

Dai-ichi Karkaria



Factory shift : game-changer in the making

The company's plans to shift production from Pune to Dahej in Gujarat were hit by labour issues and the Covid-related lockdown, affecting its balance sheet for the last two years. But its determined and imaginative CMD Shernaz Vakil saw the process through by having company staff stay on site or at nearby hotels.

The plant is now on stream and the company is already seeing growth in most of its specialty chemical verticals. Besides, with the sale of a land parcel in Pune for Rs. 153.5 crore, the debt and interest burden will be slashed, pushing up the bottomline. The company's young Chief Operating Officer and Director Meher Taff is now confident of Rs. 300-crore turnover in the next 3-4 years.

The decision of the management of Dai-Ichi Karkaria, headed by far-sighted CMD Shernaz Vakil, to shift its factory from Pune to Dahej in Gujarat, combined with disposal of a 12-acre parcel of land at Kasarwadi in Pune for a consideration of Rs 153.5 crore, is certain to prove a game-changer for the specialty chemicals company.

The half century-old company of the Neterwala group, promoted by well-known businessman Dhunjishaw Neterwala in technical collaboration with Dai-Ichi Kogyo Seiyaku Company of Kyoto, Japan – a global leader in specialty chemicals – has remained a steady and consistent performer all these years. Though the company has earned a very good name as a reliable manufacturer of high-quality specialty chemicals, surfactants and polymers, its pace of growth had remained somewhat slow. In fact, it took almost 54 years to reach the Rs 100-crore sales mark.

The visionary, albeit soft-spoken, Mrs Vakil realised that the need of the hour was to shift a rather small plant, located in a residential area and likely to be seen as a bio-hazard, to an industrial belt. Only then would the company be in a position to expand its manufacturing capacity and portfolio. She wasted no time and decided on setting up a greenfield plant at Dahej, which is considered a hub for chemical and petrochemical manufacturing, at a cost of Rs 170 crore.

COVID DISRUPTION

Unfortunately, unforeseen troubles arose. The dismantling and shifting of the plant disrupted production for a year. But even after the plant was dismantled, key balancing equipment could not be shifted for almost a year on account of problems created by an unrecognized labour union. Finally, the plant was fully dismantled in January 2020 and key reactors were moved to Dahej in February. Unfortunately, by mid-March, the entire operation came to a halt as the Pimpri (Pune) area came under a Covid-related lockdown. Even when the equipment reached Dahej, everything could not be installed due to the lockdown and unavailability of the contractor's team. As if this hurdle was not enough, there was an economic slowdown at home and difficulties in exports on account of the Covid scare.

These developments adversely affected the financial per-



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— Shernaz Vakil, Chairperson & MD

formance of the company during the last two years and its balance sheet plunged into the red. Sales turnover of this steady and consistent performer all these years, its sales turnover which had reached nearly Rs. 150 crore in fiscal 2018 – the highest in its existence of 60 years — slumped to Rs 92.35 crore the next year and was Rs. 107 crore in fiscal 2020.

As the Dahej plant was financed through internal accruals and loans, the interest burden jumped over 50 times from a negligible Rs. 14 lakh in fiscal 2018 to Rs. 7.24 crore the next year, and then jumped to Rs. 10.24 crore in fiscal 2020. Thus, the company incurred a loss of Rs 12.63 crore in fiscal 2019, in sharp contrast to a net profit of Rs. 12 crore in fiscal 2018. With the spurt in the interest burden, the loss mounted to around Rs. 25 crore in fiscal 2020. Needless to say, the company had to skip dividends for both years.

PLANT RESTARTS

However, the worst is over and the company is back on the growth path, notwithstanding the continuing corona fears. Points out an elated Mrs Vakil, “Our Dahej plant could start production by April 6. As a result, we were able to retain some workers who were around our plant at that time. We have made arrangements for their safe stay at our site. With regard to our chemists, we have made arrangements for them to stay in hotels nearby. Our plant has started working at around 40 per cent capacity but this level will move up with the passage of time and easing of the corona scare.”

Prospects ahead are highly promising. With the Dahej plant going on stream and the Pune land parcel fetching Rs. 153.50 crore, the company is slated to make rapid strides. Maintains Ms. Meher Taff, the young and dynamic Chief Operating Officer and Whole Time Director, “The company is all set for take-off. We have gone for a superior reactor to maximize production while ensuring safety. Simultaneously, it has created a brand new R&D centre at Dahej, manned by senior scientists and experienced engineers. I am confident that this R&D centre will prove to be a game-changer by leading the next phase of growth. In fact, we have already developed several import substitutes, of which some are almost ready for launch. This is the outcome of our own technology

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which will contribute substantially to the company's topline as well as bottomline, once the pandemic woes start easing."

BANKING ON R&D

Ms Meher Taff, who has worked for around a decade in the US and now oversees production, marketing, R&D and HRD, said, "Once the corona scare is over, the company will enter a new phase of growth. Its R&D centre is working to develop new products for the fast-growing personal care segment. These new products are high-quality specialty chemicals and almost 40 per cent of them are import substitutes, ensuring an assured market at home with good export prospects."

The current fiscal has started on a highly optimistic note despite the problems created by the corona virus. Reveals Mrs. Shernaz Vakil, "Almost all verticals have started on a promising note. In the agro vertical, where we supply emulsifiers for bio pesticides and synthetic insecticides, we are seeing a growth of 23 per cent in terms of volume and 43 per cent for the bio pesticide emulsifiers used for export formulations. In the coming quarters, this segment will remain an area of focus and growth."

Pointing out that "in the segment of construction chemicals, our focus has been to develop additives that improve



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— Meher Taff, Chief Operating Officer

the quality of cement and our new formulations in this field are being evaluated and approved by several customers," Mrs Vakil adds, "However, business in this segment is being impacted at present on account of the prolonged lockdown and shortage of workers, which has kept our customers from evaluating our newly developed products. Once the corona scare is over and the situation gets normalised, I am very hopeful of this segment doing very well going ahead."

On the home and personal care verticals, she reveals, "We have been able to achieve certain milestones after having received *kosher*, *halal* and FSSAI certificates for some of our products. This has resulted in our expanding the customer base and ensuring that we get orders from customers for spice, oil and food grade emulsions."

OILFIELD PRODUCTS

As for the oilfield vertical which is a vital segment for the company, Mrs Vakil remarks, "The growth has been good and we have achieved considerable sales over the previous year. Our products have been approved in the Middle East and Asia-Pacific regions and sales through our parent company are robust. We believe that in the coming quarters this will be our area of focus and growth despite the current slowdown in the oilfield industry.

"There is a slowdown in the paints and coatings segment as well as in rayon, but in sizing chemicals we have achieved a major breakthrough as one of our large customers requires our specialized product for their fabrics to be made into haz-mat suits for PPE. This has resulted in bagging the first contract order which may continue, going ahead. However, we may have to wait for better days in this area as a majority of small and medium polyester units in the Surat region remain closed due to the uncertainty of the pandemic and heavy rains."

Future prospects for the company are robust as the new plant is ready to meet the rising demand for the company's products at home and abroad. At the same time, the sale proceeds of the Pune land parcel will be used to put an end to the debt burden, slashing in the process, the interest burden and pushing up the bottomline. Maintains an optimistic Meher, "I am confident that within the next 3 to 4 years, the company's turnover will cross Rs. 300-crore mark." ■

Performance Indicators					
	(Rs. in crore)				
	2015-16	2016-17	2017-18	2018-19	2019-20
Sales	116.33	125.97	149.11	92.35	107.17
Operating profit	14.67	16.99	17.44	-10.81	-5.08
Interest	0.46	0.10	0.14	7.24	102.4
Gross profit	23.24	25.81	20.84	-14.81	-11.48
Depreciation	2.09	2.02	4.47	8.13	9.46
Taxation	5.57	5.95	4.39	-11.73	--
Net profit	15.58	17.84	11.98	-12.63	-24.94
Equity capital	7.45	7.45	7.45	7.45	7.45
Reserves	91.97	122.13	131.42	116.24	91.18
In rupees per share					
Book value	133.42	173.90	186.37	166.00	132.39
EPS (Rs.)	20.91	23.95	16.08	-16.95	-33.48
Dividend (%)	30	30	25	--	--
Face value	10	10	10	10	10
Ratios (%)					
OPM	12.61	13.49	11.70	-11.71	-4.74
GPM	18.54	19.13	13.65	-15.49	-10.34
NPM	12.43	13.23	7.85	-13.21	-22.47