

Ethanol sales, sugar export to minimise inventories

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 lakh tonnes p.a.), distillery capacity of 600 KLD (18 crore litre p.a.), 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 18 crore litre. It would further increase its distillery capacity to 24 crore litre in the next one year through one grain based & one molasses based distillery

Q4FY22 Results: DBS posted revenue growth of 75% led by aggressive exports.

- Sales witnessed a growth of 75% led by higher exports & higher domestic sales quota & 6-8% increase in sugar prices
- EBITDA was at ₹ 130.8 crore, up 2.8% YoY, with margins at 15.3%
- PAT was at ₹ 56.7 crore (up 9.2% YoY) backed by reduced interest expense

What should investors do? DBS's share price has gone up 136% in last five years (from ₹ 144 in May 2017 to ₹ 341 in May 2022).

- We expect distillery volumes to grow from 12 crore litre in FY22 to 22 crore litre in FY24. This would boost earning at 17.1% CAGR during FY22-24E
- We continue to maintain our **BUY** rating on the stock

Target Price and Valuation: We value the stock at ₹ 490, ascribing a multiple of 10x FY24 earnings

Key triggers for future price performance:

- DBS is fastest in utilising B-heavy, sugarcane juice & grain route to produce ethanol. Distillery capacity to grow 2x to 24 crore litre by FY24
- The company exports high quality refined sugar and utilises higher global white sugar prices. This improves its overall sugar realisation
- The company has diverted 25% of its sugarcane towards ethanol and also aggressively exported high quality sugar. We believe DBS' dependency on domestic sugar sales has come down significantly

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

- The company is the 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 BUY recommendation



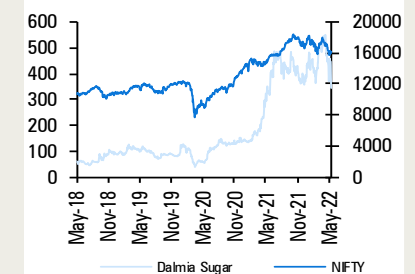
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	2,761.6
Total Debt (FY22)	818.5
Cash and Investments (FY22)	103.9
EV	3,476.2
52 week H/L (₹)	568 / 307
Equity capital	16.2
Face value (₹)	2.0

Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	74.9	74.9	74.9	74.9
FII	1.0	1.0	0.9	1.2
DII	0.2	0.2	0.2	0.1
Others	23.9	23.9	23.9	23.9

Price Chart



Recent event & key risks

- The company has launched rice bran 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	FY22	5 Year CAGR (FY17-22E)	FY23E	FY24E	CAGR (FY22-24E)
Total Operating Income	2110.8	2685.8	3018.3	12.4%	3131.0	3386.4	5.9%
EBITDA	336.6	471.4	447.7	3.4%	577.2	651.9	20.7%
EBITDA Margin %	15.9	17.6	14.8		18.4	19.3	
Net Profit	193.2	270.3	297.3	9.8%	347.9	407.8	17.1%
EPS (₹)	23.87	33.40	36.74	9.8%	42.99	50.38	17.1%
P/E	14.3	10.2	9.3		7.9	6.8	
RoNW %	9.0	12.6	12.6		15.0	15.4	
RoCE (%)	11.8	13.3	12.3		15.1	16.8	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q4FY22 Results: Distillery revenue to contribute 40% to sales by 2024

- Consolidated revenue witnessed growth of 75.1% to ₹ 856 crore on account of 111.2% growth in sugar sales, 125% jump in distillery sales & 28.9% growth in power revenues
- The company witnessed 56% growth in sugar volumes to 1.5 lakh tonnes (lt). Its domestic sugar sales quota was 31.3% at 1.09 lt. It has exported 0.41 lt during the quarter (our estimate). Moreover, prevailing domestic sugar prices are higher by 6-8% in last one year
- Distillery volumes more than doubled to 4.1 crore litre after the company expanded its capacity to 600 KLPD. Power volumes were up 3% to 11.8 crore units
- Operating profit grew 2.8% to ₹ 130.8 crore in Q4FY22. We believe the slower growth in operating profit is mainly due to increase in sugarcane prices in current season in UP, lower recovery rate and reduction in power tariffs in Maharashtra
- We also believe the company is holding high inventory of B-heavy molasses given very aggressive sugarcane diversion towards ethanol in current season. Considering, distillery margins are much higher than sugar, high inventory of B-heavy molasses would result in higher ethanol volumes & profitability in next two quarters
- The company has been able to reduce its debt by ₹ 140 crore despite completion of aggressive capex in FY22. The total debt for the company was at ₹ 620 crore on March-2022. Total debt to equity was at 0.26x. It has generated operating cash flow of ₹567 crore in FY22
- We believe the company is holding 2.8-2.9 lt of sugar as on March 2022 valued at ~₹ 32/kg. DBS has diverted 25% of its sugarcane towards ethanol through B-heavy & sugarcane juice in 2021-22 season
- The company has exported 1.25 lt of sugar in 2021-22 sugar season, which is close to 20% of its total sugar sales
- In FY22, distillery volumes increased by 41% to 12.05 crore litre. During the year, the company expanded its crushing capacity by 3250 TCD to 38250 by undertaking expansion in its Jawaharpur & Nigohi units. It has also expanded its distillery capacity from 300 KLD to 600 KLD by undertaking capex in Jawaharpur, Kolhapur Units & setting up 140 KLD new distillery in Ramgarh
- DBS would be able to commission 100 KLD grain based plant by November 2022 at its Jawaharpur Plant. It is also setting up 50 KLD distillery at Sangli Unit. After this capex, its total distillery capacity would reach 750 KLD (24-25 crore litre)
- In its consumer business, it has launched rice bran oil under brand name Dalmia Utsav. The company has a presence in refined sugar, honey, mustard & rice bran oil in its FMCG business. The company intends to further expand its consumer business, going forward
- The company is expanding its consumer business rapidly by venturing into edible oil, branded sugar & honey category. We believe it would have incurred loss of ₹ 10-15 crore in consumer business given initial stage of the business. The company is looking to expand consumer business by extending Utsav brand in other agri / food categories
- It has announced a final dividend of ₹ 1/share. Along with interim dividend of ₹ 3/share, total dividend is at ₹ 4/share

Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS growth (%)				EBITDA margins (%)				PE (x)				P/B (x)				RoCE (%)			
					FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Balrampur Chini (BALCHI)	376	515	Buy	7892	-3.2	-0.3	36.3	37.4	14.8	14.4	17.7	20.5	16.4	16.5	12.1	8.8	2.9	2.7	2.4	2.1	16.4	15.2	17.6	23.0
Dalmia Bharat Sugar (DALSUG)	341	490	Buy	2762	39.9	10.0	17.0	17.2	17.6	14.8	18.4	19.3	10.2	9.3	7.9	6.8	1.3	1.2	1.2	1.0	13.3	12.3	15.1	16.8
Triveni Engineering (TRIENG)	271	350	Buy	6544	-9.9	43.9	15.5	22.6	11.9	14.8	15.2	17.3	22.2	15.4	13.4	10.9	4.1	3.3	2.8	2.4	19.4	15.8	18.2	22.1
Dwarikesh sugar (DWASUG)	103	145	Buy	1942	24.5	69.6	15.7	47.7	10.9	14.7	14.2	18.7	21.2	12.5	10.8	7.3	3.4	2.9	2.3	1.9	14.4	20.6	20.3	30.0
Avadh Sugar (AVASUG)	584	890	Buy	1167	-12.4	60.3	53.9	21.3	9.6	11.0	13.1	13.8	15.0	9.4	6.1	5.0	1.8	1.5	1.3	1.0	11.5	12.5	17.8	22.0

Source: Company, ICICI Direct Research

Dalmia Bharat Sugar is one of the most aggressive in expanding distillery capacity in the last few years. In the next one year, the company would expand its distillery capacity to 750 KLD (24-25 crore litre). Given high sugar production on a continuous basis, the company would be able to reduce its dependence of sugar considerably. Further, the company generally exports certain quantity of high quality refined sugar every year, which fetches high sugar realisation. DBS is also aggressively establishing its consumer business by launching new products every quarter. We believe successful venture into consumer brands in foods category can drive growth for the company in the longer run. We remain positive on sugar industry in general and Dalmia Bharat Sugar, in particular. We maintain our BUY recommendation & revise our target price to ₹ 490/share (earlier ₹ 660).

Exhibit 2: Variance Analysis

	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Total Operating Income	856.0	488.8	75.1	615.7	39.0	Net sales grew 75% led by higher exports during the quarter & significant increase in sugar sales quota
Other Operating Income	16.5	12.2	34.8	22.2	N.A.	
Raw Material Expenses	586.4	243.9	140.4	404.3	45.0	Raw material costs increased due to increase in sugarcane prices in UP
Employee Expense	46.3	42.2	9.5	53.3	-13.2	
Other operating Expenses	76.2	75.4	1.1	69.1	10.3	
EBITDA	130.8	127.2	2.8	88.2	48.3	Operating profit flat due to higher sugarcane costs, lower recovery & reduction in power tariffs in Maharashtra
EBITDA Margin (%)	15.3	26.0	-1075 bps	14.3	95 bps	
Depreciation	28.9	51.8	-44.2	24.1	19.9	
Interest	8.7	10.2	-15.1	6.4	34.9	With considerable debt reduction, interest costs down by 15.1%
Other Income	16.5	12.2	34.8	22.2	-25.6	
PBT	109.7	77.5	41.6	79.8	37.4	
Tax Outgo	53.1	25.6	107.2	23.1	129.9	
PAT	56.7	51.9	9.2	56.8	-0.2	Net profit grew by 9.2% due to lower depreciation provisioning, lower interest & higher other income
Key Metrics						
Sugar sales volume (in lakh tonnes)	1.5	1.0	56.3	1.1	31.6	Aggressive exports & higher domestic quota led to strong growth in sugar volumes
Distillery volumes (in crore litre)	4.1	2.0	105.0	2.8	47.3	The company has expanded distillery capacity to 16 crore litre per annum. The increase in capacity led to higher ethanol volumes
Power volumes (in cr unit)	11.8	11.5	2.7	7.4	59.9	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore)	FY23E			FY24E			Comments
	Old	New	% change	Old	New	% change	
Net sales	3,055.0	3,131.0	2.5	3,418.3	3,386.4	-0.9	We estimate higher sugar sales in FY23E given the company is increasing sugarcane in its catchment area
EBITDA	624.9	577.2	-7.6	697.4	651.9	-6.5	We downward revise our operating profit estimates due to revision in power tariffs in Maharashtra & increase in overhead spends on freight
EBITDA Margin (%)	20.5	18.4	-202 bps	20.4	19.3	-115 bps	
Adjusted PAT	378.0	347.9	-8.0	434.0	407.8	-6.0	
EPS (₹)	46.7	43.0	-7.9	53.6	50.4	-6.0	

Source: ICICI Direct Research

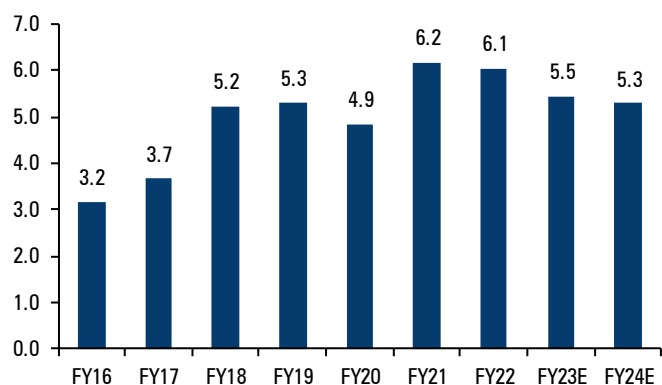
Exhibit 4: Assumptions

	Current				Earlier		Comments
	FY21	FY22	FY23E	FY24E	FY23E	FY24E	
Sugar Sold (in tonne)	618,375	606,008	545,407	529,045	521,609	537,257	We increase our sugar volume estimates upward given the company is increasing sugarcane availability in its catchment area
Sugar Price (₹ per tonne) (including export subsidy/)	33,924	35,239	35,500	36,000	35,300	35,700	
Distillery volume	86,010	120,525	172,800	217,000	172,800	210,000	slight change in distillery volumes
Distillery price (₹ per KL)	50,878	57,139	60,567	61,173	59,329	61,702	slight change in distillery realisation
Power Units sold	30.4	27.2	28.1	28.1	31.8	32.4	Downward revision in salable power & tariffs
Price per unit (₹ per units)	4.6	4.7	4.0	4.1	4.8	5.1	

Source: ICICI Direct Research

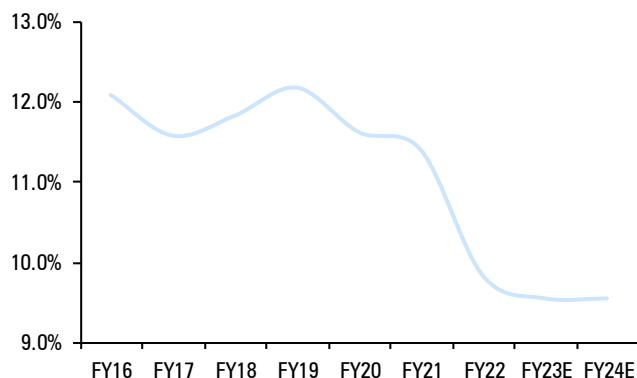
Key Metrics

Exhibit 5: Sugar sales volume (in lakh tonne)



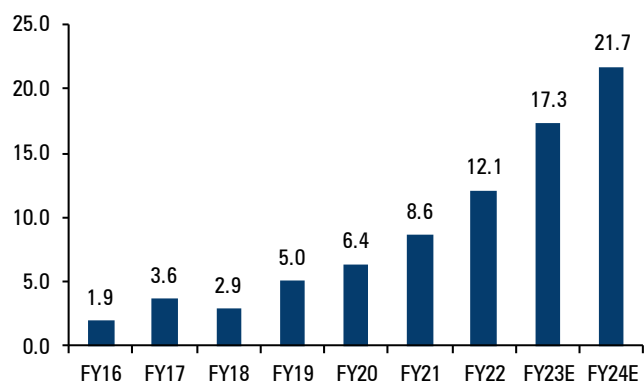
Source: ICICI Direct Research, Company

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



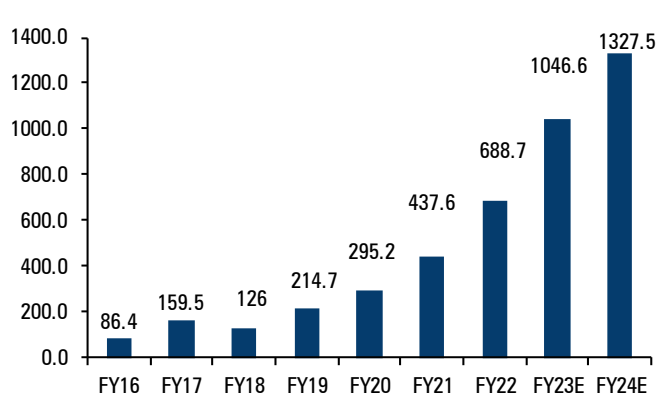
Source: ICICI Direct Research, Company

Exhibit 7: Ethanol volumes (in crore litre)



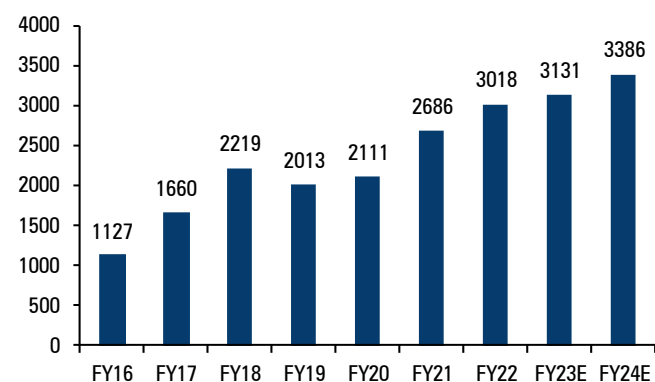
Source: Company, ICICI Direct Research

Exhibit 8: Ethanol sales (₹ crore)



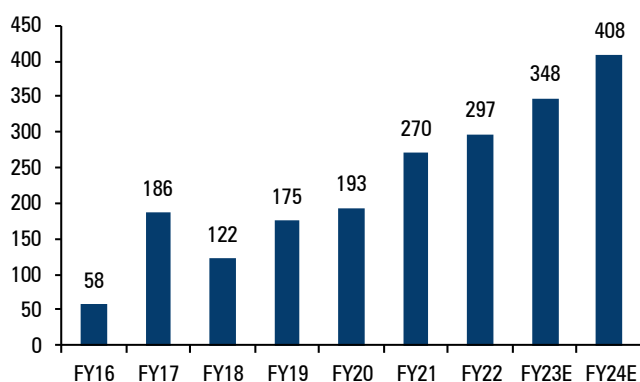
Source: Company, ICICI Direct Research

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	10.2	7.6	12.6	13.3
FY22	3018.3	12.4	36.7	10.0	9.3	7.7	12.6	12.3
FY23E	3131.0	3.7	43.0	17.0	7.9	6.0	15.0	15.1
FY24E	3386.4	8.2	50.4	17.2	6.8	4.9	15.4	16.8

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 12: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total Operating Income	2,685.8	3,018.3	3,131.0	3,386.4
Growth (%)	27.2	12.4	3.7	8.2
Raw Material Expenses	1,828.7	2,133.2	2,128.0	2,294.2
Employee Expenses	143.7	175.6	181.6	196.4
Administrative Expenses	0.0	0.0	0.0	0.0
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	241.9	261.7	244.2	243.8
Total Operating Expenditure	2,214.3	2,570.6	2,553.8	2,734.5
EBITDA	471.4	447.7	577.2	651.9
Growth (%)	40.1	-5.0	28.9	12.9
Depreciation	95.6	94.7	124.0	122.1
Interest	61.9	34.8	30.3	17.7
Other Income	53.9	64.0	42.3	33.0
PBT	314.0	318.1	422.8	512.2
Exceptional items	0.0	0.0	0.0	0.0
Total Tax	97.6	84.8	117.2	137.4
PAT	270.3	297.3	347.9	407.8
Growth (%)	39.9	10.0	17.0	17.2
EPS (₹)	33.4	36.7	43.0	50.4

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit/Loss after Tax	367.9	379.6	347.9	407.8
Add: Depreciation	95.6	72.9	124.0	122.1
Add: Interest	61.9	34.8	0.0	0.0
(Inc)/dec in Current Assets	-41.4	193.9	-46.1	-43.0
Inc/(dec) in Current Liabilities	-90.0	-40.7	101.4	2.5
CF from operating activities	345.5	567.3	527.3	489.4
(Inc)/dec in Investments	107.8	3.5	-5.0	-5.0
(Inc)/dec in Fixed Assets	-71.9	-333.4	-149.0	-149.0
Others	1.3	3.0	9.3	0.0
CF from investing activities	37.1	-326.9	-144.7	-154.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-319.3	-139.4	-60.2	-253.2
Dividend paid & dividend tax	0.0	-48.6	-64.8	-80.9
Inc/(dec) in Sec. premium	0.0	0.0	-321.3	0.0
Others	-45.1	-29.2	0.0	0.0
CF from financing activities	-364.4	-217.1	-446.2	-334.1
Net Cash flow	18.3	23.3	-63.6	1.3
Opening Cash	53.0	71.3	94.6	31.0
Cash with bank	8.5	9.3	0.0	0.0
Closing Cash	79.8	103.9	31.0	32.2

Source: Company, ICICI Direct Research

Exhibit 14: Balance Sheet				
	₹ crore			
	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	16.2	16.2	16.2	16.2
Reserve and Surplus	2,126.5	2,342.9	2,304.8	2,631.6
Total Shareholders funds	2,142.7	2,359.1	2,321.0	2,647.8
Total Debt	915.9	818.5	758.3	505.1
Long Term Provisions	33.1	38.7	36.7	34.7
Other Non-current Liabilities	155.3	168.9	169.9	170.9
Total Liabilities	3,247.0	3,385.2	3,285.9	3,358.5
Assets				
Gross Block	2,288.7	2,606.5	2,756.5	2,906.5
Less: Acc Depreciation	980.8	1,075.6	1,199.6	1,321.7
Net Block	1,307.8	1,531.0	1,556.9	1,584.9
Capital WIP	27.1	58.8	57.8	56.8
Intangible assets	0.2	0.1	0.1	0.1
Non Current Investments	310.8	293.4	298.4	303.4
Other non-current assets	51.3	30.8	30.8	30.8
Current Assets				
Inventory	1,375.0	1,242.4	1,174.1	1,175.8
Debtors	115.3	166.5	260.9	282.2
Cash	79.8	103.9	31.0	32.2
Loans & Advances	0.4	0.3	0.3	0.3
Other Current Assets	465.1	395.1	415.1	435.1
Current Liabilities				
Creditors	305.7	261.2	449.2	451.5
Provisions	5.9	6.2	6.2	6.2
Other CL	174.1	169.7	84.1	85.3
Net Current Assets	1,549.8	1,471.2	1,341.9	1,382.6
Total Assets	3,247.0	3,385.2	3,285.9	3,358.5

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	33.4	36.7	43.0	50.4
Cash EPS	45.2	48.4	58.3	65.5
BV	264.7	291.5	286.8	327.1
DPS	0.0	6.0	8.0	10.0
Cash Per Share	121.2	132.9	148.2	163.3
Operating Ratios (%)				
EBITDA Margin	17.6	14.8	18.4	19.3
PBT / Net Sales	0.1	0.1	0.1	0.2
PAT Margin	10.1	9.9	11.1	12.0
Inventory days	186.9	150.2	136.9	126.7
Debtor days	15.7	20.1	30.4	30.4
Creditor days	41.6	31.6	52.4	48.7
Return Ratios (%)				
RoE	12.6	12.6	15.0	15.4
RoCE	13.3	12.3	15.1	16.8
Valuation Ratios (x)				
P/E	10.2	9.3	7.9	6.8
EV / EBITDA	7.6	7.7	6.0	4.9
EV / Net Sales	1.3	1.1	1.1	0.9
Market Cap / Sales	1.0	0.9	0.9	0.8
Price to Book Value	1.3	1.2	1.2	1.0
Solvency Ratios				
Debt/EBITDA	1.9	1.8	1.3	0.8
Debt / Equity	0.4	0.3	0.3	0.2
Current Ratio	5.6	5.7	3.7	3.7
Quick Ratio	1.7	1.8	1.3	1.4

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)	376	515	Buy	7,892	22.8	22.8	31.0	42.6	16.4	16.5	12.1	8.8	12.0	12.3	9.7	7.0	2.9	2.7	2.4	2.1	16.4	15.2	17.6	23.0
Dalmia Bharat Sugar (DALSUG)	341	490	Buy	2,762	33.4	36.7	43.0	50.4	10.2	9.3	7.9	6.8	7.6	7.7	6.0	4.9	1.3	1.2	1.2	1.0	13.3	12.3	15.1	16.8
Triveni Engineering (TRIENG)	271	350	Buy	6,544	12.2	17.5	20.3	24.8	22.2	15.4	13.4	10.9	12.9	12.4	10.2	7.9	4.1	3.3	2.8	2.4	19.4	15.8	18.2	22.1
Dwarikesh sugar (DWASUG)	103	145	Buy	1,942	4.9	8.2	9.5	14.1	21.2	12.5	10.8	7.3	12.6	8.4	7.7	5.0	3.4	2.9	2.3	1.9	14.4	20.6	20.3	30.0
Avadh Sugar (AVASUG)	584	890	Buy	1,167	38.8	62.2	95.7	116.1	15.0	9.4	6.1	5.0	9.4	8.0	5.3	3.9	1.8	1.5	1.3	1.0	11.5	12.5	17.8	22.0

Source: Bloomberg, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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