



# 5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

## KOTHARI PETROCHEMICALS LTD

### WHAT WE LIKE

#### STRONG MARKET POSITIONING

Owing to the **HIGH ENTRY BARRIERS** wherein due to the scarcity of raw materials, several other players had to close their shops/ couldn't produce the chemical. While the company owing to its strong relationships & investments in developing the pipeline with Chennai Petroleum (which also allows it to source material at lower costs due to proximity) & Reliance Industries, has helped in ensuring a consistent supply of materials making it a preferred & reputed supplier.

#### MARQUE CLIENTELE

The company has a strong clientele comprising lubricant manufacturers and 2T lube-oil producers like Lubrizol India Limited, Hindustan Petroleum Corporation Limited (HPCL), Bharat Petroleum Corporation Limited (BPCL), and Indian Oil Corporation Limited (IOCL), etc, in the domestic market, and Infineum Singapore PTE Limited in the overseas market.

#### RENEWED GROWTH PROSPECTS

The company after a slump in revenues till FY21 (partly contributed by the closure of LPG sales) has started showing strong growth owing to higher realizations as well as greater volumes due to 1) higher contributions from exports which rose by **140%** in FY23 (25% of total revenues now), 2) increased domestic market share owing to non-feasible imports (with freights costs being high & supply chain issues post-covid), 3) Increased contribution from Non-lubricant industry like Adhesives, plastic-masterbatch among others which has diversified its revenue profile as well as giving a good growth opportunity.

This is visible from the doubling of capacity from **24,000 - 48,000 MTPA** in the last 3 years, which is a big thing considering its capacity was constant at **24,000 MTPA** between FY15-20.

#### STRATEGIC LOCATION ADVANTAGE

The company owing to its proximity to the port in the South-east as well as its supplier Chennai Petroleum, can save on freight costs as well as deliver products efficiently (in exports).

#### IMPROVEMENT IN MARGINS & ROE PROFILE

The company owing to sourcing of higher quality IB content feedstock, has been able to reduce its costs (& increase quality) substantially owing to negligible waste generation (unreacted feedstock) & no-remnant LPG produced (by-product which had low margins). While at the same time, due to its improved competitive position, its ability to enter into formula-linked pricing mechanisms & higher commodity prices, the realizations have improved and remain stable leading to high margins & extraordinary ROE (**30% in FY23**) while maintaining a lean balance sheet (D/E-0.1).

Compounded Sales Growth		Compounded Profit Growth	
10 Years:	7%	10 Years:	23%
5 Years:	20%	5 Years:	32%
3 Years:	21%	3 Years:	31%
TTM:	26%	TTM:	12%
Stock Price CAGR		Return on Equity	
10 Years:	%	10 Years:	18%
5 Years:	32%	5 Years:	21%
3 Years:	81%	3 Years:	22%
1 Year:	15%	Last Year:	22%

### WHAT WE DON'T LIKE

#### VOLATILITY IN THE COMMODITY TO HIT REALIZATIONS

The company's sales have been boosted by higher realizations for its chemical which is highly correlated to LPG & Naphtha prices (which have risen sharply in the last 3 years). Thus, any downward movement in the same can affect the sales numbers.

#### THE POTENTIALLY LOW TERMINAL VALUE OF THE EXISTING BUSINESS SEGMENT

The company currently derives a major chunk of its revenues from Lubricants & two-stroke engine oils, which are expected to degrow after 5-10 years owing to the arrival of EVs. Thus dependence on this segment remains a huge risk that might not be visible in the current numbers & its ability to diversify in other segments might ultimately determine its fortunes.

#### HIGH CLIENT CONCENTRATION RISK

The company's top 5 customers have historically contributed around **50-70%** of total sales. Although, due to the addition of new clients (especially in exports), the company's dependence is reducing which is visible from a decrease in the contribution of the top client (from **25%** to **15%** YoY), it remains a major risk.

#### INCREASED WORKING CAPITAL CYCLE

Owing to the company's higher share of exports as well as supply chain issues, the working capital cycle has increased in the past 2 years which led to CFO/Net profit falling to around **60%** in the last 2 years. Therefore, this needs to be tracked in the coming period.

Rs Cr	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18
Cash from Operating Activity (CFO)	14	14	16	4	16
CFO/Net Profit	179%	127%	172%	60%	164%
	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
	28	27	30	18	26
	226%	145%	134%	56%	67%

#### POTENTIAL COMPETITION FROM IMPORTS

The company's domestic market share increased rapidly owing to supply chain issues created by covid which led to lower imports in India. However, the company does face competition from well-established international manufacturers, such as Daelim Corporation in Korea and an MNC in Singapore. It, therefore, remains critical to see how the company will utilize its higher capacity & if the domestic share is sustainable or not.

#### RECENT COMPENSATION HIKE FOR THE CHAIRPERSON

Recently, The company passed a resolution to pay **1%** of net profits as a commission to the chairperson- Mrs.Nina Kothari. Earlier, she was eligible for only sitting fees (which indicates a lack of involvement in the daily operations as she held this post after the death of her husband) & got around **30-40 Lakhs** of dividend income owing to her **10%** direct stake. So, this sudden change in the remuneration policy looks like a red flag.

For all 5-Min Stock Ideas: <http://smartsyncservices.com/5-min-stock-ideas/>

Terms & Conditions: <http://www.smartsyncservices.com/terms-and-conditions/>



Click here to  
Subscribe