

August 13, 2010

Shree Renuka Sugar (RENSUG)

Rs 69

WHAT'S CHANGED...

PRICE TARGET Changed from Rs 77 to Rs 80
 EPS (FY10E) Changed from Rs 8.4 to Rs 10.5
 EPS (FY11E) Changed from Rs 8.5 to Rs 10
 RATING..... Unchanged

Riding high on acquisitions ...

Shree Renuka Sugars reported strong Q3SY10 results with a 123.8% increase in sales from Rs 893.5 crore in Q3SY09 to Rs 1999.5 crore led by a 16.4% increase in sugar volumes and 25.9% increase in sugar realisation. The EBITDA margin remains low at 8.1% from 17.4% in the corresponding quarter on the back of higher sugarcane cost paid to farmers in the current year and a steep fall in domestic sugar prices. The interest cost rose by ~179% to Rs 64.6 crore as the company consolidated the VDI numbers after the acquisition. Other income was Rs 42.0, which includes dividend income, sale of investments and forex gains. Higher EBITDA and other income resulted in 15.5% growth in net profit to Rs 90.2 crore.

Operational highlights

The company has produced 17,892 tonnes of sugar from sugarcane and processed 2,91,654 tonnes of raw sugar during the quarter. It had an inventory of 525,000 tonnes of white sugar and 187,798 tonnes of raw sugar (which it would be processing in the current quarter). We believe the company would be selling huge quantities in the current quarter to reduce its inventory levels, which may result in further lower realisation.

Valuation

At the current price of Rs 69, the stock is trading at 6.6x its SY10E EPS of Rs 10.5 and 6.9x its SY11E EPS of Rs 10. Given the significant sharp recovery in global sugar prices to 18 cents/lb, margins from VDI and Equipav (the acquired companies) would improve significantly in the future. However, domestic operations would continue to suffer in the next quarter also. We believe sustained global prices at 18 cents and lower sugarcane cost in India would result in sustainable margins next year despite lower domestic sugar prices. We value the stock at 8x its SY11E EPS of Rs 10 to arrive at a target price of Rs 80 per share.

Exhibit 1: Financial Performance

(Rs Crore)	Q3SY10	Q3SY10E	Q3SY09	Q2SY10	YoY(%)	QoQ(%)
Net Sales	1999.5	1219.0	893.5	1781.4	123.8	12.2
EBITDA margin %	8.1	10.2	17.4	19.9	-929bps	-1177bps
Depreciation	55.2	28.3	17.4	23.9	217.2	131.0
Interest	64.6	25.8	23.1	26.0	179.7	148.5
Other Income	42.6	1.3	-3.9	25.5	-1192.3	67.1
Reported PAT	90.2	59.9	78.1	224.2	15.5	-59.8
EPS (Rs)	1.4	0.9	1.2	3.5	15.5	-59.8

Source: Company, ICICIdirect.com Research

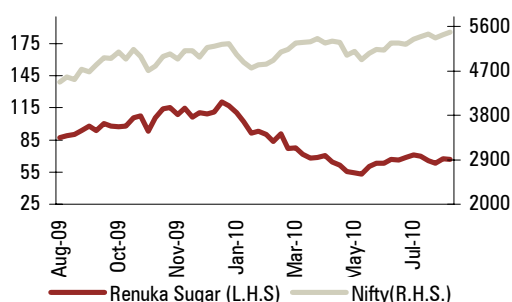
Rating matrix	
Rating	: Buy
Target	: Rs 80
Target Period	: 12 months
Potential Upside	: 16 %

Key Financials				
	SY08	SY09	SY10E	SY11E
Net Sales	2,114.3	2,816.0	6,711.1	4,201.7
EBITDA	252.6	465.6	1,012.9	1,157.2
Net Profit	133.9	223.6	664.5	632.2
EPS (Rs)	2.1	3.5	10.5	10.0

Valuation summary				
	SY08	SY09	SY10E	SY11E
P/E	32.5	19.5	6.6	6.9
Target P/E	42.5	25.5	8.6	9.0
EV / EBITDA	20.4	11.1	5.8	2.8
P/BV	5.2	2.8	2.0	1.6
RoNW(%)	16.1	14.6	30.8	22.6
RoCE (%)	12.3	13.8	22.3	19.6

Stock data	
Market Capitalization	Rs. 4354 Crore
Total Debt (SY09)	Rs. 1343 Crore
Cash (SY09)	Rs. 494 Crore
EV	Rs. 5155 Crore
52 week H/L	123.5 / 51.5
Equity capital	Rs.67 Crore
Face value	Rs. 1
MF Holding (%)	8.6
FII Holding (%)	25.9

Price movement



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Revising estimates

Given the sharp recovery in global sugar prices to 18 cents/lb and two acquisitions by the company, we expect the company to register robust volume growth in SY11. Subsequently, we have revised our estimates.

Exhibit 2: Revised estimates

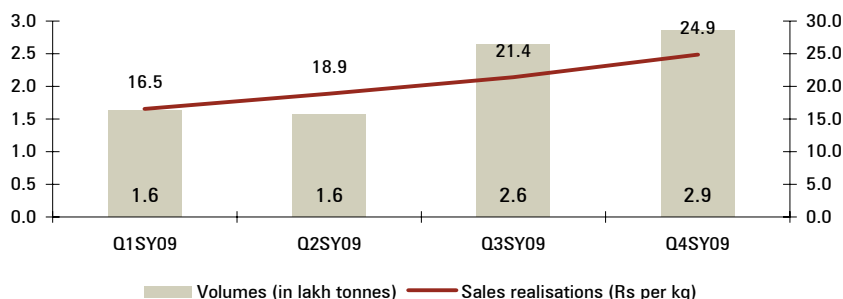
Particulars	SY10E			SY11E		
	Old	New	% Change	Old	New	% Change
Revenue	5,695.8	6711.1	17.8	4,056.2	4201.7	3.6
EBITDA	918.2	1012.9	10.3	1,033.6	1157.2	12.0
EBITDA Margin %	16.1	15.1	-103 bps	25.5	27.5	206 bps
PAT	562.5	664.5	18.1	539.4	632.2	17.2
EPS	8.9	10.5	18.1	8.5	10.0	17.2

Source: Company, ICICIdirect.com Research

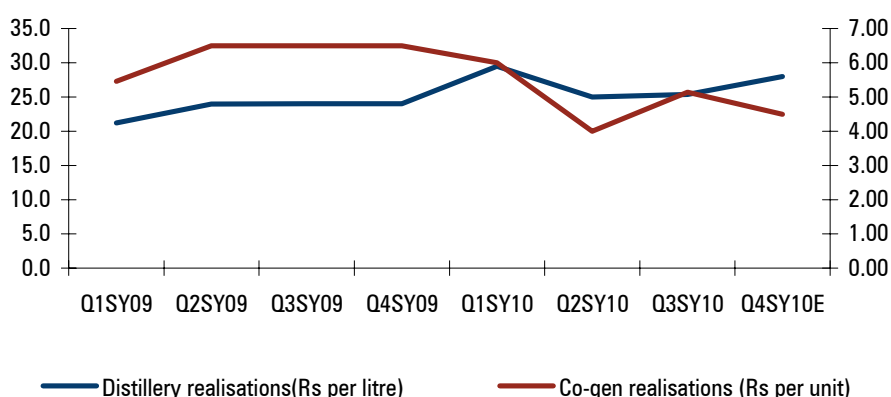
Segmental analysis

Revenues from sugar increased from Rs 585.9 crore in Q3SY09 to Rs 796.3 crore in Q3SY10. The company sold 3,06,710 tonnes of sugar during the quarter with average realisations of Rs 26.9 per kg. Revenue from the co-generation segment increased from Rs 80.1 crore to Rs 112.9 crore led by the ~82% increase in volumes. The company posted trading revenue of Rs 345 crore from Rs 67.1 crore in Q3SY09.

Exhibit 3: Sugar volumes & realisations



Source: Company, ICICIdirect.com Research

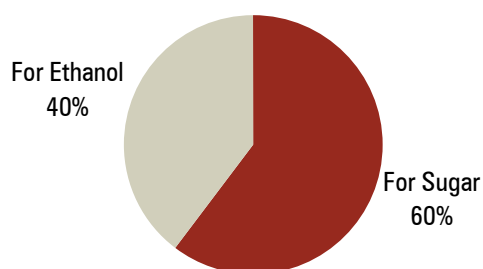
Exhibit 4: Ethanol and power realisations

Source: Company, ICICIdirect.com Research

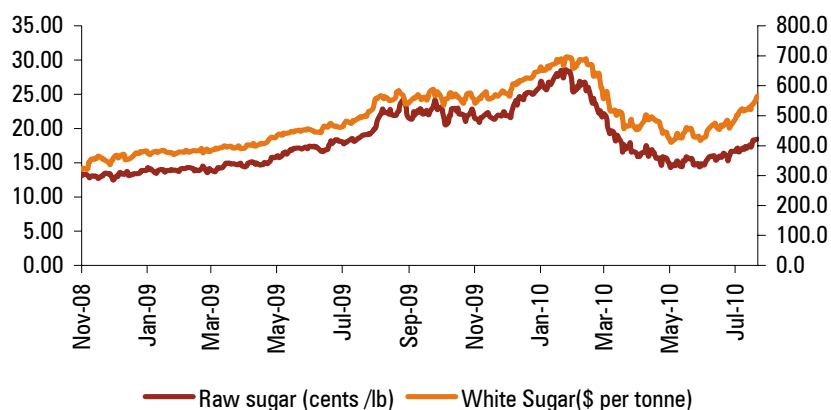
VDI Operational details

Renuka Sugar's Brazilian subsidiary, Vale Do Ivaí added to the higher than expected profitability of the company with the Q3SY10 turnover (net of taxes) being Rs 142.9 crore and margins exceptionally good at ~50%. The net profit for the quarter was Rs 8.1 crore. On the basis of revenues from various segments, total revenue from sugar sales stood at Rs 66.2 crore, ethanol accounted for Rs 24.1 crore and revenue from molasses and other products was Rs 52.6 crore.

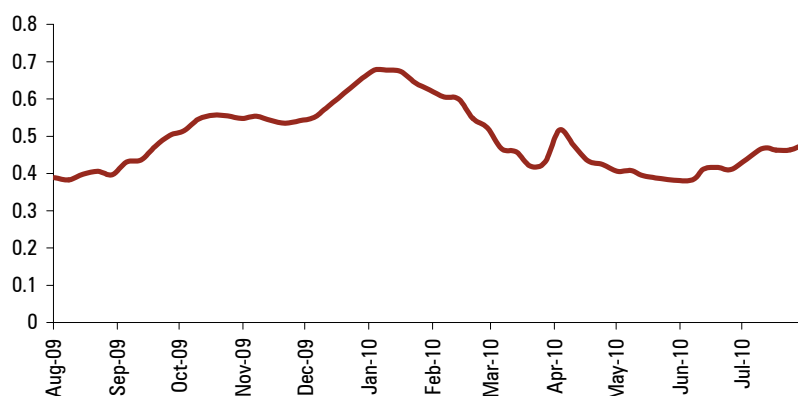
With the crushing season having begun early in Brazil due to the higher cane availability, the cane crushed during the quarter stood at 5,66,082 MT. This was with the VDI plant operating at 65% capacity during the quarter. However, it is expected to operate at its basic capacity (~80%) with the availability of more cane, going ahead. Out of the total cane crushed, 3,40,870 MT (60%) of cane was used for production of sugar, thereby yielding 41,586 MT of raw sugar at a recovery rate of 12.2%. Hence, cane diverted towards ethanol production was 2,25,212 MT yielding 14,873 kl of ethanol. Molasses produced stood at 3,747 MT during the quarter Q3SY2010

Exhibit 5: Sugarcane diversion at VDI,

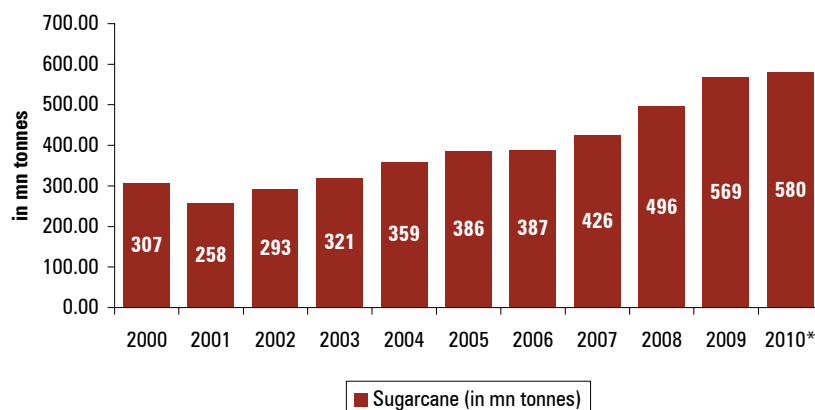
Source: Company, ICICIdirect.com Research

Exhibit 6: Raw and white sugar prices

Source: Company, ICICIdirect.com Research

Exhibit 7: Ethanol prices (cents per litre)

Source: Company, ICICIdirect.com Research

Exhibit 8: Sugarcane production in Brazil (in million tonnes)

Source: Company, ICICIdirect.com Research

Global sugar prices have recovered to 18 cents/lb from the lows of 13 cents /lb, boosting VDI margins

Recovering ethanol prices would to improve margins

Sugarcane production in Brazil will be lower than expected in 2010

Exhibit 9: Vashi sugar prices (Rs per quintal)

Domestic sugar prices trending downwards

Source: Company, ICICIdirect.com Research

Valuation

At the current price of Rs 69, the stock is trading at 6.6x its SY10E EPS of Rs 10.5 and 6.9x its SY11E EPS of Rs 10. Given the significant sharp recovery in global sugar prices to 18 cents/lb, margins from VDI and Equipav (the acquired companies) would improve significantly in the future. However, domestic operations would continue to suffer in the next quarter also. We believe sustained global prices at 18 cents and lower sugarcane cost in India would result in sustainable margins next year despite lower domestic sugar prices. We value the stock at 8x its SY11E EPS of Rs 10 to arrive at a target price of Rs 80 per share.

Exhibit 10: Valuation Matrix

	Sales (Rs cr)	Growth (%)	EPS (Rs)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
SY09	2816.0	33.2	3.5	67.0	19.5	11.1	14.6	13.8
SY10E	6711.1	138.3	10.5	197.2	6.6	5.8	30.8	22.3
SY11E	4201.7	-37.4	10.0	-4.9	6.9	2.8	22.6	19.6

Source: Company, ICICIdirect.com Research

ICICIdirect.com Coverage Universe

Shree Renuka Sugars				Sales (Rs cr)	EPS (Rs)	PE (x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	RENSUG CMP	69.0 SY09		2816.0	3.5	0.0	11.1	14.6	13.8
	Target	76.6 SY10E		6711.1	10.5	0.0	5.8	30.8	22.3
Mcap	5689.8 Upside	11.0% SY11E		4201.7	10.0	0.0	2.8	22.6	19.6
Balrampur Chini				Sales (Rs cr)	EPS (Rs)	PE (x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	BALCHI CMP	84.2 SY09		1700.0	8.5	9.9	7.0	14.3	13.7
	Target	74.8 SY10E		1939.5	4.0	21.3	9.7	6.6	8.6
Mcap	2231 Upside	-11.2% SY11E		2195.0	6.8	12.3	6.9	11.1	13.1
Bajaj Hindustan				Sales (Rs cr)	EPS (Rs)	PE (x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	BAJHIN CMP	117.3 SY09		1583.7	8.7	13.4	12.8	5.0	5.1
	Target	0.0 SY10E		2832.1	3.8	30.5	10.2	2.3	5.6
Mcap	2245 Upside	-100.0% SY11E		2658.7	4.8	24.6	10.6	2.7	5.3
Dhampur Sugar				Sales (Rs cr)	EPS (Rs)	PE (x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	DHASUG CMP	58.8 SY09		935.6	10.6	5.6	5.2	11.8	11.0
	Target	54.0 SY10E		1444.8	3.5	16.7	5.7	3.9	9.8
Mcap	317 Upside	-8.2% SY11E		1407.2	16.7	3.5	3.7	11.5	13.8

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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Strong Buy: 20% or more;
 Buy: Between 10% and 20%;
 Add: Up to 10%;
 Reduce: Up to -10%
 Sell: -10% or more;

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