Research

RESEARCH :: COMPANY :: KESAR ENTERPRISES LTD.

September 1, 2009

BUY

Approx Price	= Rs.92/-
Target Price	= Rs.125+
Estimated EPS	= Rs.20/-
Projected PE	= 12
Investment Period	= 12 Months

STOCK INFO

Sector	: Sugar
Market Cap	: 62 crores
Face Value	: Rs.10.00
Book Value	: Rs.52.00
EPS	: Rs.5.40
Cash EPS	: Rs.15.20
Dividend	: 5%
Sales Growth	: 9%
RONW	: 10%
52 Week H/L	: 105/31.00
Avg Daily Vol	: 706 (2 Wk Avg)
BSE Sensex	: 14,500
BSE Code	: 507180
Share Holding	: 55% (Promoters)
Management	: KilaChand
Incorporation	: Year 1933
NSE	: - Listed -

Rajesh Gupta
Financial Consultant
Email: research@fairwealth.in

Company Profile

Established in the year 1933, Kesar Enterprises Limited (KEL) is presently engaged in a wide galaxy of diversified activities. It grew as a member of the Kilachand group in the year 1933 and thereafter, the story has been of one steady growth.

Currently, KEL has evolved into one of the leading industrial houses in Uttar Pradesh, North India. It is engaged in the manufacture, marketing & sale of a wide-range of products that can be broadly divided into the following two groups:

- Sugar, Bio-Products & Chemicals – Sugar, Alcohol, Alcoholic Beverages, Agri-products.
- Distribution & Storage of Bulk Liquid Cargo at Kandla & port related activities.

SUGAR: The Sugar Factory was established at Baheri; District Bareilly, Uttar Pradesh in 1933 and had commenced production of sugar in its very first season with a crushing capacity of 800 TCD. Since then, in its pursuit to achieve a benchmark, its capacity has been increased to 7200 TCD. The sugar produced by KEL is of superior quality and commands a high premium over other brands in the market. However, even with all these standards that have been set, KEL is not content to merely rest on its laurels alone.

SPIRITS DIVISION: In 1949, the company installed a Distillery at Baheri to effectively utilize molasses, a by-product generated by the sugar factory. The plant imported from ACME; U.S.A, had a capacity of (11000) litres per day. This helped the company to substantially improve its profitability as its by-product was converted to a value added product instead of causing pollution by being wastefully drained. Since then, the capacity has been increased to (55 K.L.), per day, a step expressing the company's belief in growth through expansion and diversification. The plant was modernised by incorporating sophistication into the production of stream at all levels. This ensured a better and faster recovery of alcohol with lower consumption of energy.

.

STORAGE DIVISION: KEL also prides itself on the modern storage facilities it owns at Kandla port. The storage Division, which started off in 1960 with a modest beginning of 2 tanks have now grown to a total of 64 tanks in 2 terminals totaling a storage capacity of 127000 Kilo Litres. There are special tanks for storage of products requiring heating and insulation, stainless steel tanks / coated tanks for products that cannot be stored in conventional mild steel tanks. These facilities are offered to importers and exporters for storage and handling of various bulk liquid cargoes such as Chemicals, Petroleum products, Edible Oil, Non-Edible oils, Alcohols etc. The storage business has given the right thrust and impetus to the KEL's growth and has potential for further development. The tanks at Kandla, are situated right in front of the jetties ensuring a quick and smooth loading and off-loading of bulk liquids at a high pumping rate. Multiple Jetty Lines permit simultaneous discharge of cargo from more than one vessel at any time. The possibilities for expansion at Kandla are great and KEL looks forward to an exciting fast paced development of this business in the coming years.

Agri Services: It is KEL's endeavor to enhance the profitability of the farmers in agriculture business. To achieve this aim, KEL started Open Pollinated & Hybrid Seed production as a diversified business. KEL also aims to provide agronomic support and guidance to the farmers. KEL controls agricultural land at Khurpia village. Earlier we were growing traditional crops such as Sugar cane, Wheat, Paddy. Now we have also started the cultivation of Strawberry, Gladiolus, Tube Roses, Marigold & other high value crops and organic farming. Besides the above, KEL has started production, processing and marketing of seeds of various cereal crops. To carry out Research & Development (R&D) activities, KEL has established a R&D laboratory in 1995 in 2 hectares of land.

FUTURE EXPANSION / MODERNISATION:

- KEL has plans to set up 45 MW Bagasse based Cogeneration Plant.
- KEL is exploring opportunities for putting up additional storage terminals at other ports & also examining putting up other port based facilities such as Container Freight Station, Inland Container Depots at different locations. KEL has been allotted 10 acres of land at Kakinada port in Andhra Pradesh for such purpose.

DEMERGER PLANS:

Kesar Enterprises Ltd has informed BSE that the Board of Directors of the Company at its meeting held on January 21, 2009, has approved the following:

- The Scheme of Arrangement by Demerging the Storage Undertaking / Division of the Company into Kesar Terminals & Infrastructure Ltd. (KTIL), the Wholly-owned Subsidiary of the Company, with effect from January 01, 2009 or such other date as may be approved by the Hon'ble High Court of Bombay.
- As per the Scheme of Arrangement of Demerger, it is proposed to allot 7 Equity Shares of Rs 10/- each of KTIL for every 10 fully paid up Equity Shares of Rs 10/- each held by the Shareholders of the Company as on the record date as may be announced after approval of the Scheme by the Hon'ble High Court of Bombay and all other authorities.

EXCERPTS FROM NEWS REPORTS

World Sugar Market

World market prices have shown a slow but steady improvement on the back of strong sugar market fundamentals. In its third assessment of world sugar market for the season 2008-09 International Sugar Organization (ISO) has presented a general picture of the global supply/demand gap. World sugar production is put at 161.527 million tonnes and global consumption is estimated to grow at the rate of 2.19% per annum to reach a level of 165.801 million tonnes raw value thus leaving a shortfall in supply of 4.27 million tonnes as against a shortfall of 3.626 million tonnes projected in November, 2008.

A summary of the second revision for the world sugar balance in 2008-2009

	2008/2009	2007/2008	Change	
			In Million ton	In %
Production	161.527	168.611	-7.084	-4.20
Consumption	165.801	162.241	3.560	2.19
Surplus/Deficit	-4.27	6.370		
Import demand	49.621	45.948	3.673	7.99
Export Availability	49.608	46.245	3.363	7.27
End Stocks	66.272	70.533	-4.261	-6.04
Stocks/Consumption ratio in %	39.97	43.47		

A Significant production shortfall in India and a further contraction of production in the EU , on the one hand, and a continuing expansion of sugar output in Brazil , on the other hand , are three major supply features of 2008-2009. The combined effect of output reduction in the EU and India is expected to shave off a massive 7.084 million tonnes from world sugar supply, despite record high growth in sugar output in Brazil.

Indian Sugar Industry

After a drop in sugar output in 2007-2008, a further reduction in production in India is anticipated in 2008-2009, as reported in previous quarter. The country's anticipated output of sugar for the current season is around 15 million tonnes or 42% below the output achieved in the previous year 2007-2008 at 26.3 million tonnes. This is in view of significant 12% decrease in cane areas. Uttar Pradesh, the second largest sugar producing state, reportedly produced 3.1 million tonnes of sugar in the first four months of the current season (October – January) which is 13% less than a year ago. The consumption demand for the current year is assessed at the level of 22.10 million tonnes is slightly lower than the consumption for the previous year. According to data collected by the India sugar Mills Association (ISMA), sugarcane output only is set to decline by nearly 15% to 290 million tonnes from 340 million tonnes harvested in the previous season.

Prices

The Centre has announced a Statutory Minimum Price (SMP) in the region of Rs. 105 to Rs.115 a quintal for sugarcane to be crushed during the 2009-10 season (October – September) on the basis of the recommendation Of the Food Ministry. This is as against the recommendation of Rs 125/- a quintal by the Commission for Agricultural Costs & Prices (CACP) and is substantially higher than the SMP of Rs. 81.18 a quintal for the current season of 2008-09 and Rs.80.25 a quintal for the immediately preceding season of 2008-09.

Exports / Imports

Despite a decrease in world sugar output, Brazil is expected to retain its position of highest exporter of sugar and world export availability is expected to rise due to the projected growth in output in exporting countries. The ISO puts world export availability for the season 2008-2009 at 49.608 million tonnes, raw value, as against 46.245 million tonnes in the previous season. Contrary to its position as the 3rd largest exporter of sugar in the previous season only after Brazil and Thailand, India is expected to be the importer of sugar to the extent of 2.5 million tones. The Union Government has reimposed the release order mechanism for sugar exports. The government will now strictly fix the quantum of sugar that each mill can export, similar to controls placed on domestic production each month. The move to restrict exports under the open general license comes in the wake of apprehensions of low sugar production in the 2008-2009 sugar year. The government has allowed duty free import of raw sugar for sale to local customers, without the obligation to export similar quantity within two years.

Indian Sugar Equation

All figures (lac tonnes)			
		Estimates for the season 2008-09	Actual for the season 2007-08
1.	Opening Stock as on 1st October	80.00	92.00
2.	Production	150.00	262.56
3.	Imports	25.00	0.00
4.	Total Availability	255.00	354.56
5.	Domestic Consumption	210.00	225.00
6.	Exports	0.00	49.56
7.	Closing Stock as on 30th September	45.00	80.00

Sugar Deficit Forecast Widened by Morgan Stanley (Update1 - July 7)

A forecast global deficit for sugar, the best performing commodity in the past year, may be wider than previously estimated, Morgan Stanley said. The deficit may be 2.8 million metric tons in 2009-2010, widening from a previous estimate of 0.8 million tons, the broker said in a note to clients dated July 6. It also raised its forecast for the 2008-2009 deficits to 8.7 million tons, from a prior estimate of 7.9 million tons. Sugar prices have jumped 47 percent this year as declining output from India, the world's top consumer of the sweetener, added to a forecast global supply shortfall. The commodity is the best performer in the past 12 months as measured by the Standard & Poor's GSCI Commodity Index. "The supply and demand outlook is getting increasingly bullish, especially now that concerns are mounting regarding India's monsoon," Morgan Stanley analysts led by Hussein Allidina said in the note. Raw sugar futures for October delivery fell 1.5 percent to 17.32 cents a pound on ICE Futures U.S. in New York when last traded yesterday. The broker also raised its near-date price forecast and sees prices averaging 18 cents a pound in 2009-2010, the analysts wrote in the note.

Cumulative Results : KESAR ENTERPRISES LIMITED

Highlights of last eight years..........

SL	Particular	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
1	Gross Revenue	15224	30930	28080	24556	25959	27955	27952	29162
2	Profit before interest, Tax and Depreciation.	1600	1402	1179	1415	3238	3310	(96)	2085
3	Less : Interest/Finance charges	1108	903	686	757	862	948	952	1267
4	Profit before tax & depreciation	493	499	493	658	2376	2363	(1048)	818
5	Less : Tax	21	(80)	(120)	29	202	714	192	(225)
6	Profit after tax before depreciation	472	580	* 613	629	2175	1649	(1240)	1043
7	Add : Deferred Revenue Expenditure	29	31	37	42	21	15	13	13
8	Cash Accruals	501	611	650	671	2196	1664	(1227)	1056

* Before Extra Ordinary Loss of Rs.1537/- Lacs, Loss on sale of Subsidiary Company.

Balance Sheet : KESAR ENTERPRISS LIMITED

SL	Particular	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
1	Net Worth	5673	5298	3961	4243	4106	4859	3451	3976
2	Loans – Terms	4646	4138	3332	2976	2765	2305	2507	4419
3	Loans – Working Capital	4905	4058	4215	3982	4742	7276	9375	12372
4	Deferred Tax Liability	--	383	263	277	417	752	897	635
5	**Total**	**15224**	**13877**	**11771**	**11479**	**12030**	**15193**	**16230**	**21222**
6	Net block including WIP	5528	5492	5699	6140	6005	6473	7732	8437
7	Investments	896	2039	455	455	455	456	2	7
8	Net Working Capital	8706	6268	5552	4837	5537	8243	8483	12778
9	Deferred Revenue Expenses	94	78	65	47	33	21	13	-
10	**TOTAL**	**15224**	**13877**	**11771**	**11479**	**12030**	**15193**	**16230**	**21222**

SUGAR STOCKS RUNNING ON EMPTY
18 JUL 2009, 0336 HRS IST, Economic Times BUREAU

For 2009-10, sugar output is projected at around 160-170 lakh tonne compared to an annual consumption of 225 lakh tonne, meaning a deficit of around 55 lakh tonne. "We are staring at a deficit in sugar stock for a minimum period of two years," a commodity monitor told ET. Acreage figures in the wake of poor monsoons too do not bode well. "That is primarily on account of the low statutory minimum price (SMP) of around Rs 81/qtl announced by the government. It only recently hiked that for the 2009-10 season to Rs 107/qtl and it will take around another month or more for that to show up in increased acreage under sugarcane," he added. As a result, sugar prices are likely to shoot past the psychological Rs 30/kg mark by the festival season beginning end-August. In the domestic wholesale market, sugar prices have jumped by over 45% to Rs 2,475 a quintal in June 2009 from Rs 1,700 a quintal in July 2008. Incidentally, the carryover stocks from 2007-08 into this sugar year stood at 90 lakh tonne. Normally, the Centre holds a minimum three-month buffer stock of 60 lakh tonne of sugar as carryover into the fresh year. In the last four years, the Centre held a carryover stock of more than 100 lakh tonnes. So, the 15-lakh tonne estimate for this year is sure to pose a dilemma to the government.

ANALYSIS & REPORT

Why to invest in shares of Kesar Enterprises Limited?

1) **Sector:** Sector is turning positive after 3 years because:
   a) Supply is diminishing due to draught and wrong government policies in India.
   b) Regular increase in demand year after year thereby putting a pressure on supply, resulting in adjustment of sugar prices.
   c) Little scope for increasing supplies in next one year.
   d) Sugar prices adjusting in parity to other agricultural products.
   e) As per market, prices have gone up by more than 60% in last one year.
2) **Company:** Growing with vision
   a) A reasonable management of Kilachand Group, known for its goodwill in executing the projects.
   b) Regular expansions and technology up gradation even at a time of crisis in sugar sector.
   c) Strong vision for the future.
   d) A dynamic approach.
3) **Fundamentals:**
   a) Earning growth with upward trend on lower equity base.
   b) A company with 3 Dimensional growth such as Sugar + Storage + Distillery.
   c) Current real value of Sugar and its by product industry would be more than Rs.400 Cr. Therefore, in our view the market capitalization of the company is 1/10th of the actual value.
   d) In coming years company will focus on sugar, spirit, storage, agro seeds and power which will create and unlock value for share holders.
   e) Good distribution policy and benefit to share holders.
   f) Little chance of losses as price of share is almost equal to book value and sector is in rising mode.

FAIRWEALTH SECURITIES PVT. LTD.
FAIRWEALTH COMMODITY BROKING PVT. LTD.

H. O. : Plot No. 651-652, Udyog Vihar Phase-5, Gurgaon 122001(Haryana)
Phone:0124-3024400 • Fax : 0124-3024474
Website : www.fairwealth.in • E-mail: info@fairwealth.in

• **Delhi** : UG-3, Somdutt Chambers II, 9 Bhikaji Cama Place, New Delhi-110 066 • Ph. : 46091111 (50 Lines) • **Mumbai** : 406, Centre Square, 4th Floor, S.V. Road, Andheri West, Mumbai-400058 • Ph. : 022-26200053 • **Haryana** : SCO-250, Sector-16, Panchkula - Haryana, Pin - 134109 • Ph. : 017-25057614, 15, 17 • **Punjab** : SCO - 135, First Floor, Chooti Bharadari, Patiala, Punjab • 0175-3241555, 3243555, 3246555 • **Rajasthan** : 411, 4th Floor, Ganpati Plaza, M.I. Road, Jaipur 30200, Rajasthan • Ph.: 0141-4073710 • **Ahmedabad** : 206, Peoples Plaza, Nr. Memnagar Fire Station, Navrangpura, Ahmedabad- 380009 • Ph. : 079-27911126 • **Indore** : 101-102, Kalyan Palace, Opp. Sheesh Mahal, Cloth Market, Indore, M.P.-452001 • Ph. : 0731-4250007/8/9 • **Lucknow** : 24, Ist Floor, Mahavir Plaza, B.N. Road, Lal Bagh, Lucknow, UP-226001• Ph. : 0522-4082901/02/03