

Lower recoveries impact profitability...

Dwarikesh Sugar (DSL) reported disappointing results with 9.2% decline in operating profit mainly due to muted sugar realisation & rise in cost of production due to lower recoveries. Consolidated revenues saw growth of 19.3% to ₹ 381.2 crore led by higher sugar & distillery sales during the quarter. Sugar volumes were up 12.7% given domestic sales quota was higher during festive months. The company sold 1.03 lakh tonnes (lt) of sugar in Q3. However, sugar realisation dipped 2.6% impacted by late announcement of export subsidy, early start of the crushing season & higher domestic sales quota. The company is holding 1.95 lt of sugar as on December 2020. Distillery volumes were up at 0.6 crore litre but still down QoQ impacted by lower offtake from OMCs due to capacity constraints at one of the depots. Distillery realisation was also down 14.4% due to lower proportion of B heavy molasses in the quarter. Despite lower operating profit, PAT rose from ₹ 4.5 crore to ₹ 7.5 crore due to reversal of tax liability.

Sugar exports, production decline to trim down inventory

The company was holding relatively high level of inventory from the last six to eight month. The announcement of export subsidy would help the company to significantly reduce its sugar inventory levels. It has already contracted for 79,000 tonnes of sugar and is likely to complete the exports in Q4FY21 itself. Further, with the lower yields & recoveries in UP, we estimate 14% decline in sugar production for DSL. We expect inventory reduction of 82000 tonnes by March 2022 for company. This would result in strong cash flow generation & reduction of working capital debt. We expect ~₹ 350 crore of debt reduction by March 2022.

Distillery volumes impacted; new capex under consideration

Distillery volumes during the quarter has been impacted by lower offtake by OMCs in one the depots in Delhi. Though the company is trying to resolve these issue, entire FY21 numbers have been impacted by hiccup in distillery operations. We estimate distillery volumes of 3.0 crore litre & 4.2 crore litre for FY21E & FY22E, respectively. The company would be supplying only B-Heavy ethanol in during the current ethanol supply year (December-November 2021). DSL is also actively considering distillery capacity addition to take advantage of increased sugarcane juice ethanol & B heavy ethanol prices. Further, capacity addition would eliminate the risk of sugar inventory glut for the industry as well as company. The company is yet to announce exact modalities of this capex plan.

Valuation & Outlook

DSL is one of the efficient sugar companies with lowest cost of production given sugar recovery is beyond 12.0% in its region. However, it was facing challenges due to high sugar inventories & low distillery capacities. We believe sugar exports & capacity addition would aid revenues, earnings & cash flows going forwards. However, lower sugar recoveries remains a concern in current sugar season. We downgrade the stock from BUY to HOLD with the revised target price of ₹ 31 /share (earlier ₹ 34).



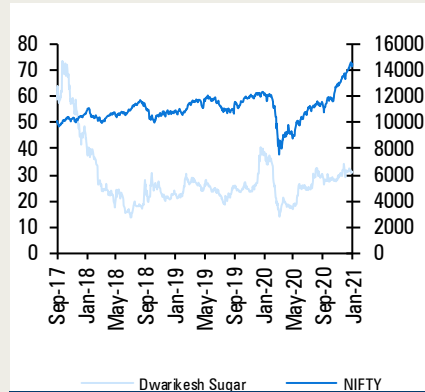
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	525.4
Total Debt (FY20)	654.4
Cash and Investments (FY20)	3.1
EV	1,176.7
52 week H/L (₹)	39 / 13.4
Equity capital	18.8
Face value (₹)	1.0

Key Risk

- The sharp increase in sugar prices could result in better than expected profitability
- Any significant decline in sugar recovery further could adversely impact cost of production & hence profitability

Price Chart



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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	1878.7	1709.0	13.1%
EBITDA	142.5	129.1	136.1	209.4	216.7	26.2%
EBITDA Margin %	10.0	11.9	10.2	11.1	12.7	
Net Profit	101.4	95.1	73.5	100.1	133.5	34.8%
EPS (₹)	5.4	5.1	3.9	5.3	7.1	
P/E	5.2	5.5	7.1	5.2	3.9	
RoNW %	27.7	20.5	15.2	18.1	20.4	
RoCE (%)	15.9	11.8	9.0	17.5	19.3	

Exhibit 1: Variance Analysis

	Q3FY21	Q3FY20	YoY (%)	Q2FY20	QoQ (%)	Comments
Total Operating Income	381.2	319.5	19.3	417.4	-8.7	Net sales increased by 19.3% on account of 12.7% increase in sugar volumes due to higher domestic sales quota in Q3
Other Operating Income	0.0	0.0	N.A.	0.0	N.A.	
Raw Material Expenses	309.2	247.9	24.7	324.8	-4.8	
Employee Expense	25.0	22.8	9.6	17.9	39.7	
Other operating Expenses	23.9	23.4	2.1	29.2	-18.3	
EBITDA	23.2	25.5	-9.2	45.5	-49.2	Operating profits were down by 9.2% mainly due to increase in cost of production due to lower recoveries in Q3
EBITDA Margin (%)	6.1	8.0	-191 bps	10.9	-484 bps	
Depreciation	10.3	10.1	2.1	10.2	0.8	
Interest	9.6	5.1	88.4	12.8	-25.0	
Other Income	4.1	1.2	240.6	1.2	232.1	
PBT	7.3	11.5	-36.6	23.7	-69.3	
Tax Outgo	-0.2	7.0	-102.8	6.0	-103.3	
PAT	7.5	4.5	65.3	17.7	-57.8	Net profit was up from ₹4.5 crore to ₹7.5 due to certain tax reversals
Key Metrics						
Sugar sales volume (in tonnes)	103,790	92,130	12.7	113,230	-8.3	Sugar volumes were up by 12.7% due to increase in domestic sales quota
Domestic Sugar realisation (₹ per kg)	31.8	32.6	-2.6	32.6	-2.5	Sugar realisation remain muted due to start of crushing season & higher sales quota during Diwali
Distillery volumes (in crore litre)	0.6	0.0	1,300.0	0.9	-37.8	Distillery volumes sequentially down by 37.8% due to lower offtake by OMCs
Distillery realisation (₹ per litre)	46.5	54.3	-14.4	43.8	6.2	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			
	Old	New	% change	Old	New	% change	
Net sales	1607.1	1878.7	16.9	1,657.2	1,709.0	3.1	We change our revenue estimates for FY21 upwards on account of 79,000 tonnes of exports contracted in Q4, which would be shipped in Jan-Feb 2021
EBITDA	223.4	209.4	-6.3	225.7	216.7	-4.0	With expected dip in sugar recoveries by 30 bps, cost of sugar production would go up by ₹ 1/kg, which would adversely impact operating margins
EBITDA Margin (%)	13.9	11.1	-275 bps	13.6	12.7	-94 bps	
PAT	126.5	100.1	-20.8	135.2	133.5	-1.3	The impact on dip in operating profit on earnings would exacebarate due to increase in tax liability
EPS (₹)	6.7	5.3	-20.6	7.20	7.1	-1.6	

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	508,081	416,626	414,998	394,248	Expected higher sugar volume due to 79000 tonnes of sugar exported in Q4FY21
Sugar Price (₹ per tonne)	35,320	29,628	31,300	32,000	33,500	32,500	33,500	Sugar prices have been lower in winter months in FY21
Distillery volume	6,400	9,017	11,600	30,030	42,050	35,750	47,850	We change our distillery volume estimates due to lower offtake my OMCs in Q3FY21
Distillery price (₹ per KL)	38,900	40,278	48,350	49,414	55,344	51,114	54,181	
Power Units sold	19.4	20.2	16.3	18.8	19.5	18.8	19.5	
Price per unit (₹ per units)	4.8	5.0	2.9	3.2	3.3	3.2	3.3	

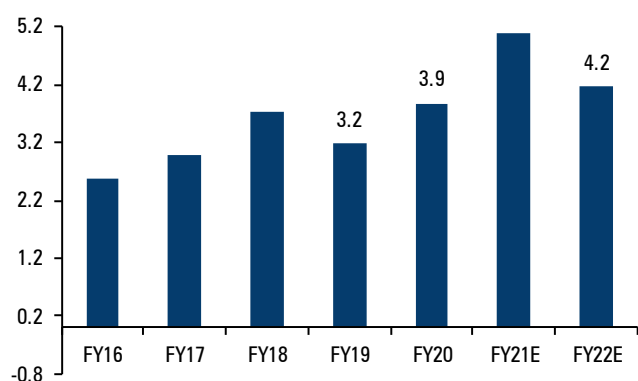
Source: Company, ICICI Direct Research

Conference call Highlights

- Revenue increased 19.3% ₹ 381.2 crore mainly on account of 12.5% increase in sugar business revenue. Distillery revenue increased from ₹ 2.4 crore to ₹ 25.9 crore
- Sugar volumes increased 12.7% to 1.04 lakh tonnes mainly on account of higher domestic sugar sales quota. Sugar realisation was down 2.6% to ₹ 31.8 / kg during the quarter. Cogeneration sales were flat at ₹ 15 crore. The company sold 5 crore units at an average tariff of ₹ 3.1/unit
- Distillery volumes increased from 4 lakh litre to 56 lakh litre mainly on account of new commissioning of distillery in January 2020. However, distillery volumes were down 37.8% QoQ due to some of the logistical issues with one of the depots of OMCs. The company is confident that these issues would be resolved soon and likely to maintain a run rate of 1 crore litre per quarter. The 130 KLD distillery is fully commissioned
- The government announced export subsidy for 6 million tonnes. The company was allocated 79500 tonnes of exports quota, which has been contracted. The company expected to export these quantities during Q4FY21 itself. Average realisation for export is ~₹ 30.5/kg
- The company is holding 1.95 lakh tonnes of sugar inventory valued at ₹ 30.9/kg against inventory of 1.99 lakh tonnes in the corresponding quarter
- In 2020-21 sugar season, UP state is expected to witness 16-18% decline in sugar production at 10.4 million tonnes of sugar mainly due to decline in sugarcane yield, lower sugar recovery & higher diversion towards ethanol. The industry is waiting for the increase in MSP (Minimal Selling Prices) of sugar. The state government is yet to announce state advised price (SAP) for sugar season 2020-21
- DSL could see lower recovery to the tune of 20-30 bps for the entire 2020-21 season. Further, 35000 tonnes of sugar would be sacrificed for ethanol. The company expect ~3.8 lakh tonnes of sugar production during the season
- The company is actively considering capital expansion in the distillery segment. It is looking to add fungible capacity for sugarcane juice, B-Heavy Molasses, C-heavy molasses & grain. The decision on this matter would be taken soon
- The company has contracted for 4.0 crore litres of ethanol supply during December 2020 to January 2021. Almost this entire quantity would be B-Heavy. The company would be using 130 KLD capacity for ethanol. It would be giving molasses for the levy obligation from one of the plants which is not producing B heavy
- Industry wise sacrifice of sugar for ethanol would be 2.0 million tonnes in current season and ~3-4 million tonnes by next sugar season
- Ethanol processing cost is ₹ 10 / litre. Transfer price for C heavy molasses ₹ 300/quintal & B heavy ₹ 670 /quintal
- The company sold more of C heavy molasses by the end of quarter. However, it exhausted entire C-heavy molasses quantities by October - November 2020
- The company has long term debt of ₹ 211 crore as of December 2020. The entire debt is at concessional rates

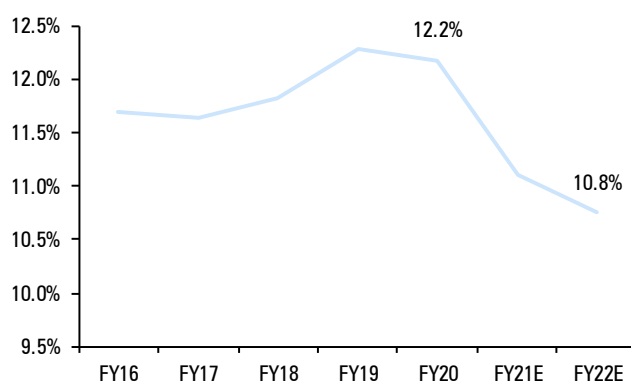
Metrics

Exhibit 4: Sugar sales volume (in lakh tonne)



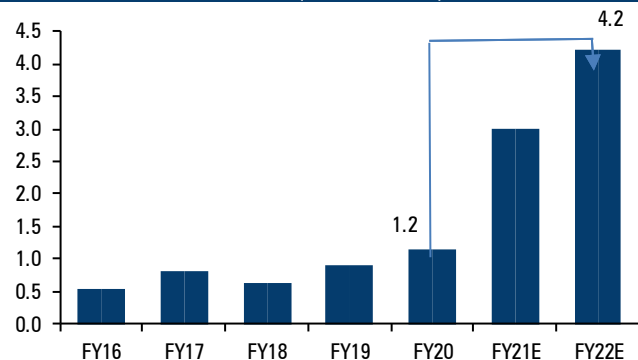
Source: ICICI Direct Research, Company

Exhibit 5: Sugar recovery rate (%)



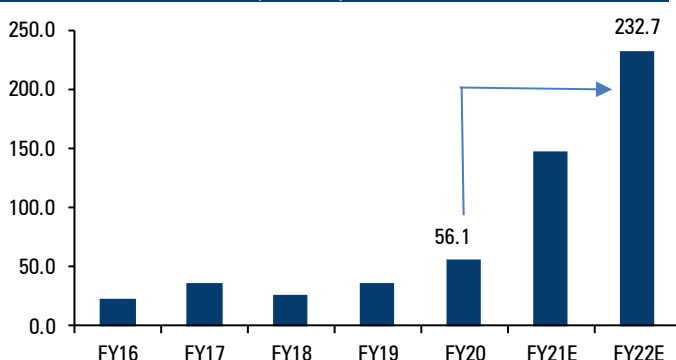
Source: ICICI Direct Research, Company

Exhibit 6: Ethanol volumes (in crore litre)



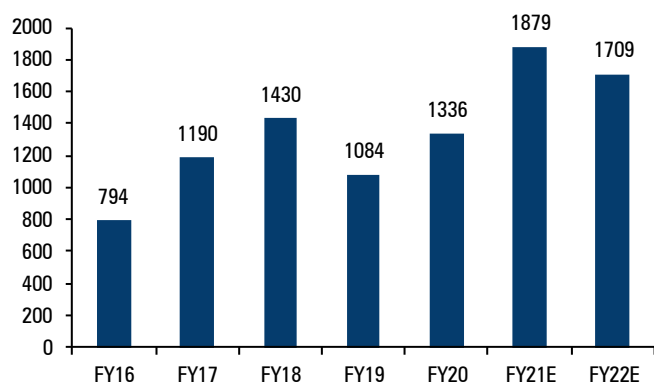
Source: Company, ICICI Direct Research

Exhibit 7: Ethanol sales (₹ crore)



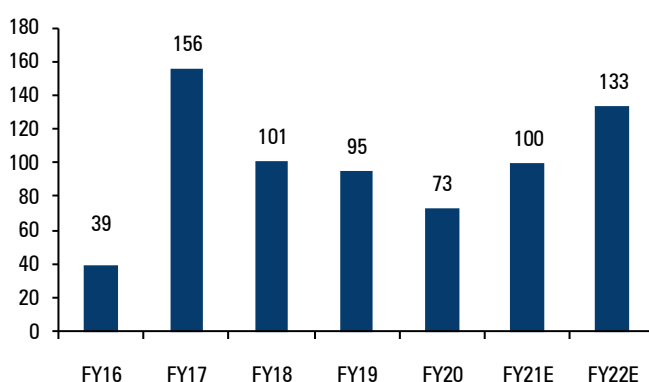
Source: Company, ICICI Direct Research

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	5.5	8.7	20.5	11.8
FY20	1336.2	23.3	3.9	-22.7	7.1	8.5	15.2	9.0
FY21E	1878.7	40.6	5.3	36.2	5.2	4.3	18.1	17.5
FY22E	1709.0	-9.0	7.1	33.3	3.9	3.7	20.4	19.3

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	1,878.7	1,709.0
Growth (%)	-24.2	23.3	40.6	-9.0
Raw Material Expenses	799.0	1,029.3	1,472.9	1,331.6
Employee Expenses	70.8	78.8	90.2	83.7
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	106.1	76.9
Total Operating Expenditure	955.1	1,200.1	1,669.2	1,492.2
EBITDA	129.1	136.1	209.4	216.7
Growth (%)	-9.4	5.5	53.9	3.5
Depreciation	32.9	36.9	41.9	38.8
Interest	21.3	33.0	43.9	13.6
Other Income	36.1	5.4	8.1	9.1
PBT	74.8	66.2	123.7	164.3
Exceptional items	0.0	0.0	0.0	0.0
Total Tax	15.8	-1.9	31.6	39.9
PAT	95.1	73.5	100.1	133.5
Growth (%)	-6.3	-22.7	36.2	33.3
EPS (₹)	5.1	3.9	5.3	7.1

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	100.1	133.5
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	145.1	56.4
Inc/(dec) in Current Liabilities	-35.3	29.3	0.6	-36.8
CF from operating activities	-250.4	11.3	287.7	191.9
(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	-230.0	-130.0
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	-259.2	-164.0
Net Cash flow	-2.0	1.4	21.7	-10.1
Opening Cash	2.5	0.5	1.9	23.6
Cash with bank	0.8	1.2	0.0	0.0
Closing Cash	1.3	3.1	23.6	13.5

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	535.8	635.3
Total Shareholders funds	463.6	483.7	554.7	654.1
Total Debt	635.6	654.4	424.4	294.4
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	1,002.3	969.8
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	782.8	712.1
Debtors	60.1	98.0	62.6	57.0
Cash	1.3	3.1	23.6	13.5
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	222.5	187.7
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	525.9	494.2
Total Assets	1,124.8	1,163.4	1,002.3	969.8

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	₹ crore			
	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	5.1	3.9	5.3	7.1
Cash EPS	6.8	5.9	7.5	9.2
BV	24.6	25.7	29.5	34.7
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	11.1	12.7
PBT / Net Sales	10.2	5.4	7.0	10.1
PAT Margin	8.8	5.5	5.3	7.8
Inventory days	277.4	249.3	152.1	152.1
Debtor days	20.2	26.8	12.2	12.2
Creditor days	61.4	57.3	43.2	40.1
Return Ratios (%)				
RoE	20.5	15.2	18.1	20.4
RoCE	11.8	9.0	17.5	19.3
Valuation Ratios (x)				
P/E	5.5	7.1	5.2	3.9
EV / EBITDA	8.7	8.5	4.3	3.7
EV / Net Sales	1.0	0.9	0.5	0.5
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	2.0	1.4
Debt / Equity	1.4	1.4	0.8	0.5
Current Ratio	4.7	4.9	4.2	4.6
Quick Ratio	0.6	0.8	0.7	0.9

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)	162	190	Buy	3,304	23.6	23.7	29.8	6.9	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)	170	175	Buy	950	32.5	38.6	43.3	5.2	4.4	3.9	7.0	4.3	3.3	0.7	0.6	0.5	10.4	15.4	17.4
Dwarikesh sugar (DWASUG)	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)	76	90	Buy	1,617	13.5	15.2	17.3	5.6	5.0	4.4	5.4	4.4	3.5	1.2	1.1	0.9	17.6	20.1	22.9
Dalmia Bharat Sugar (DALSUG)	142	180	Buy	1,060	23.9	33.4	32.5	5.9	4.2	4.4	6.4	4.2	4.0	0.7	0.6	0.5	11.8	15.4	14.3

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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