



# Bharat

# RASAYAN LIMITED

*Protecting Prosperity*

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Research Report as on 12-10-2022

Current Market Price : **11,005 INR**

Market Capitalisation : 4,574 Cr.

52 Week high of Bharat Rasayan share is Rs 14,400.00 while 52 week low is Rs 9,438.50

# An Indian player in the crop protection industry

- Bharat Rasayan is a part of the Bharat Group which operates across the value chain of the Pesticide industry. Bharat Rasayan Ltd. is engaged in manufacturing Technical Grade Pesticides and Intermediates used in the agro-chemical industry.
- It is a promoter run company, with the promoters having 75% stake in the company. Company was established in 1985 by S.N Gupta who is helped by other family members including M.P. Gupta & R.P. Gupta (energetic KMP, who has transformed company's fortunes). Bharat Rasayan operates in B2B space as it manufactures technical Grades & Intermediaries grades which are used to manufacture the formulations.
- Bharat Rasayan has close to 200 registered products and is one of the largest producers of Technical and Intermediates in the country. In India, there are currently close to 125 manufacturers of Technical Grades and 800 of formulations (According to FICCI)

# Revenue Distribution

- In FY21, technical pesticides accounted for ~80% of revenues, followed by intermediates (15%) and formulation grade pesticides (5%)
- Bharat Rasayan since 2012 has been focusing on the MNC business and business from top Agro chemical players. In terms of the product mix, the majority of the revenues come from off the patent molecules (Generics) where it faces stiff competition. Only 5% revenue comes from Patented molecules.
- Revenue from Domestic business has reduced : 52% in FY20 vs 72% in FY19  
Revenue from International business has increased : 48% in FY20 vs 28% in FY19
- In the international market, the Co has a strong presence in East Asia, South America, Europe and the Middle East. The company has been granted export house status by the Government of India. Its products are exported to 50 countries in Asia, South America, Africa and the European continent including Russia

# Agro Economy Overview

Indian agriculture is on a growth path, with an increase in investments and private funding in the past few years. In India, Agriculture accounts for a fifth of the gross value added and more than half the population engages in agricultural and related activities. Growth in agricultural products like fertilizers are bolstered by a favourable policy environment. The sector is expected to grow with better momentum in the next few years, owing to an increase in investment in agricultural infrastructure such as irrigation facilities, warehousing and cold storage. Factors such as reduced transaction costs, time, better port gate management and fiscal incentives will also contribute to this upward trend. Furthermore, the increased use of genetically modified crops is also expected to better the yield of the Indian farmers.

- Adoption of sustainable farming methods and agricultural practices to propel demand for biopesticides in crop protection chemicals market
- Demand for herbicides to generate sizable revenues during the forecast period; substantial use of these in end-use applications in Asia Pacific to propel revenue growth

- Application in Open Field Cultivation and Horticulture for Protection of Grain Crops Generate Sales: Products in the crop protection chemicals market have proved to be effective in protecting cereals and crops against a range of pests and insects. Especially in open field cultivation and horticulture, the demand has been substantive. Furthermore, rise in demand for herbicides for maximizing crop productivity in row-crop farming is enriching the sales prospects. Herbicides are extensively being used in suburban and urban areas for improving harvesting.
- Sustainable Agricultural Practices for Cereals & Grains Crops to Propel Innovation: The adoption of sustainable farming practices is spurring agrochemical companies to unveil pesticides made with natural materials. The trend of adopting crop protection chemicals characterized by targeted action on insects and pests has thus opened up new revenue streams. Of note, biopesticides are generating massive interest among them due to their non-toxic mechanisms in pest control, scrutinizing lucrative avenues for crop protection chemicals producers.

# Product Portfolio

- Bharat Rasayan has a market leadership in manufacturing of products like Cyhalothrin, Thiamethoxam, Meta-phenoxy Benzaldehyde (constitutes 13% of sales reduced from 21% of sales in FY15), Metribuzin (Technical Grade constitute 10% of sales) and Fipronil. It is important to remember that manufacturing of technical grade requires chemistry skills unlike formulation business. Moreover, the company is entering new products like:

## Expanding Product Portfolio

Product	Application
Butachlor-technical	A herbicide used in rice
Lambda-cyhalothric Acid	Intermediate
Ethyl-ester	Weedicide
Deltamethrin-technical	Insecticide

# Establishment of Joint Venture with **NISSAN CHEMICAL CORPORATION**

- The Company has announced Joint Venture Agreement with Nissan Chemical Corporation (Head Office: Chuo-ku, Tokyo, Japan) regarding establishment of joint venture company in India namely Nissan Bharat Rasayan Private Limited.
- Nissan Chemical Corporation is a research based Company and is one of the largest manufacturers of agrochemicals in Japan having global operations. NCC is desirous of expanding its manufacturing base in India by entering into a joint venture with BRL.
- The Company's project for **backward integration** at Dahej, as MNCs prefer to deal with companies who have less dependence on China for raw material under China +1 trend. **Currently Bharat imports 50% of raw material from China.**
- The JV Company i.e. Nissan Bharat Rasayan Private Limited will have a new manufacturing plant at Saykha Industrial Estate.
- Total Investment : 60 million USD    Investment Ratio - Nissan : BRL = 70 : 30

# Manufacturing Capabilities

The Co has three manufacturing facilities located in Dahej (Gujarat) Mokhra (Haryana) and Saykha which together manufacture a variety of active ingredients and intermediates. Bharat Rasayan originally had a single plant in **Rohtak** in 2012. They also commenced the second plant at **Dahej** in 2013. This was a game changer as their product basket expanded, capacities jumped from 5000 MTPA in Rohtak to 12,000 MT in Dahej. This was a debt fueled capex as we can see the D/E of the company increased substantially. Company has eventually brought down the D/E to a comfortable level by repaying debt. The JV Company i.e. Nissan **Bharat Rasayan** Private Limited will have a new manufacturing plant at **Saykha** Industrial Estate.

**Dahej Plant Capacity: 29200 MT/annum**

**Mokhra Plant Capacity: 4260 MT/annum**



# Future Triggers

- **Capex at Dahej:** Company is expanding its capacity at Dahej. The company is adding new products, expanding current products and doing backward integration to reduce dependence on China. (Capex approval of Rs200 Crores).
- **Joint Venture with Nissan:** Bharat Rasayan has recently entered into a JV with Nissan Chemical Corporation for manufacturing of other intermediates and other proprietary products with a total investment of Rs450 crores. (Investment Ratio- 70% NCC and 30% BRL)
- **Entry into Brazil:** Brazil is the largest agrochemical market in the world. Bharat Rasayan has got registration for its products in Brazil, it takes 3-5 Years to get the products registered and per product registration cost is somewhere close to 5 crores. Bharat filed for 5 products.
- **Focus on MNC Business:** One of the major reasons for doing backwards integration is to get more MNC business as Japanese and European innovators prefer to do business with companies which have less dependence on Chinese suppliers.

# Risks

- **Product Concentration** - The company's portfolio is significantly concentrated with top 10 products accounting for ~71% of total sales as per 2020
- ~~**Dependence on China for raw material**~~ - ~~Currently Bharat imports 50%~~ of raw material from China.
- **Highly dependent upon monsoon and climatic conditions** : The pesticide industry derives its sales from the agriculture sector which is highly dependent upon monsoons as well as incidence of fungal/pest attack on crops.
- **Poor disclosures** : The company has made poor disclosure in financial statements.
- **Risk from fire** : Bharat Rasayan reported fire accident at Dahej Plant. The accidental fire broke out in one of the Block, i.e. Block-D at GIDC Dahej, District Bharuch, Gujarat (India), on 17th May, 2022. The Company has All Risk Insurance Policy (including Loss of Profit Policy) and is fully covered as far as insurance is concerned.

# Peer Comparison

NAME	ID	1W	1M	3M	1Y	3Y	5Y	
Bharat Rasayan Stock Performance		↓-0.11	↓-1.65	↓-9.60	↓-6.63	↓-10.53	↑95.00	↑280.99
Rallis India Stock Performance	×	↓-0.33	↑0.19	↓-7.04	↑7.21	↓-30.50	↑22.83	↓-10.34
Sharda Cropchem Stock Performance	×	↑0.21	↓-0.21	↓-15.85	↓-35.34	↑36.78	↑60.75	↓-5.24
Astec Lifesc Stock Performance	×	↑0.81	↑5.49	↑0.05	↓-1.99	↑49.83	↑413.36	↑217.42
India Pesticides Ltd. Stock Performance	×	↓-0.87	↑0.26	↑4.13	↑9.30	↓-5.60	0.00	0.00

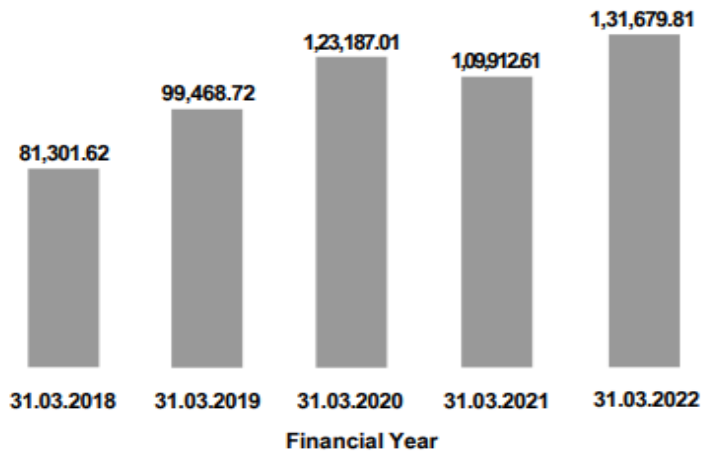
# Financials

(₹ in Lakhs)

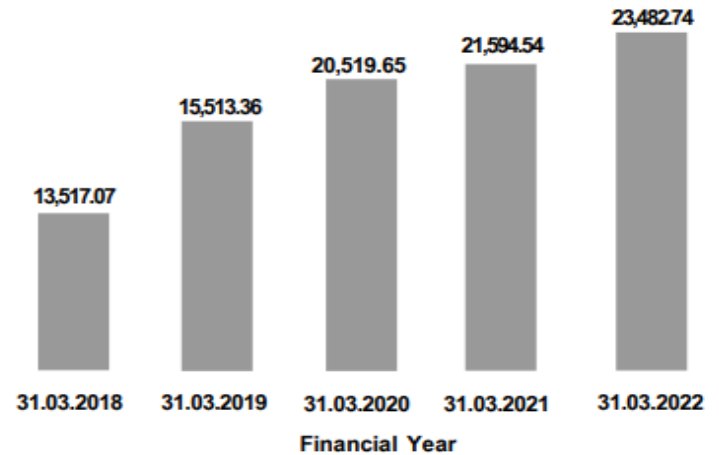
Particulars	Financial Year ended				
	31.03.2018	31.03.2019	31.03.2020	31.03.2021	31.03.2022
Total Income	81,301.62	99,468.72	1,23,187.01	1,09,912.61	1,31,679.81
Profit Before Tax	13,517.07	15,513.36	20,519.65	21,594.54	23,482.74
Profit After Tax	9,831.40	11,152.43	15,764.19	16,446.57	17,713.31
EPS (Basic & Diluted) [Face Value ₹10] (in ₹)	231.41	262.49	371.03	387.09	426.29

Total Revenue and Earning for Bharat Rasayan for the year ending 2022-03-31 was Rs 1316.80 Cr and Rs 175.98 Cr on Consolidated basis. Last Quarter 2022-06-30, Bharat Rasayan reported an income of Rs 335.41 Cr and profit of Rs 37.66 Cr.

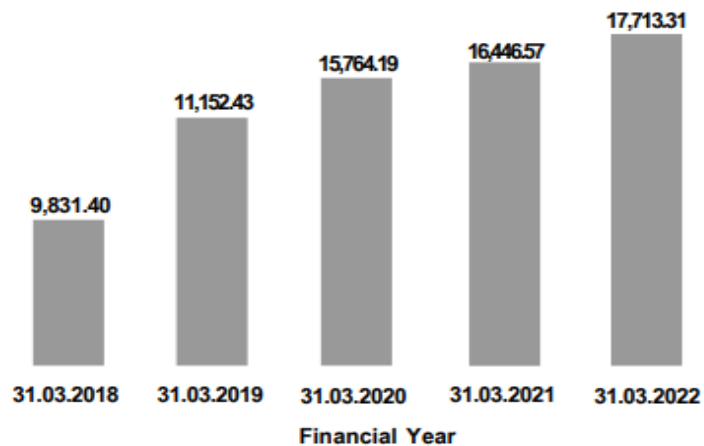
### Total Income (₹ in Lakhs)



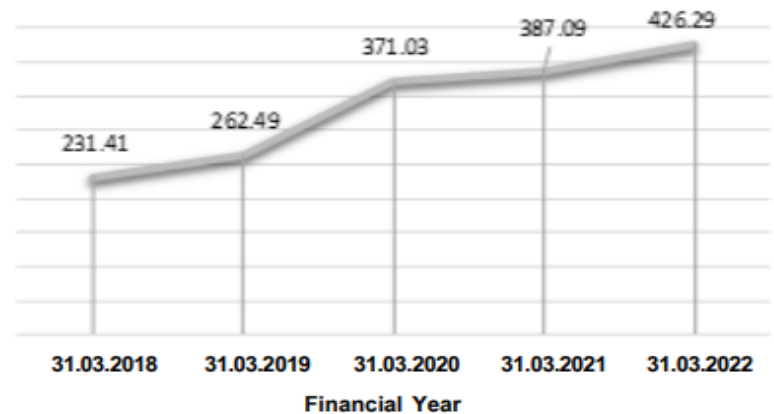
### Profit Before Tax (₹ in Lakhs)



### Profit After Tax (₹ in Lakhs)



### Earning Per Share (Basic & Diluted) ( in ₹ )



# Analysis of Financials

- Company has a good return on equity (ROE) track record: 3 Years ROE 26.9%
- Company's median sales growth is 22.6% of last 10 years
- Compounded Profit Growth has been 27% over the last 5 years
- The company operates in a very competitive environment where it has to ensure that a sufficient amount of inventory is always available in the distribution network despite facing the challenges of seasonal variations of demand.
- The **cash flow from operations** of the company has not been sufficient to meet its capex requirements for sales growth. The business of the company is working capital intensive resulting into the cumulative cash flow from operations of the company being less than cumulative profit after tax over the last 10 years. As a result, the company has to raise debt to fund its growth.

# Analysis of Financials

- **Working capital intensive nature of operations:** The commoditised nature of the products and seasonality factor (high demand during crop sowing seasons) makes the operations of the group highly working capital intensive. The group is required to stock up variety of products as inventory in advance of the season resulting in high inventory holding period which is a common phenomenon across pesticide industry. Further, since pesticides are the last link in the agricultural operation, after having invested in seeds, fertilizers, etc., the farmers have little surplus money for purchasing pesticides. Therefore, providing credit is necessary to stimulate demand. Thus, due to such intrinsic nature of business, the group's working capital requirement continues to remain high.
- **Loans and advances from promoters/related parties:** the company has taken a significant amount of loans from related parties

# Conclusion

- Buy on dips and hold for 3-5 years
- The share has been a Multi-bagger in the past. Stock gave a 3 year return of 95.22% as compared to Nifty Small cap 100 which gave a return of 78.59%.
- India is an agriculture economy. The scope of the agro-chemical industry in India is quite wide given the fact that there is still a considerable part of the country not touched by the modern technology and irrigation facilities.
- The growth of agrochemical industry is directly proportional to the growth of the agriculture sector. Any improved situation like increased purchasing power with the farmers to buy more of agro-chemicals is a further to the industry.
- The stock can become a beneficiary of China plus one trend. Most countries prefer to do business with companies which have less dependence on Chinese suppliers. Only 5% revenue comes from Patented molecules. If the company can increase this share in future, it is likely to become a multi-bagger with increased contracts from international business.