

Date : 5th November, 2012

SREE RAYALASEEMA ALKALIES & ALLIED CHEMICALS LTD

Stock Performance Details

Current Price	: Rs. 12.15**
Face Value	: Rs. 10 per share
52 wk High / Low	: Rs. 13.30 / Rs. 7.52
Total Traded Volumes	: 13,64,999 shares**
Market Cap	: Rs. 82 crore**
Sector	: Commodity Chemicals
EPS (FY2012)	: Rs. 2.06 per share
P/E (TTM)	: 2.10 (x)^
P/BV (TTM)	: 0.30 (x)^
Financial Year End	: 1 st April - 31 st March
BSE Scrip Name	: SREERAYA
BSE Scrip Code	: 507753

**as on 5th November 2012; ^ as on September 2012;

Shareholding Details - September 2012

Particulars	Shareholding	
	Nos.	(%)
Promoter & Promoter Group Holding	2,80,60,658	41.58
Total Institutional Holdings (FIIs & DIIs)	2,09,65,000	31.06
Public Holdings	1,84,67,628	27.36
Total	6,74,93,286	100.00

Strategy Focus

- During the year SRAAC has incurred an amount of Rs. 665.5 million on Capital Expenditure towards Electrolyser, Boiler, Turbine, Chloromethanes Project and other normal expenditure. The funds required for the above were met from Promoters / Term loans and other internal accruals.
- Under the Chemicals division, the Company manufactures Caustic Soda, Potassium Hydroxide, Chlorine, Hydrochloric Acid etc. Chlorine is produced as a joint product along with Caustic Soda and Potassium Hydroxide. The Chemicals Division finds takers across a wide variety of industries including industrial products like paper, pulp, aluminium, PVC, pharmaceuticals etc while some products find application in water treatment, pigments, pulp, paper, textiles, pesticides, cleaning purposes of metal etc. For safe disposal of commercial chlorine, SRAAC has obtained in-principle approval of the financial institutions to set up Chloromethane project and has achieved financial closure for the same.
- For the Oil and Fatty Acids division, raw material prices have been extremely volatile and at the same time, the company also benefits from its composite plant and internal availability of many inputs like caustic soda, steam, Hydrogen. Castor oil derivatives (comprising of Hydrogenated Castor Oil, 12 Hydroxy Stearic Acid and Recinolic Acid), Fatty Acids, Soap noodles, Glycerine and bathing / toilet soap forms part of this division.
- In the Power division, the Company is relatively insulated from rise in power costs as it has a pass through in pricing the sale of power to Karnataka Power Transmission Corporation Limited.

Background

- Sree Rayalaseema Alkalies and Allied Chemicals Ltd. (SRAAC) is the flagship company of the TGV Group.
- It operates under three divisions namely Chemicals Division, Oils and Fats Division and Power Division.
- The power plant at Bellary is being operated with furnace oil as feed stock and the company delivers its generation to KPTCL under a power purchase agreement.
- Sree Rayalaseema Alkalies and Allied Chemicals has the unique distinction of being the pioneer of the Bipolar Membrane Cell Technology from Uttendenona Spa, Italy, in India.
- The company uses state-of-the-art equipment and latest technologies including the Costruzioni Meccaniche Bernardini (CMB) technology from Italy for its fatty acids division.
- The captive power plant used assures uninterrupted and cost-effective power supply to the manufacturing plant.
- The Company has ISO 9001, ISO 14001 and OSHAS 18001 certifications.

Financial Snapshot

Particulars	Standalone Financials		
	(Rs. In Million)		
Income Statement	FY12	FY11	FY10
Net Sales / Income from Operations	7,880.8	7,061.1	5,859.4
<u>Expenses</u>			
Cost of material consumed	3,929.6	3,796.3	3,206.8
Change in Inventories	14.3	-33.9	-18.9
Power & Fuel Cost	1,744.3	1,334.0	1,037.9
Employee Benefit Expenses	272.8	243.5	216.9
Administrative & Other Expenses	907.5	735.8	722.8
EBIDTA	1,012.3	985.4	693.9
Depreciation & Amortization	366.3	344.9	327.2
Finance Costs / Interest Expense	415.6	416.0	393.4
Other Income	45.9	47.3	322.8
Profit After Tax (PAT)	138.8	136.5	140.1
<u>Key Ratios - Income Statement</u>			
EBIDTA Margin (%)	12.8	14.0	11.8
PAT Margins (%)	1.8	1.9	2.4
<u>Balance Sheet</u>			
Networth	2,211.6	2,072.8	1,936.3
Non - Current Liabilities / Loan Funds	3,850.2	3,311.4	2,509.4
Non Current Assets / Fixed Assets	4,598.4	3,795.6	4,109.0
Inventories	770.2	625.2	490.0
Debtors	662.3	714.7	568.4
<u>Key Ratios - Balance Sheet</u>			
Debt : Equity (x)	1.7	1.5	1.4
Book Value (BV) (in. Rs.)	29.9	27.9	25.9
Return on Capital Employed (ROCE) (%)	12.1	14.0	15.6
Return on Equity (ROE) (%)	7.1	7.5	8.4
Debtors Turnover (x)	12.6	12.0	11.4
Inventory Turnover (x)	12.5	13.8	10.5
<u>Valuation Ratios</u>			
P/E (x)	4.3	4.8	5.8
P/BV (x)	0.3	0.4	0.5
EV / EBITDA (x)	3.6	3.6	3.1

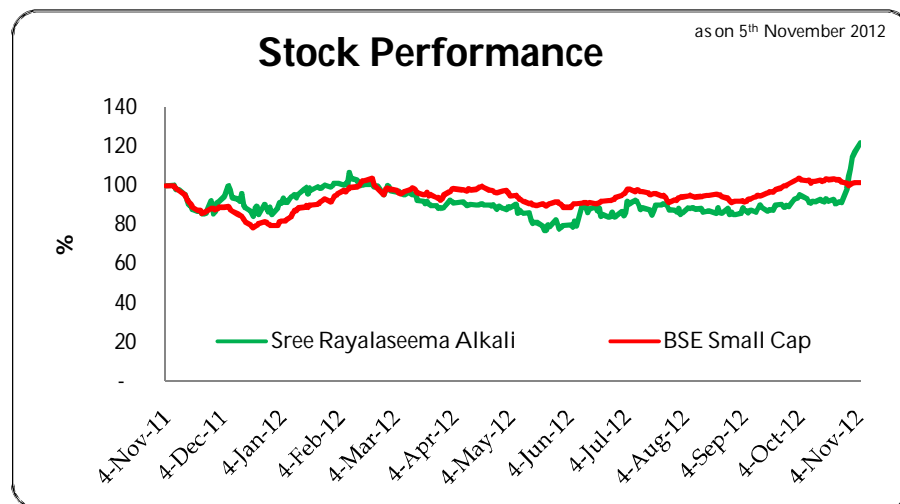
Source: Capitaline Database; Company Annual Report; as on 31st March, 2012

From the Research Desk of LKW's Gurukshetra.com

- The Caustic unit has produced 123534 MT of Caustic Soda as against 111516 M.T for the previous year. As against net sales of Rs.2492.4 million for previous year, FY 2012 sales rose by 32% to Rs. 3,284.9 million.

- The Potassium plant has produced 9,537 MT of Potassium Hydroxide as against 12,111 MT for the previous year. There was a de-growth of 12% at Rs. 545.6 million.
- The Castor oil plant yielded 14,355 MT of oil processing as against 13,190 MT for the previous year. The net sales registered a 30% growth at Rs. 1,603.6 million.
- The Fatty acid plant has processed 26,059 MT for the current year as against 25,277 MT for the previous year. The net sales of this division have increased from Rs. 1597.3 million to Rs. 1,828.2 million, up by 14%.
- The Power plant at Bellary has billed 1,578 lac KWH of electricity (including deemed generation) to Karnataka Power Transmission Corporation Limited (KPTCL) during the current year as against 1,821 lac KWH for the previous year.
- Overall sales registered a 11.6% rise at Rs. 7880.8 million in FY 2012. Cost pressures were witnessed in power and fuel as well as administrative and other expenses. EBITDA grew by 2.7% at Rs. 1012.3 million and PAT stood at Rs. 132.2 million, up by 1.7%. Margins saw a drop of 110 basis points and 20 basis points respectively.
- On account of increase in the total debt of the company as on 31st March, 2012 which stood at Rs. 3,850 million, the corresponding Debt to Equity ratio also expanded to 1.7(x) in FY2012 as compared to 1.5(x) in FY2011.
- For the June quarter of FY 2013, the Net sales dropped by 4.5% to Rs. 1935.7 million. Concurrently expenses also dropped by 7.7%, resulting in positive growth in EBITDA by 17.1 % at Rs. 308.8 million. Profit after Tax also grew by 30.9% at Rs. 96.5%.

Performance on the Bourses



Peer Comparison

The below mentioned table provides a snapshot of the financial performance of the company vis-à-vis its peers in the Speciality Chemicals Segment.

Particulars	Standalone Financials (Rs. in Million)		
	Shree Rayalaseema	Jayshree Chem	Punjab Alkalies
Net Sales	7,880.8	1,134.8	2,361.8
EBIDTA	1012.3	123.1	271.9
PAT	138.8	7.8	43.9
EBIDTA Margins (%)	12.8	10.8	11.5
PAT Margins (%)	1.8	0.7	1.9
P/E (x)^	2.4	44.6	55.5
P/BV (x)^	0.3	0.7	1.8
Debt : Equity (x)	1.7	2.3	5.6
EV / EBITDA (x)^	1.2	7.1	3.9

Source: Capitaline Database, as on 31st March; ^TTM as on June 2012;

About the Industry

The market size of the Global Chlor-alkali industry is US\$ 70 billion (2012), and that of the Indian Chlor-Alkali Industry is 4% (2012) of the world market. Globally, the installed capacity of Caustic soda is 78.6 million (2012), while Indian Caustic Soda capacity constitutes 4% (2012) of the global capacity. Domestic capacity utilization of the Caustic soda industry was 80% in the financial year 2011 as compared to 74% of the global Caustic Soda industry. Indian Caustic soda prices have firmed up gradually in the past two years. Domestic suppliers gained higher profit margins as imports got costlier because of the imposition of anti-dumping duty on Caustic Soda imports. The demand for textiles and apparels is growing in India, which will drive the demand for textile chemicals. However, the Indian industry has to strengthen its marketing and technical aspects to be globally competitive.

The year 2011-12 was a remarkable year for castor seed because the commodity was grown on high acreage, and production, as well as exports, was also at their peak. India is the largest producer of castor seeds in the world and the biggest exporter of castor oil. According to the Solvent Extractors' Association of India, castor oil exports were up 17.5 per cent during the first three months of the FY 2012-13 with June witnessing a 47 per cent jump in exports to 67,000 tonnes, compared with the same period a year ago.

Castor Oil derivatives are also seen in good demand as they find widespread industry application.

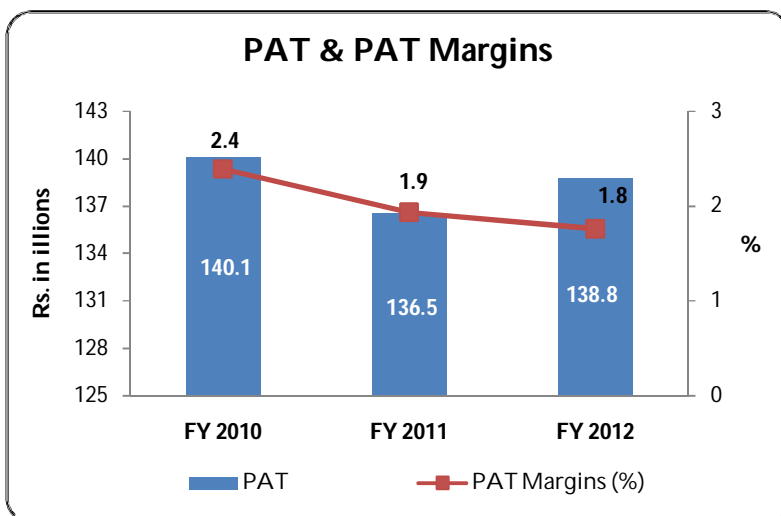
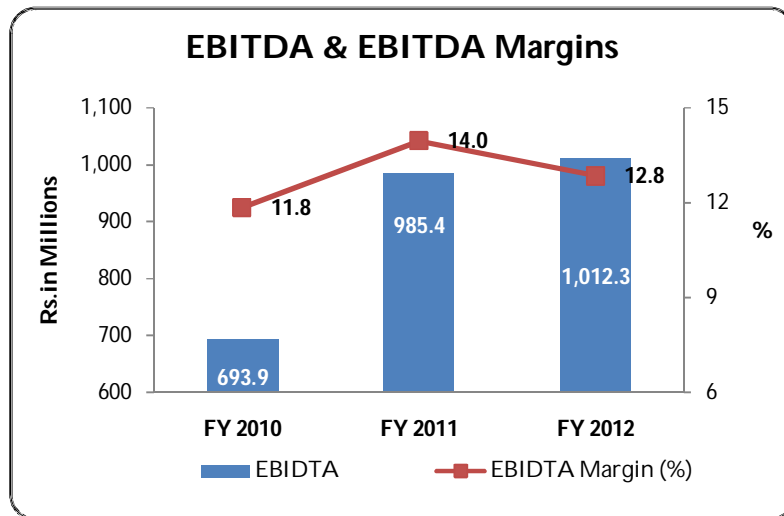
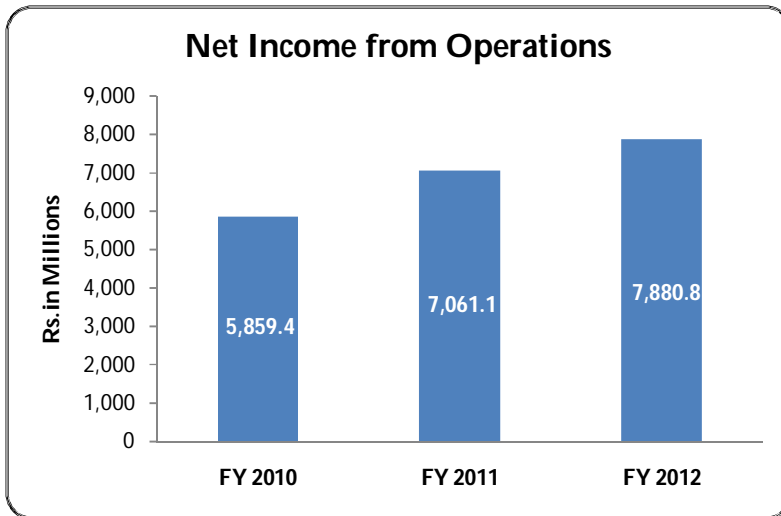
The power sector has witnessed a sharp deceleration in growth in 2011 and has been languishing for over a couple of years now.

Outlook

The Chlor Alkali industry finds wide spread industry application and is expected to perform in line with the overall economic performance. The Company has witnessed good traction in terms of industry demand however the near term performance maybe subdued due to adverse macro economic conditions. Castor Oil derivatives too appear to be in good demand and the same is expected to continue.

Even as regards the power segment, while the long term prospects appear to be fair given the power deficit status of India, the near term is particularly marked with certain pain areas like lack of policy initiatives from the Government, high input costs, and stubborn inflation and hence higher interest rates have all dented demand from the power sector companies for transformers, capacitors, winding wires, alternators etc.

Financial Graphs



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Disclosure

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