

Investor's Delight: Clariant Chemicals (India) Ltd. (CCIL) – "BUY"

"Value unlocking from Real Estate asset and sound business model makes it an attractive proposition"

Investment Summary

Clariant Chemicals (India) Ltd. is India's leading specialty chemicals producer and is the No. 1 player in Pigments, Biocides for Paints and Masterbatches. The employee base of 1000 plus generate sales of about Rs. 11 bn (in CY 2012) through its various businesses including Pigments (Coatings, Printing and Plastics and Special Applications), Additives, Industrial & Consumer Specialties, Detergents & Intermediates, Oil & Mining Services and Masterbatches. The Company remains a zero debt company with no long-term borrowings. Clariant International has stated in its Annual report that it expects revenues from India to jump 3 fold by 2016-17. Though management of Clariant Chemicals (India) Ltd remained silent on the road map to achieve this ambitious target, Mr. Henri Schloemer sounded very confident and hinted of a detailed plan being made in joint study with McKinsey. Of the expected 3 fold revenue growth, ~66% growth would be attributed by domestic factors and remaining would be supported by exports. Parent is highly committed for stable margin exports growth and will be assisting domestic entity to secure export orders. Parent is highly optimistic for resumption of Indian demand, particularly from Industrial & Consumer and Additives segment over medium to long term. Rising income level, higher young working age population and rising aspiration levels is generating remarkable shift in consumer preferences towards value added products. This, according to parent, would be a major growth driver and would eventually change revenue mix towards higher margin products

As per media reports the Company has put its Thane land up for sale and expects to raise Rs.1500-1600 crores from the 80 acre land parcel which translates into cash per share of Rs. 60. Cash-rich companies like Oberoi Realty, Piramal Realty and Lodha Developers are some of the serious contenders in the fray, sources suggest. The deal is expected to be closed within the next six months. Clariant has a chemical manufacturing unit on the Thane land parcel and is planning to relocate it to Gujarat once the land is sold off. Apart from monetizing the property, another reason for Clariant to sell the land and change the location of the chemical factory is its proximity to other residential areas. Clariant International, the holding company of Clariant Chemicals (India) Ltd is in talks to sell its leather services business to Dutch company, Stahl Holdings B.V, BSE filing states. Clariant would receive 23% of the shares of Stahl and a cash payment of approximately CHF 85 Mn in exchange for the sale of its business to Stahl. Stahl Holdings, a member of France-based Wendel Group provides high quality chemicals, dyes and coatings for leather and other applications. This transaction would expand Stahl's geographic coverage and its product range even further. Clariant Chemicals (India) Ltd. has leather service centres located at Chennai, Kanpur, Kolkata, Ranipet and Vaniyambadi. In 2012, the Clariant Leather Services business generated US\$295 mn in reported sales and a reported EBITDA before exceptional items of US\$26 Mn. With the proposed divestment of the Leather Services Business Unit to Stahl, the repositioning of Clariant's portfolio will be completed in the coming quarters.

Date	December 2, 2013
Industry	Specialty Chemicals
CMP	Rs. 590
Target Price	Rs. 960
Upside	63%
BSE/NSE Code	506930/CLNINDIA
Bloomberg Code	CLRC:IN
52 Week High	Rs. 673 (27 th Dec, 2012)
52 Week Low	Rs. 371 (28 th June, 2013)
Face Value	Rs. 10
Market Capitalization	Rs. 15.7 bn
Book Value	Rs. 188
Price/Book Value (x)	3x
Shareholding Pattern (%)	As on September 2013
Promoters	63.4 %
FII's	0.49 %
DII's	8.13 %
Public and Others	27.98 %

At CMP of Rs. 590, the stock is currently trading at 16 x its CY2012 Earnings which makes it attractively priced at mouth watering valuations. We value the stock on SOTP basis and arrive at a value of Rs. 980 (Rs. 60 per share

from expected land deal and assign a P/E of 12x at Estimated CY13 EPS of Rs. 75]. We recommend a “BUY” target price of Rs. 980 for investors with a horizon 6-9 months.

September 2013 Quarter performance

The Company's Sales for the third quarter ended Sept 30, 2013 stood at Rs. 346.7 crores (Rs. 267.1 crores in the corresponding previous year period), and the Net Profit after tax in the same period is at Rs. 124.0 crores, as compared to Rs. 16.8 crores in the corresponding previous year period. For the nine months ended Sept 30, 2013, Sales stood at 942.7 crores from Rs. 788.5 crores for the corresponding period of the previous year. The Profit (before exceptional items) for the same period stood at Rs. 108.7 crores compared to 101.7 crores in the previous year period. After considering the exceptional items and tax expenses, the Net Profit for the nine month period amounted to Rs. 172.9 crores as against Rs. 79.3 crores in the previous year period. The exceptional items of Rs. 126.7 crores, as of three/nine months ended Sept 30, 2013 was in respect of the profit on sale of businesses of Textile Chemicals, Paper Specialties and Emulsion. The Company has sold / transferred the business of textile chemicals, paper specialties and emulsions to Archroma India Pvt. Ltd. as on September 30, 2013 as a going concern and has received the total consideration of Rs. 209.15 crores. Clariant and Archroma have entered into business continuation agreement whereby Clariant will run the business for a transitory period in Trust for Archroma.

As per the management, the growth in sales can be attributed to the renewed focus, direction and execution of our strategy, especially in production turn-around time and emphasis on new business developments. Its recent Innovation workshops and other customer focused initiatives are an example of its strategy to closely partner with them and provide tailor-made services that result in a win-win for all

Key Business Segments

Pigments and Colors: The business segment earlier named as Intermediates and colors is renamed as Pigments and Colors to correctly reflect the product group, as the Company is no more engaged in intermediates business after divestment of its Diketene and Intermediate business in 2010. The segment now comprises of pigments, additives and masterbatches. Clariant is a leading global provider of organic pigments, pigment preparations and dyes and based on extensive experience and expertise in color, the pigment business helps to provide vibrant and safe colors to the world. The product portfolio meets the demands for key market segments of coatings, plastics and special applications and printing that include automotive, industrial, decorative and architectural paints and coatings, plastic applications including films, fibers, detergent coloration, cosmetics, aluminum finishing, traditional and non impact printing and electronic displays. Clariant's additives create value by improving the efficiency, safety, protection, durability and appearance of products such as plastics, coatings and printing inks. Clariant is a leading provider of flame retardants, waxes and polymer additives and serves customers across a wide range of applications and sectors including electronic, construction and automotive. Clariant is a global leader in masterbatches for color, additive concentrate and innovative performance solutions for plastics. Its customers span a broad range of markets that include packaging for home, personal care, food, drink and industrial; consumer goods appliances, electrical, sports, toys and construction; medical devices and pharmaceutical packaging; carpets, non-woven textiles and sports apparel; interior and exterior parts, engine and components for automotive sector. The manufacturing facilities and fully equipped technical service laboratories provide application support to the customers in adjusting to the changing needs of end users. The Company is a pioneer in the promotion of lead and chrome free pigments and in spreading the awareness on use of non-halogenated flame retardants. The capability of the Company to develop and produce new masterbatches with accuracy and consistency has helped in achieving high growth rates over the period. The total sales under this segment comprises of pigments, additives and masterbatches. The ratio of domestic sales to export sales was 65:35. The segment contributes 39% to the total sales and registered a growth of 10.7% over the previous year. The Company could not implement its project to set up the green field manufacturing facility for masterbatches in MIDC, Ambernath due to ongoing litigations

Dyes and Specialty Chemicals: The dyes and specialty segment includes dyestuffs, synthetic resins, binder materials, functional effects and coatings, auxiliaries and chemicals, comprising of specialty chemicals, emulsions and dyes for the textile, leather and paper industry and performance chemicals for personal care and industrial applications. Clariant is a leading producer of dyes and chemicals for the textile industry and meets the frequently changing specifications of brands and mills in apparel & fashion, automotive, home and technical textiles. Clariant provides dyes and specialty chemicals for pre-treatment, dyeing, printing and finishing of textiles, optical brighteners and chemicals for functional treatment of technical textiles and thus plays a key role throughout the entire textile supply chain. The Company offers solutions including colour trends analysis, color matching technology combined with processing efficiency, nanotech effects, environment friendly solutions and unique concepts that add to the ability of customers to fast move their products to markets and stay ahead of competition. Clariant is a leading provider of chemicals, technical services and solutions over the entire value chain of leather production. From beamhouse to finishing, Clariant provides high quality and environment friendly leather processing

chemicals and services and world class knowledge of leather upgrading and chrome free tanning solutions. Its customers in the shoe, automotive, furniture and garment segments benefit from customized technical solutions and expertise in performance leather and environmentally compatible solutions.

Clariant aims to provide knowledge and expertise in the management of whiteness, coloration, special coatings and strength for all kinds of paper and paper board, offering the most cost effective product choices and solutions. Key markets for Clariant products include printing and writing copy papers, coated papers and board, tissue papers, recycled papers, newsprint, packaging and specialized applications. Clariant's emulsions business is a major supplier of solutions in water based emulsions/polymer based dispersions. Being water based, the products are more suitable with less impact on environment avoiding the use of solvents. Key market areas for emulsions are decorative interior and exterior paints, primers, varnishes, anti-corrosion and industrial applications, concrete applications, roofing, tiling sealants and primers in construction, wood, paper, lamination, packaging and pressure sensitive adhesives and wide range of functional effects and coating applications for textiles, leather and paper.

Industrial & Consumer Specialties business is a leading provider of specialty chemicals and ethylene oxide derivatives for industrial and consumer care applications. With a strong focus on ecologically sustainable solutions, our key market segments include additives for concrete and mortar, dispersing agents, defoamers, biocides and emulsifiers for emulsion polymerization, ingredients for skin & hair care cosmetics, wet wipes and pharmaceutical applications, ingredients for household and industrial cleaning solutions, ingredients for hydraulic, metal working and other performance fluids, special solvents and fluids for heat transfer, gas scrubbing, formulations for fungicides, herbicides and seed treatments. With a wide range of products, the strong brand image of Clariant, knowledge and expertise of providing technical services and solutions in product development and application process to meet the needs of end users, the Company is well positioned in the business segment. The total sales under the dyes and specialty chemicals segment comprises of mainly textile chemicals, leather services, paper specialties, emulsions, industrial and consumer specialties. The ratio of domestic sales to export sales was 81:19. The segment contributes 61% to the total sales and registered a growth of 12.9% over the previous year

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