

## Bajaj Hindusthan – SELL

Agri-business

11 March 2010

## Bitter after-taste

Sugar prices have dropped 30% over the past month, following a 25-30% upward revision in estimates of India's sugar supply next year, and robust plantings trend in Thailand (the second largest exporter). We expect sugar prices to come under further pressure as prevailing farm economics (at current cane prices) support higher diversion of acreage to cane. Additionally, lowering cane procurement prices can be difficult for sugar mills, since these are supported by the government's advised prices. Accordingly, we lower our FY10 and FY11 EPS estimate for BJH by 20% and 30%, respectively, and downgrade the stock to SELL with a target price of Rs118 (7x one-year-forward EV/EBITDA).

**Global sugar supply estimate revised upwards:** India's sugar production for the current sugar season is estimated at 16.8m tonnes, higher than the previous estimate of 16m tones. Next year's sugar production estimate is higher still, at 23m-24m tonnes, which is sufficient to meet domestic demand. In the backdrop of an upward revision in global sugar supply (India was one of the largest importers of sugar last year), domestic prices of sugar have declined ~30% MoM.

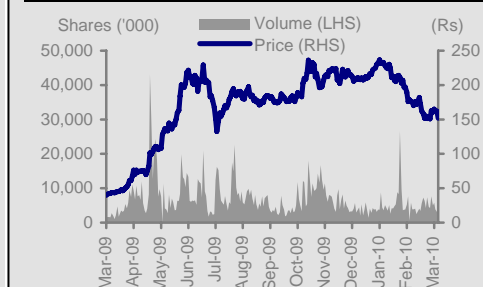
**Long-term prospects for the industry look bleak:** We remain bearish on the sector's longer-term outlook, in view of the higher-than-expected sugar output from India for SS10-11, putting sugar prices at risk to the extent of ~20% from current levels. Additionally, mills are likely to face resistance to lowering cane procurement prices (since these are supported by the government's advised price).

**Downgrade BJH to a SELL:** We downgrade our earnings estimates for FY10 and FY11 20% and 30%, respectively, to reflect the lower sugar prices and high raw-material costs, as cane procurement prices are unlikely to decline commensurately. We downgrade the stock to SELL, since the current valuation (21.6x FY11ii EPS) does not support the deteriorating fundamentals, in our view.

<b>CMP</b>	<b>Rs152</b>
<b>12-mth Target price (Rs)</b>	<b>118 (-22%)</b>
<b>Market cap (US\$ m)</b>	<b>618</b>
<b>Bloomberg</b>	<b>BJH IN</b>
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52Wk High/Low (Rs)	243/39
Diluted o/s shares (m)	191
Daily volume (US\$ m)	20.6
Dividend yield FY10ii (%)	1.1
Free float (%)	62.9
<b>Shareholding pattern (%)</b>	
Promoters	37.1
FII	23.3
DII's	14.7
Others	24.8

	Price performance (%)		
	1M	3M	1Y
Bajaj Hindusthan	-10.7	-28.2	280.4
Rel. to Sensex	-18.1	-27.6	170.9
Shree Renuka	-1.4	-21.2	134.1
Balrampur Chini	-13.1	-30.2	125.3
Triveni	-3.6	15.0	270.4

## Stock Performance



## Financial Summary

Y/e 30 Sep	FY07A	FY08A	FY09	FY10ii	FY11ii
Revenues (Rs m)	17,805	21,117	6,291	27,538	26,321
EBITDA Margins (%)	10.7	15.9	34.2	21.3	20.1
Pre-Exceptional PAT (Rs m)	21	-472	862	1,347	1,181
Reported PAT (Rs m)	21	-472	862	1,347	1,181
EPS (Rs)	0.5	-3.3	4.5	7.0	6.2
Growth (%)	NM	NM	NM	56.4	-12.3
<b>PER (x)</b>	<b>NM</b>	<b>NM</b>	<b>33.8</b>	<b>21.6</b>	<b>24.6</b>
ROE (%)	0.1	-3.5	5.9	8.6	7.0
Debt/Equity (x)	2.6	3.2	2.3	1.8	1.2
<b>EV/EBITDA (x)</b>	<b>24.8</b>	<b>14.1</b>	<b>6.5</b>	<b>8.1</b>	<b>9.0</b>
Price/Book (x)	1.5	1.6	2.0	1.8	1.7

Source: IIFL Research, Priced as on 10 March 2010

**Medium term could show sugar rally, but long-term risks remain**

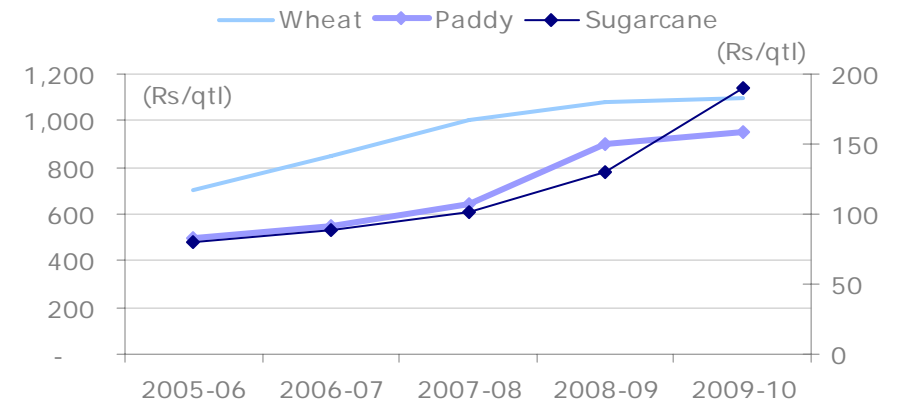
The Indian government has taken steps to contain sugar prices by: a) extending duty-free imports of white sugar till 31 December; and b) ordering bulk consumers to hold inventories for no longer than 10 days. These measures are likely to be retracted in the next few months as international prices stabilise and food inflation eases. The current decline in prices could be a bit overdone for the speed at which prices corrected. Following a retraction of the government's measures, domestic sugar prices could improve hereon. Nevertheless, over the next year, sugar prices are likely to decline further, as India's supply stabilises and the glut in the global market eases.

**Figure 1: International sugar prices down 30% MoM as global supply estimates are revised upwards**



Source: Bloomberg, IIFL Research

**Figure 2: Sugarcane has seen the highest increase in realisation, supporting diversion from food-grains**



Source: Department of agriculture, IIFL Research

**We reduce target price to Rs118 to factor in downward pressure on sugar prices**

Given our downward revision of earnings estimates, we believe the multiple will also de-rate, to reflect the lower earnings growth. We value the stock at 7x 1-yr fwd EV/EBITDA, which leads to a target price of Rs118—downside of 22% to the current price. SELL.

**Key to our recommendation structure**

**BUY** - Absolute - Stock expected to give a positive return of over 20% over a 1-year horizon.

**SELL** - Absolute - Stock expected to fall by more than 10% over a 1-year horizon.

In addition, **Add** and **Reduce** recommendations are based on expected returns relative to a hurdle rate. Investment horizon for **Add** and **Reduce** recommendations is up to a year. We assume the current hurdle rate at 10%, this being the average return on a debt instrument available for investment.

**Add** - Stock expected to give a return of 0-10% over the hurdle rate, ie a positive return of 10%+.

**Reduce** - Stock expected to return less than the hurdle rate, ie return of less than 10%.

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