Economic Times –All Edition

MID CAP | **EID** PARRY

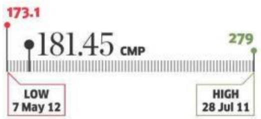
Integrated Biz Helps Offset Sugar Swings

Even in a surplus season, EID has posted a decent profit. This makes it a good buy as the stock appears to be undervalued

COMPANY P/E 10.07

INDUSTRY P/E 73.33

52-WK HIGH/LOW



SHARE HOLDING PATTERN

BROKERS' POLL

BUY 4 | SELL 1

EID Parry (India) is an integrated sugar manufacturing company with nine plants in Tamil Nadu, Karnataka and Andhra Pradesh. Besides it is also into co-geration, distillery and fertilizer business. It is the flagship company of Chennai-based Murugappa group.

INVESTMENT RATIONALE

Sugar prices have remained flat over the past one year due to expectations of surplus production this season. Sugar production in 2011-12 season is expected to be around 26 million tonne against consumption of 22 million tonne. According to industry observers, sugar production in the 2012-13 season is likely to be in surplus, but would not be more than 26 million tonne. This is because of the drought situation prevailing in parts of Maharashtra and Karnataka.

In addition, freeing up of exports is likely to keep domestic prices at reasonable levels. The Union Government recently allowed mills to export sugar without any caps. Since, EID's mills are closer to the ports, it will be in a good position to benefit from exports.

EID Parry has 63% stake in Coromandel International, which is one of the major fertiliser manufacturing companies in the country. The current market capitalisation of Coromandel International is ₹7,319 crore. Since stake of an holding company is valued at a discount, a 25% discount of Coromandel's current market cap values EID's stake at ₹3,400 crore. However, looking at EID's current market cap of ₹3,180 crore, the stock price seems to have deeply undervalued its stake in Coromandel.

In addition, the company has a track record of paying dividends on a consistent basis. In FY12, the company announced a dividend of ₹4 per share.

FINANCIALS

The company's net profit has grown at a CAGR of 17% over the last five years. Being an integrated sugar manufacturer helps EID Parry to minimise the effects of the cyclical nature of the sugar industry. In a surplus season, losses from sugar division are compensated by the distillery and co-generation divisions. In FY12, average sugar realisation was higher by just 4%. Despite this, EID was able to post a decent 9% y-o-y growth in profit before interest and taxes. Higher crushing in FY12 led to higher income from the distillery and co-generation business.

VALUATIONS

The company is currently trading at a price-to-book value (P/BV) of 1.3, while its peers like Shree Renuka Sugars and Balrampur Chini Mills are trading at a P/BV of 0.8 and 1, respectively. This does not look expensive since its peers are making losses due to high debt and higher input costs. In addition, a favorable earnings outlook, makes the company a decent buying opportunity.

Suraj Sowkar