

Dhampur Sugar Mills Ltd

Sugar business tumbles; power holds up bottomline

Strong performance of the power business partially compensated for Dhampur Sugar's (DSM's) mealy performance in the sugar business during Q2SY10. On account of a sharp decline in volumes, the operating profits of its sugar business nosedived to Rs 1mn in Q2SY10, as against Rs. 79mn in Q2SY09 and Rs 744mn in Q1SY10. We maintain our Cautious stance on the sugar sector as supply is expected to outstrip demand in the coming years, and thus have an adverse impact on the profitability of domestic sugar companies. Maintain Hold.

Better realisations aid sugar revenues: DSM recorded a multi-fold rise in its Q2SY10 revenues to Rs 3bn, primarily driven by higher sugar and power revenues. Although higher realisations shored up sugar revenues, poor volumes led to a much steeper drop in the operating profit of this business to Rs 1mn in the quarter.

Power business outperforms: Despite higher raw material costs (bagasse), the power business reported a healthy EBIT margin of 25.1% in Q2SY10 versus 32.7% in Q2SY09. Correspondingly, its power business contributed 93% to the company's aggregate operating profit in the quarter, as against a paltry 0.3% last year. DSM's EBITDA margin contracted to 19.1% in the quarter from 52% in Q2SY09 and ~33% in Q1SY10.

Net profits plunge: In line with the company's lacklustre operating performance, net profits slid 4.4% YoY and ~79% QoQ to Rs 124mn.

Quarterly Performance

YE Sep (Rs mn)	Q2SY10	Q2SY09	% YoY change	Q1SY10	% QoQ change
Revenues	3,015	1,108	172.2	3,441	(12.4)
EBITDA	576	576	0.0	1,120	(48.6)
Profit after Tax (PAT)	124	130	(4.4)	578	(78.6)
Segmental Gross Revenues (Rs mn)					
Sugar	3,188	1,200	165.7	3,160	0.9
Alcohol	1,684	816	106.4	1,098	53.4
Cogen	234	38	509.7	206	13.8
Segmental EBIT margin (%)					
Sugar	0.0	6.5	(649bps)	23.5	(2350bps)
Power	25.1	32.7	(760bps)	23.5	160bps
Alcohol	10.4	39.7	(2930bps)	(11.6)	NA

Source: RCML Research, Company

What's New? Target Rating Estimates

CMP	TARGET	RATING	RISK
Rs 60	Rs 80	HOLD	HIGH

BSE	NSE	BLOOMBERG
500119	DHAMPUR	DSM IN

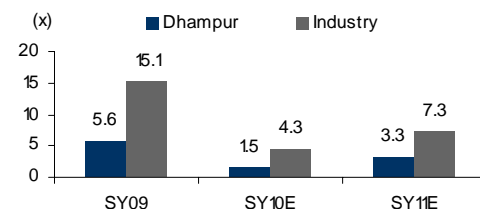
Company data

Market cap (Rs mn / US\$ mn)	3,167 / 71
Outstanding equity shares (mn)	53
Free float (%)	57.4
Dividend yield (%)	2.7
52-week high/low (Rs)	159 / 34
3-month average daily volume	239,307

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Dhampur	60	(12.7)	(53.8)	(45.0)
Sensex	17,503	(1.2)	7.0	9.0

P/E comparison



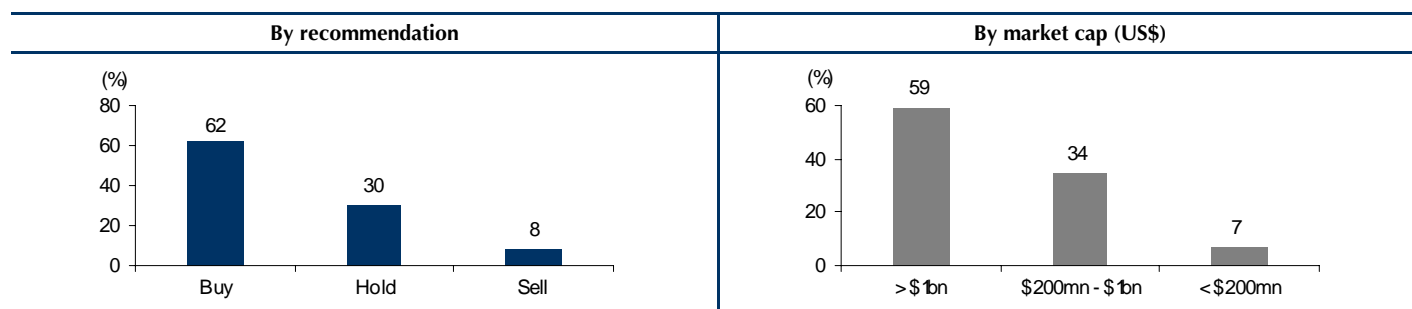
Valuation matrix

(x)	SY08	SY09	SY10E	SY11E
P/E @ CMP	14.6	5.6	1.5	3.3
P/E @ Target	19.5	7.5	2.0	4.4
EV/EBITDA @ CMP	8.7	5.2	2.4	4.0





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

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

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