

Sustainable earnings; healthy cash flow generation

Dhampur Sugar (DSL) reported strong set of numbers with 15.1% revenue growth led by 20% increase sugar volumes of 2.7 lakh tonnes (lt) on the back of higher exports. The company received additional 58,000 tonnes of export quota after the first round of re-allocation in February 2020. Sugar realisation was flat at ₹ 32.2/kg. DSL crushed ~10% higher sugarcane in crushing season 2019-20 with excess sugarcane diverted from *gur & khandsari* manufacturers as they stopped manufacturing operations by March end due to lockdown imposed across country. Distillery volumes fell 29.7% to 2.2 crore litre mainly due to lower off take by OMCs in April given constraints of OMCs storage capacity during lockdown. However, distillery realisation improved due to higher proportion of B heavy ethanol. Power volumes, tariffs were down 10.6%, 39%, respectively, due to tariff revision by UPERC in July 2019. Operating profit fell 1.4% mainly due to reduction in power tariffs last year. PAT fell 7.3% to ₹ 54.2 crore with higher taxation provision.

MSP hike, export subsidy to perk up earnings, cash flows

The government is expected to increase minimum selling price (MSP) of sugar by ₹ 2 /kg in consideration of higher cost of production (CoP) for a benchmark non-integrated sugar mill. In conjunction with a hike in sugar floor price, sugarcane price is also expected to increase by ₹ 10/quintal, leading to ₹ 0.85/kg increase in CoP. This move would increase gross margins for sugar mills by ₹ 1.15/kg, which ultimately flow to PBT. Further, to manage higher sugar inventory [11.5 million tonnes (MT) by September 2020] in anticipation of expected higher sugar production of 30.5 MT in sugar season 2020-21, the government is expected to extend the export subsidy for the next season also. These measure would eventually benefit integrated sugar company like DSL.

Strong cash flow generation, stable earnings

Given, hike in domestic sugar price & stable volumes (through exports), we estimate 11.1% CAGR in earnings growth in FY20-22E. Moreover, the company would continue to reduce sugar inventory through sugar exports, higher sugarcane diversion towards B heavy ethanol & stable domestic monthly quotas. We expect ~90,000 tonnes reduction in sugar inventory by March 2020. This would result in operating cash flow generation of ₹ 330 crore and ₹ 560 crore in FY21E and FY22E, respectively.

Valuation & Outlook

The current peak working capital debt requirement for the company is ₹ 1200 crore. We believe strong cash flow generation would result in ₹ 450 crore of reduction in peak working capital debt. Moreover, we expect ~30% payout through dividend/buyback, which results in payout yield of 6-7%. The stock is trading at extremely attractive multiples of 3.6x FY21 earnings and 0.5x FY21 price to book value. The stock is a potential re-rating candidate. We maintain our **BUY** rating on the stock with a target price of ₹ 160/share.



Particulars

Particulars (₹ crore)	Amount
Market Capitalization	850.6
Total Debt (FY20)	1,617.5
Cash and Investments (FY20)	16.4
EV	2,451.6
52 week H/L (₹)	245 / 65.5
Equity capital	66.5
Face value (₹)	10.0

Key Highlights

- Strong sugar volume growth of 20% aided by exports; sugar realisation stable at ₹ 32.2/kg
- Distillery volumes down 29.7% due to the lower offtake by OMCs due to lack of storage capacity during lockdown
- Maintain BUY rating on stock with revised target price of ₹ 160/share

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Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Total Operating Income	3351.8	2954.1	3485.3	3855.7	3845.7	5.0%
EBITDA	354.5	462.8	362.2	446.8	454.0	12.0%
EBITDA Margin %	10.6	15.7	10.4	11.6	11.8	
Net Profit	151.3	250.9	215.6	238.5	266.0	11.1%
EPS (₹)	22.79	37.80	32.48	35.93	40.07	
P/E	5.6	3.4	3.9	3.6	3.2	
RoNW %	15.1	20.5	15.8	15.4	15.1	
RoCE (%)	12.6	13.7	10.4	13.3	14.5	

Exhibit 1: Variance Analysis

	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Total Operating Income	1,079.0	937.1	15.1	1,066.5	1.2	Net sales witnessed growth of 15.1% on the back of 28% growth in sugar & 10.6% growth in distillery sales
Other Operating Income	0.0	0.0	N.A.	0.0	N.A.	
Raw Material Expenses	856.8	731.0	17.2	811.4	5.6	
Employee Expense	36.5	35.6	2.4	40.8	-10.5	
Other operating Expenses	71.8	54.9	30.8	95.9	-25.1	
EBITDA	113.9	115.5	-1.4	118.4	-3.8	Operating profit de-grew 1.4% impacted by a reduction in power tariff in July 2019
EBITDA Margin (%)	10.6	12.3	-177 bps	11.1	-55 bps	
Depreciation	19.8	17.9	11.0	21.3	-6.6	
Interest	26.0	34.0	-23.5	25.4	2.3	Interest cost came down due to reduction in working capital debt
Other Income	3.9	12.7	-69.1	5.0	-20.8	
PBT	71.9	76.3	-5.8	76.7	-6.2	
Tax Outgo	17.7	17.9	-0.8	-30.5	-158.2	
PAT	54.2	58.5	-7.3	104.1	-47.9	Net profit declined 7.3% with lower other income
Key Metrics						
Sugar sales volume (in lakh tonnes)	2.7	2.3	20.3	2.6	5.4	Sugar volumes were up due to 0.9 lakh tonnes of exports
Sugar realisation (₹ per kg)	32.2	32.3	-0.5	32.4	-0.6	Sugar realisation was stable
Distillery volumes (in crore litre)	2.2	3.2	-29.8	2.4	-6.7	Distillery volumes dipped 29.8% due to lower offtake by OMCs
Distillery realisation (₹ per litre)	52.1	46.1	12.9	45.8	13.7	Distillery realisation improved 12.9% due to higher contribution of B heavy ethanol

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% change	Old	New	% change	
Net sales	3650.3	3855.7	5.6	3,800.5	3,845.7	1.2	We change our estimate for export volumes
EBITDA	439.2	446.8	1.7	426.5	454.0	6.4	
EBITDA Margin (%)	12.0	11.6	-44 bps	11.2	11.8	60 bps	
PAT	248.0	238.5	-3.8	260.2	266.0	2.2	
EPS (₹)	37.4	35.9	-3.8	39.20	40.07	2.2	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current					Earlier		Comments
	FY18	FY19	FY20	FY21E	FY22E	FY21E	FY22E	
Sugar Sold (in tonne)	765,000	660,000	821,700	838,134	811,453	780,615	807,040	We change our export volume estimates
Sugar Price (₹ per tonne)	35,592	30,680	32,660	32,895	33,630	32,577	32,600	We increase our sugar realisation with expected change in MSP
Distillery volume	74,110	106,224	114,351	114,000	116,000	120,000	128,000	We marginally cut our distillery volume estimates
Distillery price (₹ per KL)	43,117	41,028	45,790	48,080	49,522	48,080	49,522	
Power Units sold	43.3	42.9	35.2	36.5	37.8	40.5	42.0	
Price per unit (₹ per units)	5.0	5.2	3.2	3.3	3.3	3.3	3.3	

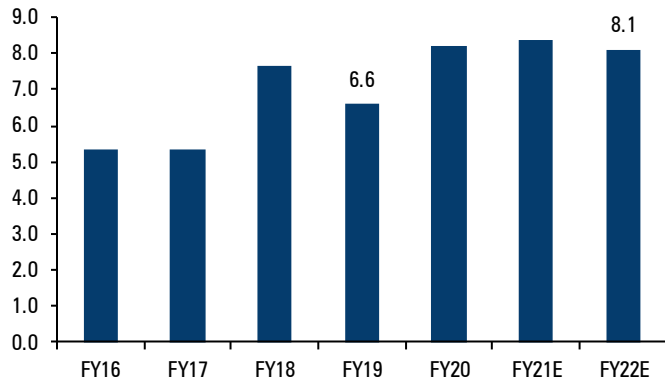
Source: Company, ICICI Direct Research

Conference call Highlights

- Revenues increased 15.1% to ₹ 1079 crore on the back of 28.8% growth in sugar sales, 10.6% growth in distillery sales. Power revenues were down 10.6% during the quarter
- Sugar volumes were up 20.3% to 2.72 It whereas sugar realisation remained stable at ₹ 32.2 / kg. The higher volumes were aided by 0.92 tonnes of exports during the quarter
- Distillery volumes were down 29.8% to 2.22 crore litre during the quarter mainly due to lower offtake by OMCs due to constraints of storage capacity during lockdown. However, distillery realisation was up 12.9% to ₹ 52.1/litre
- Power volumes were down 10.6% to 7.3 crore as the company is holding 1.1 It of bagasse, which it intends to sell rather than utilising it for power generation. Power realisation was down 39% to ₹ 3.2/unit due to reduction in power tariffs by UPERC in July 2019
- The company crushed 75.73 It of sugarcane in the 2019-20 sugar season with sugar production of 8.4 It. Production is likely to remain similar for the next crushing season also given good standing crop
- The company is holding 4.15 It of sugar inventory as of June 2020 compared to 4.4 It in June 2019. This inventory would be exhausted by January 2021. Inventory is valued at ₹ 29.4 /kg
- Domestic sales quota for July & August is ~64,000 & ~70,000 tonnes, respectively. The company has exported 2.14 It of sugar during the 2019-20 season
- The company is expected to sell 9.5 crore litre of ethanol to OMCs this year, which is 15% lower than originally intended. The reduction is due to lower offtake in April and May due to lockdown
- The current farmers due payment is ₹ 600 crore, which is likely to be fully paid by September-October 2020
- The long term debt for the company is at ₹ 512 crore, which includes ₹ 313 crore of concessional loans. Average cost of debt is 7% for the company. Working capital debt came down by ₹ 230 crore to ₹ 832.4 crore. This is further likely to come down below ₹ 500 crore by September 2020
- In the country liquor segment, the company sold 90,000 cases in Q1 and intends to sell 1.5 lakh cases in Q2, 3.0 lakh cases by Q3 & 7.5 lakh cases by Q4. By April 2021, DSL intends to utilise entire levy molasses in-house
- The company intends to do a trial of 10-12 days of ethanol from sugarcane juice in the next crushing season
- A hike in MSP by ₹ 2/kg is expected to be announced soon, which is likely to be effective from October 1, 2020. This will go in conjunction with the ₹ 10/ quintal increase in sugarcane prices. Moreover, export subsidy for next season is likely to be announced in four to six weeks
- The company has started production of hand sanitisers. It is currently manufacturing 200 ml, 500 ml & 5 litre bottles. This is a retail product and would require marketing & distribution capabilities to grow
- The board would consider on dividend payment or buyback after Q3 or Q4 results

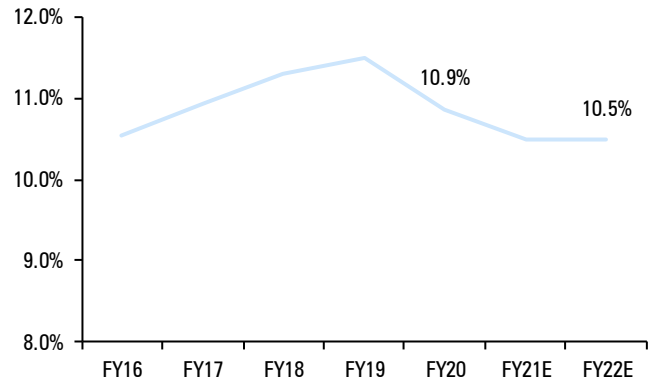
Key Metrics

Exhibit 4: Sugar sales volume (in lakh tonne)



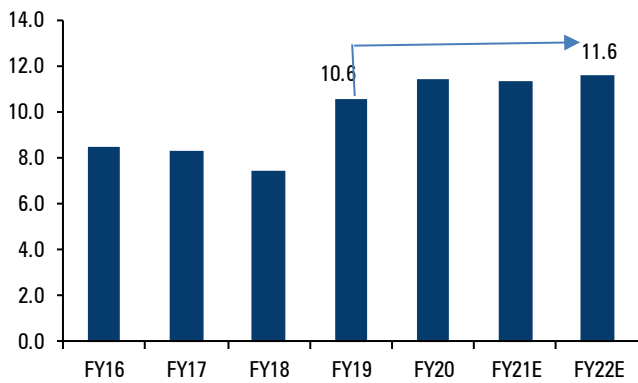
Source: ICICI Direct Research, Company

Exhibit 5: Sugar recovery rate (%)



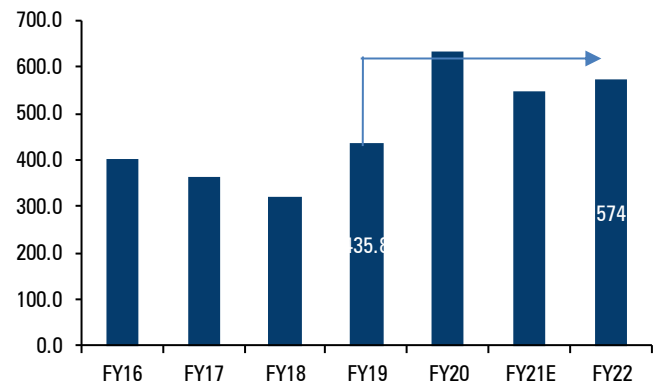
Source: ICICI Direct Research, Company

Exhibit 6: Ethanol volumes (in crore litre)



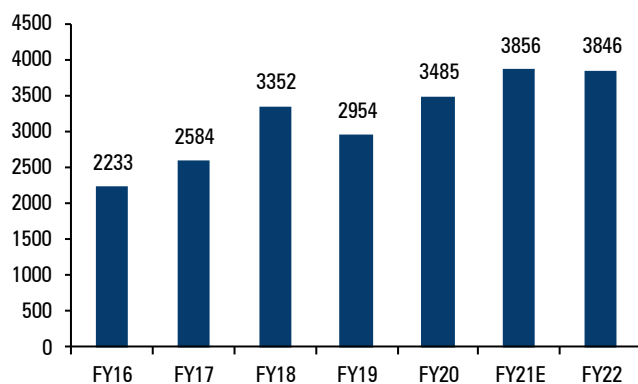
Source: Company, ICICI Direct Research

Exhibit 7: Ethanol sales (₹ crore)



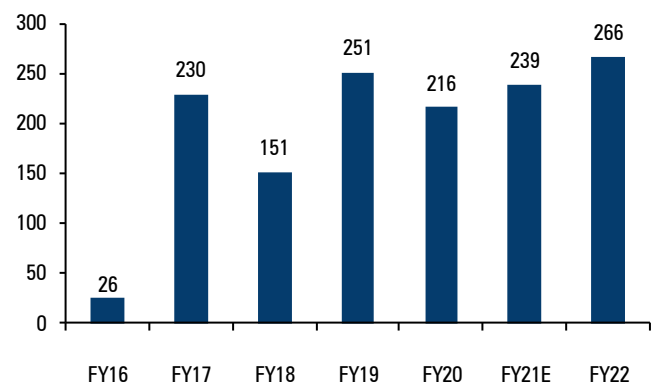
Source: Company, ICICI Direct Research

Exhibit 8: Revenue trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 9: Net profit trend (₹ crore)



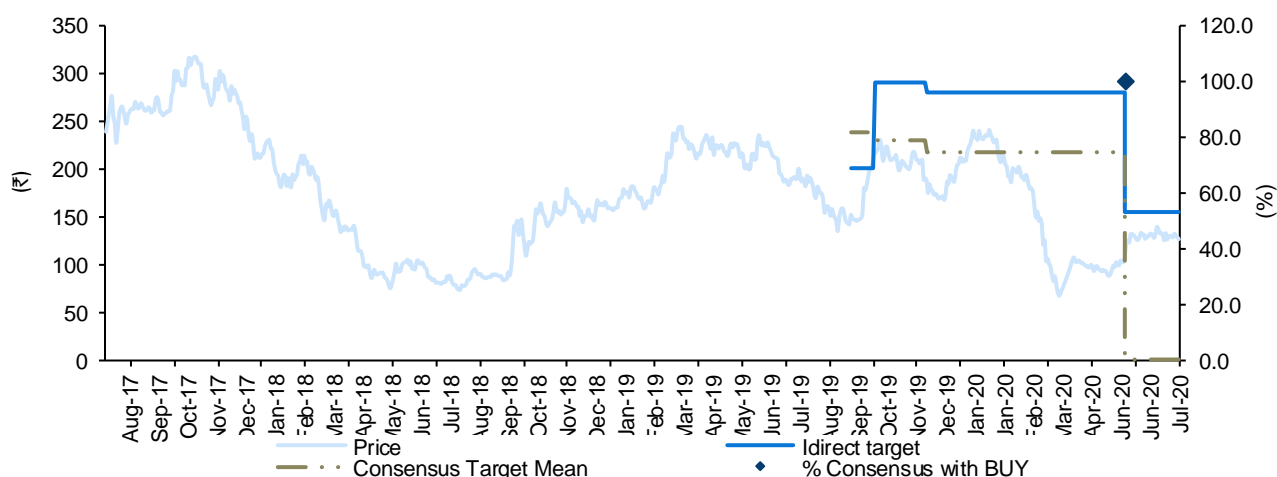
Source: Company, ICICI Direct Research

Exhibit 10: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	2954.1	-11.9	37.80	65.9	3.4	5.3	20.5	13.7
FY20	3485.3	18.0	32.48	-14.1	3.9	6.7	15.8	10.4
FY21E	3855.7	10.6	35.93	10.6	3.6	5.0	15.4	13.3
FY22E	3845.7	-0.3	40.07	11.5	3.2	4.0	15.1	14.5

Source: Company, ICICI Direct Research

Exhibit 11: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 12: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S	Position (m)	Change (m)
1	Goel Investments Ltd	31-Mar-20	16.1	10.7	0.0
2	Goel Anil Kumar	31-Dec-19	10.5	7.0	0.0
3	Sonitron Ltd	31-Mar-20	7.4	4.9	0.0
4	Shudh Edible Product	31-Mar-20	6.5	4.3	0.0
5	Goel Gautam	31-Mar-20	6.4	4.2	0.0
6	Saraswati Properties	31-Mar-20	4.9	3.3	0.0
7	Goel Seema	31-Dec-19	3.7	2.5	0.0
8	Goel Deepa	25-Jun-20	3.5	2.3	2.3
9	Goel Gaurav	15-Jun-20	3.0	2.0	-2.3
10	Chandran Sabitha	31-Dec-19	1.2	0.8	0.0

Source: Reuters, ICICI Direct Research

Exhibit 13: Shareholding Pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	49.1	49.1	49.1	49.1	49.1
FII	4.7	4.0	2.8	2.4	1.8
DII	0.9	2.2	2.8	2.9	0.9
Others	45.3	44.8	45.4	45.7	48.3

Source: Company, ICICI Direct Research

Financial summary

Exhibit 14: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Total Operating Income	2,954.1	3,485.3	3,855.7	3,845.7
Growth (%)	-11.9	18.0	10.6	-0.3
Raw Material Expenses	2,077.8	2,714.9	2,961.6	2,976.4
Employee Expenses	149.7	140.7	165.8	165.4
Other expenses	263.8	267.6	281.5	250.0
Total Operating Expenditure	2,491.3	3,123.2	3,408.9	3,391.8
EBITDA	462.8	362.2	446.8	454.0
Growth (%)	30.5	-21.7	23.4	1.6
Depreciation	70.8	76.0	74.5	74.9
Interest	91.3	100.6	92.1	66.1
Other Income	18.4	30.1	29.5	32.5
PBT	300.7	185.5	280.2	312.9
Exceptional items	0.0	0.0	0.0	0.0
Total Tax	68.2	-8.4	71.2	79.4
PAT	250.9	215.6	238.5	266.0
Growth (%)	65.9	-14.1	10.6	11.5
EPS (₹)	37.8	32.5	35.9	40.1

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit/Loss after Tax	319.2	207.3	238.5	266.0
Add: Depreciation	70.8	76.0	74.5	74.9
Add: Interest	91.3	100.6	0.0	0.0
(Inc)/dec in Current Assets	-756.4	59.6	102.5	145.1
Inc/(dec) in Current Liabilities	148.3	-55.9	-85.2	78.3
CF from operating activities	-201.9	338.2	330.3	564.3
(Inc)/dec in Investments	-11.8	0.1	-5.0	-5.0
(Inc)/dec in Fixed Assets	-81.1	-59.8	-94.5	-94.9
Others	1.6	11.2	16.5	0.0
CF from investing activities	-91.3	-48.5	-83.0	-99.9
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	398.9	-94.4	-200.0	-400.0
Dividend paid & dividend tax	-27.6	-71.7	-46.5	-59.8
Inc/(dec) in Sec. premium	0.0	-6.8	-0.5	0.0
Others	-103.7	-120.0	0.0	0.0
CF from financing activities	267.6	-292.9	-247.0	-459.8
Net Cash flow	-25.6	-3.2	0.3	4.6
Opening Cash	38.8	13.2	9.9	10.2
Cash & cash equivalents	0.0	-0.1	0.0	0.0
Cash with bank	7.1	6.5	0.0	0.0
Closing Cash	20.2	16.4	10.2	14.8

Source: Company, ICICI Direct Research

Exhibit 16: Balance sheet				
	₹ crore			
	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	66.5	66.5	66.5	66.5
Reserve and Surplus	1,158.3	1,295.2	1,486.7	1,692.9
Total Shareholders funds	1,224.7	1,361.7	1,553.2	1,759.3
Total Debt	1,676.0	1,617.5	1,417.5	1,017.5
Long Term Provisions	29.1	32.4	30.4	28.4
Other Non-current Liabilities	64.2	32.3	30.1	30.1
Total Liabilities	2,993.9	3,043.8	3,031.1	2,835.3
Assets				
Gross Block	2,520.3	2,637.1	2,731.6	2,816.5
Less: Acc Depreciation	926.4	1,002.4	1,076.9	1,151.8
Net Block	1,593.9	1,634.7	1,654.7	1,664.7
Capital WIP	34.0	6.8	6.8	16.8
Intangible assets	3.3	2.9	2.9	2.9
Non Current Investments	11.8	2.3	7.3	12.3
Other non-current assets	32.7	29.7	19.7	19.7
Current Assets				
Inventory	1,674.1	1,603.7	1,499.5	1,335.3
Debtors	391.3	343.2	385.0	384.0
Cash	20.2	16.4	10.2	14.8
Loans & Advances	7.7	9.4	9.4	9.4
Other Current Assets	157.8	220.1	180.1	200.1
Current Liabilities				
Creditors	666.4	606.3	599.5	597.8
Provisions	7.6	7.6	7.6	7.6
Other CL	258.8	211.4	137.3	219.2
Net Current Assets	1,318.3	1,367.4	1,339.7	1,118.9
Total Assets	2,993.9	3,043.8	3,031.1	2,835.3

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios				
	₹ crore			
	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	37.8	32.5	35.9	40.1
Cash EPS	48.4	43.9	47.1	51.3
BV	184.3	204.9	233.7	264.8
DPS	3.5	9.0	7.0	9.0
Cash Per Share	139.4	150.8	162.1	173.3
Operating Ratios (%)				
EBITDA Margin	15.7	10.4	11.6	11.8
PBT / Net Sales	0.1	0.1	0.1	0.1
PAT Margin	8.5	6.2	6.2	6.9
Inventory days	206.9	167.9	141.9	126.7
Debtor days	48.3	35.9	36.4	36.4
Creditor days	82.3	63.5	56.8	56.7
Return Ratios (%)				
RoE	20.5	15.8	15.4	15.1
RoCE	13.7	10.4	13.3	14.5
Valuation Ratios (x)				
P/E	3.4	3.9	3.6	3.2
EV / EBITDA	5.3	6.7	5.0	4.0
EV / Net Sales	0.8	0.7	0.6	0.5
Market Cap / Sales	0.3	0.2	0.2	0.2
Price to Book Value	0.7	0.6	0.5	0.5
Solvency Ratios				
Debt/EBITDA	3.6	4.5	3.2	2.2
Debt / Equity	1.4	1.2	0.9	0.6
Current Ratio	3.0	3.4	3.0	2.6
Quick Ratio	0.8	0.9	0.8	0.8

Source: Company, ICICI Direct Research

Exhibit 18: ICICI Direct coverage universe (Sugar)

Sector / Company	CMP	TP	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			P/B			RoCE (%)			
	(₹)	(₹)		Rating	(₹ Cr)	FY20	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E		
Balrampur Chini (BALCHI)	126	176	Buy	2,860	23.6	24.1	27.5	5.3	5.2	4.6	6.2	5.1	4.5	1.2	1.1	1.0	16.1	18.5	19.7
Dhampur Sugar (DHASUG)	128	160	Buy	851	32.5	35.9	40.1	3.9	3.6	3.2	6.7	5.0	4.0	0.6	0.5	0.5	10.4	13.3	14.5
Dwarikesh sugar (DOWASUG)	24	38	Buy	471	3.9	7.0	7.1	6.2	3.5	3.4	8.1	4.3	4.1	1.0	0.8	0.7	9.0	16.8	15.9
Triveni Engineering (TRIENG)	54	82	Buy	1,351	13.5	15.4	16.4	4.0	3.5	3.3	4.9	4.4	4.1	1.0	0.8	0.7	17.6	18.1	17.7
Dalmia Bharat Sugar (DALSUG)	124	150	Buy	858	23.9	25.0	26.9	5.2	5.0	4.6	7.5	7.3	6.0	0.6	0.5	0.5	11.8	11.1	11.4

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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