

Shree Renuka Sugars (RENSUG)

Rs 62.5

WHAT'S CHANGED...

PRICE TARGET	Changed from Rs 102 to Rs 68
EPS (SY10E)	Changed from Rs 13.0 to Rs 8.4
EPS (SY11E)	Unchanged
RATING.....	Unchanged

Falling prices may erode margin...

Shree Renuka Sugars reported strong Q2SY10 results with a 315.2% increase in sales from Rs 429.0 crore in Q2SY09 to Rs 1810.7 crore led by a 97% increase in sugar volumes and 78% increase in sugar realisations. The EBITDA margin rose to 19.9% from 18.6% in the corresponding quarter. The interest cost fell by 24.4% to Rs 26 crore in Q2SY10 from Rs 34.4 crore in the corresponding quarter last year on account of lower interest rates and working capital borrowings in the current quarter. Higher EBITDA resulted in 575.3% growth in net profit to Rs 224.2 crore.

Segmental results

The company produced 4,31,307 tonnes of sugar from sugarcane and 3,26,647 tonnes of sugar from imported raw sugar. Shree Renuka Sugars is holding 5,92,000 tonnes of white sugar and 4,14,000 tonnes of raw sugar inventory as on March 2010. This includes 1,46,000 tonnes of white and 93,000 of raw sugar for trading.

Valuation

At the current price of Rs 62.5, the stock is trading at 7.6x its SY10E EPS of Rs 8.4 and 7.5x its SY11E EPS of Rs 8.5. Given the significant decline in global and domestic sugar prices, margins would come under pressure in the next two quarters. With the sugar prices falling, we expect simultaneous decline in sugarcane cost in SY11. However, a large sugar inventory remains the biggest risk for the company. Significant decline in sugar prices from these levels could erode margins for the company in SY11. We value the stock at 8x its SY11E EPS of Rs 8.5 to arrive at a target price of Rs 68 per share, downgrading it from Rs 102 per share.

Exhibit 1: Performance Highlight (Rs crore)

(Rs Crore)	Q2SY10	Q2SY10E	Q2SY09	Q1SY10	QoQ (Chg %)	YoY (Chg %)
Net Sales	1781.4	1211.6	429.0	1428.7	24.7	315.2
EBITDA	354.5	340.8	79.6	361.1	-1.8	345.4
EBITDA Margir	19.9	28.1	18.6	25.3	-537 bps	135 bps
Depreciation	23.9	15.8	16.5	19.5	22.6	44.8
Interest	26.0	25.6	34.4	29.4	-11.6	-24.4
Other Income	25.5	1.0	13.5	15.0	70	88.9
Reported PAT	224.2	201.3	33.2	260.9	-14.1	575.3
EPS (Rs)	3.5	3.0	0.5	4.1	-14.1	575.3

Source: Company, ICICIdirect.com Research

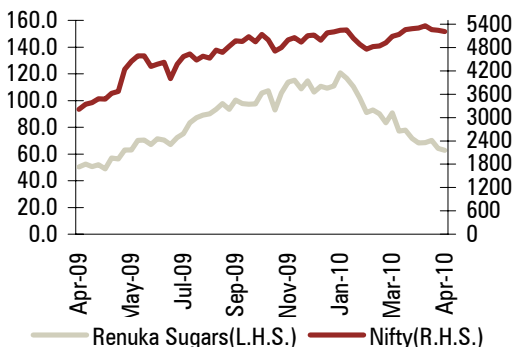
Rating matrix	
Rating	: Add
Target	: Rs 68
Target Period	: 12 months
Potential Upside	: 9%

Trailing 4 quarters growth % (yoy)				
(YoY Growth)	SY08	SY09	SY10E	SY11E
Net Sales	122.4	33.2	104.3	(29.5)
EBITDA	91.4	84.3	88.9	17.5
Net Profit	61.3	67.0	138.5	1.2
EPS (Rs)	61.3	67.0	138.5	1.2

Valuation summary				
	SY08	SY09	SY10E	SY11E
P/E	30.3	18.1	7.6	7.5
Target P/E	48.3	29.0	12.1	12.0
EV / EBITDA	19.3	10.4	6.1	3.4
Target EV / EBITDA	28.8	15.6	8.8	5.7
Price to Book Value	4.9	2.6	2.0	1.6

Stock data	
Market Capitalization	4,056.3
Total Debt (SY09)	1,342.7
Cash and Investments (SY09)	541.6
EV	4,857.4
52 week H/L	123.6/45.05
Equity capital	63.4
Face value	Rs 1
MF Holding (%)	12.7
FII Holding (%)	21.7

Price movement (Stock vs. Nifty)



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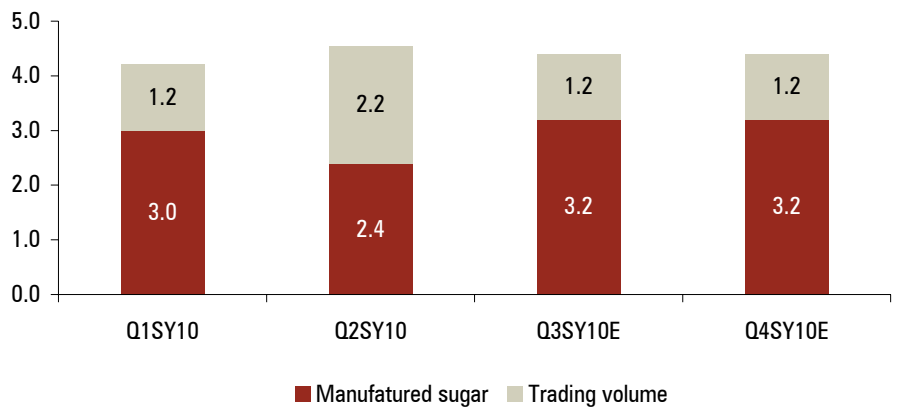
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Segmental result

The company has sold 2,38,815 tonnes of manufactured sugar with an average realisation of Rs 33.6 per kg. The revenue from trading stood at Rs 678.3 crore with sugar volume of 2,15,000 tonnes. The revenue from cogeneration increased by 66% from Rs 144.1 crore in Q2SY10 compared to Rs 86.9 crore in Q2SY09. The net realisation from the segment, however, declined from Rs 6.5 in Q2SY09 to Rs 5.5 per unit of export in Q2SY10. Sales from the distillery segment in Q2SY10 stood at Rs 49.4 crore (up 30% QoQ). This was led by a 5% increase in sales volume from 15,777 kilolitre (kl) in Q2SY09 to 16,325 kl in Q2SY10 and an increase in net realisation to Rs 29.6 per litre as compared to Rs 23.9 per litre (increase of 24%) in the corresponding quarter last year.

Exhibit 2: Sugar volumes (in lakh tonnes)

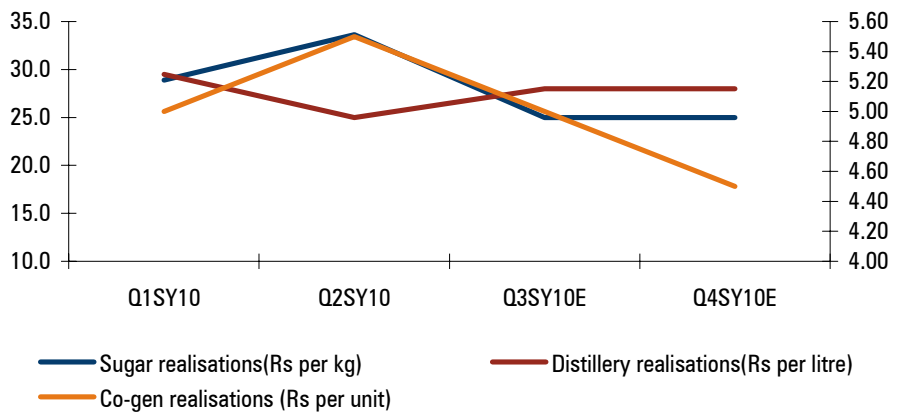
Volume growth led by ~1.2 million tonnes of raw sugar imports



Source: Company, ICICIdirect.com Research

Exhibit 3: Sugar and by-product realisation

Sugar realisations declined due to a fall in sugar prices



Source: Company, ICICIdirect.com Research

We believe the company would be able to sell ~8,00,000 tonnes of inventory in the next two quarter at an average price of Rs 25 per kg. This would result in a significant decline in profitability in the second half of 2010. However, a decline in sugarcane cost in 2011 would bring some relief for the company. Still, any significant decline in prices below Rs 25 per kg would pressurise margins.

Revising Estimates

In light of the sharp fall in sugar prices below Rs 30.0 per kg, we expect the company to register a decline in earnings in SY10. Subsequently, we have revised our estimates.

Exhibit 4: Revising estimates (Rs crore)

Particulars	SY10E			SY11E		
	Old	New	% Change	Old	New	% Change
Revenue	4,984.6	5752.1	15.4	4,241.0	4056.2	(4.4)
EBITDA	1,317.5	879.3	(33.3)	995.3	1033.6	3.8
EBITDA Margir	26.4	15.3	-1111 bps	23.5	25.5	198 bps
PAT	821.2	533.3	(35.1)	537.6	539.4	0.3
EPS	13.0	8.4	(35.3)	8.5	8.5	0.1

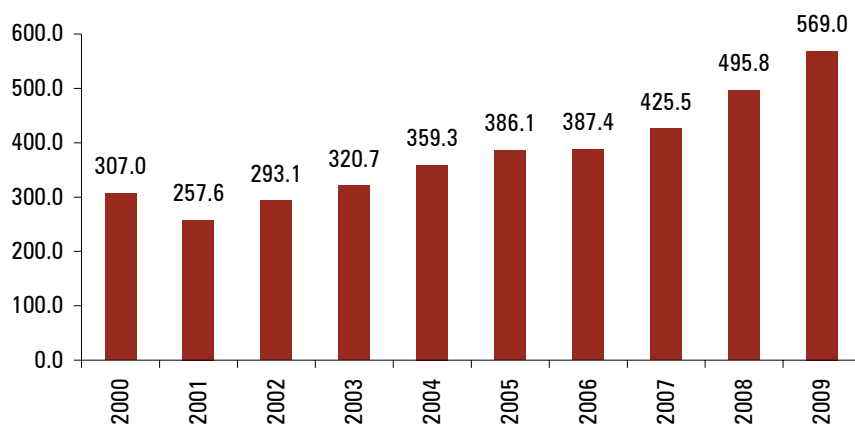
Source: Company, ICICIdirect.com Research

Outlook

Fall in global prices

Global sugar prices have fallen from 30 cents/lb to 15 cents/lb due to the expected higher production in Brazil, India and Thailand. Brazil's production for 2010-11 is expected to be around 35-37 million tonnes, ~12% higher than 2009-10 production.

Exhibit 5: Sugarcane production (in million tonnes)

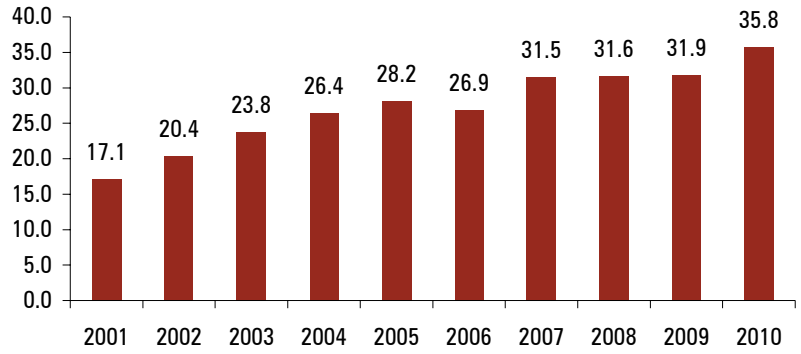


Source: Company, ICICIdirect.com Research

Brazilian sugarcane production is likely to increase by ~15% to 569 million tonnes

Brazilian sugar production will increase to 35.8 million tonnes

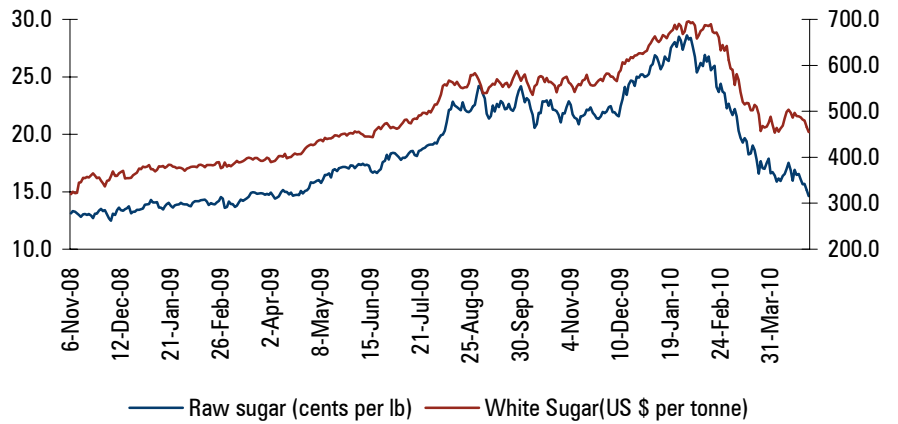
Exhibit 6: Brazilian sugar production (million tonnes)



Source: Company, ICICIdirect.com Research

Global sugar prices have fallen from 30 cents lb to 15 cents per lb

Exhibit 7: Raw and white sugar prices

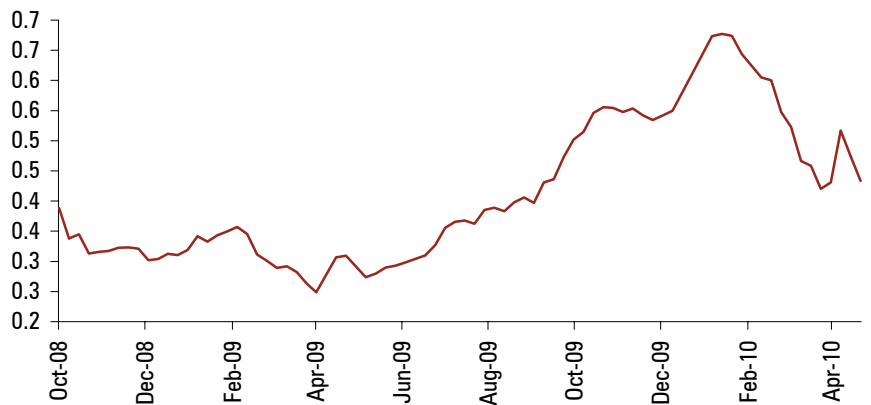


Source: Company, ICICIdirect.com Research

We believe global prices would remain in the range of 14-18 cents/lb. However, the possibility of higher sugarcane diversion towards ethanol could lead to a rise in global prices in 2011.

Higher Ethanol prices would lead to higher sugarcane diversion towards ethanol in 2011

Exhibit 8: Ethanol Prices (US\$ per litre)



Source: Company, ICICIdirect.com Research

Exhibit 9: Crude (US \$ per barrel)



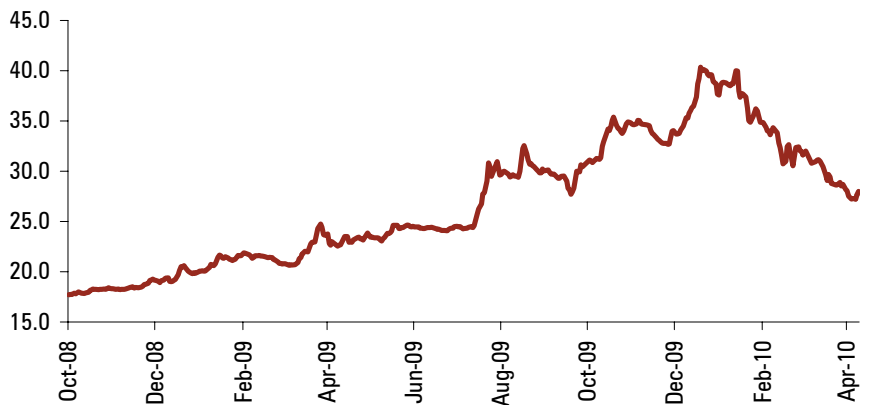
Source: Company, ICICIdirect.com Research

Domestic prices to firm up in Medium term

With the fall in global sugar prices, domestic sugar prices have also witnessed a similar decline from its Peak of Rs 43 per kg to Rs 28 per kg. With the crushing of sugarcane seeds due to the higher sugarcane prices and higher recoveries have resulted in higher than expected production in the current sugar year of 18.0 million tonnes. We believe sugar production would increase to 23 million tonnes in SY11, which would result in significant decline in sugar imports and bring sugar prices inline with the global sugar prices.

Exhibit 10: Vashi Sugar Prices (Rs per kg)

Domestic sugar prices following global sugar prices



Source: Company, ICICIdirect.com Research

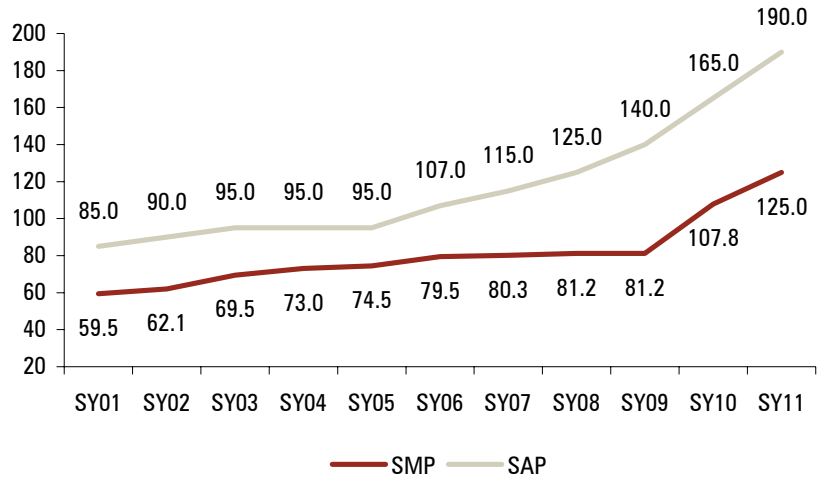
Government restriction may ease

The government is considering the imposition of import duty on white sugar to protect the sugar companies from the already sliding prices. Simultaneously it has relaxed the free sale quota from weekly to fortnightly sales. The Government is also considering increase in the holding period from 10 days to 15 days for the bulk consumers. These actions could bring some relief for the millers.

Sugarcane cost to come down in SY11

The central government declares an FRP (fair and remunerative price) for sugar cane at Rs 139 per quintal and we believe higher availability of sugarcane would bring down the sugarcane cost from 250 per quintal to 160 per quintal for Maharashtra sugar mills, which provides cushion against significant decline in sugar price.

Exhibit 11: State advise prices and Statutory minimum price (Rs per quintal)



Actual sugarcane cost to decline substantially in SY11

Source: Company, ICICIdirect.com

Valuation

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Exhibit 12: 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	18.1	10.4	14.6	13.8
SY10E	5752.1	104.3	8.4	138.5	7.6	6.1	26.3	19.6
SY11E	4056.2	-29.5	8.5	1.2	7.5	3.4	21.0	18.0

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	62.5 SY09	2816.0	3.5	18.1	10.4	14.6	13.8
		Target	68.0 SY10E	5752.1	8.4	7.6	6.1	26.3	19.6
Mcap	4056	Upside	8.8% SY11E	4056.2	8.5	7.5	3.4	21.0	18.0

Balrampur Chini				Sales (Rs cr)	EPS (Rs)	PE (x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	BALCHI	CMP	81.3 SY09	1700.0	8.5	9.5	8.3	14.3	13.7
		Target	121.0 SY10E	2317.7	10.9	7.5	5.3	17.2	17.9
Mcap	2153	Upside	48.9% SY11E	2417.6	10.1	8.1	4.9	15.1	17.1

Bajaj Hindustan				Sales (Rs cr)	EPS (Rs)	PE (x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	BAJHIN	CMP	121.3 SY09	1583.7	8.7	13.9	12.6	5.0	5.1
		Target	163.0 SY10E	4359.4	18.1	6.7	6.1	9.5	10.2
Mcap	2122	Upside	34.4% SY11E	2884.2	13.2	9.2	7.4	6.5	8.2

Dhampur Sugar				Sales (Rs cr)	EPS (Rs)	PE (x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	DHASUG	CMP	60.0 SY09	935.6	10.6	5.7	7.6	11.8	11.0
		Target	84.0 SY10E	1598.3	42.6	1.4	2.3	26.7	26.6
Mcap	375	Upside	40.0% SY11E	1475.0	22.4	2.7	3.9	15.4	17.1

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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 Buy: Between 10% and 20%;
 Add: Up to 10%;
 Reduce: Up to -10%
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