

**Resilient Performance despite lockdowns;
Capex to drive volume and revenue in future**

CMP: Rs 252

Rating: BUY

Target Price: 315

Stock Info

BSE	506685
NSE	ULTRMARINE
Bloomberg	UMP IN
Reuters	ULTR.BO
Sector	Chemicals
Face Value (Rs)	2
Equity Capital (Rs Mn)	58.4
Mkt Cap (Rs Mn)	7,155
52w H/L (Rs)	299/ 103
Avg Yearly Vol (in 000')	3519

Shareholding Pattern %

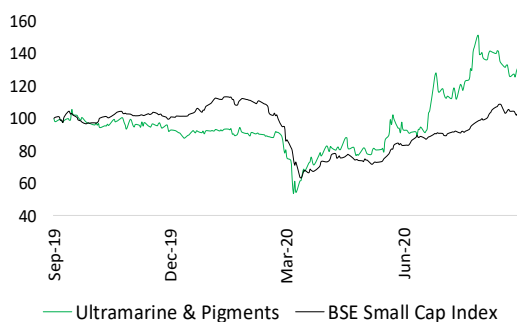
(As on June, 2020)

Promoters	52.5
FII	0.98
DII	6.18
Public & Others	40.34

Stock Performance (%)

	3m	6m	12m
Ultramarine	75.3	52.6	54.0
BSE Small Cap 250	22.1	9.0	3.3

Ultramarine Vs BSE Small Cap 250



Ultramarine & Pigments Limited (UPL) is an India-based company, which is engaged in offering surfactants, pigments and information technology-enabled services (ITES). The Company operates through three segments: Laundry and allied products, IT enabled services & BPO activities, and Wind Turbine Generator. The Company's operations relate to manufacture of laundry and allied products and its intermediaries, and providing ITES and business process outsourcing (BPO) activities. The Company is also engaged in generation of power from wind turbine. The Company caters to the needs of the domestic market. The Company's products include pigments, detergents and sulfonation. The Company's manufacturing plants are located at Ambattur, Ranipet and T V K Industrial Estate in Tamil Nadu.

Investment Rationale:

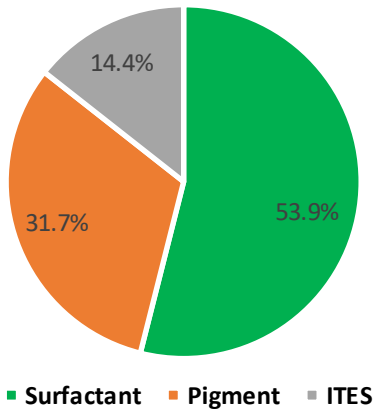
- UPL has been a consistently performing with PAT margins increasing more than 15% over the last 3 years, and despite the pandemic and revenue loss, it was able to keep a PAT margin of 16.5% in Q1FY21, showing the company's resilience to any external shock.
- UPL has been increasing its plant capacity as the demand kept increasing and operating at maximum capacity reflecting its optimum management of operational efficiency. The new Pigments plant in Naidupet, Andhra Pradesh is expected to complete by FY22, and hopefully the pandemic and its lingering effect on the macro-economic demand will vanish by then, giving UPL the ability to increase its production at the right time and boost revenues.
- UPL has a minimal debt burden on itself, hence the revenue/demand loss due to pandemic is not accompanied by high interest costs. While the profit making ability sustains with UPL, the demand for its products picks up gradually as the lockdowns subside.
- Import hurdles in chemical industries due to Government restrictions on Chinese goods as well as export subsidies if any, is an added benefit for domestic chemical companies. UPL has a strong product portfolio of surfactants and pigments, while the ITES segment hasn't been affected much on the business front.

Segment Highlights in Q1FY21:

- Among its segment verticals, Laundry & Allied Products segment was down by 16.4% QoQ to Rs 526 Mn.
- IT Enabled Services segment also saw weak performance with a fall of 24% QoQ / 24.6% YoY.
- Windmill revenue saw uptick of 255.6% QoQ / -19.0% YoY to Rs 6 Mn.

Valuation and View: At CMP of Rs 246, Ultramarine & Pigments is trading at PE of 11.7x to its FY20 EPS of Rs 21.2. The company was impacted during the COVID - 19 pandemic, but mostly due to the lockdown and with its product basket of surfactants and pigments, we see revival of demand at its forefront. Ultramarine Pigments Ltd is one of the largest Pigment and Surfactant manufacturing company of Indian origin. The chemical industry remains an attractive hub of opportunity even in an environment of current global uncertainties. However, UPL has been a consistent performer in terms profitability, ongoing capex, minimal debt and increasing dividend distribution to shareholders. **Hence, we assign a 20% premium to its historical mean P/E of 12.3x (i.e. 14.8x) to arrive at a target price of 315 per share with a BUY rating.**

Revenue Mix (FY20)

**Product Offerings:**

Ultramarine & Pigments Ltd manufactures Laundry & Allied Products which includes Surfactants and Pigments. Currently it has 3 plants in Ranipet, Ambattur and TVK Industrial Estate of Tamil Nadu. For expansion of its operations, the company is doing a **Capex of Rs 512 mn for a green-field Pigments plant in Naidupet, Andhra Pradesh to be completed by FY22 end.**

Surfactants:

UPL manufactures Anionic Surfactants used in Laundry, Construction Fire Safety and Personal Care products. UPL has achieved 100% capacity expansion for production of Surfactant in FY20.

Alpha Olefin Sulphonates (AOS) are surfactants compatible to the general hard water often found in India with high detergency and foaming properties. The company specializes in both dry & wet formulations ready-to-use liquids and powders.

Linear Alkyl Benzene Sulphonic Acid (LABSA) is used in laundry products at 90% and 96% concentrations with high active content in a falling film reactor. With the expertise in high yield and quality of product, UPL is a preferred vendor to several of the FMCG clients for laundry detergents.

Pigments:

UPL manufactures variety of inorganic pigments, such as Ultramarine Blue & Violet, Bismuth Vanadate and various mixed metal oxides.

Ultramarine Blue is manufactured by UPL used across range of plastic products for its high tolerance towards light and heat as an optical brightener and excellent tinting property. UPL produces over 50 grades of ultramarine blue used extensively in varying colours and chemical properties.

UPL is the largest producer of Ultramarine Blue Pigment. It currently caters to plastics, coatings, inks, cosmetics, stationary, laundry, paints, mining and construction industries.

Laundry/detergent products:

UPL produces high quality home and laundry products, e.g. dishwashing liquids and bars, liquid detergents and bars, sold from retail stores across South India.

Dry Mix Detergents manufactured by UPL is provided to several FMCG players in dry mixes.

ITES (IT Enabled Services):

UPL's ITES division makes significant contribution to its revenue (14.37% of FY20 revenue) and contributes more towards its bottom-line with EBITDA margin of 28.4% for Q1FY21. The ITES division is divided in 2 separate kinds of business:

Lapiz Digital Services offers services for digital publishing, healthcare and software services.

Customer Broadcast offers fully integrated inbound and outbound call centres with sales, services, telemarketing and customer support services offered to clients.

New products are being introduced in both the surfactants and the pigments divisions in a forward looking manner

ULTRAMARINE
BLUE



Journey of Ultramarine & Pigments Limited.

1960

- The Company was incorporated in 1960 at Bombay
- The company is mainly engaged in the manufacturing of Ultramarine Blue, Synthetic Detergents & HDPE PP Woven Fabric.
- The capacity of the Synthetic Detergent plant is 10,000 tonnes per year & the capacity of HDPE/PP Woven Fabric is 1,000 Mts. p.a.

2005

- Ultramarine & Pigments has given the Bonus in the Ratio of 3:5
- Company has splits its Face value of Shares from Rs 10 to Rs 2

2006

- Ultramarine & Pigments has recommended payment of Dividend at the rate of Rs 2.20 per share (110%)
- 2007: Ultramarine & Pigments has recommended payment of Final Dividend at the rate of 50 paise per share of Rs 2/- each (25%)

2008

- Ultramarine & Pigments has recommended payment of Dividend at the rate of Rs 3/- per share (150%)
- 2009:Ultramarine & Pigments has recommended payment of Dividend at the rate of Rs 2/- per share
- 2010:Ultramarine & Pigments has recommended payment of Dividend at the rate of Rs. 2/- per share.

2012

- Ultramarine & Pigments has recommended payment of Dividend at the rate of Rs 3/- per share (150%)
- 2013: Ultramarine & Pigments Ltd has recommended a Dividend of Rs. 2.25 per share.

2014

- CFBP Award for Fair Business Practices.

Q1FY21 Financial Performance (Standalone)

Particulars (Rs Mn)	Q1FY21	Q4FY20	Q1FY20	Q-o-Q	Y-o-Y
Net Revenue	607	735	707	-17.47%	-14.19%
Material Cost	313	316	289	-1.01%	8.17%
Employee cost	92	118	115	-21.36%	-19.44%
Other Expenses	71	128	117	-44.96%	-39.64%
EBITDA	131	174	186	-24.48%	-29.67%
<i>EBITDA margin %</i>	<i>21.6%</i>	<i>23.6%</i>	<i>26.4%</i>	<i>-201bps</i>	<i>-476bps</i>
Other Income	26	22	19	16.22%	37.97%
Depreciation	21	21	21	-2.84%	-2.38%
EBIT	136	175	184	-21.92%	-25.91%
Finance cost	2	1	3	110%	-19%
Exceptional Item	-	-	-		
PBT	134	174	182	-22.68%	-26.01%
Tax Expense	-34	-44	-34	-21.51%	1.48%
Effective tax rate %	-25.5%	-25.2%	-18.6%	-38bps	-692bps
PAT	100	130	148	-23.08%	-32.30%
MI & Associates	-	-	-		
Consolidated PAT	100	130	148	-23.08%	-32.30%
<i>PAT margin %</i>	<i>16.5%</i>	<i>17.7%</i>	<i>20.9%</i>	<i>-120bps</i>	<i>-441bps</i>
EPS (Rs)	3.4	4.4	5.1	-22.7%	-32.2%

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Risks to the Business:

The company imports raw materials like Alpha Olefin, Lauryl Ethoxylated Oxide, capital machineries, etc. which carry the risk of International Price fluctuations as well as currency fluctuations to the business.

Q1FY21 Segment Performance

Particulars Rs Mn	Q1FY21	Q4FY20	Q1FY20	Q-o-Q	Y-o-Y
SEGMENT REVENUE					
Laundry & Allied Products	526	629	600	-16.4%	-12.3%
IT Enabled Services	81	106	107	-24.0%	-24.6%
windmill	6	2	8	255.6%	-19.0%
Total	613	737	714	-16.8%	-14.2%
Less: Inter Segment Revenue	-6	-1.5	-7	300.0%	-18.9%
Sales/Income from Operations	607	735	707	-17.5%	-14.2%
SEGMENT RESULTS					
Laundry & Allied Products	102	147	154	-30.3%	-33.7%
IT Enabled Services	23	29	19	-19.0%	24.5%
windmill	3	-2	4.7	-250.0%	-36.2%
Total	129	174	178	-25.9%	-27.6%
Less: Interest and Finance Charges	-2.1	-1	-2.6	110.0%	-19.2%
Less: Unallocated Expenditure/Income (Net-off)	7.7	0.9	6.3	755.6%	22.2%
Less: Exceptional Items	-	-	-		
Total Profit before Tax	134	174	182	-22.6%	-26.0%
Segment Assets					
Laundry & Allied Products	1920	1908	1513	0.6%	26.9%
IT Enabled Services	165	208	228	-20.7%	-27.5%
windmill	99	100	102	-1.3%	-2.7%
Unallocated / Corporate	1993	1597	2506	24.8%	-20.5%
Total Segment Assets	4,177	3,814	4,348	9.5%	-3.9%
Segment Liabilities					
Laundry & Allied Products	550	595	326	-7.6%	68.8%
IT Enabled Services	111	105	138	6.0%	-19.5%
windmill	0.3	1	0	-72.7%	50.0%
Unallocated / Corporate	116	89	134	29.5%	-13.9%
Total segment Liabilities	777	790	598	-1.66%	29.87%

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Income Statement

Y/E March (Rs Mn)	FY19	FY20	FY21E	FY22E
Revenues	3,069	3,062	2,952	3,497
Change (%)	10.6%	-0.2%	-3.6%	18.5%
Cost of Goods Sold	1,408	1,331	1,283	1,573
Employee costs	438	482	506	531
Other expenses	520	491	515	541
Total operating Expense	2,366	2,304	2,304	2,646
EBITDA	702	758	648	851
Other Income	102	115	111	115
Depreciation	58	86	107	123
Interest	1	11	11	11
PBT	745	776	641	832
Extra-ordinary	59	0	0	0
PBT after ext-ord.	804	776	641	832
Tax	-239	-156	161	209
Rate (%)	-29.7%	-20.1%	25.2%	25.2%
PAT	565	620	480	622
Change (%)	29.4%	9.8%	-22.7%	29.7%

Key Ratios

Y/E March (Rs Mn)	FY19	FY20	FY21E	FY22E
Per share (Rs)				
EPS	19.3	21.2	16.4	21.3
CEPS	10.3	16.3	25.2	24.1
BVPS	33.0	25.9	28.8	32.8
Valuation (x)				
P/E	12.9	11.7	15.1	11.7
P/CEPS	24.0	15.3	9.9	10.3
P/BV	7.5	9.6	8.6	7.6
EV/EBITDA	9.9	9.6	10.8	8.0

Return Ratios (%)

Gross Margin	54.1%	56.5%	56.5%	55.0%
EBIDTA Margin	22.9%	24.8%	21.9%	24.3%
PAT Margin	18.4%	20.3%	16.3%	17.8%
ROE	14.7%	20.5%	14.3%	16.2%
ROCE	16.7%	20.8%	15.2%	18.0%

Leverage Ratio (%)

Total D/E	0.0	0.1	0.1	0.1
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Turnover Ratios

Asset Turnover (x)	0.7	0.8	0.6	0.6
Inventory Days	70	93	80	80
Receivable Days	39	47	40	40
Payable days	26	35	35	36

Source: Arian Research, Company Filings, Ace Equity, Bloomberg

Balance Sheet

Y/E March (Rs Mn)	FY19	FY20	FY21E	FY22E
Sources of Funds				
Share Capital	58	58	58	58
Reserves & Surplus	3,790	2,966	3,300	3,776
Net Worth	3,849	3,025	3,359	3,835
Borrowings	-	203	203	203
Lease liabilities	-	62	62	62
Provisions	11	10	10	8
Deferred Tax Liabilities (net)	110	72	105	102
Deferred Income	4	4	650	747
Total Non-Current Liabilities	124	350	1,030	1,122
Trade payables	219	293	282	346
Lease liabilities	-	21	21	21
Other financial Liabilities	79	86	74	87
Other current Liabilities	34	37	38	32
Provisions	3	2	2	2
Total Current Liabilities	335	440	418	489
Total Liabilities	4,308	3,814	4,806	5,446
Property, Plant and Equipment	784	845	1,017	1,175
Right of use assets	-	67	67	67
Capital work in progress	25	354	437	520
Other Intangible assets	2	2	2	2
Investments	1,850	764	1,404	1,406
loans	31	0	0	0
Others	0	10	10	10
other non-current assets	139	129	124	147
Total Non-Current Assets	2,831	2,170	3,061	3,327
Inventories	272	338	281	345
Investments	470	289	278	330
Trade Receivables	330	392	323	383
Cash and cash equivalents	272	197	436	627
Bank balances other than cash and cash equivalents	7	7	6	6
Loans	72	343	343	343
Others	13	36	36	36
Current Tax Assets (Net)	5	0	0	0
Other current assets	36	42	41	48
Total Current Assets	1,477	1,645	1,745	2,119
Total Assets	4,308	3,814	4,806	5,446

Cash Flow Statement

Y/E March (Rs Mn)	FY19	FY20	FY21E	FY22E
PBT	804	776	641	832
Net Cash From Operating Activities	302	475	736	705
Net Cash (used in)/from Investing Activities	(22)	(387)	(502)	(519)
Net Cash (used in)/from Financing Activities	(151)	(163)	5	5
Net (decrease)/increase In Cash & Equivalents	129	(75)	239	191
Opening balance of cash	143	272	197	436
Closing balance of cash	272	197	436	627

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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