

Bharat Agri Fert & Realty Ltd.

Date : 8-8-2018



Current Price	Rs. 164
Target Price	Rs. 490
Investment Horizon	Long Term

The Dark Knight Rises

Fertilizer Business: Rising from the ashes

Bharat Agri has been a fertilizer player (Single Super Phosphate) since inception. With a total installed capacity of 132,000 MT, the manufacturing factory is located in Wada, Palghar on company's owned land parcel of 18.36 acres. This business contributed ~60% of the revenue last year ie Rs 20.1 cr with negative operating margin of 6.5% mainly due to GST led issues and government policy changes last year. The plant operated at 40% capacity utilization during FY18.

However, owing to normalcy in business post GST and good monsoon in Maharashtra so far, the capacity utilization has improved drastically to 60%. The management expects this momentum to continue and pickup in demand by next year leading to even better utilization. This will help to maintain the cost and company enjoying better economies of scale. We expect this segment to grow at a CAGR of 36% for next three years to Rs 50 cr. in FY21 with a positive operating margin of 7%.

Favorable Policy changes will enhance the production of Single Super Phosphate

Single Super Phosphate is one of the important fertilizers manufactured in India. SSP is a traditional product for supplying phosphorus and sulphur to pastures, the main two nutrients required for pasture production. Generally mixed with Sulphate of Ammonia and Muriate of Potash, but can be blended with other fertilisers. Implementation of Nutrient Based Subsidy (NBS) policy, inclusion of sulphur under NBS, encouragement of micro nutrients fortified with zinc and boron etc has led to enhancement in production of SSP which can be seen from higher capacity utilization of 60% in the current year. Subsidized fertilizers fortified with Zinc and boron are eligible for additional subsidy of Rs. 500 per tonne and Rs. 300 per tonne respectively under NBS policy. This is highly positive for the industry and will lead to better days ahead.

Procurement of raw material at better prices and improving working capital cycle

The company imports raw materials required from Egypt at a much reasonable price which has led to improvement in its raw material cost over last couple of years.

The fertilizer companies have suffered deteriorating cash collection due to change in government policy with regards to subsidies. Earlier, the subsidy transfer policy used to be straight forward i.e once the company supplies finished inventory to distributors, subsidy of 85% of the total inventory supplied used to get collected from the government regardless of when it is sold to farmers.

Stock Data	
Industry Segment	Diversified
BSE Code	531862
NSE Code	NA
ISIN Code	INE842D01011
52 Week High / Low (Rs.)	184.0 / 78.5
Face Value (Rs.)	10
Diluted Number of Shares (Cr.)	0.53
Market Cap. (Rs Cr.)	84.6

Shareholding Pattern (%)			
Particulars	Jun-18	Mar-18	Dec-17
Promoters	67.9	67.9	67.9
Public & Others	32.1	32.1	32.1
Total	100.0	100.0	100.0

Financials Snapshot (Rs bn)				
Y/E Mar Mn	2018	2019E	2020E	2021E
Sales	337.1	546.8	1238.3	2092.7
EBITDA	24.1	173.2	230.6	482.2
EBITDA %	7.1	31.7	18.6	23.0
PAT	0.1	122.2	97.4	206.3
PAT %	0.0	22.4	7.9	9.9
EPS (Rs)	0.0	23.1	18.4	39.1
BPS (Rs)	143.0	163.1	178.0	212.2
ROE (%)	0.0	14.2	10.4	18.4
ROCE (%)	0.5	14.1	10.4	15.5

Valuations				
P/E (x)	9702.8	6.4	8.1	3.8
P/BV (x)	1.0	0.9	0.8	0.7
EV/EBITDA (x)	37.3	5.2	3.9	1.9
Div Yield (%)	0.0	1.7	2.0	2.7

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However things changed with the introduction of Direct Benefit Transfer (DBT). Now, the subsidy is received only when it is sold to end user (farmers). It took time for the company to manage the cash flow, however things have now stabilized and the cash collection as well as the sales have improved to 90 days from 120 days and is expected to improve further to 80 days moving ahead.

Realty Business

It is always considered as a boon to own huge land parcels. The same can be said for Bharat Agri as it owns a freehold ~106 acre of surplus land at Wada District Palghar, with a market value of around Rs. 106 crore on conservative basis calculated @ Rs. 1 crore/acre. This is excluding its 18.3 acre land on which it has its fertilizer factory operating and 8 acre land on which it has its Resort. Right now, this surplus land is categorized under 'Agricultural land' however the company has already applied for it to be changed to 'Non-Agricultural land' and expects to get the permission soon. This will be a major game changer for the company as it plans to expand its Resort business once they have the approval.

The company's old property is in Fountain, Mumbai admeasuring ~11,000 sq ft which needs repairs and renovation. However post that, the property can easily fetch cash of ~Rs 110 cr based on current market rates. Apart from this, the company also owns 6.25 acre freehold land at Majiwada, Thane of which Phase I project on 3 acre land is already completed. The total saleable area has been around 3.65 lakh sqft. It has so far sold 348 flats. Unsold stock of OC received flats will be sold in current financial year. The company has sold 3 flats in the first quarter and expects to sell the remaining 8 flats by end of this financial year. Average ticket size for each flat is around Rs 1.3 cr for saleable area of 1111 sq ft. Since the cost has already been recognized in previous years, the entire cash collected from sale of 11 flats will flow directly to the bottomline in this year. We expect Rs 13-15 cr cash coming from unsold inventory.

Phase II to kick start soon

The company plans to launch its phase II project soon at Majiwada on the balance 3.25 acre land. Company is eligible for stilt +30 floors which is pending with TMC & MOEF and will complete both buildings in next few years with 300000 sq. ft saleable area. It will have a mix of 1BHK and 2BHK which will be completed in 3 years.

With several new infrastructure projects, Thane has emerged as the preferred choice for any real estate investment. Besides the relative affordability factor it offers as compared to any other area in the Mumbai Metropolitan Region (MMR), several new-age home-buyers are zeroing in on a property in this part of the Central suburbs. Company's land location at Majiwada is a big benefit as it is just 12 mins away from Central Thane Railway Station and just 5 mins away from the Proposed Kapurbawdi Metro Station. Due to this, the prices for this area has gone up by 20%-30% in last 2 years despite the overall real estate market being

- Demand for residential properties has surged due to increased urbanisation and rising household income. India is among the top 10 price appreciating housing market internationally.
- About 10 million people migrate to cities every year.
- Growing economy driving demand for commercial and retail space.

- Cross-border capital inflows to India's real estate sector have increased 600 per cent between 2012-17 to reach US\$ 2.6 billion.
- In 2017, India ranked 19th out of 73 countries in attracting cross-border capital to its property market.
- Private equity investments in the sector increased 74.1 per cent year-on-year in the H1 2018 to reach US\$ 2.24 billion.

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Date : 8-8-2018



stagnant. This bodes well for the company as this project itself will generate about Rs 360-400 cr of revenue for the company at prevailing market rate of Rs 12000 per sqft.



ANCHAVIYO Resort

Hidden amongst a rich cluster of towering trees – Mango, Chikoo and Guava, the luxurious chalets, mud houses, log cabins and tents at Anchaviyo are built across a sprawling estate of 150 acres. Built with state-of-art facility, the resort is built on company's own land of 8 acres at Wada. The resort is just 80 kms away from Mumbai and a perfect getaway from the tussle of day to day life. The Resort has 20 Rooms and only caters to elite class. The average ticket size per room is around Rs 22000 per night for a couple. The occupancy rate is currently around 60%. With the hotel industry witnessing a tailwind, the occupancy rate is set to only improve in next 3-5 years. With the current inventory in hand, the company can generate a total revenue of ~10 cr in FY19.

The management has plans to increase its room strength from 20 to 80 in order to accommodate more people as it is considering to introduce 'Destination Wedding' as one of the major marketing strategy at the ANCHAVIYO Resort. This will help the company to generate additional revenue and improve the occupancy ratio. It has also applied to the ITDC to obtain 3 Star category status to the resort and other fiscal benefits under the 'Tourism Policy 2016' of Government of Maharashtra.



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Date : 8-8-2018



Valuation at a throw away price

With a Networth of Rs 75.6 cr, the stock trades at 1x P/BV at cmp of Rs 148.8. The company is at an inflection point with all its business verticals are at the cusp of massive growth. The Fertilizer business is set to do well with better capacity utilization and improved working capital cycle will lead to higher profitability. This business is set to touch revenue of Rs 50 cr by FY21. We value this business at Rs 75 cr at 2x sales of FY20.

The surplus land parcel of 106 acres that the company owns at Wada is valued conservatively at Rs 106 cr. The unsold inventory of 11 flats of Phase I Majiwada project will cash in Rs 15 cr for the company in this year. Phase II Project of Majiwada is valued conservatively at 1x sales of Rs 360 cr. Overall, the realty business is valued at Rs 481 cr.

Coming to the Resort Business, with Hotel industry facing tailwinds, the company is well set to do a business of Rs 10 cr this year and Rs 13 cr next year. We value their Resort Business at 2x FY20 sales to Rs 26 cr which is well within the average industry valuation of 3x sales. The company has no long term borrowings and Rs 17.5 cr as short term borrowings for working capital requirements. As on March 31, 2018 the company had Rs 5.8 cr of liquid assets.

The combined intrinsic value of all the business net of debt comes to Rs 570 cr while the market cap for the company today is just Rs 79 cr. This gives a potential upside of 7 times over an investment of 3-4 years. We recommend a strong buy from short term as well as long term point of view due to multiple triggers.

Company Description

Incorporated in 1985, Bharat Agri Fert & Realty Ltd (Bharat Agri) is primarily engaged into Fertilizers, Realty and Resort business. The company started as a Fertilizer company and was a leading manufacturer of NPK fertilizers mainly Single Super Phosphate (SSP) Fertilizers. However, the company faced some challenges during its journey due to steep increase in oil prices, defective government policy on pricing and subsidy, led to increase in the prices of raw materials, the company started making losses from 1997 and filed to BIFR in order to revamp the company. Since then, the company has never looked back. With a vision of becoming a profitable company once again, the management took a bold decision by diversifying into real estate and eventually its own resort by developing its surplus land at Majiwada, Thane and Wada, Palghar.

Additional Data

Directors Data

Shri Yogendra D. Patel	Chairman & Managing Director	Shri K. N. Jethwa	Whole Time Director
Smt. Anjni Y. Patel	Whole Time Director	Shri Ramesh J. Vekaria	Independent Director
Ms. Chandni Y. Patel	Whole Time Director	Shri Rohit C. Vakharia	Independent Director
Shri Vijal Y. Patel	Whole Time Director	Shri Shailendra D. Patel	CEO

Statutory Auditors - M/s. Desai Saksena & Associates



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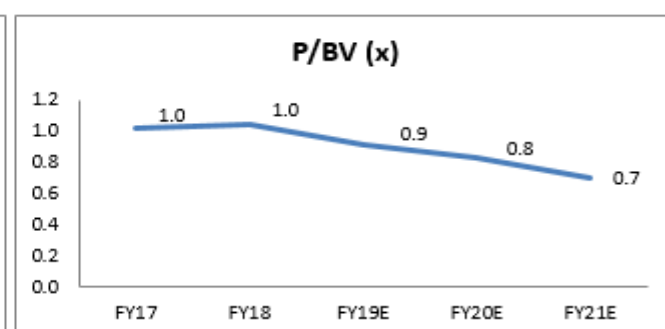
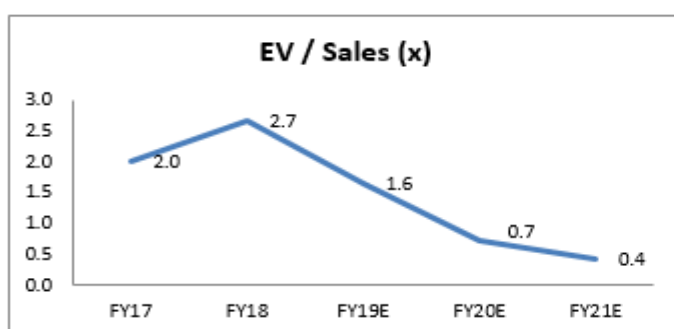
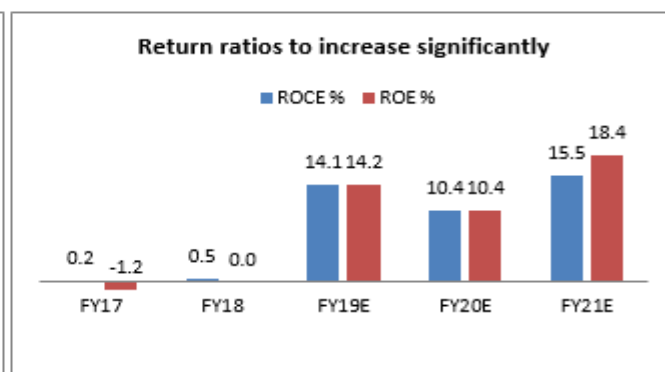
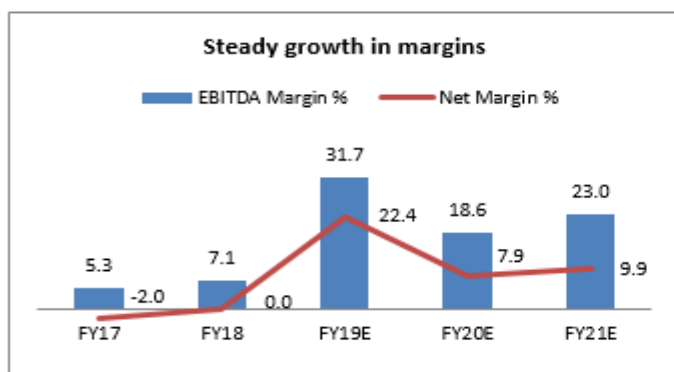
Bharat Agri Fert & Realty Ltd.

Date : 8-8-2018

Stock Price Chart



Above is three year stock price chart for Bharat Agri, the stock witnessed good correction from 133 levels to 65 during Aug 2015 to Aug 2016 post which it consolidated for one year till Aug 2017, since then it has been on its upward journey till date. One can see from the above chart that Rs 133-134 levels has been long term resistance zone for the stock which has now become long term support for the stock as it has been comfortably trading above that zone since last few months. Stock has witnessed high volumes at these levels recently and is ready for next upmove after big consolidation. Despite the smallcap and midcap index correcting sharply by 25% and 17% respectively during this calendar year, Bharat Agri has outperformed the index quite comfortably which shows the strength in this counter.



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Income Statement

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Sales	449.0	337.1	546.8	1238.3	2092.7
Expenses	425.1	313.1	373.5	1007.6	1610.5
EBITDA	23.8	24.1	173.2	230.6	482.2
EBITDAM %	5.3	7.1	31.7	18.6	23.0
Other Income	10.8	19.8	25.8	28.3	31.2
Interest	18.5	12.2	19.2	74.2	129.2
Depreciation	26.0	30.0	27.0	63.0	126.3
PBT	-9.8	1.7	152.8	121.7	257.9
Tax	-0.7	1.6	30.6	24.3	51.6
PAT	-9.1	0.1	122.2	97.4	206.3
EPS	-1.7	0.0	23.1	18.4	39.1
DPS	0.0	0.0	2.5	3.0	4.0

Balance Sheet

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Equity share capital	52.9	52.9	52.9	52.9	52.9
Reserves & surplus	717.8	703.0	809.4	887.8	1,068.7
Net worth	770.7	755.9	862.2	940.6	1,121.6
Loan Funds	143.1	174.8	174.8	674.8	1,174.8
Net deferred tax liability	9.9	9.2	14.8	33.4	56.5
Total Liabilities	923.6	939.9	1,051.8	1,648.8	2,352.8
Net block	236.2	260.8	265.7	515.7	765.7
Investment	6.7	2.4	5.5	6.1	8.9
Other Non Current Asset	221.8	245.7	273.4	371.5	471.8
Cash & bank balance	7.9	58.4	206.4	136.4	60.1
Other Current Assets	624.0	537.3	546.8	1,238.3	2,092.7
Current liabilities & Provision	173.1	164.8	246.0	619.1	1,046.3
Net current assets	458.9	430.9	507.2	755.5	1,106.4
Total Assets	923.6	939.9	1,051.8	1,648.8	2,352.8
BVPS	145.8	143.0	163.1	178.0	212.2

Key Ratios

Profitability (%)	FY17	FY18	FY19E	FY20E	FY21E	Multiples (x)	FY17	FY18	FY19E	FY20E	FY21E
EBITDA Margin	5.3	7.1	31.7	18.6	23.0	P/E	NA	9702.8	6.4	8.1	3.8
Effective Tax Rate	0	0	20	20	20	P/BV	1.0	1.0	0.9	0.8	0.7
Net Margin	-2.0	0.0	22.4	7.9	9.9	EV / Sales	2.0	2.7	1.6	0.7	0.4
ROCE	0.2	0.5	14.1	10.4	15.5	EV / EBITDA	37.6	37.3	5.2	3.9	1.9
ROE	-1.2	0.0	14.2	10.4	18.4	Dividend Yield (%)	0	0	1.7	2.0	2.7

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Disclosure:

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