**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**

|  |
| --- |
| **Business Slotting** |
| R B2B [ ]  B2C [x]  Asset Heavy [ ]  Asset Light [x]  Intellectual Prop [x]  Price Taker [x]  Price Setter [x]  Oligopoly [x]  Monopoly/ Duopoly R Customer Capex Led  |
| **Industry** R Tailwinds [x]  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)*
 |
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| --- | --- | --- | --- | --- |
| **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
 |

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| --- | --- | --- | --- | --- |
| **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 SalariesNOTES: * CANT READ NOTES
 |
| **Support**Q Dividend Yield R Low FloatNOTES:* 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*
 |
|

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| **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, despiteR Execution DelayR 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 CompletionR Order Book/Sales | **Margins**

|  |  |  |
| --- | --- | --- |
| H | M | L |
| ✓ |  |  |

Q PricingQ Raw MaterialR Employee Cost lower than salesR Higher export sales |

|  |  |  |
| --- | --- | --- |
| H | M | L |
|  | ✓ |  |

**Capital Efficiency**R Asset TurnsQ Capital TurnsR 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*
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**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