

2Q12 miss; expect negative stock reaction

First Look

Breaking news, market events and company announcements

Ruchi Soya's 2QFY12 results were below our estimates - (net income of Rs37.8mn was down 94% both y-y and q-q). Higher raw material cost and sharp depreciation of the Indian rupee (vs the USD) led to a drop in earnings. Though the stock is currently trading at 11x CY12F earnings, 1H12 standalone now forms only 26% of our full-year numbers, and we think there is a downside risk to our FY12F estimates. These weak results continue the trend we have seen in global supply players (weak trading conditions), and we see some negative reaction to stock price.

Lack of bargaining power and unhedged forex exposure hurt 2Q12

Management commented that the quarter was impacted by higher raw material prices (as we noted for Mewah, companies with large downstream operations were unable to pass on higher raw material prices to consumers), volatility in commodity prices and mark-to-market (MTM) provisions due to a steep fall in the USD-INR exchange rate. The company made an unrealized loss provision of Rs849mn on restatement of USD borrowings of which ~Rs420mn is MTM loss on loans payable during the next 2 years, ~ Rs220mn is forward contract losses for which physical contracts are not executed and Rs170mn loss due to unhedged exposure. In our view, some portion of MTM losses may be reversed if the Indian rupee strengthens vs the USD in coming periods, but we do not treat it as part of exceptional income. On the positive side, utilizations improved and plantation momentum remained strong. As a result, management expects 2H12F earnings to be more comparable to 2H11 earnings.

Other key takeaways from management:

- Total revenues grew by ~60% y-y and 3% q-q mainly due to strong growth in the Oil segment (up 75% y-y and ~2% q-q). Segment-wise, the Oil segment recorded negative EBIT of Rs363mn with EBIT margin of -0.7% during the quarter, due to most of the adverse impact of exchange rate movements being in this segment.
- Management expects soya crop for the current season (11mn vs 9.5mn) to be better than the previous year and higher capacity utilization of soya crushing operations.
- Capacity utilization of crushing facilities increased from 36% to 41%. Capacity utilization of refining facilities increased from 76% to 82% from year ago. While port-based refiners are running at 90%+ utilizations.
- Branded sales have gone up by 50% from Rs9,308mn to Rs13,972mn.
- Current palm plantings are at 37,000ha - mgmt says they should be able to reach 40,000ha by FY12F, and at least 10,000ha per annum thereafter.
- 2Q12 tax rate was high at ~63% vs ~35% tax rate during same period in previous years.

November 16, 2011

Rating Remains	Buy
Target price Remains	INR 155
Closing price November 15, 2011	INR 104

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- Net Interest expense was lower at Rs37mn for the quarter vs Rs207mn for 2Q11, while loan funds increased to Rs3741mn from Rs2102mn in 2Q11.

Fig. 1: 2Q12 results summary

Financials (Rs mn)	2Q12	2Q11	% chg y-y	1Q11	% chg q-q	1H12	1H11	% chg y-y
Total income	60,822.9	38,063.2	59.8	59,017.2	3.1	119,840.1	72,640.3	65.0
Total expenditure	(60,792.7)	(36,904.5)	64.7	(57,709.9)	5.3	(118,502.6)	(70,762.6)	67.5
Operating profit before other, exceptional items	30.2	1,158.7	(97.4)	1,307.3	(97.7)	1,337.5	1,877.7	(28.8)
Other Income	108.4	16.6	553.0	15.1	617.9	123.5	130.0	(5.0)
Profit before Interest & Exceptional Items	138.6	1,175.3	(88.2)	1,322.4	(89.5)	1,461.0	2,007.7	(27.2)
Interest expense	(37.2)	(207.1)	(82.0)	(279.8)	(86.7)	(317.0)	(243.9)	30.0
PBT before exceptionals	101.4	968.2	(89.5)	1,042.6	(90.3)	1,144.0	1,763.8	(35.1)
Exceptional items	0.0	0.0	na	0.0	na	0.0	0.0	na
PBT	101.4	968.2	(89.5)	1,042.6	(90.3)	1,144.0	1,763.8	(35.1)
Tax Expense	(63.6)	(331.9)	(80.8)	(381.0)	(83.3)	(444.6)	(603.4)	(26.3)
Extraordinary items (net of tax expenses)	0.0	0.0	na	0.0	na	0.0	0.0	na
Net income	37.8	636.3	(94.1)	661.6	(94.3)	699.4	1,160.4	(39.7)

Source: Company data, Nomura research

Fig. 2: Segmental breakup

Segmental Information (Rs mn)	2Q12	2Q11	% chg y-y	1Q11	% chg q-q	1H12	1H11	% chg y-y
Revenues								
Oil	48,553.4	27,670.3	75.5	47,819.6	1.5	96,373.0	54,775.6	75.9
Vanaspati	2,843.2	2,849.8	(0.2)	2,535.0	12.2	5,378.2	5,149.7	4.4
Food products	859.4	932.3	(7.8)	815.5	5.4	1,674.9	1,762.9	(5.0)
Seed Extractions	7,584.7	6,306.7	20.3	6,959.7	9.0	14,544.4	9,539.4	52.5
Others	1,090.6	320.6	240.2	902.5	20.8	1,993.1	1,542.6	29.2
Total revenue	60,931.3	38,079.7	60.0	59,032.3	3.2	119,963.6	72,770.2	64.9
Less, intersegmental	0.0	0.0	na	0.0	na	0.0	0.0	na
Net sales / income from operations	60,931.3	38,079.7	60.0	59,032.3	3.2	119,963.6	72,770.2	64.9
EBIT								
Oil	(363.2)	843.4	(143.1)	889.4	(140.8)	526.2	1,308.1	(59.8)
Vanaspati	27.4	50.3	(45.5)	49.5	(44.6)	76.9	86.5	(11.1)
Food products	26.0	23.3	11.6	26.1	(0.4)	52.1	49.3	5.7
Seed extractions	327.7	195.7	67.5	201.8	62.4	529.5	318.6	66.2
Others	120.7	62.2	94.1	155.6	(22.4)	276.3	239.3	15.5
Total	138.6	1,174.9	(88.2)	1,322.4	(89.5)	1,461.0	2,001.8	(27.0)
Less, interest	37.2	207.1	(82.0)	279.8	(86.7)	317.0	243.9	30.0
Other unallocable / exceptional	0.0	0.4	(100.0)	0.0	na	0.0	5.9	(100.0)
Total PBT	101.4	968.2	(89.5)	1,042.6	(90.3)	1,144.0	1,763.8	(35.1)
Margins								
EBIT Margin	0.2%	3.1%	-286bps	2.2%	-201bps	1.2%	2.8%	-154bps
PBT Margin	0.2%	2.5%	-238bps	1.8%	-160bps	1.0%	2.4%	-147bps
Net margin	0.1%	1.7%	-161bps	1.1%	-106bps	0.6%	1.6%	-101bps
Effective tax rate	62.7%	34.3%	2844bps	36.5%	2618bps	38.9%	34.2%	465bps
Segmental EBIT Margins								
Oil	(0.7%)	3.0%	-380bps	1.9%	-261bps	0.5%	2.4%	-184bps
Vanaspati	1.0%	1.8%	-80bps	2.0%	-99bps	1.4%	1.7%	-25bps
Food products	3.0%	2.5%	53bps	3.2%	-18bps	3.1%	2.8%	31bps
Seed extractions	4.3%	3.1%	122bps	2.9%	142bps	3.6%	3.3%	30bps
Others	11.1%	19.4%	-833bps	17.2%	-617bps	13.9%	15.5%	-165bps

Source: Company data, Nomura research

Appendix A-1

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Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Ruchi Soya Industries	RSI IN	INR 104	15-Nov-2011	Buy	Not rated	49

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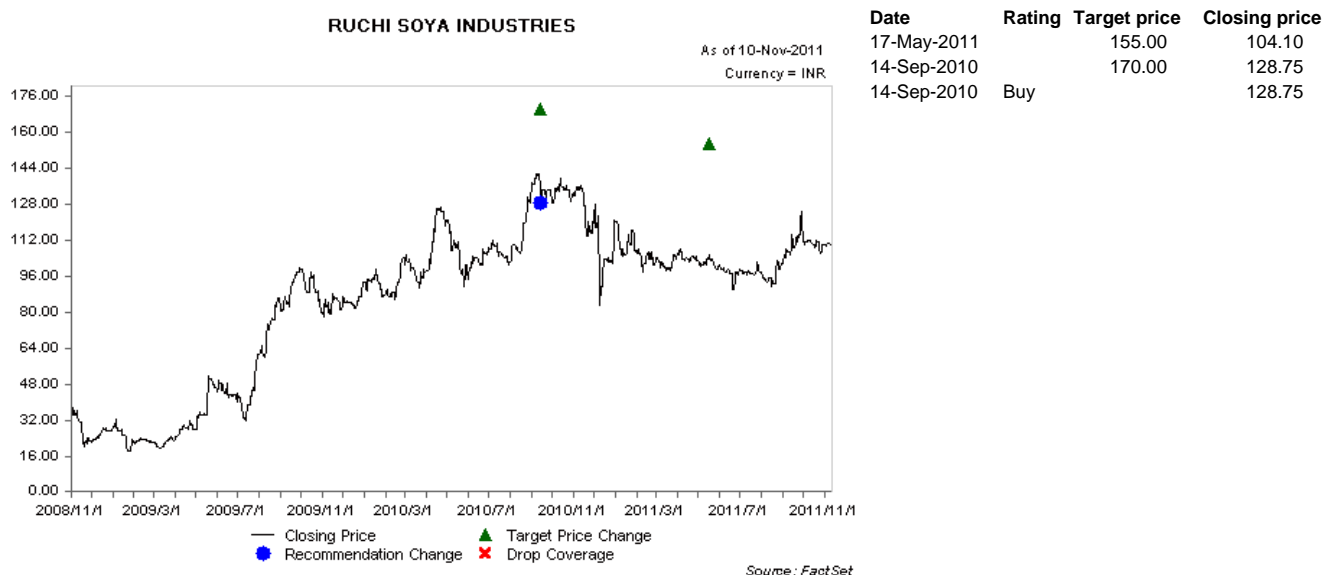
Previous Rating

Issuer name	Previous Rating	Date of change
Ruchi Soya Industries	Not Rated	14-Sep-2010

Ruchi Soya Industries (RSI IN)

INR 104 (15-Nov-2011) Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value the company at 15x FY12F EPS of INR8/share (in line with our midstream valuations for Wilmar) and add INR35 as the DCF value of the plantations (assumptions: 14% cost of equity, 30% EBITDA margins) business to arrive at our TP of INR155.

Risks that may impede the achievement of the target price Delay in ramp-up of capacity utilisation, muted margin expansion vs expectations, competition taking away volumes, delay in palm hectareage growth pose downside risks to our estimates and TP.

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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

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