

# Bodal Chemicals Ltd.

## Subdued performance in Q3, weak demand pain persist

The company reported very subdued operational performance. Revenue de-grew by 44% YoY & 20% QoQ owing to very weak performance in the dyestuff, dye-intermediates businesses. Dye-intermediates business on YoY basis recorded dip of ~60% in revenue majorly led by both volumes & realization dip. Dyestuff business also dipped by 22% QoQ majorly led by volumes dip of 20% QoQ. Despite weak operational performance, Gross margins expanded by 60bps YoY & 644bps owing to pass on of higher RM prices & decline of some major raw material prices during the quarter. Chlor alkali business revenue dipped by 22.5% QoQ majorly because of realization & also shutdown of 3-4 weeks impacted bit of volumes. This business is expected to rebound as company has completed its technological upgradation which will support volume growth going ahead which is a positive and greenfield expansion of benzene derivatives will drive the growth beyond FY24E. The legacy business dye-intermediates and dyestuffs continue to witness volatility led by weak demand and excess supply and because of this the company is now foraying into newer businesses which would insulate itself from majorly depending on sectors like textiles, dyes etc. However, weak demand in legacy business will continue to weigh on the valuations, and therefore we downgrade to ACCUMULATE from earlier BUY rating on the stock.

### Weak demand of end user industries & recent issues in Turkey will slow the recovery

- The dye intermediates & dyestuffs business reported very weak operational performance because of weak offtake from key end user industries like textiles, dyes, pigments etc. Dyestuffs business has been majorly hit because of weak exports market.
- The global demand has also weakened owing to higher inventory & recent issue of Turkey earthquake will slow the recovery.
- We feel the pain in demand would be visible in coming quarter also and recovery should only be visible from Q1FY24 but meaningfully it should recover from H2FY24 which seems to be a long affair.

### Major subsidiaries continue to report profits, is a positive sign

- The Turkish subsidiary Sener Boya has reported revenue decline of 21% YoY to Rs556.5mn in 9MFY23. However, on the bottomline the business has reported profits of Rs68.6mn in 9MFY23 as compared with loss of Rs273.6mn in 9MFY23.
- Trion Chemicals reported revenues of Rs174mn in 9MFY23 despite weak volumes. The weak volumes was due to slow offtake in US market. But the major issues regarding hazardous application of TCCA in US market has been resolved and expected ramp up much faster in the coming quarters.

### Valuation

- The company's major end users are textiles, leather, dyes & pigments wherein demand had weakened significantly and is expected to remain weak for the coming quarters. Export market is also witnessing weak demand and pickup is anticipated by Q1FY24, also, recent turkey earthquake will again put exporters of textile dyes manufacturers in difficult times which will slow the recovery in demand.
- **We value the stock on PE multiple of 10x FY25E projections and arrive at a target price of Rs 69 per share which is a upside of ~5.4% from current levels.** Therefore, we downgrade to ACCUMULATE rating from earlier BUY rating on the stock.

Y/E Mar (Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Q3FY23E	Var(%)
Revenue	3,158	5,618	-43.8%	3,957	-20.2%	3657	(13.7)
Operating cost	2,912	4,935	-41.0%	3,637	-19.9%		
EBITDA	245	683	-64.1%	321	-23.5%		
EBITDA margin (%)	7.8%	12.2%	(439) bps	8.1%	(33) bps	311	(21.1)
Depreciation	139	116	20.3%	122	14.2%	8.5	(73) bps
Interest	101	92	9.5%	73	39.2%		
Other Income	22	66	-66.5%	17	29.1%		
Exceptional Items	0	187.91	NA	0	NA		
PBT	27	354	-92.3%	143	-80.9%		
Taxes paid	3	153	-98.0%	41	-92.4%		
Reported PAT	24.3	200.6	-87.9%	102.7	-76.4%		
Minority Interest	0	-43	NA	0	NA		
Consolidated PAT	24	244	-90.0%	103	-76.4%	101	(76.0)

Source: Company, SMIFS Research

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	PAT	YoY (%)	EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY21	12,264	-10.8	866	7.1	420	-51.2	3.4	4.4	4.2	19.8	13.4
FY22	20,506	67.2	2,196	10.7	1,218	190.0	9.9	11.9	8.9	11.1	8.7
FY23E	15,088	-26.4	1,313	8.7	361	-70.4	2.9	3.4	3.9	22.1	10.1
FY24E	16,563	9.8	1,562	9.4	496	37.4	4.0	4.5	4.6	16.1	9.3
FY25E	20,359	22.9	2,116	10.4	839	69.4	6.9	7.3	6.0	9.5	6.9

Source: Company, SMIFS Research Estimates



Rating: **ACCUMULATE** Upside: **5.4%**  
Current Price: **65** Target Price: **69**

### | Earlier recommendation

Previous Rating: BUY  
Previous Target Price | 95  
Source: SMIFS Research

### | Market data

Bloomberg: BODL: IN  
52-week H/L (Rs): 120/67  
Mcap (Rs bn/USD bn): 8.1/0.10  
Shares outstanding (mn): 122.3  
Free float: 39.9%  
Daily vol. (3M Avg.): 0.60mn  
Face Value (Rs): 2  
Group: NIFTY 500  
Source: Bloomberg, SMIFS Research

### | Shareholding pattern (%)

	Dec-22	Sept-22	Jun-22	Mar-22
Promoter	57.5	58.9	59.0	59.0
FII's	2.4	3.0	3.0	3.0
DII's	0.2	0.2	0.2	0.1
Public/others	39.9	37.9	37.8	37.9

Source: BSE

### | Price performance (%)\*

	1M	3M	12M	36M
NIFTY 50	-0.2	-2.2	6.5	48.0
NIFTY 500	-2.5	-4.4	3.9	50.3
Bodal Chemical	-10.9	-15.9	-35.7	-16.3

\*as on 14<sup>th</sup> Feb 2023; Source: AceEquity, SMIFS Research

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## Analyst Call Highlights

- **Demand outlook:** Demand during the quarter was very weak because of de-stocking of inventories & re-opening of China leading to higher imports thereby impacting local manufacturers. Major end user industries of the company like textiles, dyes, pigments etc demand has slowed down considerably, however we still feel there is more pain in demand pickup because of weak global cues. The recent issue of earthquake in Turkey has caused damage to the infrastructure and logistics network in the port of Iskenderun in turkey wherein majority of Indian merchandise, textile dyes used to be exported. We feel this will slow the recovery in textile dyes if any which was visible in the coming quarters.
- **Dyestuff business update:** The Dyestuff business has shown weak performance declining by 22% QoQ. Dyestuff is majorly used in textiles, pigments, leather etc and since exports markets like US, Europe & China were weak, Bodal reported weak volumes declining by 20% QoQ. Dyestuff is also exported to countries like US, Europe, China etc.
- **Diversification in benzene derivatives:** The company is undergoing a greenfield expansion into benzene downstream products having capacity of 63,000 TPA and expansion of sulphuric acid & derivatives having capacity of 3,40,000 TPA at Saykha GIDC, Bharuch, Gujarat. Management believes these products will open new growth areas for the company. The company expect to complete the project by Q4FY24. Trial runs to start by Q2FY24. Total cost of the project including one-time infrastructure cost will be around Rs4bn. In the business, the company would be producing PNCB & ONCB. The major end users of these products are primarily in pharmaceuticals and agrochemicals. As a part of the project review, further downstream derivatives of PNCB & ONCB like MPDSA, PNA, 2,4 DNCB is currently kept on hold.
- **Chlor Alkali business update:** The chlor alkali business reported weak revenue performance owing to normalization of realization, with decline of 22.5% to Rs627mn in Q3FY23. The company has completed the upgradation of the plant replacing old electrolyzers, infrastructure & have increased the chlor alkali complex capacity by another 16,500 TPA and this will support volume growth going ahead. Production was halted for 3 to 4 week due to the implementation of technology upgradation. Going ahead, management is confident that the business will pickup very fast as caustic soda has multiple end user industries which will support growth going ahead.
- **Raw Material:** In the overall raw materials mix, the company procures 4-5% from China. Thus, company is immune to any disruption in supply chain from China and will not have impact on the company raw material sourcing. Major raw material required by the company is Napthalene, Aniline, J-Acid, Tobias Acid, Cyanuric Acid etc.

## Valuation and Recommendations

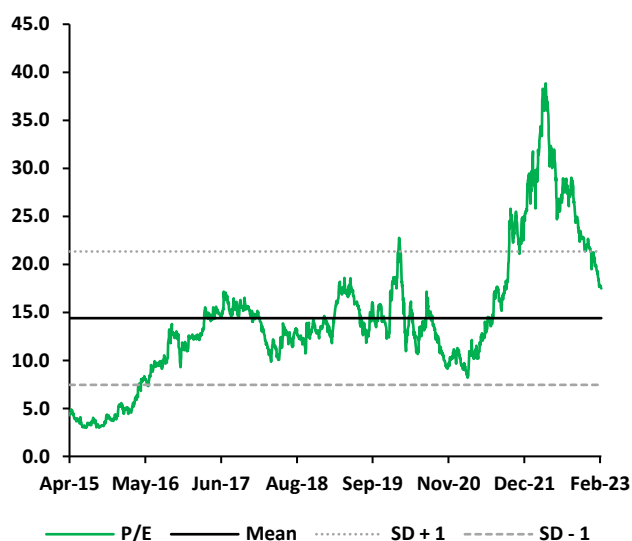
The company's major end users are textiles, leather, dyes & pigments wherein demand had weakened significantly and is expected to remain weak for the coming quarters. Export market is also witnessing weak demand and pickup is anticipated by Q1FY24, also, recent turkey earthquake will again put exporters of textile dyes manufacturers in difficult times which will slow the recovery in demand.

**We value the stock on PE multiple of 10x FY25E projections and arrive at a target price of Rs 69 per share which is a upside of ~5.4% from current levels.**

Therefore, we downgrade to **ACCUMULATE** rating from earlier BUY rating on the stock.

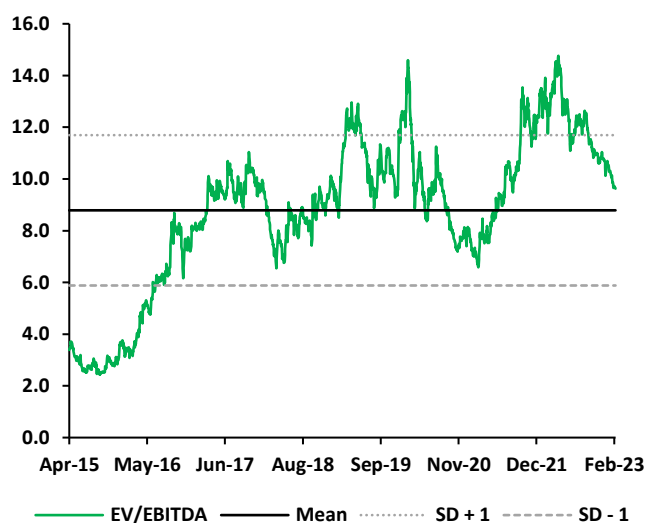
Risk to our call is unforeseen impact on the demand and sharp decline in spread.

**Fig 1: 1-year forward P/E**



Source: AceEquity, SMIFS Research

**Fig 2: 1-year forward EV/EBITDA**



Source: AceEquity, SMIFS Research

**Fig 3: Change in Estimates**

	New Estimates			Old Estimates			Change(%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	15088	16563	20359	19276	21968	25002	-22%	-25%	-19%
EBITDA	1313	1562	2116	1770	2204	2657	-26%	-29%	-20%
EBITDA Margin	8.7%	9.4%	10.4%	9.2%	10.0%	10.6%	(48) bps	(60) bps	(23) bps
PAT	361	496	839	759	923	1269	-52%	-46%	-34%
EPS (Rs)	2.9	4.0	6.9	6.5	8.0	11.0	-55%	-49%	-38%

Source: Company, SMIFS Research Estimates

## Quarterly financials, operating metrics and key performance indicators

**Fig 4: Quarterly Financials**

Y/E March (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
<b>Net Sales</b>	<b>4,327</b>	<b>4,218</b>	<b>4,697</b>	<b>5,618</b>	<b>5,973</b>	<b>4,590</b>	<b>3,957</b>	<b>3,158</b>
Raw Materials	2,695	2,257	2,674	3,091	3,508	2,599	2,408	1,717
Employee Costs	189	240	284	292	288	284	249	192
Other Expenditure	982	1233	1253	1552	1639	1209	980	1003
<b>EBITDA</b>	<b>462</b>	<b>489</b>	<b>486</b>	<b>683</b>	<b>538</b>	<b>498</b>	<b>321</b>	<b>245</b>
Other Income	-1	64	18	66	26	38	17	22
Depreciation	78	115	116	116	119	123	122	139
<b>EBIT</b>	<b>383</b>	<b>438</b>	<b>387</b>	<b>634</b>	<b>444</b>	<b>413</b>	<b>216</b>	<b>128</b>
Interest	58	75	63	92	64	121	73	101
Exceptional Items	0	0	0	-188	0	0	0	0
<b>PBT</b>	<b>325</b>	<b>363</b>	<b>324</b>	<b>354</b>	<b>380</b>	<b>292</b>	<b>143</b>	<b>27</b>
Tax	107	88	101	153	92	67	41	3
<i>Tax rate (%)</i>	<i>33.1</i>	<i>24.2</i>	<i>31.3</i>	<i>43.3</i>	<i>24.1</i>	<i>22.8</i>	<i>28.3</i>	<i>11.3</i>
<b>PAT</b>	<b>217</b>	<b>275</b>	<b>222</b>	<b>201</b>	<b>288</b>	<b>225</b>	<b>103</b>	<b>24</b>
Share of Associate	0	0	0	0	0	0	0	0
Minority Interest	18	11	6	43	20	0	0	0
<b>Adjusted PAT</b>	<b>236</b>	<b>286</b>	<b>228</b>	<b>384</b>	<b>309</b>	<b>225</b>	<b>103</b>	<b>24</b>
<b>Y-o-Y Growth (%)</b>								
Revenue	17.4	258.0	51.6	53.4	38.0	8.8	-15.7	-43.8
EBITDA	15.6	-333.4	113.6	76.9	16.5	1.9	-34.0	-64.1
Adj PAT	2.9	-245.0	117.2	-8.3	31.0	-16.5	-59.3	-90.0
<b>Q-o-Q Growth (%)</b>								
Revenue	18.2	-2.5	11.4	19.6	6.3	-23.2	-13.8	-20.2
EBITDA	19.5	5.9	-0.7	40.7	-21.3	-7.4	-35.7	-23.5
Adj PAT	-11.1	21.3	-20.1	68.2	-19.6	-27.0	-54.4	-76.4
<b>Margin (%)</b>								
RMC / Revneue (%)	62.3	53.5	56.9	55.0	58.7	56.6	60.8	54.4
Gross Profit (%)	37.7	46.5	43.1	45.0	41.3	43.4	39.2	45.6
Employ cost as a % of sal	4.4	5.7	6.1	5.2	4.8	6.2	6.3	6.1
Other exp as a % of sales	22.7	29.2	26.7	27.6	27.4	26.3	24.8	31.8
EBITDA margin (%)	10.7	11.6	10.3	12.2	9.0	10.9	8.1	7.8
Adj PAT Margin (%)	5.4	6.8	4.9	6.8	5.2	4.9	2.6	0.8
<b>Operational Metrics (in MT)</b>								
Basic Chemicals	35212	57412	59823	48581	50269	51594	48392	33273
Dyestuff	5133	3836	5682	6155	4385	3993	3833	3051
Dye Intermediates	7061	6070	6067	6680	7168	3442	2235	4215
Chlor Alkali <sup>^</sup>	0	18928	18875	20400	21530	21299	17236	17159
TCCA	706	710	209	351	0	299	293	134

Source: Company, SMIFS Research

**Fig 5: Key Assumptions of Revenue**

Y/E March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Dye- Intermediates</b>	<b>4729</b>	<b>4589</b>	<b>7354</b>	<b>3572</b>	<b>3890</b>	<b>4150</b>
YoY Change (%)	-27.7	-3.0	60.3	-51.4	8.9	6.7
<b>Dyestuffs</b>	<b>5335</b>	<b>3993</b>	<b>6995</b>	<b>5493</b>	<b>6579</b>	<b>7620</b>
YoY Change (%)	11.0	-25.2	75.2	-21.5	19.8	15.8
<b>Basic Chemicals</b>	<b>1334</b>	<b>1269</b>	<b>1955</b>	<b>1689</b>	<b>1775</b>	<b>1952</b>
YoY Change (%)	-16.7	-4.8	54.1	-13.6	5.1	9.9
<b>Chlor Alkali</b>	<b>0</b>	<b>0</b>	<b>2540</b>	<b>3057</b>	<b>3114</b>	<b>3292</b>
YoY Change (%)				20.3	1.9	5.7

Source: Company, SMIFS Research Estimates

## Financial Statements

Income Statement					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Revenues</b>	<b>12,264</b>	<b>20,506</b>	<b>15,088</b>	<b>16,563</b>	<b>20,359</b>
Raw Materials	7,950	11,530	8,623	9,520	11,433
% of sales	64.8	56.2	57.2	57.5	56.2
Personnel	777	1,105	927	1,009	1,109
% of sales	6.3	5.4	6.1	6.1	5.4
Other Expenses	2,671	5,676	4,225	4,472	5,700
% of sales	21.8	27.7	28.0	27.0	28.0
<b>EBITDA</b>	<b>866</b>	<b>2,196</b>	<b>1,313</b>	<b>1,562</b>	<b>2,116</b>
Other Income	159	173	106	166	204
Depreciation & Amortization	305	466	518	592	765
<b>EBIT</b>	<b>720</b>	<b>1,903</b>	<b>901</b>	<b>1,136</b>	<b>1,555</b>
Finance cost	166	295	439	504	485
<b>Core PBT</b>	<b>394</b>	<b>1,435</b>	<b>356</b>	<b>466</b>	<b>866</b>
Exceptional items	0	188	0	0	0
<b>PBT</b>	<b>554</b>	<b>1,420</b>	<b>462</b>	<b>632</b>	<b>1,070</b>
Tax-Total	156	434	120	164	278
Tax Rate (%) - Total	28.2	30.5	26.0	26.0	26.0
<b>PAT</b>	<b>398</b>	<b>987</b>	<b>342</b>	<b>468</b>	<b>792</b>
Minority Interest	22	90	19	28	48
<b>Adjusted PAT</b>	<b>420</b>	<b>1,218</b>	<b>361</b>	<b>496</b>	<b>839</b>

Source: Company, SMIFS Research Estimates

Key Ratios					
YE March	FY21	FY22	FY23E	FY24E	FY25E
<b>Growth Ratio (%)</b>					
Revenue	-10.8	67.2	-26.4	9.8	22.9
EBITDA	-37.1	153.6	-40.2	19.0	35.4
Adjusted PAT	-51.2	190.0	-70.4	37.4	69.4
<b>Margin Ratios (%)</b>					
Gross Profit	35.2	43.8	42.8	42.5	43.8
EBITDA	7.1	10.7	8.7	9.4	10.4
EBIT	5.9	9.3	6.0	6.9	7.6
Core PBT	3.2	7.0	2.4	2.8	4.3
Adjusted PAT	3.4	5.9	2.4	3.0	4.1
<b>Return Ratios (%)</b>					
ROE	4.4	11.9	3.4	4.5	7.3
ROCE	4.2	8.9	3.9	4.6	6.0
<b>Turnover Ratios (days)</b>					
Gross block turnover (x)	1.4	2.1	1.5	1.1	1.3
Adj OCF / Adj PAT (%)	-70.7	-35.3	1,032.5	107.3	5.7
Inventory	141	141	130	125	125
Debtors	139	105	90	95	100
Creditors	151	112	115	120	120
Cash conversion cycle	129	134	105	100	105
<b>Solvency Ratio (x)</b>					
Debt-equity	0.4	0.5	0.6	0.7	0.6
Net debt/equity	0.3	0.5	0.5	0.6	0.6
Gross debt/EBITDA	4.0	2.6	5.1	5.0	3.5
Current Ratio	2.4	2.6	2.6	2.5	2.4
Interest coverage ratio	4	6	2	2	3
<b>Dividend</b>					
DPS	0.8	0.8	1.0	1.0	1.0
Dividend Yield (%)	1.2	0.7	1.5	1.5	1.5
Dividend Payout (%)	23.3	8.0	34.0	24.7	14.6
<b>Per share (Rs)</b>					
Basic EPS (reported)	3.3	8.8	2.9	4.0	6.9
Adjusted EPS	3.4	9.9	2.9	4.0	6.9
CEPS	5.9	13.7	7.2	8.9	13.1
BVPS	80.5	85.9	87.8	90.9	96.9
<b>Valuation (x)*</b>					
Adj P/E	19.8	11.1	22.1	16.1	9.5
P/BV	0.8	1.3	0.7	0.7	0.7
EV/EBITDA	13.4	8.7	10.1	9.3	6.9
EV/Sales	0.9	0.9	0.9	0.9	0.7
Adj Mcap / Core PBT	20.7	9.3	18.2	14.5	8.3
Adj Mcap / Adj OCF	-27.5	-31.2	1.7	12.7	150.7

Source: Company, SMIFS Research Estimates

Balance Sheet					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Source of funds</b>					
Capital	245	245	245	245	245
Reserves & Surplus	9,616	10,279	10,458	10,831	11,548
<b>Shareholders' Fund</b>	<b>9,860</b>	<b>10,524</b>	<b>10,757</b>	<b>11,135</b>	<b>11,866</b>
<b>Total Loan Funds</b>	<b>3,467</b>	<b>5,757</b>	<b>6,757</b>	<b>7,757</b>	<b>7,457</b>
Other Non Current Liabilit	529	518	429	471	579
<b>Total Liabilities</b>	<b>13,856</b>	<b>16,798</b>	<b>17,943</b>	<b>19,363</b>	<b>19,901</b>
<b>Application of Funds</b>					
<b>Gross Block</b>	<b>9,044</b>	<b>9,621</b>	<b>10,351</b>	<b>14,801</b>	<b>15,301</b>
Net Block	7,877	8,011	8,224	12,082	11,817
Capital WIP	144	695	3,200	591	354
Investments	64	3	79	87	107
<b>Other Non Current Assets</b>	<b>760</b>	<b>1,206</b>	<b>929</b>	<b>1,004</b>	<b>1,199</b>
Inventories	3,072	4,446	3,071	3,260	3,916
Sundry Debtors	4,677	5,896	3,720	4,311	5,578
Cash and Bank Balance	163	151	1,489	1,215	760
Other current assets	797	814	599	657	808
<b>Total Current Assets</b>	<b>8,709</b>	<b>11,308</b>	<b>8,879</b>	<b>9,443</b>	<b>11,061</b>
Sundry Creditors	3,291	3,541	2,717	3,130	3,759
Other current liabilities	407	884	650	714	878
<b>Total Current Liabilities</b>	<b>3,699</b>	<b>4,425</b>	<b>3,367</b>	<b>3,844</b>	<b>4,637</b>
<b>Net Current Assets</b>	<b>5,011</b>	<b>6,883</b>	<b>5,511</b>	<b>5,600</b>	<b>6,425</b>
<b>Total Assets</b>	<b>13,856</b>	<b>16,798</b>	<b>17,943</b>	<b>19,363</b>	<b>19,901</b>

Source: Company, SMIFS Research Estimates

Cash Flow					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Operating profit before WC changes</b>	<b>938</b>	<b>2,012</b>	<b>1,332</b>	<b>1,590</b>	<b>2,164</b>
Net changes in working capital	-970	-1,761	2,951	-390	-1,353
Taxes Paid	-98	-386	-120	-164	-278
<b>Cash flow from operating activities</b>	<b>-130</b>	<b>-135</b>	<b>4,163</b>	<b>1,036</b>	<b>532</b>
<b>Adj. OCF</b>	<b>-297</b>	<b>-430</b>	<b>3,724</b>	<b>532</b>	<b>48</b>
Capital expenditure	-1,781	-1,591	-3,235	-1,841	-264
Adj. FCF	-2,078	-2,021	489	-1,309	-216
<b>Cash flow from investing activities</b>	<b>-1,677</b>	<b>-1,703</b>	<b>-3,206</b>	<b>-1,683</b>	<b>-80</b>
Debt	1,951	2,205	1,000	1,000	-300
Dividend	0	-97	-122	-122	-122
Interest and lease	-170	-297	-439	-504	-485
<b>Cash flow from financing activities</b>	<b>1,781</b>	<b>1,812</b>	<b>438</b>	<b>373</b>	<b>-907</b>
<b>Net change in cash</b>	<b>-26</b>	<b>-26</b>	<b>1,396</b>	<b>-274</b>	<b>-455</b>

Source: Company, SMIFS Research Estimates

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