



Research



RESEARCH :: COMPANY :: DHAMPUR SUGAR MILLS LIMITED

October 16, 2009

BUY

Approx price = Rs 106
 Target price = Rs 150
 Estimated EPS(SY10E) = 17
 Target PE(SY10E) = 10-15
 Investment period = 12 months

STOCK INFO (TTM basis)

Sector : Sugar
 Market cap : 543
 Face value : Rs 10
 Book value : RS 83.03
 EPS(SY09) : 9
 Cash EPS : 20
 Dividend : 38
 Sales Growth : 12.17%
 RONW : 11%
 52 week H/L : 113.05/19.50
 Avg Daily Vol : 246070
 Sensex : 16772.97
 BSE code : 500119
 Promoter holding : 42.63%
 Management : Mr. V.K. Goel
 Incorporation : 1933
 NSE : listed

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COMPANY PROFILE

Established in 1933, Dhampur group commenced its operations at Dhampur, Uttar Pradesh with a crushing capacity of 300 tonnes crushed per day (TCD). The Dhampur Sugar Mills (DSML) was promoted by the Goel family of Bareilly, Uttar Pradesh. At present, it is managed by Chairman and Executive Director Mr. V K Goel. The allied businesses of the Company comprise of distillery operations, cogeneration of power and manufacturing of bio-compost.

Presently mill has 39,500 TCD installed capacity for sugar, 145 MW and 270 KLPD installed capacities for power and distillery assets. The company is one of the most extensively integrated sugarcane complexes with one of the highest ratio of exportable power and distillery capacity of 2.03 KW and 6.84 LPD, respectively per tonne of installed cane crushing capacity.

Installed Capacity

LOCATION	Sugar(TCD)	Cogeneration(MW)	Distillery(KLPD)	Recovery(%)
DHAMPUR, Uttar Pradesh	15000	65	170	10.41
MANSURPUR, Uttar Pradesh	8000	28	N.A.	9.60
ASMOLI, Uttar Pradesh	9000	40	100	9.80
RAJPURA, Uttar Pradesh	7500	12	N.A.	9.74

Product Wise Revenue Contribution (%)

Product	2007-08	2006-07	Reasons For Growth
sugar	70.91	83.6	Better Realisations
chemicals	14.64	16.4	Better Recovery and Realisations
power generation	14.45	N.A.	Commencement of New Projects

SUGAR: Dhampur sugars manufactures following categories of sugar:-

DOUBLE REFINED WHITE SULPHURLESS SUGAR:

Dhampur is the first Indian company to produce raw sugar followed by sulphurless refined sugar. The sugar is sold under the brand name "DHAMPURE". The product from Dhampur meets even the strict standards of the European Union on sulphur content. It has no impurities, so its crystals have a natural translucent white colour and don't require bleaching.

PLANATATION WHITE SUGAR & RAW SUGAR:

Plantation white sugar, also called Mill White Sugar, Crystal Sugar, or Superior Sugar, is raw sugar, whose colored impurities have been bleached white by exposure to sulphur dioxide. This is the most common form of sugar in sugarcane growing areas.

Raw Sugar is what is left after processing the sugarcane to remove molasses and refine the white sugar. The color is similar to light brown sugar but it's texture is grainier.

CO-GENERATION

This division started its operation in 1944. Today it is positioned as one of the largest power suppliers in the Indian sugar industry with the Group's combined co-generation capacity standing at 145 MW with 85 MW of grid interactive power.

Dhampur is the first in the world to install 105 kg.cm² boiler and turbine in its sugar division, which has increased efficiencies in bagasse usage and made it perhaps the most efficient cogeneration unit in the world. Dhampur additionally installed energy saving devices which would further increase bagasse savings. This saving would enable the company to run its power plants without external bagasse purchases. Power generation in non-sugar season as well, will result in consistent cash inflows.

Dhampur envisages a further expansion in its cogeneration initiatives and should have power generation capacities of 145 MW by 2008-09. The Group's cogeneration projects will be eligible for financial benefits under Clean Development Mechanism (CDM) as per the Kyoto Protocol, to which India is a signatory.

DISTILLERY:

Company's diversification into manufacture of value added chemicals comprising ethyl acetate and acetic anhydride command higher realization. The division possesses large industrial chemicals basket with a flexibility to produce rectified spirit, ethanol and value-added chemicals with an installed capacity of 270 KL per day. Ethanol is a product of sugarcane molasses and juice, prepared by fermentation and distillation processes. It is a volatile, flammable and colorless liquid, widely used as a solvent of substances intended for human contact or consumption, including fragrances, flavoring, coloring and medicines. When blended, as an additive with fuel for motor vehicles, it is known as Motor Fuel Grade Alcohol or Power Alcohol. Up to 15% blend no modifications are required in the engines. In India we are presently using E5 that is, 5% ethanol blend with gasoline but a government order for 10% blend is expected in the near future.

The Asmoli unit works on the principle of recycle-reuse-reduce. This unit established a bio-compost unit in 2008 where press mud (a by-product in the sugar manufacturing process) is converted to bio-fertilizer, converting waste to wealth.

Recovery (%)

	2007-08	2006-07
DHAMPUR , Uttar Pradesh	10.41	10.15
MANSURPUR , Uttar Pradesh	9.8	9.01
ASMOLI , Uttar Pradesh	9.6	9.33
RAJPURA , Uttar Pradesh	9.74	9.38

GROWTH:

Considering latest 9 month result, revenues of the company increased to 6551.87million as against Rs. 4467.37 million in the same period last year due to higher revenues in sugar segment and fair contribution from co-generation power segment. Operating profit in sugar segment was highest due to higher sale of inventories of SS 2007-08 and higher sugar prices on account of lower sugar availability during the current season as a result of lower yield per hectare in UP. Sugar segment contributed 28.06% to 9 months PBIT under review. Lower cane crushed by 30 % as fall in acreage led to fall in sugar production. However recovery for the SS 2008-09 stood at 9.25 %. The company faced input cost pressure led by increase in price of raw material without corresponding increase in realizations. Cogeneration segment contributed 38.46% to the PBIT in 9 months. Power generation grew by 13.58% due to expansion of capacity to 145 MW. Chemical segment contributed 3.76 % to the PBIT in 9 months. Implementation of mandatory ethanol blending by central government, company can expect increased off-take of ethanol to oil-marketing companies.

EXCERPTS FROM NEWS REPORT

World Sugar Market

World market prices have shown a slow but steady improvement on the back of strong sugar market fundamentals. The world consumption of sugar is forecasted to grow by 1.73% to 167.446 million tonnes. World production is expected to increase by 4.8 million tonnes to 159 million tonnes still leaving a shortfall of 8.4 million tonnes versus shortfall of 3.6 million tonnes in November 2008.

A summary of the world sugar balance in 2009-2010 World Sugar Balance (million tonnes, raw value)

	2009-10	2008-09	Change	
	(million tonnes, raw value)		in million tonnes	in %
Production	159.042	154.225	4.817	3.12
Consumption	167.446	164.593	2.853	1.73
Surplus/Deficit	-8.404	-10.368		
Import demand	51.930	50.962	0.968	1.90
Export availability	51.964	50.903	1.061	2.08
End Stocks	53.234	61.672	-8.438	-13.68
Stocks/Consumption ratio in%	31.79	37.47		

Source: ISO quarterly market outlook, September, , 2009

India, the second largest sugarcane producer globally with over 24 million tonnes of sugar production, has suffered double blow due to falling acreage in 2 years and 20 percent deficiency in rainfall. Overall the country is likely to see a shortfall of 6-7 million tonnes. On 9th September Sharad Pawar, India's agricultural minister, quoted in a leading business daily that extended monsoon will further hurt sugarcane production. Brazil, the largest producer, on the other hand had excessive rainfall, which is likely to delay sugar production and reduce sugar realization. According to International Sugar organization (ISO) world sugar prices are expected to remain high on supply shortfall of 9 million tonnes. After two consecutive seasons of surplus between world sugar production and consumption, World Sugar economy is now facing a significant supply-demand imbalance. There will be fall in global sugar production.

Global Prices

Sugar has been trading near a 28 1/2-year high in New York since August on heavy demand from top consumer India. A lack of monsoon rains badly hurt the country's cane crop. New York's active March raw sugar contract climbed 0.84 cent Tuesday to settle at 24.94 cents per pound. Global inventory are likely to touch historic lows in 2010 by next year.

Indian Sugar Industry

The Country's sugar output touched a three year low. Sugar production in 2008-09 season is set to fall by 44% from the previous season. In sugar season 2008-09, production has declined to 147 lacs tones compared to production of 283 lacs tonnes in the year, 2007-08.

One major reason for this is the shrinkage in the sugarcane growing area in last couple of years due to delay in cane payment and confusion over the price, less area of ratoon in this season and poor monsoon in some parts of the country.

✚ Prices

The Centre has announced a Statutory Minimum Price (SMP) in the region of Rs. 105 to Rs.115 a quintal for sugarcane to be crushed during the 2009-10 season (October – September) on the basis of the recommendation Of the Food Ministry. This is as against the recommendation of Rs 125/- a quintal by the Commission for Agricultural Costs & Prices (CACP) and is substantially higher than the SMP of Rs. 81.18 a quintal for the current season of 2008-09 and Rs.80.25 a quintal for the immediately preceding season of 2008-09.

✚ Exports / Imports

World export availability is expected to rise due to projected growth in output of exporting countries. World export availability for season 2009-10 is expected to be 51.964 million tonnes, as against 50.903 million tonnes in the previous season.

Widening Of Global Sugar Deficit Forecast

Says ISO (updated – 2 Sep '09)

The International Sugar Organization on Wednesday raised its 2009/10 global sugar deficit forecast and saw falling stocks driving a further rise in prices from the 28-year peaks set earlier this week. The London-based ISO, in its latest quarterly report, projected a deficit of 8.4 million tonnes in 2009/10, sharply up from a previous prediction of a deficit of 4.5 to 5.0 million. "The distinctive deficit phase...is expected to continue for at least 12 more months," the ISO said. The ISO also widened its estimate for the 2008/09 global sugar deficit to 10.4 million tonnes from a previous prediction of a 7.8 million tonnes deficit. Stocks at the end of the 2009/10 season were seen falling to 53.2 million tonnes from 61.7 million a year ago with the stocks to consumption ratio of 31.8 percent the lowest for 20 years. Raw sugar futures on ICE rose on 1st Sep'09 to a peak of 24.85 cents a lb, the highest level for the front month contract since February 1981. A strong Indian appetite for sugar, after a poor domestic crop and a weak monsoon, has been the main driver for raw sugar futures prices more than doubling so far this year

Indian Sugar Equation (in lack tonnes)

		Season 2008-2009 *	Season 2007-2008
1	Opening stock as on 1st October	80.00	92.00
2	Production during the season	147.50	262.56
3	Imports	25.00	--
4	Total availability	252.50	354.56
5	Domestic consumption*	210.00	225.00
6	Exports	2.00	49.56
7	Closing stock	40.50	80.00

* Estimated

Jim Rogers Bullish On Sugar

By commodity online (17 aug'09)

According Global commodity/ economy expert and trader Jim Rogers , recent rally in sugar is going to get better and sugar prices might cross previous all time highs in next 3-4 years as inventory levels are least in decades and sugar consumption will continue to increase due to higher demand from developing countries. He said that the only sector where fundamentals are improving are commodities and that is the best place to invest.

London Sugar Sails To Record High; Others Follow Suit With Oil Excepted

By Reuters (29th, Sep'09)

White sugar coasted to a record high in London on Tuesday as excessive rains in top grower Brazil fed fears of a supply shortage. Crude oil closed slightly lower on weak U.S. consumer data. The 19-commodity Reuters-Jefferies CRB index, which usually takes its direction from oil, settled a touch higher in response to stronger metals and grains prices. London's December white sugar contract soared \$17.50 to finish at \$611 per metric ton, after the spot-month contract touched a record peak of \$617.70. The rally followed talk that "too much rain" had disrupted harvest of the cane crop in top producer and exporter Brazil. Talk was also swirling that supplies were tight in Mexico, which may need to book more orders of sugar. "The focus for me is Brazil," said Rabobank soft commodities trader Nick Hungate. "The weather there is persistently poor." Sugar has been trading near a 28 1/2-year high in New York since August on heavy demand from top consumer India. A lack of monsoon rains badly hurt the country's cane crop. New York's active March raw sugar contract climbed 0.84 cent Tuesday to settle at 24.94 cents per pound.

CUMULATIVE RESULTS: DHAMPUR SUGARS MILLS LTD

	2007-08	2006-07	2005-06	2004-05	2003-04
Gross revenue	721.9	643.55	1026.09	767.79	485.46
Profit before Interest , tax and depreciation	125.11	3.15	201.05	128.31	64.7
less: Interest/ Finance charges	77.9	48.5	27.22	43.48	37.73
Profit before tax and Depreciation	47.21	-45.35	173.83	84.83	26.97
less: Tax	-9.76	-18.1	51.07	10.58	0.45
Profit After Tax and before Depreciation	56.97	-27.25	122.76	74.25	26.52
Add: Deferred Revenue Expenditure	0	0	0	0	0
Cash Accruals	56.97	-27.25	122.76	74.25	26.52

BALANCE SHEET: DHAMPUR SUGARS MILLS LTD

	2007-08	2006-07	2005-06	2004-05	2003-04
Networth	446.46	411.08	470.32	116.47	102.27
Loans- term	907.68	672.36	307	356.42	371.66
Loans - working capital	0	0	0	0	0
Deferred tax liability	21.66	10.37	-8.04	31.3	41.67
TOTAL	1332.48	1073.07	785.36	441.59	432.26
net block including WIP	1003.98	982.82	582.82	237.21	224.49
Investments	27.78	26.23	14.19	56.73	59.82
net working capital	300.72	64.02	188.35	147.65	147.95
deferred revenue expenditure	0	0	0	0	0
TOTAL	1332.48	1073.07	785.36	441.59	432.26

Why to invest in shares of Dhampur Sugar Mills Limited?

- 1) **Sector:** Sector is turning positive after 3 years because:
 - a) Sugar prices adjusting in parity to other agricultural products. Prices at 25 cents/pound are ruling at 28 year high, however well of their all time highs of 60 cents commodity made in 70's
 - b) Sugar is only commodity which is a combination of 3 in 1 industry, namely FMCG, Power and Chemical.
 - c) Supply is diminishing due to draught and wrong government policies in India.
 - d) Regular increase in demand year after year thereby putting a pressure on supply, resulting in adjustment of sugar prices.
 - e) Little scope for increasing supplies in next one year.
- 2) **Company:** Growing with vision
 - a) In the business for last 75 years, huge management expertise.
 - b) One of the largest Crushing capacity of 39500 TCD in India(top 5).
 - c) Major expansions already done to take benefit of the the current bull run.
 - d) Strong vision for the future.
- 3) **Fundamentals:**
 - a) Lower than industry Debt/ Equity ratio of less than 2
 - b) Very strong cash inflow of Rs. 20 per share on TTM basis and even higher cash flows in future will increase company's profitability and leverage position
- 4) **Technical:**



Traders Buy above closing of 109, with a stoploss for 101.Target 130-140.

Long term investors can abuy above closing of 109, with a stoploss of 91, for target of 150 in short term.

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