

September 7, 2010

Rating	BUY
Price	Rs51
Target Price	Rs76
Implied Upside	48.4%
Sensex	18,560

(Prices as on September 6, 2010)

**Trading Data**

Market Cap. (Rs bn)	22.7
Shares o/s (m)	442.8
Free Float	63.68%
3M Avg. Daily Vol ('000)	2,132.7
3M Avg. Daily Value (Rs m)	110.7

**Major Shareholders**

Promoters	36.32%
Foreign	17.62%
Domestic Inst.	2.33%
Public & Others	43.73%

**Stock Performance**

(%)	1M	6M	12M
Absolute	(8.1)	(31.1)	(13.4)
Relative	(10.8)	(40.7)	(29.6)

**Price Performance (RIC: KSO.BO, BB: KSO IN)**


Source: Bloomberg

■ **Strong mustard oils sales offsets lower refined oil sales:** KS Oils' (KSO's) net sales has shown a growth of ~14% YoY to Rs10,303m against our expectation of Rs11,339m during Q1FY11 due to lower-than-expected volume growth. Mustard oil volumes and sales grew by ~54% and ~51%, respectively. Strong mustard oil sales growth has been offset by ~22% de-growth in refined oil sales. Company's branded oil sales have grown by ~27% to Rs6,863m on the back of a strong volume growth of ~25%. Company has been able to show a strong volume growth on the back of increasing penetration from newer markets like Tier II and Tier III, along with strengthening and launching brands in its present markets.

■ **Lower EBITDA and higher interest cost offset by lower tax:** KSO's EBITDA grew by merely ~1% to Rs1,173m against our expectation of Rs1,361m on account of lower-than-expected net sales. EBITDA margins declined by 70bps YoY to 11.4% (up 10bps QoQ). Company's interest cost went up by ~45% to Rs437m due to higher working capital requirement (mainly inventory). Company has provided tax at 13% during Q1FY11 v/s 34% during Q1FY10 because company has reversed part of deferred tax amount on power plant during the quarter. Adjusted PAT grew by ~3% to Rs505m as against our expectation of Rs548m.

■ **Maintain 'BUY':** Based on a one-year forward P/E, KSO is trading at a discount (~7x) to its global as well as domestic peers (12x) despite having higher earnings CAGR and higher return ratios (RoE). We are positive on the stock on account of its strong edible oil market presence, its growth potential and discounted valuation. At present, the stock is trading at near-to-lower end of its historical forward P/E band of 7x-14x. We maintain our 'BUY' rating on the stock.

Key financials (Y/e March)	FY09	FY10	FY11E	FY12E
Revenues (Rs m)	31,292	40,911	50,144	61,726
Growth (%)	52.1	30.7	22.6	23.1
EBITDA (Rs m)	3,572	4,959	5,925	7,117
PAT (Rs m)	1,654	1,903	2,509	3,348
EPS (Rs)	4.6	4.3	5.7	7.6
Growth (%)	28.2	(7.4)	31.8	33.5
Net DPS (Rs)	0.2	0.2	0.2	0.2

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10	FY11E	FY12E
EBITDA margin (%)	11.4	12.1	11.8	11.5
RoE (%)	20.6	15.5	15.1	17.2
RoCE (%)	15.2	12.3	11.4	12.2
EV / sales (x)	0.9	0.9	0.7	0.6
EV / EBITDA (x)	7.5	7.0	5.9	5.2
PE (x)	11.0	11.9	9.0	6.8
P / BV (x)	2.0	1.5	1.3	1.1
Net dividend yield (%)	0.4	0.3	0.3	0.3

Source: Company Data; PL Research

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## Q1FY11 Result Overview

(Rs m)

Y/e March	Q1FY11	Q1FY10	YoY gr. (%)	Q4FY10	FY11E	FY10	YoY gr. (%)
Net Sales	10,303	9,070	13.6	10,789	49,837	40,655	22.6
Raw material consumed	8,177	7,548	8.3	8,905	40,884	33,133	23.4
<i>As % of net sales</i>	<i>79.4</i>	<i>83.2</i>		<i>82.5</i>	<i>82.0</i>	<i>81.5</i>	
Purchase of finished goods	79	2	NA	46	-	93	-
<i>As % of net sales</i>	<i>0.8</i>	<i>0.0</i>		<i>0.4</i>	<i>-</i>	<i>0.2</i>	
Employee expenses	73	65	12.3	75	348	284	22.6
<i>As % of net sales</i>	<i>0.7</i>	<i>0.7</i>		<i>0.7</i>	<i>0.7</i>	<i>0.7</i>	
Other expenses	823	448	83.8	557	2,987	2,442	22.3
<i>As % of net sales</i>	<i>8.0</i>	<i>4.9</i>		<i>5.2</i>	<i>6.0</i>	<i>6.0</i>	
Total expenditure	9,151	8,062	13.5	9,583	44,220	35,952	23.0
Operating Profit	1,152	1,008	14.3	1,206	5,618	4,703	19.4
<i>OPM (%)</i>	<i>11.2</i>	<i>11.1</i>		<i>11.2</i>	<i>11.3</i>	<i>11.6</i>	
Other Income	21	161	(86.8)	14	307	256	20.0
EBITDA	1,173	1,169	0.3	1,220	5,925	4,959	19.5
<i>Margin (%)</i>	<i>11.4</i>	<i>12.7</i>		<i>11.3</i>	<i>11.8</i>	<i>12.1</i>	
Depreciation	155	114	36.1	146	604	528	14.3
PBIT	1,018	1,055	(3.5)	1,074	5,321	4,431	20.1
Interest	437	300	45.4	508	1,520	1,564	(2.8)
Profit before tax	581	754	(23.0)	565	3,801	2,868	32.5
<i>Margin (%)</i>	<i>5.6</i>	<i>8.3</i>		<i>5.2</i>	<i>7.6</i>	<i>7.1</i>	
Tax	76	262	(71.1)	187	1,292	965	33.9
<i>Tax Rate (%)</i>	<i>13.0</i>	<i>34.8</i>		<i>33.0</i>	<i>34.0</i>	<i>33.6</i>	
Adjusted PAT	505	492	2.6	378	2,509	1,903	31.8

## Sales Break-up

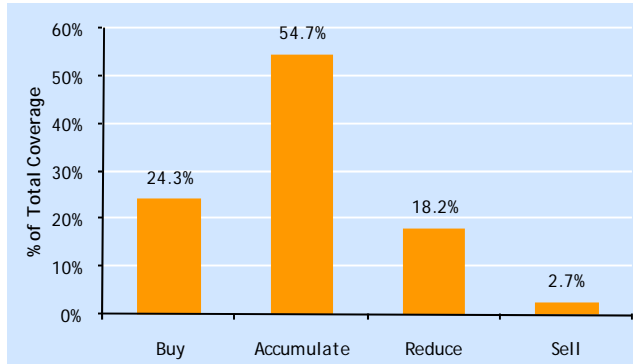
Y/e March	Q1FY11	Q1FY10	YoY gr. (%)	Q4FY10	FY11E	FY10	YoY gr. (%)
<b>Sales Volume (In MT)</b>							
Mustard Oil	90,867	58,968	54.1	64,760	301,500	253,536	18.9
Refined Oil	56,114	78,382	(28.4)	78,360	381,000	313,495	21.5
Vanaspati	3,942	3,299	19.5	1,321	15,000	9,506	57.8
<b>Net Sales (Rs m)</b>							
Mustard Oil	5,664	3,749	51.1	4,221	19,431	16,340	18.9
Refined Oil	2,834	3,654	(22.4)	3,911	18,212	14,985	21.5
Vanaspati	175	140	25.0	58	622	394	57.9
By-products, DOC and Soya Meal	1,630	1,527	6.7	2,599	11,572	8,936	29.5
Net Sales	10,303	9,070	13.6	10,789	49,837	40,655	22.6

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#### Rating Distribution of Research Coverage



#### PL's Recommendation Nomenclature

<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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