18 December 2024

India | Equity Research | Initiating Coverage

Himadri Speciality Chemical

Speciality Chemicals

Leveraging coal-carbon value chain; adding battery chemicals

We initiate coverage on Himadri Specialty Chemical (Himadri) with an **ADD** rating, and an SoTP-based target price of INR 600. Himadri's strong moat in the coal tar value chain complemented by an integrated production model allows it a firm grasp to maximise profits. The company is expanding its coat-tar pitch supplies to export markets such as South Africa, ME and Australia, which should help boost coal distillation utilisation and lift profitability, in our view. Himadri is also scaling its specialty carbon black capacity to tap into prevalent market potential. Further, it is deploying cashflows towards growing new businesses, *viz.* its foray into tyres – aided by notable investment, and Birla Tyres' brand recall. It also aims to establish prominent standing in battery chemicals – starting of LFP plant, and likely to add components such as anode/battery recycling.

Himadri expanding wings into tyres and battery chemicals

Himadri has dominant market share in India's coal-tar value chain with 60–70% market share in Coal Tar Pitch (CTP), and other derivatives such as naphthalene, and coal oils. It has forward-integrated into carbon black (input: carbon black oils) with a focus on specialty black, which finds application in plastics, fibres, conductive black, coatings and inks. Himadri has strong coal-tar crude sourcing relationships with steel producers with purpose-built infrastructure acting as a key moat. It is foraying into tyre production (forward integration for carbon black) with the acquisition of Birla Tyres. It has also announced a green field set-up for battery chemicals with CAM (LFP) and aims to add more components.

Favourable cycle in coal tar and carbon black

China's aggression on coal chemicals' value chain has softened as coal tar availability has been stable while demand from aluminium and battery application is rising. India's global position in coal chemical supplies is rising with increasing exports of CTP and carbon black. India's Commerce Ministry's data shows a spike in CTP volumes, with export prices healthy at ~INR 65 (long-term median at INR 42). Himadri is growing its presence in the export markets of South Africa, ME and Australia for CTP. Greater exports contribution has two-fold benefits for Himadri: 1) Improved capacity utilisation, and more co-products to sell. 2) Better profitability, as exports have premium pricing of 10–15%. Also, on Himadri's radar is the expansion of its coal tar distillation capacity from 500ktpa to 600ktpa by FY26 focused at growing exports market.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	41,849	48,243	58,421	71,642
EBITDA	6,451	8,624	9,925	11,688
EBITDA Margin (%)	15.4	17.9	17.0	16.3
Net Profit	4,108	6,252	7,328	8,450
EPS (INR)	8.3	12.7	14.9	17.2
EPS % Chg YoY	67.0	52.2	17.2	15.3
P/E (x)	66.1	43.5	37.1	32.2
EV/EBITDA (x)	41.9	31.0	27.0	23.4
RoCE (%)	12.6	16.5	17.1	16.6
RoE (%)	15.4	18.7	18.4	17.8

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Market Data

Market Cap (INR)	272bn
Market Cap (USD)	3,207mn
Bloomberg Code	HSCH IN
Reuters Code	HIMD.BO
52-week Range (INR)	689 /265
Free Float (%)	48.0
ADTV-3M (mn) (USD)	14.3

Price Performance (%)	3m	6m	12m
Absolute	(13.9)	52.4	89.9
Relative to Sensex	(11.0)	47.6	77.0

ESG Score	2022	2023	Change
ESG score	NA	NA	NA
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

Source: SES ESG, I-sec research

Carbon black's favourable cycle is not only driven by reduced competitive intensity from China, but also a ban on Russian carbon black by Europe Union, effective Jul'24 (earlier annual quota of 752kpta). India's carbon black exports have increased sharply in the past couple of years, and global carbon black spreads have improved from USD 250/te to USD 450/te. Further, Himadri is maximising profits – a key advantage of being an integrated player with increased use of CBFS as feedstock for rubber-grade carbon black and driving more value from coal oils.

A case being PCBL Ltd, a market leader for carbon black in India. PCBL has accelerated its expansion plans, and has also benefited from better spreads. Himadri's focus is to grow its specialty carbon black due to integrated operations, and better control on raw material. Himadri will likely be expanding its carbon black capacity from 180ktpa to 250ktpa in FY26 with the entire incremental capacity dedicated for specialty grade, having application as pigments in inks, plastics, fibre, conductive black and coatings.

Birla Tyres scale up expected from FY26E

Himadri is foraying into tyres segment with the acquisition of Birla Tyres Ltd. via the NCLT route, along with a resolution applicant – Dalmia Bharat Refractories Ltd. (DBRL) for INR 3.06bn. Birla Tyres' capacity is 300TPD for bias tyres, and 100TPD for PCR (Passenger Car Radial). Himadri plans to invest INR 5–6bn to restart operations at the plant, and for distribution with a focus on the replacement market. We expect Birla Tyres to start bias plant by end-FY25, and in 18months it will likely commission the PCR plant. Birla Tyres has a reasonably good brand recall in the bias segment, which Himadri wishes to capitalise on and develop market for its export products. We peg revenue from the tyre segment at INR 2bn in FY26E. Revenue growth may accelerate in FY27E/FY28E, as the company starts producing PCR. Himadri may have to be conscious of competitive pricing initially to grab market share. We factor in EBITDA breakeven in FY27E.

Funnelling battery chemicals

Himadri is likely to commercialise the LFP pilot plant with a production capacity of ~400tpa in FY26. This may help the company optimise its manufacturing process, and also secure approvals from key customers. Himadri's commercial plant is expected with a capacity of 40ktpa, and investment of INR 11.25bn. LFP realisation is ~INR 600/kg. This implies, the LFP plant at full utilisation (95%) should be generate revenues of INR 22.8bn (gross block turnover of 2x). Gross profit margin is expected at 29–30%, with EBITDA margin at 10–11%. Assuming the LFP plant's phase-1 hits peak utilisation is FY30E, LFP segment's EBITDA should be INR 2.3–2.5bn. Eventually, Himadri expects to expand LFP capacity to 200ktpa with a total investment of INR 48bn over the next 5–6 years.

Background: Himadri Specialty Chemical

Himadri was founded as a private company in 1987 and commenced operations in 1990. It is a market leader in India for CTP and a key player for naphthalene and refined naphthalene, SNF (sulphonated naphthalene formaldehyde), and specialty oils. It has also forward-integrated to produce carbon black. The company caters to a diverse range of industries – aluminum, plastic, infrastructure development, graphite electrode, automotive etc.

Himadri recently acquired Birla Tyres Ltd. via the corporate insolvency resolution process, which gives Himadri entry into the tyres segment where carbon black is a key feedstock. Himadri has also announced its foray into battery chemicals with an expansion plan for cathode active material (CAM) in LFP (lithium ferro phosphate). The company also plans to expand its portfolio into LMFP (lithium manganese iron phosphate) variants. It may soon come out with synthetic graphite anode, natural graphite anode, silicon anode materials, graphene application and battery recycling project.

Journey so far…

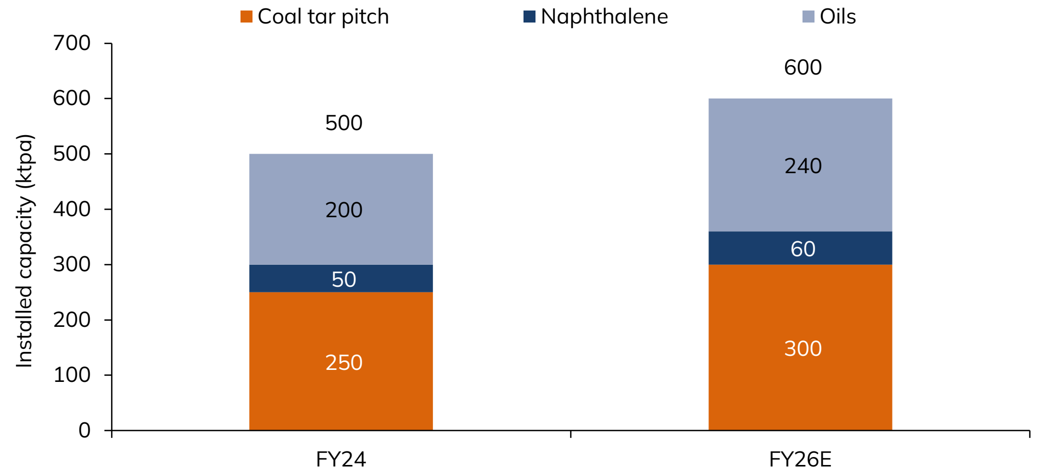
- Himadri was established in 1987 as Himadri Casting Pvt Ltd, and commissioned coal tar distillation plant in Howrah, West Bengal. It became public, and listed on stock exchange in 1992.
- 1993–99: Over the next couple of years, the company expanded coal tar distillation into Howrah, and started production in Visakhapatnam, A.P.
- 2004–06: The company established a new coal tar distillation plant; subsequently, in 2006, it commissioned a by-product plant at Hooghly, WB.
- 2008: Himadri commissioned production at an advanced carbon material plant at Falta SEZ, WB. (It serves as R&D centre for Himadri currently, where battery chemicals are developed).
- 2009: The company acquired an SNF plant at Vapi, Gujarat, and commissioned production of SNF at Hooghly, WB, which is forward integration for its naphthalene production enabling an entry into the construction industry. It also commissioned carbon black plant with power generation facility.
- 2010: Bain Capital acquired 25% equity stake in Himadri, which it completely exited in CY21.
- 2012: Himadri established a CTP plant at Longkou, Shandong, Province, China. It wrote-off significant investment in China during FY22. However, Himadri's relationship with global players is rewarding with the company looking to expand its CTP supplies from India to export markets such as ME, Australia and others.
- 2014: Company ventured into specialty carbon black business.
- 2017–19: Company expanded coal tar distillation capacity by 100ktpa to 500ktpa, and sets up manufacturing plant for advance carbon material in WB.
- 2023–24: Company announced foray into battery chemicals with potential production of LFP (CAMs). It has acquired Birla Tyres which marks its entry into tyres segment. It has bought strategic equity stake in two companies which shall provide technology knowhow – 1) 12.79% stake in Sicona Battery material space which specialises in advance silicone anode technology for lithium-ion batteries; and 2) 40% stake in Invati Creations which focuses on engineering lithium-ion electrode materials for efficient energy storage with higher energy density and longer battery life and using groundbreaking nanotechnology biosciences.

Manufacturing facilities and capacities

Himadri's total coal tar distillation capacity is 500ktpa, spread across four plants – three are in West Bengal, and one is in Andhra Pradesh – close proximity to raw-material availability. It has one coal tar melting facility each in Korba, Chhattisgarh, and Sambalpur, Odisha. It has plans to add 100kpta distillation capacity in FY26 through debottlenecking with capex outlay of INR 250mn. Apart from India, Himadri has presence in China with a CTP plant at Longkou, Shandong Province which is non-operational.

Coal tar distillation provides three end products – CTP (50%, which implies peak production of 250ktpa), naphthalene (10%, 50ktpa) and oils (including carbon black oil and other niche oils; 40% or 200ktpa).

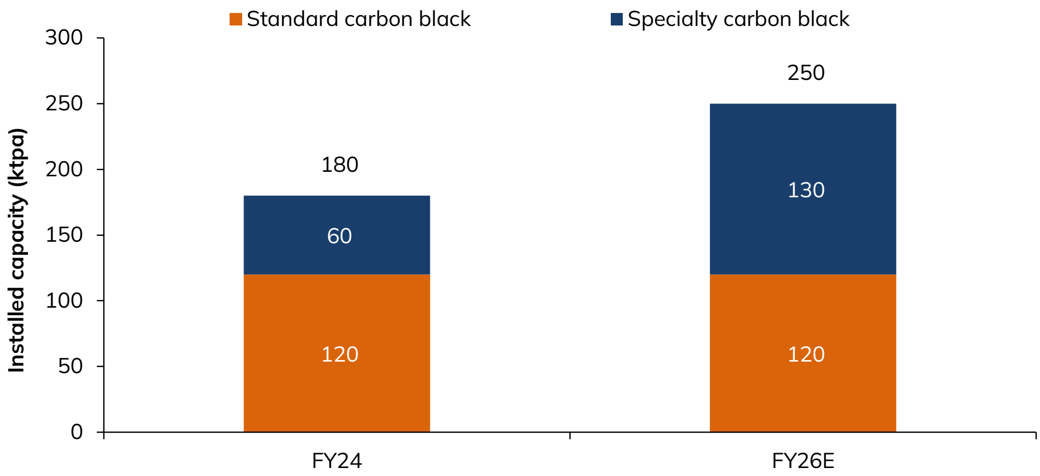
Exhibit 1: Installed capacity of coal tar distillation



Source: Company data, I-Sec research

The company has 180ktpa capacity of carbon black in West Bengal, of which specialty carbon black capacity stands at 60ktpa. It is in the process of adding another 70ktpa capacity in specialty carbon black with total capex of INR 2.2bn. Himadri has one operational plant for SNF in West Bengal with total capacity of ~48ktpa.

Exhibit 2: Installed capacity of carbon black

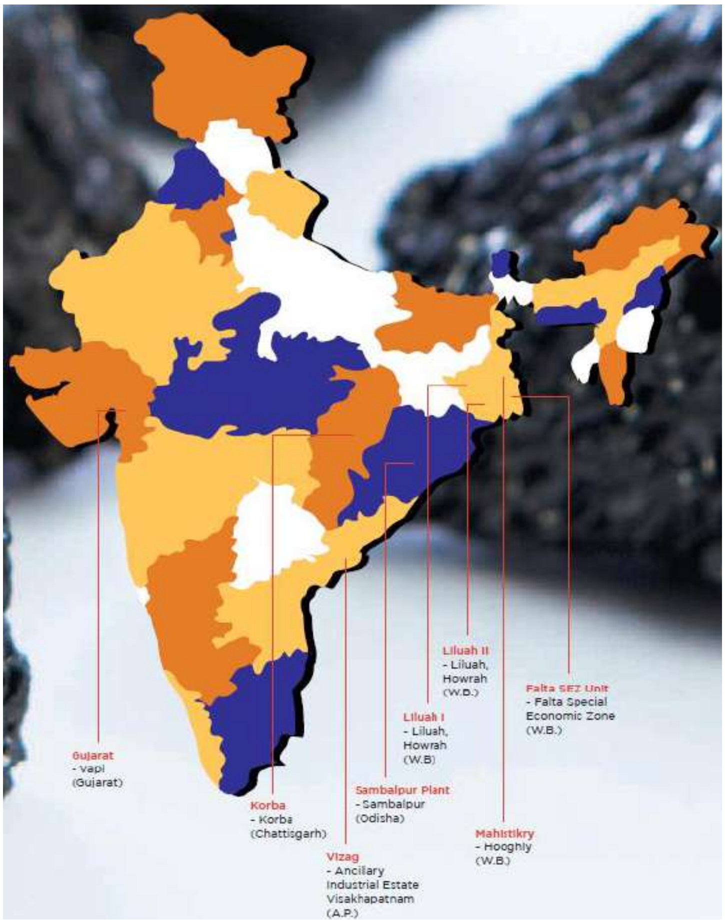


Source: Company data, I-Sec research

Himadri's plants are zero liquid discharge plants. It has an R&D facility at Mahistikry, West Bengal and has created a full-fledged R&D facility for battery materials at Falta, West Bengal. It has a strong R&D team with professionals hired from across the world to enhance skillsets.

Himadri has made product launches in the specialty carbon black segment and is working on offerings such as anode material, silicon anode, graphene-based materials, anthraquinone, carbazole, carbon nanotubes, carbon fiber among other products. Investments into Sicona and Invati has further increased the R&D capabilities and access in domains of battery materials and nanotechnology.

Exhibit 3: Himadri's facility footprint – advantage of being in close proximity to raw material availability

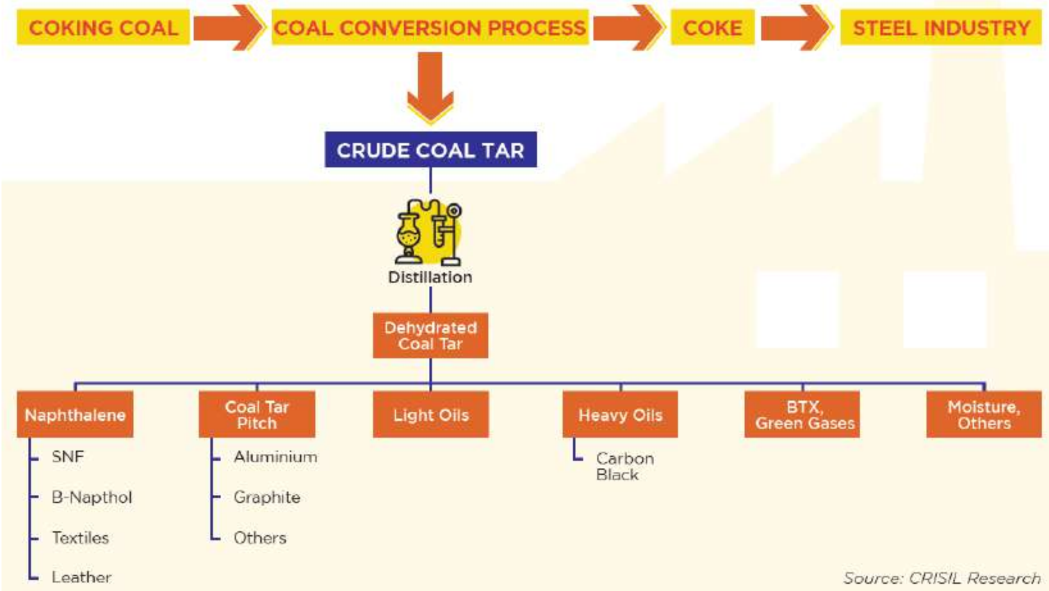


Source: Company data, I-Sec research

Coal-carbon value chain and HSCL products

Coal tar is a viscous liquid mixture of hydrocarbon compounds, derived along with coke, from destructive distillation of coal (heating coal at high temperature in the absence of air) in coking ovens. Coke is largely used in steel industry as fuel. Coal tar is then subjected to further distillation, a process that separates groups of components of coal tar. The largest product derived is CTP, which is used by aluminium and other industries.

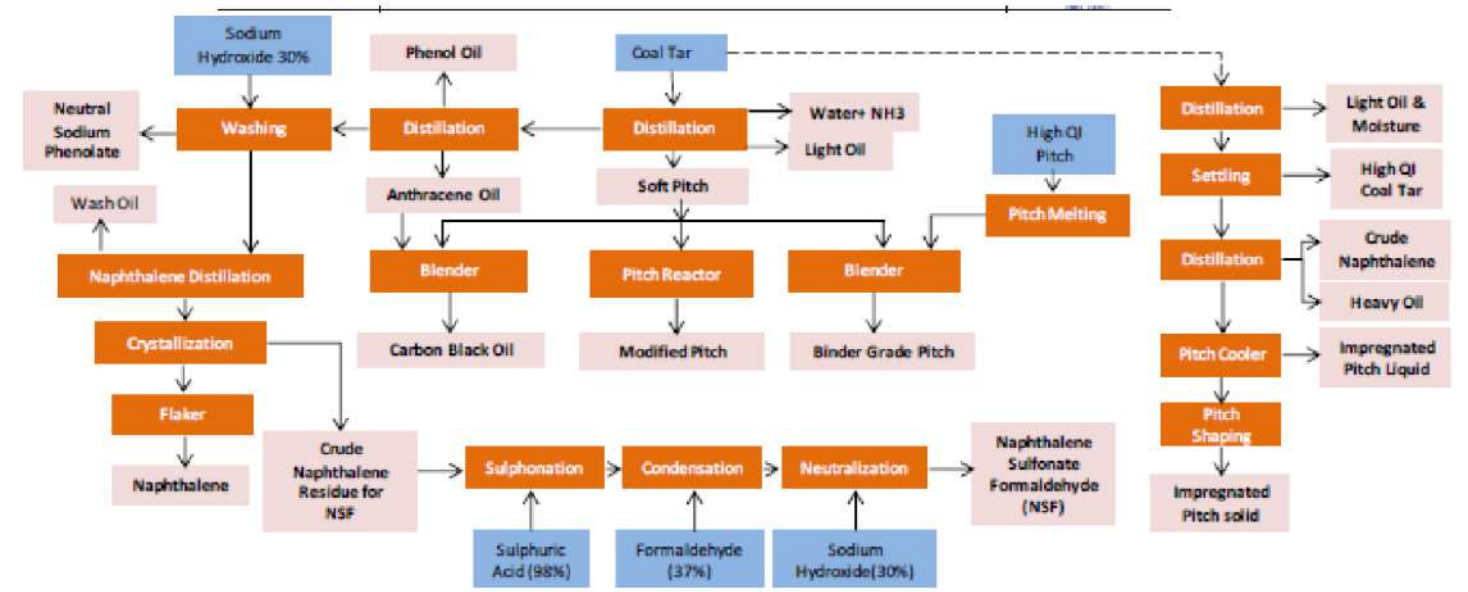
Exhibit 4: Coal tar distillation value chain



Source: Company data, I-Sec research

Coal tar distillation plants are designed for production of various grades of pitch and naphthalene, light oil, phenol oil, wash oil, heavy oil (anthracene oil), carbon black oil etc. with by-products.

Exhibit 5: Coal tar distillation process



Source: I-Sec research, Epsilon (link)

CTP – largest product for Himadri

Himadri is the largest CTP manufacturer in India, holding over 60-70% market share. Globally, the large CTP producers are Kopper Inc. and Rain Industries (acquired Rutgers NV). CTP is widely used as the pre-eminent binder in anode production, primarily due to its effective interaction with coke particles during the mixing phase. It has the ability to wet the surface of coke particles and permeate their open pores, thereby, facilitating the transformation of dry particles into a malleable paste conducive to shaping in the desired form. Its largest application is into production of aluminium where it is utilised as a binder in the manufacturing of carbon anodes that aid in the electrolytic chemical reaction during the smelting of aluminium.

Key strengths of Himadri in coal tar distillation are - 1) global approvals from smelters for CTP, 2) market leadership with pricing power, 3) proximity to high quality coal tar sources; 4) strong logistical edge in transporting CTP that needs to be maintained at ~250°C, making imports and logistics challenging; 5) operates dedicated fleet of over 280 electric heated tankers to transport liquid pitch at high temperatures.

The demand for CTP has been steady and stable owing to demand from aluminium production. Aluminium production is inelastic to demand irrespective of cycle (it is unviable / unfeasible to alter capacity utilisation of aluminium smelter).

A significant variation of CTP is used to impregnate graphite electrodes used in electric arc furnaces for steel manufacturing. It serves as a binding and impregnating agent in the production of graphite electrodes.

Exhibit 6: Various grades of CTP produced by Himadri

Products	Description
Aluminium grade binder pitch	Acting as an improved binder with excellent compatibility with carbonaceous aggregates of different origins and natures, yielding the highest grades of electrodes. Also used in refractory, foundry chemicals, and selected pigment manufacture.
Graphite grade binder pitch	Improved chemical compatibility between carbonaceous aggregate (CPC) and the pitch makes it possible to manufacture long-lasting graphite electrodes. Manufactured electrodes can be used in high-capacity electric arc furnaces consuming less electric energy.
Impregnated CTP	Carbon and graphite electrodes are finally impregnated with special types of pitch to increase strength and density. Impregnation pitch or Zero QI pitch is used for smooth penetration into micro-pores of electrodes, reducing porosity, and increasing strength and electrical conductance.
Mesophase pitch and advance carbon	It is used to make high-technology products such as carbon fibres and binders for lithium-ion batteries. High softening point pitch and graphite powder are advanced carbon products.
Refractory pitch grade	Reducing agent as well as a heat source in the manufacture of ultramarine blue.
Pitch for industrial crucible and blocks	Product is used in the manufacturing of industrial silicon carbide blocks, heating elements (rods), crucibles, and as a binder for casted material.
Special Pitch	Developed for customized applications e.g., used in defence in long warhead missiles

Source: Company data, I-Sec research

Exhibit 7: Demand from key industries

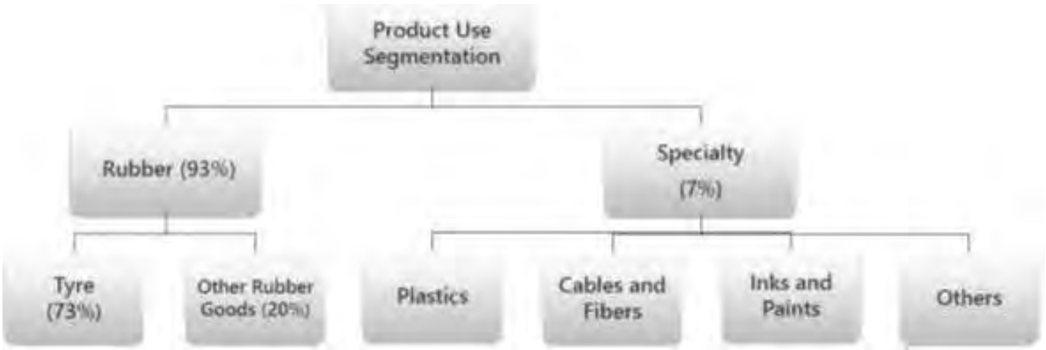
Source: Company data, I-Sec research

Carbon black

Carbon black is a powdered form of carbon that is used to create the desired physical, electrical and optical qualities of various materials. It is produced by incomplete combustion of heavy petroleum products / coal chemical such as coal tar, FCC tar or ethylene cracking tar. Carbon black products are primarily used as consumables and additives in the reinforcement of rubber polymers and for production of polymers, printing inks and coatings (specialty carbon black).

Himadri has, in the past, used carbon black oil (CBO) as feedstock which is one of the by product from coal tar distillation.

Exhibit 8: Rubber is the largest application for carbon black



Source: Company data, I-Sec research

Refined naphthalene

Naphthalene is primarily produced through the distillation of coal tar or petroleum fractions. It is a volatile, fragrant, white and crystalline substance, that can be extracted from petroleum or coal tar. It is primarily used in the production of phthalic anhydride, insecticides, low-volatile solvents, naphthalene sulfonates and moth repellents. Naphthalene is an essential manufacturing intermediary in the production of dyes, resins, insect repellents and plasticisers.

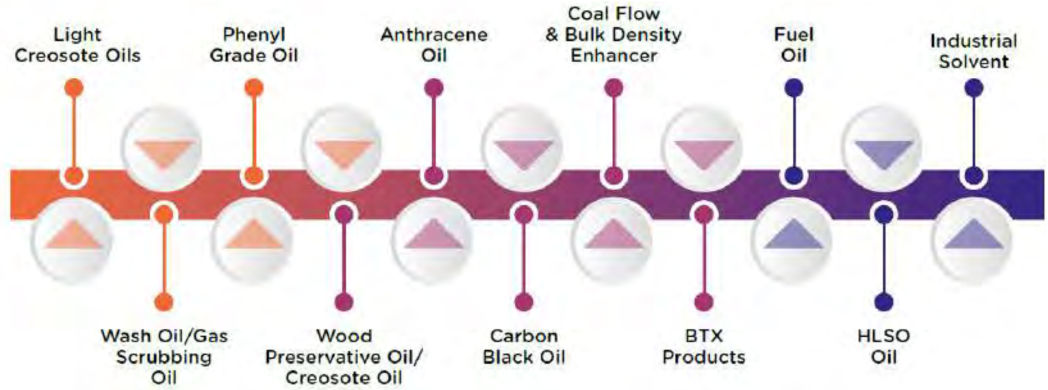
SNF and Polycarboxylate Ether (PCE)

These products are based on benefits from properties of naphthalene and PCE-based admixtures, including enhancing mechanical strength, durability and reduced water retention. These characteristics have led to increased utilisation of naphthalene and PCE-based admixtures across diverse industries such as construction, paints, textiles, paper and rubber. Admixtures play a pivotal role here by altering and enhancing the chemical and physical attributes of construction materials, particularly, in reducing water usage for concrete while maintaining structural integrity.

Specialty oils

Oils are derived as by-products from coal tar distillation process. Distillation process allows extraction of different types of oils. The process facilitates the separation of oils into distinct grades based and subsequently, these different grades of oils are blended in proportions to meet the demands of different industries.

Exhibit 9: Himadri's specialty oils product portfolio



Source: I-Sec research, Company data

Anti-corrosion products

Himadri offers a selection of anti-corrosive products from premium-grade high-temperature carbonisation coal tar. The products are popular for their resistance to acid and alkali attacks. These materials are engineered to provide protection against corrosion. The anti-corrosion products ensure durability owing to their capacity to withstand diverse climatic conditions and the harsh salinity of seawater.

Robust business model in coal tar distillation

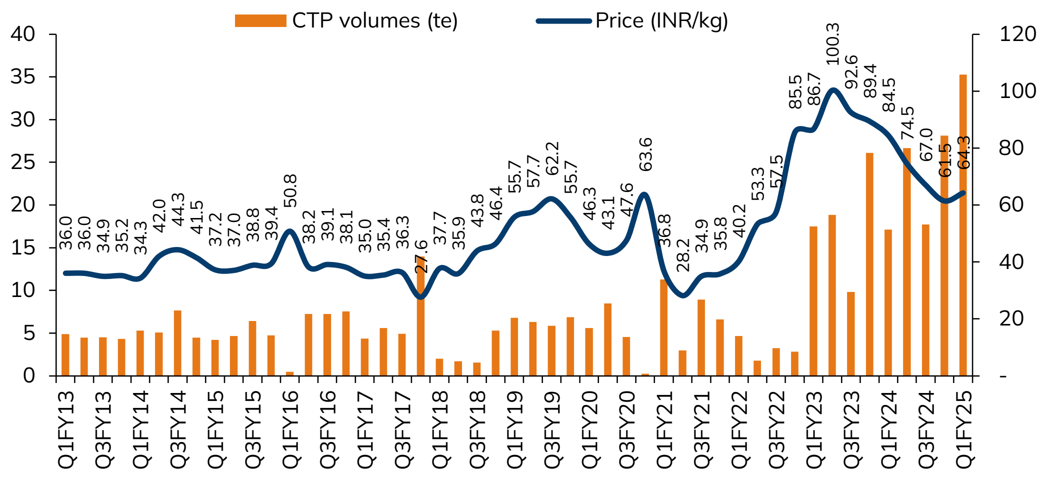
Coal tar chemicals, particularly CTP, demand has been on rise owing to steady growth in aluminium capacity, rising penetration of electric arc furnace for steel production and robust demand from battery application. Currently, coal tar production has been constrained due to low blast furnace capacity growth. This compared to past, China enjoyed overcapacity in coal tar production (during the era where China was adding huge steel capacity), and had abundant availability of raw material for coal chemicals. Cheap and aplenty availability of coal tar in China has enabled Chinese to aggressive supply coal chemical derivatives including CTP, and carbon black taking over significant global market share.

China underwent stringent measures on pollution, and enforced laws to cut down improper disposal of pollutants, and insisted on investment into newer and cleaner technologies. It also shifted some of the plants from city limits to new geographies/ SEZ which warranted heavy investments by industry. This has resulted into China shutting down some capacities in blast furnace, coal tar, and carbon black facilities. In the meantime, CTP demand started rising fast with the adoption of EV/ ESS (energy storage system) where anode applications drove demand for coal tar, and resulted in a sharp rise in prices.

As per data available on commerce ministry, CTP India exports prices which were generally below INR 50/kg till FY22, had sharply jumped to INR 100/kg in FY23. Since then, CTP prices have cooled off with slower-than-expected adoption of EV, but prices are still healthy above INR 60/kg (long-term median was INR 42).

India exports volumes have shown healthy uptick, averaging 20ktpa till FY22; it has jumped to 90kte in FY24. India's largest player Himadri has set up infrastructure (12kte heated storage tanks, and filling capacity at Haldia port) which should help further increase exports volumes from India in coming years.

Exhibit 10: India's coal tar export prices have jumped since FY22, and volumes have increased multi-folds as Chinese aggression reduces

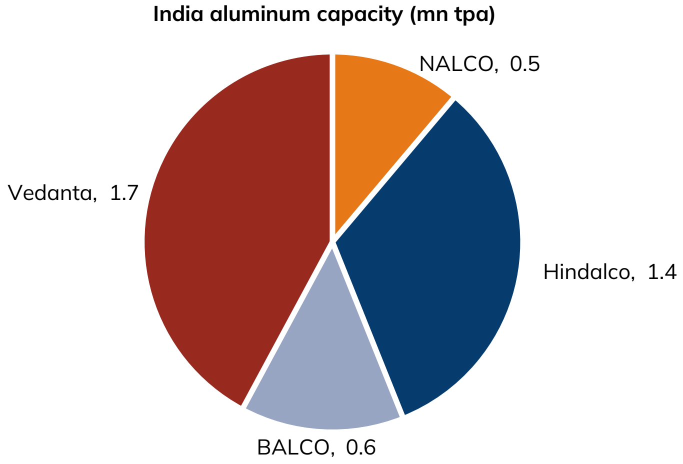


Source: Commerce ministry, I-Sec research

CTP is the largest product for Himdari with total capacity of 250ktpa, and utilisation at 80%. The company has built strong relationships, led by its presence in China, with global buyers for liquid CTP which is used during aluminium production. Himadri is leveraging those relationships, and is planning to supply CTP on long-term contract basis to aluminium smelters in the Middle East, South Africa and Australia. Middle East has large aluminium production but it is dependent on imports for liquid CTP. Himadri believes it can sell the entire expanded capacities of CTP of 300ktpa in domestic and exports market by FY27. Demand in domestic market is expected to remain stable, and unlikely to grow fast considering limited fresh aluminium capacity addition. Exports will likely drive incremental volumes for Himadri which is a premium market. The company expects to start shipping liquid CTP from Haldia (in WB) from Q3FY25.

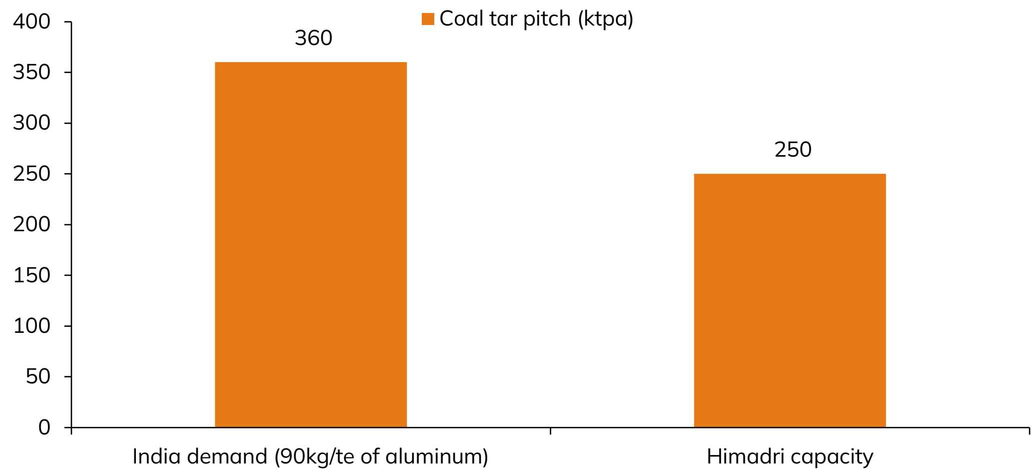
India aluminium capacity stood at 4.1mn tpa with four producers, and no large capacity addition has been announced or planned in the forecasted period.

Exhibit 11: India total aluminium capacity stood at 4.1mn tpa, and is unlikely to grow in forecasted period



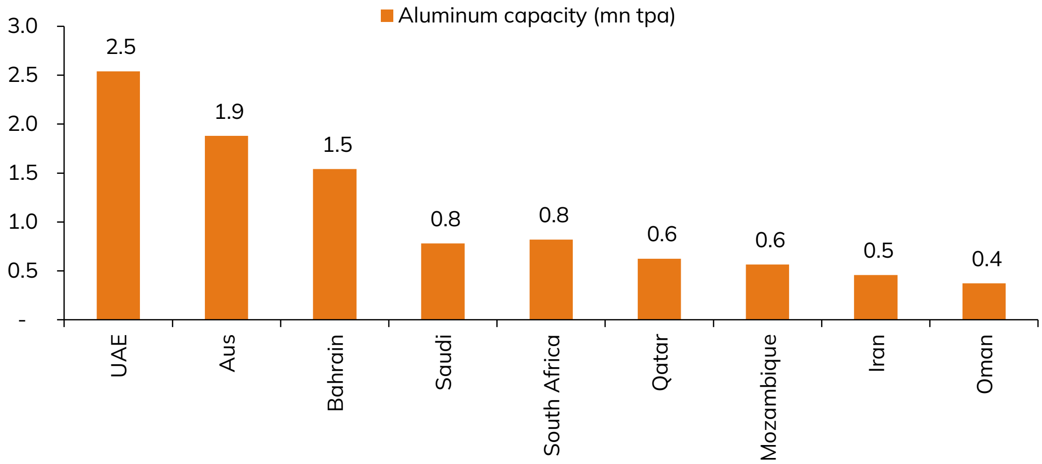
Source: Industry, I-Sec research

Exhibit 12: India total CTP demand of 360ktpa



Source: Company data, I-Sec research

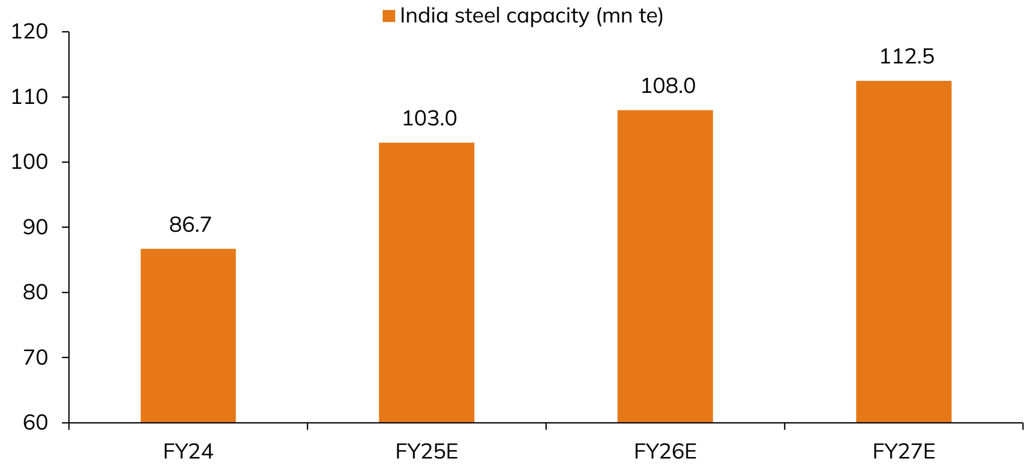
Exhibit 13: Himadri is eyeing supplies to Middle east, South Africa and Australia with total aluminium capacity of 9.6mn tpa, with likely demand of liquid CTP at 860ktpa



Source: Wiki, I-Sec research

The company is better placed in sourcing of raw materials – coal tar, as India is adding significant capacity in blast furnace. In fact, some steel companies, who earlier burnt coal tar as fuel are also monetising coal tar due to better realisations.

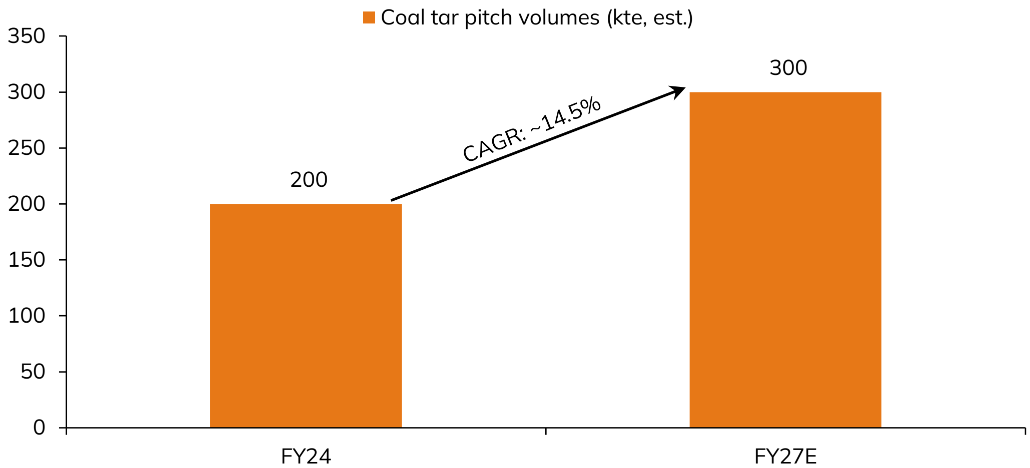
Exhibit 14: India steel capacity is likely to grow at modest rate, helping Himadri increase its sourcing of coal tar



Source: Industry, I-Sec research

We expect blended spreads for Himadri to improve as spreads in exports markets are 10-15% premium to domestic, and as exports volumes grow, company will likely benefit more with EBITDA margin expansion.

Exhibit 15: Himadri's CTP volumes to grow at A CAGR of 14.5% over FY24-27E; however, increase in exports mix to add more to EBITDA



Source: Company data, I-Sec research

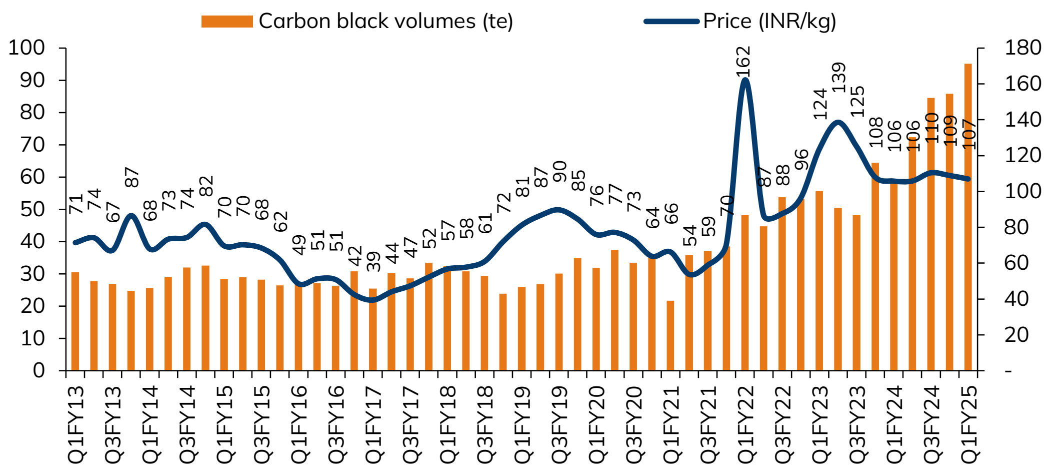
…and carbon black segment

The story in carbon black is not very different, where Chinese aggression has significantly reduced as carbon black oil (feedstock from coal tar distillation) is expensive vs CBFS (crude oil refining feedstock). Chinese local trye manufacturing has also fallen from peak due to anti-dumping duty on Chinese radial tyres in US, EU and India. Further, we understand, China carbon black capacity of ~2mn tpa has shut down due to pollution/ unviability issues.

India, which was net importer of carbon black in the past, has now turned net exporter. Further, we expect carbon black industry to continue having tailwinds as EU has completely banned imports from Russia (which had export quota into EU of 752ktpa) wef Jul'24. Also, now Belarus' carbon black is also banned in the EU. This opens up a large opportunity for India-based carbon black producers to explore export opportunities.

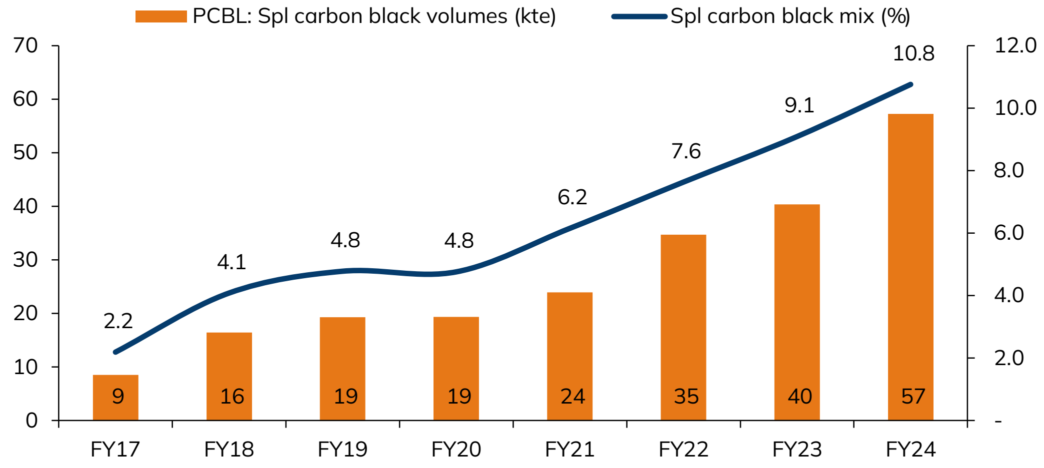
Along with volume tailwinds, spreads have also hardened in the past couple of years with supply constraints and rising investments in air emission in developed markets. US, which had excess supply in the past for carbon black, has now turned deficit, and it will likely also need to import carbon black to meet its demand. Globally, standard grade carbon black spreads have improved from USD 250/te in the past to USD 450/te. This is also reflected in profitability for India based carbon black producers. Specialty carbon black demand is on rise in India, particularly, for pigment application which has much higher spreads. We also see demand for specialty carbon black continuing to rise with increasing application of conductive and super-conductive grade carbon black in electricals and electronics.

Exhibit 16: India's carbon black exports prices have jumped, and volumes have increased smartly wherein India-based carbon black producers are winning global market share



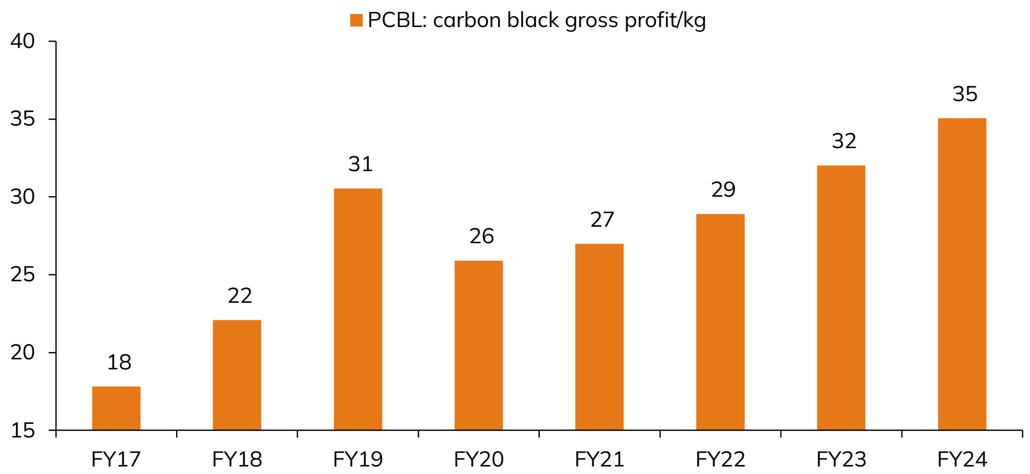
Source: Commerce ministry, I-Sec research

Exhibit 17: PCBL's specialty carbon black volumes have grown at a CAGR of 31.3% over the past seven years



Source: Company data, I-Sec research

Exhibit 18: PCBL's carbon black gross profit/kg (spreads) has grown at a CAGR of 10.1% over the past seven years



Source: Company data, I-Sec research

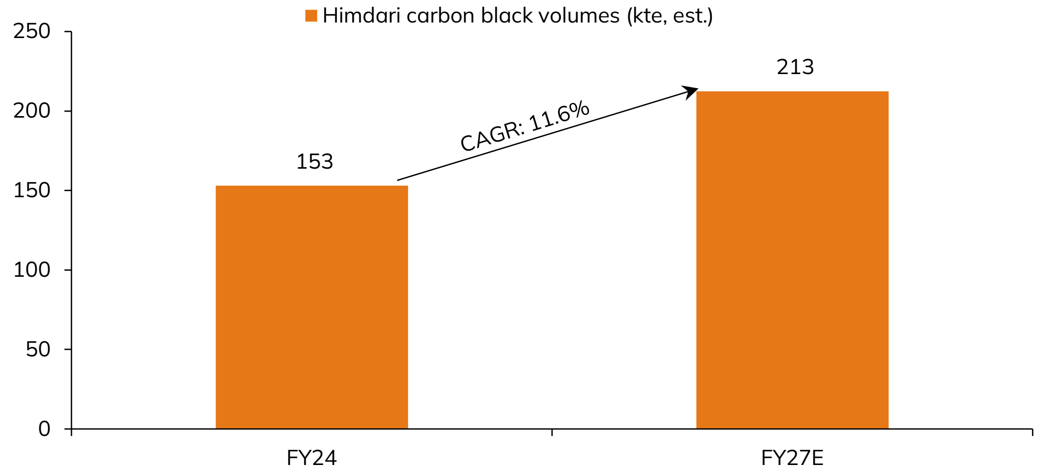
Himadri is well placed in specialty carbon black due to consistent supplies of feedstock as the company has enough production of carbon black oil, and various other oils required for specialty carbon black. In fact, it has 60ktpa capacity in specialty carbon black which is expected to jump to 130ktpa by FY26; standard grade carbon black is 120ktpa. Himadri's plant has capability to process either CBFS or carbon black oil to produce carbon black which provides flexibility for the company to optimise profitability based on feedstock prices. PCBL processes CBFS for production of standard grade carbon black. With rising demand for niche oils from coal tar distillation, Himadri has been switching carbon black oil to CBFS for production of standard grade carbon black, and is selling niche oil from coal tar distillation.

Specialty carbon black will likely continue to use feedstock from distillation which at expanded capacity may have captive requirement of 220-230ktpa of total expanded production of 290ktpa. This implies Himadri may still sell 60-70ktpa of niche oils from distillation. Currently, it consumes 180ktpa of production for captive application in carbon black and naphthalene derivatives.

The EBITDA/kg for Himadri in carbon black is significantly higher vs PCBL due to 1) higher proportion of specialty carbon black which has much higher EBITDA/kg; and 2) captive production of carbon black oil and other oils required for production of specialty carbon black.

Himadri is running the existing facility at peak utilization, and volume growth will likely be supported by new capacity addition in FY26 of 70ktpa.

Exhibit 19: Himadri's carbon black volumes to grow at a CAGR of 11.6% over FY24-27E; however, increase in specialty mix to add to EBITDA



Source: Company data, I-Sec research

Naphthalene derivatives and niche oils are also adding to volume growth

Naphthalene is 10% of output for Himadri from coal tar distillation which it sells to dye, and pigment intermediate producers. Himadri also has a portfolio of naphthalene derivative products such as SNF and PCE, and demand for these products comes from construction industries which is growing strong in India. SNF capacity for Himadri is 48ktpa, and utilisation is healthy.

Similarly, Himadri has increased the sales of niche oil, as the company has recently shifted to cheaper CBFS as feedstock for production of standard grade carbon black. This has freed up a lot of niche oil capacity for sales in external market. This is one of key reasons for increased volumes and profitability for Himadri in the past couple of quarters. Even after feeding carbon black oil and other oils to newer specialty carbon black, the company will likely have 60-70ktpa oil for external sales.

New projects – significant potential for value creation

Battery chemicals – focused on cathode active material and anodes

Cathode active materials

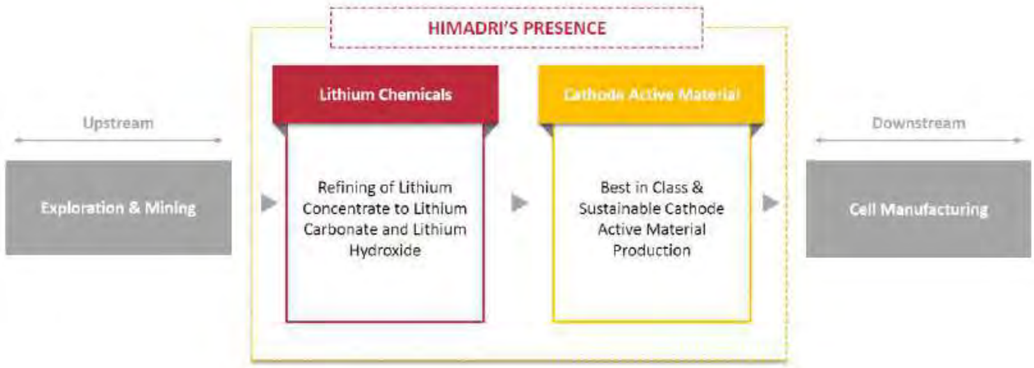
Himadri has announced its foray into lithium-ion battery materials with potential production of cathode active material – lithium iron phosphate (LFP). Cathode is a positively charged electrode where reduction occurs, which implies gain of electron. During battery charging, electrons flow from the cathode to anode, in the process storing energy that can be used later. Cathode materials constitute 40-55% of cell cost, and the key to deliver performance of a battery.

LFP is gaining popularity among cathode materials because of its low cost, high safety, low toxicity, long cycle life and other factors, therefore, LFP batteries are finding a number of applications in vehicles, utility scale stationary applications, and backup power. Further, these batteries are nickel and cobalt free. As LFP patents started expiring from 2022, demand for LFP is expected to rise, and surpass NMC (nickel, manganese cobalt) batteries.

Himadri is planning for pilot plant with capacity of 400tpa for LFP in FY26, where it intends to supply samples, and improve its products. This will likely allow the company to reduce the timeline when Himadri commissions the commercial scale plant. In phase-1 of the commercial expansion, Himadri plans to have capacity of 40ktpa, which will likely be commercialised in the next three years with investment of INR 11.25bn. Eventually, the company believes it can take capacity of up to 200ktpa with total investment outlay of INR 48bn in the next 5-6years. We expect revenue booking from battery chemicals to start from latest FY28E.

The company is working for long term lithium carbonate supply agreement for sustainable procurement of key raw materials. However, it also had breakthrough in lithium concentrate extraction and conversion to lithium carbonate and lithium hydroxide which it plans to implement at later stage. Iron phosphate has to be imported from China, which is a small part of overall cost of production. The company is also expecting to largely use renewal power for production of LFP.

Exhibit 20: Himadri's addressable market in cathode active materials



Source: I-Sec research, Company data

We understand three companies in India are in the process of setting up facilities for LFP – Himadri, Gujarat Fluorochemicals, and Altmin (link).

Even peers have announced large scale capacity addition in India – GFL expects to invest INR 60bn in battery chemicals over the next five years. It expects to start commercial LFP plant in Q3FY25. It has the largest portfolio in battery chemicals with LiPF6, electrolyte, electrolyte additives, LFP and PVDF.

Altmin partners with International Advanced Research Centre for Powder Metallurgy and New Materials (ARCI), an autonomous R&D centre (Department of Science and Technology). Altmin (in partnership with ARCI) is setting up a pilot plant with production capacity of 30-40tpa, and by 2025, will likely expand capacity to cater 3GWh. Altmin has also secured a partnership with YLB Bolivia for consistent supply of battery-grade lithium carbonate. (link)

Anode

An anode is an electrode of a polarised electrical device through which conventional current enters the device. During the process of charging, lithium ions are stored in the anode, and in the process of discharging, lithium ions flow back to the cathode through electrolyte.

The choice of anode material dictates factors such as discharge capacity, cycle life, and charging rate. Almost all lithium-ion batteries use graphite materials as anode due to its characteristics such as structural stability, low electrochemical reactivity and structural alignment for storing lithium ions.

Himadri has four graphite types to address the market

- **Synthetic graphite**: The company has a commercial plant of meso-coke – a precursor coke required for anode materials.
- **Natural graphite**: Himadri has good sourcing agreement with graphite mines and due to the control of the mined raw materials, it is able to supply natural graphite anode materials.
- **Silicon composites in anode materials**: Himadri supplies silicon graphite which is a combination of silicone and graphite which enhances anode capabilities. It also supplies silicon carbon which helps in increasing energy density.
- **Hybrid anode**: A combination of various materials such as silicon, graphite and other advance compounds helps create anode materials which provide several advantages to batteries such as higher energy density and cycle life.

Himadri has done two acquisitions for accessing technology in battery material business

- **Sicona Battery Technologies**: Himadri has invested INR 560mn (Australian dollar 10.32mn) for 12.79% equity stake in the company. Sicona has strong research and cost effective-highly scalable silicon anode manufacturing method. Sicona is a startup based out of Australia, specialising in advanced silicon anode technology for lithium-ion batteries. It has developed next-generation battery materials technology used for anodes of lithium-ion batteries that enable electric mobility and storage of renewable energy. Its silicon-composite anode technology offers significant performance enhancements, with 50-100% higher capacity than conventional graphite anodes and over 50% higher cell energy density than current lithium-ion batteries.

The capital infusion will likely accelerate Sicona's product and technology development, including the engineering of its first commercial scale production facility in the United States, and will likely help accelerate the commercial development of its technology.

- **Invati Creations**: Himadri has invested INR 450mn for 40% equity stake in the company. Invati was founded by alumni from IIM Kolkata and IIT Kharagpur, and is focused at engineering lithium-ion electrode materials for efficient energy storage with higher energy density and longer battery life, using nanotechnology biosciences. It also engages in R&D of various molecules and nanotech solutions, addressing challenges in life-science verticals, designing technology for diverse industries such as agrochemical, animal health and energy storage. Invati holds multiple patented and patentable technologies for novel molecule inventions spanning various applications, including the pioneering development of the first-ever broad-spectrum antiviral drug molecule.

Foray into tyre segment

Himadri is foraying into the tyres segment with the acquisition of Birla Tyres Ltd through the NCLT process along with resolution applicant – Dalmia Bharat Refractories Ltd. (DBRL) for INR 3.06bn. Birla Tyres had two plants: one in Haridwar, which was acquired by JK Tyres in FY16 for INR 22bn while another one in Balasore, Odisha shall now be owned by Himadri. The acquisition comes with the eligibility for investment-related incentives under the State Government Policy and availability of sufficient land for future expansion, if any.

Himadri's strategy is based on some factors such as: 1) Himadri intends to operate in value-added niche tyre segments; 2) Himadri has location advantage as it also has factories/ operations in Odisha; 3) leverage on legacy of 'Birla Tyres' brand to rebuild B2B business; 4) it is forward integrating its carbon black business; and 5) acquisition ready to operate plant will likely help in reducing time-to-market. It aims to have products across bus, truck, commercial vehicles, OHT, etc.

The company has capex plans to invest INR 5-6bn in Balasore plant to enhance capabilities and improve operating efficiencies.

Battery, long-term revenue driver; tyre scale up, immediate

Battery chemicals

We understand battery chemicals, particularly LFP, have tailwinds from rising penetration of EV/ESS adoption; however, revenue recognition for Himadri is at least three years down the line – probably may start from FY28E. The company is in the process of buying land in Odisha for battery chemicals, and Himadri already operates a plant in core coal chemicals business in Odisha. It also bought Birla Tyres plant in Odisha; therefore, it is creating a manufacturing ecosystem in the state.

Himadri is likely to commercialise its LFP pilot plant with a production capacity of ~400tpa in FY26E. This may help the company optimise the manufacturing process, and secure approvals from key customers; thereby, accelerating the revenue on commission of commercial scale plant. We do not see any material revenue potential from battery chemicals in our forecasted period.

Himadri's commercial plant may have capacity of 40ktpa, with investment of INR 11.25bn. LFP realisation is INR 600/kg. This implies LFP plant at full utilisation (95%) will likely be INR 22.8bn (gross block turnover of 2x). Gross profit margin is expected at 29-30%, with EBITDA margin at 10-11%. Assuming LFP plant phase-1 hits peak utilisation is FY30, LFP segment EBITDA will likely be INR 2.3-2.5bn. Eventually, Himadri expects to expand LFP capacity to 200ktpa with total investment of INR 48bn.

Tyres segment

Birla Tyres capacity stands at 300TPD for bias tyres and 100TPD for PCR (passenger car radial). The company plans to invest INR 5-6bn to restart plant and distribution. Its due diligence suggests the plant's condition is in good shape, particularly, the PCR capacity. It has huge land of 195acres which will likely help in future expansion. As per the company, the value of the acquired asset is INR 34bn.

Indian tyre industry by volume has grown at a CAGR of 2.8% over FY19-23, and estimates suggest that over the next five years, volumes may rise at a 6% CAGR. India tyre demand by value is ~INR 900bn. Further, India has been growing its tyre exports, which have jumped at a CAGR of 15.7% over FY19-23 to INR 231bn, and may grow at a CAGR of 8% to INR 340bn over the next five years.

Demand from OEM is ~40%, and replacement market is 60%. Himadri is likely to participate in only replacement market. India replacement tyre market volumes are expected to grow at a CAGR of 5.2% over FY23-28E. Commercial vehicle is the largest segment by value with annual replacement volume of 20mn, which has broadly remained stable in the past five years (FY19-23). Of the total commercial vehicle tyres, radial penetration is 55%, and bias is 45% which is declining. Himadri does not have any commercial vehicle radial tyre capacity; it will likely focus on bias commercial tyre, tractors segment and mining segment.

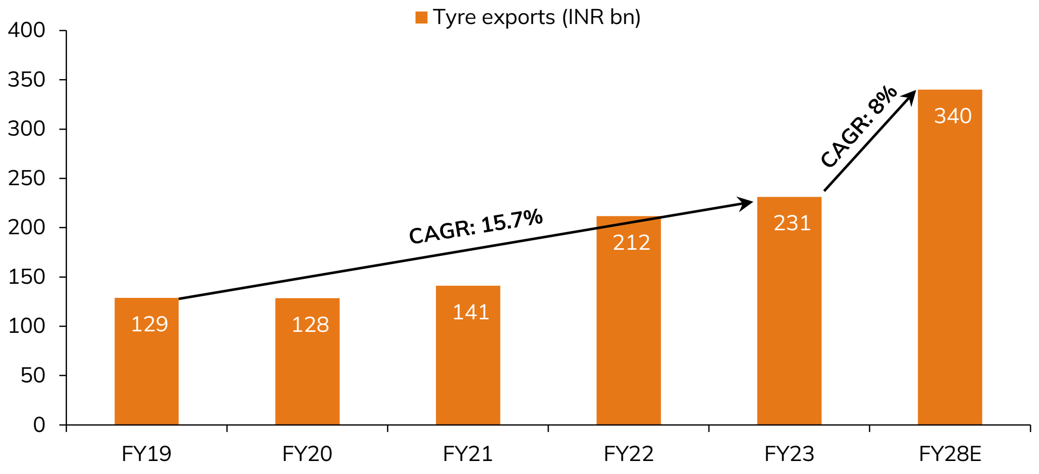
Further, the company has keen interest in tapping into the rising opportunity in India's tyre producers in exports market particularly for tractor segment.

Exhibit 21: India replacement tyre volume to grow at a CAGR of 5.2% over FY23–28E

mn units	FY19	FY20	FY21	FY22	FY23	CAGR (%)	FY28E	CAGR (%)
OEMs								
Two-wheelers	49	42	37	35	40	(4.9)	56	7.0
Three-wheelers	-	-	-	6	6		9	7.2
Passenger vehicles	20	17	15	18	23	3.6	34	7.8
Commercial vehicles	8	5	4	5	7	(3.3)	10	6.3
Tractors	4	3	4	4	4	4.5	6	6.9
Total	**81**	**67**	**60**	**68**	**80**	**(0.1)**	**114**	**7.2**
Replacement								
Two-wheelers	53	51	50	57	58	2.3	64	2.0
Three-wheelers	-	-	-	4	5		5	1.6
Passenger vehicles	26	27	22	27	38	10.0	57	8.3
Commercial vehicles	21	20	20	20	20	(1.2)	30	8.4
Tractors	3	2	2	4	4	7.2	5	6.2
Total	**103**	**100**	**94**	**112**	**125**	**4.9**	**161**	**5.2**
Total	**183**	**167**	**154**	**180**	**205**	**2.8**	**274**	**6.0**

Source: ATMA, I-Sec research

Exhibit 22: India's tyres export revenue to grow at a CAGR of 8% over FY23-28E



Source: Commerce ministry, I-Sec research

Large domestic tyre producers' revenues in the past five years (FY19-24) have grown at a CAGR of 8.5%, while export-focused BKT revenues have jump at a CAGR of 11.8%. Median domestic producers' gross profit margin stood at ~39%, and EBITDA margin was 12.8%. BKT margins are much better with gross profit margin at 54% and EBITDA margin at 25%. Gross block turnover for tyre producers is ~1.1x and working capital days is reasonable at 22 days.

Within products, we understand bias commercial vehicle tyres have lower margin compared to radial; however, tractor and mining segments have healthy margins.

Exhibit 23: Tyre peers' financial performance analysis

	Apollo Tyres	CEAT	JK Tyres	MRF	Median	BKT
Revenue (FY24, INR mn)	2,53,777	1,19,435	1,50,018	2,46,737	1,98,377	92,987
5years CAGR growth (%)	*7.7*	*11.3*	*7.7*	*9.3*	*8.5*	*11.8*
Average of last 5years						
Gross profit margin (%)	43.6	39.7	36.6	37.9	38.8	54.4
EBITDA margin (%)	14.2	10.7	11.5	14.1	12.8	24.9
EBIT margin (%)	7.7	6.4	8.0	7.9	7.8	18.4
Gross block turnover (x)	0.7	1.2	1.1	1.0	1.1	1.0
Inventory days	68	45	65	67	66	56
Receivable days	31	41	65	48	44	50
Payable days	128	77	95	61	86	34
Cash conversion days	**(29)**	**10**	**35**	**53**	**22**	**72**

Source: Company data, I-Sec research

We expect Birla Tyres to start bias plant by end-FY25, and in 18 months it may commission PCR plant. The company has been working on ground for developing / planning distribution and products. Birla Tyres has reasonably good brand recall for bias segment, which Himadri wishes to capitalise on and also develop the market for its export products.

We estimate revenue of INR 2bn in FY26E, which will likely include placing inventory with dealers/distributors. Revenue growth may accelerate in FY27E/FY28E as it starts producing PCR. Himadri may have to come with competitive pricing. We factor in EBITDA breakeven in FY27E.

Exhibit 24: Birla Tyres may help accelerate revenue growth; estimate EBITDA breakeven in FY27E

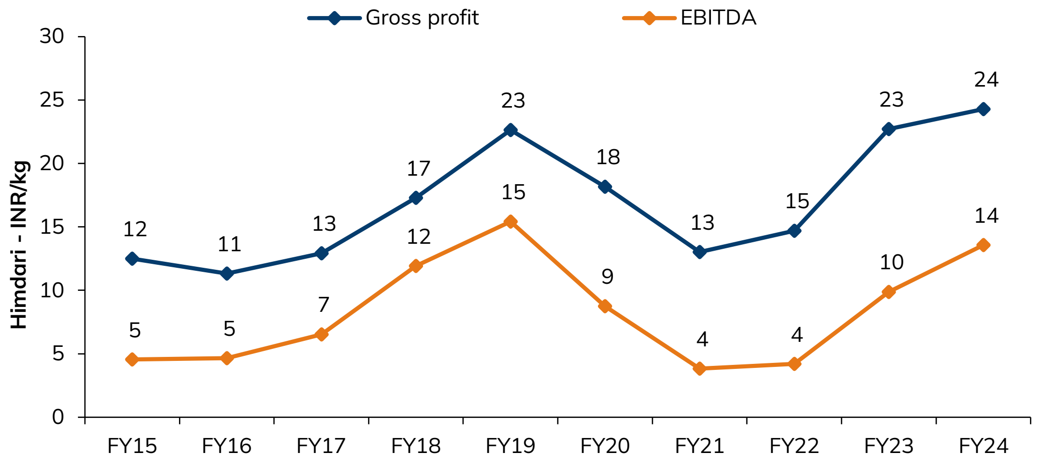
INR mn	FY26E	FY27E	FY28E	FY29E	FY30E
Gross block (est. notional)	34,000	34,000	35,000	36,000	37,000
Turn over (x)	*0.1*	*0.3*	*0.6*	*0.9*	*1.0*
Revenue	**2,000**	**10,000**	**20,000**	**31,500**	**36,000**
Growth (%)		400.0	100.0	57.5	14.3
Gross profit	754	3,771	7,742	12,194	13,936
Gross profit margin (%)	37.7	37.7	38.7	38.7	38.7
EBITDA	**(346)**	**(89)**	**768**	**1,925**	**2,640**
EBITDA margin (%)	(17.3)	(0.9)	3.8	6.1	7.3

Source: Company data, I-Sec research

Legacy issues behind

CTP price contact: Himadri has earlier done three years contract for the sale of CTP where prices were pegged to CBFS index prices. In the past, CBFS prices were largely flat with no premiums against the index, and the variation has been within a narrow range. However, in the contract period, the premium on CBFS over its index prices jumped sharply leading to escalation in raw material prices. Himadri has honoured the contract despite unfavourable price moment, which the company believes may enhance its credibility and strengthen relationship with customers. CBFS price-linked contracts are behind, and the company has repriced products based on coal tar prices now.

Exhibit 25: Himadri's CBFS price-linked contracts worked unfavourably post Covid-19

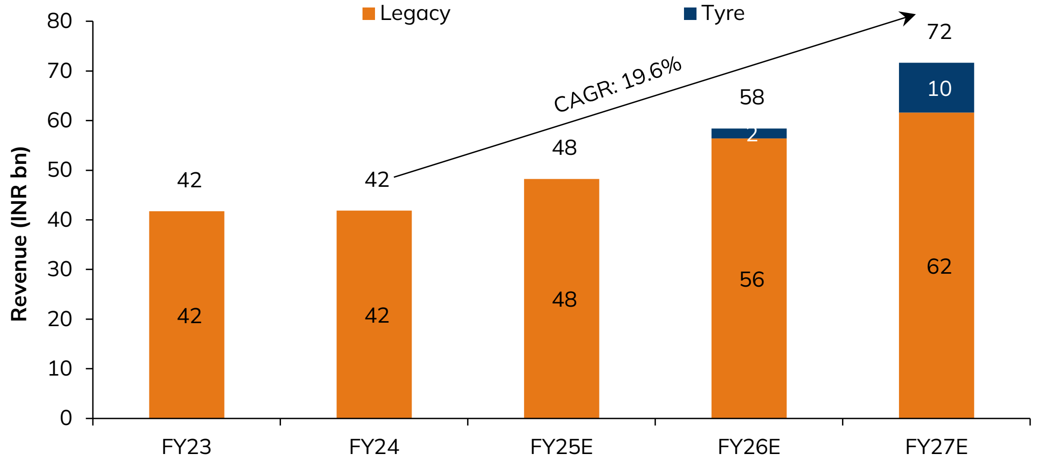


Source: Company data, I-Sec research

Family settlement: Himadri promoters' family settlement has dragged for two years. Mr. Anurag Choudhary, and family, has now full control over Himadri. This issue led to promoters' focus shifting towards internal settlement.

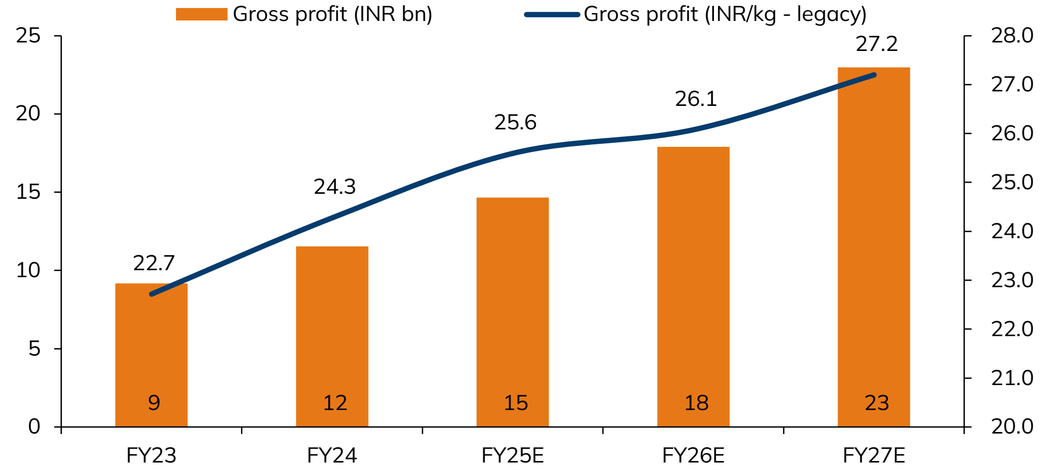
Financials

Exhibit 26: Consolidated revenue to grow at a CAGR of 19.6% over FY24-27E; legacy to grow at 13.8%. Battery chemical may start contributing only from FY28E



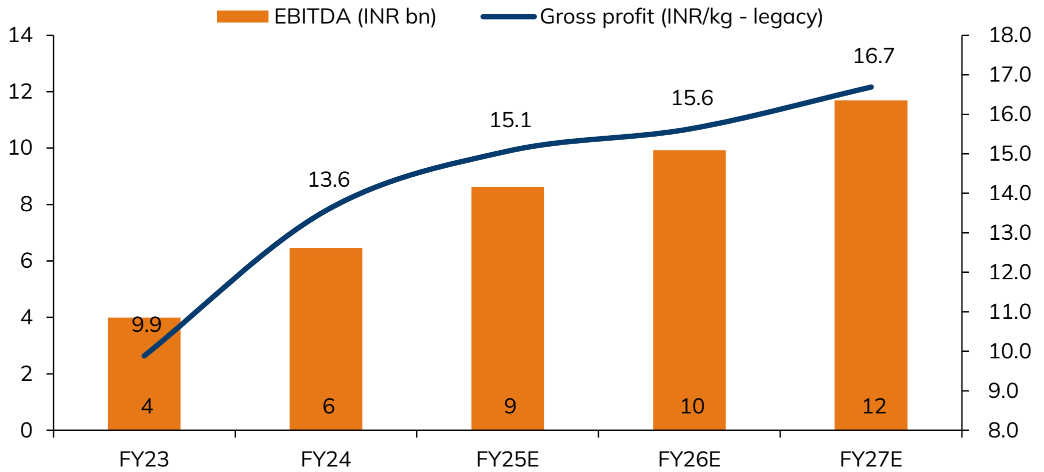
Source: Company data, I-Sec research

Exhibit 27: Gross profit to grow at a CAGR of 25.8% over FY24-27E as legacy business benefits from better product mix



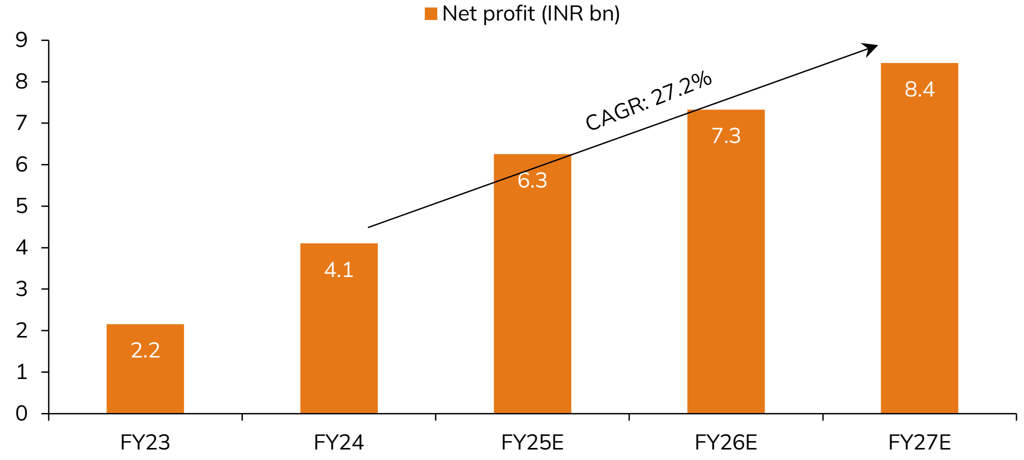
Source: Company data, I-Sec research

Exhibit 28: EBITDA growth slight lower at a CAGR of 21.9% over FY24-27E due to ongoing investment in trye and battery businesses



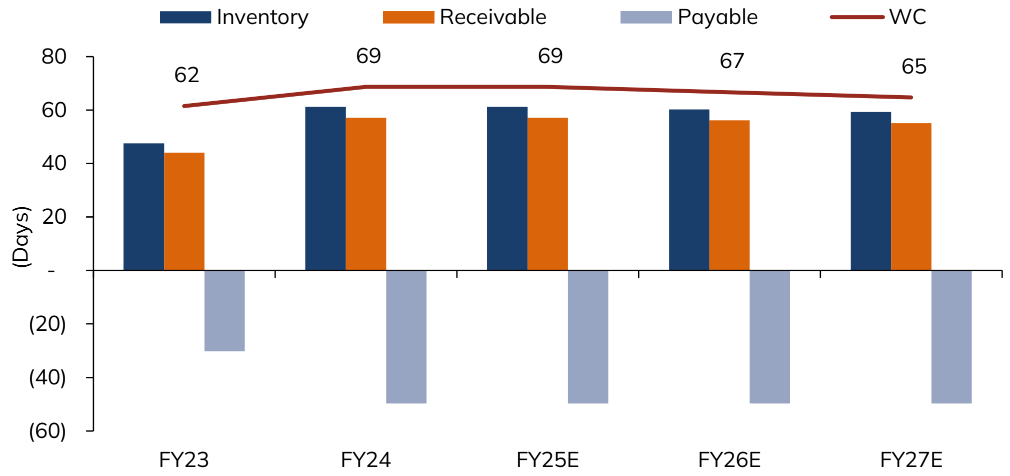
Source: Company data, I-Sec research

Exhibit 29: Net profit to grow at a CAGR of 27.2% over FY24-27E



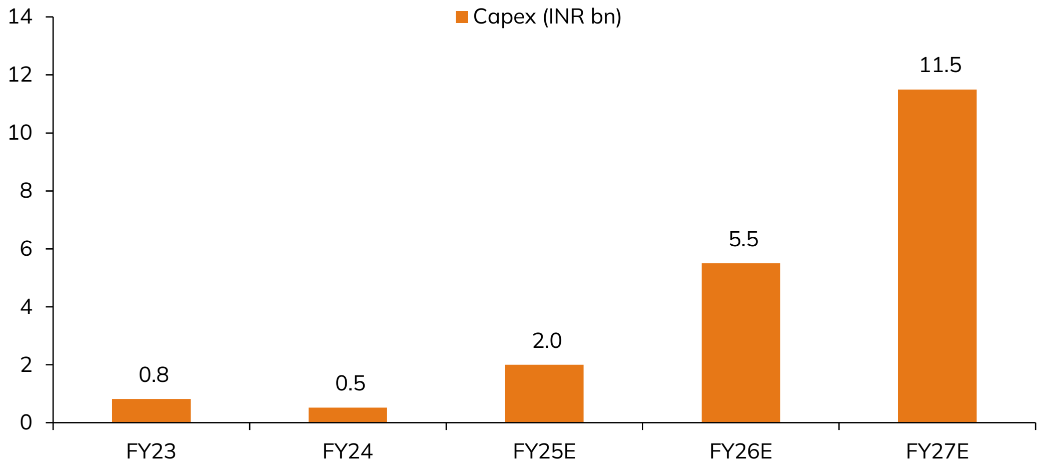
Source: Company data, I-Sec research

Exhibit 30: Expect working capital days to remain stable



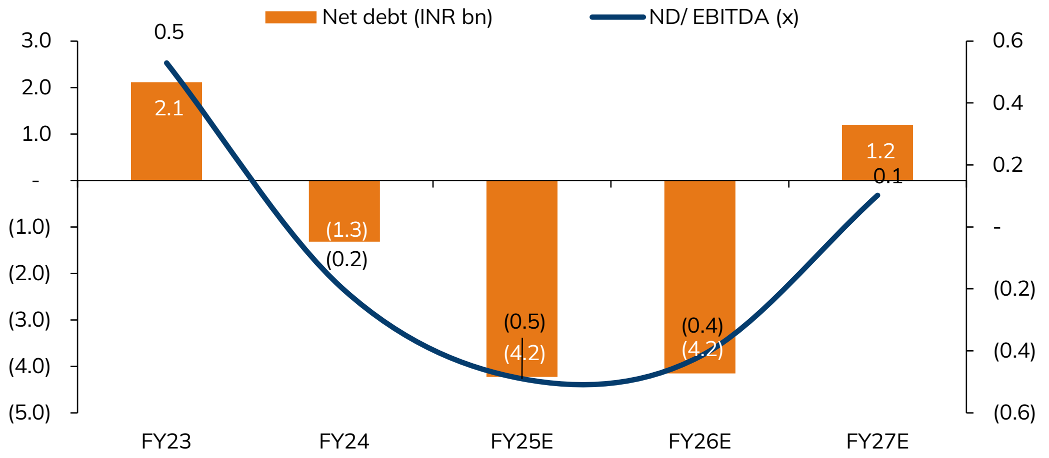
Source: Company data, I-Sec research

Exhibit 31: Capex to rise sharply due to addition of capacity in legacy business, investment in tyre and battery chemicals businesses



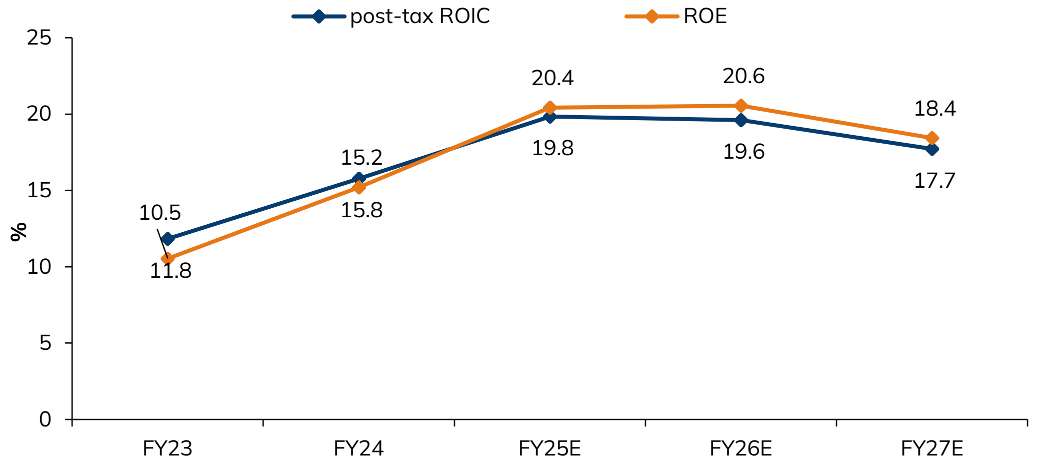
Source: Company data, I-Sec research

Exhibit 32: Entire expansion will likely be funded via internal accruals, and limited debt



Source: Company data, I-Sec research

Exhibit 33: Return ratio compresses as tyre and battery business investments are yet to scale up



Source: Company data, I-Sec research

Valuation: Initiate coverage with ADD

We initiate coverage on Himadri with an **ADD** rating, and an SoTP-based target price of INR 600. We value its legacy business at 20x FY27E EV/EBITDA, tyre business at 3x FY27E EV/ sales and battery chemicals at 3x FY27E EV/ IC. Our valuation implies FY27E PE multiple of 35x and EV/EBITDA of 25x.

We have a constructive view on coal chemicals with the reduced Chinese aggression making space for Indian coal chemical players to increase global footprint, and significantly improve profitability. Himadri has created a business moat in the coal tar value-chain with a dominant position in India, established sourcing contracts, robust infrastructure and an integrated production process. It is also re-aligning the process to maximise profit by integrating CBFS as feedstock for rubber-grade carbon black. Despite stable CTP demand in India, Himadri's efforts to expand in the exports market is likely to pay dividends in the form of faster volume growth and better profitability. The company is also expanding capacity in specialty carbon black, and favourable cycle should help drive more value for Himadri.

Himadri is using strong FCF generation from coal chemicals to forward integrate into tyre segment. To begin with, the company has an advantage of buying asset at reasonable valuations, and Birla Tyres brand recall. We expect tyre segment to contribute 14% of revenue and EBITDA breakeven in FY27E.

Himadri is also foraying into battery chemicals, and setting up LFP pilot plant soon with capacity of ~400tpa. The company is investing INR 11.25bn to set up commercial plant with capacity of 40ktpa by FY28. It also has plans for anode production with application in EV/ESS batteries.

Himadri has healthy balance sheet with net cash of INR 4bn as of FY25E; however, we expect the company to raise certain debt for new projects over the next two years. Yet, its balance sheet is likely to remain strong. The company's return ratios in FY25 may be decent with post-tax RoCE at 16.6% and RoE at 18.4%. However, upfronting of new investment may drag return ratios from FY26E, but could significantly improve long-term earnings growth visibility.

Exhibit 34: Himadri SoTP based target price

Business	Methodology	INR mn (FY27E)	Multiple (x)	EV (INR mn)
Legacy	EV/EBITDA	11,777	20.0	2,35,531
Tyre	EV/Sales	10,000	3.0	30,000
Battery chemicals	EV/IC	10,500	3.0	31,500
Total EV				**2,97,031**
Less: Net debt				1,195
Equity value				**2,95,837**
Shares (mn)				493
Target price (INR/sh)				**600**

Source: I-Sec research

Exhibit 35: Implied valuations at target price

INR mn	FY26E	FY27E
Target price (INR)	600	600
EPS (INR)	15	17
PE (x)	**40.3**	**35.0**
EV	2,91,192	2,96,539
EBITDA	9,925	11,688
EV/EBITDA (x)	**29.3**	**25.4**

Source: I-Sec research

Exhibit 36: Chemicals coverage universe snap-shot

INR mn	CMP (INR)	Mcap (mn)	Revenue				EPS (INR)			
			FY24A	FY25E	FY26E	CAGR (%)	FY24A	FY25E	FY26E	CAGR (%)
SRF	2,278	6,75,245	1,31,385	1,47,926	1,72,442	15%	45.1	43.4	63.9	19%
Navin Fluorine	3,461	1,71,475	20,650	26,101	29,982	20%	54.6	62.9	94.9	32%
Gujarat Fluoro	4,376	4,80,720	42,808	49,355	62,904	21%	39.6	50.9	90.2	51%
Atul Ltd	7,333	2,16,038	47,257	54,333	63,830	16%	109.6	170.8	227.9	44%
Chemplast	497	78,562	39,230	48,158	56,973	21%	(10.0)	3.2	25.3	
Galaxy	2,782	98,627	37,944	40,497	41,503	5%	85.0	104.2	114.7	16%
Rossari	812	44,859	18,306	20,372	23,953	14%	23.7	28.4	33.3	19%
EPL	284	90,295	39,161	43,789	49,346	12%	6.5	11.3	14.7	50%
Sudarshan	1,135	78,595	25,388	28,600	31,555	11%	15.2	28.9	39.1	60%
Tatva Chintan	880	20,585	3,935	4,190	6,338	27%	13.0	8.1	40.4	76%
Clean Science	1,422	1,51,114	7,915	10,512	14,152	34%	23.0	26.7	36.5	26%
BlueJet Healthcare	544	94,365	7,116	9,147	11,745	28%	10.0	13.6	17.0	30%
Archean Chemical	658	81,251	13,301	15,779	20,896	25%	25.9	31.8	44.7	32%
PCBL	489	1,84,767	64,198	86,323	93,577	21%	12.3	15.4	18.6	23%
Himadri	**552**	**2,71,715**	**41,849**	**48,243**	**58,421**	**18%**	**8.3**	**12.7**	**14.9**	**34%**
Median						**20%**				**32%**

Source: Company data, I-Sec research

Exhibit 37: Chemicals coverage universe valuation snap-shot

INR mn	PE (x)		EV/EBITDA (x)		ROCE (post-tax)		GB turnover (x)		Capex	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
SRF	52.4	35.6	26.6	20.0	8.7	11.3	0.8	0.8	22,862	27,379
Navin Fluorine	55.0	36.5	31.4	23.7	8.7	11.6	0.9	0.9	4,445	3,000
Gujarat Fluoro	86.1	48.5	40.6	27.0	8.0	12.2	0.7	0.8	5,825	9,174
Atul Ltd	42.9	32.2	22.1	17.5	8.4	10.4	1.2	1.3	3,693	3,000
Chemplast	153.3	19.6	21.5	10.9	5.5	14.4	1.1	1.2	2,683	2,817
Galaxy	26.7	24.3	17.0	15.2	14.6	14.4	2.2	2.1	2,000	1,500
Rossari	28.6	24.4	15.8	13.8	12.8	13.2	2.7	2.9	931	800
EPL	25.1	19.3	11.0	9.2	13.9	16.0	1.0	1.1	3,500	3,500
Sudarshan	39.3	29.0	18.9	14.9	12.7	15.5	1.4	1.5	1,000	1,000
Tatva Chintan	108.6	21.8	42.2	14.0	2.2	11.0	0.8	0.9	800	1,500
Clean Science	53.2	38.9	36.1	27.0	19.9	23.8	1.1	1.3	1,227	1,350
BlueJet Healthcare	40.1	32.1	30.6	23.7	22.5	24.0	1.8	1.6	1,965	2,000
Archean Chemical	20.7	14.7	13.3	9.3	18.8	22.4	0.9	1.2	1,500	1,000
PCBL	31.7	26.3	16.1	12.7	8.7	10.1	1.8	1.7	6,000	6,000
Himadri	**43.5**	**37.1**	**31.0**	**27.0**	**16.5**	**17.1**	**2.0**	**2.0**	**2,000**	**5,500**
Median	**42.9**	**29.0**	**22.1**	**15.2**	**12.7**	**14.4**	**1.1**	**1.3**		

Source: Company data, I-Sec research

Exhibit 38: Peers' valuation snap-shot

INR mn	CMP INR	MCap INR bn	Revenue				EPS (INR)			
			FY24	FY25E	FY26E	CAGR (%)	FY24	FY25E	FY26E	CAGR (%)
India CTP/ carbon black										
PCBL	489	185	64,198	86,992	99,105	24.2	13.0	15.1	21.1	27.5
Rain Industries	186	63	1,80,518				(27.9)			
Median						**24.2**				**27.5**
Global	**USD**	**USD bn**	**CY23**	**CY24E**	**CY25E**		**CY23**	**CY24E**	**CY25E**	
Cabot Corp	102	6	3,994	4,176	4,316	3.9	7.0	7.7	8.4	9.6
Orion SA	17	1	1,894	1,892	1,976	2.1	1.8	1.7	1.9	2.8
Koppers	33	1	2,154	2,112	2,134	(0.5)	4.4	3.9	4.1	(3.5)
Median						**2.1**				**2.8**
India Tyre companies										
MRF	1,30,977	555	2,51,692	2,80,827	3,05,824	10.2	4,907.2	4,619.9	5,425.4	5.1
Apollo Tyres	533	338	2,50,204	2,66,555	2,87,820	7.3	27.1	23.5	30.5	6.1
Ceat	3,103	126	1,18,470	1,31,296	1,46,422	11.2	158.9	144.2	190.3	9.4
JK Tyres	409	112	1,48,694	1,51,479	1,64,852	5.3	28.7	29.3	36.8	13.3
Balkrishna Industries	2,806	542	93,689	1,04,046	1,18,255	12.3	76.1	86.1	104.9	17.4
Median						**10.2**				**9.4**
India battery chemicals										
Gujrat Fluorochemicals	4,376	481	42,808	51,295	65,119	23.3	39.6	58.7	90.2	51.0
Neogen Chemicals	2,147	57	6,907	8,342	12,413	34.1	13.5	21.9	35.3	61.7
Median						**28.7**				**56.3**

Source: Bloomberg, I-Sec research

Exhibit 39: Peers' valuation snap-shot

	PE (x)		EV/EBITDA (x)		ROE (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
India coal tar pitch/ carbon black						
PCBL	32.4	23.1	15.6	13.1	15.0	19.0
Rain Industries						
Median	**32.4**	**23.1**	**15.6**	**13.1**	**15.0**	**19.0**
Global	**CY24E**	**CY25E**	**CY24E**	**CY25E**	**CY24E**	**CY25E**
Cabot	13.2	12.2	7.9	7.5	28.1	27.4
Orion	9.9	9.0	6.1	5.8	20.6	23.1
Koppers	8.3	8.0	6.3	5.9		
Median	**9.9**	**9.0**	**6.3**	**5.9**	**24.4**	**25.3**
India Tyre companies						
MRF	28.4	24.1	13.0	11.6	11.2	11.8
Apollo	22.7	17.5	9.8	8.5	10.7	13.0
Ceat	21.5	16.3	9.4	7.8	13.2	16.4
JK Tyres	14.0	11.1	8.2	7.3	16.1	16.2
BKT	32.6	26.7	21.1	17.8	17.3	18.2
Median	**22.7**	**17.5**	**9.8**	**8.5**	**13.2**	**16.2**
India battery chemicals						
GFL	74.6	48.5	38.6	27.7	9.8	15.2
Neogen	97.9	60.8	41.1	26.8	7.4	15.2
Median	**86.2**	**54.6**	**39.8**	**27.2**	**8.6**	**15.2**

Source: Bloomberg, I-Sec research

Risks

Downside risks

- Drop in coal tar prices, or increase in crude coal tar prices impacting profitability of legacy business.
- Rise in competitive intensity from China for coal chemical value China.
- Slower-than-expected scale-up of tyre segment.
- Inferior economics in battery chemicals, and slower-than-expected pick-up in battery market.

Upside risks

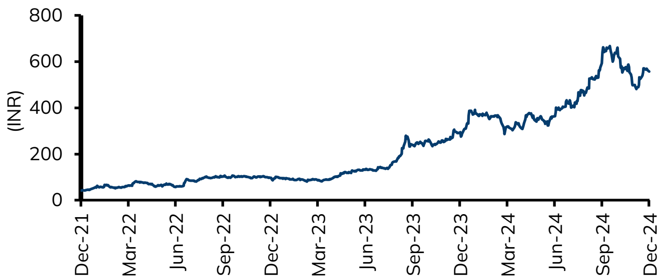
- Supply constrains increase in coal tar value chain, allowing Himadri to maximise profits in downstream products. Better-than-expected coal-tar pitch volume off-take in exports market.
- Higher than expected market share in tyre segment.
- Faster-than-expected ramp-up in battery chemical business.

Exhibit 40: Shareholding pattern

%	Mar '24	Jun'24	Sep'24
Promoters	50.3	50.2	50.8
Institutional investors	7.3	7.4	8.7
MFs and others	1.3	1.3	2.6
FIs/Banks	0.1	0.1	0.0
Insurance	0.7	0.9	1.0
FIIs	5.1	5.2	5.1
Others	42.4	42.4	40.5

Source: Bloomberg

Exhibit 41: Price chart



Source: Bloomberg

Financial Summary

Exhibit 42: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	**41,849**	**48,243**	**58,421**	**71,642**
Operating Expenses	35,398	39,619	48,497	59,954
EBITDA	**6,451**	**8,624**	**9,925**	**11,688**
EBITDA Margin (%)	15.4	17.9	17.0	16.3
Depreciation & Amortization	499	500	575	821
EBIT	5,952	8,124	9,350	10,867
Interest expenditure	639	277	89	134
Other Non-operating Income	425	510	536	563
Recurring PBT	**5,739**	**8,358**	**9,796**	**11,295**
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	1,632	2,106	2,469	2,846
PAT	4,108	6,252	7,328	8,450
Less: Minority Interest	(1)	(1)	(1)	(1)
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	**4,109**	**6,253**	**7,329**	**8,451**
Net Income (Adjusted)	**4,108**	**6,252**	**7,328**	**8,450**

Source Company data, I-Sec research

Exhibit 43: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	23,070	23,399	26,863	27,071
of which cash & cash eqv.	7,314	5,233	5,157	810
Total Current Liabilities & Provisions	12,030	7,986	9,512	11,497
Net Current Assets	**11,040**	**15,413**	**17,351**	**15,574**
Investments	4,775	4,767	4,767	4,767
Net Fixed Assets	15,997	17,497	22,422	33,101
ROU Assets	229	229	229	229
Capital Work-in-Progress	665	665	665	665
Total Intangible Assets	8	8	8	8
Other assets	573	648	756	892
Deferred Tax Assets	73	73	73	73
Total Assets	**44,488**	**46,392**	**54,890**	**65,913**
Liabilities				
Borrowings	**6,004**	**1,004**	**1,004**	**2,004**
Deferred Tax Liability	**1,691**	**1,691**	**1,691**	**1,691**
Provisions	90	99	109	120
Other Liabilities	3	3	4	4
Equity Share Capital	493	493	493	493
Reserves & Surplus	29,963	35,903	42,865	50,892
Total Net Worth	**30,456**	**36,395**	**43,357**	**51,385**
Minority Interest	(28)	(29)	(30)	(31)
Total Liabilities	**44,488**	**46,392**	**54,890**	**65,913**

Source Company data, I-Sec research

Exhibit 44: Quarterly trend

(INR mn, year ending March)

	Dec-23	Mar-24	Jun-24	Sep-24
Net Sales	10,525	11,770	11,998	11,369
% growth (YOY)	1.5	14.4	26.2	13.2
EBITDA	1,739	1,795	1,920	2,081
Margin %	16.5	15.3	16.0	18.3
Other Income	102	124	126	136
Extraordinaries	0	0	0	0
Adjusted Net Profit	1,088	1,152	1,235	1,357

Source Company data, I-Sec research

Exhibit 45: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	**5,564**	**6,518**	**7,456**	**8,841**
Working Capital Changes	(1,516)	(1,528)	(2,112)	(2,694)
Capital Commitments	(524)	(2,000)	(5,500)	(11,500)
Free Cashflow	**3,524**	**2,990**	**(156)**	**(5,353)**
Other investing cashflow	**(3,522)**	**518**	**536**	**563**
Cashflow from Investing Activities	(3,522)	518	536	563
Issue of Share Capital	3,187	-	-	-
Interest Cost	(629)	(277)	(89)	(134)
Inc (Dec) in Borrowings	(2,401)	(5,000)	-	1,000
Dividend paid	(108)	(313)	(366)	(422)
Others	37	-	-	-
Cash flow from Financing Activities	72	(5,589)	(456)	444
Chg. in Cash & Bank balance	**218**	**2,463**	**3,969**	**5,480**
Closing cash & balance	603	3,186	7,155	12,634

Source Company data, I-Sec research

Exhibit 46: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	8.3	12.7	14.9	17.2
Adjusted EPS (Diluted)	8.3	12.7	14.9	17.2
Cash EPS	9.4	13.7	16.0	18.8
Dividend per share (DPS)	0.5	0.6	0.7	0.9
Book Value per share (BV)	61.8	73.9	88.0	104.3
Dividend Payout (%)	6.0	5.0	5.0	5.0
Growth (%)				
Net Sales	0.3	15.3	21.1	22.6
EBITDA	61.6	33.7	15.1	17.8
EPS (INR)	67.0	52.2	17.2	15.3
Valuation Ratios (x)				
P/E	66.1	43.5	37.1	32.2
P/CEPS	59.0	40.2	34.4	29.3
P/BV	8.9	7.5	6.3	5.3
EV / EBITDA	41.9	31.0	27.0	23.4
EV/SALES	6.5	5.5	4.6	3.8
Dividend Yield (%)	0.1	0.1	0.1	0.2
Operating Ratios				
Gross Profit Margins (%)	27.6	30.4	30.6	32.1
EBITDA Margins (%)	15.4	17.9	17.0	16.3
Effective Tax Rate (%)	28.4	25.2	25.2	25.2
Net Profit Margins (%)	9.8	13.0	12.5	11.8
NWC / Total Assets (%)	24.8	33.2	31.6	23.6
Net Debt / Equity (x)	0.0	(0.1)	(0.1)	0.0
Net Debt / EBITDA (x)	(0.2)	(0.5)	(0.4)	0.1
Profitability Ratios				
RoCE (%)	12.6	16.5	17.1	16.6
RoE (%)	15.4	18.7	18.4	17.8
RoIC (%)	15.8	19.8	19.6	17.7
Fixed Asset Turnover (x)	1.9	2.0	2.0	1.7
Inventory Turnover Days	61.3	61.3	60.3	59.3
Receivables Days	57.2	57.2	56.2	55.2
Payables Days	49.7	49.7	49.7	49.7

Source Company data, I-Sec research

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