



CARE Equity Research assigns Fundamental Grade of 3 to the equity shares of REI AGRO LIMITED (RAL).

REI AGRO LIMITED

About the Company

CARE EQUIGRADE GRID (CEG)					
	1	2	3	4	5
Fundamentals	▶				
Valuation	▶				

CEG is explained on the last page

- CARE Equity Research assigns Fundamental Grade on a scale of Grade 5 to Grade 1, with Grade 5 indicating 'Strong Fundamentals' and Grade 1 indicating 'Weak Fundamentals'.
- CARE assigns Valuation Grade on a scale of Grade 5 to Grade 1, with Grade 5 indicating 'Considerable Upside Potential' and Grade 1 indicating 'Considerable Downside Potential'.

Established in 1994 and listed in 1996, RAL is amongst the youngest companies engaged in processing and marketing of basmati rice. RAL's capacity has more than doubled from about 4 lakh tonnes in FY06 to 9 lakh tonnes in FY10, making it one of the noteworthy players in the global basmati rice industry with a market share of about 17 per cent in the global market and 20 per cent in the domestic market.

RAL is also involved in the business of generation of wind-based power with total capacity of 46.1 megawatts. RAL also holds a 24 per cent stake in REI Six Ten Retail Limited (RSTR) and Varrsana Ispat Limited (VIL).

Fundamental Grade

3 [Three] – 'Good Fundamentals'

CARE Equity Research maintains a Fundamental Grade of 3 [Three] for the equity shares of RAL, indicating 'Good Fundamentals'.

RAL is amongst a few integrated players in the fragmented basmati rice industry with a market share of around 20 per cent in the domestic market and 17 per cent in the global market.

Standalone revenue for RAL in Q2FY12 grew by 7.6 per cent y-o-y to Rs.902 crore. While, total volumes (sans trading) grew by 13.4 per cent during the quarter, realizations were muted. EBITDA for the Q2FY12 was up 19.4 per cent at Rs.195.7 crore as against Rs.163.9 crore in Q2FY11. The improvement in EBITDA was primarily on account of lower raw material costs. Consequently, EBITDA margins were up 214 bps at 21.7 per cent in Q2FY12 as against 19.6 per cent in Q2FY11. Net profit on the other hand was down 26.1 per cent due to rise in interest expenses. RAL reported net margins of 5.9 per cent for Q2FY12.

While, being in an agricultural business, the company will continue to be subject to some inherent threats such as failure of monsoons, cyclicity, etc. An overall increase in yield of whole grain rice, scale-up of capacities and positive demand outlook in the domestic and international markets for basmati rice will help in future growth.

Valuation Grade

5 [Five] – 'Considerable Upside Potential'

According to CARE Equity Research, the Current Intrinsic Value (CIV) of the equity shares of RAL stands at Rs.32.7 per share; valuing it at 8.2 times FY13 diluted EPS of Rs.4.0 per share. Thus, RAL has 'Considerable Upside Potential' from market price (BSE) of Rs.15.25 per share as on 29th December, 2011.

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Fundamental Grade

CARE Equity Research's Fundamental Grade is an opinion on the fundamental soundness of the company vis-à-vis other listed companies in India. 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 one-year period. 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.

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.
- The CARE EQUIGRADE report has been sponsored by the company.

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