

April 29, 2010

SHREE RENUKA SUGARS (SHRS)

CMP: Rs. 61; STRONG BUY

Result Update

Q2FY10 Result Update

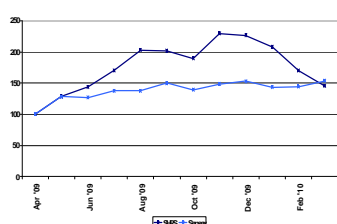
Target Price: Rs. 82 (Jan '11)

| | |
|------------------|---------|
| Reuters code | SRES.BO |
| Bloomberg Code | SHRS.IN |
| BSE | 532670 |
| Sensex | 17,504 |
| 52week H/L (Rs) | 124/45 |
| Monthly H/L (Rs) | 75/61 |
| MktCap (Rs mn) | 40,690 |
| MktCap (US\$ mn) | 925 |
| EV (Rs mn) | 37,246 |

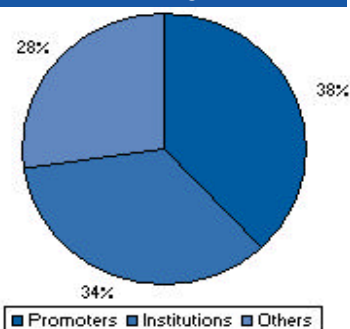
Valuation Parameters (FY10)

| | |
|---------------|-----|
| EV/EBITDA | 3.0 |
| MktCap/EBITDA | 3.2 |
| EV/Sales | 0.6 |
| Mkt Cap/Sales | 0.6 |

Price Chart



Shareholding Pattern



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Q2FY10 CONSOLIDATED PERFORMANCE

Shree Renuka Sugars results were decent despite measures taken by the government to depress sugar prices such as imposing stock limits on bulk buyers, trader limits, etc. This resulted in poor trade conditions that made it difficult to push through higher sugar sales when the sugar realisations were high. While sugar prices were over Rs. 40 per kg in the first half of the quarter they dropped sharply to about Rs. 26 per kg in the latter half of the quarter on account of the sharp upward revision in domestic sugar production.

With drop in sugar prices and relative easing of sugar supply-demand situation, we expect the government to ease trade conditions by removing stock limits, trader limits and imposing duty on white sugar imports. Hence, we believe that sugar prices would remain firm or even improve from here on.

Shree Renuka Sugars reported a 315.2% YoY growth in revenues at Rs. 17,814 mn. EBITDA margin improved from 18.6% in Q2FY09 to 19.9% in Q2FY10 due to better price realisation on sugar sales. The combination of growth in revenues and improved EBITDA margin resulted in an EBITDA of Rs. 3,545 mn, up substantially by 345.4% YoY. Depreciation was up by 44.8% YoY and interest costs were down by 24.4% YoY.

At the PBT level, profit stood at Rs. 3,301 mn as compared to Rs. 422 mn in Q2FY09. Net profit adjusted for minority interest came in at Rs. 2,242 mn, up significantly by 575.3% YoY.

OUTLOOK

The latter half of the second quarter witnessed a sharp fall in international as well as domestic sugar prices due to higher than expected sugar production in India and Brazil during sugar season 2009-10. Estimates for sugar production in India have been revised upwards to about 18-18.5 mn tonnes from the earlier estimates of about 15-16 mn tonnes. The primary reasons for this upward revision are:

- 1) better than expected cane cultivation and good monsoon in the latter part of the season
- 2) less diversion of cane to khandsari and gur production in Uttar Pradesh
- 3) improved yield of the second half of crop in Maharashtra and North Karnataka

Further, expectation of higher sugar production during sugar season 2010-11 is likely to put pressure on sugar realisation and margins going forward. Higher cane crushing, though, would also mean more efficient operation of capacities resulting in higher throughput from distillery and co-generation operations,

which in turn could provide cushion to the margins of sugar companies.

Sugar companies in India found it difficult to push through higher sugar sales despite high sugar prices due to the measures taken by the government in the form of imposing stock limits on bulk buyers, trader limits, etc. With drop in sugar prices and easing of the sugar supply-demand situation, we expect the government to ease trade conditions for the sugar companies by removing stock limits, trader limits and imposing import duty on white sugar imports. Hence, we believe sugar prices to remain firm or even improve from here on.

Further, with current domestic sugar prices ranging between Rs. 26-28 per kg in different regions, Shree Renuka Sugars with its average inventory cost of cane sugar at Rs. 25 per kg is better placed than its peers. Going forward, we expect Shree Renuka Sugars to better sustain through this downcycle on the back of its differentiated strategy of volume, multi-location and diversified product.

VALUATION

We revise our estimates downwards for Shree Renuka Sugars because of downward pressure on sugar prices and margins. While we have incorporated earnings from the company's VDI acquisition in our sum-of-parts valuation, we have not yet incorporated earnings from its Equipav acquisition as it is yet to be closed.

We have assumed sugarcane price at about Rs. 280 per quintal and Rs. 190 per quintal for FY10E and FY11E respectively. Further, blended sugar price has been assumed at Rs. 28.76 per kg and Rs. 21.86 per kg for FY10E and FY11E respectively. We expect FY10E revenues to grow at 134.4% YoY and FY11E revenues to fall by 28.8% YoY. Our EPS estimate for FY10E and FY11E is Rs. 12.9 and Rs. 8.1 respectively. The company is currently trading at P/E of 4.7x and 7.5x times and EV/EBITDA of 3.0x and 4.5x times its FY10E and FY11E numbers respectively. Our target price on the stock is Rs. 82 at an EV/EBITDA multiple of 6.0x times its FY11E numbers including per share value of Rs. 2 from the company's VDI acquisition.

| Fiscal Year | FY08 (A) | FY09 (A) | FY10 (E) | FY11 (E) |
|--------------------|----------|----------|----------|----------|
| Revenues (Rs. mn) | 21,143 | 28,160 | 66,015 | 47,031 |
| EBITDA (Rs. mn) | 2,526 | 4,656 | 12,611 | 8,254 |
| EBITDA (%) | 11.9 | 16.5 | 19.1 | 17.6 |
| PAT (Rs. mn) | 1,339 | 2,235 | 8,658 | 5,446 |
| Net Profit (%) | 6.3 | 7.9 | 13.0 | 11.4 |
| No. of Shares (mn) | 276 | 317 | 670 | 670 |
| EPS (Rs.) | 4.2 | 7.1 | 12.9 | 8.1 |
| P/E | - | - | 4.7 | 7.5 |
| EV/EBITDA | - | - | 3.0 | 4.5 |

KEY RISKS

The key downside risks are:

- 1) Brazil flooding international markets with high sugar production by altering the sugar:ethanol production ratio significantly in favour of sugar
- 2) Governmental controls on sugar pricing
- 3) Other regulatory risks

Annexure I: Quarterly Consolidated Performance

| Rs mn | Q2FY10 | Q1FY09 | Q2FY09 | Var (%) | |
|---|---------------|---------------|--------------|---------------|---------------|
| | | | | QoQ | YoY |
| Sales | 17,814 | 14,287 | 4,290 | 24.7% | 315.2% |
| EBITDA | 3,545 | 3,611 | 796 | -1.8% | 345.4% |
| <i>margin (%)</i> | <i>19.9%</i> | <i>25.3%</i> | <i>18.6%</i> | | |
| Depreciation | 239 | 195 | 165 | 22.6% | 44.8% |
| PBIT | 3,561 | 3,566 | 766 | -0.1% | 364.9% |
| Interest | 260 | 294 | 344 | -11.6% | -24.4% |
| Other income | 255 | 150 | 135 | 70.0% | 88.9% |
| EO | 0 | 0 | 0 | | |
| PBT | 3,301 | 3,272 | 422 | 0.9% | 682.2% |
| Tax | 1,054 | 662 | 84 | 59.2% | 1,154.8% |
| PAT | 2,247 | 2,610 | 338 | -13.9% | 564.8% |
| Share in profit in associates/JV | 0 | 0 | 0 | | |
| Minority Interest and Other Related Items | 5 | 1 | 6 | 400.0% | 16.7% |
| Adjusted PAT | 2,242 | 2,609 | 332 | -14.1% | 575.3% |
| <i>NPM (%)</i> | <i>12.4%</i> | <i>18.1%</i> | <i>7.5%</i> | | |

Source: Company, Prime Broking

Annexure II: Consolidated Profit & Loss Statement *

| Rs mn | FY08 (A) | FY09 (A) | FY10 (E) | FY11 (E) |
|---|---------------|---------------|---------------|---------------|
| Total Income (incl. Other Income) | 21,295 | 28,225 | 66,825 | 47,841 |
| Total Expenses | 18,617 | 23,504 | 53,404 | 38,777 |
| PBITDA | 2,678 | 4,721 | 13,421 | 9,064 |
| <i>PBITDA Margin (%)</i> | <i>12.6%</i> | <i>16.7%</i> | <i>20.1%</i> | <i>18.9%</i> |
| Depreciation and Amortisation | 369 | 676 | 819 | 1,001 |
| PBIT | 2,309 | 4,045 | 12,601 | 8,063 |
| <i>PBIT Margin (%)</i> | <i>10.8%</i> | <i>14.3%</i> | <i>18.9%</i> | <i>16.9%</i> |
| Interest | 701 | 1,077 | 1,163 | 866 |
| EO | - | - | - | - |
| PBT | 1,608 | 2,968 | 11,438 | 7,197 |
| <i>PBT Margin (%)</i> | <i>7.6%</i> | <i>10.5%</i> | <i>17.1%</i> | <i>15.0%</i> |
| Tax | 427 | 720 | 2,775 | 1,746 |
| PAT | 1,181 | 2,248 | 8,663 | 5,451 |
| Add: Income from investment from associates | 0 | 0 | 0 | 0 |
| Less: Minority Interest and Other Related Items | 25 | 13 | 5 | 5 |
| Adjusted PAT | 1,156 | 2,235 | 8,658 | 5,446 |
| <i>Net Profit Margin</i> | <i>5.4%</i> | <i>7.9%</i> | <i>13.0%</i> | <i>11.4%</i> |
| No. of shares | 276 | 317 | 670 | 670 |
| EPS | 4.2 | 7.1 | 12.9 | 8.1 |

Source: Company, Prime Broking; (A) Audited; (E) Estimated

* does not include VDI and Equipav numbers

Annexure III: Consolidated Balance Sheet Statement *

| Rs mn | FY08 (A) | FY09 (A) | FY10 (E) | FY11 (E) |
|---------------------------------------|---------------|---------------|---------------|---------------|
| Share Capital | 507 | 523 | 670 | 670 |
| Reserves & Surplus | 7,829 | 14,779 | 25,107 | 30,183 |
| Networth | 8,336 | 15,302 | 25,777 | 30,852 |
| Loan Funds | 8,595 | 13,427 | 11,427 | 7,427 |
| Deferred Tax Liabilities | 467 | 821 | 821 | 821 |
| Minority Interest | 533 | 147 | 147 | 147 |
| Total Liabilities | 17,931 | 29,698 | 38,172 | 39,248 |
| Net Fixed Assets | 12,728 | 16,734 | 19,765 | 22,164 |
| Investments | 310 | 477 | 4,167 | 4,167 |
| Cash and Bank Balances | 227 | 4,912 | 14,872 | 11,072 |
| Debtors | 1,603 | 1,762 | 3,301 | 2,352 |
| Inventory | 2,252 | 10,721 | 2,525 | 4,028 |
| Loan, Advances & Other Current Assets | 3,581 | 5,236 | 6,659 | 4,950 |
| Current Liabilities | 2,786 | 10,172 | 13,144 | 9,512 |
| Net Current Assets | 4,877 | 12,459 | 14,213 | 12,890 |
| Miscellaneous Expenditure | 16 | 28 | 28 | 28 |
| Total Assets | 17,931 | 29,698 | 38,172 | 39,248 |

Annexure IV: Consolidated Cash Flow Statement *

| Rs mn | FY08 (A) | FY09 (A) | FY10 (E) | FY11 (E) |
|--|---------------|---------------|---------------|---------------|
| Profit Before Tax | 1,608 | 2,968 | 11,438 | 7,197 |
| Depreciation | 369 | 675 | 819 | 1,001 |
| Interest | 701 | 1,077 | 1,163 | 866 |
| Other Items | -42 | 122 | -5 | -5 |
| Change in Working Capital | -2,377 | -3,274 | 8,206 | -2,476 |
| Income Tax Paid | -152 | -305 | -2,775 | -1,746 |
| Cash Flow from Operations | 107 | -1,263 | 18,847 | 4,837 |
| Change in Net Fixed Assets | -5,205 | -4,681 | -3,850 | -3,400 |
| Change in Investments | -134 | -158 | -3,690 | 0 |
| Interest Received | 15 | 0 | 0 | 0 |
| Cash Flow from Investing | -5,323 | -4,839 | -7,540 | -3,400 |
| Change in Share Capital | 2,184 | 5,178 | 2,188 | 0 |
| Debt Raised | 2,120 | 4,678 | -2,000 | -4,000 |
| Interest Paid | -701 | -1,077 | -1,163 | -866 |
| Dividend Paid | -54 | -55 | -371 | -371 |
| Other Items | 977 | -463 | 0 | 0 |
| Cash Flow from Financing | 4,527 | 8,261 | -1,346 | -5,237 |
| Change in Cash | -690 | 4,685 | 9,961 | -3,800 |
| Opening Cash & Bank Balance | 917 | 227 | 4,912 | 14,872 |
| Closing Cash & Bank Balance | 227 | 4,912 | 14,872 | 11,072 |

Source: Company, Prime Broking; (A) Audited; (E) Estimated

* does not include VDI and Equipav numbers

Annexure V: Key Financial Ratios *

| | FY08 (A) | FY09 (A) | FY10 (E) | FY11 (E) |
|---------------------------|----------|----------|----------|----------|
| Net Sales Growth | 122.4% | 33.2% | 134.4% | -28.8% |
| EBITDA Growth | 91.4% | 84.3% | 170.9% | -34.5% |
| EBIT Margin | 10.2% | 14.1% | 17.9% | 15.4% |
| Net Profit Margin | 6.3% | 7.9% | 13.0% | 11.4% |
| Debt to Equity Ratio | 1.0 | 0.9 | 0.4 | 0.2 |
| Interest Coverage Ratio | 3.1 | 3.7 | 10.1 | 8.4 |
| Inventory Turnover (Days) | 32 | 102 | 46 | 31 |
| Debtor Turnover (Days) | 21 | 22 | 14 | 22 |
| Return on Asset | 7.5% | 7.5% | 22.7% | 13.9% |
| Return on CE | 14.2% | 20.4% | 47.1% | 24.4% |

Source: Company, Prime Broking; (A) Audited; (E) Estimated

* does not include VDI and Equipav numbers

PRIME BROKING



PRIME

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STOCK OWNERSHIP / CONFLICT DISCLOSURE

| | |
|---|------------|
| Prime / Prime Subsidiaries | No |
| Key Prime Management &/or Other Employees | Yes |
| Any Other Corporate Finance Conflict of Interest | No |

ANALYSTS' RATINGS DEFINITIONS

| | |
|-------------------|---|
| STRONG BUY | Expect \geq 25% CAGR return |
| BUY | Expect a CAGR return \geq 15% and $<$ 25% |
| HOLD | Expect $<$ 15% CAGR return |
| SELL | Expect \leq 5% CAGR return |

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