

## Sensitivity to current and forthcoming events

- We have analyzed the sugar companies' operating profit sensitivity to change in cane cost and sugar price in context to recent important developments–
  - Sharp jump in domestic sugar prices over the last few days led by expected decline in sugar output in next season (SS08-09E) to ~21mn MT, near term supply constraints in form lower release of free sale quota, and domestic sugar consumption nearing 23mn MT.
  - Decline in sugar output and increase in cane diversion to ethanol (from 56% to 60%) in Brazil in current crushing season.
  - Conflicting orders on cane pricing from two benches of Allahabad High Court
  - Supreme Court's final hearing on cane pricing due to begin from next week.
- **Cane pricing issue in UP:** Most of the Uttar Pradesh (UP) based sugar companies have accounted for sugarcane purchases for SS07-08 at Rs110 per quintal after an interim order of the Supreme Court dated May 15, 2008. However, the Lucknow bench of Allahabad high court has upheld SAP at 125 per quintal in its order dated July 7, 2008. The sugar mills may be forced to make provisions for higher cane costs if the Supreme Court dismisses their petition for cane pricing. The effect of the same is shown in the following tables.

### ALCHEMY EQUITY RESEARCH

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Company	Rating
Shree Renuka Sugar	Buy
Balrampur Chini	Buy
Bajaj Hindusthan	Under review

**Table 1: Balrampur Chini: Sensitivity of EBIDTA to cane cost and sugar price**

FY08		Sugar price			
Cane cost		14.75	15.75	16.75	17.75
	120.00	2,909	3,830	4,752	5,673
	130.00	1,996	2,918	3,839	4,761
	135.00	1,540	2,461	3,383	4,305
	140.00	1,084	2,005	2,927	3,848

Source: Alchemy Research.

FY09		Sugar price			
Cane cost		17.00	18.00	19.00	20.00
	130.00	4,369	5,207	6,045	6,882
	140.00	3,566	4,404	5,242	6,079
	145.00	3,165	4,002	4,840	5,678
	150.00	2,763	3,601	4,439	5,276

**Table 2: Bajaj Hindusthan : Sensitivity of EBIDTA to cane cost and sugar price**

FY08		Sugar price			
Cane cost		14.75	15.75	16.75	17.75
	120.00	2,385	3,881	5,377	6,873
	130.00	889	2,385	3,881	5,377
	135.00	141	1,637	3,133	4,629
	140.00	-607	889	2,385	3,881

Source: Alchemy Research.,

FY09		Sugar price			
Cane cost		17.00	18.00	19.00	20.00
	130.00	4,521	6,153	7,785	9,417
	140.00	2,889	4,521	6,153	7,785
	145.00	2,073	3,705	5,337	6,969
	150.00	1,257	2,889	4,521	6,153

**Table 3: Shree Renuka Sugar: Sensitivity of EBIDTA to cane cost and sugar price**

FY08		Sugar price			
Cane cost		14.75	15.75	16.75	17.75
	120.00	2,519	3,062	3,605	4,148
	130.00	2,014	2,557	3,100	3,643
	135.00	1,761	2,304	2,847	3,390
	140.00	1,509	2,052	2,595	3,138

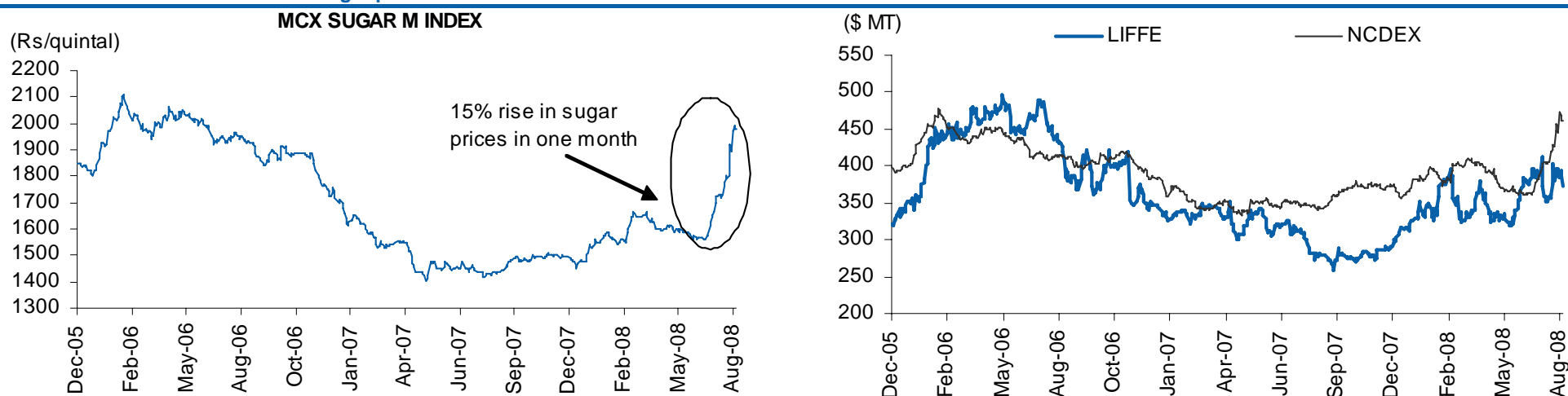
Source: Alchemy Research.

FY09		Sugar price			
Cane cost		17.00	18.00	19.00	20.00
	130.00	4,428	5,021	5,614	6,207
	140.00	3,873	4,466	5,059	5,652
	145.00	3,595	4,188	4,781	5,374
	150.00	3,318	3,911	4,504	5,097

## Sharp jump in domestic sugar prices over the last month

- Domestic sugar prices have moved up 15% over the last month. The sharp jump in sugar prices has been largely due to anticipated lower sugar production in the next season and supply constraints in the near term. The government fixed the free sale quota for the July-September quarter at 3mn MT which was lower than the previous year.
- The production in the forthcoming season (SS08-09E) is expected to fall to ~21mn MT from ~27mn MT in SS07-08 led by reduced cane plantings and diversion to other remunerative crops. According to various government agency reports, area under cane cultivation has declined to 4.3mn hectares this year from 5.2mn hectares in the previous year. Consequently, most of the sugar producers expect cane cost to be in the range of Rs125 per quintal in the next crushing season led by lower availability of cane. Similarly, consensus view for sugar price for the same period is ~Rs17/kg.

Chart 1: Domestic and international sugar prices



Source: Bloomberg, Alchemy Research.

## Sugar production in Brazil down by 2.5% to 10.7mn MT till end of July 2008

- According to Brazil's sugar producers association, UNICA, sugar output in the center-south region of Brazil fell 2.5% yoy to 10.7mn MT upto the end of July, 2008 (crushing season is April-October). The centre-south region of Brazil produces more than 80% of Brazil's sugar and ethanol.
- The lower sugar output was due to lower sugar yields and high ethanol yields. While sugar yield dropped 13% to 50.1kg per tonne of cane, the ethanol yield improved 3.7% to 45.7litres per tonne of cane. With the result, 60% of the cane was converted into ethanol – up 56% from last year. The output of ethanol rose 16% yoy to 9.8bn liters.

## Our view

We continue to remain positive on the sugar sector led by favorable demand supply dynamics and consequently the revival in sugar prices. With a sharp jump in prices of by-products, the profitability of sugar companies is expected to improve further. We reiterate our bullish view on the sugar sector with Shree Renuka Sugar and Balrampur Chini being our top picks.

Table 4: Peer comparison

Rs mn	Shree Renuka Sugar		Balrampur Chini		Bajaj Hindusthan*	
	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E
Revenues	25735	30563	17127	18196	24260	29878
EBIDTA	4451	5699	2909	4325	3210	5687
PAT	2332	3186	1003	2144	(599)	1648
EPS	8.3	11.4	3.9	8.1	(1.6)	11.5
P/E	14.8	10.8	22.7	11.0	(105.5)	15.1
ROCE (%)	25.7	31.3	9.0	14.4	1.4	5.7
RONW (%)	27.0	30.3	9.7	16.3	(0.2)	10.3

Source: Company, Bloomberg, Alchemy

\* Consensus

**Sales / Dealing**

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