



Research



RESEARCH :: COMPANY :: UPPER GANGES SUGAR & INDUSTRIES LIMITED

December 17th, 2009

BUY

Approx price	= Rs 82
Target price	= Rs 150
Estimated EPS (SY10E)	=Rs 24
Projected PE(SY10E)	= 7 -10
Investment period	= 12 mnths

STOCK INFO (TTM Basis)

Sector	Sugar
Market cap (Rs. Cr)	107
Equity capital	11.56 crores
Face value	10
Book value	119
EPS	10.9
Cash EPS	34
Dividend	12%
Sales Growth	40%
RONW	9%
Debt to equity	3.48
52 week H/L	117.10 / 34.15
Avg Daily Vol.(2wk)	5527
Sensex	16877
BSE code	530505
Promoter Holding	48.17
Management	Nandini Nopany
Incorporation	1932
Listed	NSE/BSE

COMPANY PROFILE

Established in 1932, Upper Ganges and Sugar Industries Limited (UGSIL) is a KK Birla group company. KK Birla group apart from sugar is a leading player in key industries like fertilizer, chemicals, heavy engineering, textiles, shipping, media, etc. UGSIL has its manufacturing units in UP, Bihar and Assam.

THE COMPANY OPERATES THROUGH FOLLOWING DIVISIONS:

SUGAR:

This division consists of manufacturing and selling of sugar, molasses and bagasse.

Presently company has three sugar manufacturing unit with aggregate crushing capacity of 18000 TCD:-

- ✓ Seohara Sugar Mills, Seohara, Dist. Bijnor (U.P.) with a crushing capacity of about 10,000 tonnes of sugarcane per day.
- ✓ Bharat Sugar Mills, Sidhwalia, Dist. Gopalganj (Bihar) with a crushing capacity of about 5,000 tonnes of sugarcane per day.
- ✓ Hasanpur Sugar Mills, Hasanpur, Dist. Samastipur (Bihar) with a crushing capacity of about 3,000 tonnes of sugarcane per day.

Comparison of operational figure of 2007-08 as against 2008-09:-

	2007-08				2008-09			
	Seohara	Sidhwalia	Hasan-pur	Total	Seohara	Sidhwalia	Hasan-pur	Total
Sugarcane Crushed (lakh qtl)	141	24	-	165	89	16	11	116
Recovery%	10	9	-	-	10	9	8	-
Sugarcane Produced (lakh qtl)	14	2	-	17	10	1	1	12
Crushing Days	140	75	-	-	121	67	68	-

DISTILLERY:

Located at Seohara Distillery, Seohara, Dist. Bijnor (U.P.) with a capacity of producing 100 (KLPD) of Industrial Alcohol/Ethanol. This division consists of manufacturing and selling industrial spirits and fusel oil.

Production of industrial alcohol including ethanol by company's Seohara unit during Q2FY10:-

Sl.no	Particulars	Season 2009-10 From 01.07.09 to 30.09.09	Season 2008-09 From 01.07.08 to 30.09.08
1	Average Recovery %	21.54	-
2	Alcohol production	1152625.20	-

CO-GENERATION:

This division operates through two units with aggregate capacity of 42 MW. This segment is involved generation and transmission of power.

- ✓ Seohara Co- generation power plant situated in Bijnor (UP) with a capacity of 24 MW power.
- ✓ Sidhwalia Co-generation power plant situated in Gopalganj (Bihar) with a capacity of 18 MW power.

Export of power to state grid by the company during the Q2FY10 is as follows:

Production (units)

	Season 2008-09						Season 2009-10		
	Up to 30.09.08 (3 months)			Upto 30.06.09 (12 months)			Up to 30.09.2009 (3 months)		
	Seohara	Sidhwalia	Total	Seohara	Sidhwalia	Total	Seohara	Sidhwalia	Total
Power Exported	-	-	-	53258700	12179060	65437760	-	-	-

FERTILIZER:

This division's Bio compost plant is located at shayamabad near seohara. This unit produces organic fertilizer which is marketed under the brand name "Uttam Jaivik Khad"

TEA:

The Company has a Tea Estate by the name of "Cinnatollah Tea Garden" spread over an area of 746 hectares at North Lakhimpur, Assam. The company's tea production increased by 6.58% over the previous year ending June' 08. On the other hand, realizations increased by 24.16% from Rs. 90.50 per kg in 2007-08 to Rs 112.37 per kg in 2008-09.

RESULT ANALYSIS:

On TTM basis, company's gross revenue grew by 40% to Rs 479 crores for 12 months ended Sep'09, while Operating profits registered a growth of 60% to Rs 84 crore. Company posted a PAT of Rs.13 crore during the period as against loss of Rs 4 crores in the same period last year.

On quarterly basis company registered a loss of Rs. 1.65 crores on sales of 93 crores for quarter ended September'09, versus a loss of Rs. 8 crore in corresponding quarter of last financial year. Historically September quarter has been a weak quarter for the company on account of lower Sales and high fixed costs (Depreciation and Interests costs contributed 15% to the total expenses, which is unusually high for this business).

EXCERPTS FROM NEWS REPORT

World Sugar Market

World market prices have shown a slow but steady improvement on the back of strong sugar market fundamentals. The world consumption of sugar is forecasted to grow by 1.73% to 167.446 million tonnes. World production is expected to increase by 4.8 million tonnes to 159 million tonnes still leaving a shortfall of 8.4 million tonnes versus shortfall of 3.6 million tonnes in November 2008.

India, the second largest sugarcane producer globally with over 24 million tonnes of sugar production, has suffered double blow due to falling acreage in 2 years and 20 percent deficiency in rainfall. Overall the country is likely to see a shortfall of 6-7 million tonnes. On 9th September Sharad Pawar, India's agricultural minister, quoted in a leading business daily that extended monsoon will further hurt sugarcane production. Brazil, the largest producer, on the other hand had excessive rainfall, which is likely to delay sugar production and reduce sugar realization. According to International Sugar organization (ISO) world sugar prices are expected to remain high on supply shortfall of 9 million tonnes. After two consecutive seasons of surplus between world sugar production and consumption, World Sugar economy is now facing a significant supply-demand imbalance. There will be fall in global sugar production.

A summary of the world sugar balance in 2009-2010
World Sugar Balance (million tonnes, raw value)

	2009-10	2008-09	Change	
	(million tonnes, raw value)		in million tonnes	in %
Production	159.042	154.225	4.817	3.12
Consumption	167.446	164.593	2.853	1.73
Surplus/Deficit	-8.404	-10.368		
Import demand	51.930	50.962	0.968	1.90
Export availability	51.964	50.903	1.061	2.08
End Stocks	53.234	61.672	-8.438	-13.68
Stocks/Consumption ratio in%	31.79	37.47		

Source: ISO quarterly market outlook, September, , 2009

Global Prices

In New York, ICE March raw sugar rose 4.8 per cent trading at 25.10 cents per pound, the first time a front-month contract has traded above 25 cents since early 1981. In London, Liffe March white sugar jumped 4.1 per cent to a record high of \$651.7 a tonne. White sugar prices have risen 98.5 per cent since January. Global inventory are likely to touch historic lows in 2010 by next year.

Indian Sugar Industry

The Country's sugar output touched a three year low. Sugar production in 2008-09 season is set to fall by 44% from the previous season. In sugar season 2008-09, production has declined to 147 lacs tones compared to production of 283 lacs tonnes in the year, 2007-08.

One major reason for this is the shrinkage in the sugarcane growing area in last couple of years due to delay in cane payment and confusion over the price, less area of ratoon in this season and poor monsoon in some parts of the country.

Indian Sugar Industry peer comparison:-

	Dwarikesh	Dhampur	Kesar	Upper Ganges
Crushing Capacity (TCD)	21500	39500	7200	18000
Production	2,022,099	3,605,805	523,640	1,203,922
Sugar Sales (crores)	437.0	930.1	140.3	401.4
Total Sales (crores)	482.0	1127.2	262.0	479.1
Equity (crores)	32.4	61.6	8.8	11.6
Reserves (crores)	106.4	384.9	35.2	125.6
Total Assets (crores)	729.2	1354.1	208.9	556.7
Total Sales/ Total Assets	0.6	0.7	0.7	0.7
Market Cap (crores)	170	700	66	103
Sugar Sales/ Mkt Cap	2.57	1.33	2.13	3.90
Total Sales / Mkt Cap	2.84	1.61	3.97	4.65

Source: Fairwealth Research

 **Prices**

Government has fixed the price of F&RP at 130 per quintal based on a sugar recovery rate of 9.5% for the sugar year 2009-10. At this level, the fair price works out to be around 21% higher than the erstwhile SMP of Rs 107.70 a quintal fixed for the current season. Based on the F&RP price, the levy price of sugar is expected to be fixed at around Rs 17-18 a kilo, up from the current Rs 13 a kilo.

 **Exports / Imports**

World export availability is expected to rise due to projected growth in output of exporting countries. World export availability for season 2009-10 is expected to be 51.964 million tonnes, as against 50.903 million tonnes in the previous season.

Widening Of Global Sugar Deficit Forecast

Says ISO (updated – 2 Sep '09)

The International Sugar Organization on Wednesday raised its 2009/10 global sugar deficit forecast and saw falling stocks driving a further rise in prices from the 28-year peaks set earlier this week. The London-based ISO, in its latest quarterly report, projected a deficit of 8.4 million tonnes in 2009/10, sharply up from a previous prediction of a deficit of 4.5 to 5.0 million. "The distinctive deficit phase is expected to continue for at least 12 more months," the ISO said. The ISO also widened its estimate for the 2008/09 global sugar deficit to 10.4 million tonnes from a previous prediction of a 7.8 million tonnes deficit. As per USDA database, world's sugar ending stock is predicted to be at record low of 26 million tonnes for FY10. Stocks at the end of the 2009/10 season were seen falling to 53.2 million tonnes from 61.7 million a year ago with the stocks to consumption ratio of 31.8 percent the lowest for 20 years. ICE March raw sugar rose to a peak of 25.10 cents a lb, the highest level for the front month contract since early 1981. A strong Indian appetite for sugar, after a poor domestic crop and a weak monsoon, has been the main driver for raw sugar futures prices more than doubling so far this year. Brazil expectation for sugar production in 2009-10 was likely to drop to 34m tonnes, sharply down from an official forecast of 36.7m tonnes issued in September.

Indian Sugar Equation (in lack tonnes)

		Season 2008-2009 *	Season 2007-2008
1	Opening stock as on 1 st October	80.00	92.00
2	Production during the season	147.50	262.56
3	Imports	25.00	--
4	Total availability	252.50	354.56
5	Domestic consumption*	210.00	225.00
6	Exports	2.00	49.56
7	Closing stock	40.50	80.00

* Estimated

Sugar Prices To Stay High, May Even Rise After March

By Hindu business line (1st Dec' 09)

Global and Indian sugar prices have been rising for several months now following supply side problems in major origins. The pace of price rise may have slowed of late; and conditions are turning positive for a continued price rise into 2010. India is set to trigger price escalation. The first advance estimate issued by the Ministry of Agriculture for 2009-10 season shows sugarcane output at 249 million tonnes, down from 274 million tonnes a year ago. Sugar output in 2009-10 is most unlikely to exceed previous year's output of 15 million tonnes. Demand for cane from producers of traditional sweeteners (gur and khandsari) continues to be strong, cutting into availability for mills.

India's opening stock for the new season is one of the lowest in recent memory. The saving grace has been duty-free imports. The country has so far purchased about 4-5 million tonnes of sugar which continues to flow in. Additional imports of at least three million tons may be required to rein in open market sugar prices. Weather induced damage in Maharashtra the largest producer and disruption to cane marketing in the major growing State of Uttar Pradesh can create supply bottlenecks. Importantly, the Government messed up the cane pricing issue which has now taken a political colour.

A combination of slowdown in heavy Brazilian exports, run down in global stock levels and chronic deficit staring India in the face is expected to propel world sugar prices higher than they currently are. Although appearing somewhat weak at the moment, crude market is likely to turn supportive.

States Told To Bridge Cane FRP, SMP Gap

By Economics times (7th Nov' 09)

The fair and remunerative price (FRP) fixed for the 2009-10 sugar year by the government replacing the earlier statutory minimum price (SMP) will function as the floor price for sugarcane payable to the farmer, the Centre has indicated. But it stopped short of stating this, making it legally impossible for sugarcane farmers to demand a higher price as a matter of right if the mills failed to pay more.

"The sugarcane farmer is legally guaranteed a price of Rs 129.84 per quintal of sugarcane. The sugar mills are free to offer any price above the FRP as deemed fit by them," a press release from the food ministry said here on Friday.

While suggesting that the FRP would function as the floor price for sugarcane, Friday's statement simultaneously reiterates that the farmer will also have to forego a mandated right on mills' profits. It insists that since the FRP of Rs 129.81 per quintal for sugarcane includes a margin of 45% on account of profit and risk to the farmers over the cost of production of cane, including its cost of transportation, he no longer had the right to claim a share of the profits made by sugar mills as was earlier the case during the SMP regime.

CUMULATIVE RESULTS: UPPER GANGES SUGAR AND INDUSTRIES LTD (crores)

	2008-09	2007-08	2006-07	2005-06	2004-05
Gross revenue	461.06	328.41	352.29	443.31	379.39
Profit before Interest , tax and depreciation	78.72	47.66	-18.07	70.41	47.45
less: Interest/ Finance charges	44.4	35.84	13.49	13.81	19.78
Profit before tax and Depreciation	34.32	11.82	-31.56	56.6	27.67
less: Tax	2.08	-2.4	-14.28	18.62	5.4
Profit After Tax and before Depreciation	32.24	14.22	-17.28	37.98	22.27
Add: Deferred Revenue Expenditure	0	0	0	0	0
Cash Accruals	32.24	14.22	-17.28	37.98	22.27

BALANCE SHEET: UPPER GANGES SUGAR AND INDUSTRIES LTD (crores)

	2008-09	2007-08	2006-07	2005-06	2004-05
Networth	137.18	132.51	139.24	100.88	79.5
Loans- term	352.95	376.23	287.37	90.49	114.92
Loans - working capital	66.54	142.07	58.62	92.53	103.34
Deferred tax liability	-6.25	-4.45	-7.54	-21.49	-7.68
TOTAL	562.92	655.26	492.77	305.39	305.44
Net block including WIP	436.33	450.82	373.42	174.62	141.13
Investments	21.18	21.18	21.18	22.42	22.42
Net working capital	104.25	182.66	97.07	107.45	140.59
Deferred revenue expenditure	1.16	0.6	1.1	0.9	1.3
TOTAL	562.92	655.26	492.77	305.39	305.44

Why to invest in shares of Upper Ganges Sugar & Industries Limited?

1) Sector:

- Prices at 25 cents/pound are ruling at 28 year high up by more than 80% this year but lower than their all time high of 66 cents/pounds.
- Sugar is only commodity which is a combination of 3 in 1 industry, namely FMCG, Power and Chemical.
- Supply is diminishing due to draught and wrong government policies in India. Demand supply mismatch stands at record high 7-10 million tonne per year.
- Regular increase in demand year after year thereby putting a pressure on supply, resulting in adjustment of sugar prices.
- Little scope for increasing supplies in next one year.

2) Company: Growing with vision

- Under the leadership of KK Birla Group Company, the business possesses huge management expertise.
- Major expansions already done to take benefit of the current bull run.
- Strong vision for the future.

3) Fundamentals:

- Company's gross revenue on TTM basis grew by 40 % to Rs 479 crores in Q2FY10 as against Rs 341 crores previous year (Q2FY09).
- Company reported PAT of Rs 12.55 crores on TTM basis (Q2FY10) as against the loss of Rs 3.48 crores previous year (Q2FY09).

4) Technicals:



Long term investors can buy above closing of 95

Stop loss: 82

Notes: Figures and graph sourced from www.bseindia.com and capital market.

END

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