

October 18, 2010

Takeaways from KIE's agri forum: The time is ripe indeed. GameChangers' first forum on October 14, 2010 at Mumbai's Taj Land's End put the spotlight on the renewed promise in the agriculture sector and its catalyzing impact on other sectors. The forum featured companies from the land acquisition space, seeds and other agri-inputs, warehousing, livestock, water, processed food, floriculture and retail. Interactions with 13 companies, both listed and unlisted, had investors attending the forum gripped by the promise stemming from the increasing viability of agriculture and rapidly rising demand.



Keynote Speaker 1: Mr Balram Yadav, MD, Godrej Agrovet

Mr Yadav focused on the challenges and opportunities in Indian agriculture. He spoke about the increasing incomes at the hands of the farmers along with increasing credit flow and capital formation. Commenting on low yields and falling land holdings, he noted the low R&D spends on agriculture in India (0.3% of GDP) versus that of say, Japan (3.6% of GDP). He made a case for increasing technological inputs, showcasing increased cotton productivity due to hybrid seeds. With rising demand for protein, the future for dairy and livestock businesses looks bright. Mr Yadav made a strong case for investment in the agri and livestock sectors, sharing insights in two areas that that promise greater visibility for returns on investment than ever before: (1) demographic changes and their impact on demand and (2) developments in research and technology.

Keynote Speaker 2: Mr Rajeev Kr. Agarwal, Member, Forward Markets Commission

Mr Agarwal spoke of the need for an integrated spot and futures market. A robust futures market with appropriate linkages to the spot market provides all the parties in the agricultural commodity value chain the ability to reduce their risk. The linkage between the markets can be achieved via the creation of sufficient and scientific warehouses, which will allow the farmer to wait for the right price while allowing the processor to know that the commodity is of the right quality. A proper price discovery mechanism also provides the right signals to the farmer telling him what crop to sow.

COMPANIES

Bajaj Hindusthan Group
Narayan Raman, *President, Corporate and Investor Relations*

Doshion
Ashit Desai, *MD*
G Vishwanathan, *Director*

Future Group
Damodar Mall, *Director, Food Strategy at Future Group*

Godrej Agrovet
Balram Yadav, *MD*

Gowardhan
Pritam Shah, *MD*

Inl Farms
Pankaj Khandelwal, *MD and CEO*

Karuturi Global
Ramesh Krishnaswamy, *Global CFO;*
Ankita Apte, *Sr. Manager*

Kotak Mahindra Bank Agri Division
BS Sivakumar, *Business Head, Agri Business Group*

Krishidhan Seeds
Sushil Karwa, *MD;*
Sanjay Sarda, *National Business Manager-Planning*

NCDEX
R Ramaseshan, *MD and CEO*

Nuziveedu Seeds
SVR Rao, *Senior Vice President, Co-ordination and Strategic Planning*

Ruchi Soya
Amrita Shahra, *Head-Business Development;* Amit Jain, *GM*

StarAgri
Amith Agarwal, *Director*

Akhilesh Tilotia
akhilesh.tilotia@kotak.com
Mumbai: +91-22-6634-1139

Kotak Institutional Equities
Research

Important disclosures appear at the back

GAMECHANGER FORUM, OCT 2010: CORPORATE LINE-UP

**Bajaj Hindusthan**

The company, with 14 manufacturing facilities, has an aggregate sugarcane crushing capacity of 136,000 tcd. The group has a distillery capacity to produce 800,000 liters of alcohol per day. BHL is India's largest ethanol producer, currently producing 38 mn liters of ethanol in a year. BHL generates 430 MW of power from the bagasse produced in its sugar mills. After meeting its own energy needs, BHL has a surplus of 105 MW. Besides this, through a consortium, the company, in a major diversification move, has also embarked on developing a mega thermal power project in UP which will produce 1,980 megawatts of power, ready for commissioning in around five years.

**Doshion**

For the past 33 years, Doshion has been known as a leader in water cycle management. It offers a complete gamut of technologies, manufacturing capabilities, engineering and project management, infrastructure and assets management solutions. The company delivers end-to-end solutions for municipalities as well as industry. The company expects its turnover to be Rs6 bn in FY2011E, up from Rs4.2 bn in FY2010. The PBT margin is ~8%. The company derives a bulk of its revenues from power (25%), oil and gas (15%) and metals and mining (13%) segments. Doshion, which has a tie-up with Veolia for EPC water and waste water management, received private equity funding of US\$9 mn from IDFC PE in FY2007.

**Future Group**

The Director, Food Strategy shared with the investors insights on the importance of a retail institution in the value chain for reaching the final customer. He gave examples of how a retail chain can help identify the need gap from the final customer and help create a brand. There are many micro-changes afoot (increased refrigeration, demand for low-effort foods) and it would be worthwhile to focus on those changes rather than try and identify the one big macro change. Increased incomes are leading not only to new category creation but also to category expansions.

**Godrej Agrovet**

The company is present in four segments: Animal feed (FY2010 revenue of Rs12 bn), oil palm plantations (Rs0.7 bn), poultry (Rs0.9 bn) and agri-inputs (Rs1.3 bn). It is the market leader in commercial feed milling, cattle, poultry and aqua feed. In palm oil, it has 37,000 ha under cultivation and expects the "theoretical limit" to be 200,000 ha. In poultry, Godrej Agrovet has a 49% stake in a JV with Tyson Foods, the world's largest meat processor. In agri-inputs, it is present in plant growth regulators, soil conditioners and herbicides.

**Gowardhan**

Gowardhan (Parag Milk Foods Pvt. Ltd.) founded in 1992, is one of India's largest private dairies, with an output capacity of 1,000,000 liters per day. Located in Manchar in Maharashtra (60 km from Pune), it has the largest cow farm in India as well as Asia's largest cheese plant. The product portfolio includes skim milk powder, whole milk powder, ghee, processed cheese, butter, dahi, dairy whitener and gulab jamun mix powder under the brand names of "Gowardhan" and 'Go'. The company's current top line is ~Rs5 bn. It received private equity funding of Rs600 mn from Motilal Oswal in June 2008.



INI Farms

INI Farms is a unique horticulture initiative in India. Co-founded by Mr Pankaj Khandelwal (IIT Kanpur/ IIM Calcutta/ McKinsey) and seed funded by Mr Ashish Gupta (Helion Ventures) and Mr Pavan Vaish (IBM Daksh), INI Farms focuses on building world class fruit orchards with the objective of multiplying yields, improving quality standards, providing safe food and environmental protection. The business will also build and control the supply chain from production to delivery in exports and domestic markets. INI Farms has developed unique India specific models where modern agriculture and exports can be achieved within the Indian land-holding and infrastructural limitations. It has the potential to create a new class of agri-land investors, change the rural socio-economic landscape and help realize India's agricultural potential.



Karuturi Global

The company is the world's largest cut rose producer with production units in Kenya (154 ha), Ethiopia (100 ha) and India (10 ha). The company has acquired a land bank of 0.3 mn ha in Ethiopia for cropping of which 90,000 ha is used for cereals and 20,000 ha for palm oil. The company's revenues in FY2010 were Rs5.3 bn with an EBITDA margin of 36% and PAT margin of 27%. The company is bullish on its African operations and believes in 'food security for Africa', rather than 'food security from Africa'.



Krishidhan Seeds

Krishidhan Seeds Limited (KSL) is one of the top five seeds company in India with a turnover of Rs5 bn. KSL started business in 1980 and is presently led by Mr Sushil Karwa. It is estimated to have revenues of about Rs. 6 bn. in FY2011E. KSL sold about 2 mn bales worth of cotton seeds in FY2010 and expects to sell 3.5 mn bales in FY2011E (financial year is October to September). KSL has, over the years, expanded from being a cotton seeds company to a multi-crop seed company. Cotton contributes about 45% of the revenues with the field crops contribute other 45% of the revenues with vegetable seeds contribute the balance revenues. The company has recently acquired another seeds company, giving it access to 18 new products. The company has recently incorporated a subsidiary company in Europe (KSL Europe) with the objective of developing seeds that can deliver in the agro-climatic conditions of Europe.



NCDEX

NCDEX is a national, technology driven de-mutualised on-line commodity exchange with an independent Board of Directors and professional management. The exchange, as on May 21, 2009 offered contracts in 59 commodities - comprising 39 agricultural commodities, five base metals, six precious metals, four energy, three polymers, one ferrous metal, and CER. The top 5 commodities, in terms of volume traded at the exchange, were rape/mustard seed, gaur seed, soya bean seeds, turmeric and jeera. Its subsidiary, NCMSL runs one of the largest warehouse chains in India.



Nuziveedu Seeds

Nuziveedu Seeds Limited (NSL) aims to grow to Rs15 bn revenue in FY2015E from Rs6 bn in FY2010 (Indian seeds market is a Rs80 bn market (FY2010) estimated to grow to Rs160 bn by FY2014E). NSL has 37% market share in cotton seed business (NSL gets 80-85% of revenue from cotton). Future growth will come from:

- ▶ **Cotton:** Sells 142 Bt cotton hybrids (expects cotton seed business to grow to 45 mn packets from 24 mn currently); it pays a fixed charge to Monsanto
- ▶ **Maize:** Launching new product in maize which it claims is better than Monsanto. If this product works, it will likely cross Rs15 bn, currently sales from maize seed amount to Rs600-700 mn
- ▶ **Rice:** Nuziveedu is developing a hybrid version. The company believes it will take time for India to move towards hybrid version in rice as there are too many variants of rice in India
- ▶ The vegetable seed market is Rs7.5 bn dominated by MNC's with no company getting revenue greater than Rs1 bn. Nuziveedu gets Rs300 mn revenue from vegetable seed business. It is focusing on three vegetable crops: chili, ladyfinger and tomato.

Ruchi Soya

The company had sales of Rs144 bn in FY2010, with crushing capacity of 4.0 mt/yr, refining capacity of 2.2 mt/yr and vanaspati capacity of 0.5 mt/yr. The company derives its revenues from oils (71%), extractions (14%) and vanaspati (6%) among others. The EBITDA mix mirrors closely at 63%, 18% and 5%, respectively. The company claims a 15.2% market share in the edible oil market. The company has land bank of 175,000 ha of palm plantation in India which includes 30,000 ha of planted area, with ongoing discussions to acquire land in Ethiopia and Cambodia.

StarAgri

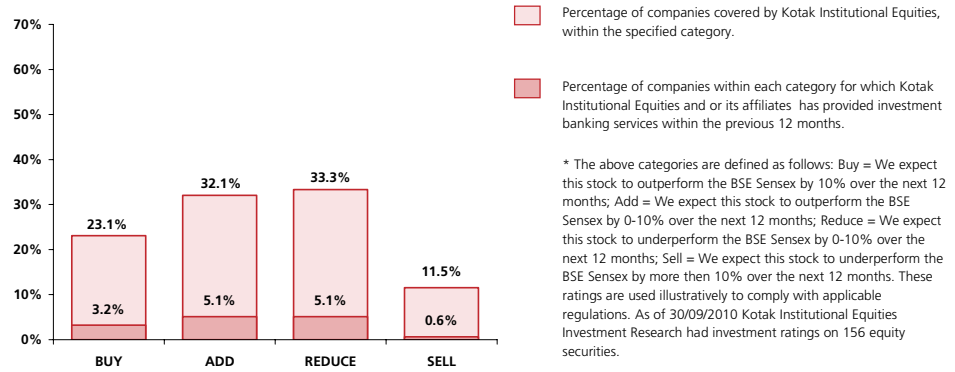
StarAgri Warehousing & Collateral Management Ltd. provides a modern scientific platform for post harvest management needs including procurement, commodity finance, warehousing services and commodity testing & certification services (Star Labs). StarAgri has built deep business relationships with more than 50,000 farmers, agri enterprises, agri processors, oil millers, flour millers, financial institutes & banks, exporters and NCDEX. StarAgri has already disbursed more than Rs35 bn in warehouse financing, which has been collected and repaid without delay or default. The company has offices in Mumbai, Rajasthan, Haryana, M.P, Gujarat, and Maharashtra and will be expanding in the State of Punjab, Delhi and southern India. It is on the 'approved panels' of Punjab National Bank, DCB Ltd, Axis Bank Ltd and IndusInd Bank Ltd for providing collateral management services. It is also in the approved panel of NCDEX and State Trading Corporation of India Ltd to provide warehousing and quality testing and certification services across India.

"I, Akhilesh Tilotia, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report."



Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



* The above categories are defined as follows: Buy = We expect this stock to outperform the BSE Sensex by 10% over the next 12 months; Add = We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months; Reduce = We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months; Sell = We expect this stock to underperform the BSE Sensex by more than 10% over the next 12 months. These ratings are used illustratively to comply with applicable regulations. As of 30/09/2010 Kotak Institutional Equities Investment Research had investment ratings on 156 equity securities.

Source: Kotak Institutional Equities

As of September 30, 2010

Corporate Office

Kotak Securities Ltd.
 Bakhtawar, 1st Floor
 229, Nariman Point
 Mumbai 400 021, India
 Tel: +91-22-6634-1100

Overseas Offices

Kotak Mahindra (UK) Ltd
 6th Floor, Portsoken House
 155-157 The Minories
 London EC 3N 1 LS
 Tel: +44-20-7977-6900 / 6940

Kotak Mahindra Inc
 50 Main Street, Suite No.310
 Westchester Financial Centre
 White Plains, New York 10606
 Tel:+1-914-997-6120

Copyright 2010 Kotak Institutional Equities (Kotak Securities Limited). All rights reserved.

- Note that the research analysts contributing to this report may not be registered/qualified as research analysts with FINRA; and
- Such research analysts may not be associated persons of Kotak Mahindra Inc and therefore, may not be subject to NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

Kotak Securities Limited and its affiliates are a full-service, integrated investment banking, investment management, brokerage and financing group. We along with our affiliates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationships with a significant percentage of the companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. Investors should assume that Kotak Securities Limited and/or its affiliates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material and that the research professionals who were involved in preparing this material may participate in the solicitation of such business. Our research professionals are paid in part based on the profitability of Kotak Securities Limited, which include earnings from investment banking and other business. Kotak Securities Limited generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, Kotak Securities Limited generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of Kotak Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. Kotak Securities Limited does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment.

Certain transactions -including those involving futures, options, and other derivatives as well as non-investment-grade securities - give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavor to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so. We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. For the purpose of calculating whether Kotak Securities Limited and its affiliates holds beneficially owns or controls, including the right to vote for directors, 1% of more of the equity shares of the subject issuer of a research report, the holdings does not include accounts managed by Kotak Mahindra Mutual Fund. Kotak Securities Limited and its non US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies affectively assume currency risk. In addition options involve risks and are not suitable for all investors. Please ensure that you have read and understood the current derivatives risk disclosure document before entering into any derivative transactions.

This report has not been prepared by Kotak Mahindra Inc. (KMInc). However KMInc has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed. Any reference to Kotak Securities Limited shall also be deemed to mean and include Kotak Mahindra Inc.