

Sugar Sector

The Sweet Season Unfolds ...

MF GlobalSM

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Sector Snapshot

- The global and the domestic sugar production will likely decline in 2008-09E due to two major reasons: (1) lower production in India due to lower cane production as the area under cultivation has gone down by around 17% YoY and (2) more cane diverted towards ethanol production in Brazil.
- The global stock-to-use ratio is expected to come down from 45.6% in 2007-08 to close to 42.3% in 2008-09E, whereas in India this figure is expected to come down from 69.7% in 2007-08 to close to 57.0% in 2008-09E.
- The historical trend suggests that in the years when the stock-to-use ratio comes down, the sugar prices tend to go up and vice-versa. On this premise, we would like to assume that the global and the domestic sugar prices may have bottomed out in the near term and may take a northwards trend for at least the next 2 years or so.
- The push provided by the Government in terms of the ethanol program would help all the sugar companies to enhance their profitability and reduce the dependence on the cyclicity of the industry to a certain extent.
- Thus, we believe that the Indian sugar industry is on the verge of another upturn which may last at least for the next couple of years.
- But, as the things start to look good for the sugar industry, one of the major risks for the industry still prevails in terms of government intervention as sugar is an essential commodity.

Sugar Stocks: Global and Domestic situation

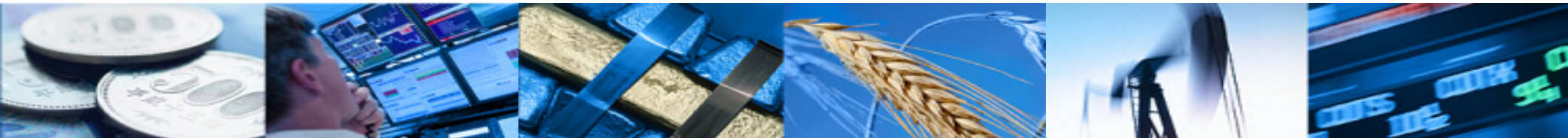
	02-03	03-04	04-05	05-06	06-07	07-08E	08-09E
Global Stock-to-use ratio (%)	46.4	43.7	39.3	37.7	43.8	45.6	42.3
Domestic Stock-to-use ratio (%)	65.4	45.5	24.7	18.4	52.8	69.7	57.0
Global Closing Stock (mn tonnes)	65.5	63.4	57.6	56.8	67.9	74.0	70.5
Domestic Closing Stock (mn tonnes)	12.4	8.2	4.6	3.7	11.1	16.2	13.6

Investment thesis

- We believe that the higher sugar prices in the next year and the year after will lead to better profitability for all the companies in the sugar sector.
- The Supreme Court's decision that directed all sugar mills in UP to pay cane price at the rate of Rs 110 per quintal for the crushing season 2007-08 is a major savior for the sugar companies in UP at least. The reason is that if the mills would have had to pay Rs 125 per quintal then there would have been major cash outflows for these companies.
- The integration in terms of manufacturing sugar, ethanol and power generation has helped these companies to weather the cyclicity of the business and thus, increase the profitability.
- We initiate coverage on three companies in this report: Bajaj Hindustan Limited (BHL), Balrampur Chini Mills Limited (BCML) and Triveni Engineering Limited (TRE), which are all UP-based sugar mills.
- After facing some difficult times in the recent past due to lower sugar prices and government interventions, these companies are moving towards times of higher profitability as the sugar prices move upwards.
- The major contribution of the profitability of these companies comes from the power and the distillery segment and the trend is expected to continue in the years to come.
- We are positive on the prospects of all the companies and initiate with a BUY rating on BCML and TRE, and a NEUTRAL rating on BHL due to higher valuations.

Comparative Analysis

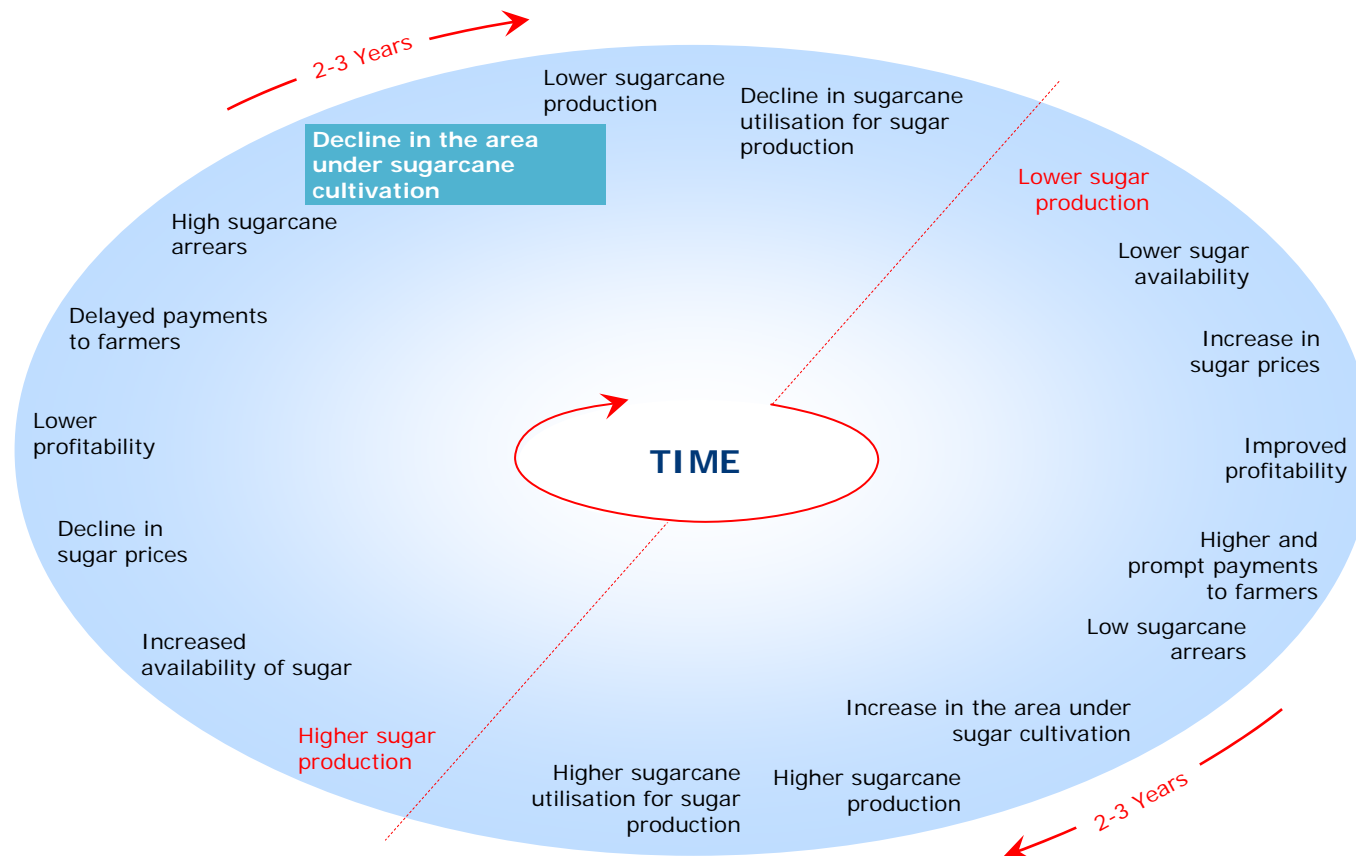
	Rating	MCap (Rs mn)	TP (Rs)	Upside (%)	EPS (Rs)				CAGR (%) FY07-10E	EBIDTA Mgn (%)			PER (x)			EV/EBIDTA (x)		
					FY07	FY08E	FY09E	FY10E		FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
BHL	NEU	24,393	179	3.8	3.2	0.6	6.5	13.1	59.6	17.9	21.3	22.4	282.2	26.6	13.2	16.9	9.4	7.4
BCML	BUY	23,599	124	30.4	(1.7)	4.0	6.3	9.7	54.9	19.6	23.0	26.1	23.7	15.0	9.9	10.5	7.5	6.1
TRE	BUY	24,447	128	35.0	2.0	4.8	9.1	11.7	80.0	19.3	23.3	25.5	19.6	10.4	8.1	11.2	7.3	5.5



Sugar Cycle

Sugar Cycle : Now and going ahead

SUGAR SECTOR



The highlighted portion of the cycle shows the current status of the industry in India. The lower cane prices and higher prices of alternate crops are diverting the farmers to alternate crops and thus, there is a significant decline in the area under sugarcane cultivation in the sugar season 2008-09E.



Global Dynamics

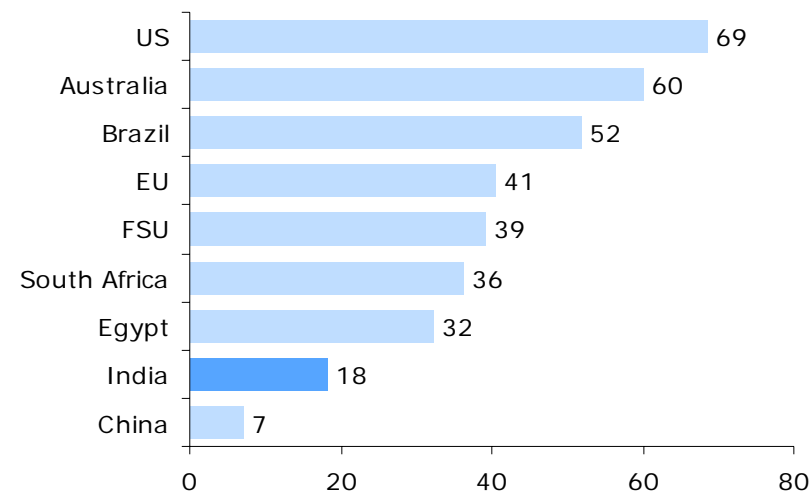
Sugar Facts

- Brazil and India continue to be the world leaders in sugar production and influence overall sugar dynamics around the globe.
- Globally, the two major factors that would affect sugar prices in the next season are: the sugar production in India and the shift in Brazil sugarcane being used to produce ethanol instead of sugar.
- The F.O. Litch estimates the world sugar prices at close to US\$ 15 a pound for 2008 and the estimate for 2009 would be more dependent on how the production in India and Brazil moves.
- From the early estimates of sugarcane growing in India, it seems that the production of sugarcane in 2009 would be lower by at least 15-17%, which may lead to a proportionately lower sugar production.
- The crude prices, though cooling off from its highs, are still above the US\$ 100/barrel mark and this would lead to more sugarcane being diverted to ethanol production rather than sugar production.
- Thus, we believe that global sugar prices are slated to remain firm in 2009 as well.

Region-wise Sugar Production

(mn tonnes)	02-03	03-04	04-05	05-06	06-07	07-08E
Brazil	23.8	26.4	28.2	26.9	31.6	32.9
India	20.1	13.5	12.7	19.3	28.5	27.0
EU	18.7	17.1	21.6	21.4	17.8	16.7
China	11.4	10.7	9.8	9.4	12.6	13.0
US	7.6	7.8	7.1	6.7	7.7	7.5
Thailand	7.3	7.0	5.2	4.8	6.6	6.9
Russia	1.6	1.9	2.3	2.5	3.2	3.0
Indonesia	1.8	1.7	2.1	2.1	1.9	2.0
Cuba	2.3	2.6	1.3	1.2	1.5	1.5

Per Capita Consumption of Sugar



Global Sugar Dynamics

Global Sugar: World demand-supply

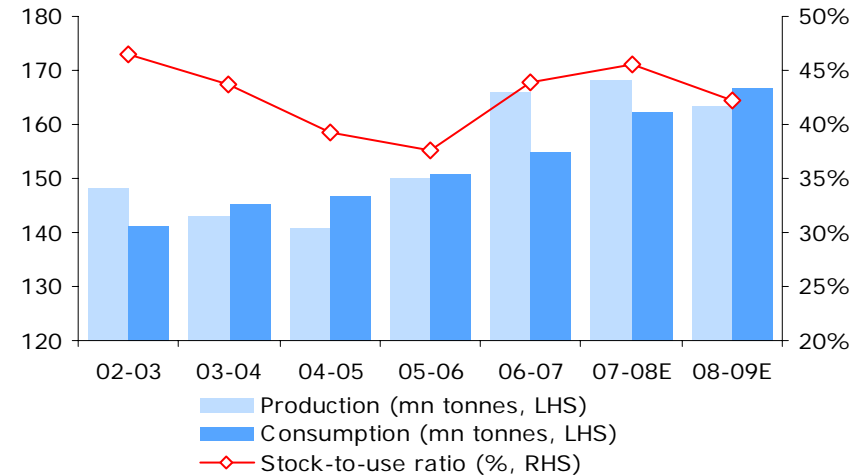
(mn tonnes)	02-03	03-04	04-05	05-06	06-07	07-08E	08-09E
Opening stock	58	66	63	58	57	68	74
Production	148	143	141	150	166	168	163
Consumption	141	145	147	151	155	162	167
Closing stock	66	63	58	57	68	74	70
Inventory (months consumption)	5.4	5.2	4.7	4.5	5.3	5.5	5.1
Stock-to-use ratio (%)	46.4	43.7	39.3	37.7	43.8	45.6	42.3

- If we take a look at the global production of sugar, it has increased from 148 mn tonnes in 2002-03 to close to 168 mn tonnes in 2007-08, exhibiting a CAGR of 2.5% in the said period.
- At the same time, the consumption over this period has increased from 141 mn tonnes in 2002-03 to close to 162 mn tonnes in 2007-08, exhibiting a CAGR of 2.8% in the said period.
- The production of sugar in 2008-09E is estimated to come down Y-o-Y to 163 mn tonnes as against 168 mn tonnes in 2007-08. This drop in the production is largely due to lower estimated production in India and share of sugarcane used for ethanol production going up vis-a-vis the sugar production.

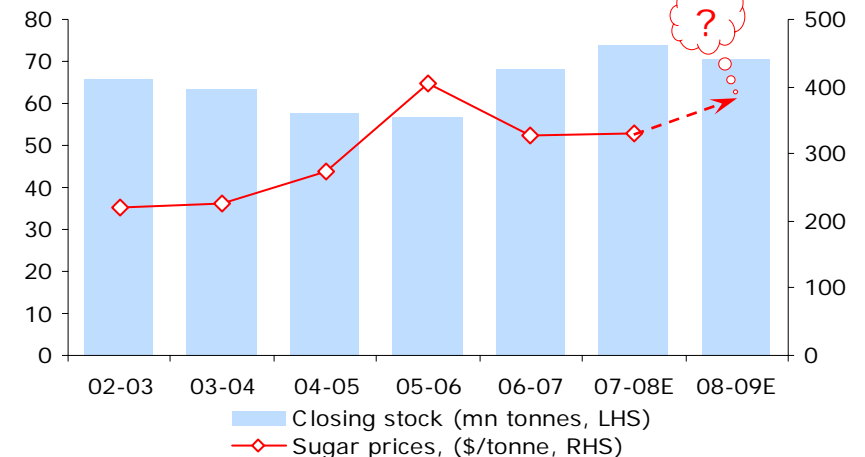
Global Sugar Dynamics (Contd ...)

- The prices of sugar are inversely proportional to the stock-to-use ratio and the closing stock of sugar at the end of the sugar year.
- The stock-to-use ratio decreased from 46.4% in 2002-03 to 37.7% in 2005-06, resulting in a substantial increase in the raw sugar prices from close to US\$ 164 per tonne in 2002-03 to close to US\$ 326 per tonne in 2005-06.
- But 2006-07 saw a bumper sugar production all over the world, led by a major jump in Indian sugar production, which meant that the stock-to-use ratio reached 43.8%, which led to a reduction in sugar prices to close to US\$ 230 per tonne.
- As discussed earlier, the global sugar production is slated to go down in 2008-09E, which would lead to the stock-to-use ratio coming down from close to 46% in 2002-03 to around 42% in 2008-09E.
- Historically, it is observed that lowering stock-to-use ratio would lead to higher sugar prices.

World Sugar Balance



International prices moving in line with closing stock



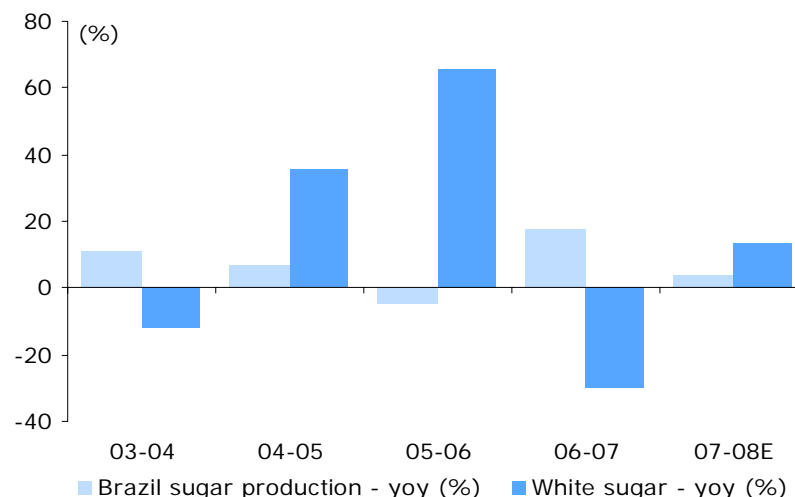
Brazil Balance

- Brazil and India are the major drivers of the global sugar dynamics.
- Brazil is the largest producer of sugarcane in the world, and thus the largest producer of sugar. It is also the leading exporter of sugar. The total sugarcane production in Brazil stood at 547.2 mn tonnes in 2007-08 as against 474.8 mn tonnes in 2006-07.
- The sugar production, consumption and stock in Brazil are very crucial for the global balance of sugar and thus, the prices of sugar around the world.
- The sugar production in Brazil increased from 23.8 mn tonnes in 2002-03 to close to 32.9 mn tonnes in 2007-08, exhibiting a CAGR of 6.6% in the said period.
- The consumption in the said period has increased only at a CAGR of 2.5% from 9.8 mn tonnes to 11.1 mn tonnes in 2007-08.
- But at the same time, the exports have increased by 9.3% CAGR, from 14.0 mn tonnes to close to 21.8 mn tonnes in the 2003-08 period.

Brazil – Sugar Production and Consumption

(mn tonnes)	02-03	03-04	04-05	05-06	06-07	07-08E
Production	23.8	26.4	28.2	26.9	31.6	32.9
Consumption	9.8	10.4	10.6	10.6	10.8	11.1
Stocks	0.3	1.0	0.6	-0.3	0.3	0.3
Exports	14.0	15.2	18.0	17.1	20.3	21.8
Stock to use ratio (%)	1.1	4.0	2.0	-1.0	0.9	0.8

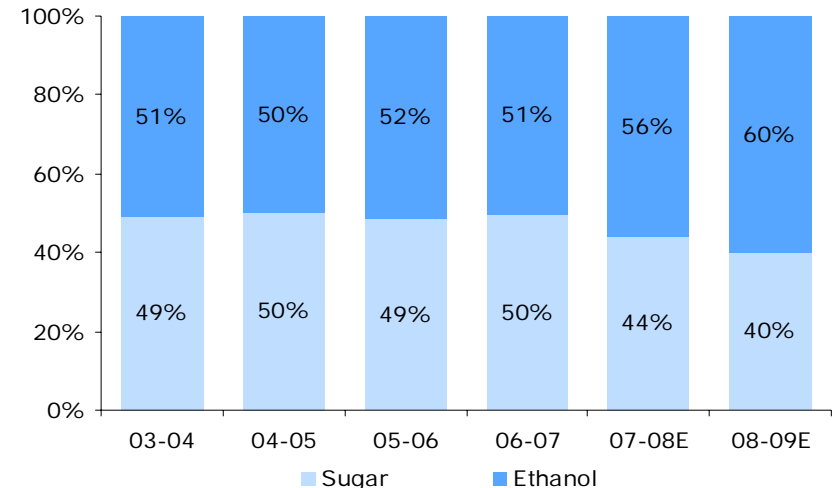
Brazil sugar production and movement of sugar prices

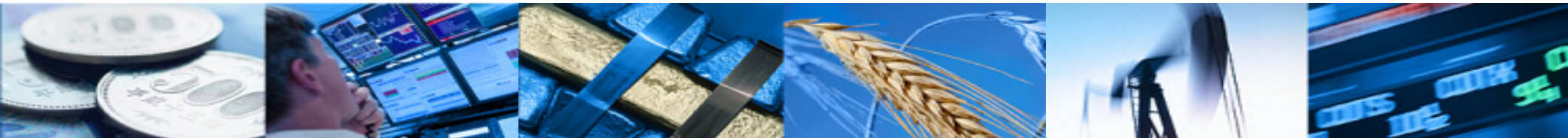


Sugarcane being shifted for bio fuel

- In Brazil, the huge amount of sugarcane produced is divided between sugar manufacturing (40.5%) and to produce ethanol (46% - to manufacture 21.3 bn litres). The rest of the sugarcane is used for producing specific sugars.
- Brazil has moved a long way towards manufacturing fuel ethanol. The blending of ethanol with petrol is from 10% to 85% (ethanol) and there are also some cars which are flexible when it comes to fuels and can run on 100% ethanol if required.
- With the rising crude prices, this blending of fuel with ethanol has led to a major saving for Brazil. More and more countries are now moving towards ethanol blending and thus, more of the sugarcane crop gets diverted towards the production of ethanol.
- The ethanol industry is booming in Brazil, and the country has signed agreements with many countries to expand its use. For instance, Brazil exported 3.9 bn litres of ethanol in 2006, compared to 2.6 bn in 2005, that's 70% of the international trading market for this fuel.
- The usage of sugarcane in sugar production has decreased from 49% in 2003-04 to close to 44% in 2007-08 and is expected to further come down to around 40% in 2008-09E.

Utilisation of Sugarcane in Brazil





Domestic Dynamics

Domestic Demand–Supply

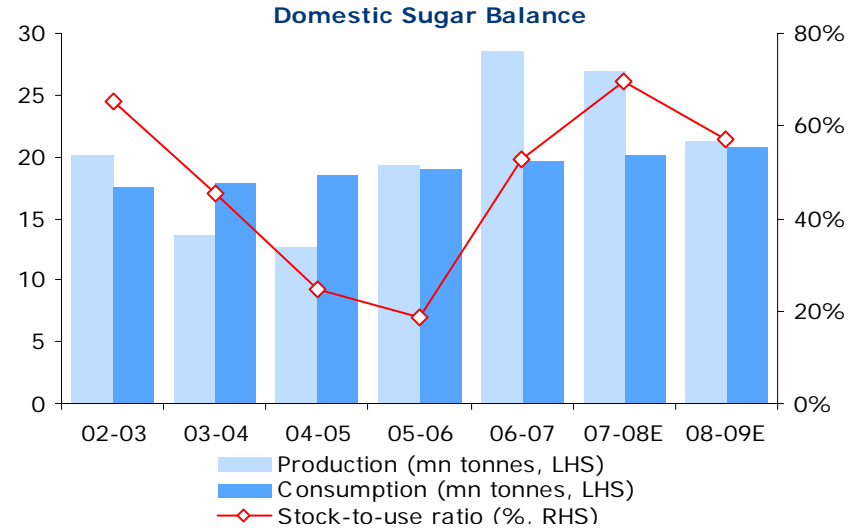
SUGAR: Domestic Demand-supply situation

(mn tonnes)	02-03	03-04	04-05	05-06	06-07	07-08E	08-09E
Opening stock	11.2	12.4	8.2	4.6	3.7	11.1	16.2
Production	20.1	13.5	12.7	19.3	28.5	27.0	21.2
Imports	0.0	0.4	2.1	-	-	-	-
Total supply	31.4	26.4	23.1	23.8	32.2	38.1	37.4
Exports	1.5	0.2	0.0	1.1	1.5	3.0	3.0
Consumption	17.5	17.9	18.5	19.0	19.6	20.2	20.8
Closing stock	12.4	8.2	4.6	3.7	11.1	16.2	13.6
Inventory months consumption	7.8	5.5	3.0	2.2	6.3	8.4	6.8
Stock-to-use ratio (%)	65.4	45.5	24.7	18.4	52.8	69.7	57.0

- The domestic consumption for sugar over the last 6 years has grown at a CAGR of 2.9% from close to 17.5 mn tonnes in FY03 to close to 20.2 mn tonnes in FY08E.
- On the other end, the production of sugar increased from 20.1 mn tonnes in FY03 to close to 28.5 mn tonnes in FY07, before declining to 27.0 mn tonnes in FY08E.
- The exports for the said period have remained in a range of between 0 to 3 mn tonnes and there have hardly been any imports in the last 2-3 years.
- All these factors have led to increase in the closing stock from 8.2 mn tonnes in 2003-04 to close to 16.2 mn tonnes at the end of 2007-08, resulting into an oversupply kind of situation and higher stock-to–use ratio.

Domestic Demand–Supply (contd.)

- As discussed earlier, the stock-to-use ratio and the sugar prices have shown strong inverse relationship historically.
- The stock-to-use ratio of sugar decreased from 65.4% in FY03 to close to 18.4% in FY06, leading to a favourable cyclical situation for the sugar industry as the sugar prices increased from Rs 1,247 per tonne in FY03 to close to Rs 1,870 per tonne in FY06.
- But then, due to a bumper production in FY07 of close to 28.5 mn tonnes, the stock-to-use ratio increased to close to 52.8% in FY07 and is further expected to increase to 69.7% in FY08E, leading to a sharp drop in the sugar prices to Rs 1,488 per tonne in FY07 and close to Rs 1,433 per tonne in FY08E.
- Due to lower sugarcane land under cultivation, the production of sugar in FY09 is estimated to come down to around 21.2 mn tonnes and the stock-to-use ratio is expected to come down to 57% in the said period.
- The production is expected to come down further in FY10, leading to lower stock-to-use ratio and thus, pushing the sugar industry into favourable territory.
- Thus we expect the sugar prices to remain firm in the coming 2 years at least as the inventory remains under check and the production remains capped in the next 2 years.



Lower Area Under Cultivation

- The major reason for the drop in the estimate of sugar production during 2008-09E is that the area of sugarcane under cultivation has gone down substantially from 5.3 mn hectares in 2007-08 to close to 4.4 mn hectares according to the indicators in the current year. This is close to a 17% drop in the area of sugarcane under cultivation.
- The farmers have shifted from sugarcane to other crops like wheat, rice, soybean (as explained in the next slide) as these have turned more profitable due to a substantial rise in the prices of these products.
- Secondly, the major reason for the shift of the farmers to other crops has been the lower realisation of the sugarcane crop. Due to lower sugar prices, the sugar mills crushed lesser sugar than expected as crushing sugar was not profitable for them. So, the farmers had to sell more sugarcane to the *gur* and *khandsari* segment, which fetches really low realisation for sugar. The proportion of usage of sugarcane in the *gur* and *khandsari* segment increased from 9.7% in 2006-07 to around 16.4% in 2007-08E and the proportion of sugar decreased from 78.4% to 71.7% in the said period.

Area Under Sugarcane Cultivation in India

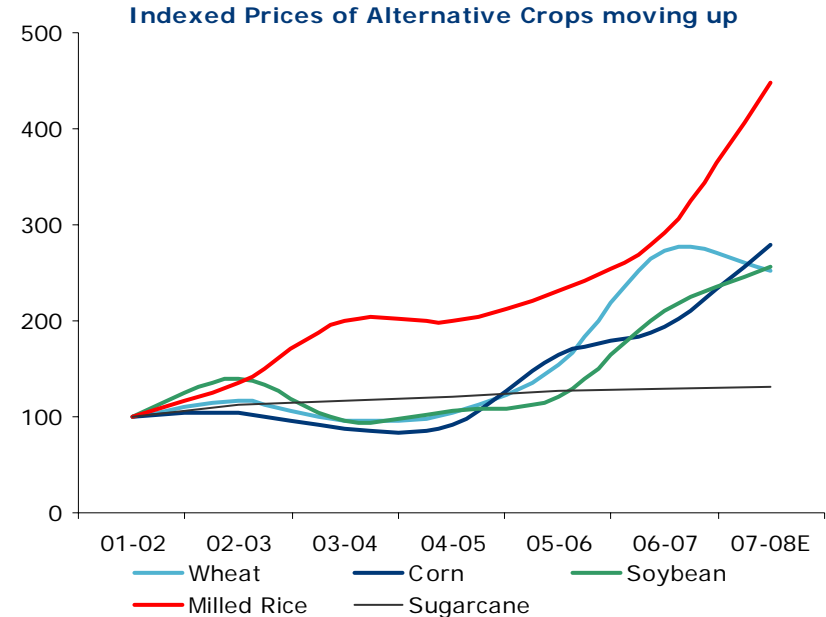
	Cane Acreage ('000 Hectares)
2002-03	4520
2003-04	4023
2004-05	3662
2005-06	4201
2006-07	5151
2007-08	5295
2008-09E	4400

Per cent utilisation of cane for different purposes

Sugar season	Sugar	Gur & Khandsari	Seed, Feed & Chewing
2003-04	56.7	31.4	11.9
2004-05	52.6	35.5	11.9
2005-06	67.1	21.0	11.9
2006-07	78.4	9.7	11.9
2007-08 E	71.7	16.4	11.9

Farmers Shifting to Alternative Crops

- One of the major reasons for the lower area under cultivation for the sugarcane crop is the shifting of the farmers from sugarcane to other more profitable crops like wheat, rice, corn, soya bean, etc.
- The prices of wheat, when indexed from FY02 to FY08, have increased by more than 150%.
- Similarly, the price of rice has increased by close to 4.5x its price in FY02.
- The prices of corn has also increased by close to 180% in the period from FY02 to FY08.
- The price of soybean has increased by over 150% in the said period.
- But, in the similar period, the price of sugarcane has increased just 30% from FY02 to FY08. This has led to farmers shifting the cultivation on their land from sugarcane to other cash crops, resulting in a lower area under cultivation for the sugarcane crop.



Are Imports Viable?

Economics of raw sugar imports

Under ALS

	Unit	-10%	Curr RS* Price	10%
FoB price	\$/tonne	270	300	330
Freight	\$/tonne	70	70	70
C&F price	\$/tonne	340	370	400
Import duty	per cent	0	0	0
Cost with duty	\$/tonne	340	370	400
Port and other incidentals	\$/tonne	0	0	0
Landed cost	\$/tonne	340	370	400
Exchange rate	Rs/\$US	43	43	43
Countervailing duty	Rs/tonne	0	0	0
Landed cost	Rs/tonne	14,620	15,910	17,200
Cost of refining and other charges	\$/tonne	80	80	80
Cost of refining and other charges	Rs/tonne	3,440	3,440	3,440
Cost after refining	Rs/tonne	18,060	19,350	20,640

Economics of raw sugar imports

With Import Duty

	Unit	-10%	Curr RS* Price	10%
FoB price	\$ per tonne	270	300	330
Freight	\$/tonne	70	70	70
C&F price	\$/tonne	340	370	400
Import duty	per cent	60%	60%	60%
Cost with duty	\$/tonne	544	592	640
Port and other incidentals	\$/tonne	0	0	0
Landed cost	\$/tonne	544	592	640
Exchange rate	Rs/\$US	43	43	43
Countervailing duty	Rs/tonne	0	0	0
Landed cost	Rs/tonne	23,392	25,456	27,520
Cost of refining and other charges	\$/tonne	80	80	80
Cost of refining and other charges	Rs/tonne	3,440	3,440	3,440
Cost after refining	Rs/tonne	26,832	28,896	30,960

*Raw sugar

- Raw sugar attracts an import duty of 60%. Under the Advance License Scheme (ALS), raw sugar can be imported duty-free, provided that within a span of two years, an equivalent quantity of white sugar is exported.
- As can be seen from the table above, the imports of sugar are more or less unviable, if imported after paying the import duty at 60%.
- Even if the raw sugar is imported under ALS, the import prices, at current global raw sugar prices, would work out to close to Rs 19,350 per tonne, whereas the current ex-factory sugar prices in India are hovering at around Rs 18,000 per tonne. This makes imports unviable. Imports would turn viable only if the raw sugar prices globally correct by more than 10% and the prices in the Indian markets remain at the same level.

Ethanol Demand to rise ...

- One of the major by-products of sugar-making is molasses. Molasses is further distilled to produce alcohol, which is refined to produce ethanol.
- The total alcohol usage in India has increased from 1,248mn litres in 2001-02 to close to 1,815 mn litres in 2007-08, exhibiting a CAGR of 6.4% in the said period.
- At the same time, the production of alcohol increased just at 4.9% CAGR from 1,775 mn litres to 2,300 mn litres from 2001-02 to 2007-08.
- Ethanol is used as an automotive fuel by itself and can be mixed with petrol to form what has been called **FUEL ETHANOL**.

Conversion rate from Sugarcane to Ethanol

Particulars	
Sugarcane (Kilograms)	1,000
Molasses produced (Kilograms)	50
Alcohol Produced (Litres)	11

Alcohol Year (mn litres)	Molasses Production	Alcohol Production	Industrial Uses	Potable Uses	Other Uses	Total Usage of Alcohol	Surplus Availability
2001-02	8.8	1,775	540	648	60	1,248	528
2002-03	9.2	1,870	551	661	61	1,272	598
2003-04	9.7	1,969	578	694	70	1,342	628
2004-05	10.2	2,075	607	728	74	1,409	666
2005-06	10.8	2,187	619	747	77	1,443	744
2006-07	11.4	2,300	631	765	81	1,478	823
2007-08E	11.7	2,365	950	780	85	1,815	550
2008-09E	11.0	2,200	974	800	87	1,860	340
2009-10E	11.6	2,310	998	819	89	1,907	403

... as Government Plans for E10

- With the oil prices souring, the world is looking for ways and means to move towards renewable energy. Fuel ethanol can help in a big way to save the depleting global oil reserves.
- The Government of India has currently mandated 5% blending of ethanol with petrol. The total requirement of ethanol at 5% blending with petrol is close to 723 mn litres in 2007-08E.
- The surplus of alcohol after fulfilling the requirement of the industrial and potable uses is estimated at 550mn litres, leaving a deficit of close to 175 mn litres.
- The GoI had earlier mandated a 10% blending of Ethanol from October 2008, but the scenario does not seem to support the plan and it could be delayed for some time.
- But, at the same time, this is a favourable situation for sugar companies as the demand-supply situation for alcohol improves in the times to come.
- Again, the prices of molasses, industrial alcohol and rectified spirit are also shooting up due to the lack of availability of alcohol. Thus, the sugar companies have many options to get maximum value addition from the molasses produced during sugar production.

Conversion rate from Sugarcane to Ethanol

Particulars	2007-08E	2008-09E	2009-10E
Est Petrol Dd India (mn Kilolitres)	14	15	16
Est Dd for Ethanol @ 5% in India (mn litres)	723	760	798
Est Dd for Ethanol @ 10% in India (mn litres)	1,447	1,519	1,595
Surplus alcohol to produce Ethanol (mn litres)	550	340	403
Deficit at 5% Blending (mn litres)	(173)	(420)	(394)
Deficit at 10% Blending (mn litres)	(897)	(1,180)	(1,192)

Contribution from Sugarcane

- If we look at the value which the mills can generate from the crushing of the sugarcane, we observe that the conversion of molasses into alcohol and ethanol and the conversion of bagasse into power has improved the profitability of the mills to a certain level.
- The production of alcohol and power gives a better contribution of close to Rs 210 per tonne of sugarcane crushed or close to 170bps of extra margin.
- But, in the current situation, where the production and crushing of sugarcane is going down and the demand for the by-products (bagasse, molasses and alcohol) going up, the sugar mills have various options and mix where they can optimise the profitability from the by-products and thus, from the sugarcane crushed.
- The mills, in certain cases, do not have facilities to convert the entire bagasse and molasses to power and alcohol, respectively. In such cases, these companies may benefit if the availability of molasses and bagasse is lower resulting in higher prices for these products.

Particulars	Without Power & Distillery	With Power & Distillery
Cane Quantity (Tonne)	1.00	1.00
Cane Cost (Rs per Tonne)	12,500	12,500
Total Cost of Cane (Rs)	12,500	12,500
Recovery Rate	10%	10%
Sugar Produced (Tonne)	0.10	0.10
Other Conversion Costs (Rs per Tonne) (Net)	2,750	2,750
Total Cost of Sugar Produced (Per Tonne)	15,250	15,250
Sugar Realisation (Rs Per Tonne)	16,500	16,500
Profit (Rs Per Tonne)	1,250	1,250
Molasses Produced (Tonne)	0.05	0.05
Realisation / Profit (Rs per Tonne)	2,000	-
Total Profit (Rs)	100	-
Bagasse Produced (Tonne)	0.30	0.30
Realisation / Profit (Rs per Tonne)	250	-
Total Profit (Rs)	75	-
Conversion Rate of Bagasse to Power (Kwh/Tonne of Bagasse)		400
Total Power Generation (Kwh)		120
Saleable Power %		75%
Saleable Power (Kwh)		90
Per Unit Realisation for Power (Rs)		3.03
Conversion Cost per Unit of Power (Rs)		1.25
Profit per Unit of Power (Rs)		1.78
Total Profit from Power (Rs)		160
Conversion of Tonne to KL		1.10
Production of Alcohol (KL)		0.01
Realisation per KL of Alcohol (Rs)		22,500
Conversion Cost per KL (Rs)		5,000
Profit Per KL (Rs)		17,500
Total Profit (Rs)		226
Grand Total Profit from 1 tonne of Cane (Rs)	1,425	1,636
<i>Margin</i>	<i>11.4%</i>	<i>13.1%</i>

Major Risks & concerns

- **Government intervention:** One of the most significant risks faced by sugar companies is government intervention, in both pricing of raw materials and supply. The industry is heavily regulated and there is the possibility of intervention in pricing. One of the risks is also in case where the sugar prices are too high. A direct government subsidy would not impact manufacturer realisations, but any potential increase in the share of levy sugar could adversely affect realisations.
- **Sugar Price Risk:** As it is, sugar producers lack any pricing power as the industry is highly fragmented and cyclical. A downturn in prices is likely to squeeze margins of all the sugar companies, given that the government, to a large extent, determines raw material costs (sugarcane prices) and also the release mechanism of sugar stocks in the market. Sugarcane prices, fixed by the government, have increased in a linear manner, year after year, irrespective of the sugar price environment. Therefore, manufacturers have very little control over pricing and could thus, face a margin squeeze in a falling sugar price environment.
- **Agro-climatic risks:** Sugarcane output is also dependent on various agro-climatic factors, which could lead to crop failures and fluctuations in sugarcane output, affecting raw material availability. This availability is determined by cultivable sugarcane area, cane yields and cane drawl. So any fluctuations in sugarcane availability can lead to lower production, which in turn may result in lower sales and thus, lower profitability.
- **Lower Sugarcane production:** The area under cultivation for sugarcane has gone down by around 17% in 2008-09E season as against the previous year. This would lead to lower production of sugarcane in this period. This may lead to a situation where the sugar mills start poaching for cane and start paying higher prices leading to lower margins.



Companies Section

Bajaj Hindusthan – Largest Sugar company in India (NEU)

- (CMP Rs 173 / MCap US\$ 544mn / Target Price Rs 179)

Balrampur Chini – Integrated Business Model to mitigate cyclical risks (BUY)

- (CMP Rs 95 / MCap US\$ 526mn / Target Price Rs 124)

Triveni Engineering – Engineering ... leading to De-Risking (BUY)

- (CMP Rs 95 / MCap US\$ 545mn / Target Price Rs 128)

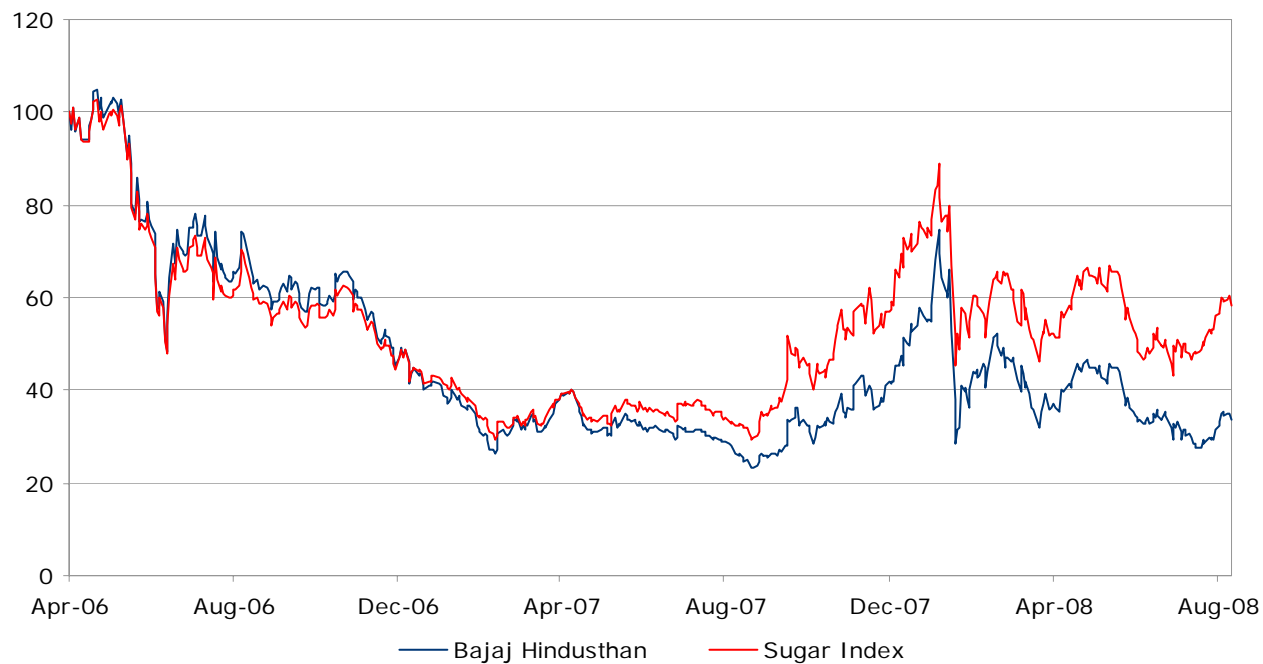
Valuation Matrix

SUGAR SECTOR

Multiple (x)	CMP (Rs)	Current forward Rolling Multiple	High (x)	Assumption forward (x)	Value per share (Rs)	Rating
Bajaj Hindustan	173.0					NEUTRAL
PER		13.2	22.0	13.0	170.4	
<i>Earnings Growth - CAGR (%)</i>				59.6		
EV/EBIDTA		7.4	18.0	7.5	179.0	
<i>EBIDTA Growth CAGR (%)</i>				40.5		
P/BV		1.5	5.0	1.5	167.8	
<i>ROE (%)</i>			0.7	6.8		
Balrampur Chini	95.0					BUY
PER		9.4	22.0	12.0	115.8	
<i>Earnings Growth - CAGR (%)</i>				54.9		
EV/EBIDTA		5.9	11.0	7.5	124.0	
<i>EBIDTA Growth CAGR (%)</i>				27.5		
P/BV		1.6	2.5	2.0	116.6	
<i>ROE (%)</i>			10.8	14.4		
Triveni Engineering	94.8					BUY
PER		8.1	21.0	11.0	128.7	
<i>Earnings Growth - CAGR (%)</i>				55.3		
EV/EBIDTA		5.5	13.0	7.0	128.0	
<i>EBIDTA Growth CAGR (%)</i>				34.6		
P/BV		1.9	4.5	2.5	126.6	
<i>ROE (%)</i>			16.8	25.7		



Bajaj Hindustan (*BJH IN / BJHN.BO*)



Sugar

Analyst: Kapil Bagaria / Associate: Chaturya Tipnis
kapil.bagaria@mfglobal.in (+9122 6667 9987)

Bajaj Hindusthan (BJH IN / BJHN.BO)

Neutral

Largest Sugar company in India

CMP Rs 173
Target Rs 179 (+4%)

Investment Rationale

- The revenue growth CAGR of 20.7% for the FY07-FY10E period is largely driven by:

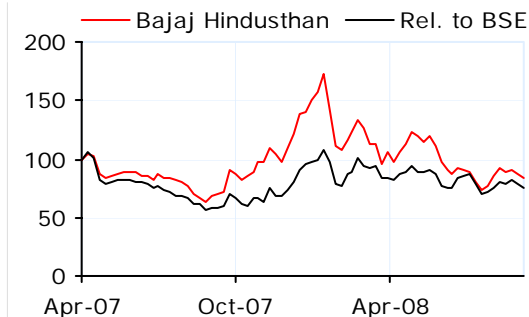
 - Sugar sales growth CAGR of 12% (FY07-10E), Distillery sales growth CAGR of 19.6% (FY07-10E) and Co-generation sales growth CAGR of 21.5% (FY08E-10E), and
 - The diversified portfolio has helped BJH to overcome its over-dependence on sugar cyclicality. Sugar's contribution is expected to reduce from 84% in FY07 to 69% in FY10E, the distillery's contribution is expected to be maintained at FY07 levels of 13%, Co-generation's contribution is growing from nil to 2% and "Other's" contribution is growing from a mere 3% to 16% over the same period.
- EBIDTA margins are expected to improve from 12.7% in FY07 to around 22.4% in FY10E, mainly due to better sugar realisations. EBIDTA is estimated to grow at 45.7% CAGR during the FY07-FY10E period.
- The profit after tax for the company is expected to increase from Rs 456mn in FY07 to around Rs 1.9bn in FY10E. Thus, the EPS is expected to increase from Rs 3.2 in FY07 to Rs 13.1 in FY10E.
- BHL is among the lowest cost producers of sugar in the country. While the company benefits from its large size and high sugar recovery from sugarcane varieties in UP, its competitive advantage lies mainly in its low conversion cost.

Risks

- The company has issued FCCBs to the tune of US\$ 120mn and are to be converted at Rs 465.4 per share. So these FCCBs are deep out-of-the-money at the current market price, and may affect the financial structure of the company if the conversion price is not reached till the maturity of the bonds.
- One of the most significant risks faced by sugar companies is government intervention, in both pricing of raw materials and supply.

Valuation

- At a CMP of Rs 173, the stock trades at 9.4x and 7.4x EV/EBITDA, 26.6x and 13.2x PER on FY09E and FY10E earnings.
- We are initiating a coverage on the company with a **NEUTRAL** rating on the stock and a target price of Rs 179 based on 7.5x FY10E EV/EBIDTA.



Company data

O/S shares :	141mn
Market cap (Rs) :	24.4bn
Market cap (USD) :	544mn
52 - wk Hi/Lo (Rs) :	400 / 120
Avg. daily vol. (3mth) :	3.3mn
Face Value (Rs) :	1

Share holding pattern, %

Promoters :	45.7
FII / NRI :	21.2
FI / MF :	13.1
Non Pro. Corp. Holdings :	5.2
Public & Others :	14.8

Y/E Sept, Rs bn	FY08E	FY09E	FY10E
Net Sales	19.1	26.9	30.1
PAT	0.1	1.0	1.9
EBIDTA mrg, %	17.9	21.3	22.4
PAT mrg, %	0.5	3.6	6.0
ROE, %	0.7	6.8	11.6
EPS, Rs	0.6	6.5	13.1
PER, x	282.2	26.6	13.2

Investment Overview

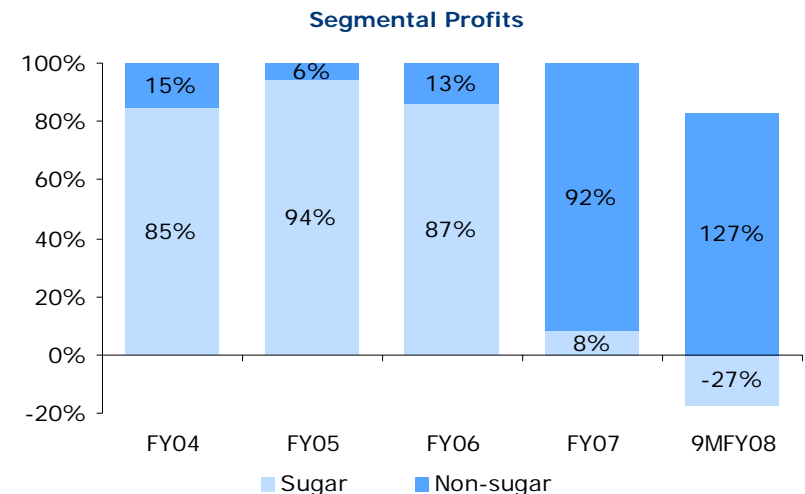
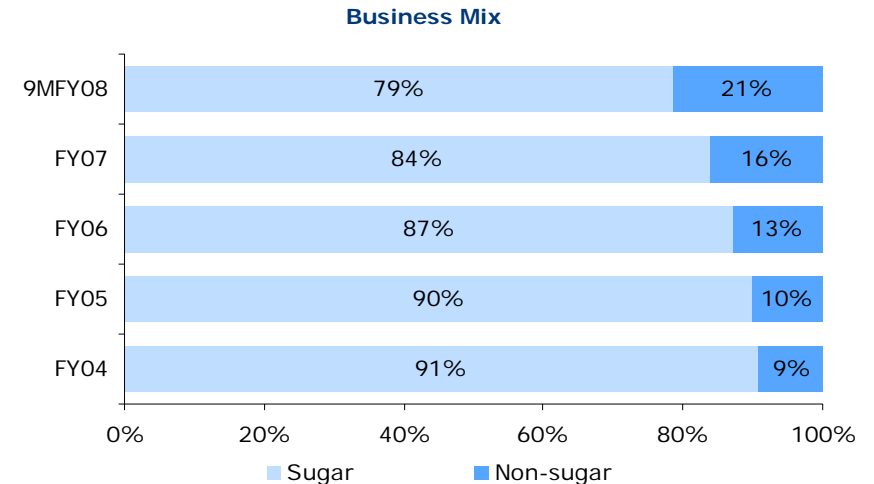
Sustainable competitive advantage	Largest crushing capacity in India, has increased from 89,000tpa in FY07 to 136,000tpa in FY08. The change in the product mix helps to reduce the dependence on the sugar cycle.
Financial structure	The debt:equity ratio of the company is expected to come down from 2.4x in FY08E to close to 1.5x in FY10E.
Shareholder value creation	The ROE of BHL is expected to increase from 0.7% in FY08E and then rise to around 6.3% in FY09E and then improve further to around 11.6% in FY10E.
Earnings visibility	We expect the company to post an EPS of Rs 0.6 in FY08E, Rs 6.5 in FY09E and Rs 13.1 in FY10E.
Valuation	At a CMP of Rs 173, the stock trades at 9.4x and 7.4x EV/EBITDA, 26.6x and 13.2x PER on FY09E and FY10E earnings.
MF Global vs. consensus	Our EPS estimates against the consensus estimates are lower by 14.6% for FY10E.
Future event triggers	Better-than-expected realisation on sugar can push the prospects of the company.
Expected price momentum	We expect an upside of 4% in the stock price in the coming 12 months.

Valuation Summary

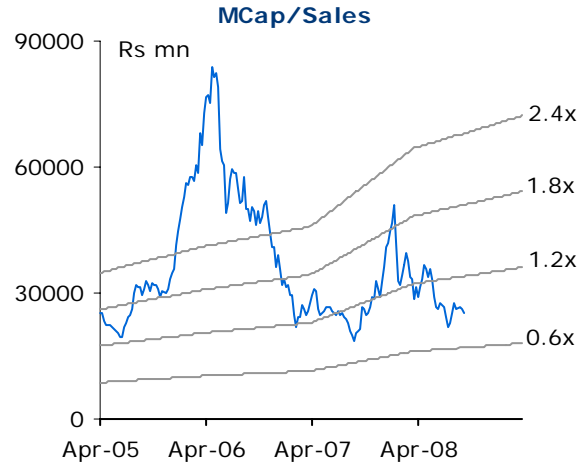
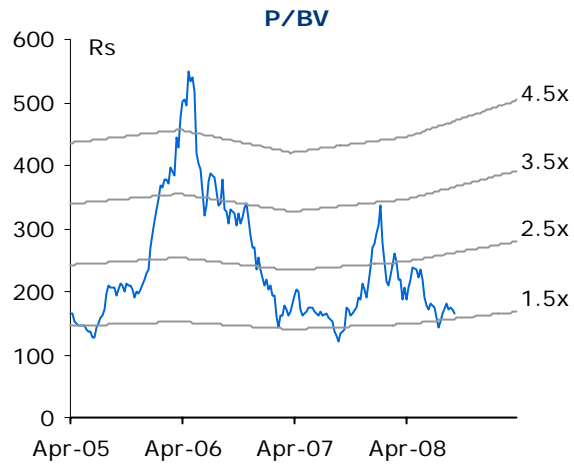
Y/E Sept, Rs mn	FY2006	FY2007	FY2008E	FY2009E	FY2010E
Net Sales	14,472	17,130	19,051	26,918	30,098
Core EBIDTA	3,108	2,178	3,418	5,739	6,743
EBIDTA margins, %	21.5	12.7	17.9	21.3	22.4
Net profit	1,907	456	93	921	1,850
PAT margins, %	12.8	2.6	0.5	3.4	6.0
EPS, Rs	13.5	3.2	0.7	6.5	13.1
EPS Growth, %	-7.7	-76.1	-79.6	886.9	101.0
PER, x	12.8	53.4	261.4	26.5	13.2
EV/EBIDTA, x	12.0	24.0	16.9	9.4	7.4
EV/Net Sales, x	2.6	3.0	3.0	2.0	1.7
Price/Book Value, x	1.8	1.7	1.7	1.6	1.4
ROIC, %	8.7	2.6	1.9	4.8	6.5
ROE, %	19.2	3.3	0.7	6.3	11.6
Dividend Yield, %	0.7	0.7	0.7	0.7	0.7

About the Company

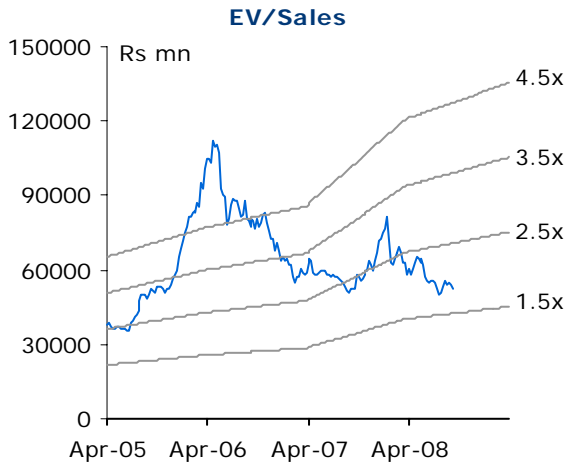
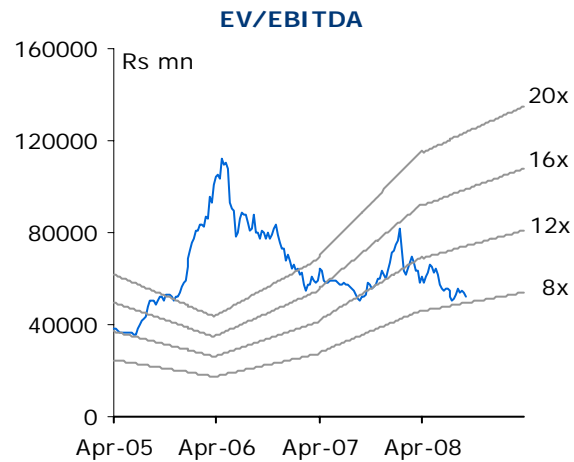
- Bajaj Hindusthan Ltd. (BHL), a part of the 'Bajaj Group', is India's largest sugar and ethanol manufacturing company. Currently, the group has total sugar crushing capacity of 1,36,000 TCD, 800 KLPD distillery capacity and 105 MW of exportable co-generation capacity.
- Bajaj has operations predominantly in Western and Central UP. But, through its subsidiary (75%) Bajaj Hindustan Sugar Industries Limited (BHSIL) it has its roots in Eastern UP as well.
- Also, in a recent diversification strategy, BHL, under its 100% subsidiary—Bajaj Eco-Tec Products Ltd.—has made a pioneering entry into the manufacture of medium density fiberboard and particleboard. These products would be produced from bagasse, which is the by-product of the sugar manufacturing process from sugarcane.



Absolute rolling Valuation band charts



- The stock is trading on or below the lower band on all the valuation parameters.

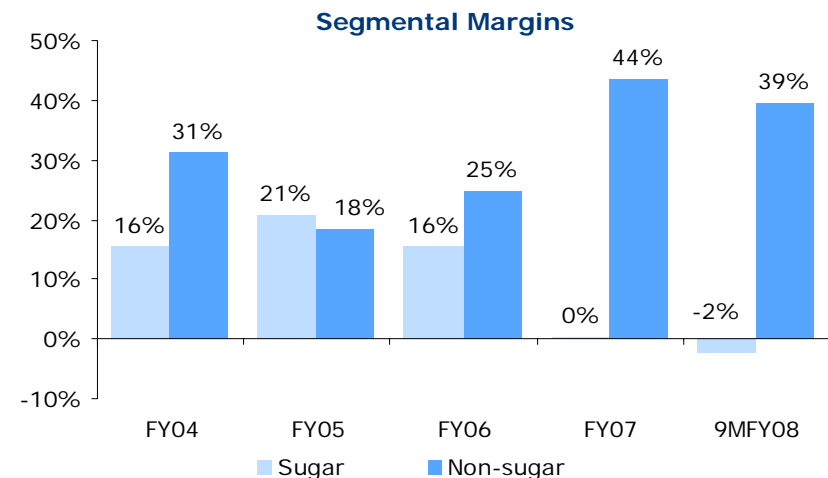
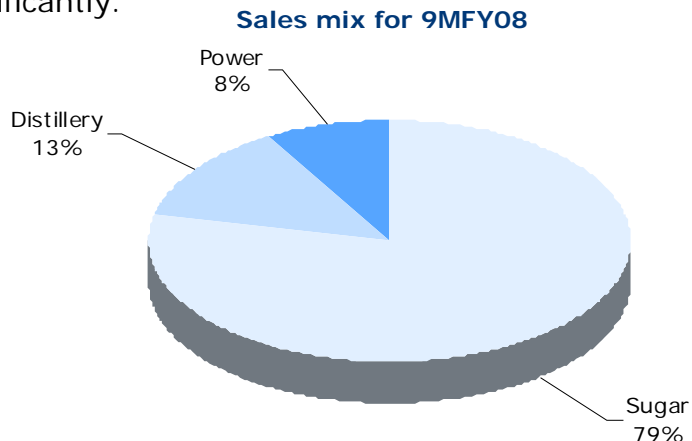
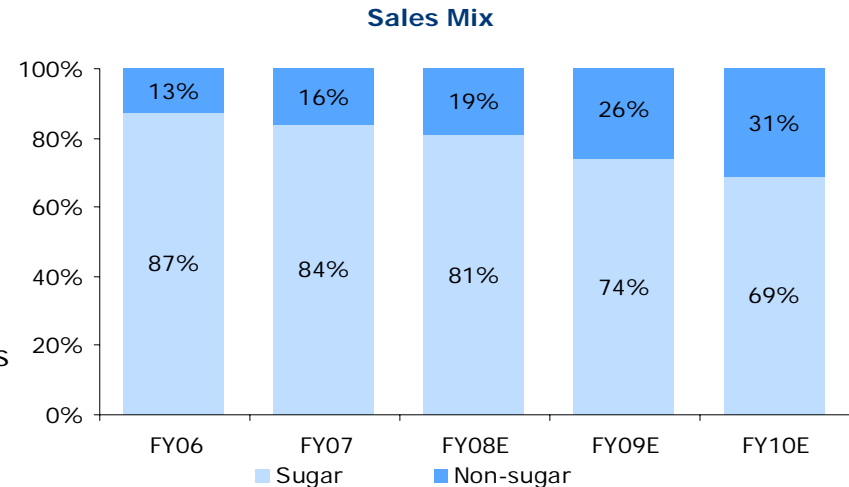


Key Assumptions

	FY06	FY07	FY08E	FY09E	FY10E
Sugarcane Crushed (Mn Tons)	7.3	12.6	11.5	11.0	11.0
Cane Cost (Rs per Ton)	1,285	1,010	1,200	1,250	1,300
Recovery Rate (%)	10.0	9.9	10.0	10.0	10.0
Average Sugar Realisation (Rs. per Ton)	18,442	14,468	14,840	17,540	17,990
Days Crushing	138	141	99	90	92
Sugar Sold (Mn Tons)	0.7	1.1	1.1	1.2	1.2
<hr/>					
No. of Days operations in Co-generation	128	120	93	119	132
Power Sales (Units Mn)	440	676	708	723	697
Power Realisation (Per Unit)	2.9	3.0	3.0	3.1	3.1
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No. of Days operations in Distillery	237	250	161	191	225
Distillery Realisation (Per litre)	19.0	19.5	20.5	24.0	27.0

Sales Mix & Margins

- We expect the contribution of sugar sales from the consolidated revenues of the company to come down from close to 87% in FY06 to close to 69% in FY10E. This is because the share of the Eco-Tec business is expected to reach close to 19% of the sales by FY10E.
- Again, the increase in the distillery capacities and co-generation capacities will increase the share of these products in the total sales of the company.
- If we look at the segmental profits, we see that major portion has come from non-sugar businesses in 9MFY08.
- The segmental margins also show that the margins of sugar business have been negative in FY07 and 9MFY08, the major earnings are coming from the non-sugar businesses and the margins in those segments have also soared in last 2 years significantly.



Financials & Valuation

- We expect BHL's net revenues and APAT to grow at a CAGR of 20.7% and 59.4%, respectively, during FY07-10E.
- We expect the EBIDTA margins to improve from 12.7% in FY07 to close to 22.4% in FY10E, due to changes in the sales mix and better sugar realisations in the next two years.
- The company is also expected to post an EPS CAGR of 59.5% during the FY07-FY10E period.
- At the current market price of Rs 173, BHL trades at 9.4x & 7.4x EV/EBIDTA and 26.6x & 13.2x PER on FY09E & FY10E, respectively.
- We remain positive on the growth prospects of the company, but given the rich valuations, we initiate coverage on the stock with a NEUTRAL rating and a target price of Rs 179 (7.5x FY10E EV/EBIDTA).

Multiple (x)	CMP (Rs)	Current forward Rolling Multiple	High (x)	Assumption forward (x)	Value per share (Rs)	Rating
Bajaj Hindustan	173.0					NEUTRAL
PER		13.2	22.0	13.0	170.4	
<i>Earnings Growth - CAGR (%)</i>				<i>59.6</i>		
EV/EBIDTA		7.4	18.0	7.5	179.0	
<i>EBIDTA Growth CAGR (%)</i>				<i>40.5</i>		
P/BV		1.5	5.0	1.5	167.8	
<i>ROE (%)</i>			<i>0.7</i>	<i>6.8</i>		

Sensitivity & Risks

Sensitivity – FY09E EPS (Rs)

Sugar NSR (Rs/kg)	Cane Cost (Rs/ton)						
	1,063	1,125	1,188	1,250	1,313	1,375	1,438
15.3	3.4	0.4	-2.7	-5.7	-8.7	-11.7	-14.7
16.2	7.5	4.5	1.4	-1.6	-4.6	-7.6	-10.6
17.1	11.6	8.6	5.5	2.5	-0.5	-3.5	-6.5
18.0	15.6	12.6	9.5	6.5	3.5	0.5	-2.5
18.9	19.7	16.7	13.6	10.6	7.6	4.6	1.6
19.8	23.8	20.8	17.7	14.7	11.7	8.7	5.7
20.7	27.8	24.8	21.7	18.7	15.7	12.7	9.7

Sensitivity – FY10E EPS (Rs)

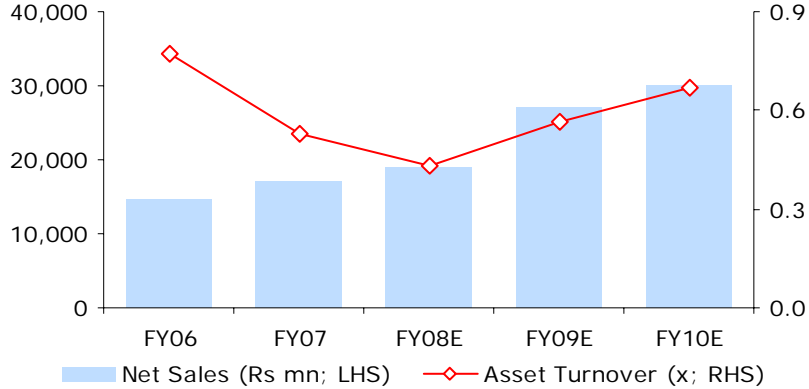
Sugar NSR (Rs/kg)	Cane Cost (Rs/ton)						
	1,105	1,170	1,235	1,300	1,365	1,430	1,495
15.7	10.1	6.9	-2.7	0.5	-2.7	-5.9	-9.1
16.7	14.3	11.1	7.9	4.7	1.5	-1.7	-4.9
17.6	18.6	15.4	12.2	9.0	5.8	2.6	-0.6
18.5	22.8	19.6	16.4	13.2	10.0	6.8	3.6
19.4	27.0	23.8	20.6	17.4	14.2	11.0	7.8
20.4	31.3	28.1	24.9	21.7	18.5	15.3	12.1
21.3	35.5	32.3	29.1	25.9	22.7	19.5	16.3

- We see that for every 5% change in the sugar realisation, the consolidated EPS of BHL changes by close to Rs 4.0 in FY09E and Rs 4.2 in FY10E, that is, a realisation higher by 5% would lead to higher EPS of close to Rs 4, a higher realisation by 10% would lead to a higher EPS of close to Rs 8 from our estimate in FY09E and vice-versa.
- At the same time for every 5% change in the cane cost for the company in FY09E, the EPS would change by close to Rs 3 and Rs 3.2 in FY10E, that is, 5% lower cost will lead to close to Rs 3 higher EPS and a 10% lower cane cost will lead to close to higher EPS of Rs 6 in FY09E and vice-versa.

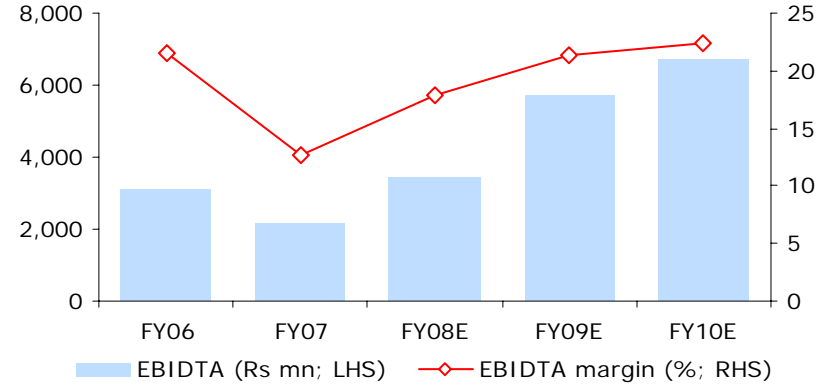
Key Risk

- The company has issued FCCBs to the tune of US\$ 120mn and are to be converted at Rs 465.4 per share. So these FCCBs are deep out-of-the-money at the current market price, and may affect the financial structure of the company if the conversion price is not reached till the maturity of the bonds.
- One of the most significant risks faced by sugar companies is government intervention, in both pricing of raw materials and supply.

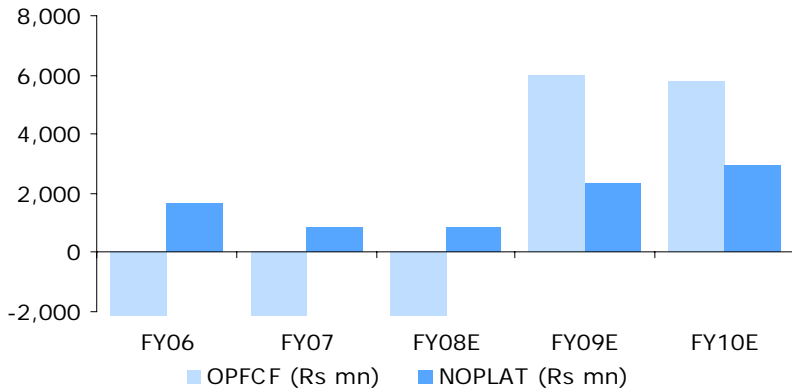
Financial Performance



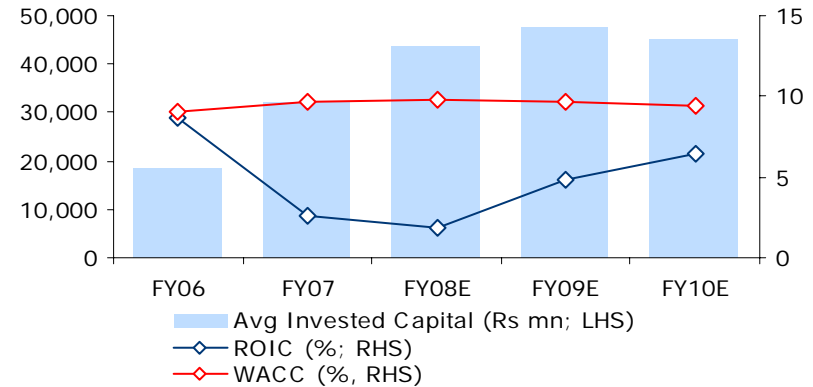
- The net sales is estimated to grow at a CAGR of 20.7% in the FY07-FY10E period.



- EBIDTA is estimated to grow at a CAGR of 45.7% in the FY07-FY10E period as the sugar prices move upwards.



- The operating cash flow to turn positive in FY09E.



- The ROIC is estimated to increase steadily from FY08E up to FY10E.

Financials

Income Statement

Y/E Sept, Rs mn	FY06	FY07	FY08E	FY09E	FY10E
Net sales	14,472	17,130	19,051	26,918	30,098
<i>Growth, %</i>	<i>71.0</i>	<i>18.4</i>	<i>11.2</i>	<i>41.3</i>	<i>11.8</i>
Total income	14,472	17,130	19,051	26,918	30,098
Operating expenses	-11,365	-14,952	-15,633	-21,179	-23,355
EBITDA	3,108	2,178	3,418	5,739	6,743
<i>Growth, %</i>	<i>47.9</i>	<i>-29.9</i>	<i>56.9</i>	<i>67.9</i>	<i>17.5</i>
<i>Margin, %</i>	<i>21.5</i>	<i>12.7</i>	<i>17.9</i>	<i>21.3</i>	<i>22.4</i>
Depreciation	-724	-1,469	-2,240	-2,464	-2,587
EBIT	2,384	709	1,178	3,275	4,156
<i>Growth, %</i>	<i>36.2</i>	<i>-70.2</i>	<i>66.1</i>	<i>178.0</i>	<i>26.9</i>
<i>Margin, %</i>	<i>16.5</i>	<i>4.1</i>	<i>6.2</i>	<i>12.2</i>	<i>13.8</i>
Interest received/(paid)	21	-637	-1,470	-2,370	-1,913
Other Income	395	307	437	524	629
Pre-tax profit	2,800	378	145	1,428	2,872
Tax provided	-893	78	-43	-428	-862
PAT before MI	1,907	456	101	1,000	2,010
Minority	0	0	-8	-80	-161
PAT after MI & EOI	1,907	456	93	920	1,849
MF Net profit	1,907	456	93	921	1,850
<i>Growth, %</i>	<i>35.8</i>	<i>-76.1</i>	<i>-79.6</i>	<i>886.9</i>	<i>101.0</i>
EOI: Gains/(Losses)	0	0	0	-1	-1
Unadj. shares (m)	141	141	141	141	141
Wtd avg shares (m)	141	141	141	141	141

Balance Sheet

Y/E Sept, Rs mn	FY06	FY07	FY08E	FY09E	FY10E
Cash & bank	2,233	1,090	481	476	342
Debtors	619	1,100	1,169	1,647	1,844
Inventory	1,224	3,948	5,376	3,953	2,353
Loans & advances	5,343	14,953	7,476	8,224	9,046
Total current assets	9,418	21,091	14,503	14,299	13,586
Investments	2,058	4,375	51	52	52
Gross fixed assets	12,853	26,393	47,922	48,922	49,922
Less: Depreciation	2,719	4,186	6,426	8,890	11,477
Add: Capital WIP	12,231	5,630	0	0	0
Net fixed assets	22,366	27,836	41,496	40,032	38,445
Total assets	33,842	53,301	56,050	54,383	52,082
Current liabilities	1,820	6,245	6,556	7,896	7,918
Provisions	1,975	2,595	0	0	0
Total current liabilities	3,795	8,840	6,556	7,896	7,918
Non-current liabilities	16,360	30,118	35,226	31,398	27,242
Total liabilities	20,155	38,958	41,782	39,293	35,160
Paid-up capital	141	141	141	141	141
Reserves & surplus	13,545	14,202	14,118	14,860	16,532
Shareholders' equity	13,687	14,343	14,260	15,002	16,674
Total equity & liabilities	33,842	53,301	56,050	54,383	52,082

Financials

Cash Flow

Y/E Sept, Rs mn	FY06	FY07	FY08E	FY09E	FY10E
Pre-tax profit	2,800	378	145	1,428	2,872
Depreciation	724	1,469	2,240	2,464	2,587
Chg in working capital	-2,599	-7,770	3,695	1,538	602
Total tax paid	-47	-13	-26	-257	-517
CF from operating act.	878	-5,936	6,054	5,173	5,544
Capital expenditure	-12,292	-6,939	-15,900	-1,000	-1,000
Chg in investments	-2,009	-2,317	4,324	-1	0
CF from invest. act.	-14,301	-9,256	-11,576	-1,001	-1,000
Free cash flow	-13,423	-15,192	-5,522	4,172	4,544
Equity raised/(repaid)	6,903	201	0	0	0
Chg in minorities	0	0	0	0	0
Debt raised/(repaid)	9,960	13,848	5,091	-4,000	-4,500
Dividend (incl. tax)	-177	-177	-177	-177	-177
Other financing activities	-1,089	176	0	0	0
CF from financing act.	15,598	14,049	4,914	-4,177	-4,677
Net chg in cash	2,175	-1,143	-608	-5	-133

Per-share data

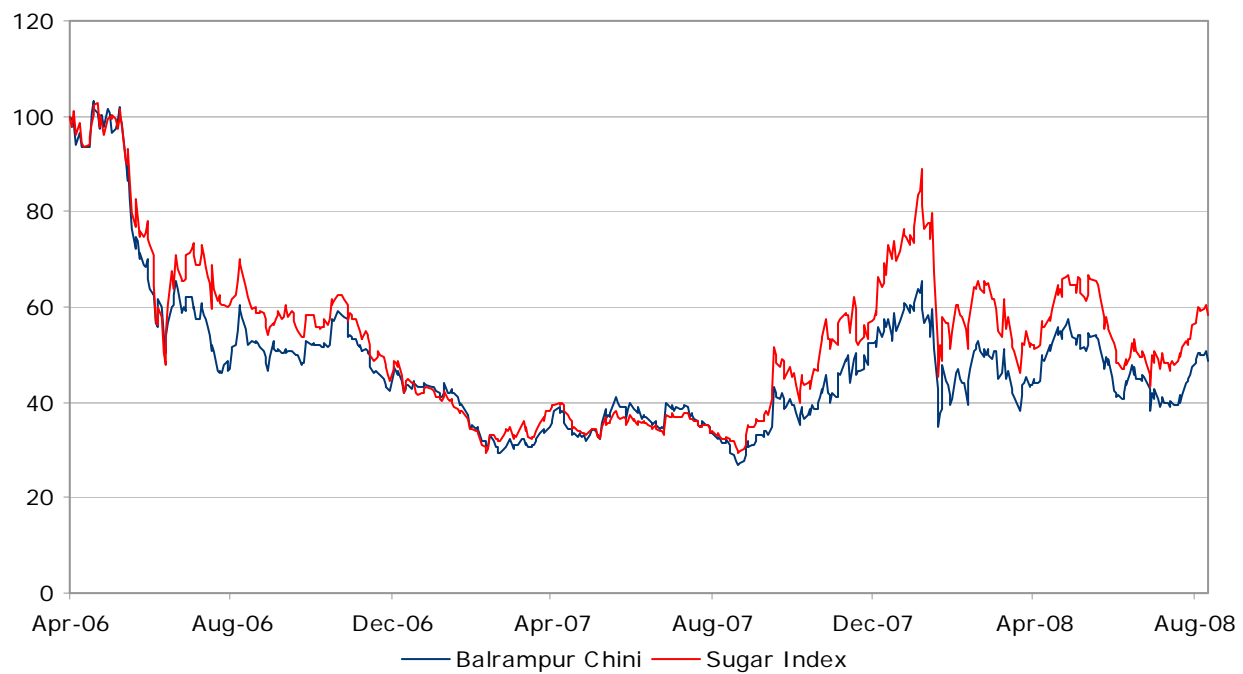
Y/E Sept, Rs mn	FY06	FY07	FY08E	FY09E	FY10E
MF FDEPS (INR)	13.5	3.2	0.7	6.5	13.1
<i>Growth, %</i>	-7.7	-76.1	-79.6	886.9	101.0
Book NAV/share (INR)	96.8	101.4	100.9	106.7	119.7
FDEPS (INR)	13.5	3.2	0.7	6.5	13.1
CEPS (INR)	18.6	13.6	16.5	23.9	31.4
CFPS (INR)	3.4	-44.1	39.7	32.9	34.8
DPS (INR)	1.3	1.3	1.3	1.3	1.3

Ratios

Y/E Sept	FY06	FY07	FY08E	FY09E	FY10E
Return on assets (%)	8.1	2.0	2.0	4.7	6.2
Return on equity (%)	19.2	3.3	0.7	6.3	11.6
ROIC (%)	8.7	2.6	1.9	4.8	6.5
RoIC/Cost of capital (x)	1.0	0.3	0.2	0.5	0.7
RoIC - Cost of capital (%)	-0.4	-7.0	-7.9	-4.8	-3.0
ROCE (%)	9.1	2.4	2.3	5.4	7.2
Cost of capital (%)	9.1	9.7	9.7	9.6	9.5
RoCE - Cost of capital (%)	0.0	-7.3	-7.4	-4.3	-2.2
Total debt/Equity (%)	110.0	201.5	238.3	198.8	150.7
Net debt/Equity (%)	93.7	194.0	234.9	195.7	148.7
Asset turnover (x)	0.8	0.5	0.4	0.6	0.7
Sales/Total assets (x)	0.6	0.4	0.3	0.5	0.6
Sales/Net FA (x)	0.9	0.7	0.5	0.7	0.8
Working capital/Sales (x)	0.2	0.7	0.4	0.2	0.2
Receivable days	16	23	22	22	22
Inventory days	31	84	103	54	29
Payable days	58	152	153	136	124
Current ratio (x)	2.5	2.4	2.2	1.8	1.7
Quick ratio (x)	2.2	1.9	1.4	1.3	1.4
Interest cover (x)	n/a	1.1	0.8	1.4	2.2
Dividend cover (x)	10.8	2.6	0.5	5.2	10.5
PER (x)	12.8	53.4	261.4	26.5	13.2
PEG (x) - y-o-y growth	-1.7	-0.7	-3.3	0.0	0.1
Price/Book (x)	1.8	1.7	1.7	1.6	1.4
Yield (%)	0.7	0.7	0.7	0.7	0.7
EV/Net sales (x)	2.6	3.0	3.0	2.0	1.7
EV/EBITDA (x)	12.0	24.0	16.9	9.4	7.4
EV/EBIT (x)	15.6	73.6	49.2	16.5	12.0
EV/NOPLAT (x)	22.9	61.0	70.2	23.5	17.1
EV/CE	1.2	1.2	1.2	1.2	1.1
EV/IC (x)	2.0	1.6	1.3	1.1	1.1



Balrampur Chini (*BRCM IN / BACH.BO*)



Balrampur Chini (BRCM IN / BACH.BO)

BUY

Integrated Business Model to mitigate cyclical risks

CMP Rs 95
Tgt Rs 124 (+30%)

Investment Rationale

- The revenue growth CAGR of 10.7% for the FY08-FY10E period is largely driven by:

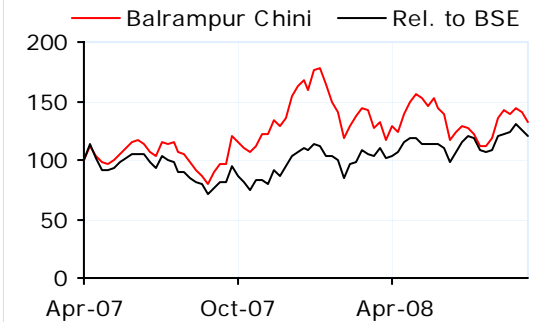
 - Sugar sales growth CAGR of 7.8%, Co-generation sales growth CAGR of 0.3% and Distillery sales growth CAGR of 31% for FY08-10E, and
 - The diversified portfolio has helped Balrampur to overcome its over-dependence on sugar cyclicity.
- We expect Sugar's contribution to drop from 77% in FY07 to 70% in FY10E, Co-generation's contribution to drop from 13% in FY07 to 11% in FY10E and growth in the distillery's contribution from 10% in FY07 to 17% in FY10E.
- EBIDTA margins are expected to improve from 6.4% in FY07 to around 26.1% in FY10E, mainly due to expected increase in sugar prices as the sugar production declines over the next 2 years EBIDTA is estimated to grow at 27.5% CAGR during the FY08-FY10E period.
- PAT is expected to post a profit of Rs 1bn in FY08E as against a loss of Rs 418mn in FY07. Then it is expected to increase to Rs 1.7bn in FY09E and then to Rs 2.6bn in FY10E. The fully diluted EPS is expected to increase from Rs 4.0 in FY08E to Rs 9.7 in FY10E.

Risks

- Sugarcane production holds the key to profitability. Since production is dependent on the monsoon and other climatic conditions, it remains a risk factor. In the short-term, however, higher sugar stock would reduce the probability of sugar prices going above a certain limit.
- Lower-than-expected sugar realisations may lead to lower turnover and profitability for the company in the coming years.

Valuation

- At a CMP of Rs 95, the stock trades at 7.5x and 6.1x EV/EBITDA on FY09E and FY10E performance and 15.0x and 9.9x PER on FY09E and FY10E earnings, respectively.
- We are initiating a coverage on the stock with a BUY rating and a target price of Rs 124 on the stock based on 7.5x FY09E EV/EBIDTA.



Company data

O/S shares :	256mn
Market cap (Rs) :	24.3bn
Market cap (USD) :	526mn
52 - wk Hi/Lo (Rs) :	128 / 59
Avg. daily vol. (3mth) :	5.2mn
Face Value (Rs) :	1

Share holding pattern, %

Promoters :	35.7
FII / NRI :	22.8
FI / MF :	23.2
Non Pro. Corp. Holdings :	3.5
Public & Others :	14.8

Y/E Sept, Rs mn	FY08E	FY09E	FY10E
Net Sales	16.2	17.8	19.9
PAT	1.0	1.7	2.6
EBIDTA mrg, %	19.6	23.0	26.1
PAT mrg, %	6.3	9.3	12.8
ROE, %	10.8	14.4	18.1
EPS, Rs	4.0	6.3	9.7
PER, x	23.7	15.0	9.9

Investment Overview

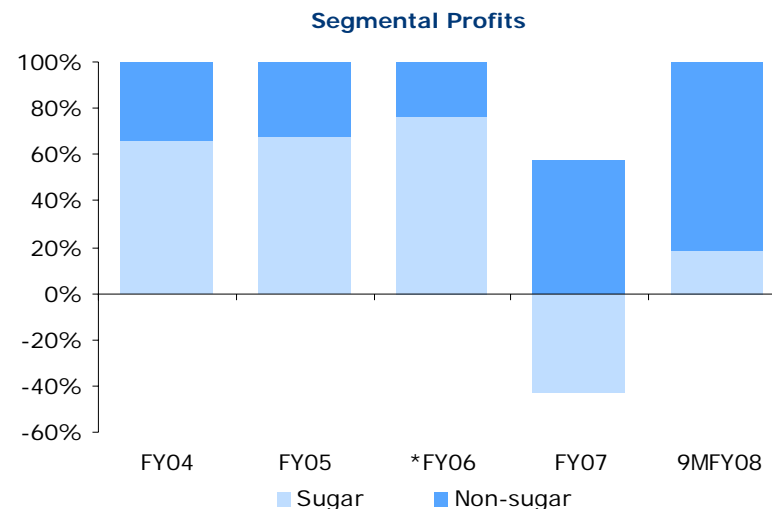
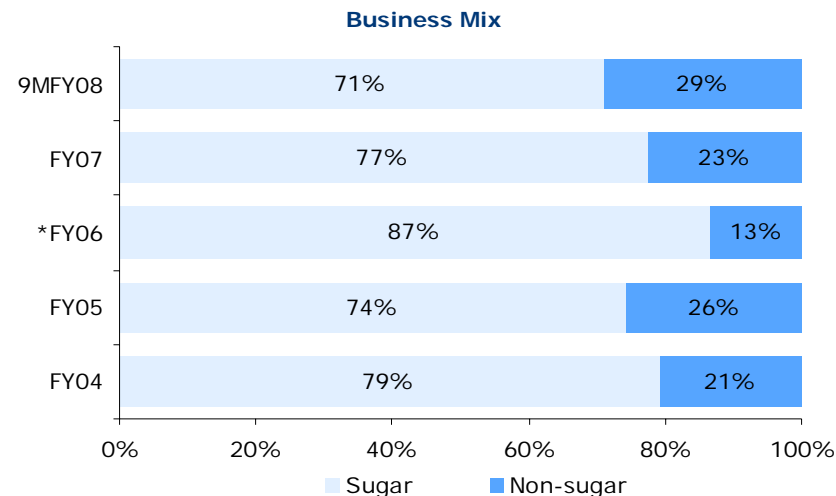
Sustainable competitive advantage	We expect revenues from the non-sugar business to record a CAGR of 10.7% in FY08E-FY10E. Consequently, the proportion of revenues from the non-sugar business is expected to increase from 23% in FY07 to 26% in FY08E, then 24% in FY09E and then increase to reduce to 30% by FY10E.
Financial structure	The debt: equity ratio of the company is expected to come down from 1.0x in FY08E to close to 0.5x in FY10E as the sugar cycle turns positive and the company starts paying off its debts.
Shareholder value creation	The ROE for the company is expected to increase from 10.8% in FY08E to close to 14.5% in FY09E and then to 18.1% in FY10E.
Earnings visibility	We expect the company to post an EPS CAGR of 54.9% in the FY2008-10E period.
Valuation	At a CMP of Rs 95, the stock trades at 7.5x, and 6.1x EV/EBITDA, 15.0x and 9.9x PER on FY09E and FY10E earnings.
MF Global vs. consensus	Our EPS estimate for the company is 13% above Bloomberg Consensus for FY09E. Our EPS estimate is higher by 2% than Bloomberg consensus for FY10E.
Future event triggers	The sugar cycle is on the verge of turning in the positive terrain and the sugar realisation is expected to increase in the near term.
Expected price momentum	We expect an upside of 30% in the stock price over a 12-month period.

Valuation Summary

Y/E Sept, Rs mn	*FY2006	FY2007	FY2008E	FY2009E	FY2010E
Net Sales	18,984	13,917	16,201	17,802	19,867
Core EBIDTA	4,622	891	3,182	4,098	5,177
EBIDTA margins, %	24.3	6.4	19.6	23.0	26.1
Net profit	2,918	-418	1,027	1,679	2,562
PAT margins, %	15.3	-3.0	6.3	9.3	12.8
EPS, Rs	7.8	-1.7	4.0	6.3	9.7
EPS Growth, %	23.3	-121.5	-338.5	57.2	52.6
PER, x	12.1	-56.4	23.7	15.0	9.9
EV/EBIDTA, x	9.0	39.9	10.5	7.5	6.1
EV/Net Sales, x	2.2	2.6	2.1	1.7	1.6
Price/Book Value, x	2.6	2.7	2.3	2.0	1.6
ROIC, %	17.9	0.6	7.5	10.3	12.5
ROE, %	28.0	-4.7	10.8	14.4	18.1
Dividend Yield, %	2.5	0.0	0.0	0.5	0.5

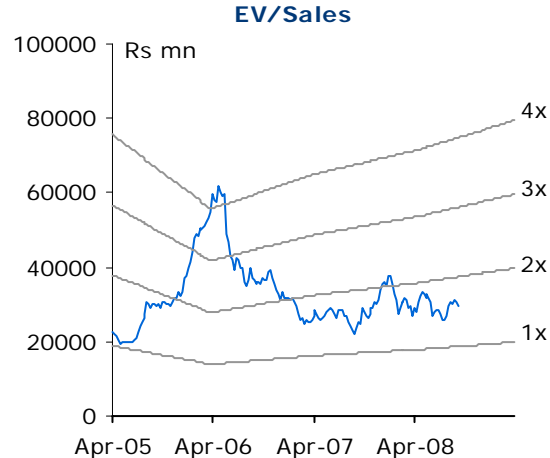
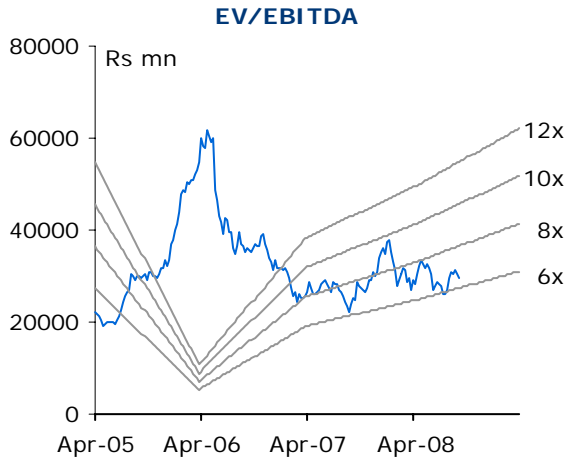
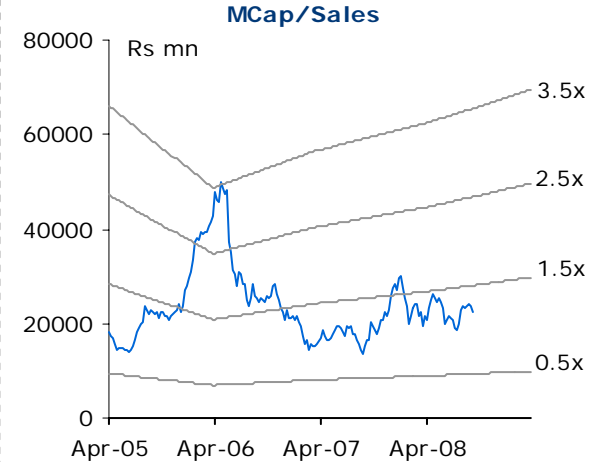
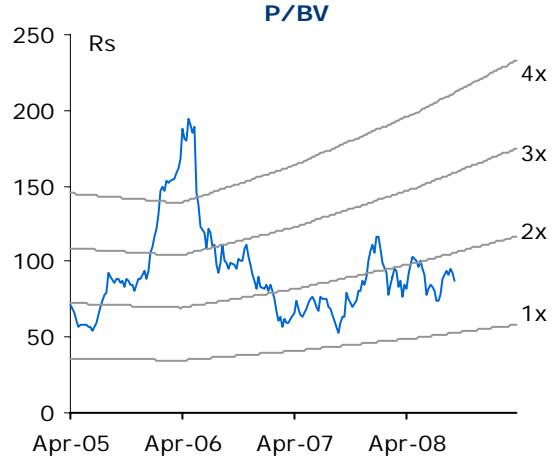
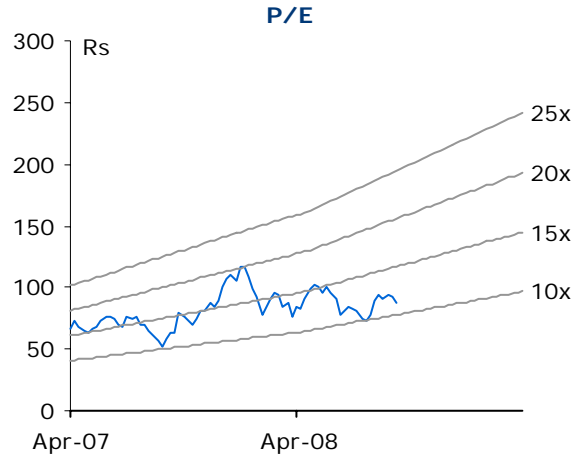
About the company

- Balrampur is one of the largest integrated sugar manufacturing companies in India. Its allied business consists of the manufacturing and marketing of ethyl alcohol and ethanol, generation and selling of power and manufacturing and marketing of organic manure. It is one of the first sugar manufacturers in the Indian sugar industry to shift its focus from sugar manufacturing to an integrated business model with downstream utilisation of its by-products to diversify its income streams. Also, this kind of diversified model would dilute the impact of a decline in the sugar margin to an extent.



Absolute rolling Valuation band charts

Balrampur Chini



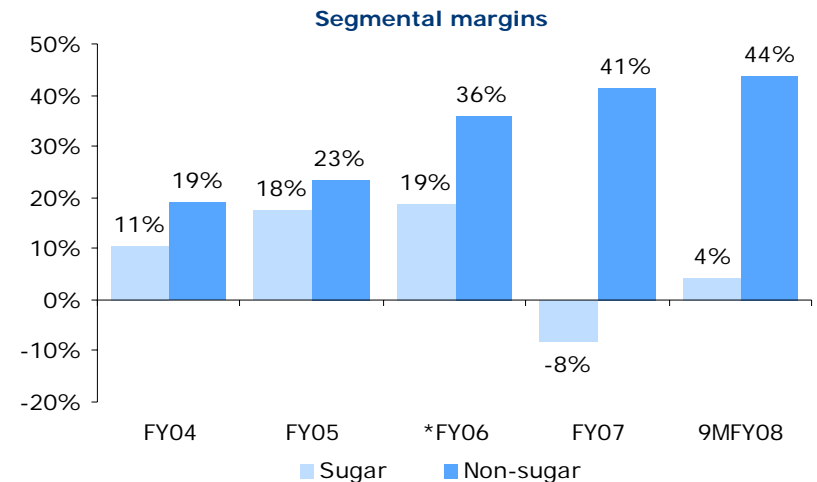
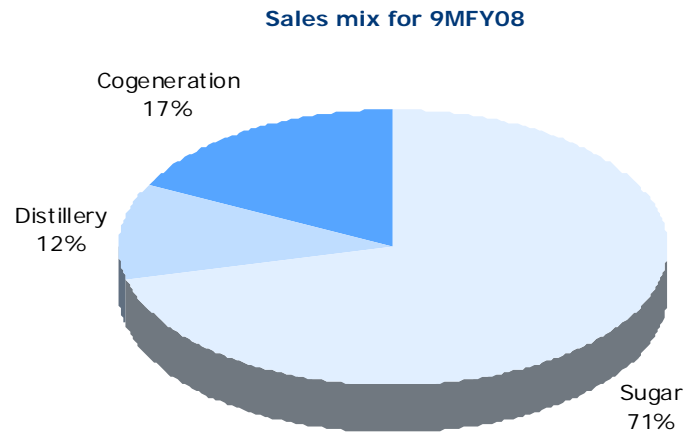
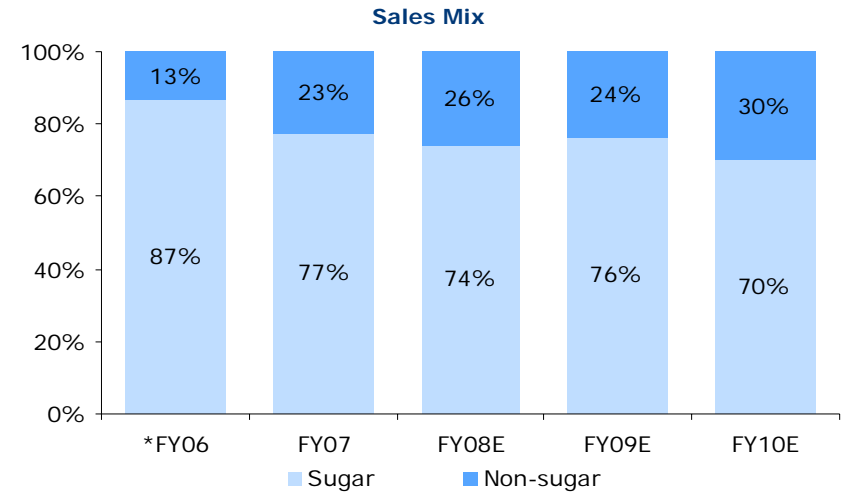
- The stock is currently trading in the lowest price bands for all the valuation parameters.

Key Assumptions

	*FY06	FY07	FY08E	FY09E	FY10E
Sugarcane Crushed (Mn Tons)	7.0	9.2	8.1	6.3	7.1
Cane Cost (Rs per Ton)	1,139	1,359	1,200	1,250	1,300
Recovery Rate (%)	10.2	10.2	10.2	10.1	10.1
Average Sugar Realisation (Rs. per Ton)	18,550	15,350	14,840	17,540	17,990
Days Crushing	-	150	123	102	115
Sugar Sold (Mn Tons)	0.93	0.75	0.81	0.78	0.78
<hr/>					
No. of Days operations in Co-generation	204	247	275	281	271
Power Sales (Units Mn)	440	676	708	723	697
Power Realisation (Per Unit)	2.9	2.9	3.0	3.1	3.1
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No. of Days operations in Distillery	261	325	263	250	375
Distillery Realisation (Per litre)	17.2	16.6	20.5	24.0	28.0

Sales Mix & Margins

- The company is focussing on the integrated business model, thereby reducing the dependence on the sugar cycle as much as possible. The company has expanded its crushing capacity at a CAGR of 36% from FY05 to FY08E and enhanced its distillery capacity at a CAGR of 26% from FY05 to FY08E.
- The sugar segment contributed 71% to the overall revenues and 18% to the operating profits in 9MFY08. On the non-sugar front, it constituted 29% of the overall revenues and 82% of operating profits in 9MFY08. The contribution of sugar is expected to remain at around 76% till FY10E.



Financials & Valuation

- We believe that the upturn in the sugar cycle and better sugar prices would enable BCML to capitalise and consolidate its position in the times to come. Higher sugar prices will help BCML see improved levels of profitability and margin expansion.
- The integrated business model (with the inclusion of the co-generation and distillery) helps the company to handle the downturn in sugar cycle. The non sugar business is expected to contribute close to 30% of the net revenues in FY10E.
- BCML's stock trades at 15.0x FY09E and 9.9x FY10E estimated EPS of Rs 6.3 and Rs 9.7 respectively. On EV/EBITDA terms, it is trading at 7.5x and 6.1x FY09E and FY10E, respectively. With the sugar prices moving up we expect the stock to get re-rated as it starts delivering good numbers. We are initiating a coverage on the stock with a BUY rating and a target price of Rs 124, at which the stock will trade at 7.5x its FY10E EV/EBIDTA.

Multiple (x)	CMP (Rs)	Current forward Rolling Multiple	High (x)	Assumption forward (x)	Value per share (Rs)	Rating
Balrampur Chini	95.0					BUY
PER		9.4	22.0	12.0	115.8	
<i>Earnings Growth - CAGR (%)</i>				<i>54.9</i>		
EV/EBIDTA		5.9	11.0	7.5	124.0	
<i>EBIDTA Growth CAGR (%)</i>				<i>27.5</i>		
P/BV		1.6	2.5	2.0	116.6	
<i>ROE (%)</i>			<i>10.8</i>	<i>14.4</i>		

Sensitivity & Risks

Sensitivity – FY09E EPS (Rs)

Sugar NSR (Rs/kg)	Cane Cost (Rs/ton)						
	1,063	1,125	1,188	1,250	1,313	1,375	1,438
15.3	4.7	3.5	2.2	1.0	-0.2	-1.5	-2.7
16.2	6.5	5.3	4.0	2.8	1.6	0.3	-0.9
17.1	8.3	7.0	5.8	4.6	3.3	2.1	0.9
18.0	10.0	8.8	7.6	6.3	5.1	3.9	2.6
18.9	11.8	10.6	9.4	8.1	6.9	5.7	4.4
19.8	13.6	12.4	11.1	9.9	8.7	7.4	6.2
20.7	15.4	14.1	12.9	11.7	10.4	9.2	8.0

Sensitivity – FY10E EPS (Rs)

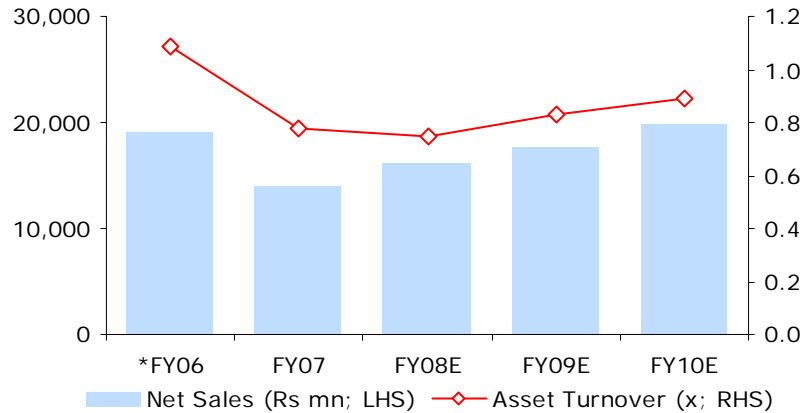
Sugar NSR (Rs/kg)	Cane Cost (Rs/ton)						
	1,105	1,170	1,235	1,300	1,365	1,430	1,495
15.7	8.5	7.2	5.9	4.5	3.2	1.9	0.6
16.7	10.2	8.9	7.6	6.2	4.9	3.6	2.3
17.6	11.9	10.6	9.3	8.0	6.6	5.3	4.0
18.5	13.6	12.3	11.0	9.7	8.3	7.0	5.7
19.4	15.3	14.0	12.7	11.4	10.1	8.7	7.4
20.4	17.0	15.7	14.4	13.1	11.7	10.4	9.1
21.3	18.7	17.4	16.1	14.8	13.5	12.2	10.8

- We see that for every 5% change in the sugar realisation, the consolidated EPS of BCML changes by close to Rs 1.5 in FY09E and Rs 1.8 in FY10E, that is, a realisation higher by 5% would lead to higher EPS of close to Rs 1.5, a higher realisation by 10% would lead to a higher EPS of close to Rs 3 from our estimate in FY09E and vice-versa.
- At the same time, for every 5% change in the cane cost for the company, the EPS would change by close to Rs 1.2 in FY09E and FY10E, respectively, that is, 5% lower cost will lead to close to Rs 1.2 higher EPS and a 10% lower cane cost will lead to close to higher EPS of Rs 2.4 in FY09E and vice-versa.

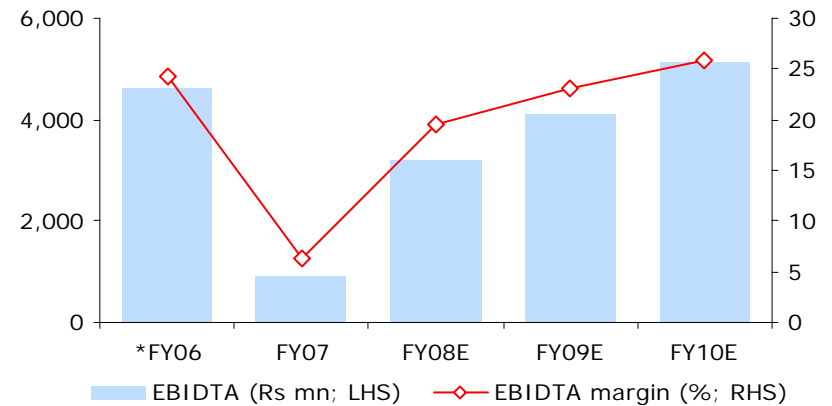
Key Risk

- Sugarcane production holds the key to profitability. Since production is dependent on the monsoon and other climatic conditions, it remains a risk factor. In the short-term, however, higher sugar stock would reduce the probability of sugar prices going above a certain limit.
- Lower-than-expected sugar realisations may lead to lower turnover and profitability for the company in the coming years.

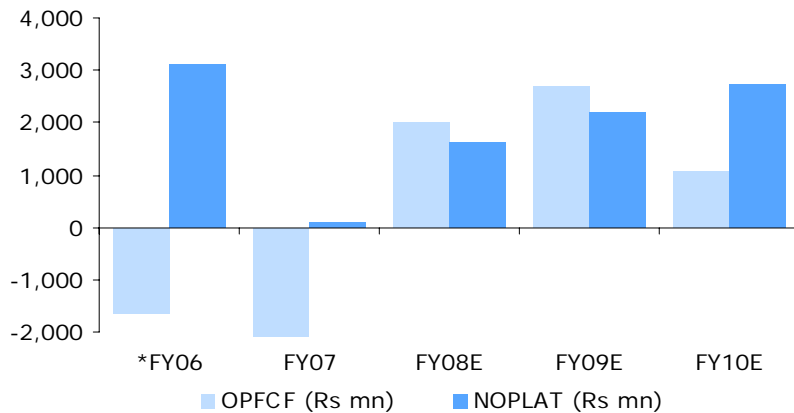
Financial Performance



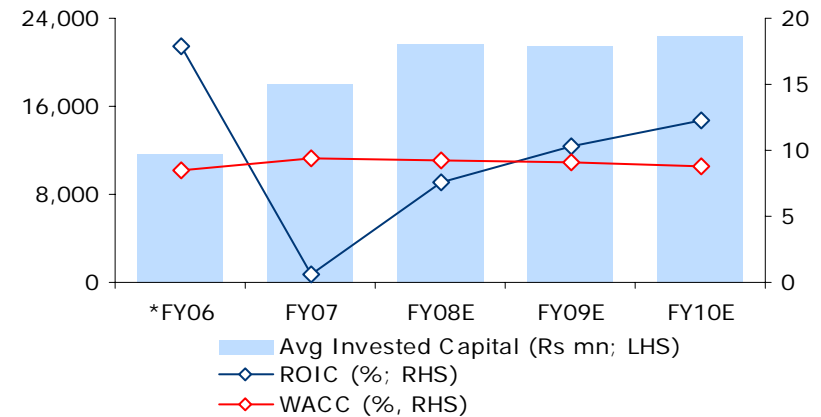
- Net sales expected to increase at a CAGR 10.7% in the period from FY08E-FY10E.



- EBIDTA expected to increase at a CAGR of 27.5% in FY08E-FY10E period



- The operating cash flow is expected to turn positive by the end of FY08E.



- The ROIC is expected to improve steadily reach close to 13% by FY10E.

Financials

Income Statement

Y/E Sept, Rs mn	*FY06	FY07	FY08E	FY09E	FY10E
Net sales	18,984	13,917	16,201	17,802	19,867
<i>Growth, %</i>	55.6	10.0	16.4	9.9	11.6
Total income	18,984	13,917	16,201	17,802	19,867
Operating expenses	-14,362	-13,027	-13,019	-13,705	-14,690
EBITDA	4,622	891	3,182	4,098	5,177
<i>Growth, %</i>	28.4	-71.7	257.3	28.8	26.3
<i>Margin, %</i>	24.3	6.4	19.6	23.0	26.1
Depreciation	-694	-802	-1,085	-1,140	-1,188
EBIT	3,928	88	2,097	2,958	3,989
<i>Growth, %</i>	29.5	-96.6	2272.9	41.0	34.9
<i>Margin, %</i>	20.7	0.6	12.9	16.6	20.1
Interest received/(paid)	-345	-544	-888	-883	-557
Other Income	68	102	116	163	228
Pre-tax profit	3,651	-353	1,326	2,238	3,660
Tax provided	-733	-65	-298	-560	-1,098
PAT before MI	2,918	-418	1,027	1,679	2,562
Minority	0	0	0	0	0
PAT after MI & EOI	2,918	-418	1,027	1,679	2,562
MF Net profit	2,918	-418	1,027	1,679	2,562
<i>Growth, %</i>	97.9	-114.3	-345.6	63.4	52.6
EOI: Gains/(Losses)	0	0	0	0	0
Unadj. shares (m)	248	248	256	266	266
Wtd avg shares (m)	248	248	256	266	266

Balance Sheet

Y/E Sept, Rs mn	*FY06	FY07	FY08E	FY09E	FY10E
Cash & bank	157	164	626	2,255	1,393
Debtors	557	462	653	818	621
Inventory	1,984	4,330	5,516	3,928	4,161
Loans & advances	2,997	2,399	2,639	2,903	3,500
Total current assets	5,694	7,356	9,434	9,904	9,675
Investments	2	34	34	34	34
Gross fixed assets	13,386	19,703	23,580	24,000	25,000
Less: Depreciation	3,019	3,825	4,910	6,050	7,237
Add: Capital WIP	2,953	3,322	0	0	0
Net fixed assets	13,319	19,200	18,670	17,950	17,763
Total assets	19,015	26,590	28,138	27,888	27,472
Current liabilities	3,337	3,886	2,210	1,973	2,195
Provisions	0	0	0	0	0
Total current liabilities	3,337	3,886	2,210	1,973	2,195
Non-current liabilities	6,667	14,094	15,522	13,002	9,802
Total liabilities	10,003	17,980	17,732	14,976	11,998
Paid-up capital	248	248	256	266	266
Reserves & surplus	8,764	8,361	10,150	12,647	15,209
Shareholders' equity	9,012	8,610	10,406	12,912	15,474
Total equity & liabilities	19,015	26,590	28,138	27,888	27,472

Financials

Cash Flow

Y/E Sept, Rs mn	*FY06	FY07	FY08E	FY09E	FY10E
Pre-tax profit	3,651	-353	1,325	2,238	3,608
Depreciation	694	802	1,085	1,140	1,188
Chg in working capital	2,734	-1,658	-298	-420	-1,970
Total tax paid	-558	-25	-298	-560	-1,082
CF from opg. act.	6,521	-1,234	1,813	2,399	1,742
Capital expenditure	-8,481	-6,683	-555	-420	-1,000
Chg in investments	451	-32	0	0	0
CF from invest. act.	-8,031	-6,715	-555	-420	-1,000
Free cash flow	-1,509	-7,949	1,258	1,979	742
Equity raised/(repaid)	2,181	17	769	828	0
Chg in minorities	0	0	0	0	0
Debt raised/(repaid)	301	7,941	-1,566	-1,020	-1,450
Dividend (incl. tax)	-986	0	0	-155	-155
Other financing activities	0	0	0	0	0
CF from finan. act.	1,496	7,958	-797	-347	-1,605
Net chg in cash	-13	9	461	1,631	-863

Per-share data

Y/E Sept, Rs mn	*FY06	FY07	FY08E	FY09E	FY10E
MF FDEPS (INR)	7.8	-1.7	4.0	6.3	9.7
<i>Growth, %</i>	<i>23.3</i>	<i>-121.5</i>	<i>-338.5</i>	<i>57.2</i>	<i>52.6</i>
Book NAV/share (INR)	36.3	34.7	40.7	48.6	58.3
FDEPS (INR)	7.8	-1.7	4.0	6.3	9.7
CEPS (INR)	9.7	1.5	8.3	10.6	14.1
CFPS (INR)	17.3	-5.4	6.6	7.8	5.1
DPS (INR)	2.3	0.0	0.0	0.5	0.5

Ratios

Y/E Sept	*FY06	FY07	FY08E	FY09E	FY10E
Return on assets (%)	13.6	-0.2	5.9	8.1	10.6
Return on equity (%)	28.0	-4.7	10.8	14.4	18.1
ROIC (%)	17.9	0.6	7.5	10.3	12.5
RoIC/Cost of capital (x)	2.1	0.1	0.8	1.1	1.4
RoIC - Cost of capital (%)	9.5	-8.9	-1.7	1.3	3.7
ROCE (%)	16.5	-0.3	6.7	8.7	11.5
Cost of capital (%)	8.5	9.4	9.2	9.0	8.8
RoCE - Cost of capital (%)	8.0	-9.7	-2.6	-0.3	2.7
Total debt/Equity (%)	46.2	140.6	101.3	73.7	52.2
Net debt/Equity (%)	44.5	138.7	95.3	56.3	43.1
Asset turnover (x)	1.1	0.8	0.7	0.8	0.9
Sales/Total assets (x)	0.8	0.6	0.6	0.6	0.7
Sales/Net FA (x)	1.3	0.9	0.9	1.0	1.1
Working capital/Sales (x)	0.2	0.2	0.4	0.3	0.3
Receivable days	16	12	15	17	11
Inventory days	57	114	124	81	76
Payable days	127	109	62	53	55
Current ratio (x)	1.7	1.9	4.3	5.0	4.4
Quick ratio (x)	1.1	0.8	1.8	3.0	2.5
Interest cover (x)	11.4	0.2	2.4	3.4	7.2
Dividend cover (x)	3.4			12.6	19.3
PER (x)	12.1	-56.4	23.7	15.0	9.9
PEG (x) - y-o-y growth	0.5	0.5	-0.1	0.3	0.2
Price/Book (x)	2.6	2.7	2.3	2.0	1.6
Yield (%)	2.5	0.0	0.0	0.5	0.5
EV/Net sales (x)	2.2	2.6	2.1	1.7	1.6
EV/EBITDA (x)	9.0	39.9	10.5	7.5	6.1
EV/EBIT (x)	10.5	402.1	16.0	10.4	7.9
EV/NOPLAT (x)	13.2	339.8	20.6	13.9	11.3
EV/CE	1.8	1.6	1.3	1.2	1.3
EV/IC (x)	2.4	2.0	1.5	1.4	1.4



Triveni Engineering (*TRE IN / TREI.BO*)



Triveni Engineering (TRE IN / TREI.BO)

BUY

Engineering ... leading to De-Risking

CMP Rs 95
Tgt Rs 128 (+35%)

Investment Rationale

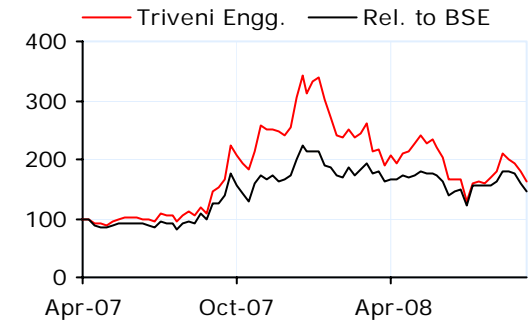
- ▶ The revenue growth CAGR of 5% for the FY07-FY10E period is largely driven by: (a) The sugar business' de-growing sales growth CAGR of -2.3% in the same period, and (b) The engineering business is estimated to grow at a 15% CAGR in the same period.
- ▶ The order in the engineering segment is quite healthy at close to Rs 6.7bn as on June, 2008. This gives a good visibility for revenues for at least, the next 9-12 months.
- ▶ EBIDTA margins are expected to improve from 12.3% in FY07 to around 19.3% in FY08E, and then improve to around 23.3% in FY09E and then to 25.5% in FY10E due to better sales mix and increased capacity. EBIDTA is estimated to grow at 33.7% CAGR during the FY07-FY10E period.
- ▶ We expect the PAT to increase at a CAGR of 57.3% in FY07-FY10E period. This implies that the EPS will increase from Rs 2.0 in FY07 to close to Rs 11.7 in FY10E.
- ▶ Power sector reforms have provided a fillip to the engineering sector, which has been growing rapidly. Triveni has developed the requisite technologies to tap this promising segment and as a result, the contribution of the engineering businesses to the total revenues of the company has increased from 42% in FY07 to 53% in FY10E. This would aid the company in effectively mitigating risks in a highly cyclical business.

Risks

- ▶ The price at which sugarcane can be procured is dictated by the government. Another concern is the fragmented nature of the sector, which leaves very little pricing power with sugar mills.
- ▶ The farmers who supply the cane do not have any contractual obligation with the mills to produce sugarcane. They also tend to produce the crop that offers them the highest returns.
- ▶ Lower-than-expected growth in the engineering business can lead to some downside in our estimates for the company.

Valuation

- ▶ At a CMP of Rs 95, the stock trades at 7.3x and 5.5x EV/EBITDA, 10.4x and 8.1x PER on FY09E and FY10E earnings.
- ▶ We have a **BUY** rating on the stock and a target price of Rs 128 on the stock based on 7.0x FY09E EV/EBITDA.



Company data

O/S shares :	258mn
Market cap (Rs) :	24.3bn
Market cap (USD) :	545mn
52 - wk Hi/Lo (Rs) :	196 / 65
Avg. daily vol. (3mth) :	2.5mn
Face Value (Rs) :	1

Share holding pattern, %

Promoters :	66.9
FII / NRI :	17.6
FI / MF :	9.0
Non Pro. Corp. Holdings :	1.4
Public & Others :	5.1

Y/E Sept, Rs bn	FY08	FY09E	FY10E
Net Sales	16.0	19.4	21.9
PAT	1.3	2.3	3.0
EBIDTA mrg, %	19.3	23.3	25.5
PAT mrg, %	7.8	12.0	13.7
ROE, %	16.8	25.7	25.9
EPS, Rs	4.8	9.1	11.7
PER, x	19.6	10.4	8.1

Investment Overview

Sustainable competitive advantage	The leadership position in the engineering business helps the company to mitigate the cyclical risks of the sugar business to some extent. We expect the share of the engineering business to increase from 42% in FY07 to 53% in FY10E.
Financial structure	The debt: equity ratio of the company is expected to come down from 1.4x in FY08E to close to 0.6x in FY10E as the sugar cycle turns positive and the company starts paying off its debts.
Shareholder value creation	The ROE of Triveni is at 8.5% in FY07, which is expected to double in FY08E and be above 25% in FY09E and FY10E as the company is able to grow its profit at a rapid pace.
Earnings visibility	We expect the company to post an EPS CAGR of 80% in FY2007-10E period.
Valuation	At a CMP of Rs 95, the stock trades at 7.3x and 5.5x EV/EBITDA, 10.4x and 8.1x PER on FY09E and FY10E earnings.
MF Global vs. consensus	Our EPS estimate for the company is 14% and 13% above Bloomberg Consensus estimates for FY09E and FY10E, respectively.
Future event triggers	The sugar cycle is on the verge of turning in the positive terrain and the sugar realisation is expected to increase in the near term.
Expected price momentum	We expect an upside of 35% in the stock price over a 12-month period.

Valuation Summary

Y/E Sept, Rs mn	FY2006	*FY2007	FY2008E	FY2009E	FY2010E
Net Sales	11,920	18,960	16,003	19,351	21,943
Core EBIDTA	2,066	2,338	3,083	4,514	5,590
EBIDTA margins, %	17.3	12.3	19.3	23.3	25.5
Net profit	1,315	776	1,250	2,344	3,016
PAT margins, %	11.0	4.1	7.8	12.0	13.7
EPS, Rs	7.7	2.0	4.8	9.1	11.7
EPS Growth, %	-35.6	-74.0	141.8	87.5	28.7
PER, x	12.3	47.3	19.6	10.4	8.1
EV/EBIDTA, x	13.5	21.5	11.2	7.3	5.5
EV/Net Sales, x	2.3	2.7	2.2	1.7	1.4
Price/Book Value, x	3.1	3.5	3.0	2.4	1.9
ROIC, %	22.1	11.8	14.2	18.1	20.4
ROE, %	36.5	8.5	16.8	25.7	25.9
Dividend Yield, %	0.8	0.4	0.4	0.5	0.6

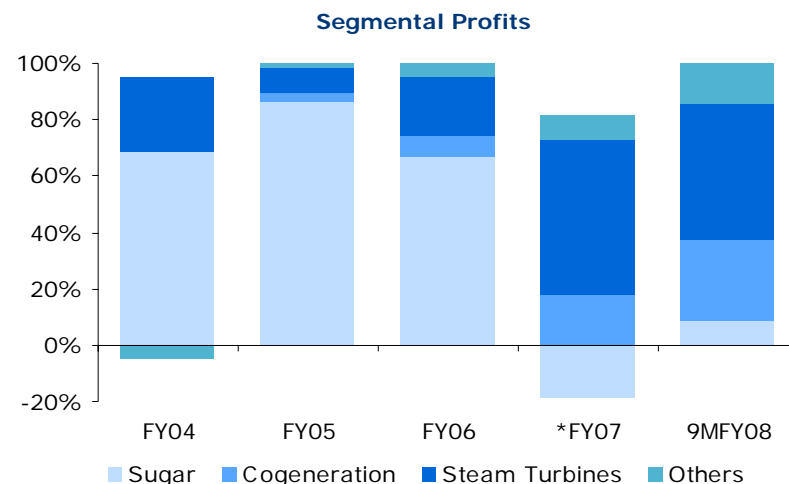
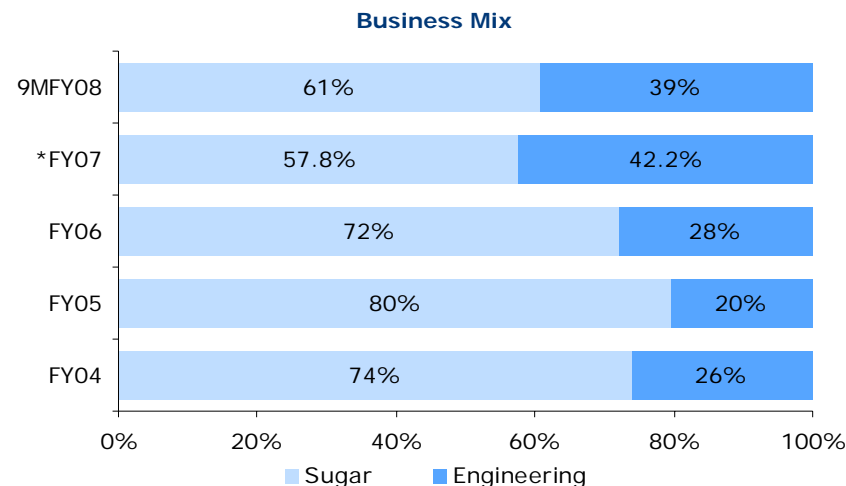
About the company

- The company was incorporated by DC Sawhney (CMD) in 1932 as Triveni Engineering Works Ltd., for the manufacture of steam turbines for the sugar industry. The company entered the sugar manufacturing sector on its merger with Upper India Sugar Mills in 1971. After its amalgamation with sugar producer, Gangeshwar Ltd., the company was re-named Triveni Engineering and Industries Ltd. Currently, the company operates two divisions:

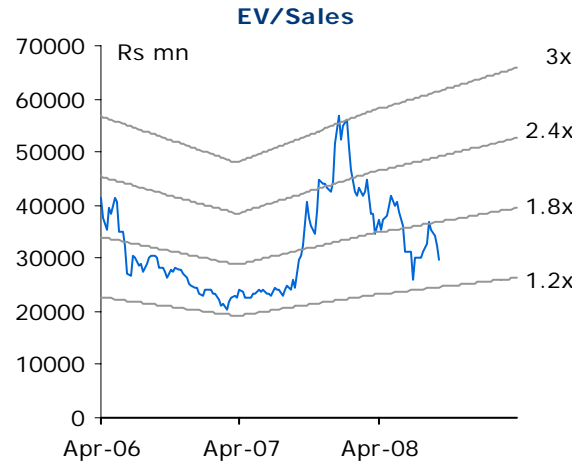
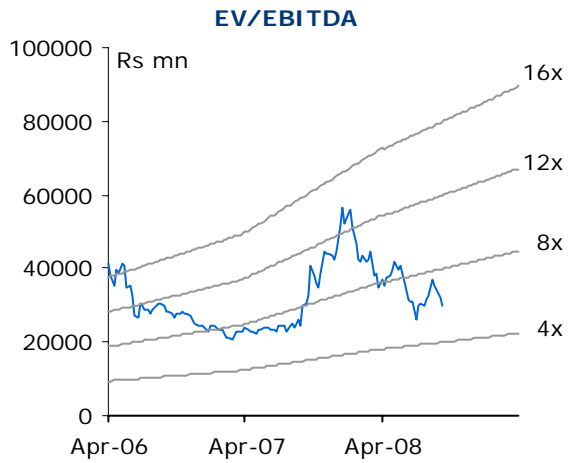
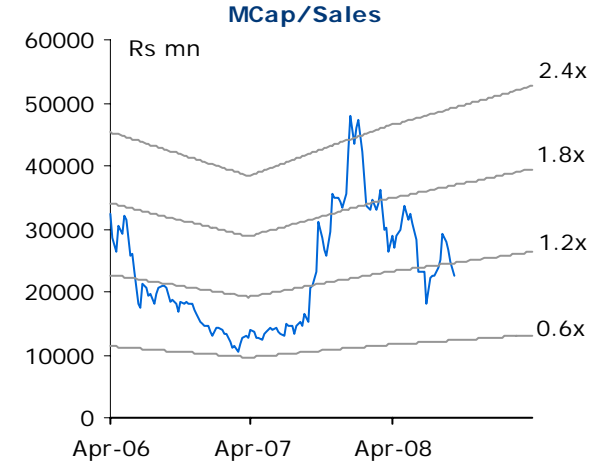
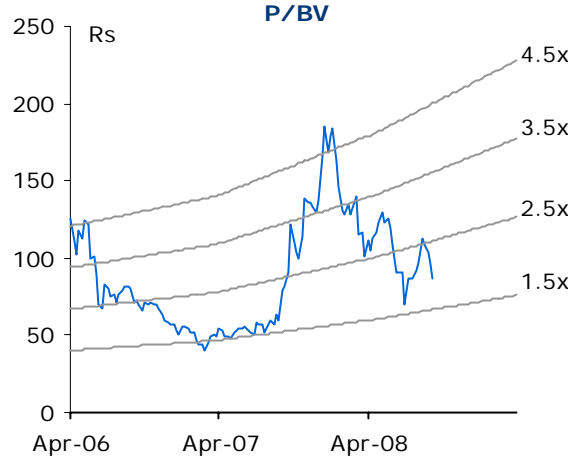
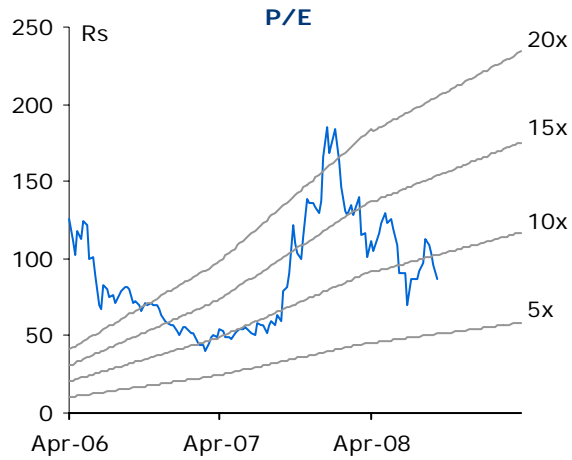
a) Sugar: This division consists of sugar production, co-generation and agri-businesses. The company has a crushing capacity of 61,000 TCD, total co-generation capacity of 68 MW and it also has a distillery with a capacity of 160 KLPD.

b) Engineering: This division includes turbines, gears, and water treatment businesses. Currently, the company manufactures turbines of up to 30 MW range. It has more than a 75% domestic market share in the turbines below 20 MW category.

- It is among the top-three players in the sugar industry and has a 75% market share in the turbine business of the applicable segment. We expect the top line to show a CAGR of 5% for the period FY07-10E.



Absolute rolling Valuation band charts



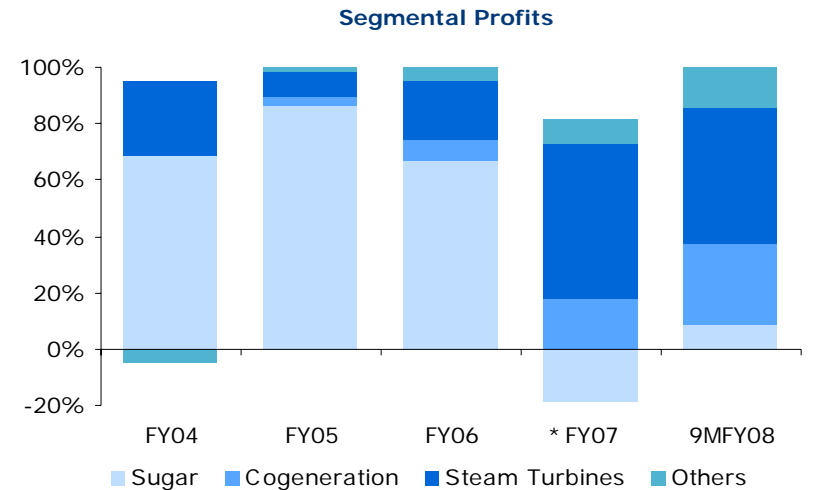
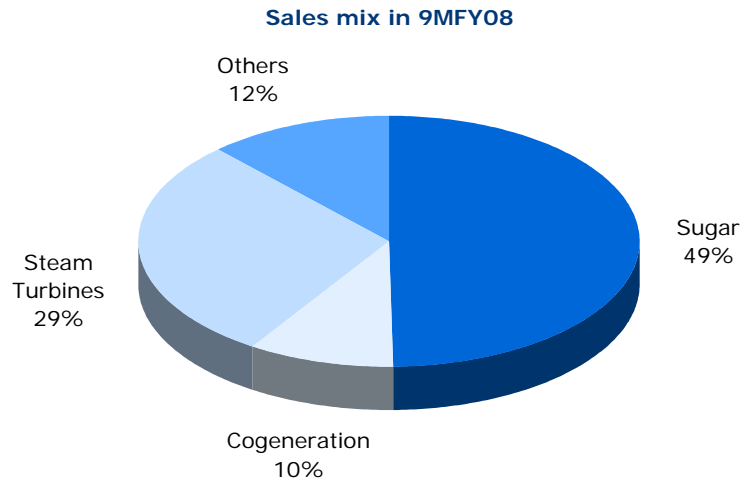
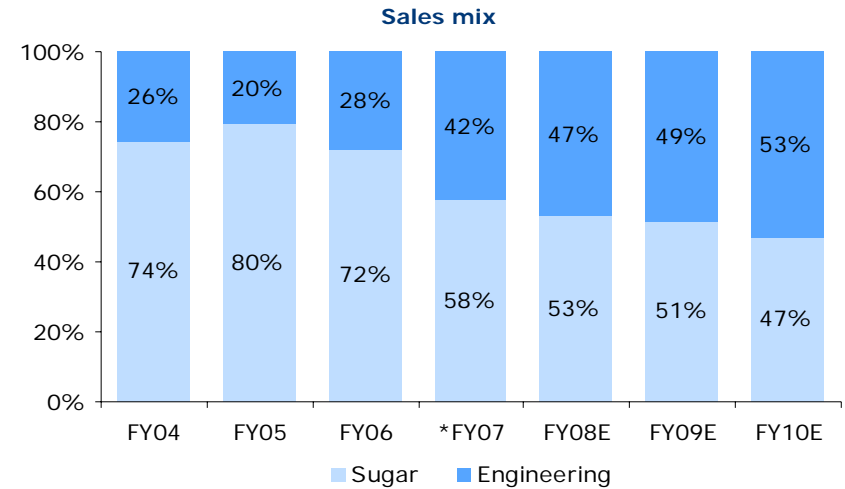
- At the current market price the stock is trading in the lowest band of all the valuation parameters.

Key Assumptions

	FY06	*FY07	FY08E	FY09E	FY10E
Sugarcane Crushed (Mn Tons)	3,938	6,316	5,859	5,566	5,566
Cane Cost (Rs per Ton)	1,338	1,349	1,200	1,250	1,300
Recovery Rate (%)	9.7	9.9	9.9	9.9	9.9
Average Sugar Realisation (Rs. per Ton)	13,379	13,485	12,000	17,700	18,150
Days Crushing	114	122	113	107	107
Sugar Sold (Mn Tons)	0.5	0.6	0.5	0.5	0.5
No. of Days operations in Co-generation	96	161	187	225	225
Power Sales (Units Mn)	103	262	189	227	227
Power Realisation (Per Unit)	2.9	2.9	3.0	3.1	3.1
No. of Days operations in Distillery	-	-	263	250	250
Distillery Realisation (Per litre)	-	-	20.5	24.0	28.0
Growth in Turbine Business (%)	108.3	172.2	16.7	20.8	20.8
Growth in HSR Gears Business (%)	39.1	114.7	32.2	28.1	28.6
Growth in Water Treatment Business (%)	57.9	184.0	97.7	80.0	50.0

Sales Mix & Margins

- Triveni's consistent addition in capacity has made it a formidable player in the sugar sector in North India. The capacity currently stands at 61,000 TCD with a co-generation capacity of 68 MW located in Uttar Pradesh and distillery with a capacity of 160 KLPD. The sugar segment contributed 61% to the overall revenues and 37% to the operating profits in 9MFY08.
- The engineering division (steam turbines, gears and water treatment) constituted 39% of the overall revenues and 63% of the operating profits in 9MFY08.



Financials & Valuation

- We believe that the upturn in the sugar cycle and progressive growth in the engineering businesses would enable Triveni to capitalise and consolidate its position in the times to come. Triveni has seen improved levels of efficiencies in all of its businesses as can be seen from higher profitability and margin expansion.
- The diversified product portfolio (with the inclusion of the engineering business, which increases its pie) will help the company absorb any downturn in individual products better and absorb the impact of industry cyclicality even better in the future years. The engineering business contributed a 42% share to FY07 revenues. We expect this share to go up to 53% in FY10E. The engineering business is expected to be quite sizeable and profitable, which will enable the company to handle the sugar cycles better than its peers.
- Triveni's stock trades at 10.4x FY09E and 8.1x FY10E estimated EPS of Rs 9.1 and Rs 11.7 respectively. On EV/EBITDA terms, it is trading at 7.3x and 5.5x FY09E and FY10E, respectively. We believe that this is a considerable discount to its peers. With the sugar prices moving up and the engineering business doing well, we expect the stock to get re-rated as it starts delivering good numbers. We are initiating a coverage on the stock with a BUY rating and a target price of Rs 128, at which the stock will trade at 7.0x its FY10E EV/EBIDTA.

Multiple (x)	CMP (Rs)	Current forward Rolling Multiple	High (x)	Assumption forward (x)	Value per share (Rs)	Rating
Triveni Engineering	94.8					BUY
PER		8.1	21.0	11.0	128.7	
<i>Earnings Growth - CAGR (%)</i>				<i>55.3</i>		
EV/EBIDTA		5.5	13.0	7.0	128.0	
<i>EBIDTA Growth CAGR (%)</i>				<i>34.6</i>		
P/BV		1.9	4.5	2.5	126.6	
<i>ROE (%)</i>			<i>16.8</i>	<i>25.7</i>		

Sensitivity & Risks

Sensitivity – FY09E EPS (Rs)

Sugar NSR (Rs/kg)	Cane Cost (Rs/ton)						
	1,063	1,125	1,188	1,250	1,313	1,375	1,438
15.3	8.2	7.2	6.3	5.3	4.3	3.3	2.4
16.2	9.5	8.5	7.6	6.6	5.6	4.6	3.7
17.1	10.7	9.7	8.8	7.8	6.8	5.8	4.9
18.0	12.0	11.0	10.1	9.1	8.1	7.1	6.2
18.9	13.2	12.2	11.3	10.3	9.3	8.3	7.4
19.8	14.5	13.5	12.6	11.6	10.6	9.6	8.7
20.7	15.7	14.7	13.8	12.8	11.8	10.8	9.9

Sensitivity – FY10E EPS (Rs)

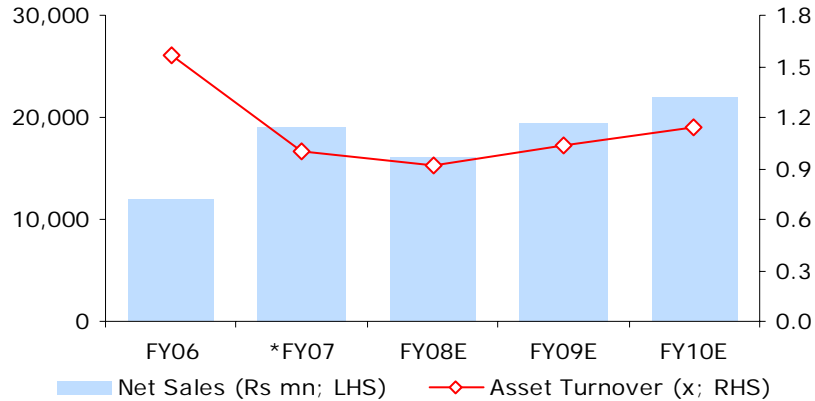
Sugar NSR (Rs/kg)	Cane Cost (Rs/ton)						
	1,105	1,170	1,235	1,300	1,365	1,430	1,495
15.7	10.9	10.0	9.0	8.1	7.2	6.2	5.3
16.7	12.1	11.2	10.2	9.3	8.4	7.4	6.5
17.6	13.3	12.4	11.4	10.5	9.6	8.6	7.7
18.5	14.5	13.6	12.6	11.7	10.8	9.8	8.9
19.4	15.7	14.8	13.8	12.9	12.0	11.0	10.1
20.4	16.9	16.0	15.0	14.1	13.2	12.2	11.3
21.3	18.1	17.2	16.2	15.3	14.4	13.4	12.5

- We see that for every 5% change in the sugar realisation, the EPS of TRE changes by close to Rs 1.2 in FY09E and FY10E, respectively, that is, a realisation higher by 5% would lead to a higher EPS of close to Rs 1.2, a higher realisation by 10% would lead to a higher EPS of close to Rs 2.4 from our estimate in FY09E and vice-versa.
- At the same time for every 5% change in the cane cost for the company in FY09E and FY10E, the EPS would change by close to Rs 1.0 respectively, that is, a 5% lower cost will lead to close to Rs 1.0 higher EPS and a 10% lower cane cost will lead to close to higher EPS of Rs 2.0 in FY09E and vice-versa.

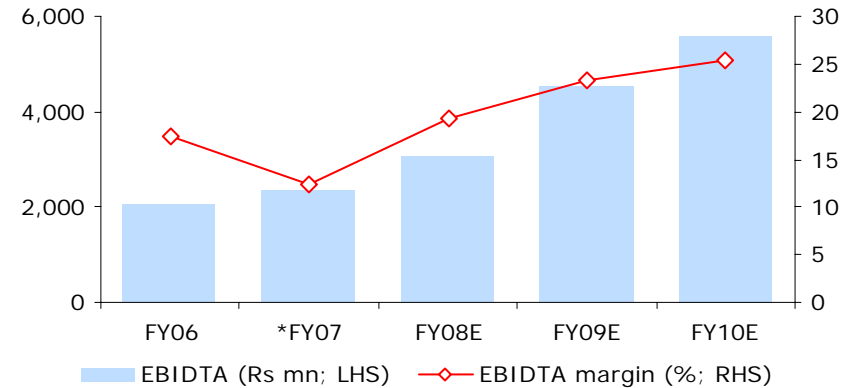
Key Risk

- The price at which sugarcane can be procured is dictated by the government. Another concern is the fragmented nature of the sector, which leaves very little pricing power with sugar mills.
- The farmers who supply the cane do not have any contractual obligation with the mills to produce sugarcane. They also tend to produce the crop that offers them the highest returns.
- Lower-than-expected growth in the engineering business can lead to some downside in our estimates for the

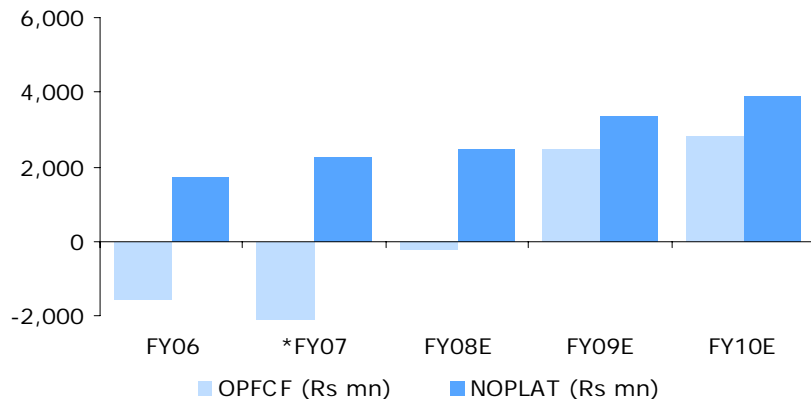
Financial Performance



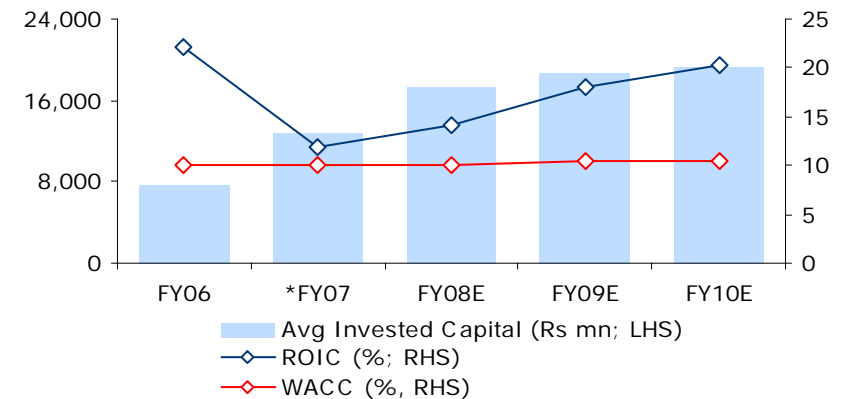
- Net sales are expected to increase at a 5% CAGR in FY07-FY10E.



- EBIDTA is estimated to increase at a CAGR of 33.7% in the FY07-FY10E period, as margins improve significantly.



- The operating cash flow is estimated to turn positive from FY09E and the NOPLAT is expected to increase at a CAGR of 20.3% in the FY07-FY10E period.



- The ROIC for the company is expected to improve significantly as the sugar cycle turns positive.

Financials

Income Statement

Y/E Sept, Rs mn	FY06	*FY07	FY08E	FY09E	FY10E
Net sales	11,920	18,960	16,003	19,351	21,943
<i>Growth, %</i>	<i>24.0</i>	<i>6.0</i>	<i>26.6</i>	<i>20.9</i>	<i>13.4</i>
Total income	11,920	19,072	16,128	19,501	22,118
Operating expenses	-9,854	-16,735	-13,045	-14,987	-16,528
EBITDA	2,066	2,338	3,083	4,514	5,590
<i>Growth, %</i>	<i>22.3</i>	<i>-24.6</i>	<i>97.9</i>	<i>46.4</i>	<i>23.9</i>
<i>Margin, %</i>	<i>17.3</i>	<i>12.3</i>	<i>19.3</i>	<i>23.3</i>	<i>25.5</i>
Depreciation	-288	-863	-796	-816	-841
EBIT	1,778	1,475	2,287	3,697	4,749
<i>Growth, %</i>	<i>22.3</i>	<i>-24.6</i>	<i>97.9</i>	<i>46.4</i>	<i>23.9</i>
<i>Margin, %</i>	<i>17.3</i>	<i>12.3</i>	<i>19.3</i>	<i>23.3</i>	<i>25.5</i>
Interest received/(paid)	-230	-731	-815	-676	-559
Other Income	64	62	90	104	119
Pre-tax profit	1,612	807	1,563	3,125	4,309
Tax provided	-297	-31	-313	-781	-1,293
PAT before MI	1,315	776	1,250	2,344	3,016
Minority	0	0	0	0	0
PAT after MI & EOI	1,315	776	1,250	2,344	3,016
MF Net profit	1,315	776	1,250	2,344	3,016
<i>Growth, %</i>	<i>32.1</i>	<i>-41.0</i>	<i>61.2</i>	<i>87.5</i>	<i>28.7</i>
Unadj. shares (m)	258	258	258	258	258
Wtd avg shares (m)	171	258	258	258	258

Balance Sheet

Y/E Sept, Rs mn	FY06	*FY07	FY08E	FY09E	FY10E
Cash & bank	259	254	387	503	726
Debtors	1,003	943	1,037	1,244	1,493
Inventory	4,048	4,197	4,876	5,353	5,855
Loans & advances	871	3,351	3,590	3,979	4,403
Total current assets	6,184	8,861	10,006	11,196	12,594
Investments	19	108	108	108	108
Gross fixed assets	7,101	15,037	16,037	16,537	17,037
Less: Depreciation	1,398	2,189	2,986	3,802	4,643
Add: Capital WIP	467	211	10	10	10
Net fixed assets	6,171	13,059	13,061	12,745	12,404
Total assets	12,373	22,029	23,176	24,050	25,106
Current liabilities	2,124	4,197	2,935	3,187	3,378
Provisions	487	515	606	636	666
Total current liabilities	2,611	4,712	3,541	3,823	4,044
Non-current liabilities	4,469	10,419	11,607	10,007	8,007
Total liabilities	7,080	15,131	15,148	13,830	12,051
Paid-up capital	258	258	258	258	258
Reserves & surplus	5,035	6,640	7,770	9,962	12,797
Shareholders' equity	5,293	6,898	8,027	10,220	13,055
Total equity & liabilities	12,373	22,029	23,176	24,050	25,106

Financials

Cash Flow

Y/E Sept, Rs mn	FY06	*FY07	FY08E	FY09E	FY10E
Pre-tax profit	1,612	807	1,563	3,125	4,309
Depreciation	229	792	796	816	841
Chg in working capital	202	-245	-2,183	-793	-954
Total tax paid	-297	-31	-313	-781	-1,293
CF from opg. act.	1,745	1,322	-136	2,367	2,904
Capital expenditure	-3,392	-7,689	-799	-500	-500
Chg in investments	211	-90	0	0	0
CF from invest. act	-3,181	-7,778	-799	-500	-500
Free cash flow	-1,436	-6,457	-935	1,867	2,404
Equity raised/(repaid)	2,212	1,008	0	0	0
Chg in minorities	0	0	0	0	0
Debt raised/(repaid)	-602	5,613	1,189	-1,600	-2,000
Dividend (incl. tax)	-147	-178	-121	-151	-181
Other financing activities	0	0	0	0	0
CF from finan. act.	1,464	6,443	1,068	-1,751	-2,181
Net chg in cash	28	-14	133	116	223

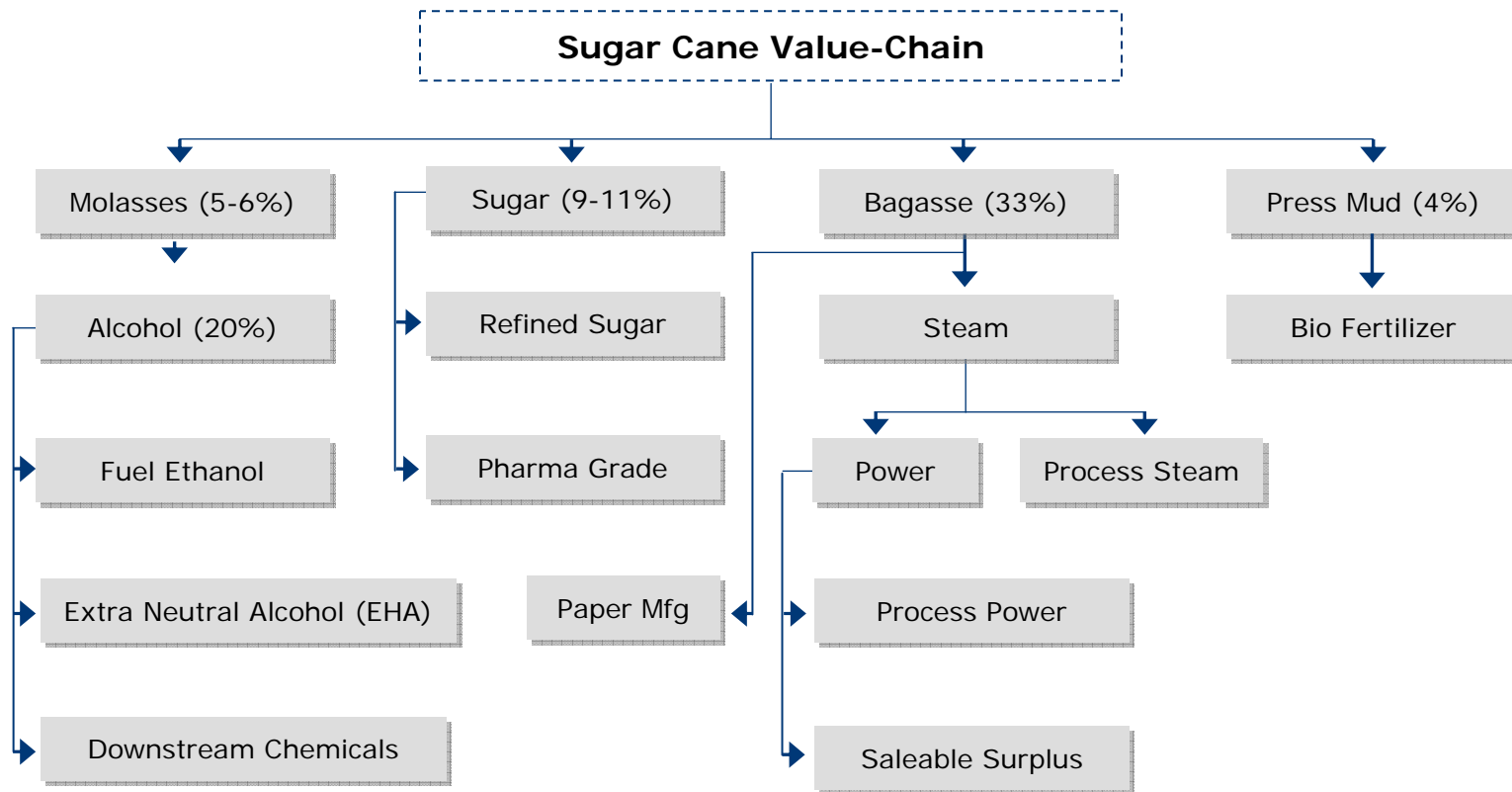
Per-share data

Y/E Sept, Rs mn	FY06	*FY07	FY08E	FY09E	FY10E
MF FDEPS (INR)	7.7	2.0	4.8	9.1	11.7
<i>Growth, %</i>	<i>-35.6</i>	<i>-74.0</i>	<i>141.8</i>	<i>87.5</i>	<i>28.7</i>
Book NAV/share (INR)	31.0	26.7	31.1	39.6	50.6
FDEPS (INR)	7.7	2.0	4.8	9.1	11.7
CEPS (INR)	9.4	4.2	7.9	12.3	15.0
CFPS (INR)	9.6	3.5	-0.9	11.8	15.8
DPS (INR)	0.8	0.4	0.4	0.5	0.6

Ratios

Y/E Sept	FY06	*FY07	FY08E	FY09E	FY10E
Return on assets (%)	13.6	4.9	7.9	11.8	13.7
Return on equity (%)	36.5	8.5	16.8	25.7	25.9
ROIC (%)	22.1	11.8	14.2	18.1	20.4
RoIC/Cost of capital (x)	2.2	1.2	1.4	1.7	2.0
RoIC - Cost of capital (%)	12.0	1.8	4.2	7.7	10.0
ROCE (%)	17.8	6.2	9.7	14.0	16.3
Cost of capital (%)	10.1	10.0	10.1	10.4	10.3
RoCE - Cost of capital (%)	7.7	-3.8	-0.3	3.6	6.0
Total debt/Equity (%)	69.9	135.0	130.8	87.1	52.9
Net debt/Equity (%)	65.0	131.3	126.0	82.2	47.3
Asset turnover (x)	1.6	1.0	0.9	1.0	1.1
Sales/Total assets (x)	1.1	0.7	0.7	0.8	0.9
Sales/Net FA (x)	2.6	1.3	1.2	1.5	1.7
Working capital/Sales (x)	0.3	0.3	0.4	0.4	0.4
Receivable days	31	27	24	23	25
Inventory days	124	121	111	101	97
Payable days	79	137	82	78	75
Current ratio (x)	2.4	1.9	2.8	2.9	3.1
Quick ratio (x)	0.8	1.0	1.4	1.5	1.7
Interest cover (x)	7.7	2.0	2.8	5.5	8.5
Dividend cover (x)	10.2	5.0	12.1	18.2	19.5
PER (x)	12.3	47.3	19.6	10.4	8.1
PEG (x) - y-o-y growth	-0.3	-0.6	0.1	0.1	0.3
Price/Book (x)	3.1	3.5	3.0	2.4	1.9
Yield (%)	0.8	0.4	0.4	0.5	0.6
EV/Net sales (x)	2.3	2.7	2.2	1.7	1.4
EV/EBITDA (x)	13.5	21.5	11.2	7.3	5.5
EV/EBIT (x)	13.5	21.5	11.2	7.3	5.5
EV/NOPLAT (x)	16.5	22.4	14.0	9.7	7.8
EV/CE	2.9	1.9	1.8	1.6	1.5
EV/IC (x)	3.7	2.6	2.0	1.8	1.6

Annexure – Sugar Process





THANK YOU

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