Dated 9th April 2024

Bharat Agri Fert & Realty Ltd

View: Buy

CMP Rs 113 FV Rs 240

Brief Business Background –

Bharat Agri Fert & Realty Ltd (BAFRL) incorporated in 1958, is engaged in the construction and development of residential and commercial complexes, manufacturing fertilizers, and operating a resort. In 2012, the company changed its name from Bharat Fertilizer Industries Ltd to Bharat Agri Fert & Realty Ltd

The company manufactures 66,000 tonnes of Single Super Phosphate (SSP) fertilizers and 33,000 tonnes of sulphuric acid annually. BAFRL's product range includes single super phosphate (powder and granulated), sulphuric acid, and alum (liquid and solid)

BAFRL is presently engaged in three divisions –
The first business is the core sector fertilizer business, manufacturing single superphosphate fertilizers in powder and granulated form.

In the second business division, BAFRL is engaged in the hospitality business where it has developed under the Anchaviyo Resort, a brand resort in Palghar district of Wada Taluka in Maharashtra

As far as the third business division is concerned, BAFRL has a realty division where they are builders having completed six high rise towers in Majiwada, Thane and at present they are having one high rise building tower which is one of the tallest in Thane.

Phase-I is completed and work on Phase-II is ongoing. This is ground plus 59 floors residential floors. On each floor there will be eight flats of two and three BHK and total there will be 457 flats.

They have got all the required permission from MoEF, Civil Aviation, commencement certificate and required permission from chief fire officer and from collector office.

The date of completion is by December 31, 2028. This will generate Revenues of Rs. 800 crs. and profit of Rs. 500-600 crore as per the management

Key Promoters & Key Management Team Members

- Shri Yogendra Dahyabhai Patel – Chairman & MD
- Shri Kantilal N. Jethwa – CEO
- Mr. Vijal Yogendra Patel - Whole Time Director
- Smt. Anjni Yogendra Patel - Whole Time Director
- Ms. Chandni Yogendra Patel – Whole Time Director

Operational Review of all the business Divisions –

Fertilizer Division –

The Fertilizer Division encountered challenges in the past year, primarily driven by increased costs of prime raw material (imported rock phosphate) and inadequate working capital limits. This adversely affected the company's performance.

The Company's fertilizer facility operated at less than 10% capacity utilization for FY23 impacted by the supply and availability of raw Material for the production of Single Super Phosphate.

Hence, the management is in discussions with Chambal Fertilizers and Indian Potash Limited for a suitable lessee who will operate the plant efficiently benefitting both Bharat Agri as well as the lessee's company with a lease cum conversion bases income of Rs.10-12 crore annually from this division. As on March 31, 2024 the fertilizer division has become debt free, which will give a big boost to the balance-sheet of the company.

Hospitality Division –

BAFRL operates a thematic luxury resort branded as 'Anchaviyo Resort' which currently has 60 rooms all exclusively designed in different themes. With 60 rooms of theme-based units spread over 4,35,600 sq.feet, the 'Anchaviyo Resort' has successfully established a strong brand image across the country.

The current occupancy levels of the resort is 65-70% with an average rent of Rs 20,000 per room generating annual turnover of Rs 20- 21 crore. The company intends to increase the number of Rooms to 125-130 in the next two years. The company intends to become a preferred wedding destination in the country along with large corporate bookings. This will generate upto Rs 40-Rs 50 crore per year.

The resort division witnessed an impressive 84% increase in sales during the current year compared to the previous year. Saraswat Co-op Bank Ltd sanctioned working capital limits, contributing to the stability of the resort. However, the company only utilized Rs 6.00 crore from the sanctioned limits, thus showing strong growth signs.

Realty Division –

BAFRL had constructed a residential complex in Thane with six towers of average 20-floor buildings constructed between 2007-08 to 2015-16. The units in these six towers were all sold out. The company has earlier gained approval for the 'Wembley Tower' for 19 floors only, which after the Covid pandemic, was extended till 59 stories.

The 'Wembley Tower' - G Project was launched on October 24, 2023, and the construction work has started. The towerwill house 457 units of 2&3-BHK apartment flats. BAFRL aims to complete the project over the next four years and the company expects this project to generate revenues up to Rs 800 crore yielding a profit of Rs 500-600 crore during this period.

All necessary permissions and approvals have been secured for the construction of a residential 'Tower G – Wembley Stilt' with G+59 residential floors at Majiwada, Thane.

The company is set to acquire additional Floor Space Index (FSI) to expand this tower up to 59 floors within the next three years, resulting in a saleable area of 4,00,000 sq. ft. The construction project finance from Saraswat Co-op Bank is in place, but company has not used any loan amount. The project is approved by 14 state-owned and private-sector banks, thereby enabling the company to commence the proiect in full swing. However, the company has not yet utilized the bank loan for the project. Interestingly, more than 14 banks, including national and multinational banks, have approved loans for the project for buyers.

Redevelopment of Promoter's Residential Building situated in Vile Parle

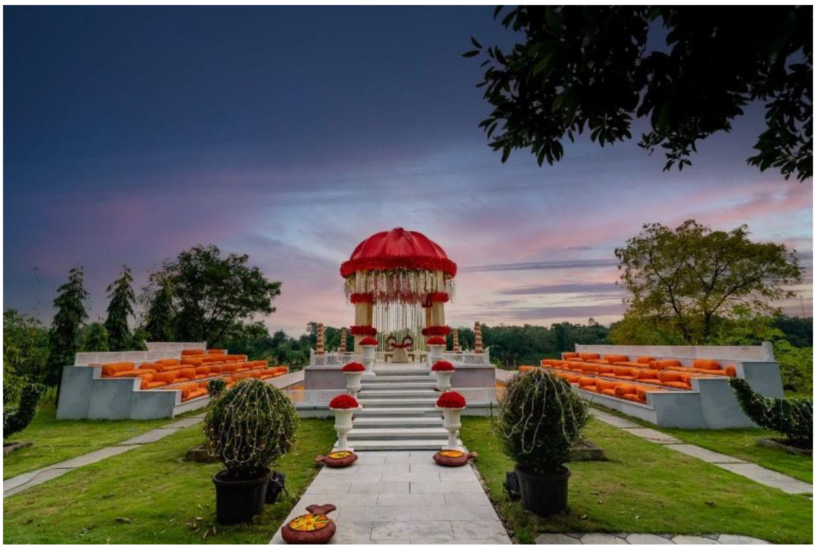
BAFRL is in discussion for redevelopment of Promoters Residential Building situated at Prime Location in Ville Parle (E) for making 3 &4-BHK luxurious residential flats in G+13 floor with a revenue potential of Rs 175 to Rs 200 crore respectively

The company has also approved the redevelopment on joint venture basis of the Company's existing commercial building situated at 'BharatHouse', 12 Nanabhai Lane, Fort area to build modern sophisticated commercial offices up to 35,000 sq. ft. RERA saleable carpet area which can generate a free cash flow of Rs.200 crore

The joint venture project focuses on the redevelopment of a residential building in Vile Parle (East), near Hotel Sahara Star, aiming to create 3-4 BHK luxurious residential flats in a Ground +13 Floor high-rise building

BAFRL is also concurrently developing excess surplus land in Wada, transforming it into non-agricultural plotting for the construction of second homes complete with club facilities and other facilities. Discussions have included the proposal of adjacent land measuring 13,06,800 sq. ft. from promoters, which, if added to the company's existing land bank of 52,27,200 sq. ft., could extend it to a total of 65,34,000 sq. ft.

This additional land could be utilized for further development, outright purchase, for ventures such as sports clubs, musical concerts, cultural halls, and even helipad services



Prospects for the Real Estate Market in Mumbai look promising –

The Mumbai realty market in 2023 continues to be a vibrant and evolving landscape. With infrastructural developments, affordable housing initiatives, and increased demand for co-working spaces, the market has witnessed remarkable growth.

The city's ever-increasing population, rapid urbanization, and skyrocketing property rates contribute to the narrative surrounding the realty market

If data is to be considered, Mumbai's real estate market, which happens to be one of the largest and most expensive in the country, recorded a 14% spike in the stamp duty revenue, as compared to a year ago, reaching approximately Rs 827 crore (US$104 million) as of May 2023

The city saw a total of 9542 property registrations, of which 84% were residential and 16% were non-residential, indicated a report by Knight Frank

This surge in growth of revenue can be attributed to higher-value property transactions, despite an increase in stamp duty rate and a steady rise in property prices

While a majority of property sales occurred in the Western suburbs, the Southern part of the city, too, has been witnessing considerable demand in 2023

Localities like Malad and Kandivali have emerged to the top in terms of housing demand; and other areas including Andheri West, Jogeshwari, Borivali-Dahisar, and Mira Road are swiftly picking up the pace. Thane, too, has come to the fore as one of the most affordable property sales cities, as indicated by PropEquity's study

Several factors have converged to fuel Mumbai's real estate boom in January 2024. Foremost among these is the city's robust economic growth, which has attracted domestic investors and garnered interest from international stakeholders

Furthermore, favorable government policies and infrastructure development initiatives have created an enabling environment for sustained growth across all real estate market sectors

Additionally, the infusion of foreign investments and the integration of innovative technologies have heralded a new era of efficiency and transparency within the industry

Factors Driving the Booming Real Estate Market

Economic Growth

Mumbai's status as the economic hub of India has fueled the demand for real estate properties. The city's thriving business ecosystem, including industries like finance, entertainment, and technology, has attracted both domestic and international investors, driving the need for commercial and residential spaces

Infrastructure Development

The ongoing infrastructure projects, such as metro expansions, coastal road development, and airport modernization, have significantly enhanced connectivity and accessibility across the city

Improved infrastructure not only adds value to existing properties but also stimulates new construction projects, thereby boosting the real estate sector.

Population Growth

As one of the most populous cities globally, Mumbai continues to experience steady population growth. The influx of migrants seeking employment opportunities has created a surge in housing demand, particularly in affordable housing segments

This demographic trend has propelled the construction of residential complexes to accommodate the rising population.

Residential Properties demand appetite growing –

Investing in residential properties in Mumbai continues to be a lucrative option for investors seeking long-term returns. Despite short-term market fluctuations, the city's ever-growing demand for housing ensures a stable investment environment

Areas with upcoming infrastructure projects and proximity to commercial hubs present promising opportunities for residential investment.

Commercial Spaces also being sold fast to corporates –

Mumbai's commercial real estate sector offers diverse investment opportunities, especially in prime business districts like Bandra-Kurla Complex and Lower Parel

With multinational corporations and startups establishing their presence in the city, the demand for office spaces and co-working facilities is on the rise. Investors can capitalize on this trend by acquiring commercial properties with high rental yields and capital appreciation potential

The future outlook for Mumbai's real estate market appears optimistic, driven by ongoing infrastructure developments, economic growth prospects, and evolving consumer preferences.

Despite challenges such as affordability concerns and regulatory changes, the city's resilience and adaptability continue to attract investments from domestic and international stakeholders. As Mumbai transforms into a global metropolis, its real estate sector is poised for sustained growth and innovation.

The Mumbai real estate market is experiencing an unprecedented boom fueled by economic growth, infrastructure development, and changing consumer trends

Despite challenges such as affordability concerns and regulatory changes, the city remains an attractive destination for property investments. With evolving market dynamics and investment opportunities, Mumbai's real estate sector is poised for continued growth and development in the years to come.

BAFRL according to us should benefit significantly ahead over the next 2 -3 years as it has a attractive land bank of 65,34,000 sq. ft which it hopes to monetize over the next three years ahead

Key Competitive Moats enjoyed by BFRL –

Strong Innovation ability & ability to monetize real estate optimally ahead – Bharat Agri Fert & Realty Ltd is one of those promising realty players which enjoy the benefit of right location but which have cleverly decided to add value to the land bank by setting up a resort and residential complexes which will create a eco system in itself and improve the lifestyle and the price appreciation of such constructed properties going ahead benefitting the company significantly

Experienced Management Team – The company's management team led by the present promoter & management team is another positive as they have the right bandwidth & proper understanding of the real estate market to scale up operations in a right way thus ensuring continuity and strong business traction going ahead

Scalable Business Model – BAFRL enjoys a business model which is scalable. The biggest positive BAFRL enjoys is that it is a fully Indian-grown real estate player with strong design domain expertise which positions itself very strongly with customers as regards pricing & customer retention levels

Company presently has its existing land bank of 65,34,000 sq. ft wherein over next three years company expects cash flows of over Rs 2000 crore which is executable over the next three years ahead

Strong Industry tailwinds from the Mumbai Real estate markets to be another positive driver for BAFRL going ahead –

The Mumbai realty market in 2023 continues to be a vibrant and evolving landscape. With infrastructural developments, affordable housing initiatives, and increased demand for co-working spaces, the market has witnessed remarkable growth

The city's ever-increasing population, rapid urbanization, and skyrocketing property rates contribute to the narrative surrounding the realty market

The ongoing infrastructure projects, such as metro expansions, coastal road development, and airport modernization, have significantly enhanced connectivity and accessibility across the city

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Key Weakness –

Environmental risks like floods, heavy rainfalls & Cyclones can significantly affect business growth

Any pandemic like covid again can also impact the company’s performance negatively

Business Outlook & Stock Valuation –

PRESENT FINANCIALS

Financials Rs Crs	FY20	FY21	FY22	FY23	9mthFY24
Sales	22.61	25.64	23.01	29.22	17.22
EBIDTA	-3.45	-2.26	1.93	-3.09	20.68
EBIDTA %	NA	NA	8.39	NA	-3.46
Other Income	1.1	0.51	3.37	1.53	1.96
PBT	-6.5	-5.83	0.49	-8.31	-8.57
PAT	-6.49	-5.94	0.43	-8.25	-8.72
EPS (Rs)	NA	NA	0.08	NA	NA
Equity Capital	5.29	5.29	5.29	5.29	5.29
Networth	65.72	60.06	60.66	52.71	43.99
Total Debt	14.47	18.24	22.95	26.96	31
Gross Block	21.25	26.6	26.44	29.02	29.02
Investments	0.17	2.01	1.09	1.13	2.65

Source – Co, Our Estimates

BAFRL is a classic special situation stock where the existing fertilizer operations are not profitable while the resorts business has made a small profit in the first nine months of FY24. Going ahead the monetization of the company's properties and their proper execution is the key to success going ahead

BAFRL will launch the real estate project for marketing on 9th April. For this 26 flats are already in the pipeline for booking and registration of payment in April, with the project expected to be completed within 4 to 5 years as per RERA registrations

In the hospitality segment, the company plans to expand its Anchaviyo Resort to 75 rooms by May 2024 and over 150 by FY27. Key growth drivers will be corporate events and FIT (Free Independent Traveler) segments and weddings

Cash Flow from Following Projects Rs Crs	FY25	FY26	FY27	FY28
Wembley Tower, Majiwada Thane (G+59)	**125-150**	**125-150**	**125-150**	**125-150**
Anchaviyo	25	32	42	54
Vile Parle Residential Building JV (G+13)	50	50	50	50
Bharat House Commercial Building JV	50	50	50	50
Fertilizer Business Lease	10	10	10	10
Sports Complex	0	0	25	50
Total Est CF from Projects for 5 years	**260-285**	**267-292**	**302-327**	**339-364**

Source – Co, Our Estimates.

- Wada weekend home / 2nd home project 6534000 sq.feet land's project income calculation pending

We believe that the company may require to issue fresh funds to finance these projects which could happen over the next 6 to 12 months.

If we were to look at the cumulative cash flow generated by all the projects provided they are executed on time we believe that the fair value going ahead could be anywhere between Rs 2000-2800 crore

BAFRL plans to monetize its 6534000 sq. feet land for developing a sports complex, and additional hospitality projects. The Thane project is expected to bring in substantial revenue over the next 3-4 years.

The projected revenue from the real estate project, based on a price of Rs 20,000 per square foot, is estimated to be a minimum of Rs 800 crore over the next 4- to-5 years. The company's cash profit guidance over the next 5 years is Rs 2,000 to Rs 2500 crore from all the projects.

We hence continue to be positive based on the company's future growth outlook in the real estate segment and believe that BFRL looks attractive from a long-term perspective considering the huge head room for future growth in the real estate space, the diversity of its customer base and strong domain knowledge enjoyed by it in the business. **Hence, we believe that the fair value of Bharat Agri Fert & Realty to be around Rs 240 /- per share in the next 12-18 months**