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Ruchi Soya Industries - Buy

Investment overview

- Ruchi Soya is the largest player in the country in edible oils, Soya foods and processed foods categories with an annual turnover of \$2.4 bn.
- Ruchi Soya has shown a consistent growth for the last many years and its branded sales have increased at CAGR of 44% for last 4 years.
- The company is targeting a 3.2 million tonne capacity of palm refining with its ongoing expansion.
- The company will foray into the soap market and will extend its FMCG portfolio with its recent merger.
- The company in a joint venture with IOC will set up a 300 TPD oil extraction unit and transesterification plant

Business Overview

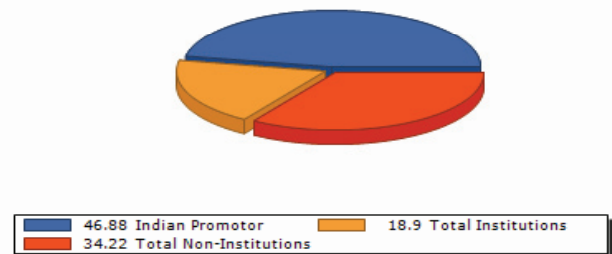
Ruchi Soya Industries is the flagship company of Ruchi group, the industrial house of Madhya Pradesh. It is the pioneer in developing Soya cultivation in India. The group was the first in India to set up crushing and refinery plant near Indore (M.P) for processing soyabean in the year 1973. It is the largest palm oil plantation company in the country. Today it is the largest integrated oilseed solvent extraction company in the country.

Ruchi Soya has evolved from being a large manufacturing firm to a respected brand, keeping in line with the FMCG players. Its Nutrela and Ruchi Gold brands have captured leading positions in the Soya foods and edible oils categories respectively. Ruchi Soya has also ventured into other businesses like bakery specialties, where it foresees a big potential for growth.

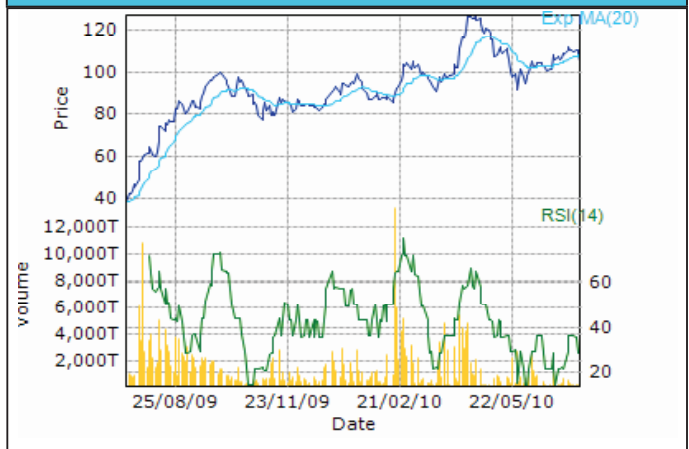
Ruchi's wide range of food products include healthy cooking oils, nutritional Soya foods, top grade vanaspati and bakery fats. Ruchi is the undisputed market leader in the edible oils, as well as Soya foods categories. The edible oil range includes many top brands like Soyumm, Soyabean oil, Ruchi Gold Palmoline oil and Sunrich sunflower oil. Nutrela is the largest selling Soya foods brand in the country, with more than 50% market share. Nutrela and Ruchi No. 1 vanaspati are regional leaders in

Stock Data		16/07/2010
Current Mkt Price (Rs)		106.60
52 Week High		130.10
52 Week Low		37.80
Mkt Cap (Rs. in Million)		28023.95
Return in last one Month (%)		4.87

Share Holding



Performance in last one year



Y-o-Y Performance

(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Net Sales	121675.35	109830.48	10.78
Other Income	1507.11	1515.79	-0.57
Total Expenditure	118937.58	106173.21	12.02
Operating Profit	4244.88	5173.06	-17.94
Interest	1879.79	1888.34	-0.45
Profits After Tax	932.82	1592.28	-41.42
Reserve & Surplus	0.11	0.10	7.83
Reported EPS(Rs)	4.83	8.34	-42.07
Core EBITDA Margin (%)	2.25	3.32	-32.42



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their respective categories.

Financial Health

For the final quarter of the last fiscal the company reported a decline of 9.73% in its Net sales to Rs.3344.62 crore from Rs.3705.12 crore though the Net profit surged by 787.69% from Rs.1.95 crore to Rs.17.31 crore and the EBITDA grew by 85.48% to Rs.65.01 crore from Rs.35.05 crore

For the year ended March 31, 2010, the net sales was up by 11.33% to Rs.13430.83 crore from Rs.12063.87 crore and Net profit increased by 67.18% to Rs.155.95 crore from Rs.93.28 crore while EBITDA was higher by 40.74% to Rs. 410.85 crore from Rs. 291.93 crore.

Industry Scenario

India is one of the leading players in the world edible oil market, being the second largest importer (after China) and the third-largest consumer (after China and the EU). However, per capita consumption of edible oils is only around 11 kg per year. This is considerably lower than in most developed countries. Palm oil (mainly imported) and soya bean oil account for almost half of total edible oil consumption in India, followed by mustard and groundnut oil. India has been a major importer of edible oils historically. The country used to meet around 30-40% of its needs through imports till 1980s.

Due to increasing import, the edible oil market in India is now highly correlated with the international markets. Ever since the country scrapped the quantitative restrictions on the commodity, domestic acreage has been sensitive to the international prices. However, with the onset of global economic downturn and crashing crude prices, edible oil prices crashed dramatically in OY 2008-09. This resulted in increasing import of edible oils into India. After falling for most of the second half of 2008, edible oil prices gained some strength during the current year, primarily due to improvement in international prices.

India's edible oil industry is growing at a compounded annual growth rate (CAGR) of 90 per cent. Olive oil is largely imported; the reduction in import duty on edible oil will not only boost up its usage but will also induce farmers to grow olive oil trees. Global edible oil prices had shown some improvement since the second half of

Q-o-Q Performance			
(Rs. in Million)			
Particulars	Mar 2010	Mar 2009	Change(%)
Net Sales	33466.20	37705.20	-11.24
Expenditure	32904.60	37383.50	-11.98
Other Income	88.50	28.80	207.29
EBITDA	650.10	350.50	85.48
Interest	116.40	68.20	70.67
Net Profit	173.10	19.50	787.69
EBITDA Margin (%)	0.02	0.01	108.97
NPM (%)	0.01	0.00	900.13
EPS	0.74	0.08	825.00

Profit & Loss			
(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Net Sales	121675.35	109830.48	10.78
Total Income	123182.47	111346.27	10.63
Total Expenditure	118937.58	106173.21	12.02
Operating Profit	4244.88	5173.06	-17.94
Profits After Tax	932.82	1592.28	-41.42

Balance Sheet			
(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Share Capital	830.01	830.01	0.00
Reserve & Surplus	10795.73	10012.07	7.83
Total Liabilities	29062.23	26662.04	9.00
Investments	817.82	819.17	-0.16
Current Liabilities	28735.89	28907.20	-0.59
Net Current Assets	15456.16	14842.32	4.14
Total Assests	29062.23	26662.04	9.00

Key Ratios		
Particulars	Mar 2009	Mar 2008
Reported EPS (Rs)	4.85	8.34
Core EBITDA Margin (%)	2.25	3.32
EBIT Margin (%)	2.78	4.02
ROA (%)	3.35	6.34
ROE (%)	8.65	16.92
ROCE (%)	12.16	17.62
Price/Book (x)	0.38	1.59
Net Sales Growth (%)	10.78	27.98
EBIT Growth (%)	-23.46	46.60
PAT Growth (%)	-41.42	58.13
Total Debt/Mcap (%)	4.04	0.95



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Peer group comparison (Rs. crore)

*latest based on last traded price

Company	Year End	Net Sales	PBDIT	PAT	PATM%	EPS*	P/E*
Ruchi Soya	200903	12167.54	273.78	93.28	0.77	5.93	17.97
KS Oils	200903	3166.45	361.58	169.36	5.35	4.65	11.76
Gujarat Ambuja Exports	200903	1602.63	87.59	23.57	1.47	3.56	8.08
Sanwaria Agro	200903	1111.43	67.06	38.05	3.42	2.76	15.56

last fiscal year. But the same has been very marginal and overall atmosphere in the industry remains bearish.

Recent developments

In Jan 2010- Ruchi Soya Industries announced a major farm land acquisition in Ethiopia for soybean cultivation. The company said it has signed an MoU with the Ethiopian Government for cultivation of soyabean and setting up a processing unit on 61775 acres in Ganbella and Benishangul Gumaz States on a lease basis for 25 years.

Ruchi Soya Industries has entered into Limited Liability Partnership agreement with Indian Oil Corporation to form Indian Oil Ruchi Biofuels. Both the companies will be equal partners of the joint venture. The joint venture will set up a 300 TPD oil extraction unit and transesterification plant to produce bio-fuels at a cost of Rs.436.63 crore. The joint venture will undertake Jatropha plantations in 50,000 hectares in the districts of Jhansi and Lalitpur.

Investment Rationale

Ruchi Soya has a branded portfolio of Rs 3700 crore and the Industry-wide branded edible oil sales is expected to grow at 15% annually over the next few years versus 6% annually in the last few years. Its Nutrela and Ruchi Gold brands have captured leading positions in the Soya foods and edible oils categories respectively. Nutrela, the biggest Soya foods brand in the country, enjoys more than 50% of the market share.

The company has been continuously increasing its presence of Organized Retail Channel and has also increased media penetration helping it to improve awareness among consumers.

The company is having largest crushing and refining capacity of 12700 MTPD and 7370 MTPD respectively, much larger than its nearest competitors, Adani Wilmer-

5675 and 3430 MTPD, KS Oils- 4800 and 1800 MTPD of crushing and refining respectively.

The company has merged two of its subsidiaries, Sunshine and Oleochem with itself as 85% of raw material for this industry comes from the byproduct of the refining business and these units were adjoining to its Kandla refinery. The merger will help to reduce lot of duplicate cost and it will help to convert the basic fatty acids and stearin into Oleo chemicals and giving an extension to the company in FMCG segment. (Sunshine has a 225 TPD capacity for splitting and distillation, capacity of 96 TPD for manufacture of soap noodles and toilet soap, glycerine production capacity of 55.5 TPD and 64 TPD hydrogenation production units.)

The company has made a big investment with a major farm land acquisition in Ethiopia, the investment was done considering the availability of labour, its strategic location and the Government support to boost foreign investment and development, and is likely to strengthen its geographical position and profitability of the company.

Ruchi Soya is the market leader in edible oils and Soya foods industry. At the CMP of Rs 107, Ruchi Soya Industries is currently trading at a P/E multiple of 17.97 and an FY11 (E) PE multiple of 11.98x and at 14.8 of the FY 11(E) EPS. The scrip has more than doubled in the last one year, we will be recommend a buy in the stock with a price target of Rs 163 as the company in the last five years has taken some major expansion and has increased its capacity in all segments, it has also shown a shift in its business from trading to manufacturing and branding keeping in view the changing trends of the sector. Further it plans to increase its CPO refining capacity by 1 MMTPA by 2012 and Mustard seed processing capacity to 1 MMTPA by 2012 which are going to increase its profitability.



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