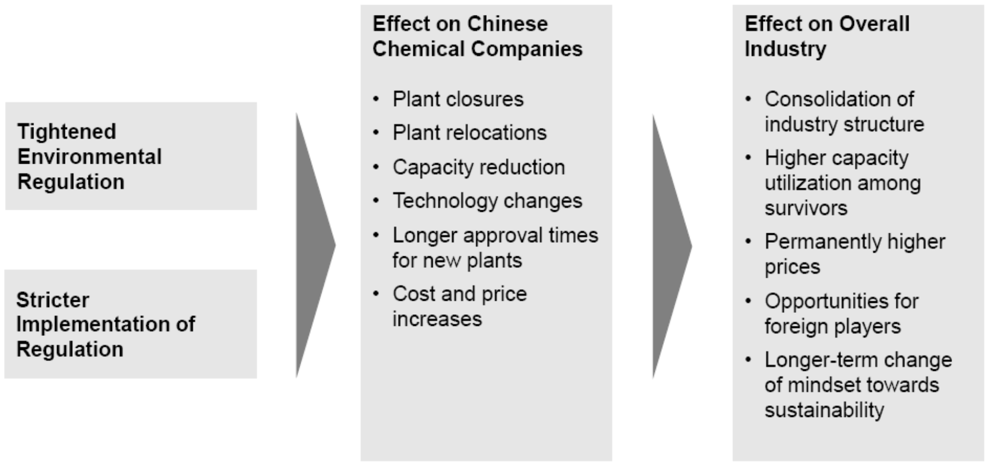
Areas of opportunity for India: Chinese government is keen to supplement innovation towards complex chemistry but its core focus remains on scalable segments. Hence, Chinese peers are not keen on specialty chemicals with relatively low volume and requires customisation.

Also, Indian companies may specifically benefit in those areas less supported by Chinese overall policy, particularly if these areas are relatively commodity and polluting.

Inference for the Indian industry: China with larger focus on scale would not pose any threat for Indian industry that has always been focused on customised products. Therefore, we believe that Aarti Industries with its strategic focus on customized benzene derivatives should benefit.

Going by the prioritization of China, Indian peers with focus in dyes, solvent based coatings, plastics and rubber additives, chlorine chemicals, agrochemicals, intermediates (agro/Pharma), leather chemicals, etc. should be benefitted.

China's environmental policy action and its impact on chemicals industry



Takeaways from the Board Room Meetings

Vinati Organics

About the company: Vinati Organics (VO) is a specialty chemicals player that supplies ATBS (the only Indian manufacturer with 95% exports) to major global polymer manufacturers for application in water treatment, paint/paper/adhesives, textile/acrylic fibre, detergent/cleaner, oil/mining and construction industries. VO is also the global leader of isobutylene benzene (IBB, intermediate of Ibuprofen). VO has two plants (effluent-free) in Maharashtra: (1) Lote-Ratnagiri (manufacturing IBB and NBB with technical partner IFP, France), and (2) Mahad-Raigad – where it manufactures ATBS/NaATBS (with technical partner NCL, Pune), IB, TBA, HTMPBE and DAAM.

Key takeaways from the conference:

- VO's IBB sales in H1FY19 were flat as its key customer BASF has taken a temporary shutdown (Vinati is the preferred supplier of BASF) and the impact of which will continue in Q3 as well. However, expects normalised supplies from Q4FY19.
- BASF is coming up with an additional plant for ibuprofen in Germany which is likely to be commissioned in FY21. VO, being the preferred supplier of BASF, will have incremental growth opportunity for IBB beyond FY21.
- VO expects to achieve a global market share of about 65% (45% in FY18) in ATBS led by the exit of Lubrizol from the product (as it was marginal product relative to others) in the near-term. Additionally, there was a double digit price hike taken by VO after a stable price scenario over last four years.
- VO sees global ATBS demand to grow >10% led by new application and steady growth in existing application. Hence, it expects continued volume/value growth in ATBS in near future.
- Given the visible opportunity in ATBS, VO is expanding its ATBS capacity to 40,000tnpa from current 26,000tnpa. The expansion will be completed by end of Q1FY20 and will boost its earning efficiency.
- Four key criteria to start new projects are: (1) products should be a niche one (limited players, difficult chemistry), (2) company should have technology advantage, (3) product manufacturing should be in clean and green science, (4) ROI should be 15-20%, and (5) payback period of around five years. Additional but optional criteria – synergy of the new product with existing products.
- Vinati has put its IBAP capacity plans on hold tentatively as its IBB customers can manufacture IBAP for captive use. It will manufacture only on customers demand and will not have full scale commercial operation for it.
- VO's new project to manufacture butyl phenols (with a capex of around Rs 2bn) at Lote (Maharashtra) is likely to be commissioned late FY19, but the commercial benefits are expected in FY20. Its planned para amino phenol (PAP) project still in the pilot development stage and could see delayed commissioning. Combined capex is over Rs 7bn.
- VO has expanded the IB capacity to 30,000 TPA from 12,000 TPA in FY19. Indicates this expansion will support its backward integration for ATBS, other derivatives of IB and also for its future project of Butyl phenols.
- VO guides for doubling revenue in next three year. It indicates current operating margin of 36.2% (in H1FY19) is not sustainable, it guides for a sustainable margin of 30-35% over next few years.

Camlin Fine Sciences

About the company: Camlin Fine Sciences is the leading provider of high-quality shelf life extension solutions (including antioxidants ingredients and blends), aroma ingredients and performance chemicals. Camlin cater to the demands of end-consumers in the food, pet food and animal nutrition sectors as well as pharmaceutical, dye, biodiesel, petrochemical, agrochemical, textile and tanning industries. Camlin is a well diversified player and its business categorised into four different verticals based on product portfolio, namely: (i) Diphenols; (ii) Shelf-life Extension Solutions; (iii) Performance Chemicals, and (iv) Aroma (Vanillin).

Key takeaways from the conference:

- Camlin achieved turnaround at its Italy operation in H1 and expects better H2, as the demand outlook for HQ in-terms of realisation and demand is improving. Moreover, commissioning of new blending unit will strengthen blends operation and overall Italy subsidiary performance in H2. The subsidiary undertook cost control measures, built-up blends product basket as well as required sales force.
- Camlin's Dahej project achieved financial closure (through funding from IFC's FCCBs of US$ 15mn) and expect its commercialisation by Q1F20. Dahej plant to have 20-25% cost saving (Vs. Italy) and will make it a lowest cost producer globally. Camlin Expects Rs 4-5bn sales from Dahje plant on optimal utilisation in 2-3 years.
- Camlin's China Vanillin plant utilisation remained low (~45%) in H1 due to lean period and Guaiacol supply issue. It expects profitable growth in H2 led by visible ramp-up in sales and expanded capacity for Guaiacol with patented cost effective new process.
- Camlin guides for strong growth in performance chemicals led by >50% capacity expansion across products (including Guaiacol) and ramp up in new products like CME and MEHQ.
- Camlin's Brazil blends are the fastest growing business with 109% yoy/50% qoq sales increase in Q2. It expects continued strong growth in H2 as well as in FY20. Moreover, its Mexico blends business doubled in last three year and expects to double it again in next three years with stronger margin.
- In USA, Camlin has developed a strong pipeline of 40+ blend products and validated with selective customers. The company guides US$ 5mn sales in next 12months and expects US$ 40mn sales over next 4-5 years. Also Camlin sees sequential improvement in profitability for US business.
- On Lockheed Martin (LM) deal, Camlin indicates all development cost would be from LM. The project details for LM to be finalized by early CY19 and expects commercial supply to commence by mid-2020. However, large trial quantities would be supplied to LM for its gamma testing during FY20.
- Camlin guides for strong revenue growth led by the ramp-up in new business and expect to achieve margin of ~18% over next 2 years.

NOCIL

About the company: NOCIL is the largest rubber chemicals manufacturer in India with the state of the art technology for the manufacture of rubber chemicals and intermediates. Its brands like - PILFLEX® Antidegradants, PILNOX® Antioxidants, PILCURE® Accelerators, Post Vulcanization Stabilizer and PILGARD® Pre Vulcanization Inhibitor are well recognised in both domestic as well as international markets. NOCIL's involvement in the Rubber chemicals business spans over 4 decades. It has manufacturing plant at Navi Mumbai and it has set up new manufacturing facility at Dahej in Gujarat.

Key takeaways from the conference:

- It sees incremental demand in rubber chemicals coming from slowdown in China which has ~35% of global capacity in rubber chemical space. China is going through multiple issues like Environmental policy and US-China trade war.

- Guides the current elevated realisation in rubber chemicals may not sustain and could see some correction in realisation primarily with the falling crude and benzene prices.
- NOCIL sees a high possibility of antidumping duty (ADD) eviction on rubber chemical. The judgment from Directorate General of Trade Remedies (DGTR) of India is expected by Q4FY19/Q1FY20. It indicates DGTR's assessment on ADD with the parameters whether India is deliberately creating a major oversupply/export oriented situation like China is underway. However, NOCIL indicates ~4% impact on profitability with ADD eviction.
- NOCIL sees stable pricing scenario as Chinese players post environmental clampdown have become more conscious about pricing strategy and most of the players have linked its pricing with elevated raw material prices.
- NOCIL's first phase of Dahej capex for rubber chemicals is expected to get commission by Decemeber-2018 but expects major commercial benefits to flow from H2FY20 as product validation from customers to take time. It indicates continuous capacity expansion at its Dahej over next few quarters post July-2019. Sees gradual ramp-up in utilisation and optimal utilisation in 2-3 years.
- NOCIL do not see a significant impact with fall in rubber prices. In-fact, it indicates fall in rubber prices will directly benefits its non-tyre business. However, slowdown in automobile sector could have negative impact on demand.
- NOCIL indicates the operating margin of ~29% in H1FY19 may not sustain as in Q3 it has seen drop in realisation with fall in crude and benzene prices. NOCIL guides for 25% operating margin for next few years taking into account impact of fall in realisation and removal of ADD.

Bodal Chemicals

About the company: Bodal Chemicals is one of the leading integrated manufacturer and exporter of Dyes Intermediate, Dyestuff and Sulphuric Acid. It is vertically as well as horizontally integrated. It provides product solution and service solution on fastest possible route to their customers. Bodal has nine manufacturing units across Gujarat including four in Ahmadabad, three in Vadodara, and two in Ankleshwar. Bodal operates under four segments: Dyes Intermediates (54% of sales), Dyestuff (31%), Basic Chemicals (10%) and others (5%). Bodal has a large basket of 25 variants of Dye Intermediate and 150 variants of Dyestuff.

Key takeaways from the conference:

- Bodal plans to expand as well as extend its products line in next couple of years. For this purpose, Bodal has purchased land of 120 acres at Dahej. The site will be used to expand its manufacturing capacity in basic, organic and inorganic chemicals. The said project will also consist of a chloro-alkali complex (and power plant) with capacity of 300-400 TPD for captive consumption. The total investment is Rs 5-6bn. The project is expected to commence within 8-10 months.
- Sees China competition to slowdown further in dye intermediate business and expect better realization.
- Indicates ~55% revenue contribution from textile industries and it will continue to focus on textile companies for future growth.
- Bodal is trying to enter in B2C model in global market like Turkey and China with front offices in China (started two months back) and Turkey (soon). The company already has B2C model in India but saw gradual pick in the volume. Expects better growth in coming quarters.
- The company has acquired SPS processors last year (UP). It has a capacity of 6000 TPA and plans to double the capacity in near future.
- Bodal guides to achieve ~25%/10-15% EBITDA/PAT margin in 4-5 years with improvement in ROE at 20%.
- Bodal expect to commission Thionyl Chloride plant in H1FY20 which would improve its overall profitability.

- Currently, company procures PNCB from Aarti Industries but it plans for in-house PNCB production in next 2-3 years.
- Bodal has already spent Rs 450mn to build an advanced effluent treatment plant in its Baroda unit to de-risk from any environmental related issues.

Kiri Dyes

About the company: Kiri Industries is one of the largest manufacturer and exporter of wide range of Dyes, Intermediates and Chemicals from India. Kiri is an accredited and certified Key Business Partner with world's top Dyestuff majors across Asia-Pacific, the EU and Americas. In 2010, Kiri Industries acquired DyStar Group - a global market leader in Dyes, Dye solutions, Performance Chemicals, new technologies and custom-manufacture of special Dyes & Pigments. The Company has manufacturing facility of Dyes Intermediates and Basic chemicals at Padra (Baroda, Gujarat) and to strengthen its competitive edge in dyes vertical, Kiri formed a joint venture with Long sheng (China) and setup a manufacturing facility for dyes. Kiri has a large basket of Dyes (45% of Sales), dye Intermediates/chemicals (55%).

Key takeaways from the conference:

- Kiri saw better realisation in its key products like H acid and Vinyl Sulphones which helped company to report better operating performance in Q2/H1FY19. Management expects that these prices to remain stable for foreseeable future.
- The company has commissioned its Disperse Dyes capacity (Capex of ~Rs 400mn) during Q2 and expects ramp-up in following quarters. Guides for peak revenue of Rs 2.5-3bn on optimal utilisation over next couple of years.
- The company plan for new capex of Rs 400-450mn for specialty chemicals for which investment is expected to get complete by end of FY19. Another Capex of Rs 1.5-1.7bn has received environmental clearance in H1FY19 and Kiri expect to start construction activities in FY20.
- On Dystar case, Singapore International Commercial Court (SICC) judgment was in favour of Kiri. As per the Court judgement, Senda has to buyout Kiri stake at fair market value.
- Further, if Kiri's shares in DyStar are to be bought out by Senda then the valuation would probably be as per the profit earning capacity of the business. On this basis, Kiri would receive substantially higher amount at a fair market value to be decided under the direction of the Honourable Court. The valuation process is under progress in court and expects final hearing by April-2019.
- Expects China slowdown to create more opportunities for the company in near future. Kiri with its planned capex to improvise its product portfolio will look to capture the market share in exports market.
- Kiri sees better performance in following quarters led by the commencement of certain types of naphthalene and aniline based intermediates, production of Disperse Dyes and continued growth momentum in overall business.

GMM Pfaudler

About the company: GMM Pfaudler was established in 1962 as Gujarat Machinery Manufacturers and in 1987 Pfaudler Inc., USA the world leader in Glass Lined equipment subscribed to 40% equity to form a joint venture. Pfaudler Inc. further increased their stake to 51% in 1999 and the name of the company was changed to GMM Pfaudler Ltd. GMM Pfaudler has a state of the art factory spread over 20 acres at Karamsad, Gujarat. Its fabrication facility has a covered area of over 38,000 square meters with dedicated bays for Carbon Steel and Alloy Steel fabrication. GMM Pfaudler currently employs 344 people and has regional Sales & Service offices in Delhi, Ahmedabad, Vadodara, Mumbai, Hyderabad, Vishakhapatnam and Chennai.

Key takeaways from the conference:

- GMM is a market leader in Glass lined equipment with more than 50% market share and leading supplier non-glass lined equipment. The company faces major competition from China in the global markets. There are 12 major players outside china but there are 80 players from China. However, the company sees recent slowdown in China to soften the competition in global market.
- GMM has a wide range of product offerings like Glass line equipment (GLE), mixing systems, engineered systems, filtration and drying equipment, heat exchangers, pressure vessels, etc.
- GMM has key client base in Pharmaceutical, Agrochemicals and specialty chemicals. Few of the key clients in the said industries include - (1) Bayer, Coromandel, Gharda, Rallis, Sumitomo etc. in Agrochemical, (2) Cipla, Glenmark, IPCA, Lupin, Sun Pharma in Pharma, etc. and (3) Clariant, Croda, Heubach etc. in Specialty chemicals.
- The company has reported strong performance in H1FY19 and expect the growth momentum to continue. The company sees demand outlook across the business lines to remain strong and its backlog continues to be very strong across all the business lines driven by the Chemical and Pharmaceutical sectors.
- GMM saw steady improvement in its exports sales as well as in its Mavag subsidiary (a wholly owned subsidiary located in Switzerland and a leading supplier of highly engineered equipments for the pharmaceutical, bioengineering and fine chemical industries) over last few years. Sees improved performance in Mavag to continue in near future.
- Indicates in its heavy engineered products the raw material sharp price volatility is generally pass-on to the end customer but due to better cost measures and operating efficiency minor change in price can be absorbed internally.
- GMM sees the new Capex planning for its key end user customers owning to the visible opportunity incurred from slowdown in china would be the big growth driver for the reactors manufacturing segment.
- In FY18, the Company manufactured 1552 EU’s(equivalent unit) vs. 1290 EU’s FY17 with current capacity of 1800 EU’s, running at approx. 80-85% CUF. Expect to see optimal utilisation in FY19.
- GMM plans to expand its capacity with capex of ~Rs. 150mn which includes maintenance capex as well, which will be funded through internal accruals. It also plans for new shed furnace line with capex of ~ Rs. 250mn (excluding land cost).
- Pflauder Inc. the parent company has started outsourcing its manufacturing requirements to GMM India to save cost and improve efficiencies. Sees strong traction from its parent Pflauder Inc. Network to boost their export business for visible future.

SEYA Industries

About the company: Seya Industries, founded in 1990 by Shri Ashok Rajani, is an emerging specialty chemicals company engaged in manufacturing of benzene-based products using chlorination and nitration processes. It aims to become one of leading producer of benzene-based chemical intermediates in the world. Chemicals manufactured by Seya are used in the downstream manufacture of pharmaceuticals, agrochemicals, polymers, additives, surfactants, pigments, and dyes. Seya has its manufacturing unit at MIDC Tarapur, Maharashtra.

Key takeaways from the conference:

- Seya Industries manufactures benzene derivative products using processes like - (1) chlorination (15,000 TPA), (2) nitration (21,000 TPA), (3) hydrogenation, and (4) ammnolysis and others.
- Seya is a global market leader in 3,3, DCB, with a capacity of 7,600 TPA. This chemical has major application in pigment (yellow) and computer ink.

- It is currently undertaking a mega capex of Rs 5.8bn (over FY17-18) for multiple projects including: (1) sulphuric acid plant – for raw materials for existing product chain and steam-based energy generation (backward integration), also products like Oleums 25% & 65%, Chloro sulphonic acid, and Sulphur trioxide based Specialty chemicals, (2) expansion in ONCB/PNCB capacity, and (3) plant for new products like di-methyl sulphate (DSM), di-methyl aniline (DMA), and Red B base – to move up further in the benzene value chain. The capex is mainly debt funded.
- Seya's management expects the commissioning expanded project by October-2019. Expects the commissioning of the new project would result in robust value growth led by (1) backward integration, (2) captive utilisation of by-products, (3) free power from process waste heat recovery, and (4) forwards integration into value added products, diversified product.
- Expects the commercial benefit of the expanded project to really flow in from FY21 with 50-60% utilisation, double digit margin (led by backward integration and improved product mix) and PAT of Rs 1.25bn in FY21 (vs Rs 524mn in FY18).
- Seya has long-term supply contracts with companies like Clariant chemicals and Sudarshan chemicals. Indicates similar contracts to continue with these companies for new products.
- Seya has recently seen better demand in domestic market due to environmental clampdown in China and expect it to continue in the visible future. However, it sees current rise in product realisation may not sustain.
- The company sees better demand in its leading products like 3,3, DCB and other forward integrated product like Para Nitro Aniline.

Vidhi Specialty Food Ingredients Limited

About the company: Vidhi Specialty Food Ingredients Limited is a leading manufacturer of Superior Synthetic and Natural Food Grade Colours; providing customers with world class color solutions in applications of Foods & Beverages, Confectionaries, Pharmaceuticals, Feeds, Cosmetics, Inkjet Inks and Salt Free Colors. Vidhi has manufacturing facilities at Dhatav Village, Raigad District, Maharashtra. The company operates in single segment - manufacturing and trading of food color chemicals. It generates over 95% of its revenue from exports.

Key takeaways from the conference:

- Vidhi Specialty indicates its products are 40% cheaper as compared to its peers with similar quality standards.
- The company has already received Terms of reference (TOR) for their new expansion project (at Maharashtra) in Aug 2017 and is waiting for environmental clearance.
- The company has an annual production capacity of 3600 TPA and exports about 95-98%. Hence, it has relatively larger global market share compared to that in India.
- It has expansion plan which will be carried out in 3 phases over next 12-18 months period: - First Phase: 150 TPM capacity, Second phase: 100 TPM and Third phase: 100 TPM capacity.
- The company's current portfolio consists of 300 products and the new expansion to add new 75 products with better value proposition over next 2-3 years.
- The company imports 60-70% of raw materials from Australia, Bosnia, Russia, China, and many more.

Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	>= +15%	Target price is equal to or more than 15% of current market price
NEUTRAL	-15% > to < +15%	Target price is less than +15% but more than -15%
SELL	<= -15%	Target price is less than or equal to -15%.

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PhillipCapital (India) Pvt. Ltd.

Registered office: No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg, Lower Parel West, Mumbai 400013

Surya
Narayan
Patra

Digitally signed by Surya Narayan Patra
DN: c=IN, o=Personal,
pseudonym=f1abfc95292341c395fad45a6f8f2270,
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