

CMP: ₹ 476

Target: ₹ 750 (57%)

Target Period: 12 months

BUY

November 9, 2022

Earnings impacted by one-offs; ethanol story intact...

About the stock: Avadh Sugar has 31800 TCD sugarcane crushing capacity 325 KLD distillery capacity & 74 MW saleable power capacity. The company produces 6.0 lakh tonnes (lt) of sugar, ~9 crore litre of ethanol & 15 crore units of saleable power.

- The company has increased its distillery capacity from 240 KLD to 325 KLD with a capex of ₹ 135 crore. This would help it to increase its annual ethanol production to 11 crore litre

Q2FY23 Results: Avadh posted 4.9% sales dip due to muted sugar, ethanol sales

- Sales down 4.9% to ₹ 589.2 crore impacted by lower sugar volumes
- EBITDA was at ₹ 0.5 crore due to higher cost of production & wage arrears
- Consequently, the company posted a net loss of ₹ 16.2 crore

What should investors do? Avadh's share price has underperformed in last five years with 21% decline (from ₹ 602 in November 2017 to ₹ 476 in November 2022).

- We expect 15.7% CAGR in distillery volumes to boost overall earnings with CAGR of 26.8% during FY22-24E
- We maintain our **BUY** rating on the stock

Target Price & Valuation: We value the stock at ₹ 750, valuing the business at 8x FY24 PE

Key triggers for future price performance:

- The company has commissioned 80 KLD with a capex of ₹ 135 crore, which has increased its distillery volumes to 11 crore. Avadh would be maximising B-heavy & sugarcane juice ethanol production
- Avadh is also completed de-bottlenecking operations, which would increase its operational efficiency and improve profitability
- The government has allowed 6 million tonnes (MT) of sugar exports in the first trench & it is likely to further allow 3 MT in second trench in Jan-Feb 2023. This would keep sugar inventory at ~6 MT on September-2023 & domestic sugar prices stable at ~₹ 35/kg
- With inventory liquidation in the next one year and boost in profitability, Avadh would be able to de-leverage its balance sheet. We expect debt reduction of more than ₹ 600 crore between FY22 and FY24E

Alternate Stock Idea: We also like Dwarikesh Sugar in our sugar coverage.

- The company is one of the most efficient companies with highest sugar recovery & abundant sugarcane availability. It has increased its distillery capacity by 2x to 11 crore litres
- We value the stock at ₹ 135/share with BUY recommendation



Particulars

Particulars (₹ crore)	Amount
Market Capitalization	952.7
Total Debt (FY22)	1,212.8
Cash and Investments (FY22)	3.1
EV	2,162.4
52 week H/L (₹)	885 / 396
Equity capital	20.0
Face value (₹)	10.0

Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	60.4	60.4	60.4	60.4
FII	0.7	2.3	2.2	2.1
DII	0.0	0.3	0.3	0.4
Others	38.9	37.0	37.1	37.1

Price Chart



Recent event & key risks

- Avadh has received export quota of 1.06 lt & it has already contracted 70,000 tonnes of raw sugar exports
- Key Risk:** (i) Higher than estimated sugar production could pressurise domestic prices (ii) Any adverse impact on sugarcane yields or sugar recovery

Research Analyst

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Key Financial Summary

Key Financials	FY20	FY21	FY22	CAGR (FY17-22E)	FY23E	FY24E	CAGR (FY22-24E)
Total Operating Income	2559.4	2710.5	2743.7	44.4%	2838.1	2933.2	3.4%
EBITDA	261.4	259.3	302.8	-6.7%	339.6	379.6	12.0%
EBITDA Margin %	10.2	9.6	11.0		12.0	12.9	
Net Profit	88.6	77.6	124.4	-9.4%	155.8	200.0	26.8%
EPS (₹)	44.3	38.8	62.2	-0.1	77.9	100.0	26.8%
P/E	10.8	12.3	7.7		6.1	4.8	
RoNW %	15.0	11.7	15.4		16.5	18.0	
RoCE (%)	10.6	11.5	12.5		15.3	19.8	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q2FY23 Results: Higher cost of production, one off wage arrears result in loss

- Avadh's revenue dipped 4.9% to ₹ 589.2 crore, mainly on account of 5.5% sugar sales de-growth & 12.8% de-growth in distillery sales. Its domestic sugar quota was down 4.7% to 1.3 lakh tonnes (lt) during the quarter. Average sugar realisation was up slightly 2.3% to ₹ 35/kg
- With increase in levy molasses quota obligation, its distillery sales have declined 12.8% due to a dip in ethanol volumes by 16.4% to 1.9 crore litre. However, average ethanol realisation was up 5.6% to ₹ 60.8 /litre
- The company was holding 1.1 lakh tonnes of sugar as on September 2022. Its domestic sale quota for October & November 2022 is 48,483 tonnes & 31872 tonnes, respectively
- The government has allowed exports of 6 MT in the first tranche for exports. Avadh has received export quota of 1.06 lt. We believe the company has already contracted for ~70,000 tonnes
- The company posted operating profit of mere ₹ 0.5 crore. Cost of production for the company has increased by ₹ 3/kg in the 2021-22 season, mainly on account of higher sugarcane prices & lower recovery rate. Moreover, employee spends also increased 68% to ₹ 36.3 crore on account of ₹ 11.98 crore wage arrears of last three years paid during the quarter
- Interest cost declined 24.4% to ₹ 18.2 crore, mainly due to substantial decline in debt level. The company posted a net loss of ₹ 16.2 crore in Q2
- Total debt for the company declined by ₹ 387 crore in the last six months to ₹ 839 crore. The company generated operating cash flow of ₹ 509 crore in the last six months. We believe Avadh's working capital requirement in 2022-23 season would be down significantly
- The industry estimate sugar production of 36.5 MT in the 2022-23 sugar season after 4.5 MT of sacrifice for ethanol diversion. Considering sugar consumption at 27.5 MT, India is required to exports 9 MT in 2022-23
- Brazil sugar production is expected to increase by 1 MT to 33 MT. Thailand sugar production is also likely to increase by 1-2 MT. Given India export availability is likely to dip by 2 MT, global raw sugar prices are likely to remain firm at 18-20 cents /lb. Moreover, refined white sugar prices are trading at US\$535/tonnes (₹ 38-40/kg in rupee terms), which is higher compared to domestic sugar prices

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)	329	515	Buy	6913	-3.2	-0.3	20.1	51.2	14.8	14.4	16.5	18.6	14.8	14.9	12.4	8.2	2.7	2.6	2.3	2.1	16.4	15.3	16.0	23.1
Dalmia Bharat Sugar (DALISUG)	319	490	Buy	2578	39.9	10.0	14.2	18.1	17.6	14.8	17.7	19.0	9.5	8.7	7.6	6.4	1.2	1.1	1.1	1.0	13.3	12.3	15.8	17.7
Triveni Engineering (TRIENG)	279	380	Buy	6738	-9.9	43.9	28.0	24.8	11.9	14.8	13.5	16.8	22.7	15.8	12.3	9.9	4.3	3.5	2.2	2.0	19.4	15.8	20.7	24.6
Dwarikesh sugar (DWARISUG)	91	135	Buy	1710	24.5	69.6	4.4	56.1	10.9	14.7	13.1	17.6	18.3	10.8	10.3	6.6	2.9	2.5	2.0	1.6	14.4	20.6	18.5	28.5
Avadh Sugar (AVASUG)	476	750	Buy	953	-12.4	60.3	25.2	28.4	9.6	11.0	12.0	12.9	14.4	14.5	12.0	8.0	1.4	1.2	1.0	0.9	11.5	12.5	15.3	19.8

Source: Company, ICICI Direct Research

The decline in operating profit in Q2 was mainly impacted by higher cost of production and subdued sugar prices. Moreover, one off costs related to wage arrears, higher levy quota obligation aggravated the performance. However, we believe improvement in sugar recovery in 2022-23 season, higher export realisation & increase in distillery volumes would result in higher profitability in H2FY23 & FY24. Though we believe average sugar prices would remain at ~₹ 35/kg in the next one year, cost of production would decline by ₹ 1/kg. Moreover, increase in distillery realisation by ~₹ 2/kg would aid margins. We believe Avadh Sugar would witness more than ₹ 600 crore reduction in debt levels in FY22-24. We remain positive on the sugar industry and Avadh Sugar. We maintain our **BUY** recommendation on the stock with a revised target price of ₹ 750/share (earlier: ₹ 790).

Exhibit 2: Variance Analysis

	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Total Operating Income	589.2	619.6	-4.9	2,743.7	-78.5	Revenues were down 4.9% due to lower sugar & ethanol sales on account of lower sugar volumes & higher levy molasses quota
Other Operating Income	0.0	0.0	NC	0.0	NC	
Raw Material Expenses	507.1	474.5	6.9	2,114.5	-76.0	Cost of production was higher by ₹ 3/ kg in 2021-22 season given increase in sugarcane prices & lower recovery rate
Employee Expense	36.3	21.6	68.2	100.1	-63.8	Employee spends include one-time arrears related to wage costs
Other operating Expenses	45.4	48.7	-6.9	226.3	-79.9	
EBITDA	0.5	74.8	-99.4	302.8	-99.8	Higher cost of production, one-time wage impact & increase in levy quota adversely impacted operating margins
EBITDA Margin (%)	0.1	12.1	-1200 bps	11.0	-1095 bps	
Depreciation	12.4	13.0	-4.1	51.3	-75.8	
Interest	18.2	24.1	-24.5	88.4	-79.4	Reduction in debt resulted in lower interest costs
Other Income	5.2	1.5	253.5	4.1	25.4	
PBT	-25.0	39.2	-163.7	167.2	-114.9	
Tax Outgo	-8.8	14.0	NC	42.8	-120.5	
PAT	-16.2	25.2	-164.2	124.4	NC	The company posted loss of ₹ 16.2 crore during the quarter
Key Metrics						
Sugar sales volume (in tonnes)	1.3	1.4	-5.7	1.4	-6.2	Sugar sales volume was down due to lower domestic sale quota
Domestic Sugar realisation (₹ per kg)	35.0	34.2	2.3	34.7	0.7	Sugar realisation was slightly up
Distillery volumes (in crore litre)	1.9	2.3	-16.4	2.7	-28.0	Distillery volumes declined due to higher levy molasses obligation
Distillery realisation (₹ per litre)	60.8	57.6	5.6	60.5	0.5	Distillery realisation was up by 5.6% due to increase in ethanol prices

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% change	Old	New	% change	
Net sales	2,919.4	2838.1	-2.8	2,967.8	2933.2	-1.2	We change our sugar & distillery volume estimates
EBITDA	377.3	339.6	-10.0	409.2	379.6	-7.2	We factored in one time impact of wage arrears
EBITDA Margin (%)	12.9	12.0	-96 bps	13.8	12.9	-85 bps	
PAT	180.6	155.8	-13.7	209.6	200.0	-4.6	We change our interest cost estimate factoring in increase in interest costs
EPS (₹)	90.3	77.9	-13.7	104.8	100.0	-4.6	

Source: ICICI Direct Research

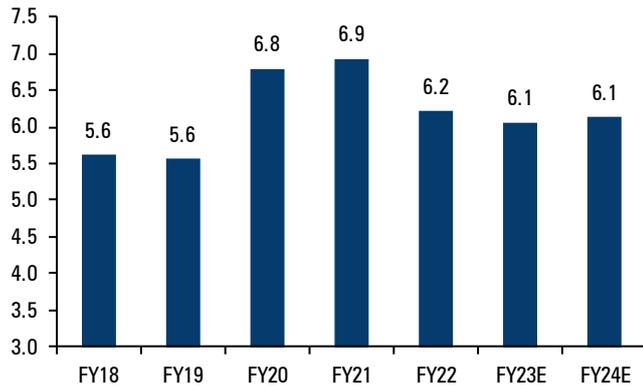
Exhibit 4: Assumptions

	Current					Earlier			
	FY19	FY20	FY21	FY22	FY23E	FY24E	FY23E	FY24E	
Sugar Sold (in tonne)	5,56,500	6,79,600	6,92,800	6,20,900	6,06,600	6,12,666	6,16,332	6,22,495	We change our sugar sales volume according to current domestic & export quota
Sugar Price (₹ per tonne)	30,696	29,962	31,720	34,016	35,000	35,200	35,000	35,200	
Distillery volume (in cr litre)	5.8	4.8	6.2	8.2	9.9	11.0	10.9	11.0	We change our distillery volume estimate for FY23 given higher levy molasses quota
Distillery price (₹ per KL)	43.7	49.4	55.4	59.0	60.7	61.9	60.7	61.9	
Power Units sold	19.0	17.6	14.8	14.8	14.8	14.9	14.8	14.9	
Price per unit (₹ per units)	5.0	2.9	3.0	3.1	3.1	3.2	3.1	3.2	

Source: ICICI Direct Research

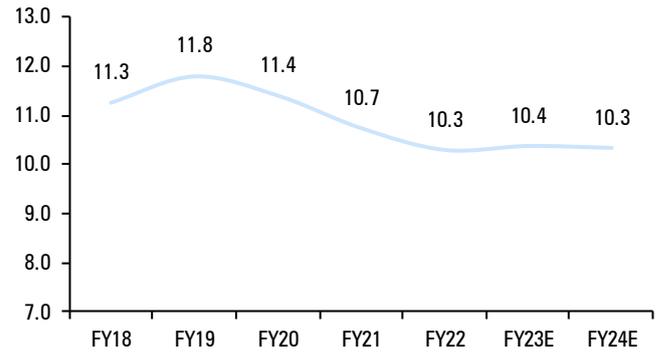
Key Metrics

Exhibit 5: Sugar sales volume (in lakh tonne)



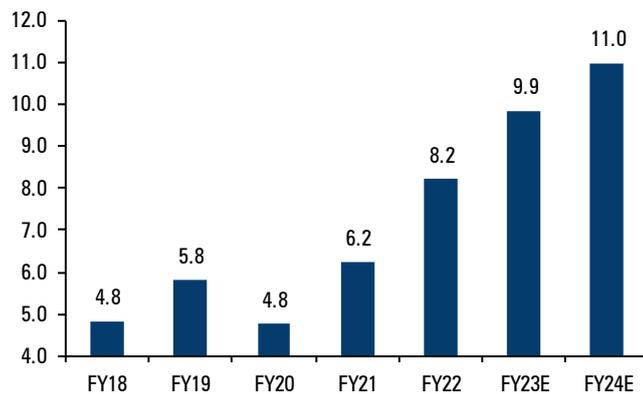
Source: ICICI Direct Research, Company

Exhibit 6: Reduction in sugar recovery rate after higher proportion of sugarcane diversion towards B-heavy ethanol



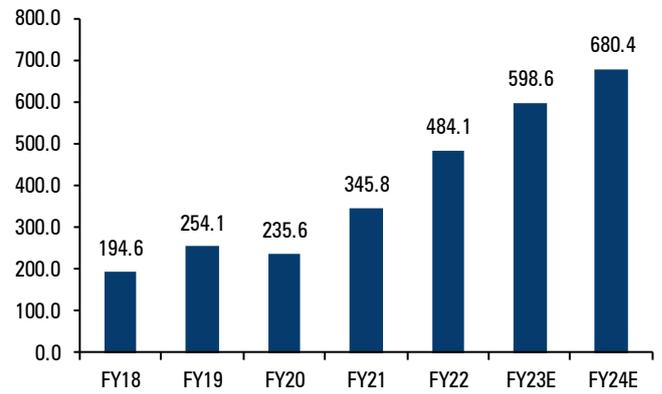
Source: ICICI Direct Research, Company

Exhibit 7: Ethanol volumes (in crore litre)



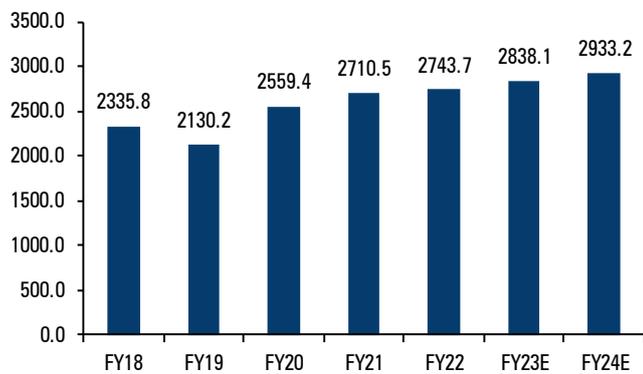
Source: Company, ICICI Direct Research

Exhibit 8: Ethanol sales (₹ crore)



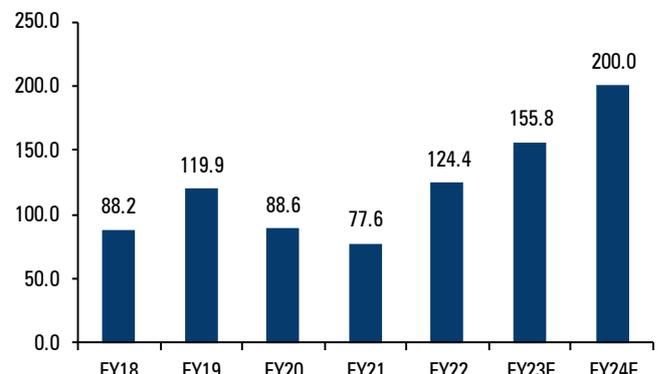
Source: Company, ICICI Direct Research

Exhibit 9: Revenue trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 10: Adjusted PAT trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 11: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY21	2710.5	5.9	38.8	-12.4	12.3	8.3	11.7	11.5
FY22	2743.7	1.2	62.2	60.3	7.7	7.1	15.4	12.5
FY23E	2838.1	3.4	77.9	25.2	6.1	5.4	16.5	15.3
FY24E	2933.2	3.3	100.0	28.4	4.8	3.8	18.0	19.8

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 12: Profit and loss statement		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Total Operating Income	2,710.5	2,743.7	2,838.1	2,933.2	
Growth (%)	5.9	1.2	3.4	3.3	
Raw Material Expenses	2,127.7	2,114.5	2,149.4	2,183.2	
Employee Expenses	97.3	100.1	113.5	120.3	
Administrative Expenses	0.0	0.0	0.0	0.0	
Excise Duty	0.0	0.0	0.0	0.0	
Other expenses	226.2	226.3	235.6	250.2	
Total Operating Expenditure	2,451.2	2,440.8	2,498.5	2,553.6	
EBITDA	259.3	302.8	339.6	379.6	
Growth (%)	-0.8	16.8	12.2	11.8	
Depreciation	48.3	51.3	53.8	55.6	
Interest	116.0	88.4	81.9	61.0	
Other Income	6.4	4.1	4.3	4.4	
PBT	95.0	163.1	204.0	263.0	
Exceptional items	0.0	0.0	0.0	0.0	
Total Tax	23.8	42.8	52.5	67.4	
PAT	77.6	124.4	155.8	200.0	
Growth (%)	-12.4	60.3	25.2	28.4	
EPS (₹)	38.8	62.2	77.9	100.0	

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Profit/Loss after Tax	101.4	167.2	155.8	200.0	
Add: Depreciation	48.4	51.3	53.8	55.6	
Add: Interest	116.0	88.4	0.0	0.0	
(Inc)/dec in Current Assets	268.3	247.8	188.0	176.1	
Inc/(dec) in Current Liabilities	-49.3	-206.5	30.4	58.7	
CF from operating activities	465.5	313.7	427.9	490.4	
(Inc)/dec in Investments	0.0	0.0	0.0	0.0	
(Inc)/dec in Fixed Assets	-110.9	-55.5	-100.0	-50.0	
Others	2.9	1.9	2.3	0.0	
CF from investing activities	-108.0	-53.6	-97.7	-50.0	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	-53.0	55.3	-290.0	-400.0	
Dividend paid & dividend tax	-8.0	-8.0	-20.0	-36.0	
Inc/(dec) in Sec. premium	-119.1	0.0	0.0	0.0	
Others	-177.6	0.0	0.0	0.0	
CF from financing activities	-358.0	-264.3	-310.0	-436.0	
Net Cash flow	-0.5	-4.1	20.1	4.4	
Opening Cash	5.4	4.9	0.8	20.9	
Cash with bank	0.0	0.0	0.0	0.0	
Closing Cash	4.9	0.8	20.9	25.3	

Source: Company, ICICI Direct Research

Exhibit 14: Balance Sheet		₹ crore			
	FY21	FY22	FY23E	FY24E	
Liabilities					
Equity Capital	20.0	20.0	20.0	20.0	
Reserve and Surplus	645.7	790.4	926.1	1,090.1	
Total Shareholders funds	665.8	810.4	946.1	1,110.1	
Total Debt	1,215.1	1,212.8	922.8	522.8	
Long Term Provisions	4.0	1.7	1.7	1.7	
Other Non-current Liabilities	12.4	26.1	26.1	26.1	
Total Liabilities	1,897.3	2,051.1	1,896.8	1,660.8	
Assets					
Gross Block	1,309.6	1,353.4	1,453.4	1,503.4	
Less: Acc Depreciation	225.2	276.5	330.3	385.9	
Net Block	1,084.4	1,076.9	1,123.1	1,117.5	
Capital WIP	14.0	8.6	8.6	8.6	
Intangible assets	0.5	0.5	0.5	0.5	
Non Current Investments	15.2	46.8	46.8	46.8	
Other non-current assets	7.7	23.3	23.3	23.3	
Current Assets					
Inventory	1,350.6	1,169.7	985.5	814.8	
Debtors	55.1	85.7	82.0	76.6	
Cash	6.9	3.1	20.9	25.3	
Loans & Advances	0.5	0.5	0.5	0.5	
Other Current Assets	113.9	15.4	15.4	15.4	
Current Liabilities					
Creditors	539.5	310.5	290.9	299.6	
Provisions	6.1	7.3	7.3	7.3	
Other CL	206.0	61.6	111.6	161.6	
Net Current Assets	775.5	895.0	694.5	464.0	
Total Assets	1,897.3	2,051.1	1,896.8	1,660.8	

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios		FY21	FY22	FY23E	FY24E
Per share data (₹)					
EPS		38.8	62.2	77.9	100.0
Cash EPS		62.9	87.8	104.8	127.8
BV		332.9	405.2	473.1	555.0
DPS		4.0	4.0	10.0	18.0
Cash Per Share		112.6	138.3	165.2	193.0
Operating Ratios (%)					
EBITDA Margin		9.6	11.0	12.0	12.9
PBT / Net Sales		3.7	6.1	7.3	9.1
PAT Margin		2.9	4.5	5.5	6.8
Inventory days		182	156	127	101
Debtor days		7	11	11	10
Creditor days		73	41	37	37
Return Ratios (%)					
RoE		11.7	15.4	16.5	18.0
RoCE		11.5	12.5	15.3	19.8
Valuation Ratios (x)					
P/E		12.3	7.7	6.1	4.8
EV / EBITDA		8.3	7.1	5.4	3.8
EV / Net Sales		0.8	0.8	0.6	0.5
Market Cap / Sales		0.4	0.3	0.3	0.3
Price to Book Value		1.4	1.2	1.0	0.9
Solvency Ratios					
Debt/EBITDA		4.7	4.0	2.7	1.4
Debt / Equity		1.8	1.5	1.0	0.5
Current Ratio		2.6	3.4	2.6	1.9
Quick Ratio		0.3	0.3	0.2	0.2

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)	329	515	Buy	6,913	22.8	22.8	27.4	41.3	14.4	14.5	12.0	8.0	11.5	11.7	10.1	7.0	2.7	2.6	2.3	2.1	16.4	15.3	16.0	23.1
Dalmia Bharat Sugar (DALSUG)	319	490	Buy	2,578	33.4	36.7	42.0	49.5	9.5	8.7	7.6	6.4	7.2	7.3	5.4	4.3	1.2	1.1	1.1	1.0	13.3	12.3	15.8	17.7
Triveni Engineering (TRIENG)	279	380	Buy	6,738	12.2	17.5	22.5	28.0	22.9	15.9	12.4	9.9	13.5	12.9	9.2	7.4	4.3	3.5	2.2	2.0	19.4	15.8	20.7	24.6
Dwarikesh sugar (DWASUG)	91	135	Buy	1,710	4.9	8.2	8.6	13.4	18.7	11.0	10.6	6.8	11.1	7.3	7.3	4.5	2.9	2.5	2.0	1.6	14.4	20.6	18.5	28.5
Avadh Sugar (AVASUG)	476	750	Buy	953	38.8	62.2	77.9	100.0	12.3	7.7	6.1	4.8	8.3	7.1	5.4	3.8	1.4	1.2	1.0	0.9	11.5	12.5	15.3	19.8

Source: Bloomberg, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours 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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