Shree Pushkar Chemicals & Fertilisers Ltd. (SPCFL). : "SUBSCRIBE "

22nd Aug, 2015

Incorporated in 1993, SPFCL is an ISO 9001: 2008 certified company, promoted by first generation entrepreneurs, Mr. Punit Makharia and Gautam Makharia. Initially started with a trading business and have emerged to become one of the few integrated manufacturers with widest range of dye intermediates in India with zero waste. As on Aug 10th 2015, company's Promoter and Promoter Group hold 87.96% while the balance 11.72% is held by IFCI Venture Capital Fund (IEDF). SPCFL has state of art integrated manufacturing facilities located at Lote Parshuram, Maharshtra. Over the years, the integration (backward and forward) has helped the Company to diversify into wide range of products ibn such a way that many of the intermediate products are used to manufacture other value added products leading to efficiencies in the cost of production and low dependence on raw materials from external sources. It is also amongst India's large manufacturers of K-Acid, a dye intermediate used to manufacture Reactive Dyes for dying of textiles, with an installed capacity of 960 MTPA as on March 31, 2015. Dye intermediates finally go in Dyestuffs production. Dyestuffs are critical inputs to several industries such as textiles, paper & packaging, leather, foodstuffs, polymers, coating and printing ink. Amongst these, textiles, paper and leather industries together account for over 85 per cent of the total demand for dyestuffs. Outlook for these sectors remain positive, driven by steady domestic demand and strong export potential, SPCFL manufactures in 4 major verticals viz; Dye intermediates, Acid Complex (comprising sulphuric and its derivative acids), Cattle Feed Supplement and Fertilizers (Single Super Phosphate & Soil Conditioner).

Attractive and diversified client base with several client collaborations

SPCFL products are marketed and sold in the states of Maharashtra, Gujarat and Karnataka in India. The Company is also a recognised Export House by Government of India. The products are exported to one of the world's leading dye manufacturers' viz., Huntsman Corporation, headquartered in USA and also to Swiss based Archroma Management LLC, a global color and speciality chemical company. Besides these, it also exports to countries, Brazil, Thailand, Pakistan and Mexico.

Strong marketing and distribution network

Over the years the Company has established its sales network both in domestic and international markets. The Company works on two-way marketing strategy, one being direct approach to its customers and the other through selling agents/dealers. As on date, SPCFL marketing strength comprises of 7 employees and 125 dealers.

Strong Financial Performance

The company has reported decent total revenue CAGR of 19.5 % and an impressive profit after tax (PAT) CAGR of 61% over FY2011-15.

Outlook, Valuation and Recommendation -

At the upper end of the price band, the issue is valued 10x at FY15 post IPO diluted EPS of Rs. 6.35/- There is no listed company which is exactly comparable having a similar business model as that of SPCFL. However, companies like Kiri Industries Limited, Bodal Chemicals Limited, Bhageria Dye Chem Ltd. dealing in Dye Intermediates & Acids and Aarti Industries Limited, Atul Limited, Vinati Organics Limited dealing in Speciality Chemicals are some of the listed companies which manufacture some of the products. With due consideration to factors like a) one of the few integrated manufacturers of wide range of Dye Intermediates in India, b) one of the 'zero waste' manufacturer in the Dye Intermediates industry in India, c) diversified client base, d) improving return ratios, e) strong past financial performance, e) positive operating cashflow in last three years, f) favourable capital structure, we believe the Company's issue is fairly priced. Hence, we recommend "SUBSCRIBE" to the issue.

Issue date	August 25- 27, 2015
Issue size	Fresh issue of Rs. 568 mn and offer for sale of Rs. 131 mn at upper price band
Face Value	Rs.10
Price Band	Rs. 61 - 65 per share
Lot size	200 equity Shares and in multiples of 200 equity shares thereof
Issue structure	QIB: 50%, Retail: 35% Non – Institutional: 15%
Industry	Dye intermediates and Fertlizers
Equity shares post issue	29.44 mn equity shares
Post issue market capitalization	Rs. 1,914 mn at upper price band
Book Running Lead Managers	Keynote Corporate Services Ltd.
Registrar to the issue	Bigshare Services Pvt. Ltd.

Y/e 31 Mar (Rs. mn)	FY15	FY14	FY13	FY12
Total income	2,668	2,104	1,767	1,510
Growth (%)	27	19	35	15
EBITDA	318	294	233	203
EBITDA Margin (%)	11.9	13.9	13.2	13.4
Reported PAT	187	104	72	54
PAT margin (%)	7	4.9	4.07	3.56
Post issue EPS (Rs.)	6.35	3.53	2.45	1.83
Equity Capital	207.08	207.08	207.08	207.08
Networth	882	636	532	395
RoE (%)	21.2	16.4	13.5	13.7

Shareholding Pattern (%)	Pre Issue
Promoters group	84.81
IFCI	11.30
Alternative Invst. Fund	0.72
Public	**3.17**
Total	**100**

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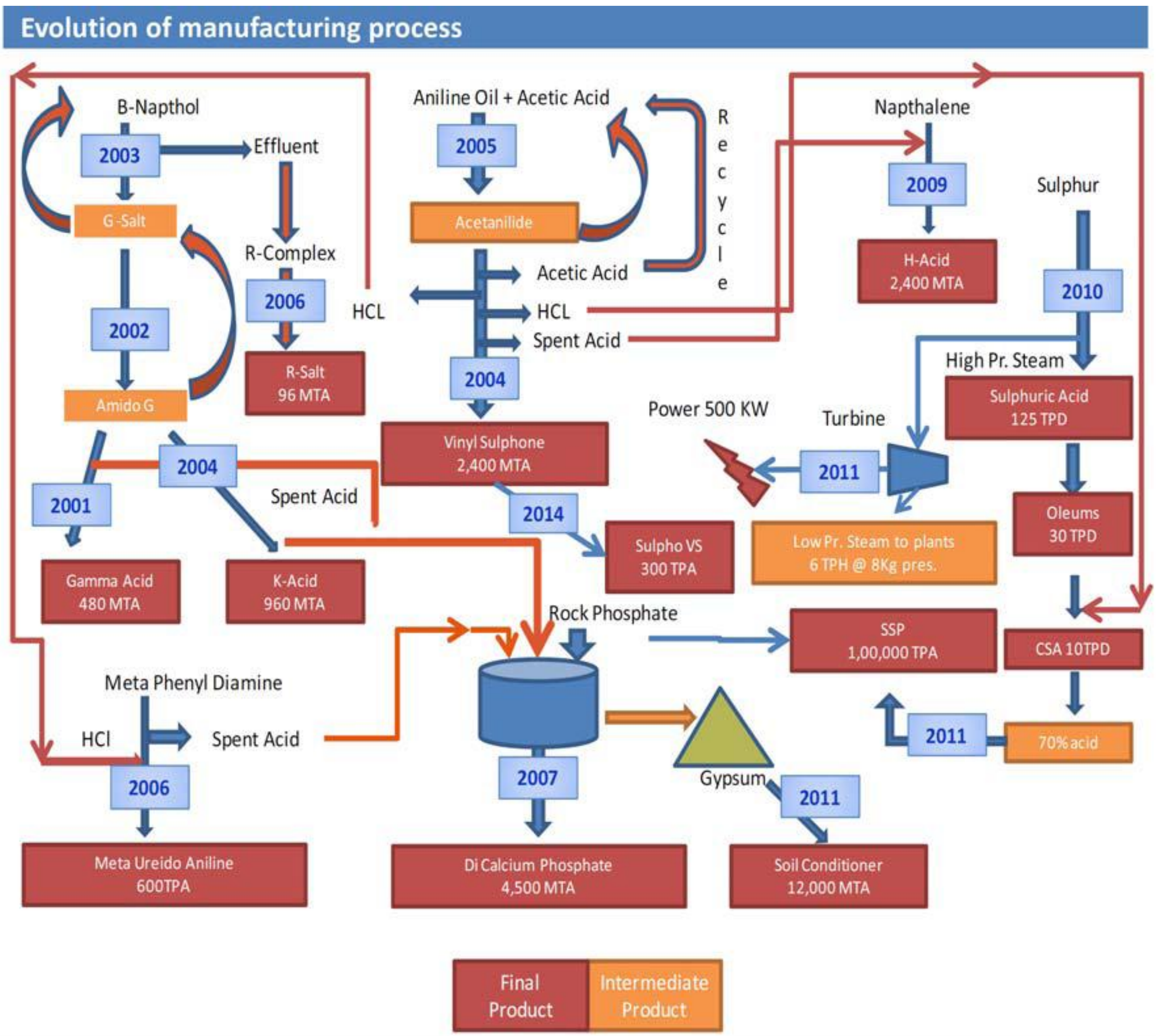
Business Model

"Integrated manufacturing capacities under one roof"



Source: RHP

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Competitive Strengths

One of the 'zero waste' manufacturer in the Dye Intermediates Industry in India

SPCFL is one of the few integrated manufacturers with 'zero waste' in Industry. Its state of art integrated manufacturing facilities not only helps it to treat the waste effluent generated during one process for either a final product or an intermediate product but also helps us add different value added products in its product portfolio.

For example, during the manufacturing process of Vinyl Sulphone, certain effluents are released viz., Acetic Acid, Spent Acid and Hydrochloric Acid (HCl). Acetic Acid is recycled and mixed with Aniline Oil to manufacture Acetanilide – the major raw material for Vinyl Sulphone. Likewise, HCl which is released during the process is further mixed with Meta Phenyl Diamine to manufacture Meta Ureido Aniline. Similarly, the spent acid which is released as an effluent during the manufacturing process of Meta Ureido Aniline is treated with Rock Phosphate to manufacture a cattle feed supplement viz., Di Calcium Phosphate. Such 'zero waste' integration has not only led us achieve better efficiency levels but also has reduced its dependency on raw materials from external sources.

Strategic location of its facilities reduces time and costs overruns

The Company's states of art facilities are located at MIDC, Lote Parshuram, and Maharashtra. The factory sites have close proximity to ports like Dharamtar, Jaigad and JNPT besides connectivity to road and rail. This has helped the Company save time and cost towards transportation of raw materials and/ or final products to/ from domestic and international customers. The raw material required by the Company is usually sourced either domestically or from international markets. The Company has its own fleet of trucks/ tankers for transportation of goods/ acids and thus reducing the dependence on transporters. SPCFLs dye intermediates are mainly marketed in Maharashtra and Gujarat as both the states are considered to be the major hubs for Dyes manufacturing.

Further, there are nearly over 100 small, medium and large industrial units manufacturing dye intermediates, bulk drugs, agro chemicals and speciality chemicals. Sulphuric acid is one of the major raw materials required by most of the industries located here. SPCFL nearly consume around 50% of sulphuric acid for its captive consumption and the balance is thus sold locally to these units. This saves time and costs towards transportation, loading and unloading charges and other ancillary charges. Further, it markets Cattle Feed Supplement mainly in the states of Maharashtra and Karnataka while Fertilizers are marketed within Maharashtra only.

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Objects of the issue

1) Achieve benefits of listing equity shares on the stock exchanges; and
2) IFCI Venture Capital Fund, which infused growth capital to the extent of Rs 15 crore between 2009-2011, will bring down its stake from the present 11.30 per cent through OFS.
3) The funds raised through fresh issue of equity shares are proposed to be utilised to enhance the firm's existing capacities and proposed forward integration plan for manufacturing reactive dyes. The company is setting up a facility to manufacture reactive dyes with a capacity of 3,000 TPA, H-acid with a capacity of 750 TPA and vinyl sulphone ester with a capacity of 1,000 TPA.

Requirement of funds

No.	Description	Amount (Rs. in mn)
1.	Acquisition of an existing factory within MIDC Industrial Area Lote-Parshuram bearing no. B-97	22.90
2.	Setting up of facilities at B-97 for manufacture of	415.94
	a) Reactive Dyes with a capacity of 3,000 TPA	
	b) H-Acid with a capacity of 750 TPA	
	c) Vinyl Sulphone (VS) Ester with a capacity of 1,000 TPA	
3.	Setting up of additional effluent treatment plant at the existing facility (Unit I) to make the unit a “Zero Discharge” unit	48.79
4.	Construction of additional Godown(s) at its existing facility (Unit II) for meeting the additional storage requirements for finished goods	23.76
5.	General Corporate Purposes	-
6.	Preliminary and Pre-Operative and Issue expenses	-

Competition

SPCFL operates in a competitive environment which has number of organized and unorganised players in the Industry. The range of products that it manufactures nearly constitutes 80% of the product line in the Dyes Intermediates segment consumed. In addition it also manufactures Acids, Cattle Feed Supplement and Fertilizers, all under one roof. Kiri Industries Limited, Bodal Chemicals Limited, Mayur Dye Chem Intermediates Limited, Bhageria Dye Chem Limited, Kutch Chemicals Industries Limited are some of the companies which manufacture some of its products in Dye Intermediates and Acids besides their other range of products. SPA Vet Min Private Limited, Shanku’s Biosciences Private Limited, SA Pharmachem Private Limited are some of the companies which manufacture Di Calcium Phosphate besides their other range of products. Basant Agro Tech (India) Limited, Coromandel International Limited, Khaitan Chemicals & Fertilizers Limited, Rama Phosphates Limited are some of the companies which manufacture SSP and soil conditioners besides their other range of products. Since, it is one of the few manufacturing companies in India with business presence in the above 4 verticals under one roof, the above companies are not directly comparable to SPCFL.

Key risks and concerns

1) Indian dyes are viewed as commodities in the global market instead of branded products. The industry's expenditure on R&D is extremely low, at about 1% of sales as against 10% for international companies. To be able to build brand names and improve international presence the Indian players would need to invest in R&D. Crude oil is the basic raw material used in production of dye and dye intermediates. Changing crude oil prices affect the sustainability of small scale units in dyestuff sector.

2) **Certain equity shares of the Company held by its Promoter, Mr. Punit Makharia**

Presently 3,575,896 Equity Shares held by the Company Promoter, Punit Makharia constituting 28.91% of his total shareholding in the Company has been pledged with IEDF a fund of IFCI (VCF) pursuant to the pledge agreement dated January 24, 2013, July 30, 2010 and April 27, 2009. The details of the total Equity Shares pledged till date are as under:

Date of pledge	No. of shares pledged
April 27, 2009	5,082,832
July 30, 2010	94,126
May 06, 2011	470,632
January 24,2013	2,604,000
Total	**8,251,590**

The details of the total Equity shares wherein the pledge have been released till date are as under:

Date of pledge	No. of shares pledged
Feb 18, 2013	1,146,000
August 13, 2014	925,694
August 20, 2014	2,604,000
Total	**4,675,694**

The Equity Shares pledged also include 300,000 Equity Shares which are held over and above 1.35 times of the Equity Shares as stipulated in the Pledge Agreement. If IEDF enforces the pledge of the aforesaid Equity Shares, Punit Makharia may lose some of his shareholding to that extent in the Company. Till date no pledge has been invoked.

3) **SPCFL business is dependent on its key customers and the loss of any significant customer would have a material adverse effect on its financial results**

For the financial year ended March 31, 2013 2014 and 2015 its top five customers accounted for 37.53% , 50.88% and 45.28% respectively of its revenue from operations. SPCFL cannot assure you that it can maintain the historical levels of business from these customers or that it will be able to replace these customers in case it loses any of them. Further, the business with these customers is based on regular requirements and orders, rather than yearly contracts.

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