

## Dhampur Sugar

### One-time trading gain to indirectly benefit margins

**To book trading gain of Rs 155mn:** Recently, Dhampur Sugar sold its last raw sugar import assignment of 60,000 tonnes (import price \$500 per tonne) in the open market at US\$ 555/tonne. The one-time gain of Rs 155mn from this sale (assuming exchange rate of US\$ 47) would be booked in Q1SY10. The company now intends to purchase raw sugar, if global prices correct in the near term.

**Cost of remaining imports drops to \$400/tonne:** Sale of the last import assignment at US\$ 500/tonne has lowered the cost of remaining imports (0.21mn tonnes) to US\$ 400/tonne. Lower procurement cost is likely to expand EBITDA margins by 180bps to 21.8% in SY10, as against 20% estimated earlier.

**Sales volume estimates lowered 6.2%:** Contrary to our expectations, Dhampur Sugar was not able to process any raw sugar in September '09; the same would now be processed in SY10. Incremental volumes are likely to partly offset the drop in overall sugar volumes in SY10. Correspondingly, we lower our sugar sales volume estimates for SY10 by 6.2% to 0.46mn tonnes (vis-à-vis 0.49mn tonnes earlier). This translates into a downward revision of 5.8% in revenue estimates for SY10.

**Net profit estimates revised upwards:** Given the improvement in EBITDA margins, we revise our net profit estimates for SY10 upwards by 3.4% to Rs 1.62bn (excluding one-time trading gain of Rs 155mn). However, on including this one-time gain, the revised net profit for SY10 would stand at Rs 1.74bn, as against our earlier estimate of Rs 1.6bn.

Fig 1 - Revised estimates – SY10

Particulars	Earlier	Revised	% change
Revenues (Rs mn)	15,957	15,035	(5.8)
EBITDA (Rs mn)	3,188	3,278	2.8
Net Profit (Rs mn)	1,569	1,739	10.8
Adjusted Net Profit* (Rs mn)	1,569	1,623	3.4
Volumes Sold ('000 tonnes)	489	459	(6.2)
EBITDA Margin (%)	20.0	21.8	180bps
Net profit Margin (%)	9.8	11.6	180bps
Adjusted Net profit Margin (%) *	9.8	10.8	100bps

Source: RHH, Company

\* Adjusted Net Profit doesn't include one-time trading gain of Rs 155mn

**Maintain Buy:** We maintain our positive bias on the sector and a Buy on the stock with a target price of Rs 149, offering ~45% upside from current levels.

#### Financial highlights

Ye Sep (Rs mn)	SY08	SY09E	SY10E	SY11E
Revenue	6,616	9,045	15,035	11,280
Growth (%)	12.4	36.7	66.2	(25.0)
Adj net income	36	556	1,739	970
Growth (%)	(106)	1,445	213	(44)
FDEPS (Rs)	0.7	10.5	33.0	18.4
Growth (%)	(105.2)	1,445.4	212.6	(44.2)

#### Profitability and return ratios

YE Sep (%)	SY08	SY09E	SY10E	SY11E
EBITDA margin	14.5	20.9	21.8	21.1
EBIT margin	6.4	13.4	17.1	14.6
Adj PAT margin	0.5	6.2	11.6	8.6
ROE	0.8	11.9	30.0	13.5
ROIC	2.1	8.7	15.4	9.7
ROCE	6.9	10.6	17.8	11.0

#### What's New? Target Rating Estimates

CMP	TARGET	RATING	RISK
Rs 103	Rs 149	BUY	MEDIUM

BSE	NSE	BLOOMBERG
500119	DHAMPUR	DSM IN

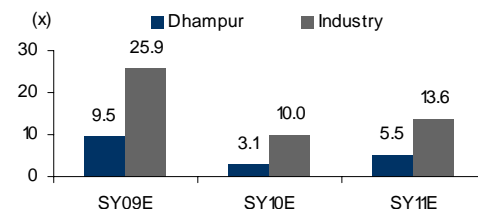
#### Company data

Market cap (Rs mn / US\$ mn)	5,423/125
Outstanding equity shares (mn)	53
Free float (%)	57.4
Dividend yield (%)	-
52-week high/low (Rs)	134 / 29
2-month average daily volume	6,074,271

#### Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Dhampur Sugar	103	8.0	26.4	127.0
Sensex	16,807	4.9	18.6	59.5

#### P/E comparison



#### Valuation matrix

(x)	SY08	SY09E	SY10E	SY11E
P/E @ CMP	150.6	9.7	3.1	5.6
P/E @ Target	218.5	14.1	4.5	8.1
EV/EBITDA @ CMP	12.8	6.5	3.7	5.1





## Consolidated financials

### Profit and Loss statement

Y/E Sep (Rs mn)	SY08	SY09E	SY10E	SY11E
<b>Revenues</b>	<b>6,616</b>	<b>9,045</b>	<b>15,035</b>	<b>11,280</b>
Growth (%)	12.4	36.7	66.2	(25.0)
<b>EBITDA</b>	<b>957</b>	<b>1,888</b>	<b>3,278</b>	<b>2,383</b>
Growth (%)	(390.2)	97.2	73.7	(27.3)
Depreciation & amortisation	534	673	707	733
EBIT	424	1,214	1,214	2,571
Growth (%)	(164.0)	186.7	-	111.7
Interest	779	874	708	583
Other income	111	271	456	226
EBT	(244)	611	2,319	1,293
Income taxes	(98)	55	580	323
Effective tax rate (%)	40.0	9.0	25.0	25.0
Extraordinary items	-	-	-	-
Min into / inc from associates	-	-	-	-
Reported net income	(146)	556	1,739	970
Adjustments	(182)	-	-	-
<b>Adjusted net income</b>	<b>36</b>	<b>556</b>	<b>1,739</b>	<b>970</b>
Growth (%)	(106.0)	1,445.4	212.6	(44.2)
Shares outstanding (mn)	52.8	52.8	52.8	52.8
<b>FDEPS (Rs) (adj)</b>	<b>0.7</b>	<b>10.5</b>	<b>33.0</b>	<b>18.4</b>
Growth (%)	(105.2)	1,445.4	212.6	(44.2)
DPS (Rs)	-	-	-	-

### Cash flow statement

Y/E Sep (Rs mn)	SY08	SY09E	SY10E	SY11E
Net income + Depreciation	387	1,230	2,447	1,703
Non-cash adjustments	56	10	116	65
Changes in working capital	(2,365)	1,651	(1,311)	151
Cash flow from operations	(1,922)	2,891	1,251	1,919
Capital expenditure	(748)	(800)	(500)	(500)
Change in investments	(16)	-	-	-
Other investing cash flow	-	-	-	-
Cash flow from investing	(763)	(800)	(500)	(500)
Issue of equity	361	-	-	-
Issue/repay debt	2,353	(1,500)	(1,000)	(1,500)
Dividends paid	78	(54)	393	(236)
Other financing cash flow	(27)	-	-	-
Change in cash & cash eq	80	536	144	(317)
Closing cash & cash eq	195	732	876	559

### Economic Value Added (EVA) analysis

Y/E Sep	SY08	SY09E	SY10E	SY11E
WACC (%)	8.9	9.4	10.1	10.8
ROIC (%)	2.1	8.7	15.4	9.7
Invested capital (Rs mn)	13,541	11,992	12,980	12,531
EVA (Rs mn)	(923)	(86)	692	(135)
EVA spread (%)	(6.8)	(0.7)	5.3	(1.1)

### Balance sheet

Y/E Sep (Rs mn)	SY08	SY09E	SY10E	SY11E
Cash and cash eq	196	732	876	559
Accounts receivable	797	904	1,504	1,128
Inventories	2,809	1,176	1,411	1,906
Other current assets	904	1,204	1,983	1,495
Investments	278	278	278	278
Gross fixed assets	12,307	13,107	13,607	14,107
Net fixed assets	9,796	9,922	9,715	9,482
CWIP	244	244	244	244
Intangible assets	-	-	-	-
Deferred tax assets, net	217	192	76	12
Other assets	-	-	-	-
<b>Total assets</b>	<b>15,239</b>	<b>14,653</b>	<b>16,086</b>	<b>15,102</b>
Accounts payable	1,503	1,929	2,230	2,013
Other current liabilities	-	-	-	-
Provisions	195	141	533	297
Debt funds	9,077	7,577	6,577	5,077
Other liabilities	-	-	-	-
Equity capital	616	616	616	616
Reserves & surplus	3,849	4,390	6,130	7,099
Shareholder's funds	4,465	5,006	6,746	7,715
<b>Total liabilities</b>	<b>15,239</b>	<b>14,653</b>	<b>16,086</b>	<b>15,102</b>
BVPS (Rs)	82.9	93.2	126.1	144.5

### Financial ratios

Y/E Sep	SY08	SY09E	SY10E	SY11E
<b>Profitability &amp; Return ratios (%)</b>				
EBITDA margin	14.5	20.9	21.8	21.1
EBIT margin	6.4	13.4	17.1	14.6
Net profit margin	0.5	6.2	11.6	8.6
ROE	0.8	11.9	30.0	13.5
ROCE	6.9	10.6	17.8	11.0
<b>Working Capital &amp; Liquidity ratios</b>				
Receivables (days)	35	34	29	43
Inventory (days)	203	132	49	90
Payables (days)	187	114	78	115
Current ratio (x)	3.1	2.1	2.6	2.5
Quick ratio (x)	0.7	0.8	1.1	0.8
<b>Turnover &amp; Leverage ratios (x)</b>				
Gross asset turnover	0.7	0.7	1.1	0.8
Total asset turnover	0.5	0.6	1.0	0.7
Interest coverage ratio	0.5	1.4	3.6	2.8
Adjusted debt/equity	2.0	1.5	1.0	0.7
<b>Valuation ratios (x)</b>				
EV/Sales	1.8	1.3	0.8	1.1
EV/EBITDA	12.7	6.4	3.7	5.1
P/E	147.4	9.5	3.1	5.5
P/BV	1.2	1.1	0.8	0.7



### Quarterly trend

Particulars	Q3SY08	Q4SY08	Q1SY09	Q2SY09	Q3SY09
Revenue (Rs mn)	1,208	2,478	2,694	1,108	2,754
YoY growth (%)	(19.5)	71.4	99.5	(42.3)	127.9
QoQ growth (%)	(37.0)	105.1	8.7	(58.9)	148.6
EBITDA (Rs mn)	2	316	385	343	355
EBITDA margin (%)	0.2	12.7	14.3	31.0	12.9
Adj net income (Rs mn)	(182)	203	186	130	111
YoY growth (%)	(41)	(178)	652	(24)	(161)
QoQ growth (%)	(207)	(212)	(8)	(30)	(14)

### DuPont analysis

(%)	SY07	SY08	SY09E	SY10E	SY11E
Tax burden (Net income/PBT)	82.8	(13.5)	90.5	74.9	74.8
Interest burden (PBT/EBIT)	110.9	(57.6)	50.3	90.2	78.4
EBIT margin (EBIT/Revenues)	(11.3)	6.4	13.4	17.1	14.6
Asset turnover (Revenues/Avg TA)	51.8	45.8	60.5	97.8	72.3
Leverage (Avg TA/Avg equitiy)	257.5	337.2	315.6	261.6	215.7
<b>Return on equity</b>	<b>(13.8)</b>	<b>0.8</b>	<b>11.7</b>	<b>29.5</b>	<b>13.4</b>

### Company profile

Dhampur Sugar (DSM) is one of the leading integrated sugarcane processing companies in India with a sugar crushing capacity of 39,500tcd and combined refining capacity of 2,000tpd. The company also has a distillery capacity of 270klpd, which facilitates the production of alcohol, ethanol and chemicals, and a 145MW power generation capacity (80MW supplied to state grid).

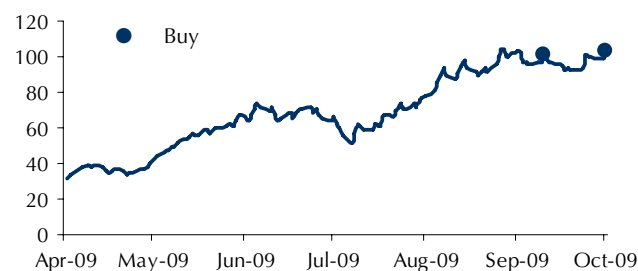
### Shareholding pattern

(%)	Dec-08	Mar-09	Jun-09
Promoters	42.6	42.6	42.6
FIs	12.3	10.9	8.4
Banks & FIs	5.6	5.7	8.0
Public	39.5	40.8	41.0

### Recommendation history

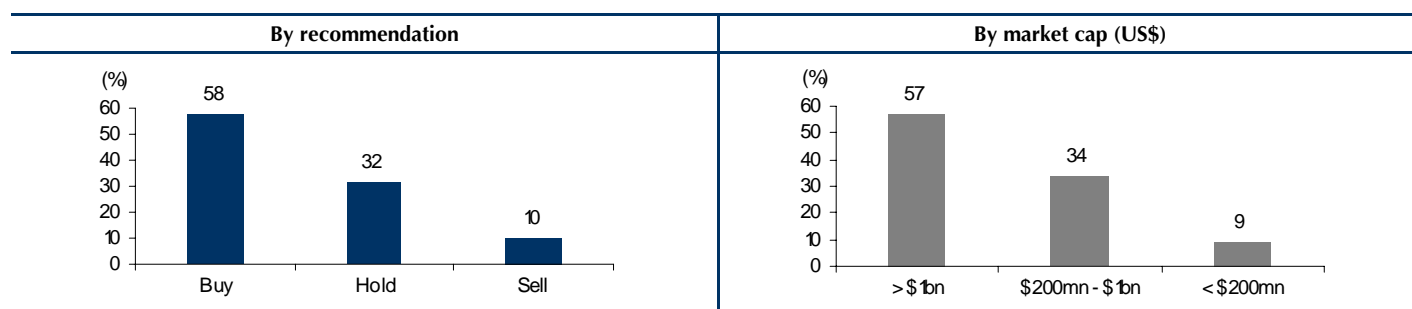
Date	Event	Reco price	Tgt price	Reco
18-Sep-09	Initiating Coverage	98	149	Buy
7-Oct-09	Company Update	103	149	Buy

### Stock performance





### Coverage Profile



### Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

### Religare Capital Markets Ltd

4<sup>th</sup> Floor, GYS Infinity, Paranjpe 'B' Scheme, Subhash Road, Vile Parle (E), Mumbai 400 057.

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