



COMPANY NAME : **Jayant Agro Organics**

BSE Code : **524330**

Time Duration : **1 year**

CMF : **₹316 (as on 19 Apr., 2018)**

Target Price : **₹408**

The Mid Bridge for the month of April is Jayant Agro-Organics Limited (JAOL). It is an emerging global oleochemical company with leadership in the castor-based specialty chemicals industry. It has two major segments that includes castor oil and castor oil derivatives. Castor oil contributes 60% to the revenue and castor oil derivatives contribute 40% of the revenue. Castor oil derivatives derive high margins for the company, which offsets the low margin segment of castor oil. The company's 80-85% output is exported to almost 70 countries across the world in a range of 75 different products. It has a total of 110 products, out of which 60 are active. The company has more than 300 products in the R&D stage.

We see that company's ROCE has been improving on YoY basis. JAOL has maintained healthy dividend pay-out ratio of 22.9%. The company was in plans to split the stock but instead in August 2017, it issued bonus shares in the ratio of 1:1. Since then the stock price has halved, and the share capital has doubled from Rs 7.5 crores to Rs 15 crores.

### Wide exposure through joint ventures

Jayant Agro has a wholly-owned subsidiary named Ihsedu Agrochem Private Limited (IAPL), which is engaged in extraction of castor oil and ensures uninterrupted supply. In 2013, the company formed joint venture with Japanese and Korean company named Vithal Castor Polyols (VCP). It manufactures castor oil-based bio-polyols having main applications in automobiles, furniture and packaging. Later in 2014, Jayant Agro entered into a joint venture with Arkema, a global chemical company, for manufacturing various industrial and speciality grades of castor oil. Arkema is the largest consumer of castor oil and has enabled Jayant Agro to expand and increase its market share in the international market.

### Higher capacity utilisation drives volumes

VCP had set up a manufacturing plant at GIDC Jhagadia, Gujarat, in April 2016 with capacity of 8,000 MTPA at a capex of Rs 33 crore. It produces petroleum derived products. At full capacity, the management expects revenue of Rs 130-150 crore. Current-

ly, it is operating at 35-40% utilisation and the JV is working towards improving the product mix to improve capacity utilisation. IAPL has a crushing unit plant located at Banaskantha in Gujarat, having capacity to produce 1500 tonnes per day and it is operating at 65-70% utilisation. The plant is located in close proximity to the Kandla Port from where the company arranges its bulk exports. This has driven the volumes of the company and has reflected in the topline, especially during 9MFY18. The management expects to ramp up utilisation level by 10% in the next 6-8 months. By the end of FY18, a growth of 20% in volumes is expected, and a further ramp up in the capacity is expected to trigger growth in volumes and revenues. In the near future, capacity utilisation of this plant is expected to reach 100%.

### Castor oil derivatives' segment getting stronger

JAOL has many derivative products in the research pipeline and the company is planning to introduce 3-4 products every year. It has derivative capacity ranging between 300-400 MT per day, depending on the type of derivative. It has a manufacturing plant for producing sebacic acid which is used as a monomer for production of textiles, lubricants, candles, hydraulic fluids, and cosmetics. As this segment is deriving high margins, company is building strong on this segment.

Due to its wide range of application, a significant growth is expected in the global market. India's derivative business is limited to just 0.1 mn tonnes. With growing emphasis on value-added products, India's derivative business could grow to 0.3 mn tonnes in 4-5 years.

### Outlook of castor oil industry

The global castor oil market is expected to grow at a CAGR of around 4.3% during 2018-2023. Currently, India represents the world's largest producer followed by China and Brazil. In India, Gujarat is the leading state in the production of castor oil. The other states that produce castor seeds are Rajasthan and Andhra Pradesh. India's share of castor oil in the global production has been increasing every year. China has emerged as the largest consumer of castor oil during the last five years. With hardly any

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substitute, demand for castor oil is largely price-inelastic.

The cost of castor oil-based polyols is expected to compete with crude oil-based polyols. Thus, the volatility in crude oil prices is shifting demand towards usage of castor oil and derivatives, across end user industries. Castor oil being a natural, organic, renewable and bio-degradable product is gaining importance and demand.

### Financial Performance

During 9MFY18, the company's consolidated revenue rose by 51.8% YoY to Rs 1885.7 crore from Rs 1242.28 crore due to growth in volumes. For FY18, 20% growth in volumes is expected by the management, due to which the topline will be in the range of Rs 2200-2400 crore. The operating profit grew by 24.05% YoY to Rs 115.49 crore from Rs 93.1 crore due to high operating efficiency. The company's PAT increased by 6.9% YoY to Rs 41.6 crore from Rs 38.9 crore.

In Q3FY18, the consolidated revenue increased by 44.2% YoY to Rs 671.14 crore. Its EBITDA grew by 28.27% YoY to Rs 38.96 crore

from Rs 30.37 crore. The PAT too grew by 11.6% YoY to Rs 13.3 crore from Rs 11.92 crore.

For the period ended Dec 31, 2017, the company's total debt stood around Rs 500 crore, which majorly includes short term borrowings. In December 2017, CRISIL had reaffirmed its 'CRISIL A-/Stable/CRISIL A2+' ratings on the bank facilities of Rs 350 crore. By the end of FY18, the debt-equity ratio would be around 1.7x.

### Valuation

The company is trading at TTM P/E of 16.5x with TTM EPS of Rs 19.08. In FY17, the company delivered ROE and ROCE of 19.2% and 21.5%, respectively. Going forward, the outlook on demand for castor oil and derivatives is strong. The volatility in crude oil prices is shifting demand towards castor oil and derivatives. The company has a leadership position and the growing demand in the international market is supporting exports of the company. Also, it is trading at attractive valuations. We see a potential upside of 29% with target price of Rs 408 over a period of one year from now.

| Inc/Exp Statement(Consolidated) (Rs in Crore) |         |         |         |         |         |
|---|---------|---------|---------|---------|---------|
| Description                                   | 201703  | 201603  | 201503  | 201403  | 201303  |
| Net Sales                                     | 1662.54 | 1375.45 | 1580.72 | 1537.81 | 1624.95 |
| Total Income                                  | 1666.35 | 1379.85 | 1587.52 | 1561.16 | 1629.93 |
| Total Expenditure                             | 1538.41 | 1302.41 | 1522.74 | 1460.59 | 1530.95 |
| PBIDT   | 127.94  | 77.44   | 64.78   | 100.56  | 98.98   |
| PAT   | 56.36   | 25.20   | 10.52   | 40.59   | 36.24   |
| Dividend %                                    | 175.00  | 75.00   | 20.00   | 60.00   | 45.00   |
| Adj. EPS(Rs)                                  | 17.86   | 8.09    | 4.00    | 9.35    | 12.07   |

| Quarter On Quarter (Consolidated) (Rs in Crore) |        |        |             |        |             |
|---|--------|--------|-------------|--------|-------------|
| Particulars                                     | 201712 | 201709 | Q on Q Var% | 201612 | Y on Y Var% |
| Net Sales                                       | 671.15 | 609.53 | 10.11       | 465.38 | 44.22       |
| Total Expenditure                               | 632.66 | 571.58 | 10.69       | 435.25 | 45.35       |
| PBIDT (Excl OI)                                 | 38.49  | 37.94  | 1.44        | 30.13  | 27.77       |
| PAT   | 14.16  | 14.94  | -5.21       | 12.49  | 13.36       |
| PBIDTM% (Excl OI)                               | 5.73   | 6.22   | -7.88       | 6.47   | -11.44      |
| PBIDTM%   | 5.81   | 6.29   | -7.63       | 6.53   | -11.03      |
| PATM%   | 2.11   | 2.45   | -13.88      | 2.68   | -21.27      |
| Adj. EPS(Rs)                                    | 4.44   | 4.71   | -5.73       | 3.97   | 11.84       |

