



5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

RESONANCE SPECIALITIES

WHAT WE LIKE

MANUFACTURING NICHE

The company is the largest manufacturer and exporter of chromium picolinate in India and the only manufacturer in the world with total backward integration with the manufacturing of its own picolines and cyanopyridine.

STRONG CUSTOMER RELATIONSHIPS & A CLEAN PAST TRACK RECORD

The company's facility has been certified by USFDA with zero observations. This is a critical thing as more than 60% of the revenues are derived from exports. Additionally, It has maintained 25+ years of strong relationships with its customers and suppliers which is a testament to its quality.

R&D EMPHASIS

Despite having a small scale of operations, the company has a well-established R&D Center at Tarapur which is recognized by the Department of Scientific and Industrial Research, Government of India which is helping it to undertake major projects to develop alternate and efficient process for making pyridine based products.

MANAGEMENT CHANGE-'A KEY TRIGGER'

The promoters of IPCA labs acquired a 54% stake from the previous promoters in FY21. Post that development, the company's disclosures have improved significantly & given the current downtrend of the Pyridine market, it might not be an overstatement to say that the new promoters might be able to handle the challenges in a better manner & scale up the business faster, given their past track record with IPCA. Additionally, various cross-selling opportunities can also arise in the future that will benefit the company immensely.

RENEWED GROWTH PROSPECTS

The company's focus on growth is visible from the drastic increase in fixed assets. The company's PPE was stable for the last few years, however after the change in management, the company's PPE increased from 10 Crs to 16 Crs YoY. This additional capacity will likely lead to higher sales in the coming period.

STRONG BALANCE SHEET

The company has been able to maintain long-term borrowings under 3 Crs for the last few years which reduces the financial & business risks generally associated with a micro-cap company.

STRONG PERFORMANCE IN THE PAST 5 YEARS

The company despite its middling revenue growth has performed exceedingly well on the profitability front which grew at a 5-year CAGR of 44%. This was primarily aided by higher realizations in the market relative to the costs. However, the margins have started tapering back to their median levels from 20% to 11%.

Compounded Sales Growth		Compounded Sales Growth	
10 Years:	4%	10 Years:	4%
5 Years:	10%	5 Years:	10%
3 Years:	2%	3 Years:	2%
TTM:	-20%	TTM:	-20%

WHAT WE DON'T LIKE

CYCLICALITY ELEMENT

Although pyridines find applications in several industries, 50% comes from pesticides and herbicides which makes its revenue susceptible to cyclicalities in the agriculture industry coupled with its raw material being crude because of which margins also fluctuates.

SMALL-SCALE OPERATIONS

The company despite being in business for close to 3 decades has been unable to scale up the business with the current revenues being close to INR 59 crores and a net profit of 5 crores. Given its small scale, we at Smartync believe betting on management becomes paramount Vs betting on the strength of the business.

HIGH CLIENT CONCENTRATION RISK

In FY22, 20% of revenues came from two clients, which although reduced significantly from 40% in FY21, remains a major risk to look out for especially considering the potential increase in the concentration of top clients in the coming period owing to high transactions with the promoter companies. Further, in FY22, roughly 50% of the export revenues came from USA & China which is another major risk given the recent geo-political & economic disturbances in those countries.

Customers accounting more than 10% of total sales

Particulars	2021-22	2020-21
Aceto US LLC	11.65%	31%
Vertellus Specialty Materials India Private Limited	13.35%	10%

ELONGATED WORKING CAPITAL CYCLE

The company's working conversion cycle is extremely high with the current year's inventory days even touching 600 days! The average cash conversion cycle has been around 150 days in the past few years which not only leads to lower cashflows, but also sub-par returns on capital employed.

	Mar 2012	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017	Mar 2018	Mar 2019	Mar 2020	Mar 2021	Mar 2022	Mar 2023
Debtor Days	65.66	70.75	76.63	95.18	66.05	79.76	67.97	66.74	39.92	68.82	46.48	76.59
Inventory Days	68.72	105.52	91.52	132.71	159.21	397.20	211.56	180.17	232.12	226.12	175.79	630.06
Days Payable	62.76	69.49	66.68	116.18	106.07	262.26	127.21	138.99	114.32	120.62	17.35	134.22
Cash Conversion Cycle	91.62	106.78	89.46	116.69	117.19	214.70	152.35	107.93	157.71	164.41	196.92	573.35
Working Capital Days	84.95	94.02	62.15	100.90	91.94	128.09	114.27	93.19	81.92	102.61	146.63	210.99
ROCE %	0.96%	5.70%	7.30%	3.96%	6.74%	6.84%	2.23%	20.21%	30.62%	41.32%	34.91%	12.67%

HIGH RELATED PARTY TRANSACTIONS:

The company extended ICD worth 10 Crs & purchased goods worth 20 Crs from a related party. Further, a resolution was passed wherein it could make transactions up to 50 Crs with the new promoter. Now, although this could boost revenue due to cross-selling opportunities, we at Smartync believe that any Related party transaction should also be considered with a pinch of salt, especially if that constitutes a major portion of revenues.

HIGH DEPENDENCE ON A SINGLE PRODUCT PROFILE

The company derives its entire revenues from pyridine derivatives. This becomes a major risk considering the recent restriction on the use of some Pyridine products like Paraquat in many countries.

Although paraquat is forbidden in some countries of Europe and China, it is still used in many other countries. It is widely used in the U.S. as farmers are dependent on genetically engineered Roundup-ready soybean crops. Weeds are becoming impervious to roundup herbicides, that require farmers to use more powerful and more effective chemicals such as paraquat. Due to this, the demand for paraquat is increasing in the U.S.

Challenge: Fluctuations in pyridine and beta picoline prices

The prices of pyridine and its derivatives vary significantly. Due to a ban on the paraquat, pyridine production has been severely affected, which in turn impacted the beta picoline. Lower production, soaring raw material prices, and increasing cost of production led to price increase of beta picoline. Leading manufacturers such as Vertellus and Jubilant Life Sciences have announced price increases for pyridine and its derivatives.

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