

Stock statistics	25 September 2007
Market Cap (Rs Mn)	: 16,595.33
52-Week high/low (Rs)	: 737/272
Face value	: 10
BSE Code	: 532670
NSE Code	: RENUKA
Industry	: Sugar
Shares outstanding	: 2,38,09,649
Avg. daily vol. (30 days)	: 21.39

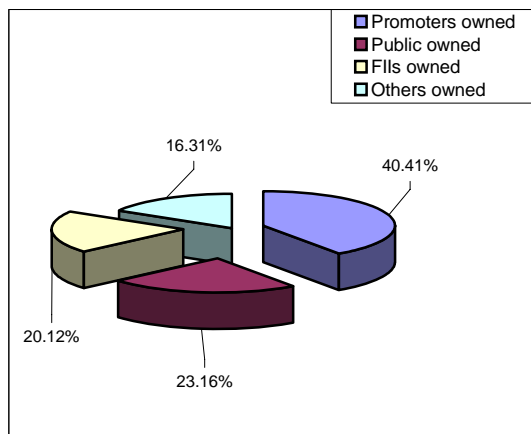
Shree Renuka Sugars Ltd. is the sixth largest sugar company and it boasts to be the largest sugar exporter in the country. Being an integrated sugar company, it is also engaged in the manufacture of industrial alcohol, impure spirit, rectified spirit, ethanol, bio-fertilizers, steam and power.

The company is youngest amongst the top ten sugar mills in the country. The company started its operations by acquiring a 1,250 TCD sick unit from the Andhra Pradesh Government in 1998. The company manufactures EC-II grade refined sugar, which is compliant with the EU quality norms. Unlike most of its peers, who sell sugar in the wholesale market to dealers, the company markets more than half its produce directly to corporates or industrial buyers.

### Turnaround in the sugar industry

The government move to provide more monetary support to the industry has raised glory for the sugar stocks. The sugar mills may be allowed to produce ethanol directly from cane juice, instead of molasses, to lower dependence on sugar prices. But whether ethanol turns out to be money-spinners for sugar mills would depend on several factors. First one is off take of ethanol by oil companies should stage an improvement from current levels; even at current 5 per cent blending norms, the actual off take has been well below targets. Second, sugar mills should be allowed greater flexibility in the pricing of the cane produced. Finally, only the large and integrated sugar mills may be in a position to switch freely between sugar and ethanol to take advantage of ups and downs in the sugar/ethanol cycle.

### Shareholding Pattern (as on 30 June '07)



### Key Statistics (as on 25 September 2007)

CMP	: 699
BV (FY'07)	: 115.27
PE	: 26
PB	: 5.25
Turnover (Rs Mn)	: 225.59
Net worth (Rs Mn)	: 2,148.80
Return Volatility (12mths)	: 13.44%

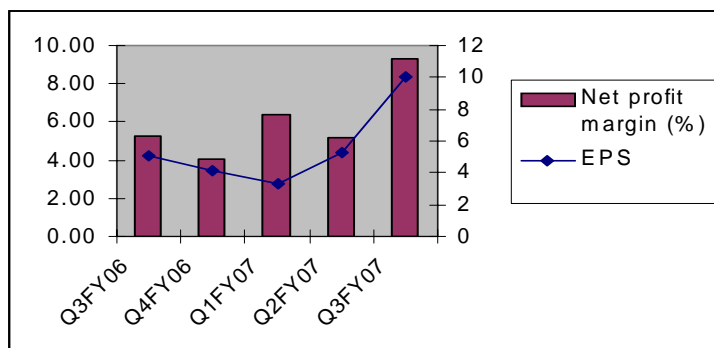
### Investment Rationale

- ✓ Shree Renuka Sugars acquired ethanol plant of Dhanuka Petro-Chem - a division of Dhanuka Cold Storage for approximately Rs 60 million. The plant with capacity to manufacture 100 klpd of ethanol is strategically located at Khopoli, near JNPT port. The company intends to increase the ethanol capacity of this unit from 100 klpd to 250 klpd, in the near future. This strategic move of the company would help it out in strengthening its margins in future.
- ✓ The company is considering various options for its overseas expansion. The investments for its overseas expansion will be routed through its UAE-based wholly-owned subsidiary Shree Renuka Biofuels Holdings. The company expects its overseas expansion to help lower the production costs and increase the margins.
- ✓ The company is going for major capital expenditure. The company has a capacity to generate 103.5 MW of power per annum, which it plans to expand to 207.5 MW at a cost of Rs 900 million. The company also has a distillery capacity of 450 KLPD, which it plans to expand to 900 KLPD in the next two years at a cost of Rs 1,050 million.

## FINANCIAL STATEMENT ANALYSIS

Particulars	Q3FY06	Q4FY06	Q1FY07	Q2FY07	Q3FY07
Revenues	2459.67	2389.81	1227.00	2453.00	2554.00
Growth (%)	-	(2.84)	(48.66)	99.92	4.12
Total Expenditure	<b>2218.22</b>	<b>2220.08</b>	<b>1079.00</b>	<b>2186.00</b>	<b>2163.00</b>
Operating Profit	241.45	169.73	148.00	267.00	391.00
Growth (%)	-	(29.70)	(12.80)	80.41	46.44
OPM	9.82	7.10	12.06	10.88	15.31
Other Income	1.83	5.11	3.00	5.00	218.00
EBIDT	243.28	174.84	151.00	272.00	480.00
Interest	59.36	63.18	30.00	8.00	42.00
Depreciation	23.76	21.89	30.00	43.00	72.00
PBT	160.16	89.77	91.00	221.00	366.00
Tax	30.27	(8.04)	13.00	94.00	128.00
Adjusted PAT	<b>129.89</b>	<b>97.81</b>	<b>78.00</b>	<b>127.00</b>	<b>367.00</b>
Growth (%)	-	(24.70)	(20.25)	62.82	87.40
Adjusted NPM	5.28	4.09	6.36	5.18	9.32
Reported PAT	<b>129.89</b>	<b>97.81</b>	<b>78.00</b>	<b>127.00</b>	<b>238.00</b>
EPS	<b>5.50</b>	<b>4.10</b>	<b>3.30</b>	<b>5.30</b>	<b>10.00</b>
Equity Capital	238.10	238.10	238.10	238.10	238.10

The company has shown excellent financial performance for the quarter ended June 2007. The net sales for the company rose to Rs 2,554 million for the Q3FY07 versus the net sales of Rs 2,459.67 million for the Q3FY06 with the growth rate of 4%. The operating profit for the company rose to Rs 391 million for Q3FY07 versus the operating profit of Rs 241.45 million with the growth rate of 62% whereas operating profit margins rose to 15% versus the operating profit margins of 9.82%. The company reported the EBITDA of Rs 480 million for the Q3FY07 in comparison to the EBITDA of Rs 243.28 million for the Q3FY06 with the growth rate of 97%. On the other hand, EBITDA margin rose to 18% versus the EBITDA margin of 10%. The net profit for the company gone up very sharply to Rs 238 million for the Q3FY07 as against the net profit of Rs 129.89 million for the quarter ended Q3FY06. The net profit margins also rose to 9.32% versus the net profit margin of 5.28%. The earning per share for the company also doubled from the corresponding quarter to Rs 10 per share versus the earning per share of Rs 5.50 per share.



The company has very well leveraged its business model and rationalized its growth. The earning per share for the company rose to Rs 10 per share for the Q3FY07 versus the earning per share of Rs 5.50 per share for the Q3FY06 supported by strong net profit margin growth which stood at 9.32% for the Q3FY07 versus the net profit margin of 5.28% for the Q3FY06. Both the net profit margins and earning per share grown twice from the corresponding quarter. This trend would continue in the future due to ethanol production.

### Valuation

The company's business model is a little different from its peers. While most sugar mills have found their way to volume growth through inorganic expansion, Shree Renuka Sugar's strategy has been to enhance its volumes by taking poor performing or sick sugar mills on lease and running them efficiently. This strategy helped company to enhance its capacity faster and save upon capital expenditure. It's only in the recent times that the company resorted to major inorganic expansions, more than trebling its sugarcane crushing capacity. The company is growing on very strong note year on year with its ethanol business to gain boost in the coming years with huge ethanol production capacity.

The stock of the company is trading 26 times to its earnings and 5.25 times to its book value. The company with its unique business model and easing norms for sugar industry is all set to grow at fast pace in coming years. Therefore, we are initiating 'BUY' signal on the stock with price target of Rs 855 which is 22% up from current price in medium to long – term.

E-Mail : [research@hemonline.com](mailto:research@hemonline.com)

Disclaimer: This document is prepared on the basis of publicly available information and other sources believed to be reliable. Whilst we are not soliciting any action based on this information, all care has been taken to ensure that the facts are accurate and opinions given fair and reasonable. This information is not intended as an offer or solicitation for the purchase or sell of any financial instrument. Hem Securities Limited, Hem Finlease Private Limited, Hem Multi Commodities Pvt. Limited and any of its employees shall not be responsible for the content. The companies and its affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material may from time to time, have long or short positions in, and buy or sell the securities there of, company (ies) mentioned here in and the same have acted upon or used the information prior to, or immediately following the publication