

Omkar Speciality Chemicals

Sensex: 19,293

CMP: INR 123



Pharma Intermediary

Omkar Speciality Chemicals Ltd. (OSCL) is in the business of manufacturing advanced pharma intermediaries and speciality chemicals. We met Mr. Praveen Herlekar (CMD) of the company to understand the company's business and future growth prospects.

In a sweet spot

OSCL's 70% of sales comes from selling pharma intermediaries. Company caters to almost all big Indian pharma companies like Dr. Reddy's Laboratories, Divi's Laboratories, Cipla, Ranbaxy etc. According to the management, the overall pharma sector has grown at a CAGR of 10-12% in last many years. However, the sector is expected to register a CAGR of 20-25% in next 3-4 years on the back of expiry of major global patents that will bring huge growth opportunities to Indian pharma sector.

Growth levers in place

OSCL has registered consolidated sales of INR 1,670mn in FY12 at 5 years CAGR of 35%. Company aims to achieve sales of INR 2.2bn in FY13, a growth of 32% YoY. Company plans to more than double its sales to over INR 5bn in FY15 backed by expansion in capacity and aided by: 1) Huge demand from pharma companies with global expiry of patents 2) Increasing exports demand - Company expects to achieve exports (~15% of total sales) of INR 1bn in FY14 at a 2 years CAGR of ~60% aided by expansion in newer geographies 3) Opening up of new opportunities in veterinary API segment with acquisition of Lasa (a forward integration) in April 2012 4) Planning to tap newer segments like cosmetics, electronics etc.

Margins to expand

Management expects EBIDTA margin to expand in next 3 years on the back of: 1) Management focus to grow organic intermediaries (65% of sales) which fetch higher margins 2) Scaling up of sales in API business which generate 2-3% higher margins than intermediaries business 3) Operating leverage gain with scaling up of overall sales

Capex plans

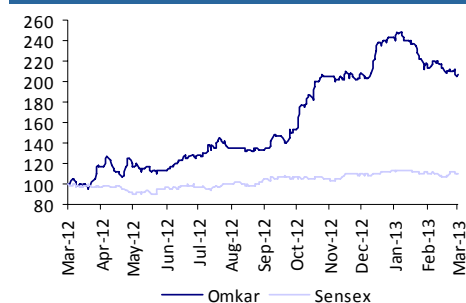
Company plans to increase its capacity from ~4,600MT to ~18,000MT by FY15 in a gradual manner to cater to increasing demand. It expects to incur a capex of ~INR 1.25bn, to be funded majorly by ECB loans (available at ~6%) and internal accruals.

Outlook and Valuation

Higher growth in Indian pharma sector is expected to generate huge opportunities for the companies that form the part of the value chain. OSCL has been in the business of catering to pharma industry for almost three decades has established itself as a strong player and supplying its products to almost all major Indian pharma companies. Company has earned strong goodwill and trust among its clients on the back of its ability to continuously innovate new products, strong quality control and technological advancement backed by strong R&D team. Apart from opportunities in company's existing business, expansion in newer geographies, new sectors and new products bodes well for company's future growth prospects. At CMP, the stock of the company is trading at 6.9x FY14E EPS of INR 17.8 (Source: Bloomberg consensus)

Shareholding %	Dec-12
Promoters	60.30
FII's	2.03
DII's	4.01
Others	33.57

Relative Price Performance



Key Data	
BSE Code	533317
NSE Code	OMKARCHEM
Bloomberg Code	OSCL IN
Reuters Code	OMKS.BO
Shares Outstanding (mn)	19.62
Face Value	10
Mcap (INR bn)	2.41
52 Week H/L	150.00/55.00
2W Avg. Qty.NSE	28111
Free Float (INR Bn)	0.96
Beta	0.15

Y/E (INR mn)	FY09	FY10	FY11	FY12
Net Sales	510	684	1,068	1,670
Growth (%)	23.06%	33.99%	56.20%	56.38%
EBIDTAM (%)	17.57	18.74	20.01	19.89
Adj. PAT	31	52	101	165
Growth (%)	21.32%	65.50%	95.75%	62.23%
Adj. EPS (INR)	2.72	4.49	5.17	8.38
P/E (x)	0	0	8.92	7.06
EV/EBIDTA	0	0	4.32	4.41
Net Debt/Equity	2.26	1.66	0.04	0.44
RoACE (%)	28.28	28.02	22.12	19.38
RoAE (%)	31.66	37.91	18.76	16.61

Other Key Highlights:

- End usage of the drugs, for which company supplies intermediaries to pharma companies, is for the treatment of diabetes, cholesterol, asthma etc. which is growing at faster pace and has huge market size
- Company claims to be a pioneer in most of its products. It supplies low volume but high value products. More than 70% of its products are niche and company faces little or no direct competition to them. However, competition from substitute products limits its ability to charge higher prices
- The threat faced by the company's products is obsolescence and therefore company requires to keep on innovating for newer products
- Company produces 5-6 new products every year with ~80% success rate. It currently has a pipeline of 25 new products
- Company's R&D team has 17 people (3 PHDs). The main R&D lab of the company is approved by WHO CGLP standards and is recognized by Department of Science & Technology, GOI. Company also get tax benefits for the same (200% of R&D expenses can be deducted from taxable income)
- Company plans to bring down its working capital days from 150 days in FY12 to 120 days in the current fiscal and 90 days in FY14
- Company aims to maintain its net debt/equity ratio of less than 1
- 40% of the raw material is imported - 50% of it is iodine
- Company issued warrants (~5% of equity) to promoters worth ~INR 150mn at INR 150 apiece in the current fiscal

Current Capacity and planned expansion

Manufacturing Unit	Products Manufactured	Current Capacity (MTPA)	Proposed Capacity (MTPA)	Capex(FY13-FY15) INR mn
Unit 1, Badlapur, Thane	Iodine, Selenium, Molybdenum compounds, Bismuth Derivatives & other derivatives	600	1,100	110
Unit 2, Badlapur, Thane	Organic Intermediates	1,025	1,025	4
Unit 3, Badlapur, Thane	Selenium Sulphide	75	75	21
Unit 4, Badlapur, Thane	Advance Intermediates	-	3,400	251
Unit 5, Chiplun, Ratnagiri	1,4 Dioxane	-	8,800	499
Urdhwa Chemicals, Chiplun, Ratnagiri	Advance Intermediates	2,800	2,800	20
Lasa Labs, Mahad, Raigad	Veterinary Medicines- (API)	120	620	263
New Acquisition	NA	-	300	100
Total		4,620	18,120	1,269

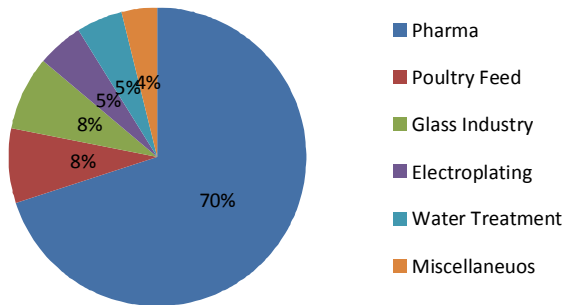
Source: Company, SPA Research

Means of Funding	INR mn
Unutilised proceeds of IPO	143
ECB from BOB	630
Term Loan from Axis bank	190
Internal accruals	306
Total	1,269

Source: Company, SPA Research

Company Description

OSCL was originally incorporated as a private limited company on February 24, 2005 and took over the business of the Proprietorship Firm M/s. Omkar Chemicals, which was in operation since 1983 with Mr. Pravin Herlekar as the Proprietor. OSCL has been a pioneer in most of the products it manufactures that majorly caters to pharma industry (~70% of total sales). Company also caters to poultry feed, glass, electroplating and water treatment industry. On the back of company's ability to continuously innovate new products, strong quality control and technological advancement backed by strong R&D team, it has established itself as a reliable and trusted players among its client which are major players in their respective industries.

Industry-wise sales break-up


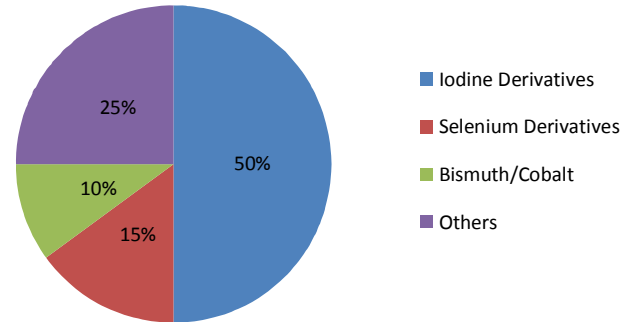
Source: Company, SPA Research

Company manufactures a diverse range of more than 100 products, comprising a mix of organic, inorganic and organo-inorganic intermediaries. Sale of iodine and selenium derivatives accounts for ~65% of the company's sales.

Product Portfolio

Category	Applications
Inorganic Intermediaries	
Molybdenum Derivatives	Electroplating, Lubricant, Water treatment chemicals
Selenium Derivatives	Flucloronide, Shampoo, Pharma Intermediates, Tinted float glass, Glass industry
Iodine Derivatives	Photographic chemicals, 2- Methoxyestradiol, Nylon tyre yarn, Bifloxacin, Zaleplon, Hexestrol, Etiroxate, Idoxuridine, Rizatriptan, Adapalene, Dabelotone, Fluticasone Propionate, Pharma Intermediates, Terfenadine, Metalaxyl, Lamivudine, Alprazolam
Cobalt Derivatives	Electroplating & synthetic fibres, Ceramic pigment, Refining industry, Silica gel, Ceramic industry, Batteries, Electroplating, Cattle & Poultry feeds
Bismuth Derivatives	Pharma Intermediates, Auto paints, Soft Ferrites, Electronic, Cosmetics, Pharma & Anti ulcer drug
Tungsten Derivatives	Pharma industry
Organic Intermediaries	
Tartaric Acid Derivatives	Resolving agent
Other Intermediates	Dolasetron Mesylate, Terbinafine, Pioglitazone, Rosiglitazone, Azoxystrobin, Seldinafen, Pharma Intermediates
Organo inorganic intermediates	Idoxifene, Benodanil, Etofenamate, Clostentel, Rafoxanide, Pharma Intermediates, OPC, Electronic, Lamivudine, Orlistat, Anti Diabetic Drug, Finasteride, Rimexolone, Montelukast, Cerivastatin Sodium, Tocapone, Fluconazole, Nebirolol, Lansoprazole, Rabeprazole

Source: Company, SPA Research

Main Element-wise sales break-up


Source: Company, SPA Research

Subsidiaries:

Subsidiaries	Date of Acquisition	Ownership	Brief Comment
M/s Rishichem Research Ltd.	May-10	99.82%	Primarily into research and development activities. Was acquired to strengthen OSCL's R&D ability.
Desh Chemicals Pvt Ltd.	Jun-11	100%	Helped OSCL to expand and modernize its production capacities at Unit I.
Urdhawa Chemicals	Jun-11	100%	It was a sick unit at the time of acquisition. OSCL acquired it to avoid regulatory delays in expanding capacity. OSCL has set up a 2,800MT facility for manufacturing organic chemicals in this facility.
Lasa Labs	Apr-12	100%	Acquisition of LASA Laboratory Pvt. Ltd. by OSCL is a forward integration by the company into API manufacturing. LASA labs is an established player in the anthelmintic/ veterinary API segment with state-of-the-art US FDA approved API manufacturing facility.

Source: Company, SPA Research

Quarterly Consolidated Financials

Particulars (INR mn)	Q3FY13	Q3FY12	YoY (%)	Q2FY13	QoQ (%)	9M FY13	9M FY12	YoY (%)
Net Sales	570	441	29.08%	507	12.44%	1,593	1,259	26.52%
COGS	392	303	29.27%	340	15.34%	1,085	877	23.70%
Gross Profit	178	138	28.67%	167	6.54%	509	383	32.96%
Gross Profit Margins %	31.18%	31.28%	-10bps	32.91%	-173bps	31.92%	30.37%	+155bps
Employee Cost	29	18	57.73%	22	34.726%	71	46	55.51%
as a % of sales	5.10%	4.18%	+93bps	4.26%	+84bps	4.47%	3.64%	+83bps
Other Expenditure	53	33	60.84%	50	6.41%	148	92	61.12%
as a % of sales	9.38%	7.53%	+185bps	9.91%	-53bps	9.27%	7.28%	+199bps
Total Expenditure	475	355	33.71%	412	15.27%	1,304	1,014	28.52%
EBIDTA	95	86	10.09%	95	0.19%	290	245	18.21%
EBIDTA Margins %	16.70%	19.57%	-288bps	18.74%	-204bps	18.18%	19.46%	-128bps
Depreciation	15	11	41.79%	14	7.77%	43	31	36.56%
EBIT (excl. Other income)	80	76	5.68%	81	-1.11%	247	214	15.53%
Other Income	14	8	82.66%	23	-38.56%	47	23	102.96%
EBIT	94	84	12.86%	104	-9.44%	294	237	24.10%
Interest	28	27	2.22%	15	83.25%	65	64	2.91%
EBT	67	57	17.91%	89	-25.06%	229	173	31.86%
Tax Expense (Total)	14	18	-21.58%	30	-54.58%	68	59	14.71%
PAT	53	39	35.65%	59	-9.84%	161	114	40.74%
Minority Interest	0	0	0.00%	0	0.00%	0	0	0.00%
Net Profit	53	39	35.65%	59	-9.84%	161	114	40.74%
Net Profit Margins %	9.31%	8.86%	+45bps	11.61%	-230bps	10.10%	9.08%	+102bps
EPS	2.70	1.99	35.68%	3.00	-10.00%	8.20	5.82	40.89%

Source: Company, SPA Research

Financials Standalone

Income Statement

Y/E (INR mn)	FY09	FY10	FY11	FY12
Net Sales	510	684	1,068	1,670
% Growth	23.06%	33.99%	56.20%	56.38%
Cost of Goods Sold	337	459	746	1,143
Employee Cost	28	21	32	64
Other Optg. Exps.	55	76	76	130
Total Optg. Exps.	421	555	854	1,338
EBIDTA (excl OI)	90	128	214	332
% Growth	48.10%	42.97%	66.74%	55.43%
EBITDA Margin %	17.57%	18.74%	20.01%	19.89%
Dep./Amortization	5	19	19	56
EBIT	85	110	195	276
EBIT Margin %	16.57%	16.04%	18.22%	16.52%
Interest Expense	36	37	53	81
Other Income	0	3	5	37
Exceptionals				
EBT	49	75	147	232
Tax Expenses	17	23	46	67
PAT	31	52	101	165
Minority Interest				
Adjustment to PAT	-	-	-	-
APAT	31	52	101	165
% Growth	21.32%	65.50%	95.75%	62.23%
APAT Margin %	6.14%	7.58%	9.50%	9.85%

Key Ratios

Y/E	FY09	FY10	FY11	FY12
Per Share Data (INR)				
Reported EPS	1,194.66	44.93	5.17	8.38
Adj. EPS	2.72	4.49	5.17	8.38
Growth (%)	21.43%	65.07%	15.14%	62.09%
CEPS	3.16	6.10	6.14	11.24
DPS	-	0.50	1.00	1.25
BVPS	10.01	13.77	46.99	53.92
Return Ratios (%)				
RoACE	28.28	28.02	22.12	19.38
RoANW	31.66	37.91	18.76	16.61
RoIC	18.17	19.38	15.25	13.75
Liquidity Ratios				
Net Debt/Equity	2.26	1.66	0.04	0.44
Interest Coverage Ratio	2.35	3.00	3.79	3.86
Current Ratio	1.27	1.22	1.60	1.52
Quick Ratio	1.59	1.41	3.01	2.78
Efficiency Ratios				
Asset Turnover Ratio	1.70	1.71	1.19	1.07
Inventry Days	102	98	96	109
Debtor Days	101	84	87	79
Creditor Days	-	61	70	56
Valuation Ratios				
P/E (x)	-	-	8.92	7.06
P/BV (x)	-	-	0.98	1.10
P/CEPS (x)	-	-	7.51	5.26
Dividend Yield (%)			2.17	2.11
EV/Net Sales (x)	NA	NA	0.89	0.97
EV/EBIDTA (x)	NA	NA	4.32	4.41

Source: Capitaline, SPA Research

Balance Sheet

Y/E (INR mn)	FY09	FY10	FY11	FY12
Share Capital	3	115	196	196
Reserves and Surplus	112	44	726	862
Total Network	115	159	922	1,058
Minority Interest				
Secured	199	252	399	777
Unsecured	62	16	55	3
Total Debt	261	268	454	780
Deferred Tax Liability	2	4	7	12
Other Liabilities	0	0	4	10
Sources of Funds	377	431	1,387	1,861
Net Block	149	156	206	363
CWIP	0	6	176	307
Investments	0	0	14	21
Current Assets	355	451	1,319	1,376
Current Liabilities	127	182	338	306
Net Current Assets	228	269	981	1,071
Misc. Expenditure	0	0	0	0
Deferred Tax Assets	0	0	0	0
Other Assets	0	0	10	100
Application of Funds	377	431	1,387	1,861

Cash Flow

Y/E (INR mn)	FY09	FY10	FY11	FY12
EBT	49	75	147	232
Less: Other Income/Exceptionals	(0)	(3)	(5)	(37)
Add: Depreciation	5	18	19	56
Add: Interest paid	36	37	53	81
Direct taxes paid	(16)	(21)	(44)	(61)
Change in Working Capital	(72)	(39)	(304)	(188)
Others				
Cash Flow from operations (a)	2	73	(124)	157
Change in Fixed Assets	(132)	(25)	(69)	(214)
Change in CWIP	45	(6)	(170)	(131)
Change in Investments	0	0	(14)	(7)
Others				
Cash Flow from Investing (b)	(87)	(31)	(253)	(351)
Change in Equity	0	0	794	0
Debt Raised/(Repaid)	120	7	186	327
Dividend paid	0	(6)	(20)	(25)
Interest paid	(36)	(37)	(53)	(81)
Others				
Cash Flow from Financing (c)	84	(36)	907	221
Net Change in Cash (a+b+c)	(1)	6	531	27
Opening Cash	3	2	4	412
Closing Cash	2	4	412	314

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| 1. Analyst ownership of the stock | - No |
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| 3. Broking relationship with company covered | - No |

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