

Transpek Industry Limited

RECOMMENDATION SNAPSHOT					
*CMP	Initiation Price	Target	Potential Upside	Recommendation	MCap (Rs bn)
Rs2194	Rs1547	Rs2700	23%	BUY	12.3

*as on 20th Aug, 2021

About the Company:

Transpek Industry Limited (Transpek) is a five decade old company which was set up in 1965. The company then used to manufacture transparent acrylic sheets; and this is how the name of the company was coined. With time, the company grew on to become a leading manufacturer and exporter of varied range of chemicals and now the Vadodara based company has over 42 years of experience with sulphur and chlorine chemistry. The company has been maintaining a very diverse product portfolio with offerings of key materials for various critical applications in chemical processing. The company manufactures and exports chemicals; mainly acid and alkyl chlorides. Transpek is the largest manufacturer of Acid Chlorides in Asia and a pioneer in the manufacturing Thionyl Chloride. It is a leader in production of chlorides required for manufacturing of high strength polymers having critical applications. The company has nearly a decade of presence in the international market where the exports are around 60-65% of the sales. The state of the art plant of the company is located at Ekalbara district Vadodara (Gujarat). The promoters of the company i.e. the Shroff family over the last 5 decades the company have developed a solid reputation for quality, EHS (Environment, Health and Safety) and delivery in the chemical Industry.

Result: Quick Glance

- The company has reported net sales of Rs1217mn as compared to Rs747mn in the same quarter last year, growth of 63%
- The Ebitda margins for the quarter under review stood at 14.8% as compared to 11.9% in the corresponding quarter last year
- The net profit came in at Rs135mn as against Rs38mn in the same quarter last year
- EPS for the quarter under review stood at Rs24.19 as compared to Rs6.74 in the corresponding quarter last year

Conference Call Highlights:

- The business has been recovering and has reached to good volume in Q1FY22 and is expected that the volumes will continue to improve in the coming period. Management also mentions of no change in contract terms due to pandemic situation. The company has shown significant improvement over the last two quarters which is evident from the up-ticking margins and better revenues in Q1FY22 as compared to Q4FY21 and Q1FY21. As per the Management commentary, the application volumes are seen restoring gradually which is providing opportunity for the company to increase its revenue. The company has not faced any major sourcing issues due to pandemic, however in case of logistics; there have been delays with increased freight charges across the Industry. In Q1FY22, the Polymer segment contributed nearly 59.2%, while Pharma, Speciality and Other segments contributed 12.4%, 14.7% and 13.7% respectively. Nearly 75.5% was fetched from the exports business, where Europe contributed 15.0%, North America 52.0%, and Rest of the World 8.5%.
- The company is looking at de-risking its customer, product and regional concentration and is also looking at some small shift in regional spread. The company has introduced three new products in the last 6 months (having applications in agrochemicals and pharmaceuticals), currently the initial volumes are small, but they are expected to grow over the next few years. The company has introduced two new Acid Chlorides recently while there are other new products which are at different stages of development and shall be introduced after the completion of development and validation by the customers. The new products which are in new business development process can fetch approximately Rs100-120mn and can do ~Rs200mn once they reach at maturity stage.
- As mentioned in the earlier notes and as per the recent updates by the Management, the new expansion project has been put on hold. The Management is periodically reviewing the situation and will announce any significant change in the status, if any. The capex for next two years will be based on the timing of the introduction of new products. By deploying expertise in chlorination technology along with other core technologies, the company is capable at handling projects for global clients in the areas of pharmaceuticals, agrochemicals and specialty chemicals. Transpek is also looking at renewal of contracts with existing customers. The company mentions of renewing a contract (3 years) with an already existing customer.

Financials:

Performance (Q1FY22)							
Q1FY22 Result (Rs mn)	June-21	June-20	y-o-y	Mar-21	q-o-q	FY21	FY22E
Total Revenue	1217	747	63.0%	965	26.1%	3394	4480
EBITDA	180	89	102.8%	176	2.2%	472	728
Other Income	103	49	108.1%	46.8	-	172	186
Interest	24	29	(18.2%)	22	7.9%	104	103
Depreciation	73	68	7.7%	78	(6.3%)	285	285
Tax	51	4	-	14	-	22	105
Net Profit	135	38	-	110	23.3%	233	421

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Outlook and Recommendations:

The company has started reporting good numbers, on the revenue as well as on the margins front. Contract volumes seem to be picking up and are anticipated to come back to the optimum volumes (to pre-covid levels). The company is looking at newer products as well as newer chemistries which is one step ahead of the current line of business and chemistries of acid chlorides. The company aims to look at products related to speciality chemistry, polymer and pharma profiled customers. The Management is looking at a conscious balanced strategy to grow. The capex whenever initiated will a big booster to the growth / revenue profile of Transpek. Conscious efforts of the company to de-risk its customer, product and regional concentration are some of the agendas which the Management is currently working on. The company believes that the situation will further improve in terms of volume growth, with stable working capital cycle with absence of any large capex (currently), established presence in the industry and strong relations with customers, comfortable liquidity of the company are some of the major triggers which continue to remain intact for Transpek and thus we scale our target back to Rs2700.

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