



Choice

Nurturing Financial Excellence

IPO REPORT

**“AVOID” to
Vishwaraj Sugar Industries Ltd.**

Near term outlook challenging

Salient features of the IPO:

- Karnataka based sugar manufacturer, **Vishwaraj Sugar Industries Ltd. (VSL)** is planning to raise up to Rs. 550 - 600mn through an IPO, which opens on 30th Sept. and closes on 04th Oct. 2019. The price band is Rs. 55 - 60 per share.
- The issue is a combination of fresh and OFS. The company will not receive any proceeds from the OFS. Of the net proceeds from the fresh issue, Rs. 157mn would be utilized to fund the working capital requirement and the rest will be used for general corporate purposes.

Key competitive strengths:

- Experienced promoters and strong executive team
- Wide range of products
- Integrated operations and economies of scale
- Strong technological capabilities
- Strategic location of the manufacturing unit
- Cordial and strong relationships with sugarcane farmers
- Captive power plant and exportable capacity

Risk and concerns:

- Presence in a political agri-commodity
- Relatively higher sugarcane prices as compared to the realization of the end product
- Delay in the ramp-up of non-sugar business
- Business seasonality
- Working capital intensive industry

Peer comparison and valuation: At the higher price band of Rs. 60 per share, the company's share is valued at an EV/Sales multiple of 1.8x, which is at a significant premium to its peers average of 0.9x.

Below are few key observations of the issue: (continued in next page)

- VSL is an integrated sugar and other allied products manufacturing company operating from Belgaum District in the State of Karnataka which is designated as one of the "High Recovery zones" for sugar production by Government of India. The company operates a single location sugar unit having licensed crushing capacity of 11,000 tonnes crushed per day (TCD).
- The company is engaged in the manufacturing of sugar, sugarcane related co-generation, distillery, Indian made liquor (IML) and vinegar. As of FY19 end, the Sugar segment contributed 76% of the top-line followed by IMP products (8%), Co-generation (7%), Distillery products (4%) and Vinegar (4%).
- The sugar industry is impacted by lower sugar realization and relatively higher sugarcane prices. The key reason for lower sugar realization was the excess production over the years as compared to a relatively subdued demand growth. This has led to an accumulation of sugar inventory in the tune of 14mn tonnes as against an ideal inventory level of 5mn tonnes. This is depressing the sugar prices at the retail level.
- Sugar manufacturers purchase the sugarcane from the farmers at a price level prescribed by the government and which is above the cost of production of sugar. Thus with inventory in the tune of Rs. 500bn (14mn tonnes in volume), this basically increases the carrying cost and thereby impacting the manufacturers capacity to pay sugarcane farmers. In FY19, the sugar mills held back around Rs. 156bn as sugarcane arrears to the farmers.
- Currently, VSL's breakeven sugar cost is around Rs. 33, which is well above the sugar MSP of Rs. 31. To make the sugar industry healthy, the government has also opened the export avenues. But with subdued international sugar prices, there is hardly any relief to the sugar mills.
- To further improve the liquidity at the sugar mills, the government has increased the ethanol blending gradually over the years. Currently, the oil companies is targeting 10% ethanol blending and is aiming it to take it upto 20% in future. A 10% blending would require around 3.3bn liters ethanol. In FY18, the ethanol blending was around 4.5%. With petrol consumption increasing in the country, the only constraints for achieving the target of 20% blending is the overall ethanol production capacity, which stands at 3.5bn liters. To further de-risk the mills, the government has allowed the mills to even produce ethanol from sugar, thereby partly addressing the issues related to excess sugar inventory. This is the new potential area for the sugar mills to improve their profitability and reduce their dependence on the traditional end-product i.e. sugar.
- To take advantage of higher ethanol blending, VSL is in the process of increasing its existing distillery capacity from 35 kilo liters per day (KLPD) to 100 KLPD. According to the management, in the mid-term, it is targeting to have non-sugar business contribution of around 40% as against the existing 24%.
- The industry has been characterized by the continued government support so as to increase the cash flows of the mills. But this seems to a long term exercise as it will take time to remove the legacy issues. In the near to mid-term, the industry would have a negative to stable outlook.

Recommendation	AVOID
Price Band (Rs.)	Rs. 55 - 60 per Share
Face Value (Rs.)	Rs. 10
Shares for Fresh Issue	3mn Shares
Shares for OFS	7mn Shares
Fresh Issue Size	Rs. 165 - 180mn
OFS Issue Size	Rs. 385 - 420mn
Total Issue Size	10mn Shares (Rs. 550 - 600mn)
Bidding Date	30 th Sept. - 04 th Oct. 2019
MCAP at Higher Price Band	Rs. 2,253mn
Enterprise Value at Higher Price Band	Rs. 5,443mn
Book Running Lead Manager	Aryaman Financial Services Ltd.
Registrar	Bigshare Services Pvt. Ltd.
Sector/Industry	Sugar
Promoters	Mr. Umesh Katti, Mr. Ramesh Katti, Mrs. Sheela Katti, Mrs. Jayshree Katti, Mr. Nikhil Katti, Mr. Lava Katti, Mr. Kush Katti and Mrs. Sneha Nithin Dev

Pre and post - issue shareholding pattern		
	Pre – Issue	Post - Issue
Promoter & Promoter Group	54.22%	32.83%
Public	45.78%	67.17%
Total	100.00%	100.00%
Retail application money at higher cut-off price per lot		
Number of Shares per Lot	240	
Application Money	Rs. 14,400 per Lot	
Analyst		
Rajnath Yadav		
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Peer comparison and valuation (Contd...):

Company Name	Face Value (Rs.)	CMP (Rs.)	MCAP (Rs. mn)	EV (Rs. mn)	Stock Return (%)				Total Operating Revenue (Rs. mn)	EBITDA (Rs. mn)	PAT (Rs. mn)	EBITDA Margin (%)	PAT Margin (%)
					1M	3M	6M	1Y					
Vishwaraj Sugar Industries Ltd.	10	60	2,253	5,443					3,068.0	247.3	(176.2)	8.1%	-5.7%
Balrampur Chini Mills Ltd.	1	163	35,827	52,517	19.6%	16.2%	20.9%	118.9%	42,857.8	6,890.7	5,758.2	16.1%	13.4%
E.I.D. Parry (India) Ltd.	1	167	29,549	75,336	9.2%	-1.7%	-16.3%	-22.3%	165,653.9	14,549.5	1,534.9	8.8%	0.9%
Triveni Engineering & Industries Ltd.	1	62	16,031	31,930	15.2%	-8.5%	4.8%	46.6%	31,517.4	3,039.8	2,162.8	9.6%	6.9%
Dhampur Sugar Mills Ltd.	10	223	14,781	31,338	46.3%	17.3%	-1.7%	81.5%	29,540.6	4,605.1	2,510.4	15.6%	8.5%
Bannari Amman Sugars Ltd.	10	1,168	14,650	21,980	8.0%	-16.9%	-23.2%	-28.6%	11,249.9	1,815.5	759.4	16.1%	6.8%
Shree Renuka Sugars Ltd.	1	7	13,571	64,789	3.2%	-22.5%	-30.7%	-43.3%	52,839.0	(8,766.2)	(14,483.7)	-16.6%	-27.4%
Bajaj Hindusthan Sugar Ltd.	1	7	7,640	50,462	25.5%	-13.0%	-15.8%	-26.3%	68,063.9	2,961.8	(1,365.6)	4.4%	-2.0%
Dalmia Bharat Sugar & Industries Ltd.	2	92	7,471	14,763	22.3%	-12.5%	-24.0%	17.8%	20,185.1	2,370.5	1,751.5	11.7%	8.7%
Avadh Sugar & Energy Ltd.	10	294	2,942	17,211	30.9%	-14.9%	23.8%	29.7%	21,301.7	2,914.2	344.9	13.7%	1.6%
Dwarikesh Sugar Industries Ltd.	1	25	4,792	11,135	6.0%	-2.5%	-14.6%	8.1%	10,841.2	1,290.5	951.1	11.9%	8.8%
Uttam Sugar Mills Ltd.	10	106	4,024	9,929	-1.6%	-9.8%	-21.0%	-3.2%	12,146.6	1,585.2	156.0	13.1%	1.3%
DCM Shriram Industries Ltd.	10	162	2,812	6,749	10.2%	-14.1%	-8.5%	-7.3%	16,890.0	1,169.9	748.7	6.9%	4.4%
Magadh Sugar & Energy Ltd.	10	117	1,173	6,137	27.3%	-10.8%	42.0%	12.2%	7,391.6	1,011.1	342.2	13.7%	4.6%
KCP Sugar & Industries Corporation Ltd.	1	13	1,473	2,617	6.5%	-14.8%	-20.3%	-38.6%	3,594.4	467.6	163.1	13.0%	4.5%
Ugar Sugar Works Ltd.	1	13	1,457	5,508	4.9%	-10.1%	-19.3%	-13.5%	7,502.4	498.4	11.3	6.6%	0.2%
Mawana Sugars Ltd.	10	34	1,326	2,623	14.1%	-26.1%	-22.7%	-34.1%	11,577.1	1,158.1	403.5	10.0%	3.5%
Sakthi Sugars Ltd.	10	9	1,076	3,882	18.2%	-4.7%	-19.3%	-38.1%	5,050.6	(557.9)	(527.5)	-11.0%	-10.4%
Average												8.4%	2.0%

Company Name	EPS (Rs.)	BVPS (Rs.)	DPS (Rs.)	Debt Equity Ratio	Total Asset Turnover Ratio	RoE (%)	RoCE (%)	P / E (x)	P / B (x)	EV / Sales (x)	EV / EBITDA (x)	MCAP / Sales (x)	Earning Yield (x)
Vishwaraj Sugar Industries Ltd.	(4.7)	61.1	0.0	1.5	0.4	-7.7%	3.5%	(12.8)	1.0	1.8	22.0	0.7	-7.8%
Balrampur Chini Mills Ltd.	26.2	96.3	2.5	0.8	0.8	27.2%	14.1%	6.2	1.7	1.2	7.6	0.8	16.1%
E.I.D. Parry (India) Ltd.	8.7	251.6	3.0	1.1	1.0	3.4%	12.6%	19.3	0.7	0.5	5.2	0.2	5.2%
Triveni Engineering & Industries Ltd.	8.4	44.2	0.7	1.4	0.8	19.0%	8.8%	7.4	1.4	1.0	10.5	0.5	13.5%
Dhampur Sugar Mills Ltd.	37.8	184.6	6.5	1.4	0.7	20.5%	13.2%	5.9	1.2	1.1	6.8	0.5	17.0%
Bannari Amman Sugars Ltd.	60.6	953.7	10.0	0.6	0.5	6.4%	5.9%	19.3	1.2	2.0	12.1	1.3	5.2%
Shree Renuka Sugars Ltd.	(7.6)	(29.0)	0.0	(0.9)	0.6	26.0%	-200.1%	(0.9)	(0.2)	1.2	(7.4)	0.3	-106.7%
Bajaj Hindusthan Sugar Ltd.	(1.2)	24.5	0.0	1.9	0.5	-4.9%	1.1%	(5.6)	0.3	0.7	17.0	0.1	-17.9%
Dalmia Bharat Sugar & Industries Ltd.	21.6	189.2	1.6	0.6	0.6	11.4%	7.3%	4.3	0.5	0.7	6.2	0.4	23.4%
Avadh Sugar & Energy Ltd.	34.5	508.0	3.0	2.8	0.8	6.8%	12.2%	8.5	0.6	0.8	5.9	0.1	11.7%
Dwarikesh Sugar Industries Ltd.	5.1	24.6	0.0	1.4	0.8	20.5%	8.1%	5.0	1.0	1.0	8.6	0.4	19.8%
Uttam Sugar Mills Ltd.	4.1	61.4	0.0	2.6	0.7	6.7%	14.5%	25.8	1.7	0.8	6.3	0.3	3.9%
DCM Shriram Industries Ltd.	43.0	286.4	6.0	0.9	1.3	15.0%	10.2%	3.8	0.6	0.4	5.8	0.2	26.6%
Magadh Sugar & Energy Ltd.	34.0	453.5	2.0	1.1	0.5	7.5%	8.7%	3.4	0.3	0.8	6.1	0.2	29.2%
KCP Sugar & Industries Corporation Ltd.	1.4	26.2	0.1	0.7	0.5	5.5%	7.6%	9.0	0.5	0.7	5.6	0.4	11.1%
Ugar Sugar Works Ltd.	0.1	4.5	0.0	8.0	0.8	2.2%	7.3%	129.2	2.8	0.7	11.1	0.2	0.8%
Mawana Sugars Ltd.	10.3	97.4	0.0	0.5	0.9	10.6%	14.0%	3.3	0.3	0.2	2.3	0.1	30.4%
Sakthi Sugars Ltd.	(4.4)	3.8	0.0	6.6	0.3	-116.9%	-28.9%	(2.0)	2.4	0.8	(7.0)	0.2	-49.0%
Average			2.1	1.8	0.7	3.9%	-4.9%	14.2	1.0	0.9	6.0	0.4	2.4%

Note: All financials and ratio based on FY19 data or TTM; Source: Choice Broking Research

- The financial performance of VSL in the last five fiscal is not encouraging. Due to its presence in a key political agri-commodity like sugar, it is a victim of unfavorable sugar industry pricing policy of the government. The company has reported net loss in three fiscals out of the reported five fiscals. Over FY15-19, the company has reported 2.9% CAGR decline in the total operating revenue to Rs. 3,068mn in FY19. Over the period, the top-line was impacted by the volatility in the sugar crushing volume and subdued sugar price. Total operating expenditure declined by 3.4% CAGR over FY15-19, leading to 175bps expansion in the EBITDA margin to 8.1% in FY19. Average EBITDA margin over the period stood at 9.2%. EBITDA increased by 3.2% CAGR to Rs. 247.3mn in FY19. Cost of revenue, which as percent of top-line stood at an average of 62% over the period and has been volatile mainly due to the change in minimum support price on the sugarcane and level of sugarcane crushing. Depreciation charge increased by 7.2% CAGR, while finance cost increased by 22.6% CAGR over FY15-19. Other income declined by 29.1% CAGR, leading to a pre-tax loss in three fiscals out of reported five fiscals.
- Working capital cycle increased from 387 days in FY15 to 424 days in FY19, and was primarily due to an average inventory days of 459 days over FY15-19. This mainly led to higher debt, which increased by 9.1% CAGR, with debt-equity ratio increasing from 1x in FY15 to 1.6x in FY19. Net debt to EBITDA too remained at higher levels during the period. Average RoCE and RoIC for the period was 6.5% and 5.1%, respectively.
- On valuation front, at higher price band, VSL is demanding an EV/Sales multiple of 1.8x as compared to 0.9x of the peer average. With the proposed distillery expansion plan, the company is well placed to benefit from the higher ethanol blending with petrol. However, the level of profitability will depends in the cost of production of ethanol vs the ethanol price fixed by the government. With its diversified product offering and target to reduce the reliance on sugar business, the company seems to be a good play for mid to long term, but not in the near term.
- The issue is combination of fresh and OFS. The shares tendered from the promoter & promoter group (P&PG) forms around 91.5% of the OFS size. Post-issue P&PG shareholding to be at 32.83% as compared to 54.22% pre-issue.

Thus considering the above observation, we assign an **"AVOID"** rating for the issue.

About the issue:

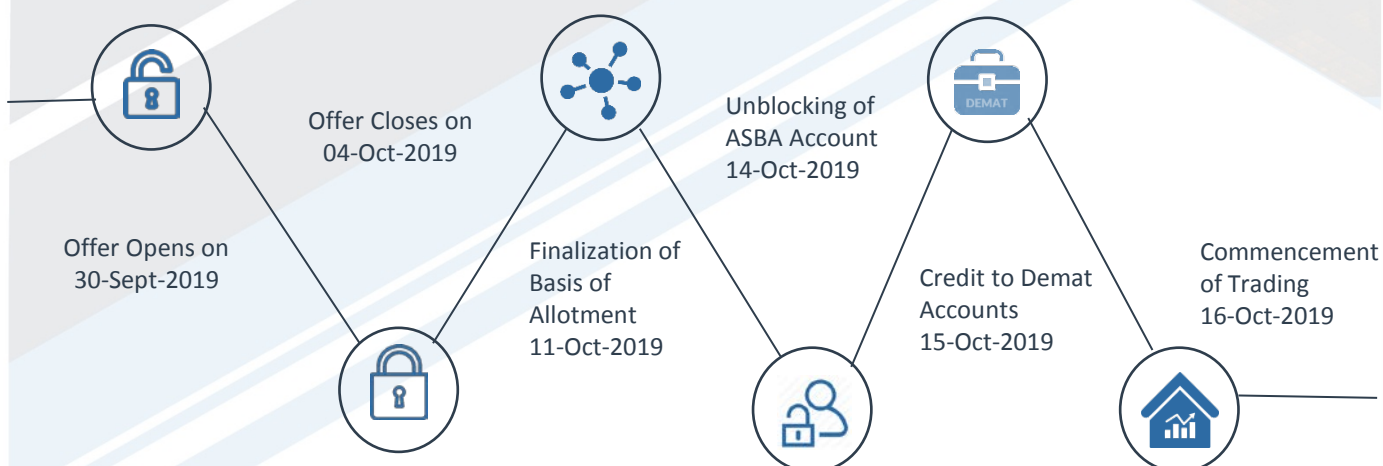
- VSL is coming up with an initial public offering (IPO) with 10mn shares (fresh issue: 3mn shares; OFS shares: 7mn shares) in offering. The offer represents around 26.63% of its post issue paid-up equity shares of the company. Total IPO size is Rs. 550 - 600mn.
- The issue will open on 30th Sept. 2019 and close on 04th Oct. 2019.
- The issue is through book building process with a price band of Rs. 55 - 60 per share.
- The issue is a combination of fresh and OFS. The company will not receive any proceeds from the OFS. Of the net proceeds from the fresh issue, Rs. 157mn would be utilized to fund the working capital requirement and the rest will be used for general corporate purposes.
- 10% of the net issue shall be allocated on a proportionate basis to qualified institutional buyers, while rest 40% and 50% is reserved for non-institutional bidders and retail investors, respectively.
- Promoter holds 54.22% stake in the company and post-IPO this will come down to 32.83%. Public holding will increase from current 45.78 to 67.17%.

Pre and post issue shareholding pattern (%)

	Pre Issue	Post Issue (at higher price band)
Promoter & Promoter Group (%)	54.22%	32.83%
Public (%)	45.78%	67.17%

Source: Choice Equity Broking

Indicative IPO process time line:



Company introduction:

VSL is an integrated sugar and other allied products manufacturing company operating from Belgaum District in the State of Karnataka which is designated as one of the “high recovery zones” for sugar production by Government of India. The company operates a single location sugar unit having licensed crushing capacity of 11,000 tonnes crushed per day (TCD). In addition to sugar, it also manufactures other allied products like rectified spirits, extra-neutral spirits (ENA), Indian made liquor (IML), vinegar, compost, carbon dioxide, etc. and are further engaged in the generation of power for captive consumption as well as external sale. VSL’s business can hence be broken up into five main segments namely Sugar, Co-Generation, Distillery, IML and Vinegar.

In the year 2001, the company commenced operations of manufacture of distillery products such as ethanol, rectified spirit and extra neutral spirit. In the year 2006, VSL implemented backward integration and began commercial operations for sugar manufacturing from sugarcane, along with co-generation capabilities. During the year 2008, it began bottling of IML. Currently, its integrated unit processes sugarcane to produce sugar and the byproducts are used to generate electricity for captive use and commercial sale, manufacture rectified spirit, ENA, IML, vinegar, press-mud and compost. Over the years, VSL has expanded the production / manufacturing capacities of all its products. Its present licensed manufacturing capacity for various products is given below:

Sr. No.	Product	Current Approved Capacity
1.	Sugar	2,42,000 Tons / Year ⁽¹⁾
2.	Bagasse	6,60,000 Tons / Year ⁽¹⁾
3.	Molasses	88,000 Tons / Year ⁽¹⁾
4.	Rectified Spirit	30,000 KL / Year
5.	Extra Neutral Alcohol (ENA)	21,000 KL / Year
6.	Industrial Ethanol	90,000 KL / Year
7.	Electricity / Power	4,96,800 MW / Hr
8.	Brewed Vinegar	10,350 KL / Year

⁽¹⁾ The above licensed capacities are equivalent to a total Sugarcane crushing capacity of 11,000 TCD working for approximately 200 days per year (Crushing Season) at an average 11% recovery rate for sugar, 30% for Bagasse and 4% for Molasses.

Source: RHP

During the production of sugar; bagasse and molasses are produced which are the basic raw materials for power generation and distillery (spirit) manufacturing unit, respectively. The sugar unit of the integrated production facility first crushes sugarcane to extract juice and processes the juice to produce sugar. The sugar manufactured is then graded and packed based on the size of crystals and quality of the sugarcane. During the FY19, VSL produced 98,415 tonnes of sugar. After extracting the juice from sugarcane, the residual fiber leftover called bagasse is used as a fuel for power generation. The molasses used in the process of sugar production is fermented and distilled to manufacture various spirits and IML in the distillery unit.

Bagasse is the fibrous residual matter used as a bio-fuel to generate steam in high pressure boilers for turning turbines to generate electricity. The company obtains enough bagasse during the crushing seasons, such that the electricity produced is used not just for captive consumption, but also for sale. For electricity generated over and above the captive consumption, VSL has entered into power purchase agreements with five electricity distribution companies in Karnataka to supply a total of 22.4MW. It is possible that during the year the company may produce surplus energy and supply the surplus energy to other companies / industries based on demand.

Molasses is the viscous product resultant of refining sugarcane juice. Molasses, which forms the primary raw material for the distillery unit, is fermented, distilled and made to undergo various processes for making rectified spirit and extra neutral spirit. Rectified spirit is processed to manufacture industrial vinegar. Extra-neutral spirit is further processed for manufacture of IML products. The extra-neutral spirit is blended to manufacture whiskey which is sold by the company under its various brands like VSL Deluxe Whisky, District-1 and VSL Black. In last financial year, the company manufactured approximately 0.12mn boxes of IML, 10,779KL of industrial vinegar, 3,156.6KL of rectified spirit and 969.5KL of extra-neutral spirit. Further the waste water extracted from distillery unit is called as spent wash, which is further mixed with mud to form compost / organic manure, which is supplied back to farmers for cultivation of their fields which ensures higher yields. Further the company has set up a Co2 plant also. Thus, VSL believes that nothing is wasted, as every single output whether residue or by-product is utilized.

Company introduction (Contd...):

Financial performance: The financial performance of VSL in the last five fiscal is not encouraging. Due to its presence in a key political agri-commodity like sugar, it is a victim of unfavorable sugar industry pricing policy of the government. The company has reported net loss in three fiscals out of the reported five fiscals.

Over FY15-19, the company has reported 2.9% CAGR decline in the total operating revenue to Rs. 3,068mn in FY19. Over the period, the top-line was impacted by the volatility in the sugar crushing volume and subdued sugar price.

Total operating expenditure declined by 3.4% CAGR over FY15-19, leading to 175bps expansion in the EBITDA margin to 8.1% in FY19. Average EBITDA margin over the period stood at 9.2%. EBITDA increased by 3.2% CAGR to Rs. 247.3mn in FY19. Cost of revenue, which as percent of top-line stood at an average of 62% over the period and has been volatile mainly due to the change in minimum support price on the sugarcane and level of sugarcane crushing.

Depreciation charge increased by 7.2% CAGR, while finance cost increased by 22.6% CAGR over FY15-19. Higher finance cost was mainly due an additional loan taken to expand the distillery capacity and rise in the interest rates. Other income declined by 29.1% CAGR, leading to a pre-tax loss in three fiscals out of reported five fiscals.

Working capital cycle increased from 387 days in FY15 to 424 days in FY19, and was primarily due to an average inventory days of 459 days over FY15-19. This mainly led to higher debt, which increased by 9.1% CAGR, with debt-equity ratio increasing from 1x in FY15 to 1.6x in FY19. Net debt to EBITDA too remained at higher levels during the period. Average RoCE and RoIC for the period was 6.5% and 5.1%, respectively.

(Rs. mn)	FY15	FY16	FY17	FY18	FY19	CAGR (%)	Y-o-Y (%)
Total Operating Revenue	3,450.8	4,057.6	3,218.4	2,592.8	3,068.0	-2.9%	18.3%
EBITDA	218.0	336.0	458.6	235.4	247.3	3.2%	5.1%
Reported PAT	(5.8)	8.5	60.6	(42.7)	(176.2)	135.1%	313.0%
Restated Adjusted EPS	(0.2)	0.2	1.6	(1.1)	(4.7)	135.1%	313.0%
Cash Flow from Operating Activities	255.4	300.1	617.0	(546.0)	250.6	-0.5%	-145.9%
NOPLAT	57.4	175.1	270.0	94.9	113.9	18.7%	20.0%
FCF		199.9	368.7	(186.2)	(15.7)		-91.6%
RoIC (%)	2.1%	6.4%	10.2%	3.3%	3.8%	169 bps	1,570 bps
Revenue Growth Rate (%)		17.6%	-20.7%	-19.4%	18.3%		
EBITDA Growth Rate (%)		54.2%	36.5%	-48.7%	5.1%		
EBITDA Margin (%)	6.3%	8.3%	14.3%	9.1%	8.1%	175 bps	(102) bps
EBIT Growth Rate (%)		90.6%	54.2%	-69.9%	10.2%		
EBIT Margin (%)	3.4%	5.5%	10.7%	4.0%	3.7%	33 bps	(28) bps
Reported PAT Growth Rate (%)		-248.0%	610.2%	-170.4%	313.0%		
Reported PAT Margin (%)	-0.2%	0.2%	1.9%	-1.6%	-5.7%	(558) bps	(410) bps
Inventories Turnover Ratio (x)	0.8	1.0	0.9	0.7	0.7	-1.5%	9.4%
Trade Receivable Turnover Ratio (x)	27.6	26.1	10.2	6.6	8.5	-25.5%	28.1%
Accounts Payable Turnover Ratio (x)	3.8	6.2	9.3	7.2	3.1	-5.0%	-57.3%
Fixed Asset Turnover Ratio (x)	1.4	1.7	1.2	1.0	1.1	-5.1%	16.7%
Total Asset Turnover Ratio (x)	0.6	0.7	0.6	0.4	0.4	-7.0%	2.6%
Current Ratio (x)	1.1	1.1	0.9	1.1	1.1	-0.3%	0.5%
Debt to Equity (x)	1.0	1.2	1.0	1.4	1.6	11.4%	16.5%
Net Debt to EBITDA (x)	10.1	6.4	4.9	13.0	13.6	7.9%	4.4%
RoE (%)	-0.3%	0.4%	2.6%	-1.9%	-8.3%	(808) bps	(647) bps
RoA (%)	-0.1%	0.1%	1.1%	-0.7%	-2.4%	(235) bps	(177) bps
RoCE (%)	4.2%	8.0%	12.9%	3.5%	3.7%	(46) bps	21 bps

Source: Choice Equity Broking



Competitive strengths:

- Experienced promoters and strong executive team
- Wide range of products
- Integrated operations and economies of scale
- Strong technological capabilities
- Strategic location of the manufacturing unit
- Cordial and strong relationships with sugarcane farmers
- Captive power plant and exportable capacity

Business strategy:

- Increasing operational efficiency
- Explore possibilities of geographical expansion
- Addition of new IML products
- Augment fund based capacities in order to scale up business operations



Risk and concerns:

- Presence in a political agri-commodity
- Relatively higher sugarcane prices as compared to the realization of the end product
- Delay in the ramp-up of non-sugar business
- Business seasonality
- Working capital intensive industry

Financial statements:

Profit and loss statement (Rs. mn)

	FY15	FY16	FY17	FY18	FY19	CAGR over FY15 - 19 (%)	Annual Growth over FY18 (%)
Total Operating Revenue	3,450.8	4,057.6	3,218.4	2,592.8	3,068.0	-2.9%	18.3%
Cost of Materials Consumed	(2,324.0)	(2,292.9)	(1,281.9)	(2,269.6)	(2,766.5)	4.5%	21.9%
Changes in Inventories of Finished Goods and Work-in-progress	232.3	(253.5)	(629.3)	789.4	628.0	28.2%	-20.4%
Other Manufacturing Expenses	(229.9)	(245.5)	(237.6)	(242.5)	(205.9)	-2.7%	-15.1%
Excise Duty	(688.4)	(701.1)	(378.2)	(374.7)	(204.4)	-26.2%	-45.4%
Employee Benefit Expenses	(119.1)	(121.6)	(136.2)	(124.3)	(130.3)	2.3%	4.9%
Other Expenses	(104.0)	(107.0)	(96.6)	(135.8)	(141.5)	8.0%	4.2%
EBITDA	218.0	336.0	458.6	235.4	247.3	3.2%	5.1%
Depreciation and Amortization Expenses	(101.1)	(113.4)	(115.3)	(132.0)	(133.4)	7.2%	1.1%
EBIT	116.8	222.6	343.3	103.4	113.9	-0.6%	10.2%
Finance Costs	(160.9)	(178.7)	(249.1)	(208.5)	(363.6)	22.6%	74.4%
Other Income	42.8	28.9	10.4	96.5	10.8	-29.1%	-88.8%
PBT	(1.3)	72.8	104.5	(8.6)	(238.9)	269.8%	2670.8%
Tax Expenses	(4.5)	(64.2)	(43.9)	(34.0)	62.7		-284.1%
Reported PAT	(5.8)	8.5	60.6	(42.7)	(176.2)	135.1%	313.0%

Balance sheet statement (Rs. mn)

	FY15	FY16	FY17	FY18	FY19	CAGR over FY15 - 19 (%)	Annual Growth over FY18 (%)
Equity Share Capital	345.6	345.6	345.6	345.6	345.6	0.0%	0.0%
Other Equity	1,953.4	1,915.4	1,979.3	1,943.2	1,769.4	-2.4%	-8.9%
Long Term Borrowings	449.2	413.0	215.9	499.6	849.4	17.3%	70.0%
Long Term Provisions	11.7	21.2	21.0	16.8	18.3	11.9%	8.7%
Deferred Tax Liabilities (Net)	35.5	84.2	105.8	139.2	76.5	21.2%	-45.0%
Short Term Borrowings	1,943.4	2,264.7	2,166.6	2,646.8	2,538.6	6.9%	-4.1%
Current Trade Payables	556.2	269.4	143.4	268.6	1,127.2	19.3%	319.6%
Other Current Financial Liabilities	282.4	230.1	88.7	112.2	176.4	-11.1%	57.2%
Other Current Liabilities	471.8	330.9	341.3	266.4	293.2	-11.2%	10.0%
Short Term Provisions	0.7	11.5	1.2	1.2	1.0	11.6%	-15.1%
Current Tax Liabilities (Net)	0.4	14.3	23.2	2.2	0.0	-100.0%	-100.0%
Total Liabilities	6,050.1	5,900.1	5,432.0	6,241.9	7,195.5	4.4%	15.3%
Property, Plant and Equipment	2,459.9	2,441.3	2,406.9	2,718.9	2,644.1	1.8%	-2.8%
Capital Work-in-Progress	50.8	12.9	383.5		112.6	22.0%	
Non Current Investments	3.8	3.8	3.8	5.3	10.8	30.2%	103.3%
Other Non Current Financial Assets	26.5	26.3	26.3	21.3	21.5	-5.2%	0.5%
Inventories	2,695.4	2,444.7	1,820.0	2,615.7	3,243.5	4.7%	24.0%
Current Trade Receivables	125.0	185.7	443.5	338.8	383.6	32.4%	13.2%
Cash and Cash Equivalents	199.2	516.5	127.4	74.6	18.4	-44.8%	-75.3%
Other Current Financial Assets	0.0	4.5	1.6	0.5	0.4	112.3%	-3.0%
Other Current Assets	489.5	254.2	219.1	466.8	760.6	11.6%	63.0%
Total Assets	6,050.1	5,889.9	5,432.0	6,241.9	7,195.5	4.4%	15.3%

Source: Choice Equity Broking

Financial statements:

Cash flow statement (Rs. mn)

Particulars (Rs. mn)	FY15	FY16	FY17	FY18	FY19	CAGR over FY15 - 19 (%)	Annual Growth over FY18 (%)
Cash Flow Before Working Capital Changes	261.3	365.7	469.1	332.0	266.2	0.5%	-19.8%
Change in Working Capital	40.4	(65.3)	162.2	(854.8)	(13.4)		-98.4%
Cash Flow from Operating Activities	255.4	300.1	617.0	(546.0)	250.6	-0.5%	-145.9%
Purchase of Property , Plant & Equipment	(496.6)	(58.2)	(454.2)	(61.2)	(191.7)	-21.2%	212.9%
Cash Flow from Investing Activities	(499.2)	(57.7)	(451.6)	(62.2)	(184.7)	-22.0%	197.2%
Cash Flow from Financing Activities	334.6	74.9	(554.5)	555.3	(122.0)		-122.0%
Net Cash Flow	90.8	317.3	(389.1)	(52.8)	(56.1)		6.3%
Opening Balance of Cash and Bank Balances	108.4	199.2	516.5	127.4	74.6	-8.9%	-41.4%
Closing Balance of Cash and Bank Balances	199.2	516.5	127.4	74.6	18.4	-44.8%	-75.3%

Financial ratios

Particulars (Rs. mn)	FY15	FY16	FY17	FY18	FY19
Revenue Growth Rate (%)		17.6%	-20.7%	-19.4%	18.3%
EBITDA Growth Rate (%)		54.2%	36.5%	-48.7%	5.1%
EBITDA Margin (%)	6.3%	8.3%	14.3%	9.1%	8.1%
EBIT Growth Rate (%)		90.6%	54.2%	-69.9%	10.2%
EBIT Margin (%)	3.4%	5.5%	10.7%	4.0%	3.7%
Adjusted PAT Growth Rate (%)		-248.0%	610.2%	-170.4%	313.0%
Adjusted PAT Margin (%)	-0.2%	0.2%	1.9%	-1.6%	-5.7%

Liquidity ratios

Current Ratio	1.1	1.1	0.9	1.1	1.1
Debt Equity Ratio	1.0	1.2	1.0	1.4	1.6
Net Debt to EBITDA	10.1	6.4	4.9	13.0	13.6

Turnover ratios

Inventories Days	470.4	368.4	407.2	546.9	500.0
Debtor Days	13.2	14.0	35.7	55.1	43.0
Payable Days	(97.1)	(59.2)	(39.4)	(50.8)	(119.1)
Cash Conversion Cycle	386.5	323.2	403.5	551.2	423.9
Fixed Asset Turnover Ratio (x)	1.4	1.7	1.2	1.0	1.1
Total Asset Turnover Ratio (x)	0.6	0.7	0.6	0.4	0.4

Return ratios

RoE (%)	-0.3%	0.4%	2.6%	-1.9%	-8.3%
RoA (%)	-0.1%	0.1%	1.1%	-0.7%	-2.4%
RoCE (%)	4.2%	8.0%	12.9%	3.5%	3.7%

Per share data

Restated Reported EPS (Rs.)	(0.2)	0.2	1.6	(1.1)	(4.7)
Restated DPS (Rs.)	0.9	0.9	0.0	0.0	0.0
Restated BVPS (Rs.)	61.2	60.2	61.9	60.9	56.3
Restated Operating Cash Flow Per Share (Rs.)	6.8	8.0	16.4	(14.5)	6.7
Restated Free Cash Flow Per Share (Rs.)		5.3	9.8	(5.0)	(0.4)
Dividend Payout Ratio	599.0%	404.8%	0.0%	0.0%	0.0%

Note: Ratios calculated on pre-issue data; Source: Company RHP

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