

Increasing distillery volumes to boost earnings

Dalmia Bharat Sugar (DBSL) reported strong Q4FY21 results with 32.7% growth in operating profit led by increase in distillery volumes and higher proportion of B-heavy ethanol. Consolidated sales declined 11.1% on account of absence of export volumes given the delay in announcement of export subsidy. However, most sugar exports would be shipped & booked in Q1FY22. Sugar sales were down 18% whereas distillery sales were up 23.2%. The company sold 1.0 lakh tonnes (lt) of sugar largely comprising domestic sales. Distillery volumes were up 10% to 2.1 crore litre. The company changed its depreciation charging method from SLM to WDV for sugar & distillery segment, which resulted in additional depreciation provisioning by ₹ 35 crore. PAT fell 16% to ₹ 51.9 crore mainly on account of higher depreciation & income tax provisioning.

Aggressive distillery capacity addition

The government is aiming at ethanol blending with petrol to the tune of 10% by 2022, 20% by 2025. Moreover, it is also providing interest subvention for debt taken for distillery capacity expansion. This has encouraged sugar millers to raise distillery capacities. DBSL has increased its Nigohi distillery capacity from 60 KLD to 100 KLD in Q4 taking total capacity to 300 KLD. The company is doubling its annual distillery capacity from 8.6 crore litre in FY21 to ~15 crore litre in FY23E along with sugar crushing capacity of 5000 TCD with capex of ₹ 412 crore. We believe DBSL is best placed to utilise B-Heavy & sugarcane juice route to produce ethanol. We expect distillery volume of 10.8 crore, 15.2 crore litre for FY22E, FY23E, respectively. We estimate distillery revenue CAGR of 38.4% to ₹ 856.9 crore in FY21-23E.

Higher global sugar prices to drive exports

The company has a locational advantage given two of its plants are in Maharashtra and freight cost till port is ₹ 1/ kg lower compared to UP mills. Further, Maharashtra millers have been able to export higher white sugar quantity (which sell at a premium to raw sugar). We believe a sharp increase in global sugar prices would result in increase in white sugar export from Maharashtra under OGL. This would result in liquidation of excess sugar inventories and, in turn, push domestic sugar prices northwards.

Valuation & Outlook

With high global sugar prices, the industry would be able to export 5-6 million tonnes (MT) of sugar in the next sugar season as well. We believe aggressive sugar exports & 3-4 MT of sugar diversion towards ethanol would bring down sugar inventories to ~7 MT by September 2022, which would in turn push domestic sugar prices upwards. We believe now market recognises structural earning growth trajectory for sugar companies. Hence, we value the stock at 10x FY23E earnings with a target price of ₹ 450/share (earlier ₹ 225). We maintain our **BUY** rating.



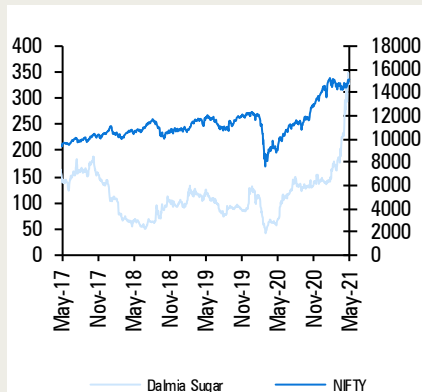
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	2,654.8
Total Debt (FY21)	915.9
Cash and Investments (FY21)	79.8
EV	3,490.9
52 week H/L (₹)	355 / 54
Equity capital	16.2
Face value (₹)	2.0

Key Risk

- Any delay in distillery expansion plan could adversely impact earnings growth
- Global sugar prices could decline if Brazil sugar production bounces back, which could derail India's sugar exports in next sugar season

Price Performance



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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
Total Operating Income	2018.5	2034.7	2695.6	2705.3	3008.6	5.6%
EBITDA	265.7	260.5	471.5	553.0	611.0	13.8%
EBITDA Margin %	13.2	12.8	17.5	20.4	20.3	
Net Profit	175.2	193.3	270.4	308.5	365.1	16.2%
EPS (₹)	21.64	23.88	33.41	38.12	45.11	16.2%
P/E	15.2	13.7	9.8	8.6	7.3	
RoNW %	11.4	9.0	12.6	14.9	15.3	
RoCE (%)	9.8	11.8	13.3	14.4	16.0	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Total Operating Income	488.8	550.1	-11.1	605.8	-19.3	Net sales declined 11.1% mainly on account of absence of exports during the quarter given delay in announcement of export subsidy in December 2020
Other Operating Income	12.2	16.5	N.A.	13.8	N.A.	
Raw Material Expenses	243.9	345.9	-29.5	453.1	-46.2	
Employee Expense	42.2	37.8	11.7	39.2	7.9	
Other operating Expenses	75.4	70.5	7.1	57.9	30.4	
EBITDA	127.2	95.9	32.7	55.7	128.5	Operating profit increased 32.7% mainly on account of increase in distillery volumes. Moreover, higher contribution of B-heavy resulted in better distillery realisation
EBITDA Margin (%)	26.0	17.4	860 bps	9.2	1684 bps	
Depreciation	51.8	15.1	244.0	14.4	259.8	The company has changed the depreciation method from SLM to WDM
Interest	10.2	25.8	-60.5	11.1	-8.3	
Other Income	12.2	16.5	-25.9	13.8	-11.2	
PBT	77.5	71.5	8.3	44.0	76.3	
Tax Outgo	25.6	9.5	169.3	6.9	272.8	
PAT	51.9	62.0	-16.3	37.1	39.9	Net profit declined due to higher depreciation and taxation provisioning
Key Metrics						
Sugar sales volume (in lakh tonnes)	1.0	1.3	-24.8	1.4	-27.5	Sugar volume declined 25% as most export contracts would be fulfilled in Q1FY22
Distillery volumes (in crore litre)	2.1	1.9	10.5	2.1	0.0	Distillery volumes increased with expansion of capacity during the quarter
Power volumes (in cr unit)	11.5	11.7	-1.7	9.7	18.6	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	FY22E			FY23E			Comments
	Old	New	% change	Old	New	% change	
Net sales	2667.2	2,705.3	1.4	2,932.8	3,008.6	2.6	Our numbers would change marginally factoring in higher global sugar prices, which could benefit exports of white sugar under OGL.
EBITDA	491.2	553.0	12.6	562.2	611.0	8.7	
EBITDA Margin (%)	18.4	20.4	203 bps	19.2	20.3	114 bps	
Adjusted PAT	296.9	308.5	3.9	357.4	365.1	2.2	
EPS (₹)	36.7	38.1	3.9	44.2	45.1	2.1	

Source: Company, ICICI Direct Research

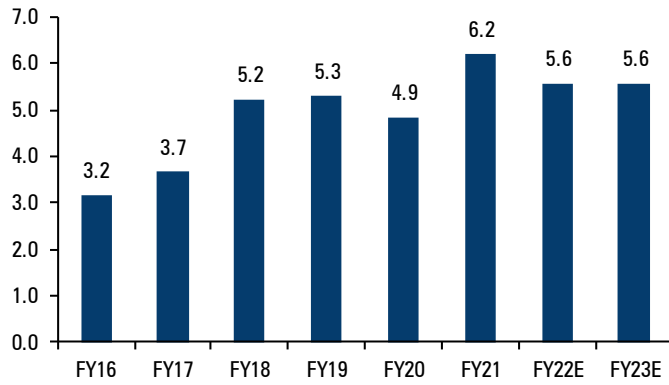
Exhibit 3: Assumptions

	Current				Earlier			Comments
	FY19	FY20	FY21E	FY22E	FY23E	FY22E	FY23E	
Sugar Sold (in tonne)	531,000	485,000	620,800	558,720	558,720	567,450	567,450	
Sugar Price (₹ per tonne)	30,680	32,342	31,500	34,500	35,000	33,500	33,500	We change our sugar realisation estimates mainly on account of sharp increase in global sugar prices & opportunity in exporting white sugar under OGL
Distillery volume	50,110	63,607	86,064	108,108	152,141	107,520	148,949	We marginally change our distillery volume estimates
Distillery price (₹ per KL)	42,850	46,408	52,262	55,100	56,325	54,600	56,325	
Power Units sold	38.0	33.4	30.3	32.0	32.0	32.0	32.0	
Price per unit (₹ per units)	5.2	3.7	4.7	4.2	4.5	4.2	4.5	

Source: Company, ICICI Direct Research

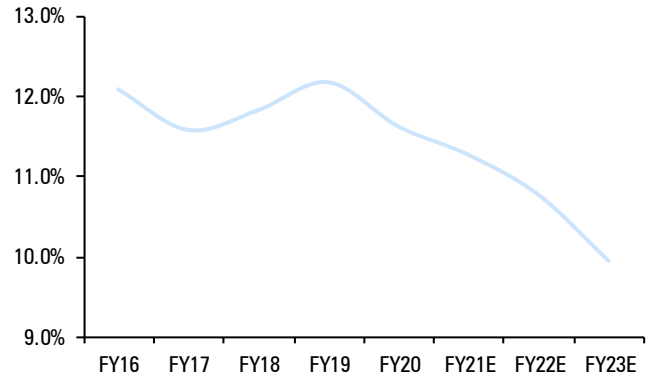
Key Metrics

Exhibit 4: Sugar sales volume (in lakh tonne)



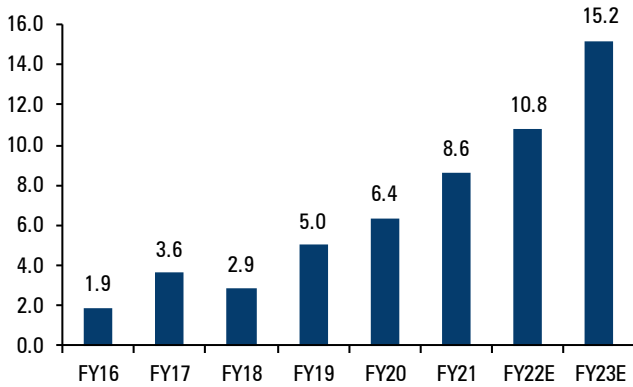
Source: ICICI Direct Research, Company

Exhibit 5: Sugar recovery rate (%)



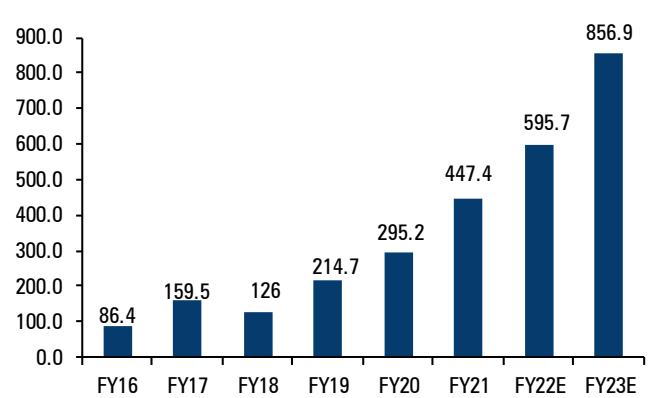
Source: ICICI Direct Research, Company

Exhibit 6: Ethanol volumes (in crore litre)



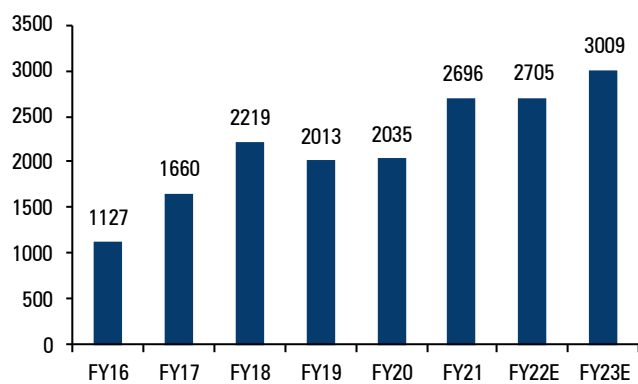
Source: Company, ICICI Direct Research

Exhibit 7: Ethanol sales (₹ crore)



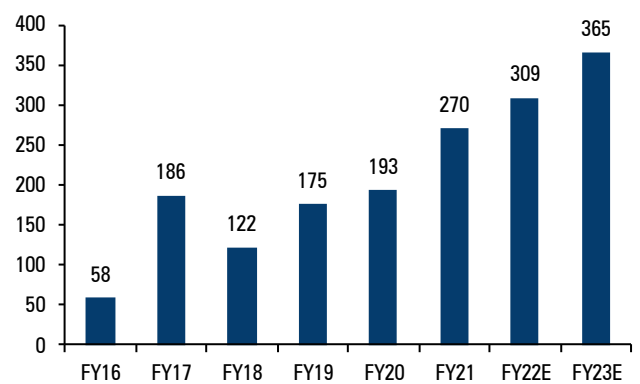
Source: Company, ICICI Direct Research

Exhibit 8: Revenue trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 9: Net profit trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 10: Valuation

	Sales (₹ cr)	Growth (%)	Adj. EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY20	2034.7	0.8	17.0	-21.7	13.7	14.4	9.0	11.8
FY21	2695.6	32.5	33.4	97.1	9.8	7.4	12.6	13.3
FY22E	2705.3	0.4	38.1	14.1	8.6	6.6	14.9	14.4
FY23E	3008.6	11.2	45.1	18.4	7.3	5.5	15.3	16.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total Operating Income	2,034.7	2,695.6	2,705.3	3,008.6
Growth (%)	0.8	32.5	0.4	11.2
Raw Material Expenses	1,407.0	1,838.5	1,770.9	2,012.5
Employee Expenses	133.6	143.7	151.5	159.5
Administrative Expenses	0.0	0.0	0.0	0.0
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	233.6	241.9	230.0	225.6
Total Operating Expenditure	1,774.2	2,224.1	2,152.3	2,397.6
EBITDA	260.5	471.5	553.0	611.0
Growth (%)	-2.0	81.0	17.3	10.5
Depreciation	57.2	95.5	109.6	109.1
Interest	88.4	61.9	63.4	46.7
Other Income	132.6	53.9	32.3	33.0
PBT	114.9	314.1	380.1	455.2
Exceptional items	0.0	0.0	0.0	0.0
Total Tax	54.3	97.6	103.9	123.0
PAT	193.3	270.4	308.5	365.1
Growth (%)	10.3	39.9	14.1	18.4
EPS (₹)	23.9	33.4	38.1	45.1

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit/Loss after Tax	247.5	367.9	308.5	365.1
Add: Depreciation	57.2	95.6	109.6	109.1
Add: Interest	88.4	61.9	0.0	0.0
(Inc)/dec in Current Assets	-240.5	-41.4	117.5	-46.3
Inc/(dec) in Current Liabilities	1.1	-90.0	-4.7	-6.9
CF from operating activities	59.0	345.5	530.9	421.1
(Inc)/dec in Investments	-96.8	107.8	-5.0	-5.0
(Inc)/dec in Fixed Assets	-90.4	-71.9	-319.0	-119.0
Others	7.9	1.3	8.5	0.0
CF from investing activities	-179.3	37.1	-315.5	-124.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	232.7	-319.3	140.0	-278.2
Dividend paid & dividend tax	-35.1	0.0	-24.3	-48.6
Inc/(dec) in ST Debt	0.0	0.0	-353.5	0.0
Others	-52.3	-45.1	0.0	0.0
CF from financing activities	145.3	-364.4	-237.8	-326.8
Net Cash flow	25.0	18.3	-22.4	-29.6
Opening Cash	28.0	53.0	71.3	48.8
Cash with bank	14.1	8.5	0.0	0.0
Closing Cash	67.1	79.8	48.8	19.2

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
	₹ crore			
	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	16.2	16.2	16.2	16.2
Reserve and Surplus	1,502.6	2,126.5	2,057.2	2,373.8
Total Shareholders funds	1,518.8	2,142.7	2,073.4	2,390.0
Total Debt	1,192.6	915.9	1,055.9	777.7
Long Term Provisions	29.4	33.1	31.1	29.1
Other Non-current Liabilities	117.7	155.3	156.3	157.3
Total Liabilities	2,858.5	3,247.0	3,316.7	3,354.1
Assets				
Gross Block	2,243.7	2,288.6	2,608.6	2,728.6
Less: Acc Depreciation	885.3	980.8	1,090.4	1,199.5
Net Block	1,352.4	1,307.8	1,518.2	1,529.1
Capital WIP	6.2	27.1	26.1	25.1
Intangible assets	0.4	0.2	0.2	0.2
Non Current Investments	100.3	310.8	315.8	320.8
Other non-current assets	48.5	51.3	51.3	51.3
Current Assets				
Inventory	1,329.2	1,375.0	1,127.2	1,128.2
Debtors	169.8	115.3	225.4	250.7
Cash	67.1	79.8	48.8	19.2
Loans & Advances	0.8	0.4	0.4	0.4
Other Current Assets	363.5	465.1	485.1	505.1
Current Liabilities				
Creditors	402.0	305.7	446.9	440.7
Provisions	5.6	5.9	5.9	5.9
Other CL	172.1	174.1	29.2	29.5
Net Current Assets	1,350.8	1,549.8	1,405.0	1,427.6
Total Assets	2,858.5	3,247.0	3,316.7	3,354.1

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	₹ crore			
	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	23.9	33.4	38.1	45.1
Cash EPS	30.9	45.2	51.7	58.6
BV	187.6	264.7	256.2	295.3
DPS	3.6	0.0	3.0	6.0
Cash Per Share	109.4	121.2	134.7	148.2
Operating Ratios (%)				
EBITDA Margin	12.8	17.5	20.4	20.3
PBT / Net Sales	0.1	0.1	0.2	0.2
PAT Margin	6.7	10.0	11.4	12.1
Inventory days	238.4	186.2	152.1	136.9
Debtor days	30.5	15.6	30.4	30.4
Creditor days	72.1	41.4	60.3	53.5
Return Ratios (%)				
RoE	9.0	12.6	14.9	15.3
RoCE	11.8	13.3	14.4	16.0
Valuation Ratios (x)				
P/E	13.7	9.8	8.6	7.3
EV / EBITDA	14.4	7.4	6.6	5.5
EV / Net Sales	1.8	1.3	1.3	1.1
Market Cap / Sales	1.3	1.0	1.0	0.9
Price to Book Value	1.7	1.2	1.3	1.1
Solvency Ratios				
Debt/EBITDA	4.6	1.9	1.9	1.3
Debt / Equity	0.8	0.4	0.5	0.3
Current Ratio	4.2	5.6	3.9	4.1
Quick Ratio	1.2	1.7	1.5	1.6

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct coverage universe (Sugar)

Sector / Company	CMP	TP	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			P/B			RoCE (%)			
	(₹)	(₹)		Rating	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Balrampur Chini (BALCHI)	298	285	Buy	6,248	23.7	27.2	37.4	12.5	10.9	8.0	9.4	8.5	6.0	2.1	1.9	1.8	17.1	18.4	25.5
Dalmia Bharat Sugar (DALSUG)	328	450	Buy	2,654	33.4	38.1	45.1	9.8	8.6	7.3	7.4	6.6	5.5	1.2	1.3	1.1	13.3	14.4	16.0
Triveni Engineering (TRIENG)	141	125	Buy	3,402	15.2	17.1	21.2	9.3	8.2	6.7	6.0	5.7	4.7	1.7	1.5	1.2	20.7	20.5	23.3
Dhampur Sugar (DHASUG)	328	260	Buy	2,148	34.4	43.4	51.3	9.5	7.6	6.4	5.2	4.4	3.6	0.9	0.8	0.7	14.8	16.4	18.0
Dwarikesh sugar (DWASUG)	54	62	Buy	1,007	4.9	7.0	8.2	11.0	7.6	6.5	7.5	5.7	5.0	1.7	1.4	1.2	14.4	18.0	18.2
Avadh Sugar (AVASUG)	305	345	Hold	611	38.8	62.1	78.6	7.9	4.9	3.9	7.0	4.9	3.6	0.9	0.8	0.7	11.5	14.7	17.7

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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