

CRISIL IER Independent Equity Research

Diamines and Chemicals Ltd

Q1FY13 Results Update

Enhancing investment decisions

Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade		CRISIL Valuation Grade	
Assessment	Assessment	Assessment	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (negative 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

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CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

About CRISIL Research

CRISIL Research is India's largest independent and integrated research house. We provide insights, opinions, and analysis on the Indian economy, industries, capital markets and companies. We are India's most credible provider of economy and industry research. Our industry research covers 70 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our network of more than 4,500 primary sources, including industry experts, industry associations, and trade channels. We play a key role in India's fixed income markets. We are India's largest provider of valuations of fixed income securities, serving the mutual fund, insurance, and banking industries. We are the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today India's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgements and forecasts with complete objectivity. We leverage our deep understanding of the macroeconomy and our extensive sector coverage to provide unique insights on micromacro and cross-sectoral linkages. We deliver our research through an innovative web-based research platform. Our talent pool comprises economists, sector experts, company analysts, and information management specialists.

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Last updated: April 30, 2012

Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

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Diamines and Chemicals Ltd

Business outlook remains bleak due to supply demand mismatch

Fundamental Grade 2/5 (Moderate fundamentals)

Valuation Grade 4/5 (CMP has upside)

Industry Specialty Chemicals

Diamines and Chemicals Ltd (Diamines) reported Q1FY13 revenues of Rs 133 mn that declined by 45% y-o-y and was lower than our expectations. The decline was due to subdued demand environment and a further drop in sales realisations of ethyleneamines. EBITDA margins declined to 5.8% from 29.7% in Q1FY12; however, it increased sequentially due to improvement in gross margin as the company had cleared the majority of its high cost raw inventory in Q4FY12. The company reported a loss of Rs 6 mn compared to a profit Rs 42 mn in Q1FY12. We remain cautious on the demand environment and believe that the company will continue to face headwinds in FY13. We maintain our fundamental grade of **2/5**.

Global supply demand mismatch continues to push realisations lower

The existing global supply demand mismatch due to weak demand environment continues to push realisations of ethyleneamines lower. Prices of non piperazine ethyleneamines have declined ~5% q-o-q in Q1FY13 after declining by 10% in Q4FY12. We believe that there is further downside to the realisations given the ongoing slowdown in the European and the US economies.

Delay in diversifying to manufacturing piperazine derivatives will impact revenues

The company plans to diversify to production and selling of piperazine salts from just selling piperazine to pharma players for manufacturing ciprofloxacin. This was expected to improve sales as it will give an alternative market over ciprofloxacin. The domestic production of ciprofloxacin has declined in the past nine months because of oversupply and lower realisations. We had expected the commercial sales of piperazine sales to begin in Q3FY13 but it is moving slower than our expectation. As a result, we believe that revenue will be under pressure and will witness lower q-o-q improvement.

Lower our estimates; fair value estimate declines to Rs 33 from Rs 36 per share

We lower our FY13 estimates to reflect the decline in sales realisations and the expected decline in production of non-piperazine ethyleneamines because of lower realisations. FY13 and FY14 revenue estimates have been revised from Rs 603 mn and Rs 676 to Rs 570 mn and 645 mn, respectively. FY13 EBITDA margin estimate is raised by 40 bps from 6.1% to 6.5% on the back of better margins in Q1FY13. Our FY14 EBITDA margin remains steady at 12.0%. Accordingly, the fair value estimate is lowered from Rs 36 to Rs 33 per share. At the current market price of Rs 29, our valuation grade is **4/5**.

KEY FORECAST

(Rs mn)	FY10	FY11	FY12#	FY13E	FY14E
Operating income	456	828	671	570	645
EBITDA	89	247	103	37	77
Adj net income	9	146	35	-17	12
Adj EPS-Rs	0.9	15.0	3.6	(1.8)	1.2
EPS growth (%)	(5.0)	1,567.3	(75.8)	NM	NM
Dividend yield (%)	4.5	13.4	2.8	-	-
RoCE (%)	20.7	46.6	13.0	2.1	8.2
RoE (%)	5.1	55.9	10.9	(5.2)	3.7
PE (x)	33.4	2.0	8.3	NM	NM
P/BV (x)	1.4	0.9	0.9	0.9	0.9
EV/EBITDA (x)	5.0	1.9	5.4	13.7	6.3

NM: Not meaningful; CMP: Current market price

Based on abridged financials

Source: Company, CRISIL Research estimates

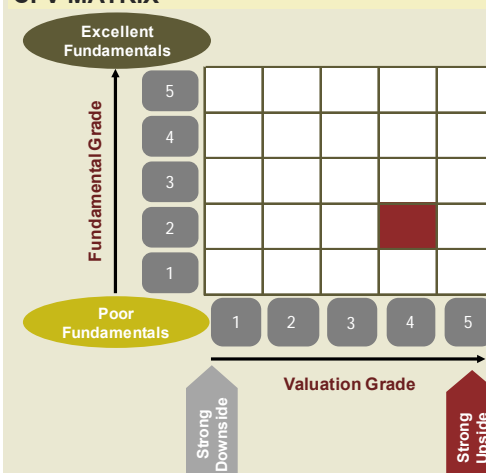


August 17, 2012

Fair Value Rs 33

CMP Rs 29

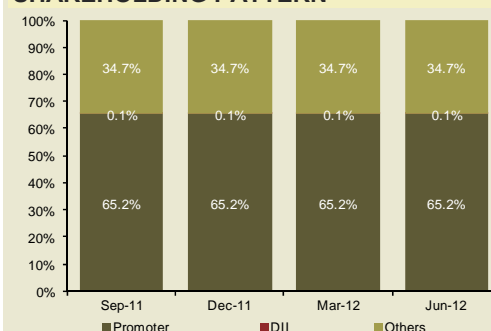
CFV MATRIX



KEY STOCK STATISTICS

NIFTY/SENSEX	5,366/17691
NSE/BSE ticker	DIAMINESQ
Face value (Rs per share)	10
Shares outstanding (mn)	9.7
Market cap (Rs mn)/(US\$ mn)	292/6
Enterprise value (Rs mn)/(US\$ mn)	555/11
52-week range (Rs)/(H/L)	87/41
Beta	0.18
Free float (%)	34.8%
Avg daily volumes (30-days)	5,102
Avg daily value (30-days) (Rs mn)	0.2

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
Diamines	-13%	-24%	-31%	-60%
NIFTY	0%	7%	-1%	3%

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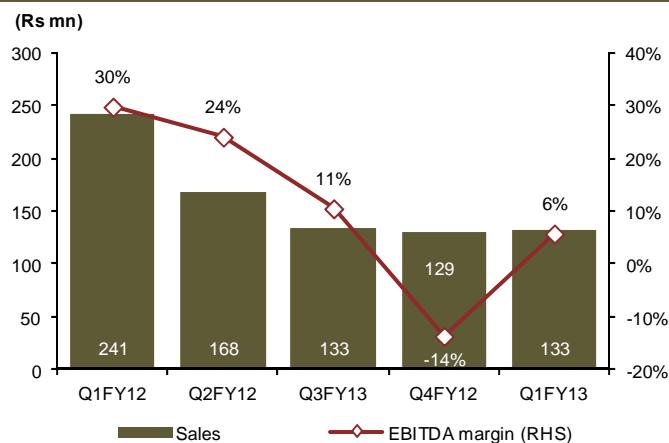
CRISIL Independent Equity Research reports are also available on Bloomberg (CRI <go>) and Thomson Reuters.

Q1FY13 Results Summary

(Rs mn)	Q1FY13	Q4FY12	Q1FY12	q-o-q (%)	y-o-y (%)
Net sales	133	129	241	2.4	(45.0)
Raw materials cost	87	108	118	(19.7)	(26.5)
Raw materials cost (% of net sales)	65.4%	83.3%	49.0%	NM	NM
Employee cost	8	8	9	(2.9)	(5.3)
Other expenses	30	31	43	(2.1)	(29.7)
EBITDA	8	(18)	72	(143.4)	(89.3)
EBITDA margin	5.8%	-13.6%	29.7%	NM	NM
Depreciation	5	6	5	(1.8)	7.4
EBIT	2	(23)	66	(109.3)	(96.8)
Interest and finance charges	10	9	7	6.0	30.9
Operating PBT	(8)	(32)	59	NM	NM
Other income	0	1	1	(26.7)	(58.8)
Extraordinary income/(expense)				NM	NM
PBT	(7)	(32)	60	NM	NM
Tax	(1)	(11)	18	NM	NM
PAT	(6)	(21)	42	NM	NM
Adj PAT	(6)	(21)	42	NM	NM
Adj PAT margin	-4.7%	-16.1%	17.4%	NM	NM
No of equity shares (mn)	10	10	10		
Adj EPS (Rs)	(0.6)	(2.1)	4.3	NM	NM

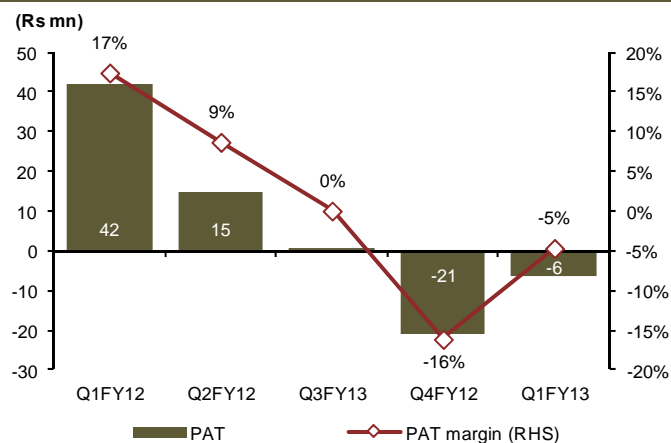
Source: Company, CRISIL Research

Revenue was below our expectations



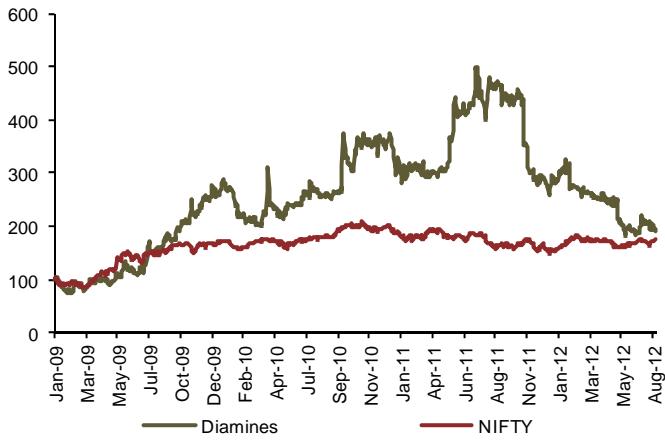
Source: Company, CRISIL Research

Profitability under pressure but improved sequentially



Source: Company, CRISIL Research

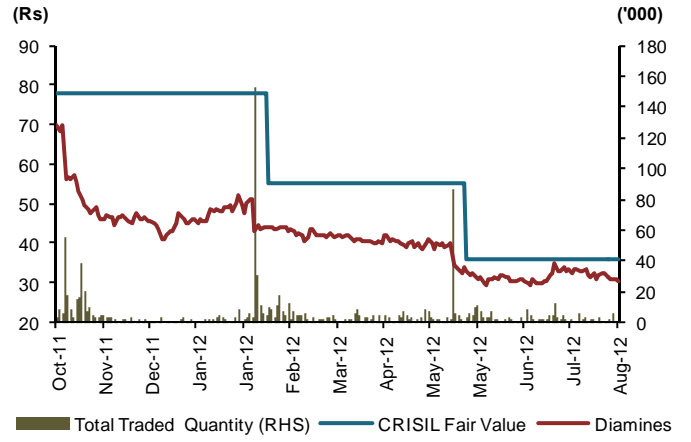
Share price movement



-indexed to 100

Source: NSE, CRISIL Research

Fair value movement since initiation



Source: NSE, BSE, CRISIL Research

Earnings Estimates Lowered

Particulars	Unit	FY13E			FY14E		
		Old	New	% change	Old	New	% change
Revenues	(Rs mn)	603	570	-6%	676	645	-5%
EBITDA	(Rs mn)	37	37	0%	81	77	-4%
EBITDA margin	%	6.1%	6.5%	40 bps	12.0%	12.0%	
PAT	(Rs mn)	-14	-17	NM	14	12	-15%
PAT margin	%	-2.3%	-3.0%	(70) bps	2.1%	1.9%	(20) bps
EPS	Rs	-1.5	-1.8	NM	1.4	1.2	-12%

Source: CRISIL Research estimates

Reasons for changes in estimates

Line item	FY13E	FY14E
Revenues	Revenue estimate lowered due to <ul style="list-style-type: none"> ■ Decline in sales realisations of ex-piperazine ethyleneamines (declined by 5% q-o-q in Q1FY13) ■ Lower production days of ex-piperazine ethyleneamines because of lower realisations. Plant was operational for only 25% of total operational days. ■ Delay in product diversification to piperazine salts 	Revenue estimate lowered due to <ul style="list-style-type: none"> ■ Decline in sales realisations of ex-piperazine ethyleneamines (declined by 5% q-o-q in Q1FY13)
EBITDA margins	EBITDA margin estimate raised because of <ul style="list-style-type: none"> ■ Better than expected margins in Q1FY13 	No change in EBITDA margin estimate
PAT margins	PAT margin is lowered because of decline in revenues	PAT margin is lowered because of decline in revenues

CRISIL IER reports released on Diamines and Chemicals Ltd

Date	Nature of report	Fundamental grade	Fair value	Valuation grade	CMP (on the date of report)
18-Oct-11	Initiating coverage	3/5	Rs 98	5/5	Rs 72
16-Nov-11	Q2FY12 result update	3/5	Rs 78	5/5	Rs 47
27-Feb-12	Q3FY12 result update	2/5	Rs 55	5/5	Rs 43
25-May-12	Q4FY12 result update	2/5	Rs 36	3/5	Rs 33
17-Aug-12	Q1FY13 result update	2/5	Rs 33	4/5	Rs 29

Annexure: Financials

Income statement

(Rs mn)	FY10	FY11	FY12#	FY13E	FY14E
Operating income	456	828	671	570	645
EBITDA	89	247	103	37	77
EBITDA margin	19.5%	29.9%	15.4%	6.5%	12.0%
Depreciation	16	19	22	23	24
EBIT	73	228	82	14	54
Interest	14	29	36	37	47
Operating PBT	59	199	46	(23)	7
Other income	1	3	4	2	9
Exceptional inc/(exp)	85	2	-	-	-
PBT	145	204	50	(21)	16
Tax provision	51	57	14	(4)	4
Minority interest	-	-	-	-	-
PAT (Reported)	94	147	35	(17)	12
Less: Exceptionals	85	2	-	-	-
Adjusted PAT	9	146	35	(17)	12

Ratios

	FY10	FY11	FY12#	FY13E	FY14E
Growth					
Operating income (%)	50.8	81.4	(18.9)	(15.1)	13.2
EBITDA (%)	18.6	177.3	(58.3)	NM	NM
Adj PAT (%)	(5.0)	1,567.3	(75.8)	NM	NM
Adj EPS (%)	(5.0)	1,567.3	(75.8)	NM	NM

Profitability

EBITDA margin (%)	19.5	29.9	15.4	6.5	12.0
Adj PAT Margin (%)	1.9	17.6	5.2	(3.0)	1.9
RoE (%)	5.1	55.9	10.9	(5.2)	3.7
RoCE (%)	20.7	46.6	13.0	2.1	8.2
RoIC (%)	7.5	41.7	13.7	3.9	12.8

Valuations

Price-earnings (x)	33.4	2.0	8.3	NM	NM
Price-book (x)	1.4	0.9	0.9	0.9	0.9
EV/EBITDA (x)	5.0	1.9	5.4	13.7	6.3
EV/Sales (x)	1.0	0.6	0.8	0.9	0.8
Dividend payout ratio (%)	13.9	26.6	22.9	-	-
Dividend yield (%)	4.5	13.4	2.8	-	-

B/S ratios

Inventory days	138	90	153	135	132
Creditors days	123	57	73	71	81
Debtor days	72	70	71	70	70
Working capital days	55	63	113	124	91
Gross asset turnover (x)	0.9	1.5	1.1	0.8	0.9
Net asset turnover (x)	1.7	2.7	1.9	1.5	1.7
Sales/operating assets (x)	1.6	2.6	1.8	1.4	1.7
Current ratio (x)	1.6	2.3	2.2	2.3	2.2
Debt-equity (x)	0.9	0.9	1.0	1.0	1.0
Net debt/equity (x)	0.7	0.6	0.8	0.7	0.6
Interest coverage	5.2	7.8	2.3	0.4	1.2

Per share

	FY10	FY11	FY12#	FY13E	FY14E
Adj EPS (Rs)	0.9	15.0	3.6	(1.8)	1.2
CEPS	2.6	16.9	5.8	0.6	3.7
Book value	21.6	32.0	34.6	32.8	34.1
Dividend (Rs)	1.3	4.0	0.8	-	-
Actual o/s shares (mn)	9.7	9.7	9.7	9.7	9.7

Balance Sheet

(Rs mn)	FY10	FY11	FY12#	FY13E	FY14E
Liabilities					
Equity share capital	65	65	97	97	97
Reserves	145	245	239	222	234
Minorities	-	-	-	-	-
Net worth	210	311	336	319	331
Convertible debt	-	-	-	-	-
Other debt	187	272	332	332	332
Total debt	187	272	332	332	332
Deferred tax liability (net)	38	33	28	23	18
Total liabilities	435	616	697	675	682
Assets					
Net fixed assets	300	312	382	373	364
Capital WIP	4	21	21	21	21
Total fixed assets	304	333	402	394	385
Investments	1	1	1	1	1
Current assets					
Inventory	133	138	225	187	194
Sundry debtors	93	171	142	120	136
Loans and advances	102	108	96	74	77
Cash & bank balance	35	90	69	118	138
Marketable securities	-	-	-	-	-
Total current assets	363	507	532	500	545
Total current liabilities	233	225	239	220	250
Net current assets	130	282	294	280	296
Intangibles/Misc. expenditure	-	-	-	-	-
Total assets	435	616	697	675	682

Cash flow

(Rs mn)	FY10	FY11	FY12#	FY13E	FY14E
Pre-tax profit	60	202	50	(21)	16
Total tax paid	(45)	(62)	(19)	(1)	(9)
Depreciation	16	19	22	23	24
Working capital changes	(53)	(98)	(32)	63	4
Net cash from operations	(21)	61	20	63	34
Cash from investments					
Capital expenditure	(54)	(48)	(91)	(14)	(15)
Investments and others	-	-	(0)	0	-
Net cash from investments	(54)	(48)	(91)	(14)	(15)
Cash from financing					
Equity raised/(repaid)	-	-	0	(0)	-
Debt raised/(repaid)	12	86	60	-	-
Dividend (incl. tax)	(15)	(46)	(10)	-	-
Others (incl extraordinary)	85	0	(0)	-	-
Net cash from financing	81	41	50	(0)	-
Change in cash position	6	54	(21)	49	19
Closing cash	35	90	69	118	138

Quarterly financials

(Rs mn)	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1Y13
Net Sales	241	168	133	129	133
Change (q-o-q)		-30%	-21%	-3%	2%
EBITDA	71	40	14	(18)	8
Change (q-o-q)		-43%	-65%	NM	NM
EBITDA margin	30%	24%	11%	-14%	6%
PAT	42	15	0	(21)	(6)
Adj PAT	42	15	0	(21)	(6)
Change (q-o-q)		-65%	NM	NM	NM
Adj PAT margin	17%	9%	0%	-16%	-5%
Adj EPS	4.3	1.5	0.0	(2.1)	(0.6)

Financials are not strictly comparable with that of the previous years due to the new format of disclosure under Schedule VI of the Companies Act

Source: CRISIL Research

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