

CMP (₹)	Target (₹)
130	156
Potential upside	Absolute Rating
20%	BUY

Market Info (as on 22<sup>nd</sup> September 2014)

BSE Sensex	27228.65
Nifty S&P	8151.35

## Stock Detail

BSE Group	B
BSE Code	526821
NSE Code	-
Bloomberg Code	DIK IN
Market Cap (₹bn)	9.71
Free Float (%)	40%
52wk Hi/Lo	54.5 / 144.9
Avg. Daily Volume (BSE)	14214
Face Value / Div. per share (₹)	2.00 / 1.30
Shares Outstanding (mn)	7.46

## Shareholding Pattern

Promoters	FII	DII	Others
63.74	00	0.02	36.24

## Financial Snapshot

(₹mn)

Y/E March	FY13	FY14	FY15E	FY16E
Net Sales	1,016	1,474	1,953	2,305
EBITDA	58	126	273	346
Net Profit	66	156	218	253
P/E(x)	4.4	6.5	6.2	5.6
ROE (%)	9	18	20	22
EPS	8.82	20.92	25.28	29.87

## Share Price Performance



Rel. Perf.	1Mth	3 Mths	6Mths	1Yr
DIKIN (%)	7.4	30.7	49.6	44.2
Sensex (%)	(2.3)	2.4	7.6	5.6

Source: Company data, Retail Research

## Company Snapshot

Dai-Ichi Karkaria Ltd (Daichi) is Mumbai based specialty chemical manufacturing company. The company is mainly involved in manufacturing of the cohesive solutions needs for various industries. The company is also involved in manufacturing of surfactants and specialty polymers use in various industries like paints & pigments, adhesives, polymers and lattices, metals and mining treatment etc.

## Investment Rationale

## Stable Business model in competitive sector

The Indian markets have great potential to grow in specialty chemical industries. The specialty chemical industry is likely to grow with the rate of 12%-14% CAGR by 2017\*. The total market size of the industry US\$108 bn\* and accounts for 7% of the GDP as on June 2014. So we believe that the company has strong demand growth in the near future. Unique product line gives added advantage to Daichi which is likely to outperform the specialty chemical markets.

\* Source: Company annual report 2014

## Higher efficiency ratios makes company lucrative

Daichi has stable margins over the period of time. The company has improved on its operating margins from 7% to 10% on consolidated basis over the period of two years. The Daichi is able to transfer its rising input cost easily to its customers. The PAT margins of the company have also improved significantly from 5% to 11% from FY12 to FY14. The growth momentum is likely to continue in the upcoming future. Daichi has also improved on ROCE; company has managed to deliver 16% ROCE for FY14 which has grown from 7% in FY12. Daichi has shown very strong growth in the ROE which has made this stock more lucrative. The ROE of this stock stood at 18% which has also grown significantly over the past few years.

## Strong balance sheet makes Daichi a safer bet in long run.

Daichi has very low or negligible amount of debt on its balance sheet. This will help company to have higher pretax margins. Daichi also has very efficient working capital cycle which strengthens the operating cycle. The company has efficiently managed to reduce net working capital days to 58 from 67 days.

## Strong JV investment makes Daichi more robust on consolidated basis

Daichi is having JV in oil and chemical manufacturing company called Nalco Champion. Nalco Champion is world leader in oil field chemicals. Nalco champion is the only Indian manufacturer in the oil field & contract services. The management has given the guidance of increase in the top line to the ₹1500 mn from ₹920 mn, this will gives us growth of 63% Y-o-Y.

## Valuation

At CMP of ₹130, Daichi is trading at 6.7x to its FY14 EPS. The company has given guidance for consolidated revenue of ₹2,100 mn for FY15E. Which may gives the EPS of ₹25.3/share. We recommend buy for this stock however we believe that, the FY15E EPS with 6.2 will gives Intrinsic value of ₹156/share which will give 20% upside from the current valuation.

## NOTES

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### Analyst Certification

The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report:

Name : Omkar Tanksale

Sector : Specialty Chemicals

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