

Current	Previous
CMP : Rs.23	
Reco : BUY	Reco : BUY
Target : Rs.34	Target : Rs.34

Below expectation performance; Maintain BUY with target price of Rs.34...

(Rs Mn)	Q3FY15	Q2FY15	Q3FY14	Q/Q %	Y/Y %	INSPL Est	Var %
Sales	3,039	3,827	2,931	-20.6%	3.7%	3,372	-9.9%
EBITDA	413	563	485	-26.6%	-14.8%	472	-12.5%
PAT	-45	251	179	-117.9%	-125.2%	202	-122.3%
EPS	-0.18	0.99	0.70	-117.9%	-125.2%	0.8	-122.1%

Source: Company Filings; IndiaNivesh Research

- MOL's Q3FY15 result was below our estimates on all fronts. Revenue went up 3.7% Y/Y to Rs.3,039 mn (v/s INSPL Est. Rs.3,372 mn). The revenue growth was driven by Basic Chemicals (16.8% Y/Y), Agrochemicals (11.6% Y/Y), and Pigment (+3.8% Y/Y) segments, partially offset by 55.3% Y/Y decline in other segment revenue.

Segment Performance (Rs Mn)	Q3FY15 As % of Rev	Q3FY14	Q2FY15	Q3FY15	Q/Q %	Y/Y %	9MFY15	9MFY14	Y/Y %
Pigment	35%	1,019	1,091	1,058	-3.0%	3.8%	3,268	2,917	12.0%
Agrochemicals	35%	957	1,528	1,068	-30.1%	11.6%	3,598	3,063	17.5%
Basic Chemicals	26%	673	1,002	786	-21.6%	16.8%	2,643	2,005	31.8%
Other/Unallocated	11%	475	447	343	-23.2%	-27.8%	1,131	1,313	-13.8%
Less: Intersegment	7%	194	241	217	-9.9%	12.0%	648	548	18.4%
Total	100%	2,931	3,826	3,039	-20.6%	3.7%	9,992	8,751	14.2%

Source: Company Filings; IndiaNivesh Research

- During the quarter, EBITDA went down 14.8% Y/Y to Rs.413 mn (v/s INSPL est: Rs.472 mn) on account of lower revenue base. EBITDA margin contracted 290 bps Y/Y to 13.6% (v/s INSPL est. 14.0%) led by lower utilization in newly commencement (brow-field expansion) basic chemical plant. EBIT margin contracted 189 bps Y/Y to 7.3% led by Basic Chemical (down 1104 bps), partially offset by 102/125 bps Y/Y expansion in Pigments and Agrochemicals business.

Segment Performance (Rs Mn)	Q3FY14	Q2FY15	Q3FY15	Q/Q %	Y/Y %	9MFY15	9MFY14	Y/Y %
Segment Profit/(Loss) Before Taxes	281	206	126	-38.8%	-55.3%			
Pigment	58	72	71	-1.0%	22.5%	190	348	-45.4%
Agrochemicals	82	129	105	-18.4%	28.0%	318	184	72.6%
Basic Chemicals	134	209	70	-66.6%	-47.9%	470	440	6.8%
Other/Unallocated	-10	-23	-11	-52.6%	8.9%	-54	-10	425.2%
Total	264	386	235	-39.2%	-11.1%	924	962	-4.0%
				BPS				BPS
Pigment	5.7%	6.6%	6.7%	14	102	5.8%	11.9%	-611
Agrochemicals	8.6%	8.4%	9.8%	140	125	8.8%	6.0%	282
Basic Chemicals	19.9%	20.9%	8.9%	-1,197	-1,104	17.8%	21.9%	-415
Other/Unallocated	-2.1%	-5.2%	-3.2%	198	-108	-4.8%	-0.8%	-400
Total	9.0%	10.1%	7.7%	-236	-128	9.2%	11.0%	-175

Source: Company Filings; IndiaNivesh Research

- Depreciation during the quarter decreased to Rs.191 mn from Rs.215 mn in Q3FY14 on back change in depreciation policy from straight-line to written down method. The change in the depreciation was to comply with the new accounting standards. The company reported other income of Rs.7mn (v/s Rs.23 mn in Q3FY14). Interest expenditure during the quarter stood at Rs.211 mn (v/s Rs.131 mn in Q3FY14) due to the commencement of pigment plant

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(whose interest expenditure was earlier capitalized). Tax outgo was Rs.99 mn (v/s Rs.33 mn in Q3FY14) on account of higher deferred tax liability. During the quarter, the company reported the minority loss of Rs.36mn (v/s +Rs.50 mn in Q3FY14). The negative minority interest was due to the declaration of dividend by Meghmani Finechem Ltd (subsidiary-52%) in 9MFY15.

- Adjusting the deferred tax liability, Adj.PAT stood at Rs.54 mn (v/s Rs.212 mn in Q3FY14), which was below our estimate.
- The reasons for the below company average performance was – (1) shortfall in the revenue (Rs.414 mn), (2) Short-fall in EBITDA because of lower revenue (Rs.58 mn), (3) higher interest cost due to the commencement of Pigment plant (Rs.54 mn), and (4) Deferred Tax Exp. Of Rs. 99 mn.
- The management announced the interim dividend of Rs.0.40/share from MFL business.

Key Result Performance Highlights

Muted Revenue Performance...

The consolidated revenue growth of 3.7% Y/Y was well below our estimate. The key reasons for below estimate revenue growth was de-growth in other segment (down 55.3% Y/Y), partially offset by Pigments (+3.8% Y/Y), Agrochemical (+11.6% Y/Y), and Basic Chemicals (16.8% Y/Y). The key reason for high growth in Agro-Chemical Segment was due to strong domestic demand and rise in production, post the implementation of various pollution control equipment. Historically, MOL was not able to utilize its capacity to the maximum level due to interference of Pollution Control Board. On back of commencement of new facilities and favourable demand, revenue growth of Pigment and Basic Chemical business also looks favourable in long-run. We forecast revenue growth of 12%/13%/11% Y/Y in FY15E/FY16E/FY17E.

Revival in Agro-segment EBIT margin...

On back of strong plant utilization level the Agro-segment EBIT margin expanded 125 bps Y/Y to 9.8% (v/s 8.6% in Q3FY14). However, the utilization levels in Pigments remain down due to the commencement of new facility in Dahej SEZ during Q4FY14. We expect utilization level in Pigment business to improve going ahead once the new facility gets fully stabilized. Pigment EBIT also expanded 102 bps Y/Y to 6.7% (v/s 5.7% in Q3FY14). Management expects the peak utilization level for Pigment to be in the range of 65-67%. On account of brow-field expansion, decline Electro Chemical Unit (ECU) prices and maintenance shutdown the utilization level for basic chemical business came down, as a result EBIT contracted from 19.9% in Q3FY14 to 8.9% in Q3FY15. Management expect revival in the Basic Chemical EBIT margin during Q4FY15.

De-leveraging Balance Sheet Process Started...

The Company has invested Rs. 3,180 mn in creating additional capacities in all its businesses in last three years. The capex program for the same has been funded largely through borrowed funds. The company have now put in place a debt reduction plan whereby it aims to reduce long term debt by Rs.2,880 mn in three financial years till 2016-17. The debt repayment schedule are as follows: (1) FY15E – Rs.643 mn of debt repayment (Rs.500 mn already paid during the quarter), (2) FY16E – Rs.1323 mn, and (3) FY17E – Rs.919 mn. The management does not expect major capex from here on, except some debottlenecking capex for existing operations in some cases.

Valuations

At CMP of Rs.23, the stock is trading at EV/EBITDA multiple of 6.1x FY15E, 5.1x FY16E, and 4.1x FY17E estimates. In our view, the current valuations are significantly below 7.5x global peer average. On back of various available triggers (1) debt reduction, (2) margin expansion, (3) higher plant utilization, and (4) favourable business dynamics the stock is poised for re-rating. With revival in business cycle, we have assigned 5.7x EV/EBITDA multiple to arrive at FY17E based price target of Rs.34/share. Given the huge upside, we maintain BUY on the stock.

Income Statement

Y E March (Rs m)	FY13	FY14	FY15e	FY16e	FY17e
Net sales	10,585	11,783	13,314	15,057	16,667
Y/Y Ch %	-0.4	11.3	13.0	13.1	10.7
COGS	6,642	7,495	8,620	9,653	10,468
SG&A	2,091	2,329	2,636	3,042	3,450
EBITDA	1,852	1,959	2,058	2,363	2,749
Y/Y Ch %	17.1	5.8	5.1	14.8	16.3
EBITDA Margin %	17.5	16.6	15.5	15.7	16.5
Interest	643	676	618	537	456
Depreciation	751	802	720	767	795
EBIT	458	480	720	1,059	1,498
EBIT Margin %	4.3	4.1	5.4	7.0	9.0
Other Income (Inc Forex)	133	61	23	23	23
Extra Ordinary Exps/(Income)	9	5	-	-	-
PBT	582	537	743	1,082	1,521
Tax	299	181	248	361	508
Effective tax rate %	51.4	33.7	33.4	33.4	33.4
Reported PAT	283	356	495	720	1,013
Y/Y Ch %	699.7	25.7	39.1	45.6	40.6
Minority & Exceptional	111	127	137	147	157
Adj. PAT (APAT)	172	229	358	573	856
RPAT Margin %	1.6	1.9	2.7	3.8	5.1
Y/Y Ch %	392.3	32.9	56.2	60.3	49.3

Source: Company filings; IndiaNivesh Research

Balance Sheet

Y E March (Rs m)	FY13	FY14	FY15e	FY16e	FY17e
Share Capital	254	254	254	254	254
Reserves & Surplus	4,766	4,927	5,231	5,703	6,406
Net Worth	5,020	5,181	5,485	5,957	6,660
Minority	797	924	1061	1208	1365
Long-term + ST loans	6376	7495	6852	5952	5052
Others	310	431	431	431	431
Total Liabilities	12,502	14,031	13,829	13,547	13,508
Gross Block	11,382	12,395	13,195	13,650	14,050
Less Depreciation	3,638	4,382	5,088	5,840	6,618
Net Block	7,744	8,013	8,107	7,809	7,431
Intangible	137	141	127	112	95
Investments	651	658	658	658	658
Deferred tax (net)	-202	-370	-370	-370	-370
Current Assets	6,871	7,823	7,942	8,517	9,296
Sundry Debtors	3,393	3,523	3,939	4,331	4,795
Cash & Bank Balance	339	373	462	213	103
Loans & advances	1,327	1,431	1,611	1,822	2,017
Inventories	1,811	2,496	1,930	2,151	2,381
Current Liabilities	1,462	1,736	1,970	2,351	2,603
Provisions	1,235	498	666	828	1,000
Net Current Assets	4,173	5,589	5,307	5,338	5,693
Total assets	12,502	14,031	13,829	13,547	13,508

Source: Company filings; IndiaNivesh Research

Cash Flow

Y E March (Rs m)	FY13	FY14	FY15e	FY16e	FY17e
Operating Profit	1,101	1,156	1,338	1,596	1,954
Depreciation	751	802	720	767	795
Interest Exp	-643	-676	-618	-537	-456
Changes in Working Capital	526	-1,098	371	-280	-465
Cash Flow After Chang in WCapital	1,735	185	1,811	1,545	1,828
Tax	-299	-181	-248	-361	-508
Others	133	61	23	23	23
Cash flow from operations	1,569	65	1,586	1,207	1,343
Capital expenditure (net)	-1,473	-1,083	-800	-455	-400
Free Cash Flow	96	-1,018	786	752	943
Other income	0	0	0	0	0
Investments	0	0	0	0	0
Cash flow from investments	-1,473	-1,083	-800	-455	-400
Long-Term Debt (Decrease) Increase	-594	1,120	-643	-900	-900
Dividend paid (incl tax)	-29	-30	-53	-102	-153
Share Issue / Repurchase & Others	236	-39	0	0	0
Cash flow from Financing	-387	1,052	-696	-1,002	-1,053
Net change in cash	-292	34	90	-250	-109
Cash at the beginning of the year	630	339	373	462	213
Cash at the end of the year	339	373	462	213	103

Source: Company filings; IndiaNivesh Research

Key Ratios

Y E March	FY13	FY14	FY15e	FY16e	FY17e
Adj. EPS (Rs)	0.7	0.9	1.4	2.3	3.4
Cash EPS (Rs)	3.6	4.1	4.2	5.3	6.5
DPS (Rs)	0.1	0.1	0.2	0.4	0.6
BVPS	19.7	20.4	21.6	23.4	26.2
ROCE %	9.7	9.1	10.8	13.4	16.7
ROE %	3.4	4.4	6.5	9.6	12.9
ROIC %	1.1	1.4	2.2	3.5	5.2
EBITDA Margin %	17.5	16.6	15.5	15.7	16.5
PER (x)	36.9x	27.1x	17.4x	10.8x	7.3x
P/BV (x)	1.2x	1.2x	1.1x	1.0x	0.9x
P/CEPS (x)	6.7x	6.0x	5.8x	4.6x	3.8x
EV/EBITDA (x)	6.6x	6.8x	6.1x	5.1x	4.1x
Dividend Yield %	0.5	0.4	0.9	1.6	2.5
m cap/sales (x)	0.6x	0.5x	0.5x	0.4x	0.4x
net debt/equity (x)	1.2x	1.4x	1.2x	1.0x	0.7x
net debt/ebitda (x)	3.3x	3.6x	3.1x	2.4x	1.8x
Debtors (Days)	115	108	108	105	105
Creditors (Days)	50	53	54	57	57
Inventory (Days)	62	77	53	52	52
Cash Conversion Cycle (Days)	128	132	107	100	100

Source: Company filings; IndiaNivesh Research