

RECOMMENDATION SNAPSHOT				
*CMP	MCap (Rsbn)	Recommendation	Target	Potential Upside
Rs122	23.9	Buy	Rs150	23%

*as on 17th Feb, 2023

About the Company:

Sadhana Nitrochem Limited (SNCL) is engaged in the manufacturing of chemical intermediates, heavy organic chemicals and performance chemicals focused primarily on benzene-based compounds like nitro benzene, metanilic acid, MAP, etc. Since its inception in 1973, SNCL has built a strong reputation of manufacturing quality products along with excellence to service its clients on a global level. The company has been following production of intermediates under strict quality standards which has been propelling its vast customers base across the globe. The company is highly committed to produce high quality chemicals which have diverse applications in several industries including paper, pharma, agrochemicals, thermal dyes, light stabilizers, aerospace dyes and dye intermediates. SNCL is headquartered in Mumbai and has its manufacturing facility in Roha (Dist. Raigad), Maharashtra.

Results: Quick Glance:

- The net sales for the quarter under review de-grew by 1.9% to Rs312mn as compared to Rs318mn in the same quarter last year
- The Ebitda margins for the quarter under review stood at 15.1% as against 11.4% in Q3FY22
- The accounting effect for the merger by absorption of Spidigo Net Private Limited has also resulted in reversal of interest charged upto 30 September, 2022 on the loan advanced to the wholly owned subsidiary by the company. This has resulted in the figure of Other Income for the quarter ended 31st December, 2022 becoming negative at Rs(1.6)mn
- The net profit came in at Rs8mn as against Rs16mn in the comparative quarter last year
- EPS for the quarter stands at Rs0.04

Financials:

Performance (Q3FY23)									
Q3FY23 Result (Rs mn)	Dec-22	Dec-21	y-o-y	Sept-22	q-o-q	9MFY23	9MFY22	y-o-y	FY23E
Total Revenue	312	318	(1.9%)	365	(14.6%)	952	919	3.6%	1370
EBITDA	47	36	30.0%	42	11.8%	115	117	(1.7%)	166
Other Income	(2)	17	-	4	-	15	34	(56.3%)	30
Interest	19	15	26.1%	23	(15.7%)	55	33	65.9%	74
Depreciation	17	15	11.3%	17	0.6%	49	45	9.3%	66
Exceptional Items	0	0	-	0	-	0	0	-	0
Tax	2	7	(69.2%)	10	(79.8%)	12	17	(30.5%)	14
Net Profit	8	16	(54.0%)	(4)	-	14	56	(74.9%)	42

Outlook and Recommendations:

The quarter reported a flat topline but the sustainable raw material prices (uptick in the gross margins) led to better operating margins on a y-o-y as well as q-o-q basis. Lower revenue growth translated into drop in PAT, but there was a change from a loss to profit on sequential comparison. The industry as well as the company has been dealing with high inventory costs, margins pressures from China opening up, geo political issues, higher input prices, freight costs, low off takes, deferment of buying orders etc. which is impacting the overall manufacturing cost for all the players. On account of a strong global demand of ODB2 (thermal paper colour former), SNCL is increasing its ODB2 capacity from existing 550TPA to 2000TPA. The company intends to increase the utilisation of the ODB2 plant expanded capacity in Q4FY23 to 60% and ~90% in Q1FY24. The PAP (Para Amino Phenol) plant, which is operational and one of the key additions of the company; is anticipated to ramp up progressively over the quarters to achieve the desired quality and materials to be offered.

Outlook and Recommendations (contd.):

SNCL was also working on moving from batch to continuous manufacturing of PAP in order to attain full production capacity in the existing plant. Success of the PAP project can actually change the operational matrix of the company. SNCL is looking at transforming itself into a globally cost competitive manufacturer with focus on R&D and quality processing. SNCL is also exploring opportunities in forward as well as backward integrated products. In addition to this, the company is also looking towards unique product offerings with competitive strength to form a strong pipeline of products. SNCL is focused on green technologies and choosing products with high operating synergies. We maintain our target of Rs150 from a long term perspective.

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