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## Southern Online Bio Tech: Expect 30-50% listing gain

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Most of the public issues, with a few exceptions, that listed in recent months have had a big-bang opening on the bourses. According to Suraj Saraogi of Keynote Capital investors can make a listing gain of 30-50% on [Southern Online Bio Tech](#) issue that opened on September 14.

The Hyderabad-based company, which was one of the first ISPs to start operations in Andhra Pradesh, is already listed on the Hyderabad and Bangalore stock exchanges. With this public issue of 1,38,40,196 equity shares at par Value, comprising 75% of the fully diluted post issue paid up capital, the company is planning to list on The Stock Exchange, Mumbai as well.

The company has hit the public issue trail again to raise Rs 13.8 crore for setting up a greenfield bio-diesel plant. However, with this venture, the company is entering into a wholly unrelated area of producing bio diesel from Pongamia and Jatropa seeds.

For this the company has signed a tripartite agreement with Lurgi Life Science, Germany and Chemical Construction International Private Limited, CCI, of Delhi for the project. Lurgi will procure plant and machinery for 30 TPD bio diesel project. Both are jointly responsible for the entire design and construction of this multi feed stock based commercial scale bio diesel production plant at Nalgonda District of Andhra

Pradesh, for production of ASTM standards compliant bio diesel and pharma grade Glycerin.

The company has a consistent track record of producing profits, except in 2003-04. However, in the very next year, the company was once again in the black.

<b>Southern Online Bio Tech: Financial Snapshot</b>				
<b>Fin Year</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>Wtd Avg</b>
<b>EPS</b>	0.08	0.09	0.71	0.4
<b>PE</b>	NA	NA	14.08	25.1
<b>RONW</b>	0.69	0.82	5.39	3.08
<b>NAV</b>	NA	NA	10.99*	NA
<b>PAT</b>	4.23	-56.58	42.93	-3.14
<b>Net Worth</b>	612.82	566.08	796.16	658.35

\* NAV after the public issue

All said and done, the company is exposed to a number of risk factors and investors should read them carefully before taking their call.

#### Key Risk Factors

- The profitability of the company can be adversely affected due to the delay in the implementation of the bio-diesel project from December 2005 to March 2006. The management, however, is confident that project costs will not escalate despite the delay.
- The company management consists of first generation entrepreneurs having no prior experience in producing or profitably selling bio-diesel. Moreover, the marketability of the product is yet to be established with the company not yet deriving revenues from its sales.
- The project significantly depends on the availability of Pongamia and Jatropha seeds to manufacture bio-diesel on a commercial scale. Being agricultural produces, availability of raw materials will depend on the vagaries of monsoons, attacks from pests, et al.
- Finally, the company has not yet tied up for the working capital required for the proposed bio-diesel fuel project. Revenues and hence profitability will be severely affected if the company fails to obtain requisite bank financing.

Despite these risk factors, Suraj Saraogi of Keynote Capital gives an average rating to the company and says that investors who apply should exit the stock on listing. Interestingly, he believes that the stock can notch 30-50% gains on listing.

Saraogi says that “being a par issue there is very less downside. It’s a pure momentum play right now. It is an issue coming at par, so from an investor's point of view there is very little to be made. How the company is going to perform, whether the promoter is capable of it, is a big question mark. But at par it is a momentum play and on listing one should exit.”

He says that, though bio diesel is a lucrative business in the face of high international crude oil prices, the story is yet to catch India’s fancy. “There is not yet a proven player in the bio diesel field in India right now,” he says.

**- By Piyu Sen and Prasanna Zore**

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