

Scaling up of distillery operations to aid earnings...

Dwarikesh Sugar (DSL) posted a strong set of results with 138.3% revenue growth to ₹ 417.4 crore, mainly on account of higher sugar & ethanol sales. Sugar sales grew 123.4% led by higher domestic sales quota & export. Ethanol sales were up from ₹ 4.3 crore to ₹ 39.6 crore aided by higher ethanol volumes as company commissioned 100 KLD distillery in December 2019. The company sold entire C heavy ethanol during the quarter, which restricted realisation at ₹ 43.8/litre in Q2. We believe DSL would be producing ~80% ethanol from B heavy molasses in sugar season 2020-21, which would significantly improve distillery realisations. Domestic sugar sales quota was 93000 tonnes while export volumes were 19900 tonnes during the quarter. We believe the company is holding 1.76 lakh tonnes (lt) of sugar as of September 2020, which would be exhausted by February 2021. Operating profit increased 148.7% to ₹ 45.5 crore, largely on the back of higher sales. PAT grew from ₹ 4.5 crore to ₹ 17.7 crore.

Distillery operations scaled up; B-heavy ethanol share to rise

The company sold 0.9 million litre of ethanol during the quarter. It would be producing ethanol through B heavy molasses in two of its three plants, which would result in ~65% of sugarcane diversion towards B heavy ethanol. We expect ethanol volumes to scale up from 1.2 crore litre in FY20 to 4.8 crore litre in FY22E. Moreover, out of total volume, 80% would be contributed by B Heavy ethanol. With the increase in B heavy ethanol prices by ₹ 3.34/litre, the company would be able to generate revenue of ₹ 260 crore from distillery segment by FY22E. We believe more sugar mills would divert sugarcane towards B heavy ethanol, which would result in 2 million tonnes (MT) of sugar sacrifice in 2020-21 sugar season.

Uncertainty over sugar exports

In sugar season 2019-20, the company exported 1.4 lt of sugar and significantly rationalised its inventory level. However, DSL is holding high sugar inventory compared to other UP based sugar mills. Though the company would be sacrificing 35000 tonnes of sugar by diverting B heavy molasses, it would still require further sugar exports in 2020-21 sugar season to reduce its inventory levels. However, there is uncertainty over export subsidy for the next season given the government's stressed fiscal position. We have not taken exports in sugar volume estimates for H2FY21 & FY22. We expect mere 10,000 tonnes of inventory reduction by March 2021.

Valuation & Outlook

DSL is one of the most efficient sugar companies with lowest cost of production given more than 12.2% sugar recovery. The company only has ₹ 218 crore of term loan at a concessional interest rate. With strong possibility and small inventory reduction, DSL would be able to generate ₹ 126 crore and 193 crore of cash from operations in FY21E & FY22E, respectively. We expect ~₹ 200 crore working capital debt reduction in the next two years. We value the stock at 1.1x FY21 book value with a target price of ₹ 34/share and have a **BUY** recommendation on the stock.



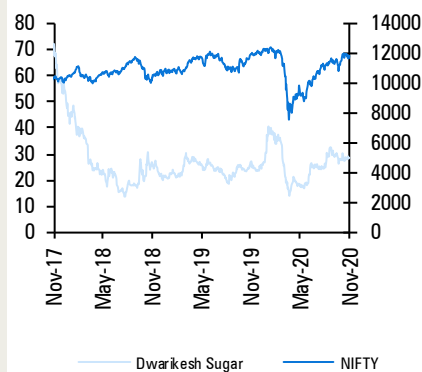
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	516.9
Total Debt (FY20)	654.4
Cash and Investments (FY20)	3.1
EV	1,168.2
52 week H/L (₹)	42 / 13.4
Equity capital	18.8
Face value (₹)	1.0

Key Highlights

- The company sold 1.13 lakh tonnes of sugar against 0.52 lakh tonnes in corresponding period due to 0.2 lakh tonnes of sugar exports
- Maintain BUY rating on the stock with a revised target price of ₹ 34/share

Key Highlights



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Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Total Operating Income	1429.9	1084.1	1336.2	1607.1	1657.2	11.4%
EBITDA	142.5	129.1	136.1	223.4	225.7	28.8%
EBITDA Margin %	10.0	11.9	10.2	13.9	13.6	
Net Profit	101.4	95.1	73.5	126.5	135.2	35.6%
EPS (₹)	5.4	5.1	3.9	6.7	7.2	
P/E	5.1	5.4	7.0	4.1	3.8	
RoNW %	27.7	20.5	15.2	21.8	19.8	
RoCE (%)	15.9	11.8	9.0	15.9	16.6	

Exhibit 1: Variance Analysis

	Q2FY21	Q2FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Total Operating Income	417.4	175.9	137.3	440.3	-5.2	Net sales witnessed growth of 137.3% on the back of higher sugar volumes through higher domestic quota, exports & increased distillery volume after the company commissioned a 100 KLD distillery in December 2019
Other Operating Income	0.0	0.0	N.A.	0.0	N.A.	
Raw Material Expenses	324.8	122.0	166.2	345.7	-6.0	
Employee Expense	17.9	15.8	12.8	20.1	-11.1	
Other operating Expenses	29.2	19.7	48.0	24.4	19.6	Higher overhead spends mainly due to freight cost on exports & off-season maintainance expenses
EBITDA	45.5	18.3	148.7	50.2	-9.2	
EBITDA Margin (%)	10.9	10.4	50 bps	11.4	-48 bps	
Depreciation	10.2	8.3	22.3	10.1	1.3	
Interest	12.8	7.5	72.0	15.1	-14.7	
Other Income	1.2	1.2	0.0	0.5	160.8	
PBT	23.7	3.7	536.8	25.5	-7.0	
Tax Outgo	6.0	-1.0	-701.1	7.4	-19.2	
PAT	17.7	4.7	275.3	18.1	-2.1	Led by higher sales & operating profit, net profit also increased from ₹ 4.7 crore to ₹ 17.7 crore
Key Metrics						
Sugar sales volume (in tonnes)	113,230	52,160	117.1	125,560	-9.8	Sugar volumes increased 117.1% led by higher domestic quota & 19,900 tonnes of exports
Domestic Sugar realisation (₹ per kg)	32.6	32.9	-0.9	31.3	4.1	
Distillery volumes (in crore litre)	0.9	0.1	800.0	0.4	104.5	Higher distillery sales as the company commissioned 100 KLD distillery in December 2019
Distillery realisation (₹ per litre)	43.8	43.5	0.7	46.2	-5.2	The company only produced C heavy molasses during the quarter

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% change	Old	New	% change	
Net sales	1775.3	1607.1	-9.5	1,822.9	1,657.2	-9.1	We reduced exports sales estimates as export subsidy remained uncertain. We also changed our distillery realisation estimates
EBITDA	220.7	223.4	1.2	216.3	225.7	4.3	
EBITDA Margin (%)	12.4	13.9	147 bps	11.9	13.6	175 bps	
PAT	131.6	126.5	-3.9	132.8	135.2	1.8	
EPS (₹)	7.0	6.7	-4.0	7.10	7.2	1.1	Increase in FY22 profits due to higher distillery realisation estimate. Moreover, we factor in higher B heavy contribution in FY22

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current					Earlier		Comments
	FY18	FY19	FY20	FY21E	FY22E	FY21E	FY22E	
Sugar Sold (in tonne)	373,610	317,700	387,848	414,998	394,248	469,296	469,296	We reduce our sugar volume estimates due to uncertainly about exports
Sugar Price (₹ per tonne)	35,320	29,628	31,300	32,500	33,500	32,500	33,000	We change our sugar realisation estimates
Distillery volume	6,400	9,017	11,600	35,750	47,850	39,000	42,900	
Distillery price (₹ per KL)	38,900	40,278	48,350	51,114	54,181	48,484	48,484	We change our distillery realisation estimates after increase in ethanol prices
Power Units sold	19.4	20.2	16.3	18.8	19.5	16.3	18.0	
Price per unit (₹ per units)	4.8	5.0	2.9	3.2	3.3	3.0	3.2	

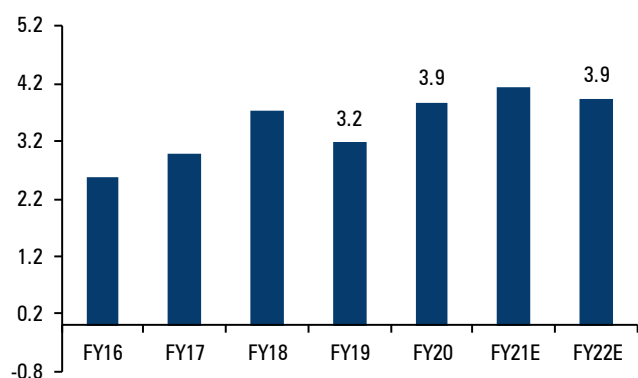
Source: Company, ICICI Direct Research

Conference call Highlights

- Revenue increased 137.3% to ₹ 417.4 crore on the back of strong sugar & ethanol sales. Sugar sales witnessed growth of 123.4% to ₹ 384.4 crore on the back of higher domestic sugar sales quota & exports. Distillery sales were up from ₹ 4.3 crore to ₹ 39.6 crore with higher ethanol volume during the quarter
- The company sold 1.13 Lt of sugar with 0.93 Lt sold domestically & 0.2 Lt exported. Sugar realisation for the quarter was ₹ 32.6/kg against ₹ 32.9/kg in the corresponding quarter
- The company is holding 1.76 Lt of sugar as on September 2020, which would be exhausted by February 2021 given it gets domestic quota of 32,000 tonne / month
- The company would be producing B heavy ethanol in two out of its three plant, which would be ~65% diversion of sugarcane for B heavy ethanol. It would be sacrificing 35000 tonnes of sugar through the production of B heavy molasses in sugar season 2020-21. The company sacrificed 5300 tonnes of sugar in 2019-20 sugar season
- The company is aiming to produce 4.5 crore litre of ethanol between December 2020 and November 2021. Distillery is allowed to operate for 350 days in a year. Distillery can be operated at 110% of its capacity
- Sugarcane production in DSL's catchment area is marginally higher than last year. The company expects to produce 4.2 Lt of sugar in the next sugar season
- The company exported 1.4 Lt of sugar in sugar season 2019-20. There is uncertainty on export subsidy for next year. However, the industry expects the subsidy to be announced sooner given inventory levels in the system are still very high. If sugar subsidy is not announced then domestic sales quota would also be revised downwards
- The outstanding long term loan was at ₹ 218 crore, of which ₹ 117 crore was availed for distillery project commissioned last year and ₹ 100 crore was availed for payment to farmers (given by the UP government). The cost of debt for the entire long term debt is at a concession rate
- Working capital debt as on September 2020 was at ₹ 340 crore. The company is holding inventory of ₹ 570 crore as on September 2020
- Global raw sugar prices are prevailing at 15 cent/lb, which translates to ₹ 25/kg, which is much lower than cost of production. Hence, export without subsidy is not possible
- Sugarcane arrears in UP are at ₹ 6,600 crore, which is concentrated at selective mills. DSL has paid its entire dues to the farmer for 2019-20 sugar season
- Sugar production in the country is expected at 31 MT (after sacrificing 2.0 MT of sugar for ethanol). The inventory levels is ~10.7 MT as of September 2020
- The government has increased the ethanol realisation by ₹ 3.34/litre for B heavy ethanol, ₹ 3.17/litre for sugarcane juice to ethanol & ₹ 1.94/litre for C heavy ethanol for marketing year 2020-21

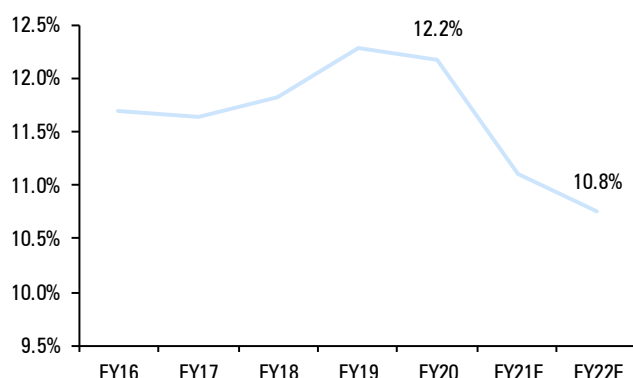
Metrics

Exhibit 4: Sugar sales volume (in lakh tonne)



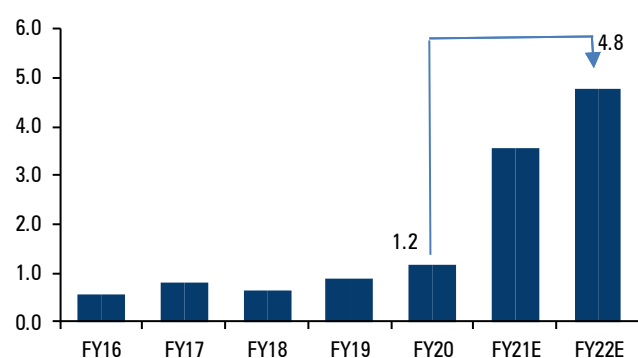
Source: ICICI Direct Research, Company

Exhibit 5: Sugar recovery rate (%)



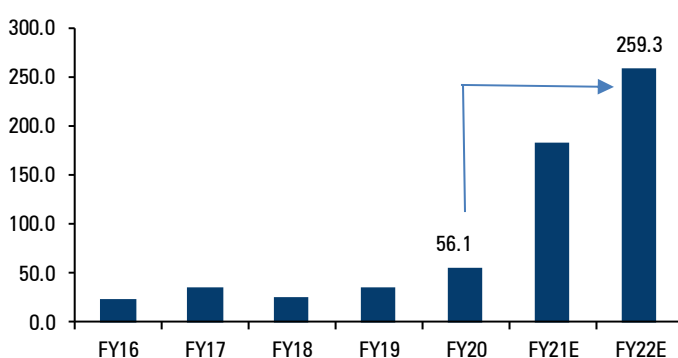
Source: ICICI Direct Research, Company

Exhibit 6: Ethanol volumes (in crore litre)



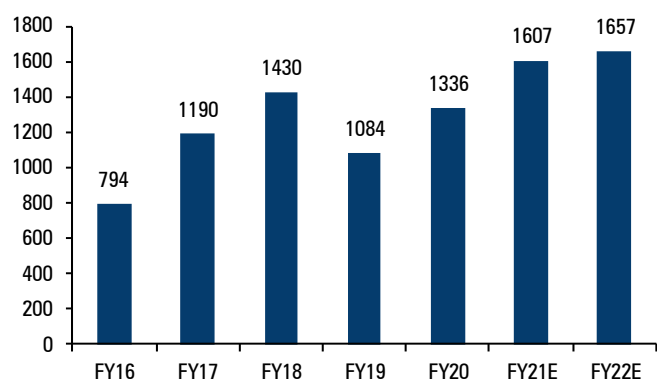
Source: Company, ICICI Direct Research

Exhibit 7: Ethanol sales (₹ crore)



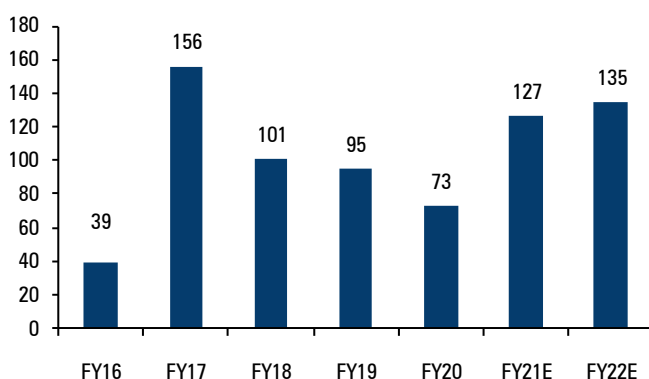
Source: Company, ICICI Direct Research

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	1084.1	-24.2	5.1	-6.3	5.4	8.6	20.5	11.8
FY20	1336.2	23.3	3.9	-22.7	7.0	8.4	15.2	9.0
FY21E	1607.1	20.3	6.7	72.1	4.1	4.8	21.8	15.9
FY22E	1657.2	3.1	7.2	6.9	3.8	4.2	19.8	16.6

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Total Operating Income	1,084.1	1,336.2	1,607.1	1,657.2
Growth (%)	-24.2	23.3	20.3	3.1
Raw Material Expenses	799.0	1,029.3	1,242.3	1,284.0
Employee Expenses	70.8	78.8	77.1	81.2
Administrative Expenses	4.8	0.0	0.0	0.0
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	80.4	92.0	64.3	66.3
Total Operating Expenditure	955.1	1,200.1	1,383.7	1,431.5
EBITDA	129.1	136.1	223.4	225.7
Growth (%)	-9.4	5.5	64.1	1.0
Depreciation	32.9	36.9	41.9	38.8
Interest	21.3	33.0	23.7	18.5
Other Income	36.1	5.4	6.5	7.3
PBT	74.8	66.2	157.8	168.3
Exceptional items	0.0	0.0	0.0	0.0
Total Tax	15.8	-1.9	37.8	40.4
PAT	95.1	73.5	126.5	135.2
Growth (%)	-6.3	-22.7	72.1	6.9
EPS (₹)	5.1	3.9	6.7	7.2

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit/Loss after Tax	110.9	57.2	126.5	135.2
Add: Depreciation	32.9	36.9	41.9	38.8
Add: Interest	21.3	33.0	0.0	0.0
(Inc)/dec in Current Assets	-355.9	-145.0	44.1	19.6
Inc/(dec) in Current Liabilities	-35.3	29.3	-86.1	-0.3
CF from operating activities	-250.4	11.3	126.4	193.3
Inc/(dec) in Investments	0.0	0.4	2.0	2.0
(Inc)/dec in Fixed Assets	-47.8	-111.9	-20.0	-40.0
Others	3.9	-7.4	11.2	0.0
CF from investing activities	-43.9	-119.0	-6.8	-38.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	313.4	185.5	-80.0	-110.0
Dividend paid & dividend tax	0.0	-45.4	-34.0	-34.0
Inc/(dec) in Sec. premium	0.0	0.0	4.8	0.0
Others	-21.1	-31.0	0.0	0.0
CF from financing activities	292.3	109.1	-109.2	-144.0
Net Cash flow	-2.0	1.4	10.4	11.3
Opening Cash	2.5	0.5	1.9	12.3
Cash with bank	0.8	1.2	0.0	0.0
Closing Cash	1.3	3.1	12.3	23.6

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
	₹ crore			
	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	18.8	18.8	18.8	18.8
Reserve and Surplus	444.8	464.9	562.2	663.4
Total Shareholders funds	463.6	483.7	581.0	682.2
Total Debt	635.6	654.4	574.4	464.4
Long Term Provisions	17.5	19.0	17.0	15.0
Other Non-current Liabilities	8.1	6.2	6.2	6.2
Total Liabilities	1,124.8	1,163.4	1,178.7	1,167.9
Assets				
Gross Block	763.2	911.0	931.0	971.0
Less: Acc Depreciation	443.8	480.6	522.5	561.4
Net Block	319.4	430.3	408.4	409.6
Capital WIP	16.1	1.9	1.9	1.9
Intangible assets	0.0	0.0	0.0	0.0
Non Current Investments	0.3	0.3	0.3	0.3
Other non-current assets	79.6	77.7	65.7	63.7
Current Assets				
Inventory	824.0	912.5	892.8	851.6
Debtors	60.1	98.0	53.6	55.2
Cash	1.3	3.1	12.3	23.6
Loans & Advances	0.2	0.1	0.1	0.1
Other Current Assets	64.0	85.4	105.4	125.4
Current Liabilities				
Creditors	182.5	209.9	135.8	137.5
Provisions	2.9	2.9	2.9	2.9
Other CL	54.9	233.2	223.2	223.2
Net Current Assets	709.3	653.1	702.3	692.3
Total Assets	1,124.8	1,163.4	1,178.7	1,167.9

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	₹ crore			
	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	5.1	3.9	6.7	7.2
Cash EPS	6.8	5.9	8.9	9.2
BV	24.6	25.7	30.9	36.2
DPS	0.0	2.4	1.8	1.8
Cash Per Share	23.6	25.5	27.7	29.8
Operating Ratios (%)				
EBITDA Margin	11.9	10.2	13.9	13.6
PBT / Net Sales	10.2	5.4	10.2	10.6
PAT Margin	8.8	5.5	7.9	8.2
Inventory days	277.4	249.3	202.8	187.6
Debtor days	20.2	26.8	12.2	12.2
Creditor days	61.4	57.3	30.8	30.3
Return Ratios (%)				
RoE	20.5	15.2	21.8	19.8
RoCE	11.8	9.0	15.9	16.6
Valuation Ratios (x)				
P/E	5.4	7.0	4.1	3.8
EV / EBITDA	8.6	8.4	4.8	4.2
EV / Net Sales	1.0	0.9	0.7	0.6
Market Cap / Sales	0.5	0.4	0.3	0.3
Price to Book Value	1.1	1.1	0.9	0.8
Solvency Ratios				
Debt/EBITDA	4.9	4.8	2.6	2.1
Debt / Equity	1.4	1.4	1.0	0.7
Current Ratio	4.7	4.9	7.4	7.2
Quick Ratio	0.6	0.8	1.1	1.3

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	FY20	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Balrampur Chini (BALCHI)	156	210	Buy	3,276	23.6	27.2	30.6	6.6	5.7	5.1	6.8	4.6	4.0	1.4	1.2	1.1	16.1	22.8	24.1
Dhampur Sugar (DHASUG)	146	160	Buy	968	32.5	35.9	40.3	4.5	4.1	3.6	7.0	5.0	3.7	0.7	0.6	0.5	10.4	13.7	15.7
Dwarikesh sugar (DWASUG)	27	34	Buy	517	3.9	6.7	7.2	7.0	4.1	3.8	8.4	4.8	4.2	1.1	0.9	0.8	9.0	15.9	16.6
Triveni Engineering (TRIENG)	77	95	Buy	1,909	13.5	16.0	18.3	5.7	4.8	4.2	5.9	4.7	3.9	1.4	1.2	0.9	17.6	20.2	22.0
Dalmia Bharat Sugar (DALISUG)	132	160	Buy	1,068	23.9	26.8	28.4	5.5	4.9	4.7	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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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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