

CMP: ₹ 453

Target: ₹ 660 (46%)

Target Period: 12 months

BUY

February 6, 2022

Increase of 3x in distillery sales to boost profits...

About the stock: Dalmia Bharat Sugar (DBS) is the only sugar company present in UP and in Maharashtra. The company has sugar crushing capacity of 38250 TCD (6 ltpa), distillery capacity of 540 KLD (16 crore litre pa), co-generation capacity of 102 MW & wind power of 16.5 MW (total 30 crore units saleable power).

- The company has expanded its distillery capacity from 8.5 crore litre to 16 crore litre. It would further increase its distillery capacity to 22 crore litre in the next one year through two grain based new distilleries

Q3FY22 Results: DBS posted strong profits led by sugar prices & distillery volumes.

- Sales were flat YoY, with lower sugar volumes offset by high sugar prices
- EBITDA was at ₹ 87.9 crore, up 57.9% YoY, with margins at 14.3%
- PAT was at ₹ 56.6 crore (up 52.5% YoY) backed by reduced interest expense

What should investors do? DBS' share price has gone up 2.5x in the last five years (from ₹ 182 in February 2017 to ₹ 453 in February 2022)

- We expect 2.5x increase in distillery volumes to boost earnings with CAGR of 17.1% during FY21-24E
- We continue to maintain our BUY rating on the stock

Target Price and Valuation: We value the stock at ₹ 660, 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 FY24E
- The company has 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 and reduction in sugar inventories, DBS would be generating cumulative free cash flow of ₹ 718 crore in the next three years despite ~₹ 700 crore capex

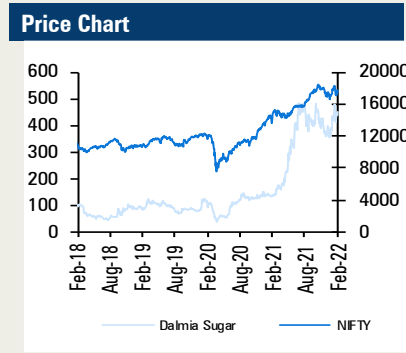
Alternate Stock Idea: We also like Balrampur Chini in our sugar coverage universe.

- 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 ₹ 600/share with BUY recommendation



Particulars	
Particulars (₹ crore)	Amount
Market Capitalization	3,664.5
Total Debt (FY21)	915.9
Cash and Investments (FY21)	79.8
EV	4,500.6
52 week H/L (₹)	516 / 137
Equity capital	16.2
Face value (₹)	2.0

Shareholding pattern				
(in %)	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	74.9	74.9	74.9	74.9
FII	0.8	1.0	1.0	0.9
DII	0.2	0.2	0.2	0.2
Others	24.1	23.9	23.9	23.9



- Recent event & key risks**
- The company has launched edible oil under 'Dalmia Utsav' brand in its consumer business
 - Key Risk:** (i) Significant fall in global & domestic sugar prices (ii) Reversal in government stance over ethanol blending

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Key Financial Summary						
Key Financials	FY20	FY21	FY22E	FY23E	FY24E	CAGR (FY21-24E)
Total Operating Income	2110.8	2685.8	2907.8	3055.0	3418.3	8.4%
EBITDA	336.6	471.4	536.7	624.9	697.4	13.9%
EBITDA Margin %	15.9	17.6	18.5	20.5	20.4	
Net Profit	193.2	270.3	335.8	378.0	434.0	17.1%
EPS (₹)	23.87	33.40	41.49	46.70	53.62	17.1%
P/E	19.0	13.6	10.9	9.7	8.4	
RoNW %	9.0	12.6	16.2	15.8	15.8	
RoCE (%)	11.8	13.3	14.4	15.7	16.7	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q3FY22 Results: Distillery capacities expanded to 16 crore litre; 200 KLD grain based distilleries to be commissioned in next one year

- Consolidated revenue witnessed flat sales (up 1.6%) on account of lower sugar sales impacted by a dip in sugar volumes but distillery sales witnessed strong 25.2% growth. Sugar volume were down 17% to 1.14 lakh tonnes (lt) given the company received 1.04 lt of domestic sale quota & exported 10,000 tonnes (our estimate) of sugar. In the corresponding quarter domestic sale quota was 1.11 lt and the company exported 26,000 tonnes of sugar. Sugar prices inched up ~10-12% in Q3
- The strong distillery sales growth was driven by 33% increase in ethanol volumes. We believe the company is aggressively diverting sugarcane to produce ethanol through B-heavy & sugarcane juice route. Power volumes declined 24% during the quarter due to late start of the crushing adversely impacted by unseasonal rains in October (in UP)
- Operating profit witnessed growth of 57.9% to ₹ 87.9 crore driven by firm sugar prices, significant increase in distillery volumes & higher proportion of B-heavy and juice based ethanol. Employee spends were up by 36.6% mainly on account of its diversification in consumer business
- With considerable reduction in debt, interest cost came down from ₹ 11.1 crore to ₹ 6.4 crore. Net profit grew 52.5% to ₹ 56.6 crore on the back of higher operating profit, lower interest costs. Income tax provisioning was higher during the quarter
- The company has contracted for 1.2 lt of sugar exports in the current sugar season. Moreover, it has completed molasses/juice based capex in three of its facilities taking the total distillery capacity to 540 KLD (16 crore litre per annum). DBS would be supplying 11.6 crore litre to OMCs between December 2021 and November 2022
- DBS has expanded its sugarcane crushing capacity in Jawaharpur & Nigohi plants. Its total sugarcane crushing capacity was at 38250 TCD. It also started a refinery at its Jawaharpur facility. Moreover, it expanded distillery capacity at its Jawaharpur (220 KLD) & Kolhapur (120) & commissioned a 140 KLD new distillery at Ramgarh plant. Its total distillery capacity was at 540 KLD (16 crore litre per annum)
- In its consumer business, the company launched 'Kachi Ghani Mustard Oil' In January 2022 under the brand name 'Dalmia Utsav'. The company has branded products in packaged sugar & Honey categories under the same brand name
- Total gross debt for the company was at ₹ 371 crore. Adjusting for investment, net debt was at ₹ 178 crore. The company has not yet utilised its working capital debt requirement in the current sugar season. It declared interim dividend of ₹ 3/share
- With the expected 32 million tonnes (MT) of sugar production (after diverting 3.4 MT towards ethanol), 27 MT of sugar consumption & ~6-7 MT of exports, sugar inventories would come down to below 7 MT by September 2022. This should move sugar prices to ₹ 37 / kg in next three months. Notably, the industry has already contracted for 4-5 MT of exports at the beginning of the season
- We estimate distillery volumes at 17.3 crore litre in FY23E considering commissioning of grain based ethanol plant in mid of FY23 and 21 crore litre in FY24E. The company is fastest in expanding distillery capacities to utilise the higher ethanol demand opportunity. Distillery revenue would be contributing 23%, 34% & 38% to revenues in FY22E, FY23E & FY24E, respectively

- Despite ₹ 700 crore capex in two years, total debt levels are expected to come down by ₹ 213 crore to ~₹ 702 crore by March 2024 (it is important to note that March end working capital debt requirement is highest)

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)	439	600 Buy	9214	-3.2	12.8	31.6	36.6	14.8	15.8	19.6	21.4	19.2	17.0	12.9	9.5	3.6	3.2	2.9	2.5	16.4	19.1	20.3	26.8
Dalmia Bharat Sugar (DALSUG)	453	660 Buy	3665	39.9	24.2	12.6	14.8	17.6	18.5	20.5	20.4	13.6	10.9	9.7	8.4	1.7	1.8	1.5	1.3	13.3	14.4	15.7	16.7
Triveni Engineering (TRIENG)	285	350 Buy	6895	-9.9	48.9	20.2	23.3	11.9	14.6	15.4	17.2	23.4	15.7	13.1	10.6	4.4	3.9	3.3	2.8	19.4	19.6	23.5	26.4
Dwarikesh sugar (DWASUG)	98	135 Buy	1846	24.5	64.8	19.9	40.0	10.9	13.7	15.4	18.8	20.2	12.2	10.2	7.3	3.0	2.4	2.0	1.7	14.4	21.7	22.0	29.1
Avadh Sugar (AVASUG)	660	970 Buy	1320	-12.4	75.6	46.0	12.8	9.6	12.7	14.0	14.8	17.0	9.7	6.6	5.9	2.0	1.7	1.3	1.1	11.5	15.4	18.6	19.3
Dhampur Sugar (DHASUG)	408	430 Buy	2712	5.8	24.4	17.4	12.6	11.0	13.9	13.6	13.7	11.9	9.6	8.1	7.2	1.5	1.3	1.2	1.0	14.8	15.3	16.8	18.2

Source: Company, ICICI Direct Research

Sugar prices have seen an uptick in the last six months, mainly on account of reduction in sugar inventories & increasing diversion of sugarcane towards ethanol. Sugar inventories in the country have come down from 14.5 MT in September 2019 to 8.2 MT in September 2021. Considering 6-7 MT of exports (already contracted 4.5 MT) in the current season, inventories would further come down to below 7.0 MT by September 2022. Dalmia Bharat Sugar is one of the most aggressive companies in expanding distillery capacity. Moreover, it has also proactively utilised the opportunity (higher global sugar prices) to export additional sugar. We believe the company has one of the leanest sugar inventories in the industry. It is also undertaking capex of two 100 KLD grain based ethanol distilleries. This would take its total distillery capacity to 21 crore litre. We remain positive on the company's strong balance sheet, its strategy to diversify in branded consumer business along with the strong macro factors in sugar industry (firm sugar prices, uptick in distillery revenues). We maintain our BUY recommendation and revise our target price to ₹ 660/share (earlier ₹ 610).

Exhibit 2: Variance Analysis

	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	Comments
Total Operating Income	615.7	605.8	1.6	728.1	-15.4	Net sales were flat, impacted by 17% lower sugar volumes but offset by higher ethanol volumes as well as increasing sugar & ethanol realisation
Other Operating Income	22.2	13.8	60.8	20.5	N.A.	
Raw Material Expenses	405.0	453.1	-10.6	541.4	-25.2	
Employee Expense	53.5	39.2	36.6	42.6	25.5	Employee spend was high due to diversification in consumer business
Other operating Expenses	69.2	57.9	19.6	57.0	21.3	
EBITDA	87.9	55.7	57.9	87.0	1.1	Operating profit jumped by 57.9% on account of firm sugar prices, increasing ethanol volumes & higher proportion of ethanol produced from B-heavy & sugarcane juice route
EBITDA Margin (%)	14.3	9.2	509 bps	11.9	234 bps	
Depreciation	24.1	14.4	67.6	20.8	15.8	Depreciation provisioning increased with commissioning of new distilleries
Interest	6.4	11.1	-42.4	7.6	-15.7	With significant reduction in working capital requirement, interest cost came down substantially
Other Income	22.2	13.8	60.8	20.5	8.4	
PBT	79.6	44.0	81.0	79.0	0.7	
Tax Outgo	23.0	6.9	234.5	19.8	16.2	
PAT	56.6	37.1	52.5	59.2	-4.5	Net profit grew 52.5% driven by high operating profit, lower interest cost but partially offset by higher depreciation & income tax provisioning
Key Metrics						
Sugar sales volume (in lakh tonnes)	1.1	1.4	-17.4	1.5	-22.4	Sugar volumes were down due to lower domestic quota. We believe the company exported 10,000 tonnes of sugar during the quarter
Distillery volumes (in crore litre)	2.8	2.1	33.2	3.0	-6.6	With commissioning of new capacities and increased offtake by OMCs, ethanol volume has gone up by 33%
Power volumes (in cr unit)	7.4	9.8	-24.2	0.4	1659.5	The decline in power volumes were due to late start of the crushing season in UP

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	2846.6	2,907.8	2.1	3,175.0	3,055.0	-3.8	3,561.7	3,418.3	-4.0	We lower our sugar crushing estimates sugar sales estimates for FY23E due to adverse impact of unseasonal rains in October 2021, reflecting same in FY24 number
EBITDA	543.0	536.7	-1.2	620.8	624.9	0.7	687.3	697.4	1.5	Higher-than-expected employee spends, our operating profit estimates for FY22. Uptick in distillery volumes & realisation would aid FY23E & FY24E number
EBITDA Margin (%)	19.1	18.5	-62 bps	19.6	20.5	90 bps	19.3	20.4	110 bps	
Adjusted PAT	319.5	335.8	5.1	357.1	378.0	5.8	423.3	434.0	2.5	Substantial interest reduction & expected lower tax provisioning would change earnings estimates
EPS (₹)	39.5	41.5	5.0	44.1	46.7	5.9	52.3	53.6	2.5	

Source: ICICI Direct Research

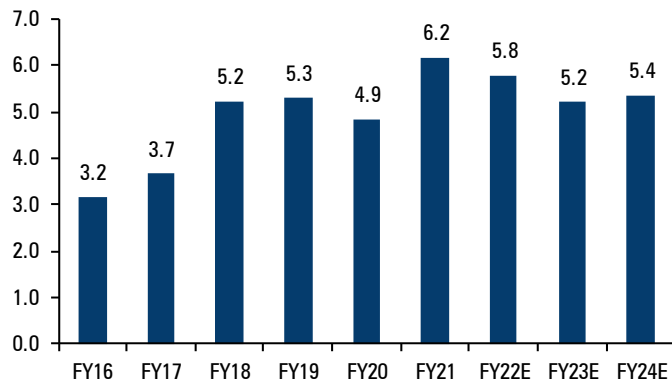
Exhibit 4: Assumptions

	Current				Earlier				Comments
	FY21	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E		
Sugar Sold (in tonne)	618,375	579,566	521,609	537,257	568,905	585,972	591,832	We revise sugar sales volumes downwards for FY23E & FY24E due to lower crushing in current season as unseasonal rains in October & its ripple effect in FY24	
Sugar Price (₹ per tonne) (including export subsidy/)	33,924	35,282	35,300	35,700	35,000	35,800	36,000	We change our sugar price estimates slightly	
Distillery volume	86,010	118,854	172,800	210,000	110,120	15,913	210,000	We revise FY22 & FY23 numbers with early commissioning of capacities	
Distillery price (₹ per KL)	50,878	55,971	59,329	61,702	55,870	57,546	58,697	Due to higher proportion of sugarcane juice ethanol, we revise our distillery realisation estimates	
Power Units sold	30.4	28.8	31.8	32.4	31.0	32.0	32.0	Change in FY22 according to 9MFY22 numbers	
Price per unit (₹ per units)	4.6	4.7	4.8	5.1	4.7	4.8	5.1		

Source: ICICI Direct Research

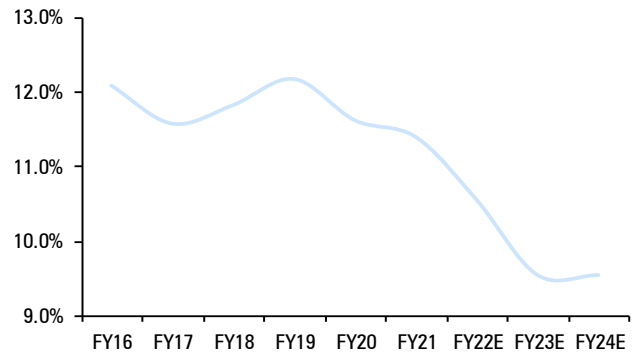
Key Metrics

Exhibit 5: Sugar sales volume (in lakh tonne)



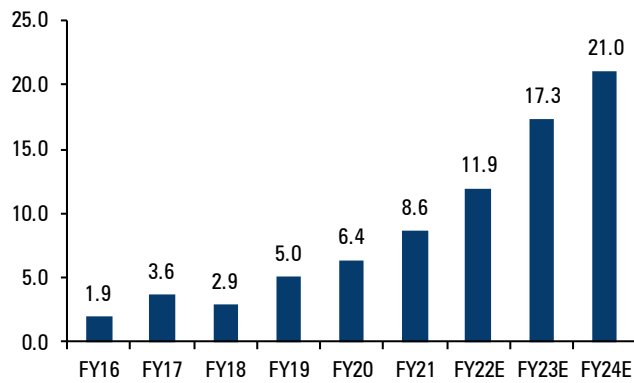
Source: ICICI Direct Research, Company

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



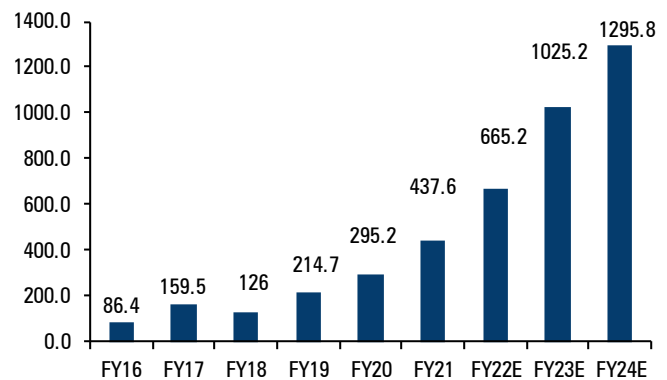
Source: ICICI Direct Research, Company

Exhibit 7: Ethanol volumes (in crore litre)



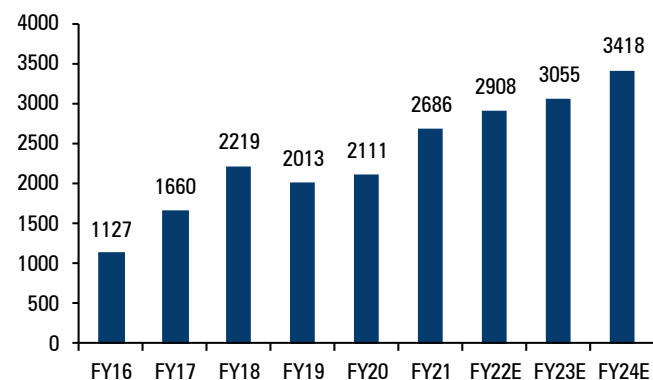
Source: Company, ICICI Direct Research

Exhibit 8: Ethanol sales (₹ crore)



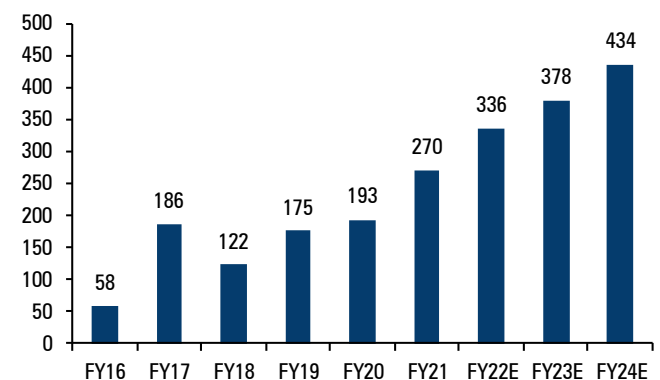
Source: Company, ICICI Direct Research

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	13.6	9.5	12.6	13.3
FY22E	2907.8	8.3	41.5	24.2	10.9	8.8	16.2	14.4
FY23E	3055.0	5.1	46.7	12.6	9.7	7.1	15.8	15.7
FY24E	3418.3	11.9	53.6	14.8	8.4	6.2	15.8	16.7

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	2,907.8	3,055.0	3,418.3
Growth (%)	27.2	8.3	5.1	11.9
Raw Material Expenses	1,828.7	1,955.9	2,048.2	2,320.9
Employee Expenses	143.7	168.0	177.2	184.6
Administrative Expenses	0.0	0.0	0.0	0.0
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	241.9	247.2	204.7	215.3
Total Operating Expenditure	2,214.3	2,371.1	2,430.1	2,720.9
EBITDA	471.4	536.7	624.9	697.4
Growth (%)	40.1	13.8	16.4	11.6
Depreciation	95.6	102.2	127.7	125.5
Interest	61.9	39.1	34.2	24.6
Other Income	53.9	49.9	42.3	33.0
PBT	314.0	395.5	463.0	547.3
Exceptional items	0.0	0.0	0.0	0.0
Total Tax	97.6	109.6	127.3	146.2
PAT	270.3	335.8	378.0	434.0
Growth (%)	39.9	24.2	12.6	14.8
EPS (₹)	33.4	41.5	46.7	53.6

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit/Loss after Tax	367.9	335.8	378.0	434.0
Add: Depreciation	95.6	102.2	127.7	125.5
Add: Interest	61.9	0.0	0.0	0.0
(Inc)/dec in Current Assets	-41.4	66.3	33.7	-186.5
Inc/(dec) in Current Liabilities	-90.0	36.1	-39.2	1.3
CF from operating activities	345.5	540.3	500.2	374.4
(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	200.0	-260.2	-153.2
Dividend paid & dividend tax	0.0	-48.6	-64.8	-80.9
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	-202.2	-325.0	-234.1
Net Cash flow	18.3	-57.4	21.2	-13.7
Opening Cash	53.0	71.3	13.9	35.1
Cash with bank	8.5	0.0	0.0	0.0
Closing Cash	79.8	13.9	35.1	21.4

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	2,060.1	2,373.3	2,726.4
Total Shareholders funds	2,142.7	2,076.3	2,389.5	2,742.6
Total Debt	915.9	1,115.9	855.7	702.5
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	3,379.6	3,431.6	3,630.5
Assets				
Gross Block	2,288.7	2,688.7	2,838.7	2,988.7
Less: Acc Depreciation	980.8	1,083.0	1,210.7	1,336.3
Net Block	1,307.8	1,605.6	1,627.9	1,652.4
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	1,211.6	1,145.6	1,281.8
Debtors	115.3	242.3	254.6	284.9
Cash	79.8	13.9	35.1	21.4
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	449.2	451.5
Provisions	5.9	5.9	5.9	5.9
Other CL	174.1	29.4	29.5	29.5
Net Current Assets	1,549.8	1,380.5	1,406.3	1,576.7
Total Assets	3,247.0	3,379.6	3,431.6	3,630.5

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	33.4	41.5	46.7	53.6
Cash EPS	45.2	54.1	62.5	69.1
BV	264.7	256.5	295.2	338.8
DPS	0.0	6.0	8.0	10.0
Cash Per Share	121.2	133.8	149.6	165.1
Operating Ratios (%)				
EBITDA Margin	17.6	18.5	20.5	20.4
PBT / Net Sales	0.1	0.2	0.2	0.2
PAT Margin	10.1	11.5	12.4	12.7
Inventory days	186.9	152.1	136.9	136.9
Debtor days	15.7	30.4	30.4	30.4
Creditor days	41.6	61.2	53.7	48.2
Return Ratios (%)				
RoE	12.6	16.2	15.8	15.8
RoCE	13.3	14.4	15.7	16.7
Valuation Ratios (x)				
P/E	13.6	10.9	9.7	8.4
EV / EBITDA	9.5	8.8	7.1	6.2
EV / Net Sales	1.7	1.6	1.5	1.3
Market Cap / Sales	1.4	1.3	1.2	1.1
Price to Book Value	1.7	1.8	1.5	1.3
Solvency Ratios				
Debt/EBITDA	1.9	2.1	1.4	1.0
Debt / Equity	0.4	0.5	0.4	0.3
Current Ratio	5.6	3.7	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)	439	600	Buy	9,214	22.8	25.8	33.9	46.3	19.2	17.0	12.9	9.5	14.6	13.1	10.7	7.7	3.6	3.2	2.9	2.5	16.4	19.1	20.3	26.8
Dalmia Bharat Sugar (DALSUG)	453	660	Buy	3,665	33.4	41.5	46.7	53.6	13.6	10.9	9.7	8.4	9.5	8.8	7.1	6.2	1.7	1.8	1.5	1.3	13.3	14.4	15.7	16.7
Triveni Engineering (TRIENG)	285	350	Buy	6,895	12.2	18.1	21.8	26.9	23.4	15.7	13.1	10.6	13.8	12.5	10.1	8.3	4.4	3.9	3.3	2.8	19.4	19.6	23.5	26.4
Dwarikesh sugar (DWASUG)	98	135	Buy	1,846	4.9	8.0	9.6	13.4	20.2	12.2	10.2	7.3	11.4	7.5	6.6	4.6	3.0	2.4	2.0	1.7	14.4	21.7	22.0	29.1
Dhampur Sugar (DHASUG)	408	430	Buy	2,712	34.4	42.7	50.2	56.5	11.9	9.6	8.1	7.2	7.2	6.6	5.5	4.7	1.5	1.3	1.2	1.0	14.8	15.3	16.8	18.2
Avadh Sugar (AVASUG)	660	970	Buy	1,320	38.8	68.1	99.4	112.2	17.0	9.7	6.6	5.9	9.7	7.0	5.4	4.6	2.0	1.7	1.3	1.1	11.5	15.4	18.6	19.3

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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