

RESULT UPDATE

MID CAP

Share Data

Reuters code	REAG.BO
Bloomberg code	REIA IN
Market cap. (US\$ mn)	341
6M avg. daily turnover (US\$ mn)	1.3
Issued shares (mn)	319
Target price (Rs)	41

Performance (%) 1M 3M 6M

Absolute	(3)	(25)	(17)
Relative	(4)	(31)	(44)

Valuation ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	4.8	5.4
+/- (%)	127.3	11.2
PER (x)	10.4	9.3
Dividend/Yield (%)	0.3	0.3
EV/Sales (x)	1.5	1.3
EV/EBITDA (x)	7.8	7.1

Major shareholders (%)

Promoters	42
FII's	5
ADRs/GDRs	6
Public & Others	47

Financial highlights

(Rs mn)	2QFY09	2QFY10	YoY (%)	1HFY09	1HFY10	YoY (%)	FY09	FY10E	YoY (%)	FY11E	YoY (%)
Net Sales	4,210	9,600	128.0	10,050	18,096	80.0	24,253	29,197	20.4	32,893	12.7
EBITDA	1,063	1,622	52.6	2,325	3,206	37.9	4,530	5,666	25.1	6,218	9.7
EBITDA Margin (%)	25.2	16.9	-	23.1	17.7	-	18.7	19.4	3.9	18.9	(2.6)
Reported PAT	181	489	170.2	459	905	97.1	609	1,546	153.8	1,720	11.2
Adjusted PAT	181	492	172.0	459	905	97.1	616	1,546	150.9	1,720	11.2
Adj. PAT margin (%)	4.3	5.1	-	4.6	5	-	2.5	5.3	-	5.2	-
EPS (Rs)	0.6	1.5	144.9	1.6	2.8	78.6	2.1	4.8	127.3	5.4	11.2

Note: As per order of Hon'ble Calcutta High Court, the Company has added during the year Rs 16.5 mn in securities premium a/c towards deferred tax assets computed as per AS 22 issued by ICAI.

REI Agro

Maintain SELL

Price: Rs 50

BSE Index: 16,741

26 October 2009

2QFY10 Result – Excellent performance and growing strong

REI Agro's (REI) results were above our estimates both at revenue and PAT level. Revenues witnessed a growth of 128% YoY at Rs 9.6 bn. Though EBITDA reported a growth of 53% YoY (due to higher volume sold), EBITDA margin remained under pressure and declined by 830 bps YoY at 17% in 2QFY10 (due to decline in realisations and higher material cost). PAT margin witnessed an improvement of 80 bps at 5.1% in 2QFY10 (due to impact of reduction in interest rates made earlier).

Outlook and valuation

REI is now eyeing the overseas market after grabbing a significant share of domestic market. The company will also keep on pushing its products in domestic market through owned retail network under its associate company, REI Six Ten Retail Ltd. During the current season, there has been a significant increase in basmati paddy output because of the inclusion of PUSA1121 in basmati (PUSA1121 consists of more than ~60% of the total basmati output this time). Hence with increase in availability, the prices of both, the paddy and rice, will take a hit, resulting in margin pressure for a few quarters. REI Agro will continue to report robust growth in revenue and profitability on the back of increased volumes (huge demand for PUSA1121 and parboiled rice in Middle East specially Iran, also the export duty have been removed and MEP lowered which will further boost volumes) and reduction in interest cost. The company has raised funds through QIP recently and is planning to further raise funds through rights and FCCB issue; this will though dilute the equity but will bring the debt-equity ratio to a comfortable level. Acquisition of capacities taken on lease through FCCB proceeds can also not be ruled out. REI Agro is primarily a good bet considering the growth potential but it's not available at reasonable pricing. At the current market price of Rs 50, the stock is trading at 10.4x FY10E and 9.3x FY11E earnings. We maintain our Sell.

Segmental results

(Rs mn)	2QFY09	2QFY10	YoY (%)	1HFY09	1HFY10	YoY(%)	FY08	FY09	YoY (%)
Segmental revenue									
Rice	4,210	9,600	128.0	10,050.4	18,095.5	80.0	17,016	24,253	42.5
Wind farm & Others	117	98	(16.2)	194.0	180.3	(7.1)	184	229	24.9
Retail	–	–	–	–	–	–	326	–	(100.0)
Total	4,327	9,698	124.1	10,244	18,276	78.4	17,526	24,482	39.7
Less Inter Segmental Revenues	–	–	–	–	–	–	176	–	(100.0)
Net Sales	4,327	9,698	124.1	10,244	18,276	78.4	17,350	24,482	41.1
Segment results (EBIT)									
Rice	982	1,498	52.5	2,152.5	2,981.6	38.5	2,913	4,207	44.4
Wind farm & Others	27	70	158.9	66.5	116.8	75.6	40	36	(10.3)
Retail	–	–	–	–	–	–	17	–	(100.0)
Total	1,009	1,568	55.4	2,219.0	3,098.4	39.6	2,971	4,243	42.8
Less									
i) Interest	744	834	12.1	1,524.3	1,748.9	14.7	1,774	3,328	87.6
ii) Other unallocable inflows net of outflows	(16)	(22)	36.7	(21.8)	(51.4)	136.3	(36)	(39)	7.9
PBT	282	757	168.4	716	1,401	95.5	1,233	953	(22.7)
Capital employed									
Rice	5,189	7,905	52.4	5,189	7,905	52.4	4,726	5,129	8.5
Wind farm & Others	722	822	13.8	722	822	13.8	699	745	6.7
Unallocable	(26)	(20)	(22.5)	(26)	(20)	(22.5)	28	148	428.3
Total	5,885	8,707	47.9	5,885	8,707	47.9	5,453	6,022	10.4

Return ratios

(%)	2QFY09	2QFY10	Bps	1HFY09	1HFY10	Bps	FY08	FY09	Bps
Margins									
PBIT									
Rice	23.3	15.6	(773)	21.4	16.5	(494)	17.1	17.3	22
Wind farm & Others	23.0	71.0	4,800	34.3	64.8	3,050	22.0	15.8	(620)
Retail	–	–	–	–	–	–	5.3	–	–
Overall	23.3	16.2	(716)	21.7	17.0	(471)	17.1	17.3	21
PBT	6.5	7.8	129	7.0	7.7	67	7.1	3.9	(321)
RoCE									
Rice	18.9	19.0	2	41.5	37.7	(377)	61.6	82.0	2,037
Wind farm & Others	3.7	8.5	476	9.2	14.2	500	5.8	4.9	(92)
Overall	17.2	18.0	86	37.7	35.6	(212)	54.5	70.5	1,597

Income Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Net Sales	17,167	24,253	29,197	32,893
<i>Growth (%)</i>	62.0	41.0	20.0	13.0
Operating Expenses	(14,180)	(19,952)	(23,793)	(26,986)
Operating Profit	2,987	4,301	5,404	5,907
Other Operating Income	184	229	262	311
EBITDA	3,171	4,530	5,666	6,218
<i>Growth (%)</i>	59.6	42.9	25.1	9.7
Depreciation	(199)	(213)	(221)	(233)
Other Income	36	(36)	44	82
EBIT	3,007	4,282	5,490	6,067
Interest Paid	(1,774)	(3,328)	(3,111)	(3,421)
Pre-tax profit	1,233	953	2,379	2,645
(before non-recurring items)				
Pre-tax profit	1,233	953	2,379	2,645
(after non recurring items)				
Tax (current + deferred)	(201)	(337)	(833)	(926)
Net Profit	1,033	616	1,546	1,720
Prior period adjustments	(2)	(7)	0	0
Reported PAT	1,031	609	1,546	1,720
Adjusted net profit	1,033	616	1,546	1,720
<i>Growth (%)</i>	14.1	(40.3)	150.9	11.2

Balance Sheet

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Current assets	25,344	33,851	38,278	41,902
Cash & Marketable Securities	125	179	86	883
Other Current Assets	25,219	33,673	38,192	41,019
Investments	1,038	1,108	1,108	1,108
Net fixed assets	3,864	3,756	3,516	3,508
Total assets	30,246	38,716	42,902	46,517
Current Liabilities	722	2,047	3,165	4,617
Total debt	23,160	29,748	29,500	30,000
Other non-current liabilities	911	898	898	898
Total Liabilities	24,793	32,693	33,562	35,515
Share capital	689	689	719	719
Reserves & Surplus	4,764	5,333	8,620	10,284
Shareholder's funds	5,453	6,022	9,339	11,003
Total equity & liabilities	30,246	38,716	42,902	46,517
Capital employed	29,524	36,669	39,737	41,901

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	1,233	953	2,379	2,645
Depreciation	(199)	(213)	(221)	(233)
Chg in working capital	(10,151)	(7,214)	(4,237)	(2,301)
Total tax paid	61	(214)	(1)	0
Other operating activities	(2)	(7)	0	0
Cash flow from oper. (a)	(8,659)	(6,269)	(1,638)	578
Capital expenditure	(360)	(98)	20	(225)
Chg in investments	(1,032)	(70)	0	0
Other investing activities	(2)	0	0	0
Others	(2)	(7)	0	0
Cash flow from inv. (b)	(1,396)	(176)	20	(225)
Free cash flow (a+b)	(10,055)	(6,444)	(1,618)	353
Equity raised/(repaid)	(94)	13	1,827	0
Debt raised/(repaid)	10,247	6,588	(248)	500
Dividend (incl tax.)	(19)	(103)	(53)	(56)
Cash flow from fin. (c)	10,134	6,497	1,526	444
Net chg in cash (a+b+c)	79	53	(92)	797

Key Ratios

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
Adjusted EPS (Rs)	2.1	2.1	4.8	5.4
Growth	6.4	(0.5)	127.3	11.2
Book NAV/Share (Rs)	11.3	20.8	29.3	34.5
Dividend/Share (Rs)	0.2	0.2	0.2	0.2
Dividend payout ratio	10.0	8.5	3.6	3.3
Tax	16.3	35.3	35.0	35.0
EBITDA margin	18.3	18.7	19.4	18.9
EBIT margin	17.5	17.7	18.8	18.4
RoCE	12.6	12.9	14.4	14.9
Net debt/Equity	422.4	491.0	314.9	264.6

Valuations

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	23.4	23.6	10.4	9.3
PCE	19.7	17.5	9.1	8.2
Price/Book	4.4	2.4	1.7	1.5
Yield (%)	0.4	0.3	0.3	0.3
EV/Net sales	0.8	1.8	1.5	1.3
EV/EBITDA	4.6	9.7	7.8	7.1

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	6.0	2.5	5.3	5.2
Asset turnover	0.7	0.7	0.7	0.7
Leverage factor	4.9	6.0	5.3	4.4
Return on equity (%)	20.5	10.7	20.1	16.9

Rishab Bothra
rishab.bothra@bksec.com
+91-120-460 5627

Satish Kataria
satish.kataria@bksec.com
+91-120-460 5621

Analysts Declaration: We, Rishab Bothra and Satish Kataria, hereby certify that the views expressed in this report accurately reflect our personal views about the subject securities and issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendation or view expressed in this report.

B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.

B&K Investment Ratings:

1. **BUY:** Potential upside of > +25% (absolute returns)
 2. **OUTPERFORMER:** 0 to +25%
 3. **UNDERPERFORMER:** 0 to -25%
 4. **SELL:** Potential downside of < -25% (absolute returns)
-

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, print, publishing, photocopying, recording or otherwise without the permission of Batlivala & Karani Securities India Pvt. Ltd. Any unauthorized act in relation to all or any part of the material in this publication may call for appropriate statutory proceedings.

The information contained herein is confidential and is intended solely for the addressee(s). Any unauthorized access, use, reproduction, disclosure or dissemination is prohibited. This information does not constitute or form part of and should not be construed as, any offer for sale or subscription of or any invitation to offer to buy or subscribe for any securities. The information and opinions on which this communication is based have been compiled or arrived at from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to their accuracy, correctness and are subject to change without notice. Batlivala & Karani Securities India P Ltd and/ or its clients may have positions in or options on the securities mentioned in this report or any related investments, may effect transactions or may buy, sell or offer to buy or sell such securities or any related investments. Recipient/s should consider this report only for secondary market investments and as only a single factor in making their investment decision. The information enclosed in the report has not been vetted by the compliance department due to the time sensitivity of the information/document. Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when the investment is realized. Those losses may equal your original investment. Some investments may not be readily realizable and it may be difficult to sell or realize those investments, similarly it may prove difficult for you to obtain reliable information about the value, risks to which such an investment is exposed. Neither B&K Securities nor any of its affiliates shall assume any legal liability or responsibility for any incorrect, misleading or altered information contained herein.

B & K SECURITIES INDIA PRIVATE LTD.

Equity Research Division: City Ice Bldg, 298, Ground/1st Floor, Perin Nariman Street, Behind RBI, Fort, Mumbai-400 001, India. Tel.: 91-22-4031 7000, Fax: 91-22-2263 5020/30.
Registered Office: Room No. 3/4, 7 Lyons Range, Kolkata-700 001. Tel.: 91-33-2243 7902.

B&K Research is also available on Bloomberg <BNKI>, Thomson First Call & Investext.