Sector: Ferro & Silica Manganese **RESULT REVIEW Q4&FY22** **Declared On: 27 May'22**

Pondy Oxides & Chemicals Limited

RECOMMENDATION SNAPSHOT					
*CMP	Initiation Price	Target	Potential Upside	Recommendation	MCap (Rsbn)
Rs571	Rs383	Rs750	31%	Buy	3.3

**as on 01st June, 2022*

About the Company:

Incorporated in 1995, Pondy Oxides & Chemicals Ltd (POCL) is India's leading secondary lead smelter while being a lead, lead alloys and plastic additives producer. POCL has 3 business segments i.e. metals, metal oxides and plastic additives. POCL operations are spread across an extensive product basket that spreads across categories of lead manufacturing, litharge, red lead, zinc oxide, lead sub oxide metallic oxides, PVC stabilizers (solid and liquid), lead metals and alloys that are supplemented with various industrial applications. Some of the main products manufactured by the company include lead, lead alloys, master alloys, tin alloys, babbit alloys, zinc oxides etc. POCL extracts lead and other metals from scrap batteries and reuses the same after refining. Mr. Anil Kumar Bansal is the Chairman and Whole Time Director and Mr. Ashish Bansal is the Managing Director of the company.

Results: Quick Glance:

- The revenues for the quarter came in at Rs3971mn in Q4FY22 as compared to Rs2985mn in the same quarter last year, growth of 33.0%
- The Ebitda margins came in at 3.6% as compared to 2.2% in the same quarter last year
- The net profit for the quarter ending came in at Rs105mn as compared to Rs45mn in the same quarter last year
- The EPS for the quarter stood at Rs18.11 as compared to Rs7.69 in the corresponding year
- For the full year ending FY22, the company reported revenue of Rs14548mn as compared to Rs10043mn in FY21; with margins at 5.3% in FY22 as compared to 2.3% in FY21 while reporting net profit of Rs482mn as compared to Rs108mn in FY21
- The Board has recommended a dividend of Rs5 per equity share of face value of Rs10 each

Conference Call Highlights:

- POCL, continued to deliver a healthy performance despite the challenging market conditions; the company has delivered a historical number with the highest topline for any annual year. The macro and microeconomics have been challenging for all the stakeholders, there has been a significant price increase in the cost of smelting, refining, ocean freight and utilities like power and fuel which have further added to the increase in the overall cost of production
- The impact of Russia- Ukraine has had an impact on the oil and gas prices with massive currency volatility, supply chain network etc. and since there is a relationship between metals raw materials and additives there is visible volatility in metals which affects the non-ferrous part of the business. However, there has been a marginal impact on the lead sector as the regions of Russia or Ukraine are not large producers of the metal
- POCL is bullish about recycling and its future and it believes that India will continue to be an emerging market with high growth. The company continues to concentrate on value-added and specialized alloys that can fetch incremental margins with accelerated entry into associated verticals to cater to this demand
- The smelting industry makes use of an oil-based oil-fired furnaces or gas-fired furnace; and in June 2022, the company will be adding an oil-fired furnace. The addition of this furnace is intended to increase the smelting capacity which has slightly better margins than only refining. The company is anticipated to go live with a **new furnace** tentatively in June
- The company has incorporated a subsidiary i.e. **POCL Future Tech Private Limited** which is intended to focus on segments like plastics, e-waste lithium-ion, recycling of rubber, oil glass paper etc. As far as the tie up **Ace Green Technology** is concerned, the company has a licensing deal of USD12mn which is in terms of procurement of the equipment, machine technology etc. in a phased manner in 3 parts; the company is looking at initial modules to be installed in the month of September and will be commercially producing by December. In terms of efficiency and recovery, the same can be marginally higher through this process and the wastage is anticipated to be lower. The company is also trying to get green technologies and fetch some carbon credits. The company has planned to go live with two modules initially with a capacity of 1200 tons p.a. at the Andhra plant by Q3FY23. The main feature of this project is zero emission lead battery recycling technology operating at room temperature, reducing the carbon footprint on a global scale and preventing the emission of greenhouse gases. The company can also earn carbon credits through the process. The R&D team have been working on adding offerings related to plastics, e-waste, rubber recycling, lithium-ion and other non-ferrous metals based on the portfolio and other upcoming opportunities in the concept of circular economy, green technology and incorporating a futuristic approach to add allied technologies

Conference Call Highlights (contd.):

- The Ace recycling tie-up is a good learning curve for the company where they also have some exclusivity on the project; so, till a couple of years this project remains only with POCL
- The company has strong relationships with its customers and suppliers since it has a supreme brand image within the lead sector and is known for high quality level of efficiency, reliability and technical support or services. The company has added **new clients** for the copper business and some clients in Japan and in Thailand market are added to the lead related business
- In the long run, the company is looking at ways for **diversification**, completing the product portfolios, looking at diverse markets (domestically as well as internationally), the Management is also looking at fetching efficiencies, and growth in the business they cater to not just by conventional technologies but looking into modern technologies. POCL caters to the demand in lead, copper and zinc and there are certain balance materials and the company is also trying to explore opportunities in the other non-ferrous segments as well. POCL is involved in taking long term contracts, hence the company does not see any seasonality or lean season or a peak season. The company is looking at passing on the prices to the customers, and in many cases is renegotiating the contracts and re-pricing. The company is also looking at creation of yards for collection of non-ferrous crap in the coming years to leverage on better rates in procurement as a strategy to enter into other segments as well as stretch enhance the geographies
- In FY22 ~54% of the turnover is fetched from **exports**; the sourcing of primary raw materials for the full year was in the proportion of ~77% imports and ~23% of domestic procurements. The company is trying to increase its domestic supplier. On the volume side lead quantities have increased by ~18% in FY22 at 69518 tons produced against 58613 tons in the previous year; the same has increased by ~18% on y-o-y basis and increased by ~0.1% on q-o-q basis
- For the lead segment, the company has a capacity of ~152000 tons per annum; in terms of smelting which is an integrated process; the company has a capacity of ~96000 tons per annum; copper segment has a capacity of ~30000 tons per annum; while zinc has a capacity of ~12600 tons per annum; the company has the possibility of scaling up, these capacities which is dependent on various permutations and combinations for smelting and refining. The company uses a calculated approach in choosing the optimum mix of raw materials while prudently trying to use the lead capacity of ~132000 metric tons per annum
- In FY22, the exports have crossed a turnover of USD100mn; the **export** market continues to grow at a CAGR of ~18- 20%. In terms of quantity, POCL has renewed some of the contracts; the company continues to have affiliations with the BSI for environmental management system and is also targeting important affiliations with prominent agencies for a first mover advantage to set a portfolio of certifications and registrations
- POCL continues to be a consistently **dividend** paying company since its inception. The board recommends the dividend considering various factors like cash flow necessity, resources required for future deployment, adding expansions, growth, reducing the burden of debt and inherently creating a stronger base for the future
- The company is trying to increase the operational efficiencies, though they are conservative with the margin guidance of 6-6.5%, but are expecting a steep growth in terms of revenue of ~20- 25%
- In terms of the new project, the company has done substantial research in the recent months and the company is analyzing various verticals like plastics, other non-ferrous metals, e-waste rubber recycling and lithium-ion etc., which are upcoming opportunities for the company. POCL also intends to initiate an IoT platform in the factory operations by interfacing with the machineries to realize the operational efficiency along with the implementation of the ERP

Financials:

Performance (Q4&FY22)									
Q4&FY22 Result (Rs mn)	**Mar-22**	**Mar-21**	**y-o-y**	**Dec-21**	**q-o-q**	**FY22**	**FY21**	**y-o-y**	**FY23E**
Total Revenue	3971	2985	33.0%	4137	(4.0%)	14548	10043	44.9%	17167
EBITDA	141	66	-	238	(40.6%)	772	234	-	1021
Other Income	29	24	20.6%	13	-	46	33	39.5%	49
Interest	15	15	(1.6%)	29	(47.6%)	84	45	87.0%	90
Depreciation	29	21	36.7%	23	26.4%	90	84	7.1%	98
Tax	21	8	-	58	(64.4%)	161	30	-	220
Net Profit	**105**	**45**	**-**	**141**	**(25.5%)**	**482**	**108**	**-**	**661**

Outlook and Recommendations:

The company continues to report a good set of numbers as the normalisation of the economy seems to be directly or indirectly benefiting the company. The reliance on imported scrap is gradually seen easing, which is helping improve the company's working capital. The collaboration **with ace green** recycling is significant as the technology is futuristic and the recycling process used for lead acid batteries release no greenhouse gas emissions. POCL is the first company in the manufacturing space to adopt this technology in the recycling process used for manufacturing lead acid batteries. The company is looking at entering into different verticals which also invites uncertainty in terms of the growth. The board is looking into various obligatory requirements to be listed on the NSE. Over the years, POCL has built an unmatched brand image for its quality, high level of efficiency, reliability, technical support and service. POCL primarily operates in a sector which is characterized by high volume, low margins with immense dependence on global growth scenario, global demand-supply conditions, international trade environment, strength of USD against other currencies, domestic growth scenario etc. to drive the revenues and profitability. POCL has been constantly looking at various alternative measures to reduce the cost of energy, reducing the cost of production and trying to improve the quality of products through its normal R&D system. POCL has strong relationships with its customers and suppliers with a supreme brand image within the lead sector and is known for high quality level of efficiency, reliability and technical support or services. POCL continues to be a consistently dividend paying company since its inception. The company continues to concentrate on value-added and specialized alloys that can fetch incremental margins. The future outlook of the industry remains positive and POCL is bullish about recycling and its future; it believes that India will continue to be an emerging market with high growth. POCL is constantly focusing on energy conservation through upgradation of process technology, effective production scheduling and various energy saving initiatives including installation of energy efficient equipment to fetch higher margins. We continue to remain positive about demand for lead as a metal with sustained support from the automotive and construction industries. All the initiatives and factors mentioned above provide a vision of gradual uptick in the profitability earned by the company and we maintain our target price of Rs750.

DISCLAIMERS AND DISCLOSURES-

Progressive Share Brokers Pvt. Ltd. and its affiliates are a full-service, brokerage and financing group. Progressive Share Brokers Pvt. Ltd. (PSBPL) along with its affiliates are participants in virtually all securities trading markets in India. PSBPL started its operation on the National Stock Exchange (NSE) in 1996. PSBPL is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE) for its stock broking services and is Depository Participant with Central Depository Services Limited (CDSL) and is a member of Association of Mutual Funds of India (AMFI) for distribution of financial products.

PSBPL is SEBI registered Research Analyst under SEBI (Research Analysts) Regulations, 2014 with SEBI Registration No. INH000000859. PSBPL hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in last five years. PSBPL has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

PSBPL offers research services to clients as well as prospects. The analyst 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.

<u>Other disclosures by Progressive Share Brokers Pvt. Ltd. (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company (s) covered in this report-:</u>

· PSBPL or its associates financial interest in the subject company: NO

· Research Analyst (s) or his/her relative's financial interest in the subject company: NO

· PSBPL or its associates and Research Analyst or his/her relative's does not have any material conflict of interest in the subject company. The research Analyst or research entity (PSBPL) has not been engaged in market making activity for the subject company.

· PSBPL or its associates actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: NO

· Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: NO

· PSBPL or its associates may have received any compensation including for brokerage services from the subject company in the past 12 months. PSBPL or its associates may have received compensation for products or services other than brokerage services from the subject company in the past 12 months. PSBPL or its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. Subject Company may have been client of PSBPL or its associates during twelve months preceding the date of distribution of the research report and PSBPL may have co-managed public offering of securities for the subject company in the past twelve months.

· The research analyst has served as officer, director or employee of the subject company: NO

PSBPL and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our sales people, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses (if any) may make investment decisions that may be inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution publication, availability or use would be contrary to law or regulation or which would subject PSBPL or its group companies to any registration or licensing requirement within such jurisdiction. If this document is sent or has reached any individual in such country, especially, USA, the same may be ignored. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of PSBPL. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of PSBPL or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Terms & Conditions:

This report has been prepared by PSBPL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of PSBPL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and its at the discretion of the clients to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. PSBPL will not treat recipients as customers by virtue of their receiving this report.

Registered Office Address:

Progressive Share Brokers Pvt. Ltd,

122-124, Laxmi Plaza, Laxmi Indl Estate,

New Link Rd, Andheri West,

Mumbai—400053, Maharashtra

www.progressiveshares.com | Contact No.:022-40777500.

Compliance Officer:

Mr. Shyam Agrawal,

Email: compliance@progressiveshares.com,

Contact No.:022-40777500.