



Research



RESEARCH :: COMPANY :: OUDH SUGAR MILLS LTD

January 15th, 2010

BUY

Approx price = Rs 75
 Target price = Rs 120
 Estimated EPS (SY10E) = Rs 22
 Projected PE (SY10E) = 5.5-7
 Investment period = 12 mnths

STOCK INFO (TTM Basis)

Sector Sugar
 Market cap (Rs. Cr) 169
 Equity capital 22.05 crores
 Face value 10
 Book value 56.30
 EPS 11
 Cash EPS 25
 Dividend 15%
 Sales Growth 62%
 RONW 18%
 Debt to equity 6.07
 52 week H/L 85.75/29
 Avg Daily Vol.(2wk) 112000
 Sensex 17509
 BSE code 507260
 Promoter Holding 54.59%
 FII/MF (%) 0.29/7.81
 Management Chandra Shekhar Nopany
 Incorporation 1932
 Listed NSE/BSE

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COMPANY PROFILE

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

The Company Operates Through Following Divisions:-

SUGAR:

This division consists of manufacturing and selling of sugar, molasses and bagasse. Presently company has Four sugar manufacturing unit with aggregate crushing capacity of 28700 TCD:-

- ✓ Hargaon Sugar Mills, Hargaon, Dist Sitapur (U.P.) with a crushing capacity of about 10,000 tonnes of sugarcane per day.
- ✓ Rosa Sugar Works, Rosa, Dist. Shajahanpur (U.P.) situated in Uttar Pradesh with a crushing capacity of about 4200 tonnes of sugarcane per day.
- ✓ New Swadeshi Sugar Mills, Narkatiaganj, Dist West Champaran (Bihar) with a crushing capacity of about 7,500 tonnes of sugarcane per day.
- ✓ New India Sugar Mills, Hata. (U.P.) with a crushing capacity of about 7,000 tonnes of sugarcane per day commenced operations this year.

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

	2008-09					2007-2008				
	Hargaon	Rosa	Narkatiaganj	Hata	Total	Hargaon	Rosa	Narkatiaganj	Hata	Total
Sugarcane Crushed (lakh qtl)	71.67	29.55	45.16	1.45	147.8	122.1	45.61	69.39	-	237.1
Recovery%	9.34	8.59	9.02	8		10.59	9.85	8.83	-	
Sugarcane Produced (lakh qtl)	6.69	2.54	4.07	.12	13.42	12.93	4.49	6.12	-	23.54
Crushing Days	102	86	73	11		136	115	116	-	

DISTILLERY:

Company has following two distilleries:-

Hargaon facility with a capacity of 100 KLPD of Industrial Alcohol/ ethanol.

Narkatiaganj facility with a capacity of 60 KLPD of Industrial Alcohol/ ethanol.

Comparison Production of industrial alcohol including ethanol by company's Seohara unit during FY08 & FY09:-

	Hargaon	Narkatiaganj	Total	Hargaon	Narkatiaganj	Total
Average recovery %	21.03	23.02		22.37	23.48	
Alcohol produced (Lac Qtls)	131.11	102.15	233.26	165.47	80.02	245.49

CO-GENERATION:

This division, presently, operates through two units with aggregate capacity of 25 MW. This segment is involved generation and transmission of power.

- ✓ Hargaon Co-generation power plant with a capacity of 15 MW power.
- ✓ Narkatiaganj Co-generation power plant with a capacity of 10 MW power.

Company has setup New Co-generation plant at Hata, (U.P.) with a capacity of 35 MW.

Export of power to state grid by the company during the year ended June 30, 2009 is as follows:

Production (in lac of units)

	JUN'09			JUN'08		
	Hargaon	Narkatiaganj	Total	Hargaon	Narkatiaganj	Total
Power Exported	155.65	36.33	191.98	201.63	44.30	245.92

FERTILIZER:-

The company's Bio compost plant is located at Hargaon to produce organic fertilizer. This unit produces organic fertilizer which is marketed under the brand name "Oudh Shakti Jaivik Khad".

FOOD PROCESSING:-

Company's canning factory is situated at bamrauli near allahabad and markets its processed food products under the brand name of "MORTON".

RESULT ANALYSIS:

	TTM BASIS			QUARTERLY		
	Sep'09 (12mnths)	Sep'08 (12mnths)	Y-o-Y %	Sep'09	Sep'08	Y-o-Y %
Net Sales	597.27	368.62	62%	150.55	110.37	36%
Other Operating Income	2.12	1.53	39%	0.26	0.29	-10%
Total Income	600.08	378.82	58%	150.81	110.66	36%
Total Expenditure	481.53	309.07	56%	131.01	103.66	26%
PBIDT	118.55	69.75	70%	19.8	7	183%
Interest	50.4	43.45	16%	14.84	13.85	7%
PBDT	68.15	26.3	159%	4.96	-6.85	-172%
Depreciation	30.19	22.9	32%	9.85	5.97	65%
Tax	13.51	1.53	783%	-1.62	-4.28	-62%
Reported Profit After Tax	24.45	1.87	1207%	-3.27	-8.54	-62%

On TTM basis, company's Net revenue grew by 62% to Rs 597 crores for 12 months ended Sep'09 as against Rs 369 crores, while Operating profits registered a growth of 70% to Rs 119 crores. Company posted a PAT of Rs 24.45 crore during the period as against Rs 1.87 crores in the same period last year.

On quarterly basis company registered a Net Loss of Rs. 3.27 crores on sales of Rs 151 crores for quarter ended September'09, versus a loss of Rs. 8 crore in corresponding quarter of last financial year. Sugar sales increased by 34% on y-o-y basis to Rs 133.35 crores against Rs 99.68 crores. Historically September quarter has been a weak quarter for the company on account of lower Sales and high fixed costs (Depreciation and Interests costs contributed 19% to the total expenses, which is unusually high for this business).

EXCERPTS FROM NEWS REPORT

World Sugar Market

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

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

As a result of Demand-Supply imbalance, many countries are seen importing sugar. India, importing sugar for a second year in row, may need to buy at least 7 million tons this season. China, the biggest consumer after India, may have a deficit of 3.3 million tons this year after drought and cold weather cut yields. Pakistan, Asia's third-biggest sugar consumer, may buy 700,000 tons of white sugar by June as a shortage pushes prices to near-record levels. Phillipines may import 100,000 metric tons of Raw sugar

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

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

Source: ISO quarterly market outlook, September, , 2009

Global Prices

In New York, ICE March-delivery raw sugar fell 2.8 as on per cent trading at 26.75 cents per pound, the first time a front-month contract has traded above 25 cents since early 1981. In London, Liffe March-delivery white sugar fell 1.3 percent to \$717 a tonne. White sugar prices have fallen the most since 21 december 2009 . Global inventory are likely to touch historic lows in 2010 by next year.

Indian Sugar Industry

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

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

Indian Sugar Industry peer comparison:-

	Dwarikesh	Dhampur	Kesar Enterprise	Upper Ganges	Oudh Sugar
Crushing Capacity	21500	39500	7200	18000	28700
Production	2,022,099	3,605,805	523,640	1,203,922	1,405,576
Sugar Sales	437.0	930.1	140.3	401.4	489.7
Total Sales	482.0	1127.2	262.0	479.1	583.2
Equity	32.4	61.6	8.8	11.6	22.1
Reserves	106.4	384.9	35.2	125.6	115.7
Total Assests	729.2	1354.1	208.9	556.7	830.8
Total Sales/ Total Assest	0.6	0.7	0.7	0.7	0.6
Market Cap	192	753	75	119	169
Sugar Sales/ Mkt Cap	2.28	1.24	1.87	3.37	2.90
Total Sales / Mkt Cap	2.51	1.50	3.49	4.03	3.45

Source: Fairwealth Research

 **Prices**

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

 **Exports / Imports**

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

Widening Of Global Sugar Deficit Forecast

Says ISO (updated – 2 Sep '09)

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

Indian Sugar Equation (in lack tonnes)

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

* Estimated

Sugar Jumps In India On Supply Concern, Global Rally

By Bloomberg (7th jan'10)

Sugar prices in India, the world's biggest consumer, advanced for a sixth day to the highest in more than four years on concern supply won't match demand and after global prices rallied. Immediate-delivery price at Vashi in Mumbai, the country's biggest wholesale market for the commodity, gained 3.5 percent to 3,869.2 rupees (\$83.6) per 100 kilograms, the highest level since at least July 25, 2005, according to data on the Bloomberg.

Sugar in New York has more than doubled in the past year, reaching the highest in almost 29 years yesterday, as adverse weather damaged crops in Brazil and India, the top producers. India is buying sugar for a second year after the weakest monsoon since 1972 worsened a supply deficit. "The gains in Vashi signal one thing: there's a stock crunch situation in India and that prices are expected to remain firm for at least one year," Amol Tilak, an analyst at Mumbai-based Kotak Commodity Services Ltd., said by phone. Sugar in Mumbai is "priced to bridge the gap between the imported price and the domestic price." Production in Uttar Pradesh, India's second-biggest sugar producer, declined 13 percent to 1.57 million metric tons in the Oct. 1-Dec. 31 period after a sugar cane-price dispute delayed the start to the 2010-11 season, Shyamal Gupta, secretary of the Uttar Pradesh Sugar Mills Association, said by phone today.

Sugar Prices To Stay High, May Even Rise After March

By Hindu business line (1st Dec' 09)

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

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

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

CUMULATIVE RESULTS: OUDH SUGAR MILLS LTD (Rs crores)

	2008-09	2007-08	2006-07	2005-06	2004-05
Gross revenue	583.24	354.01	468.37	528.9	376.63
Profit before Interest , tax and depreciation	142.49	84.36	9.03	105.28	59.03
less: Interest/ Finance charges	86.14	68.42	28.19	19.15	28.31
Profit before tax and Depreciation	56.35	15.94	-19.16	86.13	30.72
less: Tax	10.86	-1.85	-12.55	25.16	7.05
Profit After Tax and before Depreciation	45.49	17.79	-6.61	60.97	23.67
Add: Deferred Revenue Expenditure	0	0	0	0	0
Cash Accruals	45.49	17.79	-6.61	60.97	23.67

BALANCE SHEET: OUDH SUGAR MILLS LTD (Rs crores)

	2008-09	2007-08	2006-07	2005-06	2004-05
Networth	137.7	100.83	106.03	133.29	97.56
Loans- term	600.08	591.26	300.54	174.6	247.36
Loans - working capital	92.97	164.49	110.79	53.32	18.47
Deferred tax liability	-6.3	4.32	1.82	-11.04	13.75
TOTAL	837.05	852.26	515.54	372.25	349.64
Net block including WIP	687.69	594.45	419.14	231.65	181.49
Investments	10.79	10.79	10.79	10.79	10.79
Net working capital	138.57	247.02	85.61	129.81	157.36
Deferred revenue expenditure	0	0	0	0	0
TOTAL	837.05	852.26	515.54	372.25	349.64

Why to invest in shares of Oudh Sugar Mills Limited?

- 1) **Sector:**
 - a) Prices at 26.75 cents/pound are ruling at 28 year high up by more than 80% this year but lower than their all time high of 66 cents/pounds.
 - b) Sugar is only commodity which is a combination of 3 in 1 industry, namely FMCG, Power and Chemical.
 - c) Supply is diminishing due to draught and wrong government policies in India. Demand supply mismatch stands at record high 7-10 million tonne per year.
 - d) Regular increase in demand year after year thereby putting a pressure on supply, resulting in adjustment of sugar prices.
 - e) Little scope for increasing supplies in next one year.

2) **Company:** Growing with vision

- a) Under the leadership of KK Birla Group Company, the business possesses huge management expertise.
- b) New plant at Hata which was streamlined last year with a crushing capacity of 7000 TCD will supply power from co-generation plant of 35 MW capacity making company independent in terms of power
- c) Strong vision for the future.

3) **Fundamentals:**

- a) Company's gross revenue on TTM basis grew by 59% to Rs 479 crores in 12 months ended Sep FY10 as against Rs 341 crores in the same period last year,
- b) Company reported PAT of Rs 24.5crores on TTM basis (Sep'FY10) as against the profit of Rs 2 crores previous year (Sep FY09), massive growth of 1207%.
- c) Very strong cash inflow of Rs 25 per share on TTM basis. We expect even higher cash flows over next two years which will help company improve profitability.

END

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