K S Oils

4QFY2009 Result Update

ACCUMULATE

Price	**Rs46**
Target Price	**Rs52**
Investment Period	**12 months**

Stock Info

Sector	Solvent Extraction
Market Cap (Rs cr)	1,733
Beta	0.8
52 WK High / Low	84/30
Avg. Daily Volume	1231933
Face Value (Rs)	1
BSE Sensex	11,403
Nifty	3,474
BSE Code	532555
NSE Code	KSOILS
Reuters Code	KSOI.BO
Bloomberg Code	KSO@IN

Shareholding Pattern (%)

Promoters	38.2
MF/Banks/Indian FIs	8.4
FII/ NRIs/ OCBs	41.0
Indian Public/others	12.4

Abs.	3m	1yr	3yr
Sensex (%)	23.5	(34.4)	(5.3)
K S Oils (%)	7.2	(39.9)	222.2

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Performance Highlights

- **Healthy Top-line growth at 31%:** KS Oil's (KSO) Top-line grew 31% yoy to Rs887.3cr (Rs674.0cr) in 4QFY2009, which was in line with our estimates and came on the back of the growth in Sales volume. For FY2009, the company's Sales spiked 53.8% yoy to Rs3,143cr (Rs2,044cr).

- **EBITDA Margins increase by 51bp to 10.7%:** On the Operating front, the company recorded Operating Profit of Rs94.8cr (Rs68.6) during the quarter following the increase in EBITDA Margins by 51bp to 10.7%. For FY2009, Operating Profit and Margins stood at Rs338.1cr (Rs220.9cr) and 10.8% (10.8%), respectively.

- **Bottom-line growth at 20%:** The company registered a 20% yoy increase in Bottom-line for 4QFY2009 to Rs48.2cr (Rs40.2cr). For FY2009, PAT came in at Rs174.5cr (Rs120.7cr), up 44.6% yoy.

- **Acquisition of edible oil refinery to be EPS accretive:** Acquisition of the 500mtpd edible oil refinery at Haldia Port for Rs125cr makes it the company's first refinery in East India. The company would also have enhanced access and improve its logistics efficiency in one of its key markets of North East (WB, Bihar, Jharkhand, Orissa and UP). The refinery will give a boost to the company's current refined oil strategy. The refinery will produce KS Refined and KS Gold Refined oil for the Eastern market. We expect this acquisition to result in additional sales of Rs540cr for FY2010. We also expect Operating Profits to increase to Rs56.7cr in FY2010. On the Profitability front, we estimate the company to add another Rs27cr to its FY2010 Bottom-line.

Key Financials

Y/E March (Rs cr)	FY2008	FY2009	FY2010E	FY2011E
Net Sales	**2,044**	**3,393**	**4,772**	**5,460**
% chg	*87.9*	*66.0*	*40.6*	*14.4*
Net Profit	**120.7**	**185.4**	**262.1**	**315.9**
% chg	*110.6*	*53.6*	*41.4*	*20.5*
OPM (%)	10.8	10.7	10.7	10.9
EPS (Rs)	**3.6**	**5.2**	**7.4**	**8.9**
P/E (x)	12.7	8.8	6.2	5.2
P/BV (x)	2.4	1.8	1.4	1.1
RoE (%)	18.7	20.2	22.6	21.7
RoCE (%)	21.5	22.5	24.3	24.6
EV/Sales (x)	0.8	0.6	0.5	0.4
EV/EBITDA (x)	7.4	5.4	4.3	3.6

Source: Company, Angel Research, Price as on April 29, 2009

Improving Operational Efficiency

During FY2009, all Divisions of the company reported a yoy increase in Revenues. All major brands of KSO also reported robust growth for the year, viz. *Double Sher* clocked 65.3% growth to Rs578.1cr (Rs349.8cr), *Kalash* grew 49.7% to Rs630.1cr (Rs420.8cr), *KS Refined* recorded 46.4% growth to Rs596.7cr (Rs407.6cr) and *KS Gold Vanaspati* grew 59.3% to Rs75.2cr (Rs47.2cr).

Exhibit 1: Operational Highlights

Y/E March	FY2008		FY2009		Growth (%)	
	MT ’000	(Rs cr)	MT ’000	(Rs cr)	MT ’000	(Rs cr)
Branded Sales						
Double Sher	59.7	349.8	83.0	578.1	38.9	65.3
Kalash	69.0	420.8	86.5	630.1	25.4	49.7
KS Refined	71.3	407.6	103.8	596.7	45.6	46.4
KS Gold Vanaspati	8.8	47.2	16.4	75.2	85.9	59.3
Unbranded Sales						
Loose Mustard Oil	39.5	198.4	30.6	192.0	-22.5	(3.2)
Loose Refined Oil	30.6	149.8	65.6	272.4	113.9	81.8
Others*		467.1		798.7		70.8

Source: Company, Angel Research, Note: Others include DOC and By-Products

Key Developments

Kalash & Double Sher: The company is focusing on creating two leading FMCG edible oil brands of *Kalash* and *Double Sher.* These brands are now available across leading modern retail formats in India and also stocked by small retailers across the country.

Refinery acquisition: Acquisition of the edible oil refinery at Haldia Port for Rs125cr made it the company’s first refinery in East India. This is expected to result in enhanced access and logistics efficiencies for the company in one of its key markets of North East (West Bengal, Bihar, Jharkhand, Orissa and UP). The refinery will lend a boost to the company’s current refined oil strategy. The refinery will produce *KS Refined* and *KS Gold* refined oils for the Eastern market.

Manufacturing capacity: During the year, the company’s three new plants in Kota (fully operational), Ratlam and Guna (commissioning stage) and its mother plant in Morena and the other two in Alwar and Jodhpur have given the company a significant production edge compared to its peers. With these state-of-the-art plants, KS now has the largest mustard processing capacity in the country and will be able to meet consumer demands in a better way, thus increasing its retail penetration.

International Head Quarter status by Singapore EDB: The company has been awarded International Headquarter (IHQ) status by the Singapore Economic Development Board, which would drive KS Oil's global expansion plans. This preferred status is a first for any Indian agri-company and will help the company in gaining better business, financial and intellectual rights.

Plantations: As part of the company's plans to become a fully-integrated edible oil producer, it has acquired 50,000 acres of palm plantation in Indonesia and 900 acres in Malaysia. The company proposes to invest around Rs370cr towards plantations and in setting up a crushing mill over the next three years. It also plans to generate Revenue of over $1bn annually over the next five years from its Singapore subsidiary. The palm plantation acquisition is a part of KS Oil’s strategy to secure its raw material supplies and insulate itself against price fluctuations.

Outlook and Valuation

The company's Profitability and Margins are constantly improving on account of its increasing presence in the high-Margin Branded Segment. Going ahead, we believe, the company will continue its focus on Branded sales and its growth would be primarily driven by the proposed capacity expansions. The company's strategy of setting up its manufacturing locations close to its target markets as illustrated by its recent acquisition is expected to improve its Profitability and reduce its turnaround time. At the CMP, the stock is trading at 6.2x FY2010E and 5.2x FY2011E Earnings and 1.4x FY2010E P/BV. **We maintain an Accumulate on the stock, with a Target Price of Rs52**.

Exhibit 2: 4QFY2009 Financial Performance

Y/E March (Rs cr)	4QFY2009	4QFY2008	*% chg*	FY2009	FY2008	*% chg*
Net Sales	**887.3**	**674.0**	***31.7***	**3,143.1**	**2,043.9**	***53.8***
Consumption of RM	677.8	490.1	*38.3*	2,573.1	1,687.4	*52.5*
(% of Sales)	*76.4*	*72.7*		*81.9*	*82.6*	
Staff Costs	6.4	2.7	*136.1*	19.1	12.0	*59.6*
(% of Sales)	*0.7*	*0.4*		*0.6*	*0.6*	
Purchase of Traded Goods	42.0	63.9		-	-	-
(% of Sales)	*4.7*	*9.5*		-	-	
Other Expenses	66.3	48.7	*36.1*	212.9	123.6	*72.2*
(% of Sales)	*7.5*	*7.2*		*6.8*	*6.0*	
Total Expenditure	**792.5**	**605.4**	***30.9***	**2,805.1**	**1,823.0**	***53.9***
Operating Profit	**94.8**	**68.6**	***38.3***	**338.1**	**220.9**	***53.0***
OPM (%)	*10.7*	*10.2*		*10.8*	*10.8*	
Interest	25.1	11.6	*115.9*	72.5	40.4	*79.6*
Depreciation	9.1	3.2	*184.1*	26.8	12.2	*120.6*
Other Income	13.7	6.2	*121.4*	26.7	13.8	*92.8*
PBT (excl. Extr. Items)	**74.3**	**60.0**	*24.0*	**265.5**	**182.2**	*45.7*
Extr. Income/(Expense)	-	-		-	-	
PBT (incl. Extr. Items)	**74.3**	**60.0**	***24.0***	**265.5**	**182.2**	***45.7***
(% of Sales)	*8.4*	*8.9*		*8.4*	*8.9*	
Provision for Taxation	26.2	19.8	*32.4*	91.0	61.5	*47.8*
(% of PBT)	*35.2*	*33.0*		*34.3*	*33.8*	
Reported PAT	**48.2**	**40.2**	***19.9***	**174.5**	**120.7**	***44.6***
PATM (%)	*5.4*	*6.0*		*5.6*	*5.9*	
Equity shares (cr)	35.6	33.2		35.6	33.2	
EPS (Rs)	**1.4**	**1.2**		**4.9**	**3.6**	

Source: Company, Angel Research

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Ratings (Returns) :	**Buy (Upside > 15%)**	**Accumulate (Upside upto 15%)**	**Neutral (5 to -5%)**
	Reduce (Downside upto 15%)	**Sell (Downside > 15%)**	