



Management Meeting Update

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Rating	Not Rated	Tracking Data		Stock Performance			
Price	50.7	Market Cap (Rs bn)	8.5	(%)	1M	6M	12M
Target Price	-	Shares O/s (m)	165.9	Absolute	37.7	121.1	149.4
Implied Upside	-	3M Avg. Daily Value (Rs m)	330.6	Relative	34.2	104.4	131.8
Sensex	31,213	Major Shareholders (%)		How we differ from Consensus			
Nifty	9,647						
Bloomberg Code	BEPL IN	Promoters	55.7	EPS (Rs)	PL	Cons.	% Diff.
Reuters Code	BHAN.BO	Domestic Inst.	0.8	2018E	3.6	1.9	70.0
(Prices as on June 9, 2017)		Public & Others	43.5	2019E	4.6	--	NA

We met with Mr Jayesh Bhansali – Executive Director of Bhansali Engineering Polymers Limited (BEPL). Following are the key takeaways of the meeting:

BEPL is a vertically integrated petrochemical company that manufactures ABS (Acrylonitrile Butadiene Styrene) which acts as a raw material for companies dealing in automobiles, home appliances, telecommunications, luggage, bus body and various other industries.

The company manufactures over 1200 colours and 200 different grades of engineering plastic. It supplies in lots as small as 500kgs and also up to 5 tons. Margins vary across different orders depending on the size of the order as well as delivery time lines.

BEPL has a plant in Satnoor and Abu Road each. Recently it completed expansion from 51,000 MTPA to 80,000 MTPA. In its next phase of expansion this will increase to 137,000 MTPA by mid FY18E.

We expect the company to grow revenues to ~Rs 10bn and profits to ~Rs 650m in FY18E versus Rs 6.3bn and Rs 348m in FY17. Thereafter we feel that it can achieve 20% CAGR on topline and bottom line given that both auto and electrical appliances industry is growing at a strong pace and there are only 2 players in the industry.

Currently the company is debt free. Going forward the management has maintained that it will not borrow for capex or for working capital requirements. They have also indicated that they do not plan to dilute equity.

Although the stock price has moved up recently, keeping in mind the growth prospects of the end user industry as well as management confidence in execution, it does appear to be an attractive bet for the long term. The company has also rewarded shareholders through dividends & their aversion to unnecessary borrowings provides additional comfort. At the CMP it is trading at PER of 14.1X FY18E & 11.8x FY19E rough cut EPS estimates of Rs 3.6 & Rs 4.3 respectively.

Key financials (Y/e March)	2014	2015	2016	2017
Revenues (Rs m)	5,069	6,011	5,309	6,261
Growth (%)	21.0	18.6	(11.7)	17.9
EBITDA (Rs m)	158	254	375	627
PAT (Rs m)	15	54	167	348
EPS (Rs)	0.1	0.3	1.0	2.1
Growth (%)	23.3	264.2	209.6	108.4
CEPS (Rs)	0.4	0.6	1.3	2.1
Net DPS (Rs)	0.1	0.1	0.1	0.2

Source: Company Data; PL Research

Profitability & Valuation	2014	2015	2016	2017E
EBITDA margin (%)	3.1	4.2	7.1	10.0
RoE (%)	0.8	2.9	10.7	24.0
RoCE (%)	3.3	7.1	15.2	27.4
EV / sales (x)	1.6	1.4	1.6	1.3
EV / EBITDA (x)	52.6	32.7	22.0	13.1
PE (x)	567.8	155.9	50.3	24.2
P / BV (x)	4.4	4.6	6.6	5.2
Net dividend yield (%)	0.0	0.0	0.0	0.0

Source: Company Data; PL Research

JV with Nippon A&L Inc

- Back in May 2013, BEPL entered in to a 50:50 technical JV with Nippon A&L Inc., Japan (jointly owned by the globally renowned Sumitomo Chemicals Co. Ltd. and Mitsui Chemicals, Inc.) which will enable the Company to cater to the growing demand of ABS resins, ASA resins, AES resins and other Specialty polymers in the field of Automobile, Telecommunication, Electrical and Electronic goods.

Revenue Profile

- With the help of Nippon, the company has been able to foray in to the automotive industry in both 2 wheelers as well as 4 wheelers. The company is an approved supplier of ABS to Yamaha, Suzu, HMSI and Maruti Suzuki. All manufacturing is carried out by BEPL while NAL receives a royalty.
- Within the appliances industry the company is an approved vendor for Samsung, LG, Videocon, Cello, Montex.
- As of now automotive and appliances account for ~50% of revenues each.
- Both industries are expected to grow by at least 10% in FY18E.
- While order booking remains a continuous process & typically the order book is covered for the next 20 days. However with the fixed supply agreements with HMSI, Samsung, LG, TG Kirloskar & various other MNC the order book is full throughout the year.

Raw Material Requirement

- The company currently imports both styrene and butadiene and maintains an inventory of about 1-1.5 months. Sometimes if prices are expected to go up or supply is expected to go down, they also maintain inventories up to 6 months. The call is taken based on prevalent market conditions.

Industry Overview – only

- Currently as per the management, the overall demand for ABS is ~300,000 tons whereas the domestic supply is only ~160,000, balance being filled through imports. However, imports are largely of natural grade ABS. Over the last 7 years, demand has grown by 2.5x. Going forward it is expected to grow by 10-15% driven by demand from auto and electrical appliances. A lot of refrigerator companies are also moving from HIPS to ABS.

- As of now there are only 2 listed players in ABS – Ineos Styrolutions and BEPL. Both have capacities of 80,000 MTPA each. Ineos has also announced plans to expand capacity to 140,000 MTPA, but visibility on its execution is bleak.

Capex Plans

- BEPL has a plant in Satnoor and Abu Road each. Recently it completed expansion from 51,000 MTPA to 80,000 MTPA. In its next phase of expansion this will increase to 137,000 MTPA by mid FY18E.
- Capex for FY 18E is ~Rs 1bn. Maintenance cost is not anticipated much since most of the machinery in the compounding section will be new & covered under the warranty of the suppliers for the next one year.
- BEPL is planning further port based expansion of 200,000 tons by FY21 at a cost of ~Rs 10-12bn with revenue generating capacity of upwards of Rs 30bn. This will be a port based expansion. The major benefit from this will be savings in transportation cost of ~Rs3- 4/kg on raw materials (HRG), which is presently being transported from the plant in Madhya Pradesh to the Abu Road Plant. As of now the plan is to shift all of its current facilities at this port based location.

Future growth prospects

- The management has guided 10-15% industry growth in both automotive and electrical appliances put together. It is confident of being able to outpace this growth as it is in the process of adding new clients to their basket. On an overall basis they have guided 25-30% growth in volumes in FY18E.

Financial Overview & Valuations

- The current capacity utilisation is around 64%. Due to Environment Clearance getting delayed the capacity was not fully exploited last year. However the Environment Clearance was received recently & during the current year it is expected reach capacity utilisation of 80% (of 80,000 MTPA).
- At present, 98% of revenues are from ABS and only 2% from SAN. The margins are quite different on both. SAN resins are mixed with HRG powder to manufacture ABS. Thus due to value additions ABS margins are higher & SAN margins are lower. SAN is sold in the market only to those customers wherein the realisation is high. Balance SAN is captively consumed for manufacturing ABS.

- The margins variation is around Rs 15 per kg in color v/s natural. Colour material sold last year was 60%. Margins will continue to expand as volumes increase.
- Currently the company is debt free. Going forward the management has maintained that it will not borrow for the capex or for working capital requirements. They have also indicated that they do not plan to dilute equity. The company is in talks with the Gujarat government for allocation of land for its new plant. However, the company will need money for it only during FY19E.
- We expect the company to grow revenues to ~Rs 10bn and profits to ~Rs 650m in FY18E versus Rs 6.3bn and Rs 348m in FY17. Thereafter also we feel that consistent growth of ~15-20% is achievable given that both auto and electrical appliances industry is growing at a strong pace and there are only but 2 players in the industry.
- The stock has recently moved up significantly, but keeping in mind the growth prospects of the end user industry as well as management confidence in execution, it does appear as an attractive bet for the long term. The company has also rewarded shareholders through dividends & their aversion to unnecessary borrowings provides additional comfort. At the CMP it is trading at PER of 14.1X FY18E & 11.8x FY19E rough cut EPS estimates of Rs 3.6 & Rs 4.3 respectively.

Income Statement (Rs m)

Y/e March	2014	2015	2016	2017
Net Revenue	5,069	6,011	5,309	6,261
Raw Material Expenses	4,298	5,053	4,111	4,726
Gross Profit	771	958	1,197	1,535
Employee Cost	172	210	228	261
Other Expenses	441	494	595	647
EBITDA	158	254	375	627
Depr. & Amortization	44	50	55	54
Net Interest	98	136	111	98
Other Income	12	19	25	84
Profit before Tax	28	87	234	559
Total Tax	13	33	67	211
Profit after Tax	15	54	167	348
Ex-Od items / Min. Int.	-	-	-	-
Adj. PAT	15	54	167	348
Avg. Shares O/S (m)	165.9	165.9	165.9	165.9
EPS (Rs.)	0.1	0.3	1.0	2.1

Cash Flow Abstract (Rs m)

Y/e March	2014	2015	2016	2017E
C/F from Operations	(109)	357	565	191
C/F from Investing	(47)	(58)	(352)	(203)
C/F from Financing	169	(325)	(229)	37
Inc. / Dec. in Cash	14	(27)	(16)	25
Opening Cash	31	45	18	2
Closing Cash	45	18	2	27

Key Financial Metrics

Y/e March	2014	2015	2016	2017E
Growth				
Revenue (%)	21.0	18.6	(11.7)	17.9
EBITDA (%)	5.9	60.5	47.6	67.2
PAT (%)	23.3	264.2	209.6	108.4
EPS (%)	23.3	264.2	209.6	108.4
Profitability				
EBITDA Margin (%)	3.1	4.2	7.1	10.0
PAT Margin (%)	0.3	0.9	3.1	5.6
RoCE (%)	3.3	7.1	15.2	27.4
RoE (%)	0.8	2.9	10.7	24.0
Balance Sheet				
Net Debt : Equity	0.0	0.0	0.0	-
Net Wrkng Cap. (days)	39.7	18.0	(10.1)	(21.0)
Valuation				
PER (x)	567.8	155.9	50.3	24.2
P / B (x)	4.4	4.6	6.6	5.2
EV / EBITDA (x)	52.6	32.7	22.0	13.1
EV / Sales (x)	1.6	1.4	1.6	1.3
Earnings Quality				
Eff. Tax Rate	46.8	37.8	28.6	37.8
Other Inc / PBT	0.4	0.2	0.1	0.2
Eff. Depr. Rate (%)	1.3	1.5	3.0	2.7

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2014	2015	2016	2017E
Shareholder's Funds	1,892	1,844	1,277	1,627
Total Debt	44	53	6	-
Other Liabilities	27	28	34	40
Total Liabilities	1,964	1,924	1,317	1,667
Net Fixed Assets	1,328	1,222	819	930
Goodwill	0	0	0	0
Investments	-	10	15	15
Net Current Assets	604	665	470	705
<i>Cash & Equivalents</i>	<i>135</i>	<i>144</i>	<i>148</i>	<i>172</i>
<i>Other Current Assets</i>	<i>2,278</i>	<i>2,548</i>	<i>2,507</i>	<i>3,082</i>
<i>Current Liabilities</i>	<i>1,809</i>	<i>2,027</i>	<i>2,185</i>	<i>2,549</i>
Other Assets	32	27	13	18
Total Assets	1,964	1,924	1,316	1,667

Quarterly Financials (Rs m)

Y/e March	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Net Revenue	1,471	1,633	1,229	2,165
EBITDA	161	155	91	219
<i>% of revenue</i>	<i>11.0</i>	<i>9.5</i>	<i>7.4</i>	<i>10.1</i>
Depr. & Amortization	13	14	14	14
Net Interest	23	26	23	26
Other Income	3	13	4	64
Profit before Tax	128	129	59	244
Total Tax	48	42	28	93
Profit after Tax	80	86	30	151
Adj. PAT	80	86	30	151

Source: Company Data, PL Research.

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