

Steady performance; reaches net-debt free status...

About the stock: Dalmia Bharat Sugar (DBS) is only sugar company present in UP as well as in Maharashtra. The company has sugar crushing capacity of 35500 TCD (6 lakh tonnes pa), distillery capacity of 300 KLD (8.5 crore litre pa), co-generation capacity of 102 MW & wind power of 16.5 MW (total 30 crore units saleable power).

- The company is expanding its sugarcane & molasses and grain based annual distillery capacity from current 8.5 crore litre to 21 crore litre, which would be completed in a phased manner by December 2022

Q2FY22 Results: DBS reported steady numbers on high base of sugar exports.

- Sales were flat (1.2% growth) YoY, with lower sugar volumes, high ethanol volumes & improvement in sugar realisation
- EBITDA was at ₹ 87 crore, down 5% YoY, with margins at 11.9%
- PAT was at ₹ 59.2 crore (up 6.6% YoY) backed by reduced interest expense

What should investors do? DBS' share price has gone up 3.5x in the last five years (from ₹ 112 in October 2016 to ₹ 394 in October 2021)

- We expect 2.5x increase in distillery volumes to boost earnings with CAGR of 16.1% during FY21-24E
- We maintain our BUY rating on the stock

Target Price and Valuation: We value the stock at ₹ 610, ascribing a multiple of 14x FY23 earnings

Key triggers for future price performance:

- DBS is fastest in utilising B-heavy, sugarcane juice & grain route to produce ethanol. Distillery volumes to grow 2.5x to 21 crore litre by FY24
- The company been aggressive in exporting sugar & utilising higher global white sugar prices. Freight cost is much lower given its proximity to ports
- With the increasing profitability & reduction in sugar inventories, DBS would be generating cumulative free cash flow of ₹ 626 crore in the next three years despite ~₹ 700 crore capex

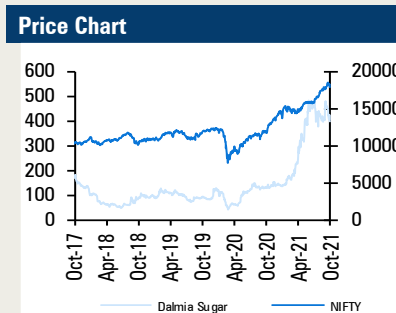
Alternate Stock Idea: We also like Balrampur Chini in our sugar coverage universe

- The company is second largest and one of the most efficient sugar companies in India. Along with sugarcane juice, B-heavy, the company is also utilising grain based ethanol to leverage the ethanol opportunity in India
- We value the stock at ₹ 515/share with a BUY recommendation



Particulars	
Particulars (₹ crore)	Amount
Market Capitalization	3,193.0
Total Debt (FY21)	915.9
Cash and Investments (FY21)	79.8
EV	4,029.2
52 week H/L (₹)	516 / 123
Equity capital	16.2
Face value (₹)	2.0

Shareholding pattern				
(in %)	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	74.9	74.9	74.9	74.9
FII	0.6	0.8	1.0	1.0
DII	2.0	0.2	0.2	0.2
Others	22.5	24.1	23.9	23.9



- Recent event & key risks**
- The company has forayed into consumer business with the launch of 'Dalmia Utsav Honey'
 - Key Risk:** (i) Significant fall in Global & Domestic Sugar prices (ii) Reversal in government stance over ethanol blending

Research Analyst
Sanjay Manyal
sanjay.manyal@icicisecurities.com

Key Financial Summary

Key Financials	FY20	FY21	FY22E	FY23E	FY24E	CAGR (FY21-24E)
Total Operating Income	2110.8	2685.8	2846.6	3175.0	3561.7	9.9%
EBITDA	336.6	471.4	543.0	620.8	687.3	13.4%
EBITDA Margin %	15.9	17.6	19.1	19.6	19.3	
Net Profit	193.2	270.3	319.5	357.1	423.3	16.1%
EPS (₹)	23.87	33.40	39.48	44.12	52.29	16.1%
P/E	16.5	11.8	10.0	8.9	7.5	
RoNW %	9.0	12.6	15.3	14.9	15.4	
RoCE (%)	11.8	13.3	14.2	15.3	16.3	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q2FY22 Results: Complete debt reduction repaid ₹ 600 crore in six months

- Consolidated revenue was flat (up 1.2%) with strong growth in distillery volumes offset by decline in sugar sales volumes. Sugar sales declined 6% to ₹ 599.5 crore mainly due 19% de-growth in sugar volumes. The company sold 1.47 lakh tonnes of sugar in Q2FY22. Though it received the domestic quota of 1.2 lakh tonnes, we believe DBS has exchanged some quantities of domestic quota with exports
- Distillery sales grew 81.6% led by 46% jump in ethanol volumes. The company sold 3.01 crore litre of ethanol during the quarter. Moreover, it would have maximised the B-heavy ethanol sales, which is reflecting in realisation growth. Power sales volumes were marginal at 0.4 crore units given it is a non-crushing quarter
- Operating profit dipped 5% to ₹ 87 crore with moderate sugar sales & higher overhead spends in off-season. Interest cost declined 49% to ₹ 7.6 crore given huge cash flow generation resulted in aggressive re-payment of debt. Aided by lower interest cost and higher other income, net profit grew 6.6% to ₹ 59.2 crore
- Cash flow for operation for the company is ₹ 1021.4 crore for the H1FY22. The company repaid ₹ 600 crore of debt in the last six months. Its working capital debt is nil. Net long term debt for the company is merely ₹ 39 crore
- The company started sugarcane crushing for the 2021-22 season in Maharashtra on October 25, 2021 and would start crushing operations in the second week of November in Uttar Pradesh
- DBS is undertaking distillery capacity expansion at all its distillery projects to expand its ethanol capacity to 15 crore litre. It is also increasing its crushing capacity by 5000 TCD at its Jawaharpur & Nigohi plant. We believe it would be able to complete this capex by Q4FY22. Further, it is also setting up two grain based distilleries of 100 KLD each, which would be commissioned by December 2022. The total capex for these expansion is closer to ₹ 700 crore
- DBS launched honey under the brand name 'Dalmia Utsav' for its foray in consumer business. It has already launched packaged refined sugar earlier. We believe the company is looking to expand its consumer product portfolio with strong branding initiatives
- UP government has increased the state advised price (SAP) for sugar for 2021-22 season by ₹ 250/tonne to ₹ 3500/tonne. This would increase the cost of production by ₹ 2/kg for the company (considering 12% normative sugar recovery)
- At the country level, ISMA has projected sugar production of 30.5 million tonnes (MT) after diverting 3.4 MT of sugar equivalent towards ethanol for the 2021-22 season. Sugar inventory level at the country level is 8.2 MT as on September 2021
- With 30.5 MT of sugar production, 26.5 MT of sugar consumption & 6 MT of exports, sugar inventories would come down to 6.2 MT by September 2022. This would keep the domestic sugar prices firm above ₹ 35 / kg for 2021-22 sugar season. Notably, the industry has already contracted for ~2 MT of exports at the beginning of the season
- We believe South Central Brazil would complete the crushing with 31.5 MT of sugar production (down from 38.5 MT last year) for 2021-22 season & Thailand would add 3 million tonnes of sugar in 2021-22 season. With expected global deficit, global raw sugar prices would remain firm ~20 cents / lb and Indian sugar millers would get window of opportunity to contract further 4 MT of raw sugar at 21-22 cents / lb (or white sugar ~US\$500 / tonne) in the next six months

Exhibit 1: Peer Comparison

Sector / Company	CMP	TP	M Cap	EPS growth (%)				EBITDA margins (%)				PE (x)				P/B (x)				RoCE (%)				
	(₹)	(₹)		Rating	(₹ Cr)	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E
Balrampur Chini (BALCHI)	327	519	Buy	6866	-3.2	12.5	36.0	25.1	14.8	15.6	17.9	18.4	14.3	12.7	9.4	7.5	3.0	2.7	2.4	2.1	16.4	18.0	20.4	22.5
Dalmia Bharat Sugar (DALSUG)	394	610	Buy	3193	39.9	18.2	11.8	18.5	17.6	19.1	19.6	19.3	11.8	10.0	8.9	7.5	1.5	1.5	1.3	1.2	13.3	14.2	15.3	16.3
Triveni Engineering (TRIENG)	191	270	Buy	4624	-9.9	45.0	21.9	17.8	11.9	12.8	14.5	15.1	15.7	10.8	8.9	7.5	2.9	2.5	2.1	1.7	19.4	19.2	22.4	23.7
Dwarikesh sugar (DWASUG)	71	110	Buy	1329	24.5	57.3	14.6	50.7	10.9	12.4	14.7	19.2	14.5	9.2	8.1	5.3	2.4	2.0	1.7	1.4	14.4	20.0	20.7	28.5

Source: Company, ICICI Direct Research

The sugar industry has seen significant reduction in sugar inventory in last one year. This along with the increasing sugarcane diversion towards ethanol has pushed sugar prices northwards. Dalmia Sugar has been aggressive in expanding its distillery capacities and exporting excess sugar in, which has resulted in generating huge cash flows & becoming first sugar company to reach debt free levels. The company would reach the distillery capacity of 15 crore litre pa by March 2022 against 8 crore litre pa in FY21. Further, it would be commissioning two grain based distilleries by March 2023. Its total distillery capacity would reach to 21 crore litre pa by December 2022. We expect strong earnings growth for the company with higher sugar prices & increasing ethanol volumes. We remain positive on the sector as well as on the company. We maintain our BUY recommendation with a target price of ₹ 610/share (earlier ₹ 650).

Exhibit 2: Variance Analysis

	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
Total Operating Income	728.1	719.5	1.2	818.6	-11.1	Net sales were flat mainly on account of lower domestic sales volumes but ethanol sales volume was much higher. Base quarter includes high quantities of exports & domestic sales
Other Operating Income	20.5	11.4	N.A.	4.9	N.A.	
Raw Material Expenses	541.4	553.7	-2.2	584.1	-7.3	
Employee Expense	42.6	32.0	33.2	33.8	26.1	
Other operating Expenses	57.0	42.2	35.1	59.5	-4.2	Higher overhead spends due to off-season maintaince expenditure
EBITDA	87.0	91.6	-5.0	141.1	-38.4	Operating profit was down by 5% due to lower sugar sales
EBITDA Margin (%)	11.9	12.7	-78 bps	17.2	-529 bps	
Depreciation	20.8	14.9	40.3	20.9	-0.2	
Interest	7.6	14.9	-49.0	12.1	-37.3	
Other Income	20.5	11.4	78.9	4.9	316.5	
PBT	79.0	73.2	7.9	113.0	-30.1	
Tax Outgo	19.8	17.7	11.8	-11.4	-274.2	
PAT	59.2	55.6	6.6	124.4	-52.4	Net profit grew at a steady pace at 6.6%
Key Metrics						
Sugar sales volume (in lakh tonnes)	1.5	1.8	-18.8	1.0	47.0	Sugar sales volume declined 18.8% with low domestic sales given the company swapped large quantities of domestic quota with exports
Distillery volumes (in crore litre)	3.0	2.1	45.4	2.1	43.3	Distillery volumes grew at a splendid pace with ramping up of new capacities
Power volumes (in cr unit)	0.4	0.4	2.4	11.5	-96.3	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E			FY24E			Comments
	Old	New	change	Old	New	change	Old	New	% change	
Net sales	2738.5	2,846.6	3.9	3,063.0	3,175.0	3.7	3500	3,561.7	1.8	We increase our sugar realisation estimates
EBITDA	564.2	543.0	-3.8	639.0	620.8	-2.9	721.6	687.3	-4.7	We change our operating profit estimates downwards with the discontinuance of export subsidies. We earlier expected small amount of export subsidies
EBITDA Margin (%)	20.6	19.1	-153 bps	20.9	19.6	-131 bps	20.6	19.3	-132 bps	
Adjusted PAT	316.9	319.5	0.8	378.1	357.1	-5.6	448.9	423.3	-5.7	With debt reduction, interest costs have come down subtantially however we increased our depreciation provisioning
EPS (₹)	39.2	39.5	0.7	46.7	44.1	-5.5	55.5	52.3	-5.8	

Source: ICICI Direct Research

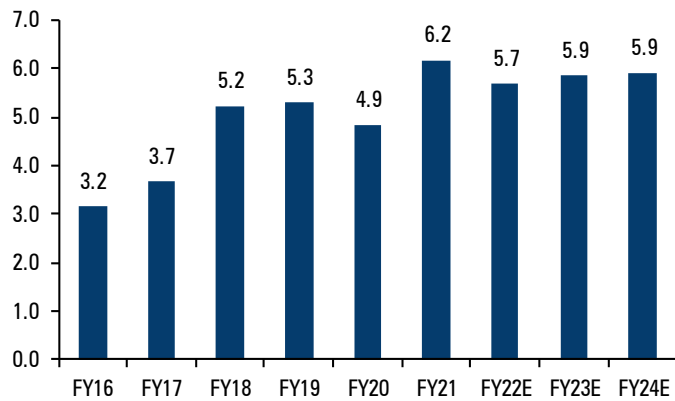
Exhibit 4: Assumptions

	Current						Earlier				Comments
	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E		
Sugar Sold (in tonne)	5,31,000	4,85,000	6,18,375	5,68,905	5,85,972	5,91,832	5,58,720	5,58,720	5,69,894	Slight change in sales volume estimates	
Sugar Price (₹ per tonne) (including export subsidy)	30,680	33,911	33,924	35,500	35,800	36,000	34,000	34,800	35,000	We increased our sugar realisation estimates with increased domestic sugar prices	
Distillery volume	50,110	63,607	86,010	1,10,120	1,54,913	2,10,000	1,08,108	1,52,141	2,17,000	We change our distillery estimates slightly	
Distillery price (₹ per KL)	42,850	46,408	50,878	55,870	57,546	58,697	55,100	57,295	57,295	Small change in distillery realisation estimates	
Power Units sold	38.0	33.4	30.4	31.0	32.0	32.0	32.0	32.0	32.0		
Price per unit (₹ per units)	5.2	3.7	4.6	4.7	4.8	5.1	4.8	4.9	5.1		

Source: ICICI Direct Research

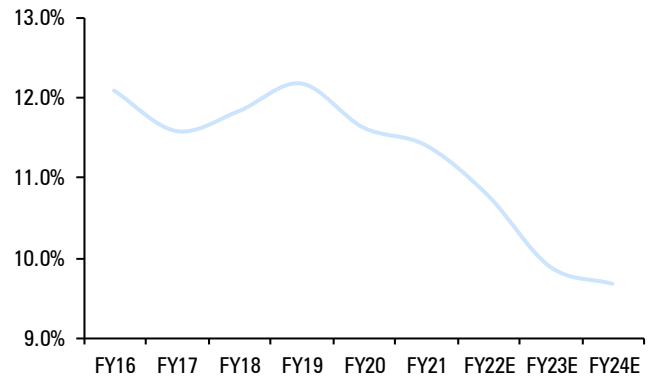
Key Metrics

Exhibit 5: Sugar sales volume (in lakh tonne)



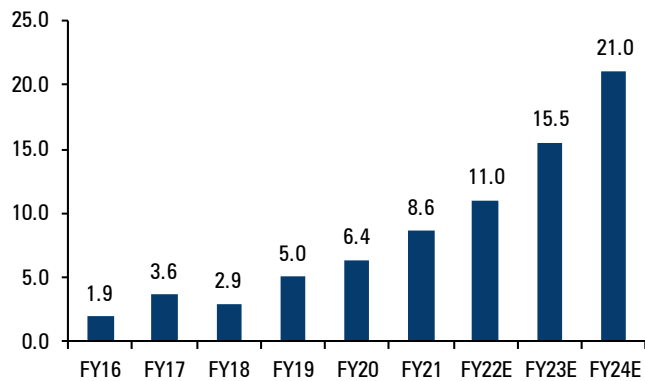
Source: ICICI Direct Research, Company

Exhibit 6: Sugar recovery declining due to sugarcane diversion towards ethanol (%)



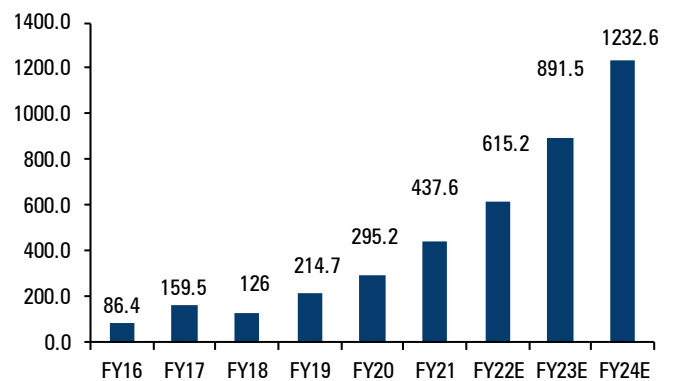
Source: ICICI Direct Research, Company

Exhibit 7: Ethanol volumes (in crore litre)



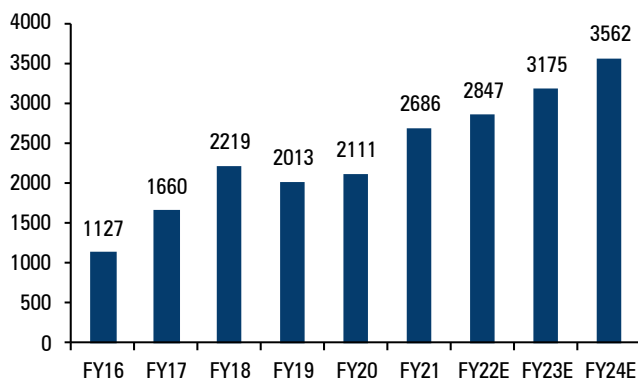
Source: Company, ICICI Direct Research

Exhibit 8: Ethanol sales (₹ crore)



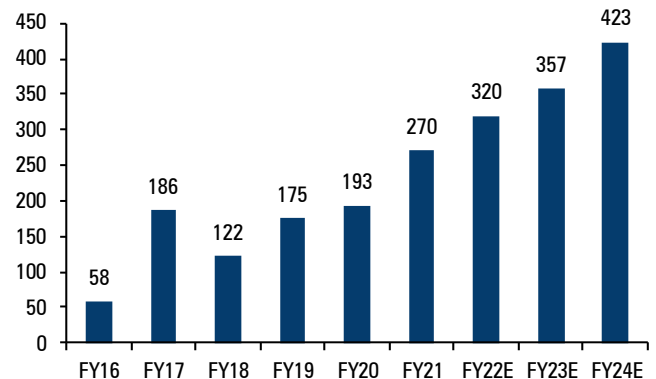
Source: Company, ICICI Direct Research

Exhibit 9: Revenue trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 10: Net profit trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 11: Valuation

	Sales (₹ cr)	Growth (%)	Adj. EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY21	2685.8	27.2	33.4	97.0	11.8	8.5	12.6	13.3
FY22E	2846.6	6.0	39.5	18.2	10.0	7.8	15.3	14.2
FY23E	3175.0	11.5	44.1	11.8	8.9	6.5	14.9	15.3
FY24E	3561.7	12.2	52.3	18.5	7.5	5.7	15.4	16.3

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 12: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Total Operating Income	2,685.8	2,846.6	3,175.0	3,561.7
Growth (%)	27.2	6.0	11.5	12.2
Raw Material Expenses	1,828.7	1,917.4	2,176.4	2,489.7
Employee Expenses	143.7	152.9	161.9	171.0
Administrative Expenses	0.0	0.0	0.0	0.0
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	241.9	233.4	215.9	213.7
Total Operating Expenditure	2,214.3	2,303.7	2,554.2	2,874.3
EBITDA	471.4	543.0	620.8	687.3
Growth (%)	40.1	15.2	14.3	10.7
Depreciation	95.6	107.5	136.3	119.5
Interest	61.9	48.4	47.6	33.0
Other Income	53.9	40.2	40.5	31.0
PBT	314.0	387.0	436.9	534.8
Exceptional items	0.0	0.0	0.0	0.0
Total Tax	97.6	107.6	120.3	142.6
PAT	270.3	319.5	357.1	423.3
Growth (%)	39.9	18.2	11.8	18.5
EPS (₹)	33.4	39.5	44.1	52.3

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit/Loss after Tax	367.9	319.5	357.1	423.3
Add: Depreciation	95.6	107.5	136.3	119.5
Add: Interest	61.9	0.0	0.0	0.0
(Inc)/dec in Current Assets	-41.4	96.9	-51.9	-197.2
Inc/(dec) in Current Liabilities	-90.0	36.3	-24.2	0.1
CF from operating activities	345.5	560.3	417.2	345.7
(Inc)/dec in Investments	107.8	-5.0	-5.0	-5.0
(Inc)/dec in Fixed Assets	-71.9	-399.0	-149.0	-149.0
Others	1.3	8.5	0.0	0.0
CF from investing activities	37.1	-395.5	-154.0	-154.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-319.3	160.0	-210.2	-133.2
Dividend paid & dividend tax	0.0	-24.3	-48.6	-64.8
Inc/(dec) in Sec. premium	0.0	-353.7	0.0	0.0
Others	-45.1	0.0	0.0	0.0
CF from financing activities	-364.4	-217.9	-258.8	-198.0
Net Cash flow	18.3	-53.2	4.4	-6.3
Opening Cash	53.0	71.3	18.1	22.5
Cash with bank	8.5	0.0	0.0	0.0
Closing Cash	79.8	18.1	22.5	16.3

Source: Company, ICICI Direct Research

Exhibit 14: Balance Sheet				
	₹ crore			
	FY21	FY22E	FY23E	FY24E
Liabilities				
Equity Capital	16.2	16.2	16.2	16.2
Reserve and Surplus	2,126.5	2,068.1	2,376.6	2,735.1
Total Shareholders funds	2,142.7	2,084.3	2,392.8	2,751.3
Total Debt	915.9	1,075.9	865.7	732.5
Long Term Provisions	33.1	31.1	29.1	27.1
Other Non-current Liabilities	155.3	156.3	157.3	158.3
Total Liabilities	3,247.0	3,347.6	3,444.9	3,669.2
Assets				
Gross Block	2,288.7	2,688.7	2,838.7	2,988.7
Less: Acc Depreciation	980.8	1,088.4	1,224.6	1,344.2
Net Block	1,307.8	1,600.3	1,614.0	1,644.5
Capital WIP	27.1	26.1	25.1	24.1
Intangible assets	0.2	0.2	0.2	0.2
Non Current Investments	310.8	315.8	320.8	325.8
Other non-current assets	51.3	51.3	51.3	51.3
Current Assets				
Inventory	1,375.0	1,186.1	1,190.6	1,335.6
Debtors	115.3	237.2	264.6	296.8
Cash	79.8	18.1	22.5	16.3
Loans & Advances	0.4	0.4	0.4	0.4
Other Current Assets	465.1	435.1	455.1	475.1
Current Liabilities				
Creditors	305.7	487.5	464.4	465.6
Provisions	5.9	5.9	5.9	5.9
Other CL	174.1	29.6	29.4	29.4
Net Current Assets	1,549.8	1,353.9	1,433.5	1,623.4
Total Assets	3,247.0	3,347.6	3,444.9	3,669.2

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	33.4	39.5	44.1	52.3
Cash EPS	45.2	52.8	61.0	67.1
BV	264.7	257.5	295.6	339.9
DPS	0.0	3.0	6.0	8.0
Cash Per Share	121.2	134.5	151.3	166.1
Operating Ratios (%)				
EBITDA Margin	17.6	19.1	19.6	19.3
PBT / Net Sales	0.1	0.2	0.2	0.2
PAT Margin	10.1	11.2	11.2	11.9
Inventory days	186.9	152.1	136.9	136.9
Debtor days	15.7	30.4	30.4	30.4
Creditor days	41.6	62.5	53.4	47.7
Return Ratios (%)				
RoE	12.6	15.3	14.9	15.4
RoCE	13.3	14.2	15.3	16.3
Valuation Ratios (x)				
P/E	11.8	10.0	8.9	7.5
EV / EBITDA	8.5	7.8	6.5	5.7
EV / Net Sales	1.5	1.5	1.3	1.1
Market Cap / Sales	1.2	1.1	1.0	0.9
Price to Book Value	1.5	1.5	1.3	1.2
Solvency Ratios				
Debt/EBITDA	1.9	2.0	1.4	1.1
Debt / Equity	0.4	0.5	0.4	0.3
Current Ratio	5.6	3.6	3.9	4.3
Quick Ratio	1.7	1.3	1.5	1.6

Source: Company, ICICI Direct Research

Exhibit 16: ICICI Direct coverage universe (Sugar)

Sector / Company	CMP	TP	M Cap	EPS (₹)				P/E (x)				EV/EBITDA (x)				P/B				RoCE (%)				
	(₹)	(₹)		Rating	(₹ Cr)	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E
Balrampur Chini (BALCHI)	327	515	Buy	6,866	22.8	26.5	34.7	44.1	14.3	12.3	9.4	7.4	12.1	10.8	8.7	7.0	2.9	2.6	2.3	2.0	16.4	18.6	20.4	23.0
Dalmia Bharat Sugar (DALSUG)	394	610	Buy	3,193	33.4	39.5	44.1	52.3	11.8	10.0	8.9	7.5	8.5	7.8	6.5	5.7	1.5	1.5	1.3	1.2	13.3	14.2	15.3	16.3
Triveni Engineering (TRIENG)	191	270	Buy	4,624	12.2	17.7	21.5	25.4	15.7	10.8	8.9	7.5	9.6	8.6	6.9	5.9	2.9	2.5	2.1	1.7	19.4	19.2	22.4	23.7
Dwarikesh sugar (DWASUG)	71	110	Buy	1,329	4.9	7.6	8.8	13.2	14.5	9.2	8.1	5.3	9.7	7.0	5.8	3.9	2.4	2.0	1.7	1.4	14.4	20.0	20.7	28.5
Dhampur Sugar (DHASUG)	295	500	Buy	1,958	34.4	44.9	53.1	57.6	8.6	6.6	5.5	5.1	6.6	5.5	4.4	4.0	1.3	1.1	1.0	0.9	14.8	16.8	19.1	18.9
Avadh Sugar (AVASUG)	401	685	Buy	801	38.8	66.5	94.9	106.7	10.3	6.0	4.2	3.8	8.1	5.9	3.9	2.8	1.4	1.1	0.9	0.8	11.5	14.7	20.6	23.3

Source: Bloomberg, ICICI Direct Research

RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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