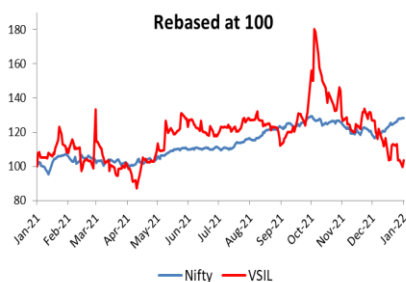


### Looking to move up the value chain by offering value-added products

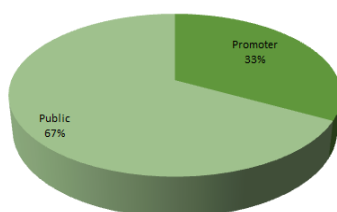
**BUY**

Sector	: Agriculture - Sugar
Target Price	: ₹43
Last Closing Price	: ₹24
Market Cap	: ₹453 crore
52-week High/Low	: ₹46/21
Daily Avg Vol (12M)	: 22,55,562
Face Value	: ₹2
Beta	: 0.8
Pledged Shares	: 0.27%
Year End	: March
BSE Scrip Code	: 542852
NSE Scrip Code	: VISHWARAJ
Bloomberg Code	: VISHWARA IN
Reuters Code	: VNSS.NS
Nifty	: 18,308
BSE Sensex	: 61,309
Analyst	: Research Team

#### Price Performance



#### Shareholding Pattern



### 3Q FY22 Result Update

#### Result Analysis

- Vishwaraj Sugar Industries Limited (VSIL) reported robust revenue growth during the quarter. Revenue from operations stood at ₹ 133.3 crore (up 61.1% y-o-y and 30.0% q-o-q). ~66% of the total revenues were contributed by the Sugar segment, followed by Distillery at 25%. The revenue contribution of the Co-generation segment declined to 6% vs 10% in 3Q FY21.
- EBITDA for 3Q FY22 was marginally up (+0.6% y-o-y) to ₹ 43.7 crore. The EBITDA margin declined to 32.8%, compared to 52.5% reported in the same quarter last year. Higher raw material cost and other manufacturing expenses led to the decline in EBITDA margin.
- The net profit stood at ₹ 29.4 crore in 3Q FY22, a y-o-y decline of 3.4%. On a sequential basis, net profit witnessed multiple-times growth (₹ 19 lakh in 2QFY22).

#### Outlook & Valuation

VSIL achieved producing 99.9% pure alcohol/ethanol against the benchmark of 99.6% by implementing process reengineering. The company plans to move up the value chain by targeting new clientele in pharmaceuticals, health supplements and nutraceuticals and also by entering new geographies and sectors. Management expects the revenue per ton of sugar crushed to increase over the next 5 years as the company focuses on high-value, high-margin products such as pharma grade sugar and ethanol. Going ahead, VSIL plans to prioritize selling a mix of pharma grade sugar, pharma grade ethanol and vinegar. The company has entered into contracts with oil marketing companies for supplying 25 million litres of ethanol commencing from December 2021. VSIL plans brownfield ethanol production expansion capacity by 150,000 litres per day, which will lead to a total capacity of 250,000 litres per day by November 2023. VSIL stock currently trades at forward P/E level of 15.8x FY24E EPS. As we extend our forecast period to FY24 from FY23, we adjust our target P/E (35x to 28x) to reflect the farther-out earnings projections as the basis of our valuation. At 28x FY24E EPS, we rate VSIL a BUY with a price target of Rs 43 and an upside potential of 77%.

## Vishwaraj Sugar Industries Limited

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### Key Financial Metrics

₹ lakh	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
Net operating revenue	28,635	37,034	42,646	50,749	56,946	61,758
<i>Growth</i>		29.3%	15.2%	19.0%	12.2%	8.5%
EBITDA	2,473	3,836	6,202	7,435	7,972	8,646
<i>EBITDA margin</i>	8.6%	10.4%	14.5%	14.7%	14.0%	14.0%
PAT	(1,762)	(788)	829	2,501	2,734	2,867
<i>PAT margin</i>	-6.2%	-2.1%	1.9%	4.9%	4.8%	4.6%
Diluted EPS (Rs)*	(1.02)	(0.44)	0.42	1.33	1.46	1.53

Source: Company data; Khambatta Research / \*Adjusted for stock-split

### Financial Performance

₹ lakh	3Q FY21	2Q FY22	3Q FY22	Y-o-Y	Q-o-Q
Operating revenue	8,275.3	10,254.8	13,328.1	61.1%	30.0%
EBITDA	4,342.8	1,145.6	4,367.6	0.6%	281.3%
<i>EBITDA margin</i>	52.5%	11.2%	32.8%	-1971 bps	2160 bps
PAT	3,046.5	19.1	2,944.4	-3.4%	15347.9%
<i>PAT margin</i>	36.8%	0.2%	22.1%	-1472 bps	2191 bps
Diluted EPS (₹)	1.62	0.01	1.57	-3.1%	15600.0%

Source: Company data; Khambatta Research

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## Vishwaraj Sugar Industries Limited

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### Guide to Khambatta's research approach

#### Valuation methodologies

We apply the following absolute/relative valuation methodologies to derive the 'fair value' of the stock as a part of our fundamental research:

**DCF:** The Discounted Cash Flow (DCF) method values an estimated stream of future free cash flows discounted to the present day, using a company's WACC or cost of equity. This method is used to estimate the attractiveness of an investment opportunity and as such provides a good measure of the company's value in absolute terms. There are several approaches to discounted cash flow analysis, including Free Cash Flow to Firm (FCFF), Free Cash Flow to Equity (FCFE) and the Dividend Discount Model (DDM). The selection of a particular approach depends on the particular company being researched and valued.

**ERE:** The Excess Return to Equity (ERE) method takes into consideration the absolute value of a company's return to equity in excess of its cost of equity discounted to the present day using the cost of equity. This methodology is more appropriate for valuing banking stocks than FCFF or FCFE methodologies.

**Relative valuation:** In relative valuation, various comparative multiples or ratios including Price/Earnings, Price/Sales, EV/Sales, EV/EBITDA, Price/Book Value are used to assess the relative worth of companies which operate in the same industry/industries and are thereby in the same peer group. Generally our approach involves the use of two multiples to estimate the relative valuation of a stock.

*Other methodologies such as DuPont Analysis, CFROI, NAV and Sum-of-the-Parts (SOTP) are applied where appropriate.*

#### Stock ratings

**Buy recommendations** are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) by at least 15%.

**Hold recommendations** are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) between 5% and 15%.

**Sell recommendations** are expected to improve up to 5% or deteriorate, based on consideration of the fundamental view and the currency impact (where applicable).

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