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DEMOCRATIZING WEALTH CREATION

UPSTREAM PICK

THINK DIFFERENT PROFIT MORE

Company Name	:	**BCL Industries Limited**
BSE Code	:	**524332**
Time Duration	:	**2 year**
CMP	:	**₹150 (as on 03 May, 2018)**
Target Price	:	**₹218**

Our Upstream Pick for the month of May is BCL Industries Limited. It has three business verticals and its revenue mix for FY17 consisted of edible oil (64.5%), distillery (32%) and real estate (3.5%). We see this as an Upstream Pick as improvement in its financials was observed post its capacity expansion in the distillery segment. Along with this expansion, the company is setting up a new plant in West Bengal to cater to the demand in the eastern and north-eastern markets in India. The huge capex led to its D/E ratio hovering around 2.1x. Also, for the period ending March 2018, its promoters' stake has increased from 51.02% to 55.87% depicting growing confidence of promoters in the company.

Edible oil segment – Major contributor to revenue

BCL Industries is one of the largest vertically integrated agro-based edible oil players in India. It is engaged in the manufacturing of Vanaspati, refined oils, expelling of oil from seeds, solvent extraction of oil from seeds, de-oiled cakes and Basmati and para-boiled rice. It is also engaged in rice bran oil manufacturing and processing. The company has in-house provisions to assist farmers in farming unsurpassed agri products that ensures consistent inflow of high quality agriculture produce which helps it to deliver quality products to consumers. It has a total of eight edible oil brands like Homecook, Do Khajoor and Murli in the market and has 300 dealers under its distribution network. Its processing unit has a capacity of producing 1,000 MT of oil per day. In the next couple of years, the company aims to increase its volumes in India's vegetable oil market by 25-30%.

Growing preference for healthy oils, shift in consumption base towards branded oil and untapped market potential are some of the growth drivers in the edible oil market in India. The Indian government is focusing on promoting FDI and exports in this segment. With improvement in oil seeds production in the next five years, ICRA expects the edible oil production to be around 11 million tonnes in 2021-22, while the demand for edible oils is also expected to increase to around 29 million tonnes in FY22 from around 24 million tonnes in FY17. This will present opportunities for companies like BCL to tap the market and increase the domestic production and reduce imports.

Strengthening market position in distillery segment

The company is into the distillery business since 2006 having a manufacturing plant in Pathankot, in partnership with Pioneer Industries Ltd. In 2012, it had set up its own distillation plant at Bathinda having capacity of 100 KLPD. In FY17, it doubled its capacity to 200 KLPD. This doubled capacity reflected in terms of growing topline and profits in 9MFY18. It is engaged in the bulk supply of ethanol, which is the basic raw material for any alcohol and bottling of liquor. The company distributes its products across India. It is expecting optimal utilisation of its distillation plant in the next 2-3 years.

Currently, the company ranks seventh in ethanol production in India. In the North Indian market, of the aggregate capacity of 980 KLPD, the company with its associates owns 33% capacity. The East and North-East regions have strong markets but are highly dependent on other regions of India and have production capacity of only 96 KLPD. To take the advantage of this opportunity and tap the markets in the East and North-Eastern states, BCL is setting up a new unit in Kharagpur, West Bengal, with a capacity of 200 KLPD and 8 MW co-generation power plant through its subsidiary. The commercial production will begin in FY19 and will make BCL India's largest grain-based alcohol manufacturing company with an aggregate capacity of 525 KLPD.

Real estate segment gaining momentum

As a part of its diversification strategy and de-risking the cyclical nature-based performance of other segments, the company forayed into the real estate segment. It has started two new projects named Ganpati Enclave and DD Mittal Towers in Bathinda city. Most of the flats in both these projects have been sold. The city is a leading cotton belt and has become a medical, engineering and business hub and it is on its way to becoming an ultra-modern industrial, business and educational city in Punjab. Affordable housing and home loans subsidy is attracting newer opportunities for the real estate sector in Punjab. It recorded 140% rise in total sales at Rs 22.55 crore in FY17, as compared with Rs 9.37 crore in FY16. Also, in FY18, this segment has shown consistent growth on a QoQ basis. Also, the company has an additional inventory of seven acres of land for undertaking projects in future.

No further capex - Focus on reducing debts

The doubling of capacity of the distillation plant and setting up of new unit at Kharagpur were the major expansion plans for which the company had set aside huge capex amount, thereby leading to higher debts and interest costs. However, in the near future, the company has no capex plans and will focus on optimising its enhanced capacity. Thus, the additional operating profit that the company will generate in the upcoming years will be helpful in paying off the interest costs. Growth in top-line and profitability will help the company in paying off the debts. In FY17, its debt-equity ratio stood at 2.2x, which slightly improved to 2.0x as on Sept 30, 2017. The interest cost in 9MFY17 was Rs 17.9 crore, which was reduced to Rs 17.1 crore in 9MFY18.

Improving financial performance

Over the years, the company's topline has been consistent, but due to the operating efficiency and cost-cutting measures, its profitability has increased on a YoY basis. In FY18, the company has delivered strong numbers. During 9MFY18, the revenue grew by 39.4% YoY. The operating profit and net profit jumped by 19.9% and 49.8% YoY, respectively, due to better operating efficiency and increase in topline. In Q3FY18, its revenue was up by 27.07% YoY, while the PAT rose by 21.6% YoY.

Valuation

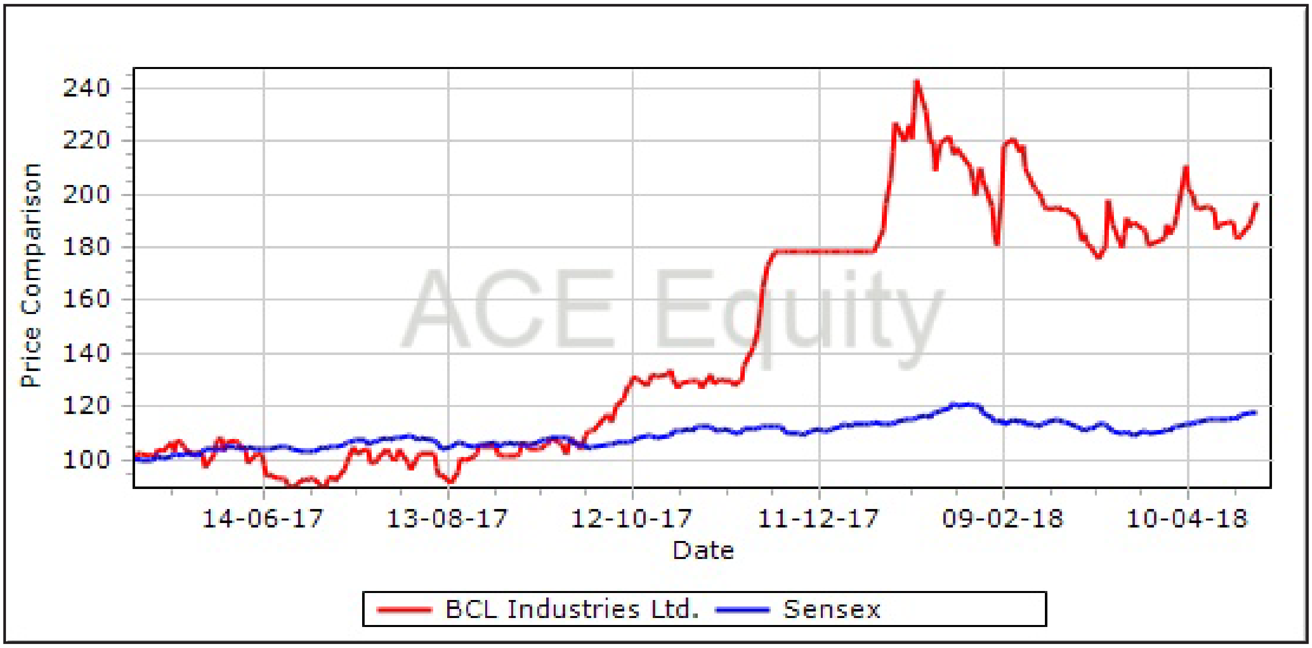
The company is trading at TTM P/E of 15.7x with TTM EPS of Rs 9.18. In FY17, it delivered ROE and ROCE of 10.7% and 11.2% respectively, which will improve further as the profitability rises. The company has strong brand recognition in North India in the edible oil market. Growing demand for branded edible oil will augur well for the company going forward. In distilleries, it is set to tap the markets in East and North-East India, which will drive its top-line and profitability. We expect an upside of 45% with target of Rs 218 over a period of two years.

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201703	201603	201503	201403	201303
Net Sales	671.28	527.82	676.89	637.39	573.82
Total Income	675.96	532.86	683.02	641.65	577.72
Total Expenditure	634.67	502.24	640.21	608.68	551.65
PBIDT	41.28	30.62	42.80	32.97	26.06
PAT	10.02	6.45	6.92	5.93	-3.34
Dividend %	10.00	10.00	10.00	5.00	
Adj. EPS(Rs)	7.08	4.56	4.89	4.19	-2.36

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201712	201709	Q on Q Var%	201612	Y on Y Var%
Net Sales	232.76	215.36	8.08	183.18	27.07
Total Expenditure	224.28	200.85	11.67	171.31	30.92
PBIDT (Excl OI)	8.49	14.52	-41.56	11.87	-28.50
PAT	4.78	4.36	9.59	3.93	21.68
PBIDTM% (Excl OI)	3.65	6.74	-45.85	6.48	-43.67
PBIDTM%	4.69	7.18	-34.68	7.14	-34.31
PATM%	2.05	2.02	1.49	2.14	-4.21
Adj. EPS(Rs)	3.38	3.08	9.74	2.77	22.02


Price Comparison
240
220
200
180
160
140
120
100
14-06-17
13-08-17
12-10-17
11-12-17
09-02-18
10-04-18
Date
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