**ITEMS MARKED IN YELLOW ARE PART OF THE TEMPLATE, with Notes available in each section to support the information marked in Yellow**

**Company: Bharath Rasayan**

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| **Business Slotting** | | | | |
| R B2B  B2C  Asset Heavy  Asset Light  Intellectual Prop  Price Taker  Price Setter  Oligopoly  Monopoly/ Duopoly R Customer Capex Led | | | | |
| **Industry** R Tailwinds  Headwinds | | **Undervaluation**  Screaming R High  Fair  *13-14 PE. Business model improving with CAGR of 20-25% for 2-3 years. Next 3-4 years a complete different BR* | | |
| **Valuation Led by** R Earning Trajectory R Value Migration R Re-rating | | |
| **Elevator Pitch:**   * *Higher order chemistry skills 95% to 99% purity level (higher margins for higher purity levels)* * *Relationships with large Japanese Agrochem MNCs* * *Successful track record of scaling relationships e.g. Nissan JV* * *World Class Plant of 30 Acres – Design, EC, Hygienic, Innovative (Future ready)* * *Product Basket increased from 20-25 to 40-45 molecules*   *2 Certifications difficult target? (What certifications? Why difficult?)* | | **Operating Leverage led by**  R Gross Margin Q Asset Turns R Product Mix Q Technology  R Backward Integration  *NOTES:*   * *Absent Non 0.68*   *Intermediate plant 100 CV* | | |
| **Key Monitorables:**   * *Proportion of patented CRAMS to Sales* * *Export sales to other geographies* | | **Allocation:**  Strategic   * R 2-3x in 2-3 years * R 10x in 10 years   Q Opportunistic   * 50-100% POP   *NOTES:*   * Holding for 4 years (deep customer relationships) * *Nissan JV (inflection point)* | | |
| |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Business Attractiveness** | CS | H | M | L | | Strongly differentiated business model |  | ✓ |  |  | | Competitive Position getting stronger/weaker |  | ✓ |  |  | | Next level of the business |  | ✓ |  |  | | Value Migration curve |  | ✓ |  |  | | Quality of Earnings |  |  | ✓ |  | | Control over variables |  |  |  |  |   NOTES:   * High entry barrier * Strong competitive position Vis vis other patented CRAMS * FCF -ve offset key * EPA/Sales at 5% * ROE zero dilution * Nissan JV formation for next customers * Patented CRAMS scales up * CAPEX progress of Nissan JV (accelerated due to recent CV happening from 3 years diversifying from china to India) * Standalone business future expansion | |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Key Growth Drivers** | CS | H | M | L | | * CAP building JV (30% onwards) * Reduced China dependency 🡪 New Customers |  | ✓ | ✓ |  | | **Key Profitability Drivers** |  |  |  |  | | * Product mix (low margin to high margin support + patented CRAMS) * Backward integration to intermediaries * 50% dep China 30% * SEG DATA (Dom NON-CRAMS 30-40% MS) |  | ✓  ✓  ✓ | ✓ |  | | **Capital Intensity** |  |  |  |  | | * MNC sales requirement (china switch) * Low creditor days |  | ✓  ✓ |  |  |   *NOTES:*   * Capital Intensity   + Nature of business works to my advantage   + Higher discounts & supplier loyalty   + Fixed cap intensity 🡪 Higher GFAT 3.5-4X | | **Overhang:** Q PSU R Not Understood Q Sector Apathy Regulatory  Political R Corp. Governance Q Succession Planning R High Salaries  NOTES:   * CANT READ NOTES | |
| **Support**  Q Dividend Yield R Low Float  NOTES:   * 75% promoters * Nissan JV | |
| **Risk Covered in Multiples**  Q Everything R 20% Downside R 2-3x upside in 2-3 years  *NOTES:*   * *1.5 – 2X for standalone* | |
| |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Growth/Scalability** | CS | H | M | L | | Linear |  |  |  |  | | R Industry R Mkt. Share R Margins QPrice Increase |  |  |  |  | | Expansionary |  |  |  |  | | R Value Migration R New Geography Q New Revenue Stream |  |  |  |  | | **Business Model Vulnerability / Strengths**   * Single plant risk – till new expansion comes abent * Incidental that tech price increase (china factor) mitigated by structural * Sup prod cone <15% * Top product sales app. 60% * China dependency app. 30% | | **Liquidity Stress Test**  Can sit tight for 1-2 years, despite  R Execution Delay  R Business Temporary Issue  *NOTES:*   * *CANT READ NOTES* | |
| |  |  |  |  | | --- | --- | --- | --- | | **Management Quality** | H | M | L | | 🞏Special DNA of Business |  |  |  | | Cost Efficiency Focus |  | ✓ |  | | Production Efficiency | ✓ |  |  | | Capital Efficiency/Allocation |  |  | ✓ | | Innovation |  | ✓ |  | | New Revenue Stream/Geography |  | ✓ |  | | Value Chain Migration |  | ✓ |  | | Strategic Thinking | ✓ |  |  | | Ability to manage downturns | ✓ |  |  | | Walking the Talk |  |  |  |   *NOTES:*   * Low Creditor Days 🡨 Supplier Discounts * Low on V profit + high margin. Operates at 100% utilisation * Value Chain   + Plant Design   + Forward planning & Backward Integration ( Aspires to be like PI Industries)   + Relationship building | |  |  |  |  | | --- | --- | --- | --- | |  | H | M | L | | 🞏Execution Skills |  |  |  | | Workforce Handling | ✓ |  |  | | Customer Trust Win | ✓ |  |  | | Deeper/Broader customer penetration | ✓ |  |  | | Supply Chain Mgmt |  | ✓ |  | | 🞏Reputation |  |  |  | | Family Business | ✓ |  |  | | Minority Shareholder Treatment |  |  | ✓ | | Corp. Governance perceived |  |  | ✓ |   NOTES:   * Safety and employer trust * China sourcing / Domestic v. efficient * Adequate inventory * Very low dividends and information sharing | | | |  |  |  |  | | --- | --- | --- | --- | | **Risk / Mitigation** | H | M | L | |  |  |  |  | | Supply/demand disruption |  | ✓ |  | | Single point of failure | ✓ |  |  | | Environmental |  | ✓ |  | | Regulatory |  | ✓ |  | | Buyer |  |  | ✓ | | Competition |  |  | ✓ | | Sustainability |  |  |  |   *NOTES:*   * PHs in Designed China Zone |
| **Medium Term Visibility –** | | | | |
| **Earnings**   |  |  |  | | --- | --- | --- | | H | M | L | |  | ✓ |  |   R Capex Completion  R Order Book/Sales | **Margins**   |  |  |  | | --- | --- | --- | | H | M | L | | ✓ |  |  |   Q Pricing  Q Raw Material  R Employee Cost lower than sales  R Higher export sales | | | |  |  |  | | --- | --- | --- | | H | M | L | |  | ✓ |  |   **Capital Efficiency**  R Asset Turns  Q Capital Turns  R High working capital |
| *NOTES:*   * *Dahej Plant room for growth* * *420 CV Capex in JV over 2 years* | *NOTES:* | | | *NOTES:*   * *Asset Turns High* * *Capital Turns Low* |

**Financial Ratios**

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**NOTES:**

* EPA/Sales offset by high ROE (contributed by NM 6 🡪 11%)
* WCap/Sales 23 to 48% (2x) between 2014 and 2019
* Creditor days reduced from 38 to 16 days between 2014 and 2019
* FCF/Sales at -10% 🡪 Low quality earnings
* Huge GM (gross margin) reduction
  + Rise in Intermediaries
  + Raw Materials