

## **IFB Agro Industries Ltd. (Rs.73/-)**

*January 25, 2007*

### **AN ALCOHOL/IMFL COMPANY SET TO SOAR.**

IFB Agro Industries Ltd. (Rs. 73/-): Belonging to IFB Industries Group, IFB Agro is engaged in the production of Extra Neutral Alcohol (Rectified Spirit), IMFL and Marine Products. Industrial Alcohol has a wide variety of uses mainly in pharmaceuticals, chemicals and homeopathic drug making industries. It has a technical collaboration with Starcoza, West Germany. In the IMFL segment, company has launched 'Volga' Vodka in Orissa. Its marine product division meets the most stringent quality specifications under HACCP and USFDA norms enabling exports to a large number of destinations in Japan, Europe and U.S.A. Credibility of its products is well established amongst overseas buyers. It has five factories situated at different locations in West Bengal.

#### **Financial Performance 05-06:**

	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>
	(cr.)	(cr.)	(cr.)
Sales	165.36	190.10	225.80
Net Profit	1.38	1.83	1.87
Net worth	43.99	46.28	47.16
Total Debt	3.60	5.00	5.30
Book Value (Rs.)	57.08	60.05	61.19

#### **Trailing 5 Quarters:**

	<b>Q2FY07</b>	<b>Q1FY07</b>	<b>Q4FY06</b>	<b>Q3FY06</b>	<b>Q2FY06</b>
	(CR)	(CR)	(CR)	(CR)	(CR)
Net Sales	55.30	40.10	38.03	39.60	39.34
Net Profit	2.54	1.72	2.12	1.07	- 0.81

In 2005-06, performance of the company was not very encouraging although gross sales and net sales grew by 18% and 34% respectively over last year. During first half, its bottomline was badly hit due to high cost of molasses and company made losses. However, in second half, with the softening of molasses prices, company could achieve positive results. EPS was Rs. 2.43.

#### **Alcohol Division:**

Sales volume was marginally higher by 1%. Yield fell due to inadequate supply of good quality molasses.

On IMFL, company launched its product 'Volga' Vodka in Orissa. Response has been very good. Company has carried out wide promotion for this prime brand 'Volga' Vodka in West Bengal, Orissa and North East. As a result, its sales went up by 62%.

#### **Marine Products Division:**

This Division performed exceedingly well with export sales going up by 65%. With export turnover touching Rs. 20 cr., company received one Star Export House status. Volume of domestic business was up by 114% in view of effective marketing in Calcutta, Bangalore, Delhi etc. Company has entered into back-to-back arrangement with the farmers who are buying feed from the company, getting all technical support and supplying margin products for the company.

## Future Outlook:

	H1FY07 (cr)	FY07E (cr)	FY08E (cr)
Net Sales	95.40	210.00	260.00
Net Profit	4.26	8.40	14.50
Equity	7.70	7.70	7.70
<b>EPS (Rs.)</b>	<b>5.53</b>	<b>10.91</b>	<b>18.83</b>

With softening of molasses prices, company has put up an excellent show in H1FY07 by achieving NP of 4.26 crs. on net sales of 95.40 crs. **NP of H1 is higher by 140% compared to profit of entire 05-06. Company has embarked on modernization drive for Rs. 28.50 crs. It is spending Rs. 10 crs. for pollution equipments, power generation plant and, related accessories which will ensure zero discharge norms and captive power. In order to mitigate risks of molasses, company has set up another factory, involving production of alcohol through grain route.** This new plant will increase production capacity of alcohol division by 60-70%. Plant is ready, awaiting Govt. approvals. Impact of the same will be felt in 07-08.

## New Trigger:

IFB Agro has already been registered for Carbon Credit. Its project called 'Avoidance of Waste Water & Onsite and Energy Use Emissions and Renewal Energy Division' in its distillery has been registered as CDM Project with UNFCCC. **Company is eligible to get 70760 M.T. CO2 equivalent CERs for the period 01/01/07 to 31/12/2016. It means, company will get Carbon Credits for 10 years starting from 1st January '07. Company is likely to get Rs. 4-5 crs. in each year for next 10 years from the same.** This itself will translate into EPS of 6-7 per year.

## Valuations:

Promoters hold 53% Equity. In Oct. '05, its share price had gone upto Rs. 129/-. At present levels, share price has almost bottomed out and is likely to flare up again in near future.

**Scrip is trading at just 6.70 x FY07E EPS (FY07E EPS has been calculated without Carbon Credit Money) and 3.88 x FY08E EPS. By any standards, this discounting is extremely low and current valuations are compelling. Once its IMFL Division 'Volga' becomes bigger and more popular, stock can be re-rated as liquor stock. If, stock has modest P.E. Ratio of 12, its share price (based upon FY08E) should be more than Rs. 200/-. Our price target as under:**

- 1) **Rs. 125/- by July 07.**
- 2) **Rs. 200/- in 15-18 months.**

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