

## RESULT UPDATE

### MID CAP

#### Share Data

Reuters code	KSOL.BO
Bloomberg code	KSO IN
Market cap. (US\$ mn)	541
6M avg. daily turnover (US\$ mn)	5.2
Issued shares (mn)	397
Target price (Rs)	73

#### Performance (%) 1M 3M 12M

Absolute	(8)	19	57
Relative	(1)	13	(11)

#### Valuation ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	4.4	6.9
+/- (%)	(7.9)	57.8
PER (x)	14.6	9.2
PBV (x)	2.5	1.8
Dividend/Yield (%)	0.4	0.5
EV/Sales (x)	0.8	0.7
EV/EBITDA (x)	7.8	5.1

#### Major shareholders (%)

Promoters	34
FII's	13
MFs	2
ADRs/GDRs	16
Public & Others	35

#### Financial highlights

(Rs mn)	2QFY09	2QFY10	YoY (%)	1HFY09	1HFY10	YoY (%)	FY09	FY10E	YoY (%)	FY11E	YoY (%)
Net Sales	7,341	9,467	29.0	14,268	18,527	29.9	31,467	38,855	23.5	44,326	14.1
EBITDA	828	1,197	44.7	1,587	2,195	38.3	3,784	4,052	7.1	5,800	43.1
EBITDA Margin (%)	11.3	12.6	12.2	11.1	11.8	6.5	12.0	10.4	(13.3)	13.1	25.5
Other Income	24	31	29.8	58	202	248.4	(163)	291	(278.3)	222	(23.9)
Depreciation	58	127	117.4	109	241	120.1	268	427	59.4	517	21.2
PBIT	794	1,102	38.9	1,536	2,157	40.5	3,353	3,917	16.8	5,505	40.5
Interest	161	348	115.8	280	648	131.3	744	938	26.2	805	(14.2)
PBT	632	754	19.3	1,256	1,509	20.2	2,610	2,978	14.1	4,700	57.8
Tax	210	253	20.2	423	515	21.7	908	1,030	13.5	1,626	57.8
Reported PAT	422	502	18.9	832	994	19.4	1,702	1,948	14.5	3,074	57.8
Adjusted PAT	422	502	18.9	832	994	19.4	1,702	1,948	14.5	3,074	57.8
Adj. PAT margin (%)	5.8	5.3	(7.8)	5.8	5.4	(8.0)	5.4	5.0	(7.3)	6.9	38.3
EPS (Rs)	1.3	1.3	(0.4)	2.5	2.5	0.1	4.8	4.4	(7.9)	6.9	57.8

## KS Oils

Maintain Outperformer

Price: Rs 64

BSE Index: 15,896

30 October 2009

### 2QFY10 Result – Growth backed by volumes

**KS Oils (KSO) 2QFY10 results were in line with our estimates at the revenue level but exceeded at earnings level. The revenue grew by 29% YoY at Rs 9.4 bn, despite a YoY fall of 21% in blended realisations, as volumes increased by a robust 64% YoY. The EBITDA margin witnessed an improvement of 137 bps at 12.6% in 2QFY10 mainly due to reduction in material cost. Depreciation and interest expenses increased by 117% and 115%, respectively, as a result of capacity addition and increase in outstanding debt, respectively. This resulted in a decline in PAT margins by 45 bps at 5.3% for 2QFY10.**

### Outlook and valuation

**It is expected that the growth in the sector will be driven by increased volumes, as realisations are expected to remain under pressure. The demand for the products are strong due to consumption pattern and low penetration by the organised players, as still the market is dominated by the unorganised players. KSO is engaged in enhancing and growing its network in order to have a larger participation by both urban and rural population in consumption of its products. It is also eyeing soyabean and palm oil segment in the edible oil space, as it is, the undisputed leader in the mustard oil segment. The backward integration project to develop palm plantation in Indonesia and Malaysia is moving at a rapid pace, as the company has raised funds in the recent past for the acquisition and development of land for the purpose. At the current market price of Rs 64, the stock is trading at 14.6x FY10E and 9.2x FY11E earnings. We maintain our Outperformer rating on the stock.**

## Highlights

- Revenue contribution remained unchanged at 63:15:22 for branded, unbranded and other byproducts sales, respectively.
- In terms of product sales, revenue contribution changed in favour of refined oil as compared to mustard oil. The ratio was 51:47:2 in 2QFY10 versus 59:38:3 in 2QFY09 for mustard oil, refined oil and vanaspati ghee.
- There was an across the board increase in volumes, except for KS Gold Vanaspati in branded segment and Loose Mustard oil in unbranded segment. The realisation remained under pressure and declined across all segments, products and brands.
- Utilisation remained under pressure in 2QFY10 as compared to 1QFY10 and FY09 for mustard oil mill, solvent plant and refined oil mill, except for mustard oil mill which witnessed an improved as compared to 1QFY10.

## Segment results

(Rs mn)	2QFY09	2QFY10	YoY(%)	1HFY09	1HFY10	YoY(%)	FY08	FY09	YoY(%)
<b>Revenue</b>									
Edible Oil Division	7,269	9,313	28.1	14,151	18,269	29.1	20,511	31,287	52.5
Power Division	84	177	109.9	154	305	97.7	43	243	461.7
Others	0	0	–	0	0	–	0	0	–
<b>Total</b>	<b>7,353</b>	<b>9,489</b>	<b>29.1</b>	<b>14,305</b>	<b>18,574</b>	<b>29.8</b>	<b>20,555</b>	<b>31,530</b>	<b>53.4</b>
Less Inter Segment	14	20	46.3	34	40	17.0	104	51	(51.4)
Gross Sales	<b>7,340</b>	<b>9,470</b>	29.0	<b>14,271</b>	<b>18,534</b>	29.9	<b>20,451</b>	<b>31,480</b>	53.9
Less Excise Duty	4	4	19.4	7	9	18.9	7	13	77.0
<b>Net Sales</b>	<b>7,336</b>	<b>9,465</b>	<b>29.0</b>	<b>14,263</b>	<b>18,526</b>	<b>29.9</b>	<b>20,443</b>	<b>31,467</b>	<b>53.9</b>
<b>EBIT</b>									
Edible Oil Division	713	952	33.6	1,377	1,930	40.2	2,062	3,121	51.4
Power Division	56	124	120.2	103	183	78.3	18	118	549.2
Others	0	(6)	–	0	(6)	–	0	10	–
<b>Total</b>	<b>769</b>	<b>1,071</b>	<b>39.2</b>	<b>1,479</b>	<b>2,107</b>	<b>42.4</b>	<b>2,080</b>	<b>3,249</b>	<b>56.2</b>
Less Interest Expenses	161	348	115.8	280	648	131.3	375	744	98.4
Add Interest Income	24	31	30.0	56	48	(14.1)	115	93	(19.0)
Other unallocable expenses net of income	(0)	(0)	0.0	(1)	(2)	250.0	(2)	(11)	440.0
<b>PBT</b>	<b>632</b>	<b>754</b>	<b>19.3</b>	<b>1,256</b>	<b>1,509</b>	<b>20.2</b>	<b>1,822</b>	<b>2,609</b>	<b>43.2</b>
<b>Capital Employed</b>									
Edible Oil Division	6,596	8,919	–	6,596	8,919	–	7,030	7,288	–
Power Division	1,149	1,295	–	1,149	1,295	–	1,574	1,561	–
Others	0	2	–	0	2	–	0	1	–
Unallocated	521	2,410	–	521	2,410	–	(1,671)	213	–
<b>Total</b>	<b>8,266</b>	<b>12,626</b>	<b>–</b>	<b>8,266</b>	<b>12,626</b>	<b>–</b>	<b>6,933</b>	<b>9,063</b>	<b>–</b>

## Return ratios

%	2QFY09	2QFY10	1HFY09	1HFY10	FY08	FY09
<b>EBIT Margin</b>						
Edible Oil Division	9.8	10.2	9.7	10.6	10.1	10.0
Power Division	67.1	70.4	66.6	60.0	41.8	48.3
<b>Total</b>	<b>10.5</b>	<b>11.3</b>	<b>10.4</b>	<b>11.4</b>	<b>10.2</b>	<b>10.3</b>
PBT margin	8.6	8.0	8.8	8.1	8.9	8.3
<b>RoCE</b>						
Edible Oil Division	10.8	10.7	20.9	21.6	29.3	42.8
Power Division	4.9	9.6	8.9	14.2	1.2	7.5
<b>Total</b>	<b>9.3</b>	<b>8.5</b>	<b>17.9</b>	<b>16.7</b>	<b>30.0</b>	<b>35.8</b>

**Income Statement**

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
<b>Net Sales</b>	<b>20,439</b>	<b>31,467</b>	<b>38,855</b>	<b>44,326</b>
<i>Growth (%)</i>	<i>91.0</i>	<i>54.0</i>	<i>23.0</i>	<i>14.0</i>
Operating Expenses	(18254)	(27682)	(34803)	(38525)
Operating Profit	2,185	3,784	4,052	5,800
<b>EBITDA</b>	<b>2,185</b>	<b>3,784</b>	<b>4,052</b>	<b>5,800</b>
<i>Growth (%)</i>	<i>135.7</i>	<i>73.2</i>	<i>7.1</i>	<i>43.1</i>
Depreciation	(122)	(268)	(427)	(517)
Other Income	134	(163)	291	222
<b>EBIT</b>	<b>2,197</b>	<b>3,353</b>	<b>3,917</b>	<b>5,505</b>
Interest Paid	(375)	(744)	(938)	(805)
Pre-tax profit	1,822	2,610	2,978	4,700
(before non-recurring items)				
Pre-tax profit	1,822	2,610	2,978	4,700
(after non recurring items)				
Tax (current + deferred)	(615)	(908)	(1030)	(1626)
<b>Net Profit</b>	<b>1,207</b>	<b>1,702</b>	<b>1,948</b>	<b>3,074</b>
Prior period adjustments	0	(8)	0	0
<b>Reported Pat</b>	<b>1,207</b>	<b>1,694</b>	<b>1,948</b>	<b>3,074</b>
Adjusted net profit	1,207	1,702	1,948	3,074
<i>Growth (%)</i>	<i>110.5</i>	<i>41.0</i>	<i>14.5</i>	<i>57.8</i>

**Balance Sheet**

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Current assets	9,042	13,526	13,118	14,412
Cash & Marketable Securities	1,496	666	623	608
Other Current Assets	7,546	12,859	12,495	13,804
Investments	185	780	2,280	4,780
Net fixed assets	4,417	9,866	10,654	11,137
<b>Total assets</b>	<b>13,644</b>	<b>24,171</b>	<b>26,052</b>	<b>30,329</b>
Current Liabilities	3,440	4,729	6,743	9,432
Total debt	2,847	9,319	7,000	4,500
Other non-currnet liabilities	425	1,060	1,060	1,060
<b>Total Liabilities</b>	<b>6,711</b>	<b>15,108</b>	<b>14,803</b>	<b>14,992</b>
Share capital	332	356	356	385
Reserves & Surplus	6,600	8,707	10,893	14,951
<b>Shareholder's funds</b>	<b>6,933</b>	<b>9,063</b>	<b>11,249</b>	<b>15,336</b>
<b>Total equity &amp; liabilities</b>	<b>13,644</b>	<b>24,171</b>	<b>26,052</b>	<b>30,329</b>
<b>Capital Employed</b>	<b>10,204</b>	<b>19,442</b>	<b>19,309</b>	<b>20,897</b>

**Cash Flow Statement**

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	1,822	2,610	2,978	4,700
Depreciation	(122)	(268)	(427)	(517)
Chg in working capital	(2,921)	(4,322)	1,312	(271)
Total tax paid	(5)	2	0	0
Other operating activities	0	(8)	0	0
<b>Cash flow from oper. (a)</b>	<b>(982)</b>	<b>(1,450)</b>	<b>4,717</b>	<b>4,946</b>
Capital expenditure	(3,195)	(5,713)	(1,215)	(1,000)
Chg in investments	(185)	(595)	(1,500)	(2,500)
Other investing activities	11	(1)	1	(1)
Others	24	(3)	0	0
<b>Cash flow from inv. (b)</b>	<b>(3345)</b>	<b>(6312)</b>	<b>(2715)</b>	<b>(3501)</b>
<b>Free cash flow (a+b)</b>	<b>(4327)</b>	<b>(7762)</b>	<b>2,002</b>	<b>1,445</b>
Equity raised/(repaid)	3,630	997	383	1,177
Debt raised/(repaid)	1,845	6,472	(2319)	(2,500)
Dividend (incl. tax)	(44)	(60)	(94)	(130)
<b>Cash flow from fin. (c)</b>	<b>5,693</b>	<b>6,932</b>	<b>(2,045)</b>	<b>(1,460)</b>
<b>Net chg in cash (a+b+c)</b>	<b>1,366</b>	<b>(830)</b>	<b>(43)</b>	<b>(15)</b>

**Key Ratios**

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
Adjusted EPS (Rs.)	3.6	4.8	4.4	6.9
Growth	39.9	31.6	(7.9)	57.8
Book NAV/Share (Rs)	20.9	25.4	25.4	34.6
Dividend/Share (Rs)	0.2	0.2	0.3	0.3
Dividend payout ratio	5.8	4.9	6.7	5.1
Tax	33.8	34.8	34.6	34.6
EBITDA margin	10.7	12.0	10.4	13.1
EBIT margin	10.7	10.7	10.1	12.4
RoCE	33.2	22.6	20.2	27.4
Net debt / Equity	19.5	95.5	56.7	25.4

**Valuations**

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	17.6	13.4	14.5	9.2
PCE	16.0	11.6	11.9	7.9
Price / Book	3.1	2.5	2.5	1.8
Yield (%)	0.3	0.3	0.4	0.5
EV / Net sales	1.2	1.1	0.9	0.8
EV / EBITDA	11.6	9.0	8.4	5.9

**Du Pont Analysis – ROE**

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	5.9	5.4	5	6.9
Asset turnover	2.2	1.7	1.5	1.6
Leverage factor	2.1	2.4	2.5	2.1
Return on equity (%)	27.4	21.3	19.2	23.1

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

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