

EID Parry**₹344****Among Top 4...!!!****Buy**

Sep 29, 2017

Company Background

E.I.D Parry is a significant player in Sugar with interests in promising areas of Bio Pesticides and Nutraceuticals. It has a significant presence in Farm Inputs business through its subsidiary, Coromandel International Limited. EID Parry together with its subsidiaries has nine sugar factories having a capacity to crush 39,000 Tonnes of Cane per day, generate 160 MW of power and four distilleries having a capacity of 230 KLPD. It is a pioneer in the manufacture of plantation white sugar from sugarcane. It had set up the first Sugar Factory in 1842 at Nellikuppam in Tamilnadu. It was selected in 2016 as the best performing Company and winner in the sugar sector by Dun & Bradstreet, for the second year in a row. At the National level Energy Conservation Contest organized by the Confederation of Indian Industry, the Company's Nellikuppam factory was certified as an "Excellent Energy Efficient Unit" and Pudukottai factory was certified as an "Energy Efficient Unit". Both Nellikuppam and Pudukottai Units received this award for the second and third time respectively in the last four years.

Key Highlights

- ➔ The company is engaged in the manufacture and marketing of a wide-range of products that includes Sugar, Bio-Pesticides and Nutraceuticals. And it is a pioneer in the manufacture of plantation white sugar from sugarcane.
- ➔ More than 90% of the revenue comes from the sugar business and the sugar prices play a major role in determining the profitability of the Company.
- ➔ Company is one of South India's leading suppliers of sugar to the Institutional clients. Over 40% of sugar volumes have been sold to the Institutions. Now company is focussing on supplying sugar to the Pharma Industry, which requires customised quality to meet their specific product requirement.
- ➔ Reduction of total debt is important to improve the company's risk profile and increase sustained earnings. Total debt was reduced from ₹ 13190.0 mn as of March 2016 to ₹ 9430.0 mn in March 2017.
- ➔ Interest/finance charges was also reduced due to debt reduction to ₹ 1400.0 mn as compared to ₹ 1670.0 mn in the previous year.

Key Financials

Year Ended 31 st	Mar 15	Mar 16	Mar 17
Revenue (INR mn)	23,260.3	27,855.9	26,312.1
Rev. growth (%)	16.22	19.76	(5.54)
EBITDA (INR mn)	2,623.7	3,891.8	1,575.1
Net profit (INR mn)	1,482.5	(921.1)	2,836.1
Shares outstanding (mn)	175.8	175.8	175.9
EPS (INR)	8.4	0.0	16.1
EPS growth (%)	458.28	(100.00)	0.00
P/E (x)	20.87	0.00	17.59
RONW (%)	11.22	(6.96)	20.55
ROCE (%)	8.89	1.56	15.72

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Info Codes

Reuters	: EIDP.BO
Bloomberg	: EID IN
NSE	: EIDPARRY
BSE	: 500125

Market Data

52 Wk Range (₹)	: 222/353
Shares in Issue (mn)	: 175.87
Market. Cap (bn)	: 60.88
BSE 2 Wk Avg Vol	: 59000

Share Holding Pattern (%)

Promoters Holding	: 44.97
Public & Others	: 29.48
Corporate Holding	: 08.30
Foreign Institution	: 11.07
Institutions	: 06.18

Investment Theme

E.I.D Parry is a significant player in Sugar with interests in promising areas of Bio Pesticides and Nutraceuticals. The GST on sugar is 5%. It is not applicable on traders whose business turnover is below ₹ 20 lakh. Post-GST, sugar trade will definitely pick up. Traders will face teething problems initially, but those will be resolved. Improvement in the Cos. performance was largely on account of better sugar prices, which have been on an upswing since August 2016, after touching all time lows in the previous 2 years. Company's revenue is coming majorly (90%) from sugar business. Company is investing around ₹ 12 crores on the sugar plants basically to debottleneck in 4 or 5 sugar plants so that the company can better geared up for the coming season. The Nellikuppam refinery was upgraded to meet stringent pharma standards of production.

India is 2nd biggest player in the world with 341,200 TMT...!!!

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 15	Mar 16	% Chg	Mar 17	% Chg
Net Sales	20,816.7	26,013.1	25.0	23,652.3	(9.1)
Other Income	1,833.7	965.3	(47.4)	1,544.6	60.0
Change in Stocks	379.0	(4,437.0)	(1,270.7)	(623.1)	(86.0)
Raw Material Con.	14,200.4	15,639.1	10.1	14,243.3	(8.9)
Employee Exp.	1,277.2	1,358.0	6.3	1,334.7	(1.7)
Indirect Taxes	609.9	877.5	43.9	1,115.2	27.1
Other Exp.	3,050.1	3,091.7	1.4	2,793.9	(9.6)
Operating Exp.	19,137.6	20,966.3	9.6	19,487.1	(7.1)
Operating Profit	3,891.8	1,575.1	(59.5)	5,086.7	222.9
Total Interest	1,512.7	1,671.0	10.5	1,399.1	(16.3)
Gross Profit	2,379.1	(95.9)	(104.0)	3,687.6	(3,945.3)
Net Dep.	1,019.3	1,120.0	9.9	1,121.1	0.1
Total Taxation	(122.7)	(294.8)	140.3	(269.6)	(8.5)
Net Profit/Loss	1,482.5	(921.1)	(162.1)	2,836.1	(407.9)

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 14	Mar 15	Mar 16	Mar 17
SOURCES OF FUNDS	32,561.3	32,141.8	26,142.3	24,320.3
Equity Share capital	175.8	175.8	175.8	175.8
Equity Application Money	0.0	0.0	0.0	0.0
Equity Share Warrants	0.0	0.0	0.0	0.0
Reserves & Surplus	12,618.4	13,516.0	12,651.8	14,598.7
Secured Loans	14,762.2	12,534.0	10,681.1	7,569.3
Unsecured Loans	5,004.9	5,916.0	2,633.6	1,976.5
USES OF FUNDS	32,561.3	32,141.8	26,142.3	24,320.3
Gross Block	23,899.3	24,436.2	16,295.3	16,870.4
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	9,085.7	9,630.0	1,217.0	2,326.1
Net Block	14,813.6	14,806.2	15,078.3	14,544.3
Capital Work in Progress	488.9	241.6	332.1	79.9
Investments	5,447.8	6,829.3	8,113.4	8,114.9
Current Assets	14,790.7	15,319.4	13,430.5	10,819.9
Less : Current Liabilities	5,030.5	6,250.2	11,122.7	10,074.7
Total Net Current Assets	9,760.2	9,069.2	2,307.8	745.2
Misc. Expenses not writtenoff	2,050.8	1,195.5	310.7	836.0
NOTE				
Book Value of Unquoted Investments	4,078.5	5,460.2	6,754.0	6,381.8
Market Value of Quoted Investments	39,958.2	0.2	0.0	0.0
Contingent Liabilities	2,947.0	5,974.4	2,980.6	6,894.1
Dividend (%)	0.0	300.0	0.0	400.0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Sep 16	Dec 16	Mar 17	Jun 17
Net Sales	5,478.2	5,171.5	7,251.4	4,878.1
Cost Of Sales	4,834.8	4,696.0	5,768.3	4,765.9
Operating Profit	643.4	475.5	1,483.1	112.2
Other Income	951.9	229.0	431.2	158.2
Adjusted PBDIT	1,595.3	704.5	1,914.3	270.4
Financial Expenses	309.9	299.4	451.4	281.4
Depreciation	262.4	265.0	336.3	282.3
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	1,023.0	140.1	1,126.6	(293.3)
Tax Charges	205.8	17.9	(516.7)	(109.6)
Reported Profit	817.2	122.2	1,643.3	(183.7)
Extra Ordinary Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Adjusted Net Profit	817.2	122.2	1,643.3	(183.7)

52 Week Index Relative Percentage Appreciation



E.I.D Parry vs SENSEX

Risks Associated

- Sugarcane production is depends on rainfall, if rainfall is below the average then it can impact the final product of the company. The Maharashtra and Karnataka are major dependents on monsoon still in determining the yield factor.
- Although India has the largest area under sugarcane cultivation, the yield per hectare is extremely low as compared to some of the major sugarcane producing countries of the world. India’s yield is only 64.5 tonnes/hectare as compared to 90 tonnes in Java and 121 tonnes in Hawaii. Further the average rate of recovery in India is less than 10% which is quite low as compared to other major sugar producing countries. In other countries recovery rate is as high as 14-16% in Java, Hawaii and Australia.
- First and foremost, Government has to clear the arrears to bring some optimism in the industry and resurrect the government’s budgetary credibility.
- High cost of sugarcane, inefficient technology, uneconomic process of production result in high cost of manufacturing. The production cost of sugar in India is one of the highest in the world.
- The per capita annual consumption of sugar in India is only 16.3 kg as against 48.8 kg in the USA., 53.6 kg in U.K., 57.1 kg in Australia and 78.2 kg in Cuba and the world average of about 21.1 kg. This result in low market demand and creates problems of sale of sugar.
- Due to GST traders will face teething problems initially, but those will be resolved. But the GST will not affect sugar supply in the market nor lead to increase in prices.



In a Nutshell

The company has a significant presence in Farm Inputs business through its subsidiary, Coromandel International Limited. It is contributing 9.2% of production to Indian sugar industry and it is securing top 4th place. Global sugar exports will exceed demand this season and the next as India brings in less than expected and the European Union boosts output, according to Tropical Research Services, which advises hedge funds. Exports will beat import demand every quarter through September 2018, TRS estimates. The trade-flow surplus will total 398,000 metric tons in the third quarter, reversing a previous forecast for a shortage of more than double that amount. The production of sugar is seasonal. Sugarcane is crushed from November to April. The critical growth driver for the industry is consumption based on the population growth rate. The supply of sugar is dependent on a number of factors including sugarcane production (area under cultivation, yield), sugarcane utilisation for sugar production, duration of the sugar season, sugar recovery rates and cane pricing. Sugar is a cyclical and a highly regulated industry. Trade barriers, including production quotas, guaranteed prices and import tariffs, impart a significant degree of distortion to international prices. The relatively longer plantation cycle, coupled with restrictive trade practices, has imparted a fair degree of volatility to sugar prices. In India, sugar production follows a three-five year cycle. Higher production leads to increased availability of sugar thereby declining the sugar prices. Now company has improvements in daily crush rate, better efficiencies on steam, energy & chemicals consumption besides reduction of total losses have all helped in maintaining & improving profitability which will benefit company in the long run.

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months

Accumulate : Expected to appreciate 10% to 20% over 12-months

Trade Buy : Expected to appreciate more than 10% over 45-days

Reduce : Expected to depreciate up to 10% over 12-months

Sell : Expected to depreciate 10% or more over 12-months

Trade Sell : Expected to depreciate more than 10% over 45-days

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