RESULT UPDATE √

Shree Renuka Sugars (RENSUG)

Current Price	Target Price
Rs 54	Rs 75.6
Potential upside	Time Frame
40.8%	12 months

OUTPERFORMER

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WHAT'S CHANGED…

PRICE TARGET………………………………………..Changed to Rs 75.6 from Rs 114
EPS (FY09E)……………………………………………Changed to Rs 6.2 from Rs 6.7
EPS (FY10E)…………………………………………………………………….. Rs 8.4
RATING………………………………………………………..OUTPERFORMER

Firm prices to fuel growth…

Shree Renuka Sugars (SRSL) reported a robust topline growth of 147.9% to Rs 631.9 crore from Rs 254.9 crore in Q4SY08 (Sugar Year 2008) led by a robust growth in trading revenues and improved price realisations. Raw material costs rose 150.7% to Rs 481.3 crore from Rs 192 crore due to the higher sugarcane prices paid to the farmers. The quarter has also seen a 144.9% rise in staff expenses along with a 237.4% rise in other expenses on the back of increased capacity utilisation. EBITDA margins dipped to 11.8% from 15.3% in Q4SY07. Interest costs rose 187.3% on account of increased working capital requirements. The bottomline grew 200.8% to Rs 38.5 crore from Rs 12.8 crore.

Segmental Performance

Revenues from the sugar segment rose 142.8% to Rs 274.9 crore from Rs 113.2 crore in the corresponding quarter. Revenues from the co-generation business grew by 49.4% to Rs 12.7 crore from Rs 8.5 crore in Q4SY07 on the back of a sharp rise in the export of power to the grid. Alternatively, revenues from ethanol increased by 84.9% to Rs 27.0 crore from Rs 14.6 crore on the back of improved realisations and the augmentation in distillation capacity.

Valuations

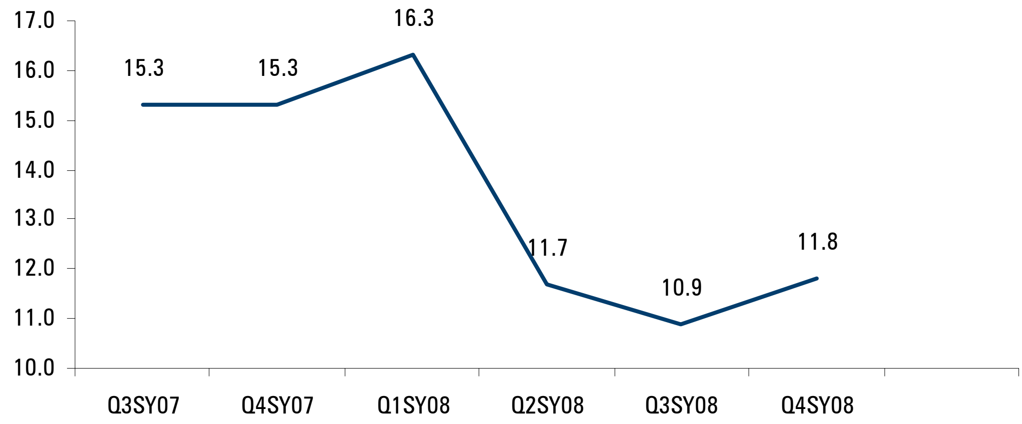
At the current price, the stock discounts its SY09E EPS of Rs 6.2 by 8.6x and SY10E EPS of Rs 8.4 by 6.3x. After the recent turmoil in the stock market, the stock is trading at attractive levels. The stock is trading at a 17.1% discount to its replacement cost of Rs 64 per share. With a differentiated business model and the advantage of reaping a better recovery rate in Maharashtra, we believe the company is well positioned to gain in a rising sugar price scenario. Additionally, the company's increased capacity expansion in the sugar and by-product segments would help it improve margins. We value the company at 9x its SY10E EPS of Rs 8.4 to arrive at a price target of Rs 75.6.

Exhibit 1: Key Financials (Rs crore)

	Q4SY08	Q4SY07	Change (%)	SY08E	SY09E	SY10E
Net Sales	631.9	254.9	147.9	2114.3	2330.1	2596.9
Raw Material Expenses	481.3	192	150.7	1576.7	1650.7	1773.4
Staff Cost	12.0	4.9	144.9	41.9	58.3	64.9
Other Expenses	64.1	19.00	237.4	243.1	261.0	311.6
EBITDA	74.5	39.0	91.0	252.6	360.2	446.9
EBITDA Margin (%)	11.8	15.3		11.9	15.5	17.2
Other Income	4.4	-8.6	-151.2	15.2	10.0	6.0
Depreciation	9.7	10.4	-6.7	36.9	58.1	60.1
Interest	20.4	7.1	187.3	70.1	72.1	77.1
PBT	48.8	12.9	278.3	160.8	240.0	315.7
Tax	10.3	0.1	10200.0	42.7	72.0	88.4
PAT	38.5	12.8	200.8	118.1	168.0	227.3
Net Profit Margin (%)	6.1	5.0		5.6	7.2	8.8
EPS	1.4	0.5	170.3	4.4	6.2	8.4
P/E(x)				12.2	8.6	6.3
EV/EBITDA(x)				8.3	5.7	3.2

Source: ICICIdirect.com Research, Company

Exhibit 2: EBITDA Margins (%)



Source: Company, ICICIdirect.com Research

Revising estimates

Considering the increase in trading revenues and the rising sugarcane prices, we have revised our SY09E financial estimates. We are revising our net sales for SY09E from Rs 2166.8 crore to Rs 2330.1 crore. Net profit would change from Rs 179.6 crore to Rs 168.0 crore on the back of higher sugarcane prices. We are also introducing SY10E financial estimates. We expect net sales to rise at a CAGR of 10.8% to Rs 2596.9 crore and net profit to rise at a CAGR of 38.7% to Rs 227.3 crore.

Annual Performance

The company posted a robust topline growth of 122.4% to Rs 2114.3 crore in SY08 from Rs 950.6 crore in SY07 supported by higher contributions from the ethanol and cogeneration segments. Sugar recovery per tonne of cane improved considerably to 11.43% from 10.81%. Raw material costs rose substantially by 129.7% to Rs 1576.7 crore from Rs 686.4 crore due to the sheer rise in cane crushing which rose by 71% to 4,623,550 metric tonnes (MT) from 2,702,200 MT on account of a significant rise in capacity expansion. This led to the decline in EBITDA margins to 11.9% in SY08 from 13.9% last year. Interest costs increased by 287.3% to Rs 70.1 crore from Rs 18.1 crore on account of a rise in term borrowing undertaken to carry out capital expansion and higher working capital requirements. Other income declined by 13.6% to Rs 15.2 crore from Rs 17.6 crore last year. Net profit increased by 42.3% to Rs 118.1 crore from Rs 83.0 crore in SY07 on account of higher profits from the ethanol and cogeneration business.

Segmental Performance

Revenues from the sugar segment increased by 41.4% to Rs 764.5 crore from Rs 540.8 crore in SY07 led by a 69% increase in sugar volume from 317,674 MT to 535,644 MT. However, average realisation declined to Rs 12,962 per MT from Rs 15,940 per MT last year. Revenues from co-generation grew 269.8% to Rs 183.8 crore in SY08 from Rs 49.7 crore last year on the back of a 337% rise in the export of power to the grid from 38 million units to 153 million units. Average realisation in the cogeneration business rose by 63% to Rs 6.5 per unit. Revenues from ethanol rose 181.7% to Rs 120.3 crore as against Rs 42.7 crore last year on the back of a 150.8% increase in sales from 20,378 kilo litres (KL) to 51,115 KL in SY08. Average realisation in the ethanol business also increased by 12.2% to Rs 23.5 per litre from Rs 21 per litre. Alternatively, trading revenues increased by 455.3% to Rs 910.2 crore from Rs 163.9 crore in SY07.

Exhibit 3: Segmental Revenues (Rs crore)

Sales	Q4SY08	Q4SY07
Sugar	274.9	113.2
Ethanol	27	14.6
Cogeneration	12.7	6.5
Trading	237.6	62.4
Other	0.7	0.3
Total	552.9	197

Source: Company, ICICIdirect.com Research

Exhibit 4: Segment wise EBIT (Rs crore)

EBIT	Q4SY08	Q4SY07
Sugar	18.6	20.8
Ethanol	12	8.7
Cogeneration	3.3	-1.8
Trading	13.8	6.8
Other	0.3	-1
Total	48	33.5

Source: Company, ICICIdirect.com Research

Other Developments

- The company has acquired a 87% stake in Gokak Sugars Ltd for Rs 69.3 crore in Karnataka that has a crushing capacity of 2,500 TCD (tonnes crushed per day) and a 14 MW cogeneration power plant at Kolavi village, Taluka Gokak and Belgaum in Karnataka.

- The company has decided to call off the establishment of its new refinery of 2,000 TPD, which was expected to commence operations at Mundhra in 2009-10.

Outlook

Crushing delays to sweeten the taste

The decline in cane procurement prices coupled with the significant rise in farm-gate prices has resulted in a paradigm shift in acreage from cane to more lucrative crops such as wheat, rice and oil seeds thereby, altering the economics of cultivation. Simultaneously, delays in large cane payment arrears have also resulted in a decline in cane acreage thereby, inducing cyclicality in the production of cane. Consequently, there has been a one and a half month delay in the commencement of the crushing season which typically begins during the first week of October. The delay in the crushing season along with the drop in cane acreage will lead to a decline in domestic sugar production to 20 million tonnes in SY09 and a further decline to 18 million tonnes in SY10. Simultaneously, the country has witnessed an unprecedented rise in sugar exports from1.5 million tonnes in SY07 to 4.8 million tonnes in SY08. This has resulted in the shrinkage of the sugar surplus to 6.1 million tonnes at the end of SY09 and is projected to shrink further to 1.1 million tonnes at the end of SY10.

Exhibit 5: Domestic sugar demand supply scenario (million tonnes)

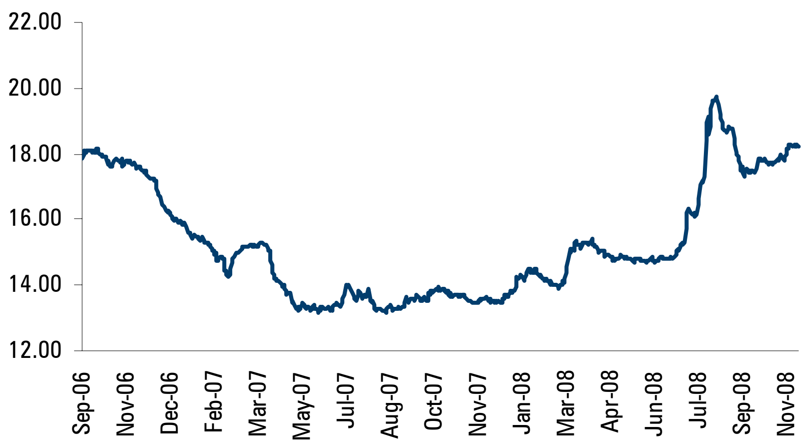
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09E	2009-10E
Production	18.5	20.1	13.5	12.7	19.3	28.5	26.3	20	18
Domestic consumption	16.8	17.5	17.9	18.5	19	21	22	23	23
Exports	1	1.5	0.2	0	1.1	1.5	4.8	0	0
Imports	0	0	0.4	2.1	0	0	0	0	0
Opening stock	10.6	11.2	12.3	8.1	4.4	3.6	9.6	9.1	6.1
Closing stock	11.2	12.3	8.1	4.4	3.6	9.6	9.1	6.1	1.1
Closing Stock (Months)	7.6	8.4	5.4	2.9	2.3	5.4	5.0	3.2	0.6

Source: Company, ICICIdirect.com Research

Sugar prices to remain firm

From the previous trends in the sugar industry it can be deduced that when closing stock was at its peak in 2002-03 at 8.4 million tonnes, production witnessed a subsequent decline to 13.5 million tonnes and 12.7 tonnes in the years to follow (2003-04 and 2004-05), resulting in higher sugar prices. With closing stock peaking at 9.6 million tonnes in 2006-07 and 9.1 million tonnes in 2007-08, we believe a similar pattern would emerge causing production to decline in the forthcoming years to 20 million tonnes in 2008-09 and 18 million tonnes in 2009-10. Consequently, we also believe the lower surplus of sugar in the system will keep sugar prices firm above Rs 17 per kg in SY09 and induce a further price rise to Rs 19 per kg in SY10 thereby, enhancing earnings for the company.

Exhibit 6: Sugar Prices (Rs per kg)



Source: Company, ICICIdirect.com Research

Capacity addition to drive growth

The company is planning to increase its ethanol capacity to 900 KLPD (kilo litres per day) in SY10 from its current capacity of 450 KLPD in SY08. Alternatively, the company is also planning to increase its sugar capacity to 35,000 TCD in SY10 from its current capacity of 29,000 TCD. With the by products fetching better margins we believe that the company will benefit from its increased distillery capacity.

Concerns

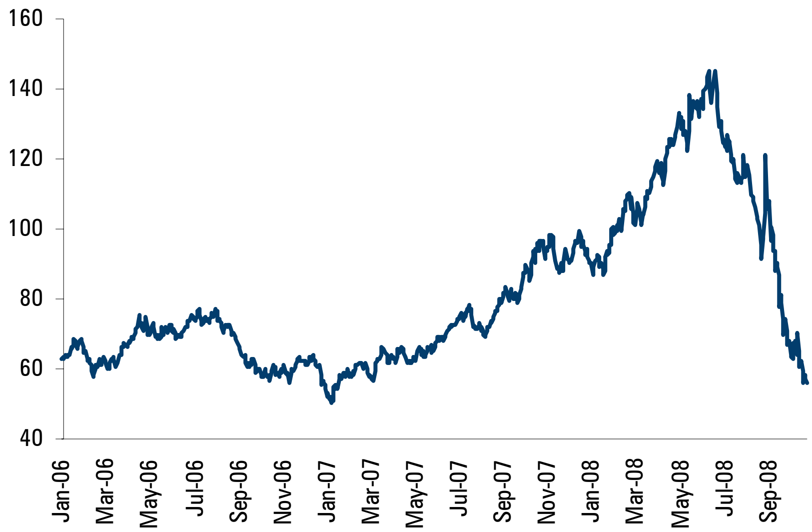
Government intervention remains an overhang

The government has often intervened in the sugar industry with ad-hoc measures aimed at regulating the sugar industry. This intervention poses one of the biggest risks for the industry as well as the company. Being election year inflation control remains the highest priority for the government. This would indicate that a restriction on sugar prices and the quantum of exports is imminent.

Crude decline: Brazil could switch from ethanol to sugar

The recent decline in crude oil prices from $ 147 per barrel to $ 55 per barrel has raised questions about the viability of ethanol. This sharp decline in crude would curb the demand for ethanol, which would thereby, encourage Brazilian mills to produce more sugar rather than ethanol. This will result in a lower deficit of sugar in 2008-09 and hence, a decline in global sugar prices. Higher sugar production in Brazil poses a threat to Indian imports, which in turn could compel domestic manufacturers to keep sugar prices down.

Exhibit 7: Crude Price ($ per barrel)



Source: Company, ICICIdirect.com Research

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