

Sugar inventory piles up on lack of distillery capacity

Avadh Sugar has sugar crushing capacity of 31800 tonnes crushed per day (TCD), distillery capacity of 200 kilolitre per day (KLD) & co-generation capacity of 74 MW. The company produces ~6.9 lakh tonnes (lt) of sugar & ~5 crore litre of ethanol with this capacity. With the installation of insinuation boilers in both distilleries, Avadh would be able to produce ~7 crore litre of ethanol every year and would be able to sacrifice more sugar by diverting sugarcane to B heavy ethanol. The company would be generating B heavy molasses in three out of its four plants to produce ~7.0 crore litre of ethanol in sugar season 2020-21. Though Avadh has large ethanol capacity, we believe it would be insufficient to exhaust entire molasses given it would be diverting more than 75% of its sugarcane to the B heavy molasses route.

Distillery capacity constrains; dependency on sugar exports

With limited distillery capacity, Avadh would be able to produce not more than 7 crore litre of ethanol. However, with 75-80% sugarcane diversion towards B heavy molasses, it has the feedstock to produce 10 crore litre of ethanol (including levy molasses for liquor). We believe the distillery capacity constraints would limit opportunity to generate more revenue from ethanol till FY22E. Further, it is holding large sugar inventory (would exhaust 2019-20 sugar season inventory only by March 2021). We believe Avadh would need to export additional sugar in the 2021-22 season. Hence, announcement of sugar export subsidy is essential for the company. If the government decides to end sugar export subsidy (though unlikely) in the current sugar season, it would lead to further deterioration of its balance sheet and ability to pay farmers. However, we expect an announcement of export subsidy sooner. This would give it the opportunity to aggressively export sugar in the 2020-21 season and reduce its working capital debt.

Stretched balance sheet

With lower diversion of sugarcane towards B heavy molasses and higher sugarcane crushing in season 2019-20, the company is holding large sugar inventories (3.1 lt). Though the debt is down from ~₹ 1600 crore to ~ ₹ 1350 crore in the last one year, it is still very high (debt-equity at 2.5x). We believe Avadh would need to export large quantities of sugar in the next year and also add new distillery capacity (either B heavy or sugarcane juice route) to sacrifice more sugar to produce ethanol.

Valuation & Outlook

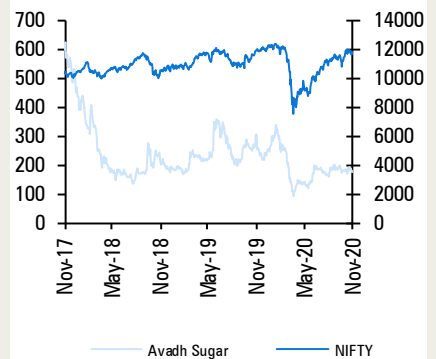
Avadh has a sizable sugar & distillery capacity but has been unable to utilise export subsidy benefits and ethanol expansion policy effectively. We believe it needs to scale up its distillery operations to increase sugar sacrifice for ethanol production. Also, sugar export subsidy in 2020-21 sugar season is necessary to reduce sugar inventory, working capital debt. The stock is trading at 4.7x FY22E EV/EBITDA. We downgrade the stock from BUY to HOLD with a target price of ₹ 195/share valuing it at 5x FY22E EV/EBITDA.



Particulars

Particulars (₹ crore)	Amount
Market Capitalization	361.7
Total Debt (FY20)	1,482.0
Cash and Investments (FY20)	7.4
EV	1,836.3
52 week H/L (₹)	364 / 88.5
Equity capital	20.0
Face value (₹)	10.0

Key Highlights



Research Analyst

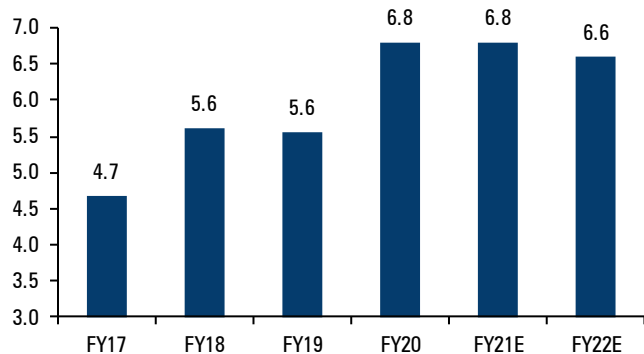
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Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Total Operating Income	2335.8	2130.2	2559.4	2786.0	2783.2	4.3%
EBITDA	268.9	291.4	261.4	281.8	274.2	2.4%
EBITDA Margin %	11.5	13.7	10.2	10.1	9.9	
Net Profit	88.2	119.9	88.6	110.4	121.0	16.8%
EPS (₹)	44.08	59.94	44.31	55.22	60.49	
P/E	4.1	3.0	4.1	3.3	3.0	
RoNW %	22.5	23.6	15.0	15.9	15.0	
RoCE (%)	13.4	12.8	10.6	12.3	13.3	

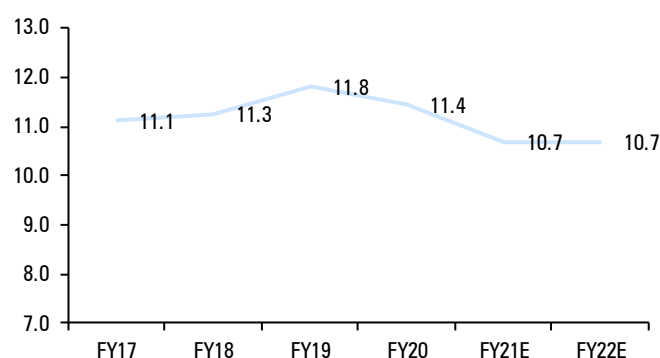
Metrics

Exhibit 1: Sugar sales volume (in lakh tonne)



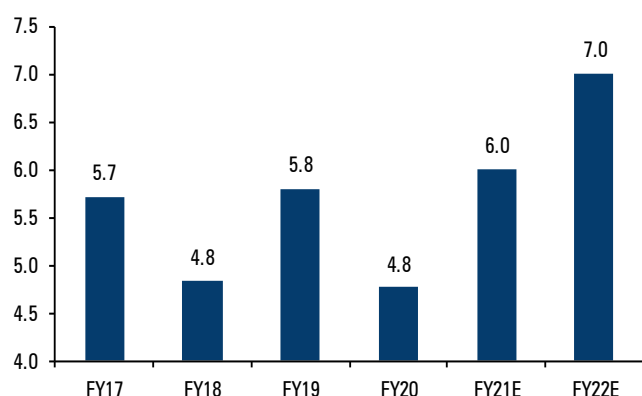
Source: ICICI Direct Research, Company

Exhibit 2: Sugar recovery rate (%)



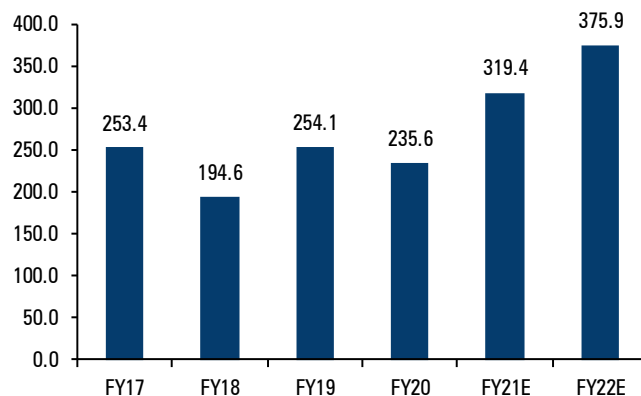
Source: ICICI Direct Research, Company

Exhibit 3: Ethanol volumes (in crore litre)



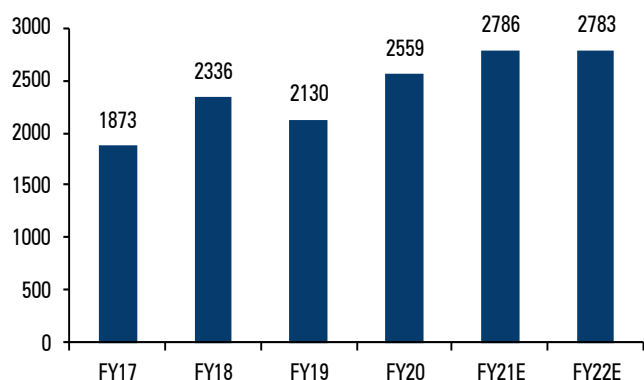
Source: Company, ICICI Direct Research

Exhibit 4: Ethanol sales (₹ crore)



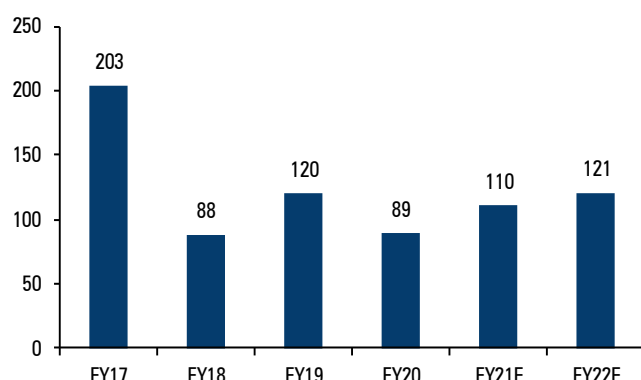
Source: Company, ICICI Direct Research

Exhibit 5: Revenue trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 6: Net profit trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 7: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	2130.2	-8.8	59.9	36.0	3.0	6.1	23.6	12.8
FY20	2559.4	20.2	44.3	-26.1	4.1	7.0	15.0	10.6
FY21E	2786.0	8.9	55.2	24.6	3.3	5.8	15.9	12.3
FY22E	2783.2	-0.1	60.5	9.5	3.0	4.7	15.0	13.3

Source: Company, ICICI Direct Research

Financial summary

Exhibit 8: Profit and loss statement		₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E	
Total Operating Income	2,130.2	2,559.4	2,786.0	2,783.2	
Growth (%)	-8.8	20.2	8.9	-0.1	
Raw Material Expenses	1,527.5	1,974.1	2,211.7	2,211.2	
Employee Expenses	85.1	91.8	94.7	100.2	
Administrative Expenses	14.6	0.0	0.0	0.0	
Excise Duty	0.0	0.0	0.0	0.0	
Other expenses	211.6	232.1	197.8	197.6	
Total Operating Expenditure	1,838.7	2,298.0	2,504.2	2,509.0	
EBITDA	291.4	261.4	281.8	274.2	
Growth (%)	8.4	-10.3	7.8	-2.7	
Depreciation	43.7	44.9	41.9	42.6	
Interest	96.9	116.0	102.4	86.3	
Other Income	3.5	5.6	5.9	5.9	
PBT	150.8	100.5	137.5	145.3	
Exceptional items	0.0	0.0	0.0	0.0	
Total Tax	34.5	0.0	0.0	0.0	
PAT	119.9	88.6	110.4	121.0	
Growth (%)	36.0	-26.1	24.6	9.5	
EPS (₹)	59.9	44.3	55.2	60.5	

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement		₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E	
Profit/Loss after Tax	154.4	106.2	110.4	121.0	
Add: Depreciation	43.7	44.9	41.9	42.6	
Add: Interest	96.9	116.0	0.0	0.0	
(Inc)/dec in Current Assets	-503.3	-182.9	157.6	194.7	
Inc/(dec) in Current Liabilities	130.6	130.1	-90.0	41.4	
CF from operating activities	-105.5	184.9	219.9	399.7	
(Inc)/dec in Investments	1.1	0.0	0.0	0.0	
(Inc)/dec in Fixed Assets	-30.7	-99.6	-20.0	-62.6	
Others	0.3	1.2	4.8	0.0	
CF from investing activities	-29.4	-98.4	-15.2	-62.6	
Issue/(Buy back) of Equity	-24.4	0.0	0.0	0.0	
Inc/(dec) in loan funds	255.8	93.8	-195.0	-330.0	
Dividend paid & dividend tax	-8.5	-8.5	-8.0	-6.0	
Inc/(dec) in Sec. premium	0.0	-112.5	0.0	0.0	
Others	-88.7	-57.0	0.0	0.0	
CF from financing activities	134.2	-84.2	-203.0	-336.0	
Net Cash flow	-0.8	2.2	1.7	1.1	
Opening Cash	3.9	3.1	5.4	7.1	
Cash with bank	2.0	2.0	0.0	0.0	
Closing Cash	5.1	7.4	7.1	8.2	

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet		₹ crore			
	FY19	FY20	FY21E	FY22E	
Liabilities					
Equity Capital	10.0	20.0	20.0	20.0	
Reserve and Surplus	498.5	571.8	674.2	789.2	
Total Shareholders funds	508.5	591.8	694.2	809.2	
Total Debt	1,432.0	1,482.0	1,287.0	957.0	
Long Term Provisions	1.8	3.2	3.2	3.2	
Other Non-current Liabilities	20.9	15.2	15.2	15.2	
Total Liabilities	1,963.2	2,092.1	1,999.6	1,784.5	
Assets					
Gross Block	1,106.0	1,142.8	1,162.8	1,182.8	
Less: Acc Depreciation	132.1	176.9	218.8	218.8	
Net Block	973.9	965.9	944.0	964.0	
Capital WIP	4.4	68.7	68.7	68.7	
Intangible assets	0.5	0.6	0.6	0.6	
Non Current Investments	12.3	9.9	9.9	9.9	
Other non-current assets	5.6	15.6	15.6	15.6	
Current Assets					
Inventory	1,426.6	1,485.5	1,346.6	1,159.7	
Debtors	126.4	108.9	90.2	82.4	
Cash	5.1	7.4	7.1	8.2	
Loans & Advances	1.2	1.2	1.2	1.2	
Other Current Assets	52.7	192.7	192.7	192.7	
Current Liabilities					
Creditors	475.2	599.1	459.1	450.5	
Provisions	6.8	6.8	6.8	6.8	
Other CL	163.5	161.1	211.1	261.1	
Net Current Assets	966.6	1,028.7	960.8	725.7	
Total Assets	1,963.2	2,089.3	1,999.6	1,784.5	

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios		₹ crore			
	FY19	FY20	FY21E	FY22E	
Per share data (₹)					
EPS	59.9	44.3	55.2	60.5	
Cash EPS	81.8	66.7	76.1	81.8	
BV	254.3	295.9	347.1	404.6	
DPS	0.6	1.8	4.0	3.0	
Cash Per Share	66.0	88.5	109.4	109.4	
Operating Ratios (%)					
EBITDA Margin	13.7	10.2	10.1	9.9	
PBT / Net Sales	7.2	4.1	5.1	5.4	
PAT Margin	5.6	3.5	4.0	4.3	
Inventory days	244.5	211.8	176.4	152.1	
Debtor days	21.7	15.5	11.8	10.8	
Creditor days	81.4	85.4	60.1	59.1	
Return Ratios (%)					
RoE	23.6	15.0	15.9	15.0	
RoCE	12.8	10.6	12.3	13.3	
Valuation Ratios (x)					
P/E	3.0	4.1	3.3	3.0	
EV / EBITDA	6.1	7.0	5.8	4.7	
EV / Net Sales	0.8	0.7	0.6	0.5	
Market Cap / Sales	0.2	0.1	0.1	0.1	
Price to Book Value	0.7	0.6	0.5	0.4	
Solvency Ratios					
Debt/EBITDA	4.9	5.7	4.6	3.5	
Debt / Equity	2.8	2.5	1.9	1.2	
Current Ratio	3.2	2.9	3.0	2.5	
Quick Ratio	0.4	0.5	0.5	0.5	

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct coverage universe (Sugar)

Sector / Company	CMP	TP	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			P/B			RoCE (%)			
	(₹)	(₹)		Rating	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Avadh Sugar (AVASUG)	181	195	Hold	362	44.3	55.2	60.5	4.1	3.3	3.0	7.0	5.8	4.7	0.6	0.5	0.4	10.6	12.3	13.3
Balrampur Chini (BALCHI)	150	210	Buy	3,150	23.6	26.5	30.2	6.4	5.7	5.0	6.6	4.7	4.2	1.3	1.2	1.1	16.1	21.2	22.3
Dhampur Sugar (DHASUG)	144	175	Buy	950	32.5	38.6	43.3	4.4	3.7	3.3	7.0	4.3	3.3	0.7	0.6	0.5	10.4	15.4	17.4
Dwarkesh sugar (DZWASUG)	28	34	Buy	517	3.9	6.7	7.2	7.2	4.2	3.9	8.4	4.8	4.2	1.1	0.9	0.8	9.0	15.9	16.6
Triveni Engineering (TRIENG)	67	95	Buy	1,909	13.5	16.0	18.3	4.9	4.2	3.6	5.9	4.7	3.9	1.4	1.2	0.9	17.6	20.2	22.0
Dalmia Bharat Sugar (DALSUG)	131	160	Buy	1,068	23.9	26.8	28.4	5.5	4.9	4.6	8.3	7.4	6.1	0.7	0.6	0.6	11.8	11.9	12.1

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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