

EID PARRY INDIA

Sugar segment sweetens performance

India Equity Research | Agriculture



EID Parry's (EID) Q1FY13 revenue and adjusted PAT were in line. EBITDA margin expanded 10.8% even as the adjusted PAT at INR782mn is substantially higher than INR314mn YoY. This was on account of robust volume of sugar and better operating leverage. Moreover, the recent sugar price increase by ~20% over the past one month, owing to demand picking up ahead of the festival season and monsoon concerns, is likely to augur well for EID. Over the last one quarter, EID has closed the discounting gap with Coromandel from 35% in April 2012 to 15% currently. However, owing to the improving sugar segment performance coupled with the likely upside in Coromandel International translating into higher valuation, we remain positive on the stock. Maintain 'BUY'.

Revenue, adjusted PAT in line, sugar performance improves

EID posted a consolidated revenue growth of 8.6%, EBITDA margin of 10.8% (up 160 bps YoY and 180 bps QoQ) and adj. PAT of INR782mn (up 149%) in line with the expectation. The strong growth in profitability is primarily on account of an improved performance in the sugar segment which expanded PBIT margin by 830 bps YoY to 1.1% in Q1FY13.

Key highlights – sugar prices shoot up over the past one month

- While the free sale sugar price for EID was at INR27.5/kg in Q1FY13, sugar price in general has shot up by about 20% over the past one month to INR34/kg currently, owing to concerns over monsoon and an incremental demand coming ahead of the festive season. This is likely to augur well for the profitability of EID.
- EID and its subsidiaries crushed 1.82mn MT cane in Q1FY13 (up 19% YoY) vis-à-vis 1.52mn MT in Q1FY12 and 2.69mn MT in Q4FY12. Sugar sales volume was 0.22mn MT on a consolidated basis during Q1FY13 (0.16mn MT YoY), out of which, 94,337 MT was exported. Management guides for ~67,000 MT of exports for Q2FY13.
- Management guides for ~8mn MT cane crushing in FY13 vs 6.9mn MT in FY12.

Outlook and valuations: Attractive; maintain 'BUY'

Factoring in a higher sugar realization, we have increased our EPS estimates by 6.8% and 4.4% for FY13 and FY14 respectively. EID is currently available at an attractive valuation of 6.9x and 5.8x consolidated P/E for FY13E and FY14E respectively. We maintain 'BUY' with a revised target price of INR301/share (INR295 earlier).

Financials

Year to March	Q1FY13	Q1FY12	% change	Q4FY12	% change	FY12	FY13E	FY14E
Net rev. (INR mn)	26,798	24,669	8.6	35,969	(25.5)	123,209	126,746	147,813
EBITDA (INR mn)	2,884	2,259	27.7	3,224	(10.5)	10,868	15,153	17,679
Adj. PAT (INR mn)	782	314	149.1	1,409	(44.5)	3,031	5,354	6,371
Diluted EPS (INR)	4.5	1.8	148.5	8.1	(44.5)	17.5	30.8	36.7
Diluted P/E (x)						12.1	6.9	5.8
EV/EBITDA (x)						8.3	5.1	4.3

EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Value

MARKET DATA (R: EIDP.BO, B: EID IN)

CMP	: INR 212
Target Price	: INR 301
52-week range (INR)	: 283 / 165
Share in issue (mn)	: 173.7
M cap (INR bn/USD mn)	: 37 / 663
Avg. Daily Vol. BSE/NSE ('000)	: 108.5

SHARE HOLDING PATTERN (%)

	Current	Q4FY12	Q3FY12
Promoters %	45.7	45.7	45.7
MF's, FI's & BKs	16.4	17.1	19.4
FII's	13.1	12.6	10.6
others	24.8	24.6	24.3
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	(2.3)	18.5	20.8
3 months	(4.8)	16.5	21.3
12 months	(13.0)	(17.6)	(4.6)

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Other highlights

- Cane crushing during Q1FY13 was 1.82 mn MT (up 19% YoY) on a consolidated basis; it was 1.64 mn MT (up 27%) on a standalone basis.
- Recovery rate improved to 9.21% from 8.71% on YoY basis.
- EID has sugar inventory of ~0.11 mn MT on a consolidated basis in Q1FY13, priced at INR24.5/kg.
- Average sugar realization for the quarter has been at INR27.4/kg – the free sale sugar realization at INR 27.5/kg, levy at INR 19/kg and export realization at 28.5/kg.
- Management guided that sugar price has moved up sharply over the last one month to INR 34/kg currently as it expects the price to sustain at these levels over the next few months owing to an extended festival season this year. However, according to few media articles, the government is likely to consider various options like having a cap on exports (which were freed in May 2012 and put under OGL), removal of import duty and an increment in allocation of sugar for free market sale. Such measures from the government might have some downward pressure on sugar prices.
- Landed cane cost for EID has been at ~INR2,200/MT; this prices in the cost of production of sugar for the company ~INR26.5/kg at the PBIT level.
- Indian sugar production for SS12 stands at 26mn MT. The country may export ~3 mn MT. For SS13, the current sugar production estimate by ISMA is at 25mn MT with a bit of downward bias, owing to weak monsoon. The management guides for a surplus production in India for SS13, giving it a scope to export 1-2 mn MT.
- During Q1FY13, EID had an ethanol sales volume of 9.2mn litres on a standalone basis and 14.8mn liters on a consolidated basis at an average realisation of INR24.8/litre.
- While distillery production volume has gone up, the company had consciously sold lower quantity, owing to weaker ethanol prices. The ENA price was INR28/KL during Q1FY13, which has gone back to INR33/KL currently.
- Consolidated cogen export at 134.6 mn units was up 12% YoY; average realisation at INR3.5/unit.
- Bio-products division (nutraceuticals and bio-pesticides) has posted a consolidated loss of INR5.7mn vis-à-vis loss of INR10.6mn YoY.
- Silkroad Sugar (the sugar refinery) remains shut owing to gas availability issues. To address this issue, the company is setting up a coal boiler and the refinery is expected to start operating within the next 16-18 months.

Table 1: Operational performance (Consolidated) (INR mn)

Segment revenue	Q1FY13	Q1FY12	% change	Q4FY12	% change
a) Farm Inputs	18,428	17,901	2.9	27,375	(32.7)
b) Sugar	6,539	5,474	19.5	6,973	(6.2)
c) Cogeneration	707	611	15.7	903	(21.7)
d) Distillery	367	448	(18.2)	417	(11.9)
e) Bio Products	610	334	82.9	664	(8.1)
f) Others	463	401	15.2	218	112.4
Less: Inter segmental revenue	315	182	73.0	526	(40.0)
Total	26,798	24,987	7.2	36,023	(25.6)
Net profit before Interest and tax					
a) Farm Inputs	2,122	2,545	(16.6)	1,543	37.5
b) Sugar	71	(394)		1,014	(93.0)
c) Cogeneration	288	216	33.2	461	(37.7)
d) Distillery	37	99	(62.7)	108	(65.9)
e) Bio Products	(6)	(11)		64	
f) Others	0	0		0	
Total (INR mn)	2,512	2,456	2.3	3,191	(21.3)
Less: Interest	992	646	53.5	1,016	(2.4)
Less: Other unallocable expendit	(82)	(46)		86	
Add: Share in JV	50	(163)		(58)	
Total profit before tax	1,651	1,693	(2.4)	2,030	(18.7)
PBIT (%)					
a) Farm Inputs	11.5	14.2		5.6	
b) Sugar	1.1	(7.2)		14.5	
c) Cogeneration	40.7	35.3		51.1	
d) Distillery	10.1	22.1		26.0	
e) Bio Products	(0.9)	(3.2)		9.6	

Source: Company, Edelweiss research

Table 2: SOTP valuation of EID Parry

Particulars	Value
Value from sugar business	
Cons. FY13E EBITDA - Sugar business (INR mn)	3,687
EBITDA for minority shareholders (INR mn)	163
EBITDA attributable to EID (INR mn)	3,524
EV/EBITDA (x)	4.5
Sugar business EV (INR mn)	16,000
Net debt attributable to EID (INR mn)	12,596
Equity value in sugar business (INR mn)	3,404
Value from sugar business (INR/share)	20
Value from Coromandel	
Coromandel fair value target (INR/share)	374
Coromandel's market cap at the target price (INR mn)	104,926
EID's share in Coromandel (63%) (INR mn)	65,956
Equity value from Coromandel (assuming 30% discount) (INR mn)	46,169
Outstanding shares of EID (mn)	173
Value from Coromandel (INR/share)	267
Value from bonus debentures of Coromandel (INR/share)	15
SOTP (INR/share)	301

Source: Edelweiss research

Financial snapshot (Consolidated)

(INR mn)

Year to March	Q1FY13	Q1FY12	% Change	Q4FY12	% Change	FY12	FY13E	FY14E
Net revenues	26,798	24,669	8.6	35,969	(25.5)	123,209	126,746	147,813
Raw material	19,014	18,508	2.7	27,306	(30.4)	94,367	94,051	109,562
Staff costs	917	756	21.3	762	20.4	3,228	4,116	4,787
Other expenses	3,983	3,146	26.6	4,677	(14.9)	14,746	13,426	15,785
Total expenditure	23,914	22,411	6.7	32,746	(27.0)	112,341	111,593	130,134
EBITDA	2,884	2,259	27.7	3,224	(10.5)	10,868	15,153	17,679
Depreciation	504	468	7.7	513	(1.7)	1,896	2,077	2,461
Other income	265	256	3.6	383	(30.7)	1,746	1,759	1,971
Interest	992	646	53.5	1,016	(2.4)	2,936	3,628	3,273
Profit before tax	1,653	1,401	18.0	2,077	(20.4)	7,781	11,208	13,916
Tax	492	738	(33.4)	306	60.4	2,667	3,010	4,184
Core profit	1,161	663	75.2	1,771	(34.4)	5,114	8,198	9,733
Minority interest	379	349	8.7	362	4.7	2,083	2,844	3,361
Profit after tax and min. int.	782	314	149.1	1,409	(44.5)	3,031	5,354	6,371
Exceptionals	(64)	184	NA	(30)	NA	96	(64)	-
Reported net profit	719	498	44.2	1,379	(47.9)	3,127	5,290	6,371
Equity capital (FV INR 1)	174	173		174		174	174	174
No. of shares (mn)	174	173		174		174	174	174
Diluted EPS (INR)	4.5	1.8	148.5	8.1	(44.5)	17.5	30.8	36.7
As % of net revenues								
Raw material	71.0	75.0		75.9		76.6	74.2	74.1
Employee cost	3.4	3.1		2.1		2.6	3.2	3.2
Other expenses	14.9	12.8		13.0		12.0	10.6	10.7
EBITDA	10.8	9.2		9.0		8.8	12.0	12.0
Reported net profit	2.7	2.0		3.8		2.5	4.2	4.3

Change in Estimates

	FY13E			FY14E			Comments
	New	Old	% change	New	Old	% change	
Net Revenue	126,746	125,136	1.3	147,813	144,902	2.0	
EBITDA	15,153	14,565	4.0	17,679	17,397	1.6	
EBITDA Margin	12.0	11.6		12.0	12.0		
Adj. profit	5,354	5,012	6.8	6,371	6,103	4.4	Factoring in higher sugar realisation
PAT Margin	4.2	4.0		4.3	4.2		

Company Description

EID Parry (EID) is one of the largest business groups in India. It is engaged in the manufacture and marketing of a wide range of products including sugar, fertilisers, alcohol, bio-pesticides and nutraceuticals. On a standalone basis, EID, has five sugar plants spread across South India, of which, four are in Tamil Nadu, one in Puducherry, with sugarcane crushing capacity of 19,000 TCD, cogeneration capacity of 84.5 MW and distillery capacity of 135 KLPD, cumulatively.

EID has two sugar business related subsidiaries:

- Sadashiva Sugars – 76% shareholding (acquired in 2009) – Investment of INR 496 mn. Cane crushing capacity of 2,500 TCD and cogeneration capacity of 15.5 MW
- Parrings Sugar Industries – 65% shareholding (acquired in 2010) – Investment of INR 988 mn. Cane crushing capacity of 11,000 TCD, cogeneration capacity of 46 MW and distillery capacity of 95 KLPD

Along with Cargill, EID has set up a JV, Silkroad Sugar, wherein it has 50% stake. Silkroad Sugar is a port-based refinery with refining capacity of 2,000 TPD and cogeneration capacity of 35 MW.

EID also holds ~63% stake in Coromandel, one of the leading fertiliser manufacturers in India, with phosphatic fertiliser capacity of 3.25 mn MT per annum

Investment Theme

As EID Parry holds 63% stake in Coromandel International and consolidates its financials, the former is likely to benefit from the upside potential in Coromandel. EID's enhanced sugar capacities, along with its integrated model and presence in the less-regulated southern market, brightens the company's prospects. On the other hand, Coromandel, the largest Indian private fertiliser company, is poised to be a key beneficiary of govt.'s nutrient based subsidy and contribute significantly to the consolidated financials of EID Parry.

Key Risks

- Restrictive government policies on sugar
- Exposure to inherent cyclicity of sugar industry
- Likelihood of teething problems in new refinery
- Possible delay in capacity expansion for Coromandel
- Possible raw material supply side issues for Coromandel

Financial Statements (Consolidated)

Key Assumptions

Year to March		FY10	FY11	FY12	FY13E	FY14E
Macro -	GDP(Y-o-Y %)	8.4	8.4	6.5	6.4	7.0
	Inflation (Avg)	3.6	9.9	8.8	7.0	6.0
	Repo rate (exit rate)	5.0	6.8	8.5	7.3	6.8
	USD/INR (Avg)	47.4	45.6	47.9	53.5	50.0
Company -	EID-sugar sales (MT)	328,643	317,031	424,430	504,094	529,449
	Subsidiaries-sugar sales (MT)	-	124,164	193,778	228,550	240,625
	Sugar realisation (INR/MT)	28,491	28,000	26,700	29,000	29,000

Income statement

Year to March		FY10	FY11	FY12	FY13E	FY14E
(INR mn)						
Net revenue		75,575	92,308	123,209	126,746	147,813
Materials costs		55,032	68,156	94,367	94,051	109,562
Gross profit		20,544	24,152	28,842	32,695	38,250
Employee costs		2,313	2,806	3,228	4,116	4,787
Total operating expenses		66,450	82,842	112,341	111,593	130,134
EBITDA		9,126	9,466	10,868	15,153	17,679
Depreciation and amortisation		1,333	1,742	1,896	2,077	2,461
EBIT		7,793	7,724	8,972	13,076	15,218
Other income		1,886	2,250	1,746	1,759	1,971
Interest expenses		1,271	2,015	2,936	3,628	3,273
Profit before tax		8,407	7,959	7,781	11,208	13,916
Provision for tax		2,799	2,683	2,667	3,010	4,184
Net profit		5,608	5,276	5,114	8,198	9,733
Extraordinary income/ (loss)		64	274	96	(64)	-
Minority interest		1,698	2,428	2,083	2,844	3,361
Profit after minority interest		3,872	2,849	3,031	5,354	6,371
Reported PAT		3,936	3,123	3,127	5,290	6,371
Shares outstanding (mn)		173	173	174	174	174
Diluted EPS (INR)		22.4	16.4	17.5	30.8	36.7
CEPS (INR)		32.2	24.9	28.4	42.8	50.8
Dividend per share (INR)		5.0	2.4	4.0	4.0	4.0
Dividend payout (%)		22.3	14.5	22.9	13.0	10.9

Common size metrics - as % of net revenues

Year to March		FY10	FY11	FY12	FY13E	FY14E
Gross margin		27.2	26.2	23.4	25.8	25.9
EBITDA margins		12.1	10.3	8.8	12.0	12.0
EBIT margins		10.3	8.4	7.3	10.3	10.3
Net profit margins		5.1	3.1	2.5	4.2	4.3

Growth ratios (%)

Year to March		FY10	FY11	FY12	FY13E	FY14E
Rev. growth (%)		(26.7)	22.1	33.5	2.9	16.6
EBITDA		3.7	3.7	14.8	39.4	16.7
Net profit		(12.7)	(5.9)	(3.1)	60.3	18.7
EPS growth (%)		(10.8)	(26.6)	6.1	76.6	19.0

Balance sheet					
(INR mn)					
As on 31st March	FY10	FY11	FY12	FY13E	FY14E
Equity capital	173	173	174	174	174
Reserves & surplus	18,095	22,243	24,065	30,895	34,184
Shareholders funds	18,268	22,416	24,238	31,069	34,358
Minority interest (BS)	7,186	7,312	9,277	12,121	15,483
Secured loans	13,407	10,029	16,139	21,082	20,082
Unsecured loans	16,654	21,765	29,814	20,766	15,766
Borrowings	30,061	31,794	45,953	41,848	35,848
Deferred tax (net)	2,242	2,128	1,871	3,259	3,477
Sources of funds	57,757	63,650	81,339	88,297	89,166
Gross block	27,068	34,657	38,534	46,057	49,117
Accumulated depreciation	9,141	12,036	14,315	16,157	18,618
Net block	17,927	22,621	24,219	29,900	30,499
Capital work in progress	1,822	3,435	6,051	3,003	2,534
Total fixed assets	21,778	29,258	37,128	39,761	39,892
Share in Joint Venture's fixed assets	1,989	2,135	2,097	2,097	2,097
Goodwill on consolidation	40	1,068	4,761	4,761	4,761
Investments	5,883	1,833	1,560	4,931	4,931
Inventories	12,633	21,940	24,727	22,933	25,628
Sundry debtors	2,502	3,962	12,851	9,336	10,392
Cash and equivalents	10,502	10,282	10,471	12,095	10,607
Loans and advances	8,339	14,096	24,024	18,330	19,923
Other current assets	8,619	4,401	212	865	865
Total current assets	42,595	54,681	72,285	63,559	67,415
Sundry creditors and others	11,833	21,825	29,153	17,441	20,575
Provisions	675	298	480	2,513	2,497
Total current liabilities & provisions	12,508	22,122	29,633	19,954	23,072
Net current assets	30,087	32,559	42,652	43,605	44,343
Uses of funds	57,757	63,650	81,339	88,297	89,166
Book value per share (INR)	105.8	129.4	139.5	178.9	197.8

Free cash flow					
(INR mn)					
Year to March	FY10	FY11	FY12	FY13E	FY14E
Net profit	3,936	3,123	3,127	5,290	6,371
Depreciation	1,333	1,742	1,896	2,077	2,461
Others	2,500	2,446	3,369	4,649	4,663
Gross cash flow	7,769	7,311	8,392	12,016	13,495
Less: Changes in WC	(60)	4,304	9,904	(671)	2,226
Operating cash flow	7,829	3,006	(1,512)	12,687	11,269
Less: Capex	3,408	3,251	6,531	4,475	2,592
Free cash flow	4,421	(245)	(8,043)	8,212	8,677

Cash flow metrics					
Year to March	FY10	FY11	FY12	FY13E	FY14E
Operating cash flow	7,829	3,006	(1,512)	12,687	11,269
Investing cash flow	(3,844)	727	(4,512)	(6,087)	(620)
Financing cash flow	1,331	(4,040)	6,214	(4,976)	(12,137)
Net cash flow	5,316	(307)	190	1,624	(1,488)
Capex	(3,408)	(3,251)	(6,531)	(4,475)	(2,592)
Dividends paid	(2,682)	(2,658)	(1,626)	(1,633)	(1,633)

Profitability & efficiency ratios

Year to March	FY10	FY11	FY12	FY13E	FY14E
ROAE (%)	22.6	14.0	13.0	19.4	19.5
ROACE (%)	16.6	13.6	12.7	16.0	18.2
ROA	7.5	5.1	4.3	6.2	7.2
Inventory day	92	93	90	92	81
Debtors days	110	104	151	149	120
Payable days	100	90	99	90	63
Cash conversion cycle (days)	102	107	143	151	138
Current ratio	3.4	2.5	2.4	3.2	2.9
Debt/EBITDA	3.3	3.4	4.2	2.8	2.0
Debt/Equity	1.6	1.4	1.9	1.3	1.0
Adjusted debt/equity	1.6	1.4	1.9	1.3	1.0
Interest coverage	6.1	3.8	3.1	3.6	4.6
Long term debt / Capital employed (%)	52.0	50.0	56.5	47.4	40.2
Total debt / Capital employed (%)	77.6	88.1	95.2	73.7	70.0

Operating ratios

Year to March	FY10	FY11	FY12	FY13E	FY14E
Total asset turnover	1.4	1.5	1.7	1.5	1.7
Fixed asset turnover	3.8	3.6	3.7	3.3	3.7
Equity turnover	4.4	4.5	5.3	4.6	4.5

Valuation parameters

Year to March	FY10	FY11	FY12	FY13E	FY14E
Diluted EPS (INR)	22.4	16.4	17.5	30.8	36.7
Y-o-Y growth (%)	(10.8)	(26.6)	6.1	76.6	19.0
CEPS (INR)	32.2	24.9	28.4	42.8	50.8
Diluted PE (x)	9.5	12.9	12.1	6.9	5.8
Price/BV (x)	2.0	1.6	1.5	1.2	1.1
EV/Sales (x)	0.5	0.5	0.5	0.4	0.4
EV/EBITDA (x)	6.3	6.7	7.4	4.9	4.1
Dividend yield (%)	2.4	1.1	1.9	1.9	1.9

Peer comparison valuation

	Price (INR)	Market cap (INR mn)	P/E (x)		P/BV (x)		ROE (%)	
			2013E	2014E	2013E	2014E	2013E	2014E
EID Parry	212	36,809	9.9	8.7	1.6	1.4	17.1	17.8
Bajaj Hindusthan	32	20,397	NA	NA	0.5	0.5	(6.7)	(9.1)
Balrampur Chini	56	13,792	27.8	12.8	1.1	1.1	5.9	8.0
Dhampur Sugars	65	3,108	9.4	8.0	1.1	1.1	22.4	23.6
Shree Renuka Sugars	32	21,415	10.6	6.7	0.8	0.8	8.5	13.4

Source: Bloomberg, Edelweiss research

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Coverage group(s) of stocks by primary analyst(s): Miscellaneous

Chambal Fertilisers and Chemicals, Coromandel International, Deepak Fertilisers and Petrochemicals Corporation, EID Parry (India), Jain Irrigation, PI Industries, Shree Renuka Sugars, Solar Industries, United Phosphorus

Recent Research

Date	Company	Title	Price (INR)	Recos
31-Jul-12	Solar Industries	Robust performance; <i>Result Update</i>	935	Buy
27-Jul-12	PotashCorp	Guides for subdued fertiliser imports for India; <i>Global Pulse</i>		
27-Jul-12	Deepak Fertilisers	Margin pressures persist; <i>Result Update</i>	128	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	104	60	18	183
* 1 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	114	58	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

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