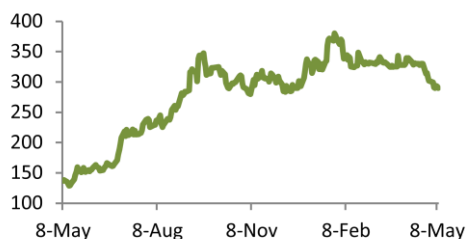


Adi Finechem Ltd.

Recommendation	HOLD
CMP (11/05/2015)	Rs 290
Target Price	Rs 300
Sector	Specialty Chemicals

Stock Details	
BSE Code	530117
NSE Code	ADI
Bloomberg Code	ADFI IN
Market Cap (Rs cr)	400
Free Float (%)	37.5
52- wk HI/Lo (Rs)	395/124
Avg. volume BSE (Quarterly)	12,580
Face Value (Rs)	10.0
Dividend (FY 15)	25%
Shares o/s (Cr)	19.5

Relative Performance	1Mth	3Mth	1Yr
AFL	-13.3%	-15.8%	109.7%
Sensex	-4.8%	-2.6%	19.6%



Shareholding Pattern		31 st Mar 15
Promoters Holding		62.49
Institutional (Incl. FII)		4.80
Corporate Bodies		3.10
Public & others		29.61

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Disappointing results

Revenue for the quarter declined by 16.6% yoy to Rs 37.0 cr. For FY15 Sales remained flat at Rs 150.6 cr as compared to Rs 151.8 cr in FY14. 30% reduction in Tocopherol prices (26% of revenues) has negated the 23% increase in total volumes. With weak demand and lower realizations, EBITDA margins have come down to 14.7% as compared to 15.8% in Q3FY15 and 25.4% in Q4FY14 (not comparable, as the company had exceptionally high profits during Q3FY14 and Q4FY14 due to favorable currency movement sale of an additional product). PAT is Rs 13.7 cr in FY15 as against to Rs 18.7 cr in FY14. Usually the commodity remains for 18-24 months and 1 yr has already passed since the start of the current bottom cycle. Management believes the prices have stabilized now and expect uptick in prices from 2HFY16. The expanded capacity of 45,000 MT is likely to start from Q2FY16 and management believes to achieve 80% capacity utilization during the quarter and 90% by end of the year. We believe higher scale of operations with stabilization in prices should improve the margins in coming years. We expect sales and net profit to grow at CAGR of 21% and 22% in FY15-17E.

Other Highlights

- Due to sluggish market the company has decided to go slow on new expansion and has refrained from providing any details on the same. Currently, AFL is in process of buying land for new Greenfield expansion for Rs 15 cr and would apply for environmental clearances which are likely to take around one year to come. It will take another 12-18 months post clearances to get the plant operational.
- Due to down turn in prices, the management has taken cautious effort to go slow on raw material purchases which has resulted in reduction in inventory days from 60 days in FY14 to 48 days in FY15. However, this can increase going forward.
- Debtors' days have improved from 50 days in FY14 to 37 days in FY15, part of which is likely to continue.
- The company got listed on NSE also from 8th May.

Valuation & Recommendation

We are positive on the stock considering the niche product portfolio, strong return ratios, healthy balance sheet (debt: equity ratio 0.58x/0.39x in FY15E/FY16E) and robust growth (on the back of 0.8x capacity expansion) which is backed by equally strong demand. Though due to ongoing stabilization of expanded capacity and down turn in commodity cycle, **We recommend to book partial profits and HOLD remaining shares for target price of Rs 300 (16x on FY17E).**

Year Consolidated	Sales (Rs cr)	Growth (%)	EBITDA (Rs cr)	Margin (%)	PAT (Rs cr)	Margin (%)	EPS (Rs)	P/E (x)	RoE (%)
FY14A	151.8	23.3%	33.1	21.8%	18.7	12.3%	13.5	21.4	39.5%
FY15A	150.6	-0.8%	24.9	16.5%	13.7	9.1%	9.9	29.2	24.1%
FY16E	209.9	39.4%	36.3	17.3%	16.8	8.0%	12.1	23.9	23.6%
FY17E	271.7	29.4%	49.7	18.3%	26.0	9.6%	18.8	15.4	27.9%

Adi Finechem Ltd.

Quarterly Result

Consolidated (Rs cr)	Q4FY15	Q3FY15	qoq	Q4FY14	yoy	FY15	FY14	yoy
Net sales	37.0	37.2	-0.6	107.5	-65.6	150.6	151.8	-0.8
Cost of Materials	24.5	24.6	-0.3	68.0	-63.9	98.9	94.1	5.1
Staff cost	2.0	1.9	5.1	4.1	-52.7	7.4	5.6	33.2
Power & Fuel	2.7	3.4	-19.9	7.6	-64.2	11.6	10.6	9.7
Other Exps	2.3	1.5	60.7	5.9	-60.5	7.8	8.4	-7.4
Total Expenses	31.5	31.3	0.7	85.7	-63.2	125.8	118.7	6.0
EBITDA	5.4	5.9	-7.4	21.8	-75.1	24.9	33.1	-25.0
<i>margins</i>	<i>14.7%</i>	<i>15.8%</i>		<i>20.3%</i>		<i>16.5%</i>	<i>21.8%</i>	
Depreciation	0.6	0.6	1.0	2.0	-67.6	2.2	2.6	-16.1
EBIT	4.8	5.2	-8.4	19.9	-75.8	22.6	30.5	-25.8
Interest	0.8	0.8	-6.2	1.9	-59.1	2.7	2.7	3.1
Other income	0.2	0.1	162.0	0.5	-66.2	0.7	0.6	17.2
PBT	4.2	4.5	-6.4	18.5	-77.3	20.6	28.4	-27.6
Tax	1.2	1.5	-24.1	6.2	-81.4	6.9	9.7	-29.3
<i>Tax rate</i>	<i>27.6%</i>	<i>34.0%</i>		<i>33.6%</i>		<i>33.4%</i>	<i>34.2%</i>	
EO	0.0	0.0		0.0		0.0	0.0	
PAT	3.0	2.9	2.8	12.2	-75.2	13.7	18.7	-26.7
Equity Capital	13.8	13.8		13.8		13.8	13.8	
FV	10.0	10.0		10.0		10.0	10.0	
EPS	2.2	2.1	2.8	8.9	-75.2	9.9	13.5	-26.7

Adi Finechem Ltd.

Financials (consolidated)

P&L (Rs. Cr)	FY14A	FY15A	FY16E	FY17E	Balance Sheet (Rs Cr)	FY14A	FY15A	FY16E	FY17E
Net Sales	151.8	150.6	209.9	271.7	Share Capital	12.5	13.8	13.8	13.8
% change	23.3%	-0.8%	39.4%	29.4%	Reserves & Surplus	34.7	43.0	57.3	79.4
EBITDA	33.1	24.9	36.3	49.7	Net Worth	47.3	56.8	71.1	93.1
EBITDA margin	21.8%	16.5%	17.3%	18.3%	Net Deferred Tax Liab	4.0	6.1	6.1	6.1
Depn & Amort	2.6	2.2	6.0	6.5	Total Loans	29.1	28.8	53.9	47.9
Operating income	30.5	22.6	30.3	43.2	Trade Payables	2.8	4.8	4.2	5.3
Interest	2.7	2.7	5.4	4.8	Provisions	3.5	5.5	5.5	7.1
Other Income	0.6	0.7	0.5	1.0	Other CL	1.0	1.5	1.7	2.2
PBT	28.4	20.6	25.4	39.4	Total Liabilities	87.7	103.5	142.5	161.7
Tax	9.7	6.9	8.6	13.4	Net Fixed Assets	32.8	67.9	88.4	91.9
MI & EO	0.0	0.0	0.0	0.0	Capital WIP	11.6	1.5	0.0	0.0
PAT	18.7	13.7	16.8	26.0	Investments	0.0	0.0	0.0	0.0
PAT margin (%)	12.3%	9.1%	8.0%	9.6%	Cash & Bank	0.1	0.2	2.1	3.1
Sh o/s - Diluted	1.4	1.4	1.4	1.4	Inventories	15.7	13.3	20.8	26.6
Adj EPS	13.5	9.9	12.1	18.8	Debtors	21.3	15.6	23.3	30.2
Cash EPS	15.5	11.5	16.5	23.6	Loans & Advances	6.1	5.1	7.8	10.1
Qtrly-Stdalone	June.14	Sept.14	Dec.14	Mar.15	Misc Exp	0.0	0.0	0.0	0.0
Revenue	43.0	33.5	37.2	37.0	Total Assets	87.7	103.5	142.5	161.7
EBITDA	8.8	4.8	5.9	5.4	Cash Flow (Rs. Cr)	FY14A	FY15A	FY16E	FY17E
Dep & Amorz	0.5	0.5	0.6	0.6	Op CF before tax	33.1	24.9	36.3	49.7
Op Income	8.3	4.3	5.2	4.8	Change in WC	-11.8	13.8	-18.5	-11.7
Interest	0.6	0.5	0.8	0.8	Tax	-9.7	-6.9	-8.6	-13.4
Other Inc.	0.4	0.0	0.1	0.2	CF from Operation	11.6	31.8	9.2	24.6
PBT	8.1	3.8	4.5	4.2	Capex	-18.6	-27.2	-25.0	-10.0
Tax	2.9	1.3	1.5	1.2	Oth Inc & Investment	0.6	0.7	0.5	1.0
EO	0.0	0.0	0.0	0.0	CF from Investing	-18.0	-26.6	-24.5	-9.0
PAT	5.2	2.5	2.9	3.0	Financing				
EPS (Rs.)	3.8	1.8	2.1	2.2	Dividend Paid	-2.4	-4.0	-2.5	-3.9
Performance Ratio	FY14A	FY15A	FY16E	FY17E	Share Capital	0.0	0.0	0.0	0.0
EBITDA margin (%)	21.8%	16.5%	17.3%	18.3%	Loans	11.0	-0.3	25.1	-6.0
EBIT margin (%)	20.1%	15.0%	14.4%	15.9%	Interest	-2.7	-2.7	-5.4	-4.8
PAT margin (%)	12.3%	9.1%	8.0%	9.6%	Others	0.5	2.0	0.0	0.0
ROE (%)	39.5%	24.1%	23.6%	27.9%	CF from Financing	6.5	-5.1	17.2	-14.7
ROCE (%)	37.9%	24.7%	23.1%	29.3%	Net Chg. in Cash	0.0	0.1	1.9	0.9
PAT growth (%)	116.2%	-26.7%	22.5%	55.1%	Cash at beginning	0.1	0.1	0.2	2.1
Debt/Equity (x)	0.6	0.5	0.8	0.5	Cash at end	0.1	0.2	2.1	3.1
Valuation Ratio	FY14A	FY15A	FY16E	FY17E	Per Share Data	FY14A	FY15A	FY16E	FY17E
Price Earnings (x)	21.4	29.2	23.9	15.4	Adj EPS	13.5	9.9	12.1	18.8
Price/BV (x)	6.1	5.1	4.1	3.1	BV per share	34.3	41.2	51.5	67.5
EV / Sales	2.8	2.8	2.2	1.6	Cash per share	0.1	0.1	1.5	2.2
EV / EBITDA	12.9	17.2	12.4	8.9	Dividend per share	1.5	2.5	1.8	2.8

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