

Bajaj Hindusthan (BAJHIN)

Rs 118

WHAT'S CHANGED...

PRICE TARGET	Unchanged
EPS (FY10E)	Changed from Rs 1.9 to Rs 3.8
EPS (FY11E)	Changed from Rs 6.4 to Rs 4.8
RATING.....	Unchanged

Falling sugar prices continue to haunt...

Bajaj Hindusthan reported a muted performance during the quarter ended June, 2010. The company's topline stood at Rs 715.7 crore against Rs 383.6 crore in Q3SY09 largely led by volume growth. The margins, however, suffered a setback by 2523 bps on a YoY basis and stood at 10.2% in comparison to 35.4% in the corresponding period last year. This was on the back of higher cane prices paid by the company during the year and the sharp fall in sugar prices. Also, a higher interest cost of Rs 70.7 crore during the quarter continued to pressurise the bottomline. Hence, the company reported a loss of Rs 14.9 crore in comparison to a profit of Rs 60 crore in Q3SY09.

Operational highlights

The company produced 1.8 lakh tonnes of sugar (including 1.5 lakh tonnes from raw sugar) during the quarter and the recovery rate stood at 10.75%. The realisation from sugar for the quarter was Rs 27.7 per kg and the quantity sold stood at 2.5 lakh tonnes. Revenues from distillery and co-gen improved considerably and provided some relief to the company's earnings.

Valuation

At the current price of Rs 118, the stock is trading at 30.8x its SY10E EPS of Rs 3.8 and 24.9x its SY11E EPS of Rs 4.8. With sugar prices continuing to decline on the back of increased production estimates for the country, we believe the realisation for the company in the coming quarters would be low. However, the volumes would be higher as it continues to have large sugar inventories. Moreover, high interest on large amount of debt on the books would continue to impact earnings. Hence, we maintain our **SELL** rating on the stock with a price target of Rs 96.

Exhibit 1: Financial Performance

(Rs Crore)	Q3SY10	Q3SY10E	Q3SY09	Q2SY10	YoY(%)	QoQ(%)
Net Sales	715.7	760.9	383.6	567.4	86.5	26.1
EBITDA margin (%)	10.2	1.0	35.4	25.3	-2523bps	-1510bps
Depreciation	52.8	42.4	47.7	46.1	10.7	14.5
Interest	70.7	40.6	49.9	65.0	41.8	8.8
Other Income	14.8	0.0	34.1	0.1	-56.7	18350.0
Reported PAT	-14.9	-55.6	60.1	31.8	-124.8	-146.9
EPS (Rs)	-0.8	-2.9	4.2	1.7	-118.3	-146.9

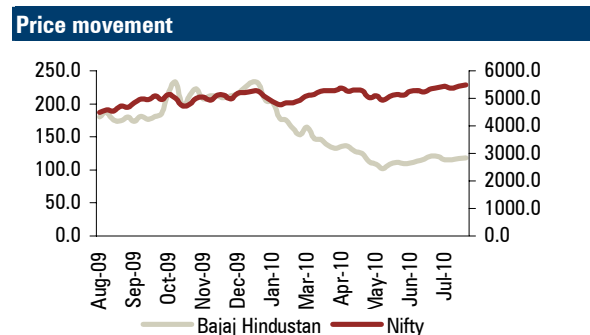
Source: Company, ICICIdirect.com Research

Rating matrix	
Rating	: Sell
Target	: Rs 96
Target Period	: 12 months
Potential Upside	: -19%

Key Financials				
Rs Crore	SY08	SY09	SY10E	SY11E
Net Sales	2,070	1,584	2,832	2,659
EBITDA	335.8	470.0	526.2	514.4
Net Profit	(197.6)	154.6	73.6	91.3
EPS (Rs)	(14.0)	8.7	3.8	4.8

Valuation summary				
	SY08	SY09	SY10E	SY11E
P/E	-8.5	13.6	30.8	24.9
Target P/E	-2.5	4.0	9.0	20.2
EV / EBITDA	17.4	12.8	10.3	10.6
Price to Book Value	1.4	1.0	1.0	1.0
RoNW(%)	-10.8	5.0	2.3	2.7
RoCE (%)	-9.3	5.1	5.6	5.3

Stock data	
Market Capitalization	Rs. 2268 crore
Total Debt (FY09)	Rs. 4056.3 crore
Cash and Investments (FY09)	Rs. 127.4 crore
EV	6,024.8
52 week H/L	Rs. 6025 crore
Equity capital	Rs. 19.1 crore
Face value	Rs.1
MF Holding (%)	9.81
FII Holding (%)	15.0



Analyst's name

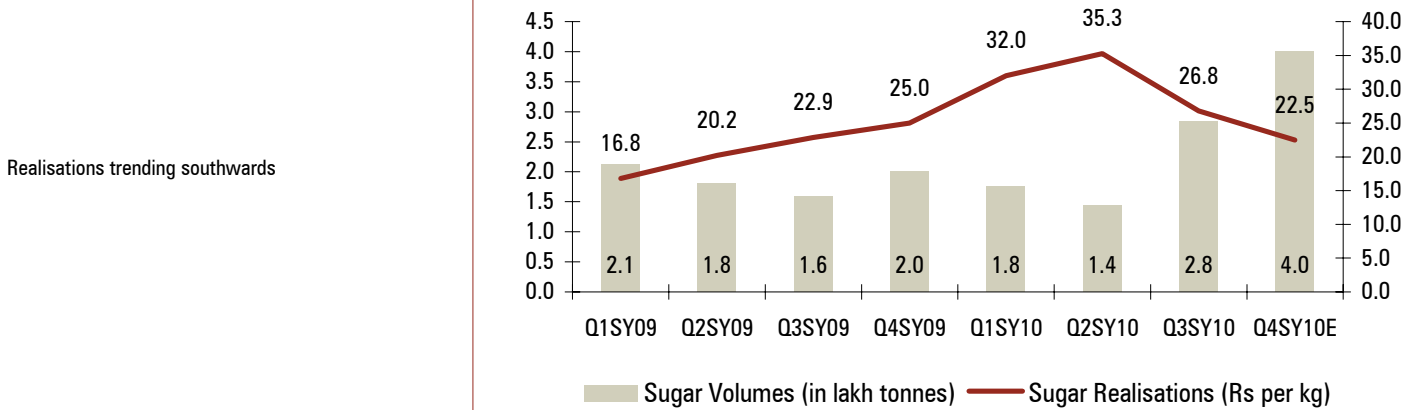
Sanjay Manyal
sanjay.manyal@icicisecurities.com

Parineeta Poddar
parineeta.poddar@icicisecurities.com

Segmental performance

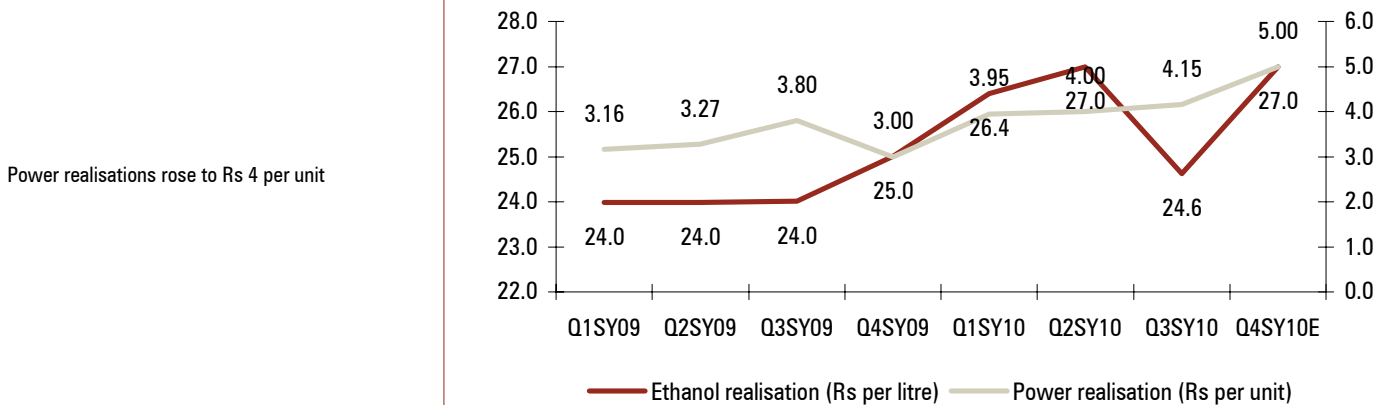
The company witnessed ~92% increase in sugar sales, which was contributed by ~58% increase in volumes and ~18% increase in sugar prices. It has sold 2.84 lakh tonnes of sugar in the quarter as against 1.57 lakh tones in corresponding quarter. Revenue from the distillery segment increased from Rs 6.7 crore to Rs 34.5 crore on the back of ~71% rise in alcohol volumes. However, distillery realisations witnessed a decline from Rs 27.8 per litre to Rs 24.6 per litre. The company has sold 144.18 lakh litres in Q3SY10 as against 84.05 lakh litres in the corresponding quarter. Revenue from the power segment increased from Rs 1.5 crore to Rs 22.3 crore in the corresponding quarter led by ~30% rise in realisations and 1.90 crore units sold.

Exhibit 2: Sugar volumes and realisation



Source: Company, ICICIdirect.com Research

Exhibit 3: Ethanol and power realisation



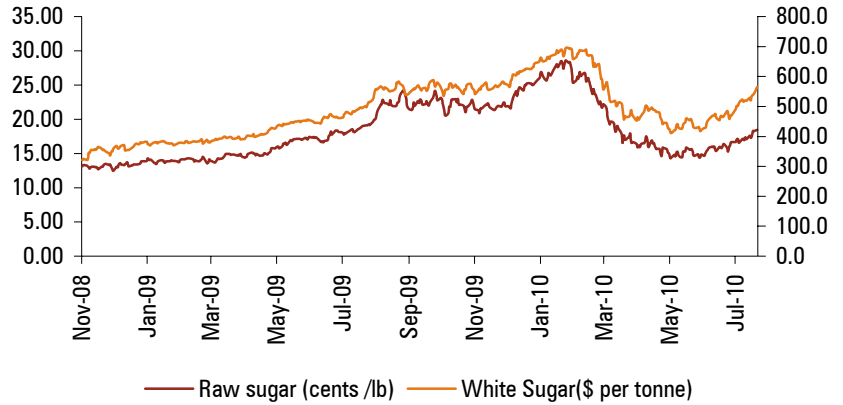
Source: Company, ICICIdirect.com Research

Recovering global prices

After the steep fall in global sugar prices from 30 cents/lb to 13 cents/lb they have recovered to 18 cents/lb in anticipation of lower than expected global production in 2010 due to excess rains in Brazil in June-July and drought in Thailand. We believe sugar prices at 18 cents/lb would be equivalent to Rs 26 per kg as import parity prices. This would keep domestic sugar prices firm above Rs 26 per kg. We also believe that higher sugarcane diversion towards ethanol could lead to a further rise in global prices.

Exhibit 4: Raw and white sugar prices

Global sugar prices have recovered to 18 cents/lb from the lows of 13 cents /lb



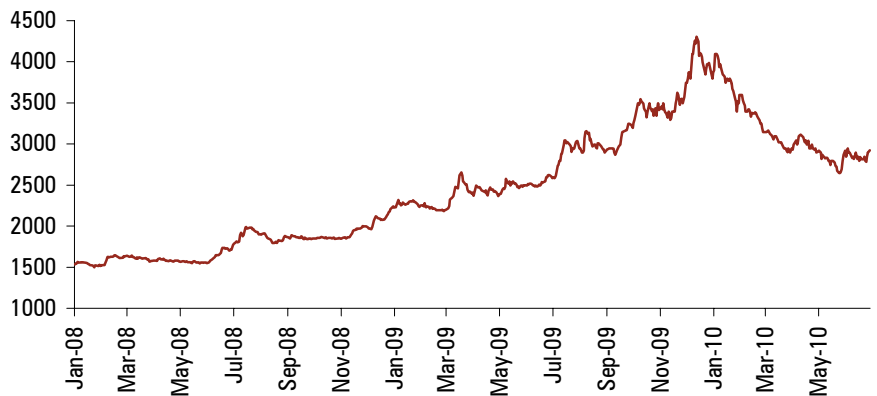
Source: Company, ICICIdirect.com Research

Higher predicted domestic production in 2011 may lead to a further fall in prices

The 14% increase in sugarcane acreage and higher diversion from Gur and Khadsari would lead to an increase in sugar production in the country, estimated at 25 MT in SY11. However, the expected advance licence scheme (ALS) on raw sugar and re-imposition of import duty on white sugar could contain the fall in sugar prices.

Domestic sugar prices following global sugar prices

Exhibit 5: Delhi sugar prices (Rs per quintal)



Source: Company, ICICIdirect.com Research

Revising estimates

With domestic sugar prices falling and production estimates for the country higher than the consumption, the pressure on sugar prices would continue haunt earnings going ahead. However any decision on de-regulation from the government could contain the expected fall in sugar prices. We are revising our estimates for SY10 and SY11.

Exhibit 6: Revised estimates

	SY10E			SY11E		
	Old	New	% Change	Old	New	% Change
Revenue	2,748.2	2832.1	3.1	2,597.4	2658.7	2.4
EBITDA	415.6	526.2	26.6	556.2	514.4	-7.5
EBITDA Margir	15.1	18.6	346 bps	21.41	19.3	-207 bps
PAT	37.1	73.6	98.3	123.0	91.3	-25.8
EPS	1.9	3.8	98.3	6.4	4.8	-25.8

Source: Company, ICICIdirect.com Research

Valuation

At the current price of Rs 118, the stock is trading at 30.8x its SY10E EPS of Rs 3.8 and 24.9x its SY11E EPS of Rs 4.8. With sugar prices continuing to decline on the back of increased production estimates for the country, we believe the realisation for the company in the coming quarters would be low. However, the volumes would be higher. Moreover, a large amount of debt on the books would continue to impact earnings. Hence, we maintain our **SELL** rating on the stock with a price target of Rs 96.

Exhibit 7: Valuation Matrix

	Sales (Rs cr)	Growth (%)	EPS (Rs)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
SY09	1583.7	-25.3	8.7	NA	13.6	12.8	5.0	5.1
SY10E	2832.1	78.8	3.8	-56.0	30.8	10.3	2.3	5.6
SY11E	2658.7	-6.1	4.8	24.0	24.9	10.6	2.7	5.3

Source: Company, ICICIdirect.com Research

ICICIdirect.com Coverage Universe

			Sales (Rs cr)	EPS (Rs)	PE (x)	EV/E (x)	RoNW (%)	RoCE (%)
Shree Renuka Sugars								
Idirect Code	RENSUG CMP	66.7 SY09	2816.0	3.5	18.9	10.8	14.6	13.8
	Target	76.6 SY10E	5695.8	8.9	7.5	6.0	27.3	20.4
Mcap	4855.0 Upside	14.8% SY11E	4056.2	8.5	7.8	3.6	20.8	17.9
Balrampur Chini								
Idirect Code	BALCHI CMP	83.6 SY09	1700.0	8.5	9.8	7.0	14.3	13.7
	Target	74.8 SY10E	1939.5	4.0	21.1	9.8	6.6	8.6
Mcap	2237 Upside	-10.5% SY11E	2195.0	6.8	12.2	6.9	11.1	13.1
Bajaj Hindustan								
Idirect Code	BAJHIN CMP	118.0 SY09	1583.7	8.7	13.5	12.8	5.0	5.1
	Target	96.3 SY10E	2832.1	3.8	30.7	10.3	2.3	5.6
Mcap	2268 Upside	-18.4% SY11E	2658.7	4.8	24.7	10.6	2.7	5.3
Dhampur Sugar								
Idirect Code	DHASUG CMP	57.6 SY09	935.6	10.6	5.5	5.2	11.8	11.0
	Target	54.0 SY10E	1444.8	3.5	16.4	5.7	3.9	9.8
Mcap	320 Upside	-6.3% SY11E	1407.2	16.7	3.5	3.7	11.5	13.8

Source: Company, ICICIdirect.com Research

RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Add, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: 20% or more;
 Buy: Between 10% and 20%;
 Add: Up to 10%;
 Reduce: Up to -10%
 Sell: -10% or more;

Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICIdirect.com Research Desk,
 ICICI Securities Limited,
 7th Floor, Akruiti Centre Point,
 MIDC Main Road, Marol Naka,
 Andheri (East)
 Mumbai – 400 093**

research@icicidirect.com

ANALYST CERTIFICATION

We, *Sanjay Manyal M.B.A.(FINANCE) Parineeta Poddar M.B.A.(FINANCE)* research analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the ICICI Securities Inc.

Disclosures:

ICICI Securities Limited (ICICI Securities) and its affiliates are a full-service, integrated investment banking, investment management and brokerage and financing group. We along with affiliates are leading underwriter of securities and participate in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their dependent family members from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on reasonable basis, ICICI Securities, its subsidiaries and associated companies, their directors and employees ("ICICI Securities and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities is acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return of investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities and affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities and its affiliates might have managed or co-managed a public offering for the subject company in the preceding twelve months. ICICI Securities and affiliates might have received compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. ICICI Securities and affiliates expect to receive compensation from the companies mentioned in the report within a period of three months following the date of publication of the research report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. It is confirmed that *Sanjay Manyal M.B.A.(FINANCE) Parineeta Poddar M.B.A.(FINANCE)* research analysts and the authors of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Our research professionals are paid in part based on the profitability of ICICI Securities, which include earnings from Investment Banking and other business.

ICICI Securities or its subsidiaries collectively do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

It is confirmed that *Sanjay Manyal M.B.A.(FINANCE) Parineeta Poddar M.B.A.(FINANCE)* research analysts and the authors of this report or any of their family members does not serve as an officer, director or advisory board member of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. ICICI Securities and affiliates may act upon or make use of information contained in the report prior to the publication thereof.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.