

Sigachi Industries Ltd.

India's leading microcrystalline cellulose manufacturer

BUY

23rd Jun. 2022

Incorporated in 1989, **Sigachi Industries Ltd.** (SIL) today is one of the largest global manufacturers of microcrystalline cellulose (MCC), which is primarily used as excipients in the pharma, food, nutraceuticals, and cosmetics products. MCC is the major revenue segment (contributing around 92% of the total revenue) of the company. SIL has an export-oriented business with 75% of its business derived from exporting goods to 47 countries across Asia, Australia, Americas, Europe, and the Middle East.

Investment rationale:

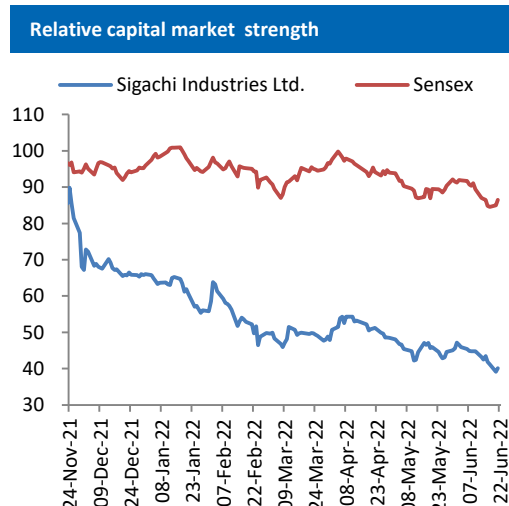
- Growth in the pharma sector to support the global MCC market:** MCC is a vital component, which is used in every form of oral dosage, including pellets, capsules, tablets, and sachets. Its wide applications across various oral dosage forms make MCC an economical non-active pharma ingredient for the pharma sector. Based on the end-use consumption data, the pharma sector accounts for about 40% of the total MCC market. Thus a steady growth in the pharma sector will provide direct support to the global MCC market, which is projected to cross USD 1.7bn by 2031, a growth of 5.3% CAGR over FY21-31. SIL being one of the largest global manufacturers will be the direct beneficiary from the growth in the MCC market.
- Improved adoption in food & beverages and cosmetic sector, to further push the MCC demand:** MCC is a natural refined wood pulp that has properties like non-toxic, renewable, biodegradable & biocompatible. In processed food products, it is used as a substitute for unhealthy fats and is applied across various food & beverages including desserts, frozen food, dairy products, and baked goods. In personal care products, MCC is an important component and is used for a variety of purposes like abrasive absorbent, emulsion stabilizer, slip modifier; and an aqueous viscosity increasing agent mainly for bath, hair, eye & facial makeup, skincare, and shaving products. With rising importance of nutritional & healthy consumptions, food & beverage products are expected to witness a healthy growth post-pandemic. In FY22, SIL generated around 25% and 20% of the business from the food & nutraceuticals and cosmetic products, respectively. Foreseeing a robust growth potential from the food & beverages category, the company is targeting to have around 30% of the business from this category.
- Global reach, another growth factor:** SIL generates around 75% of the business from overseas sales of its products. Its products are exported to customers in more than 47 countries. Through its quality products, the company has generated a long-standing market presence in the domestic as well as overseas market. Through its diversified & customized product offerings, SIL intends to further strengthen its position in the international markets. Moreover, higher global exposure resulted in higher realization for the company which has increased to Rs. 161kg as compared to Rs. 102 a few years back.
- Profitability will be lower but better than pre-pandemic period:** Demand for MCC from the pharma and cosmetic sector would be secular, while improved preference from the food & beverages post-pandemic is likely to increase the top-line of SIL by 16.9% CAGR (over FY22-24E) to Rs. 341.9cr in FY24E. We believe, FY22 profitability is not sustainable thus we are expecting a contraction in the margins but would be better than the pre-pandemic period. EBITDA and PAT margins are anticipated to contract by 124bps and 150bps over FY22-24E to 19.9% and 14.5%. Moreover, RoE is expected at 15.3% and 15.8%, respectively, in FY23E and FY24E.

Valuations: In Nov. 2021, SIL's stock got listed on the exchanges while trading at a peak price of around Rs. 650 per share. Since then on account of the sell-off in the global equity markets, the share price is in a downward trend. At CMP of Rs. 239.9, SIL's share is trading at FY24E P/E multiple of 15x, which seems to be attractive considering the growth and return profiles. Thus we assign a **"BUY"** rating on the stock with a target price of Rs. 322.3 per share.

Rating matrix	
CMP	Rs. 239.9
MCAP	Rs. 738cr
Face value	Rs. 10
Rating	BUY
Target price	Rs. 322.3
Upside potential	34%
Investment horizon	12-18 months
52 week H/L	Rs. 231.3 / 648
Category	Small cap
Sector	Chemicals

Shareholding pattern		
Particulars	Dec. 21	Mar. 22
Promoters	48.48%	48.48%
FPIs	1.42%	0.23%
DIIIs	4.7%	2.92%
Public	45.4%	48.37%

Consolidated financial snapshot (Rs. cr)					
Particulars	FY20	FY21	FY22	FY23E	FY24E
Revenue	139	193	250	271	342
EBITDA	25	39	53	56	68
EBITDA margin	17.8%	20.1%	21.2%	20.5%	19.9%
PAT	20	30	40	41	50
PAT margin	14.6%	15.7%	16.0%	15.0%	14.5%
EPS	26.4	39.4	13.0	13.2	16.1
RoE	31.5%	32.1%	17.6%	15.3%	15.8%
RoCE	38.3%	43.9%	30.2%	34.9%	38.3%
P / E				18.4	15.0
P / BVPS				2.8	2.4
EV / Sales				2.4	1.9
EV / EBITDA				11.9	9.4
P / S				2.7	2.2



Source: Choice Broking Research

Key risk and concerns:

- **Un-related diversification:** The company is in the business of crystalline cellulose. Recently, the management has indicated of making an investment to set up an ethanol plant. Considering the core business, this proposed venture is unrelated to the current operations.
- **Unfavorable forex movement:** SIL procures almost 100% raw material and generates around 75% of revenue from overseas markets. Thus any unfavorable change or volatility in the forex rates would be negative for the company.
- **Disruption in global supply-chain:** The recent Russia-Ukraine conflict has disturbed the global supply chain. Considering SIL's dependence on the overseas markets (for key raw materials and business), any disruption in the global trade would impact the operations and profitability of the company.
- **Delay in capacity expansion:** SIL is implementing an expansion plan, pursuant to which the installed capacity is likely to increase to 0.02mn tonnes from the existing 0.011mn tonnes. Apart from expanding the capacity, the company is likely to expand its product portfolio. Currently, it is operating the capacities at a blended utilization level of 93.3%. Thus delay in the proposed expansion will restrict the growth in the business.

Company overview: SIL is the manufacturer, exporter and, supplier of the MCC powder, filter aid cellulose, hydrochloric acid & chlorinated paraffin, etc. It is one of the leading manufacturers of MCC in India and a key manufacturer globally. The company has an installed manufacturing capacity of 0.011mn tonnes per annum with facilities spread across three plants in Telangana & Gujarat. SIL through a proposed expansion is likely to enhance the capacity to 0.020mn tonnes per annum in the medium term. It is also having an international presence through a wholly-owned subsidiary, Sigachi US Inc.

MCC is the major revenue segment (contributing around 92% to the revenue) of the company. The exports constitute about 75% of the total revenue in FY22. Owing to enhanced efforts to expand the global client base and product customization, export sales are on the increasing trend. SIL manufactures a wide range of MCC with grades ranging from 15-250 microns. The company also entered into various operational and management agreements with Gujarat Alkalies & Chemical Ltd. (GACL) for operating and managing the manufacturing units owned by GACL.

SIL has an in-house state-of-the-art R&D division to realize and explore the facets of cellulose-based excipients. The R&D division of the company is well-equipped with the all necessary facilities to carry out trials to develop new molecules from concept to commissioning. The laboratory at the R&D division has been approved and has received accreditation from the Department of Science and Industrial Research (DSIR). The company is planning for related diversification in croscarmellose sodium (CCS), which is cross-linked cellulose. Wood pulp will be the primary raw material for both (MCC and CCS).

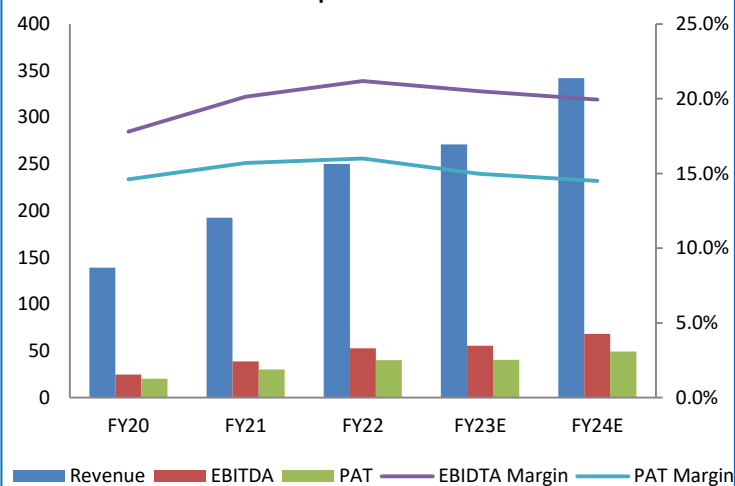
IPO proceeds utilization: Last year SIL raised Rs. 125.4cr through an IPO. The issue was priced between Rs. 161-163 per share. IPO comprised of only fresh issue, while the net proceeds are proposed to be utilized for expanding the MCC and establishing a new CCS facility. Below are the details of utilization of net IPO proceeds (as on 31st Mar. 2022):

Particulars	Amount to be funded from the net proceeds (Rs. cr)	Amount incurred till 31 st Mar. 2022 (Rs. cr)	Un-utilized amount (Rs. cr)
For expansion of production capacity for MCC at existing facility at Dahej, Gujarat	28.16	6.56	21.60
For expansion of production capacity for MCC at existing facility at Jhagadia, Gujarat	29.24	11.00	18.25
To manufacture CCS at the Proposed Unit	32.30	0.00	32.30
General Corporate Expenses	20.43	20.43	0.00
Total	110.13	37.98	72.14

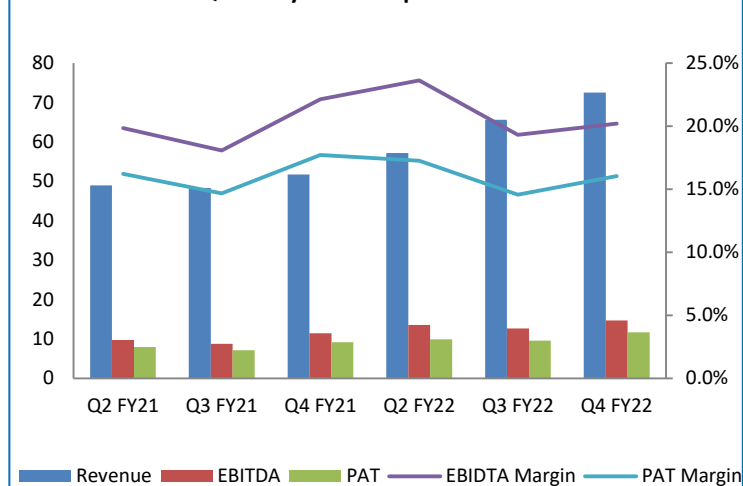
Source: Choice Broking Research

Company overview (Contd...):

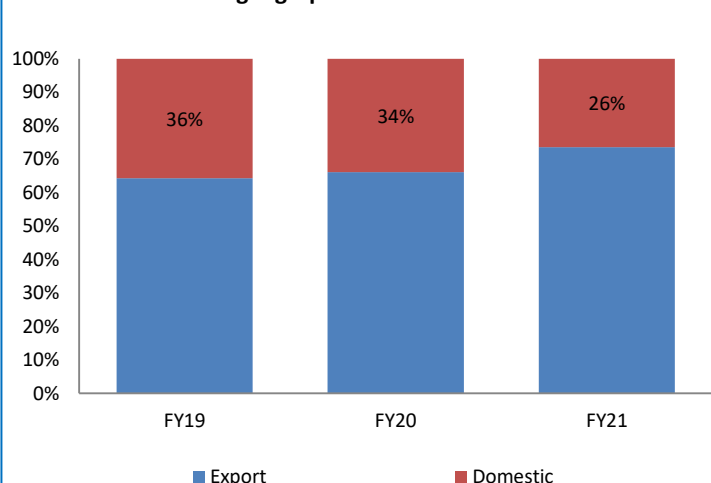
Annual financial performance



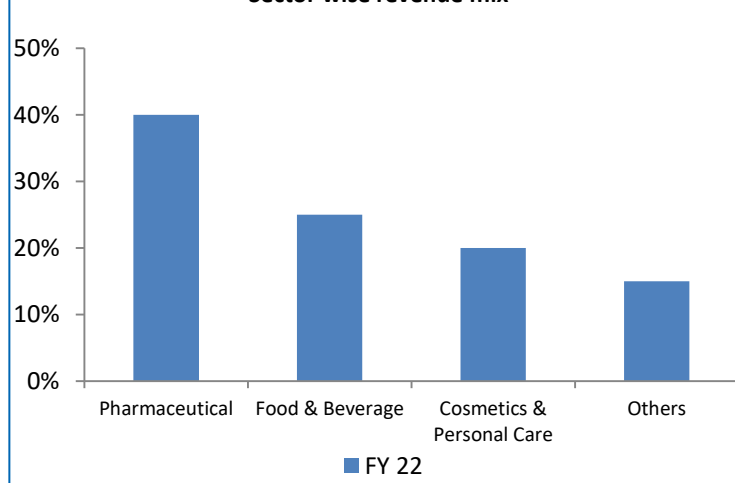
Quarterly financial performance



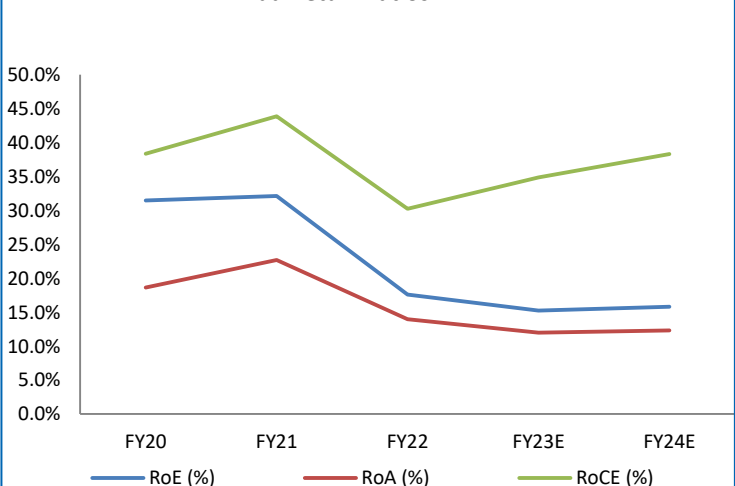
Annual geographical revenue-mix



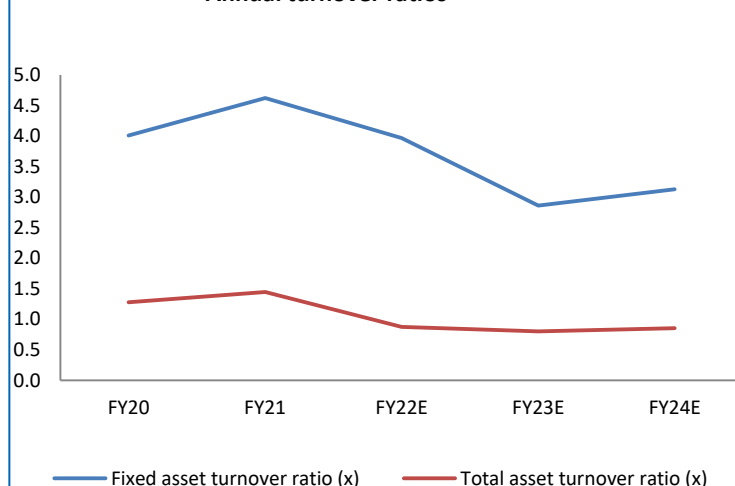
Sector wise revenue mix



Annual return ratios



Annual turnover ratios



Recent quarterly performance

Particulars (Rs. cr)	Q4 FY22	Q3 FY22	Q4 FY21	Q-o-Q (%)	Y-o-Y (%)	FY21	FY22	Y-o-Y (%)
Total operating revenue	72.6	65.6	51.7	10.6%	40.2%	192.8	250.3	29.8%
(Increase) / Decrease In Stocks	1.9	3.1	3.4	-38.5%	-44.0%			
Cost of Services & Raw Materials	(37.3)	(33.6)	(27.7)	11.2%	34.7%	(100.7)	(118.6)	17.7%
Gross profit	37.2	35.2	27.5	5.7%	35.3%	92.0	131.7	43.1%
Operating & Manufacturing Expenses	(16.9)	(18.3)	(12.0)	-7.5%	40.6%	(39.3)	(57.6)	46.5%
Employee Cost	(5.6)	(4.2)	(4.0)	32.6%	40.3%	(13.9)	(21.1)	51.3%
EBITDA	14.7	12.7	11.5	15.8%	28.0%	38.8	53.0	36.7%
Depreciation	(0.8)	(0.7)	(0.6)	8.1%	27.0%	(2.3)	(2.9)	25.7%
EBIT	13.9	11.9	10.8	16.3%	28.1%	36.5	50.1	37.4%
Finance costs	(0.5)	(0.3)	(0.2)	88.5%	133.3%	(1.3)	(1.2)	-6.4%
Other Income	1.7	0.5	0.7	226.4%	154.4%	3.3	2.6	-19.1%
PBT	15.1	12.2	11.3	23.9%	33.7%	38.5	51.6	34.1%
Tax expenses	(3.5)	(2.6)	(2.1)	31.6%	62.4%	(8.2)	(11.6)	40.6%
Reported PAT	11.6	9.6	9.2	21.8%	27.1%	30.3	40.0	32.3%
EPS	3.8	3.1	3.0	21.8%	27.1%	39.4	13.0	-66.9%
Gross margin	51.2%	53.6%	53.1%	(237) bps	(186) bps	47.7%	52.6%	487 bps
EBITDA margin	20.2%	19.3%	22.1%	91 bps	(193) bps	20.1%	21.2%	106 bps
PAT margin	16.0%	14.6%	17.7%	147 bps	(166) bps	15.7%	16.0%	29 bps

Segment Wise Revenue Details (%)					
Segment	FY 2019	FY 2020	FY 2021	Q2 FY20	Q2 FY21
MCC powder					
Export	58.6%	59.9%	67.3%	63.3%	65.8%
Domestic	33.2%	31.1%	24.7%	28.7%	25.9%
Other products					
Export	1.2%	1.4%	1.7%	1.3%	2.3%
Domestic	0.0%	0.2%	0.0%	0.0%	0.0%
Total revenue from sale of products	93.0%	92.6%	93.7%	93.3%	94.0%
Sale of the services	7.0%	7.4%	6.3%	6.7%	6.0%
Total Revenue	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Choice Broking Research

Q4 FY22 performance analysis: On account of higher MCC demand and better sales realization, SIL reported a 40.2% Y-o-Y rise in consolidated revenue to Rs. 72.6cr. Sequentially, the top-line increased by 10.6%. During the quarter, sales volume and realization increased by 13% and 19% Y-o-Y.

With the relatively higher cost of revenue (i.e. as a percent of top-line, the net cost of goods sold stood at 48.8% in Q4 FY22 as against 46.9% in Q4 FY21), gross profit margin contracted by 186bps Y-o-Y. EBITDA margin contracted in line with gross profit margin. However consolidated EBITDA increased 28% Y-o-Y to Rs 14.7cr in Q4 FY22.

Depreciation charge increased by 27% Y-o-Y, while finance costs increased by 133.3% Y-o-Y. Higher other income was partially compensated by a higher effective tax rate, thereby leading to a 27.1% Y-o-Y higher PAT (Rs 11.6cr). PAT margin contracted by 166bps Y-o-Y to be at 16% in Q4 FY22.

Over FY18-22: On the back of increased demand, higher sales realization, and augmented manufacturing capacity over FY18-22, SIL has reported a 25.6% CAGR rise in top-line to Rs 250.3cr in FY22. EBITDA and PAT increased by 45.8% and 55.1% CAGR, with respective margins of 21.2% and 16% in FY22.

Financial statements:

Consolidated profit and loss statement (Rs. cr)					
	FY20	FY21	FY22	FY23E	FY24E
Total operating revenue	139.1	192.8	250.3	271.1	341.9
Raw material consumed (Net)	(72.1)	(100.7)	(118.6)	(135.6)	(173.1)
Gross profit	67.0	92.0	131.7	135.6	168.8
Employee cost	(11.7)	(13.9)	(21.1)	(21.5)	(27.3)
Other expenses	(30.5)	(39.3)	(57.6)	(58.5)	(73.3)
EBITDA	24.8	38.8	53.0	55.6	68.2
Depreciation charges	(2.0)	(2.3)	(2.9)	(3.5)	(4.3)
EBIT	22.8	36.5	50.1	52.1	63.9
Finance cost	(2.3)	(1.3)	(1.2)	(1.5)	(1.8)
Other income	4.9	3.3	2.6	3.7	4.1
PBT	25.4	38.5	51.6	54.3	66.2
Tax expenses	(5.0)	(8.2)	(11.6)	(13.7)	(16.7)
Reported PAT	20.3	30.3	40.0	40.6	49.5
Consolidated balance sheet statement (Rs. cr)					
	FY20	FY21	FY22	FY23E	FY24E
Share capital	7.7	7.7	30.7	30.7	30.7
Other equity	56.9	86.5	197.0	235.3	282.6
Deferred tax liabilities	2.9	4.4	5.4	5.8	7.3
Long term provisions	0.7	0.8	0.9	1.2	1.5
Long term borrowings	1.9	1.9	1.2	2.6	3.2
Short term borrowings	27.0	18.3	33.1	40.2	48.7
Trade payables	7.2	8.0	11.2	14.6	17.5
Short term provisions	0.1	0.9	1.3	0.9	1.5
Other current liabilities	4.7	5.1	5.9	7.6	8.8
Total Liabilities	109.1	133.4	286.8	338.9	401.8
Net block	31.6	38.0	53.4	67.8	95.7
Capital work in progress	3.1	3.7	9.7	27.1	13.6
Non current investments	0.0	0.2	0.2	0.2	0.2
Long term loans & advances	2.4	4.4	43.7	13.0	2.3
Cash and bank balance	10.6	18.0	69.4	126.3	158.6
Inventories	27.9	21.2	30.4	37.2	47.6
Sundry debtors	27.6	35.8	60.1	50.6	62.1
Short term loans and advances	3.3	6.4	7.1	8.3	10.5
Other current assets	2.6	5.7	12.8	8.5	11.3
Total assets	109.1	133.4	286.8	338.9	401.8
Consolidated cash flow statement (Rs. cr)					
	FY20	FY21	FY22	FY23E	FY24E
Cash flow before working capital changes	29.4	42.0	54.4	59.3	72.3
Working capital changes	(12.4)	(5.8)	(39.9)	36.6	(16.3)
Cash flow from operating activities	12.1	29.6	5.9	87.6	45.8
Purchase and construction of property, plant and equipment	(5.9)	(9.3)	(24.3)	(31.8)	(14.4)
Cash flow from investing activities	(6.8)	(11.4)	(62.9)	(35.3)	(18.7)
Cash flow from financing activities	3.1	(10.7)	108.4	4.6	5.1
Net cash flow	8.5	7.4	51.4	57.0	32.3
Opening balance of cash	2.1	10.6	18.0	69.4	126.3
Closing balance of cash	10.6	18.0	69.4	126.3	158.6

Source: Choice Equity Broking

Financial statements (Contd...):

Consolidated financial ratios					
Particulars (Rs. mn)	FY20	FY21	FY22	FY23E	FY24E
Revenue growth rate (%)	7.8%	38.6%	29.8%	8.3%	26.1%
Gross profit growth rate (%)	7.5%	37.4%	43.1%	2.9%	24.5%
Gross profit margin (%)	48.2%	47.7%	52.6%	50.0%	49.4%
EBITDA growth rate (%)	-4.7%	56.7%	36.7%	4.7%	22.8%
EBITDA margin (%)	17.8%	20.1%	21.2%	20.5%	19.9%
EBIT growth rate (%)	-6.2%	60.0%	37.4%	3.8%	22.7%
EBIT margin (%)	16.4%	18.9%	20.0%	19.2%	18.7%
Restated reported PAT growth rate (%)	6.8%	49.0%	32.3%	1.4%	22.1%
Restated reported PAT margin (%)	14.6%	15.7%	16.0%	15.0%	14.5%
Turnover ratios					
Inventories turnover ratio (x)	5.5	7.8	9.7	8.0	8.1
Trade receivable turnover ratio (x)	5.3	6.1	5.2	4.9	6.1
Accounts payable turnover ratio (x)	17.3	25.4	26.2	21.0	21.3
Fixed asset turnover ratio (x)	4.0	4.6	4.0	2.9	3.1
Total asset turnover ratio (x)	1.3	1.4	0.9	0.8	0.9
Return ratios					
RoE (%)	31.5%	32.1%	17.6%	15.3%	15.8%
RoA (%)	18.6%	22.7%	14.0%	12.0%	12.3%
RoCE (%)	38.3%	43.9%	30.2%	34.9%	38.3%
Per share data					
Restated adjusted EPS (Rs.)	26.4	39.4	13.0	13.2	16.1
DPS (Rs.)	0.5	1.0	0.7	0.7	0.7
BVPS (Rs.)	84.1	122.6	74.1	86.5	101.9
Operating cash flow per share (Rs.)	15.8	38.5	1.9	28.5	14.9
Free cash flow per share (Rs.)	-1.9	-0.3	-18.2	-9.3	-2.7
Dividend payout ratio	1.8%	2.5%	5.8%	5.7%	4.7%

Source: Choice Equity Broking

Choice's Rating Rationale

The price target for a large cap stock represents the value the analyst expects the stock to reach over next 12 months. For a stock to be classified as Outperform (Buy), the expected return must exceed the local risk free return by at least 5% over the next 12 months. For a stock to be classified as Underperform (Reduce, Sell), the stock return must be below the local risk free return by at least 5% over the next 12 months. Stocks between these bands are classified as Neutral (Hold).

Rating Rationale	
BUY	Absolute Return >15%
Hold	Absolute Return Between 0-15%
Reduce	Absolute Return 0 To Negative 10%
Sell	Absolute Return > Negative 10%

Disclaimer

This is solely for information of clients of Choice Broking and does not construe to be an investment advice. It is also not intended as an offer or solicitation for the purchase and sale of any financial instruments. Any action taken by you on the basis of the information contained herein is your responsibility alone and Choice Broking its subsidiaries or its employees or associates will not be liable in any manner for the consequences of such action taken by you. We have exercised due diligence in checking the correctness and authenticity of the information contained in this recommendation, but Choice Broking or any of its subsidiaries or associates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this recommendation or any action taken on basis of this information. This report is based on the fundamental analysis with a view to forecast future price. The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. Choice Broking has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; Choice Broking makes no guarantee, representation or warranty and accepts no responsibility or liability as to its accuracy or completeness. The opinions contained within the report are based upon publicly available information at the time of publication and are subject to change without notice. The information and any disclosures provided herein are in summary form and have been prepared for informational purposes. The recommendations and suggested price levels are intended purely for stock market investment purposes. The recommendations are valid for the day of the report and will remain valid till the target period. The information and any disclosures provided herein may be considered confidential. Any use, distribution, modification, copying, forwarding or disclosure by any person is strictly prohibited. The information and any disclosures provided herein do not constitute a solicitation or offer to purchase or sell any security or other financial product or instrument. The current performance may be unaudited. Past performance does not guarantee future returns. There can be no assurance that investments will achieve any targeted rates of return, and there is no guarantee against the loss of your entire investment. **POTENTIAL CONFLICT OF INTEREST DISCLOSURE** (as on date of report) Disclosure of interest statement – •Analyst interest of the stock /Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.

Choice Equity Broking Pvt. Ltd

Choice House, Shree Shakambhari Corporate Park, Plt No: -156-158, J.B. Nagar, Andheri (East), Mumbai - 400 099.



+91-022-6707 9999



www.choicebroking.in



+91-022-6707 9959

CONNECT US

Any kind of queries on RESEARCH, You can contact us on: 022 - 6707 9999

Do visit the Choice portfolio of products at :



CONSOLIDATED SCRIP OVERVIEW



Trade With JIFFY