

Sita Shree Food Products Ltd.

Price Band	: Rs27 - 30 per share	March 10, 2008
Issue open between	: March 11 - 14, 2007	
Recommendation	: None*	
Book Running Lead Manager	: Keynote Corporate Services Ltd.	
To list on	: NSE & BSE	
Grading (CARE)	: 2 / 5	
Market Cap post-listing	: Rs66Cr or \$16.3mn (based on the cap price)	

(* We are associates of the BRLM, hence no recommendation; also read disclaimer on page 6)

IPO of 10.5mn equity shares of Rs10 each, aggregating to Rs31.5Cr or \$7.8mn (at the cap price)

Shareholding Pattern

Shareholder Categories	Pre-issue		Post-issue	
	No. of shares	% Holding	No. of shares	% Holding
Promoters	7,372,995	63.9%	7,372,995	33.5%
Promoter Group	4,163,805	36.1%	4,163,805	18.9%
QIBs excl. Mutual funds	0	0.0%	4,987,500	22.6%
Mutual funds	0	0.0%	262,500	1.2%
Non-Institutional Investors	0	0.0%	1,575,000	7.1%
Public	0	0.0%	3,675,000	16.7%
Total	11,536,800	100.0%	22,036,800	100.0%

Executive Summary

- Sita Shree Food Products Ltd. (SSFPL), is a Indore based wheat and pulses processor for over 3 decades serving primarily western and southern markets.
- It markets packaged products under its own brand 'Sita Shree Regular' and 'Sita Shree Gold', as well as supplies food products to organized retail players like Pantaloon Retail and Reliance Retail. Recently, it has commenced exporting to the gulf countries.
- Ministry of Food Processing Industries (GOI) estimates size of Processed Food Industry @ Rs1440bn. The management has over 3 decades of experience in this industry.
- Top line and bottom line grew @ CAGR of 48.8% and 77.5% respectively from FY04 to FY07.
- The expansion plan involves capex of Rs48Cr to be funded through mix of instruments viz., equity, debt and internal accruals for setting up solvent extraction plant, Lecithin plant and additional flour mill to cater to the increasing demand.
- Extraction of soya oil and manufacturing by-products of Soya have higher EBITDA margins.
- IPO is priced at 18.8x based on pre-issue weighted EPS and 22.0x based on pre-issue FY07 EPS.

Company and Promoter Background

SSFPL was incorporated in 1996 and promoted by Mr. Rajababu Agrawal, Mr. Dinesh Agrawal & their family members.

Mr. Rajababu Agrawal and Mr. Dinesh Agrawal are associated with this industry for over 3 decades. Rupesh Agrawal, son of Rajababu Agrawal has experience over a decade in the exports market.

Ashish Agrawal, son of Dinesh Agrawal, assists Rupesh Agrawal in day-to-day business affairs.

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Keynote Capitals Research is also available on Bloomberg KNTE <GO>

Food-Processing Industry

Agriculture contributes 18% to India's GDP in 2007-08. Despite emergence of other sectors and its minimal GDP share, it still remains an important part of Indian economy.

India's population is currently 1.1bn and it is increasing @ 7.8Cr p.a. With this growth in population and rising income levels, the demand for quality food is increasing.

Ministry of Food Processing Industries, Government of India (GOI) estimates size of the Processed Food Industry at Rs1440bn. It is ranked 5th in terms of production, consumption, export. India produces 204mn tpa food grains, out of which only 2% is processed. Much of the Indian food processing industry is unorganized which process more than 75% of industry output in volume and 50% in value terms. Milling of wheat and pulses is the most important activity in food grains processing. Branded wheat flour is becoming popular in both the domestic as well as the export market.

The GOI's focus towards food processing industry as a priority sector is expected to ensure policies to support investment in this sector and attract more FDI. The Confederation of Indian Industry (CII) has estimated that food processing sector has potential to attract \$33bn of investment in 10 years.

Business Description

SSFPL is in the business of operating flour mill and trading of food grains over 3 decades.

Product portfolio

The product portfolio consists of Wheat Flour, Maida, Rawa, Daliya, Suji, Chana Dal etc. It has a minimal presence in small packing product segment (1kg, 5kg & 10kg), however its turnover is dominated by bulk packing products segment.

Order Book

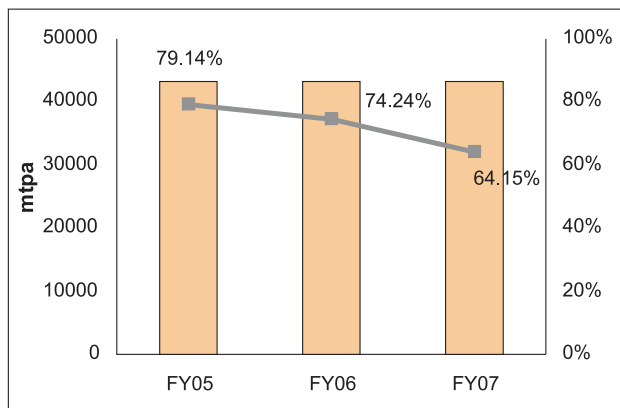
Since the prices of Wheat changes on daily basis, it maintains order book on daily basis. These orders are generally executed within a week's time.

Client portfolio

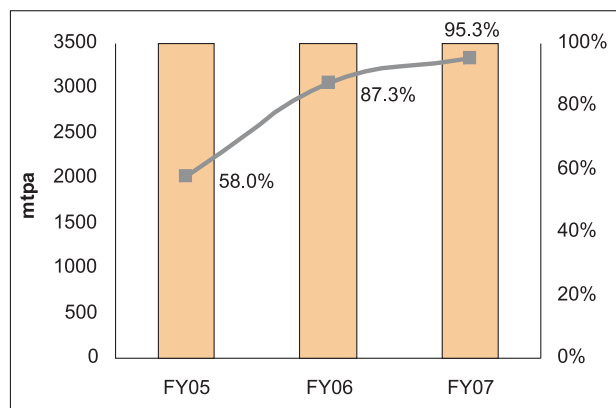
It entered into JV with Godrej Pilsbury Ltd. from year 1997 to 2000 for manufacturing of Atta. In past, it also catered to requirement of Uniliver for manufacturing atta. Presently, it is supplying its products to major players in retail industry such as Pantaloon Retail, Reliance Retail and Satnam Overseas.

Installed capacity (tpa) & Utilizations

Wheat Flour Mill



Dall Mill



Export

The company recently started exporting its products to Middle East countries such as Saudi Arabia. The company is also proposing to export products from proposed Oil Mill i.e. Soya Oil & its co-products and byproducts such as Lecithin and Soymeal.

Financial ratios

	FY04	FY05	FY06	FY07
Debt-equity ratio (x)	1.6	1.5	1.5	1.2
Debtors turnover (days)	37.7	23.8	14.7	34.4
Inventory turnover (days)	56.4	52.2	33.6	28.1
ROE	3.6%	6.6%	7.2%	12.6%
EBITDA margins	4.7%	3.4%	2.4%	3.2%
Net profit margins	0.7%	0.9%	0.6%	1.2%

Competitive Strengths

- Management has over 3 decades of experience in this industry.
- Established customer base.
- Quality Produce. It complies with international quality standards.
- Multi-point processing of raw materials insulates from speculative market trends.
- Strategic locations w.r.t. materials and markets.

Expansion Plan

Capex of Rs48.13Cr is planned to set up

- Solvent Extraction Plant having 500TPD capacity
- Oil refinery for Solvent Extraction Plant having 100TPD capacity
- Lecithin plant for processing by products of Solvent Extraction Plant having 5TPD capacity at Badia Kima (M.P.)
- Flour Mill of 275TPD

Proposed project will be set up in Indore, (M.P.) just 8 km away from existing location. For installation of proposed plants, it has entered into an agreement with Servotech Eng. India Ltd.

Means of Finance

Particulars	(RsCr)
Issue proceeds	31.50
Term loan	10.00
Promoter's Contribution	6.24
Internal accruals	0.39
Total	48.13

The expansion plan will be completed by FY09.

New products be added post-expansion

Soya Oil - It will be used for human consumption in India as well as overseas.

Lecithin - It is a co-product of degumming Soya Oil. It has multiple uses in food and beverages, animal feed, health and nutrition products, cosmetics and industrial coatings. For the majority of these uses relatively small amount (0.1% to 2%) of Lecithin is required.

Soya meal - It is preferred component of cattle feed due to its high protein. With change in process of manufacturing composition of proteins can be enhanced, which can be useful for human consumption. Such Soya meal is preferred all over world due to its high proteins.

Strategy

- Build required marketing set-up. It has initiated this process by appointing distributors in various part of country.
- Develop a dynamic supply chain. Currently, it procures raw material from Mandis and commission agents. It wishes to develop a dynamic supply system such as Choupals to procure raw material directly from the farmers. This will reduce cost of production and hence improve margins.

Risks

(Please refer to the RHP for a complete listing of risk factors)

- Promoters do not have prior experience of running Solvent Extraction Plant and Lecithin Plant
- Increase in raw material prices may impact profitability
- Delay in implementation of the project may affect profitability
- Fairly new and lesser known brand
- Seasonal nature of business requires substantial working capital

Peer comparison

(RsCr)

	K S Oils	Ruchi Soya	GAEL	SSFPL	Rasoya Proteins	Vimal Oil & Foods	Kovilpatti Lakshmi Roller Flour Mills
Net Sales	1699.09	10259.31	1585.17	80.74	263.42	562.98	131.60
Net Profit	103.66	147.50	73.94	0.95	6.44	7.18	1.68
Paid-up-Equity capital	31.53	36.48	27.67	22.04#	10.57	7.28	5.02
Price (07-Mar-08)	74.55	97.20	50.15	30.00	45.65	41.95	30.40
Market Cap	2351	1773	694	66	48	31	15
EPS (Rs)	3.29	8.09	5.34	0.43	6.09	9.86	3.35
Book Value (Rs)	9.62	46.23	21.92	10.76	24.65	24.26	41.53
P/E (x)	22.7	12.0	9.4	69.3	7.5	4.3	9.1
P/B (x)	7.7	2.1	2.3	2.8	1.9	1.7	0.7
P/S (x)	1.4	0.2	0.4	0.8	0.2	0.1	0.1
EBIDTA margin	11.2%	3.7%	9.3%	3.2%	5.2%	2.5%	8.0%
NPM	6.1%	1.4%	4.7%	1.2%	2.4%	1.3%	1.3%
52 week High (Rs)	142	165	104.6	-	133	73.2	66.5
52 week Low (Rs)	20	61	23.05	-	34	25.1	30.1
FVPS (Rs)	1	2	2	10	10	10	10

TTM except SSFPL

#post-issue capital

KEYNOTE

Profit & Loss Statements

(RsCr)

For the period ended	31.03.03	31.03.04	31.03.05	31.03.06	31.03.07	31.10.07
Manufactured Sales	4.59	23.11	30.39	38.13	49.35	35.89
Traded Sales	0.23	1.40	5.03	32.51	31.39	14.29
Total Sales	4.81	24.51	35.42	70.63	80.74	50.18
Expenditure						
Raw materials	3.69	21.41	31.24	65.31	75.21	46.63
Staff Costs	0.07	0.07	0.07	0.18	0.26	0.18
Manufacturing Exps	0.63	1.05	2.37	1.93	1.82	1.26
Admin Exps	0.12	0.26	0.29	0.35	0.37	0.23
Selling & Distribution Exps	0.08	0.56	0.25	1.14	0.51	0.26
Total Expenditure	4.59	23.36	34.22	68.91	78.17	48.56
EBITDA	0.22	1.15	1.20	1.72	2.58	1.62
Other Income	0.62	0.24	0.28	0.09	0.17	0.32
Interest	0.37	0.67	0.61	0.86	0.91	0.79
PBDT	0.47	0.72	0.88	0.95	1.83	1.15
Depreciation	0.31	0.36	0.38	0.41	0.40	0.24
PBT	0.16	0.36	0.49	0.54	1.43	0.92
Tax	0.01	0.03	0.04	0.16	0.49	0.30
Deferred tax	1.00	0.17	0.14	-0.02	0.01	0.02
Profit after Tax	-0.85	0.17	0.32	0.40	0.93	0.59
Adjustments	0.00	0.00	0.01	0.00	0.02	0.02
Profit after Tax after adj.	-0.85	0.17	0.32	0.40	0.95	0.61
EBITDA margins	4.7%	4.7%	3.4%	2.4%	3.2%	3.2%
EPS (Rs)	-2.92	0.56	1.04	0.73	1.36	0.53
Book Value (Rs)	15.10	19.99	15.72	10.13	10.76	10.99

Balance Sheets

(RsCr)

As at,	31.03.03	31.03.04	31.03.05	31.03.06	31.03.07	31.10.07
Sources of funds						
Share Capital	2.90	3.00	3.10	5.50	7.01	11.54
Reserves	1.49	1.65	1.78	0.07	0.53	1.14
Misc. Expenditure	0.00	0.00	0.00	0.00	0.00	0.00
Total Shareholders Funds	4.39	4.65	4.88	5.56	7.54	12.68
Secured Loans	5.78	5.88	5.88	4.92	7.00	8.70
Unsecured Loans	0.47	1.50	1.23	3.26	2.18	2.29
Total Debt	6.25	7.38	7.11	8.18	9.18	10.99
Total Liabilities	10.63	12.03	11.99	13.74	16.72	23.67
Applications of funds						
Gross block	8.22	8.85	9.19	9.27	9.54	9.69
Depreciation	1.36	1.72	2.11	2.52	2.90	3.13
Net Block	6.85	7.13	7.08	6.75	6.65	6.56
Capital Work in-progress	0.00	0.00	0.00	0.00	0.00	1.03
Investments	0.00	0.00	0.00	0.22	0.16	0.04
Curr. Assets, Loans and Adv.						
Inventories	3.00	3.79	5.07	6.51	6.22	7.24
Sundry Debtors	1.61	2.53	2.31	2.84	7.61	7.92
Cash and Bank Balances	0.00	0.08	0.44	3.84	4.29	3.88
Loans and Advances	0.87	0.31	0.89	0.46	0.67	6.00
Total current assets	5.49	6.71	8.72	13.64	18.79	24.01
Current Liabilities and Prov.	0.72	0.64	2.50	5.59	7.58	6.65
Net current Assets	4.78	6.07	6.22	8.06	11.21	17.36
Deferred Tax Liability	1.00	1.17	1.30	1.29	1.30	1.32
Total Assets	10.63	12.03	11.99	13.74	16.72	23.67

Keynote Capitals Ltd.

Member

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Over the Counter Exchange of India Ltd. (INB 200930535)
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