BHARAT RASAYAN LTD.

A Fundamental Story

by

Alok Daiya's Trading Desk

Report Date: 8/12/2020   Price: ₹10000.00

Recommendation Date : 9/11/2020

ABOUT THE COMPANY

- Monday, the 15th of May in 1989 is a Red-Letter Day in the annals of India's pesticides industry. It was on this day that three veteran entrepreneurs - Mr. Sat Narain Gupta, Mr. Mahabir Prasad Gupta and Mr. Rajender Prasad Gupta of Bharat Group set up the conglomerate's flagship company, Bharat Rasayan Ltd. (BRL) in New Delhi

- It was a backward integration project to manufacture Technical Grade Pesticides and Intermediates confirming to International Standards

- Right from Day-One, BRL has surged ahead to emerge as India's Numero Uno in agrochemicals industry

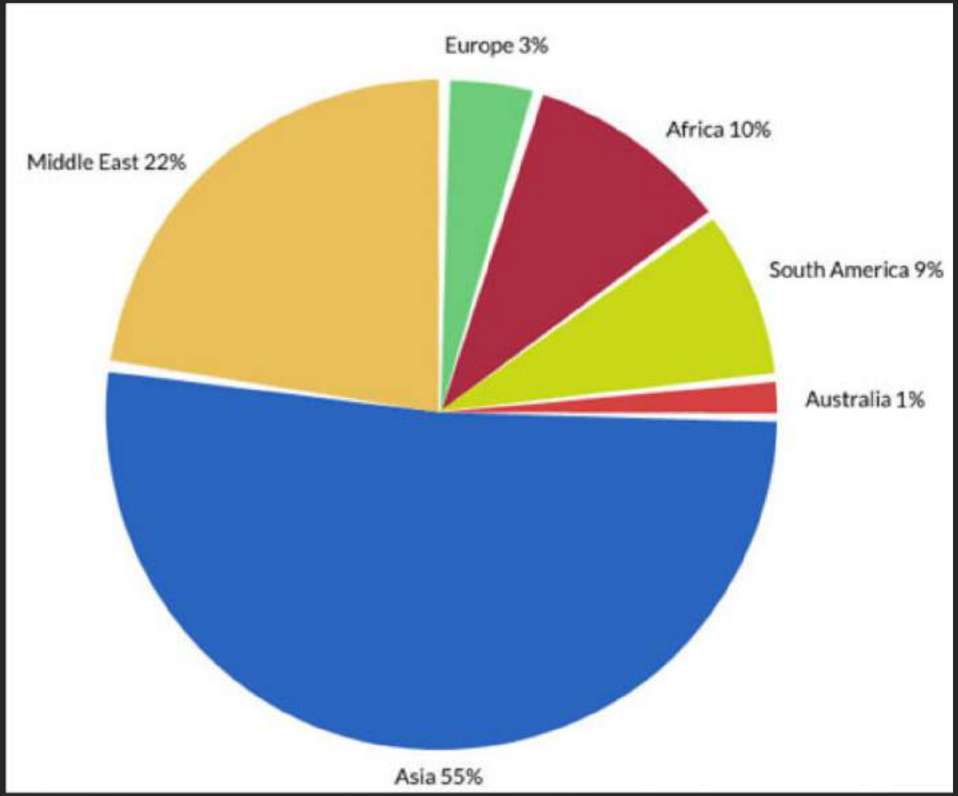
OPERATIONS

Domestic

- Bharat Group products are available to the farming community at their doorsteps through a network of 26 warehouses, 5500 distributors and many retailers
- The group's products are sold under the brand name Bharat and the branded sales account for more than 50% of the total sales. The domestic sales accounted for 70% of the total sales in FY14 (71% in FY13) and have an even distribution of regional sales

International

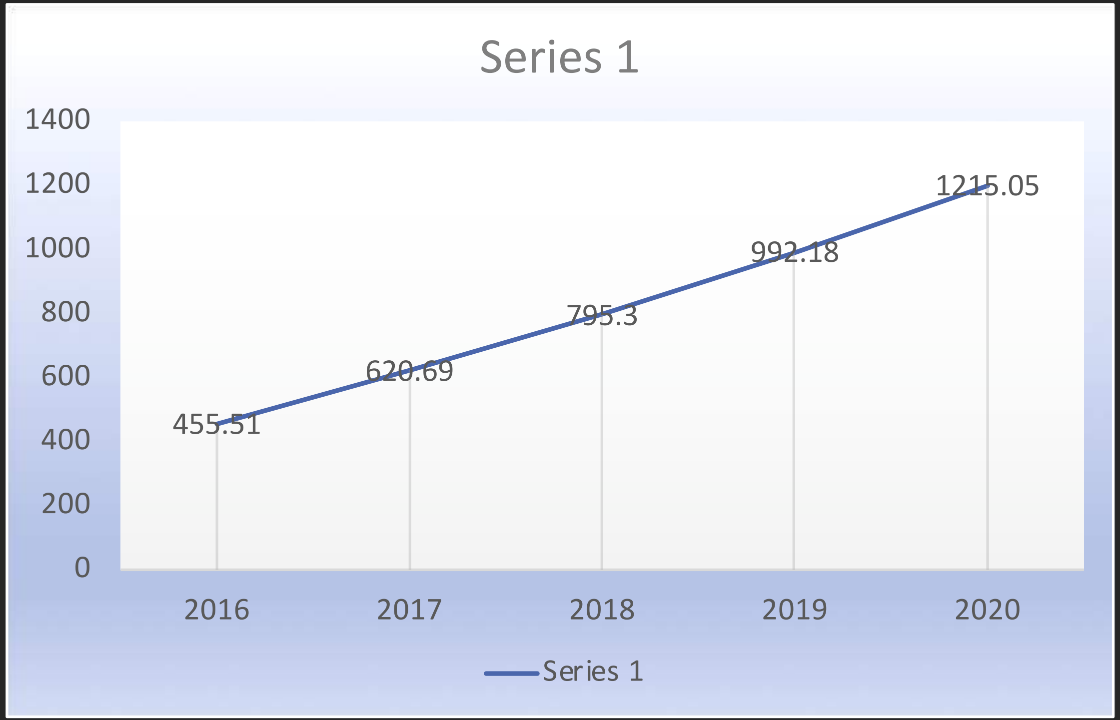
- Bharat Group is one of the leading manufacturers of pesticides and has strong presence in East Asia, followed by South America and Middle East. Bharat is a renowned exporter, offering a variety of technical grade pesticides, formulations & intermediates to more than 60 countries
- International Business generates approx. 30% of the revenue of Bharat Group



GROWTH

NET SALES

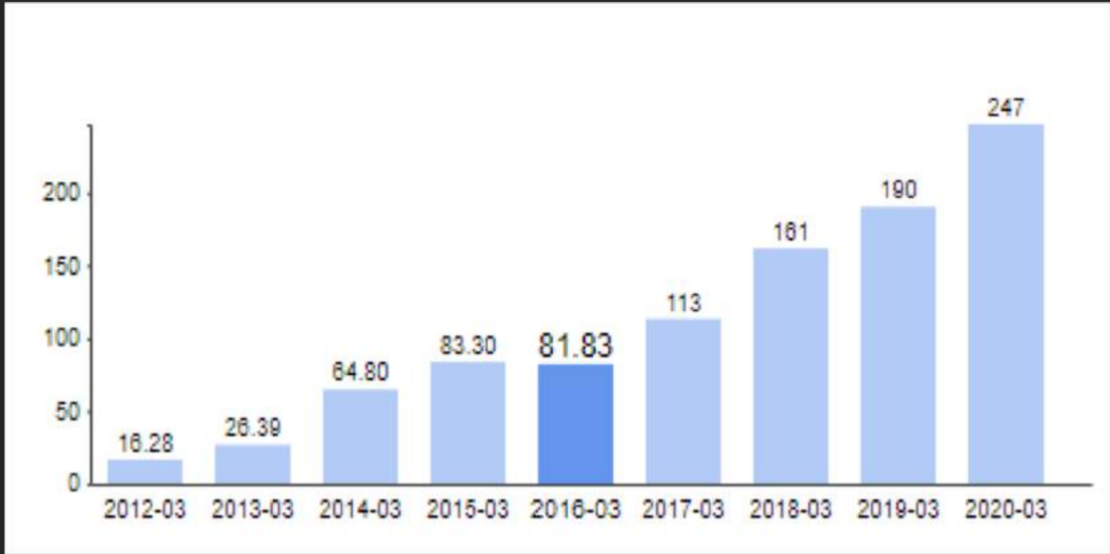
- Bharat Rasayan net sales have been steadily increasing from the year 2016 till now
- The last year sales growth is 22.46%. The average sales growth for last 3 years is 25.09%. Whereas the average sales growth for last 5 years is 22.6%. It shows a consistent growth
- However, in 2020, the sales growth didn't decline a lot even in the pandemic



GROWTH

*EBITDA

- The company has observed a significant growth in EBITDA over the years except in the FY2016, in which the EBITDA slightly dropped than the previous year
- The last 3 years has shown a very good growth in EBITDA
- Even in this pandemic the company's profitability remain constant in terms of growth



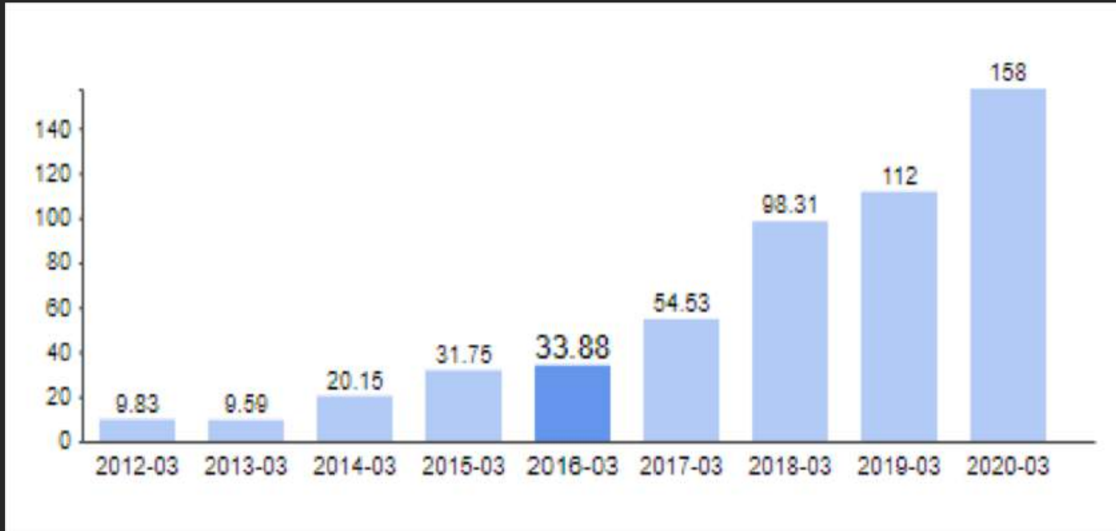
*EBITDA – Earnings before interest tax depreciation and amortization

GROWTH

*PAT

- PAT has also been increased throughout the years from last 8 years

- In 2017 it observed a boost in PAT growth and in last 3 years the PAT growth is very high



*PAT – Profit After Tax

GROWTH POTENTIAL PARAMETER

A POTENTIAL PARAMETER is a graded measurement of certain aspects of a company on a scale of 1 to 10, 10 denoting the highest rating. Since judgment on equity is subjective because different people will have different expectation from their investments, it is better to study each aspect and give an individual grading to arrive at the final evaluation of a stock.

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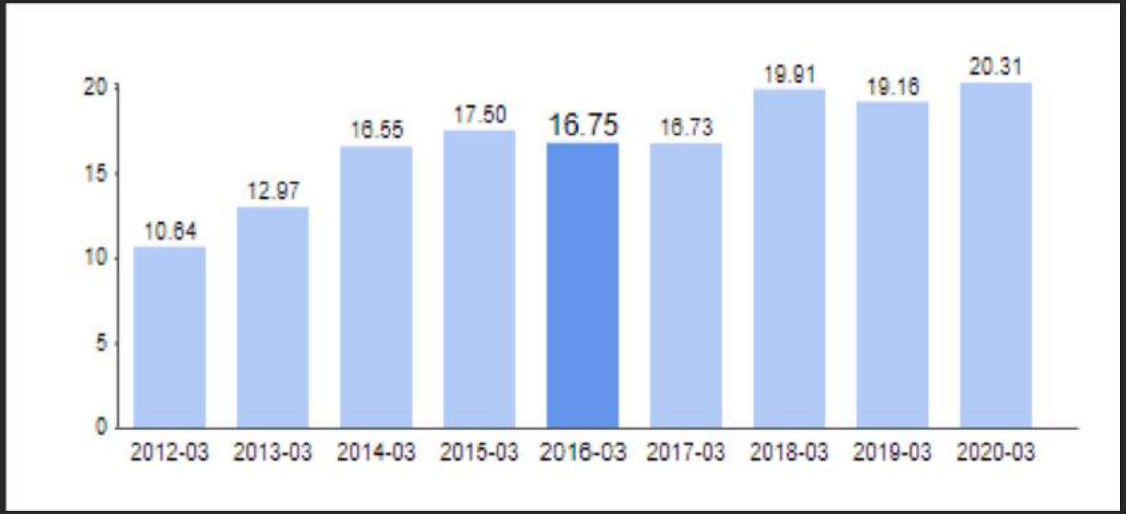
PROFITABILITY

EBITDA MARGIN

- EBITDA margin is also increasing YoY with increase in EBITDA
- There is a slight drop in the FY 2018-19 as the increase in expenditure was more than the increase in the revenue in that year
- The increase in EBIDTA margin is expected to follow the same trend in the FY2020 irrespective of the pandemic



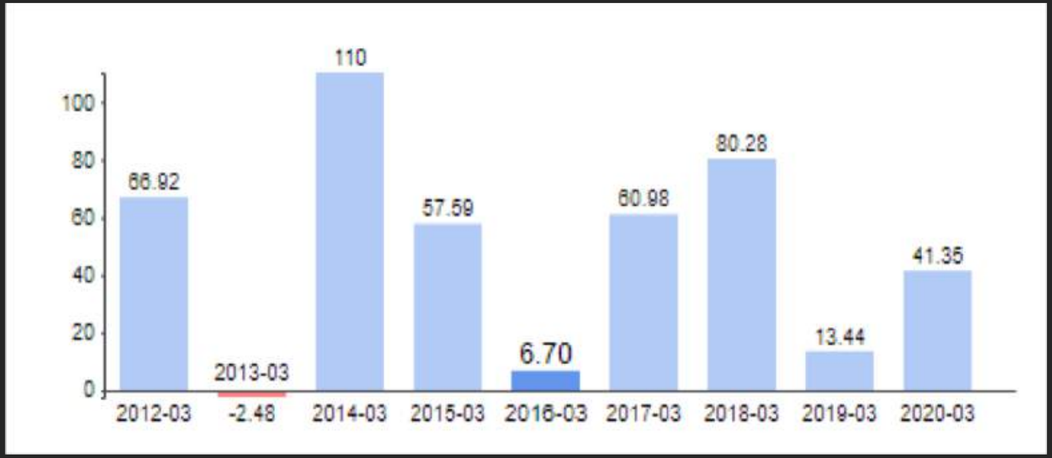
PROFITABILITY

NET PROFIT MARGIN

- Net profit margins (NPM) showed some inconsistent patterns throughout its operations

- The last 4 years have been averaging 18% OPM and a below par 7.3% NPM however, the NPM has grown from 5.1% in 2013 to 8.8% in 2017

- However, the OPM and the NPM have not been moving closely (as seen in the graph above). This is mainly due to an increase in the interest and depreciation cost of the company



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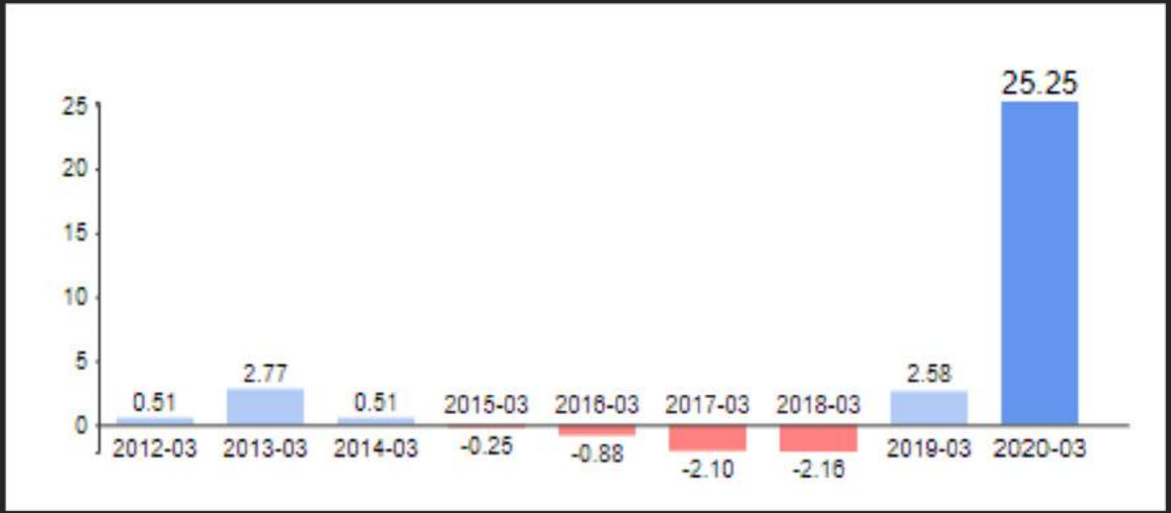
EFFICIENCY

CASH FLOW

- However, when seen on a year-to-year basis, CFO has been greater than the cos PAT most of the years. However, there was a sharp decrease in the CFO in 2017 due to an increase in the cos receivables and inventory in 2017

- In last 4 years cash flow from investments is decreasing, which means the company is increasing its investment activities

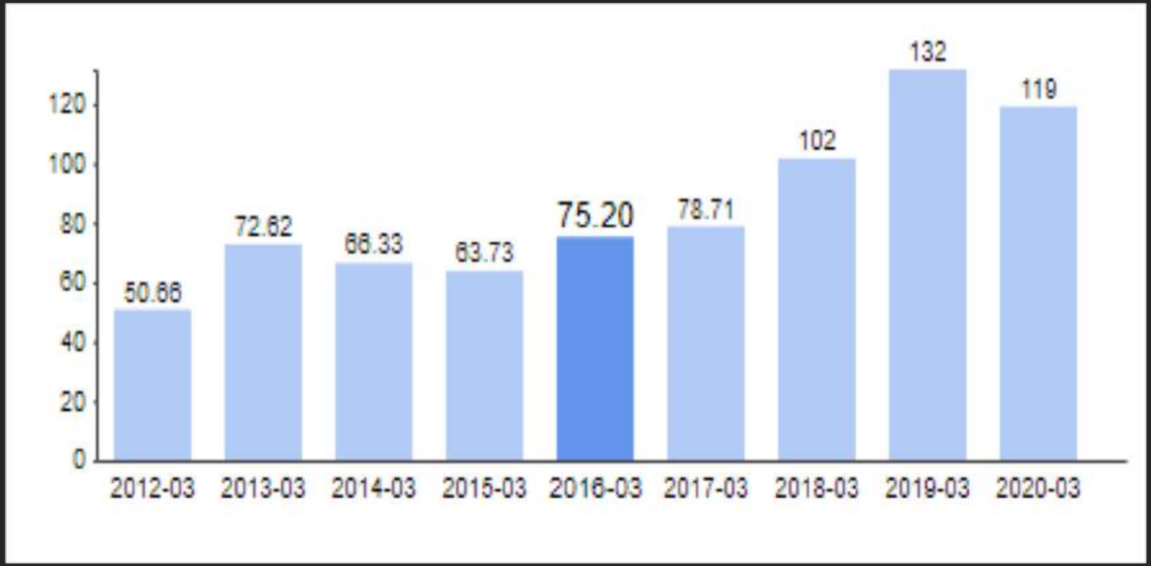


EFFICIENCY

Bharat RASAYAN LIMITED

WORKING CAPITAL CYCLE

- The working capital cycle of the company has been increasing as the company was increasing its credit period
- Though in the last FY the company was slightly affected due to the impact on the businesses due to lockdown



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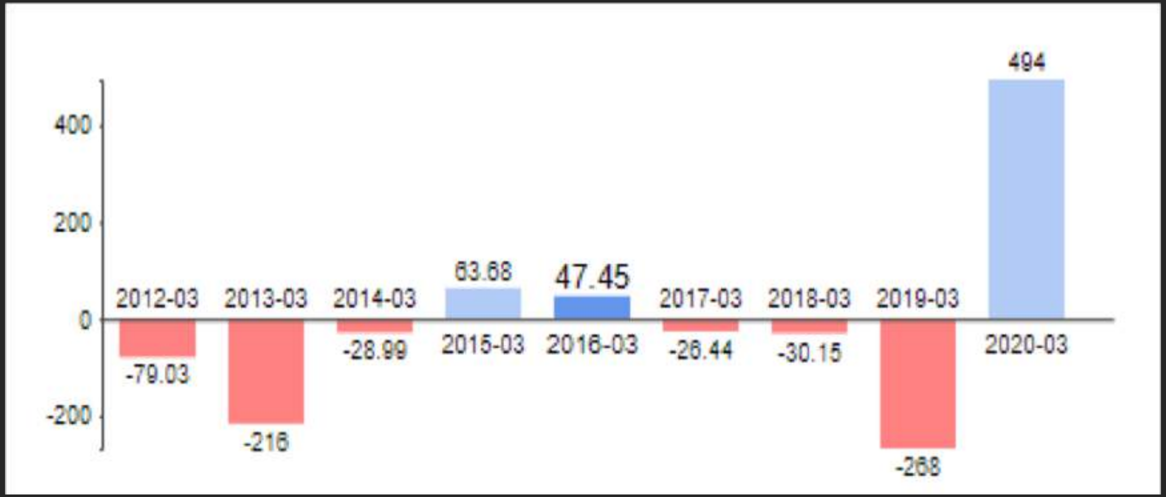
EFFICIENCY

FREE CASH FLOW

- The company had a negative FCF in 2012 and 2013 due to a new plant that was set up in Dahej in Gujarat
- Since then, the Company was able to generate positive FCF and then again, in 2017, the FCF deteriorated in 2017
- As previously noted, the negative CFO in FY17 was due to a higher receivable and inventory- This can be attributed to the seasonality of the business due to which it has to keep greater levels of inventory and give longer credit period to its consumers



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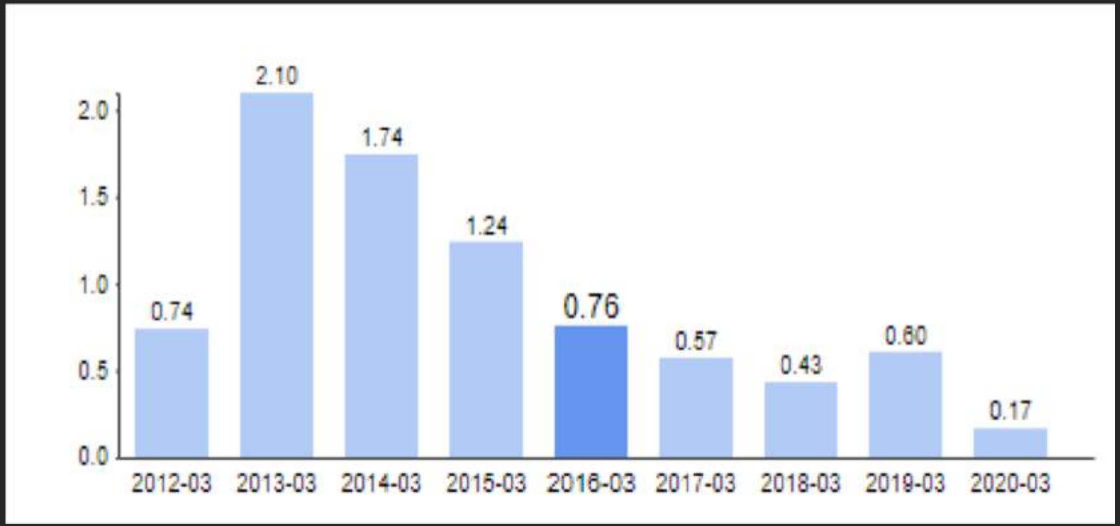
SOLVENCY

DEBT TO EQUITY

- The company has managed to decrease its Debt to Equity ratio from 2.1 in 2013 to 0.6 in 2017

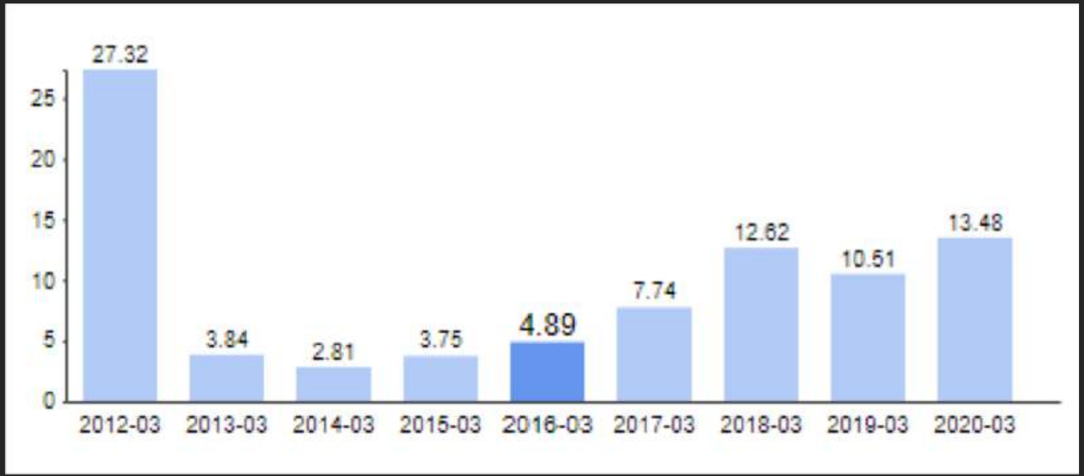
- The company had carried out a major capex in 212 and 2013 for which it had taken debt which increased the Debt to Equity ratio to 2.1



SOLVENCY

INTEREST COVERAGE

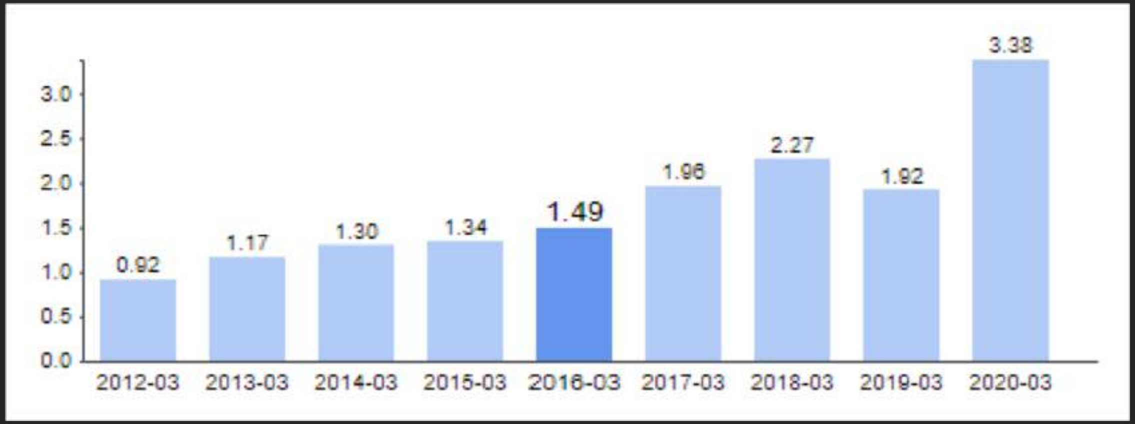
- In the year 2012, the interest coverage ratio was very high due to less amount of debt
- In the year 2013, with the amount of debt the interest coverage ratio declined
- The interest coverage of the firm has increased from 2.5 in FY2013 to 8.2 in FY2017



SOLVENCY

CURRENT RATIO

- The current ratio is also in an increasing trend since 2012
- It shows the effective use of working capital in the company
- It had a drop in the year 2018-19 and again had a boost in the year 2019-20



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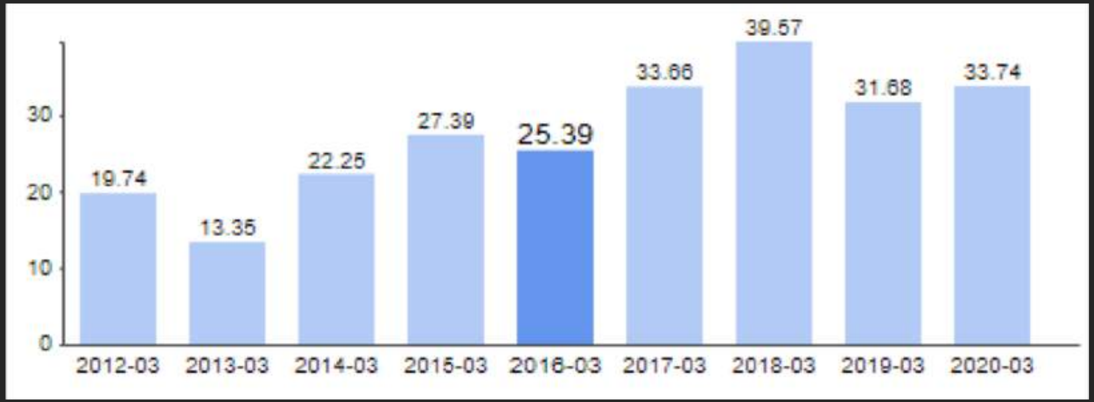
RETURN

*ROCE

- ROCE shows an increasing trend till 2018
- In 2018 slight drop in the ROCE is because of the capital investment in that year
- It again increased in the year 2019-20 by 6.52%

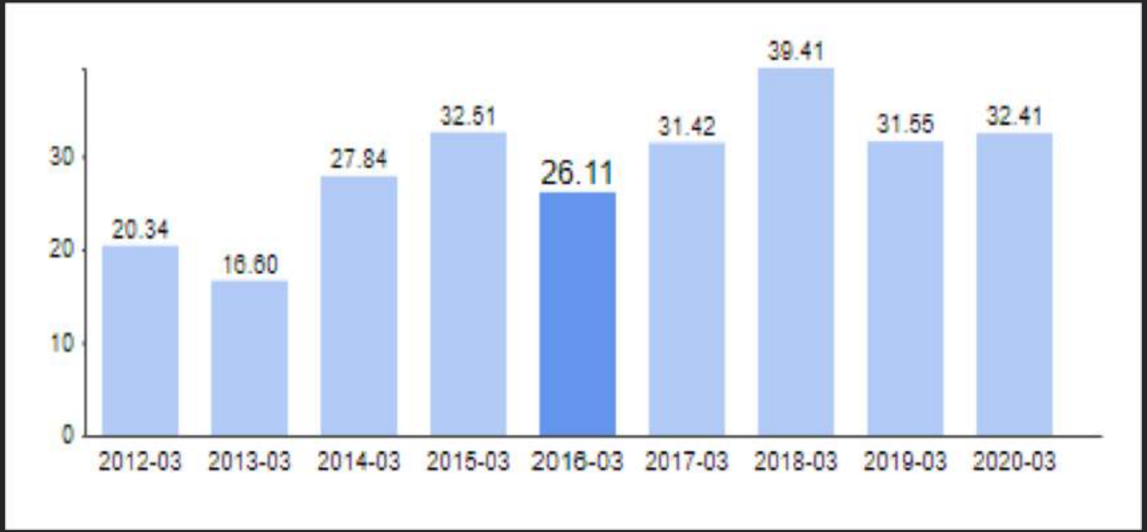


*ROCE – Return on Capital Employed

RETURN

*ROE

- ROE is quite fluctuating for this company over the years
- Initially it started increasing in the FY 2013 with the increase in debt
- Later the growth rate was stagnant with the increase in equity though the return increased YoY

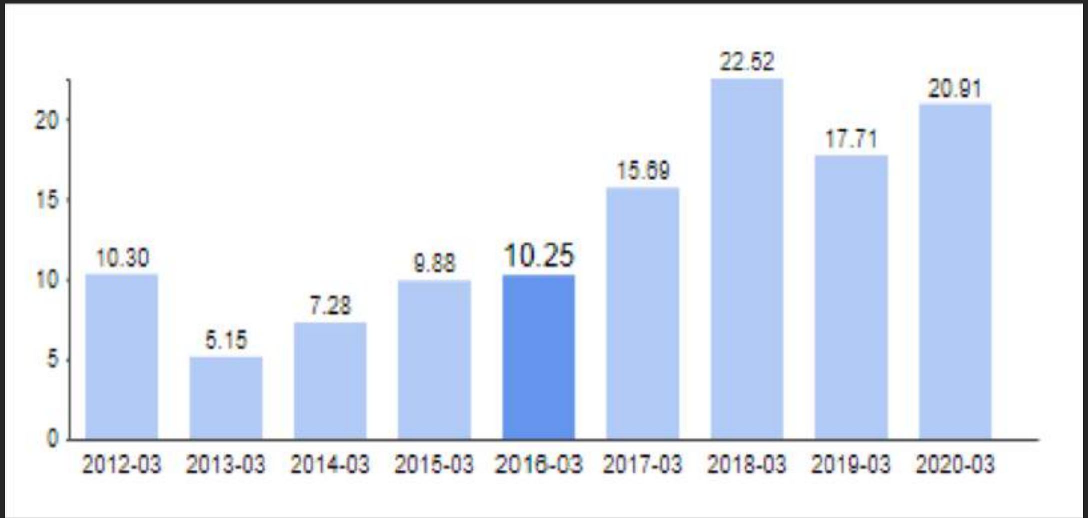


*ROE – Return on Equity

RETURN

*ROA

- There is a high drop in ROA because of the capex in the FY2012
- Another modern and larger plant, spread over 11 hectares (105,000 sq. m.) in the Chemical Approved Economic Zone at Dahej in Gujarat was set up to manufacture tech grade pesticides, intermediates, and bulk formulations. The Plant (Unit 2) worth $30 Mn was set up in 2012
- Then the ROA gradually increased with the efficiency of the plant



*ROA – Return on Assets

RETURN POTENTIAL PARAMETER

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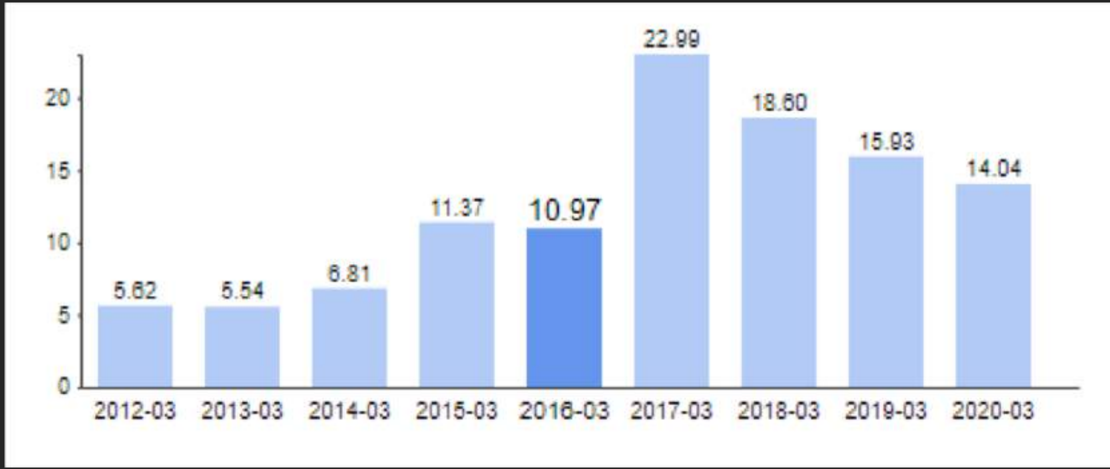
VALUATION

PRICE TO EARNINGS RATIO

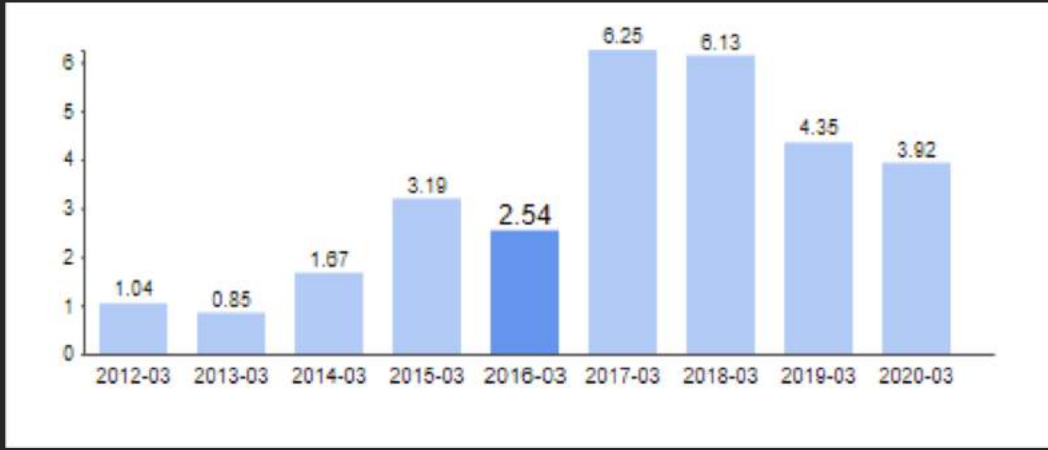
- The P/E ratio was increasing with the increase in price for the initial years
- Then in the last 4 years it started to decline due to the increase in earnings per share of the company
- A substantial increase in FY 2017 was found as a result the P/E ratio for the forth coming years declined



VALUATION

PRICE TO BOOK VALUE

- Price to BV ratio also got a boom with the increase in the price in the year 2016
- Gradually it started to decline with the increase in book value



VALUATION

DIVIDEND YIELD

- The company's dividend yield is very low
- Which shows that the company has a lot of growth opportunities in which it invests its earnings

Price to Book Value	6.19	Calculated using Price: 9393.6
Dividend Yield	0.02	Period Ending 2020-03
No. of Shares Subscribed	0.42 Cr.	4,248,740 Shares
FaceValue	10	

VALUATION POTENTIAL PARAMETER

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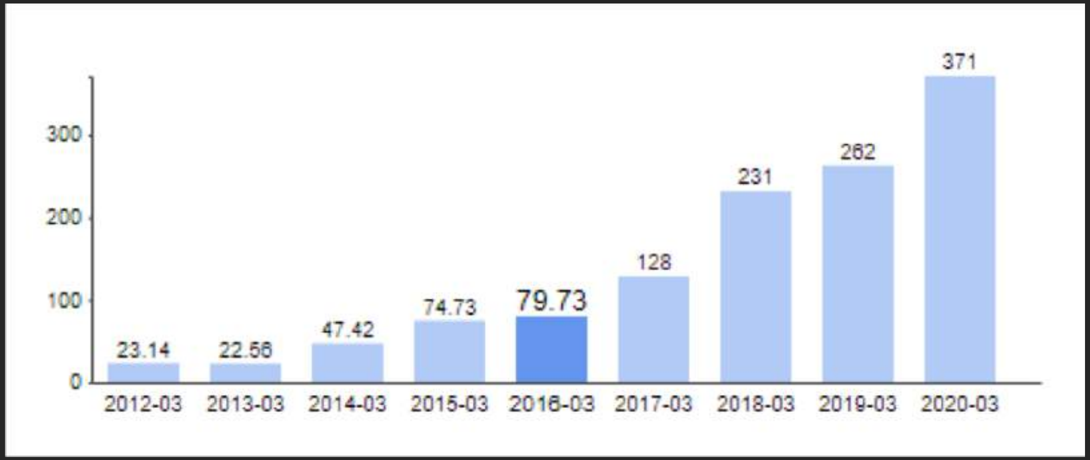
PER SHARE RATIOS

BASIC EPS

- The EPS was growing steadily for the initial 5-6 years then it took a boom in the FY2017



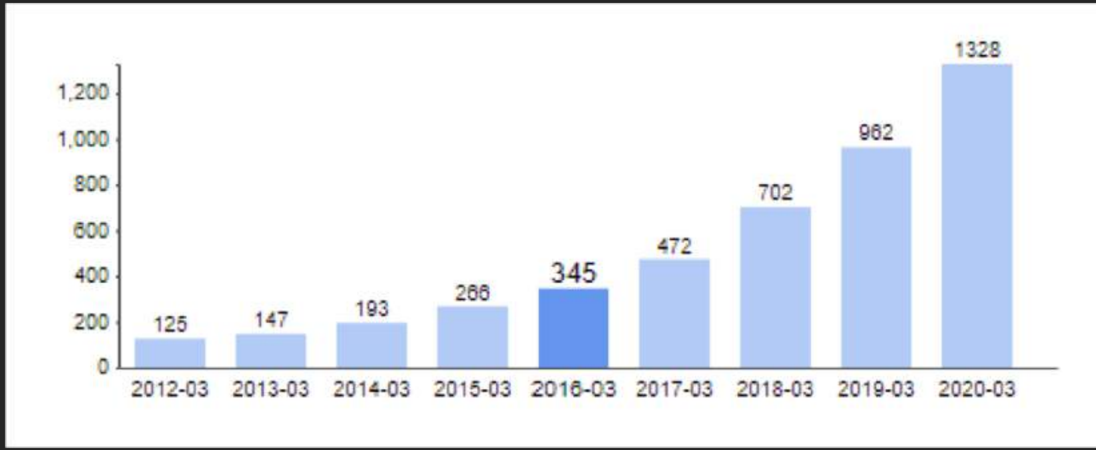
- The increasing trend in EPS with increase in shares is a good sign for the company

PER SHARE RATIOS

BOOK VALUE/SHARE

- As the EPS the book value is also observed to increase steadily over the years

- The growth rate of the BV/share is also in an increasing trend YoY



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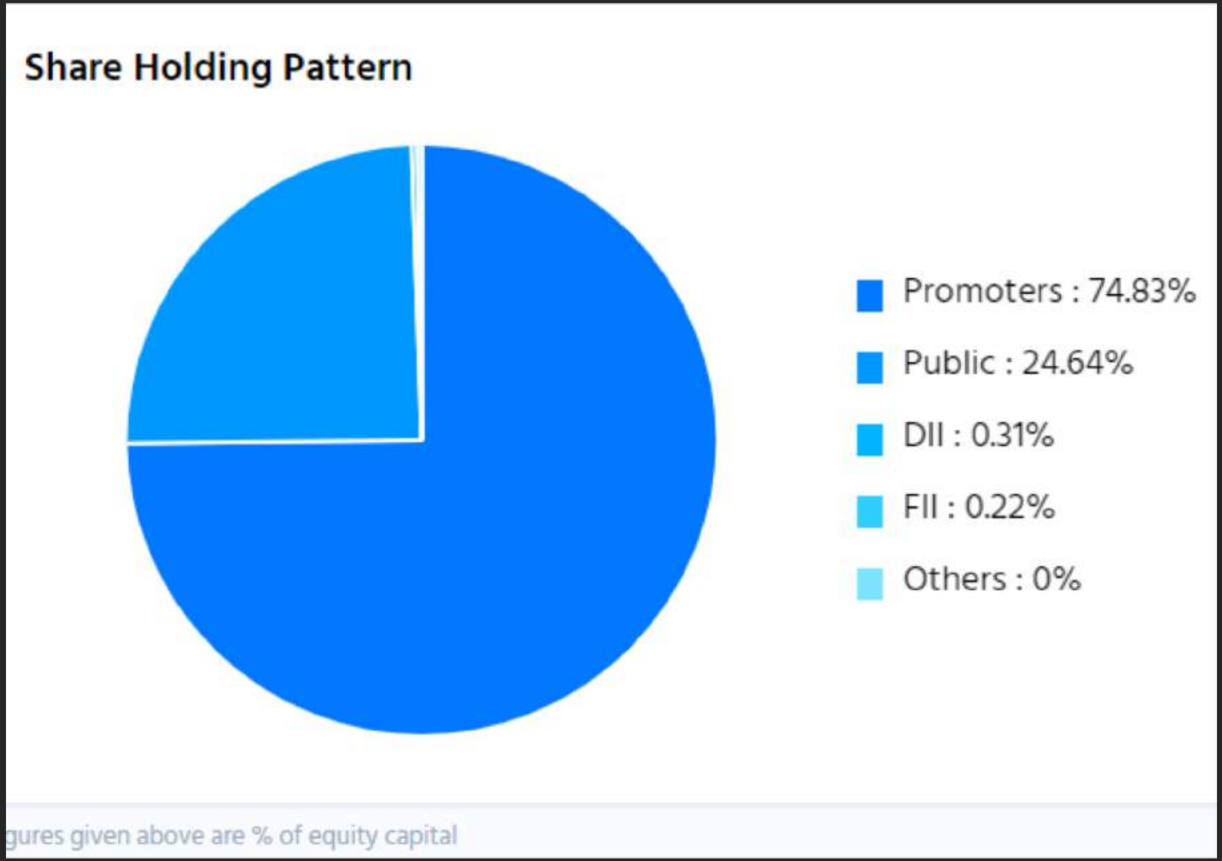
QUALITY

SHAREHOLDING PATTERN

- Promoters holding has been consistently more than 70% over the years
- It shows that the promoters have faith in the company's performance and growth in the future
- Promoter's pledge is also negligible through out the years
- Which shows the quality of the share holding is decent



QUALITY

SECTOR POTENTIAL

- The pesticide industry is working capital intensive
- Due to seasonal nature of the business and the uncertainties related to timing and coverage of monsoon, level of pest infestation etc, the level of inventories the companies need to stock is large
- Further, the industry needs to offer long credit periods to farmers due to intense competition and low offtake
- As, pesticides are the last input in the agricultural operation, after having invested in seeds and fertilizers, farmers have little surplus money left for purchasing pesticides and therefore, providing long credit is necessary to stimulate the demand

QUALITY

FUTURE PROSPECTS

- Many companies in India couldn't perform as expected in 2014-15 due to unfavourable monsoon
- This was not the case with Bharat Group who achieved 25- 30% growth to $165 million in sales
- The co attributes this growth to their consistent pursuit of quality and business ethics "BRSN could outperform the competition mainly on the strength of its working systems and professionalism," said Mr. Gupta
- BRSN plants had a near zero down time, considerably reduced manufacturing losses and improved operational efficiency
- All the above initiatives coupled with agility in decision making enabled BRSN to offer right price at right time in a short active selling season. Also, BRL is always committed to add new products in its pipeline

QUALITY POTENTIAL PARAMETER

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POTENTIAL PARAMETER

8 Potential Parameters	Score
Growth	9
Profitability	7
Efficiency	6
Solvency	8
Return	7
Valuation	8
Per Share Basis	8
Quality	9
TOTAL	62

Would suggest a BUY call for Bharat Rasayan Ltd. The company has shown a good profit growth of 42.45% for the Past 3 years. The company has shown a good revenue growth of 25.09% for the Past 3 years. The company has significantly decreased its debt by 153.14 Cr. Company has been maintaining healthy ROE of 34.45% over the past 3 years. Company has been maintaining healthy ROCE of 35.00% over the past 3 years. Company has a healthy Interest coverage ratio of 13.48. Also looking at the future growth potentials of the company it is expected to give a steady return in long term.

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