

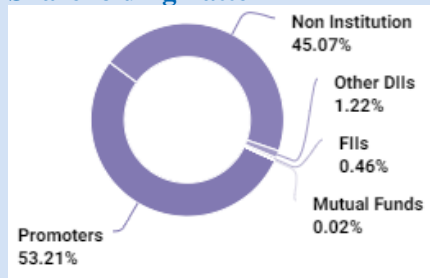
## Company Details

CMP:	Rs.145
Face value:	Rs.10
Market cap:	Rs.345.79 Crs.
TTM EPS	Rs.13.13
52 week high:	Rs.209.90
52 week low:	Rs.92.15
BSE Code:	506405
Sector	Specialty Chemicals

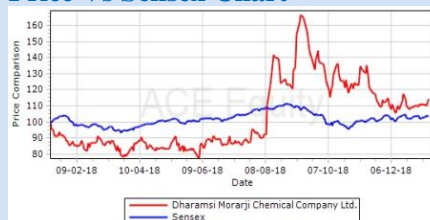
## Financial Highlights (YoY)

Rs. in crores			
	H1FY19	H1FY18	% Var
Net Sales	117.36	70.07	67.5%
Total Expendit	83.96	61.83	35.8%
PBDIT	33.40	8.23	305.8%
Op.Profit	33.67	9.21	265.6%
OPM (%)	28.7%	13.1%	118.3%
PBT	30.00	6.08	393.4%
PAT	24.32	3.83	535.0%
EPS (Rs.)	11.49	6.91	66.1%
Equity	178.24	168.87	5.5%

## Shareholding Pattern



## Price Vs Sensex Chart



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## Company Background

**Dharamsi Morarji Chemical Ltd.**, a Mumbai based company incorporated in 1919, was the first producer of Sulphuric Acid. The company has over the year expanded into specialty / performance chemicals & engineering services with products based on process developed in-house. The end products of the company are used in textile processing, emulsions, polymers, dyes and pigments, agrochemicals, pharmaceutical intermediaries, water treatment and fertilizers. It has got manufacturing facilities at Roha (Maharashtra), Dahej (Gujarat), Khemli (Rajasthan) & Jhar (Gujarat).

The Indian chemical industry is an important contributor to the Indian economy, providing raw material to a variety of downstream industries. The crackdown on polluting industries in China is an opportunity for India's pharmaceutical, agrochemical, and dyes manufactures to expand in a sustainable manner. The export turnover of the company during the FY18 was Rs. 50.34 crores, which is about 25% of the total turnover. Global size of chemical market is approx. US\$150 billion; the Indian chemical industry is the seventh largest producer of chemicals worldwide and the third largest producer in Asia after China and Japan.

## Financial Performance

The company had reported Net sales of Rs. 117.36 crore for H1FY19 higher by 67.5% against Rs. 70.07 crore for H1FY18, while **Operating profit was at Rs.33.67 crore in H1FY19 up by 305.8% against that of Rs.9.21 crores in H1 of the last year.** The operating profit margin has improved to 28.7% for H1FY19, as compared to 13.1% for the corresponding half year of previous year. **The EPS has significantly improved to Rs 11.49 in H1FY19 as against Rs. 6.91 in H1 FY18. The rise in the revenues as well as margins is mainly due to higher realization and volume for the products sold, lower raw material prices and some forex gain.** There was improvement in terms of volumes and pricing possibilities for Specialty chemicals. The total turnover from specialty chemical during FY18 was Rs. 90.33 crores, which constitutes 51% of the total turnover of the company. The company had declared dividend of Rs. 0.50 for FY18 and an interim dividend of Rs. 0.50 for FY19 based on improved performance during of H1 FY19.

## Investment Rationale

- Opportunities for growth exist as 'Make in India' initiative further facilities growth and investment. The industry is expected to register an annual growth of 8-9% in the next decade and double its share in global chemical industry to 5-6% by 2021. Government of India has identified chemical industry as a key growth element of Indian Economy.
- Introduction of GST; is viewed positively by the company, simplification of inter-state sales, reduction in number of levies, and tax credit on all inputs have reduced administrative work and cost.
- The company has brought down the finance cost by repaying and replacing higher cost borrowings by lower cost borrowings. For the FY18, the Debt Equity ratio was at 0.34:1 against 0.50:1 in FY17.
- Merger of Borax Morarji Chemicals with the company has facilitated expansion of the product portfolio with new location at Dahej in Gujarat. An integrated complex is being created with investment in Boron and Sulphur Chemicals. The market size of Boron in India is expected to be about Rs. 200-300 crores, out of which the company's market share is about 30% or Rs. 50 crores and has the extra capacity to expand till Rs. 75-100 crores.
- **The 3 years average sales growth of the company is ~15%, ROCE of ~20.9% and ROE of ~18.5%** which attributes to the stable financial metrics of a healthy company.
- The specialty chemicals of the company are driven by in-house products and process from R&D. The New Research and Development center at Roha, Maharashtra is expected to give further impetus to the ongoing in house research and development initiative.
- As on Sep 30<sup>th</sup>, 2018, the promoters hold 53.21% equity of the company, whereas FIIs and DIIs own 0.46% and 1.24% respectively, and the balance 45.07% shares are held by the public.

## Concerns

Competition from unorganized players and volatility in raw material prices are the main concerns.

### Valuation

The share of the Company is trading at an attractive **TTM P/E of only 11x against that of industry at 23x**. Keeping the improving financials of the company, improvement in margins, expansion plans and ability to scale the top-line, we expect the company to report an **EPS of about Rs. 15 for FY19 and based on PE of 13x**, we estimate the price of the scrip to appreciate to about Rs. 195 over the next 6-12 months.



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