



Farsight

## MORNING FARSIGHT

Wednesday, December 05, 2018

**PONDY OXIDES**

**CMP:RS 383**

**TRGT:RS 450**

**TIME HORIZON: 1 YEAR**

Pondy Oxides is looking a good buy, with robust Q2FY19 earnings, attractive valuations at PE of 6x on current year earnings, with planned capex for new alloys. Company is India's largest leading secondary Lead producer, as also having presence in Lead alloys and PVC (polyvinyl chloride) additives which are supplied to battery manufacturers, chemicals manufacturers and manufacturers of PVC extruded and moulded products. For Q2, company posted good earnings with Income rising to Rs 302 cr from Rs 247 cr QoQ and Rs 220 cr YoY (+22% QoQ, 37% YoY), leading to PAT of Rs 12.4 cr against Rs 8.2 cr QoQ and Rs 7.1 cr YoY, leading to an EPS of Rs 22.20 for Q2FY19 and Rs 36.82 for H1FY19, against Rs 52.33 for FY18. These numbers have come in as a pleasant surprise, given Lead prices averaged \$2,104 in Q2FY19, which was lower by 12% QoQ and 10%YoY. So majority of this growth can be attributed to robust volume growth, as company has been taking various efforts to improve production, with company having increased its annual production of Lead Metal and Alloys capacity from 32,140 mt in FY16 to 46,636 mt in FY17 and 53,148 mt FY18, with both Sriperumbudur Unit in Tamil Nadu and Andhra Pradesh Unit operating at over 90% utilisation. Company has already received consent from A.P. Pollution Control Board to increase company's AP plants capacity from 24,000 MTPA to 36,000 MTPA and likely to get consent for operations during the current financial year, taking the capacity to 72,000 MTPA. Further, company is targeting to reach a total capacity of 120,000 MTPA capacity by FY21. Also, company had acquired land of 1.36 acres in Sriperumbudur in Feb 2013 and now it is constructing a manufacturing facility at same location for the manufacture of Zinc Metal for the capacity of 9,000 TPA and Zinc oxides for the capacity of 3,600 TPA on the total project cost of Rs 4.50 cr. Pondy Oxides is a secondary smelter, it extracts Lead and other metals from scrap batteries and re-uses the same after refining. Pondy Oxides has been able to refine Lead to 99.99% purity through its R&D department. On conservative estimated EPS of Rs 64 for FY19, share is trading at PE of about 6x, which is seen attractive. Share ruling at Rs 383 can move to Rs 450 in 1 year. Buy as an investor only.

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POTENTIAL CONFLICT OF INTEREST DISCLOSURE (as on date of report)

Disclosure of interest statement – • Analyst interest of the stock /Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.