

Ruchi SoyaRs335
OUTPERFORMER

RESULT NOTE

Mkt Cap: Rs12.2bn; US\$284m

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Result: FY07
Comment: On track!
Last Report: 21 February 2007 (Price Rs352; Recommendation: Outperformer)

Key valuation metrics

Year end Mar 31	Net Sales	yoy chg (%)	Net profit	EPS (Rs)	yoy chg (%)	EV / E	PER (x)
FY06	76,184	-	852	23.3	-	8.3	14.3
FY07	89,151	17.0	1,062	24.9	29.1	6.3	11.7
FY08E	95,962	7.6	1,346	36.3	27.3	5.3	9.2
FY09E	102,085	6.4	1,648	44.6	22.7	4.4	7.5

Ruchi Soya Industries (RSIL) has reported revenue growth of 17% in FY07 at Rs89.2bn and PAT has grown at 24.9% at Rs1.06bn. EBITDA margins have improved by 38bp at 3.3% on the back of improved quality of earnings. While manufacturing portfolio has contributed ~77% of the revenues, branded portfolio has contributed Rs22bn of revenues. Material cost as percentage of sales has dropped by 40bp at 89.8% in FY07.

Treading the right path, RSIL continues to focus on improving the quality of earnings and scout for newer organic and inorganic growth opportunities. With a view to scale up its branded portfolio RSIL entered into strategic tie-up with Pantaloon Retail. While RSIL's improved product mix will continue to drive earnings growth at over 25% CAGR over FY07-09, RSIL is expected to make a foray into Rs120bn mustard oil market and potential entry into bio-diesel. While we remain positive over the business traction, we believe that RSIL needs to scale up its management bandwidth to manage the scale of operations. The stock currently trades at 9.2x FY08E earnings and 7.5x FY09E earnings. Maintain Outperformer.

HIGHLIGHTS OF FY07 RESULTS

□ **Robust growth!**

RSIL has reported revenue growth of 17.0% at Rs89.2bn in FY07. Manufacturing portfolio has contributed over 77% to the revenues as against 72% in FY07. This coupled with Rs22bn of branded portfolio (Rs17bn in FY06) has led to EBITDA margin expansion of 38bp at 3.3% in FY07. PAT has increased by 25% at Rs1.06bn, albeit significant uptick in interest cost. Interest cost has increased from Rs553m in FY06 to Rs813m in FY07, on account of growing scale of operations and increasing rate of interest.

	FY07	FY06
Sales (Rs m)	89,155	76,184
Cost Structure (% of revenues)		
Total RM	89.8	90.1
Employee Expenses	0.4	0.4
Other Expenses	6.6	6.6
Total Expenditure	96.7	97.1
EBITDA	3.3	2.9

□ On track – improved earnings and newer avenues

Treading the right course, RSIL is through with asset creation and consolidation. RSIL has also begun moving towards optimal asset utilization (manufacturing portfolio accounts for 77% of the revenues as against 30% in FY2000). RSIL continues to scale up its branded portfolio, which has grown at 33% and now accounts for over 20% of the revenues and is expected to contribute 25% to the revenues by FY08. With a view to step up its branded portfolio, RSIL has entered into tie up with Pantaloon Retail to ensure substantial shelf space for its brands as also be manufacturer for Pantaloon Retail's private label – *Fresh and Pure*. All this, we believe, will ensure improved quality of earnings and high earnings visibility. With a view to propel the growth further, RSIL is expected to make a foray into Rs120bn mustard oil market. RSIL is expected to set up crushing and refining facility in FY08. RSIL is also expected to enter the bio-diesel business, which is a natural extension for most of the large integrated edible oil players internationally.

□ Key monitorable – management bandwidth

While we are confident of RSIL's high growth traction as also like its willingness to take organic as well as inorganic growth route, we believe that management bandwidth is the key monitorable. Being in the business over 3 decades and deep understanding of the oil business, we believe that the current management (promoters) has done a commendable job of scaling up the business to the current levels and never making loss in a thin margin business. However, we believe that the growth traction going forward will be different to the traction till now. As RSIL intends to scale up its branded business, be an integrated edible oil player and scouts for newer opportunities, we believe that RSIL needs to beef up its management bandwidth to manage the scale.

□ Maintain Outperformer

We continue to like RSIL's scale of operations as also integrated operations. Confident of high earnings growth at 25% CAGR over FY07-09 and valuations of 9.2x FY08E and 7.5x FY09E earnings, we maintain our Outperformer call on RSIL.

Quarterly results

Quarterly results (Rs Mn)	Q4FY06	FY06	Q1FY07	Q2FY07	Q3FY07	Q4FY07	FY07E	FY08E	FY09E
Net Sales	19,583	76,184	11,273	15,554	28,523	27,401	89,151	95,962	102,085
% yoy	55.8	-	19.4	62.3	161.2	39.9	18.3	7.6	6.4
EBITDA	421	2,198	319	489	965	861	2,917	3,400	3,836
EBITDA (%)	2.1	2.89	2.8	3.1	3.4	3.14	3.27	3.54	3.76
Net interest	107.1	553	108.3	139.2	213	295	813	875	822
Depreciation	90.8	555	80.6	121.5	186.2	180	617	636	685
Other Income	11.5	193	25.8	43.7	5.9	26.7	110	121	130
Profit before Tax	234.5	1,284	155.6	272.1	571.3	412.7	1,597	2,010	2,460
Tax	98.5	372	53	85.2	206.8	134	535	663	812
Profit After Tax	136	852	102.6	186.9	364.5	278.7	1,062	1,346	1,648
% yoy	53.5	-	31.9	92.7	47.5	104.9	24.9	26.8	22.4

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1. Outperformer: More than 10% to Index
2. Neutral: Within 0-10% to Index
3. Underperformer: Less than 10% to Index

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