



## Bodal Chemicals

Date: 10-05-2018

**Current Market Price:** 116.65

**Target Price:** 180

The current key focus of this report is thematic investment on a speciality chemicals. Thionyl chloride is the component which is used to produce Vinyl Sulphone.<sup>1</sup> China is the largest producer of dyes intermediates (used for dyes production), disperse dyes (end use in polyester textile segment) and azo dyes. Cheaper imports from China and competition within domestic manufacturers had impacted the profitability of Indian players till FY2013.

### Chinese Factory Shutdown and VS Cycle -

Then came environmental claws on those segment and it followed with several Chinese factory shutdown giving a global supply demand imbalance. It gave Indian companies like Bodal Chemicals and Kiri Industries a huge push in export sales to fill up the demand created by absence of chinese market.<sup>2</sup>

The price of VS (Vinyl Sulphone) spiked up. As Bodal Chemicals and Kiri Industries (Well, Atul Limited too.) produce VS and the costing of raw material haven't increased by huge margin. So the profit margin widens.

Then, Chinese market rebounded. Factories opened back. But EBITDA (Earnings before interest, taxes, depreciation, and amortization) stayed consistent rather than falling as showing that the clients didn't sway back.

So the stock is cyclic and can not be held for long term. Well there are companies like Vedanta who are also commodity stocks but generated huge returns for investors. This industry grows by CAGR of 8% which is not sufficient for our investment rules. It is not crash proof either.

### The Investment on Kiri Industries -

In Unofficed, We had bought Kiri Industries at 13th April 2017 earlier as you can see here based on the Chinese Factory Shutdown impact and undervaluation of Kiri Industries that time -

<https://www.tradingview.com/chart/KIRIINDUS/2kCwsjwB-Kiri-Industries-Core-Satellite-Approach/>

As you can see, we bought Kiri around 270 and the current price is around 593. But here goes the chart of Bodal Chemicals in the meantime -



The question is why it fell and why Kiri rose up and sustained?

### CapEx on Expansion -

It is because the last year the complete focus of Bodal Chemicals this last year is on expansion of Trion Chloride. It is around 300% expansion and likely to be operative in the next few months. When the news of expansion came into the market, it immediately discounted and mean-reverted.

But the interesting part is Bodal Chemicals didn't kill their accounts for the expenses of this expansion. QIPs were there and hence their cash flow is very rich right now.

### Kiri Industries Vs Bodal Chemicals -

- Now the flag around Kiri is they are not paying out tax and the part on taxation is not clear.
- The good part around Kiri is their PE is lower than Bodal Chemicals.
- Also CMP/BV is more favorable towards Kiri.
- But Kiri Industries is looking like they are turning the business around. So it is a very volatile bet.

This personal trading diary is aimed towards members of Unofficed (<http://www.unofficed.com/>). These are our own personal investment rationale and are shared for educational purposes only..

- Promoter stake is increased in Kiri while it is decreased in Bodal Chemicals but BD has good increase on institutional investors.
- Kiri Industries don't favor dividends. BD has good dividend yield.

	Mar 2006	Mar 2010	Mar 2011	Mar 2012	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017	TTM
Sales	91.64	801.51	3,681.82	555.64	554.05	691.22	930.79	1,029.92	1,123.15	1080.32
Expenses	85.19	807.57	3,664.67	496.58	642.59	647.38	831.29	917.27	966.39	906.51
<b>Operating Profit</b>	<b>6.45</b>	<b>-6.06</b>	<b>17.15</b>	<b>59.06</b>	<b>-88.54</b>	<b>43.84</b>	<b>99.50</b>	<b>112.65</b>	<b>156.76</b>	<b>173.81</b>
OPM	7.04%	-0.76%	0.47%	10.63%	-15.98%	6.34%	10.69%	10.94%	13.96%	16.13%
Other Income	1.42	14.52	99.60	2.79	1.79	0.89	1.97	17.52	4.60	7.24
Interest	2.35	27.17	113.46	54.19	77.55	80.22	86.31	73.80	8.82	3.72
Depreciation	0.63	26.83	105.06	31.73	34.76	36.57	28.36	26.86	29.27	31.36
<b>Profit before tax</b>	<b>4.89</b>	<b>-45.54</b>	<b>-101.77</b>	<b>-24.09</b>	<b>-199.04</b>	<b>-72.04</b>	<b>-13.19</b>	<b>29.51</b>	<b>123.27</b>	<b>145.96</b>
Tax	0.38	11.44	-13.61	7.90	0.48	0.64	2.93	3.84	13.04	21.39
<b>Net Profit</b>	<b>4.51</b>	<b>-57.05</b>	<b>-88.16</b>	<b>-32.00</b>	<b>-199.53</b>	<b>9.91</b>	<b>181.52</b>	<b>195.71</b>	<b>266.35</b>	<b>292.84</b>
EPS (unadj)	4.66	0.00	0.00	0.00	0.00	5.22	79.88	73.71	95.66	
Dividend Payout	105.60%	-3.94%	-3.23%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	%

### Annual Consolidated Figures of Kiri Industries

	Mar 2006	Mar 2007	Mar 2008	Mar 2009	Mar 2010	Mar 2011	Mar 2012	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017	TTM
Sales	146.81	254.17	404.88	395.49	467.55	571.32	603.35	523.83	959.50	1,045.31	909.79	1,184.14	1129.09
Expenses	NaN	NaN	374.03	400.75	433.89	510.85	598.73	502.97	844.23	861.04	759.85	963.83	925.04
<b>Operating Profit</b>	<b>NaN</b>	<b>NaN</b>	<b>30.85</b>	<b>-5.26</b>	<b>33.66</b>	<b>60.47</b>	<b>4.62</b>	<b>20.86</b>	<b>115.27</b>	<b>184.27</b>	<b>149.94</b>	<b>220.31</b>	<b>204.05</b>
OPM	NaN%	NaN%	7.62%	-1.33%	7.20%	10.58%	0.77%	3.98%	12.01%	17.63%	16.48%	18.61%	18.08%
Other Income	6.32	3.97	11.15	9.62	19.06	1.10	6.53	3.89	3.71	4.72	19.91	11.62	13.88
Interest	1.42	3.37	8.97	13.03	20.19	22.63	33.81	39.19	46.64	27.28	12.20	6.63	5.14
Depreciation	1.62	1.84	6.32	8.33	12.13	13.80	16.00	16.43	25.25	22.25	25.78	25.85	25.86
<b>Profit before tax</b>	<b>4.87</b>	<b>13.01</b>	<b>26.71</b>	<b>-17.00</b>	<b>20.40</b>	<b>25.14</b>	<b>-38.66</b>	<b>-30.86</b>	<b>47.09</b>	<b>139.46</b>	<b>131.86</b>	<b>199.44</b>	<b>186.94</b>
Tax	2.43	1.84	9.26	-5.86	6.94	8.38	-10.34	-9.74	16.43	47.44	45.26	70.82	66.94
<b>Net Profit</b>	<b>2.44</b>	<b>11.17</b>	<b>17.45</b>	<b>-11.14</b>	<b>13.46</b>	<b>16.76</b>	<b>-28.32</b>	<b>-21.12</b>	<b>30.65</b>	<b>92.02</b>	<b>86.60</b>	<b>128.61</b>	<b>120.02</b>
EPS (unadj)	7.13	9.87	15.87	0.00	6.32	1.60	0.00	0.00	2.81	8.43	7.82	11.73	
Dividend Payout	13.73%	23.28%	14.90%	0.00%	39.92%	32.06%	0.00%	0.00%	0.00%	0.00%	7.56%	6.79%	%

### Annual Consolidated Figures of Bodal Chemicals

One can clearly see that management of Bodal Chemicals is very much efficient than Kiri Industries and they are volatility averse.

### Current Rationale of Buying Bodal Chemicals -

1. The raw material price is down and is likely to mean revert and it will affect the company positively.

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2. Crude is up. It negatively affects the company and its discounted.
3. USDINR is up. It negatively affects the company and its discounted. USDINR affects 30%. As exports accounts for 30% sales.

Now all three are cyclic and likely to mean reverse. Even if it doesn't market has already discounted that part.

4. Capex Expansion. As said they are increasing their capacity. Demand is high. So sales will be higher anyways. Even the demand is not high, there are lots of derivatives of that product which makes it so risk averse.
5. There are two things that makes money
  - a. Dyes - Which we discussed.
  - b. Intermediates - Intermediates are some other chemicals which are mainly for domestic market. Dyes gets exported. Now the Intermediates is likely to expand in sales due to last govt affairs.
6. QIP in Oct 17, ICICI & Reliance got shares at price 172 which is much higher from current price and yesterday ICICI fund managers met with the management of Bodal Chemicals and they issued a positive note! We can expect more buying from institutional holdings.

#### Reference -

1. <https://www.moneycontrol.com/news/business/companies/what-risevinyl-sulphone-price-means-for-indian-dye-makers-964733.html>
2. <https://webcache.googleusercontent.com/search?q=cache:https://www.chemarc.com/content/stricter-regulatory-landscape/5a979da9a64f4346a9d2d19d>

Due to the volatility on the earnings, exposure to Kiri Industries is not recommended but one can have a small allocation in Kiri Industries as well. There is a slight chance the business can be a complete turn around in the new era of Modi Government's new schemes.

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