

Higher distillery volumes to drive profit...

Dalmia Bharat Sugar reported a strong set of number with revenue growth of 20.1% & PBT growth of 13.5%. The healthy revenue growth was led by 17.9% increase in sugar sales led by higher domestic sales quota during festive season & 31.3% jump in distillery volumes given new capacities have been commissioned in the last one year. Operating profit was flat due to increase in FRP for Maharashtra mills & significant reduction in inventory (the company is holding only new season sugar inventory as on December 2020, which is a high cost inventory). However PBT grew 13.5% due to significant reduction in interest cost given debt levels have been considerably lower compared to last year. PAT growth of 39% can be attributed to lower tax provisioning during the quarter. The company sold 1.45 lakh tonnes (lt) and 2.1 crore litre of ethanol/ENA during the quarter.

Distillery capacities to double in next two years

The company has a 240 KLD distillery capacity and is maximising utilisation to produce B heavy ethanol. The increase in distillery capacities from 6 crore to 8 crore, increase in ethanol prices & higher contribution of B-Heavy ethanol would result in 24.4% CAGR in distillery sales to ₹ 457 crore during FY20-22E. Further, the sugar industry is taking massive capacity expansion to increase distillation capacities to meet OMCs demand for ethanol. The industry is looking to utilise B-heavy & sugarcane juice route for ethanol production. This would also reduce sugar inventory in system & eliminate the problem of sugar glut in the next year or two. Dalmia is also doubling its distillery capacity from 8 crore litre to 16 crore litre & sugar crushing capacity by 5000 tonnes crushed per day (TCD) with capex of ₹ 412 crore. We believe capacity addition would drive growth from FY23 onwards.

Inventory reduction to move up sugar prices

The aggressive 5.9 million tonnes (MT) of export in sugar season 2019-20 & expected 6 MR of export in 2020-21 would reduce sugar inventory from the peak of 14 MT in September 2019 to 8-9 MT in September 2021. We believe in anticipation of lower inventories, sugar prices are likely to move up to ₹ 34/kg by April 2021. Sugar mills in UP have witnessed lower sugar recoveries by 20-30 bps, which would increase cost of production by ₹ 1/kg. However, we believe Dalmia would be least impacted given two of its plants are in Maharashtra. Moreover, it would be best positioned to take advantage of higher sugar prices.

Valuation & Outlook

With significant sugar export & diversion of sugarcane towards ethanol, Dalmia has been able to liquidate its inventories significantly. Further, higher contribution of B-heavy ethanol & increase in ethanol prices would result in strong 17.7% earnings CAGR in FY20-22E. We expect operating cash flow generation of more than ₹ 500 crore in FY21E & FY22E each & total debt reduction of ₹ 680 crore in similar period. We value stock at 6x FY22E earnings with target price of ₹ 200 (earlier ₹ 180) and maintain **BUY** rating.

Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Total Operating Income	2244.4	2018.5	2034.7	2651.9	2740.9	16.1%
EBITDA	234.2	265.7	260.5	355.3	370.7	19.3%
EBITDA Margin %	10.4	13.2	12.8	13.4	13.5	
Net Profit	122.3	175.2	193.3	273.7	267.6	17.7%
EPS (₹)	15.11	21.64	23.88	33.81	33.06	
P/E	9.3	6.5	5.9	4.2	4.3	
RoNW %	8.1	11.4	9.0	15.3	13.3	
RoCE (%)	8.1	9.8	11.8	15.9	14.6	

Source: Company, ICICI Direct Research

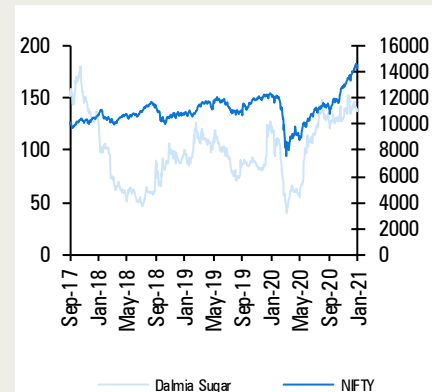


Particulars	
Particulars (₹ crore)	Amount
Market Capitalization	1,060.3
Total Debt (FY20)	1,192.6
Cash and Investments (FY20)	67.1
EV	2,185.8
52 week H/L (₹)	159 / 40
Equity capital	16.2
Face value (₹)	2.0

Key Risk

- Any delay in sugar export programme in the country can restrict sugar price increase & hence impact earnings
- If sugar recovers in UP decline significantly in 2020-21 season then it would increase the cost of production and adversely impact profitability

Price Performance



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Exhibit 1: Variance Analysis

	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Total Operating Income	605.8	504.4	20.1	719.5	-15.8	Net sales increased by 20.1% led by 20.8% growth in sugar & 39.4% growth in distillery segment
Other Operating Income	13.8	15.6	N.A.	11.4	N.A.	
Raw Material Expenses	453.1	352.6	28.5	553.7	-18.2	
Employee Expense	39.2	36.8	6.5	32.0	22.3	
Other operating Expenses	57.9	60.2	-3.8	42.2	37.0	
EBITDA	55.7	54.9	1.4	91.6	-39.2	Operating profit was flat due to increase in FRP & substantial decline in inventory as company exported significant sugar in 2019-20 sugar season
EBITDA Margin (%)	9.2	10.9	-169 bps	12.7	-353 bps	
Depreciation	14.4	15.2	-5.2	14.9	-3.1	
Interest	11.1	16.6	-32.9	14.9	-25.4	Interest cost down considerably due to decline in debt levels
Other Income	13.8	15.6	-11.4	11.4	20.6	
PBT	44.0	38.7	13.5	73.2	-40.0	
Tax Outgo	6.9	12.0	-42.9	17.7	-61.1	
PAT	37.1	26.7	39.0	55.6	-33.2	Net profit grew by 37% mainly on account of lower tax provisions during the quarter
Key Metrics						
Sugar sales volume (in lakh tonnes)	1.4	1.2	17.9	1.8	-23.8	Sugar volumes increased by 17.9% due to higher domestic sales quota
Distillery volumes (in crore litre)	2.1	1.6	31.3	2.1	0.0	Distillery volumes were up by 31.3% as the company commissioned new capacities last years
Power volumes (in cr unit)	9.7	10.1	-4.0	0.0	NA	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% change	Old	New	% change	
Net sales	2802.1	2651.9	-5.4	2,677.3	2,740.9	2.4	We change our FY21 revenue estimate due to delay in announcement in export subsidies, which would result in spill over of exports from FY21E to FY22E. Moreover, sugar prices are also muted in H2FY21
EBITDA	399.6	355.3	-11.1	383.2	370.7	-3.3	Revise operating profit estimate downwards due to lower sugar prices & expected lower volumes in FY21E. The change in FY22 estimate is mainly due to lower export subsidy for 2020-21 sugar season
EBITDA Margin (%)	14.3	13.4	-86 bps	14.3	13.5	-79 bps	
Adjusted PAT	270.2	273.7	1.3	262.8	267.6	1.8	
EPS (₹)	33.4	33.8	1.3	32.5	33.1	1.8	We change our income tax estimates downwards so no impact on profitability despite lower operating profits

Source: Company, ICICI Direct Research

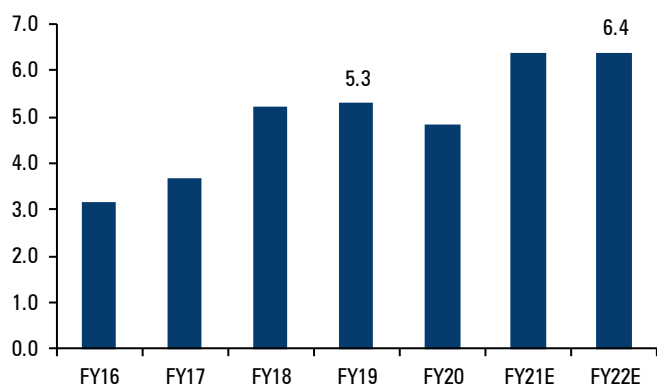
Exhibit 3: Assumptions

	Current				Earlier			Comments
	FY18	FY19	FY20	FY21E	FY22E	FY21E	FY22E	
Sugar Sold (in tonne)	524,000	531,000	485,000	640,200	640,200	679,000	611,100	Revise FY21 revenues downwards with low export volumes in H1FY21E & same would spill over to FY22E
Sugar Price (₹ per tonne)	36,442	30,680	32,342	32,600	33,500	33,000	34,000	We revise our sugar price estimates downwards considering muted prices from December to Feb
Distillery volume	28,810	48,030	64,000	84,000	85,680	84,000	85,680	
Distillery price (₹ per KL)	43,877	44,705	46,123	51,662	53,289	51,262	53,289	
Power Units sold	35.0	38.0	33.4	31.9	33.0	31.9	33.0	
Price per unit (₹ per units)	5.5	5.2	3.7	3.5	3.6	3.5	3.7	

Source: Company, ICICI Direct Research

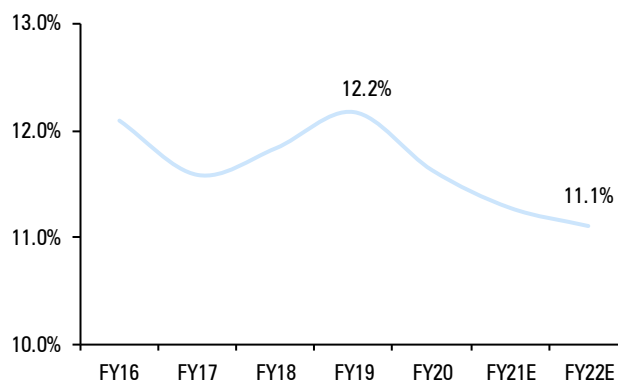
Key Metrics

Exhibit 4: Sugar sales volume (in lakh tonne)



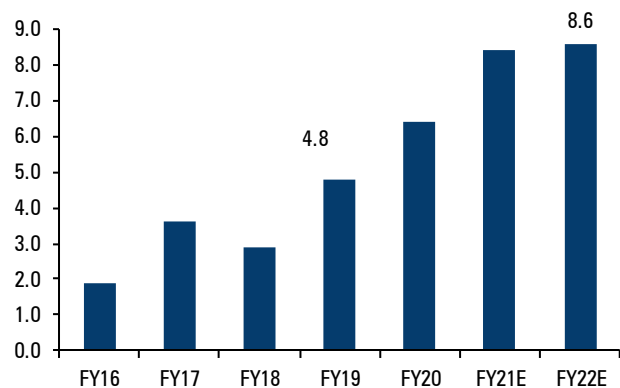
Source: ICICI Direct Research, Company

Exhibit 5: Sugar recovery rate (%)



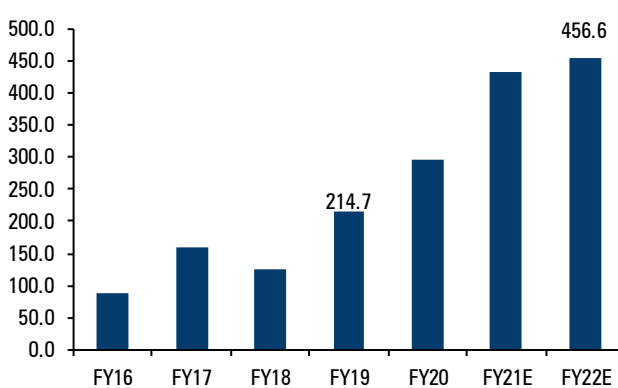
Source: ICICI Direct Research, Company

Exhibit 6: Ethanol volumes (in crore litre)



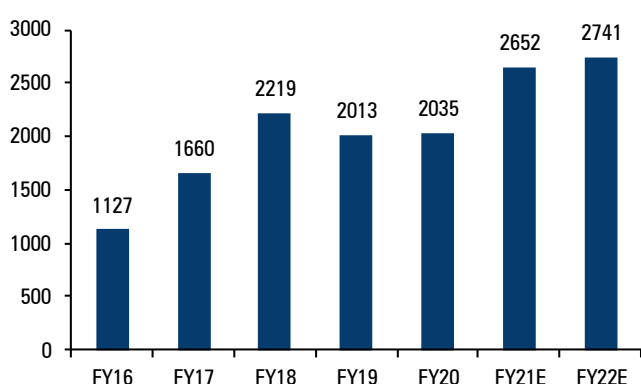
Source: Company, ICICI Direct Research

Exhibit 7: Ethanol sales (₹ crore)



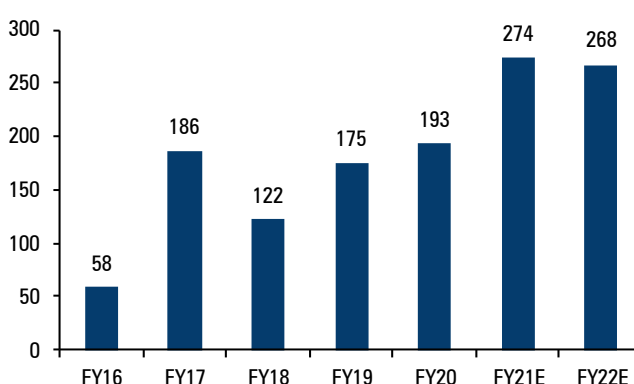
Source: Company, ICICI Direct Research

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 (%)	Adj. EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	2018.5	-10.1	21.64	43.2	6.5	7.8	11.4	9.8
FY20	2034.7	0.8	16.95	-21.7	5.9	8.6	9.0	11.8
FY21E	2651.9	30.3	33.81	99.5	4.2	5.1	15.3	15.9
FY22E	2740.9	3.4	33.06	-2.2	4.3	4.3	13.3	14.6

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Total Operating Income	2,018.5	2,034.7	2,651.9	2,740.9
Growth (%)	-10.1	0.8	30.3	3.4
Raw Material Expenses	1,408.2	1,407.0	1,973.0	2,035.8
Employee Expenses	118.7	133.6	137.9	153.5
Administrative Expenses	31.1	0.0	0.0	0.0
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	194.8	233.6	185.6	180.9
Total Operating Expenditure	1,752.8	1,774.2	2,296.5	2,370.2
EBITDA	265.7	260.5	355.3	370.7
Growth (%)	13.5	-2.0	36.4	4.3
Depreciation	80.2	57.2	61.0	65.1
Interest	68.6	88.4	59.4	33.3
Other Income	74.7	132.6	130.0	84.5
PBT	116.9	114.9	234.9	272.3
Exceptional items	0.0	0.0	0.0	0.0
Total Tax	16.4	54.3	91.2	89.2
PAT	175.2	193.3	273.7	267.6
Growth (%)	43.2	10.3	41.6	-2.2
EPS (₹)	21.6	23.9	33.8	33.1

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit/Loss after Tax	191.6	247.5	273.7	267.6
Add: Depreciation	80.2	57.2	61.0	65.1
Add: Interest	68.6	88.4	0.0	0.0
(Inc)/dec in Current Assets	-487.5	-226.7	241.4	151.6
Inc/(dec) in Current Liabilities	2.8	1.1	-48.2	22.1
CF from operating activities	-220.4	72.4	527.9	506.4
(Inc)/dec in Investments	73.4	-96.8	-5.0	-5.0
(Inc)/dec in Fixed Assets	-107.0	-90.4	-85.0	-249.0
Others	4.4	7.9	0.6	0.0
CF from investing activities	-29.2	-179.3	-89.3	-254.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	271.5	232.7	-450.0	-230.0
Dividend paid & dividend tax	0.0	-35.1	0.0	-48.6
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-52.8	-52.3	0.0	0.0
CF from financing activities	218.7	145.3	-450.0	-278.6
Net Cash flow	-31.0	38.4	-11.4	-26.2
Opening Cash	59.0	28.0	66.5	55.1
Cash with bank	0.5	0.6	0.0	0.0
Closing Cash	28.6	67.1	55.1	28.9

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
	₹ crore			
	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	16.2	16.2	16.2	16.2
Reserve and Surplus	1,515.5	1,502.6	1,776.2	1,995.3
Total Shareholders funds	1,531.7	1,518.8	1,792.4	2,011.5
Total Debt	977.8	1,192.6	742.6	512.6
Long Term Provisions	22.8	29.4	27.4	25.4
Other Non-current Liabilities	117.0	117.7	118.7	119.7
Total Liabilities	2,649.2	2,858.5	2,681.2	2,669.2
Assets				
Gross Block	2,143.7	2,243.7	2,323.7	2,573.7
Less: Acc Depreciation	828.1	885.3	946.3	1,011.4
Net Block	1,315.6	1,352.4	1,377.4	1,562.3
Capital WIP	10.9	6.2	5.2	4.2
Intangible assets	0.5	0.4	0.4	0.4
Non Current Investments	197.3	100.3	105.3	110.3
Other non-current assets	55.9	48.5	48.5	48.5
Current Assets				
Inventory	1,095.1	1,329.2	1,031.3	837.5
Debtors	203.6	169.8	206.3	228.4
Cash	28.6	67.1	55.1	28.9
Loans & Advances	1.1	0.8	0.8	0.8
Other Current Assets	280.6	363.5	383.5	403.5
Current Liabilities				
Creditors	420.2	402.0	408.9	461.5
Provisions	6.7	5.6	5.6	5.6
Other CL	113.1	172.1	117.9	88.4
Net Current Assets	1,068.9	1,350.8	1,144.5	943.6
Total Assets	2,649.2	2,858.5	2,681.2	2,669.2

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	₹ crore			
	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	21.6	23.9	33.8	33.1
Cash EPS	31.5	30.9	41.3	41.1
BV	189.2	187.6	221.5	248.5
DPS	0.0	3.6	0.0	6.0
Cash Per Share	102.3	109.4	116.9	125.0
Operating Ratios (%)				
EBITDA Margin	13.2	12.8	13.4	13.5
PBT / Net Sales	0.1	0.1	0.1	0.1
PAT Margin	8.7	6.7	10.3	9.8
Inventory days	198.6	238.4	141.9	111.5
Debtor days	36.9	30.5	28.4	30.4
Creditor days	76.2	72.1	56.3	61.5
Return Ratios (%)				
RoE	11.4	9.0	15.3	13.3
RoCE	9.8	11.8	15.9	14.6
Valuation Ratios (x)				
P/E	6.5	5.9	4.2	4.3
EV / EBITDA	7.8	8.6	5.1	4.3
EV / Net Sales	1.0	1.1	0.7	0.6
Market Cap / Sales	0.6	0.6	0.4	0.4
Price to Book Value	0.7	0.8	0.6	0.6
Solvency Ratios				
Debt/EBITDA	3.7	4.6	2.1	1.4
Debt / Equity	0.6	0.8	0.4	0.3
Current Ratio	3.6	4.2	3.3	2.8
Quick Ratio	1.1	1.2	1.2	1.2

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	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Avadh Sugar (AVASUG)	196	195	Hold	362	44.3	55.2	60.5	4.4	3.5	3.2	7.0	5.8	4.7	0.6	0.5	0.4	10.6	12.3	13.3
Balrampur Chini (BALCHI)	161	190	Buy	3,304	23.6	23.7	29.8	6.8	6.8	5.4	6.9	6.2	5.0	1.4	1.3	1.2	16.1	17.3	20.5
Dhampur Sugar (DHASUG)	169	210	Buy	1,123	32.5	38.6	43.3	5.2	4.4	3.9	7.4	4.6	3.8	0.8	0.7	0.6	10.4	15.7	16.5
Dwarikesh sugar (DWCASUG)	28	31	Hold	527	3.9	5.3	7.1	7.1	5.2	3.9	8.5	4.4	3.7	1.1	1.0	0.8	9.0	17.5	19.3
Triveni Engineering (TRIENG)	74	100	Buy	1,823	13.5	14.8	17.6	5.5	5.0	4.2	5.7	4.6	4.1	1.4	1.2	1.0	17.6	20.4	21.3
Dalmia Bharat Sugar (DALSUG)	141	200	Buy	1,141	23.9	33.8	33.1	5.9	4.2	4.3	8.6	5.1	4.3	0.8	0.6	0.6	11.8	15.9	14.6

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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