RESULT PREVIEW √

Sugar

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Sweet gains...

Substantial cane payment arrears coupled with a shift in acreage away from cane has altered the economics of cultivation. This phenomenon has induced crushing impediments, which, thereby, has led to shrinkage in the sugar surplus. With radical changes anticipated in the fundamentals of the industry we expect a positive outlook, going forward.

Highlight of the quarter

Sugar prices to witness an upward trend

The paradigm shift in acreage away from sugarcane coupled with delays in cane payment arrears has induced a cyclicality in the production of cane, thereby, delaying the commencement of the crushing season. With the country witnessing an unprecedented rise in sugar exports from1.5 MT in SY07 to 4.8 MT in SY08 a shrinkage of the sugar surplus to 6.1 MT at the end of SY09 and 1.1 MT at the end of SY10 is imminent. In anticipation of the deterioration in supply, we believe sugar prices will continue to remain firm above Rs 17 per kg in SY09 and will witness a further price increase to Rs 19 per kg in SY10 indicating a steadily improving trend.

Price performance (%)

	1M	3M	6M	12M
Renuka Sugars	51.0	-10.6	-32.5	-25.2
Balrampur Chini	51.5	-25.5	-35.9	-55.9
Bajaj Hindustan	78.0	-16.6	-58.0	-75.9
Dhampur Sugar	42.9	-34.9	-35.4	-68.3

Brazil to re-asses economic viability of ethanol with steep fall in crude prices

The decline in crude oil prices has brought into question the viability of ethanol. This radical decline in crude prices will adversely affect the demand for ethanol, which could, in turn, prompt Brazilian mills to divert production from ethanol to sugar. This phenomenon will result in a lower sugar deficit in 2008-09 and, thus, exert further pressure on global sugar prices. Higher sugar production in Brazil poses a significant risk to Indian imports, which, in turn, could persuade domestic manufacturers to keep sugar prices down.

Sugarcane pricing remains an arbitrary mechanism

Policy risks have always been a overhang on the sector, with the key regulations related to cane procurement, cane prices and sugar prices. However, sugarcane prices continue to be a contentious issue particularly in Uttar Pradesh where there is a lack of clarity on prices. Currently, the UP government has fixed the state advised price (SAP) for the 2008-09 sugar season, at Rs 140 per quintal against last year's price of Rs 110 per quintal connoting a highly negative stance for the industry.

Broad outlook for the sector for Q3FY09E

We expect sugar prices to remain firm on the back of a lower supply. Additionally, we also believe higher domestic sugar prices will result in robust earnings growth. Higher realisations in rectified spirits and alcohol will also increase revenue contribution from by-products. As a result, we prefer Shree Renuka Sugars on account of the location of its mills in Maharashtra and Karnataka where cane prices are linked to sugar realisations. With its reduced dependence on the core sugar business, the possibility of a reduction in import duties of raw sugar and an increasing contribution coming from renewables, particularly ethanol we believe Shree Renuka Sugars with a differentiated business model is well positioned to gain in a rising sugar price scenario. Additionally, we also like Balrampur Chini with its moderate debt and enhanced operational efficiency.

Exhibit 1: Coverage Universe

	Sales (%) change			EBITDA (%) change			PAT (%) change		
Company	OND09	Y-o-Y	Q-o-Q	OND09	Y-o-Y	Q-o-Q	OND09	Y-o-Y	Q-o-Q
Shree Renuka Sugars	605.8	168.7	-4.1	93.6	155.2	25.7	44.9	327.3	16.5
Balrampur Chini	448.2	4,9	7.6	87.4	163.0	20.9	28.8	LP*	97.7
Bajaj Hindustan	517.2	50.4	8.5	127.0	35.0	167.7	8.7	-70.7	LP*
Dhampur Sugar	253.0	92.4	9.0	42.3	76.2	167.1	9.1	267.3	19.4

Source: Company, ICICIdirect.com Research ** Loss to profit*

Shree Renuka Sugars (RENSUG)

Founded in October 1995, Shree Renuka Sugars, with its main operations in Maharashtra and Karnataka, is an integrated manufacturing company with a strategic focus on sugar, bio-fuels and its allied products of renewable energy.

1) Revenues are expected to grow by 168.7% YoY to Rs 605.8 crore in Q1SY09E from Rs 225.5 crore in Q1SY08 due to higher price realisations. EBITDA is also expected to grow by 155.2% YoY to Rs 93.6 crore from Rs 36.7 crore in Q1SY08 on the back of higher sugar prices. Net profit is also expected to increase by 327.3% YoY to Rs 44.9 crore from Rs 10.5 crore in SYFY08 on the back of higher EBITDA.
2) Concerns: The government has often intervened in the sugar industry with regulatory measures aimed at regulating the sugar industry. This intervention continues to remain an overhang on the sector and poses one of the biggest risks to the industry as well as the company. Additionally, the sharp fall in crude oil prices has brought into question the viability of ethanol. This steep decline in crude would curtail the demand for ethanol, which would, thereby, encourage Brazilian mills to produce more sugar rather than ethanol. This could result in a lower sugar deficit in 2008-09 and, hence, a fall in global sugar prices.
3) At the current price of Rs 71, the stock is discounting its SY09E EPS of Rs 6.2 by 11.4x and SY10E EPS of Rs 8.4 by 8.4x. With a differentiated business model and the advantage of reaping a better recovery rate in Maharashtra, we believe the company is well positioned to gain in a rising sugar price scenario. Considering the sharp rise in sugar prices we believe the company, which is present in the refining business, is likely to benefit from the difference between global and domestic sugar prices. Consequently, we are upgrading our target price to Rs 84 from Rs 75.6, which is 10x its SY10E EPS of Rs 8.4.

Exhibit 2: Quarterly financials (Rs crore)

	Q1SY09E	Q1SY08	Q4SY08	Y-o-Y (%)	Q-o-Q (%)	FY09E
Net Sales	605.8	225.5	631.9	168.7	-4.1	2330.1
EBITDA	93.6	36.7	74.5	155.2	25.7	360.2
EBITDA margin (%)	15.5	16.3	11.8			15.5
Profit	44.9	10.5	38.5	327.3	16.5	168.0
Profit margin (%)	7.4	4.7	6.1			7.2
EPS (Rs)	1.7	0.4	1.4	327.3	19.1	6.2

Source: Company, ICICIdirect.com Research

Balrampur Chini Mills (BALCHI)

Balrampur Chini Mills Ltd is one of the largest integrated sugar manufacturing companies in India. Its allied business consists of manufacturing and marketing of ethyl alcohol and ethanol, generation and selling of power and manufacturing and marketing of organic manure. The company has nine sugar factories located in eastern UP having an aggregate crushing capacity of 73,500 tonnes per day.

1) We expect revenues to grow by 4.9% YoY to Rs 448.2 crore in Q1SY09E from Rs 427.5 crore in Q1SY08 and by 7.6% QoQ in Q1SY09E due to higher price realisations. EBITDA margins are expected to increase to 19.5% in Q1SY09E from 7.8% in Q1SY08 on the back of higher sugar prices. The company is expected to register a net profit of Rs 28.8 crore in Q1SY09E as against a net loss in Q1SY08 on the back of higher margins.
2) Concerns: The Indian sugar industry has historically been heavily regulated with ad-hoc government measures related to cane procurement, cane price and sugar price. The impositions of these regulatory policies continue to pose significant risks to the industry as well as the company. In UP particularly, where there is a lack of clarity, sugar cane prices continue to be a matter of dispute. Currently, the UP government has fixed the state advised price for the 2008-09 sugar season at Rs 140 per quintal against last year's price of Rs 110 per quintal implying a negative stand for the industry.
3) At the current price of Rs 49, the stock discounts its SY09E EPS of Rs 4.0 by 12.2x and SY10E EPS of Rs 8.0 by 6.1x. Although disputes over sugarcane pricing between the industry and the state government pose concerns, going forward, we believe the company is well capitalised to benefit from the rising sugar prices due to its integrated business model and operational efficiency. Given the sharp rise in sugar prices currently to Rs 19 per kg we are upgrading our target price to Rs 64, which is 8x its SY10E EPS of Rs 8.

Exhibit 3: Quarterly Financials **(Rs crore)**

	Q1SY09E	Q1SY08	Q4SY08	Y-o-Y (%)	Q-o-Q (%)	SY09E
Net Sales	448.2	427.5	416.7	4.9	7.6	1724.8
EBITDA	87.4	33.2	72.3	163.0	20.9	336.0
EBITDA margin (%)	19.5	7.8	17.3			19.5
Profit	28.8	-0.06	14.6	LP*	97.7	105.2
Profit margin (%)	6.4	0.0	3.5			6.1
EPS (Rs)	1.1	0.0	0.6	LP*	90.6	4.0

Source: Company, ICICIdirect.com Research

* *Loss to Profit*

Bajaj Hindustan (BAJHIN)

Bajaj Hindustan is India's largest and the world's leading sugar and ethanol producer. Having an extensive presence in the western and central UP belt and foraying into eastern UP, the company is likely to have a pan-UP presence. The company's manufacturing facilities, which are spread across UP, currently have 136,000 TCD of sugar capacity, 90 MW of saleable power and a distillery capacity of 800 KLPD.

1) We expect revenues to grow 50.4%YoY to Rs 517.2 crore in Q1SY09E from Rs 343.9 crore in Q1SY08 and by 8.5% QoQ in Q1SY09E due to higher price realisations. EBITDA margins are expected to dip to 24.6% in Q1SY09E from 27.3% in Q1SY08 on the back of higher sugar cane costs. Net profit is expected to de-grow 87.5% on the back of lower margins and high interest costs.
2) Concerns: Sugar cane prices continue to be a controversial issue predominantly in UP where the SAP often remains in flux. With the current SAP fixed at Rs 140 per quintal against last year's price of Rs 110 per quintal, a negative stance is indicated. Additionally, the company continues to have a substantial amount of foreign denominated debt on its books via the FCCB and ECB routes, which amount to Rs 559.0 crore and Rs 380 crore, respectively. Any volatility in foreign exchange rates or further rise in interest costs will make earnings more uncertain and pressurise net profit growth, going forward.

3) At the current price of Rs 66.4, the stock is discounting its SY09E EPS of Rs 2.6 by 25.5x and SY10E EPS of Rs 14.9 by 4.4x. We believe the company will benefit from the rise in sugar prices. However, sugarcane prices remain a concern for UP-based sugar mills. We maintain our earning estimates and price target of Rs 72, which is 4.8x its SY10E EPS.

Exhibit 4: Quarterly Financials **(Rs crore)**

	Q1SY09E	Q1SY08	Q4SY08	Y-o-Y (%)	Q-o-Q (%)	SY09E
Net Sales	517.2	343.95	476.8	50.4	8.5	2544.2
EBITDA	127.0	94.07	47.5	35.0	167.7	510.9
EBITDA margin (%)	24.6	27.3	10.0			20.1
Profit	8.7	29.67	-87.5	-70.7	*LP	36.8
Profit margin (%)	1.7	8.6	-18.3			1.4
EPS (Rs)	0.6	2.1	-6.2	-70.7	*LP	2.6

Source: Company, ICICIdirect.com Research ** Loss to Profit*

Dhampur Sugar (DHASUG)

Dhampur Sugar Mills Ltd is an integrated sugar company whose allied businesses comprise distillery operations, cogeneration of power and manufacturing of bio-compost. The company has four sugar mills located in central and western Uttar Pradesh, having an aggregate sugarcane crushing capacity of 39,500 TCD, distillery and co-generation operations of 270 KLPD and 145 MW (80 MW saleable), respectively.

3) We expect revenues to grow 92.4 %YoY to Rs 253.0 crore in Q1SY09E from Rs 131.5 crore in Q1SY08 due to volume growth and higher price realisations. EBITDA margins are expected to dip to 16.7% in Q1SY09E from 18.2% in Q1SY08 on the back of higher sugar cane costs. Net profit is expected to increase by 267.3% to Rs 9.1 crore in Q1SY09E from Rs 2.5 crore in Q1SY08.
4) Concerns: Regulatory policies continue to be imposed posing a significant risk to the sugar industry as well as the company. Moreover, sugarcane prices continue to be a contentious issue primarily in UP where the SAP often remains ambiguous. The current SAP, which was fixed at Rs 140 per quintal against last year's price of Rs 110 per quintal, connotes a bleak scenario, going forward.

4) At the current price of Rs 28.5, the stock is discounting its SY09E EPS of Rs 6.1 by 4.6x and SY10E EPS of Rs 19.9 by 1.4x. We believe the company will benefit from the rise in sugar prices. However, given the company's pan-UP presence, contentious issues over sugarcane pricing between the industry and state government remain concerns, going forward. We value the company at 6x its SY09E EPS of Rs 6.1 to arrive at a target price of Rs 36.

Exhibit 5: Quarterly Financials (Rs crore)

	Q1SY09E	Q1SY08	Q4SY08	Y-o-Y (%)	Q-o-Q (%)	FY09E
Net Sales	253.0	131.5	232.2	92.4	9.0	973.2
EBITDA	42.3	24.0	15.8	76.2	167.1	162.6
EBITDA margin (%)	16.7	18.2	6.8			16.7
Profit	9.1	2.5	7.6	267.3	19.4	32.1
Profit margin (%)	3.6	1.9	3.3			3.3
EPS	1.7	0.5	1.4	253.8	19.4	6.1

Source: Company, ICICIdirect.com Research

Exhibit 6: Coverage Universe Valuation table

	CMP (Rs)	TP (Rs)	Ratings	M Cap Rs Cr.	EPS (Rs) FY08	FY09E	FY10E	P/E (x) FY08	FY09E	FY10E	EV/EBITDA (x) FY08	FY09E	FY10E	ROCE (%) FY08	FY09	FY10	ROE FY08	FY09E	FY10E
Shree Renuka Sugars	71	84	P	1917	4.4	6.2	8.4	16.2	11.4	8.4	10.1	7.0	4.3	7.4	11.2	29.1	21.1	21.7	50.1
Balrampur Chini	49	64	OP	1250	3.1	4	8	16.0	12.3	6.1	7.2	6.8	4.3	0.2	2.0	9.1	6.2	7.5	14.4
Bajaj Hindustan	66.4	72	H	939	-14.0	2.6	14.9	-	25.5	4.5	13.5	8.1	5.3	-10.1	6.5	11.5	-10.8	1.7	9.4
Dhampur Chini	28.5	36	OP	150	0.1	6.1	19.9	-	4.7	1.4	6.7	5.6	3.2	6.2	8.9	16.9	0.9	7.6	14.7

Source: Company, ICICIdirect.com Research

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