

Riddhi Siddhi Gluco Biols Ltd (RSGL)

VISIT NOTE

Sensex: 13,845

CMP: Rs 220

December 01, 2006

We recently met the CFO of Riddhi Siddhi Gluco Biols Ltd (RSGL) to better understand the business dynamics of the starch industry & the strategy of the company to capitalize on the ensuing opportunities.

Company brief

RSGL is the largest maize-based starch producer in India today & the promoters have an experience of 15 years in this industry. It currently has 3 maize processing plants. Its plant at Gokak, Karnataka is the largest (750 TPD) in India today. It also has a small (100 TPD) plant near Ahmedabad & another small processing plant in Pondicherry. It is also setting up a Greenfield (500TPD) plant in Uttaranchal & expanding its current capacity at Ahmedabad.

In 2005, the company had acquired the paper starch business from Hindustan Lever Ltd (HLL), located at Pondicherry, which uses tapioca to manufacture modified starch used in paper industry.

Recently, Roquette Freres of France picked up 14.21% stake in the company at Rs 200 per share. Roquette is one of the leading starch manufacturers in the world today.

Locational advantage

Given the agro-climatic conditions within India, it's very crucial for any agro processor to be based close to a location of raw-material availability. Karnataka is currently the largest maize producing state in India & being placed at Gokak enables the company to source maize in sufficient quantity & at reasonable prices. Gujarat is another large producer of maize & the capacity addition at Ahmedabad plant will be able to capitalize on the same.

Largest starch producer

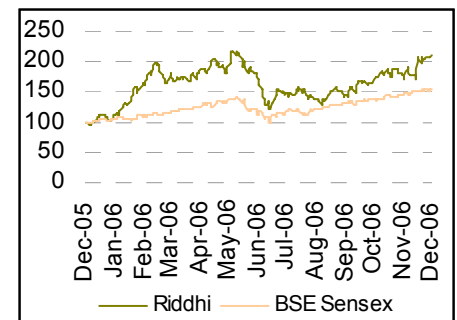
RSGL currently has a production capacity of 850 TPD. This is likely to rise to

Bloomberg Code	: RDSD@IN
Reuters Code	: RSSC.BO
BSE Code	: 524480
NSE Code	: -
52-Week Range(H/L)	: 240 / 99
Market Cap (Rs mn)	: 2,105.1
Shares O/S (mn)	: 11.1
Free Float (mn)	: 6.09
3m Avg. Volume	: 16,414
Face Value	: 10

Price Performance: (%)

	3m	6m	12m
Absolute	43.9	29.6	111.2
Relative	26.4	-2.8	56.7

Relative Price Movement



Y/E March (Rs mn)	FY05	FY06	H1FY07	FY07E
Net sales	1,877	2,346	1,461	3,210
Ebitda	251	328	222	488
Ebitda margin (%)	13.4	14.0	15.2	15.2
Depreciation	77	82	47	97
Interest	123	119	73	152
PBT	54	130	102	239
Tax	17	16	0	31
PAT	37	114	102	208
PAT margin (%)	2.0	4.9	7.0	6.5
No. Of shares	6.50	8.45	8.45	11.1
EPS (Rs)	11.4	13.5	24.1	18.7

about 1,350 TPD by March 2007, making it the largest maize-based starch producer in the country. The company may also expand its capacities to around 1,500 TPD by CY07 end. Though Gujarat Ambuja Exports, another maize player, is also rapidly expanding its capacities to around 1,700 TPD by Sep 2007, RSGL will continue to play a major role in the Indian starch industry

RSGL has a marquee list of customers that includes, inter alia, Nestle, Heinz, Cadbury, HLL, Britannia from the foods segment; Ranbaxy, Novartis, Biocon from pharmaceuticals business; Ballarpur, ITC, TNPL from paper; Grasim, Indian Rayon from Textiles & many more in other industries.

French connection

In April 2006, Roquette Freres of France picked up a 14.21% stake in the company at Rs 200 per share & an additional 85,000 warrants to be converted into equity anytime within 18 months. Roquette is a 73 year old leading starch manufacturer, with revenues in excess of €2 billion & more than 600 products in its portfolio. This association is likely to put the company in a different growth trajectory, as not only newer technologies will be introduced in the company, but could also be used as a sourcing base for exports to other Asian countries.

Plethora of products possible

Generically, starch is an amazing natural substance that literally has thousands of applications in a variety of industries. Indian manufacturers have only recently started to expand their product portfolios. For RSGL, the Roquette association will enable them to rapidly expand their technology & introduce newer products. Some of the products currently being manufactured are Liquid Glucose, High Maltose Syrup, Maltodextrin, Dextrose Syrup, Dextrose Monohydrate etc. Some of the by-products possible are Steep Liquor, Maize oil, Gluten & Fibre etc, some of which have price realization almost equal to the primary products.

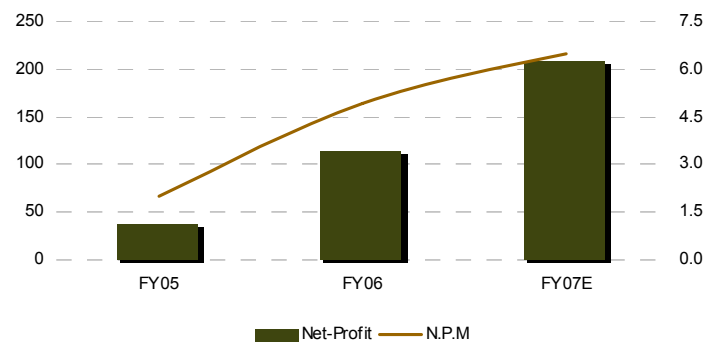
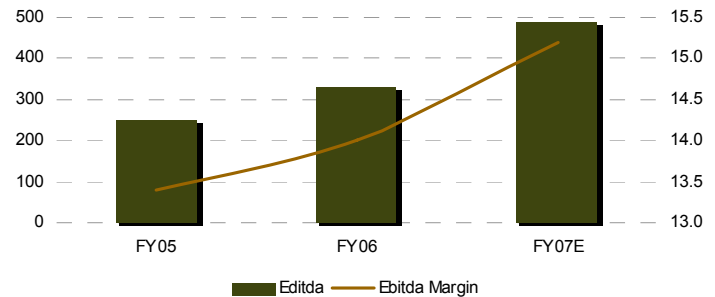
Future gasoline commodity

More than half of US's maize production is diverted to making ethanol, which is just one example of various countries' efforts to reduce the dependence on rapidly depleting fossil fuels. We are also likely to witness first few plants producing ethanol commercially from maize from next year onwards.

Maize shortage: A major concern

Maize prices in the last one year alone have gained some 35%, as there is an expectation of shortfall this year. However, efforts are being made at industry & government level to increase the acreage for maize. Also, the price realizations on key products have more than offset the maize price increase.

The cumulative effect of these initiatives has been the rapid growth of Ebitda and Net profits with increasing margins.



Valuation

We expect the full impact of the capacity expansion to get reflected in FY08 numbers, though for FY07, we expect revenues of Rs 3,210 mn & net profit of Rs 208 mn. At the current price of Rs 220, RSGL is available at 11.7x FY07E earnings. We are positive on the long-term prospects on this industry & this company will be a key beneficiary of the same.