



INDEPENDENT **EQUITY** **RESEARCH**

The Jeypore Sugar Company Ltd

Initiating coverage

Enhancing investment decisions

Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (negative 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

Additional Disclosure

This report has been sponsored by NSE - Investor Protection Fund Trust (NSEIPFT).

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The Jeypore Sugar Company Ltd

Concerns on leverage

Fundamental Grade	2/5 (Moderate fundamentals)
Valuation Grade	3/5 (CMP is aligned)
Industry	Food Products

Jeypore Sugar Company Ltd (Jeypore) is an Andhra Pradesh based sugar manufacturer. CRISIL Equities believes that while capacity expansion will lead to higher revenues, the high cost inventory and leverage will affect profitability. We assign Jeypore a fundamental grade of '2/5', indicating that its fundamentals are 'moderate' relative to other listed securities in India.

Sugar prices expected to remain at Rs 28,000-30,000 per tonne

CRISIL Research expects the production in sugar season(SS)October 2010-September 2011 (SS 2010-11) to increase 34% y-o-y to 25-26 million tonnes. Sugar prices corrected by almost 37% from January 2010 to August 2010 due to production in SS2009-10 being higher than anticipated and expectation of a bumper crop in SS2010-11. However, sugar prices have recovered sharply on the expectation exports being allowed under the Open General License (OGL) and firm global prices. CRISIL Research expects domestic sugar prices to remain at Rs 28,000-30,000 during SS 2010-11.

New capacity operational in SS2010-11 after a nearly three-year delay

Jeypore has an 8500 tonnes crushed per day (TCD) sugar-manufacturing unit integrated with a 25 MW co-generation unit and a 60 (kilolitre per day) KLPD distillery. After a delay of nearly three years, the company has set up another unit of 5000 TCD and 16.8 MW co-generation plant which will be operational in SS2010-11. The delay has resulted in significant escalation in project costs.

High leverage remains a key concern

Jeypore's capacity expansion has been entirely funded through debt which has resulted in a high net debt-to-equity of 3.6x. While capacity expansion will boost revenues, profitability would be affected due to high interest costs and depreciation. Further, the high leverage remains a concern due to the inherent cyclical nature of the industry.

Expect two-year revenue CAGR of 25% but loss in FY11

Revenues are expected to grow at 25% CAGR over FY10-12 based on the recovery in crushing days and capacity expansion. But EBIDTA margin will decline 840 bps to 17.0% in FY11 due to sale of high cost inventory and start costs for new facility. We expect the company to post a loss of Rs 50 mn in FY11 and profit of Rs 78 mn in FY12.

Valuations – current price is aligned

CRISIL Equities has valued Jeypore at P/BV of 0.9x FY12E book value per share to arrive at a fair value of Rs 152 per share. We initiate coverage on Jeypore with a valuation grade of '3/5'.

KEY FORECAST

(Rs mn)	FY08	FY09	FY10	FY11E	FY12E
Operating income	1,944	1,792	2,420	2,975	3,809
EBITDA	204	364	614	506	752
Adj Net income	-75	-7	192	-50	78
Adj EPS-Rs	NM	NM	42.3	NM	17.3
EPS growth (%)	NM	NM	NM	NM	NM
PE (x)	NM	NM	4.5	NM	9.7
P/BV (x)	1.4	0.7	1.2	1.1	1.0
RoCE (%)	4.3	8.9	15.3	8.4	14.0
RoE (%)	NM	NM	29.1	NM	10.6
EV/EBITDA (x)	12.6	7.6	5.8	6.9	4.5

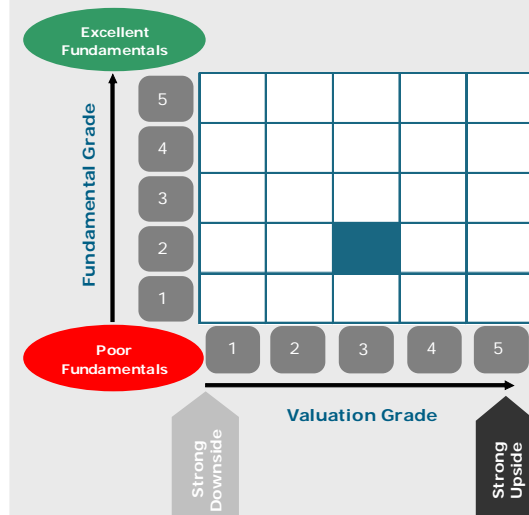
Source: Company, CRISIL Equities estimate

NM: Not meaningful; CMP: Current Market Price

December 02, 2010

Fair Value Rs 152
CMP Rs 167

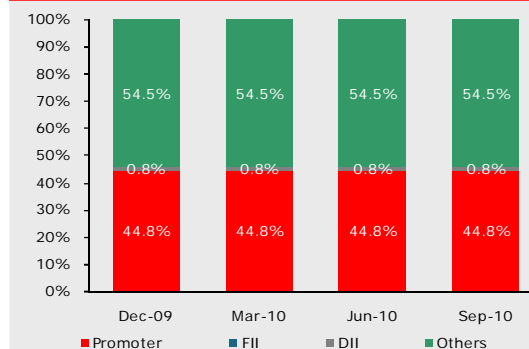
CFV MATRIX



KEY STOCK STATISTICS

NIFTY	5830
NSE ticker	JEYPORE
Face value (Rs per share)	10
Shares outstanding (mn)	4.5
Market cap (Rs mn)/(US\$ mn)	752/16
Enterprise value (Rs mn)/(US\$ mn)	3,464/76
52-week range (Rs) (H/L)	240/136
Beta	0.89
Free float (%)	55.2%
Avg daily volumes (30-days)	1,145.94
Avg daily value (30-days) (Rs mn)	0.2

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
JEYPORE	-10%	-12%	4%	-23%
NIFTY	-2%	10%	21%	17%

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Table: 1 JEYPORE SUGAR : Business environment

Product / Segment	Sugar	Power – by product	Alcohol – by product
Revenue contribution (FY10)	88.3	1.8	7.0
Revenue contribution (FY12)	88.3	3.0	7.4
Product / service offering	Refined sugar	Selling to grid	Industrial Alcohol Extra Neutral Alcohol Ethanol IMFL
Geographic presence	Plants located at Chagallu & Pothavaram West Godavari, Andhra Pradesh		
Market position	Small player but integrated with power and distillery units		
Capacity	8500 TCD operating at Chagallu 5000 TCD at Pothavaram to be operational during SS 2010-11	25 MW at Chagallu 16.8 MW at Pothavaram (as per company)	60 KLPD at Chagallu 40 KLPD at Jangareddygudem (as per company)
Industry growth expectations	8% consumption growth and 34% growth in sugar production in SS2010-11		
Sales growth (FY08-FY10 – 2-yr CAGR)	14%	-26%	-29%
Sales forecast (FY10-FY12 – 2-yr CAGR)	27%	64%	31%
Demand drivers	Household consumption of sugar driven by population growth, consumer preference etc. Rising share of indirect consumption of sugar by industries such as bakeries, confectioneries & chocolates, soft & fruit drinks, tea & coffee etc. Relative prices of substitutes such as jaggery Government regulations on stocking, import, exports etc. Power and alcohol are derivatives of sugar production. The demand driver for power is growth in GDP leading to power deficit. Alcohol demand is driven by industrial use and consumption trends		
Key competitors	Although there are sugar producers who are much bigger than Jeypore, competitive risks are low due to regulations and regional nature of industry. Competitive risks exist for sourcing of sugarcane from other alternative sweetener manufacturers.		
Key risks	Government regulates prices of both sugar and sugar cane Cyclical industry Company does not have much bargaining power for sourcing sugarcane	Since it's a co-generation power plant, production is dependent on availability of bagasse which is in turn dependent on canes crushed.	Dependent on production of molasses which is in turn dependent on canes crushed.

Source: Company, CRISIL Equities

Grading Rationale

Small but integrated sugar manufacturer in Andhra Pradesh

Jeypore has a sugar manufacturing capacity of 8500 TCD located in Chagallu, Andhra Pradesh. It has an integrated co-generation power plant of 25 MW and one distillery at Chagallu (60KLPD) and another distillery at Jangareddygudem (40KLPD). An integrated sugar manufacturing unit with distillery and co-generation helps the company ensure better realisation from by-products, thereby supporting profitability.

The expected increase in cane crushed in SS2010-11 will further help the company's power generation and distillery units to operate at better utilisation levels.

Low crushing in the past two years to recover in SS 2010-11

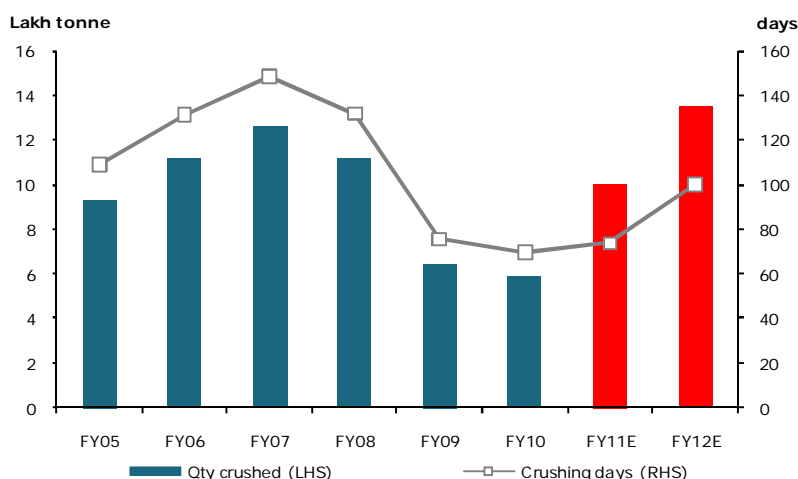
Sugarcane production during SS09-10 was affected due to the decline in acreage and low rainfall which resulted in an industry-wide shortage of sugarcane. Jeypore's average days of crushing fell to 76 and 70 days in FY09 and FY10, respectively. The cane crushed fell by 42.4% in FY09 and 7.9% in FY10 whereas production fell by 49% in FY09 and 13% in FY10.

CRISIL Research expects bumper sugarcane crop in SS2010-11. In line with the increase sugarcane production, we expect the company to report higher crushing in SS2010-11. We expect the quantity of sugarcane crushed by the company to increase by 68% y-o-y to 10 lakh tonnes in FY11 due to the increase in cane availability and commissioning of the new plant at Pothavaram.

Jeypore's Chagallu facility is fully integrated with 8500 TCD crushing capacity, a 25-MW co-generation unit and a 60 KLPD distillery

We expect sugar cane crushing of 10 lakh tonnes for SS2010-11 against 5.9 lakh tonnes done in SS2009-10

Figure 1: Sugarcane quantity crushed and crushing days



Source: CRISIL Equities

5000 TCD expansion plan already delayed by three years

The company has set up a 5000-TCD greenfield sugar manufacturing plant along with a 16.8 MW co-generation plant at Pothavaram, Andhra Pradesh. The company expects the plant to be operational in SS2010-11.

However, the project has already faced a delay of around three years which has escalated the initially planned capital cost of Rs. 2,000 mn to around Rs 2,500 mn. The plant was supposed to start operations in SS2007-08. However, in FY08, the company decided to undertake some design modifications to enhance the plant's flexibility, quality and utilization levels. Procurement of certain equipments also contributed to the delay. A shortage in sugarcane availability in FY09 and FY10 further delayed the start of operations.

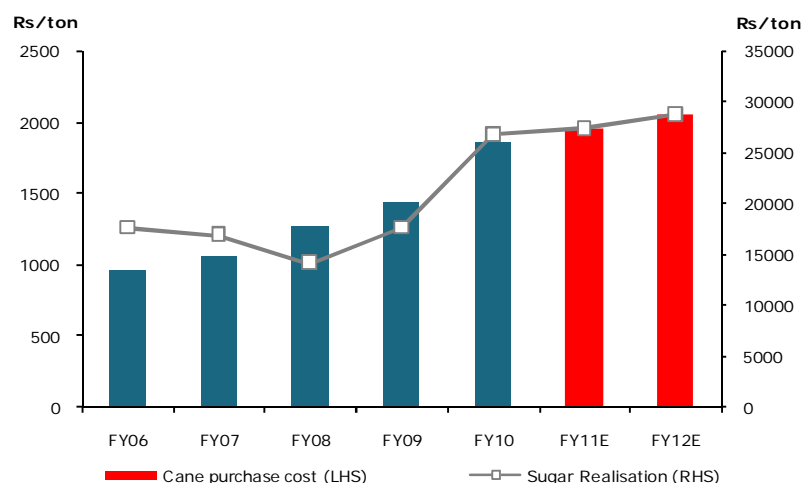
High leverage a key concern

Capacity expansion when cane production is expected to be high and sugar prices are expected to remain firm, augurs well for the company. However, the increase in leverage (net debt-equity of 3.6x as on Mar 2010) of the company to fund the capacity expansion is a serious of concern if the industry sees a downturn in the next sugar cycle (SS2011-12).

Low bargaining power to keep cane cost high

The company's cost of procuring sugarcane has always remained high as it has low bargaining power with the farmers near its factory at Chagallu due to presence of other sugar factories and alternate sweetener manufacturers. In FY10, the shortage of sugarcane and the company's low bargaining power increased sugarcane procurement costs by 30%.

Figure 2: Sugarcane procurement cost and sugar realisations



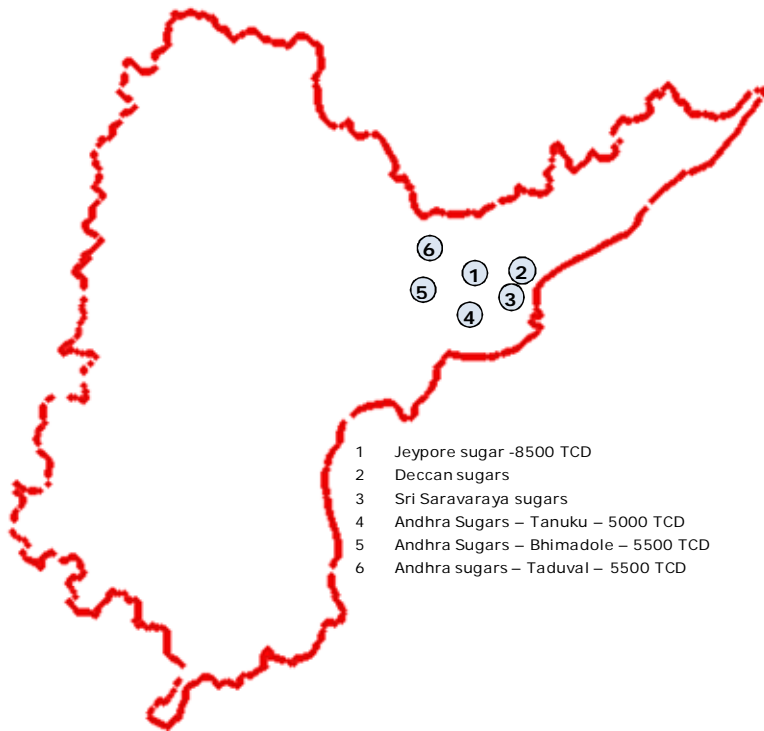
Source: Company, CRISIL Equities

New facility of 5000 TCD at Pothavaram to start operations in SS 2010-11 after a delay of around three years

Company has taken a term loan of Rs 1621 mn for funding the new facility at Pothavaram

The company has low bargaining power with farmers due to presence of other sugar factories nearby

Figure 3: Sugar factories located close to Jeypore's factory



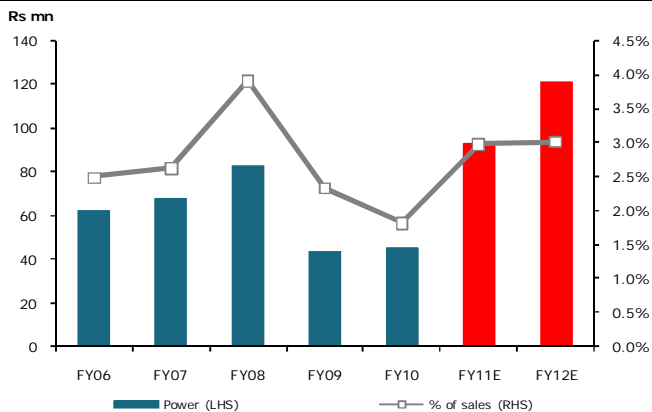
Source: Company websites, CRISIL Equities

Co-generation and distillery revenues to increase

The company has a 25MW co-generation plant and a 60 KLPD distillery situated in the Chagallu unit. The low crushing of cane in FY09 and FY10 had reduced the availability of raw materials for these units. However, the expected recovery in cane crushing in FY11 is expected to boost production of power and alcohol. Further, sales prices of power and alcohol are expected to remain firm. The new unit at Pothavaram with an additional 16.8 MW co-generation plant will add to the power revenues from FY11 onwards.

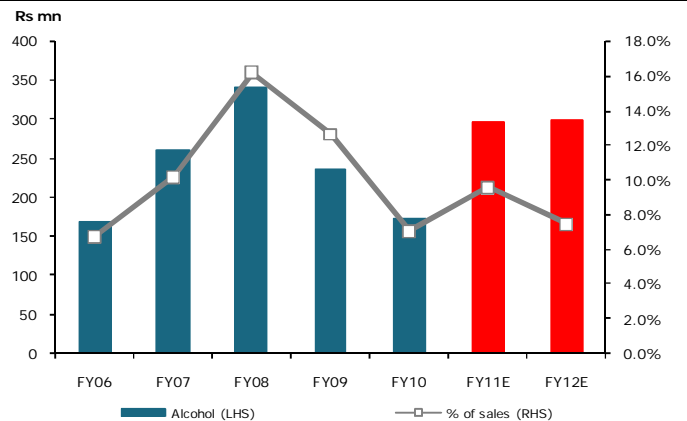
Higher crushing this season will lead to better availability of bagasse and molasses for power and distillery units

Figure 4: Power revenues and their contribution



Source: Company, CRISIL Equities

Figure 5: Alcohol revenues and their contribution



Source: Company, CRISIL Equities

The Jeypore Sugar Ltd

Table: 2 Comparative Position of Jeypore Sugar

Name of Company	Year	Market Cap Rs mn	D/E	P/BV	EV/ EBIDTA	Capacities			Revenue contribution			
	End					Sugar TCD	Power MW	Distillery KLPD	Sugar	Power	Alcohol	Others
Bajaj Hindusthan Ltd	Sep09	19117	1.9	0.9	7.3	96000	274	640	91%	1%	5%	3%
Balrampur Chini Mills Ltd	Sep10	19498	0.9	1.7	3.7	73500	180	320	84%	7%	8%	1%
Triveni Engineering & Inds. Ltd	Mar10	25143	0.9	2.6	3.7	61000	68	160	65%	2%	3%	30%
Bajaj Hind Sugar & Inds. Ltd	Sep09	2295	3.1	0.7	6.7	40000	88		85%	2%	11%	2%
Dhampur Sugar Mills Ltd	Mar10	3334	1.5	0.7	5.7	39500	145	0	86%	6%	0%	9%
Shree Renuka Sugars Ltd	Sep09	51050	0.9	3.4	5.0	39000	143	630	83%	6%	8%	2%
Median			1.7	0.8	6.2							
Mawana Sugars Ltd	Sep09	926	3.2	0.4	12.9	29500	0	100	67%	1%	0%	32%
Oudh Sugar Mills Ltd	Jun09	786	4.5	0.5	5.6	28700	25	132	84%	1%	9%	6%
Uttam Sugar Mills Ltd	Mar10	1225	5.5	0.8	16.6	23750	0	0	89%	2%	0%	9%
Dwarikesh Sugar Inds. Ltd	Sep09	1496	2.8	0.9	4.6	21500	0	30	89%	5%	1%	5%
Simbhaoli Sugars Ltd	Mar10	1029	5.0	0.8	3.9	20100	79	173	59%	2%	39%	1%
Median			4.5	0.8	5.6							
E I D-Parry (India) Ltd	Mar10	41988	1.6	2.3	2.1	19000	85	135	79%	21%	0%	0%
Bannari Amman Sugars Ltd	Mar10	9416	0.3	1.4	3.6	19000	65	349	67%	10%	9%	13%
Rana Sugars Ltd	Mar10	1196	2.0	0.4	5.9	15000	88	60	64%	12%	13%	11%
Ugar Sugar Works Ltd	Mar10	1913	4.2	2.3	13.9	12500	44	93	61%	5%	27%	7%
K C P Sugar & Inds. Corpn. Ltd	Mar10	2103	0.3	1.2	4.0	11500	20	50	87%	1%	4%	8%
Median			2.0	1.2	5.9							
Dharani Sugars & Chem Ltd	Mar10	1312	4.5	1.2	3.8	10000	22	60	88%	5%	7%	0%
Jeypore Sugar Co. Ltd	Mar10	767	3.8	1.0	5.6	8500	25	100	88%	2%	7%	3%
Thiru Arooran Sugars Ltd	Mar10	2036	2.1	1.4	2.0	8500	0	60	86%	0%	13%	0%
Piccadilly Agro Inds. Ltd	Mar10	771	1.1	1.5	3.4	5000	0	0	45%	0%	0%	55%
Empee Sugars & Chem Ltd	Mar10	2607	2.9	1.7	76.4	2500	0	30	65%	0%	35%	0%
Ponni Sugars (Erode) Ltd	Mar10	958	0.4	1.2	1.7	2500	0	0	86%	0%	0%	14%
Median		19117	2.5	1.3	3.6							

Source: Prowess, CRISIL Equities

Domestic sugar prices to be around Rs 28,000-30,000 per tonne for SS2010-11

- Upward revision in production estimates for SS 2009-10 and expectations of bumper crop in SS2010-11 resulted in sugar prices falling from Rs 40,800 per tonne in Jan 2010 to Rs 25,330 per tonne in August 2010.
- Expectation of exports being allowed under OGL and firm global prices led to domestic prices recovering from Rs 25,330 per tonne in August to Rs 28,960 per tonne currently.
- CRISIL Research expects firm global prices and the export of surplus production to keep sugar prices at Rs 28,000-30,000 per tonne for SS2010-11.

Production to rise due to increase in acreage: Domestic sugar production is estimated to grow by 31% y-o-y during SS2009-10 to 19 million tonnes as against the industry's expectation of 16-17 million tonnes for the season. Improvement in yield due to superior variety of cane and increased diversion of cane towards sugar production has led to the revision in estimates.

In SS 2010-11 the area under sugarcane cultivation in Uttar Pradesh and Maharashtra is expected to rise by 25% and 20%, respectively. This is expected to increase production by 34% to 25-26 million tonnes in SS 2010-11.

Production surplus is expected to lead to downward pressure on sugar prices whereas allowance of export will support prices

Consumption to witness 8% growth in SS 2010-11: Consumption in SS2009-10 declined 2.2% y-o-y due to higher sugar prices coupled with government restrictions on stocking limits. Consumption in SS 2010-11 is expected to increase by 8% y-o-y to around 24.3 million tonnes. The rise in consumption would be driven by the removal of restriction on bulk consumer's stock limits and the drop in domestic prices.

The growth in industrial consumption by sectors such as confectioneries, chocolates, soft drinks and sweets is expected to drive consumption at 4.4% CAGR to reach 28.9 million tonnes by 2014-15.

TABLE 3: DOMESTIC DEMAND SUPPLY SCENARIO

Million tonnes	SS04-05	SS05-06	SS06-07	SS07-08	SS08-09	SS09-10E	SS10-11P
Opening stock	8.5	4.9	3.4	9.2	8.7	3.3	4.0
Production	12.7	19.3	28.4	26.4	14.5	19.0	25.5
Imports	2.1	0.0	0.0	0.0	3.0	4.2	0.0
Consumption	18.5	19.6	20.8	22.0	23.0	22.5	24.3
Exports	0.0	1.1	1.7	4.9	0.0	0.0	1.0
Closing Stock	4.9	3.4	9.2	8.7	3.3	4.0	4.1
Closing stock/months consumption	3.0	2.0	5.0	4.5	1.7	1.9	1.9
Sugar prices – Mumbai S-30 (Rs/tonne)	17651	18696	14879	15130	22787	31000	29000

Source: CRISIL Research

Expected production surplus lead to price decline...

CRISIL Research expects production surplus of about 1.0-1.5 million tonnes in SS 2010-11. Upward revision in production estimates for SS2009-10 and the expected production surplus in SS2010-11, for the first time since SS 2007-2008 led to a sharp 37% decline in sugar prices from a peak of Rs. 40,800 per tonne in January 2010 to Rs 25,330 per tonne in August 2010 (Mumbai S-30).

...however, expectation of export being allowed under OGL restricted the fall

Sugar mills, which had imported sugar in SS 2003-04 and SS 2004-05 are obligated to re-export one tonne of white sugar for every 1.05 tonne of raw sugar imported under the Advance Licensed Scheme (ALS). The central government has allowed these mills to export up to 25% of obligations by November 2010 and the remaining 75% by March 2011.

CRISIL Research expects domestic sugar mills to export about one million tonne in SS 2010-11 under the ALS. The expectation of export being allowed under OGL helped sugar prices recover from a low of Rs 25,330 per tonne in August 2010 to Rs 28,960 per tonne currently (Mumbai S-30).

Global demand-supply expected to be marginally surplus

The downward revision of production estimates in the major exporting countries such as Brazil, Thailand and Australia will result in only marginal production surplus and tightness in global inventories in 2010-11. CRISIL Research estimates the global price of white sugar to average around US\$ 625-635 per tonne for the

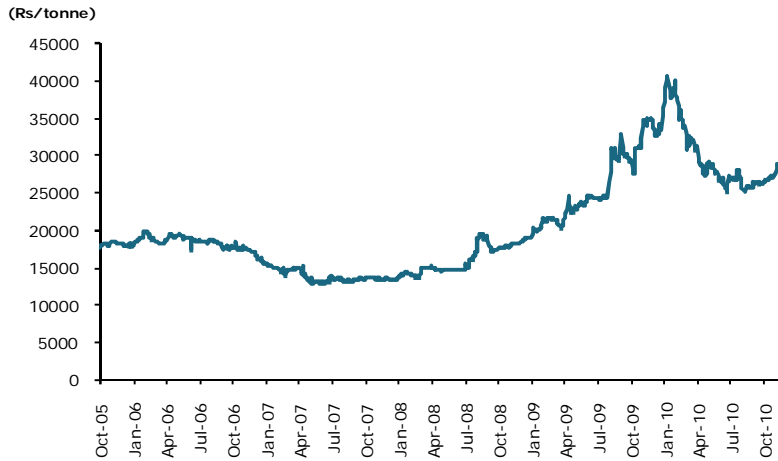
The Jeypore Sugar Ltd

first half of SS 2010-11. The allowance of exports from India during this period is expected to firm up domestic sugar prices.

Domestic sugar prices to be around Rs 28,000-30,000 per tonne for SS 2010-11

Based on the demand-supply scenario, CRISIL Research expects domestic sugar prices to remain at Rs 28,000-30,000 per tonne (Mumbai S-30). The expectation of allowance of export under OGL has led to an upward revision of CRISIL Research's estimates of sugar prices to 28,000-30,000 per tonne.

Figure 6: Sugar prices (Mumbai-S30)



Source: CRISIL Equities

Key risks

Volatility of sugarcane availability

Sugarcane availability for sugar production is dependent on various factors viz., monsoons, relative benefit to farmers from different crops, competition from alternative users of sugarcane and recovery rates. The combination of all these factors leads to a high degree of volatility in the availability and prices of sugarcane. The volatility gets reflected in the revenue growth and profitability of the sugar manufacturers.

Regulated nature of industry

Sugar being a primarily agricultural commodity, it is subject to various regulations by the central and state governments. The sugar manufacturers have to buy sugarcane from farmers at prices above minimum regulated prices set by the government.

While sugar prices are not regulated, the government exerts indirect control over the prices. For instance the government currently requires that 10% of production by the sugar manufacturer has to be sold to the Public Distribution Scheme (PDS) at a lower realisation than market prices. Further the government can control sugar prices by imposing and removing import/export restrictions.

Low bargaining power with farmers

The company has low bargaining power with the farmers in the Chagallu area due to the presence of other sugar factories and other alternative sweetener manufacturers around the region. This has historically put a pressure on the company's realisation. The company's ability to source adequate sugarcane at remunerative prices is a key concern.

Sugar being a primary agri-commodity, the sugar industry is highly regulated

Financial Outlook

Revenues to grow at two-year CAGR of 25%

Jeypore's revenues are expected to witness a strong 25% CAGR over FY10-12 due to the recovery in crushing days and with the new 5000 TCD unit at Pothavaram starting production.

The sugarcane crushed is estimated to increase 68% to 10 lakh tonne in FY11 from 5.9 lakh tonne in FY10. Of the 10 lakh tonne of crushing planned, around 1.5 lakh tonne will take place at the new unit at Pothavaram. For FY12, we have assumed the company will crush 13.5 lakh tonne of sugarcane (100 crushing days) due to the ramp up in production at the new Pothavaram facility.

The company had sold 81,646 tonne of sugar in FY10 against a production of 61,570 tonne as it brought down its inventory levels. The production in FY11 is expected to grow by 79% to 110,000 tonnes but the sales volumes will grow at a lower rate of 21% to 98,426 tonne as the company replenishes inventory.

Increase in crushing and capacity expansion to drive revenue growth

Table 4: Key assumptions

	FY06	FY07	FY08	FY09	FY10	FY11E	FY12E
Quantity details							
Capacity (TCD)	8,500	8,500	8,500	8,500	8,500	13,500	13,500
Crushing (tonnes)	1,114,655	1,260,123	1,119,660	644,688	593,633	1,000,000	1,350,000
Crushing (days)	131	148	132	76	70	74	100
Sugar Production (tonnes)	104,468	132,600	139,377	70,967	61,570	110,000	148,500
Sales (Tonnes)	128,885	130,299	118,680	88,539	81,646	98,426	124,300
Closing stock (Tonnes)	62,855	65,156	85,853	68,281	47,826	59,400	83,600
Sugar realisation per tonne							
Levy quota prices	13,659	13,659	13,659	13,659	13,659	18,000	18,000
Market prices	18,383	17,809	14,296	18,383	29,058	28,500	29,925
Weighted average realisations	17,617	16,965	14,146	17,626	26,736	27,327	28,500
Value details							
Sales (Rs mn)	2,271	2,210	1,679	1,561	2,183	2,690	3,543
Closing stock (Rs mn)	932	940	1,288	1,308	1,183	1,462	2,119

EBIDTA margins to fall by 840 bps in FY11; recover in FY12

Jeypore's FY10 sales included the sale of low cost sugar inventory produced in FY09. The average cane cost in FY09 was Rs. 1,433 per tonne against Rs 1,858 per tonne in FY10. But the average sugar realisations in FY10 were Rs. 26,736 per tonne against Rs. 17,626 in FY09. This resulted in the EBIDTA margins of 25.4% in FY10.

However sales in FY11 will include the high cost inventory produced in FY10, which will result in EBIDTA margins declining by 840 bps in FY11 compared to FY10. We have assumed cane cost in FY11 to grow at 5% over FY10. Further expenditure related to the new facility startup at Pothavaram will also put pressure on margins.

The Jeypore Sugar Ltd

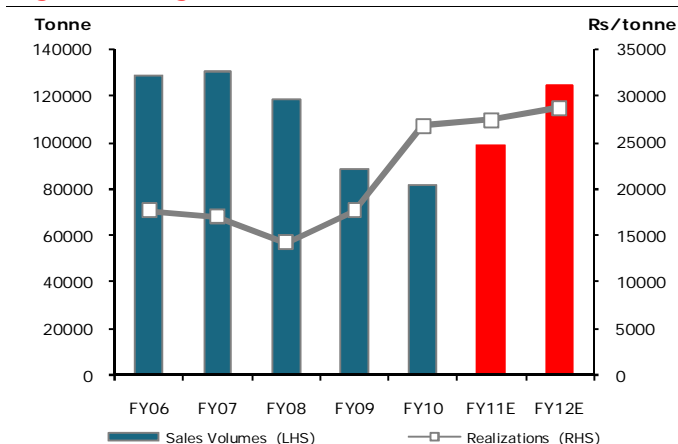
We have assumed average realisations and cane costs to increase by 5% y-o-y in FY12. The ramp up in sugarcane crushing as well as the stabilisation of the new Pothavaram unit will result in EBITDA margin increasing to 19.8% in FY12.

Interest and depreciation to affect profitability

The company has funded its capacity expansion plans through long-term debt. It has been capitalising interest costs during the construction period. As the plant is expected to become operational in FY11, the interest and related depreciation costs are expected to rise by 55% and 80%, respectively. As a result, we expect the company to post a loss of Rs. 50 mn in FY11 and a profit of Rs. 78 mn in FY12

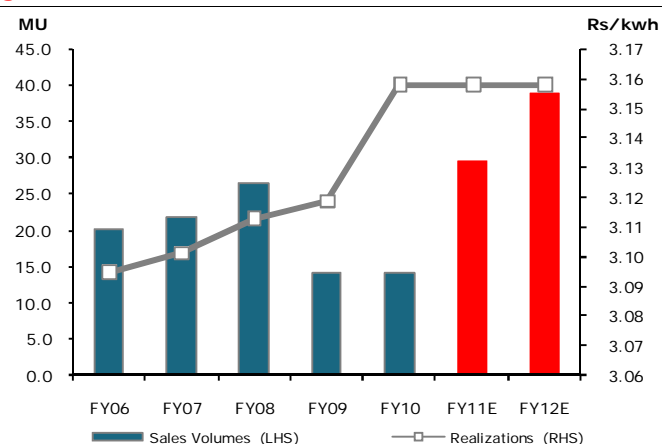
Interest on loans taken for expansion and depreciation to affect profitability

Figure 7: Sugar sales volume and realisations



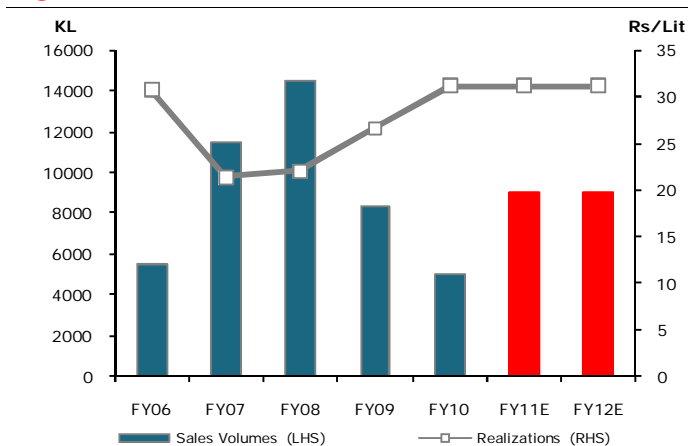
Source: Company, CRISIL Equities

Figure 8: Power sales volume and realisations



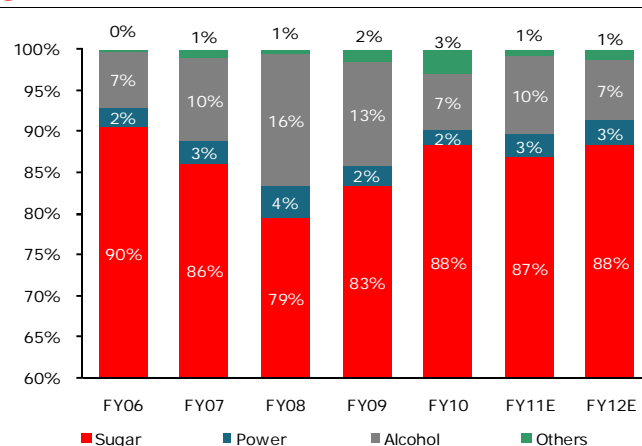
Source: Company, CRISIL Equities

Figure 9: Alcohol sale volumes and realisations



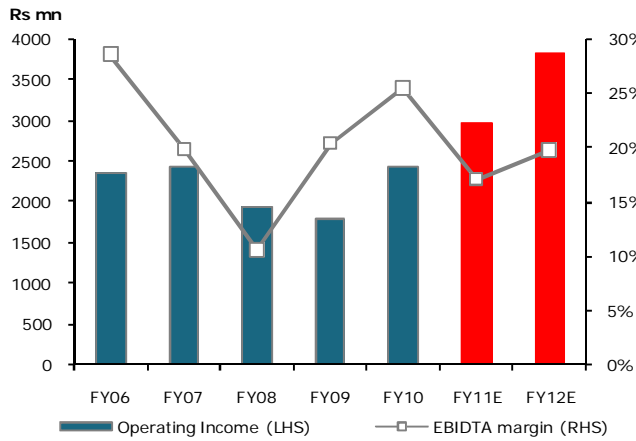
Source: Company, CRISIL Equities

Figure 10: Revenue contribution



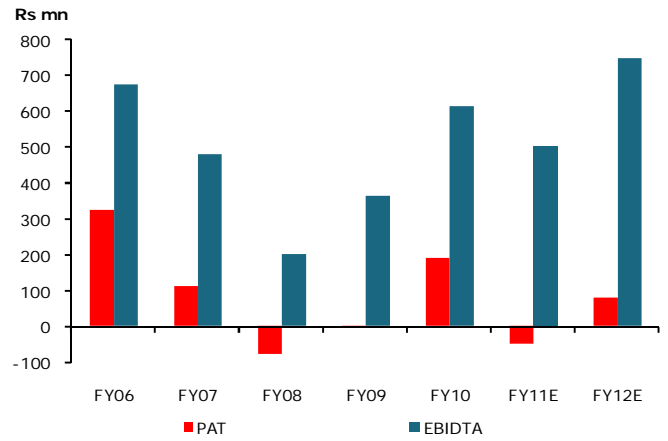
Source: Company, CRISIL Equities

Figure 11: Revenues and EBIDTA margins



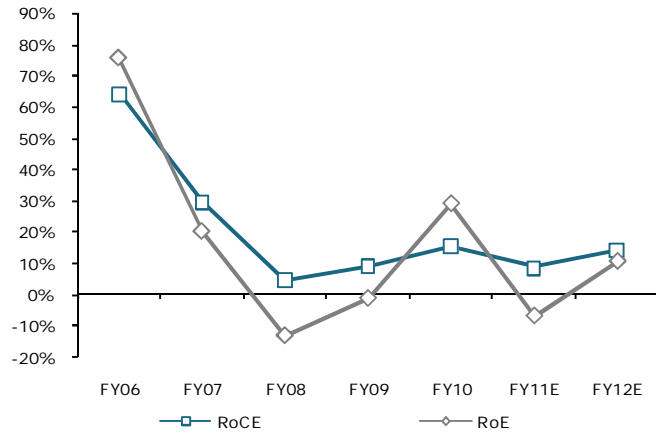
Source: Company, CRISIL Equities

Figure 12: EBIDTA and PAT



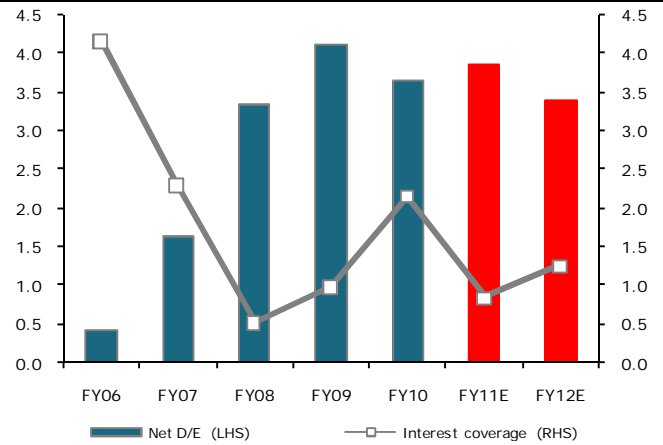
Source: Company, CRISIL Equities

Figure 13: RoCE and ROE Trends



Source: Company, CRISIL Equities

Figure 14: Net debt-to-equity and interest coverage



Source: Company, CRISIL Equities

Management Overview

CRISIL's fundamental grading methodology includes a broad assessment of management quality, apart from other key factors such as industry and business prospects, and financial performance.

Jeypore Sugar is headed by Smt. Rajeswary Ramakrishnan (chairperson and managing director), a Bachelor in Arts and a managing director of the company since 1967. She was appointed as chairman in FY08. She is 82 years of age and does not take part in day-to-day operations of the company. The company is run by Smt Anita Prabhu who was appointed as Executive Director in FY04. Smt Prabhu is a graduate in commerce and has been on the board of the company since 1997. She is a daughter-in-law of Smt. Ramakrishnan and is 54 years of age.

Corporate Governance

CRISIL's fundamental grading methodology includes a broad assessment of corporate governance and management quality, apart from other key factors such as industry and business prospects, and financial performance. In this context, CRISIL Equities analyses the shareholding structure, board composition, typical board processes, disclosure standards and related-party transactions. Any qualifications by regulators or auditors also serve as useful inputs while assessing a company's corporate governance.

Overall, corporate governance in Jeypore meets the minimum regulatory requirements.

Board composition

The board of directors consists of nine directors of whom five are independent directors. The board is headed by Smt Rajeswary Ramakrishnan who is the chairperson and managing director. She is supported by Smt. Anita Prabhu as executive director. Dr. S. R. K. Prasad and Sri R. Prabhu, sons of Smt. Ramakrishnan, are non-executive directors.

The company has the audit committee, the remuneration committee and the shareholder/investor grievance committee in place. The audit committee is headed by Mr. R. Kannan, Independent Director, and consists of three other independent directors and one non-executive promoter director. The remuneration committee consists of three members who are all independent directors.

Internal systems and processes

During FY10, around 379.2 tonnes of sugar, valued at Rs 70 lakh, were unofficially removed by the sales staff of the company and sold in the market. The company needs to strengthen its internal process to avoid such incidences.

The Jeypore Sugar Ltd

Valuation

Grade: 3/5

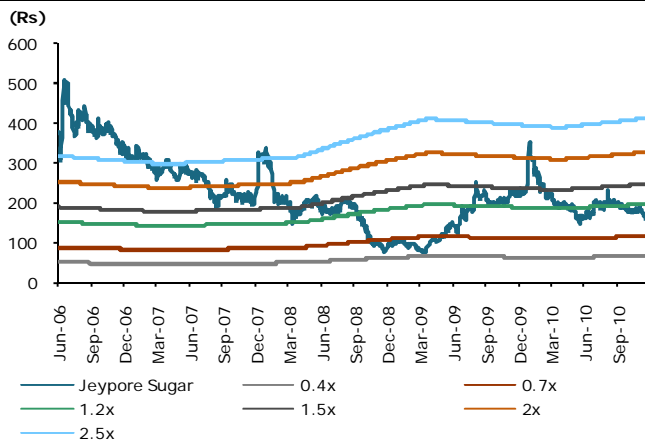
The sugar industry is inherently volatile and the profitability of sugar companies is dependent upon sugarcane production, cane procurement prices, integration with co-generation and distillery and sugar prices. These factors pose a constraint on taking a medium to long-term call on the sugar prices and profitability of the industry and the players in it. We believe the valuations of sugar companies would be driven by the expectations for the upcoming sugar season.

While sugar prices are expected to remain firm during SS2010-11, the companies do not have the benefit of low cost inventory which they had during FY09-10. Accordingly, profitability is expected to dip in FY11, with a marginal improvement in FY12. Hence, we assign a price-to-book value (P/BV) of 0.9x for Jeypore, lower than the historical median of 1.6x. We believe that the lower multiple also captures the risk of high debt and the expected loss in FY11. Should sugar prices move above our expectations in SS2011-12, we believe that the multiple assigned will expand, as the company will benefit from low cost inventory, high margins and better debt servicing ability.

Our fair value of the company is Rs 152 per share. We initiate coverage on Jeypore with a valuation grade of '3/5', indicating that the market price is aligned.

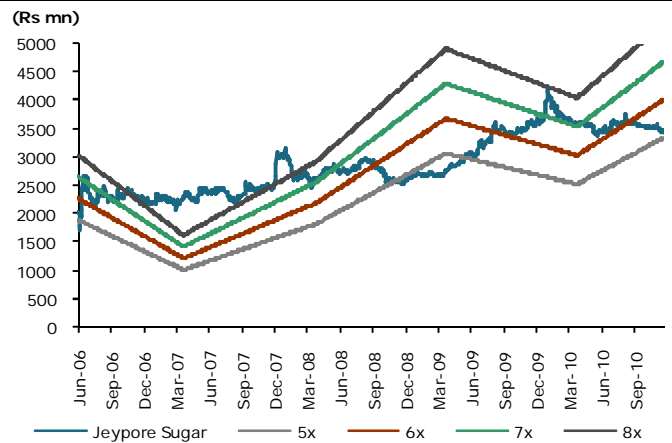
We value Jeypore at P/BV of 0.9x of FY12E book value per share

One-year forward P/BV band



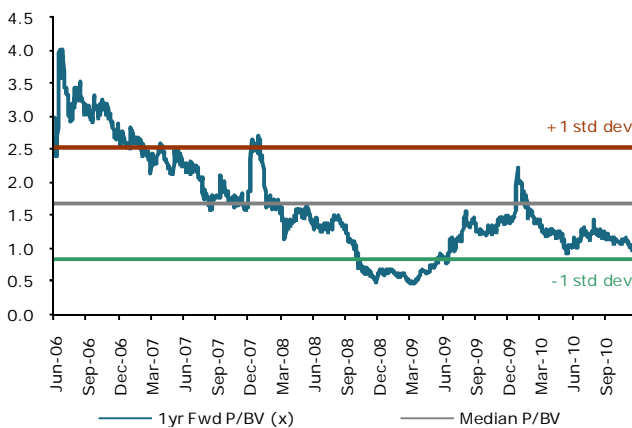
Source: Company, CRISIL Equities

One-year forward EV/EBITDA band



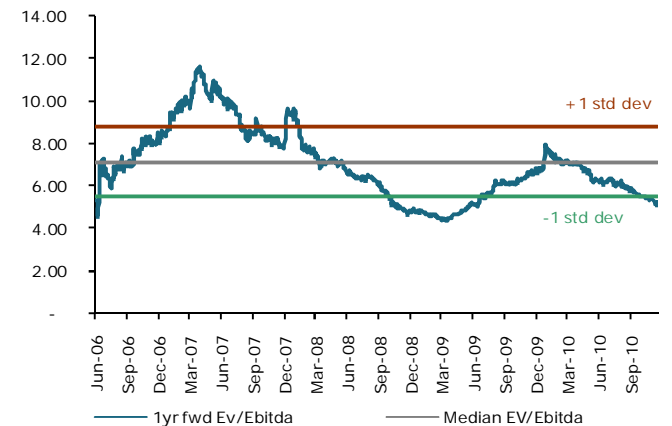
Source: Company, CRISIL Equities

P/BV movement



Source: Company, CRISIL Equities

EV/EBITDA movement



Source: Company, CRISIL Equities

The Jeypore Sugar Ltd

Peer comparison

Companies	M.cap (Rs mn)	Year end	Price/Book (x)			EV/EBITDA		
			FY10	FY11E	FY12E	FY10	FY11E	FY12E
The Jeypore sugar Ltd	767	Mar	1.2	1.1	1.0	5.8	6.9	4.5
Bajaj Hindustan Ltd	19117	Sep	1.0	1.0	0.9	12.1	11.0	8.9
Balrampur Chini Ltd	19498	Mar	1.7	1.5	1.4	5.5	6.7	5.6
Shree Renuka Sugar Ltd	51050	Sep	2.5	1.9	1.5	6.2	4.0	3.8
Triveni Engineering Ltd	25143	Sep	2.3	-	-	6.7	8.6	6.4

Source: CRISIL Equities, Industry estimates

Company Overview

Incorporated as a public limited company in 1936, Jeypore began its operations with the commencement of a sugar unit at Rayagada, Koraput district, Orissa. However, due to limited irrigation potential, this sugar unit at Rayagada was sold off in 1994-95. It has diversified into other activities namely the manufacture of industrial alcohol, Indian made foreign liquor (IMFL) and ferro manganese.

It commenced production at its sugar unit in Chagallu in 1961. This plant has a capacity to crush 8500 tonnes of cane per day. The ownership of the distillery unit at Chagallu which was established by the Andhra Pradesh state government in 1976 was transferred to "Nizam Sugar" in 1987. Jeypore acquired this distillery in 2000-01 for the manufacture of rectified spirit. This distillery currently has a capacity of manufacturing 60KLPD. The company also acquired a distillery unit at Jangareddigudem which has capacity of 40 KLPD. Through these distillery units, the company manufactures Extra Neutral Alcohol (ENA), ethanol or absolute alcohol depending on the market demand. Jeypore has also developed a co-generation unit at Chagallu of 25 MW.

It has also established a new sugar mill at Pothavaram which is expected to commence operations in the SS2010-2011. The new unit will have capacity of 5,000 TCD and will be integrated with a 16.8 MW co-generation plant.

Milestones

1936	Incorporated as a public limited company. First company to be registered in province of Orissa. Started sugar unit at Rayagada, Orissa with initial capacity of 150 TCD subsequently expanded to 450 TCD.
1958	Sugar unit established at Nagaram in Guntur, Andhra Pradesh.
1961	Unit at Nagaram shifted to Chagallu, Andhra Pradesh due to non-availability of sugarcane
2001	Distillery unit purchased from Nizam sugars Ltd. is modified and begins operations
2003	Co-generation unit established at Chagallu unit and started exporting power
2004	IMFL bottling unit started at Rayagada Distillery
2006	Plans for setting up 5000 TCD factory at Pothavaram approved by board Distillery at Chagallu expanded to reach capacity of 40 KLPD
2010	Co-generation unit modified to enable coal firing
2011	Sugar unit at Pothavaram of 5000 TCD begins operation

The Jeypore Sugar Ltd

Annexure: Financials

Income statement

(Rs mn)	FY08	FY09	FY10	FY11E	FY12E
Operating income	1,944	1,792	2,420	2,975	3,809
EBITDA	204	364	614	506	752
EBITDA margin	10.5%	20.3%	25.4%	17.0%	19.8%
Depreciation	113	117	112	201	241
EBIT	91	247	502	305	512
Interest	177	250	233	361	408
Operating PBT	(86)	(3)	269	(56)	104
Other income	5	8	5	6	8
Exceptional inc/(exp)	14	36	1	-	-
PBT	(67)	41	275	(50)	112
Tax provision	(5)	12	82	-	34
Minority interest	-	-	-	-	-
PAT (Reported)	(61)	29	193	(50)	78
Less: Exceptionals	14	36	1	-	-
Adjusted PAT	(75)	(7)	192	(50)	78

Ratios

	FY08	FY09	FY10	FY11E	FY12E
Growth					
Operating income (%)	nm	nm	35.0	22.9	28.0
EBITDA (%)	nm	78.5	68.6	nm	48.6
Adj PAT (%)	nm	nm	nm	nm	nm
Adj EPS (%)	nm	nm	nm	nm	nm
Profitability					
EBITDA margin (%)	10.5	20.3	25.4	17.0	19.8
Adj PAT Margin (%)	nm	nm	7.9	nm	2.1
RoE (%)	nm	nm	29.1	nm	10.6
RoCE (%)	4.3	8.9	15.3	8.4	14.0
RoIC (%)	5.4	9.5	13.5	9.2	14.5
Valuations					
Price-earnings (x)	nm	nm	4.5	nm	9.7
Price-book (x)	1.4	0.7	1.2	1.1	1.0
EV/EBITDA (x)	12.6	7.6	5.8	6.9	4.5
EV/Sales (x)	1.3	1.5	1.5	1.2	0.9
Dividend payout ratio (%)	nm	18.2	13.7	16.7	16.7
Dividend yield (%)	0.7	1.3	3.1	1.1	1.7
B/S ratios					
Inventory days	415	460	330	307	333
Creditors days	555	626	390	388	389
Debtor days	14	19	6	6	6
Working capital days	(7)	(41)	(11)	(2)	1
Gross asset turnover (x)	0.9	0.8	1.0	0.8	0.8
Net asset turnover (x)	1.4	1.3	1.8	1.2	1.1
Sales/operating assets (x)	0.9	0.6	0.7	0.8	1.1
Current ratio (x)	1.0	1.0	1.1	1.0	1.1
Debt-equity (x)	3.7	4.2	3.8	4.2	3.8
Net debt/equity (x)	3.3	4.1	3.6	3.9	3.4
Interest coverage	0.5	1.0	2.2	0.8	1.3

Per share

	FY08	FY09	FY10	FY11E	FY12E
Adj EPS (Rs)	(16.6)	(1.5)	42.3	(11.0)	17.3
CEPS	8.2	24.2	67.0	33.4	70.3
Book value	119.9	126.4	164.3	155.5	169.4
Dividend (Rs)	1.2	1.2	5.8	1.2	2.9
Actual o/s shares (mn)	4.5	4.5	4.5	4.5	4.5

Balance Sheet

(Rs mn)	FY08	FY09	FY10	FY11E	FY12E
Liabilities					
Equity share capital	45	45	45	45	45
Reserves	498	528	700	660	723
Minorities	-	-	-	-	-
Net worth	544	573	745	705	768
Convertible debt	-	-	-	-	-
Other debt	1,990	2,424	2,836	2,936	2,886
Total debt	1,990	2,424	2,836	2,936	2,886
Deferred tax liability (net)	116	125	117	117	117
Total liabilities	2,649	3,123	3,699	3,759	3,772
Assets					
Net fixed assets	1,446	1,384	1,330	3,617	3,377
Capital WIP	1,226	1,848	2,189	0	0
Total fixed assets	2,672	3,233	3,519	3,618	3,377
Investments	2	2	2	2	2
Current assets					
Inventory	1,915	1,708	1,574	1,953	2,612
Sundry debtors	79	92	38	46	59
Loans and advances	476	495	433	634	811
Cash & bank balance	172	71	124	221	276
Marketable securities	-	-	-	-	-
Total current assets	2,642	2,366	2,169	2,854	3,758
Total current liabilities	2,682	2,487	1,995	2,719	3,369
Net current assets	(41)	(121)	174	135	389
Intangibles/Misc. expenditure	16	8	4	4	4
Total assets	2,649	3,123	3,699	3,759	3,772

Cash flow

(Rs Mn)	FY08	FY09	FY10	FY11E	FY12E
Pre-tax profit	(81)	5	274	(50)	112
Total tax paid	(1)	(2)	(90)	-	(34)
Depreciation	113	117	112	201	241
Working capital changes	352	(20)	(242)	136	(199)
Net cash from operations	383	100	54	287	120
Cash from investments					
Capital expenditure	(1,241)	(671)	(394)	(300)	0
Investments and others	-	-	(0)	-	-
Net cash from investments	(1,241)	(671)	(394)	(300)	0
Cash from financing					
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	858	434	413	100	(50)
Dividend (incl. tax)	(5)	(5)	(26)	8	(13)
Others (incl extraordinary)	25	42	7	1	(2)
Net cash from financing	878	471	393	110	(65)
Change in cash position	21	(100)	53	97	55
Closing cash	172	71	124	221	276

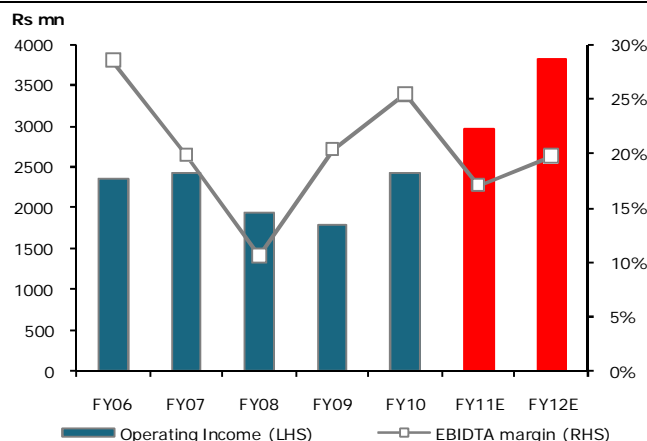
Quarterly financials

(Rs Mn)	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11
Net Sales	644	609	333	541	445
Change (q-o-q)	-35%	-5%	-45%	62%	-18%
EBITDA	139	156	233	0	(66)
Change (q-o-q)	-4%	12%	49%	-100%	-22192%
EBITDA margin	21.6%	25.6%	69.9%	0.1%	-14.9%
PAT	80	76	12	(70)	(131)
Adj PAT	80	76	12	(70)	(131)
Change (q-o-q)	170%	-5%	-85%	-702%	88%
Adj PAT margin	12.4%	12.4%	3.5%	-12.9%	-29.5%
Adj EPS	17.5	16.7	2.6	(15.4)	(29.0)

Source: CRISIL Equities

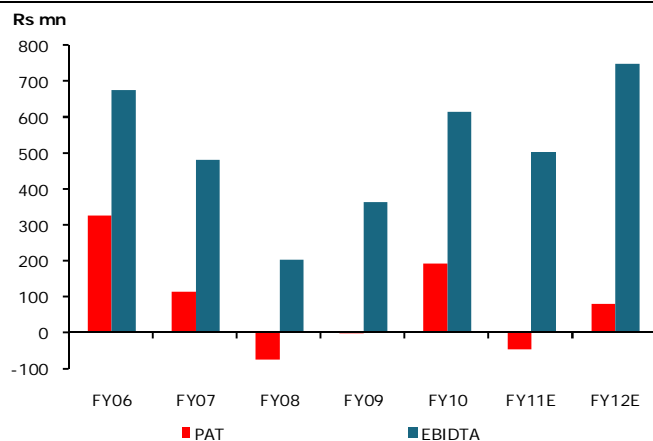
Focus Charts

Revenues and EBIDTA margins



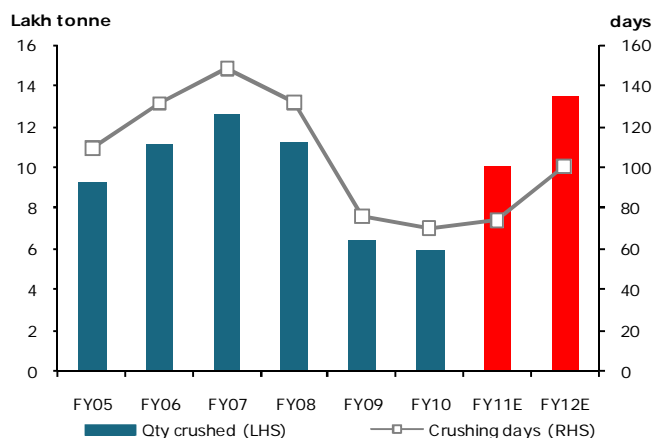
Source: Company, CRISIL Equities

EBIDTA and PAT trend



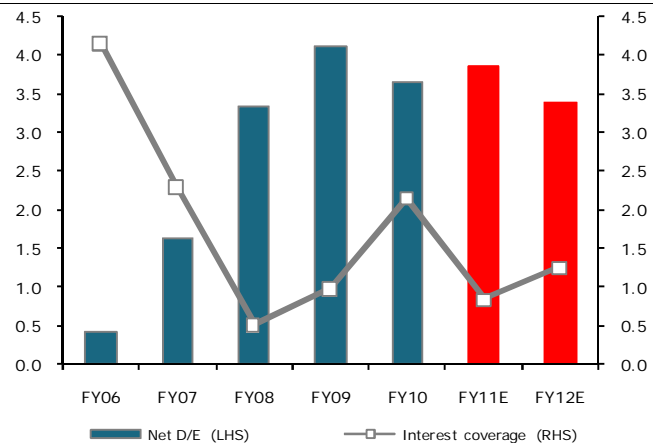
Source: Company, CRISIL Equities

Quantity of sugarcane crushed and crushing days



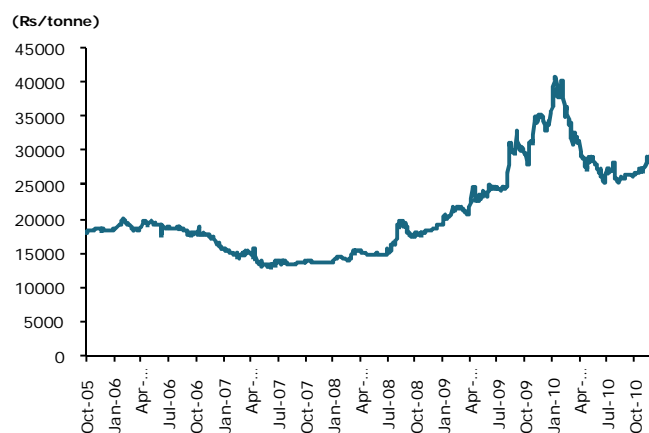
Source: Company, CRISIL Equities

Net Debt to Equity and Interest coverage



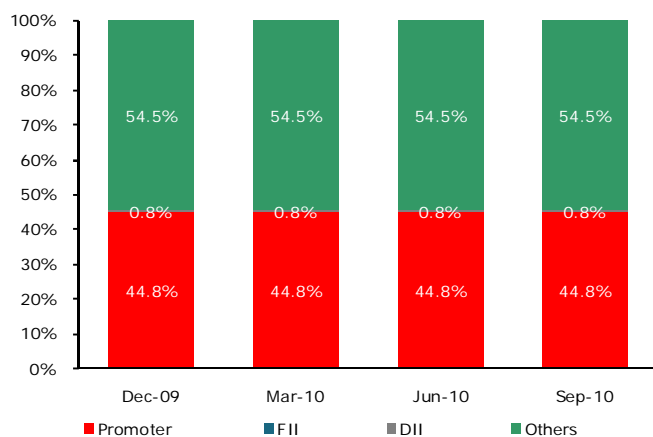
Source: Company, CRISIL Equities

Sugar prices (Mumbai S-30)



Source: Company, CRISIL Equities

Shareholding pattern over the quarters



Source: Company, CRISIL Equities

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