Pondy Oxides & Chemicals Limited

RECOMMENDATION SNAPSHOT				
*CMP	MCap (Rsbn)	Recommendation	Target	Potential Upside
Rs443	5.2	Accumulate	Rs500	13%

as on 21st Aug, 2023

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 net sales for the quarter reported a drop of 11.9% to Rs3208mn as compared to Rs3640mn in Q1FY23
- The Ebitda margins for the quarter under review stood at 4.2% as compared to 4.9% in Q1FY23
- The company reported profit of Rs65mn as compared to Rs116mn in the same quarter last year
- The EPS for the quarter stood at Rs5.61 as compared to Rs9.98 in the corresponding period of last year

Conference Call Highlights:

- For the quarter under review, the volumes reported a drop of ~8% (lead volumes stood at 14,880MT as against 16,200MT in Q1FY23); this was attributable to reduced working hours at POCL's smelting unit due to high maintenance activities. Going forward, the management expects the sales momentum to continue backed by customer's order and availability of the requisite infrastructure to cater to larger production volumes. For Q1FY24 of the total revenues, the exports: domestic mix stood at 65:35
- Escalations or the contract renewals is generally on annual basis January to December for international contracts and domestic contracts follow a financial year pattern
- As far as **green lead** is concerned the company is continuing with trials and commercial production can take a couple of quarters and making sure, there are no issues post the commencement of the same. With regard to the new verticals viz aluminium and plastics, the entire production capacities are expected to be completed over next couple of quarters post which the management anticipates good returns/realisations from both these verticals in FY25E. The Management indicated of adding **new suppliers** for the aluminium vertical whereas for plastics, this being internally generated from the batteries that gets recycled, the supplier levels have been maintained
- As far as venturing into **rubber recycling** is concerned, the management indicated of considering this as an opportunity probably after 1.5-2 years and at present would continue to stick to the verticals that the company has established so far
- For **Harsha Exito**, the machinery installations to enhance the overall lead metal capacities is anticipated to be completed by end of this financial year. The management expects the revenue contributions from the said unit to start flowing from FY25E
- Revenue contribution from **value added products**: ~50-55% is the general pure lead and 45-50% contribution is from alloys; the management expects this to scale up to ~70-75% and would form a significant part of the overall portfolio
- The overall **lead capacity** currently stands at ~60-62%. As far as the overall other operational expenses are concerned, there has been a slight increase in power and fuel costs, furnace oil (major fuel), the environmental related expenses are fixed for a particular year, however, the company has seen some savings in the freight costs. The company has added **new verticals** of aluminium as well as plastics division which is seeing an increase in the employee costs/ employee benefit expenses. These employees are added in the operations side of the business
- The company has committed order of ~60,000TPA and in addition to this, there are some additional spot orders as well. The order books are completely in line with the projection and growth therein for the division related to lead. As far as the aluminium segment is concerned, the company is in discussion for empanelment with customers and negotiations are in progress and in terms of the plastics division the company is already having an order book and is trying to enhance the production via the capacities and **fetch economies of scale** in the coming quarters. As of 30th June 2023, the company has short-term debt to the tune of ~Rs1370mn with working capital cycle of ~68 days. The company does not have any long term debts

Financials:

Performance (Q1FY24)							
Q1FY24 Result (Rs mn)	**Jun-23**	**Jun-22**	**y-o-y**	**Mar-23**	**q-o-q**	**FY23**	**FY24E**
Total Revenue	3208	3640	(11.9%)	4346	(26.2%)	14717	15305
EBITDA	133	177	(24.9%)	239	(44.3%)	784	980
Other Income	11	14	(20.1%)	12	(4.8%)	43	45
Interest	35	15	-	32	10.5%	68	127
Depreciation	23	21	5.5%	29	(21.0%)	101	114
Exceptional Items	0	0	-	0	-	0	0
Tax	21	39	(44.9%)	48	(55.5%)	166	197
Net Profit	**65**	**116**	**(43.8%)**	**142**	**(54.2%)**	**492**	**587**

Outlook and Recommendations:

The revenues for the quarter under reference witnessed a drop of ~11.9% (y-o-y basis). This was primarily due to the reduced volumes of ~8-10% (attributable to reduced working hours at POCL's smelting unit due to high maintenance activities which was a one-off). Reduced volumes and increase in power and fuel costs, furnace oil has led to an overall reduction in the Ebitda margins that stood at 4.15% for the quarter as against 4.87% in Q1FY23. However, going forward the Management anticipates the sales momentum to continue given a decent order book and the requisite infrastructure which would assist the company to cater to better production volumes in the near term. The company continues to enhance its footprint in recycling lead which has good growth potential for the next three or four years. Additionally, the company expects a significant revenue contribution (in FY25E) from the new verticals of aluminium and plastics. While the lead segment continues to be the core focus and strength of POCL, the Management has already predefined a road map to scale up the topline/volumes as well as add value added products in the areas of aluminium, copper, recycled plastics etc. These value added products specifically from aluminium would form a significant part of the overall portfolio in the medium term. POCL is working towards building up new verticals and discussing pre-feasibility/feasibility/analysis of other segments for a long term growth journey. All these initiatives will help absorb the fixed costs in near future, while the volumes as well as value will be added with time. POCL continues to be a strategic business leader with the intent to venture into new business verticals/segments, focus on cost optimization, consistently trying to reduce the import dependency and thus enhance the domestic RM procurement etc. From an industry point of view, recycling serves as an integral part of POCL with promising and positive developments even from the aluminium and plastics division in the near future. POCL has a focused approach towards the same and the Management would try to stay ahead of the curve and serve the demand. The stock has breached our recent target price of Rs450, and we revise the same to Rs500 with a long term perspective.

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