Research Report on Ganesh Benzoplast Ltd.

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Founded in 1988, Ganesh Benzoplast Limited today is a perfect example of bad diversification with focuses on two completely unrelated businesses. Firstly, the company has a ventured into a Liquid Storage Terminal (LST) where the company owns and rents its own Liquid Storage and Handling Solutions – *i.e. providing its customers with complete storage facility for liquids like chemicals, oils, petroleum products, molasses, etc.* Company has created a total storage capacity of 3,00,000 kl suitable for storing all classes of liquids i.e. A, B and C. These storage units/tanks are located at three locations, namely JNPT terminal (Nhava Sheva), Cochin terminal and Goa Terminal, all of these units are located within the shipping ports for convenient transfer helping in full-fledged import & export of liquid cargo.

The second business involves manufacturing of certain specialty chemicals (used in food preservation, pharmaceuticals, etc.) and lubricant additives. The main products of this business are chemicals like Sodium Benzoate, Benzoic Acid and Benzaldehyde along with various lubricants and oil additives, as of 2016 the company was involved in manufacturing of more than 70 products! These products are exported to Middle East, Latin America, Europe, Canada and South East Asia – the company also started scouting the Chinese markets and plans to venture there soon.

Coming to the reality and economics of both the businesses, the LST segment of Ganesh Benzoplast contributes nearly 60% of the total revenue and is a profitable a business both in terms of operating and net profit, while the same can't be said about the chemical business. Until 2015 the specialty chemical business was even not producing positive EBIT let alone net profit; however this loss has come down in 2016, but still there isn't any visibility regarding this businesses profitability. Although the company has claimed time and again that they are taking measures to bring down costs and increase profitability – there have been no positive results on profit and loss statement of the company's chemical business. In fact a general market research and internet surf would suggest that the products produced by Ganesh Benzoplast are very commodity in nature, and hence there isn't any premium on manufacturing this product. In the past 3 years the company has even struggled with revenue growth in this business, with a slight de-growth in 2016.

All this leads to a total revenue of 120 Cr (69 Cr from LST) with an operating margin of around 30%, due to the excellent margins of LST business. It is quite clear that together as an consolidated business – Ganesh Benzoplast wouldn't make up for a decent business opportunity, with one business earring money and other destroying it – Ganesh Benzoplast stand as a good example of ***'Di-worsification'.***

However, recently some traction in the corporate activities of Ganesh Benzoplast make it a company worth looking at – On August 10, 2017 – Ganesh Benzoplast filed a corporate filing with BSE intimidating intentions to separate the loss making business from the profit making business. The BOD meeting for this crucial discussion is held on 18th of August and if the management and shareholders go through with the separation*, this could unlock the true value of the LST business.*

There are some more positive developments in the LST business –

- The company is in the process of refurbishment of tanks/tank farm, connecting to new jetties which make the transportation cost very low at JNPT terminal.
- The company is running at 100% capacity at JNPT terminal, and was awarded in 2015 for handling the highest volume for third consecutive year at JNPT terminal. The company is also utilizing optimum capacity at the other two terminals.
- The company is foraying deeper into the LPG storage business, and has already received environment clearance and started its work at the Goa terminal - which represents a huge opportunity at macro level as government is now promoting LPG at industrial consumption arena – by rationalizing subsidy costs for consumption so as to bring down the price difference between Industrial and Consumption LPG rates.
- Currently the company is in Draft Rehabilitation Scheme (DRS) due to its debt restructuring; however the separation of loss-making business (if taken place through slump sale or hive off) would not only reduce the losses through that business, but could provide the business with much needed capital.

Hence if the separation of the loss making business takes place, the company would be available at a very cheap relative valuation – *i.e. 70 Cr of revenue generating an EBITDA of 40 Cr, depreciation of 13 Cr and Interest cost of 5 Cr (on a debt of 47 Cr) at current market cap of 370 Cr* – making up for an EV/EBITDA multiple of 7.3 X only, while competitors like Aegis Logistics command multiple of 30 X EV/EBITDA!

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