AGARWAL INDUSTRIAL CORPORATION LIMITED

We value relationships

INDIA'S LARGEST PRIVATE SECTOR BITUMEN LOGISTIC COMPANY

(Infrastructure Ancillary - Transport & Logistics) (MARKET CAP – 1200cr | CMP – 800)

BITUMEN INDUSTRY OVERVIEW:

The India bitumen market attained $4.6 billion in 2022 and is projected to reach $6.8 billion by 2032, growing at a CAGR of 4.0% from 2023 to 2032. By end use industry, the road construction segment dominated the global market in 2022, and is anticipated to grow at a CAGR of 4.2% during forecast period. The Indian government has prioritized infrastructure development as a key driver of economic growth.

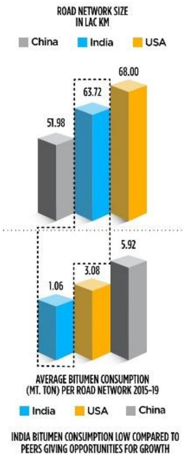
INDIAN BITUMEN MARKET, BY REGION – 2026:

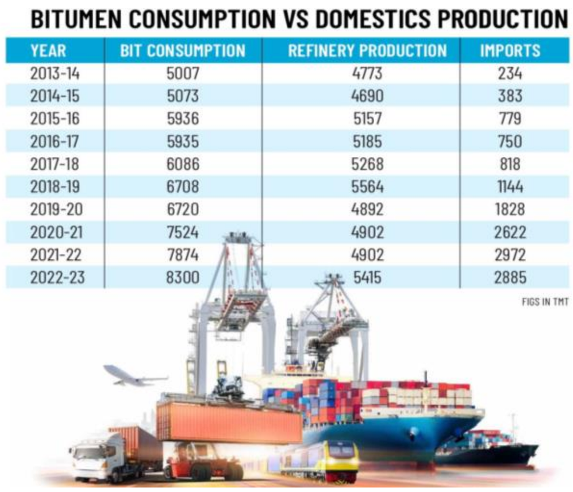
North India, East India, Northern India, West India & South India North India would exhibit an CAGR of 3.4% during 2019-2026.

INDUSTRY FACTS:

- India has the second-largest road network in the world at about 64 lakh kms providing large maintenance opportunities Y-o-Y.
- Bitumen consumption in India is one of the lowest among top 10 countries by road network, creating future growth opportunities.
- Large road network compared to vis a vis peers with low bitumen consumption providing opportunities.
- Making India's growth a reality – Infra spend on roads and large quantum of repair and maintenance causing demand and recession free growth momentum.
- Rising consumption with constant production creating opportunities for AICL. Constant production with increasing Y-o-Y demand.

INDIA BITUMEN CONSUMPTION LOW COMPARED TO PEERS GIVING OPPORTUNITIES FOR GROWTH.





BITUMEN CONSUMPTION VS DOMESTICS PRODUCTION

YEAR	BIT CONSUMPTION	REFINERY PRODUCTION	IMPORTS
2013-14	5007	4773	234
2014-15	5073	4690	383
2015-16	5936	5157	779
2016-17	5935	5185	750
2017-18	6086	5268	818
2018-19	6708	5564	1144
2019-20	6720	4892	1828
2020-21	7524	4902	2622
2021-22	7874	4902	2972
2022-23	8300	5415	2885

FIGS IN TMT

GOVERNMENT SCHEMES:

Bharat Mala Par yojana;

The plan envisages the construction of 83,677 km (51,994 mi) roads, including 34,800 km (21,600 mi) of additional highways and roads across the country, apart from an existing plan of building 48,877 km (30,371 mi) of new highways by the National Highway Authority of India. Bharat Mala has synergy with Sabarimala.

Pradhan Mantri Gram Sadak Yojana (PMGSY):

It involves consolidation of Through Routes and Major Rural Links connecting habitations to Gramin Agricultural Markets (Grams), Higher Secondary Schools and Hospitals. Under the PMGSY-III Scheme, it is proposed to consolidate 1,25,000 Km Road length in the States. The duration of the scheme is 2019-20 to 2024-25.

COMPANY OVERVIEW:

Agarwal Industries Corporation Limited is an Integrated Petrochemical Company focussed on Bitumen. It's holds market-leader position in Bitumen is built on a presence throughout the supply chain with own range of logistical assets and infrastructure. AICPL is primarily engaged in manufacturing of bitumen and bitumen products. It also transports Liquified Petroleum Gas (LPG) and bituminous product. AICPL also forayed into ship operating and chartering business through its subsidiary in UAE.

MANUFACTURING & STORAGE FACILITIES:

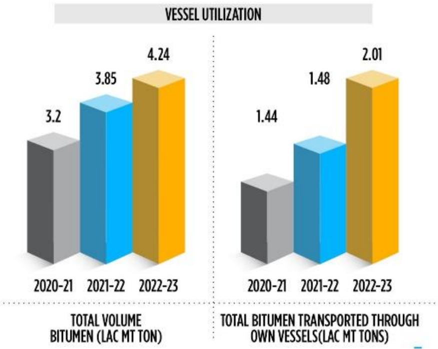
BULK BITUMEN STORAGE FACILITIES:
The Company has Bulk Bitumen Storage facilities to effectively handle and market bitumen imports at Mumbai, Maharashtra, Vadodara, Gujarat, Karwar, Haldia, West Bengal, Dighi (Company Owned), Maharashtra, Hazira (Loading) and Mangalore.

POWER GENERATION THROUGH WIND MILLS:
The Company has diversified into non-conventional energy generation by installing wind mills at Rajasthan and Maharashtra, keeping in view of the likely shortage of energy resources in future. Your Company has one Windmill at Dhulia, Maharashtra and one in Jaisalmer, Rajasthan.

MANUFACTURING OF BITUMEN & BITUMINOUS PRODUCTS:

The Company has its manufacturing and storage units at Taloja, Belgaum, Baroda, Hyderabad, and at recently added unit at Pachpadra City, Dist. Barmer, (Rajasthan). Further, the Company has started full-fledged operations at its recently established manufacturing and storage facilities of Bitumen and other value-added Bituminous products at Guwahati, Assam.

CONTINUOUS STRENGTHENING OF VESSEL TO SUPPORT CORE BITUMEN BUSINESS:
10 large bitumen logistic vessels having total capacity of 1,02,949 MT, through our Wholly Owned Subsidiary, AICL Overseas – FZ LLC, which are used in importing raw bitumen from Oil Producing Countries



GROWTH IN EVERY SEGMENTS:

SEGMENT WISE REVENUE (CONSOLIDATED)

(Rs. in Lakhs)

PARTICULARS	Q3 FY23	Q3 FY24	9M FY23	9M FY24
Ancillary Infra (Bitumen & Allied products)	47144.48	39093.17	113010.44	108431.66
Ship operating & chartering	4659.27	6213.68	13011.54	16474.98
Petroleum Products	1864.89	1864.84	5501.04	5519.54
Logistics	1977.62	2008.57	5167.63	5488.31
Wind Mil	10.45	19.43	88.34	94.58
Other (Unallocable)	306.95	216.23	1159.01	743.68
Total	**55963.67**	**49415.91**	**137938.03**	**136752.77**

CONTRIBUTION TO REVENUE

(Rs. in Lakhs)

PARTICULARS	Q3 FY23	Q3 FY24	9M FY23	9M FY24
Ancillary Infra (Bitumen & Allied products)	84.24%	79.11%	81.93%	79.29%
Ship operating & chartering	8.33%	12.57%	9.43%	12.05%
Petroleum Products	3.33%	3.77%	3.99%	4.04%
Logistics	3.53%	4.06%	3.75%	4.01%
Wind Mil	0.02%	0.04%	0.06%	0.07%
Other (Unallocable)	0.55%	0.44%	0.84%	0.54%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**

KEY MANAGERIAL PERSONNELS: [MEDIAN AGE - 63 YEARS]

Company Analysis & Thesis:

Management Guidance and earnings calls:

Impressive Growth Momentum: The company is demonstrating impressive growth across key performance indicators (KPIs). For the first nine months of FY24, we've achieved a healthy 11.02% volume growth. Furthermore, operational efficiencies have improved significantly, reflected in a 13.64% increase in EBITDA and a 9.56% growth in PAT for Q3 FY24 compared to Q3 FY23.

There has been significant improvement in the profitability: The addition of new vessels is expected to drive a significant increase in EBITDA per MT, with projections reaching Rs. 3600-3700 compared to the current Rs. 3400.(Five Years ago it was 2200 EBITDA per MT)

Confidently Targeting 18% Growth: On track to achieve the 5 lakh MT target set by management, representing an 18% y-o-y increase, compared to 4.24 Lakhs MT in previous year.

Ambitious Growth Plans: Management is guiding for a target volume of 7-8 lakh MT in the coming years, with the potential to exceed 10 lakh MT. This growth will be driven by leveraging our internal fleet and efficient logistics network.

Achieving the targeted volume of 7-8 lakh MT in the coming years, combined with our current EBITDA per MT of Rs. 3400, translates to a projected EBITDA of Rs. 220-230 crore.

Despite a robust 500,000-volume target for FY'24, achieving a 35% volume increase in Q4 presents a significant challenge, we can ensure successful achievement of our FY23-24 target, we’re positioned for a potentially exceptional final quarter of FY24.

Significant improvement in scale of operations or sustained improvement in operating margins above 8%, leading to higher cash accruals.

Opportunities:

The Indian government has allocated Rs. 2,78,000 crores for road, transport and highways in the 2024-25 interim budget. This represents a significant increase compared to the Rs. 2,70,434 crore total order value carried over from 2023-24.

PSU like HPCL and BPCL have a combined production capacity of around 5.5 million metric tonnes per year (MT/year). However, current demand sits at 9.5 MT/year, and this gap is expected to widen further to 14 MT/year in the next 3-4 years.

Challenges:

Port Congestion Hinders Growth: Our biggest operational challenge is congestion at loading points in ports. This intense competition for loading space can delay our vessels by 7-10 days. As a result, securing raw materials becomes difficult, and we may be unable sometimes to meet the full 1.5x surge in total demand.

Strength’s:

The market opportunity is tremendous and we have captured almost 20%-30% of the bulk market share in Bitumen in the private sector. [Market Leader in Bitumen Space]

Our Unique Edge: Our nationwide presence with manufacturing plants near key ports gives us a logistical advantage unmatched in India. We combine shipping with this robust network, unlike competitors who lack either our integrated infrastructure or extensive distribution.

Promoters with over 40 years of experience provide deep understanding of local and global market dynamic has resulted in a significant 36% CAGR in sales for the past three fiscal years.

The group's ship chartering business is a strategic move, expected to offset 60-70% of the parent company's freight expenses. This creates a cost-saving loop that leverages their diverse operations. By optimizing logistics costs, the group is well-positioned to achieve its EBITDA per MT target of Rs. 3600-3700.

The company plans to use debt to finance new vessels. However, this strategic capital expenditure (capex) is not expected to negatively impact the capital structure in the medium term. As of March 31, 2024, our key financial ratios remain healthy, with a projected gearing ratio of 0.51 times and a total outside liability to adjusted net worth (TOLANW) ratio of 0.77 times.

The company prioritizes order-backed purchases, minimizing the need for excess inventory. However, a small buffer stock (averaging 16-23 days' worth) is strategically maintained to fulfil urgent customer demands. This approach has been successful over the past three fiscal years.

Counterparty risk is mitigated to some extent by a large and diversified clientele and established long relationship of 3-4 decades with major clients. It is also able to pass on its foreign exchange exposure to customers.

Healthy Liquidity Buffer: The company boasts a comfortable liquidity position. Expected annual cash accruals of Rs. 120-155 crore significantly exceed our medium-term repayment obligations of around Rs. 26-42 crore. Additionally, as of March 31, 2023, we held a substantial amount of readily available cash (Rs. 37 crore) and liquid mutual funds (Rs. 25.66 crore).

WEAKNESSES:

Although, company is able to pass on this increase in prices of bitumen to customers, inability to do so fully or lag in passing on, has led to some volatility in operating margins that have ranged from 6.3% to 9.1% in the past five fiscals, through fiscal 2023.

While the entity caters to cyclical sectors like infrastructure, industrial gases, and power, these industries are susceptible to economic downturns. During past recessions, construction slowdowns weakened the creditworthiness of some players in the sector. This can also lead to extended payment collection times (debtor days) from smaller clients.

THREATS:

Vulnerability to Oil Price Swings: A key challenge for the company is the inherent volatility in bitumen prices. As a derivative of crude oil, bitumen's price fluctuates significantly. These sudden increases or decreases can impact our operating margins.

Substantial increase in its working capital requirements or large debt funded capex, weakening its liquidity and financial profile.

The company puts itself at a disadvantage by relying on just a few suppliers like [AGEE EXIM DMCC and PETRO ADDICHEM FZC] for a crucial raw material. This limits their bargaining power and could negatively impact their profitability if supplier prices increase. Even though they have good relationships with these suppliers currently, credit agencies will keep an eye on this situation.

Financial risk: The company is vulnerable to net cash accruals dipping below Rs.45 crore if revenue or profitability weakens.

FINANCIALS:

PROFIT & LOSS A/C

Narration	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Trailing	Best Case	Worst Case
Sales	**531.47**	**787.03**	**903.90**	**1,598.24**	**2,015.01**	**2,008.39**	**2,756**	**2,538**
Expenses	494.27	740.76	832.48	1,492.36	1,879.37	1,853.16	2,543.5	2,366.28
Operating Profit	**37.20**	**46.27**	**71.42**	**105.88**	**135.64**	**155.23**	**213.06**	**172.45**
EBITDA Margin	**7.00**	**5.88**	**7.90**	**6.62**	**6.73**	**7.73**	**7.73**	**6.79**
Other Income	0.75	2.77	1.60	3.75	9.07	4.01	-	-
Depreciation	8.36	8.96	14.45	19.73	22.69	26.56	26.56	26.56
Interest	9.33	8.99	9.88	12.36	12.26	15.80	15.80	15.80
Profit before tax	20.26	31.09	48.69	77.54	109.76	116.88	170.70	130.09
Tax	6.81	5.53	8.16	13.84	17.51	17.37	15%	15%
Net profit	**13.45**	**25.55**	**40.53**	**63.69**	**92.26**	**99.51**	**145.33**	**110.76**
EPS	13.06	24.81	39.35	48.25	61.51	66.53	97.16	74.05
Price to earning	12.17	1.79	4.04	13.98	9.26	12.85	12.85	9.01
Price	**158.95**	**44.45**	**158.80**	**674.50**	**569.55**	**854**	**1,248**	**667**

SALES, OPERATING MARGIN & PE TRENDS:

TRENDS:	10 YEARS	7 YEARS	5 YEARS	3 YEARS	RECENT	BEST	WORST
Sales Growth	30.67%	32.50%	37.23%	36.80%	26.08%	**36.80%**	**26.08%**
OPM	6.97%	6.92%	6.79%	6.93%	7.73%	**7.73%**	**6.79%**
Price to Earning	17.31	19.64	9.01	10.03	12.85	**12.85**	**9.01**

Financial Comparisons:

Particulars	Industry	AICL
PBV	2.81	2.74
Stock PE	12.2	17
Stock EV/EBITDA	8.85	
Stock Market Cap/Sales	**0.61**	
D/E Ratio	0.46	
ROCE	**23.60%**	
ROE	**26.20%**	

BALANCE SHEET

Narration	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
Equity Share Capital	10.26	10.26	10.26	13.21	14.96
Reserves	123.27	147.25	185.85	276.75	388.75
Borrowings	76.65	90.27	149.63	171.03	158.00
Other Liabilities	17.14	52.24	49.70	82.14	187.88
Total	**227.32**	**300.02**	**395.44**	**543.13**	**749.59**
Net Block	56.80	101.83	159.52	218.90	341.32
CWIP	0.52	3.33	0.76	2.87	6.95
Investments	9.38	6.79	6.06	12.49	25.67
Other Assets	160.62	188.07	229.10	308.87	375.65
Total	227.32	300.02	395.44	543.13	749.59
Working Capital	143.48	135.83	179.40	226.73	187.77
Debtors	113.13	137.89	134.86	161.21	193.55
Inventory	27.19	27.56	47.72	65.36	116.10
Debtor Days	77.69	63.95	54.46	36.82	35.06
Inventory Turnover	19.55	28.56	18.94	24.45	17.36
ROE (%)	**10%**	**16%**	**21%**	**22%**	**23%**
ROCE (%)	**14%**	**18%**	**20%**	**22%**	**24%**

CHART:

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Research Analyst

(CFA Level - 1)
