

Dhampur Sugar (DHASUG)

Rs 59

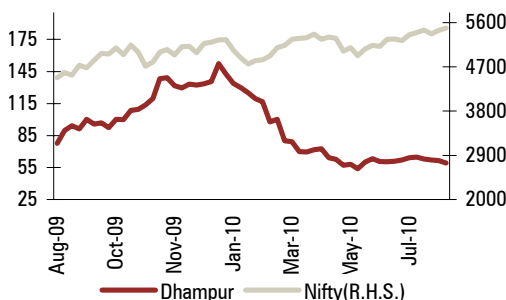
Rating matrix	
Rating	: Reduce
Target	: Rs 54
Target Period	: 12 months
Potential Upside	: -8%

Key Financials				
	SY08	SY09	SY10E	SY11E
Net Sales	667.9	935.6	1,444.8	1,407.2
EBITDA	140.5	203.9	181.8	239.1
Net Profit	3.6	55.6	28.6	89.9
EPS (Rs)	0.1	10.6	3.5	16.7

Valuation summary				
	SY08	SY09	SY10E	SY11E
P/E	NA	5.6	16.8	3.5
Target P/E	NA	5.1	15.4	3.2
EV / EBITDA	9.0	5.2	5.7	3.7
P/BV	1.2	1.2	1.1	1.0
RoNW(%)	0.8	11.8	3.9	11.5
RoCE (%)	5.8	11.0	9.8	13.8

Stock data	
Market Capitalization	Rs. 318 Crore
Total Debt (SY09)	Rs. 555 Crore
Cash (SY09)	Rs. 37 Crore
EV	Rs. 836 Crore
52 week H/L	158.6 / 58.3
Equity capital	Rs.53.9 Crore
Face value	Rs. 10
MF Holding (%)	7.4
FII Holding (%)	4.7

Price movement



Analyst's name

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WHAT'S CHANGED...

PRICE TARGET	Unchanged
EPS (SY10E)	Changed from Rs 13.3 to Rs 3.5
EPS (FY11E)	Changed from Rs 19.1 to Rs 16.7
RATING.....	Unchanged

Lower sugar price, higher sugarcane cost mount to losses...

Dhampur Sugar Mills reported subdued results for Q3SY10 (third quarter sugar year 2010) as the company witnessed a net loss of Rs 41.2 crore as against a net profit of Rs 15.0 crore in the corresponding quarter. The topline jumped 65.4% on the back of ~40% rise in sugar sales and ~ 640% increase in power sales. The increase in sugar sales was on the back of ~7% increase in sugar volumes and 16.7% jump in sugar realisations. However, higher sugarcane cost in the year has resulted in a loss at the operational level in June quarter 2010. The depreciation provisioning increased by 14.9% to Rs 15.5 crore after the company commissioned a coal-based boiler for its co-generation plant.

■ Highlight of the quarter

The company is holding 2.59 lakh tonnes of inventory. Average cost of the inventory is Rs 26.4 per kg with the free sale quantity cost at Rs 28.04 per kg and levy sugar at Rs 17.92 per kg.

Valuation

At the current price of Rs 59, the stock is trading at 16.8x its SY10E EPS of Rs 3.5 and 3.5x its SY11E EPS of Rs 16.7. Given the falling sugar prices on the back of expected sugar production of 25 million tonnes (MT) in SY11, we expect the company to post losses in the next quarter also. However, a decline in sugarcane cost in SY11 is imminent. We believe the government's action on de-regulation of the sector would result in sustainable sugar prices above Rs 25 per kg. Still, margins for the company will moderate considering the gap between production-consumption has shrunk. We value the stock at 3.2x its SY11E EPS of Rs 16.7 to arrive at a target price of Rs 54 and a **REDUCE** rating.

Exhibit 1: Financial Highlights

(Rs Crore)	Q3SY10	Q3SY10E	Q3SY09	Q2SY10	YoY(%)	QoQ(%)
Net Sales	448.9	364.4	271.4	290.1	65.4	54.7
EBITDA margin (-3.5	8.6	17.2	19.8	-2072bps	-2337bps
Depreciation	15.5	15.0	11.2	18.2	38.9	-14.9
Interest	24.6	14.6	23.0	25.0	6.9	-1.6
Other Income	0.2	2.0	0.2	0.2	3.6	0.0
Reported PAT	-41.2	15.0	11.1	12.4	-469.5	-432.5
EPS (Rs)	-7.6	2.8	2.1	2.0	NA	NA

Source: Company, ICICIdirect.com Research

Revising estimates

In light of the fall in sugar prices below Rs 30 per kg and stupendous increase in sugarcane cost this year, the cost of production has surpassed current sugar realisations. We have revised our estimates.

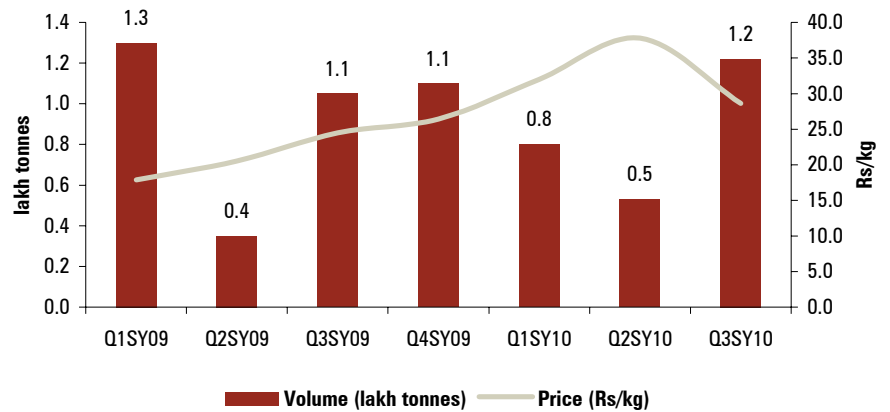
Exhibit 2: Revising estimates (Rs crore)						
Particulars	SY10E			SY11E		
	Old	New	% Change	Old	New	% Change
Revenue	1,401.6	1444.8	3.1	1,425.9	1407.2	(1.3)
EBITDA	233.3	181.8	(22.1)	253.5	239.1	(5.7)
EBITDA Margin %	16.6	12.6	-406 bps	17.8	17.0	-79 bps
PAT	88.2	28.6	(67.6)	103.1	89.9	(12.8)
EPS	14.6	3.5	(75.9)	19.1	16.7	(12.7)

Source: Company, ICICIdirect.com Research

Segment analysis

Revenue from sugar increased by 39.7% to Rs 375.3 crore on the back of 7% volume growth and 16.7% realisation growth. Revenue from power increased from Rs 14.85 crore to Rs 110.22 crore with 14.4 crore units exported to UPPCL at an average realisation of Rs 5.2 per unit. Revenue from the distillery segment increased from Rs 10.5 crore to Rs 23.9 crore on the back of a rise in the sales of chemicals.

Exhibit 3: Sugar volumes and realisation



Sugar realisations are moving southwards resulted in losses at the EBITDA level

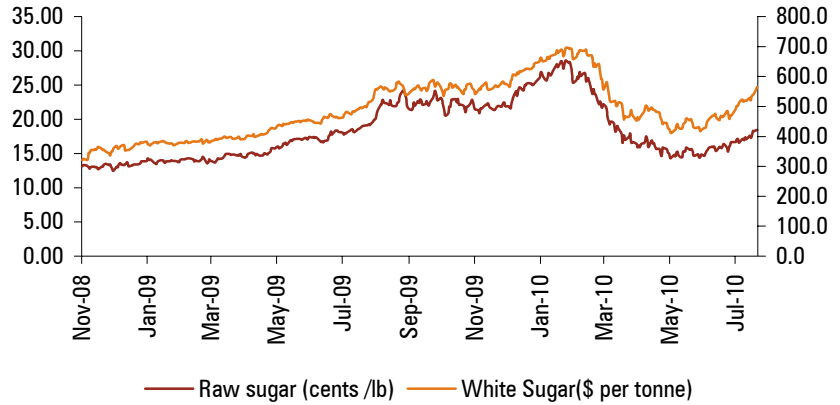
Source: Company, ICICIdirect.com Research

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 may 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



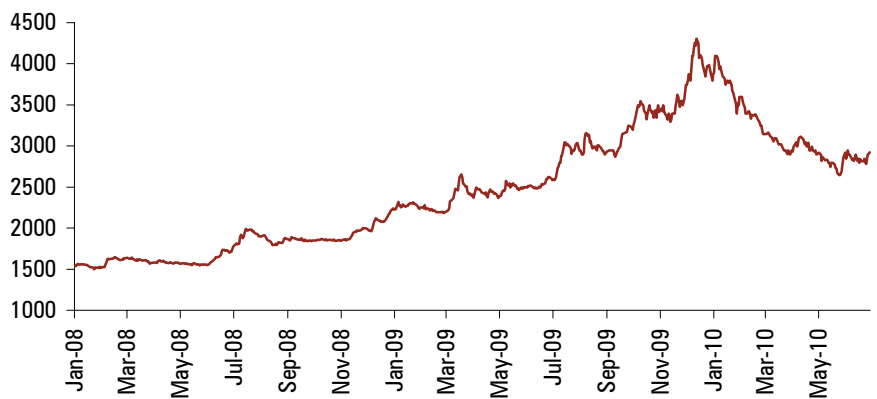
Source: Company, ICICIdirect.com Research

Higher 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 to 25 MT in SY11. However, the expected advance licence scheme (ALS) on raw sugar and re-imposition of import duty on white sugar would contain the fall in sugar prices.

Exhibit 5: Delhi sugar prices (Rs per quintal)

Domestic sugar prices following global sugar prices



Source: Company, ICICIdirect.com Research

Valuation

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Exhibit 6: Valuation Matrix

	Sales (Rs cr)	Growth (%)	EPS (Rs)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
SY09	935.6	40.1	10.6	NA	5.6	5.2	11.8	11.0
SY10E	1444.8	54.4	3.5	-66.7	16.8	5.7	3.9	9.8
SY11E	1407.2	-2.6	16.7	374.0	3.5	3.7	11.5	13.8

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	65 SY09	2816.0	3.5	18.6	11.0	14.6	13.8	
		Target	77 SY10E	5695.8	8.9	7.3	6.1	27.3	20.4	
MCap	5960	Upside	18.5% SY11E	4056.2	8.5	7.6	3.7	20.8	17.9	
Balrampur Chini										
Idirect Code	BALCHI	CMP	83 SY09	1700.0	8.5	9.1	6.7	14.3	13.7	
		Target	75 SY10E	1939.5	4.0	19.7	9.2	6.6	8.6	
MCap	2067	Upside	-9.6% SY11E	2195.0	6.8	11.4	6.5	11.1	13.1	
Bajaj Hindustan										
Idirect Code	BAJHIN	CMP	115 SY09	1583.7	8.7	13.2	12.6	5.0	4.5	
		Target	96 SY10E	2748.2	1.9	59.3	12.9	1.2	3.9	
MCap	2182	Upside	-16.5% SY11E	2597.4	6.4	17.9	9.7	3.6	6.1	
Dhampur Sugar										
Idirect Code	DHASUG	CMP	59.0 SY09	935.6	10.6	5.6	5.2	11.8	11.0	
		Target	54.0 SY10E	1444.8	3.5	16.8	5.7	3.9	9.8	
MCap	318	Upside	-8.5% SY11E	1407.2	16.5	3.5	3.7	11.5	13.8	

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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

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