

Stable sugar recovery, ethanol expansion to aid profits

About the stock: Dhampur Sugar (DSL) is one of the integrated sugar companies in UP with sugar crushing capacity of 23,000 tonnes crushed per day (tcd), distillery capacity of 250 kilolitres per day (KLD) and 121 MW of co-generation capacity. It also has ethyl acetate production capacity of 140 tonnes per day.

- Dhampur Sugar is expanding its distillery capacity by 130 KLD, which includes 100 KLD fungible grain-based distillery. Post expansion, it would be able to produce 15 crore ethanol per annum at peak capacity utilisation

Q3FY23 Results: DSL reported weak numbers with 3.2% sales de-growth.

- Sales were down 3.2% YoY due to lower domestic sugar sales quota
- EBITDA was at ₹ 86.2 crore, down 14.2% YoY, with margins at 15.8%
- Consequent PAT was at ₹ 46.4 crore (down 20.1% YoY)

What should investors do? DSL's share price is down 25% in the last eight months from May-2022 (considering adjusted share price after de-merger in May 2022).

- We expect 2x increase in distillery volumes from 7.4 crore litre to 14.5 crore litre by FY25E, which would aid earnings CAGR to 16.4% during FY22-25E
- We assign BUY rating on the stock

Target Price and Valuation: We value the stock at ₹ 270, valuing the business at 10x FY24 PE.

Key triggers for future price performance:

- DSL will be commissioning its 130 KLD distillery capacity by March-2023, which would take its annual distillery capacity to 15 crore litre. Ethanol would contribute 36% to overall sales by FY25
- The company would be diverting more than 20% of its sugarcane towards sugarcane juice route to produce ethanol. This would result in 0.9-1.0 lakh tonnes sugar sacrifice compared to FY21
- We expect cumulative free cash flow of ₹ 650 crore in the next three years, which would fund capex, reduce debt levels & increase dividend payout

Alternate Stock Idea: We also like Triveni Engineering in our sugar coverage.

- With distillery capex, it would increase its ethanol volumes from 11.8 crore litre in FY22 to 31.8 crore litre in FY25. Distillery sales to contribute 30% to total revenues in the next three years
- We value the stock at ₹ 360 /share with BUY recommendation



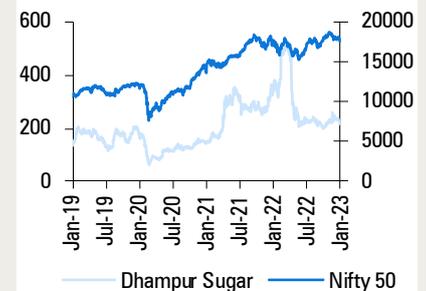
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	1,509.4
Total Debt (FY22)	879.1
Cash and Investments (FY22)	58.6
EV	2,330.0
52 week H/L (₹)	516 / 196
Equity capital	66.5
Face value (₹)	10.0

Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	49.1	49.1	49.1	49.1
FII	8.7	7.2	5.6	5.1
DII	0.5	0.5	0.5	0.5
Others	41.8	43.3	44.9	45.3

Price Chart



Recent event & key risks

- Dhampur would be commissioning 130 KLD distillery by March-2023
- Key Risk:** (i) Any increase in sugarcane SAP prices in 2022-23 season (ii) Any significant decline in sugar recovery or sugarcane yields

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Key Financial Summary

Key Financials	FY21	FY22	5 Year CAGR (FY17-22)	FY23E	FY24E	FY25E	CAGR (FY22-25E)
Total Operating Income	2158.1	1904.1	-5.92%	2429.8	2433.5	2528.4	9.9%
EBITDA	276.7	291.4	-10.81%	308.4	346.3	386.9	9.9%
EBITDA Margin %	12.8	15.3		12.7	14.2	15.3	
Net Profit	143.4	144.0	-8.90%	156.3	178.0	226.9	16.4%
EPS (₹)	21.60	21.70	-9.28%	23.54	26.82	34.18	16.4%
P/E	10.5	10.5		9.6	8.5	6.6	
RoNW %	9.2	16.3		15.8	16.2	18.2	
RoCE (%)	8.6	13.9		15.3	17.7	19.9	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q3FY22 Results: Distillery expansion to increase ethanol capacity to 15 crore litre by FY25

- Revenue witnessed a dip of 3.2% to ₹ 543.8 crore, mainly impacted by 4.1% drop in sugar segment sales. Distillery sales & potable alcohol sales grew at a robust pace led by significant jump in volume
- The decline in sugar segment sales was mainly due to 25.5% decline in sugar sales volumes to 0.73 lt. Domestic sugar sale quota dipped by 38% to 0.47 lakh tonnes (lt) during the quarter
- The company received 0.71 lakh tonnes of export quota. Out of this, it exported 0.26 lt of sugar during the quarter. It sold off remaining 0.45 lt, which generated ₹ 16 crore of revenue in Q3FY23
- Sugar realisation remained flat for both domestic & exports. Blended sugar realisation was ₹ 35.1 / kg. Sugar prices have remained in a tight range of ₹ 34-36 / kg from last one year despite lowest sugar inventory in last five years
- The company is holding 0.71 lt of sugar inventory as of December 2022 at a valuation of ₹33.6 / kg compared to 1.03 lt valued at ₹ 32.3 / kg
- Distillery sales grew by a robust 59% led by 43.7% growth in ethanol volumes & 9.9% growth in distillery realisation. The company sold 2.3 crore litre of ethanol at an average price of ₹ 63/litre
- B-heavy ethanol contributed 32.5% (0.75 crore litre) to the total distillery volumes while ethanol produced from juice contributed remaining 67.5% (1.57 crore litre)
- Chemical business (Ethyl Acetate) sales were down 2.2% to ₹ 70.2 crore. The segment volume was up 26.5% to 85.34 lakh kg but realisation was down significantly. It is a low margin business (average 7-8%)
- In potable alcohol business, volumes grew 44.3% to 4.43 lakh cases. Net of excise, sales grew 32% to ₹ 11.1 crore in Q3. The company is merely breaking-even in this business. It is largely to fulfil state government's levy obligation of 20% molasses / ENA supply at concessional price
- Power sales were up 11.1% to ₹ 70 crore. Power volumes de-grew 5.6% to 5.7 crore units & power realisation was higher by 2.6% to ₹ 3.58 / units. Transfer pricing for bagasse of ₹1000/ tonne
- Sugarcane crushing for the 2022-23 season is higher by 8.9% to 12.98 lakh tonnes. Gross sugar recovery is higher by 12 bps to 11.34%. The company is expected to divert 22% of sugarcane toward juice route for ethanol whereas remaining 78% towards B-heavy route
- The company is expected to crush ~37 lt in FY23 while sugar recovery is likely to remain to the previous year levels (12.16% in FY22).
- Operating profit saw a decline of 14.2% to ₹ 86.2 crore mainly on account of lower profitability in sugar segment given sugar prices remain flat compared to increase in cost in 2021-22 season due to increase in sugarcane SAP prices. Distillery segment profit grew 30.5% to ₹ 35.9 crore on account of higher ethanol volumes
- Net profit saw a dip of 20.1% to ₹ 46.4 crore impacted by de-growth in operating profit & higher tax provisioning. Long term debt was at ₹ 234.1 crore, a reduction of ₹ 78 crore
- Transfer pricing for B-heavy molasses is ₹ 11 / litre. The cost of production for B-heavy & sugarcane juice ethanol is ₹ 43 / litre & ₹ 50/litre

- Given, the difference is B-heavy ethanol & Juice ethanol realisation ₹ 5/ litre, profitability in sugarcane juice ethanol is lower by ₹ 2/litre. However, the company would be still producing Sugarcane juice ethanol to utilise its full distillery capacity. Moreover, this would further reduce the company's dependency on sugar
- Dhampur would be commissioning its 130 KLD distillery capacity, which would be fungible to produce grain, b-heavy & sugarcane juice ethanol. Though grain-based ethanol margins are currently very low, it would evaluate production on grain-based ethanol on prices of available grain & DDGS (by-product) prices
- Sugar industry is expected to produce 34 million tonnes (MT) in 2022-23 sugar season whereas sugar consumption is likely to remain 27.5 MT according to latest estimate by ISMA
- With export of 6.1 MT, sugar inventory is likely to remain ~6 MT (higher by 0.5 MT) as on September-2023. Any further reduction in sugar production would lead to ₹ 2-3/ kg increase in sugar prices from current ₹ 34.5 / kg

Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS growth (%)			EBITDA margins (%)			PE (x)			P/B (x)			RoCE (%)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Balrampur Chini (BALCHI)	364	485	Buy	7419	-0.3	1.0	59.1	14.4	14.5	17.8	14.5	14.3	9.0	2.4	2.3	2.0	15.3	14.9	22.3
Dalmia Bharat Sugar (DALSUG)	350	490	Buy	2834	10.0	14.2	18.1	14.8	17.7	19.0	8.7	7.6	6.4	1.1	1.1	1.0	12.3	15.8	17.7
Triveni Engineering (TRIENG)	273	360	Buy	6596	45.9	17.2	23.3	14.8	12.2	16.2	15.4	13.1	10.6	3.4	2.2	2.1	15.8	17.4	18.9
Dwarikesh sugar (DWASUG)	96	135	Buy	1802	69.6	4.4	56.1	14.7	13.1	17.6	10.8	10.3	6.6	2.5	2.0	1.6	20.6	18.5	28.5
Dhampur Sugar (DHASUG)	227	270	Buy	1509	0.5	8.5	13.9	15.3	12.7	14.2	10.5	9.6	8.5	1.7	1.5	1.4	13.9	15.3	17.7
Avadh Sugar (AVASUG)	484	750	Buy	969	60.3	25.2	28.4	11.0	12.0	12.9	16.0	15.8	9.9	1.2	1.0	0.9	12.5	15.3	19.8

Source: Company, ICICI Direct Research

Dhampur Sugar is aggressively diverting its sugarcane towards ethanol production, which has significantly reduced its dependence on sugar sales. We expect 2x increase in distillery volumes to 14.5 crore litre in FY25 from 7.4 crore litre in FY22. The higher ethanol sales & lower sugar sales would improve margins considerably for the company. Further, the company is experiencing higher sugarcane crushing & better sugar recovery in 2022-23 season compared to lower recovery by other companies. The better sugar recovery would reduce cost of production for the company. We expect strong 16.4% earning CAGR during FY22-25E. We remain positive on sugar industry on strong profitability growth in next two years. We assign **BUY** recommendation on the stock with a target price of ₹ 270 / share

Exhibit 2: Variance Analysis

	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Total Operating Income	543.8	561.7	-3.2	541.2	0.5	Net sales witnessed a decline of 3.2% on account of 25% decline in sugar sales volumes. However, sugar exports & 59% growth in distillery segment off-set negative impact of lower volumes
Other Operating Income	0.0	0.0	N.A.	0.0	N.A.	
Raw Material Expenses	386.5	396.4	-2.5	450.4	-14.2	
Employee Expense	22.1	19.0	16.2	22.2	-0.3	
Other operating Expenses	49.1	45.8	7.0	37.7	30.2	
EBITDA	86.2	100.4	-14.2	31.0	178.3	Operating profit was down by 14.2% mainly on account of higher cost of production given increase in sugarcane prices & subdued recovery last season
EBITDA Margin (%)	15.8	17.9	-204 bps	5.7	1012 bps	
Depreciation	13.8	13.3	3.8	10.3	34.6	
Interest	5.5	8.8	-38.0	10.5	-48.3	
Other Income	0.2	0.5	-50.0	6.6	-96.4	
PBT	67.1	78.8	-14.8	16.7	301.3	
Tax Outgo	20.7	20.7	0.0	5.2	298.7	
PAT	46.4	58.1	-20.1	11.5	302.4	Net profit de-grew by 20.1% due to lower operating profit & higher tax rate
Key Metrics						
Sugar sales volume (in lakh tonnes)	0.7	1.0	-25.5	1.0	-24.7	Sugar volumes were down due to lower domestic sales quota
Sugar realisation (₹ per kg)	35.1	35.0	0.4	35.4	-0.7	Sugar prices remain flat
Distillery volumes (in crore litre)	2.3	1.6	43.7	1.6	48.6	Distillery volumes were up 43.7% on the back of higher capacity utilisation & sugarcane diversion towards sugarcane juice
Distillery realisation (₹ per litre)	63.0	57.3	9.9	58.9	6.9	Distillery realisation was up due to larger contribution of ethanol produced from sugarcane juice

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			FY25E	Comments
	Old	New	% change	Old	New	% change	New	
Net sales	2,429.8	2,429.8	0.0	2,433.5	2,433.5	0.0	2,528.4	After de-merger of Dhampur Bio, we have prepared numbers separately
EBITDA	308.4	308.4	0.0	346.3	346.3	0.0	386.9	
EBITDA Margin (%)	12.7	12.7	0 bps	14.2	14.2	0 bps	15.3	
PAT	156.3	156.3	0.0	178.0	178.0	0.0	226.9	
EPS (₹)	23.5	23.5	0.0	26.8	26.8	0.0	34.2	

Source: ICICI Direct Research

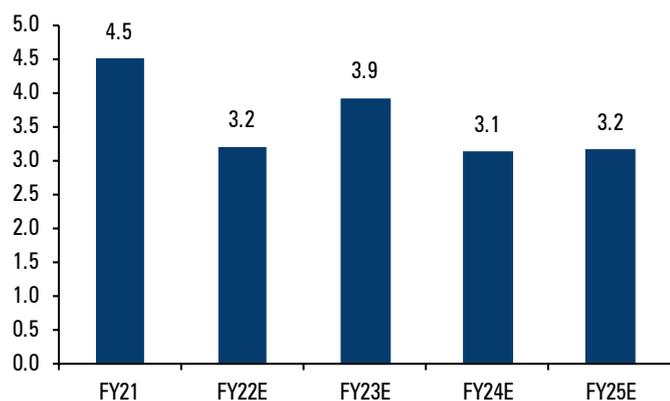
Exhibit 4: Assumptions

	Current					Earlier			Comments
	FY21	FY22	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	
Sugar Sold (in tonne)	4,50,000	3,21,000	3,93,000	3,14,400	3,17,544	3,93,000	3,14,400	3,17,544	After de-merger of Dhampur Bio, we have prepared numbers separately
Sugar Price (₹ per tonne)	32,763	33,783	35,405	35,570	35,600	35,405	35,570	35,600	
Distillery volume (KL)	75,099	73,718	95,300	1,35,000	1,45,000	95,300	1,35,000	1,45,000	
Distillery price (₹ KL)	53.2	57.9	62.8	63.5	64.1	63	63	64	
Power Units sold	18.0	19.5	19.9	20.3	20.7	19.9	20.3	20.7	
Price per unit (₹ per units)	3.4	3.5	3.5	3.6	3.6	3.5	3.6	3.6	

Source: ICICI Direct Research

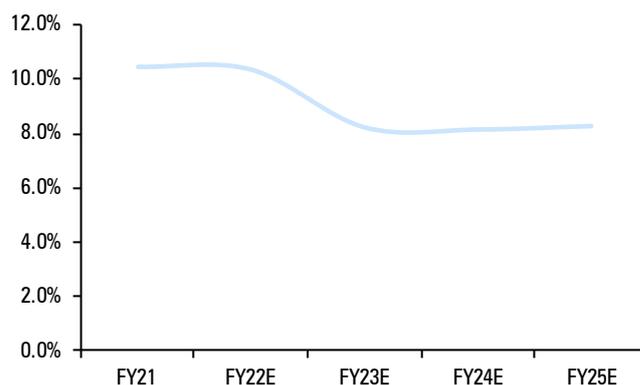
Key Metrics

Exhibit 5: Sugar sales volume (in lakh tonne)



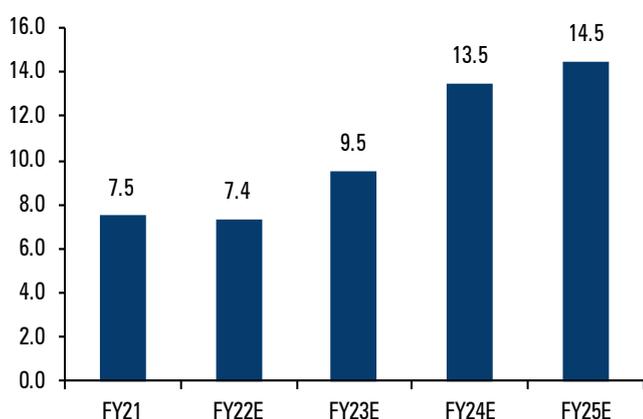
Source: ICICI Direct Research, Company

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



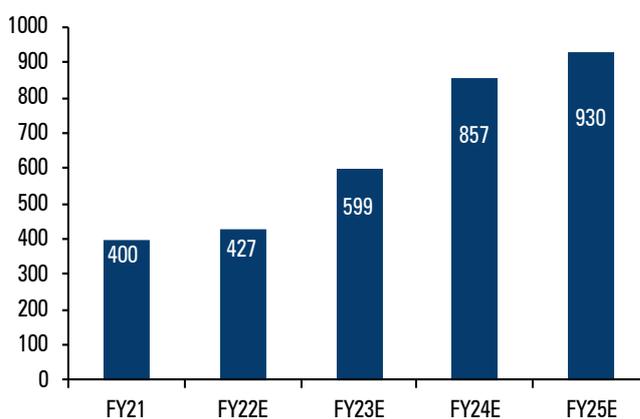
Source: ICICI Direct Research, Company

Exhibit 7: Ethanol volumes (in crore litre)



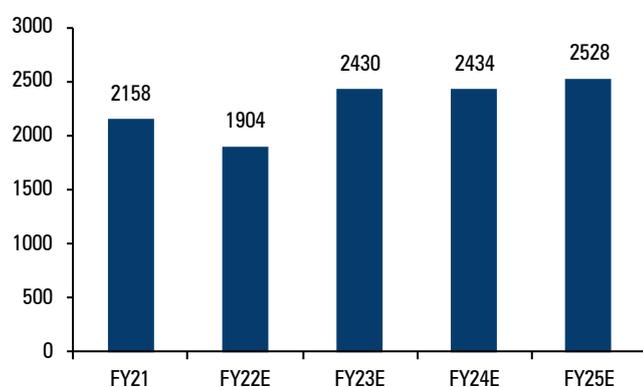
Source: Company, ICICI Direct Research

Exhibit 8: Distillery segment (Ethanol) sales (₹ crore)



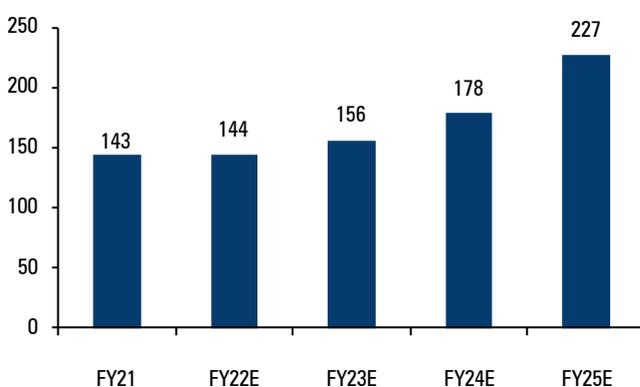
Source: Company, ICICI Direct Research

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 (%)
FY22	1904.1	-11.8	21.7	0.5	10.5	7.9	16.3	13.9
FY23E	2429.8	27.6	23.5	8.5	9.6	7.1	15.8	15.3
FY24E	2433.5	0.2	26.8	13.9	8.5	5.9	16.2	17.7
FY25E	2528.4	3.9	34.2	27.4	6.6	4.8	18.2	19.9

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 12: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22E	FY23E	FY24E	FY25E
Total Operating Income	1,904.1	2,429.8	2,433.5	2,528.4
Growth (%)	-11.8	27.6	0.2	3.9
Raw Material Expenses	1,350.3	1,855.9	1,811.4	1,845.6
Employee Expenses	78.2	81.3	86.2	94.8
Other expenses	184.2	184.2	189.8	201.1
Total Operating Expenditure	1,612.7	2,121.4	2,087.3	2,141.5
EBITDA	291.4	308.4	346.3	386.9
Growth (%)	5.3	5.8	12.3	11.7
Depreciation	50.3	50.7	59.9	63.4
Interest	50.2	43.7	41.2	29.9
Other Income	10.6	12.6	12.8	12.9
PBT	190.9	213.9	245.2	293.7
Exceptional items	0.0	0.0	0.0	0.0
Total Tax	57.6	70.2	80.0	79.7
PAT	144.0	156.3	178.0	226.9
Growth (%)	0.5	8.5	13.9	27.4
EPS (₹)	21.7	23.5	26.8	34.2

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement				
	₹ crore			
(Year-end March)	FY22E	FY23E	FY24E	FY25E
Profit/Loss after Tax	201.6	156.3	178.0	226.9
Add: Depreciation	50.3	50.7	59.9	63.4
Add: Interest	50.2	0.0	0.0	0.0
(Inc)/dec in Current Assets	-312.1	141.3	42.4	2.6
Inc/(dec) in Current Liabilities	47.0	9.8	106.8	89.8
CF from operating activities	-0.2	358.1	387.1	382.7
(Inc)/dec in Investments	0.0	-5.0	-5.0	-5.0
(Inc)/dec in Fixed Assets	-87.5	-190.7	-139.9	-143.4
Others	-3.4	14.0	0.0	0.0
CF from investing activities	-90.9	-181.7	-144.9	-148.4
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	126.0	-150.0	-180.0	-150.0
Dividend paid & dividend tax	-0.1	-53.1	-66.4	-79.7
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-48.7	0.0	0.0	0.0
CF from financing activities	77.1	-203.1	-246.4	-229.7
Net Cash flow	-13.9	-26.7	-4.1	4.7
Opening Cash	72.5	44.6	17.8	13.7
Cash & cash equivalents	-14.0	0.0	0.0	0.0
Cash with bank	14.0	0.0	0.0	0.0
Closing Cash	58.6	17.8	13.7	18.4

Source: Company, ICICI Direct Research

Exhibit 14: Balance Sheet				
	₹ crore			
	FY22E	FY23E	FY24E	FY25E
Liabilities				
Equity Capital	66.4	66.4	66.4	66.4
Reserve and Surplus	818.6	921.8	1,033.4	1,180.7
Total Shareholders funds	885.0	988.2	1,099.8	1,247.0
Total Debt	879.1	729.1	549.1	399.1
Long Term Provisions	15.3	13.3	11.3	9.3
Other Non-current Liabilities	35.5	31.7	31.7	31.7
Total Liabilities	1,814.9	1,762.2	1,691.9	1,687.1
Assets				
Gross Block	2,101.0	2,281.7	2,411.6	2,544.9
Less: Acc Depreciation	1,103.8	1,154.6	1,214.4	1,277.8
Net Block	997.2	1,127.2	1,197.2	1,267.2
Capital WIP	28.7	38.7	48.7	58.7
Intangible assets	2.1	2.1	2.1	2.1
Non Current Investments	5.1	10.1	15.1	20.1
Other non-current assets	18.0	18.0	18.0	18.0
Current Assets				
Inventory	852.4	674.9	642.2	632.1
Debtors	159.9	216.0	216.3	224.8
Cash	58.6	17.8	13.7	18.4
Loans & Advances	1.8	1.8	1.8	1.8
Other Current Assets	41.1	21.1	11.1	10.1
Current Liabilities				
Creditors	231.7	217.5	235.1	241.6
Provisions	5.2	5.2	5.2	5.2
Other CL	113.0	142.8	234.1	319.3
Net Current Assets	763.8	566.2	410.8	321.0
Total Assets	1,814.9	1,762.2	1,691.9	1,687.1

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
	FY22E	FY23E	FY24E	FY25E
Per share data (₹)				
EPS	21.7	23.5	26.8	34.2
Cash EPS	29.3	31.2	35.8	43.7
BV	133.3	148.9	165.7	187.9
DPS	6.0	8.0	10.0	12.0
Cash Per Share	166.3	173.9	182.9	192.5
Operating Ratios (%)				
EBITDA Margin	15.3	12.7	14.2	15.3
PBT / Net Sales	0.1	0.1	0.1	0.1
PAT Margin	7.6	6.4	7.3	9.0
Inventory days	163.4	101.4	96.3	91.3
Debtor days	30.7	32.4	32.4	32.4
Creditor days	44.4	32.7	35.3	34.9
Return Ratios (%)				
RoE	16.3	15.8	16.2	18.2
RoCE	13.9	15.3	17.7	19.9
Valuation Ratios (x)				
P/E	10.5	9.6	8.5	6.6
EV / EBITDA	7.9	7.1	5.9	4.8
EV / Net Sales	1.2	0.9	0.8	0.7
Market Cap / Sales	0.8	0.6	0.6	0.6
Price to Book Value	1.7	1.5	1.4	1.2
Solvency Ratios				
Debt/EBITDA	3.0	2.4	1.6	1.0
Debt / Equity	1.0	0.7	0.5	0.3
Current Ratio	3.9	3.0	2.3	2.0
Quick Ratio	0.7	0.8	0.6	0.5

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)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E
Balrampur Chini (BALCHI)	364	485	Buy	7,419	22.8	23.0	36.6	16.0	15.8	9.9	11.2	10.6	7.0	2.4	2.3	2.0	15.3	14.9	22.3
Dalmia Bharat Sugar (DALSUG)	350	490	Buy	2,834	36.7	42.0	49.5	9.5	8.3	7.1	7.3	5.4	4.3	1.1	1.1	1.0	12.3	15.8	17.7
Triveni Engineering (TRIENG)	273	360	Buy	6,596	17.7	20.8	25.7	15.4	13.1	10.6	12.7	10.7	8.4	3.4	2.2	2.1	15.8	17.4	18.9
Dwarikesh sugar (DWASUG)	96	135	Buy	1,802	8.2	8.6	13.4	11.6	11.1	7.1	7.3	7.3	4.5	2.5	2.0	1.6	20.6	18.5	28.5
Dhampur Sugar (DHASUG)	227	270	Buy	1,509	21.7	23.5	26.8	10.5	9.6	8.5	7.9	7.1	5.9	1.7	1.5	1.4	13.9	15.3	17.7
Avadh Sugar (AVASUG)	484	750	Buy	969	62.2	77.9	100.0	7.8	6.2	4.8	7.1	5.4	3.8	1.2	1.0	0.9	12.5	15.3	19.8

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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