

Bhansali Engineering Polymers

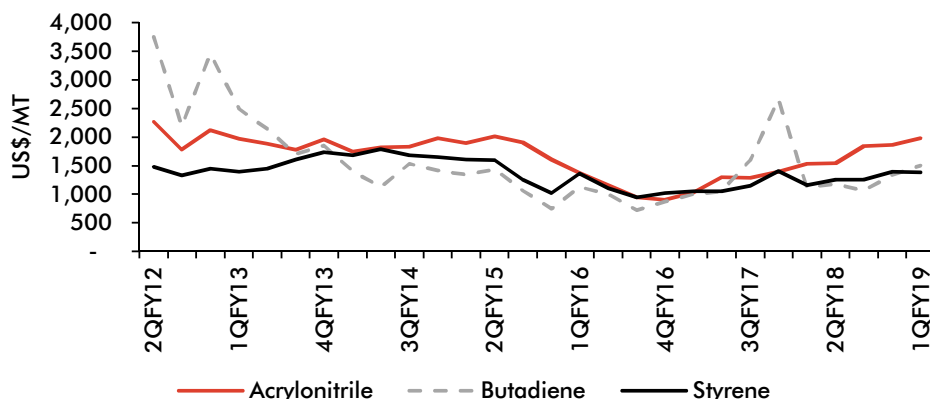
Revenue decline a one-off

BEPL's 1QFY19 revenue declined 10% YoY to Rs2,017mn. **Whilst awaiting further clarity, we believe the decline is primarily due to fire at its Satnoor plant in May which halted HRG production (key monomer).** However, gross profit declined by only 1% YoY to Rs554mn while **gross margins improved by 250bps YoY to 27.5% implying better realisations led by rising share of specialty resins.** EBITDA margins at 13.6% increased by only 46bps YoY (versus 250bps gross margin improvement YoY) given higher other expenses (increased 5% YoY). **Brownfield capacity expansion at Abu Road from 100ktpa to 137ktpa has been put on hold given BEPL has made further progress regarding setting up a greenfield port-based 200ktpa facility at Pipavav Port, Gujarat (~Rs10-12bn capex).** Finally, management has guided for **~75% capacity utilisation in FY19 (implying ~12-15% volume growth).** After recent correction, the stock now trades at 22.5x TTM earnings which remain attractive given rising share of margin-accretive specialty grade resins and favourable industry dynamics (duopolistic industry, double-digit volume growth, huge import substitution, high fixed costs).

Key highlights

- 10%/33% YoY/QoQ revenue decline in 1QFY19:** 1QFY19 revenue declined by 10% YoY to Rs2,017mn (versus comparable revenue of Rs2,240mn in 1QFY18). Sequentially, revenue declined by 33%. Whilst the management press release remains silent regarding the cause of revenue decline, we believe the decline was primarily due to the fire at BEPL's Satnoor plant in May which halted HRG production (key monomer).
- 250bps YoY gross margin expansion; 142bps sequential decline given higher feedstock prices:** Despite 10% YoY decline in revenue, gross profit declined by only 1% YoY to Rs554mn (compared to Rs560mn in 1QFY18); sequentially however, gross profit declined by 36%. Gross margin expanded by ~250bps YoY to 27.5%, implying better realisations led by rising share of specialty grade resins in the product mix. **However, the sequential decline of ~142bps in gross margins was due to higher feedstock prices. Both butadiene and styrene prices have increased in 1Q** (see exhibit 1 below). Note that even in 4QFY17 and more recently in 4QFY18, when feedstock prices had seen a sharp increase, BEPL's gross margins had declined.

Exhibit 1: Butadiene and styrene prices have increased during the March quarter



Source: Bloomberg, Ambit Capital research. Note: This is an approximation only. These are average quarterly prices (calculated using month-end values) in US\$/ton terms collected by Nexant for the South East Asian region. Data for 1QFY19 is for April and May.

- EBITDA margins at 13.6% improved by 46bps YoY:** BEPL's EBITDA declined by 7% YoY to Rs275mn (versus Rs295mn in 1QFY18); down 37% sequentially.

NOT RATED

Result Update

Bhansali Engg. Polymers **NR**

Bloomberg Code:	BEPL IN
CMP (Rs):	135
TP (Rs):	NA
Mcap (Rs bn/US\$ bn):	22/0.3
6M ADV (Rs bn/US\$ mn):	0.2/2.8

Source: Bloomberg, Ambit Capital research

Stock performance (%)

	1M	3M	12M	YTD
Absolute	(14)	(35)	82	(28)
Rel. to Sensex	(16)	(41)	68	(36)

Source: Bloomberg, Ambit Capital research

Key financials (Rs mn)

	FY16	FY17	FY18
Revenue	5,307	6,260	10,317
EBITDA	383	635	1,544
EPS (Rs)	1.0	2.1	6.0

Source: Company, Ambit Capital research

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EBITDA margins expanded by 46bps YoY to 13.6% (compared to 13.2% in 1QFY18). Compared to 250bps YoY gross margin improvement, EBITDA margins only improved by 46bps primarily due to higher employee costs (employee cost at Rs83mn increased 7% YoY) and due to higher other expenses (other expenses at Rs196mn increased 5% YoY). We believe other expenses were higher possibly due to exceptional expenses arising out of fire at Satnoor plant and also due to INR depreciation (INR depreciated by 6% YoY).

- **Reduction in interest cost, lower tax expense and other key highlights:** Interest cost declined to Rs3mn in 1QFY19 (versus Rs11mn in the same quarter last year; and Rs19mn in 4QFY18). We believe this savings in interest cost was primarily because BEPL became debt-free in FY18. This was however offset by lower other income (declined 65% YoY) due to which 1QFY19 PBT at Rs258mn declined 7% YoY. PAT at Rs168mn declined by only 1% YoY mainly due to lower tax outgo (1QFY19 tax rate was 35% versus 39% in 1QFY18).
- **Update on brownfield Abu Road expansion:** According to the result press release, the brownfield capacity expansion at Abu Road from 100ktpa to 137ktpa has been put on hold given BEPL has made further progress regarding setting up a greenfield port-based 200ktpa facility at Pipavav Port, Gujarat (likely capex: ~Rs10-12bn). Further, management is guiding towards 75% capacity utilisation for FY19 implying ~12-15% volume growth for the entire year.

Where do we go from here?

We believe that the 1QFY19 results were only an exception; primarily because of capacity shutdown at Satnoor HRG plant which halted production for more than a month. The interesting takeaway from the results is that despite volume decline, gross margins have improved during the quarter which is possibly due to rising share of margin-accretive specialty resins.

Post the recent correction, BEPL now trades at ~22.5x TTM earnings (versus peak valuation of ~36.5x). Current valuations remain attractive given rising share of margin-accretive specialty grade resins and favourable industry dynamics (duopolistic industry, double-digit volume growth, huge import substitution, high fixed costs).

Exhibit 3: Standalone quarterly snapshot (Rs mn)

	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)	FY18*	FY17*	YoY (%)
Revenue from operations	2,017	2,240	-10%	3,018	-33%	10,317	6,261	65%
COGS	1,462	1,680	-13%	2,145	-32%	7,441	4,726	57%
Gross Profit	554	560	-1%	872	-36%	2,876	1,535	87%
Employee expense	83	78	7%	99	-16%	374	252	48%
Other expenses	196	186	5%	336	-42%	958	647	48%
EBITDA	275	295	-7%	438	-37%	1,544	635	143%
Depreciation	17	15	12%	15	17%	61	54	12%
EBIT	258	280	-8%	423	-39%	1,484	581	155%
Other income	3	8	-65%	53	-94%	137	84	62%
Finance costs	3	11	-74%	19	-85%	77	98	-21%
PBT	258	277	-7%	457	-43%	1,547	566	174%
Tax	90	108	-17%	171	-47%	547	211	159%
PAT	168	169	-1%	286	-41%	1,000	355	182%
EPS (reported/diluted)	1.0	1.0	-1%	1.7	-41%	6.0	2.1	182%
Gross margin (%)	27%	25%	250	29%	-142	28%	25%	336
Employee expense (% of revenue)	4%	3%	66	3%	86	4%	4%	-40
Other expenses (% of revenue)	10%	8%	138	11%	-142	9%	10%	-106
EBITDA (%)	13.6%	13.2%	46	15%	-86	15%	10%	483
PBT (%)	13%	12%	42	15%	-234	15%	9%	596
Tax rate (% of PBT)	35%	39%	-407	37%	-237	35%	37%	-197
PAT (%)	8%	8%	78	9%	-116	10%	6%	403

Source: Company, Ambit Capital research. Note: *FY17 and FY18 numbers are on consolidated basis.

Key financials

Balance Sheet

Year to March (Rs mn)	FY13	FY14	FY15	FY16	FY17 *	FY18
Cash	104	135	149	152	172	324
Debtors	1,287	1,077	1,466	1,319	1,367	1,854
Inventory	606	907	750	830	1,393	800
Loans & advances	299	325	358	369	0	0
Other assets	1	1	2	2	334	110
Investments	-	-	-	-	2	6
Gross Block	3,300	3,339	3,368	1,825	DNA	DNA
(-) Accumulated depreciation	1,873	2,011	2,146	1,006	DNA	DNA
Net Block	1,427	1,328	1,222	819	930	1,074
CWIP	-	-	-	-	-	61
Total assets	3,724	3,773	3,946	3,491	4,197	4,230
Trade payables	1,341	1,208	1,610	1,780	987	1,257
Current liabilities & provisions	67	60	56	93	144	249
Debt	301	586	416	318	1,371	-
Long-term provisions	25	27	28	34	40	45
Deferred Tax (Asset)/Liability	-17	-16	-13	0	40	106
Total liabilities	1,717	1,865	2,096	2,226	2,583	1,658
Share capital	166	166	166	166	166	166
Reserves & surpluses	1,841	1,742	1,685	1,100	1,449	2,407
Total net worth	2,007	1,908	1,851	1,266	1,615	2,573

Source: Company, Ambit Capital research. Note: *FY17 data has been revised as per latest quarterly filings.

Income Statement

Year to March (Rs mn)	FY13	FY14	FY15	FY16	FY17	FY18
Revenue	4,189	5,068	6,007	5,307	6,261	10,317
EBITDA	264	230	211	383	635	1,544
Depreciation	44	44	50	56	54	61
Interest expense	102	86	78	45	98	77
Other income	9	12	19	25	84	137
PBT	2	28	82	229	566	1,547
Provision for tax	-10	13	33	67	211	547
Extraordinaries	-	-	-	-	-	-
Adjusted PAT	12	15	49	162	355	1,000
EPS diluted (Rs)	0.1	0.1	0.3	1.0	2.1	6.0

Source: Company, Ambit Capital research

Cash Flow Statement

Year to March (Rs mn)	FY13	FY14	FY15	FY16	FY17
PBT	2	28	87	234	559
W/C changes	213	(320)	97	160	(13)
CFO	424	(108)	356	565	573
Net capex	(11)	(40)	(30)	(349)	(137)
Net Investments	(3)	(7)	(28)	(4)	11
CFI	(14)	(46)	(58)	(352)	(125)
Proceeds from borrowings	(262)	286	(170)	(98)	(315)
Issue of equity	-	-	-	-	-
CFF	(394)	168	(325)	(229)	(433)
FCF	413	(148)	327	216	437

Source: Company, Ambit Capital research

Ratio analysis/Valuation parameters

Year to March	FY13	FY14	FY15	FY16	FY17	FY18
Revenue growth (%)	1.2	21	18.5	-11.7	18	64.8
Gross margin (%)	16.2	14.2	14.8	21.2	23.3	27.9
EBITDA margin (%)	6.3	4.5	3.5	7.2	9	15.0
EBIT margin (%)	5.3	3.7	2.7	6.2	8.1	14.4
Net margin (%)	0.3	0.3	0.8	3.1	5.5	9.7
Gross Block turnover (x)	1.3	1.5	1.8	2	3.3	DNA
RoCE* (%)	4.2	4.8	6.7	14.2	37.6	52.0
RoE (%)	0.6	0.8	2.6	10.4	24.4	47.8
CFO/EBITDA	164%	-45%	176%	155%	124%	139%
P/E (x)	1,352.5	1,352.5	450.8	135.3	63.2	22.4
P/B (x)	11.2	11.8	12.1	17.7	13.9	8.7
EV/EBITDA (x)	109.1	125.1	136.2	75.3	51.1	14.3

Source: Company, Ambit Capital research. Note: *RoCE is pre-tax.

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