

NEUTRAL

Issue Open: July 20, 2009
Issue Close: July 23, 2009

Issue Details

Face Value: Rs 10

Present Eq Paid up Capital: Rs26.5cr

Post Issue Eq Paid up Capital: Rs36.0cr

Issue size (shares): 0.95cr

Issue size (amount): Rs95cr -114cr**

Issue Price: Price Band of Rs100 –120

Promoters holding pre-issue: 72.0%

Promoters holding post-issue: 53.0%

**at Lower and Upper price band

Book Building

QIBs	Up to 50%
Non-Institutional	At least 15%
Retail	At least 35%

Post Issue Shareholding Pattern

Promoters Group	53.0%
MF/Banks/Indian FIs/FIIs/Public & Others	47.0%

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Healthy but costly

Rationale for our Neutral recommendation

Raj Oil Mills (Raj Oil) is an established player in the Indian Edible Oil space and is known for its renowned brands such as *Cocoraj* (coconut oil), *Guinea* (groundnut oil and sunflower oil) and *Raj*. The company has till date focused mainly on retail sales and has been able to maintain high Margins and Return Ratios. Going ahead, we believe the company will have to increase its bulk and institutional sales to enhance its business operations. However, we believe that the company would find it difficult to maintain its high Margins and Return Ratios.

Prices and availability of raw materials: The company's raw materials constitute close to 80% of its Total expenditure. As the company does not have any long-term supply tie ups or agreements for these raw materials, any decrease in the availability of these raw materials could adversely affect its Sales and Profitability. Further, volatility in the raw materials prices and the company's inability to adjust to the same could also impact the company's performance.

Intense competition: Raj Oil faces stiff competition from unorganised players due to the price differential. The company also has to counter tough competition from established players like K S Oils, Ruchi Soys, Sanwaria Agro, etc.

Outlook and Valuation: Raj Oil clocked strong CAGR of 56.1% and 167.2% in Sales and Net Profit over CY2005-08 respectively, on the back of robust growth in Branded Sales. Going ahead, we expect the company's CY2010E Revenue to increase to Rs668cr following strong growth in volumes. However, Raj Oil is being priced at a 'considerable' premium to listed player K S Oils. We believe that the larger size of K S Oils gives it better competitive advantage over Raj Oil. On the lower and upper end of the IPO price band, the stock would quote at 5.7x and 6.9x its post diluted CY2010E Earnings. **Hence, the company's expensive valuation outweighs its good growth prospects owing to which we remain 'Neutral' on the IPO.**

Objects of the Issue

Particulars	Amount (Rs cr)
Setting up of facilities at Manor	49.0
• Refinery of 200tpd	29.0
• Crushing unit of 200tpd for Groundnut and Copra	6.4
• Palm Fractionation unit of 100tpd and Vanaspati Ghee unit of 50tpd	10.1
• Ayurvedic and Cosmetic unit of 5tpd	1.1
• Blow Moulding Plant for Pet Bottles	2.5
Setting up of Crushing unit of 200tpd for Sesame and Mustard at Jaipur	25.7
Professional and Consultancy Fees	3.3
Research & Development facilities	1.4
Miscellaneous and other Assets	0.9
Provision for Contingencies	2.1
Margin Money for Working Capital Requirements	14.7
Brand Promotion & Expansion of Marketing & Distribution Network	9.0
Public Issue Expenses	*
Total	*

Source: Company RHP; Note: Total Fund requirement for the above projects is Rs106cr

Company Background

Raj Oil has been promoted by Shaukat S Tharadra, who had acquired the running business of M/s. Raj Oil, a partnership firm, for a consideration of Rs75lakh in April 2002. The company is currently involved in the business of crushing and oil filtration with a capacity of 5,000tpa and 30,000tpa, respectively. The company's manufacturing facility is located at Thane, Maharashtra and it sells a variety of oils such as Coconut, Ayurvedic, Refined, Mustard, Til and Jasmine under different brand names.

Exhibit 1: Existing Capacity and Utilisation

Particulars	Capacity	FY2006	FY2007	FY2008
Coconut Crushing	Installed (mtpa)	5,000	5,000	5,000
	Utilised (mtpa)	2,106	2,511	4,229
	% of Utilisation	42	50	85
Oil Filtration	Installed (mtpa)	15,000	30,000	30,000
	Utilised (mtpa)	13,475	22,287	29,458
	% of Utilisation	90	74	98
Total	Installed (mtpa)	20,000	35,000	35,000
	Utilised (mtpa)	15,581	24,798	33,687
	% of Utilisation	78	71	96

Source: Company RHP

Raj Oil is an established player in the Indian Edible Oil space, with major presence in Western India. The company is known for its renowned brands such as 'Cocoraj' (coconut oil) 'Guinea' (groundnut oil and sunflower oil) and 'Raj'. The company has till date focused mainly on retail sales and has thus been able to maintain high Margins and Return Ratios. Going ahead, however we believe the company would have to increase its bulk and institutional sales to enhance its business operations. In line with this, the company proposes to further expand its already strong retail network. The company targets to have a pan-India presence for which it intends to engage more consignee agents to increase its product visibility by continuous brand building activities and through various incentives and promotional schemes for its consignee agents and distributors.

IPO Details: Raj Oil has set a price band of Rs100-120 a share for its initial public offer (IPO) of 9.5 million fresh shares, which will be open for subscription between July 20-23, 2009. The Issue will comprise 26.38% fully-diluted post-issue paid-up capital of the company. The company proposes to utilise the Issue proceeds for setting up various facilities at Manor in Thane district of Maharashtra including a 200tpd refinery, which can process sunflower, soyabean, groundnut, palm, cotton seed oils, a crushing unit of 200tpd for groundnut and copra, a palm fractionation unit of 100tpd, a vanaspati ghee unit of 50tpd, an ayurvedic and cosmetic unit of 5tpd and an in-house blow-moulding plant for PET bottles.

Exhibit 2: Shareholding Pattern

	Pre-Issue		Post-Issue	
	No. of shares	%	No. of shares	%
Promoter				
Shaukat S Tharadra	18,580,100	70	18,580,100	52
Shahida S Tharadra	420,000	2	420,000	1
Total	19,000,100	72	19,000,100	53
Others				
Bodies Corporate	3,182,000	12	3,182,000	9
Bennett, Coleman and Company Limited	1,500,000	6	1,649,130	5
Prabhudas Lilladher Advisory Services Pvt Ltd	300,000	1	300,000	
Others	2,528,000	10	11,878,870	34
Public	0	0	9,500,000	26
Total	26,510,100	100	36,010,100	100

Source: Company RHP, Angel Research

Industry Overview

The size of the Indian Oilseeds-based Sector is estimated at US \$16.5bn (including exports and imports). India is the world's fourth largest vegetable oil economy. Currently, India accounts for 7.4% of world oilseeds output; 6.1% of world oil meal production, 3.9% of world oil meal exports, 5.8% of world veg oil production, 11.2% of world vegetable oil imports and 9.3% of the world edible oil consumption. The land under cultivation for oilseed in India is estimated at 25–26 million hectares. Oilseeds are grown mainly on marginal and sub-marginal lands under low input usage. Moreover, less than 25% of the oilseed area is irrigated, rendering cultivation vulnerable to weather-related yield risks. This has resulted in slow growth in oilseed production and continued low yields. At around 970kgs/ha, Indian oilseed yields are about half the world's average and almost one-third of the leading producers.

Exhibit 3: Cultivated Oil seeds Production in India (MMT)

Oilseeds	FY2004	FY2005	FY2006	FY2007	FY2008(E)
Groundnut	8.1	6.8	8.0	4.9	7.3
Rapeseed & Mustard	6.3	7.6	8.1	7.4	7.1
Sesamum	0.8	0.7	0.6	0.6	0.7
Soybean	7.8	6.9	8.3	8.9	9.5
Sunflower	0.9	1.2	1.4	1.2	1.1
Niger	0.1	0.1	0.1	0.1	0.1
Linseed	0.2	0.2	0.2	0.2	0.1
Castor	0.8	0.8	1.0	0.8	1.0

Source: Company RHP

India is also one of the largest consumer and importer of edible oil in the world, next only to China and the US. India imports palm oil mainly from Malaysia and Indonesia and soyabean oil from Argentina and Brazil. Crude palm oil (CPO), crude palmolein, RBD (refined, bleached, deodorised) palm oil, RBD palmolein and crude palm kernel oil (CPKO), crude soya oil and refined soya oil are the various edible forms of oil traded globally. Soyabean oil is the leading vegetable oil traded in the international markets, next only to palm. Palm and soyabean oils together constitute around 68% of the global edible oil trade volume, with soyabean oil constituting 22.85%. India's per capita consumption of edible oil is at approximately 11kg a year with China at 18kg and North America at 34kg compared with the world average of 20kg. Demand for oilseeds is driven by increase in human consumption and rise in use of animal feed and other ancillary applications (soaps, detergents, etc). In India, oilseed production has been rising while on a global level it has been declining, particularly in the US where there is diversion towards corn production.

Exhibit 4: Demand Projection for Imported Edible Oil

Parameter	CY2010E	CY2015E
Total Demand - (MMT)	15.6	21.3
Total Area under Oilseeds (mn hectares)	28.0	32.0
Yield (tonne/hectare)	1.2	1.4
Production of Oilseeds (MMT)	33.6	44.8
Domestic supply of edible oils (MMT)	10.1	13.4
Total edible oil imports - (MMT)	5.9	8.3
Imports as share of demand (%)	38	39

Source: Company RHP

Investment Argument

Focus on Brands for better Profitability

Raj Oil brands are a household name in the Western part of India. A wide range of products, such as mustard oil, sunflower oil, groundnut oil, cottonseed oil, til oil and ayurvedic oil, sets the company apart from the other unorganised players. The company has varied oils and derivative products in its product basket allowing customers to choose as per their requirement. The company deals in edible oil in bulk quantities and customer retail packs such as 15 litre, 10 litre, 5 litre, 1 litre pack as well as 5ml, 50ml, 100ml, 200ml packs. The company's focus on brands has enabled it to maintain superior Profitability as compared to competition.

Exhibit 5: Raj Oil Brands

Brand	Description
Cocoraj Coconut Oil	A pure edible grade coconut oil, is one of the popular coconut oil brands in the country
Cocoraj Cool Ayurvedic Oil	A combination of coconut oil and medicinal herbs is an ayurvedic oil.
Guinea Filtered Groundnut Oil	The flagship brand of the company, is a premium quality healthy cooking medium.
Guinea Lite Refined Groundnut Oil	A healthy oil that's easy to digest, less absorbent and suitable for deep frying.
Guinea Lite Refined Sunflower Oil	Processed oil based on advanced technology, that helps retain its natural vitamins.
Tilraj Til Oil	Natural and pure healthy oil that is filtered to ensure its superior quality; Enjoys prestigious reputation amongst customers and is a leading medium for pickle-making in the country.
Mustraj Mustard Oil	Natural oil extracted from the seeds through the 'Kachhi Ghani' process. Its natural pungent- flavour is retained in the filtered process, making it a good choice for pickles.
Guinea Lite Refined Cottonseed Oil	Traditional vegetable oil extracted from the cotton plant seeds.
Guinea Lite Refined Soyabean Oil	A healthy, nutritious and delicious cooking medium.
Cocoraj Jasmine Oil	A Perfumed Non-sticky Coconut Hair Oil.

Source: Company RHP

Integrated and Versatile Manufacturing capabilities to drive growth

The company's proposed manufacturing facilities at Manor and Jaipur will provide a comprehensive range of oil products. The company's proposed manufacturing facilities shall be fully integrated, starting from extraction of edible oil from seeds to refining and filtration of edible oils. The versatile facilities will also be able to process various types of edible oil including palm, soyabean, cotton, sunflower, groundnut, mustard, til and coconut. On the back of having a versatile manufacturing infrastructure, the company expects to enjoy significant edge over unorganised players in the industry while also competing more effectively with the other organised players in the Sector. The company is looking at investing in high-quality manufacturing equipment to ensure efficient production of quality products. The company also expects its investment in technology to provide quality to its customers demanding bulk quantities, allowing it to attract new customers as also differentiate itself from competition.

Established Distribution Network

Raj Oil has a well-established and well-spread out network, which are catered to by its Consignee Agents and their distributors. These agents then distribute the company's products to the numerous retailers spread across the length and breadth of India. Going ahead, the company plans to expand its strong Retail network and enhance its area of operations. The company intends to engage more Consignee Agents to increase its product visibility through continuous brand building activities including various incentives and promotional schemes for the Consignee Agents and Distributors in its bid to have a pan-India presence.

Financial Overview

The company currently has a capacity of 35,000tpa comprising 30,000tpa of crushing facility and 5,000tpa of filtration facility. As per the company's RHP, we have derived that the company's current capacity utilisation stands at 96% while its realisations stood at Rs94,325/MT for CY2008. The company plans to expand its overall manufacturing capacity to 2,26,500mtpa in stages over the next two years. We estimate the company's total sales volumes to touch around 74,000mtpa in CY2010E. We have also assumed realisations of Rs90,000/MT, thereby translating into a Top-line of Rs668cr for CY2010E. Assuming that the company maintains its OPMs at current levels, its CY2010E Net Profit works out to Rs62.8cr.

Exhibit 6: Key Financials

Y/E Dec (Rs cr)	CY2007	CY2008	CY2009E	CY2010E
Net Sales	239	318	461	668
% chg	99.3	32.9	45.0	45.0
Net Profit	18.2	29.6	40.9	62.8
% chg	170.0	63.2	37.9	53.7
OPM (%)	13.4	16.4	15.0	16.0
EPS (Rs)	9.8	11.2	11.3	17.4
P/E (x)	12.2	10.7	10.6	6.9
P/BV (x)	5.1	3.2	2.1	1.8
RoE (%)	41.8	29.5	19.9	26.7
RoCE (%)	47.2	41.1	29.4	38.0
EV/Sales (x)	1.0	1.1	1.0	0.8
EV/EBITDA (x)	7.5	6.5	6.4	4.9

Source: Company RHP, Angel Research; * At Upper end of the Price Band

Concerns
Prices and availability of raw materials

The company's raw materials such as copra, til seeds, mustard seeds, groundnut seeds, cotton seeds, sunflower seeds and crude oil, etc. constitute close to 80% of its total expenditure. As the company does not have any long-term supply tie ups or agreements in place for these raw materials, any decrease in the availability of these raw materials for whatever reason, including climatic changes, could adversely impact its Sales and Profitability. Further, any price volatility in these raw materials and the company's inability to adjust the same could adversely affect its operations and Profitability.

Intense Competition

Raj Oil faces stiff competition from both unorganised and other organised players in the industry. While on the one hand, the company faces constant threat from the unorganised players due to the price differential, the company also faces intense competition from the established players, such as K S Oils, Ruchi Soya, Sanwaria Agro, etc.

Outlook and Valuation

Raj Oil clocked strong CAGR of 56.1% and 167.2% in Sales and Net Profit over CY2005-08 respectively, on the back of robust growth in Branded Sales. It's Margins and Return Ratios are also pretty healthy and the best in the industry. We believe that the company can sustain this overall performance as it is expanding capacity over the next year. Going ahead, we expect the company's CY2010E Revenue to increase to Rs668cr following strong growth in volumes. Further, on the back of the company's ongoing backward integration programme, we expect the company to maintain its Margins going ahead.

However, we believe that Raj Oil is being priced at a 'considerable' premium to listed player K S Oils, which is larger in size and also derives backward integration benefits. K S Oils also has a pan-India presence. Further, we believe that the larger size of K S Oils gives it better competitive advantage. Though Raj Oil has the highest Margins and Return Ratios in the industry on account of being present only in the Retail Segment, we believe that going ahead the company will have to enter Bulk and Institution Sales to achieve size. On the lower and upper end of the IPO price band, the stock would quote at 5.7x and 6.9x its post diluted CY2010E Earnings. **Hence, the company's expensive valuation outweighs its good growth prospects owing to which we remain 'Neutral' on the IPO.**

Exhibit 7: Comparative Valuation

Parameter (Rs cr)	KS Oils	Raj Oil*	Raj Oil#
Sales	5,460.0	668.1	668.1
EBITDA	595.0	106.7	106.7
OPM (%)	10.9	16.0	16.0
Net Profit	322.6	62.8	62.8
NPM (%)	5.9	9.4	9.4
RoE (%)	22.3	26.7	26.7
Valuation			
P/E (x)	5.9	6.9	5.7
P/B (x)	1.3	1.8	1.5
EV/EBITDA (x)	4.0	4.9	4.2
Market Cap/Sales (x)	0.4	0.6	0.5

Source: Angel Research, Company RHP, Note: * Upper end of price band, # Lower end of price band, K S Oils estimates are for FY2011E while Raj Oil estimates are for CY2010E.

Exhibit 8: Profit and Loss Account (Standalone)

Y/E Dec (Rs cr)	CY2004	CY2005	CY2006	CY2007	CY2008	1MCY2009
Income						
Sales & Operating Inc						
- Manufactured Goods	68.4	80.0	110.3	217.4	317.7	22.3
- Traded Goods	11.2	3.5	9.7	21.7	0.1	-
Export Sales	2.2	-	-	-	-	-
Other Income	0.2	0.1	0.1	0.1	0.1	-
Incr/(Dec) in Inventory	(0.5)	(0.3)	0.2	0.7	3.4	0.2
Total Income	81.4	83.3	120.2	239.9	321.2	22.5
Expenditure						
Raw Material Consumed	59.5	66.7	86.9	174.6	249.7	17.0
Cost of Traded Goods	10.6	3.1	8.8	19.3	0.1	-
Manufacturing Expenses	0.7	1.2	1.3	1.5	2.7	0.2
Payment & Pro for Empl	2.7	2.4	3.7	4.6	7.3	0.6
Admin and Other Exp	2.2	2.6	2.5	3.8	3.7	0.2
Selling and Distr Exp	1.8	3.1	4.1	4.1	5.5	0.3
Finance Cost	2.2	1.9	1.7	2.9	6.0	0.4
Dep & Amortisation	0.5	0.6	0.7	0.8	1.0	0.1
Total Exp	80.2	81.6	109.8	211.5	275.9	18.8
PBT	1.2	1.7	10.4	28.4	45.3	3.7
Provision for Tax						
Current Tax	(0.1)	(0.3)	(3.6)	(9.6)	(15.3)	(1.2)
Fringe Benefit Tax	-	(0.0)	(0.2)	(0.2)	(0.2)	(0.0)
Wealth Tax	-	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)
Deferred Tax	(0.4)	0.3	(0.0)	(0.5)	(0.2)	(0.0)
Profit After Tax	0.7	1.6	6.7	18.2	29.6	2.40

Source: Company RHP, Angel Research

Exhibit 9: Balance Sheet (Standalone)

Y/E Dec (Rs cr)	CY2004	CY2005	CY2006	CY2007	CY2008	1MCY2009
A. Fixed Assets						
Gross Fixed Assets	7.1	13.3	15.2	21.0	23.2	23.2
Less : Accumulated Dep	1.1	1.6	2.3	2.5	3.5	3.6
Net Fixed Assets	6.1	11.8	12.9	18.5	19.6	19.6
Capital Work in Progress	2.9	-	-	2.3	11.7	11.7
Total (A)	9.0	11.8	12.9	20.8	31.3	31.3
B. Investments						
	0.0	0.2	0.2	0.0	0.0	0.0
C. Current Assets, Loans & Adv						
Sundry Debtors	10.5	9.6	22.8	53.5	85.1	89.6
Cash and Bank Bal	0.8	0.9	1.6	2.4	1.4	1.4
Loans and Advances	8.7	5.6	3.0	9.1	31.3	29.6
Inventories	2.2	1.7	5.0	7.8	13.4	13.4
Total (C)	22.1	17.8	32.4	72.8	131.1	134.0
D. Liabilities & Provisions						
Secured loans	12.1	8.1	7.7	11.5	21.2	23.9
Unsecured loans	-	-	0.1	9.6	1.1	1.0
Deferred Tax Liability (Net)	1.4	1.2	1.2	1.7	1.9	1.9
Current Liabilities	10.6	9.5	14.8	17.6	12.7	9.3
Provisions	0.1	0.4	3.7	9.8	25.3	26.5
Share Appl Money pending allot	1.1	0.1	0.1	-	-	-
Total (D)	25.4	19.2	27.7	50.2	62.1	62.6
E. Net Worth (A + B + C - D)	5.7	10.5	17.8	43.4	100.3	102.7
Represented by						
Equity Share Capital	6.0	8.5	8.5	18.5	26.5	26.5
Reserve & Surplus	1.5	3.1	9.8	25.0	73.8	76.2
	7.5	11.6	18.3	43.4	100.3	102.7
Less : - Miscellaneous Exp not w/off	1.8	1.0	0.5	0.1	-	-
F. Net Worth	5.7	10.5	17.8	43.4	00.3	102.7

Source: Company RHP, Angel Research

Exhibit 10: Details of Expansion (Rs cr)

Particulars	Capacity (tpd)	Land & Site Development	Building	Plant & Machinery	Furniture & Fixtures	Grand Total
Project at Manor, Maharashtra						
Refinery Unit	200	2.4	5.6	20.7	0.3	29.0
Crushing Unit	200	0.0	2.5	3.9	0.0	6.4
Palm Fractionation & Vanaspati Ghee Unit	100 & 50		0.4	9.6	0.1	10.1
Ayurvedic & Cosmetic Unit	5		0.6	0.5	0.1	1.1
In-house blow moulding plant			0.6	1.8	0.1	2.5
(Total) Project cost at Manor						49.1
Project at Bagru, Rajasthan						
Crushing unit of Sesame and Mustard	200	4.2	6.7	14.6	0.2	25.7
Total						74.8

Source: Company RHP, Angel Research

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