

6 Februari 2018

## Thirumalai Chemicals – BUY

**CMP** : 1785  
**Target Price** : 2,214  
**Upside** : 24%+  
**Stop Loss** : 1,552 (closing basis)

### Investment Thesis

Recently, the stock price of Thirumalai Chemicals Ltd. (Thirumalai Chemicals) corrected by ~30% from 52-week high of Rs.2,440 despite reporting good set of numbers in the recent quarters.

Thirumalai Chemicals is the second largest player in the domestic Phthalic anhydride (PAN) industry with market share of over 40% after IG Petrochemicals. The company also manufactures value-added derivatives such as Maleic Anhydride (MAN), Diethyl Phthalate (DEP), and food acids. The demand for PAN in the domestic market has improved supported by healthy demand from plastics, paints, auto, etc. In 2016-17, the prices of Orthoxylene (OX), the raw material used for manufacturing PAN, fell at a sharper rate than prices of PAN on account of minimal capacity additions as well as improving utilization levels for PAN. Further, capacity expansions for OX in China, Taiwan and Singapore are expected to increase the global capacity by ~4%. Thus, on the back of improved PAN prices and subdued OX prices, the spreads between PAN and OX are expected to rise in the years to come. The scrapping of 2.5% import duty on OX will put further pressure on prices of OX in the domestic market. Thirumalai Chemicals, being 2<sup>nd</sup> largest PAN player may pass on this spread to end user to gain market share further.

Thirumalai Chemicals has PAN capacity of 145,000MT. The company is in the process of modernizing its plants over the next 3 years, which will include replacing its older plants and systems. The plants will have the latest technology and equipment and will deliver improved efficiencies in raw materials, operating costs, reliability and quality. Further, Asian Paints is expected to close its PAN plant in Ankleshwar to expand its paint capacity. This will lead to increase in domestic PAN demand by ~30,000 TPA. This incremental demand will help domestic PAN producers like Thirumalai Chemicals to gain market share and volume growth.

### Financials

- During the past 5 years, revenue of Thirumalai Chemicals de-grew at CAGR of 0.4% while PAT grew at CAGR of 138.2% in the same period.

Consol. (Rs.Mn.)	FY15	FY16	FY17	FY18E	FY19E
Revenue	10,723	9,442	10,328	11,877	13,658
EBITDA	376	916	1,580	1,817	2,090
% growth	-54.0	143.7	72.5	15.0	15.0
PAT	-137	322	705	813	938
EPS (INR)	-13.4	31.4	68.9	79.4	91.6
P/E (x)	-162.5	69.3	31.6	27.4	23.8
RoE (%)	-7.1%	14.7%	23.8%	25.0%	26.3%

- Thirumalai Chemicals has reported Q3FY18 revenues at Rs.3,456mn, which improved by 39.1% YoY and 10.6% QoQ supported by healthy demand of PAN and MAN in the quarter.

### Stock Data

Market Cap (INR MN)	18,276
Market Cap (\$ MN)	284.67
Shares O/S (in MN)	10.20
Avg. Volume (3 month)	162,000
52-Week Range (Rs.)	2,440 / 728

### Shareholding Pattern

Promoters	41.45%
FII's	5.03%
Institutions	0.37%
Others (incl. body corporate)	53.15%

Performance (%)	1M	6M	1Yr
Absolute	4.8%	120.8%	192.1%
BSE 500	4.1%	12.4%	32.7%

### Key Ratios

Div Yield	0.9%
TTM PE	19.6x
ROE	28.5%
TTM EPS (INR)	110.8/-

- Thirumalai Chemicals' EBITDA has improved by 103% YoY to Rs.797mn as the cost of raw material to net revenue has declined by 833bps YoY to 58.0% in Q3FY18. As a result, the EBITDA margin has also gained by 726bps YoY to 23.1% in Q3FY18.
- PAT of Thirumalai Chemicals has gained by 230.1% YoY to Rs.515mn in Q3FY18 due to better operating performance.

## Key Business Highlights

- Thirumalai Chemicals, the flagship company of the Thirumalai Group, is the 2<sup>nd</sup> largest manufacturer of Phthalic Anhydride (PAN) in India with a market share of over 40%. It also manufactures value-added derivatives such as Maleic Anhydride (MAN), Diethyl Phthalate (DEP) and food acids.
- Thirumalai Chemicals' product PAN has applications, such as production of polyester polyols, phthalate esters, dyes and polyester resin, while MAN is used in the manufacture of fumaric and malic acid, lubricating oil additives and tartaric acid.
- Thirumalai Chemicals' manufacturing facility is located at Ranipet (Vellore district) in Tamil Nadu with total annual installed capacity of 1,45,000 MT.

## Valuation

- India is one of the fastest growing PAN markets. With demand growing at around 7 - 8% and with limited capacity addition, imports are set to increase to 150,000MT in FY19E against ~39,000MT in FY12. To capitalize on increased demand opportunities, Thirumalai Chemicals has lined up PAN capacity expansion of 60,000MT at Dahej, with first phase to be completed during FY19E.
- Thirumalai Chemicals has also expanded its food ingredients and fine chemicals capacity by 40% through internal accruals and plans to ramp up capacity further in the current year. The company has successfully made its presence in over 30 countries in the last 25 years and was only constrained by its capacity limitations. Additionally, demand for these products has increased in the domestic market too. Thirumalai Chemicals is expanding capacities to meet the demand in both international and domestic markets.
- Thirumalai Chemicals' Malaysian subsidiary, Optimistic Organic (OOSB) has recently completed expansion of MAN capacity to 45,000MT where frequent plant shutdowns to stabilize expansion impacted performance resulting in loss of Rs.12.6mn in FY17. With improved capacity utilization, OOSB is likely to report strong earnings going ahead.
- With second largest player in the domestic PAN industry with market share of over 40%, raw material used for manufacturing PAN fell at a sharper rate, increase in domestic PAN demand, capacity expansion to cater growing demand of PAN in India, expanded food ingredients and fine chemicals capacity by 40% and Malaysian subsidiary is likely to report strong earnings, we value Thirumalai Chemicals at 24.20x FY19E EPS of Rs.91.60 to arrive at target price of Rs.2,214.00, an upside of ~24%.

## Risk & Concern

- Major product of Thirumalai Chemicals like, Phthalic Anhydride and Maleic Anhydride are dependent on user industry, any slowdown in user industry will put pressure on profitability of the company.
- Thirumalai Chemicals imports some part of its raw material, any negative price fluctuation or sourcing problem may impact business growth of the company.
- Any negative fluctuation of rupee against major currency may adversely impact margin of Thirumalai Chemicals.

## Graphs & Charts

Figure 1: Net Sales Trend

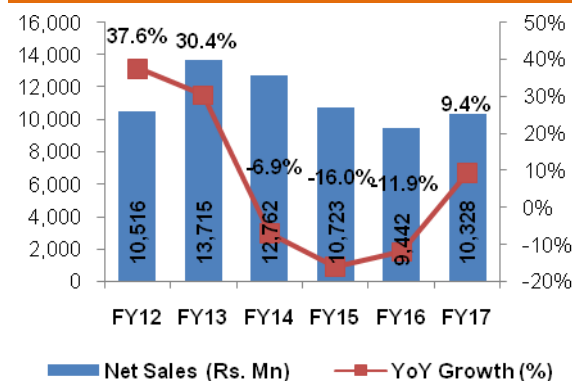


Figure 2: EBITDA & EBITDA Margin Trend

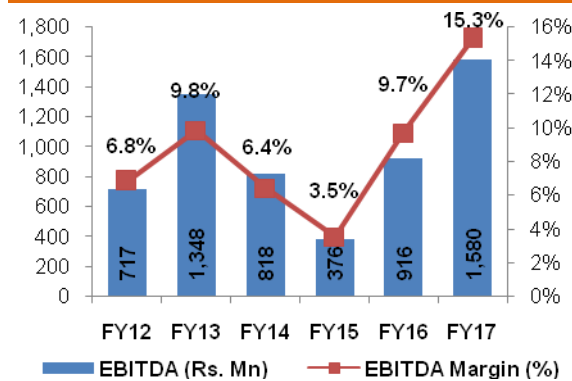


Figure 3: PAN Production in India Trend

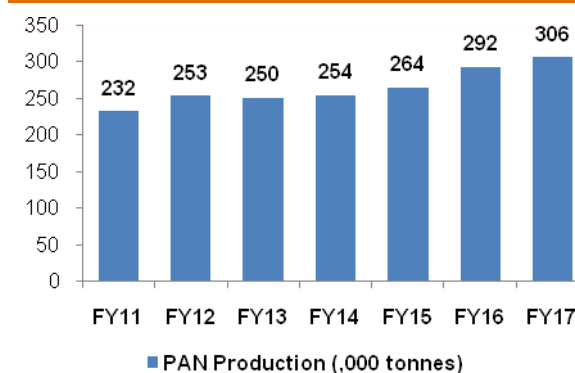
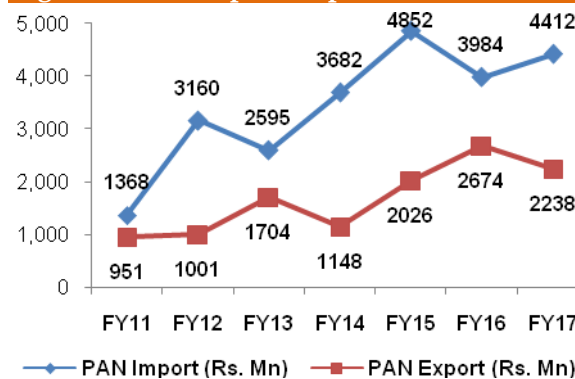


Figure 4: PAN Export-Import Trend



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**Corporate Office :**Plot No. M-2, Cama Industrial Estate, Walbhat Road, Behind 'The Hub' Goregaon (E), Mumbai - 400 063.

Tel.: 022-67605500 / 600

**Head Office :**2/2 A, First Floor, Lakshmi Insurance Building, Asaf Ali Road, New Delhi - 110 002. Tel.: 011-30181290 / 94

**Web:** [www.bonanzaonline.com](http://www.bonanzaonline.com)

