

BASF India

Refer to important disclosures at the end of this report

Sustainability in margin crucial for profitability; maintain Hold

CMP: Rs 1,054

as of (May 24, 2020)

TP: Rs 1,185 (▲)

12 months

Rating: HOLD (■)

Upside: 12.4 %

- BASF India's Q4FY20 revenues came in line with estimates (up 40.3% yoy), aided by topline growth in Agriculture, Materials and Industrial Solutions segments. The Chemicals segment recorded significant growth, due to change in the revenue recognition model.
- EBITDA margins were ahead of estimates (4.1% vs. Emkay est. of 2.5%), primarily due to lower employee costs and other expenses. This was partially offset by higher-finished goods purchase.
- EBIT margins overall improved to 1.8% vs. -1.6% in Q4FY19, aided by margin expansion in most segments, except Chemicals. This was offset by higher depreciation. Adj. PAT (incomparable yoy) was at Rs404mn, benefitting from tax credits and lower interest costs.
- The high-quality specialty product portfolio with solid brand image offers resilience in the current environment. We estimate revenue to grow at a 10% CAGR (FY21-23E). We introduce our FY23 estimates and roll forward our valuations to arrive at the TP of Rs1,185 (earlier Rs1,055). We maintain Hold rating, and EW in our EAP.

What we liked? Topline growth in Agriculture Solutions, Materials, and Industrial Solutions despite challenging environment; EBITDA & EBIT margin improvement; dividend payout

What we did not like? Materials and Nutrition EBIT loss continues despite growth in topline; a surge in current liabilities; tax credit masks profitability

Certain segments hold ground: A change in the revenue recognition model (Agency to Merchandise) positively impacted the Chemicals segment as its topline rose 982% yoy to Rs2.86bn. However, the segment's EBIT margin contracted 415bps yoy to 1.4%. Overall revenue grew 40.3% yoy to Rs18.48bn, while clocking EBITDA at Rs758mn. EBIT margins for Agriculture Solutions/Materials/Industrial Solutions/Surface Technologies/Nutrition & Care/Others expanded yoy 1374bps/ 372bps/582bps/ 569bps/ 218bps/ 497bps. Overall EBIT margin improved to 1.8% vs. -1.6% in Q4FY19.

Integration may support Materials division: BASF has agreed to acquire a 100% stake in BASF Performance Polyamides India from BASF SE (Parent). This would be part of the Materials division going forward. The Polyamides business was earlier acquired from Solvay, in order to strengthen the engineering plastics division, and backward integrate key raw material supply i.e. Adiponitrile (AND).

Agro/Pharma growth momentum key; maintain Hold: Agriculture Solutions and Chemicals divisions would be in the limelight in near-to-medium term, given the optimism in the domestic market for agrochemicals and pharmaceuticals. However, Materials (Engineering Plastics, MDI /TDI {down 11%/30% yoy, China spot}) and Surface Tech. (Catalysts, Coatings) would bear the brunt of a structural slowdown in Construction, Petrochemical & Refining and Automotive. We introduce FY23 estimates and roll forward valuations to arrive at the TP of Rs1,185 (11x FY23E EV/EBITDA). We maintain Hold rating, and EW in our EAP.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Speciality Chemicals \(Page 9\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	60,257	75,511	81,010	88,463	97,309
EBITDA	1,647	2,729	3,819	4,701	5,171
EBITDA Margin (%)	2.7	3.6	4.7	5.3	5.3
APAT	(443)	510	1,416	2,055	2,425
EPS (Rs)	(10.2)	11.8	32.7	47.5	56.0
EPS (% chg)	(150.4)	0.0	177.8	45.1	18.0
ROE (%)	(3.2)	3.6	9.8	12.8	13.3
P/E (x)	(102.9)	89.5	32.2	22.2	18.8
EV/EBITDA (x)	33.6	19.0	13.4	10.9	9.6
P/BV (x)	3.2	3.3	3.0	2.7	2.4

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	(6.6)/(9.9)
Target Price change (%)	12.3
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

EPS Estimates		
	FY21E	FY22E
Emkay	32.7	47.5
Consensus	32.4	49.6
Mean Consensus TP (12M)	Rs 1,008	

Stock Details

Bloomberg Code	BASF IN
Face Value (Rs)	10
Shares outstanding (mn)	43
52 Week H/L	1,471 / 795
M Cap (Rs bn/USD bn)	46 / 0.60
Daily Avg Volume (nos.)	1,43,660
Daily Avg Turnover (US\$ mn)	2.0

Shareholding Pattern Mar '20

Promoters	73.3%
FII	3.6%
DII	7.7%
Public and Others	15.4%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(1)	26	11	(20)
Rel. to Nifty	1	68	46	4

Relative price chart



Source: Bloomberg

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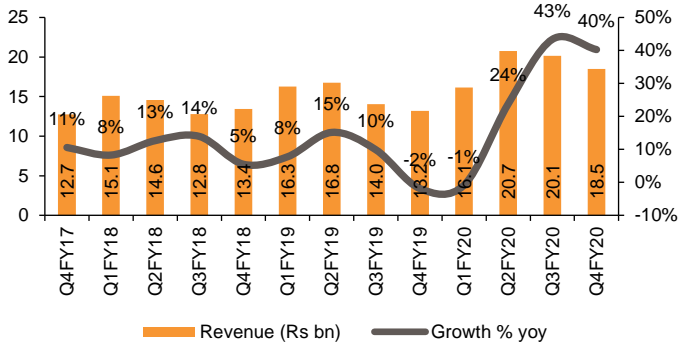
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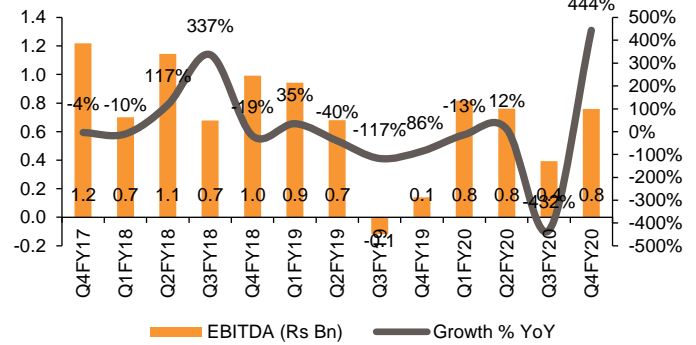
Story in Charts

Exhibit 1: Exceptional revenue growth from change in recognition model, benefits Chemicals division



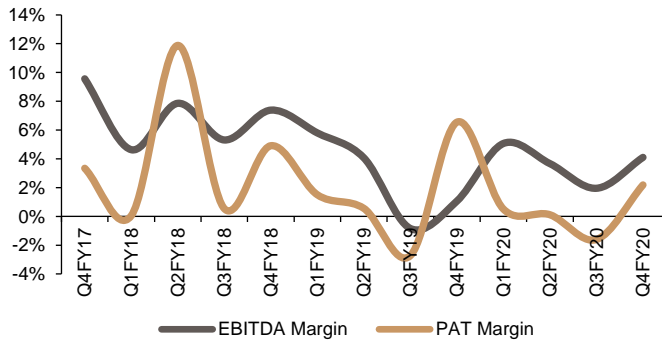
Source: Company, Emkay Research

Exhibit 2: EBITDA improvement owing to lower other expenses



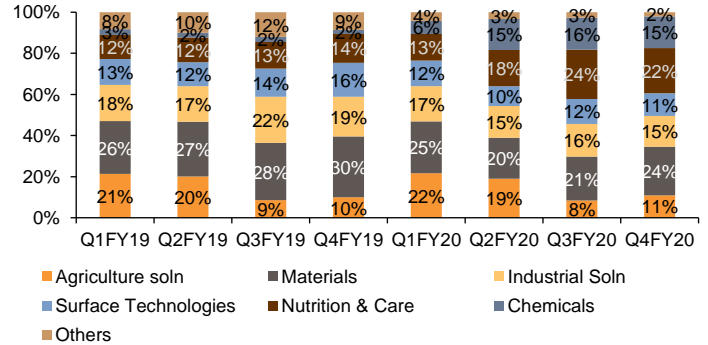
Source: Company, Emkay Research

Exhibit 3: PAT turns positive on tax credits



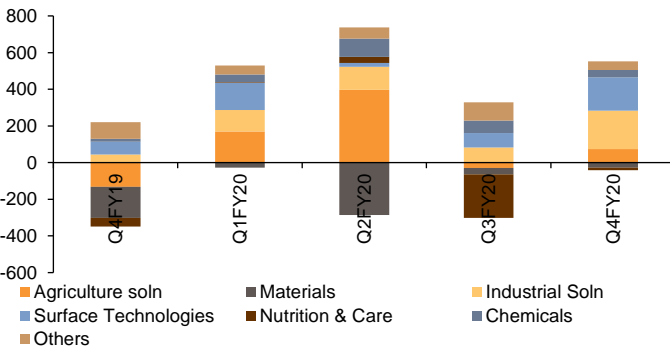
Source: Company, Emkay Research

Exhibit 4: Nutrition & Care and Chemicals gain revenue share yoy



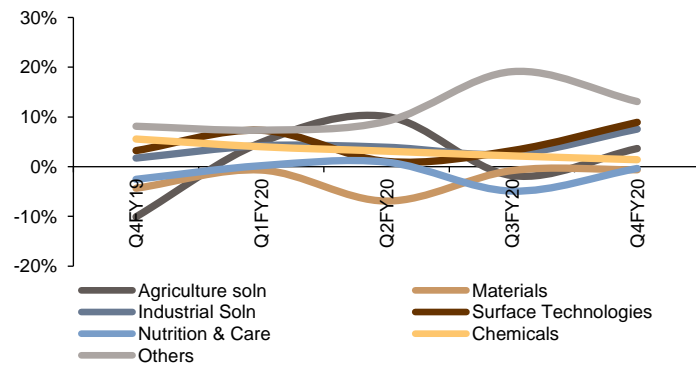
Source: Company, Emkay Research

Exhibit 5: Segment-wise EBIT improves overall



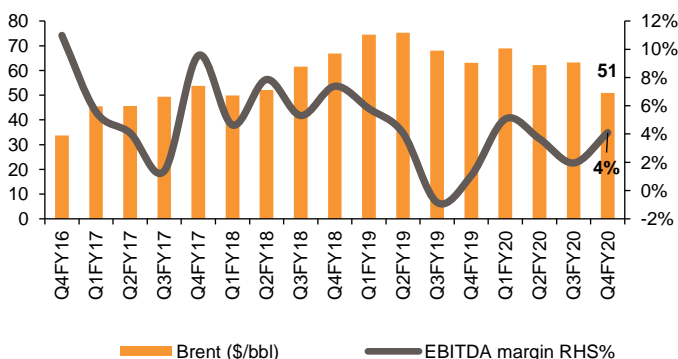
Source: Company, Emkay Research

Exhibit 6: Industrials and Surface see definitive margin expansion



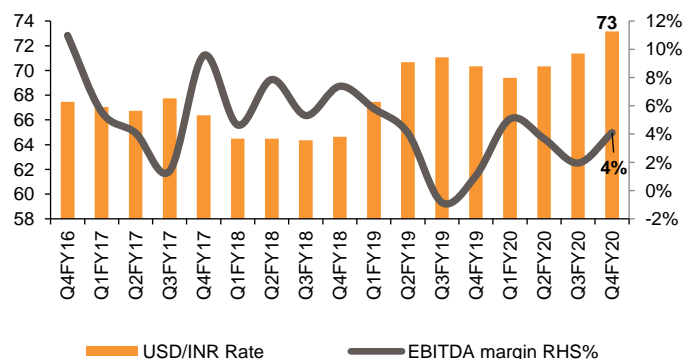
Source: Company, Emkay Research

Exhibit 7: Crude prices vital to margins



Source: Company, Industry, Emkay Research

Exhibit 8: USD/INR rate volatility hurts import exports of RM/FG



Source: Company, Industry, Emkay Research

Exhibit 9: Actual vs Estimates (Q4FY20)

(in Rs Mn)	Actual	Estimate (Emkay)	% Variation Emkay	Comment
Sales	18486	18150	1.9	In line with estimates
EBITDA	758	454	66.9	Above estimates due to lower employee costs and other expenses
EBITDA margin %	4.1	2.5	160 bps	
APAT	404	-170	NA	Above estimates, due to tax credits

Source: Company, Emkay Research

Exhibit 10: Quarterly Performance

Rs Mn	Q4FY19	Q1FY19	Q2FY20	Q3FY20	Q4FY20	YoY (%)	QoQ (%)	FY20	FY19	YoY %
Revenue	13,180	16,138	20,743	20,144	18,486	40.3	(8.2)	75,511	60,256	25.3
Operating Expenditure	9,898	12,503	17,015	16,941	14,878	50.3	(12.2)	61,337	45,866	33.7
Gross Profit	3,282	3,634	3,728	3,203	3,608	9.9	12.6	14,173	14,390	(1.5)
as % of sales	24.9	22.5	18.0	15.9	19.5		22.7	18.8	23.9	
SG&A expenses	3,142	2,817	2,968	2,810	2,850	(9.3)	1.4	11,444	12,744	-10.2
as % of sales	23.8	17.5	14.3	14.0	15.4		10.5	15.2	21.1	
EBITDA	139	818	761	393	758	443.7	92.8	2,729	1,646	65.8
Depreciation	355	455	456	465	424	19.4	(8.8)	1,801	1,471	22.4
EBIT	(216)	363	305	(72)	334	NA	NA	929	175	430.0
Other Income	33	55	63	38	121	265.0	214.6	277	133	107.3
Interest Expenses	196	242	226	207	159	(18.8)	(23.0)	834	851	(2.0)
PBT	(379)	176	141	(240)	295	NA	NA	371	(543)	NA
Total Tax	(37)	31	8	(65)	(112)	NA	NA	(139)	(99)	NA
Reported PAT	(342)	145	133	(175)	407	NA	NA	510	(444)	NA
Extra ordinary items	(1,205)	63	110	149	3	NA	(98.0)	325	(1,261)	NA
Adjusted PAT	863	82	23	(324)	404	(53.2)	NA	510	(444)	(214.8)
Adjusted EPS	20	2	1	(7)	9	(53.2)	NA	(5)	(1)	375.2
Margins (%)						(bps)	(bps)			(bps)
EBITDA	1.1	5.1	3.7	2.0	4.1	304	215	3.6	2.7	88
EBIT	-1.6	2.2	1.5	-0.4	1.8	NA	NA	1.2	0.3	94
EBT	-2.9	1.1	0.7	-1.2	1.6	NA	NA	0.5	-0.9	139
PAT	6.5	0.5	0.1	-1.6	2.2	-436	NA	0.7	-0.7	141
Effective Tax Rate	9.7	17.4	5.6	27.2	-37.8	NA	NA	-37.3	18.2	NA

Source: Company, Emkay Research

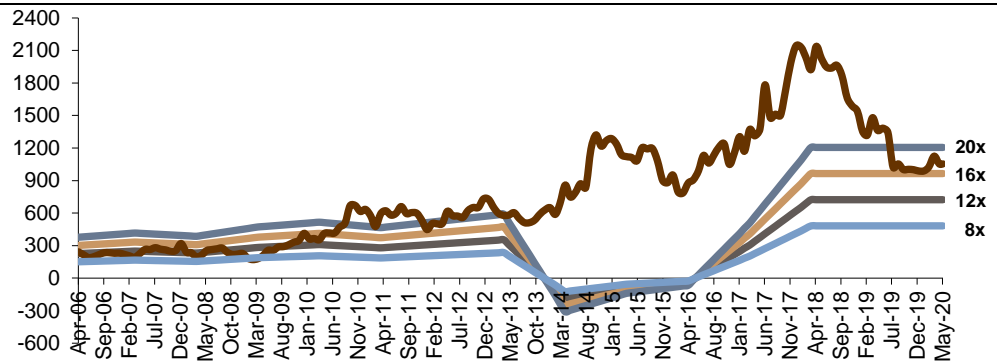
Exhibit 11: Segmental Performance

Revenue- Segment Wise	Q4FY19	Q1FY19	Q2FY20	Q3FY20	Q4FY20	YoY (%)	QoQ (%)	FY20	FY19	YoY %
Agriculture solutions	1,305	3,490	3,938	1,681	2,032	55.7	20.8	9,109	8,028	13.5
Materials	3,913	4,082	4,139	4,316	4,385	12.1	1.6	12,538	12,549	-0.1
Industrial Solution	2,552	2,756	3,197	3,209	2,757	8.1	(14.1)	9,162	8,927	2.6
Surface Technologies	2,161	2,017	1,999	2,431	2,042	(5.5)	(16.0)	6,447	5,953	8.3
Nutrition & Care	1,863	2,092	3,658	4,851	4,094	119.8	(15.6)	10,601	5,718	85.4
Chemicals	264	1,024	3,144	3,133	2,860	982.5	(8.7)	7,300	1,186	515.6
Others	1,123	677	669	523	361	(67.8)	(30.9)	1,869	4,715	-60.4

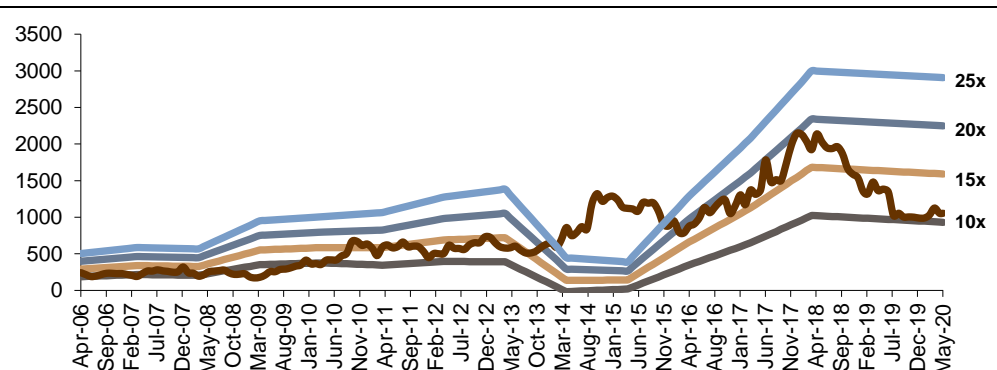
EBIT- Segment Wise	Q4FY19	Q1FY19	Q2FY20	Q3FY20	Q4FY20	YoY (%)	QoQ (%)	FY20	FY19	YoY %
Agriculture solutions	(131.5)	171	398	(29.9)	74.3	NA	NA	538	793	-32.2
Materials	(169.7)	-28	-286	(33.4)	(26.9)	NA	NA	(347)	(691)	NA
Industrial Solution	44.4	116	125	82.1	208.5	369.6	154.0	323	671	(51.8)
Surface Technologies	69.9	148	21	78.7	182.2	160.7	131.5	248	8	3,074.4
Nutrition & Care	(47.2)	4	33	(237.7)	(14.4)	NA	NA	(200)	(265)	NA
Chemicals	14.7	41	98	68.3	40.3	174.1	(41.0)	208	139	49.7
Others	91.3	50	61	99.9	47.3	(48.2)	(52.7)	211	92	130.3

EBIT Margin(%)-Segment wise	Q4FY19	Q1FY19	Q2FY20	Q3FY20	Q4FY20	(bps)	(bps)	FY20	FY19	(bps)
Agriculture solutions	(10.1)	4.9	10.1	(1.8)	3.7	NA	NA	5.9	9.9	-397
Materials	(4.3)	-0.7	-6.9	(0.8)	(0.6)	NA	NA	(2.8)	(5.5)	NA
Industrial Solution	1.7	4.2	3.9	2.6	7.6	582	500	3.5	7.5	-399
Surface Technologies	3.2	7.3	1.1	3.2	8.9	569	569	3.8	0.1	371
Nutrition & Care	(2.5)	0.2	0.9	(4.9)	(0.4)	NA	NA	(1.9)	(4.6)	NA
Chemicals	5.6	4.0	3.1	2.2	1.4	-415	-77	2.8	11.7	-885
Others	8.1	7.3	9.1	19.1	13.1	497	-601	11.3	1.9	934

Source: Company, Emkay Research

Exhibit 12: PE Band

Source: Company, Emkay Research

Exhibit 13: EV/EBITDA Band

Source: Company, Emkay Research

Exhibit 14: Change in estimates

All fig in Rs mn (Ex Margin/EPS)	FY21E			FY22E			FY23
	Old	New	% Change	Old	New	% Change	Introduced
Revenues	88,398	81,010	-8.4	95,912	88,463	-7.8	97,309
EBITDA	4,174	3,819	-8.5	5,104	4,701	-7.9	5,171
EBITDA margins %	4.7	4.7	-0.2	5.3	5.3	-0.1	5.3
Net profits	1,514	1,416	-6.5	2,283	2,055	-10.0	2,425
EPS	35	32.7	-6.6	52.7	47.5	-9.9	56.0

Source: Company, Emkay Research

Exhibit 15: Peer comparison

Company Name	Price (Rs)	Mkt Cap (Rs bn)	Reco	TP (Rs)	PE			PB (x)			EV/EBITDA		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Advanced Enzyme Tech	157.5	17.6	Buy	214	13.3	12.1	10.3	2.2	1.9	1.6	8.3	7.3	6.0
Apcotex Industries	97	5.0	Buy	114	31.4	20.1	13.6	1.8	1.7	1.7	16.5	11.2	8.7
BASF India	1054	43.9	Hold	1185	89.5	32.2	22.2	3.3	3.0	2.7	19.0	13.4	10.9
Camlin Fine Sciences	36.3	4.4	Buy	70	14.4	8.1	6.1	1.6	1.3	1.1	7.3	5.1	4.2
GHCL	99.2	9.4	Buy	169	2.4	2.4	2.1	0.4	0.4	0.3	2.5	2.6	2.3
Navin Fluorine	1497	74.0	Buy	1600	45.0	35.3	28.8	6.2	5.4	4.7	30.2	26.7	21.8
SRF	3370	193.7	Buy	3860	22.1	22.6	16.0	4.0	3.4	2.8	16.6	14.2	10.8
Tata Chemicals	283.4	72.2	Hold	302	1.0	10.5	8.0	0.6	0.5	0.5	6.5	6.9	5.7
Vinati Organics	962.5	98.9	Hold	915	31.6	34.6	26.3	7.6	6.5	5.4	24.1	25.5	19.3

Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	60,257	75,511	81,010	88,463	97,309
Expenditure	58,610	72,781	77,191	83,762	92,138
EBITDA	1,647	2,729	3,819	4,701	5,171
Depreciation	1,471	1,801	1,749	1,877	1,971
EBIT	176	929	2,070	2,824	3,200
Other Income	133	277	200	200	200
Interest expenses	851	834	661	635	581
PBT	(542)	371	1,609	2,389	2,819
Tax	(99)	(139)	193	334	395
Extraordinary Items	1,261	(325)	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	817	185	1,416	2,055	2,425
Adjusted PAT	(443)	510	1,416	2,055	2,425

Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	433	433	433	433	433
Reserves & surplus	13,696	13,427	14,713	16,638	18,933
Net worth	14,129	13,860	15,146	17,071	19,366
Minority Interest	0	0	0	0	0
Loan Funds	9,811	7,128	6,628	6,628	5,628
Net deferred tax liability	0	0	0	0	0
Total Liabilities	23,940	20,988	21,773	23,698	24,993
Net block	9,992	9,639	8,360	7,483	6,712
Investment	1,782	792	792	792	792
Current Assets	26,101	34,580	34,520	36,940	41,187
Cash & bank balance	132	809	1,035	859	1,765
Other Current Assets	0	0	0	0	0
Current liabilities & Provision	13,936	24,023	21,899	21,517	23,698
Net current assets	12,166	10,557	12,621	15,423	17,489
Misc. exp	0	0	0	0	0
Total Assets	23,940	20,988	21,773	23,698	24,993

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	(675)	95	1,409	2,189	2,619
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(1,751)	2,286	(1,838)	(2,978)	(1,160)
Operating Cashflow	626	3,947	1,326	954	3,235
Capital expenditure	133	(1,640)	(700)	(1,000)	(1,200)
Free Cash Flow	759	2,307	626	(46)	2,035
Investments	(335)	990	0	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(349)	(457)	(471)	(1,000)	(1,200)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	(15)	(2,684)	(500)	0	(1,000)
Dividend paid (incl tax)	216	130	130	130	130
Other Financing Cash Flow	(447)	(2,943)	(760)	(260)	(1,260)
Financing Cashflow	(231)	(2,814)	(630)	(130)	(1,130)
Net chg in cash	46	677	226	(175)	906
Opening cash position	86	132	809	1,035	859
Closing cash position	132	809	1,035	859	1,765

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	2.7	3.6	4.7	5.3	5.3
EBIT Margin	0.3	1.2	2.6	3.2	3.3
Effective Tax Rate	18.2	(37.3)	12.0	14.0	14.0
Net Margin	(0.7)	0.7	1.7	2.3	2.5
ROCE	1.3	5.4	10.6	13.3	14.0
ROE	(3.2)	3.6	9.8	12.8	13.3
RoIC	0.8	4.5	10.5	13.4	14.4

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	(10.2)	11.8	32.7	47.5	56.0
CEPS	23.7	53.4	73.1	90.8	101.5
BVPS	326.4	320.2	349.9	394.3	447.4
DPS	5.0	3.0	3.0	3.0	3.0

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	(102.9)	89.5	32.2	22.2	18.8
P/CEPS	44.2	19.7	14.4	11.5	10.3
P/BV	3.2	3.3	3.0	2.7	2.4
EV / Sales	0.9	0.7	0.6	0.6	0.5
EV / EBITDA	33.6	19.0	13.4	10.9	9.6
Dividend Yield (%)	0.5	0.3	0.3	0.3	0.3

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	0.7	0.5	0.4	0.3	0.2
Net Debt/EBIDTA	5.9	2.3	1.5	1.2	0.7
Working Cap Cycle (days)	72.9	47.1	52.2	60.1	59.0

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	7.9	25.3	7.3	9.2	10.0
EBITDA	(52.4)	65.7	39.9	23.1	10.0
EBIT	(90.9)	428.5	123.0	36.4	13.3
PAT	(66.8)	(77.3)	664.9	45.1	18.0

Quarterly (Rs mn)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Revenue	13,180	16,138	20,743	20,144	18,486
EBITDA	139	818	761	393	758
EBITDA Margin (%)	1.1	5.1	3.7	2.0	4.1
PAT	863	82	23	(473)	401
EPS (Rs)	19.9	1.9	0.5	(10.9)	9.3

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoters	73.3	73.3	73.3	73.3	73.3
FII	1.8	2.1	2.1	2.2	3.6
DII	8.9	9.0	9.1	9.1	7.7
Public and Others	16.0	15.6	15.5	15.4	15.4

Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
16-Apr-20	1,110	1,055	12m	Hold	Rohit Sinha
12-Feb-20	892	1,055	12m	Hold	Rohit Sinha
07-Feb-20	980	1,115	12m	Hold	Rohit Sinha
06-Jan-20	982	1,115	12m	Hold	Rohit Sinha
11-Nov-19	990	1,115	12m	Hold	Rohit Sinha
10-Oct-19	977	1,217	12m	Buy	Rohit Sinha
30-Apr-19	1,364	1,217	12m	Sell	Amar Mourya
25-Jan-19	1,370	1,217	12m	Sell	Amar Mourya
30-Oct-18	1,656	2,212	12m	Accumulate	Amar Mourya
31-Jul-18	1,938	2,212	12m	Accumulate	Amar Mourya
09-Jul-18	1,894	2,212	12m	Accumulate	Amar Mourya
07-May-18	2,129	2,212	12m	Buy	Amar Mourya
06-Feb-18	1,972	2,212	12m	Buy	Amar Mourya
14-Nov-17	1,836	2,212	12m	Buy	Amar Mourya
05-Oct-17	1,469	2,212	12m	Buy	Amar Mourya

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Speciality Chemicals



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Sector

Speciality Chemicals

Analyst bio

Rohit Sinha holds a CFA degree and comes with total four years of experience in the Specialty Chemicals sector. He currently covers nine stocks in the Specialty Chemicals space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Speciality Chemicals	0.19	0.16	-14%	-3	100.00
Advanced Enzyme Tech	0.00	0.00	NA	0	1.88
Apcotex Industries	0.00	0.00	NA	0	0.00
BASF India	0.00	0.00	NA	0	1.54
Camlin Fine Sciences	0.00	0.00	NA	0	1.58
GHCL	0.00	0.00	NA	0	0.95
Navin Fluorine	0.00	0.04	NA	4	23.01
Orient Refractories	0.00	0.00	NA	0	1.97
SRF	0.19	0.09	-53%	-10	46.69
Tata Chemicals	0.00	0.01	NA	1	6.53
Vinati Organics	0.00	0.00	NA	0	2.15
Cash	0.00	0.03	NA	3	13.70

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

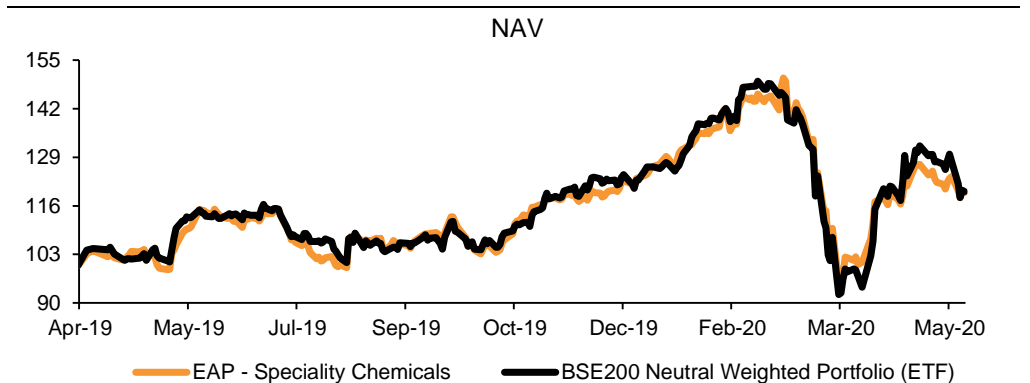
Sector portfolio NAV

	Base					Latest
	1-Apr-19	20-Aug-19	21-Nov-19	20-Feb-20	21-Apr-20	21-May-20
EAP - Speciality Chemicals	100.0	106.2	118.0	145.4	116.4	119.6
BSE200 Neutral Weighted Portfolio (ETF)	100.0	106.0	118.8	148.7	117.5	119.8

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 25 May 2020 01:12:50 (SGT)

Dissemination Date: 25 May 2020 01:13:50 (SGT)

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