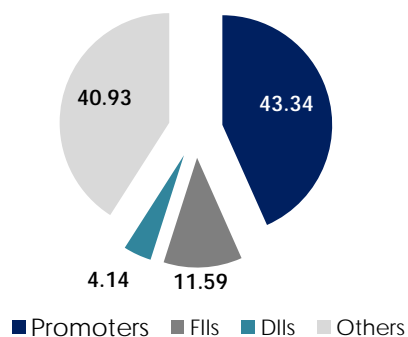


DCW Ltd. - Investor's Delight

4th June, 2013

Industry	Chemicals
NSE Code	DCW
BSE Code	500117
Bloomberg Code	DCW:IN
FV	Rs. 2

Shareholding pattern (%) as on March, 2013



Equity Capital (Rs in mn)	419.5
Networth (Rs. in mn)	5,367
Debt (Rs. in mn)	1,119
Market Capitalization	Rs. 2,580 mn
52 Week High/Low	Rs. 26.8/Rs. 12.25
Book Value as on Mar 2013	Rs.26
CMP	Rs. 12.3
Target Price	Rs. 26
Upside	111%

FINANCIAL SUMMARY (Rs. in mn.)

Particulars	FY09	FY10	FY11	FY12	FY13
Net sales	8,989	10,228	10,574	11,846	13,278
Operating Profit	527	1,798	1,026	1,248	2,485
OPM (%)	5.86	17.6	9.70	10.5	18.7
Reported PAT	143	676	289	307	1,049
PAT (%)	1.59	6.59	2.73	2.59	7.90
EPS	0.73	3.45	1.47	1.51	5.05
P/E(x)	17	4	8.1	8	2.4
P/BV(x)	0.77	0.64	0.61	0.57	0.49
Book Value (Rs.)	16	18.7	19.7	20.91	25

Source: Company, Ajcon Research

ABOUT THE COMPANY

Background

DCW Ltd. (formally Dhrangadhra Chemical Works Limited), the Company controlled by the renowned Sahu Jain family, was incorporated in January 1939 to take India's first Soda Ash factory in Dhrangadhra, Gujarat. Its ownership was acquired in the year 1949 by Padmabhushan Late Shri. Sahu Shriyans Prasad Jain. DCW has expanded, diversified and modernized its operations and is a Public Limited Company with a diversified range of products for supply to customers in both, domestic and international markets.

DCW is an industry pioneer with a strong presence in the Chlor-Alkali, Synthetic Rutile and PVC business segments, with a successful record of innovation and in pioneering new products and processes.

Key Products

- a) Caustic Soda
- b) Liquid Chlorine
- c) Hydrochloric Acid
- d) Beneficiated Illmenite
- e) Trichloroethylene
- f) Yellow Iron Oxide
- g) Femic Chloride
- h) Utox
- i) Soda Ash
- j) Sodium Bicarbonate
- k) Ammonium Biocarbonate

Manufacturing Units

a) Sahupuram Unit, Tamil Nadu

The Sahupuram Unit Works of DCW Limited (spread over 2500 acres) is situated in Tamil Nadu is an ISO 9001, OHSAS 18001 & ISO 14001 Certified on the Tuticorin-Tiruchendur State Highway about 4 km north of Tiruchendur. There is also an installation near the Tuticorin Port for storing Vinyl Chloride Monomer, the imported raw material used in the manufacture of PVC Resin.

The chemical products produced, DCW produces 150,000TPA of industrial salt for captive consumption.

The Company also runs 36MW furnace oil based Captive Power Plant and a 58.3MW coal based Cogen Plant as it has power intensive manufacturing processes

b) Dhrangadhra Unit, Gujarat

Dhrangadhra Works of DCW Limited is situated in Gujarat in the Surendranagar District on Gandhidham Express State highway about 120 km away from Ahemdabad and 36 km from Surnendranagar.

Segmental Performance Review: (Rs. mn)

Segment Revenue	Q4FY13	Q3FY13	Q4FY12	FY13	FY12
Soda Ash	528	440	521	1,834	1,749
% share in revenues	19.9	12.1	16.2	13.9	14.8
Caustic Soda	1,204	1,950	1,545	6,875	5,229
% share in revenues	45.4	53.8	47.9	52.1	44.3
PVC	892	1,215	1,121	4,305	4,743
% share in revenues	33.6	33.5	34.8	32.6	40.1
Others	27.7	19.3	33.1	176	93.9
% share in revenues	1.04	0.53	1.03	1.33	0.79
Net sales from operation	2,653	3,624	3,220	13,189	11,815
Segment (Profit before Interest and Tax)	Q4FY13	Q3FY13	Q4FY12	FY13	FY12
Soda Ash	57	67	31	103	111
% share in PBIT	18.3	12.3	13.5	5.2	14.2
Margin (%)	10.7	15.2	5.95	5.6	6.3
Caustic Soda	241	511	337.7	1966.5	899
% share in PBIT	77.7	93.5	148	99.1	115
Margin (%)	20	26.2	21.8	28.6	17.1
PVC	0.28	(34.39)	(155.9)	(192.2)	(278)
% share in PBIT	0.09	-	-	-	-
Margin (%)	0.03	-	-	-	-
Others	11	2.5	16.3	107	52
% share in PBIT	3.55	0.46	7.12	5.39	6.63
Margin (%)	39.7	12.9	49.2	60.7	55.4
Total	310	546	228.8	1,984	784
Less: Interest	66.29	79.6	94.5	321	340
Exceptional items	(0.39)	(0.58)	-	59	13
Total Profit before Tax	223.6	466.4	134.1	1,604	457

Source: Company, Ajcon Research

INDUSTRY OVERVIEW

Soda Ash

Soda ash is a prime requirement in glass making. "Demand from the glass industry has reduced mainly on account of slackness in the real estate and automobile sectors. These are the major glass consuming segments. This caused a fall in demand for soda ash. Glass sheet production fell from 9.4 million sq metres in November 2011 to 8.3 million sq metres in November 2012, a drop of 12 per cent. Production in December 2012 was 8.9 million sq metres, as against 10.8 million sq metres in the same month of the previous year.

With a reduction in glass production during the October-December quarter last year, soda ash producers are witnessing a fall in demand. They're now operating at lower capacities, say industry sources. The country's annual soda ash production capacity is a little over three million tonnes. GHCL, Tata Chemicals, Nirma and DCW are among the major producers. Though no new soda ash project has come up in the country in several years, the current players have added huge capacities. With the fall in demand from the glass industry, part of these capacities have remained idle," said an official of the Alkali Manufacturers' Association of India. Lured, industry sources say, by promising business opportunities in the glass industry, many soda ash producers shifted focus from light soda ash to dense soda ash. The latter is used in glass, while light soda ash is used in detergents. In India, dense soda ash is about a third of the production; the rest is light soda ash. According to industry estimates, glass, picture tubes, bulbs and tubes together constitute 54 per cent of the total demand for soda ash. A recent report by Capitaline says there is hope. "Recent Budget provisions will promote home ownership and give a fillip to a number of industries, including glass. Growth in the float glass segment is expected to pick up once interest rates start softening, leading to increasing demand for real estate," the report said. India's glass consumption growth is expected to increase in a number of major sectors such as consumer goods, pharmaceuticals, automobiles and construction. "The drop in demand from the glass industry will be partly compensated by demand from the detergent industry," said an industry source. Prices of soda ash have remained stable since October 2012.

(Source: Business Standard dated Mar 19, 2013).

Caustic Soda

Caustic soda (sodium hydroxide) is an essential ingredient in many industrial and commercial applications. It is manufactured through the electrolysis of sodium chloride (salt brine).

Caustic soda has a wide variety of applications which derive primarily from its ability as a strong alkali to react with many substances, including aluminum and zinc. Most of the sodium compounds formed by caustic soda are water soluble. The largest consumers of caustic soda are pulp and paper companies, chemical industries, and alumina producers. It is also used in soap and detergent, oil and gas, and textile industries. With all downstream applications, appropriate registrations and/or approvals may be required. Some uses are described below:

Pulp and Paper—both sulfate and sulfite pulps are purified by removing lignin compounds in the caustic extraction stages of multistage bleach plants. In some kraft mills, caustic soda is also used as a makeup chemical. It is also used as the initial treatment in deinking secondary fibers.

Rayon and Cellophane production by the viscose process requires caustic soda at two main stages. Cellulose is treated with caustic soda solution to mercerize it and form alkali cellulose, which is then dissolved in dilute caustic soda solution to form viscose prior to extruding rayon fibers and cellophane films.

Alumina Extraction—Caustic soda is used to digest bauxite ore, precipitating alumina (aluminum oxide). It is also used as an etchant in the finishing and chemical milling of aluminum products.

Soapmaking—Caustic soda saponifies fats into water soluble sodium-based soaps.

Textiles—Used in scouring, bleaching, desizing, lustering and mercerizing.

Petroleum Production and Refining—Caustic soda is used as an absorbent for carbon dioxide in light petroleum fractions; as an absorbent for sulfides in the purification of various fractions; and with chlorine for hypochlorite sweetening, a treatment step in the removal of various sulfur compounds.

Soda Ash Replacement—Changing economic factors influence this application in the manufacture of glass, paper, pulp, phosphates and silicates.

Renewable Fuels—caustic soda is used for pH adjustment and formation of in situ sodium methylate in bioethanol and biodiesel processing

PVC

Indian polyvinyl chloride (PVC) demand is expected to increase by 13-14% in the financial year ending 31 March 2013 compared with just 3% growth in 2011-2012. This is further evidence that, just perhaps, the decline in the country's overall macro-economic environment has bottomed out. "In volume terms, consumption will reach around 2.25m tonnes at the end of this financial year compared with 1.98m tonnes in 2011-2012," said a source with an Indian producer. We expect the improvement to continue as we are predicting that consumption will reach 2.5m tonnes by the end of 2013-2014. Further good news on the demand front is that polyethylene (PE) and polypropylene (PP) demand also grew very strongly last year, despite weaker than expected GDP (gross domestic product) growth. GDP is expected to expand by only 5.5% in 2012-2013, well below the government's target of 8% plus growth. And what might bode well for all petrochemicals and polymer demand in India during 2013-2014 is an expected recovery in GDP growth. For instance, the median of 30 estimates in a Bloomberg News survey is for 6.5% growth during the next financial year. Unlocking some of this potential might help India begin draw closer to China in terms of polymers consumption. At the moment, the gap is huge. In the case of PVC, again, for example, the 2.25m tonnes of Indian consumption estimated for 2012-2013 compares with an ICIS Consulting figure of 13.68m tonnes for China in the calendar year 2011.

Growth rebounds for DCW...

The rebound in growth for DCW during 2012-2013 is due to a slight improvement in business confidence over the last few months of the calendar year as the overall economy showed signs of picking up. Another more important factor behind the rebound was heavier than usual monsoon rains 2011-2012. This shaved some 100,000 tonnes off demand because of lower agricultural production. Seventy percent of Indian PVC demand is derived from pipe sales into the agricultural sector. Last year's monsoon, however, although it began very badly due to lack of rainfall, was good overall.

The monsoon season occurs between June-September. A further reason behind the rebound was improved affordability. In 2011-2012, end-users struggled to afford PVC, priced in rupees, as a result of the decline in the value of the local currency versus the US dollar. This resulted in more fillers being mixed with virgin resin. PVC imports will likely total 950,000-1m tonnes in 2012-2013 compared with 750,000 tonnes in 2011-2012, he said. There were no domestic capacity expansions during 2012-2013 and so extra demand was largely met by greater imports. But by end-2013, Reliance Industries will bring on-stream an additional 100,000 tonnes/year of capacity at Dahej, in the state of Gujarat. DCW Ltd and Chemplast, two other Indian PVC producers, are also planning expansions during 2013. This should mean that incremental demand growth in 2013-2014 will be met by local capacity rather than by imports.

OUTLOOK AND VALUATION

At the CMP, the stock is valued at 2.44x at FY13 EPS. With due consideration to factors like a) pioneer in Soda Ash industry, b) diversified revenue stream which mitigates the risk of cyclical downturn in a particular segment, c) DCW signed Technology License agreement with Arkema France for putting up Chlorinated Poly Vinyl Chloride (C-PVC) Plant at Shupuram Facility in Tamil Nadu, d) favorable debt: equity ratio, e) Company exports were Rs. 255.82 crores compared to Rs. 153.19 crores in last year a 60% rise in exports on better realization of Ilmenite coupled with higher tonnage f) capex plans to drive growth whose effect on topline to be witnessed in FY15-16, g) improved profitability in FY13 which is expected to continue in future, h) cheap valuation (0.49x of FY13 Book Value and trading 2.4x PE Multiple on FY13 EPS and Market Cap/Sales – 0.19x), we recommend **'BUY'** with a target price of Rs. 26(1x FY13 Book Value) for investors with a horizon of 6-9 months.

We do believe that stock can triple in three years time considering the huge expansions that the Company is currently undergoing.

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