

Sugar cycle getting sweeter



RESEARCH

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Raising sugar price, EPS, PO & rating on leading cos - Buy

The sugar price in India could jump 20% in next six months and remain strong for next three years, in our opinion. Key drivers for such a strong up-cycle are (1) very low production in current season and forth coming season compared to consumption (2) lack of scope for further reduction in dealer stock level and (3) increased cost of production as well cost of imports. Hence, we upgrade Balrampur (leveraged play on sugar price) to Buy. Maintain Buy on Renuka (higher PO) and Triveni. Maintaining Underperform on Bajaj Hindusthan due to high debt and forex loan loss.

Supply shock sets the stage for stronger sugar cycle

We expect sugar production in the current and next season starting Oct09 to fall short of demand by 35% and 16% respectively due to cost pressures. Such a shortfall is likely to drive up the sugar price by another 20%, on top of the 54% rise seen so far since Aug07 trough. Our expectation of trough to peak price rise of 74% is higher than 52% rise seen in last cycle. However, our peak price estimate for the current cycle is only 20% higher than the previous peak and is driven by 48% higher cost. We expect price to remain high till imports falls to zero i.e till end of FY11E.

Bigger earning boost to UP based mills

The higher sugar price is likely to benefit Uttarpradesh-based Balrampur, Bajaj and Triveni the most as they have higher fixed cost. Renuka, has higher variable cost and hence lesser leverage to sugar price, but is likely to see strong volume growth courtesy its refinery which will import raw sugar and meet India's growing sugar deficit. We raised earnings estimate up to 26% in FY10E and 96% in FY11E for UP based producers. We increased Renuka Sugar's EPS estimate by 6%.

Prefer Balrampur, followed by Renuka & Triveni - Buy

Our order of preference is (1) Balrampur (best play on sugar price leverage) (2) Renuka Sugar (best play on supply shortfall) and (3) Triveni Engg (most attractive valuation). Our PO is based on long term average EV/EBITDA of 6x applied to FY10E earnings, which to us, is mid-cycle.

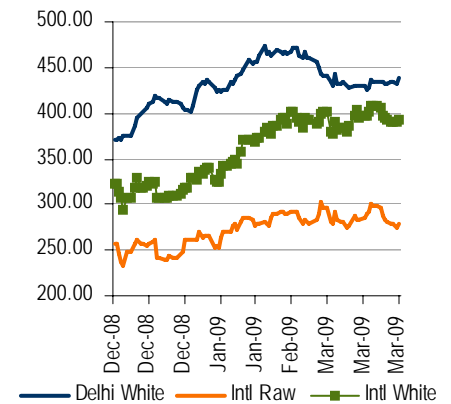
Bajaj Hindusthan most leveraged, but too risky - U/P

Maintain Underperform on Bajaj Hindusthan, despite its highest leverage to sugar price as it has (1) very high debt and (2) very low ROE. We raised FY10E EPS by 26%, but kept PO unchanged based on 6x FY10E EV/EBITDA.

Key risks- 1) bumper crop in Brazil 2) lack of sugar

Key risks to our assumption is higher production in Brazil which could depress international price and make imports more attractive. Also UP-based mills may not benefit from higher sugar price next year if they see another production failure.

Chart 1: Last 3 month sugar price trend (US\$/t)



Source: Bloomberg

Table 1: Rating & valuation summary

Co	Rtg	CMP	PO	Ev/Ebitda	FY10E sensitivity	FY10E EPS
Bajaj Hind	U/P	55.5	45.0	6.3x	3.0%	
Balrampur	Buy	57.7	76.0	4.9x	2.8%	
Renuka	Buy	97.1	120.	4.6x	2.6%	
Triveni	Buy	43.8	52.0	4.3x	2.1%	

Source: Banc of America Securities-Merrill Lynch research

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Sugar price ripe for a flare up

We are now more positive about the prospects of Indian sugar manufacturers following indications of sharper than expected production shortfall in current season. Consequently we raised our EPS estimates, PO and ratings for most companies except for Bajaj Hindusthan, which is saddled with excessive leverage and low ROE. Key drivers for upgrade are the following.

- Significant upside to the price of sugar given the shortage and cost push
- Likelihood of an extended period of shortage driven by lack of new investments both by sugar mill and cane growers
- Limited impact of government intervention due to (1) limited ability to import (2) inelastic demand and (3) government prerogative to balance the need of farmer and consumer.

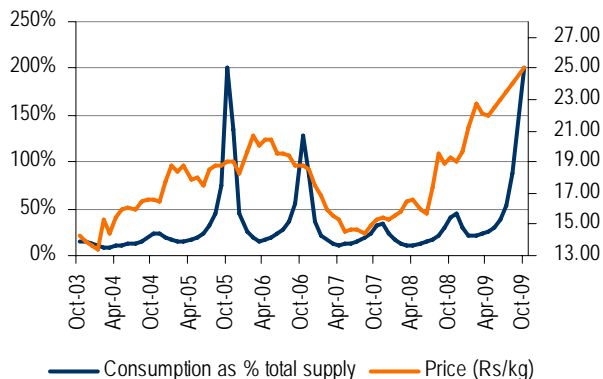
We show below our earnings and rating changes; and the sensitivity to price movements. While Bajaj Hindusthan is the most sensitive to sugar price, we believe its risk reward is unfavourable as it has 3x debt to equity and the only Underperform in our coverage universe.

Table 2: Summary of change in earnings estimate and sensitivity

YE Sep	FY09E	FY10E	FY11E	FY10E EPS sensitivity to 1% rise in sugar price
Bajaj Hindustan	5.53	7.67	11.80	3.0%
% Chg	37%	26%	96%	
Balrampur Chini	5.87	7.49	8.46	2.8%
% Chg	17%	23%	112%	
Renuka Sugar	8.76	12.98	14.09	2.6%
% Chg	0%	7%	6%	
Triveni Engineering	5.75	6.75	7.10	2.1%
% Chg	-1%	2%	42%	

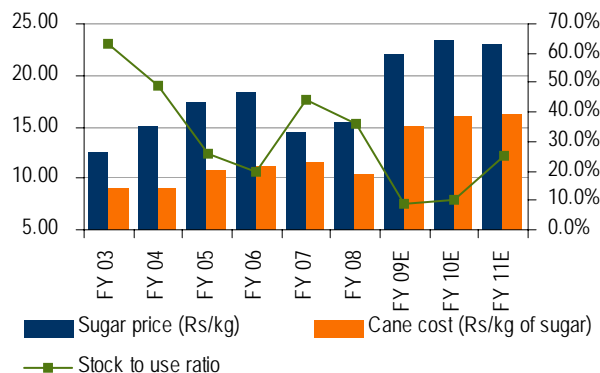
Source: Banc of America Securities-Merrill Lynch research

Chart 2: Sugar price could spike on supply fall in next six month



Source: NFCSF, Bloomberg, Banc of America Securities-Merrill Lynch research

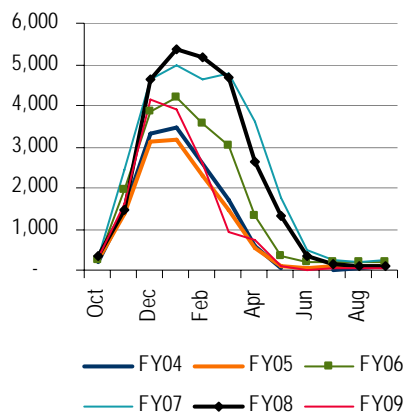
Chart 3: Tight supply and rising cost to push up sugar price



Source: ISMA, Banc of America Securities-Merrill Lynch research

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Chart 4: Early end to FY09 sugar production



Source: NCFCSF, Banc of America Securities-Merrill Lynch research

Sugar price rise imminent

We expect the price of sugar to rise 20% by Oct09 despite it weakening by 4% in March09. We also expect the rice to remain firm till FY11E (Sep end). Key reasons for bullish view are following.

- Decline in sugar production more than estimated earlier
- Complete erosion of inventory will take more time to replenish
- Current discount of domestic price to import parity unsustainable while India imports
- End to dealer de-stocking done on government order to reduce supply pressure

Sugar production in current season sharply down

The Indian Sugar Manufacturer Association (ISMA) now estimates a total of 14.5-15mn tonnes of sugar production in the current season ending Sep 2009. At 14.5mn tonnes, production is down 45% y-o-y and is 12% lower than our previous estimate. There could be further downside to the latest estimate due to the following reasons.

- Till middle of March 2009, total sugar production was only 13.17mn tonnes compared to the target of 14.5mn tonnes. Also most mills in key sugar producing states i.e. Uttarpradesh and Maharashtra have stopped crushing.
- Tamilnadu, which is likely to continue crushing till late July is expected to produce an additional 1mn tonnes and is the key to India's production reaching 14.5mn tonne. However, Tamilnadu has already seen 28% y-o-y decline in production in last six months, while ISMA is expecting only 7% decline in production in the rest of season.

Table 3: India Sugar : Demand vs supply balance

	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09E	FY 10E	FY 11E
Sugarcane production (mn Tonne)	282	234	237	281	356	341	247	293	355
Crop acreage (mn ha)	4.52	3.94	3.66	4.20	5.15	5.04	4.41	4.5	5.3
Crop yield (tonne/ha)	62.3	59.4	64.7	66.9	69.0	67.5	56.0	65.0	67.0
Change in crop yield	-7.5%	-4.7%	9.0%	3.4%	3.1%	-2%	-17%	16%	3%
Sugar cane used by non-sugar purpose	90.66	101.33	112.32	92.50	77.71	90.66	86.44	93.60	88.78
% of cane used by non-sugar users	32%	43%	47%	33%	22%	27%	35%	32%	25%
Sugar cane used by sugar mills	190.9	132.5	124.8	188.7	277.8	249.9	160.52	198.90	266.33
Sugar/Sugarcane yield (%)	10.5%	10.6%	10.2%	10.2%	10.2%	10.5%	9.3%	10.0%	10.5%
Op Stock of sugar (mn tonne)	11.3	11.6	8.5	4.0	3.6	9.2	8.1	2.0	1.7
Sugar Production (Mn tonne)	20.1	14.0	12.7	19.3	28.3	26.3	14.9	19.9	28.0
Domestic demand (mn tonne)	18.4	17.3	18.5	18.5	21.0	22.5	23.0	23.6	24.3
Exports (Mn tonne)	1.5	0.2	0.0	1.1	1.7	5.0	0.1	-	-
Import (Mn tonne)	0.0	0.4	2.1				2.0	3.5	
Closing stock (Mn Tonne)	11.6	8.5	4.8	3.6	9.2	8.1	2.0	1.7	5.4
Stock-to-use Ratio	63.2%	49.2%	26.1%	19.7%	44.0%	36.0%	8.7%	7.4%	22.0%
Sugar Price ex Delhi (Rs/tonne)	12,642	15,001	17,516	18,457	14,500	15,500	22,000	23,500	23,000
Y-o-Y chg in price	-13.8%	18.7%	16.8%	5.4%	-21.4%	6.9%	41.9%	6.8%	-2.1%
CANE Price (Rs/qttl)									
Actual price paid for cane in UP	95	95	110	115	118	110	140	160	170
Actual price paid in MH/KK	115	115	150	150	110	110	160	165	170

Source: ISMA, Banc of America Securities-Merrill Lynch research

Extended period of shortage likely

Production has contracted by over 45% in the current season, raising the prospect of an extended period of tight supply environment in India i.e. till Sep 2011. Key reasons for this are following:

1. In the current year, production shortfall relative to consumption would be over 8mn tonnes, which will help eliminate almost all the inventory held at the beginning of season.
2. India needs to keep about 3 months of sugar stock (around 5mn tonnes to 6 mn tonnes) of inventory at the end of season i.e at the end of Sep. This is required to meet possible delay in production in subsequent season as well as to meet peak demand in the Oct-Nov festival season.
3. Leading sugar manufacturers and their associations expect sugar production of 17mn tonnes – 20mn tonnes in the next season. This means a short fall of 3-6mn tonnes relative to the consumption demand.
4. Lack of new green field investment in the current environment would also deter production ramp, unlike what was seen in the previous cycle; thus limiting the ability to boost supply.
5. India needs to import about 2mn tones of sugar in the current season and another 3-5mn tonnes next season. These imports would be mostly done with re-export obligation.

Considering above factors India may not be able to rebuild 3month of inventory without import before sugar season Oct2011 –Sep2012. This would mean a four year of upcycle, i.e one year more than a typical upcycle.

Domestic demand still buoyant

We expect domestic sugar consumption to continue to grow at 2%-4% rate per annum if it is made available. The price rise is unlikely to deter sugar consumption as over 70% of sugar is consumed indirectly by way of value added products like soft drink, ice cream and chocolates etc. Considering that consumption of some of these items is growing at over 10-15% rate, the price rise is unlikely to affect demand. Also a 10% rise in sugar price could increase the cost of living of an average household by only 0.7%. As far as very poor people are concerned, government distributes sugar at a fixed price, which is about 50% cheaper.

Government intervention may not be as detrimental

In the past, government regulation like (1) export ban and (2) duty free import of sugar had affected sugar price. However, these steps won't hurt till supply is tight except for the brief period of transition to new regime. We don't expect more drastic steps like government selling subsidized sugar across board due to following reasons.

- The government is already buying 10% of sugar produced from mills at 40% below cost. If the government imports sugar at a higher price than this and sells it at a lower price, it may be required to offer a higher price to domestic manufacturers as well.
- The lower sugar price despite shortage will reduce the incentive to produce more within India and hence would hurt farmers.

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Table 4: Sugar import dynamics on 31st Mar

	Values
Base price (US\$/t - FOB)	393
Freight (US\$/tonne)	50
Import duty	-
Rs/US\$	52
CIF cost of sugar (Rs/t)	23,036
Port & Incidental (Rs/tonne)	400
Imported Price in coastal state of Maharashtra	23,436
Current wholesale price in Maharashtra	20,490
Discount to import price	-13%
Inland transportation cost to Delhi from Mumbai coast (Rs/t)	2,000
Landed cost at Delhi	25,436
Current wholesale price in Delhi	22,200
Discount to import price at Delhi	-13%

Source: NCDEX, Bloomberg

Discount (to int'l prices) to import parity unsustainable

India is currently witnessing an extremely odd situation as the domestic sugar price is selling at a discount to landed price of imported sugar to the tune of 10%-15%. We consider this odd as typically during the period when India imports sugar, domestic price trades at 10-15% premium to international. We think the current discount is not sustainable. It is primarily due to the recent government order of imposing stock limit on traders. In anticipation of implementation of this rule, the sugar price fell by around 8-10% in the past few weeks as the dealers reduced their inventory to meet the stock limit criteria. The inventory correction is now behind us. Hence, this should positively impact sugar prices.

The government proposed stock limit on 27th Feb 09 and issued the notification on Mar 12, 2009 with the proposal to make it effective from 27th March. Key conditions are:

- Turnover limit of 30 days on recognized sugar dealers. This means the recognized dealers can't keep stock for more than 30 days from receipt of stock from manufacturers.
- Maximum stock that can be held by a recognized dealer is not more than 1000 tonnes. This rule is applicable to Kolkata and nearby regions.
- Other states are free to fix stock holding and turnover limit higher than the above two rules imposed by central government.

Valuation and rating

Along with upgrade in earnings we upgraded our PO on Balrampur Chini and Renuka Sugar. We also upgraded our rating on Balrampur to Buy from Underperform.

Now we have Buys on three out of four sugar stocks under coverage i.e Balrampur Chini, Renuka Sugar and Triveni.

We maintain Underperform on Bajaj Hindusthan due to its very high leverage. Key reasons for our Buy rating on majority of stocks under coverage are our expectations for the sustainability of sugar price uptrend for next two years.

We continue to value sugar stocks under our coverage at 6x one year forward EV/EBITDA. However, we changed the PO basis from FY09E to FY10E ending Sep 2010. Key reasons for changing PO basis to FY10E are the following:

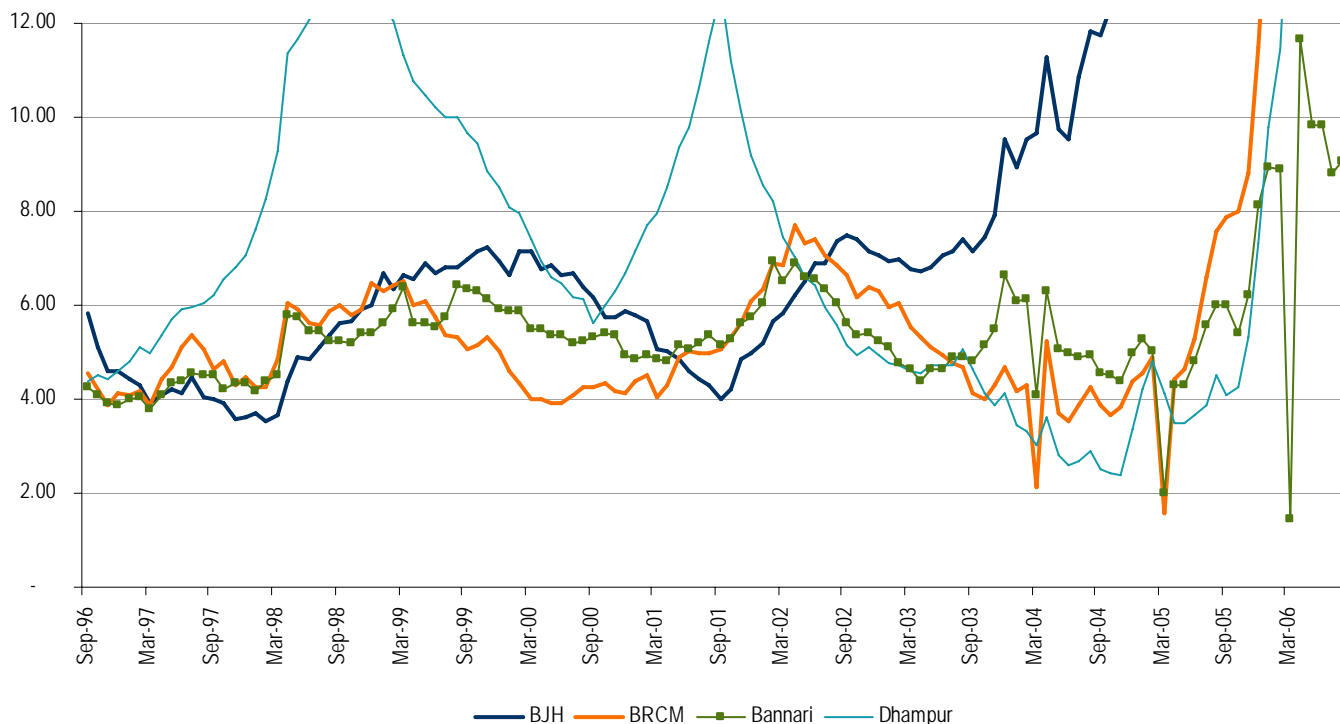
- Earnings cycle of sugar companies are unlikely to peak before FY11E, hence we view FY10E as still mid cycle.
- Also the bulk of the price rise is likely to happen over next six months, with its impact to earnings of companies to be realized in FY10E instead of FY09E.
- The impact of inventory gain is not there in FY10E as opposed to FY09E, hence, we think it is a far better representation of earnings power.

Key reasons why we value at 6x EV/EBITDA are following.

- Sugar companies have mostly traded in the range of 4x-7.5x EV/EBITDA (one year forward rolling) since 1996.
- Average one year forward EV/EBITDA of leading sugar companies trading in Indian stock market since Sep'96- Sep'03 was 6x.

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Chart 5: One year forward EV/EBITDA band chart



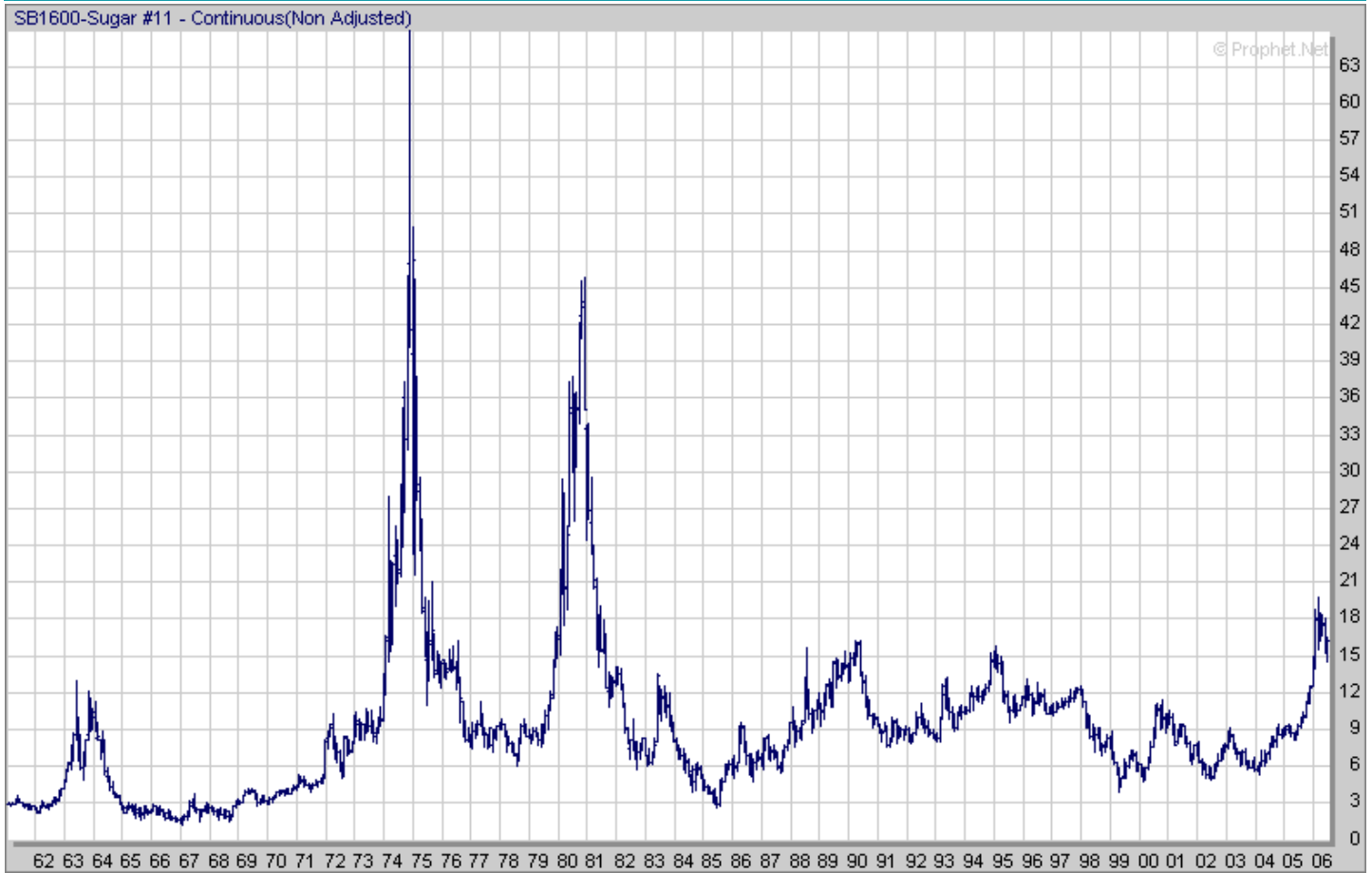
Source: Bloomberg, Companies

Overproduction in Brazil is the key risk

The key risk to our bullish view on the sugar price in India is a softening of the international price and a rupee appreciation, which will make it cheaper to import. Brazil is expected to increase its sugar exports from 17.5mn tonnes to 21mn tonnes in the next 12 months, driven by 14% production growth. This, is still less than the supply gap in India. Should Brazil export far more sugar than this by cutting down ethanol production in the light of decline in petrol price, then it will hurt outlook. However, the possibility of a further surprise is limited as Brazil constrained with only about 4% higher cane supply and crystallization capacity. We estimate that a 1% fall in sugar price could hurt earnings by 2% -3%.

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Chart 6: Long term international sugar price trend...Price currently at USCent 13/pound...much below previous spikes



Source: <http://www.tradingreview.com/sugar-commodity-chart.html>

Key beneficiary of price rise



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Upgrade to Buy from U/P; PO Rs76 - upside 32%

We are upgrading our rating on Balrampur Chini from Underperform to Buy on the back of 4%-10% higher sugar price in FY10-11E. Key drivers of rating change are (1) high leverage to sugar price to result in strong earnings growth (2) extended period of growth phase to bring in huge benefit of loan reduction and (3) attractive valuation as stock 4.8x FY10E EV/EBITDA and 77x FY10E PE while we expect ROE to rise from 10% in FY08 to 16% in FY10E. Our PO of Rs76 is based on 6x FY10E EV/EBITDA equivalent to long term average multiple for the sector.

Earnings upgrade reflects leverage to sugar price

We have raised Balrampur Chini's FY10E and FY11E EPS by 23% and 112% respectively driven by assumption 4% to 10% higher sugar price. Balrampur, as the second largest cane processing company of India with commendable diversification and track record, is a key beneficiary of likely rise in sugar price. We also expect the company's net debt to equity to fall from 0.7 in FY09E to 0.3x in FY11E.

Key risk is lower sugar sales and higher cane cost

Lower than expected production and higher cost of cane could hurt our earnings outlook and rating. We are expecting Balrampur to achieve 25% production growth in FY10E (Sep end), in line with our expectation of production growth in Uttarpradesh. We are also assuming total cost of cane to rise 12% to Rs1750/t.

Estimates (Sep)

(Rs)	2007A	2008A	2009E	2010E	2011E
Net Income (Adjusted - mn)	(419)	970	1,559	1,990	2,246
EPS	(1.69)	3.80	5.87	7.49	8.46
EPS Change (YoY)	NM	NM	54.6%	27.6%	12.8%
Dividend / Share	0	0.500	0.500	2.00	3.50
Free Cash Flow / Share	(29.61)	(4.14)	13.39	12.87	8.99

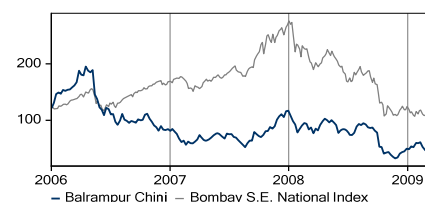
Valuation (Sep)

	2007A	2008A	2009E	2010E	2011E
P/E	NM	15.20x	9.83x	7.70x	6.82x
Dividend Yield	0%	0.867%	0.867%	3.47%	6.07%
EV / EBITDA*	28.77x	8.12x	6.28x	5.87x	5.75x
Free Cash Flow Yield*	-47.96%	-6.91%	23.21%	22.30%	15.59%

* For full definitions of *iQmethod*SM measures, see page 23.

Stock Data

Price	Rs57.70
Price Objective	Rs51.00 to Rs76.00
Date Established	8-Apr-2009
Investment Opinion	C-3-7 to C-1-7
Volatility Risk	HIGH
52-Week Range	Rs29.30-Rs109.90
Mrkt Val / Shares Out (mn)	US\$306 / 265.5
Average Daily Volume	2,368,617
ML Symbol / Exchange	BMPRF / BSE
Bloomberg / Reuters	BRCM IN / BACH.BO
ROE (2009E)	13.7%
Net Dbt to Eqty (Sep-2008A)	127.9%
Est. 5-Yr EPS / DPS Growth	NA / NA
Free Float	64.3%



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iQprofileSM Balrampur Chini Mills Ltd.

Key Income Statement Data (Sep)	2007A	2008A	2009E	2010E	2011E
(Rs Millions)					
Sales	13,917	14,635	16,550	20,023	21,150
Gross Profit	3,243	5,730	6,574	6,916	7,279
Sell General & Admin Expense	(753)	(820)	(860)	(875)	(876)
Operating Profit	88	1,982	2,899	3,188	3,279
Net Interest & Other Income	(442)	(755)	(950)	(700)	(400)
Associates	0	0	0	0	0
Pretax Income	(354)	1,226	1,949	2,488	2,879
Tax (expense) / Benefit	(65)	(256)	(390)	(498)	(633)
Net Income (Adjusted)	(419)	970	1,559	1,990	2,246
Average Fully Diluted Shares Outstanding	248	256	266	266	266

Key Cash Flow Statement Data

Net Income	(419)	970	1,559	1,990	2,246
Depreciation & Amortization	803	1,172	1,180	1,180	1,180
Change in Working Capital	(1,105)	(2,616)	1,017	746	(537)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	56	218	0	0	0
Cash Flow from Operations	(665)	(255)	3,756	3,916	2,888
Capital Expenditure	(6,683)	(803)	(200)	(500)	(500)
(Acquisition) / Disposal of Investments	0	0	0	0	0
Other Cash Inflow / (Outflow)	NA	NA	NA	NA	NA
Cash Flow from Investing	(6,683)	(803)	(200)	(500)	(500)
Shares Issue / (Repurchase)	0	770	828	0	0
Cost of Dividends Paid	0	(149)	(155)	(621)	(1,087)
Cash Flow from Financing	0	621	673	(621)	(1,087)
Free Cash Flow	(7,348)	(1,059)	3,556	3,416	2,388
Net Debt	12,663	13,101	8,872	6,077	4,776
Change in Net Debt	NA	NA	NA	NA	NA

Key Balance Sheet Data

Property, Plant & Equipment	19,200	18,831	17,851	17,171	16,491
Other Non-Current Assets	32	18	18	18	18
Trade Receivables	462	490	544	658	695
Cash & Equivalents	199	406	1,128	923	1,224
Other Current Assets	6,729	7,925	5,720	4,597	5,738
Total Assets	26,622	27,669	25,261	23,367	24,166
Long-Term Debt	12,862	13,507	10,000	7,000	6,000
Other Non-Current Liabilities	1,232	1,426	1,426	1,426	1,426
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	3,886	2,494	1,360	1,097	1,738
Total Liabilities	17,980	17,427	12,786	9,523	9,164
Total Equity	8,642	10,243	12,475	13,844	15,002
Total Equity & Liabilities	26,622	27,669	25,261	23,367	24,166

iQmethodSM - Bus Performance*

Return On Capital Employed	0.4%	6.5%	9.5%	11.0%	11.4%
Return On Equity	-4.7%	10.3%	13.7%	15.1%	15.6%
Operating Margin	0.6%	13.5%	17.5%	15.9%	15.5%
EBITDA Margin	6.4%	21.5%	24.6%	21.8%	21.1%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	NM	-0.3x	2.4x	2.0x	1.3x
Asset Replacement Ratio	8.3x	0.7x	0.2x	0.4x	0.4x
Tax Rate (Reported)	NM	20.9%	20.0%	20.0%	22.0%
Net Debt-to-Equity Ratio	146.5%	127.9%	71.1%	43.9%	31.8%
Interest Cover	0.2x	2.2x	2.9x	4.0x	6.6x

Key Metrics

* For full definitions of iQmethodSM measures, see page 23.

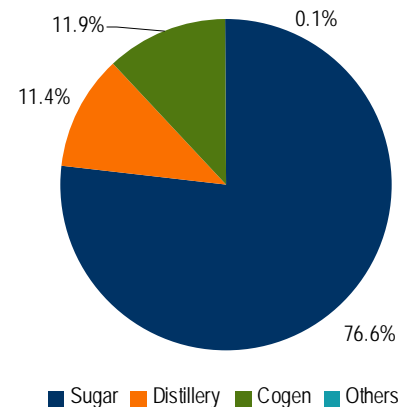
Company Description

Balrampur Chini is the second largest and one of the oldest sugar producer of India contributing to 3% of India's FY08 production. The company is based in eastern part of Uttarpradesh and boasts of good relation with farmers. It is fully integrated and has the exportable electricity capacity. The company has grown its capacity through a combination of acquisition and organic expansion.

Investment Thesis

We expect Balrampur to do well in the ensuing sugar price rise cycle that is likely to last till FY11. Decline in debt level driven better operating earnings, decline in working capital and lack of capex to result in significant reduction in debt level and improve risk profile. Stock is very attractive in terms of valuation.

Chart 1: FY08 net revenue mix



Source: Balrampur Chini

Stock Data

Price to Book Value 1.2x

Table 1: Balrampur Chini - Earnings change and assumptions

	FY09E	FY10E	FY11E
Sugar sales (Mn Kg)			
Old	650	700	760
New	630	700	760
% Chg	-3%	0%	0%
Sugar price (Rs/kg)			
Old	21.00	22.00	20.00
New	21.50	22.80	22.00
% Chg	2%	4%	10%
Sugar cane cost (Rs/tonne)			
Old	1,560	1,750	1,750
New	1,560	1,750	1,750
% Chg	0%	0%	0%
EBITDA (Rs Mn)			
Old	3,791	3,808	2,939
New	4,079	4,368	4,459
% Chg	8%	15%	52%
EPS (Rs/sh)			
Old	5.00	6.11	3.99
New	5.87	7.49	8.46
% Chg	17%	23%	112%

Source: Banc of America Securities - Merrill Lynch

Table 2: High sensitivity to 1% change in sugar price

	FY09E	FY10E
Sugar sales (Mn Kg)	630.0	700.0
Base price of sugar (Rs/kg)	21.5	22.8
Incremental net sales on 1% higher sugar price	135.5	159.6
Incremental pre tax profit on 1% high sugar price	135.5	159.6
Marginal tax rate	35%	35%
No of shares outstanding (mn)	265.5	265.5
Base case EPS (Rs/sh)	5.87	7.49
Incremental EPS on 1% higher sugar price	0.18	0.21
% Chg in base case EPS for 1% chg in sugar price	3.0%	2.8%

Source: Banc of America Securities - Merrill Lynch



RESEARCH

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Refining story getting better

Raising PO by 41% to Rs120 on higher earnings in FY10E

Renuka as the biggest raw sugar refinery of India would be the biggest beneficiary of sharp cane sugar production fall in India as the requirement and profitability of processing imported raw sugar has improved. We are raising our PO by 41% to Rs120/sh on the back of 7% upgrade to earnings driven by 1-7% higher sugar price in FY10-11E. We have also rolled over in PO basis to 6x FY10E EV/EBITDA in place of 6x FYY09E EV/EBITDA.

Refinery advantage rises further as cane sugar falls

Production shortfall of over 45%, which is 12% less than our earlier expectation has further raised the importance of imports. In our view, Renuka with the biggest raw sugar refinery in both east and west coast of India stands to gain more from such development as it would emerge as the biggest supplier white sugar to India.

Key risk is decline in refining margin

Raw sugar refining margin has turned negative from over US\$80/tonne in last one month due to (1) faster rise in international sugar price relative to domestic price (2) rupee depreciation and (3) rise in freight rate. Renuka though has booked its requirement of raw sugar at far attractive rate, the sustainability of such high margin is doubtful.

Estimates (Sep)

(Rs)	2007A	2008A	2009E	2010E	2011E
Net Income (Adjusted - mn)	830	1,338	2,453	3,633	3,944
EPS	3.35	4.85	8.76	12.98	14.09
EPS Change (YoY)	-33.9%	44.9%	80.7%	48.1%	8.6%
Dividend / Share	0.200	0.200	0.500	0.500	1.50
Free Cash Flow / Share	(10.14)	(17.34)	(4.80)	21.66	4.91

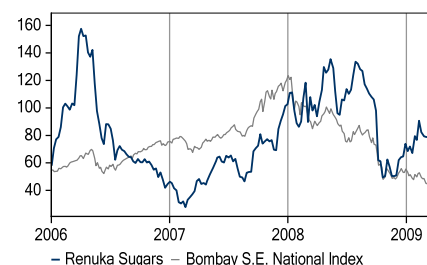
Valuation (Sep)

	2007A	2008A	2009E	2010E	2011E
P/E	29.02x	20.03x	11.08x	7.48x	6.89x
Dividend Yield	0.206%	0.206%	0.515%	0.515%	1.54%
EV / EBITDA*	28.19x	14.73x	7.39x	5.95x	5.70x
Free Cash Flow Yield*	-9.26%	-17.60%	-4.94%	22.31%	5.06%

* For full definitions of *iQmethod*SM measures, see page 23.

Stock Data

Price	Rs97.00
Price Objective	Rs85.00 to Rs120.00
Date Established	8-Apr-2009
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	Rs41.00-Rs142.40
Mrkt Val / Shares Out (mn)	US\$543 / 280.0
Average Daily Volume	5,481,952
ML Symbol / Exchange	SRNKF / BSE
Bloomberg / Reuters	SHRS IN / SRES.BO
ROE (2009E)	25.9%
Net Dbt to Eqty (Sep-2008A)	90.9%
Est. 5-Yr EPS / DPS Growth	40.0% / 55.0%
Free Float	59.6%



- Renuka Sugars - Bombay S.E. National Index

08 April 2009

iQprofileSM Shree Renuka Sugars Ltd.

Key Income Statement Data (Sep)	2007A	2008A	2009E	2010E	2011E
(Rs Millions)					
Sales	9,506	21,143	29,303	37,108	49,089
Gross Profit	2,642	5,376	10,588	12,855	17,061
Sell General & Admin Expense	(239)	(419)	(482)	(554)	(637)
Operating Profit	1,071	2,157	4,440	5,635	5,875
Net Interest & Other Income	(5)	(549)	(1,080)	(670)	(469)
Associates	0	0	0	0	NA
Pretax Income	1,066	1,608	3,360	4,965	5,406
Tax (expense) / Benefit	(236)	(427)	(907)	(1,333)	(1,462)
Net Income (Adjusted)	830	1,338	2,453	3,633	3,944
Average Fully Diluted Shares Outstanding	248	276	280	280	280

Key Cash Flow Statement Data

Net Income	830	1,156	2,453	3,633	3,944
Depreciation & Amortization	249	369	594	616	656
Change in Working Capital	(1,005)	(2,349)	(1,357)	2,015	(3,026)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	851	1,426	(533)	0	0
Cash Flow from Operations	926	602	1,158	6,264	1,575
Capital Expenditure	(3,442)	(5,387)	(2,500)	(200)	(200)
(Acquisition) / Disposal of Investments	0	0	0	0	0
Other Cash Inflow / (Outflow)	NA	NA	NA	NA	NA
Cash Flow from Investing	(3,442)	(5,387)	(2,500)	(200)	(200)
Shares Issue / (Repurchase)	0	2,184	4	0	0
Cost of Dividends Paid	(64)	(65)	(164)	(164)	(491)
Cash Flow from Financing	(64)	2,119	(160)	(164)	(491)
Free Cash Flow	(2,517)	(4,785)	(1,342)	6,064	1,375
Net Debt	5,392	8,058	9,560	3,660	2,777
Change in Net Debt	NA	NA	NA	NA	NA

Key Balance Sheet Data

Property, Plant & Equipment	7,710	12,728	14,634	14,218	13,761
Other Non-Current Assets	22	16	16	16	16
Trade Receivables	861	1,603	2,408	3,050	4,035
Cash & Equivalents	1,078	537	440	4,340	3,223
Other Current Assets	2,658	5,833	9,620	8,567	13,069
Total Assets	12,329	20,717	27,118	30,191	34,105
Long-Term Debt	6,470	8,595	10,000	8,000	6,000
Other Non-Current Liabilities	202	467	467	467	467
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	1,218	2,786	6,021	7,625	10,087
Total Liabilities	7,890	11,847	16,488	16,092	16,554
Total Equity	4,439	8,870	10,630	14,099	17,551
Total Equity & Liabilities	12,329	20,717	27,118	30,191	34,105

iQmethodSM - Bus Performance*

Return On Capital Employed	9.3%	10.9%	16.6%	18.9%	18.4%
Return On Equity	22.3%	20.9%	25.9%	29.4%	24.9%
Operating Margin	11.3%	10.2%	15.2%	15.2%	12.0%
EBITDA Margin	13.9%	11.9%	17.2%	16.8%	13.3%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	1.1x	0.5x	0.5x	1.7x	0.4x
Asset Replacement Ratio	13.8x	14.6x	4.2x	0.3x	0.3x
Tax Rate (Reported)	22.1%	26.6%	27.0%	26.8%	27.0%
Net Debt-to-Equity Ratio	121.5%	90.9%	89.9%	26.0%	15.8%
Interest Cover	5.9x	3.1x	3.7x	7.0x	9.8x

Key Metrics

* For full definitions of iQmethodSM measures, see page 23.

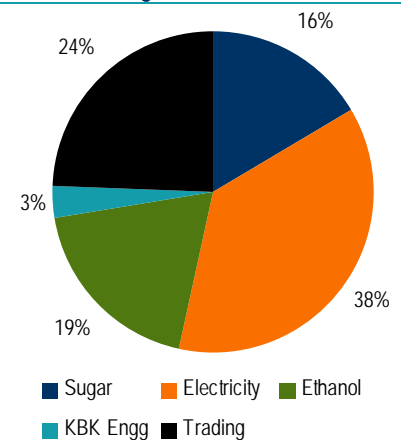
Company Description

Renuka Sugar is the fifth largest sugar manufacturer and largest trader of sugar of India. It has manufacturing base in Maharashtra and Karnataka, close to western coast of India. The company is also the largest manufacturer of ethanol blended with gasoline in India. Renuka has expanded its presence in recent times into setting up of ethanol plant with the acquisition of KBK Engineering.

Investment Thesis

We believe Renuka Sugar, with the largest raw sugar refining capacity is best placed over next two years as India needs to import raw sugar to tide domestic shortage. The company is likely to see strong earnings growth over a longer period as well due to its focus on biofuel and increase in govt emphasis on making biofuel popular.

Chart 1: FY08 segment wise EBIT mix



Source: Renuka Sugar

Stock Data

Price to Book Value 2.6x

Table 1: Renuka - Change in earnings estimate

	FY09E	FY10E	FY11E
EBITDA margin (%)			
Old	17.2%	15.6%	13.7%
New	17.2%	16.8%	13.3%
% Chg	0.0%	1.3%	-0.4%
EBITDA (Rs mn)			
Old	5,035	5,917	6,144
New	5,035	6,251	6,531
% Chg	0%	6%	6%
EPS (Rs/sh)			
Old	8.76	12.10	13.25548
New	8.76	12.98	14.09
% Chg	0%	7%	6%

Source: Banc of America Securities - Merrill Lynch

Table 2: Earnings sensitivity to 1% change in sugar price

	FY09E	FY10E
Sugar sales (Mn Kg)	1,000.0	1,250.0
Base price of sugar (Rs/kg)	20.0	21.3
Incremental net sales on 1% higher sugar price	200.0	266.3
Incremental pre tax profit on 1% high sugar price	200.0	266.3
Marginal tax rate	35%	35%
No of shares outstanding (mn)	280	280
Base case EPS (Rs/sh)	8.76	12.98
Incremental EPS on 1% higher sugar price	0.25	0.33
% Chg in base case EPS for 1% chg in sugar price	2.9%	2.6%

Source: Banc of America Securities - Merrill Lynch

Table 3: Earnings sensitivity from Haldia refinery performance only

	FY09E	FY10E
Haldia sugar refinery sales (Mn kg)	450	650
Base case refining margin (Rs/kg)	2.7	3.2
Incremental refining margin from 1% rise in sugar price (Rs/kg)	0.20	0.21
Incremental pre tax profit on 1% high sugar price	90	138.45
Marginal tax rate	35%	35%
No of shares outstanding (mn)	280	280
Base case EPS (Rs/sh)	8.76	12.98
Incremental EPS on 1% higher sugar price	0.11	0.17
% Chg in base case EPS for 1% chg in sugar price	1.3%	1.3%

Source: Banc of America Securities - Merrill Lynch

Attractive on valuation



RESEARCH

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Maintain Buy with a PO of Rs52; total upside 20%

Triveni is the cheapest sugar stock under our coverage trading at 6.5x FY10E PE and 4.3x FY10E EV/EBITDA. We maintain Buy with a PO of Rs52 on attractive valuation and despite lower leverage to sugar business. We have valued the company's sugar business at 6x FY10E EBITDA and its engineering business contributing to 43% of earnings at 3.5x FY10E EBITDA.

Upgrading FY11E earnings by 42% on extended sugar cycle

We have upgraded FY11E EPS of Triveni by 42% owing to the assumption of one more year of rising sugar cycle. We have increased our sugar price assumption for FY10-11E by 4-10%. However, we have kept EPS for FY09E and FY10E unchanged on the assumption of further slowdown in engineering business that would negate benefit of higher sugar price.

Key risk is downturn in Engineering business

Sharp decline in engineering business contributing to 43% of profit on account of economic slowdown is the key risk to our Buy rating on Triveni.

Estimates (Sep)

(Rs)	2007A	2008A	2009E	2010E	2011E
Net Income (Adjusted - mn)	754	1,115	1,483	1,739	1,831
EPS	2.92	4.32	5.75	6.75	7.10
EPS Change (YoY)	-42.6%	47.8%	33.0%	17.3%	5.3%
Dividend / Share	0.600	0.600	0.750	1.00	1.00
Free Cash Flow / Share	(22.21)	(6.01)	12.87	13.36	2.76

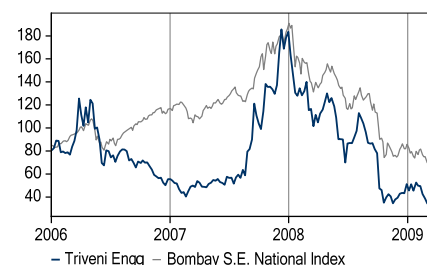
Valuation (Sep)

	2007A	2008A	2009E	2010E	2011E
P/E	14.97x	10.13x	7.61x	6.49x	6.17x
Dividend Yield	1.37%	1.37%	1.71%	2.28%	2.28%
EV / EBITDA*	8.52x	6.53x	5.35x	5.32x	5.37x
Free Cash Flow Yield*	-50.70%	-13.72%	29.38%	30.50%	6.31%

* For full definitions of *iQmethod*SM measures, see page 23.

Stock Data

Price	Rs43.80
Price Objective	Rs52.00
Date Established	3-Nov-2008
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	Rs29.40-Rs135.00
Mrkt Val / Shares Out (mn)	US\$226 / 257.9
Average Daily Volume	655,710
ML Symbol / Exchange	TVIEF / BSE
Bloomberg / Reuters	TRE IN / TREI.BO
ROE (2009E)	17.5%
Net Dbt to Eqty (Sep-2008A)	145.5%
Est. 5-Yr EPS / DPS Growth	NA / NA
Free Float	33.1%



08 April 2009

iQprofileSM Triveni Engineering & Industries Ltd.

Key Income Statement Data (Sep)	2007A	2008A	2009E	2010E	2011E
(Rs Millions)					
Sales	19,072	15,930	16,748	18,486	21,027
Gross Profit	5,497	6,262	8,824	7,546	7,173
Sell General & Admin Expense	(1,339)	(1,194)	(1,380)	(1,400)	(1,450)
Operating Profit	1,510	2,255	2,930	2,949	2,912
Net Interest & Other Income	(725)	(909)	(953)	(630)	(470)
Associates	NA	NA	NA	NA	NA
Pretax Income	785	1,346	1,978	2,319	2,442
Tax (expense) / Benefit	(31)	(230)	(494)	(580)	(610)
Net Income (Adjusted)	754	1,115	1,483	1,739	1,831
Average Fully Diluted Shares Outstanding	258	258	258	258	258

Key Cash Flow Statement Data

Net Income	754	1,115	1,483	1,739	1,831
Depreciation & Amortization	863	840	850	850	850
Change in Working Capital	(582)	(2,904)	1,185	1,055	(1,469)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	989	192	0	0	0
Cash Flow from Operations	2,024	(758)	3,518	3,645	1,213
Capital Expenditure	(7,751)	(792)	(200)	(200)	(500)
(Acquisition) / Disposal of Investments	(1)	0	0	0	0
Other Cash Inflow / (Outflow)	NA	NA	NA	NA	NA
Cash Flow from Investing	(7,751)	(792)	(200)	(200)	(500)
Shares Issue / (Repurchase)	0	0	0	0	0
Cost of Dividends Paid	(178)	(181)	(226)	(302)	(302)
Cash Flow from Financing	(178)	(181)	(226)	(302)	(302)
Free Cash Flow	(5,726)	(1,550)	3,318	3,445	713
Net Debt	9,672	11,403	8,311	5,168	4,757
Change in Net Debt	NA	NA	NA	NA	NA

Key Balance Sheet Data

Property, Plant & Equipment	13,059	13,011	12,361	11,711	11,361
Other Non-Current Assets	41	38	38	38	38
Trade Receivables	943	2,134	2,294	1,773	2,016
Cash & Equivalents	344	284	1,189	1,832	1,243
Other Current Assets	7,664	9,252	6,953	6,779	8,456
Total Assets	22,051	24,719	22,836	22,133	23,115
Long-Term Debt	10,016	11,687	9,500	7,000	6,000
Other Non-Current Liabilities	403	609	609	609	609
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	4,712	4,587	3,633	3,992	4,444
Total Liabilities	15,130	16,882	13,741	11,601	11,053
Total Equity	6,920	7,837	9,094	10,532	12,062
Total Equity & Liabilities	22,051	24,719	22,836	22,133	23,115

iQmethodSM - Bus Performance*

Return On Capital Employed	10.0%	10.0%	11.2%	11.8%	11.9%
Return On Equity	12.3%	15.1%	17.5%	17.7%	16.2%
Operating Margin	7.9%	14.2%	17.5%	16.0%	13.8%
EBITDA Margin	12.4%	19.4%	22.6%	20.6%	17.9%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	2.7x	-0.7x	2.4x	2.1x	0.7x
Asset Replacement Ratio	9.0x	0.9x	0.2x	0.2x	0.6x
Tax Rate (Reported)	3.9%	17.1%	25.0%	25.0%	25.0%
Net Debt-to-Equity Ratio	139.8%	145.5%	91.4%	49.1%	39.4%
Interest Cover	2.0x	2.3x	2.8x	3.9x	4.9x

Key Metrics

* For full definitions of iQmethodSM measures, see page 23.

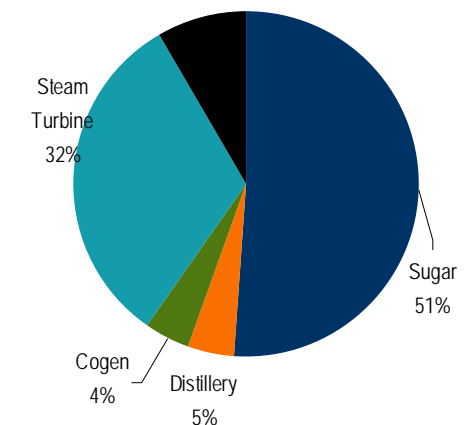
Company Description

Triveni is the the third largest sugar mill of India and is based out of Uttarpradesh. It is also one of the most diversified sugar company with more 60% of revenue coming from non sugar activity including ethanol, cogen, and industrial machinery. Triveni's industrial machinery division comprising of steam turbine, gears and water treatment equipments enjoys over 75% marketshare in the sub 20MW segment.

Investment Thesis

Triveni is likely to be a key beneficiary of (1) rise in sugar price (2) rise in alcohol price and (3) govt thrust on increasing power generation from renewable sources. The company is also likely to see sharp improvement in free cash flow, which will be useful in retiring high cost debt, thus adding to EPS growth accruing from rise in sugar price.

Chart 1: Triveni – FY08 revenue mix



Source: Triveni Engineering

Stock Data

Price to Book Value 1.2x

Table 1: Triveni : Change in earnings and assumption

	FY09E	FY10E	FY11E
Sugar sales (Mn Kg)			
Old	430	450	550
New	430	450	550
% Chg	0%	0%	0%
Sugar price (Rs/kg)			
Old	21	22	20
New	21.50	22.80	22.00
% Chg	2%	4%	10%
Sugar cane cost (Rs/tonne)			
Old	1,550	1,650	1,650
New	1,600	1,750	1,750
% Chg	3%	6%	6%
EBITDA (Rs Mn)			
Old	3,807	3,848	3,186
New	3,780	3,799	3,762
% Chg	-1%	-1%	18%
EPS (Rs/sh)			
Old	5.83	6.60	4.99
New	5.75	6.75	7.10
% Chg	-1%	2%	42%

Source: Banc. of America Securities-Merrill Lynch

Table 2: Triveni low on earning sensitivity to 1% chg in sugar price owing engg biz

	FY09E	FY10E
Sugar sales (Mn Kg)	430.0	450.0
Base price of sugar (Rs/kg)	21.5	22.8
Incremental net sales on 1% higher sugar price	92.5	102.6
Incremental pre tax profit on 1% high sugar price	92.5	102.6
Marginal tax rate	35%	35%
No of shares outstanding (mn)	257.9	257.9
Base case EPS (Rs/sh)	5.75	6.75
Incremental EPS on 1% higher sugar price	0.13	0.14
% Chg in base case EPS for 1% chg in sugar price	2.2%	2.1%

Source: Banc. of America Securities-Merrill Lynch

Equity | India | Food-Commodities
08 April 2009**RESEARCH**

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We maintain our Underperform rating on Bajaj Hindusthan, despite it having the highest leverage to sugar price as it has (1) very high debt and (2) very low ROE. We have raised FY10E EPS by 26% but have kept PO unchanged at Rs45/sh. Earnings upgrade has not affected PO as our PO is now based on 6x FY10E EV/EBITDA and not at 50% discount to replacement cost. Earlier we had used replacement cost as PO basis due to small earning base.

Strong growth in earnings on low base, buy not attractive

We have increased our EPS estimate for Bajaj Hindusthan by 26%-96% for FY09E to FY11E. Although the earnings upgrade looks high they are off a low base. Also even after such earnings increase the stock is trading at over 6x FY11E, which is too considering FY11E to be the peak earnings period for the company.

Concerns galore

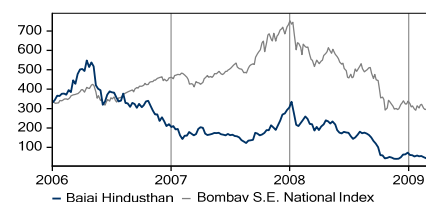
Key concerns for Bajaj Hindusthan continues to be very high net debt to equity ratio of over 2x in FY11E i.e the period of peak cyclical earnings; beyond which the company may again become loss making. We estimate peak cycle ROE of 11.9% in FY11E, which is below cost of capital. Company's net debt to equity likely to remain high at 2x in FY11 despite strong cash flow.

Upside risk from possible government incentive

Revival of the capital subsidy scheme in Uttarpradesh could bring significant benefits to Bajaj Hindusthan as it had incurred Rs40bn capex in FY05-07, which is eligible for the 10% capital subsidy scheme announced in 2004.

Stock Data

Price	Rs55.45
Price Objective	Rs45.00
Date Established	3-Nov-2008
Investment Opinion	C-3-7
Volatility Risk	HIGH
52-Week Range	Rs38.00-Rs251.25
Mrkt Val / Shares Out (mn)	US\$157 / 141.4
Average Daily Volume	2,729,777
ML Symbol / Exchange	BJJHF / BSE
Bloomberg / Reuters	BJH IN / BJHN.BO
ROE (2009E)	6.3%
Net Dbt to Eqty (Sep-2008A)	328.0%
Est. 5-Yr EPS / DPS Growth	NA / NA
Free Float	54.5%

**Estimates (Sep)**

(Rs)	2007A	2008A	2009E	2010E	2011E
Net Income (Adjusted - mn)	74	(1,804)	782	1,196	1,840
EPS	0.526	(12.76)	5.53	7.67	11.80
EPS Change (YoY)	-96.0%	NM	NM	38.6%	53.9%
Dividend / Share	0.600	0.600	0.702	0.669	0.669
Free Cash Flow / Share	(141.86)	(58.35)	14.97	17.07	21.41

Valuation (Sep)

	2007A	2008A	2009E	2010E	2011E
P/E	105.36x	NM	10.02x	7.23x	4.70x
Dividend Yield	1.08%	1.08%	1.27%	1.21%	1.21%
EV / EBITDA*	25.24x	16.37x	7.02x	6.72x	6.57x
Free Cash Flow Yield*	-255.83%	-105.22%	26.99%	33.95%	42.58%

* For full definitions of *iQmethod*SM measures, see page 23.

08 April 2009

iQprofileSM Bajaj Hindusthan Ltd.

Key Income Statement Data (Sep)	2007A	2008A	2009E	2010E	2011E
(Rs Millions)					
Sales	17,805	20,701	27,179	32,169	39,317
Gross Profit	5,756	7,008	11,323	12,144	13,059
Sell General & Admin Expense	(1,423)	(1,483)	(1,603)	(1,734)	(1,876)
Operating Profit	296	143	4,057	4,160	4,328
Net Interest & Other Income	(591)	(3,075)	(3,132)	(2,566)	(1,875)
Associates	0	0	0	0	0
Pretax Income	(295)	(2,932)	926	1,594	2,453
Tax (expense) / Benefit	254	955	(143)	(399)	(613)
Net Income (Adjusted)	74	(1,804)	782	1,196	1,840
Average Fully Diluted Shares Outstanding	141	141	141	156	156

Key Cash Flow Statement Data

Net Income	74	(1,804)	782	1,196	1,840
Depreciation & Amortization	1,611	2,799	2,800	3,000	3,000
Change in Working Capital	(5,226)	(4,742)	(966)	(1,034)	(1,001)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	480	(702)	0	0	0
Cash Flow from Operations	(3,061)	(4,449)	2,617	3,162	3,839
Capital Expenditure	(16,999)	(3,802)	(500)	(500)	(500)
(Acquisition) / Disposal of Investments	0	0	0	0	0
Other Cash Inflow / (Outflow)	NA	NA	NA	NA	NA
Cash Flow from Investing	(16,999)	(3,802)	(500)	(500)	(500)
Shares Issue / (Repurchase)	0	0	0	769	0
Cost of Dividends Paid	(99)	(99)	(99)	(104)	(104)
Cash Flow from Financing	(99)	(99)	(99)	664	(104)
Free Cash Flow	(20,060)	(8,251)	2,117	2,662	3,339
Net Debt	33,261	41,610	39,593	36,267	33,033
Change in Net Debt	NA	NA	NA	NA	NA

Key Balance Sheet Data

Property, Plant & Equipment	40,846	41,848	39,548	37,048	34,548
Other Non-Current Assets	1	1	1	1	1
Trade Receivables	1,137	543	652	782	938
Cash & Equivalents	2,674	1,740	758	1,084	318
Other Current Assets	16,738	23,638	23,995	24,399	26,847
Total Assets	61,395	67,770	64,953	63,313	62,653
Long-Term Debt	35,934	43,351	40,351	37,351	33,351
Other Non-Current Liabilities	1,045	39	39	39	39
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	10,129	11,693	11,193	10,693	12,297
Total Liabilities	47,109	55,083	51,583	48,083	45,687
Total Equity	14,287	12,687	13,370	15,230	16,966
Total Equity & Liabilities	61,395	67,770	64,953	63,313	62,653

iQmethodSM - Bus Performance*

Return On Capital Employed	0.4%	0.2%	6.2%	5.9%	6.3%
Return On Equity	0.5%	-13.8%	6.3%	8.8%	11.9%
Operating Margin	1.7%	0.7%	14.9%	12.9%	11.0%
EBITDA Margin	10.7%	14.2%	25.2%	22.3%	18.6%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	-41.1x	NM	3.3x	2.6x	2.1x
Asset Replacement Ratio	10.6x	1.4x	0.2x	0.2x	0.2x
Tax Rate (Reported)	86.4%	32.6%	15.5%	25.0%	25.0%
Net Debt-to-Equity Ratio	232.8%	328.0%	296.1%	238.1%	194.7%
Interest Cover	0.3x	0x	1.2x	1.5x	1.9x

Key Metrics

* For full definitions of iQmethodSM measures, see page 23.

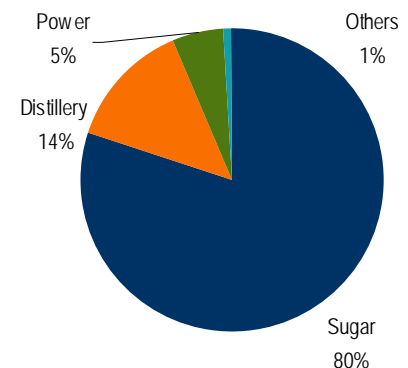
Company Description

Bajaj Hindusthan is the largest and one of the oldest sugar producer of India contributing to 4% of India's FY07 production. Its sugar cane crushing capacity is nearly double the capacity of the second biggest company of India. It is fully integrated and has the highest installed ethanol distillery capacity in India. The company has grown its capacity through a combination of acquisition and organic expansion.

Investment Thesis

We expect Bajaj Hindusthan to underperform as it has excess debt and excess capacity. The company is yet to realise the benefit diversifying into value added products like particle board and continues to suffer from extracting relatively lower value from sugarcane. Even though the company is in strong position to meet its debt obligation for next two years, still its debt level likely to remain over 2x equity, which we consider too high considering the extreme cyclical nature of sugar industry.

Chart 1: FY08 Segment wise gross revenue mix



Source: Bajaj Hindusthan

Stock Data

Price to Book Value 0.6x

Table 1: Change in assumption and earnings

	FY08E	FY09E	FY10E	FY11E
Sugar Sales (Mn Kg)				
Old	1,070.44	950.00	1,100.00	1300
New	1,070.44	900.00	1,000.00	1,300.00
% Chg	0%	-5%	-9%	0%
Sugar price (Rs/Kg)				
Old	15.40	20.94	22.22	20.34
New	15.40	21.46	22.69	22.03
% Chg	0%	2%	2%	8%
Sugar cane price (Rs/tonne)				
Old	1,372	1,580	1,750	1750
New	1,372	1,610	1,780	1,800
% Chg	0%	2%	2%	3%
EBITDA (RsMn)				
Old	2,942	6,708	6,304	5,760
New	2,942	6,857	7,160	7,328
% Chg	0%	2%	14%	27%
EPS (Rs/sh)				
Old	(12.76)	4.03	6.10	6.02
New	(12.76)	5.53	7.67	11.80
% Chg	0%	37%	26%	96%

Source: Banc of America Securities - Merrill Lynch

Table 2: Bajaj Hindusthan most sensitive to 1% change in sugar price

	FY09E	FY10E
Sugar sales (Mn Kg)	900.0	1,000.0
Base price of sugar (Rs/kg)	22.5	22.6
Incremental net sales on 1% higher sugar price	201.6	236.2
Incremental pre tax profit on 1% high sugar price	201.6	236.2
Marginal tax rate	15%	15%
No of shares outstanding (mn)	141.4	155.9
Base case EPS (Rs/sh)	5.5	7.7
Incremental EPS on 1% higher sugar price	0.21	0.23
% Chg in base case EPS for 1% chg in sugar price	3.9%	3.0%

Source: Banc of America Securities - Merrill Lynch

Price objective basis & risk

Bajaj Hindusthan (BJJHF)

Our PO of Bajaj Hindusthan at Rs45/sh is based on 6x FY10E EV/EBITDA. We have used 6x EV/EBITDA as the sector average EV/EBITDA during 1996 to 2009 was 6x and long period average multiple is the right benchmark for midcycle earnings of FY10E. Upside risks to our PO are (1) restoration of capital subsidy scheme, (2) successful capital restructuring, and (3) a higher than expected increase in sugar prices. Downside risks to our PO are (1) a sharp increase in interest costs, and (2) significantly higher sugarcane costs.

Balrampur Chini (BMPRF)

Our PO for Balrampur Chini of Rs76/sh is based on 6x FY10E EV/EBITDA, equivalent to the long-term average EV/EBITDA of the sector since 1996 excluding periods of very low (or negative) profit. Upside risks to our PO are (1) restoration of capital subsidy scheme, (2) successful capital restructuring, and (3) higher than estimated increase in sugar prices. Downside risks to our PO are (1) sharper rise in sugar import, and (2) higher than estimate rise in sugar cane cost.

Renuka Sugars (SRNKF)

Our PO for Renuka of Rs120/sh is based on 6x FY10E EV/EBITDA, equivalent to the long term average multiple of the sector since 1996 excluding periods of very low (or negative) profit. Risks to our price objective are (1) a lower than estimated price for sugar (we calculate the company's FY10E EPS would be 28% lower if sugar price realization is 10% lower than we currently expect), (2) higher than estimated cost of sugarcane, and (3) delays in implementation of new raw sugar import policy.

Triveni Engg (TVIEF)

Our PO for Triveni at Rs52 is based on a target FY09E EV/EBITDA of 6x, equivalent to the sector average since 1996 excluding periods of very low (or negative) profit. We have assumed Triveni to trade at similar multiple as that of sugar industry despite it having significant amount of non-sugar business. Key reasons are (1) sugar division could yield 64% of company's profit in FY09E (2) the company's engineering business largely caters to the usage of renewable energy, which has strong correlation with with agro products like sugar over a longer time frame. Key downside risk are (1) sharp slowdown in stem turbine sales owing to credit crunch (2) decline in sugar price contrary to expectation driven by change in govt policy on import of sugar. We calculate a 10% decline sugar price could result in 50% lower than estimated EPS in FY09E.

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I, Sanjaya Satapathy, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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India - General Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
BUY				
	Balrampur Chini	BMPRF	BRCM IN	Sanjaya Satapathy
	Chambal Fertilisers & Chemicals	CHBZF	CHMB IN	Prasad Deshmukh
	Exide Indus Ltd	XEDRF	CHLR IN	Sanjaya Satapathy
	Motherson Sumi	XMSUF	MSS IN	Sanjaya Satapathy
	Renuka Sugars	SRNKF	SHRS IN	Sanjaya Satapathy
	Tata Chemicals Ltd	TTCXF	TTCH IN	Prasad Deshmukh
	Triveni Engg	TVIEF	TRE IN	Sanjaya Satapathy
NEUTRAL				
	Aditya Birla Nu	ADYAF	ABNL IN	Reena Verma Bhasin, CFA
	DLF Limited	XVDUF	DLFU IN	Gagan Agarwal
	Indiabulls Real Estate Ltd	IBELF	IBREL IN	Gagan Agarwal
	UltraTech Cemen	XDJNF	UTCEM IN	Reena Verma Bhasin, CFA
UNDERPERFORM				
	ABG Shipyard	ABSHF	ABGS IN	Sanjaya Satapathy
	Ambuja Cements	AMBUF	ACEM IN	Reena Verma Bhasin, CFA
	APIL	ANSFF	APIL IN	Gagan Agarwal
	Assoc. Cement	ADCLF	ACC IN	Reena Verma Bhasin, CFA
	Bajaj Hindusthan	BJJHF	BJH IN	Sanjaya Satapathy
	Grasim	GRSJF	GRASIM IN	Reena Verma Bhasin, CFA
	Grasim -G	GRSJY	GRAS LX	Reena Verma Bhasin, CFA
	HDIL	XGHSF	HDIL IN	Gagan Agarwal
	India Cements	INIAF	ICEM IN	Reena Verma Bhasin, CFA
	India Cements -G	IAMZY	ICEM LX	Reena Verma Bhasin, CFA
	Nagarjuna Fertilizers & Chemicals Ltd	NFACF	NFCL IN	Prasad Deshmukh
	Omaxe Limited	XOMXF	OAXE IN	Gagan Agarwal
	Puravankara Projects Ltd	XPJVF	PVKP IN	Gagan Agarwal
	Shree Cements	SREEF	SRCM IN	Reena Verma Bhasin, CFA
	Unitech Ltd	UTKIF	UT IN	Gagan Agarwal

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iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

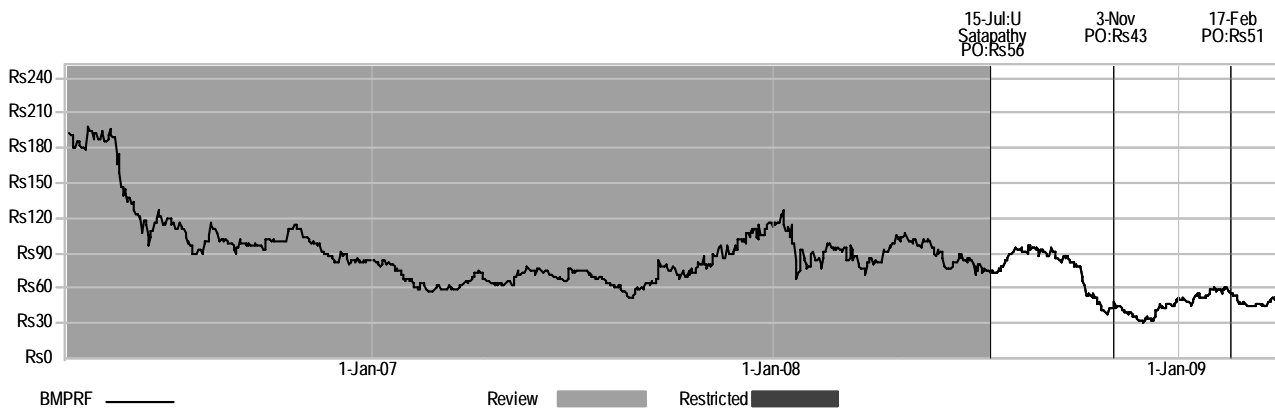
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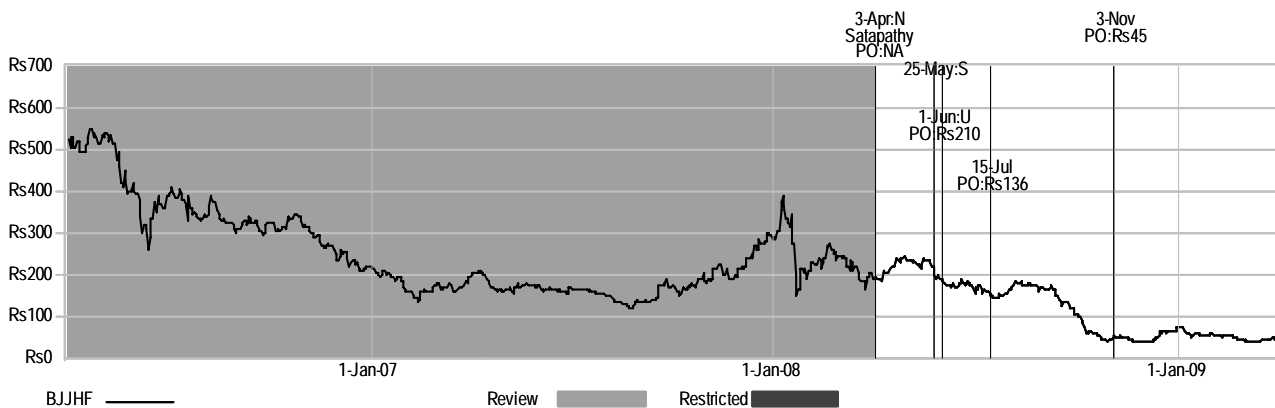


B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

*Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of March 31, 2009 or such later date as indicated.

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BJJHF Price Chart



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TVIEF Price Chart

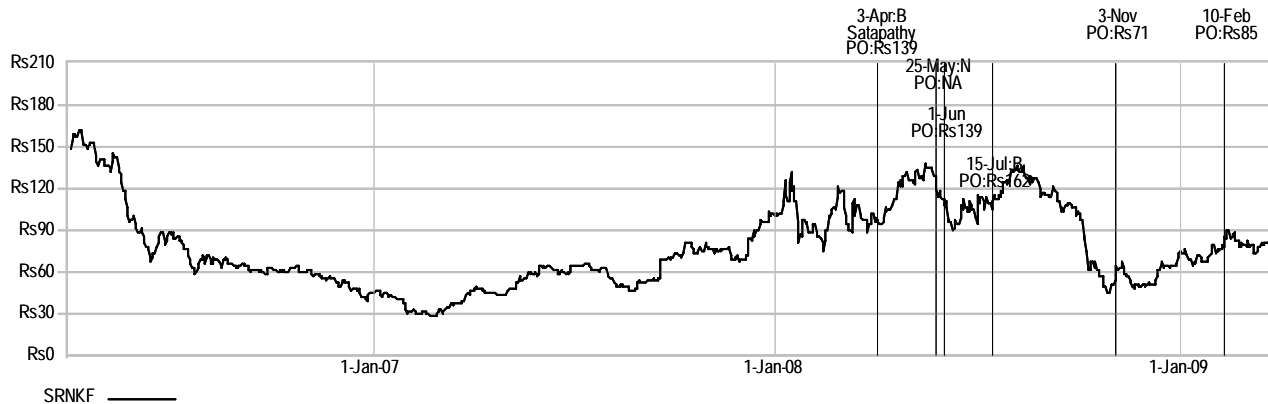


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SRNKF Price Chart



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Investment Rating Distribution: Food Group (as of 01 Apr 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	20	31.75%	Buy	6	31.58%
Neutral	20	31.75%	Neutral	5	35.71%
Sell	23	36.51%	Sell	4	22.22%

Investment Rating Distribution: Global Group (as of 01 Apr 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1243	38.21%	Buy	520	46.39%
Neutral	841	25.85%	Neutral	349	47.04%
Sell	1169	35.94%	Sell	388	36.30%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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