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Manish Mahawar
manishmahawar@plindia.com
+91-22-66322239

Rating	Accumulate
Price	Rs52
Target Price	Rs59
Implied Upside	13.5%
Sensex	17,193

(Prices as on November 11, 2011)

Trading data

Market Cap. (Rs bn)	34.6
Shares o/s (m)	671.4
3M Avg. Daily value (Rs m)	418

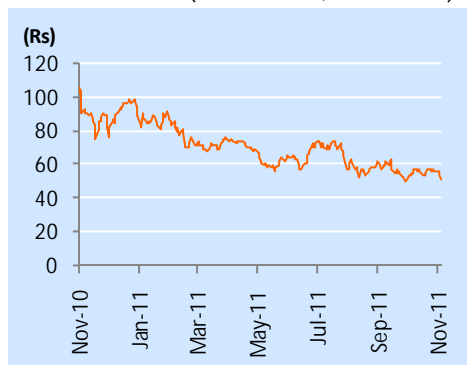
Major shareholders

Promoters	38.06%
Foreign	26.07%
Domestic Inst.	6.90%
Public & Other	28.97%

Stock Performance

(%)	1M	6M	12M
Absolute	(5.4)	(20.2)	(50.5)
Relative	(9.2)	(13.1)	(32.8)

Price Performance (RIC: SRES.BO, BB: SHRS IN)



Source: Bloomberg

Shree Renuka Sugars

Dismal Quarter

■ **Adverse weather conditions and higher interest/depreciation impacted quarter:** Shree Renuka Sugars' (SHRS') net sales de-grew by 5.1% to Rs23.3bn (PLe:Rs23.3bn). India's sugar volumes (export plus domestic) was lower by ~43% YoY to 0.22m MT, while it has been compensated by higher ethanol volume (up ~4x YoY). In Brazil, the company has crushed lower sugarcane during the quarter (3.6m MT v/s 3.84m MT in the corresponding quarter of the previous year). Company's EBITDA de-grew by 17.9% YoY to Rs2.4m (PLe: Rs4.8bn). Sao Paulo state of Brazil, where SHRS' subsidiary Renuka do Brasil (RDB) is located, had drought like conditions and frost on crops during the season. Due to this, cane yield was down by 31% YoY in the state. Hence, it has impacted the performance of RDB during the quarter. It has resulted in lower-than-expected EBITDA. Company depreciation grew by 53% YoY to Rs2.3bn (up 25.7% QoQ) due to higher amortization in the Brazilian business. Interest cost has gone up by 63.6% YoY to Rs1.9bn (up 18.5% QoQ), primarily on account of higher debt and interest rate. Company's PAT stood at a loss of Rs1.2bn (PLe: Profit of Rs1.5bn). Company has provided for MTM forex loss on loan of Rs5,698m (considered as exceptional items). Further, company's reported other income includes realized forex gain (management has not disclosed the amount. But, we have considered Rs754m as forex gain). We have considered the forex gain as an exceptional item. Hence, reported PAT stood at loss of Rs6.2bn.

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Key financials (Y/e March)	2010*	2011*	2012E**	2013E
Revenues (Rs m)	28,160	76,694	92,396	82,178
Growth (%)	33.8	172.4	20.5	(11.1)
EBITDA (Rs m)	4,656	11,753	14,538	14,227
PAT (Rs m)	2,236	7,034	(1,587)	3,204
EPS (Rs)	4.3	10.5	(2.4)	4.8
Growth (%)	61.8	145.4	(122.5)	(301.9)
Net DPS (Rs)	0.6	1.0	0.5	1.0

Source: Company Data; PL Research * '10 & '11 nos. are SY09 & SY10 **12E nos. - 18months

Profitability & Valuation	2010*	2011*	2012E**	2013E
EBITDA margin (%)	16.5	15.3	15.7	17.3
RoE (%)	18.9	36.3	(7.1)	14.1
RoCE (%)	12.8	14.7	4.4	7.1
EV / sales (x)	1.3	1.2	1.2	1.0
EV / EBITDA (x)	7.6	8.0	7.3	6.0
PE (x)	12.1	4.9	(21.8)	10.8
P / BV (x)	1.8	1.5	1.6	1.4
Net dividend yield (%)	1.2	1.9	1.0	1.9

Source: Company Data; PL Research

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- **Post Result Conference Call Highlights:** Management expects sugar production to touch 26m MT during season ended 2012. India was carrying sugar inventory of ~3months at the beginning of season. Management has cut down its sugarcane crushing guidance of 10m MT to 8.3-8.4m MT for FY12 (12 months) in Brazil. Further, management has lowered its EBITDA guidance for Brazilian business from US\$300m to US\$160m for FY12 (12 months). Company is planning to spin-off its power plant of RDB (203MW plus expanded 92MW). Company has received interest from seven leading power companies in Brazil and expects to hive-off by December 2011. SHRS is investing US\$115m (US\$35m in September 2011 and US\$80m in December 2011) to increase its stake in RDB to 59.4%.
- **Outlook & Valuation:** We like SHRS on account of its 1) strong business model 2) best proxy to global sugar industry recovery and direct play in case of rising sugar/ethanol prices, 3) better visibility in cane cost v/s UP-based peers. We believe that the domestic sugar industry would see a 'sugar surplus' year during SY12, with stable sugar prices. Recently, the UP government has increased sugarcane prices ahead of state elections in SY12 that could lead to financial stress for *Bajaj Hindusthan* and *Balrampur Chini*. Company has extended its accounting year from September to March. Hence, we have changed our estimates based on March end accordingly. We have downward revised our estimates considering lower profit in Brazilian business. We are also downgrading from '**BUY**' to '**Accumulate**', with a revised target price of Rs59 (2.5x FY13E BV or 6.5x EV/EBITDA).



Exhibit 1: Q4FY11 Result Overview (Rs m)

Y/e March	Q4FY12	Q4FY11*	YoY gr. (%)	Q3FY12*	FY12*	FY11*	YoY gr. (%)
Net Sales	23,349	24,598	(5.1)	22,401	86,623	76,694	12.9
Raw material consumed	17,791	19,016	(6.4)	15,747	63,770	58,606	8.8
<i>As % of net sales</i>	<i>76.2</i>	<i>77.3</i>		<i>70.3</i>	<i>73.6</i>	<i>76.4</i>	
Employee expenses	668	496	34.7	637	2,464	1,067	130.9
<i>As % of net sales</i>	<i>2.9</i>	<i>2.0</i>		<i>2.8</i>	<i>2.8</i>	<i>1.4</i>	
Other expenses	2,450	2,114	15.9	1,693	7,835	5,267	48.8
<i>As % of net sales</i>	<i>10.5</i>	<i>8.6</i>		<i>7.6</i>	<i>9.0</i>	<i>6.9</i>	
Total expenditure	20,909	21,626	(3.3)	18,077	74,069	64,940	14.1
EBITDA	2,440	2,972	(17.9)	4,324	12,554	11,754	6.8
<i>Margin (%)</i>	<i>10.5</i>	<i>12.1</i>		<i>19.3</i>	<i>14.5</i>	<i>15.3</i>	
Depreciation	2,251	1,471	53.0	1,791	6,838	2,457	178.3
PBIT	189	1,501	(87.4)	2,533	5,716	9,297	(38.5)
Other Income (ex Forex Gain)	90	301	(70.1)	256	974	500	94.8
Interest	1,925	1,177	63.6	1,622	6,574	2,377	176.6
Profit before tax	(1,646)	625	NA	1,167	116	7,420	(98.4)
Tax	(405)	34	NA	310	88	1,701	(94.8)
<i>Tax Rate (%)</i>	<i>24.6</i>	<i>5.4</i>		<i>26.6</i>	<i>75.9</i>	<i>22.9</i>	
Adjusted PAT before MI	(1,241)	591	NA	857	28	5,719	NA
Minority Interest	(27)	(3)	NA	(10)	(36)	4	NA
Adjusted PAT	(1,214)	594	NA	867	64	5,715	NA
Ex-Items (Incl Forex Loss/(Gain))	4,944	(689)	NA	(1,003)	3,106	(1,321)	NA
Reported PAT	(6,158)	1,283	NA	1,870	(3,042)	7,036	NA

Source: Company Data, PL Research

* Company has changed its accounting year from September end to March end. Hence, previous year figures are related to September end.

Exhibit 2: Sales Break-up (Rs m)

Y/e March	Q4FY12	Q4FY11*	YoY gr. (%)	Q3FY12*	FY12*	FY11*	YoY gr. (%)
Brazil Sales	9,097	8,888	2.4	10,985	34,769	10,317	237.0
Other Than Brazil Sales	14,252	15,710	(9.3)	11,416	51,854	66,377	(21.9)
Total Sales	23,349	24,598	(5.1)	22,401	86,623	76,694	12.9

Source: Company Data, PL Research

* Company has changed its accounting year from September end to March end. Hence, previous year figures are related to September end.



Income Statement (Rs m)

Y/e March	2010*	2011*	2012E**	2013E
Net Revenue	28,160	76,694	92,396	82,178
Raw Material Expenses	—	—	—	—
Gross Profit	28,160	76,694	92,396	82,178
Employee Cost	—	—	—	—
Other Expenses	23,504	64,941	77,859	67,951
EBITDA	4,656	11,753	14,538	14,227
Depr. & Amortization	675	2,457	9,126	6,677
Net Interest	1,077	2,377	8,479	4,566
Other Income	64	501	1,500	1,520
Profit before Tax	2,968	7,419	(1,567)	4,504
Total Tax	720	1,701	20	1,155
Profit after Tax	2,248	5,718	(1,587)	3,349
Ex-Od items / Min. Int.	(2)	1,324	—	145
Adj. PAT	2,236	7,034	(1,587)	3,204
Avg. Shares O/S (m)	522.8	670.4	671.0	671.0
EPS (Rs.)	4.3	10.5	(2.4)	4.8

Cash Flow Abstract (Rs m)

Y/e March	2010*	2011*	2012E**	2013E
C/F from Operations	14	14,111	1,293	7,308
C/F from Investing	(4,848)	(66,284)	(13,675)	14,500
C/F from Financing	9,519	53,280	11,609	(20,785)
Inc. / Dec. in Cash	4,685	1,108	(773)	1,023
Opening Cash	(672)	4,012	5,120	4,347
Closing Cash	4,012	5,120	4,347	5,370
FCFF	(7,290)	(52,651)	793	6,808
FCFE	(2,457)	(998)	12,793	(13,192)

Key Financial Metrics

Y/e March	2010*	2011*	2012E**	2013E
Growth				
Revenue (%)	33.8	172.4	20.5	(11.1)
EBITDA (%)	84.5	152.5	23.7	(2.1)
PAT (%)	66.9	214.6	(122.6)	(301.9)
EPS (%)	61.8	145.4	(122.5)	(301.9)
Profitability				
EBITDA Margin (%)	16.5	15.3	15.7	17.3
PAT Margin (%)	7.9	9.2	(1.7)	3.9
RoCE (%)	12.8	14.7	4.4	7.1
RoE (%)	18.9	36.3	(7.1)	14.1
Balance Sheet				
Net Debt : Equity	0.6	2.5	3.3	2.1
Net Wrkng Cap. (days)	—	—	—	—
Valuation				
PER (x)	12.1	4.9	(21.8)	10.8
P / B (x)	1.8	1.5	1.6	1.4
EV / EBITDA (x)	7.6	8.0	7.3	6.0
EV / Sales (x)	1.3	1.2	1.2	1.0
Earnings Quality				
Eff. Tax Rate	24.3	22.9	(1.3)	25.6
Other Inc / PBT	2.2	6.7	(95.7)	33.7
Eff. Depr. Rate (%)	4.3	3.0	11.0	8.0
FCFE / PAT	(109.9)	(14.2)	(806.2)	(411.7)

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2010*	2011*	2012E**	2013E
Shareholder's Funds	15,302	23,479	21,500	23,919
Total Debt	13,427	65,080	77,080	57,080
Other Liabilities	147	151	151	151
Total Liabilities	28,877	88,710	98,731	81,150
Net Fixed Assets	16,734	71,864	76,211	55,033
Goodwill	—	7,984	7,984	7,984
Investments	477	1,189	1,391	1,391
Net Current Assets	12,459	8,947	14,420	18,017
<i>Cash & Equivalents</i>	<i>4,912</i>	<i>6,019</i>	<i>5,246</i>	<i>6,269</i>
<i>Other Current Assets</i>	<i>17,719</i>	<i>41,160</i>	<i>42,272</i>	<i>41,864</i>
<i>Current Liabilities</i>	<i>10,172</i>	<i>38,232</i>	<i>33,098</i>	<i>30,116</i>
Other Assets	(793)	(1,274)	(1,275)	(1,275)
Total Assets	28,877	88,710	98,731	81,150

Quarterly Financials (Rs m)

Y/e March	Q1FY11	Q2FY11	Q3FY11	Q4FY11
Net Revenue	22,470	18,403	22,401	23,349
EBITDA	3,005	2,785	4,324	2,440
<i>% of revenue</i>	<i>13.4</i>	<i>15.1</i>	<i>19.3</i>	<i>10.5</i>
Depr. & Amortization	1,680	1,116	1,791	2,251
Net Interest	1,165	1,862	1,622	1,925
Other Income	561	67	256	90
Profit before Tax	721	(126)	1,167	(1,646)
Total Tax	56	127	310	(405)
Profit after Tax	664	(253)	867	(1,268)
Adj. PAT	664	582	1,870	(6,212)

Key Operating Metrics

Y/e March	2010*	2011*	2012E**	2013E
Brazil Sales (Rs m)	—	9,490	31,957	31,065
Other Than Brazil Sales (Rs m)	28,160	67,204	60,439	51,113

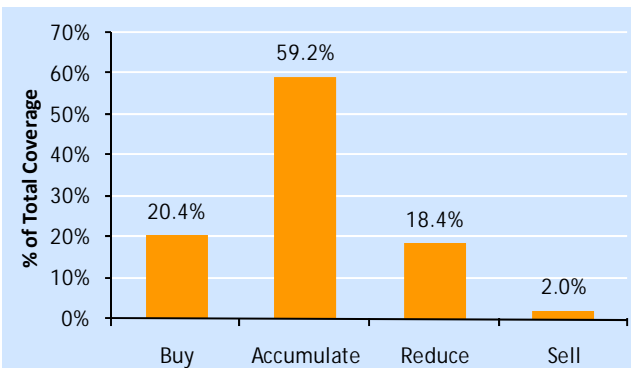
Source: Company Data, PL Research.

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

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