

Solvent Extraction

Sanwaria Agro Oils Ltd

COMPANY UPDATE

CMP

Rs.19

MCap

Rs.10.53 cr

Face Value

Rs.10

Stock Code

BSE: **519260**

Reuters: **SNWR.BO**

Sector

Solvent Extraction

52 Wk High/Low

Rs.37.15/3.00

EPS (Current)

Rs.5.84

PE (Current)

3.26x

Shares O/S

Rs.55.3 lakhs

Index (as on 14th Mar)

Sensex: **3580**

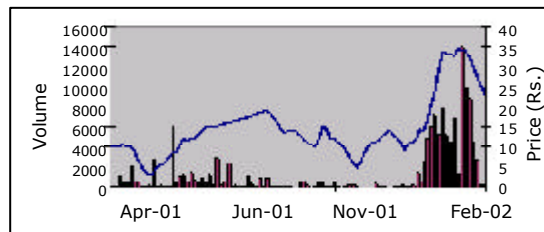
Nifty: **1160**

- Sanwaria Agro Oils Ltd (SAOL) engaged in Solvent Extraction & Exports has continuously outperformed the Solvent Extraction / Edible Oil industry on a number of counts. We expect this outperformance to continue.
- The company recently bagged an export order worth \$5 million to export soyabean extraction. We expect this to have favourable effect on its bottomline for current fiscal.
- The smart recovery of soya oil prices in CBOT on the back of weak dollars could well add inspiration to the soya oil market and in turn the margins of SAOL.
- At 2.81x FY02 earnings, against the industry average of 4.5x, SAOL deserves better valuation.
- The company's EV/EBITDA which is at historic lows points to attractive valuation. With profits expected to grow by a convincing 45% for the next three years, EV/ EBITDA ratio would only drop further.
- Based on historic, market and PEG based valuations we believe a price of Rs.39 is a fair value for the stock.

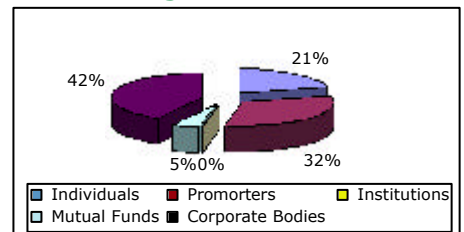
Year end March	2002E	2001	2000	1999
Net Sales (Rs cr)	150.01	139.65	105.84	82.52
YoY %	7.42%	31.94%	28.26%	-4.07%
Net Income (Rs cr)	3.75	1.90	1.46	0.78
YoY %	97.14%	30.13%	87.17%	-6.02%
EPS (Rs)	6.77	3.44	2.34	1.45
YoY %	96.90%	47.00%	61.37%	NA
RoCE (%)	NA	15.87	14.75	10.99
RoNW (%)	25.10	16.91	14.30	8.64
NPM (%)	2.49	1.36	1.38	0.95
OPM (%)	3.69	2.65	2.73	2.30
PER (x)	2.81	2.85	NA	4.14
EV/EBITDA (x)	NA	3.97	NA	4.55
P/BV (x)	1.27	0.48	NA	0.36

Performance	1 month	3 month	12 month
Absolute (%)	-28.85	71.32	130.69
Relative (%)	-36.44	69.83	131.46

Share Price Movement



Shareholding Pattern



Karvy House
46, Avenue 4, Street No. 1,
Banjara Hills,
Hyderabad - 500 034.

Analyst

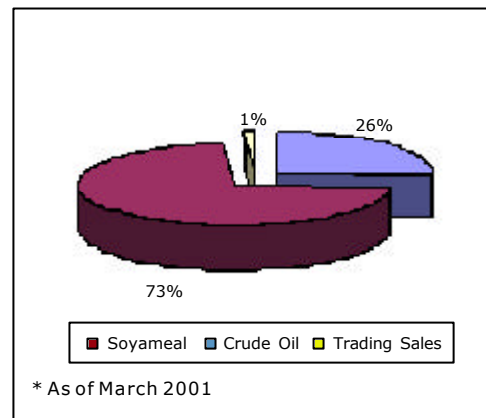
Karthik Raj K
karthik@karvy.com

The Madhya Pradesh based company engaged in Solvent Extraction & Exports finally appears to be taking a turn after it got beaten in the stock market to a low of Rs.3. Though the last one month price performance is not encouraging, the performance over the last one year is highly impressive. The key factor that is driving the stock price is the company's continued remarkable financial performance and the promise the stock holds for the future. The company's December quarter (year end March) results was remarkable with the net profit growing at a sharp 60% y-o-y. The company's operating profit margin jumped 200 basis points y-o-y to 5.8%. We expect SAOL to post stronger growth in the current quarter.

3Q FY02 Results

Rs cr	Quarter (Dec 01)	Quarter (Dec 00)	(% Chg)
Sales	32.22	32.9	-2.1
Other Income	0.04	0.08	-50
PBIDT	1.91	1.32	44.7
Interest	0.08	0.13	-38.5
PBDT	1.83	1.19	53.8
Depreciation	0.06	0.09	-33.3
PBT	1.77	1.1	60.9
Tax	0.25	0.15	66.7
Deferred Tax	-	-	-
PAT	1.52	0.95	60

Sales Breakup



Capacity utilisation - Key to remarkable performance

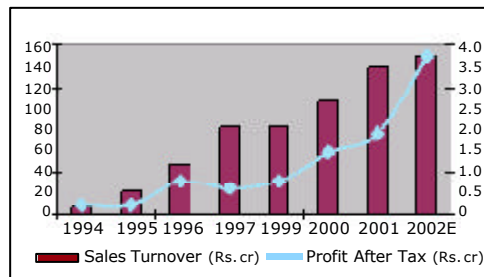
The company has continuously outperformed the Solvent Extraction/Edible Oil industry on number of counts. The company was able to achieve a capacity utilization in excess of 100% against Industry Average of 35% and had received Best Capacity Utilisation Award for the year 1998-99 and 1999-2000. This we believe has helped SAOL improve its margin while the industry is facing pressure on margins due to low operating capacity and high overheads.

Operational efficiency - Rising profits

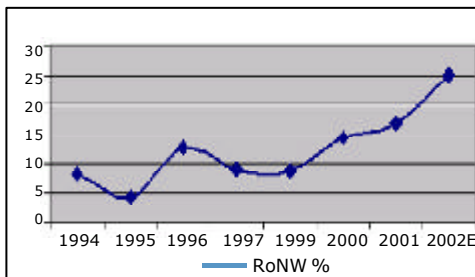
Another key factor for the company to achieve this performance is on account of its operational efficiency. The company has over a period of time has reduced the consumption of coal and electricity per unit of production and is expected to further improve consumption of energy through a series of audit programmes and continuous monitoring of process of manufacturing.

Besides, SAOL's extraction plant has got the locational advantage due to the fact that its main raw material Soyabean Seed is available in abundant quantity at remunerative prices through out the year. The Hoshangabad district is highest Soyabean growing district in India in terms of total crop size and area under cultivation. MP alone contribute 80% of the total output with the cultivated area of around 4.5 million hectares.

Sales and Profit Trend

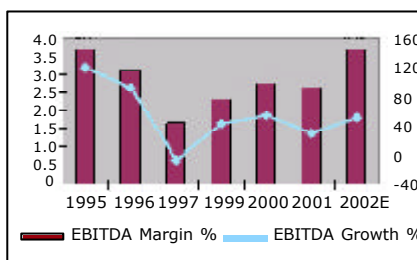


RoNW Trend



Modernisation and capacity expansion - Improved margins

The company's effort to implement modernisation and capacity improvement techniques on a continuous basis has started to pay off. Though traditionally the company has been facing pressure on margins there are signs of improvement. With further capacity expansion and production of value added items like de-fatted/ full fatted flour and other related items, we expect the company's competitive powers and margins to improve in the future.



Healthy earnings outlook

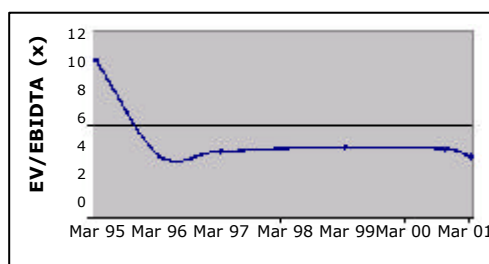
Apart from showing signs of improved margins, the company's ongoing thirst on exports and its decision to concentrate on brand building for its refined edible oil likely to be launched in consumer pack shortly to take up inevitable WTO regime, promises a healthy earnings in the future.

The company has got status of Export House recently and now the company is aiming for Trading House status. Going by the performance of the company in the first three quarters of this fiscal and the recent \$5 million export order, the company bagged, SAOL is likely to achieve a growth rate of about 97% on net profit for FY02.

Valuations appear attractive

Historically the stock has not attracted any premium valuation. While the company has consistently out performed the industry, the stock has been de rated.

At the current market price, the stock's valuation appear demanding. The stock is trading at 2.81x 2002 expected earnings compared with the industry average of 4.5x. The company's EV/EBITDA also points to attractive valuation.



EV/EBITDA for SAOL has been showing a flat trend well below its historic highs. With profits expected to touch Rs.3.75 crore for the current fiscal and grow by a convincing 45% for the next three years, EV/ EBITDA ratio would only drop further.

We have gone about valuing the company based on a historic, futuristic and market based methods and have arrived at a price of Rs.39/-. This means to say that the current market price of Rs.19 is at a discount of 105% to our estimated value.

Net Asset Basis		Rs. Cr	Market Value Basis		
			Month	Price - High	Price - Low
Share Capital		6.53			
Less: Preference Capital		1.00			
		5.53	200202	37.15	23.30
Reserve & Surplus		7.41	200201	36.55	8.95
Less: Revaluation Reserve		1.71	200112	14.00	11.15
		5.70	200111	13.60	4.65
Book Value		11.23	200110	15.00	7.10
			200109	12.00	12.00
				128.30	67.15
Book Value Per Share		20.42	Average Price	16.29	

Yield Basis					Rs. Cr
Year	PBT	Extraordinary Income	Adj PBT	Weights	Value
1999	0.97	0	0.97	1	0.97
2000	1.85	0	1.85	2	3.70
2001	2.46	0	2.46	3	7.38
Weighted Average Value			2.01		
Less: Tax @ 31.5%			0.63		
Less: Preference Dividend			0.12		
Value					1.26
Capitalise @ 10.5%					11.96
Per Share Value					21.74

PEG Basis		Rs
PAT (Mar. 02)	3.75	PAT Growth 45.00%
PAT (Mar. 05)	11.43	No. of Years 3
EPS	20.67	Shares Outstanding 55.3 lakhs
PEG	0.25	
PE	5.17	
Price (Mar. 05)	106.85	
Discounting Rate	16%	
Price (Mar. 02)		68.45

On assumptions that PAT will grow by 45% annually (growth rate is arrived at by taking the mean of historic growth numbers and profit after tax for Mar 2002 is taken as a base) for next three years, SAOL should command an EPS of 20.67 per Rs.10 share as of Mar 2005. This translates into Rs.107 per share on that date considering a PEG of 0.25. Discounting this share price by a cost of 16%, the company should demand a price of Rs.68 as of Mar 2002.

Weighted Average Price			Rs
	Price	Weights	Implied Price
Yield Basis	21.74	1	21.74
Net Asset Basis	20.42	1	20.42
Market Value Basis	16.29	1	16.29
PEG Basis	68.45	2	136.90
			39.07

While equal weights have been given to historic and market based valuation, more weightage is assigned to the price arrived at by earnings projection.

Concerns - China capturing India's major soyameal markets

Soyameal exporters in the country are currently passing through a critical phase with China capturing India's major soyameal markets like Japan and Vietnam and the US exporting more than the anticipated quantum of meal to Indonesia.

Due to the Chinese factor, soyameal exports from the country to Japan have steadily declined from 3.2 lakh tonnes (lt) in 1999-2000 to 1.6 lt in 2000-01 and further to 75,000 tonnes this year (as of Jan 2002). Similarly, exports to Vietnam plunged from 2.8 lt last year to 75,000 tonnes this year. Same is the case with Indonesia to which meal exports have fallen from 4.6 lt in 1999-2000 to 3.5 lt in 2000-01 and to 2 lt this year.

The steep fall in soyameal exports to these countries has been marginally compensated by South Korea and Iraq to which 4.5 lt and 1.5 lt have so far been this year.

Adding to their woe is the devaluation of currency in Argentina which is also a major producer of soya. Besides, the soya crop in South America, another major bean producer, is stated to be progressing extremely well. On account of all these aspects, there is a significant fall in the prices as well as demand for Indian soyameal.

Indian soyameal prices in the international market are currently hovering around \$169 per tonne as against \$177 a month ago and \$190 a year ago.

Extraction	28th Feb. 2002	Change %	28th Jan. 2002	Change %	Average Feb. 2001
Local Mill (Rs./Tonne)					
Soya Ext. (Indore) 48/2.5	7,400	-2.63	7,500	-8.62	8,098
Export (US\$/ Tonne)					
Soyabean Ext. (Bulk) Yellow 48/2.5	169	-0.59	177	-11.05	190

However we are of the opinion that this price will certainly go up. This is because, some traders are increasing their stocks in view of the prevailing low prices. Shipment of soyameal in accordance to some of the trade deals already concluded would also start soon leading to an upward movement of prices. As far as soya oil is concerned, there has been a smart recovery in price of the product in CBOT on the back of weak dollars which could well add inspiration to the soya oil market and in turn the margins of SAOL.

Soyameal Market Scenario

The soyameal, which have good growth potential in the domestic consumption have a high demanding export market. The soyameal has its users in the Poultry and Livestock industry, dairy and cattle feed, and in aquafeed segments. Of the total meal produce, 1/3 usage is confined to the poultry, and the rest for dairy and cattle feed and the production for the aquafeed segment.

The price of the soya and its derivatives depends on the domestic crop output, global demand & supply scenario, and international prices. The raw material, soya seed is available in plenty and India is a major producer of soyabean and stands fifth in the production, next to US, Brazil, Argentina, and China.

On the export front, Indian soyameal shares a prominent position in the Asian, South East Asian and Middle East countries. However, the Indian exports are becoming uncompetitive due to the higher prices as compared to other prices. They have lost their market share in countries like Korea, China, and Indonesia. The higher cost of production is blocking the exporters from pricing its exports competitively. While in the domestic market, the players face a lack of the market orientation.

Process Flow

Modern soybean processing involves solvent extraction to obtain crude oil and defatted meal. Nearly all defatted meal is used for animal feed with only a small fraction further processed for industrial and human consumption.

The diagram shown below depicts the process of oil extraction and heat processing to produce soybean meal.



Conversion ratio: 5 tonnes of soyabean gives 1 tonne of soyaoil
 Conversion ratio: 5 tonnes of bean gives 4 tonnes of soyameal

Rs. in cr

Income Statement						Solvent Extraction
	FY02E	FY01	FY00	FY99	FY97	Latest
INCOME :						
Sales Turnover	150.01	139.1	105.84	82.52	81.42	12414.3
Other Income	0.28	0.86	0.77	0.6	0.24	
Stock Adjustments	-1.83	0.18	0.67	-1.12	-0.47	138.74
Total Income	148.46	140.14	107.28	82	81.19	12553.04
EXPENDITURE :						
Raw Materials	128.83	119.94	92.91	70.3	72.11	10559.77
Excise Duty	0	0	0	0	0	36.76
Power & Fuel Cost	0*	2.2	2.17	1.83	0.57	277.13
Other Manufacturing Expenses	3.87	1.11	1.08	0.93	1.56	461.98
Employee Cost	0.33	0.27	0.24	0.24	0.24	181.47
Selling and Administration Expenses	13.56	12.91	7.85	6.7	5.27	566.23
Miscellaneous Expenses	0	0	0.14	0.1	0.09	217.86
Less : Preoperative Expenditure Capitalised	0	0	0	0	0	0.52
Profit before Interest, Depn & Tax	5.54	3.71	2.89	1.9	1.35	252.36
Interest & Financial Charges	0.49	0.86	0.68	0.59	0.45	367.94
Profit before Depreciation & Tax	5.05	2.84	2.21	1.31	0.9	-115.58
Depreciation	0.55	0.38	0.36	0.34	0.2	154.93
Profit Before Tax	4.50	2.46	1.85	0.97	0.7	-270.51
Tax	0.75	0.56	0.39	0.19	0.09	17.8
Profit After Tax	3.75	1.9	1.46	0.78	0.61	-288.31
Earning Per Share (Rs.)	6.77	3.43	2.34	1.45	1.13	0

Balance Sheet					Solvent Extraction
	FY01	FY00	FY99	FY97	Latest
SOURCES OF FUNDS :					
Share Capital	6.53	6.39	5.39	5.39	1187.53
Reserves & Surplus	7.42	6.27	5.55	3.94	1198.11
Total Shareholders Funds	13.95	12.66	10.94	9.33	2385.64
Secured Loans	8.49	8.78	3.67	4.47	2279.03
Unsecured Loans	1.15	0.67	1.75	0	352.34
Total Debt	9.64	9.45	5.42	4.47	2631.37
Total Liabilities	23.59	22.11	16.36	13.8	5017.01
APPLICATION OF FUNDS :					
Gross Block	8.92	8.19	7.34	6.73	3267.45
Less: Accum. Depreciation	1.97	1.59	1.23	0.61	936.58
Net Block	6.94	6.6	6.11	6.12	2330.87
Capital Work in Progress	1.27	0	0	0	137.69
Investments	3.78	0.23	0.23	0.19	552.63
Current Assets, Loans & Advances					
Inventories	9.79	7.69	7.46	4.32	1531.74
Sundry Debtors	7.19	6.8	3.15	2.58	992.07
Cash and Bank Balance	2.86	4.38	1.61	0.09	203.92
Loans and Advances	1.93	1.79	1.88	1.51	753.93
Less: Current Liab. & Prov.					
Current Liabilities	6.32	4.69	4.29	1.28	1513.89
Provisions	0.8	0.89	0.04	0.09	63.49
Net Current Assets	14.84	15.08	9.77	7.13	1904.28
Miscellaneous Expenses not w/o +	0.15	0.2	0.25	0.36	91.54
Total Assets	23.59	22.11	16.36	13.8	5017.01

Valuation Summary

Latest Price (Rs)	PER (x)		EPS (Rs)		P/BV (x)		EV/EBITDA	
	FY02E	FY01	FY02E	FY01	FY02E	FY01	FY02E	FY01
19	2.81	2.85	6.77	3.44	1.27	0.48	NA	3.97

Methodology Applied	Price (Rs)	Weights	Weighted Price (Rs)
Net Asset Basis	20.42	1	20.42
Market Value Basis	16.29	1	16.29
Yield Basis	21.74	1	21.74
PEG Basis	68.45	2	136.9
Implied Price			39.07

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