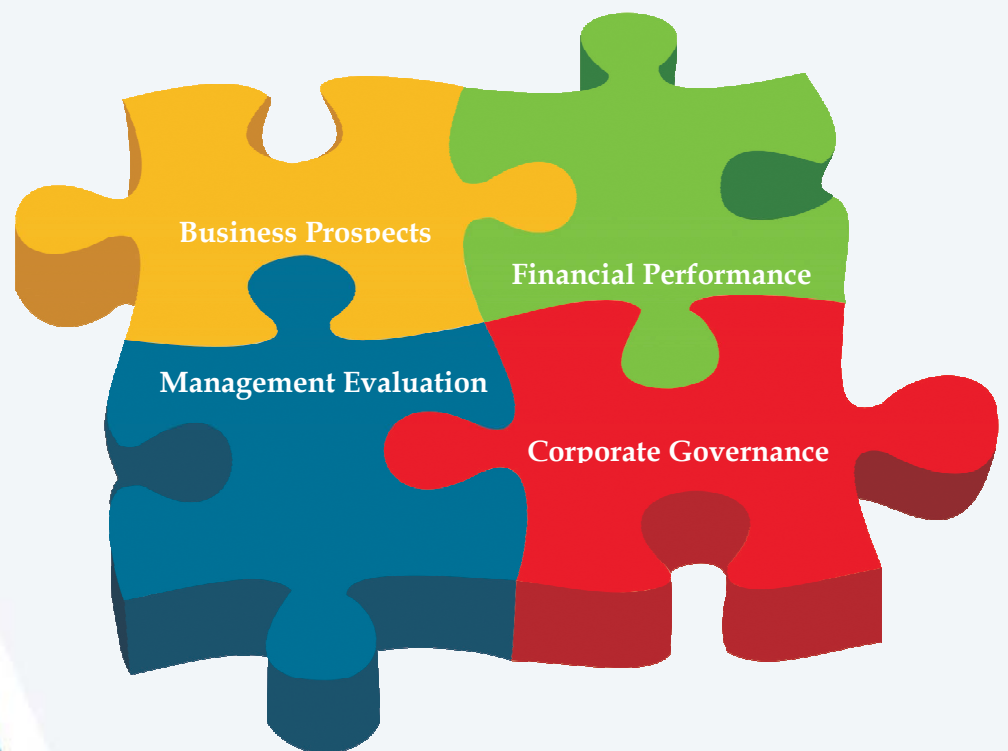


Independent Equity Research

Enhancing investment decisions



In-depth analysis of the fundamentals and valuation

KSE Limited

CRISIL Independent Equity Research Team

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- IPO Grading
- White Labelled Research
- Valuation on companies for use of Institutional Investors, Asset Managers, Corporates

Other Services by the Research group include

- CRISINFAC Industry research on over 60 industries and Economic Analysis
- Customised Research on Market sizing, Demand modelling and Entry strategies
- Customised research content for Information Memorandum and Offer documents

Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade)

Fundamental Grade

CRISIL's Fundamental Grade represents an overall assessment of the fundamentals of the company graded in relation to other listed equity securities in India. The grade facilitates easy comparison of fundamentals between companies, irrespective of the size or the industry they operate in. The grading factors in the following:

- Business Prospects: Business prospects factors in Industry prospects and company's future financial performance
- Management Evaluation: Factors such as track record of the management, strategy are taken into consideration
- Corporate Governance: Assessment of adequacy of corporate governance structure and disclosure norms

The grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals)

CRISIL Fundamental Grade	Assessment
5/5	Excellent fundamentals
4/5	Superior fundamentals
3/5	Good fundamentals
2/5	Moderate fundamentals
1/5	Poor fundamentals

Valuation Grade

CRISIL's Valuation Grade represents an assessment of the potential value in the company stock for an equity investor over a 12 month period. The grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Valuation Grade	Assessment
5/5	Strong upside (>25% from CMP)
4/5	Upside (10-25% from CMP)
3/5	Align (+-10% from CMP)
2/5	Downside (negative 10-25% from CMP)
1/5	Strong downside (<-25% from CMP)

Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

Additional Disclosure

This report has been sponsored by NSE - Investor Protection Fund Trust (NSEIPFT).

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List of companies under coverage

Sl. No.	Report Date	Company Name	Sector	CMP	M. Cap (Rs. Mn)	Initiating Coverage		3QFY10 Update	
						Fundamental value	Fundamental grade	Fundamental value	Fundamental grade
1	02-Feb-10	Aarti Industries	Chemicals	49	3,757	56	3/5	56	3/5
2	31-Jan-10	ABG Shipyard	Shipping	315	10,286	242	3/5	259	3/5
3	01-Feb-10	Apollo hospitals	Hospitals	712	44,102	642	4/5	724	4/5
4	04-May-10	Beardsell Limited	Packaging/Expanded Polystyrene	64	245	54	3/5	-	-
5	06-Apr-10	Dhanuka Agritech Ltd	Pesticides	271	2,483	283	3/5	-	-
6	29-Jan-10	DLF	Real Estate	335	568,495	356	3/5	356	3/5
7	27-Jan-10	Dolphin Offshore	Oil & Gas	385	6,060	315	3/5	417	3/5
8	05-Feb-10	EID Parry	Sugar	348	30,050	394	4/5	395	4/5
9	01-Feb-10	Everest Kanto	Manufacturing	131	13,252	270	4/5	135	4/5
10	11-May-10	GKB Ophthalmics Ltd	Ophthalmic Lens	48	199	52	2/5	-	-
11	23-Feb-10	Havells India Ltd	Capital Goods	533	32,070	614	4/5	-	-
12	29-Jan-10	Hero Honda	Automobiles	1,889	377,240	1,747	5/5	1937#	5/5#
13	02-Mar-10	Hindusthan National Glass & Industries Ltd.	Packaging/Glass	240	21,049	314	4/5	-	-
14	11-Feb-10	Indiabulls Securities	Financial Services	31	7,932	60	4/5	48	4/5
15	05-Feb-10	JBF Industries	Textiles	111	6,882	119	3/5	129	3/5
16	05-Feb-10	JM Financial	Financial Services	39	30,550	57	4/5	57	4/5
17	21-Jan-10	KKCL	Fashion and apparels	265	3,292	336	3/5	-	-
18	01-Feb-10	KRBL	Agriculture/Rice	194	4,716	340	3/5	340	3/5
19	11-May-10	KSE Limited	Animal Feed	210	673	200	3/5	-	-
20	31-Jan-10	NTPC	Power	214	1,764,537	228	5/5	231	5/5
21	29-Jan-10	Pantaloon Retail (India)	Retail	406	77,282	*	4/5	*	4/5
22	04-Feb-10	Phoenix Mills	Real Estate	203	29,404	160	2/5	183	2/5
23	22-Apr-10	Polaris Software	Information Technology	186	18,407	247	4/5	-	-
24	19-Apr-10	Sangam (India) Ltd	Textiles	33	1,380	46	3/5	46	5/5
25	03-Feb-10	UTV Software	Media and Entertainment	498	17,066	548	3/5	538	3/5
26	07-May-10	Zylog System	Information Technology	456	7,494	530	3/5	-	-

CMP - Current Market Price (as on date of respective report)

M Cap - Market Capitalisation (as on date of respective report)

*NA - Not Applicable (Company has requested for a fundamental grading only)

Includes Q4FY10 result update

Independent Research Report - KSE Ltd

'Good fundamentals and aligned valuation'

Industry: Animal Feed

Date: May 11, 2010



Kerala-based KSE Ltd is the largest cattle feed producer and supplier in the state of Kerala. It is also in the solvent extraction and milk processing businesses. We assign KSE a fundamental grade of '3/5' indicating that its fundamentals are 'good' relative to other listed securities in India. We also assign a valuation grade of '3/5' indicating that the current market price of KSE is 'aligned' with our fundamental value per share.

Market leader in cattle feed industry in Kerala

KSE Ltd has been in the cattle feed business for the last 34 years. Over the years, KSE has increased its market share in Kerala. In FY09, it was the largest cattle feed supplier in Kerala with a market share of 37%. The company is expected to maintain its dominance in the cattle feed industry in Kerala enabled by its established brand name, utmost emphasis on quality and prompt after-sales services to its customers.

Strong operating efficiencies and distribution strategy

KSE operates three cattle feed plants in Kerala and one in Tamil Nadu. Diverse location of plants enables KSE to quickly supply cattle feed to its distributors spread across the two states. KSE has a network of about 600 distributors, most of whom are exclusive distributors of KS cattle feed. KSE cattle feed brand – KS commands a good brand recall due to the company's continued focus on quality, after-sales service and awareness campaigns.

KSE's largest competitor is growing at a faster rate

While raw material prices have increased steeply, Kerala Feeds, a state-run entity, has refrained from increasing the cattle feed prices proportionately. Consequently, Kerala Feeds' cattle feed prices have been lower than those of KSE between FY07 and FY09. This has resulted in Kerala Feeds increasing its cattle feed market share during this period, whereas KSE's sales volumes have stagnated.

Increasing raw material prices have compressed margins

Prices of raw materials required for cattle feed production have registered a steep increase in the past few years. The limited pricing flexibility allowed by competition (Kerala Feeds' pricing strategy of holding prices) has exerted pressure on KSE's margins. Given the expected increase in raw material costs and increasing competition from Kerala Feeds (who plans to expand its capacity further by FY12), we expect KSE's margins to remain under pressure.

Revenues to grow to Rs 5.7 Bn by FY15 at a 5-year CAGR of 9%

We expect KSE's revenues to register a 5-year CAGR of 9% to reach Rs 5.7 Bn by FY15 from Rs 3.7 Bn in FY10E. The revenue growth is expected to be lower than the 12% growth (5-year CAGR) seen during the FY05-FY10E period. Our estimates of lower growth are based on stagnating sales of KSE's cattle feed and the limited scope available to the company for improving its price realisations.

Margins to increase in the interim but decline thereafter

Both KSE and Kerala Feeds have increased their cattle feed prices in FY10E. Consequently KSE's EBITDA margins are expected to improve from 3.3% in FY09 to 4.8% in FY10E. However, EBITDA margins are expected to fall to 3.7% in FY15 following the expected increase in competition from Kerala Feeds.

Current share price is aligned with our fundamental value per share

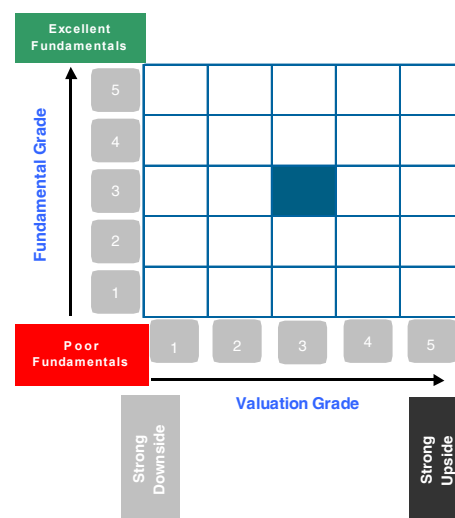
We have valued KSE based on the discounted cash flow (DCF) approach. Based on the DCF valuation method, we arrive at the Fundamental value of Rs 200 per share for KSE. We initiate coverage on KSE with a Valuation Grade of '3/5' indicating that fundamental value of KSE is 'aligned' with the current market price.

Key forecast

(Rs Mn)	FY08	FY09	FY10E	FY11E	FY12E	FY13E
Operating income	2,899	3,505	3,681	4,053	4,430	4,822
EBITDA	95	117	178	201	198	213
Adj Net income	26	30	76	94	96	110
EPS-Rs	8.1	9.5	23.6	29.3	29.9	34.2
EPS growth (%)	(355.5)	24.1	136.2	23.7	2.0	14.6
PE (x)	15.8	10.6	8.9	7.2	7.0	6.1
P/BV (x)	1.5	1.1	2.1	1.8	1.6	1.5
RoCE(%)	13.4	17.4	24.2	27.7	27.4	30.4
RoE(%)	10.0	11.1	25.3	27.0	24.0	24.9
EV/EBITDA (x)	5.9	4.9	5.1	4.2	4.0	3.5

Source: Company, CRISIL Equities Estimate

CFV Matrix



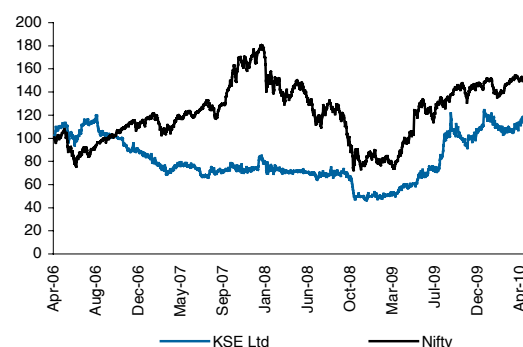
- Fundamental grade of '3/5' indicates good fundamentals
- Valuation grade of '3/5' indicates market price is aligned

Key stock statistics

NSE Ticker	KSELTD
Fundamental Value (Rs per share)	200
Current market price (Rs per share)*	210
Shares outstanding (Mn)	3.2
Market cap (Rs Mn)	673
Enterprise value (Rs Mn)	915
52-week range (Rs) (H/L)	247/106
P/E on EPS estimate (FY11E)	7.2
Beta	1.7
Free float (%)	65%
Average daily volumes	1,617

* Closing price as on May 10, 2010

Share price movement



- Indexed to 100

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Table 1: KSE - Business Environment

Parameter	Existing Business		
	Cattle feed	Oil cake processing	Dairy
% Revenue contribution (FY09)	80%	16%	3%
% Revenue contribution (FY15)	85%	10%	4%
Product offering	Compound cattle feed in Mash and Pellet form	De-oiled coconut cake and coconut oil	Milk, milk products and ice creams
Geographic Presence	Kerala and Tamil Nadu	Kerala and Tamil Nadu	Kerala and Tamil Nadu
Current market position	~ 37 per cent in Kerala in FY09	Largest solvent extractor from coconut oil cake	Not Available
End market	Dairy Farmers	Dairy Farmers	Retail segment
Key competitors	Kerala Feeds Ltd, The Kerala Co-operative Milk Marketing Federation Ltd (Milma)	S K M Animal Feeds & Foods (India) Ltd.	Lazza Ice Creams, Amul, Uncle John, Pappai, etc
Sales growth forecast (FY09-15)	10%	0%	12%
Demand drivers	Increasing emphasis on balanced cattle nutrition, Increasing pressure to increase milk production, Government initiatives to increase cattle population, Increasing fodder deficit, etc	Higher internal demand for de-oiled coconut cake for cattle feed production leading to lower market sales, Dairy farmers demanding more cattle feed and substituting direct feeding of de-oiled cakes	Increasing popularity of KSE's ice-cream brand 'VESTA'

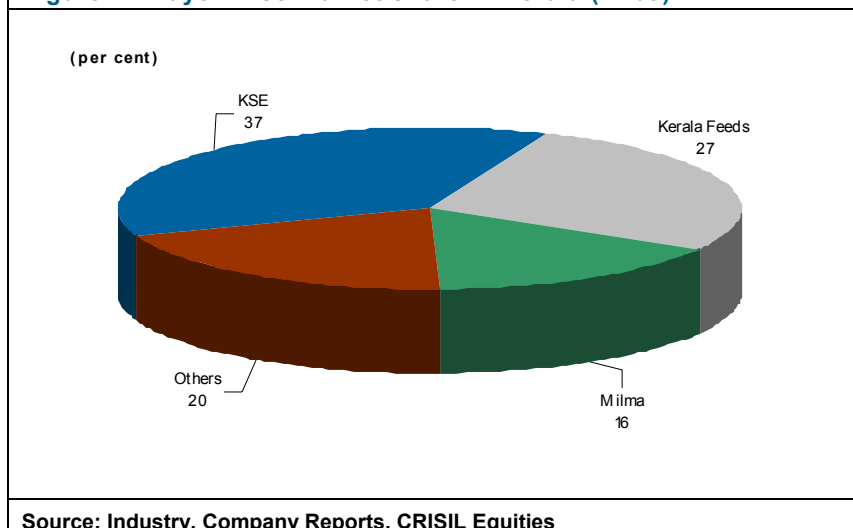
Grading Rationale

KSE has a market share of 37 per cent in Kerala's cattle feed industry

Largest cattle feed supplier in Kerala

The cattle feed industry in Kerala is dominated by three players – KSE Ltd, Kerala Feeds Ltd and Kerala Co-operative Milk Marketing Federation (Milma). By virtue of being the oldest player in the cattle-feed industry in Kerala, KSE has established a strong presence in the market. In FY09, KSE commanded a market share of about 37% in Kerala in volume terms.

Figure 1: Player-wise market share in Kerala (FY09)



Source: Industry, Company Reports, CRISIL Equities

KSE's customer focus enables it to charge a premium over competition

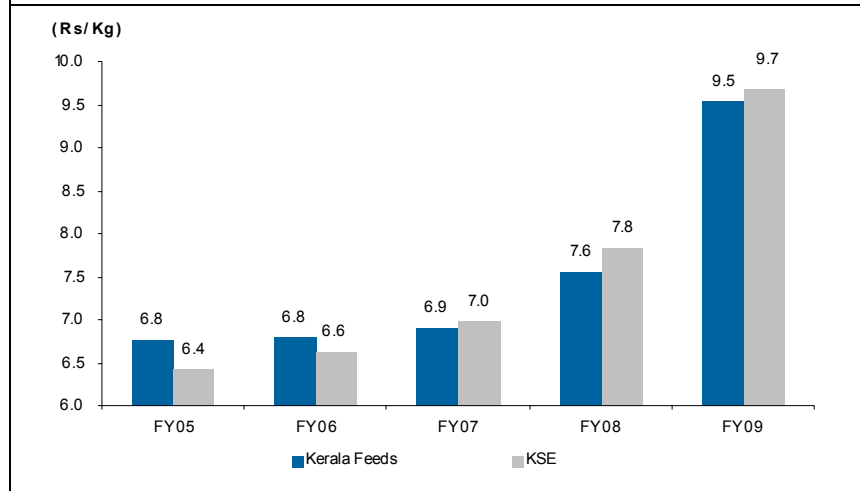
KSE manufactures seven types of cattle feed; three in mash and four in pellet form. The company markets these cattle feed under the brand name of 'KS'. The company is focussed on providing quality products and prompt after-sales services to dairy farmers. KSE has a well-equipped laboratory with experienced chemists and an animal nutritionist who are together in charge of feed nutrition and quality control.

KSE has dedicated sales representatives for the different areas where it markets its products. The company attaches a slip to each of its feed bags which has a customer care number. When a complaint is lodged, the company tries to ensure it is attended to within 24 hours. In case of minor complaints, the sales representative reaches the farmer to resolve the problem. In case of major problems reported by the sales representative, the company also provides veterinary aid.

KSE's continuous efforts in ensuring quality of products and providing prompt after-sales service to dairy farmers have enabled the company to charge a premium for its products. The company has been able to charge a higher price for its cattle feed vis-à-vis its biggest competitor, Kerala Feeds, during FY07 to FY09.

KSE's cattle feed sales realisations are higher than that of its competitors

Figure 2: Average cattle feed realisations: KSE versus Kerala Feeds



Source: CMIE, Company Reports, CRISIL Equities

KSE has 3 plants in different districts of Kerala and 1 plant in Tamil Nadu

Diversified plant locations and a wide distribution network ensure quicker reach to dairy farmers

KSE owns four cattle feed plants. Three plants are located in different districts of Kerala and one plant is based in Tamil Nadu. Given the history of labour issues in Kerala, KSE had started a cattle feed plant in Swaminathapuram, Tamil Nadu in 1988. In addition to exploring the cattle feed market in Tamil Nadu, the unit served as a risk mitigation strategy. About 60% of cattle feed from Swaminathapuram unit was being sold in Kerala and the balance in Tamil Nadu. However, after expanding capacities in FY10, in Kerala, KSE is now focussing on selling more of Swaminathapuram unit's production in Tamil Nadu itself.

Diverse locations of plants ensure quick reach of feed to KSE's distributors at a low cost. This in turn enables the distributors to provide feed to their dealers who are able to effectively meet the dairy farmer's demand. The company has a network of about 600 distributors for its cattle feed business and most of them are exclusive distributors of KS cattle feed. A distributor would typically have about 20 sub-dealers who sell cattle feed to dairy farmers.

KSE is also outsourcing manufacturing of cattle feed in some other districts of Kerala where it does not have its own plant. Outsourcing of a part of its manufacturing is also undertaken with the primary objective of reaching quickly to distributors and saving on freight costs.

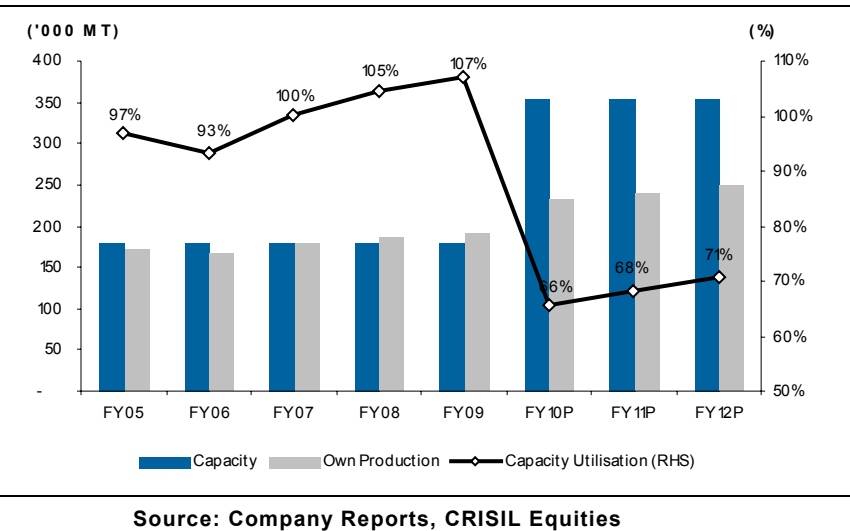
Capacity expansion to result in lesser outsourcing

In FY09, KSE's three plants in Kerala had a combined capacity of 126,000 tonnes per annum, while its plant in Tamil Nadu had a capacity of 53,000 tonnes. In FY10, the company has expanded capacity by setting up a new plant with a capacity of 175,000 tonnes at Irinjalikuda in Kerala. Consequently, the company's total capacity of the cattle feed division has almost doubled from 179,000 tonnes in FY09 to 354,000 tonnes in FY10.

KSE's cattle feed capacity expanded from 179,000 tpa in FY09 to 354,000 tpa in FY10

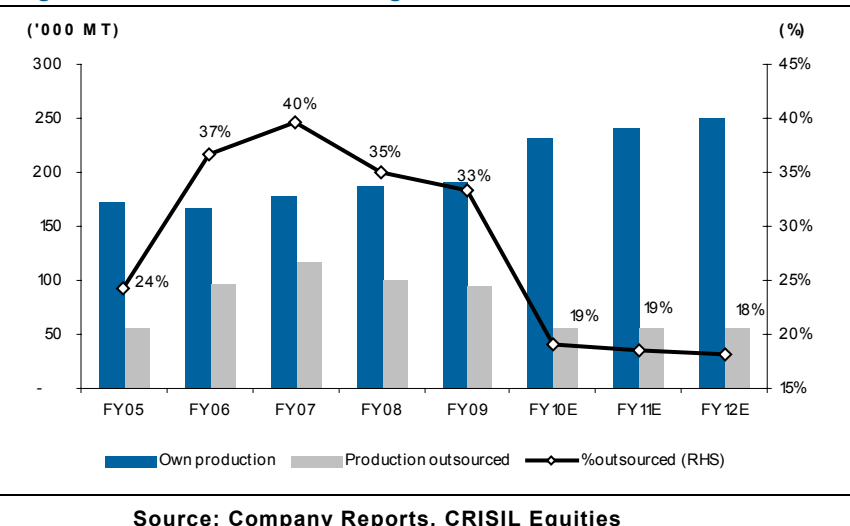
In addition to its in-house production, KSE has also been outsourcing a part of its production. Outsourcing has been undertaken either due to in-house capacity constraints, or owing to reasons of the better economics of producing at a location close to the market where the company does not have its own plant. With the setting up of its new plant at Irinjalakuda, KSE's capacity constraints are expected to be solved, leading to lower outsourcing. This will enable the company to earn better margins because of higher in-house production. Additionally, with the expanded capacities, the company is well poised to manage any unforeseen events such as break-downs at any of its plants, while also catering to the increasing demand in the market.

Figure 3: Trend in Capacity, Own production and Capacity utilisation of KSE



Proportion of production outsourced to total production expected to go down from 33 per cent in FY09 to 18 per cent in FY12

Figure 4: Trend in Outsourcing vis-à-vis Own Production



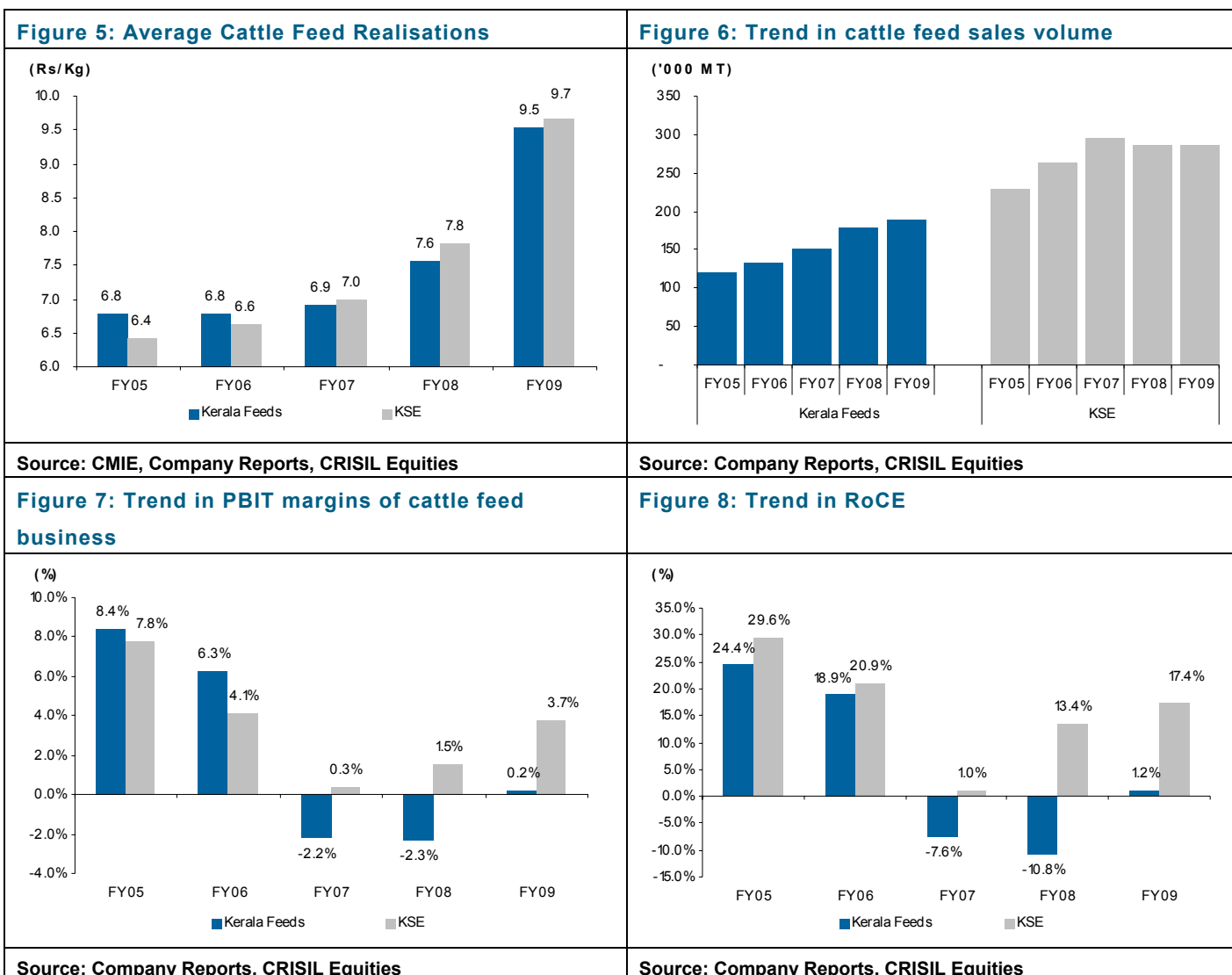
Competition is primarily from non-profit organisations...

KSE's biggest competitor Kerala Feeds is a state government owned company

KSE's closest competitor by size – Kerala Feeds Ltd is a Kerala State-owned company. The second largest competitor, Milma, is a state co-operative. These companies are not primarily driven by the motive to maximise profits. During FY07-FY08, Kerala Feeds refrained from increasing its cattle feed realisations in proportion to increase in its raw material costs. Consequently, Kerala Feeds PBIT margins were *negative* in these years.

They became marginally positive only in FY09 when the company increased its selling price in line with the increase in its cost of raw materials.

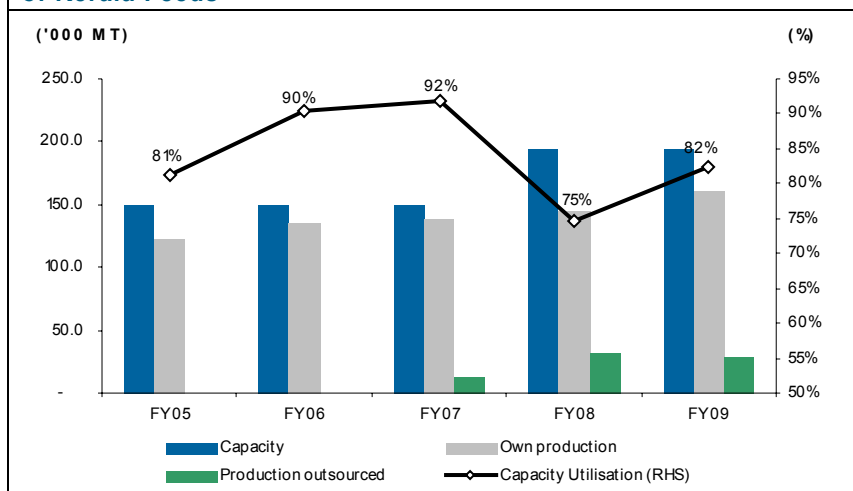
On the contrary, KSE, a private profit-oriented enterprise, is forced to strike a balance between maintaining its market share while securing its profits. In its attempt to pass on the increase in raw material costs to dairy farmers, the price of its cattle feed has risen vis-a-vis Kerala Feeds's cattle feed. As a result, Kerala Feeds's sales volumes have grown in the last 3 years (FY07 to FY09), while KSE's sales volumes have stagnated.



.....and is catching up fast

Kerala Feeds has already embarked upon the expansion plan of its cattle feed business. It is setting up a new plant with a capacity of 90,000 tonnes per annum which is expected to come on-stream in FY12. The total capacity of the company will thus increase from 195,000 tonnes per annum in FY09 to 285,000 tonnes in FY12. Enhanced capacities of Kerala Feeds will increase the competition level for KSE.

Kerala Feeds is expanding its capacity by 90,000 tonnes per annum in FY12

Figure 9: Trend in Capacity, Production and Capacity utilisation of Kerala Feeds


Source: Company Reports, CRISIL Equities

Government's indirect control on milk prices adversely affects the dairy farmer's ability to purchase cattle feed

Regulated prices of milk acts as a deterrent in increasing cattle feed realisations

The price realisations for milk are influenced by the decisions of the state co-operatives to fix a procurement price. Since milk prices have a direct bearing on food inflation, state-co-operatives are under pressure not to increase the prices of milk. An increase in input costs for the dairy farmer in the form of high cattle feed prices without a commensurate increase in milk realisations would discourage cattle feed purchase. Thus, it would not always be possible for a cattle feed manufacturer such as KSE to improve or even sustain margins by increasing realisations when milk procurement prices are being held constant.

Cost of key ingredients, used in cattle feed, have increased faster than cattle feed realisations

Unprecedented increase in prices of key raw materials pose a threat to sustaining margins

Cereal by products (rice bran), maize and oil cakes are the major ingredients of cattle feed. In the past few years, there has been a steep rise in the prices of these products. Some of the major factors driving the rise in the prices of these products have been stagnation in foodgrain production, use of grains in the manufacture of biodiesel and ethanol, and failure of crops due to droughts. The following table highlights the fact that KSE's raw material costs have grown faster than its realisations:

Table 2: Trend in key raw materials cost and cattle feed realisation of KSE

		FY05	FY06	FY07	FY08	FY09	4 Year CAGR	9M FY10	Proportion of raw materials cost (FY09)
Rice Bran cost	Rs/ kg	3.4	4.6	5.3	6.1	7.1	20%	8.0	34%
De-oiled coconut cake cost	Rs/ kg	7.7	7.5	7.9	9.4	12.3	13%	10.9	26%
Maize cost	Rs/ kg	5.8	5.9	7.1	7.4	9.2	12%	9.3	18%
Cattle feed realisation	Rs/ kg	6.4	6.6	7.0	7.8	9.7	11%	10.5	n.a.

n.a.: Not Applicable

Source: Company Reports, CRISIL Equities

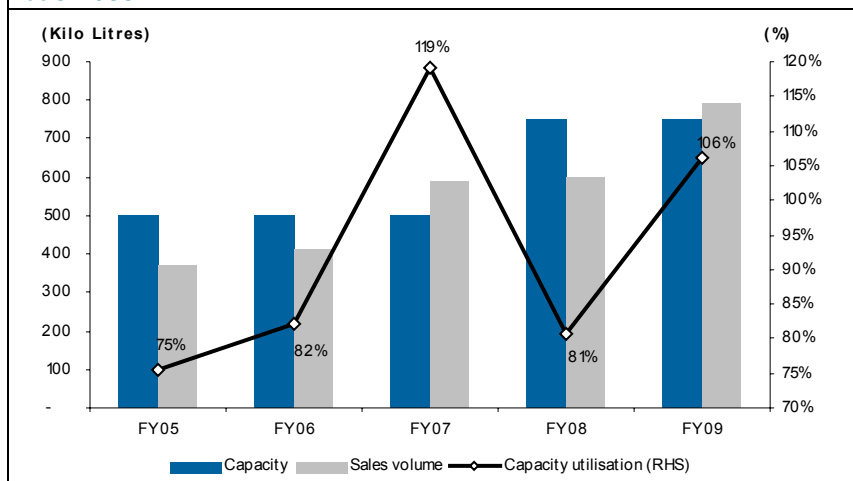
The company's cattle feed business performance has been better in 9MFY10 as the increase in realisations has been higher as compared to the increase in raw materials costs. However, it is important to note that the factors leading to an increase in the prices of key ingredients such as stagnation in foodgrain production and increased emphasis on bio-fuel mandates will continue to put upward pressure on raw material prices. On the other hand, factors such as indirect government control on milk prices and willingness of competition to hold the prices of cattle feed will continue to restrain KSE from increasing its sales realisations in future.

Ice cream business on a growth trajectory

KSE started producing ice creams from 2002 and launched its ice-cream brand – 'VESTA'. The growth of its ice-cream business has been driven by the company's ability to differentiate the product based on its taste. The company uses cream from milk processed in-house to give its ice-creams the taste of fresh milk cream. Even without incurring high promotional expenditure, the company has been able to increase the sales of its ice-creams over the years. This is evident from the growth in sales volumes witnessed by the ice cream business.

Ice-cream sales have more than doubled in 4 years to reach 791 kilo litres in FY09

Figure 10: Trend in capacity and sales volume of Ice-creams business



Source: Company Reports, CRISIL Equities

KSE is in the process of doubling its ice-cream producing capacity to 1,500 kilo litres per annum

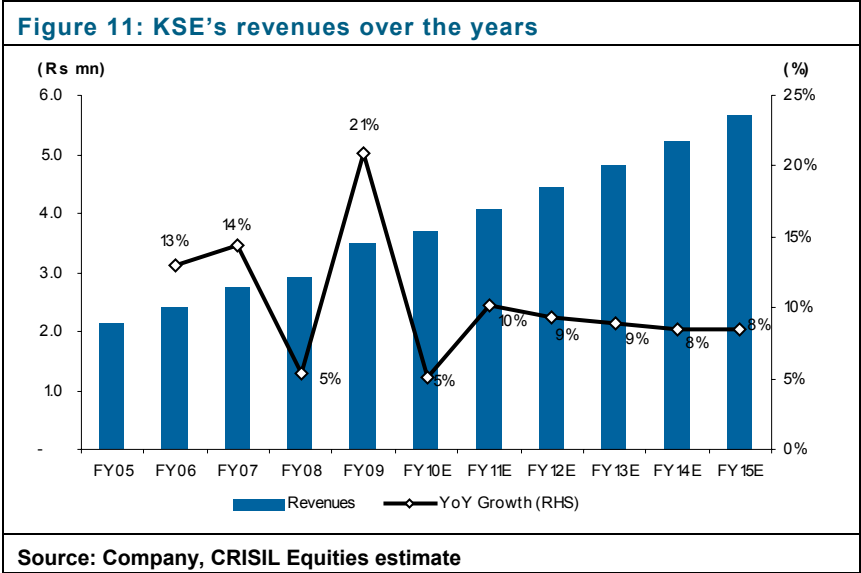
Considering the increasing demand for its ice-creams, the company is in the process of doubling its capacity to about 1,500 kilo litres per annum by the end of 2010, from 750 kilo litres in FY09 at an estimated cost of about Rs 10 million. Although the contribution of ice-creams to KSE's total revenues is very low at about 1%, any increase in revenues from this business would lend upward support to margins as ice-creams business is a higher margins business (EBITDA margin of 10-12 per cent) vis-à-vis cattle feed.

Financial Outlook

Revenues to post a 5-year CAGR of 9% to be Rs 5.7 Bn by FY15

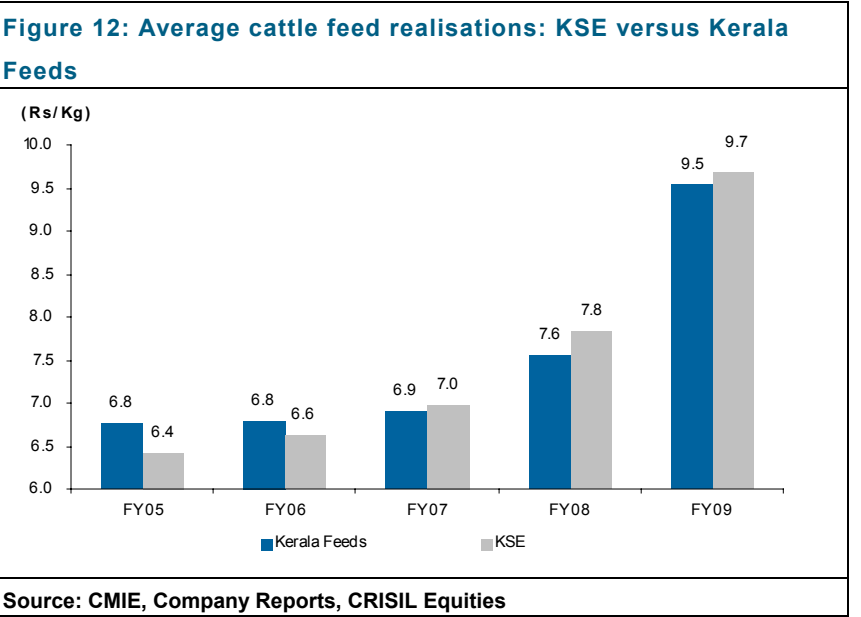
Revenues to grow at a 5-year CAGR of 9% to touch Rs 5.7 Bn by FY15

We expect KSE’s revenues to register a 5-year CAGR of 9% to touch Rs 5.7 Bn in FY15 from Rs 3.7 Bn in FY10E. This, however, is lower as compared to a 5-year CAGR of 12% registered during FY05-FY10E.



KSE’s ability to increase cattle feed realisations will be constrained by Kerala Feeds’ pricing strategy

KSE’s ability to increase sales realisation is, to a great extent, determined by the pricing strategy of its competitor, Kerala Feeds. In FY06 and FY07, KSE’s revenues were driven by the rising sales volumes of cattle feed. However, in FY08, revenue growth was limited to 5% due to stagnant sales of cattle feed and the company’s inability to increase realisations substantially, in the face of competition. In FY09, Kerala Feeds increased the price of its cattle feed substantially. This eased the pricing pressures on KSE allowing it to correspondingly increase its prices. The improvement in realisations led to a 21% increase in KSE’s revenues to Rs 3.5 Bn during the year.



KSE's growth in sales volume is expected to be lower than growth achieved in the past 5 years

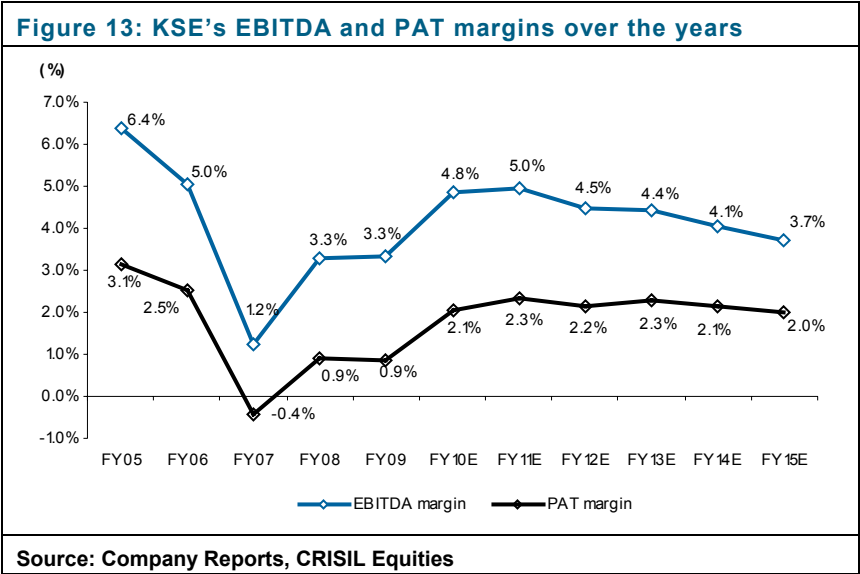
Going forward, we expect growth in sales volume of KSE to be lower as compared to the growth in volumes seen in the past. Our estimation of future sales takes into consideration the faster growth in sales volumes achieved by Kerala Feeds by holding prices of cattle feed and also its capacity expansion plans.

EBITDA margins to increase to 4.8% in FY10E; decline to 3.7% by FY15

We expect KSE to earn an EBITDA margin of 4.8% in FY10E as compared to 3.3% earned in FY09. However, this is expected to slip to around 3.7% in FY15. PAT margins are expected to increase from 0.9% in FY09 to 2.1% in FY10E, and stabilise at these levels in FY15.

The likely increase in margins for FY10E would be because of higher realisations for KSE's cattle feed without much increase in raw material cost for the year. The expected reduction in EBITDA margins from FY12 would be because of higher competition from Kerala Feeds which is expanding capacities in FY12. This is most likely to result in a higher proportionate increase in raw material costs for KSE than the selling prices of its cattle feed.

Unlike EBITDA margins, PAT margins are expected to decline only slightly during the FY10 to FY15 period, due to lower interest costs. This is because KSE is expected to pay off a substantial portion of its debt in the absence of any major capital expenditure plans.



EBITDA margins likely to be compressed due to KSE's inability to pass on an increase in raw materials costs

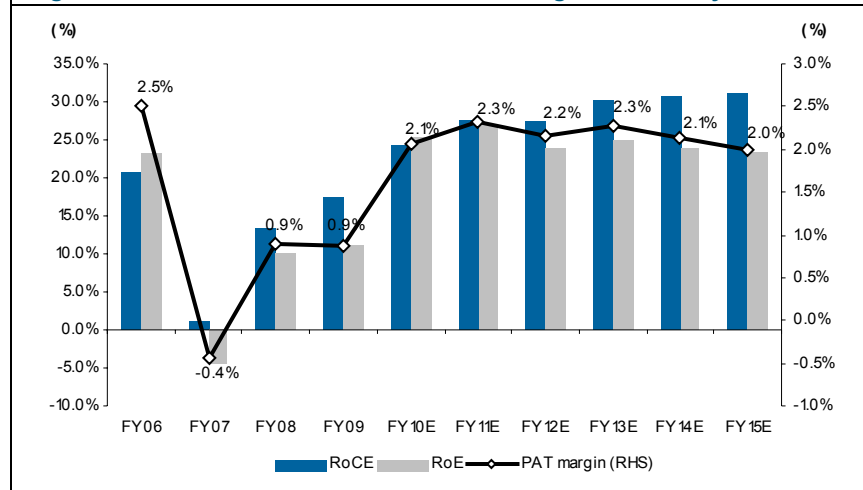
The reduction in EBITDA margins in FY07 were mainly due to KSE's inability to pass on an increase in its raw material costs to dairy farmers. KSE's margins were further compressed by the losses of its dairy division. KSE's margins improved in FY08 and FY09 as the company was able to increase its cattle feed realisations and also turnaround its dairy business. The increase in cattle feed realisations was possible because of the increase in sales realisations by Kerala Feeds.

Going forward, price-based competition from Kerala Feeds will continue to deter KSE's prospects to increase its cattle feed realisations. Also, since Kerala Feeds is in the process of expanding capacity from FY12, we believe that it will continue to hold prices low to gain market share.

PAT margin and RoE to increase in FY10 but decline slightly by FY15

We expect KSE's PAT margin and RoE to increase in FY10 but decline slightly thereafter. PAT margin is expected to increase from 0.9% in FY09 to 2.1% in FY10 but dip slightly to 2.0% in FY15. RoE is also expected to increase from 11.1% in FY09 to 25.3% in FY10 but dip thereafter to 23.6% in FY15. However, RoCE is expected to continue its uptrend from 17.4% in FY09 to 24.2% in FY10 and further to 31.0% in FY15.

Figure 14: KSE's RoCE, RoE and PAT margin over the years



Source: Company, CRISIL Equities estimate

Gearing to fall from 1.1 times in FY09 to 0.6 times in FY11 and further to 0.1 times in FY15

Absence of any major capex to keep gearing at low levels

We expect gearing to remain quite comfortable, since the company is not expected to resort to debt in the absence of any major capital expansion. KSE plans to fund the expansion of its ice-cream business (estimated capital expenditure of about Rs 10 million) through internal accruals. Thus, we expect the company to utilise its cash accruals to pay off its debts, which will lower its gearing in future. We expect the gearing to reduce from 1.1 times in FY09 to 0.6 times in FY11 and further to 0.1 times in FY15.

Management Overview

CRISIL's Fundamental Grading methodology includes a broad assessment of management quality, apart from other key factors such as industry and business prospects, and financial performance.

Established track record

The promoters, Mr. M.C. Paul (CMD) and Mr A.P. George hail from business families renowned for running coconut oil mills. Mr. M.C. Paul has been actively associated with the development of KSE from its inception in 1963. With KSE's first cattle feed plant being commissioned in 1976, the management now possesses 34 years experience in the cattle feed industry.

Promoters are from business families renowned for running coconut oil mills

Although the oil milling experience of promoters does not have much relevance for the cattle feed industry, the promoters have been able to drive the business with their business acumen. During Mr. M.C. Paul's tenure as MD since 1994, the business of the company has grown substantially registering steady growth in terms of turnover, profits and reserves. The company has won the National Productivity Award consecutively for eleven years between 1996-97 and 2006-07 for the best productivity performance in the category of Animal Feed Processing Industry.

Over the years, the management has displayed its ability to increase market share and more recently to maintain market share in the face of tough competition from Kerala Feeds – a state government owned company.

Experienced second line of management

The board is ably supported by a second line of management that has spent a considerable amount of time with the company. Mr Anand Menon - Chief General Manager has been with KSE since 1977. Currently the President of Cochin Chamber of Commerce, Mr Menon was awarded the Management Excellence Award from Trichur Management Association in 2001. Other key personnel include Dr. George Mathen – Chief Nutritionist (joined KSE in 2002), Mr A.L. Jose – Chief Purchase Manager (joined KSE in 1977) and Mr Cherian V. Vattathara – Chief Marketing Manager (joined KSE in 1999).

Key management personnel have been with KSE for a fairly long time

The company also has a practice of hiring personnel from the adjoining locality. This practice has worked well for KSE in avoiding employee attrition.

Collective decision-making process

KSE follows a process of collective decision making within the organisation. The key second line management personnel along with the board members take important decisions which shape the future course of business.

As a norm, KSE has one board meeting towards the end of each month. A committee of key second line management meets once in a fortnight to review the company's performance to present it to the board in the board meetings. Proposals, if any, are brought to the board by the committee for discussions. The proposals are accepted or rejected after much debate and deliberations amongst the board members and the key management personnel. Such extensive processes ensure cohesiveness of decision making but may sometimes compromise on the speed of decision making.

Management to face challenges in scaling up its ice-creams business

Although KSE has achieved considerable success in scaling up its cattle feed business over the last three decades, the management was not successful in its milk processing business which the company had ventured into in 2000. After making losses for 8 years, KSE was able to turn around its dairy division in FY08 by significantly scaling down volumes and increasing production of its ice-cream which the company started producing in 2002.

KSE which has so far done well in increasing the sales volume of its ice creams has further plans to scale up capacity. However, ice-creams being a highly competitive business, the ability of the management to successfully increase market share to higher levels would be a challenge.

Corporate Governance

KSE's corporate governance practices are adequate and meet minimum required standards

CRISIL's fundamental grading methodology includes a broad assessment of corporate governance and management quality, apart from other key factors such as industry and business prospects, and financial performance. In this context, CRISIL Research analyses shareholding structure, board composition, typical board processes, disclosure standards and related-party transactions. Any qualifications by regulators or auditors also serve as useful inputs while assessing a company's corporate governance.

Overall, corporate governance at KSE presents good practices supported by a strong and fairly independent board. Although the current board does not have relevant industry experience, we feel, given their vast experience they would be able to constructively contribute to the board. We feel that company's corporate governance practices are adequate and it meets the minimum required levels.

Board Composition

KSE's board comprises ten directors, of whom six are independent directors

KSE's board comprises of ten members of whom six are independent members. This is in accordance with the stipulated SEBI listing guidelines. Given the background of directors, we believe that the board in place at KSE is fairly diversified.

Board Processes

The balance sheet disclosures are sufficient to gauge the involvement of board members in meetings. The company has various committees in place to support corporate governance practices. The company's disclosures are sufficient to analyse various business aspects of the company. CRISIL Equities was assessed from its interactions with independent directors of the company that the quality of agenda papers and the level of debate of discussions at the Board meetings is good. In FY09, all directors except one were able to attend all the twelve board meetings held in that year.

Others

We feel that the independent directors are well aware of the business of the company and are fairly engaged in all the major decisions, which reflect well on the company's corporate governance practices. Further, the audit committee is chaired by an independent director and it meets at regular intervals.

Key risks

KSE would be constrained in increasing its cattle feed prices because of competitor's pricing strategy

Pricing pressures from competition

KSE's closest competitors are either state-run (Kerala Feeds) or a state-cooperative (Milma), which are essentially non-profit organisations. Kerala Feeds, for example, operates under the government's guiding principle of making available cattle feed to farmers at lower rates. Therefore, during the FY07 to FY09 period, when there was a steep increase in the cost of raw materials, Kerala Feeds did not pass it on through a corresponding increase in prices. KSE was constrained by this pricing strategy adopted by Kerala Feeds and had to absorb the cost escalation, which exerted pressure on its margins. KSE's ability to increase cattle feed realisations will therefore continue to be constrained by Kerala Feeds pricing policy.

Increasing raw material prices

In the past few years, there has been a steep rise in the prices of cereal by-products, maize, oilseeds and oil cakes. Some of the major factors driving the rise in the prices of these products are stagnating foodgrain production, grains being used for the manufacture of bio-fuels and failure of crops due to droughts. While some of these factors are temporary (failure of crops due to droughts) other factors are not so. As a result, the prices of raw materials are expected to continue their uptrend.

High degree of competition in the ice-cream business

KSE ventured into the production and marketing of ice-creams in 2002 and launched its brand, 'VESTA'. Considering the growth in its ice-creams sales volume, KSE has planned to double its ice-cream production capacity by FY12.

KSE's competitors in the ice-cream segment are Lazza Ice Creams which is an international brand in the business of ice-creams and the market leader in South India. Other prominent brands in existence in Kerala for over two decades are Amul, Uncle John and Pappai amongst others. Thus, increasingly, KSE will continue to face stiff competition from these players in increasing its market share in ice-creams.

Valuation Grading

Grade:3/5

Our Valuation Grade of '3/5' indicates that the current market price is aligned with the Fundamental Value per share

We have valued KSE's business using the discounted free cash flow to firm method (DCF). Based on the DCF method, the fundamental value of KSE's business works out to be Rs 200 per share which implies FY11 P/E of 6.8x and FY12 P/E of 6.7x based on an estimated EPS of Rs 29.3 and Rs 29.9, respectively. Accordingly, we initiate our coverage on KSE with a Valuation Grade of '3/5'. This grade indicates that the current market price of KSE is 'Aligned' with the fundamental price.

The following are the key factors in our valuation:

We have considered discounted free cash flows from FY11 to FY15

We have assumed a target debt-equity ratio of 0.1 times

We have assumed a terminal growth of 3 per cent after FY15

Given the increasing competition from a state-owned company whose tendency has been to keep cattle feed prices low despite increasing costs, KSE's financial performance, including its cash flows, are highly vulnerable to its ability to pass on increase in raw material prices to dairy farmers. We are aware of these challenges and remain cautious in our forecasts.

Below is the sensitivity table of Fundamental Value to assumptions of WACC and terminal growth rate:

Table 3: Sensitivity to WACC and terminal growth rate

Sensitivity of PO to WACC and Terminal growth rate					
WACC ↓	Terminal Growth Rate →				
	1.0%	2.0%	3.0%	4.0%	5.0%
14.2%	211	225	242	263	288
15.2%	193	205	219	236	256
16.2%	179	189	200	214	230
17.2%	166	175	184	196	209
18.2%	155	162	171	180	191

Source: CRISIL Equities estimate

KSE started its cattle feed plant in 1976

Company Overview

KSE Ltd began operations in 1972 by setting up Kerala's first solvent extraction plant to extract coconut oil from coconut oil cakes. Subsequently, in 1976 the company set up a plant to manufacture ready mixed cattle feed. In the last three decades, KSE has emerged as a leader in solvent extraction from coconut oil cakes and also the largest cattle feed producer and supplier in Kerala. In 2000, KSE entered the business of procuring, processing and marketing milk and milk products. In 2002, KSE started producing and marketing ice-creams.

Today, KSE Ltd is predominantly a cattle feed producer with about 80% of its revenues in FY09 coming from the sales of cattle feed.

Table 4: KSE's developments since inception

1972	Company began operations by setting up a 40 MTs per day solvent extraction plant in Irinjalakuda, Kerala
1976	Company set up a 50 MTs per day ready-mixed cattle feed plant in Irinjalakuda
1979	Production capacity of cattle feed plant in Irinjalakuda increased to 60 MTs per day
1980	Solvent extraction plant capacity in Irinjalakuda increased to 60 MTs per day
1983	A fully automatic new cattle feed plant of 120 MTs per day capacity commissioned in Irinjalakuda
1984	Solvent extraction plant capacity in Irinjalakuda increased to 80 MTs per day
1987	Production capacity of cattle feed plant in Irinjalakuda increased to 180 MTs per day
1988	A new cattle feed plant of 100 MTs per day capacity commissioned in Swaminathapuram, Tamilnadu
1989	Solvent extraction plant capacity in Swaminathapuram increased to 100 MTs per day
1990	Production capacity of cattle feed plant in Swaminathapuram increased to 150 MTs per day
1996	A new cattle feed plant of 240 MTs per day capacity commissioned in Vedagiri, Kerala
1998	KSE acquired a cattle feed manufacturing unit at Palakkad, Kerala
2000	Company began procuring, processing and marketing milk and milk products
2002	VESTA' ice-cream launched
2003	Started production of cattle feed in a leased plant at Edayar, Kerala
2006	100 MTs per day physical refining plant commissioned
2006	200 MTs per day solvent extraction plant at Koratty commissioned. Solvent plant at Irinjalakuda dismantled
2008	Ice cream production unit commissioned at Thalayuthu, Tamil Nadu
2009	A new cattle feed plant of 500 MTs per day capacity commissioned in Irinjalakuda

Source: Company, CRISIL Equities

Business Overview

KSE's business is divided into three segments – Cattle feed division, oil cake processing division and dairy division.

Cattle Feed

KSE's cattle feed division is engaged in the production and marketing of cattle feed. KSE's cattle feed is largely made up of de-oiled rice bran cake, maize and de-oiled coconut cake. Some quantities of cottonseeds are added to make a balanced feed mixture.

The company produces seven types of cattle feed, three in mash form and four in pellet form:

Table 5: Cattle feed manufactured by KSE

Mash	Pellet
KS Ordinary	KS Deluxe
KS Special	KS Deluxe Plus
KS Super	KS Supreme - Bypass protein feed
	KS Premium Plus

Source: Company, CRISIL Equities

KSE is the largest producer and supplier of cattle feed in Kerala. In FY09, KSE had three cattle feed plants operating in Kerala and one in Tamil Nadu. In FY10, KSE has commissioned another plant in Kerala which has almost doubled its production capacity to 354,000 metric tones per annum. Besides, KSE also outsources some of its production.

Table 6: Capacity and location of cattle feed plants of KSE in FY10 ('000 MT per annum)

Location	State	Existing capacity	New capacity	Total capacity
Irinjalakuda	Kerala	45	175	220
Vedagiri	Kerala	72	-	72
Palakkad	Kerala	9	-	9
Swaminathapuram	Tamil Nadu	53	-	53
Total		179	175	354

Source: Company, CRISIL Equities

Oil Cake Processing

KSE's oil cake processing division extracts coconut oil from coconut oil cakes by using solvent extraction technology. The company operates two solvent extraction plants with a total capacity to process 90 thousand metric tones of coconut oil cake per annum. In FY09, the oil cake processing division contributed 16% to the company's total revenues.

Table 7: Capacity and location of solvent extraction plants of KSE in FY10 ('000 metric tonnes per annum)

Location	State	Total
Koratty	Kerala	60
Swaminathapuram	Tamil Nadu	30
Total		90

Source: Company, CRISIL Equities

The coconut oil obtained from processing coconut oil cakes is sold in bulk volumes to various industries in Kerala and Tamil Nadu.

The de-oiled coconut cake obtained after extracting oil is purified and used as an ingredient in KSE's cattle feed. Over the years, the proportion of de-oiled coconut cake consumed internally has increased with increasing production of cattle feed. The proportion of de-oiled coconut oil cake consumed internally has increased from 45% in FY05 to 55% in FY09. The proportion of de-oiled coconut cake consumed internally is expected to increase in line with the increase in KSE's cattle feed production.

The balance de-oiled cake (after meeting internal requirements) is marketed as Jersey copra cake in Kerala and Tamil Nadu. The protein rich, highly palatable cake has a long shelf life

KSE was able to turnaround its dairy business by scaling down the volume of milk that is processed

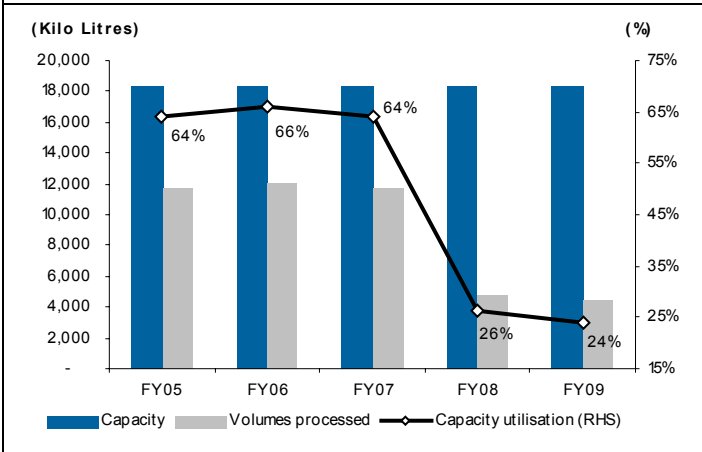
and is used by dairy farmers as a feed for cattle.

Dairy business

KSE’s dairy division is engaged in procuring, processing and marketing milk and milk products. The company’s ice-cream business also falls under this division.

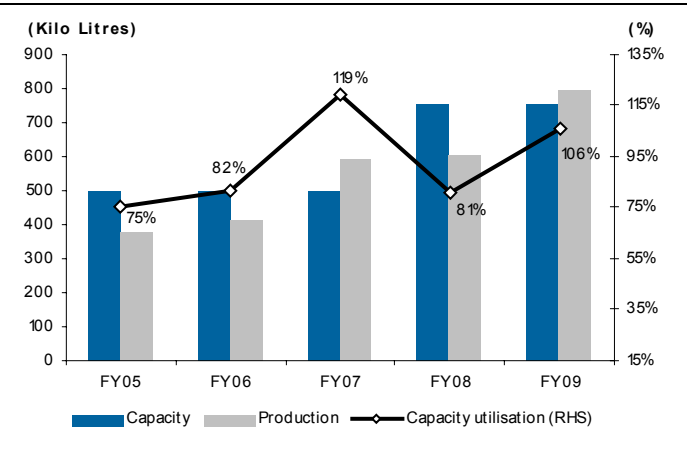
The company started its dairy division in 2000 with milk processing capacity of 18,250 kilo litres per annum. However, the company was not able to efficiently run its milk procurement and marketing activities, which resulted in losses for the dairy division till FY07. Consequently, since FY08, the company has significantly scaled down the volume of milk processed. The decline in milk processing levels coupled with the rising sales and contributions from the ice cream business have led to a turnaround of the dairy division since FY08.

Figure 15: Trend in milk processing capacity and volume of milk processed



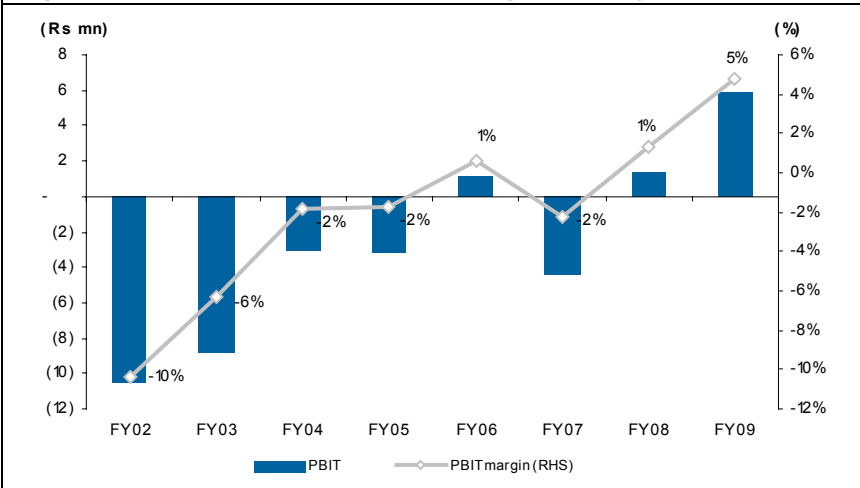
Source: Company Reports, CRISIL Equities

Figure 16: Trend in capacity and production of ice-creams



Source: Company Reports, CRISIL Equities

Figure 17: Trend in PBIT and PBIT margin of Dairy business



Source: Company Reports, CRISIL Equities

KSE is in the process of scaling up ice-cream production capacities

Encouraged by the performance of its ice-creams business, KSE is currently in the process of doubling its ice-cream producing capacity from 750 kilo-liters per annum in FY09 to 1,500 kilo-liters per annum by FY11.

Industry Overview

Cattle feed is a highly nutritive, balanced feed which improves the health of cattle resulting in high yield of milk

Cattle feed

Cattle feed largely consists of oil cakes, maize and cereal by products, mixed in a pre-determined proportion to provide a desired level of nutrition to the cattle. Coarse grains and cottonseed are usually added to make a balanced feed mixture. Other products such as molasses, mango seed kernel, mahowa cake, neem cake, amongst others may also be added to the feed. Intake of cattle feed improves the general health condition of the cattle, which in turn leads to a high yield of good quality milk that is rich in fat, protein and sweetness.

Huge long-term potential for growth in the cattle feed industry

India has been the largest milk producing country in the world since 1999. Milk production has increased at a 15-year CAGR of 4.0% to reach about 105 million tonnes in 2007-08. India has achieved this milestone despite stagnation in its bovine population over the past decade.

Table 8: Trend in India's milk production

Year	Production (Mn Tonnes)
1992-93	58.0
1997-98	72.1
2002-03	86.2
2007-08	104.8

Source: Department of Animal Husbandry, Dairying & Fisheries (DAHD)

Table 9: Trend in India's bovine population

Year	Bovine Population (In million)	CAGR
1951	198.7	
1956	203.6	0.5%
1961	226.8	2.2%
1966	229.2	0.2%
1972	235.7	0.5%
1977	242.0	0.5%
1982	262.2	1.6%
1987	275.7	1.0%
1992	288.8	0.9%
1997	288.8	0.0%
2003	283.1	-0.3%

Source: Livestock Census 2003

Table 10: No of Milch bovines, milk production and yield per bovine in India

	Units	1997	2003	CAGR
Milch Bovines	Million	101	105	0.7%
Milk Production	Million tonnes	72	88	3.4%
Yield per bovine	Kgs per annum	714	837	2.7%

Source: Indiastat

It is important to note that the growth in milk production has been possible because of higher yields on the back of improved cattle rearing. One of the major factors contributing to higher

yields has been the increased emphasis on balanced nutrition for bovines resulting in increased consumption of cattle feed. However, potential for further increase in cattle feed consumption is much higher in the long term.

The cattle feed industry has the potential to grow 8 times its current size based on ideal consumption norms

Research suggests that about 1 kg of compound cattle feed needs to be fed to a milch bovine for every 2 litres of milk produced. Based on this requirement, the total potential for compound cattle feed in 2008-09 is estimated at 55 million metric tonnes. Against this, the supply of cattle feed was only to the tune of 7 million tonnes. Thus there is a lot of potential for an increase in cattle feed consumption in the long run in order to increase milk production in the country.

Table 11: Cattle feed potential demand and supply in India

Year	Milk Production (Mn tonnes)	Potential demand based on ideal compound cattle feed consumption (Mn tonnes)	Compound cattle feed supply (Mn tonnes)	Growth potential (Mn tonnes)
2008-09	110.0	55.0	7.0	48.0

Source: The Compound Feed Manufacturers Association, CRISIL Equities

The demand for cattle feed would also get an impetus due to the yawning gap in the availability of green and dry fodder in India.

Table 12: Supply and demand of green and dry fodder in India (In Mn MT)

Year	Supply		Demand		Deficit as % of demand	
	Green	Dry	Green	Dry	Green	Dry
2005	390	443	1025	569	62.0	22.1
2010	395	451	1061	589	62.8	23.5
2015	401	466	1097	609	63.5	23.6
2020	406	473	1134	630	64.2	24.8
2025	411	488	1170	650	64.9	24.9

Source: Kerala Livestock Development Board

Government initiatives for industry growth

The compound cattle feed industry is driven by the consumption potential of bovines in the country. The demand of the cattle feed would grow in line with the growth in the number of bovines in India. Various proactive policy and financial measures have been taken up by 'The Department of Animal Husbandry, Dairying & Fisheries, Ministry of Agriculture, Government of India' (DAHD) to boost the growth in the livestock sector as a whole. Some of the key measures which are expected to augur well for the growth in cattle include:

Increase in allocation to DAHD from Rs 25 billion in the 10th plan to Rs 82 billion in the 11th plan.

Establishment of Central Cattle Development Organizations in different regions of the country to produce genetically superior breeds of bull calves and storage of good quality frozen semen.

National Project for Cattle & Buffalo Breeding which envisages genetic up-gradation on priority basis and also focuses on the development and conservation of important indigenous breeds.

Government's initiative to increase bovine population will augur well for increased cattle feed consumption

The efforts of DAHD have led to eradication of some of the fatal diseases in cattle during the 10th plan. Further, as the nutritive value of feed and fodder has a significant bearing on the productivity of livestock, strong emphasis has been given by the DAHD to measures such as high technology breeding, farmer awareness and fodder development amongst others.

Cattle feed has a short shelf life and is mostly sold in regions adjoining the plant

Cattle feed industry is a localized industry

Due to the short shelf life and bulky nature of the cattle feed, production centres are set up in close proximity to the market. Raw materials such as cereal by-products, cereals, etc are sourced from the most cost-effective regions/states which then move to the production centres.

Cattle feed industry in Kerala

Milk production in Kerala in 2007-08 was 2.3 million tonnes translating into an ideal cattle feed requirement of 1.1 million tonnes whereas the actual supply was about 0.7 million tonnes.

Table 13: Compound cattle feed potential demand and supply in Kerala

Year	Milk Production (Mn tonnes)	Potential demand based on ideal compound cattle feed consumption (Mn tonnes)	Compound cattle feed supply (Mn tonnes)	Growth potential (Mn tonnes)
2007-08	2.3	1.1	0.7	0.4

Source: The Compound Feed Manufacturers Association, CRISIL Equities

Fodder availability in Kerala is one of the lowest in India

With the shift in cropping pattern of Kerala, the area under rice has come down by almost 50% over the last two decades leading to drastic reduction in the availability of straw for feeding cattle. The availability of fodder in the state of Kerala is one of the lowest in the country. Low fodder availability translates into an increased need for cattle feed to maintain the health of bovines.

Table 14: Bovine population and fodder availability in select states of India

	Bovine Population (In '000)	Total Availability of Fodder per day ('000 tonnes)	Total Availability of Fodder per day per bovine (In Kgs)
Kerala	2,187	7.6	3.5
Karnataka	13,530	97.4	7.2
Tamil Nadu	10,799	87.5	8.1
Gujarat	14,564	199.7	13.7

Source: Livestock census 2003, Indiastat

Another factor that is expected to lead to high cattle feed consumption in Kerala is the declining milk production over the past decade. Alarmed by the increasing dependence on other states for its milk requirement, the government is taking steps to ensure self-sufficiency in milk production. Initiatives taken by the Kerala government to improve milk production would warrant higher intake of high nutrition cattle feed.

Table 15: Trend in Milk production in India and Kerala (000 MT)

Year	All India	Kerala
1997-98	72,128	2,343
1998-99	75,424	2,420
1999-00	78,286	2,532
2000-01	80,607	2,605
2001-02	84,406	2,718
2002-03	86,159	2,419
2003-04	88,082	2,111
2004-05	92,484	2,025
2005-06	97,066	2,063
2006-07	100,869	2,119
2007-08	104,840	2,253
10 Year CAGR %	3.8	(0.4)

Source: Livestock Industry Survey Report 2009

The Kerala government has launched an ambitious project to establish a chain of hi-tech dairy farms under the Kerala Livestock Development Board, the first being established in Kollam district. This is the first hi-tech dairy farm in south India and also the first hi-tech dairy farm in India that is state run. The total outlay of the project is planned at Rs 5 crores and is being funded by the National Project for Cattle and Buffalo Breeding (NPCBB), a project initiated by DAHD.

Considering the government's continued efforts for advanced cattle rearing, we believe that cattle feed consumption which has grown at a CAGR of 3-4% in the last 5 years in Kerala is poised to grow at about 4% over the next 5 years.

Key challenges for the industry

Although there seems to be a lot of potential to increase the consumption of compound cattle feed in the long run, its demand is limited by the ability of the dairy farmer to purchase it. Primarily, only small and marginal farmers and landless labourers in the country are engaged in milk production. The price realization of milk produced by them is driven by the price fixed by the state co-operatives under a procurement-pricing scheme. State co-operatives in turn are under pressure by their respective state governments not to increase prices as milk prices have a direct bearing on food inflation. While there is limited scope for increasing the prices of milk, input costs such as cattle feed are rising which makes dairying unviable if there is no commensurate increase in the procurement price of milk.

Annexure: Financials

Income statement

(Rs Mn)	FY08	FY09	FY10E	FY11E	FY12E	FY13E
Net sales	2,894	3,500	3,676	4,047	4,424	4,815
Operating income	2,899	3,505	3,681	4,053	4,430	4,822
EBITDA	95	117	178	201	198	213
Depreciation	29	26	36	37	37	37
Interest	26	46	32	27	21	15
Other income	2	4	4	4	5	5
PBT	42	49	115	142	145	166
PAT	26	30	76	94	96	110
No. of shares (Mn No.)	3.2	3.2	3.2	3.2	3.2	3.2
Earnings per share (EPS)	8.1	9.5	23.6	29.3	29.9	34.2

Source: Company, CRISIL Equities estimate

Balance sheet

(Rs Mn)	FY08	FY09	FY10E	FY11E	FY12E	FY13E
Equity	32	32	32	32	32	32
Reserves	235	248	287	343	390	426
Debt	198	300	280	216	162	118
Current liabilities and provisions	102	114	119	130	143	156
Deferred tax liability/(Asset)	15	17	22	24	25	23
Capital employed	581	712	739	745	752	755
Net fixed assets	284	284	393	371	339	307
Capital WIP	10	100	11	6	6	6
Investments	0	1	1	1	1	1
Loans and advances	37	33	35	38	42	45
Inventory	193	247	259	286	312	340
Receivables	4	3	3	4	4	4
Cash & bank balance	53	44	37	40	48	52
Applications of Funds	581	712	739	745	752	755

Source: Company, CRISIL Equities estimate

Cash flow

(Rs Mn)	FY08	FY09	FY10E	FY11E	FY12E	FY13E
Pre-tax profit	42	49	115	142	145	166
Total tax paid	(6)	(16)	(34)	(46)	(48)	(58)
Depreciation	29	26	36	37	37	37
Change in working capital	44	(37)	(10)	(18)	(18)	(19)
Cash flow from operating activities	109	22	107	114	116	126
Capital expenditure	(15)	(116)	(56)	(10)	(5)	(5)
Investments and others	0	-1	0	0	0	0
Cash flow from investing activities	(15)	(116)	(56)	(10)	(5)	(5)
Equity raised/(repaid)	1	0	0	0	0	0
Debt raised/(repaid)	(75)	102	(20)	(64)	(54)	(44)
Dividend (incl. tax)	(13)	(19)	(37)	(37)	(49)	(73)
Others (incl extraordinary)	0	2	0	0	0	0
Cash flow from financing activities	(87)	85	(57)	(101)	(103)	(117)
Change in cash position	7	(9)	(7)	3	8	4
Opening cash	46	53	44	37	40	48
Closing cash	53	44	37	40	48	52

Source: Company, CRISIL Equities estimate

Ratios

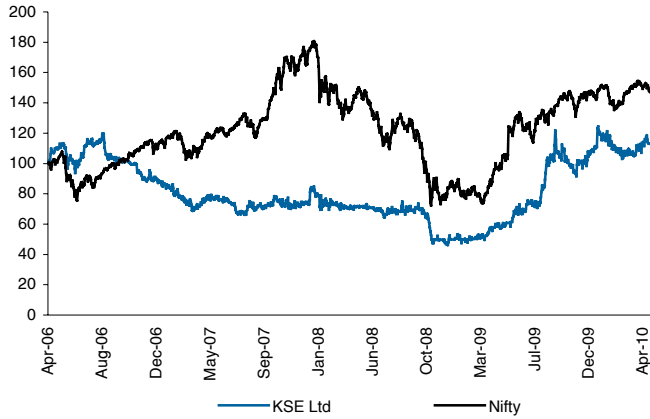
	FY08	FY09	FY10E	FY11E	FY12E	FY13E
Sales growth (%)	5.3	20.9	5.0	10.1	9.3	8.8
EBITDA growth (%)	179.9	23.2	52.8	12.9	(1.9)	7.9
EPS growth (%)	(355.5)	24.1	136.2	23.7	2.0	14.6
EBITDA margin (%)	3.3	3.3	4.8	5.0	4.5	4.4
PAT margin (%)	0.9	0.9	2.1	2.3	2.2	2.3
Return on capital employed (RoCE) (%)	13.4	17.4	24.2	27.7	27.4	30.4
Return on equity (RoE) (%)	10.0	11.1	25.3	27.0	24.0	24.9
Dividend per share (Rs)	4.1	5.8	10.0	10.0	13.0	19.5
Dividend payout ratio (%)	50.7	58.4	42.3	34.2	43.5	57.0
Dividend yield (%)	3.2	5.8	4.8	4.8	6.2	9.3
Earnings per share (Rs)	8.1	9.5	23.6	29.3	29.9	34.2
Debt-equity	0.7	1.1	0.9	0.6	0.4	0.3
Current ratio	2.8	2.9	2.8	2.8	2.8	2.8
Interest coverage	2.5	2.0	4.5	6.0	7.7	11.4
Price-earnings	15.8x	10.6x	8.9x	7.2x	7.0x	6.1x
Price-book	1.5x	1.1x	2.1x	1.8x	1.6x	1.5x
EV/EBITDA	5.9x	4.9x	5.1x	4.2x	4.0x	3.5x

Source: Company, CRISIL Equities estimate



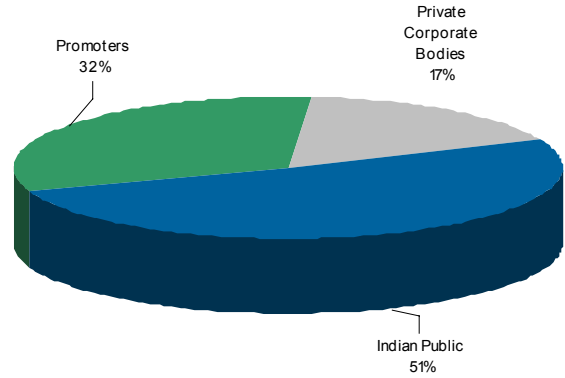
Focus Charts

Share price movement chart



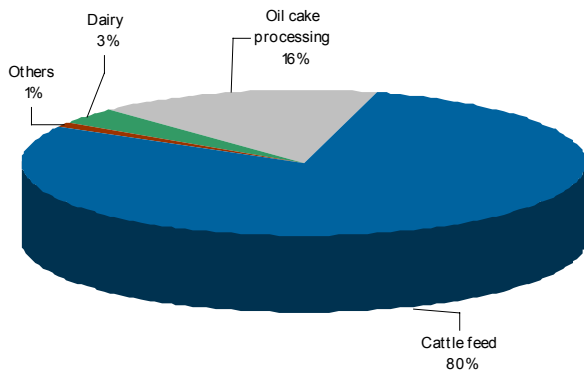
* Indexed to 100
Source: NSE, BSE

Shareholding as on December 2009



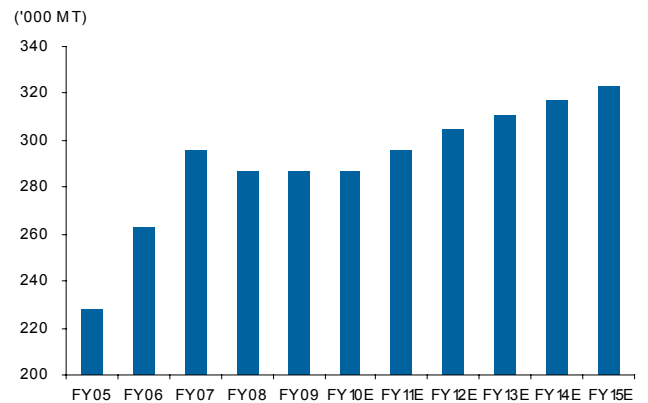
Source: NSE

Segment-wise Break Up of Revenues – FY09



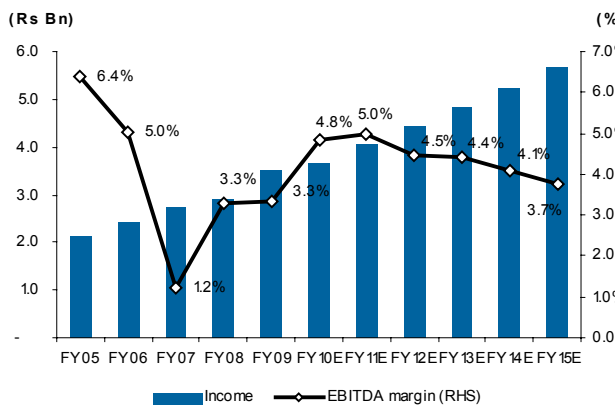
Source: Company Reports, CRISIL Equities

KSE's cattle feed sales volume trend



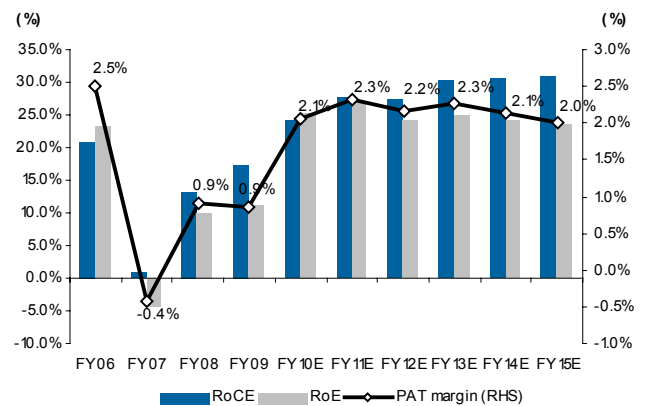
Source: Company Reports, CRISIL Equities estimate

Income and EBIDTA trends



Source: Company Reports, CRISIL Equities estimate

RoCE, RoE and PAT trends



Source: Company Reports, CRISIL Equities estimate

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