

ANDHRA SUGARS LIMITED

Present Price: Rs.99

Target Price: Rs.125

Upside: 26%

Time Horizon: 6 months

Rating: Market Outperformer

Investment Rationale

Deep asset value: The company has presence across various verticals like sugar, caustic soda, sulphuric acid, cattle and poultry feed, wind power, among others. In addition, the company also has 55% stake in listed entity, Jocil Limited (Market-cap: Rs.136 crore). Jocil has posted a net profit of Rs.19.4 crore on net sales of Rs.377.4 crore during FY'11.

We feel the present enterprise value (~Rs.570 crore) at which the company is quoting, does not capture the real intrinsic value of the assets of the company.

Financial Performance: The company posted a net profit of Rs.36.2 crore on sales of Rs.468.8 crore during FY'11. For Q1FY'12, the company posted robust set of numbers with net sales registering a 74.1% y-o-y increase at Rs.180.3 crore. Net Profit for the quarter stood at Rs.18.6 crore compared to Rs.5.1 crore during the same period last year. EPS for the quarter stood at Rs.6.86 compared to Rs.1.88 posted during the corresponding period last year. The improved performance was attributable to the Caustic Soda and Industrial Chemicals division. The EBIT margins of both these segments for the quarter stood at 29% and 31% respectively compared to 21% and 11% during Q1FY'11.

Robust outlook for sugar: The outlook for sugar remains robust and we expect the company to post excellent financial performance on the back of improvement in sugar prices across the globe.

Safe stock in uncertain times: The company has had an excellent track record of dividend pay-outs. The company has announced a dividend of Rs.5.5 for FY'11 during the board meeting yesterday. At the present price, the dividend-yield comes to 5.6%! We expect the stock to generate a return of around 25% over the next 6 months. Significant value in the company coupled with decent dividend-yield should provide protection against downside, if any, considering the present volatility in the markets.

Encl: A summary of installed capacity of various business segments from the Annual Report of the company.

PCG Research

Nirmal Bang Securities Pvt. Ltd.

B-2, 301/302, 3rd Floor, Marathon Innova, Off Ganpatrao Kadam Marg, Lower Parel (West), Mumbai – 400013

Tel: 39268000