



UNEXPLORED MULTIBAGGER SMALL CAP STOCKS

EQUITY RESEARCH REPORT

INDO BORAX & CHEMICALS LTD.	BSE CODE: 524342
Industry: Commodity Chemicals	CMP: Rs. 313.10 (10/04/2016)
Market Cap: 100.47 (INR in Crore)	Target Price: Rs. 600
Date: April 10, 2016	Time Period: 12 – 24 months



Saral Gyan Capital Services

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1. Company Background



Indo Borax & Chemicals Ltd. (Indo Borax) is an India based chemical manufacturing company. The company is principally engaged in the manufacture of boric acid and borax. Its products include boric acid powder, boric acid granular, boric acid (I.P.), borax decahydrate granular, and borax decahydrate crystal. Boric Acid manufactured by the company has powder and granular variants; and Borax has granular and crystal variants.

Indo Borax manufacturing plant is located at Pithampur, Madhya Pradesh. Indo Borax was established in the year 1980 and was listed on the Bombay Stock Exchange in the year 1993.

The company's products are used as inputs in various pharma and healthcare products such as eye wash, ointments, skin creams, mouth wash and shampoos. That apart these products also find application in manufacturing across various other industries such as paper, textiles, agro chemicals, plastics, auto and even in the steel industry for welding and soldering operations and in fire extinguishers.

The plant employs continuous process and is capable of generating its own power requirements. It also enjoys the approval of food and drug administration department for manufacturing pharmaceutical grade of boric acid. Superior product quality, together with highly dependable supplies, has earned Indo Borax a good reputation with its customers.

The company's products can be used in various applications in multiple industries:

- As fluxes and metallurgical operation.
- As ramming mass.
- As boron chemicals.
- As fire retardant.
- In electroplating industry as buffer (chrome plating, nickel plating)
- As catalysts (cyclohexane oxidation, hydrocarbon oxidation)
- In condensers, dishwashing products, lubricants, nuclear applications.
- In nylon dyeing, nylon manufacturing.
- In agriculture as micronutrient fertilizer.
- In oil well compounds, ore beneficiations, grinding wheels, photographic plating solutions, polyvinyl alcohol, rust inhibitors, semiconductors.

2. Recent Developments

i) Pithampur Plant to remain close for Upgradation – 15th Mar'16

Indo Borax has informed that the plant at Pithampur will remain closed from March 15, 2016 to April 15, 2016 for upgradation of electricity transformer, sub-station and other related equipment's.

However, there will be no effect on the sales during the closure period of plant, as the Company is having sufficient inventory.

ii) Company completes its Capacity Expansion & Commence Production – 15th Dec'15

Company has increased installed capacity of boron products by 5,600 MT per annum. With recent expansion, the installed capacity of boron products is increased by 38.89% from 14,400 MT per annum to 20,000 MT per annum.

As informed by the company, production capacity expansion has been completed and the production is commenced from December 15, 2015.

It's important to note that company has to shut down its manufacturing operations due to annual maintenance and production capacity expansion from October 10, 2015 till end of November, 2015.

iii) Indoborax Infrastructure Pvt. Ltd, wholly owned Subsidiary Company – 31st Mar'15

Indo Borax was holding 60% shares in Indoborax Infrastructure Private Limited (IIPL) and balance 40% were held by promoters of Indo Borax. The Company has purchased balance 40% shares of Indoborax Infrastructure Private Limited (IIPL) held by promoters. A subsidiary company, Indoborax Infrastructure Private Limited is became a wholly owned subsidiary company as on 31st March, 2015.

The residential building project for 11 units was completed. Out of 11 units constructed, company has sold 9 units till 31st March, 2015. In FY14-15, the company recorded turnover of Rs. 14.84 crores and earned profit after tax of Rs. 1.13 crore for the year.

iv) Buy Back of Equity Shares – 27th Feb'14

Board of Directors of the company at its meeting held on 27th February, 2014 approved the Buy-back of up to three lakhs fully paid up Equity Shares of Rs. 10 each. Company commenced Buy Back offer on 21st May 2014 which was closed on 21st May 2014. The company has bought back and extinguished 2,72,000 Equity Shares of Rs.10 each of an aggregate face value of Rs. 27,20,000 at an average price of Rs. 125.99 per shares, utilizing ~Rs. 3.43 crores.

3. Financial Performance

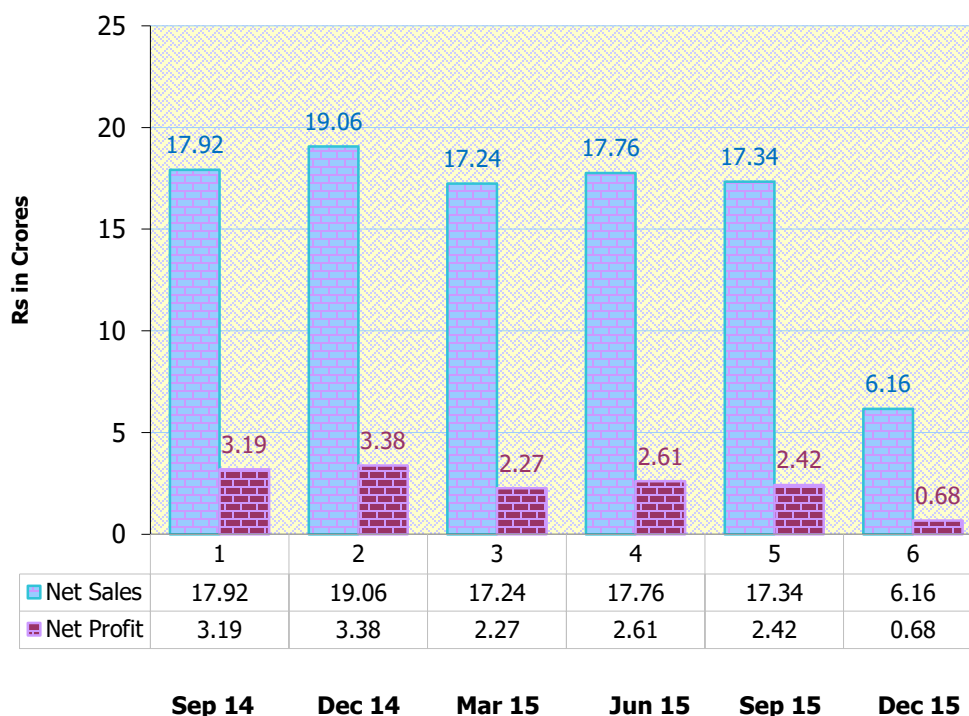
Indo Borax & Chemicals standalone net profit declines 79.88% in the December 2015 quarter

Net profit of Indo Borax & Chemicals declined 79.88% to Rs 0.68 crore in the quarter ended December 2015 as against Rs 3.38 crore during the previous quarter ended December 2014. Sales declined 67.68% to Rs 6.16 crore in the quarter ended December 2015 as against Rs 19.06 crore during the previous quarter ended December 2014.

Indo Borax & Chemicals standalone net profit declines 24.14% in the September 2015 quarter

Net profit of Indo Borax & Chemicals declined 24.14% to Rs 2.42 crore in the quarter ended September 2015 as against Rs 3.19 crore during the previous quarter ended September 2014. Sales declined 3.24% to Rs 17.34 crore in the quarter ended September 2015 as against Rs 17.92 crore during the previous quarter ended September 2014.

Last 6 Quarters Net Sales & Profit



Current & Expected Earnings

Quarterly Ended Profit & Loss Account (Standalone)

Particulars (Rs in Crores)	Mar 2015	Jun 2015	Sep 2015	Dec 2015	Mar 2016 E	Jun 2016 E
Audited / UnAudited	UA	UA	UA	UA	UA	UA
Net Sales	17.24	17.76	17.34	6.16	18.45	19.97
Other Operating Income	--	--	--	--	--	--
Total Income - Operations	17.24	17.76	17.34	6.16	18.45	19.97
Raw Materials Consumed	10.13	9.88	8.83	2.58	10.51	11.15
Purchase of Traded Goods	--	--	--	--	--	--
Increase/Decrease in Stocks	-0.52	0.68	0.16	0.03	-0.30	0.49
Power & Fuel	--	--	--	--	--	--
Employees Cost	0.6	0.61	0.66	0.38	0.63	0.67
Depreciation	0.3	0.23	0.28	0.3	0.35	0.30
Provisions And Contingencies	--	--	--	--	--	--
Other Expenses	4.29	3.73	4.48	2.52	4.47	4.11
P/L Before Other Income	2.44	2.63	2.93	0.35	2.79	3.25
Other Income	0.88	1.08	0.66	0.63	0.7	0.88
P/L Before Int., E. Items & Tax	3.32	3.71	3.6	0.99	3.49	4.13
Interest	0	0	0	0	0	0
P/L Before E. Items & Tax	3.32	3.71	3.59	0.99	3.49	4.13
Exceptional Items	--	--	--	--	--	--
P/L Before Tax	3.32	3.71	3.59	0.99	3.49	4.13
Tax	1.04	1.09	1.17	0.31	1.09	1.32
P/L After Tax – Ord. Activities	2.27	2.61	2.42	0.68	2.40	2.81
Prior Year Adjustments	--	--	--	--	--	--
Extra Ordinary Items	--	--	--	--	--	--
Net Profit/(Loss)	2.27	2.61	2.42	0.68	2.40	2.81
Equity Share Capital	3.21	3.21	3.21	3.21	3.21	3.21
Calculated EPS	7.05	8.15	7.54	2.11	7.47	8.75
Calculated EPS (Annualised)	28.20	32.60	30.16	8.44	29.88	35.00
No Of Public Shares Holding	0.14	0.14	0.14	0.14	NA	NA
Public Share Holding (%)	44.58	44.58	44.58	44.58	NA	NA

It's important to note that company has to shut down its manufacturing operations due to annual maintenance and production capacity expansion in Oct and Nov month of 2015, hence company delivered poor results in its 3rd quarter.

As company's capacity expansion is already completed, we believe company will post decent growth sales and profits in coming quarters with rise in demand of its products.

4. Peer Group Comparison

PEER GROUP	INDO BORAX & CHEMICALS	BORAX MORARJI
CMP	313.10	26.50
52 W L/H	270.00/397.90	24.60/47.95
Market Cap	100.47	11.97
Results (in Crores)	Dec-15	Dec-15
Net Sales	6.16	10.95
PAT	0.68	-2.14
Equity	3.21	4.52
EPS (TTM)	24.85	-16.99
P/E	7.67	0.00

5. Key Concerns / Risks

i) Company imports more than 80% of its raw material requirement as borax mineral is scarce in India. As the basic input of the boron minerals are imported, thus timely availability of basic inputs at competitive prices in desired quality, quantity and composition is expected to remain a matter of concern. Any delay in availability of basic raw materials could affect companies operations.

ii) Government policy in terms of encouraging import of finished products is a key concern, this will impact domestic industries and thus the margins may come down resulting in unpredictable operations.

iii) Any major changes in trends with respect to boric acid / borax can have a long term impact on the business of the company.

6. Saral Gyan Recommendation

- ✚ As per report published by Transparency Market Research, global boron compounds (Borax, Boric Acid and Others) market is likely to register CAGR of 6.9% till 2020. Increasing demand from the ceramic tile industry for boric acid, which is an oxidized product derived from boron, will push the demand for boron compounds. Furthermore, rising application of boric acid in fiberglass is also anticipated to fuel demand from the global boron compounds market. However, limited availability of boron ore, concentrated only in a few regions around the world, makes it difficult for companies in the industry to ensure smooth operation.
- ✚ As per capacity expansion plan, Indo Borax has recently increased installed capacity of boron products by 38.89% from 14,000 MT per annum to 20,000 MT per annum. The estimated cost of expansion is ~7 crores which was funded through internal accruals. With robust demand of company's products for various application from different industries, we believe company will be able to utilize additional capacity effectively without any challenges.
- ✚ Indo Borax has to shut down its manufacturing operations due to annual maintenance and production capacity expansion from 10th Oct'15 till end of Nov'15, hence company's revenue and profit took a hit in Dec'15 quarter. Sales declined 67.7% to Rs 6.16 crore in Dec quarter as against Rs 19.06 crore in Dec'14 quarter mainly due to discontinuity of operations. As overall demand of boric acid and borax is robust, company can deliver strong top line & bottom line growth in coming years.
- ✚ Company has ventured into Real estate business through its 100% subsidiary Indo Borax Infrastructure Pvt. Ltd. which has constructed a residential building project consisting of 11 flats with total area in the range of 20000-22500 sq ft in the prime location of Santacruz, Mumbai. Out of 11 units constructed, company has already sold 9 units till 31st March 2015. Subsidiary company is expected to do well in real estate segment going forward.
- ✚ Indo Borax is a debt free company with high reserve surplus. The company is having cash and cash equivalents above Rs. 15 crores. Overall, the financial performance of the company has been good in terms of growth, profitability, return ratios and cash flows from operations in last 5 years. Company has registered sales CAGR of 19.84% and profit CAGR of 18.03% during last 5 years with ROE of 17.77%.

Key Financial Parameters	Mar 2011	Mar 2012	Mar 2013	Mar 2014	Mar 2015
Return on Equity (%)	19.00	15.54	21.18	15.93	17.99
ROCE (%)	18.13	14.85	20.11	15.23	17.40
Operating Profit Margin (%)	26.39	20.22	25.53	19.37	21.31
Net Profit Margin (%)	18.43	15.31	17.45	13.54	15.50
Debt to Equity (%)	0.08	0.1	0.11	0.07	0.06
Working Capital Days	112	137	114	109	104

- As of Dec'15, promoter's shareholding in the company is at 55.42% without pledging any shares. FII and DII shareholding is nil in the company. Even though promoters holding was high, the company has bought back 2,72,000 equity shares of Rs.10 each at an average price of Rs. 125.99 per share in 2014, utilizing ~Rs. 3.43 crores under buy back offer which is positive for such a small cap company.
- Management has rewarded shareholders by paying regular dividend since last 9 years. Company has paid dividend of Rs. 1.50 per share every year since last 7 years and dividend yield at current market price is 0.48%. Company dividend payout is below 5% of its profits. However, low dividend payout should not be a concern until the company is able to make good use of retained profits.

YEAR	Mar'11	Mar'12	Mar'13	Mar'14	Mar'15
EPS	21.47	20.84	32.79	29.84	40.63
Dividend / Share (In Rs)	1.50	1.50	1.50	1.50	1.50

- As per our estimates, Indo Borax can deliver PAT of 14.35 crores for full financial year 2016-17 on consolidated basis, annualized EPS of Rs 44.70 with forward P/E ratio of 7X for FY16-17. Company's valuation looks attractive considering better return ratios and high earning visibility with completion of recent capacity expansion, hence offer good investment opportunity for long term investors.
- On equity of Rs. 3.21 crore, the estimated annualized EPS for FY 16-17 works out to Rs. 44.70 and the Book Value per share is Rs. 244.45. At current market price of Rs. 313.10, stock price to book value is 1.28.

Considering growing demand of boron compound (boric acid and borax) for various applications in different industries in domestic market and company's ability to fulfill demand with recent capacity expansion, attractive valuations of the company at current levels with debt free status and high cash reserves, Saral Gyan team recommends **"Buy"** on **Indo Borax & Chemicals Ltd** at current market price of Rs. 313.10 for target of Rs. 600 over a period of 12 to 24 months.

Buying Strategy:

- 60% at current market price of 313.10
- 40% at price range of 290 - 295 (in case of correction in stock price in near term)

Portfolio Allocation: 3% of your equity portfolio.

7. Disclaimer

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