
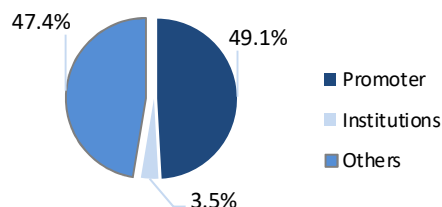


| | | |
|---|---|----------------------------|
|  SKP SECURITIES LTD creating prosperity THIRTY ENLIGHTENING YEARS | February 4, 2021 | |
| | Dhampur Sugar Mills Ltd. | |
| | <i>Ethanol - Industry game changer...</i> | |
| CMP INR 170 | Target INR 251 | Result Update – BUY |

Key Share Data

| | |
|----------------------------------|------------|
| Face Value (Rs) | 10.0 |
| Equity Capital (Rs Mn) | 664.5 |
| Market Cap (Rs Mn) | 11,296.5 |
| 52 Week High/Low (Rs) | 207/66 |
| 6 months Avg. Daily Volume (NSE) | 6,19,666 |
| BSE Code | 500119 |
| NSE Code | DHAMPURSUG |
| Reuters Code | DAMS:NS |
| Bloomberg Code | DSM: IN |

Shareholding Pattern (as on Dec. 2020)



Source: Company

Key Financials (Rs Million)

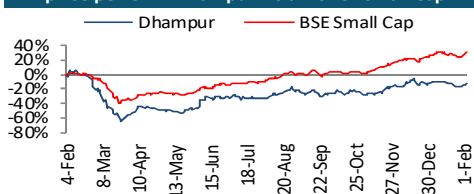
| Particulars | FY 19 | FY 20 | FY 21E | FY 22E |
|-------------|----------|----------|----------|----------|
| Net Sales | 29,540.6 | 34,853.2 | 39,604.7 | 38,995.2 |
| Growth (%) | -11.9% | 18.0% | 13.6% | -1.5% |
| EBITDA | 4,627.8 | 3,621.5 | 4,835.5 | 5,399.0 |
| PAT | 2,509.2 | 2,156.3 | 2,530.9 | 3,042.7 |
| Growth (%) | 65.9% | -14.1% | 17.4% | 20.2% |
| EPS (INR) | 37.8 | 32.5 | 38.1 | 45.8 |
| BVPS (INR) | 184.5 | 205.1 | 235.7 | 272.6 |

Key Financials Ratios

| Particulars | FY 19 | FY 20 | FY 21E | FY 22E |
|-------------------|-------|-------|--------|--------|
| P/E (x) | 4.5 | 5.2 | 4.5 | 3.7 |
| P/BVPS (x) | 0.9 | 0.8 | 0.7 | 0.6 |
| EV/Sales (x) | 1.0 | 0.8 | 0.6 | 0.5 |
| EV/EBITDA (x) | 6.1 | 7.5 | 4.7 | 3.6 |
| ROCE (%) | 13.5% | 9.6% | 15.1% | 17.5% |
| ROE (%) | 22.5% | 16.7% | 17.3% | 18.0% |
| EBITDA Mar (%) | 15.7% | 10.4% | 12.2% | 13.8% |
| PAT Mar (%) | 8.5% | 6.2% | 6.4% | 7.8% |
| Debt - Equity (x) | 1.4 | 1.2 | 0.7 | 0.5 |

Source: Company, SKP Research

1 Yr price perform. Dhampur vis-à-vis BSE Small Cap



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Company Background

Established in 1933, Dhampur Sugar Mills Limited (Dhampur) of Delhi based Goel family, is one of India's largest integrated sugar business engaged in the manufacturing of sugar, ethanol and power. It has five sugar factories located in Uttar Pradesh (UP) having an aggregate sugar crushing capacity of 45,500 tonnes/day, refined sugar capacity of 1,700 tonnes/day, distillery capacity of 400 KLPD and cogeneration capacity of ~220.5 MW (saleable ~125 MW).

Investment Rationale

Stable quarter led by higher sugar volume

▶ During Q3FY21, Dhampur net sales improved by ~36% y-o-y to ~Rs 10,893 mn, mainly on account of higher sugar and distillery volumes. Sugar sales volume improved by ~33.9% y-o-y to 245 mn kg while average domestic realisation was marginally down by ~0.5% y-o-y to Rs 32.6/kg. Sugar segment reported an EBIT profit of Rs 134.6 mn against Rs 270.3 mn reported in Q3FY20 owing to muted realisations and sugar inventory drawdown. Sugar inventory as on December 30, 2020 was 187 mn kg valued at an average rate of Rs 31.58/kg. For SS20-21, the Company has been allocated with export quota of sugar 156 mn kg and the same has been contracted for export.

Distillery segment steering profitability

▶ Distillery segment revenue increased by whopping ~60.9% y-o-y to ~Rs 2,337 mn during the quarter, led by higher contribution from B-heavy ethanol. Ethanol volume was up by ~70.4% y-o-y to 32 mn litres while average realisations were up by 15.6% to Rs 51.2/litre. Segment EBIT margin improved by 1,609 bps y-o-y to 26.7% or Rs 622.7 mn against Rs 153.4 mn reported in Q3FY20.

GoI initiatives supporting sugar industry (SI), sustaining sugar prices

▶ Indian SI has been known for its cyclical nature and volatility. With an intention to change the fortunes of SI, the GoI announced a slew of positive measures in 2018/19, which has started reaping benefits. To stabilize sugar prices, GoI introduced Minimum Selling Price (MSP), reintroduced sugar selling quota to control supply, provided export incentives to reduce inventory levels, created buffer stocks, provided soft loans etc. and re-introduced new National Biofuel Policy and new Ethanol Blended Petrol Program with an aim to reach 10% and 20% ethanol blending by 2022 and 2030 respectively. The 20% blending target is preponed by five years to 2025. Hence, sugar companies are making positive profit margins even with high sugar inventory levels.

▶ Continuing the Policy, with increase in FRP and sugar selling price, the Government has increased ethanol prices for EY20-21 and to balance surplus sugar announced exports policy for SS20-21. The Group of Minister (GoM) has proposed to increase sugar MSP from Rs 31/kg to Rs 33/kg, which is yet to get a Cabinet approval. Any positive development on sugar MSP hike will result in upward revision in domestic sugar prices and Dhampur's profitability. SAP prices for SS20-21 are awaited.

▶ With higher ethanol blending and procurement prices, the ethanol business has proved to be a boon for the sugar producers especially in a period of surplus sugarcane production. To have a greater participation in the ethanol blending programme, the Company enhanced its distillery capacity by 100 KLPD to 400 KLPD in FY19. Thus, Dhampur has been able to sell ~98 mn litre in FY20 against ~67 mn in FY18. The Company has tendered for ~105 mn litre of B-heavy ethanol to OMC's for EY20-21 and further 20 mn litres would be utilised for ENA sale under mandatory molasses levy quota, post which, Dhampur expects to produce ~105 mn litres and ~155 mn litres of ethanol from B-heavy and a mix of B-heavy and direct sugarcane juice respectively, for FY21E and FY22E.

▶ Dhampur is laying the foundation for next level of growth by increasing its ethanol capacity by 100 KLPD to 500 KLPD, with a capex of ~Rs 1.3 bn, funded through mix of debt/equity of 3:1. The new distillery will be utilised for sacrificing excess sugarcane for ethanol production through B-heavy and sugarcane juice and is expected to start commercial production by November 2021. Thus, for FY21E and FY22E, we expect the Company to divert ~80 mn kg and ~136 mn kg of sugar towards ethanol, resulting in lower sugar production at ~772 mn kg and ~709 mn kg.

▶ Given the current scenario, we expect Dhampur to report net sales of ~Rs 39 bn each in FY21E and FY22E, with strong operating cash flow generation of ~7 bn and ~6 bn during FY21E and FY22E respectively. This will be used to repay debt of ~4.75 bn and ~3.25 bn during FY21E and FY22E. During Q3FY21, the Company has announced an interim dividend of Rs 6/- for FY22.

Valuation

Presently, the sugar industry is recovering from its recent troughs, through timely and game changing policy intervention related to sugar MSP, higher ethanol pricing, blending mandates, favourable export policy etc., thereby, moderating sector cyclicality and improving profitability, leading to structural re-rating of the sector. We have valued the stock on the basis of consolidated P/E and P/BV valuation method, assigning equal weights to P/E multiple of 5x FY22E EPS of Rs 45.8/share and P/BV multiple of 1x FY22E BV of Rs 273/share and maintain BUY on the stock with a target price of Rs 251/- in 12 months (48% upside).

Q3FY21 Result Update

Exhibit: Q3FY21 Consolidated Result Review

| Particulars | Q3FY21 | Q3FY20 | YoY % | Q2FY21 | QoQ % | 9MFY21 | 9MFY20 | YoY% |
|---------------------------------|-----------------|----------------|-----------------|----------------|-----------------|-----------------|-----------------|----------------|
| Total Income | 10,893.2 | 8,010.7 | 36.0% | 9,313.0 | 17.0% | 30,996.5 | 24,188.7 | 28.1% |
| Expenditure | 9,782.7 | 7,099.3 | 37.8% | 8,592.0 | 13.9% | 28,026.1 | 21,751.1 | 28.8% |
| Material Consumed | 8,434.3 | 5,935.7 | 42.1% | 7,842.4 | 7.5% | 24,845.0 | 17,321.2 | 43.4% |
| <i>(as a % of Total Income)</i> | 77.4% | 74.1% | 333 Bps | 84.2% | (678)Bps | 80.2% | 71.6% | 855 Bps |
| Employees Cost | 397.3 | 384.5 | 3.3% | 312.5 | 27.1% | 1,074.9 | 999.5 | 7.5% |
| <i>(as a % of Total Income)</i> | 3.6% | 4.8% | (115)Bps | 3.4% | 29 Bps | 3.5% | 4.1% | (66)Bps |
| Other Expenses | 951.0 | 779.1 | 22.1% | 437.0 | 117.6% | 2,106.2 | 1,716.6 | 22.7% |
| <i>(as a % of Total Income)</i> | 8.7% | 9.7% | (99)Bps | 4.7% | 404 Bps | 6.8% | 7.1% | (30)Bps |
| EBITDA | 1,110.6 | 911.4 | 21.9% | 721.0 | 54.0% | 2,970.4 | 2,437.6 | 21.9% |
| EBITDA Margin (%) | 10.2% | 11.4% | (118)Bps | 7.7% | 245 Bps | 9.6% | 10.1% | (49)Bps |
| Depreciation | 217.6 | 187.9 | 15.8% | 160.7 | 35.4% | 576.8 | 547.9 | 5.3% |
| EBIT | 893.0 | 723.5 | 23.4% | 560.4 | 59.4% | 2,393.6 | 1,889.7 | 26.7% |
| Other Income | 12.5 | 17.1 | -27.0% | 21.1 | -40.8% | 72.8 | 251.8 | -71.1% |
| Interest Expense | 128.8 | 204.4 | -37.0% | 210.7 | -38.9% | 599.7 | 751.5 | -20.2% |
| Profit Before Tax | 776.6 | 536.1 | 44.8% | 370.7 | 109.5% | 1,866.7 | 1,390.0 | 34.3% |
| Income Tax | 220.8 | 22.4 | 887.3% | 92.8 | 138.0% | 490.9 | 221.2 | 122.0% |
| Effective Tax Rate (%) | 28.4% | 4.2% | | 25.0% | | 26.3% | 15.9% | |
| Profit After Tax (PAT) | 555.8 | 513.8 | 8.2% | 277.9 | 100.0% | 1,375.9 | 1,168.8 | 17.7% |
| PAT Margins (%) | 5.10% | 6.41% | (131)Bps | 2.98% | 212 Bps | 4.44% | 4.83% | (39)Bps |
| Diluted EPS | 8.4 | 7.7 | 8.8% | 4.2 | 101.2% | 20.8 | 17.7 | 17.1% |

Source: Company Data, SKP Research

Exhibit: Segment Performance

| Particulars | Q3FY21 | Q3FY20 | YoY % | Q2FY21 | QoQ % | 9MFY21 | 9MFY20 | YoY% |
|-------------------------------|---------|---------|-----------|---------|------------|----------|----------|----------|
| Sugar | | | | | | | | |
| Sales Volumes (mn kg) | 245.0 | 183.0 | 33.9% | 217.0 | 12.9% | 735.0 | 561.0 | 31.0% |
| Average Realisation (Rs/kg) | 32.6 | 32.8 | -0.5% | 33.3 | -1.8% | 32.7 | 32.7 | -0.1% |
| Revenues | 9,496.8 | 7,338.7 | 29.4% | 7,896.5 | 20.3% | 27,471.9 | 20,476.0 | 34.2% |
| EBIT | 134.6 | 270.3 | -50.2% | 342.8 | -60.7% | 829.7 | 763.4 | 8.7% |
| EBIT (%) | 1.4% | 3.7% | (227)Bps | 4.3% | (292)Bps | 3.0% | 3.7% | (71)Bps |
| Distillery | | | | | | | | |
| Sales Volumes (mn BL) | 32.0 | 18.8 | 70.4% | 29.3 | 9.1% | 83.5 | 74.2 | 12.4% |
| Revenues | 2,336.5 | 1,452.6 | 60.9% | 2,132.2 | 9.6% | 6,204.3 | 4,507.3 | 37.7% |
| EBIT | 622.7 | 153.4 | 306.0% | 398.2 | 56.4% | 1,396.5 | 838.8 | 66.5% |
| EBIT (%) | 26.7% | 10.6% | 1,609 Bps | 18.7% | 798 Bps | 22.5% | 18.6% | 390 Bps |
| Cogeneration | | | | | | | | |
| Power - Sales (mn units) | 117.5 | 105.4 | 11.5% | - | - | 190.3 | 187.5 | 1.5% |
| Average realisation (Rs/unit) | 3.2 | 3.1 | 2.5% | - | - | 3.2 | 4.0 | -20.7% |
| Revenues | 1,127.4 | 1,442.9 | -21.9% | 42.6 | 2545.8% | 2,174.5 | 2,939.4 | -26.0% |
| EBIT | 306.0 | 478.5 | -36.0% | (48.4) | -731.7% | 600.4 | 938.1 | -36.0% |
| EBIT (%) | 27.1% | 33.2% | (602)Bps | -113.7% | 14,083 Bps | 27.6% | 31.9% | (430)Bps |

Source: Company Data, SKP Research

Risks & Concerns

Regulatory risk in sugar industry can temper company balance sheet

- ▶ Government policies on sugar and sugarcane prices will continue to influence and render volatility to the overall profitability of sugar manufacturers, including Dhampur. The non-linkage of sugarcane cost to sugar realisation is the key negative for the industry and would continue to result in huge volatility in Dhampur’s earnings.

A continuous increase in FRP/SAP

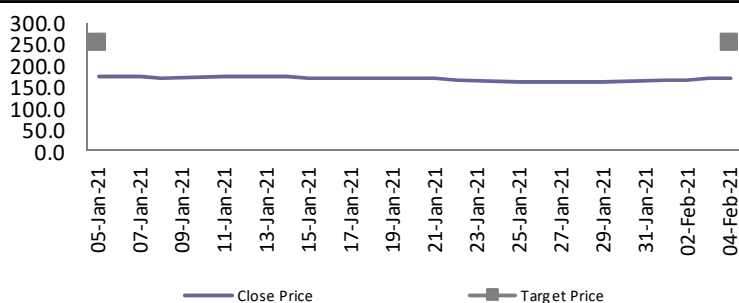
- ▶ Any adverse increase in FRP/SAP prices in future will have a significant bearing on the profitability and margins of sugar mills.

Exposed to vagaries of nature

- ▶ Being an agro-based industry, performance of Dhampur is dependent on the availability of sugarcane for crushing which may get adversely affected due to adverse weather conditions resulting in lower availability and diversion of cultivable lands to alternate crops.

Exhibit: Recommendation-History Table and Chart

| Date | Rating | Issue Price | Target Price | Upside Potential | Period (months) |
|----------|--------|-------------|--------------|------------------|-----------------|
| 5-Jan-21 | BUY | 172 | 251 | 46% | 12 |
| 4-Feb-21 | BUY | 170 | 251 | 48% | 12 |



Source: BSE, SKP Reseach

| Exhibit: Income Statement | | | | | Exhibit: Balance Sheet | | | | |
|----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------------------------|-----------------|-----------------|-----------------|-----------------|
| <i>Figures in Rs Million</i> | | | | | <i>Figures in Rs Million</i> | | | | |
| Particulars | FY19 | FY20 | FY21E | FY22E | Particulars | FY19 | FY20 | FY21E | FY22E |
| Total Income | 29,540.6 | 34,853.2 | 39,604.7 | 38,995.2 | Share Capital | 664.5 | 664.5 | 664.5 | 664.5 |
| <i>Growth (%)</i> | <i>-11.9%</i> | <i>18.0%</i> | <i>13.6%</i> | <i>-1.5%</i> | Reserve & Surplus | 11,582.5 | 12,952.2 | 14,985.2 | 17,430.4 |
| Expenditure | 24,912.8 | 31,231.7 | 34,769.2 | 33,596.2 | Non-Controlling Interest | 11.2 | 2.3 | 2.3 | 2.3 |
| Material Cost & Inventories | 20,777.8 | 27,148.8 | 30,505.3 | 29,228.7 | Shareholders Funds | 12,258.2 | 13,619.0 | 15,652.0 | 18,097.2 |
| Employee Cost | 1,496.8 | 1,407.2 | 1,491.6 | 1,559.8 | Total Debt | 16,759.6 | 16,354.6 | 11,588.6 | 8,338.6 |
| Admin & Other Exp. | 2,638.2 | 2,675.7 | 2,772.3 | 2,807.7 | Deferred Tax | 401.6 | - | - | - |
| EBITDA | 4,627.8 | 3,621.5 | 4,835.5 | 5,399.0 | Liabilities & Prov | 9,846.8 | 8,717.8 | 7,363.5 | 6,358.0 |
| Depreciation | 707.5 | 760.4 | 759.1 | 803.2 | Total Liabilities | 39,266.2 | 38,691.4 | 34,604.1 | 32,793.8 |
| EBIT | 3,920.3 | 2,861.1 | 4,076.4 | 4,595.9 | Net Block inc. Capital WIP | 16,311.1 | 16,443.5 | 16,566.6 | 17,163.5 |
| Other Income | 184.3 | 301.4 | 150.2 | 161.0 | Deferred Tax Assets | - | 37.0 | 37.0 | 37.0 |
| Interest Expense | -913.1 | -1,005.9 | -896.4 | -753.3 | Inventories | 16,741.1 | 16,037.0 | 11,543.1 | 8,957.0 |
| Profit Before Tax (PBT) | 3,191.5 | 2,156.6 | 3,330.2 | 4,003.5 | Sundry Debtors | 3,912.5 | 3,432.1 | 3,512.3 | 3,538.9 |
| Income Tax | -682.3 | 83.7 | -799.2 | -960.8 | Cash & Bank Balance | 202.4 | 163.7 | 153.3 | 237.6 |
| Extraordinary Items | 0.0 | -84.0 | 0.0 | 0.0 | Other Current Assets | 1,546.7 | 2,138.2 | 2,277.3 | 2,339.7 |
| Profit After Tax (PAT) | 2,509.2 | 2,156.3 | 2,530.9 | 3,042.7 | Loans & Advances | 114.0 | 121.7 | 146.8 | 156.7 |
| EPS | 37.8 | 32.5 | 38.1 | 45.8 | Other Assets | 438.4 | 318.2 | 367.7 | 363.5 |
| <i>PAT Margins (%)</i> | <i>8.5%</i> | <i>6.2%</i> | <i>6.4%</i> | <i>7.8%</i> | Total Assets | 39,266.2 | 38,691.4 | 34,604.1 | 32,793.8 |

| Exhibit: Cash Flow Statement | | | | | Exhibit: Ratio Analysis | | | | |
|-------------------------------------|------------------|------------------|------------------|------------------|--------------------------------|-------|-------|-------|-------|
| <i>Figures in Rs Million</i> | | | | | <i>Figures in Rs Million</i> | | | | |
| Particulars | FY19 | FY20 | FY21E | FY22E | Particulars | FY19 | FY20 | FY21E | FY22E |
| Profit Before Tax (PBT) | 3,191.5 | 2,156.6 | 3,330.2 | 4,003.5 | Earning Ratios (%) | | | | |
| Depreciation | 707.5 | 760.4 | 759.1 | 803.2 | EBITDA Margin (%) | 15.7% | 10.4% | 12.2% | 13.8% |
| Finance Costs | 913.1 | 1,005.9 | 896.4 | 753.3 | PAT Margins (%) | 8.5% | 6.2% | 6.4% | 7.8% |
| Chg. in Working Capital | (6,081.0) | 37.1 | 2,845.7 | 1,485.9 | ROCE (%) | 13.5% | 9.6% | 15.1% | 17.5% |
| Direct Taxes Paid | (569.8) | (480.0) | (799.2) | (960.8) | ROE (%) | 22.5% | 16.7% | 17.3% | 18.0% |
| Other Charges | (180.5) | (98.0) | 31.6 | - | Per Share Data (INR) | | | | |
| Operating Cash Flows | (2,019.2) | 3,382.0 | 7,063.7 | 6,085.1 | Diluted EPS | 37.8 | 32.5 | 38.1 | 45.8 |
| Capital Expenditure | (928.5) | (502.4) | (882.2) | (1,400.0) | Cash EPS (CEPS) | 48.5 | 43.9 | 49.6 | 57.9 |
| Others | 15.8 | 17.3 | - | - | BVPS | 184.5 | 205.1 | 235.7 | 272.6 |
| Investing Cash Flows | (912.7) | (485.1) | (882.2) | (1,400.0) | Dividend Per Share | 6.5 | 6 | 7.5 | 9 |
| Dividend (Inc. Tax) | (276.3) | (717.3) | (497.9) | (597.5) | Valuation Ratios (x) | | | | |
| Inc / (Dec) in Debt | 3,989.1 | (944.0) | (4,766.0) | (3,250.0) | P/E | 4.5 | 5.2 | 4.5 | 3.7 |
| Others | (1,037.0) | (1,268.1) | (928.0) | (753.3) | Price/BVPS | 0.9 | 0.8 | 0.7 | 0.6 |
| Financing Cash Flows | 2,675.8 | (2,929.4) | (6,191.9) | (4,600.8) | EV/Sales | 1.0 | 0.8 | 0.6 | 0.5 |
| Chg. in Cash & Cash Eqv | (256.1) | (32.5) | (10.4) | 84.3 | EV/EBITDA | 6.1 | 7.5 | 4.7 | 3.6 |
| Opening Cash Balance | 387.9 | 131.1 | 98.6 | 88.2 | Balance Sheet Ratios | | | | |
| Bank balances | 70.6 | 65.1 | 65.1 | 65.1 | Debt - Equity | 1.4 | 1.2 | 0.7 | 0.5 |
| Closing Cash Balance | 202.4 | 163.7 | 153.3 | 237.6 | Total asset Turnover | 0.8 | 0.9 | 1.1 | 1.2 |

Source: SKP Research

Notes:

The above analysis and data are based on last available prices and not official closing rates. SKP Research is also available on Bloomberg and Thomson First Call.

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Disclosure of Interest Statement

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|--|-----|
| Analyst ownership of the stock | Yes |
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