



HIDDEN GEMS

UNEXPLORED MULTIBAGGER SMALL CAP STOCKS

EQUITY RESEARCH REPORT

DYNEMIC PRODUCTS LTD.	BSE CODE: 532707
Industry: Dyes & Pigments	CMP: Rs. 46.00 (29/07/2014)
Market Cap: 521.11 (INR in Millions)	Target Price: Rs. 90.00
Date: July 29, 2014	Time Period: 12 – 24 months



Saral Gyan Capital Services

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An Independent Equity Research Firm

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1. Company Background



Dynemic Products Limited manufactures, markets, and exports dyes and dye intermediates in India and internationally. The company offers food colors used in foodstuff, beverages, animal feed, etc.; lake colors for use in pharmaceuticals,

cosmetic and personal products, spice compounds, bakery products, dairy products, and snack foods; and blended colors. It also provides food and drug cosmetic colors used in food, drugs, and cosmetic products; salt free dyes for use in cartridge ink, roller ball point ink, etc.; and D&C and natural food colors for use in pharmaceutical products. In addition, the company offers dyes intermediates, which are used in the manufacture of food colors, acid dyes, reactive dyes, ramazol dyes, metal complex dyes, and direct dyes. Dynemic Products Limited was founded in 1990 and is based in Ahmedabad, India.

The manufacturing facilities of Dynemic Products Ltd are certified with HACCP & ISO 9001:2000. Dynamic Overseas (India) Pvt Ltd is the subsidiary of the company. Dynemic Products Ltd was incorporated on June 14, 1990 as a private limited company with the name Dynemic Products Pvt Ltd. The company was promoted with the objective of carrying on the business of manufacturing S P C P, the raw material for Food Color, Reactive & Ramazole Dyes. Company acquired on lease a plot in GIDC Estate at Ankleshwar admeasuring 1888 sq meter for this purpose. In January 1993, the company was converted into public limited company and the name was changed to Dynemic Products Ltd. In the year 1997 the company acquired on lease two additional plots in GIDC Estate both admeasuring 1888 sq meter. In the year 1999, company started export sales. Company obtained the export order from PT Dyestar- Indonesia.

The company was promoted with the objective of carrying on the business of manufacturing S.P.C.P., the raw material for Food Color, Reactive & Ramazole Dyes. The company has acquired on lease the plot no. 6401 in GIDC Estate at Ankleshwar admeasuring 1888 Sq. Meter for this purpose. In the year 1997 the company acquired on lease additional plot no. 6415 & 6416 in GIDC Estate both admeasuring 1888 Sq. Meter.

In the year 2000 the company acquire the running business of M/s Saffron Dye Stuff Industries & started manufacturing wide range of food colours at the premises 3709/6, G.I.D.C Estate, Ankleshwar having plot area admeasuring 3700 Sq. Meter.

As the company aims to provide entire range of qualitative & quantitative services to Food Industry, at its Unit I Company commenced manufacturing of food colour namely Tartrazine in the year 2000-01. Both the units at Ankleshwar are modern and have eco-friendly plants with in-house testing facilities to control quality at every level of manufacturing.

Dynemics Products gained goodwill in the short span of time due to its quality product. The Company has a well-equipped state of art in house laboratory which conduct test of every parameter of food colour & Dye Intermediates laid down under national & international authorities.

In mid of 2005, the company incorporated a subsidiary company, namely Dynemic USA Inc, to expand geographical as well as their product coverage and capture the opportunities for their products in USA.

During the year 2008-09, Dynemic Products completed its expansion programme and thus increased the total production capacity from 1980 MT to 5700 MT. During the year 2009-10, the company initiated to develop D&C Colors (Colors that are used in Drugs, Hair Care, Cosmetics, Personal Care) & InkJet Dyes (these are used in producing Inks for Printing with InkJet Nozzle on various substrate like, Leather, Various Textile Products, Food & also for producing Ink for Computer Printers, Writing Ink, Marking Ink, Finer Liner Ball Point Ink & other Ink Industries)

The Company exports its product to around 45 countries worldwide. Also the Company has its office in USA and expects to capture good market in American continent. All these have led the company to acquire and retain a status of largest manufacturer and supplier of food colours and dye intermediates in India.

Application of food colours & dye intermediates

Confectionary	Beverages	Processed Food
Jellied candy	Carbonated Drinks	Meat
Hard candy	Soft Drinks	Processed cheese
Pan-coated candy	Dry-mix	Jams and jellies
Chewing gum	Juice	Fruit flavored or gelatins
Candy wafers	Sports beverages	Pudding and pie filling mixes

Cosmetic & Personal Care	Pharmaceuticals	Dairy Products
Lotions / Creams	Coated and Compressed Tablets	Processed cheese
Lipsticks	Wet Granulations	Yogurts
Eyeliner & Eye Shadows	Pharmaceutical Suspension	Ice cream
Toothpaste	Capsules	Margarine
Deodorants	Ointments	Milk
Soaps / Shampoos		

Products:

1. Food Colour: A Primary Food color is water-soluble, and exhibits coloring power when it is dissolved. Synthetic Food Colors are in more use than the Natural Colors, because of availability of wide hue range and competitive prices



2. Lake Colour: Lake Colors are dispersible in vegetable oil, and can be mixed with fats, oils, etc. Lake colors are more stable than the water-soluble colors, thus it is widely used in Cosmetic & Pharmaceutical industry. Dynamic offer Lake Colors in three concentrations 15-22 %, 23-30%, 31-38%

3. Blended Colour: Due to limited basic colors availability, the color desired to be given to the food, has its limitation. In accordance to have more hue and color Blended colors are used. Blended colors are mixture of two or more water-soluble color or lake colors. It's customized products



4. FD & C Colour: Dynamic Provides complete range of FD & C (Food Drug & Cosmetic) Colors, which are approved by US FDA.

5. Natural Food Colours: These are the natural food colours mainly used for food.



6. Salt Free Dyes: Dynamic has developed a wide range of Salt free dyes for Inkjet Industry. Salt free dyes are manufacturing by using membrane technology. During salt free process, salt content and other impurities are removed and that improved product solubility

7. D & C Colour

8. Dye Intermediates

Manufacturing Units

Manufacturing facilities include two well-equipped plants spread over 50000 Sq Mt of area. The Plant's standards and facilities have been defined and adhered to international norms & requirements. Plants are HACCP (Hazardous Analytical Critical Control Point) & ISO 9001:2000, ISO 14001 (Environment Management System) certified.



Production systems of Dynamic include quality control checks at all stages of manufacturing, change control system, periodic internal quality audits, timely calibrated equipment & methods, and continuous training & skill up gradation of all personnel. The plant can handle high pressure & high temperature reactions, and features the latest utility & waste handling systems.

Dynamic, manufacture major Raw Materials (Dye Intermediates) of Food Colors on our own with specific Quality criteria to ensure that the Food Color manufactured from it is as per highest Quality Standards & enable to offer consistent quality.

All the products manufactured by Dynamic meet the regulatory requirement of BIS, EU, FDA & WHO Specification, it also fulfill criteria of Kosher & Halal Certification.

Research & Development

Dynamic believes in continuous innovation & development of new molecules. Since beginning, Dynamic believes to satisfy more and more customers by providing custom application according to their requirements and technical information.

Highly qualified personnel are involved in continuous research in company's lab on offer wide range of colors to meet the customer requirement. Latest automated system is in operation for mass production with best quality and competitive prices possible.

Dynamic believes in continuous development by incorporating the latest technology to achieve better quality. The company has established well-equipped Quality Control Laboratory with latest sophisticated instruments like HPLC, A.A.S, Spectrophotometer, Color Matching Machine, Potentiometer etc.

2. Recent Development

i) Board recommends dividend and Postponed the agenda item for sub division of shares - 29th May 2014

Dynemic Products Ltd has informed BSE that the Board of Directors of the Company at its meeting held on May 29, 2014, inter alia, has decided the following matters:

1. Recommended the dividend of Rs. 1.50 per share i.e. 15% per share subject to approval of members in the next annual general meeting.
2. The Twenty Fourth Annual General Meeting of the members of the Company is scheduled to be held on September 11, 2014.
3. The Board postponed the agenda item for sub-division of shares.

On 19th May, 2014, company announced that board of directors recommend and consider sub-division of Equity Shares of face value Rs. 10/- each into 10 equity shares of face value Rs. 1/- each.

This was not a good move as this would have resulted the stock to trade as a penny share and become an operator's play, we wrote to company officials seeking the clarification for such a move. We believe, company has realized the risk and hence postponed it.

i) Increase in Promoter's Share Holding during last quarter

Promoter's shareholding in the company is increased by 0.77% during last quarter. Promoters have increased their stake from 41.93% to 42.70%. Below are the detail of transactions made by Promoters in the month of April and May 2014

Date	Person	Buy / Sell	Transaction Type	No of Shares	Price (Rs)	Value (In Lakhs)
May 19, 2014	Kiritbhai Patel	Buy	Off Market	18,150	33.35	6.05
May 12, 2014	Kirtibhai Patel	Buy	Off Market	7,500	33.05	2.48
Apr 29, 2014	Bhagwandas K Patel	Buy	Market	14,000	35.65	4.99
Apr 24, 2014	Bhagwandas K Patel	Buy	Off Market	16,300	34.80	5.67
Apr 22, 2014	Bhagwandas K Patel	Buy	Off Market	16,100	33.35	5.37

3. Financial Performance

Dynemic Products net profit rises 44.44% in the March 2014 quarter

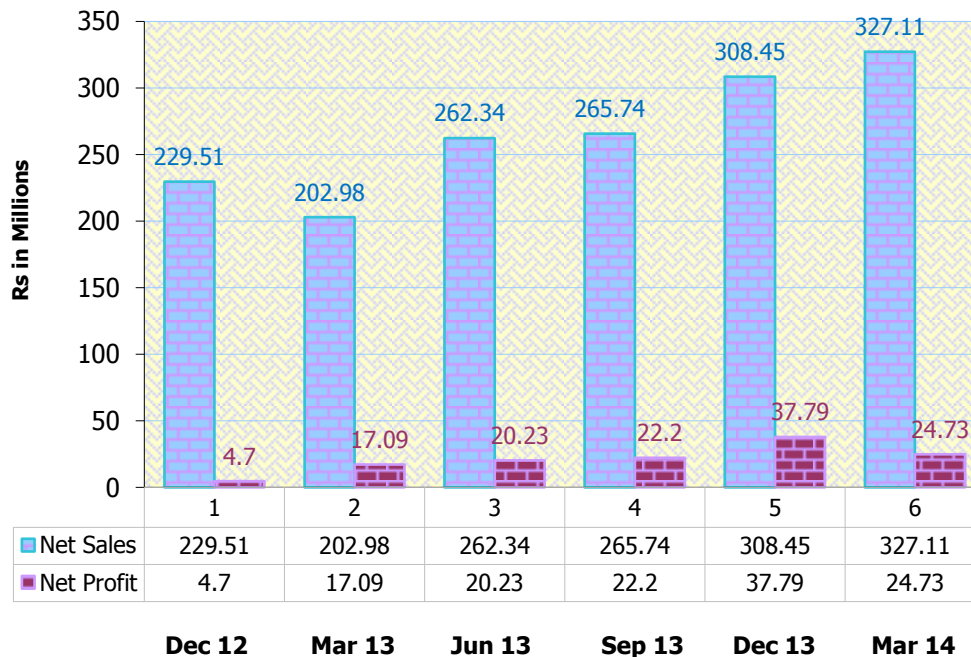
Net profit of Dynemic Products rose 44.44% to Rs 24.7 million in the quarter ended March 2014 as against Rs 17.1 million during the previous quarter ended March 2013. Sales rose 61.15% to Rs 327.11 million in the quarter ended March 2014 as against Rs 203 million during the previous quarter ended March 2013

For the full year, net profit rose 136.26% to Rs 102.3 million in the year ended March 2014 as against Rs 43.3 million during the previous year ended March 2013. Sales rose 36.93% to Rs 1138.4 million in the year ended March 2014 as against Rs 831.4 million during the previous year ended March 2013.

Dynemic Products net profit rises 704.26% in the December 2013 quarter

Net profit of Dynemic Products rose 704.26% to Rs 37.8 million in the quarter ended December 2013 as against Rs 4.7 million during the previous quarter ended December 2012. Sales rose 34.42% to Rs 308.5 million in the quarter ended December 2013 as against Rs 229.5 million during the previous quarter ended December 2012.

Last 6 Quarters Net Sales & Profit



Current & Expected Earnings

Quarterly Ended Profit & Loss Account

Particulars (Rs in Millions)	Jun 2013	Sep 2013	Dec 2013	Mar 2014	Jun 2014 E	Sep 2014 E
Audited / UnAudited	UA	UA	UA	UA	UA	UA
Net Sales	262.34	265.74	308.45	327.11	318.74	326.86
Total Expenditure	223.92	226.46	245.93	281.05	266.46	271.75
PBIDT (Excl OI)	38.42	39.28	62.52	46.06	52.28	55.11
Other Income	-0.57	0.45	0.27	3.56	0.61	0.64
Operating Profit	37.85	39.73	62.79	49.62	52.89	55.75
Interest	4.01	2.79	3.15	3.71	4.11	4.32
Exceptional Items	0	0	0	0	0	0
PBDT	33.84	36.94	59.64	45.91	48.78	51.43
Depreciation	4.49	4.51	4.52	4.58	4.62	4.85
Profit Before Tax	29.35	32.43	55.12	41.33	44.16	46.58
Tax	9.12	10.23	17.33	16.6	17.54	17.71
Provisions & contingencies	0	0	0	0	0	0
Profit After Tax	20.23	22.2	37.79	24.73	26.62	28.87
Extraordinary Items	0	0	0	0	0	0
Prior Period Expenses	0	0	0	0	0	0
Other Adjustments	0	0	0	0	0	0
Net Profit	20.23	22.2	37.79	24.73	26.62	28.87
Equity Capital	113.28	113.28	113.28	113.28	113.28	113.28
Face Value (IN RS)	10	10	10	10	10	10
Reserves						
Calculated EPS	1.79	1.96	3.34	2.18	2.35	2.54
Calculated EPS (Annualised)	7.14	7.84	13.34	8.73	9.39	10.19
No of Public Share Holdings	6580383	6580283	6578723	6578723	NA	NA
% of Public Share Holding	58.09	58.09	58.07	58.07	NA	NA

Expected Earnings for 1st and 2nd Qtr FY 2014-15:

Dynamic Products Ltd has posted excellent growth in FY 2013-14. In last 3 years, company sales have been almost doubled along with net profits.

We believe that company will maintain its operating profit margins around 15% with significant increase in sales in coming quarters considering good product offerings and increase in demand from domestic and export markets.

4. Peer Group Comparison

PEER GROUP	Dynemic Products	Poddar Pigment	Vidhi Dyestuffs	Asahi Songwon
CMP	46.00	112.20	5.15	105.55
52 W H/L	50.95/13.10	121.00/35.55	6.69/2.32	128.00/53.00
Market Cap	521.11	1190.44	257.22	1295.34
Results (in Million)	Mar-14	Jun-14	Mar-14	Mar-14
Sales	32.71	85.24	36.62	82.31
PAT	2.47	3.97	2.32	2.42
Equity	11.33	10.61	5.00	12.27
EPS	9.03	13.65	1.20	13.74
P/E	5.09	8.22	4.30	7.68

5. Key Concerns / Risks

- The continuous increase in cost of inputs is a matter of concern.
- High cost of power and gas which lead to increase in manufacturing cost
- Highly competitive product
- Strict pollution norms
- Fluctuation in exchange rate

6. Saral Gyan Recommendation

- ✚ Colorants are used by various Industry especially by food, drug, cosmetic, personal care and FMCG industry in order to impart wide range of desired shades, improve on visual perception. Increasing consumption of these products especially in Asia Pacific and Latin America are expected to drive colorant demand over the next five years. Sales turnover of Dynemic Products has grown by almost 100% in the last 3 years with similar growth in profitability, we believe company will continue to deliver similar growth with good demand for its products from domestic and export markets.
- ✚ Dynemic Products installed MEE for treating the effluent generated by both the units as per GPCB norms in 2013. Due to MEE implementation, company had incurred Rs. 4.57 crores (45.7 million) on working capital and Rs. 47 lacs on fixed assets due to which net profit after taxes last year decreased by 18%. However, this is expected to benefit the company going forward as still there are many companies in their competition operating without MEE installation.
- ✚ Recently, Dynemic Products has been allotted a plot in Dahej - III Industrial Estate having plot area of 80000 sq.mt. Company is planning to start Unit III for manufacturing Dye Intermediates and other Allied chemicals. This is expected to further boost up the sales turnover of the company.
- ✚ Dynemic Products got its Credit Rating through CRISIL last year, where CRISIL has assigned BBB/stable rating on long term and short term bank facilities of the company. A good rating from CRISIL carries weight with lenders. It also helps company to build credibility for their business and gain confidence from business partners.

Instrument Category	Rating	Rating Outlook
Long Term	CRISIL BBB	Stable

Rating Rationales

25-APR-2013

Dynemic Products Limited: 'CRISIL BBB/Stable' assigned to bank facility(ies)

- ✚ Increase in shareholding by Promoters during last quarter gives further confidence in terms of bright future prospects of the company. Promoters have increased their sharing holding by 0.77% through market purchase at price range of 33 to 36.

- As per our estimates, Dynemic Products Ltd can deliver bottom line of 124.6 million for full financial year 2014 – 15, annualized EPS of Rs. 11 with forward P/E ratio of 4.2 X for FY 2014-15, which makes stock an attractive bet at current market price.
- Management has rewarded shareholders by paying consistent and uninterrupted dividends over last many years. Company has distributed more than 25% of its net profits in form of dividends.

Dividend Payout Ratio						
Year	Mar'09	Mar'10	Mar'11	Mar'12	Mar'13	Mar'14
Dividend Payout Ratio	59.47%	30.31%	30.09%	27.74%	33.95%	16.18%

For FY 2013-14, company has declared the dividend of Rs. 1.50, dividend yield at CMP of 46 is 3.26. Attractive valuations with high dividend yield offers good upside potential with limited downside risk.

- On equity of Rs. 113.28 million, the estimated annualized EPS for FY 14-15 works out to Rs. 11 and the Book Value per share is Rs. 45.3. At current market price of Rs. 46, stock price to book value is 1.02.

Considering reasonable valuations, increase in product offerings and good demand of company's product in domestic & export markets, we find Dynemic Products Ltd an attractive investment opportunity from medium to long term perspective. Saral Gyan Team recommends **"BUY"** on **Dynemic Products Ltd.** for a price target of Rs. 90 over a period of 12-24 months.

Buying Strategy:

- 60% at current market price of Rs. 46
- 40% at price range of Rs. 36 – 40 (in case of correction in stock price)

Portfolio Allocation: 3% of your equity portfolio

7. Disclaimer

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