



(Investment Idea

Sukhjit Starch & Chemicals Ltd.(SSCL)

Sukhjit Starch & Chemicals, manufacturer of maize-based starch and sweeteners has put up stellar performance for Quarter ended December 2006. Net Sales grew @49.7% to Rs.43.73 crore. OPM% zoomed to 20.3% (10.8%) mainly due to decline in raw material cost to 59.3% of sales (63.6%). There was decline in other heads of expenses too. Higher net sales coupled with improved OPM% led to spurt in operating profit to Rs.9.03 crore (Rs.3.34 crore). PBT spiraled to Rs.7.51 crore (Rs.1.95 crore) while PAT was up to Rs.6.26 crore (Rs.1.65 crore).

SSCL's products find application across wide range of industries – food processing, paper, pharma, textiles etc. All these industries are adding capacities to meet growth in demand for their product which in turn will increase demand of company's products. Also demand for starch derivatives is rising in India, people have become quality conscious as it is used in food and pharma industry and are demanding better quality products. Maize based starch and its derivatives industry is a multi-billion dollar industry in US, while in India it is estimated to be only at Rs.15 billion and hence has tremendous potential to grow.

With a view to take advantage of emerging opportunities in Starch industry, SSCL has embarked on new expansion project in Himachal Pradesh entailing a capital cost of Rs.30 crore which is likely to commence production from April 2007. Company is also now looking at exploiting the vast export market.

Company's performance largely depends on availability and cost of raw material (mainly maize) which is subject to natural vagaries. This year the maize stock has been lower and hence prices of maize are higher but industry is in position to pass on increased raw material costs. Moreover, Government has allowed duty-free import of maize to make up for lower domestic output.

At CMP of Rs.156.75 , the share is trading at 5.2 times FY 2007 expected EPS of Rs.30 and 4.4 times FY2008 expected EPS of Rs.36. Going ahead, company has a good growth potential in view of its strong track record, rising demand from user industries and capacity expansion. We recommend to 'BUY' the share at CMP.

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