India Research
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HDFC securities
Invest Right

Sugar Sector

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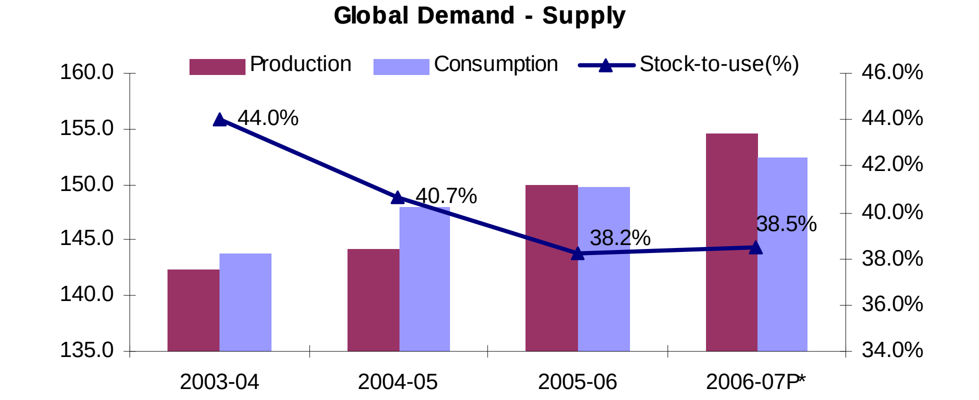
World Sugar

Global sugar surplus to be around 2.2 million tons during 2006-07

Global Sugar production for 2006-07 is expected to be around 154.7 million tons, up 4.8 million tons (or 3.2% YOY). Meanwhile world consumption is projected at 152.5 million tons (up 1.83% YOY). **(Source: ISO)** The production outlook for 2006-07 clearly indicates surplus building up globally of about 2.2 million tons.

Exhibit 1: Demand supply



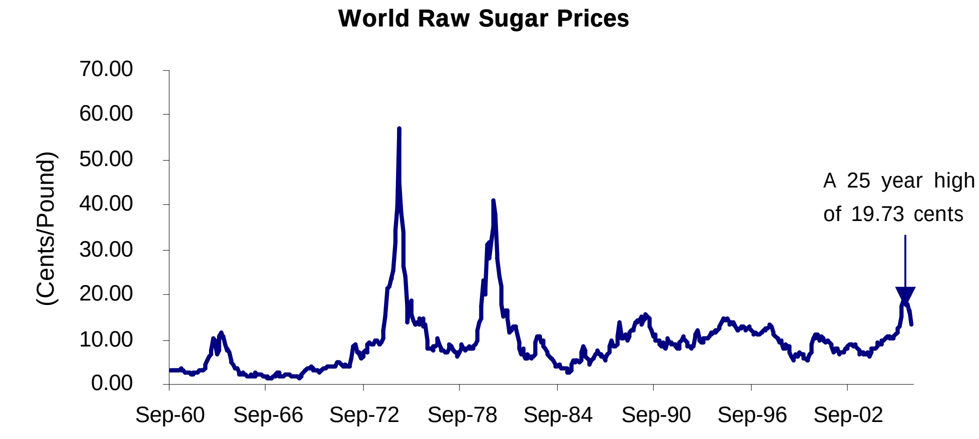
P Projected
Source : ISO & HDFC Sec. Research

Brazil

Brazil to record a production level of 31.6 million tons (up 4.29% YoY) for 2006-07:

World's largest sugar producer maintaining its lead position is expected to produce 31.6 million tons of sugar during 2006-07, up 1.3 million tons vis-à-vis 2005-06**. (Source:ISO).** The increase in production could be attributed to a bull run being witnessed during the last two years in the global sugar industry, which lead to increase in cane acreage and crushing capacities to cash up on the positive scene existing then.

Exhibit 2

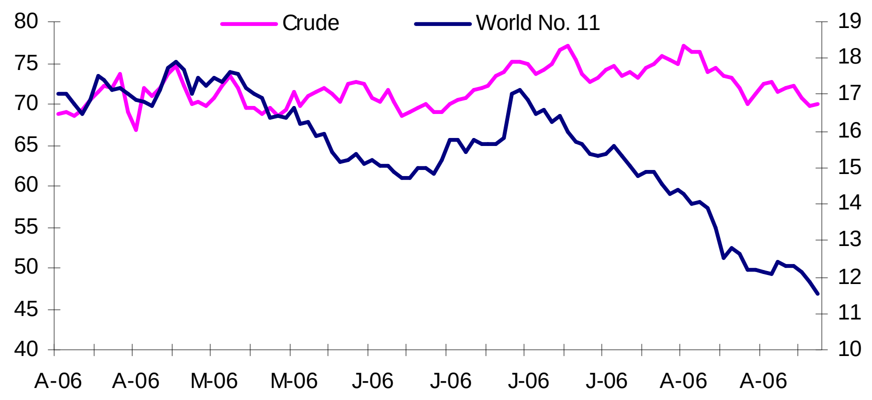


Source: Dept. of Economic Research, USDA

International sugar prices to further face a downward pressure:

With the expectation of the global sugar production rise, we expect global inventory to firm up further putting a downward pressure on the international sugar prices. Sugar prices started moving downwards to touch a nine-month low of 11.63 cents at NYBOT on 1st September 2006, after breaching a 25-year high of 19.73 cents during Feb this year.

Exhibit 3



Source : Bloomberg

Oil to continue impacting Brazil's ethanol-sugar mix decision:

The spike and generally high sugar prices since mid 2005 was perceived by the market to have been driven in part by booming energy prices, suggesting that a link had been established between crude oil prices and sugar prices. However, the link is indirect and centered in Brazil-via the fleet of flex-fuel vehicles. Moreover, the recent downward movement in world sugar price at a time when crude oil prices were as high as US $ 75/ barrel suggesting a weak crude - sugar link.

However, in the long run we believe Brazil which has a crucial bearing on the international sugar prices, to continue manage its sugar-Ethanol mix in tandem with the international oil prices. Also any kind of change in US laws (relating to Ethanol import duty) could also significantly impact Brazil's international ethanol business, as it affects their ethanol margins.

Bumper harvest expected in Brazil and India to mitigate the EU factor.

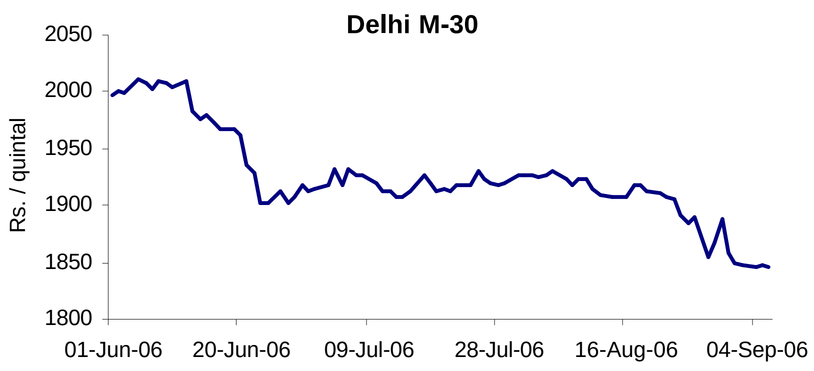
Although 5-6 million tons of sugar is expected to exit the world sugar market, bumper crop expected in Brazil India and Thailand leaves a little (if no) room for price appreciation atleast due to this factor.

Indian Sugar Industry

Realizations weakening: We do not for see any fundamental price support-

With a sharp upward expectation in the domestic sugar production of 22.5 million tons (up 18% YoY) for SS 2006-07, coupled with the sentimental impact of the export ban and declining international prices, the outlook for the sugar prices appears to be bearish in the medium term. We do not for see any fundamental upward price support for sugar (below graph shows the sugar price movement in Delhi market).

Exhibit 4



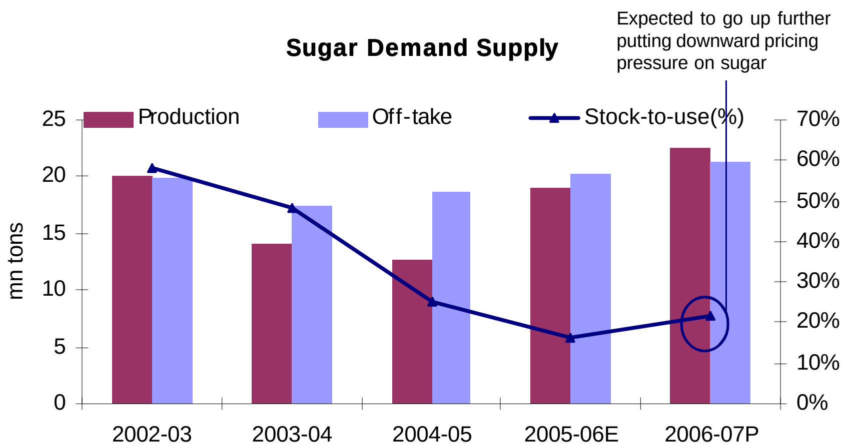
Source: NCDEX

Season 2006-07 to see a surplus of about 1.28 mn tons

Indian sugar output is expected to be around 22.5 million tons (up 18% YoY), for the ss 2006-07 on the back of bumper harvest expected, thus, creating surplus situation of about 1.28 million tons. While deriving the surplus, we have assumed the pending export obligations (under ALS) to be nil by the end of ss 2006-07.

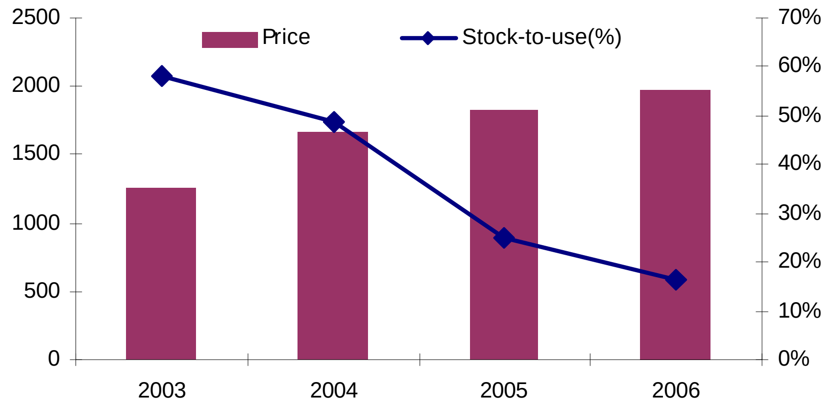
However, our assumption of surplus is exposed to an upside of about 1.44 million tons (which is nothing but the pending export obligation) which if materializes will take our total surplus estimate to 2.72 million tons, In case the Government doesn't lift the export ban, thereby providing fundamental rationale for sharper than expected price decline.

Exhibit 5



Source:ISMA & Industry

Exhibit 6

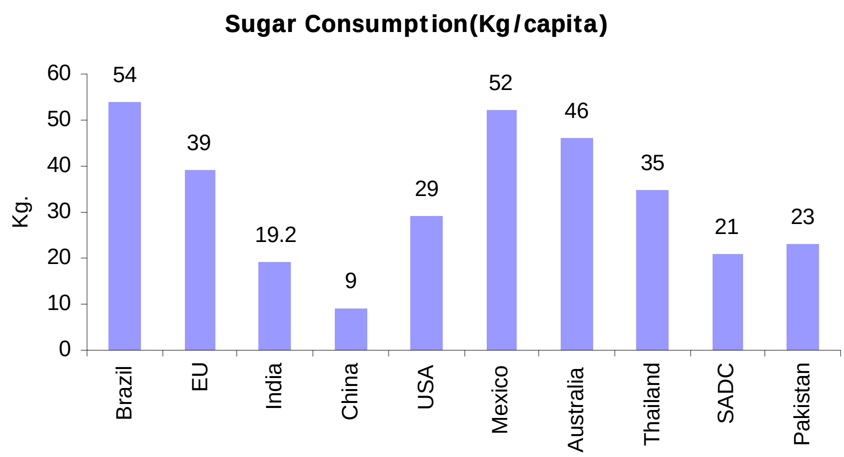


Source : Industry & HDFC Sec. Research Estimates

"Stock to use ratio" and Sugar prices share a negative co-correlation:

Sugar prices tend to move against the stock position. Prices begin to fall with the expectation of inventory build up and they tend to rise with the outlook of depletion in the inventory. This point is proved by the following chart (see graph), which clearly exhibits a negative correlation between sugar prices and the stock to use ratio (closing stock to off take).

Exhibit 7



Source : F.O. Litcht's International Sugar & Sweetner Report

Per capita sugar consumption in India one of the lowest:

India, the second largest producer of sugar (after Brazil), has one of the lowest per capita consumption rates of sugar. However, with the increase in population and ever growing demand of sugar by the institutional players (mainly confectioners), we expect the consumption to go up. However, we have assumed a historical growth rate of 3% for all practical purposes.

Sugar's weight age in WPI, urged govt to check prices:

As seen recently, the Government will continue to exercise its powers and regulations to keep a check on the sugar prices and make sure sugar prices do not increase further. Our view is based on the premise that sugar being an essential commodity, is exposed to a potential political outcry. Also, the share of sugar in the wholesale price index (WPI) in manufactured food category of 3.6% proved out to be a cause of worry for the Government, consequently, fearing out further increase in the average price inflation rate for essential food Government had no option but to use its power to ban sugar exports

Government regulations: A bottleneck for the Indian Sugar Industry

Indian sugar industry has been functioning under a strict regulatory framework under which the Government has a crucial role to play. Sugar being an essential commodity is under strict guidance and control of the Government (directly or indirectly), which ensures a check on the prices in case it finds it rising too much.

Key tools with the Govt to curb sugar price escalation

a) Power to declare the quantity of sugar to be released by the mills from time to time (FSQ).

b) Power to ban export of sugar (including sugar exportable under ALS).

c) Power to allow duty-free imports.

d) Power to declare an appropriate stock level for the sugar dealers.

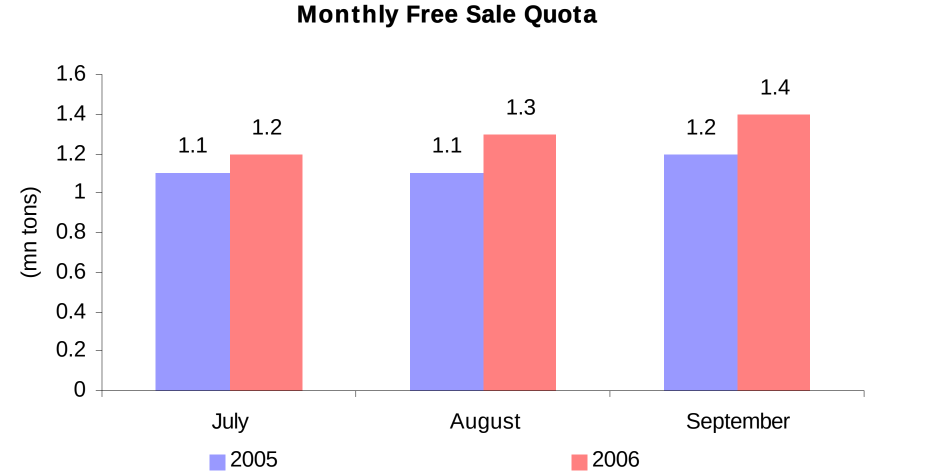
e) Power to declare Prices at which Levy sugar to be sold by the mills.

During early July this year the Government had through a notification banned export of sugar (except to US and Europe under preferential quota) till March 2007. This was to control sugar prices, which were ruling at Rs 25-26/kg in the retail market in India.

Higher FSQ's released by the Government

As is clearly visible in the table given (see chart), the Government in order to stabilize prices has been releasing higher free-sale quotas for the mills to ensure increased supplies (monthly FSQ released by the Government is shown below).

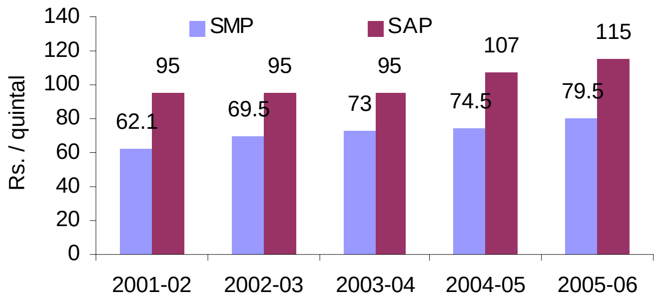
Exhibit 8



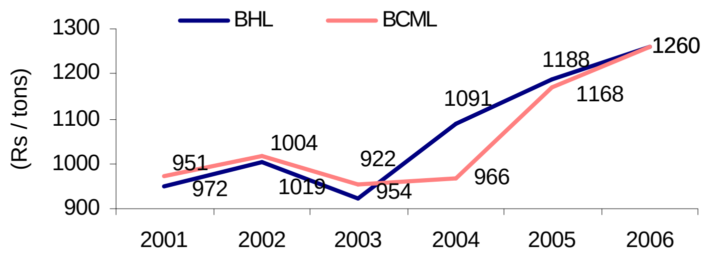
Source:ISMA

Exhibit 9

SAP & SMP



Cane Cost (Landed)



Source: ISMA & Industry

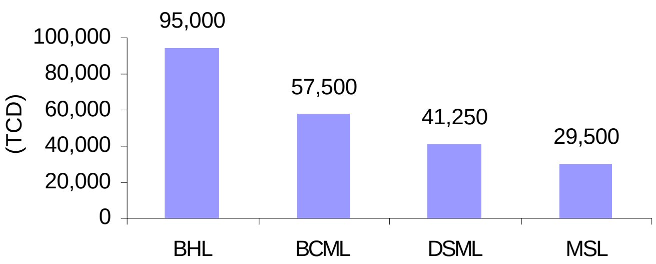
Source : Company

Sugar mills to face margin pressure:

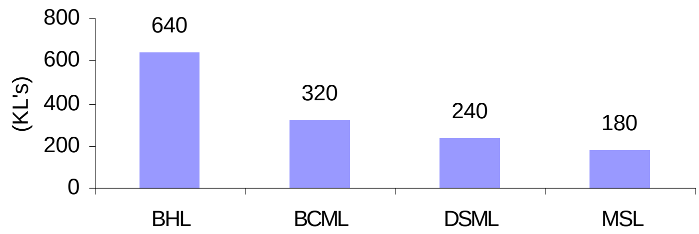
Going forward, we expect mills to face a downward pressure in their operating margins, given a state of declining sugar prices and a trend of increasing cane cost. However, we do not foresee a sharp jump in the cane cost this season (i.e. season 2006-07), as the raw material availability dose not seem to be an issue, thanks to the bumper cane crop expected this season (State advised price and statutory minimum price exhibited above).

Exhibit 10

Sugar Capacities in SS 2007



Distillery Capacities in SS 2007



Source : Companies

Industry Consolidation to continue:

Sugar industry has been going through a consolidation phase since last two years. Both greenfield and brown field expansions had been underway in order to encash the Bull Run in the industry.

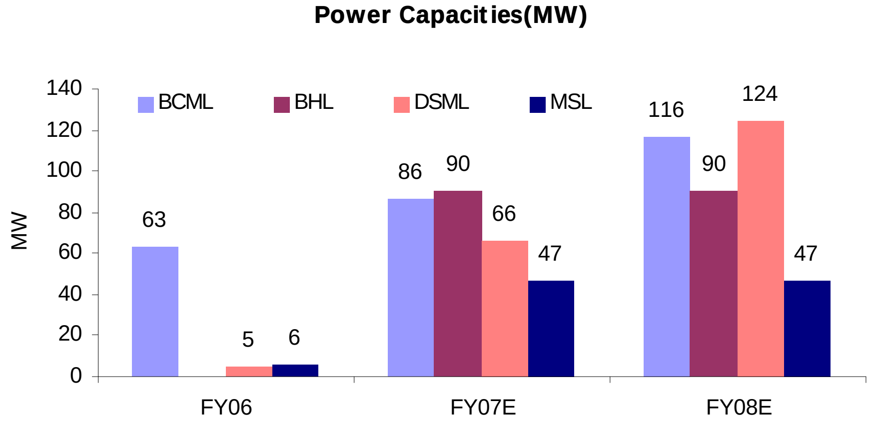
Of late, with the increasing concerns over the sustainability of profits (with the expected margin pressure), we expect sick and smaller mills with large command areas to be acquisition targets by the larger mills, which are finding it difficult to post bottom line growth on a relative basis.

Recent deals (like Indo-Gulf takeover by BCML, and Pratappur acquisition by BHL), indicate that larger mills are destined towards even inorganic growth, attracted by various inherent benefits like low capital cost, low gestation period, availability of cane command area etc.

We suggest exposure to Frontline stocks:

Given a soft outlook for sugar prices, we strongly suggest exposure be limited to the frontline sugar companies, as the smaller sugar mills will find it increasingly difficult to maintain their margins on an operating levels. We prefer Balrampur chini mills and Bajaj Hindusthan at the current levels. Both BHL and BCML, we believe, will continue to trade at a substantial discount to their peers, given a clear visibility of earnings growth driven by economies of scale, volume growth, and increasing share of down-stream products.

Exhibit 11



Source: Company data

Cogeneration: Huge potential

Power income of sugar mills is exempt under Section 80IA of the Income tax act, 1961. During the sugar season, mills burn bagasse to heat up the boilers to generate process steam (for sugar manufacturing). During the off season, mills use surplus bagasse(after meeting the process steam requirement) to generate power to be sold to the SEB's. It has been estimated that Indian sugar industry can generate 4000 MW of surplus power by using bagasse(a by-product).

Benefits-

- Power revenues are highly profitable.
- Using bagasse, sugar mills can generate 100% of total captive power needs.
- Unit cost of power generated drops as the quantum generated increases.
- Cogen revenues are non-cyclical in nature.
- Cogen revenues are tax-free
- Provision of soft loans at 4 % p.a to encourage power capacities.
- Eligible under CDM (Clean Development Mechanism) of UNFCCC for carbon credits.

Almost all the major sugar producers in India are installing/increasing power capacities, because of increasing visibility in this segment of business.

UP Sugar Industry Promotion Policy 2004: An Investment attraction

Sharp demand-supply mismatch during the last three seasons brought the sugar mills in India (especially in UP) huge cash flows motivating mills to expand exponentially. The mills cleaned up their balance sheets repaying their dues and loans. UP Government in order to attract further investments in the state announced a policy giving various benefits to the sugar mills willing to expand.

Fixed Concessions:

- Capital subsidy @ 10% of Capital investment.
- Remission in Stamp Duty & Registration charges on Land purchase.

Variable Concessions (Depending on Production):

Reimbursement-

- Cane Transportation Expenses
- Cane Society Commission
- Sugar Transportation Expenses

Exemption-

- Cane Purchase Tax
- Entry Tax on sugar
- Admn. charges on molasses
- Trade tax on molasses

Eligibility Criteria:

- Cane Capital Investment of Rs 3.5 bn/Rs 5 bn by 31st March 2007.
- Commercial production to commence by 31st March 2007.
- Direct employment of at least 1000 persons

Extent of concession and duration:

The overall concession will be limited to the extent of new investments made and will be available for a period of ten years in case investments are above Rs 5 bn and for a period of 5 years in case its above Rs 3.5 bn. The revenue benefit is expected to be around Rs 1-1.35/kg of incremental sugar produced by the eligible mills.

Ethanol: India still not driving on it

Factors that will increase demand for Ethanol-

The Central Government plans to recommend ethanol blending from October 2006. The new norms, it has been said, will apply to both the public and the private sectors. To begin with, the programme will mandate a 5% blend, which once implemented, will be increased to 10% by October 2007.

Currently, a major hindrance to trade in Ethanol seems to be the differing perspectives of ethanol manufacturers (supply) and OMCs (demand) on how ethanol should be priced.

The OMCs argue that prices should be based on calorific value, which, in the case of ethanol, is approximately 60% that of petrol. The industry on the other hand feels that since OMCs were willing to pay Rs 17 per litre in 2003, when crude oil prices were close to $30 per barrel, then, now that crude oil prices have doubled to cross $60 per barrel, OMCs shouldn't complain about paying a meager Rs 25 per litre of ethanol (an increase of 33 %).

Also, it has been estimated that by 2010, India will have 36 times as many vehicles as it did in 1990. Consequently, there is enormous potential for the ethanol industry because with the new mandatory blending requirement, the increased demand for vehicles will mean increased demand for complementary products such as fuel and consequently ethanol.

The Government now plans to extend its ethanol-blended petrol (EBP) programme, to every part of the country. Extension of the programme will be contingent upon removal of restrictions imposed by various state governments on the use of ethanol meant for blending with petrol. The Petroleum Ministry contests that ethanol falls within the Central Government's jurisdiction and thus, the imposition of any taxes/protectionist barriers by state Governments on rectified spirit meant for industrial use is without jurisdiction.

Today, with high crude oil prices, using ethanol to replace 10% of the country's consumption of petrol is not only a necessity for the Government (to save foreign exchange), also appears to be a profitable proposition for oil companies (who will experience lower costs), sugar mills and farmers (who will benefit from an additional supplementary stream of income).

Factors that will increase supply of Ethanol-

Sources say that the Center has realized the need for the potable alcohol (liquor) industry to completely shift from molasses alcohol to other forms of alcohol in the 3-4 years. Molasses the cheapest and most widely available feedstock shall be kept exclusively for gasohol.

Sugar production is expected to skyrocket to 22.5 million tones (up 18% YoY) during 2006-07. Consequently the output of molasses, a by-product of sugar production, is also likely to increase steeply. Thus more molasses will be available for production of ethanol.

Sugar Mills have already expanded their ethanol production capacity to about 1.3 bn liters, which can cater to even a 10% blending requirement.

We expect Rs 21.5 /litre to be the most likely Ethanol price

We expect Rs 21.50/litre to be the most likely ethanol price in the near future. Even though the sugar mills command better margins by selling the Rectified spirit an Extra Neutral Alcohol (ENA) to the chemical industry, we believe ethanol will still be a beneficial product for the sugar industry in the long run, on the premise of enormous growth potential.

Of late, the petroleum ministry directed OMCs to procure Ethanol through tender system, instead of direct purchase through mutual agreements (as done before). This we believe will create a competitive scenario in the Indian Ethanol market.

Projected Ethanol output & Demand

(Mn ltrs)	RS/Ethanol output	Carryover stock	Demand for auto fuel	User inds
2005-06	1665	150	350	1200
2006-07	2205	265	500	1290
2007-08	2250	680	1050	1365
2008-09	2315	515	1100	1465

Source: ISMA

Fuel ethanol to take away the chemical industry pie of molasses consumption

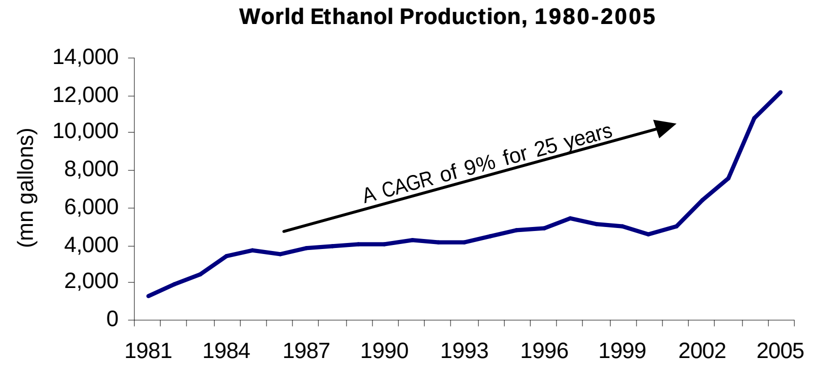
Out of the total consumption of molasses (i.e. Ethanol, Rectified spirit, ENA), the majority is still consumed by the chemical units for potable and other uses (almost 75% usage out of the total production), and only a small chunk (approx. 10-12%) is for fuel ethanol, rest being carried as a stock.

However, with the increasing demand for ethanol, the fundamentals suggest a surge in the share of ethanol up to 47% within the next 12-18 months.

Global Ethanol story:

World ethanol production has shown a 9% CAGR (as shown below) over 1980-2005. This was mainly driven by rising energy security, environmental and other issues which led nations like Japan, US and Europen nations to increase the ethanol usage as an alternative fuel (Exhibited below is the world ethanol production trend since 1980).

Exhibit 12

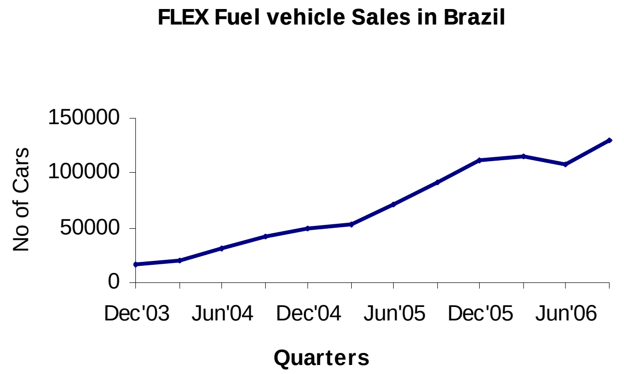


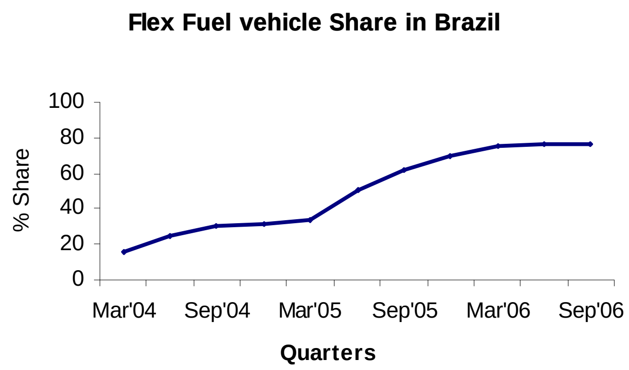
Source: International Energy Agency

Brazil: A role model for the world.

Brazil's ethanol production is forecasted to grow from the current 16-bn litres to 27 bn litres by the beginning of the next decade, given strong domestic and international demand for fuel ethanol. Also, Brazil's ethanol exports are set to grow 140% from the current level to 6 bn litres.

Exhibit 13 : Crude Prices driving Flex Fuel Vehicle Market



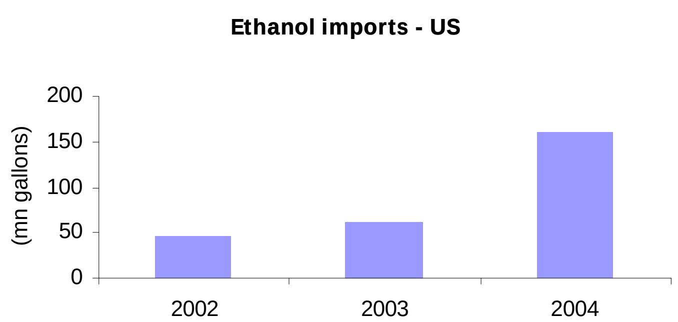


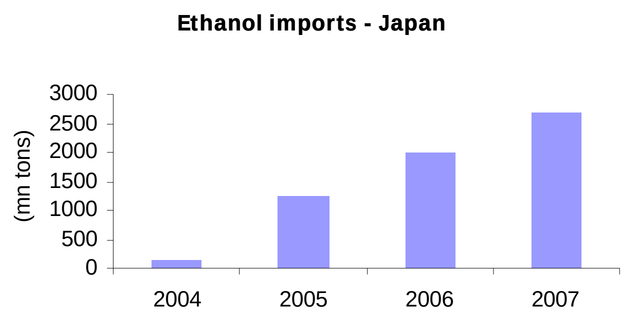
Source : Bloomberg

Brazil has been witnessing a consistent jump in its Flex Fuel Vehicle Sales. Also the share of Flex fuel vehicles in total car sales in Brazil has been rising (As shown in the above graph). With crude expected to be above 50$ per barrel, Flex fuel vehicle sales is expected to continue the upward journey.

Brazil's national ethanol program (PROALCOOL) was originally a response to the oil shocks of the 1970s and succeeded in reducing the country's dependence on fossil fuels. Ethanol now accounts for around 40% of Brazil's driving fuel. And the country's flex fuel car fleet is the only one in the world that can use 100% of either ethanol or gasoline. Brazil is one of the largest exporter of Ethanol to US & Japan (import of ethanol by US & Japan is shown below).

Exhibit 14





Source : RFA & Industry

Global ethanol outlook looks extremely positive-

With the increasing concerns over the energy security issue, the prospect for the ethanol industry worldwide looks extremely positive. With developed nations like US and Japan aggressively implementing the ethanol programme, other nations including the developing nations like India cannot ignore the importance of alternative fuel sources like ethanol for a long time given the crude price concerns and other non-economic factors like pollution.

Incr. In Ethanol plants in US

	Total no. of plants	Capacity(in MGY)*	Plants under construction
Jan-99	50	1701.7	5
Jan-00	54	1748.7	6
Jan-01	56	1921.9	5
Jan-02	61	2347.3	13
Jan-03	68	2706.8	11
Jan-04	72	3100.8	15
Jan-05	81	3643.7	16
Jan-06	95	4336.4	31
Present	97	4481.4	33

Source : ethanolrfa.org
* million gallon per year

As seen from the above table, the ethanol capacities in US has increased from 1.7 bn gallon (1999) to 4.5 bn gallon (2006), an increase by 165% over last 7 years. Currently there are 33 ethanol plants under construction in US (vis a vis 5 plants in 1999) indicating seriousness of US economy to reduce dependence on petroleum products.

Our Stand on the Domestic Sugar Industry:

Sugar sector re-rated, adjusted for declining visibility-

Sugar companies have been enjoying richer valuations since the inception of the huge Bull run which showered huge cash flows for the sugar mills, especially mills with large cane crushing and sugar storage capacities.

However, with the declining visibility for earnings growth due to unfavorable demand-supply situation building up, we expect the sector to quote at a reasonable valuation of below 10x its forward earnings.

Volume to be a key driver-

With the significant downward margin pressure on the mills due to depressing sugar price outlook and an upward trend expected in the cane cost, we believe, the earnings to be volume driven. However, we don't expect capacity expansion to proportionately add to the bottom line due to significant margin pressure expected.

Revenue-mix to rationalize further-

Increasing pressure on the mills to contain margins, has forced them to change their business models by adding more and more power and distillery capacities so as to maximise the non-sugar revenues.

However, sugar would continue to be a major product with a revenue share of above 75%. Sugar Mills maintaining the lowest sugar share to be the least affected by the downturn.

Exports critical in the medium term-

Government banned exports in July 2006 to check sugar price rise. However, with bumper sugarcane harvest expected this season sugar availability is expected to improve. This we believe, will provide sufficient reasons for the Government to allow sugar exports, which might leave a little upside for the sugar prices domestically. However, in case Government does not lift up the export ban (which it is expected to lift up post festive season), sugar prices domestically might plunge further.

Government to ensure sugar prices below Rs. 21-22/kg

We expect Government to keep a close watch on the domestic sugar price and continue its influence to maintain the sugar prices below Rs. 21-22/kg (retail market).

We expect the Government to exercise its powers (as mentioned earlier in this report) to control any price rise with which it is uncomfortable.

Valuation & Outlook

Bajaj Hindusthan - key investment attributes (an upside of 4.8%)

- Aggressive management
- Brazilian foray (advantage of lower cost of production)
- Largest sugar mill in India (standalone)
- Roboust cash flow expectation

We ascribe a target price of Rs. 341 (see below), which discounts FY07E earnings by 15X. Also, we recommend ACCUMULATE below Rs. 272. We initiate coverage on BHL rating it a **MARKET PERFORMER**.

Balrampur Chini - key investment attributes (an upside of 16.8%)

- Integrated capacity expansion
- Low cost cane
- Improving power income
- Largest integrated sugar mill

We set a target of Rs. 118 for BCML (see below), which discounts FY07E earnings by 12X. We initiate coverage on BCML giving it a **MARKET PERFORMER**.

Dhampur Sugars - key investment attributes (an upside of 5.7%)

- Integrated expansion coming under way
- Significant power capacities to rationalize revenue mix
- DSML has seen its worst, margins to improve

We estimate Rs. 125.8 (see below) to be DSML's fair value assigning it a multiple of 7X on FY07 expected earnings. **However we see DSML below Rs. 108 as a value buy.** We initiate coverage on DSML with a **MARKET PERFORMER**.

Mawana Sugar - key investment attributes (a downside of 0.1%)

- MSL to integrate during SS2006-07
- Current price adequately reflects future earnings

We believe MSL's current price of Rs. 78.9 (see below) reflect its future earnings adequately, we do not forsee any upside from current levels. We downgrade MSL to **UNDERPERFORMER**.

	ROE			EV/EBIDTA		EV/MCAP		Debt- Equity	
	FY07E	FY08E	PAT 06E-08E *	FY07E	FY08E	FY07E	FY08E	FY07E	FY08E
BHL	18.0%	21.0%	29.3%	9.6	6.5	1.2	1.2	0.6	0.5
BCML	20.7%	19.4%	15.8%	6.8	5.9	1.2	1.1	0.6	0.4
DCML	15.4%	13.7%	9.2%	6.2	5.8	2.1	1.9	1.0	0.8
MSL	11.2%	10.3%	10.2%	10.1	7.5	2.3	2.0	1.5	1.1

* CAGR

Company	CMP	Target	Upside	EPS(07E)	PE(O7E)	Risk	Rating
BHL*	325.3	340.8	**4.8%**	22.7	15.0	**High**	**MP**
BCML	101.1	118.0	**16.8%**	9.8	12.0	**Med**	**MP**
DSML*	119.0	125.8	**5.7%**	18.0#	7.0	**Med**	**MP**
MSL	78.9	78.8	**-0.1%**	8.3	9.5	**High**	**UP**

Consolidated Adj.

Bajaj Hindusthan Ltd

Market Performer

Price Rs. 325.3

Introduction

Managed by Mr. Shishir Bajaj, Bajaj Hindusthan Ltd (BHL) is the largest Sugar producing group in India, with the total installed crushing capacity of 95000 tons per day (SS 2007), which is expected to touch 136000 by the crushing season 2008. The company has a significant presence in the western and central UP, which by the beginning of sugar season 2007-08 will spread in the Balrampur dominated area of eastern UP. BHL currently is the largest distiller in India with the current installed capacity of 320 KL's touching 640 KL's by FY 2007E and then further inching up to 800 KL's by FY 2008E.

Investment Rationale-

Strong volume growth

BHL is expected to post a strong bottom line (Group) growth of 34% and 42% over FY 2007E and FY 2008E respectively, driven by significant expansion planned in its crushing and distillery capacities. However, the earnings growth will not be in tandem to the capacities coming on stream due to the margin pressure.

De-risking of business model over FY2006E-08E

BHL plans to diversify its revenue streams, whereby its revenue mix is expected to witness a healthy shift from 90% sugar to 82% sugar by FY 2008E. This will be possible on the back of BHL's distillery expansion and entry into MDF/PB business.

Major beneficiary of the UP Govt's Incentive Scheme

BHL is expected to benefit the most by the incentive scheme of the UP govt. The revenue incentive will provide a cushion to the company against cane cost increase and would marginally provide some relief in the depressing margin scenario.

Brazilian foray indicates positive surprise

Given the positive outlook for ethanol globally we are positive about BHL's Brazilian foray and expect huge positive surprises in coming days. However, we haven't factored any upside on this front in our model estimates.

Reuters code	BJHN.BO
BLOOMBERG	BJH@IN
BSE Sensex	12204
Price (BSE)	325.3
Nos.of Shares (mn)	141.4
Mkt.Cap (Rs mn)	45997
Avg. 6m Vol.	5,64,925
52 week H/L (Rs.)	568 /180
FV/ Share	Rs. 1

Shareholding Pattern	(%)
Promoters	37.7
FI & Insurance	10.0
FIIs	34.6
Free Float	17.7

Source: BSE India

Stock Performance (%)

	3M	6M	12M
Absolute	-11	-34	55
Relative	-34	-45	11

Source:HDFC Sec.Research.

Valuation Summary **(Rs mn)**

YE Sept	2005	2006E	2007E	2008E
Net Sales	8462	15474	27967	42100
EBITDA	2101	4229	6453	8801
Margin	24.8%	27.3%	23.1%	20.9%
PAT(Group)	1404	2625	3512	4973
Margin	16.4%	16.7%	12.5%	11.8%
Adj PAT(After Minority)	1404	2623	3469	4387
Margin	16.4%	16.7%	12.4%	10.4%
EPS(Adjusted))	14.61	18.55	22.72	28.74
EPS(Fully diluted)	9.20	17.18	22.72	28.74
PE(Fully diluted)	35	18.9	14.3	11.3
RoCE	18.7%	17.5%	20.5%	24.9%
RoE	22.9%	16.2%	18.0%	21.0%
EV/EBITDA	17.3	12.0	9.2	6.5
EV/Mcap	1.2	1.1	1.2	1.2
BVPS	63.9	114.4	127.5	155.1
D/E	0.8	0.5	0.6	0.5

BHL to attain a production level of two million tons of Sugar by FY 2008:

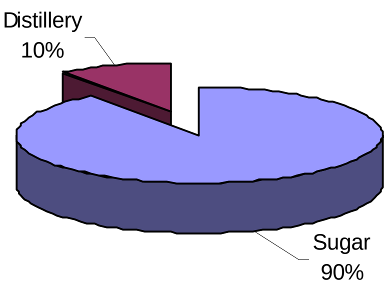
Operational details (Group)

YE Sept	2005	2006E	2007E	2008E
Cane crushed (LMT)	38.8	80.0	141.1	202.0
Sugar bagged (LMT)	4.0	7.9	14.1	20.2
Recovery (%)	10.2%	9.9%	10.0%	10.0%
PLF (%)	83%	89%	90%	90%
Days crushed (Avg)	-	160	165	165
Avg. NSR (Rs)	16696	18030	17480	17480
Cane cost (Landed, Rs/ton)	1188	1260	1285	1310

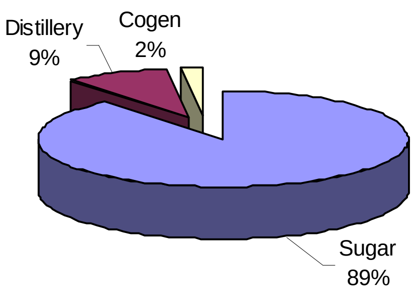
We expect Bajaj Hindusthan to crush approx. 14 million tons of cane during SS 2006-07E and 20 million further during SS 2007-08E, this increase in crushing will be driven by the robust capacity expansion which the group is undergoing, taking its total installed Sugarcane crushing capacity to 95000 tcd and 136000 tcd for the SS 2006-07E and SS 2007-08E respectively. Post expansion, the group will crush across 14 locations (10 in Western and Central UP, 4 in Eastern UP).

BHL's revenue mix

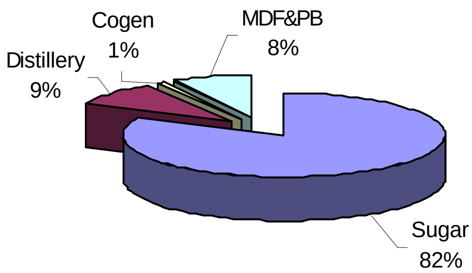
Revenue Mix FY2006E



Revenue Mix FY2007E



Revenue Mix FY2008E



Source:HDFC Sec.Research.

Distillery division to record a CAGR of 56% over the next two years

Key operational details (Group)

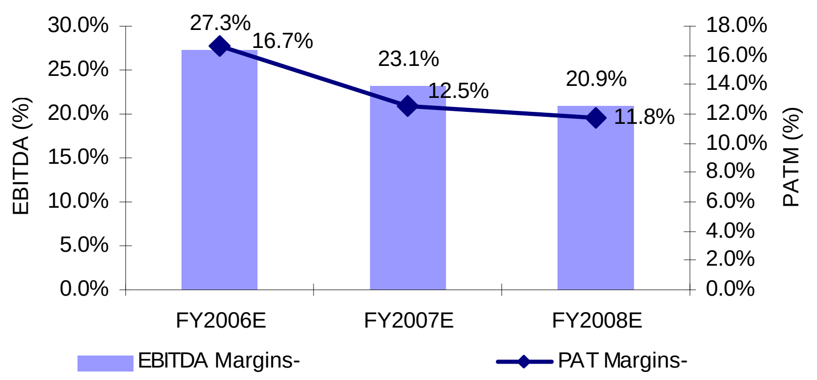
YE Sept	2005	2006E	2007E	2008E
Total installed capacity (KL's)	160	320	640	800
Sales (Mn BL's)	26	62	91	136
Avg. NSR (division)*	19.5	21.7	24.4	24.4
Avg. days of Operations	208	206	168	200
PLF (%)	85%	85%	85%	85%

*Incl Modvat Credit

We expect the Group's distillery division to record a 56% annualized growth over two years, on the back of robust Capacity expansion of about 100% and 25% over FY 2007E and 2008E respectively taking the group capacity to 800KLPD.

We have assumed 135 days of operations for the two new distilleries (Saharanpur and Lakhimpur) for FY 2007E, the impact of which is apparent in the above table (168 days of avg. distillery operation).

BHL's EBITDA & PAT(%) Trends



Source:HDFC Sec.Research.

BHL's Business Model

Bajaj Hindusthan Group (2008E)

BHL (Parent)

Sugar 0.96 lac TCD
Distillery 640 KL
Power 90 MWs

BHSIL *
59.87% Subsidiary
Sugar 0.4 lac TCD
Distillery 160 KL

BHETL **
100% Subsidiary
2.1 lac Tons
MDF/PB plants

Subsidiary in Brazil
To tap the International
Sugar & Ethanol market

* Bajaj Hindusthan Sugar & Industries Ltd.
** Bajaj Hindusthan Eco Tec Ltd.

Company to enter Power business during FY 2007E.

Power division

YE Sept	2007E	2008E
Installed Capacity (Mw)	90	90
Grid Sales (Mn Kw)	230	230
Days *	125	125
PLF (%)*	85%	85%
PPA (Rs)$	2.90	2.94
Grid Revenues (Rs mn)	666	675

*Assumed
$Escalation of 4 paise/unit (Per annum)

Bajaj Hindusthan will supply power to the GRID for approximately 125 days during FY 2007E and 2008E respectively. This translates into a revenue figure of Rs 666 millions and 675 millions during the coming two fiscal years. Lower power revenues are on account of limited bagasse usage for power segment, as a substantial share of the surplus bagasse will be transferred for the MDF and PB business.

Setting up of "Bajaj Ecotec Products": A partial hedge against the down cycle.
We believe, the new MDF/PB foray by Bajaj Hindusthan(Through a 100% Subsidiary) will not only provide additional revenue streams to the company, but will act as a hedge against falling sugar prices up to some extent. Bajaj Hindusthan had announced its plan to set up a wholly owned subsidiary to be engaged in the production of MDF (Medium density fiber board) and PB (Particle board).

The company plans to use the excess bagasse across its 14 locations to manufacture the MDF and PB. To ensure economic viability, the company plans to install three plants (Two for MDF in Eastern UP, one for PB in Western UP). The total capacity (Installed) will be 2.1 Lac Cubic meter per annum, with the total capex of Rs 2400 millions.

BHL's Brazilian foray: Reflection of a strong urge to grow exponentially.
We strongly believe, BHL's plan to setup a subsidiary in Brazil might be a key step towards building a significant presence in the world's least cost sugar and ethanol-producing nation. With the unlimited potential for ethanol globally, we believe, BHL will be exposed to significant upsides going forward.

Why Brazil:

- Freedom of ownership of cane farms to millers.
- Strong international market exposure (Both for sugar and ethanol).
- Lowest cost of production for both sugar and ethanol.
- Brazil's flexibility to shift from cane to ethanol and vice-versa.
- Minimal govt intervention.

Despite a huge bull run in the Sugar industry, the millers in India well realize a fact that a multifold growth from the current size of the business is practically difficult if not impossible, given the concept of cane command area, the agro-climatic conditions prevailing in the country and last but not the least, the stringent government control and intervention, may it be Sugar release mechanism, cane command area, ban on exports, unsuccessful execution of ethanol blending programme. Setting up sugar operations in Brazil seems to be the apparent answer to the above problems.

Medium density fibre & Particle board (MDF/PB)

Installed Capacity (In '000 Cu. Mtr)-	**210**
MDF	160
PB	50
Key Assumptions-	
Bagasse usage (LMT)	4.5
Total production (LMT)	1.8
MDF	1.35
PB	0.45
Avg. NSR (Rs/ton)	
MDF	19200
PB	21560
Total Cost (Rs/ton)	
MDF	12800
PB	16200
Capacity Utilization (%)	**86**

BHL Group's Plant-wise Capacities- At a glance-

Sugar

YE Sept	2005	2006E	2007E	2008E
Bajaj Hindusthan Ltd	**31000**	**53000**	**89000**	**96000**
Gole Gokarannath(Lakhimpur)	13000	13000	13000	13000
Palia Kalan(Lakhimpur)	11000	11000	11000	11000
Kinauni(Meerut)	7000	8000	12000	12000
Thanabhawan(Muzaffarnagar)	-	7000	9000	9000
Budhana(Muzaffarnagar)	-	7000	9000	9000
Bilai(Bijnor)	-	7000	9000	9000
New GFP (Saharanpur, West UP)	-	-	9000	9000
New GFP (Pilibhit, Central UP)		-	7000	7000
New GFP (Lakhimpur, Central UP)	-	-	10000	10000
New GFP (Maqsoodpur)	-	-	-	7000
Subsidiary-		**3200**	**6000**	**40000**
Pratappur (Deoria)-East UP	-	3200	6000	6000
Radauli(Basti East UP)	-	-	-	7000
Vikramjot(Basti East UP)	-	-	-	12000
Gonda(Kundarkarhi East UP)	-	-	-	15000
Total Group Capacity	**31000**	**56200**	**95000**	**136000**

Table : Distillery (in KL's)

YE Sept	2005	2006E	2007E	2008E
BHL	**160**	**320**	**640**	**640**
Gola Gokarannath(Lakhimpur)	100	100	100	100
Palia Kalan(Lakhimpur)	60	60	60	60
Kinauni(Meerut)	-	160	160	160
Saharanpur	-	-	160	160
Lakhimpur	-	-	160	160
Subsidiary-				
Pratappur distillery	-	-		160
Total distillery capacity (Group)	**160**	**320**	**640**	**800**

BHL Group Capex plan (FY 2005-08E)		
Sugar		25980
Distillery		3520
Power	(FY 2007E)	2500
MDF & PB	(FY 2008E)	2400
Total Capex		**34400**
Source of funding-		
GDR's (60 Mn US$+150.22 Mn US$)	(Complete)	9500
FCCB's(50 Mn US$+120 Mn US$)	(Complete)	7500
Further Equity issue (By BHSIL)	(Pending)	4500
Loan from FI's	(2400 Mn raised)	8600
Investment by BHL for MDF&PB	(Pending)	1000
Internal accruals (FY 2005-08E)		3300

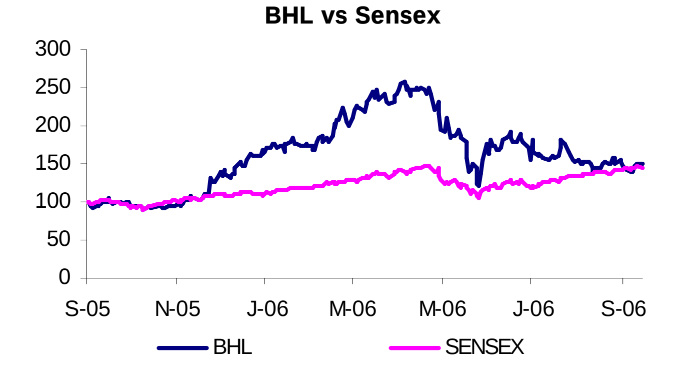
Outlook and Valuation:

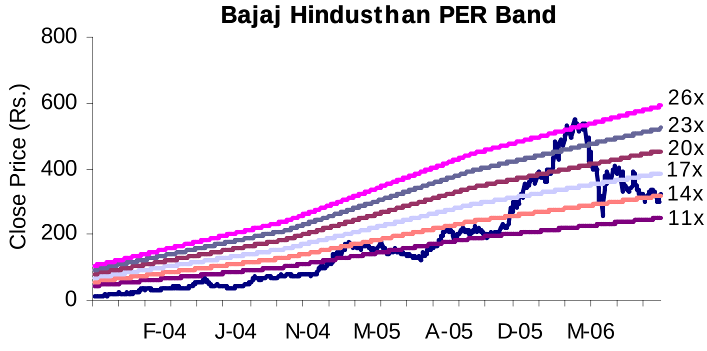
We expect BHL to post a 29.3% bottom line on a CAGR basis over FY06E-08E.

BHL is set to record a Net profit of Rs 2623 mn during FY06E, a Net profit of Rs 3469 mn during FY'07E, & a net profit of Rs 4387 during FY'08E. This we believe will be driven on the back of strong volume growth, which BHL is set to see.

Our Target price of Rs 341 discounts FY'07E earnings at 15X, giving BHL a premium over its peers.

On an EPS of Rs 18.55 (FY'06E), BHL trades at 18.9X and on an EPS of Rs 22.7 (FY'07E), the stock trades at 14.3 X. We initiate coverage on the stock with a Market Performer and a price target of Rs 341 (an upside of 4.8%).





Source:HDFC Sec.Research & Cline

Bajaj Hindusthan Ltd

Consolidated Income Statement (Rs mn)

YE Sept	2005	2006E	2007E	2008E
Net Sales	**8915**	**16315**	**29543**	**44342**
% Change y-o-y	95%	83%	81%	50%
Total Income	**8549**	**15740**	**28056**	**42198**
% Change y-o-y	97%	84%	78%	50%
Raw Material Cost	4609	10080	17628	25957
Incr/decr in stock	706	-987	-260	-966
Manufacturing expenses	502	1087	2394	5884
Employee cost	297	637	956	1305
SG&A expenses	247	428	797	1120
Operating expenditure	**6361**	**11245**	**21514**	**33299**
% Change y-o-y	69%	77%	91%	55%
EBITDA	**2101**	**4229**	**6453**	**8801**
% Change y-o-y	382%	101%	53%	36%
EBITDA Margin(%)	**24.8%**	**27.3%**	**23.1%**	**20.9%**
Interest	132	14	324	353
Depreciation	351	730	1200	1442
Taxation	301	1125	1505	2131
EO item(Cane arrears)	0	0	0	0
Amortization	0	0	0	0
PAT(Group)	**1404**	**2625**	**3512**	**4973**
% Change y-o-y	130%	87%	34%	42%
Minority Interest	**0**	**2**	**44**	**586**
Consolidated PAT(After MI)	**1404**	**2623**	**3469**	**4387**
% Change y-o-y	371%	87%	32%	26%
PAT Margin(%)	**16.4%**	**16.7%**	**12.4%**	**10.4%**

Consolidated Balance Sheet (Rs mn)

YE Sept	2005	2006E	2007E	2008E
Share capital	116	142	142	142
Reserves	6026	16032	19323	23533
Networth	**6142**	**16174**	**19465**	**23675**
Secured Loans	3818	2400	6450	6100
Unsecured Loans	1282	5579	5579	5579
Total debt	**5100**	**7979**	**12029**	**11679**
Deferred tax liability(net)	453	1185	1787	2639
Minority Interest	0	2	46	632
Sources of Funds	**11696**	**25339**	**33327**	**38625**
Gross block	12786	20286	34286	41186
Less: Depreciation	1989	2719	3919	5361
Net block	10797	17567	30367	35826
Capital WIP	0	3500	1000	0
Fixed assets	**10797**	**21067**	**31367**	**35826**
Investments	**51**	**51**	**51**	**51**
Inventories	555	1542	1802	2769
Sundry debtors	179	331	589	886
Cash & bank balance	58	3369	2195	3835
Loans & advances	1030	1030	1030	1030
Total Current assets	1823	6272	5617	8520
Less: Current liab. &				
Provisions	975	2051	3709	5772
Net Current assets	**848**	**4221**	**1909**	**2748**
Application of Funds	**11696**	**25339**	**33326**	**38625**

Consolidated Cash Flow (Rs mn)

YE Sept	2005	2006E	2007E	2008E
PBT	**1,705**	**3,750**	**5,018**	**7,104**
Depreciation	351	730	1,200	1,442
Interest Paid	147	14	324	353
Direct Taxes Paid	-134	-394	-903	-1,279
Change in WC	-440	-62	1,139	800
Profit on sale of Fixed assets(Net)	-20	0	0	0
Deferred revenue item W/O(Net)	0	0	0	0
CF from Operations	**1,608**	**4,038**	**6,777**	**8,420**
Capex incurred(Net)	-6,897	-11,000	-11,500	-5,900
Loans/advances to Subsidiaries(Net)	-50	0	0	0
Interest received	1	0	0	0
CF from investments	**-6,945**	**-11,000**	**-11,500**	**-5,900**
Proceeds from issue of Share capital	0	0	0	0
Incr/(Decr) in Debt	916	-2,380	4,050	-350
Interest Paid	-154	-14	-324	-353
Divd Paid	-39	-177	-177	-177
CF from Fin. Activity	**5,356**	**10,273**	**3,549**	**-881**
Net Change In Cash & Cash Equivalents	**19**	**3,311**	**-1,174**	**1,640**
Add: Beginning Balance	**40**	**58**	**3,369**	**2,195**
Closing Balance	**58**	**3,370**	**2,195**	**3,835**

Valuation Matrix

YE Sept	2005	2006E	2007E	2008E
Profitability Ratios (%)				
EBITDA	24.8%	27.3%	23.1%	20.9%
Net profit	16.4%	16.7%	12.5%	11.8%
RoCE	18.7%	17.5%	20.5%	24.9%
RoE	22.9%	16.2%	18.0%	21.0%
Dividend Payout	3.4%	2.7%	2.2%	1.7%
Dividend yield	0.2%	0.2%	0.2%	0.2%
Growth Ratios (%)				
Net sales	69.3%	82.9%	80.7%	50.5%
EBITDA	120.5%	101.3%	52.6%	36.4%
PAT	129.8%	87.0%	33.8%	41.6%
PAT(Adjusted)	129.8%	87.0%	33.8%	41.6%
Valuation Ratios (X)				
PE(Fully diluted)	35.4	18.9	14.3	11.3
CPE	21.6	13.8	9.8	7.2
EV/EBITDA	17.3	12.0	9.2	6.5
EV/Sales	4.3	3.3	2.1	1.4
EV/Mcap	1.2	1.1	1.2	1.2
D/E	0.8	0.5	0.6	0.5
Per share data (Rs)				
Consolidated(Fully diluted)	9.2	17.2	22.7	28.7
CEPS	15.1	23.7	33.2	45.2
BVPS	63.9	114.4	127.5	155.1
DPS	0.5	0.5	0.5	0.5
Inventory Ratios				
Stock-to-use(%)	3.1%	11.1%	5.3%	5.3%
Stock(Months)	0.37	1.33	0.63	0.63

Market Performer

Price Rs. 101

Balrampur Chini Mills Ltd.

Introduction

Managed by the Saraogi family of Calcutta, Balrampur Chini Mills Ltd (BCML) is one of the largest integrated Sugar group with a current capacity of 57500-tcd (SS 2006-07) spread across eight locations (all in Eastern UP). Commanding a strong position in Eastern UP, BCML has plans to enter the BHL dominated Central UP region by setting up two Greenfield plants (8000 tcd each) in Kumbhi and Gularia(Both in Central UP) by SS2008.

Investment Rationale

Integrated Capacity expansions to drive earnings growth

BCML is expected to post a 41% top line and 19% bottom line growth during FY07E, on the back of integrated expansions planned. The company will expand the crushing capacity and the distillery capacity by 21% and 100% respectively during SS2006-07. BCML will also augment its Cogen capacity (exportable) by 36% during season 2006-07 to tap the increased bagasse availability.

Second largest most efficient player

BCML is the second largest sugar player in India (largest integrated player) after BHL. BCML's high operating margin is the reflex ion of its operational efficiency. Lower cane cost and integrated operations is key to BCML's operating efficiency.

Least impact of the down cycle

We expect BCML to have the lowest impact of the down cycle in the sugar industry. We expect the company to post an EBITDA Margin of 24.1% and 22.7 during FY 2007E and FY2008E. BCML's expansion in the power capacity is expected to provide a firm support to its bottom line with power contributing almost 20% of the bottom line during FY2007E.

One of the lowest cane cost in UP

Unique locational advantage makes BCML one of the lowest cane cost player in UP. Due to lesser number of mills within its proximity BCML has been able to comfortably procure cane from its command area.

Reuters code	BACH.BO
BLOOMBERG	BRCM@IN
BSE Sensex	12204
Price (BSE)	101
Nos.of Shares (mn)	248.2
Mkt.Cap (Rs mn)	25,081
Avg. 6m Vol.	9,25,314
52 week H/L (Rs.)	205/79
FV/ Share	Rs. 1

Shareholding Pattern	(%)
Promoters	31.8
FII's	31.2
FI's & Insurance	14.0
Free Float	23.0

Source: BSE India

Stock Performance (%)

	3M	6M	12M
Absolute	-15.0	-45.8	15.1
Relative	-37.6	-91.0	-29.0

Source:HDFC Sec.Research.

Valuation Summary **(Rs mn)**

YE Sept	2005	2006E (18M)	2007E	2008E
Net Sales	8134	18741	17569	20819
EBITDA	2400	4739	4228	4734
Margin	29.5%	25.3%	24.1%	22.7%
PAT(After EO item)	1251	3081	2442	2752
Margin	15.3%	16.4%	13.9%	13.2%
EPS(Reported)	6.2	12.4	9.84	11.1
EPS(Annualized)	6.2	8.3	9.8	11.1
PE	16	12	10	9
RoCE	27.3%	32.7%	22.6%	23.5%
RoE	25.4%	31.9%	20.7%	19.4%
EV/EBITDA	9.9	6.0	6.9	5.9
EV/Mcap	1.2	1.1	1.2	1.1
BVPS	24	39	47	57
D/E	0.8	0.5	0.6	0.4

Operational Overview & Key Assumptions

Sugar Division

YE Sept	2006A	2007E	2008E
Sugarcane Crushed (LMT's)*	68.0	76.5	99.2
Sugar Bagged (LMT's)	6.9	7.8	10.1
Recovery (%)	10.15%	10.15%	10.15%
Avg. Days Assumed**	-	150	150
PLF (%)**	92%	90%	90%
Cane Cost (Landed, Rs/ton)	1260	1300	1325
Avg. NSR (Rs/ton)	18080	17480	17480

* Including Rauzagaon.
**For Meizapur Plant we have assumed 120 days crushing for SS 2006-07 & a PLF of 80%.

BCML's 7000 tcd Mankapur plant is slated to commence crushing by the beginning of the SS 2006-07, i.e., November 2006. Except for the newly acquired Meizapur plant (a 3000 tcd standalone sugar mill), all the seven plants are expected to run for the full season.

Distillery Division

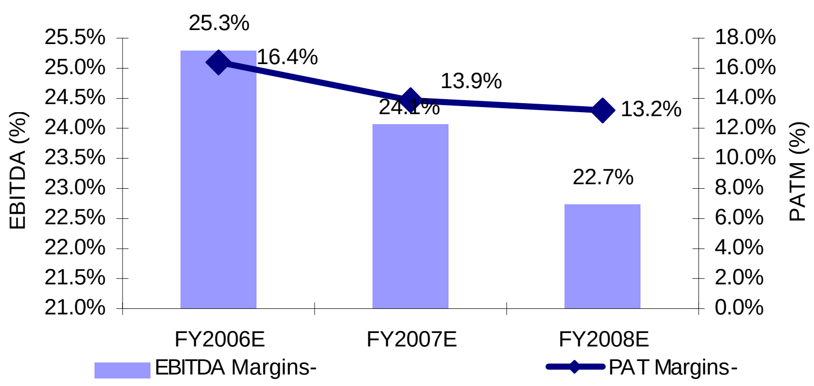
YE Sept	2006	2007E	2008E
Sales (Mn Ltrs)*	50	96	104
Days of Operation	313	300	325
Avg NSR (Rs/ltrs)	23.7	23.7	23.7

*Includes Rectified spirit, ENA & Ethanol

We expect BCML's distillery division to post a 92% volume growth on the back of 100% capacity addition taking its total installed distillery capacity to 320 KL's.

Major revenues for the distillery comes from RS and ENA sale, which accounts for more than 85% of BCML's total distillery sales, rest being sale of Ethanol.

BCML's EBITDA & PAT(%) Trends



Source HDFC Sec. Research Estimates

Power division to contribute 20% to the bottomline during FY07E (vis a vis 17.5% during FY06E)

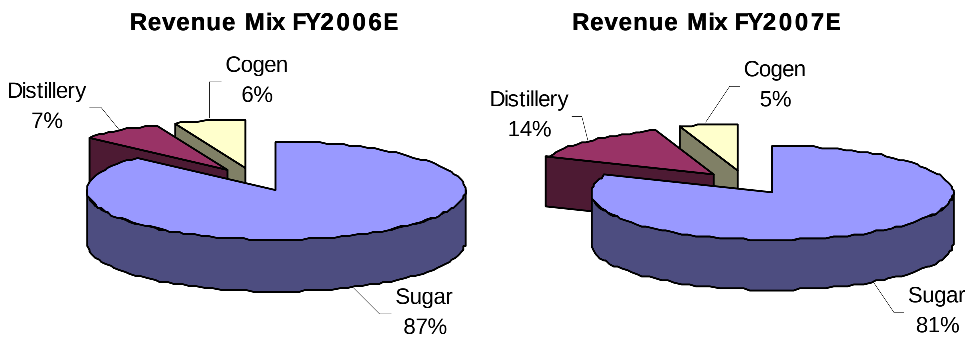
We expect BCML's power division to grow from Rs 801 million (annualized) by FY 2006E to Rs 1122 millions by FY 2007E(up 40% YOY) driven by the capacity addition which has been planned by the company taking its total Saleable capacity from 63.2 Mws(Current) to 116.2 Mws by the beginning of the SS 2007-08. The Growth we are talking about would be driven by increased bagasse saving and usage coupled with increase in number of days of cogen operation.

Cogen Division

YE Sept	2006	2007E	2008E
Exportable Capacity (Mw)	63.2	86.2	116.2
Units Exported (Mn Kws)	420	387	522
PPA (Rs/Unit)	2.86	2.90	2.94
PLF (%)	85%	85%	85%
Days assumed*	326	220	220
Revenues Per Mw (Rs Mns)	19	13	13
Revenue (Rs mn)	1201	1122	1533

* FY2006 is of 18 Months

BCML's Sales mix to rationalize further....



Source:HDFC Sec.Research.

We believe BCML's expansion plan across its divisions is going to provide a strong support to its bottomline going forward, we expect a shift in its revenue mix from 87:13 currently (87% being from Sugar & 13% from Non-Sugar) for FY 2006E, to approx. 81:19(81% Sugar & 19% being Non-Sugar) by the end of the next fiscal. The chart exhibits the increase in the share of the distillery business in BCML's total revenues due to larger expansion than in its sugar capacity. While the Cogen revenues will also increase, its share in the total revenues to remain stable on account of increase in the sugar capacities in line with Cogen expansion.

BCML's entry in Central UP to augment cane fight:

BCML's two plants of 8000 tcd each (coming in Kumbhi & Gularia, in Central UP), marks its entry into the Bajaj Hindusthan dominated Central UP region. This entry, we believe, will have its adverse impact on the cane procurement cost in the years to come, as both the Sugar majors will try to procure maximum possible cane.

BCML's capacity position over the coming years-

YE Sept	2006	2007E	2008E
Sugar	**47500**	**57500**	**73500**
Balrampur	11000	11000	11000
Tulsipur	7000	7000	7000
Babhnan	10000	10000	10000
Haidergarh	5000	5000	5000
Akbarpur	7000	7000	7000
Mankapur	-	7000	7000
Rauzagaon	7500	7500	7500
Meizapur(East UP)-Indo Gulf	-	3000	3000
Kumbhi(Central UP)	-	-	8000
Gularia(Central UP)	-	-	8000
Distillery-(KL's)	**160**	**320**	**320**
Balrampur	100	160	160
Babhnan	60	60	60
Mankapur	-	100	100
Power (Exportable, Mw's)		**86**	**116**
Balrampur		22	22
Haidergarh		18	18
Mankapur		23	23
Akbarpur		11	11
Rauzagaon		12	12
Kumbhi & Gularia		-	30

Capex & Source of Funding	Rs mn
GDR (complete)	2,209
Private Placement (complete)	1,131
ECB's	1,438
Bank Term Loans	2,875
Internal Accruals	4,918
Total Capex (FY 2005-08E)	**12,570**

Indo Gulf Takeover- A "Value Buy" for BCML

Continuing its expansion forays, BCML took a controlling stake of 27.54% in Indo Gulf Industries Ltd, a 3000 tons crushed per day Sugar mill belonging to Dr. S.K. Garg located closed to Balrampurs existing mills in Eastern UP. Total consideration for the deal is expected to be around Rs 542 millions, after which BCML would be holding close to 66.37% stake in IGIL. IGIL's acquisition not only is a low cost buyout for BCML, but also is going to help BCML attain further intra-plant synergies, as the molasses and bagasse would be moved out to BCML's nearby plants for captive usage.

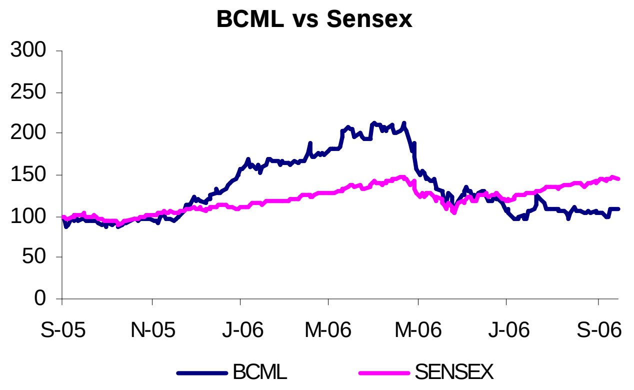
Outlook and Valuation

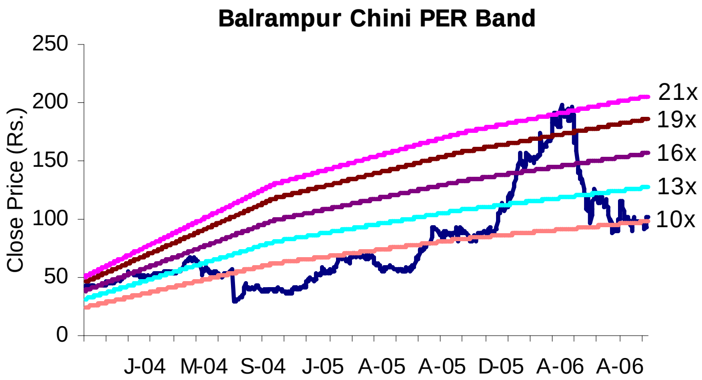
BCML is set to post a Net Profit CAGR of 15.8% over FY06E-08E

We expect BCML to record a Net profit of Rs 2054 mn(annualized) for FY'06E, Rs 2442 mn for FY'07E & Rs 2752 mn for FY'08E, which we believe is attainable on the back of well-balanced integrated expansion being planned by the company.

Our Target price of Rs 118 discounts FY'07E earnings by 12X.

On an EPS of Rs 8.28(FY'06E, annualized) & Rs 9.84(FY'07E), BCML trades at 12X & 10X respectively. We initiate coverage on the stock with a price target of Rs118 (an upside of 16.8%), giving it a MARKET PERFORMER.





Source:HDFC Sec.Research & Cline

Balrampur Chini Mills Ltd.

Income statement (Rs mn)

YE Sept	2005	2006E*	2007E	2008E
Net Sales	**8134**	**19702**	**17569**	**20819**
% Change y-o-y	16%	142%	-11%	19%
Total Income	**8163**	**18798**	**17614**	**20879**
% Change y-o-y	16%	130%	-6%	19%
Raw Material Cost	4686	9331	9533	12707
Incr/decr in stock	-321	2700	1300	90
Manufacturing expenses	688	804	1208	1608
Employee cost	350	642	809	1092
SG&A expenses	332	525	492	590
Operating expenditure	**5734**	**14002**	**13341**	**16086**
% Change y-o-y	0%	144%	-5%	21%
EBITDA	**2400**	**4739**	**4228**	**4734**
% Change y-o-y	94%	97%	-11%	12%
EBITDA Margin(%)	**29.5%**	**25.3%**	**24.1%**	**22.7%**
Interest	189	330	417	357
Depreciation	373	633	800	991
Taxation	389	748	610	688
EO item(Cane arrears)	-223	0	0	0
Amortization	4	4	4	4
PAT	**1251**	**3081**	**2442**	**2752**
% Change y-o-y	107%	146%	-21%	13%
PAT Margin(%)	**15.3%**	**15.6%**	**13.9%**	**13.2%**
EO Adjusted PAT	**1474**	**3081**	**2442**	**2752**
% Change y-o-y	144%	109%	-21%	13%

*** 18 months**

Balance Sheet (Rs mn)

YE Sept	2005	2006E*	2007E	2008E
Share capital	232	248	248	248
Reserves	4688	9399	11527	13966
Networth	**4920**	**9647**	**11775**	**14214**
Secured	3864	4831	6956	5956
Unsecured	0	0	0	0
Total debt	**3864**	**4831**	**6956**	**5956**
Deferred tax liability(net)	1017	1191	1343	1515
Sources of Funds	**9801**	**15669**	**20074**	**21686**
Gross block	7746	13250	16000	19816
Less: Depreciation	2370	3003	3803	4793
Net block	5376	10247	12197	15023
Capital WIP	156	2000	2816	0
Fixed assets	**5532**	**12247**	**15013**	**15023**
Investments	**453**	**969**	**995**	**995**
Inventories	4686	1985	685	596
Sundry debtors	305	1316	1761	3549
Cash & bank balance	176	364	1999	1961
Loans & advances	693	693	693	693
Total Current assets	5860	4357	5139	6800
Less: Current liab. & Provisions	2058	1915	1078	1133
Net Current assets	**3802**	**2442**	**4060**	**5666**
Misc. expenditure	**15**	**10**	**6**	**1**
Application of Funds	**9801**	**15668**	**20074**	**21685**

*** 18 months**

Cash Flow Statement (Rs mn)

YE Sept	2005	2006E*	2007E	2008E
PBT	**1,863**	**3,829**	**3,052**	**3,441**
Depreciation	373	633	800	991
Interest Paid	189	330	417	357
Direct Taxes Paid	320	574	458	516
Change in WC	-346	1,547	17	-1,644
Profit on sale of Fixed assets(Net)	26	0	0	0
Deferred revenue item W/O(Net)	4	4	4	4
CF from Operations	**1,179**	**5,769**	**3,833**	**2,633**
Capex incurred(Net)	466	7,348	3,566	1,000
Loans/advances to Subsidiaries(Net)	450	16	26	0
Interest received	5	0	0	0
Capital Subsidy received	0	0	0	0
CF from investments	**-911**	**-7,364**	**-3,592**	**-1,000**
Proceeds from issue of Share capital	1,704	2,209	0	0
Incr/(Decr) in Debt	-1,474	467	2,125	-1,000
Interest Paid	175	330	417	357
Divd Paid	215	563	563	563
CF from Fin. Activity	**-160**	**1,783**	**1,394**	**-1,671**
Net Change In Cash & Cash Equivalents	**108**	**188**	**1,635**	**-37**
Add: Beginning Balance	**66**	**176**	**364**	**1,999**
Closing Balance	**175**	**364**	**1,999**	**1,961**

*** 18 months**

Valuation Matrix (Rs mn)

YE Sept	2005	2006E*	2007E	2008E
Profitability Ratios (%)				
EBITDA	29.5%	25.3%	24.1%	22.7%
Net profit	15.3%	16.4%	13.9%	13.2%
RoCE	27.3%	32.7%	22.6%	23.5%
RoE	25.4%	31.9%	20.7%	19.4%
Dividend Payout	26.0%	16.1%	20.3%	18.0%
Dividend yield	1.6%	2.0%	2.0%	2.0%
Growth Ratios (%)-Annual.				
Net sales	16.3%	142.2%	40.6%	18.5%
EBITDA	94.3%	97.5%	33.8%	12.0%
PAT	106.9%	146.3%	18.9%	12.7%
PAT(Adjusted)	143.8%	109.0%	18.9%	12.7%
Valuation Ratios (X)				
PE	16.4	12.2	10.3	9.1
CPE	12.6	6.7	7.7	6.7
EV/EBITDA	9.9	6.0	6.9	5.9
EV/Sales	2.9	1.4	1.7	1.3
EV/Mcap	1.2	1.1	1.2	1.1
D/E	0.8	0.5	0.6	0.4
Per share data (Rs)				
EPS	6.2	12.4	9.8	11.1
EPS(Adjusted)	7.3	12.4	9.8	11.1
CEPS	8.0	15.0	13.1	15.1
BVPS	24.2	38.9	47.4	57.3
DPS	1.6	2.0	2.0	2.0
Inventory Ratios				
Stock-to-use(%)	40.5%	8.0%	2.0%	2.0%
Stock(Months)	4.85	0.96	0.24	0.24

*** 18 months**

Market Performer

Price Rs. 119

The Dhampur Sugar Mills

Introduction

The Dhampur Sugar Mills (DSML) chaired by Mr. V.K. Goel, is a 41250 tcd(SS 2006-07) integrated Sugar group having two plants in Central UP, one in Western UP, a plant in the state of Uttaranchal, and a new plant in Badaun(east UP). DSM is undergoing an integrated expansion under which it is expanding its crushing capacity from 30750(SS 2005-06) to 41250(SS 2006-07) and 46250(SS 2007-08). The company also plans to boost its distillery division from 100KL(SS 2005-06) to 240 KL (SS 2006-07). Entering big way into power the company has plans to have an Exportable power capacity of 66 Mw (from present 6 Mw) during season 2006-07 and 124 Mw by season 2007-08.

Trading activity during FY 2006 adversely affected the margins

Beginning its Sugar Season with an inventory of 1.08 lac tons (0.68 Lac tons Cane Sugar+0.40 Lac tons white Sugar), DSML did a trading activity of 69,000 tons during 2QFY06 and 3QFY06 at a minimal margin of 1%, which dented its operating margins during 9MFY06. Going forward we do not expect DSML to engage into sugar trading activity.

Amalgamation of Mansurpur Sugar Mills Ltd with DSML

Mansurpur Sugar Mills, a subsidiary of DSML has been amalgamated with the company during FY2005-06. DSML issued 525,000 shares of Rs 10 each to the Shareholders of Mansurpur Sugar Mills Ltd. for the balance stake of 23.6%.

Roboust expansion planned in power division

DSML plans to boost its power capacities from 5 mw presently to 66 mw (SS 06-07) and further to 124 mw (SS 07-08). While deriving the power revenues we have assumed only captive bagasse usage. Considering the 124 mw in 2008 our power revenue estimates appear to be on the lower side. This remains a key upside to our profit estimates.

Reuters code	DAMS.BO
BLOOMBERG	DSM@IN
BSE Sensex	12204
Price (BSE)	119
Nos.of Shares (mn)	46.09
Mkt.Cap (Rs mn)	5,485
Avg. 6m Vol.	2,58,362
52 week H/L (Rs.)	272/94
FV/ Share	Rs. 10

Shareholding Pattern	(%)
Promoters	48.7
FII's	15.0
FI & Insurance	8.3
Free Float	28.0

Source: BSE India

Stock Performance (%)

	3M	6M	12M
Absolute	-21.7	-53.6	-24.0
Relative	-44.2	-64.9	-68.0

Source:HDFC Sec.Research.

Valuation Summary **(Rs mn)**

YE Sept	2005	2006E	2007E	2008E
Net Sales	9646	10314	11831	12769
% Change YoY	63%	7%	15%	8%
EBITDA	1614	1273	1719	1826
Margin	16.7%	12.3%	14.5%	14.3%
Consolidated PAT(After MI)	879	1280	830	866
Margin	9.0%	12.3%	6.9%	6.7%
Consolidated PAT(Adj for EO)	801	726	830	866
Margin	8.2%	6.9%	6.9%	6.7%
Consolidated EPS(Reported)	25.5	27.7	18.0	18.8
Consolidated EPS(Adj for EO)	23.3	15.7	18.0	18.8
PE(Adjusted)	5.1	7.6	6.6	6.4
RoCE	29.5%	13.7%	14.9%	14.9%
RoE	79.0%	16.3%	15.4%	13.7%
EV/EBITDA	5.1	7.6	6.4	5.8
EV/Mcap	2.0	1.8	2.0	1.9
BVPS	3	11	13	15
D/E	4.3	0.9	1.0	0.8

Operational Overview-
Sugar division

YE Sept	2005	2006E	2007E	2008E
Cane Crushed (LMT)	39.0	38.6	51.8	58.1
Recovery (%)	9.84%	9.65%	9.85%	9.85%
Cane Cost (Landed, Rs/ton)	1177	1340	1365	1385
NSR (Weighted Avg)	16843	17930	17480	17480
Cane Sugar Produced (LMT)	3.84	3.72	5.10	5.72
Sugar sold- (LMT)	5.05	5.44	5.06	5.69
Cane sugar	4.37	4.19	5.06	5.69
White sugar	0.68	0.56	-	-
Trade sugar	0.00	0.69	-	-

DSML crushed 38.6 Lac tons of Cane during Season 2005-06(down 1% YoY). We expect DSML to crush 51.8 Lac tons during season 2006-07(Up 34% YoY) on the back of expanded capacities coming on stream by November 2006.

In spite of a 34% increase in crushing expected next season coupled with a similar growth in the Cane sugar production, we don't expect DSML to post growth in total Sugar sales, as we don't expect the company to engage in the trading activity of sugar (which it did in FY2005-06 for almost 69000 tons).

Key Assumptions

YE Sept	2007E	2008E
Power		
Days of Operation	176	105*
PLF (%)	85%	85%
PPA (Rs/Unit)	2.90	2.94
Power/ton of Bagasse(In Kw)	260	260
Distillery (days)		
Dhampur	250	275
Asmoli	130	275

* Captive bagasse assumed

Chemical division-

Almost 80% of DSML's Chemical division revenues come from the sale of acids (Ethyl Acetate, Acetic Anhydride, Acetic Acid and Rectified Spirit), which it supplies to the companies like Rallis India, Nagarjuna Fertilizers, Merck, United Phosporous etc. Currently, 20% is the share of Ethanol sales out of the total Chemical division sales for Dhampur.

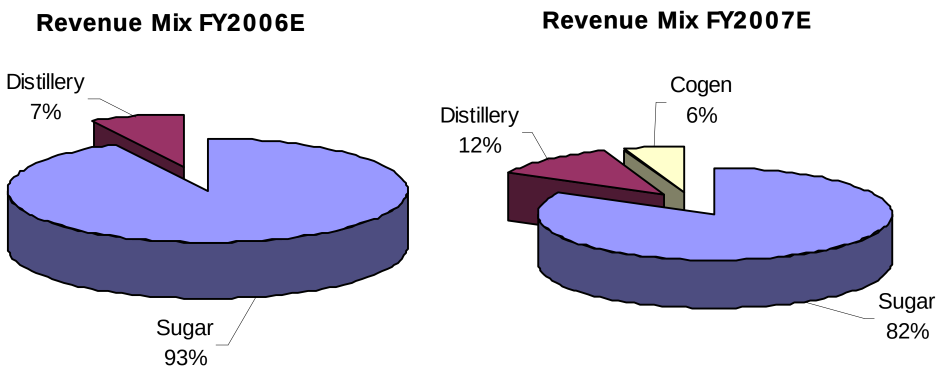
We expect DSML to end FY 2006 with a 13% growth in Chemical revenues to Rs785 on the back of increased Acid sales. With the new 100KL distillery coming at Asmoli by March 2007 and boosting up of Dhampur distillery from 100 KL's to 140 KL's, we expect DSML to post an 83% growth in the overall chemical division revenues from Rs 785 millions to Rs 1440 millions during the FY 2006E-07E..

Cogeneration-

DSML's expansion plan includes setting up of 3 Power plants at Dhampur, Asmoli and Mansurpur of 66 Mega-watts. (Exportable) during FY 2007 and then boosting capacities at Dhamur and Asmoli along with a new 26 Mw plant at Rajpura. Out of which 14 Mw Mansurpur plant will Generate power only during the Sugar Season, rest two plants of 26 mega-watts each (2007) will function during the off season also using the residual bagasse.

We expect the new Power capacities to generate revenues of Rs 685 millions and 779 millions during FY 2007 and 2008 respectively. This will provide a strong cushion to the company against cyclical risks and uncertainties.

Dhampur to witness a Healthy shift in its Revenue-mix:



Source:HDFC Sec.Research.

As per our estimates, DSML is set to witness a revenue shift over FY2006-07E, which will take its Sugar to Non-Sugar ratio from 93:7 currently to 82:18 by 2007E. We believe, DSML could beat our Cogen estimates (Which are based on the bagasse availability), on account of improved bagasse savings. However, while estimating the Cogen revenues we haven't assumed any kind of improvement in Cogen efficiency.

Expansion Plans-

Capacities for Dhampur Group

YE Sept	Location	2006E	2007E	2008E
Sugar (TCD)		**30750**	**41250**	**46250**
Dhampur	Central UP	12000	12000	12000
Asmoli	Central UP	6000	9000	9000
Kashipur	Uttaranchal	6250	6250	6250
Mansurpur	West UP	6500	7000	7000
Badaun	East UP	-	7000	7000
Madhuban	Bihar	-	-	5000
Chemical Unit (KL's)	**100**	**240**	**240**	**240**
Dhampur		100	140	140
Asmoli			100	100
Power (Exportable in MW's)		**5**	**66**	**124**
Dhampur		5	26	56
Asmoli		-	26	28
Mansurpur		-	14	14
Rajpura		-		26

Capex planned & source of funding

Capex planned- (Rs mns)	**8630**
Funding-	
GDR proceeds (complete)	2400
Bank Loans (8.5-9%)	2400
Rauzagaon Surplus	820
Sugar Development Fund (At 4%)	2000
Internal Accruals	1010
Total	**8630**

DSML to continue paying interest at lower rates.

DSML used its Rauzagaon sale proceeds to repay debts of Rs 100 crores during FY 2005-06. It also entered into an agreement with its Debenture holders to trim the interest rates to 8% during FY 2006(vis-à-vis 13% last fiscal).

Also, the company is set to draw Rs 200 crores out of the SDF for its Power and distillery expansion, which carries an interest rate of 4% with a 4 years moratorium thereby reducing the avg. debt cost for the Company going forward. DSML already has got Rs 650 millions out of its total requirement of Rs 2000 millions from SDF.

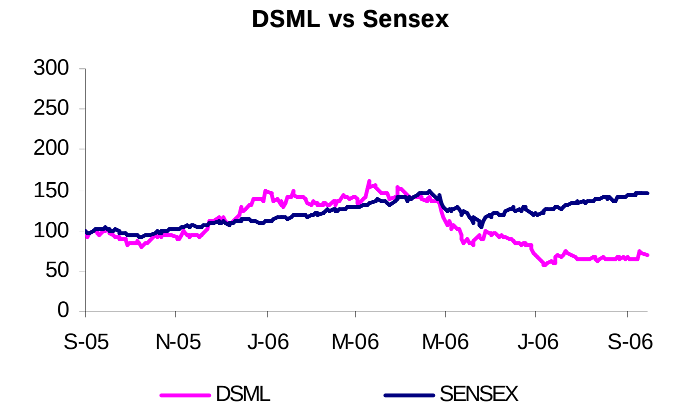
Outlook & Valuation

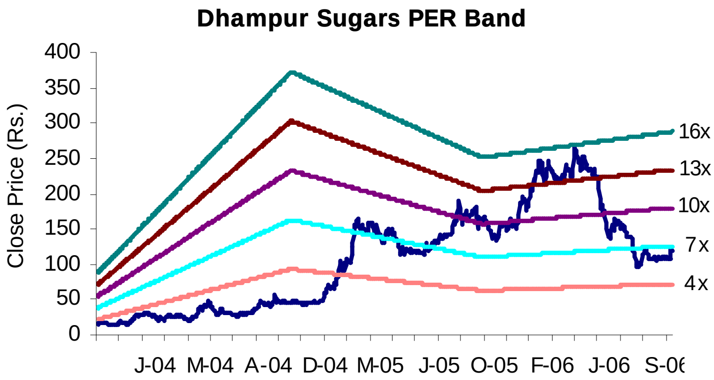
DSML to record a Net Profit CAGR of 9.2% over FY06E-08E

We expect DSML to post a net profit (Consolidated, Adjusted) of Rs 726 mn during FY'06E, Rs 830 mn during FY'07E and Rs 866 mn during FY'08E. Integrated expansion is the key to our model growth expectation of 9.2%(CAGR) over FY06E-08E.

Our Price target of Rs 125.8 discounts FY07E earnings by 7X.

On an EPS of 15.7 for FY'06E, DSML currently trades at 7.6X and on an EPS of Rs 18 for FY'07E, it trades at 6.6X. We initiate coverage on the stock with a target price of Rs 125.8(an upside of 5.7%) giving it a **MARKET PERFORMER.**





Source:HDFC Sec.Research & Cline

The Dhampur Sugar Mills Ltd.

Consolidated Income Statement (Rs mn)

YE Sept	2005	2006E	2007E	2008E
Net Sales	**9646**	**10314**	**11831**	**12769**
% Change y-o-y	63%	7%	15%	8%
Total Income	**9770**	**10447**	**11953**	**12886**
Raw Material Cost	6191	5405	7034	8074
Purchase of Trading goods	140	1703	0	0
Incr/decr in stock	-37	576	526	-33
Manufacturing expenses	974	536	1465	1642
Employee cost	467	485	667	800
SG&A expenses	298	333	420	459
Operating expenditure	**8032**	**9041**	**10111**	**10943**
% Change y-o-y	57%	13%	12%	8%
EBITDA	**1614**	**1273**	**1719**	**1826**
% Change y-o-y	106%	-21%	35%	6%
EBITDA Margin(%)	**16.7%**	**12.3%**	**14.5%**	**14.3%**
Interest	550	266	298	275
Depreciation	265	250	381	466
Taxation	115	268	267	277
EO item	79	739	0	0
PAT	**887**	**1357**	**895**	**926**
% Change y-o-y	957%	53%	-34%	3%
PAT(%)	**9.1%**	**13.0%**	**7.5%**	**7.2%**
Minority Interest	**-7.8**	**77.1**	**65.3**	**60.3**
Consolidated PAT	**879**	**1280**	**830**	**866**
% Change y-o-y	1011%	46%	-35%	4%
Consolidated PAT(Adjusted)	**801**	**726**	**830**	**866**
% Change y-o-y	362%	-9%	14%	4%

Consolidated Balance Sheet (Rs mn)

YE Sept	2005	2006E	2007E	2008E
Equity Share Capital	345	462	462	462
10% Redeemable Pref. Shares(Rs 100)	141	141	141	141
7% Redeemable Pref. Shares(Rs 100)	100	100	100	100
Share Capital	**586**	**703**	**703**	**703**
Reserves	437	4213	5112	6050
Networth	**1024**	**4916**	**5815**	**6753**
Total debt	**4543**	**4464**	**5840**	**5570**
Minority Interest	**19**	**96**	**161**	**221**
Sources of Funds	**5585**	**9475**	**11816**	**12544**
Gross block	5590	7179	10309	13309
Less: Depreciation	2188	2438	2820	3286
Net block	3401	4741	7490	10024
Capital WIP	171	2000	1500	0
Fixed assets	**3572**	**6741**	**8990**	**10024**
Investments	**109**	**109**	**109**	**109**
Deferred Tax Asset	**399**	**521**	**556**	**592**
Inventories	2053	1256	730	763
Sundry debtors	530	1045	1375	1095
Cash & bank balance	147	110	206	264
Loans & advances	559	559	559	559
Total Current assets	3290	2970	2869	2681
Less: Current liab. & Provisions	1820	866	708	862
Net Current assets	**1470**	**2104**	**2161**	**1820**
Misc. expenditure	**2**	**0**	**0**	**0**
P/L Account	32	0	0	0
Application of Funds	**5585**	**9475**	**11816**	**12544**

Consolidated Cash Flow (Rs mn)

YE Sept	2005	2006E	2007E	2008E
PBT	**1,003**	**887**	**1,162**	**1,203**
Depreciation	265	250	381	466
Interest Paid	550	266	298	275
Direct Taxes Paid	0	-146	-232	-241
Change in WC	-160	-672	39	400
Interest income	-4	0	0	0
Profit on sale of Fixed assets(Net)	3	0	0	0
CF from Operations	**1,103**	**1,323**	**1,648**	**2,102**
Capex incurred(Net)	-431	-3,419	-2,630	-1,500
Loans/advances to Subsidiaries(Net)	24	0	0	0
Interest received	4	0	0	0
Capital Subsidy received	0	0	0	0
CF from investments	**-335**	**-3,419**	**-2,630**	**-1,500**
Proceeds from issue of Share capital	101	2,400	0	0
Incr/(Decr) in Debt	-245	-78	1,376	-269
Interest Paid	-614	-266	-298	-275
Divd Paid	0	0	0	0
CF from Fin. Activity	**-758**	**2,056**	**1,078**	**-544**
Net Change In Cash & Cash Equivalents	**10**	**-39**	**96**	**58**
Add: Beginning Balance	**138**	**147**	**108**	**203**
Closing Balance	**147**	**108**	**203**	**261**

Valuation Matrix

YE Sept	2005	2006E	2007E	2008E
Profitability Ratios (%)				
EBITDA	16.7%	12.3%	14.5%	14.3%
Consolidated PAT	1.3%	9.0%	12.3%	6.9%
Consolidated PAT(Adj)	2.9%	8.2%	6.9%	6.9%
RoCE	29.5%	13.7%	14.9%	14.9%
RoE	79.0%	16.3%	15.4%	13.7%
Dividend Payout	3.9%	0.0%	0.0%	0.0%
Dividend yield	0.8%	0.0%	0.0%	0.0%
Growth Ratios (%)				
Net sales	63.4%	6.9%	14.7%	7.9%
EBITDA	106.5%	-21.1%	35.1%	6.2%
Consolidated PAT	1011.4%	45.6%	-35.2%	4.4%
Consolidated PAT(Adj)	362.1%	-9.3%	14.3%	4.4%
Valuation Ratios (X)				
PE(Adj)	5.1	7.6	6.6	6.4
CPE	3.6	3.4	4.3	4.0
EV/EBITDA	5.1	7.6	6.4	5.8
EV/Sales	0.9	0.9	0.9	0.8
EV/Mcap	2.0	1.8	2.0	1.9
D/E	4.3	0.9	1.0	0.8
Per share data (Rs)				
Consolidated EPS	25.5	27.7	18.0	18.8
Consolidated EPS(Adj)	23.3	15.7	18.0	18.8
CEPS	33.5	34.8	27.7	30.2
BVPS	3.0	10.7	12.6	14.6
DPS	1	0	0	0
Inventory Ratios				
Stock-to-use(%)	21.3%	13.2%	5.3%	5.3%
Stock(Months)	2.55	1.59	0.63	0.63

Mawana Sugars

Under Performer

Price Rs. 78.8

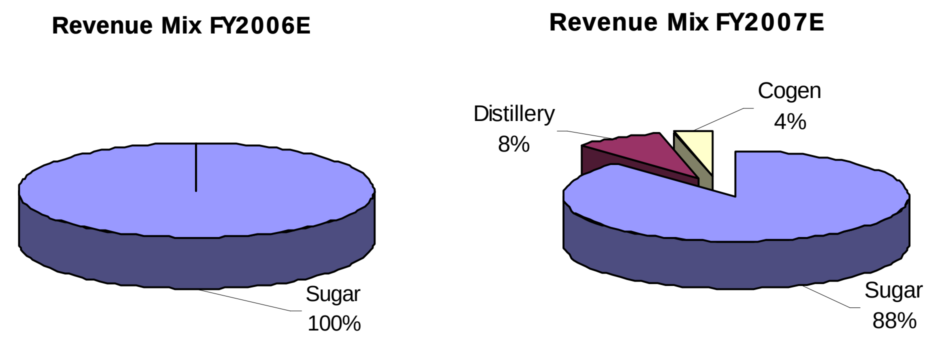
UPDATE

Season 2005-06: A bad season for MSL due to lower PLF on account of lower crushing days at its NSL plant coupled with a 50bps decline in its sugar recoveries proved out to be a nightmare for the company. To add to its wounds was the business model of MSL, which is a standalone sugar mill with no distillery and power (exportable) facilities. Consequently, a steep fal in its EBITDA margins (a 540 bps decline YoY) was observed.

We build in a lower jump in MSL's cane cost

We expect MSL to maintain its existing EBITDA margins on the back of integrated capacities coming on stream. We have built in an escalation of Rs. 10 per ton in its cane cost (landed) on a YoY basis, as against our general assumption of Rs. 25 per ton for other peer companies. As the base cane cost for MSL of Rs. 1355 per ton (i.e. SS 05-06) was one of the highest in UP, keeping in mind the robust cane output in UP We do not forcee much increase in MSL's cane cost for SS 06-07.

MSL to integrate during FY 2007E



Source:HDFC Sec.Research.

FY07E, First year of integrated operation for MSL

Aiming at diversification, MSL is set to derive revenues from its new distillery and cogen which it plans to start during SS06-07. While the integration will help MSL improve its margins (EBIDTA), the impact of high depreciation interest and taxes is expected to eat into the profits thereby leaving lesser room for growth on a PAT basis.

Financial Summary **(Rs mn)**

YE Sept	2005	2006E	2007E	2008E
Net Sales	5511	5271	7491	8116
EBITDA	879	558	853	912
Margin	16.0%	10.6%	11.4%	11.2%
PAT(After EO item)	503	313	352	380
Margin	9.0%	5.8%	4.6%	4.6%
EPS(Rs)	12.2	7.4	8.3	8.9
PE	6.5	10.7	9.5	8.8
RoCE	36.0%	7.5%	10.8%	11.9%
RoE	21.4%	12.0%	11.2%	10.3%
EV/EBITDA	3.0	13.6	8.9	7.5
EV/Mcap	0.8	2.3	2.3	2.0
BVPS	57	62	74	87
D/E	0.0	1.9	1.5	1.1

Reuters code	MAWA.BO
BLOOMBERG	MSUG@IN
BSE Sensex	12204
Price (BSE)	78.8
Nos.of Shares (mn)	42.5
Mkt.Cap (Rs mn)	3,351
Avg. 6m Vol.	3,00,442
52 week H/L (Rs.)	150/54
FV/ Share	Rs. 10

Shareholding Pattern	**(%)**
Promoters	43.6
FII's	11.6
FI & Insurance	8.3
Free Float	36.5

Source: BSE India

Stock Performance (%)

	3M	6M	12M
Absolute	-4.2	-37.9	-24.8
Relative	-26.8	-49.2	-68.8

Source:HDFC Sec.Research.

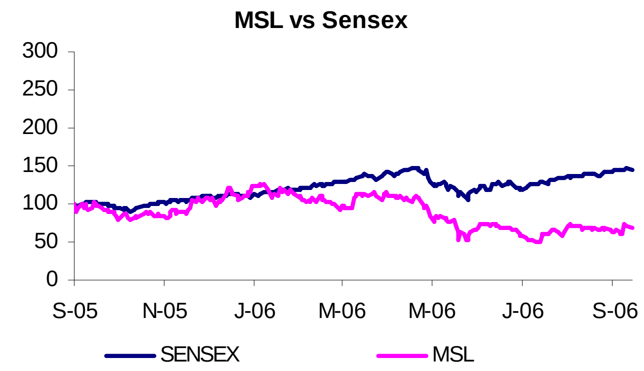
Operational details	2006E	2007E	2008E
Sugar			
Cane crushed (LMT)	26.94	41.91	41.91
Sugar bagged (LMT)	2.64	4.19	4.19
Avg Recovery (%)	9.58%	10.00%	10.00%
Realizations (Rs/ton)	17700	17200	17200
Cane cost (Landed, Rs/ton)	1355	1365	1375
PLF (%)	75%	81%	81%
Distillery			
Days assumed		180	220
PLF (%)		85%	85%
Avg NSR		24.36	24.36
Revenues (Rs mn)		671	820
Cogen-			
Power exported (Mn Mws)		95.88	95.88
Days assumed		100	100
PLF (%)		85%	85%
PPA (Rs)		2.9	2.94
Revenues (Rs mn)		278	282

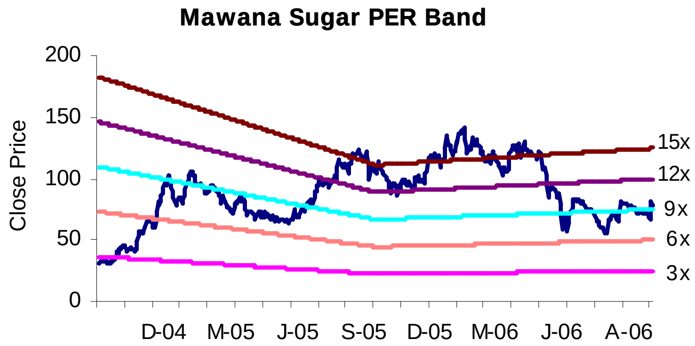
MSL's profits to grow at a 10% CAGR

We expect MSL to post a bottom line of Rs 313 mn during FY'06E, Rs 352 mn during FY'07E and further Rs 380 mn during FY'08E, largely driven by its integrated capacities coming shortly on-stream. FY07E would be the first year for MSL as an integrated player.

MSL fairly valued at current prices-

MSL trading at 10.7XFY06E and 9.5XFY07E, we believe, stands fairly valued at current price. We do not foresee further upside on the stock. We update the stock with a target price Rs 78.8(a downside of 0.1%) downgrading it to an **UNDER PERFORMER**.





Source:HDFC Sec.Research & Cline

Mawana Sugars Ltd

Income statement (Rs mn)

YE Sept	2005	2006E	2007E	2008E
Net Sales	**5511**	**5271**	**7491**	**8116**
% Change y-o-y	-2%	-4%	42%	8%
Other income	73	92	97	101
% Change y-o-y	-41%	25%	5%	5%
Total Income	**5584**	**5363**	**7587**	**8217**
% Change y-o-y	-3%	-4%	41%	8%
Operating expenditure	4632	4713	6637	7203
% Change y-o-y	-9%	2%	41%	9%
EBITDA	**879**	**558**	**853**	**912**
% Change y-o-y	55%	-36%	53%	7%
EBITDA Margin(%)	**16.0%**	**10.6%**	**11.4%**	**11.2%**
Interest	142	68	205	190
Depreciation	89	129	241	282
Taxation	70	138	151	163
EO item(Cane arrears)	144	0	0	0
Amortization	4	2	0	0
PAT	**503**	**313**	**352**	**380**
% Change y-o-y	250%	-38%	12%	8%
PAT Margin(%)	**9.0%**	**5.8%**	**4.6%**	**4.6%**
EO Adjusted PAT	**647**	**313**	**352**	**380**
% Change y-o-y	350%	-52%	12%	8%

Balance Sheet (Rs mn)

YE Sept	2005	2006E	2007E	2008E
Share capital	424	424	424	424
Reserves	1927	2193	2723	3256
Networth	**2352**	**2617**	**3147**	**3681**
Total debt	**89**	**4869**	**4769**	**4019**
Deferred tax liability(net)	75	116	116	116
Sources of Funds	**2515**	**7601**	**8032**	**7815**
Gross block	1924	7143	8043	8043
Less: Depreciation	950	1079	1321	1602
Net block	974	6064	6722	6441
Capital WIP	219	0	0	0
Fixed assets	**1193**	**6064**	**6722**	**6441**
Investments	**381**	**381**	**381**	**381**
Inventories	442	338	820	872
Sundry debtors	222	536	417	411
Cash & bank balance	311	242	106	142
Loans & advances	378	378	378	378
Total Current assets	1352	1495	1721	1803
Less: Current liab. & Provisions	412	338	793	809
Net Current assets	**940**	**1157**	**929**	**994**
Misc. expenditure	**2**	**0**	**0**	**0**
Application of Funds	**2515**	**7601**	**8032**	**7815**

Cash Flow Statement **(Rs mn)**

YE Sept	2005	2006E	2007E	2008E
PBT	**573**	**451**	**503**	**542**
Depreciation	89	129	241	282
Interest Paid	142	68	205	190
Direct Taxes Paid	75	97	151	163
Change in WC	253	-286	92	-29
Interest income	2	0	0	0
Profit on sale of Fixed assets(Net)	24	0	0	0
Deferred revenue item W/O(Net)	4	2	0	0
CF from Operations	**961**	**267**	**891**	**822**
Capex incurred(Net)	235	5,000	900	0
Loans/advances to Subsidiaries(Net)	356	0	0	0
Interest received	2	0	0	0
Capital Subsidy received	0	0	250	250
CF from investments	**-589**	**-5,000**	**-650**	**250**
Proceeds from issue of Share capital	28	0	0	0
Incr/(Decr) in Debt	50	4,780	-100	-750
Interest Paid	139	68	205	190
Divd Paid	21	48	72	96
CF from Fin. Activity	**-182**	**4,664**	**-377**	**-1,036**
Net Change In Cash & Cash Equivalents	**189**	**-69**	**-137**	**36**
Add: Beginning Balance	**122**	**311**	**242**	**105**
Closing Balance	**311**	**242**	**105**	**142**

Valuation Matrix

YE Sept	2005	2006E	2007E	2008E
Profitability Ratios (%)				
EBITDA	16.0%	10.6%	11.4%	11.2%
Net profit	9.0%	5.8%	4.6%	4.6%
RoCE	36.0%	7.5%	10.8%	11.9%
RoE	21.4%	12.0%	11.2%	10.3%
Dividend Payout	9.0%	13.6%	18.1%	22.4%
Dividend yield	1.4%	1.3%	1.9%	2.5%
Growth Ratios (%)				
Net sales	-2.4%	-4.4%	42.1%	8.3%
EBITDA	54.7%	-36.5%	52.8%	6.9%
PAT	250.4%	-37.8%	12.5%	7.7%
PAT(Adjusted)	350.4%	-51.6%	12.5%	7.7%
Valuation Ratios (X)				
PE	6.5	10.7	9.5	8.8
CPE	5.6	7.6	5.6	5.1
EV/EBITDA	3.0	13.6	8.9	7.5
EV/Sales	0.5	1.4	1.0	0.8
EV/Mcap	0.8	2.3	2.3	2.0
D/E	0.0	1.9	1.5	1.1
Per share data (Rs)				
EPS	12.2	7.4	8.3	8.9
EPS(Adjusted)	15.6	7.4	8.3	8.9
CEPS	14.0	10.4	14.0	15.6
BVPS	56.8	61.6	74.1	86.6
DPS	1.1	1.0	1.5	2
Inventory Ratios				
Stock-to-use(%)	6.5%	4.4%	10.0%	10.0%
Stock(Months)	0.78	0.53	1.20	1.20

Sensitivity Analysis

BHL (FY07E FD EPS)

a) Sugar price and Distillery realizations:

Sugar Prices(NSR)	16.75	17.00	17.25	17.50	17.75	18.00	18.25	18.50
Distillery realizations *								
21.37	16.70	18.40	20.00	21.60	23.20	25.10	26.50	28.10
21.87	17.00	18.60	20.20	21.80	23.40	25.30	26.70	28.30
22.37	17.20	18.80	20.40	22.00	23.60	25.50	26.90	28.50
22.87	17.40	19.00	20.60	22.20	23.80	25.70	27.10	28.70
23.37	17.60	19.20	20.80	22.40	24.00	25.90	27.30	28.90
23.87	17.80	19.40	21.00	22.60	24.20	26.10	27.50	29.10
Model Case 24.37	18.00	19.60	21.20	22.80	24.40	26.30	27.70	29.30
24.87	18.20	19.80	21.40	23.00	24.60	26.50	27.90	29.50
25.37	18.40	20.00	21.60	23.20	24.80	26.70	28.10	29.70
25.87	18.60	20.20	21.80	23.40	25.00	26.90	28.30	29.90
26.37	18.80	20.40	22.00	23.60	25.20	27.10	28.50	30.10
26.87	19.00	20.60	22.20	23.80	25.40	27.30	28.70	30.30
27.37	19.20	20.80	22.40	24.00	25.60	27.50	28.90	30.50
27.87	19.40	21.00	22.60	24.20	25.80	27.70	29.10	30.70

* including MODVAT credit

Conclusion

- **A 0.25 Rs change in Sugar realizations impacts our EPS estimates by Rs 1.6(An impact of 7% on our Model EPS)**
- **A 0.50 Rs change in Distillery realization impacts our EPS estimates by Rs 0.2(An impact of 0.9% on our Model EPS)**

b) Cane cost and Recovery:

Cane cost (Rs/ton)	1240	1255	1270	1285	1300	1315	1330	1345
Recovery (%)								
9.50	20.05	19.14	18.23	17.32	16.41	15.50	14.59	13.68
9.60	21.13	20.22	19.31	18.40	17.49	16.58	15.67	14.76
9.70	22.21	21.30	20.39	19.48	18.57	17.66	16.75	15.84
9.80	23.30	22.39	21.48	20.57	19.66	18.75	17.84	16.93
9.90	24.38	23.47	22.56	21.65	20.74	19.83	18.92	18.01
Model Case 10.00	25.46	24.55	23.64	22.80	21.81	20.90	19.99	19.08
10.10	26.54	25.63	24.72	23.81	22.90	21.99	21.08	20.17
10.20	27.62	26.71	25.80	24.89	23.98	23.07	22.16	21.25
10.30	28.70	27.79	26.88	25.97	25.06	24.15	23.24	22.33
10.40	29.78	28.87	27.96	27.05	26.14	25.23	24.32	23.41
10.50	30.86	29.95	29.04	28.13	27.22	26.31	25.40	24.49

Conclusion-

- **A 10 bps change in Sugar Recovery impacts our EPS estimate by Rs 1.08(An impact of 4.8% on our Model EPS)**
- **A 15 Rs change in Cane cost impacts our EPS estimates by Rs 0.91(An impact of 4% on our Model EPS)**

BCML (FY07E EPS)

a) Sugar price and Distillery realizations:

EPS Sensitivity: FY 2007E

Model Case

Sugar Prices(NSR)	16.75	17.00	17.25	17.50	17.75	18.00	18.25	18.50
Distillery realizations *								
20.7	6.95	7.62	8.30	8.97	9.65	10.32	10.99	11.67
21.2	7.10	7.78	8.45	9.13	9.80	10.47	11.14	11.82
21.7	7.26	7.93	8.60	9.28	9.95	10.62	11.29	11.97
22.2	7.41	8.08	8.75	9.43	10.10	10.77	11.44	12.12
22.7	7.57	8.23	8.90	9.58	10.25	10.92	11.59	12.27
23.2	7.72	8.38	9.05	9.73	10.40	11.07	11.74	12.42
23.7	7.88	8.53	9.20	9.88	10.55	11.22	11.89	12.57
24.2	8.03	8.68	9.35	10.03	10.70	11.37	12.04	12.72
24.7	8.19	8.83	9.50	10.18	10.85	11.52	12.19	12.87
25.2	8.34	8.98	9.65	10.33	11.00	11.67	12.34	13.02
25.7	8.49	9.13	9.80	10.48	11.15	11.82	12.49	13.17
26.2	8.64	9.28	9.95	10.63	11.30	11.97	12.64	13.32
26.7	8.79	9.43	10.10	10.78	11.45	12.12	12.79	13.47
27.2	8.94	9.58	10.25	10.93	11.60	12.27	12.94	13.62

* including MODVAT credit

Conclusion-

- **A 0.25 Rs change in Sugar realizations impacts our EPS estimates by Rs 0.67(An impact of 6.8% on our Model EPS)**
- **A 0.50 Rs change in Distillery realization impacts our EPS estimates by Rs 0.15(An impact of 1.5% on our Model EPS)**

b) Cane cost and Recovery:

Model Case

Cane cost (Rs/ton)	1240	1255	1270	1285	1300	1315	1330	1345
Recovery (%)								
9.55	8.45	8.08	7.72	7.36	7.00	6.64	6.28	5.92
9.65	8.87	8.50	8.14	7.78	7.42	7.06	6.70	6.34
9.75	9.28	8.92	8.56	8.20	7.84	7.48	7.12	6.76
9.85	9.70	9.34	8.98	8.62	8.26	7.90	7.54	7.18
9.95	10.12	9.76	9.40	9.04	8.68	8.32	7.96	7.60
10.05	10.54	10.18	9.82	9.46	9.10	8.74	8.38	8.02
10.15	10.96	10.60	10.24	9.88	9.52	9.16	8.80	8.44
10.25	11.38	11.02	10.66	10.30	9.94	9.58	9.22	8.86
10.35	11.80	11.44	11.08	10.72	10.36	10.00	9.64	9.28
10.45	12.22	11.86	11.50	11.14	10.78	10.42	10.06	9.70
10.55	12.64	12.28	11.92	11.56	11.20	10.84	10.48	10.12
10.65	13.06	12.70	12.34	11.98	11.62	11.26	10.90	10.54

Conclusion-

- **A 10 bps change in Sugar Recovery impacts our EPS estimates by Rs 0.42(An impact of 4.3% on our Model EPS)**
- **A 15 Rs change in Cane cost impacts our EPS estimates by Rs 0.36(An impact of 3.6% on our Model EPS)**

Key Concerns affecting the Sugar Industry

Execution risk

With the major expansion plans underway, there lies a significant potential for risk on account of probable delay in the timely and effective execution of the expanded capacities. Also, the UP Govt's Scheme (which provides a deadline of 31st March 2007) increases this risk, as mills, which are unable to start commercial production by the specified date, stand unqualified for the concessions and benefits. Failure to qualify for the benefits might result in sharper than expected decline in margins thereby significantly affecting our profit estimates.

Government Regulations

Government has been regularly influencing the sugar market in India, by managing release mechanism and banning exports etc. Our estimates and views expressed in this report are exposed to any kind of further interference by the regulators.

Agro-climatic conditions

Sugar industry is largely based on the monsoon and other agro-climatic conditions prevailing in the country. Any kind of change in the weather conditions (flood or drought etc) might affect the industry adversely and could change the industry fundamentals of demand-supply.

Competition

Robust expansion plans by the mills has added to the already competitive scenario where mills had been historically locking horns over the cane availability issue. Also with most of the newer capacities coming in relatively smaller area, the probability of cane poaching seems to be very high.

Global Crude Oil Prices

Global crude prices which has a crucial role in Brazil's sugar-Ethanol mix decision, could drive Brazil to further divert more cane towards ethanol, thereby taking away proportionate sugar out of the international sugar market, which consequently might result in a sharp demand-supply mismatch driving the global sugar prices Northwards again.

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