

Company X**Profile**

Company X is a JV formed to execute a Roll-up Strategy within the Indian sugar industry with the resultant output being Ethanol, Power, and Sugar. The Company is formed by ABC Advisors (ABC) and PRQ Group (PQR). ABC is an India-focused cross border boutique Investment Banking and Advisory business, headquartered in India. PQR is a public limited company with a market cap of approximately \$XX.X million¹ that has been operating sugar mills for XX years. The proposition is to buy an existing inefficient sugar plant and diversify revenues to include alternative energy.

Pre-Invest. Share Holding

ABC	XX.X%
PQR	XX.X%
	XX.X%

Funding

- \$XX.X million to be raised to purchase, expand, and upgrade an existing sugar plant
- XYZ to invest \$XX.X million for 50.0% ownership stake
- Management to invest \$XX.X million
- Balance of project cost of \$XX.X million to be funded by debt

Sources of Funds (In millions)

XYZ	XX.X
Management	XX.X
RST	XX.X
Banks/FI	XX.X
	XX.X

Post-Invest. Share Holding

ABC	XX.X%
PQR	XX.X%
XYZ	50.0%
	XX.X%

Investment Thesis**Opportunity:**

- Roll up strategy within the sugar-based industry, including diversification into alternative energy at a low cyclical point
- The current fragmented sugar industry provides consolidation opportunities. Also, "sick" sugar mills (inefficient plants generally without ethanol & cogeneration facilities) are available for acquisition at comparatively low valuations due to current state of sector

Positives:

Ethanol

- Increasing demand for ethanol in India driven by higher petrol blend rates and potential for exports
- 2-3 year fixed price ethanol sale contracts – reduces business volatility
- Input is sugar cane which is more efficient than other types of feedstock

Power

- Large demand for Power in India, especially 'clean power'
- Profits exempt from Indian Tax
- Faster implementation (approximately 1.5 yrs vs. conventional power implementation of 4-5 yrs)
- Possibility of long term fixed price power purchase agreements (with inflation escalation) available

Sugar

- With India being the largest sugar consumer globally, the domestic demand is substantial
- An integrated plant allows for enhanced profitability by increasing sugar production when sugar economics are attractive
- Low sugar production for 200X-0X1 projects higher sugar prices in 200X1

Issues:

- Highly dependent on sugar cane crop and prices/cyclical industry
- Government intervention in ethanol prices, sugar prices, and export policy
- Molasses availability critical for increased alcohol/ethanol production
- Delay in government's ethanol/petrol 10.0% blending policy

Industry Outlook

The demand for ethanol is increasing on the domestic and global front, especially due to adoption of fuel blending standards globally. Domestically, the Government of India has already announced blending of 5.0% ethanol in the petrol industry and 10.0% blending going forward. There has been a positive turn in Indian/global sugar economics where the industry is quickly emerging from a couple of years of over-supply to a more balanced and short sugar scenario. There is an expected turn in end 200X/early 200X1 in the sugar cycle (Indian/global sugar prices) allowing for substantial upside in sugar generated cash flows. With regard to power, the demand is potentially substantial - especially in 'clean power'.

Valuation

The main comparables for Company X are Balrampur Chini, and Bajaj Hindustan. Analysis of the trading value of the comps over the cycle period of FY200X-0X2 indicates an average EV/EBITDA trading multiple of 10.8x. Also, during this period, the average PE multiple was 13.1x. Company X could trade at a much higher multiple due to its potential of higher revenues from ethanol and alternative energy via long term contracts that substantially reduce income volatility. Management estimates an exit multiple of 10.8x EV/EBITDA. However, the returns analysis has been carried out at an EV/EBITDA multiple of 6.0x. For comps analysis, implied multiples and returns, please refer to the appendix of financial information.

Potential Returns (Base case)

Exit EBITDA multiple of 6.0x

Exit Year 5	EBITDA	Multiple	Net Debt	XYZ	Return
Co. Estimate	18.5	6.0x	(34.5)	50.0%	3.9x
50% Discount	9.2	6.0x	(34.5)	50.0%	2.4x
75% Discount	6.9	6.0x	(34.5)	50.0%	2.0x

(Base Case)

Exit EBITDA multiple of 8.0x

Exit Year 5	EBITDA	Multiple	Net Debt	XYZ	Return
Co. Estimate	18.5	8.0x	(34.5)	50.0%	4.9x
50% Discount	9.2	8.0x	(34.5)	50.0%	2.9x
75% Discount	6.9	8.0x	(34.5)	50.0%	2.4x

¹ Source: Bloomberg.

Appendix (Financial Information and Returns Analysis)**Base Case - Revenue breakdown of Sugar - 50.0%, Ethanol - 36.0% and Power - 14.0%****Summary Financials**

	Y1	Y2	Y3	Y4	Y5
Sugar	\$17.0	\$20.6	\$20.6	\$20.6	\$20.6
Ethanol	13.8	14.9	14.9	14.9	14.9
Power	5.3	5.7	5.7	5.7	5.7
Revenues	\$36.1	\$41.2	\$41.2	\$41.2	\$41.2
% Growth		14.0%	0.0%	0.0%	0.0%
EBITDA	16.0	18.6	18.5	18.5	18.5
Margin	44.4%	45.0%	45.0%	44.9%	44.8%
% Growth		15.8%	(0.2%)	(0.2%)	(0.2%)
Net Income	9.7	12.0	12.3	12.7	13.0
Margin	26.7%	29.1%	29.9%	30.7%	31.6%
% Growth		24.1%	2.8%	2.7%	2.8%
ROCE	23.6%	27.7%	28.0%	28.2%	28.4%

Implied Entry Multiples

	Y1	Y2	Y3
EV / Revenues	1.87x	1.64x	1.64x
EV / EBITDA	4.2x	3.6x	3.6x
PE	1.3x	1.0x	1.0x
P/BV	0.83x	<i>(as on date of investment)</i>	

Potential Returns

Exit Year 5	EBITDA	Multiple	Net Debt	XYZ	Return
Co. Estimate	18.5	6.0x	(34.5)	50.0%	3.9x
50% Discount	9.2	6.0x	(34.5)	50.0%	2.4x
75% Discount	6.9	6.0x	(34.5)	50.0%	2.0x

Conservative Case - Revenue breakdown of Sugar - 29.0%, Ethanol - 52.0% and Power - 19.0%*(All figures in USD millions)*

	Y1	Y2	Y3	Y4	Y5
Sugar	\$5.5	\$8.4	\$8.4	\$8.4	\$8.4
Ethanol	13.8	14.9	14.9	14.9	14.9
Power	5.2	5.6	5.6	5.6	5.6
Revenues	\$24.5	\$28.9	\$28.9	\$28.9	\$28.9
% Growth		17.8%	0.0%	0.0%	0.0%
EBITDA	8.9	11.0	11.0	11.0	10.9
Margin	36.5%	38.2%	38.1%	38.0%	37.8%
% Growth		23.2%	(0.3%)	(0.3%)	(0.3%)
Net Income	3.7	5.7	6.0	6.4	6.7
Margin	15.2%	19.7%	20.9%	22.1%	23.4%
% Growth		52.9%	6.1%	5.7%	5.6%
ROCE	13.3%	16.8%	17.2%	17.6%	17.9%

	Y1	Y2	Y3
EV / Revenues	2.75x	2.34x	2.34x
EV / EBITDA	7.5x	6.1x	6.1x
PE	3.4x	2.2x	2.1x
P/BV	0.83x	<i>(as on date of investment)</i>	

Public Comparables ²

	PE			P / BV			EV/Revenues			EV/EBITDA			
	FY01	FY02	FY03	FY01	FY02	FY03	FY01	FY02	FY03	FY01	FY02	FY03	
Pure Comps													
Balrampur Chini	NA	65.8x	13.2x	2.60x	2.20x	1.90x	2.50x	2.30x	2.00x	39.0x	15.8x	8.4x	
Bajaj Hindustan	NA	NA	11.0x	1.70x	1.40x	1.30x	3.20x	3.10x	2.50x	29.9x	36.9x	10.8x	
Mean	NA	65.8x	12.1x	2.15x	1.80x	1.60x	2.85x	2.70x	2.25x	34.5x	26.4x	9.6x	
Other Sugar Based Comps													
Dwarikesh Sugar	NA	NA	12.3x	0.70x	0.90x	0.80x	2.40x	2.60x	1.50x	28.9x	15.9x	6.9x	
Triveni	37.6x	20.9x	11.3x	4.20x	3.60x	2.80x	3.10x	2.20x	1.70x	24.2x	11.1x	7.5x	
Shree Renuka Sugar	66.6x	26.6x	19.1x	9.40x	5.30x	4.20x	5.69x	2.24x	1.92x	39.8x	14.1x	10.9x	
Mean	52.1x	23.8x	14.2x	4.77x	3.27x	2.60x	3.73x	2.35x	1.71x	31.0x	13.7x	8.4x	
Group	Mean	52.1x	37.8x	13.4x	3.72x	2.68x	2.20x	3.38x	2.49x	1.92x	32.4x	18.8x	8.9x

Revenue Stream Information:

Pure Comps

- Balrampur Chini and Bajaj Hindustan - Sugar, Distillery, Power

Other Sugar Based Comps

- Dwarikesh - Sugar, Power, Distillery (Alcohol)
- Triveni - Sugar, Power, Distillery, Steam Turbine, Gears, and Water
- Shree Renuka Sugar - Sugar, Power, Distillery, Trading, and Others

Base Assumptions

- 50.0% equity purchase by XYZ at \$XX.X million on investment date
- Exit EBITDA multiple of 6.0x in Year 5

² Source: Edelweiss Research; Pioneer Research; Alchemy Research.