

CMP: ₹ 375

Target: ₹ 490 (31%)

Target Period: 12 months

July 31, 2022

BUY

High cost of production & one-offs drags bottom-line

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 39000 TCD (5.5 lakh tonnes pa), distillery capacity of 600 KLD (18 crore liters 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 litres to 18 crore litres. It would further increase its distillery capacity to 24 crore litres in next one year through one grain based & one molasses based distillery

Q1FY23 Results: DBS posted revenue growth of 14.6% led by high ethanol sales

- Revenue growth was led by doubling of distillery volumes & improvement in ethanol realisation due to higher volumes of B-heavy /juice ethanol
- EBITDA was at ₹ 101.5 crore, down 28.1% YoY, with margins at 10.8%
- PAT was at ₹ 49.3 crore (down 60.4%) due to tax reversal in base quarter

What should investors do? DBS's share price has gone up 114% in last five years (from ₹ 175 in August 2017 to 375 in July 2022)

- We expect 38.4% CAGR in distillery revenues, led by ethanol volumes, to boost the company's earnings by 16.2% 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 litres by FY24
- The company export high quality refined sugar & utilise higher global white sugar prices to its benefit. This improves its overall sugar realisation
- The company has diverted 25% of its sugarcane towards ethanol & also aggressively exported high quality sugar. We believe company's 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 second largest & 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



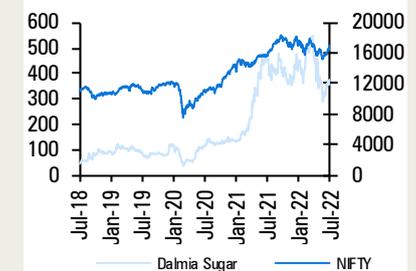
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	3,031.6
Total Debt (FY22)	818.5
Cash and Investments (FY22)	103.9
EV	3,746.2
52 week H/L (₹)	568 / 282
Equity capital	16.2
Face value (₹)	2.0

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	74.9	74.9	74.9	74.9
FII	1.0	0.9	1.2	1.4
DII	0.2	0.2	0.1	0.1
Others	23.9	23.9	23.9	23.6

Price Chart



Recent event & key risks

- DBS would be only concentrating on branded packaged sugar in its consumer business
- Key Risk:** (i) Significant fall in Global & Domestic Sugar prices (ii) Reversal in government stance over ethanol blending

Research Analyst

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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%	3143.8	3411.1	6.3%
EBITDA	336.6	471.4	447.7	3.4%	567.4	649.0	20.4%
EBITDA Margin %	15.9	17.6	14.8		18.0	19.0	
Net Profit	193.2	270.3	297.3	9.8%	344.4	401.1	16.2%
EPS (₹)	23.87	33.40	36.74	9.8%	42.55	49.56	16.2%
P/E	15.7	11.2	10.2		8.8	7.6	
RoNW %	9.0	12.6	12.6		14.9	15.2	
RoCE (%)	11.8	13.3	12.3		15.5	17.7	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q1FY23 Results: High sugarcane prices, lower recovery and consumer business losses drags earnings

- Consolidated revenue witnessed a growth of 14.6% to ₹ 938.4 crore led by 138.9% growth in distillery sales & 7% growth in sugar sales. Sugar volume declined by 14% to 1.68 lakh tonnes mainly on account of lower exports during the quarter. The company exported majority of sugar for the season in base quarter (Q1FY22) whereas exports during the current season were spread throughout the year (Oct-Sep).
- With the commission of new distillery in Feb-22, the company was able to increase distillery volumes by 113% to 4.36 crore litres. We believe distillery realisation would have also been higher given company started producing ethanol from syrup (sugarcane juice). Power volumes were lower by 12% to 6.08 crore units.
- Operating profit declined by 28.9% to ₹101.5 crore mainly on account of increase in sugarcane cost in 2021-22 season, lower sugar recovery in UP, reduction in power tariffs in Maharashtra & losses in consumer business. Net profit declined by 60.4% to ₹ 49 crore on account of lower operating profit & tax reversal of ₹29.6 crore in base quarter
- We believe the company had produced ethanol from sugarcane juice during the quarter & this would have resulted in build-up of B-heavy molasses inventory. We believe utilisation of B-heavy ethanol inventory would result in higher distillery margins in next few quarters.
- The company is holding 1.6 lakh tonnes of sugar inventory valued at ₹32/kg. We believe this inventory would be exhausted by October-2022 before the next seasons crushing starts. It is likely to export 20,000 tonnes of additional quantity in 2021-22 season as government is likely to allow industry wide additional export of 1.2 million tonnes. We believe the company is likely to export total 1.3-1.4 lakh tonnes during 2021-22 sugar season
- The company produces 2.25 lakh tonnes of high quality refined sugar for export or domestic market, which is ~40% of its total sugar production. Refined sugar is produced in Nigohi & Jawaharpur Plant in UP.
- DBS discontinued consumer businesses (except branded sugar). It incurred some operational & liquidation losses in consumer business. There would be some liquidation expense in Q2 as well. Its branded sugar sales for FY22 was 10,000 tonnes (~2% of its total sugar production)
- Long term debt for the company is ₹403 crore as on 30th June 2022. The entire debt is concession debt at very low interest rates. Short term debt (net of investments) is Zero. The company's net debt to equity is 0.17x
- Gross sugar production in 2021-22 season has been 39.5 million tonnes & after the diversion of 3.5 MT towards ethanol, net sugar production is 36 MT. With the consumption of 27.5 MT & exports of 11 MT, the closing inventory is likely to be ~5.5 MT on September 2022. We believe sugar prices should go up by ₹1/kg for next 2-3 months. However, our average sugar realisation estimate is ₹35.5 /kg.
- Given sugar production in 2022-23 season is also likely to be very high of 35.5 MT (after diversion of 4.5 MT), the government is also likely to announce export policy for next year in September 2022.
- Ethanol blending in the country has reached to 10.17%. OMCs have contracted for 445 crore litres out of the total requirement of 459 crore litres for 2020-21 (December – October). Out of this total, OMCs have lifted 283 crore litres of ethanol till 17th July 2022. The government has also declared incentives for ethanol supply from June 22 to Nov 22 to the tune of ₹1-2 / litres depending on the feedstock (B-heavy, Sugarcane Juice)

Exhibit 1: Peer Comparison

Sector / Company	CMP	TP	M Cap	EPS growth (%)				EBITDA margins (%)				PE (x)				P/B (x)				RoCE (%)			
	(₹)	(₹) Rating		(₹ Cr)	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E
Balrampur Chini (BALCHI)	395	515 Buy	8296	-3.2	-0.3	36.3	37.4	14.8	14.4	17.7	20.5	17.3	17.3	12.7	9.3	2.9	2.8	2.5	2.2	16.4	15.3	17.6	23.0
Dalmia Bharat Sugar (DALSUG)	375	490 Buy	3032	39.9	10.0	15.8	16.5	17.6	14.8	18.0	19.0	11.2	10.2	8.8	7.6	1.4	1.3	1.3	1.1	13.3	12.3	15.5	17.7
Triveni Engineering (TRIENG)	253	350 Buy	6122	-9.9	43.9	15.5	22.6	11.9	14.8	15.2	17.3	20.8	14.4	12.5	10.2	3.6	2.9	2.5	2.1	19.4	15.8	18.2	22.1
Dwarikesh sugar (DWASUG)	117	145 Buy	2211	24.5	69.6	15.7	47.7	10.9	14.7	14.2	18.7	24.1	14.2	12.3	8.3	3.2	2.7	2.2	1.8	14.4	20.6	20.3	30.0
Avadh Sugar (AVASUG)	563	890 Buy	1126	-12.4	60.3	53.9	21.3	9.6	11.0	13.1	13.8	14.5	9.1	5.9	4.9	1.5	1.3	1.0	0.9	11.5	12.5	17.8	22.0

Source: Company, ICICI Direct Research

Dalmia Bharat Sugar is one of the most efficient sugar companies with high distillery capacity compared to crushing operations. This gives a leeway to divert more sugarcane towards ethanol given sugar prices are unlikely to witness runaway surge in future. The company is also setting up 100 KLD grain based distillery to utilise high availability of broken rice / other grains in its catchment area in UP. With mere ₹403 crore debt & Zero net working capital debt, DBS has one of the strongest balance sheet in sugar industry. We believe the company would be able to generate ~40% of its revenue from distillery segment in FY24 after the completion of its capex. Further, the company has the capacity to exports 2.25 lakh tonnes of high grade refined sugar, which is likely to improves its sugar realisation going forward. Foray & early exit in some of the categories in consumer business is disappointing. However, we remain positive on sugar industry as well as DBS. We maintain our **Buy** recommendation & revise our target price to ₹ 490 / share

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Total Operating Income	938.4	818.6	14.6	856.0	9.6	Net sales witnessed a growth of 14.6% led by higher distillery sales
Other Operating Income	7.4	4.9	49.9	16.5	N.A.	
Raw Material Expenses	707.2	584.1	21.1	586.4	20.6	Gross margins contracted on account of increase in sugarcane prices & lower recovery rates in 2021-22 sugar season
Employee Expense	42.2	33.8	24.7	46.3	-8.9	
Other operating Expenses	70.5	59.5	18.5	76.2	-7.5	
EBITDA	101.5	141.1	-28.1	130.8	-22.4	Operating profit dipped by 28% given higher cost of production of sugar & ethanol due to increase in sugarcane prices. Moreover, the company would have sold ethanol from sugarcane juice & it would be holding B-heavy molasses inventory
EBITDA Margin (%)	10.8	17.2	-642 bps	15.3	-446 bps	
Depreciation	27.5	20.9	32.0	28.9	-4.7	Depreciation provisioning increase given the company has commissioned distillery capacity in Q4FY22
Interest	11.5	12.1	-5.5	8.7	32.3	Interest cost is down with significant decline in working capital debt
Other Income	7.4	4.9	49.9	16.5	-55.3	
PBT	69.9	113.0	-38.2	109.7	-36.3	
Tax Outgo	20.6	-11.4	-281.3	53.1	-61.2	Base quarter included tax reversion of ₹29 crore
PAT	49.3	124.4	-60.4	56.7	-13.0	Profit declined due lower operating profit & base quarter tax reversal
Key Metrics						
Sugar sales volume (in lakh tonnes)	1.7	2.0	-14.3	1.5	12.0	Sugar sales volume dipped by 14.3% given base quarter exports for the season was concentrated in Q1FY22
Distillery volumes (in crore litre)	4.4	2.0	113.7	4.1	5.3	Distillery volumes doubled with the commissioning of capacities in FY22
Power volumes (in cr unit)	6.1	6.9	-11.9	11.8	-48.6	Power sales dipped due to lower crushing in UP

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% change	Old	New	% change	
Net sales	3,131.0	3,143.8	0.4	3,386.4	3,411.1	0.7	Small change in sales estimates
EBITDA	577.2	567.4	-1.7	651.9	649.0	-0.5	Small change in our operating profit estimates given overhead spends would be higher due to increasing distillery capacity
EBITDA Margin (%)	18.4	18.0	-39 bps	19.3	19.0	-23 bps	
Adjusted PAT	347.9	344.4	-1.0	407.8	401.1	-1.6	
EPS (₹)	43.0	42.5	-1.0	50.4	49.6	-1.6	

Source: ICICI Direct Research

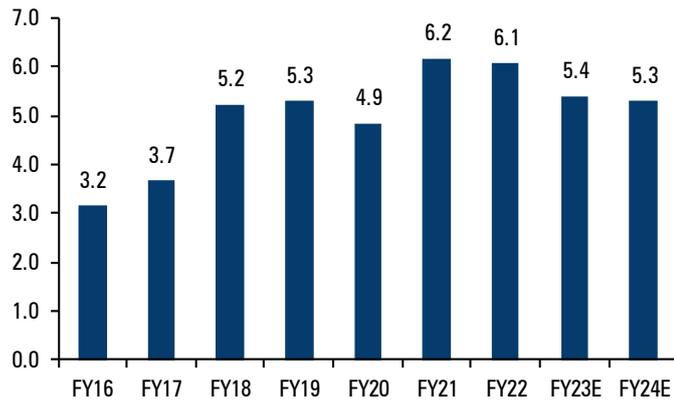
Exhibit 4: Assumptions

	Current				Earlier		Comments
	FY21	FY22	FY23E	FY24E	FY23E	FY24E	
Sugar Sold (in tonne)	6,18,375	6,08,000	5,41,120	5,30,298	5,45,407	5,29,045	Small change in sugar sales estimates
Sugar Price (₹ per tonne) (including export subsidy/)	33,924	35,592	35,500	36,000	35,500	36,000	
Distillery volume	86,010	1,20,525	1,72,800	2,17,000	1,72,800	2,17,000	
Distillery price (₹ per KL)	50,878	56,995	61,555	61,555	60,567	61,173	small change in distillery realisation estimates
Power Units sold	30.4	27.2	28.1	27.5	28.1	28.1	
Price per unit (₹ per units)	4.6	3.9	4.0	4.1	4.0	4.1	

Source: ICICI Direct Research

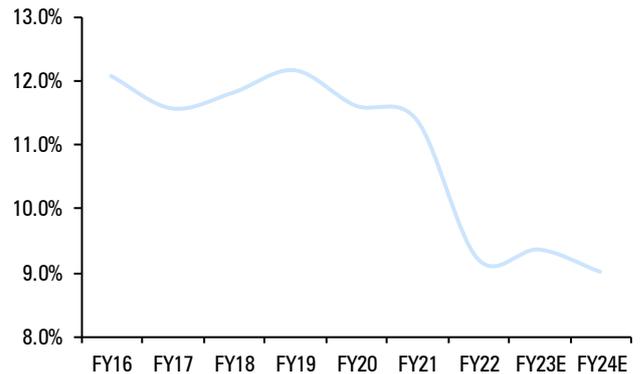
Key Metrics

Exhibit 5: Sugar sales volume (in lakh tonne)



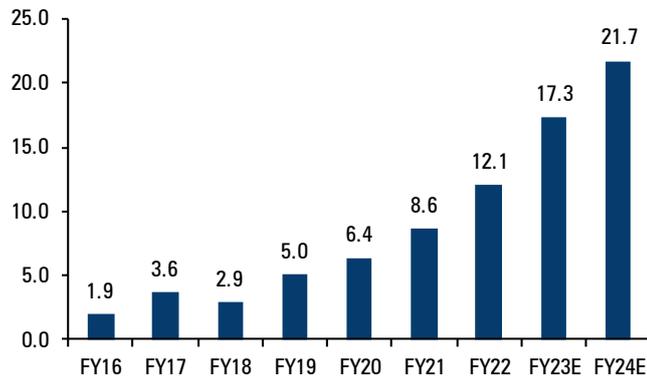
Source: ICICI Direct Research, Company

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



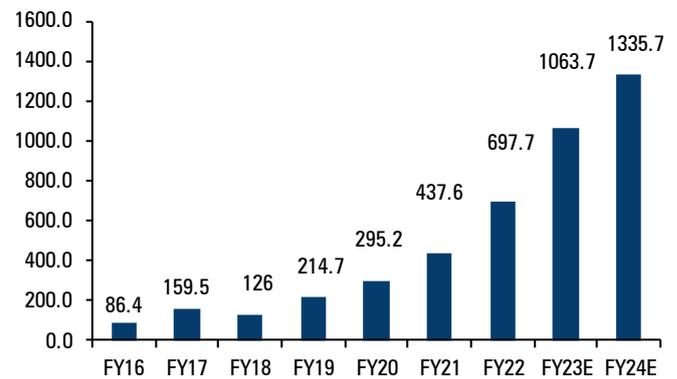
Source: ICICI Direct Research, Company

Exhibit 7: Ethanol volumes (in crore litre)



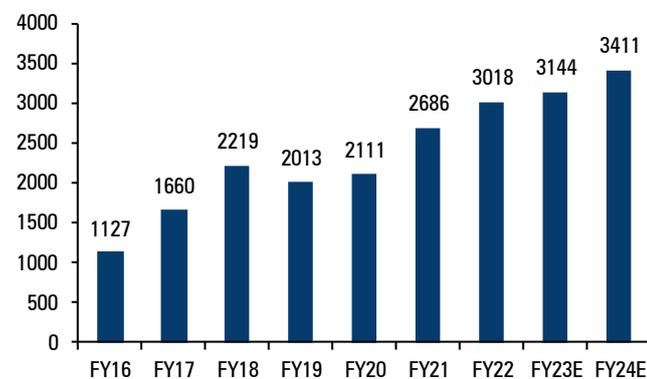
Source: Company, ICICI Direct Research

Exhibit 8: Ethanol sales (₹ crore)



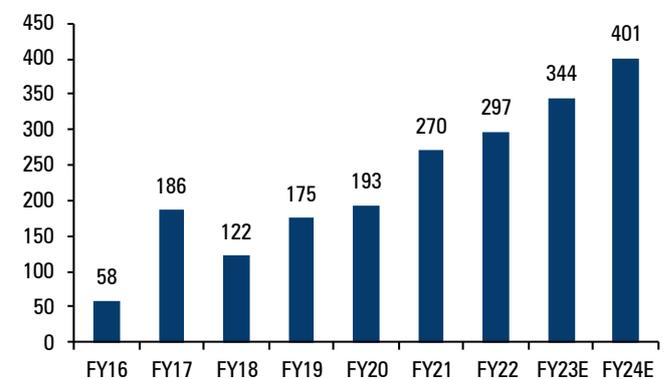
Source: Company, ICICI Direct Research

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	11.2	8.2	12.6	13.3
FY22	3018.3	12.4	36.7	10.0	10.2	8.3	12.6	12.3
FY23E	3143.8	4.2	42.5	15.8	8.8	6.3	14.9	15.5
FY24E	3411.1	8.5	49.6	16.5	7.6	5.1	15.2	17.7

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	3,143.8	3,411.1
Growth (%)	27.2	12.4	4.2	8.5
Raw Material Expenses	1,828.7	2,133.2	2,139.4	2,288.0
Employee Expenses	143.7	175.6	179.2	197.8
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	257.8	276.3
Total Operating Expenditure	2,214.3	2,570.6	2,576.4	2,762.2
EBITDA	471.4	447.7	567.4	649.0
Growth (%)	40.1	-5.0	26.8	14.4
Depreciation	95.6	94.7	110.3	122.1
Interest	61.9	34.8	23.9	19.8
Other Income	53.9	64.0	27.2	29.2
PBT	314.0	318.1	433.2	507.1
Exceptional items	0.0	0.0	0.0	0.0
Total Tax	97.6	84.8	116.0	135.1
PAT	270.3	297.3	344.4	401.1
Growth (%)	39.9	10.0	15.8	16.5
EPS (₹)	33.4	36.7	42.5	49.6

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	344.4	401.1
Add: Depreciation	95.6	72.9	110.3	122.1
Add: Interest	61.9	34.8	0.0	0.0
(Inc)/dec in Current Assets	-41.4	193.9	122.7	14.5
Inc/(dec) in Current Liabilities	-90.0	-40.7	114.7	-28.3
CF from operating activities	345.5	567.3	692.0	509.4
(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	-220.2	-293.2
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	-606.2	-374.1
Net Cash flow	18.3	23.3	-58.9	-18.8
Opening Cash	53.0	71.3	94.6	35.7
Cash with bank	8.5	9.3	0.0	0.0
Closing Cash	79.8	103.9	35.7	17.0

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	2,301.2	2,621.4
Total Shareholders funds	2,142.7	2,359.1	2,317.4	2,637.6
Total Debt	915.9	818.5	598.3	305.1
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	3,122.3	3,148.3
Assets				
Gross Block	2,288.7	2,606.5	2,756.5	2,906.5
Less: Acc Depreciation	980.8	1,075.6	1,185.8	1,307.9
Net Block	1,307.8	1,531.0	1,570.7	1,598.6
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	1,004.3	947.5
Debtors	115.3	166.5	262.0	284.3
Cash	79.8	103.9	35.7	17.0
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	461.6	435.5
Provisions	5.9	6.2	6.2	6.2
Other CL	174.1	169.7	84.9	83.8
Net Current Assets	1,549.8	1,471.2	1,164.6	1,158.6
Total Assets	3,247.0	3,385.2	3,122.3	3,148.3

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	33.4	36.7	42.5	49.6
Cash EPS	45.2	48.4	56.2	64.6
BV	264.7	291.5	286.3	325.9
DPS	0.0	6.0	8.0	10.0
Cash Per Share	121.2	132.9	146.5	161.6
Operating Ratios (%)				
EBITDA Margin	17.6	14.8	18.0	19.0
PBT / Net Sales	0.1	0.1	0.1	0.2
PAT Margin	10.1	9.9	11.0	11.8
Inventory days	186.9	150.2	116.6	101.4
Debtor days	15.7	20.1	30.4	30.4
Creditor days	41.6	31.6	53.6	46.6
Return Ratios (%)				
RoE	12.6	12.6	14.9	15.2
RoCE	13.3	12.3	15.5	17.7
Valuation Ratios (x)				
P/E	11.2	10.2	8.8	7.6
EV / EBITDA	8.2	8.3	6.3	5.1
EV / Net Sales	1.4	1.2	1.1	1.0
Market Cap / Sales	1.1	1.0	1.0	0.9
Price to Book Value	1.4	1.3	1.3	1.1
Solvency Ratios				
Debt/EBITDA	1.9	1.8	1.1	0.5
Debt / Equity	0.4	0.3	0.3	0.1
Current Ratio	5.6	5.7	3.2	3.4
Quick Ratio	1.7	1.8	1.3	1.5

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	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E
Balrampur Chini (BALCHI)	395	515	Buy	8,296	22.8	22.8	31.0	42.6	17.3	17.3	12.7	9.3	12.3	12.5	9.9	7.2	2.9	2.8	2.5	2.2	16.4	15.3	17.6	23.0
Dalmia Bharat Sugar (DALSUG)	375	490	Buy	3,032	33.4	36.7	42.5	49.6	11.2	10.2	8.8	7.6	8.2	8.3	6.3	5.1	1.4	1.3	1.3	1.1	13.3	12.3	15.5	17.7
Triveni Engineering (TRIENG)	253	350	Buy	6,122	12.2	17.5	20.3	24.8	20.8	14.4	12.5	10.2	11.5	11.2	9.1	7.1	3.6	2.9	2.5	2.1	19.4	15.8	18.2	22.1
Dwarikesh sugar (DWASUG)	117	145	Buy	2,211	4.9	8.2	9.5	14.1	24.1	14.2	12.3	8.3	11.9	8.0	7.2	4.7	3.2	2.7	2.2	1.8	14.4	20.6	20.3	30.0
Avadh Sugar (AVASUG)	563	890	Buy	1,126	38.8	62.2	95.7	116.1	14.5	9.1	5.9	4.9	8.6	7.3	4.8	3.4	1.5	1.3	1.0	0.9	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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