

Bajaj Hindusthan

Performance Highlight

Parameter (₹ cr)	1QSY2011	1QSY2010	% yoy	4QSY2010	% qoq
Total Revenue	1,483	616	141	1,020	45
EBITDA	268	202	33	163	64
EBITDA margin (%)	18.2	32.8		16.7	
Adj PAT	58	85	(32)	(50)	-

Source: Company, Angel Research

Bajaj Hindusthan (BJH) reported poor performance for 1QSY2011 (consolidated) on the back of higher cane costs and lower sugar realisation. BJH reported 141% surge in total revenues to ₹1,483cr for the quarter, while PAT declined by 32% to ₹58cr. We are rolling over to SY2012 estimates. At current levels, with BJH trading at fair valuations, **we remain Neutral on the stock.**

High raw material cost, low sugar realisation impact margin: Gross margin plunged by 2,035bp to 27% in 1QSY2011 from 47% in 1QSY2010 owing to the rise in cane cost and lower realisation. During the quarter, BJH incurred ₹2,090/tonne of cane, and realisation stood at ₹27.5/kg (₹31.6/kg).

Outlook and valuation: Going ahead, we expect the sugar prices to remain at ₹28-30/kg. The domestic ex-mill prices have corrected from the highs of ₹42/kg to ₹28-29/kg, while the cost of inventory is at ₹28/kg. However, due to declaration of SAP by the UP government, margins in the sugar business would be under pressure. At current levels, the stock is trading at fair valuations of 0.7x P/BV and 0.8x EV/invested capital on SY2012 estimates. Hence, we maintain our Neutral view on the stock.

Key Financials (Consolidated)

Y/E Sept (₹ cr)	SY2009	SY2010E	SY2011E	SY2012E
Net Sales	2,026	3,201	6,535	4,594
% chg	(2.1)	58.0	104.1	(29.7)
Net Profit	(33)	(130)	164	6
% chg	-	-	-	(96.1)
EBITDA margin (%)	20.8	12.8	10.0	8.5
EPS (₹)	-	-	7.2	0.3
P/E (x)	-	-	10.9	281.6
P/BV (x)	0.7	0.8	0.7	0.7
RoE (%)	-	-	7.1	0.3
RoCE (%)	1.3	1.1	6.0	1.0
EV/Sales (x)	2.6	1.6	0.5	0.7
EV/EBITDA (x)	12.6	12.4	5.2	8.2
EV / IC (x)	0.9	0.9	0.9	0.8

Source: Company, Angel Research

NEUTRAL

CMP	₹79
Target Price	-

Investment Period	-
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Stock Info

Sector	Sugar
Market Cap (₹ cr)	1,799
Beta	1.45
52 Week High / Low	184/78
Avg. Daily Volume	567501
Face Value (₹)	1
BSE Sensex	17,776
Nifty	5,313
Reuters Code	BJHN.BO
Bloomberg Code	BJH@IN

Shareholding Pattern (%)

Promoters	35.0
MF / Banks / Indian Fls	7.3
FII / NRIs / OCBs	15.3
Indian Public / Others	42.4

Abs. (%)	3m	1yr	3yr
Sensex	(14.8)	11.5	1.8
BJH	(43.7)	(55.3)	(65.0)

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Exhibit 1: Quarterly performance

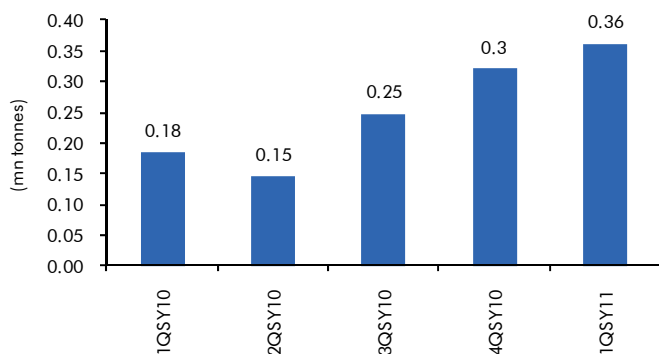
Y/E Sept (₹ cr)	1QSY2011	1QSY2010	% chg	SY2010	SY2009	% chg
Sales	1,476	615		2,874	1,584	
Other Op Income	7	0		135	197	
Total Revenue	1,483	616	141	3,009	1,781	69
Consumption of RM	1,077	324		2,022	960	
(% of Sales)	73	53		67	54	
Gross Profit	398	291		852	623	
Gross margin (%)	27.0	47.3		29.6	39.4	
Staff Costs	40	32		147	121	
(% of Sales)	3	5		5	7	
Other Expenses	98	58		246	138	
(% of Sales)	7	9		8	8	
Total Expenditure	1,215	414		2,415	1,220	
as % of sales	82	67		80	68	
EBITDA	268	202	33	594	561	6
EBITDA margin (%)	18	33		21	35	
Depreciation	86	51		257	202	
EBIT	182	151		336	359	
EBIT margin (%)	12	24		11	20	
Other Income	0	2		20	34	
Interest	107	46		301	187	
PBT (excl. Extr. Items)	75	108		55	206	
Extr. (Income)/Expense	0	(13)		0	0	
PBT (incl. Extr. Items)	75	121		55	206	
Provision for Taxation	17	35		3	51	
(% of PBT)	23	33		6	25	
Reported PAT	58	85	(32)	52	155	(67)
NPM (%)	4	14		2	9	
Equity capital (₹ cr)	19	19		19	18	
EPS (₹)	3.0	4.5		2.7	8.7	

Source: Company, Angel Research

Growth across segments

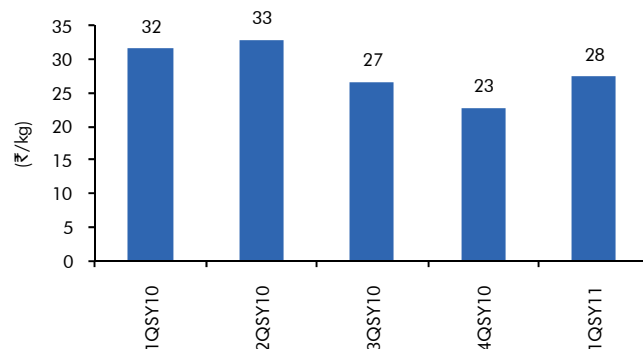
BJH posted net sales of ₹1,476cr (₹615cr) in 1QSY2011 on the back of higher volumes reported by the distillery and power divisions. Sugar volumes for the quarter increased by 95.5% to 0.36mn tonnes, the distillery division posted sales of 31.1mn litres (5.8mn litres), and the power (cogen) division witnessed a 73% increase in sales to 50mn units.

Exhibit 2: Sugar volume trend



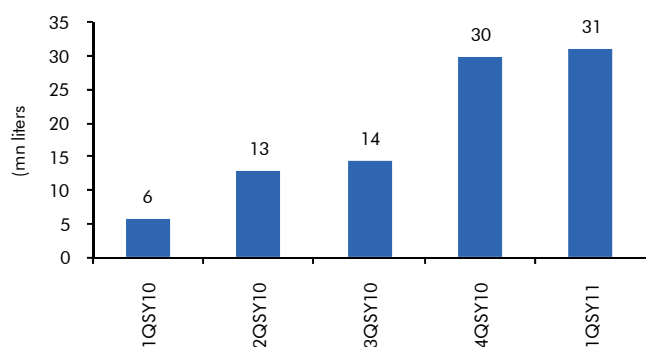
Source: Company, Angel Research

Exhibit 3: Sugar realisation trend



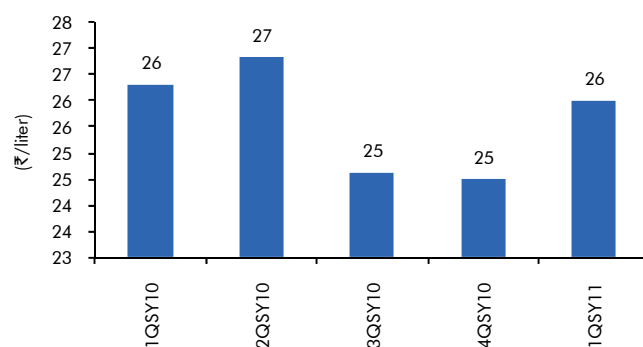
Source: Company, Angel Research

Exhibit 4: Distillery volume trend



Source: Company, Angel Research

Exhibit 5: Distillery realisation trend



Source: Company, Angel Research

High raw material costs, contribution of levy sales impact margins: BJH's gross margin fell by a substantial 2,035bp to 27% in 1QSY2011 from 47% in 1QSY2010. Margins were hit by increased cost of cane, higher contribution of levy sales and lower sugar realisation. The company incurred ₹2,090/tonne of cane in 1QSY2010. During the quarter, levy sugar was sold at a fixed price of ₹18/kg (revised price), which led to a loss of ~₹5/kg for the company. Lower sugar realisation of ₹28 during the quarter also contributed to the decline in gross margins.

Exhibit 6: Segmental performance

Y/E Sept (₹ cr)	1QSY2011	1QSY2010	% chg	SY2010	SY2009	% chg
Sugar	1,394	602	132	2,794	1,539	81
Distillery	81	15	426	157	83	88
Cogen	69	42	62	175	82	113
Total revenues	1,543	659	134	3,125	1,705	83
PBIT						
Sugar	119	135	(12)	232	1,594	(85)
Distillery	33	(4)	-	26	(68)	-
Cogen	52	32	59	127	484	(74)
Total PBIT	204	164	24	385	2,010	(81)
PBIT margin						
Sugar	8.5	22.5		8.3	103.6	
Distillery	41.5	(23.6)		16.7	(82.0)	
Cogen	75.2	76.4		72.4	589.3	

Source: Company, Angel Research

Exhibit 7: Quantitative data

Y/E Sept (₹ cr)	1QSY2011	1QSY2010	% chg	SY2010	SY2009	% chg
Cane crushed	3.6	2.5	43.7	8.5	5.4	56.1
Production						
Sugar						
- Cane based (mn tonnes)	0.3	0.2	46.9	0.8	0.5	58.5
- Raw (mn tonnes)	0.0	0.0	-	0.3	0.0	-
Distillery (mn litres)	15.4	5.1	200.3	94.7	32.1	195.0
Sales						
Sugar (mn tonnes)	0.36	0.18	95.5	0.9	0.7	28.6
Distillery (mn litres)	31.1	5.8	438.7	63.1	32.1	96.6
Power (mn units)	50.2	29.0	73.1	130.4	73.3	77.9
Realisation						
Sugar (₹/ kg)	27.5	31.6	(12.9)	28.4	22.0	29.1
Distillery (₹/ ltr)	26.0	26.3	(1.1)	24.5	25.3	(3.2)
Power (₹/ unit)	4.1	4.0	3.0	4.0	3.1	29.0

Source: Company, Angel Research

Domestic sugar supply easing

India's sugar production is estimated to increase by 40% to 26mn tonnes in SY2011 as against 18.5mn tonnes in SY2010 on account of higher drawal rate of 78% (65%), as mills offer higher compensation to farmers compared to the unorganised sector. Cane realisations for farmers in the current rally increased by 73% to ₹2,600/tonne in SY2010; in the previous rally, they moved up by 18% in SY2004, 7% in SY2005 and 10% in SY2006. In anticipation of this positive trend extending, a large number of farmers switched over to cane cultivation resulting in the area under cane cultivation touching 4.9-5mn ha in SY2011. On the back of crop economies, we do not see any significant shift towards any other crop and expect farmers to continue with sugarcane planting in SY2012 as well.

In SY2012, we expect the area under cane cultivation to remain steady at 5mn hectares, and with a yield of 68 tonnes/ha and drawal rate of 75%, we expect the country to have sugar production of 25.8mn tonnes. With opening inventory in excess of 6mn tonnes and consumption at 24mn tonnes, closing inventory would stand at 8mn tonnes or equivalent to four months of production.

Exhibit 8: Sugar cane and sugar production estimate

Sugarcane production	SY2005	SY2006	SY2007	SY2008	SY2009	SY2010E	SY2011E	SY2012E
Area under cane (mn ha)	3.7	4.2	5.2	5.0	4.4	4.3	5.0	5.0
% yoy	(7)	15	23	(3)	(12)	(3)	18	0
Cane production (mn tonnes)	237	281	356	341	272	293	330	340
Yield per ha (tonnes)	65	67	69	68	62	69	66	68
Drawal (%)	53	67	78	73	53	65	78	75
Total cane crushed (mn tonnes)	125	189	279	250	145	191	257	255
Sugar production (mn tonnes)	13	19	28	26	15	19	26	26
Avg. recovery (%)	10	10	10	11	10	10	10	10
(mn tonne)								
Opening stock	8.2	4.5	3.4	9.8	8.1	4.4	4.4	6.3
Production	12.7	19.3	28.3	26.3	14.6	18.5	26.0	25.8
Domestic consumption	18.5	19.3	20.2	22.5	22.5	23.1	23.6	24.2
% yoy	3.4	4.3	4.7	11.4	0.0	2.5	2.5	2.5
Exports	0	1	2	5	0	0	1	0
Imports	2	0	0	0	4	5	0	0
Closing stock	5	3	10	9	4	4	6	8
Closing stock (months)	3	2	6	5	2	2	3	4
Stock-to-use ratio	24	18	49	39	20	19	27	32

Source: Company, Angel Research, Bloomberg

Low contribution from high-margin power business compared to peers

BJH, though the largest sugar manufacturer in India, has lagged competition in terms of diversifying and enhancing its revenue and profitability profile compared to peers. BJH was also a late entrant in the high-EBITDA margin (60%) power generation (external sales) business. Pertinently, every sugar manufacturing process has bagasse as a by-product, which can be used as feedstock to generate power. In case of BRCM, it forayed into the power segment as early as 2003, while BJH's power division logged in its first full year of performance only in SY2008. Prior to setting up its power division, BJH sold bagasse in the open market. BJH's power division has total installed capacity of 428MW with external saleable capacity of 105MW or 25% of installed capacity. BRCM has total installed capacity of 180MW and external saleable capacity of 126MW or 70% of installed capacity. Thus, as is apparent, BJH has high internal power consumption resulting in lower external sale of power.

SY2011 to be better than SY2010

In SY2010, the sugar industry witnessed volatile sugar prices, both at the higher and lower end. Thus, we believe SY2011 would be a recovery phase for the industry. The mill operators are likely to be more rational while deciding the cane prices. The cane prices are likely to be in the current SAP range of ₹2,050–2,150/tonne, while the sugar prices are likely to remain at ₹28-30/kg. Going forward, we expect integrated players such as BJH to benefit as higher cane availability and lower cane prices would lead to higher utilisation levels (67%). Overall, we expect BJH's to turn-around in SY2011 after having posted losses in SY2010.

Outlook and valuation

Going ahead, sugar prices are likely to be under pressure because of the higher-than-estimated sugar production in India and Brazil. Hence, we expect sugar demand-supply to achieve balance in SY2011, resulting in further softening of the prices. The domestic ex-mill prices have corrected from the highs of ₹42/kg to ₹28-29/kg, while inventory is at ~₹28/kg.

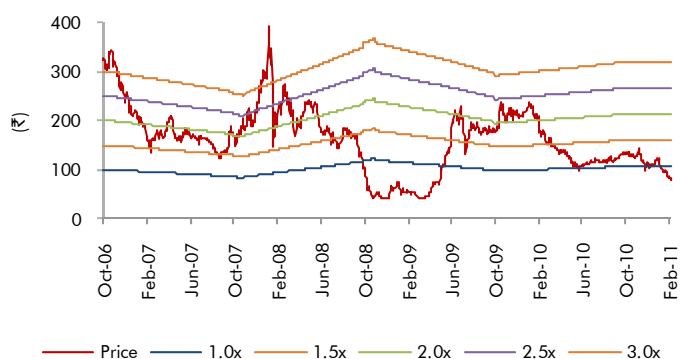
We are rolling forward to SY2012 estimates. At current levels of ₹79 the stock is trading at fair valuations of 0.7x P/BV and 0.8x EV/IC on SY2012 estimates. **Hence, we maintain our Neutral view on the stock.**

Exhibit 9: Key assumptions

	SY11E	SY12E
Capacity ('000 tcd)	136.0	136.0
Utilisation (%)	67	67
No of days	100	100
Cane crushed (mn tonnes)	13.6	13.6
Recovery rate (%)	10.0	10.0%
Sugar produced (MT)	1,360,000	1,360,000
Sugar sales (mn tonnes)	1,672,098	1,404,558
Levy realisation (₹/kg)	18.0	18.0
Free sale realisation (₹/kg)	29.0	28.8
Blended realization - Net (₹/kg)	28.1	27.8
Cost of cane (₹/tonne)	2,200	2,400
Refinery based sugar (mn tonnes)	0.4	0.0
Realisation (₹/kg)	29	0.0
Alcohol Sales (mn kl)	51.6	73.8
Realisation per litre	27.0	27.0
Cogen units - surplus (mn units)		
Realisation per unit	4.0	4.0

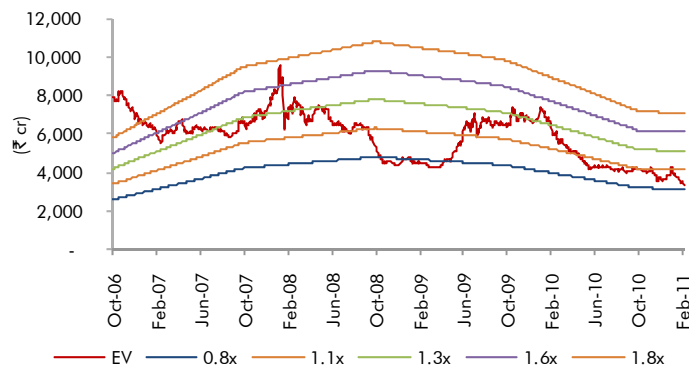
Source: Company, Angel Research

Exhibit 10: One-year forward P/B



Source: Company, Angel Research

Exhibit 11: One-year forward EV/IC



Source: Company, Angel Research

Profit & Loss statement (Consolidated)

Y/E Sept (₹ cr)	SY07	SY08	SY09	SY10	SY11E	SY12E
Total operating income	1,780	2,070	2,026	3,201	6,535	4,594
% chg	20.1	16.3	(2.1)	58.0	104.1	(29.7)
Total Expenditure	1,590	1,776	1,605	2,791	5,884	4,202
Net Raw Materials	1,205	1,369	1,221	2,220	4,766	3,404
Other Mfg costs	16	24	29	-	59	42
Personnel	142	148	165	184	353	252
Other	226	234	189	387	706	504
EBITDA	191	294	421	410	651	391
% chg	(39.2)	54.2	43.2	(2.7)	58.8	(39.9)
(% of Net Sales)	10.7	14.2	20.8	12.8	10.0	8.5
Depreciation & Amortisation	161	280	346	344	346	347
EBIT	30	14	76	66	305	44
% chg	(87.5)	(51.8)	430.1	(12.9)	362.6	(85.4)
(% of Net Sales)	1.7	0.7	3.7	2.1	4.7	1.0
Interest & other Charges	139	278	263	368	215	139
Other Income	80	121	141	139	115	102
(% of PBT)	-	(44)	134	435	56	1,282
Recurring PBT	(29)	(143)	(47)	(163)	206	8
% chg	-	-	-	-	-	(96.1)
Extraordinary Expense/(Inc.)	-	130	(152)	(195)	-	-
PBT (reported)	(29)	(273)	105	32	206	8
Tax	(20)	(98)	46	(9)	41	2
(% of PBT)	68.1	35.9	43.4	(28.8)	20.0	20.0
PAT (reported)	(9)	(175)	60	41	164	6
Add: Share of earnings of associate	5	6	7	8	9	9
Less: Minority interest (MI)	(11)	17	2	-	-	-
Prior period items	-	-	-	-	-	-
PAT after MI (reported)	(21)	(157)	62	41	164	6
ADJ. PAT	(34)	(90)	(33)	(130)	164	6
% chg	-	-	-	-	-	(96.1)
(% of Net Sales)	(1.9)	(4.3)	(1.6)	(4.1)	2.5	0.1
Basic EPS (₹)	-	-	-	-	7.2	0.3
Fully Diluted EPS (₹)	-	-	-	-	7.2	0.3
% chg	-	-	-	-	-	(96.1)

Balance sheet (Consolidated)

Y/E Sept (₹ cr)	SY07	SY08	SY09	SY10E	SY11E	SY12E
SOURCES OF FUNDS						
Equity Share Capital	14	14	18	23	23	23
Preference Capital	-	-	-	-	-	-
Reserves & Surplus	1,392	1,187	2,096	2,193	2,395	2,433
Shareholders Funds	1,406	1,201	2,114	2,215	2,418	2,456
Minority Interest	23	67	65	65	65	65
Total Loans	3,593	4,335	4,056	3,439	1,926	1,541
Deferred Tax Liability	105	4	49	49	49	36
Total Liabilities	5,127	5,608	6,283	5,768	4,458	4,098
APPLICATION OF FUNDS						
Gross Block	2,922	4,745	5,295	5,315	5,330	5,345
Less: Acc. Depreciation	467	719	1,060	1,404	1,750	2,097
Net Block	2,455	4,026	4,235	3,911	3,580	3,248
Capital Work-in-Progress	1,630	159	155	155	155	155
Goodwill	-	-	-	-	-	-
Investments	-	-	-	-	-	-
Current Assets	2,055	2,592	2,993	3,060	3,280	2,140
Cash	267	174	127	156	315	118
Loans & Advances	1,240	1,571	1,859	1,761	1,634	1,148
Other	548	847	1,006	1,143	1,332	873
Current liabilities	1,013	1,169	1,100	1,358	2,558	1,445
Net Current Assets	1,042	1,423	1,893	1,702	722	695
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	5,127	5,608	6,283	5,768	4,458	4,098

Cash flow (Consolidated)

Y/E Sept (₹ cr)	SY07	SY08	SY09	SY10E	SY11E	SY12E
Profit before tax	(29)	(293)	105	32	206	8
Depreciation	161	280	346	344	346	347
Change in Working Capital	(25)	(128)	(263)	584	1,410	15
Less: Other income	-	-	-	-	-	-
Direct taxes paid	(20)	(25)	(14)	9	(41)	(2)
Cash Flow from Operations	88	(166)	174	969	1,921	369
(Inc.)/ Dec. in Fixed Assets	(1,696.9)	(291.6)	(160.4)	(20.0)	(15.0)	(15.0)
(Inc.)/ Dec.) in Investments	(301.5)	(1.2)	35.0	-	-	-
Inc./ (Dec.) in loans and advances	-	-	-	-	-	-
Other income	-	-	-	-	-	-
Cash Flow from Investing	(1,998)	(293)	(125)	(20)	(15)	(15)
Issue of Equity	31	5	742	79	-	-
Inc./ (Dec.) in loans	2,052	620	(428)	(617)	(1,513)	(385)
Dividend Paid (Incl. Tax)	(10)	(10)	(10)	(14)	(19)	(27)
Others	(126)	(250)	(399)	(368)	(215)	(139)
Cash Flow from Financing	1,947	365	(95)	(921)	(1,746)	(550)
Inc./ (Dec.) in Cash	36.2	(93.4)	(46.8)	28.5	159.2	(196.7)
Opening Cash balances	231	267	174	127	156	315
Closing Cash balances	267	174	127	156	315	118

Key Ratios

Y/E Sept	SY07	SY08	SY09	SY10E	SY11E	SY12E
Valuation Ratio (x)						
P/E (on FDEPS)	-	-	-	-	10.9	281.6
P/CEPS	8.7	5.9	4.5	8.4	3.5	5.1
P/BV	0.8	0.9	0.7	0.8	0.7	0.7
Dividend yield (%)	0.8	0.8	0.9	0.9	1.3	1.6
EV/Sales	2.5	2.5	2.6	1.6	0.5	0.7
EV/EBITDA	23.3	17.9	12.6	12.4	5.2	8.2
EV / Total Assets	0.9	0.9	0.8	0.9	0.8	0.8
EV / IC	1.4	1.0	0.9	0.9	0.9	0.8
Per Share Data (₹)						
EPS (Basic)	-	-	-	-	7.2	0.3
EPS (fully diluted)	-	-	-	-	7.2	0.3
Cash EPS	9.0	13.4	17.7	9.4	22.4	15.5
DPS	0.6	0.6	0.7	0.7	1.0	1.3
Book Value	99.4	85.0	119.5	97.2	106.1	107.7
Dupont Analysis						
EBIT margin	1.7	0.7	3.7	2.1	4.7	1.0
Tax retention ratio	31.9	64.1	56.6	128.8	80.0	80.0
Asset turnover (x)	0.6	0.4	0.3	0.6	1.6	1.2
ROIC (Post-tax)	0.3	0.2	0.7	1.6	6.1	0.9
Cost of Debt (Post Tax)	1.7	4.1	4.6	12.6	6.4	6.4
Leverage (x)	1.7	2.9	2.4	1.7	1.1	0.6
Operating ROE	(2.0)	-	-	-	-	-
Returns (%)						
ROCE (Pre-tax)	0.7	0.3	1.3	1.1	6.0	1.0
Angel ROIC (Pre-tax)	0.6	0.3	1.2	1.2	7.4	1.1
ROE	-	-	-	-	7.1	0.3
Turnover ratios (x)						
Asset Turnover (Gross Block)	0.8	0.5	0.4	0.6	1.2	0.9
Inventory / Sales (days)	59	108	158	115	62	76
Receivables (days)	18	15	9	8	7	11
Payables (days)	105	172	212	138	114	167
Working capital cycle (ex-cash) (days)	105	178	272	189	55	39
Solvency ratios (x)						
Net debt to equity	2.4	3.5	1.9	1.5	0.7	0.6
Net debt to EBITDA	17.4	14.1	9.3	8.0	2.5	3.6
Interest Coverage (EBIT / Interest)	0.2	0.1	0.3	0.2	1.4	0.3

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Disclosure of Interest Statement	Bajaj Hindusthan
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	Buy (> 15%) Reduce (-5% to 15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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