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Simbhaoli Sugars - Buy

Simbhaoli Sugars Limited (SSL), formerly known as The Simbhaoli Sugar Mills Limited was established as a partnership firm in 1933 with a capacity of 400 TCD.

It is a 75 year old Indian Company, operating through three technologically advanced sugar manufacturing facilities in North India and are capable of manufacturing up to 300,000 metric tons per annum (MTPA) of sugar. In addition; the capacities are capable to toll raw sugar to the extent of 60,000 MTPA.

SSL also has three alcohol distilleries alongside its sugar facilities with a combined capacity of 210 kilo liters of alcohol/ ethanol per day (KL/D) is capable of producing and marketing a million cases of quality spirits in Ten Indian States.

Management

The management of the company is led by Gurmit Singh Mann - Chairman and Managing Director. Yashwant Varma is the Additional Director, while Gurpal Singh, G S C Rao and Sanjay Tapriya are the other whole time directors of the company.

Business Overview

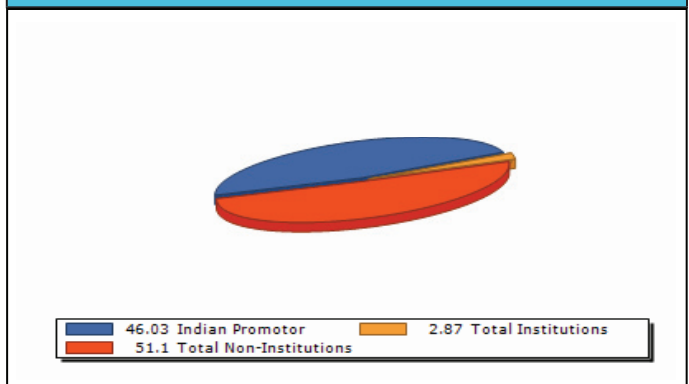
SSL has three sugar plants (Simbhaoli and Brijnathpur, western UP and Chilwaria, eastern UP) with a combined, crushing capacity of 20,100 TCD. It is capable of producing a wide range of world-class sugars i.e. white crystal refined sugar, pharmaceutical grade sugar, EU grade sugar (for exports), superfine sugars, sugar cubes and candy sugar.

SSL has three alcohol distilleries (at Simbhaoli, Chilwaria and Brijnathpur) with a combined capacity of 210 kilo liters of alcohol/ ethanol per day (KLD). It includes 180 KLD of ethanol/ rectified spirits/ extra neutral alcohol (ENA) capacities. Simbhaoli distillery is a potable distillery capable of producing a million cases of quality potable spirits.

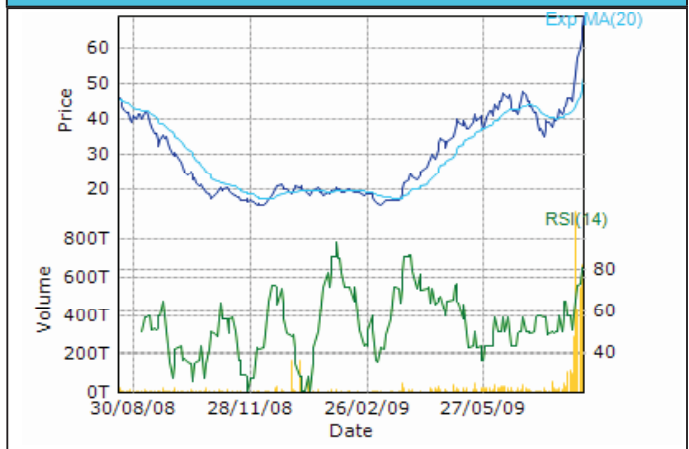
Simbhaoli and Chilwaria sugar complexes house bagasse based surplus co-generation facility of 30

Stock Data		17/08/09
Current Mkt Price (Rs)		62.75
52 Week High		72.75
52 Week Low		15.15
Mkt Cap (Rs. in Million)		1575.39
Return in last one Month (%)		-4.71

Share Holding



Performance in last one year



Y-o-Y Performance

Particulars	(Rs. in Million)		
	Sep 2008	Sep 2007	Change(%)
Net Sales	4354.52	6564.65	-33.67
Other Income	110.24	96.76	13.93
Total Expenditure	4187.00	6701.61	-37.52
Operating Profit	277.75	-40.20	-790.98
Interest	396.38	349.59	13.38
Profits After Tax	-291.02	-642.27	-54.69
Reserve & Surplus	0.00	0.00	-77.90
Reported EPS(Rs)	-13.61	-32.49	-58.13
Core EBITDA Margin (%)	4.20	-0.41	-1119.33



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MW/ hour. Biomass-based co-generation projects are accredited by UNFCCC under the Clean Development Mechanism programme.

Each of the sugar complexes house bio-manure facilities with aggregate capacity of 44,000 MTPA. The bio-manure is distributed both to farmers and domestic consumers across northern India. The Company's research has shown that the use of organic manure increases crop yields. Further, the Company distributes the organic manure to its cane farmers at cost or below, for increasing the farm productivity.

Result analysis for the fiscal 2008-09

- Net sales of the company for the quarter ended June 30, 2009 were up by huge 88.13% to Rs 195.74 crore from Rs 104.05 crore in the corresponding previous quarter.
- The company has reported net profit of Rs 59.46 crores against the loss of Rs 12.43 crore in the same quarter last year. The company has given a profit of Rs 0.61 crore in last quarter otherwise it was running in loss for the last four quarters.
- Total income of the company increased by 139.04% to Rs 257.93 crore compared to Rs 107.90 crore of June 2008 quarter.
- Other income of the company was up by 1514.59% to Rs 62.19 crore from Rs 3.85 crore in the same quarter last year.
- Operating profit margin of the company was reported to be 42.28 as compared to 8.52 of June 2008.
- Other income's includes a gain of Rs. 61.87 crore on account of buy back of foreign currency convertible bonds (FCCB) of \$ 25.11 million, out of aggregate FCCB liability of \$ 33.00 million having maturity in March 2011.

Industry Scenario

India is the world's largest sugar consumer and second largest producer. Over last few years, sugar production has been surging on account of rising

Q-o-Q Performance			
(Rs. in Million)			
Particulars	Jun 2009	Jun 2008	Change(%)
Net Sales	1957.44	1040.49	88.13
Expenditure	1751.70	1149.23	52.42
Other Income	621.94	38.52	1514.59
EBITDA	827.68	-70.22	-1278.70
Interest	185.89	111.68	66.45
Net Profit	594.56	-124.32	-578.25
EBITDA Margin (%)	0.42	-0.07	-726.54
NPM (%)	0.30	-0.12	-354.22
EPS	27.75	-6.11	-554.17

Profit & Loss			
(Rs. in Million)			
Particulars	Sep 2008	Sep 2007	Change(%)
Net Sales	4354.52	6564.65	-33.67
Total Income	4464.75	6661.41	-32.98
Total Expenditure	4187.00	6701.61	-37.52
Operating Profit	277.75	-40.20	-790.98
Profits After Tax	-291.02	-642.27	-54.69

Balance Sheet			
(Rs. in Million)			
Particulars	Sep 2008	Sep 2007	Change(%)
Share Capital	296.38	280.15	5.79
Reserve & Surplus	89.22	403.66	-77.90
Total Liabilities	7174.37	5803.07	23.63
Investments	0.01	0.01	0.00
Current Liabilities	1523.83	1962.60	-22.36
Net Current Assets	932.09	306.51	204.09
Total Assests	7174.37	5803.07	23.63

Key Ratios		
Particulars	Sep 2008	Sep 2007
Reported EPS (Rs)	-13.61	-32.49
Core EBITDA Margin (%)	4.20	-0.41
EBIT Margin (%)	-0.67	-2.94
ROA (%)	-4.06	-11.07
ROE (%)	-87.52	-102.48
ROCE (%)	-0.62	-4.94
Price/Book (x)	2.54	1.59
Net Sales Growth (%)	-33.67	51.90
EBIT Growth (%)	-84.55	-142.74
PAT Growth (%)	-54.69	-316.98
Total Debt/Mcap (%)	10.69	5.91



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sugarcane production, the main raw material for sugar, and strong world prices enabling increasing exports of sugar. However, the cycle reversed after the bumper harvest of 2007-08 which pushed the prices down.

Indian sugar production is cyclic in nature and has always acted as an influential swing factor in World sugar demand and supply conditions.

As more and more cane got diverted into ethanol production, sugar supply has been seen to fall short since last year itself. When the commodity prices started easing in second half of 2008 however, the likely decline in Indian production kept the sugar prices bullish.

Outlook of the commodity will tighten into next year due to rain-induced crop problems in Brazil and falling output in India, auguring for higher prices. The International Sugar Organisation (ISO) estimates that global stocks of the sweetener will stand at 70 mt by end-September, 8-9 mt more than in the year-ago period.

Recent developments

Simbhaoli Sugars (SSL) has started off season's raw refining campaign at its second sugar manufacturing plant at Chilwaria, eastern Uttar Pradesh. The on-going refining program to refine 300,000 mt of raw in 2009-10 season is a part of business plan to meet domestic sugar deficit and to improve the capacity utilisation.

The company has so far purchased 133,000 tonnes of raw sugar at an undisclosed competitive price and another 167,000 proposed to be contracted before the commencement of crushing this season.

To meet challenges of low sugarcane availability to the mills, Simbhaoli, Brijnathpur and Chilwaria Units of SSL have taken up a cane development drive in which healthy cane seeds, pesticides to protect crops from pest and disease, and agro chemicals are being given as subsidy.

Recommendation Factors

The company has initiated major cane development programme in its three sugar units located at Simbhaoli, Brijnathpur and Chilwaria in Western and Eastern Uttar Pradesh. These cane development measures are aimed at improving the cane yield, increasing cane area and improving the quality of cane.

The company has contracted to import 150,000 tonnes of raws in the year to September and will buy an equal amount next year, with this the output, including cane crushing of the company will rise to 321,000 tonnes in 2009-10.

The company has so far purchased 133,000 tonnes of raw sugar at an undisclosed competitive price and another 167,000 proposed to be contracted before the commencement of crushing this season. The on-going programme to refine 300,000 tonnes of raw sugar in 2009-10 season is a part of business plan to meet domestic sugar deficit and to improve capacity utilisation of the plant.

The quality of cane in Brazil is poorer this year due to heavy rains, and mills are diverting cane to make ethanol biofuel. India may shift from being a net exporter to a net importer in a few years as output falls.

The Company has bought back \$ 25.11 million worth of FCCB and has initiated steps to repurchase the remaining bonds-worth \$ 7.89 mn, which is 24% of the original bonds issued. The buy-back has improved the net worth of the company by Rs 104 crore and reduced the long term debt by the same amount.

The stock of the company is currently trading at Rs 62.75 and at a P/E multiple of 3.86. Keeping in view the tight situation of the commodity and the recent developmental initiatives taken by the company, which have now started appearing we would recommend a Buy in the stock with a price target of Rs 92.



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