Ajcon's Xpress idea: Bombay Burmah Trading Corp. Ltd. - "BUY", 16th Sept., 2014

About the Company

Originally BBTCL was formed as a public company to encourage teak business by taking over the assets and rights in Burma (now Myanmar) of William Wallace. At that time, the company was catering to the domestic demands, then expanded trading in other Asian regions. It was not until 1913 that the Company turned its attention to tea plantations and invested in suitable areas in South India

The Bombay Burmah Trading Corporation, Limited (BBTCL) is a 150 year old company. The company founded its fortunes on teak in the year 1863, as a public company. The company is a leading concern of the Wadia Group, a reputed Indian business house with interests in plantations, foods, textiles, chemicals, electronics and light engineering, health care and real estate. Bombay Burmah, Bombay Dyeing and Britannia are the mastheads of the Wadia Group.

Today, BBTCL is one of the few oldest companies of pre-independence era, still flourishing with its competency in trade. It is the second oldest publicly quoted company. The Company has diversified its interests into tea, coffee, other plantation products, biscuit and dairy products, auto electric and white goods parts, weighing products, horticulture and landscaping services, healthcare products (viz.) dental, orthopaedic and opthalmic products.

About its Business Operations

During FY14, the Company has achieved a gross Income of Rs. 291 crores compared to Rs. 264 crores which represents an increase of about 10% over the previous year. However despite higher gross income, the Profit before Tax was significantly lower at Rs. 7.23 crores compared to Rs.18.01 crores for the previous year. Continued volatility in international prices of Coffee substantially affected BBTCL margins, which were lower by Rs. 15 per kg and despite higher sales volume, the profits diminished.
Increase in wage cost at Tea plantation coupled with statutory liabilities and rising fuel costs consumed the improved sales realization in Tea, leaving little to contribute to profits. Rise in interest costs resulting from introduction of base rate policy by RBI against concessional interest rates on agricultural loans was a major setback. Health Care Division performed satisfactorily and reported higher turnover and profitability. The increase in input cost was absorbed by the contribution from higher volume of sales. Electromags Division, despite slow down in the Auto sector registered a modest growth in turnover and profitability has been maintained.

Segment wise performance

Tea
Production of Tea, including from Bought Leaf, for the year was marginally higher at 82.75 lakh kgs as against 78.42 lakh kgs in the previous year. The Sales Turnover was Rs. 93.27 Crores as against Rs. 83.10 Crores for the previous year. The increase in Sales Turnover was on account of increase in average selling price as the volume remained almost constant at 79.23 lakh kgs as against 80.60 lakh kgs in the previous year. Despite increased Sales Turnover, the profits remained flat due to substantial increase in the cost of operation.

Coffee
Production during the year was 1,303 Tonnes compared to 2,399 Tonnes for the previous year. Lower production was a result of lower intake of outsourced Beans. However, the Sales Turnover was higher at Rs. 34.42 Crores as against Rs.28.46 Crores in the previous year. This was due to higher sales volume of 2,247 Tonnes against 1,680 Tonnes in the previous year.

International selling prices remained under pressure and its average sales realization per kg was 10% lower compared to the previous year.

Tanzanian Estates
The crop for the year under review at 8.02 Lakh kgs was comparable to the previous year crop of 8.14 Lakh kgs. in 2012-13. Sales were at Rs. 6.45 Crores as against Rs. 5.42 Crores in previous year.

Electromags – Auto ancillary
The turnover for the year was marginally higher at Rs.111.77 Crores as against Rs.105.91 Crores for 2012-13. Although the auto sector slow down persisted during the year, improved sales realization and the cost control resulted in improved gross margins compared to previous year.

Healthcare division
The turnover for the year was Rs.21.32 Crores as against Rs.18.04 Crores for 2012-13. This was due to higher sales of own manufactured products, mainly Dental alloys and division was able to improve profits.

Weighing Products Division
Sale of balances for the year under review was Rs. 1.84 Crores as against Rs. 2.34 Crores for 2012-13. The Division continued to operate profitably.

Real Estate Development
The Corporation is examining various options for unlocking value at Kanjur Marg in Mumbai and Akurdi under its Real Estate Division.

Outlook

We believe BBTCL is strong player in agro commodities trading segment. We recommend a "BUY" on the stock with a price target of Rs. 280 an upside of 13%, over a period of 3 to 6 months.

Stock Holding Disclosure under SEBI regulations:

a) **Analyst holding: No**
b) **Company holding: No**
c) **Directors holding: No**
d) **Group/Associates Position: No**
e) **Relationship with management: No**

Disclaimer

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