

#### Strong Q1; Demand recovery visible

Transpek Industry Limited (TIL) has posted revenue of INR 1,217mn with a 63% YoY increase, which was 4.3% above our estimate of INR 1,167mn. The revenue growth was mainly driven by strong volume recovery in key products as higher off-take from MNC customers. EBITDA margin for the quarter stood at 14.8% lower than our estimate of 18.4% (EBITDA margin of 18.2% in Q4FY21, 11.9% in Q1FY21) due to an increase in key raw material costs along with higher freight cost. However, the management is confident of improving the margin profile from the current level (guided 16-20%) on the back of demand recovery in end-user industries and new product launches in the high margin category. TIL reported a PAT of INR 135mn compared to our estimate of INR122mn due to better operational performance. Management is working on medium and long term contracts with other customers; a 3-year contract is under finalisation with an existing customer. In Q1, the capacity utilisation level has improved substantially compared to FY21 levels. As per management, the volumes can continue to grow in the coming quarters. The company does not find any major capex requirement for new products growth. With the existing capacity, TIL can achieve INR 7-7.5bn revenues at peak utilisation level.

#### New products introduction coupled with higher contribution from pharma business to reduce concentration risk

TIL derives major revenue from the Polymer segment (63%), followed by the pharma (18%), the specialty chemicals (12%) and the remaining 7% is from dyes and agrochemicals. A long-term contract with an MNC client helped the company deliver stellar growth in topline and bottom-line in FY19 and FY20, resulting in higher sales concentration from the polymer business. This dependence severely impacted TIL's financial performance in FY21 (Revenue decline of 40% YoY with 68% de-growth in earnings). Based on TILs R&D capability, management is confident of reducing polymers segment concentration to 50-55% over 2-3 years by launching 4-5 new products and increasing application of existing products in non-polymer segments (mainly pharma and agrochemicals). Management also clarified that the objective is not to reduce sales of the polymer segment but to deliver higher sales growth in the non-polymer segment to reduce volatility in business.

#### Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

#### Sector Outlook

Positive

#### Stock

CMP (INR)	2,194
Target Price (INR)	2,714
BSE code	506687
NSE Symbol	NA
Bloomberg	TPI IN
Reuters	TSPK.BO

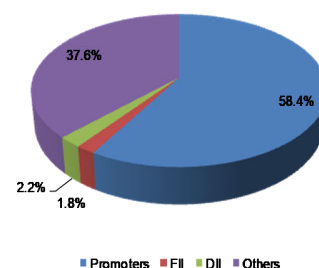
#### Key Data

Nifty	16,450
52WeekH/L(INR)	2,322/1,299
O/s Shares (Mn)	5.6
Market Cap (INR bn)	12.3
Face Value (INR)	10

#### Average volume

3 months	11,830
6 months	10,500
1 year	11,070

#### Share Holding Pattern (%)

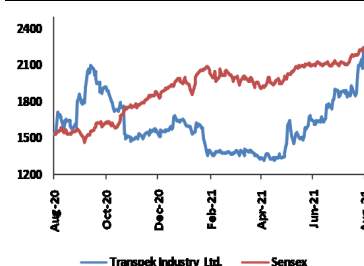


Key Financials					
YE March (INR. Mn)	FY19	FY20	FY21	FY22E	FY23E
Net Sales	5,946	5,656	3,394	5,086	6,668
Growth %	65%	-5%	-40%	50%	31%
EBIDTA	1,166	1,179	472	888	1,326
Growth%	148%	1%	-60%	88%	49%
Net Profit	657	729	233	523	842
Growth %	149%	11%	-68%	124%	61%
Diluted EPS	118	131	42	94	151
Growth %	149%	11%	-68%	124%	61%

Profitability & Valuation					
EBIDTA (%)	19.6%	20.8%	13.9%	17.5%	19.9%
NPM (%)	11.1%	12.9%	6.9%	10.3%	12.6%
RoE (%)	23.5%	22.4%	6.5%	13.0%	18.1%
RoCE (%)	21.6%	28.0%	13.7%	9.7%	19.9%
P/E (x)	18.6	16.8	52.6	23.4	14.5
EV/EBITDA (x)	11.5	11.0	27.0	14.0	9.2
P/BV (x)	3.9	3.6	3.2	2.9	2.4

Source: Company, BP Equities Research

#### Relative Price Chart



#### Research Analyst

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## Variance Analysis

YE March (INR. Mn)	Q1 FY22	Q4 FY21	Q-o-Q change %	Q1 FY21	Y-o-Y change %
Net Sales	1,217	965	26.1%	747	63.0%
Other Operating Income	0	0		0	
<b>Total Revenue</b>	<b>1,217</b>	<b>965</b>	<b>26.1%</b>	<b>747</b>	<b>63.0%</b>
<b>Less:</b>					
Raw Material Cost	640	483	32.5%	326	96.7%
Operating & Manufacturing Expenses	268	207	29.1%	211	26.6%
Employee Cost	129	99	30.6%	121	6.7%
<b>Total Expenditure</b>	<b>1,037</b>	<b>789</b>	<b>31.4%</b>	<b>658</b>	<b>57.6%</b>
<b>EBIDTA</b>	<b>180</b>	<b>176</b>	<b>2.4%</b>	<b>89</b>	<b>102.8%</b>
Less: Depreciation	73	78	(6.3%)	68	7.7%
<b>EBIT</b>	<b>107</b>	<b>98</b>	<b>9.3%</b>	<b>21</b>	<b>404.6%</b>
Less: Interest	23.6	21.9	7.9%	28.9	(18.2%)
Add: Other income	103	47		49	
<b>Profit before tax</b>	<b>187</b>	<b>123</b>	<b>51.4%</b>	<b>42</b>	<b>346.5%</b>
<b>Adjusted Profit before Tax</b>	<b>187</b>	<b>123</b>	<b>51.4%</b>	<b>42</b>	<b>346.5%</b>
Less: Total Tax	51	14	270.0%	4	1154.4%
<b>Profit After Tax</b>	<b>135</b>	<b>109</b>	<b>23.6%</b>	<b>38</b>	<b>258.6%</b>
Share of profit /(loss) of JVs	0	0		0	
Minority Interest	0	0		0	
<b>Adjusted Profit After Tax</b>	<b>135</b>	<b>109</b>	<b>23.6%</b>	<b>38</b>	<b>258.6%</b>
<b>Diluted EPS (Rs.)</b>	<b>24.2</b>	<b>19.6</b>	<b>23.6%</b>	<b>6.7</b>	<b>258.6%</b>
<b>Adjusted Diluted EPS</b>	<b>24.2</b>	<b>19.6</b>	<b>23.6%</b>	<b>6.7</b>	<b>258.6%</b>
Diluted No of Share (mn)	5.6	5.6		5.6	
<b>Margin Analysis %</b>					
			<b>Change in bps</b>		<b>Change in bps</b>
Gross Margin %	47.4%	49.9%	-255	56.4%	-900
EBIDTA Margin %	14.8%	18.2%	-343	11.9%	290
EBIT Margin %	8.8%	10.2%	-136	2.9%	598
NPM %	11.1%	11.3%	-23	5.1%	606
Effective Tax Rate %	27.6%	11.3%	1,628	9.8%	1,775

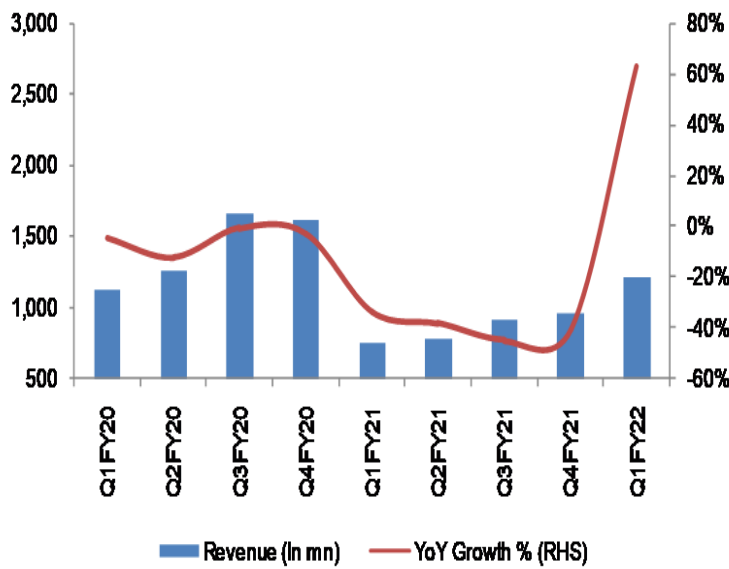
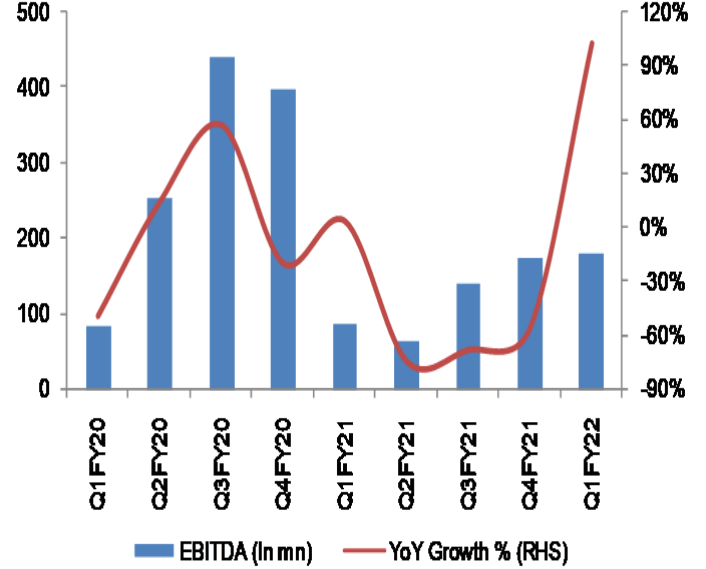
Revenue came above our estimate mainly driven by strong volume recovery in key products as higher off-take from MNC customers

PAT came higher than our estimate due to better operational performance

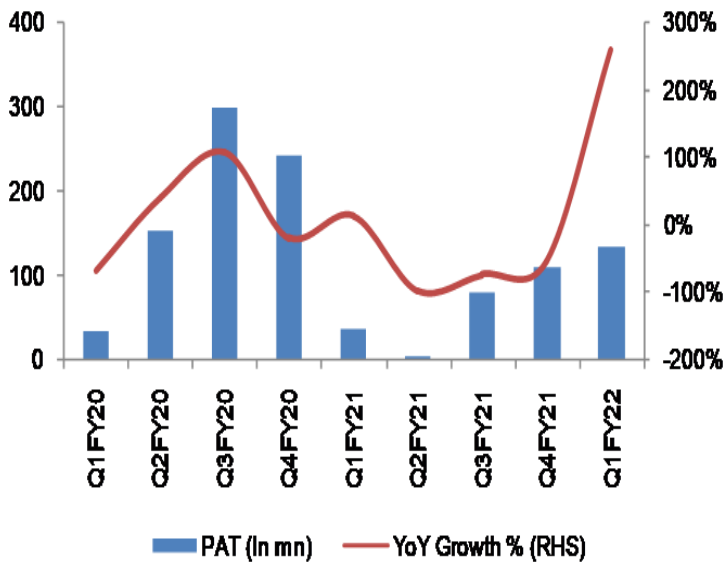
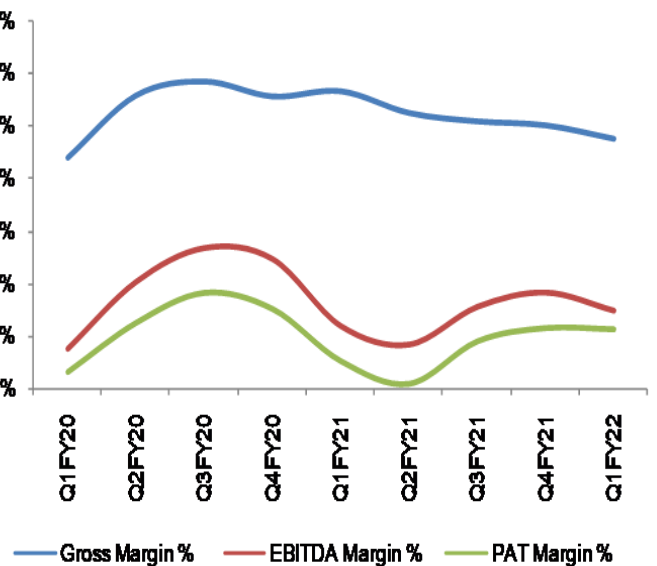
Source: Company, BP Equities Research

## Valuation and Outlook

With over five decades of experience in manufacturing products using Sulphur and Chlorine chemistry, TIL has gradually diversified from pure high-volume low-margin products to low-volume high margin specialty products. It has set up high entry barriers in its business, supported by its niche product portfolio. We expect significant revenue growth with steady profitability, aided by volume recovery in the long-term supply contract (Polymer segment) and new product launches in the pharmaceutical segment. Additionally, we believe the rising adoption of the 'China plus one' strategy by various global MNCs augurs well for future growth opportunities of chemical companies like TIL. Considering the expected strong recovery in revenue/profitability, healthy balance sheet with improving return ratios, we are optimistic about the company's long-term growth prospects. On the back of higher than expected volume growth, we increased our earnings estimates for FY22/FY23 by 7%/ 4%, respectively. We foresee 40.2% revenue CAGR, 599bps margin expansion, and 90.1% growth in earnings over FY21-23E. We believe the stock to witness gradual re-rating on the back of a better product pipeline and improved return ratios. We maintain our BUY recommendation on the stock, with an upward revised target price of INR 2,714(earlier INR 2,167), based on 18x FY23e EPS.

**Revenue surged by 63% YoY**

**EBITDA grew by 103%**


Source: Company, BP Equities Research

**Better operational performance resulted in healthy PAT**

**Gross, EBITDA and PAT margin trend**


Source: Company, BP Equities Research



## Profit &amp; Loss A/c (Consolidated)

YE March (INR. Mn)	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>Revenue</b>	<b>3,611</b>	<b>5,946</b>	<b>5,656</b>	<b>3,394</b>	<b>5,086</b>	<b>6,668</b>
Growth %	14.1%	64.6%	-4.9%	-40.0%	49.9%	31.1%
<b>Total Revenue</b>	<b>3,611</b>	<b>5,946</b>	<b>5,656</b>	<b>3,394</b>	<b>5,086</b>	<b>6,668</b>
<b>Less:</b>						
Raw Material Consumed	1,922	3,010	2,603	1,626	2,412	3,083
Employee Cost	377	452	494	449	516	593
Other Expenses	842	1,317	1,380	848	1,270	1,665
<b>Total Operating Expenditure</b>	<b>3,141</b>	<b>4,780</b>	<b>4,478</b>	<b>2,922</b>	<b>4,198</b>	<b>5,342</b>
<b>EBITDA</b>	<b>471</b>	<b>1,166</b>	<b>1,179</b>	<b>472</b>	<b>888</b>	<b>1,326</b>
Growth %	-10.7%	147.6%	1.1%	-60.0%	88.2%	49.4%
Less: Depreciation	99	141	259	285	301	349
<b>EBIT</b>	<b>372</b>	<b>1,025</b>	<b>920</b>	<b>187</b>	<b>587</b>	<b>977</b>
Growth %	-15.7%	175.7%	-10.2%	-79.7%	214.1%	66.5%
Interest Paid	119	190	158	104	68	31
Non-operating Income	98	178	174	173	180	180
Extraordinary Income	0	0	0	0	0	0
<b>Profit Before tax</b>	<b>350</b>	<b>1,013</b>	<b>935</b>	<b>255</b>	<b>699</b>	<b>1,126</b>
Tax	86	356	206	22	176	284
<b>Net Profit</b>	<b>264</b>	<b>657</b>	<b>729</b>	<b>233</b>	<b>523</b>	<b>842</b>
<b>Adjusted Profit</b>	<b>264</b>	<b>657</b>	<b>729</b>	<b>233</b>	<b>523</b>	<b>842</b>
<b>Reported Diluted EPS Rs</b>	<b>47.3</b>	<b>117.7</b>	<b>130.6</b>	<b>41.7</b>	<b>93.6</b>	<b>150.8</b>
Growth %	-11.9%	149.0%	11.0%	-68.1%	124.5%	61.0%
<b>Adjusted Diluted EPS Rs</b>	<b>47.3</b>	<b>117.7</b>	<b>130.6</b>	<b>41.7</b>	<b>93.6</b>	<b>150.8</b>
Growth %	-11.9%	149.0%	11.0%	-68.1%	124.5%	61.0%

Source: Company, BP Equities Research

## Cash Flows (Consolidated)

YE March (INR. Mn)	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>PAT</b>	<b>264</b>	<b>657</b>	<b>729</b>	<b>233</b>	<b>523</b>	<b>842</b>
(Less)/Add: Extraordinary Income/Expense	0	0	0	0	0	0
Less: Non Operating Income	(98)	(178)	(174)	(173)	(180)	(180)
Add: Depreciation	99	141	259	285	301	349
Add: Interest Paid	119	190	158	104	68	31
Tax Adjustment	0	0	0	0	0	0
<b>Operating Profit before Working Capital Changes</b>	<b>385</b>	<b>810</b>	<b>973</b>	<b>450</b>	<b>712</b>	<b>1,042</b>
(Inc)/Dec in Current Assets	(486)	137	59	152	(472)	(442)
Inc/(Dec) in Current Liabilities	242	141	31	(265)	483	397
Changes in Inventory	(89)	(101)	64	129	(183)	(171)
<b>Net Cash Generated From Operations</b>	<b>52</b>	<b>987</b>	<b>1,127</b>	<b>466</b>	<b>540</b>	<b>827</b>
<b>Cash Flow from Investing Activities</b>						
(Inc)/Dec in Fixed Assets	(714)	(713)	(745)	(133)	(200)	(600)
(Inc)/Dec in Capital Work In Progress	(433)	236	141	47	0	0
(Inc)/Dec in Investment (Strategic)	(44)	17	8	(86)	(70)	(66)
(Inc)/Dec in Investment (Others)	(128)	(54)	311	(242)	0	0
Add: Non Operating Income	98	178	174	173	180	180
(Inc)/Dec in Intangible Assets	(2)	13	(0)	(25)	0	0
<b>Net Cash Flow from/(used in) Investing Activities</b>	<b>(1,224)</b>	<b>(324)</b>	<b>(111)</b>	<b>(266)</b>	<b>(90)</b>	<b>(486)</b>
<b>Cash Flow from Financing Activities</b>						
Inc/(Dec) in Total Loans	1,145	(463)	(379)	(66)	(250)	(250)
Inc/(Dec) in Reserves & Surplus	199	99	(389)	222	0	0
Inc/(Dec) in Equity	0	0	0	0	0	0
Dividend Paid	(50)	(112)	(70)	(42)	(56)	(56)
Less: Interest Paid	(119)	(190)	(158)	(104)	(68)	(31)
Adjustments	(0)	(7)	(16)	0	0	0
Exceptional Item	0	0	0	0	0	0
<b>Net Cash Flow from Financing Activities</b>	<b>1,175</b>	<b>(672)</b>	<b>(1,012)</b>	<b>11</b>	<b>(373)</b>	<b>(337)</b>
<b>Net Inc/Dec in cash equivalents</b>	<b>3</b>	<b>(9)</b>	<b>4</b>	<b>211</b>	<b>76</b>	<b>5</b>
<b>Opening Balance</b>	<b>13</b>	<b>16</b>	<b>8</b>	<b>11</b>	<b>222</b>	<b>298</b>
<b>Closing Balance Cash and Cash Equivalents</b>	<b>16</b>	<b>8</b>	<b>11</b>	<b>222</b>	<b>298</b>	<b>303</b>

Source: Company, BP Equities Research



Balance Sheet (Consolidated)						
YE March( INR. mn)	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>Liabilities</b>						
Equity Capital	56	56	56	56	56	56
Reserves & Surplus	2,413	3,058	3,329	3,742	4,209	4,996
<b>Equity</b>	<b>2,469</b>	<b>3,114</b>	<b>3,384</b>	<b>3,798</b>	<b>4,265</b>	<b>5,052</b>
<b>Net Worth</b>	<b>2,469</b>	<b>3,114</b>	<b>3,384</b>	<b>3,798</b>	<b>4,265</b>	<b>5,052</b>
Minority Interest						
Net Deferred tax liability/(Asset)	506	643	697	687	687	687
<b>Total Loans</b>	<b>1,801</b>	<b>1,202</b>	<b>769</b>	<b>713</b>	<b>463</b>	<b>213</b>
<b>Capital Employed</b>	<b>4,777</b>	<b>4,959</b>	<b>4,850</b>	<b>5,198</b>	<b>5,415</b>	<b>5,952</b>
<b>Assets</b>						
Gross Block	1,972	2,685	3,430	3,563	3,763	4,363
Less: Depreciation	185	320	563	848	1,149	1,499
<b>Net Block</b>	<b>1,786</b>	<b>2,365</b>	<b>2,867</b>	<b>2,715</b>	<b>2,614</b>	<b>2,865</b>
Capital WIP	564	328	186	139	139	139
<b>Investments</b>	<b>79</b>	<b>62</b>	<b>55</b>	<b>141</b>	<b>211</b>	<b>276</b>
Non Current investment	1,435	1,490	1,179	1,421	1,421	1,421
<b>Current Assets</b>						
Inventories	460	561	497	367	550	721
Sundry Debtors	935	935	920	761	1,141	1,495
Cash and Bank Balance	16	8	11	222	298	303
Current Investments	0	0	0	0	0	0
Loans and Advances	361	208	179	186	279	366
Other Current Assets	1	16	1	0	0	0
<b>Total Current Assets</b>	<b>1,772</b>	<b>1,727</b>	<b>1,608</b>	<b>1,537</b>	<b>2,269</b>	<b>2,886</b>
<b>Less:Current Liabilities &amp; Provisions</b>						
Sundry Creditors	545	592	522	362	629	825
Provisions	24	54	17	3	4	6
Other Current Liabilities	318	381	520	430	644	844
<b>Total Current Liabilities &amp; Provisions</b>	<b>887</b>	<b>1,028</b>	<b>1,059</b>	<b>794</b>	<b>1,277</b>	<b>1,675</b>
<b>Capital Applied</b>	<b>4,777</b>	<b>4,959</b>	<b>4,850</b>	<b>5,198</b>	<b>5,415</b>	<b>5,952</b>

Source: Company, BP Equities Research

Key Ratios (Consolidated)						
YE March (INR in mn)	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>Key Operating Ratios</b>						
EBITDA Margin (%)	13.0%	19.6%	20.8%	13.9%	17.5%	19.9%
Tax / PBT (%)	24.6%	35.1%	22.0%	8.7%	25.2%	25.2%
Net Profit Margin (%)	7.3%	11.1%	12.9%	6.9%	10.3%	12.6%
RoE (%)	11.7%	23.5%	22.4%	6.5%	13.0%	18.1%
RoCE (%)	19.4%	21.6%	28.0%	13.7%	9.7%	19.9%
Current Ratio (x)	2.0x	1.7x	1.5x	1.9x	1.8x	1.7x
Dividend Payout (%)	19.0%	17.0%	9.6%	18.0%	18.0%	18.0%
Book Value Per Share (Rs.)	442.1	557.5	605.9	680.0	763.6	904.4
<b>Financial Leverage Ratios</b>						
Debt/ Equity (x)	0.7x	0.4x	0.2x	0.2x	0.1x	0.0x
Interest Coverage (x)	4.0x	6.1x	7.4x	4.5x	13.1x	42.6x
<b>Growth Indicators %</b>						
Growth in Net Block (%)	14.1%	64.6%	(4.9%)	(40.0%)	49.9%	31.1%
Sales Growth (%)	(10.7%)	147.6%	1.1%	(60.0%)	88.2%	49.4%
EBITDA Growth (%)	(11.9%)	149.0%	11.0%	(68.1%)	124.5%	61.0%
Net Profit Growth (%)	(11.9%)	149.0%	11.0%	(68.1%)	124.5%	61.0%
Diluted EPS Growth (%)						
<b>Turnover Ratios</b>						
Debtors Days	63	45	43	45	45	45
Creditors Days	46	34	32	39	39	39
Inventory Days	62	79	160	157	140	130

Source: Company, BP Equities Research

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