

## Initiating Coverage

<b>Recommendation</b>	<b>BUY</b>
<b>CMP</b>	<b>Rs. 64</b>
<b>Target</b>	<b>Rs. 98</b>
<b>Stock Return (1Yr)</b>	<b>78.5%</b>

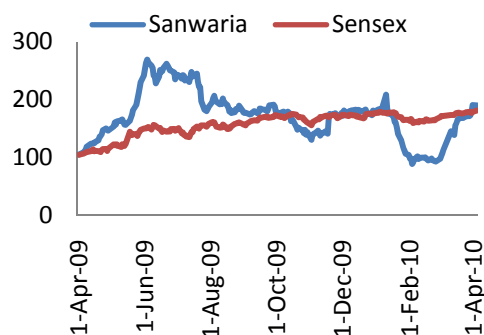
### Key Data

Sector	Edible Oil
BSE Code	519260
BSE Group	S
Bloomberg Code	SAO IN
Reuters Code	SNWR.BO
Market Cap (INR mn)	11431.8
52 WK High / Low	98.00/28.55
Total Volume (BSE)	191489
Total Volume (NSE)	399454
Face Value (INR)	1
Beta-Sensex	0.5998
Beta - Nifty	0.5795

### Share Holding Pattern (%)

Promoters	70.04
Foreign Institution	0.24
Non Promoter Corporate Holding	25.38
Public & Others	4.34

### Sensex and Stock Movement



**Tushar Das**

Analyst

+91 6616 8875

tushar.das@indiaadvantage.co.in

## Sanwaria Agro Oils Limited

### Investment Summary

Sanwaria Agro Oils Limited ("SAOL") is one of the largest integrated soybean processors in India with manufacturing plants located in Bhopal and Madhya Pradesh (MP). The company is the largest soybean oil processor in India. SAOL is well poised to tap opportunity in rising Indian edible oil market, which is growing at CAGR of 5-6%. We believe the company will post handsome gains in sales and profitability through FY09-FY12E period.

**Expansion plans:** Planning to expand production capacity for core soy products i.e., soy oil and de-oiled cake. Crushing capacity to be increased from 3,250 TPD in FY'09 to 4,750 TPD in FY'13(E); Refining capacity to be increased from 350 TPD in FY'09 to 650 TPD in FY'13(E); Higher operating margin through economies of scale and operating efficiencies. Foraying into soy based value added products i.e. soy flour, nuggets, TVP etc. It is setting-up of fully dedicated processing facilities for soy flour(200 TPD) and TVP(100 TPD) in Mandideep. It is planning to diversify into vanaspati ghee by setting-up 50 TPD capacity for processing Vanaspati ghee. It will import crude palm oil from Malaysia/Indonesia, it will be marketed under SAOL's brands large market in rural areas.

**Sound Business Model with stable margins:** Our belief in SAOL business model is further strengthened by the fact that the company has maintained its EBITDA margin of above 6% in both rising as well as falling oil prices scenario. SAOL's EBITDA margin was 7.8%, 6.03%, 6.95% and 4.70% in FY08, FY09, 2QFY10 and 3QFY10 respectively. We expect SAOL to post EBITDA margin of 6.3%, 8.34% and 9.36% in FY10E, FY11E and FY12E respectively. The gradual rise in margin can be attributed to increased contribution of branded sales (commands premium) and decline in per unit fixed cost (due to increase in volumes). We expect EBITDA and PAT to grow at CAGR of 50.28% and 42.48% respectively, through FY09-FY12E.

**Return ratios to improve:** With most of the capex in oil business being completed, we expect return ratios to improve significantly. We expect ROE to improve from 27% in FY09 to 36% in FY12E and ROCE to improve from 19% in FY09 to 30% in FY12E.

**Diversify and entry into retail alliances:** Diversifying into vanaspati ghee. It is Setting-up 50 TPD capacity for processing Vanaspati ghee. It is going to import crude palm oil from Malaysia/ Indonesia. It will be marketed under SAOL's brands. It has increased focus on retail sales through modern trade Tied up with Reliance Fresh, Vishal Retail, Pantaloons etc. More such tie-ups are on the anvil. It is also, focusing on advertising and brand building through cost-efficient and effective means such as shelf display in modern trade outlets

**Valuations:** At CMP, SAOL is trading at 11.65x, 8.63x and 6.22x FY11E, FY12E and FY13E respectively. **We initiate coverage on the company with BUY recommendation and price target of INR 98 per share.**

### Key Risk/Concerns

- Competition
- Exposure to volatility in international crude and edible oil prices
- Government Intervention

### Financial Performance of the Company:

	FY08	FY09	FY10E	FY11E	FY12E	FY13E
Net Sales (mn)	9396.27	11114.36	11558.93	16692.00	20732.11	27844.43
Net Profit (mn)	433.16	380.46	469.05	956.35	1291.17	1791.50
EBITDA (%)	7.88%	6.03%	6.30%	8.34%	9.36%	9.69%
EPS	4.05	2.19	2.70	5.50	7.42	10.29
P/E	15.81	29.27	23.75	11.65	8.63	6.22
P/BV (x)	5.47	7.23	5.54	3.76	2.62	1.84
ROE (%)	41%	27%	26%	38%	36%	35%
ROCE (%)	29%	19%	18%	28%	30%	31%
EV/Sales	0.92	1.09	1.07	0.75	0.61	0.45
EV/EBITDA	11.65	18.11	16.98	9.01	6.56	4.66

Source: IASL Research

### Company Background

#### Key Management Personnel

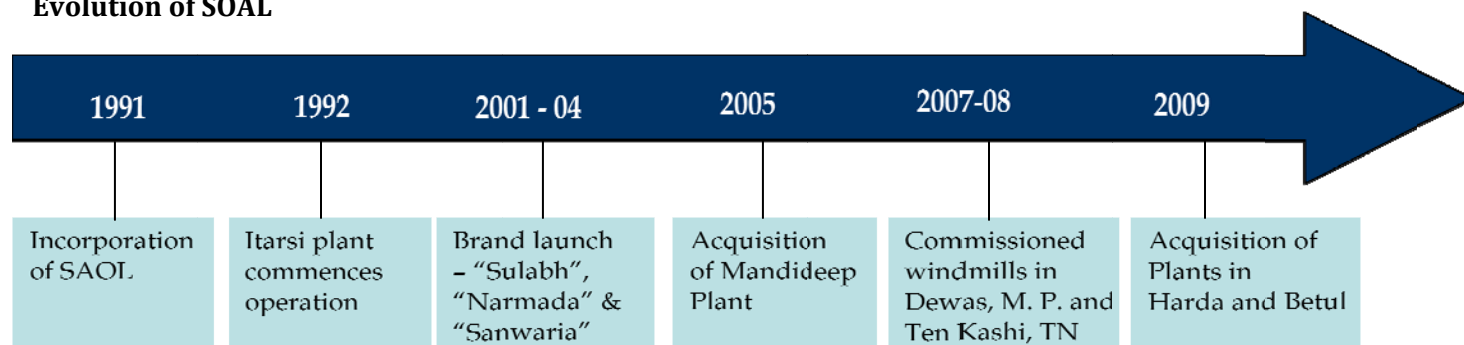
Mr. Ram Narayan Agrawal	Chairman
Mr. Satish Agrawal	Director
Mr. Ashok Agrawal	Director
Mr. Gulab Chand Agrawal	Director
Mr. Anil Agrawal	Director

- ✓ Sanwaria Agro Oils Limited (“SAOL”), one of the largest integrated soybean processors in India, is engaged in:
  - Crushing of soybean seeds for production and marketing of crude soy oil and de-oiled cake
  - Refining of crude oil and marketing of crude and refined oil – both bulk and branded
  - Trading in other agro commodities i.e. wheat, gram and pulses
- ✓ Two ISO 9001:2000 certified soybean crushing facilities in Mandideep and Itarsi (near Bhopal) with combined soybean crushing capacity of 3,250\* tonnes per day (“TPD”) and combined refining capacity of 350\* TPD
  - Wind power plants at Dewas, M. P. and Ten Kashi, Tamilnadu with combined capacity of 8.4 MW

Promoter family, headed by founder promoter Mr. R N Agrawal, owns approximately 70% equity shares

SAOL is planning to raise growth capital of around INR 2,000 million to capitalize on the growth opportunity in the soy products industry;

#### Evolution of SOAL



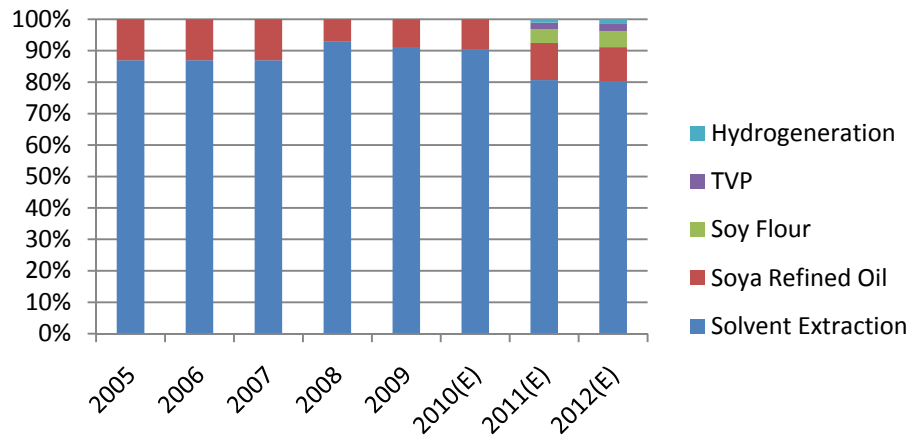
## Investment Rationale

### Higher Capex

During last three years, SOAL has done massive broad-based capacity expansion. Planning to expand production capacity for core soy products i.e., soy oil and de-oiled cake. Crushing capacity to be increased from 3,250 TPD in FY'09 to 4,750 TPD in FY'13(E); Refining capacity to be increased from 350 TPD in FY'09 to 650 TPD in FY'13(E); SAOL has 2 processing plants located at Itarsi and Mandideep which are about 90 km and 20 km from Bhopal. All the plants are located in mustard growing regions of Madhya Pradesh and Bihar, where 55% of India's soybean is produced, thus giving the company, economies of scale and an opportunity to buy mustard seeds directly from the farmer, reducing inputs costs. Foraying into soy based value added products i.e. soy flour, nuggets, TVP etc. Setting-up of fully dedicated processing facilities for soy flour (200 TPD) and TVP (100 TPD) in Mandideep. Diversifying into vanaspati ghee-Setting-up 50 TPD capacity for processing Vanaspati ghee. To import crude palm oil from Malaysia/Indonesia, it will be marketed under SAOL's brands large market in rural areas. Contract manufacturing for private labels of large retail players.

**During last three years, SOAL Oil has done massive broad-based capacity expansion**

### SOAL Businesswise Installed Capacity



Source: IASL Research

### SOAL Brands

*The company mainly caters to Branded products are currently marketed in Madhya Pradesh, Chhattisgarh, Uttar Pradesh, Delhi, Punjab and Haryana*

Brands
<ul style="list-style-type: none"> <li>• Narmada</li> <li>• Sulabh</li> <li>• Sanwaria</li> </ul>

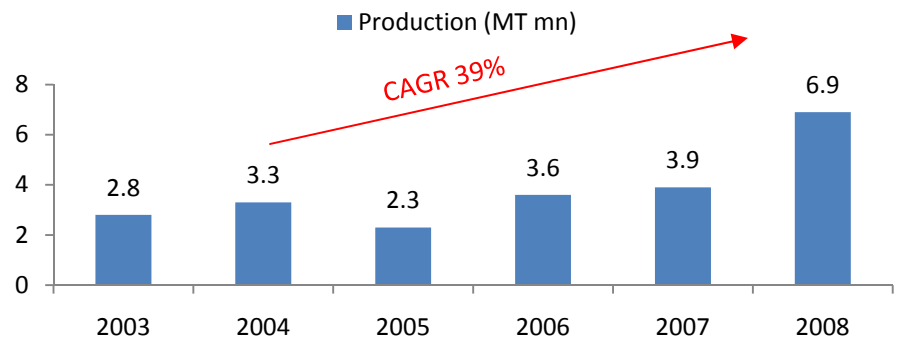
Management is aggressively pursuing its plans of enhancing its branded sales portfolio by entering into new markets, strengthening the sales, marketing and distribution network.

**STRONG INDUSTRY GROWTH**

**Growing popularity of soy oil in domestic market**

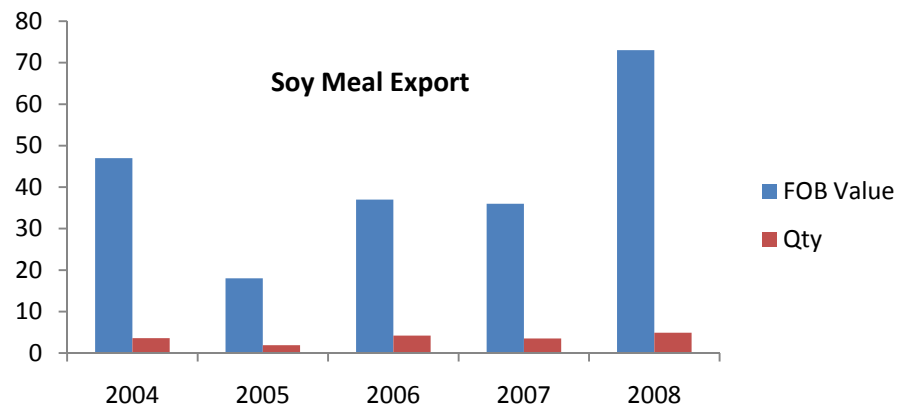
- ✓ Edible oil industry is expected to grow at 6% p.a.
  - Edible oil is healthier compared to other cooking substitutes e.g. vanaspati etc.
  - Increase in per capita consumption of edible oil in India, which is among the lowest in the world at 12 kgs per annum
  - Changing demographics (growing urbanization, higher disposable income, more people eating out, young population etc.) will increase edible oil consumption
- ✓ Soy oil industry to outpace growth in edible oil industry, driven by:
  - Health benefits – soy contains high proteins and poly unsaturated fatty acid which protects heart
  - Soy oil is cheaper than other edible oils like safflower, groundnut and sunflower oils
- ✓ Share of soy oil in edible oil industry has increased from 8% in 1997 to 21% in 2007

**Soy meal Production**



Source: IASL Research

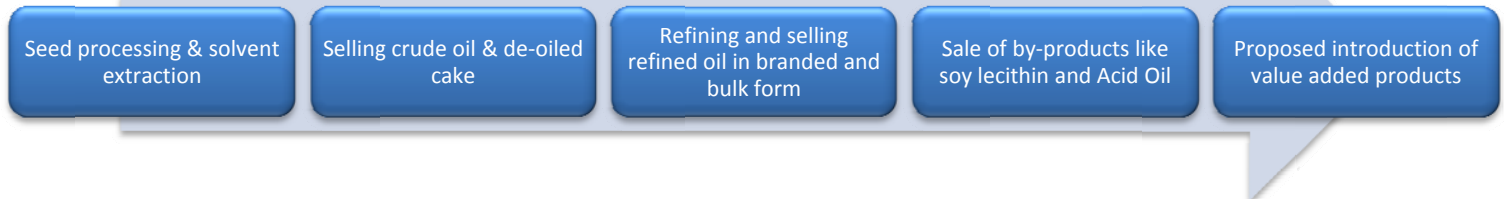
**Soy Meal Export**



Source: IASL Research

## Integrated player with large capacities across the value chain

*Has presence from seed processing to sale of refined oil -- and proposed value added products*

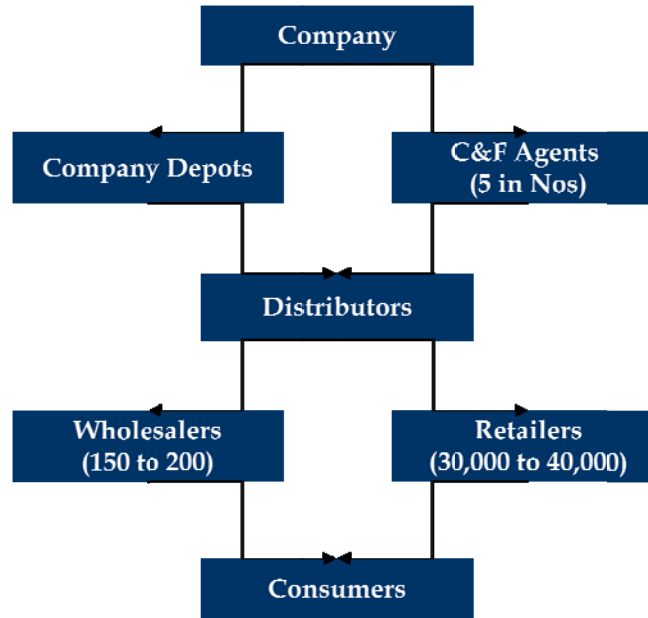


- ✓ SAOL has presence across the entire soy processing value chain
  - Captures margins at every stage in the value chain, resulting in higher overall margins vis-a-vis competition
- ✓ SAOL is one of the largest integrated processors of soybean in India
  - 3,250 TPD of soya processing capacity, with average capacity utilization of 60-70% compared to industry median of 40%;
  - Won “Best Capacity Utilization & Processing Award” from SOPA\* for 5 consecutive years
- ✓ Decision of sales mix i.e. mix of crude oil, refined oil etc. is based on prevailing/expected prices of respective products to maximize overall realizations
  - Ability to shift production to high demand product segment i.e. crude vs. refined enhances overall operating margins
  - Expansion into value added products will give more flexibility to SAOL to match supplies according to product specific demand

## Distribution for branded & value added products

- ✓ Revamping supply chain to focus on branded products business
- ✓ Distribution channel comprising of C&F agents, depots, distributors and retail outlets to cater to retail customers
  - Plans to appoint 10 C&F agents and set up depots along with appointment of 150 to 200 dealers/distributors in FY10
- ✓ Increased focus on retail sales through modern trade
  - Tied up with Reliance Fresh, Vishal Retail, Pantaloons etc. More such tie-ups are on the anvil
  - Focus on advertising and brand building through cost-efficient and effective means such as shelf display in modern trade outlets

## DISTRIBUTION NETWORK



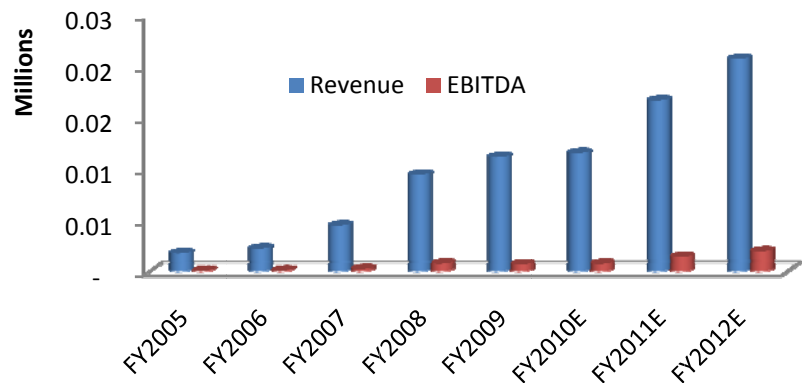
Source: IASL Research

## Wind power generation facility – added revenue channel

- ✓ Commissioned 2.4 MW (4 wind mills of 600 KW each) wind power plant at Dewas (Madhya Pradesh) in March 2007
- ✓ Installed additional 11 wind mills with combined capacity of 6.6 MW in FY' 08
  - Installed 3 wind mills with combined capacity of 1.8 MW at Ten Kashi in Tamilnadu
  - 7 wind mills with combined capacity of 4.2 MW at Dewas in Madhya Pradesh
  - All these wind mills commenced commercial generation in FY' 08
- ✓ The company entered into a Bulk Power Wheeling Agreement as per which the power generated at wind mills in Dewas will get adjusted against power consumed at SAOL's existing manufacturing plants at Itarsi and Mandideep
  - Part of the power generated is sold to the State Electricity Board by transferring to the power grid

### Top- Line growth

Revenue (Top line) is growing at CAGR of 58% over the period of 2005-09. On the back of a steep fall in commodity prices (resulting into lower realization despite 6% growth YoY in volume terms) and delay in order inflow due to liquidity crunch. However, with stabilize commodity prices and improved liquidity resulting in accelerated revenue; we believe the revenue will grow at CAGR of 34% over the next two years.

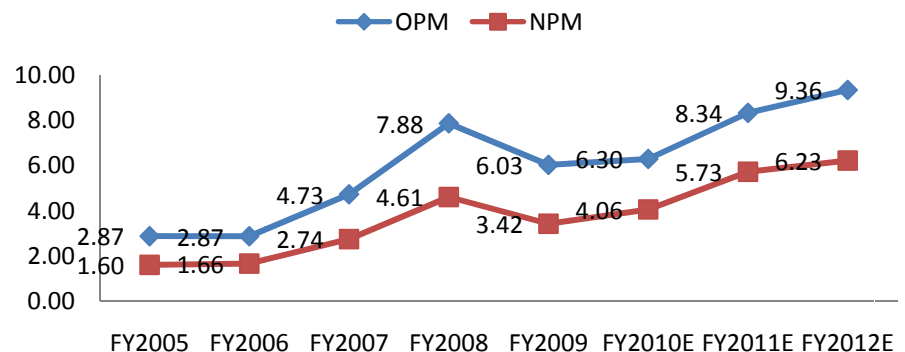


Source: IASL Research

### Operating Margin:

OPMS have increased from 5% in FY07 to 6% in FY09. The margins were seen stable mainly because of higher raw material costs and adverse crude price movement. The company is now geared more towards domestic to mitigate the risks of volatile crude price movement.

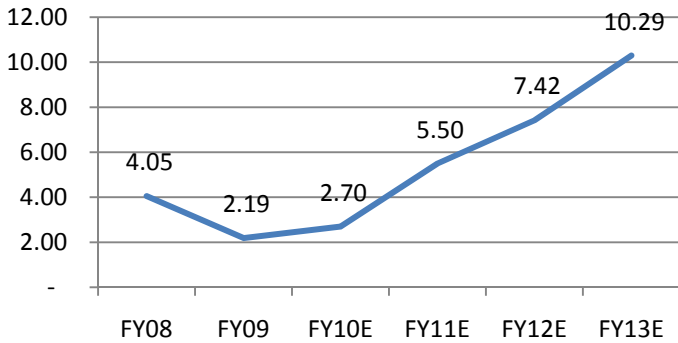
We believe that operating margins have bottomed out as commodity prices have dropped. Also the company is measurably insulated from volatile raw material prices as about 70% of its orders have implicit price escalation clauses. We expect OPM's to remain range bound within 8.3%-9.4% over FY11-12E



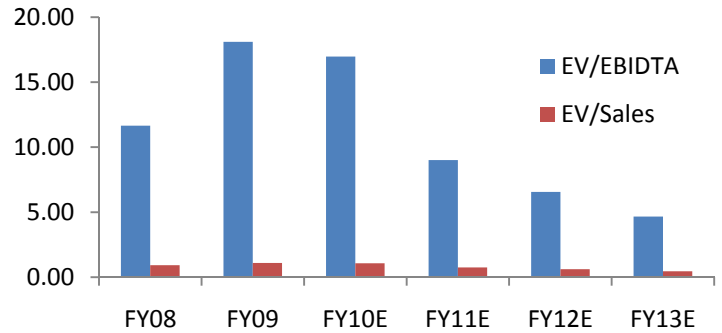
Source: IASL Research

### FINANCIAL CHARTS

**EPS Trend**

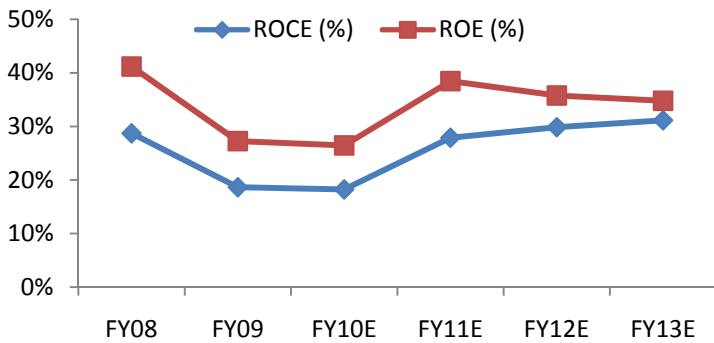


Source: IASL Research

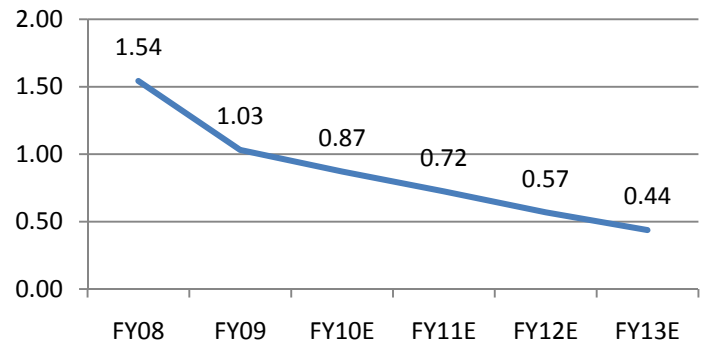


Source: IASL Research

**Debt/Equity Trend**

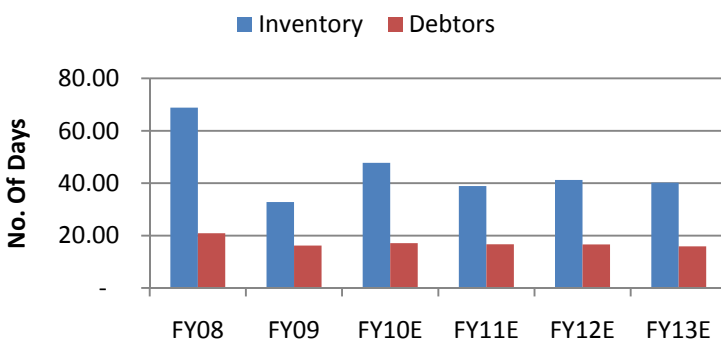


Source: IASL Research



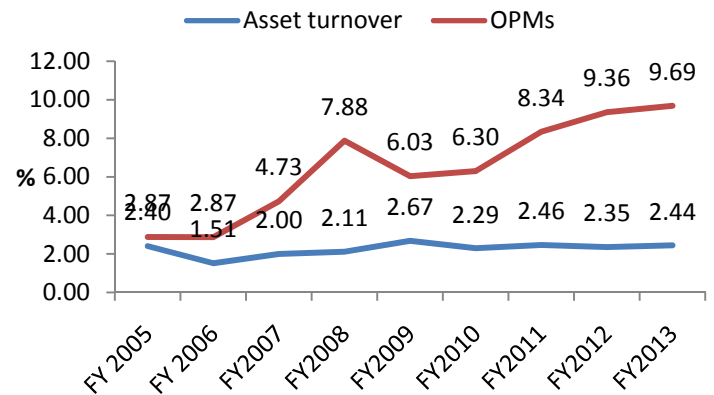
Source: IASL Research

**Working Ratio**



Source: IASL Research

**Asset Turnover Stabilizes and Improving OPM**



Source: IASL Research

## GROWTH STRATEGY:

### Capacity expansion in existing production lines

- ✓ Planning to expand production capacity for core soy products i.e. soy oil and de-oiled cake
  - Crushing capacity to be increased from 3,250 TPD in FY'09 to 4,750 TPD in FY'13 (E);
  - Refining capacity to be increased from 350 TPD in FY' 09 to 650 TPD in FY' 13 (E);
- ✓ Higher operating margin through economies of scale and operating efficiencies

### Forward integration into high growth, high margin products

- ✓ Foraying into soy based value added products i.e. soy flour, nuggets, TVP etc.
  - Setting-up of fully dedicated processing facilities for soy flour (200 TPD) and TVP (100 TPD) in Mandideep

### Higher realisation through branded products

- ✓ Focus on branded product sales through modern retail stores
  - Tied up with leading retailers i.e. Reliance Fresh, Vishal Retail, Pantaloons etc.
  - Branded sales to increase from 4% of oil revenues in FY' 09 to 45% of oil revenues in FY' 13 (E)
- ✓ Enter neighboring states such as Chhattisgarh, Maharashtra, UP etc
- ✓ Market value added products through modern retail outlets

### Diversification and entry into retail alliances

- ✓ Diversifying into vanaspati ghee
  - Setting-up 50 TPD capacity for processing Vanaspati ghee
  - To import crude palm oil from Malaysia/ Indonesia
  - Will be marketed under SAOL's brands
  - Large market in rural areas
- ✓ Contract manufacturing for private labels of large retail players

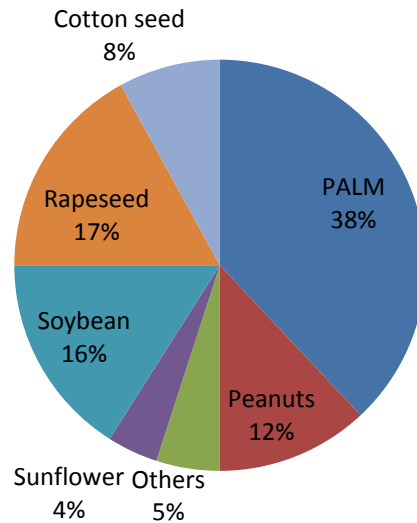
### Edible Oil Industry in India

Out of total edible oil market size of INR 700-750 billion in India, It is the fourth largest consumer after US, China and Brazil with consumption of around 13 mn tonnes of edible oil

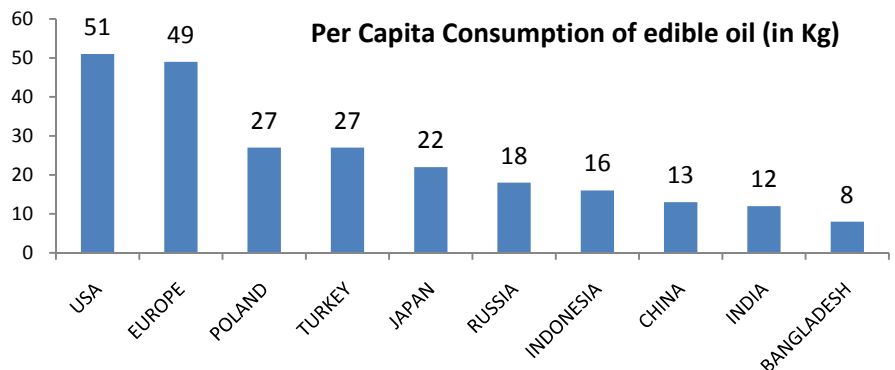
*India primarily produces 9 oilseeds, viz, Groundnut, Rapeseed/Mustard, Soyabean, Sunflower, Castor, Sesame, Linseed, Safflower and Niger Seed*

- ✓ India is an oil deficit country and imports constitute 40-45% of consumption. India is the largest importer of edible oil (imports 5.7 MTPA of edible oil)
- ✓ Edible oil industry is estimated to grow at 6% while the branded oil segment is expected to grow faster
  - Growing awareness for health.
  - Rising affordability of branded products
  - Increasing share of organized retail in the recent times
  - Changing demographics (growing urbanization, higher disposable income, more people eating out, young population etc.) will increase edible oil consumption
  - Room for increase in per capita consumption of edible oil which is among the lowest in the world (12 kgs)

#### Break-up edible oil Consumption in India

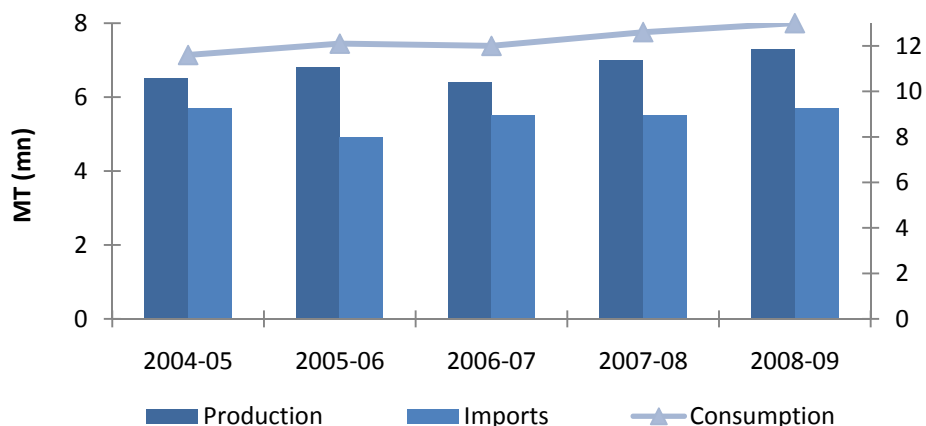


Source: IASL Research



Source: IASL Research

### Edible Oil- Key Industry Statistics



Source: IASL Research

The industry is growing at the rate of 5-6% per annum and the branded segment (~25% of the market) is expected to grow by 25-30% per annum in the next few years. India has 15000 oil mills, 711 solvent extraction units and over 585 refineries employing more than one million people.

In oil year 2009 (Nov08-Oct09), India's demand for edible oil was to the tune of 13.2 million tonnes and domestic production was 7.4 million tonnes leading to import of 44.7% of the total requirement.

Following table reflects India's Demand-Supply statistics of edible oil industry:

### India's Supply and Demand for Edible Oil (Oil Year: Nov to Oct)

('000 tonnes)

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10 (E)	2010-11 (E)
<b>Opening Stocks</b>	<b>750.00</b>	<b>850.00</b>	<b>750.00</b>	<b>915.00</b>	<b>900.00</b>	<b>940.00</b>
Production	7,100.00	6,915.00	7,135.00	7,370.00	7,613.00	7,864.00
YoY %	18.70	(2.60)	3.20	3.30	3.30	3.30
Imports	5,400.00	5,615.00	5,940.00	5,815.00	6,258.00	6,678.00
YoY %	(2.60)	4.00	5.80	(2.10)	7.60	6.70
<b>TOTAL SUPPLY</b>	<b>13,250.00</b>	<b>13,380.00</b>	<b>13,825.00</b>	<b>14,100.00</b>	<b>14,771.00</b>	<b>15,483.00</b>
YoY %	8.50	1.00	3.30	2.00	4.80	4.80
Consumption	12,280.00	12,510.00	12,735.00	13,000.00	13,631.00	14,293.00
YoY %	8.00	1.90	1.80	2.10	4.90	4.90
Exports	100.00	120.00	175.00	200.00	200.00	200.00
<b>TOTAL DEMAND</b>	<b>12,380.00</b>	<b>12,630.00</b>	<b>12,910.00</b>	<b>13,200.00</b>	<b>13,831.00</b>	<b>14,493.00</b>
YoY %	8.20	0.02	0.02	0.02	0.05	0.05
<b>Ending Stocks</b>	<b>850.00</b>	<b>750.00</b>	<b>915.00</b>	<b>900.00</b>	<b>940.00</b>	<b>990.00</b>
Ending Stock as a % of Domestic Consumption	6.90	6.00	7.20	6.90	6.90	6.90
Import as a % of Domestic Consumption	44.00	44.90	46.60	44.70	45.90	46.70

Source: IASL Research

India's per capita consumption in oil year FY09 was 11.2 Kg per annum, which is very low as compared to the world average of 23.5 Kg per annum (Source: Company Presentation). At an consumption growth of 3-4% per annum and population growth of 1.8% per annum, India's demand growth will outstrip supply growth, leading to more import going forward. We believe that India's demand for edible oil will leapfrog to 17-18 million tonnes in 2015 and 21-22 million tonnes in 2020. Hence, going forward, India's import as a percentage of domestic consumption will scale up gradually.

In India, different regions have different preferences for edible oil. Following table shows regional consumer preferences.

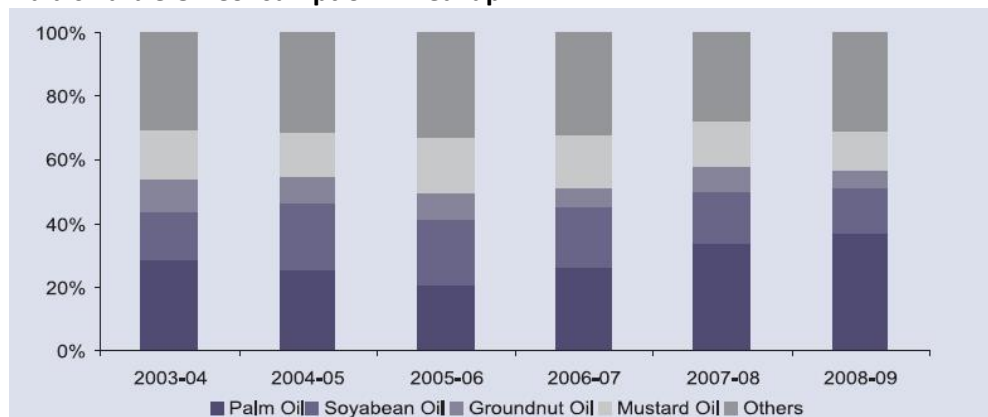
### Regional Consumer Preferences

Edible Oil	Preferred Region
<b>Mustard</b>	North-East, Central, North and East
<b>Groundnut</b>	West
<b>Palm</b>	Central and South
<b>Soyabean</b>	North and Central
<b>Sunflower</b>	Largely in Urban India, in relatively small qty

Source: IASL Research

Among various edible oils, Palm oil has highest consumption in India, followed by Soyabean oil at second position and Mustard oil at third position. Following graph shows India's edible oil consumption breakup.

### India's Edible Oil Consumption - Breakup



Source: IASL Research

**Soybean** is one of the most important and largest **oilseed** crop of India. It is sown during June-Jul period and **harvested** by October. Though the direct consumption of soybean is limited, the consumption of soy products is very high in India as well overseas markets. Soybean oil is the main product of soybean which is widely consumed by humans whereas its meal is mainly used in animal feed industry. **Soybean oil** is the one of the most important edible oil used in India. After palm oil, soybean oil in its crude form is the most traded oil in international market. The soybeans are crushed to obtain oil and its meal. The oil content in soybeans is normally 18%. Soybean oil is basically used in cooking as edible oil. Indian households use soy flour to mix with regular wheat flour for its health benefits. Soybean is known to have lot of **nutritional values** hence its products are nowadays getting sold in markets as Health foods also.

### Indian Productions

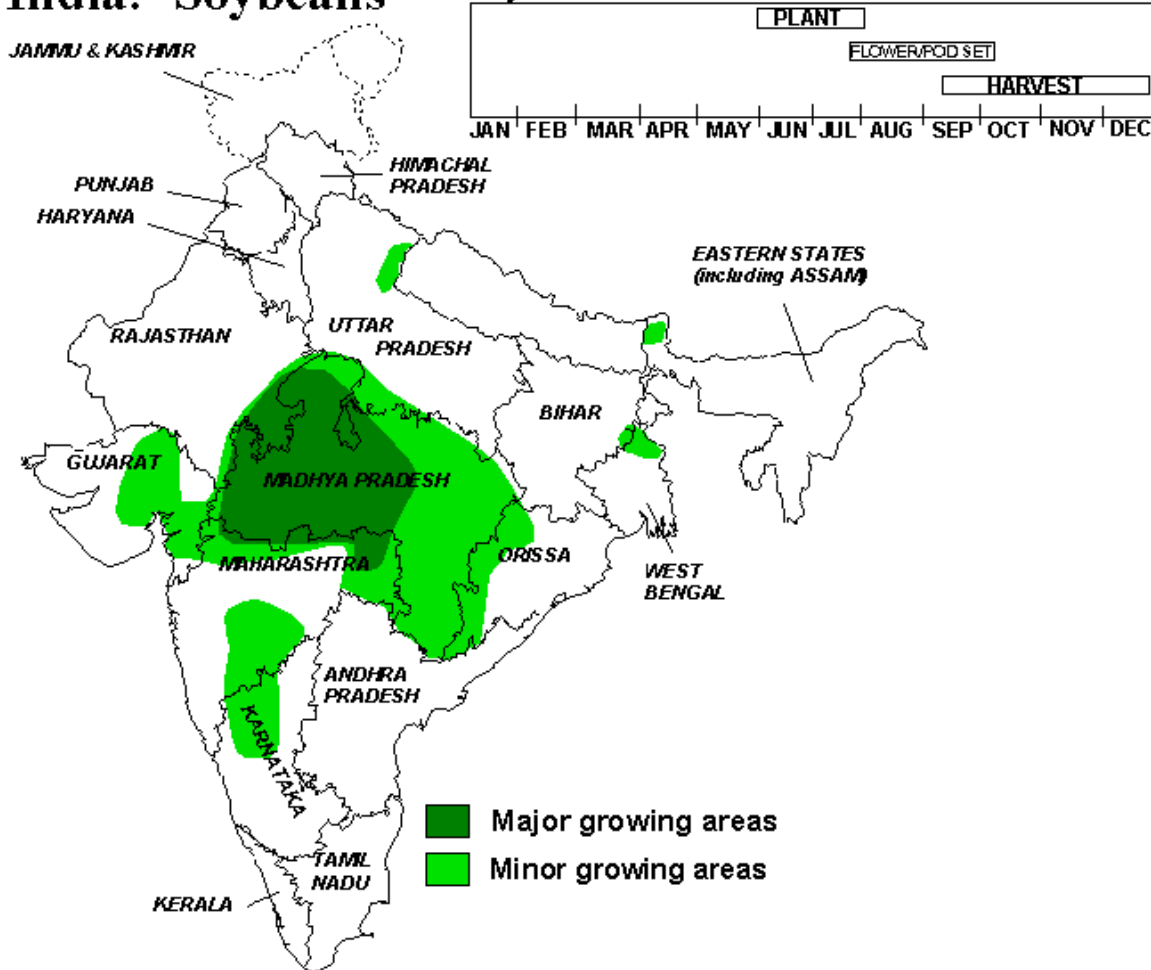
('000 tonnes)

Particulars	2009-10	2008-09	2007-08	2006-07	2005-06
	<b>Estimates</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>
Soybean oil	1050	1200	1445	1280	1140
Cotton oil	1050	1000	1050	920	755
Gn oil	450	650	900	580	950
Sun oil	450	500	550	580	620
Rape oil	1900	1800	1700	2150	2250
Sesame oil	160	150	150	120	125
Coconut oil	400	390	380	380	400
RiceBranoil	700	740	720	680	660
Others	250	250	250	225	200
<b>Total</b>	<b>6410</b>	<b>6680</b>	<b>7145</b>	<b>6915</b>	<b>7100</b>

Source: IASL Research

### India: Soybeans

Soybean calendar for most of India



Source: IASL Research

**Soy Bean:**

(In Lakh Tonnes)

Sr. No.	State	2009-10 Season			2008-09 Season		
		Kharif	Rabi	Total	Kharif	Rabi	Total
1.	Madhya Pradesh	55.0	--	55.0	55.0	--	55.0
2.	Maharashtra	20.0	--	20.0	23.0	--	23.0
3.	Andhra Pradesh	1.5	--	1.5	1.5	--	1.5
4.	Rajasthan	5.0	--	5.0	6.0	--	6.0
5.	Karnataka	1.5	--	1.5	1.5	--	1.5
6.	Chhatisgarh	1.2	--	1.2	1.0	--	1.0
7.	Others	0.8	--	0.8	1.0	--	1.0
<b>Total</b>		<b>85.0</b>	<b>--</b>	<b>85.0</b>	<b>89.0</b>	<b>--</b>	<b>89.0</b>
<b>Retained for sowing &amp; Direct Consumption</b>		<b>10.0</b>	<b>--</b>	<b>10.0</b>	<b>11.0</b>	<b>--</b>	<b>11.0</b>
<b>Marketable surplus for crushing</b>		<b>75.0</b>	<b>--</b>	<b>75.0</b>	<b>78.0</b>	<b>---</b>	<b>78.0</b>

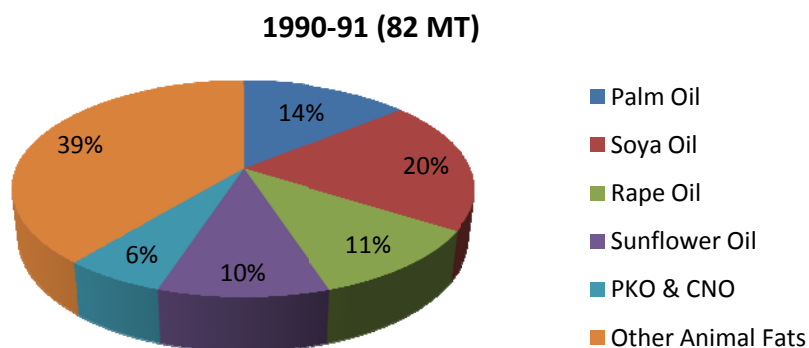
Source: SEA Data Bank, IASL Research

**Global Edible Oil Industry**

According to the Oil World (well-recognized German based independent forecasting service for oilseeds, oils and meals), the world consumption of edible oil and fats will increase by 4% YoY in 2009-10E to 169 million tonnes. The consumption was to the tune of 82 million tonnes in 1990-91 and it has more than doubled in last 2 decade.

As seen from the chart below, in 2009-10E, Palm, Soya and Rapeseed Oil will constitute 64% of the total global edible oil consumption. Palm oil being the cheapest edible oil, its consumption has more than doubled to 29% in 2009-10E from 14% in 1990-91. In addition, palm oil accounts for 56% of world exports. This reflects that world is dependent on Palm oil to satisfy its increasing need of edible oil.

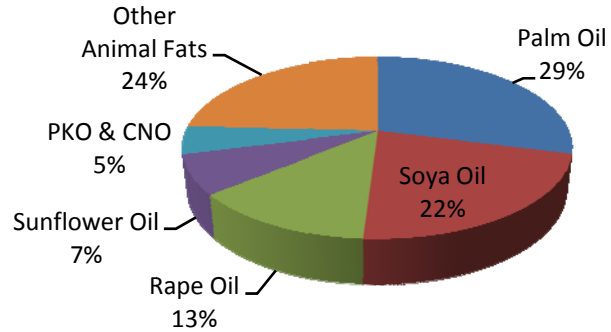
**World Consumption of Oils & Fats**



Source: Oilworld, IASL Research

In 2009-10E, Palm, Soya and Rapeseed/ Mustard Oil will constitute 64% of the total global edible oil consumption

**2009-10E (169 MT)**

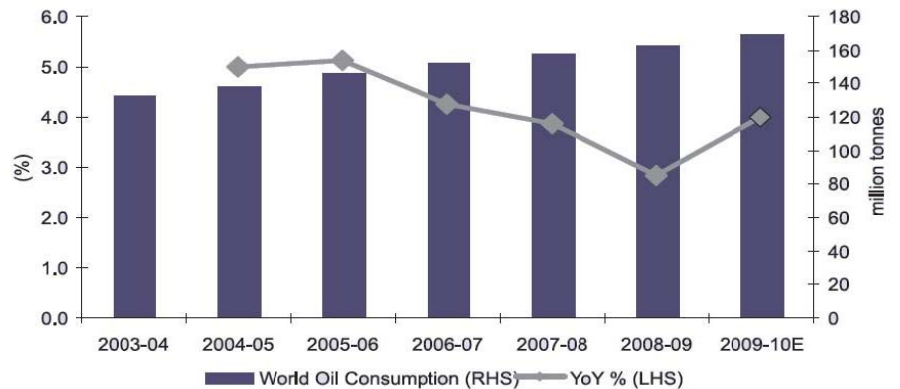


Source: Oilworld, IASL Research

The global edible oil consumption is growing at a CAGR of 4% and going forward, we expect growth to increase at the rapid pace due to divergence of oil for making biodiesel. In 2009-10E, Biodiesel production is estimated to increase by 20.8% YoY at 19.2 million tonnes, indicating that more ~10%-12% of edible oil will be solely use in making biodiesel only (Soya, Rape and Palm oils are the major feedstock for making biodiesel).

The global edible oil consumption is growing at a CAGR of 4% and going forward, we expect growth to increase at the rapid pace due to divergence of oil for making biodiesel

**World Edible Oil Demand Trend**

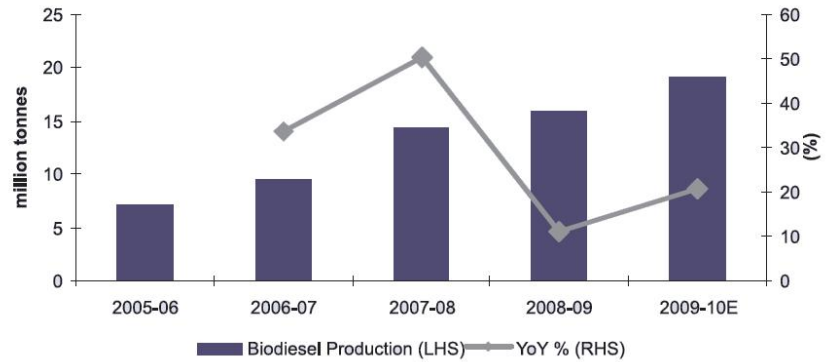


Source: Oilworld, IASL Research

The reason behind sudden spurt in biodiesel production is due to higher usage mandate coming into force into various countries and various government incentives. For e.g, Brazil has advanced the B5 biodiesel blend (5% biodiesel blending) from 2013 to 2010 and this alone will leads to 42.9% YoY increase in biodiesel production at 2.0 million tonnes. Argentina has also mandated B5 from Jan 2010 and has kept lower export tax of 20% on biodiesel as compared to 32% on Soya oil to boost export. In 2010, this both initiatives will lead to 37.9% YoY increase in biodiesel production at 1.6 million tonnes.

### World Production of Biodiesel

*The reason behind sudden spurt in biodiesel production is due to higher usage mandate coming into force into various countries and various government incentives*



Source: Oilworld, IASL Research

*India accounts for 8.6% of world oilseeds production, 7.3% of world oil meal production, 6.0% of world production of vegetable oil, 9.4% of world edible oil consumption and 9.3% of world vegetable oil import*

India plays a very important role in global edible oil economy and its importance can be ascertained from the following statistics. Indian edible oil economy is the world's fourth largest after USA, China, and Brazil. India accounts for 8.6% of world oilseeds production, 7.3% of world oil meal production, 6.0% of world production of vegetable oil, 9.4% of world edible oil consumption and 9.3% of world vegetable oil import.

### VALUATION ANALYSIS:

We value SOAL on DCF basis, we expect SOAL to record 4% CAGR in its Top-Line over FY09-11E. We expect EPS for FY11E and FY12E is 5.50 and 7.42, respectively. At CMP, the stock is trading at 11.65x its FY11E. **We initiate coverage on the company with BUY recommendation and price target of INR 98 per share.**

### DCF Sensitivity

Continuing Growth (%)	Weighted Average Cost of Capital (%)								
		9	9.5	10	10.5	10.8	11.00	11.50	12.00
	4	116.04	104.33	94.86	86.31	81.94	79.23	73.10	67.73
4.5	130.36	116.04	104.60	94.57	89.46	86.31	79.23	73.10	
5	148.26	130.37	116.29	104.33	98.28	94.57	86.32	79.24	
5.5	171.28	148.27	130.59	116.05	108.76	104.34	94.58	86.32	
6	201.97	171.28	148.46	130.37	121.42	116.05	104.34	94.58	

## Peer Comparison

Particulars	KS Oils	Ruchi Soya	Sanwaria Agro	Gokul Refoils
Net Sales	31479.8	119420.3	<b>11114.3</b>	27347.9
EBITDA	3732.8	4244.9	<b>733.6</b>	1074.3
OPM(%)	11.86	3.55	<b>6.6</b>	3.93
PAT	1693.6	932.8	<b>380.5</b>	234.9
NPM(%)	5.38	0.78	<b>3.42</b>	0.86
Annualized EPS (Rs)	4.72	4.73	<b>2.14</b>	8.69
CMP(RS)	68	102.8	<b>65.6</b>	68.5
PER (x)	8.97	4.77	<b>14.42</b>	23.44
ROCE (%)	25.04	12.16	<b>25.53</b>	17.84
ROE (%)	21.83	8.31	<b>41.53</b>	8.78
BVPS (Rs)	26.31	59.2	<b>6.22</b>	129.81
D/E	0.78	1.63	<b>1.89</b>	0.88
P/BV (x)	1.66	0.38	<b>4.96</b>	1.57
M Cap	26,711.40	22,709.10	<b>11,485.70</b>	9034.8
M Cap / Sales (x)	0.48	0.04	<b>0.48</b>	0.2

Source: Capitaline, IASL Research

## Key Risk/Concerns

- **Competition**  
In edible oil industry, competition is mainly in the form of aggressive pricing so as to gain market share. New entrants or existing players who are expanding the capacity may follow predatory pricing strategy to attract the consumers. However, we believe that its impact will be very marginal for well established player and market leader like KSO.
- **Exposure to volatility in international crude and edible oil prices**  
As edible oil prices have direct correlation with crude oil price, the volatility in crude oil price have direct bearing on edible oil prices in international as well as domestic market. Any adverse movement in edible oil prices can lead to inventory losses.
- **Government Intervention**  
As edible oil is an essential commodity, government keeps on intervening mainly by fixing minimum support price for various oilseeds and change in import duty on various oils. In case minimum support price for oilseeds is increased significantly, the oil millers will pass on the additional procurement cost to the consumers and will have no impact. As far as import duty is concerned, the government has gradually reduced import duty over the period time.

### STANDALONE FINANCIALS

Income Statement (Rs mn)	FY2008	FY2009	FY2010E	FY2011E	FY2012E	FY2013E
<b>Net Sales</b>	<b>9396.27</b>	<b>11114.36</b>	<b>11558.93</b>	<b>16692.00</b>	<b>20732.11</b>	<b>27844.43</b>
<b>Total Income</b>	<b>9430.90</b>	<b>11177.42</b>	<b>11633.93</b>	<b>16764.00</b>	<b>20805.61</b>	<b>27917.18</b>
<b>Total Variable Cost</b>	<b>8004.76</b>	<b>9782.46</b>	<b>10137.75</b>	<b>14213.26</b>	<b>17488.99</b>	<b>23402.67</b>
(% of Total Net Sales)	85%	88%	88%	85%	84%	84%
<b><u>Variable</u></b>						
- Cost of Materials	7912.23	9557.67	9848.89	13854.36	17000.33	22832.43
(% of Total Net Sales)	84%	86%	85%	83%	82%	82%
- (Increase)/Decrease in stocks	(156.26)	(29.83)	(48.01)	(78.03)	(51.96)	(59.33)
(% of Total Net Sales)	-2%	0%	0%	0%	0%	0%
- Manufacturing & Operating Exp	248.78	254.63	336.86	436.94	540.62	629.57
(% of Total Net Sales)	3%	2%	3%	3%	3%	2%
<b><u>Fixed</u></b>						
- Employee Cost	71.10	66.64	115.59	166.92	207.32	278.44
(% of Total Net Sales)	1%	1%	1%	1%	1%	1%
- Operating & Other Exp	580.32	594.62	577.95	919.52	1095.95	1466.01
(% of Total Net Sales)	6%	5%	5%	6%	5%	5%
<b>Total Expenditure</b>	<b>8656.18</b>	<b>10443.73</b>	<b>10831.28</b>	<b>15299.70</b>	<b>18792.27</b>	<b>25147.12</b>
<b>PBDIT (Ops)</b>	<b>740.08</b>	<b>670.63</b>	<b>727.65</b>	<b>1392.30</b>	<b>1939.84</b>	<b>2697.31</b>
(% of Total Net Sales)	8%	6%	6.3%	8.3%	9.4%	9.7%
<b>Interest &amp; Fin. Charges</b>	<b>98.56</b>	<b>105.65</b>	<b>105.00</b>	<b>123.04</b>	<b>154.95</b>	<b>213.38</b>
<b>PBDT (Ops)</b>	<b>641.52</b>	<b>564.98</b>	<b>622.64</b>	<b>1269.26</b>	<b>1784.89</b>	<b>2483.93</b>
(% of Total Net Sales)	7%	5%	5.4%	7.6%	8.6%	8.9%
<b>Depreciation</b>	<b>32.66</b>	<b>56.24</b>	<b>72.24</b>	<b>115.17</b>	<b>136.83</b>	<b>259.88</b>
<b>PBT (Ops)</b>	<b>608.86</b>	<b>508.74</b>	<b>550.40</b>	<b>1154.09</b>	<b>1648.06</b>	<b>2224.05</b>
(% of Total Net Sales)	6%	5%	4.8%	6.9%	7.9%	8.0%
<b>Other Income</b>	<b>34.64</b>	<b>63.06</b>	<b>75.00</b>	<b>72.00</b>	<b>73.50</b>	<b>72.75</b>
<b>PBT</b>	<b>643.50</b>	<b>571.80</b>	<b>625.40</b>	<b>1226.09</b>	<b>1721.56</b>	<b>2296.80</b>
(% of Total Net Sales)	7%	5%	5%	7%	8%	8%
<b>Tax Provisions</b>	<b>210.34</b>	<b>191.34</b>	<b>156.35</b>	<b>269.74</b>	<b>430.39</b>	<b>505.30</b>
(% of PBT)	2%	2%	1%	2%	2%	2%
<b>Profit after Tax</b>	<b>433.16</b>	<b>380.46</b>	<b>469.05</b>	<b>956.35</b>	<b>1291.17</b>	<b>1791.50</b>
(% of Total Income)	5%	3%	4.1%	5.7%	6.23%	6.43%
<b>O/S Shares</b>	<b>107.01</b>	<b>174.03</b>	<b>174.03</b>	<b>174.03</b>	<b>174.03</b>	<b>174.03</b>
<b>Reported EPS</b>	<b>4.05</b>	<b>2.19</b>	<b>2.70</b>	<b>5.50</b>	<b>7.42</b>	<b>10.29</b>
<b>Cash EPS</b>	<b>4.35</b>	<b>2.51</b>	<b>3.11</b>	<b>6.16</b>	<b>8.21</b>	<b>11.79</b>
<b>EBITDA per Share</b>	<b>6.92</b>	<b>3.85</b>	<b>4.18</b>	<b>8.00</b>	<b>11.15</b>	<b>15.50</b>

Source: IASL Research

Balance Sheet (Rs in mn)	FY2008	FY2009	FY2010E	FY2011E	FY2012E	FY2013E
<b><u>SOURCE OF FUNDS</u></b>						
Equity capital	107.01	174.03	174.03	174.03	174.03	174.03
Reserves & surplus	1,145.65	1,365.79	1,834.84	2,791.18	4,082.35	5,873.85
Shareholder's funds	<b>1,252.66</b>	<b>1,539.81</b>	<b>2,008.86</b>	<b>2,965.21</b>	<b>4,256.38</b>	<b>6,047.88</b>
Secured loans	1,494.73	1,352.68	1,422.41	1,788.02	1,989.51	2,187.40
Unsecured loans	437.80	234.78	327.64	359.90	429.01	455.89
Total debt	<b>1,932.52</b>	<b>1,587.46</b>	<b>1,750.05</b>	<b>2,147.92</b>	<b>2,418.52</b>	<b>2,643.29</b>
Deferred tax	117.85	163.78	140.82	152.30	146.56	149.43
Total liabilities	<b>3,303.04</b>	<b>3,291.05</b>	<b>3,899.73</b>	<b>5,265.43</b>	<b>6,821.46</b>	<b>8,840.60</b>
<b><u>APPLICATION OF FUNDS</u></b>						
Gross block	1,420.96	1,476.83	1,864.43	2,670.72	3,731.78	4,733.55
Less: Accumulated Depreciation	107.24	163.47	235.71	350.88	487.72	747.60
Net block	<b>1,313.72</b>	<b>1,313.36</b>	<b>1,628.72</b>	<b>2,319.84</b>	<b>3,244.06</b>	<b>3,985.96</b>
Capital WIP	-	-	-	-	-	-
Investment	27.57	77.23	52.40	64.81	58.61	61.71
Inventories	1,772.46	998.57	1,511.57	1,777.93	2,340.40	3,065.18
Sundry debtors	537.83	492.73	541.37	761.09	944.65	1,212.91
Cash & bank balance	128.84	503.44	483.44	679.63	770.27	1,148.50
Loans & advances	78.89	321.42	222.69	405.59	443.00	637.97
Total current assets	<b>2,518.01</b>	<b>2,316.16</b>	<b>2,772.09</b>	<b>3,624.24</b>	<b>4,498.32</b>	<b>6,064.57</b>
Current liabilities	469.75	381.55	489.79	655.78	833.50	1,086.24
Provisions	121.95	71.96	100.32	124.91	182.96	222.48
Total current liabilities	<b>591.71</b>	<b>453.51</b>	<b>590.11</b>	<b>780.69</b>	<b>1,016.46</b>	<b>1,308.72</b>
Net current assets	<b>1,926.30</b>	<b>1,862.64</b>	<b>2,181.98</b>	<b>2,843.55</b>	<b>3,481.86</b>	<b>4,755.85</b>
Miscellaneous Expenses (to the extent written off or adjusted)	35.44	37.82	36.63	37.23	36.93	37.08
Total Assets	<b>3,303.04</b>	<b>3,291.05</b>	<b>3,899.73</b>	<b>5,265.43</b>	<b>6,821.46</b>	<b>8,840.60</b>

Source: IASL Research

Cash Flow Statement (Rs in Mn)	FY2008	FY2009	FY2010E	FY2011E	FY2012E	FY2013E
Net cash from operating activities	551.91	854.96	440.27	796.84	1,084.66	1,427.52
Cash used in investing activities	(539.36)	(89.32)	(399.50)	(855.19)	(1,091.46)	(1,041.42)
Net Cash used in financing activity	52.86	(493.24)	41.53	254.59	97.50	(7.81)
Net increase in cash & cash equivalent	65.42	272.40	82.30	196.24	90.70	378.29
Cash & Cash equivalents (Op Bal)	63.43	128.84	401.19	483.44	679.62	770.27
Closing Cash balance	128.84	401.19	483.44	679.62	770.27	1148.51

Source: IASL Research

Ratio Analysis	FY2008	FY2009	FY2010E	FY2011E	FY2012E	FY2013E
<b>Liquidity Ratios</b>						
Current Ratio	4.26	5.11	4.70	4.64	4.43	4.63
Acid Test Ratio	1.26	2.91	2.14	2.36	2.12	2.29
Debt-Equity Ratio	1.54	1.03	0.87	0.72	0.57	0.44
<b>Efficiency Ratios</b>						
Assets Turnover Ratio	2.11	2.67	2.29	2.46	2.35	2.44
Working Capital Turnover Ratio	4.88	5.97	5.30	5.87	5.95	5.85
F.A. Turnover Ratio	7.15	8.46	7.10	7.20	6.39	6.99
C.A. Turnover Ratio	3.65	3.65	3.65	3.65	3.65	3.65
<b>Margin Ratios (%)</b>						
EBITDA Margin	7.88	6.03	6.30	8.34	9.36	9.69
Pre-Tax Margin	6.48	4.58	4.76	6.91	7.95	7.99
Net Profit Margin	4.61	3.42	4.06	5.73	6.23	6.43
<b>Growth Ratios YoY (%)</b>						
Net Sales	110.94	18.28	4.00	44.41	24.20	34.31
EBITDA	251.17	-9.38	8.50	91.34	39.33	39.05
Adj.PAT	254.46	-12.17	23.29	103.89	35.01	38.75
Adj.EPS	254.46	-45.99	23.29	103.89	35.01	38.75
<b>Working Ratios (Days)</b>						
Inventory	68.85	32.79	47.73	38.88	41.20	40.18
Debtors	20.89	16.18	17.10	16.64	16.63	15.90
Net Working Capital	74.83	61.17	68.90	62.18	61.30	62.34
<b>Per Share (Rs.)</b>						
Adj.EPS	4.05	2.19	2.70	5.50	7.42	10.29
CEPS	4.35	2.51	3.11	6.16	8.21	11.79
BVPS	11.71	8.85	11.54	17.04	24.46	34.75
EBITDA per Share	6.92	3.85	4.18	8.00	11.15	15.50
<b>Valuation Parameters</b>						
P/E	15.81	29.27	23.75	11.65	8.63	6.22
P/CEPS	14.70	25.50	20.58	10.39	7.80	5.43
P/BV	5.47	7.23	5.54	3.76	2.62	1.84
EV/EBITDA	11.65	18.11	16.98	9.01	6.56	4.66
EV/SALES	0.92	1.09	1.07	0.75	0.61	0.45
M-Cap/sales	0.73	1.00	0.96	0.67	0.54	0.40

Source: IASL Research

IASL Research: E-mail: [research@indiaadvantage.co.in](mailto:research@indiaadvantage.co.in)

Nilesh Pandya AVP- Institutional Business, [nilesh.pandya@indiaadvantage.co.in](mailto:nilesh.pandya@indiaadvantage.co.in) 022-66168800

**Equity Research**

<b>Manish Shah</b>	Sr. Research Analyst	<a href="mailto:manish.shah@indiaadvantage.co.in">manish.shah@indiaadvantage.co.in</a>	022-66168813
<b>Tushar Das</b>	Research Analyst	<a href="mailto:tushar.das@indiaadvantage.co.in">tushar.das@indiaadvantage.co.in</a>	022-66168875
<b>Ruchita Kapoor</b>	Research Analyst	<a href="mailto:ruchita.kapoor@indiaadvantage.co.in">ruchita.kapoor@indiaadvantage.co.in</a>	022-66168875
<b>Manali Shah</b>	Research Associate	<a href="mailto:manali.shah@indiaadvantage.co.in">manali.shah@indiaadvantage.co.in</a>	022-66168861
<b>Jinal Shah</b>	Research Associate	<a href="mailto:jinal.shah@indiaadvantage.co.in">jinal.shah@indiaadvantage.co.in</a>	022-66168861

**Sales:**

<b>Nilesh Pandya</b>	AVP Institution	<a href="mailto:nilesh.pandya@indiaadvantage.co.in">nilesh.pandya@indiaadvantage.co.in</a>	022-66168813 - 814
<b>Liladhar Udyawar</b>	Sr. Manager	<a href="mailto:liladhar.udyawar@indiaadvantage.co.in">liladhar.udyawar@indiaadvantage.co.in</a>	022-66168847

**Key to IASL Investment Rankings**

**Buy:** Upside by >15, **Accumulate:** Upside by +5 to 15, **Hold:** Upside/Downside by -5 to +5,

**Reduce:** Downside by 5 to 15, **Sell:** Downside by >15

**INDIA ADVANTAGE SECURITIES Ltd. ([www.indiaadvantage.co.in](http://www.indiaadvantage.co.in))**

**Corporate Office:** - Om Plaza, Vasanji Lalji Road, Opp. Railway Station, Kandivali (W), Mumbai – 400 067.

Tel Phone nos.: 022 - 6616 8800 Fax nos.: 022 – 2809 2800.

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**Analyst holding in stock: No.**