

BEPL reported poor Q3FY19 numbers but in line with expectations. Key highlights of the quarter are:

- Net revenues grew 25.4% YoY while dipped sequentially by 7.6% to Rs 3,234mn. The company sold 16,500 MTPA (up 3.1% YoY but 5.7% lower QoQ) at an average realisation of Rs 150/kg (up 5.6% YoY, down 11.6% QoQ).
- Due to high cost inventory in-hand, the gross margins dived to 14.8% lower by 14.2 percentage points YoY and 5.6 percentage points QoQ which led to contraction in EBITDA margins by 11.5 percentage points YoY and 2.6 percentage points QoQ to 5.2%. EBITDA decreased by 60.9% YoY and 38.5% QoQ to Rs 169mn. There was a forex gain of ~Rs 12mn in this quarter.
- The EBITDA/kg in Q3 was Rs 10.3 vs Rs 27.1 in Q3FY18 and 15.8 in Q2FY19. The profit for the quarter was Rs 100mn with EPS of Rs 0.6/share.
- During 9MFY19, net revenues grew by 19.9% to Rs 8,751mn while EBITDA was lower by 34.9% to Rs 720mn and PAT by 38.6% to Rs 436mn. EPS for the 9MFY19 was Rs 2.6 vs 4.3 for the same period last year.
- The volumes for 9MFY19 were 42,990 MTPA (down 14.1%) with an average realization of Rs 1,61, 530/ton (up 20.1%). EBITDA/kg at Rs 16.8 vs 22.1 during 9MFY18.
- Based on our discussion with the management, there will still be some impact of the high cost inventory during Q4 as well, but thereafter the situation is likely to be corrected as new procurement will be on lower prices.

Key financials (Y/e March)	2018	2019E	2020E	2021E
Revenues (Rs m)	10,317	11,960	14,171	17,006
Growth (%)	64.8	15.9	18.5	20.0
EBITDA (Rs m)	1,544	967	1,719	2,329
PAT (Rs m)	996	576	1,068	1,458
EPS (Rs)	6.0	3.5	6.4	8.8
Growth (%)	190.1	(42.4)	85.4	36.6
CEPS (Rs)	6.4	3.9	6.9	9.3
Net DPS (Rs)	0.5	0.5	0.5	0.5
Profitability & Valuation	2018	2019E	2020E	2021E
EBITDA margin (%)	15.0	8.1	12.1	13.7
RoE (%)	47.6	20.5	30.2	31.1
RoCE (%)	47.4	19.6	28.8	29.8
EV / sales (x)	1.0	0.9	0.7	0.6
EV / EBITDA (x)	6.8	11.0	5.9	4.4
PE (x)	10.9	18.9	10.2	7.4
P / BV (x)	4.2	3.6	2.7	2.0
Net dividend yield (%)	0.8	0.8	0.8	0.8

Source: Company Data, PL Research

Q3FY19 Result Update

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Rating	BUY
Price	Rs 65
Target Price	Rs 114
Implied Upside	75%
Sensex	35,657
Nifty	10,662
Bloomberg Code	BEPL IN
Reuters Code	BHAN.BO
(Prices as on January 28, 2019)	

Tracking Data

Market Cap (Rs bn)	10.9
Shares O/s (m)	165.9
3M Avg. Daily Value (Rs m)	112.0

Major Shareholders

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

Stock Performance

(%)	1M	6M	12M
Absolute	(22.3)	(46.6)	(62.0)
Relative	(21.6)	(42.2)	(59.4)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2019E	3.5	-	NA
2020E	6.4	-	NA

- During the quarter there was a sudden and sharp correction in ABS prices by 25% from the highs of USD 2000/ton to USD 1500/ton on back of slowdown in Chinese demand due to the ongoing trade war with America.
- Styrene prices also fell from USD 1450/ton to USD 950/ton but because the company had placed orders before the fall, they could not benefit from it. And instead gross margins corrected sharply from the peak of Rs 46 a year ago to Rs 28.9/kg.
- But both raw material and final product prices have now bottomed out and the management doesn't foresee any further price corrections. The balance high cost inventory will be utilized during the current quarter hence Q1FY20 should witness gross margins moving closer to the Rs 40 mark and could improve further thereafter on back of better fixed cost absorption.
- Management has seen some slowdown in demand from the auto sector but supplies to new customers have started. Capacity expansion to 137,000 TPA will be completed by end of this fiscal and hence management is confident of achieving ~90,000 tons volumes in FY20E.

What transpired in FY19?

FY19 was a challenging year for the company on account of the fire in the first quarter, sharp rupee depreciation in the second and stock loss on raw material inventory in the third. All three factors were largely exogenous and hence beyond management control. However, even through these challenging times, the company has continued to report reasonable volumes and profitability given its experience and understanding of the business. While some headwinds may 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 revenues, gross profit and EBITDA to stay under pressure during FY19 on account of 1) pressure on realisations, 2) high cost inventory which severely impacted margins, 3) lower ABS volumes (60,990 TPA as compared to 68,490 TPA previously) due to periodic plant shut downs in order to accommodate the capacity expansion from 100,000 TPA to 137,000 TPA. Thus we have revised our FY19E revenue, EBITDA and profit estimates for FY19E downwards by 1.2%, 33.8% and 36.5% to Rs 11.9bn, Rs 967mn and Rs 576mn. During FY20E we expect revenues to grow by 18.5% to Rs 14.1bn on back of 46% volume growth, EBITDA by 77.8% to Rs 1,719mn and profits by 85.4% to Rs 1,068mn. We introduce FY21E numbers with revenue expectations of Rs 17.0bn, EBITDA of Rs 2,329mn and PAT of Rs 1,458mn.

The stock appears oversold and downside seems limited. Currently it trades at 10.2X FY20E earnings estimates of Rs 6.4. We maintain our long term BUY rating with a revised target price of Rs 114 (15x Sept 20E EPS) with an upside of 75%.

Q3FY19 Result Overview (Rs m)

Y/e March	Q3 '19	Q3'18	YoY gr. (%)	Q2 '19	9M'19	9M'18	YoY gr. (%)
Net Revenue	3,234	2,579	25.4	3,500	8,751	7,299	19.9
Expenditure							
Raw Material Cost	2,757	1,832	50.5	2,788	7,007	5,295	32.3
<i>% of revenue</i>	<i>85.2</i>	<i>71.0</i>		<i>79.7</i>	<i>80.1</i>	<i>72.5</i>	
Employee Cost	93	108	(14.0)	88	264	275	(4.0)
<i>% of revenue</i>	<i>2.9</i>	<i>4.2</i>		<i>2.5</i>	<i>3.0</i>	<i>3.8</i>	
Other Expense	215	206	4.2	349	759	622	22.0
<i>% of revenue</i>	<i>6.6</i>	<i>8.0</i>		<i>10.0</i>	<i>8.7</i>	<i>8.5</i>	
Total Expenditure	3,065	2,146	42.8	3,224	8,031	6,192	29.7
EBITDA	169	433	(60.9)	275	720	1,107	(34.9)
<i>Margin (%)</i>	<i>5.2</i>	<i>16.8</i>		<i>7.9</i>	<i>8.2</i>	<i>15.2</i>	
Depr. & Amortization	18	15	19.2	18	53	46	15.7
EBIT	151	418	(63.8)	258	667	1,060	(37.1)
Net Interest	7	22	(70.0)	1	11	58	(81.1)
Other Income	6	56	(89)	3	12	84	(85.3)
Profit before Tax	150	451	(66.6)	260	668	1,086	(38.5)
Total Tax	51	160	(68.4)	91	232	376	(38.3)
<i>Effective tax rate (%)</i>	<i>33.6</i>	<i>35.5</i>		<i>35.1</i>	<i>34.7</i>	<i>34.6</i>	
Profit after Tax	100	291	(65.7)	169	436	710	(38.6)
<i>PAT Margin (%)</i>	<i>3.1</i>	<i>11.3</i>		<i>4.8</i>	<i>5.0</i>	<i>9.7</i>	
EPS	0.6	1.8	(65.7)	1.0	2.6	4.3	(38.6)

Source: Company Data, Idea Research

Operational Metric

Y/e March	Q3 '19	Q3'18	YoY gr. (%)	Q2 '19	9M'19	9M'18	YoY gr. (%)
Volumes (MTPA)	16,500	16,000	3.1	17,490	42,990	50,038	(14.1)
Realisation per kg	150.1	142.1	5.6	200.1	161.5	134.5	20.4
Gross profit per kg	28.9	46.7	(38.1)	40.7	40.6	40.0	1.3
EBITDA per kg	10.3	27.1	(62.1)	15.7	16.8	22.1	(24.2)

Source: Company Data, Idea Research

Income Statement (Rs m)

Y/e March	2018	2019E	2020E	2021E
Net Revenue	10,317	11,960	14,171	17,006
Raw Material Expenses	7,441	9,658	10,780	12,723
Gross Profit	2,876	2,302	3,391	4,283
Employee Cost	374	361	411	490
Other Expenses	958	974	1,261	1,464
EBITDA	1,544	967	1,719	2,329
Depr. & Amortization	61	71	77	86
Net Interest	77	12	12	12
Other Income	137	16	13	13
Profit before Tax	1,543	899	1,642	2,244
Total Tax	547	323	575	785
Profit after Tax	996	576	1,068	1,458
Ex-Od items / Min. Int.	(4)	-	-	-
Adj. PAT	1,000	576	1,068	1,458
Avg. Shares O/S (m)	165.9	165.9	165.9	165.9
EPS (Rs.)	6.0	3.5	6.4	8.8

Cash Flow Abstract (Rs m)

Y/e March	2018	2019E	2020E	2021E
C/F from Operations	1,762	296	769	1,109
C/F from Investing	(123)	(275)	(189)	(1,188)
C/F from Financing	(1,487)	(112)	(112)	(112)
Inc. / Dec. in Cash	153	(91)	468	(190)
Opening Cash	172	324	233	702
Closing Cash	324	233	701	512
FCFF	1,639	21	580	(79)

Key Financial Metrics

Y/e March	2018	2019E	2020E	2021E
Growth				
Revenue (%)	64.8	15.9	18.5	20.0
EBITDA (%)	147.6	(37.4)	77.8	35.5
PAT (%)	188.9	(42.2)	85.4	36.6
EPS (%)	190.1	(42.4)	85.4	36.6
Profitability				
EBITDA Margin (%)	15.0	8.1	12.1	13.7
PAT Margin (%)	9.7	4.8	7.5	8.6
RoCE (%)	47.4	19.6	28.8	29.8
RoE (%)	47.6	20.5	30.2	31.1
Balance Sheet				
Net Debt : Equity	(0.1)	(0.1)	(0.2)	(0.1)
Net Wrkng Cap. (days)	31.8	45.0	45.0	45.0
Valuation				
PER (x)	10.9	18.9	10.2	7.4
P / B (x)	4.2	3.6	2.7	2.0
EV / EBITDA (x)	6.8	11.0	5.9	4.4
EV / Sales (x)	1.0	0.9	0.7	0.6
Earnings Quality				
Eff. Tax Rate	35.4	35.9	35.0	35.0
Other Inc / PBT	0.1	0.0	0.0	0.0
Eff. Depr. Rate (%)	1.3	1.5	3.0	2.7

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2018	2019E	2020E	2021E
Non-Current Assets	1,161	1,401	1,545	2,681
Net fixed assets	1,074	1,353	1,475	1,589
Capital Work In Progress	61	-	-	1,000
Non-Current Investments	6	8	10	12
Other financial assets	20	40	60	80
Current Assets	3,069	3,331	4,392	4,963
Inventories	800	1,495	1,771	2,126
Trade receivables	1,854	1,495	1,771	2,126
Cash & Bank Balance	324	233	702	510
Other financial assets	22	33	50	74
Other Current Assets	68	75	98	127
Total Assets	4,230	4,732	5,938	7,644

Equity

Equity Share Capital	166	166	166	166
Other Equity	2,407	2,883	3,851	5,210
Total Networth	2,573	3,049	4,017	5,376
Non-Current Liabilities	151	181	211	241
Provisions	45	75	105	135
Deferred tax liabilities	106	106	106	106
Current Liabilities	1,506	1,502	1,709	2,027
Trade payables	1,257	1,207	1,348	1,590
Other current liabilities	249	295	362	437
Total Equity & Liabilities	4,197	4,230	4,997	6,880

Quarterly Financials (Rs m)

Y/e March	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Net Revenue	3,018	2,017	3,500	3,234
EBITDA	438	275	275	169
% of revenue	14.5	13.6	7.9	5.2
Depr. & Amortization	15	17	18	18
Net Interest	19	3	1	7
Other Income	53	3	3	6
Profit before Tax	457	258	260	150
Total Tax	171	90	91	51
Profit after Tax	286	168	169	100

Operating Metric (Rs m)

Y/e March	2018	2019E	2020E	2021E
Capacity (MTPA)	1,00,000	1,00,000	1,37,000	1,37,000
Production (MTPA)	66,000	60,990	89,045	1,06,854
Capacity Utilisation (%)	66.0	61.0	65.0	78.0
EBITDA per kg	23.4	16.4	19.3	21.8

Source: Company Data, PL Research.

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