

December 16, 2009

| | Accumulate |
|----------------|------------|
| Rating | |
| Price | Rs207 |
| Target Price | Rs215 |
| Implied Upside | 4.0% |
| Sensex | 16,913 |

(Prices as on December 16, 2009)

Trading Data

| | |
|----------------------------|---------|
| Market Cap. (Rs bn) | 39.6 |
| Shares o/s (m) | 191.0 |
| Free Float | 62.9% |
| 3M Avg. Daily Vol ('000) | 8,346.3 |
| 3M Avg. Daily Value (Rs m) | 1,744.2 |

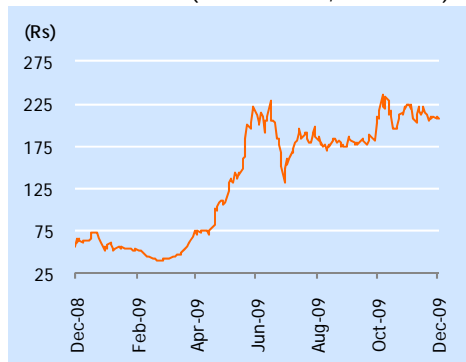
Major Shareholders

| | |
|-----------------|-------|
| Promoters | 37.1% |
| Foreign | 17.0% |
| Domestic Inst. | 13.2% |
| Public & Others | 32.7% |

Stock Performance

| (%) | 1M | 6M | 12M |
|----------|-------|--------|-------|
| Absolute | (7.1) | (2.7) | 210.8 |
| Relative | (6.4) | (15.8) | 141.3 |

Price Performance (RIC: BJHN.BO, BB: BJH IN)



Source: Bloomberg

Bajaj Hindusthan

Result below expectation

- Revenue below expectation:** Net sales of Bajaj Hindusthan (BJH) for Q4FY09 was Rs4.15bn against Rs4.6bn in Q4FY08 (we expected Rs4.5bn). Amount of sugar sold in Q4FY09 was 0.14m tonnes at an average realisation of Rs25.5/kg, against 0.23m tonne in Q4FY08 at an average realisation of Rs16.5/Kg (we expected 0.16m tonne at average realisation of Rs27/kg). Amount of Alcohol sale for Q4FY09 was 8.39m litres at an average realisation of Rs26/litre against 17.9m litres at an average realisation of Rs23.2/litre in Q4FY08 (we expected 7m litres at an average realisation of Rs33/litre). During the quarter, BJH sold only 0.37m units of power due to low availability of bagasse at an average realisation of Rs3.09/unit against Rs3.4/unit in Q4FY08. UP government has increased power tariff to Rs4.0/unit effective October 2009. BJH expects to convert the existing cogeneration capacity into dual fuel boiler base with nominal capex to generate additional saleable power of 100m units.
- Margins below expectation:** BJH's operating margin for Q4FY09 is 22.5% against 7.3% in Q4FY08 (we expected operating margin of 32.7%). The deviation has been mainly due to lower-than-expected average realisation of sugar and higher-than-expected raw material cost. During the quarter, interest charge was significantly lower at Rs261m as compared to Rs590m due to payment of debt of Rs7bn. Tax paid has been Rs337m against tax write-off Rs441m in Q4FY08 (we expected Rs139m). Net profit (on adjusting for forex gain) for the quarter is Rs273m against a loss of Rs161m for Q4FY08.
- Valuation:** Even though the result for the quarter has been below our expectation, we believe that BJH would be able to sell 1.4m tonne of sugar, 74m litres of alcohol and 202m units of power for FY10. An increase in the sale of power on account of both, volume as well as tariff, is expected to enhance profitability of the company. With buffer stock of the government getting reduced, 3.5m tonnes out of approximately 7m tonnes for the whole year are yet to be imported. Hence, the tight demand-supply condition is expected to continue in FY10. At CMP of Rs207, the stock trades at 5.8 FY10E and 12.1x FY11E. We maintain 'Accumulate' rating on the stock.

| Key financials (Y/e Sept) | FY08 | FY09 | FY10E | FY11E |
|---------------------------|---------|--------|--------|--------|
| Revenues (Rs m) | 20,701 | 22,993 | 49,102 | 56,820 |
| Growth (%) | 16.3 | 11.1 | 113.5 | 15.7 |
| EBITDA (Rs m) | 1,437 | 6,948 | 12,848 | 8,206 |
| PAT (Rs m) | (1,951) | 580 | 6,859 | 3,264 |
| EPS (Rs) | (8.2) | 3.0 | 35.9 | 17.1 |
| Growth (%) | - | - | - | (52.4) |
| Net DPS (Rs) | 0.6 | 0.7 | 2.0 | 1.6 |

Source: Company Data; PL Research

| Profitability & valuation | FY08 | FY09 | FY10E | FY11E |
|---------------------------|--------|------|-------|-------|
| EBITDA margin (%) | 9.4 | 31.7 | 26.5 | 14.7 |
| RoE (%) | (12.1) | 3.7 | 29.5 | 11.5 |
| RoCE (%) | (1.6) | 7.3 | 20.7 | 11.1 |
| EV / sales (x) | 3.5 | 3.0 | 1.3 | 1.1 |
| EV / EBITDA (x) | 50.6 | 9.8 | 4.9 | 7.4 |
| PE (x) | (25.1) | 68.3 | 5.8 | 12.1 |
| P / BV (x) | 2.4 | 2.0 | 1.5 | 1.3 |
| Net dividend yield (%) | 0.3 | 0.3 | 1.0 | 0.8 |

Source: Company Data; PL Research

Tushar Manudhane
 TusharManudhane@PLIndia.com
 +91-22-6632 2238



Q4FY09 Result Overview

(Rs m)

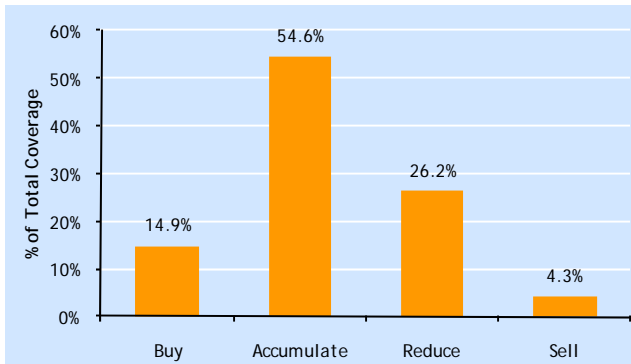
| Y/e Sept | Q4FY09 | Q4FY08 | YoY gr. (%) | Q3FY09 | FY09 | FY08 | YoY gr. (%) |
|-----------------------------------|-------------|-------------|----------------|-------------|-------------|-------------|----------------|
| Net sales | 4,153 | 4,631 | (10.3) | 3,836 | 22993 | 20701 | 11.1 |
| Expenditure | | | | | | | |
| Raw materials | 2,699 | 3,628 | (25.6) | 2,168 | 12208 | 13693 | (10.8) |
| <i>as % of net sales</i> | <i>65.0</i> | <i>78.3</i> | | <i>54.3</i> | <i>53.1</i> | <i>66.1</i> | |
| Personnel expenses | 325 | 232 | 40.6 | 234 | 1653 | 1483 | 11.5 |
| <i>as % of net sales</i> | <i>7.8</i> | <i>5.0</i> | | <i>5.8</i> | <i>7.2</i> | <i>7.2</i> | |
| Other expenses | 193 | 434 | (55.5) | 232 | 2184 | 2584 | (15.5) |
| <i>as % of net sales</i> | <i>4.6</i> | <i>9.4</i> | | <i>5.8</i> | <i>9.5</i> | <i>19.7</i> | |
| Total Expenditure | 3,218 | 4,293 | (25.1) | 2,634 | 16,046 | 17,760 | (9.7) |
| OPBDIT before Forex Loss / (Gain) | 935 | 338 | 176.7 | 1,203 | 6,948 | 2,941 | 136.2 |
| <i>OP Margin (%)</i> | <i>22.5</i> | <i>7.3</i> | | <i>31.4</i> | <i>30.2</i> | <i>14.2</i> | |
| Other income | 180 | 139 | 29.8 | 156 | 342 | 501 | (31.8) |
| PBDIT | 1,115 | 477 | 134.0 | 1,360 | 7,289 | 3,443 | 111.7 |
| Depreciation | 514 | 488 | 5.3 | 476 | 3457 | 2799 | 23.5 |
| Interest | 261 | 590 | (55.9) | 498 | 2781 | 2071 | 34.3 |
| PBT | 341 | (602) | - | 386 | 1,052 | (1,427) | - |
| Prov. For tax | 68 | (441) | - | 77 | 472 | (980) | - |
| <i>% of PBT</i> | <i>20.0</i> | <i>73.3</i> | | <i>20.0</i> | <i>45</i> | <i>69</i> | |
| PAT | 273 | (161) | - | 309 | 579 | (447) | - |
| Exceptional item | (418) | (714) | | 294 | - | 1,127 | |
| Reported PAT | 691 | (875) | - | 603 | 579 | (1,574) | - |

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

| | | | |
|-----------------------|--|--------------------------|--|
| BUY | : Over 15% Outperformance to Sensex over 12-months | Accumulate | : Outperformance to Sensex over 12-months |
| Reduce | : Underperformance to Sensex over 12-months | Sell | : Over 15% underperformance to Sensex over 12-months |
| Trading Buy | : Over 10% absolute upside in 1-month | Trading Sell | : Over 10% absolute decline in 1-month |
| Not Rated (NR) | : No specific call on the stock | Under Review (UR) | : Rating likely to change shortly |

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt. Ltd. Mumbai, India (PL) and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

For Clients / Recipients in United States of America:

All materials are furnished courtesy of Direct Access Partners LLC ("DAP") and produced by Prabhudas Lilladher Pvt. Ltd. ("PLI"). This is material is for informational purposes only and provided to Qualified and Accredited Investors. You are under no obligation to DAP or PLI for the information provided herein unless agreed to by all of the parties, Additionally you are prohibited from using the information for any reason or purpose outside its intended use. Any questions should be directed to Gerard Visci at DAP at 212.850.8888.