



National Peroxide

About

National Peroxide is a Wadia group company deriving majority revenues from the sale of hydrogen peroxide (H₂O₂). The company has a close to 30% market share in H₂O₂. Revenues are mainly derived domestically. H₂O₂ has varied applications across bleaching, chemical synthesis, water treatment, etc. The company has steadily increased capacity over a period of last many years. The latest capacity ramp up was from 95,000 MT to 150,000 MT. The company is a dominant player in the manufacturing of H₂O₂ in India, and has close to 50% of the total manufacturing capacity. In response to COVID-19, NPL has developed a 3% hydrogen peroxide solution which is being used to clean airports, railway stations and other public places. Various countries have indicated that a 3% hydrogen peroxide solution is useful for surface cleaning in the fight against COVID-19.



- Hydrogen peroxide excess production capacity is available in neighboring Asian countries. An anti-dumping duty has been imposed in the year 2018. Despite the anti-dumping duty, the fact remains that cost of production of H₂O₂ is lower in the neighboring countries than in India. Despite the anti-dumping duty, a significant quantity of H₂O₂ was imported in FY 2019.
- Key raw material for production of H₂O₂ is hydrogen gas. NPL produces hydrogen by 'steam reforming' natural gas. NPL has a long term contract with GAIL for procuring natural gas. It is a 'take or pay contract', where NPL has the commitment to purchase a particular quantity.
- India imports close to 50% of natural gas requirement. The underlying volatility in dollar and NG prices is a key risk for the company.
- The company has given Rs. 110 crores as inter- corporate deposits to other Wadia group companies.
- Topline and margin profile for the company has been volatile owing to the raw material pricing risk.
- NPL has generated a cumulative PAT of Rs. 324 crores over the last 5 years. The corresponding cash from operations figure stands at Rs. 340 crores. Also, the free cash flow stands at Rs. 112 crores. The company is resilient in generating cash.
- The company has maintained a healthy dividend payout ratio (Average is 37% for the last 5 years)
- Hydrogen peroxide is a widely used chemical across various industries such as paper, textile, water treatment, cleansing, etc. No single customer accounts for more than 10% of the company's revenues.
- India's domestic demand for hydrogen peroxide is more than the annual supply capacity. This puts bargaining power in the hands of National Peroxide, which owns almost 50% of India's production capacity. *(However, such a bargaining power is highly at the mercy of anti-dumping duties. If such duties are removed, the company may struggle.)*

Points not covered



- Pricing contracts that National Peroxide has with GAIL Ltd. How much will the company benefit by a sustained fall in gas prices?
- What are the elements in the cost structure that may lead to a fall in the manufacturing cost of hydrogen peroxide in India vs. other Asian countries.

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