

India

Overweight (no change)

Highlighted Companies

BCL Industries Ltd

ADD, TP Rs98, Rs56 close

The one step approach of BCL has led it to become a 700kldp giant from 200kldp. Currently the plans are chalked up to 1000kldp distillation, making it a giant within the distillation space. We have decreased our EPS estimates for BCL Industries by 9.6%/11.2% for FY25F/26F, respectively, mainly building on its exit from the edible oil business.

Gulshan Polyols Ltd


ADD, TP Rs380, Rs203 close

With a mega manufacturing setup approach the company has entered the giant space of distillation, however execution on the said mega capacities, still must be seen.

Summary Valuation Metrics

| P/E (x) | Mar24-F | Mar25-F | Mar26-F |
|---------------------|---------|---------|---------|
| BCL Industries Ltd | 16.57 | 10.59 | 7.92 |
| Gulshan Polyols Ltd | 59.08 | 10.33 | 5.34 |
| P/BV (x) | Mar24-F | Mar25-F | Mar26-F |
| BCL Industries Ltd | 2.88 | 2.28 | 1.78 |
| Gulshan Polyols Ltd | 1.78 | 1.53 | 1.2 |
| Dividend Yield | Mar24-F | Mar25-F | Mar26-F |
| BCL Industries Ltd | 0.14% | 0.19% | 0.25% |
| Gulshan Polyols Ltd | 0.08% | 0.39% | 0.75% |

Research Analyst(s)



Nitin AWASTHI
 T (91) 22 4161 1550
 E nitin.awasthi@incredresearch.com

Agribusiness

Navigating the maze of maize

- There is supreme confidence about the ethanol sector in India, but the grain route is preferred due to a dicey policy roadmap for the sugar sector.
- The dicey policy roadmap for the sugar sector will lead to slower investments in the sugar route-ethanol biz, with a higher possibility of halting current plans.
- Our pecking order remains BCL Industries followed by Gulshan Polyols, based on their profitability turnaround and ethanol capacity addition.

Maize - scarcity situation to abundance

The grain-ethanol debate starts and does not normally go past the maize availability issue. In our 13 Jan 2024 agribusiness report, we have specifically answered on why there is lower yield of corn in India and how the situation is bound to change. With the final numbers for FY24 trickling in, the yields have been reported at close to 3.5t/ha from 3.2t/ha earlier, adding 10% to total production and leaving the standard high level of 32mmt for 35mmt. However, there is a cherry on the corn cake too as the area under cultivation in FY25F is projected to grow by ~10%, thereby increasing projected production by 10% to ~38.5mmt. We are holding on to the number of ~40mmt due to the exception of a further yield increase.

Sugar business – from a period of sweetness to sour

The sugar sector will likely enter a volatile period. The big ask from the sector is for a minimum selling price above Rs40/kg, which seems to have taken a backseat with the rise in sugarcane prices taking the front seat. While the ethanol policy marches ahead, the sugar-based ethanol route is likely to take a backseat, giving way to grain-route ethanol distillers.

Grain blending - hurdles and opportunities

Although the shift to maize was necessary for a sustainable ethanol policy for the country, the knee-jerk shift in the policy has meant that the basic math of by-products in the ethanol process called DDGS (Distillers Dried Grain Soluble) has suddenly taken a hit. As feed manufacturers start to trust maize DDGS, currently the market has witnessed a sharp pricing correction of ~30%. There is currently a window of opportunity for grain distillers to expand their product portfolio from maize-based ethanol to biodiesel. Currently, at a nascent stage of sub 0.2% blending, the mandate for biodiesel stands at 5% for FY30F.

Retain ADD rating on grain distillers and REDUCE on sugar distillers

We retain our ADD rating on BCL and GPL with their target prices at Rs98 (Rs94 earlier) or 15x FY26F EPS, & Rs380 (Rs382 earlier) or 10x FY26F EPS, respectively. Downside risks: Grain, mainly maize price rise will directly impact the gross profit. The rise in fuel costs has a direct bearing on the EBITDA margin of these companies.

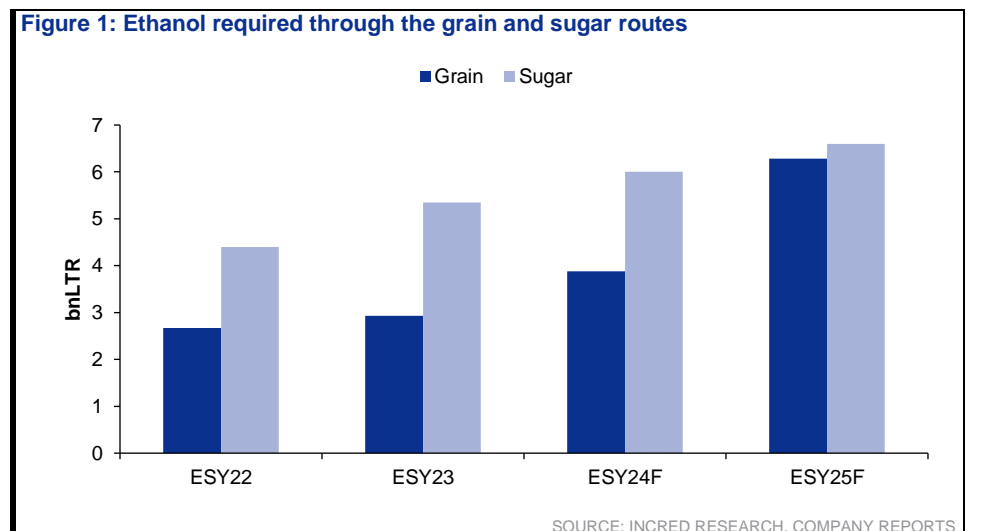
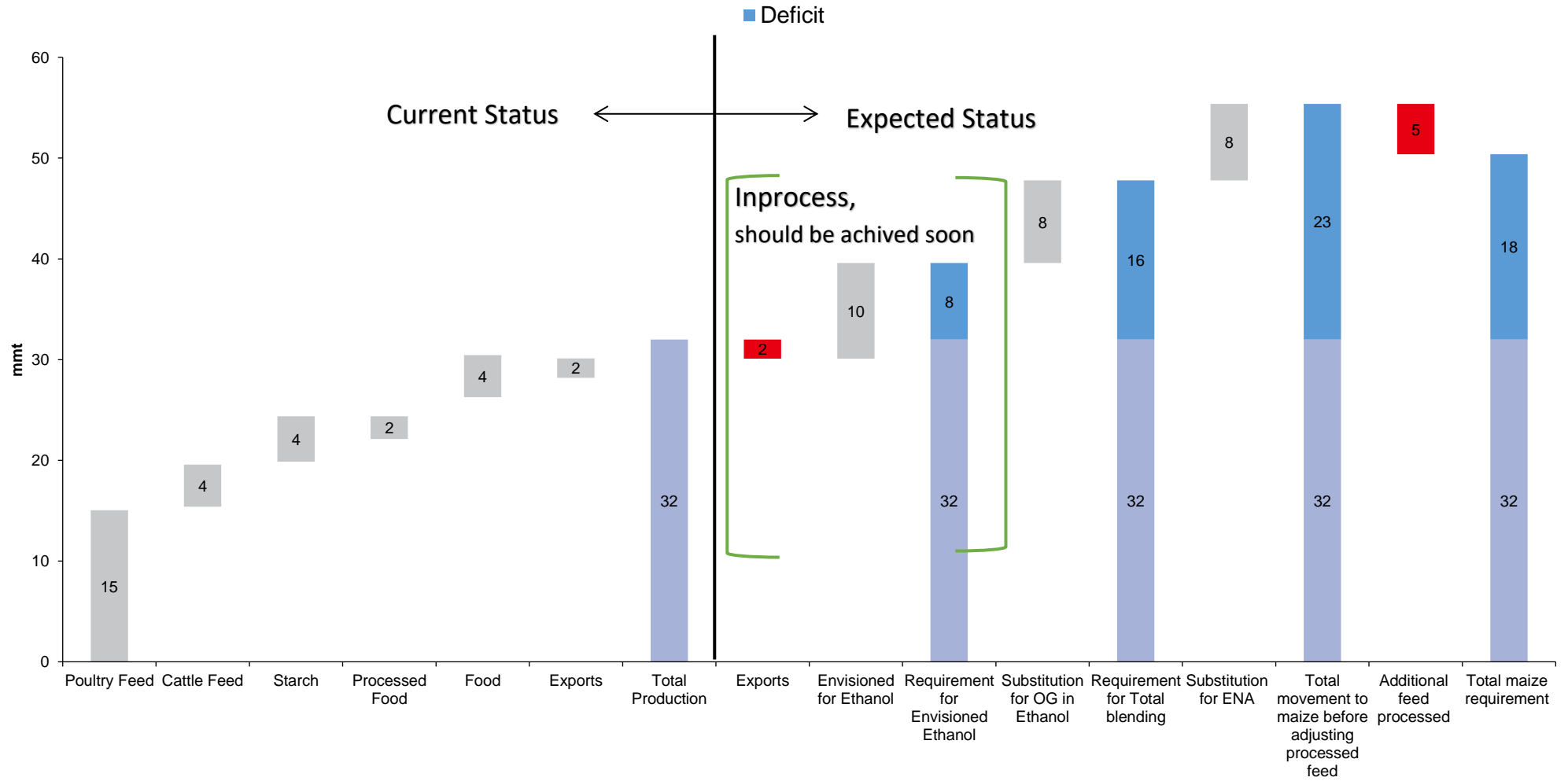


Figure 2: Maize requirement currently for E20 blending



SOURCE: INCRED RESEARCH

Navigating the maze of maize

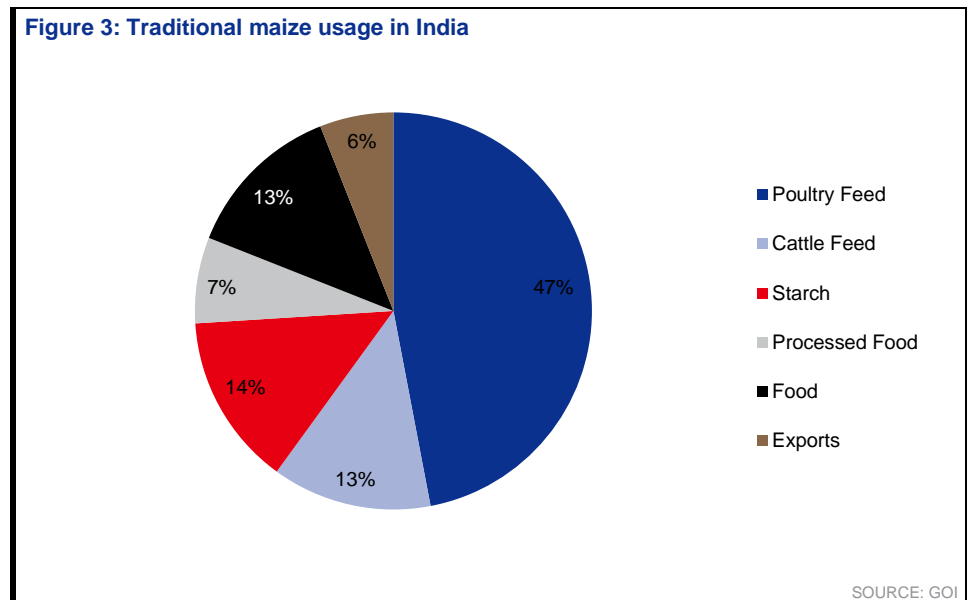
Maize – from a period of scarcity to abundance

Maize's historical track record ▶

- Maize is the third-most important and most-produced crop in India after rice and wheat.
- Both globally and in India, the area under maize cultivation has increased over the last six decades.
- As a ratio over the last six decades, India has maintained ~4.5% of total acreage under maize cultivation.
- Current average maize output in India is ~32mmt (five-year period ended FY23).

The major usage of India's maize crop is in poultry and cattle feed businesses at ~12mmt or ~60% of the total output while the starch and processed food industry accounts for ~6.5mmt or ~20%, followed by human consumption of ~4mmt or 5% while the remaining ~15% is exported.

Figure 3: Traditional maize usage in India



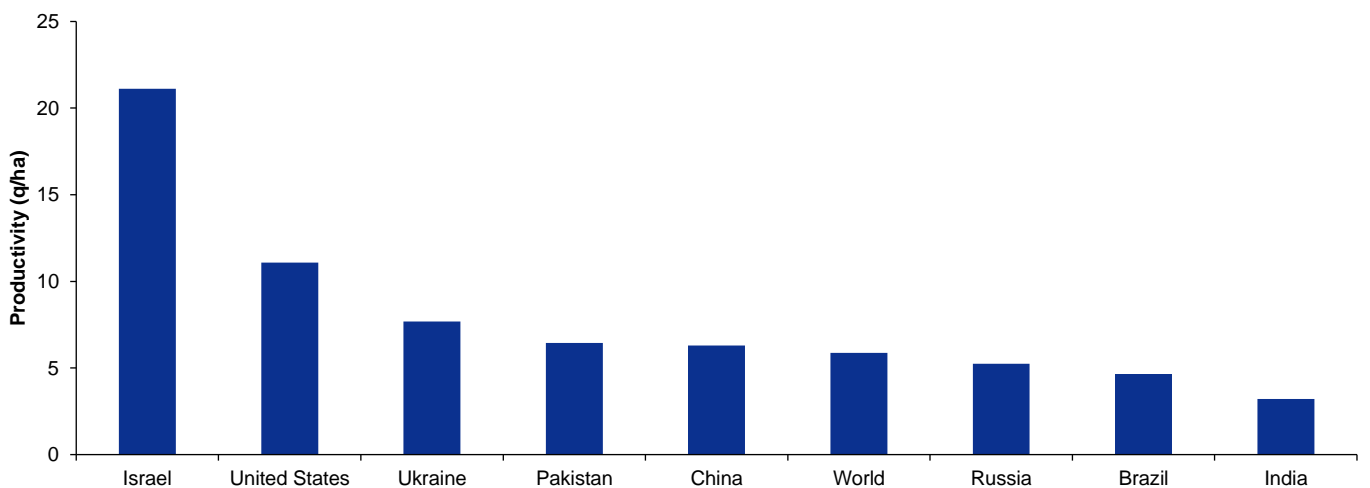
Additional maize requirement ▶

- Maize is required for various government programs (please refer Fig.2).
- Additional requirement:
 - Envisioned for ethanol within the blending program, ~9.5mmt (~2.5bnL of ethanol).
 - Substitution of other grains, ~8.2mmt (~2.2bnL of ethanol).
 - Substitution of extra neutral alcohol or ENA ~7.6mmt (~2bnL of ethanol).
- Savings and substitution:
 - Currently, the country exports ~2mmt.
 - Additional animal feed produced due to ethanol/ENA distillation ~5mmt.
- The net deficit would be ~18mmt.

Likely measures to increase maize production >

- Additional major grain output can be increased by only three ways:
 - Increase the land under cultivation for maize.
 - Considering the current dynamics, we hope that through shift and irrigation process the land for maize cultivation will increase.
 - However, we have not considered that or landed in that terrain.
 - Increase the yields with GMO crops.
 - Currently, only one GMO crop is allowed for cultivation in India, which is cotton.
 - Cotton GMO was introduced in India in FY1995, with the go ahead in FY2000 and commercial approval in FY2001.
 - Next in line was GMO brinjal, with the approval received in FY09, but it was never commercialized because of the backlash.
 - In FY17, the third crop, GMO mustard, was approved but there is a hearing that is going on in the Supreme Court regarding granting the final nod for commercial cultivation.
 - Post introduction of GMO cotton in India, its total production increased from ~140 lakh bales to ~340 lakh bales, a 143% increase. It must be noted that further technological developments, even in cotton, have not been allowed since FY01.
 - However, although we are confident that the GMO crop movement is gaining momentum, we have currently not considered that or landed in that terrain. There is absolute increase in yields with current means (non-GMO).
 - The only terrain we have worked with for the calculations - if the maize yield in India increases by 1.8t/per ha to 5t/per ha from 3.2t/ha currently. Even at 5t/ha yield, India would be below the world average yield by 1t/ha.
 - However, the question is if Indian farmers can produce over 5t/ha yield, why are they currently at 3.2t/ha yield.
 - The answer is there was no demand and 3.2t/ha itself was too much for the market.

Figure 4: Maize yield in India compared with other countries

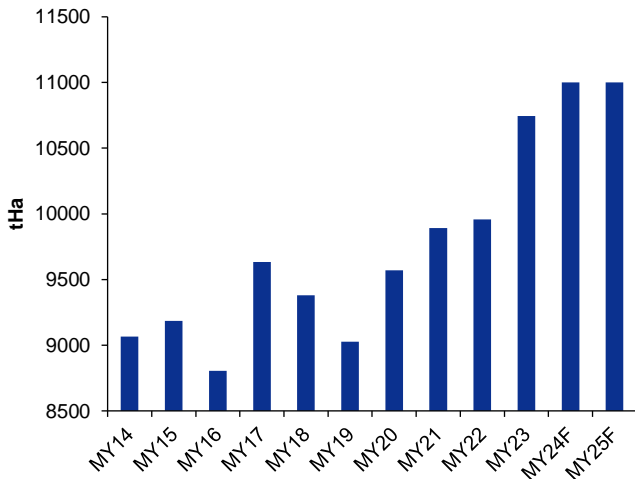


SOURCE: FOOD AND AGRICULTURE ORGANIZATION (FAO), UNITED STATES DEPARTMENT OF AGRICULTURE (USDA)

The progress made by progressive maize crop ➤

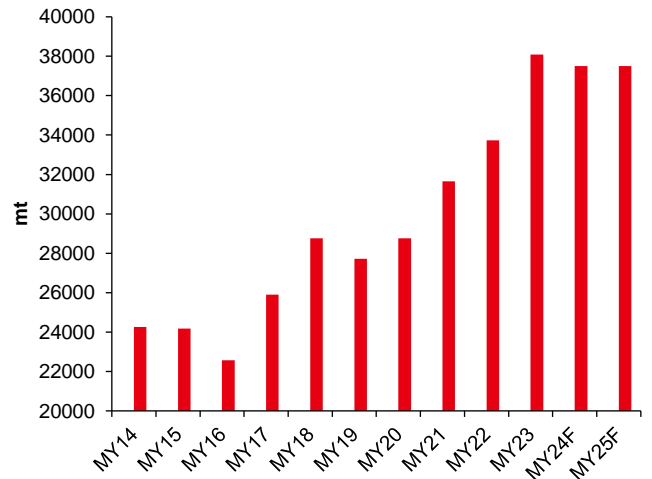
- Continuous upward revisions have marked the current Marketing Year (MY end-Nov 2023) to ~11,000t/ha, up by over 10% compared to the pre-ethanol boom.
- Similarly, maize production has been revised upwards to ~38,000mt by international agencies.

Figure 5: Land under maize cultivation



SOURCE: FAO (FOOD AND AGRICULTURE ORGANIZATION)

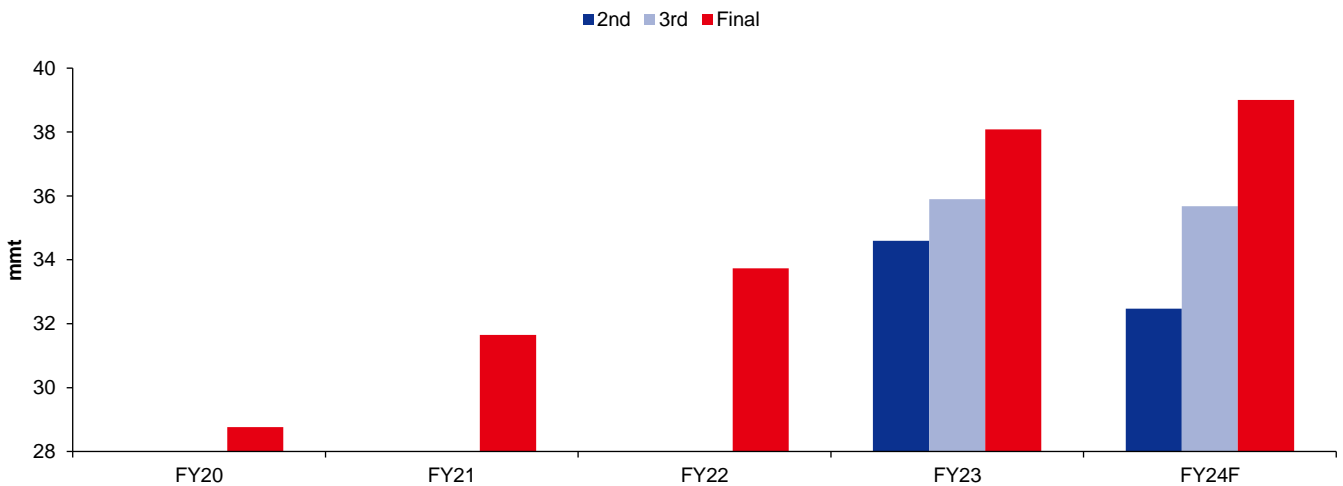
Figure 6: Maize production continues to increase



SOURCE: FAO (FOOD AND AGRICULTURE ORGANIZATION)

- Like the international agencies, the Government of India or GoI had to continuously upgrade its estimates but the final output figure beats the higher revised estimates.

Figure 7: The second, third and final estimates of the GoI - the first estimates don't include rabi and summer crops and hence, not considered



SOURCE: GOI, INCRED RESEARCH

Sugar business – from a period of sweetness to sour

Our hypothesis ►

As reported on 5 Jun 2024, the reasons for our negative stance are as follows:

- Low domestic sugar prices.
- No sugar exports.
- Higher sugarcane prices, thus reducing sugar spreads.
- Current stance - low domestic sugar prices.
- Minimum selling price (MSP) of sugar was first fixed at Rs29/kg in Jun 2018 and later increased to Rs31/kg in Feb 2019.
- MSP is the ex-factory price (excluding Goods and Service Tax or GST and transportation charges) below which no mill can sell sugar in India.
- Industry hoped that MSP will be fixed at over Rs40/kg.
- However, the prevailing macroeconomic environment does not provide a conducive environment for changing the MSP.
- Current stance - no export of sugar.
- Even if sugar export is allowed, the subsidy on exports is a thing of the past. • Sugar prices currently do not favour exports.
- The outlook on Brazil harvest points towards lower international sugar prices. Current stance - higher sugarcane prices.
- Sugarcane prices have been increased to unimaginable levels already by state governments.
- Uttar Pradesh sugar prices are currently at Rs370/quintal.
- With all eyes on the forthcoming Uttar Pradesh assembly elections, the demand for higher sugarcane prices is likely.

Additions to our hypothesis on ethanol segment ►

Disease risk in sugarcane

- Likely extension of ethanol production ban on the sector.
- Discontinuation of exports to safeguard against food/fuel price rise debate.

Hurdles and opportunities in blending grain

Hurdles

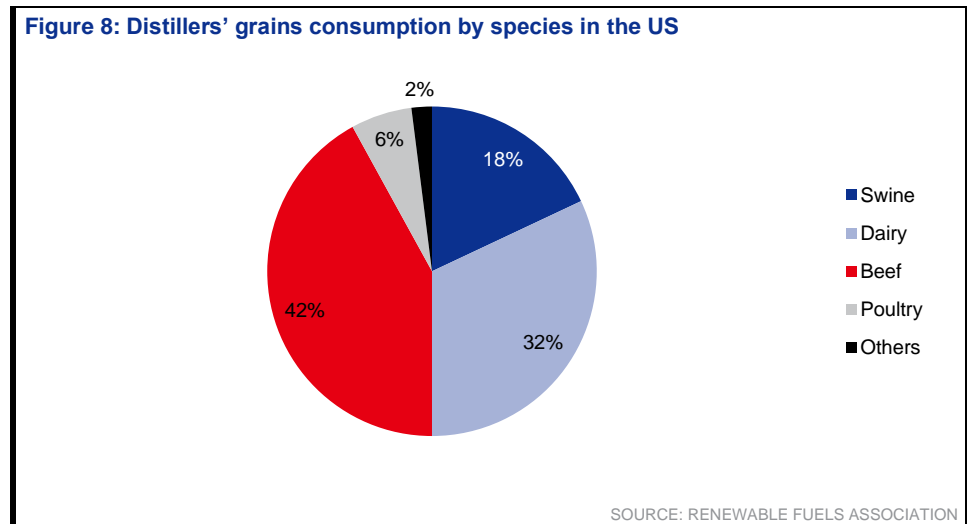
DDGS ➤

Distillers' grains are used as animal feed.

- Indian animal feed manufacturers were ready buyers of rice DDGS, but have not adopted corn DDGS.
- Lack of technical know-how is the major reason as corn DDGS is relatively new to India.

It is noteworthy that the US ethanol bio refiners produce corn distillers' grains, currently used to feed beef and dairy cows, pigs, chicken, turkey, fish and other animals as a normal diet.

Figure 8: Distillers' grains consumption by species in the US



Opportunities

Biodiesel ➤

India currently continues to aim at a 5% biodiesel blend for on-road use by FY30F, apart from the ethanol blending programme. The current blending is less than 0.10%. Lack of feedstock has been the main reason for holding the blending rate back. The lack of adequate oil content in rice never let the grain distillation industry to venture into the biodiesel segment. However, with the shift to maize, the industry will have a steady source of feedstock because of the high oil content in corn.

Figure 9: Starch, in percentage terms, is higher in rice

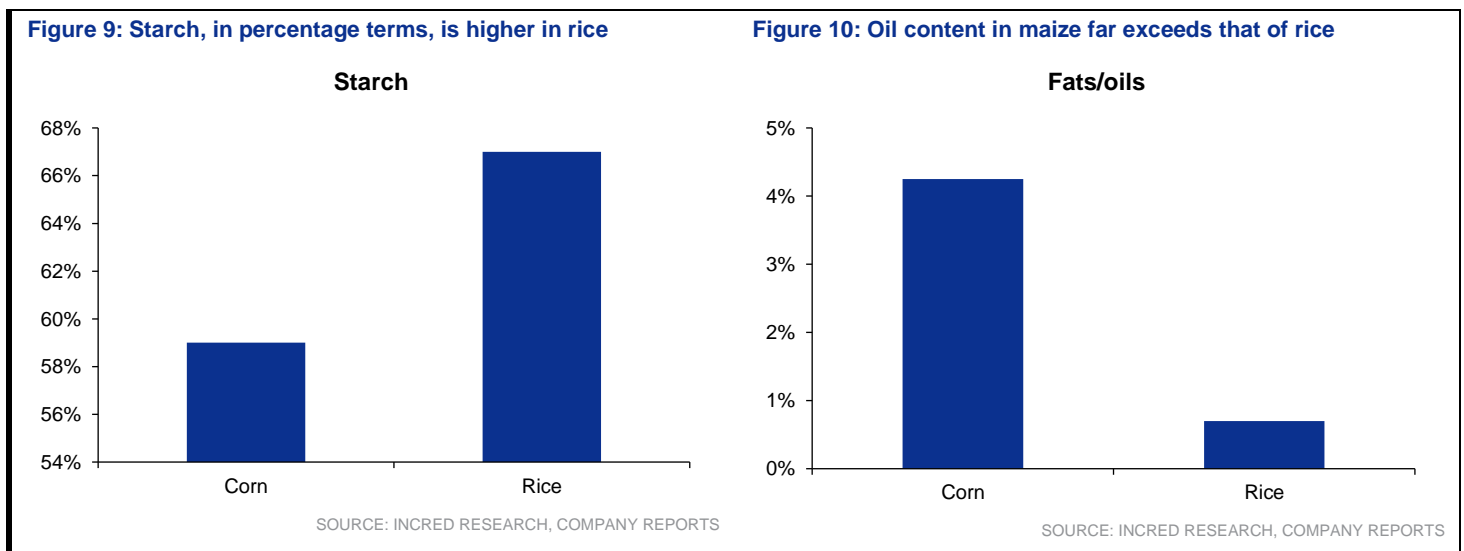
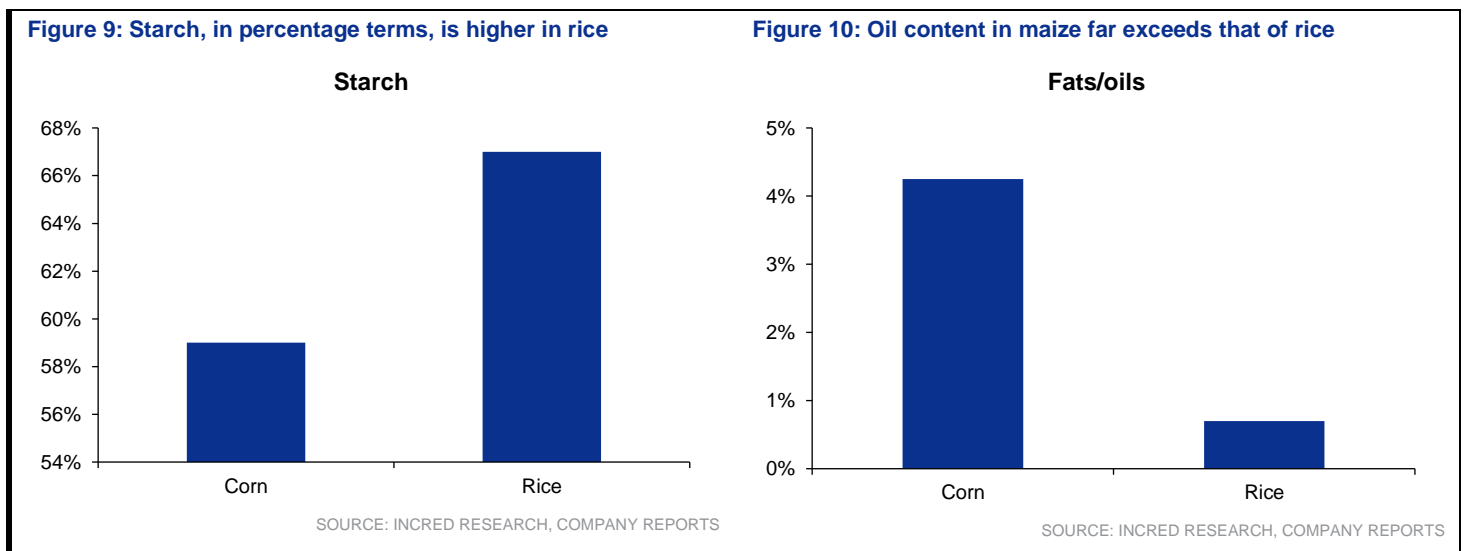


Figure 10: Oil content in maize far exceeds that of rice



- Globally, dry milling (refer Fig.11) and wet milling (refer Fig.12) are used for oil extraction.

Figure 11: Dry milling method for oil extraction

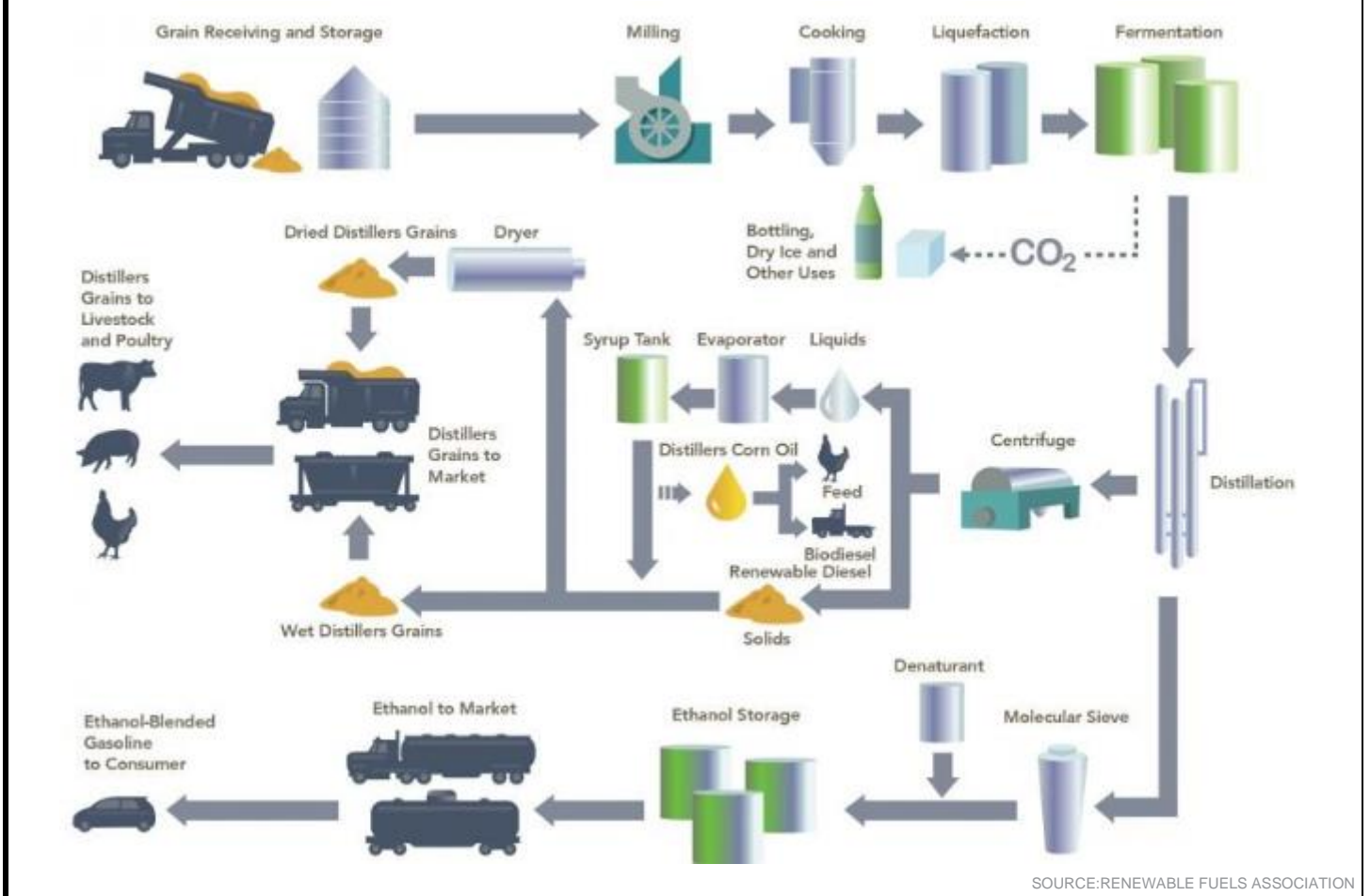
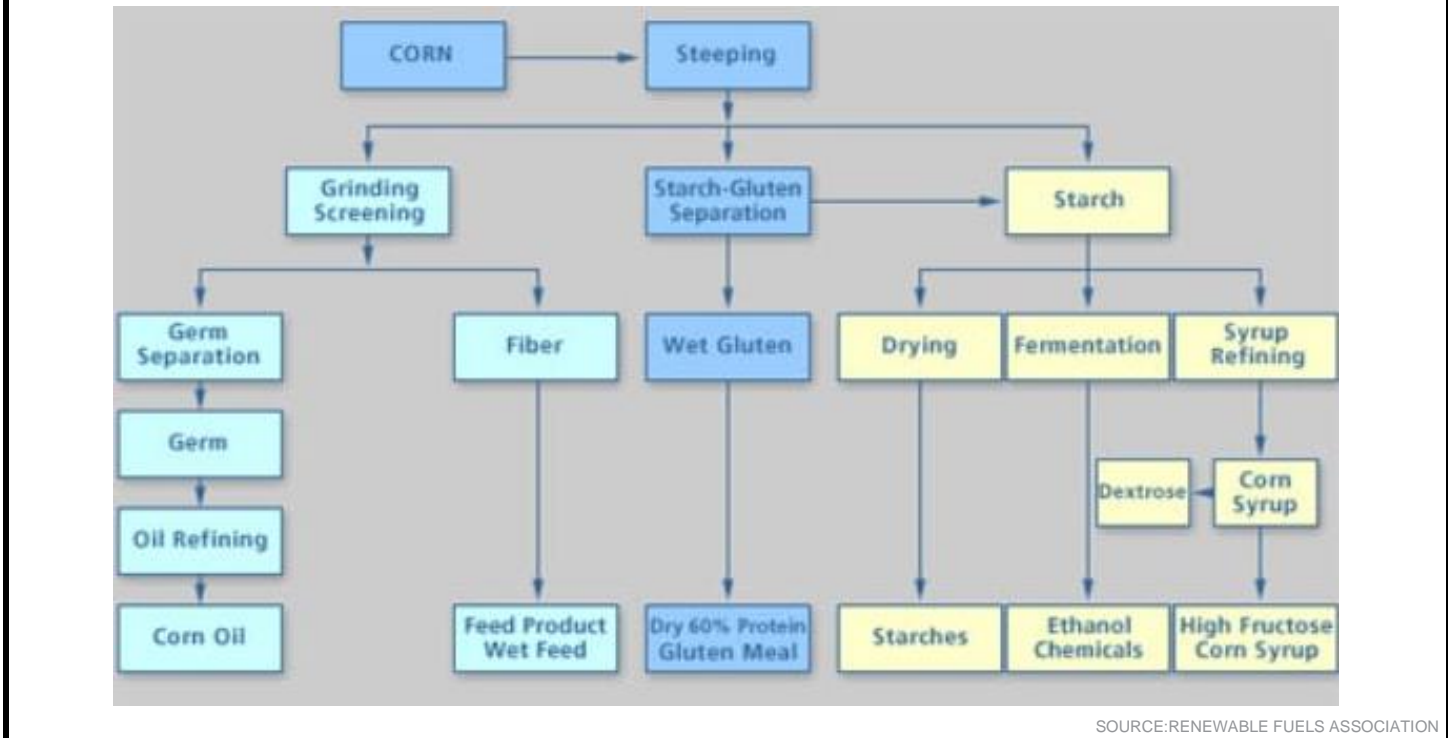


Figure 12: Wet milling method for oil extraction



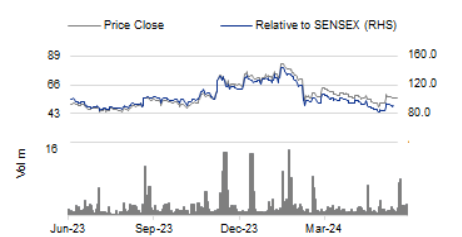
India

ADD (no change)

| | | | |
|------------------------------|-----------|--------|--------|
| Consensus ratings*: | Buy 1 | Hold 0 | Sell 0 |
| Current price: | Rs56 | | |
| Target price: | Rs98 ▲ | | |
| Previous target: | Rs94 | | |
| Up/downside: | 75.0% | | |
| InCred Research / Consensus: | 76.6% | | |
| Reuters: | | | |
| Bloomberg: | BCLIL IN | | |
| Market cap: | US\$181m | | |
| | Rs15,124m | | |
| Average daily turnover: | US\$1.8m | | |
| | Rs150.4m | | |
| Current shares o/s: | 297.3m | | |
| Free float: | 40.5% | | |
| *Source: Bloomberg | | | |

Key changes in this note

- EPS estimates reduced by 9.6%/11.2% for FY25F/26F, respectively.
- Introduce FY27F estimates.

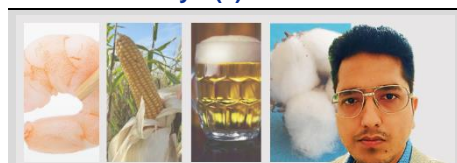


Source: Bloomberg

| | | | |
|--------------------------|-------|--------|--------|
| Price performance | 1M | 3M | 12M |
| Absolute (%) | 2.5 | (7.2) | 9.3 |
| Relative (%) | (1.0) | (13.9) | (11.8) |

| | |
|--------------------------------|--------|
| Major shareholders | % held |
| Promoter & Promoter Group | 59.5 |
| Elara India Opportunities Fund | 3.2 |

Research Analyst(s)



Nitin AWASTHI

T (91) 22 4161 1550

E nitin.awasthi@incredresearch.com

BCL Industries Ltd

Closing in on 1,000klpd capacity target

- BCL Industries began its distillation journey with a 200klpd plant. The company's current capacity stands at 700klpd & it expects 1,000klpd by FY26F.
- The PML (Punjab Made Liquor) segment grew by over 100% in volume terms in FY24 and is likely to repeat a 100% volume growth in FY25F as well.
- Retain ADD rating on the stock with a marginally higher target price of Rs98.

Forays into big league

BCL Industries has followed the one-step approach by steadily adding small capacities since FY21, but currently the small additions totaled 700klpd, with another 150/75/75klpd capacities lined up till FY26F. Post completion of ongoing projects, the company will enter the big league with a 1,000klpd distillation capacity, with any further additions marking its way for the crown of being the largest distiller in India. The company has also decided to re-enter the IMIL (Indian Made Indian Liquor) market along with most changes to the PML norms providing a better chance of success in the IMIL space, and the delivery in the said segment is likely to be strong with a 500% volume growth expected in FY25F compared to FY23. Biodiesel extraction would be an icing on the cake for BCL Industries, with the first batch of production and sales likely in early FY26F.

Change in our earnings estimates

We have decreased our EPS estimates for BCL Industries by 9.6%/11.2% for FY25F/26F, respectively, mainly building on its exit from the edible oil business. We have upgraded the P/E ratio to 14x from 12x due to the exit from the edible oil business. The major changes considered in the faster winding down of the edible oil segment are improved return ratios and a stronger balance sheet. The major gain from edible oil premises sales, projected at Rs500m, has not been accounted for and will be added to the estimates on confirmation of the sale. The movement, in terms of topline and margin accretion from the PML business, has not been considered by us as we wait and watch the developments of the newly implemented policy, although the market share gain with volume expansion of the company continues to be impressive.

Retain ADD rating with a marginally higher target price of Rs98

We retain our ADD rating on BCL Industries with a marginally higher target price of Rs98 (Rs94 earlier) or 14x (12x earlier) FY26F EPS. We have not considered any growth in the PML segment and any upside in this segment is an additional gain, in our view. Currently, the biodiesel segment has been accounted for in line with the ethanol distillation segment, while efficiencies and margins would be built into the projections after the execution of the first phase of the biodiesel plant. Downside risks: Maize will mainly be used to produce ENA/ethanol going ahead and any rise in its prices will directly impact the gross profit. Also, final product prices are decided by state/central governments and/or OMCs (oil marketing companies) and hence, profitability also depends on the prices fixed by them.

Financial Summary

| | Mar-23A | Mar-24A | Mar-25A | Mar-26F | Mar-27F |
|------------------------|---------|---------|---------|---------|---------|
| Revenue (Rsm) | 18,183 | 21,292 | 21,918 | 23,663 | 26,193 |
| Operating EBITDA (Rsm) | 1,236 | 1,914 | 2,813 | 3,519 | 3,929 |
| Net Profit (Rsm) | 663 | 903 | 1,558 | 2,085 | 2,353 |
| Core EPS (Rs) | 2.7 | 3.4 | 5.2 | 7.0 | 7.9 |
| Core EPS Growth | (21.8%) | 22.6% | 55.7% | 33.8% | 12.8% |
| FD Core P/E (x) | 20.24 | 16.57 | 10.59 | 7.92 | 7.02 |
| DPS (Rs) | 0.8 | 0.1 | 0.1 | 0.1 | 0.2 |
| Dividend Yield | 0.15% | 0.14% | 0.19% | 0.25% | 0.28% |
| EV/EBITDA (x) | 13.99 | 10.36 | 7.41 | 5.87 | 4.98 |
| P/FCFE (x) | 7.38 | (4.40) | 13.85 | 43.43 | 5.03 |
| Net Gearing | 128.3% | 80.0% | 53.2% | 37.1% | 18.9% |
| P/BV (x) | 4.71 | 2.88 | 2.28 | 1.78 | 1.42 |
| ROE | 20.3% | 21.2% | 24.0% | 25.2% | 22.5% |

% Change In Core EPS Estimates
InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 13: Our revised earnings estimates

| Rsm | Old estimates | | | New estimates | | | Change (%) | | |
|-------------------|---------------|--------|-------|---------------|--------|--------|------------|--------|-------|
| | FY25F | FY26F | FY26F | FY25F | FY25F | FY27F | FY24F | FY25F | FY26F |
| Revenue | 23,526 | 28,749 | NA | 21,918 | 23,663 | 26,193 | -6.8% | -17.7% | NA |
| EBITDA | 2,951 | 3,750 | NA | 2,813 | 3,519 | 3,929 | -4.7% | -6.2% | NA |
| EBITDA margin (%) | 12.5% | 13.0% | NA | 12.8% | 14.9% | 15.0% | 29bp | 183bp | NA |
| PAT | 1,724 | 2,349 | NA | 1,558 | 2,085 | 2,353 | -9.6% | -11.2% | NA |
| EPS (Rs) | 5.8 | 7.9 | NA | 5.2 | 7.0 | 7.9 | -9.6% | -11.2% | NA |

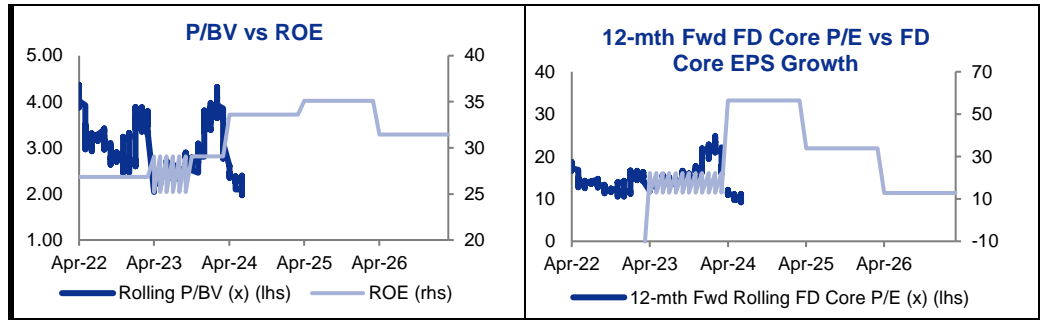
SOURCE: INCRED RESEARCH

Figure 14: Our key assumptions

| Key assumptions | FY25F | FY26F | FY27F |
|---------------------------|-------|-------|-------|
| Ethanol/ENA sales (in mL) | 236 | 270 | 282 |
| DDGS price (per kg) | 15.0 | 18.0 | 18.0 |
| ENA price (per L) | 73.0 | 72.0 | 72.0 |
| Ethanol price (per L) | 71.9 | 71.9 | 71.9 |
| Bio-diesel sales (in m L) | 0 | 14 | 37 |
| Bio-diesel price (per L) | 83.0 | 83.0 | 83.0 |

SOURCE: INCRED RESEARCH

BY THE NUMBERS



Profit & Loss

| (Rs mn) | Mar-23A | Mar-24A | Mar-25A | Mar-26F | Mar-27F |
|---|---------------|---------------|---------------|---------------|---------------|
| Total Net Revenues | 18,183 | 21,292 | 21,918 | 23,663 | 26,193 |
| Gross Profit | 4,097 | 5,390 | 6,612 | 8,243 | 8,958 |
| Operating EBITDA | 1,236 | 1,914 | 2,813 | 3,519 | 3,929 |
| Depreciation And Amortisation | (250) | (360) | (344) | (351) | (346) |
| Operating EBIT | 986 | 1,554 | 2,469 | 3,168 | 3,583 |
| Financial Income/(Expense) | (131) | (252) | (126) | (86) | (70) |
| Pretax Income/(Loss) from Assoc. | | | | | |
| Non-Operating Income/(Expense) | | | | | |
| Profit Before Tax (pre-EI) | 855 | 1,302 | 2,343 | 3,082 | 3,513 |
| Exceptional Items | | (5) | | | |
| Pre-tax Profit | 855 | 1,297 | 2,343 | 3,082 | 3,513 |
| Taxation | (211) | (338) | (621) | (817) | (931) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 644 | 959 | 1,722 | 2,266 | 2,582 |
| Minority Interests | 19 | (56) | (164) | (180) | (229) |
| Preferred Dividends | | | | | |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | | | | | |
| Net Profit | 663 | 903 | 1,558 | 2,085 | 2,353 |
| Recurring Net Profit | 663 | 907 | 1,558 | 2,085 | 2,353 |
| Fully Diluted Recurring Net Profit | 663 | 907 | 1,558 | 2,085 | 2,353 |

Cash Flow

| (Rs mn) | Mar-23A | Mar-24A | Mar-25A | Mar-26F | Mar-27F |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| EBITDA | 1,236 | 1,914 | 2,813 | 3,519 | 3,929 |
| Cash Flow from Invt. & Assoc. | | | | | |
| Change In Working Capital | (37) | (1,857) | 848 | (239) | 371 |
| (Incr)/Decr in Total Provisions | | | | | |
| Other Non-Cash (Income)/Expense | | | | | |
| Other Operating Cashflow | | | | | |
| Net Interest (Paid)/Received | (131) | (252) | (126) | (86) | (70) |
| Tax Paid | (250) | (360) | (344) | (351) | (346) |
| Cashflow From Operations | 818 | (555) | 3,191 | 2,843 | 3,884 |
| Capex | (1,500) | (2,500) | (1,998) | (2,000) | (100) |
| Disposals Of FAs/subsidiaries | | | | | |
| Acq. Of Subsidiaries/investments | | | | | |
| Other Investing Cashflow | | | | | |
| Cash Flow From Investing | (1,500) | (2,500) | (1,998) | (2,000) | (100) |
| Debt Raised/(repaid) | 2,500 | (346) | | (463) | (500) |
| Proceeds From Issue Of Shares | | | | | |
| Shares Repurchased | | | | | |
| Dividends Paid | (863) | (659) | 925 | (233) | (1,265) |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | (1,482) | 1 | 2,105 | 180 | 229 |
| Cash Flow From Financing | 155 | (1,004) | 3,030 | (516) | (1,535) |
| Total Cash Generated | (527) | (4,059) | 4,223 | 327 | 2,248 |
| Free Cashflow To Equity | 1,818 | (3,401) | 1,192 | 380 | 3,284 |
| Free Cashflow To Firm | (483) | (2,724) | 1,418 | 1,069 | 3,999 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

| Balance Sheet | | | | | |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| (Rs mn) | Mar-23A | Mar-24A | Mar-25A | Mar-26F | Mar-27F |
| Total Cash And Equivalents | 1,327 | 53 | 729 | 664 | 1,464 |
| Total Debtors | 996 | 1,230 | 1,201 | 1,296 | 1,435 |
| Inventories | 1,993 | 3,850 | 3,002 | 3,242 | 2,871 |
| Total Other Current Assets | 455 | 200 | 110 | 71 | 79 |
| Total Current Assets | 4,770 | 5,333 | 5,042 | 5,273 | 5,848 |
| Fixed Assets | 4,211 | 6,352 | 8,005 | 9,655 | 9,409 |
| Total Investments | 238 | 97 | | | 2,500 |
| Intangible Assets | | | | | |
| Total Other Non-Current Assets | 273 | 160 | 175 | 118 | 131 |
| Total Non-current Assets | 4,722 | 6,609 | 8,181 | 9,773 | 12,040 |
| Short-term Debt | 2,065 | 2,263 | 1,263 | 800 | 800 |
| Current Portion of Long-Term Debt | | | | | |
| Total Creditors | 1,269 | 1,120 | 710 | 767 | 1,566 |
| Other Current Liabilities | 55 | 64 | 66 | 71 | 79 |
| Total Current Liabilities | 3,389 | 3,447 | 2,039 | 1,638 | 2,444 |
| Total Long-term Debt | 3,040 | 2,496 | 3,496 | 3,496 | 2,996 |
| Hybrid Debt - Debt Component | | | | | |
| Total Other Non-Current Liabilities | | | | | |
| Total Non-current Liabilities | 3,040 | 2,496 | 3,496 | 3,496 | 2,996 |
| Total Provisions | 119 | 120 | 118 | 118 | 119 |
| Total Liabilities | 6,547 | 6,063 | 5,653 | 5,252 | 5,559 |
| Shareholders Equity | 2,847 | 5,724 | 7,252 | 9,295 | 11,601 |
| Minority Interests | 98 | 155 | 318 | 499 | 728 |
| Total Equity | 2,945 | 5,879 | 7,570 | 9,794 | 12,329 |

| Key Ratios | | | | | |
|---------------------------|----------------|----------------|----------------|----------------|----------------|
| | Mar-23A | Mar-24A | Mar-25A | Mar-26F | Mar-27F |
| Revenue Growth | (8.1%) | 17.1% | 2.9% | 8.0% | 10.7% |
| Operating EBITDA Growth | (4.6%) | 54.9% | 47.0% | 25.1% | 11.7% |
| Operating EBITDA Margin | 6.8% | 9.0% | 12.8% | 14.9% | 15.0% |
| Net Cash Per Share (Rs) | (15.64) | (15.83) | (13.55) | (12.22) | (7.84) |
| BVPS (Rs) | 11.79 | 19.25 | 24.39 | 31.26 | 39.02 |
| Gross Interest Cover | 4.97 | 4.70 | 10.92 | 14.02 | 16.66 |
| Effective Tax Rate | 24.7% | 26.0% | 26.5% | 26.5% | 26.5% |
| Net Dividend Payout Ratio | 2.3% | 1.8% | 1.4% | 1.4% | 1.4% |
| Accounts Receivables Days | 20.20 | 19.08 | 20.24 | 19.26 | 19.03 |
| Inventory Days | 51.17 | 67.06 | 81.71 | 73.90 | 64.72 |
| Accounts Payables Days | 23.10 | 22.33 | 18.49 | 14.78 | 22.06 |
| ROIC (%) | 16.4% | 23.5% | 23.3% | 27.0% | 26.5% |
| ROCE (%) | 13.4% | 16.4% | 21.3% | 23.8% | 23.5% |
| Return On Average Assets | 11.6% | 14.5% | 19.6% | 22.4% | 21.8% |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

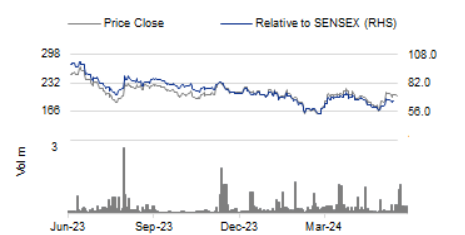
India

ADD (no change)

| | | | |
|-----------------------------------|-----------|--------|--------|
| Consensus ratings*: | Buy 1 | Hold 0 | Sell 0 |
| Current price: | Rs203 | | |
| Target price: | Rs380 | | |
| Previous target: | Rs382 | | |
| Up/downside: | 87.2% | | |
| InCred Research / Consensus: | 87.4% | | |
| Reuters: | | | |
| Bloomberg: | GULP IN | | |
| Market cap: | US\$152m | | |
| | Rs12,648m | | |
| Average daily turnover: | US\$0.6m | | |
| | Rs46.9m | | |
| Current shares o/s: | 52.0m | | |
| Free float: | 33.3% | | |
| <small>*Source: Bloomberg</small> | | | |

Key changes in this note

- EPS estimates changed by 1.4%/(0.7)% for FY25F/26F, respectively.
- Introduce FY27F estimates.



Source: Bloomberg

| | | | |
|--------------------------|-----|------|--------|
| Price performance | 1M | 3M | 12M |
| Absolute (%) | 7.7 | 18.4 | (19.5) |
| Relative (%) | 4.1 | 10.0 | (35.0) |

| | |
|---------------------------|--------|
| Major shareholders | % held |
| Promoter & Promoter Group | 66.7 |

Research Analyst(s)



Nitin AWASTHI

T (91) 22 4161 1550

E nitin.awasthi@incredresearch.com

Gulshan Polyols Ltd

All eyes on production ramp-up

- Gulshan Polyols has increased its distillation capacity from a meagre 60klpd in FY21 to 810klpd, of which a 500klpd plant is its largest single unit in India.
- Currently, ramp-up of production is key for the company as its plants are some of the largest in the country and hence, the big challenge.
- Retain ADD rating on the stock with a marginally lower target price of Rs380.

Production ramp-up is key

As Gulshan Polyols or GPL has become a 810klpd ethanol giant, production ramp-up is key. With volatile raw material prices and knee-jerk policy changes by the Government of India or Gol, the company has detailed the actual ramp-up schedule for its plant. Going into EY25F, the tendering by the company must be followed closely with all its three plants ready to commence production. The grand scale, along with working efficiency, is likely to kick in EY26F, after a year of 100% running of the three plants.

Scale begets scale

DDGS (Distillers Dried Grain Soluble), a major by-product of the company, has suddenly taken a hit due to the change in feedstock from rice to maize. Currently, the market has witnessed a sharp price correction of ~30%. However, due to the scale of GPL's operations, a feed manufacturing partnership could be a possibility due to the sheer size of the plants. While cattle feed is in demand in Madhya Pradesh, piggy feed is in high demand in Assam. Maize DDGS could easily be adjusted to meet the feed standards and requirements of piggeries in Assam. Currently, the Assam government is heavily investing in piggeries as the state has failed to meet its demand requirement and relies on imports from other states.

Change in our earnings estimates

We have changed our EPS estimates for GPL by 1.4%/(0.7)% for FY25F/26F, respectively. We have cut the P/E ratio to 10x, from 14x earlier, due to the headwinds faced by the industry, with a revision due when the prices of the raw material (maize) stabilize, and the Assam plant starts contributing to profits. Restating a higher P/E for valuation would be a function of improved ramp-up, moving towards efficient ethanol production and the position of DDGS in the feed market. GPL is a beneficiary of Madhya Pradesh and Assam governments' incentives for distillation, but in our financial calculations we have not included these incentives.

Retain ADD rating with a slightly lower target price of Rs380

We retain our ADD rating on Gulshan Polyols with a lower target price of Rs380 (Rs382 earlier) or 10x FY26F EPS. We have not considered any incentives from state governments towards ethanol schemes in our calculations. Downside risks: Maize will be mainly used to produce ENA /ethanol going ahead and any rise in its prices will directly impact the gross profit. Also, final product prices are decided by state/central governments and/or OMCs (oil marketing companies) and hence, profitability also depends on the prices fixed by them.

Financial Summary

| | Mar-23A | Mar-24A | Mar-25F | Mar-26F | Mar-27F |
|-----------------------------------|---------|---------|---------|---------|---------|
| Revenue (Rsm) | 11,797 | 13,780 | 22,813 | 32,232 | 33,492 |
| Operating EBITDA (Rsm) | 880 | 581 | 2,119 | 3,465 | 3,768 |
| Net Profit (Rsm) | 455 | 178 | 1,020 | 1,973 | 2,219 |
| Core EPS (Rs) | 8.8 | 3.4 | 19.6 | 38.0 | 42.7 |
| Core EPS Growth | (48.0%) | (60.8%) | 471.7% | 93.4% | 12.5% |
| FD Core P/E (x) | 23.17 | 59.08 | 10.33 | 5.34 | 4.75 |
| DPS (Rs) | 1.6 | 0.9 | 0.2 | 0.8 | 1.5 |
| Dividend Yield | 0.43% | 0.08% | 0.39% | 0.75% | 0.84% |
| EV/EBITDA (x) | 14.73 | 24.73 | 6.93 | 4.07 | 3.08 |
| P/FCFE (x) | (10.61) | 28.12 | (16.53) | 93.08 | 5.59 |
| Net Gearing | 42.1% | 64.6% | 60.2% | 40.5% | 9.8% |
| P/BV (x) | 1.83 | 1.78 | 1.53 | 1.20 | 0.96 |
| ROE | 8.2% | 3.1% | 15.9% | 25.1% | 22.5% |
| % Change In Core EPS Estimates | | | 0.01% | (0.01%) | |
| InCred Research/Consensus EPS (x) | | | | | |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 15: Our revised earnings estimates

| Rsm | Old estimates | | | New estimates | | | Change (%) | | |
|-------------------|---------------|--------|-------|---------------|--------|--------|------------|-------|-------|
| | FY25F | FY26F | FY27F | FY25F | FY26F | FY27F | FY24F | FY25F | FY26F |
| Revenue | 23,232 | 33,251 | NA | 22,813 | 32,232 | 33,492 | -1.8% | -3.1% | NA |
| EBITDA | 2,158 | 3,574 | NA | 2,119 | 3,465 | 3,768 | -1.8% | -3.1% | NA |
| EBITDA margin (%) | 9.3% | 10.8% | NA | 9.3% | 10.8% | 11.3% | 0bp | 0bp | NA |
| PAT | 1,006 | 1,987 | NA | 1,020 | 1,973 | 2,219 | 1.4% | -0.7% | NA |
| EPS (Rs) | 19.4 | 38.2 | NA | 19.6 | 38.0 | 42.7 | 1.4% | -0.7% | NA |

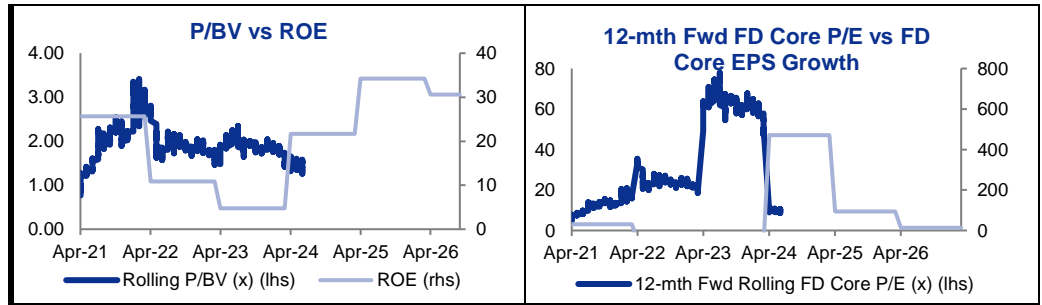
SOURCE: INCRED RESEARCH

Figure 16: Our key assumptions

| Key assumptions | FY25F | FY26F | FY27F |
|----------------------------|-------|-------|-------|
| Bulk alcohol sales (in mL) | 139 | 243 | 267 |
| DDGS price (per kg) | 15 | 15 | 17 |
| Ethanol price (per L) | 73 | 73 | 72 |

SOURCE: INCRED RESEARCH,

BY THE NUMBERS



Profit & Loss

| (Rs mn) | Mar-23A | Mar-24A | Mar-25F | Mar-26F | Mar-27F |
|---|---------|---------|---------|---------|---------|
| Total Net Revenues | 11,797 | 13,780 | 22,813 | 32,232 | 33,492 |
| Gross Profit | 4,811 | 4,945 | 9,354 | 13,538 | 14,067 |
| Operating EBITDA | 880 | 581 | 2,119 | 3,465 | 3,768 |
| Depreciation And Amortisation | (287) | (324) | (547) | (622) | (622) |
| Operating EBIT | 593 | 257 | 1,572 | 2,843 | 3,146 |
| Financial Income/(Expense) | 9 | 21 | (184) | (159) | (126) |
| Pretax Income/(Loss) from Assoc. | | | | | |
| Non-Operating Income/(Expense) | | | | | |
| Profit Before Tax (pre-EI) | 602 | 279 | 1,388 | 2,684 | 3,019 |
| Exceptional Items | | | | | |
| Pre-tax Profit | 602 | 279 | 1,388 | 2,684 | 3,019 |
| Taxation | (147) | (100) | (368) | (711) | (800) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 455 | 178 | 1,020 | 1,973 | 2,219 |
| Minority Interests | | | | | |
| Preferred Dividends | | | | | |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | | | | | |
| Net Profit | 455 | 178 | 1,020 | 1,973 | 2,219 |
| Recurring Net Profit | 455 | 178 | 1,020 | 1,973 | 2,219 |
| Fully Diluted Recurring Net Profit | 455 | 178 | 1,020 | 1,973 | 2,219 |

Cash Flow

| (Rs mn) | Mar-23A | Mar-24A | Mar-25F | Mar-26F | Mar-27F |
|----------------------------------|---------|---------|---------|---------|---------|
| EBITDA | 880 | 581 | 2,119 | 3,465 | 3,768 |
| Cash Flow from Invt. & Assoc. | | | | | |
| Change In Working Capital | (554) | 172 | (1,805) | (1,882) | (252) |
| (Incr)/Decr in Total Provisions | | | | | |
| Other Non-Cash (Income)/Expense | | | | | |
| Other Operating Cashflow | | | | | |
| Net Interest (Paid)/Received | 9 | 21 | (184) | (159) | (126) |
| Tax Paid | (147) | (100) | (368) | (711) | (800) |
| Cashflow From Operations | 188 | 674 | (238) | 713 | 2,590 |
| Capex | (2,541) | (2,499) | | | |
| Disposals Of FAs/subsidiaries | | | | | |
| Acq. Of Subsidiaries/investments | | | | | |
| Other Investing Cashflow | | | | | |
| Cash Flow From Investing | (2,541) | (2,499) | | | |
| Debt Raised/(repaid) | 1,360 | 2,200 | (400) | (600) | (705) |
| Proceeds From Issue Of Shares | | | | | |
| Shares Repurchased | | | | | |
| Dividends Paid | (45) | (9) | (41) | (79) | (89) |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | (61) | (101) | (224) | (199) | (166) |
| Cash Flow From Financing | 1,253 | 2,090 | (665) | (878) | (960) |
| Total Cash Generated | (1,100) | 265 | (902) | (165) | 1,630 |
| Free Cashflow To Equity | (993) | 375 | (638) | 113 | 1,885 |
| Free Cashflow To Firm | (2,292) | (1,725) | (14) | 912 | 2,756 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

| (Rs mn) | Mar-23A | Mar-24A | Mar-25F | Mar-26F | Mar-27F |
|--------------------------------------|--------------|--------------|--------------|--------------|---------------|
| Total Cash And Equivalents | 58 | 854 | 130 | 117 | 1,907 |
| Total Debtors | 1,416 | 1,654 | 2,739 | 3,870 | 4,021 |
| Inventories | 1,574 | 1,838 | 3,043 | 4,300 | 4,468 |
| Total Other Current Assets | 745 | 207 | 342 | 483 | 502 |
| Total Current Assets | 3,793 | 4,553 | 6,254 | 8,770 | 10,898 |
| Fixed Assets | 2,759 | 5,214 | 7,167 | 6,545 | 5,923 |
| Total Investments | 254 | 4 | 4 | 4 | 4 |
| Intangible Assets | | | | | |
| Total Other Non-Current Assets | 3,075 | 2,569 | 114 | 161 | 167 |
| Total Non-current Assets | 6,087 | 7,787 | 7,285 | 6,710 | 6,095 |
| Short-term Debt | 1,205 | 1,205 | 805 | 305 | 100 |
| Current Portion of Long-Term Debt | | | 1 | 2 | 2 |
| Total Creditors | 1,461 | 1,596 | 2,212 | 2,854 | 2,940 |
| Other Current Liabilities | 45 | | | | |
| Total Current Liabilities | 2,710 | 2,801 | 3,017 | 3,160 | 3,041 |
| Total Long-term Debt | 1,275 | 3,475 | 3,475 | 3,375 | 2,875 |
| Hybrid Debt - Debt Component | | | | | |
| Total Other Non-Current Liabilities | | | | | |
| Total Non-current Liabilities | 1,275 | 3,475 | 3,475 | 3,375 | 2,875 |
| Total Provisions | 143 | 144 | 149 | 154 | 155 |
| Total Liabilities | 4,129 | 6,420 | 6,642 | 6,689 | 6,071 |
| Shareholders Equity | 5,751 | 5,920 | 6,899 | 8,793 | 10,923 |
| Minority Interests | | | | | |
| Total Equity | 5,751 | 5,920 | 6,899 | 8,793 | 10,923 |

Key Ratios

| | Mar-23A | Mar-24A | Mar-25F | Mar-26F | Mar-27F |
|---------------------------|---------|---------|---------|---------|---------|
| Revenue Growth | 7.2% | 16.8% | 65.6% | 41.3% | 3.9% |
| Operating EBITDA Growth | (41.5%) | (34.0%) | 264.7% | 63.5% | 8.7% |
| Operating EBITDA Margin | 7.5% | 4.2% | 9.3% | 10.8% | 11.2% |
| Net Cash Per Share (Rs) | (46.60) | (73.61) | (79.86) | (68.58) | (20.58) |
| BVPS (Rs) | 110.64 | 113.90 | 132.74 | 169.18 | 210.17 |
| Gross Interest Cover | 9.67 | 2.56 | 7.02 | 14.29 | 18.91 |
| Effective Tax Rate | 24.4% | 36.0% | 26.5% | 26.5% | 26.5% |
| Net Dividend Payout Ratio | 7.6% | 3.2% | 2.9% | 2.9% | 2.9% |
| Accounts Receivables Days | 40.41 | 40.67 | 35.14 | 37.42 | 43.00 |
| Inventory Days | 69.30 | 70.48 | 66.19 | 71.68 | 82.37 |
| Accounts Payables Days | 36.10 | 36.01 | 33.81 | 36.62 | 42.08 |
| ROIC (%) | 11.3% | 3.2% | 15.9% | 25.4% | 25.2% |
| ROCE (%) | 7.9% | 2.7% | 14.3% | 23.8% | 23.6% |
| Return On Average Assets | 6.6% | 2.3% | 12.1% | 19.6% | 19.4% |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

DISCLAIMER

This report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by Incred Research Services Private Ltd. (formerly known as Earnest Innovation Partners Private Limited) (hereinafter referred to as "IRSPL"). IRSPL is registered with SEBI as a Research Analyst vide Registration No. INH000011024. Pursuant to a trademark agreement, IRSPL has adopted "Incred Equities" as its trademark for use in this report.

The term "IRSPL" shall, unless the context otherwise requires, mean IRSPL and its affiliates, subsidiaries and related companies. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IRSPL and its affiliates/group companies to registration or licensing requirements within such jurisdictions.

This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of IRSPL.

The information contained in this report is prepared from data believed to be correct and reliable at the time of issue of this report.

IRSPL is not required to issue regular reports on the subject matter of this report at any frequency and it may cease to do so or change the periodicity of reports at any time. IRSPL is not under any obligation to update this report in the event of a material change to the information contained in this report. IRSPL has not any and will not accept any, obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the content of this report constitutes all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, IRSPL and its affiliates/group companies (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

Unless otherwise specified, this report is based upon reasonable sources. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of IRSPL and its affiliates/group companies to any person to buy or sell any investments.

The opinions expressed are based on information which are believed to be accurate and complete and obtained through reliable public or other non-confidential sources at the time made. (Information barriers and other arrangements may be established where necessary to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request. The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

IRSPL may have issued other reports (based on technical analysis, event specific, short term views etc.) that are inconsistent with and reach different conclusion from the information presented in this report.

Holding of Analysts/Relatives of Analysts, IRSPL and Associates of IRSPL in the covered securities, as on the date of publishing of this report

| | Analyst/ Relative | Entity/ Associates |
|---|----------------------|-----------------------|
| any financial interests in the company covered in this report (subject company) and nature of such financial interest | NO | NO |
| actual/beneficial ownership of 1% or more in securities of the subject company at the end of the month immediately preceding the date of publication of the research report or date of the public appearance; | NO | NO |
| any other material conflict of interest at the time of publication of the research report or at the time of public appearance | NO | NO |
| received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months | NO | NO |
| managed or co-managed public offering of securities for the subject company in the last twelve months | NO | NO |
| received any compensation or other benefits from the subject company or third party in connection with the research report | NO | NO |
| served as an officer, director or employee of the subject company | NO | NO |
| been engaged in market making activity for the subject company | NO | NO |

Analyst declaration

- The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously in an unbiased manner.
- No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report or based any specific investment banking transaction.
- The analyst(s) has(have) not had any serious disciplinary action taken against him/her(them).
- The analyst, strategist, or economist does not have any material conflict of interest at the time of publication of this report.
- The analyst(s) has(have) received compensation based upon various factors, including quality, accuracy and value of research, overall firm performance, client feedback and competitive factors.

IRSPL and/or its affiliates and/or its Directors/employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities.

IRSPL and/or its affiliates and/or its Directors/employees may do and seek to do business with the company(ies) covered in this research report and may from time to time (a) buy/sell the securities covered in this report, from time to time and/or (b) act as market maker or have assumed an underwriting commitment in securities of such company(ies), and/or (c) may sell them to or buy them from customers on a principal basis and/or (d) may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) and/or (e) solicit such investment, advisory or other services from any entity mentioned in this report and/or (f) act as a lender/borrower to such company and may earn brokerage or other compensation. However, Analysts are forbidden to acquire, on their own account or hold securities (physical or uncertificated, including derivatives) of companies in respect of which they are compiling and producing financial recommendations or in the result of which they play a key part.