




XLRI Jamshedpur
School of Business & Human Resources

EID PARRY (INDIA) LIMITED

Industry – Sugar



FINANCIAL ANALYSIS - CORPORATE FINANCE

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ABOUT EID PARRY INDIA

BACKGROUND

Sugar consumption rate is highest in India as shown in the statistics received from USDA Foreign Agricultural Service. India has notched up 2nd position following Brazil, the largest sugar producer in the world.

Tamil Nadu Sugar industry is responsible for about 10% of the total sugar production in India. Majority of sugar units in Tamil Nadu lies with the cooperative sector

INTRODUCTION

E.I.D-Parry (India) Limited is part of the Tamil Nadu-based Rs.22,314 Crores - USD 4.4 Billion Murugappa Group and the largest sugar producer in South India and is one of the top five sugar producers in the country. It is a public company headquartered in Chennai, South India that has been in business for more than 225 years.

EID Parry has 7 plants in the country situated at Nellikuppam in Cuddalore district, Pugalur in Karur district, Pudukottai in Pudukottai district, Pettavaithalai in Trichy district, Pondicherry in Puducherry, Haliyal in Karnataka and Sankili in Andhra Pradesh. The combined crushing capacity of all seven plants is 32,500 (TCD) Metric Tonnes of cane per day.

The Company has invested in 21 Subsidiary Companies / Entities, in addition to a Joint Venture Company.

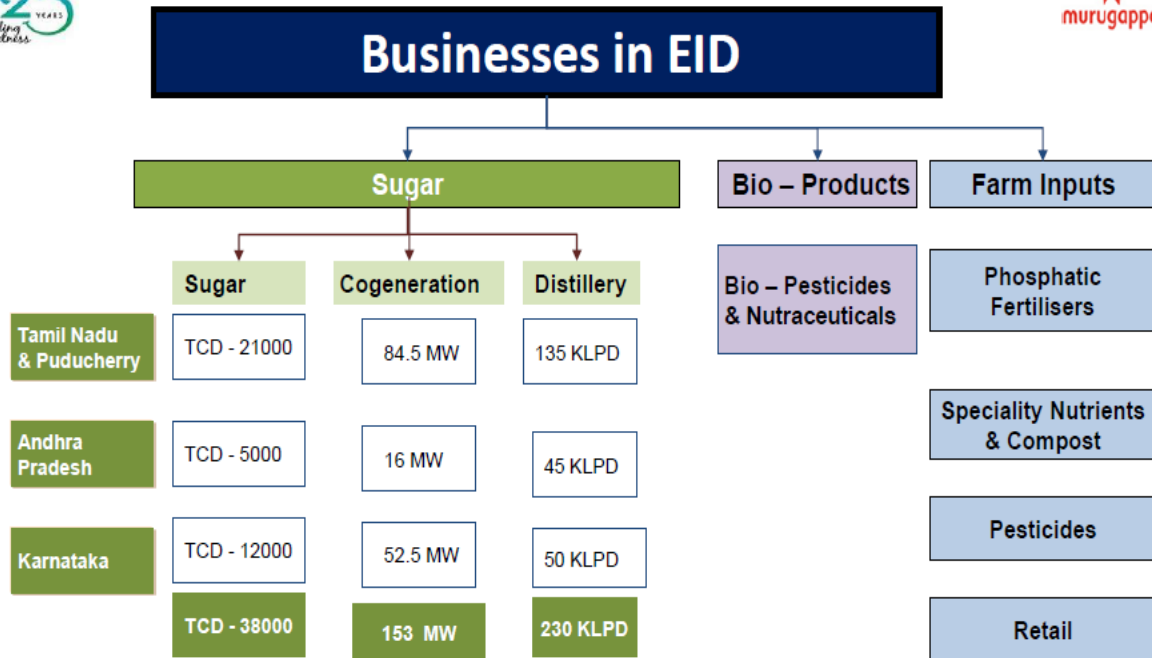
Special Connect with Farmers

E.I.D. Parry has introduced Namadhu Parry Maiyam, a concept where a local entrepreneur (usually a sugarcane farmer) is trained to become a Namadhu Parry Maiyam operator.

Today, E.I.D. Parry is one of the Top 5 sugar producers in India and is on the path to sweetening more lives around the world.



BUSINESSES IN EID PARRY INDIA LTD



- TCD - Tons crushed per day
- MW - Mega Watt
- KLPD - Kilo Litres per day

(Source: www.Eidparry.com and Crisil Research Reports)



TIMELINES OF THE COMPANY HISTORY

Year	Event
1788	Parry & Company Limited and East India Distilleries & Sugars Limited were merged to form EID Parry India Limited
1842	EID Parry set up India's first sugar plant at Nellikuppam
1848	EID Parry setup their first distillery plant
1906	EID Parry started fertilizer business
1981	The Murugappa Group took over EID Parry from financial & public institutions such as Life Insurance Corporation Of India, United Assurance Co, and Unit Trust of India
1995	EID Parry started manufacturing Bio-Pesticides
1997	Started Co-generation Exportable Power
1997	Started Nutraceuticals Business
2004	Demerged farm inputs division and transferred it to its subsidiary – Coromandel Fertilizers Ltd
2004	Merged subsidiaries, Parry & Co and Mofussil Warehousing and Trading Co. Into itself
2005	Sold its stake in Parry's Confectionary Ltd to Lotte, a Korean confectionary company
2007	Divested its sanitary-ware business to a subsidiary and sold 50% of stake to ROCA, a sanitary-ware company for Rs. 2.8 Billion
2008	Acquired 51% in Phytoremedies BioLabs Pvt Ltd
2009	Acquired 48% in Velensa International (doing business as US Nutraceuticals LLC) for Rs 451.9 million
2009	Formed Silk Road Sugar Pvt Ltd, 51:49 JV with Cargill Asia Pacific Holdings PTE for setting up a port-based 1MTPA refining capacity at AP to be completed by FY10



2010	Acquired 65% majority stake in GMR Industries, the agri-business arm in Hyderabad based GMR group and made an open offer for an additional 20% to the public investors.
2010	GMR Industries renamed as Parry Sugar Industries Ltd
2010	Shares of EID Parry trading at all time high of Rs 462
2010	EID Parry announces a stock split splitting each equity share of Rs 2 into two shares of Rs 1 each
2011	Completely divested all shares in Roca Bathroom Products Pvt Ltd, which was a 50:50 JV with ROCA
2011	EID Parry acquired additional stake of 42.52% in US Nutraceuticals LLC for Rs 2230 lacs thereby obtaining 100% voting rights in the company.
2012	EID Parry increased its stake in Sadashiv Sugars from 76% to 100% for Rs 1834 lacs
2012	EID Parry buys 49% stake from its JV partner, Cargill Asia Pacific Holdings in its JV Silk Road Sugar Pvt Ltd

(Source: www.Eidparry.com and Crisil Research Reports)



VALUATION CREATION FRAMEWORK

Parameter	EID Parry
Profitability	0
Risk	+
Growth	+
Capital Market	+
Aggregate	+
	P/BV = 2.706

$$P/BV = 189.7 / 70.11 = 2.706$$

Conclusion:

This result is in sync with our analysis of 4 parameters. Shareholder value is enhanced because $P/BV > 1$ ie the company currently trades at more than twice the book value reflecting the earnings potential which is the market attributes to the company.

Notations:

+ : positive

- : negative

0 : neutral

Source: www.Eidparry.com and Crisil Research Reports), Class Notes

RATING RATIONALE:

- ✓ **Profitability:** After analyzing Operating Margin of the Sugar Business for past 5 years and the Profit Margins of the Nutraceuticals and Farm Inputs Divisions, the profitability of the company has reduced.
- ✓ **Risks:**

	Risk	Efforts by the Company
SUGAR	Cane Availability	Training and assisting farmers to improve farm yields
	Government Regulations	Representations to the government to remove controls
	Spread (Diff between Cane price and sugar price)	Reducing fixed costs and productions losses and sweating assets for extended periods
	Capacity Utilization	Running the plant for extended periods when cane is available
BIO	Availability of Neem seed at viable price	Training and assisting pickers and motivating them with incentives
NUTRA	Climatic Conditions	Continued and focussed initiatives to manage controllable initiatives
	Water availability	Storing water in lagoons and installing water treatment facilities
	Currency Risks	Implementation of hedging policies

Since sugar is the core business, being dependent on Sugarcane as a primary raw material exposes the company to seasonal risk. Further, the sugar industry in India is subject to government controls like Levy Sugar and Free Release Order Mechanism (FROM) amongst various other controls. **However, on 4th April, 2013, the Government**



scrapped the decades old controls of Levy Sugar and ROM. Although other controls remain, the removal of these two controls specifically is expected to favorably impact the margins of the company.

✓ **Growth:** The Company has a good growth prospects specifically in the Nutraceuticals and Farm Inputs divisions through its subsidiaries namely Velensa International and Coromandel International.

✓ **Capital Market:** The market capitalization of the company has lost almost 1/5th of its value in the last one year. From as opening price of Rs 189 on 30th March 2012 the share price closed at Rs 152 on 31 March 2013. Although the stock price has attained high of Rs 248 in October 2012, the share is currently trading at its lows for the year. The share price is yet to reflect the impact of an improvement in margins on account of recent government decontrols and future business growth.

VALUE ANALYSIS VERSUS IT'S PEERS

	EID Parry	Shree Renuka	Balampur Chini	Bannariamman	Bajaj Ind
	Mar-12	Mar-12	Mar-12	Mar-12	Sep-12
Market Price per share	189.7	31.6	57.05	549.8	31.05
Market Cap (Rs Cr)	3,294.37	2,121.37	1,393.81	628.97	1,985.34
Net Profit	137.32	84.05	6.62	105.67	-234.57
Net worth	1217.63	1788.29	1218.11	814.99	4094.28
Shares in issue (lakhs)	1736.62	6713.2	2443.14	114.4	6394
Book Value per share	70.11	26.64	49.86	712.40	64.03
Earnings per share	7.91	1.25	0.27	92.37	-3.67
Price/Book Value	2.706	1.19	1.14	0.77	0.48
PE Ratio	23.99	25.24	210.55	5.95	-8.46



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Market Cap (Rs Cr)	3,294.37	2,121.37	1,393.81	628.97	1,985.34
Net worth	1,217.63	1,788.29	1,218.11	814.99	4,094.28
Net Profit	137.32	84.05	6.62	105.67	-234.57
Cost of capital assumed	10%	10%	10%	10%	10%
EVA (Net Profit - (Net worth * COC)	15.56	-94.78	-115.19	24.17	-644.00
MVA (Market Cap - Net worth)	2,076.74	333.08	175.70	-186.02	-
					2,108.94

Comments:

1. EID Parry is the largest private sector company in the sugar industry by market capitalization
2. In terms of Price to BV, EID Parry trades at more than twice its book value.
3. In terms of Price to Earnings, EID Parry trades at almost 24 times its earnings.
4. The EVA and MVA are both positively correlated reflecting the value creation ability of the Company and its reflection in the share price. In fact, among the top 5 sugar producers, EID Parry is the only entity to have positive EVA and MVA.



RATIO ANALYSIS

RATIOS	Mar '12	Mar '11	Mar '10	Mar '09	Mar '08
	12 mths	12 mths	12 mths	12 mths	12 mths
Computing Liquidity Ratios					
1. Current Ratio = CA / CL	1.27	1.24	1.07	1.06	1.18
2. Quick Ratio = (CA – Inventory) / CL	0.53	0.34	0.25	0.33	0.24
3. Cash Ratio = Cash / CL	0.14	0.17	0.07	0.21	0.06
4. Total Debt Ratio = Total Debt / Net worth	1.77	1.34	1.59	1.43	1.51
5. Debt/Equity = (Long Term Debt + CL) / Net worth	3.14	2.35	2.39	2.70	2.55
6. Equity Multiplier (Total Assets / Net worth)	3.21	2.83	3.17	2.82	2.81
Computing Coverage Ratios					
7. Times Interest Earned = EBIT / Interest	4.68	6.02	8.71	16.52	4.69
8. Cash Coverage = (EBIT + Depreciation) / Interest	5.39	6.98	9.78	17.45	5.63
9. Inventory Turnover = Cost of Goods Sold / Inventory	4.20	3.85	5.11	6.07	3.44
10. Days' Sales in Inventory = 365 / Inventory Turnover	87	95	71	60	106
Computing Receivables Ratios					
11. Receivables Turnover = Sales / Accounts Receivable	10	24	30	45	22
12. Days' Sales in Receivables = 365 / Receivables Turnover	38	15	12	8	17
Computing Total Asset Turnover					
13. Total Asset Turnover = Sales / Total Assets	1.60	1.45	1.37	2.29	1.49
Computing Profitability Measures					
14. Profit Margin = Net Income / Sales	4.22%	6.02%	7.43%	11.20%	4.08%
15. Return on Assets (ROA) = Net Income / Total Assets	6.76%	8.75%	10.19%	25.62%	6.07%
16. Return on Equity (ROE) = Net Income / Total Equity	21.73%	24.76%	32.31%	72.29%	17.07%
The Du Pont Identity					
17. ROE = PM * TAT * EM	21.73%	24.76%	32.31%	72.29%	17.07%

COMMENTS ON FINANCIAL RATIOS

- ✓ Current ratio has increased in the last 2 years due to the significant increase in Current Liabilities (CL) & Sundry Debtors during the same two year period. Also, quick ratio shows an increase for the same reason.



- ✓ There has been a significant build up of debt on the books mainly on account of funds being utilized to buy out their JV partners in Silk Road Refinery project, Velencia and Sadashiv Sugars. The Company's debt equity ratio & total debt ratio has worsened as a result. The same also reflects in the consolidated cash flow statement of the Company.
- ✓ The buildup of debt on the books has also resulted in the reduction of Times Interest Earned and Cash Coverage Ratios.
- ✓ There is no significant change in the Inventory Turnover and Day Sales of Inventory although the ratios have worsened a little.
- ✓ Receivables turnover ratio has reduced from 30 in FY2010 to 10 in FY2012 which indicates sluggish and worsening in collections leading to doubts that receivables might contain doubtful debts. The credit period to debtors has increased from 8 days in FY2009 to 38 days in FY2012
- ✓ Sales to Total assets has reduced from 2.29 in FY09 to 1.60 in FY2012 which could be mainly on account of significant increase in stake in subsidiaries but without a corresponding increase in revenue from these subsidiaries.
- ✓ All three profitability ratios show a worsening trend with margins shrinking. This is mainly due to the significant constraints on demand and supply which exists in the sugar industry mostly caused due to government controls. The Du Pont Identity also confirms the same trend.



Appendix 1A: (Source Money Control.com)

Consolidated Balance Sheet of EID Parry (India)					
	Mar '12	Mar '11	Mar '10	Mar '09	Mar '08
	12 mths	12 mths	12 mths	12 mths	12 mths
Sources Of Funds					
Equity Share Capital	17.37	17.32	17.27	17.22	17.85
Reserves	2,401.08	2,218.71	1,731.76	1,586.37	1,053.83
Revaluation Reserves	5.40	5.54	5.68	5.82	-
Networth	2,423.85	2,241.57	1,754.71	1,609.41	1,071.68
Secured Loans	2,084.75	1,633.44	1,218.78	731.14	958.93
Unsecured Loans	2,194.19	1,365.51	1,565.84	1,578.29	655.50
Total Debt	4,278.94	2,998.95	2,784.62	2,309.43	1,614.43
Minority Interest	927.72	731.20	718.61	534.31	297.45
Group Share in Joint Venture	153.89	374.20	306.57	88.08	30.90
Total Liabilities	7,784.40	6,345.92	5,564.51	4,541.23	3,014.46
Application Of Funds					
Fixed Assets					
Gross Block	4,318.36	3,572.45	2,710.78	2,353.39	1,967.67
Less: Accum. Depreciation	1,420.39	1,203.61	914.07	787.97	702.91
Net Block	2,897.97	2,368.84	1,796.71	1,565.42	1,264.76
Capital Work in Progress	673.93	382.34	182.15	97.89	102.08
Investments	155.95	183.27	588.28	522.57	401.20
Current Assets					
Inventories	2,470.38	2,035.44	1,161.56	1,501.54	1,048.10
Sundry Debtors	1,290.40	387.28	250.23	228.54	199.76
Cash and Bank Balance	464.33	378.10	103.15	436.72	69.17
Total Current Assets	4,225.11	2,800.82	1,514.94	2,166.80	1,317.03
Loans and Advances	2,401.01	1,861.04	1,691.53	2,093.68	775.51
Fixed Deposits	579.29	645.68	937.45	76.79	110.79
Total CA, Loans & Advances	7,205.41	5,307.54	4,143.92	4,337.27	2,203.33
Current Liabilities					
Current Liabilities	3,323.44	2,261.26	1,409.40	2,043.01	1,115.44
Provisions	47.80	27.01	67.47	112.86	20.61
Total CL & Provisions	3,371.24	2,288.27	1,476.87	2,155.87	1,136.05
Net Current Assets	3,834.17	3,019.27	2,667.05	2,181.40	1,067.28
Group Share in Joint Venture	222.38	392.13	329.37	171.95	175.93
Miscellaneous Expenses	-	0.07	0.95	2.00	3.21
Total Assets	7,784.40	6,345.92	5,564.51	4,541.23	3,014.46
Contingent Liabilities	385.28	381.84	331.14	161.56	225.62



Appendix 1B: (Source: Moneycontrol.com)

Consolidated Profit & Loss account of EID Parry (India)					
	Mar '12	Mar '11	Mar '10	Mar '09	Mar '08
	12 mths	12 mths	12 mths	12 mths	12 mths
Income					
Sales Turnover	12,483.77	9,223.67	7,625.60	10,391.92	4,482.21
Excise Duty	159.07	103.68	74.76	74.94	73.19
Net Sales	12,324.70	9,119.99	7,550.84	10,316.98	4,409.02
Other Income	24.91	236.64	167.89	872.92	245.65
Stock Adjustments	331.73	412.18	-102.99	274.21	-69.43
Total Income	12,681.34	9,768.81	7,615.74	11,464.11	4,585.24
Expenditure					
Raw Materials	9,816.22	7,335.93	5,519.05	8,787.42	3,325.39
Power & Fuel Cost	137.72	114.27	128.07	82.56	80.64
Employee Cost	321.46	278.70	230.48	187.66	143.29
Other Manufacturing Expenses	97.10	110.65	57.90	59.45	53.10
Selling and Admin Expenses		648.65	417.10	272.96	408.32
Miscellaneous Expenses	240.64	190.25	186.86	178.64	93.39
Preoperative Exp Capitalised	-	-	-	-	-
Total Expenses	11,430.89	8,678.45	6,539.46	9,568.69	4,104.13
Operating Profit	1,225.54	853.72	908.39	1,022.50	235.46
PBDIT	1,250.45	1,090.36	1,076.28	1,895.42	481.11
Interest	267.35	181.06	123.62	114.72	102.58
PBDT	983.10	909.30	952.66	1,780.70	378.53
Depreciation	189.61	174.19	133.31	106.45	96.27
Other Written Off	-	-	-	-	-
Profit Before Tax	793.49	735.11	819.35	1,674.25	282.26
Extra-ordinary items	-	88.46	31.04	0.50	6.10
PBT (Post Extra-ord Items)	793.49	823.57	850.39	1,674.75	288.36
Tax	266.73	268.28	283.09	511.02	105.28
Reported Net Profit	526.60	555.04	566.92	1,163.49	182.98
Minority Interest	213.90	242.76	169.81	206.57	78.25
Share Of P/L Of Associates	-	-	3.51	2.84	-
Net P/L After Minority Interest & Share Of Associates	348.23	223.82	362.84	953.58	98.63
Total Value Addition	1,614.67	1,342.52	1,020.41	781.27	778.74
Preference Dividend	-	-	-	-	-
Equity Dividend	69.47	41.24	86.35	173.48	4.46
Corporate Dividend Tax	32.08	-5.74	-0.24	15.32	0.76
Shares in issue (lakhs)	1,736.62	1,731.98	863.58	861.14	892.49



IMPORTANT FACTS:

- ✓ 2nd Largest Sugar Exporter in India
- ✓ Sales to Institutional customers has increased from 27% in 2010 – 11 to 30% of total sugar sold in 2011 – 2012.
- ✓ Key Institutional Customers Include Pepsi, Coke, Cadbury's, Britannia, Rasna.
- ✓ The Company's products has several certifications including ISO 9001 – 2008, Kosher, Halal, Indian Pharmacopoeia, Japanese Pharmacopoeia.
- ✓ The company forms a part of following indices: CNX 500 Index, CNX FMCG Index
- ✓ S&P BSE 500, S&P BSE Mid-Cap
- ✓ Listed On National Stock Exchange of India Ltd (NSE – 154.55 Market Value) and Bombay Stock Exchange (BSE – 154.20 Market Value) as on 8th April 2013.

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