

Sturdy sugar prices boost profitability...

About the stock: Dwarikesh Sugar (DSL) is a UP based sugar company with sugar crushing capacity of 21500 TCD, distillery capacity of 163 KLD & co-generation capacity of 91 MW. The company is undertaking a distillery capacity addition of 170 KLD with investment of ₹ 230 crore. The distillery will be commissioned by July 2022

- The company would be able to increase distillery volumes to 11 crore litre in FY24 from 3.2 crore litre in FY21

Q2FY22 Results: DSL reported strong revenue & profit growth in Q2FY22.

- Sales were up 21.1 % YoY, on high domestic quota, increasing sugar prices
- EBITDA was at ₹ 74.7 crore, up 64.1% YoY, with margins at 14.8%
- Consequent PAT was at ₹ 39.6 crore (up 123.6 % YoY)

What should investors do? DSL's share price has gone up 180% in the last five years (from ₹ 26 in October 2016 to 75 in October 2021)

- We expect 3x increase in distillery volumes to boost earnings with CAGR of 39.5% during FY21-24E
- We continue to maintain our BUY rating on the stock

Target Price and Valuation: We value the stock at ₹ 110, valuing the business at 2.5x FY23 BV

Key triggers for future price performance:

- Distillery revenue to grow at 58% CAGR in FY21-24E with 3x increase in ethanol volumes & 4.5% increase in distillery realisation led by better realisation from B-heavy & sugarcane juice ethanol
- Higher exports aided by rising global sugar prices & sugarcane diversion towards ethanol has led to lower sugar inventory & higher domestic sugar prices, which is boosting operating margins & profits
- With increasing profitability & reduction in sugar inventory, the company would be able to generate cumulative ₹ 530 crore free cash flows in the next three years. It would completely de-leverage the balance sheet

Alternate Stock Idea: We like Balrampur Chini in our sugar coverage

- The company is second largest & one of the most efficient sugar companies in India. Along with sugarcane juice, B-heavy, the company is also utilising grain based ethanol to leverage the ethanol opportunity in India
- We value the stock at ₹ 515 / share with BUY recommendation



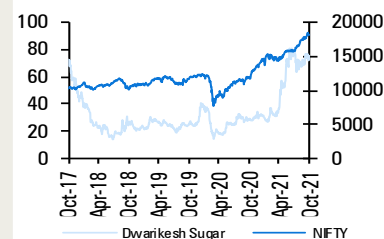
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	1,407.5
Total Debt (FY21)	556.8
Cash and Investments (FY21)	1.2
EV	1,963.1
52 week H/L (₹)	83.9 / 26
Equity capital	18.8
Face value (₹)	1.0

Shareholding pattern

(in %)	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	42.1	42.1	42.1	42.1
FII	0.1	0.4	2.2	2.8
DII	3.5	4.0	4.2	4.0
Others	54.3	53.5	51.5	51.1

Price Chart



Recent event & key risks

- It would commission new 170 KLD distillery by July 2022
- Key Risk:** (i) Fall in global sugar prices could impact sugar exports from India (ii) Any delay in distillery expansion

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Key Financial Summary

Key Financials	FY20	FY21	FY22E	FY23E	FY24E	CAGR (FY21-24E)
Total Operating Income	1336.2	1838.9	2024.8	2010.6	2048.9	3.7%
EBITDA	136.1	201.3	250.1	296.3	393.1	25.0%
EBITDA Margin %	10.2	10.9	12.4	14.7	19.2	
Net Profit	73.5	91.5	144.0	165.0	248.7	39.5%
EPS (₹)	3.9	4.9	7.6	8.8	13.2	39.5%
P/E	19.2	15.4	9.8	8.5	5.7	
RoNW %	15.2	15.8	20.5	19.9	24.4	
RoCE (%)	9.0	14.4	20.0	20.7	28.5	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q2FY22 Results: Inventory reduction leads to strong sugar prices scenario

- Consolidated revenues saw growth of 21.1% to ₹ 505.5 crore on the back of higher sugar as well as distillery segment sales. Sugar sales witnessed growth of 8.1% on the back of higher sales quota and improved sugar realisation. Distillery segment sales jumped 73.6% with the increase in ethanol volumes & higher proportion of B-heavy ethanol sales
- Sugar volumes saw growth of 6.6% to 1.2 lakh tonnes on back of higher domestic sugar quota. Sugar realisation moved up 3.6% to ₹ 33.8 per kg
- Distillery volumes increased 85.6% to 1.67 crore litre led by ramping of capacity utilisation & higher offtake by OMCs. DSL only produced & sold B-heavy ethanol in Q2, which led to the 31.5% increase in distillery realisation to ₹ 57.6/litre. The transfer pricing of B-heavy molasses is ₹ 6.25 / litre
- The current prevailing sugar prices for DSL is ₹ 36.6/ kg. With the strong festive demand and reduction in inventory, sugar prices are likely to remain firm for the rest of FY22
- The company is holding 1.33 lakh tonnes of sugar valued at ₹ 30.54 / kg. We believe DSL would be able to exhaust its 2020-21 sugar season inventory by December 2021
- In last 15 days, western UP has witness extreme rains & flooding. This would damage the sugarcane crop by ~5%. The company was planning to crush 5% higher sugarcane in 2021-22 sugar season. We believe crop damage would limit the crushing to last year levels (37.8 lakh tonnes). It is yet to access the impact of sugar recoveries of the unseasonal rains. The 2021-22 crushing season would only start after Diwali
- ISMA would conduct its meeting in a few days to access the impact of various weather related issues on sugar production at the country level. We believe sugar production estimate could go down by 3-4%. ISMA estimated 31 million tonnes of sugar production in its earlier estimate
- Operating profit increased 64.1% to ₹ 73.8 crore, mainly on the back of higher sugar prices. UP based mills sugar realisation has increased from ₹ 32.5 /kg to ₹ 36-37/ kg in the last four months. This has directly aided operating profit. Moreover, higher proportion of B-Heavy ethanol has also led to improvement in distillery realisation for the company. Led by higher operating profit & reduction in interest cost, net profit increased 123.6% to ₹ 39.6 crore
- Total debt for the company has come down from ₹ 604 crore in March 2021 to ₹ 280.9 crore September 2021. The company is holding ₹ 451 crore of inventory (largely sugar). We believe DSL would exhaust last season's inventory by December 2021
- The company is expected to produce more than 5 crore litre of ethanol in FY22E & more than 7 crore litre of ethanol in FY23E. The new distillery will be commissioned in July 2022, which would increase the annual capacity closer to 11 crore litre
- DSL has contracted for 25000 tonnes of raw sugar exports, which would be exported in January 2022. The company would further enter into a contract for any sugar exports only at a higher global raw sugar prices considering it is extremely comfortable from an inventory perspective
- The company is getting higher domestic quota given its inventory levels are higher compared to industry and it has been diverting higher sugarcane towards producing ethanol
- The company would only produce ethanol from B-heavy molasses in sugar season 2021-22 and would give C-heavy molasses for levy obligation

Exhibit 1: Peer Comparison

Sector / Company	CMP	TP	M Cap	EPS growth (%)				EBITDA margins (%)				PE (x)				P/B (x)				RoCE (%)				
	(₹)	(₹)		Rating	(₹ Cr)	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E
Balrampur Chini (BALCHI)	332	515	Buy	6975	-3.2	16.2	30.7	27.1	14.8	16.2	18.0	18.7	15.7	13.5	10.4	8.2	2.9	2.6	2.3	2.0	16.4	18.6	20.4	23.0
Dalmia Bharat Sugar (DALSUG)	427	650	Buy	3455	39.9	17.2	19.3	18.7	17.5	20.6	20.9	20.6	12.8	10.9	9.2	7.7	1.6	1.7	1.4	1.2	13.3	14.7	15.5	16.8
Triveni Engineering (TRIENG)	205	270	Buy	4957	-9.9	37.3	28.2	16.0	11.9	13.0	15.2	16.5	14.7	10.7	8.4	7.2	2.8	2.4	2.0	1.7	19.4	19.8	23.3	25.1
Dwarikesh sugar (DWASUG)	75	110	Buy	1408	24.5	57.3	14.6	50.7	10.9	12.4	14.7	19.2	15.4	9.8	8.5	5.7	2.4	2.0	1.7	1.4	14.4	20.0	20.7	28.5

Source: Company, ICICI Direct Research

We believe both ethanol factor & aggressive exports have led to the rationalisation of system wide inventory in last one year, which has improved the sugar realisation to ₹ 36-37/kg levels. We believe UP based sugar companies would be earnings ₹1-3 / kg in sugar segment on a sustainable basis. Further, increase in distillery capacity would aid earnings growth in the next three years. The increase in ethanol volume over the next three years would be highest for Dwarikesh Sugar with the expansion of distillery capacity to 320 KLD by October 2022. We remain positive on the sector as well as on the company. We maintain our BUY rating and target price of ₹ 110 / share on the stock.

Exhibit 2: Variance Analysis

	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
Total Operating Income	505.5	417.4	21.1	392.2	28.9	Net sales has witnessed strong growth of 21.1% led by higher distillery volumes & increase in sugar prices
Other Operating Income	0.0	0.0	N.A.	0.0	N.A.	
Raw Material Expenses	373.9	324.8	15.1	294.7	26.9	
Employee Expense	20.3	17.9	13.7	20.7	-1.9	
Other operating Expenses	36.6	29.2	25.1	18.2	100.5	Sharp increase in overhead spends due to increase in freight cost along with increase in ethanol dispatches
EBITDA	74.7	45.5	64.1	58.5	27.7	Higher sugar prices & increase in distillery volumes perked up operating profits
EBITDA Margin (%)	14.8	10.9	388 bps	14.9	-14 bps	
Depreciation	10.6	10.2	3.9	10.2	3.5	
Interest	8.6	12.8	-33.1	13.7	-37.3	Reduction in interest cost due to significant dip in debt levels on the back of inventory liquidation
Other Income	0.6	1.2	-47.8	1.0	-38.7	
PBT	56.2	23.7	136.9	35.6	57.7	
Tax Outgo	16.6	6.0	NC	8.5	NC	
PAT	39.6	17.7	123.6	27.1	46.2	Net profit aided by higher operating profit & lower interest costs
Key Metrics						
Sugar sales volume (in tonnes)	120,650	113,230	6.6	96,380	25.2	Sugar volumes increased by 6.6% due to higher domestic quota
Domestic Sugar realisation (₹ per kg)	33.8	32.6	3.6	32.1	5.1	Sugar realisation improved from august onwards
Distillery volumes (in crore litre)	1.7	0.9	85.6	1.1	49.1	Significant increase in distillery volumes with the increase in capacity & higher offtake by OMCs
Distillery realisation (₹ per litre)	57.6	43.8	31.5	57.6	0.0	The increase in ethanol realisation can be attributed to higher proportion of B-heavy ethanol

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E			FY24E			Comments
	Old	New	% change	Old	New	% change	Old	New	% change	
Net sales	1917.5	2,024.8	5.6	1,905.8	2,010.6	5.5	1,948.2	2,048.9	5.2	Sugar prices have moved up considerably. We are changing our realisation estimates upwards
EBITDA	236.0	250.1	6.0	293.8	296.3	0.9	393.3	393.1	0.0	
EBITDA Margin (%)	12.3	12.4	4 bps	15.4	14.7	-68 bps	20.2	19.2	-100 bps	
PAT	132.6	144.0	8.6	159.4	165.0	3.5	245.5	248.7	1.3	Higher than expected distillery volumes & sugar prices to aid earnings growth
EPS (₹)	7.0	7.6	8.6	8.5	8.8	3.1	13.0	13.2	1.6	

Source: ICICI Direct Research

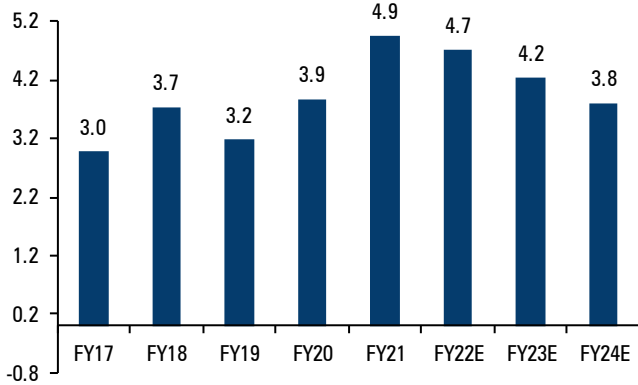
Exhibit 4: Assumptions

	Current						Earlier			Comments
	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	
Sugar Sold (in tonne)	317,700	387,848	494,890	470,146	423,131	380,818	470,146	423,131	380,818	
Sugar Price (₹ per tonne)	29,628	31,301	32,099	34,500	35,000	35,500	33,000	34,000	34,500	We change our sugar price estimates upwards due to reduction in inventory & higher prevailing sugar prices
Distillery volume	9,017	11,600	31,700	53,625	74,813	109,725	50,375	69,825	99,750	We change our distillery volume estimates upwards with expected commissioning of distillery by July 2022
Distillery price (₹ per KL)	40,278	48,276	50,223	57,255	57,255	57,255	57,255	57,255	57,255	
Power Units sold	20.2	16.3	17.1	17.5	18.0	18.5	17.5	18.0	18.5	
Price per unit (₹ per units)	5.0	2.9	3.1	3.2	3.4	3.5	3.3	3.4	3.5	

Source: ICICI Direct Research

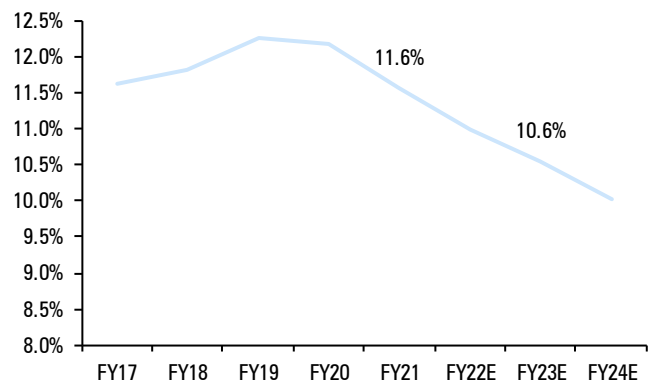
Key Metrics

Exhibit 5: Sugar sales volume (in lakh tonne)



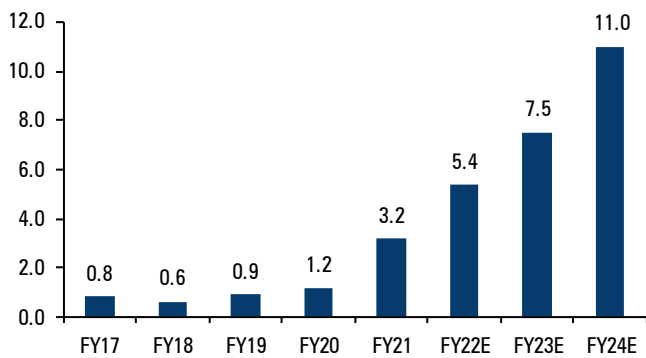
Source: ICICI Direct Research, Company

Exhibit 6: Sugar recovery rate (%)



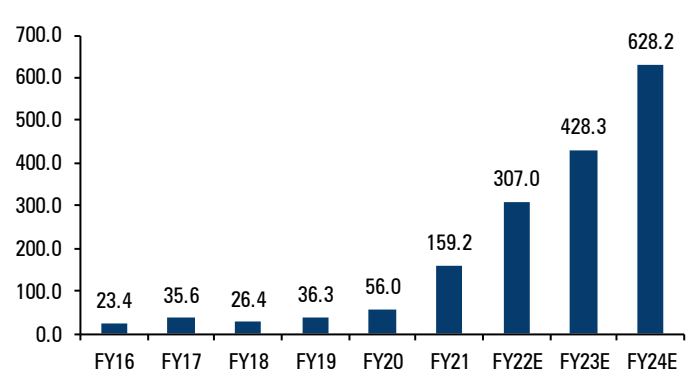
Source: ICICI Direct Research, Company

Exhibit 7: Ethanol volumes (in crore litre)



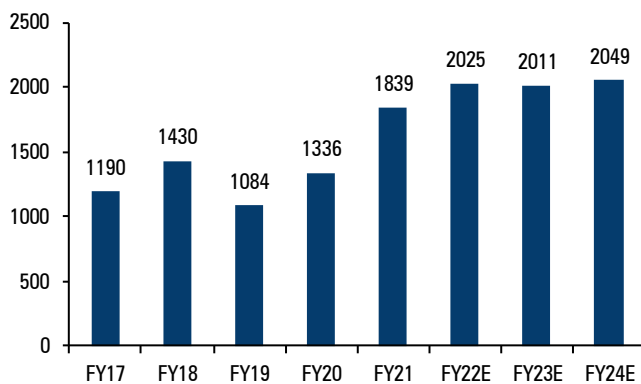
Source: Company, ICICI Direct Research

Exhibit 8: Ethanol sales (₹ crore)



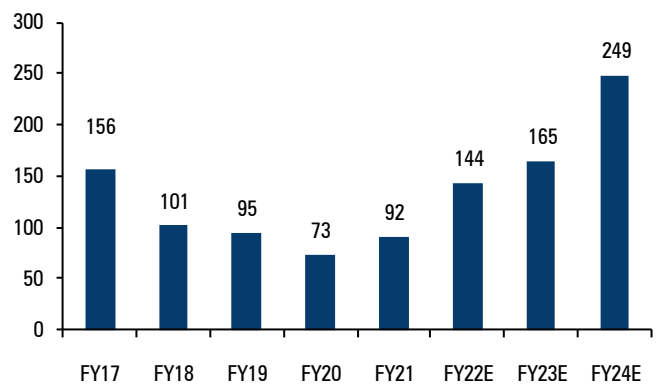
Source: Company, ICICI Direct Research

Exhibit 9: Revenue trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 10: Net profit trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 11: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY21	1838.9	37.6	4.9	24.5	15.4	9.7	15.8	14.4
FY22E	2024.8	10.1	7.6	57.3	9.8	7.0	20.5	20.0
FY23E	2010.6	-0.7	8.8	14.6	8.5	5.8	19.9	20.7
FY24E	2048.9	1.9	13.2	50.7	5.7	7.3	24.4	28.5

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 12: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Total Operating Income	1,838.9	2,024.8	2,010.6	2,048.9
Growth (%)	37.6	10.1	-0.7	1.9
Raw Material Expenses	1,431.1	1,556.0	1,475.1	1,409.9
Employee Expenses	92.7	103.3	112.6	118.8
Administrative Expenses	0.0	0.0	0.0	0.0
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	113.8	115.4	126.7	127.0
Total Operating Expenditure	1,637.6	1,774.7	1,714.3	1,655.8
EBITDA	201.3	250.1	296.3	393.1
Growth (%)	47.9	24.2	18.5	32.7
Depreciation	40.9	40.5	62.0	59.9
Interest	47.7	29.3	22.9	11.0
Other Income	7.1	8.1	9.1	10.2
PBT	112.7	180.3	211.5	322.3
Exceptional items	0.0	0.0	0.0	0.0
Total Tax	28.3	44.4	55.6	83.8
PAT	91.5	144.0	165.0	248.7
Growth (%)	24.5	57.3	14.6	50.7
EPS (₹)	4.9	7.6	8.8	13.2

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit/Loss after Tax	119.8	144.0	165.0	248.7
Add: Depreciation	40.9	40.5	62.0	59.9
Add: Interest	47.7	0.0	0.0	0.0
(Inc)/dec in Current Assets	108.1	132.6	41.2	-62.0
Inc/(dec) in Current Liabilities	-15.0	-0.3	-15.9	3.2
CF from operating activities	295.6	316.7	252.3	249.8
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-19.5	-80.0	-180.0	-30.0
Others	1.9	1.0	0.0	0.0
CF from investing activities	-17.6	-79.0	-180.0	-30.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-236.1	-190.0	-40.0	-160.0
Dividend paid & dividend tax	-43.4	-23.5	-37.7	-56.5
Inc/(dec) in Sec. premium	-0.3	1.5	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	-279.8	-212.1	-77.7	-216.5
Net Cash flow	-1.8	25.7	-5.3	3.3
Opening Cash	1.9	0.1	25.8	20.5
Cash with bank	1.0	0.0	0.0	0.0
Closing Cash	1.2	25.8	20.5	23.8

Source: Company, ICICI Direct Research

Exhibit 14: Balance Sheet				
	₹ crore			
	FY21	FY22E	FY23E	FY24E
Liabilities				
Equity Capital	18.8	18.8	18.8	18.8
Reserve and Surplus	560.1	682.0	809.3	1,001.5
Total Shareholders funds	578.9	700.8	828.1	1,020.4
Total Debt	556.8	366.8	326.8	166.8
Long Term Provisions	21.8	19.8	17.8	15.8
Other Non-current Liabilities	2.2	2.2	2.2	2.2
Total Liabilities	1,159.7	1,089.6	1,175.0	1,205.2
Assets				
Gross Block	931.5	1,011.5	1,191.5	1,221.5
Less: Acc Depreciation	521.5	562.0	623.9	683.8
Net Block	409.9	449.5	567.5	537.7
Capital WIP	0.5	0.5	0.5	0.5
Intangible assets	0.0	0.0	0.0	0.0
Non Current Investments	0.1	0.1	0.1	0.1
Other non-current assets	53.2	53.2	53.2	53.2
Current Assets				
Inventory	855.3	703.0	642.3	683.0
Debtors	67.9	67.5	67.0	68.3
Cash	1.2	25.8	20.5	23.8
Loans & Advances	0.1	0.1	0.1	0.1
Other Current Assets	57.2	77.2	97.2	117.2
Current Liabilities				
Creditors	187.2	188.9	175.0	180.2
Provisions	3.8	3.8	3.8	3.8
Other CL	94.7	94.7	94.7	94.7
Net Current Assets	696.0	586.3	553.6	613.7
Total Assets	1,159.7	1,089.6	1,175.0	1,205.2

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	4.9	7.6	8.8	13.2
Cash EPS	7.0	9.8	12.1	16.4
BV	30.7	37.2	44.0	54.2
DPS	0.0	1.3	2.0	3.0
Cash Per Share	27.7	29.8	33.1	36.3
Operating Ratios (%)				
EBITDA Margin	10.9	12.4	14.7	19.2
PBT / Net Sales	6.5	9.3	11.0	16.2
PAT Margin	5.0	7.1	8.2	12.1
Inventory days	169.8	126.7	116.6	121.7
Debtor days	13.5	12.2	12.2	12.2
Creditor days	37.2	34.0	31.8	32.1
Return Ratios (%)				
RoE	15.8	20.5	19.9	24.4
RoCE	14.4	20.0	20.7	28.5
Valuation Ratios (x)				
P/E	15.4	9.8	8.5	5.7
EV / EBITDA	9.7	7.0	5.8	3.9
EV / Net Sales	1.1	0.9	0.9	0.8
Market Cap / Sales	0.8	0.7	0.7	0.7
Price to Book Value	2.4	2.0	1.7	1.4
Solvency Ratios				
Debt/EBITDA	2.8	1.5	1.1	0.4
Debt / Equity	1.0	0.5	0.4	0.2
Current Ratio	4.9	4.2	4.3	4.5
Quick Ratio	0.6	0.7	0.9	1.0

Source: Company, ICICI Direct Research

Exhibit 16: ICICI Direct coverage universe (Sugar)

Sector / Company	CMP	TP	M Cap	EPS (₹)				P/E (x)				EV/EBITDA (x)				P/B				RoCE (%)				
	(₹)	(₹)		Rating	(₹ Cr)	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E
Balrampur Chini (BALCHI)	332	515	Buy	6,975	22.8	26.5	34.7	44.1	14.5	12.5	9.6	7.5	12.1	10.8	8.7	7.0	2.9	2.6	2.3	2.0	16.4	18.6	20.4	23.0
Dalmia Bharat Sugar (DALSUG)	427	650	Buy	3,455	33.4	39.2	46.7	55.5	12.8	10.9	9.1	7.7	9.1	7.9	6.9	5.8	1.6	1.7	1.4	1.2	13.3	14.7	15.5	16.8
Triveni Engineering (TRIENG)	205	270	Buy	4,957	12.2	16.7	21.4	24.9	16.8	12.3	9.6	8.2	9.2	8.4	6.6	5.6	2.8	2.4	2.0	1.7	19.4	19.8	23.3	25.1
Dwarikesh sugar (DWASUG)	75	110	Buy	1,408	4.9	7.6	8.8	13.2	15.4	9.8	8.5	5.7	9.7	7.0	5.8	3.9	2.4	2.0	1.7	1.4	14.4	20.0	20.7	28.5
Dhampur Sugar (DHASUG)	313	500	Buy	2,080	34.4	44.9	53.1	57.6	9.1	7.0	5.9	5.4	6.6	5.5	4.4	4.0	1.3	1.1	1.0	0.9	14.8	16.8	19.1	18.9
Avadh Sugar (AVASUG)	426	685	Buy	852	38.8	66.5	94.9	106.7	11.0	6.4	4.5	4.0	8.1	5.9	3.9	2.8	1.4	1.1	0.9	0.8	11.5	14.7	20.6	23.3

Source: Bloomberg, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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