

Anupam Rasayan | BUY

Decent quarter; maintain BUY

Anupam Rasayan's (ARIL) 1QFY23 EBITDA was 7%/22% ahead of JMFe/consensus primarily on account of lower other expenses despite lower sales. However, PAT missed our and consensus estimates by 11%/5% on account of forex loss. Going forward, the company continues to see robust demand from its existing as well as upcoming molecules (seven molecules will be commercialised in FY23). Moreover, there remains no risk of inventory losses in case of raw material price contraction. Further, the company plans to launch more than 14 fluorinated molecules over the next 2 years. We have cut our FY23 PAT estimates by 3% to account for 1QFY23 numbers while our FY24 estimates remain largely unchanged. We maintain BUY with a revised Sep'23 TP of INR 1,180 (from Mar'23TP of INR 1,125 earlier) as we believe the company's CSM business provides long-term visibility while its recent foray into fluorination using the HF route (with the acquisition of Tanfac) has further enhanced its already strong barriers ([Tanfac acquisition to add strong capabilities](#)).

- EBITDA beat driven by fall in other expenses:** Anupam Rasayan's (ARIL) 1QFY23 gross profit was 7% below JMFe at INR 1.9bn (down 10% QoQ still up 33%YoY) primarily on account of a) revenue coming in 6% below JMFe, at INR 3.1bn (still 6% above consensus) and b) gross margin being marginally lower at 63.2% (vs. JMFe of 64.0% and 67.76% in 4QFY22). However, EBITDA came in 7%/22% above JMFe/consensus and stood at INR 939mn (down 3% QoQ still up 55% YoY) primarily on account of sharp fall in other expenses to INR 873mn (vs. JMFe of INR 1,070mn and INR 1,046mn in 4QFY22). Further, during the quarter, there was a forex loss of INR 165.24mn. As a result, PAT came in 11%/5% below JMFe/consensus and stood at INR 397mn (down 14% QoQ, still up 24% YoY).
- No adverse risk of excess inventories:** Anupam's current utilisation of existing plants is around 80%. Hence, there remains enough room for growth. Moreover, the company is planning to invest in capacity expansion along with some value engineering, which should aid in revenue growth. Moreover, the company highlighted that it doesn't foresee a price/volume risk from an inventory point of view. Hence, there is unlikely to be any inventory losses with correction in RM prices. Further, its customers are paying for holding inventories and carrying cost of inventory is also passed on to the customers.
- FY23 PAT estimates cut by 3%, FY24 estimates largely unchanged- maintain BUY:** 60-70% of the company's contracted revenue is now based on 6 months' price revisions. Moreover, the company is in talks of 6 months' pricing for the rest of its contracts. Going forward, the management expects a sharp decline in inventory days. On the capex front, the company has only guided for INR 2.5bn in FY23; FY24 capex could be similar or higher than this quantum. In the near term, we build in revenue contribution from INR 2.5bn capex only in FY24, which is likely to generate ~20% RoCE. We estimate 35% EPS CAGR over FY22-25E. We maintain **BUY** with a revised Sep'23 TP of INR 1,180/share (based on 35x Sep'24E EPS) (from Mar'23 TP of INR 1,125/share earlier) as we believe Anupam's CSM business provides strong earnings growth visibility.



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We acknowledge the support of Prashanth Kamath in the preparation of this report

Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,180
Upside/(Downside)	49.8%
Previous Price Target	1,125
Change	4.9%

Key Data – ANURAS IN

Current Market Price	INR788
Market cap (bn)	INR79.0/US\$1.0
Free Float	21%
Shares in issue (mn)	99.9
Diluted share (mn)	99.9
3-mon avg daily val (mn)	INR104.4/US\$1.3
52-week range	1,108/547
Sensex/Nifty	55,766/16,631
INR/US\$	79.7

Price Performance

%	1M	6M	12M
Absolute	27.6	-22.8	2.8
Relative*	20.7	-19.9	-2.6

* To the BSE Sensex

JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters, S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary (INR mn)

Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Sales	8,109	10,660	15,677	18,825	22,357
Sales Growth (%)	53.3	31.5	47.1	20.1	18.8
EBITDA	1,938	2,970	4,316	5,057	6,029
EBITDA Margin (%)	23.9	27.9	27.5	26.9	27.0
Adjusted Net Profit	703	1,509	2,437	3,040	3,744
Diluted EPS (INR)	7.0	15.1	24.4	30.4	37.5
Diluted EPS Growth (%)	1.4	114.6	61.5	24.7	23.2
ROIC (%)	6.6	8.4	11.9	13.0	14.1
ROE (%)	6.5	9.1	13.2	14.5	15.4
P/E (x)	112.0	52.2	32.3	25.9	21.0
P/B (x)	5.0	4.6	4.0	3.5	3.0
EV/EBITDA (x)	41.1	28.5	19.4	16.4	13.7
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, JM Financial. Note: Valuations as of 25/Jul/2022

1QFY23 Result Review

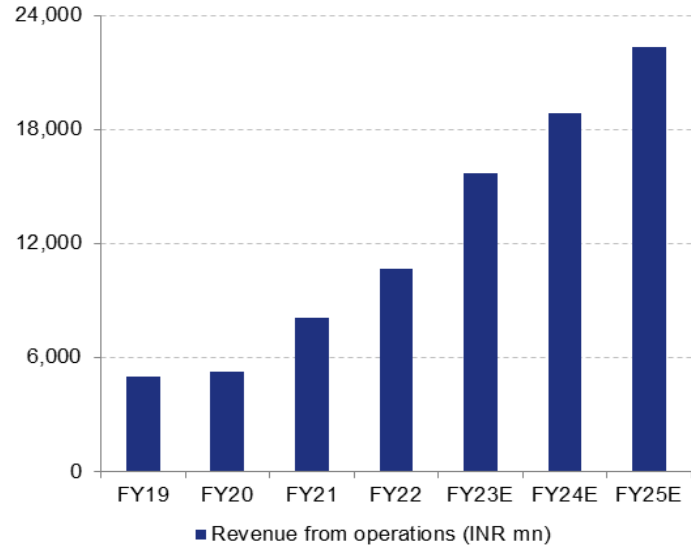
Exhibit 1. ARIL's quarterly financial snapshot

Consolidated (INR mn)	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	1QFY23E	% difference	% QoQ	% YoY
Net Sales	1,354	2,197	1,841	2,717	2,337	2,489	2,662	3,172	3,066	3,250	-6%	-3%	31%
COGS	516	1,102	559	1,213	874	897	900	1,028	1,127	1,170		10%	29%
Gross Profit	838	1,095	1,282	1,504	1,463	1,592	1,761	2,145	1,939	2,080	-7%	-10%	33%
Gross margin	62%	50%	70%	55%	63%	64%	66%	68%	63%	64%	-75 bps	-436 bps	64 bps
Employee cost	75	59	71	120	109	128	123	126	127	130		1%	17%
Employee cost as % of sales	6%	3%	4%	4%	5%	5%	5%	4%	4%	4%		16 bps	-52 bps
Other expenditure	433	593	678	753	747	824	888	1,046	873	1,070	-18%	-17%	17%
Other expenditure as % of sales	32%	27%	37%	28%	32%	33%	33%	33%	28%	33%		-449 bps	-350 bps
EBIDTA	330	443	534	630	607	640	751	973	939	880	7%	-3%	55%
EBITDA margin	24%	20%	29%	23%	26%	26%	28%	30.7%	30.6%	27%	355 bps	-4 bps	466 bps
Depreciation	125	127	131	133	144	148	155	154	157	150		2%	9%
EBIT	206	316	402	497	463	492	596	819	782	730		-4%	69%
Other Income	-8	192	55	25	43	62	50	-4	-94	10		2376%	-319%
Interest expenses	179	173	144	190	66	52	52	138	122	140		-12%	84%
PBT	19	336	313	332	440	502	593	677	566	600	-6%	-16%	29%
Tax	17	73	96	110	118	141	214	223	192	151		-14%	62%
Share of associates	0	0	0	0	0	0	0	7	23				
PAT	2.3	263	216	221	321	361	379	461	397	449	-11%	-14%	24%
PAT margin	0%	12%	12%	8%	14%	14%	14%	15%	13%	14%			
Basic EPS (INR)	0.0	0.0	2.7	2.7	3.2	3.6	3.8	4.5	3.8	4.5			
Tax rate	88.2%	21.6%	30.8%	33.3%	26.9%	28.1%	36.1%	33.0%	33.8%	25.2%			

Source: Company, JM Financial

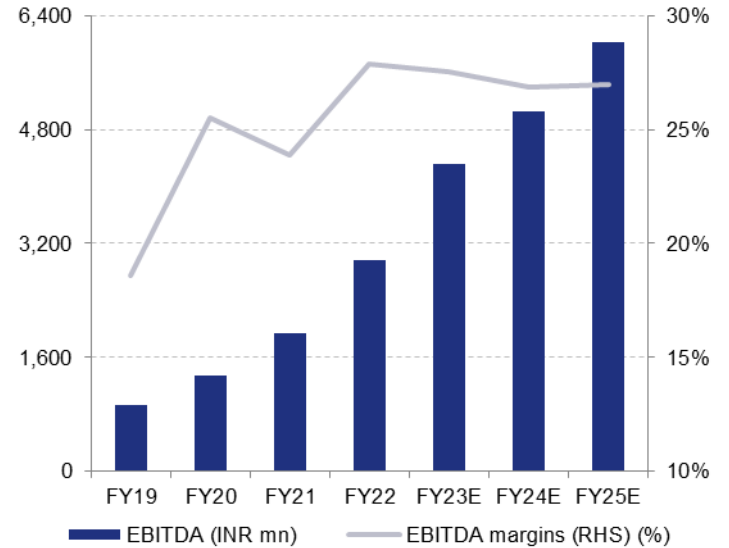
Assumptions and Estimates

Exhibit 2. ARIL likely to register 28% revenue CAGR over FY22-25E



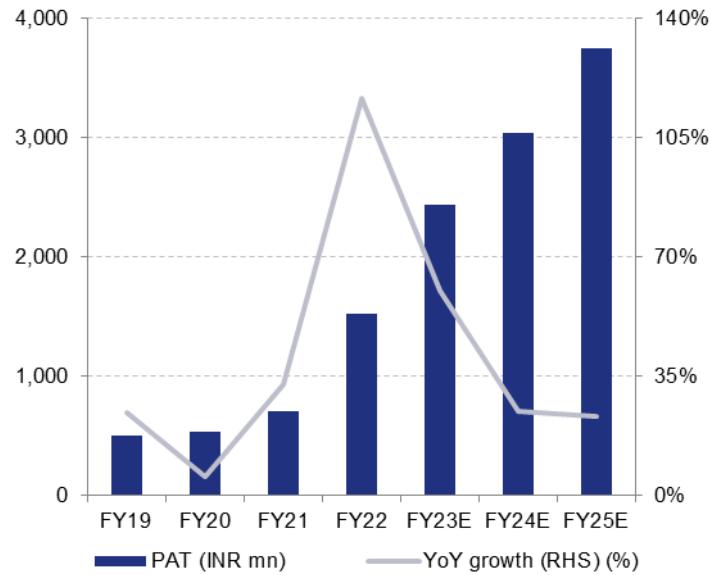
Source: Company, JM Financial

Exhibit 3. EBITDA margin likely to stabilise at 27% by FY25E



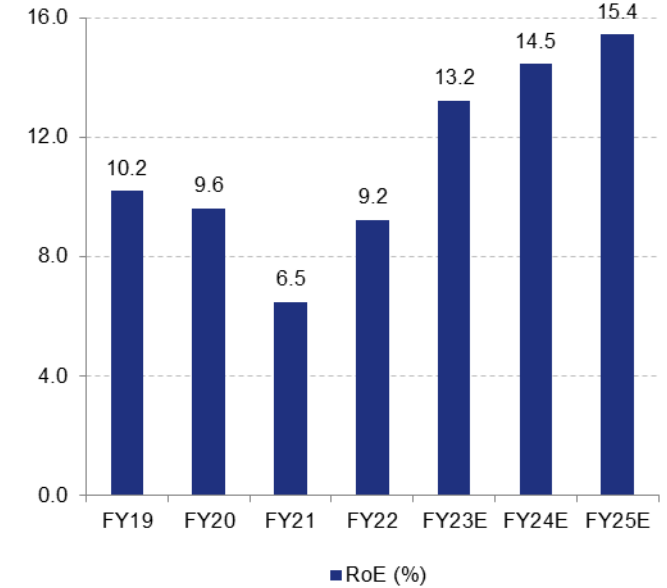
Source: Company, JM Financial

Exhibit 4. ARIL likely to register 35% PAT CAGR over FY22-25E



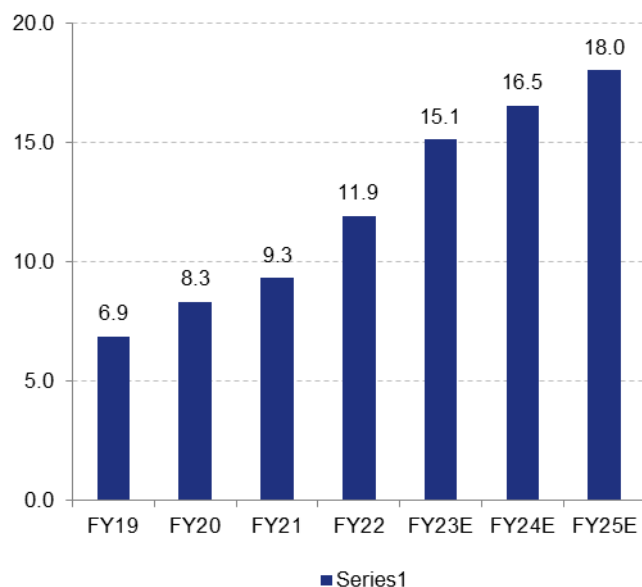
Source: Company, JM Financial

Exhibit 5. ARIL's RoE likely to improve to ~15.5% by FY25E



Source: Company, JM Financial

Exhibit 6. ARIL's RoCE likely to reach 18% by FY25E



Source: Company, JM Financial

Exhibit 7. ARIL's working capital days likely to normalise



Source: Company, JM Financial

Exhibit 8. Chemical companies peer valuation

Company	Rating	TP	CMP	M.Cap	EBITDA Margin (%)			EV/EBITDA (x)			P/E (x)			P/B (x)			ROE (%)		
		(INR)	(INR)	(USD Bn)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
SRF Ltd	BUY	3000	2383	8.9	25.5	26.1	25.6	22.2	18.5	16.0	35.9	30.4	25.9	7.9	6.4	5.3	24.5	23.4	22.4
PI Industries	BUY	3460	3062	5.1	21.9	24.0	25.2	35.3	25.4	20.2	48.0	37.5	29.7	6.5	5.6	4.8	14.5	16.1	17.5
Deepak Nitrite	BUY	2760	1850	3.3	23.6	26.0	26.9	14.6	13.1	11.0	22.2	20.6	17.5	7.1	5.4	4.2	37.5	29.7	26.9
Navin Fluorine	BUY	5090	4208	2.4	24.4	26.7	27.7	58.3	36.8	28.3	79.3	49.1	37.4	11.3	9.6	8.0	15.1	21.1	23.2
Clean Science Tech	BUY	2425	1758	2.2	43.8	48.3	48.7	51.9	35.9	27.5	69.3	50.8	39.3	20.6	14.8	10.8	34.9	33.9	31.8
Fine Organics	SELL	3200	5130	2.0	18.8	19.1	19.3	41.7	33.1	32.5	58.7	50.4	49.7	15.3	12.3	10.3	29.5	27.1	22.5
Galaxy Surfactants	HOLD	3010	3109	1.3	10.9	12.0	12.2	26.6	23.5	20.3	39.4	33.9	30.5	6.6	6.0	5.3	18.3	18.6	18.4
Anupam Rasayan	BUY	1180	788	0.8	27.9	27.5	26.9	28.5	19.4	16.4	52.2	32.3	25.9	4.6	4.0	3.5	9.1	13.2	14.5
Tata Chintan	HOLD	2400	2371	0.6	25.0	24.5	26.3	48.0	41.3	29.0	54.8	55.2	39.2	11.1	9.3	7.6	30.0	18.4	21.4

Source: Bloomberg, JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E	
Net Sales	8,109	10,660	15,677	18,825	22,357	
Sales Growth	53.3%	31.5%	47.1%	20.1%	18.8%	
Other Operating Income	0	0	0	0	0	
Total Revenue	8,109	10,660	15,677	18,825	22,357	
Cost of Goods Sold/Op. Exp	3,390	3,699	6,036	7,492	8,943	
Personnel Cost	324	485	705	847	1,006	
Other Expenses	2,457	3,506	4,620	5,429	6,379	
EBITDA	1,938	2,970	4,316	5,057	6,029	
EBITDA Margin	23.9%	27.9%	27.5%	26.9%	27.0%	
EBITDA Growth	43.6%	53.3%	45.3%	17.2%	19.2%	
Depn. & Amort.	517	601	712	822	931	
EBIT	1,421	2,369	3,604	4,235	5,098	
Other Income	264	151	281	464	483	
Finance Cost	685	308	592	592	522	
PBT before Excep. & Forex	1,000	2,212	3,293	4,107	5,059	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	1,000	2,212	3,293	4,107	5,059	
Taxes	297	703	856	1,068	1,315	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	703	1,509	2,437	3,040	3,744	
Adjusted Net Profit	703	1,509	2,437	3,040	3,744	
Net Margin	8.7%	14.2%	15.5%	16.1%	16.7%	
Diluted Share Cap. (mn)	99.9	99.9	99.9	99.9	99.9	
Diluted EPS (INR)	7.0	15.1	24.4	30.4	37.5	
Diluted EPS Growth	1.4%	114.6%	61.5%	24.7%	23.2%	
Total Dividend + Tax	1	1	1	2	2	
Dividend Per Share (INR)	0.0	0.0	0.0	0.0	0.0	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E	
Profit before Tax	1,000	2,212	3,293	4,107	5,059	
Depn. & Amort.	517	601	712	822	931	
Net Interest Exp. / Inc. (-)	685	308	592	592	522	
Inc (-) / Dec in WCap.	-2,006	-4,416	350	-478	-1,742	
Others	-5	-60	0	0	0	
Taxes Paid	-176	-358	-856	-1,068	-1,315	
Operating Cash Flow	15	-1,712	4,091	3,975	3,455	
Capex	-1,460	-1,469	-2,500	-2,437	-2,437	
Free Cash Flow	-1,446	-3,181	1,591	1,538	1,018	
Inc (-) / Dec in Investments	4	-1,481	0	0	0	
Others	-474	-1,170	0	0	0	
Investing Cash Flow	-1,931	-4,120	-2,500	-2,437	-2,437	
Inc / Dec (-) in Capital	9,436	3	0	0	0	
Dividend + Tax thereon	0	0	0	0	0	
Inc / Dec (-) in Loans	-4,243	4,221	1,000	-1,000	-1,000	
Others	-1,035	-381	-714	-744	-709	
Financing Cash Flow	4,158	3,844	286	-1,744	-1,709	
Inc / Dec (-) in Cash	2,241	-1,989	1,877	-206	-691	
Opening Cash Balance	170	2,412	423	2,299	2,093	
Closing Cash Balance	2,411	423	2,300	2,093	1,402	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E	
Shareholders' Fund	15,734	17,269	19,584	22,471	26,028	
Share Capital	999	1,002	1,002	1,002	1,002	
Reserves & Surplus	14,735	16,266	18,581	21,469	25,025	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	3,869	7,959	8,959	7,959	6,959	
Def. Tax Liab. / Assets (-)	244	546	546	546	546	
Total - Equity & Liab.	19,846	25,774	29,089	30,976	33,533	
Net Fixed Assets	11,583	12,459	14,247	15,863	17,369	
Gross Fixed Assets	12,697	14,200	16,700	19,137	21,574	
Intangible Assets	145	115	115	115	115	
Less: Depn. & Amort.	1,691	2,293	3,004	3,826	4,757	
Capital WIP	432	437	437	437	437	
Investments	546	3,163	3,163	3,163	3,163	
Current Assets	10,852	13,283	16,183	17,446	19,368	
Inventories	4,922	8,632	8,590	9,799	11,638	
Sundry Debtors	2,055	2,801	3,866	4,126	4,900	
Cash & Bank Balances	2,412	423	2,299	2,093	1,402	
Loans & Advances	114	40	40	40	40	
Other Current Assets	1,348	1,388	1,388	1,388	1,388	
Current Liab. & Prov.	3,134	3,132	4,505	5,496	6,367	
Current Liabilities	2,319	2,473	3,846	4,837	5,708	
Provisions & Others	815	659	659	659	659	
Net Current Assets	7,718	10,151	11,678	11,950	13,001	
Total - Assets	19,846	25,774	29,088	30,976	33,532	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E	
Net Margin	8.7%	14.2%	15.5%	16.1%	16.7%	
Asset Turnover (x)	0.5	0.5	0.6	0.6	0.7	
Leverage Factor (x)	1.6	1.4	1.5	1.4	1.3	
RoE	6.5%	9.1%	13.2%	14.5%	15.4%	

Key Ratios						
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E	
BV/Share (INR)	157.5	172.8	196.0	224.9	260.5	
ROIC	6.6%	8.4%	11.9%	13.0%	14.1%	
ROE	6.5%	9.1%	13.2%	14.5%	15.4%	
Net Debt/Equity (x)	0.1	0.3	0.3	0.2	0.1	
P/E (x)	112.0	52.2	32.3	25.9	21.0	
P/B (x)	5.0	4.6	4.0	3.5	3.0	
EV/EBITDA (x)	41.1	28.5	19.4	16.4	13.7	
EV/Sales (x)	9.8	7.9	5.3	4.4	3.7	
Debtor days	92	96	90	80	80	
Inventory days	222	296	200	190	190	
Creditor days	118	108	117	123	123	

Source: Company, JM Financial

APPENDIX I

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Rating	Meaning
Buy	Total expected returns of more than 10% for large-cap stocks* and REITs and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for large-cap* stocks and REITs and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

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