



**HIDDEN GEMS**

**UNEXPLORED MULTIBAGGER SMALL CAP STOCKS**

**EQUITY RESEARCH REPORT**

<b>CHEVIOT COMPANY LTD.</b>	BSE CODE: 526817
Industry: Jute & Jute Products	CMP: Rs. 1537.10 (29/04/2018)
Market Cap: 662.68 (INR in Crore)	Target Price: Rs. 2950
Date: April 29, 2018	Time Period: 12 – 24 months



**Saral Gyan Capital Services**

An Independent Equity Research Firm

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## 1. Company Background



Cheviot Company Limited is the flagship company of Group Cheviot. It owns Cheviot Jute Mills in West Bengal. The company manufactures jute products and jute fabrics with flexibility to cater to both domestic and international market. The company is renowned for manufacturing superior quality technical jute fabrics and fully customized jute shopping bags for export market at the Export Oriented Unit situated at Falta Special Economic Zone in the state of West Bengal, India.

It has got two manufacturing units which are equipped with the state of the art technology near Kolkata, West Bengal, India.

- i) BUDGE-BUDGE - Composite jute mill producing high quality jute yarns & traditional jute products such as-Hessian cloth & bags in different sizes & constructions, sacking bags like A-Twill, B- Twill & DWF Bags-both Normal & Food Grade Quality.
- ii) FALTA - Specialty jute weaving unit manufacturing high quality technical / decorative fabrics on sulzer looms and jute shopping bags.

### Jute Product Manufacturing Facilities



Over the years, company has been manufacturing the fabric required for jute shopping bags on sulzer looms, the quality of which has been appreciated by its customers. Jute decorative fabrics is manufactured using superior quality material having high versatility nature of fiber which enables it to be combined with any other material to come up with a new product. These jute decorative fibers have high tensile strength and are resistant to heat and fire. It has a silky luster and ensures immense designer potential.

As a forward integration, the company started producing jute shopping bags from cloth manufactured in-house, which puts Cheviot in an advantageous position to guarantee quality & timely shipment of the bags and that too at a very competitive price. The company's focus is always on developing into new product lines which are eco-friendly & bio degradable. In pursuance to this policy, company has embarked in to manufacturing jute shopping bag business which is being manufactured under strict supervision of highly trained people with latest technology.

Mr. Harsh Vardhan Kanoria is the head of Group Cheviot. He is an eminent industrialist with 40 years of vast experience in successfully handling jute, tea and leather industries. He has served as chairman of the Indian Jute Mills Association, Kolkata for 2 terms. Mr. Kanoria is heading the company as Chairman and Managing Director.

Mr. Utkarsh Kanoria is son of Mr. Harsh Kanoria and is appointed as President of Cheviot Company. He is a qualified graduate from the reputed Carnegie Mellon University at United States. Mr. Utkarsh Kanoria is looking after day to day business operations.

### Product Range:

#### i) Promotional Jute Bags



#### ii) Fashion Jute Bags



#### iii) Beach Bags



#### iv) Bottle Bags



#### v) Miscellaneous Bags



#### vi) New Collections



## 2. Recent Developments

### i) Government hikes raw jute MSP by Rs. 200 to Rs. 3,700 per Quintal – April 2018

The Cabinet Committee on Economic Affairs (CCEA) on 25<sup>th</sup> April 2018 gave its nod to raise MSP of raw jute from Rs 35,000 to Rs 37,000 per tonne. The revised MSP is in line with the recommendation by the Commission for Agricultural Costs & Prices (CACP). The Commission takes into account the cost of production, overall demand-supply, domestic and international prices, inter-crop price parity, terms of trade between agricultural and non-agricultural sectors and the likely impact of MSP on the rest of the economy while recommending the MSP.

The government feels the increase in MSP would benefit the jute industry which supports the livelihood of around four million farm families and provides direct employment to 0.37 million workers in organised mills and in diversified units including tertiary sector and allied activities. These farm families are mainly concentrated in West Bengal, Bihar and Assam which account for over 95 percent of the area as well as jute production in the country.

The government in the Budget for 2018-19 had announced fixing MSPs at 1.5 times the cost of production for various crops.

### ii) India may extend anti-dumping duty to jute clothes from Bangladesh – March 2018

India may extend the anti-dumping duty to jute sacking clothes from Bangladesh as the commerce ministry has found imports of the product to avoid duties on jute bags from the neighbouring country.

The commerce ministry's investigation arm Directorate General of Anti-Dumping and Allied Duties (DGAD) has initiated a probe into circumvention of anti-dumping duties on jute sacking bags from the neighbouring country.

The Indian Jute Mills Association (IJMA) has filed an application before the authority alleging that the duty on jute sacking bags is being circumvented by imports of jute sacking cloth, which is an unfinished and penultimate form of the bags, from Bangladesh.

The DGAD in a notification has said that it has found "sufficient prima facie evidence" of circumvention of the anti-dumping duties leviable on jute bags by the country. Hence, initiates an investigation into the alleged circumvention of the anti-dumping duties to determine the existence, degree and effect of the alleged circumvention and to examine the need to extend the existing anti-dumping duty to the circumventing product.

The finance ministry in January 2017 imposed the anti-dumping duty on jute sacking bags to protect domestic manufacturers from cheap imports.



### iii) Ban of light weight plastic bags to augur well for alternative options – Mar 2018

In many countries of the world, there has been a phase-out of lightweight plastic bags. Single-use plastic shopping bags, commonly made from low-density polyethylene (LDPE) plastic, have traditionally been given free to customers by stores when purchasing goods—a popular method considered a strong, cheap, and hygienic way of transporting items. Problems associated with plastic bags include use of non-renewable resources (such as crude oil, gas and coal), disposal, and environmental impacts.

Governments all over the world have taken action to ban the sale of lightweight bags, charge customers for lightweight bags and/or generate taxes from the stores who sell them. The Bangladesh government was the first to do so in 2002, imposing a total ban on the bag. Such a ban has also been applied in countries or regions such as Rwanda, China, Taiwan, Macedonia and most recently in Kenya (August 2017). Some countries in Western Europe impose a fee per bag. Bans, partial bans, and fees have been enacted by some local jurisdictions in North America, Australia, and Myanmar. Concurrently with the reduction in lightweight plastic bags, shops have introduced reusable shopping bags.

India is also not far behind in implementing ban on plastic products. With recent plastic carry bag ban imposed by Maharashtra, it becomes the eighteenth state in the country to ban plastic carry bags and cutlery made of thermocol. The government has implemented the ban from the date of issues of notification, but has given traders, manufacturers and even consumers a time period of one month to dispose of the banned items in their possession. The ban proposal was cleared by the Maharashtra cabinet on 15<sup>th</sup> March.

Ban in usage of plastic carry bags is expected to augur well for cotton as well as jute bag manufacturers.

### iv) Cheviot participates in Ambiente 2018 held at Frankfurt, Germany – Feb 2018

The fair ambiente is an international consumer goods trade fair, which takes place once a year in Frankfurt. It is open to trade visitors only and offers products in the areas of Dining - Giving - Living. The Ambiente is the most important show of its kind in Europe and presents itself as a central platform for the order business. In this fair, the leading international exhibitors present themselves and show their products and innovations from the fields of table, kitchen, household, gifts, home, furnishing, decoration.

The dynamic nature of the consumer goods industry is clearly reflected in the programme highlights of Ambiente. Numerous exhibitions, special presentations, competitions and events demonstrate the diverse range of factors that will shape the future. Hence, this is one of the most important global fair.

Cheviot Company participated in the fair Ambiente 2018 which was held from 9 Feb'18 to 13 Feb'18 at Messe Frankfurt, Germany.

### 3. Financial Performance

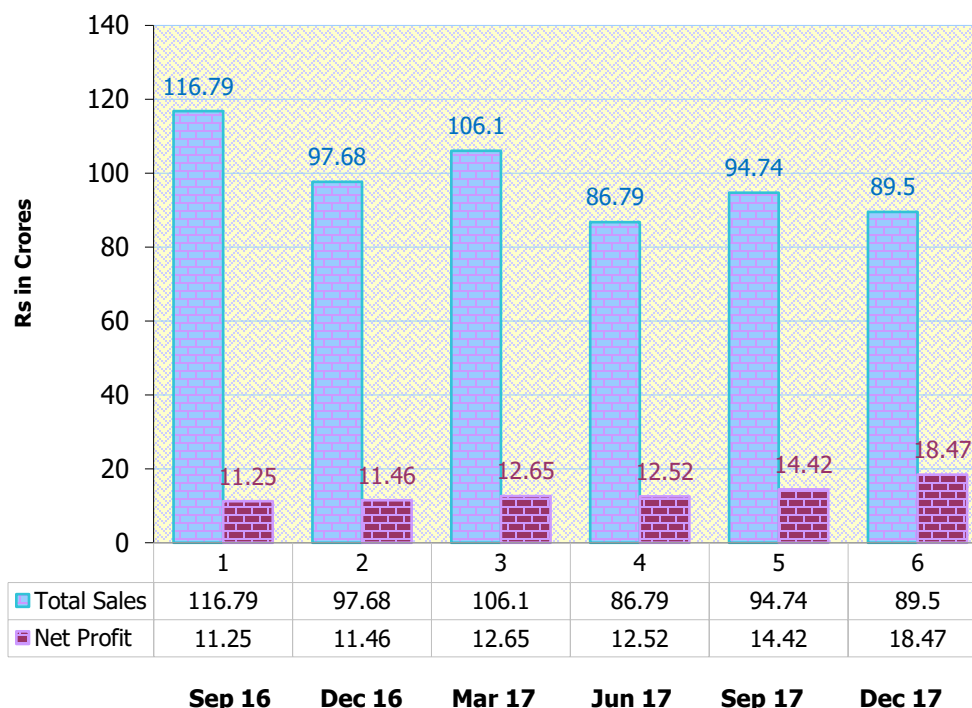
#### Cheviot Company standalone net profit rises 61.2% in the Dec 2017 quarter

Net profit of Cheviot Company rose 61.2% to Rs 18.47 crore in the quarter ended Dec 2017 as against Rs 11.46 crore during the previous quarter ended Dec 2016. Sales declined 8.4% to Rs 89.50 crore in the quarter ended Dec 2017 as against Rs 97.68 crore during the previous quarter ended Dec 2016.

#### Cheviot Company standalone net profit rises 28.2% in the Sept 2017 quarter

Net profit of Cheviot Company rose 28.2% to Rs 14.42 crore in the quarter ended Sept 2017 as against Rs 11.25 crore during the previous quarter ended Sept 2016. Sales declined 18.9% to Rs 94.74 crore in the quarter ended Sept 2017 as against Rs 116.79 crore during the previous quarter ended Sept 2016.

#### Last 6 Quarters Net Sales & Profit



## Current & Expected Earnings

### Quarterly Ended Profit & Loss Account

Particulars (Rs in Crores)	Mar 2017	Jun 2017	Sep 2017	Dec 2017	Mar 2018 E	Jun 2018 E
Audited / UnAudited	UA	UA	UA	UA	UA	UA
<b>Net Sales</b>	<b>104.06</b>	<b>86.79</b>	<b>94.74</b>	<b>89.5</b>	<b>94.75</b>	<b>92.67</b>
Other Operating Income	2.05	--	--	--	--	--
Total Income – Operations	106.1	86.79	94.74	89.5	94.75	92.67
Raw Materials Consumed	50.31	45.33	48.83	46.45	47.91	47.42
Purchase of Traded Goods	--	--	--	--	--	--
Increase/Decrease in Stocks	6.94	0.42	-2.4	-5	2.67	0.44
Power & Fuel	--	--	--	--	--	--
Employees Cost	16.49	15.14	17.98	17.4	17.89	18.09
Depreciation	2.06	0.94	0.98	1.05	1.16	1.12
Admin & Selling Expenses	--	--	--	--	--	--
R & D Expenses	--	--	--	--	--	--
Provisions & Contingencies	--	--	--	--	--	--
Other Expenses	23.6	15.96	15.84	15.99	15.34	14.98
P/L Before Other Income	6.7	8.99	13.51	13.6	9.78	10.62
Other Income	10.37	7.82	6.56	9.8	9.58	8.82
P/L Before Int., E. Items & Tax	17.07	16.81	20.07	23.4	19.36	19.44
Interest	0.24	0.11	0.24	0.2	0.2	0.21
P/L Before E. Items & Tax	16.83	16.7	19.83	23.19	19.16	19.23
Exceptional Items	--	--	--	--	--	--
P/L Before Tax	16.83	16.7	19.83	23.19	19.16	19.23
Tax	4.18	4.18	5.41	4.73	4.75	4.04
P/L After Tax – Ord. Activities	12.65	12.52	14.42	18.47	14.41	15.19
Prior Year Adjustments	--	--	--	--	--	--
Extra Ordinary Items	--	--	--	--	--	--
<b>Net Profit/(Loss)</b>	<b>12.65</b>	<b>12.52</b>	<b>14.42</b>	<b>18.47</b>	<b>14.41</b>	<b>15.19</b>
Equity Share Capital	4.51	4.51	4.31	4.31	4.31	4.31
Reserves	--	--	--	--	--	--
<b>Calculated EPS</b>	<b>28.04</b>	<b>27.75</b>	<b>33.46</b>	<b>42.85</b>	<b>33.43</b>	<b>35.24</b>
Calculated EPS (Annualised)	112.16	111	133.83	171.42	133.74	140.97
Public Shares Holding	11,27,938	11,27,938	10,88,226	10,88,226	10,88,226	NA
Public Share Holding (%)	25.00	25.00	25.24	25.24	25.24	NA

Cheviot Company has strong financials with good cash flows from operations. The company is expected to perform well in coming quarters considering favourable developments like implementation of anti-dumping duty on jute by Government to support farmers, increase in raw jute MSP to encourage jute cultivation and ban in usage of plastic bags.



## 4. Peer Group Comparison

PEER GROUP	CHEVIOT COMPANY	GLOSTER	LUDLOW JUTE SPECIALITIES	AI CHAMPDANY
CMP	1537.10	709.60	89.95	30.60
52 W L/H	1070.00/1735.00	485.00/793.90	74.55/132.90	21.60/41.50
Market Cap	662.68	742.73	96.90	94.11
<b>Results (in Crores)</b>	<b>Dec-17</b>	<b>Dec-17</b>	<b>Dec-17</b>	<b>Dec-17</b>
Net Sales	89.50	118.57	73.02	29.22
PAT	18.47	14.09	0.51	0.17
Equity	4.31	10.47	10.80	13.71
EPS (TTM)	134.66	41.45	2.16	0.69
P/E	11.4	17.1	41.6	44.35

Under peer group comparison, we have compared Cheviot's performance with other companies operating in Jute Industry. Cheviot and Gloster are the sector leaders, however Cheviot has performed well in past with better financials compared to other peer group companies.

## 5. Key Concerns / Risks

- Bangladesh jute manufacturers enjoy substantial cost advantage in the form of lower wage and power cost vis-a-vis Indian manufacturers of jute products. Thus they continue to provide strong competition in the international market.
- Availability of raw jute depends on crop size which in turn largely depends on weather conditions. Deficit in rains due to below average monsoon will have an adverse impact on company's performance.
- Alternate packaging materials like HDPE/Polypropylene being cost effective are used as substitute in the packaging market. However, the company is making efforts to develop light products of jute goods with less jute content, manufacture diversified jute products including shopping bags to mitigate the risk.

## 6. Saral Gyan Recommendation

- ✚ The Cabinet Committee on Economic Affairs (CCEA) recently extended the mandatory packaging of food grains and sugar products in jute bags for the year ending June 2018. As per the norms, it is compulsory to pack 90 percent of food grains and 20 percent of sugar products in jute bags. The decision also mandates, the entire requirement for packing of food grains would be placed in jute bags thus, making a provision for 100 percent packing of food grains in jute bags subject to the ability of the jute to meet the requirement. Considering nearly 3.7 lakh workers and approx. 40 lakh farmers are dependent for their livelihood on the jute sector, the government has been making concerted efforts for the development of the jute sector.
- ✚ With a view to boost demand in the jute sector, government has imposed definitive anti-dumping duty on import of jute goods from Bangladesh and Nepal with effect from 5 Jan 2017, which has provided scope for additional demand of 2 lakh MT of jute goods in the domestic market for the Indian jute industry. Moreover, Government is expected to extend anti-dumping duty to jute clothes from Bangladesh to support farmers and labour who are dependent on jute Industry. This is expected to augur well for companies operating in Jute sector.
- ✚ Jute products being environmental friendly and having bio-degradable characteristics of natural jute fiber have an edge over other packing materials. Use of Jute goods in floor coverings, jute geo-textiles, shopping bags will provide ample opportunity to boost the demand. Barring unforeseen circumstances, the outlook for the jute industry appears to be promising for coming years.
- ✚ Cheviot generates revenue from domestic as well as export sales. Demand in domestic market is largely dependent on government orders. In export market, India face severe competition from Bangladesh. To overcome this risk, the company is making efforts to increase its customer base by establishing contacts and visiting foreign buyers, focusing on manufacture of value added and diversified jute products including shopping bags. The company will continue its business strategy of catering to demand from both domestic and overseas markets and will strive to control costs with focus on all round business development.
- ✚ Cheviot has registered sales CAGR of 11.9% and profit CAGR of 14.7% with ROE of 10.7% over last 3 years. Net profit margins have seen improvement YoY since March 2015 and expected to improve further in coming years.

KEY FINANCIALS	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017
Return on Equity (%)	9.30	7.25	8.21	8.87	8.20
ROCE (%)	9.16	7.14	8.07	8.71	8.06
Operating Profit Margin (%)	13.40	12.41	10.94	13.06	11.62
Net Profit Margin (%)	9.71	8.42	10.61	10.02	9.22
Debt to Equity (%)	0.05	0.05	0.05	0.04	0.04

- As of Mar'18, promoter's shareholding in the company is 74.76%, promoter's stake is reduced marginally by 0.24% during Sept'17 quarter. Moreover, the company has reduced its equity capital from 4.51 crore to 4.31 crores through buy back of shares. Last year, Cheviot Company decided to buy back two lakh shares for an amount of Rs 30 crore. The company has set 16 Jun'17 as the record date to decide on the eligible shareholders. The shares were bought back from shareholders on a proportionate basis through a tender offer at a price of Rs 1,500, 13.7% more than its closing price of Rs 1319 on announcement date. Promoters have not pledged any shares, Institution shareholding in the company is negligible at 0.17%.

QUARTER	Mar'17	Jun'17	Sep'17	Dec'17	Mar'18
Promoters Shareholding (In %)	75.00	75.00	74.76	74.76	74.76

- The company is paying regular dividend since 2008. It paid dividend of Rs. 1 in June 2017 for FY16-17. Low dividend payout was mainly due to shares buy back. The company paid higher dividend in past years. The dividend yield is at 0.07%.

YEAR	Mar'13	Mar'14	Mar'15	Mar'16	Mar'17
EPS	68.08	59.42	76.65	80.85	100.98
Dividend / Share (In Rs)	15.00	15.00	17.00	17.00	1.00

- As per our estimates, Cheviot Company can deliver PAT of 67.40 crores in FY18-19 with annualized EPS of Rs. 153. At current price of 1537.10, stock is available at forward P/E multiple of 10X based on FY18-19 earnings. Company's valuation looks attractive considering good growth potential for the company in domestic as well as export market.
- On equity of Rs. 4.31 crore, the estimated annualized EPS for FY18-19 works out to Rs. 153 and the Book Value per share is Rs. 924.22. At current market price of Rs. 1537.10, stock price to book value is 1.66.

Considering favourable Government policies to grow domestic jute industry to support farmers and labours, expected rise in demand of jute products with rising ban on usage of plastic bags across country, company's efforts to drive exports sales by expanding its geographical reach, and attractive valuation of the company with strong cash flows and debt free status, Saral Gyan team recommends **"Buy"** on **Cheviot Company Ltd** at current market price of Rs. 1537.10 for target of Rs. 2950 over a period of 12 to 24 months.

#### Buying Strategy:

- 60% at current market price of 1537.10
- 40% at price range of 1200 - 1350 (in case of correction in stock price in near term)

**Portfolio Allocation: 3% of your equity portfolio.**

## 7. Disclaimer

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