

November 27, 2006

Industry : Food Processing

Analyst:

Surya Narayan Nayak (+91 22 3028 1681)

suryanarayan@networthstock.com

IPO Price : Rs.50-56
Avoid

Scrip Scan		Key Data		Shareholding (post issue)	
				(%)	
Face Value (INR)	10.00	No of Shares to be issued (mn)	7.03	Promoters	63.88
Premium (INR)	40-46	No of fresh shares issued (mn)	7.03	PE Investors	3.43
Equity Capital (Rs.mn) (pre issue)	152.33	Total issue size (Rs.mn)	393.99	Public	32.69
Equity Capital (Rs.mn) (post issue)	222.69	Issue Opens on	27th Nov'06	Total	100.00
Market Cap.*(Rs.bn)	1.24	Issue Closes on	30th Nov'06		
*(at cut-off price)		Listing	BSE, NSE		

Company Profile

L.T.Overseas Ltd (LTOL) is one of the leading basmati rice players in the country. As per the AC Nielsen ORG MARG survey for 2005, LTOL ranks third in the domestic market with a volume market share of 22%. Besides selling basmati rice in branded and unbranded form it also deals in brown rice, steamed rice, parboiled rice, value added rice in the ready to cook segment.

Business of the company

LTOL is in the business of milling, processing and marketing of branded and non-branded basmati rice and manufacturing of rice food products in the domestic and overseas market.

Currently, domestic sales contribute significantly to the revenue stream of LTOL, while the share of export sales to the total revenues is declining YoY. (CAGR -2.3% during FY03-06) It suggests that LTOL is finding difficult to establish a foothold in the overseas market on the face of big Indian players like, REI Agro, KRBL, Kohinoor Foods etc.

LTOL also does some trading in non-rice and non-food items. Trading had contributed nearly 1/5th of the turnover (except FY03 and FY06) in the past years.

Revenue mix and trends

(Rs mn)	FY02	FY03	FY04	FY05	FY06	1Q07
Export Sales	776.84	1713.42	1860.63	1544.18	1560.97	165.09
<i>As % to total</i>	43.4	60.6	51.5	42.8	38.9	21.1
<i>YoY Growth %</i>		120.6	8.6	-17.0	1.1	
Domestic Sales	669.46	967.99	1084.66	1334.16	2183.51	557.44
<i>As % to total</i>	37.4	34.2	30.0	37.0	54.5	71.3
<i>YoY Growth %</i>		44.6	12.1	23.0	63.7	
Trading Sales	344.72	145.01	669.78	730.97	263.17	59.2
<i>As % to total</i>	19.2	5.1	18.5	20.3	6.6	7.6
<i>YoY Growth %</i>		-57.9	361.9	9.1	-64.0	
Total Sales	1791.02	2826.42	3615.07	3609.31	4007.65	781.73
<i>YoY Growth %</i>		57.8	27.9	-0.2	11.0	

Present issue details

The present issue will part-finance LTOL's various expansion and modernisation plans. To date, it has deployed Rs.111.27mn (35% of the project outlays) over various projects, majority of which has gone into production of ready-to-cook rice in different flavours. The parboiled rice mill unit will come up in H2FY08, which LTOL is targeting the South-east Asian market.

Project outlays

Project particulars	Rs mn	As % to total
Parboiled rice processing	70.2	22.1
New milling line for value added product in rice	41.01	12.9
Balancing and modernization of existing facility	31.3	9.9
Ramp up of Storage capacity	124.2	39.2
Power turbine	50.52	15.9
Total	317.23	

Key analytical striking points:

- 1) LTOL will be now modernising the plant to improve efficiency and productivity. The benefits of these efforts will take a while to materialise. LTOL's profitability level, which is way below the bigger listed peer groups, will also take some time to catch up to their level. Till then, significant profit growth will be derived from volume only, rather than from operational efficiency.

Peer view (Financials of FY06)

(Rs mn)	Sales	OPM (%)	NPM (%)	Effective Tax %	EPS (Rs)	CMP (Rs)	P/E X
REI Agro	9588	15.5	6.9	35.5	17	139	8.2
KRBL	7248	11.4	4.4	34.0	15	171	11.4
LT Overseas	4006	7.0	2.8	5.9	5	56	11.2

- 2) Apart from the core basmati rice segment, LTOL may face stiff competition from Kohinoor Foods Ltd, once it enters the ready-to make food segment, which has established presence in domestic and overseas market. Even ready-to-cook segment in the domestic segment is in nascent stage, hence future earnings visibility is less in this space.
- 3) The parboiled-rice unit is having one year gestation period. So, in the interim period it would depend mainly on the core basmati rice segment.
- 4) Post-issue the promoter's stake will be 63.87%, out of which 58.9% constitutes bonus shares. In April 1, 2006, 7.23mn bonus shares (86% of total bonus shares) are allotted to them. The promoters are not subscribing to this current issue.

Valuation

The cap price of Rs56 is being offered at 11.2X the FY06 EPS of Rs5, after considering the post-issue equity capital. The more profitable and bigger listed peers are enjoying equal/lower valuation relative to its valuation at the cap price. Its growth in the overseas market has been uninspiring. Other listed players, due to their large scale, would have better negotiation and pricing power with the retail chains than LTOL, which may see the profitability under check. The valuation at Cap Price leaves little room for appreciation at the hand of investors. We, therefore recommend investors to avoid subscribing to the issue.

Disclaimer: The information contained in this report is obtained from reliable sources and is directed at market professionals and institutional investors. In no circumstances should it be considered as an offer to sell/buy or, a solicitation of any offer to, buy or sell the securities or commodities mentioned in this report. Networth, and/or its affiliates, may or may not have position in securities mentioned in this report. No representation is made that the transactions undertaken based on the information contained in this report will be profitable, or that they will not result in losses. Networth Stock Broking Ltd. and/or its representatives will not be liable for the recipients' investment decision based on this report.

Networth Stock Broking Ltd., 143-B, Mittal Court, 224, Nariman Point, Mumbai – 400021.