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The Trick Is To  
**Spot Them** At The  
**Larval Stage**

**TINY**  
**TREASURE**

August 2016

BSE Code : 524330

Time Duration : 1 year

CMP : ₹341.25 (as on 24 August, 2016)

Target Price : ₹425

## Jayant Agro-Organics

# A LEADING PRODUCER OF CASTOR OIL

The value pick for the month of August is Jayant Agro-Organics Ltd. It is an oleo-chemical company with leadership position in the castor based speciality chemicals products. It is a 100% export oriented unit and has products with wide applications in agriculture, pharma, cosmetics, paints, lubricants, textile, rubber and electronics. It is fourth largest provider of castor oil in the world. We believe due to its leadership position, revival in demand, stability in crude oil prices and cost cutting initiatives, company can see an upside of 26% from current levels.

### India's – a leader in castor oil production

India supplies 80% of the world's castor oil and Gujarat constitutes more than 75% of the same. The other states that produce castor seeds are Rajasthan and Andhra Pradesh. The industry is highly linked to the crude oil price and seen a difficult year 2016 with speculations in commodities market disrupting the linear relation. However, due to intervention of SEBI, the prices have now been stabilized and again follow crude oil prices.

India's share of castor oil in the global production has been increasing from year to year. India has now secured a near monopoly situation in castor oil and has gained market share from 62% in 2002-03 to 80-85% currently. Currently, 90% of the value addition of castor oil by the speciality chemical industry is carried out overseas which JOAL plans to bring it down.

Additionally, China is the biggest consumer of the castor oil products and we see the Chinese economy is witnessing revival from its low. We believe the demand for sebacic acid (a derivative of castor oil) of which China is the largest producer and consumer will improve this year.

Castor oil is different from vegetable oil and due to its chemical properties it has wide industry applications and is eco-friendly.

### Strategically located manufacturing units

The company in total has 110 products out of which 60 are active and it has more than 300 products in R&D. Company's value added products form 38% of the FY15 sales. Company has clear focus on R&D and constantly endeavours to make products for various applications.

It operates primarily through the Company's subsidiary, Ihsedu Agrochem Pvt. Ltd (IAPL) located in Banaskantha - one of the largest castor growing districts in Gujarat. Company has three manufacturing units in Gujarat, two at Ranoli and other at Dhanora. It is planning to set up additional unit in Bharuch, near Vadodara. The capacity for the same is expected to start in FY18. The manufacturing units are located with proximity to the castor seed growing belt which aids raw material procurement and processing.

Company has forged tie-ups with global leaders from Japan and France to ensure markets or the products sold by them.

### Margin improvement to drive bottomline

FY16, consolidated revenues were down 13% due to volatility in castor oil prices. The margins however showed improvement of 150 bps due to cost cutting initiatives undertaken by the company. This helped to grow PAT by 140% yoy. We believe company's focus on cost reduction and improvement in oil prices should benefit the company. Return on networth has also improved in June16 to 14.16 and is expected to improve to historical levels of 20+. Company is also paying its debt and the D/E is at comfortable 1.1x while current ratio is at 1.2x.

### Valuation

Company has guided growth of 10-12% on volume basis for FY17. Modelling a growth of 9% growth and net profit margin of 2.6%, we see PAT improving by 54%. At conservative, P/E of 2017E of 13.9x, company looks attractive on valuation. We see an upside of 26% from current levels to touch target of Rs 425 over a year.

### Inc/Exp Statement(Consolidated) (Rs in Crore)

Description	2016	2015	2014	2013	2012
Net Sales	1375	1581	1538	1625	1832
Total Income	1380	1588	1561	1630	1838
Total Expenditure	1302	1523	1461	1531	1744
PBIDT	78	65	101	99	94
PAT	25	11	41	36	31
Dividend %	75	20	60	45	40
Adj. EPS(Rs)	16	8	19	24	21

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