



INDIA

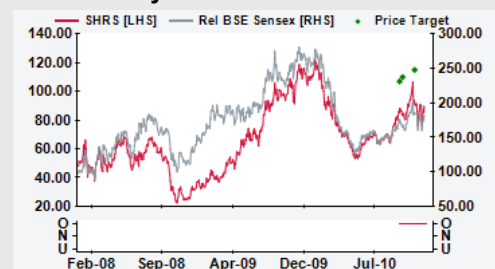
SHRS IN Outperform
Price 20 Dec 10 Rs92.75

12-month target	Rs	115.00
Upside/Downside	%	24.0
Valuation	Rs	115.00
- DCF		
GICS sector	Food, Beverage & Tobacco	
Market cap	Rsm	62,245
30-day avg turnover	US\$m	16.0
Market cap	US\$m	1,373
Number shares on issue	m	671.1

Investment fundamentals

Year end 30 Sep		2010A	2011E	2012E	2013E
Revenue	m	76,696	89,152	87,949	94,891
EBITDA	m	12,202	24,470	21,342	24,315
EBITDA growth	%	162.1	100.5	-12.8	13.9
EBIT	m	9,616	17,805	14,160	16,615
EBIT growth	%	141.6	85.2	-20.5	17.3
Reported profit	m	6,924	7,364	7,017	8,557
Adjusted profit	m	6,924	7,364	7,017	8,557
EPS rep	Rs	8.27	10.99	10.48	12.78
EPS adj	Rs	8.39	10.99	10.48	12.78
EPS adj growth	%	291.1	31.0	-4.7	22.0
PER adj	x	11.1	8.4	8.9	7.3
Total DPS	Rs	0.54	0.76	2.40	2.93
Total div yield	%	0.6	0.8	2.6	3.2
ROE	%	34.3	25.8	20.2	21.0
EV/EBITDA	x	8.1	4.1	4.7	4.1
Net debt/equity	%	147.2	105.5	64.7	35.7
P/BV	x	2.5	1.9	1.7	1.4

SHRS IN rel BSE Sensex performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, December 2010 (all figures in INR unless noted)

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21 December 2010

Shree Renuka Sugars

Best play on strong sugar outlook

Event

- We have analysed the key risks facing sugar prices in the year 2011 and believe sugar prices are likely to remain firm in 1H CY11E because of recent production losses in key sugar producing regions. In addition, the government has allowed 0.5mt of sugar exports from India, which we believe is very well timed as export prices are 20% higher than domestic realisations. We expect SHRS, a member of the [Macquarie Marquee Ideas](#) list, to be a key beneficiary of a strong sugar outlook.

Impact

- **Global sugar balance estimate cut to 0.7mt from 2.3mt.** Production in key countries, such as Brazil, Australia, South Africa, Russia and the EU, has been impacted by adverse weather conditions. Macquarie Global Agri-commodity research team has trimmed the 2010/11 sugar balance forecast to 0.7mt, implying a very high risk of market moving into a deficit. We expect white-raw premium to firm-up further due to lower inventory levels.
- **Upside risks outweigh potential downsides.** We believe our base case outlook will be at risk if Indian sugar production misses estimates of 25-26mt. Our channel checks with sugar mills in key states of India indicate that production is likely to be lower than sugar mill's earlier estimates due to lower sugar yield because of extended rainfall well into the crushing season. (Refer to pages 2 & 3 for the list of key risks to our sugar outlook).
- **Exports to boost realisations for Indian sugar mills.** As global supply remains tight, both raw and white sugar prices have reached record levels. Indian sugar export of 0.5mt is well timed to benefit the Indian sugar mills as international prices are 20% higher than domestic realisations. Exports will also reduce the surplus in domestic market and likely boost sugar prices post-crushing season.
- **Subsidy burden of Indian sugar mills to ease.** Indian government has raised procurement price for subsidised (levy) sugar by Rs900/tonne. This will reduce subsidy burden on Indian sugar mills. Thus, we believe that new levy sugar price will boost SHRS's FY11E earnings by 2-3%.

Earnings and target price revision

- No change.

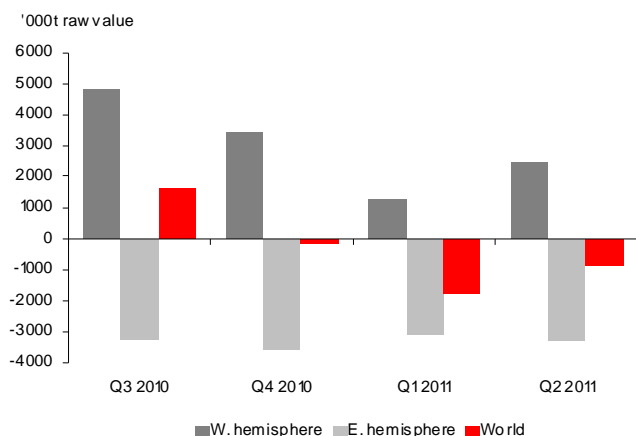
Price catalyst

- 12-month price target: Rs115.00 based on a Price to Book methodology.
- Catalyst: Firm global sugar prices

Action and recommendation

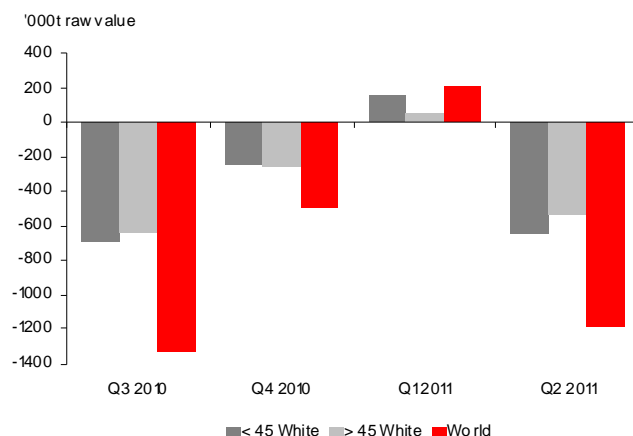
- **Maintain Outperform.** Given favourable global sugar fundamentals and better realisations and operational efficiency in Brazil, we maintain our positive view on SHRS. The stock is currently trading at 1.7x FY12E P/BV, 22% discount to its long term average.

Fig 1 Raw sugar trade balance to ease in 2QCY11



Source: LMC, Macquarie Research, December 2010

Fig 2 White sugar trade balance to be tight from 2Q



Source: LMC, Macquarie Research, December 2010

Excerpts from Kona Haque's report *Macquarie Agri-view: Key risks for 2011* published 17th Dec, 2010

Sugar Base Case view (1H'2010 ▲, 2H'2010 ▼)

- The market will start 2011 extremely tight, with a host of key exporter countries (Brazil, Australia, South Africa, Russia, China and the EU to name a few) suffering from production losses at a time of still-high import demand. Our estimate for 2010/11's global sugar surplus has been trimmed back to a mere 0.7mt (compared with an initial start-of-the-season forecast of 3mt). While India may still help resolve the Q1 and Q2 trade-flow deficits if they can rustle up exports of 2mt of sugar, this would not be enough to rebuild stocks. Prices will retest the 33c/lb high in Q1, but ease off in the middle of Q2, when the Brazilian new harvest starts gathering pace and as the market starts to price in the prospects of higher (weather permitting) new crops amongst other producers too. However, given that Brazil's crop will be slightly smaller than this year's due to dry weather and ageing cane, the market will be vulnerable to price shocks should production elsewhere suffer. More important, we see prices getting strong support at 22–24c/lb or above – a level we consider necessary to incentivize expansion of sugar production in Brazil and India.

Sugar Bull Case view

- India fails to generate a significant domestic surplus, resulting in lower than the 1.5mt in exports the world is currently hoping for.
- Continued excessive rains leads to further losses in production exporter countries such as Australia, Thailand and Central America.
- Importer countries that have been delaying buying sugar in anticipation of lower prices further down the curve draw down stocks so much that they return to the market earlier.
- Indian gur prices rise above domestic sugar prices, leading to diversion of cane away from sugar.
- Dry weather in CS Brazil leads to a smaller-than-expected cane crop next season.
- Brazilian ethanol market becomes so tight that prices command a premium over sugar.
- The EU increases its import quota as internal market tightens.
- USD continues to weaken and BRL appreciates.

Sugar Bear Case view

- Significant intercrop rain in CS Brazil allows cane to mature quickly, prompting an earlier start to the new season crushing.
- With forward spreads extremely wide and most speculators still very much net long, the market could sharply sell off when sentiment changes.
- Brazil's buy-backs of raw sugar in early-Q4 2010 leads to greater Brazilian availability during the intercrop lean period than expected.

- CS Brazil decides not to renew their cane, implying more production this year (but bad for yields next year).
- India keeps crushing well past March, boosting export availability and dampening world prices.
- Second-tier producers (following heavy rains in 2010 and strong prices) respond sharply to boost beet and cane plantings.
- Refineries are making losses, and demand for raw sugar may fall. High prices could ration sugar demand in developing countries, while beverage companies switch to HFCS substitutes.
- High world prices leads to EU announcing more out-of-quota exports.
- Risk appetite by investor community falls on global macro fears.
- The market may soon price in a sharp increase in production in 2nd-tier producers (eg, Australia, India and Thailand will all likely have big crops in 2011/12) due to increased soil moisture levels.

Shree Renuka Sugars (SHRS IN, Outperform, Target Price: Rs115.00)

Quarterly Results					Profit & Loss						
	4Q/10A	1Q/11E	2Q/11E	3Q/11E		2010A	2011E	2012E	2013E		
Revenue	m	24,600	16,607	20,707	23,242	Revenue	m	76,696	89,152	87,949	94,891
Gross Profit	m	5,871	7,714	8,572	7,025	Gross Profit	m	18,377	34,287	30,808	34,527
Cost of Goods Sold	m	18,729	8,893	12,135	16,217	Cost of Goods Sold	m	58,319	54,865	57,142	60,364
EBITDA	m	3,420	5,900	6,396	4,820	EBITDA	m	12,202	24,470	21,342	24,315
Depreciation	m	1,600	503	616	1,423	Depreciation	m	2,586	6,665	7,182	7,700
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0	Other Amortisation	m	0	0	0	0
EBIT	m	1,820	5,398	5,780	3,397	EBIT	m	9,616	17,805	14,160	16,615
Net Interest Income	m	-1,670	-513	-454	-1,128	Net Interest Income	m	-2,870	-5,011	-4,489	-3,738
Associates	m	0	0	0	0	Associates	m	0	0	0	0
Exceptionals	m	-1	0	0	0	Exceptionals	m	-1	0	0	0
Forex Gains / Losses	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	1,112	21	35	59	Other Pre-Tax Income	m	1,943	267	440	380
Pre-Tax Profit	m	1,262	4,905	5,362	2,328	Pre-Tax Profit	m	8,689	13,061	10,111	13,257
Tax Expense	m	139	-1,426	-2,270	106	Tax Expense	m	-1,528	-3,291	-2,629	-3,447
Net Profit	m	1,401	3,479	3,091	2,433	Net Profit	m	7,161	9,770	7,482	9,810
Minority Interests	m	-230	-602	-602	-602	Minority Interests	m	-237	-2,406	-465	-1,253
Reported Earnings	m	1,171	2,877	2,490	1,832	Reported Earnings	m	6,924	7,364	7,017	8,557
Adjusted Earnings	m	1,171	2,877	2,490	1,832	Adjusted Earnings	m	6,924	7,364	7,017	8,557
EPS (rep)		1.75	4.30	3.72	2.73	EPS (rep)		8.27	10.99	10.48	12.78
EPS (adj)		1.75	4.30	3.72	2.73	EPS (adj)		8.39	10.99	10.48	12.78
EPS Growth yoy (adj)	%	79.2	120.6	11.0	103.1	EPS Growth (adj)	%	291.1	31.0	-4.7	22.0
						PE (rep)	x	11.2	8.4	8.9	7.3
						PE (adj)	x	11.1	8.4	8.9	7.3
EBITDA Margin	%	13.9	35.5	30.9	20.7	Total DPS		0.54	0.76	2.40	2.93
EBIT Margin	%	7.4	32.5	27.9	14.6	Total Div Yield	%	0.6	0.8	2.6	3.2
Earnings Split	%	16.9	39.1	33.8	24.9	Weighted Average Shares	m	837	670	670	670
Revenue Growth	%	125.0	16.2	16.2	16.2	Period End Shares	m	670	670	670	670
EBIT Growth	%	21.5	58.0	74.8	216.3						
Profit and Loss Ratios					Cashflow Analysis						
	2010A	2011E	2012E	2013E		2010A	2011E	2012E	2013E		
Revenue Growth	%	172.4	16.2	-1.3	7.9	EBITDA	m	12,202	24,470	21,342	24,315
EBITDA Growth	%	162.1	100.5	-12.8	13.9	Tax Paid	m	-1,528	-3,291	-2,629	-3,447
EBIT Growth	%	141.6	85.2	-20.5	17.3	Chgs in Working Cap	m	-1,604	-5,708	1,509	-1,276
Gross Profit Margin	%	24.0	38.5	35.0	36.4	Net Interest Paid	m	-2,870	-5,011	-4,489	-3,738
EBITDA Margin	%	15.9	27.4	24.3	25.6	Other	m	-239	-2,406	-465	-1,253
EBIT Margin	%	12.5	20.0	16.1	17.5	Operating Cashflow	m	5,961	8,052	15,269	14,602
Net Profit Margin	%	9.3	11.0	8.5	10.3	Acquisitions	m	0	0	0	0
Payout Ratio	%	6.5	6.9	22.9	22.9	Capex	m	-40,000	-4,500	-4,500	-4,500
EV/EBITDA	x	8.1	4.1	4.7	4.1	Asset Sales	m	0	0	0	0
EV/EBIT	x	10.3	5.6	7.0	6.0	Other	m	1,943	267	440	380
Balance Sheet Ratios					Investing Cashflow	m	-38,057	-4,233	-4,060	-4,120	
ROE	%	34.3	25.8	20.2	21.0	Dividend (Ordinary)	m	-416	-506	-1,607	-1,960
ROA	%	12.6	15.4	11.7	13.4	Equity Raised	m	353	0	0	0
ROIC	%	33.8	21.3	15.9	19.9	Debt Movements	m	40,000	0	-3,500	-4,500
Net Debt/Equity	%	147.2	105.5	64.7	35.7	Other	m	2,994	0	0	-0
Interest Cover	x	3.4	3.6	3.2	4.4	Financing Cashflow	m	42,931	-506	-5,107	-6,460
Price/Book	x	2.5	1.9	1.7	1.4	Net Chg in Cash/Debt	m	10,834	3,314	6,101	4,021
Book Value per Share		37.5	47.8	55.8	65.7	Free Cashflow	m	-34,039	3,552	10,769	10,102
						Balance Sheet		2010A	2011E	2012E	2013E
						Cash	m	16,223	19,537	25,638	29,659
						Receivables	m	4,203	4,885	4,819	5,199
						Inventories	m	31,519	36,638	36,144	38,996
						Investments	m	0	0	0	0
						Fixed Assets	m	54,148	51,983	49,301	46,101
						Intangibles	m	0	0	0	0
						Other Assets	m	6,122	6,122	6,122	6,122
						Total Assets	m	112,214	119,165	122,023	126,078
						Payables	m	29,938	30,031	30,980	32,937
						Short Term Debt	m	627	627	627	627
						Long Term Debt	m	52,800	52,800	49,300	44,800
						Provisions	m	1,014	1,014	1,014	1,014
						Other Liabilities	m	2,560	2,560	2,560	2,560
						Total Liabilities	m	86,940	87,033	84,482	81,939
						Shareholders' Funds	m	25,155	32,012	37,422	44,019
						Minority Interests	m	147	147	147	147
						Other	m	-28	-28	-28	-28
						Total S/H Equity	m	25,274	32,132	37,542	44,139
						Total Liab & S/H Funds	m	112,214	119,165	122,023	126,078

All figures in INR unless noted.

Source: Company data, Macquarie Research, December 2010

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand

Outperform – return >3% in excess of benchmark return
 Neutral – return within 3% of benchmark return
 Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie First South - South Africa

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
 Neutral – return within 5% of benchmark return
 Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return
 Neutral (Hold) – return within 5% of Russell 3000 index return
 Underperform (Sell) – return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high-highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low-medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Australian/NZ/Canada stocks only

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / epowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 September 2010

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	51.06%	64.41%	55.07%	46.58%	66.99%	50.00%	(for US coverage by MCUSA, 13.73% of stocks covered are investment banking clients)
Neutral	34.15%	17.31%	36.23%	48.40%	28.71%	36.81%	(for US coverage by MCUSA, 11.76% of stocks covered are investment banking clients)
Underperform	14.79%	18.28%	8.70%	5.02%	4.31%	13.19%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)

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