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# Research Report

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| **Scrip : Agarwal Industrial Corporation Ltd** | **Risk :** | **Date :** 24/June/2024 |
| **ISIN** : INE204E01012 | High Risk | **Call : Hold** (@CMP ₹1,152) |
| **NSE : AGARIND** | **BSE :** 531921 | **Margin of Safety :** -25.52% |

**About the company :** Agarwal Industrial Corporation Limited (AICL) has firmly established itself as a leading player in the Bitumen industry, particularly in the private sector in India. The company's dedication to excellence is evident from its impressive track record of consistent growth. Over the past five years, AICL has achieved a remarkable Compound Annual Growth Rate (CAGR) of 39.59%, demonstrating its robust expansion and effective business strategies. AICL's core business focus revolves around Bitumen, where the company has established itself as India's largest integrated player in transporting Bitumen. With six manufacturing plants across India, AICL is well-positioned to efficiently produce and process Bitumen, aligning with its core focus. The strategic placement of seven bulk storage terminals ensures optimal distribution and supply chain management, while the fleet of eight Bitumen vessels with a combined capacity of 48,550 MT underscores the company's strong logistics infrastructure. These investments not only enhance AICL's production capacity and operational efficiency but also ensure that the company can effectively meet the increasing demands of its customers, thereby solidifying its position in the Bitumen industry. The company's strategic approach includes continuous strengthening of its vessel fleet to support its core Bitumen business, showcasing a commitment to operational excellence and customer satisfaction. Financially, AICL has reported its highest-ever numbers in FY 2022-23, reflecting strong performance and growth across all segments. AICL's diversified portfolio, extensive sales network, and satisfied customer base further solidify its position as a key player in the Bitumen industry, both in India and internationally.

**Business Outlook :** AICL, a key player in the Indian bitumen market, has demonstrated robust financial performance and strategic expansion. The company's diversified operations include manufacturing and trading of bitumen and allied products, logistics for bulk bitumen and LPG, and power generation through windmills. With manufacturing and storage units strategically located across India, including recent expansions in Pachpadra City, Rajasthan, and Guwahati, Assam, Agarwal Industries is well-positioned to cater to the increasing demand for bitumen in infrastructure projects. The company's recent ventures in Eastern India with a new facility in Guwahati aim to tap into the growing demand in the region driven by state government infrastructure projects. Additionally, the establishment of bulk bitumen storage facilities near major ports enhances the company's ability to manage imports efficiently and maintain a steady supply chain. These strategic expansions are expected to bolster Agarwal Industries' market position and drive revenue growth in the coming years.

The Indian economy is poised for significant growth driven by substantial investments in infrastructure, particularly in the road construction sector. The Indian bitumen market, valued at $2.8 billion in 2018, is projected to reach $3.6 billion by 2026, growing at a CAGR of 2.8% from 2019 to 2026 [1]. This growth is largely propelled by government initiatives such as the National Highways Development Project, Pradhan Mantri Gram Sadak Yojana (PMGSY), and the Bharatmala project, which aim to enhance road connectivity and infrastructure across the country. North India is expected to exhibit a CAGR of 3.4% during this period due to extensive road network development initiatives [2]. The increasing urbanization and demand for housing under schemes like Pradhan Mantri Awas Yojana (PMAY) also contribute to the rising demand for bitumen in the construction industry. Globally, the bitumen industry is undergoing significant transformations due to environmental concerns and the push towards sustainable practices. The fluctuating international crude oil prices impact bitumen production costs, creating a volatile market scenario. However, innovations such as bio-based bitumen and Enrobés à Module Élevé (EME) binders offer promising solutions to mitigate environmental impacts. Major players in the global market, including those in the Middle East, Europe, and North America, are investing in advanced technologies and expanding their production capacities to meet the rising demand. The global trend towards sustainable construction materials is expected to drive the development of eco-friendly bitumen alternatives, providing lucrative opportunities for growth in the sector.

**Financial Analysis :** The financial analysis is based on the company's current year financials [3]. For FY 2022-23, the company reported a total consolidated revenue of ₹2,024 crore. The total cost of materials was ₹286 crore, representing 14.15% of the revenue, while the cost of employment was ₹8.83 crore, or 0.44% of the revenue. The net profit amounted to ₹98.24 crore, with earnings per share of 63.78. The company achieved a net profit margin of 4.85%, marking a 50.98% increase year-over-year.

The current ratio stands at 1.57, and the quick ratio is 1.07, indicating potential issues with inventory management. If inventory and other current assets are not managed effectively, liquidity concerns may arise. Trade receivables account for 25.82% of total assets, while trade payables constitute 21.82% of total liabilities. Despite this, the company has maintained optimal working capital management for FY 2022-23, with 23.87 days of working capital available for operations.

Total shareholders' equity reached ₹4,037 crore, reflecting a 37.05% increase year-over-year. The return on capital employed was 18.15%, a significant improvement from previous years. Additionally, the company generated positive free cash flows to equity during the financial year.

**Management Analysis :** Management analysis of the company has been done based on the financials from 2013 to 2023 [4]. The management analysis, based on the company's financials from 2013 to 2023, reveals significant growth. Consolidated revenue has increased at a CAGR of 32.51%, and net profit has grown at a CAGR of 39.95% over this period. The management has been effective in controlling operating costs and efficiently managing working capital in the capital-intensive crude oil logistics sector. They have consistently achieved a return on capital employed between 10% and 18% over the decade. Debt management has been prudent, maintaining low credit risk and ensuring timely debt repayment. Furthermore, the management has successfully grown shareholders' equity at a CAGR of 28.03% during this period. The company has been managing liquidity and cash flows consistently throughout the period under consideration.

**Risk Considerations :**

**1. Fluctuating Crude Oil Prices:** The price of bitumen is closely linked to international crude oil prices. Fluctuations in crude oil prices can significantly impact the cost of bitumen, affecting profitability. Sudden increases in crude oil prices can raise raw material costs, while price volatility can make financial planning challenging.

**2. Competition and Pricing Pressure:** The bitumen industry is highly competitive, with multiple players vying for market share. AICL must navigate intense pricing competition while maintaining the quality and service standards that differentiate it from competitors. The need to keep prices competitive can strain profit margins, especially if competitors engage in aggressive pricing strategies. Maintaining a balance between competitive pricing, high-quality products, and excellent service is essential to preserve market share and profitability. Failure to do so could result in a loss of customers and a weakened market position.

**3. Economic Fluctuations and Regulatory Changes:** Economic instability and changes in regulatory environments pose significant risks to AICL. Fluctuations in the global and domestic economies, including interest rate changes, can impact demand for bitumen products and affect pricing strategies. Additionally, changes in government policies and regulations could increase operational costs or impose new compliance requirements. AICL must continuously monitor economic indicators and regulatory developments to anticipate and adapt to these changes, ensuring that its business operations remain compliant and cost-effective.

**4. Payment Timeliness and Cost Management:** Timely payments from clients, particularly government authorities, are critical for AICL's cash flow and financial stability. Delays in receiving payments can strain working capital, disrupt operational continuity, and hinder the company's ability to invest in growth initiatives. Effective management of receivables and ensuring timely collections are essential to maintain financial health. Additionally, consistent cost reduction and minimization efforts across all levels of operations are necessary to sustain profitability. Implementing cost-saving measures without compromising quality or service can help AICL remain competitive and financially robust.

**5.Logistics and Supply Chain Challenges:** Efficient logistics and supply chain management are crucial for transporting bulk bitumen and LPG. AICL's reliance on its fleet of tankers and the need for timely shipment and quality assurance can pose operational risks. Disruptions in the supply chain, such as transportation strikes, port delays, or tanker maintenance issues, can impact delivery schedules and operational efficiency.

**Business Evaluation :** AICL has a market capitalization of ₹1,723 crore, with its share price at ₹1,152, classifying it as a **small-cap company** [5]. For the financial year 2022-2023, AICL reported a consolidated revenue of ₹2,024 crore, making its market capitalization 0.85 times its revenue. Given a revenue growth rate of 32.51% CAGR, the company appears undervalued in the market relative to its sales.

With rising demand for crude oil and logistics due to population growth, the company has the potential to increase its revenue significantly. Based on net profit and book value, the intrinsic value of the company is estimated at ₹715 per share. Adding a 20% margin for management quality [6], the fair value of the business is approximately ₹858 per share.

If investors purchase shares below this fair value, the company would be considered undervalued. However, at the current market price of ₹1,152 per share, the **margin of safety is -25.52%**. Investors are advised to hold their investments and consider accumulating more shares if the company becomes undervalued in the future.

**Notes:**

[1] Source : Agarwal Industrial Corporation Ltd. annual report 2022-2023.
[2] Source : Annual Reports of the peer companies in the Industry.
[3] The financial analysis is based completely on the current financial statements of the company for the financial year 2022-23. The past and the future expected financials are considered to be irrelevant in the financial analysis by MarketMarvels Analysts.
[4] The management analysis is based completely on the past financials of the business. MarketMarvels Analysts believe that the past financial management of the business reflects the management capabilities in managing the business.
[5] The categorization of a company into micro cap, small cap, mid cap and large cap is based on the market capital : less than ₹700 crore, ₹700 crore - ₹5000 crore, ₹5,000 crore - ₹50,000 crore, and more than ₹50,000 crore, respectively.
[6] The business valuation keeps changing with the financials and the management behavior. The margin that we added to the intrinsic value is based on our views and/or assumptions. The margin can be different for different analysts.

**Disclaimers :**

1. The above analysis is based on the publicly available data from the company's annual reports, credit reports and the company filings to the stock exchanges.
2. The analyst has never approached the company management or the company officials for any internal information.
3. The analysis is an original piece of work and has not been copied from other reports/analyses.
4. Equity investing is a long-term process. This report alone is insufficient to make investment decisions in the company.
5. A few critical points of the analysis have been presented in the report to simplify the report. Investors can analyze more information from the sources mentioned in Disclaimer 1, before taking an investment decision.

**Disclosures :**

1. **Sreenivasa Sarma Bhagavathula**, the analyst of this report, is a SEBI registered Research Analyst with the registration number **INH000013439**

2. SEBI registration need not guarantee the returns on investments.

3. The analyst holds the company shares as detailed below :

| Name of the company | Last transaction (Buy/Sell) | Date of the last transaction | Total number of shares held as on the report date |
|---|---|---|---|
| Agarwal Industrial Corporation Ltd | NA | NA | ZERO (or NIL) |

4. The research assistants don't have a stake in the company as per the records available on the reporting date.

5. A few paragraphs of the report have been rephrased using Gen AI tools, like ChatGPT, to enhance the quality of reporting.

6. For any queries on the research report, please contact help@marketmarvels.in

For **MarketMarvels Analysts**

Digitally signed by SREENIVASA
SARMA BHAGAVATHULA
Date: 2024.06.24 11:11:19 +05'30'

**SREENIVASA SARMA BHAGAVATHULA**
(Research Analyst)

and,

**Swetha P**
(Research Assistant)