



HIDDEN GEMS

UNEXPLORED MULTIBAGGER SMALL CAP STOCKS

EQUITY RESEARCH REPORT

BCL INDUSTRIES LTD.	BSE CODE: 524332
Industry: Edible Oils / Distillery	CMP: Rs. 96.85 (10/02/2019)
Market Cap: 168.83 (INR in Crore)	Target Price: Rs. 195.00
Date: Feb 10, 2019	Time Period: 12 – 24 months



Saral Gyan Capital Services

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An Independent Equity Research Firm

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1. Company Background



Founded in 1976, BCL Industries Limited (BCL) is a part of the Mittal Group, founded by Late Shri D. D. Mittal. Under the leadership of Mr. Rajinder Mittal, Managing Director of

the company, the company has grown to become an integrated Industry player.

The company operates in 3 business verticals:

- **Edible Oil & Vanaspati** - Engaged in the business of manufacturing of Vanaspati, Refined oil, and oil & solvent extraction from seeds and rice.
- **Distillery** - Engaged in the business of manufacturing of Extra Neutral Alcohol (ENA) and bottling of liquor in PML and IMFL in Punjab.
- **Real Estate** - Undertaken two large real estate projects in Bhatinda, Punjab

BCL Industries started with a solvent plant of 40 MTPD capacity in 1976, BCL Industries has grown manifold through expansion program undertaken from time to time. The company floated maiden public issue of equity share (face value Rs. 10.00 per share) at a premium of Rs. 5.00 per share in January 1993, at that point of time the company name was Bhatinda Chemicals Limited. Since the group was dealing in the business of real estate, the name of the company also changed to BCL Industries and Infrastructure Limited on 08 October 2008 which later changed to BCL Industries.

The core business of the company is 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. The company's manufacturing unit has one of the most modern and vertically integrated edible oil and rice complexes, which comprises of several units where the company manage all stages of solvent extraction. The company is present across the value chain from crushing to solvent extraction, refinery, rice sheller, chemical refinery, physical refinery and vanaspati ghee manufacturing unit and packaging.

The company sell edible oil under its flagship brands like Homecook, Do Khajoor and Murli. Homecook brand offers wide varieties of refined oils, which include soybean oil, sunflower oil, cottonseed oil and rice bran oil which is sold through a network of around 300 dealers spread in North India. The company also do contract manufacturing of edible oil for companies like Cargill, Godrej Agrovet Ltd etc.

The company has transformed from a small oil mill to one of the most modern and fully integrated rice and edible oil complexes in India.

The company diversified into Distillery business by partnering with Pioneer Industries in 2006 to operate a distillation plant manufacturing grain-based ENA/Ethanol alcohol. The company later set up its own distillation plant at Bathinda with 100 KLPD capacity in 2012 and this was further expanded to 200 KLPD in 2017. The company is primarily engaged in bulk supply of Extra Neutral Alcohol (ENA) – the basic raw material for any alcohol and bottling of liquor in PML and IMFL. The company aims to become one of the largest grain-based spirit manufacturers in India with the commencement of its Kharagpur plant in 2018-19.

The company also forayed into the business of real estate was part of the strategies to diversify risk and broaden the company's offerings so as to lessen the vagaries and challenges of the other industries the company is engaged in. The company foresees enough potential, given the rising demand for affordable housing and infrastructural growth.

The company has two existing projects with a very large realizable value expected from each project.

- Ganpati Enclave - This is the company's first project, which is an integrated township project of 65 acres at Dabwali Road, Bathinda City.
- DD Mittal Towers - DD Mittal Towers is a mid-segment housing project located at Multania Road in the heart of Bathinda city. The project of 555 flats and commercial units have been fully constructed and handed over to occupants.

2. Recent Development

i) Production of Ethanol under Bio-Fuel Policy 2018 to augur well for BCL Industries

For the first time, Govt of India has allowed to produce ethanol using damaged food grains like wheat, broken rice etc which are unusable for human consumption. Farmers are at a risk of not getting appropriate price for their produce during the surplus production phase. Taking this into account, the policy allows use of surplus food grains for production of ethanol for blending with petrol with the approval of National Biofuel Coordination Committee.

The Indian government has made many announcements recently to boost the ethanol blending and save the import bill on crude imports. This would also include introducing new vehicles supporting higher blending and also vehicles running 100% on ethanol. With recent rise in crude prices, it makes even more sense to increase the blending of fuel with biofuels and to save on higher crude prices.

Encouraged by the National Policy on Biofuels-2018, BCL Distillery segment converted part capacity of about 125KLPD into Ethanol and has already bagged the tender to supply to the tune of 3.04 crore litres for the period 1st December 2018 to 30th November 2019. The company's performance in the Dec'18 quarter was boosted with the commencement of ethanol production for OMC's which was well accepted.

ii) Svaksha Distillery capacity expansion expected to complete before end of 2019

The company is also working simultaneously on its 200 KLPD Plant at Kharagpur, West Bengal under its subsidiary Svaksha Distillery Ltd, its expected to commence production by 3rd quarter of 2019-20. The turnkey contract of the project has been awarded to Praj Industries Ltd.

The company is one of the largest grain-based spirit manufacturers in India. As per management, BCL Industries will become largest grain based ENA producer in India with the commencement of its Kharagpur plant this year.

iii) The company plans to raise funds up to an amount of Rs. 60 crores

The company plans to raise funds by issue of equity shares and / or convertible securities through QIP upto an amount of Rs. 60 crores including premiums, if any. The capital raising exercise is expected to strengthen the financial position and networth of the company.

3. Financial Performance

BCL Industries standalone net profit rises 137.45% in the December 2018 quarter

Net profit of BCL Industries rose 137.45% to Rs 11.35 crore in the quarter ended December 2018 as against Rs 4.78 crore during the previous quarter ended December 2017. Sales rose 4.39% to Rs 242.98 crore in the quarter ended December 2018 as against Rs 232.76 crore during the previous quarter ended December 2017.

BCL Industries standalone net profit rises 294.72% in the September 2018 quarter

Net profit of BCL Industries rose 294.72% to Rs 17.21 crore in the quarter ended September 2018 as against Rs 4.36 crore during the previous quarter ended September 2017. Sales declined 6.02% to Rs 202.40 crore in the quarter ended September 2018 as against Rs 215.36 crore during the previous quarter ended September 2017.

Last 6 Quarters Net Sales & Profit



Current & Expected Earnings

Quarterly Ended Profit & Loss Account

Particulars (Rs in Crores)	Mar 2018	Jun 2018	Sep 2018	Dec 2018	Mar 2019 E	Jun 2019 E
Audited / UnAudited	UA	UA	UA	UA	UA	UA
Net Sales	230.67	202.9	202.4	242.98	255.47	225.37
Other Operating Income	--	--	--	--	--	--
Total Income – Operations	230.67	202.9	202.4	242.98	255.47	225.37
Raw Materials Consumed	170.64	157.62	135.62	191.4	191.35	161.15
Purchase of Traded Goods	--	--	--	--	--	--
Increase/Decrease in Stocks	8.16	8.17	16.15	-1.41	7.85	8.23
Power & Fuel	--	--	--	--	--	--
Employees Cost	3.7	2.83	3.3	3.13	3.87	3.41
Depreciation	2.76	2.76	2.65	2.63	2.62	2.61
Admin & Selling Expenses	--	--	--	--	--	--
R & D Expenses	--	--	--	--	--	--
Provisions & Contingencies	--	--	--	--	--	--
Other Expenses	37.01	20.11	22.05	30.9	35.03	25.64
P/L Before Other Income	8.4	11.41	22.63	16.34	14.75	24.33
Other Income	1.93	1.95	1.43	2.3	2.02	2.11
P/L Before Int., E. Items & Tax	10.33	13.35	24.06	18.63	16.77	26.44
Interest	3.64	6.42	3.81	3.64	5.86	12.87
P/L Before E. Items & Tax	6.69	6.94	20.25	14.99	10.91	13.57
Exceptional Items	--	--	--	--	--	--
P/L Before Tax	6.69	6.94	20.25	14.99	10.91	13.57
Tax	2	1.1	3.04	3.65	3.22	2.15
P/L After Tax – Ord. Activities	4.69	5.84	17.21	11.35	7.69	11.42
Prior Year Adjustments	--	--	--	--	--	--
Extra Ordinary Items	--	--	--	--	--	--
Net Profit/(Loss)	4.69	5.84	17.21	11.35	7.69	11.42
Equity Share Capital	15.71	17.43	17.43	17.43	17.43	17.43
Reserves	116.46	130.28	147.82	157.24	--	--
Calculated EPS	3.1	3.58	10.24	6.51	4.41	6.55
Calculated EPS (Annualised)	12.4	14.32	40.96	26.04	17.64	26.20
Public Shares Holding	6931173	6931173	6931173	6931173	NA	NA
Public Share Holding (%)	44.13	39.76	39.76	39.76	NA	NA

We expect company will continue to perform well over next 2 years with higher revenue and EBITDA margins considering higher realisation from ENA as well as Ethanol and edible oil business.

4. Peer Group Comparison

PEER GROUP	BCL INDUSTRIES	KRITI NUTRIENTS	MODI NATURALS	DILIGENT INDUSTRIES
CMP	96.85	32.40	73.00	14.90
52 W H/L	183.90/86.10	56.95/24.55	143.00/58.60	18.90/10.12
Market Cap	168.84	162.34	92.39	34.08
Results (in Crores)	Dec-18	Dec-18	Sep-18	Sep-18
Sales	242.98	120.94	57.54	10.02
PAT	11.35	5.36	0.47	0.03
Equity	17.43	5.01	11.12	11.44
EPS (TTM)	22.42	3.70	2.37	0.45
P/E	4.32	8.76	30.80	33.11

Oil Extraction segment accounted for 60% whereas Distillery accounted for 35% of the revenue for the year 2017-18. As the company derives most of its revenue from edible oil vertical, we have compared company's performance with other players from the same sector. However, we believe company's distillery business will contribute significantly over next 1 to 2 years with better profit margins.

5. Key Concerns / Risks

- Any escalation in the cost of raw materials and other inputs can impact the profit margins of the company.
- The Indian alcoholic beverages industry continues to be one of the most regulated sectors. The Industry is subjected to different laws and regulations varying from State to State Any change in regulation from central and state government is one of the major risk for the companies operating in alcohol Industry.

6. Saral Gyan Recommendation

- ✚ BCL Industries has around 33% market share in ENA production in North India. Nearly 90% of its distillery business comes from the share of bulk alcohol and remaining 10% of its distillery business comes from branded alcohol. The market for ENA has gained momentum in the past few years majorly as a result of increasing consumption of alcohol in the region. In India, almost 90% of ENA is used for potable alcohol, which accounts for an annual production capacity of nearly 2.7 billion litres. These figures are further expected to increase owing to a rise in the demand for potable alcohol due to increasing disposable incomes, changing attitude towards drinking, western influence, and a gradual shift from country liquor to Indian Made Foreign Liquor (IMFL).
- ✚ The Eastern and North-Eastern regions, despite being strong markets, have a ENA production capacity of only 200 KLPD. With this demand supply gap in North-Eastern India, BCL Industries has envisaged the setting up of distillery plant at Kharagpur, West Bengal which shall make it combine capacity to 525 KLPD and the largest food grain ENA manufacturer in the country.
- ✚ As per Industry experts in alco-beverage business, grain-based alcohol is used to produce premium products in IMFL, while mass or volume products are molasses-based. With rise in consumption of premium and super premium category IMFL brands, demand of grain based ENA is expected to grow consistently in coming years. Hence, BCL Industries being one of the largest grain-based ENA manufacturers in India, will be the direct beneficiary.
- ✚ Government initiative to encourage distilleries to divert the ENA production to ethanol, the company has already started earning higher realisations of about 15% from its balance capacity of ENA production of 3.6 crore litres, which is further expected to surge in Q4 2018-19. Moreover, the company has chosen part of its ethanol supply in Gujarat to moderate its logistic costs while importing vegetable oil from Kandla port for processing at its edible oil plant at Bathinda and anticipates substantial reduction in logistics cost in coming quarters.
- ✚ BCL Industries continues to be the one of the preferred supplier in de-oiled rice bran, mustard cake, DDGS etc to multinational companies including Cargill, Godrej Agrovet and Amul. The company has remained consistent in the edible oil segment in terms of sales revenue however due to the late start of the crushing season of rice mills, it recorded low sales of rice bran refined oil in last quarter. The cascading effect of this late start will lead to a better sales in edible oil segment during this quarter. The favourable development in agricultural sector with continuous increasing demands in edible oils, government's constant push of decreasing imports, focus on increasing palm oilseeds cultivation, increasing and announcement of higher MSPs will help company to register better margins going forward.

- ✚ The company's real estate segment continues to register robust sales with significant surge in its revenues. The company shall continue its endeavour to reduce the financial burden by utilising partial revenues from its real estate sales.
- ✚ The company has registered sales CAGR of 7.8%, profit CAGR of 49.7% with ROE of 11.4% over last 3 years. We expect company performance to improve going forward with increase in contribution from better margin ENA & ethanol business.

KEY FINANCIALS	Mar 2014	Mar 2015	Mar 2016	Mar 2017	Mar 2018
Return on Equity (%)	7.81	6.78	6.91	9.79	15.27
ROCE (%)	6.63	9.04	6.04	7.79	9.61
Operating Profit Margin (%)	4.51	5.42	4.85	5.45	5.51
Net Profit Margin (%)	0.93	0.80	1.13	1.42	2.04
Debt to Equity (%)	2.16	2.07	2.02	2.23	1.82

- ✚ As on Dec'18, promoter's shareholding in the company is 60.24% without pledging of any shares. Institutional shareholding in the company is nil. The company had paid dividend of Rs. 1 per share for FY16-17. However, the company has not paid dividend later to fund its expansion plan.
- ✚ As per our estimates, BCL Industries can deliver net profit of Rs. 54.70 crores in FY 2019-20 with annualized EPS of Rs. 32.15. At current price of 96.85, stock is available at forward P/E multiple of 3X based on FY19-20 earnings. Company's valuation looks attractive considering expected increase in revenue with higher realisation on account of ethanol production.
- ✚ On equity of Rs. 17.43 crore, the estimated annualized EPS for FY 19-20 works out to Rs. 32.15 and the Book Value per share is Rs. 72.58. At current market price of Rs. 96.85, stock price to book value is 1.33.

Considering government impetus to boost the ethanol blending and save the import bill on crude imports in coming years, planned capacity addition by the company in West Bengal to meet growing demand of ENA & Ethanol, positive development for domestic players in agricultural sector with continuous increasing demands in edible oils, and high earning visibility of the company with attractive valuations, Saral Gyan team recommends **"Buy"** on **BCL Industries Ltd** at current market price of Rs. 96.85 for target of Rs. 195 over a period of 12 to 24 months.

Buying Strategy:

- 70% at current market price of Rs. 96.85
- 30% at price range of Rs. 75 – 80 (in case of correction in stock price)

Portfolio Allocation: 3% of your equity portfolio

7. Disclaimer

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