

March 11, 2010

Industry View  
Cautious

## India Sugar

### Possible Sugar Surplus in F11; Downgrade to Cautious

#### What's Changed

Industry View: India Sugar **Attractive to Cautious**

**Investment Conclusion:** While sugar stocks have underperformed the markets by over 20% over the past three months, we see further downside from current levels. A combination of higher-than-expected production in F2010, a sharp decline in international sugar prices, potential large sugarcane production in F2011, and consensus downgrades are likely to drive stock underperformance, in our view. Our estimates may be aggressive if international prices continue to trend lower. We downgrade BRCM and SHRS to UW.

**What's new:** The Indian Sugar Mills Association now estimates F2010 domestic sugar production at 16.8mn tons, up from earlier estimate of 15mn tons. While this does not materially alter our near-term thesis of tight domestic demand supply balance, it does affect our F2010 sugar production estimates. On a higher base, a 40% production increase means sugar production will likely equal domestic sugar consumption in F2011, effectively capping domestic prices, in our view.

**Where we differ:** **1)** Lack of incremental triggers and the deep cyclical nature of the commodity may result in the stocks trading below intrinsic value. **2)** Certain millers have imported sugar at relatively high prices. Continuing sharp fall in domestic sugar prices combined with higher-than-expected domestic sugar production may lead to panic selling of sugar. **3)** High cane prices in F2010 coupled with good weather may induce a sharper-than-expected sugarcane production response.

**Weather – Biggest risk to our investment thesis:** Our channel checks suggest that ground water levels in certain parts of India are relatively low. Poor weather conditions in the key cane growing areas of India may exacerbate the fragile sugar balance, sparking a fresh rally in sugar stocks. Investors with a large risk appetite might buy sugar as a hedge against poor monsoon.

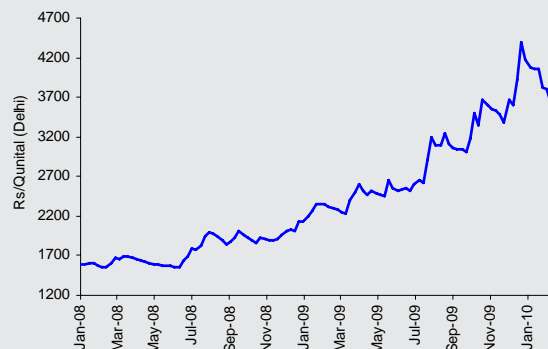
Company Featured	Old rating	New rating	Old PT	New PT	Downside
Shree Renuka Sugars Limited (SRES.BO, Rs182)	OW	<b>UW</b>	250	<b>140</b>	-23%
Balrampur Chini Mills Limited (BACH.BO, Rs109)	OW	<b>UW</b>	200	<b>85</b>	-22%

Prices as of March 09, 2010

EPS Change	Prior '10e	New '10e	Prior '11e	New '11e	Prior '12e	New '12e
SHRS	26.3	24.9	23.0	11.9	-	-
BRCM	12.9	8.3	20.6	12.1	-	-

e = Morgan Stanley Research estimates  
Source: Company data, Morgan Stanley Research

#### Domestic Sugar Prices



Note: Mill Delivery Prices in Delhi  
Source: Bloomberg, Morgan Stanley Research

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## Investment Debates: Possible Sugar Surplus in F2011

### Debate 1: Absolute downside appears limited

**Market's view:** Consensus continues to be constructive while markets seem to be factoring in the worse-case scenario for sugar stocks in India.

**Our view:** While sugar stocks have underperformed the markets by over 20% over the past three months, we believe there is further downside from current levels. Lack of incremental triggers and the deep cyclical nature of the commodity may result in the stocks trading below their intrinsic values. Continuing uncertainty over cane planting progression for F2011, Brazilian sugar production, and cane costs for the next season will weigh in on sugar stocks in the near term, in our view.

**Where we could be wrong:** Poor weather conditions in the key cane growing areas of India may exacerbate the fragile sugar balance, sparking a fresh rally in sugar stocks.

### Debate 2: Rising concerns amongst millers that imported sugar at relatively high prices

**Market's view:** Given the small deficit in the current season, sugar prices will likely trend higher at the end of the crushing season, allowing millers to offload their high-priced sugar.

**Our view:** Continuing sharp fall in domestic sugar prices combined with higher-than-expected domestic sugar production may lead to panic selling of sugar. Sugar may end up in a vicious circle of falling prices and declining risk appetite in the absence of incremental positive news.

**Where we could be wrong:** The government delays the imports of around 1-2mn tons of white sugar (estimated deficit in F2010), allowing domestic prices to rise on a tight near-term demand supply balance. This would likely have a limited impact on equities, in our view, given that investors will likely remain focused on the potential sugar surplus in F2011.

### Debate 3: Sugar Production in F2011

**Market's view:** Poor seed availability in F2011 will likely cap sugar production increase at around 40%.

**Our view:** More than seed availability, we believe sugar production in F2011 will likely be affected by water availability. While a 40% increase is our base-case estimate for an increase in sugar production F2011, our bear case factors in higher-than-estimated production in F2011 given that production in F2010 will likely be up around 14% in what effectively has been a year of poor weather for agro commodities. We remain wary of a potential sugar surplus in F2011.

**Where we could be wrong:** Relatively low water table levels in certain parts of India limit incremental cane planting.

Exhibit 1

### Domestic Sugar Balance – Likely Surplus in F2011

(Million Tonnes)	F2001	F2002	F2003	F2004	F2005	F2006	F2007	F2008	F2009E	F2010E	F2011E
Opening Stock	9.3	10.6	11.2	12.4	8.2	4.6	3.7	9.8	8.9	3.7	5.0
Production	18.5	18.5	20.1	13.5	12.7	19.3	28.3	26.4	14.7	16.8	23.5
Increase in production	2%	0%	9%	-33%	-6%	52%	47%	-7%	-44%	14%	40%
Local Consumption	16.2	16.8	17.5	17.9	18.5	20.4	20.2	22.5	22.5	22.5	23.0
Growth YoY	0.6%	3.7%	4.2%	2.3%	3.4%	10.3%	-1.0%	11.4%	0.0%	0.0%	2.0%
Exports	1.0	1.1	1.5	0.2	-	1.1	2.0	4.8	-	-	-
Imports	-	-	-	0.4	2.1	-	-	-	2.6	7.0	-
Closing Stock	10.6	11.2	12.4	8.2	4.6	3.7	9.8	8.9	3.7	5.0	5.6
Months of consumption	7.9	8.0	8.5	5.5	3.0	2.2	5.8	4.7	2.0	2.7	2.9
<b>Stock-to-use ratio</b>	<b>65.4%</b>	<b>66.7%</b>	<b>70.9%</b>	<b>45.8%</b>	<b>24.9%</b>	<b>18.1%</b>	<b>48.5%</b>	<b>39.6%</b>	<b>16.4%</b>	<b>22.2%</b>	<b>24.2%</b>

E = Morgan Stanley Research estimates  
Source: Company data, Morgan Stanley Research

## Investment Thesis

**Downgrading sector view to Cautious:** While sugar stocks have underperformed the markets by over 20% over the past three months, we see further downside from current levels. A combination of higher-than-expected production in F2010, a sharp decline in international sugar prices, potential large sugarcane production in F2011, and consensus downgrades will likely drive stock underperformance, in our view. Our earnings estimates may prove to be aggressive if international prices continue to trend lower. We downgrade our sector view to Cautious.

**India production estimates for F2010 are higher than ours:**

The Indian Sugar Mills Association now estimates domestic sugar production for F2010 at 16.8mn tons, up from earlier estimates of 15mn tons. While this does not materially alter our near-term thesis that India will need to import around 1.5mn tons of white sugar to ensure food security, it does affect our estimates for F2011 sugar production. On a higher production base, a 40% production response next year means sugar production will likely equal domestic sugar consumption, effectively capping domestic sugar prices, in our view.

**Headwinds to stock outperformance:** **1)** Continuing sharp declines in domestic sugar prices combined with higher-than-expected domestic sugar production may lead to panic selling of sugar. Sugar may end up in a vicious circle of falling prices and declining risk appetite in the absence of incremental positive news. **2)** Continuing uncertainty over cane planting progression for F2011, Brazilian sugar production, and cane costs for the next season will weigh in on sugar stocks in the near term, in our view. **3)** High prices paid for cane in F2010, coupled with good weather and stagnant competing crop prices, may induce a sharper-than-expected production response.

**Stocks could trade below intrinsic value, near term:** Lack of incremental triggers, continuing government efforts to check sugar price increase and the deep cyclical nature of the commodity may result in the stocks trading below their intrinsic values.

**Weather is the key variable:** Our channel checks suggest that groundwater levels in certain parts of India are relatively low. Poor weather conditions in the key cane growing areas of India may exacerbate the fragile sugar balance, sparking a fresh rally in sugar stocks. Investors with a large risk appetite may buy sugar as a hedge against a poor monsoon season.

*We downgrade Balrampur Chini (BRCM) and Shree Renuka Sugars (SHRS) from OW to UW.*

**SHRS – Downgrade to UW; best in class but will likely**

**trend lower:** Strong management and well diversified business notwithstanding, we remain cognizant of the risk of the bid-ask spread on its refinery business contracting as domestic sugar prices trend lower in F2011. While the Brazilian foray (acquisition of VDI and Equipav) builds in long-term growth drivers for the company, it also increases the business volatility (weather, foreign exchange, etc.) in the near term, in our view. This, coupled with stagnating realizations in the distillery and cogen businesses, drives our new UW rating. In the absence of consolidated financials, we value the company on a sum-of-the-parts basis with the erstwhile Indian business valued at Rs103 per share (base-case residual income value) and the recently acquired Brazilian business at Rs37 per share (based on 4.0x EV/EBITDA – Brazilian companies are trading close to this multiples on consensus numbers). At our revised price target of Rs140 (down from Rs250), SHRS stock would trade at 6.0x our F2011E consolidated EV/EBITDA.

**BRCM – Downgrading to UW:** BRCM seems to be benefiting from its low exposure to international raw sugar with earnings likely to trend higher in F2011 versus F2010. We believe BRCM will be negatively affected by sentiment surrounding lower sugar prices and higher-than-expected production, driving the stock lower than its intrinsic value of Rs85. Indeed, our earnings estimates for F2010 may appear aggressive if international sugar prices continue to trend lower. At our revised price target of Rs85 (down from Rs200 earlier), the stock would trade at 7.0x our F2011E earnings.

**Earnings changes:** In this note, we are changing our earnings estimates to factor in a higher net cane cost of Rs2,500/MT for F2010 and lower sugar realizations in F2011, based higher-than-expected sugar production in F2010 and potential large sugarcane production response in F2011 (on a higher F2010 base). Our estimates also factor in higher levy sugar quota for F2010 and consequent lower effective sugar prices. We believe our revised estimates for sugar realizations (Rs33,000 per MT for North India millers in F2010) may prove to be aggressive if sugar millers with higher-cost imported sugar aggressively sell down sugar stocks in the near term.

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India Sugar

Exhibit 2

## India Sugar: Earnings Estimates – What’s Changed

Rs Mn	F10			F11		
	New	Old	% Change	New	Old	% Change
<b>Balrampur Chini</b>						
Effective Gross Sugar Price (Rs/MT)	30,796	31,349	-2%	27,898	29,749	-6%
Cane cost (Rs/MT)	2,400	2,200	9%	2,000	2,100	-5%
Revenues	22,996	22,822	1%	22,961	31,642	-27%
EBITDA	4,368	5,808	-25%	5,315	8,226	-35%
Net Profit	2,122	3,433	-38%	3,111	5,471	-43%
EPS	8.3	12.9	-36%	12.1	20.6	-41%
<b>Shree Renuka Sugars</b>						
Effective Gross Sugar Price (Rs/MT)	29,996	30,549	-2%	26,998	28,949	-7%
Cane cost (Rs/MT)	2,500	2,200	14%	2,000	2,100	-5%
Revenues	70,429	60,968	16%	62,289	78,865	-21%
EBITDA	13,035	13,671	-5%	7,882	12,284	-36%
Net Profit	8,116	8,587	-5%	3,970	7,710	-49%
EPS	24.9	26.3	-5%	11.9	23.0	-49%

E – Morgan Stanley Research estimates  
Source: Morgan Stanley Research

March 11, 2010

India Sugar

## Shree Renuka Sugars Limited: Financial Summary

Rs million; Years Ending September

### SHRS: Profit and Loss Statement

(Rs m, Year Ending Sept)	2009	2010E	2011E	2012E
<b>Net sales</b>	<b>28,160</b>	<b>70,429</b>	<b>62,289</b>	<b>69,356</b>
Raw material Consumed	20,204	50,097	47,031	52,815
Gross Profit	7,956	20,332	15,258	16,541
Margin (%)	28.3%	28.9%	24.5%	23.8%
Employee costs	571	686	788	852
Other Expenses	2,729	6,612	6,588	7,433
Total Operating costs	23,504	57,395	54,407	61,100
<b>Operating Profit</b>	<b>4,656</b>	<b>13,035</b>	<b>7,882</b>	<b>8,256</b>
Margin (%)	17%	19%	13%	12%
Interest	1,077	1,680	1,790	1,570
Depreciation/ amortzn	675	842	1,123	1,173
Other Income	64	352	374	416
Profit before Tax	2,968	10,865	5,343	5,930
Income Tax	720	2,716	1,336	1,482
<b>Net Profit after Minority</b>	<b>2,243</b>	<b>8,116</b>	<b>3,970</b>	<b>4,406</b>
<b>ModelWare EPS</b>	<b>8.1</b>	<b>24.9</b>	<b>11.9</b>	<b>13.2</b>
<b>DPS</b>	<b>1.1</b>	<b>1.5</b>	<b>1.8</b>	<b>2.0</b>

### SHRS: Balance Sheet

(Rs m, Year Ending Sept)	2009	2010E	2011E	2012E
Share Capital	9,336	11,189	11,189	11,189
Reserves & Surplus	5,966	13,579	16,946	20,682
Shareholders Funds	15,302	24,768	28,135	31,871
Loan Funds	13,427	17,270	15,270	13,270
Deferred tax liabilities	821	821	821	821
Minority Interest	147	181	218	259
<b>TOTAL LIABILITIES</b>	<b>29,697</b>	<b>43,039</b>	<b>44,444</b>	<b>46,221</b>
Net fixed assets	16,734	20,807	19,785	19,512
Investments	476.8	19,382.8	19,382.8	19,382.8
Cash	4,911	1,372	2,567	3,706
Debtors	1,762	4,408	3,898	4,340
Inventory	10,721	8,759	11,814	14,971
Loans & advances	4,518	4,518	4,518	4,518
Other Current Assets	718	1,795	1,587	1,767
Current liabilities	10,172	18,029	19,135	22,004
Net Current Assets	7,548	1,449	2,682	3,593
<b>Total ASSETS</b>	<b>29,697</b>	<b>43,039</b>	<b>44,444</b>	<b>46,221</b>

Note: Financials for Renuka Sugars' Indian Business; Investments in Brazilian business are considered as investments

E = Morgan Stanley Research estimates

Source: Company data, Morgan Stanley Research

### SHRS: Cash Flow Statement

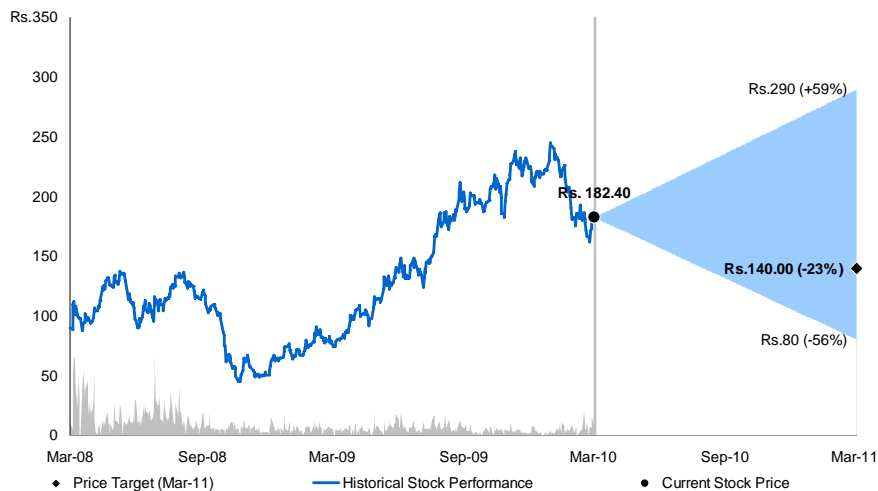
(Rs m, Year Ending Sept)	2009E	2010E	2011E	2012E
Net income reported	2,248	8,149	4,007	4,447
Depreciation	675	842	1,123	1,173
Chg in working cap	-2,897	6,098	-1,233	-911
Change in deferred tax liab	354	0	0	0
<b>Cash flow from operations</b>	<b>380</b>	<b>15,089</b>	<b>3,898</b>	<b>4,709</b>
Capital expenditure	-4,677	-4,915	-100	-900
Strategic investments	-167	-18,906	0	0
<b>Cash flow from investing</b>	<b>-4,844</b>	<b>-23,821</b>	<b>-100</b>	<b>-900</b>
Issue of Share Capital	5,178	1,853	0	0
Debt raised	4,833	3,842	-2,000	-2,000
Dividend (incl. tax)	-371	-588	-705	-784
Others	-492	85	102	114
<b>Cash flow from financing</b>	<b>9,149</b>	<b>5,193</b>	<b>-2,603</b>	<b>-2,670</b>
<b>Net chg in cash</b>	<b>4,685</b>	<b>-3,540</b>	<b>1,195</b>	<b>1,139</b>

### SHRS: Key Financial Ratios

(Rs m, Year Ending Sept)	2009E	2010E	2011E	2012E
Net sales growth (%)	33.8%	150.1%	-11.6%	11.3%
EBITDA growth (%)	84.4%	180.0%	-39.5%	4.7%
EBIT margin (%)	14.1%	17.3%	10.9%	10.2%
Return on Avg Equity (%)	19.0%	40.5%	15.0%	14.7%
Debtor turnover (days)	23	23	23	23
Inventory turnover (days)	139	45	69	79
Total debt/Equity	0.9	0.7	0.6	0.4
Net debt/Equity	0.5	(0.1)	(0.2)	(0.3)
<b>Per share data and valuation</b>				
EPS	8.1	24.9	11.9	13.2
DPS	1.1	1.5	1.8	2.0
BVPS	48	74	84	95
PE	24.3	7.3	15.4	13.9
P/BV	4.1	2.5	2.2	1.9
P/sales	2.2	0.8	0.9	0.8
EV/EBITDA	15.2	4.3	6.7	6.1
EV/Sales	2.5	0.8	0.9	0.7

## Risk-Reward Snapshot: Shree Renuka Sugars LTD (SRES.BO, Rs182, UW, PT Rs140)

### Risk-Reward Snapshot: Prices and Production to Cap Performance



### Investment Thesis

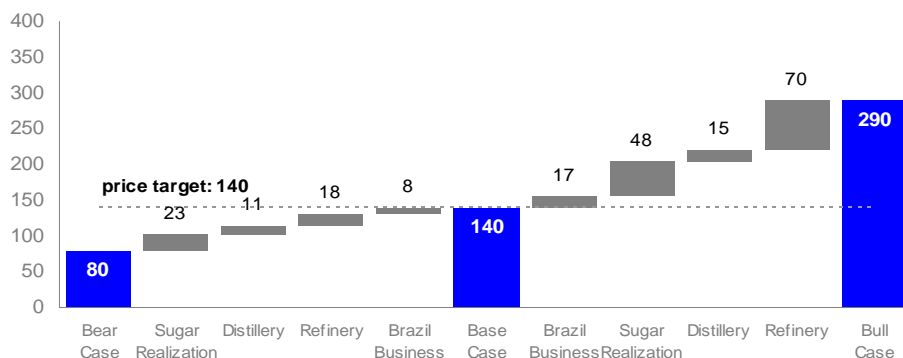
- A combination of higher-than-expected domestic production in F2010, high cane costs paid to farmers, a sharp decline in international sugar prices, and potential large production response in F2011 will likely cap earnings, in our view. While the Brazilian foray (acquisition of VDI and Equipav) brings long-term growth drivers for the company, it also increases the business volatility near term, in our view. This, coupled with stagnating realizations in the distillery and cogen businesses, drives our UW rating.

### Key Value Drivers

- **Crushing duration:** High cane prices and prompt payment to farmers would likely increase the crushing duration in the coming season, increasing domestic sugar production.
- **Sugar and distillery realization:** As sugar balance situation improves, investors may start discounting lower F2011 sugar and distillery realizations.
- **Refinery:** SHRS has benefitted from the change in sugar import policy in F2009 and F2010. Demand supply in F2011 and consequent impact on sugar refinery margins will determine profitability for the company, in our view.

Price Target Rs140		Based on our sum-of-the-parts valuation.
<b>Bull Case</b> <b>Rs290</b>	8.0x F11e consolidated EV/EBITDA	Faster rise in domestic and international sugar prices as tight supply situation unfolds in F2010 coupled with severe weather-related disruption in Brazil and poor rainfall in key cane growing areas in India. Indian government delays white sugar imports in F2010, driving sugar prices higher. White-raw spreads trend higher on delays in new refinery capacity.
<b>Base Case</b> <b>Rs140</b>	6.0x F11e consolidated EV/EBITDA	Higher-than-expected sugar production in F2010 takes average sugar realizations to around Rs32,000/MT in Western India. Cogeneration and distillery realizations remain flat in F2010 and white-raw spreads remain at US\$100/ton.
<b>Bear Case</b> <b>Rs80</b>	4.5x F11e consolidated EV/EBITDA	Higher-than-expected Brazilian sugar production. Indian sugarcane production response is higher than expected. Ethanol program fails to take off in the country. White-raw spreads contract as new refining capacity hits the industry.

### Bear to Bull: Sugar Refinery Key Margins Key Variable in F2011



### Potential Catalysts

- **Weather disruptions:** May exacerbate a fragile demand/supply situation, driving sugar prices higher.
- **Ethanol pricing:** According to press reports, ethanol prices may be fixed higher at Rs27/lt versus Rs21.5 earlier.

### Risks

- Aggressive government intervention
- Panic selling driving sugar prices lower than our estimates

Source: Morgan Stanley, FactSet

## Shree Renuka Sugar

### Investment Case

#### Downgrade to UW; best in class but will likely trend lower:

Strong management and well-diversified business model notwithstanding, we remain cognizant of the risk of the bid-ask spread on its refinery business contracting as domestic sugar prices trend lower in F2011. While the Brazilian foray (acquisition of VDI and Equipav) builds in some long-term growth drivers for the company, it also increases the business volatility near term, in our view. This, coupled with stagnating realizations in the distillery and cogen businesses, drives our new UW rating. At our revised PT of Rs140 (from Rs250), SHRS stock would trade at 6.0x our F2011E consolidated EV/EBITDA.

#### Base-case Value Based on SOTP Model; 23% Downside to Our Target Price

In the absence of consolidated financials, we value the company on a sum-of-the-parts basis with the Indian business valued at Rs103 (base case residual income value) and the recently acquired Brazilian business at Rs37 per share (based on 4.0x EV/EBITDA).

Exhibit 3

#### SHRS: Financial Summary – Indian Business

	F2009	F2010E	F2011E	F2012E
Revenue (Rs Mn)	28,160	70,429	62,289	69,356
Growth YoY	34%	150%	-12%	11%
EBITDA (Rs Mn)	4,656	13,035	7,882	8,256
EBITDA margin	17%	19%	13%	12%
PAT	2,243	8,116	3,970	4,406
EPS	8.1	24.9	11.9	13.2

E = Morgan Stanley Research estimates  
Source: Company data, Morgan Stanley Research

Exhibit 4

#### SHRS: Financial Summary – Brazilian Business

	2010E	2011E	2012E
<b>Net revenues</b>	<b>926</b>	<b>914</b>	<b>1,170</b>
COGS	304	339	485
Gross Profit	622	575	685
Gross margin/sales	67%	63%	59%
Selling, Gen. and Admin. Expenses	115	128	161
<b>EBITDA</b>	<b>507</b>	<b>448</b>	<b>524</b>
<i>EBITDA Margin</i>	<i>55%</i>	<i>49%</i>	<i>45%</i>

E = Morgan Stanley Research estimates  
Source: Company data, Morgan Stanley Research

**Upside risk to price target:** 1) Poor weather conditions in the key cane growing areas of India may exacerbate the fragile sugar balance, sparking a fresh rally in sugar stocks. 2) The

government delays the import of an estimated 1-2mn tons of white sugar; allowing domestic prices to rise on a tight near-term demand supply balance. 3) Relatively low water table levels in certain parts of India limit incremental cane planting

Exhibit 5

#### SHRS – Assumptions Underlying RI Model

Risk free rate (Rf)	7.0%
Equity risk premium	6.0%
Beta	1.00
Net Income Growth - 2012-2020	10.0%
Net Income Growth - 2021-2025	8.0%
Net Income Growth - 2026-2030	6.0%
Terminal growth rate	4%
Terminal RoE	18.0%

Source: Company data, Morgan Stanley Research

Exhibit 6

#### SHRS (Brazil Business): One-year Price Target e

<b>EV EBITDA multiple</b>	<b>4.0</b>
EV	1,263
Debt - VDI	284
Debt - Equipav	500
Total Debt	784
Equity value	479
No of shares	335
Equity value per share (R\$)	1.4
<b>Equity value per share (Rs)</b>	<b>37</b>

Source: Morgan Stanley Research

Exhibit 7

#### SHRS One-year Price Target

Parameter	Value
Starting Book Value	15,302
PV of RI in period 1	7,709
PV if RI in period 2	5,925
PV of TV	5,437
Total value	34,373
No. of shares (fully diluted)	335
<b>One year fwd. Intrinsic Value per share</b>	<b>103</b>
Brazilian Business (from exhibit 6)	37
<b>Target Price</b>	<b>140</b>
CMP	182
<b>One year Upside from CMP</b>	<b>-23%</b>

Source: Morgan Stanley Research

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India Sugar

## Balrampur Chini Mills Limited: Financial Summary

Rs million; Years Ending September

### BRCM: Profit and Loss Statement

(Rs m, Year Ending Sept)	2009	2010E	2011E	2012E
Net sales	17,471	22,996	22,961	23,666
Raw material Consumed	10,641	16,154	14,674	15,726
Gross Profit	6,830	6,842	8,287	7,941
Margin (%)	39.1%	29.8%	36.1%	33.6%
Employee costs	946	994	1,091	1,145
Other Expenses	1,411	1,481	1,882	2,106
Total Operating costs	12,998	18,629	17,646	18,977
Operating Profit	4,473	4,368	5,315	4,689
Margin (%)	26%	19%	23%	20%
Interest	1,068	757	544	332
Depreciation/ amortzn	1,160	1,129	1,115	1,094
Other Income	82	107	139	152
Profit before Tax	2,327	2,588	3,794	3,416
Income Tax	231	466	683	615
Net Profit	2,096	2,122	3,111	2,801
Net Profit (adjusted)	2,099	2,122	3,111	2,801
ModelWare EPS	8.2	8.3	12.1	10.9

### BRCM: Balance Sheet

(Rs m, Year Ending Sept)	2009	2010E	2011E	2012E
Share Capital	5,238	5,238	5,238	5,238
Reserves & Surplus	6,100	7,354	9,191	10,681
Shareholders Funds	11,338	12,591	14,428	15,919
Loan Funds	9,906	7,906	4,906	2,906
Deferred tax liabilities	2,039	2,039	2,039	2,039
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>TOTAL LIABILITIES</b>	<b>23,283</b>	<b>22,536</b>	<b>21,373</b>	<b>20,863</b>
Net fixed assets	18,311	17,554	16,539	15,545
Investments	1,222	1,222	1,222	1,222
Cash	342	955	1,823	2,357
Debtors	171	225	225	232
Inventory	3,511	5,071	3,960	4,308
Loans & advances	2,398	2,398	2,398	2,398
Current liabilities	2,679	4,896	4,801	5,206
Net Current Assets	3,401	2,798	1,781	1,732
Miscellaneous expenditure	7	7	7	7
<b>Total ASSETS</b>	<b>23,283</b>	<b>22,536</b>	<b>21,373</b>	<b>20,863</b>

### BRCM: Cash Flow Statement

(Rs m, Year Ending Sept)	2009E	2010E	2011E	2012E
Net income reported	2,096	2,122	3,111	2,801
Depreciation	1,160	1,129	1,115	1,094
Chg in working cap	1,989	603	1,017	49
Cash flow from operations	5,857	3,854	5,242	3,944
Capital expenditure	-4	-372	-100	-100
Strategic investments	-1,206	0	0	0
Cash flow from investing	-1,210	-372	-100	-100
Issue of Share Capital	15	0	0	0
Debt raised	-3,898	-2,000	-3,000	-2,000
Dividend (incl. tax)	-901	-869	-1,274	-1,311
Others	113	0	0	0
Cash flow from financing	-4,671	-2,869	-4,274	-3,311
<b>Net chg in cash</b>	<b>-24</b>	<b>613</b>	<b>869</b>	<b>533</b>

### BRCM: Key Financial Ratios

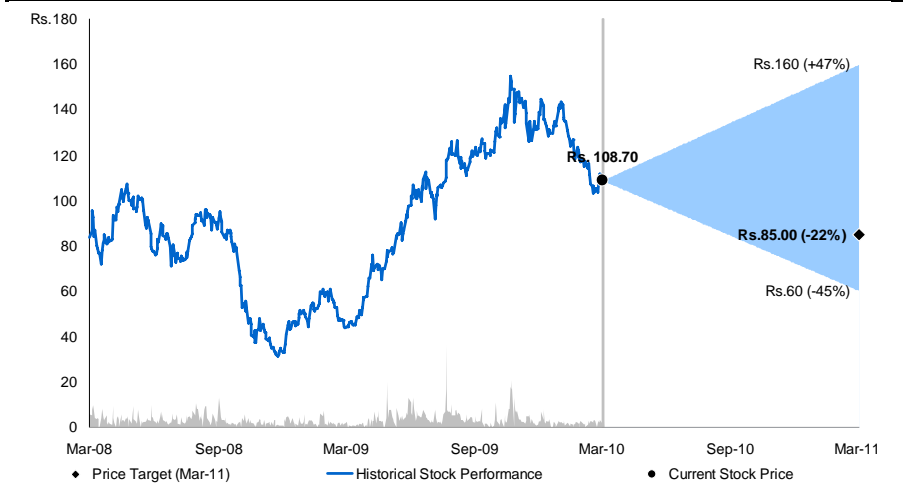
(Rs m, Year Ending Sept)	2009E	2010E	2011E	2012E
Net sales growth (%)	17.2%	31.6%	-0.2%	3.1%
EBITDA growth (%)	42.3%	-2.4%	21.7%	-11.8%
EBIT margin (%)	19.0%	14.1%	18.3%	15.2%
Return on Avg Equity (%)	19.7%	17.7%	23.0%	18.5%
Total debt/Equity	1.1	0.8	0.5	0.3
Net debt/Equity	0.7	0.5	0.1	(0.0)
<b>Per share data and valuation</b>				
EPS	8.2	8.3	12.1	10.9
DPS	3.5	3.4	5.0	5.1
BVPS	44	49	56	62
PE	14.9	13.2	9.0	10.0
P/BV	2.8	2.2	1.9	1.8
P/sales	1.8	1.2	1.2	1.2
EV/EBITDA	8.9	7.7	5.6	5.8
EV/Sales	2.3	1.5	1.3	1.2

E = Morgan Stanley Research estimates  
Source: Company data, Morgan Stanley Research



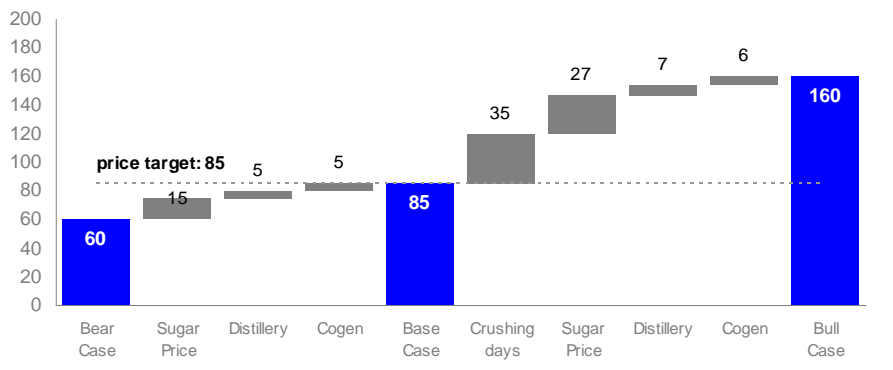
## Risk-Reward Snapshot: Balrampur Chini (BACH.BO, Rs109, UW, PT Rs85)

### Risk Reward Snapshot: Upside Capped by Production, Prices



Price Target Rs85		Based on base-case residual income model.
<b>Bull Case</b> Rs160	10x F11e earnings	Faster rise in domestic and international sugar prices as tight supply situation unfolds in F2010, coupled with severe weather related disruption in Brazil and poor rainfall in key cane growing areas in India. Indian government delays white sugar imports in F2010 driving sugar prices higher. High merchant power prices.
<b>Base Case</b> Rs85	7x F11e earnings	Higher-than-expected sugar production in F2010 takes average sugar realizations to around Rs33,000/MT in North India. Cogeneration and distillery realizations remain flat in F2010. Merchant power prices at around Rs5.5/unit
<b>Bear Case</b> Rs60	6x F11e earnings	Higher-than-expected Brazilian sugar production. Indian sugarcane production response is higher than expected. Ethanol program fails to take off in the country. Merchant power prices are benign.

### Sugar Realizations and Cane Availability Key Value Drivers



Source: Morgan Stanley, FactSet

### Investment Thesis

- A combination of higher-than-expected domestic production in F2010, high cane costs paid to farmers, a sharp decline in international sugar prices, and potential large production response in F2011 will likely cap stock outperformance, in our view. We expect BRCM to be negatively affected by sentiment surrounding lower sugar prices and higher-than-expected production. Indeed, our earnings estimates for F2010 may appear aggressive if international sugar prices continue to trend lower. At our revised PT of Rs85 (down from Rs200), the stock would trade at 7.0x our F2011E earnings.

### Key Value Drivers

- **Crushing duration:** High cane prices and prompt payment to farmers would likely increase the crushing duration in the coming season, increasing domestic sugar production.
- **Sugar and distillery realization:** As the sugar balance situation improves, investors may start discounting lower F2011 sugar and distillery realizations.
- **Cogeneration:** Mills in the state of Uttar Pradesh can now sell part of the power generated in the merchant power market.

### Potential Catalysts

- **Weather disruptions:** May exacerbate a fragile demand/supply situation, driving sugar prices higher.
- **Ethanol pricing:** According to press reports, ethanol prices may be fixed higher at Rs27/lit versus Rs21.5 earlier.

### Risks

- Aggressive government intervention.
- Panic selling driving sugar prices lower than our estimates.

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India Sugar

## Balrampur Chini

### Investment Case

#### Downgrading to UW; Near-term Downtrend to Continue on Lack of Incremental Triggers

BRCM seems to be benefiting from its low exposure to international raw sugar with earnings likely to trend higher in F2011 versus F2010. We believe BRCM will be negatively affected by sentiment surrounding lower sugar prices and higher-than-expected production, driving the stock lower than its intrinsic value of Rs85. Indeed, our earnings estimates for F2010 may appear aggressive if international sugar prices continue to trend lower. At our revised price target of Rs85 (down from Rs200 earlier), the stock would trade at 7.0x our F2011E earnings.

**Three key reasons why we recommend investors book profits at these levels:** **1)** BRCM is unlikely to have the cushion of low-cost sugar inventory in F2010 as cane prices paid in F2010 will likely limit profitability against the backdrop of higher-than-expected sugar production. **2)** We expect to see a strong production response in F2011, and uncertainty over the progression of cane planting for F2011 will be major near term headwind, in our view. **3)** Any incremental negative news around higher production, incremental government intervention to control prices, or higher-than-expected production in Brazil will drive a sell-off in the stock, in our view.

Lack of incremental triggers, continuing government efforts to check sugar price increase and the deep cyclical nature of the commodity may result in the stocks trading below their intrinsic values. We believe investors will see a better entry opportunity.

Exhibit 8

#### BRCM: Financial Summary

Rs Mn	F2009	F2010E	F2011E	F2012E
Revenue (Rs Mn)	17,471	22,996	22,961	23,666
Growth YoY	17%	32%	0%	3%
EBITDA (Rs Mn)	4,473	4,368	5,315	4,689
EBITDA margin	26%	19%	23%	20%
PAT	2,091	2,122	3,111	2,801
EPS	8.2	8.3	12.1	10.9

Source: Morgan Stanley Research (E) estimates

#### Base-case Value Based on RI Model; 22% Downside to Our New Target Price

Our residual income (RI) model calculates a one-year forward intrinsic value for Balrampur Chini of Rs85 per share, implying 22% downside from current levels. At our price target, BRCM would trade at 7x our F2011E earnings.

**Upside risk to price target:** **1)** Poor weather conditions in the key cane growing areas of India may exacerbate the fragile sugar balance, sparking a fresh rally in sugar stocks. **2)** The government delays the imports of an estimated 1-2mn tons of white sugar, allowing domestic prices to rise on a tight near-term demand supply balance. **3)** Relatively low water table levels in certain parts of India limit incremental cane planting for the F2011 sugar season.

Exhibit 9

#### BRCM: Assumptions Underlying RI Model

Risk free rate (Rf)	6.0%
Equity risk premium	7.0%
Beta	1.10
Net Income Growth - 2011-2020	8.0%
Net Income Growth - 2021-2025	6.0%
Net Income Growth - 2026-2030	5.0%
Terminal growth rate	4%
Terminal RoE	18.0%

Source: Company data, Morgan Stanley Research

Exhibit 10

#### BRCM: One-year Price Target

Parameter	Value
Starting Book Value	12,591
PV of RI in Period 1	1,981
PV if RI in Period 2	5,311
PV of TV	2,017
Total Value	21,900
No. of Shares	257
<b>One year fwd. Intrinsic Value per share</b>	<b>85</b>
CMP	109
<b>One year Upside from CMP</b>	<b>-22%</b>

Source: Morgan Stanley Research

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India Sugar

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	Count	% of Total	Count	Total IBC	% of % of Rating Category
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<b>Equal-weight/Hold</b>	<b>1091</b>	<b>43%</b>	<b>341</b>	<b>45%</b>	<b>31%</b>
<b>Not-Rated/Hold</b>	<b>22</b>	<b>1%</b>	<b>5</b>	<b>1%</b>	<b>23%</b>
<b>Underweight/Sell</b>	<b>382</b>	<b>15%</b>	<b>89</b>	<b>12%</b>	<b>23%</b>
<b>Total</b>	<b>2,530</b>		<b>751</b>		

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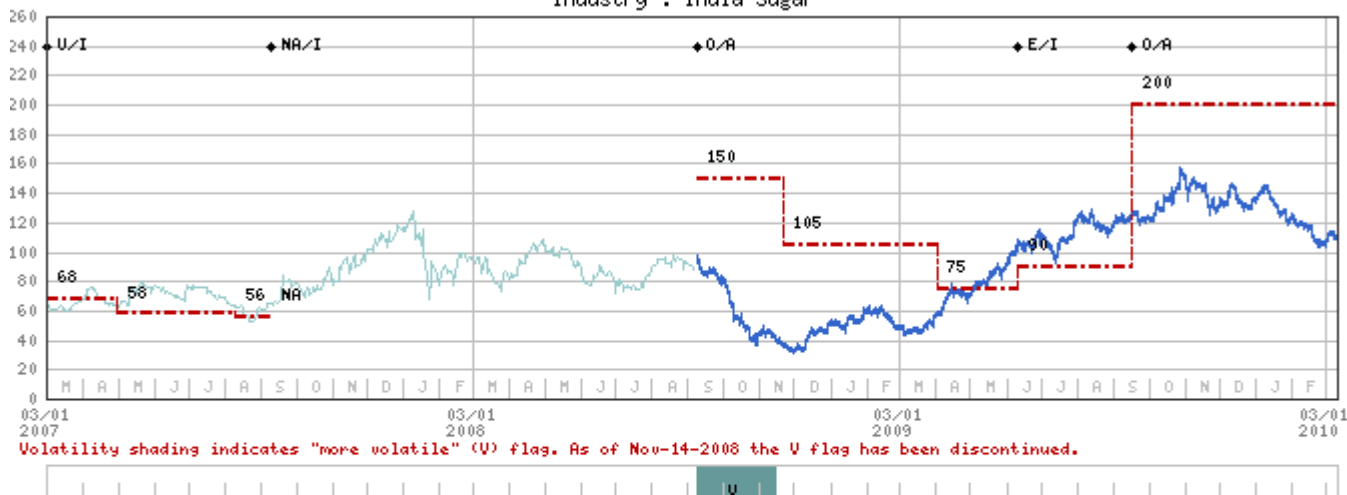
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### Stock Price, Price Target and Rating History (See Rating Definitions)

Balrampur Chini Mills (BACH.BO) - As of 3/10/10 in INR  
Industry : India Sugar



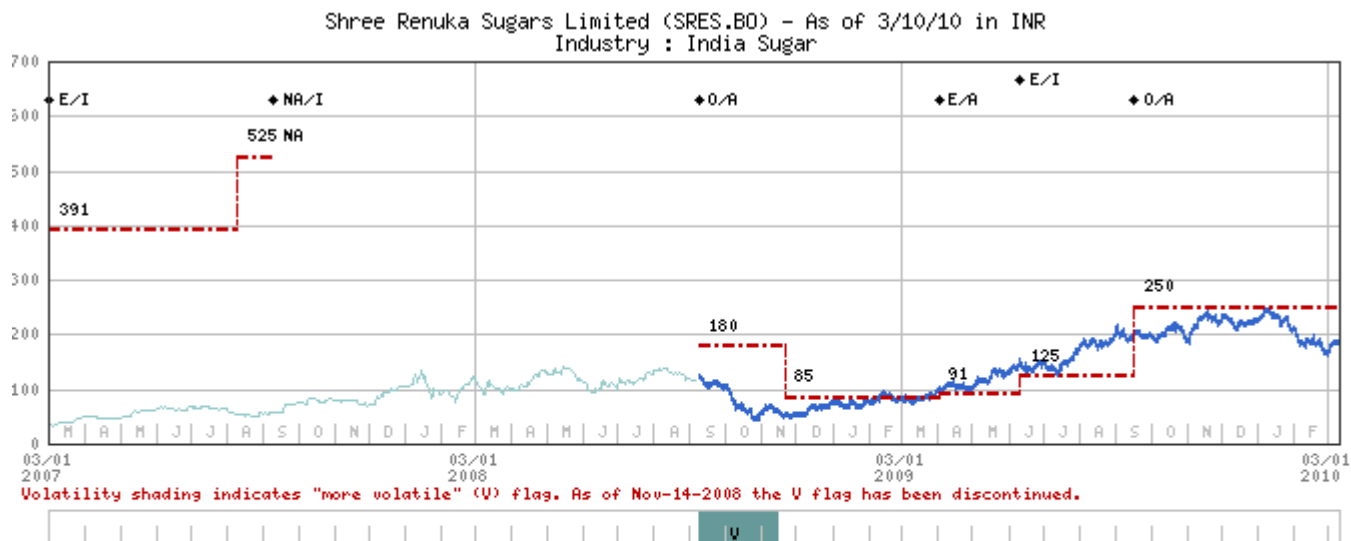
Volatility shading indicates "more volatile" (U) flag. As of Nov-14-2008 the U flag has been discontinued.

Stock Rating History: 3/1/07 : U/I; 9/10/07 : NA/I; 9/8/08 : O/A; 6/10/09 : E/I; 9/16/09 : O/A

Price Target History: 1/18/07 : 68; 4/30/07 : 58; 8/9/07 : 56; 9/10/07 : NA; 9/8/08 : 150; 11/21/08 : 105; 4/2/09 : 75; 6/10/09 : 90; 9/16/09 : 200

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 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (U) No Rating Available (NA)  
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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Stock Rating History: 3/1/07 : E/I; 9/10/07 : NA/I; 9/8/08 : O/A; 4/2/09 : E/A; 6/10/09 : E/I; 9/16/09 : O/A  
Price Target History: 1/18/07 : 391; 8/9/07 : 525; 9/10/07 : NA; 9/8/08 : 180; 11/21/08 : 85; 4/2/09 : 91; 6/10/09 : 125; 9/16/09 : 250

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)  
Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —  
Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View  
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (U) No Rating Available (NA)  
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## The Americas

1585 Broadway  
New York, NY 10036-8293  
**United States**  
Tel: +1 (1) 212 761 4000

## Europe

20 Bank Street, Canary Wharf  
London E14 4AD  
**United Kingdom**  
Tel: +44 (0) 20 7 425 8000

## Japan

4-20-3 Ebisu, Shibuya-ku  
Tokyo 150-6008  
**Japan**  
Tel: +81 (0) 3 5424 5000

## Asia/Pacific

1 Austin Road West  
Kowloon  
**Hong Kong**  
Tel: +852 2848 5200

## Industry Coverage:India Sugar

Company (Ticker)	Rating (as of)	Price* (03/10/2010)
<b>Nillai Shah</b>		
Bajaj Hindustan (BJHN.BO)	++	Rs151.55
Balrampur Chini Mills (BACH.BO)	U (03/11/2010)	Rs99.9
Shree Renuka Sugars Limited (SRES.BO)	U (03/11/2010)	Rs172.75

Stock Ratings are subject to change. Please see latest research for each company.

\* **Historical prices are not split adjusted.**

++Rating for this company has been removed from consideration in this report because, under applicable law and/or Morgan Stanley policy, Morgan Stanley may be precluded from issuing such information with respect to this company at this time.