**Company: Bharat Rasayan Limited**

**Representing: Ankit Gupta’ views on the Company**

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| **Business Slotting**  🗹 B2B 🞏 B2C 🗹 Asset Heavy 🞏 Asset Light 🞏 Intellectual Prop 🞏Price Taker 🞏Price Setter 🞏Oligopoly  🞏 Monopoly/ Duopoly 🞏 Customer Capex Led 🗹 High working capital intensity |

**Company Background:**

* Bharat Rasayan Limited (BRL), the flagship company of the Bharat group, was incorporated in 1985. The company is engaged primarily in the manufacturing of technical grade pesticides, which in turn is used for manufacturing of formulations for agrochemical industry.
* Apart from BRL, Bharat group also has two other group companies, Bharat Insecticides Limited and BR Agrotech Limited (both unlisted & promoter held), that are engaged in manufacturing of formulations and packaging material of the products. Together, Bharat Group is amongst the top 10 agrochemical groups in India.
* The company has two plants,
  + Rohtak (Haryana) with installed capacity of around 5000 metric tonne per annum (MTPA)
  + Dahej (Guajrat) with installed capacity of around 12000 MTPA – This was a large plant relative to the company size and was a key turning point – see financials from FY 14 later in the note).
  + New plant under construction at Syka, Gujarat – focussing on backward integration
* BRL is majorly in the manufacturing of technical grade pesticides and also manufactures intermediates grades, which is the raw material for manufacturing technical grades. The sales of technical manufactured by BRL are also made to group companies (BIL and BRAL), which uses it as a raw material for the manufacturing of formulations.
* The Gupta family, Mr. S.N. Gupta, Mr. M.P. Gupta and Mr. R.P. Gupta (all brothers), are the promoters of the company and hold 74.79% stake in the company. They have never diluted equity in the past.

**Product details**

* Product Range - Insecticides, Herbicides, Fungicides, Intermediates & Veterinary Use.
* Technical grade pesticides accounted for 77.62% (PY: 80.33%), intermediates grades accounted for 15.99% (PY: 15.57%) and formulation grades accounted for 6.07% (PY: 2.07%) of gross sales of BRL.
* On a group level, composition of sales is dominated by technical pesticides which account for 42.78 % of the total sales of the group in FY19 (PY: 42.25%) and formulations grade & intermediates combined accounts for 48.95% of total sales of the group in FY19 (PY: 52.84%).
* It has around 20-22 active molecules as its key products. Its key products include Metaphenoxy Benzaldehyde, Lambda Cyhalothrin (insecticide), Thiamethoxam (insecticide), Metribuzin, Chloropyrophil, Para Chloro Benzene Cyanide.
* Meta Phenoxy Benzaldyhyde is the top molecule contributing 13% of sales – the Co plans to restrict production of this molecule to current levels. The company focusses on niche molecules with limited competition and keeps dynamically manage its portfolio – replacing lower margin molecules with higher margin molecules as new competition come in.
* BRL generates ~ 62% sales from its top 9 products (H1FY20), 62% in FY19, 52% in FY18 and 70% in FY17 and 77% in FY16 from its top 10 products.

**Customer segment details**

* Customer wise sales break up is appended below:

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|  | **FY 11** | **FY 12** | **FY 13** | **FY 14** | **FY 15** | **FY 16** | **FY 17** | **FY 18** | **FY 19** | **8 year CAGR** |
| Export Sales | 28 | 27 | 58 | 117 | 121 | 126 | 153 | 165 | 225 | 30% |
| Sales to group cos | 19 | 18 | 26 | 64 | 125 | 127 | 165 | 170 | 226 | 36% |
| Domestic Sales | 45 | 94 | 102 | 177 | 189 | 199 | 295 | 474 | 544 | 37% |
| Total | 92 | 139 | 186 | 358 | 435 | 452 | 613 | 809 | 995 | 35% |

* The high growth in domestic sales also includes higher sales to domestic arms of the MNCs. The supply to MNCs is both in the export and domestic market.
* ***Long term composition of revenues:*** Currently, MNC (largely Japan / Europe) constitutes c. 20% of the total revenues of the company, which the management wants to increase to 40% through strategic alliances/long term contracts over the medium to long term. Balance is expected to be contributed by domestic and export segment equally.
* **In Feb 20, BR has entered into a 30:70 JV with Nissan Chemical Corporation (NCC) –** named Nissan Bharat Rasayan Private Limited which will start a new manufacturing factory in India for technical products.
* Major customers include Bayer, Sygenta, Nissan, Adama India, UPL.
* BRL generated ~ 35% revenue from its top 3 customers, 35% sales in FY18, 25% in FY17 and 22% in FY16 from its Top 5 customers.
* BRL’s imports are c. 68% of total RM in FY 19
* **The company has around 200 international registrations primarily in Asia and Middle East. Company tries to commercialize 2-3 products every year.**
* **The company foraying into Brazil markets where they have filed 5-7 products (at cost of c. Rs 5-7 crs each). Brazil is the largest agrochemical market in the world and in the medium term BRL expects to derive 10-15% revenues from it.**

**Capex plans:**

* Dahej brownfield expansion - Dahej plant has 3 operational units (Unit - A, B & C) and Unit D is under expansion (total size of capex - Rs.100 crore - started last year. Phase 1 - Completed in September, 2019; Phase 2 - Expected by March, 2020, latest update not available). The capex will be for intermediates and synthetic pyrethroids manufacturing. Apart from backward integration, the company will also sell these products to customers.
* Dahej - Unit E & Unit F brownfield expansion (current status - EC approval yet to be received; expected shortly) - The capex will be for intermediates and expansion of existing capacity as well as introduction of new products As of now, company is planning to undertake Rs.50 crore capex in it during FY21. It might decide to go for further capex in future years based on future requirements. It will take 6 - 12 months to complete it.  
  Capex at Dahej are all brownfield capex and asset turns are high as company will be utilising the existing infrastructure.
* **Saykha expansion** – Greenfield project over 10-acre land with expected cost of c. Rs 300 crs to be spent over 2-3 years in phases for new molecules and backward integration. This is near company’s existing Dahej location. Saykha’s will help reducing the single plant risk for Rasayan (since Rohtak is relatively a smaller plant compared to Dahej). This will be in 15% tax bracket and will drive BRL’s earning growth over next 3-4 years. As per last update, environment clearance from central government was pending. Phase 1 is planned in FY21 and company has already started working on utilities and some civil work for the project.

The funding for the above capex will be through mix of internal accruals and debt.

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| **Customer Industry Trend/Outlook ->** 🗹 Tailwinds 🞏 Headwinds 🞏 Secular |

* All major MNC’s in agrochemical sector globally are looking to de-risk their procurement dependence on China due to raw material pricing and availability issues over last 2-3 years (due to shut down of factories in China). This trend has got accelerated with corona virus.
* Even if China comes back, the cost for Chinese companies has increased on account of higher labour costs and environmental costs thereby giving a level field to Indian companies.
* MNC contracts provide a good opportunity as they are sticky in nature, have higher profitability margins, better payment terms and take a long time to develop.
* In addition, there is a patent cliff opportunity (many molecules going off-patent in the next few years).

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| **Elevator Pitch –** BRL is likely to strongly benefit from the industry trend of diversifying from China to India on account of the following:   1. Chemistry skills –BRL’s delivery and execution skills – on purity (95-99%). Higher order chemistry and higher purity leads to higher margins. Quality and timely delivery is also of paramount importance to MNCs – of which BRL has a good track record. 2. Established relationship with large Japanese agrochem MNCs besides Dow, Syngenta, etc for over 5-7 years – as MNCs take time to build up and scale relationships – this is a function of track record of purity, timely delivery, pricing (not squeezing the customer on pricing in case of a shortage), EHS standards etc. 3. Successful track record of scaling up small volumes to large scale commercial relationships as established in the case of Nissan JV – and having a contract with one Japanese MNC helps in expanding the relationship with other Japanese cos. 4. World class plants in terms of design, EHS standards, cleanliness, future ready, certifications (both ISO & OHS) etc. 5. Backward integration - BRL is focussing on backward integration for large volume products as most MNCs want supply chains to be independent of China. 6. Robust product portfolio - CRAMS basket (patented & non patented molecules) of 20-22 products and plants to add 20 over the next few years. |

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| **BUSINESS ATTRACTIVNESS** |

1. **Strongly differentiated business model -> High**

* CRAMS business from global MNCs is a tough and time-consuming business – It requires significant upfront investment of capital and time for winning trust of global MNCs – this requires many years of track record of purity, timely delivery, EHS standards, high order chemistry skills etc and is a huge entry barrier. Once won, this is a sticky business which provides higher volumes over time, with attractive margins, payment terms etc.
* In India, not many other players have been successful in this except PI Industries. The JV with Nissan established BRL’s credibility.

1. **Competitive Position getting stronger/weaker vis a vis other patented CRAMS player like PI etc.- Medium**
   1. Success in CRAMS (like Nissan JV) places BRL strongly within the industry (as these contracts are long term and MNCs do not prefer to change suppliers unless really required). Success with one company is likely to lead to additional contracts with other MNCs.
   2. However, BRL’s share in patented / innovator molecules is low (c. < 10% and mgmt. expects to grow this to 20-30% over next 3-5 years) compared to established players like PI Industries which are largely into innovator/patented molecules.
2. **Next Level of business -> High**
   1. Replication of Nissan CRAMS with other agrochemical MNCs will be the next growth driver.
   2. In medium term, scale up of CRAMS in patented / innovator molecules (like PI Industries) is the next big milestone for the company.
3. **Value Migration Curve -> High**
   1. Positioned strongly as an alternate supplier to global agrochem MNCs looking for a diversified supplier base outside China
   2. Higher share of CRAMS business (largely non patented for now) and over time increase share of patented molecules CRAMs as well.
4. **Quality of earnings -> Medium**
   1. Low free cash flow on account of high working capital intensity especially in last 3 years – Cash flow from operations to Operating profits less tax is 20%, 25% and -36% in FY 17, FY 18 and FY 19 respectively.

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| **Rs crs** | **FY10** | **FY11** | **FY12** | **FY13** | **FY14** | **FY15** | **FY 16** | **FY 17** | **FY 18** | **FY 19** |
| Operating Profits (OP) | 6 | 7 | 17 | 26 | 64 | 82 | 81 | 111 | 153 | 188 |
| Less taxes | -3 | -2 | -4 | -5 | -10 | -16 | -18 | -29 | -37 | -44 |
| OP net of taxes (a) | 3 | 5 | 13 | 21 | 54 | 66 | 63 | 82 | 116 | 144 |
| Cash flow from operations (b) | 19 | 10 | 13 | -8 | 29 | 60 | 47 | 16 | 29 | -52 |
| CFO to OP (a/b) | 633% | 200% | 100% | -38% | 54% | 91% | 75% | 20% | 25% | -36% |
| **Average CFO to OP over 10 years** | | **29%** |  |  |  |  |  |  |  |  |
| **Average CFO to OP over 5 years** | | **21%** |  |  |  |  |  |  |  |  |

The low cash flow from operations can be explained as below:

* BRL was competing with China for large part of its business. **China used to give credit period of 6 months** to its customers. BR had to increase its debtor days to get contracts from some of these large customers which its balance sheet could afford. This is line with expansion in working capital cycle of other companies as well.
* The payable days for BRL (at c. 23 days as of FY 19 end) are the lowest in the industry (at c. 45-300 days as of FY 19 end) with the company makes upfront payments in exchange of discount. If we assume payables of 120 days, **the CFO to OP for FY 19 improves from -36% above to 91%.**

Important to note, that despite the above,

* BRL has **never diluted a single share in its history post IPO**
* Debt remains at comfortable levels with Net debt to Ebitda at 1.3x and debt to equity at 0.6x as of FY 19.

1. **Key growth and profitability drivers** 
   1. Sales
      1. Capacity expansion in Dahej, Saykha/Nissan JV (as elaborated earlier) will be the growth drivers over the next 2-3 years - Medium
      2. Additional CRAMs contracts similar to Nissan (as a diversification from China) would be a key addition to future growth- High
   2. Profitability margins driven by changes in product mix – Medium – Following should help to improve gross margins:
      1. Completion of the backward integration project should aid reduction in dependence on China from 50% to 30%.
      2. Movement from lower to higher margin molecules
      3. Expansion into patented CRAMs in the longer run.
   3. Capital intensity
      1. Continue to be working capital intensive due to high receivable days and low payable days as elaborated earlier. This actually works to BRL’s advantage as they have the requisite Balance sheet flexibility.
2. **Intellectual Property – Low**

Seems low on account of the low R&D expenses of the Company

**Operating Leverage led by**

🗹 **Gross Margin** 🞏 **Asset Turns** 🗹 **Product Mix** 🞏 **Employee Costs** 🞏 **Technology** 🗹 **Backward integration**

Gross margins have been largely stable in the past 10 years in the range of 28-35%. EBITDA margins have increased over the years driven by higher plant utilization / operating leverage. Benefit of operating leverage in existing business is limited (OP = 0.68).

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|  | **FY08** | **FY09** | **FY10** | **FY11** | **FY12** | **FY13** | **FY14** | **FY15** | **FY16** | **FY17** | **FY18** | **FY19** | **9MFY20** |
| Gross Margin % | 23% | 28% | 29% | 32% | 34% | 32% | 35% | 34% | 35% | 34% | 34% | 31% | 31% |
| EBITDA Margin% | 6% | 6% | 6% | 7% | 12% | 14% | 18% | 19% | 18% | 18% | 19% | 19% | 19% |

Going forward, gross margins of BRL are expected to improve driven by the changing product mix – higher share of CRAMS, more patented molecules and greater backward integration (intermediates plant to reduce China dependence) should improve gross margins going forward.

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| **KEY MONITORABLE** |

* Proportion of patented CRAMS Sales in total sales – Entry into partnerships/contracts with other global agrochemicals MNCs similar to Nissan, and also higher share of patented CRAMs in total sales – These are long term and sticky in nature and provide longevity to the business.
* Increase in export sales to other customers / geographies
* Progress in capex of Nissan JV
* Standalone business future expansion

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| **MANAGEMENT QUALITY** |

1. **DNA of business**
2. **Cost Efficiency Focus – Medium**

* Ability to scale up plant utilisations quickly and continue to run the plant at high utilisations.
* They lay strong emphasis on supplier loyalty and provide cash payments in exchange of discounts (unlike the rest of the industry).

1. **Production Efficiency – High**

Their ability to scale up operations (like in Dahej) and attain full capacity utilisation is good – Even if the molecules are relatively lower gross margin, they are overall able to obtain good overall margins with full capacity utilisation.

Evident through:-

* + High Net Fixed Asset Turnover of 3x-6x over the years compared 2.0-3.5x for the industry &
  + Operating Leverage as of FY 19 end is 0.68x evidencing high levels of capacity utilisation.

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| **Production efficiency** | **FY08** | **FY09** | **FY10** | **FY11** | **FY12** | **FY13** | **FY14** | **FY15** | **FY16** | **FY17** | **FY18** | **FY19** |
| **Bharat Rasayan** |  |  |  |  |  |  |  |  |  |  |  |  |
| Gross fixed asset turns | 3.5 | 5.4 | 5.0 | 2.2 | 4.2 | 1.2 | 1.9 | 2.2 | 2.1 | 2.7 | 3.1 | 3.6 |
| Net fixed asset turns | 11.2 | 20.6 | 16.5 | 4.7 | 8.9 | 1.4 | 2.5 | 3.2 | 3.3 | 4.7 | 5.4 | 6.6 |
| **PI Industries** |  |  |  |  |  |  |  |  |  |  |  |  |
| Gross fixed asset turns | 1.6 | 1.8 | 1.9 | 2.0 | 2.1 | 1.9 | 2.3 | 2.8 | 2.3 | 2.1 | 1.9 | 1.9 |
| Net fixed asset turns | 2.4 | 2.6 | 2.7 | 2.8 | 3.0 | 2.4 | 3.0 | 3.6 | 2.4 | 2.4 | 2.3 | 2.4 |

1. **Capital Efficiency/Allocation – Low**

High working capital results in overall lower capital efficiency despite the higher production efficiency. However, high working capital seems to be an industry wide issues with high receivables days across the industry (on account of competition with China which offered 180 days credit). Also BRL prefers to pay its suppliers upfront to retain loyalty of the suppliers which increases the working capital cycle. For comparison of receivables & payables days across the industry, pls refer to the Annexure.

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| **Net invested capital turnover ratio** | **FY08** | **FY09** | **FY10** | **FY11** | **FY12** | **FY13** | **FY14** | **FY15** | **FY16** | **FY17** | **FY18** | **FY19** |
| Bharat Rasayan | 1.6 | 2.0 | 2.2 | 1.8 | 1.5 | 1.0 | 1.6 | 1.7 | 1.8 | 2.0 | 1.9 | 1.5 |
| PI Industries | 1.5 | 1.6 | 1.9 | 1.6 | 1.5 | 1.5 | 2.0 | 1.9 | 1.6 | 1.3 | 1.1 | 1.2 |

A comparison between PI Industries and Bharat Rasayan on the basis of Dupont is attempted below:

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| **RoE explanation (FY 19)** | **BRL (Historical range)** | **BRL (FY 19)** | **PI Ind (Historical range)** | **PI Ind (FY 19)** |
| Net margins (Net profit / Sales) (a) | 6%-12% | 11% | 8%-20% | 14% |
| Asset turnover (Sales / Total assets) (b) | 1.1x - 1.7x | 1.31 | 0.8x – 1.2x | 0.90\* |
| Financial leverage (Total assets / Total Equity) (c) | 1.5x – 3.7x | 1.85 | 1.4x – 3.0x | 1.38 |
| RoE (a\*b\*c) |  | 27% |  | 18% |

*\*Low due to high capex last 1-2 years*

1. **Innovation – Medium**

Patented CRAMs are a small % of overall sales (c. < 10%).

1. **New Revenue Stream/ Geography – Medium**

* Expansion of CRAMS business through partnership with other agrochem MNCs like Nissan, aided by the China diversification factor
* Increase in share of patented molecules
* Higher exports in markets like Brazil where BRL is increasing its presence through more product registrations

1. **Value Chain Migration – Medium**

As explained earlier, higher share of (a) CRAMs business and (b) Patented molecules

1. **Strategic Thinking – High**

* Plant designs are strategically planned keeping future expansions in mind eg. newer molecules, backward integration, technology etc and overall strict compliance to environmental standards etc. keeping the agrochem MNCs in mind
* Forward planning & Backward integration – Company is actively working on backward integration to meet the likely requirements of MNCs of a supply chain independent of China. Also, wants to expand presence into patented CSM business which offers higher profitability aspiring to be like a PI Industries.
* Relationship building – Ability to nurture customers and build strategic partnerships like Nissan – which are long term and sticky in nature – thereby establishing business longevity.

1. **Ability to manage downturns – Can’t say**

The company has managed well during demonetisation, or when global agrochem industry witnessed a slowdown. However there have no major downturns and hence this cannot be commented on.

1. **Execution Skills**
2. **Workforce Handling – High**

Plant is well designed with emphasis on employee safety evident in certifications.

1. **Customer Trust/Win – High**

Successful track record evidenced in CRAMS success with Nissan

1. **Deeper/Broader customer penetration – High**

As highlighted earlier, successful track record of delivery so far with its clients -with the objective of upgrading them to strategic partnerships

1. **Supply chain management- Medium**

* Identified China risk and initiated backward integration to mitigate this
* Efficiency in domestic operations - pay domestic suppliers upfront to ensure supplier loyalty in exchange of discounts
* Carry adequate inventory

1. **Reputation**
2. **Family Business – High**

SN Gupta – Chairman and Managing Director has four decades of experience in the industry

RP Gupta with 30 years+ experience currently handling the R&D and production activities

Competitors rate them with high integrity, high technical capabilities and have strong relationships with customers/vendors.

1. **Minority Shareholder Treatment - Low**

* Dividends are very low (can be called fair given they are in expansion stage, have debt)
* Management does not share information, no investor calls etc.

1. **Corp. Governance – Low**

* Related party dealings – sells technical to promoters’ companies at arms-length c. 15% of sales
* High promoter salary though linked to PBT c. 15% of PBT

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| **GROWTH/SCALABILITY** |

1. **Linear Growth**
2. Industry tailwinds on account of move by global agrochemical players to shift from China to other geographies like India to diversify their supply chain
3. Higher market share with existing customers with whom BRL has developed traction over last 8 – 10 years like Nissan
4. Increase in margin through higher sales of exports vs domestic, higher CRAMS share and migration from lower margin to higher margin products
5. **Expansionary Growth - Low**
6. Value Migration – Patented CRAMS and higher share of CRAMS business to drive value migration
7. New Geography – Expanding presence in Brazil and with other MNCs for CRAMs
8. New Revenue Stream – NA

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| **Business Model Vulnerability / Strength** |

1. **Vulnerability**
   1. Over the last few years, margins have increased for the industry in general, due to the rise in prices of key starting material / base materials (on account of China disruption) which led to a rise in prices of technicals too. However, this is mitigated as the shift of supply chains from China to other alternate geographies seems more structural than cyclical.
   2. Product concentration**– Meta Phenoxy Benzaldyhyde is the top molecule contributing 13% of sales (compared to 21% in FY 16). Rest of the product portfolio is well diversified with 9 products contributing to c. 62% of sales in H1 FY 20.**
   3. Dependency upon China for raw material - Backward integration will reduce dependence on China from 50% to 30%.
2. **Strengths/opportunities:**

As elaborated earlier

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| **VALUATION** |

**Undervaluation: 🞏 Screaming** 🗹 **High 🞏 Fair**

**Led by** 🗹 Earning trajectory 🗹 Value migration 🗹 Rerating

* On 24th March prices – Price Rs 4852 / PE 13 / High undervaluation
* Historical PE range 2015 onwards 10-35x
* Earnings trajectory & value migration: - Earnings are projected to grow at c. 20-25% for next 2-3 years with business quality improving (higher share of CRAMS, higher exports, Nissan JV, more backward integrated).
* Rerating of BRL is expected, driven by better business quality and industry tailwinds.

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| **Valuation Overhang**  🗷 PSU 🗹 Not Understood 🗷 Sector Apathy 🗷 Regulatory 🗷 Political 🗹 Corp. Governance 🗷 Succession Planning 🗹 High promoter salaries |

1. BRL is relatively unknown and an undiscovered stock (despite industry tailwinds).
2. Promoters get high salaries, though a large part is commission which is linked to PBT (which is common in many smaller companies).
3. Perceived corporate governance issues around shareholders of questionable background – broking entities linked to previous SEBI issues etc.
4. Succession is not perceived to be a risk as Mr. RP Gupta, one of the promoters and the major growth driver of the company is in his early 50s and his son is also involved in the business.

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| **Valuation Support**  🗷 Dividend 🗹 Low Float 🗷 Capital Allocation |

* **Very low dividend pay-outs**
* **Low Float**: Promoter shareholding is 75% and along with friends etc hold almost 85-90% of the stock.

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| **Risk and Mitigations** |

1. **Business Risks**
2. **Supply and/or demand disruption - Medium**

Dependence on China is a risk – through supply disruption or increase in price of raw material, though reducing with the backward integration.

Demand does not seem to be a big risk at this moment given the industry tailwinds. In the short term, dependence on monsoon and agroclimatic conditions can be a risk for domestic business.

1. **Single Point of Failure - High**

Single plant risk – Dahej plant is almost c. 70% of BRL’s overall capacity. Any issues at Dahej plant – regulatory, accidental, environment etc can impact the business materially, till the new capacity (Saykha) becomes operational.

1. **Environmental – Medium**

Dahej plant is located in a designated green zone chemical manufacturing zone and has required infrastructure etc to address environmental concerns. However, the business can get impacted if environmental clearances for expansions are delayed, or additional requirements are imposed thereby increasing overall costs.

1. **Regulatory – Medium**

Regulatory risk like ban of few pesticides by government recently can impact the business.

1. **Buyer Power - Low**

Well diversified across multiple buyers.

1. **Competition - Low**

BRL has been fairly successful thus far. No other industry player except PI industries have been so successful in CRAMS so far, evidencing BRL’s competitive strengths.

1. **Valuation Risks**

**Risk covered in the valuation multiples**

🗷 Everything 🗹 20% Downside 🗷 2-3X upside in 2-3 years

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| **Liquidity Stress Test: Can sit tight for 1-2 years despite:**  🗹 **Execution Delay** 🗹 **Business Temporary Issues for 6m – 1 year** |

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| **MEDIUM TERM VISIBILITY** |

* + - 1. Earnings visibility - High - 🗹 Capex Completion 🗹 Order Book/Sales. 🗹 New Capex
         1. Visiblity in earnings from completion of capex at Dahej, order book, Nissan JV/Saykha plant

Total capex c. $60m ~ Rs 450 crs over 2 years

Assuming gross fixed asset turn @ 2.75-3x

Potential Sales let’s say Rs 1250 crs in say 3-4 years

Expected OPM 2-3% higher so 19-20% becomes 21-23%

Incremental annual operating profit in the JV is 1250\*23% = Rs 285-290 crs

Less incremental depreciation c. Rs 45 crs (@ c. 10%)

Less incremental interest c. Rs 22 crs (Assuming 50% debt funded)

Incremental PBT c. Rs 223 crs

Less Tax @ 15% ~ c. Rs 190 crs

BRL’s share ` 30% ~ c. Rs 57 crs

This profit in JV is in addition to the c. 20% CAGR growth expected in the existing base business.

* + - 1. Margins visibility – High - 🗷 Pricing 🗷 Raw Material 🗷Employee Costs 🗹 Product Mix 🗹 Higher export sales 🗹 Backward integration

Higher export sales, higher CRAMs (especially if patented) and backward integration

* + - 1. Margin sustainability – High - 🗷 Government / regulatory mandate 🗷 Asset Monopoly 🗷 Oligopoly / Duopoly 🗹 Free competition
      2. Capital Efficiency – 🗹 Asset Turns 🗷 Capital Turns 🗷 Working capital efficiency

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| **INVESTMENT RATIONALE**  🗷 **Strategic** 🗹 **2-3x in 2-3 years** 🗹 **10x in 10 years** 🗷 **Opportunistic (50-100% pop)** |

Company is at a key inflection point with the Nissan JV. Deep relationships and execution track record can take BR to the next level.

**Sources referred:**

1. Deep-Dive template shared by Donald/Ankit
2. Annual Reports & AGM notes on VP thread
3. Company website
4. Listed competitors’ info

**Annexure: Receivables & Payables days Comparison**



