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TINY TREASURE

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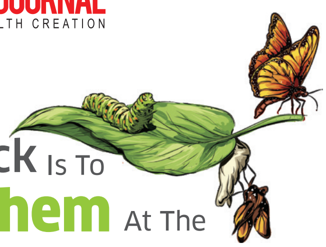

The Trick Is To **Spot Them** At The **Larval Stage**

BSE Code	:	**500153**
Time Duration	:	**1 year**
CMP	:	**₹91.15 (as on 22 February, 2018)**
Target Price	:	**₹125**

Ganesh Benzoplast

CAPACITY EXPANSION IN LST & LPG BUSINESS TO BOOST GROWTH

Our Tiny Treasure for the month of February is Ganesh Benzoplast Ltd. (GBL) The company mainly operates through its two divisions; liquid storage terminal (LST) and chemical manufacturing. Since last 4-5 years, although company's growth in topline has been flattish, its PAT is gradually increasing. Its PAT has grown at a CAGR of 51.01% over FY13-17. A turnaround in its performance is visible from FY16 onwards. At the end of FY17, it had negative net worth of ~Rs 29 crore, but looking at its 9MFY18 performance, we expect the net worth to get positive from FY18 onwards. The company's expansion plans in the LST segment, demerger of its chemicals segment and setting up of LPG terminal in Goa are going to be its major growth drivers. We see that the company has delivered robust numbers in FY17 and 9MFY18.

Capacity Expansion in LST business

In FY17, the company's LST segment contributed 61.4% towards its total revenue. It has storage and handling solutions at three terminals, namely, JNPT (Nhava Sheva), Goa and Cochin. These ports are well-equipped with facilities like specialised berths, firefighting equipment, pipelines, transit storage and handling facilities. The storage tanks, which it leases on rent for storing liquid chemicals, acids, phenol, oil products, petrochemicals, molasses and edible oils, has combined capacity of 300,000 KL. The JNPT terminal has capacity of 240,000 KL with 63 tank containers, Goa facility has capacity of 25,000 KL with 4 tanks and Cochin's facility has 38,000 KL capacity with 13 tank containers. The company is generating stable inflation-adjusting rentals on a continuous basis. Some of its key clients include Cargill, Akry Organics, Jubilant Life Sciences, Bharat Petroleum, Hindalco, etc.

Recently, the company has refurbished its tank farm at JNPT terminal for handling additional ship loading. In 2017, the company had expanded its storage capacity by 48,000 KL at JNPT facility and 10,000 KL at Kochi facility. This capacity expansion led to growth in topline, which was seen in second and third quarters of FY18. It is also planning for further expansion at Goa and Cochin terminals, which will reflect in growth in the topline in the upcoming quarters. As of FY17, the company's capacity utilisation at JNPT was ~90%, ~50% at Goa and ~80% at Cochin. The LST business, by its nature, requires less capital and hence delivers higher returns in terms of operating profits.

New LPG facility at Goa

The company has planned to set up an LPG terminal at Goa having capacity of 20,000 tonnes. The capex required for this terminal is Rs 150 crore, which the company will meet through debt and internal accruals. At full capacity, the company expects to generate revenue of Rs 70 crore from this LPG facility. This turnover will be an additional contribution to company's topline. As compared to the LST, the rentals from LPG storage is 9-10 times higher. We expect this additional growth to reflect in topline and profitability from FY19. The LPG would be sold to oil marketing companies in Goa, Maharashtra and Karnataka.

Demerger of segments to benefit LST business

The company's chemicals division is further sub-divided into food and pharma chemicals, industrial chemicals and lubricants. More than 70 types of chemicals are produced by the company. It has a manufacturing capacity of 6,000 MTPA for sodium benzonate (preservative) and 7,200 MTPA for benzoic acid. It enjoys virtual monopoly in sodium benzonate in India. However, this segment has been incurring losses since past few years due to stiff competition in domestic and international markets and rising raw material prices which has affected the overall profitability of the company. Hence, the company has decided to segregate both the segments and operate the businesses separately through demerger. Thus, the losses in the chemicals segment would not affect the LST business. The management is optimistic that demand for its chemical products is rising and exports in FY18 too have jumped. Thus, post-demerger, a turnaround in the chemicals segment is expected.

Set up of Coastal Economic Zone

The Union government has set a target to build 14 CEZ across India. First CEZ was set up in Nov 2017 at JNPT covering the regions of Mumbai, Thane, Pune, Nashik and Raigadh. This set-up has raised opportunities for 45 companies across industries to bid for 200 hectares of land for setting up their manufacturing units. Such industrial clusters will depend on logistic companies like GBL for cargo and storage of their products. As GBL has its facility of storage tank at JNPT, it would be a major beneficiary from the CEZ set-up.

Financial Performance

Before FY15, the company was generating meagre profits; however, from FY16 onwards, a turnaround in operations was seen. In FY16, the company earned net profit of Rs 48 crore mainly

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due to the increase in other income. However, in FY17, with a revenue of Rs 118 cr, the company maintained EBITDA margin of 30.1% as against 19.5% in FY16. It earned PAT of Rs 12.75 cr and PAT margin stood at 10.8%. From FY16, the company's debt is gradually reducing and its net worth is improving.

For the period of 9MFY18, the company has delivered stellar performance. Its revenue has grown by 39.6% YoY. The operating profit has increased by 23.06% YoY to Rs 39.4 cr. In all the quarters, the company's EBITDA margin stood in the range of 30-32%. The PAT jumped by 135.32% to Rs 22.5 cr from Rs 9.5 cr. The PAT margin in 9MFY18 stood at 18.5%. Looking at the robust performance, we expect the net worth of the company to turn positive by the end of FY18.

Valuation

The company is trading at TTM P/E of 17.9x with TTM EPS of Rs 4.96. For FY17, the company has delivered ROCE of 17.8%. Looking at its business model, the company can be compared with a peer named Aegis Logistics which is trading at TTM P/E of 47.8x. GBL is trading at attractive valuation, and we see that post-demerger, the company's LST business will make the valuation stronger. Oil and chemical companies play an inevitable role in the market. As these sectors keep growing, dependence on infra logistics companies too rises. We see the company has huge growth potential and expect an upside of 37% with target price of Rs 125 over a period of one year.

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

Description	201703	201603	201503	201403	201303
Net Sales	118.12	119.43	122.27	115.38	118.39
Total Income	121.65	120.68	122.62	118.41	120.66
Total Expenditure	80.43	82.08	107.43	85.86	79.56
PBIDT	41.21	38.60	15.18	32.56	41.11
PAT	12.75	48.16	0.08	0.13	8.73
Adj. EPS(Rs)	2.46	9.30	0.02	0.02	1.69

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201712	201709	Q on Q Var%	201612	Y on Y Var%
Net Sales	46.56	38.76	20.11	29.53	57.65
Total Expenditure	32.15	25.99	23.73	19.37	65.99
PBIDT (Excl OI)	14.41	12.78	12.74	10.16	41.76
PAT	8.01	7.75	3.38	3.16	153.10
PBIDTM% (Excl OI)	30.94	32.96	-6.13	34.41	-10.08
PBIDTM%	31.11	33.30	-6.58	34.22	-9.09
PATM%	17.20	19.98	-13.91	10.71	60.60
Adj. EPS(Rs)	1.55	1.50	3.33	0.61	154.10