

Omkar Speciality Chemicals Ltd : Average Issue

**IPO Note: Huge Expansion with capacity will increase from 950 MT to 3650 MT
Rating****

Issue details

IPO Opening Date	24/01/11
IPO Closing Date	27/01/11
Issue Size	Rs.76.95- 79.38 Crore
Issue Price	Rs.95 - 98

Valuations & Recommendation

For the period of six months ended on September 30, 2010, it has reported net profit of Rs 5.04 crore on total income of Rs 51.56 crore while full year profit for the year ended 2010 was Rs.5.13 crore. The company has reported EPS of Rs.4.38 for the H1FY11.

There is a steady increase in the margin over the last three years. The company has a CAGR of 28% in the same period. Its operating profit margin increased from 13.79% in 2008 to 18.10% in 2010. The Return on the capital employed is almost stable around 30%.

At Rs 95 - 98, the company is demanding a valuation around 20 times its FY 11 earnings, which is little bit high but it is justified considering the segments it operates and the expected benefits from capacity expansion. Looking to its huge expansion plan and products in which company is operating, we recommend to invest in the issue at lower level after listing but investors with high risk aptitude can take little exposure in this IPO at current price because of high CAGR, capacity expansion and increasing OPM.

Highlights

- ◆ Planning to set up a new manufacturing unit, Unit-IV at Badlapur, Thane, at an estimated cost of Rs. 32.1 crore and is also planning for expansion at the existing units at an estimated cost of Rs.14.61 crore.
- ◆ The total installed capacity would be 3650 MT per annum from the existing 950 MT on completion of the expansion.
- ◆ Steady increase in the margin over the last three years. The company has a CAGR of 28% in the same period.
- ◆ CARE Limited has assigned an IPO Grade 3 to Omkar Speciality Chemicals Ltd IPO.
- ◆ Project not appraised, fully equity funded without any contribution from the promoters.

Company Introduction

Company Profile

Omkar Speciality Chemicals is mainly engaged in the manufacture and sale of Speciality Chemicals and Intermediates for Chemical and Allied Industries. It has four units at MIDC, Badlapur (East), District - Thane, Maharashtra. The company was originally incorporated as Omkar Speciality Chemicals on February 24, 2005 and took over business of the Proprietorship Firm Omkar Chemicals which was in operation since 1983 with Pravin S Herlekar as the Proprietor. The private limited company was converted into a public limited company on March 18, 2010.

Product Portfolio

The company manufactures a range of organic, inorganic and organo-inorganic intermediates. Organic intermediates are compounds rich in carbon molecules. Organo inorganic intermediates are combination of carbon and metal molecules. The various products manufactured by the company in various categories are as follows:



www.omkarchemicals.com

The Inorganic Intermediates include Molybdenum derivatives, Selenium derivatives, Iodine derivatives, Cobalt derivatives, Bismuth & Tungsten derivatives and the organic intermediates include Tartaric acid derivatives and other intermediates.

Uses of Products

These products find applications in various industries like Pharmaceutical Industry, Chemical Industry, Glass Industry, Cosmetics, Ceramic Pigments and Cattle & Poultry Feeds.

Export Turnover

The company exports its products to Europe, Canada, Asia, South America and Australia. The total exports constituted 8.69%, 12.35% and 7.97% of gross sales during FY 2008, FY 2009 and FY 2010 respectively.

R&D

Omkar Speciality Chemicals has basic research capabilities and has recently acquired Rishichem Research as a wholly-owned subsidiary which is expected to provide a total R&D back-up to the company for all its future expansion and diversification programmes.

Plant and Machinery

The company's manufacturing facilities have plant and machinery, which includes stainless steel reactors, glass lined reactors, stainless steel centrifuges, glassline centrifuges, nutsche filters, agitated filter nutsches, tray dryers, fluid bed dryers, blenders and support equipments like boilers, chilling plants, cooling tower, etc.

Objects of the Issue:

1. Setting up of new manufacturing facility at Badlapur, Maharashtra
2. Expansion of existing manufacturing facilities
3. Meeting Working Capital requirements
4. General corporate purposes; and 5. Issue expenses.

Financial Summary Rs. In crore

	2008	2009	2010	30-09-10
Sales	43.29	50.64	68.92	51.10
PAT	2.58	3.13	5.13	5.04
EPS	2.24	272	4.45	4.38

RANKING METHODOLOGY

WEAK	*
AVERAGE	**
GOOD	***
VERY GOOD	****
EXCELLENT	*****

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