

Current	Previous
CMP : Rs.38	
Rating:BUY	Rating: BUY
Target: Rs.50	Target: Rs.34

(Rs Mn)	Q4FY16	Q3FY16	Q4FY15	Q/Q %	Y/Y %	INSPL Est	Var %
Sales	3,608	3,109	2,950	16.0%	22.3%	3,060	17.9%
EBITDA	723	707	557	2.2%	29.8%	652	10.8%
PAT	234	232	156	0.8%	50.0%	184	27.1%
EPS	0.92	0.91	0.61	0.8%	50.0%	0.72	27.1%

- MOL's Q4FY16 result was significantly above our estimate on all fronts.
- Revenue went up 22.3% Y/Y to Rs.3608mn (v/s INSL Est. Rs3,060 mn). The revenue growth was driven by strong growth in all key segments - Agro Chemicals (+30.8% Y/Y); Basic chemical (+22.1% Y/Y) and Pigment (+21.5% Y/Y).
- During the quarter, EBITDA went up 29.8% Y/Y to Rs.723mn (v/s INSL Est: Rs.652mn) led by higher EBITDA growth in Basic Chemical segment. The company's overall EBITDA margin expanded by 115 bps Y/Y to 20.0% (v/s 18.9% in Q4FY15).
- Depreciation during the quarter stood at Rs.190mn (v/s Rs.198mn in Q4FY15). The company reported other income of Rs.17mn (v/s Rs.30mn in Q4FY15). Interest expenditure during the quarter stood at Rs.122mn (v/s Rs.161mn in Q4FY15). Tax outgo was Rs.77mn (v/s tax reversal of Rs.1mn in Q4FY15) on account of deferred tax assets provision. During the quarter, the company reported the minority share of Rs.115mn (v/s Rs.71mn in Q4FY15). Net profit stood at Rs.234 mn (v/s Rs.254mn in Q4FY15), which was above our estimate of Rs.184 mn.
- We like the company's overall performance on revenue growth front. However, despite margin expansion, we remain concern on the company's EBITDA trajectory, which is largely driven by the single segment (Basic Chemical). Whereas other two key segment (Agro + Pigment) continue to post decelerating EBITDA margin show. In our view, the next level to re-rating will happen on two counts: (1) debt reduction, and (2) margin expansion in Agro and Pigments business on sustainable basis. As a result, we ascribe below industry EV/EBITDA multiple to FY17E EBITDA and arrive at TP of Rs.50 (Previous TP Rs.34) and maintain rating BUY on the stock.

Valuations

At CMP of Rs.38, the stock is trading at EV/EBITDA multiple of 4.1x FY17E and 3.3x FY18E estimates. The current valuations are well below 7.5x peer/industry average. As a result, we maintain BUY with TP of Rs.50 (6.0x FY17E). In our view, the available triggers for re-rating are following: (1) debt reduction, (2) margin expansion, and (3) higher plant utilization. Our earlier TP of Rs.34 is already achieved on the stock.

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Key Result Highlights

Revenue Update

The consolidated revenue grew by 23.0% Y/Y to Rs3608 mn (v/s Rs2950mn in Q4FY15). The key reasons for revenue growth were as follows: (1) 30.8% y/y growth in Agrochemical, (2) 22.1% y/y growth in Basic Chemical segment and 21.5% y/y growth in Pigments segment. We expect sustainable revenue performance going ahead in Agrochemical, Pigment, and Basic Chemical segment. However, higher dependence on Basic Chemical segment for margin performance remains the concern. Any fluctuation in Basic Chemical ECU could disrupt the overall margin performance. Additionally, the commencement of chloric potash plant in FY17E should add higher revenue and margin from Basic Chemical. We estimate revenue growth of 7.0%/9.0% Y/Y in FY17E/FY18E.

Segment	Q4FY15	Q3FY16	Q4FY16	Q/Q %	Y/Y %	FY16	FY15	Y/Y %
Revenue (Rs Mn)								
Pigment	1,050	1,107	1,276	15.3%	21.5%	4,736	4,319	9.7%
Agrochemicals	961	890	1,257	41.3%	30.8%	4,580	4,559	0.5%
Basic Chemicals	876	1,012	1,069	5.7%	22.1%	3,988	3,518	13.3%
Other/Unallocated	274	336	214	-36.4%	-22.0%	1,153	1,405	-17.9%
Less: Intersegment	211	236	209	-11.6%	-1.2%	898	860	4.5%
Total	2,950	3,109	3,608	16.0%	22.3%	13,559	12,942	4.8%

Source: Company Filings; IndiaNivesh Research

Basic Chemical Segments EBIT margin at all-time high...

On back of revenue performance, Basic Chemicals EBIT margin expanded 1465 bps y/y in Q4FY16. This outperform in EBIT margin was due to better plant utilization and higher ECU's. During this quarter, Agro-segment disappointed on margin front and reported lowest ever margin of 0.2% contracted by 835 bps Y/Y(v/s 8.5% in Q4FY15). Pigment segment EBIT margin expanded 157 bps y/y to 7.8% (v/s 6.2% in Q4FY15).

Segment	Q4FY15	Q3FY16	Q4FY16	Q/Q %	Y/Y %	FY16	FY15	Y/Y %
Segment Profit/(Loss) Before Taxes (Rs Mn)								
Pigment	65	201	100	-50.5%	52.1%	579	255	127.1%
Agrochemicals	82	59	2	-95.8%	-97.0%	441	400	10.2%
Basic Chemicals	208	301	411	36.7%	97.3%	1,088	678	60.3%
Other/Unallocated	-29	-2	-8	358.1%	-71.3%	-9	-83	-88.8%
Total	327	559	505	-9.6%	54.3%	2,099	1,251	67.8%
Margin %								
Pigment	6.2%	18.2%	7.8%	-1,037	157	12.2%	5.9%	633
Agrochemicals	8.5%	6.6%	0.2%	-639	-835	9.6%	8.8%	85
Basic Chemicals	23.8%	29.7%	38.5%	874	1,465	27.3%	19.3%	799
Other/Unallocated	-10.4%	-0.5%	-3.8%	-330	660	-0.8%	-5.9%	508
Total	11.1%	18.0%	14.0%	-397	290	15.5%	9.7%	581

Source: Company Filings; IndiaNivesh Research

Debt Position Update...

MOL invested heavily in creating capacities in all three key businesses over last four years. The capex program for the same has been funded largely through borrowed funds. The company has now put in place a debt reduction plan. In FY16, the company already repaid ~Rs1,553 mn. As a result, the company's interest expenditure declined 15.0% to Rs.636 mn (v/s Rs.746 mn in FY16). In FY17E, the management expected to repay additional Rs1110 mn. In FY16, net debt/equity fell below 1.0x and stood at 0.70x as against 1.1x in FY15. The management does not see any new capex announcement from here on, except some debottlenecking capex for existing operations in some cases.

Valuations

At CMP of Rs.38, the stock is trading at EV/EBITDA multiple of 4.1x FY17E and 3.3x FY18E estimates. The current valuations are well below 7.5x peer/industry average. As a result, we maintain BUY with TP of Rs.50 (6.0x FY17E). In our view, the available triggers for re-rating are following: (1) debt reduction, (2) margin expansion, and (3) higher plant utilization. Our earlier TP of Rs.34 is already achieved on the stock.

Quarterly Performance (Rs Mn)									
Consolidated	Q4FY15	Q3FY16	Q4FY16	Q/Q %	Y/Y %	FY16	FY15	Y/Y %	
Net Sales	2,875	3,074	3,564	15.9%	23.9%	13,370	12,678	5.5%	
Other Operating Income	75	35	44	24.7%	-41.0%	189	264	-28.3%	
Total Income	2,950	3,109	3,608	-10.0%	2.3%	13,559	12,942	4.8%	
Raw Material Consumed	1,383	1,606	1,562	-2.7%	12.9%	6,865	6,769	1.4%	
Stock Adjustment	99	-194	233	-220.6%	137.0%	-143	240	-159.5%	
Purchase of Finished Goods	132	153	116	-24.3%	-12.3%	505	632	-20.1%	
Employee Expenses	185	203	193	-4.9%	4.5%	791	725	9.0%	
Other Expenses	594	634	781	23.2%	31.3%	2,672	2,545	5.0%	
Total Expenditure	2,393	2,402	2,885	-11.0%	-8.5%	10,690	10,911	-2.0%	
EBITDA	557	707	723	-6.4%	71.2%	2,869	2,031	41.3%	
Interest	161	149	122	-17.9%	-24.0%	636	746	-14.7%	
Other Income	30	11	17	55.1%	-44.9%	39	64	-39.2%	
Depreciation	198	193	190	0.0%	0.7%	767	747	2.7%	
PBT	228	376	426	-2.3%	1945.5%	1,504	602	149.9%	
Tax	-1	35	77	123.1%	-9470.5%	373	140	167.0%	
Net Profit	229	342	349	35.8%	NM	1,131	462	144.7%	
Extra-ordinary Items	2	-				-	2	-100.0%	
Minority Interest	71	110	115	170.5%	NM	304	21	1356.3%	
Reported Net Profit	156	232	234	10.0%	NM	827	439	88.2%	
EPS	0.61	0.91	0.92	0.8%	50.0%	3.3	1.7	88.2%	
O/shares	254	254	254	0.0%	0.0%	254	254	0.0%	
Margin %				BPS		Margin %		BPS	
EBITDA	18.9%	22.7%	20.0%	-272	115	21.2%	15.7%	547	
PAT	5.3%	7.5%	6.5%	136	895	6.1%	3.4%	270	
As % of Revenue									
Material Cost	54.7%	50.3%	53.0%	264	-173	53.3%	59.0%	-574	
Employee	6.3%	6.5%	5.4%	-118	-91	5.8%	5.6%	23	
Others	20.1%	20.4%	21.6%	126	149	19.7%	19.7%	4	
Tax Rate	-0.4%	9.2%	18.2%	893	1,851	24.8%	23.2%	159	

Income Statement

Y E March (Rs m)	FY14	FY15	FY16	FY17e	FY18e
Net sales	11,783	12,942	13,559	14,505	15,811
Y/Y Ch %	11.3	9.8	4.8	7.0	9.0
COGS	7,495	8,365	8,018	8,494	9,180
SG&A	2,329	2,545	2,672	2,843	3,099
EBITDA	1,959	2,031	2,869	3,168	3,532
Y/Y Ch %	5.8	3.7	41.2	10.4	11.5
EBITDA Margin %	16.6	15.7	21.2	21.8	22.3
Interest	676	746	636	434	308
Depreciation	802	747	767	834	881
EBIT	480	538	1,465	1,899	2,343
EBIT Margin %	4.1	4.2	10.8	13.1	14.8
Other Income (Inc Forex)	61	64	39	23	23
Extra Ordinary Exps/(Income)	5	-2	-2	-	-
PBT	537	604	1,506	1,922	2,366
Tax	181	140	373	642	790
Effective tax rate %	33.7	23.2	24.8	33.4	33.4
Reported PAT	356	464	1,133	1,280	1,576
Y/Y Ch %	25.7	30.6	143.9	13.1	23.1
Minority & Exceptional	127	21	306	22	23
Adj. PAT (APAT)	229	443	827	1,258	1,553
RPAT Margin %	1.9	3.4	6.1	8.7	9.8
Y/Y Ch %	32.9	93.7	86.5	52.2	23.4

Source: Company filings; IndiaNivesh Research

Balance Sheet

Y E March (Rs m)	FY14	FY15	FY16	FY17e	FY18e
Share Capital	254	254	254	254	254
Reserves & Surplus	4,927	5,261	6,166	7,271	8,417
Net Worth	5,181	5,515	6,420	7,526	8,672
Minority	924	943	1248	1270	1293
Long-term + ST loans	7495	6430	4878	3778	2678
Others	431	44	38	38	38
Total Liabilities	14,031	12,933	12,584	12,611	12,680
Gross Block	12,395	13,038	14,170	14,970	15,770
Less Depreciation	4,382	5,129	5,896	6,730	7,611
Net Block	8,013	7,909	8,274	8,239	8,158
Intangible	141	133	0	0	0
Investments	658	327	66	66	66
Deferred tax (net)	-370	-471	-572	-572	-572
Current Assets	7,823	7,075	8,041	7,918	8,342
Sundry Debtors	3,523	3,167	4,052	3,577	3,899
Cash & Bank Balance	373	329	110	581	651
Loans & advances	1,431	1,420	1,433	1,596	1,739
Inventories	2,496	2,158	2,447	2,165	2,053
Current Liabilities	1,736	1,434	1,800	1,590	1,733
Provisions	498	607	1,425	1,451	1,581
Net Current Assets	5,589	5,034	4,816	4,878	5,028
Total assets	14,031	12,933	12,584	12,611	12,680

Source: Company filings; IndiaNivesh Research

Cash Flow

Y E March (Rs m)	FY14	FY15	FY16	FY17e	FY18e
Operating Profit	1,156	1,284	2,100	2,334	2,651
Depreciation	802	747	767	834	881
Interest Exp	-676	-746	-636	-434	-308
Changes in Working Capital	-1,098	227	96	410	-80
Cash Flow After Chang in WCapital	185	1,512	2,327	3,143	3,144
Tax	-181	-140	-373	-642	-790
Others	61	64	39	23	23
Cash flow from operations	65	1,436	1,993	2,524	2,377
Capital expenditure (net)	-1,083	-305	-737	-800	-800
Free Cash Flow	-1,018	1,132	1,256	1,724	1,577
Other income	0	0	0	0	0
Investments	0	0	0	0	0
Cash flow from investments	-1,083	-305	-737	-800	-800
Long-Term Debt (Decrease) Increase	1,120	-1,065	-1,553	-1,100	-1,100
Dividend paid (incl tax)	-30	-53	-102	-153	-407
Share Issue / Repurchase & Others	-39	-57	180	0	0
Cash flow from Financing	1,052	-1,175	-1,475	-1,253	-1,507
Net change in cash	34	-44	-219	471	70
Cash at the beginning of the year	339	373	329	110	581
Cash at the end of the year	373	329	110	581	651

Source: Company filings; IndiaNivesh Research

Key Ratios

Y E March	FY14	FY15	FY16	FY17e	FY18e
Adj. EPS (Rs)	0.9	1.7	3.2	4.9	6.1
Cash EPS (Rs)	4.1	4.7	6.3	8.2	9.6
DPS (Rs)	0.1	0.2	0.4	0.6	1.6
BVPS	20.4	21.7	25.2	29.6	34.1
ROCE %	9.1	10.8	18.6	20.6	23.4
ROE %	4.4	8.0	12.9	16.7	17.9
ROIC %	1.4	3.0	5.8	8.8	9.0
EBITDA Margin %	16.6	15.7	21.2	21.8	22.3
PER (x)	42.1x	21.7x	11.7x	7.7x	6.2x
P/BV (x)	1.9x	1.7x	1.5x	1.3x	1.1x
P/CEPS (x)	9.3x	8.1x	6.0x	4.6x	4.0x
EV/EBITDA (x)	8.6x	7.8x	5.0x	4.1x	3.3x
Dividend Yield %	0.3	0.6	1.1	1.6	4.2
m cap/sales (x)	0.8x	0.7x	0.7x	0.7x	0.6x
net debt/equity (x)	1.4x	1.1x	0.7x	0.4x	0.2x
net debt/ebitda (x)	3.6x	3.0x	1.7x	1.0x	0.6x
Debtors (Days)	108	108	108	96	86
Creditors (Days)	53	54	54	43	38
Inventory (Days)	77	61	66	54	47
Cash Conversion Cycle (Days)	132	115	120	108	95

Source: Company filings; IndiaNivesh Research