Dai-ichi Karkaria

Chemistry of growth

In 50 years of its existence, Mumbai-based Dai-ichi Karkaria Ltd. (DKL) has acquired an enviable reputation among user industries for its speciality chemicals, surfactants and polymers. In the backdrop of falling global crude oil prices, growing domestic demand and, not least, a steady increase in its top and bottom lines in the last three years, it has now embarked on a Rs 170-crore greenfield project in Dahej in Gujarat.

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— Shernaz Vakil

It's been a steady, consistent performer in a niche but crucial industry segment for half a century. Now, on the back of a boom in its fortunes, Dai-ichi Karkaria the Mumbai-headquartered speciality chemicals company is primed to embrace the expansion *mantra*.

After moving in a narrow band, between Rs. 45 crore and Rs. 55 crore, for years together, revenues of Dai-ichi Karkaria (DKL) crossed the Rs. 100-crore mark in fiscal 2014. Buoyed by this milestone, the company, which has its manufacturing facilities near Pune in Maharashtra, has decided to set up a greenfield project at Dahej, in Gujarat's Bharuch district, at a capital expenditure of Rs. 170 crore.

Says chairperson and managing director Shernaz Vakil, "Land admeasuring around 11 acres has already been acquired and preliminary steps are being taken for setting up a state-of-the-art project. We are awaiting the environmental clearance before construction is started."

Soft-spoken and mild-mannered, but in truth a purposeful decision-maker, Mrs. Vakil says, "The company is all set to establish practices which will help in achieving strict compliance with the statutory standards laid down by the Gujarat Pollution Control Board for plant effluent and emission qual-

ity. We expect the environmental clearance in a couple of months. Soon thereafter, we will move to construct the plant, which is expected to come up within 18 months thereafter."

The company, set up over half-a-century ago by the Neterwala group promoted by noted entrepreneur Dhunjishaw Neterwala, is a well-known manufacturer of speciality chemicals, surfactants (anionic, cationic, non-tonic) and speciality polymers. These products, mainly based on ethylene oxide derivatives and other formulations, find use in various industries including textiles, paints and coating, construction and oil field chemicals. Though small in size, the company is an industry byword for speciality chemicals, and with good reason – it was set up in technical collaboration with Dai-ichi Kogyo Seiyaku of Japan, the world-renowned manufacturer of speciality chemicals. DKL has over the decades built an enviable reputation through developing capacities to innovate solutions that are cost-effective, as well as through its consistent quality standards.

The company has joined hands with Nalco Champion (now a part of the Bill Gates group) to promote a 50:50 joint venture — Champion Dai-ichi Technologies India – that services and supplies the Indian oil field and refinery chemical market in India. The joint venture company has earned a reputation for delivering technical solutions that enhance productivity and improve economics and has led to one of the most ground breaking portfolios in chemical management. Says Mrs. Vakil, "With the help of its research and development, this JV company supports a fit-for-purpose product line applied by field experts, based on thorough analysis and sophisticated modelling technology."

Though DKL has been playing a very important role for its customer industries, the size of its business had till recently been rather small. In a peculiar coincidence, its net sales turnover in fiscal 2006 was the same as that in fiscal 2011 – Rs. 53 crore!

Fiscal 2012 onwards saw a noticeable break from the earlier pattern, with net sales crossing the Rs. 100-crore mark in fiscal 2014 on account of a rising demand for speciality chemicals. With a lilt in her voice, Mrs. Vakil says, "Prospects for the speciality chemicals industry have turned distinctly buoyant. With a growing middle-class and its increasing purchasing power, the consumption-driven demand for speciality chemicals and polymers will continue, the challenging macro-economic scenario notwithstanding. We expect the speciality chemicals market to grow at a rate of 14 to 15 per cent over the next five years."

Continuing in this optimistic vein, she says, "Again, low per capita consumption in various industry segments au-

Performance Indicators (Rs. in crore)

	2010-11	2011-12	2012-13	2013-14	2014-15
Sales	53.93	70.34	80.79	107.77	102.27
Operating profit	0.04	0.81	2.18	7.15	8.45
Interest	-	-	0.02	0.10	0.09
Gross profit	5.86	5.18	7.13	10.92	15.88
Depreciation	1.00	1.14	1.48	1.57	4.32
Taxation	0.76	0.69	1.26	2.86	4.23
Net profit	4.10	3.35	4.39	12.51	14.78
Equity capital	7.45	7.45	7.45	7.45	7.45
Reserves	55.76	57.56	59.79	65.54	79.08
In Rupees per share					
Book Value	84.84	87.25	90.24	99.29	116.13
EPS (Rs)	5.50	4.50	5.89	16.79	19.84
Dividend (%)	20	20	25	25	25
Face Value	10	10	10	10	10
Ratio (%)					
OPM	0.07	1.15	2.70	6.63	8.26
GPM	9.91	6.93	8.31	9.78	14.46
NPM	6.93	4.48	5.12	11.21	13.46

gurs a huge potential for the speciality chemicals space. The role of this industry in the expanding demand for innovative performance-based products remains significant."

Not surprisingly, DKL put up a stellar performance in fiscal 2015, with sales exceeding Rs. 100 crore and profit at net level shooting up to an all-time high of Rs. 14.78 crore, pushing up the earning per share of the face value of Rs. 10 to Rs. 19.84. The financial position of this consistently dividend-paying and debt-free company is very strong. Its reserves as of March 31, 2015 stand at Rs. 79 crore – over 10 times its paid-up equity capital of Rs. 7.45 crore. For its investors, the icing on the cake is that for the last three years, the company has been paying dividends at a rate of 25 per cent.

Four major factors underscore the company's promising future prospects. First, demand for speciality chemicals and polymers is on the rise and DKL, being the segment leader, will be a major beneficiary. Secondly, the company has entered the construction chemical segment, which is expected to grow exponentially on the back of the new Central government's focus on infrastructure and 100 per cent FDI in real estate. Points out Mrs. Vakil, "This is considered a sunrise sector, having grown at 12 per cent between 2009 and 2014 and expected to grow at 15 per cent for the next five years." Thirdly, the precipitous fall in global crude oil prices has reduced raw material prices for the company, bringing in new opportunities and pushing up the bottomline. Fourthly, Mrs. Vakil's continuing focus on an innovative and sustaining product portfolio — which includes APGs, APEO free-based products, high- performance rayon additives, new generation pigments, cost-effective PPDs, cationic poly- acrylamides for de-oiler applications in oilfields and new PPDs for lube oils — augurs well for the company's future.

What is more, DKL's JV company, Champion Dai-ichi Technologies India, has started doing very well, earning a net profit of Rs. 17.77 crore on a sales turnover of Rs. 170 crore in fiscal 2015.

With demand for its products on the rise, DKL has chalked out a Rs. 170-crore expansion plan. Says Mrs. Vakil, "We will finance the project through internal accruals and debt," and adds categorically, "We have no intention of raising the capital by entering the market." (In fact, five years ago the company had reduced its equity capital by buying back 1.55 lakh shares.)

Though Mrs. Vakil herself prefers to refrain from soothsaying, industry observers predict that once the Dahej plant goes on stream, the company's turnover will cross the Rs. 300-crore mark, with a corresponding improvement in earnings. The next four to five years, therefore, hold out the promise of DKL graduating from its 'small company' status to a medium-sized entity. And that could very well be the staging ground for even bigger things in the future. ■

SEBI Corner

Magnox Infraprojects

SEBI has directed Magnox Infraprojects and its directors to refund the money collected by the company through issuance of Redeemable Preference Shares, with interest at the rate of 15% per annum compounded at half yearly intervals and also not to access the capital market in any manner. The company and its directors have also been restrained and prohibited from buying, selling or otherwise dealing in the securities market, from the date of this order till the expiry of four years from the date of completion of refunds to investors.

The directors are also restrained from associating themselves with any listed public company and any public company which intends to raise money from the public, or any intermediary registered with SEBI.

The company was engaged in fund mobilizing activity through issuance of Redeemable Preference Shares, to more than 49 persons, without complying with the relevant provisions of the Companies Act, 1956.

Alchemist Holdings

SEBI has directed Alchemist Holdings Limited, its promoters and its directors inter-alia to refund the money collected by the company through issuance of Redeemable Preference Shares, with interest at the rate of 15% per annum compounded at half yearly intervals and also not to access the capital market in any manner. The company, its promoters and its directors have also been restrained and prohibited from buying, selling or otherwise dealing in the securities market, from the date of this order till the expiry of four years from the date of completion of refunds to investors.

The promoters and directors of the company are also restrained from associating themselves with any listed public company and any public company which intends to raise money from the public, or any intermediary registered with SEBI. The above directions shall come into force with immediate effect and shall continue to be in force from the date of this Order till the expiry of 4 years from the date of completion of refunds to investors as directed above.

The company was engaged in fund mobilizing activity through issuance of Redeemable Preference Shares, to more than 49 persons, without complying with the relevant provisions of the Companies Act, 1956. ■