

EXPLANATION OF GRADES

CARE Equigrade Grid (CEG)

Through CEG, CARE Equity Research addresses two critical factors considered by an investor while investing in a particular company's equity shares:

- 1. Fundamentals:** Whether the company is fundamentally sound with respect to its business, its financial position, its management and its prospects.
- 2. Valuation:** What is the Current Intrinsic Value (CIV) of the stock and how it compares vis-à-vis its Current Market Price (CMP).

These factors are answered assigning quantitative grades to both these parameters. CEG is the snapshot of 'Fundamental Grade' and 'Valuation Grade' assigned by CARE Equity Research.

Fundamental Grade

This grade represents how sound the company is fundamentally, vis-à-vis other listed companies in India. This grade captures:

1. Business Fundamentals and Prospects
2. Financial Soundness
3. Management Quality
4. Corporate Governance Practices

The grade is assigned on a five-point scale as under:

CARE Fundamental Grade	Evaluation
5/5	Strong Fundamentals
4/5	Very Good Fundamentals
3/5	Good Fundamentals
2/5	Modest Fundamentals
1/5	Weak Fundamentals

Valuation Grade

This grade represents the potential value in the company's equity share for the investor over a 1-year period. The Current Intrinsic Value (CIV) or the price arrived by CARE Equity Research on fundamental basis is compared with the Current Market Price (CMP) of the stock and the grade is assigned based on the gap between CIV and CMP of the stock.

The grade is assigned on a five-point scale as under:

CARE Valuation Grade	Evaluation
5/5	Considerable Upside Potential (>25% upside from CMP)
4/5	Moderate Upside Potential (10-25% upside from CMP)
3/5	Fairly Priced (+/- 10% from CMP)
2/5	Moderate Downside Potential (10-25% downside from CMP)
1/5	Considerable Downside Potential (>25% downside from CMP)

Grading determination is a matter of experienced and holistic judgment, based on relevant quantitative and qualitative factors of the company in relation to other listed companies.

CARE EQUIGRADE Grid (CEG)

	1	2	3	4	5
Fundamentals					
Valuation					

CEG is explained on page 1

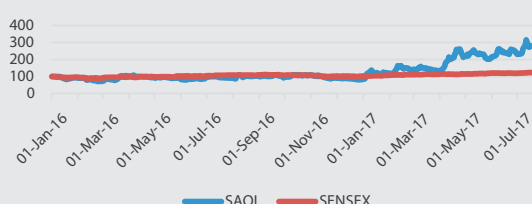
Key Equistats

Market Capitalisation	Rs. Crores	623
Enterprise Value	Rs. Crores	1,192
52 Week High / Low	Rs.	9.64/2.18^
Diluted EPS (FY17)	Rs.	1.2
P/E (FY17)	times	6.5
Regression Beta	times	0.9
Average Daily Volumes*	Lakhs	10.1

*NSE+BSE for last 52 weeks ^ after bonus issue in the ratio of 1:1

Stock Performance

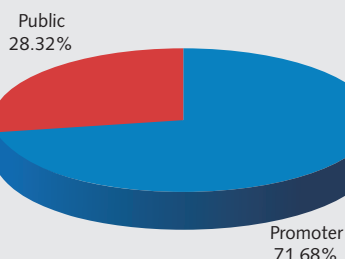
Price Movement (rebased on 100)



Returns

	1M	3M	6M	1 Yr
Absolute	17%	32%	131%	224%
Rel. to Sensex	13%	21%	96%	169%

Shareholding Pattern



Analytical Contacts

Ujjwal Patel	Manager	079-40265649
Setu Gajjar	Analyst	079-40265615

CARE Research assigns 2/5 on fundamental grade to Sanwaria Agro Oils Limited (SAOL).

CARE Research assigns a fundamental grade of 2/5 to SAOL. This indicates 'Modest Fundamentals'. The grade draws strength from more than two decades of experience of promoters in the soya commodity business along with its successful venture into basmati rice segment and other value-added agro products. Bhopal-based SAOL is a well-established player in the agro-commodity industry, with efficient procurement channel, warehousing capabilities and fairly good distribution network. SAOL's Total operating income (TOI) grew at a compounded annual growth rate (CAGR) of 15% during last three financial years and sales of basmati rice grew from Rs.69 crore in FY15 to Rs.1969 crore in FY17. The contribution of other food products launched in FY16 also grew to 20% of SAOL's total revenue during FY17.

With Iran lifting ban on basmati rice imports and an expectancy of normal monsoon, the Indian Basmati Rice industry is expected to see a revival in near future. In the medium term, the profitability of companies in soya bean industry is expected to remain under pressure due to bumper production in the soya bean producing countries.

In May 2017, SAOL declared the interim dividend @5% and bonus issue of equity shares at the ratio of 1:1 (One bonus share for every equity share held).

Valuation

CARE Equity Research assigns valuation grade of 5/5 to SAOL based on the current Intrinsic Value (CIV) of Rs.11, as against Current market Price (CMP) of Rs.8.46, indicating 'Considerable Upside Potential'. The valuation is arrived using P/E Ratio method.

Financial Information Snapshot

(Rs. Crores)	Fy16	Fy17	Fy18E	Fy19E	Fy20E
Net revenues	2699	3513	4500	5175	5951
EBITDA	111	111	144	167	198
PAT (After minority interest)	16	44	57	65	78
Fully Diluted EPS* (Rs.)	0.5	1.2	0.8	0.9	1.1
Dividend Per Share (Rs.)	0	0.05	0	0	0
P/E (times)	13.6	6.5	14.0	14.0	14.0
EV/EBITDA (times)	9.4	10.8	13.5	12.7	12.1

* Calculated on Current Face Value of Rs.1/- per share

FUNDAMENTAL GRADE

Modest Fundamentals

2/5

Transforming into a Fast Moving Consumer Goods (FMCG) company on back of enhanced product portfolio and expansion in geographical presence

SAOL has established track record of over two decades in soya business and trading in agro-commodity business. However, due to dip in De-oiled Cake (DOC) exports, SAOL forayed into the basmati rice segment with an installed processing capacity of 200 tonnes per day (TPD) in FY14 which, in FY16 was enhanced to 600 TPD. During FY16, SAOL also launched multiple agro-based FMCG products like wheat atta, salt, pulses, rawa, suji and poha and value-added products like soya nuggets under the "Sanwaria" brand. Being an established player in the food industry for over two decades, new products launched by the company have elicited good response from the customers, evident from threefold increase in sales of food grains during last three financial years.



The following table depicts the product-wise revenue contribution during last three years:

Table 1: Product-wise contribution to TOI (FY15-FY17)

Product	FY15		FY16		FY17	
	Value (Rs. Crore)	%	Value (Rs. Crore)	%	Value (Rs. Crore)	%
Basmati rice	69	3	1,648	61	1,968	56
Soya bean	2,319	87	521	19	829	24
Food Grains	253	10	517	19	714	20

Source: Company

Basmati rice business reporting healthy growth and capacity utilization levels

SAOL forayed into basmati rice processing with an initial capacity of 200 tonnes per day (TPD) in FY14. With early stabilisation of the plant, SAOL implemented enhancement capex for basmati rice processing by setting up another 400 TPD which started commercial operations in May 2015. As on March 31, 2017, SAOL had an installed capacity of 600 TPD for basmati rice processing. The capacity utilisation has grown consistently since its foray in the basmati rice business on the back of its penetration in the domestic market as well as international markets. Capacity utilisation of basmati rice processing unit since its inception is mentioned in Table 2.

Table 2: Capacity utilisation of rice processing unit (FY15-FY17)

Capacity utilisation	FY15	FY16	FY17
Basmati rice Processing	59%*	58%	64%

*annualized

Source: Company

The contribution of basmati rice, as a percentage of total revenue of the company, has continuously increased during last three years ending FY17; the sale of basmati rice grew from a meagre Rs.69 crore in FY15 to Rs.1968 crore in FY17, contributing about



56% to its total revenue in FY17. While a significant portion of basmati rice is sold in the domestic market under 'Sanwaria' brand in seven states, SAOL sells basmati rice under the brand of "Nashira" in the gulf market through its local partner in Dubai.

SAOL also has a subsidiary setup in Singapore with an objective to enter global markets. Further, with increasing per capita income, per capita food consumption and urbanization, importance of branded products is increasing in the country. With normal monsoon prediction and Iran lifting ban on imports from India, the Indian rice industry is expected to see a revival and improvement in realisation in H1FY18.

Revival in soya bean segment in FY17 with recovery in sales price of soya oil and De-oiled Cake (DOC) in the international market

SAOL has been operating in the soya processing industry for more than two decades and it has long standing relationship with suppliers, farmers and customers. In view of strategic location of the plant in Madhya Pradesh, SAOL enjoys proximity to the soya bean-producing belt which results in ease of access to raw material. SAOL's presence in one of the major soya bean producing regions of India results in the benefit derived from the lower logistic expenditure (both on the transportation and storage), easy availability and procurement of soya bean directly from the farmers. SAOL sells majority of its products in the whole sale market; whereas the share of branded products (primarily refined soya bean oil) continues to remain at a low level. SAOL markets its products under the different brand names like 'Narmada', 'Sulabh' and 'Sanwaria'. SAOL also gradually reduced its reliance on soya products on account of uncertain industry scenario, as evidenced from reduced capacity utilisation on y-o-y basis. Although SAOL's capacity utilisation level reported marginal improvement during FY17 with growth in sales of DOC and Soya crude oil, its overall contribution in total sales remained at 24% in FY17 (19% in Fy16).

Table 3: Product-wise contribution to TOI (FY15-FY17)

Product	FY15		FY16		FY17	
	Value (Rs. Crore)	%	Value (Rs. Crore)	%	Value (Rs. Crore)	%
De-Oiled Cake (DOC)	2,199	83%	399	15%	582	17%
Soya Refined Oil	87	3%	84	3%	93	3%
Soya Crude Oil	33	1%	38	1%	154	4%

Source: Company

Integrated processing capabilities along with strong procurement and distribution network

Procurement: SAOL is located in Madhya Pradesh state, which ranks first in terms of area, production and productivity of soya seeds, offering locational advantage to the company in terms of savings on logistic cost. Apart from the conventional raw-material procurement methods, SAOL uses an innovative model of Direct Procurement Centers (DPC) which ensures access and control over raw material availability. The promoters' holds 80 licenses for direct procurement of raw materials from farmers through the government mandis. The procurement model reduces SAOL's dependence on agents and

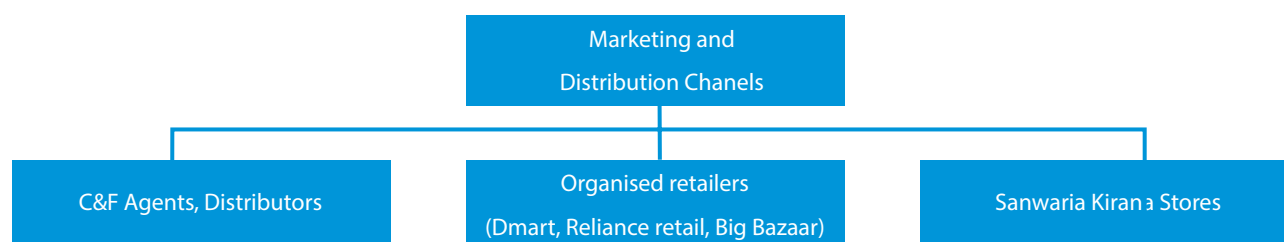
intermediaries and makes its raw material procurement smooth and cost effective. SAOL's testing facilities gives it the benefit of price adjustment and quality control, at the procurement stage itself.

Processing: SAOL has presence across the entire manufacturing value chain with 3 manufacturing plants strategically located in Madhya Pradesh.

Table 4: Location-wise installed product capacity

Product	Location in Madhya Pradesh	Installed capacity (TPD)
Solvent Extraction Plant	Mandideep Itarsi	1500
	Itarsi	500
	Betul	500
Paddy processing facility	Itarsi	400
	Mandideep	200
Soya Flour	Mandideep	10
Soya chunks	Mandideep	10

Distribution: Along with the conventional distribution model of selling through C&F agents and distributors, SAOL has tied up with retailers like D-Mart Hypercity, Reliance, Big Bazaar and Vishal. Furthermore, with more focus on increasing sale of branded products to retail consumers, SAOL has established 20 retail outlets in the name of "Sanwaria Kirana" in Madhya Pradesh out of which 15 outlets operates on franchisee model and the rest are company-owned and company-operated, to directly reach out the customers, thereby increasing its brand image along with improving its profitability.



SAOL follows the word of mouth and direct door-to-door marketing strategy, rather than outdoor and brand ambassador advertising model, which along with being cost effective, would help the company enhance its existing brand image.

With substantial shift in the product portfolio, and basmati rice being a product which requires higher inventory storage as aged basmati rice fetch higher realization, working capital requirements of the company would elevate due to higher inventory storage period. Currently, branded products contribute around 20% to the TOI, which the management visions to increase to around 40-50% within coming 2-3 years. Also, SAOL being new player in the market, it would have to extend elongated credits and support to its dealers so as to enter the market, which would also adversely impact its working capital needs.

In compliance with listing agreement 49

As on March 31, 2017, the Board of Directors (BoD) for SAOL consisted of 11 directors of which 3 is Non- Executive Director, 3 are Executive and 5 are Non-Executive and Independent Directors, i.e. half of the board comprises of Non-Executive and Independent Directors. The board is chaired by Mr. Gulab Chand Agrawal, Chairman and a Whole-Time Director. The board has formed three sub-committees for audit, remuneration and shareholder's/ investor's grievance. As per the annual report of FY16 the same is in compliance with the listing agreement of the stock exchanges.

Table 5: Board of Directors

Name	Designation held	Qualification
Mr. Gulab Chand Agrawal	Executive, Chairman	B.Com
Mr. Satish Agrawal	Executive, whole time director	B.Com
Mr. Ashok Agrawal	Executive, whole time director	B.Com
Mr. Anil Agrawal	Non-Executive	M.Com, FCA, Doctor of excellence - Honoris Causa
Mr. Rajul Agrawal	Non-Executive	B. Com, MBA
Mr. Abhishek Agrawal	Non-Executive	B. Com, MBA
Mr. Surendra Kumar Jain	Independent	Additional Commissioner of Sales Tax (Retd.)
Mr. Santosh Kumar Tiwari	Independent	B.Com
Mr. Hari Krishan Agrawal	Independent	B.Sc
Mr. Hans Kumar Verma	Independent	Indian Forest Services (Retd.)
Mr. Shyam Babu Agrawal	Independent	B.Com

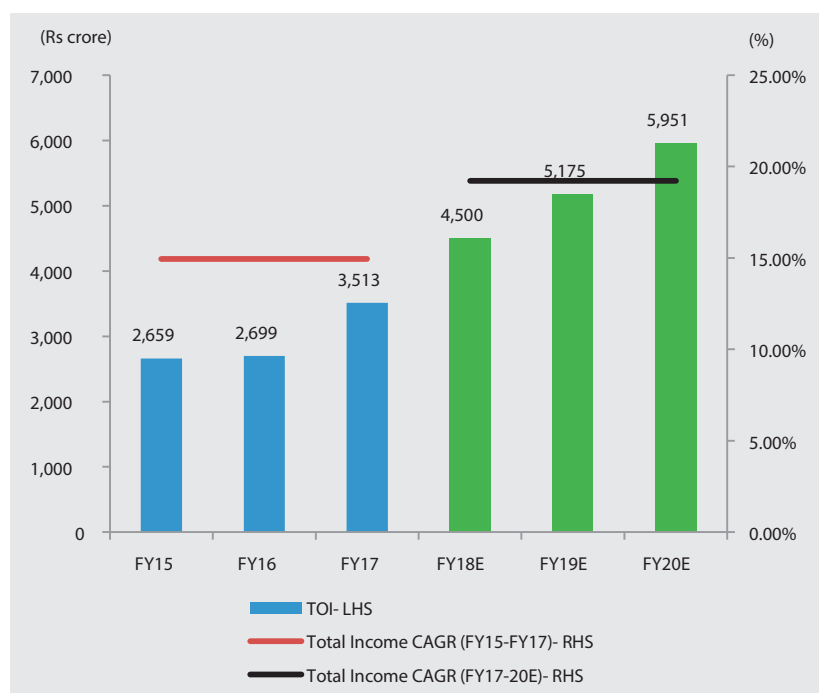
FINANCIAL ANALYSIS

Robust growth in Total Income during FY15-FY17; expected to grow at a CAGR of 19% over FY17-20E

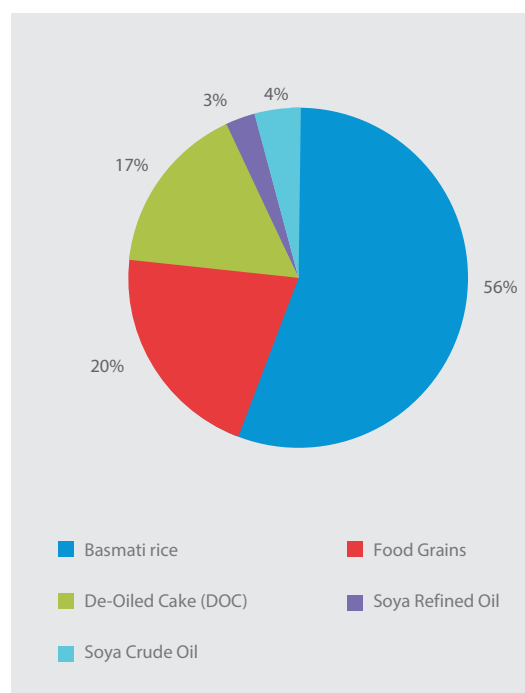
SAOL's total income grew at a Compounded Annual Growth Rate (CAGR) of 15% during last three years ending FY17. The total income grew from Rs.2659 crore in FY15 to Rs.3513 crore in FY17. The growth in the topline was backed by capacity addition, enhancement in product portfolio and expansion of its geographical reach. Apart from addition of basmati rice, which is now a major contributor to SAOL's total income, SAOL launched multiple agro-commodities like Suji, Maida, Dalia, Besan, Chakki Fresh Atta, Poha, Soya Flour, Sugar, Pulses and packaged food in its product portfolio during FY16 which is sold under "Sanwaria" brand.

Sanwaria is moving from a conventional commodity and agro-based company into a FMCG company and has established 20 retail outlets in the name of "Sanwaria Kirana" in Madhya Pradesh to directly reach out the customers, thereby increasing its brand image and profitability.

Going forward, CARE expects total income to grow at 19% CAGR over FY17-20E from Rs.3513 crore to Rs.5951 crore. The growth in revenue is expected to be primarily driven by its diversified product portfolio. Sale of basmati rice is expected to be a major contributor to SAOL's total sales followed by existing food grains business.

Chart 1: Growth in Total Income and CAGR

Source: Company and CARE Equity Research

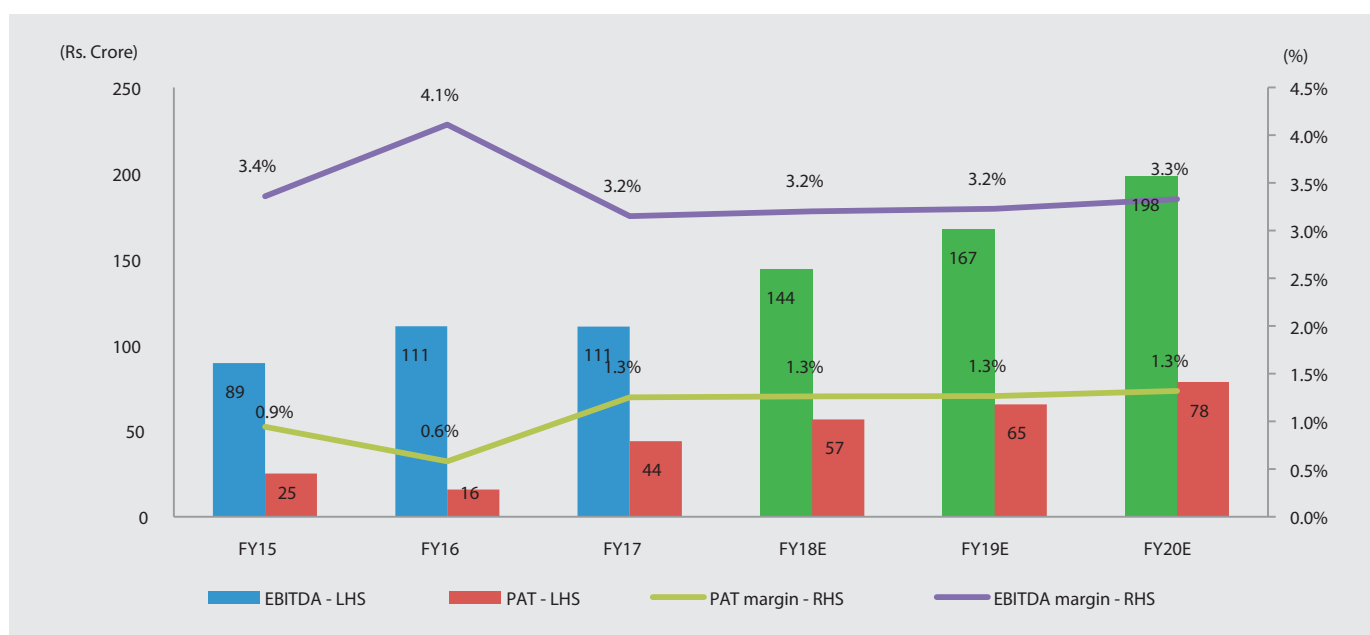
Chart 2: Product mix of SAOL during FY17**EBITDA and PAT expected to grow at 21% CAGR over FY17-20E**

CARE expects EBITDA to register a 21.4% CAGR over FY17-20E from Rs.111 crore in FY17 to Rs.198 crore on the back of revenue growth and modest improvement in EBITDA margin by 18 bps from 3.15% in FY17 to 3.33% in FY20. We believe that gradual acceptance of recently launched branded products and opening of exclusive stores will help company achieve better profitability.

The net profit is expected to grow at 21.3% CAGR over FY17-20E from Rs.44 crore to Rs.78 crore, led by stable growth in operating income. The net profit margin is expected to expand by modest 7 bps during the same period to 1.32% in FY20E.

The Concerns for the basmati rice segment is the fact that the prices of basmati rice keep on fluctuating and the manufacturer has to keep the Stock for long period due to high ageing process resulting in high working capital Cost.

Chart 3: EBITDA and PAT margin is expected to remain stable



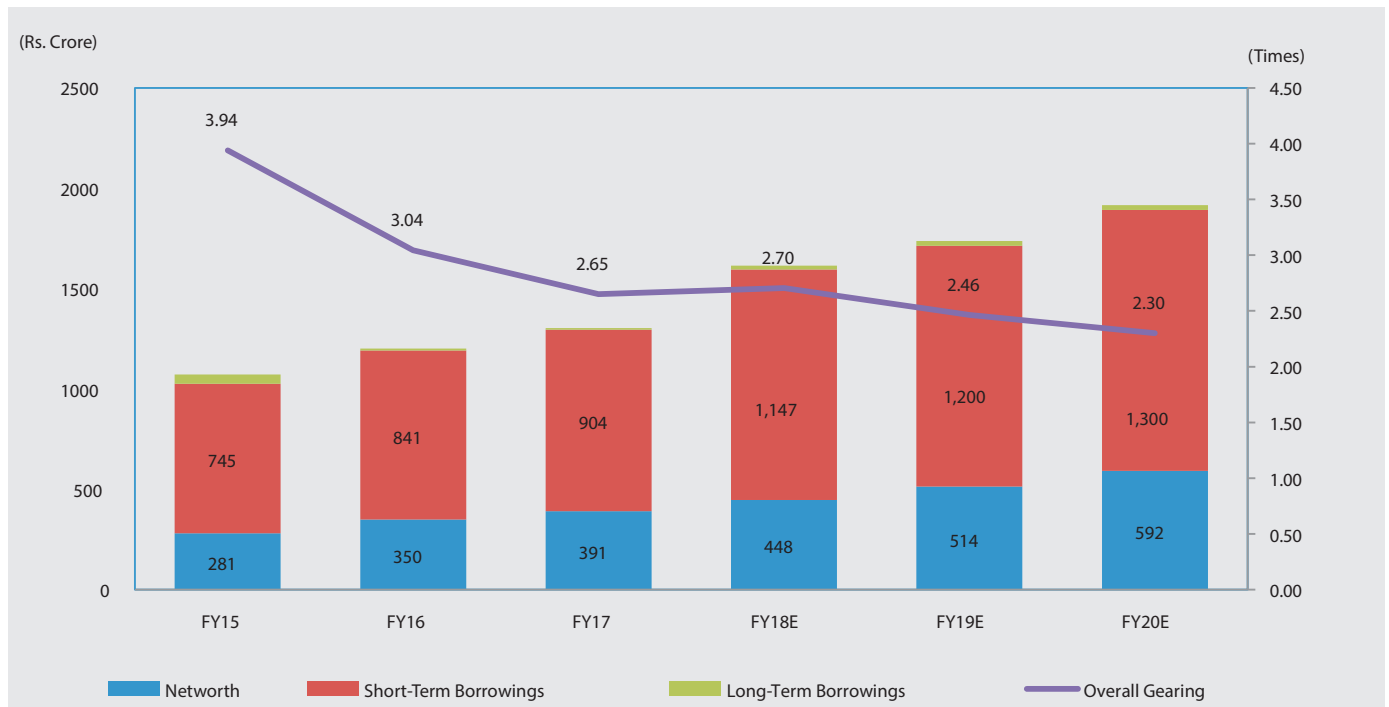
Source: Company and CARE Equity Research

Capital structure envisaged to remain leveraged on account of high reliance on bank borrowings for working capital requirements

High working capital intensity and elongated working capital cycle is an inherent characteristic among companies engaged in basmati rice industry. Paddy, being a seasonal commodity, needs to be stocked for the entire year's requirement. Further, basmati rice requires higher ageing of the semi-finished rice for better quality thereby elongating the working capital cycle.

The debt structure of SAOL primarily consist of working capital bank borrowings (fund-based and non-fund based limits). CARE expects that the utilisation of working capital limits will remain high for shoring up working capital requirements resulting from higher inventory holding and extension of higher credit period to distributors and dealers for basmati rice.

Chart 4: Composition of Capital Employed

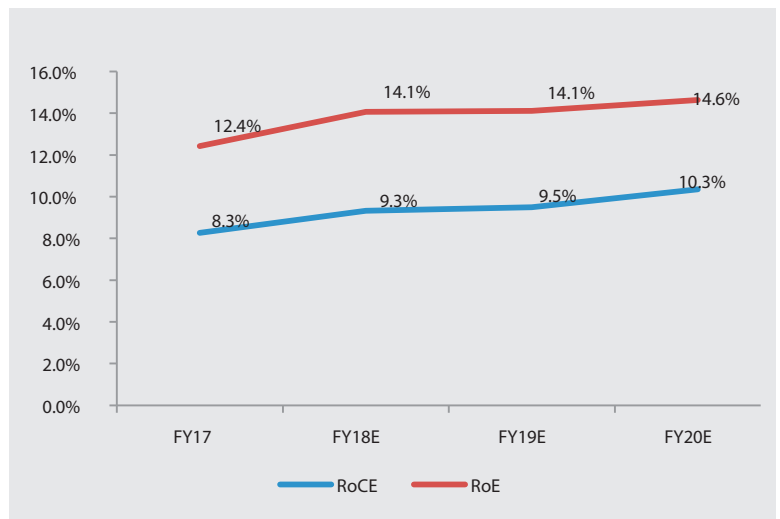


Source: Company and CARE Equity Research

ROCE and ROE to gradually increase;

CARE expects ROCE and RoE to gradually increase to around 14.6% and 10.3% respectively in FY20E on account of sustainable growth in its topline and profit margins.

Chart 5: Return ratios trend



Source: Company and CARE Equity Research

VALUATION GRADE

Considerable Upside Potential

5/5

CARE Equity Research values SAOL at Rs.11 per share; assigns a valuation grade of 5/5

Considering the nature of the industry, we have used the Price Earnings Ratio method to value equity shares of SAOL. The average one year forward P/E multiple for the past five years has been ~14x for the company. We have assigned a P/E multiple of 14x to one year forward earnings and arrived at a fair value of Rs.11 per share. Consequently, we assign SAOL with a valuation grade of 5/5 indicating considerable upside potential.

Table 6: Valuation snapshot

Price earning Multiple method	
Ex-bonus EPS (one year forward)	0.80
Period considered	July 2018 -June 2019
Target multiple	14.0
Price per share	11
Current Market Price	8.46 [^]
Upside Potential	30%
Valuation Grade	5/5

[^]Closing Price on BSE on July 17, 2017

Source: CARE Equity Research

Chart 6: SAOL-Five year weekly average P/E Multiple**Chart 7: SAOL-Five year weekly average P/BV Multiple**

The CIV of Rs.11 per share translates into price to book value (P/BV) multiple of 1.8 times the FY18P BVPS of Rs.5.86 per share. Historically, the P/BV remained at a multiple of 1.2 times based on five years weekly average.

Note: In May 2017, SAOL declared bonus issue of equity shares at the ratio of 1:1 (One bonus share for every equity share held). Record date for the bonus issue was July 4, 2017.

PEER COMPARISON: SAOL

Basis of comparison:

Engaged primarily in processing and selling of branded basmati rice

Particulars	SAOL		KRBL (Consolidated)		LT Foods Limited (Consolidated)		Kohinoor Limited (Consolidated)	
	FY16	FY17	FY16	FY17	FY16	FY17	FY16	FY17
Financial Statements								
Total Operating Income	2,173	3,455	3,436	3,159	2,980	3,322	1,305	1,166
EBIDTA	111	111	541	654	363	403	122	-66
EBIT	103	103	493	592	267	NA	82	-79
PAT	16	44	337	399	72	129	-24	-138
Profitability								
EBIDTA/ TOI (%)	5.11	3.21	15.74	20.70	12.18	12.13	9.36	-5.67
EBIT/ TOI (%)	4.74	2.99	14.35	18.75	8.97	NA	6.26	-6.78
PAT/ TOI (%)	0.74	1.27	9.81	12.62	2.43	3.88	-1.83	-11.83
Per Share Data								
Earnings per Share (EPS)	0.46	1.20	14.32	16.97	2.70	4.84	-6.79	-39.15
Valuation Ratios								
P/E*	13.31	6.72	15.61	24.35	8.37	13.65	-6.30	-2.17
Market Capitalisation (Rs. Crore)	213.01	295.54	5260.96	9728.66	602.32	1761.10	150.83	299.02

*based on closing Market Price per share (MPS) as on balance sheet date

Comments:

SAOL is the newest entrant in the branded basmati rice processing and selling amongst its peers. However, SAOL has been able to penetrate the Central and Western India with Madhya Pradesh and Gujarat as its top two states.

COMPANY BACKGROUND

Company Overview

Incorporated in 1991 by Late Mr Ram Narayan Agrawal and his family members, Bhopal-based SAOL is engaged in processing of soya bean, basmati rice and trading in agro commodities. SAOL is a part of Sanwaria Group which has presence in various growing sectors like renewal energy, infrastructure, hospitality, and warehousing through its group companies.

SAOL has three facilities in Mandideep, Itarsi and Betul for soya bean crushing and refining of soya oil. SAOL commissioned and commenced processing of basmati rice in Mandideep in 2013 and later expanded its processing capacity by setting up a unit in Itarsi in 2015. As on March 31, 2017, SAOL had an installed capacity of 2,500 TPD for solvent extraction, 250 TPD for oil refining capacity and 600 TPD for basmati rice processing.

SAOL is ISO 14001, 22000 certified by International Organization for Standardization. SAOL follows the Good Manufacturing Practice (GMP) laid down by WHO and has been certified by U.K. Certification and Inspection Limited.

Business Mix

SAOL has an established presence of more than two decades in soya-based products which includes crude and refined soya oil, soya de-oiled cake (DOC), soya flour, and soya chunks. SAOL markets the soya bean products under brand of 'Narmada', 'Sulabh' and 'Sanwaria'. The company forayed into basmati rice processing in 2013 and during the last four years, SAOL has expanded its geographical reach in seven states in India and the Middle East. With a long-term strategic view to emerge a leading FMCG company, SAOL diversified its product portfolio of processed foods by launching more than 25 products, which includes value-added products like Maida, Rawa, Suji, Chakki Fresh Aatta etc. SAOL markets the basmati rice in India under 'Sanwaria' brand and 'Nashira' in Dubai. 'Sulabh' and 'Sanwaria' focuses to attract lower middle class while 'Narmada' and 'Nashira' is a premium segment brand.

During FY17, exports contributed about 17% of its SAOL's total sales. Also, proportion of manufactured goods in its sales increased from 58% in FY16 to 68% in FY17. The company now focuses on building a brand and penetrating the domestic market for its newly launched portfolio of processed food products.

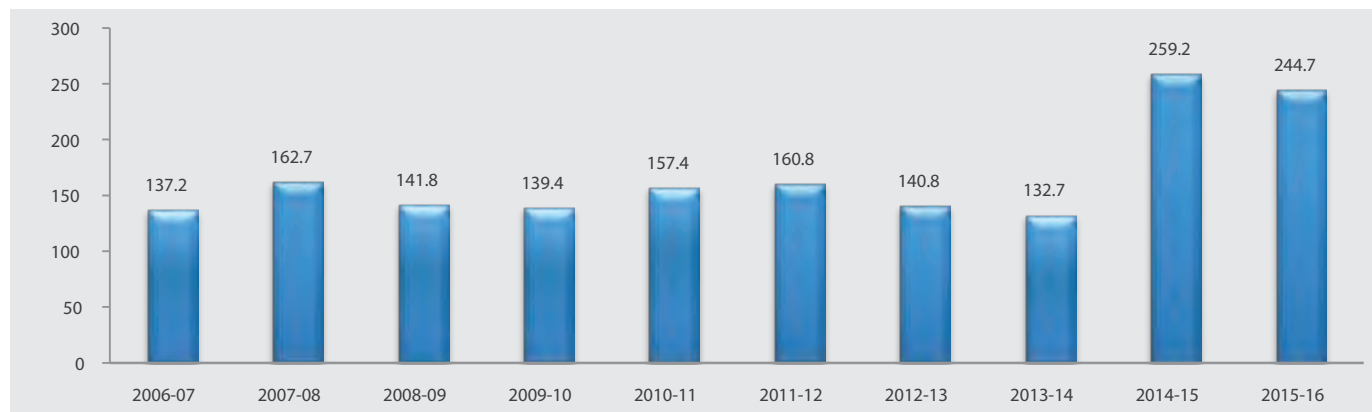
Promoters

SAOL is largely family-owned and managed company and has a well experienced management. It was started by Late Mr Ram Narayan Agrawal and is now managed by his four sons. Mr. Gulab Chand Agarwal, Executive chairman of the company has an experience of more than 25 years in the business and is actively involved in overall management in the organisation. He is assisted by CA Anil Agarwal, who manages the finance matters of the company. Mr Satish Agrawal, a commerce graduate has an experience of more than 25 years in trading and procurement activities and he is at the helm of raw material procurement. Mr. Ashok Agrawal also possess an experience of more than two and half decades in agro business and is currently looking after marketing as well as manufacturing processes in the company. The experienced promoter group is supported by a team of qualified and experienced people at multiple levels in the organisation to look after day to day business activities. CARE believes that management succession is not a cause of concern with SAOL owing to the personal involvement of the four brothers and involvement of third generation of the family.

SNAPSHOT OF THE INDUSTRY

Agriculture Sector in India: At 157.35 million hectares, India holds the second largest agricultural land in the world. India is the largest producer of spices, pulses, milk, tea, cashew and jute; and the second largest producer of wheat, rice, fruits and vegetables, sugarcane, cotton and oilseeds. With over 58% of the rural Households Depending on Agriculture for their Livelihood, agriculture sector holds prime importance in India's economy, with a contribution of 17.4% to the country's GDP and 10% of total exports by India during FY16.

Chart 8: Size of Agriculture Sector in India (in USD Billion)



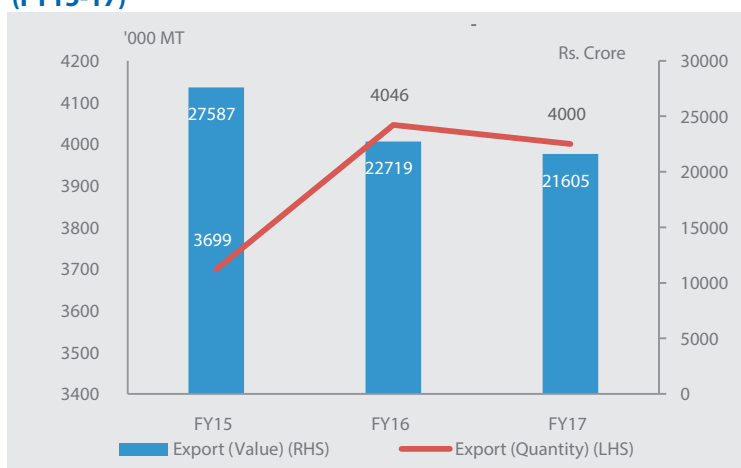
Source: CARE Equity Research

Agro commodity prices such as soya, rice and other food grains are volatile in nature on account of their global trade and hence governance by global demand supply scenario, regulatory controls such as fixing of minimum support price and changes in export-import policy and dependence on factors like area under cultivation, vagaries of the monsoon and prices of other competing crops.

Indian Rice Industry: Amongst all agriculture products, rice contributes more than 40% of the food grain production & cultivation across the country. With rice export growth compounding at a CAGR of 13% from FY10 to FY16, India was the largest exporter of rice during last two years ended FY17.

While India and Pakistan are the only producers of basmati rice in the world, Basmati rice accounted for only 9.46% of the total rice production in India. During FY16, India exported 4.05 MMT of basmati rice aggregating to Rs.22,714 crores, accounting for approximately 60% of rice exports in value terms.

Table showing export sales value and volume of Basmati Rice (FY15-17)



Source: Ministry of Commerce

India also satisfies around 70% of the global basmati rice demand and major destinations includes Saudi Arabia, Iran, United Arab Emirates, Iraq and Kuwait.

The basmati rice industry witnessed a scenario of excess supply and weak international demand for the last two financial years resulting in pressure on sales realisation during FY16. Decline in basmati rice exports during FY16 was primarily on account of ban on basmati rice imports during October 2014 – December 2015 in Iran as they had enough stock of Indian basmati rice

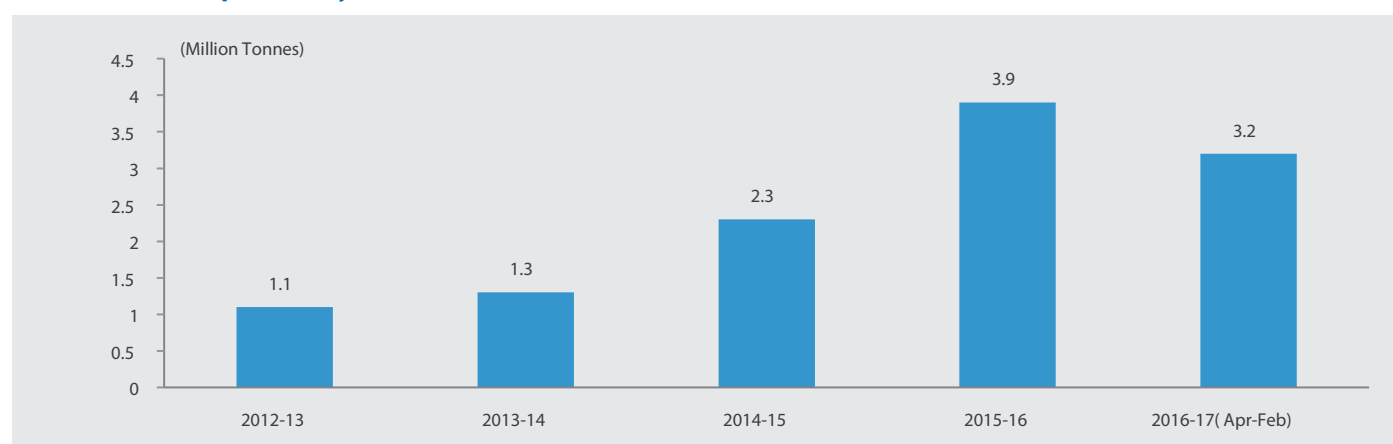
imported earlier and lower fresh orders from other nations. The resumption of the trade between India and Iran is a major boost for the Indian basmati rice industry. During FY16, out of the total exports of 4.05 MMT, approximately 25% (1 MMT) was exported to Iran. The Chinese government also has identified 14 Indian firms to export basmati rice, which will further provide a boost to the Indian export market. The superior quality of rice and competitive pricing (as compared to Pakistan basmati rice) have attracted countries like Netherlands, Italy, Spain, Cyprus and Maldives who have lately shown keen interest in the Indian basmati rice.

Production Estimates: The second advanced estimate of the Ministry of Agriculture estimates India's total rice output to hit the new record at 108.86 MMT for the year 2016-17 compared to the final output of 104.41 MMT for 2015-16. The sowing area under basmati paddy is likely to increase by 25% on the back of favourable climatic conditions and forecast of normal rainfall this monsoon season. After declining considerably during the procurement season in FY16, Basmati paddy prices have firmed up by 20-25% across various varieties, primarily due to relatively lower production, in the recent procurement season (October–December 2016).

In the domestic market, the growing middle class populace, with higher disposal income, prefers to purchase branded packaged rice considering hectic schedules and time constraint, even at marginal additional cost. This is an added boost to the burgeoning of the packaged rice market in India.

Soya Industry: India is a major producer of soya bean and Soybean oil production grew at a CAGR of 4.83% during the last 10 years. However, India was the largest importer of soybean oil, constituting 29.89% of the global import in the year FY16 on account of significant domestic oil deficit.

Chart 9: India's import of Soyabeen Oil



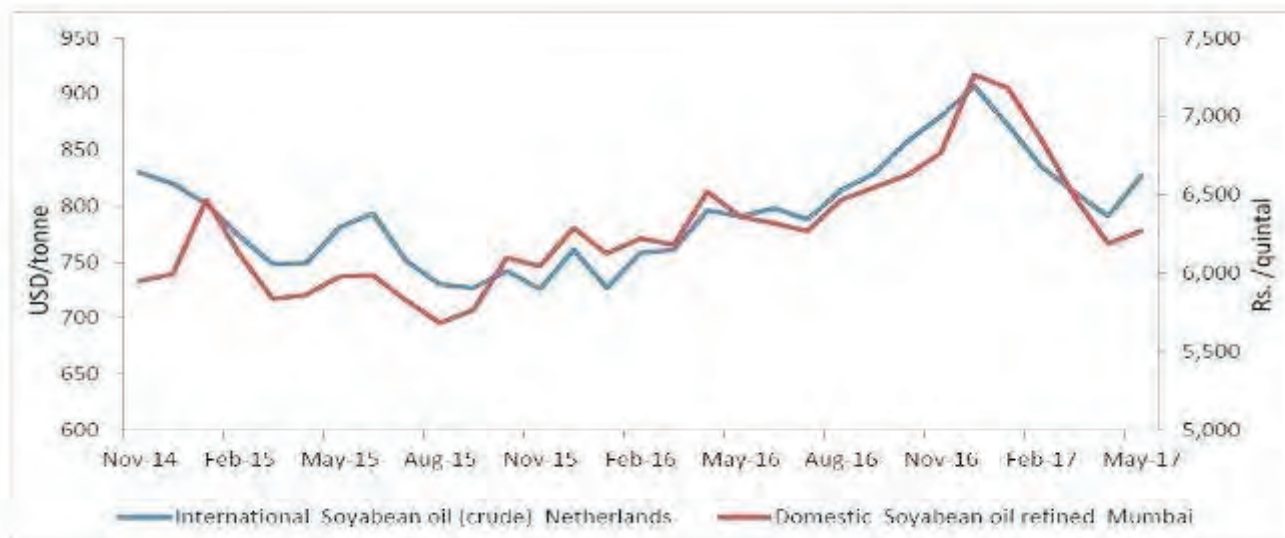
Source: Ministry of Commerce

Movement in Soya bean oil prices

There is a strong correlation between international and domestic prices of soya bean oil. The movement in international prices, which is dependent upon overall demand-supply scenario, can impact the profitability of the domestic manufacturers.

After bottoming out in August 2015, the soya bean oil prices increased month-on-month basis in the international market and peaked in January 2017. However, the prices started declining during Q4FY17 on account of bumper soybean output in North and Latin America, subdued crude oil prices and bumper soya bean seed output in India during the current season. The price of soya bean oil in the domestic market moved in tandem with international prices and the companies have passed on the reduction in prices to the customers.

Chart 10: Price trend in soyabean oil



Source: CARE Equity Research

CARE expects demand for edible oil to remain stable despite increasing competition in the domestic and international market on account of improvement in standard of living, decline in edible oil prices and growth in demand for fried processed food products.

The Government of India is working for the betterment of farmers and has launched various innovative programs which include the Pradhan Mantri Krishi Sinchai Yojana (PMKSY), creation of a National Market for Agricultural produce through electronic platform (eNAM), and the Pradhan Mantri Fasal Bima Yojana (PMFBY).

FINANCIAL STATISTICS

Income Statement

(Rs. Crores)	FY15	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues	2,659	2,699	3,513	4,500	5,175	5,951
EBITDA	89	111	111	144	167	198
Depreciation and amortisation	7	8	7	8	8	9
EBIT	83	103	103	136	159	189
Interest	53	71	67	75	86	99
PBT	33	40	50	73	85	102
Ordinary PAT (After minority interest)	25	16	44	57	65	78
PAT (After minority interest)	25	16	44	57	65	78
Fully Diluted Earnings Per Share* (Rs.)	0.72	0.45	1.23	0.77	0.89	1.07
Dividend, including tax	0	0	2	0	0	0

* Calculated based on ordinary PAT on Current Face

Value of Re. 1/- per share

Balance Sheet

(Rs. Crores)	FY15	FY16	FY17	FY18E	FY19E	FY20E
Tangible Net worth (incl. Minority Interest)	265	333	375	431	497	575
Debt (incl. Preference Shares)	792	851	913	1,166	1,224	1,324
Deferred Liabilities / (Assets)	16	17	16	16	17	17
Capital Employed	1,073	1,201	1,304	1,614	1,737	1,916
Net Fixed Assets, (incl. Capital WIP, net of revaluation reserve)	96	77	70	65	61	64
Investments	36	36	36	36	36	36
Loans and Advances	17	20	17	21	21	28
Inventory	539	534	505	672	794	909
Receivables	581	674	727	869	931	1,024
Cash and Cash Equivalents	35	16	17	19	18	18
Current Assets, Loans and Advances	1,233	1,306	1,352	1,673	1,856	2,063
Less: Current Liabilities and Provisions	310	239	170	182	237	275
Total Assets	1,073	1,201	1,304	1,614	1,736	1,916

Ratios based on Financials

	FY15	FY16	FY17	FY18E	FY19E	FY20E
Growth in Operating Income	7.5%	1.5%	30.1%	28.1%	15.0%	15.0%
Growth in EBITDA	-1.2%	24.2%	-0.2%	30.0%	16.1%	18.6%
Growth in PAT	4.0%	-37.4%	180.5%	28.9%	15.5%	19.8%
Growth in EPS	4.3%	-37.5%	173.3%	-37.4%	15.5%	19.8%
EBITDA Margin	3.4%	4.1%	3.15%	3.2%	3.2%	3.3%
PAT Margin	0.9%	0.6%	1.3%	1.3%	1.3%	1.3%
RoCE	7.2%	9.1%	8.3%	9.3%	9.5%	10.3%
RoE	10.6%	5.2%	12.4%	14.1%	14.1%	14.6%
Gross Debt-Equity (times)	3.9	3.0	2.7	2.7	2.5	2.3
Net Debt-Equity (times)	2.9	2.5	2.4	2.7	2.4	2.3
Interest Coverage (times)	1.6	1.5	1.5	1.8	1.9	1.9
Current Ratio (times)	1.2	1.2	1.3	1.3	1.3	1.3
Inventory Days	55	75	56	50	54	54
Receivable Days	72	84	72	64	63	59
Price / Earnings (P/E) Ratio	8.2	13.6	6.5	14.0	14.0	14.0
Price / Book Value(P/BV) Ratio	0.8	0.6	0.8	1.8	1.8	1.9
Enterprise Value (EV)/EBITDA	10.8	9.4	10.8	13.5	12.7	12.1

Source: Company, CARE Equity Research

EXPLANATION OF GRADES**DISCLOSURES**

- Each member of the team involved in the preparation of this grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.
- This report has been sponsored by the company

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