

BEPL reported its Q4 results. Revenue growth was above estimates (Rs 3,497m v/s PLe of Rs 3,209m), but PAT was way below expectations (Rs 29m v/s PLe of Rs 140m) due to major fall in gross margins (GRM). Revenues grew 15.9% YoY and 8.1% to Rs 3,497m. Volumes were up 7.1% YoY and 3.6% QoQ to 17,100 MTPA. GRMs plunged 19 percentage points YoY and 490 bps QoQ to 9.9% due to combined effect of lower sales of specialty grade due to slowdown in auto demand (specialty ABS sales) as well as high cost inventory. EBITDA fell 84.0% YoY and 58.6% QoQ to Rs 70m. EBITDA/kg stood at Rs 4.1 vs Rs 27.4 in Q4FY18 and Rs 10.3 in Q3FY19.

For FY19, while revenues grew 18.7% to Rs 12.2bn, EBITDA/PAT fell 48.8%/ 53.3% to Rs 790m/ Rs 465mn on back of 1) lower costs and fixed cost absorption in Q1, 2) forex losses in Q2 and 3) high cost RM inventory in Q3 & Q4. Volumes were down 9.0% to 60,090 MTPA. EBITDA/kg was Rs 13.2.

**Our discussion with the management leads us to believe that A) Q4FY19 was the last quarter to be impacted by high cost inventory and hence margins are expected to normalize 1Q onwards, B) The underlying challenge is not in selling volumes but selling at the desired level of profitability, C) Auto demand to stay muted for a few more quarters, D) Work on the greenfield port based capacity is on but the company can safely sustain 20% volume growth from the existing capacity of 137,000 MTPA for the next 3 years.**

Going ahead we expect EBITDA/kg to improve to Rs 15.2 in FY20E and to Rs 16.7 in FY21E as the entire high cost inventory has been utilized. The company is already looking at adding new end user segments in specialty ABS. The challenge is not in selling volumes but selling volumes at a desired level of profitability. We forecast volumes to grow by 29.0% in FY20E to 77,516 tons and 20% in FY21E to 93,019 MTPA. We have revised our FY20E revenues/EBITDA/PAT estimates downwards by 2.7%/ 32.0%/34.0% to Rs 13.8bn/ Rs 1,170m/Rs 705m respectively due to low volumes and GRMs. During FY21E we expect revenues/EBITDA/PAT to grow by 15.4%/ 32.1%/ 34.2% to Rs 15.9bn/ Rs 1,545m/ Rs 946m.

**The worse seems to be behind but the stock appears oversold and hence there is limited downside from current levels. At the CMP, it trades at 18.0x FY20E and 13.4x FY21E earnings estimates. We maintain our long term BUY rating with a revised target price of Rs 97 (17x March 21E EPS) with an upside of 27%.**

Key financials (Y/e March)	2018	2019	2020E	2021E
Revenues (Rs m)	10,317	12,248	13,789	15,913
Growth (%)	64.8	18.7	12.6	15.4
EBITDA (Rs m)	1,544	790	1,170	1,545
PAT (Rs m)	996	465	705	946
EPS (Rs)	6.0	2.8	4.2	5.7
Growth (%)	190.1	(53.5)	51.4	34.2
CEPS (Rs)	6.4	3.2	4.8	6.3
Net DPS (Rs)	0.5	0.5	0.5	0.5
Profitability & Valuation	2018	2019	2020E	2021E
EBITDA margin (%)	15.0	6.5	8.5	9.7
RoE (%)	47.6	16.7	21.4	23.6
RoCE (%)	66.8	23.9	30.4	33.8
EV / sales (x)	1.2	1.0	0.9	0.8
EV / EBITDA (x)	8.0	15.7	10.2	8.0
PE (x)	12.6	27.2	18.0	13.4
P / BV (x)	4.9	4.2	3.5	2.9
Net dividend yield (%)	0.7	0.7	0.7	0.7

Source: Company Data, PL Research

## Q4FY19 Result Update

Tuesday, May 14, 2019

**Shailee Parekh**

shaileeparekh@plindia.com  
+91-22-66322302

**Charmi Mehta**

charmimehta@plindia.com  
+91-22-66322274

Rating	BUY
Price	Rs 76
Target Price	Rs 97
Implied Upside	27%
Sensex	37,091
Nifty	11,148
Bloomberg Code	BEPL IN
Reuters Code	BHAN.BO
(Prices as on May 13, 2019)	

### Tracking Data

Market Cap (Rs bn)	12.7
Shares O/s (m)	165.9
3M Avg. Daily Value (Rs m)	131.8

### Major Shareholders

Promoters	55.0%
Domestic Inst.	0.5%
Public & Others	44.5%

### Stock Performance

(%)	1M	6M	12M
Absolute	(4.4)	(7.0)	(53.1)
Relative	(0.1)	(12.4)	(56.2)

### How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2020E	4.2	-	NA
2021E	5.7	-	NA

- Styrene prices which had fallen from USD 1450/ton to USD 950/ton have now stabilized to around USD 1050/ton. Due to fire at their plant in Q1 and weak Diwali sales, there was an inventory pile up at their end. Since the company had already bought the fall, they could not benefit from it on fixed price contracts. And instead gross margins corrected sharply from the peak of Rs 54.7 a year ago to Rs 20.2/kg.
- Since the entire high cost inventory has now been consumed, margins should get normalized from Q1FY20 onwards and move closer to the Rs 30-35 range. However due to continued headwinds from slowdown in auto demand, it might take a few more quarters before the company reaches its peak GRMs of Rs 60/kg.
- The company has grown the styrene trading business which allows it to enjoy better prices on RM which eventually contributes towards higher GRMs. Styrene accounts for 58% of RM costs.
- Off take of higher grade ABS and specialty grade ABS to the auto sector have been weak. The lull is likely to continue till the end of CY19. Meanwhile the management is trying to push volumes in electrical appliances and also looking at new end user industries.
- During the year, company added 2-3 new clients in auto sector. Products trials are on for Suzuki and supplies are likely to commence by November-19. Supplies to Hero have already started and they are now supplying 4 new grades to Maruti. Currently, within the 2 wheeler space only Bajaj is left.
- Capacity expansion to 137,000 TPA has been completed and management has guided volumes of 75,000-80,000 tons in FY20E. Thereafter 20% growth is sustainable. It can achieve optimum utilisation of 90% on this capacity.

#### **FY19 – A challenging year, but the worse seems to be behind**

FY19 was a challenging year for the company on account of the fire in the first quarter, sharp rupee depreciation in the second quarter and inventory loss on raw material inventory in the third and fourth quarter coupled with slowdown in auto demand. However even through these challenging times, the company has continued to report reasonable volumes and profitability given its experience and business understanding. While headwinds are likely to persist in the near term, largely the worse seems to be behind. We remain positive on the overall demand outlook for ABS, the management's execution capabilities and their vision with regards to future growth and expansion plans.

**Outlook**

Going ahead we expect EBITDA/kg to improve to Rs 15.2 in FY20E and to Rs 16.7 in FY21E as the entire high cost inventory has been utilized. The company is already looking at adding new end user segments in specialty ABS. The challenge is not in selling volumes but selling volumes at a desired level of profitability. We forecast volumes to grow by 29.0% in FY20E to 77,516 tons and 20% in FY21E to 93,019 MTPA.

We have revised our FY20E revenues/EBITDA/PAT estimates downwards by 2.7%/ 32.0%/34.0% to Rs 13.8bn/ Rs 1,170m/Rs 705mn respectively due to low volumes and GRMs. During FY21E we expect revenues/EBITDA/PAT to grow by 15.4%/ 32.1%/ 34.2% to Rs 15.9bn/ Rs 1,545m/ Rs 946m.

The company continues to remain debt free. It has declared a final dividend of Rs 0.5/share.

**The worse seems to be behind but the stock appears oversold and hence there is limited downside from current levels. At the CMP, it trades at 18.0x FY20E and 13.4x FY21E earnings estimates. We maintain our long term BUY rating with a revised target price of Rs 97 (17x March 21E EPS) with an upside of 27%.**

**Q4FY19 Result Overview (Rs m)**

Y/e March	Q4 '19	Q4'18	YoY gr. (%)	Q3 '19	FY19	FY18	YoY gr. (%)
<b>Net Revenue</b>	<b>3,497</b>	<b>3,018</b>	<b>15.9</b>	<b>3,234</b>	<b>12,248</b>	<b>10,317</b>	<b>18.7</b>
<b>Expenditure</b>							
Raw Material Cost	3,152	2,145	46.9	2,757	10,159	7,441	36.5
<i>% of revenue</i>	<i>90.1</i>	<i>71.1</i>		<i>85.2</i>	<i>82.9</i>	<i>72.1</i>	
Employee Cost	60	99	(39.3)	93	324	374	(13.3)
<i>% of revenue</i>	<i>1.7</i>	<i>3.3</i>		<i>2.9</i>	<i>2.6</i>	<i>3.6</i>	
Other Expense	215	336	(36.0)	215	974	958	1.7
<i>% of revenue</i>	<i>6.1</i>	<i>11.1</i>		<i>6.6</i>	<i>8.0</i>	<i>9.3</i>	
<b>Total Expenditure</b>	<b>3,427</b>	<b>2,580</b>	<b>32.8</b>	<b>3,065</b>	<b>11,458</b>	<b>8,773</b>	<b>30.6</b>
<b>EBITDA</b>	<b>70</b>	<b>438</b>	<b>(84.0)</b>	<b>169</b>	<b>790</b>	<b>1,544</b>	<b>(48.8)</b>
<i>Margin (%)</i>	<i>2.0</i>	<i>14.5</i>		<i>5.2</i>	<i>6.5</i>	<i>15.0</i>	
Depr. & Amortization	20	15	37.4	18	73	61	20.9
<b>EBIT</b>	<b>50</b>	<b>423</b>	<b>(88.2)</b>	<b>151</b>	<b>717</b>	<b>1,484</b>	<b>(51.7)</b>
Net Interest	1	19	(94.1)	7	12	77	(84.3)
Other Income	57	53	7.5	6	69	137	(49.6)
<b>Profit before Tax</b>	<b>106</b>	<b>457</b>	<b>(76.9)</b>	<b>150</b>	<b>774</b>	<b>1,543</b>	<b>(49.9)</b>
Total Tax	77	171	(55.2)	51	308	547	(43.6)
<i>Effective tax rate (%)</i>	<i>72.5</i>	<i>37.4</i>		<i>33.6</i>	<i>39.9</i>	<i>35.4</i>	
<b>Profit after Tax</b>	<b>29</b>	<b>286</b>	<b>(89.9)</b>	<b>100</b>	<b>465</b>	<b>996</b>	<b>(53.3)</b>
<i>PAT Margin (%)</i>	<i>0.8</i>	<i>9.5</i>		<i>3.1</i>	<i>3.8</i>	<i>9.7</i>	
<b>EPS</b>	<b>0.2</b>	<b>1.7</b>	<b>(89.9)</b>	<b>0.6</b>	<b>2.8</b>	<b>6.0</b>	<b>(53.5)</b>

Source: Company Data, Idea Research

**Operational Metric**

Y/e March	Q4 '19	Q4'18	YoY gr. (%)	Q3 '19	FY19	FY18	YoY gr. (%)
Volumes (MTPA)	17,100	15,962	7.1	16,500	60,090	66,000	(9.0)
Realisation per kg	147.6	163.3	9.6	150.1	157.8	143.1	10.3
Gross profit per kg	20.2	54.7	63.1	28.9	34.8	30.3	14.7
EBITDA per kg	4.1	27.4	85.0	10.3	13.2	23.4	(43.8)

Source: Company Data, Idea Research

**Income Statement (Rs m)**

Y/e March	2018	2019	2020E	2021E
<b>Net Revenue</b>	<b>10,317</b>	<b>12,248</b>	<b>13,789</b>	<b>15,913</b>
Raw Material Expenses	7,441	10,159	11,033	12,559
Gross Profit	2,876	2,089	2,757	3,355
Employee Cost	374	324	386	430
Other Expenses	958	974	1,201	1,380
<b>EBITDA</b>	<b>1,544</b>	<b>790</b>	<b>1,170</b>	<b>1,545</b>
Depr. & Amortization	61	73	87	91
Net Interest	77	12	12	12
Other Income	137	69	13	13
<b>Profit before Tax</b>	<b>1,543</b>	<b>774</b>	<b>1,084</b>	<b>1,455</b>
Total Tax	547	308	379	509
<b>Profit after Tax</b>	<b>996</b>	<b>465</b>	<b>705</b>	<b>946</b>
Ex-Od items / Min. Int.	-	-	-	-
<b>Adj. PAT</b>	<b>1,000</b>	<b>472</b>	<b>705</b>	<b>946</b>
<b>Avg. Shares O/S (m)</b>	<b>165.9</b>	<b>165.9</b>	<b>165.9</b>	<b>165.9</b>
<b>EPS (Rs.)</b>	<b>6.0</b>	<b>2.8</b>	<b>4.2</b>	<b>5.7</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2018	2019	2020E	2021E
C/F from Operations	1,762	290	774	754
C/F from Investing	(123)	(311)	(192)	(1,092)
C/F from Financing	(1,487)	(63)	(112)	(112)
Inc. / Dec. in Cash	153	(84)	470	(450)
Opening Cash	172	324	240	710
Closing Cash	324	240	710	260
FCFF	1,639	(21)	582	(338)

**Key Financial Metrics**

Y/e March	2018	2019	2020E	2021E
<b>Growth</b>				
Revenue (%)	64.8	18.7	12.6	15.4
EBITDA (%)	147.6	(48.8)	48.0	32.1
PAT (%)	188.9	(53.3)	51.4	34.2
EPS (%)	190.1	(53.5)	51.4	34.2
<b>Profitability</b>				
EBITDA Margin (%)	15.0	6.5	8.5	9.7
PAT Margin (%)	9.7	3.8	5.1	5.9
RoCE (%)	66.8	23.9	30.4	33.8
RoE (%)	47.6	16.7	21.4	23.6

**Balance Sheet**

Net Debt : Equity	(0.1)	(0.1)	(0.2)	(0.1)
Net Wrkng Cap. (days)	31.8	26.3	26.0	26.0

**Valuation**

PER (x)	12.6	27.2	18.0	13.4
P / B (x)	4.9	4.2	3.5	2.9
EV / EBITDA (x)	8.0	15.7	10.2	8.0
EV / Sales (x)	1.2	1.0	0.9	0.8

**Earnings Quality**

Eff. Tax Rate	35.4	39.9	35.0	35.0
Other Inc / PBT	0.1	0.1	0.0	0.0
Eff. Depr. Rate (%)	5.2	4.6	4.8	4.8

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2018	2019	2020E	2021E
<b>Non-Current Assets</b>	<b>1,185</b>	<b>1,491</b>	<b>1,629</b>	<b>2,663</b>
<b>Net fixed assets</b>	<b>1,074</b>	<b>1,435</b>	<b>1,548</b>	<b>1,557</b>
Capital Work In Progress	61	-	-	1,000
Non-Current Investments	6	13	18	23
Other financial assets	20	23	43	63
Deferred Tax Assets	24	20	20	20
<b>Current Assets</b>	<b>3,069</b>	<b>3,815</b>	<b>4,520</b>	<b>4,704</b>
Inventories	800	1,001	1,111	1,282
Trade receivables	1,854	2,238	2,528	2,917
Cash & Bank Balance	324	240	710	261
Loans	-	215	-	-
Other financial assets	22	70	106	158
Other Current Assets	68	50	65	85
<b>Total Assets</b>	<b>4,254</b>	<b>5,306</b>	<b>6,150</b>	<b>7,366</b>

**Equity**

Equity Share Capital	166	166	166	166
Other Equity	2,407	2,821	3,426	4,273
<b>Total Networth</b>	<b>2,573</b>	<b>2,987</b>	<b>3,592</b>	<b>4,438</b>
<b>Non-Current Liabilities</b>	<b>175</b>	<b>271</b>	<b>279</b>	<b>289</b>
Provisions	45	42	50	60
Deferred tax liabilities	130	229	229	229
<b>Current Liabilities</b>	<b>1,506</b>	<b>2,047</b>	<b>2,278</b>	<b>2,638</b>
Trade payables	1,257	1,945	2,115	2,407
Other current liabilities	249	103	163	231
<b>Total Equity &amp; Liabilities</b>	<b>4,254</b>	<b>5,306</b>	<b>6,150</b>	<b>7,366</b>

**Quarterly Financials (Rs m)**

Y/e March	Q1FY19	Q2FY19	Q3FY19	Q4FY19
<b>Net Revenue</b>	<b>2,017</b>	<b>3,500</b>	<b>3,234</b>	<b>3,497</b>
<b>EBITDA</b>	<b>275</b>	<b>275</b>	<b>169</b>	<b>70</b>
% of revenue	13.6	7.9	5.2	2.0
Depr. & Amortization	17	18	18	20
Net Interest	3	1	7	1
Other Income	3	3	6	57
<b>Profit before Tax</b>	<b>258</b>	<b>260</b>	<b>150</b>	<b>106</b>
Total Tax	90	91	51	77
<b>Profit after Tax</b>	<b>168</b>	<b>169</b>	<b>100</b>	<b>29</b>

**Operating Metric (Rs m)**

Y/e March	2018	2019	2020E	2021E
Capacity (MTPA)	1,00,000	1,00,000	1,37,000	1,37,000
Production (MTPA)	66,000	60,090	77,516	93,019
Capacity Utilisation (%)	66	60	57	68
EBITDA per kg	23.4	13.2	15.2	16.7

Source: Company Data, PL Research.

DISCLAIMER/DISCLOSURESANALYST CERTIFICATION

We/I, Ms. Shailee Parekh (MMS, B.com) and Ms Charmi Mehta (CA) authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & conditions and other disclosures:

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at [www.plindia.com](http://www.plindia.com)

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is in the process of applying for certificate of registration as Research Analyst under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Ms. Shailee Parekh (MMS, B.com) and Charmi Mehta (CA), Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

**Prabhudas Lilladher Pvt. Ltd.**

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India  
Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209