



**“Volatility remained the buzzword”**

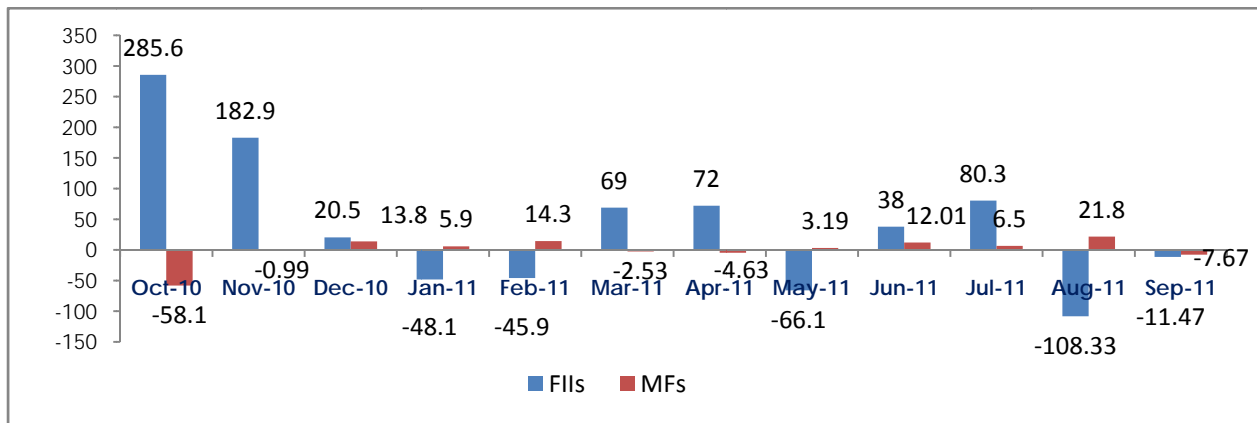
The month of September 2011 remained under pressure and volatile mainly on concerns over Euro debt crisis in Europe, high public debt and poor employment data in United States. On the domestic front too, there were worries on the inflation front. Headline wholesale price index (WPI) inflation rose from 9.2 per cent in July to 9.8 per cent in August 2011. Global crude oil prices have also remained elevated despite weakening of global recovery. Food price inflation persists notwithstanding a normal monsoon.

Considering the above factors, RBI increased the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points from 8.0 per cent to 8.25 per cent with immediate effect. However, it kept cash reserve ratio (CRR) rate unchanged. With this action, we believe growth would moderate and could slow down to 7.5% for FY12.

During the month, Indian rupee recorded its worst performance in more than 18 years. On the other hand, gold registered the biggest weekly drop since 2008. It declined below US\$1,700 an ounce in New York as investors were compelled to sell to cover losses in other assets.

FII during the month “September – 2011” remained sellers and sold worth Rs. 11.47 bn. On the other hand, Mutual Funds too sold worth Rs. 7.67 bn.

**Trend in FII and MF activity in equity (Rs. bn)**



Source: SEBI, Money control, Note: September 2011 FII data is up to 29<sup>th</sup> Sept, 2011 and MF data is upto 28<sup>th</sup> Sept, 2011

## Monthly indices

Index	30 <sup>th</sup> Sep, 2011	30 <sup>th</sup> Aug, 2011	% change
Dow Jones	10,913	11,493.5*	(5.05)
FTSE	5,197	5,418.6*	(4.09)
Hang Seng	18,011	20,423.9*	(11.8)
Nikkei	8,701	8,960.5	(2.9)
Nifty	4,943.25	5,001	(1.15)
Sensex	16,453.76	16,676.75	(1.34)
BSE –Midcap	6,129.5	6,273.6	(2.3)
BSE-500	6,385.76	6,487.2	(1.56)

Source: Ajcon Research, \* as on 30<sup>th</sup> September, 2011

## Ajcon's view

We believe markets would take a cue from the upcoming earnings season. However, in our view investors should adopt wait and watch policy and take decisions after taking into account the upcoming earnings season. Investors sitting on cash can slowly accumulate blue chip companies like Infosys, SBI, RIL, BHEL and Bajaj Auto. In the midcap space we prefer stocks which provide higher margin of safety on the valuation front, strong revenue visibility and healthy cashflow. We prefer companies like Shoppers Stop, Bajaj Finance, Bajaj finserv, Jubilant Lifescience and Eros International Media Ltd.

**In this newsletter, we have touched upon Rice Processing Sector. Please find a brief study on it below:**

The Indian food landscape can be classified into three categories of products which are consumed in different stages depending on the extent of processing. The Indian food industry has been analyzed into three broad categories:

- Agri-products: covering grains and cereals, oils and oilseeds, fruits and vegetables, and beverages
- Milk and milk products
- Meat, poultry and marine products

Processing of grain includes milling of wheat, rice and pulses. In 1999-00, there were more than 91,000 rice hullers and 2,60,000 small flour mills which were engaged in primary milling. There are 43,000 modernized rice mills and huller-cum-shellers. Around 820 large flourmills in the country convert about 10.5 mn. tons of wheat into wheat products. Also there are 10,000 pulse mills milling about 75% of pulse production of 14 mn tons in the country. Primary milling of grains is considered to be an important activity in the grain-processing segment of the industry. However, primary milling adds little to shelf life, wastage control and value addition. Around 65% of rice production is milled in modern rice mills. However, the sheller cum- huller mills are operating at a low recovery rate. Apart from the 820 large flourmills, there are over three lakh small units operating in this segment in the unorganized sector.

## Rice processing

Starting with 20.6 Mt of rice production during 1950-51, the country has come a long way to produce about 89.48 Mt of rice in the year 1999-2000. Similarly, in processing sector, the

technology has undergone significant changes. Earlier, hand pounding, pedal operated system and Engleberg huller units were common for milling of paddy. By the year 1998-99, there were nearly 30,000 modern rice mills using rubber rolls for paddy dehusking. Of these, more than 5,000 are large rice mills with parboiling facility and nearly 100 had colour sorters for removal of discolored rice for export market.

Rice milling industry was reserved for Small Scale Sector (SSI) till 1997. As result the industry is characterized by small marginal mills. As a result, the rice milling sector is fragmented and unorganized which presents a tremendous opportunity for modern rice millers is scaling up.

### Global Scenario

Rice helps sustain two- thirds of the world's population. Archeological evidence suggests that rice has been feeding mankind for more than 5,000 years. Rice cultivation is the principal activity and source of income for millions of households around the globe.

Production is geographically concentrated in Asian countries making it the biggest rice producer, accounting for 90% of the world's production and consumption of rice. China and India, which account for more than one-third of global population supply over half of the world's rice.

### Indian Scenario

Rice is the staple food for more than 70% of Asians. Farms cover over half the land and almost three-quarters of that land is used to grow the two major grains: rice and wheat. Rice is grown in India in both the seasons – winter and summer. India's annual rice production is around 95-100 million tons, annual consumption amounting around 90 million tons. West Bengal, Uttar Pradesh, Andhra Pradesh, Punjab, Tamil Nadu, Bihar, Orissa, Assam, Karnataka and Haryana are the major producing states. More than 50% of total production comes from the first four states.

*In this newsletter we have covered "Usher Agro Ltd." Please find a brief study on it:*

AJMERA

*Usher Agro Ltd - Leading the green revolution...*

*3<sup>rd</sup> October, 2011*

NSE/BSE Code	USHER
Promoter's holding	28.3%
FV	Rs. 10
Equity Capital (Rs in mn)	380.59
Market Capitalization (Rs in mn)	4,605
52 week high/low	Rs. 162 (26 <sup>th</sup> July, 2011)/Rs. 83 (10 <sup>th</sup> December, 2010)
CMP	Rs. 121
Target Price	Not rated

*Usher Agro Ltd. is India's leading rice processing company in the non basmati rice segment. Considering the fragmented nature of the market, the company is well poised to take advantage in the organized rice processing segment. At CMP, the stock currently trades at a P/E of 13x at FY11EPS. With due consideration to factors like a) largest rice milling capacity in the country, b) locational advantage, c) upliftment of export ban to provide fillip to revenues, d) tie up with US based company to develop fortified rice, we believe the company has a strong potential in the years to come. We do not currently have a rating on the stock. A recommendation would be given after interaction with the management.*

**FINANCIAL SUMMARY**

Particulars	FY08	FY09	FY10	FY11
Net sales	1,412	2,090	3,420	5,677
Growth (%)	-	47.9	63.7	66
Operating Profit	188	269	479	744
OPM (%)	13.3	12.8	14	13.3
PAT	126	148	235	367
PAT (%)	8.9	7.1	6.9	6.5
Outstanding shares (mn)	25.6	23.5	25.4	38.05
EPS	4.92	6.29	9.25	9.64
P/E(x)	25	19	13	13
ROE (%)	25	21.8	22.7	21.1
Debt/Equity	0.8	1.4	2.07	0.19

Source: Company, Ajcon Research

**INVESTMENT RATIONALE**

**Strong sector fundamentals:** Rice processing industry is fragmented which presents a big opportunity to Usher Agro Ltd. The fragmented nature is characterized by presence of large number of modernized rice mills. As on January, 2002, the number of mills stood at 35,088 whereas there were 8,385 hullers – cum – shellers. Total rice output in India is estimated at 99 mn tones and paddy production stands at 148 mn tones.

**Largest rice milling capacity:** The company is the largest producer and processor of non-basmati rice in India. By this virtue, the company leads the organized rice processing segment in India. The following table gives a detailed break up of its capacity product and location wise:

#### Capacity Breakup

Plant	Location	Existing capacity (in MTPA)	Installed (in MTPA)	Under implementation (in MTPA)	Total
Rice Milling	Mathura, UP	10,800			10,800
	Buxar, Bihar	46,800		46,800	93,600
	Chhata, UP	4,86,000			4,86,000
	<b>Subtotal</b>	<b>5,43,600</b>		<b>46,800</b>	<b>5,90,400</b>
Wheat milling	Mathura, UP	75,000		50,000	1,25,000
	<b>Subtotal</b>	<b>75,000</b>		<b>50,000</b>	<b>1,25,000</b>
<b>Total</b>					<b>7,15,400</b>

Source: Company, Ajcon Research

**Presence of plants at strategic locations bringing closer to end markets:** The company's mills are present in Uttar Pradesh and Bihar which have proximity to the state of Haryana. The three states, viz, Uttar Pradesh, Bihar and Haryana account for 19.41% and 53.2% of total rice and wheat production in India respectively. As the plants are located in Mathura and Chhata, it is closer to the rice deficit states such as Rajasthan, Gujarat and Maharashtra. This provides the company with an edge to supply products in the rice deficit states with a cost competitive advantage in terms of logistic.

**Upliftment of export ban to provide fillip to revenues:** The management expects that Government of India will allow unrestricted export of two mn tones of each of rice and wheat. This would result in higher export revenues for the company as it would supply premium quality non basmati rice to high demand export destinations like Middle East countries and Africa.

**Tie up with foreign US based company to open up new avenues:** The company has recently tied up with US based company for developing "Fortified Rice". With this technology tie up / arrangement the company shall be able to manufacture 'Fortified Rice' which is fortified with micro nutrients that are essential for addressing malnutrition. Fortified Rice is also having rising demand amongst the health conscious people across the world. After this technology tie up the company will manufacture 'Fortified Rice' from Basmati as well as Non-Basmati Rice.

## ABOUT THE PRODUCTS

Raw rice	Part Boiled/Seamed Rice	Brown Rice	Wheat products
Raw Rice	1121	1121	Whole Meal Atta (Chakki fresh Atta)
1121	DB	Parmal PR-106	R- Atta
DB	Sugandha	Basmati	Semolina Premium (Rawa/Suji)
Sugandha	Masauri/Sonam	Pusa Basmati	Fine and Superfine Wheat Flour (Maida)
Masauri/Sonam	Parmal/PR-11/Common IR-8		Bran (Choker)
Parmal/PR-11/Common IR-8	Sharbati		
Sharbati	Basmati		
Basmati	Pusa Basmati		
Pusa Basmati			

Source: Company, Ajcon Research

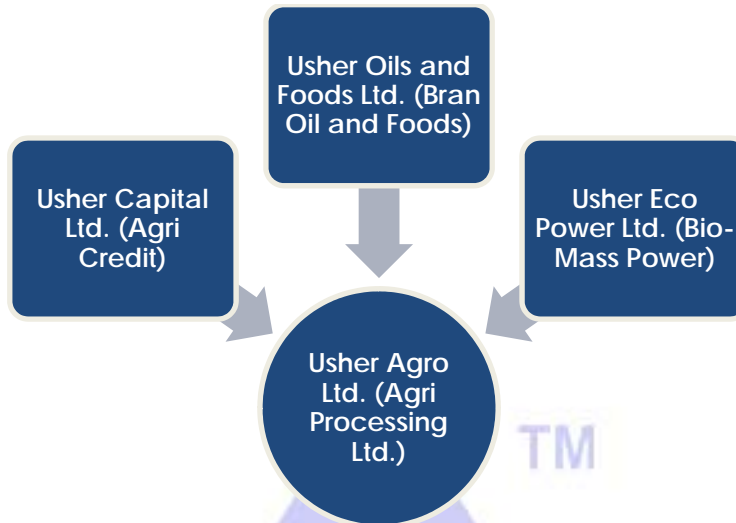
## ABOUT THE COMPANY

Usher Agro was promoted by Mr. Vinod Kumar Chaturvedi, in June 1996 by setting up the first project of rice milling with a capacity of 10,800 MTPA. It is engaged in the business of processing agro based products:

- Rice and allied products, mainly Non Basmati Rice
- Wheat products such as Atta, Maida, Suji, etc.

The company today boasts of having the largest rice milling capacity in India. The present total operational rice and wheat milling capacity stands at 6,18,400 MTPA and an additional rice milling capacity of 46,800 MTPA and wheat milling capacity of 50,000 MTPA is expected to be on stream by December 2012. The company got listed on Bombay Stock Exchange in September 2006.

## GROUP STRUCTURE

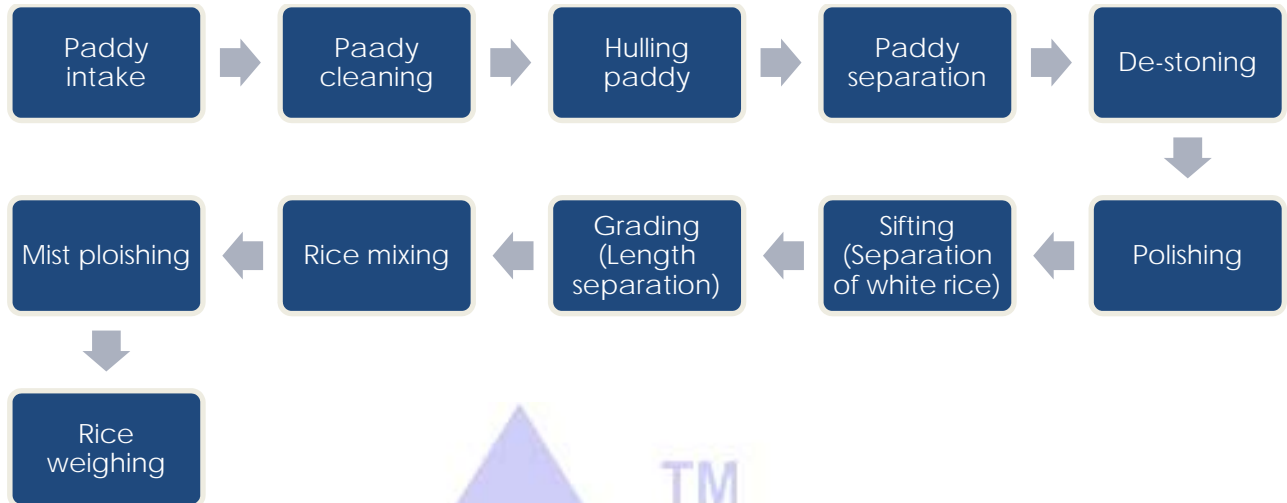


## KEY MILESTONES

Year	Event
June 1996	Incorporation of Usher Agro Ltd.
November 1996	First rice milling plant at Mathura
December 1999	Second rice milling plant at Mathura
November 2003	First rice milling plant in Bihar
September 2006	Initial Public Offer (IPO)
November 2006	Wheat Flourmill at Mathura
2008	Commencement of Cogeneration Captive Power Plant at Mathura (U.P)
February 2009	Rice Milling plant Chhata
2010	Listed with NSE and recognition as export house
March 2011	New Rice Milling at Chhata

Source: Company, Ajcon Research

### USHER AGRO'S RICE PROCESSING FLOW CHART



### ABOUT THE MANAGEMENT

Name	Designation	Age	Experience
Dr. VK Chaturvedi	Managing Director	46	He has over 19 years of experience in food processing, finance and projects. He holds a Doctorate degree on Second Green Revolution and its prospects. He is a fellow member of ICAI.
Mr. Manoj Pathak	Whole Time Director	36	He has more than 14 years of experience in food processing. A graduate in Commerce and Law, he is responsible for growth and development of marketing network and managing the interface with farmers and operating personnel.
Mr. Ajay Prakash Arora	Non Executive and Independent Director	69	He has over 37 years of experience with Central Bank of India in various capacities including as the Senior Internal Auditor. He holds a Master Degree in Commerce and is a Certified Associate of Indian Institute of Bankers (CAIIB).
Mr. Prakash Arora	Non Executive and Independent Director	70	A graduate in animal science, he is responsible for sales, technical, marketing, budgeting, training and business development at Pfizer Animal Health and launched their Agro

chemical business in western India.

Mr. Vijay Ranchan	Non Executive and Independent Director	68	He holds a Master degree in Arts and has retired from Indian Administrative Service (IAS). He has held senior positions of secretary/principal secretary/additional chief secretary in the Department of Revenue, Industry, Labour & Health of Government of Gujarat.
Mr. Narayanan Krishnan	Non Executive and Independent Director, (Nominee Director of IDBI Bank Ltd.)	51	He was associated with IDBI Bank Ltd. for over three decades. He has expertise in corporate finance, rehabilitation and recovery, internal audit and agro business. He holds a Master degree in Commerce.

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