

Bhansali Engineering Polymers (BEPL) reported weak Q2FY20 numbers on back of challenging business environment due to 1) Macro level slowdown in consumption of ABS due to trade war between US and China, 2) lower volumes in domestic markets due to slowdown in auto and electrical appliances, 3) falling styrene prices due to overall weakness in demand, 4) pressure on realisations due to excessive dumping of ABS in to India as China's consumption has fallen sharply, 4) forex loss of Rs 255mn.

Revenues slipped by 20.1% YoY and 10.8% QoQ, Adj. EBITDA by 48.3% YoY and 31.5% QoQ and PBT by 46.4% YoY and 29.7% QoQ to Rs 2,795mn/Rs199mn/Rs 198mn. Volumes stood at ~15,000 down marginally by 3.2% QoQ and 14.2% YoY. PAT however grew by 20.1% YoY due to utilisation of deferred tax asset.

Styrene which accounts for 53% of RM costs suddenly corrected from USD 1050 during August to USD 900 per ton by end of quarter thus resulting in inventory losses. Dumping of natural grade ABS in domestic market is leading to continued pressure on realisations. Slowdown in auto is impacting specialty grade sales. With these headwinds and volatility in global markets due to US President Trump's varying stance on trade relations with China, this uncertainty is likely to prevail in near term.

Given these headwinds, we revise our rating from BUY to Accumulate on the stock. For FY20, revenue estimates are revised downwards by 1.8%. In spite of fall in tax rate from 35% to 25.2% we expect profit estimates to remain nearly the same as it will be set off by fall in EBITDA by 11.7%. For FY21E, we have lowered volumes/revenues/EBITDA/PAT by 18.7%/6.1%/20.5%/7.8%.

In spite of macro challenges, the company continues to remain debt free and is moving ahead with the plan to set up a greenfield port based capacity of 500,000 MTPA. While downside is limited from these levels, we do not expect the stock to rerate unless macro situation changes or auto and electrical appliance sales pick up.

Key financials (Y/e March)	2018	2019	2020E	2021E
Revenues (Rs m)	10,317	12,248	12,235	13,442
Growth (%)	64.8	18.7	(0.1)	9.9
EBITDA (Rs m)	1,544	790	991	1,171
PAT (Rs m)	996	465	737	903
EPS (Rs)	6.0	2.8	4.4	5.4
Growth (%)	190.1	(53.5)	58.3	22.6
CEPS (Rs)	6.4	3.2	5.0	6.0
Net DPS (Rs)	0.5	0.5	0.5	0.5
Profitability & Valuation	2018	2019	2020E	2021E
EBITDA margin (%)	15.0	6.5	8.1	8.7
RoE (%)	47.6	16.7	22.3	22.4
RoCE (%)	66.8	23.9	25.3	25.0
EV / sales (x)	0.8	0.7	0.7	0.6
EV / EBITDA (x)	5.1	10.2	8.2	6.9
PE (x)	8.3	17.8	11.2	9.2
P / BV (x)	3.2	2.8	2.3	1.9
Net dividend yield (%)	1.0	1.0	1.0	1.0

Source: Company Data, PL Research

## Q2FY20 Result Update

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Rating	Accumulate
Price	Rs 50
Target Price	Rs 87
Implied Upside	72.8%
Sensex	38,964
Nifty	11,588
Bloomberg Code	BEPL IN
Reuters Code	BHAN.BO

(Prices as on October 18, 2019)

### Tracking Data

Market Cap (Rs bn)	8.3
Shares O/s (m)	165.9
3M Avg. Daily Value (Rs m)	50.4

### Major Shareholders

Promoters	55.0%
Domestic Inst.	0.6%
Public & Others	44.4%

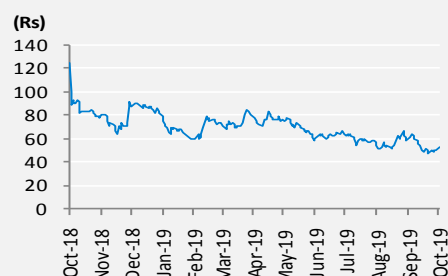
### Stock Performance

(%)	1M	6M	12M
Absolute	(18.2)	(33.2)	(43.7)
Relative	(18.7)	(34.0)	(58.7)

### How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2020E	4.4	-	NA
2021E	5.4	-	NA

### Price Chart



<b>Q2FY20 Result Overview (Rs m)</b>							
<b>Y/e March</b>	<b>Q2 '20</b>	<b>Q2'19</b>	<b>YoY gr. (%)</b>	<b>Q1 '20</b>	<b>H1'20</b>	<b>H1'19</b>	<b>YoY gr. (%)</b>
<b>Net Revenue</b>	<b>2,795</b>	<b>3,500</b>	<b>(20.1)</b>	<b>2,479</b>	<b>5,929</b>	<b>5,517</b>	<b>7.5</b>
<b>Expenditure</b>							
Raw Material Cost	2,285	2,788	(18.0)	2,497	4,782	4,250	12.5
<i>% of revenue</i>	<i>81.7</i>	<i>79.7</i>		<i>79.7</i>	<i>80.7</i>	<i>77.0</i>	
Employee Cost	90	88	2.3	101	191	171	11.6
<i>% of revenue</i>	<i>3.2</i>	<i>2.5</i>		<i>3.2</i>	<i>3.2</i>	<i>3.1</i>	
Other Expense	221	239	(7.3)	244	465	395	17.9
<i>% of revenue</i>	<i>7.9</i>	<i>6.8</i>		<i>7.8</i>	<i>7.8</i>	<i>7.2</i>	
Forex Loss/ (Gain)	25	110	(77.0)	(40)	(15)	150	NA
<i>% of revenue</i>	<i>0.9</i>	<i>3.1</i>		<i>(1.3)</i>	<i>(0.2)</i>	<i>2.7</i>	
<b>Total Expenditure</b>	<b>2,621</b>	<b>3,224</b>	<b>(18.7)</b>	<b>2,802</b>	<b>5,423</b>	<b>4,966</b>	<b>9.2</b>
<b>EBITDA</b>	<b>174</b>	<b>275</b>	<b>(36.8)</b>	<b>331</b>	<b>505</b>	<b>551</b>	<b>(8.3)</b>
<i>Margin (%)</i>	<i>6.2</i>	<i>7.9</i>		<i>10.6</i>	<i>8.5</i>	<i>10.0</i>	
Depr. & Amortization	22	18	23.7	22	44	35	26.1
<b>EBIT</b>	<b>152</b>	<b>258</b>	<b>(41.0)</b>	<b>309</b>	<b>461</b>	<b>516</b>	<b>(10.6)</b>
Net Interest	0	1	(79.0)	0	1	4	(87.2)
Other Income	21	3	515.0	13	34	6	434.3
<b>Profit before Tax</b>	<b>173</b>	<b>260</b>	<b>(33.5)</b>	<b>322</b>	<b>494</b>	<b>518</b>	<b>(4.6)</b>
Total Tax	(30)	91	NA	102	72	182	(60.1)
<i>Effective tax rate (%)</i>	<i>-</i>	<i>35.1</i>		<i>31.8</i>	<i>14.7</i>	<i>35.0</i>	
<b>Profit after Tax</b>	<b>203</b>	<b>169</b>	<b>20.1</b>	<b>219</b>	<b>422</b>	<b>336</b>	<b>25.4</b>
<i>PAT Margin (%)</i>	<i>7.2</i>	<i>4.8</i>		<i>7.0</i>	<i>7.1</i>	<i>6.1</i>	
<b>Adjusted PAT</b>	<b>228</b>	<b>279</b>	<b>(18.2)</b>	<b>179</b>	<b>407</b>	<b>486</b>	<b>(16.3)</b>
<b>EPS</b>	<b>1.2</b>	<b>1.0</b>	<b>20.1</b>	<b>1.3</b>	<b>2.5</b>	<b>2.0</b>	<b>25.4</b>

Source: Company Data, Idea Research

**Income Statement (Rs m)**

Y/e March	2018	2019	2020E	2021E
<b>Net Revenue</b>	<b>10,317</b>	<b>12,248</b>	<b>12,235</b>	<b>13,442</b>
Raw Material Expenses	7,441	10,159	9,859	10,673
Gross Profit	2,876	2,089	2,376	2,769
Employee Cost	374	324	406	444
Other Expenses	958	974	979	1,155
<b>EBITDA</b>	<b>1,544</b>	<b>790</b>	<b>991</b>	<b>1,171</b>
Depr. & Amortization	61	73	87	91
Net Interest	77	12	10	12
Other Income	137	69	75	140
<b>Profit before Tax</b>	<b>1,543</b>	<b>774</b>	<b>985</b>	<b>1,207</b>
Total Tax	547	308	248	304
<b>Profit after Tax</b>	<b>996</b>	<b>465</b>	<b>737</b>	<b>903</b>
Ex-Od items / Min. Int.	-	-	-	-
<b>Adj. PAT</b>	<b>1,000</b>	<b>472</b>	<b>737</b>	<b>903</b>
<b>Avg. Shares O/S (m)</b>	<b>165.9</b>	<b>165.9</b>	<b>165.9</b>	<b>165.9</b>
<b>EPS (Rs.)</b>	<b>6.0</b>	<b>2.8</b>	<b>4.4</b>	<b>5.4</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2018	2019	2020E	2021E
C/F from Operations	1,762	290	452	1,165
C/F from Investing	(123)	(311)	(482)	(965)
C/F from Financing	(1,487)	(63)	(110)	(112)
Inc. / Dec. in Cash	153	(84)	(139)	88
Opening Cash	172	324	240	101
Closing Cash	324	240	101	189
FCFF	1,639	(21)	(30)	200

**Key Financial Metrics**

Y/e March	2018	2019	2020E	2021E
<b>Growth</b>				
Revenue (%)	64.8	18.7	(0.1)	9.9
EBITDA (%)	147.6	(48.8)	25.5	18.1
PAT (%)	188.9	(53.3)	58.3	22.6
EPS (%)	190.1	(53.5)	58.3	22.6
<b>Profitability</b>				
EBITDA Margin (%)	15.0	6.5	8.1	8.7
PAT Margin (%)	9.7	3.8	6.0	6.7
RoCE (%)	66.8	23.9	25.3	25.0
RoE (%)	47.6	16.7	22.3	22.4
<b>Balance Sheet</b>				
Net Debt : Equity	(0.1)	(0.1)	(0.0)	(0.0)
Net Wrkng Cap. (days)	31.8	26.3	26.0	26.0
<b>Valuation</b>				
PER (x)	8.3	17.8	11.2	9.2
P / B (x)	3.2	2.8	2.3	1.9
EV / EBITDA (x)	5.1	10.2	8.2	6.9
EV / Sales (x)	0.8	0.7	0.7	0.6
<b>Earnings Quality</b>				
Eff. Tax Rate	35.4	39.9	25.2	25.2
Other Inc / PBT	0.1	0.1	0.1	0.1
Eff. Depr. Rate (%)	5.2	4.6	4.8	4.8

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2018	2019	2020E	2021E
<b>Non-Current Assets</b>	<b>1,185</b>	<b>1,491</b>	<b>1,629</b>	<b>2,663</b>
<b>Net fixed assets</b>	<b>1,074</b>	<b>1,435</b>	<b>1,548</b>	<b>1,557</b>
Capital Work In Progress	61	-	-	1,000
Non-Current Investments	6	13	18	23
Other financial assets	20	23	43	63
Deferred Tax Assets	24	20	20	20
<b>Current Assets</b>	<b>3,069</b>	<b>3,815</b>	<b>4,327</b>	<b>4,331</b>
Inventories	800	1,001	986	1,083
Trade receivables	1,854	2,238	2,243	2,464
Cash & Bank Balance	324	240	101	189
Investments	-	-	352	352
Loans	0	215	475	-
Other financial assets	22	70	106	158
Other Current Assets	68	50	65	85
<b>Total Assets</b>	<b>4,254</b>	<b>5,306</b>	<b>5,957</b>	<b>6,994</b>

**Equity**

Equity Share Capital	166	166	166	166
Other Equity	2,407	2,821	3,458	4,262
<b>Total Networth</b>	<b>2,573</b>	<b>2,987</b>	<b>3,624</b>	<b>4,428</b>
<b>Non-Current Liabilities</b>	<b>175</b>	<b>271</b>	<b>279</b>	<b>289</b>
Provisions	45	42	50	60
Deferred tax liabilities	130	229	229	229
<b>Current Liabilities</b>	<b>1,506</b>	<b>2,047</b>	<b>2,053</b>	<b>2,277</b>
Trade payables	1,257	1,945	1,890	2,046
Other current liabilities	249	103	163	231
<b>Total Equity &amp; Liabilities</b>	<b>4,254</b>	<b>5,306</b>	<b>5,957</b>	<b>6,994</b>

**Quarterly Financials (Rs m)**

Y/e March	Q3FY19	Q4FY19	Q1FY20	Q2FY20
<b>Net Revenue</b>	<b>3,234</b>	<b>3,497</b>	<b>3,133</b>	<b>2,795</b>
<b>EBITDA</b>	<b>169</b>	<b>70</b>	<b>331</b>	<b>174</b>
<i>% of revenue</i>	5.2	2.0	10.6	6.2
Depr. & Amortization	18	20	22	22
Net Interest	7	1	0	0
Other Income	6	57	13	21
<b>Profit before Tax</b>	<b>150</b>	<b>106</b>	<b>322</b>	<b>173</b>
Total Tax	51	77	102	(30)
<b>Profit after Tax</b>	<b>100</b>	<b>29</b>	<b>219</b>	<b>203</b>
<b>Adj. PAT</b>	<b>100</b>	<b>29</b>	<b>219</b>	<b>203</b>

**Operating Metric (Rs m)**

Y/e March	2018	2019	2020E	2021E
Capacity (MTPA)	100,000	100,000	137,000	137,000
Sales (MTPA)	66,000	60,090	63,095	72,559
<i>Capacity Utilisation (%)</i>	66.0	60.1	46.1	53.0
EBITDA per kg	23.4	13.2	16.2	17.7

Source: Company Data, PL Research.

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