

Sugar Sector Overview

12th December, 2006

We have recently visited some of the major sugar manufacturing plants in Western UP and met with company management, sugar traders in the Delhi market and sugarcane farmers in UP. We expect sugar inventory levels to be of about 6 month at the end of 2007/08 and domestic sugar prices to further soften below Rs. 1,700 per quintal (Ex Mill UP) in season 2007/08. This is a clear sign of downturn in domestic sugar industry for at least next two years. We expect sugar volumes to grow by 36 % in our sugar universe, net sales to grow by only 6 % and net profit to even fall by 9 % in Y/E Sep'07. Therefore we are downgrading the sugar sector from overweight to underweight.

- Domestic sugar production is expected to be 23.2 mn tonnes in season 2006/07 and 23.9 mn tonnes in season 2007/08. This would build inventory of 3.6 months at the end of season 2006/07 and 5.5 months in season 2007/08. With these higher inventories, average domestic sugar prices would remain in the range of Rs. 1,680-1,730 per quintal (Ex mill UP) in season 2006/07.
- The Government may allow 1-1.5 mn tonnes of export in season 2006/07 (including 0.8-1.2 mn tonnes re-export obligation). This move would not change inventory position significantly to stabilise domestic sugar prices. On the other hand, at the world sugar price of US\$ 360 per tonne, Indian companies would be able to realise Rs. 16,200 per tonne, which makes the export option unviable at current prices.
- Sugarcane crop is good with about 360 mn tonnes (as against 270 mn tonnes last year) across India, especially in UP and Maharastra; so there will not be any problem of sugarcane availability across India.
- Till now SAP has not been announced by the UP Government. We expect sugarcane prices in UP to be in the range of Rs. 127-132 per quintal in season 2006/07.
- Recovery trend is expected to be favourable in Western UP as against last year by 30-50 bps and almost same in other parts of UP.
- The downturn in sugar industry has begun with huge inventory and depressed sugar prices for next two years. We expect pure sugar operating margins to fall from 18-20% in season 2005/06 to 9-12 % in season 2006/07 and even worsen in season 2007/08.
- Our sugar index has underperformed the Nifty by nearly 34 % over the last 12 months period. This underperformance becomes even worse over half year horizon with sugar index underperformance of 59 % vis-à-vis Nifty. Factors for this underperformance are fall in sugar price by 12 % over 6 months period and more than expected sugar surplus in the domestic market owing to ban on sugar export.
- We are changing our sugar price assumption from Rs. 1,850 per quintal to Rs. 1,700 per quintal, which we expect to be a more likely scenario for Y/E Sep'07. Accordingly we are changing our earnings estimates for all five sugar companies under our coverage. Despite the expected volumes growth of about 36 % in our sugar universe, net sales is expected to grow by only 6 % and net profit is expected to even fall by 9 % in Y/E Sep'07. The sugar sector had been re-rated in 2005-06 due to robust performance by sugar companies and the same was earlier expected for 2006/07 also. Now the expected upturn in sugar sector is slowly shifting to downturn, which we expect to continue for at least next two seasons.

Table 1: Valuation Summary

Stocks	Y/E	(CMP) Price *	EPS (Rs.)	P/E (X)	EV/EBITDA (X)	ROCE (%)	Rating
Bajaj Hindusthan	Sep '07	255	17.2	14.8	11.3	14.1	Marketperform
Balrampur Chini	Sep '07	90	7.2	12.5	9.5	18.5	Marketperform
Dwarikesh Sugars	Sep '07	98	13.1	7.5	9.6	12.6	Underperform
Mawana Sugars	Sep '07	54	5.4	10.0	10.1	9.1	Sell
Simbhaoli Sugars**	Mar'08	70	5.6	12.5	8.9	9.4	Sell

Source : SBICAPS Research *Price as on 8th Dec'06 ** Y/E Sep'07 (Simbhaoli Y/E Mar'08)

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Table of Contents

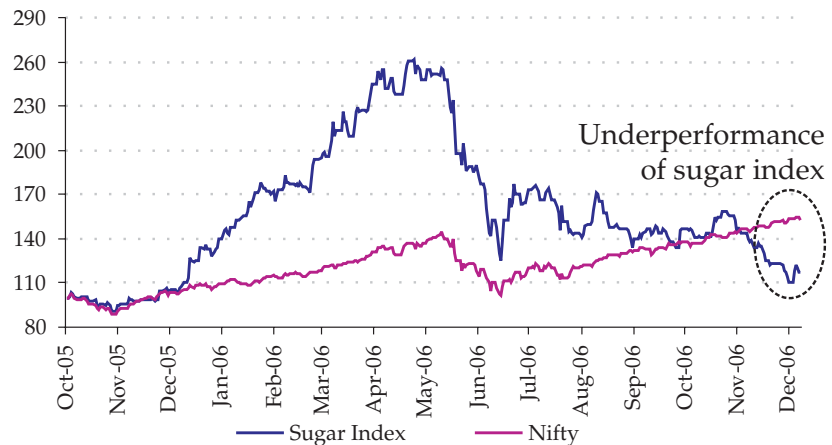
SUGAR SECTOR OVERVIEW

Relative performances of sugar index vis-à-vis Nifty	3
Sugar prices will remain subdued for one year	4
Domestic demand-supply situation	4
Operating margins under pressure	5
World demand-supply situation	6
Sector Valuation	7
Bajaj Hindustan Limited	9
Balrampur Chini	12
Dwarikesh Sugar	15
Mawana Sugar	18
Simbhaoli Sugar	21

SUGAR SECTOR OVERVIEW

Our sugar index has underperformed the Nifty by nearly 34 % over the last 12 month period. This underperformance has become even worse over the last six months with sugar index underperformance of 59 % vis-à-vis Nifty. Factors for this underperformance are a fall in sugar price by 10 % over the six month period and more than expected sugar surplus in the domestic market owing to a ban on sugar export.

Chart 1: Relative performances of sugar index vis-à-vis Nifty



Source: Bloomberg, SBICAP Research

Domestic sugar prices have come down from their peak in June'06 by about 14%. Given the sensitivity of about 15-20 % on net profit for every 3 % change in sugar price, all sugar stock prices have reacted in sync with expected decline in estimated earnings of sugar companies.

The fall in sugar prices was triggered mainly due to expected surplus inventory of about 5 months at the end of season 2006/07 and more than 6 months at the end of season 2007/08. This inventory position is based on the assumption that export ban will continue for two more years. However, we do not expect the ban to continue for the next two years. We expect the government to allow re-export obligation of 0.8-1.2 mn tonnes and also some fresh export in order to stabilise falling sugar prices. We believe that the Central Government is very comfortable with domestic retail sugar price of less than Rs. 20 per kg. For Rs. 20 per kg retail sugar price, ex mill sugar price should be at an average of Rs. 1,700 per quintal. At these levels of sugar price, we do not expect sugar companies to show the good operating performance that was expected earlier at Rs. 1,850 per quintal ex mill price.

We are changing our sugar price assumption from Rs. 1,850 per quintal to Rs. 1,700 per quintal, which we expect to be a more likely scenario for Y/E Sep'07. Accordingly we have changed our earnings estimates for all five sugar companies under our coverage.

Sugar prices will remain subdued for one year

Sugar production is expected to be over 23 mn tonnes in season 2006/07 and 24 mn tonnes in season 2007/08. We expect closing inventory of about 3.6 months and 5.5 months at the end of season 2006/07 and 2007/08 respectively. In the absence of export and/or re-export, closing inventory would be of 4.1 months at the end of season 2006/07 and 5.9 months at the end of season 2007/08. It is historically seen that inventory levels of more than 4 month are good enough to keep sugar prices under pressure.

Even if we assume that the government will allow re-export obligation of 0.8 mn-1.2 mn tonnes to be exported in season 2006/07 and some fresh exports in season 2007/08, we do not expect much rise in sugar prices from current levels of Rs. 1,720-1,810 (Ex Mill UP). However, in this case we expect sugar prices not to fall further and stabilise at Rs. 1,680-1,730 per quintal in UP.

Table 2: Domestic demand-supply situation

Sugar Season (In mn Tonnes)	2002-03	2003-04	2004-05	2005-06E	2006-07E	2007-08E
Opening Stock	11.3	11.6	8.5	4.7	3.3	6.2
Production during the season	20.1	14.0	12.7	19.1	23.2	23.9
Imports (Raw)	0.0	0.4	2.0	-	-	-
Total Availability	31.5	26.0	23.2	23.8	26.5	30.1
Off-Take						
i) Domestic Consumption	18.4	17.3	18.5	19.0	19.5	20.5
ii) Exports	1.5	0.2	---	1.5	0.8	0.0
Total Offtakes	19.9	17.5	18.5	20.5	20.3	20.5
Closing Stock as on 30th September	11.6	8.5	4.7	3.3	6.2	9.6
Carried Forward Export Obligation	-	0.4	2.3	0.8	0.0	0.0
Closing Stock %	67.1	45.9	24.7	17.1	30.3	45.6
Closing Stock (Months)	8.1	5.5	3.0	2.1	3.6	5.5

Source: ISMA, SBICAP Research

In the above table we have assumed that the government will allow only re-export obligation of 0.8 mn tonnes in season 2006/07 only.

Crushing started across India

Sugarcane crushing has commenced in all the mills across India. This year recovery trend is favourable as against last year by around 0.2-0.5 % in Western UP and almost same in other parts of the country. This trend shows even higher than expected sugar production from same amount of sugarcane. Availability of sugarcane is sufficient and for smooth running of mills and of good quality. We expect cost of production to be higher by 8-10 % across UP, which is in line with expected rise in sugarcane price except in western UP where part of the rise in sugar cane price would be offset by increase in sugar recoveries.

Increase in cost of production

In the last season all sugar companies based in Western UP paid some incentive over and above State Advised Price (SAP) to procure sufficient sugarcane supplies. Average cost of sugarcane was in the range of Rs. 125-132 per quintal in Western UP and Rs. 115-120 per quintal in other parts of UP (SAP price). There is sufficient sugarcane available across UP in this season. We do not expect sugar companies to pay any thing more than SAP declared by the UP Government. Knowing that UP state election is in the near future, we expect SAP to rise by at least Rs. 8-10 per quintal.

Cost of sugar production is also impacted by sugar recovery levels. In the last season, average recovery was 9.0-9.4% in UP.

Table 3: Sensitivity of recovery on cost of production *

Recovery (%)	Base				
	9.2	9.5	9.8	10.1	10.4
Cane crushed (Qnt.)	100	100	100	100	100
Sugar production (Qnt.)	9.2	9.5	9.8	10.1	10.4
Cane price (Rs./Qnt)	130	130	130	130	130
Cane Cost (Rs.)	13,000	13,000	13,000	13,000	13,000
Cost of production (Rs./Qnt.)	1,413	1,368	1,327	1,287	1,250
Sensitivity (%)	6.5	3.2		(3.0)	(5.8)

Source: SBICAP Research

* Assuming all other conversion cost is same at different recovery levels

The above table shows how cost of sugar production (consider only sugarcane cost) varies by changing recovery levels.

Recoveries in most of the mills are coming at around 9.6%-10.0 % at the start of the season. We expect that the hike in sugarcane price by 8-9 % would be partly offset by increase in recovery in Western UP. In other parts of UP, cost of production would be higher by 8-10 % in season 2006/07.

Operating margins under pressure

With domestic sugar prices expected to fall by 8-10% for the next season on YoY basis, cost of production is to be higher. We expect operating margins from pure sugar business to come down from 18-20 % in season 2005/06 to 9-11 % in season 2007/08. Sugar companies which are into the integrated business model will see some set-off in operating margins from their high margins business of distillery and power. Distillery margin is expected to be 25-30 % and power margin is expected to be 40-50 % for season 2006/07.

High interest and depreciation cost

Most of the sugar companies have undergone and/or are undergoing expansion in season 2006/07 and season 2007/08. A substantial part of these expansions is financed by domestic and overseas borrowings. As the interest rates are rising both in domestic and overseas market, we expect interest cost to rise substantially in the next two to three years. Deprecation cost is also expected to higher given the first or second year of operation on expanded capacities.

Glut in sugar in global market too

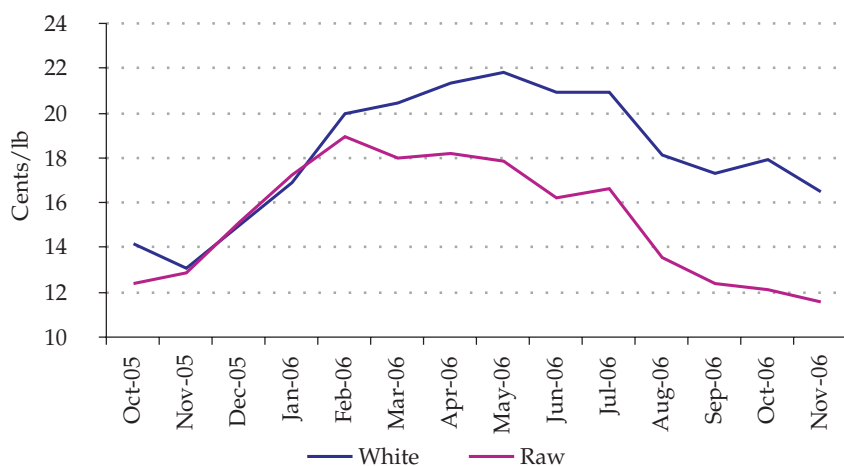
Table 4: World demand supply situation

Sugar Season	2002-03	2003-04	2004-05	2005-06E	2006-07E
Raw Value in mn Tonnes					
Opening Stock	36.6	40.9	38.8	35.2	30.4
Production	148.7	142.4	140.8	149.9	157.7
Imports demand	40.3	40.1	42.9	42.7	40.2
Total Supply	225.6	223.4	222.5	227.8	228.2
Consumption	138.3	138.6	141.0	149.7	152.5
Exports	46.3	45.9	46.3	47.7	43.2
Total Offtakes	184.6	184.5	187.3	197.4	195.7
Closing Inventory	41.0	38.9	35.2	30.4	32.5
Closing Inventory %	29.6	27.6	23.5	19.9	21.4
Closing Inventory (in months)	3.5	3.3	2.8	2.4	2.6

Source : USDA FAO , FO Litch , ISO , SBICAP Research

International Sugar Organisation (ISO) has estimated a higher global sugar surplus of 5.1 mn tonnes for the season 2006/07.

Brazil is expected to increase its production by 700,000 tonnes to 32.9mn tonnes while India's production is expected to be 23.2 mn tonnes. Thailand is expected to see a 1.4 mn tonnes increase in its sugar production to 6.5 mn tonnes. The rise of world sugar prices at the end of 2005 and the first half of 2006 has encouraged a strong production response in all leading sugar producer countries.

Chart 2: World sugar prices

Source: USDA, SBICAP Research

Export is not lucrative for domestic mills at current world prices

Given the white sugar prices in the range of US\$ 340-360 per tonne (LIFFE), it works out to Rs. 15,300-16,200 per tonne to Indian exporters. Currently domestic sugar price is ruling at Rs. 16,900-17,600 per tonne (NCDEX, S Grade - M Grade). In this scenario, barring South India based mills, no sugar mill based in North India would like to export unless the government provides some export incentive. (Same has been provided in season 2000/2001).

We do not expect much export to happen even if government allows export due to non remunerative world sugar prices. However, if export will not happen, domestic prices would also come down to below Rs. 17,000 (whole sale Delhi) per tonne.

Ethanol blending to start

Ethanol blending of 5 % with petrol will start across India except North East and Kashmir from December 2006. Ex mill price of ethanol has already been finalised on the basis of lowest bid quoted by Bajaj Hindusthan at Rs. 21.50 per litre. This price of Rs. 21.50 per litre will fetch ~30 % operating margin assuming molasses price of Rs. 2,500 per tonne. High operating margin of ethanol and/or other chemicals would help integrated sugar mills to mitigate down side of sugar business to some extent in the bottom of the cycle.

Sector Valuation

The Sugar sector is one of the worst underperformers in last six months. Sugar Index has underperformed Nifty by 59 % over the last six months period. The primary reason for this is the unclear view on sugar export, expected surplus of sugar and falling domestic and international prices.

Sugar industry being an agro commodity business is highly cyclical in nature. Profitability of the sugar industry becomes even worse due to regular intervention by the government. Given the high sensitivity (as high as 15-20 %) on net profits for every 3 % change in sugar prices, there is uncertainty on overall industry profitability. We have built in Rs. 1,700 per quintal free sale sugar price in our estimates for Y/E Sep'07 earnings. However, if the government does not allow free export fully then these prices can further decline.

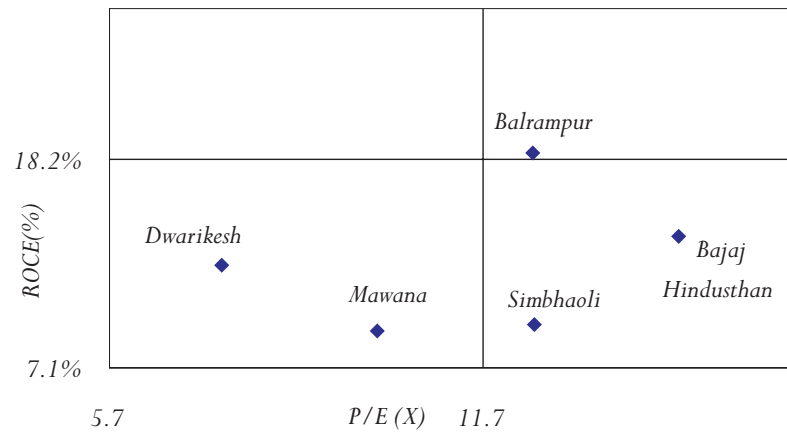
We do not expect any upside for the next twelve months in any sugar company's stock. All sugar companies are still trading at much higher valuations. Despite the expected volumes growth of about 36 % in our sugar universe due to capacity additions, net sales is expected to grow by only 6 % and net profit is expected to even fall by 9 % in Y/E Sep'07. 9 % fall in net profits could have been higher, had there been no revenue subsidy from the UP government under UP Sugar Incentive Scheme. The sector had been re-rated in 2005-06 due to robust performance by sugar companies and the same was earlier expected for 2006/07 also. Now the earlier upturn in the sugar sector is slowly shifting to downturn, which we expect to continue for the next two seasons. Therefore we are downgrading the sugar sector to **underweight**. However, any positive signal from government regarding lift of export ban and crop failure due to monsoon in next season will trigger sharp increase in stock prices.

Table 5: Valuation Parameters

Y/E	Bajaj Hind. Sep'07	Balrampur Sep'07	Dwarikesh Sep'07	Mawana Sep'07	Simbhaoli Mar'08
P/E(X)	14.8	12.5	7.5	10.0	12.5
EV/EBITDA(X)	11.3	9.5	9.6	10.1	8.9
EV/Tonne(Rs.)	33,992	34,152	22,561	14,944	19,713
P/BV(X)	1.7	2.0	0.9	0.7	0.7
Debt/ Equity (X)	0.5	0.6	2.1	1.5	2.3
ROE(%)	17.9	17.8	13.1	8.3	9.8
ROCE(%)	14.1	18.5	12.6	9.1	9.4

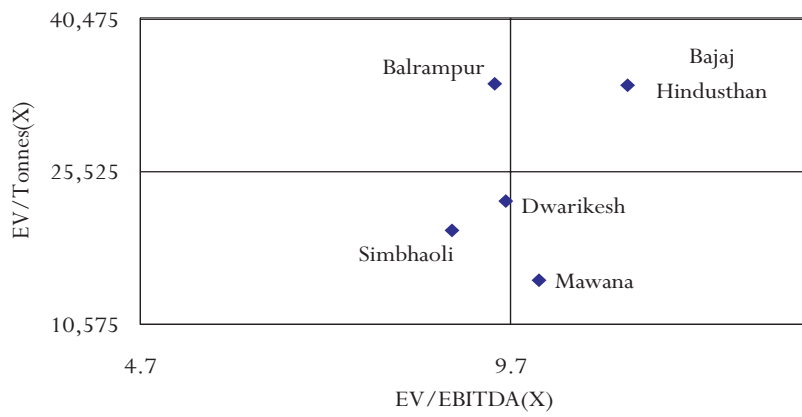
Source: SBICAP Research

Chart 3: ROCE (%) v/s PE (Y/E Sep'07E)



Source: SBICAP Research

Chart 4: EV/EBITDA v/s EV/Tonne (Y/E Sep'07)



Source: SBICAP Research

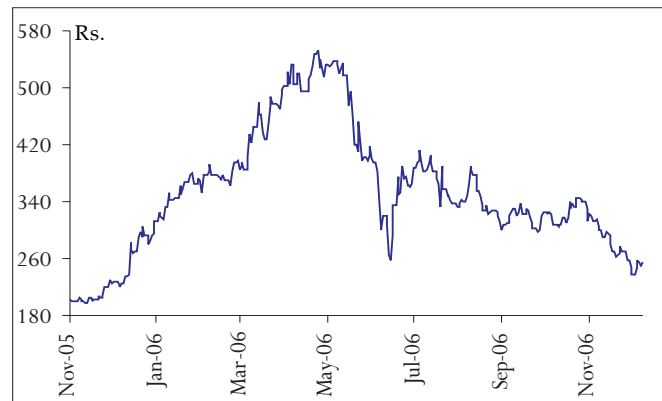
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BAJAJ HINDUSTHAN LIMITED (BHL)

MARKETPERFORM

Stock Info

Previous Rating	Outperform
Face Value	1
Share Outstanding (mn.)	140.9
Market Cap (Rs bn / US\$ mn)	35.9/798
52 Weeks High/Low (Rs)	569/218
Nifty	3,962
Bloomberg Code	BJH.IN
Reuters Code	BJHN.BO
Year End	September

**Table 6: Earning revision**

We are revising our earning estimates for Bajaj Hindusthan for Y/E Mar'07 and Y/E Mar'08.

Rs mn	Y/E Sep'07E			Y/E Sep'08E		
	Old	Revised	% Change	Old	Revised	% Change
Net Sales	27,438	24,731	(9.9)	31,333	28,094	(10.3)
Adj. Profit	3,921	2,617	(33.3)	4,379	2,734	(37.6)

Source: SBICAP Research

Outlook for the company

Bajaj Hindusthan is expanding its sugar capacities from 53,000 in season 2005/06 to 95,000 in season 2006/07 and also expanding distillery capacity from 320 KLPD to 640 KLPD. We expect sugar volumes to grow by about 79 % in Y/E Sep'07 and by 13 % in Y/E Sep'08. We do not see any problem of sugarcane availability in any of its nine plants. BHL being the largest sugar manufacturer in India would be entitled for Rs. 2 bn capital subsidy from the UP government during season 2005/06 to 2007/08. Out of Rs. 2 bn, Rs. 500 mn has already been received in season 2005/06.

Despite the robust sugar volumes growth of 79 % in Y/E Sep'07, we expect revenue to grow only by 72 % due to expected fall in sugar prices. After accounting for revenue subsidy benefit of about Rs. 1 bn, net profit would grow by 24 % in Y/E Sep'07.

Valuation

BHL's stock has underperformed Nifty by 34 % over last 12 months period. The stock is currently trading at a PE multiple of 14.8 x Y/E Sep'07 and 14.2 x Y/E Sep'08 earnings. EV/EBITDA multiple is 11.3 x Y/E Sep'07 and 10.3 x Y/E Sep'08. BHL had delivered PAT growth of 107 % in Y/E Sep'04 and 130 % in Y/E Sep'05, which led to sharp increase in valuations during the 2004-2006 period. Given the downturn in the sugar industry and uncertainty about domestic and world sugar prices, BHL would be able to see PAT growth of 24 % in Y/E Sep'07 and 5 % in Y/E Sep'08. We believe that stock is fully valued at these PE multiple leaving no upside from these levels. We downgrade our rating to **Marketperform**.

Table 7: Income Statement

(Rs.mn)

Y/E September	2003-04	2004-05	2005-06E	2006-07E	2007-08E
Gross Sales	5,253	8,820	15,301	26,425	30,008
Excise Duty	(278)	(452)	(932)	(1,694)	(1,914)
Net Sales	4,975	8,368	14,370	24,731	28,094
<i>Growth in Net Sales (%)</i>	18.2	68.2	71.7	72.1	13.6
Raw Material	2,801	4,609	9,688	18,971	21,706
(Increase)/Decrease in Stock in Trade	467	706	(176)	(1,329)	(1,181)
Net Raw Material	3,268	5,316	9,511	17,643	20,525
<i>% of Sales</i>	65.7	63.5	66.2	71.3	73.1
Employees Expenses	233	297	401	557	641
Other Manufacturing expenses	349	490	924	1,742	1,884
Selling and Administration Expenses	195	258	393	729	830
EBITDA	929	2,007	3,141	4,061	4,214
<i>EBITDA Margin(%)</i>	18.7	24.0	21.9	16.4	15.0
Depreciation	191	351	724	1,145	1,370
Interest Expenses/(Interest Income)	126	126	(152)	353	182
(Recurring Subsidy Benefit)	0	0	(342)	(1,061)	(1,130)
Other Non Operating (Income) / Expenses	(167)	(174)	(112)	(150)	(150)
Profit before Extraordinary Items and Tax	779	1,705	3,022	3,774	3,943
Profit Before Tax	779	1,705	3,022	3,774	3,943
<i>Pre-Tax Margin (%)</i>	15.7	20.4	21.0	15.3	14.0
Total Tax	169	301	926	1,157	1,209
----- Current Tax	29	272	352	440	460
----- Deferred Tax Liability	140	29	574	717	749
Effective Tax Rate (%)	21.6	17.7	30.7	30.7	30.7
Net Profit/ Adjusted Profit	610	1,404	2,096	2,617	2,734
<i>Growth in PAT (%)</i>	107.5	130.1	49.3	24.9	4.5
Profit Margin (%)	12.3	16.8	14.6	10.6	9.7

Source: Company, SBICAP Research

Table 8: Balance Sheet

(Rs.mn)

Y/E September	2003-04	2004-05	2005-06E	2006-07E	2007-08E
Share Capital	87	116	141	141	141
Reserves	1,290	6,026	17,114	20,920	23,773
Total Stakeholders equity	1,377	6,142	17,255	21,060	23,914
FCCBs outstanding	0	963	5,268	5,268	5,268
Other loan Fund	3,222	4,138	1,138	4,638	2,138
Deferred Tax Liability	424	453	1,027	1,744	2,493
Total Capital Employed	5,023	11,696	24,688	32,710	33,813
Gross Block	4,083	6,552	13,140	24,786	27,386
Accumulated Depreciation	1,637	1,989	2,713	3,858	5,228
Net Block	2,447	4,563	10,427	20,928	22,157
Capital WIP	1,786	6,234	8,734	1,950	263
Total Fixed Assets	4,233	10,797	19,161	22,878	22,420
Investments	1	51	4,082	7,582	7,582
Cash and Bank	40	58	343	92	34
Inventories	774	555	732	2,061	3,242
Debtors	278	179	718	1,237	1,405
Other Loans and Advances	404	1,030	822	750	1,250
Total Current Assets and Loans & Advances	1,496	1,823	2,616	4,139	5,930
Current Liabilities	657	550	712	1,315	1,520
Provisions	50	425	460	574	600
Net Current Assets	790	848	1,444	2,250	3,811
Total Assets	5,024	11,696	24,688	32,710	33,813

Source: Company, SBICAP Research

Table 9: Cash Flow Statement

(Rs.mm)

Y/E September	2003-04	2004-05	2005-06E	2006-07E	2007-08E
Cash Flow From Operating Activity:					
Profit Before Tax	778	1,704	3,021	3,773	3,942
Depreciation	191	351	724	1,145	1,370
Interest Expenses/ (Interest Income)	126	126	(152)	353	182
Non-Cash Charges	(3)	(19)	0	0	0
Operating Profit Before Working Capital Change	1,093	2,162	3,593	5,271	5,494
Working Capital Adjustment	971	(184)	(311)	(1,557)	(3,441)
Cash Generated from Operation	2,064	1,978	3,282	3,714	2,053
Direct Tax Paid	80	135	352	440	460
Cash generated from Operations	1,984	1,843	2,930	3,274	1,593
Cash Flow From Investing Activities:					
Capex	(2,529)	(6,917)	(9,088)	(4,861)	(913)
Investment (incl marketable securities)	13	(50)	(4,031)	(3,500)	0
Interest Income/Dividend Income	7	21	249	42	0
Net Cash Used in Investing	(2,510)	(6,945)	(12,870)	(8,320)	(913)
Cash Flow From Financing Activities:					
Proceeds from Share Capital	0	3,429	8,625	0	0
Capital Subsidy Received	0	0	500	1,823	2,083
Borrowings/(Repayment) (incl. FCCBs)	1,423	1,879	1,305	3,500	(2,500)
Interest Paid	(133)	(147)	(97)	(394)	(182)
Dividend Paid	(30)	(40)	(107)	(134)	(140)
Net Cash from Financing	1,261	5,121	10,225	4,795	(739)
Net Cash Increase/(Decrease) in Cash	735	19	285	(251)	(58)
Free Cash Flow to Firm	(545)	(5,073)	(6,158)	(1,587)	681

Source: Company, SBICAP Research

Table 10: Ratio Analysis

Y/E September	2003-04	2004-05	2005-06E	2006-07E	2007-08E
Margins Ratios(%)					
EBITDA Margin	18.7	24.0	21.9	16.4	15.0
Pre-Tax Margin	15.7	20.4	21.0	15.3	14.0
Profit After Tax Margin	12.3	16.8	14.6	10.6	9.7
Growth Ratios(%)					
Net Sales	18.2	68.2	71.7	72.1	13.6
EBITDA	91.4	116.1	56.5	29.3	3.8
Net Profit	107.4	130.1	49.3	24.9	4.5
Returns Ratios(%)					
Return on Equity	26.9	47.0	37.3	17.9	13.7
Return on Capital Employed	22.3	24.0	17.3	14.1	12.7
Per Share (Rs.)					
Adj. Earnings-Basic	7.0	12.1	14.9	18.6	19.4
Adj. Earnings-Diluted	7.0	12.1	13.8	17.2	18.0
Book Value	15.8	52.8	122.5	149.5	169.7
Dividend	0.4	0.5	0.7	0.8	0.9
Cash Genrated From Operations	18.0	13.5	20.5	26.0	24.1
Free Cash Flow to Firm	(6.2)	(43.6)	(43.7)	(11.3)	4.8
Solvency Ratio(X)					
Debt-equity	2.3	0.8	0.4	0.5	0.3
Interest Coverage	5.5	11.3	25.0	7.4	15.6
Valuation Parameters(X)					
P/E- Fully diluted(Assuming FCCBS converted fully)	36.5	21.1	18.5	14.8	14.2
P/BV	16.2	4.8	2.1	1.7	1.5
EV/EBITDA	27.4	17.3	13.4	11.3	10.3
EV/Sales	5.1	4.1	2.9	1.8	1.5
EV/Tonnes (Rs.)	79,679	74,484	56,791	33,992	27,993
Dividend Yield(%)	0.12	0.16	0.20	0.26	0.33

Source: Company, SBICAP Research

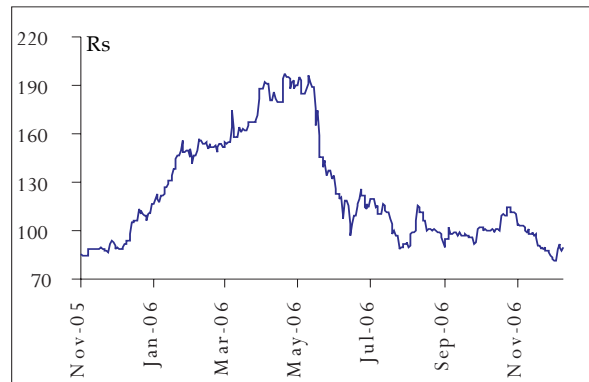
CMP Rs. 90

BALRAMPUR CHINI

MARKETPERFORM

Stock Info

	Marketperform
Previous Rating	
Face Value	1
Share Outstanding (mn.)	248.2
Market Cap (Rs bn / US\$ mn)	22.3/495.2
52 Weeks High/Low (Rs)	202/82
Nifty	3,962
Bloomberg Code	BRCM.IN
Reuters Code	BACH.BO
Year End	September

**Table 11: Earning revision**

We are revising our earning estimates for Balrampur Chini for Y/E Sep'07 and Y/E Sep'08.

Rs mn	Y/E Sep'07E			Y/E Sep'08E		
	Old	Revised	% Change	Old	Revised	% Change
Net Sales	17,907	16,509	(7.8)	23,254	20,386	(12.3)
Adj. Profit	2,541	1,782	(29.9)	3,158	1,843	(41.6)

Source: SBICAP Research

Outlook for the company

BCML has its areas of operation in Eastern and Central part of UP. These areas witness less competition from alternative sweeteners. Therefore we expect BCML to fully utilise all its milling facilities for Season 2006/07 and 2007/08. However, the company is expected to face stiff competition for sugarcane in its proposed two Greenfield plants in Lakhimpur district of central UP from Bajaj Hindusthan's existing plants of Gola and Palia in season 2007/08.

We expect BCML's sugar volumes to grow by 36 % in Y/E Sep'07 and by 24 % in Y/E Sep'08. Key risk to our earning assumption is pending decision of the Supreme Court on the status of its proposed two plants. If the decision goes against BCML then our earning estimates will also get affected accordingly.

Valuation

BCML's stock has underperformed Nifty by 65 % over last 12 months period. The stock is currently trading at a PE multiple of 12.5 x Y/E Sep'07 and 12.1 x Y/E Sep'08 earnings. EV/EBITDA multiple is 9.5 x Y/E Sep'07 and 8.4 x Y/E Sep'08. There is a slowdown in earnings of BCML from PAT growth of 105 % in Y/E Mar'04, 135 % in Y/E Mar'05 to expected fall of 8 % in Y/E Sep'07 and 3 % growth in Y/E Mar'08. We believe that the stock is fully valued at these PE multiples and there is no further upside from these levels. We maintain our **Marketperform** rating.

Table 12: Income Statement

(Rs.mn)

Y/E	Mar-04	Mar-05	Sep-06\$	Sep-07E	Sep-08E
Gross Sales	8,023	9,303	19,898	17,570	21,710
Excise Duty	(1,029)	(1,169)	(914)	(1,061)	(1,324)
Net Sales	6,994	8,133	18,984	16,509	20,386
<i>Growth in Net Sales #(%)</i>	29.9	16.3	55.6	30.4	23.5
Raw Material	5,494	4,686	9,378	10,789	14,415
(Increase)/Decrease in Stock in Trade	(1,097)	(321)	2,812	131	(577)
Net Raw Material	4,397	4,365	12,191	10,921	13,839
<i>% of Sales</i>	62.9	53.7	64.2	66.1	67.9
Employees Expenses	351	350	666	708	885
Other Manufacturing expenses	832	792	1,130	1,471	1,880
Selling and Administration Expenses	170	205	400	404	520
EBITDA	1,242	2,421	4,597	3,004	3,261
<i>EBITDA Margin (%)</i>	17.	29.8	24.2	18.2	16.0
Depreciation	302	373	671	704	951
Interest Expenses/(Interest Income)	198	189	334	242	381
(Recurring Subsidy Benefit)	0	0	0	(190)	(397)
Other Non Operating (Income) / Expenses	(51)	(3)	(57)	(28)	(28)
Profit before Extraordinary Items and Tax	793	1,862	3,649	2,276	2,354
Extra Ordinary Expenses / (Income)	0	223	0	0	0
Profit Before Tax	793	1,639	3,649	2,276	2,354
<i>Pre-Tax Margin (%)</i>	11.3	20.2	19.2	13.8	11.5
Total Tax	189	389	733	494	511
---Current Tax	61	215	549	265	275
---Deferred Tax	128	174	175	229	236
<i>Effective Tax Rate (%)</i>	23.9	23.7	20.1	21.7	21.7
Net Profit	603	1,250	2,916	1,782	1,843
Adjusted Profit	603	1,420	2,916	1,782	1,843
<i>Growth in PAT #(%)</i>	105	135	36.9	(8.3)	3.4
Profit Margin (%)	8.6	17.5	15.4	10.8	9.0

\$ Period of 18 months , Company changed its financial year from March end to September end

Growth has been adjusted for 12 months period

Source: Company, SBICAP Research

Table 13: Balance Sheet

(Rs.mn)

Y/E	Mar-04	Mar-05	Sep-06\$	Sep-07E	Sep-08E
Share Capital	190	232	248	248	248
Reserves	2,564	4,686	8,777	10,781	11,688
Total Stakeholders equity	2,753	4,918	9,025	11,029	11,936
Loan Fund	5,338	3,864	3,363	6,363	5,363
Deferred Tax Liability	844	1,017	1,193	1,421	1,658
Total Capital Employed	8,935	9,799	13,581	18,813	18,956
Gross Block	7,445	7,748	11,705	15,905	21,380
Accumulated Depreciation	2,003	2,370	2,965	3,669	4,620
Net Block	5,441	5,378	8,740	12,236	16,760
Capital WIP	19	156	3,360	4,838	0
Total Fixed Assets	5,460	5,534	12,100	17,073	16,760
Investments	10	453	250	250	250
Cash and Bank	53	162	267	196	144
Inventories	4,280	4,685	2,444	2,312	2,889
Debtors	219	305	791	688	849
Other Loans and Advances	602	1,113	1,600	1,000	1,000
Total Current Assets and Loans & Advances	5,154	6,265	5,102	4,196	4,883
Current Liabilities	1,238	1,635	2,331	1,831	2,031
Provisions	451	832	1,539	875	905
Net Current Assets	3,465	3,798	1,231	1,490	1,946
Miscl. Expenditure	1	15	0	0	0
Total Assets	8,935	9,799	13,581	18,813	18,956

\$ Period of 18 months , Company changed its financial year from March end to September end .

Source: Company, SBICAP Research

Table 14: Cash Flow Statement

(Rs.mn)

Y/E	Mar-04	Mar-05	Sep-06\$	Sep-07E	Sep-08E
Cash Flow From Operating Activity:					
Profit Before Tax	793	1,862	3,649	2,276	2,354
Depreciation	302	373	671	704	951
Interest Expenses/ (Interest Income)	198	189	334	242	381
Non-Cash Charges	3	30	(3)	(3)	(3)
Operating Profit Before W C Change	1,296	2,455	4,651	3,219	3,683
Working Capital Adjustment	(1,198)	(345)	2,603	(330)	(1,339)
Cash Generated from Operation	98	2,109	7,253	2,889	2,344
Direct Tax Paid	(60)	(320)	(549)	(265)	(275)
Extra Ordinary Items	0	(610)	0	0	0
Cash generated from Operations	38	1,179	6,704	2,623	2,070
Cash Flow From Investing Activities:					
Capex	(1,771)	(466)	(7,161)	(5,678)	(638)
Investment	0	(450)	203	0	0
Interest Income/Dividend Income	7	5	14	14	24
Net Cash Used in Investing	(1,763)	(911)	(6,944)	(5,664)	(613)
Cash Flow From Financing Activities:					
Proceeds from Share Capital	0	1,704	2,182	0	0
Capital Subsidy Received	0	0	0	831	525
Borrowings/(Repayment)	2,047	(1,474)	(501)	3,000	(1,000)
Interest Paid	(172)	(175)	(345)	(252)	(402)
Dividend Paid	(118)	(215)	(990)	(610)	(631)
Net Cash from Financing	1,757	(160)	346	2,969	(1,508)
Net Cash Increase/(Decrease) in Cash	32	108	106	(72)	(52)
Free Cash Flow to Firm	(1,732)	713	(457)	(3,054)	1,432

Source: Company, SBICAP Research

Table 15: Ratio Analysis

Y/E	Mar-04	Mar-05	Sep-06\$	Sep-07E	Sep-08E
Margins Ratios(%)					
EBITDA Margin	17.8	29.8	24.2	18.2	16.0
Pre-Tax Margin	11.3	20.2	19.2	13.8	11.5
Profit After Tax Margin	8.6	17.5	15.4	10.8	9.0
Growth Ratios(%)#					
Net Sales	29.9	16.3	55.6	30.4	23.5
EBITDA	75.4	95.0	89.8	(34.6)	8.5
Net Profit	105.0	135.4	36.9	(8.3)	3.4
Returns Ratios(%)					
Return on Equity	23.6	37.0	41.8	17.8	16.1
Return on Capital Employed	16.2	25.8	39.3	18.5	17.3
Per Share (X)					
Adj. Earnings	3.2	6.1	11.7	7.2	7.4
Book Value	14.5	21.2	36.4	44.4	48.1
Dividend	1.0	1.6	3.5	2.2	2.2
Cash Generated From Operations	0.5	9.1	28.6	11.9	12.7
Free Cash Flow	(9.1)	3.1	(1.8)	(12.3)	5.8
Solvency Ratio (X)					
Debt-equity	1.9	0.8	0.4	0.6	0.4
Interest Coverage	4.7	10.7	11.4	9.1	5.7
Valuation Parameters(X)					
P/E	28.2	14.7	7.6	12.5	12.1
P/BV	6.2	4.2	2.5	2.0	1.9
EV/EBITDA	18.0	10.1	5.5	9.5	8.4
EV/Sales	3.2	3.0	1.3	1.7	1.3
EV/Tonnes (Rs.)	41,079	62,758	35,306	34,152	25,952
Dividend Yield (%)	1.1	1.8	3.9	2.4	2.5

\$ Period of 18 months, Company changed its financial year from March end to September end

Growth has been adjusted for 12 months period

Source: Company, SBICAP Research

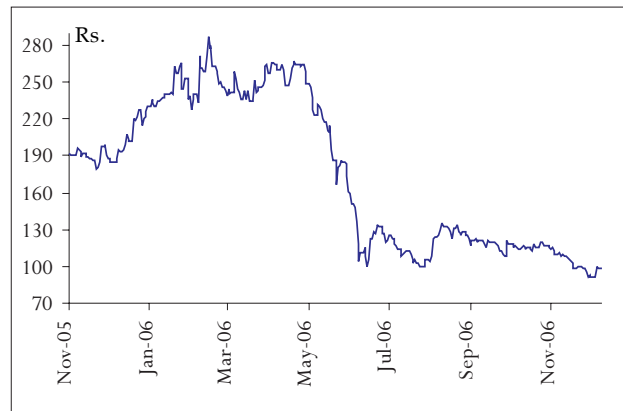
CMP Rs. 98

DWARIKESH SUGAR

UNDERPERFORM

Stock Info

Previous Rating	Marketperform
Face Value	10
Share Outstanding (mn.)	15.6
Market Cap (Rs bn / US\$ mn)	1.5/34
52 Weeks High/Low (Rs)	308/85
Nifty	3,962
Bloomberg Code	DSIL.IN
Reuters Code	DWAR.NS
Year End	September

**Table 16: Earning revision**

We are revising our earning estimates for Dwarikesh Sugar for Y/E Mar'07 and Y/E Mar'08.

Rs mn	Y/E Sep'07E			Y/E Sep'08E		
	Old	Revised	% Change	Old	Revised	% Change
Net Sales	3,601	3,499	(2.8)	5,921	5,472	(7.6)
Net Profit	342	205	(39.9)	489	147	(70.0)

Source: SBICAP Research

Outlook for the company

Dwarikesh Sugar will expand its sugar capacities in season 2007/08 by putting a third green field plant in Central UP. DSIL's second plant which went operational in season 2005/06 could not operate at full capacity due to some technical error. We do not expect any such problem in season 2006/07. We expect DSIL's sugar volumes to grow by 70 % in Y/E Sep'07 and by 48 % in Y/E Sep'08.

DSIL's operating margins are expected to fall from 18.8 % in Y/E Sep'06 to 14.5 % in Y/E Sep'07 and 13.7 % in Y/E Sep'08. Fall in margin is due to fall in sugar prices and increase in raw material to sales ratio from 69.1 % in Y/E Sep'06 to 72.5 % and 74.4 % in Y/E Sep'07 and '08 respectively. We expect DSIL's net profit to fall by 1 % in Y/E Sep'07 and by 29 % in Y/E Sep'08. This fall in net profit is significant as compared to peers due to absence of capital and revenue subsidy from the UP Government.

Valuation

DSIL's stock has underperformed the Nifty by 116 % over last 12 months period. Underperformance is due to overall bearish sentiments in sugar sector and poor performance of the company due to technical error in its second plant in Y/E Sep'06. The stock is currently trading at a PE multiple of 7.5 x Y/E Sep'07 and 10.5 x Y/E Sep'08 earnings. EV/EBITDA multiple is 9.6 x Y/E Sep'07 and 7.3 x Y/E Sep'08. We do not expect profitability growth in next years and believe that the stock is expensive at these PE multiples. There is further downside from these levels. We downgrade our rating to **Underperform**.

Table 17: Income Statement

(Rs.mn)

Y/E September	2003-04	2004-05	2005-06E	2006-07E	2007-08E
Gross Sales	1,531	1,642	2,482	3,741	5,829
Excise Duty	(100)	(94)	(136)	(242)	(358)
Net Sales	1,431	1,549	2,347	3,499	5,472
<i>Growth in Net Sales (%)</i>	80.2	8.2	51.5	49.1	56.4
Raw Material	737	892	1,511	2,749	4,263
(Increase)/Decrease in Stock in Trade	233	(32)	110	(212)	(189)
Net Raw Material	970	859	1,621	2,537	4,074
<i>% of Sales</i>	67.8	55.5	69.1	72.5	74.5
Employees Expenses	63	80	121	98	118
Other Manufacturing expenses	75	90	96	216	316
Selling and Administration Expenses	36	51	67	140	215
EBITDA	287	467	441	507	747
<i>EBITDA Margin (%)</i>	20.1	30.1	18.8	14.5	13.7
Depreciation	46	55	122	142	280
Interest Expenses	70	59	65	109	293
Other Non Operating (Income) / Expenses	(1)	(2)	(14)	(22)	(24)
Profit before Extraordinary Items and Tax	172	354	268	279	197
Extra Ordinary Expenses / (Income)	(63)	(2)	0	0	0
Profit Before Tax	109	352	268	279	197
<i>Pre-Tax Margin (%)</i>	7.6	22.7	11.4	8.0	3.6
Total Tax	12	86	61	74	51
----- Current Tax	9	31	25	33	23
----- Deferred Tax	3	55	34	41	28
<i>Effective Tax Rate (%)</i>	10.8	24.5	23.7	26.4	25.7
Net Profit For The Year	97	265	208	205	147
Adjusted Profit	153	267	208	205	147
<i>Growth in PAT (%)</i>	677.3	74.4	(22.2)	(1.2)	(28.6)
Profit Margin (%)	10.7	17.2	8.9	5.9	2.7

Source: Company, SBICAP Research

Table 18: Balance Sheet

Rs.mn)

Y/E September	2003-04	2004-05	2005-06E	2006-07E	2007-08E
Share Capital	76	126	156	156	156
Reserves	303	758	1,350	1,463	1,544
Total Stakeholders equity	379	884	1,506	1,619	1,699
Preference Share	11	11	11	11	11
Loan Fund	588	971	1,145	3,395	3,945
Deferred Tax Liability	67	123	157	198	226
Total Capital Employed	1,045	1,989	2,819	5,223	5,882
Gross Block	912	1,183	2,733	2,798	6,398
Accumulated Depreciation	301	354	470	611	892
Net Block	611	828	2,263	2,186	5,506
Capital WIP	142	838	360	2,700	0
Total Fixed Assets	753	1,667	2,623	4,886	5,506
Investments	3	3	3	3	3
Cash and Bank	2	6	13	42	12
Inventories	388	471	466	677	866
Receivables	1	8	7	10	15
Other Loans and Advances	40	124	25	25	25
Total Current Assets and Loans & Advances	431	609	510	754	919
Current Liabilities	101	150	184	281	446
Provisions	41	141	133	139	100
Net Current Assets	288	318	193	334	373
Total Assets	1,045	1,988	2,819	5,224	5,883

Source: Company, SBICAP Research

Table 19: Cash Flow Statement

(Rs.mn)

Y/E September	2003-04	2004-05	2005-06E	2006-07E	2007-08E
Cash Flow From Operating Activity:					
Profit Before Tax	109	352	268	279	197
Depreciation	46	55	122	142	280
Interest Expenses/ (Interest Income)	70	59	65	109	291
Non-Cash Charges	1	3	0	0	0
Operating Profit Before Working Capital Change	227	469	456	529	769
Working Capital Adjustment	295	(28)	140	(97)	(54)
Cash Generated from Operation	522	441	595	432	715
Direct Tax Paid	9	31	25	33	23
Cash generated from Operations	513	410	570	400	692
Cash Flow From Investing Activities:					
Capex	(141)	(967)	(1,072)	(2,405)	(900)
Investment	1	(0)	0	0	0
Net Cash Used in Investing	(141)	(967)	(1,072)	(2,405)	(900)
Cash Flow From Financing Activities:					
Proceeds from Equity	0	325	508	0	0
Preference Shares	(50)	0	0	0	0
Borrowings/(Repayment)	(224)	384	174	2,250	550
Interest Paid	(70)	(59)	(65)	(109)	(293)
Dividend Paid	(23)	(87)	(108)	(107)	(77)
Net Cash from Financing	(367)	562	509	2,034	180
Net Cash Increase/(Decrease) in Cash	5	5	7	29	(28)
Free Cash Flow to Firm	372	(557)	(502)	(2,005)	(208)

Source: Company, SBICAP Research

Table 20: Ratio Analysis

Y/E September	2003-04	2004-05	2005-06E	2006-07E	2007-08E
Margins Ratios(%)					
EBITDA Margin	20.1	30.1	18.8	14.5	13.7
Pre-Tax Margin	7.6	22.7	11.4	8.0	3.6
Profit After Tax Margin	10.7	17.2	8.9	5.9	2.7
Growth Ratios(%)					
Net Sales	80.2	8.2	51.5	49.1	56.4
EBITDA	91.1	62.4	(5.5)	15.0	47.2
Net Profit	677.3	74.4	(22.2)	(1.2)	(28.6)
Returns Ratios(%)					
Return on Equity	43.3	42.1	17.3	13.1	8.8
Return on Capital Employed	25.1	30.8	18.4	12.6	13.5
Per Share (X)					
Adj. Earnings	19.6	21.1	13.3	13.1	9.3
Book Value	50.1	70.3	96.7	104.0	109.2
Dividend	12.1	23.2	13.3	13.1	9.3
Cash Generated from Operation	68.5	32.9	44.8	27.7	37.7
Free Cash Flow	49.2	(44.4)	(32.2)	(128.8)	(13.4)
Solvency Ratio(X)					
Debt-equity	1.6	1.1	0.8	2.1	2.3
Interest Coverage	3.4	6.9	4.9	3.4	1.6
Valuation Parameters(X)					
P/E	8.1	4.2	7.4	7.5	10.5
P/BV	2.0	1.4	1.0	0.9	0.9
EV/EBITDA	4.6	4.7	6.0	9.6	7.3
EV/Sales	0.9	1.4	1.1	1.4	1.0
EV/Tonnes (Rs.)	17,008	26,187	24,379	22,561	17,322
Dividend Yield (%)	2.0	6.1	6.1	6.0	4.3

Source: Company, SBICAP Research

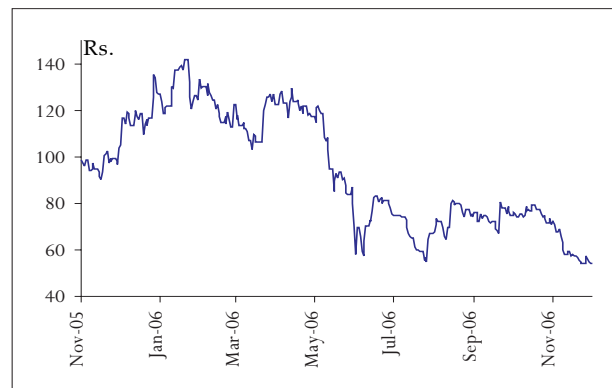
CMP Rs. 54

MAWANA SUGAR

SELL

Stock Info

Previous Rating	Marketperform
Face Value	10
Share Outstanding (mn.)	42.4
Market Cap (Rs bn / US\$ mn)	2.3/51.1
52 Weeks High/Low (Rs)	141/53
Nifty	3,962
Bloomberg Code	MSUG.IN
Reuters Code	MAWA.BO
Year End	September

**Table 21: Earning revision**

We are revising our earning estimates for Mawana Sugar for Y/E Mar'07 and Y/E Mar'08.

Rs mn	Y/E Sep'07E			Y/E Sep'08E		
	Old	Revised	% Change	Old	Revised	% Change
Net Sales	8,144	7,338	(9.9)	9,602	8,469	(11.8)
Adj. Profit	398	231	(42.0)	725	147	(79.7)

Source: SBICAP Research

Outlook for the company

Mawana Sugar was the worst hit sugar mill in season 2005/06 due to its stand alone operations. The company is now expanding into integrated mode in season 2006/07 with distillery as well as power. We do not see problem of sugarcane availability in this season in any of its three sugar plants which was there last season.

However, this integrated model would not help much in Y/E Sep'07 and '08 when there will be downturn in the sugar industry. We expect MSL's sugar volumes to grow by 52 % in Y/E Sep'07 and by 8 % in Y/E Sep'08. High sugar volume coupled with increase in operating margin on YoY basis will help MSL's bottom line to grow by 62 % in Y/E Sep'07. This growth is mainly a factor of low base effect due to its worst operating performance in Y/E Sep'06 and partially contribution from distillery and power business. We expect the MSL's sales growth to grow by of 45% and PAT by 62 % in Y/E Sep'07.

Valuation

MSL's stock has underperformed Nifty by 106 % over last 12 months period. Underperformance is due to overall bearish sentiments in sugar sector and poor performance of the company due to its stand alone operations in Y/E Sep'06. The stock is currently trading at a PE multiple of 10.0 x Y/E Sep'07 and 15.6 x Y/E Sep'08 earnings. EV/EBITDA multiple is 10.1 x Y/E Sep'07 and 9.7 x Y/E Sep'08. We believe that the stock is expensive at these PE multiples and there is downside from these levels. We downgrade our rating to **Sell**.

Table 22 : Income Statement

(Rs.mn)

Y/E September	2003-04	2004-05	2005-06E	2006-07E	2007-08E
Gross Sales	6,050	5,850	5,357	7,865	9,043
Excise Duty	(406)	(339)	(305)	(527)	(574)
Net Sales	5,644	5,511	5,052	7,338	8,469
Growth in Sales (%)	N/A	(2.4)	(8.3)	45.2	15.4
Raw Materials	3,201	3,282	3,673	5,944	6,571
(Increase)/Decrease in Stock	896	423	(47)	(845)	(542)
Net Raw Materials	4,098	3,705	3,626	5,098	6,029
% of Sales	72.6	67.2	71.8	69.5	71.2
Employees Cost	345	281	364	387	406
Other Manufacturing Cost	561	584	656	1,061	1,211
Selling and Administrative Expenses	63	59	85	105	118
EBITDA	577	882	321	687	704
EBITDA Margin (%)	10.2	16.0	6.4	9.4	8.3
Depreciation	132	89	136	282	396
Interest Expenses	291	142	69	287	325
(Recurring Subsidy Benefit)	0	0	0	(193)	(203)
Other Non-Operating Exp/(Income)	(127)	(75)	(99)	(32)	(32)
Profit Before Extraordinary Item and Tax	281	726	215	343	219
Extraordinary Expenses/(Income)	65	144	0	0	0
Profit Before Tax	215	582	215	343	219
Pre-Tax Margin (%)	3.8	10.6	4.3	4.7	2.6
Total Tax	113	70	73	112	71
---- Current Tax	17	54	50	38	25
----Deferred Tax	97	16	23	73	47
Effective Tax Rate (%)	52.5	12.0	34.0	32.7	32.7
Net Profit	102	512	142	231	147
Adjusted Profit	133	639	142	231	147
Growth in PAT (%)	N/A	379.2	(77.8)	62.4	(36.1)
Profit Margin (%)	2.4	11.6	2.8	3.1	1.7

Source: Company, SBICAP Research

Table 23: Balance Sheet

(Rs.mn)

Y/E September	2003-04	2004-05	2005-06E	2006-07E	2007-08E
Share Capital	395	424	424	424	424
Reserves	486	1,927	2,021	2,667	2,764
Total Stakeholders equity	881	2,352	2,445	3,091	3,189
Loan Fund	1,131	89	4,589	4,689	4,539
Deferred Tax Liability	59	75	98	171	218
Total Capital Employed	2,071	2,515	7,132	7,951	7,945
Gross Block	1,943	1,924	2,933	8,136	8,186
Accumulated Depreciation	882	950	1,074	1,356	1,752
Net Block	1,060	974	1,859	6,780	6,434
Capital WIP	26	219	4,709	0	0
Total Fixed Assets	1,086	1,193	6,568	6,780	6,434
Investments	6	381	1	1	1
Cash and Bank	122	311	253	81	25
Inventories	769	442	315	1,161	1,703
Debtors	109	222	153	222	257
Other Loans and Advances	317	378	250	250	100
Total Current Assets and Loans & Adv.	1,317	1,352	971	1,714	2,084
Current Liabilities	313	294	310	426	499
Provisions	31	118	98	117	75
Miscl. Expenditure	6	2	0	0	0
Net Current Assets	979	942	563	1,171	1,511
Total Assets	2,071	2,515	7,132	7,951	7,945

Source: Company, SBICAP Research

Table 24: Cash Flow Statement

(Rs.mn)

Y/E September	2003-04	2004-05	2005-06E	2006-07E	2007-08E
Cash Flow From Operating Activity:					
Profit Before Tax	215	582	215	343	219
Depreciation	132	89	136	282	396
Interest Expenses/ (Interest Income)	291	142	69	287	325
Non-Cash Charges	(60)	(31)	0	(2)	(2)
Operating Profit Before Working Capital Change	581	782	420	910	938
Working Capital Adjustment	709	253	688	(780)	(396)
Cash Generated from Operation	1,290	1,035	1,108	130	542
Direct Tax Paid	20	75	50	38	25
Cash generated from Operations	1,270	960	1,058	92	517
Cash Flow From Investing Activities:					
Capex	(16)	(235)	(5,499)	(494)	(50)
Investment	(84)	(356)	0	0	0
Interest Income	37	2	0	2	2
Net Cash Used in Investing	(63)	(589)	(5,499)	(492)	(48)
Cash Flow From Financing Activities:					
Proceeds from Share Capital	75	28	0	0	0
Borrowings/(Repayment)	(886)	(50)	4,500	100	(150)
Capital Subsidy Received	0	0	0	494	0
Interest Paid	(285)	(139)	(69)	(287)	(325)
Dividend Paid	0	(21)	(48)	(79)	(50)
Net Cash from Financing	(1,096)	(182)	4,383	229	(525)
Net Cash Increase/(Decrease) in Cash	111	189	(58)	(172)	(56)
Free Cash Flow to Firm	1,254	726	(4,441)	(402)	467

Source: Company, SBICAP Research

Table 25 : Ratio Analysis

Y/E September	2003-04	2004-05	2005-06E	2006-07E	2007-08E
Margins Ratios(%)					
EBITDA Margin	10.2	16.0	6.4	9.4	8.3
Pre-Tax Margin	3.8	10.6	4.3	4.7	2.6
PAT Margin	2.4	11.6	2.8	3.1	1.7
Growth Ratios(%)					
Net Sales	0.0	(2.4)	(8.3)	45.2	15.4
EBITDA	0.0	52.7	(63.6)	114.0	2.5
Net Profit	0.0	379.2	(77.8)	62.4	-36.1
Returns Ratios(%)					
Return on Equity	15.1	39.5	5.9	8.3	4.7
Return on Capital Employed	27.9	38.5	6.7	9.1	8.9
Per Share (X)					
Adj. Standalone Basic/Diluted Earnings	3.9	15.1	3.3	5.4	3.5
Book Value	25.9	55.4	57.6	72.9	75.2
Dividend	0.3	1.1	1.0	1.6	1.0
Cash Generated from Operations	35.4	22.6	16.7	1.7	13.2
Free Cash Flow	31.7	17.1	(104.7)	(9.5)	11.0
Solvency Ratio(X)					
Debt-equity	1.3	0.0	1.9	1.5	1.4
Interest Coverage	1.5	5.6	2.7	1.4	0.9
Valuation Parameters(X)					
P/E (Standalone)	13.9	3.6	16.3	10.0	15.7
P/BV	2.1	1.0	0.9	0.7	0.7
EV/EBITDA	4.9	2.4	20.7	10.1	9.7
EV/Sales	0.5	0.4	1.3	0.9	0.8
EV/Tonnes (Rs.)	8,876	7,482	24,371	14,944	14,199
Dividend Yield (%)	0.5	2.0	1.8	3.0	1.9

Source: Company, SBICAP Research

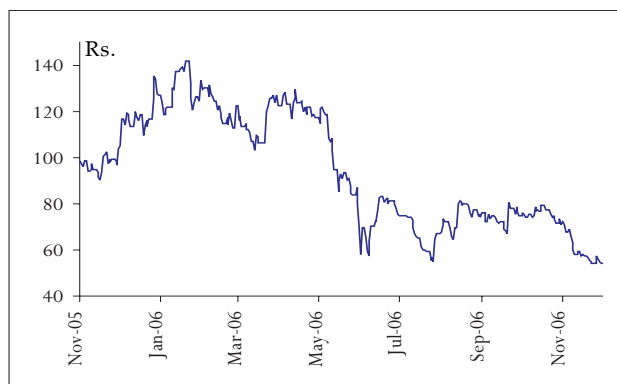
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SIMBHAOLI SUGAR

SELL

Stock Info

Previous Rating	Marketperform
Face Value	10
Share Outstanding (mn.)	19.9
Market Cap (Rs bn / US\$ mn)	1.4/30.7
52 Weeks High/Low (Rs)	173/65
Nifty	3,962
Bloomberg Code	SBSM.IN
Reuters Code	SHMB.NS
Year End	March

**Table 26: Earning revision**

We are revising our earning estimates for Simbhaoli Sugar for Y/E Mar'07 and Y/E Mar'08.

Rs mn	Y/E March'07E			Y/E March'08E		
	Old	Revised	% Change	Old	Revised	% Change
Net sales	5,435	4,999	(8.0)	6,556	5,908	(9.9)
Adj. Profit	268	157	(41.3)	410	160	(60.9)

Source: SBICAP Research

Outlook for the company

Simbhaoli is one of the most leveraged companies in our coverage with expected debt to equity ratio of 4.2 in Y/E Mar'07 and 2.3 in Y/E Mar'08. This high debt level makes SSML highly vulnerable in the down turn in the sugar cycle. We expect company to perform well on operating parameters due to good availability of sugarcane in its command area. The company will start its first year of operation in Brijnathpur plant in Season 2006/07. The entire expansion plan of sugar, distillery and power is on schedule.

We expect SSML's sugar volumes to grow by 35 % in Y/E Mar'07 and by 9 % in Y/E Mar'08. We expect revenue to grow by 16 % in Y/E Mar'07 and by 18.2 % in Y/E Mar'08. However, due to fall in operating margins from 14.3 % in Y/E Mar'06 to 12.4 % in Y/E Mar'07 and 10.9 % in Y/E Mar'08, we expect net profits to fall by 29 % in Y/E Mar'07 and almost flat in Y/E Mar'08.

Valuation

SSML's stock has underperformed Nifty by 85 % over last 12 months period. The stock is currently trading at a PE multiple of 12.8 x Y/E Mar'07 and 12.5 x Y/E Mar'08 earnings. EV/EBITDA multiple is 11.2 x Y/E Mar'07 and 8.9 x Y/E Mar'08. We believe that stock is expansive at these PE multiples and there is some downside from these levels. We downgrade our rating to **Sell**.

Table 27: Income Statement

(Rs.mn)

Y/E March	FY05	FY06	FY07E	FY08E	FY09E
Gross Sales	5,094	5,913	6,756	7,983	8,157
Excise Duty	(1,192)	(1,591)	(1,756)	(2,076)	(2,121)
Net Sales	3,902	4,322	4,999	5,908	6,036
Change (%)	70.3	10.8	15.7	18.2	2.2
Raw Material	2,201	3,069	3,614	4,064	4,285
(Increase)/Decrease in Stock in Trade	126	(277)	(370)	(14)	(98)
Net Raw Material	2,327	2,792	3,244	4,050	4,188
% of Sales	59.6	64.6	64.9	68.5	69.4
Employees Expenses	178	202	242	255	262
Other Manufacturing expenses	488	563	746	790	795
Selling and Administration Expenses	124	145	146	169	174
EBITDA	784	619	620	644	616
EBITDA Margin (%)	20.1	14.3	12.4	10.9	10.2
Depreciation	119	131	197	294	338
Interest Expenses	254	216	247	309	322
(Recurring Subsidy Benefit)	0	0	0	(130)	(130)
Other Non Operating (Income) / Expenses	(57)	(67)	(57)	(67)	(77)
Profit before Extraordinary Items and Tax	468	339	234	238	163
Extra Ordinary Expenses / (Income)	245	(112)	0	0	0
Profit Before Tax	222	451	234	238	163
Pre-Tax Margin (%)	5.7	10.4	4.7	4.0	2.7
Total Tax	105	155	76	78	53
- Current Tax	18	3	27	28	19
- Deferred Tax	87	155	49	50	34
Effective Tax Rate (%)	47.0	34.4	32.7	32.7	32.7
Net Profit	118	296	157	160	110
Adjusted Profit	248	222	157	160	110
Change (%)	(697.4)	(10.3)	(29.2)	1.9	(31.4)
Profit Margin (%)	6.4	5.1	3.1	2.7	1.8

Source: Company, SBICAP Research

Table 28: Balance Sheet

(Rs.mn)

Y/E March	FY05	FY06	FY07E	FY08E	FY09E
Share Capital	111	199	199	199	199
Preference Shares	81	81	81	81	38
Share Warrant	0	23	23	23	23
Reserves	368	972	1,125	1,701	1,389
Total Stakeholders equity	560	1,275	1,428	2,004	1,649
FCCBs	0	1,472	1,472	1,472	1,472
Other Loan Fund	2,484	2,607	4,157	2,957	3,107
Deferred Tax Liability	0	3	52	102	137
Total Capital Employed	3,045	5,357	7,110	6,536	6,364
Gross Block	2,690	3,018	5,421	7,214	7,364
Accumulated Depreciation	1,050	1,180	1,377	1,670	2,008
Net Block	1,640	1,838	4,044	5,544	5,356
Capital WIP	79	551	1,435	0	0
Total Fixed Assets	1,720	2,389	5,479	5,544	5,356
Investments	0	2	2	2	2
Deffered Tax Assets	131	0	0	0	0
Cash and Bank	30	1,221	166	182	216
Inventories	1,987	2,126	2,496	2,510	2,608
Debtors	122	464	294	311	335
Other Loans and Advances	181	391	200	200	200
Total Current Assets and Loans & Advances	2,321	4,202	3,156	3,203	3,359
Current Liabilities	1,102	1,119	1,447	2,132	2,297
Provisions	24	117	79	80	55
Net Current Assets	1,194	2,967	1,629	990	1,007
Total Assets	3,045	5,357	7,110	6,536	6,364

Source: Company, SBICAP Research

Table 29: Cash Flow Statement

(Rs.mm)

Y/E March	FY05	FY06	FY07E	FY08E	FY09E
Cash Flow From Operating Activity:					
Profit Before Tax	468	339	234	238	163
Depreciation	114	114	114	114	114
Interest Expenses/ (Interest Income)	254	224	254	316	329
Non-Cash Charges	6	(130)	0	0	0
Operating Profit Before Working Capital Change	841	547	601	668	606
Working Capital Adjustment	(493)	(351)	413	884	(188)
Cash Generated from Operation	348	196	1,014	1,552	418
Direct Tax Paid	3	0	27	28	19
Extra Ordinary Items	245	0	0	0	0
Cash generated from Operations	100	196	987	1,524	399
Cash Flow From Investing Activities:					
Capex	(101)	(794)	(3,287)	(359)	(150)
Investment	0	(2)	0	0	0
Interest Income	1	(8)	(7)	(7)	(7)
Net Cash Used in Investing	(100)	(803)	(3,294)	(366)	(157)
Cash Flow From Financing Activities:					
Proceeds from Share Capital	3	485	0	0	0
Proceeds from FCCBs	0	1,472	0	0	0
Proceeds From Warrants	0	23	(0)	0	0
Capital Subsidy Received	0	0	0	420	0
Borrowings/(Repayment)	192	123	1,550	(1,200)	150
Interest Paid	(194)	(216)	(247)	(309)	(322)
Dividend Paid	0	(89)	(52)	(53)	(36)
Net Cash from Financing	1	1,797	1,252	(1,142)	(208)
Net Cash Increase/(Decrease) in Cash	2	1,191	(1,055)	16	34
Free Cash Flow to Firm	(0)	(597)	(2,300)	1,165	249

Source: Company, SBICAP Research

Table 30: Ratio Analysis

Y/E March	FY05	FY06	FY07E	FY08E	FY09E
Margins Ratios(%)					
EBITDA Margin	20.1	14.3	12.4	10.9	10.2
Pre-Tax Margin	5.7	10.4	4.7	4.0	2.7
Profit After Tax Margin	6.4	5.1	3.1	2.7	1.8
Growth Ratios(%)					
Net Sales	70.3	10.8	15.7	18.2	2.2
EBITDA	278.2	(21.0)	0.2	3.8	(4.3)
Net Profit	(697.4)	(10.3)	(29.2)	1.9	(31.4)
Returns Ratios(%)					
Return on Equity	53.7	26.6	12.4	9.8	6.2
Return on Capital Employed	26.9	14.7	10.0	9.4	9.6
Per Share (X)					
Adj. Basic Earnings	22.3	11.2	7.9	8.1	5.5
Adj. Diluted Earnings	22.3	7.7	5.4	5.6	3.8
Book Value	43.1	60.0	67.7	96.7	81.0
Dividend	0.0	3.0	2.1	2.1	1.5
Cash Generated From Operations	9.0	4.1	35.3	65.0	31.6
Solvency Ratio(X)					
Debt-equity	5.2	3.4	4.2	2.3	2.8
Interest Coverage	2.6	2.3	1.7	1.1	0.9
Valuation Parameters(X)					
P/E (Fully Diluted)	3.1	9.0	12.8	12.5	18.3
P/BV	1.6	1.2	1.0	0.7	0.9
EV/EBITDA	4.2	7.0	11.2	8.9	9.4
EV/Sales	0.8	1.0	1.4	1.0	1.0
EV/Tonnes (Rs.)	19,101	21,950	25,654	19,713	19,964
Dividend Yield (%)	0.0	4.3	3.0	3.1	2.1

Source: Company, SBICAP Research

Key to investment Ratings: Guide to the expected return relative to market over the next 12 months. 1=Buy (expected to outperform the market by 15 or more percentage points); 2=Outperform (expected to outperform the market by 5-15 percentage points); 3=Marketperform (expected to perform in line with the market); 4=Underperform (expected to underperform the market) by 5-15 percentage points); 5=Sell (expected to underperform the market by 15 or more percentage points)

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