May 25, 2006

COMPANY REPORT

Dwarikesh Sugar Industries Ltd. (DSIL)

Rs. 187 | Buy

Initiating Coverage

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Nifty: 3178; Sensex: 10666

Key Stock Data

Sector	Sugar
Bloomberg/Reuters	DSIL@IN/DWAR.BO
Shares o/s (m)	15.6
Market cap (Rs m)	2,910
Market cap (US$ m)	63
3-m daily average vol.	96,542

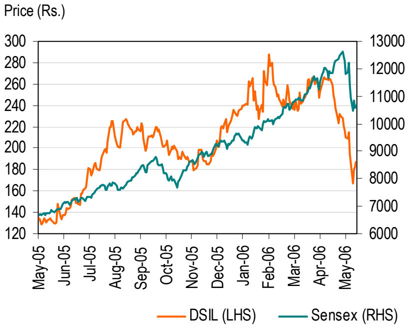
Price Performance

52-week high/low			Rs308/128
	-1m	-3m	-12m
Absolute (%)	(29.2)	(24.0)	38.6
Rel to Sensex (%)	(20.8)	(28.5)	(21.3)

Shareholding Pattern (%)

Promoters	44.60
FIIs/NRIs/OCBs/GDR	19.92
MFs/Banks/FIs	9.30
Public & Others	26.18

Sensex and Stock Movement



Source: Capitaline

Summary

Dwarikesh Sugar Industries Ltd. (DSIL), a leading sugar player is all set to capitalize on the demand-supply gap in the international sugar markets through its aggressive expansion plan. It has ordered machinery for its third unit at Bareilly, UP (which will be known as Dwarikesh Dham), which will boost the total capacity to 21,500TCD. The proposed green field 7,500TCD along with a co-gen plant of 36MW and additional 24MW cogeneration at Dwarikesh Puram, put together will cost the company around Rs.3,000m. The facility will be operational by the sugar season 2007-08.

On account of the proposed expansion the EPS is expected to grow to Rs.21.0 in FY07 and Rs.34.9 by FY08 from Rs.13.9 in FY06E. Earnings are expected to expand further on account of the company's planned acquisition. The current market price discounts the FY07 EPS by 8.9x and FY08 EPS by 5.4x. We recommend a 'Buy' with one year target price of Rs.230.

Investment highlights

- **Surging international demand**

  The Indian sugar story has gone beyond the international boarders, as the international price has gone much above the domestic price owing to rising crude price and end of dumping by the EU. Thus India is expected to emerge as a major international player in the sugar industry.

- **Growth through expansion**

  DSIL is well positioned in the industry to take advantage of the growing demand for sugar in the international markets by embarking on a Greenfield sugar plant in Bareilly, UP with a capacity of 7,500TCD. It will be operational in sugar season 2007-08 and will be a key driver of revenue growth for the company.

- **Additional revenue from power**

  DSIL, as an integrated player, is also expanding its power capacities from 17MW in FY05 to 86MW in FY08. This will contribute significantly to the topline backed by Purchase Power Agreement (PPA) with Uttar Pradesh Power Corporation Ltd. (UPPCL) to be signed soon for surplus power generated.

- **Higher efficiency**

  With the combined effects of cost control measures, cane development, higher recovery and higher crushing the OPM (%) is improving year on year and expected to stabilize at around 21% with the economies of scale arising out of expanded capacities, increased R&D and higher capacity utilisation. The company is also setting up research farms to improve cane quality and productivity.

Table 1: Financial snapshot (Rs. m)

Year-end: September	FY04	FY05	FY06E	FY07E	FY08E
Gross Sales	1,531	1,642	2,251	3,430	5,540
PAT	97	266	218	329	545
OPM (%)	19	28	20	19	21
NPM (%)	6	16	10	10	10
EPS (Rs.)	12.0	21.1	13.9	21.0	34.9
ROE (%)	26	42	18	20	28
P/E (x)	15.6	8.9	13.4	8.9	5.4

Source: Company reports; IDBI Capital Market Services

Investment rationale

Growing exports opportunity

International prices ruling higher than domestic prices

With the international sugar price growing above the domestic price, Indian sugar producer should be ready to explore the international markets. Moreover, with increasing domestic sugar production beyond the requirements, international market should be the main focus for the domestic sugar producer.

Rising crude price drives Brazil, the biggest sugar producer of the world, to divert more and more sugarcane to ethanol creating a dent in the availability of sugar in the international markets. In addition to that, the end of dumping of sugar from the EU results into spiraling sugar price in the international markets.

Currently the international sugar price is ruling at around US$ 500m a ton. That after deducting necessary costs and assuming nil import duty translates into a domestic ex-factory price of Rs.18,000 a ton, which is a bit less than the ruling domestic price. However, going by current demand supply situation in the international markets, and gyrating crude price we expect the prices of sugar to remain firm.

Table 2: Indian exfactory price calculation for exports

International price (US$)	500
Port, Incidentals and others (US$)	35
C & F price (US$)	465
Freight (US$)	65
Indian exfactory price (US$)	400
Exchange rate (Rs/US$)	45
Indian exfactory price (Rs. FOB)	18,000

Source: Industry; IDBI Capital Market Services

Additional 190,000TCD joining the industry

Untapped export potential

According to the CMIE's 44th quarterly survey, Rs.58,040m investments approximately are outstanding in sugar industry. This means additional capacities of around 190,000TCD producing around 3m ton or more additional sugars.

Assuming domestic consumption growth rate of 4.5%, India will be consuming 20.8m tones in FY08 against total availability of 31.7m tones. This will create opportunities for Indian manufacturers to export the surplus, as international price is higher than the domestic price.

Table 3: Domestic demand supply scenario

Particulars	FY04	FY05E	FY06E	FY07E	FY08E
Opening stocks	11.6	8.5	4.5	6.5	8.2
Production	14.0	12.5	19.5	21.5	23.5
Imports	0.6	2.0	1.5	0.0	0.0
Total availability	26.2	23.0	25.5	28.0	31.7
Domestic consumption	17.5	18.1	19.0	19.8	20.8
Closing stocks	8.5	4.5	6.5	8.2	10.9

Source: Indian Sugar Mills Association; IDBI Capital Market Services

Ethanol – Removing clouds

The center plans to make blending of 5% ethanol with petrol mandatory by oil companies from October 2006 and, depending upon its success, expects to increase it to 10% from October 2007. However, ethanol will continue to remain as a byproduct until the price reaches around Rs.25 a liter or so. Currently oil companies are paying Rs.18.75 a litre of ethanol, which is way below the international price of US$ 2.8 a gallon. Following the government initiative, we believe that the price will improve in due course of time. That will help the sugar price remaining buoyant, as the producer will have choice to shift between ethanol and sugar.

DSIL – Huge scope for upside

Dwarikesh – Growth not reflected in stock price

DSIL as an integrated sugar player will be able to reap the benefit of the upbeat sugar cycle in the International scenario. The company is on an expansion spree to take benefit of the gyrating sugar price internationally. It has already placed orders for machineries for its proposed expansion in Dwarikesh Dham, Bareilly, UP. Post expansion the company will achieve total crushing capacity of 21,500TCD from 14,000TCD at present. Moreover, the company also has plan for acquisition. We believe, the current stock price fails to factor in the growth prospect leaving a huge upside.

Table 4: Post expansion facilities

Segments	Unit	Dwarikesh Nagar	Dwarikesh Puram	Dwarikesh Dham	Total
Sugar	TCD	6,500	7,500	7,500	21,500
Power	MW	17	33	36	86
Distillery	KLPD	30	0	0	30

Source: Company reports; IDBI Capital Market Services

Rs.2,000m of additional revenue expected

Greenfield expansion

DSIL is setting up its third plant of 7,500TCD capacity along with 36MW cogen plant in Dwarikesh Dham, Bareilly in Eastern UP for a total capex of Rs.2,000 m. In addition to that one more power plant of 24MW will be added to its existing 9MW plant in Dwarikesh Puram for a capex of Rs.1,000m. Financing will be done through term loan of Rs.2,500m and the rests through internal accruals and proceedings of the latest GDR issue in December 2005, whereby the company has raised $12m. It has deferred its plan of FCCB issue for funding the proposed expansion. The facility will be operational by November 2007 and expected to crush around 500,000 tons in the first year generating an additional revenue of around Rs.2,000m.

Cane availability

Cane availability shouldn't be a problem for the unit, as it has got an estimated fully irrigated command area of 30,000 hectares with 70% cropping intensity. Moreover, the unit doesn't have any competitor within the radius of 26-30Km.

Table 5: Facility details

Sugar	TCD	7,500
Power	MW	36
Total land available	Acres	72
Command area (Approx.)	Hectares	30,000
Crop intensity	%	70
Yield	MT/Hectare	64

Source: Company reports; IDBI Capital Market Services

Table 6: Projected production

Particulars		FY08E	FY09E	FY10E
Capacity	TCD	7,500	7,500	7,500
Utilisation	%	70	75	75
Sugarcane Consumed	MT	850,500	911,250	911,250
Sugar Recovery	%	10	10	10
Sugar Produced	MT	85,050	91,125	91,125
Gross Season	Days	162	162	162

Source: Company reports; IDBI Capital Market Services

Crushing expected to grow more than 2 folds

Dwarikesh Puram started operating

Its new facility with 7,500TCD and 9MW plant had started crushing in January 2006. The project was financed through IPO proceeds of Rs.250m, debts of Rs.900m and rests through internal accruals. Because of the delayed start of the facility the overall profitability in Q2FY06 came down, further accelerated by higher depreciation and interest expenditure. The facility crushed 340,000 ton of sugarcane in 105 days this season and expected to crush 850,000 ton next year raising the total sugar production by 54%.

With the additional 24MW cogen capacity, as discussed above, the company is expected to produce around 328m units of power post expansion against around 40.5m units this year.

Cane availability

The unit has a fairly large irrigated command area of 23,374 hectares though it will face some competition from Dhampur Sugars, 12,000TCD unit, which is situated at a distance of around 20Km. Another 10,000TCD unit of Upper Ganges is located at a distance of slightly more than 20Km. However, looking at the smaller capacity of 7,500TCD at Dwarikesh Puram the unit is expected to get enough cane for crushing through some efforts.

Table 7: Facility details

Sugar	TCD	7,500
Power	MW	33
Total land available	Acres	58
Command area	Hectares	23,374
Crop intensity	%	70
Yield	MT/Hectare	64

Source: Company reports; IDBI Capital Market Services

Table 8: Projected production

Dwarikesh Puram		FY06E	FY07E	FY08E	FY09E	FY10E
Capacity	TCD	7,500	7,500	7,500	7,500	7,500
Utilisation	%	43	70	75	75	75
Sugarcane consumed	MT	338,625	850,500	911,250	911,250	911,250
Sugar recovery	%	10	10	10	10	10
Sugar produced	MT	34,540	85,050	91,125	91,125	91,125
Gross season	Days	105	162	162	162	162

Source: Company reports; IDBI Capital Market Services

Existing facility crushed less cane

Recovery remains fairly decent at more than 10%

Dwarikesh Nagar facility crushed 720,000 tons of cane this season against 800,000 tons last year on account of untimely monsoon and lowering sugarcane yield. The recovery remained fairly decent at more than 10%, while most of the UP based sugar mills have faced lower recovery this season.

Considering the total command area of 24,304 hectares under the unit and decent cropping intensity of 70% cane availability shouldn't be a major problem for this unit. Going forward, we expect a capacity utilization of around 75%. Uttam Sugar Mill's new 7,000TCD Barkatpur unit, which is at a distance of 20-22Kms is not expected to poach in DSIL's command area on account of its smaller capacity. Apart from that the unit of DSIL has got another two smaller cooperative units of 3,500TCD each as its neighbors, which are not exepcted to create any major problem for cane in near future.

Table 9: Facility details

Sugar	TCD	6,500
Power	MW	17
Ethanol	KLPD	30
Total land available	Acres	86
Command area	Hectares	24,304
Crop intensity	%	70
Yield	MT/Hectare	64

Source: Company reports; IDBI Capital Market Services

Table 10: Projected production

Dwarikesh Nagar		FY05	FY06E	FY07E	FY08E	FY09E	FY10E
Capacity	TCD	6,500	6,500	6,500	6,500	6,500	6,500
Utilisation	(%)	76	69	75	75	75	75
Sugarcane consumed	MT	803,020	721,305	789,750	789,750	789,750	789,750
Sugar recovery	%	10.5	10.0	10.0	10.0	10.0	10.0
Sugar produced	MT	84,156	72,131	78,975	78,975	78,975	78,975
Gross season	days	162	162	162	162	162	162

Source: Company reports; IDBI Capital Market Services

Growing revenue from cogen

Cogen expansion yielding Rs.519m of additional revenue

DSIL is planning to expand its cogeneration capacity from 26MW to 86MW through setting up a cogen plant of 36MW at Dwarikesh Dham and another 24MW at Dwarikesh Puram. At present it is selling 8MW of surplus power to Uttar Pradesh Power Corporation Ltd. (UPPCL) at Rs.2.83/unit against a production cost of Rs.1.36/unit. It has signed a PPA of 24MW for it's Dwarikesh Puram unit and is also expected to tie up another PPA for its plant at Dwarikesh Dham.

Post expansion the company is expected to produce 86MW of power fetching an additional revenue of around Rs.519m . Thus the revenue from the power sale is expected to grow at 121% CAGR from FY05 through FY08E.

Table 11: Projected power revenue

Electricity		FY05	FY06E	FY07E	FY08E
Total capacity	MW	17	26	26	86
Captive use	MW	9	18	18	30
Unit sold to grid	MW	8	8	8	56
Unit realisation	Rs/KWH	2.83	2.86	2.89	2.93
Revenue	Rs m	53	55	56	572

Source: Company reports; IDBI Capital Market Services

Ethanol – Increasing capacity utilisation

Higher efficiency leading to growth at 53% CAGR over FY05-08

DSIL's 30KLPD distillery, commissioned in FY05, produced 1.7m ltrs of Ethanol in 182 days. For FY05, the unit realization of the distillery was around Rs.19.9/ltr leading to a revenue of Rs.24.4m. Higher revenues are expected in days to come, as the unit is expected to run for around 220 days with much better efficiency. In terms of realization, we remain a bit skeptical though. The revenue is expected to grow at 52.6% CAGR over FY05-FY08. Ethanol demand from major oil marketing companies are expected to pick up due to 5% compulsory blending of ethanol with petrol. Government is planning to raise the blending limit to 10% by October 2007.

Table 12: Projected ethanol revenue

		FY05	FY06E	FY07E	FY08E
Installed capacity	BL	5,460,000	6,600,000	6,600,000	6,600,000
Utilisation	%	31	50	70	70
Production	BL	1,712,743	3,300,000	4,620,000	4,620,000
Turnover	BL	1,215,000	3,272,754	4,581,856	4,581,856
Unit realisation	Rs/BL	19.88	18.75	18.75	18.75
Revenue	Rs m	24	62	87	87

Source: Company reports; IDBI Capital Market Services

DSIL has sufficient molasses to run its 30KLPD capacity. In FY05, distillery division used 7,628MT of molasses representing 24% of total molasses produced. The company sells its excess molasses and it has no plan to increase distillery capacity in tandem with the increasing crushing capacity in near future. The revenue from molasses are expected to grow at 27% CAGR over FY05-FY08.

Table 13: Projected molasses revenue

		FY05	FY06E	FY07E	FY08E
Production	MT	31,919	42,131	65,198	101,419
Capitve utilisation	MT	7,628	14,698	20,577	20,577
Turnover	MT	24,099	27,433	44,621	80,842
Unit realisation	Rs/MT	3,096	2,500	2,500	2,500
Revenue	Rs m	98	69	112	202

Source: Company reports; IDBI Capital Market Services

Financials

Improving numbers

Assuming sugar price of Rs.19,000 a ton for FY07 and Rs.18,000 ton in FY08 and cane price of Rs.1,300 a ton throughout, we expect the PAT to grow at 27% CAGR induced by topline CAGR of 50% over FY05-08. EBIDTA margins are expected to be around 20%, subject to the sugar and sugarcane price. NPM are expected to remain at 10%.

The FY06 net profit is expected to fall marginally owing to higher raw material cost and increased expenses on account of the new plant. The plant started late and couldn't run for the full season and capacity.

Debt/equity ratio is expected go up following the anticipated term loan to finance the proposed expansion.

Expansion leading to topline and bottomline growth

Figure 1: Forecasted revenue growth

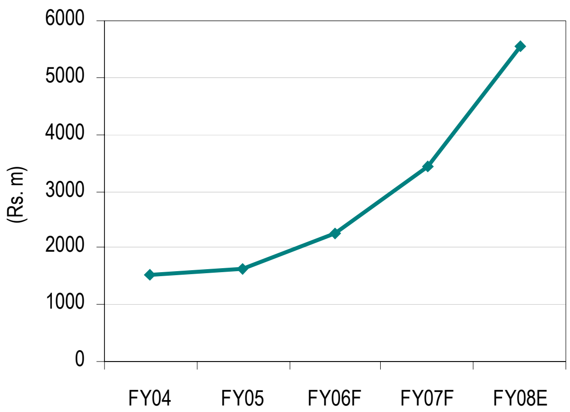
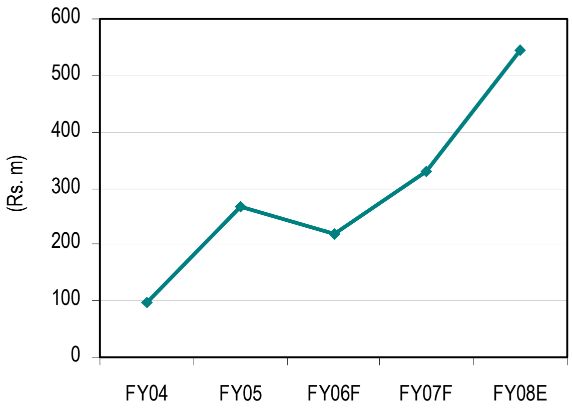


Figure 2: Expected growth in profit



Source: Company reports; IDBI Capital Market Services

Half yearly results below expectation

DSIL's half yearly results are a tad below expectation due lower crushing and delay in commissioning of Dwarikesh Puram plant. The facility, commissioned in January 2006, contributed to the revenues for approximately 105 days. Sales is up by 24.7% YoY to Rs.916.5m driven by increasing volume and better realizations. EBIDTA margins were stable at 32%. But due to increase in interest costs by 24% YoY at Rs.41.2m and depreciation by 96% YoY at Rs.54.7m on account of the new facility PAT was down by 6.2% YoY to Rs.162.1m.

Strengths/Opportunities

Small individual capacities ensures cane availability

- Small individual capacities at various places ensures enough cane to crush within the command area of each unit enabling higher capacity utilization.
- DSIL's facilities are placed in well irrigated UP region. Due to high ground water table, the crop is not much dependent on monsoon.
- Enough molasses for expansion of ethanol capacity by three folds from the current level.

Threats/Risks

- India will produce above 21m ton sugar in sugar season 2006-07, which is more than the domestic requirements. Without exports the country would face sugar oversupply.
- Excess sugar supply from Brazil for any reason would result into correction in international sugar prices jeopardizing the sugar industry in India.
- Any major correction in crude price from the current level may result into higher sugar supply in the international markets.

Valuations

Assuming average sugar price of Rs.19,000 a ton for FY07 and Rs.18,000 a ton for FY08, 162 days crushing season for DSIL and around 10% recovery we expect a revenue of around Rs.2,251m in FY06, which is expected to move up to Rs.3,430m in FY07 and Rs.5,540m in FY08.

EPS is expected to grow to Rs.21.0 in FY07 and to Rs.34.9 by FY08 from Rs.13.9 in FY06E. Actual earnings could be much more than that on account of the company's plan for Rs.2,000m acquisition, the details of which is not yet finalized.

The current market price discounts the FY07 EPS by 8.9x and FY08 EPS by 5.4x. Thus, we foresee a clear upside from the current level and recommend a 'Buy' with one year target price of Rs.230, which is 14% discount to the DCF value of Rs.266.

Table 14: Discounted cash flow

Year-end: September	FY05E	FY06F	FY07F	FY08E	FY09E	FY10E
CFO	347	426	587	966	791	784
Marginal tax rate (%)	8	9	9	9	9	9
Interest expended	70	59	78	150	350	350
Investment	(967)	(672)	(2,510)	(510)	(10)	(10)
FCFF	(555)	(192)	(1,852)	593	1,100	1,094
Net borrowings	384	900	2,500			
FCFE	(236)	654	577	456	781	774
Terminal value less debt (2% growth rate)						2,851
PV		654	512	359	545	2,246
PV/Share		42	33	23	35	144
NPV/share		277				
Present value/Share		**266**				
Cost of equity (%)		12.7				

Source: Company reports; IDBI Capital Market Services

Table 15: Peer comparison (Rs. m)

Year-end:	Bajaj Hindustan 2005-Sept.	Balrampur Chinni 2005-March	Mawana Sugars 2005-Sept.	Dhampur Sugars 2005-Sept.	Dwarikesh Sugars 2005-Sept.
Sales turnover	8,820	9,303	5,850	7,678	1,642
OPM (%)	23	23	12	15	28
Net profit	1,388	1,265	608	568	266
NPM (%)	16	13	10	7	16
EPS (Rs.)	12	5	12	16	21
BV (Rs.)	53	21	55	30	71
P/E	44	38	10	15	9
P/BV	10	9	2	8	3
Equity	141	248	425	461	126
FV	1	1	10	10	10
Price (Rs.)	528.1	196.5	121.6	236.1	230.0
MCAP	74,613	48,771	5,166	10,880	2,890
EV/EBIDTA	40	24	7	12	7
Capacities	57,000	47,500	17,000	30,750	14,000

Source: Company reports; IDBI Capital Market Services

Business profile

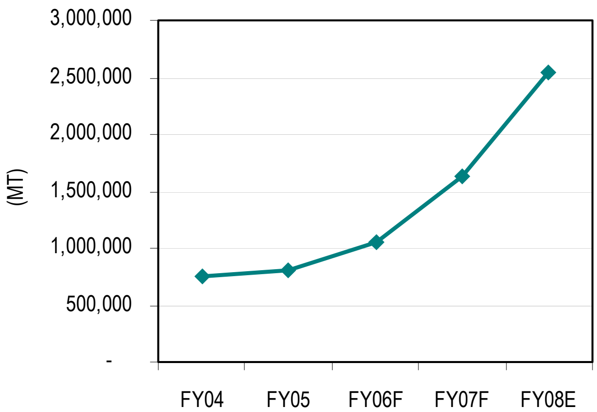
Dwarikesh Sugar Industries Ltd. (DSIL), is the flagship company of the Dwarikesh Group, founded by Mr. Gautam R. Morarka. Dwarikesh is a diversified group with its presence in the field of sugar manufacturing, financial services and information technology.

DSIL, incorporated in 1993, has its existing plant capacity of 6,500TCD in Bijnor of UP. The proposed additional capacities will take the total capacity to 21,500TCD. Its existing facilities also include total power capacity of 26MW and distillery capacity of 30KLPD.

Its crushing quantity has been rising steadily over the years to crush the highest 801,500MT of sugarcane in FY05. The company enjoys the highest yield in the industry due to efficient cane procurement. During the last season, recovery rate was 10.48%, which is one of the highest in the state of Uttar Pradesh.

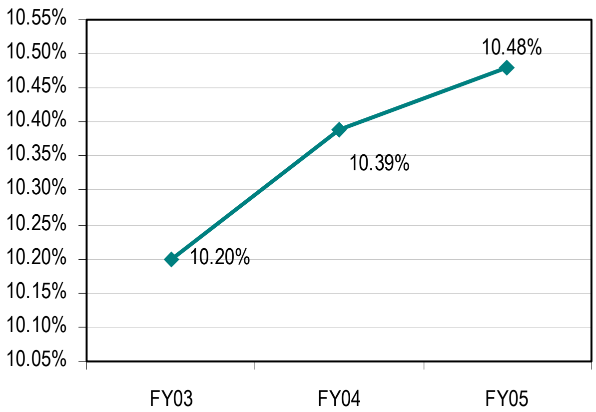
Higher crushing coupled with better recovery provides growth impetus

Figure 3: Sugarcane crushed p.a



Source: Company reports; IDBI Capital Market Services

Figure 4: Recovery rate



Source: Company reports; IDBI Capital Market Services

DSIL has its revenues contributed by sugar, power, molasses and alcohol. Distillery had commenced operations in FY05 contributing 1.5% of total revenue, stabilizing at that levels in FY08. Going forward, revenue contribution from power are set to increase to 10.3% in FY08 as against 3.2% in FY05.

Diversifying revenues

Figure 5: Segmental revenue

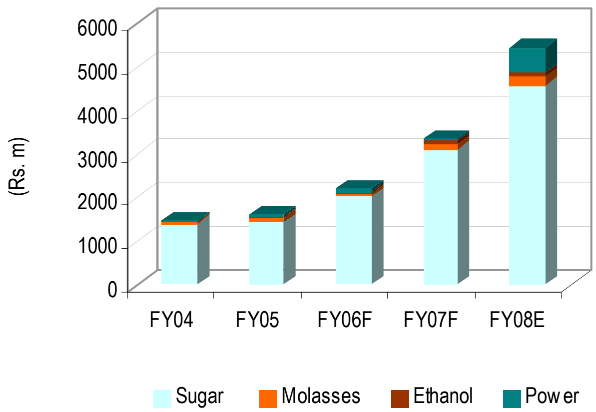
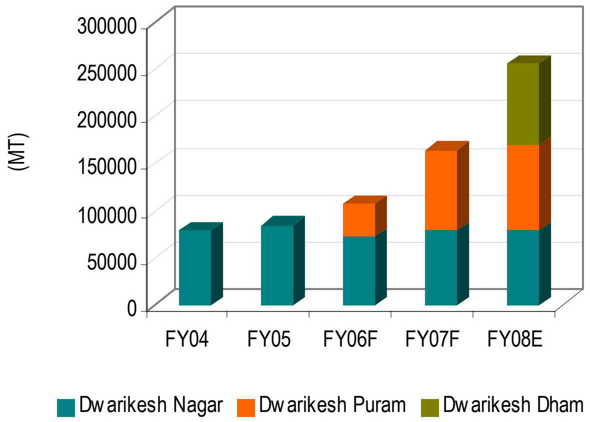


Figure 6: Sugar production facility-wise



Source: Company reports; IDBI Capital Market Services

Revenue break-up and assumptions

Year-end: September		FY04	FY05E	FY06E	FY07E	FY08E
Sugar						
Total capacity	TCD	6,500	6,500	14,000	14,000	21,500
Sugarcane crushed	MT	752,408	803,020	1,059,930	1,640,250	2,551,500
Turnover	MT	99,473	85,004	106,670	164,025	255,150
Unit realisation	Rs/MT	14,199	16,939	19,000	19,000	18,000
Sugar revenue	Rs m	1,412	1,440	2,027	3,116	4,593
Mollases						
Production	Mt	29,398	31,919	42,131	65,198	101,419
Turnover	MT	29,398	24,099	27,433	44,621	80,842
Unit realisation	Rs/MT	1,840	3,096	2,500	2,500	2,500
Revenue	Rs m	54	98	69	112	202
Ethanol						
Installed capacity	BL		5,460,000	6,600,000	6,600,000	6,600,000
Production	BL		1,712,743	3,300,000	4,620,000	4,620,000
Turnover			1,215,000	3,272,754	4,581,856	4,581,856
Unit realisation	Rs/BL		20	19	19	19
Revenue	Rs mn		24	62	87	87
Electricity						
Total capacity	MW	9	17	26	26	86
Turnover	MW	1	8	8	8	56
Unit realisation	Rs/KWH	2.71	2.83	2.86	2.89	2.93
Revenue	Rs m	18	53	55	56	572

Source: Company reports; IDBI Capital Market Services

Quarter history

Year-end: September	Q2FY06	Q2FY05	Var (%)	H1FY06	H1FY05	Var (%)
Gross sales	513	404	27	917	735	25
Excise duty	0	0	0	0	0	0
Net sales	513	404	27	917	735	25
Other income	10	5	119	11	24	(56)
Total income	523	409	28	927	759	22
Total expenditure	330	236	40	628	487	29
PBIDT	193	173	12	300	272	10
Interest	34	21	67	41	33	24
Depreciation	39	14	181	55	28	96
Tax	10	12	(15)	17	18	(3)
Deferred tax	24	11	128	24	21	14
Reported profit after tax	86	116	(26)	162	173	(6)
Extra-ordinary items	(1)	(1)	(20)	(1)	(2)	(29)
Adjusted profit after extra-ordinary item	87	117	(26)	163	175	(6)
Calculated EPS (Unit Curr.)	6	9	(40)	10	14	(24)
Calculated EPS (Ann.) (Unit Curr.)	22	37	(40)	42	55	(24)
PBIDTM (%)	38	43		33	37	
PATM (%)	17	29		18	24	

Source: Company reports; IDBI Capital Market Services

Financial summary

Profit and loss account

(Rs. m)

Year-end: September	FY04	FY05	FY06E	FY07E	FY08E
Gross sales	**1,531**	**1,642**	**2,251**	**3,430**	**5,540**
Less: Excise	100	94	128	196	316
Net sales	**1,431**	**1,549**	**2,123**	**3,234**	**5,224**
Expenditure					
Change in stocks	233	(32)	(0)	(0)	(0)
Raw material	737	892	1,378	2,132	3,317
Power and fuel cost	6	7	10	15	24
Employee cost	63	80	108	165	266
Other manufacturing expenses	5	12	16	25	40
Administration, selling and distribution	40	54	73	111	179
Miscellaneous	63	71	96	146	236
	1,147	**1,084**	**1,680**	**2,593**	**4,061**
EBDITA	**284**	**464**	**442**	**641**	**1,163**
Interest/Financial charges	70	59	78	150	350
Depreciation	46	55	114	114	178
EBT	**168**	**350**	**250**	**377**	**635**
Other income	4	4	38	59	87
Non recurring items	(63)	(2)			
PBT	**109**	**352**	**289**	**436**	**722**
Tax	9	30	25	38	62
Deferred tax	4	56	46	69	115
PAT	**97**	**266**	**218**	**329**	**545**

Source: Company reports; IDBI Capital Market Services

Balance sheet

(Rs. m)

Year-end: September	FY04	FY05	FY06E	FY07E	FY08E
Sources of funds					
Total shareholders' Fund	**390**	**894**	**1,546**	**1,767**	**2,204**
Equity	76	126	156	156	156
Reserves and surplus	303	757	1,379	1,600	2,037
Preference equity – Redeemable	11	11	11	11	11
Total debt	**588**	**971**	**1,871**	**4,371**	**4,371**
Secured loans	587	971	1,871	4,371	4,371
Unsecured loans	1	0	0	0	0
Total liabilities	**977**	**1,865**	**3,417**	**6,138**	**6,575**
Application of funds					
Assets					
Gross block	**912**	**1,183**	**2,683**	**2,693**	**5,703**
Accumulated depreciation	301	354	468	583	761
Net block	611	828	2,214	2,110	4,942
Capital Work in progress	**142**	**838**	**10**	**2,510**	**10**
Investments	**3**	**3**	**3**	**3**	**3**
Current assets of which	**431**	**609**	**1,784**	**2,406**	**3,011**
Inventories					
Sundry debtors	1	8	11	16	26
Cash and bank	2	6	1,132	1,660	2,096
Loans and advances	40	124	170	259	418
Less: Current liabilities and provisions	**142**	**291**	**426**	**654**	**1,038**
Current liabilities	101	150	233	359	562
Provisions	41	141	193	295	476
Net current assets	**288**	**318**	**1,358**	**1,752**	**1,973**
Net deferred tax	**(67)**	**(123)**	**(169)**	**(238)**	**(353)**
Total assets	**977**	**1,865**	**3,417**	**6,138**	**6,575**

Source: Company reports; IDBI Capital Market Services

Cash flow statement

(Rs. m)

Year-end: September	FY05	FY06E	FY07E	FY08E
PAT	266	218	329	545
Depreciation	55	114	114	178
Deferred tax	56	46	69	115
Other income	(4)	(38)	(59)	(87)
Inc/(Dec) in WC	(25)	86	133	215
(Inc)/Dec in receivables	(7)	(3)	(6)	(10)
(Inc)/Dec in inventories	(83)	-	-	-
(Inc)/Dec in loans and advances	(84)	(46)	(89)	(159)
Inc/(Dec) in current liabilities	149	135	228	385
Cash from operation	**347**	**426**	**587**	**966**
Other income	4	38	59	87
Net (Pur)/Sale of assets/Capex	(967)	(672)	(2,510)	(510)
Net (Pur)/Sale of investments	(0)	-	-	-
Capital subsidy	-	-	-	-
Cash from investing	**(963)**	**(633)**	**(2,451)**	**(423)**
Dividends and tax thereon	(87)	(108)	(108)	(108)
Net borrowing	384	900	2,500	-
Equity issue	50	30	-	-
Share premium	-	512	-	-
Preference Issue/Warrant	-	-	-	-
Cash from financing	**346**	**1,334**	**2,392**	**(108)**
Adjustments/Extra income	0	-	-	-
Cash flow	**(269)**	**1,126**	**528**	**436**
Opeing Balance	2	6	1,132	1,660
Closing Balance	**(267)**	**1,132**	**1,660**	**2,096**

Source: Company reports; IDBI Capital Market Services

Ratio's

Year-end: September	FY04	FY05	FY06F	FY07F	FY08E
Per share values (%)		**75**	**(34)**	**51**	**66**
EPS (Rs)	12.0	21.1	13.9	21.0	34.9
Cash EPS (Rs)	19.4	30.0	24.3	32.9	53.8
DPS (Rs)	2.0	6.0	6.0	6.0	6.0
Book value (Rs)	51.6	71.1	99.3	113.5	141.6
Sales per share (Rs)	202.5	130.7	144.6	220.3	356.0
Valuations					
P/E (x)	15.6	8.9	13.4	8.9	5.4
Cash P/E (x)	9.6	6.2	7.7	5.7	3.5
P/B (x)	3.6	2.6	1.9	1.6	1.3
P/S (x)	0.9	1.4	1.3	0.8	0.5
EV	1,999	3,315	3,650	5,622	5,186
EV/EBITDA	7.0	7.1	8.3	8.8	4.5
Profitability/returns/liquidity					
OPM (%)	18.6	28.3	19.6	18.7	21.0
NPM (%)	6.3	16.2	9.7	9.6	9.8
ROCE (%)	21.9	7.1	3.5	2.6	3.2
ROE (%)	25.5	42.2	18.0	20.0	27.6
Debt/Equity	1.5	1.1	1.2	2.5	2.0
Interest coverage (x)	4.0	7.8	5.7	4.3	3.3
Current ratio	3.0	2.1	4.2	3.7	2.9

Source: Company reports; IDBI Capital Market Services

Appendix

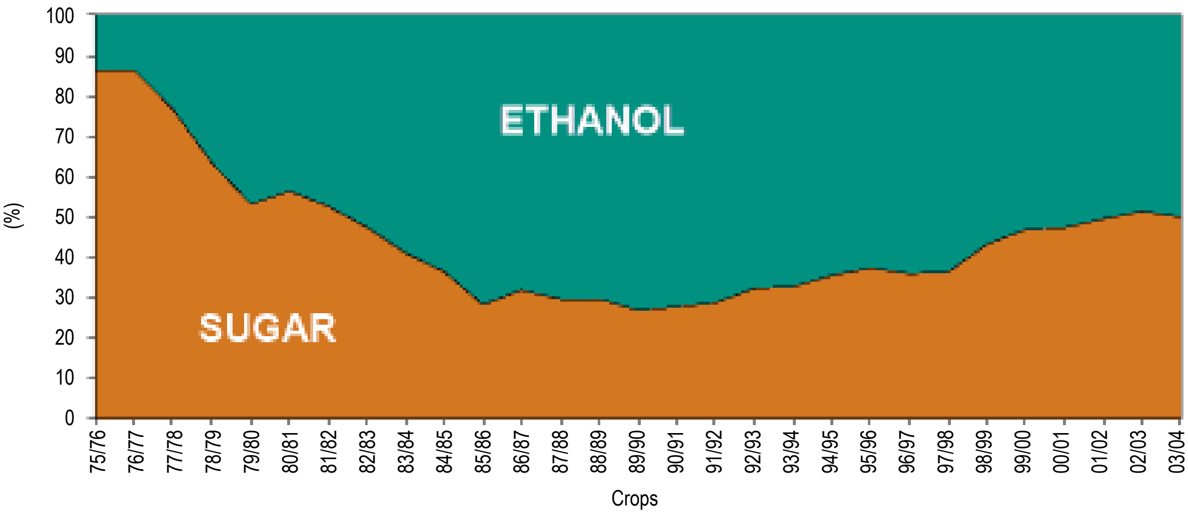
The Brazil story

According to INS Net, since the 1970s, Brazil has saved almost $50bn in imported oil costs, nearly 10 times the national investment through subsidies while creating more than 1 million rural jobs. Brazil has the world's most developed bio-fuels market in the world. Today 30,000 filling stations across the country sell ethanol fuel distilled from sugar cane. Brazil has made mandatory 25% blending of ethanol with gasohol.

Ethanol production is now taking center stage due to higher crude oil price, wherein ethanol has emerged as an alternate fuel. This has lead to more cane being diverted for ethanol production than sugar production creating a dent in the sugar supply on the global level.

Brazil has been doing this now for last 3 decades whereby around 53% of cane produced is diverted for ethanol production instead of sugar. This has created imbalance in the international demand-supply scenario leading to soaring sugar prices. Going forward even higher percentage of cane will be diverted to ethanol production backed by rising ethanol demand and strong government encouragement increasing the sugar imbalance further.

Figure 1A: Sugar/Ethanol production in Brazil



Source: BBI

Brazil, in order to reduce its dependent on the oil imports, has developed flex fuel vehicles that are reasonably priced and can run either on gasoline or ethanol blended gasohol. With the rising crude oil prices these flex fuel vehicles have been a major success in Brazil. The number is likely to increase over the next few years creating huge demand for ethanol. This will in turn lead to higher diversion of cane for ethanol production creating supply crunch in the global sugar scenario.

Table 1A: Annual World Ethanol Production by Country (Millions of Gallons, All Grades)

Country	2004	2005
Brazil	3,989	4,227
U.S.	3,535	4264
China	964	1,004
India	462	449
Other	1,820	2,206
Total	**10,770**	**12,150**

Source: F.O. Licht

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Key to Ratings
Stocks: Absolute return
Buy: 20% or more; **Accumulate:** Between 10% and 20%; **Hold:** ± 10% return; **Reduce:** Between - 10% and - 20%; **Sell:** -20% or less.