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 DEMOCRATIZING WEALTH CREATION

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



**TINY**  
**TREASURE**

July 2016

BSE Code	: 530803
Time Duration	: 1 year
CMP	: ₹218 (as on 28 July, 2016)
Target Price	: ₹295

## Bhageria Industries

### LEADER IN DYES AND INTERMEDIARIES; MONSOON PLAY TO BENEFIT

The stock for the month of July is Bhageria Industries, one of the largest manufacture of Intermediates and Dyes. The company was incorporated in 1989 and is engaged in the manufacturing and sale of dyes & dye intermediates, Agro chemicals and Active Pharma. We see growth in high single digit in Agro chemicals due to better monsoon in FY17 albeit from a smaller base as FY16 saw drop in total sales by 42% driven by lower realizations. We expect company to benefit from solar power manufacturing too and breakeven by last quarter of FY17. Company due to its expected growth potential looks cheap at 2016 P/E of 11.3x and P/B of 2.2x.

It manufactures three types of dyes viz. Acid Dyes, Direct Dyes and Reactive Dyes. Agro Chemicals manufactured by the Company include Glyphosate, Propanil, Aluminium Phosphide, Paclobutrazole and Atrazine Powder. The active pharmaceutical ingredients (API) manufactured by the Company include Diloxanide Furoate, Tinidazole, Albendazole, Mebendazole, Ampicillin, Cefadroxil, Cefixime, Trimethoprim, Cloxacilin, Tetracyclin and Amikacin. The Company is also engaged in merchant export of related items. For last three years the ROE is above 21%.

Company derives 75% of sales from domestic market and rest from exports. The products are being exported to Korea, Japan, Taiwan, China, Germany, U.S.A and other European and African countries. Company sources 82% of the requirement for raw material indigenously and hence has limited forex exposure. However, the raw material prices are volatile and competition high though confined to Gujarat and Maharashtra. Company has made significant strides in the field of Dye Intermediates and other related products since its inception. It started with a capacity of 540 MTpa and has now expanded to 3,600 MTpa.

#### Company operates in two segments Chemicals and solar power

**Chemicals (contributes 74% to revenues)** : The sale of organic chemicals contributed 75.7% to the total turnover of the compa-

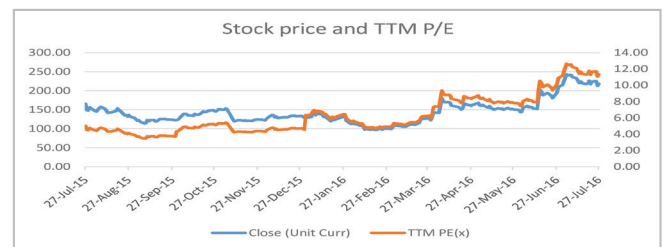
ny. The main products manufactured are Vinyl Sulphone which has application in agriculture which is witnessing growth and hence has high potential for the company. Another product offered by the company is H. acid which saw significant declines in 2016 and has applications in pharmaceuticals. The pharmaceuticals segment is expected to improve marginally.

**Solar Power** : Company has forayed into renewable energy and we see growth to slowly tickle in this segment. Company has been increasing its capex in this segment and currently has capital employed of Rs18 crores. It generated Rs131 lakhs as revenue and is yet to break even. Company has been awarded an order for 30MW Solar Power Project under JNNISM Ph-II, Batch III and Tranche-I for the State of Maharashtra for 25 years. The project will be installed at a capital outlay of Rs189 Crores and will get completed on Turnkey basis. The Company will also operate and maintain the plant for 25 years. The completion of the Project is expected by the end of the Financial Year 2016-17.

**Financials** : Company has growth from revenues of Rs66 crore to high of Rs436 crore in FY15. The revenues fell by 42% due to lower economic activity and lower demand conditions from pharma and agriculture sectors. Company margins were down by 200 bps to 11.1% and net profit margin dropped to 6% from 8.3% in FY15. Company has also been repaying its debt and has comfortable d/e equity of 0.16x. We see that company due to better demand conditions domestically and internationally should see growth in revenues.

**Valuation**: Company is currently trading at considerable discount at 2016 P/E of 11.3x and P/B of 2.2x vs peers Navin Fluorine International (P/E 23.5 and P/B 3.4x) and Vinati Organics ( P/E 21.8x and P/B 5.3x). Also company has high ROE of 21.2 in 2016. We see that company can improve its margins and reach double digit levels and hence will see increase in earnings by 8%. It can reach levels of Rs295 and hence recommend a BUY. We would also recommend to buy at every dip at levels of Rs200.

Inc/Exp Statement(Standalone) (Rs in Crore)					
Description	2016	2015	2014	2013	2012
Net Sales	238.46	412.41	368.78	129.23	62.84
Total Income	240.39	415.05	369.98	129.49	63.11
Total Expenditure	211.95	356.69	345.10	125.53	61.52
PBIDT	28.44	58.37	24.88	3.95	1.59
PAT	15.33	36.61	15.40	1.26	-0.47
Dividend %	50.00	50.00	35.00	8.00	5.00
Adj. EPS(Rs)	19.25	45.97	19.35	1.59	-0.59



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