Sharekhan by BNP PARIBAS

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Dhampur Bio Organics

Mixed bag Q4; capacity additions would drive growth

Miscellaneous	Sharekhan code: DBOL
Reco/View: Buy ↔	CMP: **Rs. 166** / Price Target: **Rs. 215** ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

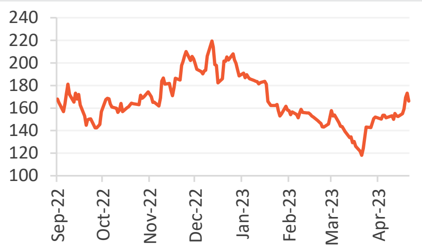
Company details

Market cap:	Rs. 1,103 cr
52-week high/low:	Rs. 229 / 115
NSE volume: (No of shares)	2.2 lakh
BSE code:	543593
NSE code:	DBOL
Free float: (No of shares)	3.3 cr

Shareholding (%)

Promoters	50.2
FII	5.9
DII	0.5
Others	43.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	123.1	92.0	91.2	-
Relative to Sensex	-89.5	-89.7	-89.8	-

Sharekhan Research, Bloomberg

Summary

- Dhampur Bio Organics Ltd (DBOL) posted mixed performance in Q4FY2023 with revenues growing by 59% y-o-y to Rs. 803 crore, while lower OPM resulted in a 3% decline in adjusted PAT. DBOL witnessed strong sequential improvement in profitability.
- Sugar production in North India including UP is up by 4%; net sugar production for current season is expected to be at 32.8 million tonnes.
- DBOL expanded its country liquor capacity to 4.2 million cases from 2.8 million cases; Sugar capacity will be expanded to 26,000 TCD from 22,000 TCD in October 2023. With expanded capacity of 312.5 lakh litres per annum, the company is targeting bio-fuel/spirit production of ~12 crore litre in FY2024.
- The stock trades at 9x/8x its FY2024E/25E earnings. We maintain our Buy recommendation on the stock with an unchanged PT of Rs. 215.

Dhampur Bio Organics Ltd (DBOL) is the demerged entity of Dhampur Sugar Mills that listed on the bourses in September 2022. It posted a mixed bag of numbers in Q4FY2023 with revenues growing by 59% y-o-y to Rs. 803 crore while 708 bps y-o-y decline in the OPM and higher interest expenses led to 3% y-o-y decline in adjusted PAT to Rs. 68.7 crore. Sugar business' sales grew by 66% y-o-y to Rs. 815.9 crore led by 59% increase in the sales volume. Sugar realisation stood flat at Rs. 37.3 per kg. Biofuels & spirit business revenues grew by 1.51x y-o-y to Rs. 283.5 crore. Capacity of distillery plant increased to 312,500 LPD (BH/Syrup-derived ethanol) in Q4FY2022. Lower recovery in the sugar business and lower margins in the biofuel & spirits business due to contribution from low margin country liquor segment resulted in 708 bps y-o-y decline in the OPM to 13%.

Key positives

- Sugar business' revenues grew by 66% y-o-y; led by 59% y-o-y growth in sugar sales volumes.
- Biofuel & spirit business revenues grew by 1.5x y-o-y to Rs. 283.5 crore.
- The company repaid long-term loans of ~Rs. 62 crore in FY2023.

Key negatives

- Sugar business and biofuel & spirit business PBIT margins were lower by 483 bps and 1,021 bps y-o-y, respectively..

Management Commentary

- The management indicated that gross recovery for FY2023 is lower by 0.42% due to the severe pest infestation in the company's Mansurpur and Asmoli units. The company has intensified its cane development activities to reverse this falling recovery. DBOL is working towards bringing-in new cane varieties which will give higher yield (expected in 2-3 years).
- The management indicated that the working capital utilization substantially dropped in Q4 due to sugar exports. Working capital as on 31st March, 2023 stood at Rs. 460 crore, against Rs. 645 crore at FY2022-end.
- The management has indicated that the company has planned Neerganj unit capacity expansion due to increase in cane acreage. Further, DBOL is also expected to come up with expansion in ethanol capacity but is waiting for optimal time to announce the same. In the country liquor business, the company is not planning to add any further capacities.
- For FY2024, the company has planned a capex of ~Rs. 65 crore towards Meerganj capacity expansion and minor capex towards energy efficiency and normal depreciation.

Revision in the earnings estimates - We have fine-tuned our earnings estimates for FY2024 and FY2025 to factor in better-than-expected performance in Q4FY2023.

Our Call

View: Retain Buy with an unchanged PT of Rs. 215: Headed by an experienced management team, DBOL has strategies to deliver consistent earnings growth in the medium term. Higher contribution from ethanol sales will help the company's earnings to grow in double digits with expansion in EBIDTA margins over the next 2-3 years. The stock is currently trading at 9x and 8x its FY2024E and FY2025E earnings. We maintain our Buy rating on the stock with an unchanged price target of Rs. 215.

Key Risks

Any change in the government's ethanol blending policy or delay in start of the sugar season due to weather vagaries or lower sugar supply would act as a key risk to our earnings estimates.

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23	FY24E	FY25E
Revenue	1,564	2,408	2,654	2,814
OPM (%)	11.7	7.9	8.6	8.8
Adjusted PAT	102	98	126	139
Adjusted EPS (Rs.)	15.4	14.7	19.0	20.9
P/E (x)	10.8	11.3	8.7	7.9
P/B (x)	1.3	1.1	1.0	0.9
EV/EBIDTA (x)	10.5	9.4	10.4	9.3
RoNW (%)	12.4	10.5	12.0	11.7
RoCE (%)	10.7	9.1	10.0	9.9

Source: Company; Sharekhan estimates

Mixed Q4 – Revenue growth at 59% y-o-y; OPM declined by 708 bps y-o-y

Consolidated revenues grew by 58.8% y-o-y and 35.3% q-o-q in Q4FY2023 to Rs. 803.2 crore, driven by 66% y-o-y growth in the sugar division, while ethanol division revenues grew by 1.5x y-o-y. Consolidated OPM contracted by 708 bps y-o-y, but improved significantly (757 bps) q-o-q to 13%. Sugar business' PBIT margin declined by 483 bps y-o-y to 10.9%, while PBIT margins of the ethanol division stood at 11.2% during the quarter vs. 21.4% in Q4FY2022. Operating profit grew by 2.9% y-o-y to Rs. 104.7 crore. This coupled with lower other income, higher interest expenses and higher depreciation charges led to 3.2% y-o-y decline in the adjusted PAT to Rs. 68.7 crore. Exceptional items includes trial run expenses capitalised to the extent of Rs. 11.5 crore. Reported PAT came in at Rs. 80.2 crore. The company reported strong improvement in profitability q-o-q, with operating profit and adjusted PAT growth at 3.2x and 5.2x, respectively. The board has recommended a dividend of Rs. 3.5 per share for FY2023.

Sugar business' profitability impacted by lower sugar recovery

Sugar business' revenue grew by 66% y-o-y to Rs. 816 crore in Q4FY2023 led by 59% y-o-y growth in the sales volume to 1.43 lakh tonnes, while sales realisations grew by 6% y-o-y to Rs. 37.4 per kg. For FY2023, sugar business revenue grew by 54% y-o-y to Rs. 2,307 crore led by 25% y-o-y growth in sales volumes to 4.5 lakh tonnes, while sales realisation grew marginally by 3% y-o-y to Rs. 36.7 per kg. Sugar inventory at FY2023-end was lower at 1.47 lakh tonnes against 2.58 lakh tonnes at FY2022-end. PBIT margin of sugar business declined by 483 bps and 287 bps y-o-y to 10.9% and 4.8% in Q4FY2023 and FY2023, respectively.

Bio-fuels and spirits business – Higher contribution from low margin country liquor affected profitability

Bio-fuels & spirits business revenue grew by 1.5x and 2.1x y-o-y to Rs. 283.5 crore and Rs. 832.6 crore in Q4FY2023 and FY2023, respectively, due to scale-up in the capacity of ethanol production resulting in higher sales. Further, the company sold country liquor of Rs. 132 crore during the quarter. PBIT margins of biofuel & spirits business are down sharply as country liquor sales clocked lower margins due to higher excise levy.

Key conference call highlights

- **Country liquor sales contributed to revenue growth:** Revenue from sale of country liquor stood at Rs. 275.6 crore in FY2023. DBOL sold 11.62 lakh cases of country liquor in FY2023 at an average realization (net of excise duty) of Rs. 250.14 per case.

- **Incremental revenue from sale of bagasse:** According to the management, bagasse is used to run sugar factory and also helps to operate distillery factory during off-season. In FY2023, cane crushing was higher, which lead to higher bagasse production. Accordingly, the company sold more bagasse as compared to FY2022 and the rate was also higher y-o-y. DBOL sold 1.51 lakh tons of bagasse for Rs. 53 crore in FY2023 against 1.01 lakh tonnes of bagasse for Rs. 26 crores in FY2022. Sharp rise in the revenue can be attributed to 50% increase in the quantity sold and higher prices.

- **Drop in gross recovery due to pest infestation:** The management indicated that gross recovery for FY2023 is lower by 0.42% due to the severe pest infestation in the company's Mansurpur and Asmoli units. The company has intensified its cane development activities to reverse this falling recovery. DBOL is working towards bringing-in new cane varieties which will give higher yield (expected in 2-3 years).

- **Rise in long-term debt; working capital reduced:** DBOL's interest cost increased to Rs. 40.74 crore in FY2023 compared to Rs. 29.66 crore in FY2022 on account of higher utilisation of working capital in H1FY2023, drawing fresh term loans of Rs. 140 crores for the capex undertaken by the company in FY2023 and increase in rate of interest. The management indicated that the working capital utilization substantially dropped in Q4 due to sugar exports. Working capital as on March 31, 2023 stood at Rs. 460 crore, against Rs. 645 crore at FY2022-end. DBOL made repayment of long-term loans of Rs. 62.08 crores during FY2023 and the company's long-term loans stood at Rs. 246.32 crore as on March 31, 2023.

- **Capacity addition in sugar:** The management has indicated that the company has planned Neerganj unit capacity expansion due to increase in cane acreage. Further, DBOL is also expected to come up with expansion in ethanol capacity but is waiting for optimal time to announce the same. In the country liquor business, the company is not planning to add any further capacities. For FY2024, the company has planned a capex of ~Rs. 65 crore towards Meerganj capacity expansion and minor capex towards energy efficiency and normal depreciation.

- **Sugar industry scenario:** As per latest estimates, the Indian sugar production is estimated to drop by 2.5 million metric tons in the current sugar season. Net sugar production for the current season is expected to be at 32.8 million tons with a diversion 4 million tons towards ethanol. Sugar production in North India including UP is up by 4% with a 9% drop in sugar production being witnessed in western states. Out of the 6 million tons permitted for export, 5.4 million tons have already been exported and the balance is expected to be shipped by May 31. The government has released 18.5 million tonnes of sugar for the domestic quota till May 2023. Which is 2% higher than the 17.7 million tons released till May 2022. Domestic prices look firm on account of lower production and the prices have moved up by 7% m-o-m in April. Current prices are at Rs. 3,350-3,400 per quintal in Maharashtra and Rs. 3,600-3,650 per quintal in UP.
- **Ethanol supply to OMCs:** This year the OMCs tendered for a total of 600 crore litres of ethanol as against 459 crore litres last year. Till date, the OMCs have executed 6 tender cycles and a total of 518.4 crores litres have been awarded. Average blending stood at 11.59%. Till date, the sugar sector was allocated 377.43 crore litres comprising of 142.82 crore litres derived from sugar syrup and the balance quantity from heavy molasses. The grain sector continues to grow exponentially. This year the grain sector has so far contracted for 149.2 crore litres as against 81.48 crore litres last year and 47.46 crore litres two years ago. OMCs are expected to further increase the quantity and proportion of grain in the next tender cycles.

Results (Consolidated) Rs cr

Particulars	Q4FY23	Q4FY22	y-o-y (%)	Q3FY23	q-o-q (%)
Net revenue	**803.2**	**505.9**	**58.8**	**593.5**	**35.3**
Raw materials	541.7	310.5	74.5	456.3	18.7
Employee costs	34.8	19.4	79.9	25.9	34.7
Other expenditure	122.1	74.3	64.3	79.0	54.6
Total expenditure	698.6	404.2	72.9	561.1	24.5
Operating profit	**104.7**	**101.7**	**2.9**	**32.4**	**-**
Other income	1.7	4.3	-59.9	1.0	78.4
Interest expenses	12.5	10.3	21.3	4.9	-
Depreciation	13.1	9.9	32.2	10.2	28.2
Profit Before Tax	**80.8**	**85.8**	**-5.9**	**18.3**	**-**
Tax	12.1	14.8	-18.5	5.2	-
Adjusted PAT	**68.7**	**71.0**	**-3.2**	**13.1**	**-**
Extra-ordinary items	11.5	0.0	-	1.9	-
Reported PAT	80.2	71.0	13.0	15.0	-
Adjusted EPS (Rs)	10.3	10.7	-3.2	2.0	-
			bps		**bps**
GPM (%)	32.6	38.6	-606	23.1	944
OPM (%)	13.0	20.1	-708	5.5	757
NPM (%)	8.5	14.0	-548	2.2	634
Tax rate (%)	15.0	17.3	-232	28.5	-

Source: Company, Sharekhan Research

Segment-wise financial performance

Particulars	Q4FY23	Q4FY22	y-o-y (%/bps)	FY23	FY22	y-o-y (%/bps)
Sugar Segment						
Revenue (Rs. crore)	815.9	490.6	66%	2,306.7	1,510.7	53%
PBIT (Rs. crore)	89.3	77.4	15%	109.8	115.3	-5%
PBIT margin (%)	10.9	15.8	-483	4.8	7.6	-287
Bio fuels & spirits segment						
Revenue (Rs. crore)	283.5	112.7	151%	832.6	266.7	212%
PBIT (Rs. crore)	31.6	24.1	31%	106.8	64.1	67%
PBIT margin (%)	11.2	21.4	-	12.8	24.0	-

Source: Company, Sharekhan Research

Segment-wise operating performance

Particulars	Q4FY23	Q4FY22	y-o-y (%/bps)	FY23	FY22	y-o-y (%/bps)
Sugar Segment						
Sugar Sold (lakh tonne)	1.43	0.90	59%	4.53	3.63	25%
Sale realisation (Per Kg)	37.36	35.20	6%	36.68	35.48	3%
Inventory (lakh tonne)	1.47	2.58	-43%	1.47	2.58	-43%
Renewable energy segment						
Power generated (cr. units)	17.02	15.30	11%	34.53	31.75	9%
Power exported (cr. units)	7.58	7.19	5%	14.67	14.50	1%
Average realisation (Rs./unit)	3.30	3.18	4%	3.30	3.18	4%
Bio fuels & spirits segment						
Ethanol produced (lakh BL)	281.36	177.21	59%	980.59	456.03	115%
Ethanol sold (lakh BL)	231.24	183.34	26%	885.21	462.76	91%
Average realisation (Rs./BL)	61.42	53.55	15%	60.83	56.07	8%

Source: Company, Sharekhan Research

Outlook and Valuation

Sector view - Rise in ethanol output to drive growth

As per the ISMA's latest estimates for SY2022-SY2023, total sugarcane production is estimated at 35.5 million tonne (net of diversion to ethanol). Diversion to ethanol will be ~4.5 million tonnes. With consumption expected at 27 million tonne, surplus sugar in the next season is expected at 6-7 million tonnes. India achieved 10% average blending percentage in June 2022, which is expected to improve in the ongoing sugar season. Sugar realisation is expected to be stable with the government expected to take care of surplus inventory by allowing exports of sugar or higher diversion for ethanol production. The government is targeting to achieve a 20% blending of ethanol by 2024-2025, which would largely solve the problem of excess sugar over the medium term.

Company outlook - Strong growth prospects ahead

FY2023 performance was impacted by decline in the sugar recovery, increase in sugar SAP and higher transportation cost, which led to lower sugar production impacting the margins of the sugar business. Ethanol business registered robust sales performance due to increase in the capacity and the business contribution has gone up substantially in FY2023. The company is focusing on improving the profitability of business through improvement in the sugar recovery rate, higher contribution from the ethanol business resulting in better mix and operating efficiencies at overall level, which will help overall margins to gradually improve in the coming years.

Valuation - Retain Buy with an unchanged PT of Rs. 215

Headed by an experienced management team, DBOL has strategies to deliver consistent earnings growth in the medium term. Higher contribution from ethanol sales will help the company's earnings to grow in double digits with expansion in EBIDTA margins over the next 2-3 years. The stock is currently trading at 9x and 8x its FY2024E and FY2025E earnings. We maintain our Buy rating on the stock with an unchanged price target of Rs. 215.

Peer Comparison

Companies	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Triveni Engineering & Industries	21.5	15.9	11.9	14.8	10.5	8.2	10.8	11.5	14.3
Dhampur Sugar Mills	12.8	9.8	7.8	9.7	8.1	6.7	11.5	12.6	14.4
Balrampur Chini Mills	37.5	15.9	14.0	25.8	12.4	10.8	7.5	17.3	18.6
Dhampur Bio Organics	11.3	8.7	7.9	9.4	10.4	9.3	9.1	10.0	9.9

Source: Company, Sharekhan estimates

About company

DBOL was demerged from Dhampur Sugar Mills Ltd (DSML) vide a Scheme of Arrangement approved by the Board of Dhampur Sugar Mills Ltd. on June 7, 2021. DBOL is one of the leading sugar manufacturers in India with promoters having nearly nine decades of experience in the industry. DBOL's operations are integrated, encompassing the crushing of cane, refining of raw sugar, ethanol production and power generation. DBOL has three plants in western-central Uttar Pradesh, India, which have a combined capacity to crush 22,000 MT of cane per day and produce 2000 MT of refined sugar and 800 MT of raw sugar per day and distillery capacity of 250 KLPD on C-heavy (312.5 KLPD on B-heavy) and cogeneration capacity of 95.50 MW.

Investment theme

Experienced promoters with long track record in sugar industry, expanded distillery capacity and integrated power capacity mitigating the industry cyclicality will help DBOL delivering consistent operating performance in the coming years. It's strategy is designed to build on its strengths while exploring new avenues for growth. The strategy, summarised by Innovation, Integration and Value Creation, allows the company to improve production capabilities, diversify product range, and achieve a higher margin through better price propositions and lower costs.

Key Risks

- Decline in sugar production would impact the company's revenue and acts as a key risk to our earnings estimates.
- Change in the government's policies towards ethanol blending would affect the company's profitability.

Additional Data

Key management personnel

Vijay Kumar Goel	Chairman
Gautam Goel	Managing Director
Nalin Kumar Gupta	Chief Financial Officer
Ashu Rawat	Company Secretary & Compliance Officer

Source: BSE; Company

Top 8 shareholders

Sr. No.	Holder Name	Holding (%)
1	Dimensional Fund Advisors LP	1.20
2	Acadian Emerging Markets Equtiy	1.15
3	Grantham Mayo Van Otterloo and Co	0.13
4	Frank Russell Company	0.14
5	Macquarie Group	0.07
6	FMR LLC	0.04
7	American Century Cos Inc	0.02
8	Manulife Financial Corp	0.01

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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