Bhansali Engineering Polymers Ltd.

Small/Midcap Funda Momentum Picks

Medium to High risk

Key points:

- These picks are based on fundamentals and issued when momentum is seen in them. These stocks may not have enough liquidity and depth and may go from circuit to circuit (either up or down).
- Small allocation of investible surplus may be put in such stocks and spread your surplus among several such stocks.
- Once the risk appetite in the market reduces, such stocks could face the pressure of selling irrespective of fundamentals or valuations.
- Entry and exit into these stocks have to be carefully timed.
- These stocks have inherent value in them and their expected rate of growth could be faster than their peers. Their current valuations may not

09-Aug-2021

RETAIL RESEARCH

Bhansali Engineering Polymers Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Red flag level*	Time Horizon
Specialty Chemicals	Rs.201.6	Buy in the 199-204 band and add more at Rs.184	Rs.233	Rs.258	Rs.172	1- 2 quarters

*Investor may sell 60-65% of their holding on first target being achieved and later keep a stop loss of first target for balance holding, in case the second target takes time to be achieved. Investor may also maintain Rs.172 as red flag level below which investment position needs to be reviewed, including the possibility to exit

HDFC Scrip Code	BHAENGEQNR
BSE Code	500052
NSE Code	BEPL
Bloomberg	BEPL IN
CMP Aug 6, 2021	201.6
Equity Capital (Rs cr)	16.6
Face Value (Re)	1
Equity Share O/S (cr)	16.6
Market Cap (Rs cr)	3,343.8
Book Value (Rs)	41
Avg. 52 Wk Volumes	1537757
52 Week High	209.5
52 Week Low	41.85

Share holding Pattern % (Jun, 2021)	
Promoters	56.45
Institutions	2.57
Non Institutions	40.98
Total	100.0

Retail Research Risk Rating:

	Blue*	

*** Refer at the end for explanation on Risk Ratings**

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Our Take:

Incorporated in 1986, Bhansali Engineering Polymers Ltd (BEPL) is engaged in manufacturing and sale ABS (Acrylonitrile Butadiene Styrene) and Styrene-acrylonitrile (SAN) resins which find application in Automobiles, Home Appliances, Electronics, Healthcare and Kitchenware. The company has formed a JV with Nippon A&L Inc., Japan (NAL) which provides sales and technical support. Domestic ABS market has duopoly situation with strong entry barriers. India provides long term growth opportunities for the end user industry i.e. auto and consumer durables, which provided visibility for the demand of the company's products. BEPL has strong fundamentals. It is debt free and average of last three year's ROE stood at 39.8%. It has been constantly paying dividend to its shareholders since last 11 years.

The key risks for the company are volatility in the prices of crude-linked raw materials and foreign exchange fluctuations. Further, any slowdown in end user industry or high competition from domestic or foreign players might impact the business growth.

Valuations & Recommendation:

Management believes that post a dull Q1FY22, there will be sharp bounce back in products demand and they will try to achieve maximum capacity utilisation levels for the year. We expect that the company might have to incur capex in near term. We have envisaged 11% CAGR in revenue, 10% CAGR in EBITDA and 10% CAGR in net profit over FY21-23E. Return ratios are estimated to remain well above the 33% mark. There is an upside possible in these estimates, if the accumulated finished goods inventory in Q1FY22 is liquidated soon (in Q2FY22).

Even after strong re-rating of whole chemical industry, the stock is trading at cheap valuation of 10x FY23E earnings. We believe that investors can buy BEPL in the 199-204 band (7.5xFY23E P/E) and add more at Rs.184 (7.5xFY23E P/E) for the base case fair value of Rs.233 (9.5xFY23E P/E) and for the bull case fair value of Rs.258 (10.5xFY23E P/E) over the next two quarters.

Financial Summary

Particulars (Rs cr)	Q1FY22	Q1FY21	YoY-%	Q4FY21	QoQ-%	FY18	FY19	FY20	FY21
Total Income	232	99	134	473	-51	1045	1232	1110	1302
EBITDA	101	-3	LP	219	-54	168	86	92	457
RPAT	77	-1	LP	163	-53	100	47	67	333
EPS						6.0	2.9	4.0	20.1
RoE						38.9	17.0	20.5	64.4
RoCE						59.0	24.3	22.0	63.6
P/E						33.5	70.9	50.0	10.0
P/BV						13.0	11.2	9.4	4.9

(Source: Company, HDFC sec)

Q1FY22 result update

On a consolidated basis the company has reported revenue at Rs.231.91 Cr up 134% YoY and down 51% QoQ. Net profit for the quarter came at Rs.77 Cr as against loss of Rs.1 Cr in Q1FY21. In Q4FY21 the company had reported profit of Rs.163 Cr. EBITDA margin stood at 43% compared to 46% QoQ and EBITDA loss in last year same quarter. The company has reported EPS of Rs.4.66 for the period ended June 30, 2021, as compared to Rs. (0.08) for the period ended June 30, 2020.

The management has informed that demand for the company's products in the domestic market during Q1FY22 was sluggish due to lockdown imposed by various States in view of the second wave of the COVID-19 Pandemic. The production during the quarter continued at normal capacity levels, however, the dispatches were to the tune of 50% of the production levels, resulting into building up of additional Inventories. Further, the Company anticipates bounce back in products demand. The company will endeavour to achieve maximum capacity utilisation levels for the year.

Triggers

Technical Collaboration with foreign partner

The Company had entered into a 50 : 50 Joint Venture Agreement with Nippon A&L Inc., Japan (NAL) and incorporated a Joint Venture Company namely Bhansali Nippon A&L Private Limited which provides sales support and technical support to the Company. This JV has enabled the company in catering the growing demand of ABS resins, ASA resins, AES resins and other specialty polymers. Nippon A&L Inc.

was established in 1999 as a JV between Sumitomo Group and Mitsui Chemicals, which focused on polymerisation of Styrenics and enjoys high reputation in the field of manufacturing and marketing of ABS, AES, ASA resins and SBR/PBRLatices. Technical expertise, as and when required, is deployed from NAL Japan, in the purview of the JV between the company and NAL. With the help of the technical support BEPL has developed several new ABS grades and going ahead also the company believes that they will continue adding new SKUs to its product portfolio.

Duopoly market with strong entry barriers

Indian ABS market has duopoly situation with only two players BEPL and INEOS, while the rest of the market demand has been catered through imports. Despite the availability of a market in India, global players find it difficult to meet the demand of the Indian market as the scale of operation is not favorable. Further, every segment requires a different colour and performance specification so manufacturing such a wide variety of colours requires a strong balance between investment and sectional capacity utilisation. Need for high grade technology is another strong entry barrier. Both these domestic companies have technical collaboration with foreign partners and have long standing relationships with end user industry. The market is niche which acts as a natural entry barrier for the new players.

End user industry trend and opportunities

The Indian automotive industry is undergoing significant transformation, with respect to its sustainable growth and profitability. The industry is witnessing megatrends that are expected to transform the industry in a significant way. Rapidly evolving customer needs, disruptive impact of technology, a dynamic regulatory environment, changing mobility patterns etc. are impacting the way auto companies are doing business in India as well as abroad.

The industry now aspires to double its contribution to manufacturing GDP with a four-fold growth in size and a six-fold growth in exports by 2026. These bold aspirations, along with the trends shaping the industry, create new opportunities in the years ahead.

India is becoming a global manufacturing hub of two wheelers as well as four wheelers. As a result of which, international giants in the automotive field, viz. Suzuki, Hyundai, Honda, Toyota, Volkswagen, General Motors, Ford, Nissan, Renault, Fiat have established their respective manufacturing facilities in India, with growing degree of indigenization of its components. For components manufactured out of ABS, BEPL’s presence is well registered with all such international giants.

Indian appliance and consumer electronics (ACE) market is expected to double by 2025 according to Indian Consumer Durable Report. There is immense scope for growth of these products in India as the penetration level is immensely low as compared to global average. Demand for consumer electronic goods is likely to witness an increase in the coming years, especially in the rural areas as the Government plans to invest significantly in rural electrification, supplemented by rising influence of social mass media and the popularity of online sales. The Government of India’s policies and regulatory frameworks, such as relaxation of license rules and approval of 51% Foreign Direct Investment (FDI) in multi-brand and 100% in single-brand retail, are some of the major growth drivers for the consumer market. The Production-Linked Incentive (PLI) scheme in 10 key sectors (including electronics and white goods) shall boost India’s manufacturing capabilities, exports and promote the ‘Atmanirbhar Bharat’ initiative.

Near-term outlook for Appliances and Consumer Electronics (ACE): Pent-up demand (most seasonal categories missed out massively in the previous two seasons), work-from-home (to support convenience driven categories), improving housing activities, and resumption of Capex will sustain strong revenue traction in the coming quarters too.

Strong fundamentals

Revenue Break Up: The company deals with single business segment viz. ABS and SAN polymers with trading in styrene. Acrylonitrile Butadiene Styrene (ABS) contributes 71% to total revenue while other than plastic granules (SAN) contributes 29% in FY21.

The company has delivered strong 20% CAGR growth in revenue and 59% in operating profit over past five years.

Debt Profile: The Company has zero debt on the balance sheet; so in the case of capital requirement for capex need it would be easier to get loans. Further, the management has indicated that the company would be able to sustain its business operations through internal accruals. In the past history also the management has remained averse to borrowing and tried to fund lager part of capex via internal accruals.

Since the capacity utilization is running at full level we expect that the company could consider capex plan for expanding capacity. The Company was continuously endeavouring its best to identify the suitable Land parcel for future Green Field Port based Expansion. The Company may re-think to carry out the future expansion at its existing Plant located at Satnoor (Madhya Pradesh) and Abu Road (Rajasthan), if the availability of the suitable Land parcel at PORT based location is delayed.

Return ratios: BEPL has strong track record of delivering a good return on equity (ROE). The average of last three years' ROE stood at 34%. The ROE and ROCE for FY21 stood at north of 60%.

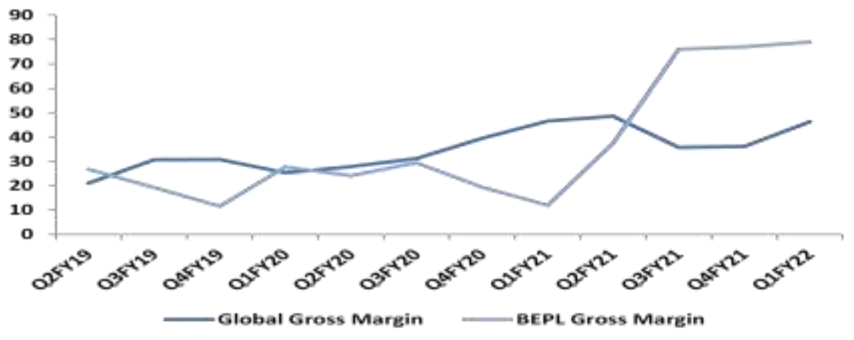
The company has been constantly paying dividend to its shareholders since last 11 years.

Margin trend: The Operating Profit Margin for FY21 stood at 34.4% as compared to 8.4% for FY20 and Net Profit Margin for FY21 stood at 25.8% as compared to 6.1% for FY20. The major reason for the drastic margin improvement was lesser supply from the foreign players to India and inventory gains in a rising price environment.

The key raw materials used for making ABS are Acrylonitrile, Butadiene and Styrene. In addition to these several additives and pigments are used. The key chemicals are largely imported as there are no domestic producers in India. Furthermore, because they are crude derivatives, the prices remain volatile. BEPL sells some imported raw materials in the domestic market depending on the minimum import quantity, demand in the local markets and the price trends.

Below is the chart to understand the co-relation between tentative global gross margin on the basis of global prices and actual gross margin of BEPL. Note that FY20 was exceptional year; due to Covid-19, there were supply as well as demand disruptions.

Margin Trend%



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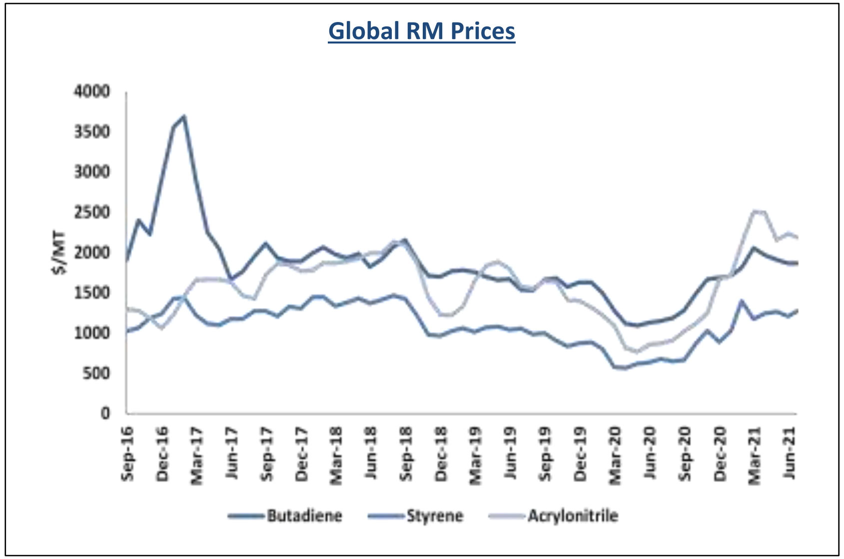
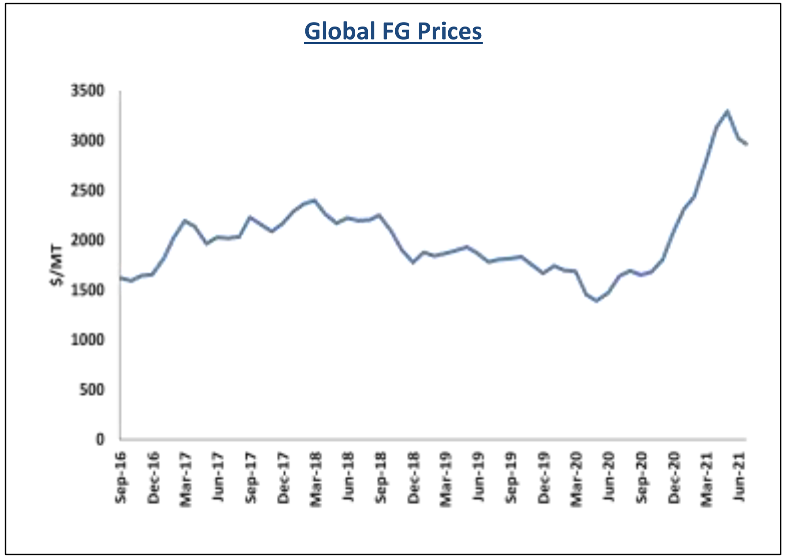




(Source: Company, Bloomberg, HDFC sec Research)

Concerns

Competition

India has only two players manufacturing ABS and rest of the market demand has been catered through imports. Both these domestic players have some competitive edge over imports. However, the dumping of product at lower prices by other countries remains a key monitorable.

BEPL is also exposed to risk of increased competition from INEOS. If the other player expands the capacity and starts selling the product at lower prices, the company may have to face margin pressure.

Volatility of RM prices and currency fluctuation

The key risks for the company are volatility in the prices of crude-linked raw materials and foreign exchange fluctuations. Acrylonitrile, Butadiene and Styrene are the three major raw materials used in the manufacturing of ABS and SAN. These are crude derivatives and the prices are linked with global markets, which make their price volatile. Most of these chemicals are imported,which raises the risk of foreign exchange rate fluctuation risk. In last one year the company has benefited from higher realizations in finished products which might not continue in future resulting in volatility and decline in operating performance of the company.

Slowdown in end user industry

Auto and consumer durables manufactures are the customers of the company. Any slowdown in the demand for the product of these sectors will impact the sales of company. Economic slowdown due to COVID-19 had impacted the sales of Vehicles and consumer durables significantly in FY21 and the same pressure had to be faced by the company because of lesser demand from manufacturers. Further the pace of the volume growth from these industries will be a key monitorable.

Company Background:

Incorporated in 1986, Bhansali Engineering Polymers Ltd (BEPL) is engaged in manufacturing and sale ABS (Acrylonitrile Butadiene Styrene) and Styrene-acrylonitrile (SAN) resins which are classified under the category of Highly Specialized Engineering Thermoplastics. Its customers include leading companies dealing in Automobiles, Home Appliances, Electronics, Healthcare and Kitchenware. The Company had entered into a 50:50 JV with Nippon A&L Inc., Japan (NAL) to provide sales support and technical support. The manufacturing facilities of the company are located at Abu Road, Rajasthan and Satnoor, Madhya Pradesh. It has manufacturing capacity of 137 KTPA of ABS.

Bhansali Engineering Polymers Ltd.

Financials

Income Statement

(Rs Cr)	FY18	FY19	FY20	FY21
Total Income	**1045**	**1232**	**1110**	**1302**
Growth (%)	64.7	17.8	-9.9	17.3
Operating Expenses	877	1146	1018	845
EBITDA	**168**	**86**	**92**	**457**
Growth (%)	133.6	-48.9	7.4	395.2
EBITDA Margin (%)	**16.3**	**7.0**	**8.4**	**35.4**
Depreciation	6.1	7.3	9.5	10.2
EBIT	**162**	**79**	**83**	**447**
Finance cost	7.7	1.2	0.1	0.6
PBT	154	77	83	446
Tax	54.7	30.8	15.8	112.6
PAT	**99.6**	**46.5**	**66.8**	**333.4**
EPS	**6.0**	**2.9**	**4.0**	**20.1**

Balance Sheet

(Rs cr)	FY18	FY19	FY20	FY21
SOURCE OF FUNDS				
Share Capital	16.6	16.6	16.6	16.6
Reserves	241	282	340	665
Shareholders' Funds	257	299	356	681
Long-Term Borrowings	0	0	0	0
Other non-Current Liab & Provisions	17	25	21	21
Total Source of Funds	**275**	**324**	**377**	**703**
APPLICATION OF FUNDS				
Net Block	107	144	150	141
Capital Work-in-Progress	6	0	2	0
Non-Current Investments	1	1	2	2
Deferred Tax Assets (net)	2	0	0	0
Long Term Loans & Advances	2	3	26	29
Total Non-Current Assets	118	148	179	172
Short-Term Loans and Advances	9	30	48	48
Inventories	80	100	208	113
Trade Receivables	185	224	154	291
Cash & Equivalents	32	24	63	153
Other Current Assets	0	2	1	0
Total Current Assets	307	380	474	605
Trade Payables	126	194	272	36
Other Current Liab & Provisions	25	10	4	38
Total Current Liabilities	151	205	276	75
Net Current Assets	156	176	198	531
Total Application of Funds	**275**	**324**	**377**	**703**

Bhansali Engineering Polymers Ltd.

Cash Flow Statement

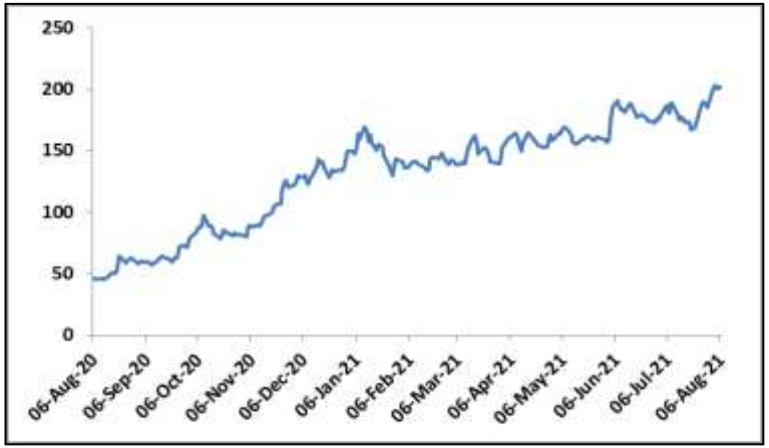
(Rs Cr)	FY18	FY19	FY20	FY21
Reported PBT	155	78	83	446
Non-operating & EO items	243	462	636	-194
Interest Expenses	8	1	0	1
Depreciation	6	7	10	10
Working Capital Change	52	-68	-199	-52
Tax Paid	-55	-31	-16	-113
OPERATING CASH FLOW (a)	**410**	**450**	**513**	**99**
Capex	-14	-70	-40	1
Free Cash Flow	395	380	473	100
Investments	-3	0	-23	-3
Non-operating income	14	7	6	10
INVESTING CASH FLOW (b)	**-4**	**-63**	**-57**	**8**
Debt Issuance / (Repaid)	0	0	0	0
Interest Expenses	-7.7	-1.2	-0.1	-0.6
FCFE	387.5	378. 5	472. 5	99.6
Share Capital Issuance	0	0	0	0
Dividend	-4.9	-8.3	-8.3	-16.6
FINANCING CASH FLOW (c)	**-12.7**	**-9.5**	**-8.4**	**-17.2**
NET CASH FLOW (a+b+c)	**392.8**	**377.6**	**447.0**	**89.8**

Key Ratios

	FY18	FY19	FY20	FY21
Profitability (%)				
EBITDA Margin	16.3	7.0	8.4	35.4
EBIT Margin	15.7	6.4	7.5	34.6
APAT Margin	9.7	3.9	6.1	25.8
RoE	38.9	17.0	20.5	64.4
RoCE	59.0	24.3	22.0	63.6
Solvency Ratio				
D/E	0.0	0.0	0.0	0.0
Net D/E	-0.1	-0.1	-0.2	-0.2
PER SHARE DATA				
EPS	6.0	2.9	4.0	20.1
BV	16	18	21	41
Dividend	0.3	0.5	0.5	1.0
Turnover Ratios (days)				
Debtor days	65.6	66.7	50.8	82.1
Inventory days	28.3	29.8	68.9	31.9
Creditors days	77.8	101.6	167.7	27.4
VALUATION				
P/E	33.5	70.9	50.0	10.0
Dividend Yield	0.1	0.2	0.2	0.5
P/BV	13.0	11.2	9.4	4.9
EV/EBITDA	19.1	37.3	34.8	7.0

(Source: Company, HDFC sec Research)

One Year Price Chart



(Source: Company, HDFC sec)

HDFC Sec Retail Research Rating description

Green rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Blue Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:

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Any holding in stock –No

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