K S OILS

INR 59

Edelweiss
Ideas create, values protect

Filling the value chain gap

Not Rated

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We met the management of KS Oils (KSO) recently to gauge opportunities in the oilseed processing sector as well as the company's scale up plans. Following are the key takeaways of our interaction:

~3 fold jump in capacity to boost volume growth

KSO is the largest rapeseed crusher in India with a current installed capacity of 1,475 MT/day (mtpd), including leased capacity of 250 mtpd. It is augmenting its current capacity from 1,475 mtpd to 4,875 mtpd for seed crushing, 1,750 mtpd to 4,500 mtpd for solvent extraction, and 550 mtpd to 1,350 mtpd for refining. The new capacities are expected to come on stream in H2FY09E, ensuring strong volume growth over the next two years.

Organised players expanding market share in edible oil

The domestic oil processing industry is largely dominated by unorganised players, with branded sales estimated at just 20% of the overall edible oil market (*Source: Company).* The small scale industry (SSI) reservation in four key oilseeds (peanut, rapeseed, sesame, and safflower) has significantly curtailed any single, large oilseed crushing unit from coming up in the industry. With most oil seed crushers working at low capacities, organised players have begun expanding their market shares at a fast pace (some organised players have used the expander route to bypass SSI restrictions).

Focus on branding ensures superior margins

KSO has been steadily increasing its share of branded sales in overall revenues, from 48% in FY06 to 60% in FY08. Even within branded sales, the company has been able to ensure higher sale of premium brands. Higher share of branded sales enables the company earns superior margins than competitors. Margin expansion has also been aided by efficiency in procurement of oilseeds as well as the company's policy of keeping a certain portion of its oilseed purchase unhedged.

Valuations

The company reported a CAGR of 65% and 230% in revenues and net profits, respectively, over FY05-08. KSO is a play on greater penetration of organised players in the processing leg of the edible oil value chain. It is eyeing strong topline growth, driven by dramatic scale up in capacity and greater focus on branding. At INR 59, the stock is trading at a P/E of 12.9x its annualised Q1FY09 EPS. The stock is currently not under our coverage.

Reuters	:	KSOI.BO
Bloomberg	:	KSO IN

Market Data		
52-week range (INR)	:	142 / 39
Share in issue (mn)	:	332.4
M cap (INR bn/USD mn)	:	19.7 / 489.5
Avg. Daily Vol. BSE/NSE ('000)	:	1,862.2

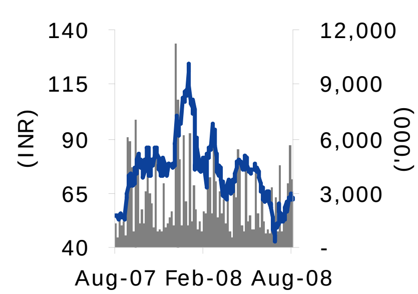
Share Holding Pattern (%)		
Promoters	:	33.3
MFs, FIs & Banks	:	0.3
FIIs	:	12.9
Others	:	53.5

Relative Performance (%)

	Sensex	Stock	Change
1 month	8.6	24.0	15.4
3 months	(9.4)	(15.7)	(6.4)
12 months	0.4	15.0	14.6

Financials

Year to March	FY05	FY06	FY07	FY08
Revenues (INR mn)	4,525	6,082	10,875	20,411
Growth (%)	*(3.3)*	*34.4*	*78.8*	*87.7*
EBITDA (INR mn)	138	272	927	2,247
Net profit (INR mn)	34	152	568	1,219
Growth (%)	*46.6*	*346.7*	*274.3*	*114.9*
Diluted EPS (INR)	0.7	1.8	2.2	3.4
EPS growth (%)	-	*161.7*	*21.2*	*57.5*
Diluted P/E (x)	86.6	33.1	27.3	17.3
ROAE (%)	27.0	42.7	48.8	27.7



~3 fold jump in capacity to boost volume growth

KSO is the largest rapeseed crusher in India with a current installed capacity of 1,475 mtpd, including leased capacity of 250 mtpd. It is augmenting its current seed crushing capacity from 1,475 mtpd to 4,875 mtpd, solvent extraction capacity from 1,750 mtpd to 4,500 mtpd, refining capacity from 550 mtpd to 1,350 mtpd, and that of wind mills from 32.5 MW to 44.5 MW. The company's existing plants are located at Morena (Madhya Pradesh), Jodhpur and Alwar (Rajasthan), while new plants are coming up in Kota (Rajasthan), Guna and Ratlam (Madhya Pradesh).

KSO—Capex plans

				Annual capacity (MT)
	FY07	**FY08**	**FY09E**	**FY10E**
Oil seed crushing	367,500	442,500	1,462,500	1,462,500
Solvent extraction	180,000	525,000	1,350,000	1,350,000
Refinery	120,000	165,000	405,000	405,000
Vanaspati	45,000	45,000	45,000	45,000
Windmill (MW)	8.5	32.5	44.5	44.5

Source: Company, Edelweiss research

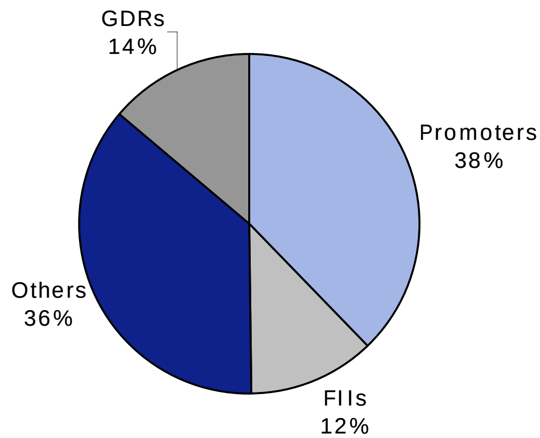
The company estimates total capex at INR 6.50 bn—INR 4.0 bn for expansion in seed crushing, solvent extraction, and refinery; INR 2 bn for wind power generation; and INR 0.5 bn for warehousing and setting up of a distribution network. Funds for this expansion have already been raised by the company via preferential allotment and a GDR issue to PE investors, CVC and Barings Private Equity, Asia, and by allotment of warrants to promoters.

Break-up of funding

Raised from	Mode	Amount (INR mn)
CVC	GDRs	1,500
Barings	Pref. allotment & GDRs	1,500
Promoters	Warrants	1,000
Others	Internal accruals & Debt	2,500
Total capex		**6,500**

Source: Company, Edelweiss research

KSO—Shareholding pattern post conversion of warrants

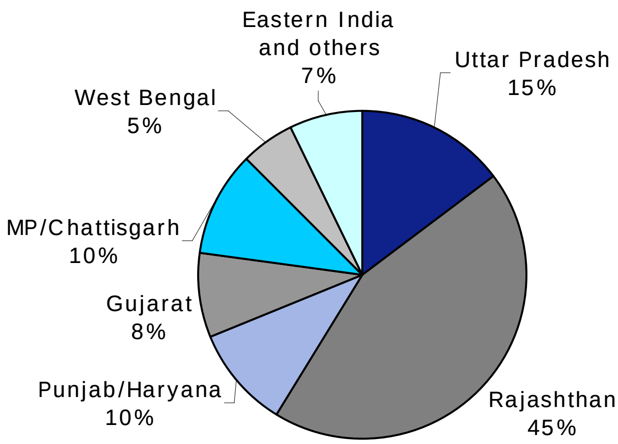


Source: Company, Edelweiss research

Current equity share capital of the company stands at INR 332.4 mn., with 23.87 mn warrants issued to promoters due for conversion at INR 41.9/share. Post conversion fully diluted equity of the company will be INR 356.3 mn

The company's plants are located in Rajasthan and Madhya Pradesh—the hub of mustard oilseeds in India. It also has access to mandis in Uttar Pradesh. Total estimated production from all three states is estimated at 3.53 mtpa (2007-08). At fully-expanded capacity, the company will account for 41% of overall mustard seed production (based on installed capacity) in the region.

State-wise provisional breakup of mustard seed production (2007-08)



Source: Solvent Extractors Association

Setting up greater-than-required capacity for solvent extraction and refining

KSO is setting up greater-than-required capacities for solvent extraction and refining, indicating that apart from mustard it plans to use its solvent extraction facilities for crushing soya seeds and refining facilities for soya and palm.

Excess capacity in solvent extraction and refining

	New capacities (tpd)	Capacity required, based on seed crushing (tpd)	Surplus capacity (tpd)
Seed crushing	3,400	-	-
Solvent extraction	2,750	2,210	540
Refining	800	150	650

Source: Edelweiss research

Note: Assuming 100% utilisation for seed crushing

Organised players expanding market share in edible oil

The domestic oil processing industry is largely dominated by unorganised players with branded sales estimated at just 20% of the overall edible oil market. The SSI reservation in four key oilseeds has significantly curtailed any single, large oilseed-crushing unit from coming up in the industry. The 1980s saw the government encouraging the oilseed industry under the Technology Mission on Oilseeds (TMO) programme, which resulted in significant capacity additions; however, stagnant yield at farm levels, plus the unfeasibility of importing oilseeds has led to oil crushers working at low capacity utilisation. Lack of scale also ensured that domestic millers were unable to compete with imports, where oil millers had built significant scale.

Industry dominated by surplus seed crushing capacity

Type of industry	No of units	Annual capacity (mtpa)	Average capacity utilisation (%)
Oil seed crushing unit	150,000	42.5 (seed)	10 to 30
Solvent extraction unit	779	41.9 (oil-bearing material)	33
Refineries attached with vanaspati unit	127	5.1 (oil)	45
Refineries attached with solvent unit	225	3.7 (oil)	29
Independent refineries	585	3.5 (oil)	36
Total refineries	937	12.3 (oil)	37
Vanaspati unit	268	5.8 (vanaspati)	19

Source: Government of India

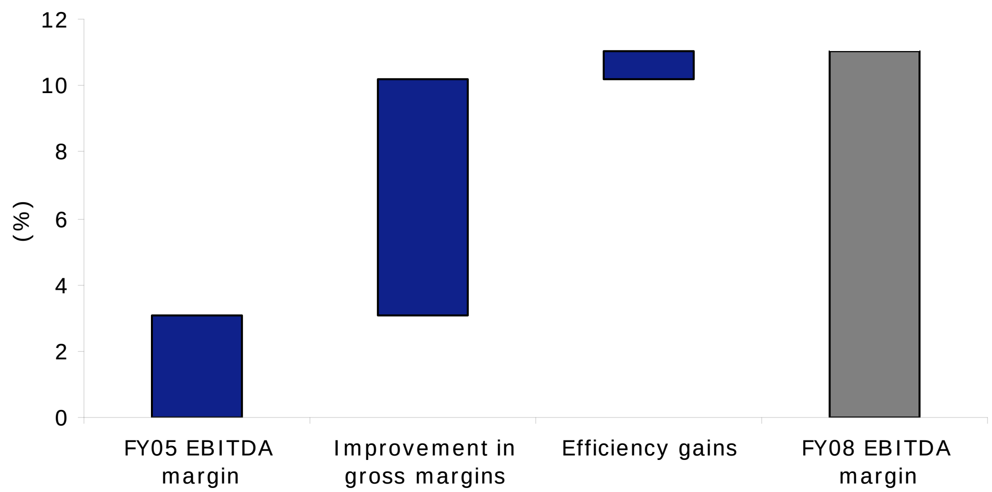
With most oil seed crushers working at low capacities, organised players have begun increasing their market share at a fast pace. Some oilseed processing companies have started using expander machines in place of the *kachi ghani and* expeller machines to bypass SSI restrictions. Unorganised players are also at a disadvantage due to limited working capital funding capabilities.

Margin expansion driven by greater in-house processing, focus on branding

KSO has expanded its EBITDA margins from 3.05% (FY05) to 11.01% (FY08), primarily on the back of gross margin expansion with marginal efficiency gains. Our analysis of the historical numbers suggest that gross margins expanded due to:

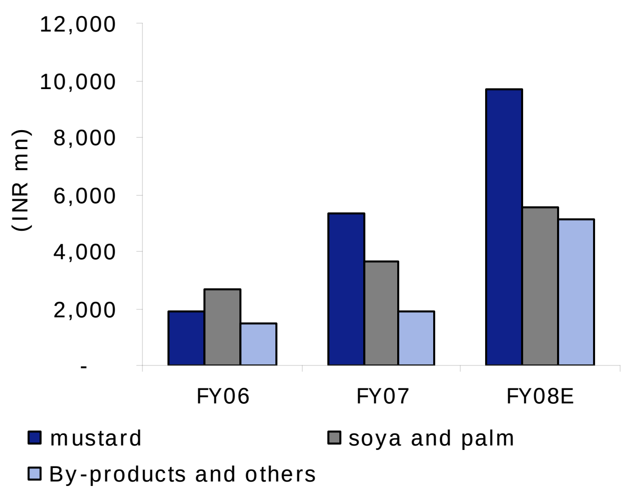
- Greater proportion of mustard oil sold; within these sales, a higher percentage of the oil was manufactured in-house through seed crushing versus crude mustard oil being purchased and repacked for sale (where margins are typically low).
- In branded mustard oil sales, a greater proportion of the *Kalash* brand (where realisations are 4% higher) sold versus the *Double Sher* brand.
- Greater proportion of branded soya oil sold versus loose soya oil.
- Efficient seed procurement, where average cost of seed has been lower than the average seed prices for the year.
- Rise in realisations of de-oiled cake.

EBITDA margins on the rise

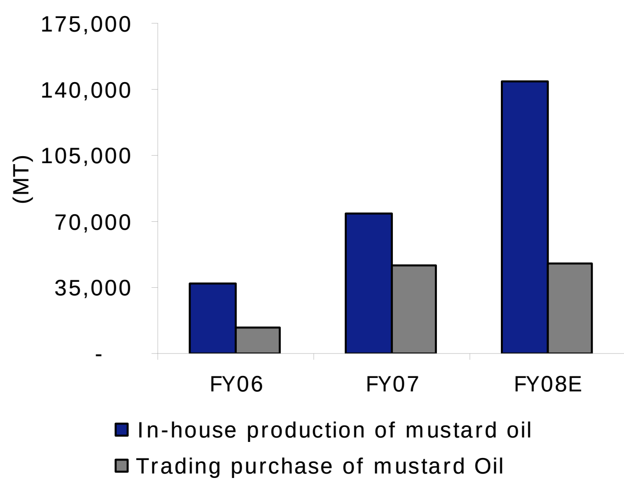


Source: Company, Edelweiss research

Greater contribution of mustard oil to total sales



Increase in in-house production of mustard oil

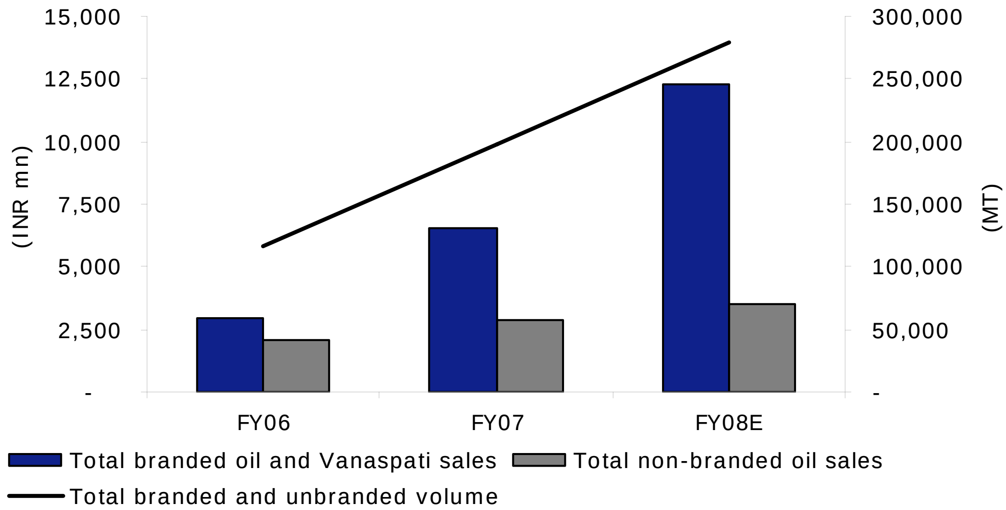


Source: Company, Edelweiss research

Higher realisations driven by increasing share of branded and premium brand sales

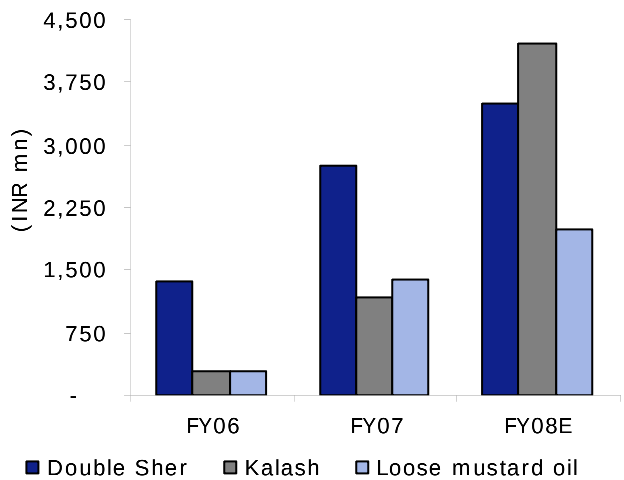
The company has been steadily increasing its share of branded sales in overall revenues, from 48% in FY06 to 60% in FY08. Higher share of branded sales enables it earn superior margins than competitors. In mustard oil, *Kalash* (where realisations are ~4% higher) sales jumped sharply than *Double Sher*. In soya oil, the share of sales of its refined oil brand *KS* has been increasing versus that sold in the loose form. KSO plans to spend ~INR 150 mn in FY09E towards advertising its two key brands—*Kalash* and *Double Sher*.

Branded sales on an upswing

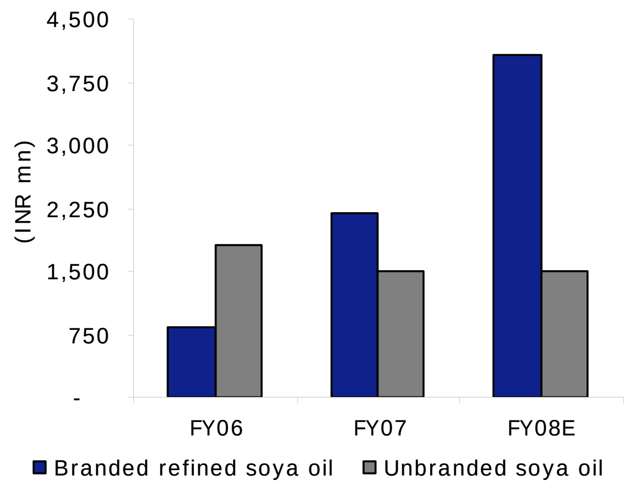


Source: Company, Edelweiss research

Break-up of mustard oil sales



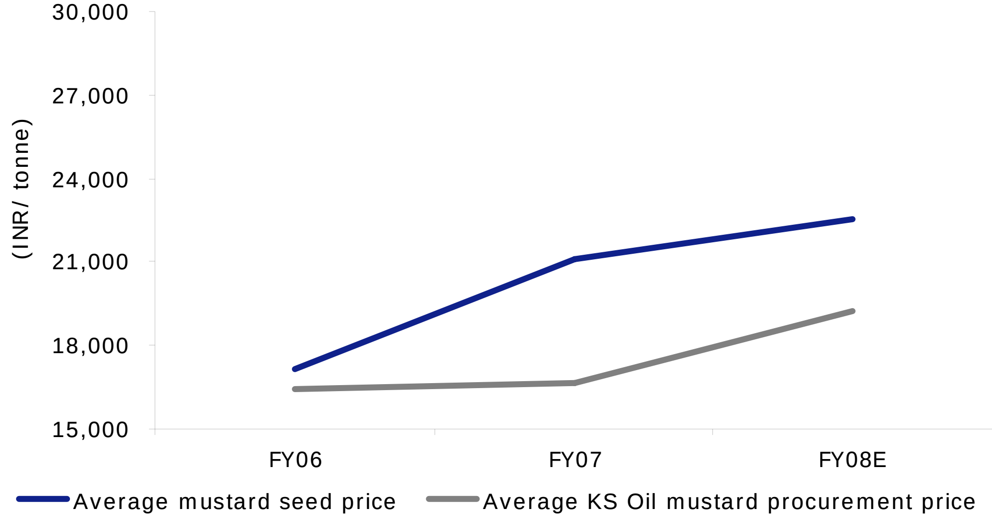
Break-up of soya oil sales



Source: Company, Edelweiss research

Procurement efficiency also gives a competitive edge

Lower procurement cost than average industry oilseed prices



Source: CMIE, Company

KSO has an advantage in procurement of mustard seeds; its average cost per tonne is substantially lower than the average industry price. The company has special teams who undertake oilseed procurement, trying to source it from interior *mandis* where prices are lower rather than prominent *mandis* where they are higher. Prices of oilseeds are also lower due to direct procurement from farmers.

The company tends to hedge ~50% of its position in seeds by selling edible oil forward in the physical market; it has benefited by the subsequent rise in oilseed prices.

Margin improvement is also dependent on the proportion of edible oil sold in bottles versus tins. The per kg realisations for a litre of bottled mustard oil is ~INR 79.1, while the same sold in a tin gives ~INR 76. Hence, a higher proportion of bottled sales will result in higher gross margins for the company.

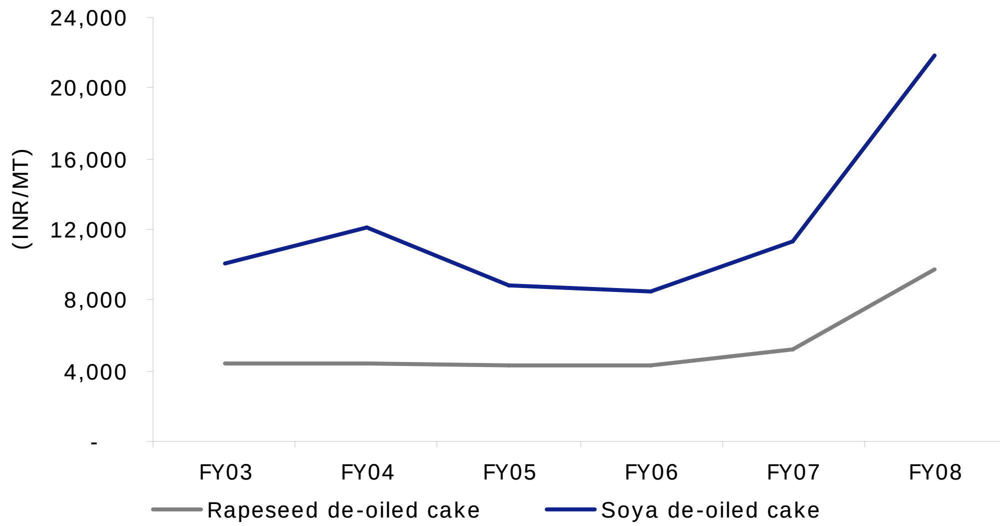
Integrating backwards

KSO has recently acquired 20,000 hectares of palm plantation land in Indonesia and plans to spend INR 3 bn over four years for development of the same. Estimated yield from the plantation is at ~4 tonnes per hectare, with palm oil output estimated at 80,000 tonnes p.a. This backward integration will help ease raw material procurement and could be substantially margin-accretive as according to the company, EBITDA margins in palm plantations could be as high as 60%.

Margins also aided by rise in realisations in de-oiled cakes

The sharp rise in prices of soya and maize feed, primarily used as cattle feed, has resulted in a shift towards substitutes, driving demand for mustard de-oiled cakes. These cakes, despite their poor protein content, have seen a sharp jump in realisations due to the substitution effect, up ~86% over FY07.

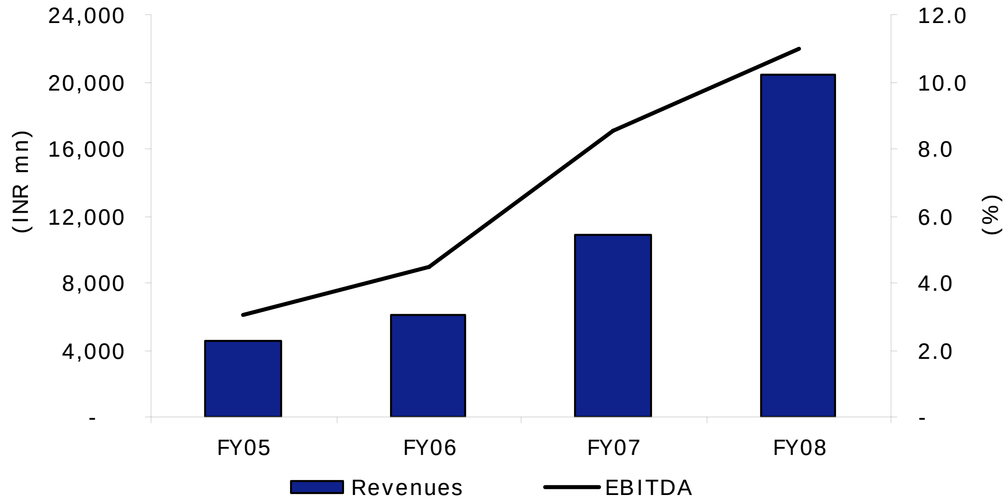
Rising trend in de-oiled cake



Source: Solvent Extractors Association

Valuation

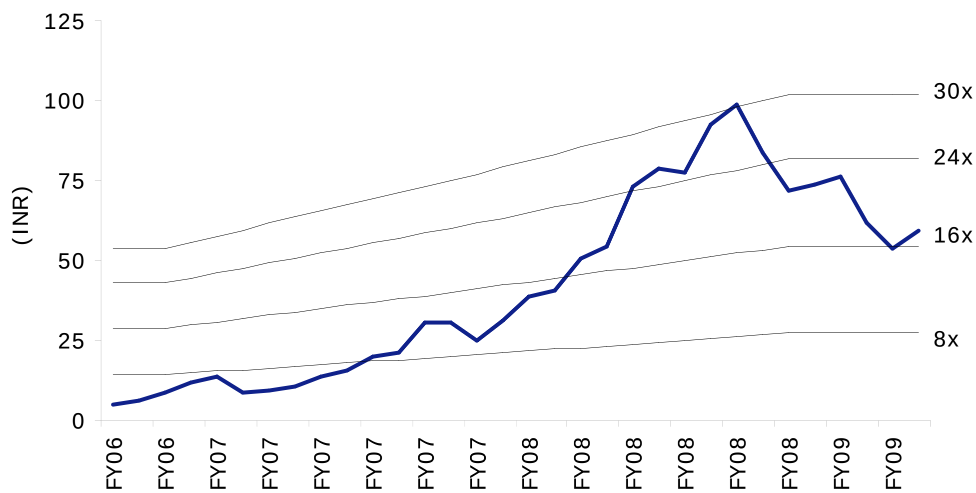
Strong growth in topline



Source: Edelweiss research

In the past three years, KSO reported a CAGR of 65% and 230% in revenues and net profits, respectively.

One-year trailing P/E band



Source: Edelweiss research

KSO is a play on greater penetration of organised players in the processing leg of the edible oil value chain. The company is eyeing strong topline growth, driven by dramatic scale up in capacity and greater focus on branding. The stock is trading at P/E of 12.9x its Q1FY09 annualised EPS. The stock is currently not under our coverage.

Comparative valuation

KSO enjoys superior margins than competitors

	FY08				
	Ruchi Soya	Vijay Solvex	Gokul Refoils	Sanwaria Agro	KS Oils
Sales (INR mn)	116,567	5,739	20,507	9,386	20,411
EBITDA (INR mn)	4,137	187	1,300	755	2,247
EBITDA (%)	3.5	3.3	6.3	8.0	11.0
PAT (INR mn)	1,602	58	549	543	1,219
NPM (%)	1.4	1.0	2.7	5.8	6.0
EPS (INR)	8.5	18.0	28.6	6.2	3.7
P/E (x)	9.8	-	7.4	14.4	17.1

Source: Capitaline,Edelweiss research

** Prices as on August 12, 2008*

Key Risks

Reversal of commodity cycle

Global edible oil prices have been on a sharp uptrend, driven by strong demand from developing countries and new avenues of demand emerging (bio-diesel). The correction in crude prices has seen marginal weakening in domestic edible oil prices. Any major correction in crude oil prices could lower the active pursuit of alternative fuels, easing supplies in the edible oil market; thus, lowering prices.

Expansion delays

KSO is scaling up its seed crushing capacity ~3x its existing installed capacity. Any delay in execution will defer the benefits to a later period.

Competition expanding on a large scale; oilseed availability may become an issue

The high return ratios and higher margins in mustard oil versus soya have already attracted competition, with Ruchi Soya announcing plans of setting up a 1,000 mtpd facility in Rajasthan. We believe, as more organised players, with adequate funding availability, enter mustard processing, competition for acquiring seeds may rise, resulting in higher seed prices without the reciprocative effect of higher edible oil prices; thus, reducing margins.

Hedging risks

Companies in the mustard oil processing industry tend to hedge their risks by selling seeds in the forward market as soon as they purchase them (as mustard oil futures are not actively traded). KSO tends to hedge its risk by selling edible oil forward in the physical market, covering ~50% of the raw material cost. There seems to be an element of inventory gain, in terms of seeds procured at lower prices left unhedged, which have risen post purchase. Because oilseeds have seen an uptrend, this strategy works; however, if oilseed prices correct, the company may be exposed to inventory losses.

Geopolitical risks

The company plans to develop palm plantations in Indonesia, primarily for exports. The Indonesian government, fearing a rise in palm prices, has levied an export duty on palm oil. The sensitive nature of edible oil exposes it to high government interference and more duties may be levied if prices continue to rise.

Company Description

KSO is a leading player in the manufacturing, processing, and marketing of branded mustard and other edible oils. The company currently has three integrated crushing, refining, and vanaspati units across Madhya Pradesh and Rajasthan. It has an installed processing capacity of 1,475 mtpd in oil seed crushing, 1,750 mtpd in solvent extraction, 550 mtpd in refining, and 150 mtpd in vanaspati.

KSO's flagship brands are *Kalash* and *Double Sher* in the mustard oil segment; *KS* and *KS Gold* in the refined oil segment; and *KS Gold* and *KS Gold Plus* in vanaspati. It currently has 650 distributors and 65,000 retailers across the eastern and northern parts of India.

The company is a market leader in the mustard oil segment with a share of ~6-7% of the total mustard oil market and 25% share of the branded mustard oil segment.

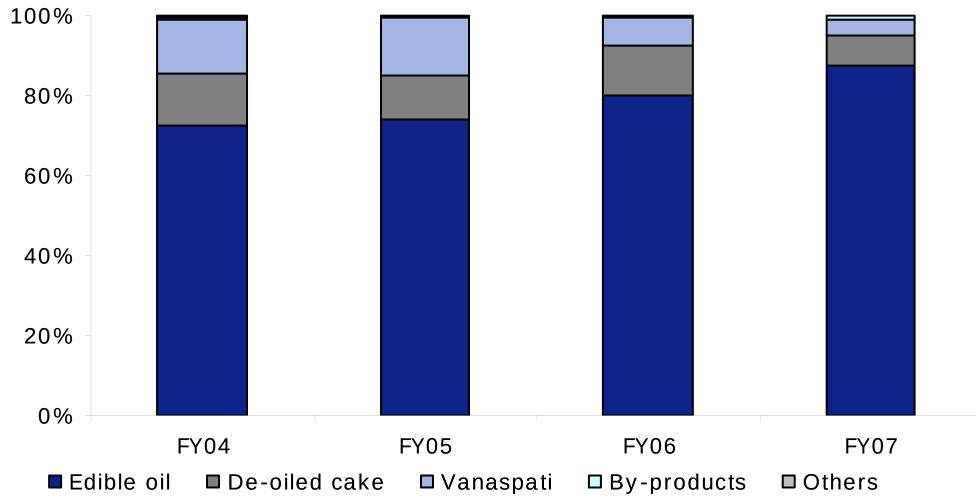
KSO—Existing brands

Brands	Type of oil
Kalash	Premium mustard oil
Double Sher	Mustard oil
KS	Refined oils*
KS Gold	Refined oils*
KS Gold	Vanaspati
KS Vanaspati	Vanaspati

Source: Company, Edelweiss research

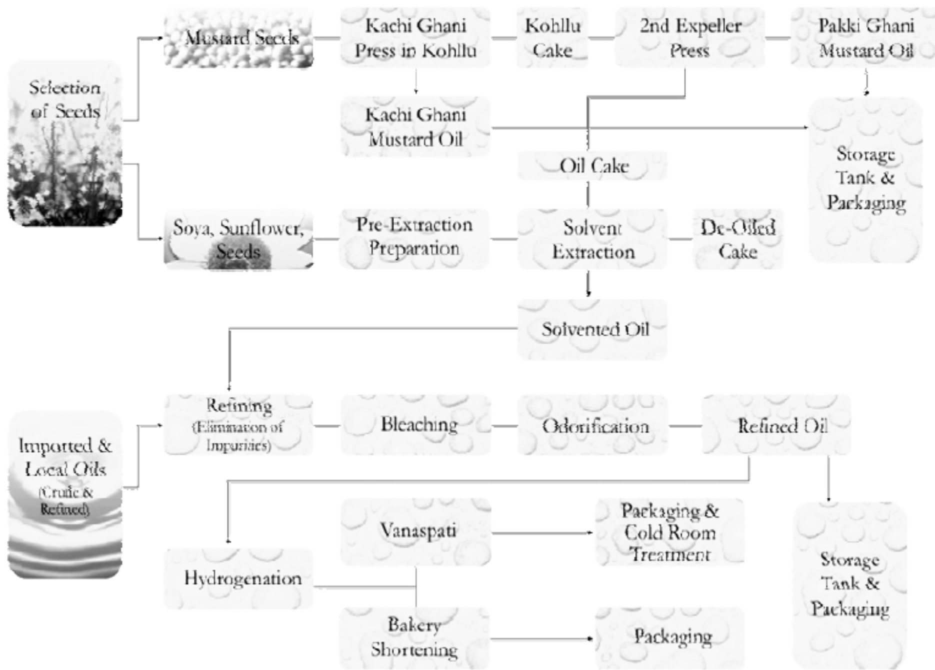
**Note: Refined oils are like soybean and refined palm oil*

Break up of overall revenues; edible oils increasing share



Source: Company, Edelweiss research

Manufacturing process for edible oil



Source: Company, Edelweiss research

Key management personnel

Name	Designation
Mr. Sanjay Agarwal	**Managing Director**
	Over two decades of experience in solvent extraction.
	Has been actively involved in the expansion and backward integration plans.
Mr. R. Ganesh	**Executive Director**
	Has extensive experience in HRD policies.
	He acts as a strategic advisor for implementation of new projects.
Mr R. S. Sisodia	**Independent Director**
	Has extensive experience in agriculture and also looks after quality control in R&D.
Mr. Himanshu Gandhi	**Head-Strategy**
	Has experience in international trade of edible oil.
	Has been actively engaged in the new business initiatives and international foray of the company.
Mr. P. K. Mandloi	**Independent Director**
	Has extensive experience in the banking sector and helps the company in financial matters.
Mr. Sunil Alagh	**Head- Marketing Advisory Committee**
	Ex-Britannia CEO and one of the most-valued brand gurus.
	Has been involved in KSO's branding and marketing strategies.
Mr. B. N. Singh	**Independent Director**
	Has wide experience in industry development and guides the company in its new projects.
Mr. P. R. Srinivasan	**Director**
	Nominee of Citi Venture Capital Group.
Mr. Jimmy Mahtani	**Director**
	Nominee of Barings Private Equity Asia–III, Mauritius.

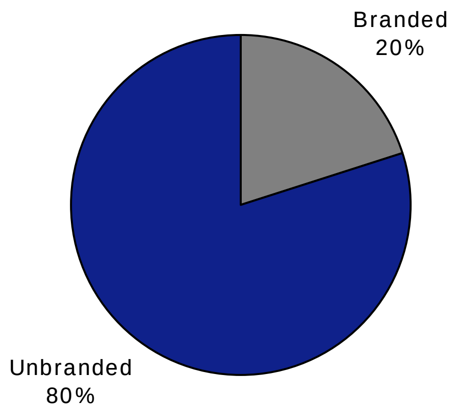
Source: Company, Edelweiss research

Industry Overview

Sector largely unorganised

The Indian edible oil market is estimated at INR 700 bn as at FY08. Consumption of edible oil in the country is estimated at 12.45 mtpa, growing at a CAGR of 2.5% p.a. over the past four years (*Source: USDA*). Most purchases are still in the loose form (sold without consumer-ready packing), with estimated 20% sales in the branded form (sold under a label). Unfortunately, the lack of data poses constraints in determining the exact rate at which the branded segment is gaining market share.

Edible oil—Sales break-up between branded and unbranded



Source: Company, Edelweiss research

Steady profitability impressive

Current EBITDA margins suggest very impressive return ratios as well as decent pay-back periods for a typical mustard oil processor, assuming an 800 mtpd seed crushing unit, 800 mtpd solvent extraction unit, a 50 mtpd refinery, and ~65% utilisation for seed crushing.

Steady profitability for a mustard oil processor

	Amount (INR mn)		Amount (INR mn)
Gross block	900	Sales	5,196
Margin money (25% of working cap)	215	EBITDA	436
Total	1,015	PBT	270
		PAT	178
Working capital req.	861		
Break up of funding			
(Assuming debt:equity of 1:1)			
Equity	665	ROE	26.8
Debt	1,096	ROCE	22.8

Source: Edelweiss research

The gross block numbers are on the higher side, assuming state-of-the-art machinery. Actual costs could be lowered, based on sourcing of machinery from other local manufacturers, which could further improve return ratios. Also, the cost of the gross block factors in substantially-higher capacity in solvent extraction and refining, resulting in spare capacity, which can be used to process the crude oil purchased and could further improve return ratios.

Rough approximation of the value chain for a mustard oil processor

	Qty(kgs)	Price(INR)	(INR) Value
Mustard seed cost	1,000	29	29,000
Processing cost			1,000
Total cost			30,000

1st Chain-Seed crushing

	Qty(kgs)	Price(INR)	(INR) Value
Mustard oil	350	72	25,025
Mustard DOC(Partial oil content)	641	12	7,692
Total realisable value			32,717
Profit(A)			2,717

2nd Chain-Solvent Extraction for further processing of DOC

	Qty(kgs)	Price(INR)	(INR) Value
Mustard oil	45	59	2,647
Mustard DOC	593	10	5,635
Total realisable value			8,282
Less:DOC's oppurtunity cost			7,692
Less:Processing cost			500
Incremental profit (B)			90
Total gross profit(A+B)			2,807

Source: Edelweiss research

Note: Considered all oil sales is done on a loose basis

Gross margins in case of a fully-integrated player are estimated at 10.4% (assuming 100% loose sales). For branded players, gross margins are slightly higher (net of packaging costs). Since smaller players lack branding power, larger companies tend to purchase crude mustard oil, repack it, and sell it under their own brand names. Gross margins in case of crude purchase are lower. Hence, a higher proportion of crude purchase in overall sales will lower gross margins.

Domestic demand driven by regional preferences

Consumption of oil is driven by regional preferences, with specific oil preferred for typical regional cooking habits. For example, mustard oil is demanded in the East and North Eastern parts of the country because of its pungency. It is also opted for as it generates heat in the body, which is suitable for the cooler climatic conditions in the North. Similarly, South India is biased towards coconut oil; however, due to its high cost, there has been a shift towards cheaper oils like palm oil, soya oil, etc.

Regional preferences drive domestic demand

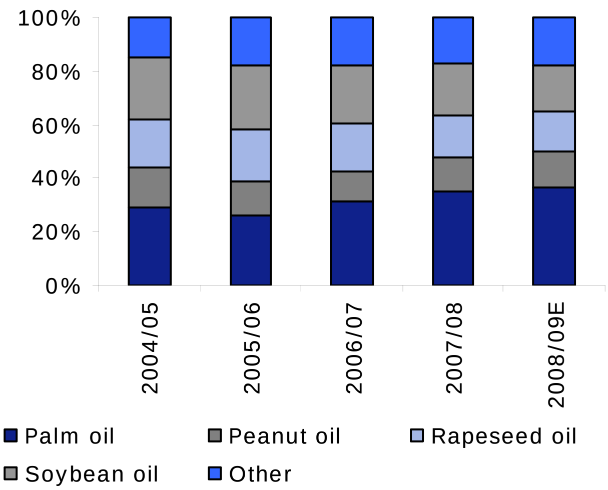
Mustard	North East, Central, North and East
Peanut	West
Palm	Central and South
Soybean	North and Central
Sunflower	Largely consumed in urban India, in smaller quantity

Source: Company, Edelweiss research

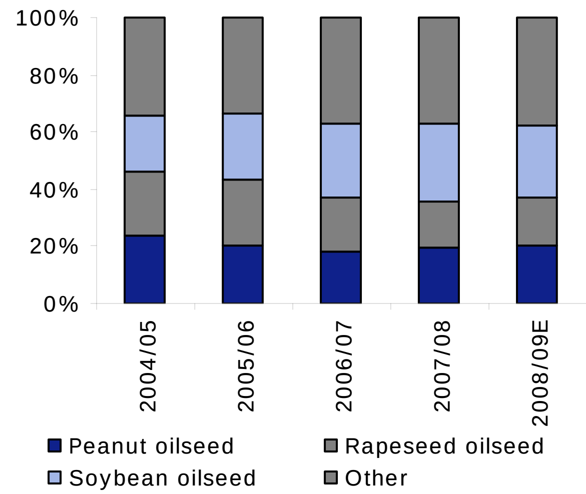
India: Faces deficit in edible oil

India is a net importer of edible oil with domestic consumption estimated at 12.5 mtpa (FY08), while domestic production is estimated at 7.1 mtpa. Palm oil dominates domestic oil consumption (35%), followed by soya (20%), and rapeseed (16%). However, virtually all the palm oil consumed is imported.

Trend in domestic consumption of edible oils



Trend in domestic production of oilseed

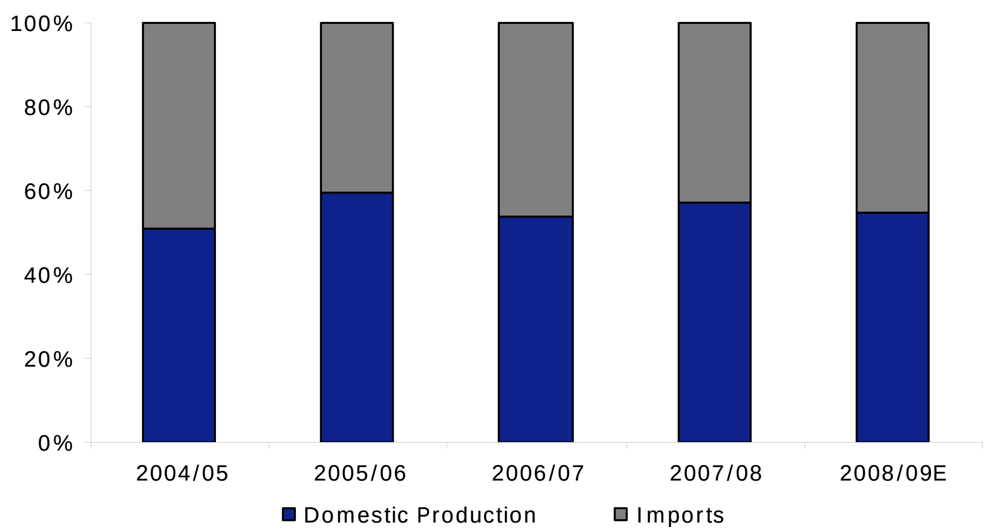


Source: USDA

Gap being filled by imports

India imports ~45% of its total edible oil requirement (5.3 mtpa), dominated by palm oil (~80%), as it is the cheapest, and followed by soya (Source: USDA). Together, they constitute ~90% of total edible oil imported in India.

Break-up of domestic production versus imports



Source: USDA

Lowering of duties easing edible oil imports

Trend in edible oil import duty

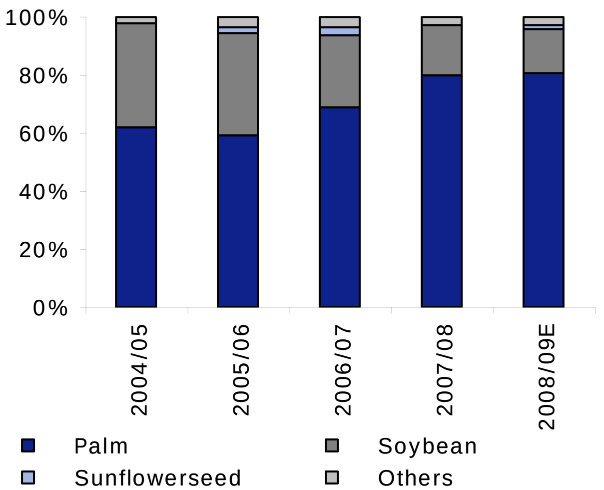
in (%)

	Upto Feb 2, 2007	From Mar 1, 2007	From Mar 23, 2007	From Mar 20, 2008	From Apr 1, 2008
Crude palm oil & crude olein	67.6	61.8	46.4	20.6	0.0
Vanaspati	88.8	89.6	89.6	89.6	12.0
Crude sunflower oil	72.9	51.5	41.2	20.6	0.0
Crude rapeseed oil	99.4	92.7	92.7	92.7	0.0
Refined palm oil and RBD palmolein	75.6	69.5	54.1	28.3	7.7
Refined rapeseed oil	82.0	75.0	75.0	28.3	7.7
Refined sunflower oil and other oils	83.5	61.8	51.5	28.3	7.7
Refined soybean oil	50.8	45.0	45.0	45.0	7.5
Degummed soybean oil	50.8	45.0	40.0	40.0	0.0

Source: SEA

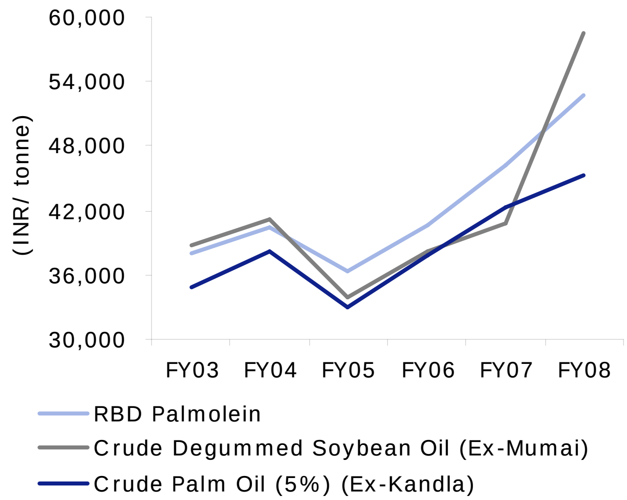
Break-up of imports—Palm dominates as it is the cheapest

Break-up of domestic oil imports



Source: USDA

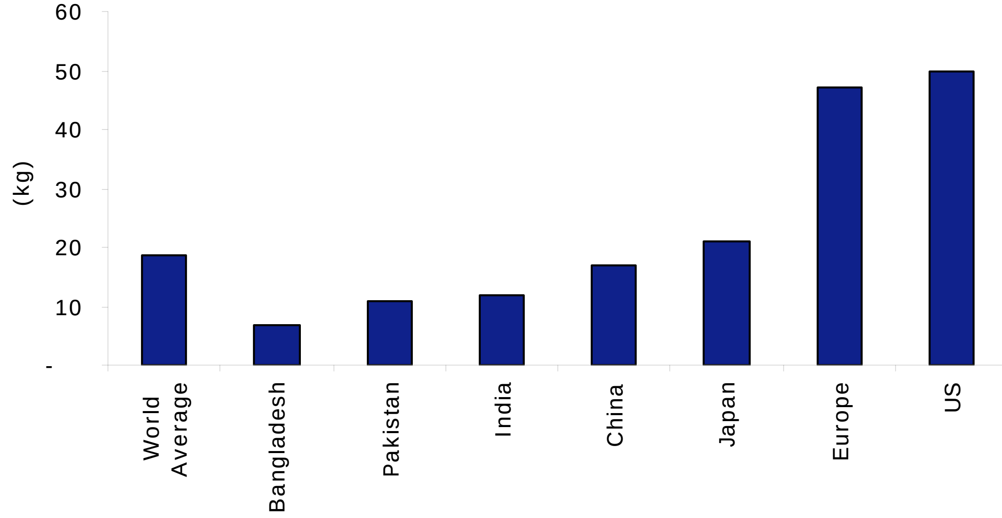
Imported oil prices (ex-Mumbai)



Source: SEA

Demand drivers remain robust

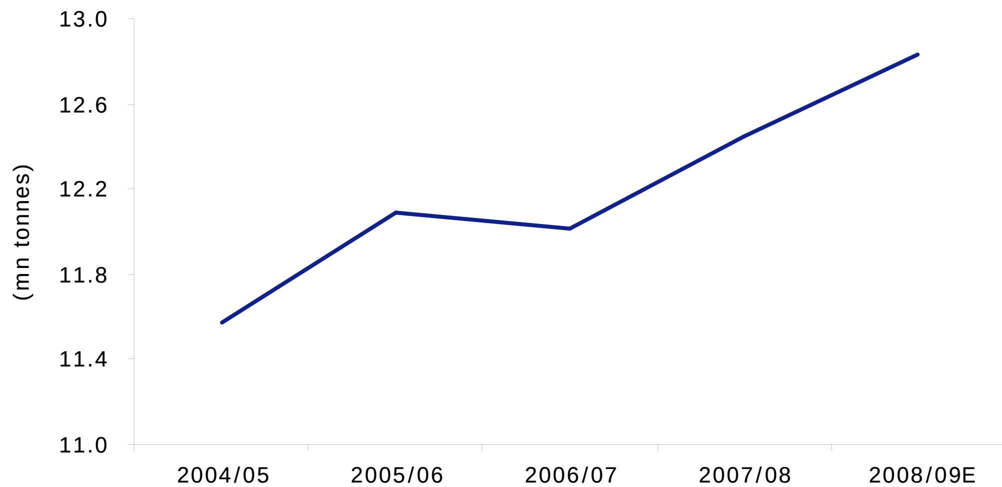
Domestic per capita consumption still low



Source: Edelweiss research

Domestic per capita consumption of edible oil, at 12.0 kg, is still considerably lower versus the world average of 18.7 kg. Despite a low per capita consumption, growth in domestic consumption has been growing at a CAGR of just 2.5% over the past four years versus global growth of 5.44% in the same period. We believe, as India continues to develop, substantial improvement in the per capita consumption of edible oil is likely.

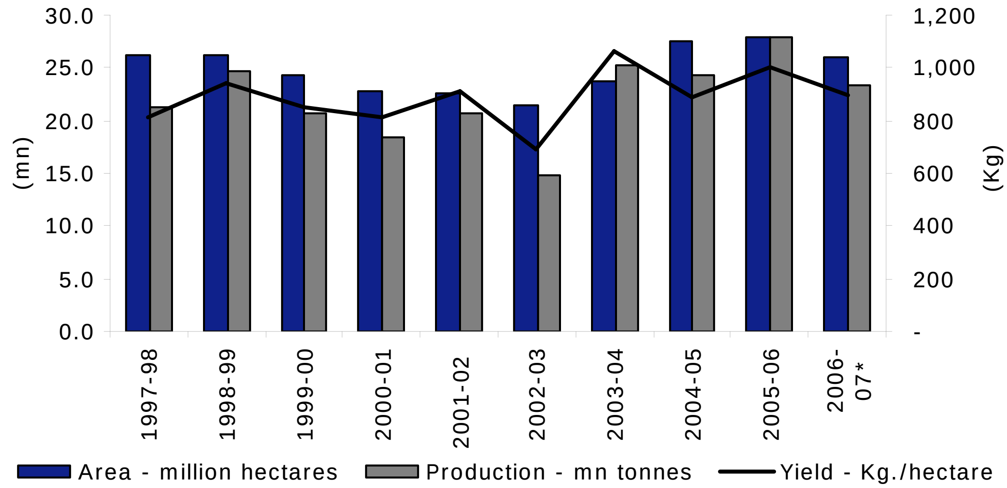
Rising trend in domestic consumption



Source: USDA

Supply-side stagnant

Nine major oilseeds—Area, production, and yield in India



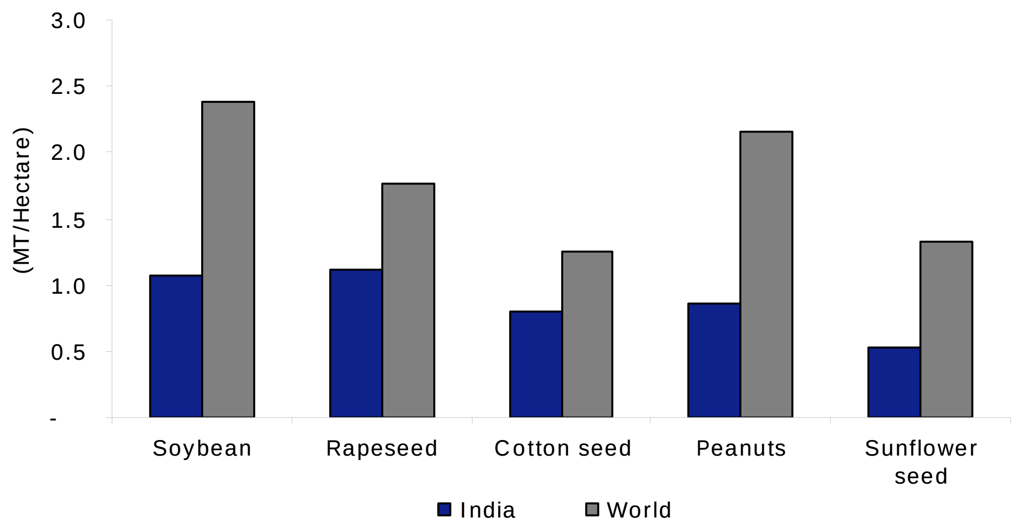
Source: Government of India

**2006-07 provisional*

Domestic oilseed production has been virtually flat, at 23.26 mtpa; however, for the current season, the output is expected to be higher—at 27 mpta (*Source: Government of India*)—on the back of greater acreage and attractive realisation for oilseeds.

Domestic yields significantly lower than global yields

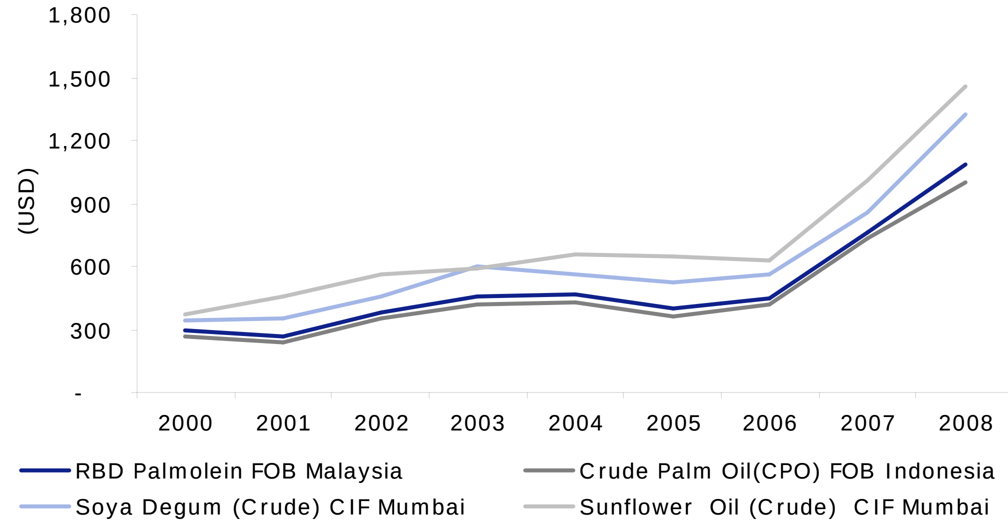
Indian versus global major oilseed yields



Source: USDA

World prices on an uptrend…

Global trend in edible oil prices

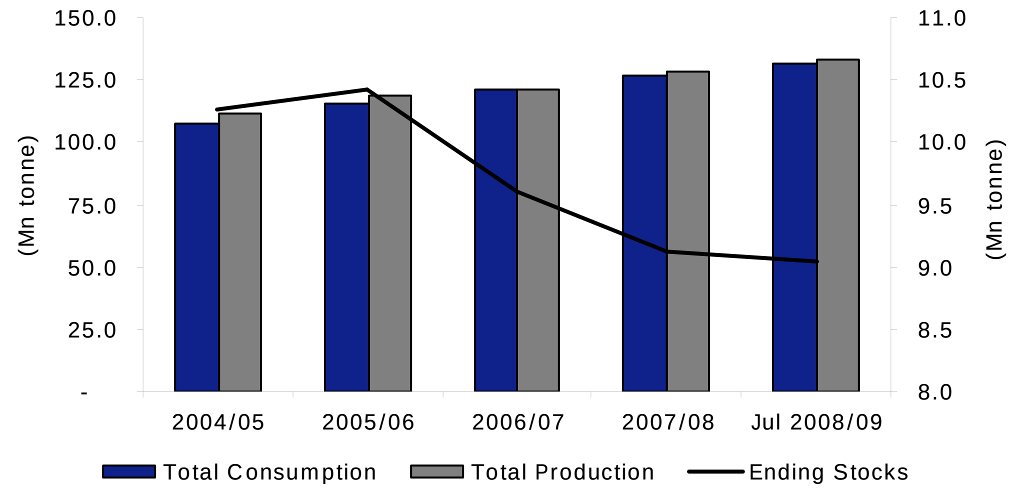


Source: SEA

…driven by strong growth in consumption

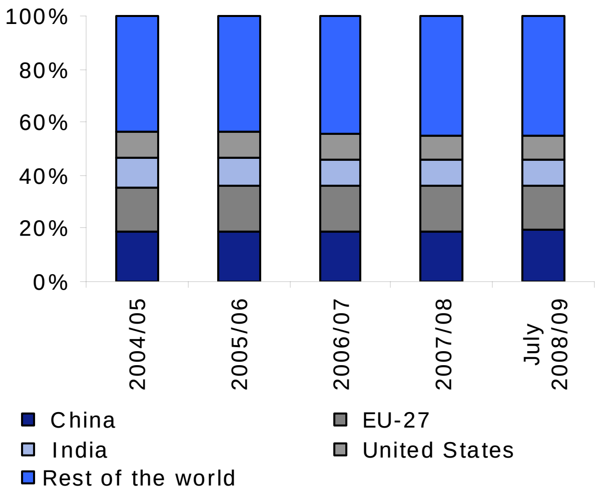
Global consumption of edible oils is estimated at 126.5 mtpa, growing at a CAGR of 5.4% over the past four years. However, it is dominated by Chinese consumption, which grew at 6% CAGR over the same period and constitutes 19% of overall edible oil demand. Indian consumption is estimated at 10% of global demand; however, the growth rate is lower, at a CAGR of 2.5% over the past four years.

Global trend in edible oil consumption

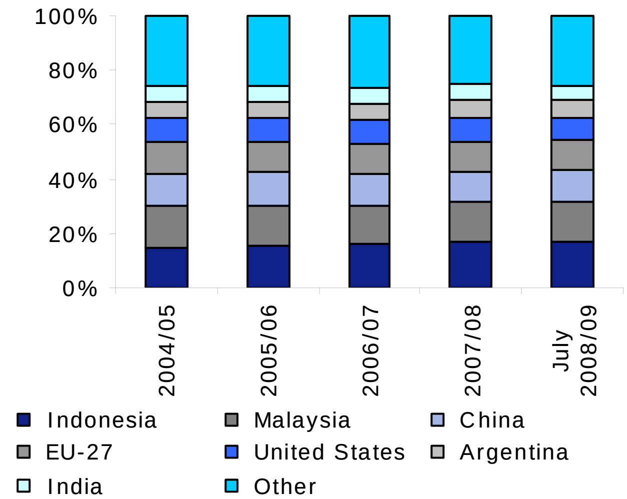


Source: USDA

Major consumers of edible oil



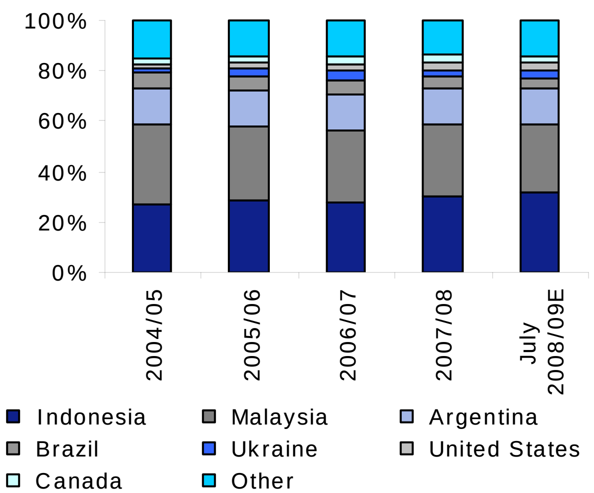
Major producers of edible oil



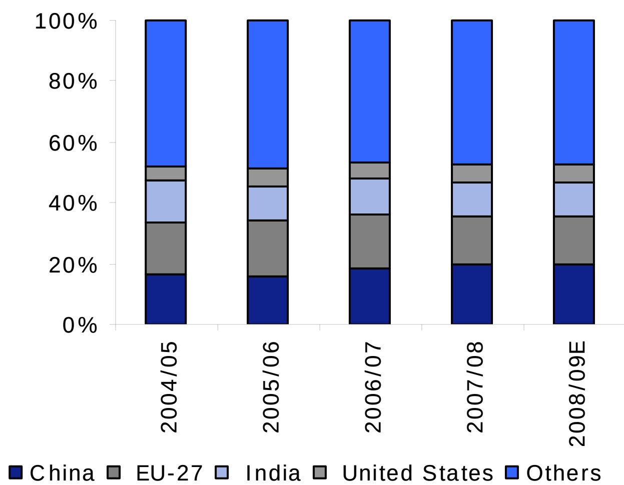
Source: USDA

Global production of edible oils is growing at a CAGR of 4.8% over the past four years, with supply being dominated by Indonesia, which produces 17% of the total. India produces 5.5% of the world's edible oil.

Major exporters of edible oil



Major importers of edible oil



Source: USDA

Indonesia and Malaysia dominate global edible oil exports, contributing ~58% of total export supplies. China dominates world edible oil imports, forming ~20% of total import demand, followed by the European Union (EU) at 16%, and India at 11%.

Bio-diesel targets creating incremental demand

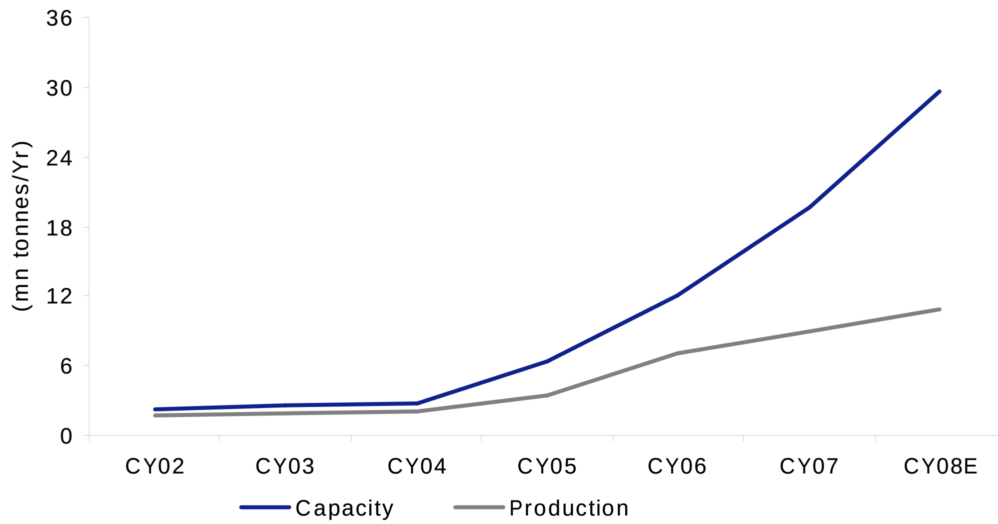
Production of bio-diesel in the EU has increased significantly due to legislative initiatives, tax incentives, and a desire for decreased dependency on foreign sources of energy. The EU Bio-fuels Directive of 2003 sets non-binding targets to replace 2% of transport fuels with bio-fuels by 2005 and 5.75% by 2010. Europe is the largest producer and consumer of rapeseed, with ~75% being diverted towards production of bio-diesel; the demand gap is being filled by other imported oils, including palm. The blending targets suggest added demand pull from bio-diesel, which could further pressurise global edible prices.

Global bio-diesel production versus capacity

EU	10% by 2020
Brazil	5% target by 2013(660 mn gallons)
China	12 mn tonnes of Biofuels by 2020
India	20% of Biodiesel by 2012
USA	36 bn gallons by 2022

Source: National Bio-diesel Board

Global bio-diesel production versus capacity



Source: National Bio-diesel Board

Financial Statements (Consolidated)

Income statement (INR mn)

Year to March	FY05	FY06	FY07	FY08
Income from operations	4,525	6,082	10,875	20,411
Total operating expenses	4,387	5,810	9,948	18,164
Material costs	4,040	5,290	9,225	16,767
Employee cost	8	12	29	70
Other manufacturing exps	339	508	694	1,327
EBITDA	138	272	927	2,247
Depreciation and amortisation	25	29	45	121
EBIT	113	243	882	2,126
Interest	77	72	154	384
Total other income	6	4	11	105
Profit before tax	41	176	739	1,847
Provision for tax	8	24	171	627
Core profit	34	152	568	1,220
Profit after tax	34	152	568	1,220
Minority interest	0	0	0	1
Profit after minority interest	34	152	568	1,219
Shares outstanding (mn)	50	85	221	332
EPS (INR) basic	0.7	1.8	2.6	3.7
Diluted shares (mn)	50	85	261	356
EPS (INR) diluted	0.7	1.8	2.2	3.4
Dividend per share (INR)	0.1	0.1	0.1	0.2
Dividend payout (%)	14.4	6.7	6.9	5.3

Common size metrics- as % of net revenues

Year to March	FY05	FY06	FY07	FY08
Operating expenses	96.9	95.5	91.5	89.0
Material cost	89.3	87.0	84.8	82.1
Employee cost	0.2	0.2	0.3	0.3
Other manufacturing exps	7.5	8.3	6.4	6.5
Depreciation and amortisation	0.6	0.5	0.4	0.6
Interest expenditure	1.7	1.2	1.4	1.9
EBITDA margins	3.1	4.5	8.5	11.0
Net profit margins	0.8	2.5	5.2	6.0

Growth metrics (%)

Year to March	FY05	FY06	FY07	FY08
Revenues	(3.3)	34.4	78.8	87.7
EBITDA	14.5	96.7	241.2	142.5
PBT	62.8	324.5	319.8	150.0
Core net profit	46.6	346.7	274.3	114.9
EPS	-	161.7	21.2	57.5

Balance sheet (INR mn)

As on 31st March	FY05	FY06	FY07	FY08E
Equity capital	50	85	221	332
Reserves & surplus	202	374	1,672	6,600
Shareholders funds	252	458	1,893	6,932
Secured loans	741	788	852	2,847
Unsecured loans	11	96	160	10
Borrowings	753	884	1,012	2,857
Deferred tax (Net)	0	0	156	415
Sources of funds	**1,005**	**1,342**	**3,060**	**10,204**
Gross block	447	597	1,378	2,905
Depreciation	131	159	203	324
Net block	316	438	1,175	2,580
Capital work in progress	0	0	135	1,837
Investments	0	0	0	185
Inventories	1,144	1,552	2,477	4,414
Sundry debtors	173	154	139	1,064
Cash and bank balances	72	61	131	1,496
Loans and advances	35	54	487	2,068
Other current assets	2	3	0	0
Total current assets	1,426	1,824	3,234	9,042
Sundry creditors and others	720	874	1,272	2,827
Provisions	17	46	235	613
Total current liabilities & provisions	737	920	1,508	3,440
Net current assets	689	904	1,727	5,602
Misc expenditure	0	0	24	0
Uses of funds	**1,005**	**1,342**	**3,060**	**10,204**
Book value per share (BV) (INR)	5	5	8	21

Free cash flow

Year to March	FY05	FY06	FY07	FY08E
Net profit	NA	152	568	1,220
Depreciation	NA	29	45	121
Deferred tax	NA	0	0	272
Gross cash flow	NA	180	613	1,614
Less:Changes in working capital	NA	226	753	2,510
Operating cash flow	NA	(46)	(140)	(896)
Less: Capex	NA	150	940	3,205
Free cash flow	NA	(196)	(1,079)	(4,101)

Cash flow metrics

Year to March	FY05	FY06	FY07	FY08E
Operating cash flow		(46)	(140)	(896)
Financing cash flow		186	1,159	5,514
Investing cash flow		(150)	(940)	(3,252)
NET CASH FLOW		(9)	80	1,366
Capex		(150)	(940)	(3,067)
Dividend paid		12	39	70
Share issuance/(Buyback)		66	1,069	3,739

Ratios

Year to March	FY05	FY06	FY07	FY08E
ROAE (%)	27.0	42.7	48.8	27.7
ROACE (%)	22.5	20.7	40.0	32.5
Inventory (days)	95	85	74	69
Debtors (days)	14	10	5	11
Payable (days)	60	50	39	41
Cash conversion cycle	49	44	39	39
Current ratio	1.9	2.0	2.1	2.6
Debt/EBITDA	5.5	3.3	1.1	1.3
Interest cover (x)	1.5	3.4	5.7	5.5
Fixed assets turnover (x)	14.3	16.1	13.5	10.9
Total asset turnover(x)	4.5	5.2	4.9	3.1
Equity turnover(x)	18.0	17.1	9.3	4.6
Debt/Equity (x)	3.0	1.9	0.5	0.4
Adjusted debt/Equity	3.0	1.9	0.5	0.4

Du pont analysis

Year to March	FY05	FY06	FY07	FY08E
NP margin (%)	0.8	2.5	5.2	6.0
Total assets turnover	9.0	5.2	4.9	3.1
Leverage multiplier	4.0	3.3	1.9	1.5
ROAE (%)	27.0	42.7	48.8	27.7

Valuation parameters

Year to March	FY05	FY06	FY07	FY08E
Diluted EPS (INR)	0.7	1.8	2.2	3.4
Y-o-Y growth (%)	-	*161.7*	*21.2*	*57.5*
CEPS (INR)	1.2	2.1	2.8	3.2
Diluted P/E (x)	86.6	33.1	27.3	17.3
Price/BV(x)	11.7	11.0	7.0	2.8
EV/Sales (x)	0.8	1.0	1.3	1.0
EV/EBITDA (x)	26.2	21.5	15.1	9.3
EV/EBITDA (x)+1 yr forward	13.3	6.3	6.2	

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Coverage group(s) of stocks by primary analyst(s):

Navneet Publications, Nitin Fire Protection, Page Industries, Phoenix Lamps, Phillips Carbon Black, Repro India & Shanthi Gears

KS Oils

Recent Research

Date	Company	Title	Price (INR)	Recos
1-Aug-08	**Navneet Publications**	Margin pressures; *Result Update*	71	Accum.
31-Jul-08	**Phillips Carbon Blacl**	Exchange losses dent margins; *Result Updat*	159	Buy
30-Jul-08	**Shanthi Gears**	Higher margins offset moderate sales growth; *Result Update*	63	Buy
29-Jul-08	**Nitin Fire Protection**	International operations drive growth; *Result Update*	323	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Accumulate	Reduce	Sell	Total
Rating Distribution*	112	61	16	7	208

* 11 stocks under review / 1 rating withheld

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	82	74	52

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 20% over a 12-month period
Accumulate	appreciate up to 20% over a 12-month period
Reduce	depreciate up to 10% over a 12-month period
Sell	depreciate more than 10% over a 12-month period